

MINUTES OF  
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

Minutes of the Regular Meeting of the Board of Directors

July 17, 2017

MEMBERS PRESENT: Dennis Charles  
Sarah Rubin  
Bryan Moll  
Terri Jett  
Michael Carter

BOND BANK PRESENT:  
Sarah S. Riordan Brad Busse  
Isaiah Kuch Kyle J. Willis  
Laurie Canatsey André Zhang Sonera  
Karen Strunk

OTHERS PRESENT:

Katie Aeschliman, <i>BMO Harris Bank</i>	Darryl Mergenthal, <i>BNY Mellon Trust Co.</i>
Angie Steeno, <i>Crowe Horwath</i>	Alex Ervin, <i>Crowe Horwath</i>
Sharon Karst, <i>US Bank</i>	Matt Nunley, <i>PNC Bank</i>
Bob Kocher, <i>US Bank</i>	Julie Bolling, <i>Krieg DeVault</i>
Catherine Fanello, <i>Krieg DeVault</i>	Nancy Dorsa, <i>J.P. Morgan Chase</i>
Xiao Ou Yuan, <i>Fifth Third Bank</i>	Michael Allen, <i>Ice Miller</i>
Ben Kimmerling, <i>Somerset CPAs</i>	Becky Fromm Quintana, <i>Somerset CPAs</i>
Mike Gilmore, <i>Huntington Bank</i>	Jacob Crouch, <i>Huntington Bank</i>
Mark Leach, <i>DMD</i>	

A Regular Meeting of the Indianapolis Local Public Improvement Bond Bank (“Bond Bank”) convened at 12:02 p.m., Monday, July 17, 2017 in the City-County Building, 200 East Washington Street, Suite 107, Indianapolis, Indiana. Pursuant to notice given in accordance with IC 5-14-1.5, Mr. Dennis Charles determined that a quorum was present and the meeting was called to order.

First, was approval of the minutes of May 15, 2017. Rubin asked for a minor edit in the minutes and then made a motion to approve with the necessary corrections. Moll seconded the motion. All voted in favor and the motion was passed.

Next, was approval of the minutes of June 19, 2017. Rubin made the motion to approve, seconded by Jett. All voted in favor and the motion was passed.

Riordan explained that the Bond Bank had an external audit of the 2016 Financials completed by Somerset CPAs. The actual audit itself was presented at last month's Board Meeting without a quorum present. There were no action items on the audit at that time. Riordan provided the floor to Becky Fromm Quintana of Somerset CPAs to present the audit and ask for the Board's acceptance and approval.

Quintana introduced herself as the Audit Sign Off partner and also introduced Ben Kimmerling, Concurring Reviewer. Quintana explained the 2016 Audit showed the 2016 Financial Year to be business as usual and not a significant year for the Bond Bank. Somerset CPAs are prepared to issue a clean opinion of the 2016 Audit pending approval of the financial statements from the Board. Quintana discusses that the Audit Wrap-Up letter is separate from the financials. It was discussed and decided that the Board should vote separately on the 2016 Audit and the 2016 Audit Letter.

Then was the approval of the 2016 Audit. Moll made the motion to approve, seconded by Rubin. All voted in favor and the motion was passed.

Next, Quintana went over the Audit Wrap report page by page to highlight details. The letter to the Board explains that Somerset performed the audit in accordance with accounting and auditing standards and the plan of attack did not significantly change from when Somerset first met with management. Page 1 confirms Somerset has substantially completed their audit, are prepared to complete a clean opinion, and states that Bond Bank management was fully cooperative and helpful throughout the audit.

Page 2 summarizes the accounting practices, policies, and significant estimates. Bond Banks' accounting practices are appropriate and comply with the generally accepted accounting principles. While it was business as usual for the Bond Bank, GASB was very active and issued a lot of new governmental accounting standards. Those that the Bond Bank was required to adopt did not change the financial statements to any financial degree. Quintana added that there are lots of new GASB issuances in the pipeline and this will be a recurring issue. The Bond Bank has a lot of significant estimates and the audit found no material changes in how management came up with estimates. The bottom of page two lists the three largest in material estimates that the Bond Bank has. The valuation of receivables, management looks at past collectability and the Bond Bank is fortunate to have lots of history with the QEs. The fair value of investments, SWAPs, and derivatives is double-checked by Busse checks and there is a 3<sup>rd</sup> party who also assists and does an independent calculation, which Somerset can compare and check as well. The SWAP has always been effective interest rate which is good. There is also a 3<sup>rd</sup> party who helps with the fair value estimate of the Pension Obligation which really limits the risk of material mistake statement due to estimate.

Page 3 has one proposed audit entry related to the pension obligation, stapled to the back of the audit. Management elected to record the entry. Page 4 discusses the internal controls recommendation and goes over several pages. There are three types of internal control deficiencies: material weaknesses, significant deficiencies, and operational suggestions and are listed in severity. Quintana explained that the audit found a couple material weakness in segregation of duties at the Bond Bank. Quintana added that it is very normal for an organization

of Bond Bank size, with their limited management and accounting department. Weaknesses found were related to receipts, payroll and disbursements and management were very receptive in tweaking internal policies and procedures. Management has already changed some of their own policies and procedures to mitigate any material weaknesses.

