FINANCE AND LONG RANGE BUDGET PLANNING COMMITTEE
MINUTES – MEETING OF MAY 17, 2010

In attendance:
Committee: Thomas Reinboth; Mark Miller; Michael Hartline
Board: Tom Hezel; Cyndi Mueller; Jane Schrader-Lynch; Betty Huf
Staff: Timothy Vail; Thomas Turnbaugh; Jennifer Foight-Cressman; Karen Kinzle; Wayne Robinson
Public: Bruce Beaton; Reid Sandner; Robert Schaffer; Barbara Patrick; Paul Rokuskie; Mike Lillys; Timothy Frenz
Press: None

Call to Order**:**
Mr. Reinboth called the meeting to order at 7:00 p.m.

Approval of Minutes
Motion to approve the minutes of the April 19, 2010 meeting as corrected by Mr. Miller. Second by Mr. Hartline. Motion Carried 3-0.

2010-2011 G.O. Bond Issue
Mr. Vail reported that in January, 2010 a presentation was made to the Finance Committee recommending that the additional debt necessary to fund the elementary consolidation construction project be in place by the end of calendar year 2010 in order to take maximum advantage of the non-electrical debt enabled under the 2006 Bond Indebtedness Resolution adopted by the Board in May, 2006. It was explained at that time that the principal amount of funds enabled under this 2006 Resolution would begin to significantly decrease if the money is not borrowed before the end of 2010. To that end the Committee agreed at that time to recommend the following to the Board:

- Bonds are issued in the summer of 2010 based on available remaining principal under the 2006 Bond Indebtedness Resolution.
- Total millage impact of is 8.70 mills with 3.2 mills needed in FY 2010-2011; 3.52 mills needed in FY 2011-2012 and the remaining 1.98 mills needed in FY 2012-2013.
- The positive in this recommendation is that the millage impact is assessed over a three rather than a two year period. The negative of this scenario is that it requires an additional cash contribution from the District's undesignated/unreserved fund balance of $1,815,000.
- Total millage impact under recommendation in the pending 2010-2011 budget is the 3.2 mills listed above plus the .32 mills still needed for the final phase of the 2009 GO bonds issued for the WTHS project. Total mills needed for debt service payments in FY 2010-2011 - 3.52 mills. With the millage increase of 2.98 mills permitted under the Act 1 index of 2.9% and the millage required to address the increase in the PSERS employers rate of 1.82 mills, the total millage increase required to balance the 2010-2011 budget would be 8.32 mills.

Mr. Vail went on to indicate that the initial Board action needed on this item was approved with the adoption of the proposed preliminary 2010-2011 budget on February 9, 2010. Administration and the District's investment bankers are now ready to proceed with the marketing and sale of the 2010 General Obligation Bonds. The tentative date for the bond sale has been set for Tuesday, June 22, 2010. June 22 is a Board meeting date and the Board would be executing the resolution approving the bond sale at their meeting that evening if authorized at this time. Mr. Tim Frenz of Janney Montgomery Scott, representing the District's investment team, then reviewed the logistics of the upcoming bond sale. He indicated that, after looking at the District's existing debt configuration, the investment banking team is recommending that the bond sale be divided into a Series A and B. Series B involves the refinancing of the District's 2003 G.O. Bonds which is estimated to save the District $290,522 next year in debt service payments. A copy of that calculation along with the overall debt scenario presented is attached to this evening's agenda. In addition, the sheet detailing the millage impact and payment schedule through 2038 and a graphic showing an overview of the 20-year history of bond rates is also attached and was reviewed by Mr. Frenz with the Committee.

Mr. Reinboth indicated that the primary concern is not extending the 2003 debt out any further. Mr. Frenz indicated that the debt maturity of 2017 would remain in tact with this refinancing. Mr. Miller asked if the investment team had looked a the possibility of using Build America Bonds rather than traditional tax-free municipal financing as the federal government picks up a portion of those costs and it could save the District money. Mr. Frenz indicated that they had indeed looked at the possibility and had ruled it out as being in the best financial interests of the District at this time. He explained that the Build America Bonds may give the District an interest break, but the bonds must be sold at par rather than at discount. He indicated that this requirement would result in a reduced net yield for the bonds resulting in getting less dollars from the issue up front to finance the proposed projects. Mr. Miller and Mrs. Mueller requested that the information associated with this bond sale be emailed to Board members prior to the meeting so they will have time to review the details before being expected to vote. Mr. Frenz indicated this could be done but not before the details of the sale are known on the afternoon of June 22. Mr. Reinboth questioned if the first debt service payment on the new debt would be due in FY 2010-2011. Mr. Vail responded that it would. Mr. Reinboth then indicated that unless objection was raised all present need be aware that the bond issue will be presented for formal board approval at the June 22, 2010 meeting. There being no objection raised, Mr. Reinboth directed Administration and the investment banking team to proceed.

