

**BOARD FINANCE COMMITTEE MEETING MINUTES
MONDAY, OCTOBER 19, 2009**

Members of the Board Finance Committee met on Monday, October 19, 2009, in the Dining Room of the Education Center, at 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 6:06 p.m. The following school board members were present: Mr. Rosario Amato, Mrs. Michele Cann, Mrs. Irene Follweiler, Mr. Craig Haytmanek, Mrs. Loretta Leeson and Mr. Benjamin Tenaglia. Also in attendance were Dr. Thomas E. Persing, interim superintendent of schools; Mr. Thomas Washington, assistant superintendent for human resources, Mr. Stanley J. Majewski, Jr., assistant to the superintendent for finance and administration; Mrs. Anne Morton, assistant director of business affairs; members of the press and other interested citizens.

COURTESY OF THE FLOOR

None

DEBT RESTRUCTURING UPDATE

Mr. Shearer passed out a hand out on the refinancing and the structuring of the 2005 bonds. We did get an approval to move ahead with that with RBC. We are fine with the fixed rate bond issue component. We are still going through the credit process with RBC. Everything is taking pretty long right now. I am in contact with them every other day, if not daily to see if they need anything from us. I will continue to keep you updated. I've discussed bringing a parameters resolution to the board to terminate one or more of the constant maturity swaps. The 2005 bond issue has an effective cost of funds of \$228,000 the other has a cost of funds of \$257,000 and another one of a \$335,000. When you look at the full package on a cash flow basis they are performing very well. When you break down the constant maturity swaps component for 2005 bonds is producing about 211 basis points of positive spread, that equates to \$1 million of cash flow benefit. The 2007 bonds has a positive cash flow of 206 basis points that also equates to \$1 million of cash flow benefit, if it stays that way for the full fiscal year. The 2007 old Shippensburg note, roughly \$40 million has a positive cash flow of about 211 basis points, which is equivalent to \$800,000. Termination values on all CMS swaps have increased due to the steepening of the long end of the yield curve. Mr. Shearer shared some options with the board. We would like to set a target and set a parameters resolution with all three constant maturity swaps with the designated targets. We are going to take half of the 2005 bonds and put them in a traditional fixed rate mode and refund the other half with a new variable rate deal. We do not have to terminate that fixed payor. For the 2005 bonds, we are not recommending terminating that constant maturity swap. What we will have to terminate is a portion of the fixed payor swap that we refund with fixed rate bonds. We are pretty close to the right time to consider shedding some of

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the risk with the one constant maturity swap. We don't have to terminate any of the constant maturity swaps. What we will have to terminate is a portion of the fixed payor swap that we refund with fixed rate bonds. Page six relates to the market values of all of your outstanding swaps. Columns nine through fifteen relate to the constant maturity swaps. For the 2005 bonds, the current mid market value is 637,000 after fees it's about 325,000 that the district would be able to collect up front. For the 2007-2009 note, the mid market value is a little bit under \$1 million and the net value is about \$725,000. For the 2007 bond, the mid market value is a little over half a million and the net value is a little over \$200,000. If you did nothing right now and continue to monitor and experience positive cash flow you could collect a little over \$1.1 million of positive cash flow for the full fiscal year. Today you could walk away with \$325,000. The benefit factor is about 3.5 times. The one that looks the most attractive is the next one down where for the full fiscal year if things remained the same you could realized \$800,000 of positive cash flow. If you terminated it today you would get a little over \$700,000. For this one you can basically terminate it and receive the cash flows you would have received for the full fiscal year. Your cash flows are doing very well right now. If you want to entertain a parameters resolution this is the one to do it on first. It's the key one to get on the agenda first.

Mrs. Cann stated that it's positive so let's get out because although we are speculating cash flow benefits, we have been trying to get out of the swap business and balance our budget on revenues and expenditures. Since this is a positive situation and we don't have to buy out, it makes no sense to me for us to remain in any of these.

Mrs. Leeson stated that the direction the board wanted was to move from the variable to the fixed rate. I'm looking at the 2007-2009 and it's looking like the time as far as I am concerned. She asked Mr. Majewski if the administration calculated this revenue into the budget?

Mr. Majewski replied that when they were building the budget they did not have this positive mismatch. We budgeted on the assumption of about 4.25 percent. We are going to be clearly under budget in debt service.

Mrs. Leeson stated that being under budget in debt service helps us overall with our entire budget. Looking at the five year budget and knowing that next year is an extremely difficult budget this would be helpful.

Some discussion followed

Mrs. Cann stated that she would like to hear what people think. Are we willing to gamble or are we going to get out while the getting is good.

