



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

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Introduction

This document is a summary of financial information on the City of Kokomo 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 Kokomo 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 Kokomo has been functioning in the eighth most difficult economic environment among the eighteen municipalities included in this study.

In 1970, the City of Kokomo had 44,042 residents. That total represented 53 percent of the Howard County population. In 2014, the estimated population of Kokomo was 57,085. That total represented 69 percent of the Howard County population, an increase of 16 percentage points from 1970. Between 1970 and 2014, Kokomo gained 13,043 residents, a 30 percent increase. Between 2006 and 2014, Kokomo gained an estimated 11,162 residents for a 24.3 percent increase.

Total personal income in Howard County increased by 6.0 percent between 2006 and 2013. This was the lowest percentage increase among the fifteen counties that contained our selected municipalities. Per capita personal income in 2013 in Howard County was \$34,488, eleventh highest among the selected counties. This was 89.3 percent of statewide per capita personal income. In 1970, per capita personal income in Howard County was 103.5 percent of the statewide per capita personal income.

Howard County has experienced long-term gain in employment. In 1970 the countywide total employment (full and part-time employment) was 42,282. By 2007, employment in the county had increased to 51,259. However, the county experienced a loss of employment between 2007 and 2013 to a total of 48,200 by 2013. The overall increase between 1970 and 2013 was 14.0 percent, the fourth lowest rate of change among the fifteen counties that contained the eighteen selected municipalities. The shorter-term decline between 2007 and 2013 was 6.0 percent, third 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 Howard County in 2013 was \$3,943,080,403. The per capita GRP was \$47,529 in 2013. This was the sixth highest GRP per capita of the fifteen counties containing our selected municipalities.

Of the eighteen municipalities included in this study, Kokomo ranked 11th 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 126 out of a possible 270 points. This indicates that the City of Kokomo has been operating in a relatively neutral 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

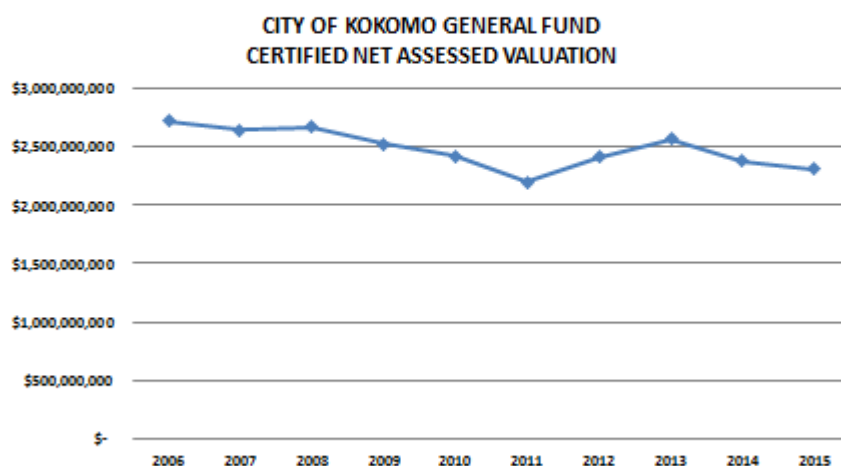
relative income tax performance and others such as change in gross assessed valuation impact both property tax levies and circuit breaker credits.

Assessed Valuation

The gross assessed valuation for the City of Kokomo was \$4,008,813,800 in 2014 pay 2015. This was a 2.4 percent decrease from the 2007 pay 2008 gross assessed valuation. Gross assessed valuation was \$70,225 per capita in 2014 pay 2015, ranking 5th among the eighteen selected municipalities. In 2007 pay 2008 the standard homestead deductions were 10.2 percent while the 2014 pay 2015 combination of the standard and supplemental homestead deductions represented 20.2 percent of Kokomo's gross assessed valuation. In 2007 pay 2008 the city captured no gross assessed valuation in tax increment financing districts and in 2014 pay 2015 it captured 0.5 percent of its gross assessed valuation in such districts. Net certified assessed valuation in 2007 pay 2008 was 65.0 percent of gross assessed valuation (less the gross assessed valuation captured in tax increment districts). By 2014 pay 2015, this had fallen to 57.9 percent.

