
STATE OF INDIANA

DISTRESSED UNIT APPEAL BOARD



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Distressed Unit Appeal Board Meeting Memorandum

September 12, 2017

Call to Order: A meeting of the Distressed Unit Appeals Board (DUAB or Board) was held on September 12, 2017, at 2:00 p.m. EDT at Conference Room C, 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.

Chairman Vincent called the meeting to order and recognized compliance with the Open Door Law. He presented the meeting minutes from the June 15, 2017, June 16, 2017, June 26, 2017, and both July 13, 2017 meetings for approval. Mr. Hatcher moved to approve the minutes, and Mr. Joyce seconded. The Board voted 4-0 to approve the minutes.

Chairman Vincent then discussed that DUAB was granted legislative authority to appoint an executive director. He explained that he felt it was appropriate to have an executive director to manage the day-to-day operations of DUAB. Chairman Vincent explained that he would recommend Courtney Schaafsma to serve as executive director of DUAB. Mr. Joyce moved to nominate Ms. Schaafsma to serve as executive director, and Mr. Bennett seconded. The Board voted 4-0 to appoint Ms. Schaafsma as executive director.

Ms. Schaafsma then presented a contract review policy for Board consideration, in the form of Resolution 2017-1. She explained that the DUAB statutes require DUAB to approve the incurrence of certain contractual obligations over \$30,000 or purchases of personal property over \$30,000 for distressed school corporations. She then explained that the proposed contract review policy would delegate the authority to approve contracts and personal property purchases between \$30,000 and \$250,000 to the executive director, in order to allow the school corporations to continue to function efficiently. The proposed policy also would allow the Chairman or DUAB to require full DUAB review even if below \$250,000. Mr. Joyce proposed an amendment to the proposed policy to require the Executive Director to bring such approved contractual obligations before DUAB for review at the next DUAB meeting. Mr. Hatcher made a motion to approve the contract review policy with the amendment proposed by Mr. Joyce. Mr. Joyce seconded the motion. The Board voted 4-0 to approve the contract review policy (Resolution 2017-1).

Chairman Vincent asked the emergency manager for Muncie Community Schools to provide an update. Mr. Steve Wittenauer, Administrator Assistance, introduced the members of his team in attendance, including Steve Edwards, Gib Crimmins, Donna Petraits, and Paul Pfladderer. Mr. Pfladderer provided a financial update on Muncie Community Schools. He indicated that the September 20th payroll would be a key payroll as it should reflect the impact of staffing changes made earlier in the year. He said that the

General Fund would likely end the year with an \$11 million deficit, which include \$9.3 million associated with the 2014 bond issue. Mr. Pfladderer explained that he predicted the debt service fund would end the year with a balance of about \$800,000, the transportation fund would have a balance of about \$660,000 and the capital projects fund would end the year with a deficit of \$2 million. He indicated that health insurance expenses are a concern and may provide an opportunity for savings. Mr. Bennett asked Mr. Pfladderer to clarify that a portion of the savings in health insurance costs would be due to the reduction of staff members. Representative Smith asked for more detail on the 2014 bond issue. Mr. Wittenauer indicated that Administrator Assistance had been working with the Mayor of the City of Muncie to determine if the City may be able to assist Muncie Community Schools.

Mr. Edwards said that they were predicting a loss of approximately 500 students as of the September 15 count date. He indicated that each student resulted in approximately \$6,700 in revenue for Muncie Community Schools. He also indicated the need for Muncie Community Schools to right-size both in terms of facilities and programs. Mr. Edwards described that Muncie Community Schools had already taken several cost-saving measures including privatizing food services, custodial services, and nursing services, selecting a new transportation vendor and closing a number of buildings. He estimated that Muncie Community Schools had saved over \$2.4 million by closing three elementary schools.

Mr. Edwards then discussed that the emergency manager team was looking into the possibility of restructuring the bonds of Muncie Community Schools, in addition to working with local financial institutions on possible loan opportunities. He also discussed memorandum of understanding that had been reached with the Muncie Teachers Association regarding the reimbursement of health insurance premiums for the past two contract years and estimated the reimbursement would yield around \$700,000. In addition, the increased health insurance premiums would yield \$424,000. Mr. Edwards then explained Muncie Community Schools' role as the lead education agency for special education and career and technical education, in addition to the youth opportunity center, and the impact of the financing of these programs on Muncie Community Schools' cash flow. Mr. Edwards also indicated that the emergency manager team was working with Muncie Community Schools to market a number of school properties.

