BOARD FINANCE COMMITTEE MEETING MINUTES
TUESDAY, SEPTEMBER 8, 2009

Members of the Board Finance Committee met on Monday, September 8, 2009, in the Dining Room of the Education Center, at 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 8:17 p.m. The following school board members were present: Mr. Rosario Amato, Mrs. Michele Cann, Mrs. Judith Dexter, Mrs. Irene Follweiler, Dr. Craig Haytmanek, Mrs. Charlene Koch, Mrs. Loretta Leeson, and
Mr. Benjamin Tenaglia. Also in attendance were Dr. Joseph A. Lewis, superintendent of schools; Dr. Thomas E. Persing, Interim Superintendent; Mr. Stanley J. Majewski, Jr., assistant to the superintendent for finance and administration; Mr. Thomas Washington, assistant superintendent for human resources; Mrs. Anne Morton, assistant director of business affairs; Mr. Scott Shearer of Public Financial Management; Mr. Jens Damgaard, Bond Counsel of Rhoads-Sinon, members of the press and other interested citizens.

COURTESY OF THE FLOOR
Jim Laverty, 5015 Long Drive, Bethlehem, stated that he represented the concerned citizens of the Bethlehem area school district who have written to the board indicating that they are interested in taking a look at alternative mechanisms for funding of schools in the long term. We know it is not something that will occur overnight. We have a meeting on Thursday night that we would like to make the board aware of. Where we will bring a state rep. from Berks County who appears to have an alternative proposal. We don't know if we fully support it but we would like to learn. It is open to the public and we would like to open it up to the board. It will be on Juanita Street on the border of Allentown and Bethlehem. There will also be some discussion on an alternative proposal and also a proposal on how the state can manage the budget process better.

DEBT RESTRUCTURING UPDATE
Mr. Shearer stated that Mr. Jens Damgaard, the district's bond counsel was with him this evening. We wanted to talk to you about a couple of different issues. In your weekend packet you should have received a document labeled swap update. It's the board finance item 2. It's an 11-page handout that specifically deals with the constant maturity swaps. There is a layout on page one that shows all of your outstandings including the one we did terminate earlier this year. You have two of them related to the 2005 bonds. Which is a topic for this evening. We'd like to look at what to do with those variable rate 2005 bonds. Next to the 2007 bonds you have a constant maturity swap and a fixed payor. You also have two related to the Bethlehem Area School District Authority. Note that earlier in the year we refunded the Shippensburg bond. The there is the last one that has not been exercised yet meaning there is no cash flow payments between the swap counter party, Morgan Stanley assistance and the school district. It is something that we will continue to watch. What we would like to focus on is your constant maturity swaps. The first part of

the top portion of page two is the information you receive each week where it has all your swaps outstanding and what the mid market values are. Columns nine through fifteen are a little more detailed for you regarding the constant maturity swaps. It is not shown but the par amount of the constant maturity swaps outstanding is about $150 million. Their performance cash flow wise or market value wise is indicated in column ten. This would mean what they would be worth if you terminated them today. The mid market value in column ten is about $559,000 positive. That amount is before any fees. The biggest fees associated with this are the swap counter party. In order to terminate, we will have to unwind it and ask the counter party how much their spreads/fees are. Constant maturity swaps are a little more expensive to unwind or to terminate. Especially in today's market where cash is not exchanging as well as it was prior to the market meltdown. It is a little better than they were in Christmas time last year. Banks are starting to lend each other again. Column eleven estimates the net value of what the school district would actually receive. Ninety percent of the fees would go to the swap counter party. The school district would be left with a positive value of about $139,000 after the market spread. We have not started to negotiate the unwind fees with the swap counter parties. This information is based on our experience with the swap counter parties. The mid market value for the 2007 and 2009 note is about $905,000 and the net value is $593,000. The mid market value for the other constant maturity swap related to the 2007 bond is $531,000 and the net value that the school district receives is $77,000. These amounts could be realized if the school district terminated. These amounts are changing every minute and everyday. Column thirteen is labeled estimated fiscal year cash flow in dollars. Assuming things stay the way they are, meaning the relationship between short-term interest rates and long-term interest rates, you can potentially realize about $1.1 million of positive cash flow if the constant maturity stays outstanding for the 2005 bonds. Below that in column thirteen you'll see the 2009 bonds. If things remain the way they are you can potentially realize $937,000 and for the last one if things remained as they are you can realize roughly $1.2 million. They are working very well right now. The intent of these is for them to work well in a steep yield curve environment, which is where we are at right now. We were in a flat yield environment or even an inverted yield environment last year when you were experiencing some pain around the holiday season last year. Based on the way these transaction were structured they are producing substantial positive cash flow.

Mrs. Dexter asked if Mr. Shearer if he could explain what the accrued interest and the valuation amounts on page two mean?

Mr. Shearer responded that the valuation amounts are a total of column seven. Right now your portfolio has negative value of about $24 million. If you were to terminate all of your swaps on August 31, the total value is a negative $1 million. There is always going to be a number in there. A lot of your swaps pay monthly. The swaps counter parties wire you money or you wire them money on a monthly basis. That factors in what you may or may not owe on all of your swaps, cash flow wise. What's kind of deceiving about this is that this takes into account your constant maturity swaps which are doing very well. You are receiving much more on a monthly basis than what you have to pay out. The reason why this is negative $283,000 is because of the fixed payor swap. Let's

say you are receiving 68 percent of monthly LIBOR, it might be around 22 percent and you are paying a fixed swap rate of four percent. It is not factoring in the actual bond that you are paying. The accrued interest is what you are probably going to have to pay for that month. That factors in your constant maturity swaps and your fixed payor swaps.

Mrs. Dexter stated in column seven we see $559,000 and that is for the series of 2005 bonds that are listed as CMS swaps at the bottom but not at the top.

Mr. Shearer stated if you look at the first row where it says series of 2005 bonds. That is the fixed payor portion. Remember you have two swaps on each bond issue. The first row is the synthetic fixed rate swap. That is the one right now has roughly an $8.8 million negative amount. The one below there is a constant maturity swap that is related to the 2005 bonds.

Mrs. Dexter stated that the other constant maturity swap that you have labeled in column three but this one you didn't. Should it have been listed?

Mr. Shearer responded yes, it should say 66.9 percent of ten year LIBOR CMS. On page three are listed your 2005 bonds. On column four you'll see that your fixed payor swaps are performing a lot better than they had been. There is about a .60 basis point mismatch between what you are receiving on the fixed payor swap verses what you are paying. It's actually 10 basis points better this week because your rates reset to one percent. As of today it is a little better than when I prepared this last week. When you look over in columns five, six and seven and specifically column seven your constant maturity swaps is producing about 208 basis points of positive cash flow.