Figure 1 illustrates the changes in net assessed valuation for Kokomo from 2005 pay 2006 through the current year. The certified net assessed valuation for the City of Kokomo General Fund is \$2,314,093,488 for 2014 pay 2015. That is down from \$2,721,415,740 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 Anderson declined by 5.6 percent, the fourth lowest impact among the eighteen selected municipalities. Between 2008 pay 2009 and 2014 pay 2015, the City of Kokomo's net assessed valuation continued to decline by an additional 8.2 percent, the fourth highest rate of decrease among the selected municipalities. Net assessed valuation per capita in Kokomo was \$40,538 in 2014 pay 2015, ranking 5th among the eighteen municipalities. Over the past year, net assessed valuation for the City of Kokomo General Fund declined by 2.8 percent. In 2014 pay 2015, 0.5 percent of the City of Kokomo's General Fund net assessed valuation was captured by tax increment financing districts. This was the lowest of the eighteen selected municipalities.

FIGURE 1



In 2006 pay 2007, the City of Kokomo's certified net assessed valuation was 60.4 percent of the net assessed value countywide in Howard County. By 2014 pay 2015, the City's portion of the countywide net assessed value had increased to 69.5 percent.

Annual Property Tax Certified Budgets, Levies and Rates

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

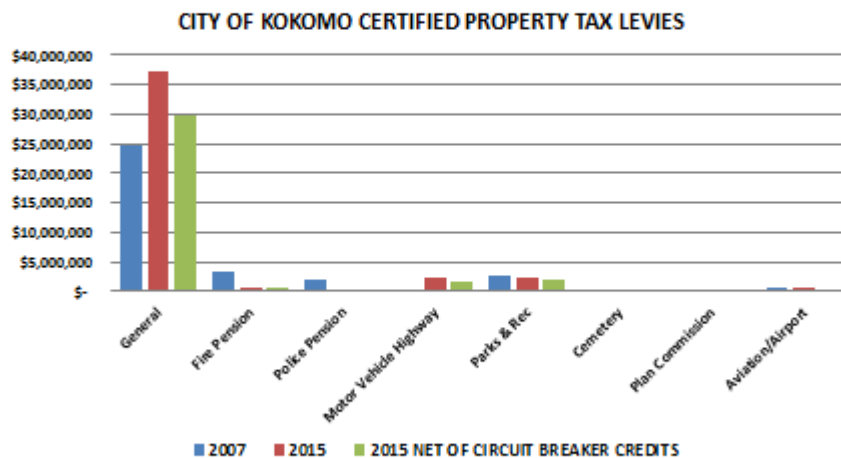
Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$37,397,652	\$24,729,840	\$0.9358
Fire Pension	\$4,598,235	\$3,197,596	\$0.1210
Police Pension	\$3,107,872	\$1,997,837	\$0.0756
Park & Recreation	\$3,089,088	\$2,597,717	\$0.0983
Aviation/Airport	\$544,920	\$510,030	\$0.0193
Cemetery	\$412,325	\$325,045	\$0.0123
Plan Commission	\$413,131	\$206,126	\$0.0078
Total	\$49,563,223	\$33,564,191	\$1.2701

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

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$40,413,295	\$37,398,065	\$1.6161
Fire Pension	\$4,132,505	\$698,856	\$0.0302
Police Pension	\$3,210,575	\$448,934	\$0.0194
MVH	\$4,588,265	\$2,198,389	\$0.0950
Park & Recreation	\$3,922,261	\$3,399,946	\$0.1037
Aviation/Airport	\$658,367	\$548,440	\$0.0237
Cemetery	\$510,964	\$199,012	\$0.0086
Plan Commission	\$605,784	\$148,102	\$0.0064
Total	\$58,042,016	\$44,039,513	\$1.9031

