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JAN 7 2016

CITY CLERK

# Terre Haute Comprehensive Financial Plan Summary

January 7, 2016

# What are property tax caps?

- In 2008 the Indiana General Assembly expanded the application of “circuit breaker” tax credits ( or tax caps ) in Indiana
  - Provided protection to property taxpayers
  - Created financial interdependency of all local schools and local governments
  - Resulted in uncertainty in predicting the revenues available to fund local budgets

# What are property tax caps?

- Limits the total property tax bill of any taxpayer to a percentage of the value of the taxpayer's property.
  - Homesteads 1%
  - Other residential property, agricultural land, and long term care facilities 2%
  - All other property 3%

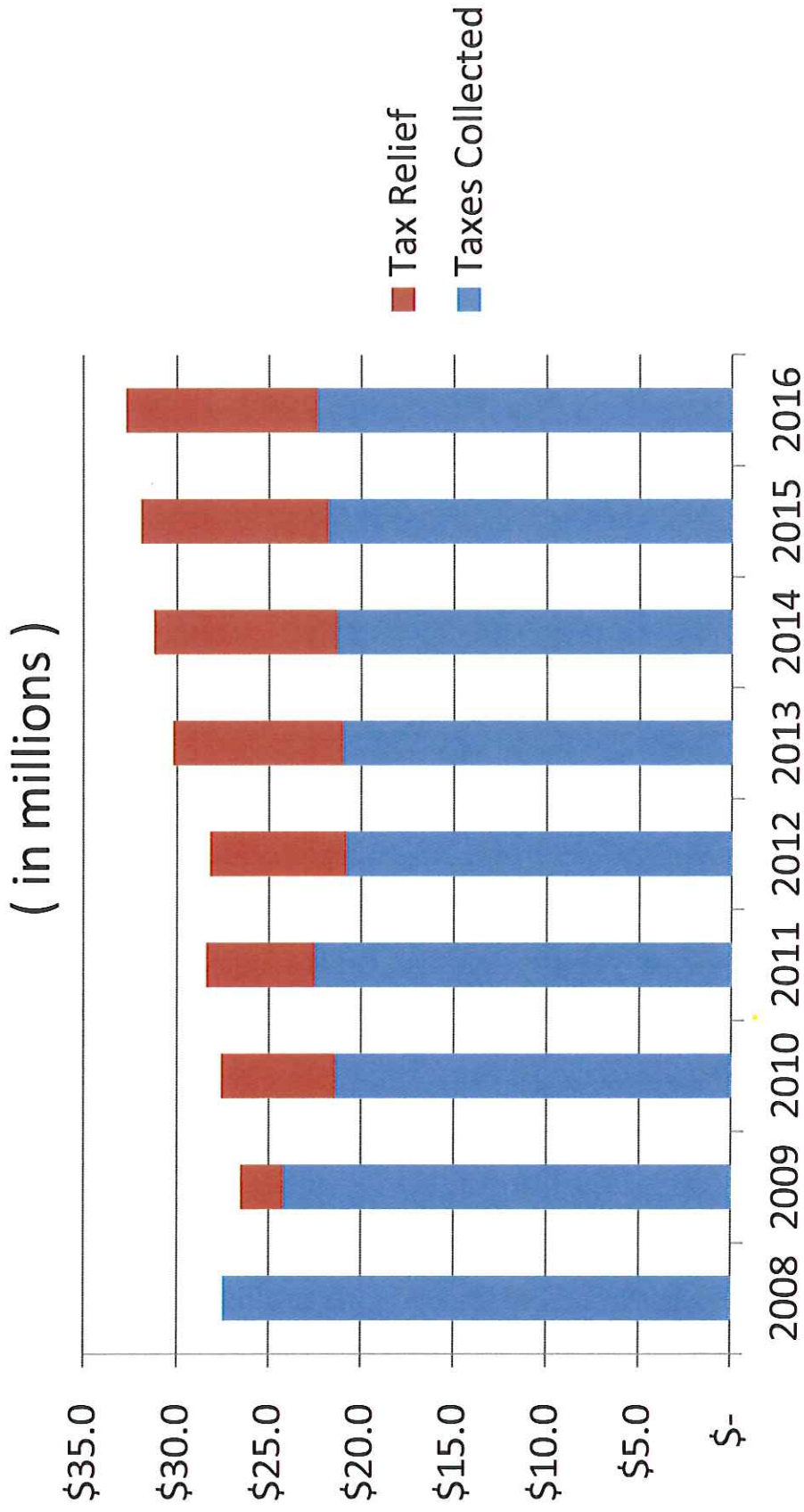
## How property tax caps work

- Total property tax bill is limited by the cap. Any taxes levied over the cap are simply not paid.
- Any unpaid taxes that result from this credit are not replaced by other state or local tax revenues.
- The result is a shortfall in property taxes collected and distributed for use by the City and other taxing units. In essence, this property tax relief is funded by local taxing units themselves.
- In 2015, these unfunded credits exceeded \$800 million statewide.

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# How have these property tax caps impacted Terre Haute?

