
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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Distressed Unit Appeals Board Meeting Memorandum June 28, 2013

Call to Order: The meeting of the Distressed Unit Appeals Board (DUAB) was held on Friday, June 28, 2013 from 9:00 A.M.-12:10 P.M. The meeting was held at One North Capitol, Indianapolis, IN 46204. Board members in attendance were Brian Bailey, Bruce Hartman, Micah Vincent, and Lisa Acobert. Also in attendance were Ryan Jarmula, Office of Management and Budget, and Catherine Wolter, Department of Local Government Finance (DLGF) General Counsel.

Discussion: The June 28, 2013 meeting of the DUAB was called to order at 9:00 a.m. by Board Chair Brian Bailey. Mr. Bailey noted compliance with the Open Door and that the DUAB was meeting to consider the Petitions of the Beech Grove City Schools (Beech Grove).

Minutes: Mr. Bailey submitted the minutes of the November 8, 2012 meeting of the DUAB for approval.

Motion: Bruce Hartman moved to approve the minutes as submitted. Micah Vincent seconded the motion. The DUAB approved the minutes by consensus.

Discussion: Mr. Bailey yielded the floor to attorney Jane Herndon to begin Beech Grove's presentation to the DUAB.

Ms. Herndon introduced various representatives of Beech Grove or otherwise appearing on its behalf and stated that Beech Grove had two petitions before the Board; one seeking a Rainy Day Loan and the other seeking restructuring of the 2005 bond. Ms. Herndon noted that Beech Grove had not received negative comments from the public in connection with the adoption of the resolution to seek relief from the DUAB. Ms. Herndon stated that Beech Grove was seeking a financial bridge and that Beech Grove expected an increase in the tax base and that certain debts would be retired.

Beech Grove Superintendent Dr. Paul Kaiser presented an Executive Summary of Beech Grove's financial situation as well as a spreadsheet of Beech Grove's 20-year plan. Dr. Kaiser indicated that Beech Grove required \$1.6 million to balance its circuit breaker loss. Dr. Kaiser noted it would be an uphill battle to get another referendum passed in Beech Grove. Dr. Kaiser also touted good test scores and the 90% graduation rate despite the 65% poverty level.

Dr. Kaiser noted that Beech Grove had added technology to the school buildings and a comprehensive agri-science program to the curriculum. Dr. Kaiser also noted that Beech Grove had added an additional 500 students to the roster from outside the Beech Grove school district, but that the teachers had not been given raises.

Dr. Kaiser stressed the drop in assessed valuation in Beech Grove and noted that Beech Grove was successful in getting a referendum passed that was tax neutral.

Dr. Tom Keeley of Beech Grove discussed the various cost-saving measures initiated by Beech Grove and also noted the drop in assessed valuation. Dr. Keeley indicated they were doing what they could at the local level to reduce costs.

Dr. Kaiser explained that he had gone to the redevelopment commission to seek financial assistance. Dr. Kaiser noted that assessment appeals and pension debt had a significant impact on Beech Grove's finances. Dr. Kaiser discussed Beech Grove's debt in relation to tax collections as shown on the debt graph provided by Beech Grove.

Dr. Keeley discussed and clarified the debt graph. Dr. Keeley also discussed debt restructuring.

Mr. Vincent asked what would happen with the one year delay in protected taxes. Dr. Kaiser indicated that rainy day funds would be moved to debt. Dr. Keeley noted that Beech Grove would exhaust its money in November and that Beech Grove wanted to pay back its tax anticipation warrants.

Dr. Kaiser noted that the referendum's scope provided the flexibility to transfer money and that Beech Grove had transferred money to the general fund. Dr. Kaiser also noted that Beech Grove had reduced the number of administrative positions. Dr. Keeley stated that general fund money was used to pay for building maintenance. Dr. Kaiser noted that teacher salaries had been reduced and frozen and teaching positions had been eliminated resulting in larger class sizes.

Dr. Keeley discussed health and other benefits at Beech Grove. Dr. Keeley also discussed Beech Grove's attempts at cost cutting.

Dr. Kaiser discussed future growth possibilities and the new businesses coming or expected to come into the area. Mr. Bailey asked about the 4 year tax abatement for ADM Milling. Dr. Kaiser explained that the abatement was set by written agreement. Dr. Kaiser also discussed the Franciscan Place project.

Dr. Kaiser explained that Beech Grove had \$8.8 million in HVAC needs and that Beech Grove had been cited by Marion County for bad air in the buildings. Dr. Kaiser stated that the buildings were 30 years old and that was one of the reasons that Beech Grove needed to restructure the 2005 bond. Dr. Kaiser noted that the repayment of the bond restructure would cost \$8.2 million and would be repaid in the 2020s. Mr. Vincent asked if the \$8.2 million would be a cost to taxpayers and where the increased revenue would come from in 2015. Dr. Kaiser indicated it would come from the expected new businesses. Dr. Kaiser noted that Beech Grove would not make extensive changes to the buildings. Mr. Vincent asked the purpose of 2005 bond. Dr. Kaiser stated that it was to purchase the Hornet Park School.

Dr. Kaiser stated that the rainy day loan was short-term assistance and that Beech Grove could have asked for \$2,698,000 but only asked for \$2 million. Dr. Kaiser testified that the money from the restructured bond would go to the capital projects fund for HVAC. Dr. Kaiser asked for short-term help for long-term gains. Dr. Kaiser stated that the need is now. Mr. Bailey asked whether payment could come out of Common School funds. Dr. Kaiser discussed that Beech Grove receives money based on the poverty level, among

other things. Dr. Kaiser explained that the rainy day loan would be paid out of general funds and cost savings.

