MIDDLETOWN AREA SCHOOL DISTRICT
Finance Committee Meeting
September 13, 2016 - 8:08 p.m.
MINUTES

Members in attendance: Newton Davis, Terry Gilman and Christopher Lupp

Members not in attendance: None

Non-Voting Members in attendance: David John, Linda Mehaffie and Jennifer Scott

Staff/Public in attendance: David Franklin, Lori Suski, and Heidi Zula, District Administrators and Staff; Lauren Eby and Ken Phillips (via phone), RBC Capital Markets

Communications

***Information Item* – Review of District Borrowings:** Ms. Eby reviewed the District's current outstanding debt – 2008 note, 2009 bonds, 2013 floating rate note, 2014 bonds and 2014 capital appreciation bonds as well as the District's obligation toward the 2015 Dauphin County Technical School borrowing. Mr. Franklin noted that the issue dates are relatively recent and that is indicative of the fact that the District has taken advantage of refunding opportunities and that the original borrowings date back to the 1980s. Ms. Eby reviewed the slide showing the District's gross (principal and interest) debt outstanding of $89,578,224. Ms. Eby noted that the slide shows the 2013 floating rate note as the 2004 issue since it continues to be variable rate debt budgeted at the same amount. Ms. Eby discussed the maturity of the debt and which issues could be refunded at this time – 2013 and possibly 2014A. Ms. Eby also reviewed the slide showing the District's net (principal and interest) debt outstanding of $86,377,205. Ms. Eby said that net debt service reflects the portion of the debt after state subsidy has been taken into consideration. Ms. Eby noted that actual net debt service will be lower, but the District has not yet received a reimbursable rate from the state for the 2014A and 2014B issues because of the stall in the PlanCon processing at PDE. Ms. Eby also reviewed the slide reflecting the principal payment schedule for each issue. Mr. Phillips then began the discussion on the refunding that is needed for the 2013 issue since the structure of that refunding has all remaining principal due in June 2017. Mr. Phillips provided historical perspective on the 2004 issue and why variable debt rate was utilized. Mr. Phillips explained the fixed rate swap that was also utilized at that time to hedge the District's position. Mr. Phillips explained that as part of the swap deal a liquidity agreement was required for terms of approximately three years. Mr. Phillips said that a new liquidity agreement was done several times until liquidity agreements became expensive after the market crash in 2008. Mr. Phillips said that in 2012 a one-year bond issue was done to refund the 2004 bonds and address the cost associated with a liquidity agreement. Mr. Phillips said that when the 2012 bonds became due, a three-year floating rate note was issued in 2013. Mr. Phillips said that the District must take action to refund the 2013 note by April 2017 to avoid paying the remaining $16.7 million in principal that becomes due at that time. Ms. Eby reviewed the performance of the refunded 2004 issue since its inception. Ms. Eby said that the District budgeted at a rate of 4% until the market crash when the budget rate was changed to 4.75%. Ms. Eby said historically the variable rate portion of the debt that was not hedged by the swap has averaged 1.76% and the hedged portion of the debt has averaged 4.43% for an overall average of 3.63%. Ms. Eby said that the District has saved nearly $3.7 million over the budgeted rate since inception. Mr. Franklin noted that the savings have generally been transferred to the Capital Reserve Fund to allow the District to fund some of the capital improvements that have occurred. Mr. Phillips explained that there are savings (current estimation of $700,000) that can be realized from refunding the 2013 note at a fixed rate over what is currently being budgeted. Mr. Phillips proposed that the District consider approving a parameters resolution that would allow for the refunding of the 2013 issue when the market is most advantageous. Mr. Phillips said that the notes are callable as early as December 5, 2016. Mr. Phillips said that there are thoughts that rates could increase after the election as the Federal Reserve System has been looking at rate increases, but that is less likely to happen until after the election. The committee talked