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

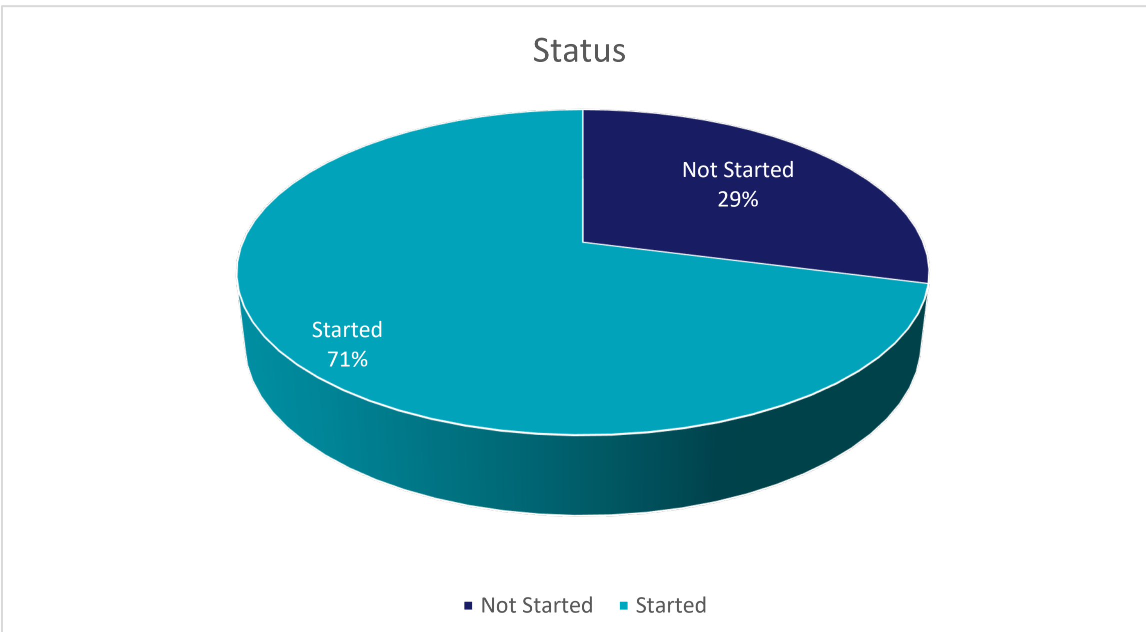
The original VDRP identified and documented 28 present and three future initiatives to eliminate the annual deficit and begin to pay down the accumulated long-term debt.

