
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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School Property Tax Control Board Meeting Minutes August 17, 2006

The monthly meeting of the School Property Tax Control Board meeting was held on Thursday, August 17, 2006. The meeting was held in the Indiana Government Center South, Conference Center Room 2, 302 West Washington Street, Indianapolis, IN 46204. Those members in attendance were Joe Bronnert, Morris Mills, Chuck Nemeth, Dave Bowen, Debbie Hinline, Kurt Barrow, Richard Besinger and Teresa Hemmerle, Administrative Officer.

Minutes and Discussion: July 20, 2006 meeting minutes.

Melissa Henson, Commissioner of the Department of Local Government Finance, spoke to board members. She thanked them for their continued willingness to serve on the board. She reported the resignation of Ken Barnes from the School Property Tax Control Board. The outstanding items are MSD of Decatur Township and Bremen Schools, which both appeared at the July SPTCB meeting. Ms. Henson said she is looking for ways to improve the review capital projects and is preparing initiatives for the next session. She provided written information regarding the Circuit Breaker, Statewide System and Annual Adjustments to the board members for future reference and discussed them briefly.

Mr. Mills said he questions the structure of local government and asked the DLGF to think about the structure of the County Assessor, Auditor and Treasurer. Mr. Mills will contact Ms. Henson to discuss this issue further.

Mr. Bronnert asked if the levy appeal process could be streamlined by limiting the number of appeals that appear before the control board. Ms. Henson said a meeting of DLGF staff was scheduled to discuss these appeals. Mr. Mills suggested expanding Mr. Bronnert's request to also include smaller bond issues.

Ms. Henson said she is drafting procedures and a hearing information sheet for design-build projects that was recently enacted in statute. They should be available soon.

Tipton Community School Corporation, Tipton County: Officials requested approval of a lease rental agreement with maximum annual payments of \$200,000 for 16 years. Total project costs are \$1,900,000. The tax rate impact is \$0.0112 with no new facility appeal planned. The AFL-CIO representative opposed the common construction wage scale and the Governor's representative abstained. The issue fell below the threshold for a petition and remonstrance process.

Present for the hearing was Bob Schultz, Superintendent; Brian Pickering, Siemens; Dave Wimmer, Hilliard Lyons and Jeff Qualkinbush, Barnes and Thornburg.

Project: The project consists of the installation of (a) several internal conservation measures at the existing Tipton Middle School and Tipton High School, including, but not limited to, lighting fixture upgrades at the High School, electrical system upgrades at the High School, emergency generator replacement/relocation at the High School and the Middle School and certain HVAC upgrades at the Middle School and (b) new exterior lighting fixtures at all three school buildings.

Comments: The Superintendent spoke about the proposed project. The project does not involve new construction or additional square footage. The district has all facilities under one roof K through 12th grade. Due to this configuration, improvements at one facility can impact another. Discussions of this project began two or three years ago due to the age of the chiller at the middle and elementary schools. An energy savings project was just being completed at that time. Officials were aware that the debt from the high school would be coming off in 2007. Public meetings were held to gather community input on the project and other projects came up in the discussions. This project will also replace light poles in the parking lot as well as installing lighting in areas it currently does not exist. The swimming pool needs updates to the mechanical system and officials expect to realize energy savings even in that area. Officials determined it would be best to do all these projects at one time through debt service rather than the Capital Projects fund. The emergency generator at the high school will also be replaced. The public supports this project. The tax rate impact of the project is nullified as current debt rolls off. Officials request a lease rental and the bonds to be issued will not exceed \$1.9 million. Officials preferred a short term lease to reduce interest costs, but with a term they could afford. The taxpayers will still experience a decrease in the total Debt Service rate even with this project.

