City of Gary, Indiana

Report of the Fiscal Monitor

January 6, 2010

Public Financial Management

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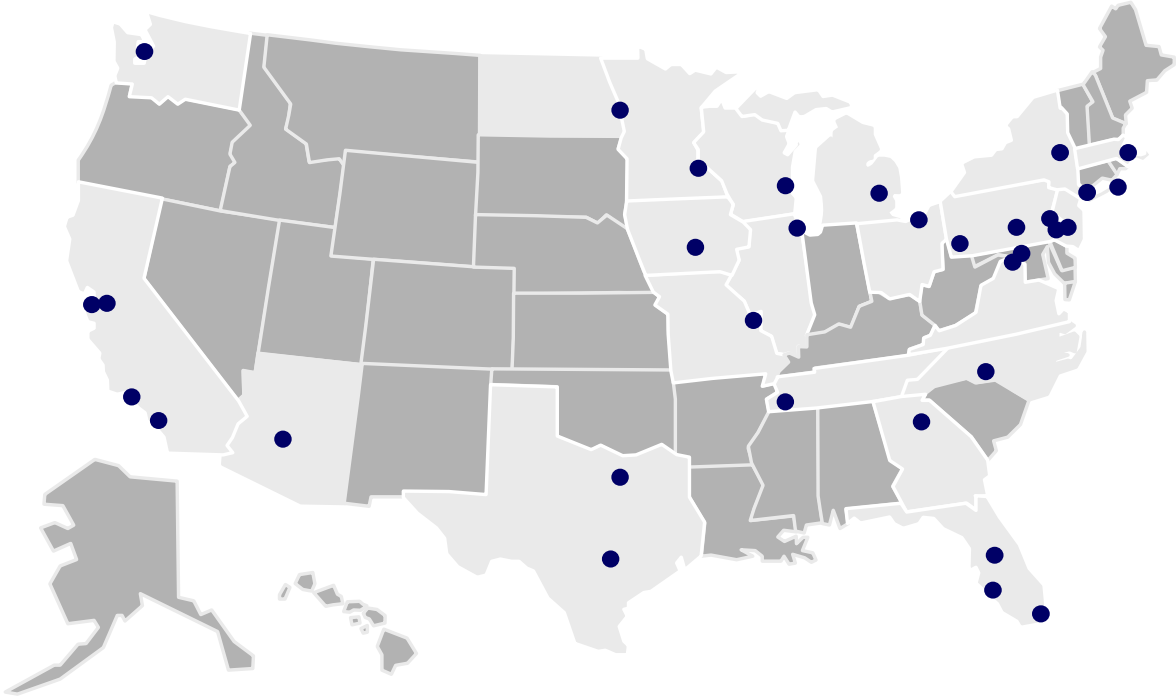


PFM's Strategic Consulting Group

- PFM clients include governments ranging from those in fiscal distress to those with strong financial positions.
- PFM works with our public sector clients to develop sound operating budgets, improve performance, and otherwise enhance their finances and ability to effectively deliver services.
- We apply proven techniques that move governments along the continuum toward financial and programmatic excellence.

Budgeting and Financial Planning
- Multi-Year Financial Plans
- Fiscal Recovery and Turnarounds
- Budgeting for Outcomes and Budget Development
- Financial Policies and Best Practices

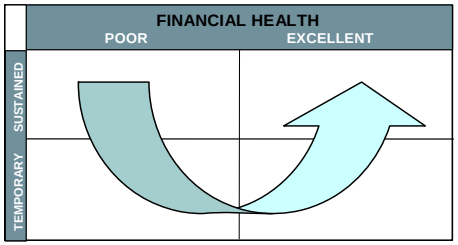
Operational Reviews and Reform
- Fleet Management
- Public Safety
- Public Works/Utilities
- Parks and Recreation
- Health and Human Services
- Capital Program Implementation

Workforce Analysis
- Economic Analysis for Bargaining
- Interest Arbitration Expert Testimony
- Overtime Control
- Staffing Level Analysis

Revenue Maximization
- Tax Policy
- Fee and Cost Recovery Studies
- Market-Based Revenue Opportunities

Governmental Consolidation / Shared Services
- Consolidation/Merger
- Shared Services and Partnerships

Program Analysis
- Program Evaluation
- Information Technology Needs Assessment and Investment Review
- Competitive Contracting

