
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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Distressed Unit Appeal Board Meeting Memorandum

June 2, 2017

Call to Order: The meeting of the Distressed Unit Appeal Board (DUAB or Board) was held on Friday, June 2, 2017 from 10:01 A.M.-10:30 A.M. EDT. The meeting was held in the Indiana Government Center South, Conference Room D, 402 W. Washington St., Indiana. Board members in attendance were Courtney Schaafsma, serving as chair for this meeting, Paul Joyce, Kent Hatcher, and Rep. Milo Smith. Micah Vincent, Chairman, was unable to attend. Staff member in attendance was David Marusarz, Department of Local Government Finance (DLGF) Deputy General Counsel. Mr. Jack Martin, GCSC Financial Consultant, was also present.

Discussion: The June 2, 2017 meeting of the DUAB was called to order by Ms. Schaafsma. Ms. Schaafsma noted compliance with the Open Door Law and asked the Board members to introduce themselves. She also stated the Board needed to adopt the minutes from the DUAB's May 12 meeting and entertained a motion to do so.

Rep. Smith asked to clarify a statement he made at the May 12 meeting regarding whether there are multiple payroll cycles per month. Ms. Schaafsma responded there are typically two to three per month.

Motion: Mr. Hatcher moved to approve minutes from the DUAB's May 12, 2017 meeting. Mr. Joyce seconded the motion.

Vote: The motion carried by a voice vote of 3-0. Rep. Smith, as a nonvoting advisory member of the Board, did not vote.

Discussion of Meeting Focus: Ms. Schaafsma then stated that the purpose for the meeting is to discuss a proposed loan for Gary Community School Corporation (GCSC). She then introduced Mr. Martin.

Presentation: Mr. Martin stated that he is requesting a loan of no more than \$1,595,000 to meet the June 9 payroll for GCSC and a \$455,756 loan for CIGNA health insurance payments for April and \$105,130 for SEIU. The total loan amount is \$2,155,886. He noted that because some GCSC staff are retiring or otherwise leaving, actual payroll amounts may vary. He also noted that fifty (50) reduction in force (RIF) letters have been sent and twenty-one (21) who have received those letters have requested conferences with the superintendent and the school board.

Mr. Martin then provided an update on GCSC's cash flow status. He said that the RIF forecast has gone up from thirty (30) to fifty (50). He said the last day on payroll for these employees is expected to be June 23, resulting in \$3,400,000 in savings. He said the severance pay is expected to be \$340,464 and will be dispersed on July 7. Regarding property tax collections, Mr. Martin said that the revenue for

transportation and capital projects funds is forecast to be a little over \$1 million, though the actual amounts are expected from the county in the next week. He added that the city has had an eighty percent (80%) collection rate, with forty-two percent (42%) of the tax levy received.

Mr. Joyce asked what the exact date was that GCSC would get the actual amounts from the county. Mr. Martin responded he was simply told 'next week' and that there would be no early distribution.

Mr. Martin then said that the Title I program's demand for repayment for an ineligible vendor must be paid in 60 days. He said the amount to be paid are still being worked on to ensure their accuracy.

Mr. Martin said that as of May 31, there was about \$1,200,000 in the operating account, forecast to be \$1,100,000, and that if the payroll is covered GCSC can "get through August and September without any crisis."

Ms. Schaafsma then invited the Board to ask questions of Mr. Martin.

Rep. Smith asked why the payroll remained the same even though there have been RIFs. Mr. Martin responded that the reductions are caught in "other finances" which are then deducted from the \$1,595,000 to get closer to the \$1,000,000 per pay cycle that GCSC is aiming for. Rep. Smith then asked about the significance behind the e-mail regarding the loan request stating the amount to be \$2,155,886.04; specifically, the four cents. Ms. Schaafsma said the four cents was included in the actual amount of claims for health insurance. Mr. Martin concurred.

Ms. Schaafsma noted that the cash flow at the end of June will be \$4,600,000, including the requested loan amounts, and asked if this is more an issue with the timing of making payments than an issue of the money being there to pay. Mr. Martin responded yes. She then asked when the CIGNA and SEIU claims are due. Mr. Martin responded that the target date is June 15. Ms. Schaafsma then asked if that means the health insurance payments can be held off until the additional money is received. Mr. Martin agreed.

