



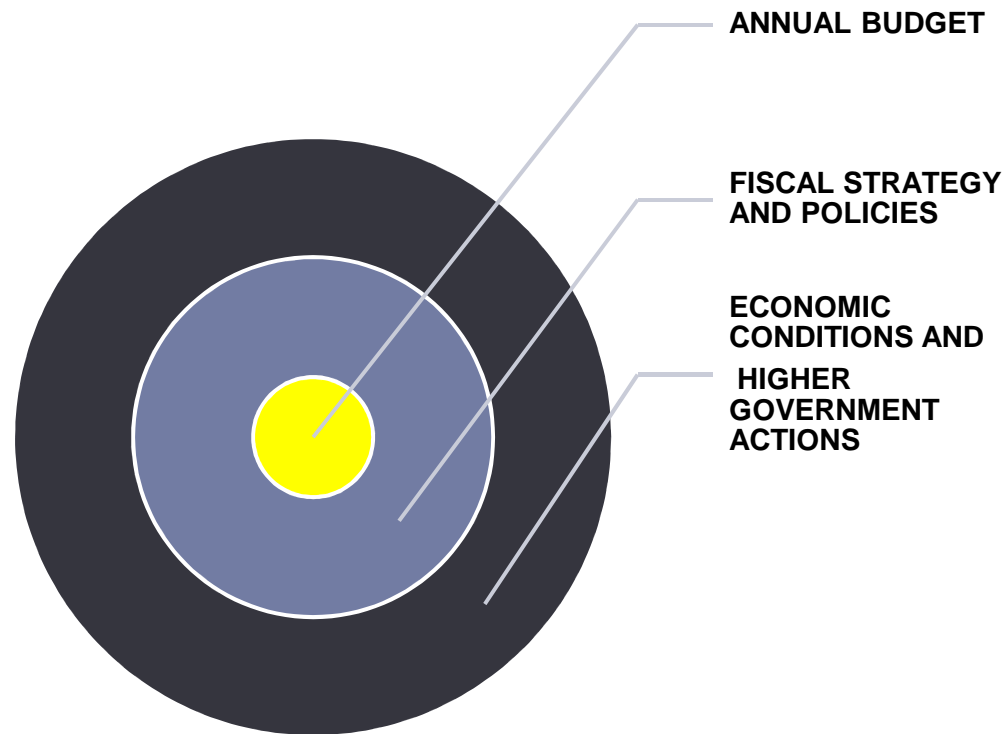
# CITY OF FORT WAYNE FISCAL POLICY STUDY

**PRESENTATION TO THE FORT WAYNE COMMON COUNCIL**

**JULY 31, 2012**

# INTRODUCTION – THE BUDGETARY ENVIRONMENT

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## INTRODUCTION

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- ▶ The Fort Wayne City Council has approximately 75 of the 100 votes in the Allen County Income Tax Council. This provides you with considerable additional authority, responsibility and flexibility that many Indiana municipalities do not enjoy. Thus, when you are considering fiscal policy you have significant impact on both the City's finances and those of other units of government in Allen County.
- ▶ The Circuit Breaker tax caps have created a situation where the property tax-related actions of one unit impact the finances of all other units that share their tax base.

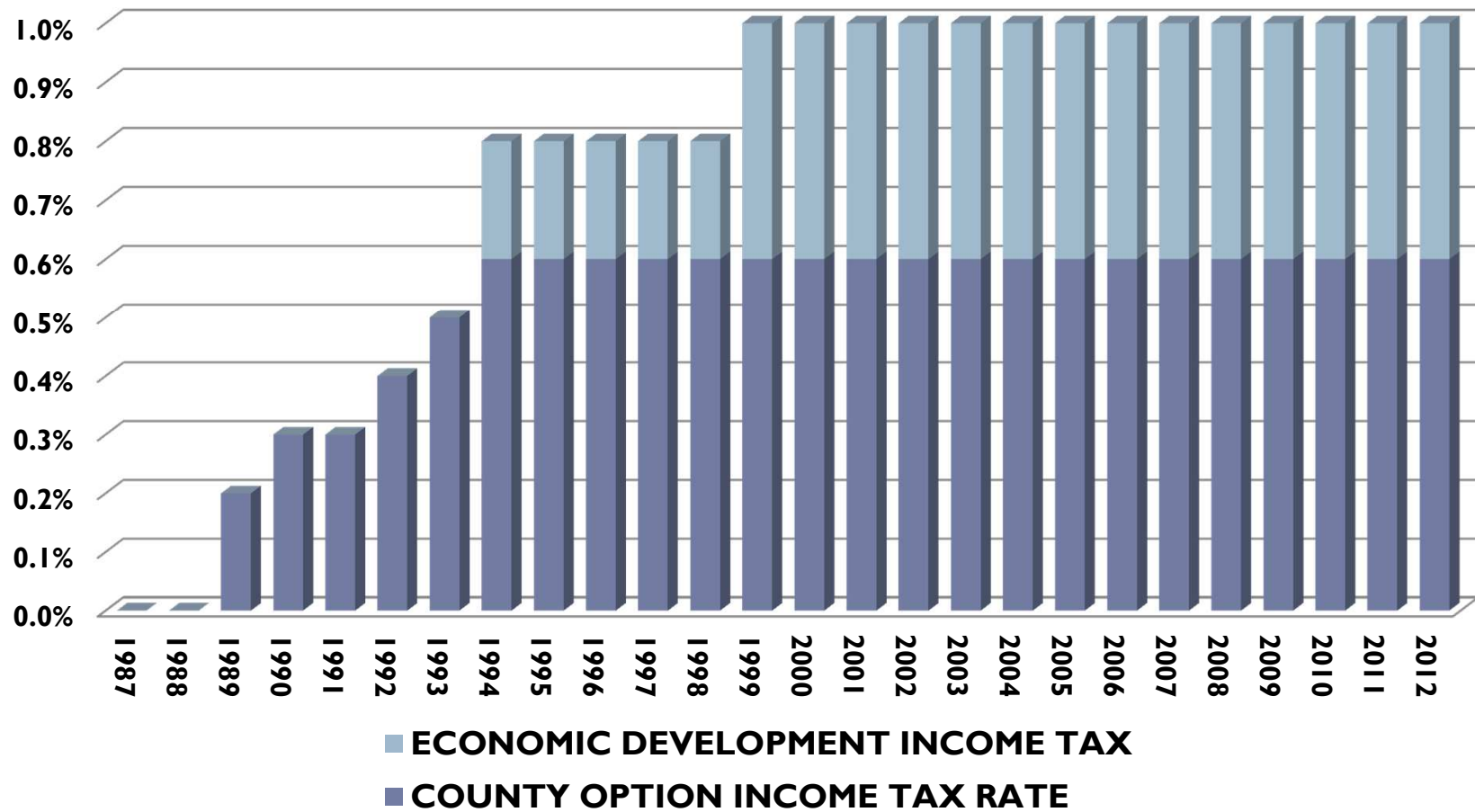
## LOCAL FISCAL HISTORY

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- ▶ Much of the fiscal policy under which the City of Fort Wayne continues to operate was established in the late 1980s and the 1990s
  - ▶ Reference the 1988-89 Select Committee report on City and County Finances
    - ▶ Recommended that the City and County take steps to reduce their reliance on the property tax
    - ▶ Additional local funds needed to replace lost intergovernmental revenues
    - ▶ Either CAGIT or COIT should be adopted in Allen County
    - ▶ There had been a “dangerous” decline in capital spending
  - ▶ The County Option Income Tax (COIT) was adopted in 1989 by action of the Fort Wayne City Council (acting as a majority of the Allen County Income Tax Council); it was subsequently allowed to rise to a rate of 0.6%
  - ▶ The Local Homestead Credit was adopted at the same time at the maximum rate allowed under state legislation; in 2012 \$10,612,777 or 26% of all COIT dollars received by Allen County go directly to fund the Local Homestead Credit.

# LOCAL FISCAL HISTORY

## ALLEN COUNTY LOCAL INCOME TAX RATE



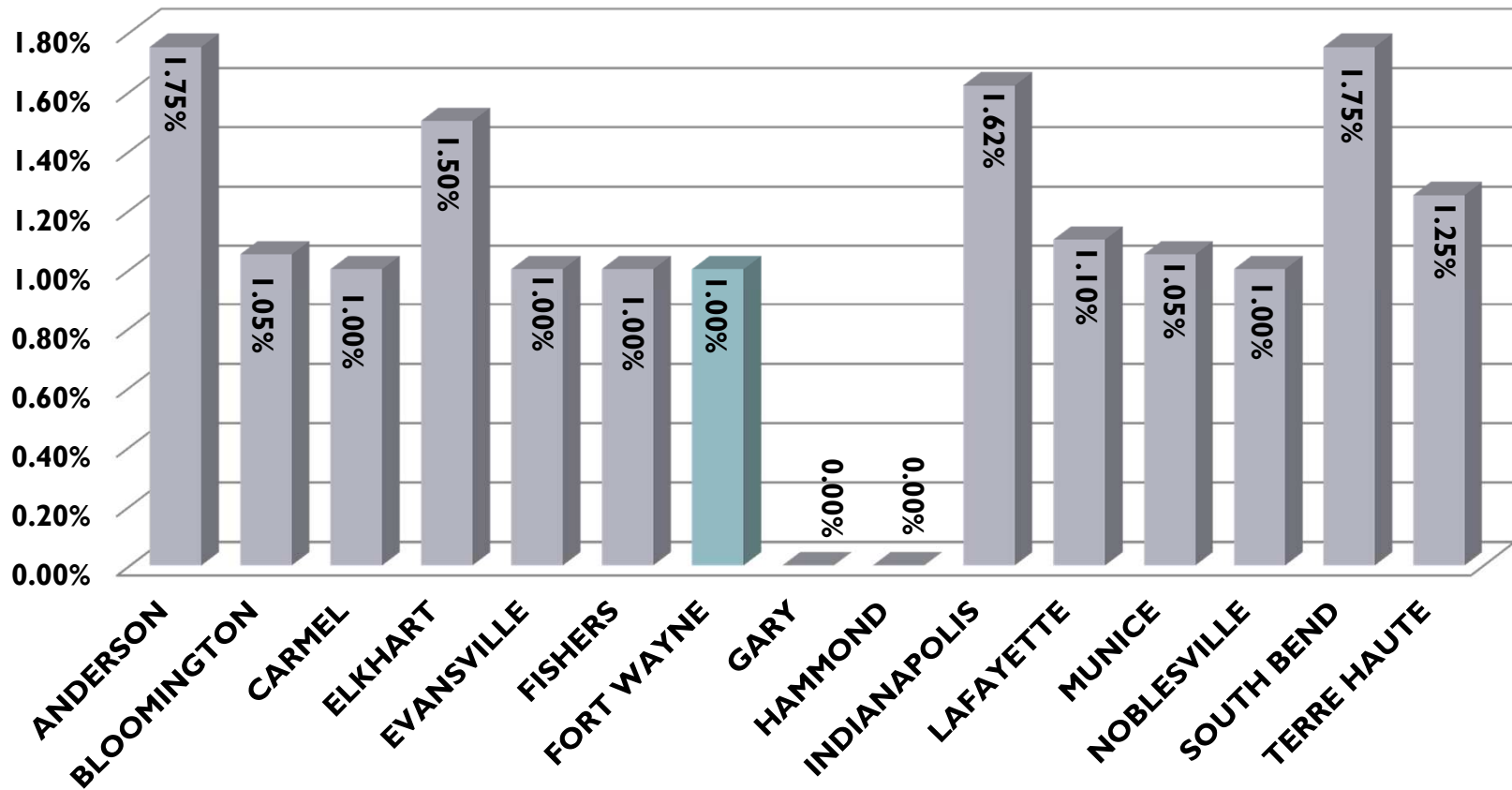
# LOCAL OPTION INCOME TAX RATES IN NORTHEAST INDIANA - 2012

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COUNTY	CAGIT	COIT	CEDIT	CREDIT FOR INVENTORY RELIEF	LOIT FOR LEVY FREEZE	LOIT FOR PROPERTY TAX CREDITS	LOIT FOR PUBLIC SAFETY	TOTAL COUNTY RATE
ADAMS	-	0.6%	0.4%	0.124%	-	-	-	1.124%
ALLEN	-	0.6%	0.4%	-	-	-	-	1.0%
DEKALB	1.0%	-	0.25%	0.25%	-	-	-	1.5%
HUNTINGTON	1.0%	-	0.25%	-	-	0.25%	0.25%	1.75%
LAGRANGE	1.0%	-	0.25%	0.15%	-	-	-	1.4%
NOBLE	1.0%	-	0.25%	0.25%	-	-	-	1.5%
STEUBEN	1.0%	-	0.25%	0.04%	-	0.25%	0.25%	1.79%
WABASH	1.0%	-	0.25%	0.25%	0.4%	1.0%	-	2.9%
WELLS	1.0%	-	0.25%	0.20%	0.4%	0.2%	0.05%	2.1%
WHITLEY	1.0%	-	0.2%	0.033%	-	-	-	1.233%

