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# STATE OF INDIANA

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DISTRESSED UNIT APPEAL BOARD



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## Distressed Unit Appeal Board Meeting Memorandum

November 13, 2017

**Call to Order:** A meeting of the Distressed Unit Appeals Board (DUAB or Board) was held on November 13, 2017, at 6:00 p.m. EST at Northside Middle School, 2400 West Bethel Avenue, Muncie, Indiana. Members of the Board attending the meeting include Micah Vincent, Chairman, Paul Joyce, Wes Bennett, Representative Milo Smith and Senator Eric Bassler. Courtney Schaafsma, Executive Director, was also in attendance.

Chairman Vincent called the meeting to order and recognized compliance with the Open Door Law. Ms. Schaafsma then explained that the meeting was to serve as the public hearing which is statutorily required before DUAB makes its determination of whether to make Muncie Community Schools (MCS) a distressed political subdivision. She highlighted the three statutory criteria which include (1) MCS has developed and is implementing a deficit reduction plan, (2) actions taken in implementing the deficit reduction plan have resulted in progress toward financial stability for MCS, and (3) it is in the best interest of the students, community, and the school corporation and its employees to not designate the school corporation as a distressed political subdivision. Ms. Schaafsma then indicated that DUAB would not be making the determination during the public hearing and that an additional meeting would be scheduled in December for the determination. She then provided information on how interested persons could contact DUAB after the public hearing.

Chairman Vincent outlined the agenda for the evening and indicated that public comments would be held to approximately two minutes.

Dr. Steven Baule, superintendent for MCS, thanked DUAB for the opportunity to present at the meeting. He provided statistics related to student enrollment and staffing for MCS. He then identified that discipline issues are down, and MCS now offers more classes and dual-credit offerings than in the past. He also noted that the graduation rate was 94.1% and Muncie Central High School had been identified as one of the best high schools in the nation.

From a financial perspective, Dr. Baule indicated that MCS was projecting having more revenue than expenses in 2017, which is the first time since 2009. This has resulted in reductions to the deficit facing MCS. He indicated that they were projecting to end 2017 with a deficit of \$1.6 million, barring sale of property. For 2018, MCS is projecting ending the year with a positive cash balance. He then discussed space utilization and additional academic achievements of MCS.

Dr. Baule then discussed cost reductions that had occurred. He indicated that the transportation contract had resulted in cost savings. He also indicated that the solar power project originally planned was canceled due to Senate Bill 309. He explained MCS had made additional adjustments to the billing for

special education and other programming for a savings of approximately \$132,000, and MCS had brought in additional revenue in an amount higher than expected. Dr. Baule stated that MCS was doing a bond restructuring on prior debt. He also stated that MCS was still looking at options on bonds but that they would require legislative action to get a solution in place. He noted that they had also created an educational foundation. Based on the above, Dr. Baule indicated that he felt significant progress had been made in working towards a balanced budget. He said they would continue to look at secondary enrollment options, transportation options, and staffing. He stated that MCS would need legislative support to eliminate long-term debt.

Ms. Schaafsma asked Dr. Baule for more information regarding the planned closure of Northside Middle School in the deficit reduction plan. Dr. Baule indicated that the School Board chose to wait on closing Northside and planned to do a referendum to determine the path forward. Based on the sale of Northside, he then indicated that he felt they would move to a single middle school and needed to determine the appropriate way to do that. Mr. Joyce asked if the deficit reduction plan took into account the \$9 million in debt from the 2014 bond issue. Dr. Baule indicated that they would need legislative support to address that issue. Representative Smith asked Dr. Baule how the \$9 million bond issue impacted the \$1.4 million surplus Dr. Baule estimated for the end of 2018. Dr. Baule indicated that the \$1.4 million was an operating surplus and MCS would still have to pay off the \$9.3 million.

Ms. Debbie Feick, School Board president, stated that the School Board had made a commitment to work tirelessly toward solvency for the district, while changing the way the corporation conducted business but with minimal impact on instruction programs. She indicated the School Board had made many difficult decision including privatizing certain services, closing buildings, and reducing staffing. Ms. Feick then explained that as the emergency management team started at MCS, she worked to formalize regular meetings between herself, the superintendent, the Chief Financial Officer (CFO), and the emergency management team which increased the effectiveness of the state intervention. She then highlighted other actions of MCS such as a grant-writing challenge, meals for food-insecure families and children, a language immersion program at Westview Elementary School and other academic achievements. Ms. Feick then stated that the emergency management required by Senate Bill 567 had provided the School Board with validation on the challenges facing MCS and the actions the School Board had taken. She stated that the MCS has a plan for moving forward and addressing the financial situation would remain a top priority for the district.