Mrs. Follweiler stated that Mrs. Cann was right. What got us here was that we put the majority of our debt in a variable rate. What Mrs. Cann has indicated is that right now we get a positive amount if we terminate and therefore we could terminate into a fixed rate. The numbers are enticing and that's where we got into trouble the last time. I agree

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it's an absolute gamble. It's no different than going to the casino. I understand your point Mrs. Cann and I agree with you.

Mr. McKeon stated that he agrees with getting out of these one at a time.

Mrs. Leeson stated that the constant maturity swaps is only a piece of the whole picture. Terminating these does not put us in a fixed rate.

Mr. Shearer responded that it is eliminating some the risk.

Mrs. Leeson asked Mr. Shearer to share some of his recommendations.

Mr. Shearer stated that his overall goal is not to be forced into terminating anything but to terminate when the market warrants and shed risk over time. We may be able to shed it over a short period of time like within a year.

Some discussion followed

Mrs. Leeson stated that she wanted to reiterate that terminating the CMS swaps does not terminate the debt. We still have a fixed payor swap. By terminating these it costs us more. The fixed payor swaps continue and the fixed payor swap is costing us money right now.

Mrs. Follweiler asked Mr. Shearer if it was a guarantee that it was costing us more?

Mr. Shearer responded no.

Mrs. Follweiler asked if we terminate the CMS, we lose the potential for income?

Mrs. Shearer replied that it stops losing and gaining you money.

Mrs. Follweiler stated that she understood that this is making us money now but tomorrow it may not.

Mr. Amato stated that if you look at the overall picture based on this, we are on the positive side of things even with the period of time when we lost that money.

Mrs. Leeson asked Mr. Shearer if he was watching this on a daily basis? If you see this start to tank you will be on the phone with us and we can hold an emergency meeting to do something quickly.

Mr. Shearer stated that one of the beauties of a parameters resolution is so that you do not have to hold a meeting when you reach your target.

Mr. McKeon asked if we were putting up the three parameters for the swaps for Monday's meeting?

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Mr. Shearer recommended getting the parameters for the one swap for Monday. The other two if everyone is comfortable setting the targets then I would recommend getting all three.

Mrs. Leeson stated that she is not prepared to put the two additional ones on the agenda because we have not discussed any parameters or an understanding of where we are going. I am happy to have a discussion of the parameters.

Mr. Shearer stated that they would be three different resolutions. For the 2007-2009 bond I recommend the parameters at \$700,000.

Mr. McKeon polled the board and it was decided to prepare a parameters resolution for 2007-2009 bonds.

FIVE-YEAR BUDGET PROJECTIONS

Mr. Majewski stated that the information provided did not differ greatly from what was received previously. It is not anything of significant change. The year 2010-2011 will still present itself as a challenging budget year. We had budgeted in 2009-2010 year roughly \$26 million for the basic instructional subsidy and roughly \$2 million in the general operating fund for the federal stimulus money. We anticipate receiving a combination of federal and state funds of about \$26 million. The \$2 million shortfall that we were talking about in the summer appears to be on target. During that discussion we were also anticipating that we would not get any additional money for special education. The information coming out of Harrisburg now is that we are on target with what we anticipated.

Mr. McKeon stated that we are basically back to our January projections.

Mr. Majewski replied that's correct. With the five-year projections, I am still anticipating a challenging 2010-2011 year because we saw the index come out. If we are not to exceed the index, it is going to be less than the four percent increase in the taxes.

Mrs. Cann asked Mr. Majewski if he could explain how he came up with the millage increase.

Mr. Majewski responded that it is a combination of several factors. The first step is making certain assumptions about revenue growth. Real estate taxes are about 63 percent of our entire revenue base. I am anticipating no growth for the two boroughs of Freemansburg and Fountain Hill. Bethlehem Township has dropped from a four percent growth to less than 2 percent. Hanover Township is a little more stable but we they also went from three and a half to four percent growth and dropped to one and a half percent. We are starting to see growth in the City of Bethlehem so some of this is balancing each other. We will see growth but it won't be anywhere near where it had been. The other piece is our anticipated expenditure growth. The largest increase in a percentage is in the

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retirement. Retirement will become quite the issue within the next couple of years. Health benefits are going a long at the same pace. Once you take into account the revenue numbers and the expenditure numbers and the big impact that will affect the millage rate will also be the assessments. If we have higher assessments we will have less reliance on the millage rate. To balance this budget as they are being projected, it will require the percentage increases as indicated. Keep in mind those numbers factor in the bumps in retirement. We did talk about how it would take several years of a combination of cost cutting and millage increases in order to get us to the point where we are looking at more reasonable increases in millage. Next year is going to be a tough one.

Mrs. Follweiler asked if we would see some revenue in the near future from the industrial areas of the south side that were given tax incentives?