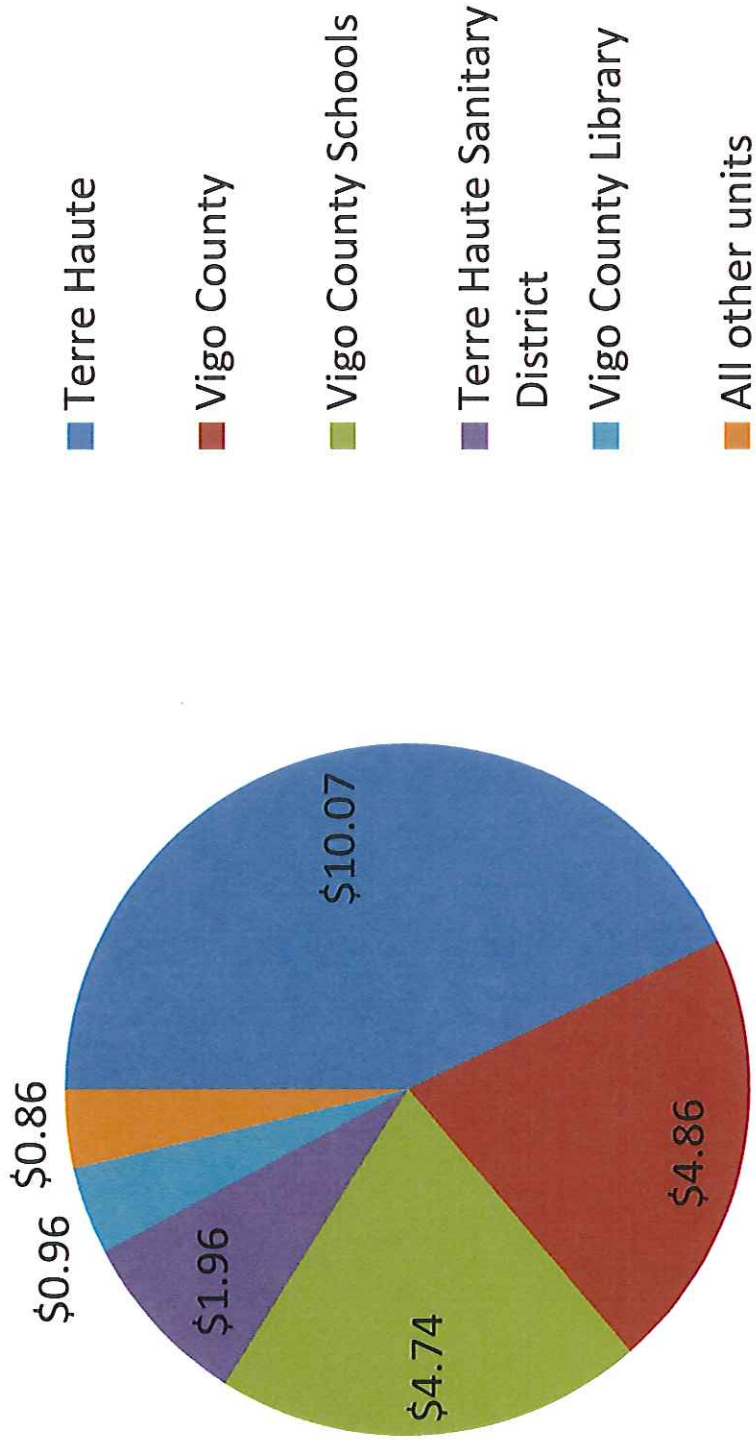


*By the end of 2016, the City will fund over \$ 61 million in property tax relief.*

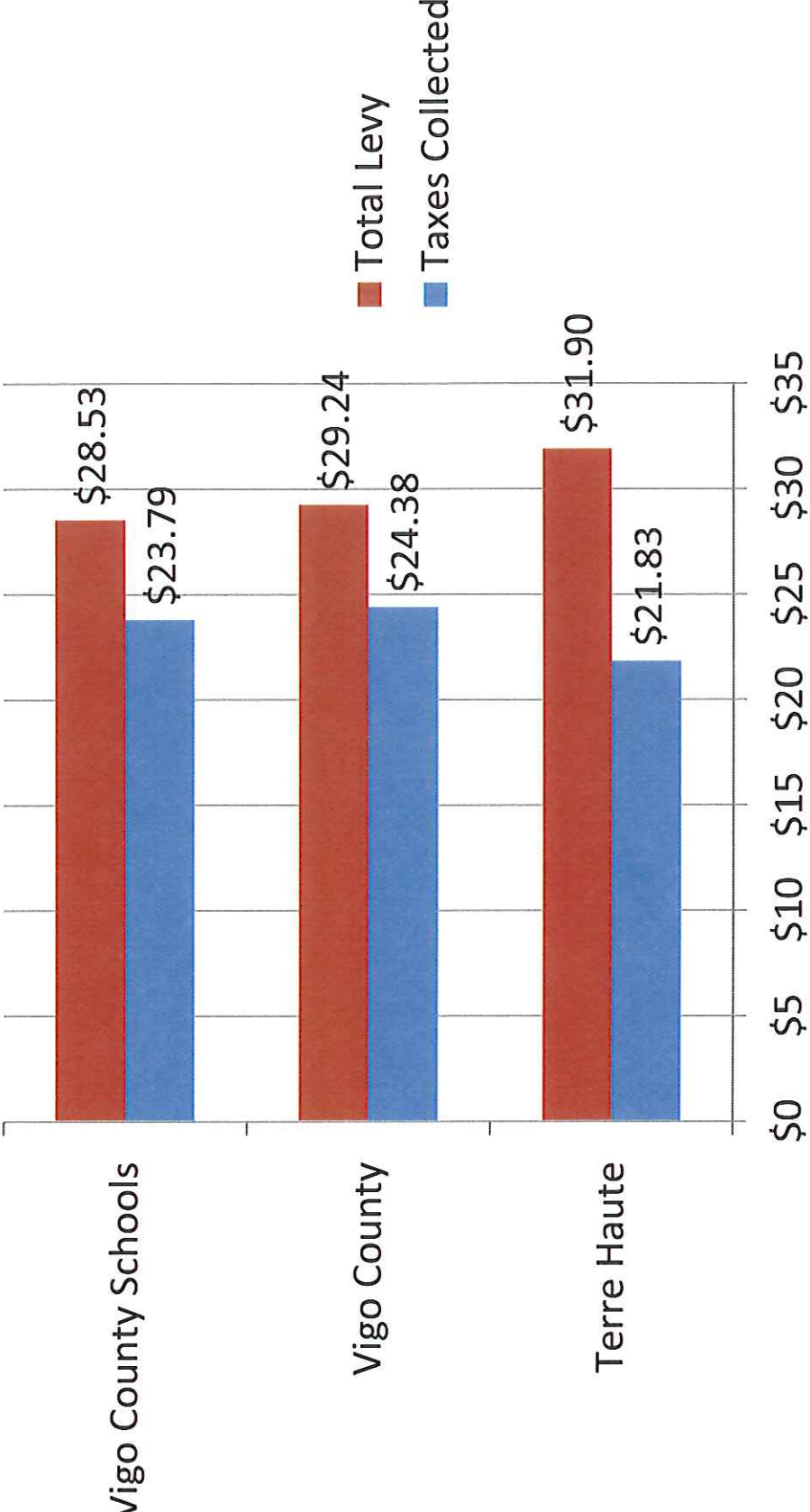
# How do these tax credits impact other Vigo County Taxing Units?

