



**THE FISCAL HEALTH OF INDIANA'S
LARGER MUNICIPALITIES**

by John Stafford
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About the Author

John Stafford retired as the Director of the Community Research Institute at Indiana University-Purdue University Fort Wayne in 2013. Prior to his ten year service in that capacity, he served in various positions in local government in Elkhart and Allen Counties. He was recognized by the Indiana Association of Cities and Towns as the 1999 recipient of the Ivan Brinegar Municipal Management Award. John was a member of the City of Fort Wayne Public Finance Task Force that conducted an in-depth examination of that municipality's fiscal condition in 2012 and 2013. In February, 2014 he co-authored with Dr. Larry DeBoer the Indiana Fiscal Policy Institute's Information Brief, *The Personal Property Tax in Indiana: Its Reduction or Elimination Is No Simple Task*.

Summary

The property tax caps that took effect in 2009 have affected the fiscal health of municipal governments of Indiana's larger cities. The effect has varied depending on a number of factors, but generally new suburban communities have fared better than their older, industrial counterparts. This paper takes a deeper look at the factors behind these differences and assesses why they have occurred.

There are 18 cities in the study. They include all cities with population more than 50,000 with three exceptions. Jeffersonville and New Albany were included to include southeast Indiana and Indianapolis was excluded. The combined city/county structure made it impossible to evaluate Indianapolis and the other cities on a common basis.

Nevertheless, the cities included in the study represent a significant portion of the state's population and is a good economic cross-section of the state. This study demonstrates how the combination of recession and the imposition of property taxes have affected local municipal finances—and finds the outcome is highly dependent on different factors in each community. Yet the data lead to some important conclusions. Among them, briefly: the caps have affected older, industrial cities more than suburban or university-based communities; local option income taxes are a more critical component of municipal finance; General Fund and Rainy Day Fund balances do not always correlate with a community's fiscal health; in many cases a community's fiscal fate is tied to the property tax controls first enacted in 1973.

The property tax caps have indeed saved money for property owners, but at the expense of the finances in several cities across the state. The effect was exacerbated by the coincidence that the property tax caps were enacted during a recession. Any particular city's fiscal health, however, was largely determined by how it responded to the caps and the recession.

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Introduction

Indiana's larger cities are critical to the economic well-being of the state. The 18 cities examined in this study account for 22 percent of the state's current population. The 15 counties in which these cities are located account for 62 percent of Indiana's projected population growth between 2014 and 2040; 44 percent of the state's 2013 Gross Regional Product; 45 percent of the state's current employment; and 44 percent of Indiana's total personal income in 2014. They are certainly a significant part of the state's economy and therefore the fiscal health of these core municipalities should be of concern to all in Indiana.

The municipal governments in Indiana's larger cities have been financially impacted by the combination of the Great Recession and the property tax caps enacted in 2008. To what degree has the impact impaired the fiscal health of these local governments? This study examines a variety of municipal financial indicators in an attempt to address this question.

While the following information certainly does not provide all of the answers and is not a substitute for the internal insights that can be provided by local public officials, it does provide an objective window into some of the impacts common to all of the 18 selected municipal governments. It also demonstrates that the impacts of the recession and the property tax caps have been quite different between and among these municipalities.

Included in the study were all Indiana cities, other than Indianapolis, with a 2014 population estimated to be greater than 50,000:

Anderson (55,455)	Bloomington (83,322)	Carmel (86,682)
Elkhart (51,421)	Evansville (120,346)	Fishers (86,325)
Fort Wayne (258,522)	Gary (77,909)	Greenwood (54,491)
Hammond (78,384)	Kokomo (57,085)	Lafayette (70,654)
Muncie (70,211)	Noblesville (57,584)	South Bend (101,190)
Terre Haute (60,956)		

Also included were two municipalities from southeast Indiana to provide geographic balance to the study:

Jeffersonville (46,440)	New Albany (36,589)
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Indianapolis was not included due to the differences in municipal finance in Indiana's only consolidated city compared with that of the other municipalities examined in the study. In some cases, such data on the distribution of local income taxes, it was simply not possible to separate the "municipal" and the "county" types of functions associated with local government in Indianapolis/Marion County.

While each of the 18 municipalities is unique, there are some overall trends that can be gleaned from a review of the examined data. This study is not a detailed, comprehensive examination of each municipality's finances but rather is an effort to find some common themes. As is normally the case with municipal governments, each of the 18 municipalities studied here provides a somewhat different set of services and at different levels. Sometimes this is rather easy to see from the data examined and

sometimes the differences are quite difficult to understand. In addition, there are likely many financial factors which may not be apparent through the publically available data used as the basis for this study. One example familiar to the author is the Fort Wayne Legacy Fund. The proceeds from the lease and ultimate sale of its electric utility provides a revenue source of approximately \$75 million to the municipality that is dissimilar to revenue streams available to other municipalities. There are likely several other revenue sources available to other municipalities for which the author is not knowledgeable.

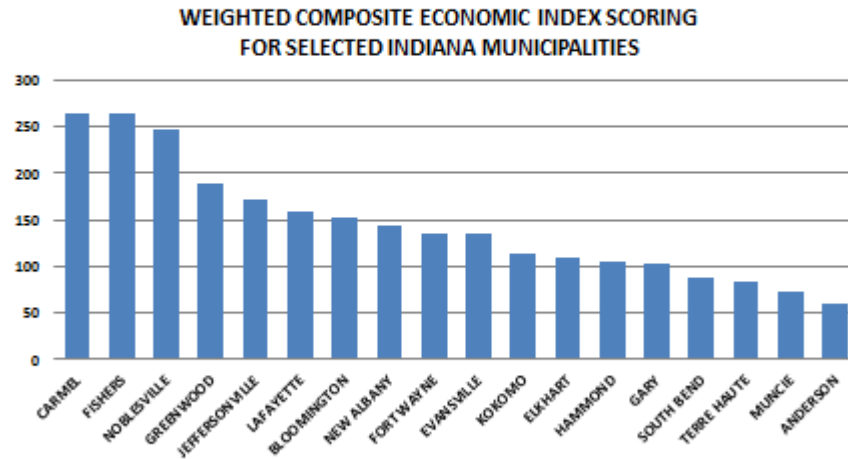
The Composite Economic Index

An underlying assumption in this study is that the relative strength or weakness of a local economy will play a significant role in a municipality's long-term fiscal health. In an attempt to better understand the relative economic condition within which each of these 18 municipalities is operating, a Composite Economic Index was created utilizing the weighted ranking on each of six economic and demographic variables.

- * Short-term Population Growth (weighting factor of 1)
- * Long-term Population Growth (weighting factor of 1)
- * Short-term Employment Growth (weighting factor of 2)
- * Long-term Employment Growth (weighting factor of 1)
- * Short-term Growth in Total Personal Income (weighting factor of 2)
- * 2013 Per Capita Personal Income (weighting factor of 3)
- * 2008-2014 Change in Gross Assessed Valuation (weighting factor of 2)
- * 2014 Gross Assessed Valuation Per Capita (weighting factor of 2)

Figure 1 illustrates the Economic Index ranking for the 18 selected municipalities. Not surprisingly, the four municipalities in the "collar" counties adjacent to Marion County (Carmel, Fishers, Greenwood and Noblesville) have been operating in the most advantageous economic environments. Two cities, Bloomington and Lafayette, having large university student bodies located within or adjacent to them also fared well on this Economic Index. Conversely, traditional manufacturing centers, often dominated by the automotive industry, tend to have been operating in the most challenging economic climates. The City of Jeffersonville benefited from having the highest growth in gross assessed valuation, substantially due to annexation. The Cities of Carmel and Fishers had the highest Composite Economic Index Scores of 265 and the City of Anderson had the lowest score at 61.

FIGURE 1

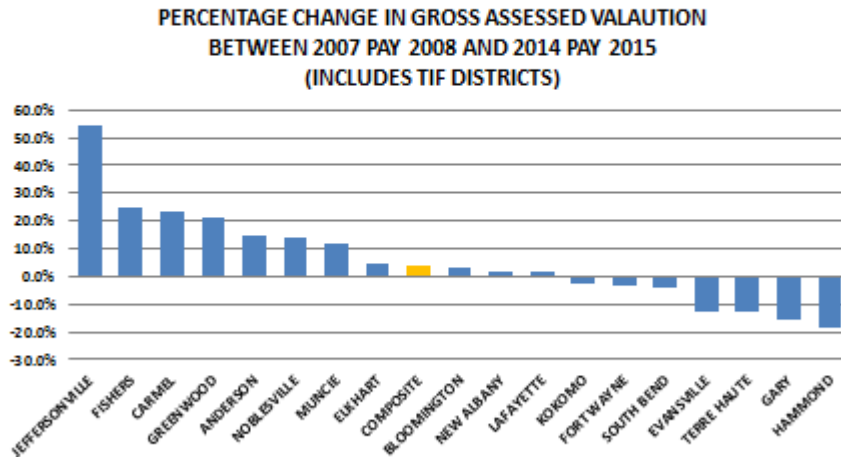


Changes in Property Assessed Valuation

The Indiana property tax caps (circuit breakers) enacted in 2008 have made a unit's assessed valuation growth of critical importance to its net property tax revenue in a manner not experienced since the enactment of the "Bowen" property tax controls in the early 1970s. An examination of the assessed valuation trends in the 18 selected municipalities indicates a wide variation among the group for nearly every aspect explored.

As illustrated in Figure 2, 11 of the 18 selected municipalities experienced an increase in gross assessed valuation between 2007 pay 2008 and 2014 pay 2015. The composite change over the period was a 4.1 percent increase. The City of Jeffersonville leads the group with a 54.0 percent increase, much of which could be attributed to annexation. The City of Fishers led all other communities with just under a 25 percent increase. Seven municipalities experienced an actual loss in gross assessed valuation over the period.

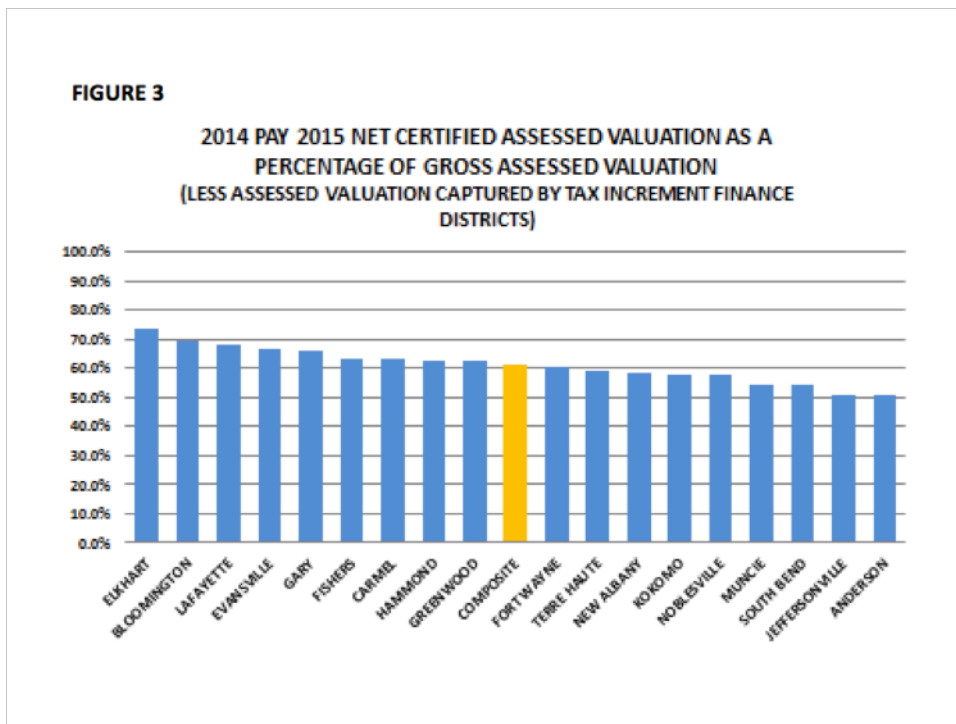
FIGURE 2



As seen in Figure 3, there is considerable variation among the 18 selected municipalities in the ratio between net and gross assessed valuation. The impact of the various reductions of gross assessed valuation (homestead deductions, tax exempt property, tax abatements) plays out differently among the studied communities. The City of Elkhart is able to capture as its property tax base (certified net assessed valuation) 73.5 percent of its gross assessed valuation in 2014 pay 2015.¹ At the other end of the spectrum, the City of Anderson is only able to tax 50.5 percent of its 2014 pay 2015 gross assessed valuation. The composite² for the 18 municipalities is 61.5 percent for the 2014 pay 2015 assessment year. This is down from a composite level of 70.7 percent in 2007 pay 2008. This change is a reflection of the impact that the increase in the Homestead Deduction and the creation of the Supplemental Homestead Deduction had on these municipalities' ability to tax their respective full tax bases.

¹ The net assessed valuation is calculated after factoring out the assessed valuation included in tax increment financing districts. It is the tax base for the non-TIF property tax supported funds.

² Term "composite" is used throughout this study as a reference to the sum of a given variable for all 18 municipalities. For example, as used in this paragraph it means the sum of all net assessed values for all 18 municipalities as a percentage of the sum of all gross assessed valuations for the 18 municipalities.



A significant percentage of gross assessed valuation is now removed from the tax bases of these municipalities due to the Standard and Supplemental Homestead Deductions. In 2007 pay 2008, the Homestead Deduction represented 13.7 percent of the total gross assessed valuation for the composite of the 18 selected municipalities. There was no Supplemental Homestead Deduction at that time. By 2014 pay 2015, the combination of Homestead Deduction and the Supplemental Homestead Deduction represented 25.5 percent of the composite gross assessed valuation for the 18 selected municipalities. Figure 4 illustrates the major components of gross assessed valuation in the composite of the 18 municipalities. Figure 5 illustrates the impact the increase in Homestead deductions (including the Supplemental Deduction) has had on the tax base of each of the selected municipalities.

FIGURE 4

MAJOR COMPONENTS OF THE 2014 PAY 2015 GROSS ASSESSED VALAUTION FOR THE COMPOSITE OF THE EIGHTEEN SELECTED INDIANA MUNICIPALITIES

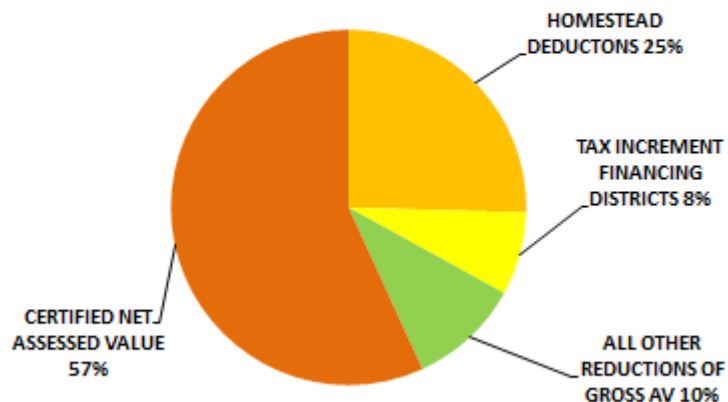
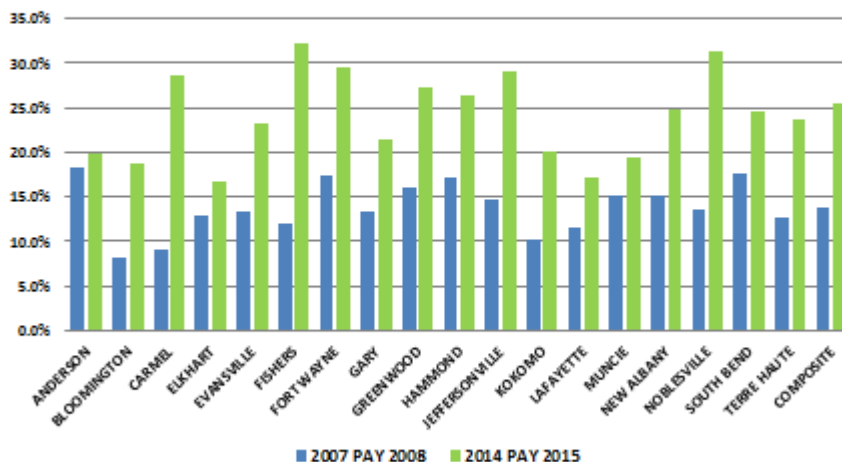


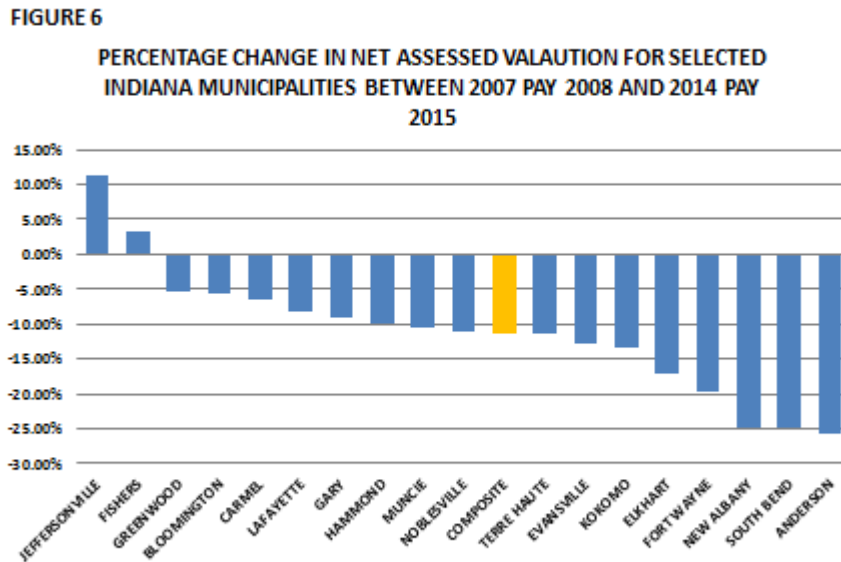
FIGURE 5

HOMESTEAD DEDUCTIONS AS A PERCENTAGE OF GROSS ASSESSED VALAUTION FOR SELECTED INDIANA MUNICIPALITIES



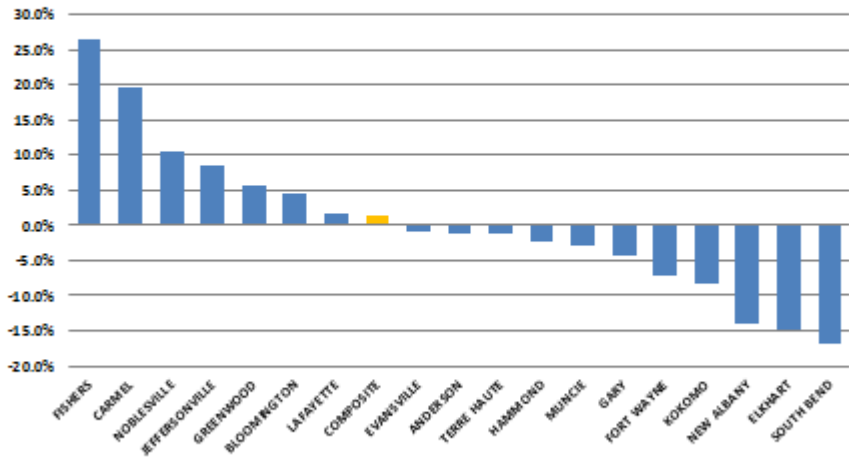
As illustrated in Figure 6, only two of the 18 selected municipalities have experienced an increase in net assessed valuation between 2007 pay 2008 (before the Great Recession) and the most recent year (2014 pay 2015) while the other 16 have experienced a decrease. As was the case with gross assessed valuation, the City of Jeffersonville (11.4 percent) experienced the largest increase in certified net assessed valuation, due in large part to significant annexations. At the other extreme is the City of Anderson, which has experienced a 25.6 percent decline. The composite change for the 18 municipalities over the ten-year period was an 11.4 percent decrease. Yet, as was illustrated in Figure

2, only two of these 18 municipalities experienced a decrease in gross assessed valuation over the same period.



