



**THE FISCAL HEALTH OF INDIANA'S
LARGER MUNICIPALITIES:
CITY OF ELKHART MUNICIPAL PROFILE**

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Introduction

This document is a summary of financial information on the City of Elkhart assembled from several public sources. It is intended to serve as a supplementary document to the Indiana Fiscal Policy Institute report *Fiscal Health of Indiana's Larger Municipalities* released in December, 2015. It was not prepared for or vetted by the City of Elkhart prior to its release and does not serve in any manner as a publication of the City. Rather it is the author's interpretation of the data gathered from publicly available sources.

Economic Climate

Based on this study's Composite Economic Index, the City of Elkhart has been functioning in the seventh most difficult economic climate of the eighteen selected municipalities.

In 1970, the City of Elkhart had 43,152 residents. That total represented 34 percent of the Elkhart County population. In 2014, the estimated population of Elkhart was 51,421. That total represented 26 percent of the Elkhart County population, a decrease of 8 percentage points from 1970. Between 1970 and 2014, Elkhart gained 8,159 residents, a 19 percent increase. Between 2006 and 2014, Elkhart lost an estimated 1,327 residents for a 2.5 percent decrease.

Total personal income in Elkhart County increased by 12.2 percent between 2006 and 2013. This was the third lowest percentage increase among the fifteen counties that contained our selected municipalities. Per capita personal income in 2013 in Elkhart County was \$36,229, seventh lowest among the selected counties. This was 93.8 percent of statewide per capita personal income. In 1970, per capita personal income in Elkhart County was 113.4 percent of the statewide per capita personal income.

Elkhart County has experienced long-term gain in employment. In 1970 the countywide total employment (full and part-time) was 71,287. By 2007, employment in the county had increased significantly to 155,182. However, the county experienced a loss of employment between 2007 and 2013 to a total of 144,913 by 2013. The longer-term increase between 1970 and 2013 was 103.3 percent, the fifth highest rate of increase among the fifteen counties that contained the eighteen selected municipalities. The shorter-term decline between 2007 and 2013 was 6.6 percent, second highest rate of decline among the fifteen counties. This data is from the Bureau of Economic Analysis Total Employment by county data and is based on place of work not place of residence.

The Gross Regional Product in Elkhart County in 2013 was \$10,863,893,452. The per capita GRP was \$54,159 in 2013. This was the third highest GRP per capita of the fifteen counties containing our selected municipalities.

Of the eighteen municipalities included in this study, Elkhart ranked 12th on a Composite Economic Index of several municipal and countywide economic indicators (short and long-term population change, short and long-term employment change, total personal income growth, per capita personal income, gross regional product per capita, gross assessed valuation change, and gross assessed valuation per capita). It scored 114 out of a possible 270 points. This indicates that the City of Elkhart has been operating in a relatively difficult economic environment in comparison with the group of municipalities included in this study. Some of these factors, such as per capita personal income relate closely to the relative income

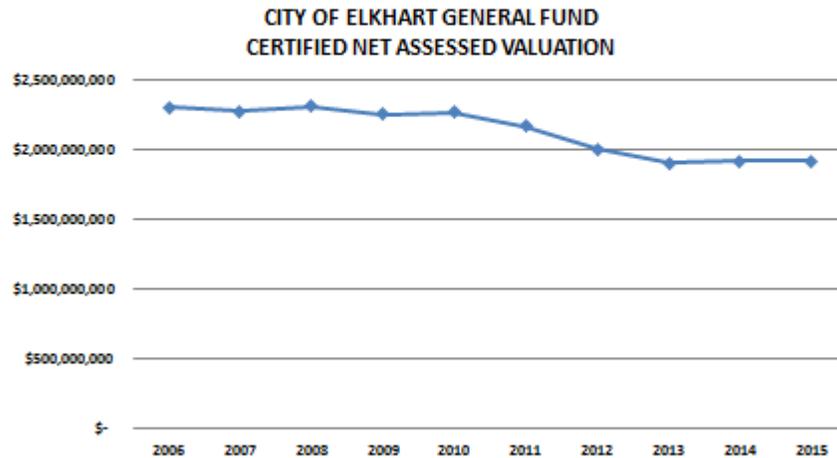
tax performance and others such as change in gross assessed valuation impact both property tax levies and circuit breaker credits.