Source: Department of Local Government Finance Annual Budget Orders

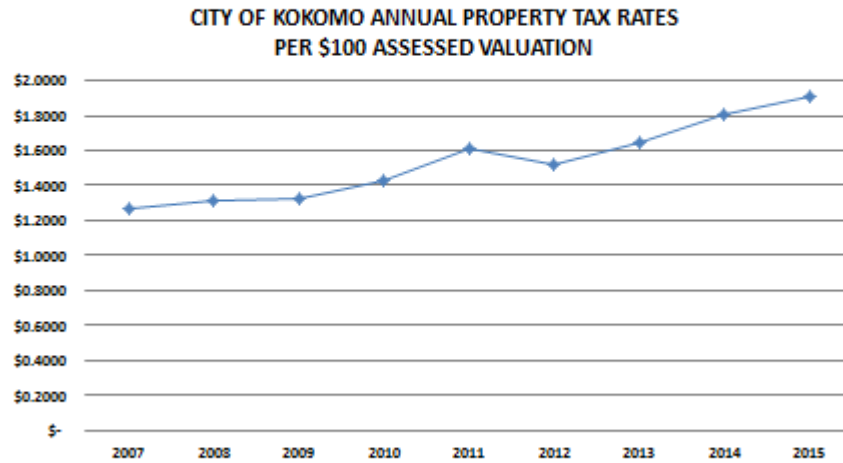
FIGURE 2



The City of Kokomo's 2015 property tax rate of \$1.9031 ranked as the seventh highest among the eighteen selected municipalities. Kokomo's property tax rate increased by \$0.6330 between 2007 and 2015. This was a 49.8 percent increase. The increase, in cents per \$100 assessed valuation, ranked fifth highest among the selected communities and was the seventh highest as a percentage increase.

The City of Kokomo continues to levy property taxes to support some Police Pension and Fire Pension Funds. It also levies property taxes to support its Motor Vehicle Highway Fund. As of the 2015 Certified Budget Kokomo has not adopted a Cumulative Capital Development Fund. In 2015 Kokomo does not levy property taxes to support debt service funds.

FIGURE 3



Circuit Breaker Impacts

In 2015, the City of Kokomo lost \$8,865,350 in property tax revenue due to Circuit Breaker credits. That was 20.1 percent of its Certified Property Tax Levy, the seventh highest among the selected municipalities. After adjusting for inflation, the 2015 total Certified Levy net of Circuit Breaker Credits was 91.8 percent of its 2007 Certified Levy. In 2015 Circuit Breaker Credits allocated to the City of Kokomo were \$155 per capita (seventh highest among the eighteen municipalities) and \$383 per \$100 of assessed valuation (also seventh highest). The City of Kokomo lost another \$103,672 in property tax revenue due to the Circuit Breakers in its tax increment financing districts.

