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# STATE OF INDIANA

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DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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## Distressed Unit Appeal Board Meeting Memorandum

September 23, 2016

**Call to Order:** The meeting of the Distressed Unit Appeal Board (DUAB) was held on Friday, September 23, 2016 from 2:35 P.M.-3:50 P.M. EDT. The meeting was held in Room 425 of the Indiana State Library, 140 North Senate Avenue, Indianapolis, Indiana. Board members in attendance were Lisa Acobert, Representative Milo Smith, Paul Joyce, Courtney Schaafsma, and Micah Vincent, Chairman. Staff member in attendance was Mike Duffy, Department of Local Government Finance (DLGF) General Counsel. Members of the Jack Martin Group, representatives of Gary Community School Corporation (GCSC), and various state officials and other persons were also present.

**Discussion:** The September 23, 2016 meeting of the DUAB was called to order by Ms. Schaafsma as Mr. Vincent was delayed. Ms. Schaafsma noted compliance with the Open Door Law and asked the Board members to introduce themselves. She provided an overview of the agenda and explained that Jack Martin would give a presentation on his Deficit Elimination Plan (Plan) for GCSC, but that the Board would not be taking any action concerning GCSC that day. She also stated the Board needed to adopt the minutes from the DUAB's May 20, 2016 meeting and entertained a motion to do so.

**Motion:** Rep. Smith moved to approve minutes from the DUAB's May 20, 2016 meeting. Mr. Joyce seconded the motion.

**Vote:** Ms. Schaafsma voted yes. Rep. Smith voted yes. Mr. Joyce voted yes. Ms. Acobert voted yes. Mr. Vincent was absent. The motion carried by a vote of 4-0.

**Discussion of Meeting Focus:** Ms. Schaafsma then turned the floor over to Mr. Martin.

**Presentation:** Mr. Martin introduced his colleagues.

He then turned to his Powerpoint presentation concerning his Plan. He noted that GCSC is not unlike many other schools facing economic difficulty. He cited declining student enrollment and the resulting decline in revenue. He asserted that GCSC has made significant cuts, but it still faces challenges and that cuts are possible only to a point before quality starts to suffer. He stated that the focus is on the annual operating deficit, and that GCSC is current on its common school fund loans and its obligations to the IRS and bondholders.

He addressed specific pages in his Powerpoint presentation, including those detailing expenditures and revenues. He discussed GCSC's art collection and the various cuts GCSC made for 2016.

He complimented GCSC employees for taking a “sub-bronze” health insurance plan as a cost-savings measure.

He explained that additional staff cuts is the “gorilla in the room” and that the closure of buildings is still in dispute, although an auction of surplus equipment is anticipated to proceed.

He discussed efforts that have been made to raise community awareness of GCSC’s November 2016 operating referendum.

He noted that 2016-2017 student enrollment is less than projected, which could affect GCSC’s deficit.

He discussed two Plan scenarios. Scenario 1 features an annual deficit reduced to \$3,362,566. Scenario 2 features a surplus of \$2,637,434 for 2017, which assumes the referendum passes.

He addressed GCSC’s indebtedness.

He then discussed his concluding recommendations, including more common school fund loans and dissolving or consolidating GCSC if the 2016 ADM count drops.

**Questions to Mr. Martin:** Rep. Smith asked how the Board can make sure teachers receive the money they have earned. Mr. Martin responded that he believes GCSC will be able to make payroll in September, 2016. He also explained that if GCSC does not make cuts, it will not be sustainable.

Mr. Vincent, who arrived at 2:52, asked about GCSC’s outstanding vendor payments. Mr. Martin responded that the vendor debt has been paid down to some degree and that the Scenarios assume GCSC can “nurse” the vendors and pay them something, even pennies on the dollar over ten years. GCSC forecasts that its vendor liabilities are stabilized.

Ms. Schaafsma asked for information concerning how the drop in ADM for the current school year compares to the drop from last school year. Mr. Martin estimated that ADM for the current school year is about 4% to 5% down from last school year. Mr. Vincent added that this is a smaller decrease compared to years past.

