Gary Community School Corporation
Doing What is Best for Students - Today - Tomorrow - Everyday

EMERGENCY MANAGER REPORT

DISTRESSED UNIT APPEALS BOARD (DUAB)

August 15, 2019

Prepared by

Gary Schools Recovery, LLC

Emergency Manager Report
Prepared by Gary Schools Recovery, LLC
August 15, 2019

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I.0 EMERGENCY MANAGER UPDATE

EMERGENCY MANAGER'S SUMMARY

As the Emergency Manager, I continue to be focused on leading the District into the 2019-2020 school year on a positive note. Doing so has required concentrated focus on enrollment, personnel, facilities, and community relations. This has been, by far, one of the most enjoyable experiences of my career.

During the month of July, I have focused on the following:

- Building and increasing student enrollment
  - Daily enrollment growth continues. Exact numbers will be available soon
  - Enrollment campaign continues in full swing
- Improving customer service continues to be a focus
  - Bi-Weekly public meetings continue to be held
  - Site Based Meetings in all schools have been conducted
- Expanding community partnerships continue to be a focus
- Buildings and Grounds
  - The race to the start of school is our challenge
- Staff Recruitment
  - "Team Gary" members are being added each day

GARY COMMUNITY SCHOOL CORPORATION EVENTS

DR. MORIKIS' JULY CALENDAR OF EVENTS

- 2nd & 4th Mondays - Meet Dr. Pete J's Breakfast Club – 10:00am
- 2nd & 4th Tuesdays – Radio Broadcast (WLTH) – 12:30pm
- July 9 – Roosevelt Tour – 4:00pm
- July 16 – GCSC Roosevelt Public Meeting – 6:00pm

GCSC JULY DISTRICT HAPPENINGS

- July 15 – 19 Teacher Institute Week 1
- July 22 -26 Teacher Institute Week 2
- July 26 – GCSC Back to School Festival 1:00pm

- July 30 – Williams Meet and Greet

DR. MORIKIS'S AUGUST CALENDAR OF EVENTS

- 2nd & 4th Mondays - Meet Dr. Pete J's Breakfast Club – 10:00am
- 2nd & 4th Tuesdays – Radio Broadcast (WLTH) – 12:30pm
- August 13 – Emergency Manager Public Forum – 6:00pm
- August 29 – Fiscal Management Board Meeting – 4:00pm

GCSC AUGUST DISTRICT HAPPENINGS

- August 1 - McCullough Meet and Greet – 3:00pm – 5:00pm
- August 1 – Williams Meet and Greet – 3:00pm – 5:00pm
- August 1 – Glen Park Meet and Greet – 3:00pm – 5:00pm
- August 9 – Banneker @ Marquette Meet and Greet – 4:30pm – 6:30pm

GCSC DEPARTMENT UPDATES

BUSINESS SERVICES

- Payroll and financial software project - Since April we have been working with the contracted payroll service to post financial expenses to the district's financial software. This has been a huge undertaking because no provisions were implemented to track expenses since January 1, 2019.
- Fixed Asset Management project - work is being completed to record up to date fixed assets documentation.

BUILDING GROUNDS & MAINTENANCE

- Bus Aides are working this summer to supplement custodial services and assist painting crew with wall and door prep.
- Student workers are assigned to West Side head custodian to assist with building cleanup.
- Summer maintenance and custodial activities are ongoing.
- McCullough second floor restrooms are being finished for August utilization (restrooms were never completed at time of new construction).
- Cleanup of Gary Area Career Center.
- Requested auction of 20+ junk vehicles for removal from warehouse lot, a public nuisance with current inability to properly remove overgrowth of weeds, trees, bushes.

- Alpha Building Management warned of need to improve contractual obligation to perform at a higher level of service, to provide evidence of inspections and training.
- Using contracted services for carpentry, electric, and HVAC for air conditioning issues. Currently short 1 electrician and 1 HVAC person.

HUMAN RESOURCES DEPARTMENT

- Advertising open positions.
- Processing contracts for the 2019-20 school year.

INSTRUCTIONAL TECHNOLOGY

- Middle School VoIP phone migration from GMS to Bailly – Elementary School VoIP phone migration from Bailly to GPA.
- FUSE Lab at Bailly network infrastructure reconfiguration and testing.

SECURITY SERVICES

- Camera Project has been completed.
- Camera project has been completed at Bailly Middle School
- Alarm system has been placed in Wirt

SPECIAL POPULATION DEPARTMENT (FORMALLY KNOWN AS SPECIAL EDUCATION & STUDENT SERVICES)

- Staffing is completed.
- Programming letters were dispersed to the parents.
- Student rosters have been completed and dispersed to principals.

TRANSPORTATION

- Established collection points for 2019-20 bus routes.
- Repairing vehicles for upcoming inspections and service for the school year complete.

2.0 COMMUNICATION REPORT

ENROLLMENT CAMPAIGN

Even through the first day of school was August 8, the 2019-20 school year enrollment campaign continues. Historically students will continue to enroll throughout the school year with a small surge of students enrolling after Labor Day.

In addition to the meet and greets, festivals and community events, Gary and surrounding communities receive daily reminders to Take Another Look at Gary Schools through direct mail, radio ads, billboards, yard signs, newspaper ads and personal phone calls from our Family and Community Engagement team also known as FACE liaisons.

2019 CONVOCATION

On August 7, hundreds of Gary teachers, administrators and support staff gathered at West Side Leadership Academy to kick off the school year with the Back-to-School Convocation. This annual event is one way that the District welcomes staff back with an inspiring message as a catalyst for a successful academic year.

Bringing greetings and well wishes to the energetic audience of educators was Mayor Karen Freeman-Wilson, Gary Teachers Union President Gleneva Dunham, Urban League of NWI President and CEO Dr. Vanessa Allen-McCloud and Indiana State Representative Dr. Vernon Smith.

Indiana Governor Eric Holcomb, donning a Gary Community School Corporation t-shirt, sent a video expressing his excitement over the District's progress and well wishes for a great school year.

The keynote speaker of the opening ceremony was educator, author and motivational speaker Dr. Steve Perry. A respected contributor on networks including MSNBC, Fox, CNN, BET and NBC, Perry is an educator upon whom celebrities such as Oprah Winfrey, Steve Harvey and Bishop T.D. Jakes have called on to offer insight on parents and children.

