

Board Finance and Audit Committee Meeting Notes

August 25, 2016 - 11:30 a.m. - Meeting Room A

IV-D

Panorama Village Building

240 Villa Crest Drive

State College, PA 16801

I. Call to Order

Mr. Fozard called the meeting of the Board Finance and Audit Committee to order at 11:37 a.m. Mr. Fozard asked Mr. Brown to give a high-level goal for each item on the agenda before discussion.

Present: Tom Beckett, Amy Bader, Randy Brown, Marie Caster, Dan Duffy, Scott Fozard, Bob O'Donnell, Donna Watson

A copy of all materials distributed to board members for discussion is included with the official notes, unless otherwise indicated.

II. District Financing

Mr. Brown introduced Tom Beckett of NW Financial Group, who presented information on financing the balance of costs for the State High Project (SHP). He explained the District will need to make decisions on managing interest rate risk for the borrowing of an additional \$46 million prior to or during spring 2018. The proposed plan is to utilize a "wrap-around" amortization of the District's existing non-referendum debt service. Mr. Beckett presented a chart with three scenarios of debt service, with projected interest rates based on timing and terms. The advantage of waiting to issue until the funds are needed could be about \$3 million in savings. He explained it takes under 60 days to lock in an interest rate to date of issue and rates are not likely to move in that amount in the near future. Mr. Beckett stated he and Mr. Brown and Ms. Watson are continually communicating about the markets. Mr. Brown presented capital reserve fund projections through the year 2050. He explained there is enough cash now for 18 months for the SHP, and probably not need the \$10 million until 2019-20. There should be \$40 million in reserve to get us to ground breaking for the elementary projects.

Committee discussion: advantage or disadvantage of borrowing large or small chunks; feel incremental borrowing reduces risk of bad things happening, i.e, market crash; is it possible to do two packages--one smaller and one larger; think about this as a capital financing model, not a building financing model; is there a limit on borrowing or holding funds in capital reserve; prepare a model showing risk avoided by waiting. Dr. O'Donnell appreciates the conservative projections from Mr. Brown and Ms. Watson. Mr. Brown asked for a recommendation from the committee if they are not in agreement for waiting on borrowing. All members were in favor of waiting. Mr. Brown will prepare a summary of discussion for the full board.

III. District Wide Facilities Master Plan - Elementary Update: Demographic Report and Cost Estimates

Mr. Brown stated the demographic report suggests enrollment will increase, not decrease or remain the same; therefore, we should not decrease capacity. He provided a handout showing scenario definitions, and explained scenarios 4 and 5 are for exploration purposes. It was pointed out that the first four columns, through Scenario 2B, have no change in capacity. Page 4 is important, showing net project cost.

Committee discussion: add a heading on Cost page, indicating “per year”; add present value information relative to annual cost savings; how many years would it take to recoup project costs; what is the average size school for scenarios 3, 4 and 5; scenario 4 is not an apples-to-apples comparison; how was project cost arrived at; land purchase; building cost includes core area.

IV. 2017-18 Budget Development

Mr. Brown reviewed the 2017-18 budget timeline, as determined by Act 1 requirements. A proposed preliminary budget will be presented December 5 unless an opt-out resolution is adopted. The opt-out resolution is a binding commitment.

V. Multi-Year Budget Process

Mr. Brown provided the 2016-17 Budget Summary document and stated he would like to find a compromise between that 4-page document and the inch-thick budget book that was prepared until 2011-12. Dr. O’Donnell mentioned that, in 2011-12, administration completed budget evaluations with major function areas, i.e. athletics, technology, etc., with the goal to modify programs where needed. He would not propose going back to that process.

Committee discussion: create a cycle of review, i.e. every 5 years review each major function; how does it help the board make decisions; committee would make sense to go to that level of detail, rather than the whole board; some areas should be looked at more often--technology, transportation, athletics; general data and composition of data in 4-page budget document is appropriate for 80% of discussions; functional/object information is important; would like to see iterations, i.e. where did we start vs. where we are now, columnar; look at reportable items.

VI. Public Comment

There was no public comment.

VII. Future Agenda Planning

- Budget Planning
- Elementary costs, project costs
- Future meeting date

VIII. Adjournment

Mr. Fozard adjourned the Finance and Audit Committee meeting at 1:00 pm.

Submitted by,

Marie Caster
Acting Board Secretary