



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

by John Stafford
March 2016

CITY OF LAFAYETTE MUNICIPAL PROFILE

MARCH 2016

Introduction

This document is a summary of financial information on the City of Lafayette 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 Lafayette 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 Lafayette has been functioning in the sixth strongest economic environment among the eighteen selected municipalities.

In 1970, the City of Lafayette had 44,955 residents. That total represented 41 percent of the Tippecanoe County population. In 2014, the estimated population of Lafayette was 70,654. That total represented 39 percent of the Tippecanoe County population, a decrease of 2 percentage points from 1970. Between 1970 and 2014, Lafayette gained 25,699 residents, a 57 percent increase. Between 2006 and 2014, Lafayette gained an estimated 9,410 residents for a 15.4 percent increase.

Total personal income in Tippecanoe County increased by 25.4 percent between 2006 and 2013. This was the third highest percentage increase among the fifteen counties that contained our selected municipalities. Per capita personal income in 2013 in Tippecanoe County was \$32,961, fourth lowest among the selected counties. This was 85.3 percent of statewide per capita personal income. In 1970, per capita personal income in Tippecanoe County was 94.9 percent of the statewide per capita personal income.

Tippecanoe County has experienced both long-term and short-term gains in employment. In 1970 the countywide total employment (full and part-time employment) was 52,016. By 2007, employment in the county had increased to 100,589. This growth continued through the 2007 – 2013 period and had increased to 104,705 by 2013. The longer-term increase between 1970 and 2013 was 101.3 percent, tied for the sixth highest rate of increase among the fifteen counties that contained the eighteen selected municipalities. The shorter-term gain between 2007 and 2013 was 4.1 percent, third highest among the fifteen counties and one of only four to experience a gain in employment over the short-term. 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 Tippecanoe County in 2013 was \$7,796,893,102. The per capita GRP was \$43,095 in 2013. This was the eighth highest GRP per capita of the fifteen counties containing our selected municipalities.

Of the eighteen municipalities included in this study, Lafayette ranked 6th 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 166 out of a possible 270 points. This indicates that the City of Lafayette has been

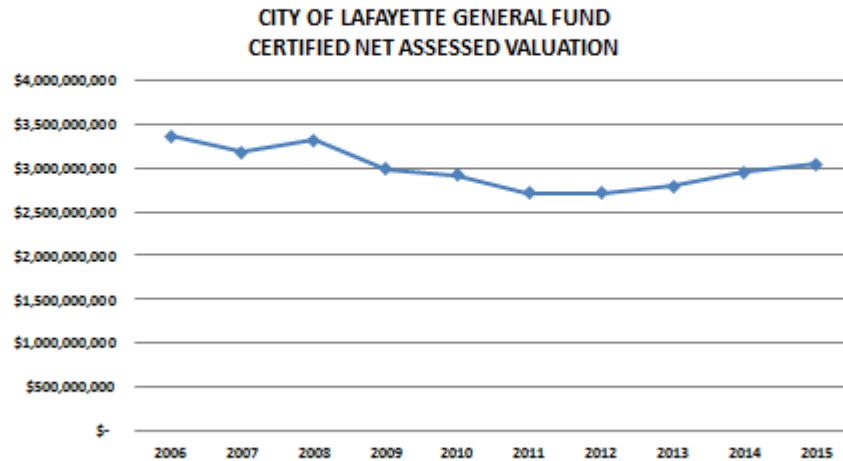
operating in a relatively strong economic environment in comparison with the group of municipalities included in this study. Some of these factors, such as per capita personal income relate closely to the relative income tax performance and others such as change in gross assessed valuation impact both property tax levies and circuit breaker credits.

Assessed Valuation

The gross assessed valuation for the City of Lafayette was \$5,032,933,928 in 2014 pay 2015. This was a 1.8 percent increase over the 2007 pay 2008 gross assessed valuation. Gross assessed valuation was \$71,234 per capita in 2014 pay 2015, ranking 4th among the eighteen selected municipalities. In 2007 pay 2008 the standard homestead deductions were 11.5 percent while the 2014 pay 2015 combination of the standard and supplemental homestead deductions represented 17.2 percent of Lafayette's gross assessed valuation. In 2007 pay 2008 9.0 percent of the city's gross assessed valuation was captured in tax increment financing districts and this increased to 15.6 percent in 2014 pay 2015. Net certified assessed valuation in 2007 pay 2008 was 73.7 percent of gross assessed valuation (less the gross assessed valuation captured in tax increment districts). By 2014 pay 2015, this had fallen to 68.1 percent.

