



# Gary Sanitary District & Gary Storm Water Management District

## Report of the Fiscal Monitor

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January 4, 2010



### Public Financial Management

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## Introduction

In 2008 the State of Indiana enacted Public Law 146, establishing “circuit breaker tax credits” that cap local property taxes at a percentage of assessed value. Property taxes had recently accounted for more than 50 percent of the revenue in the Gary Sanitary District’s (GSD) debt service fund, sewer operating fund and solid waste disposal fund. Based on analysis prepared for the State, the full implementation of the caps is projected to reduce GSD’s property tax revenues by over 40 percent, first by approximately one-third from \$9.50 million to \$6.33 million in 2009, and then to \$5.58 million in 2010.<sup>1</sup>

The property tax caps are projected to have a similar impact on the Gary Storm Water Management District (GSWMD), which receives nearly all of its revenue from a separate property tax levy. The full implementation of the caps is projected to reduce GSWMD’s property tax revenues by 45 percent from \$939,000 to \$517,000 in 2009 and then to \$417,000 in 2010.<sup>2</sup>

Because of the large gap between recent historical revenues and the amounts permitted by the cap, the City of Gary and several of its related units – the Gary/Chicago International Airport, GSD, GSWMD, and the Gary Public transportation Corporation (GPTC) – petitioned the State of Indiana for relief from the caps for fiscal year 2009. The state body assigned to review such petitions, the Distressed Unit Appeals Board (DUAB), granted partial relief for all but the Sanitary District and directed the City and its related agencies to retain a fiscal monitor to “assist the petitioning units in rehabilitating their financial affairs in the near-term with the ultimate objective of alleviating the petitioning units of their distressed status.”

Public Financial Management (PFM) was selected in a competitive process to serve as the fiscal monitor. This report is the result of PFM’s review of GSD’s and GSWMD’s financial situation and recommendations for changes to their financial and service delivery operations to comply with the property tax limits in Public Law 146. This report should be read in conjunction with PFM’s report on the City’s finances – especially the Overview section of that document – to more fully understand the context of this review.

GSD and GSWMD are closely related, but separate, entities each supported by their own separate property tax levy. To maintain this distinction, this report addresses GSD first and then GSWMD.

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<sup>1</sup> These impact projections are based on analysis provided by Policy Analytics, LLC on November 4, 2009. The projected revenues represent 100 percent of the amount to be billed to taxpayers across all three funds. This assumption is addressed in more detail on page 13.

<sup>2</sup> These projections are based on the same analysis provided by Policy Analytics, LLC on November 4, 2009 and represent 100 percent of the amount to be billed to taxpayers.



# Gary Sanitary District

## Overview

The Gary Sanitary District (GSD) is a special taxing district created under state law in 1938 for the purpose of providing wastewater treatment services to the residents and businesses in the City of Gary and other municipalities in its 50 mile coverage area. The majority of the District (97 percent of its assessed valuation) falls within Gary's city limits.

GSD owns a Class IV 60 million gallon per day (MGD) single stage, activated sludge water treatment plant capable of nitrification. The plant and accompanying facilities for additional advanced treatment occupy 55 acres of property in the northwest portion of Gary. The plant was first built in 1940, and subsequently expanded in 1962, 1970, 1973, 1975, and 1982. In addition, GSD owns and maintains 375 miles of sanitary and storm sewers,<sup>3</sup> 13 combined sewer overflow (CSO) regulators, and 28 pumping stations. The District does not own or operate the collection systems of the wholesale communities which it serves by contract.

In addition to the residents and smaller businesses and organizations that discharge directly to GSD sewers, GSD serves the following entities:

- Cities of Hobart and Lake Station: Under separate agreements established in 1984, GSD's plant treats wastewater, liquid waste and sewage collected and transported through sewer lines owned by these cities. The cities pay GSD for operating and maintenance expenses and make a contribution for depreciation/capital investment.
- Gary/Chicago Airport and Gary Public Transportation Corporation.
- Majestic Star Casinos 1 and 2.
- Merrillville Conservancy District: The MCD is a separate taxing body that maintains sanitary sewer lines in the Town of Merrillville. It has a contract with GSD for wastewater treatment that was established in 1982, amended in 1991 and renegotiated in 1995. MCD pays GSD for operating and maintenance expenses and makes a contribution for depreciation/capital investment.
- Methodist Hospital.
- Northern Indiana Public Service Company (NIPSCO), a natural gas and electricity utility.

Including these entities, GSD has 33 large industrial accounts, 12 of which pay a wastewater strength surcharge.

In August 2008, GSD extended its existing contract with Allied Waste Services<sup>4</sup> to include solid waste collection and hauling, which was previously handled by the City of Gary's Department of General Services. Instead of funding trash collection through the City's general fund, which is primarily supported by a property tax, the City established a monthly fee of \$12 for single family and multi-family residencies with fewer than four units and \$7 for senior citizens and disabled homeowners to pay for a portion of the cost of solid waste collection. A separate solid waste property tax levy on properties in Gary continues to provide funds for solid waste management.

<sup>3</sup> The storm sewers are addressed separately in the Gary Storm Water Management District portion of the report.

<sup>4</sup> Allied already provided garbage disposal (as opposed to garbage collection and hauling) and sludge disposal. In some documents Allied Waste is referred to as the Illiana Disposal Partnership.



Allied Waste began trash collection on January 1, 2009 and the City eliminated 22 positions. In February 2009, a Superior Court Judge voided GSD's contract with Allied Waste, ruling that GSD needed to solicit bids for the service. In May 2009 the City went through a bidding process and selected Allied Waste as the lowest most responsible bidder. Meanwhile Allied Waste continued trash collection until July 12, 2009 when Council voted to halt collection. There was no trash collection for approximately two weeks until Council approved the new contract with Allied Waste on July 21, 2009. This second agreement covers solid waste collection and hauling, but not disposal and recycling. GSD has a separate contract with Allied for disposal and recycling is handled by the City of Gary's Recycling Department.

There is a second lawsuit challenging the manner in which Common Council passed the trash collection fees. The Court has ruled that GSD can collect fees at the risk of potentially having to repay them later. GSD has begun adding the collection charges to customers' sewer bills but, due to the delayed implementation of the fees, had to draw funds from other funds to subsidize trash collection. As of October 31, 2009, GSD received \$848,822 of the \$2,425,000 in budgeted garbage collection fees (35.0 percent).

### **Governance and employees**

GSD is overseen by a five-member Board of Sanitary Commissioners. The City Engineer is always a member of the Board, and the remaining four members are appointed to staggered four-year terms by the Mayor. The Board can levy taxes and establish and collect user fees for operational, maintenance, debt service or capital improvement purposes. The Board may also issue bonds to carry out construction projects within the confines of GSD's statutory debt limit. Since 1992, the Mayor of Gary has acted as the Special Administrator according to the terms of a consent decree explained below.

On a daily basis, GSD is managed by a Director and Deputy Director/Finance Manager who oversee collections (10 positions<sup>5</sup>), administration (seven positions) and information technology/geographic information systems (IT/GIS) (three positions). GSD also has a contract compliance officer and two related positions that report to the Director and Deputy Director. GSD's full-time, non-seasonal headcount as listed in the approved salary budgets grew slightly from 2006 to 2009 with an additional position in finance/administration and two additional positions in collections (see table below).

