

**Distressed Unit Appeals Board Public Hearing
November 13, 2017**

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Emergency Management Team's Responsibilities

1. Assisting Muncie Community Schools (MCS) with the implementation of its deficit reduction plan and, in so doing, analyzing the plan to identify any recommendations for plan modifications.
2. Work with MCS to review and verify the financial situation, including working with MCS to address both short- and long-term financial concerns
3. Negotiate the collective bargaining agreement.
4. Assume responsibility for selling properties MCS has advertised for sale per Indiana Code 6-1.1-20.3-7.1(e)(4).

Muncie Community Schools (MCS) Deficit Reduction Plan

The MCS Deficit Reduction Plan was presented in April 2017 .

The district's plan has resulted in some cost reductions but a deficit and additional financial challenges still remain.



MCS Cost Reduction Steps

Past two school years:

1. Staffing cost reductions of approximately \$1,760,852 and an additional annualized reduction of approximately \$6,200,470.
 2. Outsourced food service and custodial services, and closed and sold the Anthony Administration Building for an approximate total one-time savings of \$1,290,000.
 3. Other ancillary program modifications and cuts saved an additional \$90,000.
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MCS Plan for Current School Year

	<u>Cost Savings</u>
1. Streamline printing and copying:	\$25,000
2. Modify way routine bills are paid:	\$20,000
	<u>Projected Savings/Not Realized</u>
3. Move to solar power:	\$188,000*
4. New bus transportation contract:	\$1,100,000+

*Solar power not implemented due to high startup costs.

+The Emergency Management Team estimates the cost savings will not be \$1,100,000 due to the need for additional bus routes.

MCS Plan for School Current Year

Additional Revenue Sources:

1. Reimbursement for Medicaid Administrative Services, \$40,000
2. Ball Memorial Hospital support for Athletic Trainer, \$60,000

Recommendations outlined this past April.

1. Closure of three elementary schools for a projected savings of \$2,919,725.
 2. Closure of Northside Middle School for a projected savings of \$1,127,790.
 3. Reduction of three administrative support staff positions, \$151,423
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MCS Cost Reduction for 2017-2018

1. Three elementary schools (Mitchell, Storer and Sutton) were closed with an approximately \$2.4 million dollars in savings in personnel costs.
2. Northside Middle School Remained Open
3. Eliminated five administrative support positions for a cost savings \$185,000
4. Beyond the \$2.4 million dollars in staff reduction savings with the closing of three elementary schools, the Emergency Management Team (EMT) has verified at least another \$870,000 in staff reduction savings implemented by MCS.

MCS Cash Flow Issues

The Emergency Management Team learned quickly MCS had major cash flow problems in 2017 and was in jeopardy of having to delay bill payments.

As late as September, the projected cash flow shortage for this calendar year was approximately \$4.5 million dollars.

Today the cash flow shortage is projected to be approximately \$1.7 million dollars for the year. The Emergency Management Team is working with MCS to sell the properties the district marketed. If the properties are sold within the next few weeks, MCS will be able to remove the negative cash flow balance for 2017.

Assistance of the Emergency Management Team in Helping Solve Immediate Cash Flow Concerns

1. Refinancing MCS Debt: EMT worked with Umbaugh and Associates and Bond Counsel, Thomas Peterson, to help the district refinance its debt and secure an anticipated **\$1.9 million dollars** in cash for 2017 and an additional **\$2.8 million dollars** above debt payments for the years 2018-2022.

2. Special Education Maintenance of Effort (MOE): EMT worked local school officials and representatives of both the IDOE and U.S. Department of Education to obtain a MOE waiver for the special education program to enable school districts participating in the Delaware-Blackford Special Education Cooperative to pay MCS for transfer tuition and shared services on a semester basis rather than at the end of the school year. This will provide MCS approximately **\$430,000** in additional cash flow for 2017.

Assistance of the Emergency Management Team in Helping Solve Immediate Cash Flow Concerns

3. Teacher Health Insurance Memorandum of Understanding(MOU): The Muncie Teachers through their “Last Best Offer” (LBO) in the fact finding process last summer agreed to pay higher health insurance premiums retroactively for contract years 2015-2016 and 2016-2017 and higher premium moving forward this year.

The EMT worked with Muncie Teachers Association (MTA) to develop a MOU specifying how the retroactive premiums would be made to the district. The total reimbursement teachers agreed to was approximately **\$720,000** with higher premiums of approximately **\$424,000** moving forward. The district will realize, through premium reimbursements and higher premiums, approximately **\$351,460** for current teachers in 2017 and **\$594,705** in 2018. Teachers no longer with the district will be billed for the retroactive premiums.

Assistance of the Emergency Management Team in Helping Solve Immediate Cash Flow Concerns

4. The EMT has worked with local lenders and the Mayor in an attempt to capture City funding for the district. The local lenders were willing to assist with loans, but were unable to do because the district had no means of providing collateral for the loans.

The Mayor is working with the EMT and attempting to identify a method by which to fund capital improvements in the schools.

5. Sale of School Properties: The EMT is responsible for selling the school properties per the Emergency Manager Statute. One of the buildings marketed for sale is Northside Middle School. The sale process is ongoing and the EMT is working to structure a sale that would provide time for community input into the appropriate school structure for MCS.

Assistance of the Emergency Management Team in Helping Solve Long-Term Fiscal Issues

The EMT is responsible for negotiating the teachers' contract. Negotiations are proceeding and it is the goal of EMT to significantly reduce teacher health insurance costs and reduce overall contract costs by at least \$2 million dollars.

MCS Has More Work to Do to Achieve Long-Term Fiscal Stability

Even with the aggressive deficit reduction plan MCS put in place, budget deficits still remain.

1. The General Fund is estimated to show a negative \$12 million dollar balance at the end of 2017 with approximately \$9 million dollars of that being attributable to the General Obligation Bonds.
2. The district should look to right size its programming and facilities for 4,000 students. The goal would not be to get to 4,000 students but this is the number selected as a minimum threshold for expenses from which MCS could ramp additional operations as needed.
3. The EMT recommends the district reduce spending by approximately \$6 million dollars over the next two years to get a General Fund budget of \$38 million dollars.

MCS Budget Deficit Still Remains

4. The EMT would recommend the district reduce costs by another \$3.6 million dollars in 2018 and \$2.4 million dollars in 2019.
5. Enrollment decline continues and was greater than expected for the current year with a loss of **438** students. This continued loss of students puts a financial strain on the district as the district receives approximately \$6,700 dollars per student. The projected loss in funding for the student loss is approximately **\$2.9 million dollars**.
6. A major issue for the district is not having the cash reserves to fund the work planned through the \$10 million dollar General Obligation Bond Issue in 2014. This is a problem that must be addressed in the future. The capital improvements planned through the GO Bond Issue need to be completed by April of 2019.

MCS Budget Deficit Still Remains

MCS has implemented cost savings steps, but there is much work to be done and additional cost cutting steps must be taken.

The school district must live within its budget but also must find a way to overcome the negative balances in the General Fund and cash reserves for the General Obligation Bonds.