OAK PARK AND RIVER FOREST HIGH SCHOOL
201 North Scoville Avenue
Oak Park, IL 60302

FINANCE COMMITTEE MEETING
Tuesday, August 18, 2009

A Finance Committee meeting was held on Tuesday, August 18, 2009. Chair Allen called the meeting to order at 7:40 a.m. in the Board Room. Committee members present were Jacques A. Conway, John C. Allen, IV, Terry Finnegan, Dr. Ralph H. Lee, Amy McCormack, and Dr. Dietra D. Millard. Also present were Dr. Attila J. Weninger, Superintendent; Cheryl L. Witham, Chief Financial Officer; and Gail Kalmerton, Executive Assistant/Clerk of the Board.

Visitors included Kay Foran, Communications and Community Relations Coordinator; Doug Wiley, OPRFHS Supervisor of Finance; Tim Keeley, OPRFHS Purchasing Coordinator; Elizabeth Hennessey of William Blair & Company; Robert Zummallen, Director of Buildings and Grounds; Scott Pellock of Vanguard; James Paul Hunter, OPRFHS Faculty Senate Executive Committee Chair, Jack Lanenga**,** Director of Data Management**.**

Acceptance of Minutes of June 16, 2009 Finance Committee Meeting
It was the consensus of the Finance Committee members to accept by acclimation the minutes of the June 16, 2009 Finance Committee meeting, as presented.

Energy Savings-Vanguard Services
Mr. Scott Pellock, a broker for the high school's gas and electric utilities, informed the Board of Education of his background, the recent history of gas and electric prices, and what he anticipated for the future. The 2011 and 2012 electricity future prices are now at a price lower than the prices locked in for 2010. The price of natural gas is higher. He recommended buying within the next 30 days to lock in a good rate. The historical pricing chart provided indicated that current prices are at an historical low point and his prediction is that prices will rise in the future.

It was the consensus of the Finance Committee members to recommend that the Board of Education approve the contract with Vanguard Services at the Special Board Meeting following the Finance Committee meeting.

The District budgets $600,000 for electricity for one year.

Bond Refunding
It was the consensus of the Finance Committee members to recommend that the Board of Education approve the refunding option and proceed with the transaction when the savings target is met or exceeded at the Regular Board of Education meeting on August 27, 2009.

Ms. Witham had provided the following information:

"Liz Hennessey of Blair & Company explained that the District's outstanding 1998 Bonds are callable prior to maturity on December 1, 2011 at a premium of 103%. The refunding of the bonds based on current interest rates save the taxpayers over $460,000 over the life of the bonds or in present value terms $375,000 or 3.78% of the bonds refunded. The savings are expressed after paying all costs of issuance and any redemption premium. The savings may be taken equally over the life of the bonds or accelerated by paying the bonds off slightly earlier than originally projected. The rule of thumb in the public finance industry is that when the net present value savings are over 3%, the refunding is worth executing.

"The refunding savings would be more if short-term Treasury interest rates were higher. If the District waits several months to see if Treasury interest rates increase, it risks that municipal interest rates increase as well diminishing the refunding savings. Whereas it can be somewhat confident that short term interest rates will remain low over the next six months, we can't be as confident the same will occur within a year or two."

Ms. Hennessey reiterated the above. She showed the 10- and 20-year market averages for AAA rated bonds in municipals. Rates have come down significantly since January with the 10-year average being 2.96% and the 20-year average being 4.12%. A chart showed the municipal yield curve from year 1 to year 30. OPRFHS is under 1% until year three. Because the Federal Reserve is lowering interest rates because of the recession, these are some of the lowest rates on record.

District 200 has a strong bond rating—AA2 from Moody's. The bond rating affects what one might pay. Through the credit crisis and their exposure to mortgages, bond insurance companies have either been downgraded or are out of business. The value of the AAA bond insurance has deteriorated significantly and the District would have to pay a fee in order to obtain the highest bond rating. Thus, it is better for OPRFHS to use its own bond rating.

Typically municipal bonds are not callable until ten years. The 2005 Bonds are callable but at low rates. The 2004 General Obligation Debt Certificates are also callable in 2014, but no savings are available on those bonds at this time. The 2003 A-Debt Certificates are also at low rates now. The 2003 B-Bonds School Bonds mature in 2012 and are not callable. However, the 1998 Capital Appreciation Bonds which are callable on December 1, 2011, with the rates of 5.45% to 5.63%, can be replaced in the 2% range. The school could set up an escrow for two years and could issue refunding bonds to replace these bonds. The proceeds would be placed in government securities until December 1, 2011 when those bonds are called and paid off. However, the reinvestment rates are also very low and this creates negative arbitrage. The law allows entities to invest the escrow account up to the yield of the bonds.