In addition to GSD staff, nine members of the City administration drew a salary from GSD in FY2009 ranging from \$2,746 (City Clerk) to \$54,075 (Mayor, who is also the GSD Special Administrator).<sup>6</sup> These supplemental salary costs account for approximately 10 percent of the budgeted total. In local governments across the country, it is not unusual for City administrators who spend time on enterprise fund activities to have a portion of their salary charged back to that enterprise. In the case of GSD, for example, there may be some services that existing City finance or human resources personnel can provide more efficiently than separate GSD personnel. However, some stipends were established by City action, not by the State, and there is not a mechanism in place to calculate the appropriate amount that should be charged back to the GSD for City service.<sup>7</sup>

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<sup>5</sup> Position counts come from a GSD organizational chart dated October 8, 2009.

<sup>6</sup> The nine positions are Public Information Officer, Corporation Counsel, Mayor, Chief of Staff, Controller, City Clerk, Deputy Mayor, City Human Resources Director and Internal Auditor. The Environmental Affairs Officer previously drew a salary but is now completely supported by the Gary Storm Water Management District's budget.

<sup>7</sup> Note that GSD states that salary payments to some of the City officials are required by Indiana statute.



### Budgeted Headcount and Salaries, 2006-2009<sup>8</sup>

Unit/Position	2006	2007	2008	2009	2006-2009 Change %
Full-time finance/administration	15	13	14	16	6.7%
Summer interns	5	11	5	11	120.0%
Other part-time positions	3	1	3	2	-33.3%
<b>Finance subtotal</b>	<b>23</b>	<b>25</b>	<b>22</b>	<b>29</b>	<b>26.1%</b>
Full-time collections	11	12	13	13	18.2%
Summer interns	2	2	2	2	0.0%
Other part-time positions	1	1	1	1	0.0%
<b>Collections subtotal</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>14.3%</b>
<b>Commissioners</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>0.0%</b>
<b>Total</b>	<b>42</b>	<b>45</b>	<b>43</b>	<b>50</b>	<b>19.0%</b>
GSD staff salary	\$1,229,651	\$1,254,031	\$1,361,542	\$1,393,368	13.3%
City staff salary	\$156,638	\$161,337	\$137,990	\$154,708	-1.2%
<b>Total salary</b>	<b>\$1,386,289</b>	<b>\$1,415,368</b>	<b>\$1,499,532</b>	<b>\$1,548,076</b>	<b>11.7%</b>

GSD does not have staff to operate the wastewater treatment plant because plant operation and maintenance is provided through a contract with United Water.<sup>9</sup> Under the terms of the contract (which expires on May 31, 2013), GSD pays United Water for most operating and maintenance costs,<sup>10</sup> makes an annual contribution for capital costs that are less than \$25,000 per project and pays for other preventive and maintenance services, such as sewer cave-ins.

### Revenues

GSD's petition to the DUAB for property tax relief only provides detail on the three funds that are property tax supported:

- Debt service sinking fund;
- Sewer operating fund; and
- Solid waste disposal fund.

Other District funds that do not receive property tax revenue are not covered by the DUAB review process. The largest of these other funds is the wastewater treatment plant operating fund, which had \$18.1 million in FY2007 revenue, \$14.0 million of which came from sewer utility user fees. Grant-related funds (which had only \$6,000 in FY2007 revenue) are also not covered by the DUAB review process.

<sup>8</sup> The budgeted positions for 2009 are from the revised FY2009 budget.

<sup>9</sup> United Water previously provided service as the White River Environmental Partnership (WREP) and is sometimes referred to by that name.

<sup>10</sup> Energy costs and the cost of disposing and transporting sludge and other treatment residuals are explicitly excluded.



Historically, the largest source of revenue for the three property tax supported funds is the property tax itself. The debt service sinking fund has received \$600,000 - \$700,000 annually in “capital cost payments” from Hobart, Lake Station and the Merrillville Conservancy District as explained above. GSD has also had to transfer money from other funds (often the wastewater treatment plant operating fund) to the three property tax supported funds to make up for revenue shortfalls. The expenditures section of this report shows the repayments of these interfund loans. Additional detail on operating transfers between various Gary entities and funds can be found in the Finance chapter of the fiscal monitor report for the City of Gary.

### Historical Revenues – Property Tax Supported Funds

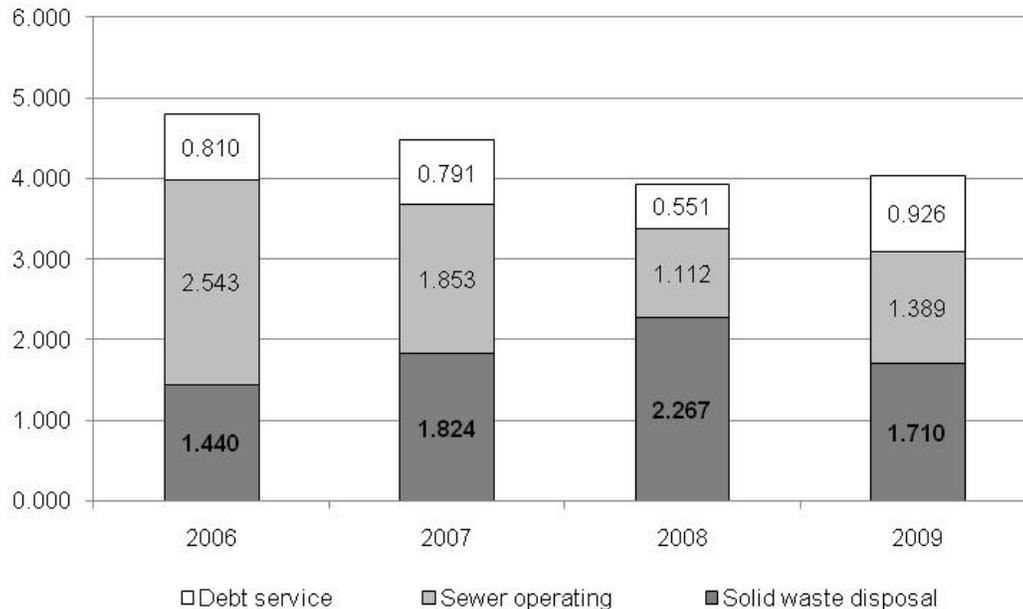
	Actual 2006	Actual 2007	Actual 2008	Change %
Property taxes	1,668,911	193,155	2,080,613	24.7%
Financial institutions tax	9,345	9,245	0	-100.0%
Auto excise tax	55,370	59,375	61,357	10.8%
CVET	8,442	9,286	0	-100.0%
Capital cost payments	686,956	652,672	698,035	1.6%
TAW	0	0	970,000	N/A
Interest income	13,863	30,754	2,480	-82.1%
Interfund operating loans	0	496,938	0	N/A
<b>Debt service fund subtotal</b>	<b>2,442,888</b>	<b>1,451,426</b>	<b>3,812,486</b>	<b>56.1%</b>
Property taxes	5,239,559	586,775	4,544,079	-13.3%
Financial institutions tax	29,340	21,657	0	-100.0%
Auto excise tax	173,835	139,092	123,829	-28.8%
CVET	26,504	21,754	0	-100.0%
Interest income	42,887	(7,859)	1,031	-97.6%
Miscellaneous revenue	299	47,614	184	-38.4%
Interfund operating loans	3,000,000	3,342,835	3,200,000	6.7%
<b>Sewer operating fund subtotal</b>	<b>8,512,425</b>	<b>4,151,868</b>	<b>7,869,123</b>	<b>-7.6%</b>
Property taxes	2,966,955	338,770	5,952,315	100.6%
Financial institutions tax	16,614	21,319	0	-100.0%
Auto excise tax	98,436	136,915	252,446	156.5%
CVET	15,008	21,414	0	-100.0%



