

Distressed Unit Appeals Board Staff Report

City of Gary, Gary Sanitary District, Gary Storm Water Management
District, Gary Public Transportation Corporation

4/13/2011

The City of Gary (City), Gary Sanitary District (GSD), Gary Storm Water Management District (GSWMD), and Gary Public Transportation District (GPTC)(petitioners) petitioned the Distressed Unit Appeals Board (DUAB) on December 8th, 2010, for 2011 relief from the circuit breaker credits. Additional communication and information was exchanged between the petitioners, DUAB staff and other parties involved with local government finance administration. The 2011 budget year was the last opportunity to petition the DUAB for relief as the property tax caps have been adopted into the state constitution effective for the 2012 budget year.

Summary of 2011 Petitions as Presented

Gary Public Transportation Corporation (GPTC)

GPTC returned to petition the DUAB after not seeking relief for 2010. The reason for not seeking relief last year was the funding received from the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA funding was a one-time infusion of operating and capital assistance which was an augmentation of its existing federal assistance in 2010. GPTC petitioned the DUAB for 75% relief from the property tax caps. The request would translate into an approximate \$1.1 million add back to the general fund property tax levy (to \$2.2 million) as the debt service levy (\$1.3 million) is exempt by law from the caps. This 2011 aggregate levy request of \$3.5 million exceeded the net property tax levies of 2009 (with DUAB relief) and 2010 by 25% and 45%, respectively.

Gary Sanitary District (GSD)

GSD requested 2011 relief to realize the same net levies as 2010 or an aggregate of \$6.1 million. The levies would be allocated with \$3.8 million in the solid waste fund and \$2.3 million in the debt service fund. As previously noted, the debt service fund is exempt from the property tax caps. The sewer operating fund would not be supported by a property tax levy as was done in 2010. Other major revenue sources used to fund operations (approximately \$35 million in 2009) are sewer user fees and solid waste fees. GSD assumed operating control of the system from United Water in July 2010 and expects to realize \$4 million in reduced costs. Contract disputes with Allied Waste continue.

The GSD request created a conflict with the City's petition. The roadmap prepared by Public Financial Management (PFM) in late 2009 included the elimination of property tax levies by GSD so that the City could use that capacity for funding its services. The City included in its petition the reallocation of \$2 million of this capacity but GSD had not reduced its request by a similar amount nor had it initiated the necessary user fee increase to compensate for the reduced property taxes.

Gary Stormwater Management District (GSWMD)

GSWMD requested 2011 relief to realize the same net levy as 2010, or \$641,000. GSWMD is currently funded solely by property taxes. Storm water fees have been incorporated into its budget but were only under study as of the filing of the petition.

City of Gary (City)

The City proposed a plan that included net aggregate levies of \$41.1 million to fund a budget of \$68.3 million. As previously stated, the levy includes \$2 million of capacity that was to be reallocated from GSD. The levy request represents a 14% reduction from its 2010 targeted levy of \$47.8 million.

The City has attempted several but not all of the cost saving measures recommended by PFM. Some efforts were successful, others were not. The 2011 budget of \$68.3 reflects the outcomes of those efforts. While the budget is less than the PFM target of \$71 million it does not include the pay down of approximately \$6 million on outstanding obligations that was part of the roadmap.

The City’s Redevelopment Commission took action to pass through to all Gary taxing units previously captured assessed value in several tax increment financing (TIF) allocation areas. This action should have resulted in increasing the tax base and lessening tax rate pressure on the caps. Unfortunately, the county auditor’s office did not take the appropriate action to reflect that intent in the forthcoming 2011 property tax bills. Assurances have been received that this will be corrected for 2012 and future years. The Redevelopment Commission did forego the imposition of a tax increment replacement levy.

Summary-All Units

A table of the 2011 petition requests compared to the targets on which the PFM roadmap was based is provided below. In the PFM scenario, all GSD levies were eliminated and its net levies assuming no cap relief (approximately \$5.6 million) were reallocated for use by the City. GSWMD and GPTC were based on the straight-line levy reduction from 2009 to 2012.

| <u>Unit</u> | 2011 Levy Petitioned | 2011 PFM Roadmap Levy |
|-------------|-------------------------|--------------------------|
| City | \$41,100,000 | \$44,755,066 |
| GSD | 6,129,480 | 0 |
| GSWMD | 641,668 | 538,405 |
| GPTC | 3,499,577 | 2,587,573 |
| Total | \$51,370,725 | \$47,881,044 |

Summary of Final Resolutions and Recommendation

In an effort to emphasize the interdependence of the taxing units on the allocation of property taxes within the district and the cooperation required, the petitioners were directed to work toward a total levy that continued toward the path of operating and spending within the caps by 2012.