Assessed Valuation

The gross assessed valuation for the City of Elkhart was \$2,767,351,649 in 2014 pay 2015. This was a 4.6 percent increase over the 2007 pay 2008 gross assessed valuation. Gross assessed valuation was \$53,818 per capita in 2014 pay 2015, ranking 12th among the eighteen selected municipalities. In 2007 pay 2008 the standard homestead deductions were 12.9 percent while the 2014 pay 2015 combination of the standard and supplemental homestead deductions represented 16.7 percent of Elkhart's gross assessed valuation. In 2007 pay 2008 4.4 percent of the city's gross assessed valuation was captured in tax increment financing districts and this increased to 7.6 percent in 2014 pay 2015. Net certified assessed valuation in 2007 pay 2008 was 91.5 percent of gross assessed valuation (less the gross assessed valuation captured in tax increment districts). By 2014 pay 2015, this had fallen to 73.5 percent.

Figure 1 illustrates the changes in net assessed valuation for Elkhart from 2005 pay 2006 through the current year. The certified net assessed valuation for the City of Elkhart General Fund is \$1,918,533,060 for 2014 pay 2015. That is down from \$2,305,451,960 in 2005 pay 2006. Between 2007 pay 2008 and 2008 pay 2009, where the impact of the increases in the homestead deductions enacted in HEA 1001-2008 first occurred, the certified net assessed valuation for Elkhart declined by 2.7 percent, the smallest decline among the seventeen selected municipalities whose net assessed valuation declined (Jeffersonville experienced a slight increase). Between 2008 pay 2009 and 2014 pay 2015, the City of Elkhart's net assessed valuation continued to decline by an additional 14.8 percent, the second highest rate of decrease among the selected municipalities. Net assessed valuation per capita in Elkhart was \$37,310 in 2014 pay 2015, ranking 8th among the eighteen municipalities. Over the past year, net assessed valuation for the City of Elkhart General Fund remained constant. In 2014 pay 2015, 7.6 percent of the City of Elkhart's General Fund net assessed valuation was captured by tax increment financing districts. This was the sixth lowest among the selected municipalities.

FIGURE 1



In 2006 pay 2007, the City of Elkhart's certified net assessed valuation was 24.2 percent of the net assessed value countywide in Elkhart County. By 2014 pay 2015, the City's portion of the countywide net assessed value had increased to 25.2 percent.

Annual Property Tax Certified Levies and Rates

2007 Certified Budgets, Levies and Rates for Property Tax Supported Funds

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$34,097,144	\$20,362,780	\$0.8952
Property Maintenance	\$1,398,323	\$1,198,747	\$0.0527
Fire Pension	\$4,339,275	\$1,683,250	\$0.0740
Police Pension	\$2,119,622	\$912,140	\$0.0401
Debt Service	\$364,522	\$370,770	\$0.0163
Parks & Recreation	\$4,069,469	\$3,484,783	\$0.1532
Park Bond	\$562,045	\$568,666	\$0.0250
Park Bond #2	\$220,286	\$225,192	\$0.0099
MVH	\$3,117,340	\$948,535	\$0.0417
Cumulative Fire	\$950,000	\$63,691	\$0.0028
Aviation/Airport	\$779,611	\$454,933	\$0.0200
Cemetery	\$300,584	\$52,317	\$0.0023
Cum. Capital Development	\$660,000	\$916,689	\$0.0403
Cumulative Sewer	\$450,000	\$216,093	\$0.0095
Total	\$53,428,251	\$31,458,585	\$1.3830

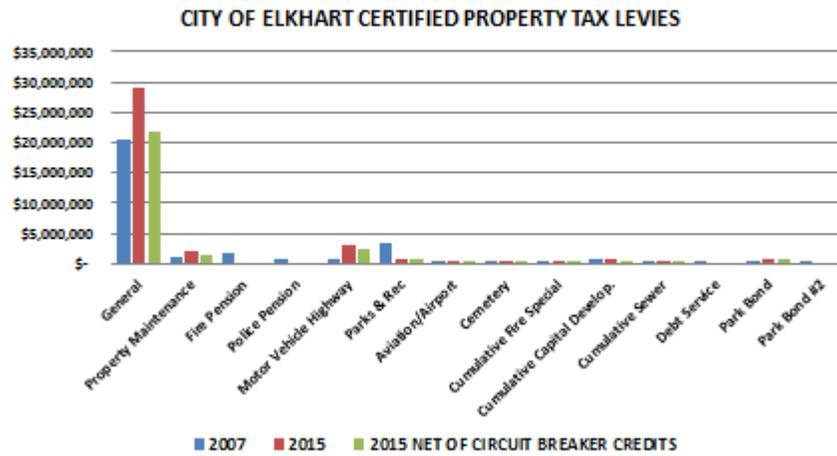
2015 Certified Budgets, Levies and Rates for Property Tax Supported Funds

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$36,124,452	\$29,000,546	\$1.5116
Property Maintenance	\$1,385,566	\$2,098,875	\$0.1094