Figure 1 illustrates the changes in net assessed valuation for Lafayette from 2005 pay 2006 through the current year. The certified net assessed valuation for the City of Lafayette General Fund is \$3,043,153,744 for 2014 pay 2015. That is down from \$3,368,505,020 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 Lafayette declined by 9.7 percent, the eighth lowest impact among the eighteen selected municipalities. Between 2008 pay 2009 and 2014 pay 2015, the City of Lafayette's net assessed valuation grew by 1.6 percent, the 7th highest rate of increase among the selected municipalities. Net assessed valuation per capita in Lafayette was \$43,071 in 2014 pay 2015, ranking third among the eighteen municipalities. Over the past year, net assessed valuation for the City of Lafayette General Fund increased by 3.1 percent. In 2014 pay 2015, 15.6 percent of the City of Lafayette's General Fund net assessed valuation was captured by tax increment financing districts. This was the sixth highest percentage among the eighteen selected municipalities.

FIGURE 1



In 2006 pay 2007, the City of Lafayette’s certified net assessed valuation was 43.5 percent of the net assessed value countywide in Tippecanoe County. By 2014 pay 2015, the City’s portion of the countywide net assessed value had remained virtually the same at 43.4 percent.

Annual Property Tax Certified Budgets, Levies and Rates

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

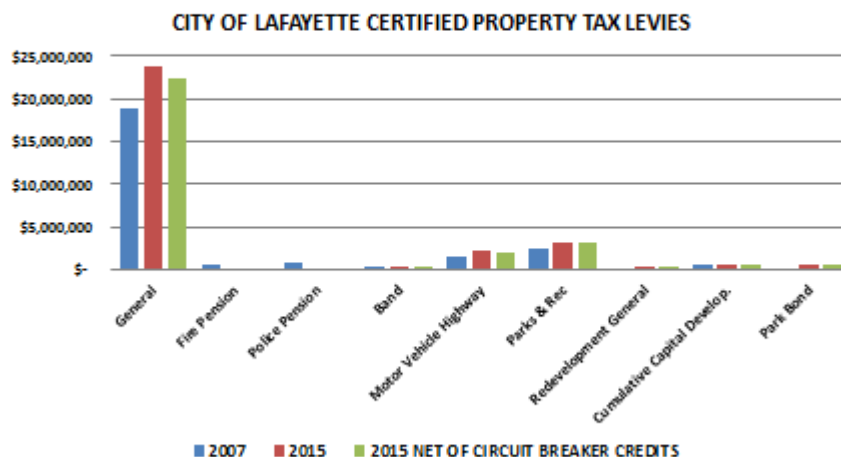
Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$29,497,137	\$18,838,741	\$0.5920
Fire Pension	\$3,223,680	\$496,426	\$0.0156
Police Pension	\$1,850,790	\$754,186	\$0.0237
Band	\$25,000	\$22,276	\$0.0007
MVH	\$4,193,541	\$1,498,826	\$0.0471
Park & Recreation	\$3,308,518	\$2,561,687	\$0.0805
Park Bond	\$1,000,493	\$1,543,377	\$0.0485
CCD	\$507,257	\$588,711	\$0.0185
Total	\$43,606,416	\$26,304,230	\$0.8266

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

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$34,596,240	\$23,767,031	\$0.7810
Band	\$21,775	\$21,302	\$0.0007
MVH	\$5,112,175	\$2,151,510	\$0.0707
Park & Recreation	\$3,832,600	\$3,262,261	\$0.1072
Park Bond	\$933,976	\$645,149	\$0.0212
CCD	\$544,928	\$608,631	\$0.0200
Redevelopment General	\$455,471	\$289,100	\$0.0095
Total	\$45,497,165	\$30,744,984	\$1.0103