GSD, GSWMD and GPTC adopted resolutions to revise their 2011 petitions and levy requests. The City did not need to revise its resolution as its plan was not changed and the effect of only minor adjustments was to decrease its net aggregate levy.

GSD adjusted its levies to accommodate the reallocation of \$2 million for use by the City. GSWMD and GPTC lowered their relief request to levels that would achieve net levies as included in the PFM roadmap. A table summarizing these actions is presented below:

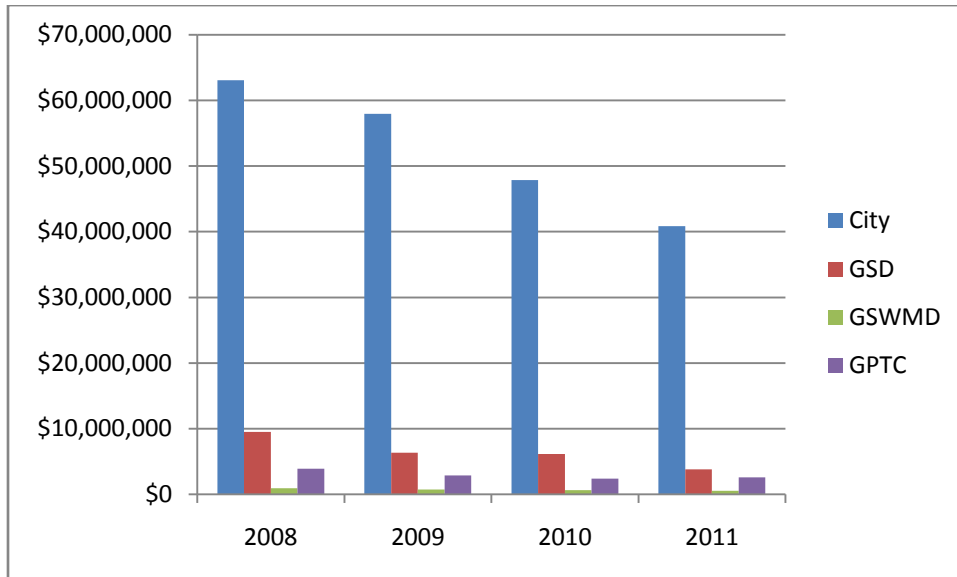
| <u>Unit</u> | 2011 Levy Petitioned | 2011 PFM Roadmap Levy | 2011 DUAB Recommendation |
|-------------|-------------------------|--------------------------|-----------------------------|
| City | \$41,100,000 | \$44,755,066 | \$40,849,158 |
| GSD | 6,129,480 | 0 | 3,799,439 |
| GSWMD | 641,668 | 538,405 | 538,405 |
| GPTC | 3,499,577 | 2,587,573 | 2,587,573 |
| Total | \$51,370,725 | \$47,881,044 | \$47,774,575 |

These recommended net levy targets translate to DUAB relief of approximately 25% with a proposed distribution and estimated effective cap rates as follows:

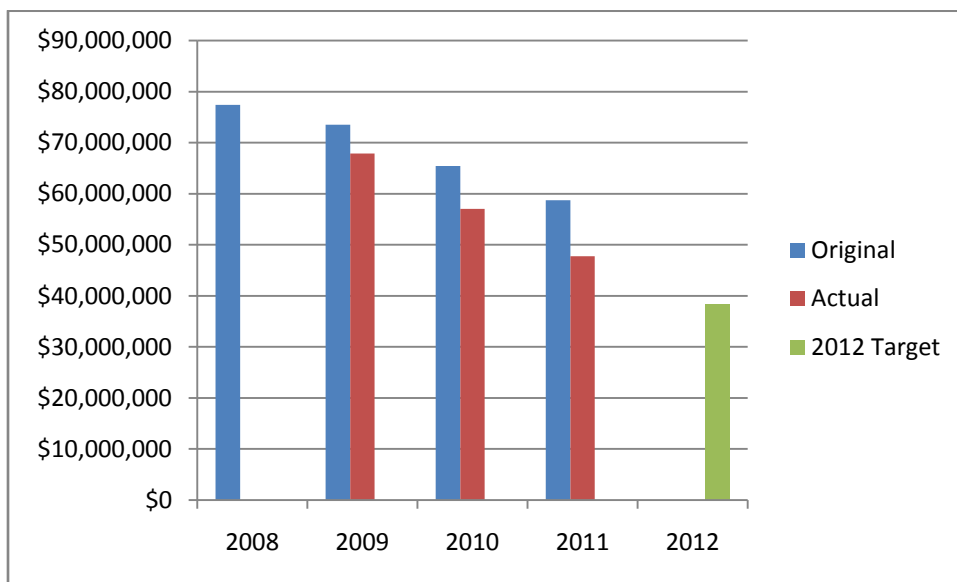
| | Homestead | Other Residential | Non-residential and Personal |
|------|-----------|----------------------|---------------------------------|
| 2009 | 2.00 | 3.27 | 4.55 |
| 2010 | 1.50 | 2.65 | 3.79 |
| 2011 | 1.25 | 2.47 | 3.68 |