about how the variable rate debt has performed favorably and whether consideration should be given to use variable rate debt again instead of a fixed rate issue. Ms. Eby noted that the floating rate note structure that was used in 2013 is not as favorable as it was at that time, which is why RBC is recommending that fixed rate debt be used at this time. Mr. Phillips then reviewed the slide analyzing the 2014A refunding opportunity. Mr. Phillips explained that the top part of the slide shows refunding projections for the entire 2014A borrowing by year through 2022. Mr. Phillips said that currently the refunding savings would be $382,000; however, there is negative arbitrage of $1.8 million at this time. Mr. Phillips explained that the IRS allows earnings up to the cost of the new issue, but since the earnings rate is less than the borrowing rate there is negative arbitrage. Mr. Phillips said that since only one refunding of the entire issue can be done, it would be better to wait until the refunding savings are greater and the negative arbitrage is eliminated or at least lowered. Mr. Phillips showed how refunding savings are projected to increase in future years while negative arbitrage is projected to decrease. However, Mr. Phillips said that the District could consider refunding a portion of the 2014A issue instead of all of it. Mr. Phillips explained the cost advantages of issuing bank qualified debt (i.e. debt less than $10 million). Mr. Phillips discussed that the possible savings of a refunding of $8.3 million could be almost $600,000, but noted that there would still be negative arbitrage of almost $700,000. Mr. Phillips said that there are contingencies built into these figures and that if the rates move 0.25% the refunding savings could be greater than the negative arbitrage. Mr. Phillips said that the parameters resolution could be approved for the refunding of the 2014A issue as well that would allow for bank qualified debt to occur as opportunities arise. Mr. Phillips stated that the resolution would last into the future for each refunding that would occur. Mr. Phillips said that typically the resolution spells out a minimum savings level, but could also specify what savings are expected for the initial refunding. Mr. Phillips said that the minimum industry standard is that a refunding should not occur unless there are savings of at least 2%, but sometimes savings of 3% are preferred. Mr. Phillips asked the committee if they had a recommendation on the minimum savings percentage to include in the resolution. The committee believed that the minimum industry standard savings of 2% sounded reasonable. The committee asked whether it would be possible to do a refunding before the end of 2016 so that another refunding could occur in 2017 under the bank qualified limitations. Mr. Phillips said that the timing may preclude getting an issue accomplished in that timeframe if there are things that need to occur before going into the market. Mrs. Mehaffie asked whether it costs more to do multiple issues rather than one issue. Mr. Phillips said that there are costs with each refunding, but noted that the costs are covered by the savings and that if sufficient savings are not attainable, then a refunding should not occur. Mrs. Mehaffie asked what the costs of an issue would be. Mr. Phillips estimated that a $10 million issue would cost between $125,000 and $150,000, but noted that the estimated net savings proposed are after the costs have been paid. Mr. Phillips explained that the costs include the underwriter discount, rating costs, legal costs, bond counsel costs, paying agent fees, printing costs, and costs associated with the official statement. Mr. Phillips noted that bond insurance may also be needed. Mr. Franklin said that Mr. Phillips was planning to attend the September Board meeting to review the information with Board members that are not present and the general public. Mr. Franklin said that if the Board wanted to move forward with the parameters resolution then that could be an action item for the October Board meeting. The committee supported the proposed timeline. Mrs. Mehaffie said that Lower Swatara Township is doing an issue, and she didn't think that the costs were that high. Mr. Franklin asked about the size of the issue. Mrs. Mehaffie said that she would check on that for comparison.

