

## STATE OF THE CITY ADDRESS

Good morning and welcome to my first State of the City address.

I love Greenwood. I was born and raised here. My family has been active in both business and politics in Greenwood for over a half century. My Dad, Larry, was mayor when I was a teenager. I have fond childhood memories of walking to the Old Park, riding my bike to the City Pool, playing foosball at the Community Center and enjoying a milk shake at the Henderson's Drug Store soda fountain. Every one of my friends looked forward to the Old Settlers' festival and parade. I am sure that many of you share these warm memories of our town. What I miss most about those days is the sense of trust, optimism and security we felt. The City was growing and financially sound. Our local officials earned our respect and they respected us. We expected our elected officials to be candid with us about problems facing the City and trusted them to be good stewards of our tax money and public property. I know and accept that times change and many of my favorite Greenwood attractions will not be returning. Some have been replaced by bigger and better events. (There was certainly nothing that compared to WAMM fest 30 years ago.) Some of what we valued in the past can and should be restored and revived. Our downtown business district **can** be revitalized. We **can** balance our budget. We **can** be honest and transparent about the City's finances. We **can** restore the trust, optimism and security which have diminished over the past several years. **Today**, I will start earning your trust by providing you with an honest assessment of the City's financial position and describe some changes which we plan to make to improve it.

Greenwood, like the rest of the country, has been hit hard by the worst economic downturn since the Great Depression. Pundits have coined the name "Great Recession" to describe our current economic situation. Last week, the Federal Reserve announced not only its interest rate policy, but also the assumptions behind the policy. The economists at the Fed believe that growth will be slow through 2014 and the Fed intends to keep interests rates at record lows to encourage both investment and growth. As we plan for the next few years we need to assume slow to moderate growth in the private sector, reasonable interest rates and relatively flat tax revenue. We cannot expect our budget problems to be resolved by rapid increases in either our property tax base or income tax revenues.

The situation is not all bad. The economic problems we face create opportunity as well as challenges. One truism in the investment industry is "opportunity lives in

the turns”. The “turns” are periods in which the economy has either hit its peak in a boom or has hit bottom in a bust. Most experts believe that we have hit bottom and are in a slow but painful recovery. The current global financial crisis has given Greenwood a window of opportunity to improve the City’s infrastructure and lower its cost of borrowing. The time to act on these opportunities is quickly coming to an end. If we adapt to the new economic reality, we will enjoy sustainable growth, create opportunities and improve the quality of life for our children and grandchildren.

I am working with the Common Council to position the City make the best use of our opportunities. In the past few weeks we have made substantial changes to the team tasked with managing the City and supporting its future. The changes include the addition of several talented professionals including a corporate counsel who graduated at the top of her class from Notre Dame law school, a director of operations who is a Purdue alumnus and LEAN Six Sigma Black Belt, and a Director of Human Resources who graduated from Indiana University, Kelly School of Business, with extensive private sector experience and lifelong ties to the community. I have also moved some existing employees and expanded and refined the responsibilities of several others. In the month before my inauguration, my volunteer transition team conducted dozens of meetings with City employees. The information we gained from current employees was both humbling and enlightening. We found many dedicated public servants who had a desire to do more for our community, but felt restrained by outdated policies, old technology and years of neglect. I intend to empower them by expanding their responsibilities, creating opportunities for additional education and training, and making substantial upgrades to the City’s information technology. To pay for the additions, I have also reduced staffing in areas in which the City’s department managers deemed appropriate. The new team and structure is substantially more capable of operating and managing the City and will cost the City slightly less money than the group we inherited.

The opportunities for the City in this economy stem from both historically low interest rates and real estate prices. The value of commercial property has tumbled in the last 36 months. Foreclosures are rampant and banks are becoming increasingly motivated to remove troubled real estate projects from their books. There will be no better time for the City to address its need for centralized offices and for revitalization of the Old Town Business District than the next 24 months.

My team is currently negotiating with the court appointed receiver to acquire the Presnell building for use as the new city building. This initiative is good for the

City because:

1. The acquisition price for the building is expected to be less than half of that for new construction.
2. The financing rates are very favorable.
3. Moving would make the City more efficient by housing all departments under one roof.
4. The move would give the City the opportunity to make substantial upgrades to its information technology and communication as part of the remodeling.
5. The space is easily adaptable to municipal use and would be substantially more environmentally friendly than the current building.
6. The total cash needed to service debt and maintain the structure will likely be lower than the current mix of old City Building space and leased office space on Emerson Avenue.
7. The current City Building has immediate renovation needs. About a third of the available space is closed due to environmental concerns, animal infestation, and neglect. The basement has water and mold problems and the roof needs to be replaced. Placing a price on the delayed maintenance and repairs on the current space is part of the analysis we have started as part of our diligence on the new building project. Initial estimates for stabilizing and remediation needs have been bleak.
8. The Presnell building location rests in the center of the City's hopes and plans for revitalizing the Old Town district. Several downtown businesses rely on its north parking lot.
9. The Presnell building needs new ownership which has a use for the vacant space and the financial strength to renovate it to current mechanical and Americans with Disability Act standards.
10. If the City does not seize this opportunity and the building goes dark, the chances of developing downtown in the next 20 years will be substantially diminished and the heart of downtown may become a blighted area. Our neighbors in Indianapolis discovered the harm a vacant office tower can inflict on a neighborhood when the Keystone Towers building failed. After decades of slowing redevelopment of the Glendale area, Indianapolis finally was forced to demolish the building to save the area.