<u>2010-2011 Package Insurance Quotes</u>

Mr. Vail reported that the Quote Summary for renewal of all 2010-2011 District insurance policies is attached to this evening's agenda. He reminded the Committee that the Board had previously authorized securing rates through the District's Broker of Record, Willis of PA, as well as giving Bruce Beaton Company the opportunity of securing a quote from their primary underwriter – Ohio Casualty. Administration took steps to be sure that the information provided to Ohio Casualty to secure a quote was based on the scope of coverage presently in place for all facets of our coverage. In addition, our current broker of record also secured rates from Zurich and Utica for the package (property/general liability/auto) policy in addition to the traditional quote from PSBA. The summary indicates that rates are less than anticipated when the preliminary budget was formulated in December, 2009. He indicated that, as a result, the budget will be adjusted accordingly prior to final adoption in June. He indicated that the quote summary was broken down into three sections to provide a clear picture of what was being quoted by each broker. The base quotes from Willis for the PSBA and related packages as well as from Bruce Beaton for the Ohio Casualty package quote is the first set of numbers with the grand total mid way down the page. The quotes are somewhat different in terms of deductibles and the way the Terrorism Risk is quoted, but overall the numbers represent comparable coverage. The total quote for the PSBA and related packages is $227,365 and the Ohio Casualty package is $267,208 – a difference of approximately $40,000. In addition, PSBA has offered a three year guaranteed package rate if renewal is made with them. The quotes for student accident insurance are separated out as Ohio Casualty did not quote on that overage. Administration received just one quote for the student accident insurance which is from Monumental Life – our incumbent underwriting company. The third piece of the award is the Workers' Comp Insurance. Administration, in consultation with Willis/HRH/Palley Simon, recommended that we change the methodology for Workers' Compensation from the traditional insured premium method to a self insured system three years ago. As evidenced by the modest increase in the premium despite an increase in payroll costs, this action has consistently proven to be a good decision. The mechanism for accomplishing this was through an organization known as the Pennsylvania School Districts Insurance Consortium (SDIC), which was created in 1979 by Pennsylvania school districts to get better control on worker's comp costs Centennial had never opted to join this consortium for a variety of reasons, but it appeared several years ago that the time was optimum for seriously considering this as an option.

Mr. Vail indicated that, after review of all proposals submitted, Administration is recommending that we renew our existing policies for 2010-11 at the rates quoted in the summary taking advantage of the three-year guaranteed rate on the package. Mr. Miller questioned why information on the deductibles, co-payments and exclusions were not included in the summary document. He indicated that it is difficult to determine the full scope of the quotes submitted without that information. Mr. Vail indicated that this information is available in the proposals that were submitted but cautioned that even with that information it is difficult to compare apples to apples as the information provided as the specs for our current coverage were not followed in the Ohio Casualty quote despite that being the parameter that was set when the proposals were requested. Mr. Beaton indicated that the $5,000 deductible per incident included in the Ohio Casualty quote is better than the existing $7,500 deductible in the PSBA quote. He also indicated that the professional liability coverage is a major difference in the Ohio Casualty coverage as the existing PSBA coverage provides for an 80/20 split after the deductible threshold is reached. Mr. Sandner indicated that that the professional liability package is and has been underwritten by National Union for years for this very reason. He indicated that Mr. Beaton's statement was not accurate. Discussion also focused on the existing coverage being adequate to meet potential liability in the future. Mr. Sandner indicated that he is comfortable that the coverage is adequate for the most part, but suggested that perhaps the District should seriously look at increasing the limits on the umbrella coverage above the existing $10 million limit. Committee members asked what the cost of raising this limit would be and how high the limit could be raised. Mr. Sandner indicated that he could get formal quotes in increments of $5 million. After discussion the Committee requested that Administration solicit for quotes on $15 million, $20 million, $25 million, and $30 million limits. Mr. Hartline expressed concern over adequacy of coverage given ongoing construction, potential empty buildings, etc and questioned if existing coverage is adequate. Mr. Sandner indicated that liability is based on student enrollment and number of teachers rather than number of locations. Mr. Miller and Mrs. Mueller expressed concern that the reductions being quoted this year are significant and questioned whether the fact that the District had solicited quotes from other sources may have been the impetus for this happening. Mr. Sandner indicated that market forces have resulted in across the board premium reductions this year. He indicated that as broker of record his firm solicits quotes every year and savings are always presented and recommended when available. Mrs. Mueller questioned if the Board should make it a standard practice to solicit quotes like this every year. Mr. Sandner indicated that it would not be worth doing it every year to this degree. He indicated that is why PSBA is offering a three year rate guarantee if renewal is made now. Motion by Mr. Miller to recommend that the insurance policies be renewed per the recommendation of Administration to the incumbent underwriters and direct that quotes be solicited for increased umbrella limits per the above discussion. Second by Mr. Hartline. <u>Motion carried 3-0.</u>