Mr. Joyce asked how GCSC’s insurance premium dropped by over \$1 million. Mr. Martin explained that GCSC’s broker dropped the rate after Mr. Martin obtained a quote from another provider.

Mr. Joyce then asked if the State’s health insurance plan would be more or less expensive for GCSC. Mr. Martin explained that the State would not tolerate delinquent payments the way Cigna has.

Rep. Smith asked for clarification concerning a reference made by Mr. Martin to exploding light fixtures at school buildings. Mr. Martin and one of his colleagues, Jerry Greenblatt, responded that older light ballasts have the potential to explode, which has happened at GCSC. There was then general discussion about lighting work at GCSC.

Ms. Acobert asked if GCSC savings measures were planned to begin July 1, 2016. Mr. Martin responded yes. She also asked why he highlighted a portion of the Plan that addresses fiscal takeover of

GCSC. Mr. Martin explained that usually the financial advisor has more power, but that is not the law of this State.

Rep. Smith asked if GCSC had tried to renegotiate the interest rates on its debt. Mr. Martin stated that because of GCSC's high risk, there would be difficulty in doing so. Rep. Smith suggested that if the State backed the common school fund loans, GCSC's interest rates might be lower.

Ms. Schaafsma asked what Mr. Martin had in mind concerning his suggestion that GCSC could borrow against referendum dollars. Mr. Martin indicated that this was something discussed with GCSC's bond counsel, Jimmy Shanahan. There was then general discussion concerning this subject.

**Discussion:** Mr. Vincent then opened the floor to discussion among Board members about the Plan. He emphasized the importance of the referendum in light of the numbers and also the significance of community engagement.

Rep. Smith reiterated that if GCSC could lower its interest rates, then perhaps there would be no need for additional common school fund loans.

Mr. Vincent then turned the floor over to Dr. Cheryl Pruitt, GCSC superintendent.

**Presentation:** Dr. Pruitt discussed a "Superintendent's Report," of which copies were given to Board members. The report highlighted various academic improvements and successes at various GCSC schools. She also addressed the possibility of a Social Impact Bond to aid GCSC. There was some general discussion on this topic.

Ms. Schaafsma asked for details regarding GCSC's work on the referendum. Dr. Pruitt responded that GCSC has been trying to educate the community in light of negative information about GCSC circulating in the community.

Rep. Smith asked if the local paper has taken a position on the referendum. A reporter from the *Tribune* was in the audience, and there was some general discussion about this topic.

Mr. Vincent asked what GCSC's reaction was to Mr. Martin's Plan. Mr. Martin indicated that he and GCSC will need to get into in-depth discussions based on what the 2016-2017 enrollment numbers turn out to be. Mr. Joyce asked if there was a reaction or opposition to the cuts. Dr. Pruitt responded that this question goes to the health of the community.

There was discussion among Ms. Schaafsma, Mr. Joyce, and Dr. Pruitt about the number of cuts and the teacher-to-student ratio in comparison to national standards.

Ms. Acobert asked about the GCSC board backing off a plan to make cuts to maintenance. There was discussion among Ms. Acobert, Dr. Pruitt, and GCSC board president Antuwan Clemons about this topic. Mr. Clemons stated that the GCSC board is willing to work with Mr. Martin and that the board has to make decisions that keep the community and school corporation stable. He alleged that cuts and closures can have the effect of outsourcing students.

**New Business:** Mr. Vincent then turned to new business. Rep. Smith suggested the Board consider recommending that the General Assembly have a member of the House and a member of the Senate serve on the Board simultaneously. The Board also addressed the adoption of revised Board policies and procedures. The revised policies and procedures account for changes in the law since the adoption of the existing policies and procedures, and also include an electronic meetings policy.

**Motion:** Ms. Schaafsma moved to adopt the revised policies and procedures and Rep. Smith seconded the motion.

**Vote:** Ms. Schaafsma voted yes. Rep. Smith voted yes. Mr. Joyce voted yes. Ms. Acobert voted yes. Mr. Vincent voted yes. The motion carried by a vote of 5-0.

**Discussion:** Mr. Vincent thanked those in attendance for coming down for the meeting.

**Adjournment:** The proceedings were adjourned at 3:50 P.M. EDT.