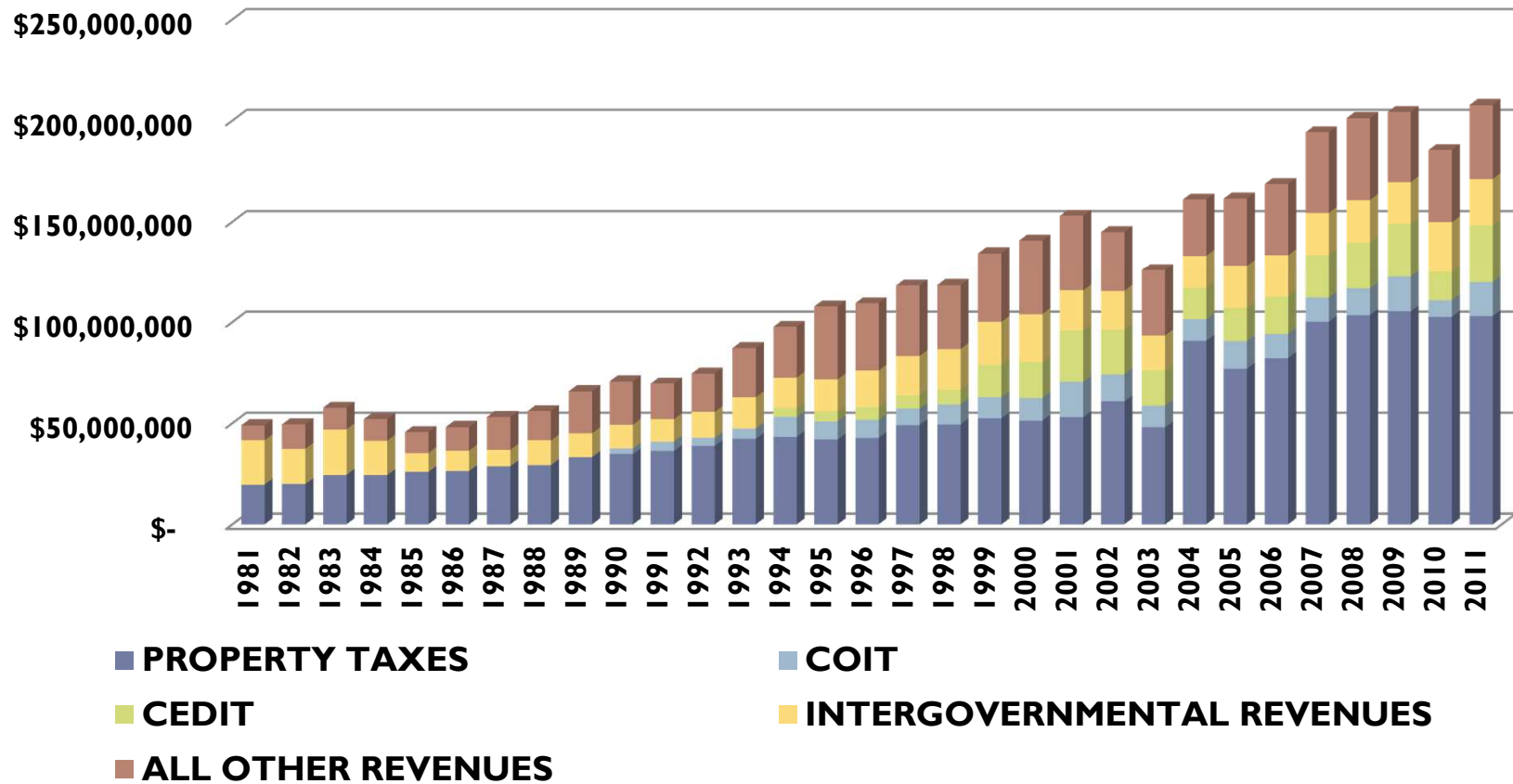
# LOCAL FISCAL HISTORY

## 2012 LOCAL INCOME TAX RATES FOR COMPARISON COMMUNITIES



# LOCAL FISCAL HISTORY

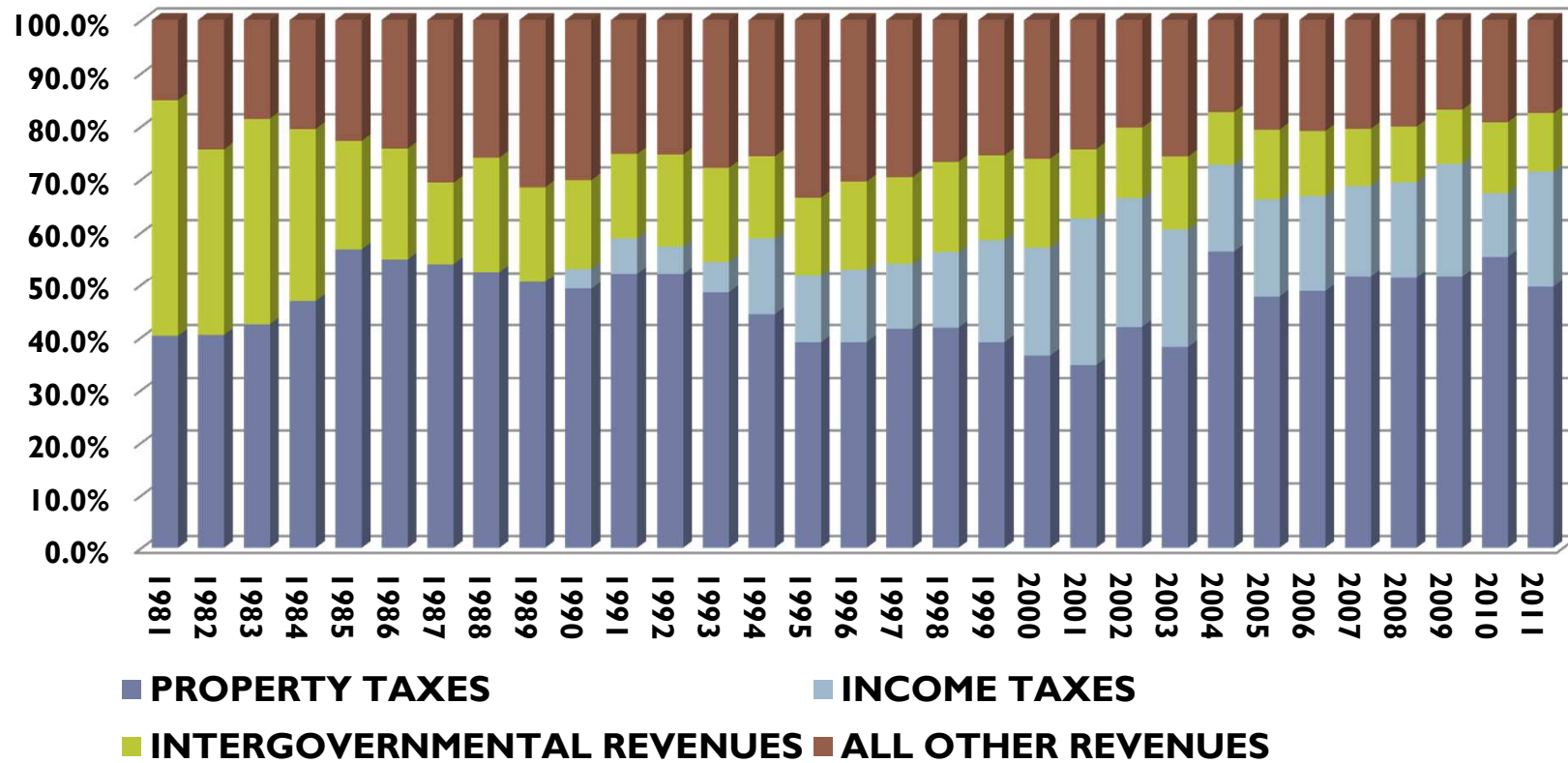
## CITY OF FORT WAYNE MAJOR REVENUE SOURCES





# LOCAL FISCAL HISTORY

## CITY OF FORT WAYNE PRIMARY REVENUE SOURCES AS A PERCENTAGE OF TOTAL REVENUES



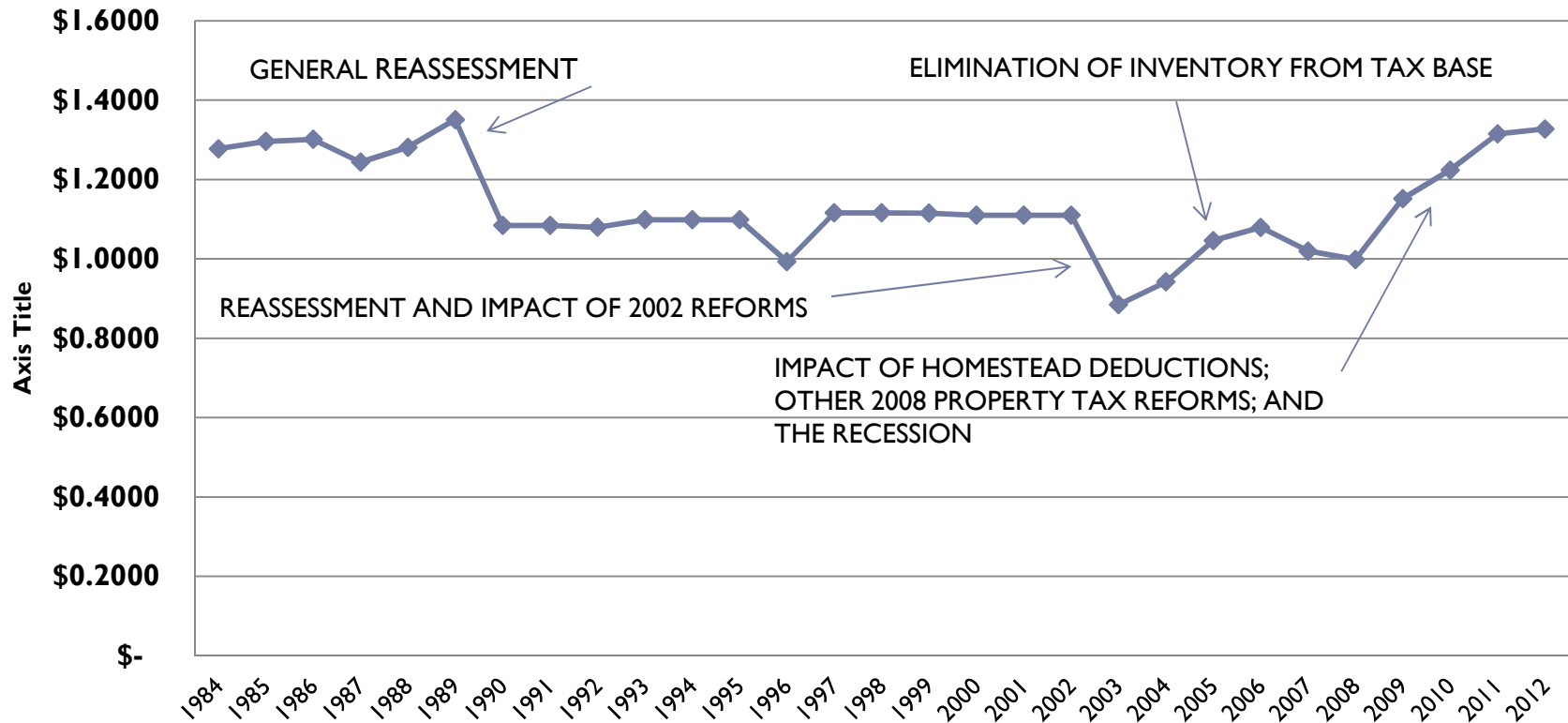
## LOCAL FISCAL HISTORY

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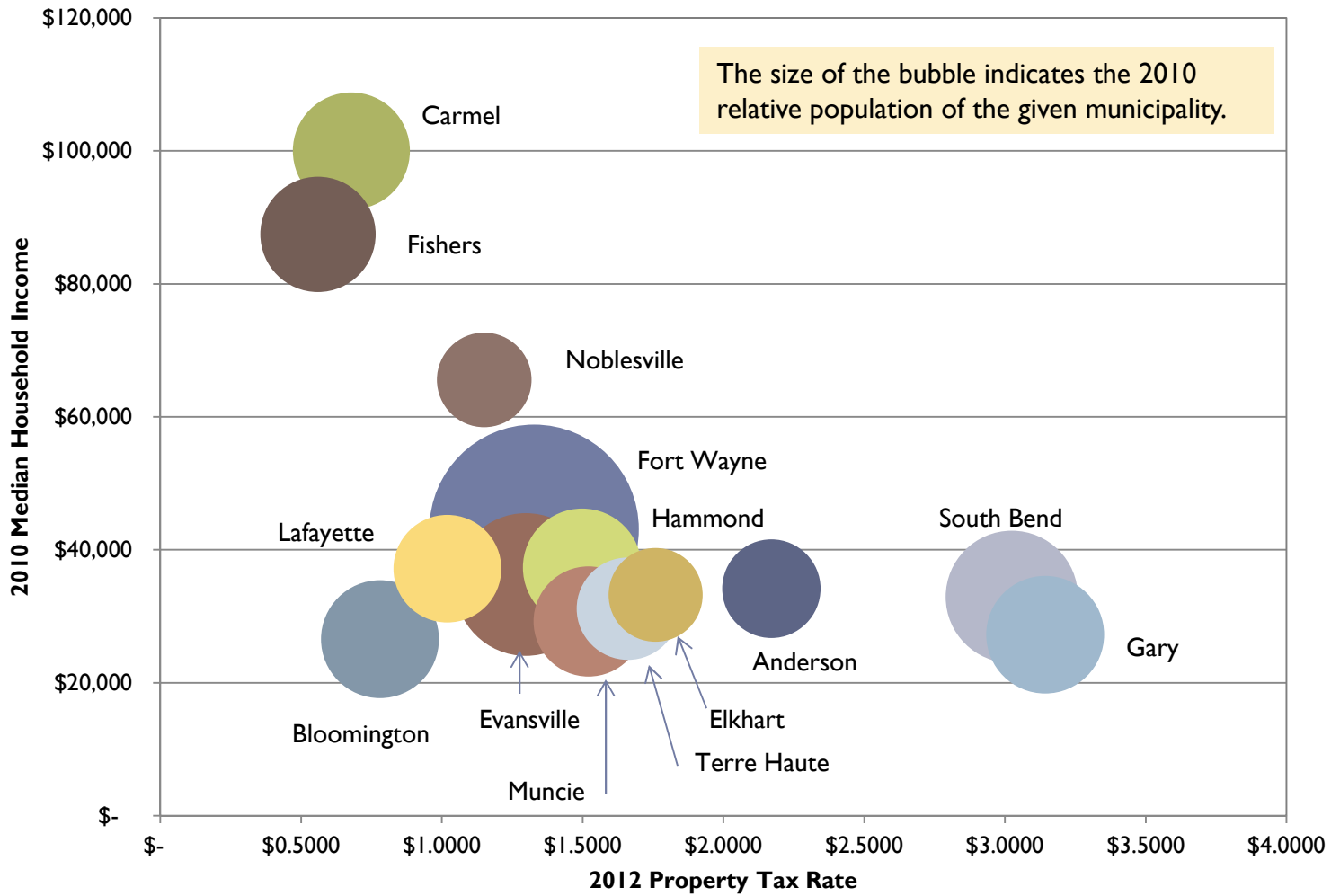
- ▶ The City began to freeze its property tax rate starting with the 1990 budget/rate
- ▶ The cumulative of a twenty-two year history of limiting property tax rates resulted in the City of Fort Wayne being below the maximum allowable levy by a total of approximately \$452 million

# LOCAL FISCAL HISTORY

## CITY OF FORT WAYNE ANNUAL PROPERTY TAX RATE PER \$100 OF ASSESSED VALUATION (ADJUSTED FOR CHANGE ON ASSESSMENT RATIO IN 2002)