Mr. Majewski replied that the largest component was the TIF on the former Bethlehem Steel property. It will be a good five years before we can start receiving and keeping the majority of that money. It is capped so we do get some of that revenue now but there is an obligation to pay off the authority loan first. The other properties that we have are the LERTA. They are phased in over ten years.

CAPITAL RESERVE UPDATE

Mr. Majewski stated that there is not much in the way of change from prior reports. Capital Reserve does not have any additional projects added to it.

Mrs. Leeson stated that given the state of the five-year projections, it might not be easy to put much money into Capital Reserve. We need to watch our expenditures coming out of the Capital Reserve very carefully.

Mr. Majewski responded that he does not see money going into Capital reserve with the 2010-2011 budget. We need to get to a point where we have about a three percent increase and then we can take a look at putting some money into Capital reserve. I don't see that happening next year.

FINANCIAL UPDATE

Mr. Majewski stated that we have talked about most of these items. It's very early in the cycle and at this point of the year there are no projections here. Over the next couple of months, when we have a little more trending and we can anticipate some things that can be more reasonably projected then you will start to see that column fill in.

Mr. McKeon asked when do we anticipate paying back the TRAN?

Mr. Majewski replied that we could pay that back at the end of the quarter. I am expecting that with the governor's budget approved that we will start seeing the flow of money and we are scheduling ourselves to make the repayment of the TRAN in full with the December payment.

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Mr. McKeon asked if when the TRAN is paid would Mr. Majewski let them know what interest was paid on it.

Mrs. Follweiler asked when did we payback the TRAN last year?

Mr. Majewski replied that it was paid off last year on September 30th.

Mrs. Follweiler stated that the lack of the state budget is costing us more money because we are not able to pay back the loan until a longer period of time?

Mr. Majewski replied yes.

MONOCACY BIDS

Mr. Majewski stated that we advertised and had a due date of receiving sealed bids of September 25, 2009. Subsequently we did receive an email from someone who expressed an interest but no sealed bid. We did not receive any bids. I contacted Mr. Spry to ask for the options available to you. They are outlined in the memo. I do not need a decision from you this evening. I just need you to be aware that there are no sealed bids. If there is an interest in the sale of the property, I will need to know how you would like us to proceed.

Mrs. Dexter stated that she would like the district to contact the individual who sent the email and see if he was interested in the sale or leasing.

Mrs. Leeson stated that they had the same situation out at the Vo-Tech where they went through the sealed bid process and it did not produce the results they had hoped for. We then went with a realtor and had a successful outcome. I don't know if we wanted to look at a realtor. Would we need a second appraisal?

Mrs. Cann agreed with the thought of hiring a realtor.

Mr. McKeon polled the board and it was agreed that they would like to hire a realtor.

Mr. Majewski stated that he would begin searching and would have some names of commercial realtors for them to select a review.

READING SUPPORT UPDATE

Mr. Washington responded to some questions posed by the board earlier. Mr. Washington informed the board that he confirmed that if funding for a grant-funded position ran out that the job would be eliminated. He handed out a reading restoration proposal handout that contained the 2008-2009 reading positions in June, the reading positions in August after the reading recovery cuts and reallocations. It left us with a hole of three positions affecting six elementary schools. Each school went down a .5 in

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reading. What we are asking you today is the restoration of 3.5 reading positions. What we would also like to do is rather than restore a point one at Freemansburg we would like to bring a .5 to Thomas Jefferson where 40 percent of their students are in need of reading help or some type of reading services.

Mrs. Follweiler stated that we have 36.8 positions in 2008-2009 and after the cuts we went to 33.3 and now we are bringing it to 36.8. We are increasing the 2008-2009 supports by .5?

Mr. Washington stated that he would like to make it clear that the 3.5 is not made possible by GOB funding, we are using maintenance of effort funding.

Mrs. Leeson asked in clarification if this money was coming from federal IDEA funding that cannot be used in any other way right now?

Mr. Majewski responded that these three and a half reading positions couldn't be charged to IDEA funds. Only special education costs can be charged there. However the IDEA funds would free up monies in the general operating fund in order to fund these positions. The IDEA money roughly \$3,019,000 and up to fifty percent of that may be used for maintenance of effort. The federal government recognizes that it is very difficult to be able to maintain your special education programs because they are quite costly so they allow you to maintain a portion of it for maintenance of effort. We can take positions that are now budgeted in the GOB and move those special education costs out of the GOB. By doing this, it releases money that, with your approval, can fund these positions. These monies are not something that would be charged to IDEA.

Mrs. Leeson stated that she is in favor of restoring the reading positions.

Mr. McKeon asked how long the funding would be available.

Mr. Majewski replied a total of two years.

Mr. McKeon stated that we might be facing the same in two years.

