Bethlehem Area School District

Shaping the future. One child at a time.

BOARD FINANCE COMMITTEE MEETING MINUTES
MONDAY, NOVEMBER 14, 2011

Members of the Board Finance Committee met on Monday, November 14, 2011, in the Dining Room at the Education Center, 1516 Sycamore Street, Bethlehem, PA. Mr. Eugene McKeon, Chairperson, called the meeting to order at 6:00 p.m. The following school board members were present: William J. Burkhardt, Michele T. Cann, Michael E. Faccinetto, Loretta M. Leeson, Aurea E. Ortiz, and Benjamin M. Tenaglia III. Also in attendance were Dr. Joseph J. Roy, Superintendent of Schools; Mrs. Stacy M. Gober, Assistant to the Superintendent for Finance and Administration; Mr. Scott Shearer of Public Financial Management; Brian Williams of Bethlehem Area Vocational Technical School, members of the press and other interested citizens.

COURTESY OF THE FLOOR

None

PFM UPDATE – Mr. Shearer

Mr. Shearer stated that in January 2010 we did a $30 million floating rate note with RBC that had a 2 year maturity. That had a rate of SIFMA + 150 basis points with a mandatory tender date of January 5, 2012. We need to move forward with renewing or remarketing that in the same mode but with a better interest rate. The handout has a few highlights. We are looking at renewing this at a new spread of approximately 85 basis points as opposed to 150 points. That will result in local effort savings of about $2.8 million over the life or roughly $2 million present value. It is a pretty substantial drop in the rate. The swap attached to this transaction stays as is. This is considered a remarketing not a new debt. The costs of issuance are going to be lower for this transaction and are not rolled into the new financing so we are looking to have a portion of the renewal paid from the general fund. The other option is to refund this transaction with a new traditional fixed rate bond issue and terminate the related swap. It would be roughly $8.4 million in termination costs and the present value costs are about $4.7 million. Those are basically the two options. On November 21st you can entertain a parameters resolution and plan settlement before the holidays. This is a three-year structure so in three years we will be looking to do something with it. We can keep watching this and if a year from now we can do something to your advantage we will obviously bring it to you. This transaction has estimated fees at $93,000 that would be expected to be paid from the general fund and can be offset with the refunding savings from the transaction we will talk about next where you can potentially save another $220,000 or more. We wanted to keep the impact on the general fund to a minimum and the impact to the rate at a minimum. Mr. Shearer stated that $93,000 is expected to be paid at settlement on or around December 15, 2011.

Mrs. Leeson asked if the rate for remarketing would be higher? Mr. Shearer responded that the arbitrage yield of the new bond issue that would be 4.28% but when you factor in the cost of the termination amount the total cost would be 6.8%. We just had two of your transactions close on November 1, 2011 and as of today we have about $100 million of swaps remaining. We have terminated over $300 million. We are changing the look of your portfolio. We have taken a big chunk out of your debt. Mr. Shearer stated that of the $100 million in swaps, the variable rate underlying mode of that $100 million, about $70 million, we have completely eliminated risk for the next three years. On the remaining $30 million, we kept the same index so we still have some of the basis and tax risk. The goal is to continue shedding risk at opportune times. The pro of doing this is simply to eliminate risk. When I compared your debt summary and what you were paying on annual debt service verses what you are paying on an annual debt service now, your annual running rate has only increased by a little over $1million. A lot has been eliminated for fairly minimal impact to the budget. We are sticking with the course of action of shedding over time in the right time in the market. We are recommending moving forward with the RBC proposal but we are willing to hear your thoughts on the other option.

Mrs. Leeson asked if we could consider a hybrid like we did with the last transaction? Mr. Shearer responded that they thought about that but based on today's market, reducing from $30 million to $15 million for one of the floating rate notes increases the pricing and makes it worse. This is the situation right now. Six months from now it may be different because banks change their appetites. I may be here in six months and say let's chop up the next $30 million in a $15M/$15M but we looked at that and it is not producing the right benefit that we would like to see right now. The minimum we are seeing is $25 million and above per issue.