Mr. Bowen noted the improvement in ISTEP scores in the school district. Mr. Bowen asked if the lease payments were \$200,000 for 16 years and the Superintendent said yes. Mr. Bowen said the statute is set up so you can pay for the construction through the savings and he estimated the construction costs at roughly \$1.4 million. He felt they could pay the contractor the \$200,000 over seven years at much less cost. He asked why paying for over sixteen years when it could be paid off in seven years. The Superintendent said they looked at repayment plans from five years to twenty years and they felt sixteen years was the best plan for them. Mr. Qualkinbush questioned the construction cost figure of \$1.4 million that Mr. Bowen was using. Mr. Qualkinbush pointed out the construction cost of \$1,711,000 is listed on page 10 of the hearing information sheet. Mr. Bowen said the term could still be nine years based on that amount. Mr. Qualkinbush said that would not include the interest expense, only principal. There is an interest component of nearly 4.5% to 5% that is not being considered. Mr. Qualkinbush said they had to analyze this in two ways, the first being the payments made by the school on an annual basis. The second was analyzing the savings versus what it would cost to finance the project over ten years as permitted by the statute. Mr. Qualkinbush said there has to be a savings after you net out the financing costs. They estimate the savings for this project to be \$439,000 per year. If this was amortized over ten years the payments would be closer to \$300,000. This allows the school corporation to finance over a slightly longer period of time and reduce the tax rate impact. He explained the Capital Projects fund would be very limited in covering routine maintenance if

this were paid within the fund. Officials studied from ten to twenty year repayment schedules and felt sixteen years was the most reasonable for them while reducing the interest expense. Mr. Qualkinbush said if the interest rate is lower than projected then the term of the lease will be reduced.

Mr. Besinger asked if officials felt a construction manager was necessary for a project of this size. Mr. Bowen said Siemens would serve as the architect and construction manager. The Superintendent said they do not use construction managers for projects of this size.

Mr. Bowen asked if an independent engineer reviewed this project. The Superintendent said they did receive and evaluate other proposals.

Mr. Mills noted he had a problem with the term of the bond issue and favors six to ten years since this involves mechanical equipment. Mr. Qualkinbush replied that he felt the equipment does have a longer useful life as the items being replaced are thirty years old. Federal guidelines only allow them to finance this up to 120% of the useful life and they are well below that number.

Mr. Nemeth questioned not financing through a general obligation bond issue or through an installment purchase, which could have reduced financing costs. Mr. Qualkinbush said the installment payment would be required to be paid out of the Capital Projects fund and would be \$300,000 versus the proposed \$200,000 lease payment. The Capital Projects fund would be limited in funding the other routine maintenance items that need to be completed and utility and insurance costs that can be paid from this fund. This is the reason the Debt Service fund was chosen and there will be no tax rate impact since other debt is coming off. Mr. Nemeth asked about an allowance to pay for equipment from the Debt Service fund. Mr. Qualkinbush said since around 1993, the DLGF had taken the position that installment contracts were not an obligation that could be paid out of the Debt Service fund. He continued that IC 36-1-12.5 states that financings under this statute are not subject to the petition and remonstrance process and other language saying that installment payment contracts are not a debt or other indebtedness of a governmental unit. The General Counsel and Commissioner at that time concluded that these installment contracts could not be paid directly out of the Debt Service fund and units would have to go through the lease or general obligation bond process. Mr. Nemeth asked if there has been follow up with the DLGF since that time. Mr. Qualkinbush said they began presenting projects to transfer installment payment contracts from the Capital Projects fund to the Debt Service fund. He said he was met with DLGF representatives and it was felt the policy established should continue. Mr. Nemeth asked if the savings in this contract are real or stipulated. Mr. Qualkinbush said they are stipulated savings as permitted by the statute.

Mr. Bronnert questioned why officials were not pursuing a general obligation bond for this project. Mr. Qualkinbush said the hearing information sheet was incorrect and the school actually has no bonding capacity available.

Mr. Barrow asked what the school board vote was at the August 16, 2006 lease hearing and Mr. Qualkinbush replied it was unanimous with two members absent who had voted in favor on a previous vote. Mr. Barrow asked what compensation the Building Corporation officers would

receive. Mr. Qualkinbush said the hearing information sheet had a typographical error and they would receive no compensation.