The 1998 debt service is $13,202,000 and it will be replaced with $12,785,000, a gross savings of $417,000, annually that is approximately $72,000 per year. When looking at this in terms of present value, one would take the savings and at a discount rate of 2%

and get $375,000 in present value savings, which would be divided by the amount of principal refunding, resulting in a savings of 3.58%. Whenever the savings is over 3%, the client is informed. This is after the cost of doing any transaction.

An alternative would be the limited tax bonds, non referendum bonds, allowed to pay off $2,308,000 million under the tax cap, which would net the District $72,000 annually. Ms. Hennessey suggested paying the bond off sooner, thus, leaving more bonding capacity in 2016. If the District waits to take the savings in the 2016 Levy year, the savings would be higher $464,000 and the PV savings would be up to 3.78%.

She reiterated that the bonds are callable on December 1, 2011 which would require the District to set up an escrow account for two years. The question to ask is should the District do the refunding now and deal with negative arbitrage or should it wait two years until 2011. Where will interest rates be then? If they go up, the District could invest at a higher rate, but it would also affect the municipal market. So, instead of a 2% municipal tax rate, it may be higher. The value of the arbitrage would be about $300,000. Typically, the funds invested in state and local government securities are not a good investment because of their low interest rates. Other alternative securities like RESCOR Strips and Treasuries Strips may be explored. If the District waited until 2011 and the rates were the same, the savings would be over $1 million, but that is the unknown.

If interest rates go up by 1.4% by December 2011, the District would have been better off to do refunding now. She recommended approving a resolution, set a target amount, and move ahead with the refunding savings within the next few months. If the District were to choose the accelerated refunding, it would be about 3.75%. If taking proportionately the savings annually, she would recommend 3.58%, which would be about $350,000 present value or $450,000 over the life of the bond.

Mr. Finnegan preferred accelerating the debt which would get bonding availability earlier and the savings when needed.

Ms. Hennessey explained that the Board of Education would pass a bond resolution authorizing refunding and set the target at 3.75%. In that resolution, it would state that a combination of Board of Education and Administration representation would give final approval, e.g., the Board of Education president and the superintendent, etc. Before going to market, the District's bond rating would be redone and a less volatile week in the market would be selected to lock in the interest rate.

Mr. Finnegan asked for examples of where the District could go for better returns. She suggested REVCO Strips, resolution trust obligations, Israel, and/or defense bonds, which are all AAA. She would like to get bids on these instruments on these alternative obligations. The good news is that the District's escrow is very short, two years, and these securities have been used in escrows previously. But she wanted the Board of Education to be comfortable with them. Mr. Finnegan felt uncomfortable using anything but the safest of securities. Dr. Lee and Mr. Allen concurred, as they did not want to take on greater risk.

There was consensus to bring the resolutions to the regular August 27 Board of Education meeting.

Ms. Hennessey also explained that the $1 million in the Bond and Interest Fund can only be used to pay the principal and interest on the bonds. One must use as a cash deposit in this refunding so the savings would be $1,462,000. One could abate the debt service directly, which would abate about .5 of the tax rate, but the next year the tax rate would go up by that amount. A $200,000 home would save about $18 for one year. If used in the refunding in the accelerated version, the District would have about $1,500,000 to pay off the bonds earlier. Alternatively, one could issue new bonds against the $1,000,000 and pay it off in 30 days. The way to do new money is through the Working Cash Fund which would require a petition period and a public hearing. The actual monies received if paid off within thirty (30) days would be approximately $990,000. These funds could be moved to the Working Cash Fund and could be used for fund balances, by doing transfers, for capital projects, Education Fund endeavors, etc. To get it out of the Bond and Interest Fund, a new debt obligation would be issued against it. This would not affect the District's bond rating, but an additional six weeks would be necessary for the petition period and public hearing.

To do nothing, the money would simply accumulate and earn interest and only the interest could be transferred to the Operations & Maintenance Fund. The District would free up its debt in 2016.

Dr. Lee asked what would be the most effective way to offset deficit spending between 2014 and 2018. Ms. Witham responded that it would be moving the funding to the Working Cash Fund and transferring it to the Education Fund, but that this could be done in 2015 as well.