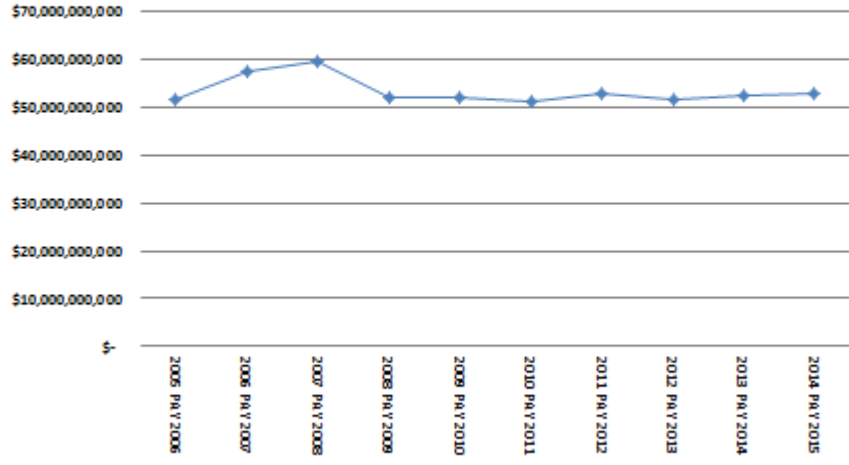
Continuing the pattern of wide variations in assessed value trends, the change in net assessed valuation since the implementation of the increased homestead deductions in 2008 pay 2009 and the most recent available assessments (2014 pay 2015) differs greatly between our selected municipalities. These changes for each municipality are illustrated in Figure 7. For example, net assessed valuation in Fishers grew by 26.4 percent over this six year period while it declined by 16.8 percent in South Bend. Certainly the Great Recession had a significant impact on assessed value change during this period, but it clearly was not uniformly felt. The primarily suburban communities of Carmel, Fishers, Greenwood, Jeffersonville and Noblesville were the top five municipalities for net assessed value growth over this period. Conversely, the cities of Elkhart and South Bend which were both hit hard by the Great Recession experienced the greatest loss in net assessed value over this period.

FIGURE 7
PERCENTAGE CHANGE IN NET ASSESSED VALUATION FOR SELECTED INDIANA MUNICIPALITIES FROM 2008 PAY 2009 TO 2014 PAY 2015



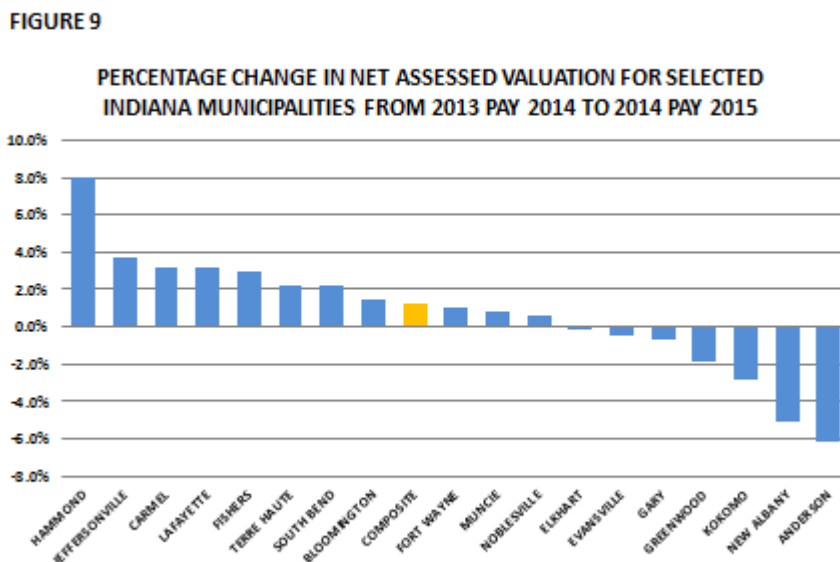
After the dramatic decline in net assessed valuation in 2008 pay 2009 due to the increase in homestead deductions enacted in HEA 1001-2008, the composite for the 18 municipalities has remained relatively flat in subsequent years. There has been a modest increase in the composite net assessed value over the past two years as the housing market has begun to recover from the depressed recession levels.

FIGURE 8
ANNUAL COMPOSITE NET CERTIFIED ASSESSED VALUATION FOR SELECTED INDIANA MUNICIPALITIES



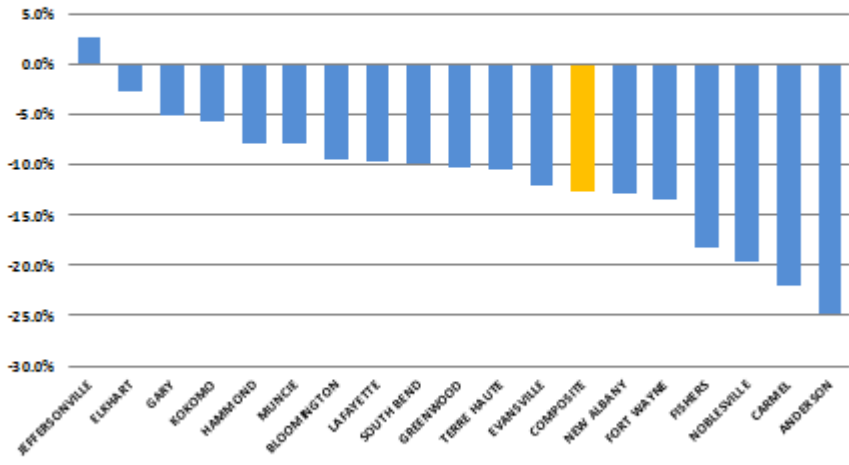
Over the past year, net assessed value has increased in 11 of the 18 selected municipalities while declining in the other seven. Figure 9 presents the most recent change in net assessed valuation for the 18 municipalities. The composite for the 18 has been a slight increase of 1.2 percent. As with all other variables discussed in this section, the variation among the selected municipalities has been fairly

substantial. At the extremes, Hammond increased its net assessed valuation by 8.0 percent and Anderson’s net assessed valuation declined by 6.2 percent.



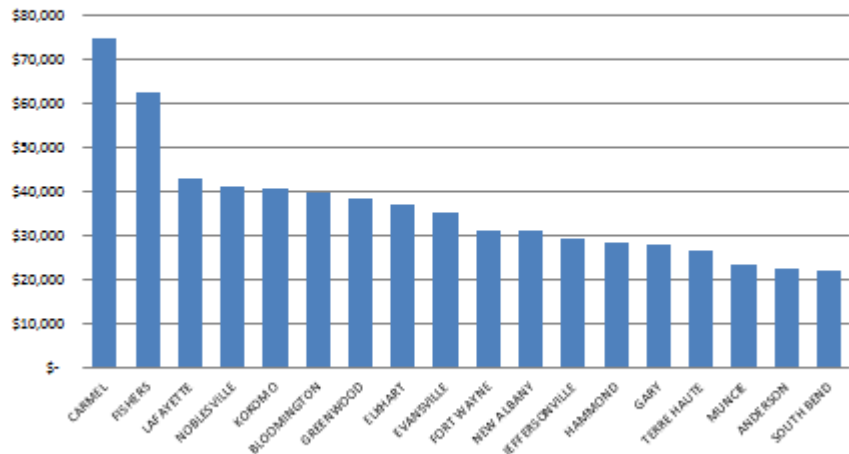
The reduction in net assessed valuation in 2008 pay 2009, due primarily to the increase in the homestead deductions, was not felt uniformly across the 18 municipalities. As illustrated in Figure 10, 17 of the 18 selected municipalities lost net assessed valuation between 2007 pay 2008 and 2008 pay 2009; with the City of Jeffersonville being the only exception (again likely due to the impact of significant annexation). Nine of the 18 municipalities experienced a decline of at least 10 percent, with Carmel and Anderson both experiencing a drop of at least 20 percent. The composite loss in net assessed valuation was 12.6 percent.

FIGURE 10
PERCENTAGE CHANGE IN NET ASSESSED VALUATION FOR SELECTED INDIANA MUNICIPALITIES FROM 2007 PAY 2008 TO 2008 PAY 2009



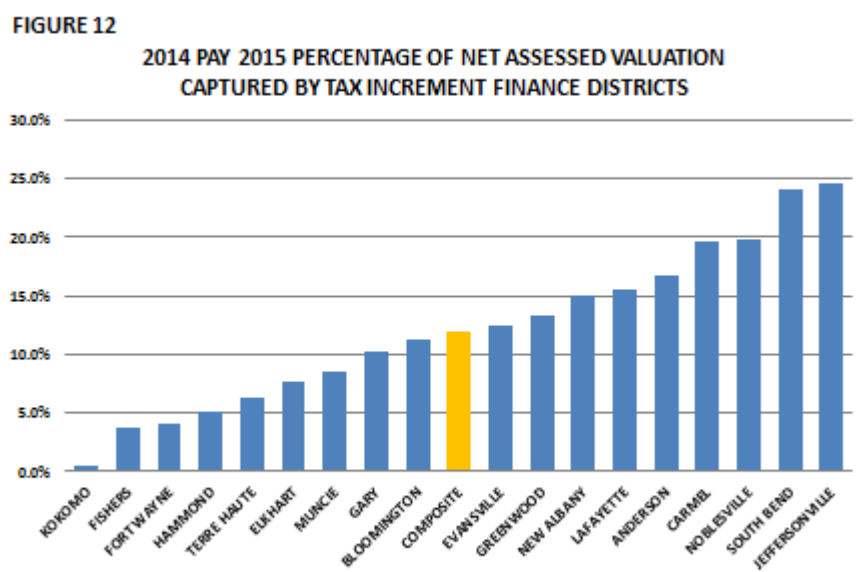
There is a relatively large range in the net assessed valuation per capita across the 18 municipalities as illustrated in Figure 11. Carmel has a 2014 pay 2015 net assessed valuation per capita of \$74,774 compared with the City of South Bend's \$22,041. This is a very significant difference between these municipal tax bases. Among other factors, it appears to indicate the declining importance of industrial development to the total tax base and the growing importance of high-end residential development.

FIGURE 11
2014 PAY 2015 NET ASSESSED VALUATION PER CAPITA FOR SELECTED INDIANA MUNICIPALITIES

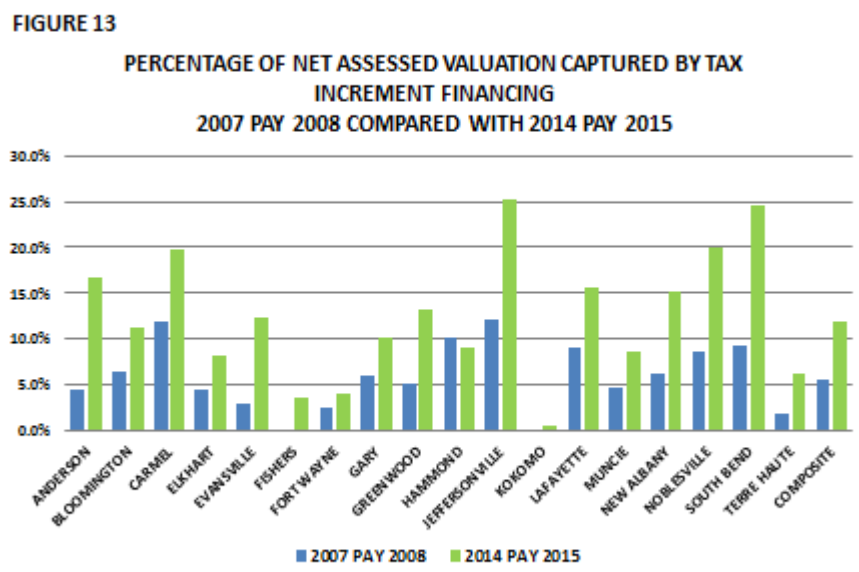


There is also a wide variation in the impact the use of tax increment financing has had on the general fund tax base of these 18 municipalities. Figure 12 illustrates the percentage of the net assessed valuation captured in TIF districts by the respective municipalities. Both South Bend and Jeffersonville

have captured more than 24 percent of their respective tax bases in TIF districts while seven of the 18 municipalities have captured less than 10 percent of their tax bases.



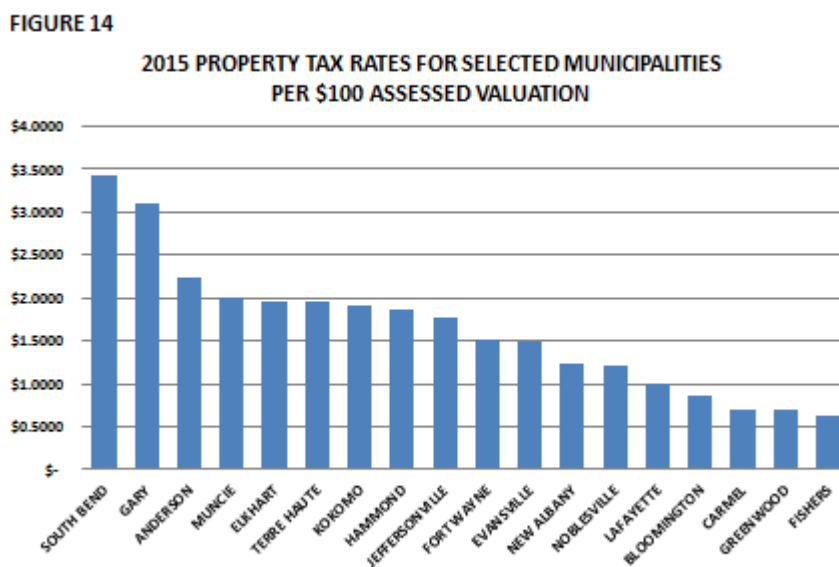
The percentage of tax base captured in Tax Increment Financing Districts has been growing in every selected municipality other than Hammond. The percentage of net assessed valuation captured in TIF districts for the composite of the 18 municipalities grew from 5.6 percent in 2008 to 12.0 percent in 2015.



Property Tax Rates

In addition to their traditional impact in individual property owners, property tax rates have recently gained additional significance for municipal government finance due to the direct relationship between tax rates and Circuit Breaker Credits and the corresponding impact these credits have on actual property tax revenues. Presented below are several key observations regarding property tax rates for the 18 selected municipalities.³

As illustrated in Figure 13, there is significant disparity in the property tax rates directly associated with the 18 selected municipalities. In 2007, the highest rate among the selected municipalities was the City of Gary's rate of \$3.1038 per \$100 of assessed valuation. This was 9.6 times higher than the Town of Fishers' rate of \$0.3234. By 2015, the disparity between the highest (the City of South Bend at \$3.4314) and the lowest (the City of Fishers' at \$0.6202) had dropped to 5.5. The 2015 certified property tax rates for the 18 municipalities are presented in Figure 14.



Generally, property tax rates have been on the increase for these selected municipalities. The actual change in the certified property tax rate for each municipality is presented in Figure 15 and the percentage change in rates is illustrated in Figure 16. Between 2007 and 2015, the property tax rate for 16 of the 18 municipalities had increased, with only the Lake County cities of Gary and Hammond experiencing a rate decrease over the period. The decrease for these two municipalities was likely attributable to the unique property tax controls put in place by the Indiana General Assembly which were applicable only to Lake County taxing units. Between 2009 and 2015, the median property tax rate for the selected municipalities increased by 39 percent while the composite certified net assessed valuation increase by 1.5 percent. 2009 was selected as the beginning data for this calculation as the 2008-2009 rates were significantly impacted by the HEA 1001-2008.