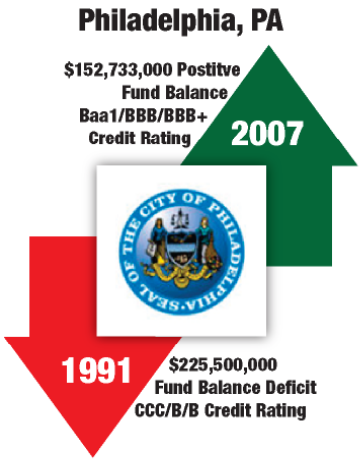


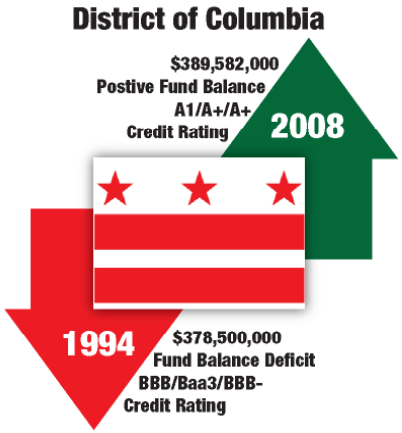
Oversight experience and assistance

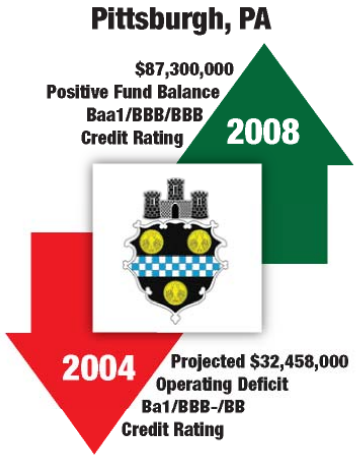
- **Commonwealth of Pennsylvania.** State-appointed financial recovery coordinator for the Cities of Pittsburgh, Reading and New Castle
- **State of Michigan.** Management and budget support for state-appointed Emergency Financial Manager for the Detroit Public Schools
- **Nassau County, New York.** Financial recovery planning to the County during period of control board oversight
- **Washington, DC.** Financial advisory services, control board era; fleet reduction and transportation alternatives
- **State of Florida.** Financial advisor to the Oversight Board for the City of Miami
- **State of New Jersey Department of Community Affairs.** Development of a multi-year recovery plan for the City of Camden.
- **Erie County, New York.** Technical financial and budget assistance for the Erie Fiscal Stability Authority

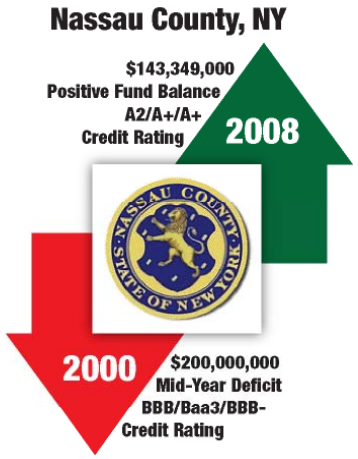
Fiscal recovery and turnarounds

- Over more than 15 years, PFM has led some of the most successful local government fiscal turnarounds in the nation, focused on short-term actions and long-term governmental planning.
- The team's services have steadily diversified to include a broad range of management, budget, revenue, and policy approaches at all levels of government.









PFM team oversight experience

	Financial Oversight and Related Experience
Dean Kaplan	• Appointed by Pennsylvania to serve as recovery plan coordinator for the cities of Pittsburgh, New Castle and Reading; • Served in government as Budget Director and water/wastewater CFO for Philadelphia, Pennsylvania under state oversight.
Michael Nadol	• Oversight work as advisor to state's Emergency Financial Manager for the Detroit Public Schools; Nassau County, New York, and Wilmington, Delaware; • Served in government as Finance Director, Director of Labor Negotiations , and Assistant Deputy Mayor for Philadelphia under state oversight.
Jillian Barrick	• Oversight work for Detroit Public Schools and Newark, New Jersey; • Served in government with the City of East Orange, New Jersey (first to "graduate" from the State's distressed cities program).
Virginia Rutledge	• Financial advisor to the Emergency Oversight Board for Miami, Florida; • Served in government as CFO for Austin, Texas and Memphis, Tennessee; • Past national president of the Government Finance Officers Association (GFOA).
Gordon Mann	• Leads PFM recovery efforts for the City of New Castle; • Served in government with the New York State legislature.
Greg Butler	• Developed workforce recommendations for Luzerne County recovery plan; • Served in government with New York City Health Department.
David Eichenthal, Esq.	• Served in government as CFO of Chattanooga, Tennessee.
Harold Hairston	• Served in government as Fire Commissioner of Philadelphia, Pennsylvania

