

**BOARD FINANCE COMMITTEE MEETING MINUTES
MONDAY, AUGUST 8, 2011**

Members of the Board Finance Committee met on Monday, August 8, 2011, in the East Hills Middle School Auditorium, 2005 Chester Road, Bethlehem, PA. Mr. Eugene McKeon, Chairperson, called the meeting to order at 6:02 p.m. The following school board members were present: Mr. Rosario Amato, Mrs. Michele Cann, Mrs. Irene Follweiler, Mrs. Loretta Leeson, Mrs. Aurea Ortiz. Also in attendance were Dr. Joseph J. Roy, Superintendent of Schools; Mrs. Stacy M. Gober, Assistant to the Superintendent for Finance and Administration; members of the press and other interested citizens.

COURTESY OF THE FLOOR

None

PFM UPDATE

Mr. Scott Shearer reviewed a handout that outlined the current debt situation and the proposals received. He reviewed the options for the 2007 variable rate bond and said it is the last remaining original issue with Dexia and that we are focused on tonight. Mr. Shearer stated that this transaction was working well until the last 4-6 weeks when it started to increase as we heard more bad news about Dexia. We would like to see this get back in line soon with your budget. Mr. Shearer stated that they have received proposals from RBC Capital Markets which is very similar to the floating rate note done with RBC in January 2010. The fees are a little less, ability to repay is a little better and the interest rate is better. The Wells Fargo proposal is also very similar and favorable to the provisions on the last loan. PNC Bank supplied a draft term sheet. PNC bank is offering a letter of credit, which retains bank risk. Mr. Shearer was unsure it was wise to keep bank risk in light of today's economy. Mr. Shearer stated that he would lean towards the other products with RBC and Wells Fargo. The RBC floating rate note is for \$27 million. We are recommending cutting in half the \$55 million swap with fixed rate bonds with the other half attached to this new variable rate vehicle proposed by RBC or Wells Fargo. Both proposals are for three years with RBC's based on SIFMA plus 75 basis points. SIFMA keeps tax risk on the table. Our mission is to be shedding risk. There is approximately \$65,000 in legal fees with no bank risk but you would have renewal risk. Wells Fargo is offering \$30 million with a three-year term. Their index is 68% of one month LIBOR plus 75 basis points. The index matches the attached swap. Wells Fargo is not proposing any upfront bank fees. Bank counsel fees are \$40,000 with no internal counsel fee. There is no basis or tax risk but there is liquidity and renewal risk. It can be prepaid anytime with no penalty if prepaid after the first anniversary date. It also has the same term as RBC that you want which is to maintain the fixed payer and maintain a positive relationship with Wells Fargo Bank. The PNC proposal is \$27.5 million, a letter of credit, but at the end of the day the fees are higher and it has some risks we want to shy away from. Mr. Shearer reviewed some graphical charts that demonstrated where the district was and where they were heading with these proposals. There are three good

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

proposals with three good banks; some of which you have done business with in the past. Mr. Shearer stated that he could be back as early as next week to adopt parameters documents if the board chose to move that quickly. We would also need a meeting with the Bethlehem Area School District Authority because the recommendation includes having a variable rate component done through the Authority to achieve additional state reimbursement.

Mr. McKeon asked if the district suffers any impact with the recent US rating downgrade. Mr. Shearer stated that the only caution that we are seeing is for those entities that are currently AAA rated or those that are very highly dependent on federal subsidy. He was unsure of the direct impact on Bethlehem but said that there is a 50/50 chance that the municipal borrowing rates may fall the same as treasury rates.

Mrs. Follweiler asked if there was any benefit to waiting. What harm would come if we waited? Mr. Shearer responded that you want to keep this on the faster track. He stated that since it is an average time to terminate a swap, you should take advantage of that opportunity. We need to stay the course with what we have been doing and shedding risk as things opportunities arise.

Mrs. Follweiler asked what Mr. Shearer needed from this committee? Mr. Shearer responded that he needs to know if the board wants him to come back next week with parameters resolutions.

Mrs. Leeson stated she understood that the JPMorgan settlement that was offered to a number of municipalities is now being questioned. Termination fees are holding us back from moving all of this to the lowest risk possible. Last month we talked about approaching JPMorgan and I have heard nothing. What have we done to push that issue and see if we can get some type of settlement? It may solve all of our problems.

Mr. Shearer stated that their swap department contacted JPMorgan and their reaction to others and us was that everything was done by the books for this transaction. They had an interest rate management plan and they had an independent swap advisor for this transaction. There is really no room to move. Please rest assured in knowing that when we terminate, we go to swap counterparties and minimize the fees that are paid to them. We have been doing that for Bethlehem on each termination. They have maintained that there was no wrongdoing in that transaction.

Mrs. Leeson asked Dr. Roy what was Jens response to this? Dr. Roy stated that he spoke to the district's solicitor about looking into the settlement and reaching out.

Mrs. Leeson asked if Dr. Roy was referring to Don Spry. She stated that Jens Damgaard as bond counsel was supposed to look into this for us and I was wondering what his response was.

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

Dr. Roy responded that he was referring to Don Spry and that he had not heard from Jens Damgaard. Mr. Shearer stated that he knew Jens Damgaard had spoken with Don Spry today about it. Mr. Shearer stated that he did not know anything further.