Mr. Burkhardt stated that he is struggling with the fact that interest rates are at their lowest right now and we are not trying to lock in on something and get rid of more variable rate. Mr. Shearer responded that when you are doing a new transaction to terminate a swap, you need to look at two different indices. It's a chart that I have shown a few different times where you care more about the relationship of these different indices. We look at the relationship of where you can borrow today verses the index to terminate swaps. We try to terminate when those get closer together. Right now they are wide apart. This $4.7 million could be the same if those ratios are the same but rates are 2% or 3 % higher. The absolute rate level is a very important component but it is only half of the equation.

Mrs. Cann stated that if we terminate the swap we would pay the $8.7 million as soon as we terminate. How is the $4.7 million present value relevant? Mr. Shearer responded that the way it impacts your debt service is in column seven. You will see a small increase over the next ten years. It's a present value cost of roughly $4.7 million but it is roughly $8 million that will be applied to your borrowing capacity. This is also because rates are so low the termination values are high. When those rates are high the termination value is low. It is a lot of different moving pieces.

Mr. McKeon asked how many swaps we had left? Mr. Shearer responded three that total $100 million. I would prepare an agreement for next Monday to have a resolution to basically accept the remarketing proposal from RBC.

Mr. McKeon polled the board and it was decided that the board would proceed with the renewal with RBC. Mr. Shearer stated that next week he would be prepared to have a meeting with both the Bethlehem Area School District Authority and the School Board.

Mrs. Leeson questioned the $61,000 fees and asked why we have two counsels, an internal and a bond counsel and why are we paying their fees? Mr. Shearer responded that for these types of products and the complexities there is always an internal counsel and an external counsel representing the bank. Because this is a remarketing as opposed to a new re-issuance, we did really work with them to reduce fees. If I was in your shoes I would feel extremely comfortable with having this counsel as part of this transaction. I would like the record to show that these fees did come down quite a bit. This is an extremely complicated transaction. A true refunding would be 2% or about $600,000.

Mr. Shearer stated that the other handout is a traditional refunding opportunity. We are focused on the 2001A bonds with a little under $5 million outstanding. If we do this transacation, your net local effort savings is about $233,000. We are not stretching out the debt nor shortening the term. This is a traditional refinancing from a high rate to a low rate keeping the amortization and generating the savings. If you like this idea, we would prepare a parameters resolution and price the bonds in early December for settlement in the early part of the new calendar year. Basically we are going from 4.65% to 2.65% and that difference the savings. You would realize all the savings in the current fiscal year. This is only an eight-year deal. If you want to move forward next week we would put a minimum savings floor in the resolution. We want to make sure the number you put in the resolution is a true savings. These are not to exceed estimates. We will need to fine-tune it.

Mrs. Leeson questioned the fees for the underwriter. Mr. Shearer stated that we won't know what that fee is until we price the bond. When we go to price the deal if we see things not lining up we do not sign the proposal. It is part of our job to make sure you are getting the best deal.

Mr. McKeon polled the board and it was decided to move Items A and C onto the agenda for Nov. 21, 2011.

Mr. Shearer asked if the board agreed with the target of $220,000 dollar amount? Mr. McKeon responded yes.

BAVTS SURPLUS DISCUSSION – Mr. Williams

Dr. Roy stated that he asked Mr. Williams to return this evening based on the discussion at our last meeting regarding the excess funds that the BAVTS had at the end of the last school year. The proposal that I, as well as other superintendents, supported was to have BAVTS retain $225,000 of the excess funds and the school district would receive $502,000 with the other school districts getting their share as well. The intention was to use that $225.000 for improvements that are necessary for the tract that BAVTS owns for student house construction in the future. A number of questions arose at our last meeting and I did not have that background information so I asked Brian Williams to join us to discuss this further.

Mr. Williams stated the property was purchased in 2007. The board supported it and I thought it was a positive move. We saw potential in the property. There was a 60 year old house built on the center of the quarter acre property. The first viable thought was to create a bed and breakfast with the old house but with zoning restrictions and liability concerns that idea quickly became a difficult option. The other option was to use the property for residential homes, which would give students up to 20 years of activity. We did not anticipate things like putting in streets and the improvements that go along with the streets, various drainage requirements and other improvements to maintain storm water, curbing and sidewalks. We negotiated with the township to put the improvements on our side. It was a not a cost that was not anticipated upfront. The consensus of the joint committee was to do what we can upfront with what we have in resources to avoid changes down the line. Any opportunity that we had to put funding into that project we were to take advantage of it. Since we had the additional revenue the thought was to return about $200,000 to the school districts.

