

CITY OF GARY DISTRESSED UNIT APPEALS BOARD PETITION NARRATIVE

Introduction

The City of Gary, Indiana is seeking assistance from the Distressed Unit Appeals Board pursuant to I.C. 6-1.1-20.3-6 *et. seq.* Relief from the application of the credit against tax liability established under I.C. 6-1.1-20.6 is sought in order to ensure the continuation of, as far as possible, basic services to the citizens of Gary.

Under the provisions of I.C. 6-1.1-20.6, and, now, with constitutional tax caps in place, the City of Gary is required to reduce its tax levy to \$30 million by 2012. The City can only accomplish this reduction incrementally. To do otherwise would negatively impact the provision of essential city services. Therefore, the City seeks the relief available from the Distressed Unit Appeals Board.

Gary's Recent Financial History

The City of Gary has encountered significant financial hurdles over the past year.

The City ended 2009 with a deficit largely due to a poor property tax collection rate. Our financial situation was exacerbated by the fact that we had to borrow \$8.5 million to offset a shortfall that occurred as a result of a calculation error in property tax distributions for 2009 made by the State of Indiana Auditor's Office.

Since property tax distributions were late once again, the City was forced to issue tax anticipation warrants for the second half of the year to obtain funding for government operations until tax dollars are released. Unfortunately, the City was unable to issue those warrants at the customary 80% rate, but could only receive funding at a rate of 67%. Additionally, we were unable to obtain any funding for the second half of the year for our Park Fund. We were advised that these reductions occurred because the Lake County Auditor's Office could

provide neither the City nor the Indiana Bond Bank with a tax collection rate based on the provisional tax bills that were mailed to taxpayers in for the first 2010 installment.

It is anticipated that the final tax distribution for 2010 will be made at the end of January 2011. Thus, it is likely that we will end 2010 with a deficit for the same reasons as last year.

Implementation of PFM Recommendations

At the time of our presentation before the Board last year, the report of the Fiscal Monitor, Public Financial Management (PFM), had just recently been issued and there had been no real opportunity to implement many of the recommendations made in that report. Since that time, however, the City of Gary has either implemented most of the initiatives suggested by PFM for 2010, or has implemented an alternative that achieves a similar savings or reduction. Some of the monetary initiatives that have been implemented, or their alternatives, are listed below.

- Partial shift of GSD millage to City's General Fund
- Multi-year wage freeze

- Continuation of 10 furlough days per year
- Financial adjustment (reduction in other areas) to the general fund to compensate for Lake County's refusal to accept Animal Control responsibilities from City
- Implemented health insurance initiatives (some of the recommendations made by PFM may be impacted by the new Health Reform legislation)
- Reduced Tax Anticipation Warrant Interest
- Addition of professional staff to the Finance Department
- Additional budgeting for outstanding judgments and legal bills
- Elimination of the Human Relations Department from the General Fund (this department is now funded only with grant dollars)
- Institution in 2011 of a \$500 uniform allowance for public safety personnel
- Fire station consolidation
- Transfer of costs for Fire Station 14 (Gary/Chicago International Airport) to the airport and welfare excess fund
- Established fire report fees
- Reduction in Fire Department personnel

- Financial adjustment (reduction in other areas) to the general fund to compensate for retention by City of its Health Department
- Eliminated board compensation
- 5% reduction in salaries of employees who earn \$50,000 or more

Some of the non-monetary initiatives, or their alternatives, that have been implemented are as follows:

- Consolidation of legal services in the Law Department to reduce reliance on outside counsel
- In process of renegotiating union contracts to overhaul leave policies, avoid restrictions on management rights, and contain post-retirement health care costs
- Pursued additional grant opportunities for Fire Department for a new fire station (to assist in consolidation), funding of existing fire department personnel and funding for fire equipment
- Revision of financial reporting to include management discussion and analysis; adoption of an investment policy and a strategy for bank accounts and banking services
- Development of increased budgeting and forecasting capabilities
- Bulk bidding of service contracts for the City

- Institution of a site plan review fee
- Issuance of an RFP for privatizing of Traffic Control Department – implemented alternative to reduce cost to level recommended by PFM since bids came in at over \$1 million. Currently seeking consultant to restructure department and functions.
- Implemented a vehicle use policy
- In process of reconstituting Economic Development Department
- Dissolved two TIF areas and released assessed values on other TIF areas to increase City's overall assessed value

Economic Development

Increased economic development is essential to the City of Gary's financial health. Only with an increased tax base will Gary begin to generate the tax dollars needed to sustain city services to its residents.