2010-2011 Cafeteria Fund Budget – Proposed

Mr. Vail reported that attached to this evening's agenda is the proposed 2010-2011 Cafeteria Fund Budget in the amount of $2,741,356. He indicated this budget represents a net decrease from the current year budget of $60,599 factoring in the close of Davis Elementary and increases in PSERS retirement contributions. As in past years, this budget is a fairly conservative one in that much of the needed replacement of aging equipment throughout the District is not being as aggressively addressed. However, given the upcoming construction of the new WTHS and elementary kitchens with all new equipment over the next several years, Administration feel comfortable in requesting that only $27,437 be appropriated for capital items as a hedge against emergency replacements. Further, the recommendation is that $18,993 come from surplus funds toward this section of the budget, which represents a small portion of the projected end-of-year fund balance, but is definitely a legitimate use of our fund balance. He indicated that the revenues needed to make the operating portion of this budget work does not require an increase in lunch prices and only a slight increase in breakfast prices for 2010-2011. Also attached to this evening's agenda are the following items:

- Meal Pricing Request for 2010-2011
- Projected Operating Statement for 2010-2011
- CSD Meal Price History 1990-91 through present
- Comparison to other known district meal pricing
- The detailed 2010-2011 revenues and expenditures by account

Mr. Reinboth indicated that a review of comparable pricing of neighboring districts indicates Centennial is in the middle of the pact in terms of meal pricing. Mr. Miller indicated that Centennial breakfast prices are higher than just about everyone. Most districts feel that breakfast prices should be kept low in order to encourage student participation in the program. Ms. Kinzle indicated that approximately 900 students eat breakfast on a district–wide basis. 65% of those students are eligible for free and reduced pricing which provides income from subsidy programs rather than from student payments. Mr. Reinboth indicated that his review of comparable breakfast prices in other districts indicates that, if anything, we are at the lower end of the price spectrum rather than at the higher end. Mr. Hartline also pointed out that the data being presented from other districts is current year pricing and we don't know yet what the other districts are doing with 2010-11 pricing. Discussion also focused on the adequacy of the equipment budget, lower rebate income and new wellness guideline and their potential impact on future budgets. Motion by Mr. Miller to recommend that the Board approve the 2010-2011 cafeteria budget as submitted by Administration. Second by Mr. Hartline. Motion carried 3-0.

MBIT Revised 2010-2011 Budget Adoption

Mr. Vail reported that attached to this evening's agenda is the revised budget for the Middle Bucks Institute of Technology for FY 2010-11. He indicated that the Board had approved the originally submitted budget in February which was subsequently changed by the MBIT Executive Committee. Centennial's share in the revised budget is $1,762,188 (down from the original budget figure of $1,779,772). This is a reduction from the current year budget 2009-2010 budgeted figure of $1,848,504. There is no change in the debt service figure of $205,974. Board action to adopt this revised budget as presented is the next step in the process. Mr. Miller indicated that the revisions to the MBIT budget were made possible by the settling of an outstanding grievance that was still pending at the time the original budget was formulated and approved. Motion by Mr. Miller to recommend that the revised 2010-2011 MBIT Budget be forward for board approval as submitted. Second by Mr. Hartline. Motion carried 3-0.