Mr. Edwards then explained that the emergency manager team believes the Muncie Community Schools' budget needs to be reduced to \$38 million over two years, which would be a \$4 million to \$6 million reduction. To do this, Mr. Edwards indicated that staff reductions, program modifications and eliminations, and facility closures may all be options to achieve this reduction. Representative Smith asked about the revenue generated by the sale of the administration building to Ball State University. Mr. Edwards indicated that the sale of this building yielded \$260,000 but that additional cost savings would be realized by not maintaining the building. Ms. Schaafsma requested clarification on the monthly shortfall for 2017, which Mr. Edwards estimated at \$1.5 million per month.

Mr. Wittenauer commented on the challenges that face a school corporation that is seeing declining enrollment but is unable to timely adjust staffing for the decreased enrollment. Mr. Joyce asked if other surrounding school corporations are seeing increasing enrollment as a result of Muncie Community Schools' declining enrollment. Mr. Wittenauer indicated that it was too early to know for certain. Senator Melton indicated that there would be an interim study committee meeting on October 2 to study the fiscal impacts of various issues on school corporations, including declining enrollment. Mr. Wittenauer then explained that Muncie Community Schools is still receiving revenue on a monthly

basis, but that the revenue is not sufficient to cover the monthly bills. Chairman Vincent commented that this was an important point as it is important to send the message that Muncie Community Schools is open and continues to be open. Mr. Wittenauer mentioned that the emergency management team planned to hold a community forum on October 5 to emphasize this point to the community. Senator Melton asked what more could the State be doing to aid the situation. Mr. Wittenauer indicated that they need to see the final numbers before being able to offer legislative suggestions. Ms. Schaafsma explained that they had discussed having Administrator Assistance return in October to provide a financial plan for review.

Chairman Vincent turned the discussion to Gary Community School Corporation. Dr. Peggy Hinckley introduced the emergency management team for Gary Community School Corporation, including Mr. Paul Pastorek and Mr. Eric Parish. She then explained that the emergency management team had been on site for six weeks during which a primary focus was Operation Smooth Start, which included various facility improvements and community outreach efforts. Since school started, the team had transitioned to Operation Uptick to increase enrollment.

Dr. Hinckley further explained other issues facing Gary Community School Corporation, including lack of internal controls, significant debt, and monthly deficits of \$1.7 million. She also discussed the need to create a payroll roster and the need to strategically invest in the school corporation. Dr. Hinckley presented an update on academic performance and plans for academic improvements. Dr. Hinckley then introduced Mr. Parish to present a loan request for \$3,111,000.

Mr. Parish explained that the financial goals of the emergency management team. Goal 1 is to address the monthly structural deficit. Goal 2 is to get through the month of September, which applies to the loan request. Goal 3 is to stabilize the school corporation moving forward. Chairman Vincent asked if the loan request presented included consideration of other health insurance opportunities. Mr. Parish explained that Gary Community School Corporation has had an accumulated debt with Cigna for many years and the loan request is designed to assist the school corporation in getting into a better position with Cigna for the purposes of negotiating health insurance. Mr. Joyce asked for information specific to the amount of debt outstanding. Mr. Parish indicated that he could provide more detail later in the month. Mr. Parish explained that, in general, the school corporation is \$104 million in debt, which is made up of \$40 million in common school fund loans, \$40 million in long-term debt from banks and lenders, \$14 million from bonds, and the remainder would be accounts payable including an amount owed to the IRS. Mr. Joyce asked if the school corporation was paying interest on the outstanding amounts due to vendors. Mr. Parish explained that it is an ongoing challenge to identify the vendors to be paid, given the monthly shortfall.

Senator Melton asked about the transition from the financial specialist to the emergency manager. Mr. Parish indicated that the transition had been cordial. In terms of information shared, Mr. Parish indicated that the financial systems are not as modern as people today are accustomed to. He also indicated that the method in which the financial specialist maintained information was different that how the emergency manager team would look to maintain the information, so there has been some work that had to be redone in order to prepare the financial picture of the school corporation. Senator Melton suggested that it would be helpful to have a combined amortization schedule showing all payments the school corporation is paying on state loans. Chairman Vincent also indicated that the makeup of the debt of the school corporation would continue to change over time.

Mr. Parish then explained the calculation of the monthly revenue being received from the State and the offsets to this revenue. Mr. Bennett asked about the consistent monthly amount for payroll. Mr. Parish explained that he used a common placeholder for payroll information due to regular fluctuations in the amount.