Dr. Roy stated that Don Spry's response was that because it was an ongoing investigation it would be unlikely that they would be making side deals while there were investigations ongoing. Mrs. Leeson stated that as much as she liked Don this was not his area of expertise. This is a considerable amount of money for this district. She asked if we were to terminate all of our deals right now, what would it cost us? Mr. Shearer responded that the cost would be about \$20 million.

Mrs. Leeson stated that she believed the district should be a little more aggressive in approaching the issue. It would also take the risk out of our future dealings and move right into fixed rate. The fact that they are under investigation is one good reason why they may want to close with us and get us out of the way without admitting any wrongdoing.

Mr. McKeon asked if the board wanted to move forward with parameters.

Mrs. Leeson stated that she was hugely disappointed that it has been over five weeks and we are not pursuing something better with JPMorgan.

Some discussion followed.

Mr. McKeon polled the board and it was decided that Mr. Shearer could move forward with the preparation of the parameters documents.

Dr. Roy stated that if there was a need to move before the regular board meeting in September that they could schedule special board meeting prior to a committee meeting.

Mrs. Gober asked Mr. Shearer if the board decides to do terminate the entire swap, would these proposals be void? Mr. Shearer responded yes. We would have to do an RFP for the entire transaction. These proposals are only for the hybrid version.

Mrs. Gober expressed concern with trying to reach the authority members if they must vote at the same time that we do or can there be a disconnect?

Mrs. Leeson asked for clarification, and asked if they decide to go fixed rate do we need the authority? Mr. Shearer responded that's correct.

FIVE-YEAR PROJECTION PROCESS

Mrs. Gober stated that at the June meeting Mr. McKeon requested we look at the five-year plan over the summer. Mrs. Gober stated that what is before you is a model of what is a five year plan, how to develop the document, what is it used for, and what are some of the things that need to be considered as you move through the development process. A five-year plan is something that is used as a future-planning model. It helps to predict

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

what your future financial outlook would be like assuming certain variables. Its value is only as good as the day on which you develop those assumptions. The minute those assumptions change that model is no longer accurate. It needs to be a fluid document and it needs to be used in the context in which it was presented. You look at them for broad-brush overview. The further you get out along that timeline the less certain that those assumptions are and the less valid the numbers are within that model. You begin with some baseline. You look at your historical data for all audited years along with the current year as it stands and use your assumptions to predict the future. That baseline should be the most current audited financial information available. In a normal school environment that day would be October 31, the conclusion of the annual financial report. What we would anticipate is a normal planning cycle is to have the five year plan sometime in November to be presented in the upcoming planning cycle to have some idea what those trends would look like. The assumptions need to be generated both from internal and external indicators. The internal factors are those that you know and have the largest control over. The largest would be collective bargaining agreements already in place. You would look at your ongoing construction and any planned construction, where you are within those cycles and include any existing debt payments. Normal cycles of textbooks, uniforms, technology, and capital improvement are ongoing plans that help to spread the cost keeping it level year after year within your budget to help avoid any spikes. You must consider enrollment trends and whether you anticipate increases or decreases. Special education needs are the most unpredictable expenditures although they are one of the largest expenditures. There are unknowns that we cannot always anticipate. Mrs. Gober stated that consideration needs to be given to existing agreements such as long-term maintenance agreements on the HVAC systems, vehicles, copiers, among others. Utilities and fuel costs need to be considered as well. Mrs. Gober stated that standard inflationary issues impact us as well from an external standpoint including the PSERS rate that we know is forthcoming. We have no way of anticipating what other legislative mandates will come forward. Healthcare is another issue where it is market driven. The cost of services is external to our control. The impact of national healthcare is going to increase our cost from a healthcare standpoint and not necessarily something that we had the ability to influence or change. State and Federal subsidy is something that is very fluid. We do not know what we are going to receive year after year. When we look at real estate development we can make some educated projections regarding developments we know have begun based on discussions with municipal authorities. We need to be mindful of what happens to our tax base through economic changes, real estate and home sales or income taxes in the event that we would have one significant employer within the school district close. We all understand what happened when the Bethlehem Steel closed. We have been successful in turning that type of situation around with new employers joining the area such as the Sands Casino. Legislative changes came unexpectedly. Vouchers are another concern. Whether it is students entering or leaving our district, how do we deal with those strains? The last look at a five-year plan was in 2007. In order align that data, we needed to consider changes in the accounting system that occurred in 2009. We had a disconnect because we had old paper records that did not have electronic back up to provide the level of detail necessary to align to the new electronic system. In 2010, we had changes to the accounting structure that caused some concern in aligning account B to account A, making sure that we were comparing costs