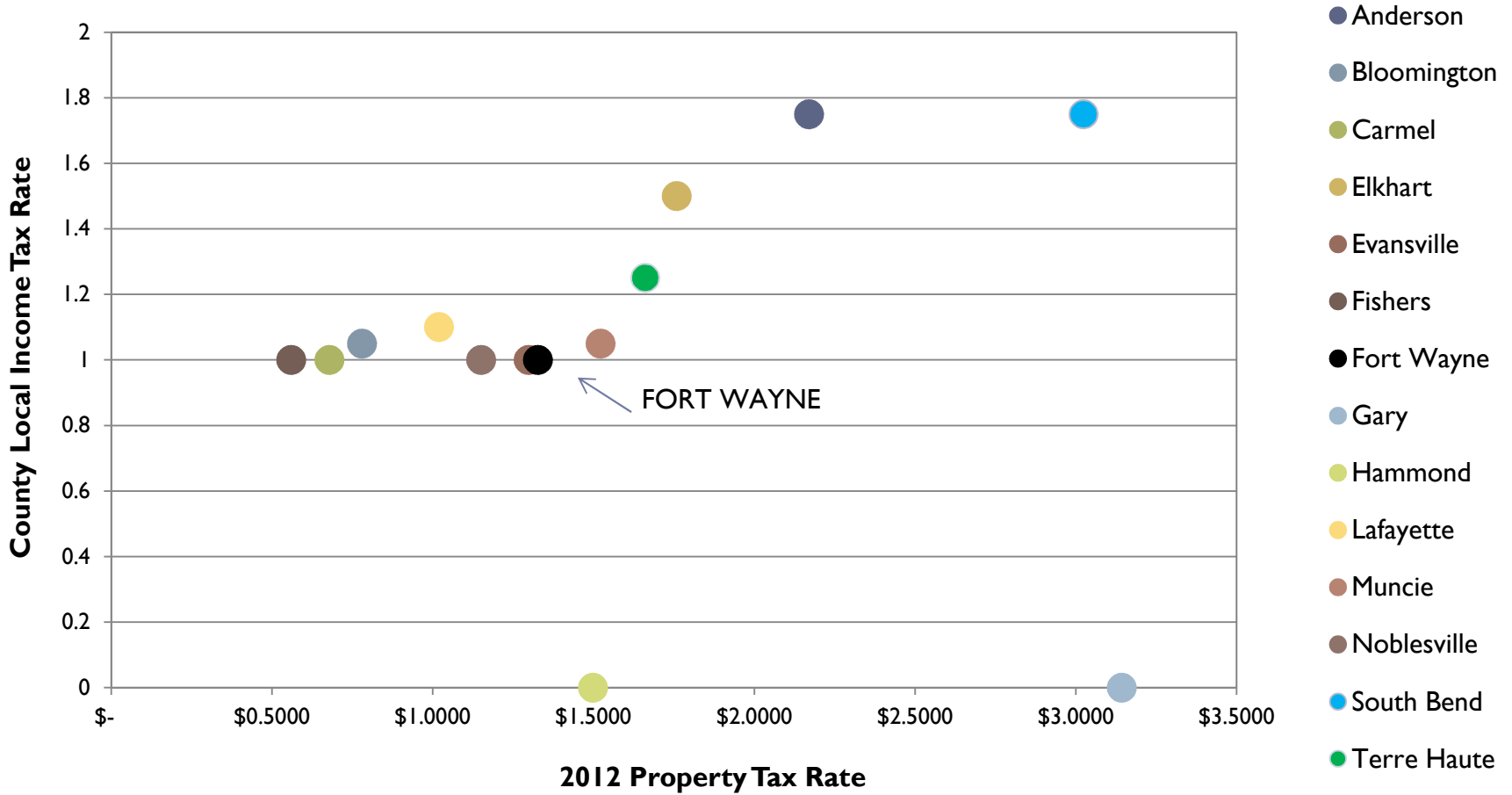


# LOCAL FISCAL HISTORY



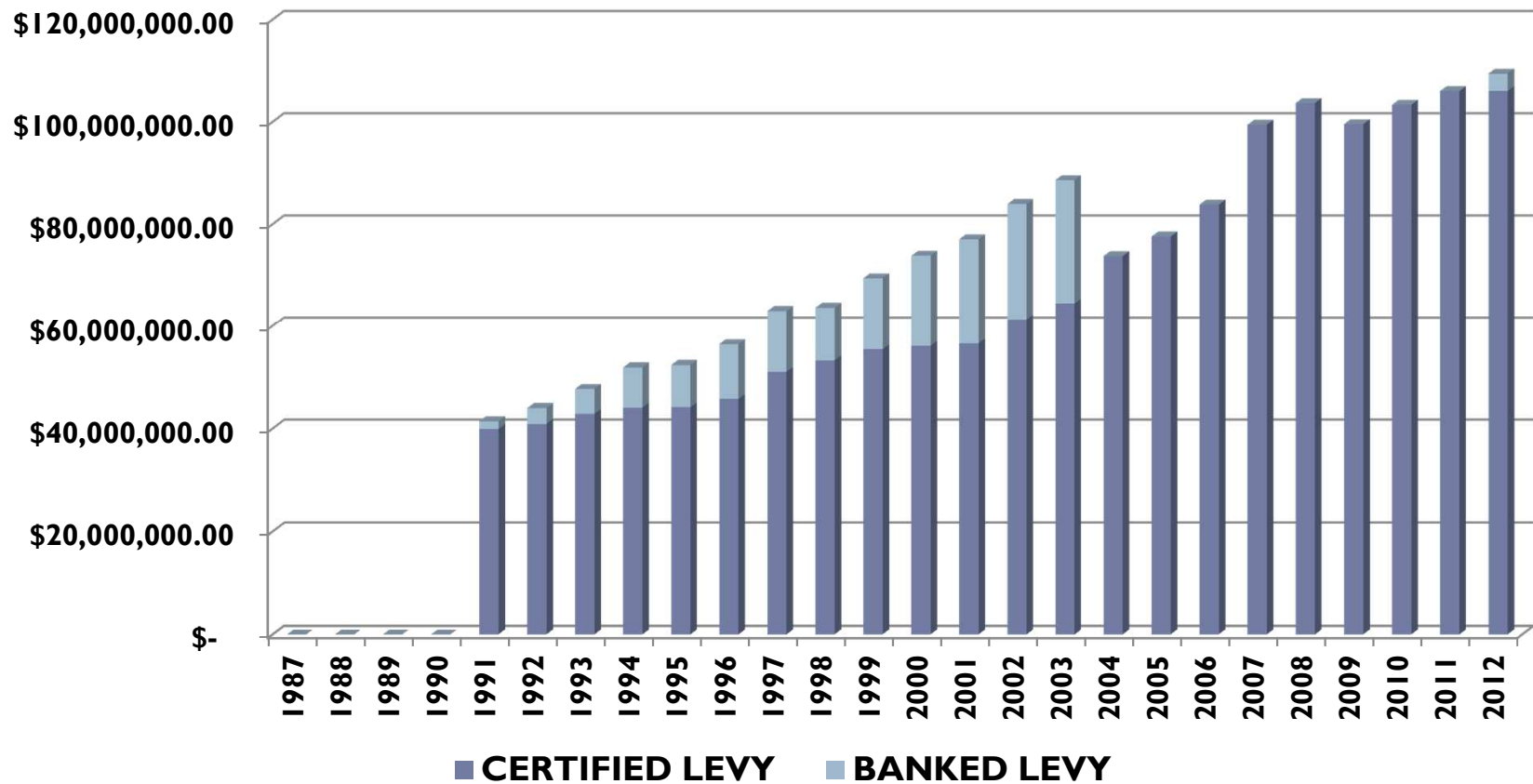
# LOCAL FISCAL HISTORY

## COMPARISON COMMUNITIES PROPERTY AND INCOME TAX RATES



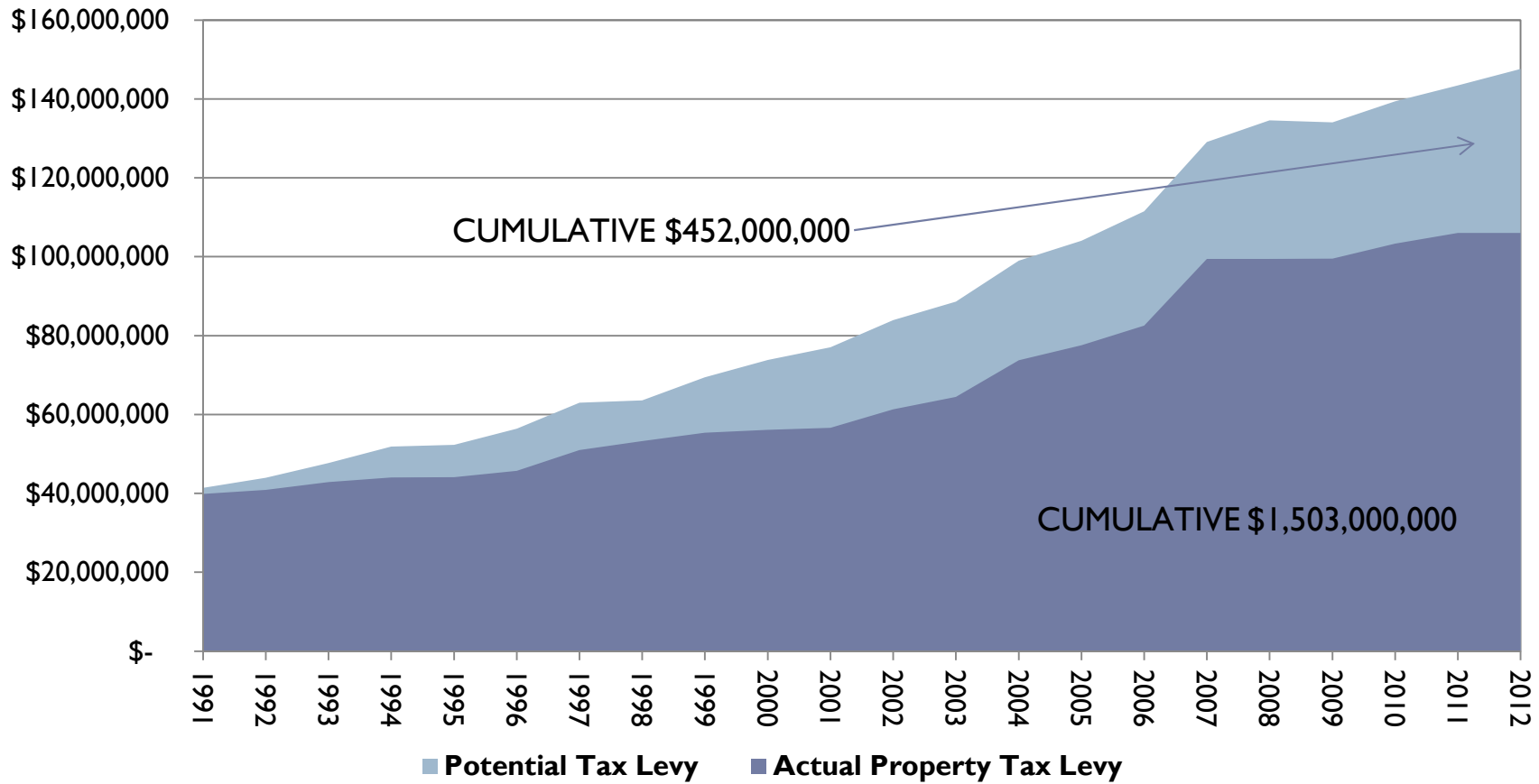
# LOCAL FISCAL HISTORY

## CITY OF FORT WAYNE CERTIFIED AND "BANKED" PROPERTY TAX LEVIES



# LOCAL FISCAL HISTORY

## PROPERTY TAX REVENUE FOREGONE DUE TO CITY FISCAL POLICY



## LOCAL FISCAL HISTORY

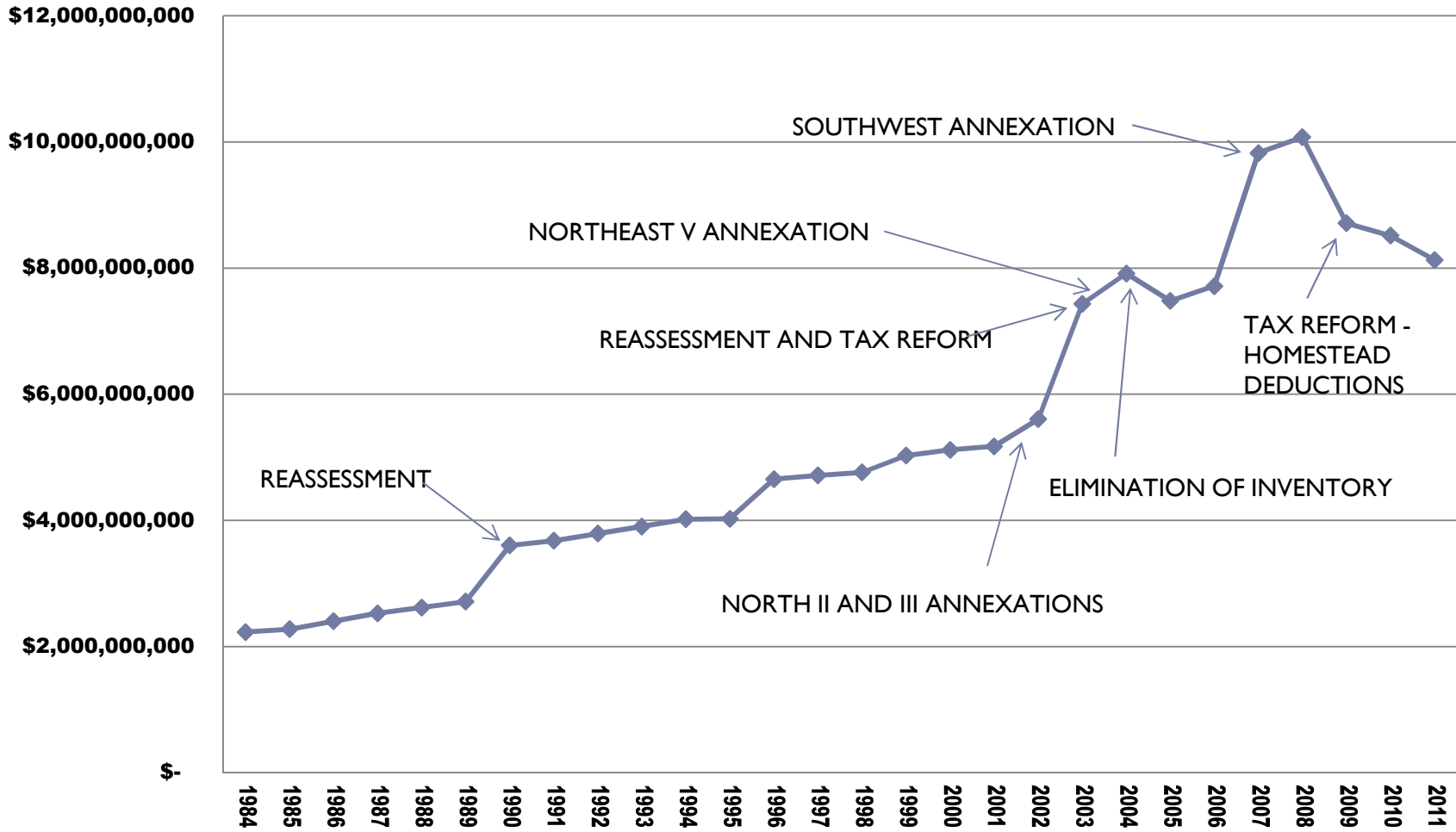
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- ▶ The City embarks on a very aggressive annexation program to expand its tax base and regain its historic role as the primary provider of urban services to the Fort Wayne urban area
- ▶ Of the \$94,216,356 property taxes billed by the City in 2011 (certified levy minus the circuit breaker credit), 40% came from areas annexed into the City since 1989 and 60% came from the pre-1989 boundaries.