Source: Department of Local Government Finance Annual Budget Orders

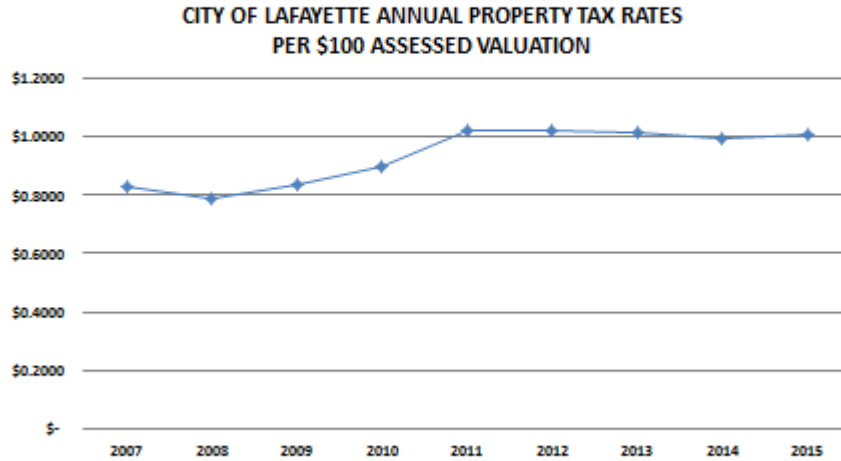
FIGURE 2



The City of Lafayette's 2015 property tax rate of \$1.0103 ranked as the fifth lowest among the eighteen selected municipalities. Lafayette's property tax rate increased by \$0.1837 between 2007 and 2015. This was a 22.2 percent increase. The increase, in cents per \$100 assessed valuation, ranked fifth lowest among the selected communities and was the fourth lowest as a percentage increase.

The City of Lafayette has adopted a Cumulative Capital Development fund with a 2015 rate of \$0.0200. It does levy property taxes to support its Motor Vehicle Highway Fund in 2014. The city does not levy property taxes to support its Police and Fire Pension Funds. In 2015, 2.1 percent of its property tax rate is used to support debt service funds.

FIGURE 3



Circuit Breaker Impacts

In 2015, the City of Lafayette lost 1,664,486 in property tax revenue due to Circuit Breaker credits. That was 5.4 percent of its Certified Property Tax Levy, the fourth lowest among the selected municipalities. After adjusting for inflation, the 2015 total Certified Levy net of Circuit Breaker Credits was 96.9 percent of its 2007 Certified Levy. In 2015 Circuit Breaker Credits allocated to the City of Lafayette were \$24 per capita (fifth lowest among the eighteen municipalities) and \$55 per \$100 of assessed valuation (also fifth lowest). The City of Lafayette lost another \$478,754 in property tax revenue due to the Circuit Breakers in its tax increment financing districts.