(in millions)

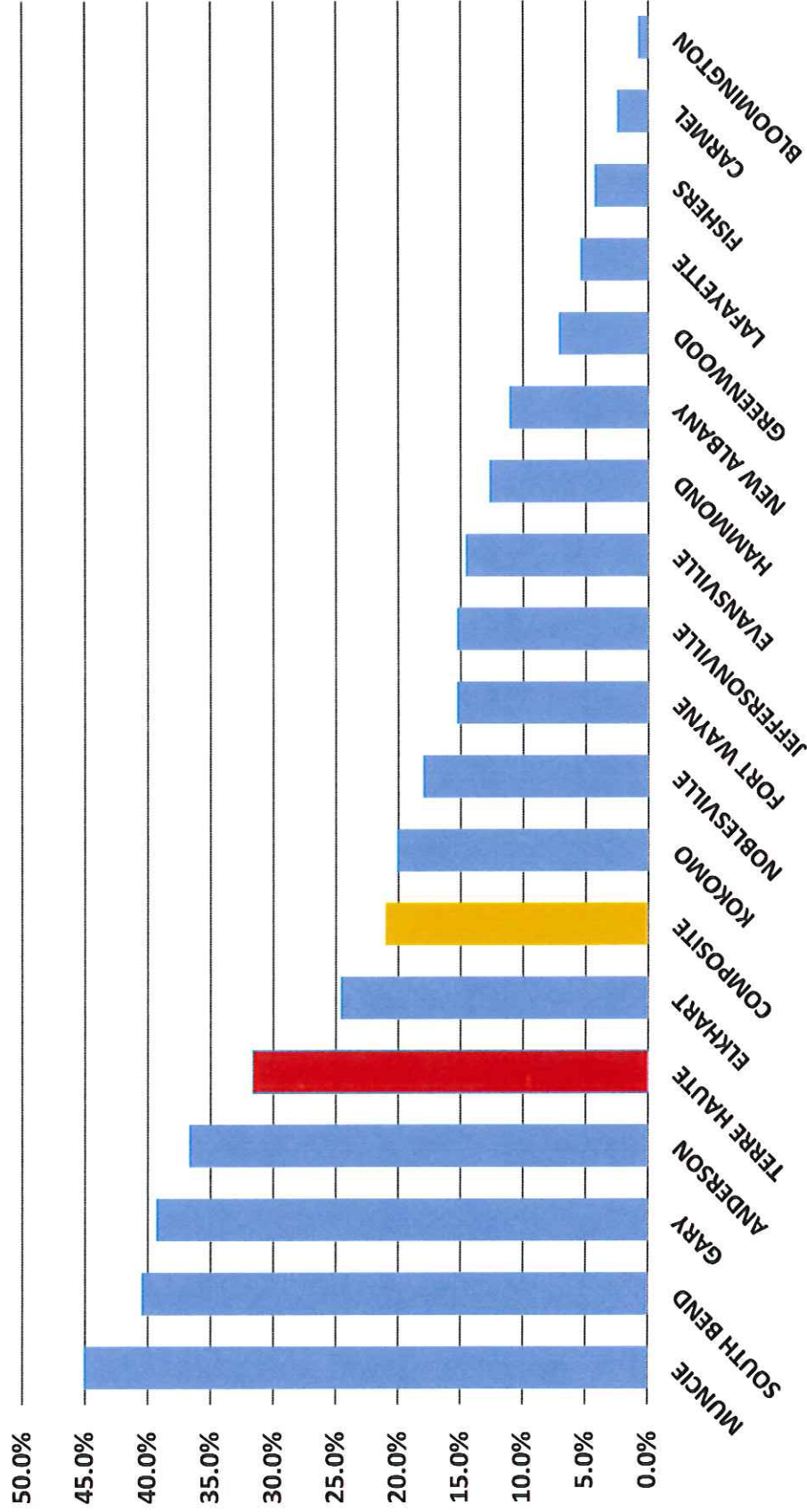
Total Property Tax Relief of \$23.5



# Comparison of Property Tax Levies and Property Tax Collections ( in millions)

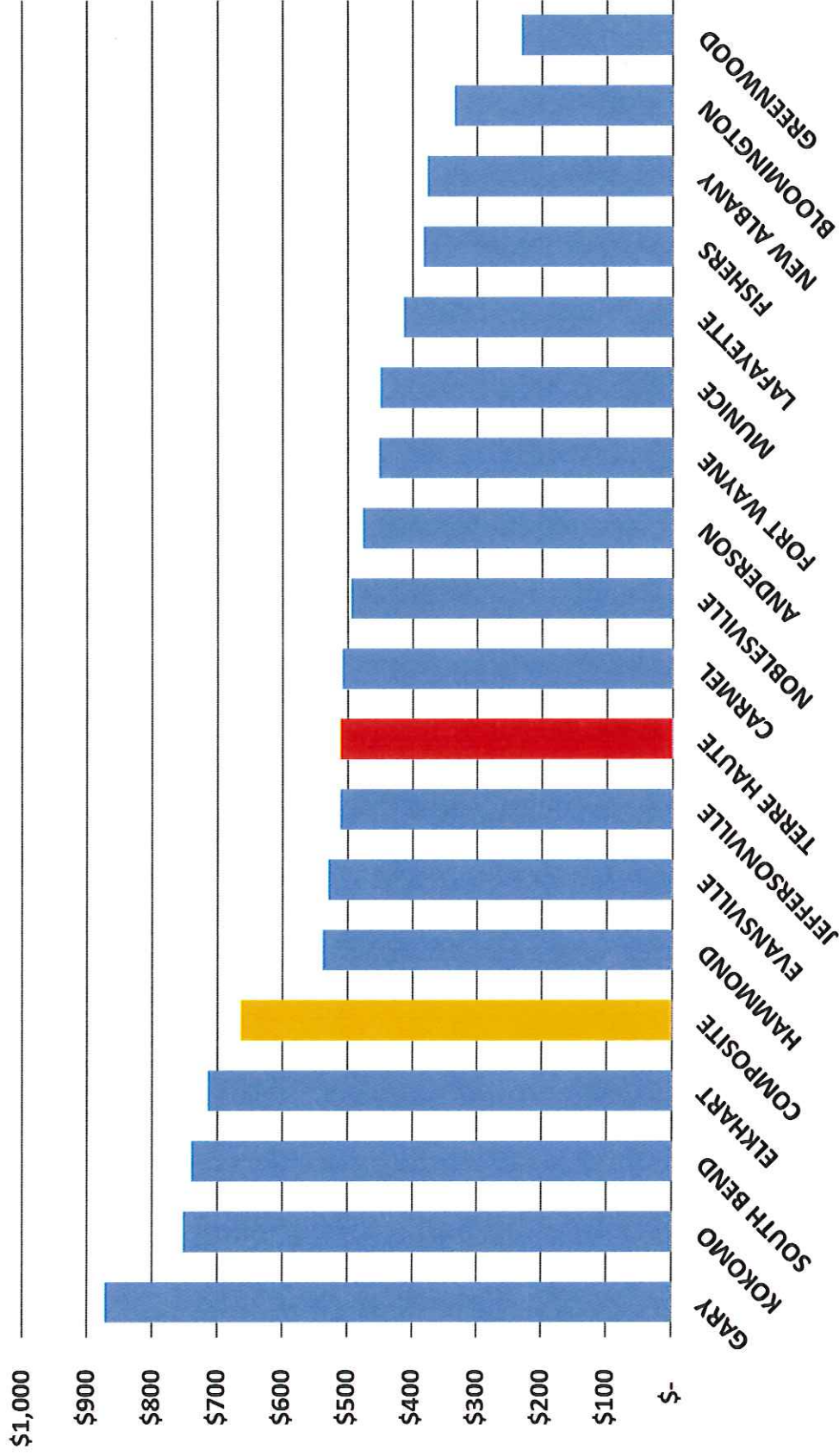


# 2015 CIRCUIT BREAKER CREDITS AS A PERCENTAGE OF ANNUAL CERTIFIED PROPERTY TAX LEVY