STATE OF INDIANA

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Distressed Unit Appeals Board
Meeting Minutes
September 20, 2012

Call to Order: The meeting of the Distressed Unit Appeals Board (DUAB) was held on Thursday, September 20, 2012 from 9:20 A.M.-12:00 noon and 1:15 P.M.-3:00 P.M. The meeting was held at One North Capitol, 9th floor conference room, Indianapolis, IN 46204. Board members in attendance were Adam Horst, Brian Bailey, Representative Milo Smith, Doug Meredith, and Bruce Hartman. Also in attendance were Cristopher Johnston, Deputy Chief of Staff, Office of the Governor; Ann Kaiser, Office of Management and Budget (OMB) General Counsel; and Cathy Wolter, Department of Local Government Finance (DLGF) General Counsel.

Discussion: The September 20, 2012 meeting of the DUAB was called to order at 9:20 A.M. by Board Chair Adam Horst. Mr. Horst welcomed the Board and assembled company and noted compliance with the Open Door Law.

Minutes: Mr. Horst submitted the minutes of the April 13, 2011 meeting of the DUAB for approval.

Motion: Mr. Bailey moved to approve the minutes as submitted. Mr. Hartman seconded the motion. The motion carried by a vote of 5-0.

DUAB Policies and Procedures: Mr. Horst submitted the DUAB Policies and Procedures for approval.

Motion: Mr. Hartman moved to approve the Policies and Procedures as submitted. Mr. Bailey seconded the motion. The motion carried by a vote of 5-0.

Further Discussion: Mr. Horst explained that the DUAB would hear a total of three petitions; the petitions of Franklin Township Community School Corporation (Franklin) and Mt. Vernon Community School Corporation (Mt. Vernon) would be subject to a non-binding review, but the petition from the Metropolitan School District of Wayne Township (Wayne) was subject to binding review. He explained the expectations for the presentations by the school corporations and noted that the DUAB would not vote during the meeting. Mr. Horst further explained that the next meeting of the DUAB would take place on October 3, 2012. Mr. Horst then asked for the presentation by Franklin.

Franklin Township Community School Corporation

Presenting for Franklin: Dr. Flora Reichanadter, Superintendent and Chad Blacklock, Business Manager.

Discussion: Dr. Reichanadter provided an overview of the Franklin schools and stressed the academic success they have achieved.

Mr. Blacklock reviewed the presentation materials provided by Franklin and explained its bond restructuring. Mr. Blacklock indicated that Franklin was in the bottom one-third of state funding and explained the effect of the property tax caps on Franklin's finances. He explained that Franklin was not bringing in sufficient revenue to meet its debt service requirements. Mr. Blacklock reviewed Franklin's expenditure reductions and other cost cutting measures and provided a summary of action taken prior to debt restructuring. Mr. Blacklock then gave an overview of Franklin's long-term strategic plan.

Mr. Horst expressed appreciation for the presentation. Rep. Smith noted that there had been two school referenda in Franklin Township that had failed and asked how the plan benefits the taxpayers. Dr. Reichanadter indicated that Franklin had support from members of the community who had been educated about the financial situation. Mr. Blacklock discussed the increased cost to taxpayers under the restructuring plan.

Rep. Smith expressed concern about the long- term effects of delayed maintenance in the schools. Dr. Reichanadter indicated that Franklin was looking at other efficiencies. Rep. Smith complimented Franklin on its ISTEP score increases.

Mr. Bailey asked if the 2007 bond had been restructured. Mr. Blacklock indicated that the plan was not to restructure the 2007 bond and he discussed the metrics Franklin would use if it came before the DUAB on the 2007 bond. Mr. Bailey asked whether the amortization of the $342 million principal and interest included pensions and other similar obligations and asked about the net present value of the debt service. Mr. Randy Ruhl of City Securities Corporation discussed the net present value as $9 million and indicated a 3.7% rate for the new bonds. Mr. Bailey indicated that restructuring would represent a tax increase for the taxpayers as a result of the additional years of debt, which Franklin representatives acknowledged.