FIGURE 4

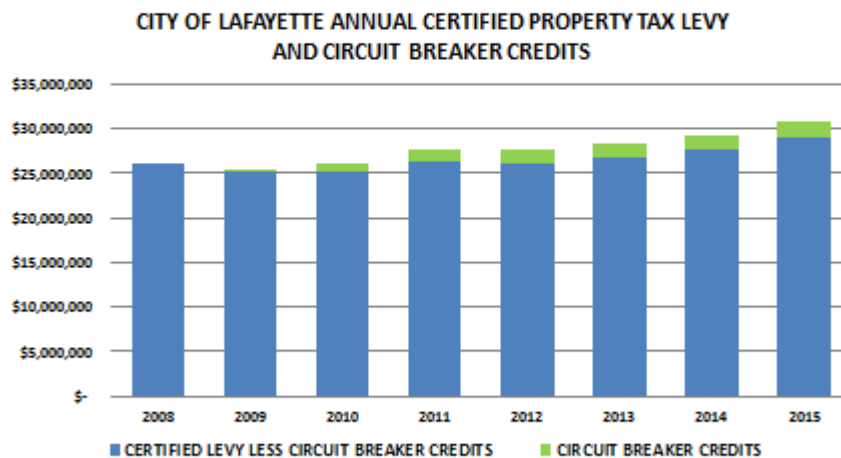


FIGURE 5

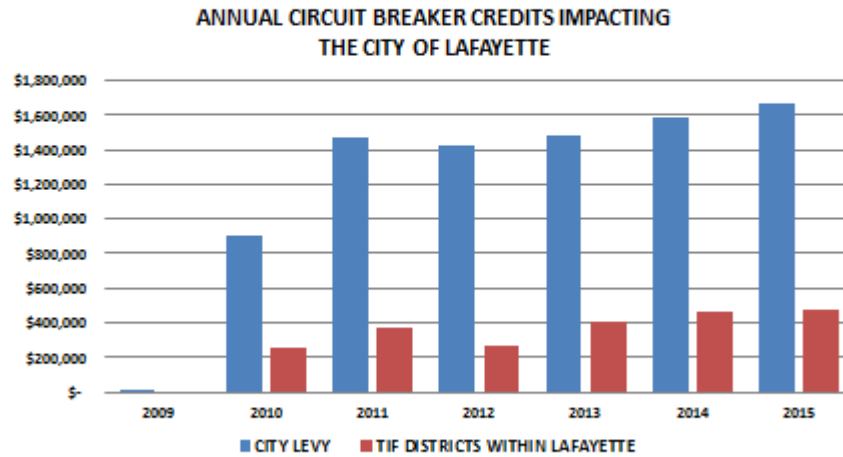
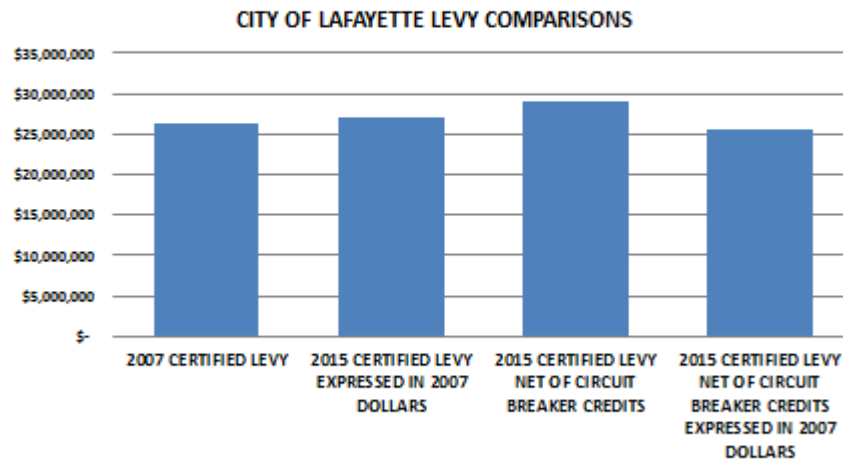


FIGURE 6



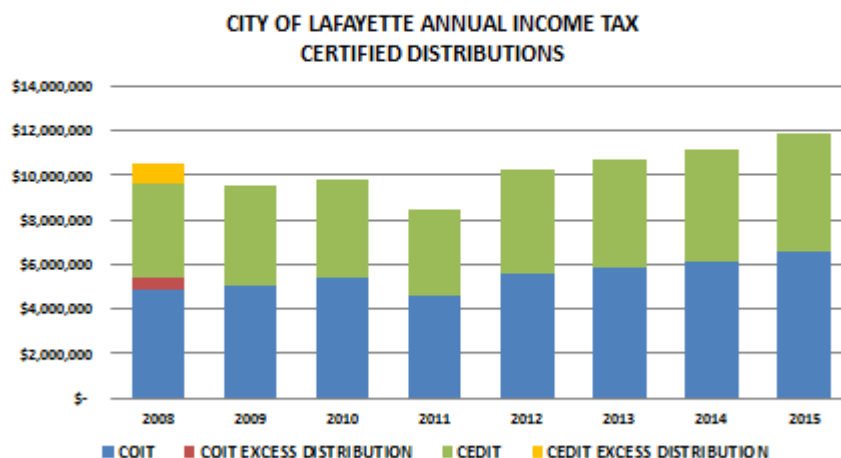
Local Income Taxes

Tippecanoe County has adopted the County Option Income Tax at a rate of 0.6% and the County Economic Development Income Tax at a rate of 0.4%. Tippecanoe County has also adopted the County Option Income Tax to provide a Homestead Credit to offset the exemption of inventory from the property tax base. For 2015, that rate is 0.1%. The Lafayette City Council has 38.9 percent of the votes in the Tippecanoe County Income Tax Council. No governmental unit in the county has a controlling vote on the Council.

In 2008, the City of Lafayette received 10,533,317 in local income tax distributions. By 2015 these distributions had increased to \$11,853,792. The 2008 distribution would have needed to be \$11,697,085 in 2015 to keep pace with inflation.

Local income tax revenue represented 28.8 percent of Lafayette’s “core income” (certified property tax levy plus income tax revenue) in 2008. This proportion grew slightly as income tax revenue represented 29.0 percent of “core income” (certified property tax levy less circuit breaker credits plus income tax revenue) in 2015.