FOR SELECTED INDIANA MUNICIPALITIES





# 2014 PER CAPITA CERTIFIED PROPERTY TAX LEVY FOR SELECTED INDIANA MUNICIPALITIES



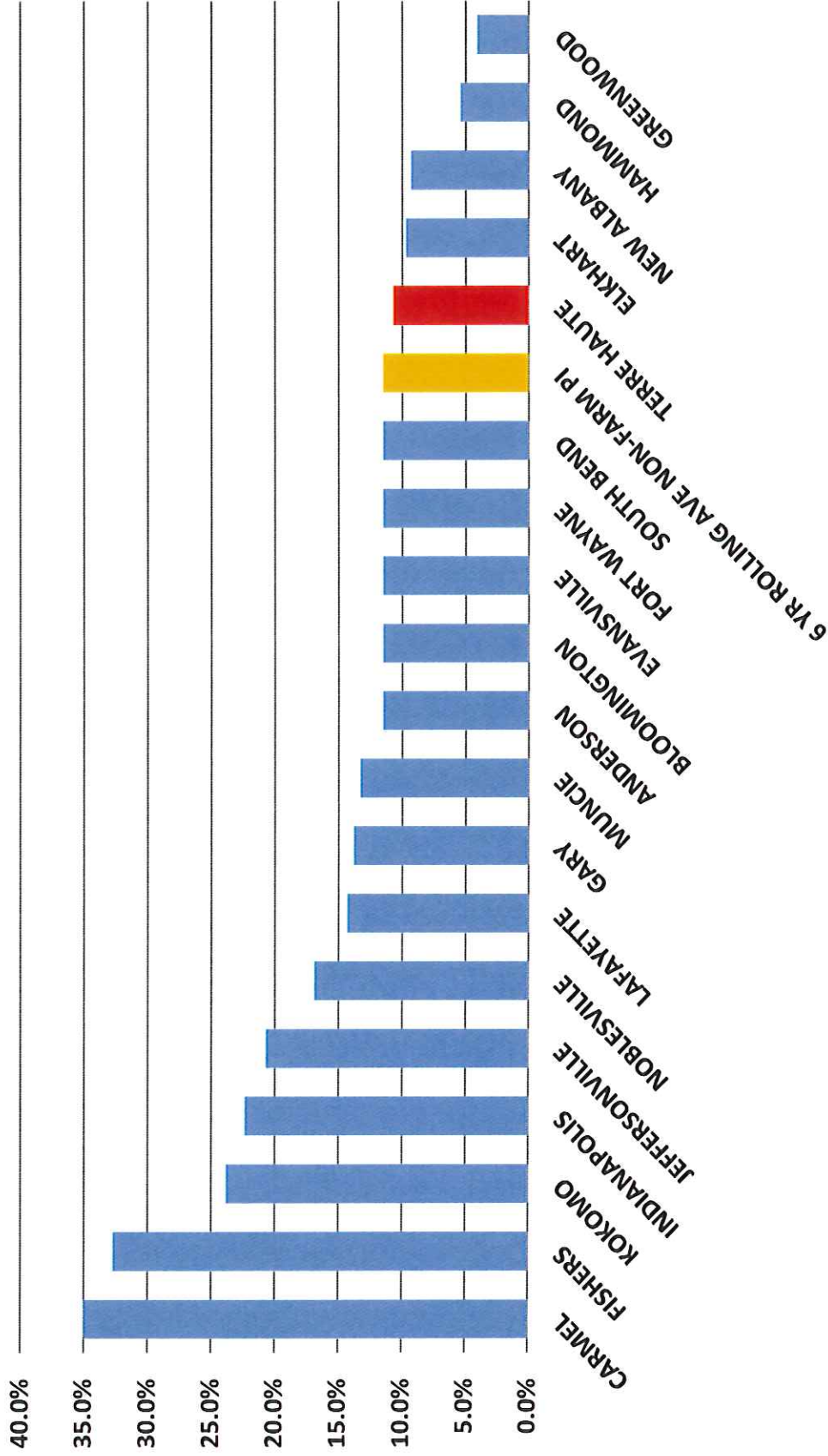
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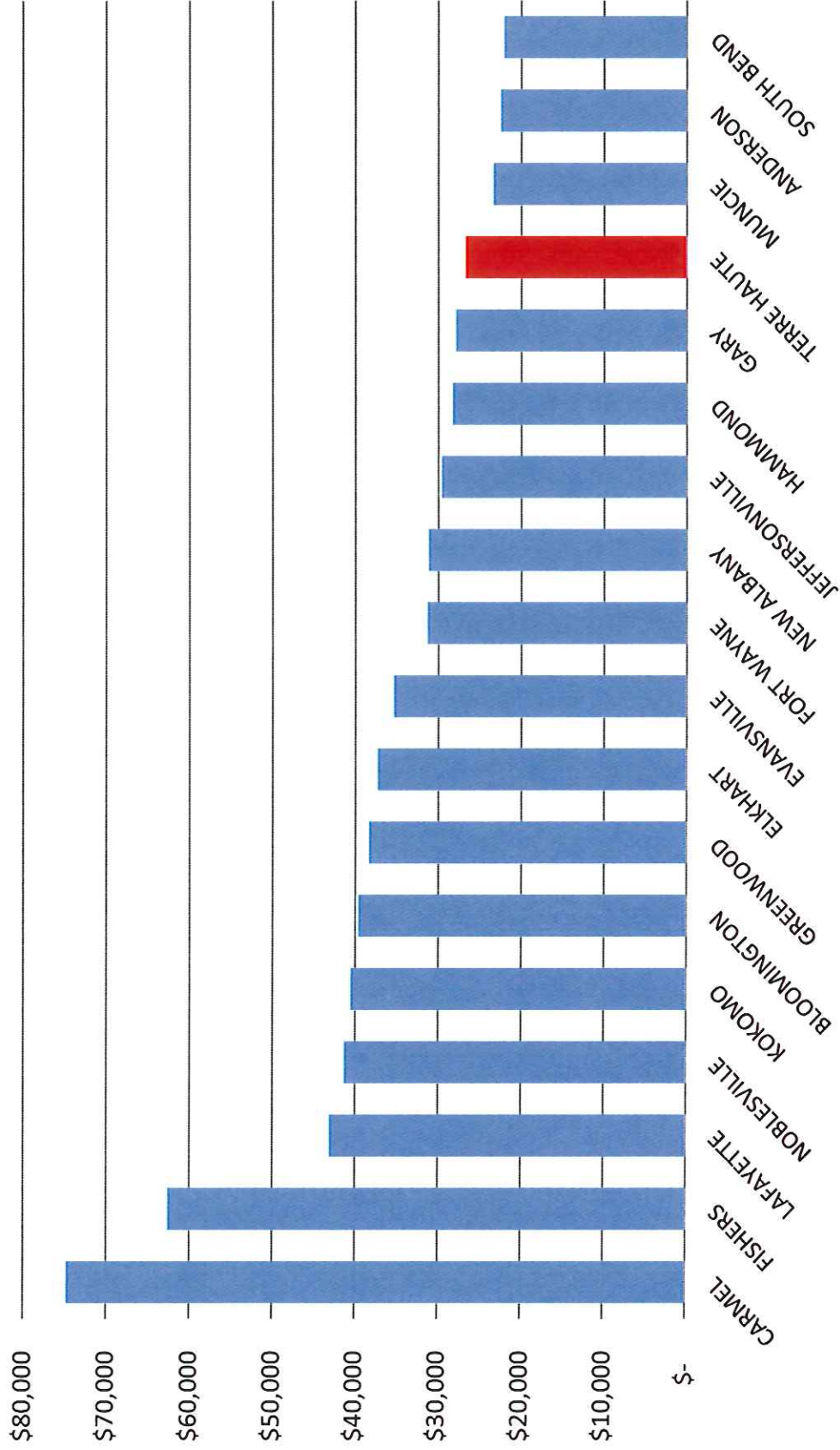
Source: Indiana Fiscal Policy Institute