MVH	\$3,707,158	\$3,159,824	\$0.1647
Cumulative Fire	\$0	\$53,719	\$0.0028
Parks & Recreation	\$898,563	\$878,688	\$0.0458
Park Bond	\$780,362	\$882,525	\$0.0460
Aviation/Airport	\$795,461	\$619,686	\$0.0323
Cemetery	\$474,200	\$109,356	\$0.0057
Cum. Capital Development	\$753,857	\$744,391	\$0.0388
Cumulative Sewer	\$250,000	\$182,291	\$0.0095
Total	\$45,169,619	\$37,729,871	\$1.9666

Source: Department of Local Government Finance Annual Budget Orders

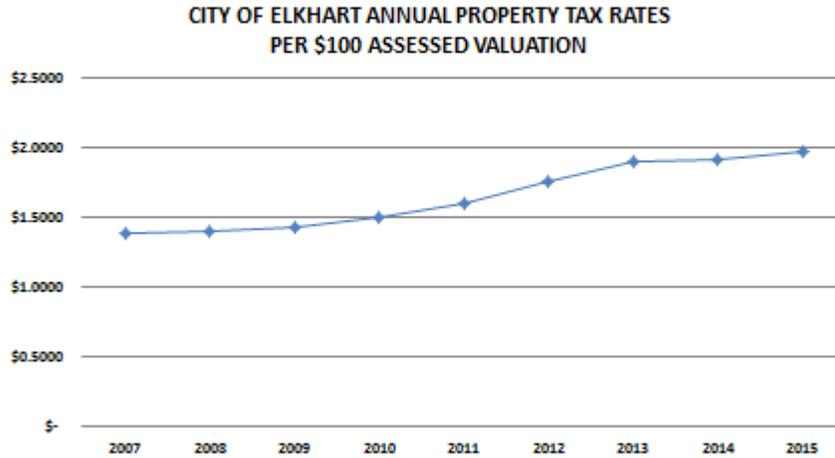
FIGURE 2



The City of Elkhart’s 2015 property tax rate of \$1.9666 ranked as the fifth highest among the eighteen selected municipalities. Elkhart’s property tax rate increased by \$0.5836 between 2007 and 2015. This was a 42.2% increase. The increase, in cents per \$100 assessed valuation, ranked sixth highest among the selected communities and was the eighth lowest as a percentage increase.

The City of Elkhart does levy property taxes to support its Motor Vehicle Highway Fund. It also levies a small amount of property taxes to support a Cumulative Sewer Fund. It has adopted a Cumulative Capital Development Fund with a 2015 rate of \$0.0388. It does not levy property taxes to support either the Police or Fire Pension Funds. In 2015, 2.3 percent of Elkhart’s property tax rate is used to support debt service funds.

FIGURE 3



Circuit Breaker Impacts

In 2015, the City of Elkhart lost \$9,278,997 in property tax revenue due to Circuit Breaker credits. That was 24.6 percent of its Certified Property Tax Levy, the sixth highest among the selected municipalities. After adjusting for inflation, the 2015 total Certified Levy net of Circuit Breaker Credits was 79.3 percent of its 2007 Certified Levy. In 2015 Circuit Breaker Credits allocated to the City of Elkhart were \$180 per capita (fifth highest among the eighteen municipalities) and \$484 per \$100 of assessed valuation (sixth highest). The City of Elkhart lost another \$1,058,342 in property tax revenue due to the Circuit Breakers in its tax increment financing districts.