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

accurately. We have changed the way we essentially do accounting across the board. Where we are posting things today is in alignment with the PDE chart of accounts. In the past in many cases we were charging expenditures where there was existing budget money and not necessarily where the transaction would have dictated. As you look at one account code versus the other, even if they were aligned to match through the accounting and systematic computer and software changes, there is still going to be a lack of consistency because in some cases where we had charged equipment in the current year it may have been called supplies in a prior year. At your seats tonight, I also included documents and formats that you have used here in the past and some samples of formats that had been used in other entities that would allow you to look at some differences of how we can format the data. If we look at the way it was presented here in the past, the data was presented in the most visible items such as tax revenue or teacher salaries. In other areas, there were aggregated sets of data that were more difficult to distinguish. Some of the trend information that you see there allows you to predict from the past what the future will look like. When we try to do that in an ever-changing market as we have today considering the differences that have been presented lately from Harrisburg with the change in administration and the legislature, projecting forward from historical trends is somewhat difficult because our history is no longer a sound predictor of what our future will look like. Other samples before you align more closely to the way PDE accounts for information thereby making the historical comparison a little more user friendly from an operations standpoint. You want to look at salary and benefits as one of the large line items that you want to keep separated but then all of the operating expenditures are presented in alignment with the annual financial report and budget. One thing I would ask for is a format change in the five-year plan to align more closely to something that would mirror the PDE accounting structure so that it is easier to aggregate the information, and easier to quantify and justify the information as the numbers are being presented. This natural alignment to the annual financial report and the annual audit for the baseline information explains why in the past the five year projections were presented in November – December and that is why we would recommend resuming that cycle going forward.

Mrs. Leeson stated that that the board made it clear that they were interested in the five-year plan in the summer and historically if we looked at it in the November and December timeframe it was because we were not with Act 1 and having to do our preliminary budget in January. During the budget cycle the board requested to look at the five-year plan and we decided to delay it until the summer where there would be time to take the time to look at it carefully. We have now spent a great deal of time going through some of the criteria and we all know that there are assumptions that must be made when you are doing a five year projection and we also know that there are unknowns. We make these assumptions and we use a format to project so that we can see the trends and we can begin to plan for the trends. We cannot wait until a December-January time period for this plan. It will put us very far behind. Northampton Community College and Bethlehem Area Vo-Tech have already had their close of the 2010-2011 school year. We need to have the close. We don't wait for our auditor to give us the close of the books. We need to have our audit, which is the check of the books and the check of the processes done in the October-November time frame. In approximately

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

the November time frame we need to see a projection for next year so that we can begin to work on a preliminary budget for January. One of the problems we ran into this year was in not following that format. We started with a 14% preliminary budget and back pedalling to get into the cuts necessary. When we look at the projections given to us back in April you see the trend is alarming. It shows that we will be going into a huge negative situation in our district which means that we need to start planning for that. We need to look at where and how we are going to accommodate these challenges going forward. We know that PSERS is one of the biggest challenges and yes there is a possibility that something may be done in Harrisburg that will help not only us but also other municipalities out of this crisis. We need to begin the planning process. This district has cut a lot out of their budget. If we need to go to making additional cuts, it will take us time and research to start doing the cuts necessary. Even this year we did not do the research necessary cutting some of our programs. These projections are needed and I believe Mr. McKeon asked for it and the majority of the board supported it and wanted this plan now. We want to look at what we need to do and how do we need to move forward. Not to receive a process to do the plan in the future down the road.

Dr. Roy stated that there were projections provided in April towards the end of the budget process. This timeline and process that Mrs. Gober presented tonight is tied with a logical timing of when the numbers become available. Also rather than taking the old projection process, we wanted to develop a new process so that everything is aligned. It ties in with the audit work that we have been doing, ties in with the recommendations of the operations review and aligns with the work of the Business Office. This development process is more comprehensive and more aligned than the previous projections so that we can have accurate projections going forward. We provided projections in April and it would be premature and not particularly helpful to provide additional projections in August when we need to let some things play out and close out the prior year. What we were doing tonight was educating the board on the components that Mrs. Gober would see building into a new projection process. Dr. Roy stated that the process was reviewed with Mr. McKeon prior to this evening.

Mrs. Leeson stated that the projections provided in April were based off of 2009 so when you say we can't do these projections, it's difficult, we can't, then what do you think the process is going to be? Are you going to wait until January to see what we need to do with our budget again and what is your timeline in addressing some of the issues that appear in this projection?

Mrs. Gober clarified that the 14% increase that was discussed at the initial budget presentation was not a 14% increase in expenditures. The increase in expenditures was about 3%, which was historically low and much lower than any preliminary budget presented. The deficit was predicated upon a reduction in the revenue due to the stimulus funding that we did acknowledge and share with the board and the community. We did not present a frivolous budget that included vast expenditure increases, as it may be perceived when you say there was a 14% increase in the initial budget presentation. We are planning for the future. We were very clear during the budget process that 2012-2013 will likely be worse than it was for 2011-2012. We have been upfront about that and we

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

are planning and continuing the discussion regarding how programs look and how can we cut cost in every possible venue, in every possible scenario and how do we change the way we do business going forward. We know this is not a short-term problem. We were clear about that during the budget cycle. One of the things we talked about repeatedly was that it needed to be a sustainable budget and what we were bringing forward included hard choices and hard decisions but it needed to be sustainable. When we continue to move forward using estimates of estimates, that projection becomes more and more grey and it is our intention to bring forward the most accurate information that we can so that it is meaningful and usable with reliability.

Mrs. Leeson stated that she did not indicate that expenditures were 14% but a budget was presented to the public with a 14% increase. You are absolutely correct. It reflected a reduction in revenue and an increase in expenditures. That was strictly a projection budget that had not taken into account any decreases and that is something we need to see in November and not in January. By January we already need to see a budget far more realistic and something closer to the parameters of what the community and the board is going to accept.

Mrs. Gober stated that in November we just had the state election. We had no idea what the new administration was going to put forward as their objectives. We had no idea what the new legislature was going to look for in their new objectives and to make assumptions in that regard would have been premature. Mrs. Leeson stated that we did not have them in January either.