	Actual 2006	Actual 2007	Actual 2008	Change %
Tax anticipation warrants (TAWs)	0	2,635,000	4,015,000	N/A
Interest income	22,160	32,913	2,186	-90.1%
Miscellaneous revenue	534,276	0	2,391	-99.6%
Interfund operating loans	2,500,000	1,800,000	3,050,000	22.0%
<b>Solid waste disposal fund subtotal</b>	<b>6,153,449</b>	<b>4,986,331</b>	<b>13,274,338</b>	<b>115.7%</b>
<b>Total</b>	<b>17,108,762</b>	<b>10,589,625</b>	<b>24,955,947</b>	<b>45.9%</b>
<b>Property tax total (all three funds)</b>	<b>9,875,425</b>	<b>1,118,701</b>	<b>12,577,007</b>	<b>27.4%</b>

GSD has three property tax levies – one for debt service (0.926 mills per \$1,000 of assessed value in 2009), one to operate the sewers (1.389 mills per \$1,000 of assessed value in 2009) and one to support solid waste management (1.710 mills per \$1,000 of assessed value in 2009). Property tax collections vary greatly from fund to fund and year to year. The variation in revenue between funds in any given year is explained by changing rates as shown in the bar graph below.

**GSD Property Tax Rates (Mills per \$1,000 Assessed Value)**



The variation in total property tax revenue from year to year is largely explained by problems in the property tax billing and collection process coordinated by Lake County. In recent years, Lake County has been unable to certify assessments in a timely manner,<sup>11</sup> generating late property tax bills and loss of

<sup>11</sup> According to recent reports, the problems extend to Calumet Township which is having difficulty completing a related study of assessment accuracy due to foreclosures and delinquent lot sales.



some prior year revenues. As with the other property tax dependent units in Lake County, these problems have increased the size and related cost of GSD's cash flow borrowings (e.g. Tax Anticipation Warrants).<sup>12</sup> As of October 31, 2009, GSD received \$4,880,600 of the \$6,004,100 in property tax revenue budgeted for 2009 (81.2 percent).<sup>13</sup>

Beyond the property tax, GSD generates revenue by charging fees for its service. Revenue associated with the new garbage collection fee will flow into the solid waste disposal fund. A survey conducted by GSD financial advisor Cender and Company, LLC indicates GSD's solid waste collection fee is lower than many other northwest Indiana municipalities.<sup>14</sup> However the survey also notes that most of these municipalities use only a collection fee or a property tax, not both.

As noted above, GSD also charges sewer utility service fees. In 2008 GSD increased its rates by 85 percent from \$17.50 per 5,000 gallons to \$32.50 per 5,000 gallons (\$27.10 for operating and maintenance costs; \$5.40 for capital costs). Unlike the trash collection fees, several northwest Indiana municipalities support their sanitary activities through a property tax and user fees, including Hammond, East Chicago and Michigan City.

### Expenditures

As with revenues, GSD's petition to the DUAB for property tax relief only shows detailed expenditures for the three property tax supported funds. Historically the fund with the highest expenditures is the wastewater treatment plant operating fund from which GSD pays nearly all personnel costs, such as employee salaries and benefits, and most plant operating costs except those related to equipment replacement.<sup>15</sup> In FY2007 GSD spent \$19.98 million in this fund with the cost of United Water's plant operation and maintenance activities accounting for \$10.90 million of that total. Personnel costs in that fund were \$1.95 million.<sup>16</sup> Expenditures for the three property tax supported funds are shown below, including the TAW and interfund loan repayments referenced above.

#### Historical Expenditures – Property Tax Supported Funds

	Actual 2006	Actual 2007	Actual 2008	Change %
Debt service - principal and interest	2,571,524	2,565,122	2,556,927	-0.6%
Other	1,074	0	1,617	50.6%
Interfund operating loans	1,933,095	0	0	-100.0%
TAW repayments	0	0	334,486	N/A
<b>Debt service fund subtotal</b>	<b>4,505,693</b>	<b>2,565,122</b>	<b>2,893,029</b>	<b>-35.8%</b>
Contractual maintenance	3,188,733	3,665,319	3,260,622	2.3%
Other	3,371	0	2,382	-29.3%

<sup>12</sup> Please see the Fiscal Monitor's report on the City of Gary for more discussion of these property tax collection issues.

<sup>13</sup> The City budgeted \$6.00 million for 2008 payable 2009 property taxes. Because of delays in the billing process, the \$4.88 million received is from 2007 payable 2008 property taxes. Bills for 2008 payable 2009 property taxes were not sent until late 2009.

<sup>14</sup> The survey is dated June 19, 2009.

<sup>15</sup> GSD has a separate fund for equipment replacement.

<sup>16</sup> Additional detail on 2008 and 2009 expenditures from this fund are not available because it is not supported by a property tax and, therefore is not included in the DUAB's review.



	Actual 2006	Actual 2007	Actual 2008	Change %
Machinery and equipment	162,608	27,360	0	-100.0%
Other capital outlays	137,975	400,700	0	-100.0%
Interfund transfers	0	627,986	87,130	N/A
Interfund operating loans	3,300,000	4,500,000	2,440,000	-26.1%
<b>Sewer operating fund subtotal</b>	<b>6,792,687</b>	<b>9,221,364</b>	<b>5,790,134</b>	<b>-14.8%</b>
Contractual maintenance	4,158,263	3,745,514	4,525,619	8.8%
Other	1,909	0	0	-100.0%
Machinery and equipment	0	0	46,308	N/A
Other capital outlays	0	1,045,314	2,345	N/A
Interfund operating transfers	3,500,000	1,500,000	0	-100.0%
Interfund operating loans	0	0	5,075,000	N/A
TAW repayments	0	0	4,035,279	N/A
<b>Solid waste disposal fund subtotal</b>	<b>7,660,172</b>	<b>6,290,828</b>	<b>13,684,550</b>	<b>78.6%</b>
<b>Total</b>	<b>18,958,552</b>	<b>18,077,314</b>	<b>22,367,714</b>	<b>18.0%</b>

In addition to the debt service fund expenditures shown above, GSD also has separate bond and interest and debt service reserve funds. Most expenditures in the sewer operating fund are payments to United Water for corrective and preventive maintenance, such as repairing sewer cave-ins. Most expenditures in the solid waste disposal fund are payments to Allied Waste, which handles sludge disposal and garbage collection, hauling and disposal.

### Consent decree

Though not directly related to the three property tax supported funds, GSD is operating under a 2002-3 consent decree, the latest in a series of actions initiated by the United States Environmental Protection Agency and the Indiana Department of Environmental Management. Under the decree, GSD had to set aside funds in a separate Grand Calumet Sedimentation Fund to cover the cost of studying and mediating contaminated river sediments. With \$3.46 million in the fund at the end of 2008, GSD has met these requirements and is waiting for further direction from the EPA. The second aspect of the decree relates to remediation of the Ralston Street Lagoon, a 19-acre area with PCB-contaminated sludge. In April 2009 the EPA decided that GSD should contain the lagoon pollution with an underground wall, drain the water, and then solidify and cap the sludge. This remediation will cost an estimated \$66.5 million. The cost of these remediation efforts and any other improvements necessary to comply with the consent decree or federal environmental standards are covered by sewer rates.



