

**SANTEE SCHOOL DISTRICT
SPECIAL MEETING
OF THE BOARD OF EDUCATION**

MINUTES
June 10, 2009

Douglas E. Giles
Educational Resource Center
9619 Cuyamaca Street
Santee, California

A. OPENING PROCEDURES

1. Call to Order and Welcome
President El-Hajj called the meeting to order at 6:00 p.m.
Members present:
Dianne El-Hajj, President
Dustin Burns, Vice President
Barbara Ryan, Clerk
Allen Carlisle, Member
Dan Bartholomew, Member
Staff present:
Dr. Lisbeth Johnson, Superintendent and Secretary to the Board
Karl Christensen, Assistant Superintendent, Business Services
Emily Andrade, Assistant superintendent, Educational Services
Minnie Malin, Director, Human Services
Linda Vail, Executive Assistant and Recording Secretary
2. President El-Hajj read the District Mission Statement.

B. APPROVAL OF AGENDA

Motion: *Ryan* *Second:* *Carlisle* *Vote:* *5-0*

C. PUBLIC COMMUNICATION

Citizens were invited to address the Board of Education about any item on this special meeting agenda.

JoAnn Schultz, Santee Administrators' Association president, reported that the District's administrators met this week and voted to take a voluntary 2% decrease in salary and 2 furlough days to help the District's budget shortfall. President El-Hajj said the Board appreciates the action of the administrators and it shows the Board they are part of the team, which is more important than the dollars.

D. BUDGET WORKSHOP

1. **Capital Improvement Program**
 - a. **CIP Project Expenses and Cash Flow**

Karl Christensen shared with the Board the goal is to separate facilities funding and the general fund. Both are in distress and it can compound the problem if you try to mix them. Mr. Christensen provided a summary of the CIP cash flow, presenting two cash flow charts, one proceeding with Phase II construction and one without Phase II. Dr. Johnson said the cash is depleted because we paid our bills for April and May. The charts do not take into account the \$2M received today. To move forward with the scaled back version of Phase II, as approved by the Board on May 22, the District would need \$19.1M. If Phase II construction was postponed until funds were in the bank it is estimated that we would owe approximately \$2M to vendors for materials and labor to stop Phase II construction. This would include the split irrigation system installation. Administration is working to achieve projects estimated at \$8M to work within the funds we could possibly receive with a BAN without a letter of credit.

Based on Dr. Johnson's last meeting with Padre Dam she believes their assessment may be less. Doug Wilson is working with the District allowing us to demonstrate water savings through construction.

- b. **Bond Anticipation Notes (BAN) Status Report from the Dolinka Group**
 - b.1. **Adoption of Resolution #0809-54 Granting Authority to Administration to Implement a Two Part BAN Financing Plan**

Benjamin Dolinka, from the Dolinka Group, provided information about restructuring the BAN into a two phase issuance. US Bank said all credit applications waiting for approval in California are on hold. He believes there are two events they are waiting for before releasing the applications. If Prop 98 is suspended it could be detrimental to credit approvals. During this time, the finance team has been

developing alternatives in case the credit is not provided. One consideration is to break the BAN into two phases. Another option is a BAN sold without a rating agency, because at this time we don't know what kind of a rating may be received. The constraints are getting less dollars at a higher interest rate. If the Board wished to move forward, a resolution will come to the Board on June 16.

Administration would like to go as high as possible, maybe up to \$10M. The bank is suggesting \$7M. Mr. Dolinka said, as the District's consultant, he will try to go as high as possible and will stretch for \$8M. This transaction could move more swiftly and documents could come to the Board on June 16. If approved, the documents would be sent out for final pricing by June 26th and close the week of July 6th. This is a very aggressive schedule for this kind of transaction. This structure cannot be sold for 5 years and these notes would come due in 12 months or less. During the 12 month period the school district has other options, the notes can continue to roll each year until such a time that a GO bond could be issued to buy them back.

Mr. Dolinka said there will be no general fund interest payments on these transactions. The rollover cost would be built into the next rollover and always be paid from cost of issuance accounts to advance the premiums.

Members of the finance team will be visiting US Bank explaining to them the difference between a BAN, a LRB, and COPs. The finance team can continue to pursue a BAN to see if the market becomes favorable and if the market is questionable, continue to roll the short term BAN. A third option is to try to use the funds the District is receiving from the State. President El-Hajj asked if we received the \$8.5M, would there be options to use those dollars other than covering expenses already paid? The Board may need to decide if they want to allow a covenant to use Sate funds to repay the BAN, and if not, it may make the interest higher.

Cheryl Bowen was invited to address the Board. (Request to speak card) Mrs. Bowen reminded the Board of the commitment Prospect Avenue has made to the community and to the School District and believes that they have not had some of the benefits and improvements that other schools have had. She hopes that support will continue to be put into place to take Prospect Avenue to the next level.