# LOCAL FISCAL HISTORY

**CITY OF FORT WAYNE  
ANNUAL ASSESSED VALUATION**



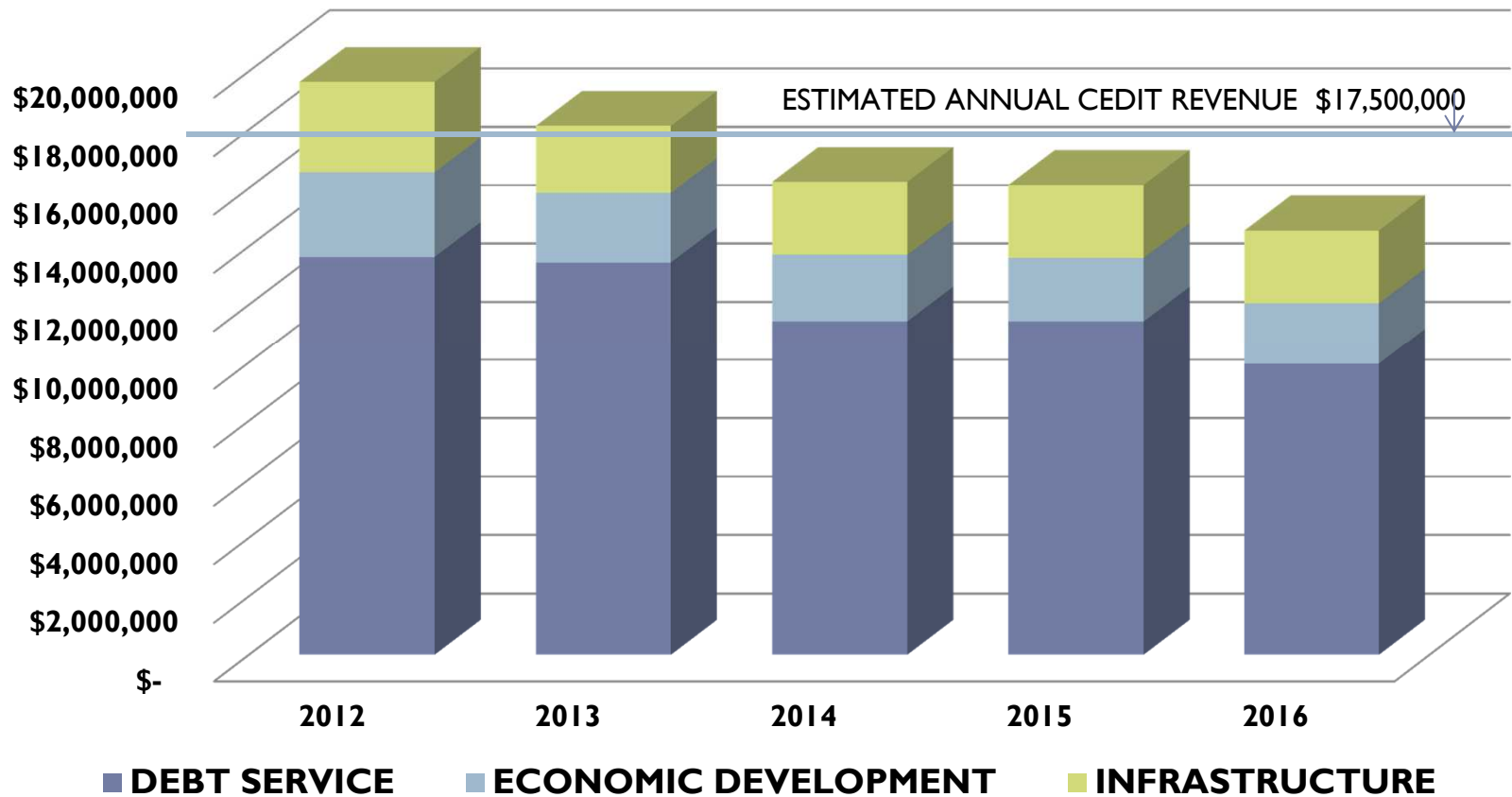
## LOCAL FISCAL HISTORY

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- ▶ The Fort Wayne City Council (acting as a majority of the Allen County Income Tax Council) enacts the County Economic Development Income Tax (CEDIT) in 1993 at 0.2% with the primary use for additional funding for street construction and resurfacing; a \$12.5 million CEDIT revenue bond is issued for road improvements; the population-based distribution formula for CEDIT is selected
- ▶ CEDIT increased to 0.4% in 1998 with the additional revenue to be used for (1) economic development, (2) shifting property tax supported debt service to CEDIT, (3) increasing the allocation of CEDIT to arterial/collector road resurfacing, and (4) increasing allocation for neighborhood capital projects

# LOCAL FISCAL HISTORY

## CITY OF FORT WAYNE 2012 CREDIT PLAN



## LOCAL FISCAL HISTORY

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- ▶ User fees implemented to help keep property taxes below maximum allowable levy and to better align revenues with uses
  - ▶ The Fort Wayne Stormwater User Fee is enacted by City Council in 1991 in response to funding limitations in the Sewer Utility and General Fund and increase federal requirements to maintain the stormwater drainage system
  - ▶ Garbage User Fee is established in 1993 by City Council to reduce pressure on property tax supported funds

## LOCAL FISCAL HISTORY

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- ▶ City Council (acting as a majority of the Allen County Income Tax Council) acts in 2003 to phase out the property taxation of inventory in advance of mandatory statewide elimination (impacting taxes paid in 2005), the Council chooses not to enact the corresponding optional CEDIT Inventory Homestead Credit
- ▶ City Council (acting as a majority of the Allen County Income Tax Council) re-establishes the COIT-funded Local Homestead Credit at the maximum rate in 2003
- ▶ In the Spring of 2007, the City Council conducts an informal round of discussions with other Allen County governmental units regarding the enactment of any of the property tax relief LOITS.

## LOCAL FISCAL HISTORY

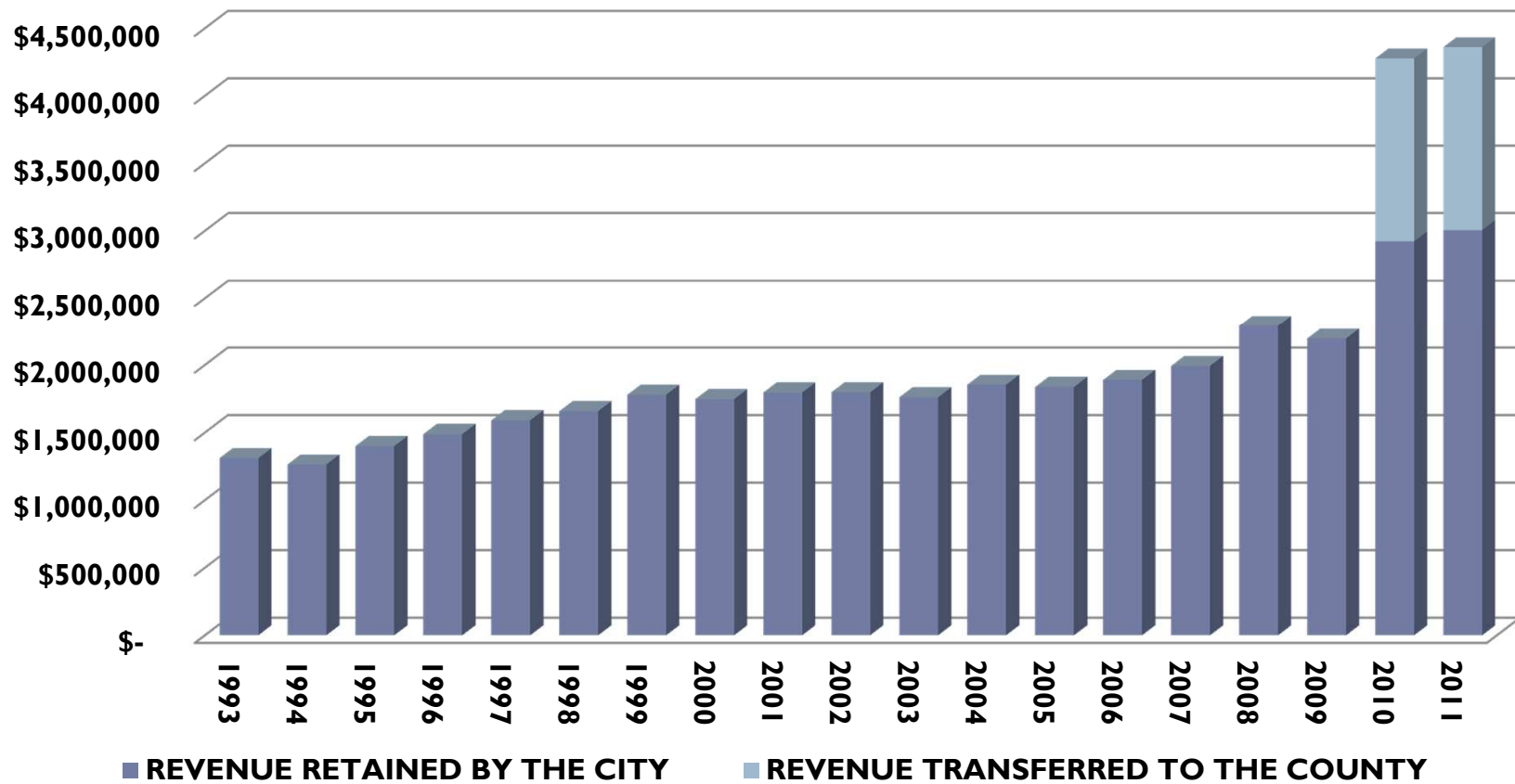
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- ▶ In 2009 Allen County reaches agreement with municipalities on increase in the Wheel Tax/Surtax and recaptures municipal portion of increase for use on bridges
- ▶ In 2011 and 2012 the Indiana Department of Revenue twice readjusted the Local Income Tax revenues to be distributed in 2012

# LOCAL FISCAL HISTORY

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## CITY OF FORT WAYNE WHEEL TAX/SURTAX ANNUAL REVENUE



## STATE ACTIONS IMPACT LOCAL FINANCES

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- ▶ In 1999 the General Assembly substantially modified the annexation legislation
- ▶ General Assembly passes numerous property tax-related changes in 2002 in response to the St. Johns Indiana Supreme Court case
  - ▶ State Homestead Credit increases from 4% to 20%
  - ▶ Homestead Deduction increases from \$6,000 to \$35,000 (not to exceed 50% of AV)
  - ▶ Property Tax Replacement Credit expanded to include 60% of school general fund levies and PTRC eliminated on business personal property
  - ▶ Local property tax on inventory eliminated, local early phase-out allowed
  - ▶ Ties annual growth in local property tax levies to six-year rolling average of non-farm personal income rather than growth in AVs
- ▶ In 2003 the General Assembly eliminates local governments' "banked" levies (City of Fort Wayne's banked levy had grown to \$24 million by 2003)
- ▶ Trending of AV comes in 2006 (taxes payable in 2007)



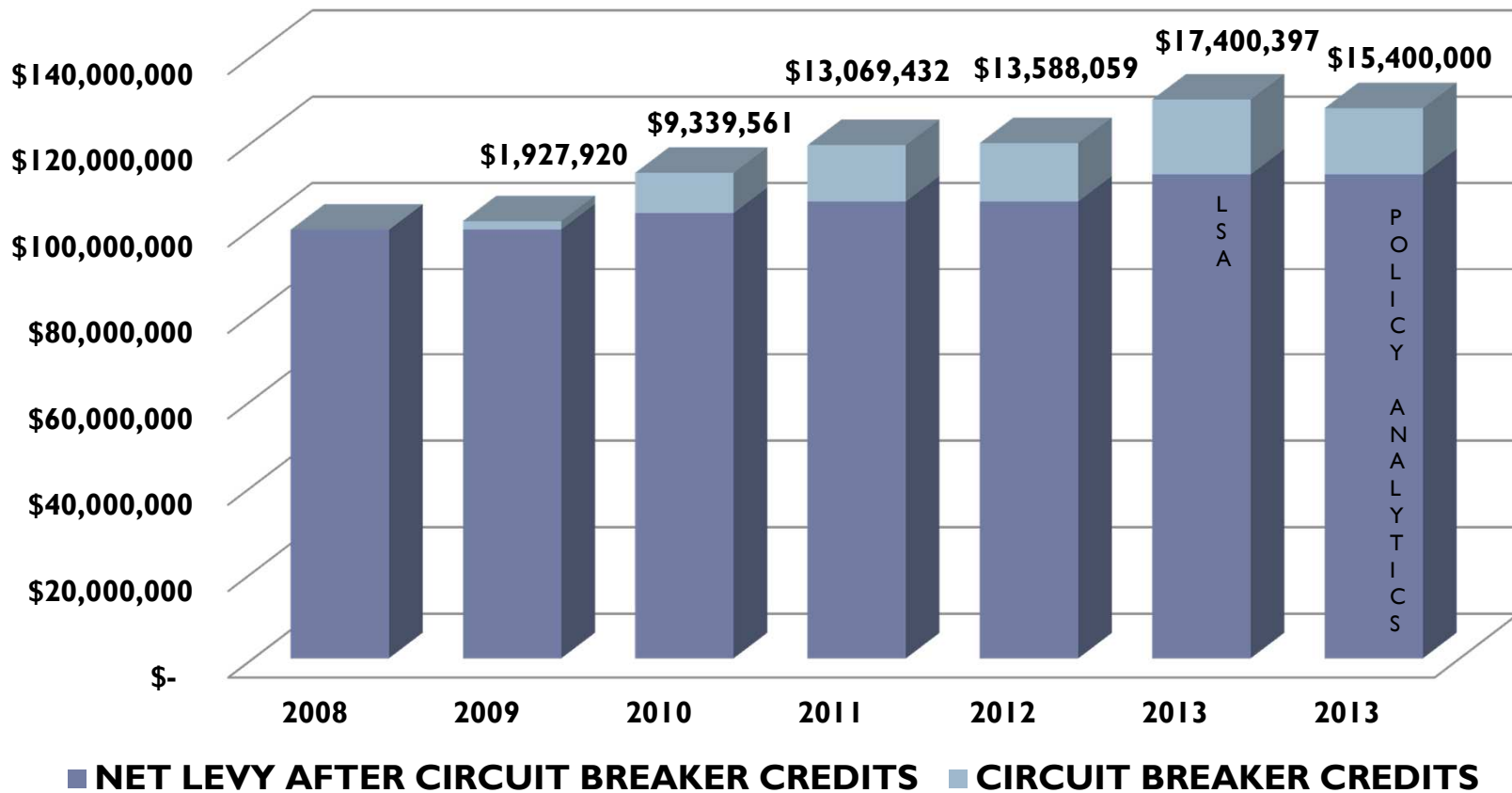
## STATE ACTIONS IMPACT LOCAL FINANCES

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- ▶ General Assembly adopts legislation creating new LOITs for property tax relief and public safety funding in 2007
- ▶ First Property Tax “Circuit Breaker” Caps are adopted by the General Assembly in 2007
- ▶ General Assembly passes sweeping local government finance changes in 2008 legislation
  - ▶ Circuit Breakers the strengthened
  - ▶ Bonding approval procedures changed
  - ▶ Pre-1977 Police and Fire Pension obligations totally taken over by the State
  - ▶ Homestead AV deductions increased to \$45,000 and new Supplemental Homestead Deduction is created
  - ▶ PTRC is eliminated