FIGURE 4

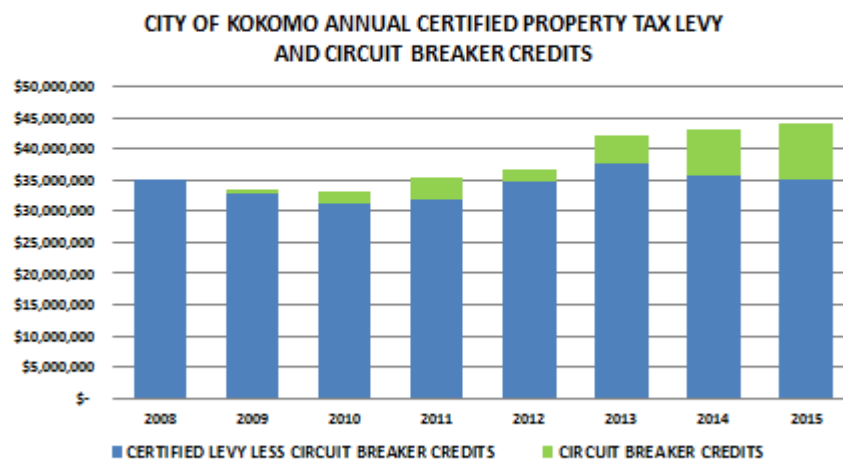


FIGURE 5

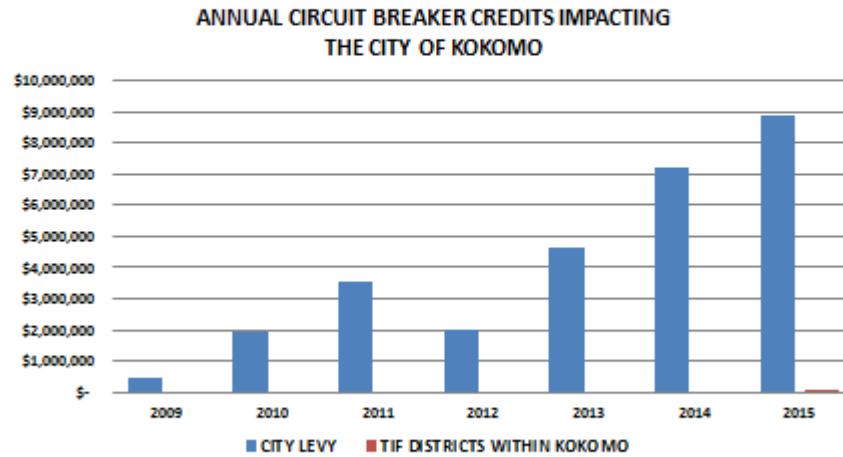
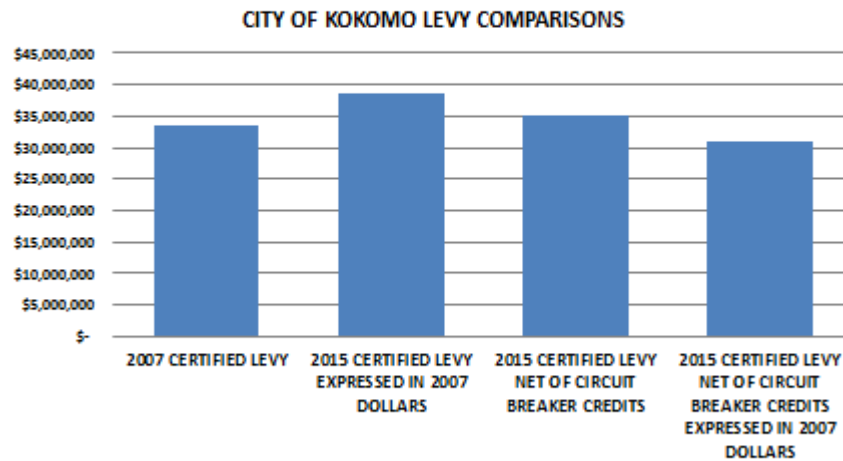


FIGURE 6



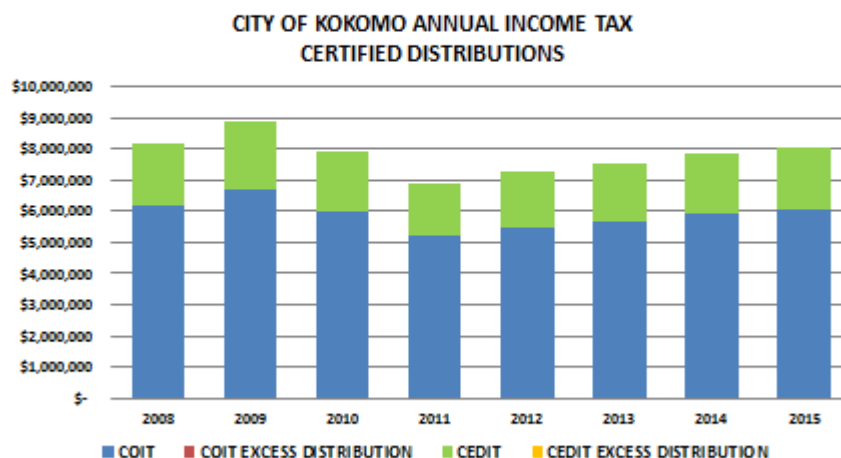
Local Income Taxes

Howard County has adopted the County Option Income Tax at a rate of 0.7% and the County Economic Development Income Tax at a rate of 0.2%. Howard County has also adopted a Property Tax Relief LOIT at 0.5% but has not adopted the Public Safety LOIT. It also has a 0.2% Special Purpose LOIT that funds operation and maintenance of county jail and juvenile detention facilities. No funds from the Special Purpose COIT are distributed to the City of Kokomo. The Kokomo City Council has a controlling 54.9 percent of the votes in the Howard County Income Tax Council.

In 2008, the City of Kokomo received \$8,165,437 in local income tax distributions. By 2015 these distributions had decreased to \$8,045,229. The 2008 distribution would have needed to be \$9,050,407 in 2015 to keep pace with inflation.

Local income tax revenue represented 18.9 percent of Kokomo’s “core income” (certified property tax levy plus income tax revenue) in 2008. This proportion declined slightly as income tax revenue represented 18.6 percent of “core income” (certified property tax levy less circuit breaker credits plus income tax revenue) in 2015.