³ Information presented in this section was obtained from the Annual Certified Budget Orders for the respective municipalities as approved by the Indiana Department of Local Government Finance and made available on that agency's website.

FIGURE 15
CHANGE IN THE PROPERTY TAX RATE BETWEEN 2007 AND 2015
FOR SELECTED MUNICIPALITIES
PER \$100 ASSESSED VALUATION

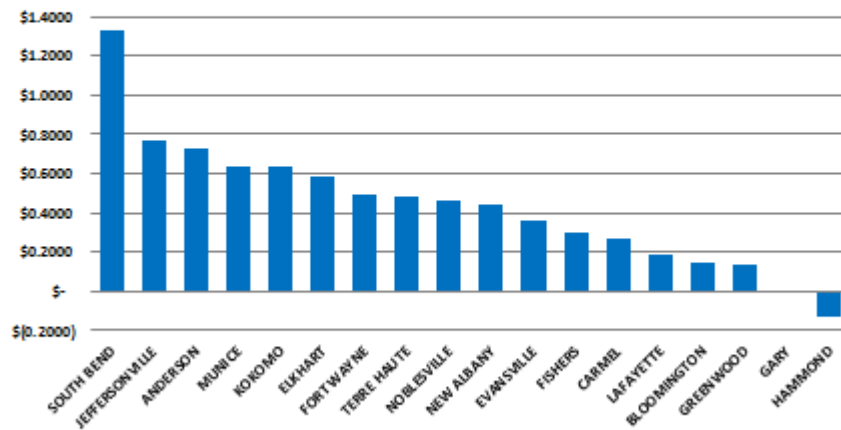
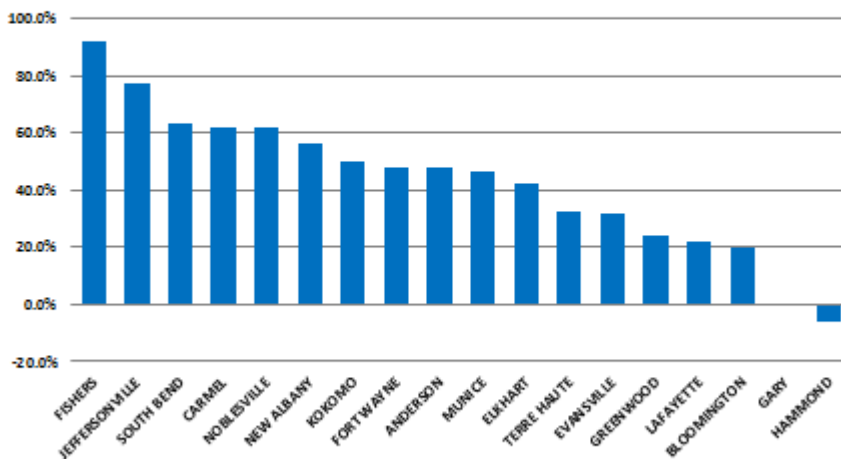


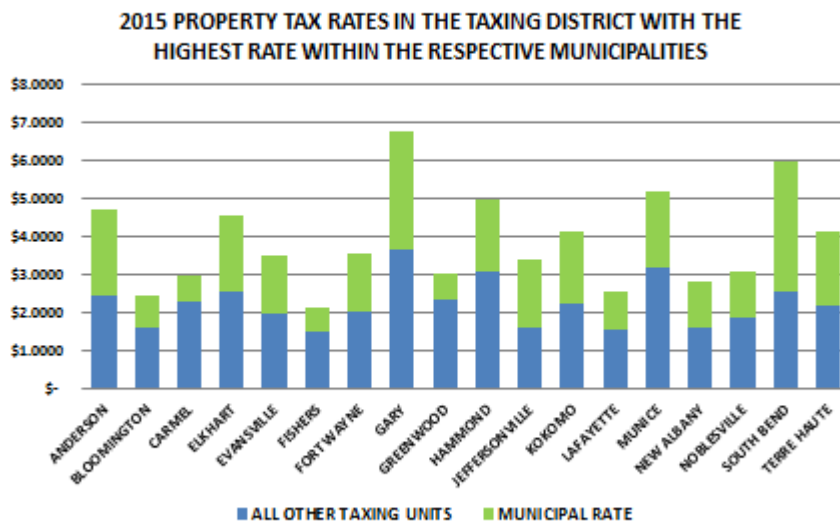
FIGURE 16
PERCENTAGE CHANGE IN THE PROPERTY TAX RATE
BETWEEN 2007 AND 2015



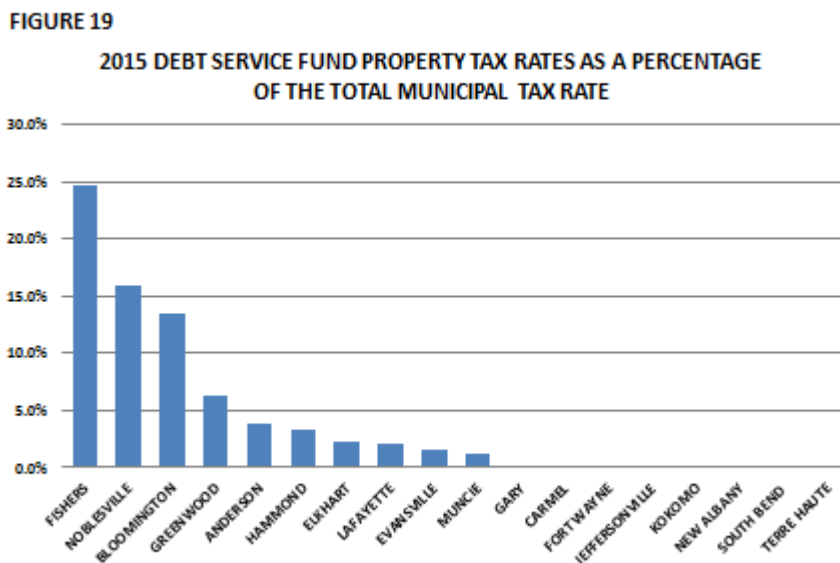
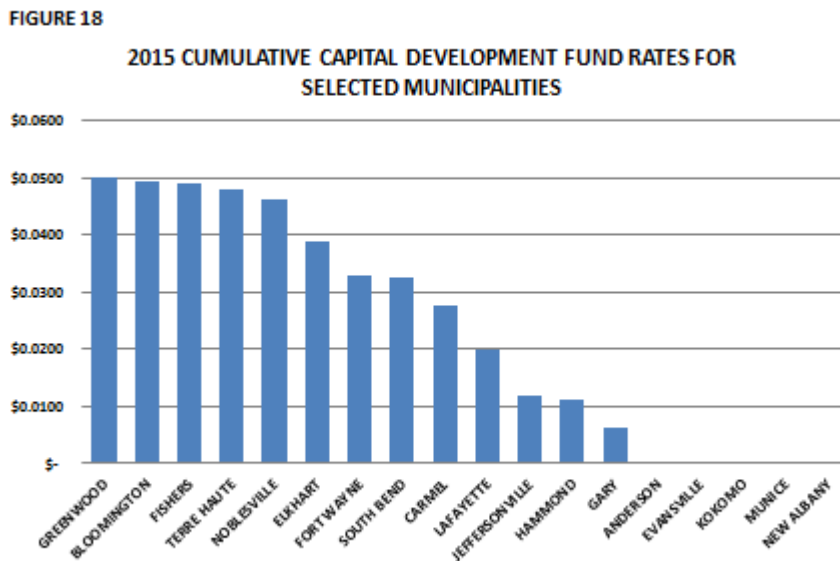
The respective municipal property tax rate is only one of several taxing unit rates that comprise the total property tax rate for any given taxing district. Perhaps most importantly for this study, it is the total rate in the taxing districts within a given municipality that determines the Circuit Breaker impact for that respective municipality, not just the municipal rate. Once again illustrating that each of our municipalities brings a unique set of variables to the discussion of their fiscal health, there is a substantial disparity on the portion of the total property tax rate attributable to the given municipality. Figure 17 presents the percentage of the total tax rate represented by the municipality in the taxing

district with the highest rate that includes the respective municipality. For example, the City of South Bend's 2015 rate represents 57 percent of the total rate in the taxing district within South Bend that has the highest total rate (South Bend-Portage Township). Conversely, the City of Greenwood's rate is 23 percent of the total rate of the taxing district with the highest rate within Greenwood (Greenwood City-CP SCH-PL TWP-GWD Library).

FIGURE 17

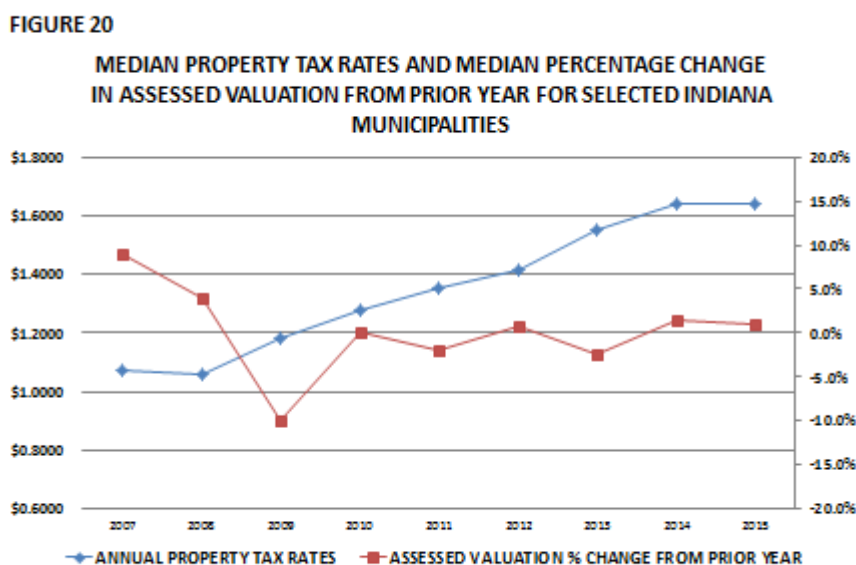


Municipalities vary greatly in what functions they choose to undertake, at what level they choose to provide those functions, and how they choose to fund them. The composition of each of these 18 municipalities' property tax rates is yet another indication of this diversity. For example, 11 of the 18 have enacted a Cumulative Capital Development Fund (which is a rate-controlled fund outside of the maximum levy controls); 11 have property tax supported Debt Service Funds (also outside the levy controls) and only three have Debt Service Fund rates that exceed 10 percent of their total rate; seven of the 18 devote a portion of their property tax rate to support their Motor Vehicle Highway Fund; and four of the 18 continue to fund some portion of Police and Fire Pension obligations out of their property rate. Additionally, three of these municipalities have separate Sanitary Districts that have a property tax rate; in five municipalities the operation and or capital development of their regional airports is, in part, supported by property taxes raised by a separate airport authority; and three have redevelopment activities supported by property taxes from a separate Redevelopment tax rate. At least one or, in some cases several, of the selected municipalities finance these functions at least in part through the municipalities own property tax rate. Figures 18 and 19 respectively illustrate the individual rates for the Cumulative Capital Development Fund and the Debt Service Funds for each municipality.



What have been the key drivers of property tax rate increases among these 18 municipalities between 2007 and 2015? Figure 20 illustrates the median annual change in both property tax rates and net assessed valuation for the 18 selected municipalities. The takeover of key municipal Police and Fire Pension obligations by the state as part of the 2008 tax reforms served to lower rates in these municipalities. Conversely, small increases in the aggregate Debt Service and Cumulative Development Fund rates (both outside the controlled levies) served to increase rates. However, it must be assumed that that vast majority of the aggregate rate increase for these 18 municipalities must be due to the annual growth in assessed valuation being less than the annual growth quotient for many of the

selected municipalities. When annual growth in net assessed valuation for a municipality is less than the allowed increase in the property tax levy (and assuming that the municipality will take its maximum levy), then the property tax rate will increase. As rates increase so do the level of Circuit Breaker Credits. Therefore, while municipalities increase their annual property tax rates to capture the maximum allowable property tax levies, they also are increasing their Circuit Breaker Credit losses. The key to escaping this self-defeating cycle is to experience meaningful growth in net assessed valuations – to grow the property tax base.

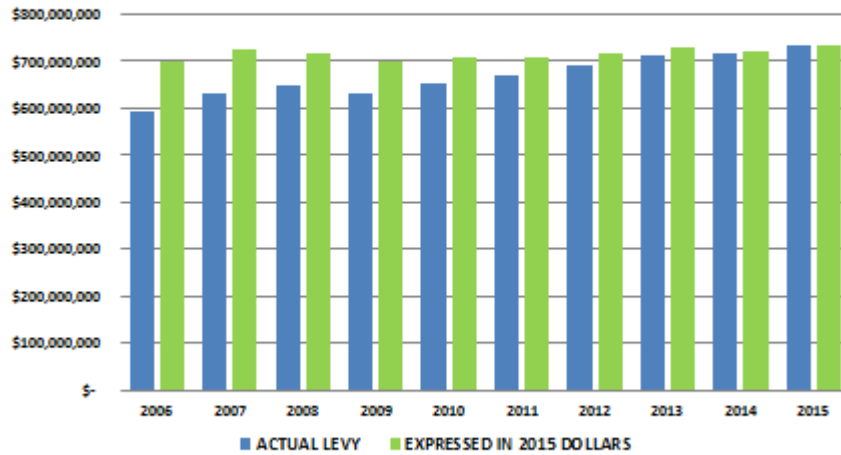


Property Tax Levies

The property tax has historically been the most important source of revenue for most municipal governments in Indiana, just as it has been in most states. This is still true today, although much less so than previously in Indiana due to the increasing importance of local option income taxes and the impact of the property tax caps. The data examined in this section are the annual certified levies before the reductions attributable to the Circuit Breaker Credits are taken into account. These are the property tax levies as certified by the Indiana Department of Local Government Finance during that agency's annual approval of the unit's budgets, rates and levies for the property tax supported funds. They do not represent the actual collection of property tax revenue by each respective jurisdiction.

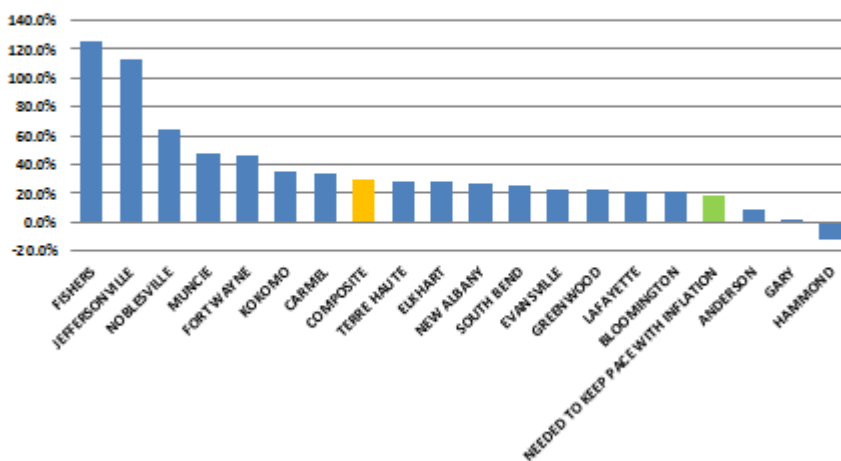
The Great Recession did reduce the inflation-adjusted certified property tax levies for the aggregate of the 18 selected municipalities. Figure 21 presents the composite actual and inflation adjusted net levies for the 18 municipalities. In terms of real purchasing power, the low point occurred in 2009 (for the 2006-2015 time period). The composite of the certified levies for the 18 selected municipalities, after adjusting for inflation, have been on the increase since 2011. The actual composite levy increased by 24 percent between 2006 and 2015. After adjusting for inflation, that increase was 5 percent.

FIGURE 21
ANNUAL CERTIFIED PROPERTY TAX LEVY FOR THE COMPOSITE OF
EIGHTEEN SELECTED INDIANA MUNICIPALITIES



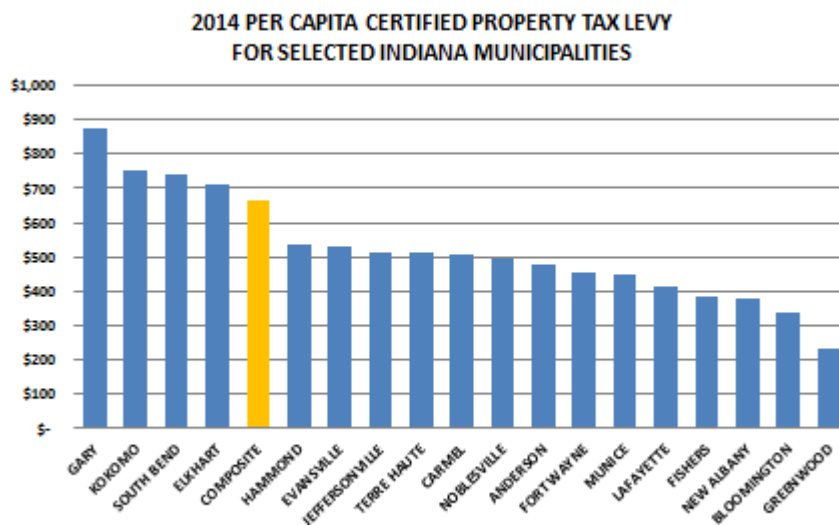
As illustrated in Figure 22, 16 of the 18 selected municipalities experienced an increase in their respective certified levies between 2007 (the year before the Great Recession) and 2015. Both Gary and Hammond experienced an actual decrease in their levies over this period, due at least in part to the extraordinary property tax controls placed on Lake County jurisdictions by the General Assembly. Fishers and Jeffersonville both had levy growth in excess of 100 percent over this period. The composite increase for all 18 municipalities taken as an aggregate was 21.3 percent.