Mr. Dolinka said they are doing everything possible to make the loan as attractive as possible. There is a large difference in interest rate between a 5 year and 1 year note, from .9% with credit enhancement to 3.75% without a credit enhancement. Member Carlisle asked if there are costs to roll the loan over for an additional year. Mr. Dolinka said the cost associated with rolling a loan into another year would be less than \$100,000. The fees for this loan at \$8M is \$200,000 and underwriting costs of \$120,000. When the GO bonds are issued they will be sized with premiums to pay those costs so there is no capital outlay from the District's budget.

Member Carlisle confirmed that if Mr. Dolinka is successful in talking to the bank, there would be an opportunity that the entire sum may be realized. Mr. Dolinka said if they go down that path, it would be after the summer work time. The BAN with credit is not possible this summer. Member Carlisle asked if the BAN without a credit rating is a for-sure thing. Mr. Dolinka said they can sell it, but are uncertain of the interest rate.

Member Ryan clarified that if Prop 98 is suspended or if there is no budget, it is bad. If Prop 98 is not suspended and a budget is realized, she asked how that would impact the BAN. Mr. Dolinka said if Prop 98 is not suspended and a budget is realized, US Bank will put California school districts into a tier two agency, believing your money is guaranteed. Member Ryan asked how quickly we could get money if all went well. Mr. Dolinka said because all the paperwork is in and does not need to be modified, it would be on an accelerated pattern. The best case scenario would be to receive the money by the end of July or the first of August.

Member Ryan asked where we are on State applications for funding. Christina Becker said the first project that would be funded is the Cajon Park addition for \$4.1M scheduled for action by the State Allocation Board (SAB) on July 22nd and if funded will need to wait for the next Bond sale. The Rio Seco modernization \$4M grant application is scheduled for the SAB for August. The District received the visitation for the hardship funding from the Office of Public School Construction and received conceptual

approval. This funding is scheduled to go to the SAB July meeting. When approved, we will be first in line for the hardship dollars.

Member Bartholomew asked what resources were available to pay what we owe if loans are not available. Mr. Christensen said we received some joint use funds but he is hesitant because of the discussion about the general fund. There is a huge deficit in May and June of 2010 and the District will need interfund borrowing to make it through.

President El-Hajj asked the Board Members their thoughts about issuing the BAN in two phases. Member Carlisle said there is a need for the BAN to get through Phase I commitments and the Board should discuss proceeding with Phase II. Member Ryan said Phase II depends on what happens with the State, so that decision may not need to be made at this time, only the decision about moving forward with the short term BAN.

Member Bartholomew asked how far we are into Phase II construction. Dr. Johnson said every day materials are being purchased and plans are progressing. The Board approved alternatives to Phase II is scheduled to begin on June 19th and costs are being incurred every day. Member Bartholomew believes that since we are running in a deficit we should stop Phase II construction.

President El-Hajj said, given what we are facing, she believes she would like to get free money from the State and to wait until June 16 to make a decision is a disservice to the schools.

Member Carlisle asked what the plan is if the short term BAN is not received to pay the hard costs for construction that are due.

Mr. Dolinka said the District can get the money; it is just at what interest rate. If the underwriter chooses not to purchase the notes, they would seek an alternate underwriter. He believes Piper Jaffrey will purchase the notes. There are individual investors seeking to purchase bonds, but the interest rate is higher.

Member Carlisle asked if we can we keep the materials and equipment that have been purchased if Phase II is stopped. Christina Becker said she could store the switchgear, which is almost \$1M of material on order for Prospect. It becomes very costly to store large amounts of material. President El-Hajj asked about the expiration of the permits. Christina Becker said DSA has permitted sites for 18 months with a 6 month extension available.

Member Burns asked for Administration's recommendation. Dr. Johnson said Dr. Shaw, Mr. Christensen, and she all feel if the money is not there it could cause great problems. She said Administration recommend moving forward on the short term BAN and to stop progress on Phase II until funding becomes available.

Member Ryan asked if the Board votes to issue the BAN in two phases and stop Phase II construction, and the State budget gets resolved, what the start up process would be and what it would take to begin construction. Christina Becker said if this happened she would do her best to get whatever could be done completed during the summer. She would set up a game plan but would need a three week window to get some items completed.

Anton Greenville, Barnhart Inc, vice president, said this is an unfortunate turn of events. They will make things move forward as funds become available. It is better to make a decision now rather than waiting any longer. Barnhart will figure out how to get through this. The parent company is also looking at ways to see if they can assist in the financing. However there may not be time to make that happen this summer. He asked if there were any options to move forward with just the infrastructures. Barnhart is a team member and will be there to help the District through this.