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

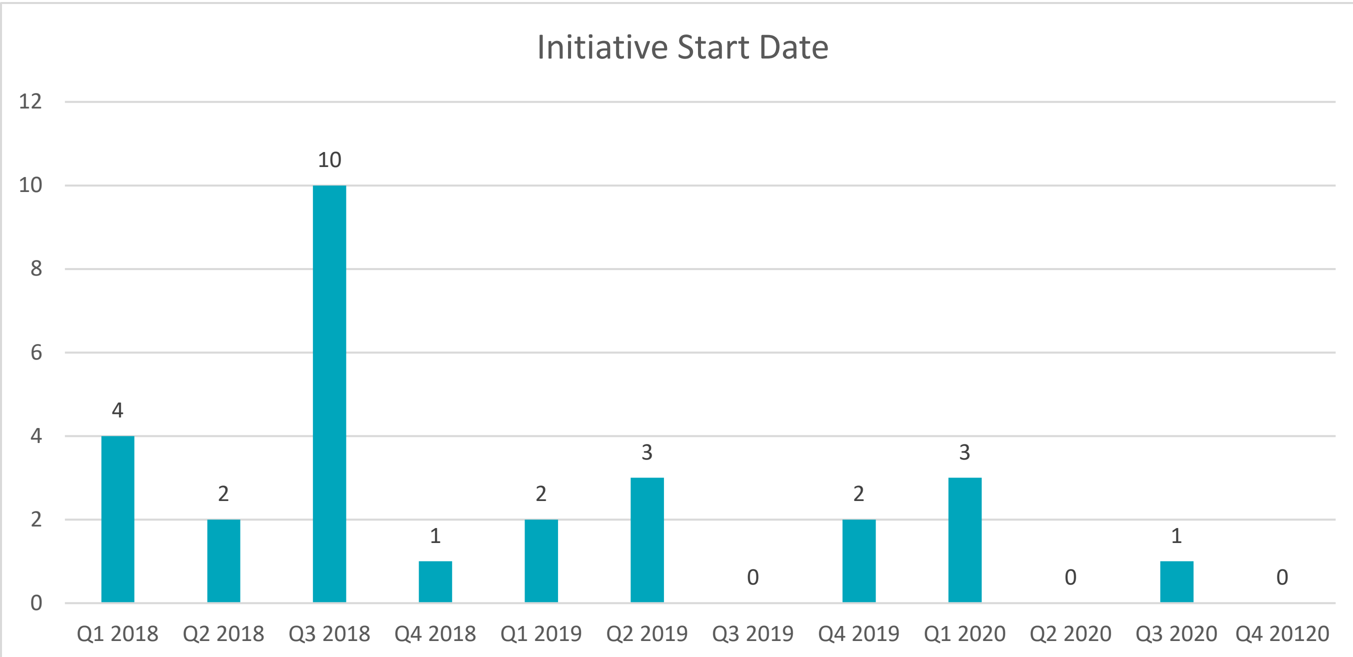
1. Not started

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

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**		

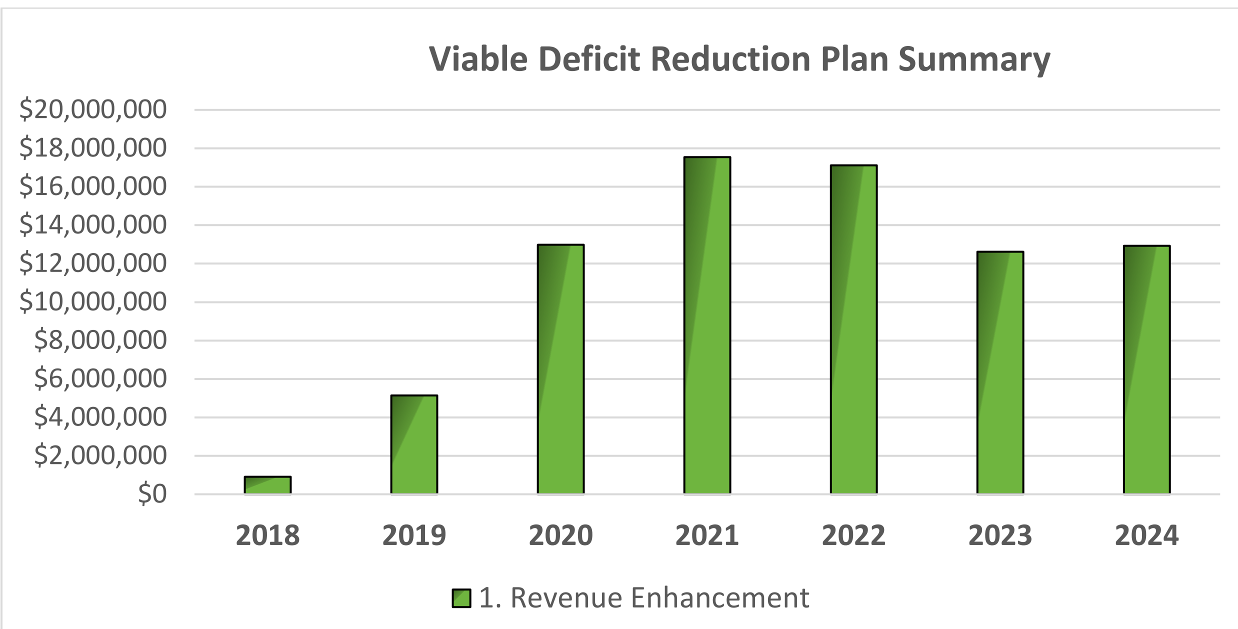
FISCAL IMPACT SUMMARY

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.