Employee Benefit Update 2010-2011

Mr. Vail reported that, for purposes of preparing the preliminary 2010-11 budget, Keystone had given the District a "first look" increase of 16.13% with the guarantee that the final percentage of increase would not exceed that amount. Subsequent to that the Board voted to change the plan design from the Keystone 10 Plans to the Keystone Flex C4-F3 Plans for support and administrative staff to bring down the percentage of increase to approximately 3.65%. When the actual numbers arrived in early May, the Keystone rates for the 2010-11 fiscal year for the Keystone 10 Plans had increased by only 11.3% and the Keystone Flex rates actually represented a 1.5% decrease in comparison to the existing HMO rates and 9.2% in the POS rates with the elimination of the GAP. The impact on the District's share of this increase varies depending upon the classification of employee (teacher, administrator or support). Actual numbers call for an average district-share increase of 10.95% in Point of Service medical rates (teachers), and a 9% decrease for administrators and support staff with the implementation of the new Flex Plans. District share of HMO rates are increasing by an average 11.3% for teachers, and a decrease by 1.5% for administrators and for support staff. Projections also call for a 0% increase in our self-funded prescription, dental and vision rates for all staff. Attached to this evening's agenda is a recap of the rates being quoted for 2010-2011 which need to be formally approved by the Board. Mr. Reinboth indicated that both the proposed Administrator and Support Staff Compensation Plans make the movement to the flex plans voluntary. He noted that savings will be significant over presently budgeted amounts for those who do so. Motion by Mr. Hartline to recommend that the Board approve the 2010-2011 benefit rates as presented. Second by Mr. Reinboth. Motion carried 2-0-1 with Mr. Miller abstaining.

Athletic Physicals Quote Award

Mr. Vail reported that the existing 3-year contract with Hatboro Medical Associates expires at the end of this school year. He indicated that Administration had solicited quotes from local physicians/physician groups for these services which are paid for by the parents and result in no expenses to the District. We received only one quote – Hatboro Medical which is our incumbent provider. Based on pricing and past service, Administration would recommend renewal with Hatboro Medical Associates per the rates attached to this evening's agenda. Mr. Reinboth and Mr. Miller expressed concern that we got only one quote. It was suggested that we go back out for a second round of quotes but further discussion resulted in consensus that the rates are probably fair in today's market and that those parents with medical insurance can and should use their own physician for their physicals if there is a co-pay lower than these rates. Mrs. Mueller indicated that the District needs to be sure that parents are aware that using their own physician is an option. Motion by Mr. Hartline to move this item forward for Board review and approval as submitted. Second by Mr. Miller. Motion carried 3-0.

Gaming Revenue Analysis

Mr. Vail reported that we received word earlier this month that state gaming revenues were sufficient enough for 2009 to again provide school districts with revenues to offset real estate property taxes for preapproved homestead/farmstead properties. Preliminary estimates indicate that $2,061,734.40 in gaming revenues will be appropriated for Centennial School District resulting in a $171.30 tax credit to each property approved as a homestead or farmstead by the Bucks County Board of Assessment. He indicated that gaming revenue does not constitute an additional source of revenue to the District, but rather acts as a replacement for a portion of the real estate tax revenue. This does not impact on the bottom line of the budget nor on the projected millage rate needed to balance the budget. It only impacts on where the revenue would eventually come from. Attached to this evening's agenda is an analysis of what the exclusion amount will mean to a variety of taxpayers. Based on the preliminary numbers, the District estimates that a homestead/farmstead approved property at the median assessed value of $26,400 would pay only a $9.26 (.034%) increase in their 2010 school tax bill based on the projected millage rate of 109.54 which includes a millage increase of 6.84 mills. Committee members and Board members present had no questions on the item. No action was taken as approval will be contained within the resolution adopting the final budget on June 8, 2010.