## Challenges

The interfund loans and transfers listed in the historical revenue and expenditure tables hint at the most significant financial challenge facing GSD. In the absence of sufficient property tax revenues to cover its costs, GSD has drawn money from other funds, such as the wastewater treatment plant and equipment replacement funds, to meet expenses. Since these funds have limited resources to meet their intended purposes, GSD cannot continue to tap them without endangering its ability to provide critical services.

Like other taxing units in Lake County, GSD's property tax revenues have fallen short of budgeted levels for several reasons. Any government that collects property taxes wrestles with how best to collect tax revenue due in the current year and pursue delinquent taxes that were due but not paid by property owners in previous years. Lake County collects property taxes (current year and delinquent) on behalf of GSD as it does for all taxing bodies in the County. Economic conditions, resulting foreclosures and the effectiveness of tax collection tools have all had an impact on this aspect of property tax collection.

In Lake County, taxing units also struggle with the delayed receipt of revenue for the taxes that are eventually paid. Lake County has been unable to certify assessments in a timely manner,<sup>17</sup> which delays the issuance of property tax bills to property owners and subsequent payment of those bills. For example, as of October 31, 2009, GSD received \$4.88 million in property taxes that were due in 2008 ("2007 payable 2008") but had not received any revenue for the taxes due in 2009 ("2008 payable 2009"). These delays force governments like GSD to increase the size, duration and related cost of cash flow borrowings that are initially intended to bridge the gap for a relatively short period of time until property tax revenues are available. The delays also make it difficult for governments like GSD to meet obligations ranging from paying employees and contractors to making scheduled debt service payments. Governments have the unenviable choice of borrowing more money for a longer period of time, if such credit is available, or using money on hand intended for other purposes. Along those lines, GSD has tapped other funds to fill the deficit in the property tax supported funds.

The City of Gary, which is a related but separate taxing unit, has also tapped GSD funds to meet its cash flow needs. In 2005 and 2006 GSD made temporary loans to the City in the total amount of \$15,497,126. Indiana code allows temporary loans but requires repayment no more than six months after the end of the year in which the loans are made.<sup>18</sup> By the end of 2008, the City had only repaid \$3.0 million, leaving \$12,497,126 still due to GSD. Those funds are specifically owed to GSD's capital improvement fund (\$1.5 million), wastewater treatment plant operating fund (\$2.0 million) and the equipment replacement fund (\$9.0 million).

Layered on top of these challenges is the impact of Indiana's circuit breaker tax credits. In 2009, the estimated certified levy for GSD absent any circuit breaker credit was \$9.50 million combined across all three property tax supported funds.<sup>19</sup> The circuit breaker credit authorized by Public Law 146 reduced that amount by an estimated \$3.16 million to \$6.33 million for both funds. GSD petitioned the DUAB for \$3.91 million in relief and received none, leaving the net revenue – the amount GSD would receive in 2009 assuming 100 percent collections and timely tax billing – at an estimated \$6.33 million for all funds.

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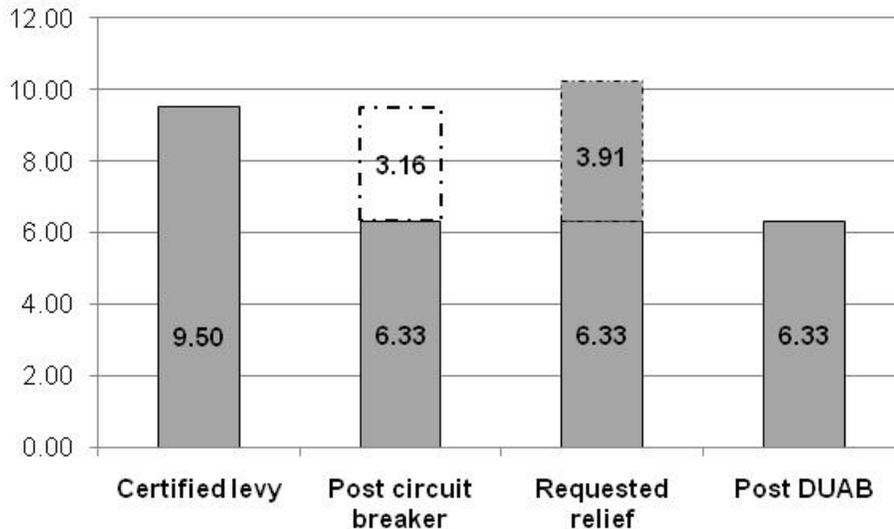
<sup>17</sup> According to recent reports, the problems extend to Calumet Township which is having difficulty completing a related study of assessment accuracy due to foreclosures and delinquent lot sales. Please see the Fiscal Monitor's report on the City of Gary for more discussion of property tax collection issues.

<sup>18</sup> This is the allowed payment period for a loan made in an emergency situation. In non-emergencies, the loan must be repaid at the end of the year in which it is borrowed.

<sup>19</sup> These impact projections are based on analysis provided by Policy Analytics, LLC on November 4, 2009. The projected revenues are for GSD's debt service, sewer operating and solid waste disposal funds, and represent 100 percent of the amount to be billed to taxpayers.



**2009 Property Tax Levy, Circuit Breaker Credit and DUAB Relief (\$ Million)<sup>20</sup>**



To compensate for reduced property tax revenue, GSD increased sewer rates and drew money from other funds as described above. The City also adopted a garbage collection fee to reduce the burden on its own general fund and supplement reduced revenue in GSD’s solid waste disposal fund. This represents a shift from a system in which services are paid by property owners to one where services are paid by the people and businesses that use them (i.e. “user fees”). The property tax funding approach has traditionally been valued by governments due to its stability from year to year, although it also generally grows very slowly. However, as described here, Gary has not received these benefits of the property tax in recent years. In contrast, a user fee mechanism aligns the cost of providing a service, like collecting trash or maintaining sewer lines, more closely with those residents and business that directly benefit from the services, including those who did not pay before because they do not pay property taxes (i.e. renters, non-profit and tax exempt organizations).

This shift has been greeted by skepticism and opposition from some members of City Council (who have to approve the fees), community groups and individual residents and organizations. One of the concerns is that property owners continue to pay a property tax and now must also remit a user fee to support the services previously supported by the property tax. Instituting a user fee would normally allow government to lower property taxes, since the same amount of money would be generated from two different sources instead of one. Since the user fee draws on a different, wider base than the property tax, property owners theoretically would see their tax rates reduced, all other factors being equal. In the case of Gary, however, the circuit breaker tax caps have reduced general government revenues to a level so low that the City cannot provide a full menu of basic services. Therefore, the City has begun to move eligible services to a user fee structure to reserve remaining general purpose property tax revenues for public safety and internal support functions that cannot be funded with user fees. In essence, the user fees are recapturing a portion – but not all – of the property tax cut driven by the tax caps.<sup>21</sup> However, since property taxes are now capped, failure to move toward user fees for sewer and sanitation services would require further, deeper reductions in the City of Gary’s public safety and general services.

<sup>20</sup> The certified levy and post-circuit breaker amounts were provided by Policy Analytics in its November 2009 analysis.

