MONROE COUNTY COMMUNITY SCHOOL CORPORATION
BOARD OF SCHOOL TRUSTEES
Work Session, July 22, 2008

MEMORANDA

The Board of School Trustees of the Monroe County Community School Corporation met in work session, for which proper notice had been given, at 5:00 p.m. on Tuesday, July 22, 2008, at the School Administration Center, 315 E. North Drive, Bloomington, Indiana.

Board members present: Jeannine Butler, Teresa Grossi, Valerie Merriam, Jim Muehling, Vicki Streiff and Sue Wanzer

Board member absent: Lois Sabo-Skelton

Also present: James Harvey, Superintendent; Tim Thrasher, Comptroller; Peggy Chambers, Assistant Superintendent for Human Resources and Personnel; Mike Scherer, Director of Extended Services; and Janet Tupper, Administrative Assistant. Also present: Chris Bomba, citizen and representative of Hilliard Lyons. Others present for discussion of specific topics are referenced in the notes of this meeting.

President of the Board, Teresa Grossi, called the meeting to order at 5:00 p.m. She mentioned that WGCL Radio would like to spotlight MCCSC every other Wednesday. She asked Board members to share topic suggestions.

1. **School Transportation Budget** – Mike Clark, Director of Transportation, was present for this discussion.

   Mr. Harvey said last week they began conversation about the transportation budget and it is worse than feared. He noted a need to talk about the budget situation in terms of where to get money to pay for the transportation budget shortfall. He said we have significant problems and the place to start is with the financial piece because that is what is driving it.

   Mr. Thrasher said looking at the gas line item on June 30 compared to June 30, 2007, the cost is up about $106,000 or 41% and with gas adjustments for contract drivers the increase will be $250,000 to $300,000 overall compared to 2007. He said this is a combination of gas and lubricants and the amount paid to contract bus drivers, fuel escalation, is in payroll and will not appear in the same place in the budget. He explained that we did budget for an increase so although we are over by $300,000 the shortfall is expected to be $200,000. Mr. Thrasher said there is a provision in the law that allows us to take part of the cost paid to contract drivers from the operating fund; it is now charged to the transportation operating fund. He said in the year when contract bus routes are re-bid, we can code a portion to the school bus replacement fund but that will increase the tax for that fund.

   Mr. Thrasher explained the property tax 'cap' scheduled for 2010, i.e. the property tax rate cannot be greater than 1% of the assessed valuation (AV) of property; the cap for rental property is 2% and the cap for businesses is 3%. He said we have such a solid tax base that the impact on us was very little; however, we do not know how close we are to the circuit breaker since the total tax must be shared by all government units (city, county, townships, school systems).

   Mr. Harvey asked in order to avoid an increase in the school bus replacement fund tax, if we need to charge against that could we offset by not replacing buses as planned. Mr. Thrasher said that would be a technique if we could keep the fleet in good shape but it would result in higher maintenance costs. Mr. Clark said if we decide to drive buses until they are 11 or 12 years old, electronic devices would no longer be covered by warranty. Mr. Harvey noted that the Legislature approved using 12-year-old buses assuming we would do that. He said if any one of the taxing units increase, others have to decrease to stay at 1%.

Mr. Harvey advised that MSD Warren Township is already on a fiscal year budget and they have already been working on this issue. He said they came up with a five-category scale for field trips. Mr. Clark shared transportation cost estimates, including summer school costs, strings program shuttles, corporation sponsored trips, athletics, high school band and choir, and other programs {a copy of this information is included with the record of this meeting}. Board members discussed options for reducing these costs. Mr. Harvey said last year principals suggested charging a fee for involvement in extracurricular activities for transportation but he asked to see athletic budgets before asking the Board to consider adding a fee. He said he is concerned about adding another fee. He said there are school corporations that are charging transportation fees - $20 to $40 per session and perhaps as high as $200 per year for each student. Mr. Thrasher said high schools paid $6,000 last year to reimburse athletics transportation; however, they do not pay until the end of the year. Mr. Harvey said high school principals are under the impression that the school corporation would pick up 100% of transportation costs. Discussion ensued regarding high school athletic budgets, i.e. budget resources, how much, purchases and other expenses, etc.

Board members discussed additional program costs to transportation, such as special education, ALPs, mid-day transportation to math program at University School, homeless children transported out of county, etc. Consensus was that it is a waste to run a bus for three or four children to any program. It was agreed that it is difficult to get information regarding how much it costs for students to participate in athletics or other programs because the cost is not the same every year. Mr. Harvey will be meeting with high school principals and athletic directors to talk about this. He said some organizations may be willing to raise money to cover expenses rather than charge students.

The cost for transporting special needs students was discussed at length. Ms. Streiff noted that some children have an IEP but are in their home school so transportation costs are minimal; however, some children a transported to another school on a special bus with two adults onboard and that is very expensive. Mr. Harvey mentioned the additional cost for homebound children; if a teacher cannot be sent to their homes, we must transport them to a place where the teacher meets them, teaches for two hours and then we transport them back to their homes. Board members suggested a follow-up meeting with principals to ask for input as well as alternative suggestions from the administration.

2. **Bond Consideration** – Present for this discussion was Lonnie Therber, Financial Consultant.

Mr. Thrasher mentioned that the Board talked briefly before about approaching the time to determine the type of bond sale. He said Mr. Therber was present to explain the advantages and disadvantages between sale options.

