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DISTRESSED UNIT APPEALS BOARD
NON-BINDING REVIEW OF FRANKLIN TOWNSHIP COMMUNITY SCHOOL CORPORATION'S FINANCIAL CONDITION AND OPERATING PRACTICES

Under IC 5-1-5-2.5(d), certain eligible school corporations may issue refunding bonds to refund a percentage of their outstanding bonds to obtain an annual savings to their debt service funds that can be transferred from those funds to the school corporations' capital projects funds, transportation funds, or school bus replacement funds.

A school corporation that meets the requirements of IC 5-1-5-2.5(d)(3)(B) and issues refunding bonds must report information concerning the refunding to the distressed unit appeals board. The law does not require the board's approval of the eligible school's refunding. However, the board shall make a non-binding review with recommendations regarding the school's financial condition and operating practices.

FACTS

1. On July 13, 2012, the distressed unit appeals board (DUAB) received a petition from the Franklin Township Community School Corporation (Franklin) for a non-binding review regarding the school's financial condition and operating practices.

2. Franklin issued refunding bonds in September 2012, extending debt payments by ten years through 2036 and incurring additional expenses totaling $49.4 million. Governing statutes allow certain eligible school corporations, including Franklin, to issue refunding bonds without DUAB approval.

3. The DUAB scheduled a public hearing for September 20, 2012 to hear testimony from Franklin regarding their debt restructuring, as well as their financial condition and operating practices. On August 16, 2012, notice of the hearing was sent to Jane Herndon, bond counsel for the school corporation. Notice of the hearing was posted on the DUAB website on September 13, 2012 and outside the meeting room on September 17, 2012.

4. On September 18, 2012, the DUAB received presentation materials from Franklin for the public hearing.

5. On September 20, 2012, the DUAB conducted a public hearing where it heard testimony from representatives of Franklin, including Superintendent Flora Reichanadter and Director of Business and Finance Chad Blacklock. Jane Herndon, Franklin's bond counsel with Ice Miller LLP, also answered questions from the board regarding the school's debt restructuring.

6. On October 1, 2012, the DUAB sent follow-up questions to Franklin seeking additional information and clarification on comments made during its presentation at the September 20 hearing.

7. The DUAB scheduled a public hearing for November 8, 2012 to adopt recommendations regarding Franklin's financial condition and operating practices. On October 10, 2012, notice of the hearing was sent to Superintendent Reichanadter and Jane Herndon. Notice of the hearing was posted on the DUAB website on October 12, 2012 and at the principal office of the Office of Management and Budget on November 2, 2012.

8. On October 15, 2012, Franklin responded to the DUAB's October 1 letter.

9. On November 8, 2012, the DUAB conducted a public hearing where it adopted recommendations regarding Franklin's financial condition and operating practices by a vote of 5-0.

RECOMMENDATIONS

Indiana law authorizes certain eligible school corporations to refund bonds without obtaining DUAB approval. Under this authority, Franklin refunded a portion of its bonds without going through the petition and remonstrance process requirements and referendum requirements that would otherwise apply. With that option now used and substantial long term debt service costs locked in, it is imperative that Franklin take a serious look at the DUAB's recommendations for sustaining its financial condition. Therefore, pursuant to IC 5-1-5-2.5(j), the DUAB conducts this non-binding review and makes the following recommendations to Franklin.

1. The collective bargaining agreement that Franklin has in place with its teachers through 2014 provides for a salary increment of 4% for most positions. Previous agreements also included an increment equal to at least 4%. In fact, even when factoring in pay freezes during the recent economic recession, many teachers have received annual pay increases of 3-4% over the past decade. The DUAB recommends that Franklin renegotiate with the Education Association to reduce or remove entirely the current increment.

2. Materials submitted by Franklin to the DUAB on July 13th show that the school corporation continues to have $1 annual employee premiums for life insurance, long-term disability, and vision, and $1 monthly premiums for dental. Franklin's total costs in 2011 for these benefits were: $45,581 for life insurance; $124,950 for disability; $46,410 for vision; and $212,504 for dental. The DUAB recommends that Franklin reevaluate these employee premiums.

3. Materials submitted by Franklin to the DUAB on July 13th show that the school corporation provides generous annuities to its administrators and certified employees. Franklin contributes 3% of salaries to a 401(a), resulting in a total cost to the school corporation in 2011 of $1,140,189. In addition, Franklin contributes 0.5% of salaries to a 403(b), resulting in a total cost to the school corporation in 2011 of $121,651. Franklin also contributes 1% of salaries to a VEBA, resulting in a total cost in 2011 of $353,716. The DUAB recommends that Franklin reevaluate these annuities.

4. Materials submitted by Franklin to the DUAB on July 13th show that the school corporation's total fund balances grew from $16.7 million at the end of 2007 to $35.8 million at the end of 2011, an increase of more than 100%. Further, the balance in Franklin's rainy day fund at the end of 2011 was $16.7 million. More than $12 million in 2010 and an additional $2 million in 2011 were transferred into the rainy day fund from other funds, including from the capital projects fund and the bus replacement fund. This accumulation and transferring of financial resources occurred while Franklin reduced its student bus service. Franklin noted at the September 20th hearing that their "plan is not to spend that money unless it is an absolute must." With the goal of protecting classroom services and providing an acceptable level of support services, the DUAB recommends that Franklin develop a long-range financial plan that includes the prudent use of its healthy fund balances as warranted. It is particularly important that the prudent use of fund balances, in addition to aggressive cost savings measures, be closely analyzed when taxpayers are being asked to pay additional property taxes either through a referendum or a legislatively-authorized restructuring that does not require the permission of the taxpayers.

5. Materials submitted by Franklin to the DUAB on October 15th show that the school corporation is currently considering outsourcing lawn mowing services. The DUAB recommends that Franklin also analyze other services that can be outsourced or delivered under a shared services model with other neighboring school corporations or political subdivisions. Bids should be put out for similar levels of services currently being provided by the school corporation in order to make an appropriate comparison before rejecting any proposals.

6. Materials submitted by Franklin to the DUAB on July 13th show that the health insurance trust that the school corporation belongs to began offering the option of a high deductible health plan with a health savings account (HDHP/HSA) in the 2010-2011 plan year. However, Mr.

Blacklock indicated in his testimony at the September 20th hearing that because of Franklin's teacher contracts, the school corporation was not able to implement the HDHP/HSA fully. The DUAB recommends that Franklin renegotiate with the Education Association so that this type of plan can be offered to its employees.

Dated this 8th day of November, 2012.

STATE OF INDIANA
DISTRESSED UNIT APPEALS BOARD

A M Horst

Adam M. Horst, Chairman