Mrs. Leeson asked if you could not start this with the current house fund. Mr. Williams stated that we lost $10,000 in the last home so we did not turn a profit. We do not have the excess to put into the next home. The significant investment we need to make is in the existing home. That's our current student built home which is going to take significant investment of approximately $200,000. When you get into a renovation of an older home the costs are very high compared to building a new home. You run into all kinds of things that needed to be renovated along the way.

Mrs. Leeson stated that she remembered discussion on how valuable this experience is for students to learn the skills of building new homes. Mr. Williams responded that's correct. The experience here will be valuable and last for several years. It is a significant project and a long-term investment.

Mr. Burkhardt asked how did you set the budget. Mr. Williams stated that he calculated about $200,000 from start to finish. We have been fortunate in the past to be able to manage these types of projects not necessarily at a profit but at a neutral finish. The learning aspect far exceeds any type of profit we expect.

Some discussion followed.

Mr. Mckeon polled the board and it was decided to add the item to the board agenda for vote.

MUNICIPAL REAL ESTATE APPEAL

Mrs. Gober stated that we have been looking at a pro-active approach to assessments related to industrial and commercial type properties. We would review comparable assessments of a series of warehouses or a series a stores that were common to make sure they are all assessed in an equitable fashion but also to make sure that we are defending ourselves in any assessment appeals. We met with Attorney Spry and several of their counsel who work with these types of issues and Don is prepared tonight to share some background on how this works and what would be the benefits or advantages of considering engaging a group to help us work through insuring that we are assessing all properties equitably and to the greatest extent that we can to protect our revenue and also not shift the burden of corporate savings back onto the residential taxpayer.

Mr. Spry stated this is a policy decision. Locally, Allentown SD and Pocono Mountain SD do this and several other districts. It is not considered spot assessment. We found one company that had represented property owners that now represents school districts. There are also law firms that do this. The way the system works is that the school board in consultation with administration makes a decision as to how much of a taxing increase the board would want to see with respect to any of these challenges. The consultant would prepare a list of undervalued properties and it would be reviewed by the administration and then with the board for a decision as to whether or not to proceed with a taxing authority appeal or a municipal appeal. This consultant group does not appraise the property because it would be a conflict of interest. The school district would have to pay the appraiser. The one group I met will charge a contingent fee on the percentage on the increase in taxes that are generated as a result of this program. In some districts I have seen that they do this over three years with a cap. There is another that charges an hourly rate. If it goes to a tax assessment appeal you will pay the appraiser. It would be a conflict of interest to have the same company do the appraisal when they are paid a percentage of the increase. Allentown SD uses our firm but they are different then Bethlehem in that they are self contained within the City. It is up to you as to what you want to use as a trigger.

Dr. Roy stated that if the district is pro active in identifying the undervalued parcels and pursues municipal appeals there by reducing the cost to the taxpayer.

Mrs. Gober stated that we would have to set a number that would be adequate to offset any fees.

Mr. McKeon asked if the other taxing bodies would benefit as well. Mrs. Gober responded yes.

Mr. Spry stated that in Pocono Mountain they assessed 40 properties.

Mr. McKeon polled the board and it was decided to pursue this option.

Mrs. Gober stated that Wilkes Barre School District did an RFP for the tax appeals and with only one respondent.

Dr. Spry stated that he was inclined to go with the contingent fee setup and not the hourly rate.

AUDIT REVIEW UPDATE

Mrs. Mautino stated that the finding about pooled cash and cash disbursements continues to be reimbursed to the general fund bank account as we incur the expenditure. The checks for each of the bank accounts should be received within a week or so and we plan to use them with the new software. Payments reflecting the reimbursements for general fund accounts are being recorded through accounts payable so they show up on the check register. It's one more piece of the puzzle that makes the treasurer's report more comprehensive to include all funds. We did talk to the auditors on this and we are taking some of their recommendations. The same is true with the activity fund and we are hoping to have this done by the end of the fiscal year. With the implementation of the new fund accounting software, we plan to have all the student activity account transactions run through the new system and we are hoping to have that transition by January 2012. The finding on internal control is an ongoing process. Each time we identify something that can be improved we come up with procedures, review it with staff and are having trainings. It is all occurring simultaneously so that activity between the funds is monitored. The rental subsidy finding total debt payments are being reconciled monthly and the PDE reimbursement forms are being filed timely. We are still working on the fixed asset finding and the same with the audit fieldwork. We talked with the auditors and we have a plan on getting that resolved by the end of the fiscal year.