Gary Assessment Overview

PFM's assignment in Gary

- The fiscal monitor is responsible for preparing a report on the budget and finances of each of the five Gary taxing bodies that requested relief from the DUAB for 2009:
  - City of Gary
  - Gary Sanitary District (GSD)
  - Gary Storm Water Management District (GSWMD)
  - Gary Public Transportation Corporation (GPTC)
  - Gary-Chicago International Airport

- The fiscal monitor report was to assess the financial condition of each petitioning entity and recommend a prioritized course of action, presented in the form of **"…a plan to stabilize the financial situation and set the course for long-term transformation and sustainability."**

Gary has structural challenges…

- Gary has a proud history, tremendous physical assets, and human resources. Today, however, its future is at risk.
- Declining core industry, a reduction in related jobs and businesses, and population loss have left the City with an older infrastructure, a population in need of government services, and fewer resources to pay for them.
- Increasing costs for public services are not matched by tax base growth.
- These issues all existed before the 2008 law imposing property tax caps.

…Exacerbated by external factors

- The structural difficulties are exacerbated by the problems facing other levels of government and key partners, problems that impact governments across Northwest Indiana.
  - Lake County has struggled to collect and remit property tax revenue in a timely manner, impacting all taxing bodies.
  - County has not enacted the local option income tax, increasing Gary's heavy reliance on property taxes. Assessment appeals, such as the one that generated an $8.1 million obligation to USX, have eroded this base.
  - Critical State revenue sources have a declining base (e.g. highway and streets funds) or have been suspended because of the recession (e.g. recycling grants).
  - While federal grant revenue may provide temporary relief, it does so with conditions and for a prescribed period of time.
- These factors have a real impact on the City's finances, but they do not change the need for the City to make changes in the areas it can control to address its financial distress.

City changes to date

- In recognition of these issues, the City has made important changes to control expenses or generate revenues from sources other than property taxes:
  - Eliminating support staff positions across several departments in the initial FY2009 budget
  - Wage freezes or reductions; furlough days
  - Midyear position cuts including layoffs in Streets and General Services
  - Moving employees to grants or non-property tax supported funds
  - Privatizing trash collection and hauling with a new user fee
  - Jail transferred to County
  - Consolidated departments
  - Close four pools and reduce summer seasonal employees

Caps halve property tax revenue

- The tax caps, when fully implemented, will reduce the City's property tax revenue from approximately $60 million to $30 million a year.
- This is a 50% cut in the City's main source of income and leaves the Gary with less revenue than the current cost of providing only public safety services (police, fire and EMS).
- If the City moved immediately to the full caps, it would have to lay off police, fire or EMS workers, and there would be no one to prepare paychecks or process health benefit claims for those who remained.

Need for change

- In light of these challenges and the reality of a new revenue structure with dramatically reduced property tax funding, the City of Gary and its related units have limited options:
  - Provide the same services much more efficiently. This is the preferred option wherever possible.
  - Reduce or eliminate valued services. The anticipated reduction in property tax revenue is so large that this will be unavoidable.
  - Find revenues other than the property tax to support services. The City has taken steps in this direction, but faces the challenge of communicating the need for this action in the face of skepticism about "double taxing" for the same services.

City Findings and Recommendations

PFM's methodology

1. Identify prior liabilities and set them aside.

2. Estimate baseline expenditure budget for 2010-2014 (given limitations of cash accounting system and multiple cross-cutting transfers); what would a single year's expenditures look like if exceptions were removed?

3. Match expenditures against projected revenues, using Policy Analytics' figures and other revenue sources, to yield a baseline annual ending balance for 2010-2014.

4. Review service levels and other management practices for potential changes that would bring the City's expenditures closer to the revenue projections.

