Grosse Pointe Board of Education

Minutes of the Work Session of January 12, 2011
Board Room
389 St. Clair, Grosse Pointe, MI 48230

MEETING MINUTES

CALL TO ORDER

President Steininger called the meeting to order at 7:02 p.m.

Board members present: Trustees Dindoffer, Gafa, Jakubiec, Minturn, Pangborn, Steininger and Walsh

Also Present: Superintendent Klein; Assistant Superintendents Beels, Fenton and Harwood; Executive Director, Lee Warras

Guests: William Roche, Mesirow Financial; Amanda VanDusen, Miller Canfield; Ryan Bedzinski, Bedzinski and Company and Robert Bedzinski, Bedzinski and Company.

INFORMATION AND DISCUSSION

II. A. Strategic Planning

It was Moved by: Trustee Walsh
Supported by: Trustee Minturn

THAT the discussion of the Refinancing Energy Bonds be placed first on the agenda.

Ayes: Trustees Gafa, Minturn and Walsh
Nays: Trustees Dindoffer, Jakubiec, Pangborn and Steininger

Motion denied.

President Steininger then opened discussion on the process to update the strategic plan that the Board was about to undertake. Trustee Dindoffer proposed that an additional discussion be held with Banach, Banach and Cassidy before the actual meeting to ensure the Board's perspective and comments would be incorporated into the process.

Trustee Jakubiec asked that Banach, Banach and Cassidy interview the Board as a whole, not each individual member.

Trustee Dindoffer and Dr. Klein indicated that the Board would participate as a group of seven in the process.

II. B. Refinancing Energy Bonds

It was moved by: Trustee Dindoffer
And seconded by: Trustee Pangborn

THAT the Board move into a closed session to discuss a written legal opinion of counsel.

Trustee Walsh reminded the Board that there must be a 2/3 majority vote to go into a closed session.

Ayes: Trustee Dindoffer, Jakubiec, Pangborn Steininger
Nays: Trustees Gafa, Minturn and Walsh

Motion denied.

Assistant Superintendent Fenton then began his presentation explaining the Energy Bond Options. The Board authorized in November 2000 General Obligation bonds sold in 2001 that did not require a vote by residents**.** Examples of these projects are windows at 389, Barnes, Ferry, Kerby, Brownell; boilers at 389, Maire, Richard, Trombly, North and South; energy management systems at North, South, Brownell, Parcells and Pierce.

The outstanding balance on the bonds is $3,105,000. The May 2011payment of $555,000 is not part of the pay off or refinancing decision. According to the current schedule, the bond will be completely paid off by fiscal year 2014-15. A $2,555,000 obligation remains in all scenarios.

The voted bond issue from 2002 is not part of the refinancing proposal.

Options include: Do nothing, Refinance the Energy Bond, Pay off the Energy Bond and shift borrowing burden to a line of credit or Pay off the Energy Bond and shift borrowing burden to a State Aid Note.

Option 1 is to do nothing. The Pro for this option is no limitation of district initiative investments as it relates to the 3% clause in GPEA contract. The Cons are that payment would be at a higher interest rate than current market rates which would result in higher general fund expenditures. The debt payment is not accelerated or the cost of borrowing is not reduced.

Option 2 is Refinance remaining payments. The pros for this would be annual relief to the General Fund of approximately $23,000 per year over the next four years; guaranteed annual savings over the next four years, not subject to interest rate and/or borrowing variability and no risk of encroaching on the "3% clause." The con for this option would be other options could deliver greater interest savings but with risks.

Option 3 is to pay off the Bond and shift borrowing burden to a Line of Credit. The one pro of this option is the annual relief to General Fund of $45,000-53,000 depending upon interest rates. The con is that General Fund Equity would be used to pay off debt, so an increase in other borrowing would result;

Option 4 would be to Pay off the Bond and shift the borrowing burden to a State Aid Note. There are no Pros for this option. The Con would be that this would actually increase district cost since State Aid Notes cannot be repaid early and most other cons from Option 3 prevail. Fees were of concern and discussed at the December 13, 2010 Board meeting with a note that taxes are received starting in December.

Key components to remember are the 3% clause in various labor contracts. The range depends upon the fund equity balance. Note that the base for the 3% calculation is the summary of expense <u>and</u> transfers from 09-10.

Professional charges of $52,289 in fees to refinance where the cost comes from the refinancing proceeds with $2,500-5,000 range in fees to pay it off. This cost would come from the General Fund. The $5000 annual line of credit cost would also come from the General Fund.