Mrs. Leeson asked if the auditors completed their review in our district? Mrs. Gober responded that they have not and are planning on finishing before the Thanksgiving holiday.

Mr. McKeon asked if we are creating procedures manuals? Mrs. Mautino responded yes and as we are building those procedures I am asking staff to give it to somebody else to see if they can follow the directions. It's all part of the cross training.

Mr. Burkhardt asked if the new software system was going to include the payroll process? Mrs. Mautino replied yes. Just today I spent the day in Lewisburg with our accounts payable staff and our purchasing department. Payroll training is next Monday. Mr. Burkhardt asked if the payroll reporting process would be paperless? Mrs. Gober stated that at this point we would need to have an interim period where we are doing paper time sheets. There is another module that we will look to add on at some point. We will grow into that. The goal right now is to get the payroll system functioning. Mr. Burkhardt stated that this was talked about when he was principal seven years ago and still has not been implemented.

Some discussion followed.

INFORMATION ITEMS

School Based Access Program

Mr. Agretto explained the school based access program. We have an access program assistant that works out of my office who identifies those students with IEP's who are MA eligible and also receive a health related service. We can receive reimbursement from Leader Services at a percentage for each of those services listed on the cover page of this memo. That is put into a District account by Leader Services, which we can draw down from for many of the costs associated back into special education. Anything we do has to be signed off by a medical practitioner through an authorization form as we submit them for reimbursement. There was quality assurance that needed to occur and we were chosen as one of the districts in the state to go through randomly and we were audited. The summary of the closing audit report is in your packets. As you can see we came through very clean. It is an important piece that we have been doing for the past few years and as you know special education received a lot of stimulus money and the goal over the last two and a half years was to utilize all of the stimulus money while we build up our access budget. In that budget we have over $1.2 million that can be utilized to reimburse special education costs.

Real Estate Tax Collection

Mrs. Gober stated that we are going to begin to look at the process of the collection of our real estate taxes and whether it is to our advantage to bring that process in house or contract it out to another provider. We will be looking at putting proposals out to gather information and costs data. We are looking at what is the best solution and what is the best cost with respect to the collection of taxes. We will be reporting back early winter when we have more information.

PSBA Preconference

Mrs. Gober reported that on October 18, 2011, she and Dr. Roy attended a PSBA Preconference related to school finance and cost reduction. We had various sessions that were surrounding costs and saving money such as how to generate alternative revenue sources, do creative brainstorming, be more cost effective and be more pro active in terms of balancing our budget within our new fiscal realities.

IU20 Legislative Dinner

On October 27, 2011, we attended with Mr. Faccinetto the IU Legislative discussion with our local legislators that again touched on a lot of the recent legislation that included charter school funding and vouchers. It was a positive experience.

Mrs. Leeson asked what were the specific ideas given at the PSBA conference for reducing the budget? Mrs. Gober responded that many of them were things that we have already thought of like redesigning your copier and printer costs, energy efficiency, transportation costs and some marketing ideas. Dr. Roy stated that trademarking was also discussed. For instance there are organizations in our community that are selling Freedom and Liberty t-shirts. Once we trademark it, they must either cease or enter into a contract with the district.

Lehigh Valley Dual Charter School

Mrs. Leeson asked Attorney Spry that since the Lehigh Valley Charter School did not meet their obligation under their contract, do we know what our obligation is? How do we proceed? Mr. Spry stated that he believed we have the obligation to monitor the school and that he would provide more information on it during executive session.

AGENDA ITEMS FOR NOVEMBER 21, 2011 REGULAR BOARD MEETING

A. RBC FLOATING RATE NOTE

Discussion above

B. PLANCON PART K: PROJECT REFINANCING AUTHORIZATION

Mr. Shearer stated that the PlanCon K approval for both the 2009 Wachovia Bank loan and the 2011 refunding of that bank loan is prepared for submission. Once this is submitted and approved by PDE, you will receive the reimbursement.