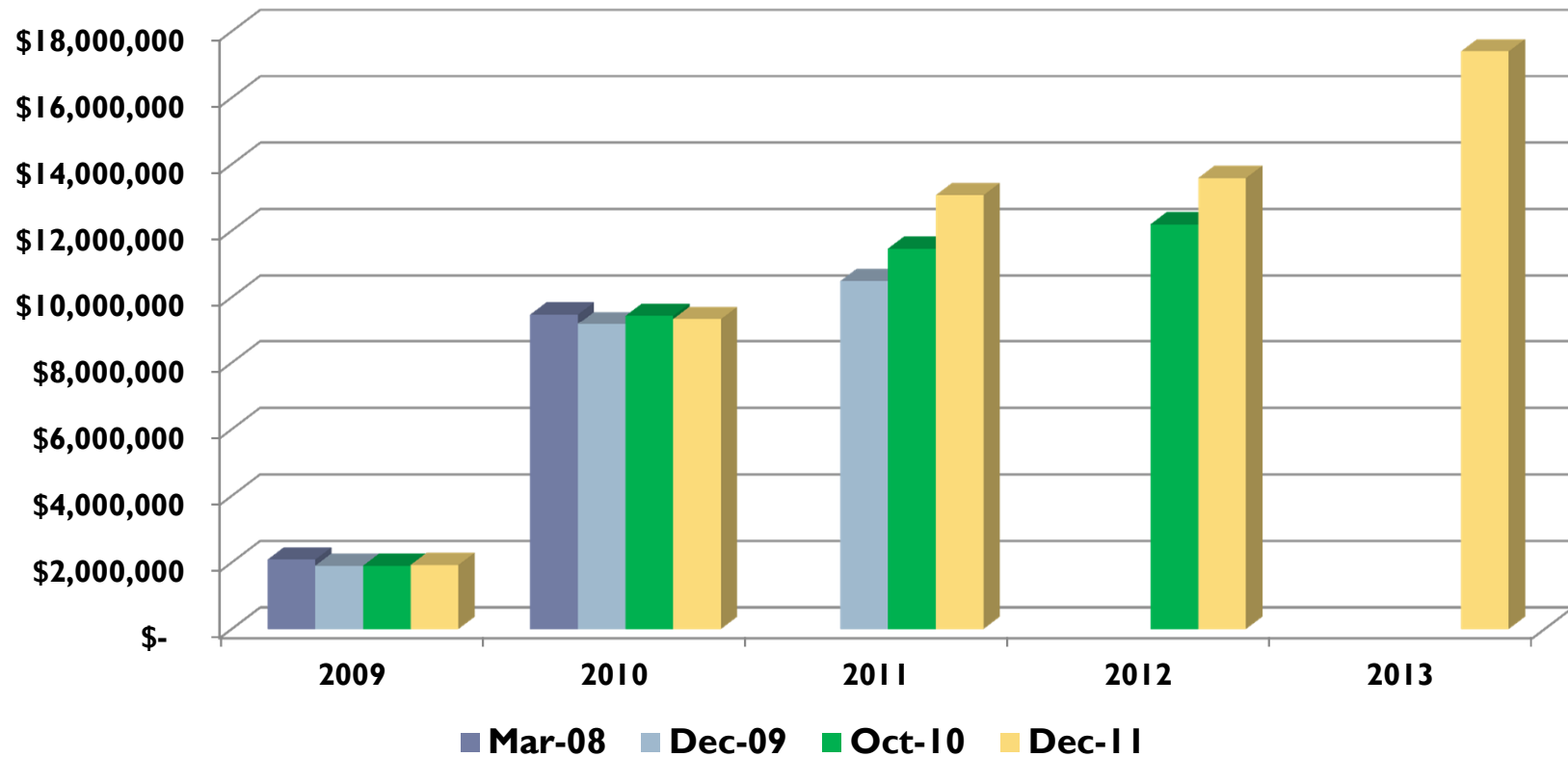
# STATE ACTIONS IMPACT LOCAL FINANCES

## CITY OF FORT WAYNE ANNUAL CIRCUIT BREAKER CREDITS



# STATE ACTIONS IMPACT LOCAL FINANCES

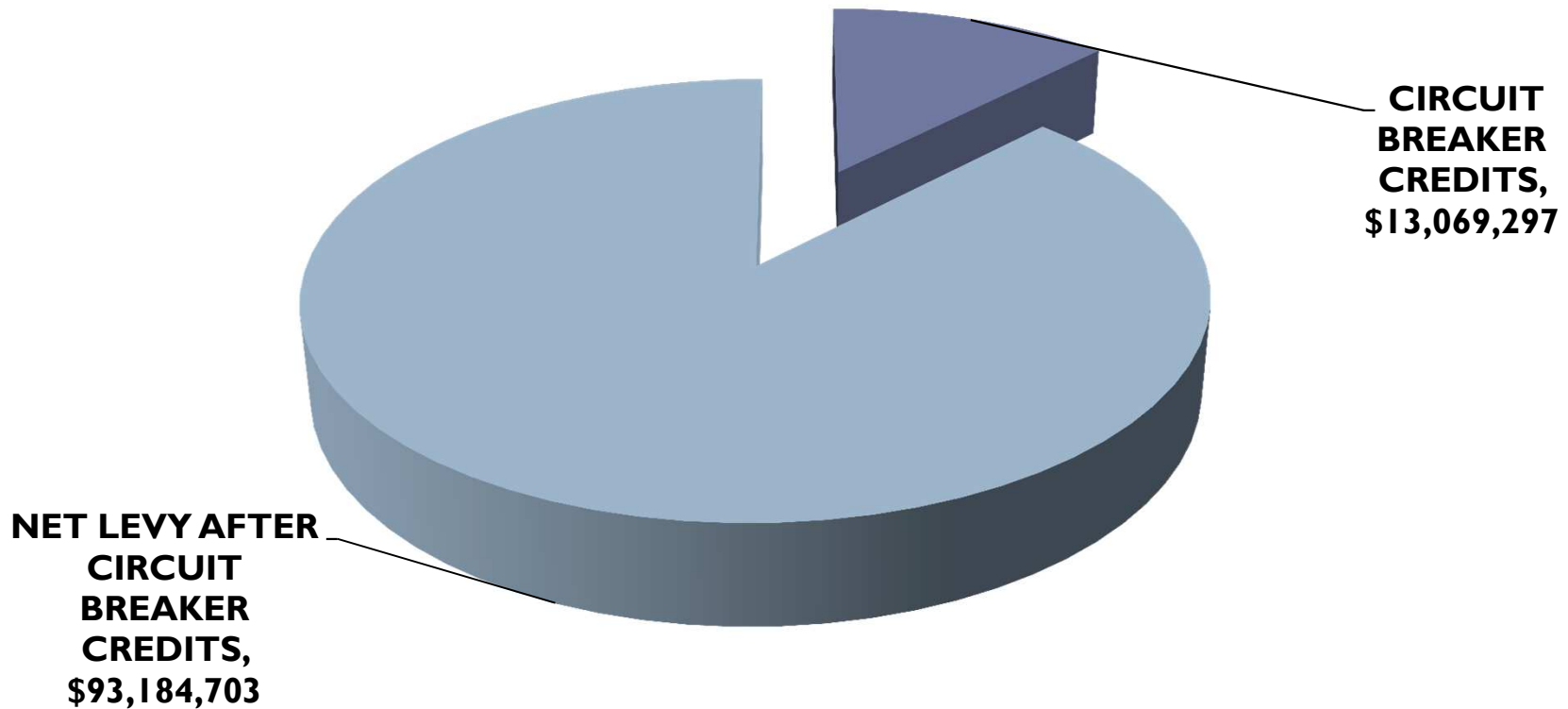
## LEGISLATIVE SERVICE AGENCY PROJECTIONS OF THE CIRCUIT BREAKER IMPACT ON THE CITY OF FORT WAYNE



# STATE ACTIONS IMPACT LOCAL FINANCES

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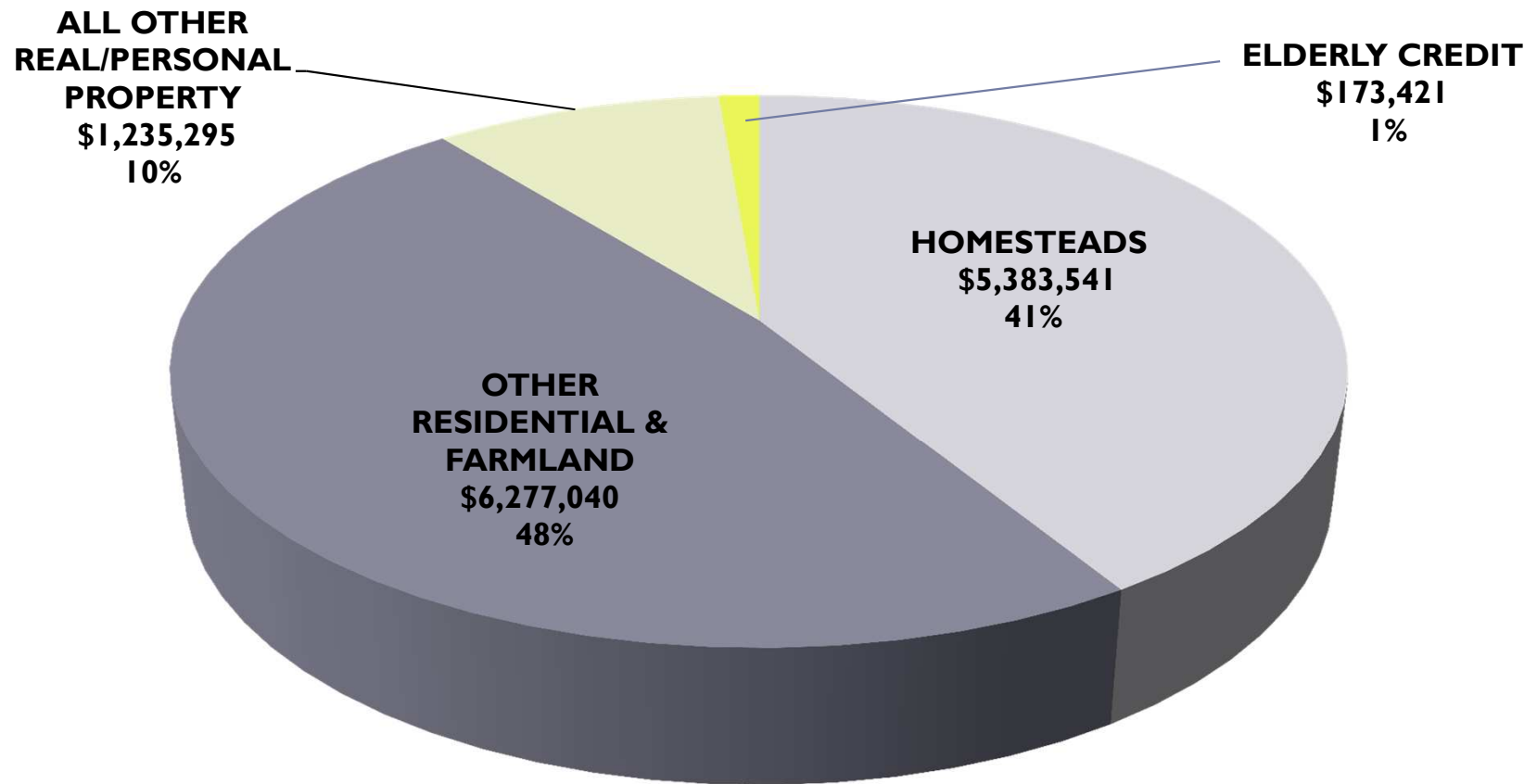
## CITY OF FORT WAYNE IMPACT OF THE CIRCUIT BREAKER CREDITS ON THE 2011 CERTIFIED PROPERTY TAX LEVY