Mr. Therber said people who buy bonds are underwriting people; bonds have to go to one entity and most are buying to re-sell. He said after the bonds are sold, the seller does not care what happens. He said there are two ways to sell bonds: (1) competitive sale – which has been the school system's history on bond issues except for the last one – in which you advertise for bidders; and (2) negotiated sale, in which case you hire an underwriter prior to the date you will sell the bonds and you can negotiate the interest rate. In a negotiated sale, the underwriter needs to be selected not less than a month before bonds are sold and there is nothing wrong with making that selection whenever you want it done, although his suggestion is to wait until closer to the sale. Mr. Therber said there used to be some fifteen firms that you could call for a negotiated sale and there are still fifteen people you could call but not all are active in the Indiana market. He said one of the better things about a competitive sale is that you do not have to go through that selection process. He said in Indiana there are four firms: Hilliard Lyons, City Securities Corporation, Fifth Third Securities and J.P. Morgan Securities – that are active in buying Indiana bonds and they would be players in whatever the Board does.

Noting these are attractive bonds and we could get the lowest interest rate in the competitive market, Mr. Muehling asked if it would be to the school system's advantage to have a competitive sale. Mr. Therber said he agreed for the most part but not totally. He said a competitive sale makes it easier because of the aggressiveness of the underwriting community. He said it began as a tool for lazy bonds and for lazy administrators in that you do not have to advertise and you can sell them at any time. He said the underwriting community has contributed to making negotiated sales more attractive and they have come down in their fee substantially to the point where it comes down to keeping the other guy from getting it.

Mr. Harvey asked Mr. Therber to describe the bond market now and asked if we have any flexibility because of DLGF (Department of Local Government Finance) approval of maximum number of y ears. He asked if there is any reason to go a shorter term and where is the bond market now as we anticipate opening bids on December 1. Mr. Therber said he thinks interest rates will be a little higher than now; right now is still a good time to be selling bonds. He said the oil situation and the general state of the economy had that kind of impact. He said we are better off today than we were three years ago; he expects the bond issue would sell for about 4.58% to 4.75%. He said while the DLGF approved a 34-year lease, state law limits bond issues to no more than 20 years.

In response to questions, Mr. Therber said the Board has a self-imposed DSF (Debt Service Fund) and CPF (Capital Projects Fund) rate of no more than $1.50 combined. Mr. Harvey confirmed that going into this building project the public was promised that the tax rate would remain the same because of retiring the current bond issue. Mr. Therber said the school system may want to determine the amount bid each year but that is difficult to do with a competitive sale. He said you sell all $40 million-plus bonds on a day, but you do not wait 20 years to retire the entire amount of bonds – some retire each year. He said if there is a different interest rate each year it would be set on the day the bonds are sold; the award would be made to whoever offers the lowest overall. Mr. Therber further explained that the $40 million-plus bonds will be sold to one buyer on a certain day; the bidders will bid a certain interest rate each year. He said it could be one interest rate for the entire issue or one that has one interest rate per year until maturity. He said we cannot control how they bid.

Mr. Thrasher responded to a question, noting that Hilliard Lyons and Edward Jones both have offices here and they are always interested in bond sales. Mr. Therber shared information regarding situations that benefit from negotiated sales. Mr. Harvey said we plan to have one bond issue to cover the entire project for the amount the DLGF approved. Mr. Therber said his preference is the competitive sale. He said it does away with the agony of selecting an underwriter, although it means a little more effort on our part but you can say at the end of that day you got the best interest rate. Mr. Muehling asked if you can mix the type of issue. Mr. Therber said you can do that but it must be a negotiated sale; with a negotiated sale you can do all, one or the other. He said the thought is a good one; if all are capital appreciation bonds you could raise more than $40 million.

In response to Mr. Harvey's question, Mr. Therber said we do not have a circuit breaker problem right now; we can take on some new partners. He said what other taxing units do will impact the school system and all other taxing units; the only alternative is to go through the referendum process. He thinks in six to eight years it will be a different landscape.

Dr. Butler asked about the difference in hiring an underwriter and hiring a financial advisor who works for us. Admitting that his answer was biased, Mr. Therber said he thinks every issue needs somebody who serves only your (the school system's) interest and can talk with the Board about competitive sales. He said the underwriters do not want to be financial advisors but that is fine if they say we will serve in that capacity and sell your bonds. He said for you to sell bonds someone has to buy them and that is the cost you pay to an underwriter. Mr. Muehling understood that the highest fee may come with the lowest interest rate and would offset the cost. Mr. Harvey said the higher the rating the lower the interest rate and consequently the less we will pay.

In response to questions, Mr. Therber said if it is a negotiated sale, they quote a price per bond; with a competitive sale, the quote is just as an interest rate. He said in a negotiated sale they buy for resale and you will pay them and they will sell all the bonds at what they pay. He said in a competitive sale you would advertise bonds for sale stating the maximum rate. Mr. Harvey responded that if we can pay only 4.58% and all bids are over 5% the Board can reject all bids. Mr. Therber said as mentioned earlier if interest rates are going up daily and bad things are happening that lends itself to a negotiated sale. They will take less and get it done just to move forward and then re-bid. His suggestion is not making a decision until closer to time. He said to keep the Board updated until closer to time, he would give Mr. Thrasher updates periodically and also if it looks like you have some reason to be concerned, he would pass along information or he would be happy to talk to the Board again.

The work session adjourned at 6:50 p.m.

Teresa Grossi, President

Jeannine Butler, Vice President

Valerie Merriam, Secretary

Susan P. Wanzer, Assistant Secretary

Jim Muehling, Member

ABSENT

Lois Sabo-Skelton, Member

Vicki Streiff, Member