FIGURE 22
2006 - 2015 PERCENTAGE CHANGE IN THE CERTIFIED PROPERTY TAX
LEVY FOR THE EIGHTEEN SELECTED MUNICIPALITIES



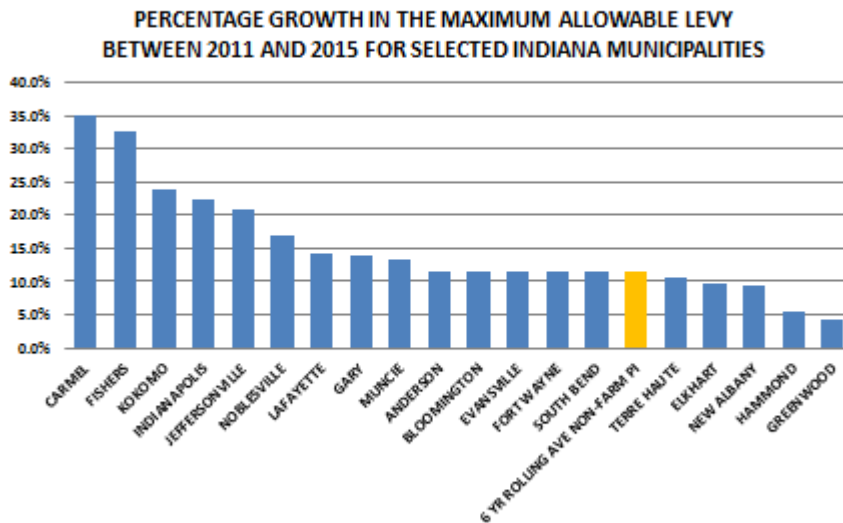
As is seen in many instances throughout this study, there is great variation among the 18 municipalities when levies are viewed on a per capita basis. In 2014, the \$872 per capita certified levy for the City of Gary was nearly four times larger than the per capita levy for the City of Greenwood.

FIGURE 23



Going back to the early 1970s and the “Bowen Tax Control Program”, the Indiana General Assembly has placed limitations on the growth year over year of most local government property tax levies. The current legislation basically limits annual levy growth to the Indiana six-year rolling average of non-farm personal income growth, commonly referred to as the “annual growth quotient”. This is an attempt to keep property taxes from exceeding the collective ability to pay property taxes. Exceptions are made for exceptional growth in net assessed valuation such as may arise from annexation. There are different provisions made for levies associated with rate-controlled funds, such as a municipal Cumulative Capital Development Fund, and Debt Service Funds. For the 2011-2015 time period, the basic statewide six-year rolling average of non-farm personal income was 11.5 percent. As presented in Figure 24, 13 of the 18 municipalities included in this study had maximum allowable levies set above that statewide growth quotient, indicating that mitigating factors such as annexation had allowed their respective maximum levy to be set above the level established by the growth quotient alone.

FIGURE 24

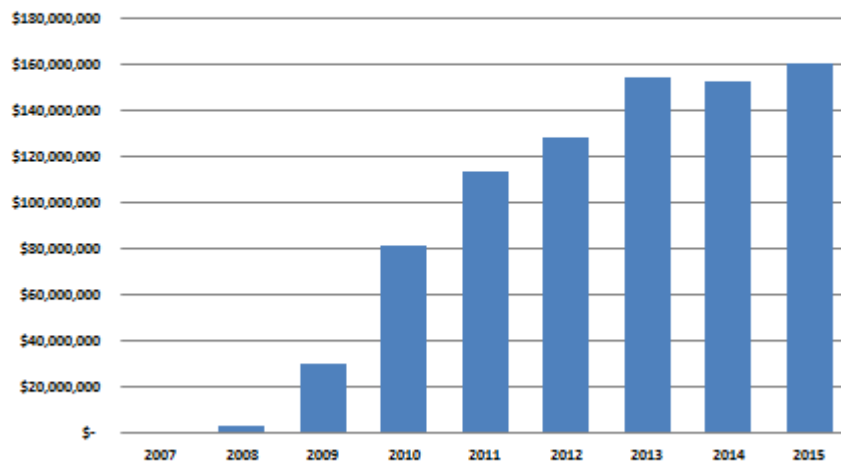


Circuit Breaker Credits

The adoption of the property tax caps, formerly known as the Circuit Breaker Credits, has unquestionably had the biggest impact on municipal finance in Indiana since the enactment of the property tax controls in the early 1970s. However, the impact of these tax caps has been far from uniform across the 18 municipal governments included in this study.

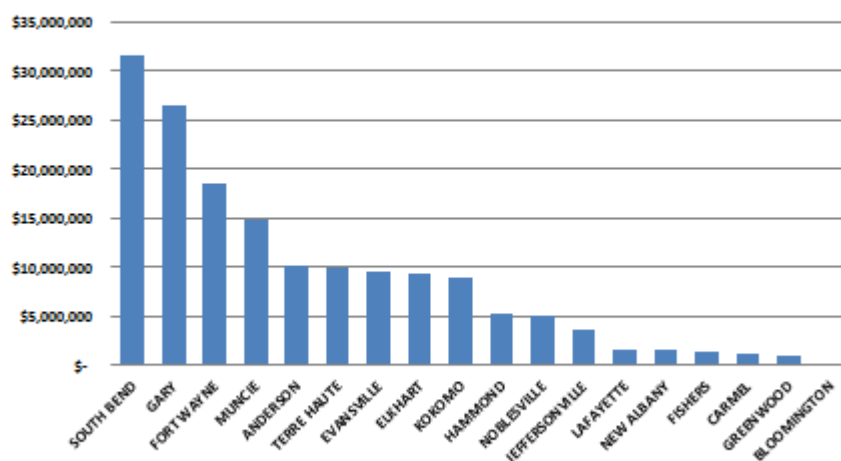
The composite of Circuit Breaker Credits for the 18 municipalities has grown from \$30 million in 2009 to \$161 million in 2015. This growth is illustrated in Figure 25. With the exception of 2014, each year's composite of Circuit Breaker Credits has been greater than the prior year. However, over the past three years the aggregate amount of Circuit Breaker Credits impacting these municipalities does appear to have begun to level.

FIGURE 25
TOTAL OF ANNUAL CIRCUIT BREAKER CREDITS FOR THE EIGHTEEN
SELECTED MUNICIPALITIES



The Circuit Breaker Credits had significantly different impacts on our pool of selected municipalities, as is illustrated in Figure 26. The City of South Bend had the largest property tax loss due to the Circuit Breakers in 2015 at \$31,636,602. Conversely, the City of Bloomington lost only \$227,803 in potential revenue due to the property tax caps. Three of the four selected municipalities that were located in counties adjacent to Indianapolis also experienced only a very modest impact from the property tax caps.

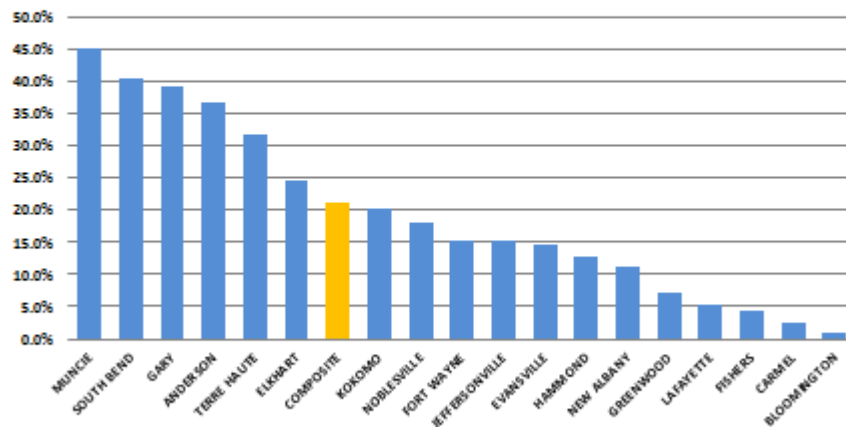
FIGURE 26
2015 CIRCUIT BREAKER CREDITS
FOR SELECTED INDIANA MUNICIPALITIES



As illustrated in Figure 27, in 2015 the Circuit Breaker impact ranged from, on the high end reducing the City of Muncie’s certified property tax levy by 45 percent to as little an impact as the 0.8 percent

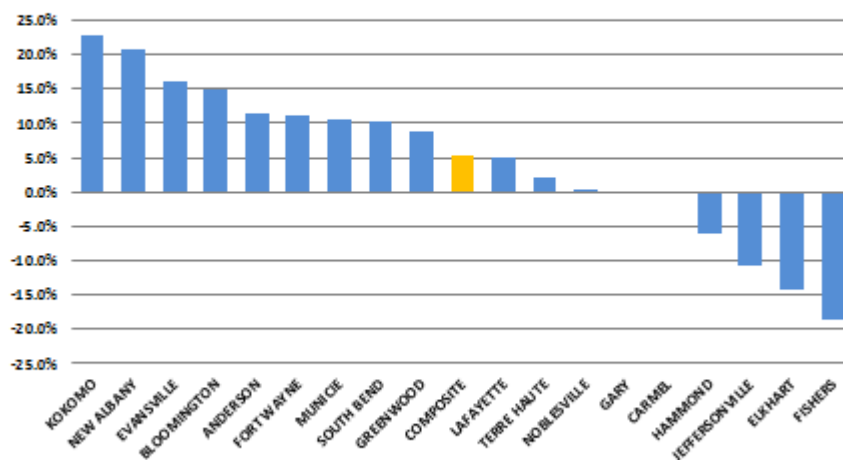
reduction to the City of Bloomington’s net certified property tax levy. To put it mildly, that is a tremendous variation. The composite impact in 2015 on the 18 municipalities was a 21 percent reduction of the combined certified levies.

FIGURE 27
2015 CIRCUIT BREAKER CREDITS AS A PERCENTAGE OF ANNUAL CERTIFIED PROPERTY TAX LEVY FOR SELECTED INDIANA MUNICIPALITIES



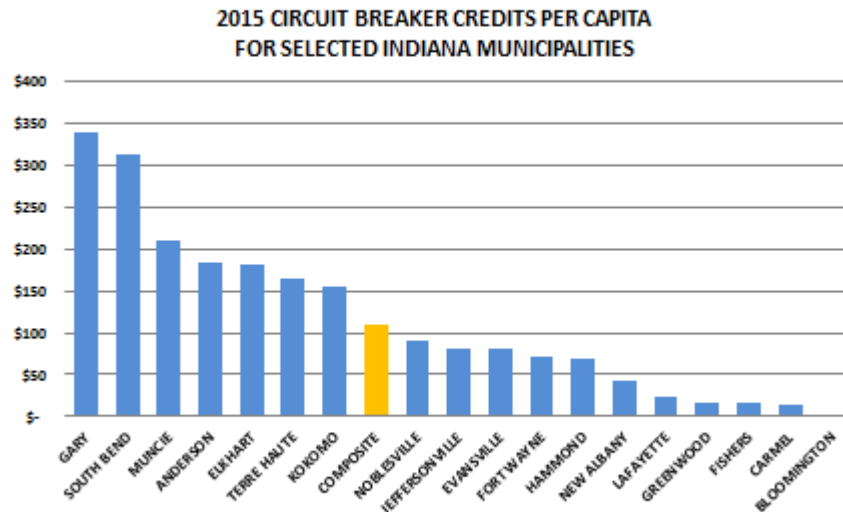
While the general pattern for the aggregate of the 18 municipalities has been the recent leveling of the Circuit Breaker impact, here too there is considerable variation among the individual municipalities. At the extremes, the City of Kokomo experienced a 22.8 percent increase in Circuit Breaker Credits between 2014 and 2015 while Fishers experienced an 18.5 percent decrease. The composite change was a 5.4 percent increase.

FIGURE 28
2014 - 2015 PERCENTAGE CHANGE IN CIRCUIT BREAKER CREDITS FOR SELECTED INDIANA MUNICIPALITIES



Further illustrating the wide variation in the impact of the property tax caps on the 18 municipalities is the range in the amount of Circuit Breaker Credits per capita. As seen in Figure 29, the City of Gary lost \$39 per resident in 2015⁴ while the City of Bloomington lost only \$3 per resident. The composite loss for the 18 municipalities was \$111 per resident in 2015.

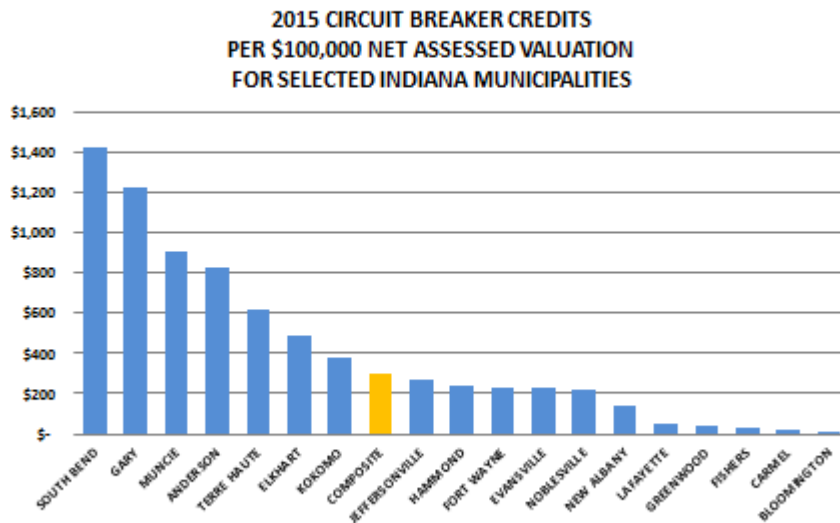
FIGURE 29



Examining the 2015 Circuit Breaker impact to the selected municipalities compared with their respective property tax bases indicates an even wider disparity than is found on a per capita basis. The City of South Bend lost \$1,418 per \$100,000 of net assessed valuation while the City of Bloomington lost only \$7 per \$100,000 of net assessed valuation.

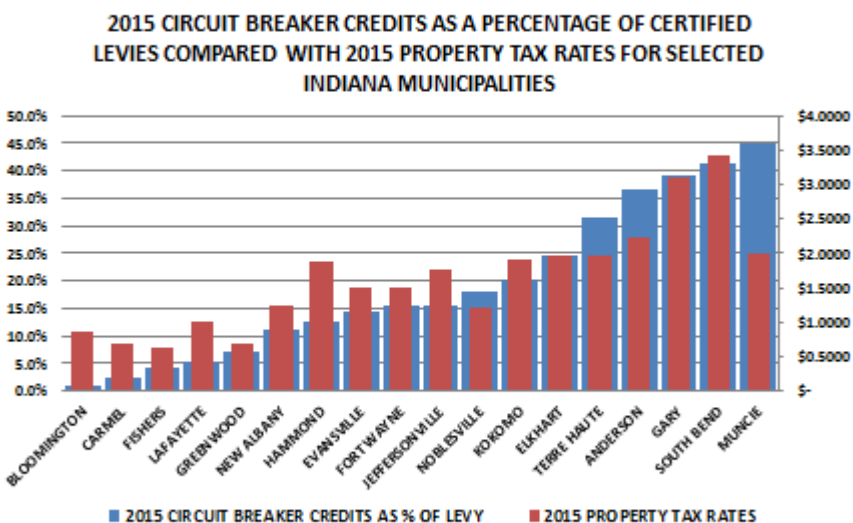
⁴ 2014 population estimates were used as 2015 estimates are not yet available.

FIGURE 30



There is a relationship between the property tax rates of the selected municipalities and the level of property tax cap impact on their property tax levies. However, the correlation is less than direct due to the influence of the tax rates imposed by the other taxing units which share the same tax base as the respective municipalities. Figure 31 illustrates the 2015 Circuit Breaker Credits for 18 municipalities along with their respective property tax rates.

FIGURE 31



The impact that the Circuit Breaker Credits have on each municipality’s financial health will be more fully discussed in the section on the Fiscal Capacity Index.

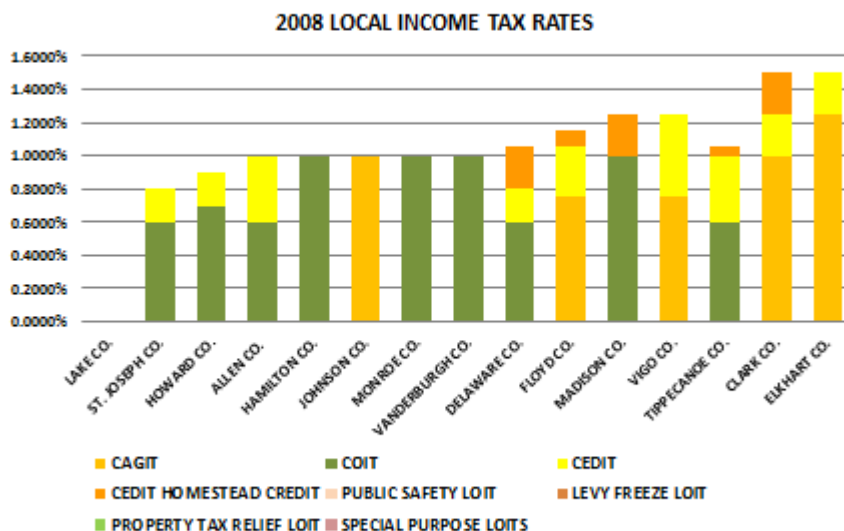
THE FISCAL HEALTH OF INDIANA’S LARGER MUNICIPALITIES

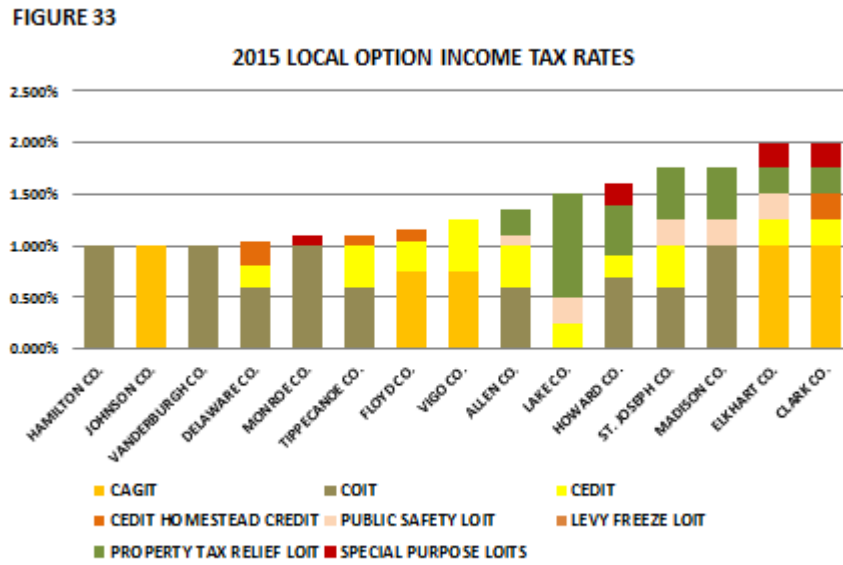
Local Income Tax Revenues

Every county in Indiana has now adopted at least one of the eight varieties of local option income taxes. With the enactment of the property tax caps, local income taxes are playing an increasingly important role in funding municipal government activities in Indiana and are likely to do into the foreseeable future.

