

Mariemont City Schools

Financial Advisory Board

Summary of Work and Findings

About the Financial Advisory Board – Formation, Scope and Charge

The Board of Education (hereafter the “BOE”) and the Superintendent and Treasurer/CFO (hereafter, the “Administration”) of Mariemont City Schools have worked together with the community to develop and adopt a Facilities Master Plan (hereafter, the “FMP”). There are multiple options for financing and implementing the FMP and each of the options provides some unique challenges and opportunities for the school district. In order to ensure these challenges and opportunities are evaluated as part of an open and thorough process, the Administration organized a Financial Advisory Board (hereafter, the “FAB”). Membership of the FAB included community leaders from each of the four communities served by the district and the Administration felt each member contributed significant financial/business experience and expertise important to its charge.

The Administration has developed and will submit its recommendations to the BOE concerning the implementation and financing plans for the FMP on December 15, 2009. These recommendations will be supported by a five year financial forecast and analysis of the related ballot implications that will be placed before the voters in the spring of 2010. **The primary charge of the FAB, as communicated by the Administration, was to review, consider and report upon the recommendations formed by the Administration regarding implementation and financing of the FMP. This review, consideration and report are to be based on the information provided to the FAB by the Administration on the various options under consideration. It is the hope of the Administration that the FAB’s report will provide the BOE with insight into the reasonableness, thoroughness and stewardship of the approach, assumptions about future market conditions and risk assessments employed by the Administration in forming its recommendations.**

Process and Approach of the FAB

The FAB met three times over the course of one month to perform its charge. Each meeting covered approximately 2 hours and was facilitated by the Administration. Materials discussed at each meeting were submitted several days in advance and provided reasonable opportunity for FAB members to adequately prepare. In addition, relevant consultants utilized by the Administration in forming their recommendations were present and available to the FAB at

each meeting in order to present their respective expert analyses, answer questions and/or provide additional information as requested by the FAB.

The first two meetings of the FAB were primarily focused on providing the FAB with an understanding of background and other relevant facts and circumstances the Administration (and its external consultants) felt were key to orient and equip the FAB to complete its role. The third meeting was dedicated to a thorough evaluation and discussion of the material provided to-date, follow-up questions of the Administration and the consultants and the development of a summary of FAB findings that all members could comfortably support. Greater details are provided below:

- **The inaugural Meeting was dedicated to providing the FAB with an understanding of the details of the FMP, its background, cost and fiscal implications.** During the first half of the meeting, the Administration provided a thorough review of district finances including historical financial results and projected five year forecasts. The Administration supplemented this review with an orientation of school funding mechanics (factual) and the political and fiscal realities of both the State and the school district (factual and predictive). The second half of the meeting was then dedicated to a review of the FMP itself. The FAB was provided with the full FMP, including details on the process followed in its development as documented in a report entitled, “Facilities Assessment Report”. This report included the findings of an independent facilities assessment review conducted by the Ohio Schools Facilities Commission (OSFC) and a supplemental review provided by the Administration’s own consultants (Turner Construction and SFA Architects). Representatives of both Turner and SFA reviewed the materials with the FAB and were fully available for questions and requests for follow-up or supplemental data.
- **The second meeting of the FAB was dedicated to reviewing certain financing options for the FMP and the potential market conditions and political uncertainties that will dictate the opportunities and risk inherent in each option considered.** This review was led by representatives from Fifth Third Securities who are the underwriting consultants of choice of the BOE. Options reviewed included Qualified School Construction Bonds (QSCB), Build America Bonds (BABs) and traditional tax-exempt financing as a municipality.
- **The third and final meeting of the FAB was dedicated to a detailed review and discussion of all data presented to date and evaluation of any supplemental data requested by the FAB at (or between) previous meetings that had not yet been thoroughly vetted.** At this time, the FAB discussed what conclusions and insight it could

include in its final report that were supported by the information provided and the experiences and expertise the members shared.

Conclusions on the Process and Approach - The FAB wishes to acknowledge and commend the transparency, timeliness and the full support provided to the FAB by the Administration throughout this process. All data requested were promptly provided, access to consultants and supporting data was thorough and timely. In addition, the Administration placed no restrictions on the questions or discussions prompted by the FAB throughout its work.

The Key Points of Focus of the FAB

At the Administration's request, the FAB concentrated its efforts on three key considerations inherent in its charge:

1. Evaluating and commenting on the Administration's recommendation that implementing the FMP was more fiscally and programmatically responsible than attempting to continue to address the school district's facilities needs as items break or fall into disrepair (hereafter referred to as the "pay-as-you-go" facilities approach).
2. Evaluating and commenting on the Administration's recommendation that economic and market conditions favored an immediate pursuit of implementing and financing the entire FMP rather than delaying its pursuit for improved conditions or phasing its execution over time.
3. Evaluating and commenting on the appropriateness of financing options considered to support the FMP from both a cost and risk perspective.

Key Consideration #1 - Evaluate and comment on the Administration's recommendation that implementing the FMP was more fiscally and programmatically responsible than attempting to address the school district's facilities needs on a "pay-as-you-go" approach to repairs and maintenance.