Mrs. Follweiler stated that she agreed with the example that was more in line with the Department of Education is not easier just for all of us to understand but it is easier for Mrs. Gober to align it to the budget. Once we change the format it may become more realistic to see numbers on a more regular basis. In an ideal world they would be generated from a reporting system and we could perhaps see them quarterly or bi-annually. Mrs. Follweiler stated that she sees where Mrs. Leeson is coming from that having the information available as quickly as possible is important even understanding that until the full audit is complete, your books are not closed. Mrs. Follweiler stated that recommendations from the Davison Group and some of the recommendations from Mrs. Gober are all moving us towards the end of having more realistic reporting. Mrs. Follweiler stated that she would like to see how the board feels about the format and move ahead for next year. I agree with Mrs. Leeson that I don't like to see a very high number of the potential tax increase and I understand Mrs. Gober's point that this last year was a very unusual year because of the new Governor.

Mrs. Follweiler asked the board members what direction we should give Mrs. Gober on the format of the report. Mrs. Follweiler asked Mrs. Gober and Dr. Roy, given all the changes in the Business Office, is there a realistic timeframe as to when we can get the projections presented?

Mrs. Gober responded that from a presentation standpoint, the PFM page is the more aesthetically polished. The ease of gathering all the information is consistent in any of

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

the formats. The difference I wanted to point out is how it might look in alignment with the budget and accounting layout contrary to the format that you are used to seeing in the prior reports. We can make the formatting easily readable but the content and the alignment of data to the state format are what make it valid, easier to prepare and easier to manage.

Mrs. Follweiler stated that she would like to hear more about the projections and asked once the business office has implemented the changes being requested will this allow better timing to get board information sooner than the October time frame?

Mrs. Gober stated that she wanted to be clear on the amount of work that exists between June 30 and October 31 when the annual financial report is presented to the state. I cannot tell you the last time Bethlehem has submitted an audited AFR to the state. That has not been my experience. Generally, everywhere I have worked, we have always prepared an audited AFR. As of October 31st, you know exactly where you stand with certainty including any audit adjustments made through that process. There is some work that we need to do here so that everyone is aware that we are moving to that point. The first year that I got here I came in the door mid-January and did not have an audit yet. We did not get an audit report until March. This past year we got the audit report in December-January and this year we are hoping to get it closer to the November timeline but we won't have auditors in here until the last week in October which says that they will not complete their audit work before that October AFR deadline. We are moving towards that. It is where we need to be but I cannot tell you that we are there today.

Mrs. Ortiz stated that she understood where Mrs. Leeson was coming from and she also understood that last year was very difficult year but we need some sort of a timeline because we have more difficult decisions to make. We need to have enough information so that we can make the right choices. When can we expect to know?

Mrs. Gober stated that when you talk about a five-year plan while you are developing a budget now you have two significant documents that are ongoing simultaneously. You all understand where we are in terms of the Business Office. We are in the process of breaking down and rebuilding. We will get there. We have the Act 1 timeline and this is an election year so we have an earlier deadline and we have a January budget adoption deadline. We will have to be preparing the budget earlier. The earlier we begin the less information we have. The state does not have to present their preliminary budget until mid February but ours has to be preliminarily adopted. You make the best assumptions you can and put it forward. During the prior state administrations we had very consistent plans. We knew what the administration was planning and what they were looking to do. It was much easier to make those predictions. We are in a very changing environment and we will do the best that we can to give you the best information we have and as it changes we will bring it to you. All we can do is be honest and forthright, give you the best projection we can and amend it as we get more information.

Mrs. Leeson stated that she can hear Mrs. Gober making a case for "they need to have the five-year projection at this time" and I hear you very clearly saying that you need to make

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

changes as they occur but I think I am hearing you say that there is an awful lot of work that needs to be done in the budget during December and January timeframe and we know that we absolutely must have the projections in November. I am also hearing you saying that the audit is going to be in November of this year.

Mrs. Leeson asked Mrs. Gober if she was saying that the board could not have a close of the books until the audit. Mrs. Gober stated that they could do the best work they could with all of the knowns at that time. The auditors will always make adjustments. They will review our work and make adjustments.

Mrs. Leeson stated that the auditors review our work but the auditors are not there to close our books or to give us the bottom line. We should know where we stand with our budget prior to the auditors coming in. When will we be able to get the close of the 2010-2011 school year? Mrs. Gober responded that we would have the 2010-2011 school year closed to the best of our ability when the auditors get here in the last week of October.

Mrs. Leeson stated that she found that unacceptable. We should be able to have a close of the June 30 books.

Dr. Roy stated that we have to view this in the context of everything we are talking about with the challenges in the Business Office. When we say the end of October that is not the long-term goal for closing books but that is the reality as we rebuild and retool the Business Office. Most of the items on the agenda tonight are undoing problems from the past that existed in this district. The PFM update is undoing problems from the past. The five-year projections, getting them more accurate; the financial software, correcting mistakes this district made in the past in choices on financial software; the audit review, correcting accounting and procedural mistakes that were made in this district in the past. We are fixing the problems as we go and there are a lot of problems to fix. This year it is October. Next year it will be earlier as we get the problems fixed. To continue to beat a dead horse, asking for things and acting like the problems in the Business Office don't exist after we repeatedly discussed them here, just does not make sense to me. We are telling you the best work that can be done in the time frame that we have, while correcting the many problems that this district and this board created by decisions in the past.