Of the 18 selected municipalities, five (Carmel, Evansville, Fishers, Greenwood, and Noblesville) are located in counties with a combined 2015 local income tax rate of 1.0 percent. The municipalities of Anderson, Elkhart, Jeffersonville, Kokomo, and South Bend all are located in counties with a rate in excess of 1.5 percent. Since 2008, nine of the 15 counties in which the selected municipalities are located have experienced an increase in their respective total local income tax rate (Allen, Clark, Elkhart, Howard, Lake, Madison, Monroe, St. Joseph, and Tippecanoe counties). Lake County (Gary and Hammond) led this group in terms of the largest rate increase, going from no local income tax in 2008 to a rate 1.50 percent in 2015. The other six counties (Delaware, Floyd, Hamilton, Johnson, Vanderburgh and Vigo counties) made no change in their local income tax rate between 2008 and 2015.

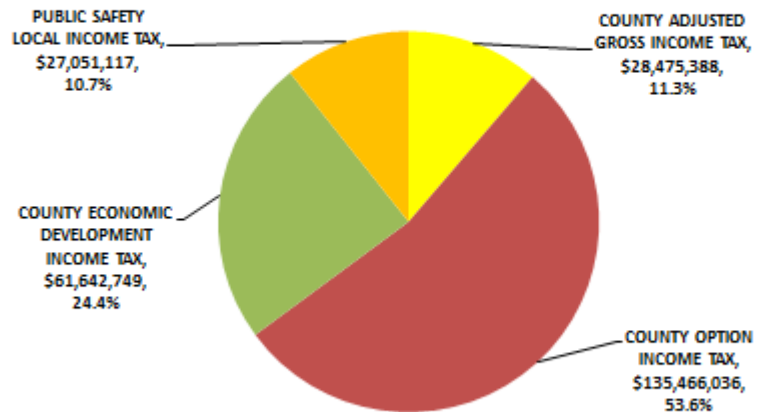
FIGURE 32





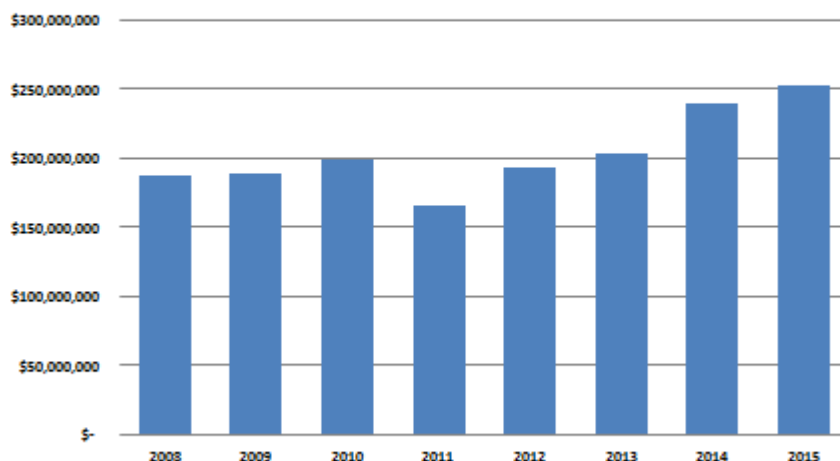
Of the four local income tax types that provide direct revenue to the 18 selected municipalities, the County Option Income Tax is the dominant source of revenue, providing just over one-half of the aggregate income tax revenue to the 18 municipalities. Given the relatively recent creation of the Public Safety LOIT, and that the maximum rate that it can be adopted is 0.25 percent for all counties other than Marion, it is not surprising that it raises only 11 percent of the income tax revenue. The County Adjusted Income Tax was never a popular option in most urban counties, so it is also not surprising that it also represents only 11 percent of the total. The remaining 25 percent of local income tax revenue in these 18 municipalities is generated by the County Economic Development Income Tax. Ten of the 15 applicable counties have adopted CEDIT.

FIGURE 34
2015 LOCAL INCOME TAX DISTRIBUTIONS BY TYPE TO THE EIGHTEEN
SELECTED INDIANA MUNICIPALITIES



As is illustrated in Figure 35, the total annual income tax certified distributions to the selected municipalities was on the increase from 2008 through 2010 and then declined substantially in 2011 but has been growing since. The annual certified distribution of local income tax revenue to the 18 selected municipalities increased by 35 percent between 2008 and 2015. By comparison, property tax revenues net of circuit breaker credits declined by 5.6 percent between 2008 and 2015.

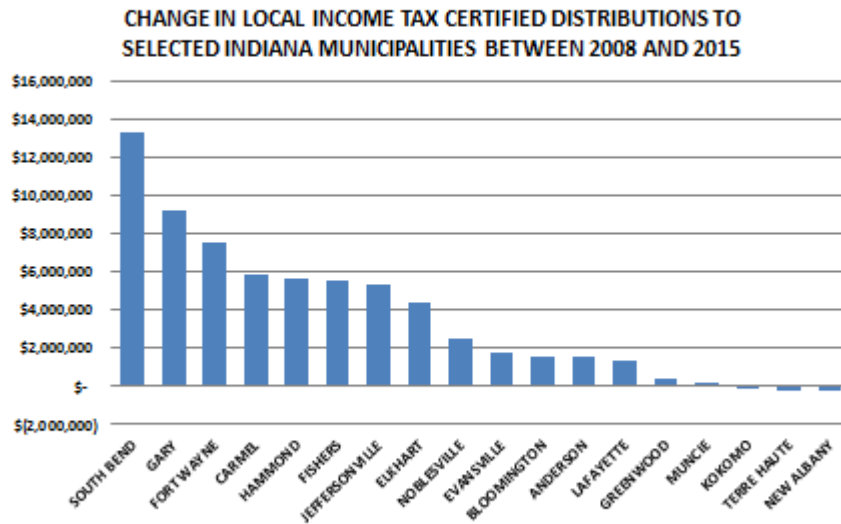
FIGURE 35
TOTAL ANNUAL CERTIFIED LOCAL INCOME TAX DISTRIBUTIONS TO
THE EIGHTEEN SELECTED INDIANA MUNICIPALITIES



15 of the 18 selected municipalities experienced at least some increase in their local income tax distributions between 2008 and 2015. The City of South Bend had the largest increase (\$13.4 million), while Kokomo, Terre Haute, and New Albany each experience a slight decrease. There are likely at least

three factors that play into these annual variations: (1) the impact the Great Recession had on personal incomes and the recovery of county total personal income subsequent to the recession; (2) the increase in local income tax rates that have occurred over this period; and (3) changes over time in the percentage of income tax distributions among receiving units of government within a given county.

FIGURE 36



After adjusting for inflation, 11 of the 16 selected municipalities still experienced an increase in their local income tax distributions (Gary and Hammond had no local income tax in 2008). The percentage change in certified income tax distributions between 2008 and 2015, after adjusting for inflation, is presented in Figure 37. The City of South Bend again led the group with a 98.5 percent increase in inflation-adjusted income tax revenue. The five municipalities which experienced a decline in inflation-adjusted income tax revenue were Greenwood, Kokomo, Muncie, New Albany and Terre Haute. Four of those were located in counties that had no change in their income tax rates between 2008 and 2015. Howard County did adopt both a Property Tax Relief LOIT and a Special Purpose LOIT since 2008.

FIGURE 37
PERCENTAGE CHANGE IN CERTIFIED INCOME TAX REVENUE
BETWEEN 2008 (INFLATED TO 2015 DOLLARS) AND 2015 REVENUES
FOR SELECTED INDIANA MUNICIPALITIES
 (GARY AND HAMMOND HAD NO LOCAL INCOME TAX REVENUE IN 2008)

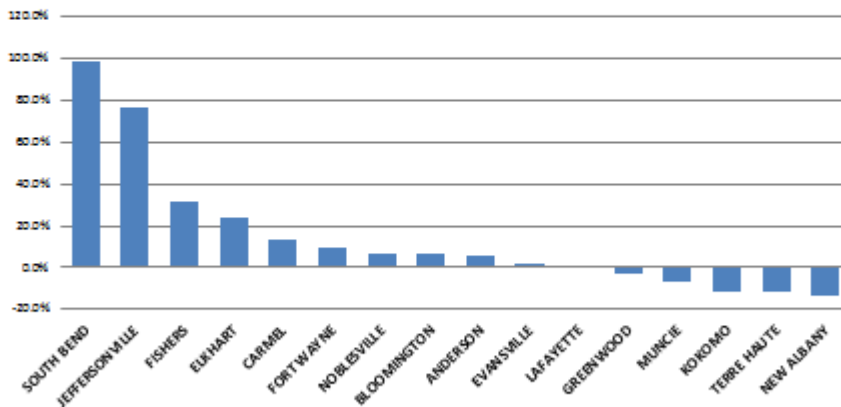
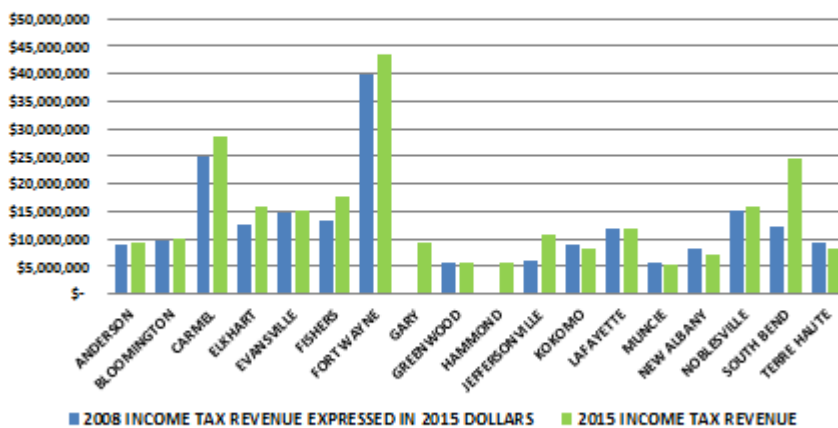


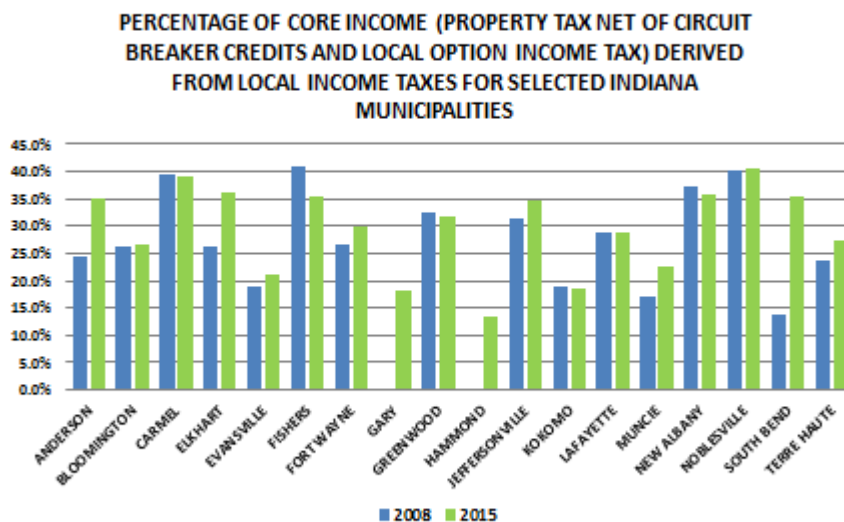
FIGURE 38
2008 CERTIFIED INCOME TAX DISTRIBUTIONS (EXPRESSED IN 2015
DOLLARS) COMPARED WITH 2015 INCOME TAX DISTRIBUTIONS FOR
SELECTED INDIANA MUNICIPALITIES



As noted earlier, the distributions from local option income taxes have become a major component of revenue for the majority of the selected municipalities. In 2015, 13 of the 18 municipalities derived more than 25 percent of their “core income” (defined here as the certified property tax net of Circuit Breaker Credits and direct local income tax distributions) from one or more local income taxes. In 2008, the aggregate of these 18 municipalities derived 23 percent of their “core income” from local option income taxes. By 2015 that proportion had increased to 30 percent. If a substantial change in the property tax net of circuit breaker credits/local income distribution ratio is defined as an increase or decrease of 5 percent or greater, then six of the 18 municipalities have a higher income tax reliance in

2015 than in 2008; one has a lower reliance; and 11 had approximately the same reliance. The City of South Bend experienced the largest increase in this ratio going from 13.9 percent in 2008 to 35.9 percent in 2015.

FIGURE 39



Among the 18 selected municipalities the cities of Bloomington, Evansville, Fort Wayne, Kokomo, and Muncie have the prevailing control of their respective County Income Tax Council.⁵ This is a critical position for self-determination in local income tax policy matters.

The Fiscal Capacity Index

After exploring the changes which have occurred to the property and income tax revenues to the selected 18 municipalities, what has been the overall impact on the fiscal capacity of these cities? To better understand that impact, a simple “Fiscal Capacity Index” has been created. “Core income” for municipalities as defined in this study is the combination of (1) annual certified property tax levies net circuit breaker credits; and (2) annual local option income tax certified distributions. In addition, property tax levies have been adjusted to remove the 2008 levies for those Police and Fire Pension Funds that were taken over by the state in 2009 to allow for a more accurate year-to-year comparison.⁶

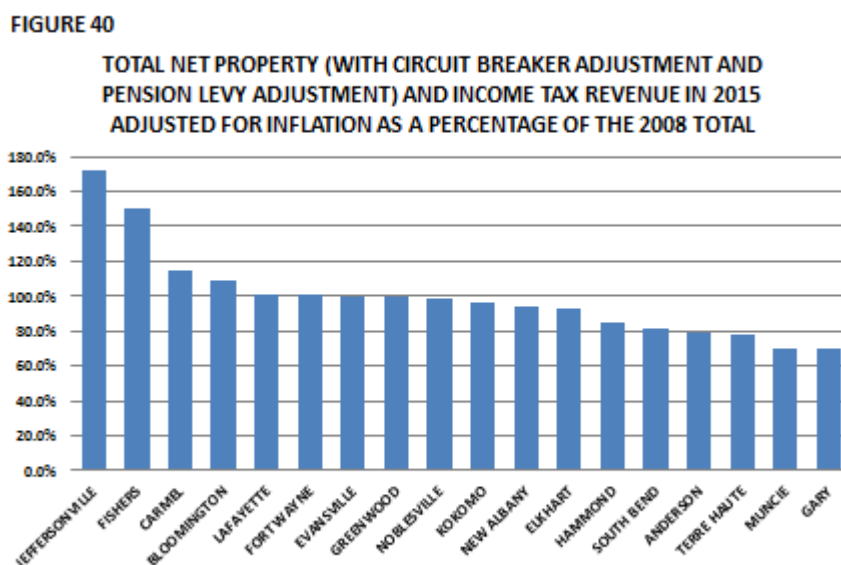
These two sources represent the two key revenue sources for most municipalities. The property tax component has been impacted by the enactment of the property tax caps and by the changes to assessed valuation both occurring through the 2008 legislation to increase homestead deductions and by the recession holding down “natural” growth in assessed valuation. The recession also had a depressing effect on personal income which, in turn, reduced income tax revenues. Secondly, the impact of the property tax caps has been included by reducing property tax revenue by the amount of Circuit Breaker Credits attributable to each municipality.

⁵ Based on 2010 U.S. Census population numbers.

⁶ The Redevelopment Commission property tax levies and Circuit Breaker Credits were included for the cities of Gary, Hammond and South Bend.

After the annual “core income” was determined for each municipality, this revenue was then adjusted for inflation, creating the real value of the annual revenue for comparison over the 2008-2015 timeframe. The Index is an attempt to better understand which of the selected municipalities have gained greater funding strength over the period and which have been most severely impacted by the combination of the recession and the property tax caps.

As illustrated in Figure 40, six of the 18 municipalities have 2015 inflation adjusted core income greater than was available in 2008. Jeffersonville appears to have benefited from large annexations which occurred in the 2006-2009 period. While its revenues have increased in real terms, its expenses have likely also increased significantly due to additional responsibilities to provide services in the newly annexed territory. The Hamilton County municipalities of Carmel and Fishers have experienced large increases in assessed valuation and have low property tax rates resulting in limited Circuit Breaker Credit impact. They have also experienced significant growth in income tax revenue from the 1.0 percent Hamilton County COIT tax. The percentage growth in total personal income between 2008 and 2013 (most recent year for which data is available) was higher in Hamilton County than in any of the other 14 counties within which the 18 selected municipalities are located.