Transportation Financial Issues

Mr. Vail reported that per discussion at the April Finance Committee meeting, the issue of late runs was looked at in more depth by Administration over the past month. The need for additional vehicles to accommodate both the increased demand for transportation at the elementary level coupled with the consolidation of Davis/McDonald/Stackpole and the need for late run service at WTHS during the same period of time has solidified the need for additional vehicles now rather than later in the construction process. The memo and accompanying materials included with this evening's agenda compiled by Mr. Robinson provides an analysis of the ridership for late run service. Mr. Vail indicated that Administration is recommending that additional funds be set aside in the 2010-2011 budget to accommodate the purchase of two (2) 84-passenger vehicles. Presently, after award of the vehicle bids in February, there is a remaining balance in the bus replacement account of $98,920 which was intended to be set aside for purchases in future years. The estimated cost of the two (2) 84-passenger vehicles is $220,000 which would mean that an additional $121,380 would need to be appropriated for this purchase. Mr. Robinson indicated that the 3:20 p.m. WTHS late run is the problematic one as we don't have enough vehicles to accomplish all that is demanded at that time of day. However, the data collected over a two week period of ridership on this run indicates that the number of students utilizing the late runs is highest for this one. Discussion focused on the options available to keep the late runs in place to some degree but not at the present level of service, the feasibility of eliminating the mid-day kindergarten runs and the need to purchase additional vehicles to keep us somewhat in sync with the 12-year replacement cycle that has been in place for many years. After lengthy discussion Committee directed that Administration notify all parents with kindergarten students as well as those students using the late runs that the Board is considering eliminating both services in an attempt to reduce costs, and that the public comment on this issue will be accepted as part of the meeting on May 25, 2010. Motion by Mr. Miller to add sufficient dollars to the budget to purchase 2 new 84-passenger vehicles to the 2010-11 budget. Second by Mr. Hartline. Motion carried 3-0.

2010-2011 Budget

Memberships and Overnight Conference- Information

Mr. Reinboth indicated that these items were discussed at length at the April meeting. This evening's agenda includes an updated listing of both, but for the most part neither has changed significantly. Mr. Miller indicated that these sheets are based on estimates and that not all funds will necessarily be spent. He suggested that these items be included in the overall final budget adoption scheduled for June 8, 2010. Motion by Mr. Miller to include these items as part of the overall final budget adoption. Second by Mr. Hartline. Motion carried 3-0

Review of Pending Budget Changes

Mr. Vail reported that per discussions earlier this evening, several changes to the budget are pending as follows:

- Reduction in debt service payment budget by $290,522 due to the refinancing of the 2003debt
- Reduction in MBIT budget by $17,584
- Decrease in employer medical insurance contributions by $353,428
- Decrease in insurance account budgets by $83,316
- Increase in bus replacement equipment account of $121,380

- Reduction in retirement contributions by $39,353 (preliminary budget based on 8.4% rate with actual amount being set at 8.22%).

Mr. Vail indicated that Administration continues to look at staffing cuts which will be incorporated into the budget as feasibility is determined. However, as directed at the April Finance Committee all savings over and above the amount needed to reduce the millage increase to 6.84 mills will be set aside in a fund transfer account for future retirement contributions anticipated in future years. Mrs. Mueller indicated she feels strongly that other items need to be looked at as well including consideration of the reduction or elimination of the 2.9% increase in salary costs that are presently included. She indicated that she would like to know the dollar amount of increased salary costs presently included in the budget. Dr. Turnbaugh indicated that the budget needs to anticipate the eventual settlement of the CEA contract and the possibility that that settlement will include salary increases for 2010-11. Mr. Miller indicated that he still contends that the dollars being spent on items ordered under state contract are above the prices we could get through a district competitive bid/quote program. He indicated he will not vote for a budget until he gets the information he requested on spending patterns in this area. Dr. Turnbaugh indicated that Mr. Miller had given Mr. Vail an Open Records Law request for the information and asked that this item be shared with the Committee. Mr. Hezel indicated that his goal is to see if we can get nine members to vote for a budget. He indicated it looks like we need to make serious cuts in order to get there and that Administration needs to look at furlough options again and review those numbers again with the Board. Mr. Reinboth indicated that the Committee can come up with several different budget scenarios but that eventually we need consensus. That is a Board responsibility and is a difficult balance to achieve. Mr. Vail indicated that the Board also needs to consider the ramification of additional millage cuts on future budgets. The millage permitted under the current state index of 2.9% plus the Act 1 exceptions approved by PDE may be critical to have in place for future budgets with projections showing that future year index levels may be at 1% or less. Failure to enact those mills now will put the Board in a position of having forever lost the ability to raise that revenue in future years. Mr. Hezel indicated that is a valid point and indicated that Mr. Vail is correct in pointing it out, but he personally does not feel comfortable in going there all the way. Mr. Reinboth indicated that Administration continues to work on budget cuts and that the final budget proposal will be submitted for Board approval at the June 8, 201 meeting. No action will be taken at this time.

Adjournment
Meeting was adjourned at 10:00 p.m.

Respectfully submitted,

Timothy E. Vail