FIGURE 4

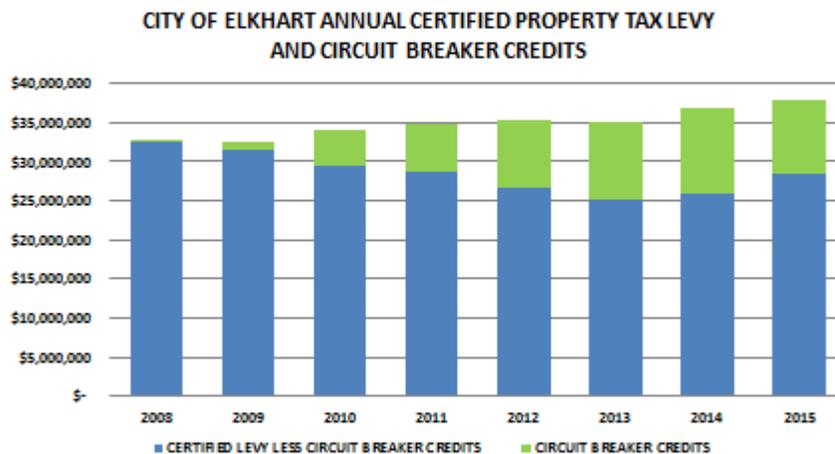


FIGURE 5

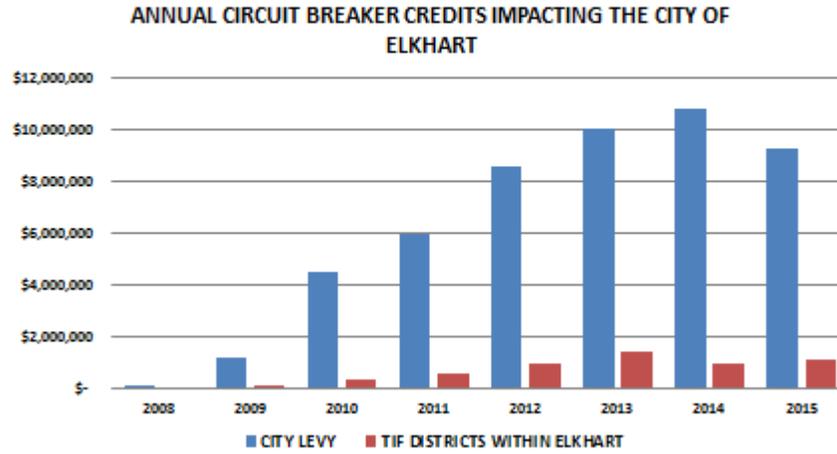
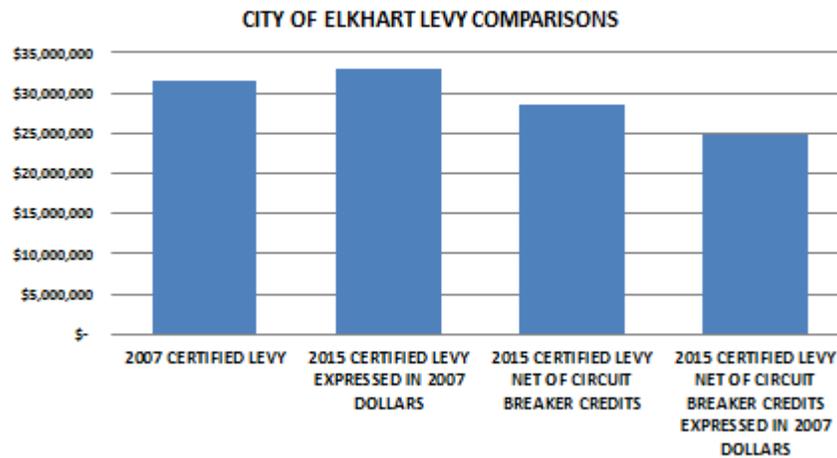


FIGURE 6



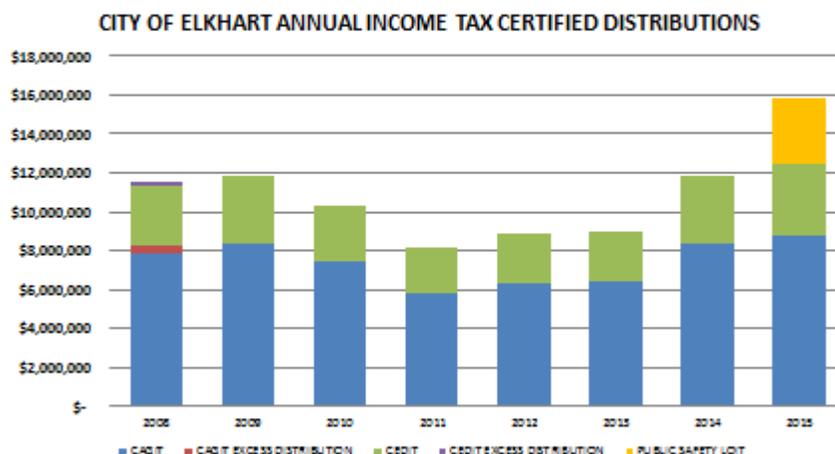
Local Income Taxes

Elkhart County has a County Adjusted Gross Income Tax at 1.0%, a County Economic Development Income Tax at a 0.25% rate, a Property Tax Relief LOIT at a 0.25% rate and a Public Safety LOIT at a 0.25% rate. It also has a Special Purpose LOIT at a 0.25% rate. The City of Elkhart does not receive a direct distribution of the Special Purpose LOIT.

In 2008, the City of Elkhart received \$11,449,022 in local income tax distributions. By 2015 these distributions had increased to \$15,854,729. The 2008 distribution would have needed to be \$12,745,286 in 2015 to keep pace with inflation.