# STATE ACTIONS IMPACT LOCAL FINANCES

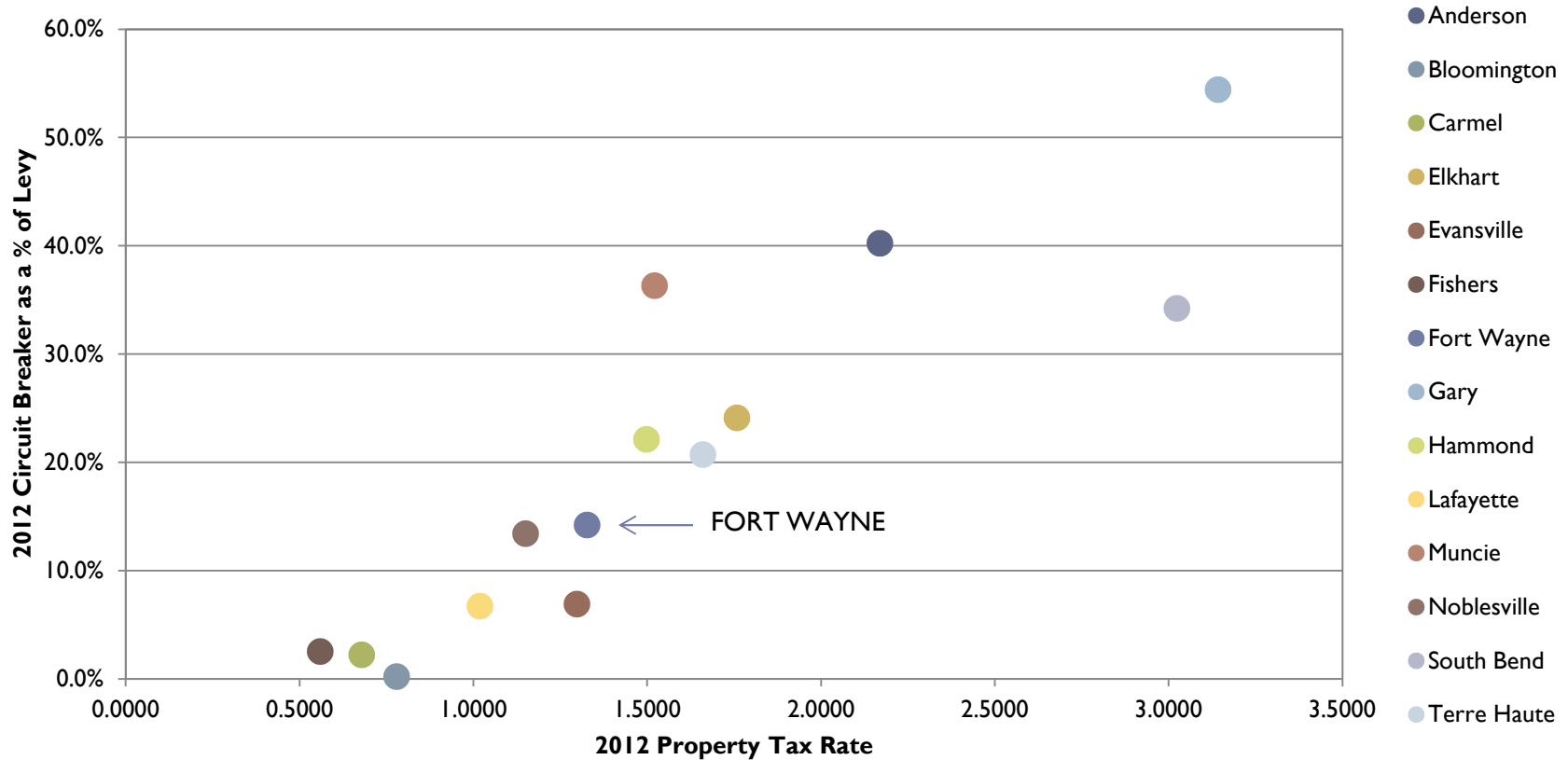
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## CITY OF FORT WAYNE 2011 CIRCUIT BREAKER CREDITS BY PROPERTY TYPE



# STATE ACTIONS IMPACT LOCAL FINANCES

## COMPARISON COMMUNITIES 2012 CIRCUIT BREAKER IMPACT AS A PERCENTAGE OF PROPERTY TAX LEVY



## LOCAL FISCAL HISTORY

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- ▶ If the City of Fort Wayne had adopted a fiscal policy that took advantage of its maximum levy each year since 1990, its property tax rate in 2012 would have been \$1,8430 rather than \$1.3274 per \$100 of assessed value. The circuit breaker impact to the City would have been an additional \$20.6 million (on top of the \$13.6 million which actually occurred). The higher property tax rate would have grossed approximately \$40 million but only netted \$19.4 million after the Circuit Breaker impact.
- ▶ Under the “maximum property tax levy” policy, Allen County government would have experienced an additional \$4.9 million in Circuit Breaker losses and the four School Districts would have collectively lost an additional \$8.1 million in Circuit Breaker losses.

## WHERE ARE WE TODAY?

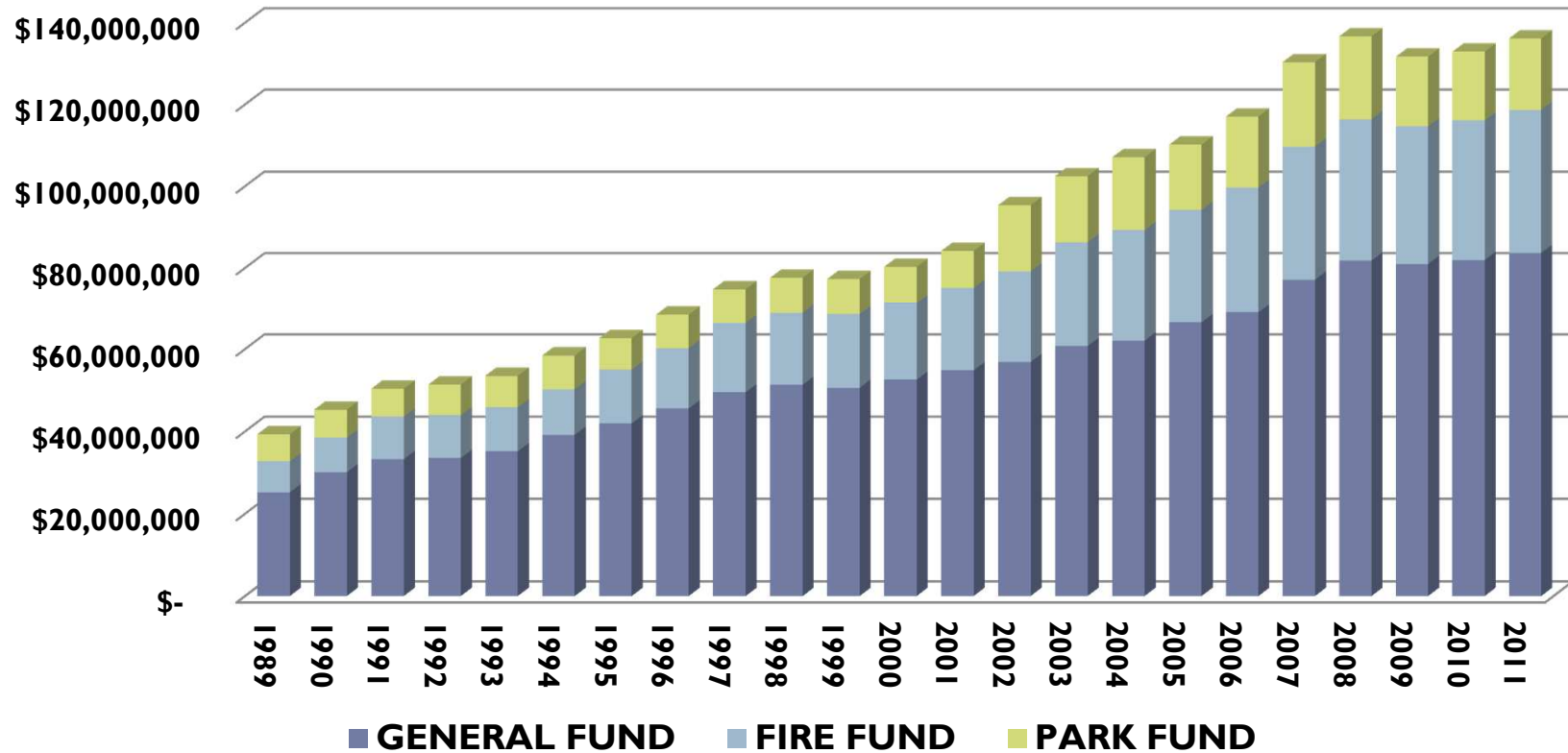
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- ▶ The City's property and option income tax (COIT) supported operating budget is really concentrated in three funds – the General Fund, the Fire Fund, and the Park Fund.
- ▶ Since the enactment of the Circuit Breaker, growth in these three funds has leveled.
- ▶ After adjusting for the size of the population being served and for inflation, expenditures from these funds has actually decreased since 2008.



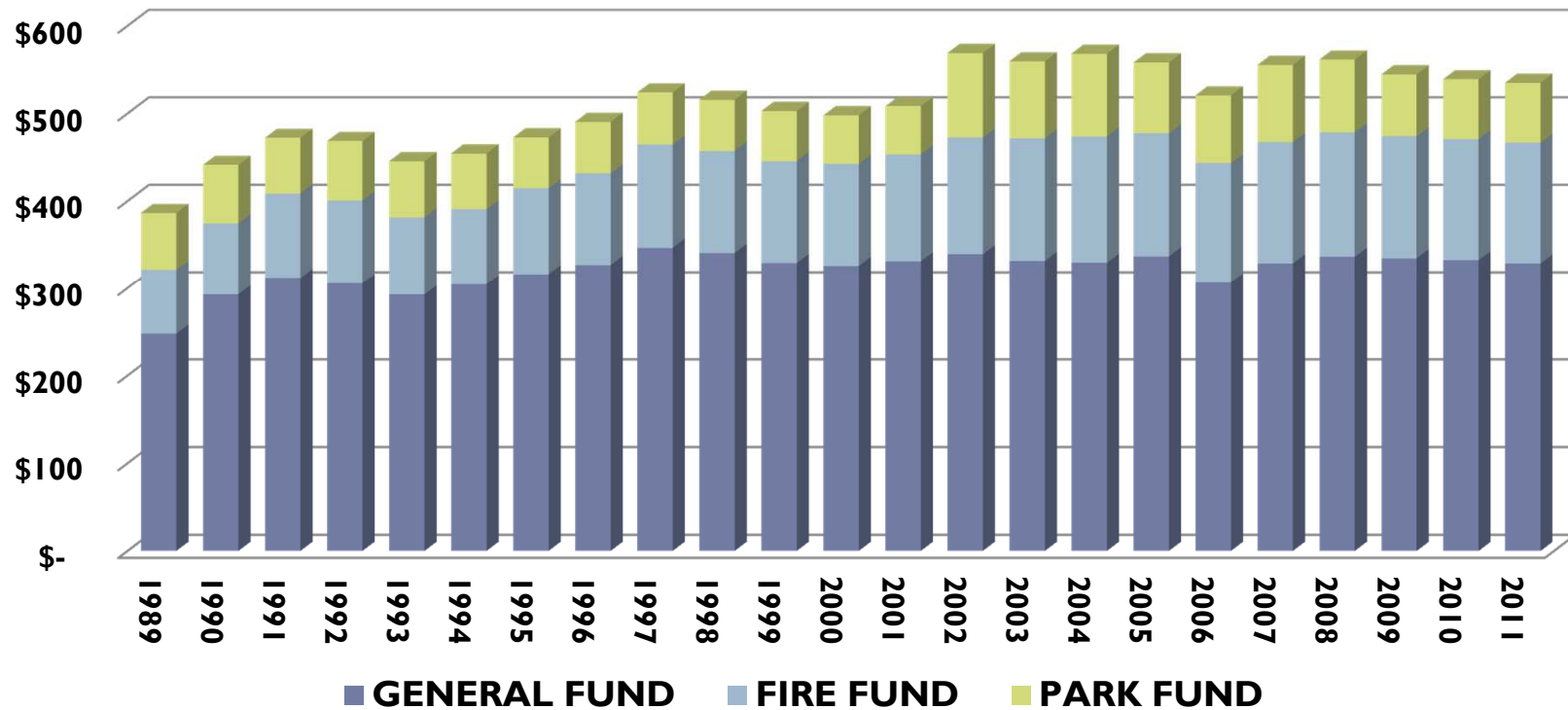
# WHERE ARE WE TODAY?

## CITY OF FORT WAYNE ANNUAL EXPENDITURES IN THE GENERAL, FIRE AND PARK FUNDS



# WHERE ARE WE TODAY?

## CITY OF FORT WAYNE GENERAL, FIRE AND PARK FUNDS ANNUAL EXPENDITURES PER CAPITA EXPRESSED IN 2011 DOLLARS



## WHERE ARE WE TODAY?

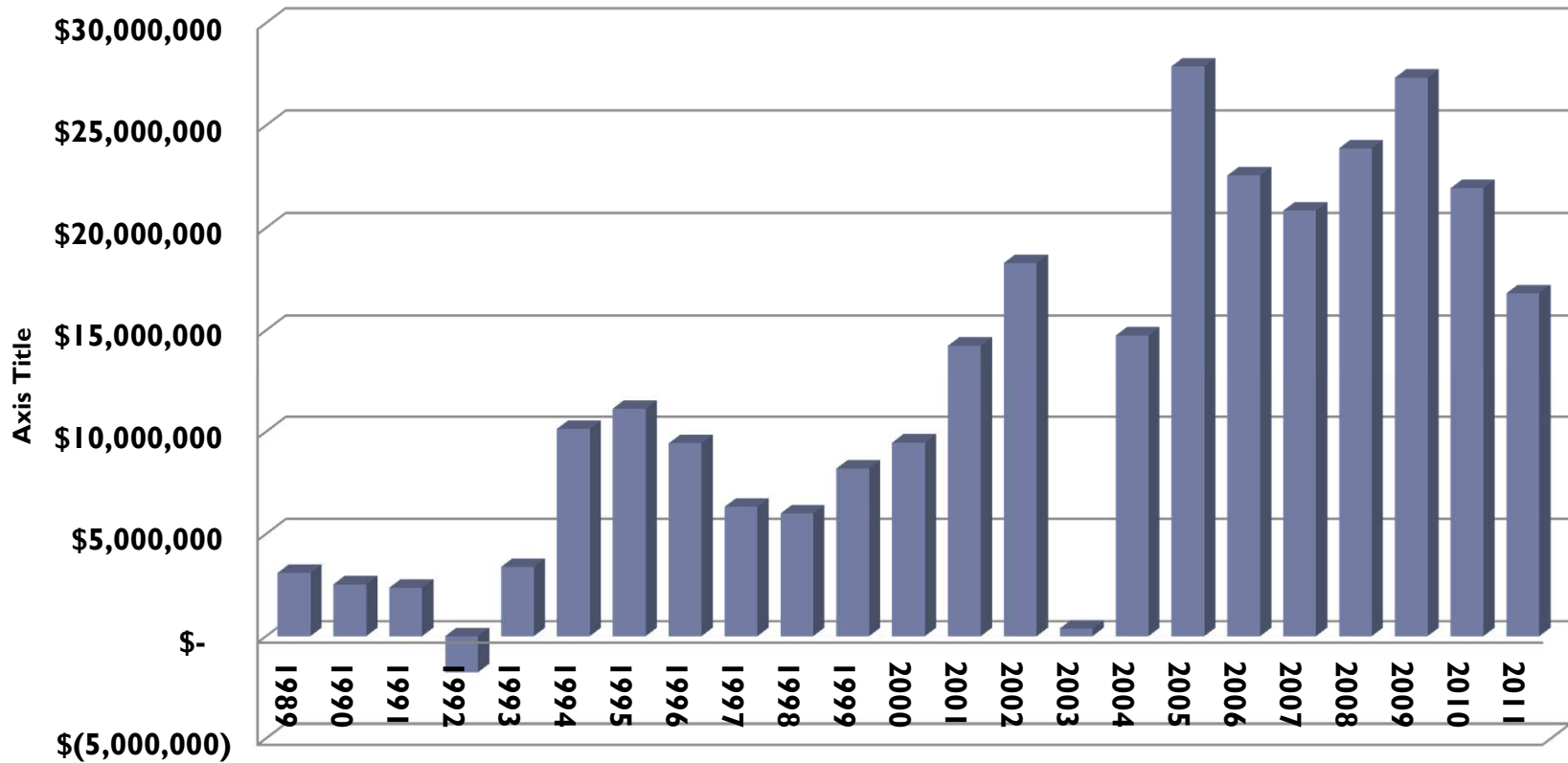
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### ▶ Unreserved Cash Balances

- ▶ A key measure of fiscal wellness is the ability to maintain a strong unreserved balance in major operating funds. Such balances provide a cushion should unexpected expenses or revenue losses occur.
- ▶ The City entered into the era of the Circuit Breaker with exceptionally high cash balances in the General Fund, Fire Fund and Park Fund combined, both as a percentage of annual revenues and a percentage of annual expenditures.