Other activities throughout the day included professional development trainings for teachers, administrators and support staff.

COMMUNITY OUTREACH AND ENGAGEMENT

The weekly school-based meetings, bi-weekly radio call-in shows and monthly public forums with Dr. Morikis, Deputy Superintendent Nakia Douglas and members of the Emergency Management Team and GCSC staff continue to generate questions and dialogue with community members.

In addition to these engagement opportunities, the Gary community is increasing its community connection through social media with its GCSC Facebook and newly added Instagram and Twitter pages. Followers, likes, shares and comments have increased significantly in the past three months. Many events and announcements are streamed through Facebook Live as well as posted for future viewing. These social media platforms are a highly effective and very common channel for engaging with the Gary community.

Now that school is in session, the social media content will be even greater with schools sharing daily success stories, events and other updates to keep the community engaged.

3.0 VDRP UPDATE 3

VIABLE DEFICIT REDUCTION PLAN UPDATE #3

DISTRESSED UNIT APPEALS BOARD (DUAB)

Executive Summary
and
Deficit Reduction by Initiative and Year

July 31, 2019

Gary Schools Recovery, LLC

EXECUTIVE SUMMARY UPDATE #3 JULY 31, 2019

SUMMARY STATEMENT

As of June 2019, the Gary Community Schools Corporation (GCSC) projects an annual operating fiscal deficit of approximately $11,000,000. The projected annual deficit has decreased from approximately $15,000,000 in June 2018 and $18,000,000 in January 2018 when the original Viable Deficit Reduction Plan (VDRP) was presented. When Gary Schools Recovery LLC (GSR) began serving as Emergency Manager in August 2017, GCSC's annual operating fiscal deficit was approximately $22,000,000.

In addition to the annual operating fiscal deficit, GCSC has accumulated long-term debt of approximately $89,000,000 and short-term debt of approximately $2,000,000 for a total debt of approximately $91,000,00. The annual debt has decreased from approximately $104,000,000 in June 2017. Of the $104,000,000 of total debt in June 2017, approximately $87,000,000 was long-term debt and approximately $16,000,000 was short-term debt.

This report presents the original Viable Deficit Reduction Plan (VDRP), the first VDRP update (VDRPU1), second VDRP update (VDRPU2), and third VDRP update (VDRPU3). The original VDRP and the updated VDRPs document a credible plan for GCSC to eliminate the annual fiscal deficit and begin to pay down the accumulated long-term debt through 31 deficit reduction initiatives.

INITIATIVES STARTED AND START DATES

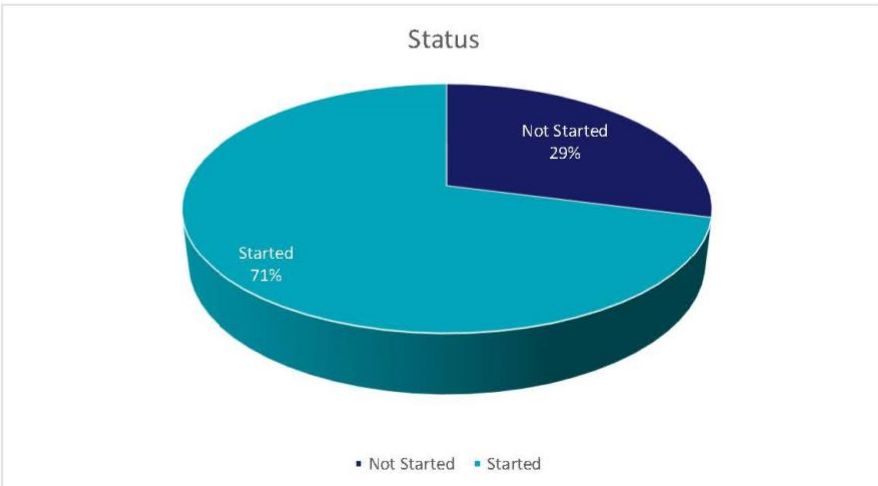
The original VDRP identified and documented 28 present and three future initiatives to eliminate the annual deficit and begin to pay down the accumulated long-term debt.

The following chart displays as of June 2019 the status of all 31 present and future initiatives in following three classifications.

1. Not started

2. Started

3. Completed



The following chart displays the start date of the 28 present initiatives. Each bar represents the number of initiatives starting by quarter and year.

VARIANCE ANALYSIS

Although more than two-thirds of the 31 identified initiatives have started, not every initiative that has started has begun to yield deficit reduction. For most initiatives, deficit reduction will follow significant precursor and foundational activities. These activities will yield deficit reduction in future months.

The following table highlights the variance between the projected deficit reduction and the actual deficit reduction both by initiative and in total as of June 2019.

INITIATIVE	VDRP SUBMITTED 01/31/18 PROJECTED DEFICIT REDUCTION AS OF DECEMBER 31, 2018	VDRP UPDATE #3 07/31/19 ACTUAL DEFICIT REDUCTION AS OF JUNE 30, 2019	VARIANCE	STATUS	ESTIMATED DEFICIT REDUCTION START DATE
2.A.	$6,181,131	$0	-$6,181,131	Not started	Q4 2019
2.B.	$503,750	$473,750	-$30,000	Started	Q3 2018
2.C.	$56,250	$11,847	-$44,403	Started	Q1 2019
2.D.	$2,500,000	$0	-$2,500,000	Not started	Q1 2020
2.E.	-$250,000	$0	$250,000	Not started	Q3 2020
2.F.	$1,891,200	-$320,100	-$2,211,300	Started	Q3 2018
2.G.	$268,444	$6,120	-$262,324	Started	Q3 2018
2.H.	$236,758	$0	-$236,758	Not started	Q4 2019
2.I.	$208,200	$12,600	-$195,600	Started	Q3 2018
2.J.	$143,200	$22,892	-$120,308	Started	Q4 2018
2.K.	$54,000	$45,828	-$8,172	Started	Q1 2018
2.L.	$60,000	$60,000	$0	Started	Q2 2018
2.M.	$536,799	$633,082	$96,283	Started	Q3 2018
2.N.	$281,250	$272,591	-$8,659	Started	Q1 2018
2.O.	$1,511,628	$0	-$1,511,628	Started	Q2 2019