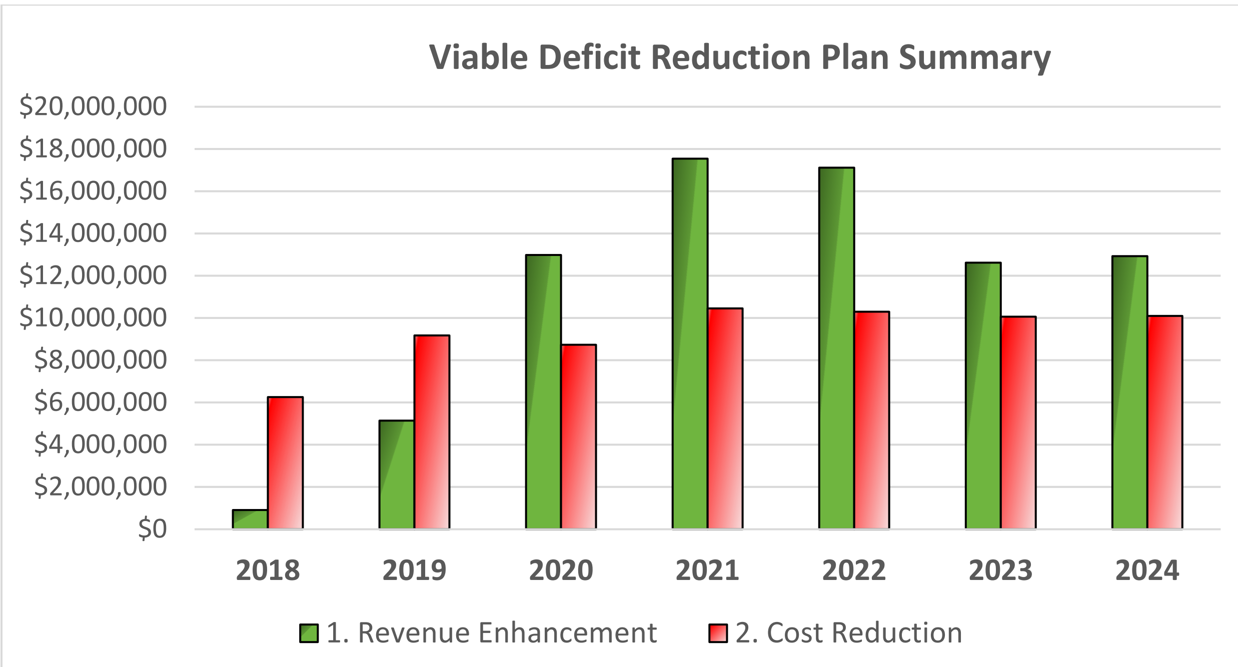
REVENUE ENHANCEMENT

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



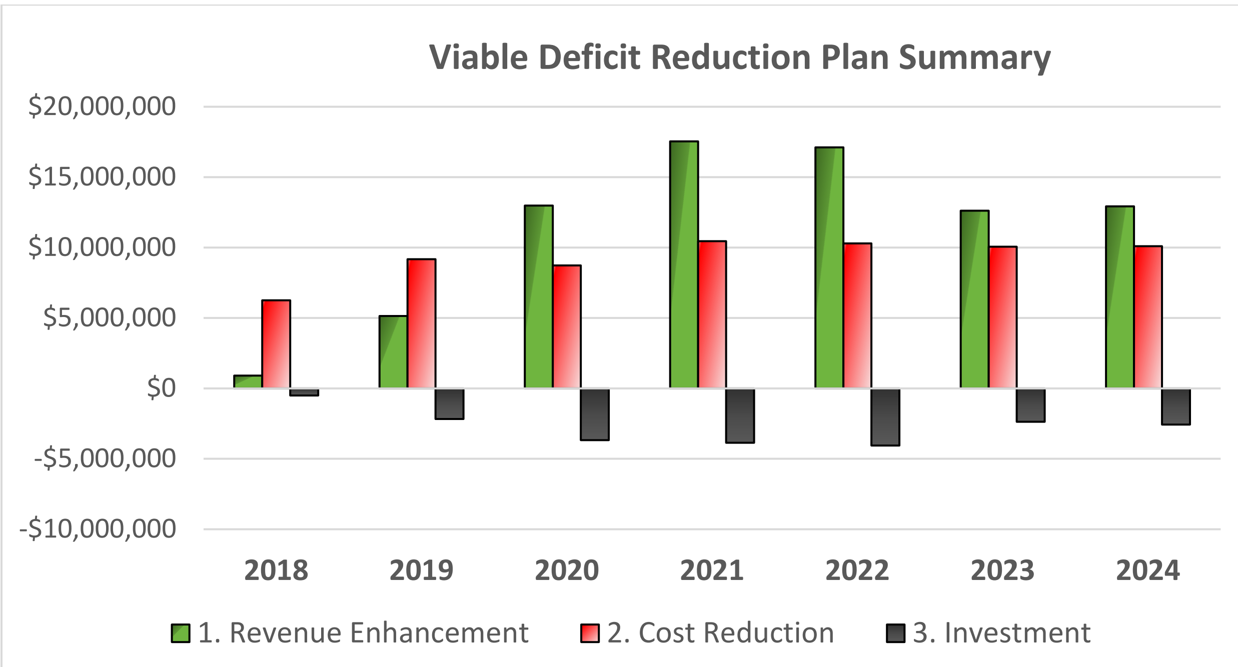
REVENUE ENHANCEMENT AND COST REDUCTION