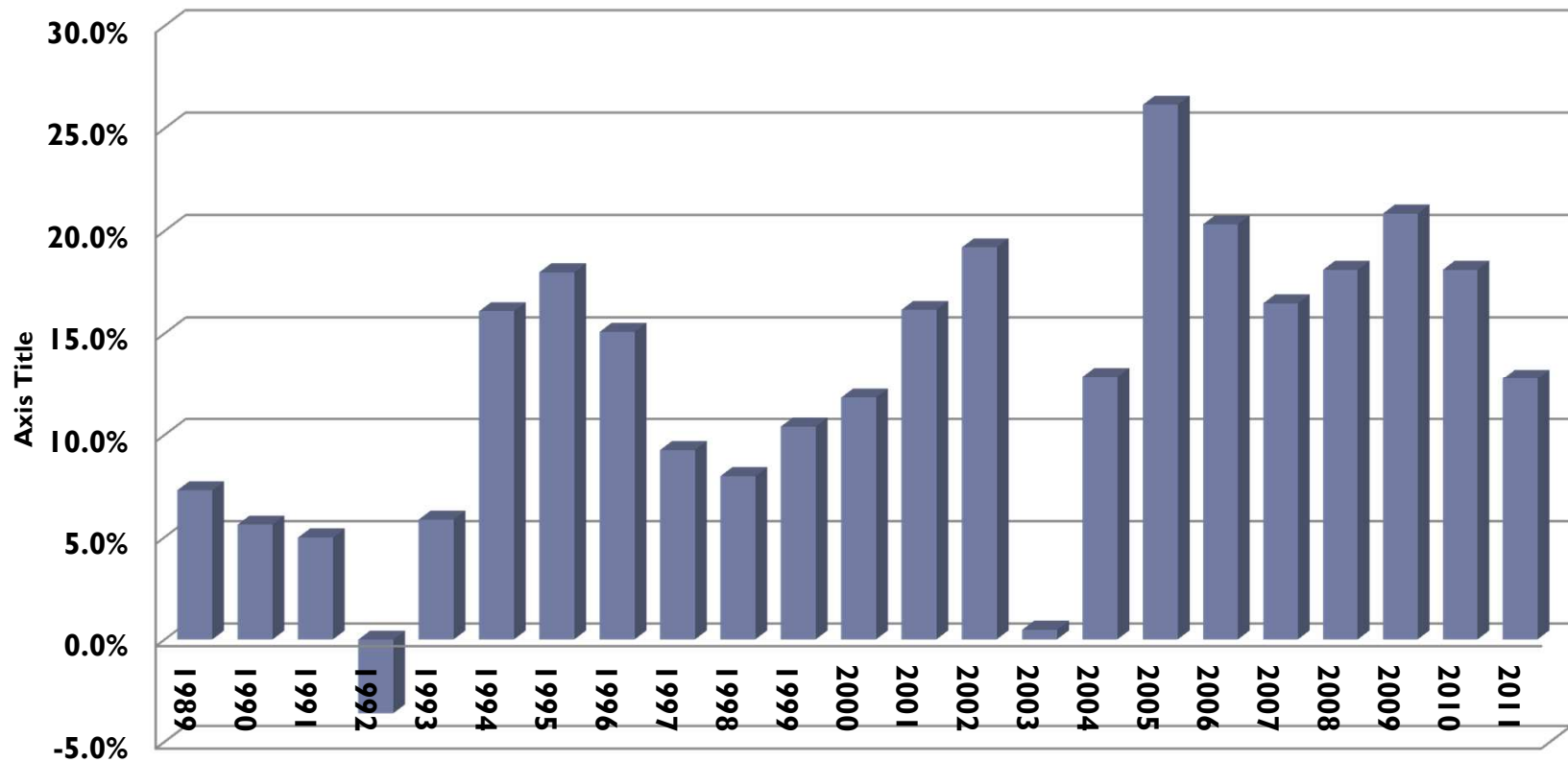
# WHERE ARE WE TODAY?

## CITY OF FORT WAYNE GENERAL, FIRE AND PARK FUNDS YEAR-END UNRESERVED BALANCES



# WHERE ARE WE TODAY?

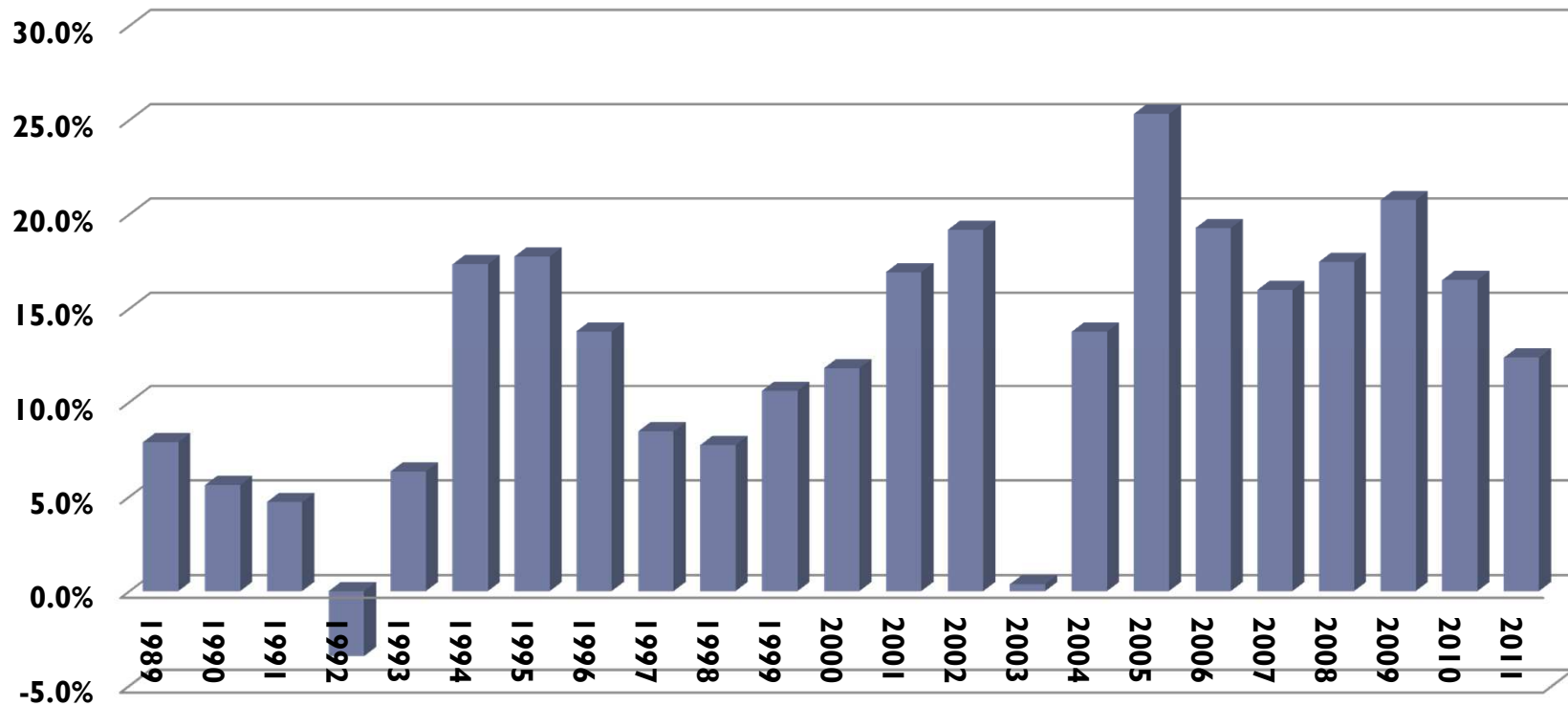
## CITY OF FORT WAYNE GENERAL, FIRE AND PARK FUND YEAR-END UNRESERVED BALANCES AS A PERCENTAGE OF ANNUAL REVENUES



## WHERE ARE WE TODAY?

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### **CITY OF FORT WAYNE GENERAL, FIRE AND PARK FUND YEAR-END UNRESERVED BALANCES AS A PERCENTAGE OF ANNUAL EXPENDITURES**



## WHERE ARE WE TODAY?

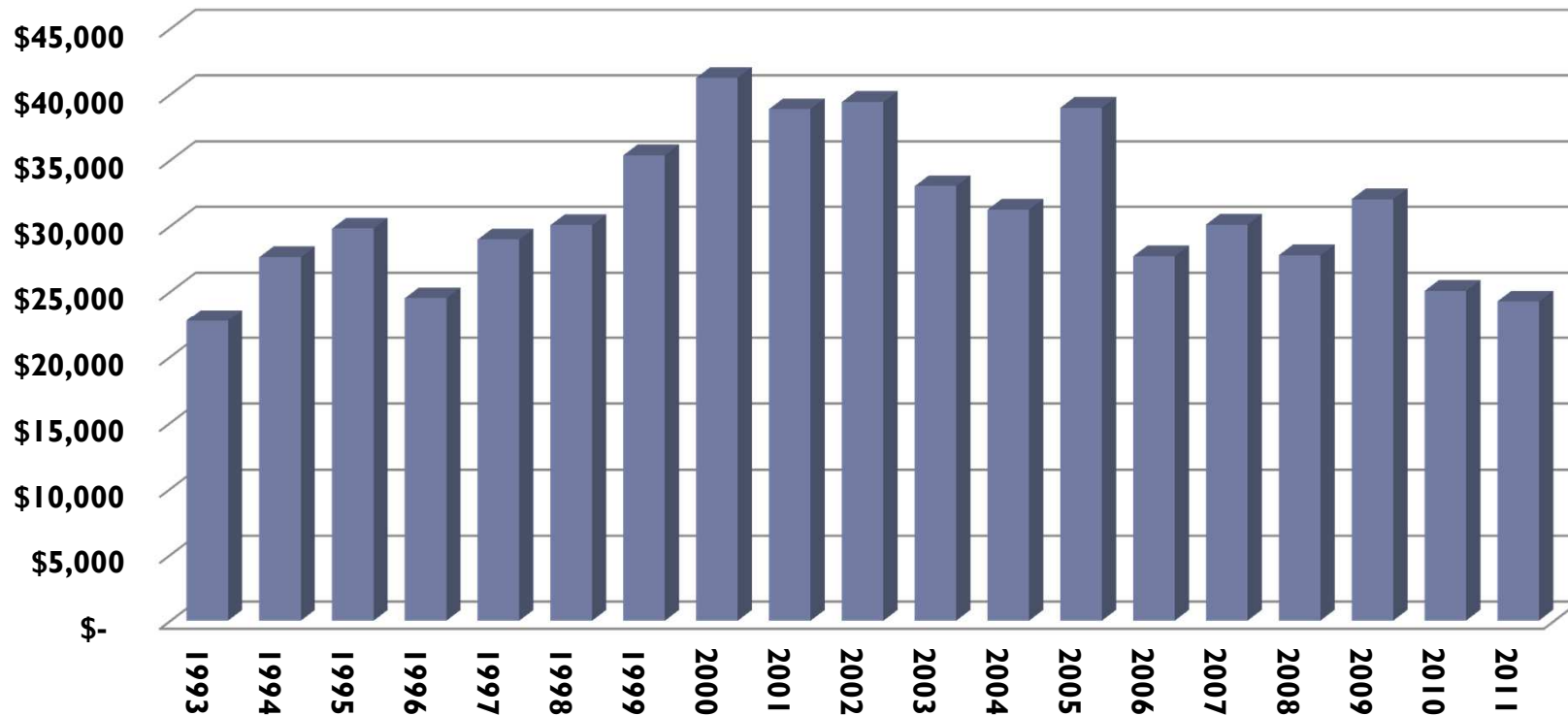
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- ▶ The key source of revenue to support the City's street and road system has come from the state gasoline tax in the form of distributions to the Motor Vehicle Highway (MVH) and the Local Road and Street (LR & S) Funds. This revenue stream has been declining dramatically in recent years.

