STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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Distressed Unit Appeals Board
Meeting Memorandum
July 2, 2013

Call to Order: The meeting of the Distressed Unit Appeals Board (DUAB) was held on July 2, 2013 from 9:30 a.m. to 11:03 a.m. The meeting was conducted at One North Capitol, Indianapolis, IN 46204. The meeting was called to order at 9:30 a.m. by Board Chair Brian Bailey. Mr. Bailey noted compliance with the Open Door Law and that the DUAB had a quorum. Mr. Bailey apologized to the assembled company for the delay in the start time due to the late arrival of the court reporter. 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, Michael Duffy, Department of Local Government Finance (DLGF), and Catherine Wolter DLGF General Counsel.

Opening Discussion: Mr. Bailey yielded the floor to attorney Jane Herndon to begin Beech Grove Community Schools (Beech Grove) remarks prior to the DUAB vote on Beech Grove's Petitions.

Discussion: Ms. Herndon discussed the bond restructuring statute IC 5-1- 5(e) and noted that the statutory test was whether the school's financial plan was feasible. Ms. Herndon also stated that the plan was prudent and reasonable for the community.

Bill Sheldrake of Policy Analytics, LLC stated that assessed values had dropped and that Beech Grove was the outlier at the end of the continuum. Mr. Sheldrake also noted that Beech Grove's assessed values had fallen faster than any other unit in the state. Mr. Sheldrake asserted that Beech Grove had planned for the future but could not have anticipated the rapid decline in assessed values.

Dr. Paul Kaiser Beech Grove School Superintendent stated that Beech Grove's petition requests were conservative and reasonable. Dr. Kaiser also noted that students want to attend Beech Grove schools.

Mr. Bailey asked for questions from the DUAB. There being none, Mr. Bailey entertained motions.

Motion: Mr. Vincent moved the DUAB to approve Beech Grove's petition for a Rainy Day Fund Loan. Mr. Hartman seconded the motion. Ms. Acobert voted yes. Mr. Hartman voted yes. Mr. Bailey voted yes. Mr. Vincent voted yes. The motion passed 4-0.

Motion: Mr. Vincent moved the DUAB to deny Beech Grove's petition to restructure the 2005 bond. Mr. Vincent noted that counting on an increase in assessed values was questionable and that it was difficult to anticipate what would happen 10 years in the future. Mr. Bailey seconded the motion. Mr. Bailey also briefly addressed the plan feasibility test that Ms. Herndon had referenced and noted that the DUAB was permitted to look at all available information in making its decision. Ms. Acobert voted no. Mr. Hartman voted yes. Mr. Bailey voted yes. Mr. Vincent voted yes. The motion passed 3-1.

Recess: Mr. Bailey briefly recessed the DUAB in order for Beech Grove to leave the room and allow Mt. Vernon Community Schools (Mt. Vernon) to prepare for its presentation.

Discussion: Mr. Bailey noted that the DUAB was back on the record and that it would hear Mt. Vernon's presentation on its petition for a Rainy Day Fund Loan.

Dr. Bill Riggs Mt. Vernon Superintendent thanked the DUAB for postponing the meeting to accommodate a schedule conflict. Dr. Riggs gave a brief history of Mt. Vernon's situation. Dr. Riggs noted that the economic downturn, the drop in assessed valuation, the imposition of the circuit breaker, and uncollected taxes had contributed to Mt. Vernon's financial situation. Dr. Riggs also discussed the drop in ADM in Mt. Vernon over the past several years. In addition, Dr. Riggs noted that because of the levy freeze in the 1970's Mt. Vernon had been locked into a lower rate and experienced smaller increases than units that had levied higher at the time of the levy freeze. Dr. Riggs explained that Mt. Vernon lost referendums in 2010 and again in 2012. Dr. Riggs also discussed new facility appeals and the funding reforms. Dr. Riggs noted a $5.1 million deficit in 2011. Dr. Riggs also discussed Mt. Vernon's restructured debt and the cuts made or to be made to lower expenses. Dr. Riggs stated that in summary at the start of 2012 Mt. Vernon was $5,800,000 short of meeting existing debt service obligations, pension debt service, transportation, bus replacement, and capital project fund obligations. In addition, Dr. Riggs discussed the many cost saving measures that Mt. Vernon had undertaken. Dr. Riggs asserted that if Mt. Vernon received the state Rainy Day Loan, it would allow Mt. Vernon to pay off the accumulated remaining debt and that Mt. Vernon would be able to complete 2013 without any carryover debt for 2014.