Mr. Washington stated that we are making this available with the clear understanding that when the funds run out the positions are gone.

Mrs. Follweiler stated that it's a total number that they approving and where it gets allocated to the schools is not particularly a function of the board.

Mr. McKeon polled the board and it was decided to place the item on the agenda for approval.

Agenda Items for October 26, 2009, Regular Board Meeting

A. PlanCon K Approval

Mr. Majewski stated that PlanCon K is part of the PlanCon submission process whenever you have a refinancing. In the spring we refinanced so we are required to file with PDE the information about the refinancing.

B. Private Transportation Contracts

Mr. Majewski stated that it is common to contract out transportation to various companies or individuals because it is cost effective to contract them out as opposed to us looking for a way to transport them.

C. Acceptance of Automated Payments Solution Proposal-Commerce Bank

Mr. Majewski stated that he continues to support this and would like it placed in the agenda for action. Mr. Majewski stated that he had contacted about five businesses. When we took a look at monthly cash flow versus annual cash flow we found that this bank would actively go out to seek additional companies to be added to their list.

D. Authorization to Expand 2007 Bond Funds-Broughal Middle School LEED Certification-United States Green Building Council Invoice

Mrs. Leeson stated that she knew that the LEED certification had some costs but she also thought that we would receive some funds? I believe we anticipated that the LEED certification would cost a little but not a lot and we would receive the benefits over time.

Mr. Gilliland stated that his understanding was that U.S. Green Building Council is the only certifying body and if they say indeed this is a green building at the various levels then we will be reimbursed from the state.

Mrs. Leeson stated that although we are approving the expenditure, we would hopefully see some money back.

E. Authorization to Expand 2007 Bond Funds-PPL Right of Way Agreement and Payment-Martel Street-Broughal Middle School Project Site

Mr. Gilliland stated that initial service came into the old Broughal from West Packer Avenue to Martel Street and basically it came in towards the back of the building through the gymnasium entrance. Since the building will no longer exist, PP&L has to remove the poles. They have to remove the poles and transfer them to West Packer Avenue. They still need to retain one pole because that feeds the church. All they are asking is to be paid to get rid of the poles and for us to give them a right of way to put one more vertical guide wire on.

Mrs. Leeson asked if the vertical lead guide wire would be in a walkway.

Mr. Gilliland responded that the guide wire has to go down Martel Street so it is not going to impact on anyone on that side.

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F. Budgetary Transfers- 2009-2010

Mr. Majewski stated that there were two request and both of them came from East Hills Middle School. The principal was looking to transfer \$1,400.00 for the purchase of a computer for the principal. There was also a transfer of \$1,850.00 for the purchase of a computer for the new assistant principal at that school.

Mr. McKeon asked if we had not entered into an agreement to replenish all of the teacher's laptops? I know teacher's laptops were the discussion. I just assumed the administrators were included.

Mrs. Leeson stated that she knew some of our computers were in need of replacement but some were still in pretty good shape. Why did we not just move around the laptops in good shape to administrators?

Mr. Majewski replied that Frank Arbushites would best answer that. I believe some of those computers were moved around. I don't have the answer you are looking for.

G. Planetarium at Broughal

Dr. Persing stated that this is part of the Title I stimulus application.

Mrs. Cintron stated that the only two eligible buildings for the use of that money were Broughal and Northeast.

Mr. McKeon stated that this is what the stimulus money was designed for.

Mrs. Dexter stated that she read that the equipment would only have a one-year warranty. \$155,000 in equipment and just a one-year warranty seems a little expensive.

Mr. Gilliland replied that he could call the company tomorrow and get an answer.

Mrs. Dexter asked if there would be a maintenance cost to the district in form of a service contract or has certain maintenance done every month or every two months. She wanted to know if there would be any additional costs to the district.

Mrs. Cintron responded that the \$155,000 that was budgeted in the Title I stimulus application was just for the purchase of the equipment. If there is a service or maintenance contract that must be purchased, it cannot be done with those funds.

COURTESY OF THE FLOOR

Stephen Antalics 737 Ridge Street Bethlehem, PA said that Bethlehem Area School District and St. Luke's Hospital are both tax-exempt entities. As I understand it the school district could question the tax-exempt status of many entities. Some time ago I proposed the idea of pursuing the Diocese of Allentown for the tax on church properties that were no longer a place of worship. I spoke to the tax assessment officer who said that a taxing agency could question the tax-exempt status of any entities. I don't know

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how much effort the school district has put into looking into the unoccupied church buildings of the city but I urge you to look into not only the churches but all tax-exempt properties of Bethlehem. I may bring quite a bit of money to the district.

The meeting adjourned at 9:15 p.m.

Minutes prepared by:

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