FIGURE 7



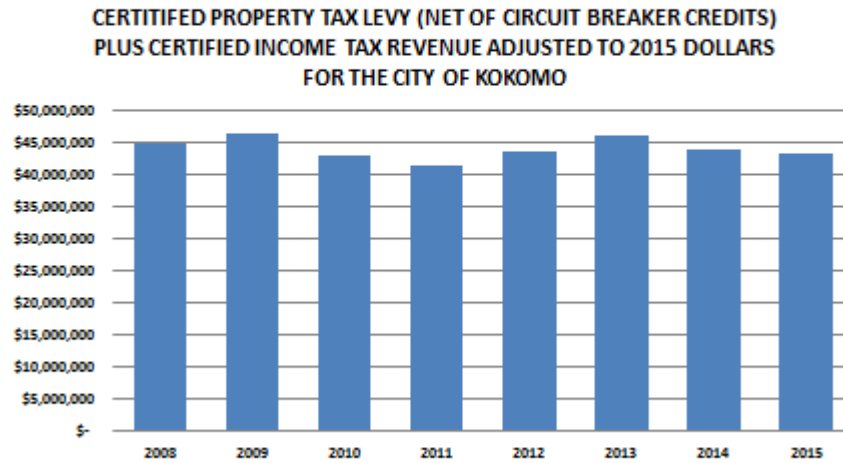
Fiscal Capacity Index

After exploring the changes which have occurred to the property and income tax revenues to the City of Kokomo, 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.

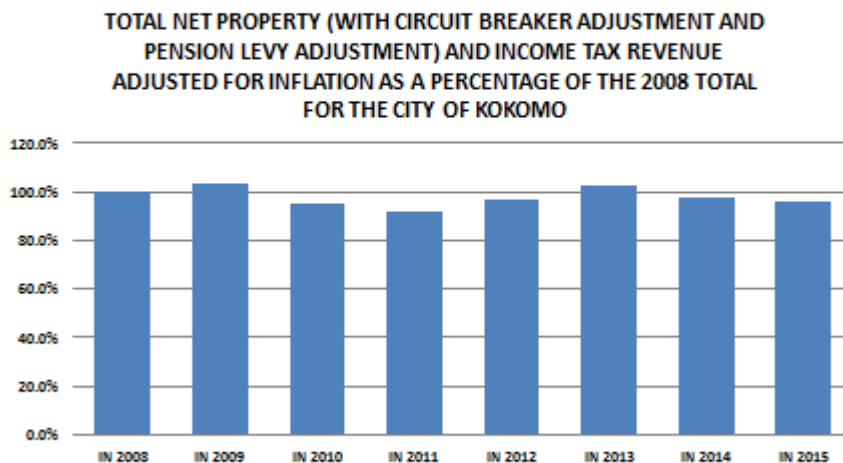
After the annual “core income” was determined for Kokomo, this revenue was then adjusted for inflation, creating the real value of the annual revenue for comparison over the 2008-2015 timeframe. Figure 8 illustrates the inflation adjusted core income for the City of Kokomo from 2008 through 2015.

FIGURE 8



The City of Kokomo's total certified property tax levy, net of circuit breaker, plus income tax revenue was, after adjusting for inflation, 96.3 percent of the 2008 total.¹ This was the tenth highest Fiscal Capacity Index ranking of the eighteen selected municipalities. Between 2009 and 2015 the cumulative gain of core revenue compared with the 2008 total was \$9,926,801. This was the equivalent of 25 percent of 2008 core revenue.

FIGURE 9

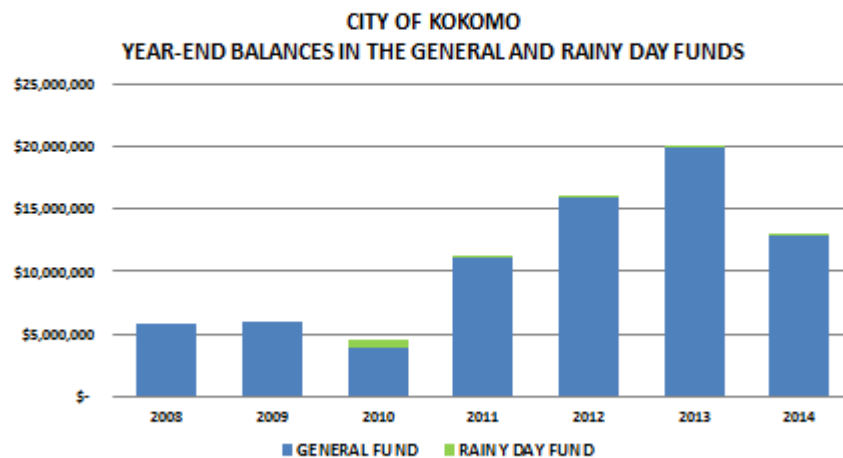


¹ Some Police and Fire Pension levies for Kokomo continued after the 2009 takeover of some pension obligations by the State.