Local income tax revenue represented 26.1 percent of Elkhart’s “core income” (certified property tax levy plus income tax revenue) in 2008. This proportion grew significantly as income tax revenue represented 36.0 percent of “core income” (certified property tax levy less circuit breaker credits plus income tax revenue) in 2015.

FIGURE 7



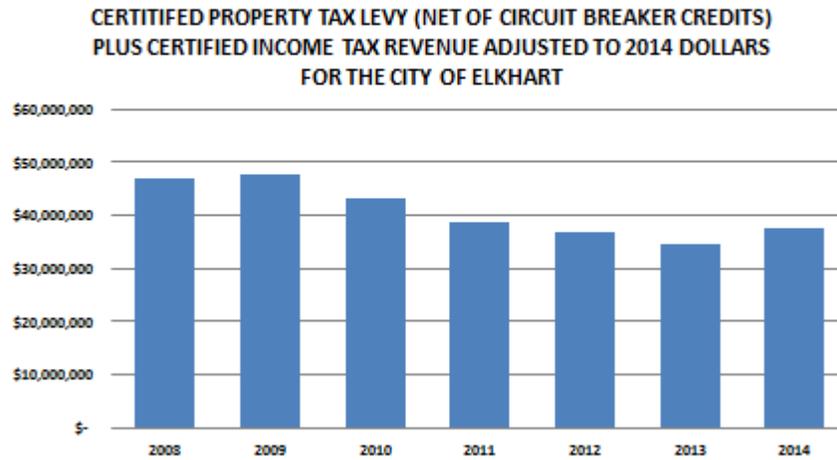
Fiscal Capacity Index

After exploring the changes which have occurred to the property and income tax revenues to the City of Elkhart, what has been the overall impact on the fiscal capacity of this municipality? To better understand that impact, a simple “Fiscal Capacity Index” has been created. “Core income” as defined in this study is the combination of (1) annual certified property tax levies net of 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.

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. 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. Lastly, the recession also had a depressing effect on personal income which, in turn, reduced income tax revenues.

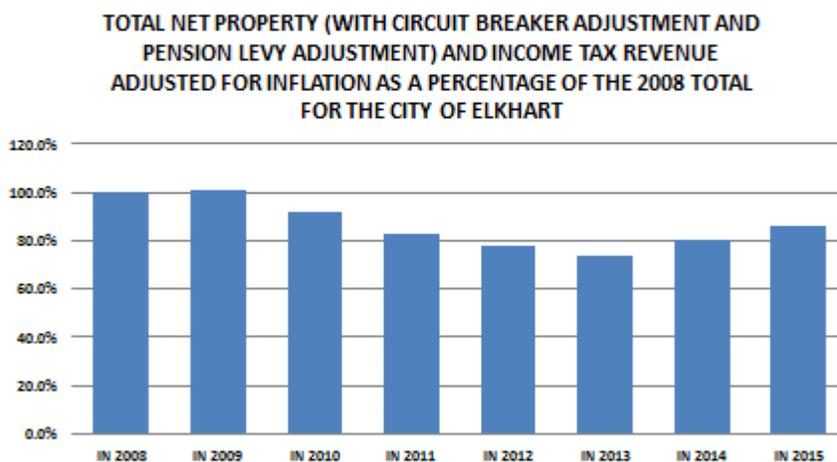
After the annual “core income” was determined for Elkhart, this revenue was then adjusted for inflation, creating the real value of the annual revenue for comparison over the 2008-2015 timeframe. Figure 8 illustrates the inflation adjusted core income for the City of Elkhart from 2008 through 2015.

FIGURE 8



The City of Elkhart's total certified property tax levy, net of circuit breaker, plus income tax revenue was, after adjusting for inflation, 93.3 percent of the 2008 total.¹ This was the seventh lowest Fiscal Capacity Index ranking of the eighteen selected municipalities. Between 2009 and 2015 the cumulative loss of core revenue compared with the 2008 total was \$28,132,310. This was the equivalent of 65.7 percent of 2008 core revenue.

FIGURE 9

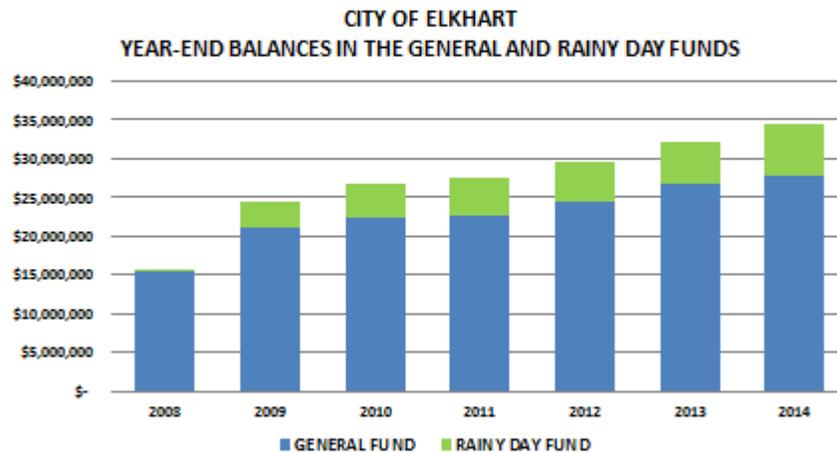


¹ The 2008 levy was adjusted to remove the Police and Fire Pension levies that the State took over in 2009.