Motion: Mr. Bronnert made a motion to approve a lease rental agreement with maximum annual payments of \$200,000 for 16 years. There was no second and the motion died.

Mr. Qualkinbush asked if the concern of control board members was the proposed term of the lease. Mr. Mills felt there was too much financial maneuvering with little benefit. Mr. Qualkinbush noted future projects would be proposed and he did not want to hinder the financings of those projects. He was advised to provide the Commissioner of the DLGF information on those future projects.

Hanover Community School Corporation, Lake County: Officials requested approval of a general obligation bond issue in the amount of \$1,315,000. Total project costs are \$1,315,000. The term of the bond issue is three years. The tax rate impact is \$0.1290, which will be offset by debt being retired. The common construction wage did not apply to this project since no construction is involved. The issue fell below the threshold for a petition and remonstrance process.

Present for the hearing was Michael Livovich, Superintendent; Quinn Van Rys, Business Manager; Damian Maggos, City Securities and Jane Herndon and Jim Shanahan, Ice Miller.

Project: Hanover Community School Corporation would like to purchase approximately 54 acres of land for the purpose of building at least one new school. Future building needs on the site will ultimately be determined by the growth in the area. The property is located on the west side of U.S. 41 and borders on the south side of 125th Avenue, in unincorporated Hanover Township, Lake County, Indiana.

Comments: The Superintendent spoke about the proposed bond issue. He came to the school district five years ago. They are one of the small parts of Lake County with rural area still available. There is open land in the district available for development and they are seeing people coming in from Chicago. The test scores are high in the district and they have a great staff and parental support. The community and school board supports their building projects and this land purchase. A new facility was constructed in Cedar Lake four years ago. Growth is coming quickly in the district. Last year, the state estimated they would increase by 15 students and they grew by 126 students. More farmland in the area is being sold for development and they are being advised to prepare for it. Officials have been working on long range plans for the past four years. A master facility plan was developed and has continually been updated due to growth coming faster than anticipated. School officials tried to condemn land for growth, but were unsuccessful in that process. The attempts to find land available for purchase for future facilities became difficult as costs were driven higher by the interest of developers in the area. The land they propose to purchase comes at a very good price. There has been an increase of middle and upper-middle class in the area and the free and reduced lunch program in Cedar Lake is experiencing a decrease in participation. The growth in students has exceeded state projections in the district. The district does offer early childhood starting at age three that is a privatized

program. The land to be purchased will be paid off in three years and is located in the center of the township. They will purchase 54.5 acres of the parcel with an option on the remaining land. The amount of land being purchased is all they could afford to pay off in three years.

Mr. Bowen questioned the cost per pupil rising from \$7,400 to \$16,900. Ms. Van Rys said that number includes a previous building project they are now paying on. Mr. Bowen asked what the current cost per pupil is in the district and Ms. Van Rys did not have that information with her. Ms. Herndon said they could provide that with and without debt if it is needed by the DLGF. Mr. Mills noted that number includes capital expenditures and that is why it is so high. The Superintendent noted the school district has one of the lowest costs of the Lake County school districts. Mr. Bowen asked what the land is used for currently and the Superintendent replied it is vacant, but it could be farmed until it is used.

Mr. Bronnert questioned what the development costs for wetlands would be. The Superintendent said if they build an intermediate school there it could be used for an outdoor lab. Mr. Bronnert asked if the wetlands covered a large area and the Superintendent said it was about 4 acres. Mr. Bronnert asked what area the school district covers and the Superintendent replied one township.

Mr. Barrow asked if the town of Saint John was serviced by the school district and the Superintendent said yes and Lincoln Elementary School is located in Saint John.

The Superintendent said an individual offered to farm the land until it was needed at the 1028 hearing.

Mr. Mills asked where the land was located that they have the option to purchase and how much acreage. The Superintendent said it was to the north and west of the site and would be approximately 15 acres. Mr. Mills asked how long the option was for that purchase and the Superintendent replied 8 months.