Mr. Horst noted that Franklin had no large capital improvement plans and asked how it could go without such plans. Dr. Reichanadter indicated that Franklin may have some facility challenges but that it has some buildings for future use. Mr. Horst asked if Franklin had considered cooperative functions. Dr. Reichanadter explained that Franklin was in a special education cooperative and had looked at and implemented other cost-saving measures.

Rep. Smith asked whether healthcare costs could be reduced through the state plan. Mr. Blacklock indicated that the health trust Franklin has is less expensive than the state plan. Mr. Horst expressed concern over the very low premiums paid by Franklin employees for their benefits. Mr. Horst and Dr. Reichanadter discussed teacher salaries.

Mr. Horst stated that certain fund balances had doubled since 2007. Mr. Blacklock indicated that the Rainy Day fund will be used for debt and transportation and that Franklin will still lose money to the caps. Rep. Smith emphasized that Franklin must maintain its buildings and that the value of the buildings had been overstated. Mr. Blacklock explained that the values were replacement values. Mr. Meredith expressed concern about maintenance costs. Mr. Hartman expressed appreciation of Franklin's problems but noted that the pain was not over. Mr. Horst thanked the presenters.

Recess for 15 minutes

Reconvene: Mr. Horst asked for the presentation by Mt. Vernon.

Mt. Vernon Community Schools

Presenting for Mt. Vernon: Dr. Bill Riggs, Superintendent and Dan Kramer, Business Manager

Discussion: Dr. Riggs discussed Mt. Vernon school funding and the make-up of its student population. He noted that Mt. Vernon had a per-pupil funding level below the state average. Dr. Riggs stated that a school referendum had failed. Dr. Riggs explained that Mt. Vernon had cut 4.1 million dollars out of its budgets by cutting extracurricular activities, eliminating administrator positions, freezing teacher pay, and reducing the number of substitute teachers, among other things. Dr. Riggs reviewed several graphs he provided to the DUAB concerning debt restructuring, student enrollment, drops in assessed value in the district, cap losses, and the effect of not restructuring the debt.

Mr. Horst introduced the topic of debt restructuring. Rep. Smith discussed the cost of the restructuring to taxpayers and noted that a referendum in the district had failed. School Board President Shelton Oakes noted that there had been town hall meetings during which attending citizens indicated they wanted Mt. Vernon to do whatever was necessary to keep the school doors open. Mr. Oakes discussed the need to lobby the legislature for a change in the school funding formula.

Mr. Horst noted that as to the second bond issue the actual debt service was higher than before. Mt. Vernon legal counsel Jane Herndon explained that Mt. Vernon held hearings in July and August to apprise the public and that there would be another referendum in November. Mr. Bailey discussed the restructuring fees and noted that for the 2007-2008 restructuring, the fee was $70,200 and the underwriting fee was $180,485, and for the 2005 restructuring the fee was $21,300 and the underwriting fee was $193,007. Mr. Bailey asked if Mt. Vernon was counting on a change in the school funding formula. Dr. Riggs agreed that Mt. Vernon was counting on a change in the school funding formula and expected growth in the community. Mr. Bailey asked if there would be capital expenditures in the future. Mr. Kramer noted that the restructuring hampered Mt. Vernon's ability for projects in the future but that Mt. Vernon was hoping for a better future and was willing to take the risk.

Rep. Smith inquired whether Mt. Vernon was undertaking preventative maintenance of its buildings. Dr. Riggs explained that Mt. Vernon was completing preventative maintenance and that it was using work-release prisoners to do some maintenance to save money.

Mr. Horst noted that school enrollment was static, as was the FTE chart, and questioned the number of positions actually eliminated. Dr. Riggs indicated that Mt. Vernon would be seeking a loan to pay off debt and that the increment savings from restructuring would be used to pay for the loan and maintenance. Mr. Bailey asked how much money was expected if the November referendum passed. Dr. Riggs indicated that $680,000 was expected to be generated by the referendum. Rep. Smith admonished Mt. Vernon not to count on a change in the school funding formula.