Mr. Tenaglia asked if Mr. Shearer would explain to the board that the amount in column three represents the weekly interest rate that we are paying on the underlying 2005 and 2007 bond issue years. Columns two, three, five, and six are all related to the combination of the bonds and the two overlaying swaps.

Mr. Shearer replied that if you look at the $55 million transaction where you have those underlying variable rate bonds that RBC is out remarketing on a weekly basis and then you have those two interest rate swaps attached over it. Column three is the rate that we see coming in each week from RBC as they're remarketing. You'll see from one of the other pages from the bank loan that we have from Wachovia that it is the reset rate of the bank loan. This looks at the entire package for that 2005, $55 million bond issue. When you look at your overall package for this issue your effective cost of funds is roughly 2.72 percent. It is substantially lower than what you budgeted. Will it stay that way? No one knows. We analyze this very closely, every day, and are watching it. Right now these are performing very well for this particular package. We are seeing your remarketing agent doing a better job and we see the shape of the yield curve as a positive. That's your 2005 bond package on page three.

Mr. Tenaglia stated that the reason you are here tonight is because the 2005 bond issue can't stay that way.

Mr. Shearer replied yes. The 2005 issue is the one we have to do something about by January 1st. That is where the liquidity facility with Dexia comes due. Dexia sent a letter of non-renewal a few months ago. The 2005 package is performing very well however we need to do something, which is why we sent those legal documents to come before you at your next meeting.

Mrs. Cann asked on page three if we did not have a CMS what would be the effective cost of funds?

Mr. Shearer replied that it would be roughly 4.7 percent.

Dr. Lewis asked if Mr. Shearer if he has done an analysis since the inception of the effective rate?

Mr. Shearer replied that we have some. I did not include it in this because we were focused on the 2008-2009 fiscal year.

Dr. Lewis asked if it was something he could run.

Mr. Shearer responded that he would.

Dr. Lewis stated that the board is interested in those types of comparisons.

Mr. Shearer stated that page four looks at the overall package. It used to be the Shippensburg Authority deal that we refunded with the Bethlehem Area School District Authority, $40 million. The lay out is almost identical but now in column three instead of having RBC remarketing the bonds every week. Now it is just a rate reset from Wachovia Bank through the formula of that loan. In this package the overall effective cost of funds is about 3.12 percent and again lower than budgeted. Assuming no constant maturity swap, the effective cost of funds would be roughly 5 percent. On page five is the other 2007 transaction of $55 million. In column three the bonds are being remarketed pretty well. The swap in column seven is provided substantial cash flow, about 229 basis points. In column eight the effective costs of funds is 2.74 percent. The three main bond swap packages are performing better than budgeted. The 2005 issue we need to do something about.

Mr. Tenaglia stated that on page five where it shows the 2.74 percent is that the most recent?

Mr. Shearer replied that it is as of last week. We now need to get into a discussion of where the market is going. How do we proceed with the constant maturity swaps? Do we want to terminate them? Do we want to continue just to watch them closely? Do we want to set up some parameters resolution to be able to move quickly without having the board meet again on the subject? On the next couple of pages I included some of the charts that we watch internally on a daily basis and throughout the day.

Mrs. Leeson stated that she heard Mr. Shearer say that our value of the swaps was in fairly good shape. Is that correct?

Mr. Shearer replied that the value of your total portfolio is negative $24 million. It's a lot better than what it was 24 months ago. Your constant maturity swaps do have a positive value right now. There are two key concepts to keep in your head. Is that the market value is positive right now but more importantly the monthly cash flow. Today, both are working well. The cash flow is working extremely well. We still have the overall picture. One of our goals is to minimize or eliminate your swaps. This is a very important aspect of our approach. When is the right time to start shedding some of these risks? It is part of the discussion for this meeting as well as to get everyone's opinion so that we can begin to move forward.

Mr. McKeon stated that he wanted to clarify for the public, if we terminated everything we would owe $24 million in addition to the bond balance. We just terminated one about two months ago. That one had a termination amount of $12 million. Same thing as this, a liquidity provider issue and we had to get rid of it. Theoretically we don't have to get rid of these right now.

Mr. Shearer stated that page six shows another chart that we look at internally. That is an indication and demonstration of current cash flow benefits. This charts the feds fund rate verses the 10-year LIBOR, which is what a lot of your constant maturity swaps are based on. You are receiving some percentage of that 10-year LIBOR index. Right now, we are very close to the 10- year high when you look at the spread and how well these things are working. Their are indicators out there of what the feds funds rates are today and where the market sees the fed funds three months from now, six months from now and a year from now. They do not indicate any increase in short-term rates anytime soon. Based on all the brains that are out there that are looking at the markets. Based on all the reports that are coming out on a daily basis. Based on the minutes of the fed funds. There does not seem to be momentum to increase the fed fund any time soon. If the fed funds increase your cash flow will start to diminish. It's going to narrow your spread. Based on all the information that's out there. There does not appear to be anything eminent that is going to change the course of your cash flows in the near future. Page seven shows another sheet we watch closely it is the fed funds future rates. You are starting to see at about May 2010 is when the market is starting to improve because the economy may be climbing its way out of the recession. To keep fear and inflation under control they may start easing up the fed funds rate a little bit. What we hear now is that the feds are going to be even more cautious and even slower in increasing the rates. That's why I am saying I don't see your cash flows getting much worse over the next couple of months. On page eight we have a chart between the 10-year LIBOR verses the 30-year LIBOR. The two charts we looked at before relate to cash flow. The next couple of slides focus more on termination values and market value. It's called the 10-30 spread. When terminating you have to look at all the different points of the yield curve and all the different fluctuations in it. The three constant maturity swaps that you have all have a long waited average lives. One of the important components of the termination value is the relationship to the