Mr. Dan Kramer Mt. Vernon financial advisor presented a financial spreadsheet to the DUAB. Mr. Kramer noted that Mt. Vernon had undertaken extraordinary measures to bring expenses in line with revenue. Mr. Kramer then discussed repayment of the requested loan. Mr. Kramer asked that the payment be made from debt service. Mr. Vincent indicated that a Rainy Day Loan was not a bonded indebtedness and, therefore, Mt. Vernon could not get a debt service rate outside the maximum levy. Mr. Vincent asked why the existing fund balances could not be used to pay the existing debt. Mr. Kramer explained that the funds were for particular purposes. Mr. Kramer noted that Mt. Vernon's revenues exceeded expenditures by about $38,000 for the first six months of the year. Mr. Hartman asked if that was for tax funds or the general fund. Mr. Kramer indicated that it was for the general fund only. Mr. Kramer acknowledged that Mt. Vernon's bond restructuring would make things difficult for Mt. Vernon in 10 years.

Mr. Bailey explained that the members of the DUAB would be permitted to pose questions to Mt. Vernon and that if the members had additional questions after adjournment, those questions would be forwarded to Mt. Vernon.

Mr. Hartman asked what Mt. Vernon meant by accumulated debt. Mr. Kramer indicated that it is a shortfall of revenue to expenses. Dr. Riggs indicated that Mt. Vernon was carrying over expenditures from one year to the next. Mr. Kramer discussed the problem of showing negative balances on Mt. Vernon's books.

Mr. Bailey asked if Mt. Vernon teachers would receive increment increases. Dr. Riggs indicated that they would not. Dr. Riggs also pointed out that a greater number of students in Mt. Vernon were on the free and reduced cost lunch program and that a greater number of students were delinquent or not paying book fees than there had been before.

Mr. Hartman asked about Mt. Vernon's ADM. Dr. Riggs indicated that it was leveling off and that Mt. Vernon was in a position to grow. Dr. Riggs also discussed annexations and how they affected Mt. Vernon.

Mr. Bailey asked about Mt. Vernon's debt restructuring. Mr. Kramer discussed the 10 year payback. Ms. Acobert asked how Mt. Vernon was handling the deficit at the end of the year. Mr. Kramer indicated that it was paid from internal funds. Mr. Bailey asked how the Rainy Day Loan would be repaid. Mr. Kramer stated that if the repayment had to come from non-property tax funds, it would come from the General Fund.

Mr. Hartman asked about the attitude of the community with respect to support of the school. Dr. Riggs admitted that a segment of the population was aggressively against tax increases to support the school since only 18% of the population had children in the school system, but that the community was generally supportive of the schools.

Mr. Bailey asked about employee benefits. Dr. Riggs indicated that significant changes had been made to reduce those costs including a four school sharing program. Dr. Kramer admitted that a particular level of savings could not be guaranteed. Mr. Vincent asked about cost per unit for insured employees. Dr. Riggs believed it to be $30 per month for each insured.

Ms. Acobert asked about the tuition support ADM estimate and the difference between last year's ADM and the ADM estimate and whether the $735,000 mentioned included basic and complexity factor index funds. Mr. Kramer indicated that it did.

Mr. Bailey asked what Mt. Vernon would do if it did not get the Rainy Day Loan. Dr. Riggs indicated that Mt. Vernon would have to make additional cuts and that they would be precluded from giving employee pay raises. Dr. Riggs indicated that Mt. Vernon had to eliminate debt so that employees could be treated with respect. Mr. Bailey asked how Mt. Vernon would take care of the rest of the deficit if it did get the Rainy Day Loan. Dr. Riggs explained that Mt. Vernon had savings from putting off projects or completing them for less cost than anticipated.

Ms. Acobert asked what other projects were being paid out of the capital projects fund. Dr. Riggs indicated that Mt. Vernon was paying for utilities and technology associates from the fund. Mr. Vincent pointed out that it appeared that there was $2.4 million left over in the capital projects fund at the end of 2013 and asked if that was because Mt. Vernon had projects. Mr. Kramer indicated that it did not.

Mr. Bailey asked if there were additional questions from the DUAB members and there were none. Dr. Riggs thanked the DUAB and said that Mt. Vernon was seeing the light at the end of the tunnel. Mr. Bailey said there could be other questions from the DUAB members which would be forwarded to Mt. Vernon.

Adjournment: Mr. Bailey asked for a motion to adjourn. Mr. Vincent so moved and Mr. Hartman seconded the motion. The motion was passed by consensus, whereupon, the hearing was adjourned at 11:03 a.m.