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Report of the Fiscal Monitor - Addendum
December 17, 2009

After the Report of the Fiscal Monitor for the City of Gary was submitted on December 11, 2009, the Mayor and senior members of the City Administration reviewed and discussed the report with the fiscal monitor and offered useful additional insight related to some of the findings and recommendations in the report. That information is provided here to give the reader additional context and, in some cases, explain the City's position on these matters. The City also requested clarification on some points within this report, which the fiscal monitor addresses in this addendum.

Plan Overview

- **Page 8:** The Plan notes that City's cash basis of accounting makes it difficult to determine conclusively which year revenues and expenditures should be credited to or against. In turn, this makes it difficult to determine with certainty the City's base level of revenues and expenditures setting aside significant one time occurrences. The City agrees with this assessment and notes that it previously used a modified accrual basis of accounting, but states that Gary was directed or encouraged by the State to use a cash basis of accounting instead.

- **Page 8:** The Plan's baseline projection assumes that the City will receive 100 percent of the amount of property taxes due in any given year from the combination of current year taxes and prior year taxes. This is based on page B-3 of the City's 2007 General Obligation Judgment Funding Bonds which shows a 99.6 percent combined tax receipt rate for 2003 – 2006. The City notes that property tax collection rates were significantly lower before this time and in 2007 and 2008.

- **Page 11:** The chart spanning pages 10 and 11 lists "known and potential obligations" that the City must address. The City notes that some unpaid obligations are directly the result of cash flow shortages created by the delayed receipt of property taxes. The City also reports that the unpaid medical claims for 2008, unpaid utility bills for 2008 and casino fund loan shown in the chart have been repaid. There are unpaid medical claims and utility bills for 2009 that are not reflected in the chart, but the City anticipates paying before those by the end of 2009. To the extent that any outstanding obligations for these items are less than shown in the 2008 State Board of Accounts audit, the City will have lower obligations to retire, improving its projected fund balance. Prior to the January 6, 2010 DUAB hearing the City and the fiscal monitor will review the remaining outstanding prior year obligations after the close of FY2009.

Revenue

- **Page 16:** The property tax revenue shown in initiative RE01 is only that associated with the Gary Sanitary District's wastewater and solid waste collection activities. Revenue associated with the Storm Water Management District's levy is not shifted to the City under this initiative. The specific amounts projected come from analysis provided by Policy Analytics and dated November 3, 2009. The fiscal monitor's pending report on the Sanitary and Storm Water Management Districts will address these issues in more detail.

Workforce

- **Page 32:** The City expressed concern that initiative WF04 (furlough days) and initiative EO01 (five percent reduction for non-represented employees with a base salary of more than $50,000) would be an unfair burden for some employees who would be subject to both cuts. There also may be some instances where the five percent base salary reduction leaves supervisors with a lower salary than their subordinates. In view of these concerns, the City could adjust the way the initiatives are applied to specific employees to achieve the same level of savings through a different combination of the same principles, but one that is deemed to be fairer and more effective in managing the City and maintaining employee morale.

Elected Official Section Overview

- Please see the previous note for information related to initiative EO01.

Mayor's Office

- **Page 5:** The City expressed concern about the cost of adding a new Chief Operating Officer or Managing Director position when the City has to reduce its workforce in other areas. The fiscal monitor understands these concerns and has encountered them in response to similar recommendations to other financially distressed communities. It is the monitor's view that the right candidate for these kinds of positions frequently help cities achieve such efficiency that the position more than "pays for itself." Beyond the financial impact, the limited time frame for projected DUAB relief and the need to significantly retool City government before that time frame elapses in December 2011 will require the City to build management capacity to direct, coordinate and oversee Plan implementation

City Clerk

- **Pages 54 – 56:** Initiatives CL02 and CL03 could not be implemented in tandem with initiative CT03 in the City Courts chapter. The "Implementation Scenario" shown in the Appendix assumes the City would pursue CT03.

City Court

- **Pages 60 – 62:** Initiative CT02 could not be implemented in tandem with initiative CT03. The "Implementation Scenario" shown in the Appendix assumes the City would pursue CT03.

Finance

- **Pages 65 - 66:** For the chart entitled "Historical Expenditures – Finance and Other Related Units," the two rows "External Transfers" and "County Court Costs Transfers" (page 66) should be combined into one row since both relate to the City's repayment of Tax Anticipation Warrants (TAWs).

- **Pages 67 – 68:** The chart entitled "Projected baseline expenditures – Consolidated Operations" has a row for "Debt Service – Interest." This is the interest that the City pays for its Tax

Anticipation Warrants, a common short-term borrowing tool that provides the City with money before property tax revenues are received. The $250,000 level shown in this chart is based on the assumption that the City would receive its property taxes from the County in a timely manner. If that transmission was delayed, interest costs would be higher as explained in initiative FI14.

- **Page 76:** The projected FY2010 impact shown at the front of initiative FI15 (-$175,000) differs from the projected impact shown in the chart at the end of the initiative (-$135,000). The correct amount is (-$135,000).

- Please see the first bullet under the Plan Overview section of this addendum for additional context related to the monitor's findings and recommendations in this chapter on reporting financial results on a modified accrual basis.

Human Resources

- **Page 77:** Human Resources is no longer responsible for processing and maintaining unemployment compensation. This incorrect assignment is based on outdated publicly available information.

- **Page 77:** While the Human Resources Director is now budgeted within the same unit as the Finance Director, the HR Director does not directly report to the Finance Director. Rather, the HR Director reports directly to the Mayor. Had the fiscal monitor been aware of this situation, the report would have included a recommendation that HR report through the Finance Director. This is frequent practice in local government, and would unify like functions that have many responsibilities that must be executed in tandem, as well as align with the report's theme of reducing the number of separate departments in Gary.

