
STATE OF INDIANA



Distressed Unit Appeals Board Meeting Memorandum (Minutes) September 24, 2013

Call to Order: This meeting of the Distressed Unit Appeals Board (DUAB) was held on September 24, 2013 from 9:00 A.M.-10:21 A.M. at One North Capitol, Indianapolis, IN 46204. Board members in attendance were Christopher Atkins, Sen. Ed Charbonneau, Paul Lottes, Micah Vincent, and Lisa Acobert. Also in attendance were Andrew Kossack General Counsel and Policy Director, Office of Management and Budget, and Catherine Wolter, General Counsel Department of Local Government Finance.

Discussion: The meeting was called to order by DUAB Chair Christopher Atkins at 9:00 a.m. Mr. Atkins noted a quorum and compliance with the Open Door Law.

Minutes: Mr. Atkins submitted the minutes of the June 28, 2013 and the July 2, 2013 meetings of the DUAB for approval.

Motion: Micah Vincent moved to approve the minutes as submitted. Paul Lottes seconded the motion. The DUAB unanimously approved the minutes.

Discussion: Mr. Atkins noted that the DUAB was required to take final action on Mt. Vernon Community School Corporation's (Mt. Vernon) petition for a Rainy-Day Fund loan, but more specifically, that the DUAB was to make a recommendation to the State Board of Finance regarding the loan. Mr. Atkins stated that Dr. William Riggs and Dan Kramer of Mt. Vernon would present the answers to the DUAB's questions that had previously been submitted to Mt. Vernon and that discussion on those answers was likely. Mr. Atkins also noted that the meeting was likely to be continued until the following Tuesday for a final vote. Dr. Riggs asked if the continued hearing would be in that room and Mr. Atkins replied that it was likely. Mr. Atkins yielded the floor to Dr. Riggs.

Dr. Riggs introduced Shelton Oakes and Mr. Kramer to the DUAB. Dr. Riggs called upon Mr. Kramer to address the first question.

Mr. Kramer discussed the issue of a debt service for the loan. Mr. Vincent noted that the issue was an open question. Mr. Oakes noted that Standard and Poor's indicated that Mt. Vernon had made progress in aligning operating expenditures with state funding but that, as a result, Mt. Vernon had lost good teachers because they had not given raises in three years. Mr. Oakes also said that if Mt. Vernon was not permitted to pay the loan through debt service, Mt. Vernon would have to make more cuts. Mr. Oakes, Mr. Atkins, Mr. Kramer, and Mr. Vincent then discussed the potential repayment of the requested loan. Mr. Atkins asked if Mt. Vernon wanted to use the loan proceeds to liquidate outstanding invoices. Dr. Riggs stated that they were trying to have an infusion of cash to pay off debts. Mr. Atkins asked what would happen if Mt. Vernon did not get the loan. Mr. Kramer that it

would likely be three or four years before the debts would be repaid. Dr. Riggs disagreed on the timeframe for debt repayment under those circumstances.

Mr. Vincent, Mr. Kramer, and Dr. Riggs discussed the increment from Mt. Vernon's loan restructuring. Mr. Kramer indicated that Mt. Vernon had not done a lot of earmarking. Dr. Riggs noted that the transportation fund would likely receive significant money. Dr. Riggs also pointed out that Mt. Vernon had been leasing buses instead of buying them. Mr. Vincent asked if the increment money would be used to reduce the debt. Mr. Kramer said no. Dr. Riggs said that the increment they were talking about is the part Mt. Vernon took up front, not the annual increment. Mr. Atkins asked what Mt. Vernon's fund balances were like in order to determine if there was additional internal liquidity to help pay Mt. Vernon's invoices. Dr. Riggs indicated that either \$1.6 or \$1.9 million had been set aside for that purpose. Mr. Kramer said that \$2 million of the increment was available for that purpose.

Mr. Kramer and Dr. Riggs responded to the question of how the needed money would be raised if Mt. Vernon did not get the loan. Dr. Riggs talked about meeting with the legislators and having community meetings. Dr. Riggs also noted that Mt. Vernon had a growing enrollment which would help the financial situation. Dr. Riggs indicated that a loan could be repaid out of the general fund. Mr. Kramer stated that the loan repayment would be about 2% of Mt. Vernon's monthly distribution of state aid.

