



# Finance Standing Committee Meeting – November 17, 2014 Summary Minutes

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## 1. Call to Order

## 2. Roll Call

**Members in attendance were:** Jack Bishop, Eileen Rusnack, Terry Singer (Citizen Advisors); Hank Donahue, Heidi Eby, Brian Shiflett and Chris Barrett (Board Members)

**Staff/Public in attendance were:** Mike Frentz and Joe McFarland (representing the Administration); Bruce Hancock and Maryellen Sheehan (Board Members as members of Public); Brad Remig (PFM); Lou Verdelli (RBC Capital Markets); Lana Holst, Tabitha Roach, Tim Maerski, and Jim Rovito, (Metro Bank)

## 3. Approval of Summary Minutes

**Minutes:** The summary minutes for the October 13, 2014, Finance Standing Committee meeting were approved.

## 4. Bond Refinancing

**Minutes:** Mr. Brad Remig of PFM, our District's financial advisor, with support from Lou Verdelli, our District's bond underwriter, presented options for refunding the District's Bond Series of 2010A, which are callable in May 2015. Mr. Remig presented a municipal market update chart showing current yields that continue to be below long-term averages.

Four refunding scenarios were presented:

1. A non-bank qualified, non-callable bond issue closing about February 17, 2015, with principal of \$12,855,000, an arbitrage yield of 1.4525%, and an estimated net savings of \$541,219. Cost of issuance is estimated at \$182,840.

2. A bank-qualified bond issue with a 5-year call date, closing about February 17, 2015, with principal of \$9,955,000, an arbitrage yield of 1.4777%, and an estimated net savings of \$562,335. Cost of issuance is estimated at \$159,960. The bond sale cannot close any earlier than 90 days prior to the May 15 call date of the 2010A series of bonds.

3. A bank-qualified bond issue with a 5-year call date, closing about May 15, 2015, with principal of \$9,955,000, an arbitrage yield of 1.4902% and an estimated net savings of \$598,970. Cost of issuance is estimated at \$159,960. This illustrates a scenario similar to option 2 without the negative arbitrage that occurs when the closing of the new bonds precedes the call date of the bonds to be refunded.

4. A bank-qualified bank loan, pre-payable anytime, closing about February 17, 2015, with principal of \$9,955,000, and an estimated net savings of \$562,207 (Fixed to about the same

amount as Option 2). The loan interest rate would need to equal 1.65% to net the same amount of savings as Option 2. Cost of issuance is estimated at \$60,000. Bank loans can be attractive because of the lower closing costs relative to a bond sale.

Mr. Remig indicated there is flexibility in how bonds savings can be structured from one fiscal year to another.

Mr. Frentz said the goal is to save the most money, not to balance the current year budget. The district had not planned to incur any debt service savings during the current fiscal year. Mr. Frentz feels that a bank-qualified bond would best serve the district with the savings spread over several years.

Mr. Remig explained that if even if bank loan RFP's are issued, the District will still proceed with a credit rating update, and the District will bear the cost of credit rating update.

Finance Committee concurred with the proposal to pursue bank-qualified bonds or loans, with the understanding that the bond options will likely yield the greater savings.

## **5. Presentation from Metro Bank**

**Minutes:** Representatives of Metro Bank presented a banking proposal for the District.

Metro Bank's proposed interest rate earned by the District is tied to an internally managed rate, which has only changed five times since its inception in 2009. Metro Bank will guarantee a floor rate for a period of nine months.

The interest rate applies to all accounts, regardless of balance.

Metro Bank includes fraud prevention services at no charge.

Mr. Frentz outlined his criteria for banking services: interest rate; same or similar interest rate for all of the District's funds; fees based upon District's transaction history; overall business relationship based upon reference checks, e.g., ease of doing business and responsiveness to inquiries. Mr. Frentz indicated that Metro Bank best met the criteria. He met with current depository, PNC, as well as Fulton Bank. PNC did not respond with a proposal. Mr. Frentz noted the free fraud prevention services (Positive Pay and ACH Debit Block) distinguishes the Metro Bank proposal from other banks' offerings.

Mr. Frentz noted that he currently spends time each day managing cash account levels, trying to maximize the amount of money in the higher-earning money market accounts. He that task would no longer be necessary on a daily basis with the Metro Bank interest rate proposal.

Mr. Frentz stated that he intends to switch bank accounts after the board approves the agreement, except for the payroll account, which he intends to switch at the end of the fiscal year.

Mr. Frentz indicated that he plans to put approval of Metro Bank as a depository on the December board meeting agenda.

Mr. Shiflett asked Mr. Frenz to present to the full board an estimate of the savings impact of switching banks.

The committee made a recommendation to move the Administration's proposal to name Metro Bank as the district's depository to the full board for approval.

## **6. Audited Financial Report Update**

**Minutes:** Mr. Frenz reported that the District's auditors have finished their report for the year ending June 30, 2014. There will be a recurring finding in the report that not all adjustments are made prior to the auditor's work. Mr. Frenz indicated that his office will work to eliminate that finding next year. The audit report will be presented to the school board at the December board meeting.

Mr. Frenz noted that the district was about \$2.5 million under budget on 2013-14 expenditures. The district transferred about \$2.6 million from the General Fund to the Capital Reserve Fund.

Mr. Frenz provided showed a summary of Capital Reserve Fund activity and balances for the year ending June 30, 2014. He also showed an updated Capital Reserve Fund summary through the end of October 2014. He will add this report to the monthly Financial Report on the board agenda.

## **7. Budget Update**

**Minutes:** Mr. Frenz stated that the first round of department-level budgets are due in his office on November 20.

In September, the business office rolled out the concept of zero-based budgeting, where all budget units start at zero and justify all needed expenditures to operate their programs next year. Mr. Frenz is meeting with department heads to set the expectations for zero-based budgets, as well as giving Mr. Frenz an opportunity to learn about their budgets. He will hold those meetings quarterly.

Mr. McFarland thanked Mr. Frenz for the work he has accomplished so far with zero-based budgeting.

## **8. Public Comment**

**Minutes:** Mr. Bishop, one of the committee's citizen advisors, shared information he researched regarding trust distributions. He noted that the four percent rule is used by Charles Schwab to describe a distribution rate for personal wealth accounts that allows clients to not outlive their money. He cited another study that indicated a four percent rule may be an anomaly, one that is too high in the current low-yield environment. He found another study that indicated a 2.8 percent distribution rate would yield a constant-dollar, perpetual income stream.

## **9. Adjournment**

**Minutes:** The next Finance Committee meeting will be January 19, 2015, 5:00 p.m. The meeting adjourned at 6:12 p.m.