<sup>21</sup> Please note that this scenario also reflects only the action of one government, as a second government entity with the same tax base could raise property taxes even if the first one lowered them. The caps enacted in Public Law 146 provide some protection against this possibility by capping property tax rates across all government agencies in a political jurisdiction (so government A cannot raise taxes as government B reduces them). This also only addresses the revenue side of the taxing equation. Governments can reduce their tax rates by providing the same service more efficiently or provider fewer services, which is a major focus of the fiscal monitor’s recommendations.



**GSD projections**

As part its petition to the DUAB for relief from the property tax caps, GSD submitted simple projections of the revenues and expenditures in its property tax supported funds through FY2012. Those projections are reproduced below absent the property tax projections which are addressed separately.

In the debt service fund, non-property tax revenue is projected to decline and the payments from other municipalities remain constant at FY2010 budgeted levels. Principal payments on the debt service increase by 8.0 percent from FY2010 to FY2012.

**Projected Revenue and Expenditures – Debt Service Fund**

	<b>Budget 2010</b>	<b>Projected 2011</b>	<b>Projected 2012</b>	<b>Change %</b>
Financial Institutions Tax	11,973	7,322	7,322	-38.8%
License Excise Tax	65,273	44,671	44,671	-31.6%
CVET	12,671	7,021	7,021	-44.6%
Payment - Merrillville	450,000	450,000	450,000	0.0%
Payment - Hobart	195,728	195,728	195,728	0.0%
Payment - Lake Station	47,136	47,136	47,189	0.1%
<b>Debt service fund revenues</b>	<b>782,781</b>	<b>751,878</b>	<b>751,931</b>	<b>-115.0%</b>
Principal	2,188,000	2,272,000	2,362,000	8.0%
Interest	354,368	263,705	166,050	-53.1%
Miscellaneous Fees & Charges	5,000	5,000	5,000	0.0%
<b>Debt service fund expenditures</b>	<b>2,547,368</b>	<b>2,540,705</b>	<b>2,533,050</b>	<b>-0.6%</b>
<b>Surplus/ (Deficit)</b>	<b>(1,764,587)</b>	<b>(1,788,827)</b>	<b>(1,781,119)</b>	<b>114.4%</b>

In the sewer operating fund, non-property tax revenue remains constant at FY2010 budgeted levels and the payments to contractors for preventative maintenance and corrective repairs doubles by the end of FY2012.



**Projected Revenue and Expenditures – Sewer Operating Fund**

	<b>Budget 2010</b>	<b>Projected 2011</b>	<b>Projected 2012</b>	<b>Change %</b>
Financial Institutions Tax	17,960	17,960	17,960	0.0%
License Excise Tax	97,909	97,909	97,909	0.0%
CVET	19,006	19,006	19,006	0.0%
Interest	1,000	1,000	1,000	0.0%
<b>Sewer operating fund revenues</b>	<b>135,875</b>	<b>135,875</b>	<b>135,875</b>	<b>0.0%</b>
Contractual Maintenance	2,500,000	4,150,000	5,000,000	100.0%
<b>Sewer operating fund expenditures</b>	<b>2,500,000</b>	<b>4,150,000</b>	<b>5,000,000</b>	<b>100.0%</b>
<b>Surplus/ (Deficit)</b>	<b>(2,364,125)</b>	<b>(4,014,125)</b>	<b>(4,864,125)</b>	<b>100.0%</b>

In the solid waste disposal fund, non-property tax revenue again remains constant at FY2010 budgeted levels, but garbage fee revenue is projected to increase by 87.1 percent in FY2011 and 33.9 percent in FY2012 due to projected rate increases. The cost of service provided by the contractor (currently Allied Waste) increases by 10.9 percent over this period.

**Projected Revenue and Expenditures – Solid Waste Disposal Fund**

	<b>Budget 2010</b>	<b>Projected 2011</b>	<b>Projected 2012</b>	<b>Change %</b>
Financial Institutions Tax	22,111	22,111	22,111	0.0%
License Excise Tax	120,536	120,536	120,536	0.0%
CVET	23,399	23,399	23,399	0.0%
Interest	1,000	1,000	1,000	0.0%
Garbage fees	2,425,000	4,685,088	6,331,200	161.1%
<b>Solid waste disposal revenues</b>	<b>2,592,046</b>	<b>4,852,134</b>	<b>6,498,246</b>	<b>150.7%</b>
Contractual Maintenance	6,550,000	7,265,738	7,265,738	10.9%
<b>Solid waste disposal expenditures</b>	<b>6,550,000</b>	<b>7,265,738</b>	<b>7,265,738</b>	<b>10.9%</b>
<b>Surplus/ (Deficit)</b>	<b>(3,957,954)</b>	<b>(2,413,604)</b>	<b>(767,492)</b>	<b>-139.8%</b>



Absent the property tax caps, GSD would normally budget for the property tax to cover the deficit across these three funds. Policy Analytics has projected how much property tax revenue GSD could collect under the following assumptions:<sup>22</sup>

- The property tax caps take full effect in FY2010.
- GSD would receive 100 percent of the amount due under the property tax caps in each year. The fiscal monitor is using the 100 percent collection level on the assumption that the total collections – money received from current year property taxes plus money collected for delinquent property taxes that were due for payment in previous calendar years – could equal 100 percent. Consistent with the fiscal monitor’s separate reports on other governments, the projections assume the State, County and other units will resolve the collection/transmittal delay problems described above or provide the taxing bodies with the relief they need to compensate for it.
- Property tax projections are based on an estimated certified levy according to property values known on November 3, 2009.

These projections are shown below in comparison to the projected deficit across the three property tax supported funds. The projected level of property tax would leave GSD \$2.5 million short in these three funds in FY2010 with the annual deficit declining to \$1.70 million in FY2012 as GSD increases garbage collection fees.

**Projected Deficit for Property Tax Supported Funds**

	<b>Budget 2010</b>	<b>Projected 2011</b>	<b>Projected 2012</b>
Total deficit	(8,086,666)	(8,216,556)	(7,412,736)
Property tax projections	5,577,024	5,622,924	5,718,902
<b>Net deficit</b>	<b>(2,509,642)</b>	<b>(2,593,632)</b>	<b>(1,693,834)</b>

**Initiatives**

GSD recognizes that the projected deficits – and the recent reliance on money in other funds to plug this deficit – cannot be continued. These other funds are intended to operate the wastewater treatment plant or meet equipment investment and replacement needs that ensure treatment can continue. Some of these investments are critical to compliance with the federal consent decree. To that end GSD has petitioned the DUAB for allowance to levy \$11.6 million in property taxes (\$2.55 million for the debt service fund, \$2.50 million for sewer operating fund and \$6.55 million for the solid waste disposal fund). Once appeals are factored into the figure, the total projected amount is \$10.51 million.

The remainder of this section is composed of fiscal monitor recommendations for GSD to move to a user fee revenue structure and reduce expenditures. Since the transition to user fees will mean increased costs for many customers, it is important that revenue collection and expenditure control become priorities to mitigate the impact on rates. Please note that while initiatives SD02 – SD06 would not have a direct impact on the three property tax supported funds, they would reduce pressure on other funds and allow GSD to adopt a lower rate increase overall.

<sup>22</sup> Policy Analytics’ work is the source for the property tax projections in the fiscal monitor’s parallel reports on the City and other units of government in Gary. The same source is used in this report for consistency.