medium and long-term industry. We need to look at the mid-term to long-term rate. The current spread between them is only about 7 basis points. If you look towards the bottom of your graph you'll see the spread between those two rates. You want to see a wide spread. This is saying that we are only a couple basis points off this average. There is more likelihood that we are going to see that spread widen a little, which would only help your termination values. It's changing all the time. On page nine we have the two-year LIBOR verses the ten-year LIBOR. When you look at constant maturity swaps and when is a good time to terminate you must look at all aspects of the yield curve. The point of this chart is that right now the two-year verses the ten-year is at a good point to be terminating. It is at an all time high and is very attractive. What is causing your to not be as attractive is your long waited average life. The 10-30 spread is more applicable to Bethlehem than the 2-10, although the 2-10 is still important. I put more emphasis on the 10-30 for your transactions. Page 10 and page 11 illustrates comparism between the 10-year LIBOR and the 10-year treasury. This is saying that the spread between the 10-year LIBOR and the 10-year treasury used to be fairly high. Obviously as everything else changed in the market meltdown we now see those substantially narrower than where they should be and it just doesn't make sense. The reason it does not make sense right now is that a lot of the corporations that borrow on the LIBOR curve are still not really borrowing. They are still feeling the pinch. The liquidity is opening for you and I to get mortgages and bank loans but for the corporations, it's still not there for them to be borrowing 20-year debt and 30-year debt. Based on historical information and where the market indicators are looking there is room for the 10-year LIBOR and the 10-year treasury to improve. What that means is that as the the 10-year LIBOR rate increase the 2-10 spread on the prior graph also improves which helps the termination value. The 10-year LIBOR and the 30-year LIBOR are artificially lower than where they should be. When the market gets more in sync we should see those LIBOR rates go back up again and that's going to improve your market values. Page 11 will show 30-year LIBOR and the 30-year treasury. Basically this will show that there is even more room to improve. We place more emphasis on the 10-30 spread because of the long waited average life. When I say room for improvement I mean for it to go up. What that's going to do is widen the spread to increase the termination value. These are just some of the things that we look at that feed into the swap values that you see from the Business Office every week. It shows you what we are looking at and how we are advising our clients on what to do. Should we entertain the notion of terminating some of the interest rate risk? Should we continue to just monitor? What is the desire of the board? Let's go back to page two and compare column eleven, the net value if we terminate the constant maturity swap with column thirteen which is what you could potentially realize this fiscal year verses the benefit factor, which is to continue to monitor and let the cash flows come in, verses terminating. Right now the potential fiscal year benefit for 2009-2010 is about eight times greater in column fifteen than if you would terminate today. The benefit factor by keeping the constant maturity swaps outstanding is about eight times the amount. The one related to the Bethlehem Area School District Authority note is a little different. We only see a one and a half benefit factor. That one is producing a little more right now when you compare to the potential cash flows. When you compare columns 11 and columns 13 the net value is $593,000. If things go the way they are you can potentially realize $937,000 over the fiscal year. It has a lot lower benefit factor. That's

one that's probably a lot closer on pulling the trigger on. The last one has a net value of about $77,000 and the potential benefit over the years is about $1.2 million and the benefit factor is $16.2 million. This whole benefit factor is my way of analyzing these constant maturity swaps and when it makes sense to consider eliminating the risk. I am not the one sitting in your shoes. My job is to show you options, give you what I am seeing, and give you guidance. At the end of the day, my goal is to eliminate and shed your risks but trying to do it at the most opportune time. If you look at column 13 you could potentially realize about $3 million, if you left them outstanding. My recommendation is that you entertain terminating the middle one, the 2009 note because it's only a 1.5 benefit factor.

Mrs. Follweiler asked what is the overall strategy? Is there a better way to define how we will be able to eliminate the risk over the next number of years?

Mr. Shearer asked if she was talking about the overall portfolio or the constant maturity swaps?

Mrs. Follweiler responded the overall portfolio.

Mr. Shearer stated that back a few months ago when we were talking we were thinking about refunding this whole 2005 transaction at one point with a fixed rate bond issue. That would eliminate a good chunk of your interest rate swaps. Then we were seeing huge swings in the market. Then there was discussion about refunding the whole thing with variable rate bonds. That would eliminate some of your bond risk by getting rid of DEXIA and FSA but that would not eliminate some of your swap risk. Unfortunately, I can't sit here today and tell you what the solution is because the solution is very market driven. This unwind period could be over a five year period of time. Maybe by next June we'll have another $100 million terminated. You incur costs to get into these things. You are taking the risks. Do I feel the risks are still on the high side? Yes, I do. Risks have good parts and they have bad parts. The mission is to eliminate in that transition period, when they are going from good to bad. While you can still get out when the getting is good. Whether that will be three months from now on the constant maturity swaps or a year from now, I'm not sure. The best way to position yourself is to get a parameters resolutions on the books and that way we can do it instantaneously without having to wait another month for a board meeting. This way we can do it at any given time on any given day. It's impossible to get out of all your risk today just because there is not that much credit out there. We can't just say to someone here are $200 million of Bethlehem bonds that we need to get off the market. Can you provide us credit? We have a hard enough time talking to some of the biggest banks in the world to give us $40 million of capacity. This is where it really comes down to trust between us. I rely heavily on my knowledge of the market and the other people that work with me at PFM. It's part of my job and I hope that there has been and that there continues to be a lot of trust between us that I show you the graphs and you ask the questions to challenge me. It opens it up for dialogue. I wish I could layout a ten-step plan but it's really knowing the market and being able to position ourselves. With this transaction we knew that for the refunding of the 2005 bonds that we were going to have to do something by January and

we've had internal dialogue since the spring. We've had board discussion since at least June so that we don't have a last minute rush right before Christmas. If I call you and say we have to do something in a week, we are now subject to that market at that point and time but at least we have had a pretty good window to handle this particular issue.

Mrs. Cann stated that although he was recommending not getting out of the CMS swaps because they have a positive cash flow but they might not have it tomorrow. The nature of a CMS is the uncertainty and that is why I don't want it. Doesn't CMS represent interest rate risk?

Mr. Shearer replied that it is yield curve risk. When you put these on, you do it when the yield curve is flat. That's when it was best to price the transaction. In anticipation of the yield curve normalizing and you receiving the percent of a long-term rate. It works well because you are receiving a higher rate and paying a lower rate.

Mrs. Cann stated that by nature a CMS is a risk?

Mr. Shearer responded it absolutely is.

Mrs. Cann stated that if she took her life savings and went to a casino and was constantly winning for the third consecutive day, do I stop? Just because I am winning, does not make it a good investment.

Mr. Shearer stated that to that analogy, are we now at the point where you are winning and instead of betting all of your money, you bet only on the profits? There's a very high certainty that you are not going to see the fed funds rate go from a quarter percent to four percent in the next two months.

Some discussion followed..

Mr. Shearer stated that it is his job is to balance the risk. I know what risk you have. I know what your budget looks like. I know what your budget was last year. How can we best balance this so that your budget still gets some benefit out of this for the 2009-2010? If you want to eliminate the risk, that's fine but eliminating some of the swap risk may potentially activate some of the bonds. I don't think we are ready to terminate some of the fixed payor swaps because of the way the market is. The termination value for fixed payor is very high right now. I think the LIBOR rates and the fixed treasury rates are going to go up. That will help your CMS termination values but more importantly it's going to help you to unwind your fixed payor swaps at a much more reasonable cost.