I have enlisted the help and sought the advice of experts in municipal finance, real estate and urban redevelopment about this project. Everyone has been excited about the potential for the City if the price is right and the financing can be obtained.

I am not wedded to this project. I believe that the best deal is sometimes no deal.

If the bank does not offer a fair price, we will find another solution. The building is currently in foreclosure and under the control of a receiver. A Merrill Lynch entity holds the mortgage. It is part of a package which includes other failed commercial properties. The receiver has indicated that Merrill Lynch wishes to work with us on a fair price. I am optimistic that a favorable acquisition price can be reached.

We are investigating financing and private/public partnership options to facilitate the acquisition without the delay and expense of traditional bond financing. A few financial institutions have expressed interest as have several private developers. Our goal is to consolidate and upgrade current City offices while spending the same or even less money as our current multiple building situation. City services will become more efficient, easier for citizens to access and cost less in a one site solution. The benefits to the projects are not limited to good government. The most prominent building in the downtown area will become catalyst to revitalization and public parking needs for the growth of downtown businesses will be protected for decades.

In 2013, construction on the long anticipated Johnson County East West Corridor is scheduled to begin. Engineering and land acquisition efforts have already commenced. Greenwood is leading this effort with the construction of an exchange on Interstate 65 at Worthsville Road. This project is funded by state and federal highway construction money and revenue from current and future Tax Increment Financing districts. It presents an opening to create a high value commercial district which will create jobs, enhance the City's image and increase revenue to the City. Mayor Henderson and the Redevelopment Commission made this project a priority and have deeply committed the City to its completion and success. I commend the Mayor and the RDC for their tenacity and pledge to make sure that Greenwood makes the best use of this development.

Projects such as the Presnell building and Worthsville Road projects have been both fun and exciting, but not all of what we have discovered during the transition and the first few weeks of my administration has been positive. During the campaign, we addressed the need to reverse the City's recent deficit budgets. We were all appalled that the budgeted 2012 deficit was nearly \$2 million. We soon discovered that budgeted spending over the past several years has borne little resemblance to actual spending. The City's obligations under existing contracts would result in a deficit of closer to \$4 million without accounting for unforeseen expenses. At the current cash burn rate, the City will be unable to pay its obligations in only 18 months.

You heard me correctly. We have only \$5 million in our reserve fund. Over the past 4 years, the City has diminished its reserves by \$4 million. With an actual deficit in which is likely to approach \$4 million, we have less than a year and a half to address and solve the problem. This fiscal recklessness has not attracted as much attention as it warranted, but it must now be disclosed, quantified and addressed.

The published deficit is only one aspect of current fiscal crisis facing Greenwood and its residents. The City has failed to make payments mandated by its contracts, neglected to take steps to preserve and protect its physical assets, and failed to set aside the needed funds to maintain, improve and replace its infrastructure. The most glaring example of this failure of stewardship was the disclosure at the last meeting of the Common Council in 2011 of the sewer utility settlement reached with the City of Indianapolis. We learned that over the last 10 years Greenwood had failed to meet its obligations to the City of Indianapolis and had been quietly building a debt in excess of \$2.3 million. This enormous un-budgeted debt must now be paid over the next 3 years.

Addressing the budget problem starts with honest and accurate budgeting. I was shocked to learn that the cost of health care for City employees had been understated in the past several budgets by hundreds of thousands of dollars. The 2012 budget provides for a sum which would only take the City through August under its current contract. The actual cost is about \$1 million more than what had been disclosed to the Common Council and the voters. The costs were hidden in past years by budgeting for new employees, failing to hire the employees and using the money allocated for the budgeted positions at year's end to pay insurance. The salaries, benefits, equipment and training needs of 5 police officers budgeted but not hired (until after the primary in 2011) filled most of the hole. Since the officers now exist, receive wages, wear uniforms, carry guns, drive cars and require extensive training, the money is no longer available. My director of operations is well into the task of creating a much more accurate 2012 budget. Future budgets proposed by my administration will be based upon honest and reasonable projections of current and future expenses. The City will not hide the true costs of government from its citizens. The addition of a City controller, new budgeting policies and a culture that values accuracy and legitimate cost assessments will cause the City to create honest, accurate and transparent financial statements and projections.

We are already taking steps to address the deficit. Team members throughout the

entire government have been working together to evaluate each department. We are collecting accurate data on key City assets including everything from vehicles to buildings. Additionally, we are in the midst of a comprehensive review and evaluation of all the City's contracts.