Mrs. Leeson stated that she understood his frustrations but we have challenges coming up as well. Dr. Roy stated that we are well aware of the challenges and we need to fix them backwards as we go forward and that is a challenge. Mrs. Leeson stated that the challenge we face going forward is that next year's budget which is going to be a very difficult budget year.

Some discussion followed.

Mrs. Cann stated that it made sense to have the format aligned with PDE.

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

Mr. McKeon asked to move onto Item 4, the financial software discussion, because it may give better insight to what the presentation should look like and we will come back to this discussion.

Mrs. Follweiler stated that when we get to budget discussions, we should to look at necessities. Let's start at zero, put the bare necessities in and see if we have the revenue to cover it before we discuss anything else.

Mrs. Leeson stated that she did not believe the format made a difference. They are both readable and understandable.

FINANCIAL SOFTWARE DISCUSSION

Dr. Roy stated that they heard from the Davison Group's operations review a major emphasis on the IT side of the Business Office in their report. In their presentation 70% was focused on the IT portion. One of their recommendations was to do an immediate (within a month) review of our financial software. Dr. Roy asked the team to come together and review our financial software and come forth with recommendations. The ultimate goal was to get software that would be our friend and not our obstacle while keeping an eye on savings. Mrs. Mautino and Mrs. Gober did an excellent job. Members of the team were Marie Bachman, Frank Arbushites, Russell Giordano and members of the Business Office. That is part of our goal in increasing communication and cross training in that department.

Mrs. Gober stated that over the past few weeks we have tried to gather where we are in terms of our existing software and accounting systems, knowing that the challenges of implementation have been ongoing for quite some time and knowing that we have the deadline of January 1 to have the payroll system implemented. When we began the initial discussions with SunGard, they gave us an option that would take about 4 months to implement payroll whether we stay in the system we have or whether we move to their other product which is more K-12 aligned. In talking through that process, we began looking at whether we could transition from where we are into a sister product. As we began to meet at greater detail, we realized that the transition was not something that was feasible and we were looking at a brand new implementation, a new purchase, a new install, a new application and we were a new client under the new product so we essentially starting from scratch. We began to look at the cost, the cycle and the amount of planning involved and felt that we needed to convene a larger team to explore other options which now was not as simple as it sounded originally. We brought together key representatives of the Business Office, the Technology Department as well as Human Resources and began to look at what other school districts are doing? What are our neighbors doing? We looked at the costs involved in moving into the other SunGard product called eFinance. We knew the cost of staying with the current product. We narrowed it down to accounting systems. One was eFinance Plus through SunGard and the other was Central Susquehanna Intermediate Unit who originally developed an application for their own use but expanded it dramatically over a number of years to be the most utilized software product for public school accounting within Pennsylvania. We

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

invited both vendors to come in for a presentation with the Business Office staff. We had extensive dialogue with the key team in terms of capabilities, pricing, systems operations, concerns and issues, and through a comparative process we are recommending that we move to the CIU16 product. You have in your packet a document that shows the features and the differences between the systems. When you look at the overall cost, the CIU16 product is less expensive. It includes annual support that has a baseline number of hours where we can call for support without being billed so that we can make sure we are implementing the system to the best of its ability and make sure it is used as effectively as possible. The recommendation to move to the CSIU aligns with the ease of use, clarity of information, cost and the vast support group. More than half of the school districts in the Commonwealth are using this product. The costs are included as well as the recommendations that were outlined. If you look at the cost summary set at your places tonight you will see the actual costs of each of the applications, what is included and what the additional charges are in the current year. We would have some data conversion fees, as well as some Microsoft access fees and we would recommend implementing as soon as possible in the current year, which would improve the accuracy of the reporting in both the Human Resources and the Business Office. In the center of the page we have compared the ongoing costs of IU16 as compared to the ongoing cost in the implementation of the eFinance product.

Dr. Roy stated that currently we have Business Plus. It is the software that we bought several years ago and have had difficulty implementing and use. There was a consensus even from SunGard recommending that we move to eFinance because it's more user friendly and aligned with the needs of a school district. Originally we thought it might be just a transition but when we met with SunGard we realized this is a whole new implementation with the related costs, data conversions expenses and training expenses. We needed to look at other possibilities.

Mrs. Gober stated that this would save costs for the district over the long term as part of our objective. If you look over to future considerations, we also have been charged this year to analyze our tax collection process and how we collect our taxes both real estate and per capita. There is an integrated tax collection and billing module that would be available and immediately dovetail into the financial accounting software at minimal cost and the eFinance model does not include that. Berks County IU had a full service solution including software that would be about \$35,000 as an alternative that would be an add-on to the eFinance cost.

Mrs. Cann stated that this was something that was needed for quite a while. I am pleased that we are getting close now. Is there going to be a layover period to enter current data into the new system? Is there a time where we will not be functional while converting? Mrs. Gober responded that both vendors expressed the timeline shown here to be very aggressive. Payroll is one of the most challenging. Doing this in the suggested time frame while we are going through the audit and while we are developing the budget will be difficult. We are going to have a lot of balls in the air at the same. We will continue to run in the existing applications until we are tested and know that the systems are accurate.

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

Dr. Roy stated that the deadline to have the new system up and running is for January 1, 2012. We have not converted payroll over to the current system. If we did nothing, we still would be converting the payroll and human resources functions over to Business Plus, which is more expensive and not working for us.

