
STATE OF INDIANA

DISTRESSED UNIT APPEAL BOARD



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Distressed Unit Appeal Board Meeting Memorandum

October 31, 2017

Call to Order: A meeting of the Distressed Unit Appeals Board (DUAB or Board) was held on October 31, 2017, at 9:00 a.m. EDT at Conference Room D, Indiana Government Center South, 402 West Washington Street, Indianapolis, Indiana. Members of the Board attending the meeting include Micah Vincent, Chairman, Kent Hatcher, Paul Joyce, Wes Bennett, Representative Milo Smith and Senator Eddie Melton. Courtney Schaafsma, Executive Director, was also in attendance.

Chairman Vincent called the meeting to order and recognized compliance with the Open Door Law. He presented the meeting minutes from the September 12, 2017 and October 11, 2017 meetings for approval. Mr. Joyce moved to approve the minutes, and Mr. Hatcher seconded. The Board voted 4-0 to approve the minutes.

Ms. Schaafsma then provided the Board with the Executive Director's Report. She noted that Muncie Community Schools had held the public hearing for the bond restructuring that had been discussed at a previous meeting and the Muncie School Board had approved the 2018 budget. She then announced that the public hearing required by Indiana Code 6-1.1-20.3-7.1 would be held in Muncie on November 13, 2017 at 6 pm. She explained that DUAB would then make the decision at a separate meeting after the public hearing as to whether to designate Muncie Community Schools as a distressed political subdivision, based on statutorily-identified criteria. Senator Melton asked for clarification of the difference in the current designations for Muncie Community Schools and Gary Community School Corporation and the differences in procedures. Mr. Joyce asked if the emergency manager would provide an update during the public hearing, and Ms. Schaafsma affirmed this.

Dr. Peggy Hinckley, emergency manager for Gary Community School Corporation ("GCSC"), then provided the Board with an update. She indicated that the emergency management team was working on a number of reports due to DUAB at the end of the year. She also explained that the emergency management team was working with the Service Employees International Union ("SEIU") on contract negotiations and a small number of staff reductions had occurred. Dr. Hinckley said that the extended day program at two elementary schools – Marquette and Beveridge – would start on November 1. The extended day provides an additional two hours of instruction and dinner for students attending. The program is being funded through Title I. At Chairman Vincent's request, Dr. Hinckley highlighted the involvement of Dr. Lucille Washington, Leslie Green, Melissa Henderson, the GCSC Human Resources department, Lea Ward, Jim Meza, and other GCSC teachers for their role in implementing the extended day program. They continue to recruit additional tutors for the program.

Dr. Hinckley then announced the hiring of Melissa Meadows as the head of the Gary Career Center. She then discussed that the emergency management team would begin to interview for the Chief Financial

Officer and Chief Academic Officer positions in the coming days. Senator Melton clarified with Dr. Hinckley that the position openings would close on October 31. Senator Melton asked about the preparation for a potential boiler issue during the winter. Dr. Hinckley noted that the emergency management team had completed all boiler inspections and had made some necessary repairs. She also indicated that the team had patched roofs when they arrived to try to prevent additional problems in the winter caused by leaking roofs. Senator Melton commended the emergency management team for the extended day program and asked if other schools may receive a similar program. Dr. Hinckley explained that the emergency management team was working to see if they could get enough staff to open an extended day program for three additional elementary schools in January. Senator Melton asked if a corporate sponsor could contribute toward such programs. Dr. Hinckley indicated that they would welcome the support, but the bigger question is the staffing needs. Chairman Vincent asked how many additional tutors were needed. Dr. Hinckley said that they needed approximately an additional 15-25 tutors. Dr. Hinckley also thanked the teachers who were assisting on the program.

Dr. Hinckley then presented a contract for Laszlo & Associates, LLC, for tax services in addressing GCSC's outstanding IRS liability. Ms. Schaafsma explained that she had previously approved this contract with a not-to-exceed amount of \$250,000. The additional approval request was due to the contract being a percentage basis of the amount saved, so the final fee is currently unknown, meaning the fee could exceed \$250,000. Mr. Joyce asked about the fee arrangement, and Ms. Schaafsma explained that Laszlo & Associates would be paid 12% of whatever they were able to save GCSC. Mr. Joyce then asked about an upcoming meeting with Congressman Visclosky. Dr. Hinckley explained that Congressman Visclosky is helping GCSC to work with the IRS. Mr. Eric Parish, financial lead for the emergency management team, explained that it is atypical for school corporations to have this type of liability. Mr. Joyce asked about the maximum fee that could be generated for Laszlo & Associates. Mr. Parish explained it could be up to 12% of the total outstanding liability of \$8.4 million. He then explained that the emergency management team hoped to be able to work out a repayment schedule at the time of settlement for any amounts remaining. Dr. Hinckley indicated that the process could take 8-12 months to be resolved. Mr. Joyce asked about costs for Laszlo & Associates, and Mr. Parish indicated that the costs would be included as part of the final fee.