5. Calculate an annual fund balance beginning in 2010, including the prior liabilities.

Baseline projection (liabilities excluded)

	FY2010	FY2011	FY2012	FY2013	FY2014
Revenues	78,965,590	68,790,663	59,651,448	61,040,235	62,566,241
Expenditures	76,548,741	78,337,091	80,238,595	82,278,855	84,460,900
Net Balance	**2,416,849**	**(9,546,429)**	**(20,587,147)**	**(21,238,620)**	**(21,894,659)**
Cumulative Balance	**2,416,849**	**(7,129,580)**	**(27,716,727)**	**(48,955,347)**	**(70,850,006)**

- The projection covers the following funds: general, police and fire pension, civic center, parks, CCD, CCI, local road/street, motor vehicle highway, debt service.
- Circuit breakers are phased in over a period ending in 2012 (Policy Analytics).
- Assumes collection of current year taxes plus delinquents equals 100 percent of amount billed and that the revenue is remitted to the City on schedule.
- Growth rates are applied to the City's FY2010 projection with a 2009 year-end balance of $0.
- Most non-property tax revenues grow at a recessionary pattern (0% in 2011, 0% in 2012, 2.5% in 2013, 2.5% in 2014).
- No growth in wages, longevity, overtime, clothing allowance.
- PERF contribution grows 5.0% annually; health insurance costs at 10.6% annually.
- Most other expenses grow at a generic inflationary rate of 2.5%.
- No changes in service provision or head count.

Liabilities compound the problem

- In addition to the structural imbalance, the City has several known and possible prior-year liabilities that it must address, including:
  - $12.5 million loan to the Gary Sanitary District
  - $8.9 million property tax repayment to USX
  - Money borrowed from other City funds that must be repaid (casino fund, self-insurance fund)
  - Unpaid judgments, unpaid legal service bills, judgments under appeal
- Pages 10 – 11 of the City report show the known liabilities that were added to the projection model. The amounts on some of these liabilities (e.g. unpaid medical claims or utility bills) may be different since they were created by the delay in property tax receipts.

Key principles

Change the government's organization and management

- Further consolidate departments and agencies
- Contract out selected services
- Retain professional operations managers
- Support employees

Eliminate unsustainable spending

- Prioritize
- Strictly control spending

New ideas welcome: build public consensus for recovery

- Engage multiple stakeholders.
- The fiscal monitor met with elected and appointed officials, including City Council; department managers; and representatives of most employee bargaining units, County Council, the Northwest Indiana Regional Development Authority and other economic and community groups.
- Conducted a public meeting on November 30 for residents and others to offer ideas

Recommendations

- The fiscal monitor report includes over 100 recommendations to reduce expenditures, increase revenue and invest in Gary. Total initiative savings exceed $22.3 million per year after FY2011.

	FY2010	FY2011	FY2012	FY2013	FY2014
Initiative Savings	10,167,000	22,308,000	23,626,000	25,187,000	26,114,000

- Key aspects of the fiscal monitor's multi-year plan include:
  - Compliance with PL 146 tax caps by FY2012
  - Phase in of most operating changes during FY2010 or by the beginning of FY2011 to provide time for implementation and generate short-term revenue to address unpaid prior year obligations and contingencies
  - Savings or new revenue are applied to the baseline projections with the same assumptions in place except where impacted by the recommendations

Workforce

- The City can achieve significant savings in health care costs, which can help it avoid more severe workforce reductions. Employees need to contribute more, and there are options to provide employees with modified benefits at a lower cost to them.
  - Offer a high deductible plan with lower premium contributions as an affordable option; allow employees to purchase more expensive coverage (PPO) at 100 percent of incremental cost; health management component
  - Equalize employee health care cost sharing across bargaining units, increase the HMO premium contribution to 25 percent, increase copayments
  - Freeze longevity and other premium payments (e.g. shift differential, special duty pay) at current level
  - Limit paid holidays to 10 annually; limit vacation accruals
  - Explore short-term and long-term disability coverage in place of current sick leave policy, which encourages abuse

Elected officials

- Plan presents two scenarios for Court and Clerk's Office:
  - Scenario I: Eliminate City Court with cases referred to the County; City Clerk's responsibilities would be reduced and a new ordinance violation bureau established
  - Scenario II: Keep City Court with improved fee and fine collection, eliminating Clerk's Civil Division and State/County support for alternative drug and mental health programs
- Given the uncertainty of the State/County support and the need to focus the City's limited resources on core public safety and general service functions, the Plan recommends Scenario I.
- Other recommendations in this section include reducing travel expenses by at least 50 percent, a five percent salary reduction for appointed and elected officials with a base salary of at least $50,000, and eliminating board compensation to the extent allowed by State statute.