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.



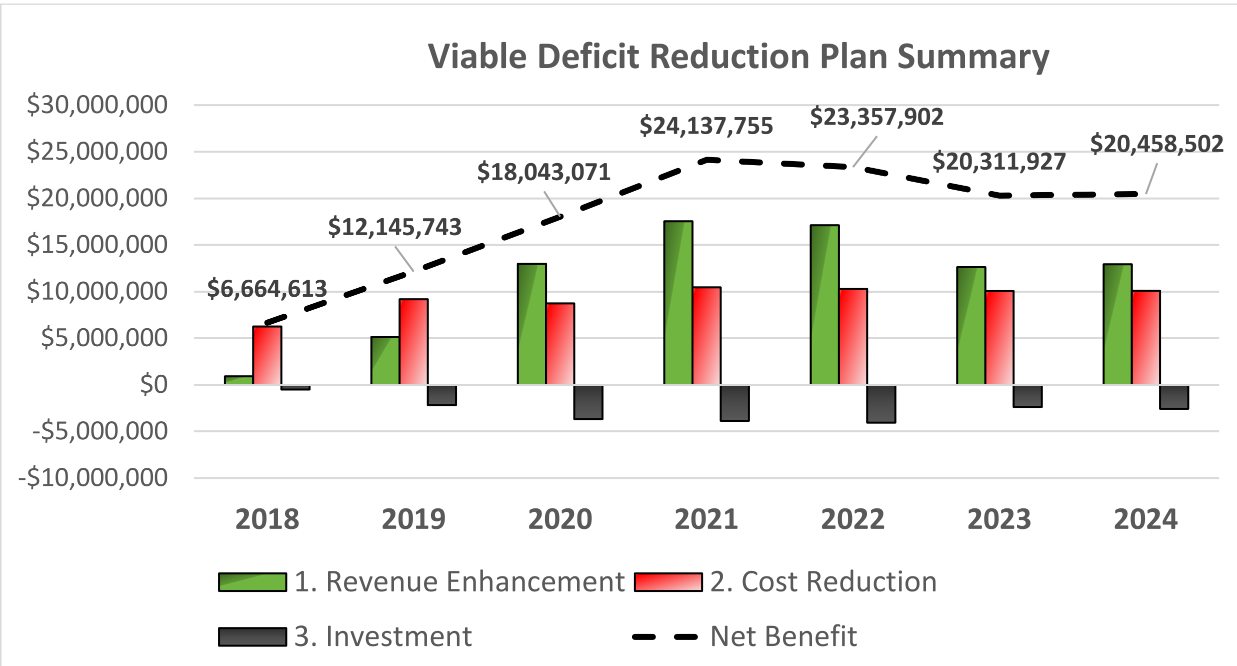
REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS

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.