VDRP UPDATE # 3 JULY 31, 2019

INITIATIVE	VDRP SUBMITTED 01/31/18 PROJECTED DEFICIT REDUCTION AS OF DECEMBER 31, 2018	VDRP UPDATE #3 07/31/19 ACTUAL DEFICIT REDUCTION AS OF JUNE 30, 2019	VARIANCE	STATUS	ESTIMATED DEFICIT REDUCTION START DATE
2.P.	$825,000	$825,000	$0	Started	Q1 2018
2.Q.	-$948,669	$0	$948,669	Started	Q2 2019
2.R.	$181,577	$464,986	$283,409	Started	Q3 2018
2.S.	$315,000	$710,700	$395,700	Started	Q3 2018
2.T.	$3,721,465	$8,706,880	$4,985,415	Started	Q3 2018
2.U.	$1,347,142	$495,464	-$851,679	Started	Q3 2018
2.V.	$169,050	$0	-$169,050	Started	Q2 2019
2.W.	$0	$0	$0	Not started	Q1 2020
2.X.	-$181,500	-$94,500	$87,000	Started	Q2 2018
2.Y.	-$1,104,524	-$228,744	$875,780	Started	Q3 2018
2.Z.	$0	$195,000	$195,000	Started	Q1 2019
2.AA.	$25,000	$0	-$25,000	Not started	Q1 2020
2.AB.	$0	$0	$0	Started	Q1 2018
3.A.	$0	$0	$0	Not started	TBD
3.B.	$0	$0	$0	Not started	TBD
3.C.	$0	$0	$0	Not started	TBD
Sum of All	$18,532,152	$12,293,396	-$6,238,756		

Gary Schools Recovery, LLC

Viable Deficit Reduction Plan Update #3 Distressed Unit Appeals Board July 31, 2019

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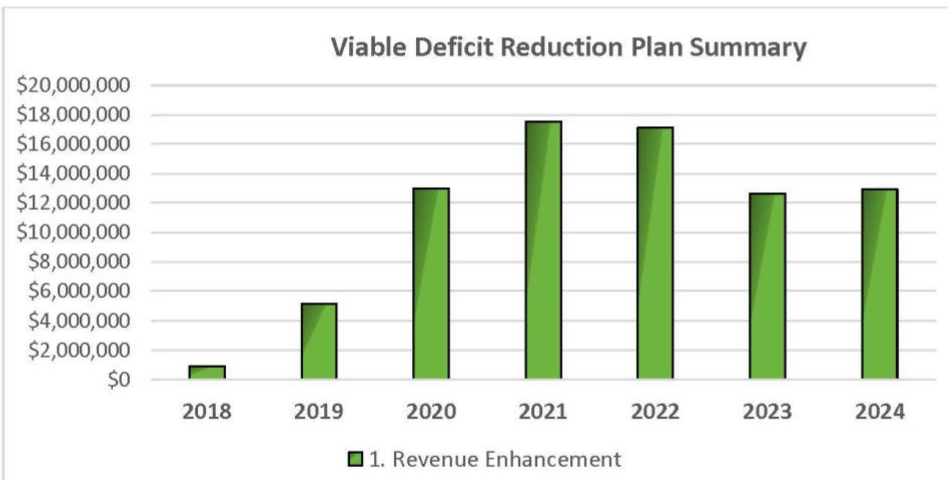
FISCAL IMPACT SUMMARY

The VDRP, VDRPU1, VDRPU2 and VDRPU3 details 28 present and 3 future initiatives for GCSC to eliminate the annual deficit and begin to pay down the accumulated long-term debt. The present initiatives detailed in the VDRP, VDRPU1, VDRPU2 and VDRPU3 may generate revenue, reduce costs, require an investment, or a combination of these actions. The net benefit for each present initiative is the sum of all revenue generated, costs reduced, or investment required for each initiative.

The charts on the following pages detail the fiscal impact of all VDRPU3 initiatives.

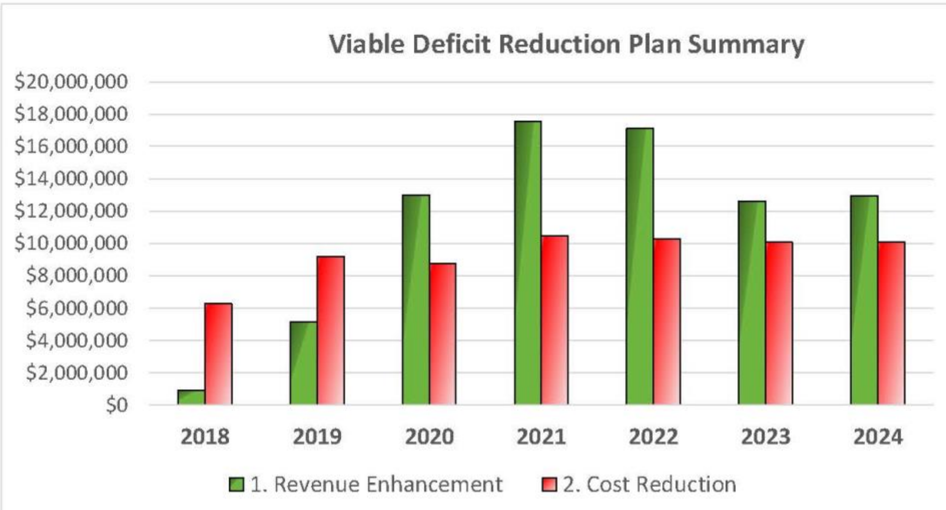
REVENUE ENHANCEMENT

The following chart details the sum of revenue generated for all present initiatives by year. Revenue generated is represented as the green bars.