Year-End Balances, Annual Receipts and Annual Disbursements

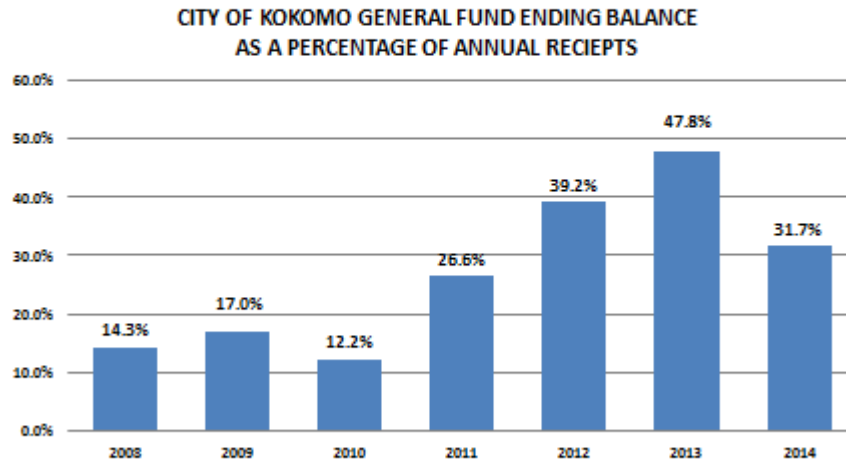
The 2014 year-end balance, including reserved and obligated funds, in the City of Kokomo's General Fund was \$12,883,000. Its Rainy Day Fund ended 2014 with a balance of \$4,681. The combined total balance for both funds at year-end 2014 was \$12,887,681. This was 31.7 percent of annual receipts from both funds combined, ranking as the 9th highest of the eighteen selected municipalities. The combined total represented \$226 per capita, the fifth highest ranking. The combined General and Rainy Day fund balances increased by \$6,980,032 between 2009 and 2014. This was the fourth highest ranking among the selected municipalities.

FIGURE 10



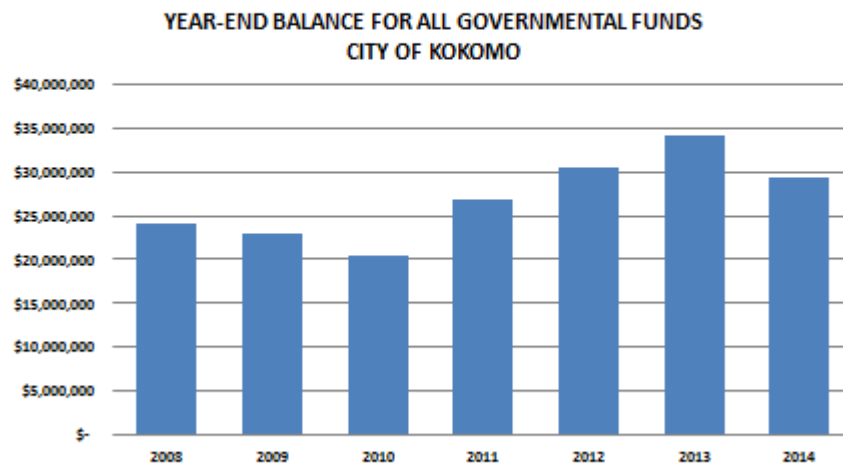
The 2014 year-end balance for all Governmental Funds for the City of Kokomo was \$29,312,807. This was \$513 per capita, ranking fifth lowest among the selected municipalities. General Fund disbursements represented 56.8 percent of all Governmental Fund disbursements in 2014. The year-end balance for all Governmental Funds was 37.0 percent of the 2014 receipts in those funds. Total disbursements from all Governmental Funds in 2014 were \$84,091,950. Total disbursements from all funds, including Governmental and Enterprise type funds, was \$97,331,341 in 2014.

FIGURE 11



Total receipts from all Governmental Funds in 2014 were \$79,193,479. This was \$1,387 per capita, ranking as the fourth lowest among the selected municipalities. Core revenue (certified property taxes net of circuit breaker credits plus certified income tax distributions) represented 55.0 percent of all Governmental Fund receipts in 2014 for the City of Kokomo.