Professional services

- Similar to the Courts/Clerk recommendation, the Plan outlines three scenarios for the City's health department – closing the department entirely (HD01), providing only grant funded services (HD02) and operating the department with targeted expenditure reductions and fee increases (HD03). The fiscal monitor recommends HD03 in which the City would continue to operate the health department, not shutting the department and transferring all services to the County.

- City needs to make targeted investments to build capacity to implement the Plan initiatives and have adequate resources to perform core finance and HR functions:
  - Appoint and empower a well-qualified Chief Operating Officer to focus on day-to-day workings of operational departments, particularly public safety
  - Hire two finance professionals to improve budgeting, report, accounting, internal control and reporting, support move to accrual accounting, etc.
  - Budget adequately to cover outstanding judgments and legal bills

Public safety – Police

- Reassess staffing after COPS grant expires: City cannot reduce officer headcount until 2013 under the terms of its ARRA funding
- Pursue civilianization to move more police into traditional duties like patrol or detective work
- Consolidating communications operations with the County
- Transfer animal services to the County, code enforcement to Building Department
- Conduct a comprehensive fee analysis and collect on dormant revenues

Public safety – Fire/EMS

- The City has to rescale its fire suppression operations. Practically speaking, it already does so on an ad hoc basis due to lack of employee availability, but it needs to make that staffing structure permanent to capture expenditure savings.
  - Create a fire station cut list, which is a list in priority order of which stations should be operated with the lowest ranked stations closed when employees are not available
  - Three firefighters per rig unless staffing levels allow for a fourth
  - Reduce overtime to FLSA levels in conjunction with cut list
  - Transfer personnel costs of Station No. 14 to the Gary/Chicago International Airport
  - Create a regular cycle for replacing fire apparatus and turn out gear
  - Issue an RFP for at least partial private provision of ambulance services

Public Works, Parks and General Services

- Eliminate the Department of General Services with responsibilities allocated to Public Works and Public Parks
- Drop streets activities to the level supported by state funding
- Enhance code enforcement
- Upgrade or eliminate traffic signals
- Institute fees for street cuts, business license applications and site plan review
- Privatize vehicle maintenance
- Reduce the number of vehicles in the City fleet
- Reduce parks maintenance staff and focus on a limited set of “jewel” parks
- Make Hudson Campbell Athletic Center and Genesis Center self supporting or close them
- Privatize operations of Golf Course

Economic development

- Reorganize development functions in one division and focus on a more targeted, coordinated development strategy
- Shift CDBG funding from redevelopment activities to code enforcement
- Transfer building demolition to Building Department within Public Works
- Improved utility management

Other recommendations

- Shift of all current Gary Sanitary District millage to the City of Gary to provide sufficient revenues to operate public safety services and basic government functions. Wastewater and sanitation charges would move fully to a fee basis no later than the beginning of 2011.

- Provision of modest working capital and pay-as-you-go capital balances tied to Plan implementation

- Potential to “buy back” selected services if the City is able to exceed plan targets.

Initiative impact

With a focus on achieving structural balance, this approach generates modest net annual balances in future years and allows for the repayment of some known liabilities.

Budget Projections with Plan Implementation

	FY2010	FY2011	FY2012	FY2013	FY2014
Revenues	84,384,657	75,155,782	66,071,760	67,616,640	69,303,215
Expenditures	81,608,091	70,338,041	66,051,073	66,769,311	66,055,910
Net Balance	**2,776,566**	**4,817,740**	**20,688**	**847,329**	**3,247,305**
Cumulative Balance	**2,776,566**	**7,594,306**	**7,614,994**	**8,462,323**	**11,709,628**

The plan allows the elimination of property tax cap relief after FY2011 (amounts shown below do not include shift of GSD millage).

Projected Property Tax Revenue

FY2010	FY2011	FY2012	FY2013	FY2014
48,574,691	39,132,142	29,716,594	30,459,509	31,220,997

What about the rest of the known obligations?

- Use of wagering tax and admissions taxes from the casino for payment and security. While these revenues are currently pledged to repay Redevelopment Commission bonds used for the US Steel Yard and the public safety facility, that debt service declines significantly after FY2010 and is fully paid by the end of FY2012. This creates an available revenue stream with an established payment history and structure.
- Possible use of Indiana Bond Bank or Indiana Finance Authority facilities in conjunction with a pledge/intercept of casino revenues or a pledge of City assets.
- While not recommended by the fiscal monitor, additional property tax relief specifically dedicated to repayment of prior year obligations could be structured to fund a one-time solution under certain conditions.
- General Obligation bonds of the City, although there would be little capacity until this plan is implemented and repayment of US Steel obligations ends in 2013.
- Direct state assistance tied to specific performance criteria by the City (such as implementation of the fiscal monitor's Plan and oversight terms), with repayment generated by implementation of enhanced plan recommendations.