Member Burns would like to see the infrastructure completed at the three schools if at all possible. Member Ryan believes the District should stop buying materials but not totally discontinue construction while continuing to explore options.

President El-Hajj asked Mrs. Becker how long would be needed to install infrastructure at the schools and if it could be done if the summer window was missed. Mrs. Becker said it takes about 30 days making the winter break difficult. She would do her best make it happen.

Member Burns moved to issue the short term BAN. Member Bartholomew seconded.

Motion: Burns Second: Bartholomew Vote: 5-0

Member Carlisle moved to direct Administration to immediately stop purchases and the work for Phase II schools that was originally approved on May 22 and return with a plan to provide infrastructure for 1 to 3 schools.

Motion: Carlisle Second: Bartholomew Vote: 4-1 (Ryan, no)

Member Burns moved to direct Administration to continue to pursue alternative funding solutions to proceed with the Phase II infrastructure during the summer if at all possible at 1, 2, or all 3 schools, and report back with a financial plan at a future board meeting.

Motion: Burns Second: Ryan Vote: 5-0

It was the consensus of the Board to direct Administration to consider available options for the CFH ball field to show good faith and progress to the City of Santee to prevent losing the \$260,000 in grant funds.

2. District Operational Budget

a. Budget Update and Board Reductions on June 2, 2009

Mr. Christensen presented the state of the economy from the school services workshop. It is said to be the worst since the great depression. California is suffering more than the nation as a whole. This is the first decline in personal income since 1938. Prop 98 determines how much funding education should receive as a minimum funding level. When property taxes go down it adds an additional burden to the State to fund education. In February, the State enacted a 17-month budget. California's cash flow remains in the negative. He shared a chart of the effects of the cuts to education from the May Revise. These cuts almost wiped out a decade of growth in education funding. The reductions mean almost an \$1,100 per student hit on revenue funding.

b. Operational Cash Flow

Mr. Christensen shared charts on the operation cash flow. There is good news on the TRAN and the outcome should be known by early next week. He shared the income from revenue sources and the months that would have a negative cash flow without the TRAN. Member Ryan would like to see the cash flow including the budget reductions that have been approved. Mr. Christensen assured the Board he would look at every bit of flexibility available as he closes the books on this year's budget. Member Bartholomew asked if there is a rule of thumb in looking at cash flow for a comfortable ending balance each month. Mr. Christensen said \$.5M each month is the cushion he likes. Cash flow is monitored on a weekly basis to be able to anticipate any situations and to plan ahead. It is really important to maintain a reserve as a cushion to address issues as they arise.

Member Bartholomew asked what the per pupil revenue reduction impact will be. Mr. Christensen said the reductions is \$2.6M from the May revise and \$2.7M in additional reductions, totaling \$6M in revenue reductions.

c. TRANS

The TRANS was discussed and updates will be provided to the Board as they come in from the County.

d. August 15, 2009 Summer Layoff Timelines

Minnie Malin reported the shortfall of the State budget is disheartening. Administration is bracing for \$6.1M in reductions over the next 2 years. She provided information on some personnel options and the legal requirements of the summer August 15th lay off deadline if the Board wished to have the flexibility to lay off teachers.

Mrs. Malin presented a timeline showing a resolution would be needed in June and notices must be issued by June 30th. Employees must file a request for hearings with the hearings held in July. Final action would be taken by August 13th with the final lay off notices issued on August 14th.

President El-Hajj restated the options which included: salary rollback and/or furlough days which must be negotiated. Mrs. Malin said the District has sunshined and is meeting with STA tomorrow to discuss options. President El-Hajj said in her district it took 8 months of negotiations. No action was taken.

E. CLOSED SESSION

President El-Hajj announced that the Board would meet in closed session to discuss:

1. **Public Employment Matters (Govt. Code § 54957)**
Public Employee Discipline/Dismissal/Release
2. **Conference with Labor Negotiator (Govt. Code § 54956.8)**
Agency Negotiator: Minnie Malin, Director, Human Resources
Employee Organizations: Santee Teachers Association
California School Employees Association
Purpose: Negotiations

The Board adjourned to closed session at 9:15 p.m.

F. RECONVENE TO PUBLIC SESSION

The Board reconvened to public session at 10:35 p.m. President El-Hajj reported decisions made by the Board in closed session:

1. The Board directed Administration to pursue additional revenue reductions to the 2009-10 school district budget through a combination of options that include:
 - Annuities for retirements for eligible personnel,
 - A 1:24 CRS class load in grades K-3,
 - Salary rollbacks, and
 - Furlough days.
2. The Board requested that Administration continue to investigate and confirm the lay-off timeline and process.

G. ADJOURNMENT

The June 10, 2009 special meeting was adjourned at 10:40 p.m.