We have met with our financial advisors and three banks about refinancing our bond debt. We are currently paying rates substantially higher than market. There are programs which entail transaction costs which are a small fraction of those previously paid by the City which may make refinancing even the small bonds cost effective.

We have also contacted the City of Indianapolis about enrolling in its joint purchasing program. This program will allow us to benefit from the much greater buying power of our neighbor.

I have started the process of finding a new representative for the City's health insurance needs. We currently pay \$ 3.35 million per year or \$16,500.00 per employee. Feedback from our initial interviews with experts in the field has been comforting. The cost of the City's program is substantially higher than those of similar cities and the fees the City has paid for its administration have also been much higher than those being discussed. Outside of the Fire Department there is been little emphasis on wellness programs and encouraging economical use of medical services. I am hopeful that the City can realize substantial savings and still provide our public servants a quality and competitive benefit package.

I have also started the process of fixing problems in the sanitary sewer utility and creating a department to address storm sewer problems. These issues account for a large portion of the City's deficit. Last year we processed over half a billion gallons of water for which we did not charge. The reason we did not collect a fee for this water is that it was not waste water. It was storm water which did not require treatment. The total cost of this treatment approached a million dollars last year. The City also spent \$1.25 million for management of storm water which burdens the general budget. After accounting for the debt service attributable to the recently disclosed debt to Indianapolis, the costs associated with recent and past citations by the Indiana Department of Environmental Management and deferred, but now not avoidable maintenance, the sewer utility will require tax subsidies to pay its bills soon if rates are not addressed. The Public cost of the storm water problem will only increase as state and federal regulations become more tightly enforced. Without a utility and a means to fairly allocate the cost of these services, they will remain unfunded mandates born by Greenwood taxpayers.

I could take a few hours detailing the economics behind the need for both reasonable sanitary sewer rates and a small monthly fee to create a storm water utility, but I have time for only a few facts and general observations:

1. On current rates are low compared to other Indiana communities. A typical Greenwood residential user pays only \$23.00 per month. This rate is second lowest of the 17 utilities surveyed by our financial consultant Umbaugh. It is 30% below the average rate.
2. The proposed increases are small. “21% increase” trumpeted in a recent newspaper article sounds pretty steep until it is applied to an actual household. The typical 5000 gallons per month residential user will see her rate increase by only \$2.30 in 2012 and 2.53 in 2013. No one likes to pay any increase, but suggesting that \$4.83 is going to materially change the lives of the overwhelming majority of ratepayers is simply non-sense.
3. After the proposed increases, our residents we still enjoy some of the lowest rates in the State.
4. The current rate structure has not allowed and will not allow the utility to maintain adequate reserves for maintenance and repair. We are currently facing significant sanctions and penalties from Indiana Department of Environmental Management for failing to properly maintain the system. These problems will certainly escalate if the rate problem is not addressed.
5. Greenwood taxpayers have invested over \$100 million dollars in the sanitary sewer utility. We have a duty to the taxpayers, our investors, to protect the asset and see that it returns to being a good investment.
6. The current situation resulted from a 10 year period in which rates did not increase, investments were not made, and one time fees dwindled. At the same time, everything the utility consumed increased in price Commodities, Salaries, professional services, and unfunded state and federal mandates increased dramatically.
7. The day of fiscal reckoning was delayed and disguised by the use of impact fees which should have been reinvested back into the Utility and the City but instead were used as duct tape to fix other problems.
8. The current state of affairs unfairly allocates the cost of both storm water management and sanitary water treatment to Greenwood taxpayers, regardless of their contribution to either problem.
9. We are a responsible and fiscally conservative community. Deficit spending, dumping obligations on our children and grandchildren, and polluting our environment are not in our DNA.

I stand before you today confident that Greenwood will resume its growth and

prosperity. Unlike many of our sister cities and towns, we are addressing our problems well before we exhaust our reserves. We also have manageable levels of debt. Expensive projects that were proposed when costs and rates were higher were rejected by voters and the Council and are not fixed burdens on our future budgets. Fixing these problems will not be easy. We must start paying for services we consume and caring for the assets which we have built over the past 150 years. This truth is sometimes difficult. There is nothing easier than telling citizens that they can get something for nothing. Unfortunately, the illusion is good for neither the City nor its residents. The residents of Greenwood deserve a government that values both fiscal responsibility and fiscal transparency. Over the next several months, my administration will continue to uncover the City's fiscal problems, present them honestly to the Common Council and, with the help of responsible Councilors, correct them. I am new to this job, but not to human nature. I know that I am going to face considerable pressure for being straight with you about uncomfortable facts and the unpopular solutions which are required to address them. But I am confident that as long as we continue to be honest, refuse to take short cuts, and remain open to new ideas, we will eliminate Greenwood's deficit and create a solid foundation for the continued growth of our community.

We face daunting challenges, but I believe that our future is bright. I am surrounded by a talented and motivated team. We are committed to Greenwood and are working tirelessly to correct the problems I discussed and move forward with exciting new projects. I look forward to your support and appreciate your thoughts and prayers.