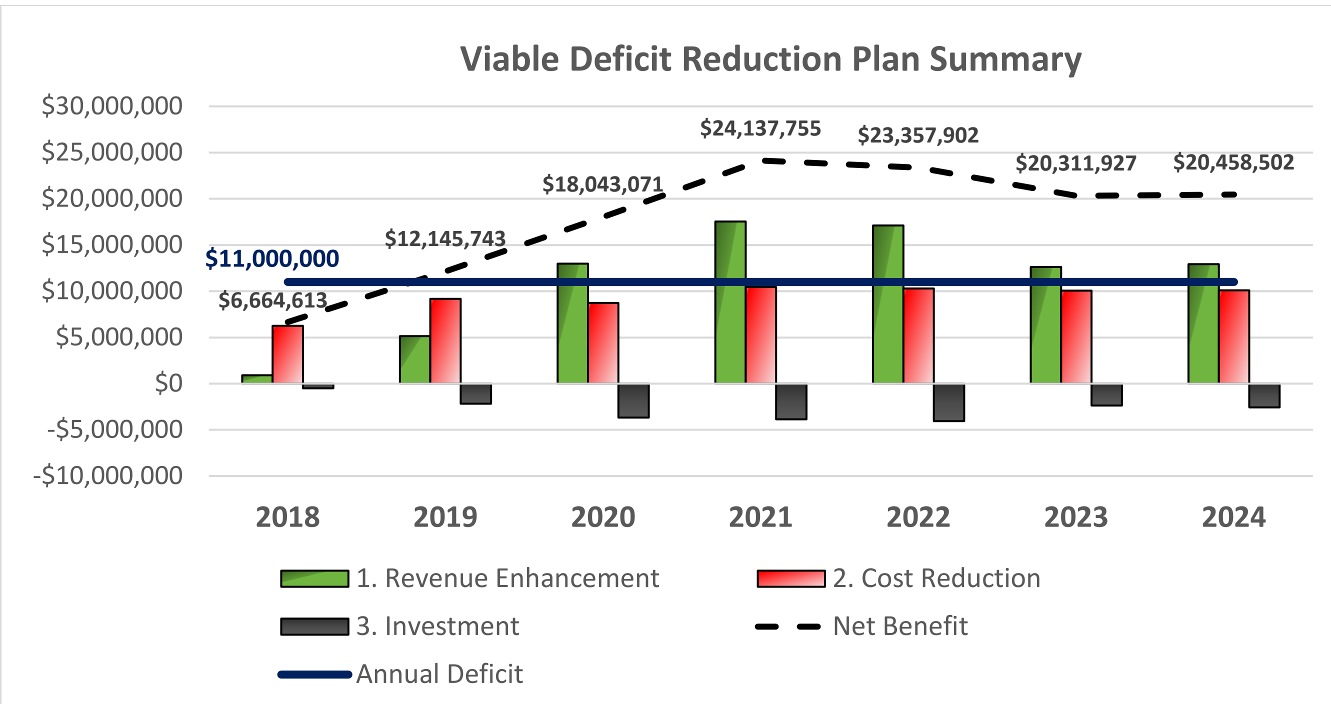
NET BENEFIT OF REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS

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.