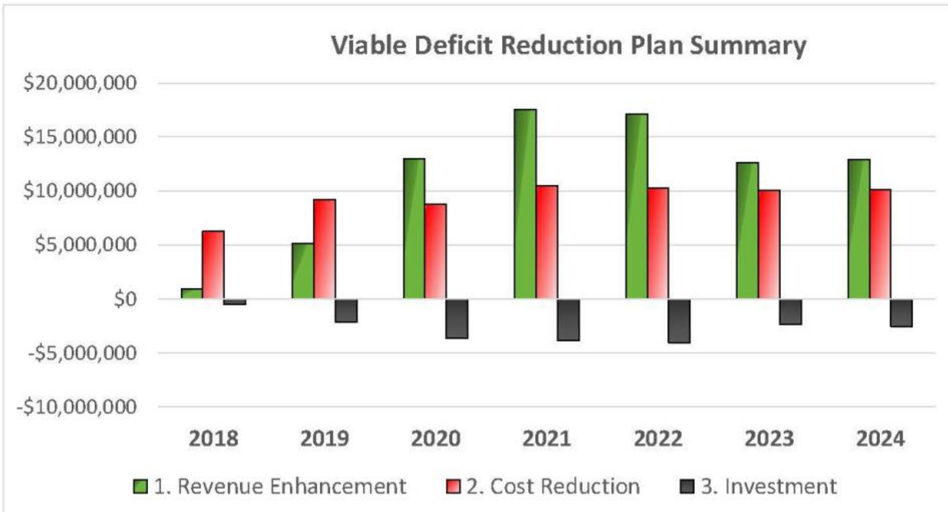
REVENUE ENHANCEMENT AND COST REDUCTION

The following chart details the sum of revenue generated and cost reductions for all present initiatives by year. Revenue generated is represented as the green bars. Cost reduction is represented as the red bars.



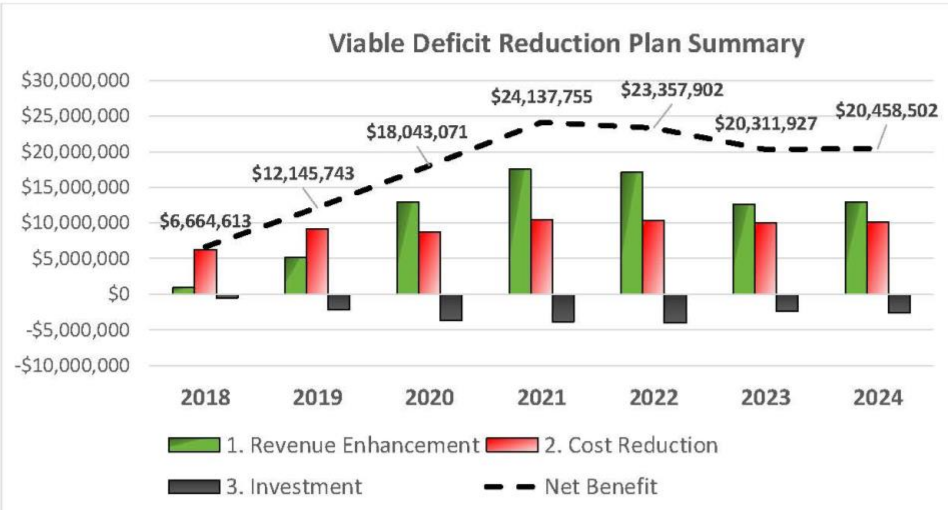
REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS

The following chart details the sum of revenue generated, cost reductions, and required investments for all present initiatives by year. Revenue generated is presented as the green bars. Cost reduction is represented as the red bars. Required investments is represented as the black bars.



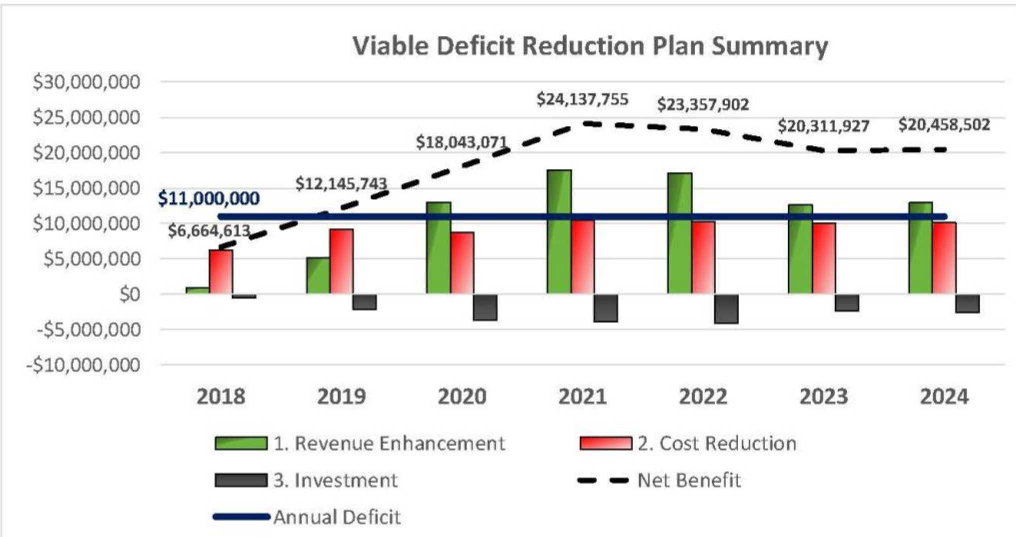
NET BENEFIT OF REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS

The following chart adds the net benefit calculation and details the sum of revenue generated, cost reductions, and required investments for all present initiatives by year. Revenue generated is represented as the green bars. Cost reduction is represented as the red bars. Required investments are represented as the black bars. The net benefit is represented as the dashed line. The net benefit is the cumulative amount of all present initiatives by year.



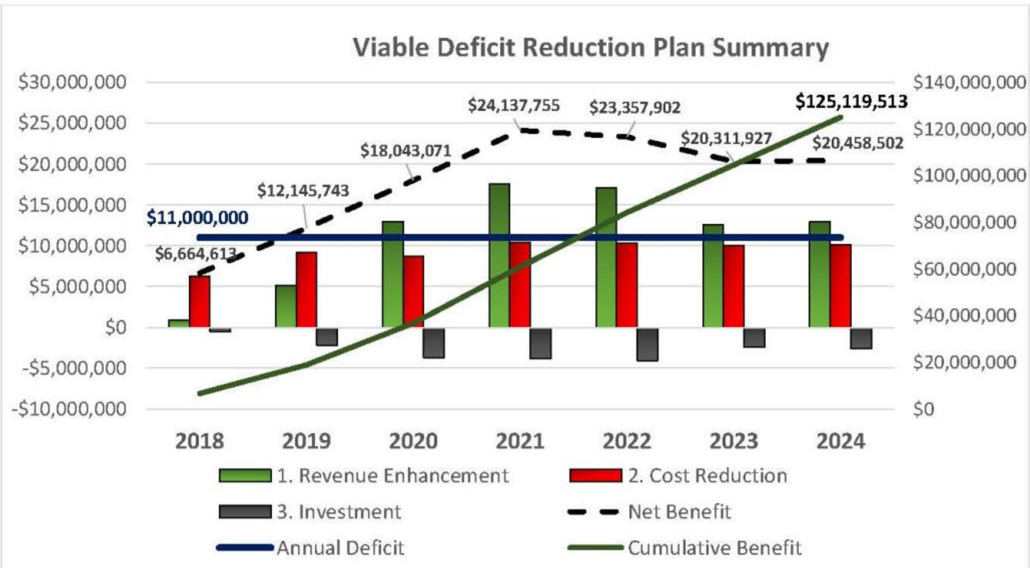
NET BENEFIT OF REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS COMPARED TO ANNUAL DEFICIT

