

**Bethlehem Area School District & Public Financial Management, Inc.**

**A Brief Summary**

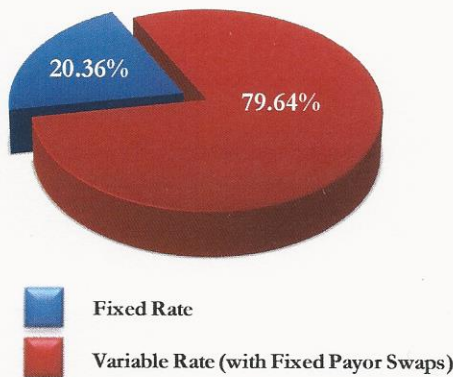
**Background**

- Public Financial Management, Inc. was hired by the Bethlehem Area School District through a competitive process in October 2008 to address the District's mounting debt and swap portfolio.
- At the time of PFM's engagement, the District had nearly \$280 million in outstanding debt, including over \$220 million in outstanding variable rate debt and over \$420 million in outstanding swap agreements consisting of 4 Fixed Payer Swaps, 3 Constant Maturity Swaps and 1 Swaption.

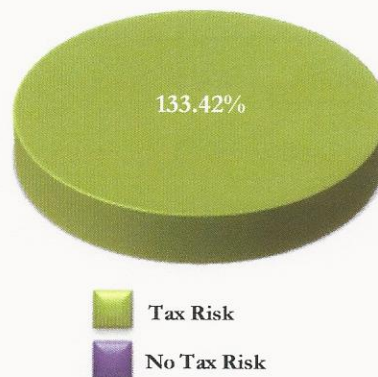
Type of Swap	Related Bonds	Notional Amount	District Pays	District Receives
Fixed Payer Swap	2003 WCTMA Bonds	\$74,175,000	3.800%	68% of 1 Month LIBOR
Fixed Payer Swap	2005 Bethlehem ASD Bonds	\$55,000,000	3.900%	60% of 1 Month LIBOR + 0.345%
Constant Maturity Swap	2005 Bethlehem ASD Bonds	\$55,000,000	SIFMA	66.9% of 10 Year LIBOR
Fixed Payer Swap	2007 Bethlehem ASD Bonds	\$55,000,000	4.145%	60% of 1 Month LIBOR + 0.346%
Constant Maturity Swap	2007 Bethlehem ASD Bonds	\$55,000,000	SIFMA	67.7% of 10 Year LIBOR
Fixed Receiver Swaption	2007A Bethlehem ASD Bonds	\$71,215,000	SIFMA	3.280%
Fixed Payer Swap	2007 Shippensburg Boro Bonds	\$40,000,000	3.774%	68% of 1 Month LIBOR
Constant Maturity Swap	2007 Shippensburg Boro Bonds	\$40,000,000	SIFMA	69.1% of 10 Year LIBOR

- The District was running a substantial operating deficit with no reserves.

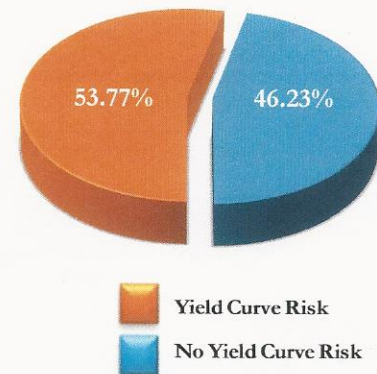
***Interest Rate Risk***



***Tax Risk***



***Yield Curve Risk***



**Steps Taken**

- May 2009 Refunded 2003 VRDBs (\$72,165,000) and terminated fixed payer swap with fixed rate bonds.
- May 2009 Refunded 2007 SBA VRDBs (\$39,995,000) and transferred fixed payer swap with short term bank loan.
- October 2009 Terminated 3 CMS swaps (\$149,970,000) for net payment **TO** the District of **\$3,038,065**.

- January 2010 Refunded approximately half of the 2005 VRBDs (\$25,345,000) and terminated the related portion of the fixed payer swap with fixed rate bonds and refunded the other half and transferred the related portion of the fixed payer swap to a Floating Rate Note with RBC Capital Markets (Series of 2010 FRN).
- May 2011 Refunded short term bank loan from May 2009 and transferred fixed payer swap with a Floating Rate Note with Wells Fargo Bank (Series of 2011 FRN).
- October 2011 Terminated the District's Swaption (which had NOT been effectuated) at a cost of \$77,000. The District had received an upfront premium of \$2,425,000 in 2003.
- November 2011 Refunded approximately half of the 2007 VRDBs (\$25,150,000) and terminated the related portion of the fixed payer swap with fixed rate bonds and refunded the other half and transferred the related portion of the fixed payer swap to a Floating Rate Note with Wells Fargo Bank (Series A of 2011 FRN).
- December 2011 Remarketed the District's existing 2010 Floating Rate Note with RBC Capital Markets, reducing the applicable spread from SIFMA plus 150 bps to SIFMA plus 88 bps.
- January 2012 Plain vanilla current refunding of the District's fixed rate Series A of 2001 Bonds for net local effort savings of \$402,657.

**Upcoming Steps**

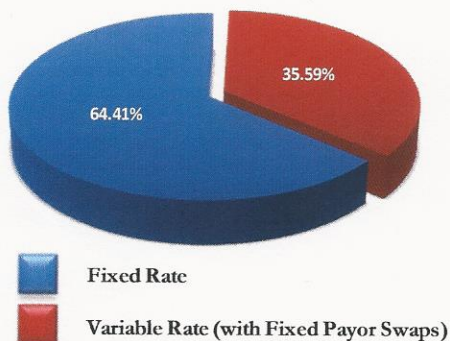
- May 1, 2014 Mandatory Tender Date of Series of 2011 FRN with Wells Fargo Bank
- November 1, 2014 Mandatory Tender Date of Series A of 2011 FRN with Wells Fargo Bank
- December 29, 2014 Mandatory Tender Date of Series of 2010 FRN with RBC Capital Markets

*Note: All FRNs have optional redemption dates prior to their Mandatory Tender Dates and the Finance Team including PFM and Rboads & Sinon will continue to monitor market conditions to take advantage of any refunding opportunities related to the FRNs.*

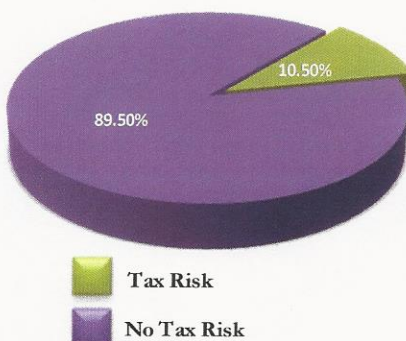
**Current Debt & Swap Portfolio Risks**

- The District has significantly reduced its interest rate risk and tax risk, and eliminated its yield curve risk
  - \$178,995,000 Fixed Rate Debt
  - \$100,430,000 Variable Rate Debt
  - 3 outstanding swaps (\$99,430,000 notional)
- Further mitigation of debt and swap portfolio risks is planned as market conditions warrant and Mandatory Tender Dates come due.

***Interest Rate Risk***



***Tax Risk***



***Yield Curve Risk***