***Information Item* – Review of Change in Tax Period Deadlines:** Mr. Franklin reviewed real estate tax collection information for the current school year compared with the prior year. Mr. Franklin noted that changing the end of the discount period has significantly increased cash flow. Mr. Franklin said that last year 36% of the real estate taxes were collected by the end of August and this year 79% of the real estate taxes were collected by the end of August. Mr. Franklin said that it would seem to indicate that the change in collections is primarily related to the discount period since 81% of taxes were collected during the discount period last year, which is comparable to the 79% discount period collection rate for the current year. Mr. Franklin also noted that the period change also positively affected collections from mortgage companies.

***Information Item* – Summer Food Service Program:** Mr. Franklin reviewed participation in the summer food service program. Mr. Franklin noted that the number of total first meals served decreased by approximately 600 meals (half of the meals that were served at the Wesley United Methodist Church site in 2015). Mr. Franklin noted that the number of meals served at the War Memorial Field site increased by approximately 550 meals, primarily pulling from the meals that were served at Wesley United Methodist Church in the prior year.

Goals

***Discussion Item* – Goals for 2016-2017 Related to Finance:** Based upon the discussion earlier in the evening, Dr. Suski suggested that a goal could be to finalize the refunding of the 2013 floating rate note and pursue refunding opportunities for the 2014A bond issue with minimum savings of 2%. Mr. Gilman suggested that another goal could be to review whether there is financial benefit associated with self-funding health care. Mrs. Mehaffie suggested that a goal could be to not increase real estate tax rates. The committee discussed saving money as a goal, which would correspond with the goal in previous years to continue to look at opportunities for cost reductions. The committee suggested that there be a way to prioritize expenditures and look at cost/benefit analyses when making decisions. After clarification, it was suggested that parameters be established to determine the magnitude of when a cost/benefit analysis should occur. Mrs. Mehaffie said that she doesn't feel like there is a mechanism in place that is tracking financial decisions made throughout the course of the school year in total. Dr. Suski noted that many of the action items on Board agendas are for budgeted expenditures, which would indicate that the proposed cost does not have any impact to the adopted budget. Mr. Franklin said that the PA Public School Code requires the Board to take action to approve any contract or agreement in excess of $100. Mr. Franklin said that is why the Board is often approving items that have already been approved as part of the adopted budget. Mr. Franklin said that he could develop a spreadsheet to track the utilization of the budgetary reserve line item to pay for unbudgeted expenditures so that the Board would be able to see the impact of those financial decisions throughout the school year.

Exonerations

***Action Item* – 2016 Real Estate Taxes:** Mr. Franklin said that exoneration of bill 105780 is recommended due to a Dauphin County assessment error. Mr. Franklin explained that the property owner was billed for an improvement that does not exist. The new bill will be approximately $1,500 lower. The committee recommended that the exoneration be moved to the Board agenda for approval.

Agreements

***Possible Action Item* – Underwriter Disclosure Agreement:** Mr. Franklin reviewed the communication received from RBC Capital Markets as required by Municipal Securities Rulemaking Board Rule G-17. Mr. Franklin said that the communication states that a bond underwriter is required to deal fairly with municipal issuers as well as investors and that the bond underwriter must act in a manner that is not exclusively focused on the District. Mr. Franklin said that the communication was shared with the District solicitor as it has been in the past, and the solicitor advised that it is okay to acknowledge the communication. Mr. Franklin noted that RBC Capital Markets cannot begin work on either bond refunding until the letter is acknowledged. The committee recommended that the communication be acknowledged and that the agreement be moved to the Board agenda for approval.

***Action Item* – PEPPM Letter of Agency Agreement:** Mr. Franklin reviewed email communication from the Pennsylvania E-Rate Coordinator indicating that all schools are encouraged to sign the PEPPM Letter of Agency (LOA) agreement on or before September 23. Mr. Franklin said that Ms. Schell noted that signing the LOA doesn't obligate the District to purchase from PEPPM, but it does allow for future purchases to occur. Mr. Franklin said that the email indicates that if the LOA is not signed, the District would be unable to purchase from PEPPM in the future. The committee recommended that the agreement be moved to the Board agenda for approval.

***Action Item* – Nonpublic Title I Services:** Mr. Franklin reviewed the agreement with Capital Area Intermediate Unit to provide nonpublic Title I services for the District during the 2016-2017 school year for a fee of $13,294.87 that is based upon the per pupil allocation in the Title I grant application. Dr. Suski and Mr. Franklin explained how the nonpublic Title I services are provided to the schools. The committee recommended that the agreement be moved to the Board agenda for approval.

Policies	***Information Item* – Policy 609 Revisions:** Mr. Franklin said that he has been comparing the language in the PSBA model version of the policy with the language proposed by the solicitor's office and still has some questions to resolve. Mr. Franklin asked that the policy revisions remain in first reading status for another month.
Adjournment	The meeting adjourned at 9:34 p.m.