Mrs. Leeson asked what are you recommending at this time? I see the recommendation to continue monitoring the termination amounts and what I am hearing is that we are hearing good news but your projections are that it's going to get a little better in the short term in the future. We also know that we have to do something with this one bond issue.

Mrs. Shearer stated that his recommendation is to continue to monitor but for your September 21st meeting I'd like to work together with Jens Damgaard in drafting a parameters resolution for you to consider giving us authorization to terminate any of those CMS if they hit a certain dollar amount or a certain benefit factor.

Mrs. Leeson stated that if they set the trigger point for the CMS we still have the underlying variable rate bond. That has not gone away. The trigger points for the CMS only addresses a portion of that problem. We can set these parameters but we may expose ourselves to a worse situation.

Mr. Shearer stated that yes, we may.

Mrs. Leeson stated that we need to set parameters for the total at one time.

Mr. Shearer stated that you should set parameters for each individual CMS. This way when the 2005 hits a certain amount we terminate and when the 2007 hit a certain amount we terminate. If we terminate all three that's going to leave you a little too exposed right now. That is why I am trying to get to some happy median where we can eliminate risk. We may be at a point in December where we can terminate one.

Mrs. Leeson stated that if we pull the trigger on the CMS we still have the underlying variable rate bond. Why wouldn't we pull the trigger on both at the same time with a balanced approach? Why would we pull off the CMS and expose ourselves? Right now we are just looking to set up a proposal to do something for the CMS. If we just do this for the CMS we leave ourselves exposed. When we pull the trigger we won't know what is going to be happening with the variable rate bonds. We can set a proposal that only addresses part of it and leaves us extremely vulnerable.

Mr. Shearer stated that his only word of caution is that we don't have to do anything with the constant maturity swaps. They are working fine right at the moment and there is nothing expiring. That is voluntary based on market conditions. However on the bond side we do have a force saying we have to terminate this. This is why I am hesitant to say we are going to do both at the same time. I don't know if I want to force into terminating a CMS exactly when we are terminating a portion on the fixed payor on the 2005 bonds. They are driven by two totally different market factors.

Mrs. Leeson stated that she still did not understand setting parameters for all the CMS swaps and leaving the underlying exposure.

Some discussion followed.

Mr. Tenaglia stated that we don't currently have a procedure in place that would allow us to act in between the set meeting dates. I think that Mr. Shearer has suggested to us that we need a procedure as to how the district can react should there be favorable market conditions. The second step would be to define the favorable market conditions to the district with swaps and underlying debt. The third thing is what do we do regarding the

2005 issue. Once we decide how the 2005 are handled then it becomes imperative that we get the other things established. We need procedure to respond to the financial markets established so that we can act if it were necessary and then the parameters, which would obligate us to consider executing a "get out" strategy.

Mr. McKeon stated that he though something similar had happened one other time where there was a request to be able to pull the trigger on an instrument and the market conditions changed. I was not sitting on the board back then but I recall the discussion. The market shifted negatively so there was no trigger pulled. We lost all the ammunition. I know that just looking at some of the stuff you have been giving us through Mr. Majewski that I am just amazed watching all the swings in your evaluations. Thank you for putting these together.

Mrs. Leeson asked Mr. Shearer what is your recommendation on the 2005?

Mr. Shearer stated that his recommendation is still to go forward with the half and half. Refunding half of that transaction with the traditional fixed rate bond issue therefore eliminating $30 million of the fixed payor swap and refunding the other portion of the 2005 bonds with a new variable rate bond issue. We would like to bring documents before you that would give us the flexibility to basically issue around $30 million of traditional fixed rate bonds and around $30 million of new variable rate bonds. One of the questions that makes things a little trickier this time is who is going to be the underwriter on the traditional fixed rate bond issue or the remarketing agent on the variable rate bond issue and more importantly the letter of credit? The last transaction where we refunded the Wells Cornwall, we sent RFP to half a dozen good underwriting firms that we knew did a good job here in PA and we went with the lowest bid and had good results. This one is a little different in that we are asking another side of the balance sheet of these banks. We are asking them to provide a letter of credit, which a lot of banks can't do. What I see in today's market with banks like Wachovia is that the are saying we will provide a letter of credit for your transaction but who is going to be the underwriter on the fixed rate bond issue is very important. For me to send out an RFP to the same group of underwriters as before, in my opinion, is not in the best interest of the school district. If the banks are willing to supply you a letter of credit they also want to be involved in the other side of the remarketing and the underwriting.

Mr. Tenaglia asked Mr. Shearer if he was using a letter of credit interchangeably with a liquidity provider?

Mr. Shearer replied that we are replacing Dexia and FSA and insurance carrying a liquidity provider with now a letter of credit.

Mr. Tenaglia stated that it comes down to the banks saying if I am providing a letter of credit or acting as a liquidity provider I also want the other piece. We have now increased substantially our relationship with Wachovia. The other side of that is that just as we had a very extensive relationship with Dexia are we then adding on another level of risk?

Mr. Shearer replied that it all goes back to yield curve risk, interest rate risk, swap counter party risk, and letter of credit risk. It is one of the risks that we are watching. I don't want to put all of your eggs in one basket. We want to be using a mixture of good banks. Last month when I was here the only sound interest that I got from a banking institution that was able to provide a letter of credit was Wachovia. This past Friday we got word that RBC was willing to provide a letter of credit to Bethlehem. They used to provide liquidity as a liquidity facility. At the moment the letter of credit that they are willing to extend to Bethlehem is the only on that they have extended at all in Pennsylvania. We had much discussion with their high powers. They have not given me a letter of credit fee nor has Wachovia. Now we have two good banks with good credit ratings. RBC is probably just a little better than Wachovia from a credit rating perspective. When you look at how those banks are rated though Moody's, Standards, Poors and Fitch. RBC is still rated AAA through Moody's. Wachovia is rated AA. The good news is you have two well-positioned banks that want to provide some assistance to the school district. We talked to many others and really got nowhere. Wachovia as the lead underwriter or the sole underwriter in Pennsylvania is very limited.

Some discussion followed.

Mrs. Leeson asked Dr. Persing for his opinion on this proposal. It does not have to be tonight. You could send us an email tomorrow on your thoughts for this proposal.

Mr. McKeon asked Mr. Shearer what he needed from the board for the regular board meeting on September 21.

Mr. Shearer stated that between now and then you will need to make a decision on who the underwriter is going to be, who the letter of credit will be, who the remarketing agent is going to be on this transaction. We can make that decision on September 21. I would prefer it to be done prior to September 21. Based on who is selected, it will then take a couple of weeks to get the final document from that letter of credit provider to then be able to execute it. It would definitely make things a lot cleaner and easier to understand.

