



Finance Standing Committee Meeting – Summary Minutes October 13, 2014

1. Call to Order

Minutes:

Committee Chair Brian Shiflett called the meeting to order at 5:00 p.m.

2. Roll Call

Members in attendance were: Chris Barrett, Heidi Eby, Bruce Hancock (for Hank Donahue) and Brian Shiflett (Board Members); Jack Bishop (Citizen Advisor)

Members not in attendance were: Hank Donahue, Eileen Rusnack, and Terry Singer (all excused in advance)

Staff/Public in attendance were: Joe McFarland and Mike Frenz (representing the Administration); Lou Verdelli (RBC Capital Markets), Elizabeth Peris and Vince Lattanzio (Fulton Financial Advisors); Ray Faidley

3. Approval of Summary Notes

Minutes: The summary minutes for the June 9, 2014, Finance Standing Committee Meeting were approved.

4. Fulton Financial Trust Proposal

Minutes: Elizabeth Peris and Vince Lattanzio from Fulton Financial Advisors presented the performance report for the Milton S. Hershey residual trust for the period ending September 30, 2014. The market value of the account is \$44,450,069.98. Quarterly distributions to the District for 2014-15 are \$517,005, totaling \$2,068,021 for the fiscal year.

Ms. Peris and Mr. Lattanzio indicated that Fulton Financial Advisors, as Trustees, plan to reduce the trust distribution to a 4% level, a decrease from the current 5% level. As shown on the handout, the annual distribution amount is calculated by averaging the market value of the trust on March 31 for the past four years, and multiplying the average by 5.00%. Mr. Lattanzio stated that the lower distribution rate could be phased in, perhaps lowering the rate by 0.25% each year, beginning with 2015-16. Mr. Lattanzio reiterated that the Trustees make the decision on the distribution rate, however they are open to input from the District.

Mr. Frenz noted that the District relies on the revenues from the trust in its operating budget and any reduction is of grave concern and would need to be replaced by tax revenue. Mr. Frenz stated that stability and predictability of the amount of trust distribution is of importance in the long run, and he'll look to the board for guidance on how to make up for decreased revenue in the short term.

Mr. Shiflett recommended the District consider drawing from the Retirement reserve fund balance to replace lost revenue from the trust.

Mr. Shiflett asked for data showing why a 4% distribution is appropriate for this trust. Ms. Peris noted that the trust is designed for a 6.8% return. After a 4% distribution to the District, 2% of the return would cover inflation and the remaining 0.8% would cover growth and expenses. Mr. Lattanzio stated that Fulton Financial Advisor's fees are approximately 29 basis points at the current market value of the account.

5. Bond Refinancing

Minutes: Lou Verdelli, RBC Capital Markets, presented a plan for refunding the 2010A Series of Bonds, detailed in the attachment. There is \$13,435,000 outstanding principal with coupon interest rates ranging from 2.65% to 4.00% and a call date of May 15, 2015. Mr. Verdelli estimates that the refunding activity would generate a savings of \$480,000 based upon current interest rates. Upon approval of a resolution of the board, the underwriter and bond counsel plan to schedule the bond sale (lock in rate) for January 2015 and settlement in February 2015. Mr. Frenz recommends structuring the 2015 series of bonds so that the savings occur in the 2015-16 fiscal year.

The committee recommends that the board approve a resolution to proceed with bond issuance activities.

Mr. Frenz indicated that while RBC Capital Markets has served the District well in its capacity as bond underwriter, he feels it is appropriate to consider the services of a financial advisor to help guide the District in making appropriate financial decisions. The bond underwriter is not obligated to act in the District's best financial interests, and Mr. Frenz noted that many local school districts use the services of a financial advisor, for example, Public Financial Management (PFM). The financial advisor is compensated from funds generated from borrowing activities.

6. Bond Disclosure Requirements

On March 10, 2014 the Securities and Exchange Commission (SEC) issued information on the Municipal Continuing Disclosure Cooperation Initiative (MCDC). Issuers and underwriters are asked to self-report bond offerings in which issuers "may have made materially inaccurate statements in a final official statement regarding their prior compliance with their continuing disclosure obligations...."

As Issuer of bonds DTSD is required to post information annually 180 days after the close of our fiscal year or after a material event, DTSD's normal disclosure information contains the following:

Audited Financial Statements (This includes requirements for reporting of real estate tax collection results)

General Fund Budget (This includes requirements for reporting of assessed and market value of all taxable real estate, taxes and millage rates imposed)

List of the 10 largest real estate taxpayers

Pupil enrollment figures which includes current and projected enrollment.

The deadline for underwriters to self-report any bond deals they were involved with was September 10, 2014. The deadline for issuers to self-report has been extended to December 1, 2014. RBC Capital Markets has been the underwriter on all of the DTSD's bond deals for which continuing disclosures are still being made. RBC did the research into all of the continuing disclosure and found instances where information was filed outside of the 180 days for bond issued in 2006, 2007, 2008, 2009 and 2011. The misstatements in question are that, in the Official Statements issued by the District in 2006 through 2011 the statement was made that the DTSD was in compliance with continuing disclosure requirements.

Since the SEC did not issue guidance on what is a "materially inaccurate statement", RBC Capital Markets chose to self-report these issues to the SEC as the underwriter.

Minutes: Mr. Frenz and Mr. Verdelli reviewed ongoing activities surrounding the self-reporting by bond underwriters and issuers of any "materially" inaccurate statements in a final official statement regarding compliance with continuing disclosure obligations. In the absence on SEC guidance of what is a "materially inaccurate statement," Mr. Frenz plans to report same compliance incidents as reported by RBC Capital Markets -- incidents of continuing disclosure information posted after the 180-day requirement. Mr. Verdelli explained that this is a one-time self-reporting opportunity, and hereinafter, the underwriters and issuers are expected to comply with all required continuing disclosure requirements, presumably with enforced consequences for non-compliance.

Mr. Frenz noted that for all future bond offerings, the District will work with bond counsel to write the official statement in a manner that only requires the continuing disclosure of the audited financial report and annual budget, and not other items such as the 10 largest real estate taxpayers and pupil enrollment figures.

7. 2015-2016 Budget Calendar

Minutes: Mr. Frenz presented the 2015-16 budget calendar. As part of committee discussion, Mr. Frenz note that the District is implementing zero-based budgeting at the building level this year. In response to Mr. Hancock's request, Mr. McFarland indicated that the administration will present some of the macro-level budgeting assumptions at the Nov. 12 board information session.

8. Public Comment

Minutes: Mr. Ray Faidley expressed his support for professional development activities that are embedded and aligned with District strategy. He recommends the District survey teachers to find out what professional development is needed.

9. Next Meeting

Next meeting for the Finance Committee will be Monday November 17, 2014 at 5:00 pm.

10. Adjournment

Minutes: The meeting adjourned at 6:30 p.m.