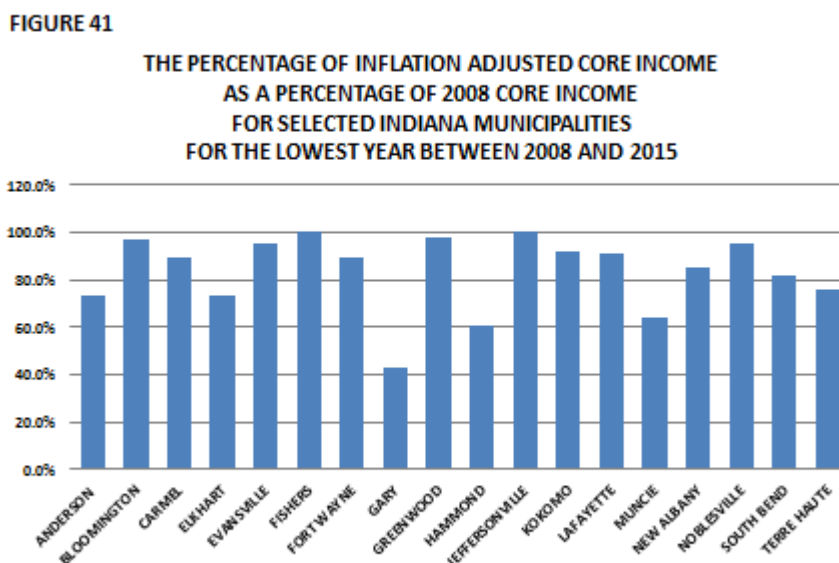
The cities of Bloomington and Lafayette have experienced only limited negative impact from the loss of property tax revenue to the Circuit Breaker Credits. Lafayette is just barely above its inflation adjusted 2008 core income level (101.3 percent). Lastly, the City of Fort Wayne has benefited from adoption of the Public Safety and Property Tax Relief LOITS and the establishment of a Cumulative Capital Development Fund. Like Lafayette, the City of Fort Wayne is just equal to its 2008 inflation adjusted core income funding level (100.7 percent).

Six additional municipalities range between 99.7 percent of their 2008 level (Evansville) and 93.9 percent (Elkhart and New Albany). The municipalities of Greenwood (99.5 percent), Noblesville (99.0 percent) and Kokomo (96.5 percent) also fell between 100 and 90 percent on the Fiscal Capacity Index. In most cases, the combination of modest Circuit Breaker Credit impact and a rebound in income tax

revenue has allowed the respective municipality to maintain core income not substantially below their 2008 levels. Elkhart benefited from the enactment of the Public Safety LOIT.

The remaining six municipalities have 2015 core income levels below 87 percent of 2008 inflation adjusted levels, ranging from Hammond at 85.1 percent to Gary at 69.8 percent. The other four municipalities that fell in this latter category were South Bend (81.7 percent), Anderson (79.2 percent), Terre Haute (78.4 percent), and Muncie (70.0 percent). Five of these six municipalities were also among municipalities (of the 18) which had the highest percentage of their 2015 property tax revenue lost through the Circuit Breaker Credits. In addition, those five were among the selected municipalities which had the highest property tax rates in 2015. Hammond was the exception in both cases.

In the individual profiles for each of the selected municipalities that will be released subsequent to this report, there will be a chart which illustrates the annual inflation adjusted core income as it compared with 2008 core income. Each tells a unique story about the fiscal path traveled by the respective municipality since the Great Recession and the adoption of the Circuit Breaker Credits. For every year that inflation adjusted core income falls below 100 percent something must change – either improvement in efficiency in the provision of services, a reduction in spending on services and capital, a spending down of cash balances (the focus of the next section), or the creation of new revenue sources such as user fees. Figure 41 shows the low point for core revenue in each of these municipalities.



Fund Balances, Expenditures and Receipts

One of the most important measures of the fiscal health of a unit of government is the level of cash balances at year end that it is able to maintain. Such fund balances, particularly in the General Funds of the respective municipalities that are being examined in this study, are an important indicator that annual revenues are keeping pace with annual expenditures. They also reflect a municipality's ability to

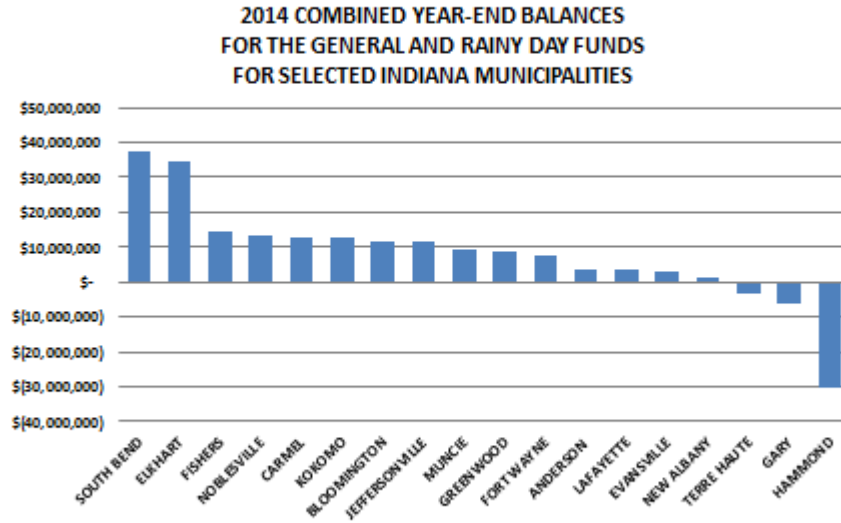
respond to unforeseen and thus unbudgeted expenditures arising from emergencies and other extraordinary demands on the unit.⁷

Some municipalities choose to support an operating reserve by carrying a substantial year-end balance in their General Funds, some choose to provide for such a reserve by carrying a balance in their Rainy Day Fund, and others choose to carry substantial balances in both. Other municipalities, for a variety of reasons, are not able to carry a substantial balance in either fund. Being able to end a fiscal year with a positive balance in one or both funds is but one important indicator of the fiscal health of a respective municipality. For illustrative purposes, the balances of both funds are combined in Figures 42 through 45.

Of particular note are the strong balances that both the City of South Bend and the City of Elkhart are carrying in their General Funds. In addition, both have strong balances in their Rainy Day Funds. The Fiscal Capacity Index presented in the previous section of this study would suggest that both municipalities may have some level of fiscal difficulty, yet the strong fund balance positions for each would suggest otherwise. Both have combined General and Rainy Day Fund balances in excess of \$30 million dollars, more than twice that of any other municipality in the study. At the other end of the spectrum, three municipalities (Gary, Hammond and Terre Haute) ended 2014 with negative balances in the combination of their respective General and Rainy Day Funds. Neither Gary nor Hammond had a Rainy Day Fund. Terre Haute partially offset its \$5.4 million negative balance in its General Fund with a \$2.4 million positive balance in its Rainy Day Fund. In addition to South Bend and Elkhart, nine other of the selected municipalities ended 2014 with a combined balance in excess of \$7.5 million. The cities of Evansville, Gary and Hammond also have significant revenues from local riverboat gaming. The Evansville Riverboat Capital Project Fund had a 2014 ending balance of \$14,226,681; the Gary Riverboat Fund had a 2014 ending balance of \$1,016,885; and the Hammond Gaming Fund had an ending balance of 21,993,097.

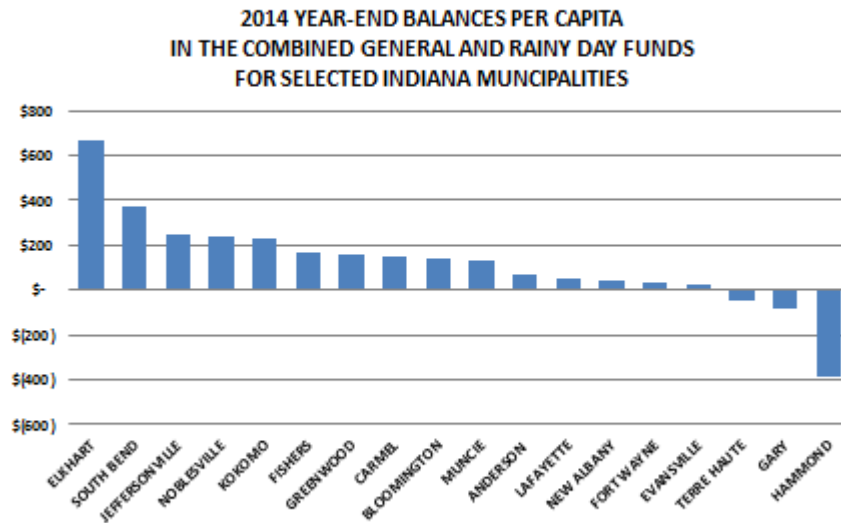
⁷ The sources of the data presented in this chapter are the Annual Financial Reports as submitted to the Indiana State Board of Accounts and that the information is pre-audit.

FIGURE 42

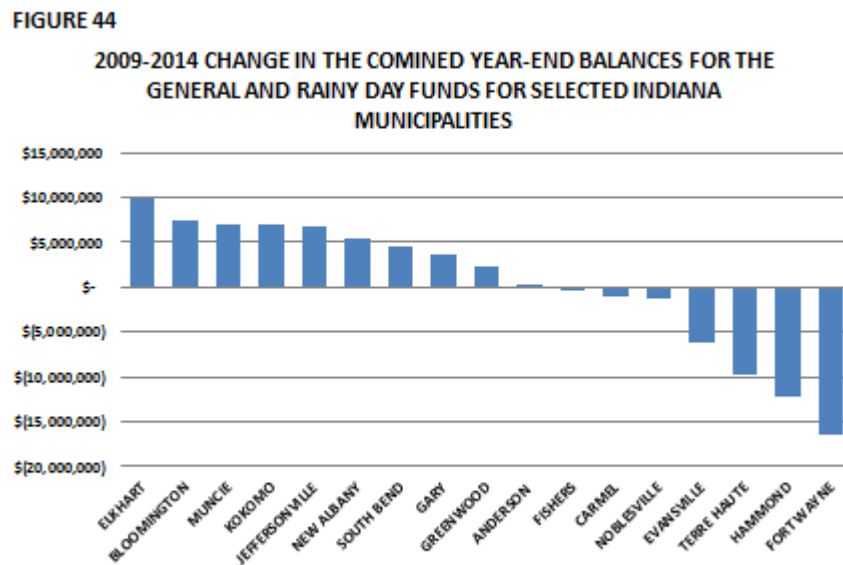


One common method for equalizing for the fairly substantial difference in the size of the respective municipalities in this study is to express the year-end balances on a per capita basis. When viewed from this perspective, the City of Elkhart had a combined General Fund and Rainy Day Fund balance that was nearly twice that of the next highest municipality – South Bend – and nearly three times the balance of any other municipality in the group. The rank order for the 18 municipalities changes considerably when more appropriately viewed on a per capita basis. The composite (for the 18 municipalities) 2014 year-end balance for the combined General and Rainy Day Funds was \$101 per resident.

FIGURE 43

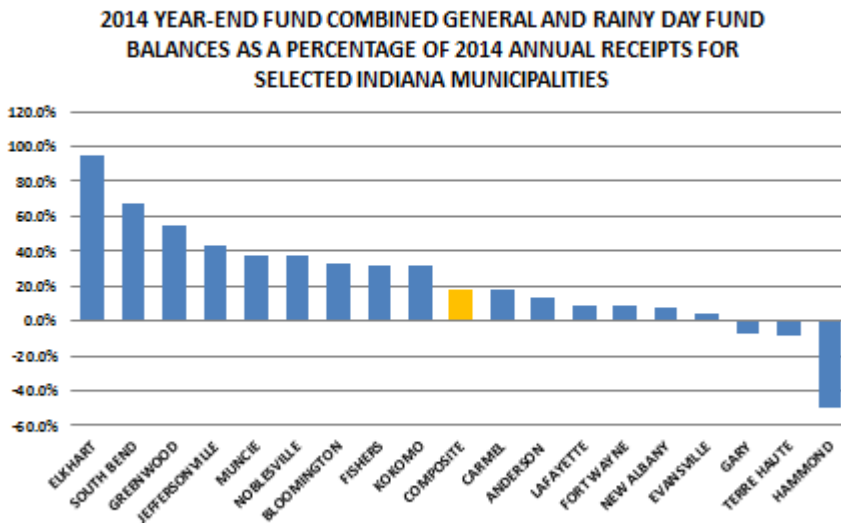


It is also important to examine what has happened over time to each municipality's year-end balances. With both the recession and the property tax caps impacting local government revenues in 2009 and beyond, it would be expected that a municipality might draw down on its reserves to compensate. Yet, as illustrated in Figure 44, over the 2009 through 2014 period, ten of 17 of the selected municipalities actual increased their combined General and Rainy Day Fund balances. The City of Elkhart managed to add almost \$9.9 million to its combined balances during this period (\$6.7 million increase in the General Fund balance and \$3.2 million in its Rainy Day Fund balance). Conversely, the cities of Evansville, Terre Haute, Hammond and Fort Wayne each reduced their combined year-end balances by more than \$6 million. 2009 year-end balance information was not available for the City of Lafayette.



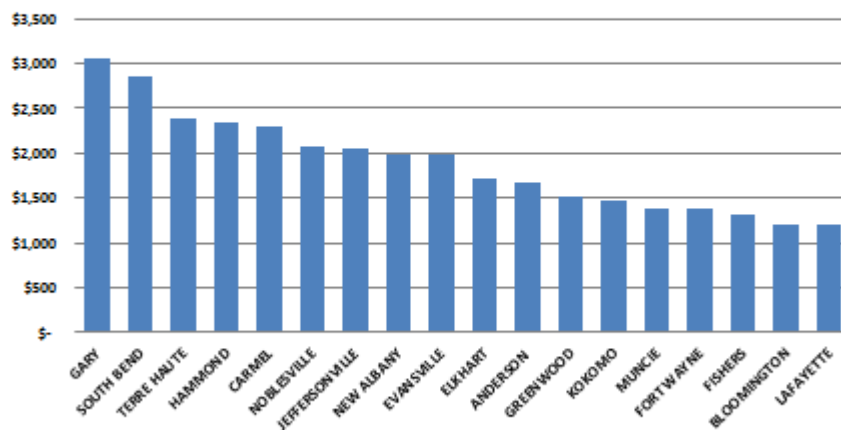
Another frequently utilized measure of fiscal health is the percentage of the year-end balance in a municipality's General Fund compared with annual receipts. Many financial experts suggest that maintaining a balance of between 5 and 15 percent of annual revenues in the General Fund is appropriate fiscal management. As seen in Figure 45, ten of the 18 municipalities had combined year-end balances in excess of 15 percent of 2014 receipts in the combined General and Rainy Day Funds. Another four had balances between 15 and 5 percent of annual receipts. Of the remaining four municipalities, one had a positive balance below 5 percent of annual receipts and three had negative combined balances. For the perspective of this indicator, 14 of the 18 municipalities appear to have from reasonable to health to extremely healthy (in the cases of Elkhart, South Bend, and Greenwood) fiscal situations.

FIGURE 45



The Annual Financial Reports also provide insight into very different size and scope of the 18 municipalities included in this study. By examining the total annual expenditures for “All Governmental Activities” (all functions provided by a respective municipality except its enterprise activities such as user fee funded utilities) per capita one quickly sees the vast difference in the expenditures made by each. This range of expenditures per capita is presented in Figure 46. In 2014, the City of Gary spent in excess of \$3,000 per resident in its jurisdiction. Conversely, the City of Lafayette spent just under \$1,200 per resident. There can be many reasons for such differences, including the level of services provided and the varying cost of providing those services. It is yet one more indicator that not all municipalities are the same, do the same things, and fund activities at the same level.

FIGURE 46
2014 DISBURSEMENTS PER CAPITA FROM ALL GOVERNMENTAL FUNDS
FOR SELECTED INDIANA MUNICIPALITIES

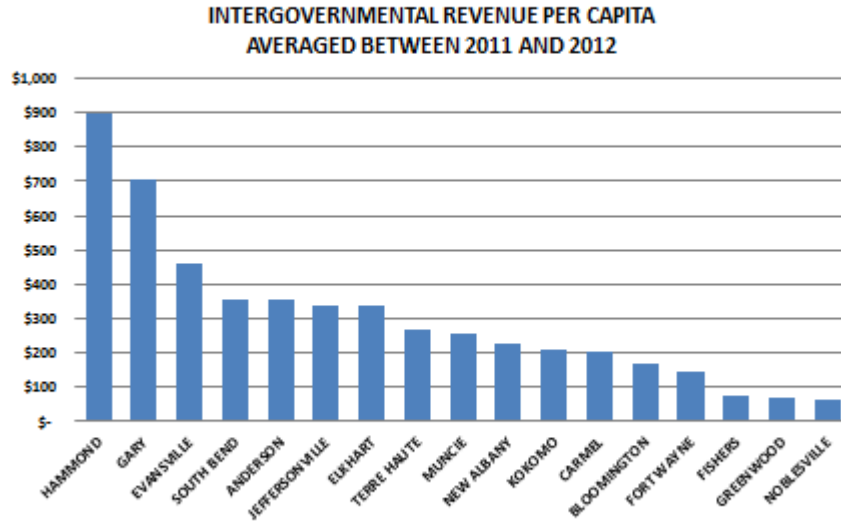


Intergovernmental Revenues

As is the case with so many variables examined in this study, the dependence upon intergovernmental revenue varies widely from municipality to municipality.⁸ It does appear that the municipal governments from the older, more industrialized cities depend more heavily on revenue provided from grants and distributions from state and federal sources. Figure 47 presents information on the level of intergovernmental revenues per capita for each of the 18 municipalities. At \$899 and \$703 per resident in intergovernmental revenue (2011 and 2012 averaged) respectively, Hammond and Gary lead the group by a substantial margin. Conversely, the rapidly growing communities of Fishers, Greenwood and Noblesville each had less than \$100 per capita in intergovernmental revenues averaged across those two years.