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 Kokomo was \$9,840,962 and represented 11.3 percent of total revenue. Intergovernmental revenue in 2011-2012 averaged 14.2 percent of total annual revenue.

Kokomo ranked as the 9th most dependent on Intergovernmental Revenue among the selected municipalities.² The 2011-2012 average annual intergovernmental revenue per capita was \$208, also ranking Kokomo as the 9th lowest among the selected municipalities.

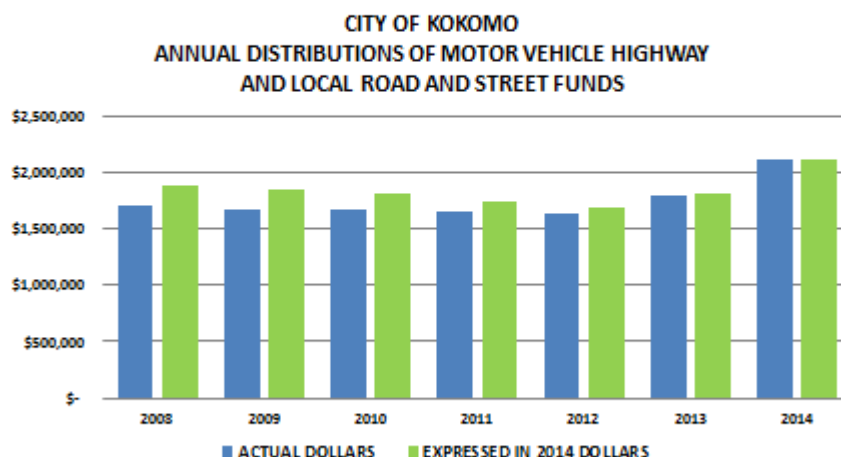
Highway Funding

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 Kokomo.

In 2008, the City received a combined total of \$1,711,740 from the MVH and LR&S distributions. By 2012, these distributions had declined to \$1,639,392. 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 Kokomo. By 2014, the first full year that the increase was in effect, Kokomo's combined distributions had increased to \$2,109,393. This was a 23.2 percent increase over the 2008 distributions, ranking as the 10th highest percentage change among the selected municipalities. After adjusting for inflation, this was a 12.1 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 Kokomo does levy property taxes to support its MVH Fund. In 2015, its levy for this fund net of circuit breaker credits was \$1,755,844.

FIGURE 13



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

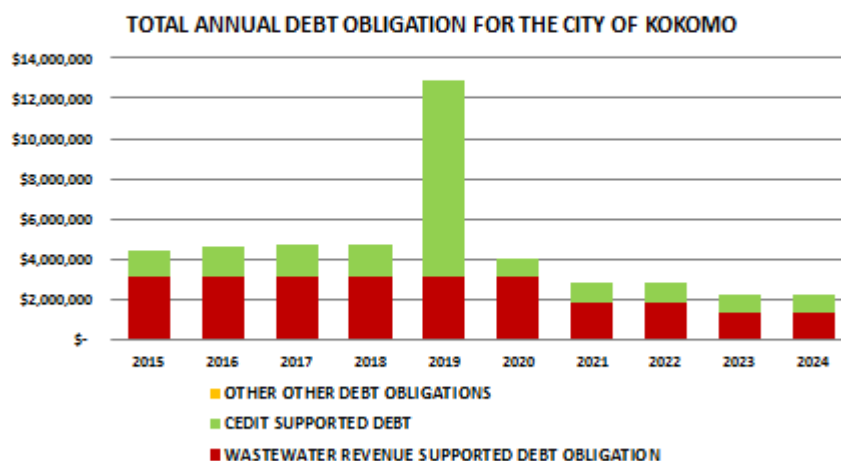
Debt

Per information available on the Indiana Gateway database, as of July 1, 2014, the City of Kokomo had total outstanding debt of \$54,183,056. This was \$952 of outstanding debt per capita, ranking as the fourth lowest among the selected municipalities.

Of the total outstanding debt, 53.4 percent was supported by wastewater revenues, none was supported by water revenues and none was supported by tax increment finance revenues. The total outstanding debt per capita for the City of Kokomo, excluding debt supported by wastewater and water revenues, was the eighth lowest among the selected municipalities.

As of July 1, 2014, the City of Kokomo had \$25,227,285 in outstanding debt supported with County Economic Development Income Tax revenues. This was 12.7 times the City's 2015 CEDIT certified distribution.