The following chart adds a horizontal blue bar representing the $11,000,000 annual deficit of GCSC. As previously presented, the net benefit calculation details the sum of revenue generated, cost reductions and required investments for all present initiatives by year. Revenue generated is represented as the green bars. Cost reduction is represented as the red bars. Required investments are represented as the black bars. The net benefit is represented as the dashed line. The net benefit is the cumulative amount of all present initiatives by year.



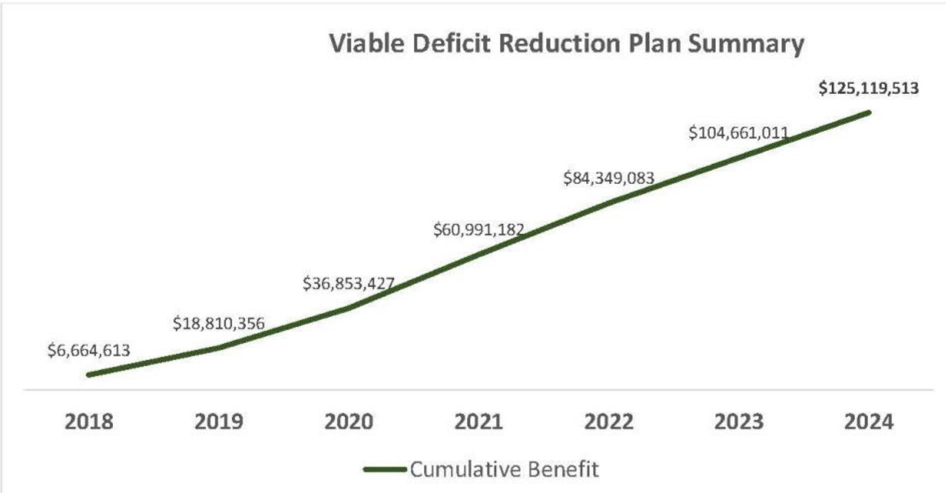
NET BENEFIT OF REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS COMPARED TO ANNUAL DEFICIT WITH CUMULATIVE BENEFIT

The following chart adds a diagonal green line representing the cumulative benefit of all present initiatives and a right axis corresponding to the cumulative benefit. As previously presented, the net benefit calculation details the sum of revenue generated, cost reductions, and required investments for all present initiatives by year. Revenue generated is represented as the green bars. Cost reduction is represented as the red bars. Required investments are represented as the black bars. The net benefit is represented as the dashed line. The net benefit is the cumulative amount of all present initiatives by year.



NET FISCAL IMPACT

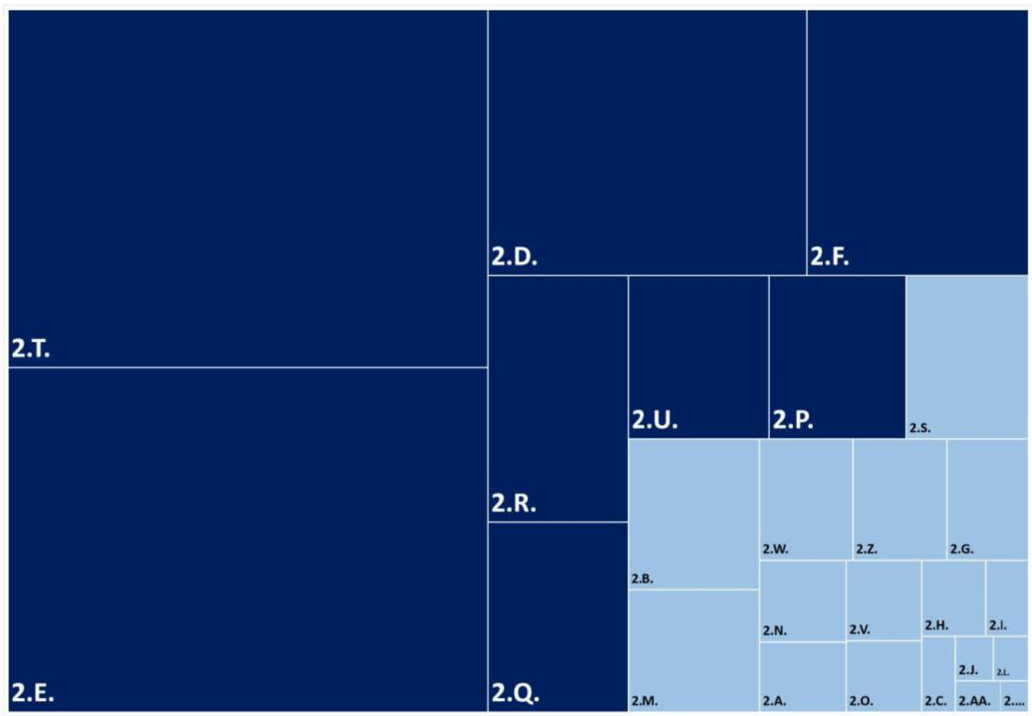
The cumulative net benefit of the VDRPU3 is approximately $125,000,000 over a seven-year time frame represented in the chart below.



The VDRPU3 cumulative net benefit over a seven-year time frame is approximately $26,000,000 or 17 percent less than the cumulative net benefit over a seven-year time frame in the original VDRP. Revisions to the future projected benefits of initiatives 2A – Suspend Common School Loan Payments, 2E – Local Referendum and 2I – Acquire/Implement On-line Program accounted for approximately $25,000,000 of the $26,000,000 (94%) of the net benefit reduction. Additional information for these revisions is provided in the body of this report (see applicable detail update information for each initiative).