**SD01. Transition to a user fee revenue structure**

**FY2010 Impact: \$0**

**Four Year Impact: \$0**

GSD operations, debt service and solid waste collection activities are supported in part by property taxes as outlined above. Wastewater collection and treatment services in particular are best funded by the direct users who pay on the basis of the demand they place on the system, not the amount of property they own. Similarly, many jurisdictions around the country require users to fund trash pickup to better align those who use a service with those who pay for it. This approach also generates payments from tax-exempt entities that otherwise receive service at no charge.

As described in the Overview and Revenue sections of the fiscal monitor's report on the City, the City needs the property tax revenue currently allocated to GSD to provide public safety and other basic City services given the reduction in general purpose property tax revenues under the state's property tax caps. Because sewer and solid waste collection services are well-suited to support from user fees, the fiscal monitor report for the City recommended shifting the GSD property tax revenue to the City's General Fund (see initiative RE01 in the Revenue section of that report). This companion initiative recognizes the transition of GSD property tax revenues to the City beginning in 2011. Because it is assumed that GSD will raise sewer and solid waste fees to generate the revenue that would have come from the property tax, there would be no net revenue impact to GSD. However, for reference the property tax amounts established in the Policy Analytics work and assumed to be transferred to the City are shown below.

**GSD Property Tax Revenue Shift to User Fees, by Year**

<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>Total</b>
0	5,622,924	5,718,902	5,861,875	6,008,421	23,212,122

To the extent that bond covenants or other agreements limit the immediate shift of this funding, the utility should establish and implement full cost user fees in addition to any property tax increment they must retain, and make payments to the General Fund equal to what it would have received from a direct shift of property tax increment.

The fiscal monitor also recommends that GSD move to increase its fees as soon as possible and implement the new rates no later than July 2010. This will generate over \$2.5 million in additional revenue in 2010, assisting GSD with cash flow, working capital, and capital program requirements as it moves to the new funding structure. The current GSD financial situation in which it must constantly borrow across internal funds to make required payments is untenable on an ongoing basis, and a more rapid phase-in of the full user fees will allow the utility to eliminate unnecessary expenditures for larger TAW borrowings and late fees.

Some in the City have noted that given the City's large low-income population, some of whom are not property taxpayers but pay utilities with rent, these changes may have a negative effect on residents who are least able to pay. While user fees for these services are widespread across the country, and it is important to link costs to fees, many jurisdictions also include low-income discounts or assistance programs to account for the disproportionate impact of costs on those less able to pay. GSD may wish to examine how other user fee-based utilities in Indiana and nearby Illinois address these issues.



**SD02. Dedicate a portion of the temporary loan repayment to equipment and capital costs**  
**FY2010 Impact: \$750,000** **Four Year Impact: \$1.5 million**

The Overview section of the fiscal monitor report's on the City recommends a method for the City to repay significant prior year obligations, including the remaining \$12.5 million in loans due to GSD. That money is specifically owed to GSD's capital improvement fund (\$1.5 million), wastewater treatment plant operating fund (\$2.0 million) and the equipment replacement fund (\$9.0 million).

Given the critical need for equipment replacement and capital improvement that GSD is committed to under the consent decree, GSD's Board of Commissioners should work with the City and GSD staff to return these payments to the appropriate funds as the City makes its repayments in 2010, 2011 and 2012.<sup>23</sup> The fiscal impact chart below assumes that the City will repay one-half of the wastewater treatment plant operating fund obligation in 2010 and the other half in 2011, though other schedules resulting in complete repayment by FY2012 are also possible. While GSD is likely to need that portion of the City's repayment for cash flow and working capital, the remaining City repayment should be returned to the capital improvement fund and the equipment replacement fund and not made available for future loans to other units of government. GSD's Board and the Mayor, in his role as GSD Special Administrator, may find that irrevocably dedicating these repayments to equipment replacement and capital upgrades will have a positive impact on future borrowing efforts and consent decree negotiations.

**Fiscal Impact, Wastewater Operating Fund (assumed)**

FY2010	FY2011	FY2012	FY2013	Total
750,000	750,000	0	0	0

**SD03. Align GSD salaries and benefits with City of Gary initiatives**  
**FY2010 Impact: N/A** **Four Year impact: N/A**

The Workforce chapter of the fiscal monitor report for the City recommended several changes to employee salaries and benefits to control and reduce costs and help the City live with its new, lower property tax revenues. For example, the fiscal monitor recommended changes to the City's health insurance cost sharing arrangement and plan design to help the City achieve critically needed expenditure savings. Specifically, the fiscal monitor recommended that City employees covered by the Health Maintenance Organization (HMO) plan would pay 25 percent of the monthly premium and employees choosing the more generous Preferred Provider Organization (PPO) plan would pay 100 percent of the cost difference between the HMO and PPO coverage.

To the extent GSD has not done so to date, it should take similar steps to reduce its operating costs so it can lower the size of the sewer and solid waste fee increase that will be necessary as a result of initiative SD01. The relevant initiatives in the City report include but may not be limited to:

- WF01 Avoid new contract enhancements
- WF02 Avoid restrictions on management rights
- WF03 Multi-year wage freeze

<sup>23</sup> The fiscal monitor report recommends that the City repay the entire \$12.5 million by 2012, but does not specify the exact amounts to be returned each year.



- WF04 Implement furlough days
- WF06 Implement a new HMO plan
- WF07 Restructure employee contributions to health premiums
- WF08 Prescription drug program redesign
- WF09 Leverage Medicare reimbursements for kidney dialysis
- WF10 Increase major medical deductible
- WF11 Increase emergency room copays
- WF12 Restructure and raise physician copays
- WF13 Contain post-retirement health care costs
- WF14 Change spousal benefit
- WF15 Dependent eligibility audit
- WF16 Purchase excess insurance for workers' compensation

**SD04. Align GSD expenditures with City initiatives for elected and appointed officials**  
**FY2010 Impact: \$74,000** **Four Year impact: \$296,000**

The Elected Officials chapter of the fiscal monitor report for the City recommended several changes to salaries and expenditures for elected and appointed officials to control and reduce costs and help the City live with its new, lower property tax revenues. The report pointed out that, for the City to successfully emerge from its current financial crisis, leadership by example will be critical. In this regard, the fiscal monitor recommended changes to executive pay, travel expenses and board compensation.

Under the recommendations of this report, GSD will likely need to increase rates to cover the cost of sewer and solid waste services. To reduce the size of that increase and clearly indicate to ratepayers that GSD is spreading the cost burden, it is recommended that GSD adopt the same fiscal monitor initiatives proposed for City elected officials. These include:

- EO01 Reduce the salary of non-represented employees earning over \$50,000 by five percent (City officials who also draw salaries from GSD and earn over \$50,000 in total are assumed to be included in this group).
- EO02 Reduce travel expenses by at least 50 percent.
- EO03 Eliminate board compensation to the extent permitted by State statute

Conservatively estimating only the salary-related initiatives, this change would save approximately \$296,000 in the four years from FY2010 to FY2013.