FIGURE 7



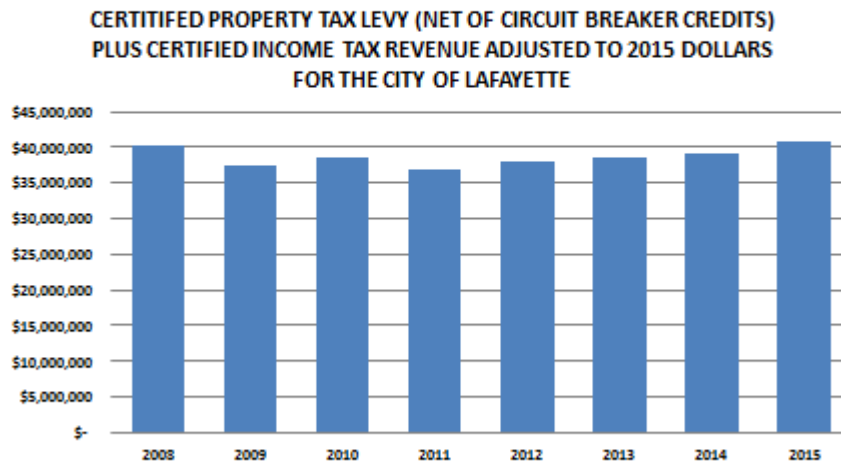
Fiscal Capacity Index

After exploring the changes which have occurred to the property and income tax revenues to the City of Lafayette, 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 Lafayette, 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 Lafayette from 2008 through 2015.

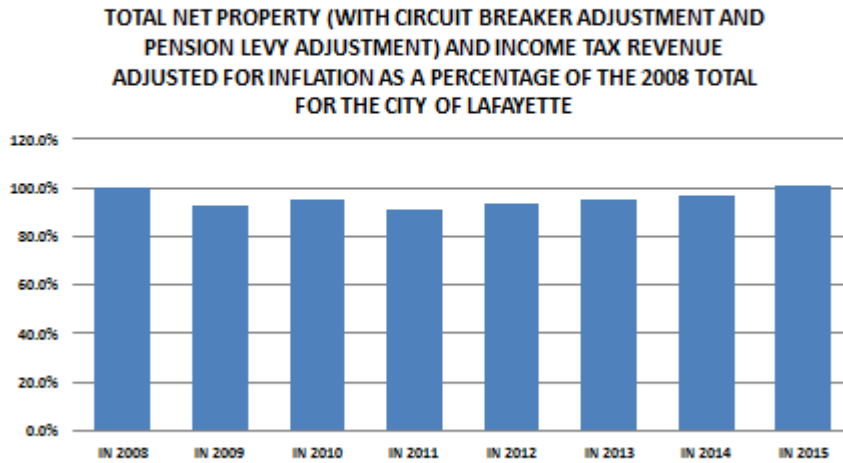
FIGURE 8



The City of Lafayette's total certified property tax levy, net of circuit breaker, plus income tax revenue was, after adjusting for inflation, 101.3 percent of the 2008 total.¹ This was the fifth 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 \$2,239,503. This was the equivalent of 6 percent of 2008 core revenue.

¹ The Police and Fire Pension levies for Lafayette continued in 2009 after the takeover of some pension obligations by the State. For purposes of this calculation, the overall 2008 and 2009 City levies were adjusted to remove those pension levies taken over by the state.

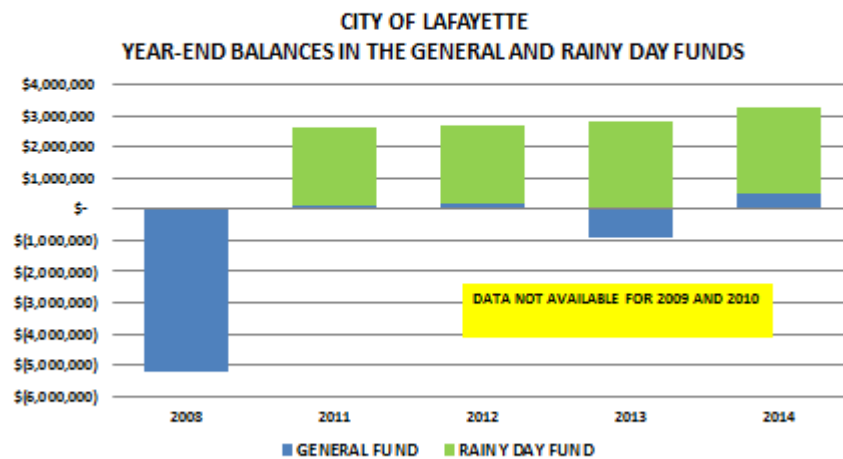
FIGURE 9



Year-End Balances, Annual Receipts and Annual Disbursements

The 2014 year-end balance, including reserved and obligated funds, in the City of Lafayette’s General Fund was \$488,460. Its Rainy Day Fund ended 2014 with a balance of \$2,804,302. The combined total balance for both funds at year-end 2014 was \$3,292,762. This was 9.3 percent of annual receipts from both funds combined, ranking as the 12th highest of the eighteen selected municipalities. The combined total represented \$47 per capita, also the 12th highest ranking.