INITIATIVES 7-YEAR NET BENEFIT

The following chart presents each present initiative in scale to the order of net benefit generated. The larger the box, the larger the net benefit. The number in the box corresponds to the initiative. Below this chart is a table of initiatives by number.



Approximately 83 percent of net benefits are derived from 8 initiatives, or 26 percent of the total initiatives, and are represented in the dark blue boxes.

1. 2.T. Reduction in Force and Attrition
2. 2.E. Local Referendum
3. 2.D. Pay for Success
4. 2.F. Increase Enrollment
5. 2.R. Compete Custodian Services
6. 2 Q. Building Energy Efficiency and Utility Rate Audit
7. 2.U. School Closure / Consolidation
8. 2.P. Reduce Cost of Employee Health Insurance

All other initiatives derive the remaining approximate 17 percent of net benefits represented in the light blue boxes.

Please refer to the following table to crosswalk the initiative number to the initiative, presented in order from most to least net benefit.

LEGEND			
2.T.	Reduction in Force and Attrition	**2.G.**	Co-location and Co-branding GACC and Ivy Tech
2.E.	Local Referendum	**2.N.**	Labor Cost Controls
2.D.	Pay For Success	**2.A.**	Suspend Common School Loan Payments
2.F.	Increase Enrollment	**2.V.**	Relocate Administration Office
2.R.	Compete Custodian Services	**2.O.**	Debt Restructuring
2.Q.	Building Energy Efficiency and Utility Rate Audits	**2.H.**	System of Great Schools
2.U.	School Closure / Consolidation	**2.I.**	Acquire / Implement On-line Program
2.P.	Reduce Cost of Employee Health Insurance	**2.C.**	Maximize Medicaid Funds
2.S.	Compete Transportation Contract	**2.J.**	Community Crowdfunding
2.B.	Maximize Federal Funds	**2.L.**	Joint Purchasing Cooperative
2.M.	Food Service Fund Accounting	**2.AA.**	Corporate Partners
2.W.	Negotiate Reduction of Legacy Accounts Payable	**2.K.**	Rent Building Space
2.Z.	Sell Assets – Art, Buildings and Land		

SEA 567-2017 LEGISLATION

In 2017, the Indiana State Legislature passed Indiana Senate Enrolled Act 567 (SEA 567), which designated GCSC as a distressed political subdivision. This legislation also designated an Emergency Manager to assume operational control of GCSC. Effective August 1, 2017, GSR was named GCSC Emergency Manager and began operating GCSC. GSR appointed Dr. Peggy Hinckley as the operating Emergency Manager and Mr. Eric Parish as the Fiscal Officer. In November 2018, Dr. Pete Morikis replaced Dr. Hinckley as Emergency Manager.

GSR is required to submit this VDRP to the Distressed Units Appeals Board (DUAB) per the following section of SEA 567.

> *The Emergency Manager will deliver a viable structural deficit (annual expense versus annual revenues) reduction plan within six (6) months of taking over as Emergency Manager, i.e., not later than January 31, 2018, for DUAB review and approval. The structural deficit reduction plan shall identify the steps required to eliminate the School Corporation's deficit over a reasonable period of time through a combination of*

strategies, including cost-reduction, debt-restructuring and revenue enhancement while providing for the on-going operations of the School Corporation.

Also included in SEA 567 are the following two reports:

1. Audit and Financial Plan – Develop financial plans
2. Debt Resolution Plan – Long-term plan to retire all outstanding obligations

Due to the similarities and overlapping analysis and content of these two reports, they have been combined into the VDRP.

MULTIPLE PATHS TO FISCAL SOLVENCY

The VDRP, VDRPU1, VDRPU2 and VDRPU3 identify and detail 31 initiatives to eliminate the GCSC annual fiscal deficit and address the accumulated long-term debt. The overarching theme of the VDRP, VDRPU1, VDRPU2 and VDRPU3 is that there are multiple pathways to fiscal solvency for GCSC.

These multiple pathways are analogous to a candidate winning the U.S. presidency by securing at least 270 electoral college votes. In a presidential election there are multiple pathways to at least 270 electoral college votes. Throughout a campaign the candidate's path to at least 270 electoral college votes may change based on evolving assumptions, analysis, conditions, and situations. While the goal of at least 270 electoral college votes remains constant, the path to secure these votes may change.

The path to fiscal solvency for GCSC is similar to the path for at least 270 electoral college votes for a presidential campaign. The initial strategy may require change due to evolving assumptions, analysis, conditions, and situations. While the goal of fiscal solvency remains constant, the strategy and pathways taken will likely change based on numerous factors. Some initiatives may unfold and materialize as planned. Other initiatives may not materialize as planned or may change from the initial plan.

However, the 31 initiatives detailed in this report will allow GSR the flexibility to follow multiple pathways, change pathways as needed, and even develop new pathways as needed to achieve the ultimate goal of fiscal solvency for GCSC.

VDRP UPDATES

GSR is required to submit updates to the VDRP to the DUAB at least once every six months per the following section of SEA 567.

The Emergency Manager shall update the written financial plan at least once every (6) months after the date of providing the original written financial plan to DUAB or more frequently as needed in order to allow the written financial plan to reflect the most current financial status of the School Corporation.

The original VDRP, VDRPU1, VDRPU2 and VDRPU3 is included in this report. The next update will be provided to DUAB on or before January 31, 2020.

POTENTIAL DEFICIT REDUCTION BY INITIATIVE AND YEAR

The following table displays the projected deficit reduction by initiative and year based on the July 2019 update.