Some discussion followed.

Mrs. Follweiler asked Mr. Arbushites how he felt about the two platforms because eFinance is in SQL and the IU16 software is in FoxPro. Mr. Arbushites stated that FoxPro is not as widely used in the industry as SQL. He believed that it was the intention of IU16 to move to the SQL platform over the next few years and gradually phase it in with different modules.

Mrs. Follweiler shared her experience with the two platforms and said that FoxPro was so much better than SQL. She asked Mr. Arbushites how he felt about the time when that transition comes. Will it be seamless if we go with this software? Mr. Arbushites responded that it would be mainly in the hands of the IU16 to manage that process for us. They are the developers and owners of that software. They have many clients across the state that use this software. He was sure that they would take the necessary steps to make sure everyone's data transitions smoothly.

Mrs. Follweiler asked if Mr. Arbushites could get back to the board on the longevity of FoxPro and when IU16 would anticipate that transition. Mrs. Gober stated that it is a hosted system so all of the applications would be hosted at their site. When they transition their product, the transition will be for all of their clients. The transition will be on their side. Only our screens will look different.

Ms. Bachman stated that the IU16 organization has indicated that they are looking 3 to 4 years out to transition the platform from the FoxPro to Microsoft SQL.

Mrs. Leeson stated that they looked at some of the other districts that were using this program and I am curious what is Allentown using? Do we know because they are a very similar school district in size? Mrs. Gober stated that the Allentown School District is using Skyward. They are the only one in the area using that product. Some of the others using it were further out west and their cost was about \$114,000 a year.

Mrs. Leeson asked if we looked at Lancaster or other school districts close to our size. Mrs. Gober responded that Lancaster and Scranton are both using IU16. Some of the larger Bucks County schools are in a very small consortium of about 12 schools that are using a Windows NAV program. Mrs. Leeson stated that size does not necessarily make a huge difference with these products.

Dr. Roy stated it is important time wise that if we have board support, we have it by Monday so that they can immediately start the process and go live by January 1.

AUDIT REVIEW UPDATE

Mrs. Mautino stated that the bank reconciliations are being done on a monthly basis and we are working on July as we speak. Pooled cash does not exist anymore. Cash receipts are all going to the proper bank accounts and to the proper account code in the general ledger. It is a huge improvement. We are still tweaking disbursements because our current software does not allow us to write checks out of the other funds so all of the checks are still coming out of the general fund and we have a work around where we are transferring money back and forth between the funds as the expenses are incurred. It is keeping the books clean but it is not the perfect solution. We will be working with this until we get the new software to accommodate separate check runs. We are past the point of getting everything into the bank accounts for day care activity and it has been working for a while. We are now working on reconciling the day care activity for the audit. I am still on the planning stages with the scholarship accounts. There is a lot of work that needs to be done on that as well as the student activity. I will have a report on that next month. I am working on the last quarter of the PDE 2071's getting those on the way to be filed and also reconciling debt service principal and interest for the 2009-2010 and 2010-2011 year to make sure we have all the payments on the books. We are starting to work on fixed assets. We just hired our new account analyst and this will be one of her main responsibilities. It should run smoother once we have software that will help accommodate that. I also wanted to add that I am working on the soft close of the 2010-2011 school year and I am working everyday all day trying to complete it and I am making progress. You should have it before the auditors come and hopefully cut down on the amount of journal entries that we had last year while making improvements on what we have had in the past years.

INFORMATION ITEMS

Mrs. Gober stated that in June last year we had done some work to participate with the local IU20 health insurance trust to aggregate our claims administration with better administration fees as well as our ability to participate in the state-wide healthcare trust for stop loss insurance. It was a long, arduous dialogue between the parties at IU20 and in late spring they had finally made the determination that there were obstacles that they were not comfortable with due to our size and the concerns that Bethlehem alone was the size of their entire trust. There was concern that just one year of bad experience could impact the remaining school districts. Once that determination was finalized, we were able to enter into some preliminary conversations with the Pennsylvania Trust and talk about how we move forward. We are currently a stand alone self insured client of Capital Blue Cross on what they call administrative services only (ASO) agreement where we pay them a management fee/retention amount each month based on the claims volume and we simply pay the claims on a weekly basis. As people go to the physician and they incur costs we are reimbursing the cost of the claims incurred by our employees. In doing this, we are recommending re-establishing ourselves as a 501(c)(9) health care trust, which is a section under the IRS code that allows us to participate with the

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

Pennsylvania group as the umbrella group. Under their bylaws, everyone that participates must be a 501(c)(9) trust. We would work towards getting those trust documents prepared and bring them before the board for review and look at developing our trustees. The key component to a 501(c)(9) trust is that there is equal representation of management, administration (being the board) and the employees. We would have involvement at all levels from employees that would sit on the trust board to hear appeals, understand the operations, develop the budget for our insurance operations and then we would have the ability to utilize the discounted administration fees of the overall state-wide group which is on average 9% less than what we are paying today as well as being able to purchase stop loss insurance under the umbrella organization at a reduced cost. I am asking if the board would be willing to consider moving forward and authorize us to proceed with developing those documents in September so that we can start dialogue with Pennsylvania Trust finalizing those agreements and work with our employee groups to get that moving forward through the fall so that by the end of the calendar year we are saving the dollars and insuring our exposure.