- **Page 78:** The City notes that its ratio of human resource staff to total head count is lower than the 1:122 ratio shown here if it is calculated solely on Human Resources personnel and does not include people with similar responsibilities in other units, like the Police Commission and Fire Commission.

Health Department

- **Pages 91 – 95:** The first three initiatives in this chapter outline three scenarios that the City, County and other stakeholders could pursue. The fiscal monitor recommends pursuing initiative HD03 in which the City would continue to operate its own Health Department with a combination of revenue enhancements, expenditure reductions and improved grant management to minimize the burden on property tax supported funds. The projections shown in the "Implementation Scenario" (see Appendix) include the projected impact of initiative HD03, but not HD01 or HD02.

- **Pages 92 – 93:** Initiative HD02 describes a scenario in which the City would only provide Health Department services that are fully grant funded. In that scenario other services currently provided by the City may default to the County. According to the City, Lake County would only take responsibility for Health Department functions if it did so for all functions per State requirements. The fiscal monitor did not verify this with the County or State. If it is true, State law would have to be changed to accommodate the structure recommended in initiative HD02.

Human Relations Commission

- **Pages 99 – 101:** As noted on page 101, the City should review its Civil Rights Ordinance to determine if any changes are necessary before implementing initiative HC01 to eliminate the Commission. The City should also review any contractual agreements with the Indiana Civil Rights Commission or US Department of Housing and Urban Development to determine if the City can eliminate the Commission immediately or at the end of those agreements. Such conditions could delay implementation of the initiative and savings achieved in the short-term. However, it is also possible that some remaining functions of the Commission, like Americans with Disability Act (ADA) compliance, could be transferred to other City agencies with or without the consent of state and federal overseers. The City should also explore this alternative, if necessary.

Fire Department

- **Page 112:** The statement that the City intends to eliminate the uniform allowance after FY2011 is incorrect. The City intended to continue to provide the allowance and allocate money to do so from its General Fund, which should be added to the baseline projection in lieu of appearing as an initiative. The fiscal monitor recommends reducing the allowance as discussed in initiative FD07 (page 132), which would result in the same final total level of spending shown in the report.

Police Department

- **Page 150:** The statement that the City intends to eliminate the uniform allowance after FY2011 is incorrect. The City intended to continue to provide the allowance and allocate money to do so from its General Fund, which should be added to the baseline projection in lieu of appearing as an initiative. The fiscal monitor recommends reducing the allowance as discussed in initiative PD07 (page 161), which would result in the same final total level of spending shown elsewhere in the report.

General Services Department

- **Page 196:** The City asked for clarification regarding the disposition of drivers who currently support General Services' on-street activities after transfer into the Public Works Department. Initiative GS03 specifically mentions a foreman and a six-wheel driver who would be transferred to the Motor Vehicle Highway Fund budget, which is largely supported by State funding. Making this change eliminates the need for the City to support these positions using property tax revenue in its General Fund. The City could either reduce other non-personnel expenditures in the Motor Vehicle Highway Fund to accommodate the foreman and six-wheel driver positions or eliminate the positions if they are deemed unnecessary. If the positions remain, they and all others related to Street Maintenance would be part of a consolidated Public Works department.

  The initiative also notes that the General Services director and assistant director positions would not be needed after the functions currently housed in General Services were distributed to other departments. Initiative GS05 describes broader departmental reductions related to constrained City resources.

  The City also expressed concern that a combined, streamlined Public Works Department could lead to higher levels of short dumping. The fiscal monitor believes that the increased code enforcement initiative (CD02 in the Community Development Department chapter of the report) will address this issue. Also, dump site remediation would not be eliminated under the proposed consolidation, although there would be competing demands on a more limited, mostly grant-funded staff. The fiscal monitor recognizes that street maintenance, including cleanup of illegal dump sites, would be a priority area for “buy back” services as described on page 14 of the report.

- **Page 196**: The City expressed concern that eliminating demolition staffing could lead to blight and dangerous conditions. Initiative GS04 suggests the elimination of one heavy equipment operator, but allows the City to field one demolition crew per day that would be transferred to the Building unit of Public Works. The fiscal monitor acknowledges the need to demolish unsafe structures, and the benefit of selected demolition of other buildings. However, it is noted that the demolition unit has torn down only approximately 50 structures annually over the last five years; that remaining demolition efforts can be addressed by the remaining crew or by targeted use of contract demolition (see initiative RD01 in the Redevelopment Department chapter); and that a broad, random demolition policy is not affordable or desirable. The Redevelopment Department chapter describes the benefits of a demolition strategy focused on and coordinated with economic development efforts.

Redevelopment Department

- **Pages 250 – 251:** The City requested clarification on initiatives RD04 and RD05 related to tracking utility bills and charging the associated costs back to departments and facilities. Departments that are responsible for utility consumption must also participate in efforts to reduce consumption, conserve energy and achieve savings. Ideally utility bills would be charged back to the user departments, particularly for those facilities that are dedicated to a single use (i.e. the bill for electricity used at a fire station would be included in the Fire Department’s budget). In the case of facilities that house multiple departments, there can be one individual responsible for monitoring energy at each facility. The City does not need to allocate these responsibilities and costs among all departments sharing one facility where the absence of information or amount of time required for this calculation is prohibitive. The City may be able to accomplish the goal of reducing consumption without changing its billing approach as long as there is a process for sharing information in a way that helps department managers understand their energy usage and provides support and incentives to reduce it.