To assist in our economic development efforts, as well as to reduce crime, the City has received over \$2 million dollars in funds from the U.S. Department of Housing and Urban Development for demolition. Using these dollars, the City will demolish 159 structures. Already, 78 have been razed. The areas that have

been cleared can now be made ready for increased economic development efforts.

A \$90 million project is currently going through the approval processes as well. The construction of a data center is scheduled to begin in the first half of 2011. This project was made possible because of the enactment of Senate Enrolled Act 448 that allows a municipality to provide personal property tax exemptions for IT equipment. Ultimately, the 100,000 square foot facility will create 100-200 jobs and add significantly to our economy. It is our hope that this project is the initiation of a major diversification in the city's tax base into the technology area.

Regional efforts relating to the Marquette Park renovations and the Gary/Chicago International Airport continue. The renovated pavilion is scheduled to reopen in July and will mean increased revenue to our Park Department. Phase I has been completed.

The Lakefront Marina Access Road has been completed at a cost of \$3,378,669. That road is now open and provides improved access to our riverboat casinos. The airport runway expansion efforts continue and make domestic cargo opportunities more of a reality. The City's economic development staff will continue to push for increased development in the city.

Grant Awards

Over the past year, the City has received special grant dollars that have assisted tremendously with expenses that would have had to be paid from general funds dollars.

In addition to the over \$2 million in funding from HUD for demolition, the City has received a CMAQ grant in the amount of \$3,151,761 of which \$3,091,061 was utilized to purchase 128 vehicles, most of which have been utilized to replace police and fire vehicles. These new vehicles have made it possible to update the city's vehicular fleet (including taking a number of vehicles out of service thereby reducing the fleet size in accordance with PFM recommendations) at no cost.

The City also received \$1,284,461 in ARRA funds from our regional planning commission, NIRPC, to resurface several blocks of city streets. Again, had this funding not been available, these expenses would have had to come from the general fund. The City has also received from the Department of Energy a \$935,200 grant funding 200 LED lights.

City staff will continue to pursue grant-funding opportunities to augment scarce general fund dollars.

Outstanding Debt

The PFM Report makes the recommendation that savings from reductions as well as future unobligated casino dollars be utilized to begin to pay off the city's outstanding debt. As was stated earlier, the savings that were to be achieved have not been realized. And unobligated casino funding must be used to repay the unanticipated \$8.5 million loan needed to cover the auditor's calculation error as well as bond and lease payments, marina access road obligations due to our casino operator, pay toward fund deficits and make street repairs and infrastructure improvements. It is not expected that significant amounts of Casino funds will be able to apply toward General Fund and Casino debt combined until 2013.

- Long –Term Debt totals \$10,900,897. The majority of this debt are bonds collateralized by Casino Funds
- RDA - Regional Development Authority - \$7,350,000
- Internal debt includes:

Inter fund Loans – are \$9,880,000 due between City funds,
and \$10,437,126 due to GSD

Due To/Due other Banks/Funds - \$6.2M

- Current Payables due to be paid upon Distribution of 2010

Property Taxes for Medical Claims, and Utilities - \$2.4M

Conclusion

This year, the City is seeking a tax levy for its general fund of \$39.1 million with a transfer, and commensurate reduction of \$2 million from the Gary Sanitary District's millage. We respectfully request that the Board grant this request.

Each year, Gary has been faced with a series of budget challenges that have led to reductions in the dollars available to provide city services. The proposal submitted herein represents a continuation of our efforts to continue to provide services to our citizenry while attempting to come into compliance with I.C. 6-1.1-20.6. We continue in our efforts to re-structure city government with an eye toward consolidation and economies of service, and elimination of excessive spending while preserving essential services. We stand ready and willing to work diligently to continue this process.