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Board of Education of the Rocky River City School District

The Board of Education of the Rocky River City School District, Cuyahoga County, Ohio, met in a Finance Committee session on September 16, 2010 at 6:00 p.m. in the Board Room at the Board of Education Offices.

CALL TO ORDER at 6:05 p.m. by Mr. Swartz, Chair

PRESENT: Mr. Swartz, Ms. Goepfert, Mrs. Rounds, Dr. Fancher
ABSENT: Mr. Milano

Mr. Markus discussed the following items with the committee and others present:

Financial Summary – August 2010

August was a light month revenue-wise since there were no property tax advances scheduled or received; however, we did receive the first fiscal-year installment of our "hold harmless" payment in the amount of $459,676 from the State that was put in place to reimburse Districts for the phase-out of the tangible personal property tax. As I mentioned to you at the Committee meeting last Wednesday, we have not yet received our second half real and public utility tangible property tax settlement from the County and they cannot give us any information now as to why our collections year-over-year are down significantly, but I expect to see something from the County before the end of September. As this is the single biggest issue that could affect our fiscal situation right now, I will keep you posted. Regarding the Other Operating Revenue line, this came in well below estimates for the month, but at this point looks like just a matter of timing of some investment income and other fees. I went with a very modest estimate for this line for the entire fiscal year, so I still believe we will finish fairly close to estimates.

In looking at expenditures, we were very slightly above estimates in the salary and wages line, but we were moderately below in the employee benefits line. The employee benefits positive variance was a function of the slightly lower overall funding rates we are currently paying through the Suburban Health Consortium (SHC) versus our prior plan through Medical Mutual directly as well as a function of timing since we paid against the actual SHC billing this year versus an estimate based on the August 2009 amount paid. Purchased service expenditures were moderately below estimates based on timing while supplies and materials were above estimates for the same reason. Capital outlay and Other Objects areas were very close to estimates.

We just received our new health insurance rates from the SHC effective 10/1/10. The net increase to us for our medical/drug plan was 11.69% (this includes the constant "buy-in" cost of $53.66 per employee). Since we start our new funding rates on 10/1/10, we will incur 9 months of this new rate this fiscal year. We are also expecting to be realistically around $500,000 based on what we were told back in May for our final contingent premium based on our prior 85%/125% arrangement with Medical Mutual. We had budgeted for an increase in medical rates of 5% of the total cash outlay for this area last year plus $580,000 for the contingent premium, so if employee enrollment remains relatively stable and the our contingent premium comes in slightly lower, we should still be very close to our estimates for the year in this area. We were helped in this area by the

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SHC deciding to subsidize the "true" rate increase by 4.1%, or a half-month's premium, out of the reserves that are currently being held.

We also received our new dental insurance rates through the SHC that came in just over 2% below estimates. However, we had received a competing fully-insured dental insurance quote from United Health Care back in late July that was even lower in total than the SHC renewal rates. We could see a total savings of approximately $24,000 over two years ($18,000 board cost share) since this is a two-year rate guarantee. This plan is the same plan design that we currently have with an elevated benefit level for employees in terms of maximum costs paid by the plan. We are currently working with our bargaining units to determine if they are agreeable to switching providers effective October 1.

Please reference the SM-2 Comparison Report for how our FY 11 revenue and expenditure data compare to FY 09 amounts. Total fiscal YTD revenues (excluding other financing sources) came in *below* the fiscal 2010 amount by 8.71% while fiscal YTD expenditures (excluding other financing sources) came in 3.02% *below* the fiscal 2010 amount.

The reason our revenues are down year over year is due to the decrease in property tax advances received this July vs. last July. As I mentioned previously, at this point I am not certain as to why this is down so significantly, but I should be able to get a read on this as the County closes out the second half collection and processes our settlement which is expected to occur in mid-late September. We can then determine if there was an increase in delinquents or some other issue. The County has informed me that they cannot give me any solid reasoning why we are down so much until the settlement process is completed.

The main reason our overall expenditures were down in total was due to the fact that we did not need to pay our Lakewood career tech billing in July this year since we paid this back in January (as reflected in the contracted services line #3.030). We did see an increase in the salaries and benefits lines which were expected due to salary schedule increases. Also, the supplies/materials area is now running more than what was spent last year mainly due to timing.

Our ending cash balance ended moderately below last year's level ($6,728,123 vs. $6,986,614) mainly due to the decrease in real property tax advances this July tempered by our under-spending in our contracted services line explained previously. Encumbrances ended moderately below last year's amount mainly due to timing at this point in the year.

Board of Revisions/Board of Tax Appeals Update

The BOR/BTA reports of outstanding cases as prepared by Dan McIntyre as of August 31, 2010 were reviewed by those in attendance.

Five-Year Forecast

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Mr. Markus noted that he, Dr. Shoaf, Mr. Blank and Miss Anderson are continuing to work on a revised five-year forecast based upon the use of the federal subsidies for four full years that had been discussed at length as part of the bond plan of finance. Also, we will be taking into account full-day kindergarten estimates, anticipated reductions in state funding and other data that we are evaluating. A review draft should be available in late September/early October for the Board's review prior to anticipated approval at the October 21 regular meeting.

Bond Issue Update

RBC just held the local investor seminar last Wednesday after our Committee meeting and it was very well attended. We also just received confirmation from Moody's that our bond rating has been confirmed as Aa2 as I reported to you last Wednesday. The next important event in our timeline will be the pricing date for the bonds on Tuesday, Sept. 14. Assuming that the pricing goes as expected in the market, all orders should be placed and accepted for purchase by Friday, Sept. 17. Any unsold bonds are required to be purchased by the three firms in our syndicate based on the agreed-upon percentages. We will then prepare the final offering statement and close out the bond sales with bond proceeds transferred to the District's bank/investment account(s) on September 28.

Agenda Items

In addition to routine financial items, you will see a resolution approving a proposal for Productive Portfolios, Inc. of Rocky River to manage and advise upon investments for our $42.9 million bond proceeds. Mr. Swartz and I are meeting with their managing director this coming Monday to review their services and proposal in more detail.

Adjournment: 6:45 p.m. by Mr. Swartz, Chair

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President

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Treasurer