Discussion ensued about using this money for capital projects, such as replacement of air handlers, etc. Some capital projects, such as airlock doors and new carpet tiles in the entrance ways, will save on costs and maintenance. He suggested that this would be an opportunity to capture some funding to allow for some things to be done sooner. Ms. Witham stated that it would be prudent for the Board of Education to consider the process of proactive maintenance versus a process of deferred maintenance. Some projects are every expensive, e.g., HVAC, retrofitting of elevators due to state law, etc. The District will not have an opportunity to borrow money for these types of projects in the near future.

Mr. Allen and Mr. Finnegan were uncomfortable committing to issuing new bonds for things that have not been presented as savings to the District. Thus, they both preferred saving the money and not using it for deferred maintenance. It was the consensus of the Finance Committee members to use the money to lower the debt in 2016 and have $1 million savings. Mr. Allen appreciated this information being provided.

Ms. McCormack was pleased that the District was taking a proactive approach to maintenance.

Construction Update
Mr. Zummallen provided the Board of Education members with a list of construction items that had been accomplished. There were no follow up questions.

Stadium Sound System Bid
It was the consensus of the Finance Committee members to recommend that the Board of Education approve the Stadium Sound System Bid to Talaske Sound System at its August 18, 2009 Special Board Meeting following the Finance Committee meeting.

Installation will take place four to six weeks after Board of Education approval. This system should alleviate an echo and direct the sound to the field, not to the neighbors. Talaske Sound System, the creators of the sound system for Millennium Park, will do additional pro bono work, e.g., readings on the system for the neighbors, etc.

Update on TIF
Ms. Witham reported that no further meetings had occurred on the TIF. She was waiting for District 97's legal counsel to update the district. While the Village of Oak Park had promised to send the money, it had not.

Mr. Allen expressed disappointment at not being paid and that the District may have to singularly pursue getting the money. He was concerned that the Village had no money, although the chief financial officer at the Village of Oak Park had indicated that it did have the money. Mr. Finnegan offered to spearhead getting the Village of Oak Park to shut down the TIF. Mr. Allen noted that the Village was unwilling to give money for the referendum as indicated in Footnote 2.

Dr. Millard asked that the OPRFHS's attorney send written communication to the Village that the District expected a response to its letter of August 7 by a September 8, 2009.

Ms. Witham has kept the other taxing bodies up to date. They are waiting to hear from OPRFHS to tell them what to do. The Park District has new business manager and is still learning the position.

Dr. Millard suggested that District 200 Board of Education members should make contact with District 97 Board of Education members.

FY 2010 Final Budget
It was the consensus of the Finance Committee members to recommend to the Board of Education that it approve the Final Budget at its regular August Board of Education meeting.

Ms. Witham noted she would add the District goals, charts and certificates. She had recalculated the General State Aid Budget and there will be a reduction of $10,000. The District did not receive categorical grants except for the ADA Block Safety Grant; thus the reduction of revenue could be $70,000. While Regional Safe School monies are not directly received, as HARBOR receives that directly, this may increase its monthly fees. That may be a future amendment.

Five-Year Financial Projections
Cheryl reported that the five-year projections had been updated and included new staffing numbers, enrollment, the 2010 budget, , interest rates, negotiated salaries, new retiree information, etc. The end result is that the revenue is lower, corporate personal property taxes are lower, but with cost cuts, the District ends up in the same place, i.e. deficit spending in 2014, and will still need a referendum in 2018. The good news is that even with an economic downturn, the District is still on track. Ms. Witham reported that she did not have the 2009 Levy or Audit at this point. She is also working on construction and maintenance projections.

RWD Contract Approval
It was the consensus of the majority of Finance Committee members to have Mr. Dibbern come to the September 8, 2009 Special Board Meeting in order to provide the committee members with a deeper understanding of his work and for the committee to express its desires as to what it wants in the reports. It was also the consensus of the committee that Mr. Edgecombe get legal counsel's opinion regarding payment for the work provided since June 30, e.g., at an hourly wage or as 1/12 of a contract. Mr. Conway attested to the good work this person provides to the District.

Concern was also expressed as to why the District would hire an independent contractor versus an employee of District in order to have more control of over what the person does.   The District would also be saving the District money as there would not be any employer payroll costs. This person would do 65% of the work while the other person would do 35%.

District 97 Request for Childhood Coordinator
This item was removed.

Treasurer's Report
The Treasurer's Report for June will be submitted for approval at the regular August Board of Education meeting.

Monthly Financials
It was the consensus of the Finance Committee members to recommend that the Board of Education approve the Monthly Financials at the regular August Board of Education meeting, as presented.

Adjournment
The Finance Committee adjourned 9:51 a.m.