C. 2001A BOND REFUNDING AUTHORIZATION

D. BAVTS BOARD APPOINTMENT

Mr. Faccinetto nominated Mrs. Ortiz. Mrs. Leeson nominated Mr. Burkhardt. Mr. Burkhardt stated that they should ask some of the new members coming on. Mr. Leeson stated that they should appoint today. They can always use an alternate. Mr. Faccinetto suggested having Mrs. Ortiz and Mr. Burkhardt appointed for now and if anyone else is interested then we can have them take over.

E. BAVTS SURPLUS

Discussion above

F. TAX COLLECTION COMMISSION VOTING DELEGATES

Mr. McKeon stated this is related to Act 32 where earned income tax will be collected at the county level and there are three members assigned. Mrs. Gober stated that this is an annual reappointed for the Act 32 requirements. It requires that each year in November your voting delegates be appointed to the tax collection commission. This is just a reinstatement of the existing members. We are on target with moving forward with Keystone as the countywide collector. We are going through the compliance components so that we are fully up to speed for January 1, 2012, as Act32 requires.

G. BASD EMPLOYEE BENEFIT TRUST AGREEMENT

Mrs. Gober stated last summer we had appointed an attorney to help us draft our Trust agreement. Essentially what this document would do is to define and establish the parameters under which our local self-insurance Trust would operate. This sets the reporting and delegate parameters. Once approved we would then be able to appoint the Trustees that would include a board representative, an administrative representative and 2 employee representatives who would sit as the Trustees to implement our benefit plan and also hear any appeals that may come up throughout the course of the year. Once Trustees are appointed and the Trust is formed, we will be seeking IRS approval to be a 501(c)(9) health insurance Trust but also at the same time we will also be applying to the Pennsylvania Trust to become a member there that would allow us to access the collective discounted administrative fees through Capital Blue Cross as well as access to their stop loss program which is by far less expensive that what we can purchase on the street.

COURTESY OF THE FLOOR

John Delvecchio, 2061 10th Street, Bethlehem Township, stated that he wanted to thank the board for all the time they put in. After being at all those meetings, I appreciate your volunteered time. I am here with regard the article in the paper that said \$10,000 - \$50,000 was to be spent on a transportation study. I wanted to put a thought in your mind. Three years ago, I was at a meeting and you wanted to spend \$10,000 to do a transportation report. After speaking to the board, Mr. Amato asked the administration if Mr. Himmelberger could do that report. That night we saved \$10,000. My question today is can we have an internal look at this report. Can someone get together with Parkland and Easton just see how they are doing with their fleet and drivers. They are just as large. Try to put some things on the back burner.

Stephen Antalics, Ridge Street stated that he brought up the issue of the high power lines in Freemansburg. Has anyone looked into this? Is there any danger to the children? I am assuming no one has addressed my concern.

OPEN FORUM

Mrs. Leeson stated that in the HR committee there is discussion on the safety committee and perhaps we can discuss the power lines there.

Mrs. Leeson stated that the board has not received the five-year projections. I believe we were told we would receive it in November. Dr. Roy stated that his recollection was that it would be brought to the board in December. Mrs. Leeson stated that Mrs. Gober was correct when she said the numbers would change. The projection provided used a 2% figure in tax increases. Mrs. Gober responded that she believed it utilized an estimated 1.7% Act1 index for the 2011-2012 school year and I believe it projected that to decline.

Mr. McKeon stated that PDE has not shared what the legislation is talking about from a funding perspective. We do not know what the future funding will be.

Mrs. Leeson stated that making our district plans and developing a long term plan needs a plan in process in these economic times. It's now been a long time that we have been talking about this and asking for this plan. I believe Mr. Tenaglia, Mr. McKeon, Mrs. Follweiler all spoke of the need to have it. There is no plan and we don't have a meeting in December. Mr. McKeon stated that he did not recall Mr. Majewski ever having a plan to move five years forward.

Mrs. Ortiz stated that Dr. Roy has told us that we would receive before the end of the calendar year. Dr. Roy stated that the last time it was discussed we said it would be by the end of the calendar year, by December.

Mrs. Leeson asked when are you going to discuss it because you don't have meetings in December? Dr. Roy stated that they have planned for the night of the reorganization meeting a finance committee meeting to provide overview of the budget for the new board members as well. We also have some tentatively scheduled budget workshops in January as well as the January finance committee meeting as well prior to any vote of the preliminary budget.

The meeting adjourned at 8:02 p.m.

Minutes prepared by:

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