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# PERCENTAGE GROWTH IN THE MAXIMUM ALLOWABLE LEVY BETWEEN 2011 AND 2015 FOR SELECTED INDIANA MUNICIPALITIES



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



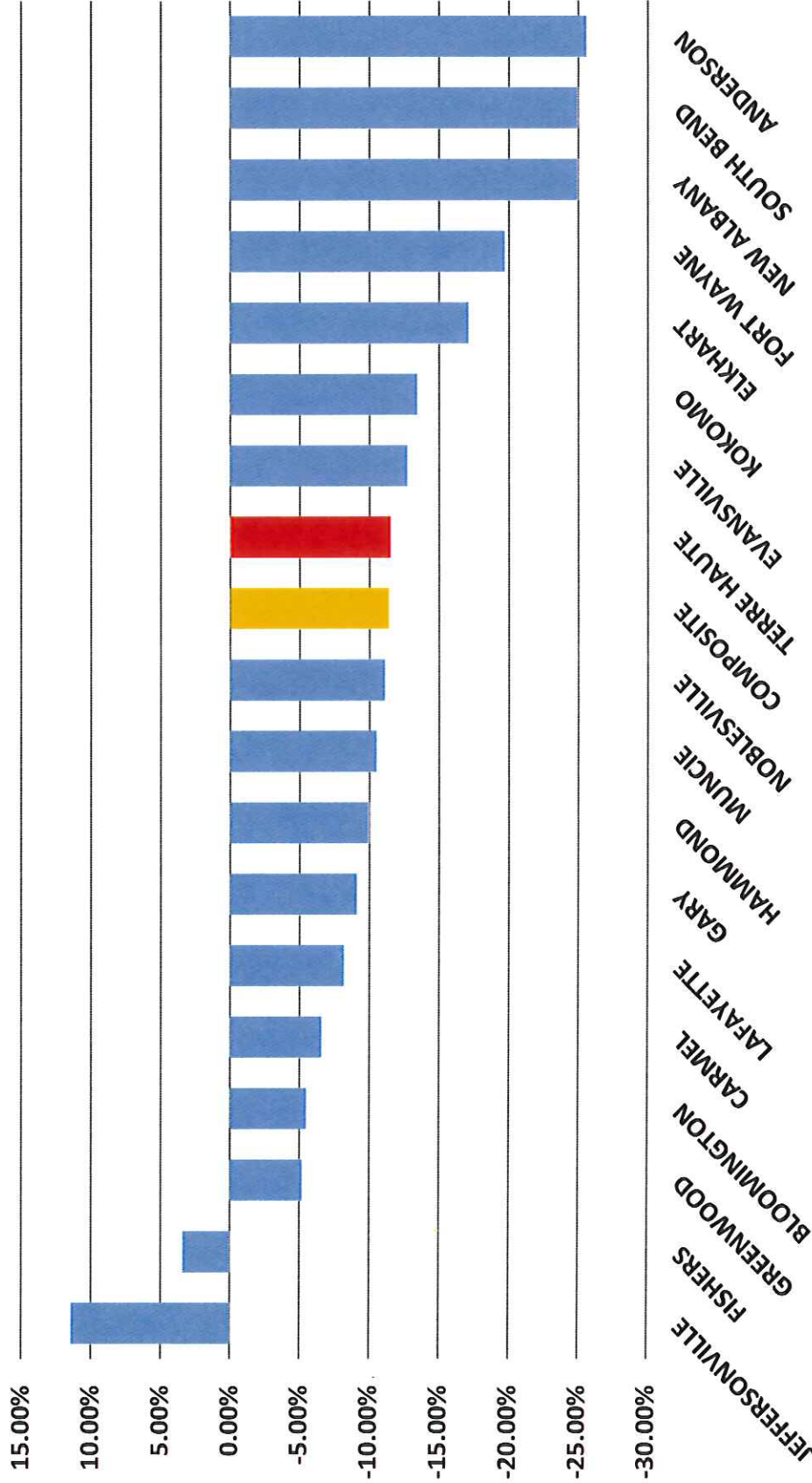
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Source: Indiana Fiscal Policy Institute

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# PERCENTAGE CHANGE IN NET ASSESSED VALUATION FOR SELECTED INDIANA MUNICIPALITIES BETWEEN 2007 PAY 2008 AND 2014 PAY 2015