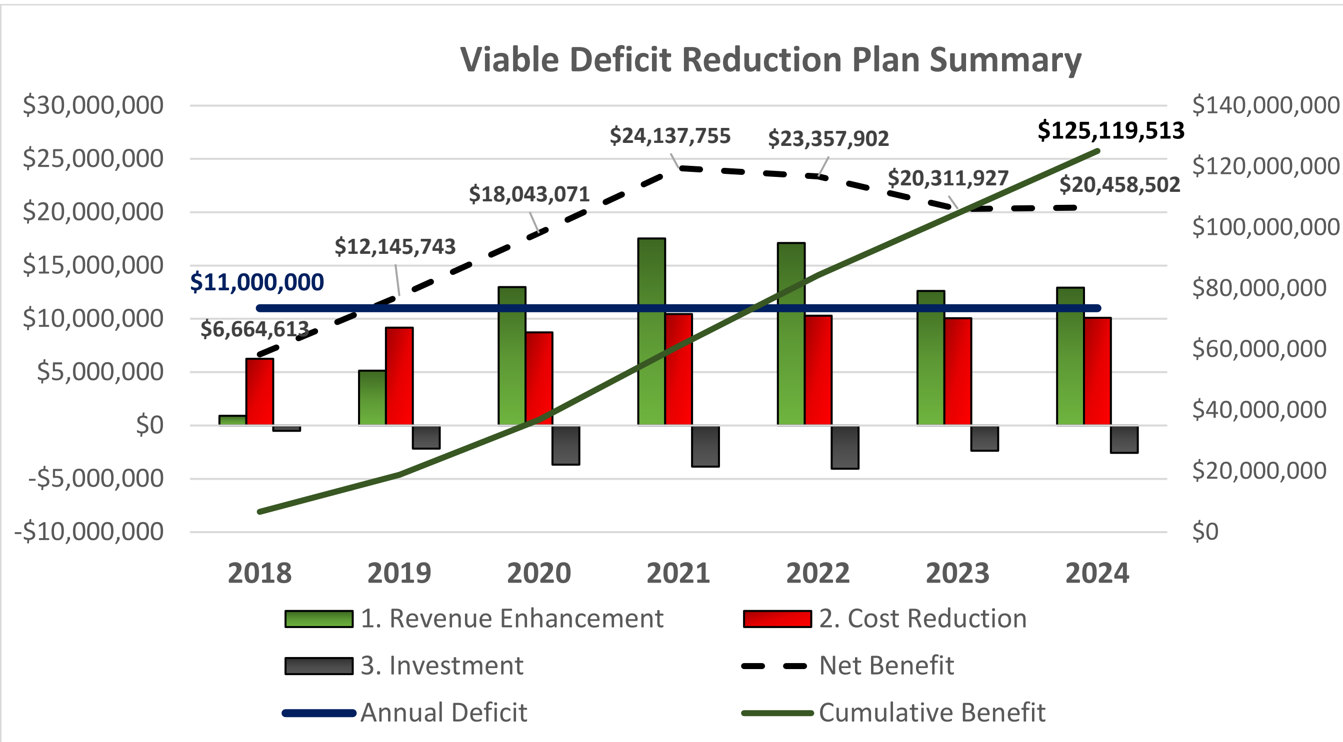
NET BENEFIT OF REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS COMPARED TO ANNUAL DEFICIT

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.



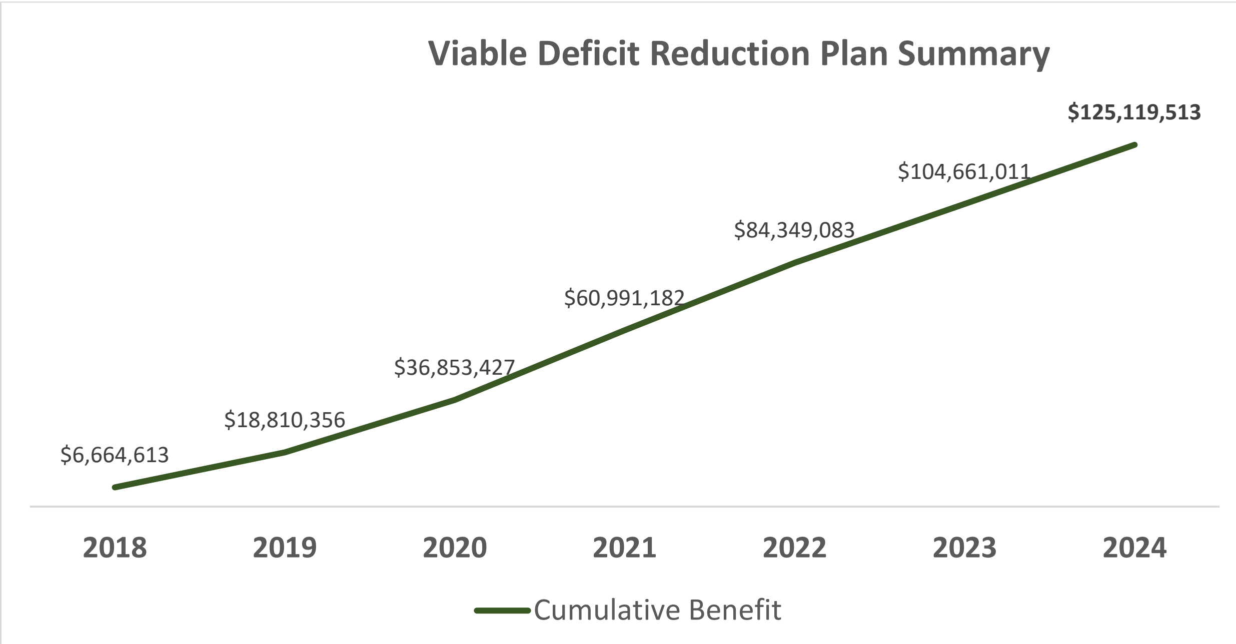
NET BENEFIT OF REVENUE ENHANCEMENT, COST REDUCTION, AND INVESTMENTS COMPARED TO ANNUAL DEFICIT WITH CUMULATIVE BENEFIT