Year-End Balances, Annual Receipts and Annual Disbursements

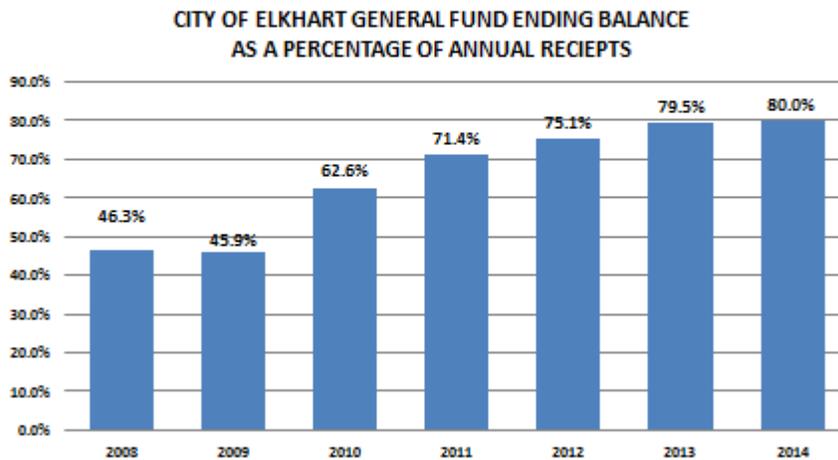
The 2014 year-end balance, including reserved and obligated funds, in the City of Elkhart's General Fund was \$27,695,704. Its Rainy Day Fund ended 2014 with a balance of \$6,764,670. The combined total balance for both funds at year-end 2014 was \$34,460,374. This was 95.5 percent of annual receipts from both funds combined, ranking as the highest of the eighteen selected municipalities. The combined total represented \$670 per capita, also the highest ranking. The combined General and Rainy Day fund balances increased by \$9,886,560 between 2009 and 2014. This was the highest ranking among the selected municipalities.

FIGURE 10



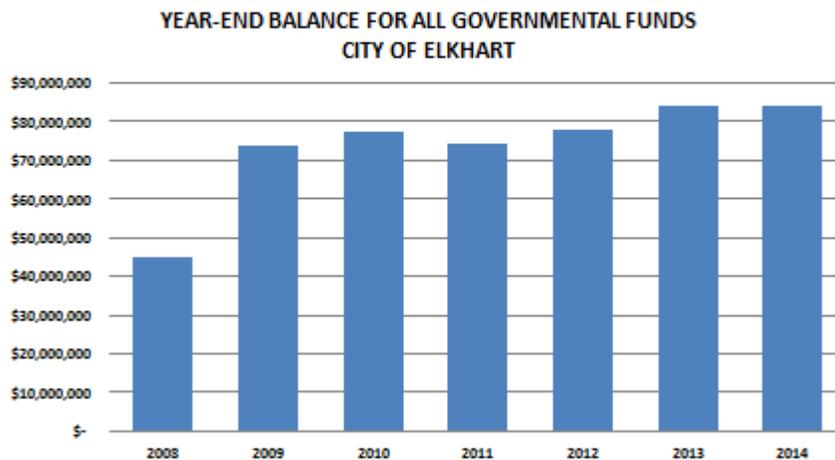
The 2014 year-end balance for all Governmental Funds for the City of Elkhart was \$84,005,520. This was \$1,634 per capita, ranking second highest among the selected municipalities. The year-end balance for all Governmental Funds was 95.9 percent of the 2014 receipts in those funds. General Fund disbursements represented 38.3 percent of all Governmental Fund disbursements in 2014. Total disbursements from Governmental Funds in 2014 were \$87,904,738. Total disbursements from all funds, including Governmental and Enterprise type funds, was \$139,904,859 in 2014.

FIGURE 11



Total receipts from all Governmental Funds in 2014 were \$87,589,191. This was \$1,703 per capita, ranking as the 9th highest among the selected municipalities. Core revenue (certified property taxes net of circuit breaker credits plus certified income tax distributions) represented 43.1 percent of all Governmental Fund receipts in 2014 for the City of Elkhart.