**Fiscal Impact**

FY2010	FY2011	FY2012	FY2013	Total
74,000	74,000	74,000	74,000	296,000

**SD05. Restructure GSD costs for City support; review GSD staffing**  
**FY2010 Impact: \$0** **Four Year impact: \$0**

As noted earlier, nine members of the City administration drew a salary from GSD in 2009 at a budgeted cost of \$191,313, or just under 10 percent of all GSD budgeted salaries. To fairly allocate the cost of City officials who dedicate time to GSD activities, a full cost allocation study should be completed and updated periodically to make sure that the actual cost of City efforts – salary, benefits and equipment – are charged to GSD. The current methodology may



overcharge for some positions while not charging for certain central services that the City provides to GSD. This initiative does not assume any overall shift in the amount charged, although one could occur. Please note that GSD states that salary payments to some City officials are required by Indiana statute but this initiative can be implemented in compliance with any state requirements.

In reviewing GSD, the fiscal monitor observed that the number of utility finance and collections staff seemed high given the number of customers and the efficiencies achievable through electronic billing, administration, and collections software. As the utility's role in administering its new solid waste collection responsibilities stabilize in the next year, GSD should complete an independent review of its operations and IT requirements with the goal of reorganizing its staffing to meet the new structure.

**SD06. Eliminate hourly staff**

**FY2010 Impact: \$38,000**

**Four Year Impact: \$152,000**

GSD budgeted 13 summer interns and two co-op students in the revised FY2009 budget. While providing young local residents with the opportunity to learn about GSD and have a good local employment experience is desirable, in light of the financial pressures on GSD, it is not sustainable. This initiative assumes that all hourly summer and co-op positions will be eliminated, and any required work picked up by full-time employees on overtime. The savings are discounted by 25 percent to account for any necessary work transferred to the full-time work force.

**Fiscal Impact**

<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>Total</b>
38,000	38,000	38,000	38,000	152,000

**SD07. Eliminate annual community contribution**

**FY2010 Impact: \$0**

**Four Year Impact: \$600,000**

Under the 2008 extension of service agreement between GSD and United Water, the contractor agreed to make annual payments to charitable activities and community development efforts in Gary. These donations are to be mutually agreed upon by United Water and GSD. While United Water should participate in efforts to improve Gary, especially given its long-standing involvement in the community, it is important to find ways to lower costs with the switch to user fees recommended in initiative SD01. Eliminating the community relations payment should allow United Water to directly reduce its annual charge to GSD, perhaps net of any tax benefit the company receives for the payments.

This initiative recommends that GSD approach United Water to seek a reduction in annual payments to the contractor commensurate with eliminating the community relations payment beginning in contract year 2010 - 2011. This would generate three years of savings (2010-2011; 2011-2012; and 2012-2013). It is assumed that obligations for 2009-2010 have already been made, although to the extent they have not, GSD should seek to implement this recommendation sooner.



### Fiscal Impact

FY2010	FY2011	FY2012	FY2013	Total
0	200,000	200,000	200,000	600,000

**SD08. Rebid biosolids/residuals services**

**FY2010 Impact:** N/A

**Four Year Impact:** N/A

Under the 2008 extension of service agreement between GSD and United Water, costs related to “the transportation and disposal of sludge and other wastewater treatment residuals” were specifically excluded from United Water’s responsibilities. GSD is contracting with Allied Waste to provide these services. There may be economies of scale related to the disposal of biosolids and other residuals with the same firm that is responsible for the collection, transfer and disposal of garbage for the City. However, at the next termination date of the Allied contract, the City should bid the biosolids/residuals services, with options to combine solid waste disposal or perform the services separately. This approach should provide GSD with the best possible rates for both services in the competitive local market.

**Additional initiatives**

Along with the recommendations outlined above, the fiscal monitor report for the City includes initiatives with general or specific relevance to GSD. The utility should review the Finance and Human Resources sections of the City report and the following specific initiatives

- BU04: Implement landlord registration program which could be combined with an audit of solid waste and sewer customers to identify non-payers.
- GS06: Complete trash collection privatization.
- RC02: Reduce recycling expenditures by possibly adding recycling to GSD contractual arrangement.
- RD04: Monitor and manage utility services.



# Gary Storm Water Management District

## Overview

In addition to the sanitary sewers that convey wastewater from residences and businesses to GSD's treatment plant, Gary has a system of storm water sewers that convey rain and melted snow into the Calumet River and other natural bodies of water. Since storm water gathers pollutants (e.g. road salt, oil, gasoline) before reaching the River, the federal Clean Water Act requires the State of Indiana to regulate the quality and quantity of the storm water discharge. Indiana's Rule 13 requires any entity with a Municipal Separate Storm Sewer System (MS4), such as Gary's storm sewers, to apply for a National Pollutant Discharge Elimination System (NPDES) permit and implement six control measures:

- Public education on the importance of storm water and pollution control;
- Public participation in developing a storm water management program;
- Detecting and eliminating illegal discharges into the storm water system;
- Ensuring that there is a plan to prevent storm water pollution at construction sites impacting one or more acre of land;
- Designing long-term practices to improve the quality of storm water discharge from new or redeveloped communities; and
- Reducing the potential for storm water pollution from municipal operations, like road salting.

Under City ordinance, the Gary Storm Water Management District (GSWMD) is empowered to administer the City's storm water management and pollution control policies for compliance with the Clean Water Act and Indiana Rule 13. GSWMD can inspect storm sewers, require developers to submit Storm Water Pollution Prevention Plans, approve storm water management permits and review development sites for compliance with federal, state and City regulations.

GSWMD has a five-person Board of Commissioners whose members are currently the same as the five-member Board of Commissioners for the Gary Sanitary District. GSWMD currently has three employees – an MS4 Coordinator, a MS4 Technician and a secretary – who were transferred from the City's Environmental Affairs department to GSWMD's budget in December 2008. The MS4 Coordinator is still the Director of the City's Environmental Affairs department. The three GSWMD staff report to a Director who oversees this District and GSD.

## Finances

GSWMD's operations are currently supported almost entirely by a separate property tax levy. In 2009 the rate of that levy was 0.414 mills per \$1,000 of assessed value. The revenue generated by the tax covers personnel costs for the three GSWMD employees (salaries and benefits), professional services (e.g. engineering, legal and accounting fees), storm sewer maintenance performed by a private contractor, and the construction of storm water drainage facilities. GSWMD intends to implement a storm water user fee in 2011.

The table below shows GSWMD's budgets for FY2009 and FY2010 and its projected revenues and expenditures through FY2012. The projections match those submitted by GSWMD in its December 2009



petition to the DUAB with the exception of the property taxes. The property tax figures come from Policy Analytics, which projected how much revenue GSWMD could collect under the following assumptions:<sup>24</sup>

- The property tax caps take full effect in FY2010.
- GSWMD would receive 100 percent of the amount due under the property tax caps in each year. The fiscal monitor is using the 100 percent collection level on the assumption that the total collections – money received from current year property taxes plus money collected for delinquent property taxes that were due for payment in previous calendar years – could equal 100 percent. Consistent with the fiscal monitor’s separate reports on other governments, the projections assume the State, County and other units will resolve the collection/transmittal delay problems described above or provide the taxing bodies with the relief they need to compensate for it.
- Property tax projections are based on an estimated certified levy according to property values known on November 3, 2009.