SECTION	INITIATIVE	YEAR						
		2018	2019	2020	2021	2022	2023	2024
2.A.	Suspend Common School Loan Payments	$0	$89,800	$359,198	$359,198	$269,399	$0	$0
2.B.	Maximize Federal Funds	$220,000	$507,500	$518,665	$533,706	$550,785	$573,902	$602,892
2.C.	Maximize Medicaid Funds	$0	$49,347	$76,125	$77,648	$79,356	$81,776	$84,802
2.D.	Pay For Success	$0	$0	$5,000,000	$5,000,000	$5,000,000	$0	$0
2.E.	Local Referendum	$0	$0	$3,250,000	$6,500,000	$6,500,000	$6,500,000	$6,500,000
2.F.	Increase Enrollment	$0	$1,666,500	$1,320,000	$1,540,000	$1,760,000	$1,980,000	$2,200,000
2.G.	Co-location and Co-branding GACC and Ivy Tech	$6,120	$97,000	$194,000	$291,000	$329,800	$388,000	$446,200
2.H.	System of Great Schools	$0	$78,919	$157,838	$157,838	$157,838	$157,838	$157,838
2.I.	Acquire / Implement On-line Program	$12,600	$122,400	$90,000	$90,000	$90,000	$90,000	$90,000
2.J.	Community Crowdfunding	$9,055	$38,837	$50,000	$50,000	$50,000	$50,000	$50,000
2.K.	Rent Building Space	$36,000	$19,656	$19,656	$19,656	$19,656	$19,656	$19,656

SECTION	INITIATIVE	YEAR						
		2018	2019	2020	2021	2022	2023	2024
2.L.	Joint Purchasing Cooperative	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000
2.M.	Food Service Fund Accounting	$399,367	$433,399	$399,367	$399,367	$399,367	$399,367	$399,367
2.N.	Labor Cost Controls	$180,469	$180,469	$180,469	$180,469	$180,469	$180,469	$180,469
2.O.	Debt Restructuring	$0	$26,389	$125,279	$197,779	$197,779	$197,779	$197,779
2.P.	Reduce Cost of Employee Health Insurance	$550,000	$550,000	$508,800	$539,328	$571,688	$605,989	$642,348
2.Q.	Building Energy Efficiency and Utility Rate Audits	$0	$0	($1,215,548)	$533,759	$533,759	$2,419,145	$2,419,145
2.R.	Compete Custodian Services	($46,435)	$1,022,842	$1,022,842	$1,022,842	$1,022,842	$1,022,842	$1,022,842
2.S.	Compete Transportation Contract	$454,603	$515,194	$515,194	$515,194	$515,194	$515,194	$515,194
2.T.	Reduction in Force and Attrition	$4,824,321	$6,053,504	$4,100,673	$3,859,457	$3,859,457	$3,859,457	$3,859,457
2.U.	School Closure / Consolidation	$169,232	$652,463	$652,463	$652,463	$652,463	$652,463	$652,463
2.V.	Relocate Administration Office	$84,525	$44,525	$169,050	$269,050	$169,050	$169,050	$169,050
2.W.	Negotiate Reduction of Legacy Accounts Payable	$0	$0	$400,000	$400,000	$400,000	$400,000	$400,000
2.X.	Marketing and Community Communication	($46,500)	($48,000)	($96,000)	($96,000)	($96,000)	($96,000)	($96,000)

SECTION	INITIATIVE	YEAR						
		2018	2019	2020	2021	2022	2023	2024
2.Y.	Invest in Hardware, Software and Shared Services	($228,744)	($190,000)	($145,000)	($145,000)	($145,000)	($145,000)	($145,000)
2.Z.	Sell Assets – Art, Buildings and Land	$0	$195,000	$300,000	$1,100,000	$200,000	$200,000	$0
2.AA.	Corporate Partners	$0	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
2.AB.	Internal Budget Control	$0	$0	$0	$0	$0	$0	$0
3.A.	Foundation and Philanthropic Involvement	$0	$0	$0	$0	$0	$0	$0
3.B.	Outside Capital Investments	$0	$0	$0	$0	$0	$0	$0
3.C.	Request Grants or Interest-Free Loans If Needed	$0	$0	$0	$0	$0	$0	$0
	Grand Total	$6,664,613	$12,145,743	$18,043,071	$24,137,754	$23,357,902	$20,311,927	$20,458,502

4.0 PAYMENT TOWARD ACCRUED LIABILITIES

Gary Community School Corporation
Doing What is Best for Students - Today - Tomorrow - Everyday

$400,000 Towards Accrued Liabilities

DISTRESSED UNIT APPEALS BOARD (DUAB)

July 31, 2019

Prepared by

Gary Schools Recovery, LLC

Per the contract between Gary Schools Recovery LLC (GSR), serving as the Emergency Manager for the Gary Community School Corporation (GCSC), and the Distressed Unit Appeals Board (DUAB) (the State), GSR was incentivized to complete the following action by July 31, 2019.

> The Emergency Manager will provide for a sum of money in an amount equal to at least $400,000 to pay toward the accrued liabilities of the School Corporation. This sum of money shall be documented in the Approved Structural Deficit Reduction Plan. The provision of this sum of money shall be in substantial conformance with the Approved Structural Deficit Reduction Plan and shall provide for the on-going operations of the School Corporation. The achievement date for this performance incentive shall be the end of Year 2 of the Contract Term. The performance incentive cannot be claimed until DUAB has verified that the Emergency Manager has provided the required sum of money to pay toward the accrued liabilities of the School Corporation, in substantial conformance with the Approved Structural Deficit Reduction Plan and the amount identified therein, during Year 2 of the Contract Term. Upon DUAB's review and verification of the required sum of money, the Emergency Manager shall receive a $100,000 performance incentive. Notwithstanding the foregoing, if the Emergency Manager provides any sum of money in an amount less than $400,000 to pay toward the accrued liabilities of the School Corporation, the Emergency Manager shall receive a performance incentive equal to twenty-five percent (25%) of such payment.

The following information supports GSR's request for the performance incentive detailed above.

VIABLE DEFICIT REDUCTION PLAN

In January 2018, GSR completed and submitted to DUAB a Viable Deficit Reduction Plan (VDRP) with 31 present and future initiatives for GCSC to achieve fiscal sustainability by increasing revenue, decreasing costs or a combination of both. The VDRP was approved as submitted by DUAB in early 2018. The VDRP has subsequently been updated and submitted to DUAB in July 2018, January 2019 and July 2019.

As of June 30, 2019, the VDRP is on track to achieve the intended result of fiscal sustainably for GCSC. The original VDRP identified approximately $151,000,000 in increased revenue, reduced costs or a combination of both over seven years. The July 2019 VDRP Update (VDRPU3) identified approximately $125,000,000 in increased revenue, decreased costs or a combination of both over seven years. While the VDRPU3 identified less cumulative financial benefit then the original VDRP, the total amount of financial benefit identified is still more than enough to achieve fiscal sustainability for GCSC.

AUGUST 2017 DEFICIT AND DEBT

When GSR began serving as the GCSC Emergency Manager in August 2017, the GCSC annual deficit was approximately $22,000,000. GCSC was spending $22,000,000 more per year than was collecting in revenue. GCSC was filling the deficit between revenue and expenses with loans from the State of Indiana and slow, or no, payment to vendors and suppliers.