Mr. Damgaard stated that Wachovia already owns the deal we did in May with Shippensburg, correct? You are already looking at Wachovia for a letter of credit for that. If Wachovia gets on this one then you are making a bigger pocket.

Mr. Shearer right now we have exposure to RBC through a remarketing perspective. They are your remarketing agent on the 2005 bond issue that we are going to be taking out and they are still your remarketing agent on your other 2007 bond issue that we'll deal with in the future. You do have RBC remarketing risk right at the moment. You don't have any RBC letter of credit risk at the moment. Either one is a good choice because they are strong banks. It comes down to the letter of credit, the credit rating of the banking institution and for the fixed rate bond issue, who is going to get it done better from a fixed rate bond issue perspective. When it comes to pricing we are there to monitor it very closely. On the last $90 million transaction it was my idea to do what we ended up doing to get the interest rate with RBC substantially lower. If we don't like the

way that RBC is doing the fixed rate bond issue or if you pick Wachovia, we can still say we don't like your interest rates we're not going to recommend the school district to approve this. We still ultimately have final control.

Mr. Damgaard stated that from a legal standpoint we do need to have a decision made in order to put it in the resolution that approves the bond issue. We assign the underwriter. Legally you have to have a bond purchase agreement to do that. My only thought is that if Wachovia already has $40 million of school district debt. When we go to refinance the two-year facility it looks like that will turn into another letter of credit. If the goal is to diversify the bank and RBC is in a position to do that and has a better credit rating then why would we go with Wachovia?

Mr. Shearer stated that is assuming I get a final commitment from RBC.

Mr. Damgaard stated that RBC is the biggest underwriter obviously knows how to market the fixed rate bonds.

Mr. Shearer stated that we do not have a firm price on the letter of credit.

Mrs. Leeson stated that if I understand this correctly you are recommending half and half. This would mean $30 million fixed and $30 million variable. At this time we have two potential banks to work with RBC and Wachovia. We do not have firm commitments from either of them. You are going to work on it and bring back to us a recommendation next week for one or the other and you would like us to act on that on September 21. Correct?

Mr. Shearer stated that he could not get a firm commitment from either of them until they know who is going to be the fixed rate bond underwriter and who's going to be the letter of credit provider. We are at that junction right now because it is much trickier than it used to be.

Mr. Damgaard stated that Wachovia has already got a piece of it. If you want to diversify it makes sense to go with RBC. If RBC has a better credit rating, which means it will have a better interest rate on the variable rate bonds and the only question is their fee on the variable rate side and the ability to market the fixed rate. Why don't you just get a proposal from RBC and if it does not look satisfactory then go to plan B.

Mr. Shearer stated that he thought Mr. Damgaard's idea was good if you want diversified bank risk. Let's go to RBC and say the whole deal is yours, give me your commitment. If you decide not to take it then you'll have the bank say we ran all these credit reports and put in all these hours of work. It's a risk you are going to have to take. If the school district doesn't like the proposal and the board doesn't like the proposal you'll just have to pay some of the costs. We are dealing with a lot of issues and we are dealing with a lot of money.

Mr. McKeon asked Mr. Shearer if he needed a consensus from the board to talk to the banks?

Mr. Damgaard stated that these documents would implement what Mr. Shearer recommended. A $35 million fixed rate bond issue to terminate a portion of the swap and refund half of the 2005 bonds. It is the same that you did with paying off the West Cornwall Bonds. It is basically a mini version of that. That also would approve the bond purchase agreement of a particular underwriter. The other document is a resolution authorizing a variable rate bond issue through the Bethlehem Area School District Authority. Why are we using the authority here? To refund a portion of the 2005 bonds because we are going to retain a portion of the swaps that was on the 2005 bonds now transferred to what is remaining on to these variable rates 2009 pay bonds. It is to enhance the reimbursement. Remember we are allowed to do is get reimbursement of the authority interest rate and authority swap payments. This structure will enhance your reimbursement. It authorizes all the paperwork. It's again a kin to what we did on the Shippensburg Bonds. The other resolution focuses on the swap. It authorizes the termination of half and the transfer of half from the 2005 bonds to the new authority bonds. The CMS swap associated with the 2005 bonds gets transferred half to the fixed rate bonds of the school district and half to the note that is running from the school district to the authority. The CMS swap can live without a variable rate bond issue. It can live attached to a fixed rate bond issue. The CMS can go on even though we terminate fixed rate swaps and eliminate variable rate debt. It's an independent entity. The interest rate management plans outlining the risk will be attached to this along with the appropriate swaps documents. Also included is a resolution of the authority, which will require another meeting of the authority board to approve this and the associated documents. There was also an agreement between the authority and the school district where they agreed to provide this role. These documents will have similarities with what you have already done. We are just applying them differently. Instead of a two-year note facility we are actually going to have a new variable rate bond issue. We have an initial term of about three years for this new issue. You can keep renewing it if we decided to keep it in place. The ultimate goal is to reduce the risk of the variable rate bond issue. You may decide ultimately to retain some of it. Your pendulum was in one direction at too much risk and now the pendulum is swinging the other way and maybe its not enough risk. Somewhere in the middle is where you want to be. Every school district is somewhere in that middle range. Where you are minimizing the bad risk and retaining the risk that's paying off.

Dr. Lewis asked what are the initial amounts of each?

Mr. Shearer replied that the way we have it drafted it appears to be $35 million a piece. Just like we over inflated the West Cornwall takeout. We are doing the same thing here to give us the sizing flexibility.

Mr. Damgaard stated that we will file the paperwork to bring that down to actual numbers afterwards but initially they are all just plugged numbers. It authorizes following the adoption of the resolution for Mr. Shearer to begin negotiating with the underwriter for

the final interest rate and the final marketing of the bonds. Then they can be approved by the administration in final form.

Mr. Shearer stated that we are not adding new money in to this. This is strictly for the refunding. It just gives us the sizing flexibility when we are working with the underwriter.

Mr. Damgaard stated that we also talked here about resolutions on setting parameters for terminating the CMS swaps. We can draft those so we can at least show them to you on the September 21, 2009. The documents are not that big. You can terminate them without elaborate documentation. Nothing like what you need to put them on but to terminate you simply authorize them and set the parameters. Once you hit a certain target value then the administration again would be consulted. Last time we had a list of people that we called. Put that in place. Once you hit that target that phone call will be scheduled.

Mr. Shearer stated that he couldn't exactly remember who was on the list of callers for the last termination. I believe it was Mr. Majewski, Mrs. Leeson, Dr. Lewis and few others.