Representative Smith asked if the interest and penalties continue to grow during the process. Mr. Parish indicated that it was his understanding that the penalties and interest would stop accruing once an offer in compromise is accepted. Senator Melton asked about liens on the GCSC properties. Mr. Parish explained that he did not believe that the outstanding liens would be released until the settlement occurred. Chairman Vincent asked for a history of the tax not remitted to the IRS. Mr. Parish explained that GCSC did not remit taxes that had been withheld to the IRS in 2013 and 2014. The amount not remitted was \$5.8 million. Representative Smith asked about the personal liability for the former chief financial officer of GCSC and how a claim under his insurance could impact the fee for Laszlo & Associates. Mr. Joyce asked if the taxes are currently being remitted appropriately and if the team had contacted the insurance provider. Mr. Parish indicated that they would contact the insurance company and that taxes are being properly remitted at this time.

Mr. Bennett made a motion to approve the contract for Laszlo & Associates. Mr. Joyce seconded. The Board approved the motion 4-0.

Dr. Hinckley then presented the collective bargaining agreement for GCSC for the 2017-2018 school year. She explained that the agreement would not include any raises, as has occurred the past 10 years. Dr. Hinckley explained that findings of non-compliance had been addressed in the contract. One provision specifically addressed was abuse of sick leave. Mr. Parish explained that sick leave was significant due to the double expense of the teacher and the substitute, which was about \$35,000 in substitute pay per pay period, which equates to \$700,000 a year. Chairman Vincent noted also the loss of educational value due to substitutes.

Ms. Schaafsma explained that DUAB was being asked to approve the contract under IC 6-1.1-20.3-8.7. She also explained that the Education Employment Relations Board had reviewed the proposed contract and indicated that they felt they would deem the changes compliant.

Mr. Joyce made a motion to approve the collective bargaining agreement. Mr. Bennett seconded. Chairman Vincent noted that the changes in the agreement seemed to indicate that the emergency management team and the teachers' union were collaborative in working to address the financial and academic situation of GCSC. Dr. Hinckley explained that Ms. GlenEva Dunham, president of the teachers' union, had been an excellent partner in finding solutions. Senator Melton asked about projected cost savings in the agreement. Dr. Hinckley indicated that the agreement did not include anything specifically that would present cost savings. The Board approved the motion 4-0.

Mr. Parish then presented the 2018 GCSC budget. He first presented the capital projects fund budget and explained that they do not anticipate being able to actually spend the amounts identified as they are being used to set a cap in spending. Chairman Vincent noted that this was consistent with how all other local governments function in Indiana would budget. Representative Smith asked about allocations for future projects. Dr. Hinckley explained that the property tax cap impacted their ability to set aside money for future projects. Ms. Schaafsma provided additional information on the capital projects fund, including the Department of Local Government Finance's summer projection for the rate cap. Mr. Parish explained that the emergency management team hoped to budget by building for 2019 but had been unable to do so for 2018 due to limited information and time.

Senator Melton asked about the role student enrollment plays in the budget process. Mr. Parish explained that student enrollment helps to drive revenue for the school corporation. Ms. Schaafsma presented a worksheet that she had developed showing the estimated tax impact of the 2018 budget. Chairman Vincent explained that the budget process requires certain advertisements and then the Department of Local Government Finance would make adjustments as needed. Representative Smith asked about the difference in the levy for the debt service funds, and Chairman Vincent explained that it represented the difference between the advertised levy and the certified levy.

Mr. Bennett stated that he had assigned authority to the Department's Deputy Commissioner for reviewing the GCSC budget. Mr. Bennett then made a motion to approve the 2018 budget for GCSC. Mr. Joyce seconded. The Board approved the motion 4-0.

Mr. Parish then explained the working budget for GCSC for 2018. He explained the major revenue and expense categories for GCSC. For expenses, he noted that approximately 90% of costs are personnel expenses. He indicated that the emergency management team would continue to refine the budget throughout 2018 as changes occur. He said that the working budget showed approximately a \$21 million

annual operating deficit. Chairman Vincent asked about the financial plan that the emergency management team is required to prepare. Mr. Parish indicated that the plan was due at the end of January. He also emphasized the importance of growing enrollment to address financial concerns. Senator Melton asked about the impact of the State takeover of Roosevelt High School to GCSC. Dr. Hinckley explained that GCSC is required to maintain Roosevelt and it is costly to maintain. She indicated that it would likely be a State Board of Education decision as to whether to return Roosevelt to GCSC. Senator Melton asked about the interest due to the State through Common School Fund Loans. Ms. Schaafsma explained that the loans approved prior to DUAB would have interest associated with them, but the DUAB-approved loans were interest-free.

Mr. Parish then presented a loan request for GCSC to cover payroll and health insurance in November. Ms. Schaafsma explained that DUAB is a recommending body for the loan request, with the State Board of Finance being the final approving authority. Senator Melton asked about the difference between a Common School Fund loan and a DUAB loan. Mr. Hatcher explained that traditional Common School Fund loans can be made for technology and construction projects and are ultimately approved by the State Board of Education. Chairman Vincent explained that the loans recommended by DUAB fall under a special provision for GCSC.

Mr. Joyce made a motion to approve the loan request for \$3,255,000. Mr. Bennett seconded. The Board approved the motion 4-0.

New business: No new business was discussed at the meeting.

Adjournment: Chairman Vincent adjourned the meeting at 10:45 a.m.