Chairman Vincent asked Ms. Feick how much time she thought would be needed to “right the ship” without state involvement. Ms. Feick indicated that the answer to that question depended on a number of variable including the sale of properties and the ability to address the “albatross” - the \$9.3 million bond issue.

Mr. Jason Donati, School Board member, said that it has been helpful to have a CFO on board and that he has been pleased with the work the CFO has done. He indicated that he had been a big fan of the solar power project that ended up having to be canceled due to statutory changes. He also explained that Indiana Michigan Power was proposing a significant rate hike which would impact the school corporation and families. Mr. Donati also indicated that MCS needed to continue to address the low morale issue at MCS. He noted that he has seen progress and the community coming together to help MCS, including additional efforts with Ball State University and Ivy Tech. He said the School Board

needed to continue to focus on strengthening community, helping with morale and increasing parental involvement.

Representative Smith asked if the news of a potential \$1.4 million surplus in a year was helping with morale. Mr. Donati indicated that the new financials, along with the efforts of the CFO, has improved morale but that there are many issues that play into morale. Mr. Donati then also indicated that he felt the emergency management team had been very accessible. Mr. Joyce asked what the School Board was doing to address the \$9 million bond issue. He indicated that the School Board is working with the administration to try to address that issue.

Mr. Robert Warrner, School Board vice-president, shared that the majority of the present School Board was working to face MCS' problems and solve them. As a result, the School Board has received pushback on their actions. Regardless of the negativity directed at the School Board, Mr. Warrner asked that they be given more time to finish the job of addressing MCS' problems.

Mr. Steve Wittenauer, co-owner of Administrator Assistance, started a presentation by the emergency management team by indicating that their work had been a collaborative effort with MCS. He indicated that the emergency management team's first responsibility was to ascertain the financial situation facing MCS. He then explained that the emergency management team had been working with MCS to address both short- and long-term financial concerns. The emergency management team also had the responsibility of negotiate the collective bargaining agreement and selling properties.

Mr. Steve Edwards, emergency manager, then recapped cost reductions that MCS had made over the prior year and additional revenue that had been identified. He then indicated that by September, the emergency management team and the CFO had identified that MCS was facing a cash flow shortfall of approximately \$4.5 million for 2017. To address this, the emergency management team, along with MCS, had worked on the bond restructuring to generate additional revenue, modified the payment arrangement for the special education cooperative, negotiating a Memorandum of Understanding with the teachers' union regarding the repayment of health insurance premiums, and working with the Mayor to identify options for further support. Mr. Edwards then explained that the emergency management team was responsible for the sale of properties. They had just announced the sale of Northside Middle School to Ball State University for \$1.27 million. The sale would allow MCS to have flexibility in the timing of the closure of the building and Ball State would contribute toward maintenance of the building on an annual basis.

Mr. Wittenauer then explained that the emergency management team was responsible for negotiating the teachers' contract. He indicated that a main aspect of the negotiation has been health insurance. He also stated that they were close to having the negotiation settled.

Mr. Edwards then explained that even with the aggressive reductions MCS had implemented, budget deficits remain. The General Fund will have a negative balance as of the end of 2017 and enrollment continues to decline. The emergency management team recommends reducing spending by approximately \$6 million over the next two year. Mr. Edwards also indicated that a major issue facing the district was not having the cash to complete the projects that were to be completed by the 2014 bond issue. These projects must be completed by April 2019.

Mr. Bennett asked for enrollment projections over the next three to five years. Mr. Edwards indicated the emergency management team was projecting a loss of about 300 students a year. Mr. Bennett then questioned the difference in the emergency management team's numbers as compared to Dr. Baule's figures. Mr. Edwards answered that the emergency management team's numbers were for the General Fund while Dr. Baule's figures were for all funds. Chairman Vincent asked about the emergency management team's recommendation to get to a \$38 million budget. Mr. Wittenauer indicated that was based on an estimated student population of 4,000. Chairman Vincent then asked for overall thoughts on MCS' situation and its path toward long-term solvency. Mr. Wittenauer answered that MCS had done a lot to address the deficit but that additional cuts would be necessary over the next couple of years. Mr. Edwards indicated that MCS needed to continue to look at staffing and capacity. He also stated that financial stability may help to attract students back to MCS. Representative Smith asked if students are leaving because families are moving away from Muncie or choosing a different place to send their students. Mr. Wittenauer indicated that it was the latter.

Ms. Schaafsma asked if the targeted \$38 million budget was just for operating. Mr. Wittenauer said yes and explained that the 2014 bond issue remains the "elephant in the room" with MCS not having the \$10 million needed to pay for the required projects.

Chairman Vincent then indicated that the Board would open the meeting to public testimony.