Dr. Roy asked if Mrs. Gober could give a couple of bullet points on the dollar savings and in what areas.

Mrs. Gober stated that the fees alone on our administrative contract are about 9% on average and works out to be about \$86,000 less just on fees. The insurance for the stop loss based on the different pricing models that they are considering could be anywhere from \$27,000 to \$200,000 depending on our experience. The way it works is that you pay the premium up front and at the end of the year there is reconciliation based on your utilization. With a successful year, you will get a refund. It is hard to say upfront what the savings would be but it can be material. In my prior experience working with this group there were years that we actually made money on the way it was calculated because we had successful claim years and the amount of the refund negated the premium we would have paid. It can be very cost effective for us to go in this direction. There is a little bit of upfront preparation in terms of document fees. The solicitor is working on a proposal that I will bring back to you at the September Finance Committee meeting that will give you some idea of what the document preparation and the IRS approvals will look like. We should see a minimal six figure savings on this for the district, our operation will improve in terms of efficiency and we are protecting the backside exposure to the district in the same fashion.

Dr. Roy stated that there is a soft benefit of having employees/leaders of the various collective bargaining units because there is a higher level of understanding and awareness of the impacts on healthcare and how we can reduce healthcare costs. It is a side benefit of going to a trust as well.

Mr. McKeon asked if this affected the benefits or is just how it is administered. Mrs. Gober stated that this is just to meet the IRS criteria for a self-insurance trust. It will be the same plan design and the same insurance product. The only thing that changes is that we are part of the larger group and we will then be able to have the greater benefit of the larger volume discount on the administration.

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

Mrs. Leeson stated that Vo-Tech has been a part of EBTEP now for a number of years. Mrs. Leeson stated that she served on trust for a while. We looked at it a number of years ago and found it to be more expensive than being self-insured ourselves. You feel that this would be a significant savings at this point? Mrs. Gober stated that she knew the fees that were recorded for renewal this year and compared to the fees that the PA group is paying would save \$86,000 in fees alone. This is before we begin to look at stop loss.

Dr. Roy asked the board if there was support to take the next step and have the PA Trust solicitor to develop the documents.

Mr. McKeon polled the board and there was consensus to move forward with the development of the paperwork for the self-insurance trust.

Mrs. Gober reported that the tax collection within the Business Office is going very well. Today alone we processed about \$275,000 in collections. The money is coming in nicely. In July we had \$6.9 million of tax revenue through the lockbox so we are getting our taxes in and cash flowing everything that we need for the summer. We are pleased with the results and the work done this summer.

AGENDA ITEMS FOR AUGUST 15, 2011 REGULAR BOARD MEETING

A. PFM-2007 VARIABLE RATE BOND

Discussion above

B. FINANCE SOFTWARE

Discussion above

C. RISOGRAPH MACHINE LEASE RENEWAL – STRATIX SYSTEMS

Mrs. Gober stated that we currently have a lease agreement in place with Stratix for risograph machines that have been in the district for quite a number of years. They utilize a different technology than a regular photocopier in that they are intended to be used for large volume runs of the same document. They are utilized in the buildings and in surveying those administrators they feel that they are working well for them and would like to upgrade and renew them. The opportunity we have here is a cost savings to the district of a little over \$9,000 a year by implementing a new renewal for the lease.

Mrs. Leeson asked if the administration was making an effort to move away from copies as much as possible. What are we doing to try to reduce the amount of paper copies? Mrs. Gober responded that we have asked all buildings to utilize 2-sided copies and read things through PDF rather than printing. Over the summer months the Xerox representatives have been working with all of the machines we have throughout the district and mapping them for us so we can see where we have copiers, what is their utilization and how can we program them so that they automatically do duplex. We are trying to find solutions to reduce the volume of copies from a number of different avenues.

Some discussion followed.

D. ATHLETIC AMBULANCE SERVICE 2011-2012 SCHOOL YEAR

Mr. Donaher stated that this agenda item is mainly for football but we also have a couple of other events where we need ambulance coverage. One is for the varsity football games that we would contract with the City of Bethlehem. For middle school, junior varsity and freshman games, we would contract with Hecktown ambulance service.

Mr. McKeon asked if we were bound to use the City of Bethlehem ambulance service because it looks cheaper to go with Hecktown. Dr. Donaher stated that there is a higher level of support that we get from the City of Bethlehem. It is advanced life support and the reason we are doing that is because the varsity games tend to have larger crowds which need to support the fans as well as the student athletes.

E. MEDICAL AND DENTAL CONTRACTS FOR THE 2011-2012

Dr. Donaher stated that these are yearly contracts that the district has with dentists and Doctors.

Mr. McKeon asked if these were individual contracts or if this came through St. Luke's. Dr. Donaher responded that they were individual contracts.

Mrs. Leeson asked if we were required to have these contracts. Dr. Donaher responded yes.

Mrs. Leeson asked if we were required to do working paper physicals and staff physicals upon request. Mrs. Leeson asked Dr. Donaher to look into it. Mrs. Gober stated that they are not required but she believed those were fees that we contract but then are paid by the individual. We negotiate that fee upfront so that it is at a reduced rate. Mrs. Leeson asked to have it verified. A number of years ago we got rid of the sports physicals and each individual athlete is responsible for their own expense.