FIGURE 12



Intergovernmental Revenue

The information in this section was obtained from the IUPUI’s Public Policy Institute Fiscal Benchmarking Project. 2012 intergovernmental revenue for Elkhart was \$13,953,829 and represented 14.6 percent of total revenue. Intergovernmental revenue in 2011-2012 averaged 17.7 percent of total annual revenue.

Elkhart was the sixth most dependent on Intergovernmental Revenues among the selected municipalities.² The 2011-2012 average annual intergovernmental revenue per capita was \$336, ranking Elkhart as eighth highest among the selected municipalities.

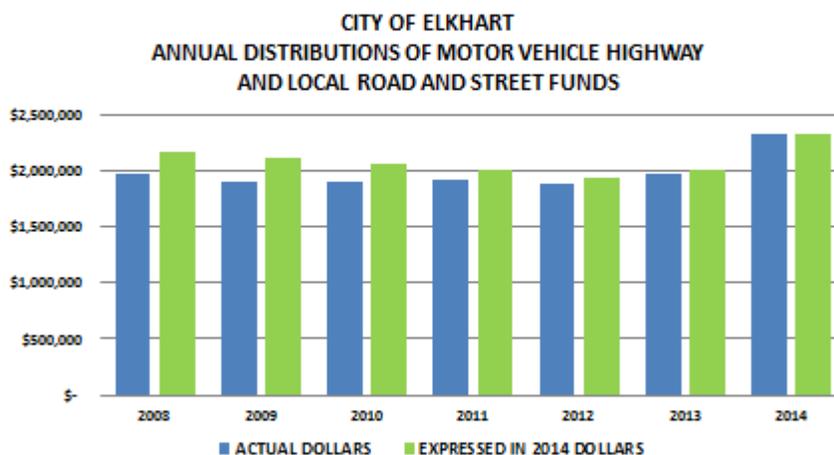
Highway Funding

The distribution of state taxes on fuel back to local governments has traditionally been the primary revenue source to support municipal road maintenance and enhancements. While most municipalities have found it necessary to supplement this source with other revenues, particularly as distributions from the Motor Vehicle Highway (MVH) and Local Road and Street (LR&S) funds had not been keeping pace with inflation, this source remains a most important revenue stream for the City of Elkhart.

In 2008, the City received a combined total of \$1,969,357 from the MVH and LR&S distributions. By 2012, these distributions had declined to \$1,885,190. The changes to the MVH Account made by the General Assembly beginning with the 2013-2015 State Budget increased the distributions to local units, including the City of Elkhart. By 2014, the first full year that the increase was in effect, Elkhart’s combined distributions had increased to \$2,329,632. This was an 18.3 percent increase over the 2008 distributions, ranking as the 12th highest percentage change among the selected municipalities. After adjusting for inflation, this was a 7.6 percent increase over the 2008 combined MVH and LR&S distributions. The composite inflation adjusted increase for all eighteen selected municipalities was 15 percent.

The City of Elkhart does levy property taxes to support its MVH Fund. In 2015, its levy for this fund net of circuit breaker credits was \$2,364,126.

FIGURE 13



² There was no data available on Intergovernmental Revenues for the City of Lafayette.

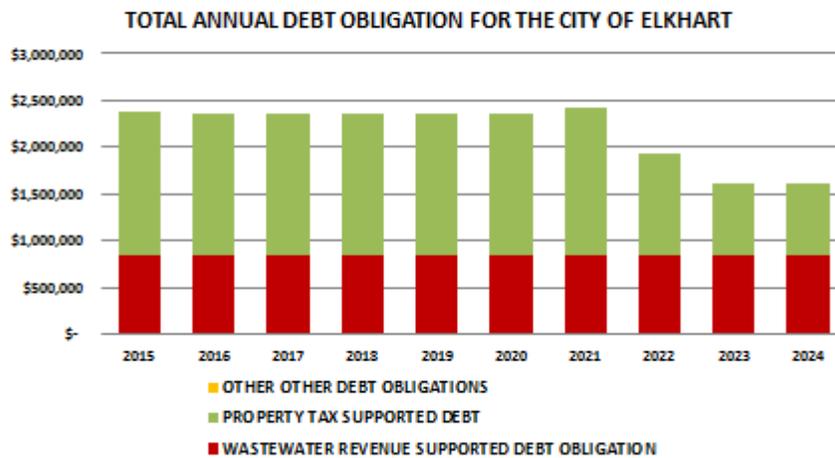
Debt

Per information available on the Indiana Gateway database, as of July 1, 2014, the City of Elkhart had total outstanding debt of \$30,308,481. This was \$591 of outstanding debt per capita, ranking third lowest among the selected municipalities.