Mr. Damgaard stated that we'd set a draft. We'll talk about it. We'll advertise the three resolutions for adoption on the September 21, 2009 meeting and there will be a final form for presentation.

Mrs. Dexter stated that Mr. Tenaglia will not be on the board for the early part of December and we may not have all this finished by that time. If that trigger moment hits around that time would he be able to participate in the phone conversation.

Dr. Lewis responded that there is an immunity costs for officials of those serving and he would not have that.

Mr. McKeon asked if there were any questions from the floor for Mr. Shearer and Mr. Damgaard.

Mr. Laverty asked if this proposal introduces any new swaps to the school district's portfolio?

Mr. Shearer stated that there is no additional swap exposure. It will eliminate $30 million of the fixed payor exposure. Which translates into base risk. There will be no additional swap risk. There will only be elimination of certain swap risks.

Mr. Laverty asked what kind of impact does this have on the overall interest rate risk of the debt portfolio for both underlying bond and the swap?

Mr. Shearer replied that it is eliminating some of the swap counter party risk from Morgan Stanley. We are eliminating basis risk, swap counter party risk and we are changing the letter of credit from a poorly rated entity to a much better rated entity.

Mr. Laverty asked if variable rate risk is actually being reduced by the implementation of these two steps.

Mr. Shearer stated yes. Variable rate risk is being eliminated by $30 million. We are eliminating swap risk, variable risk and there is some variable risk that is staying the same but we are changing some of the parties involved it to a better-rated entity.

Mr. Laverty stated that his recommendation is that when any proposals are given to the board that these specific points be addressed.

Mr. Shearer stated that we never look at things in a vacuum.

Mrs. Leeson stated that we normally do not have dialogue during courtesy of the floor. You can express your viewpoints and your questions and we usually get responses at another time.

Mr. Laverty asked if you are building the trigger targets that were suggested tonight I believe that it would be helpful for you in making your decision to have on the documentation at what place on the yield curve do each of the transactions become a net benefit or a net negative when you are making recommendations. There was a lot of discussion about the yield curve and where it would benefit or would not benefit. Those are important details that need to be included in the documentation to the board. When you are looking at transactions you need to look at what is the break-even point. The current level of debt is unchartered territory. What are the circumstances that would shift the curve? I think that would give the board a better view to make a decision on whether or not the risk is relevant.

Mrs. Follweiler stated that she envisioned that the trigger would be something tangible.

Mr. Shearer stated that he would work with Jens on drafting the trigger as a dollar amount or we can do the benefit factor or we can draft it as both.

Unknown speaker asked if the debt service out of the current budget would be the same after this borrowing took place. As I understand it this is a rather large restructuring of the existing debt.

MONOCACY BUILDING RESERVE

Mr. Majewski asked Mr. Don Spry if establishing the dollar value of the reserve. Was something that could be discussed publicly? That's what we are looking to establish. You all have a copy of the appraisal. I was a little uncomfortable discussing it publicly while we are going out trying to obtain bids.

Mr. McKeon stated that when he looked at the appraisal the address of one of the parties seemed very familiar. I am not sure if it was the same real estate operation that we received the bid for the property.

Mr. Majewski stated that this is a completely different operation. This is a company that is widely used in this area for commercial appraisals. It has to my knowledge no affiliation with that party.

2010-2011 BUDGET GUIDELINES

Mr. Majewski stated we are establishing some dates. I was hoping that the state would have posted any combination of things. However based upon the Act 1 and where we are anticipating the guideline to be, the guidelines that you are seeing are accurate as we can provide them right now. We are going to begin the process of the budget development. I wanted to make sure you had in your hands what you can anticipate is the way of guideline for budget development as well as the presentation publicly.

Mrs. Leeson stated that she had spoken to some other board members who were also thinking that perhaps we should put out there the dollar limit that we need to stay within. Instead of building a budget that is just a wish list of everything that we feel we want to do and then begin to cut back to what we feel is realistic. There is a feeling that we need to look at realism first.

Mr. Majewski stated that if instead of the dollar limit where you referring to a millage rate increase.

Mrs. Leeson replied that might be within our consideration. If we were to say we want to stay within a certain millage increase but it may not be where we end up.

Mr. Majewski stated that you may want to set that tonight but part of the information that we do not have yet because it has not been released is the index. We don't know what our index will be. We don't know what the cap will be without going to the state for exceptions. We can talk about some of that but if our index ends up being lower than that amount the assumption is we are going to apply and get approved for some exceptions. There's no need right now because we are not far enough in the process for that to be established. What we are trying to do is identify the guidelines. We will be going through and developing the budget within the next three months. There is still plenty of time. You may want to revisit that in October. At that point the index will be known.

Mrs. Leeson stated that it would fine. It is just we were talking about the guidelines now and I wanted to bring out that I believe one of the guidelines we may want to look at is an approximate of where we would like to be financially.

Mr. Majewski stated that the board would have plenty of opportunity over the next month to provide plenty of guidance. We have not started to train our principals on how to put information on the budget yet. We are in the very beginning so there is no need to rush.

Some discussion followed.

Mr. Majewski stated that when it comes to what is mandated and what is required I wish it were black and white. There are a lot of grey areas in between. That's why when we have our meetings we talk about what is the proper approach it is helpful to get guidance as to what you are looking for. It is not impossible. It just requires dialogue.

Mrs. Koch stated that she asked for a list of classes that had 14 students or less. I did get a list and when I went over it I was told some did not count because they were special education classes or ESL. I also asked for an updated list that did not have those special categories and I was told that we were too close to the beginning of the school year. Are we any closer to getting that information?

Dr. Lewis stated that we did give you a second list that was flagged with an asterisk. Mr. Agretto went over Special Needs and Mrs. Correll went over ESOL. We are going to do an update. On the October 1, 2009 report we should have hard data. Mr. Washington has an intermediate report if you wish.

Mrs. Koch asked if we had a few classes with less than fourteen students.

Mr. Washington replied that it was mostly the specialty classes that fell under that category. You will get that in your packets at the end of the week. It is usually the October 1st report that really gives us an idea of what the numbers are going to be.

Mrs. Koch stated that she wanted to see just the regular education classes.

Mrs. Leeson asked that while we are getting those numbers could we also get the number of students in study halls? I think one of the issues with the high schools was the number of electives. Do we have enough electives?