F. NIGHT SCHOOL PROGRAM

Dr. Donaher stated that annually we run a night school program from 3:00-6:00 pm on Tuesday and Thursday evening. Traditionally it was a night school but we moved it to earlier in the day to accommodate student transportation back and forth. It runs for 15 weeks with 90 hours per course requirement. You can only take one course per semester with a maximum of 2 courses per year. We ask the cost of the course be raised from \$200 to \$220 for one credit course and \$110 for a half credit course. The courses are provided as needed. We need to have at least 25-28 students per class and we need to have at least 7 classes to be able to hold the program. It is done at Liberty High School.

Mrs. Follweiler asked although the night school program is self supporting, is this like summer school where you have to make up a class or can you choose to go to night school instead of taking it during the day? Dr. Donaher responded that a couple of years ago the program was only an hour and a half and the feeling was that it was not enough to provide

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

a student who wished to take the class for enrichment the opportunity to do that. This does allow a student who wishes to get an extra course in the school year for enrichment purposes to pay for that course if they so desire. We have not found that to be the case for most students in this program.

Mrs. Leeson stated that summer school is also self-supporting and the students are also paying for those courses.

G. ACCOUNTABILITY BLOCK GRANT

Mrs. Leeson stated that it looks like the recommendation is to put READ180 computers, full day Kindergarten and the school resource officers back in the budget using the accountability grant money. Is that correct? Dr. Roy stated that the final budget anticipated these funds and we included that these would be the items we would pay for if we receive the funds. The funds did come through and we are recommending that we move ahead with funding them as was outlined in the budget.

Mrs. Leeson stated that she read it a lot differently. The board voted on reductions that were sent to the Department of Education that included the institution of uniform half day Kindergarten. It went to the Department of Education and was approved. The document that we approved had recommendations but I do not think the board voted on or had discussion on it. I have not seen the case for full day Kindergarten being restored. What is the academic benefit of full day Kindergarten? We have very limited resources and we have to use them very wisely. The most comprehensive study that I have seen on full day Kindergarten was done by the Nevada legislature and they found that full day Kindergarten prepared students better for first grade but they did not see that they sustained through continuing levels. I don't know what our academic data shows. Maybe we are getting academic benefits in second, third, or fourth grade but I do not think we have actually looked at that data. I am also not sure if we have looked at is full day Kindergarten better than perhaps summer school. Our middle schools have told us that it is so important to them that they are using their own money to fund a summer school program. Is it more beneficial to have a six-week summer school program so that student's are not losing their gains? Is it tutoring? Are we getting more bang for our buck in tutoring? For me the argument has not been presented as to these being the things we should re-instituting. The READ180 computers would be another one. My understanding was that the current computers would not run this year's software but it would continue to run the older software. As of right now we still have running computers and do have software that we are able to use on the READ180 computers. As our budget gets tighter and tighter we have to watch every nickel, every dime and ask are we using it in the most effective way possible?

Dr. Roy stated that rather than waiting for the final award of the ABG money and then having to reopen the budget, we asked the board to approve the budget including the ABG money and these three options. It was very specific.

Mrs. Follweiler stated that she completely agreed with Dr. Roy. Each board member expressed what they would do if the funds came through. We did as a board take a consensus on where the money would go. I am sure a look through the board minutes will

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

show what the consensus was. Mrs. Follweiler stated that if full day kindergarten is restored would it eliminate some of the mid day runs for transportation? It may not be much but maybe worth looking at. Mrs. Follweiler also stated that she agreed with Mrs. Leeson on the request of looking at what is the academic benefit of full day kindergarten.

Mrs. Ortiz stated that she did not know why they were revisiting this again if it was already discussed. These were the items we were going to put back.

Mrs. Leeson asked what is the academic benefit of a full day kindergarten program verses a half-day kindergarten program here in Bethlehem. Dr. Roy responded that the students that are in the all day kindergarten program are students who have been identified as entering school behind. The purpose of the program is to give them twice as much time to get them up to speed for first grade. We have significantly reduced Spark and we have eliminated family development positions that support some of our neediest families. All day kindergarten has about 5 sessions at 20 students a class. That's 100 students that will benefit from all day instruction so that they are better prepared for first grade.

Mrs. Leeson stated that this did not answer her question. What have we found to be the academic benefits? Have we tracked the students and do we see an academic benefit to the full day Kindergarten program? Have we tracked the performance and do we see an academic benefit to the full day kindergarten program? Dr. Roy stated that to his knowledge there has not been a formal study on it. There is certainly anecdotal evidence from first grade teachers.

Mrs. Leeson stated that she thought that it really needed to be looked at. Dr. Roy stated that he needed to emphasize again that because of the way this was approved by the budget process we have moved ahead with that direction to begin staffing and filling of those five classes.

Mrs. Ortiz stated that she believed that the board had already eliminated a wonderful resource in Spark and we are not talking about the achievement gap problem just with that and now we are talking about full day kindergarten. Early education is important for our students. I believe full day kindergarten needs to stay and it was voted on.

Mrs. Leeson stated that she objects to this being placed on the agenda.

COURTESY OF THE FLOOR

None

**BOARD FINANCE COMMITTEE MINUTES
MONDAY, AUGUST 8, 2011**

OPEN FORUM

None

The meeting adjourned at 8:40 p.m.

Minutes prepared by:

Arlene Vargas

Confidential Secretary to Stacy M. Gober, Assistant to the Superintendent for Finance
and Administration