Mr. Barrow asked if this site has access to Highway 41 and the Superintendent said it does and would require expansion for turn lanes.

Motion: Mr. Mills made a motion to approve a general obligation bond issue in the amount of \$1,315,000. Mr. Bowen seconded the motion, which favorably carried 7-0.

North Vermillion Community School Corporation, Vermillion County: Officials requested approval of a third amendment to a lease with an increase in the semiannual lease rental payments of \$197,736.06 payable beginning July 15, 2007 through January 15, 2014. Total project costs are \$2,419,226. The tax rate impact is \$0.1579 and no new facility appeal planned. The common construction wage did not apply to this project since no construction is being done. There was no application for a petition and remonstrance process.

Present for the hearing was Paul Roads, Superintendent; Lonnie Therber, Therber and Brock and Jim Shanahan and Thomas Peterson, Ice Miller.

Project: The project involves no new construction. The corporation is currently making payments on prior energy savings contracts from the Capital Projects fund and is now requesting future payments be made from the Debt Service fund.

Comments: The Superintendent spoke about the proposed lease amendment. Officials are requesting to move a Guaranteed Energy Savings contract from the Capital Projects fund to the Debt Service fund.

Mr. Bronnert asked why officials were requesting this transfer. The Superintendent replied the Capital Projects fund budget is tight and they lack the ability to maintain facility needs.

Mr. Bowen asked how many years into the contract the school was with the Guaranteed Energy Savings agreement. The Superintendent replied two. Mr. Shanahan noted this request does not extend the term of that contract, but just to move the payments to the Debt Service fund. He also said this debt was subject to a petition and remonstrance process, but a petition was not filed to the County Auditor. Mr. Bowen asked if the school corporation was paying the contractor on an annual basis and Mr. Shanahan said yes. He said everything stays the same only a different fund will cover the payment. Mr. Bowen asked if the interest payment would be the same to the bank. Mr. Shanahan said they would actually be better off leaving the terms as is since the interest rates are now higher.

Mr. Nemeth asked if the original project was construction or equipment. The Superintendent said the project involved a new roof, ceiling tiles and lighting, and a new boiler. The Superintendent noted they have experienced higher attendance in both staff and students since the improvements were completed. The prior equipment became difficult to maintain a consistent temperature. They are saving on energy costs and he feels they are more energy conscious. Mr. Nemeth asked if the contractor of the project went to a bank after it was completed and Mr. Shanahan replied yes. Mr. Nemeth questioned whether this issue fits the criteria of the statute for the Debt Service fund. Mr. Shanahan explained the payments would be assigned to the building corporation and the lease would be paid from the Debt Service fund. Mr. Nemeth questioned if this would be allowable since the project was not funded through a debt obligation in the first place.

Mr. Barrow asked what the school board vote was at the August 14, 2006 lease hearing and the Superintendent responded 7-0. Mr. Barrow questioned the lack of bond counsel and financial advisor fees on the hearing information sheet. Mr. Peterson said the total was reported since fees are being paid separately from the General fund. There are no bond issue fees in this case because there is no debt being issued. Mr. Barrow asked for the term of the lease and officials replied eight years. Mr. Barrow asked if taxpayers were notified and officials replied yes.

Mr. Bowen noted the control board members receive data from the DLGF and he asked about the number of students going to college. The Superintendent said some students are choosing not to go to college and some go into farming. The district is a very rural community. Mr. Bowen asked if the school corporation has an Ag program. The Superintendent said students have access to an Ag program through the vocational education program.

The Superintendent supplied the control board members with the 2005 and 2006 Capital Project fund budgets. The budget dropped from \$792,215 in 2005 to \$308,780 in 2006.

Motion: Mr. Bowen made a motion to approve a lease rental agreement with maximum annual payments of \$197,736.06 for 8 years and a total issue of \$2,419,226. Mr. Barrow seconded the motion, which favorably carried 7-0.

Adjournment: There was no further business to discuss and the meeting was adjourned.