City of Gary
Six-Year Forecast

February 22, 2019

The National Resource Network

- The National Resource Network, initially a core component of the federal government's Strong Cities, Strong Communities initiative, develops and delivers innovative solutions for American cities to help them address their toughest economic challenges.

- Cities apply to the Network for assistance, the Network conducts an assessment to determine key challenges and opportunities, and cities and the Network work together to identify direct assistance.

- In 2017, the work of the Network continued with a $4 million grant from the Laura and John Arnold Foundation, with a focus on supporting the Network's efforts to assist economically challenged cities by developing or assisting with existing multi-year financial plans.

- In September 2017, the City of Gary applied for direct assistance from the National Resource Network in developing a multi-year financial plan.

- In May 2018, the City signed an MOU with the Network to provide technical assistance to assess the Finance Department.

- In August 2018, the City and Network amended the engagement for the Network to create a multi-year forecast of the City's General Fund.

Multi-Year Financial Forecasts Offer a Diagnosis of City Finances

- The forecast provides a **baseline projection,** similar to the diagnosis your doctor gives you after a physical. The forecast reflects Gary's current fiscal condition, absent significant policy changes.

- In response to this diagnosis, City leadership and elected officials can make informed decisions on corrective actions to change the city's anticipated trajectory if the baseline projection identifies a structural budget gap.

- The forecast is provided through **a dynamic, easy-to-update budget model** that will help decision-makers to balance policy and operational goals in future years.

"Multi -year planning is a critical exercise. These plans will often have out-year gaps projected which allow governments to work out, in advance, the optimal way to restore fiscal balance."
– Standard & Poor's

"The multiyear plan's value is to anticipate future challenges that may be encountered due to projected revenue and expenditure imbalances. This allows executives and legislators to 'get in front of' potential budget stress, and take corrective action long before budgetary gaps develop into crises."
– Fitch Ratings

Financial forecasts are at the crux of foresight. [Use] forecasts to identify the parameters within which to develop and execute strategies, rather than to try to "predict" the future.
- GFOA, Building a Financially Resilient Government through Long-term Financial Planning

Purpose of a Long-Range Financial Planning

Strategic	Financial
Helps create a long-view for strategic decision making	Identifies long-term budget issues
Informs policy and operational decisions	Helps evaluate long-term impacts of current decisions
Projects impacts of policy changes in volatile economic environment	Helps understand major revenue and expense budget drivers

Developing a Baseline Projection

- The process of creating the six-year budget model starts with analyzing the City's historical General Fund actuals and budget data.

- Line-item detail is organized into categories representing the City's major revenues and expenses.

- Growth rates are applied to these categories to project revenues and expenses in future years. The project team works with the City to understand the drivers of revenues and expenses in order to select growth rates.

- For the baseline forecast, growth rates reflect inflation, known or assumed growth in revenues and expenditures, and other known events.

- The model uses the FY2018 actuals in its baseline forecast and applies growth rates to those amounts to project future years.

- The baseline forecast is intended to show what the City's financial results could be with **no corrective action**.

# Adapting the Preliminary Baseline Projection

- The development of the baseline forecast was modified to accommodate the City's cash basis of accounting. Most multi-year forecasts and projection models are built from financial data using an accrual basis of accounting.
  - Because of the City's cash basis of accounting, the project team found it harder to compile and reconcile historical data needed to identify trends and to aid in the development of baseline projections.

- After initial meetings with the City's financial team, the project team took a number of steps to adapt the forecast.
  - Reached out to the Indiana Public Retirement System (INPRS) to understand historical and future pension contributions.
  - Talked to the County Auditor's Office to understand the City's property tax structure and impacts of the cap over the forecast period.
  - Met with the City's financial consultant to understand the terms of the sale leaseback.
  - Sat down the City's Senior Leadership to review and refine the forecast.

Gary Preliminary Baseline Projection

- Without corrective action, Gary is projected to end FY2025 with a General Fund deficit of $7.6 million.

- Even with the proceeds from the sale leaseback, the projected cumulative deficit over the next five years is $46.9 million.
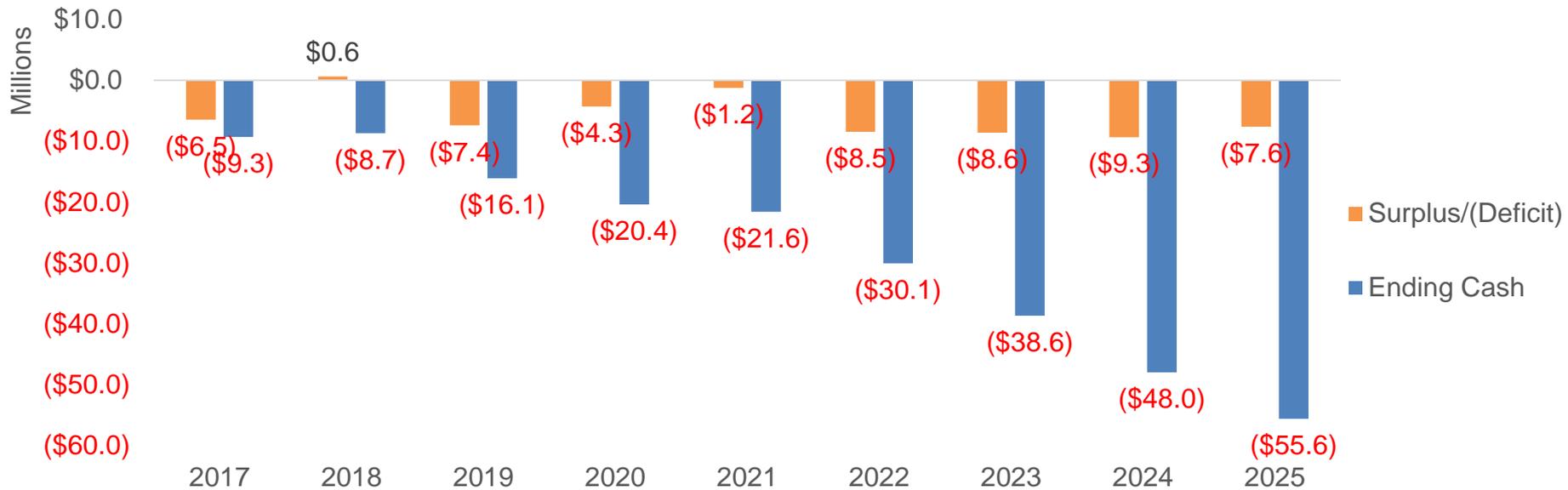
Gary's Urgent Challenge