Representative Sue Errington stated that MCS had developed a plan and was implementing the plan. She indicated that she was impressed with the CFO and his ability as a financial manager. She also noted the way that Ball State has stepped up to be a full partner in support of MCS. Representative Errington then noted that the deadline for bill drafting was approaching.

Ms. Pat Kennedy, president of the Muncie Teachers Association (MTA), indicated that the last few months had been challenging due to so many issues and so little time. She stated that everyone wants to make MCS work again, and, from a teacher's viewpoint, the emergency management team had shown the desire and skill to assist in moving MCS in a positive direction. Ms. Kennedy noted that MTA appreciated negotiating in a respectful and productive environment, and she felt the agreement being developed would help to slow the exodus of talented teachers from the school system. She then explained that the scope of duties provided to the emergency management team was limited and did not match the scope of issue facing MCS. As a result, she indicated that MTA was unable to bring many important issues to the emergency management team. Ms. Kennedy stated that the issues facing MCS are massive and complex and would require working collaboratively in an environment of respect and integrity to address the issues.

Chairman Vincent asked if Ms. Kennedy or MTA had a position as it related to DUAB's upcoming decision on whether to designate MCS as a distressed political subdivision. Ms. Kennedy indicated that she had felt respect from the emergency management team and that the collaborative effort would not work with the current administration. Representative Smith asked what it would take to make MCS whole again. Ms. Kennedy explained that openness and trust would be necessary. She explained that over 150 teachers had left MCS, many of whom had significant experience. She said it would take actions to show someone that they are valued.

Mr. Coddington, CFO for MCS, indicated he was most impressed with student achievement. He stated that MCS would have a balanced budget in 2018 and 2019, even with projecting dips in enrollment. He acknowledged that the \$12 million deficit in the General Fund would still need to be addressed.

Chairman Vincent asked what the biggest financial risk was going forward, without considering the 2014 bond issue. Mr. Coddington explained the need to be ahead of the curve rather than behind. He stated that if MCS lost another 500 students, rather than the 200-300 that were anticipated, MCS would be behind the curve. Mr. Bennett asked why 200-300 student decline was the appropriate projection. Mr. Coddington indicated that this was the amount that had historically been lost. He explained that the 500 student decline that had occurred recently was due to the closure of schools and the financial situation facing MCS, but they didn't believe it would be a trend. He then indicated that the loss of industry had occurred which would slow enrollment decline. Mr. Bennett then stated that if MCS did not have an answer for the 2014 bond issue that it was going to be a problem. Mr. Bennett also asked about the potential return on investment for the solar panel project. Mr. Coddington explained that the project would require \$2 million upfront. Mr. Bennett then asked about the correct action plans required by the most recent audit. Mr. Coddington indicated that he planned to put all of the LEAs into the General Fund as of January 1.

Ms. Johnna Oliver expressed that there were intangibles that were not being discussed, including hope, trust, transparency and integrity issues. She indicated that she felt the public was not being heard at School Board meetings and she asked for the opportunity to have the public provide ideas. Ms. Oliver expressed concern with the idea that students were leaving Muncie and explained that if students continued to leave MCS would not have sufficient funding.

Mr. Alan Kidd, teacher at MCS, indicated he wanted to talk about the morale, trust and transparency deficits at MCS. He mentioned that the public was not informed that the solar panel project had been put on hold until he asked about it at a School Board meeting. He said transparency was a chronic issue for MCS and a number of votes had occurred without the public being given information. Mr. Kidd then expressed concern over the transportation issues that had arisen this past summer and the impact the bussing schedule may have had on student enrollment.

Mr. Rob Keisling, incoming School Board member, indicated he felt the first two criteria to be considered by DUAB had been sufficiently covered. He then spoke about the academic achievement of MCS and that a full state takeover would imply that there was also a failure in the classroom. He indicated this would have an impact on the ability to attract new residents, businesses and jobs.

Ms. Terry Tolle indicated that people were leaving MCS due to the high school consolidation. She said she was in favor of a state takeover.

Mr. Phil Boltz indicated that he felt the other "elephant in the room" was school choice and the deconstruction of public school systems.

Ms. Barbara Lamb expressed concern for what would happen to MCS if subject to emergency management. She indicated that the student decline was associated with negative press. She said she felt the School Board should continue to do what they are doing.

Ms. Marilyn Carey, former School Board member, explained that she was very proud to have been a part of the School Board. She indicated the press did not cover the positive things occurring in Muncie. She then expressed frustration with the blame being put on past School Boards.

Chairman Vincent closed the public testimony. Ms. Schaafsma reminded the attendees that a meeting would be scheduled in December for the determination and the information on the meeting would be sent out via the listserv.

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

**Adjournment:** Chairman Vincent adjourned the meeting at 8:00 p.m.