It is impossible for the Administration or the FAB to predict the exact timing, sequencing and cost of the future repair and replacement needs of its existing facilities with certainty. As such, any absolute conclusions reached by the FAB on this recommendation would at best be an opinion. However, **the FAB is comfortable reporting to the BOE and the community that the Administration took a rational, reasonable and responsible approach to the development of**

this recommendation. First, the Administration utilized an independent process for assessing facility needs via the OSFC. This independent report recommended and prioritized a total of about \$39.5 million of facilities renovations and improvements. The Administration hired its own external consultants from Turner and SFA to validate the study and see if any of the recommendations in the OSFC report could be delayed, mitigated or eliminated without compromising the integrity of the overall OSFC recommendations or conclusions about facility needs. This supplemental report provided a cost estimate of facilities renovations and improvements of \$42.9 million, and validated the need to move forward with a systematic and prioritized facility plan rather than relying on “pay-as-you-go” and its unpredictable financial and academic program risks. Based upon OSFC and Turner/SFA analyses and the extensive input from students, teachers and the community, the FMP was drafted and adopted by the BOE and the Administration. The FMP has an estimated cost of \$39.8 million based upon an October 2009 cost estimate prepared by Turner and SFA.

Again, while it is neither the expertise nor scope of the FAB to conclude that the work or conclusions of either expert consultant (OSFC or Turner/SFA) was “accurate”, we are comfortable with the rationale, reasonableness and stewardship of the Administration’s evaluation process.

Key Consideration #2 - Evaluate and comment on the Administration’s recommendation that economic and market conditions favored an immediate pursuit of implementing and financing the entire FMP rather than delaying its pursuit for improved conditions or phasing its execution over time.

Again, while it is impossible for the Administration or the FAB to know how future economic or market conditions will compare to those of the current times, we are able to provide the BOE with insights as to why the current conditions are favorable from an historical perspective. There are 3 key considerations: (1) tax-exempt financing terms available to comparably strong municipal credits similar to Mariemont School District are at 40 year lows; (2) “stimulus legislation” has, for a limited time, created new financing options that are designed to encourage investment in school infrastructure and currently offer a potential cost savings when compared to traditional financing alternatives; (3) the construction services industry is experiencing historically low levels of demand. As verified by an expert from Turner, this low demand has created significant competitive pressure that should be favorable to construction pricing and terms. **Based on these conditions, the FAB believes it is reasonable for the**

Administration to recommend moving forward with the FMP as feasible rather than delaying or phasing the project.

Key Consideration #3 - Evaluate and comment on the appropriateness of financing options considered to support the FMP from both a cost and risk perspective.

In conjunction with external experts from Fifth Third Bank's Public Financing Division, the Administration explored financing options for the FMP that included QSCBs, BABs and traditional fixed-rate tax-exempt financing. **The FAB was able to uniformly conclude that all of these options were suitable under specific market conditions and should be fully explored if available to the underwriter at the time the financing plan goes to market.** The FAB notes that market conditions at the time of pricing will determine which of these options, or what combination of these options, is most appropriate. Therefore, the FAB recommends that the Administration and the BOE perform detailed reviews with the underwriters to identify the conditions most suitable (and unsuitable) for each so that a game plan can be developed and approved in advance of the pricing date that is well understood by all parties.

Other Considerations on Financing Options – *The FAB recognizes that specific market conditions at the time of pricing will ultimately determine the best mix of financing options. The FAB further recognizes that under CURRENT market conditions, all three options include desirable cost and risk mitigation features that need to be fully explored and understood by the Administration and the BOE.*

Given our careful consideration of these options, the FAB is prepared to report that should present conditions hold to the date of pricing, the FAB is comfortable recommending that priority be given to fully exploring QSCB financing to the extent of its availability. Should QCSB financing not be sufficiently available to meet all of the plan needs, then we would recommend that BABs be considered as a second priority should market conditions at the time of pricing yield at least a 100 basis point favorable "spread" (rate differential) when compared to traditional tax-exempt financing. This recommendation of seeking a 100 basis points favorable spread in "all-in rates" is a reflection of the fact that BABs carry a potential uncertainties related to future legislative changes. As such, the recommended spread should be viewed as a suggested compensation for acceptance of this inherent legislative risk, but it is not meant to be a hard and fast hurdle that substitutes for the Administration's or BOE's reasonable judgment at the time of pricing. In addition, because of the potential vulnerability to future legislation changes inherent with BABs, we further recommend that any use of BABs include no penalties or restriction for early refinancing or payoff.

This concludes the summary report of the FAB and the discharge of its duties as presented by the Administration and as accepted by its volunteer participants. We have endeavored to present clear findings and evaluations and to have provided important support to the BOE as it determines the course of events affecting the school district and the residents and students it serves. It has been our privilege to be of service to this cause.

On behalf of the FAB,

**Kim Baird, Co-Chair
Asst. Vice President
American Financial Corp.**

**Scott Hamlin, Co-Chair
Senior VP & Chief Financial Officer
Cincinnati Children's Hospt. Medical Center**

**Jenny Kaminer
Administrator
Village of Fairfax**

**Scott Weston
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Ft. Washington Investment Advisors**

**K-T Overbey
Associate Marketing Director
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**Sherry Rutherford
Vice President
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**Walter Raines
Clerk/Treasurer
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