Dr. Keeley noted that Beech Grove had not replaced buses and that it currently required 3 buses. Dr. Keeley also stated that Beech Grove had abandoned the 10-year roof plan. Mr. Bailey asked if the schools would open next month. Dr. Keeley indicated he did not know, but Dr. Kaiser felt that the State would not allow the schools to stay closed. Ms. Acobert asked about the cost of the HVAC mitigation. Dr. Kaiser indicated a total cost of \$200,000 per year for HVAC. Mr. Bailey stated that the documents did not show money going into the capital projects fund and asked how the projects would be funded. Dr. Kaiser explained that Beech Grove would use referendum money and restructuring money to pay for the projects. Mr. Vincent expressed concern about Beech Grove's expenses and the balances in various funds. Dr. Kaiser noted that Beech Grove was paying its bills.

Bill Sheldrake of Policy Analytics LLC discussed the document styled 2 Reassessments and a Recession. Mr. Sheldrake noted that Beech Grove's tax base was an outlier. Mr. Sheldrake pointed out that assessments in Marion County dropped sooner than other counties in response to the sub-prime financial problems and the recession and that Beech Grove's continued to fall. Mr. Vincent asked if Beech Grove had the lowest assessments in Marion County. Mr. Sheldrake answered in the affirmative. Mr. Sheldrake noted that Beech Grove could not plan for that type of drop. Mr. Sheldrake stated that he had predicted a drop of 13% but Marion County had an actual drop of 17.5%. Mr. Sheldrake discussed the various causes for the drop.

Sen. Pat Miller was introduced by Dr. Kaiser. Sen. Miller spoke in support of the Beech Grove petitions.

Rep. Cindy Kirchhofer spoke about the Franciscan Place project and in support of the Beech Grove petitions.

Mr. Hartman expressed his gratitude to Beech Grove for the quality of the presentation. Mr. Hartman indicated that Beech Grove had to live within its revenues and look at revenues and expenses. Mr. Hartman asked questions with respect to insurance expenditures and other benefits. Mr. Hartman also noted that Beech Grove's student-to-teacher ratio was excellent. Mr. Hartman asked if Beech Grove had looked to eliminate unnecessary or unsuccessful programs. Dr. Kaiser stated that Beech Grove had reviewed programs, but that they determined to add programs to attract students from outside the district. Dr. Kaiser noted that 500 students were transferring to Beech Grove and that Beech Grove receives more money for more students. Mr. Hartman asked a series of questions about student transportation; including whether buses were full and if Beech Grove owned or leased school buses. Dr. Kaiser responded that buses were full and that there was no savings in leasing. Mr. Hartman admonished Beech Grove not to mortgage the future for today's needs and asked if taxpayers understood that the restructuring would cost an additional \$3.2 million. Dr. Keeley indicated that the taxpayers understood and that Beech Grove had talked about the issue at various meetings.

Ms. Acobert asked if the meetings were well publicized and whether the city officials supported the plan. Dr. Keeley said they did. Ms. Acobert asked whether the circuit breaker loss indicated in the Executive Summary was the 2012 actual loss. Mr. Sheldrake indicated that it was.

Mr. Bailey asked questions about the Beech Grove financial plan. Dr. Kaiser said the cost would be \$450,000 in 2014. In addition, Dr. Kaiser stated that he did not believe that enrollment would drop and that an administrator would be resigning and would not be replaced for a savings of \$125,000. Dr. Kaiser noted that the money followed the students. Mr. Bailey asked about the vocational program. Dr. Kaiser indicated that Beech Grove gets money for teachers with vocational licenses.

Mr. Vincent asked about health care costs. Dr. Kaiser stated that Beech Grove used to have a cafeteria plan but had reduced costs considerably. Dr. Kaiser discussed the benefits plan.

Mr. Vincent asked why Beech Grove did not raise taxes through a referendum rather than through the DUAB. Dr. Kaiser explained that the DUAB plan was the most conservative. Mr. Vincent then asked about the debt rate increase. Dr. Keeley stated that the levy remained consistent increasing by a factor of 3-5% annually and again noted that Beech Grove had no assessed valuation growth. Dr. Kaiser explained that Beech Grove had 2004 pension bonds but that they could not have predicted the tax caps at that time nor could they have anticipated lower assessed values. Dr. Kaiser stated that they had a Common School Loan for the agriculture program, but the assessed values dropped after obtaining the loan. Mr. Bailey asked how Beech Grove knows the agriculture program attracted new students. Dr. Kaiser acknowledged that he didn't know, but that Beech Grove has attracted many more students since the inception of the program.

Mr. Vincent discussed the expenditures per capita in Beech Grove. Dr. Kaiser explained that Beech Grove was spending money to bring in more students. Mr. Vincent inquired about special education in Beech Grove. Dr. Kaiser discussed the measures taken by Beech Grove to reduce the costs of meeting the special education needs of Beech Grove.

Mr. Bailey discussed Beech Grove's debt in relation to the tax caps and the drop in assessed valuation and the acknowledged inability to anticipate those financial changes. Dr. Kaiser stated that it was Beech Grove's goal to eliminate its debt and maintain enrollment levels. Mr. Bailey asked about cost sharing. Dr. Keeley indicated that Beech Grove has a cost sharing procurement program.

Mr. Bailey thanked Beech Grove for the excellent presentation and materials. Mr. Bailey noted that the DUAB had a quorum for the conduct of business. Mr. Bailey then asked for a motion to adjourn. Mr. Hartman moved for adjournment and Mr. Vincent seconded the motion. The motion was taken by consent. The meeting was adjourned at 12:10 p.m.