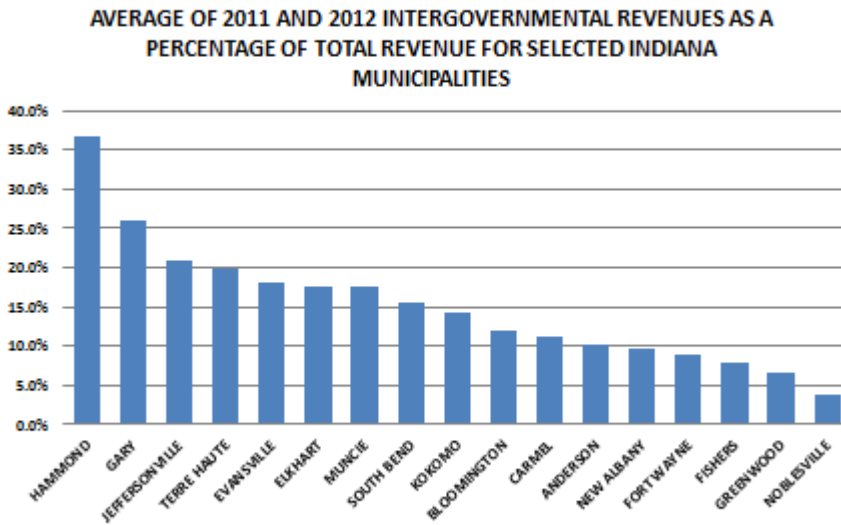
⁸ The data presented in this section was obtained from the Indiana University Public Policy Institute's Fiscal Benchmarking for Indiana's Local Governments project.

FIGURE 47



When viewed from the perspective of the percentage of total revenue for the selected municipalities, a similar pattern emerges. As illustrated in Figure 48, older cities tended to have a lower percent of their overall revenues originating from on “own-source” revenues than did the communities experiencing rapid growth.

FIGURE 48

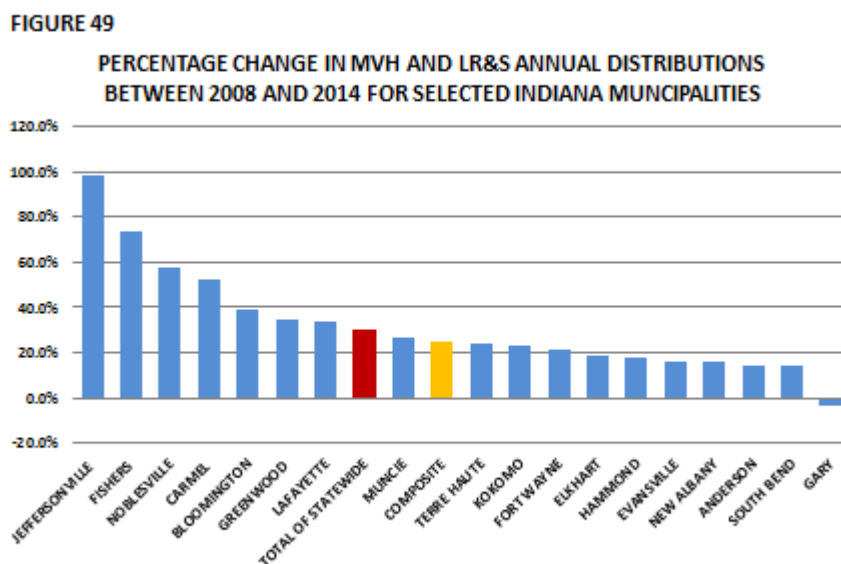


Highway Funding

The maintenance and construction of streets and highways is one municipal function common to all 18 selected cities. The financial support of state gasoline taxes remitted back to municipalities (and counties) through the Motor Vehicle Highway Account (MVH) and the Local Road and Street (LR&S)

Fund has traditionally provided the primary source of revenue for local governments to support this function. However, many municipalities have found it necessary to supplement state gasoline tax support with other sources. For example, seven of the 18 municipalities studied here levy property taxes to support their respective MVH Fund. Many utilize County Economic Development Income Tax revenues to partially support their road construction activities.

Of the 18 selected municipalities, only Gary had a lower level of actual MVH/LR&S distributions in 2014 than occurred in 2008. Figure 49 illustrates the actual change between 2008 and 2014 for the selected municipalities.⁹ Understandably, municipalities with growing boundaries and/or increased development gained more in gasoline tax distributions than those experiencing slower growth. This is merely a result of the distribution formulas that include population and road mileage. Statewide, gasoline tax distributions to local governments increased by 30.3 percent between those two years. The composite change for the 18 selected municipalities was a somewhat lower 24.9 percent.



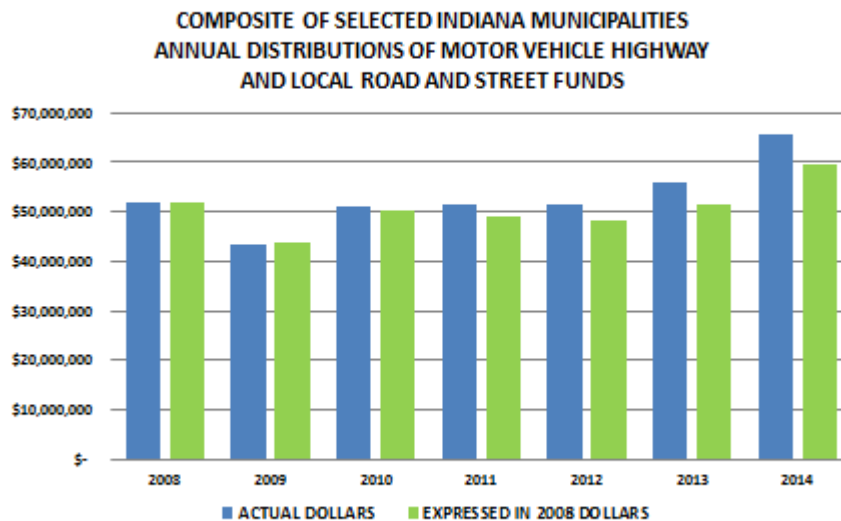
As is illustrated in Figure 50, the composite distribution to the 18 selected cities was less every year between 2009 through 2012 than the 2008 composite distribution. After adjusting for inflation, this was also the case in 2013. However, the Indiana General Assembly made two important changes to the MVH Account beginning with the 2013-2015 State Budget. First, the portion of the Indiana State Police and other operating departmental budgets that had been traditionally funded by gasoline tax revenues were shifted to the General Fund. Secondly, one percent of the state sales tax was allocated to the MVH Account to supplement fuel tax revenues.¹⁰ This allowed for a significant increase in state appropriations for distribution to both the Indiana Department of Transportation and to local governments through the MVH Account, 47 percent of which is allocated to local units. With this additional revenue directed to the MVH Account in state fiscal year 2014 the 2014, combined MVH and LR&S distributions to the 18 cities increased by nearly \$10 million over the 2013 distribution. The 2014

⁹ Data on the annual Motor Vehicle Highway Account and the Local Road and Street Fund distributions were provided by the Indiana Local Technical Assistance Program (LTAP) at Purdue University.

¹⁰ Fiscal Impact Statement #8 to House Enrolled Act 1001-2013

composite distribution was 26 percent higher than the 2008 composite distribution and 15 percent higher than the 2008 distribution after adjusting for inflation.

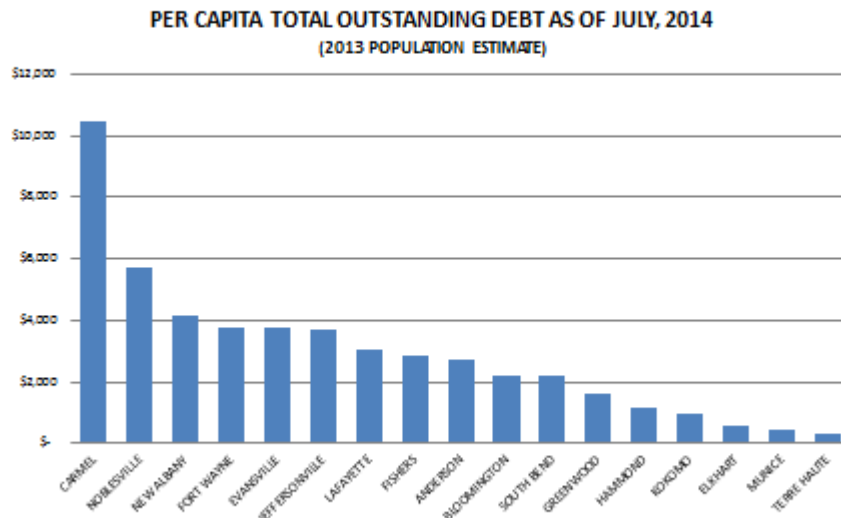
FIGURE 50



Debt

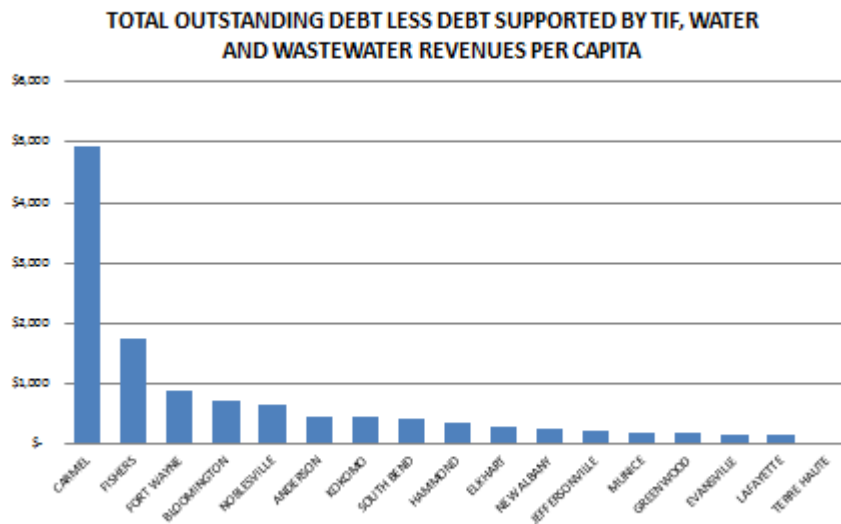
Information on municipal debt obligation is now available on the Indiana Gateway for Local Government website. When presented as the level of debt per capita for each municipality, as is done in Figure 50, it is again obvious that there is considerable discrepancy among the 18 selected municipalities. The City of Carmel, with outstanding total debt of \$10,484 per resident, has nearly twice the amount of outstanding debt per capita than any of the other municipalities. At the other end of the spectrum is the City of Terre Haute with outstanding debt of \$309 per resident. It should be noted that Terre Haute, as do several other of the selected municipalities, has a separate Sanitary District which also carries debt. Total debt as presented here includes all debt issued by the respective municipalities, including that supported by property taxes, income taxes, captured tax increment revenues, and utility user fees. Information for the City of Gary was not available on Indiana Gateway at the time this information was collected.

FIGURE 51



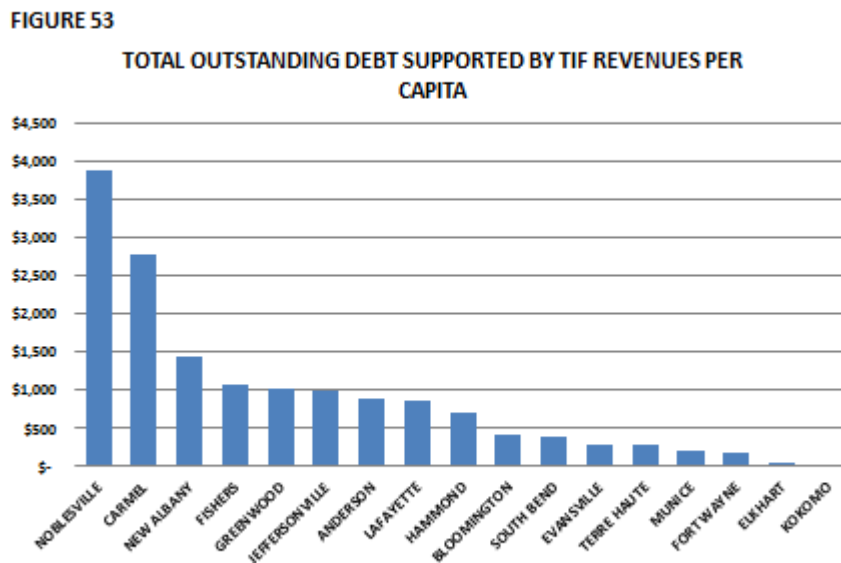
When factoring out debt associated with tax increment financing and utility user fee revenues, Carmel's level of outstanding debt compared with the other municipalities is even more pronounced. A significant portion of Carmel's non-TIF and non-utility debt is support by its County Option Income Tax revenues.

FIGURE 52

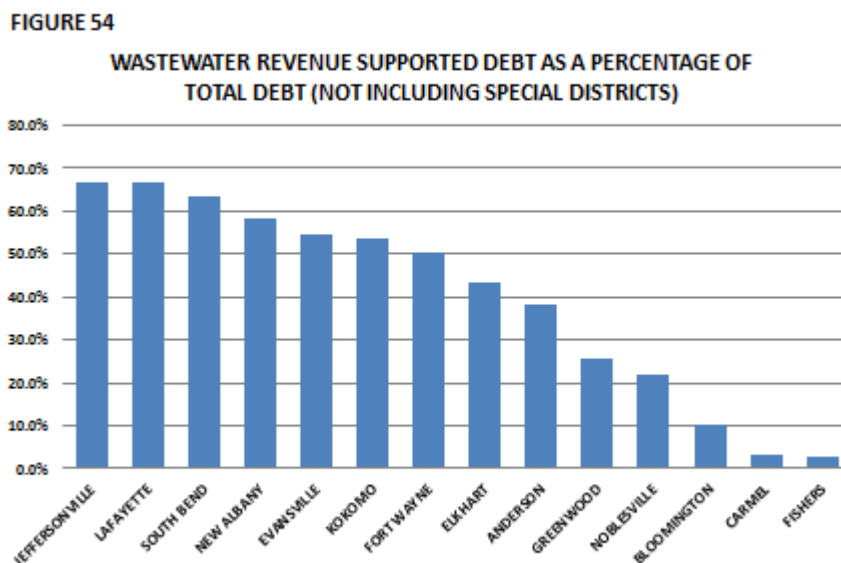


The use of tax increment financing to support debt also varies considerably among the 18 municipalities. As illustrated in Figure 53, six of the selected municipalities have TIF-related debt obligations in excess of \$1,000 per resident while eight have TIF-support debt obligations of less than \$500 per resident. This disparity in the use of TIF-supported debt is similar to the disparity in the percentage of net assessed

valuation captured in respective TIF districts. Interestingly, while the City of South Bend has captured nearly 25 percent of its net assessed valuation in TIF districts, it has outstanding TIF-supported debt among the lower half of the selected municipalities.



Debt to support wastewater utility capital needs is a substantial portion of total municipal debt in many of the selected municipalities. This may be due, at least in part, to activities associated with addressing Combined Sewer Overflow issues. In seven of the selected municipalities, wastewater-related debt represents over 50 percent to total outstanding debt. As seen in Figure 54, only in Bloomington, Carmel and Fishers does it represent less than 20 percent of total outstanding debt.



Key Observations

Certainly the most striking observation is the wide spread disparity among the 18 selected municipalities on nearly every variable considered in this study. This disparity made it more difficult to identify common trends impacting the fiscal health among this group of larger Indiana municipal governments. It also underscores how each faces its own unique set of financial challenges and opportunities.

THE COMPOSITE ECONOMIC INDEX

There does appear to be a strong correlation in the relationship between the economic environment within which a given municipality is functioning and its fiscal health. The respective municipality's rank order on the Economic Index and its corresponding rank order on the Fiscal Capacity Index is strong (R-squared coefficient of 0.739). Not surprisingly, the four selected municipalities in the "collar" counties adjacent to Marion County have been operating in the most advantageous economic environments. Conversely, manufacturing centers, often dominated by the automotive industry, tend to have been operating in the most challenging economic climates.

CHANGES IN ASSESSED VALUATION

A significant percentage (25.5 percent) of gross assessed valuation is now removed from the composite tax bases of these municipalities due to the Standard and Supplemental Homestead Deductions. This is nearly twice the percentage reduction (13.7 percent) that occurred immediately before the 2008 tax reform legislation. While this increase in deductions was certainly beneficial to homeowners, it did set in motion a chain reaction of (1) reducing the net assessed valuations of the selected municipal governments; (2) correspondingly increasing property tax rates of both the municipalities and other units of government that shared the same tax bases in order to maintain their allowable certified property tax levies; (3) the increased property tax rates put more properties over their property tax caps; thus (4) further increasing the loss of net property tax revenue to these municipal governments after applying the Circuit Breaker Credits.

Gross assessed valuation increased between the start of the recession and the 2008 property tax reforms (2007 pay 2008) and the most recent data available (2014 pay 2015) for 16 of the 18 selected municipalities. The composite increase for to entire group was just over 14 percent. However, over the same period, net assessed valuation declined for 16 of the 18 municipalities. The composite decrease in net assessed valuation was 11.4 percent. The ratio of net to gross assessed valuation for the composite of the selected municipalities also dropped from 70.7 percent to 61.5 percent over this period. Assessed values were modestly growing but factors such as the change in homestead deductions caused effective tax bases to shrink.