Of the total outstanding debt, 43.4 percent was supported by wastewater revenues, no debt was supported by water revenues and 8.5 percent was supported by tax increment finance revenues. The total outstanding debt per capita, excluding debt supported by wastewater, water and TIF revenues was \$284, ninth lowest among the selected municipalities.

As of July 1, 2014, the City of Elkhart did not have any outstanding debt supported with local income tax revenues.

FIGURE 14



The 2024 projected total debt payments of all current outstanding debt is 67.8 percent of the 2015 projected payments. According to the IUPUI Public Policy Institute’s Fiscal Benchmarking Project, the 2012 Debt Service Ratio for the City of Elkhart is 2.6 percent.

Summary Observations

The City of Elkhart has been operating in a relatively difficult economic environment – the seventh most difficult of the eighteen municipalities included in this study. Of particular importance, Elkhart County’s total personal income growth between 2006 and 2013 was the third lowest among the selected municipalities.

Elkhart’s gross assessed valuation increased by 4.6 percent between 2007 and 2015. This was just slightly above the rate of growth for the composite of all eighteen municipalities (4.1%). Its gross assessed valuation per capita ranked in the lower half of the municipalities included in this study. The increases to the homestead deductions that were included in HEA 1001-2008 had only a very limited impact on Elkhart’s net assessed valuation unlike what occurred in many of the selected municipalities. The City’s net assessed valuation declined by only 2.7 percent between 2007 and 2015.

and 2008 pay 2009 compared with a 12.6 percent decrease for the composite of all eighteen municipalities. However, Elkhart has seen a continued decline in its assessed valuation since 2008 pay 2009. Its 14.8 percent decrease from then until the current year was the second largest decline among the eighteen municipalities. This decline does appear to have leveled in the past two years. Elkhart currently captures less than 8 percent of its net assessed valuation in tax increment finance districts.

The City of Elkhart's 2015 property tax rate of \$1.9666/\$100 AV ranks as the fifth highest among the studied municipalities. Its certified property tax levy increased by 28.6 percent between 2006 and 2015. That rate of increase was greater than the amount needed to keep pace with inflation but slightly less than the rate of increase for the composite of all eighteen municipalities. The combination of declining net assessed valuation and a relatively high property tax rate contributed to Elkhart experiencing a 24.6 percent loss of property tax revenue due to the circuit breaker credits. This was the sixth highest percentage loss among the selected municipalities. The amount of circuit breaker credits for the City has continued to grow every year since their enactment.

In 2008, Elkhart County had a 1.5 percent local income tax rate (1.25% CAGIT and 0.25% CEDIT). By 2015, the total local income tax rate had risen to 2.0 percent. The Property Tax Relief LOIT at 0.25%, the Public Safety LOIT at 0.25% and a Special Purpose LOIT at 0.25% (for which the City of Elkhart does not receive a direct distribution) had all been adopted and the CAGIT rate had been reduced to 1.0%. The addition of the Public Safety LOIT helped boost Elkhart's income tax revenue in 2015. In 2008, the City of Elkhart received \$11,449,022 in local income tax distributions. By 2015 these distributions had increased to \$15,854,729. The 2008 distribution would have needed to be \$12,745,286 in 2015 to keep pace with inflation. The percentage growth in income tax revenue for the City of Elkhart between 2008 and 2015 ranked as the fourth highest among the selected municipalities.

Elkhart's "core revenue" in 2015 is 93.3 percent of its 2008 core revenue after adjusting for inflation. This placed Elkhart as 12th out of eighteen cities on this study's Fiscal Capacity Index. The adoption of the Public Safety LOIT assisted in keeping Elkhart from falling further behind its 2008 level of core revenue.

In a period when the City of Elkhart has experienced declining net assessed valuation and a relatively high percentage loss of property tax revenue due to the property tax caps, it has been able to not only sustain but to grow the year-end balances in its General and Rainy Day Funds. The combined 2014 year-end balances in these two funds exceeded \$35 million. That was 95 percent of the 2014 annual receipts in the two funds – an exceptionally high percentage for a municipal government and the highest of the selected cities. Elkhart was also able to increase the combined balance for these two funds by nearly \$10 million between 2009 and 2014, again an amazing achievement considering its annually increasing property tax cap losses.

Elkhart's disbursements per capita in 2014 of \$1,710 ranked in the mid-range of the eighteen municipalities. Its per capita outstanding debt of \$589 as of July, 2014 ranked as the third lowest among the studied municipalities. The extraordinary level of fund balances offset relatively difficult economic environment within the City was functioning and a relatively low ranking on the Fiscal Capacity Index placing Elkhart tenth on this study's overall Index of Fiscal Health.