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

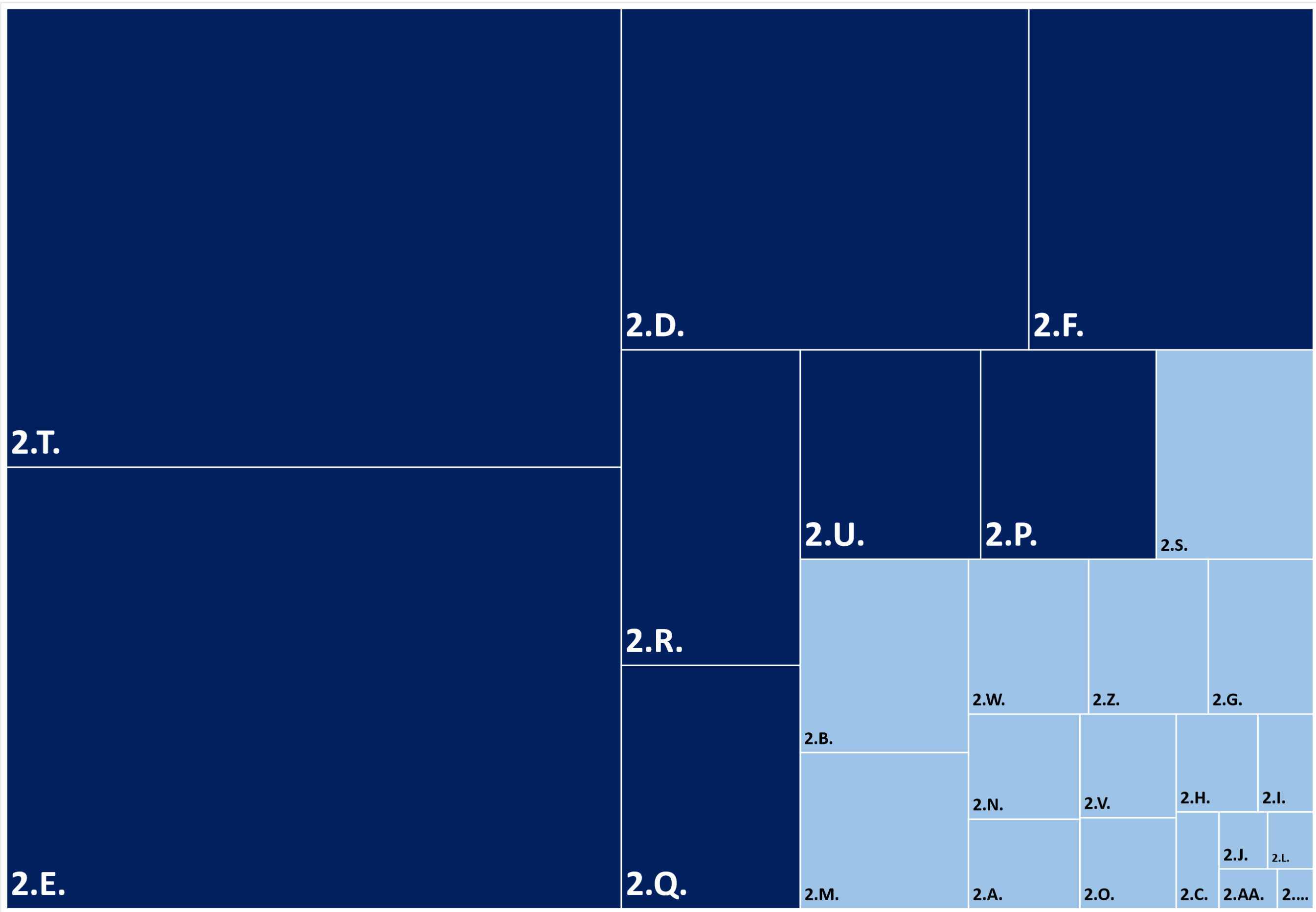
The cumulative net benefit of the VDRPU3 is approximately $125,000,000 over a seven-year time frame represented in the chart below.



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**