Source: Indiana Fiscal Policy Institute

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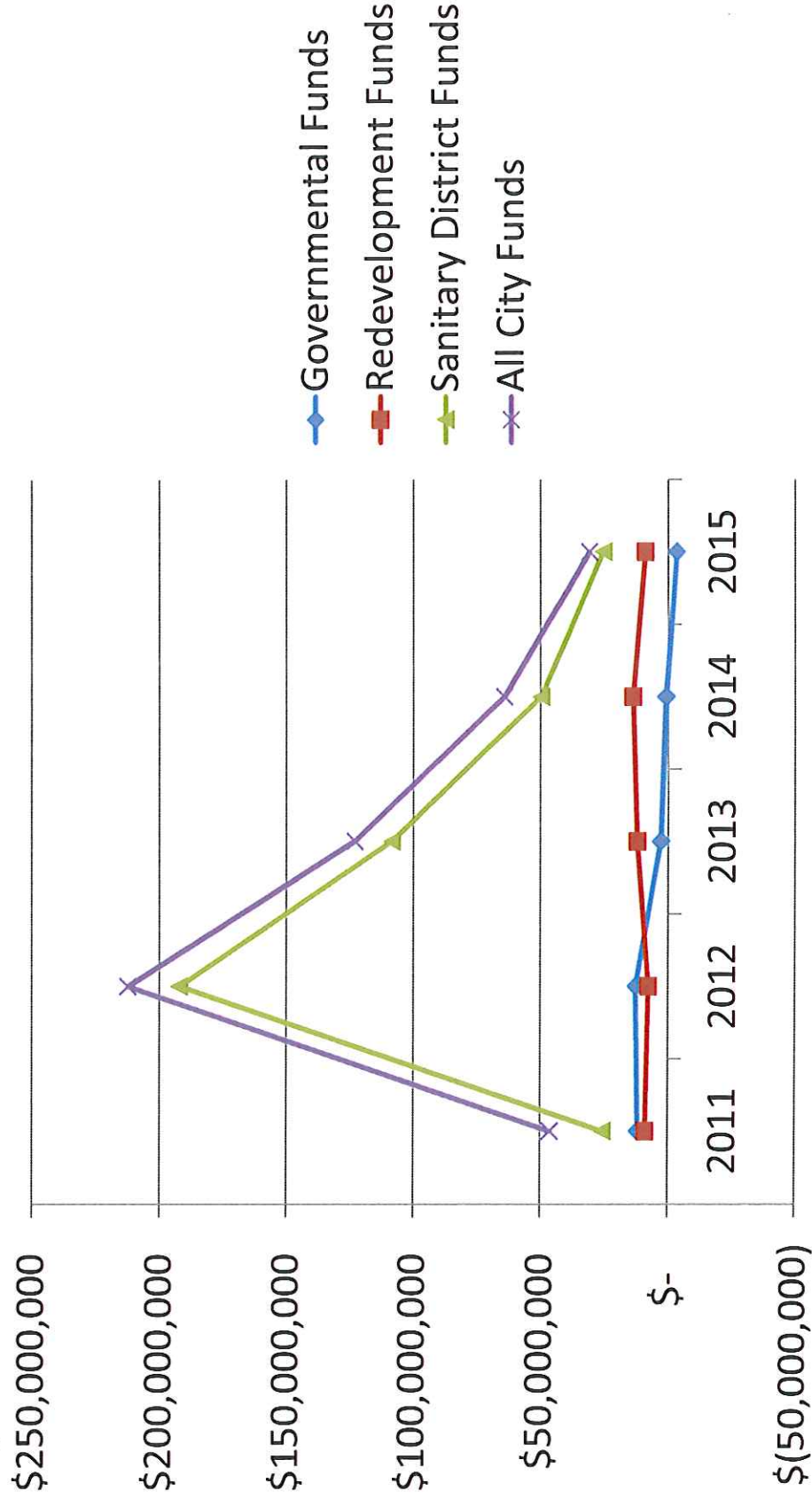
# Tools to Fund Property Tax Relief

- Reduce excess fund balances.
  - Temporary solution because cash balances will quickly be depleted.
- Reduce expenditures.
  - Cost control and process efficiency is an ongoing process that can reduce costs. These efficiencies take time to identify and implement.
  - Eventually cost reductions will reduce the quantity and quality of public services.

# Tools to Fund Property Tax Relief

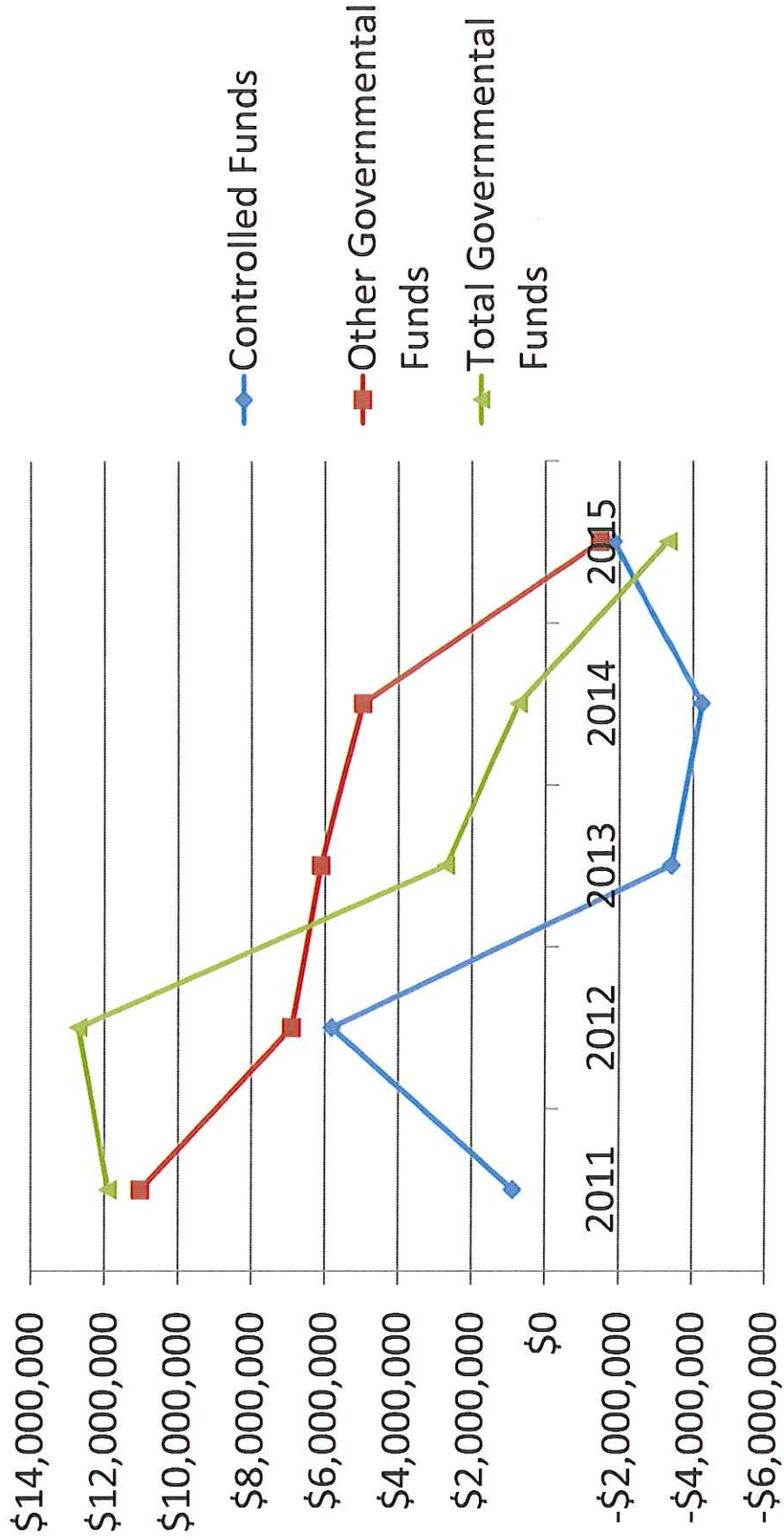
- Establish new or increased revenue sources
  - Property tax revenues will only grow with growth in assessed value
  - Establish or increase user fees
  - Establish or increase payments in lieu of taxes (PILOTs)
  - Adopt other forms of tax revenue
    - Local option income taxes
    - Food and beverage taxes

