
STATE OF INDIANA

DISTRESSED UNIT APPEAL BOARD



ONE NORTH CAPITOL AVENUE, SUITE 900
INDIANAPOLIS, IN 46204
PHONE (317) 234-2273

Distressed Unit Appeal Board Meeting Memorandum

August 20, 2018

Call to Order: A meeting of the Distressed Unit Appeals Board (DUAB or Board) was held on August 20, 2018, at 3:00 p.m. EDT at the Indiana Government Center South Building, Conference Room 1, Indianapolis, Indiana. Members of the Board attending the meeting in-person include Paul Joyce, Wes Bennett, Tracy Brown, Rebecca Kubacki, Representative Milo Smith and Representative Vernon Smith. Senator Eric Bassler attended by phone. Courtney Schaafsma, Executive Director, was also in attendance. Mr. Joyce chaired the meeting.

Mr. Joyce called the meeting to order and recognized compliance with the Open Door Law. Mr. Joyce presented the minutes for the August 3, 2018 meeting. Ms. Kubacki moved to approve the minutes, and Mr. Bennett seconded. The Board voted 4-0 to approve the minutes.

The next item on the agenda was a financial update for Gary Community School Corporation (“GCSC”). Mr. Eric Parish with the emergency management team for GCSC first presented the Budget versus Actual report (“BvA”). He reminded the Board that the BvA is a work in-progress that will allow for better budgeting and financial tracking in the future. Mr. Parish highlighted certain assumptions that impact the revenue figures shown on the BvA. Mr. Joyce asked what surprises had been encountered in working with GCSC’s financials. Mr. Parish indicated that the lack of financial data at the start of the project was a surprise but that since then, the emergency management team had gotten a good handle on the financial situation for GCSC. Mr. Joyce asked if GCSC is on-track with its Viable Deficit Reduction Plan (“VDRP”), and Mr. Parish indicated that they are.

Representative Milo Smith asked about the cash flow analysis provided in the packet and if GCSC would need a loan in coming months. Mr. Parish indicated that they expected to request a loan next month to get through October and November. Mr. Parish noted that GCSC expected to continue to need loans through 2019, though the exact timing on the loan requests is unknown at this time. Representative Milo Smith asked about the significant decline in cash balance from August to October 2018 as shown in the cash flow analysis. Mr. Parish noted that those months included a number of non-recurring expenses, including a third payroll in August, staff payouts through September and textbook purchases and building maintenance to get ready for the school year.

Representative Vernon Smith asked about the impact of enrollment declines to the annual deficit figures. Mr. Parish noted that enrollment increases will be key to resolve GCSC’s financial situation. He shared that, while enrollment is currently down from last year, they are increasing by approximately 100 students per day. Representative Vernon Smith indicated that he is very concerned with the potential enrollment decline. Mr. Parish highlighted that GCSC continues an enrollment push throughout the community. Representative Vernon Smith stated that he felt the enrollment push may have started too late and was not using all possible options to get the message out. Dr. Peggy Hinckley, GCSC

emergency manager, highlighted other efforts that GCSC has made, including robo-calls to parents, outreach to community and alumni groups.

Mr. Parish then presented the Review, Evaluate and Recommend Report (“RER”), which serves as the roadmap for projects and tasks. He highlighted certain action items that differed from the original schedule. Mr. Joyce asked about the validation of old accounts payable. Mr. Parish noted that the team is validating the accounts payable as the bills are reviewed and addressed. Representative Milo Smith asked if the vendors are willing to negotiate settlements. Mr. Parish indicated that it differs for each vendor, but the larger vendors have typically been open to settlements and negotiations.

Mr. Parish next presented the cash flow analysis. He highlighted that GCSC will be in the red in October 2018 without additional assistance. Mr. Joyce noted that the beginning balance in August would also include property tax revenue from June. Representative Vernon Smith asked about the repayment of Common School Fund loans and if the emergency management team would look to request forgiveness of the loans. Mr. Parish indicated that the statute allows the emergency management team to request a suspension of payments, rather than forgiveness of the loans. He then noted that they have not yet pursued that option as they wanted to ensure they had a good understanding of the finances before making such a request. He stated that he felt the time was coming for such request to be presented to DUAB. Representative Vernon Smith asked about the possibility for legislation to forgive the loans and how much is owed to the Common School Fund. Mr. Parish indicated that approximately \$45 million is currently outstanding. Mr. Bennett asked when a long-term financial projection would be possible. Mr. Parish stated that they were looking to have a 12-month projection by the end of 2018, along with site-based budgets and financials.

Mr. Parish then presented the first update to the Viable Deficit Reduction Plan (“VDRP”). He noted that the annual deficit has gone down from \$22 million to \$15 million, and the long-term debt has reduced from \$104 million to \$98 million. Mr. Parish noted that two-thirds of the initiatives had been started, though none had been completed just yet. He walked the Board through the variance schedule, showing where initiatives currently stand as compared to originally anticipated. Mr. Joyce asked about certain initiatives not yet being pursued, including partnerships and philanthropy. Mr. Parish explained that the timing of those initiatives would be key, as the chance of success may depend on the ability to show progress at GCSC. Representative Vernon Smith asked what the focus would be for foundations for GCSC. Mr. Parish noted there are people on the emergency management team that are specifically focusing on those efforts and would be in a better position for addressing such questions. Mr. Joyce asked if any of the initiatives had failed. Mr. Parish noted that they had not yet requested loan payment suspension but none of the initiatives had failed. Representative Vernon Smith asked about the projected increase in federal funding, and Mr. Parish noted that GCCS had not fully claimed all indirect costs in the past. Representative Vernon Smith then also asked about social impact bonds and Mr. Parish provided a brief summary of the process that could be undertaken to receive such funding. Representative Vernon Smith asked about the likelihood of success of a referendum. Mr. Parish expressed that it is incumbent on GCSC to educate the community on the importance of GCSC to the City of Gary.