END OF YEAR PROJECTIONS/ FIVE-YEAR PROJECTIONS

Mr. Majewski stated that there are several things that have positively impacted our end of year results. Some local revenue has improved far better than anticipated. During the month of May and June the mercantile tax exceeded what we anticipated them to be. It appears that the result is going to be instead of the $4 million of a deficit we are closer to $700,000. If you take a look at some of the data we have right now we are still working on the accruals and part of the delay has to do with the state. In trying to find the amount that is due. That subsidy is as positive as I am thinking it is going to be it may be that our end of year result is pretty close to break-even. More than likely the general operating will come in under budget on our expenditures. The results we have had in the debt service area because of very positive changes in the swaps at the end of the year we are going to be about $2.3 million over budget as opposed to the some of the numbers that we were talking about higher than that. The end of the year results is going to be much improved. That will impact how the fund balance is going to change over the next couple of years. This is the type of information we were hoping we could provide to you. We work very hard throughout they year in order to control costs where we possibly could.

I'd like to say that we got a little help too from the markets. To end up having an end result that was not anticipated several months. You are very welcome.

Mr. McKeon stated that Dr. Lewis and Mr. Majewski make a consorted effort to control costs has really helped. I appreciate the fact that some of the departments saved a lot in their budget. Thank you to both of you.

Mrs. Leeson stated that in looking at these projections clearly we are up almost a full year in some of these projections. We can be in a positive fund balance mode and in a stable position.

Mr. Majewski stated that is correct. What I would like to know is what the state is going to do with our budget. It is one of the big pieces right now that is a variable in looking at the projections for the next couple of years. I don't believe that it is out of the question that if we continue to monitor expenditures and control costs that we will be in a very strong position if not at break even at the end of next year. When we are looking at moving ahead maybe 10-12 percent next year, 12 the following year and we are up to over 20 percent the following two years. You can see the spike. What we are doing with some of the restructuring of our expenditures is preparing for this type of bump and doing it several years in advance. It should not be that traumatic to the system. We sat down a year ago and said it is going to be a multiple year fix. You can start seeing now how the difficult work that was done. The type of focus that we have created is now showing a positive outlook in the next couple of years and eliminating the fund balance deficit. We are positioning ourselves so it should not be a huge catastrophic event when we have the increase in PSERS. We have to start planning over the next couple of years for that one building that still hangs out there. We still have Nitschmann out there. Another thing you are looking at is $1 million for replacement of school busses. They are in there because we need to put them in there. What I have not been able to calculate is because we need to work on that together is when do we look at timing Nitschmann. It may be 12 months from now. At least now we can start looking at where we can start fitting those discussions in and planning around that project. It is the only building left in our district that has not been attended to with our Capital Improvement Plan.

Mrs. Leeson stated that although this was good news but it does not get us out of the woods yet. We are on the path and we are stabilizing our finances. We have done a lot of the hard work and we are now seeing that turn. It is certainly encouraging but we do have a lot of challenges that are still there. One of the challenges is that our Capital Reserve Account is also low. We need to get into a solid positive before we can consider ourselves completely out of the woods. Have we accounted for Technology?

Mr. Majewski replied that technology is not factored in. We are looking at a five-year plan and by the end of the five years it's when we will look in good shape. It's going to take a good few more years of hard work, monitoring and doing what we are doing right now.

Mr. Tenaglia asked if Mr. Majewski was surprised at the end of year report.

Mr. Majewski replied that he was surprised. If not I would have reflected it in earlier projections. What I was surprised at was the Mercantile Tax. When I saw the receipts for the month of May and June it did not reflect weakness. It was continued strength of the local economy. I was pleased to see it but it was not something that I was anticipating.

Mr. Tenaglia asked how frequently do you receive payments from the tax collectors on that specific tax.

Mr. Majewski replied that one is heavily loaded towards the end of the year. At least half of that will come in on the month of June. People file returns and they are due by the month April. You are not going to know what is coming in May and June until they are here. There is very little to signal other than your gut about what the local economy is doing.

Mr. Tenaglia asked what about the education subsidies?

Mr. Majewski replied that he did not know if some of that was going to be withheld. I'd rather not assume that we are going to get the million dollars and then find out later that it was going to be withheld from us.

Mr. Tenaglia stated that it was something that you anticipated as being owed to us or maybe not likely for us to receive. Different from the mercantile tax where you do not know what you are going to receive until the check comes in.

Mr. Majewski responded that is correct.

Mrs. Dexter stated that on the issue of budget projections, she would like to see information about contracts that goes beyond what we owe to people. I would like to see whether we have contracts for computers, scholastic books or anything that is more than a year. I would like to know what is there obligation and for the top five I would like to see information about stopping those contracts without penalty to the district. I know scholastic bid $365,000 for the year. If we signed a contract for five years, what can we do if we decide it is too much?

Mrs. Follweiler stated to Mr. Majewski that if you look at the bottom line of the five-year projection it looks good. But it's based on every year of a fairly significant increase in taxes.

Mr. Majewski stated that in order to avoid that you would have to start cutting more. If you want to lower your taxes either you are going to get money from other sources (ongoing not one time money) or continue to reduce your programs. The one thing you will not have is assessment growth equal to the growth of your expenditures. You are going to get to the point where the legal requirements to be able to provide services are going to continue on. You are going to be forced to raise taxes because you have to provide services and your assessment growth is going to be zero. If the hope is to never

have to increase taxes then I have to tell you that there is insufficient revenue coming from outside sources, other than the local, to fund certain programs that provide student education. Even if you wanted to cut you cannot cut until you have a zero tax increase. You will still be required to need to provide services to your students and those costs will increase faster than your revenue growth.

Mr. McKeon stated that he had a question on one of the audit items. It related to the timing and collection of the taxes that Bethlehem City collects for us.

Mr. Majewski stated that under the tax collection laws there is a certain form that the tax collectors are expected to provide to the school district within ten days after the month. It's a reconciliation of your duplicates and your payments. We have made a request to get that from the City of Bethlehem. We have indicated that it is required for this information. We are required to provide this by law and we still don't get it.

Mr. McKeon asked if they also assess us a collection fee?

Mr. Majewski responded that's correct. There is an annual fee of approximately $70,000 for the collection of taxes.

Mr. McKeon asked if he was authorized to instruct the administration not to pay that bill.

Mr. Majewski stated that there is no cost to the district for that. There is no penalty. We are going to continue to work with them because they are good partners to work with. I think part of the issue is that their system doesn't have the ability to produce reports. It's not their unwillingness.

Mr. McKeon stated that my concern is that it will continue to be picked up in the audit and how long will that go on until someone in the state says something.

Mr. Majewski stated that there are no consequences to it. They will go through and put a notation there but there is no fine.