Mr. Atkins asked why it would be necessary to make \$2.5 million in cuts all in one year if Mt. Vernon did not get the loan. Dr. Riggs indicated that Mt. Vernon could not do that but would have to make additional cuts and inter-fund loans. Mr. Atkins noted that Mt. Vernon would have \$1 million more in revenue next year and that Mt. Vernon was asking for \$2.5 million in loan. Mr. Atkins further noted that 40% of the problem could be solved by the expected additional revenue next year.

Dr. Riggs discussed the issue of hiring and retaining teachers in Mt. Vernon and the good performance of the school district. Mr. Atkins acknowledged the quality of the schools in the district.

Mr. Vincent asked if Mt. Vernon would be headed toward the same financial difficulties when current beginning teachers moved up the pay scale. Dr. Riggs noted that the formula was designed to close the gap between districts that are receiving the highest and lowest per-pupil funding. Dr. Riggs also indicated there was reason to believe that the area would be growing in the future. Mr. Vincent and Dr. Riggs also discussed ADM growth.

Senator Charbonneau asked what legal barriers there were to the DUAB doing its job. Dr. Riggs mentioned the issue of whether Mt. Vernon could get a debt service levy to repay the loan or whether it would have to be repaid out of the General Fund. Mr. Atkins noted that the DUAB was given the discretion to make decisions concerning the petitions brought in front of the Board.

Mr. Atkins asked if Mt. Vernon had hired a financial consultant as recommended by the DUAB. Mr. Kramer stated that Mt. Vernon had hired budget consultant Marvin Ward. Dr. Riggs also indicated that Mt. Vernon had spoken with House fiscal analyst David Dukes about some things Mt. Vernon could try in order to save money.

Mr. Atkins asked about outsourcing services and joint services arrangements with other school districts. Dr. Riggs said Mt. Vernon had not looked into joint services.

Mr. Vincent asked why the DUAB was in a better position to help Mt. Vernon than the local voters. Dr. Riggs indicated that the community supported the schools but were ultraconservative when it came to paying taxes.

Mr. Kramer discussed the general fund deficit increase and indicated it was a carryover from 2011. Mr. Kramer also indicated that Mt. Vernon did not have any temporary loans. Mr. Vincent stated that Mt. Vernon had high interest rates. Mr. Kramer indicated that the Indiana Bond Bank had structured their loan as a draw loan and raised the interest rate. Mr. Kramer said, however, that when Mt. Vernon went into the open market, the interest rate would be lower.

Dr. Riggs discussed Mt. Vernon's involvement with the four redevelopment commissions in the school district. Dr. Riggs noted that Mt. Vernon had not been able to talk them into releasing any AV for the school district.

Mr. Kramer discussed the restructured bonds. Mr. Kramer acknowledged that it was an expensive process. Mr. Atkins asked if Mt. Vernon had any long-range financial plans. Mr. Kramer indicated that Mt. Vernon did not have such plans.

Dr. Riggs addressed the question of what Mt. Vernon had been doing since November of 2012. Dr. Riggs said Mt. Vernon had been replacing experienced teachers with inexperienced teachers as a cost saving measure. Dr. Riggs also indicated that Mt. Vernon had realized a \$775,000 savings on insurance costs. Dr. Riggs then discussed healthcare options in the district and additional cost saving measures employed by Mt. Vernon. Mr. Atkins commended Mt. Vernon on the cost saving measures. Mr. Atkins and Mr. Vincent asked about other cost saving measures including special education cooperatives and service centers. Mr. Kramer indicated that Mt. Vernon was a part of East Central Educational Services.

Dr. Riggs discussed the changes to the collective bargaining law and how it affected Mt. Vernon. Ms. Acobert noted that the DUAB was waiting for information on the total amount of savings. Mr. Atkins indicated that the DUAB would like that information within 48 hours. Ms. Acobert also asked for a legal opinion on the loan debt repayment issue. Mr. Atkins also asked for that opinion within 48 hours.

Mr. Lottes inquired about the balance in the state rainy day fund. Mr. Atkins said the technical legal answer was around \$300 million.

Mr. Atkins stated that the DUAB would not be able to make a decision at that time but that the DUAB would vote at the continued meeting the following week.

Motion: Mr. Atkins entertained a motion to continue the meeting until Tuesday, October 1st at 9:00 a.m. Senator Charbonneau so moved and Mr. Vincent seconded the motion. The vote was unanimous in favor of the motion to continue the meeting.

Meeting Continued: Mr. Atkins thereupon continued the meeting until Tuesday, October 1st at 9:00 a.m. The meeting ended at 10:21 a.m.