Mr. Horst questioned how Mt. Vernon was handling its cafeteria services, maintenance, and transportation needs. Dr. Riggs explained that the maintenance was done in part by students, that the cafeteria was making money, and that the bus drivers took a decrease in salary. Mr. Horst noted that the employee share of contract benefits was extremely low. Dr. Riggs explained that such benefits will be limited starting in 2013 due to recent legislation. Mr. Horst requested salary mapping for a cross-section of individuals for a period of ten years. Dr. Riggs thanked the DUAB for the opportunity to make the presentation.

Recess for 1 hour and 15 minutes

Reconvene: Mr. Horst reconvened the DUAB at 1:15 P.M. and asked for the presentation by Wayne.

Metropolitan School District of Wayne Township

Presenting for Wayne: Dr. Jeff Butts, Superintendent and Dennis Tackitt, Business Manager

Discussion: Dr. Butts discussed the make-up of Wayne's schools in terms of ethnicity and socio-economic status. Dr. Butts noted that 70% of the student population receives free or reduced lunch, that there are 67 different languages spoken in the school district, and that half the school population is served by special programs. Dr. Butts noted that Wayne has 250 business partnerships and did community outreach. Dr. Butts indicated that Wayne has 2,300 employees, with 1,300 being non-certified and 1,000 being certified teachers and administrators.

Mr. Tackitt noted that the area has lost significant assessed valuation to the airport and that a number of large industrial businesses had closed their doors. He also indicated that the area is leading in assessed valuation loss at 8%. Mr. Tackitt discussed the spreadsheet he prepared for the DUAB. Mr. Tackitt indicated a projected $8.8 million loss to the general fund for 2013. Mr. Tackitt also discussed the projected deficit of $6.3 million dollars in the CPF for 2013 which included a suggested $4.4 million dollars for preventative maintenance.

Mr. Rod Wilson of City Securities discussed the proposed restructuring to extend the next five years of principal and interest payments on the school district's 2005 and 2007 bonds by using capital appreciation bonds that mature beginning in 2022, with the heaviest maturities beginning in 2031 and running to 2039. He stated that this framework would provide value upfront and postpone the impact to taxpayers for a while.

Mr. Tackitt discussed Wayne's cost-benefit analyses for expenditures and the cost saving measures that Wayne had undertaken. Dr. Butts discussed outsourcing and the teacher contract.

Mr. Wilson further discussed the debt restructuring and the effect of postponing the greatest debt to the future with an end date of 2039. Mr. Wilson indicated that the aggregate total cost to taxpayers will be $83.1 million, which reflected a short-term savings of $32.7 million. Mr. Wilson indicated that school building improvements would be deferred but that preventative maintenance would help the buildings last longer. Mr. Wilson discussed capital appreciation bonds and the interest rates and noted that Wayne would not pay current interest. Mr. Horst commented that there was no financial plan, only debt.

Dr. Butts discussed his expectations with respect to Tax Increment Financing (TIF) in the area. Mr. Tackitt indicated that some TIF could be permanent as a result of obsolescence appeals.

Mr. Bailey asked how the future was going to improve. Dr. Butts noted that Wayne would have to live within its means after the debt was retired. Mr. Tackitt stated that Wayne needed time to recover. Mr. Horst noted that Wayne would be spending cash reserves today to buy time. Mr. Tackitt stated that Wayne is losing desegregation money and that the cash reserves are down. Dr. Butts indicated that Wayne would discontinue programs and sell school buildings if it did not obtain additional money. Mr. Hartman asked if Wayne had realized all the savings it could. Dr. Butts stated that he chose not to cut programs.

Mr. Horst thanked the presenters and expressed an appreciation of Wayne's financial situation but indicated that there would be additional questions for Wayne at the next meeting of the DUAB which is scheduled for October 3, 2012.

Adjournment: Mr. Horst adjourned the meeting at 3:00 P.M.