# WHERE ARE WE TODAY?

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## CITY OF FORT WAYNE ANNUAL STREET-RELATED EXPENSES PER MILE OF STREETS BEING MAINTAINED EXPRESSED IN 2011 DOLLARS

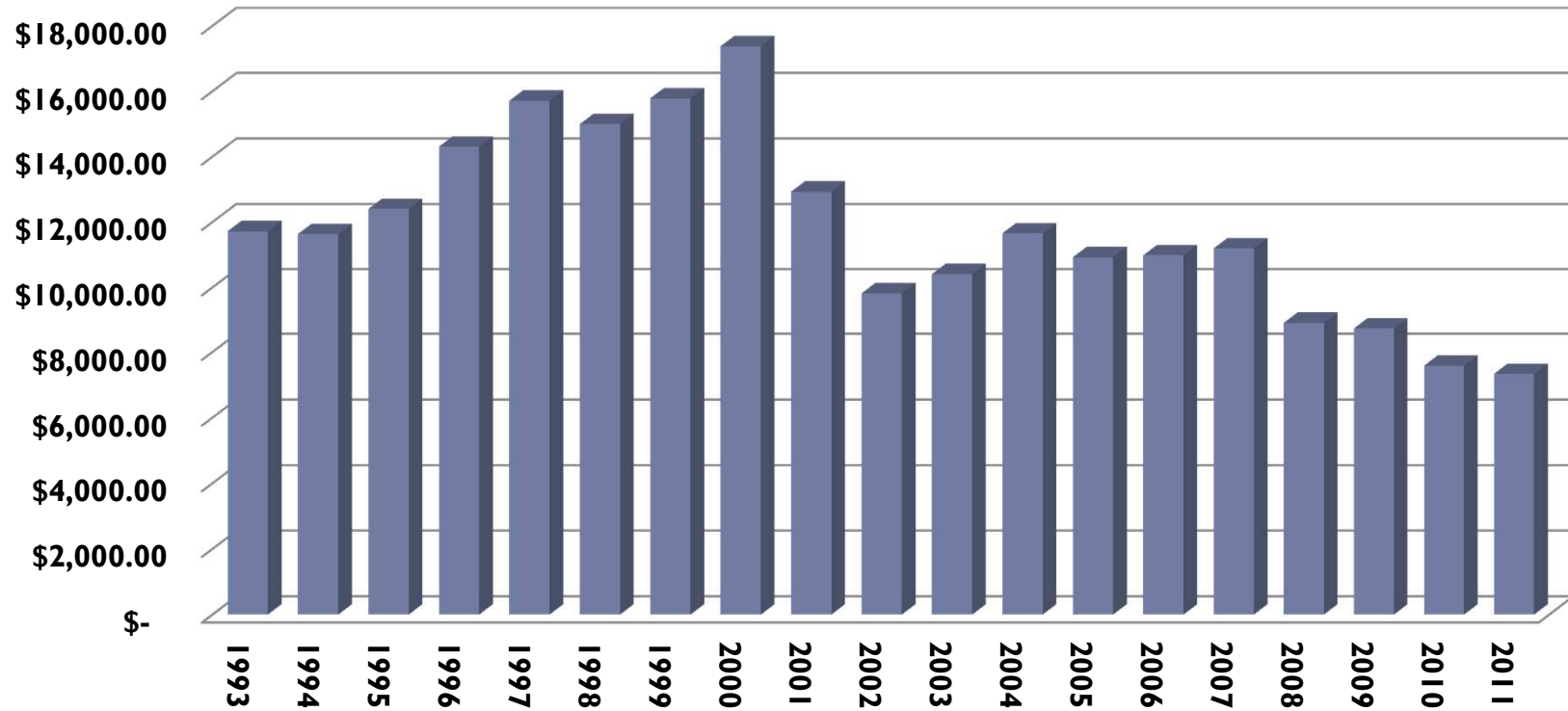




# WHERE ARE WE TODAY?

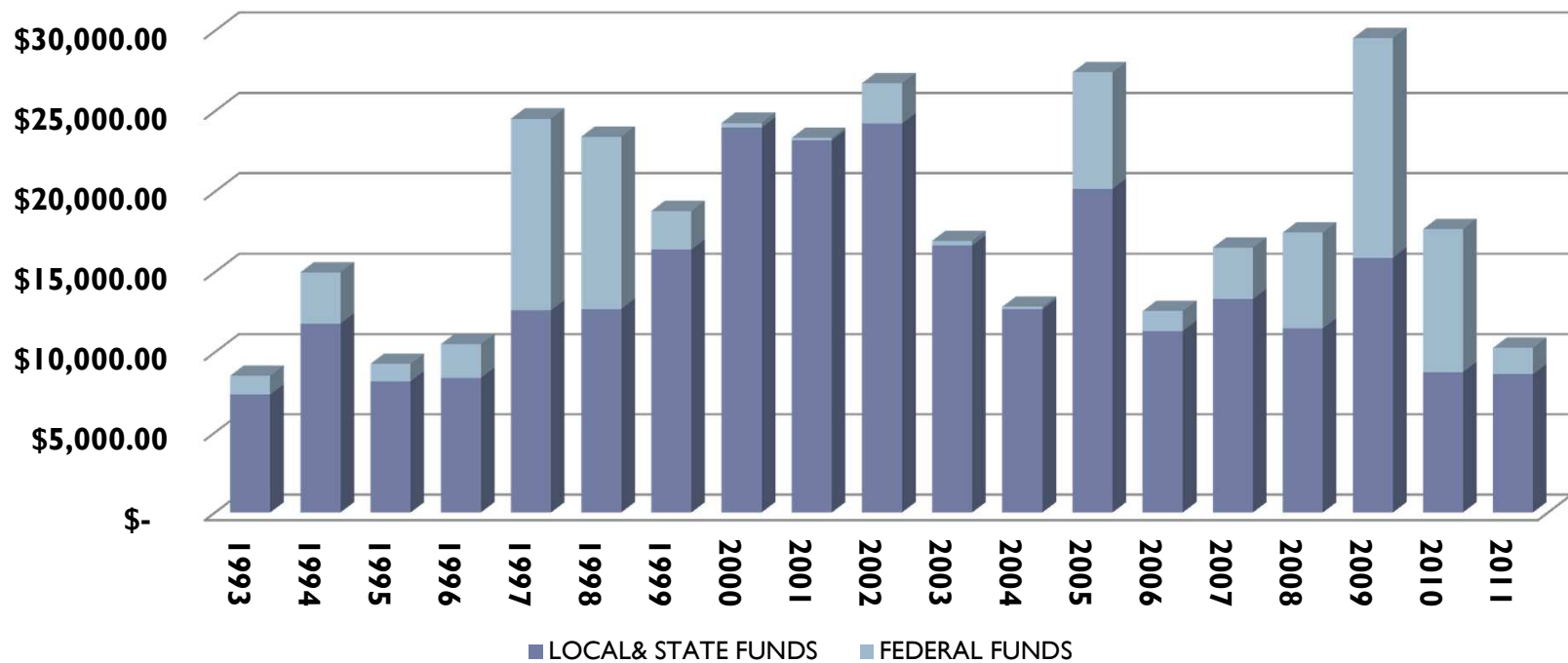
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## CITY OF FORT WAYNE ANNUAL GASOLINE TAX REVENUES PER STREET MILE BEING MAINTAINED EXPRESSED IN 2011 DOLLARS



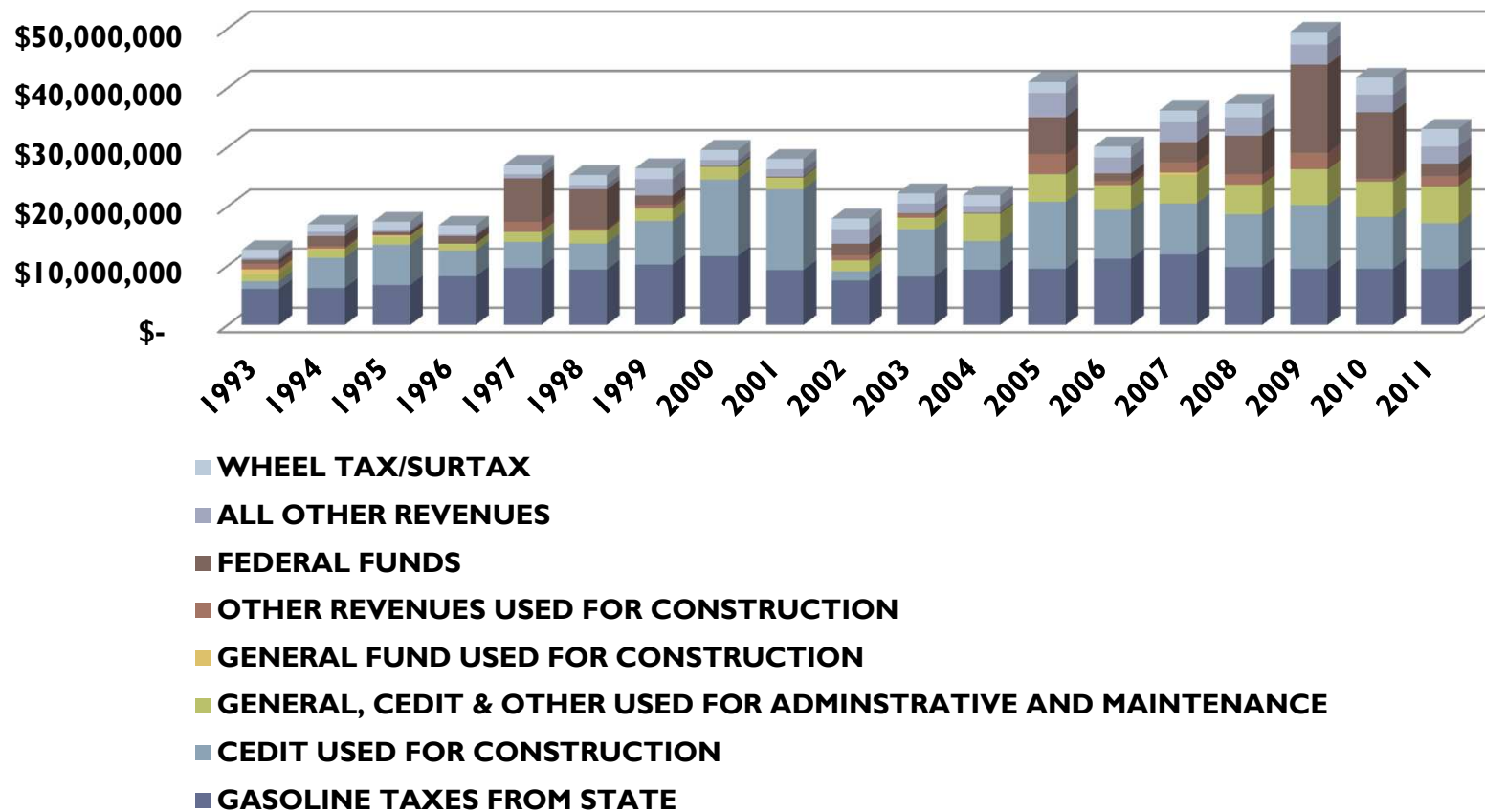
# WHERE ARE WE TODAY?

## CITY OF FORT WAYNE ANNUAL STREET-RELATED EXPENDITURES ON CONSTRUCTION/RECONSTRUCTION PER MILE OF STREETS MAINTAINED EXPRESSED IN 2011 DOLLARS



# WHERE ARE WE TODAY?

## CITY OF FORT WAYNE ANNUAL HIGHWAY-RELATED REVENUES



## THE KEY FISCAL ISSUES

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- ▶ The City has a structural gap in the operating budget that must be addressed soon as using cash balances is not a long-term solution; structural deficit is within the parameters of the circuit breaker loss over the past three years, in fact without the circuit breaker, there would be funds left over after closing the gap; the gap is estimated to be approximately \$3 to \$6 million for the 2013 budget
- ▶ The City has both a backlog in street repair and resurfacing needs of approximately \$65 million and an annual shortfall of approximately \$12 to \$18 million to keep pace with an industry accepted resurfacing schedule. Continuing to use ever larger CEDIT revenue bonds to met this need is not a viable option. The City had been spending approximately \$8 million annually, not including CEDIT bond proceeds and federal stimulus funds, but is not likely to reach that level in 2012 or 2013.
- ▶ The Park System also has unmet capital needs that cannot adequately be addressed under the current operating budget, park cumulative capital fund, and general obligation bonding policies (need approximately \$2.5 to \$3.0 million per year revenue stream to support the Parks Cumulative Capital Fund)
- ▶ In light of the recent property tax changes, the City needs to restate or modify its basic revenue raising strategies (the property tax/income tax/user fee mix)

## POTENTIAL OPTIONS FOR CONSIDERATION

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- ▶ The City of Fort Wayne is in the relatively advantageous position of having numerous options available to address the issues just identified. These options can be placed into several broad categories, although several options could be placed in more than one category. The potential options are certainly not mutually exclusive. Any long-term strategy is likely to include several of the options outlined below.
- ▶ These are not policy recommendations from the Fiscal Policy Committee but rather are a range of options legally available to the City.

## POTENTIAL OPTIONS FOR CONSIDERATION

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### ▶ Reduce Spending

- ▶ Reduce operating budgets to eliminate the current structural gap
- ▶ Hold repair and resurfacing expenditures on the street system to current levels and tolerate the declining conditions
- ▶ Continue the limited annual contribution to the Parks Cumulative Capital Fund and rely on a cycle of bond issues approximately once every ten years to meet some of the systems capital needs

## POTENTIAL OPTIONS FOR CONSIDERATION

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### ▶ Income Tax Measures

- ▶ Adopt any of the three “property tax relief” local option income taxes (LOITs) to reduce property tax burden and lower the revenues lost to the Circuit Breakers. For example, adopting the LOIT at 0.5% and applying the credit to all residential property would provide approximately \$34.2 million in property tax relief and indirectly increase the City of Fort Wayne property tax levy by approximately \$6.3 million annually. It would also increase the County’s property tax levy by approximately \$3.0 million.
- ▶ Eliminate the Local Homestead Credit, this would increase the City’s COIT revenue by approximately \$4.4 million annually. It would also increase Circuit Breaker loss by an estimated \$2.3 million, netting new revenue to the City of an estimated \$2.1 million in 2013.
- ▶ Adopt the Public Safety LOIT which could raise approximately \$8.5 million annually for the City)

## POTENTIAL OPTIONS FOR CONSIDERATION

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### ▶ Property Tax Options

- ▶ Annually set the City of Fort Wayne property tax rate at a level to capture the maximum allowable property tax levy
- ▶ Adopt the Municipal Cumulative Capital Development Fund – this could raise up to approximately \$4 million annually before factoring in the impact of the Circuit Breakers
- ▶ Reinstate General Obligation bonding for certain capital improvement needs such as neighborhood capital projects, fire stations, and park improvements - services that are closely related to maintaining property values. The City last had a property tax rate to support the Debt Service Fund in 1997.



## POTENTIAL OPTIONS FOR CONSIDERATION

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### ▶ **Expand the City's Tax Base**

- ▶ Implement another round of annexations, including those urbanized areas which have been provided City sanitary sewer service
- ▶ Consider the loss of assessed value to operating funds as the City utilized its tax increment finance and tax phase-in authority and the indirect impact this has on the Circuit Breaker losses

## POTENTIAL OPTIONS FOR CONSIDERATION

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- ▶ **Capital Funding**
  - ▶ Separate the operating and capital budget processes to give more attention to the capital needs and methods of financing these needs
  - ▶ Reduce reliance on CEDIT revenue bonds to fund ongoing street resurfacing/repair needs
  - ▶ Use Legacy Funds or Capital Improvement Board funds be used to meet selected and strategic capital needs
  - ▶ Urge the Allen County Council to increase the Wheel Tax/Surtax to the maximum rate allowed under state legislation
  - ▶ Be fully engaged in upcoming discussion at the General Assembly regarding highway funding
  - ▶ Re-examine the use of Tax Increment Financing as a tool to finance infrastructure needs or allow more increment to flow back to basic taxing units
  - ▶ Further utilize property tax assessments for capital improvements related to residential areas
  - ▶ Re-examine City cost sharing policies on neighborhood capital improvements

## POTENTIAL OPTIONS FOR CONSIDERATION

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### ▶ General Issues

- ▶ Formalize parameters on the use and appropriate unappropriated balance in the Rainy Day Fund
- ▶ Formalize a Cash Balance Policy
- ▶ Formalize Debt Policies
- ▶ Obtain an equitable share of the 911 fees distributed by Allen County government (also involves state policy)

### ▶ Next Steps