Mr. Joyce asked if the distribution should be made by then (June 15). Mr. Martin responded yes, but that the amount distributed is still unknown.

Rep. Smith asked if there is a reason to delay health insurance payments. Mr. Martin responded no because SEIU threatened litigation. He added that SEIU will "be okay" as long as payments are made, and that he had told CIGNA payments would be made.

Mr. Hatcher asked if the transfer of \$2,073,000 under the debt service fund is under his control. Mr. Martin responded yes.

Discussion: Mr. Joyce said that because of the tax draw, a loan made should be reimbursed once the tax distribution is made because otherwise the loan would sit on the books for six years because of timing. He said a loan made sense so that GCSC does not have to worry about the money coming from the county by June 9. Mr. Martin responded that that makes sense, but raising the concern the request also covers through October.

Mr. Joyce then said that Chairman Vincent prefers periodic loan requests so that an emergency manager can look at the big picture, that the law (SEA 567) should work itself out, that the Board deal with future needs at future meetings, that the Board and the emergency manager should make sure people are paid today and that there will be money left for claims, and that then there can be discussion about what is needed for the process as laid out by SEA 567.

Rep. Smith said that if \$1,000,000 is paid back in September, the balance will be \$1,100,000, which will not meet payroll. He then said that there will be a \$555,000 deficit in October, requiring GCSC to make another request. Mr. Martin agreed that GCSC may ask for another loan if need be.

Mr. Joyce then said that the goal here is to worry about June and that if there is a need for future payroll loans, the Board can address it then. He then said that the emergency manager's role is to make a long term plan for GCSC. Mr. Martin responded that, when the distribution comes in, GCSC will need instructions for repaying the loan. Ms. Schaafsma said that the Board can help.

Ms. Schaafsma noted that a loan draw request when submitted to the State Board of Finance will be net of available funds, therefore a loan may not be needed if the tax distribution comes in on or before June 9. She recommended that CIGNA and SEIU not be included. Mr. Joyce agreed, stating that the Board can meet again to address any critical vendor payments, if needed.

Rep. Smith asked about the \$40,000 judgment fee. Ms. Schaafsma responded that was included in the SEIU loan.

Motion: Mr. Joyce moved to approve the loan to meet payroll. Mr. Hatcher moved to amend the motion so that the amount be paid within a certain number of days after the tax distribution. Mr. Joyce suggested five days, with instructions as to repayment.

Mr. Martin recommended including a caveat that the tax distribution is made as estimated.

Mr. Hatcher then noted that the common school fund is paid through tuition support. He then recommended waiting on repayment until after that has been paid. Ms. Schaafsma said that the Board can work with the Treasurer's Office to make this arrangement. Mr. Hatcher then suggested repayment by July 15 to give time to adjust the tuition support payments.

Rep. Smith asked for clarification on whether the repayment was on the full loan amount or just the amount drawn on the loan. Mr. Joyce responded this was to repay the amount drawn on the loan to meet payroll. Ms. Schaafsma added that it may be good to provide some flexibility for GCSC in making other payments if the distribution is not as anticipated.

Ms. Schaafsma then restated the motion as follows: To approve the loan in the amount of \$1,595,000 for the June 9 payroll, contingent on claims and net of available funds, to be paid back within five days of the property tax draw with instructions, and that a report be provided to the Chairman of the Board on what can be paid if the property tax distribution is less than anticipated.

Mr. Joyce made the motion. Mr. Hatcher seconded.

Ms. Schaafsma then asked Rep. Smith for comment on the motion. Rep. Smith said that he approved of the motion, adding that with State Board of Accounts instructions it will help make certain that payroll will be met.

Vote: The motion carried by a voice vote of 3-0. Rep. Smith, as a nonvoting advisory member of the Board, did not vote.

New Business: Ms. Schaafsma asked the Board if there was any new business to be discussed. Mr. Joyce asked Mr. Martin for a complete list of debt be included with the cash flow in the future.

Adjournment: The proceedings were adjourned at 10:30 A.M. EDT.