# Impact of Property Tax Relief on All Cash Balances



December 31, 2015 Preliminary Estimates

# Impact of Property Tax Relief on Governmental Cash Balances



December 31, 2015 Preliminary Estimates



# What has been done so far?

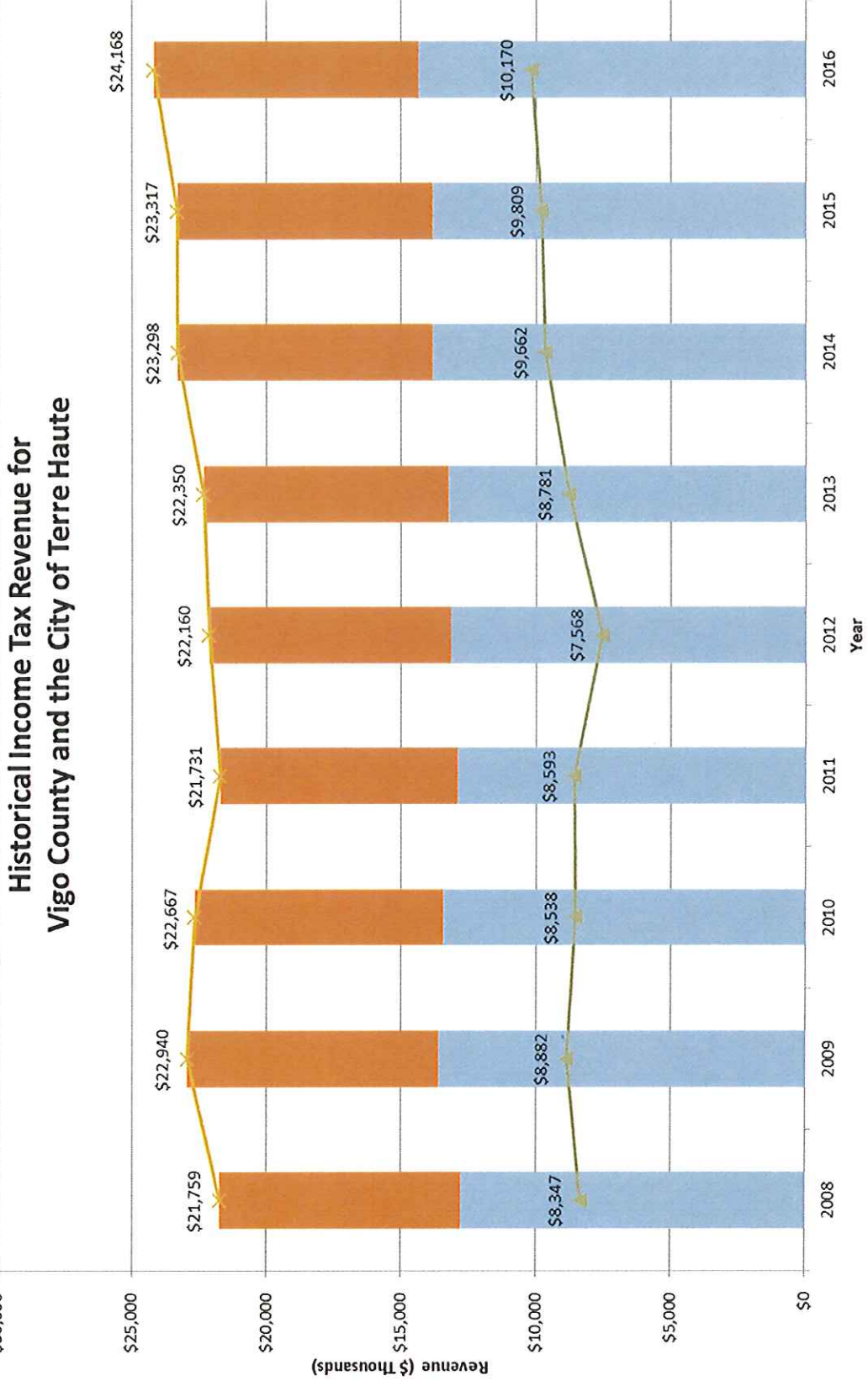
- City administration has implemented a number of budget reductions, including the reduction of personnel costs through attrition
- City held overall growth in expenditures to 4% since 2008
- Establishment of Cumulative Capital Development Fund to maximum rate

# What has been done so far?

- Started a health clinic to reduce medical claims
- Initiated PILOT payments from the Sanitary District
- Shared administrative costs with the Sanitary District