Loan Rates The district currently pays 1.76% on the money borrowed via a negotiated bank line of credit. This occurs in the October/November time frame depending on tax revolving fund payments and State Aid payments. Estimated rate of refinancing is approximately 2%. Bank line of credit for future years is not guaranteed. Other methods include tax anticipation notes and borrowing against State Aid. Both are at a higher interest rate and longer term.

General Fund Short Term Cash Flow Borrowing Options: Line of Credit (GPPSS current option) Variable term and amount based on cash needs up to a set limit.

Tax Anticipation Notes/State Aid Notes Six months duration, fixed amount.

Explanation of the 3% Clause "new programs or new initiatives should not increase the total year over year total budgetary expenditure by more than 3%"- GPEA contract.

2009-10 General Fund Budget - $103,308,790
3% - $3,099,264
ADK was added as a new program at $701,233
Total Energy Bond payoff - $2,550,000
Leaves us over the 3% by $151,969

There have been a number of issues raised by Board Members. The administration position is to take Option 2 and refinance the Bonds for a lower rate.

Trustee Pangborn asked for more clarification on why this did this not come up in discussions during contract negotiations and what are considered new programs? Why would old debt be part of the new contract? Assistant

	Superintendent Fenton says that if refinancing is done, than the 3% comes out of the refinancing and that would qualify under a new initiative. The district has never paid off a debt early voluntarily. Assistant Superintendent Fenton stated that it all depends on the initiatives as to whether they would qualify under the 3% clause. Trustee Jakubiec commented that the last meeting discussion was about the risk to fund equity and possible higher interest rates and that the bottom line for the district is to move forward. Trustee Jakubiec then asked that if fund equity comes down, would we risk higher interest rates. According to Assistant Superintendent Fenton, regarding Bond Rating, Fund Equity is not the only thing looked at. We have language now in the contract that protects us. Amanda Van Dusen of Miller Canfield stated that if Fund Equity does drop, it could affect the interest rates. Trustee Minturn then commented that he appreciates this special meeting to accommodate his schedule. He feels very strongly that Option 2 is financially advantageous and that Mr. Fenton's recommendation is "right on." He said there is no reason to pay down the debit and asked that the minutes reflect that "it would be a huge mistake to pay it off. I would not do it if it were my company". He sees no benefit to paying off this debt. Trustee Minturn again thanked the Board for making the time available to discuss this subject. Trustee Walsh says he cannot add anymore from a financial aspect. As a district, the contract agreements that we reached were made on trust. Trustee Walsh agrees with Mr. Minturn that it would be a mistake to pay it off. Trustee Dindoffer shared with everyone that it was important to make this opportunity to meet and that she echoes Mr. Minturn's comments. Trustee Jakubiec is pleased that through the discussions, during negotiations of contracts, and new initiatives, he has had the opportunity to have questions answered. He asked if we were to hold liquidity of 15 million, would the liquidity be held in 2012-13 school year? Trustee Minturn answered that when the cash is gone, the obligation is gone. Mr. Fenton indicated it is not the intention to transfer money or hide fund equity. Trustee Jakubiec then discussed the wording in Mr. Gierak's letter regarding the teacher contract. Trustee Jakubiec stated that there is additional wording in the September 27, 2010 Resolution of Approval of Contract. Assistant Superintendent Harwood responded that the wording had been cut and pasted right from the contract to avoid any mishaps.

	Trustee Jakubiec asked if there are any other debt obligations that the district would be looking at and he stated that it has been very helpful to clarify the options so that the Board can make good decisions. Trustee Minturn stated the payoff schedule is not new and that paying off this debt does not make the district stronger. President Steininger stated that this meeting was requested to get questions answered. President Steininger then confirmed with Amanda Van Dusen, Miller Canfield, that there will be a cost involved in applying for any line of credit. He then asked that, at the end of the four year bond, will fund equity be the same or less regardless of the option selected. Assistant Superintendent Fenton's reply is less. President Steininger went on to say that no one has any more interest in this than he does and that he asked for this meeting to obtain Mr. Minturn's opinion. Amanda Van Dusen reminded the Board that Grosse Pointe is one of the strongest districts in the State. President Steininger reminded the Board that the State will eventually look at Fund Equity and advised the Board to consider all possible scenarios and options. Assistant Superintendent Fenton says that the school district has always approached business decisions in a very conservative way and reminded the Board that there was no bond debt in 1997-99. He recommended that the Board continue to take a conservative approach and go with the refinance option.
PUBLIC COMMENTS	Mr. George McMullen, Grosse Pointe Woods, spoke to the refinancing of the energy bond.
ADJOURNMENT	President Steininger adjourned the meeting at 8:32 p.m.

Board Secretary