Page 6 identifies any significant deficiencies found during the audit, the moderate level of severity. First, is improving communication where QEs make an advance payment ahead of maturity. When Busse records transactions, he goes off of the payment or amortization schedule, so when a QE makes a payment he may not be aware of it which could lead to a misstatement in the financials. This happened a couple of years ago, however, Busse was able to catch it through his own internal procedures. Management can implement a few internal controls so that does not happen. Due to the limited size of the accounting department, there are some journal entries that do not go through second reviews. There are mitigating controls because management does look at monthly and interim financials. Busse, Riordan, and Canatsey are very good at double checking, but it would be easy and cost effective to add an additional layer of review.

Page 7 is the operational suggestions and best practices to follow. Data backup and security of information are very important, Somerset recommends that management saves their information and data on the City Shared Drive. Next, regarding the Bond Banks's net position, equity in the organization has decreased in the past couple years. This is not a surprise to management based on the ongoing activities at the Bond Bank and has been suggested for them to continue to monitor through the budgeting process. Quintana covered the review of accounts receivable and allowance for collectability. Because the collectability is solely determined by management, there could be a separation of duty issue. The recommendation is for the Board to help determine collectability or accounts receivable at least annually as another level of review. The SWAP agreement has always been effective and if they become ineffective it could have a material impact on the Bond Bank statements and management knows to watch out for effectiveness. Page 8 includes management responses to recommendations and Quintana notes that management has reviewed and already started to implement suggestions.

The last couple pages include standard wrap up language that is required to be communicated. Quintana summarized that Somerset is prepared to issue a clean opinion. Somerset did not have any issues and the planned scope went as expected. Management cooperated fully and Somerset is unaware of management opinion shopping. There were no difficulties and no specialized skills needed to complete the audit. Lastly, Quintana asks that the management takes responsibility for Bond Bank financial statements.

Then was the approval of the 2016 Audit Recommendation Letter. Charles made the motion to approve, seconded by Rubin. All voted in favor and the motion was passed.

Next, Riordan explained that the Bond Bank has traditionally followed the employee handbook of the City of Indianapolis and has never been formally adopted by the Bond Bank by Board action but has been informally followed. There are differences between the Consolidated City and the Bond Bank such as collective bargaining and other aspects of employment. Riordan decided last year that it would make sense to create an employee handbook specifically for the Bond Bank. Riordan explained that the Bond Bank hired outside counsel to make sure the

Handbook is up to date with all state and federal regulations governing employment. Riordan provided all members of the Board with a copy of the employee handbook and stated that she believes it is important for the board to adopt so that it becomes official policy for Bond Bank employees. Charles agreed that it would make sense to review the Employee Hand Book and vote on adopting it as policy during the August meeting.

Next, Riordan discussed recent updates. Currently, the Bond Bank is working on the Criminal Justice Center Project which will be funded with debt and the first part of the funding is coming before the City-County Council right now. Riordan explained that the Bond Bank is seeking \$20 million in short term financing to pay consultants. A project of this size has lots of planning and it has been necessary to retain consulting firms which will lend a significant debt. A lender has not yet been selected and the debt structure will most likely be direct placement. Diana Hamilton is the Financial Advisor and she can give more details about what kind of debt structure is being looked at. Riordan said any questions can be referred to herself or Hamilton. Riordan explained that this is a significant step in the process and approval from the Council is needed to move forward.

Riordan noted that the parking garage saga continues. The Bond Bank is working to refinance the \$17 million balloon note on the Market District Garage. Riordan credits Angie Steeno and Sarah McFetridge at Crowe for helping with refinancing and believes they are close to coming up with a solution.

Next, the Bond Bank is starting the process of doing a refunding of the Pilot Bonds, Series 2010F. There is currently \$159 million in outstanding bonds, which are replayed with a payment in lieu of taxes received from Citizens Energy due to the sale of waterworks. The Bond Bank believes they can get a better rate on many of the maturities and are currently working on that.

The Bond Bank visited with the Fort Harrison Reuse Authority (FHRA) who was looking into issuing debt for short-term financing of \$2 million for a housing project. FHRA has decided to do a direct placement themselves. The Bond Bank had a good meeting with them and got an update on their activities.

Riordan noted that there are a couple ongoing economic development projects. There are a few developers backed bonds to support Hotel and Residential projects taking place downtown. 16 Tech is a project that incentives were provided. The Bond Bank has to take out a \$5 million BAN in January. 16 Tech has a new CEO starting that Riordan will be working with to decide what happens next and if they will issue more debt before the end of the year.

Next, Riordan explained that IndyGo has a new income tax levy that was passed in Marion County which will allow them to expand their existing transit system, specifically the Purple Line. They want to issue debt this year, but Riordan notes the Bond Bank has not heard very many specifics. They have not assembled a team and Riordan has been working with the Director to move the process along. Moll informed the board about a public meeting at the library regarding the Purple Line. Riordan noted that public awareness is needed for improvement. Rubin added that IndyGo has also taken the Purple Line before the MPO.

Riordan asked if anyone had any questions. She then informed the audience that the Bond Bank is updating contact and distribution lists and asked for anyone to provide the Bond Bank with updated information for themselves and their colleagues.

Charles asked if there was a motion to adjourn. Rubin made the motion, seconded by Moll. All voted in favor and the meeting was adjourned at 12:32 p.m.