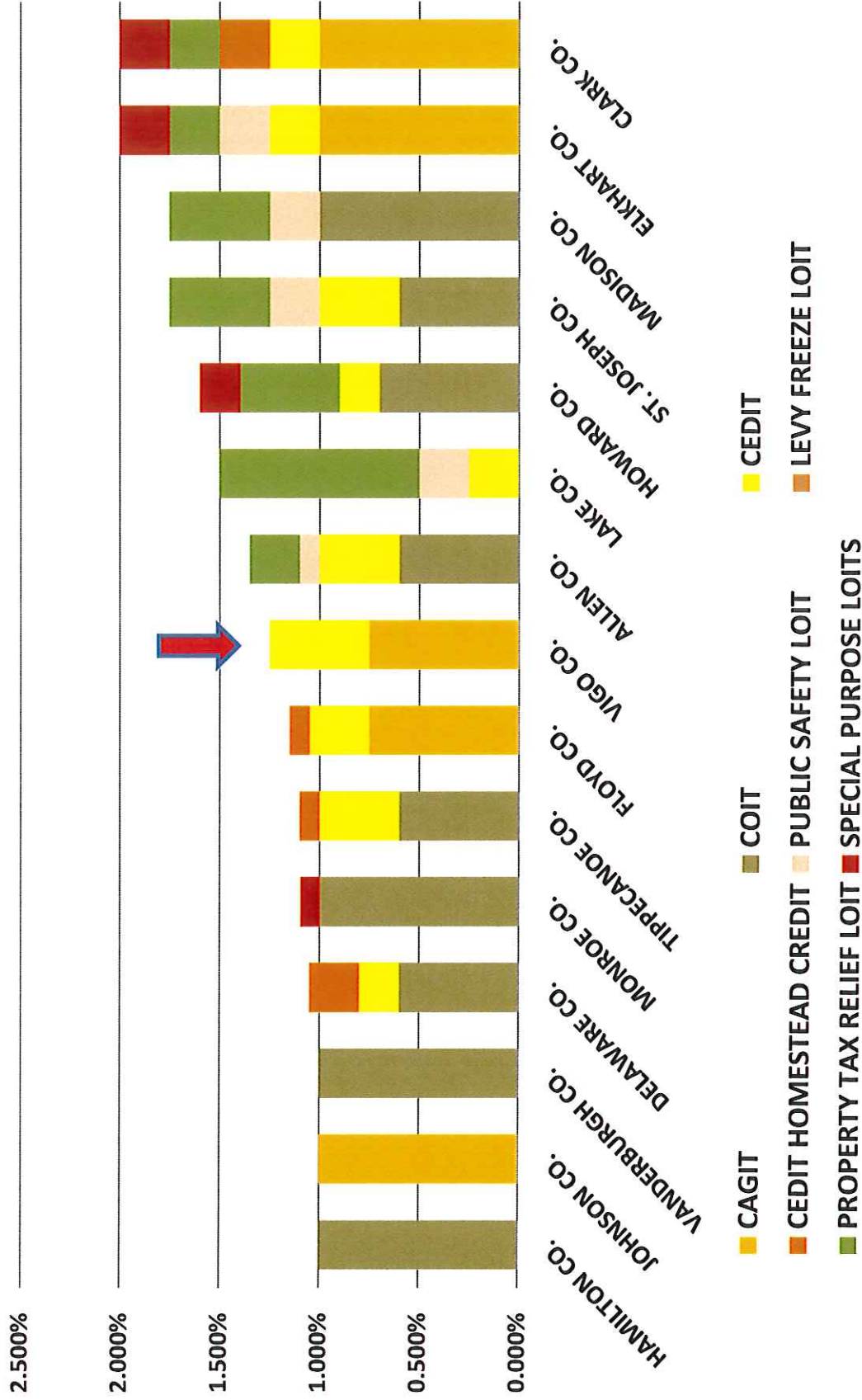
# User Fees Adopted by Others

- Many of the cities hit the hardest by circuit breaker credits have implemented new or additional user fees to help fund their losses
- Examples:
  - Anderson, Gary and South Bend have all adopted trash fees exceeding \$10 per month
  - Anderson, Muncie, Kokomo and Fort Wayne have all adopted storm water fees



■ Vigo County CAGIT Revenue   
 ■ Vigo County Income Tax Revenue   
 — Vigo County CREDIT Revenue   
 — Terre Haute Income Tax Revenue

# 2015 LOCAL OPTION INCOME TAX RATES



Source: Indiana Fiscal Policy Institute. Delaware County increased CREDIT by 0.2% and adopted a Public Safety LOIT of .25% effective January 1, 2016.

# What more needs to be done?

Projected Budget Deficit in 2017, without new revenue or further budget reductions	\$3.0 million
Projected annual revenue needed to restore recommended cash balances in all Governmental Funds of \$6.7 million over 5 years (excludes Sanitary and Redevelopment)	\$2.0 million
Recommended additional revenues or budget reductions needed to address current revenue shortfall	\$5.0 million

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# Next Steps

## *(within City control)*

- ***Continue to Reduce Expenses***
  - Continue to search for cost efficiencies to reduce expenses
  - Eliminate or outsource nonessential City services, such as public golf courses
  - Determine the feasibility of further reducing personnel costs through reduction in benefits or reduction in workforce
    - Approximately 15% of annual personnel costs; 80% is police and fire personnel.
  - Cost reductions, while important, take time to identify and implement.

## Next Steps *(within City control)*

- ***Establish solid waste collection fee***
  - \$12.50 per month will provide approximately \$2.7 million of net revenues each year to fund the cost of these services.
    - \$2.50 of the monthly fee provides funding for administrative expenses and an allowance for uncollectible accounts
  - While these costs have traditionally been paid from property taxes, most Indiana cities now rely upon user fees to fund these services.



# Next Steps

## *(within City control)*

- ***Increase Sewer Rates and Charges***
  - 16% increase, phased in over the next two years.
    - Could establish storm water rates to reduce the increase in sewer rates required
  - Provides for the funding of the next phase of the long term control plan through user fees in 2018 and the repayment of a \$6.0 million note
  - Reduces property taxes in 2020 by \$8.8 million and circuit breaker tax credits by \$1.6 million annually
  - PILOT payments reduced to \$4,250,000 in 2017

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## Next Steps (Beyond City Control)

- ***Encourage the Vigo County Council to adopt new or increased local option income taxes by June 30, 2016***
  - a .25% Public Safety tax will provide \$ 2.2 million of new revenues for the City for public safety expenditures
  - a 1.0% Property Tax Replacement Income tax would replace approximately \$4.3 million of property tax relief now funded by the City

# Next Steps

## (Beyond City Control)

- *Seek authorization from the General Assembly to adopt a food and beverage tax*
  - a 1.0% rate would generate approximately \$2 million annually for additional capital projects

# Summary

Due to the financial position of the City, it is critically important to move quickly to establish a solid waste collection fee and increase user fees for wastewater. Property tax relief can no longer be funded from cash balances.

# Summary

- It is equally important to take steps to secure future revenues, such as local income taxes and food and beverage taxes, that can keep pace with inflation.
- Property tax caps, or circuit breaker limits, will continue to limit the growth in property tax revenues to growth in assessed values.
- Without the use of these tools, the City will continue to struggle for many years to come.

# Questions?

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