The reduction in net assessed valuation in 2008 pay 2009 compared with the prior year , due primarily to the increase in the homestead deductions, was not felt uniformly across the 18 municipalities. Only the City of Jeffersonville did not experience a loss from the prior year's net assessed valuation and that was probably most attributable to the concurrent increase in assessed value due to annexation. Elkhart experienced only a 2.7 percent reduction while Anderson experienced a 24.7 percent decline in net assessed value – a very large disparity in impact.

There is also a wide variation in the impact the use of tax increment financing has had on the general fund tax base of these 18 municipalities. Two cities, Jeffersonville and South Bend have captured nearly 25 percent of their General Fund tax base within TIF districts while seven of the selected municipalities have captured less than ten percent of their tax base. The composite percentage was 12 percent in 2015, slightly more than double the percentage captured in 2008.

THE FISCAL HEALTH OF INDIANA'S LARGER MUNICIPALITIES

PROPERTY TAX RATES

There is significant disparity in the property tax rates directly associated with the 18 selected municipalities. This appears to be historical in nature, rather than a phenomenon brought on by either the Great Recession or the recent property tax reforms. It did, however, place those municipalities with high rates and those that share tax bases with other units that have relatively high rates, in the cross-hairs of the Circuit Breaker Credits. Property tax rates have continued to increase for all but Gary and Hammond. While net assessed valuation has been relatively flat since 2010, the median property tax rate for the 18 municipalities has been growing steadily.

PROPERTY TAX LEVIES

The Great Recession did reduce the inflation-adjusted certified property tax levies for the aggregate of the 18 selected municipalities. In terms of real purchasing power, the low point occurred in 2009 (for the 2006-2015 time-period). 16 of the 18 selected municipalities experienced an increase in their respective certified levies between 2007 (the year before the Great Recession) and 2015. As is seen in many instances throughout this study, there is great variation among the 18 municipalities when levies are viewed on a per capita basis. 13 of the 18 municipalities included in this study had maximum allowable levies set above that statewide growth quotient, indicating that mitigating factors such as annexation had allowed their respective maximum levy to be set above the level established by the growth quotient alone.

CIRCUIT BREAKER CREDITS

The annual impact of the Circuit Breaker Credits on the composite of the 18 selected municipalities grew rapidly in the years immediately after their enactment, from a collective \$30 million in 2009 to a collective \$154 million in 2013. The composite impact has essentially leveled in the two subsequent years. However, as with so many variables, the impact of the property tax cap related revenue losses has certainly not been felt uniformly among these municipalities. While the City of Muncie lost 45 percent of its certified levy to Circuit Breaker Credits in 2015 the City of Bloomington lost less than 1 percent of its certified levy.

LOCAL INCOME TAX REVENUES

Local income taxes are playing an increasingly important role in the funding mix for our selected municipalities. In 2008, the aggregate of these 18 municipalities derived 23 percent of their “core income” from local option income taxes. By 2015 that proportion had increased to 30 percent. This is due in part to the impact the Circuit Breaker Credits have played in reducing property tax revenues and in part to the local income tax rates that have been increasing in many of the applicable counties. Thirteen of the 18 selected municipalities experienced at least some increase in their local income tax distributions between 2008 and 2015.

THE FISCAL CAPACITY INDEX

The Fiscal Capacity Index identified six of the 18 selected municipalities as “gainers” – those whose 2015 core income exceeded their 2008 core income after adjusting for inflation. These were Jeffersonville, Fishers, Carmel, Bloomington, Lafayette and Fort Wayne. Another three fell into the “barely falling behind” category, with 2015 core revenue at 99 percent of 2008 inflation adjusted core revenue. Evansville, Greenwood and Noblesville were in this category. Three more, Kokomo, Elkhart and New Albany, could be categorized on the Index as “modestly falling behind.” They had 2015 core revenue between 87 percent and 93 percent of 2008 inflation adjusted core revenue. Finally, six municipalities

fell into a “concern” category, with a Fiscal Capacity Index of less than 90 percent. These included Hammond, South Bend, Anderson, Terre Haute, Muncie and Gary.

FUND BALANCES, RECEIPTS, AND EXPENDITURES

Surprisingly, some of the municipalities categorized by the Fiscal Capacity Index as either “modestly falling behind” or of “concern” were among the financially strongest from the perspective of year-end fund balances. In particular, Elkhart (modestly falling behind) and South Bend (of concern) ranked as the top two municipalities for 2014 combined General and Rainy Day Fund balances as a percentage of annual receipts. The City of Muncie (of concern) ranked fifth-highest from the perspective of fund balances as a percentage of annual receipts. This demonstrates both the necessity of examining multiple indicators when considering a municipality’s fiscal health and the diversity of profiles offered by the 18 selected municipalities.

INTERGOVERNMENTAL REVENUES

Older central cities in the group of selected municipalities appear, in general, to be more reliant on intergovernmental revenue than do the newer, suburban municipalities. Hammond and Gary both received more than 25 percent of their annual total revenue from intergovernmental grants and programs in an averaged 2011 and 2012 time-frame.

HIGHWAY FUNDING

The 2013 changes made in appropriations to the Motor Vehicle Highway Account (MVH) – both in removing non-highway expenses and in increasing the percentage of the state sales tax allocated to the Account—have positively affected the distributions to the selected municipalities. The 2014 combined MVH/LR&S distributions exceed those made in 2008 even after adjusting for inflation, reversing a trend where annual distributions were not keeping pace with inflation.

DEBT

There is considerable discrepancy in the amount of outstanding debt carried by each of the 18 municipalities, ranging from more than \$10,000 per resident to less than \$350 per resident. In seven of the 18 municipalities, debt associated with wastewater utility capital improvements account for more than half of that municipality’s total outstanding debt.

Conclusions

While recognizing that each municipality has its own unique fiscal story, there are some general conclusions that can be drawn from the information assembled in this study.

- Until this past year, there has been little net assessed value growth in many of the selected municipalities since the onset of the Great Recession and this has exacerbated the negative impact of the Circuit Breaker Credits on their finances.
- The Circuit Breakers have had a major fiscal impact on older, industrial cities and not much of an impact on growing suburban cities or those with a university-based economy.
- Local option income taxes have become a critical component of municipal finance and appear to be used frequently to offset the impact of the Circuit Break Credits.

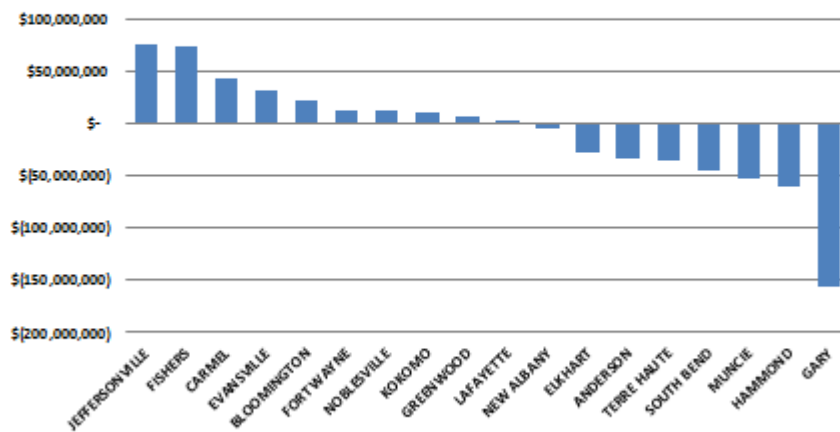
- General and Rainy Day Fund year-end balances do not always correlate well with the Fiscal Capacity Index, with South Bend and Elkhart being extreme examples.
- It is likely that the fiscal position some of the older, industrially-based municipalities now find themselves challenged by, primarily due to the Circuit Breaker Credits, had its roots in the property tax policies in place under dramatically different conditions. Strong industrial tax bases fostered a political acceptance of relatively high property tax rates. These higher rates indirectly became institutionalized by the levy controls instituted in the 1970s. For many municipalities taking the maximum allowable levy was the norm, regardless of the resulting property tax rate. The recently enacted property tax caps merely exacerbated the problems for those with high property tax rates and slow economic growth.

However, averages and composite statistics simply do not tell the entire story. There are sizable disparities among the municipalities included in this study with regard to assessed value growth, property tax rates, the impact of the increase in homestead deductions, the impact of the Circuit Breaker Credits, use of tax increment financing, expenditures per capita and overall fiscal health. Therefore, it is helpful to briefly summarize the overall impact on each of the 18 selected municipalities.

The combination of factors impacting property tax revenues – increased assessed valuation deductions, little to no growth in property values, the Circuit Breaker Credits – in tandem with the recession-induced short term decline in income tax revenue have resulted in a cumulative loss of core revenue in eight of the 18 selected municipalities. And the cumulative effect of revenue losses does make an impact, particularly when a municipality is either slow to respond with concurrent expenditure reductions and/or increases in alternative revenue sources such as utilizing the variety of income tax options now available. Without such responses, fund balances can be quickly depleted in an attempt to maintain the status quo.

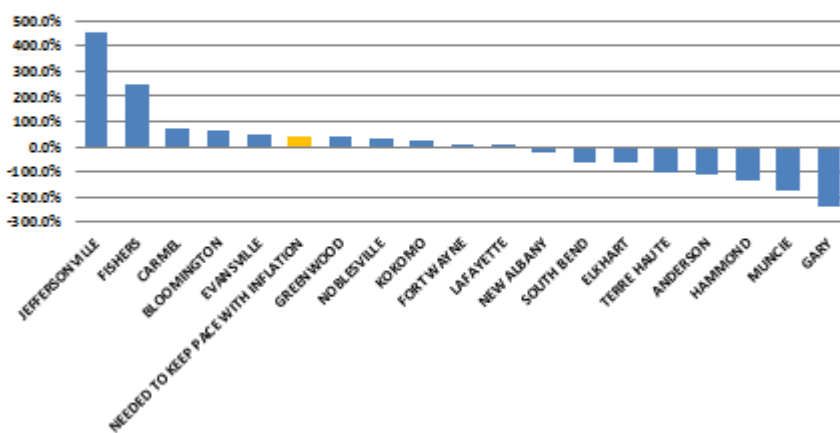
Figure 55 illustrates the 2009 to 2015 cumulative total of revenue gains or losses in core revenue (property tax levies less the respective Circuit Breaker Credits plus income tax distributions) compared with 2008 revenues. The annual gains or losses have not been adjusted for inflation.

FIGURE 55
CUMULATIVE GAIN OR LOSS OF "CORE REVENUE" BETWEEN 2009
AND 2015 COMPARED WITH 2008 CORE REVENUE FOR SELECTED
INDIANA MUNICIPALITIES



This cumulative gain or loss in core revenues when expressed as a percentage of 2008 core revenue paints an even more understandable picture of the fiscal impact of these events on municipal finance, which is illustrated in Figure 56.

FIGURE 56
CUMULATIVE GAIN OR LOSS IN CORE REVENUE FROM 2009
THROUGH 2015 AS A PERCENTAGE OF 2008 CORE REVENUE FOR
SELECTED INDIANA MUNICIPALITIES



In order to keep pace with inflation, a municipality would have needed a *cumulative* gain in core revenue between 2009 and 2015 of 41 percent of 2008 core revenues. Only the cities of Jeffersonville, Fishers, Carmel, Bloomington and Evansville were able to exceed that level of cumulative core revenue growth. Jeffersonville did so primarily through aggressive annexation, but undoubtedly also has incurred substantial new obligations on the expenditure side of the ledger. Carmel and Fishers have

both benefited from strong business and residential growth and have experienced very little Circuit Breaker Credit loss to their property tax revenues. Bloomington has also enjoyed minimal loss of core revenue due to the property tax caps. The City of Evansville not benefited from an increase in county income tax rates and has experienced substantial Circuit Breaker Credit losses. Yet the municipality has managed to exceed inflation on cumulative core revenues between 2009 and 2015. However, it has reduced its combined year-end balance in the General and Rainy Day funds by approximately \$6 million since 2008.

Greenwood, Noblesville, Kokomo and Lafayette lost ground to inflation but at least did not experience negative cumulative loss in core revenues. Greenwood and Lafayette had minimal Circuit Breaker Credits losses (less than \$30 per capita in 2015). Noblesville, while sustaining moderate Circuit Breaker losses (\$90 per capita in 2015) has benefited from the increase in income tax revenue related to the relative strong growth in total personal income experienced in Hamilton County. Howard County has adopted the Property Tax Relief LOIT at 0.5 percent since 2008 which has softened its Circuit Breaker Credit loss for the City of Kokomo.

Elkhart and South Bend have also been heavily impacted by the Circuit breaker Credits. Yet both have been able to not only sustain, but grow, their General and Rainy Day fund balances over the 2009-2015 period. Both Elkhart and St. Joseph Counties have also responded by adopting both the Property Tax Relief and the Public Safety LOITs.

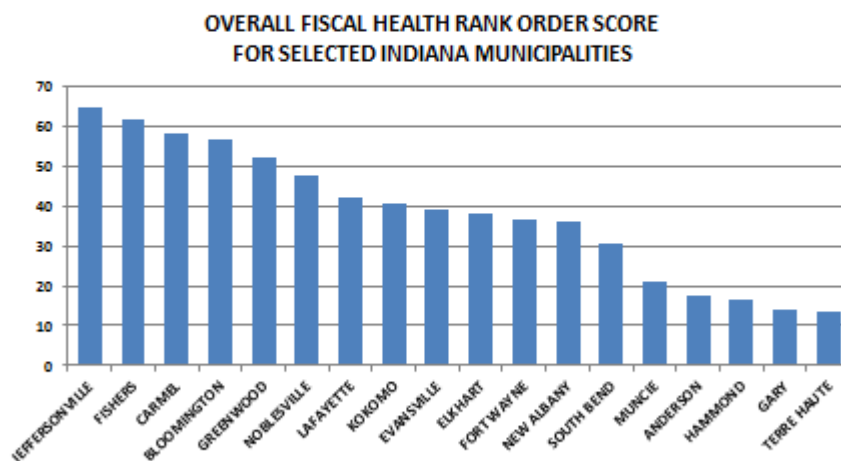
The cities of Anderson, Muncie and Terre Haute all have been heavily impacted by the property tax caps, with each having a 2015 per capita loss of over \$160. Madison County (Anderson) has subsequently adopted the Property Tax Relief LOIT at the 0.5 percent rate and the Public Safety LOIT at the 0.25 percent rate. Neither Delaware County (Muncie) nor Vigo County (Terre Haute) has responded with an increase in their respective local income tax rates. All three are in counties that have relative slow growth in total personal income, so unlike the Hamilton County communities, level income tax rates are not likely to be adequate to appreciably offset the Circuit Breaker Credit losses.

The two municipalities in Lake County, Gary and Hammond, experience substantial losses in cumulative core revenues due both to the level of Circuit Breaker Credits that each has experienced (Gary much more so than Hammond) and the additional property tax levy growth limitation placed on local governments in Lake County until that County adopted a local income tax. It has subsequently adopted the County Economic Development Income Tax, the Property Tax Relief LOIT and the Public Safety LOIT, providing for both a reduction in the Circuit Breaker impact and net new revenue to both the cities of Gary and Hammond.

The City of Fort Wayne has also experienced substantial Circuit Breaker Credit losses and drew down more General Fund and Rainy Day Fund balances between 2008 and 2015 than any other selected municipality. In response, with the majority of votes in the Allen County Income Tax Council, it adopted both Property Tax Relief and Public Safety LOITs and, as a result, was able bring core revenues back to the 2008 level. The City of New Albany lost ground in both real and actual terms on cumulative core revenue but not as badly as some of the selected municipalities. It experienced a relatively lower Circuit Breaker impact than many of these municipalities but has not benefited from an increase in income tax rates and is in the middle of the pack on the Fiscal Capacity Index. Yet New Albany was able to increase its General Fund and Rainy Day fund balances by a combined \$5.5 million between 2008 and 2015.

The last chart presented in this study presents a relatively simplistic method to summarize the entire study. Four factors – the Economic Index ranking; the Fiscal Capacity Index ranking; a combination of two fund balance rankings (2009-2015 change in General and Rainy Day fund balances and the 2014 General Fund/Rainy Day Fund balances as a percent of 2014 fund receipts; and the ranking on the 2009-2015 cumulative core revenue gain/loss as a percentage of 2008 core revenue were combined to create an overall fiscal health ranking for the 18 municipalities.

FIGURE 57



This Overall Index really reinforces the trends seen through the study. (1) Jeffersonville is a special case due to its significant annexations impacting much of the revenue-side data relied upon; (2) the “collar” municipalities of Carmel, Fishers, Greenwood and Noblesville appear to be doing well, at least from a revenue perspective although they also have additional operational and capital expenses attributable to the substantial growth they are experiencing; (3) the university cities of Bloomington and Lafayette are also in a relatively good position; (4) the Lake County municipalities of Gary and Hammond were hit hard by the combination of the extraordinary levy growth limitation placed upon them by the General Assembly to force an enactment of a local income tax, the Circuit Breaker Credit losses, particularly in Gary (due to its high property tax rate) and relatively difficult economic conditions; (5) the older industrial cities of Terre Haute, Anderson, Muncie, South Bend, Fort Wayne, New Albany and Elkhart all faced a combination of significant Circuit Breaker Credit losses, slower performing local economies, and in some cases a failure to respond to the property tax caps with the Property tax Relief and Public Safety LOITs; (6) both Evansville and Kokomo have fared relatively better than expected, particularly Evansville without an increase in its local income tax rates.

The 18 municipalities studied here provide essential services to over 1,400,000 residents, nearly one-quarter of the state’s population. Their ability to continue to function with a reasonable degree of fiscal stability is essential. A few were not significantly harmed by the recession or the property tax caps. There is evidence that others are finally starting to recover from these events as net assessed values and countywide total personal incomes are beginning to grow again. Yet some remain in a state of fiscal concern based on either a substantial cumulative loss of core revenues or depleted fund balances. It will

be important to continue to monitor the fiscal health in next several years as this story continues to unfold.