Senator Melton asked the Board what options exist in order to address prior common school fund loans of the school corporation. Chairman Vincent explained that the common school fund loans have been bundled across multiple school corporations to provide funding for the common school fund. Senator Melton then asked what would be required for the emergency manager team to be able to request grants from the DUAB appropriation as provided by Senate Enrolled Act 567. Senator Melton also asked for benchmarks that need to be hit for loan restructuring and loan forgiveness.

Representative Smith asked if DUAB should expect continued loan requests. Mr. Parish indicated that they would anticipate requesting additional loans until such time that they can take actions to right size the school corporation. Representative Smith also asked about the vacant school buildings. Mr. Parish deferred the question as it would be addressed later in the presentation.

Senator Melton asked what conversations had occurred regarding additional revenue sources, outside of building sales. Mr. Parish explained that the emergency management team was working to ensure that all available revenue opportunities had been maximized, including title funds. Senator Melton recommended that the emergency management team speak with Congressman Visclosky's office regarding the outstanding IRS liability. Senator Melton also asked about any additional debt being incurred to do repairs. Mr. Parish indicated that the repairs were being completed using fund balances that existed when the emergency management team started at the school corporation.

Mr. Parish then indicated that they are targeting December 31 completion of the structural deficit reduction plan. They also are working on the 2018 budget and tracking down other miscellaneous financial issues. Chairman Vincent asked about the process for identifying financial systems and controls for the future. Mr. Parish explained that a new financial system would be helpful in both productivity and control, but there would be a cost associated with a change in financial systems.

Senator Melton asked about the transition plan and the inclusion of various stakeholders in the budget process. Mr. Parish indicated that the budget conversations would be taking place in early October. Senator Melton indicated that it was imperative to define the roles and responsibilities for the various stakeholders and to provide timely communication. Dr. Hinckley explained that one of the challenges facing the emergency management team on the budget process is the lack of sufficient detail from prior years and the team is working to establish that information before speaking with stakeholders.

Senator Melton asked Dr. Hinckley to define supplemental pay. Dr. Hinckley explained the supplemental pay would include situations in which teachers worked during the summer, based on the teacher contract, or severance pay. She clarified that supplemental pay does not include extracurricular activities.

Ms. Schaafsma followed up on Senator Melton's comment regarding stakeholders indicating that there would be a meeting on Friday in Gary with various stakeholders. Dr. Hinckley indicated that the Fiscal

Management Board was coordinating quarterly meetings but that they could choose to meet more often if they determine that is needed.

Mr. Pastorek outlined the emergency management team's community engagement plan working draft as included in the Board packet. He indicated that engagement can mean different things to different people and that they have identified a variety of communities to work with. Mr. Pastorek indicated that the parent community is one of the primary communities to engage. He explained that Dr. Hinckley had started to appear on a radio show every two weeks. He also mentioned that the emergency management team planned to conduct a parent survey to understand the concerns of parents. He also indicated that regular meetings were occurring with the School Board president and vice-president and regular meetings with the superintendent. Mr. Joyce asked if the emergency management team had met with students. Mr. Pastorek indicated that they had met with students and provided two examples of positive feedback received from students. He also indicated that challenges continue to occur but that principals were doing a good job of stepping up and addressing these situation.

Senator Melton recommended that the community engagement plan be made public and provide people the opportunity to provide feedback. Senator Melton asked about the timeframe for addressing fire code violations. Mr. Pastorek replied that the highest priorities had been addressed and the emergency management team was now in the process of getting the fire alarm systems certified. Mr. Pastorek then explained that the school corporation has 28 vacant buildings, many of which had not been properly decommissioned. The emergency management team had been working on addressing these buildings and the outstanding inventory in these buildings.

Senator Melton then asked for the timeline associated with hiring a chief academic officer and a chief financial officer. Mr. Pastorek indicated that the emergency management team planned to release the job description within 30 days and they would be posted to the school corporation website.

Chairman Vincent then turned the discussion to the loan request. Mr. Joyce made a motion to approve the loan request of \$3,111,000. Mr. Bennett seconded. Senator Melton recommended that the State look into ways to invest in Gary Community School Corporation, rather than continuing to provide loans. Representative Smith noted that the emergency management was being paid by the State.

The motion to recommend a loan in the amount of \$3,111,000 to the State Board of Finance was approved 4-0.

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

Adjournment: Chairman Vincent adjourned the meeting at 4:02 p.m.