Since this is the last year that relief may be granted, the following graphs attempt to capture the progress made to date but also the work that remains.

Individual Unit Levies by Year



Petitioning Unit Aggregate Levies by Year



The original petitions and financial plans filed in 2008 delayed the greatest levy reductions until 2012. In 2008, the year property tax caps were statutorily adopted, the aggregate levies of the petitioning units were approximately \$77 million. The originally submitted plans contemplated aggregate levies of almost \$59 million for 2011. This would have required \$20 million of additional levy cuts to operate without relief in 2012. The 2011 recommended levies are just under \$48 million. While the more aggressive reduction plan has been impressive there is still much work to be done. Estimated aggregate 2012 levies after the application of the caps are \$39 million. In addition, substantial progress on the reduction of outstanding obligations with GSD and the Regional Development Authority has yet to occur.

As previously stated, 2011 is the last year property tax cap relief can be granted. This final report would be remiss if the ongoing challenges, while obvious in many cases, were not documented for readers and observers. Recommendations for continued cost savings efforts are also included.

Ongoing Challenges

- Property tax collections have not improved. The spending levels in future budgets must be constructed with this adverse impact, along with scheduled property tax refunds, to this primary funding stream.
- The decline in population reported in the most recent census could impact future distributions and grants that are based wholly or in part on population.
- The improper settlement which resulted in the overpayment of the 2009 property taxes was corrected in the first settlement of provisional 2010 property taxes. This correction was not incorporated in the final settlement calculations and the petitioning units were overpaid for a second year in a row. The error was detected promptly and the return of the funds appears to not be causing the disruption as occurred in 2009 but has still caused minor cash flow planning difficulties.
- GPTC was subject to a statutory intercept of state funds pending distribution for failure to make full and timely payments on its debt service obligations in 2010. That request has since been rescinded upon the 2010 property tax settlement but the strain will most likely continue due to poor property tax collections. 2012 will be the last year property taxes will be needed for debt service for the outstanding obligations. GPTC has incorporated payments from its general operating funds for such purpose but this only aggravates an existing structural operating deficit of close to \$1 million. In addition, the level of state supported funding for Indiana transit systems is currently being deliberated in the FY12-13 budget development. Cost savings and most likely service cuts will be necessary.
- It is critical that the expected savings from the assumption of the sewer plant operations be realized by GSD as well as resolution with Allied on the trash collection contract.

Recommendations

- A multi-year plan should be developed by unit but shared across all units to fully understand the implications of each unit's budget and property tax levy actions. Some of the factors that should be incorporated are:
 - GSD and GPTC property tax funded debt service is retired after the 2012 budget year.
 - It appears the City may have an opportunity to retire early certain debt obligations that would assist in its near term cash flow.
 - A more formal strategy should be developed for the use of TIF areas. This analysis should include all allocation areas and their related commitments, if any, including the Lakefront TIF and airport development zones.
 - The failure of the county auditor to include the release of the tax increment assessed value in the property tax base will result in more property taxes received by the taxing units in 2011. The petitioning units could reasonably receive \$1.25 million in additional revenue. This one time infusion of revenue should be escrowed to pay down outstanding debt or other contractual obligations.
 - GSD has made a significant commitment to reduce and in some cases eliminate its property tax levies for the benefit of the City. The City should make a significant pay down of \$2.5 million or more on its outstanding debt to GSD and develop with GSD a structured payment schedule. A similar commitment and plan should be developed with the Regional Development Authority.
- City levy cuts in the range of \$5-\$7 million are needed for 2012. The following departments or functions should explore more fully cost savings efforts:
 - City clerk
 - City court
 - City council
 - Fire Department
- The following cost savings efforts should be continued or examined for different approaches:
 - 911/emergency dispatch
 - Medical/health benefits
- Alternative delivery of required services should be examined. An example would be ambulance/EMS. A current on-call or secondary provider delivers primary services for several surrounding communities. A competitive analysis could be conducted to compare costs for in-house vs. market based services.