Representative Vernon Smith asked about the contract with EdisonLearning on Roosevelt School. Dr. Hinckley explained that the contract is for five years with an option to terminate the contract based on academic performance. This is year 2 of the contract. Representative Vernon Smith asked about athletics, and Dr. Hinckley explained that they had seen many positive changes recently in their

academic programming which may assist with enrollment. Representative Vernon Smith asked about rental of building space, and Mr. Parish noted this is already occurring. Representative Vernon Smith then asked about joint purchasing options. Mr. Parish explained that GCSC is a member of a northern purchasing cooperative but that purchasing at a discount through the Internet is also available. Dr. Hinckley noted that GCSC had also moved to competitive contracts, requiring multiple quotes before purchasing. Representative Vernon Smith asked about money being generated through the food service program. Mr. Parish explained that GCSC had gotten better about how they tracked and recorded time against appropriate grants. Representative Vernon Smith asked about debt restructuring. Mr. Parish explained that there is a statute in Indiana that would allow GCSC to restructure its outstanding debt over an additional 10 years. Representative Vernon Smith noted that Senate Enrolled Act 567 required GCSC to operate in a balance manner for 2 years before the distressed status could be removed. Mr. Parish responded that debt restructuring would allow for time while GCSC becomes self-sustaining. Mr. Joyce expressed that he believed it was necessary to return GCSC to a balanced budget and that the debt restructuring could provide flexibility to get to that place. Mr. Bennett noted that he felt everyone is focused on resolving this issue as quickly as possible. Representative Vernon Smith then asked about health insurance and if the initiative would result in a shift of expenses to employees. Mr. Parish explained that the initiative included savings already negotiated with Cigna.

Mr. Parish then presented the process GCSC had gone through in regard to implementing internal controls and obtaining State Board of Accounts' ("SBOA") review of the internal control policies. Mr. Joyce introduced Ms. Tammy White, Deputy State Examiner, who had completed the SBOA review. Ms. White explained that the contract provisions between DUAB and the GCSC emergency management team required the emergency management team to implement internal controls and required SBOA to provide feedback on the sufficiency of these policies and procedures and compliance with SBOA requirements. Ms. White then explained the SBOA process for reviewing the policies and procedures. Representative Vernon Smith asked clarifying questions on the SBOA review process, which Ms. White addressed. Representative Vernon Smith commented on the importance of the use of local, Gary-based businesses in the sourcing for GCSC. Representative Vernon Smith asked about the checklists provided in the internal controls documents. Mr. Parish explained how the checklists are utilized as a self-audit by GCSC staff.

Mr. Dan Schmidt, member of the GCSC emergency management team, then presented the GCSC Facilities Master Plan that had been previously provided. He explained that the type of programming being implemented within a space dictates the capacity of the state. Mr. Schmidt indicated that GCSC has more capacity than it currently needs or is anticipated to need in the coming years. Representative Vernon Smith asked about the condition of specific schools and Mr. Schmidt explained that the master plan provided comments on deficiencies found during their evaluation. Mr. Schmidt then explained a four-phase process for capital investment at GCSC as shown in the plan. Mr. Joyce asked where the suggested funding would come from for the proposed improvements. Mr. Parish noted that these improvements are not currently considered in the VDRP.

Mr. Joyce introduced the next agenda item – consideration of a performance incentive for Gary Schools Recovery, LLC for the development and adoption of internal controls. Mr. Bennett moved that the Board approve the \$100,000 performance incentive for Gary Schools Recovery, LLC. Ms. Brown seconded. The Board voted 4-0 to approve the motion.

Mr. Joyce then introduced the next agenda item – consideration of a performance incentive for Gary Schools Recovery, LLC for the development of the facilities master plan. Ms. Kubacki moved that the Board approve the \$100,000 performance incentive for Gary Schools Recovery, LLC. Ms. Brown seconded. The Board voted 4-0 to approve the motion.

New business: Representative Vernon Smith asked about updates on The Crossings contract. Ms. Schaafsma noted that the contract has been updated and is pending her review. Representative Vernon Smith also asked about the Wirt-Emerson auction. Ms. Schaafsma noted that the auction is still ongoing and she is working with the emergency management team to determine the appropriate resolution for the William Wirt bust. Representative Vernon Smith then asked about changes at Bethune preschool. Ms. Schaafsma noted that the program had moved from two half-day programs to a full-day program, allowing for a more robust program for the students. Representative Vernon Smith asked if it would be possible to get parents to commit to enrolling their students at GCSC if they go to Bethune for preschool. Ms. Schaafsma indicated that she didn't know if that option had been explored. She then noted that discussions were ongoing on moving preschool to the elementary buildings, which she had heard positive feedback on from other school corporations. Representative Vernon Smith then asked about some changes to athletic coaches. Dr. Hinckley noted that coaches have to reapply for those positions each year.

Adjournment: Mr. Joyce adjourned the meeting at 4:55 p.m.