DUAB recommendation

- Based on its work in Gary, the initiatives in this report, and the projections of the budget model, the fiscal monitor recommends that the DUAB approve City property tax cap relief in FY2010 and FY2011 commensurate with the total property tax revenue amounts estimated by Policy Analytics ($48.6 million in 2010, $39.1 million in 2011), ending in FY2012.

- In addition, it is recommended that the Sanitary District become fully self-supporting with user fees for both its wastewater and solid waste collection programs, and that the property tax allocation currently dedicated to the Sanitary District be transferred to the City. The shift of this revenue – approximately $5.0 to $6.0 million per year – allows the City to achieve budget balance, and maintains the overall property tax cap as established in Public Law 146.

Findings and Recommendations for Other Petitioning Bodies

Gary Sanitary District (GSD)

Assessment

- GSD has three property taxes to pay debt service and help fund sewer operations and garbage collection/hauling. For some of the reasons discussed earlier, GSD has not received property tax revenue in a timely manner and has relied on transfers from other funds (primarily the wastewater treatment plant operating fund) to bridge the shortfall.
- GSD also has sewer rates (recently increased by 85 percent) and a garbage collection fee, though delayed collection of the latter has required GSD to draw more money from the wastewater treatment plant operating fund.
- GSD is operating under an EPA consent decree which may require expensive capital and equipment investments.

Key Recommendations

- Move to user fees to fund all operations, implementing them as soon as possible.
- Strictly limit future transfers to other units of government.
- Deposit City loan repayments irrevocably in equipment and capital funds.
- Other initiatives to reduce expenses and mitigate fee increases.
- No additional property tax relief recommended for FY2010.

Gary Storm Water Management District (GSWMD)

Assessment

- GSWMD has a separate property tax levy to support its operations. Financial results through October 2009 indicate GSWMD had a operating deficit of approximately $900,000 absent interfund transfers or loans or TAWs.
- Other municipalities in Indiana fund storm water sewer activities on a user charge basis instead of a property tax.

Key Recommendations

- Move to user fees to fund operations, implementing them as soon as possible.
- Develop fees based on storm water impact, including size and permeability standards.
- Property tax cap relief in FY2010 commensurate with the total amount estimated by Policy Analytics ($642,000).

Gary Public Transportation Corporation

Assessment

- GPTC has property tax levies to support operations and pay debt service. Five of the six comparable large fixed-route transit systems have a property tax for operations, though three are levied regionally. GPTC's combined tax rate is the highest in 2008.
- GPTC trails the other six transit agencies in the performance indicators used by the State to distribute Public Mass Transportation Funding. But, when compared to these six cities or Lake County municipalities, the population served by GPTC's services appear to be more transit dependent and to have less income to find alternative means of transportation.

Key Recommendations

- Under the current funding structure, GPTC has a projected operating deficit of $1.0 million in FY2010 and growing – more than the projected level of property tax relief can bridge.
- Bring regional leaders together to fashion a comprehensive transit solution based on existing reports and recommendations. Regionalization will help, but will not be enough to sustain transit without another funding structure.

Gary-Chicago International Airport

Assessment

- The Airport (GYY) has property tax levies for operations and the cumulative building fund. Working with the RDA and a national aviation consulting firm, GYY is conducting a study on the development alternatives available. GYY is moving forward with runway extension efforts funded by the federal government and RDA.
- The airports in South Bend, Fort Wayne and Evansville host multiple commercial airlines and other kinds of service. However, they still require non-operating revenues (property tax for the first two) to fund operations. The host counties also have a more significant governance role at these three airports than Lake County does at GYY.

Key Recommendations

- Initiatives to reduce expenditures or evaluate relatively minimal existing revenue opportunities. GYY should also fund personnel costs related to Fire Station No. 14.
- Bring regional leaders together to fashion a funding structure that preserves the airport as a local, county, regional and state resource, taking into account the upcoming strategic study.
- Explore options for privatization or contracting out operations.
- Property tax cap relief in FY2010 commensurate with the total amount estimated by Policy Analytics ($1.038 million) with full implementation of tax caps in FY2012.

Thank you.