- The Gary Forecast is designed to provide City leadership with a comprehensive and flexible financial tool that provides key data to inform how, when, and where the City should curb spending and implement targeted revenue strategies to bring the City's finances back into balance.

- With a cumulative deficit of over $46.9 million in the next six years, City government will need to make tough choices to prevent insolvency.

- To address the urgent challenge, the Mayor convened a financial committee to monitor the City's fiscal realities on a weekly basis and to evaluate options to close the year to year structural deficits.
  - That team, maintains a comprehensive list of expenditure savings, revenue enhancements, legislative initiatives, and one-time initiatives to close structural deficits.

- While the Network team did not participate in the development of the cost saving measures, or review the City's methodology as a part of our engagement, the Network team did incorporate the City's list of cost saving measures into the modeling tool to give senior leaders the capability to test the fiscal impacts of their recommendations over the forecast period.

Gary Preliminary Alternate Baseline

- Based on the fiscal impact estimates developed by the City, if the City incorporated the legislative change to relocate its casino and pursued all of the revenue enhancements and expenditure reductions outlined in it's initiative list, it would close the City's structural gap by FY2021.

- Pursuing the financial initiatives developed by the City in its entirety would also allow the City to begin to maintain positive cash balances that would allow the City to make key investments in personnel and infrastructure.
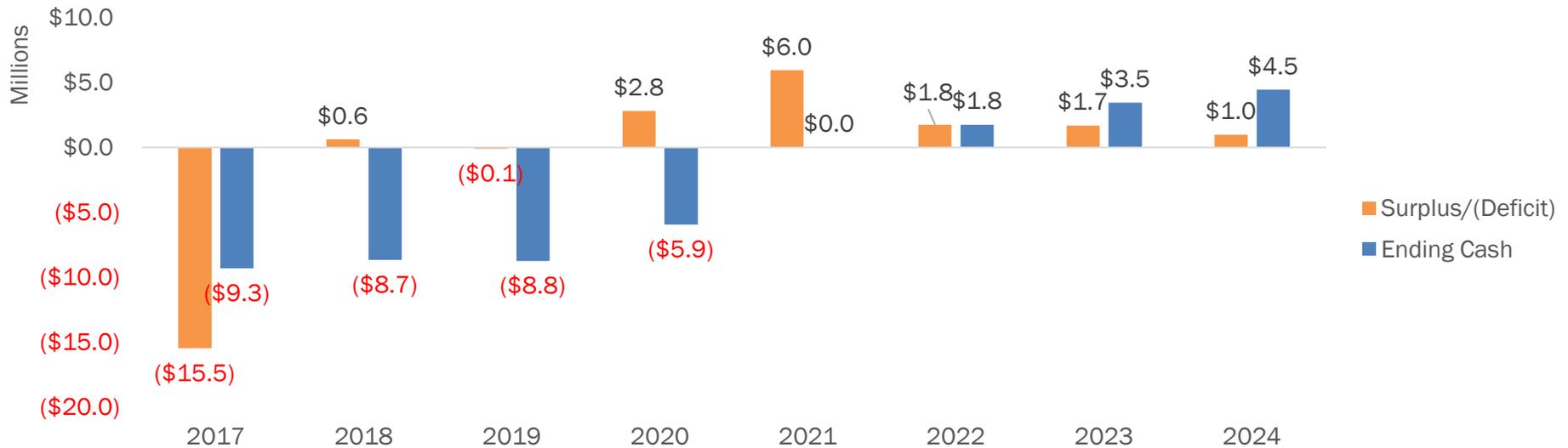
What's Next?

- Gary should use the projection tool as a resource to inform decision making. When evaluating future budgets the City should consider major budget drivers to close projected deficits.

- The Network team will work to train City leadership on how to operate and update the projection model.

- In the short-term, the City should:
  - Update the model with reconciled FY2018 data.
  - Continue to add and refine the cost saving initiatives developed by the City in the model to close the City's structural deficit.
  - Grow or maintain the City's ending cash balance.
  - Use the model to identify consistent funding for personnel, infrastructure, and investments in key priorities.
  - Use the tool to communicate fiscal constraints to local and state stakeholders.