### Revenues and Expenditures – GSWMD

	Budget 2009	Budget 2010	Projected 2011	Projected 2012	Change %
Property taxes	744,932	417,025	423,093	435,141	-43.2%
Auto excise tax	31,159	27,321	31,470	31,470	1.0%
Interest revenue	2,000	1,000	1,000	1,000	-50.0%
Storm water user fees	0	0	1,000,000	1,000,000	N/A
<b>GSWMD revenues</b>	<b>778,091</b>	<b>445,346</b>	<b>1,455,563</b>	<b>1,467,611</b>	<b>87.1%</b>
Salaries and wages	112,315	112,315	115,684	115,684	3.0%
Health insurance	4,870	4,870	5,407	5,407	11.0%
Life insurance	1,728	1,728	1,780	1,780	3.0%
PERF	3,369	3,369	3,779	3,779	12.2%
FICA	8,592	8,592	8,850	8,850	3.0%
Legal	100,000	100,000	100,000	100,000	0.0%
Engineering & Surveying	350,000	315,000	365,000	365,000	4.3%
Financial & Accounting	50,000	50,000	50,000	50,000	0.0%
Inspections/Mapping/Sewer Marketing	60,000	0	60,000	60,000	0.0%
C.B. Engineering Assistance	5,000	0	5,000	5,000	0.0%
Other services	22,500	24,126	22,500	22,500	0.0%

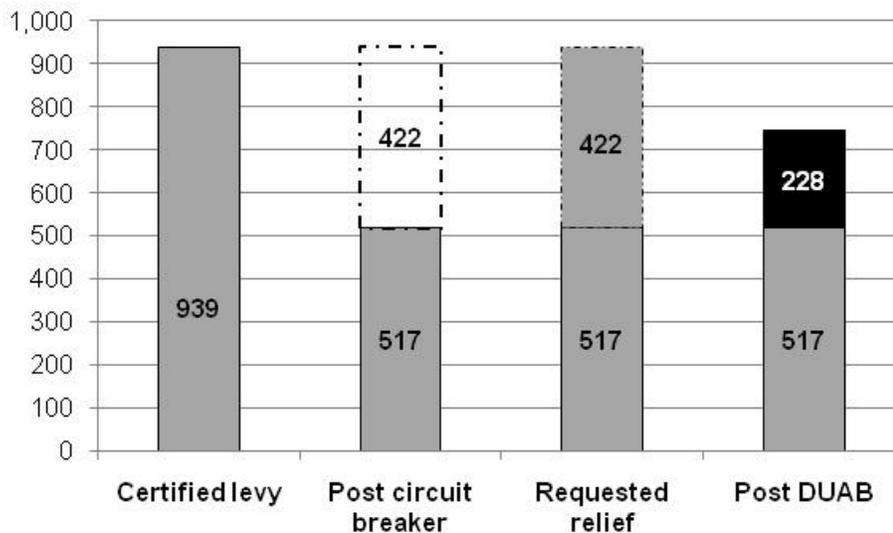
<sup>24</sup> Policy Analytics’ work is the source for the property tax projections in the fiscal monitor’s parallel reports on the City and other units of government in Gary. The same source is used in this report for consistency.



	Budget 2009	Budget 2010	Projected 2011	Projected 2012	Change %
Power - Storm water lift station	10,000	10,000	12,000	12,000	20.0%
Contractual services	714,568	700,000	500,000	500,000	-30.0%
Storm Water Drainage Facilities	307,058	200,000	750,000	750,000	144.3%
<b>GSWMD expenditures</b>	<b>1,750,000</b>	<b>1,530,000</b>	<b>2,000,000</b>	<b>2,000,000</b>	<b>14.3%</b>
<b>Surplus/ (Deficit)</b>	<b>(971,909)</b>	<b>(1,084,654)</b>	<b>(544,437)</b>	<b>(532,389)</b>	

In 2009, the estimated certified levy for GSWMD absent any circuit breaker credit was \$939,000.<sup>25</sup> The circuit breaker credit authorized by Public Law 146 reduced that amount by an estimated \$422,000 to \$517,000. GSWMD petitioned the DUAB for \$422,000 in relief and received \$228,000, leaving the net revenue – the amount GSWMD would receive in 2009 assuming 100 percent collections and timely tax billing – at an estimated \$745,000.

**2009 Property Tax Levy, Circuit Breaker Credit and DUAB Relief (\$ Million)<sup>26</sup>**



Through October 2009, GSWMD received \$522,000 in property taxes that were due to the District in 2008 and \$0 in taxes that were due to the District in 2009. The same problems that delay and reduce the amount of property tax revenue received by GSD also effect GSWMD.<sup>27</sup> According to information submitted to the DUAB by GSWMD, the District had \$624,847 in revenue through October 2009 compared to \$1,576,686 in expenditures, which translates to an operating deficit of approximately \$952,000.

<sup>25</sup> These figures are based on the aforementioned analysis provided by Policy Analytics, LLC on November 4, 2009. The projected revenues represent 100 percent of the amount to be billed to taxpayers.

<sup>26</sup> The certified levy and post-circuit breaker amounts were provided by Policy Analytics.

<sup>27</sup> Please see page 9 of this report and the Fiscal Monitor's report on the City of Gary for more discussion of property tax collection issues.





surface adjacent to other dischargers that could cause flooding might get a greater benefit directly from GSWMD's work. Furthermore, all property owners benefit from water quality improvements caused by GSWMD.

Accordingly, it should be GSWMD's goal to move from the traditional funding system where property taxes based on property value determine storm water payments to one which takes into account the size and permeability of individual parcels. As described above, many Indiana municipalities (including several in northwest Indiana near Gary) have adopted relatively simple, straightforward storm water charges.

Depending on local preference, other factors also could be included. For example, the users of streets and highways (who benefit from flood mitigation) or beach users (who benefit from improved water quality) could be assessed an appropriate portion of GSWMD costs. Currently, however, the cost of a high-quality geographical informational system (GIS)-based property analysis of the size and permeability of individual properties and the establishment of appropriate amounts to charge other beneficiaries would far exceed GSWMD's budget. Therefore, GSWMD should monitor developments in City, GSD and County GIS systems and other factors that might allow it to establish different revenue structures.

In the meantime, GSWMD must generate fee revenue to cover its deficit in 2010 and subsequent years. It is recommended that GSWMD institute a user fee similar to that in other Indiana cities, with residential units valued at 1.00 ERU and other properties charged for a percentage of their impermeable surface. If GSWMD serves 30,000 parcels, and the average number of ERUs is 1.25, a \$3.50 monthly charge would generate \$1.58 million annually, enough to fill the budget gap in 2011 and 2012. Since it is unlikely that GSWMD would be able to implement such a charge soon enough to generate the full amount in 2010, it would have to defer some of its major expenditures this year to balance its budget.

As noted above, GSWMD is in the initial stages of introducing a user fee that will pay for a substantial portion of its operating and capital costs by FY2011. Similar to the GSD recommendation, the fiscal monitor suggests that GSWMD accelerate this transition and begin to charge the user fee as soon as possible in 2010. These amounts will be critical to establishing and maintaining financial stability for the utility.

However, given the complexity of developing a new charging system, the fact that the utility anticipates but has not yet received substantial amounts of 2008 pay 2009 property tax revenue, and the need to continue progress toward meeting MS4 standards, the fiscal monitor also recommends that GSWMD receive the amount of relief commensurate with Policy Analytics' December 2008 projections of a phased-in implementation of the property tax caps by 2012. Based on the November 2009 update to Policy Analytics projections, GSWMD would receive \$225,000 in property tax relief not including any excess levy appeal. It is anticipated that the utility may eliminate the remaining post-circuit breaker property tax increment as the user fee structure matures in future years.