FIGURE 14



The 2024 projected total debt payments of all current outstanding debt is 50.8 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 Kokomo is 3.9 percent.

Summary Observations

The City of Kokomo has been operating in a relatively neutral economic environment in comparison with the other municipalities included in this study. It ranked eleventh on the Composite Economic Index. Of particular importance was the relatively slow growth in total personal income in Howard County between 2006 and 2013, the lowest among the fifteen counties that contained one or more of the selected municipalities.

Conversely, Kokomo's 2014 gross assessed valuation per capita ranked fifth highest among the eighteen municipalities. Between 2007 pay 2008 and 2014 pay 2015, the City's gross assessed valuation decreased by 2.4 percent, one of seven of the municipalities to experience a decline over this period. The City of Kokomo's net assessed valuation was only modestly impacted by the increases in the

homestead deductions that were included in HEA 1001-2008. Its 5.6 percent drop in net assessed valuation the year the increased homestead deductions became effective was the fourth lowest impact experienced by any of the municipalities included in the study. However, Kokomo continued to experience a decline in net assessed valuation from 2008 pay 2009 to the current year. Its 8.2 percent decrease was the fourth largest decline among the included cities. This was not, however, a continuous decline as is illustrated in Figure 1. The City only recently has created its first tax increment financing district and as of 2015 has captured less than one percent of its net assessed valuation in a TIF district. This is the lowest percentage of any of the eighteen municipalities.

The City of Kokomo's 2015 property tax rate of \$1.9031/\$100 AV is the seventh highest of the selected municipalities. Its certified property tax levy growth of 35 percent between 2006 and 2015 was higher than that of the composite of all eighteen municipalities and ranked as the sixth highest rate of increase. The circuit breaker credit impact on the City's 2015 certified property tax levy – a 20.1 percent loss in property tax revenue – is just slightly less than the composite rate of loss in property tax revenue for all eighteen municipalities. Kokomo is in the mid-range both in terms of rank order and in the percentage of certified levy lost. The annual circuit breaker credit losses to Kokomo have been steadily increasing each year since 2009 with the exception of 2012.

In 2008, the Howard County local income tax rate was 0.9 percent. By 2015 the rate had increased to 1.6 percent with the addition of a 0.5 percent Property Tax Relief LOIT, and a 0.2 percent Special Purpose LOIT. The City of Kokomo does not receive a direct distribution of the Special Purpose LOIT but does indirectly benefit from the Property Tax Relief LOIT as it reduces the circuit breaker credit losses that would otherwise occur. In 2008, the City of Kokomo received \$8,165,437 in local income tax distributions. By 2015 these distributions had decreased to \$8,045,229. The 2008 distribution would have needed to be \$9,050,407 in 2015 to keep pace with inflation. It was one of five municipalities of the eighteen to experience an actual loss in income tax revenue in 2015 compared with 2008. Kokomo's "core revenue" in 2015 was 96.3 percent of its 2008 core revenue after adjusting for inflation. This placed it tenth out of eighteen on this study's Index of Fiscal Capacity.

Kokomo was able to significantly increase its General Fund year-end balance from 2010 (\$3.8 million) through 2013 (\$20 million). The General Fund balance did, however, drop by a little more than \$7 million between 2013 and 2014. It had only a negligible balance remaining in its Rainy Day Fund at the end of 2014. Kokomo's combined year-end balance in these two funds was 32 percent of annual receipts in 2014, above the composite percentage for all eighteen municipalities and certainly a level considered to be fiscally healthy. Kokomo was one of five of the selected municipalities to have more than \$5 million in additional combined General and Rainy Day Fund balances at the end of 2014 than at the end of 2009. Kokomo's 2014 disbursements per capita from all Governmental Funds of \$1,473 ranked in the bottom third of all selected municipalities.

In 2008, the City of Kokomo received \$8,165,437 in local income tax distributions. By 2015 these distributions had decreased to \$8,045,229. The 2008 distribution would have needed to be \$9,050,407 in 2015 to keep pace with inflation.

As of July, 2014, the City of Kokomo had outstanding debt of \$949 per resident. That ranked as the fourth lowest of the eighteen municipalities. The strong fund balance position along with the relatively modest impact of the circuit breaker credits on its property tax revenues more than offset the inability of its local income tax revenues to keep pace with inflation. These factors all contributed to Kokomo placing eighth out of eighteen on this study's overall Index of Fiscal Health.