BANK SAVINGS UPDATE

Mr. Majewski stated that we are moving closer to being able to reach an agreement. We have looked at other providers. One in particular had very interesting software but the terms of the arrangement were not as favorable as the one with Commerce. They have provided us with a proposal, which we provided a copy to our solicitor. They have provided us with some suggestions on the language of the agreement. I have been in contact with the person who made the presentation and told her we would like your legal department to consider some of the language changes to the agreement. If they are willing to make some of those we may be in a position to say I'd like to advance this to your approval. There is no doubt that we have done the analysis and there is money to be saved here. We just need to have an agreement that is going to protect all parties. I would like to say we are ninety-five percent there.

Mr. McKeon asked if this was the same company that contacted Mrs. Dexter.

Mr. Majewski replied yes it is. It is a mid-west company.

Mrs. Cann asked how are we making money out of this?

Mr. Majewski responded that right now we cut checks and make payments to our vendors for the amount that is due. We stop sending payments to the vendors. We make payments to Commerce bank who pays the vendors. There are agreements that commerce Bank has with some of the large providers where they are willing to accept less than one hundred percent of the payment for the guarantee of not having to worry about handling our check. If you take a look at overtime the discount that is not being paid on the bill, they keep fifty percent and we get fifty percent. They send us a monthly check for our portion of the savings. The more they negotiate discounts the more money we make. It is their responsibility to negotiate the discount not ours. What makes this proposal unique is the discounted payments and the cost savings on receipts without negotiating.

Mr. McKeon asked of this was all electronic transfers?

Mr. Majewski replied yes. It is a strong suit that they have in selling the discounts to some of the companies because it saves them money. We are trying to refine some of the language and then have you review the final document to approve the program.

Mrs. Dexter asked if it was going to be on the September agenda?

Mr. Majewski replied it would all depend on how quickly they would review it.

Mrs. Dexter stated that it looks to me that every month is money.

Mr. Majewski replied that it may be true but every month there has been a process of reviewing all the different programs. We are at a point where we have identified this program. We need to take a look at the legal documents to be able to support it. Even though every month is money I think that you would appreciate that we are doing our due process in trying to make it right.

Agenda Items for September 21, 2009, Regular Board Meeting

A. Halloween Parade
Mrs. Leeson stated that in the past we have incurred this expense but we are talking about $12,500 for the Halloween Parade. Do we want to incur this expense?

Mr. McKeon stated that it is not $12,500 but $2,600.

Mrs. Leeson stated that she still wanted to make the same argument because we have cut our transportation services to fifth graders to the Frank Broad Track Meet and we cut our transportation for All City Band. We can't afford these right now.

Mrs. Cann stated that she agreed with Mrs. Leeson. We have so many other things that are related to educational value.

Mr. McKeon polled the board and it was agreed that this item would not be placed on the agenda.

B. Transportation Schedule
No Discussion

C. Pennsylvania Budget Resolution
Mrs. Cann stated that she was concerned with how the item was written.

Dr. Lewis responded that this document was sent to us as a template with the intention of us inserting our specific programs. If you wish, we will restructure that for you.

Mrs. Follweiler stated that she was in favor of taking a stand that tells the governor and the assembly to get their act together and figure this out but I am not in favor of taking a side especially on a pre-done template done by someone that was not us.

Dr. Lewis stated that he was not sure he followed her.

Mrs. Follweiler stated that we are asking the state general assembly to pass what the governor has proposed. We are asking them to pass a specific budget.

Dr. Lewis stated that it is your call.

Mr. McKeon polled the board and it was agreed that this item would be placed on the agenda.

COURTESY OF THE FLOOR
Jim Laverty, 5015 Long Drive, Bethlehem, stated that on the five year plan under expenditures, I noticed that in 2012 the PSERS goes up to $8 million. Is that because there are a whole lot of retirements or is that a mandated extension of benefits?

Mr. Majewski responded that it is not either of those. Because of the funding levels that PSERS has imposed upon us as an employer and the fact that the stock market investments had a downturn. They are not properly funded right now and based upon their projections there will be a substantial spike in 2012-2013. Currently we are paying about 4.75 percent. They are expecting it to go to that 20.8 percent. This would be for all the eligible wages, which is about 99 percent of our employees.

OPEN FORUM

Mrs. Dexter asked how is the overtime at the Education Center going?

Mr. Majewski replied that the overtime that was requested last month for our Production Office has ended. It totaled about $1,000 of overtime.

Mrs. Dexter stated that she disagreed because someone sent her a letter indicating that there were 65 hours authorized for the three weeks for one employee. I think 65 hours is quite adsorbent. We are paying a lot of money to that one employee and I had asked if someone else could be trained during the business hours so that this person could have help collating and publishing.

Mr. Majewski stated that the other person is providing a very valuable resource as well. It's the early part of the year and we needed to have both employees working on different projects. I understand that it is ideal to have people cross-trained but when I need to have them in two different locations it could not happen. I did come to the board with the request and I got your permission to do so.

Mrs. Dexter stated that it would be her preference to take the necessary steps to see this eliminated. Perhaps there are people in this building that can learn the skills that she has so that they can be done during work hours and during regular time.

Mr. Majewski stated that there are ways to eliminate overtime. Sometimes it is bringing in additional staff to continue projects. Monitoring the overtime has been a fairly cost effective way of minimizing the overtime.

Mrs. Follweiler stated that there are a few community groups that have requested meetings with the board or responses to questions they have put in writing. What is our standing under the Sunshine Act? I believe we do everything in public here in a meeting and they are all welcome to bring things to our attention. That has been our responses and I wanted to verify that it is correct. We have received a letter from a group in writing that wanted responses and they were not satisfied with our responses and wanted additional information. What is the ability of the board to do something like that? Would those answers need to be discussed here at the meeting?

Mr. Spry asked how is it that the board decides how to respond? I don't think it's a decision on how the board wants to respond. It is a public deliberation and whatever the document they are referring to is now a public document under right to know the law.

Mrs. Leeson stated that if a question comes about on the way we are conducting current operations, I believe that goes to the administration that would respond. Our voice is our vote. If we are questioned on an item we can respond that this is the way we voted on something. We can certainly take any information and share it with the entire board but until the board votes the board does not speak.

Mr. Spry stated that the board only acts as a majority in whole. An individual board member in responding does not speak for the board.

Mrs. Cann stated that she wanted to be clear on what we can and cannot do. Not everyone is going to be happy with the answer. Like Mrs. Leeson said the vote in the end is the answer.

Mr. Spry stated that a group getting an answer from a board member does not solve anything because one cannot speak for the board.

Mrs. Leeson stated that the public would share with us so that we have an opportunity to deliberate when voting. It is very difficult for a board to communicate unless it is done publicly.

The meeting adjourned at 11:45 p.m.

Minutes prepared by:

Arlene Vargas
Confidential Secretary to Stanley J. Majewski, Jr., Assistant to the Superintendent for Finance and Administration