Also, in August 2017, GCSC had total accumulated debt of approximately $104,000,000. Of the accumulated debt, approximately $87,500,000 was long-term debt and approximately $16,500,000 was short-term debt. The long-term debt was comprised of bonds and loans. The short-term debt was comprised of an IRS obligation of approximately $8,500,000 and accounts payable of approximately $8,000,000. The IRS obligation was increasing daily due to penalties and interest. The accounts payable ledger reflected past due amounts for the majority of GCSC vendors and suppliers as well as approximately 20 in-process or pending court-ordered or negotiated judgments and settlements for lack of payment.

JUNE 2019 DEFICIT AND DEBT

As of June 30, 2019, the GCSC deficit is approximately $11,000,000. The VDRPU3 identifies 31 current and future initiatives to eliminate the deficit entirely.

As of June 30, 2019, the GCSC debt is approximately $91,000,000. Of the accumulated debt, approximately $89,000,000 is long-term debt and approximately $2,000,000 is short-term debt. The long-term debt is comprised of bonds and loans. The short-term debt is comprised of accounts payable. GCSC has made scheduled bi-annual principal and interest payments on outstanding bonds and monthly principal payments on interest-free loans.

The IRS obligation was completely resolved in early 2018 for a fraction of the accumulated balance. The approximately $2,000,000 in accounts payable represents a normal monthly expense cycle for GCSC. As of June 30, 2019, almost all the court-ordered or negotiated judgments and settlements have been cleared. The remaining disputes are relatively small and scheduled to be resolved by the end of 2019. GCSC is no longer a credit risk with vendors and suppliers and can issue purchaser orders or buy on payment terms.

OVER $2,000,000 OF COST SAVINGS TO PAY TOWARDS ACCRUED LIABILITIES FROM FOUR REPRESENTATIVE CURRENT INITIATIVES DOCUMENTED IN THE VDRP

As documented in the VDRPU3, over $2,000,000 of cost savings to pay toward accrued liabilities has been realized through the following four representative current initiatives. Significant increased revenue and cost savings to pay towards accrued liabilities have been realized through other current initiatives identified in the VDRPU3 but not included in this report.

LABOR COST CONTROLS

Similar to most school corporations and most public-sector organizations, salary costs are the largest cost category for GCSC. Approximately 45 percent of GCSC costs are salary costs including base pay and additional compensation. Included in additional compensation costs are overtime, step pay, longevity pay, and supplemental pay.

Adherence to internal controls, consistent application of existing payroll policies, updates as needed to payroll policies, and diligent management oversight of budgeted labor costs have decreased overall labor costs in the additional compensation categories.

VDRPU3 documented savings is $272,591.

REDUCE COST OF EMPLOYEE HEALTH INSURANCE

Similar to other school corporations, and many public-sector organizations, employee benefit costs are the second largest cost category for GCSC. Approximately 16 percent of GCSC costs are employee benefit costs. Employee health insurance is by far the largest cost of all the employee benefits.

In late 2017, with the assistance of an outside consultant, GSR, and GCSC personnel reviewed options and bids from four employee health insurance providers. Two of the four bids were chosen for additional review and subsequent negotiation.

Cigna, the incumbent provider, proposed the best option for GCSC, resulting in net savings of over $1,000,000 over two years.

VDRPU3 documented savings is $825,000.

COMPETE CUSTODIAN SERVICES

In 2017 and early 2018, GCSC custodial services were divided roughly equally between contracted services and services provided by GCSC personnel. The contracted vendor-provided custodial services were for a higher number of buildings than the number of buildings receiving custodial services from GCSC personnel. However, the buildings receiving services from the contracted vendor were considered easier to clean than the buildings receiving services from GCSC personnel. Therefore, the level of effort between the two groups was considered roughly equal.

Two primary factors have contributed to lowering the costs of custodial services. The first factor is the number of buildings that require custodial services. School closure and/or consolidation have reduced the overall effort required and therefore the cost of custodial services. The second factor is a comprehensive RFP process in 2018 for contracted custodial services with tightly defined work requirements and measurements, negotiation, and contract terms.

Based on a comprehensive review of proposals from several custodial service providers and an analysis of the GCSC incurred costs for custodial services, the decision was made to transition all custodial services to an external vendor. The transition to the external vendor took place July 1, 2018. After the transition to the custodial service provider, contractual payouts were made to former GCSC custodians. These payouts offset the initial partial-year savings from the contractual agreement. Without this offset going forward cost savings have been generated as projected in 2019.

VDRPU3 documented savings is $464,986.

SCHOOL CONSOLIDATION LABOR COST CONTROLS

There were two GCSC high schools within the GCSC boundary in August 2017. These two high schools were West Side Leadership Academy and Wirt-Emerson Academy. Student capacity at these two high schools far exceeded the 2017-18 as well as recent prior years' actual enrollment. In total, these two high schools had student capacity for over 4,500 students with an enrollment of fewer than 1,300 students.

Based on the current and recent prior years enrollment, Wirt Emerson Academy was closed and students, instructional and administrative staff, and programs were transferred to West Side Leadership

Academy. This school consolidation has generated significant cost savings in reduced administration, utilities, custodial, security, transportation, and other operations.

VDRPU3 documented savings is $495,464.

OVER $7,500,000 OF COST SAVINGS TO PAY TOWARD ACCRUED LIABILITIES FROM THREE ACTIONS NOT DOCUMENTED IN THE VDRP

Although not included in the VDRPU3, the following actions have also generated cost savings to pay toward accrued liabilities.

IRS SETTLEMENT

In August 2017, GCSC owed the IRS approximately $8,500,000 with penalties and interest increasing this amount monthly. GCSC settled the IRS debt in early 2018. The total payment to the IRS and a consulting firm that assisted in the settlement was approximately $1,300,000 for a net savings of approximately $7,200,000.

PROPERTY AND SURPLUS SALES

Liens on all GCSC property were released following the settlement agreement with the IRS. Two abandoned and vacant properties have been sold after the IRS settlement and surplus auctions have been conducted. Approximately $250,000 has been realized through these sales.

TRANSPORTATION CONTRACT

GCSC negotiated a new contract for student transportation for the 2018-19 school year. Not only did the contract generate cost savings, the vendor agreed to pay GCSC $75,000 at the end of the school year.