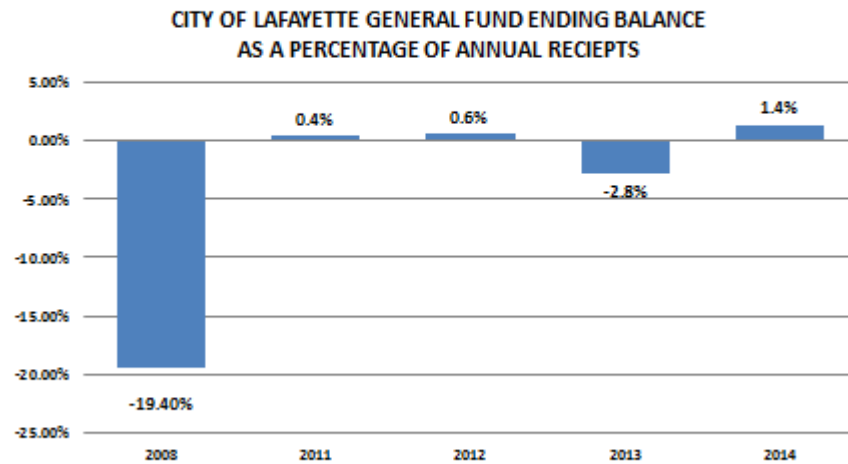
FIGURE 10



The 2014 year-end balance for all Governmental Funds for the City of Lafayette was \$62,248,496. This was \$881 per capita, ranking 8th highest among the selected municipalities. General Fund

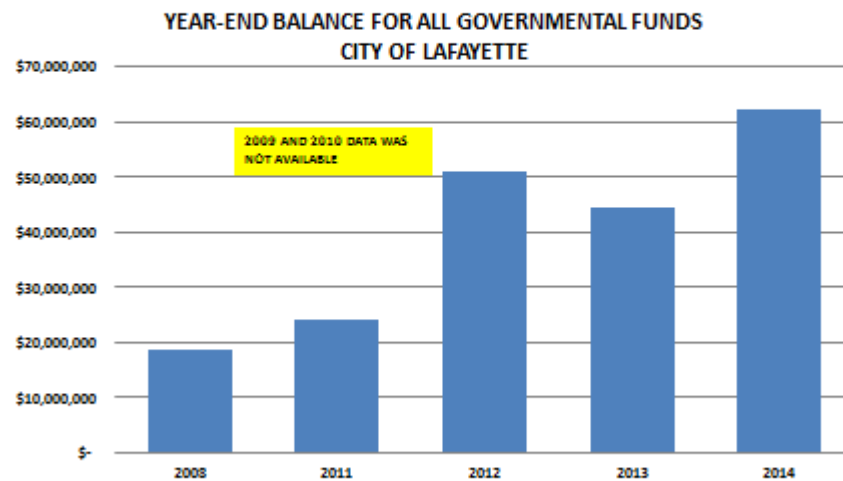
disbursements represented 40.4 percent of all Governmental Fund disbursements in 2014. The year-end balance for all Governmental Funds was 60.9 percent of the 2014 receipts in those funds. Total disbursements from all Governmental Funds in 2014 were \$84,338,272. Total disbursements from all funds, including Governmental and Enterprise type funds, were \$151,443,210 in 2014.

FIGURE 11



Total receipts from all Governmental Funds in 2014 were \$102,278,949. This was \$1,448 per capita, ranking as the 12th highest among the selected municipalities. Core revenue (certified property taxes net of circuit breaker credits plus certified income tax distributions) represented 38.0 percent of all Governmental Fund receipts in 2014 for the City of Lafayette.

FIGURE 12



Intergovernmental Revenue

The information in this section was obtained from the IUPUI's Public Policy Institute Fiscal Benchmarking Project. However, no data was available on Intergovernmental Revenue for the City of Lafayette.

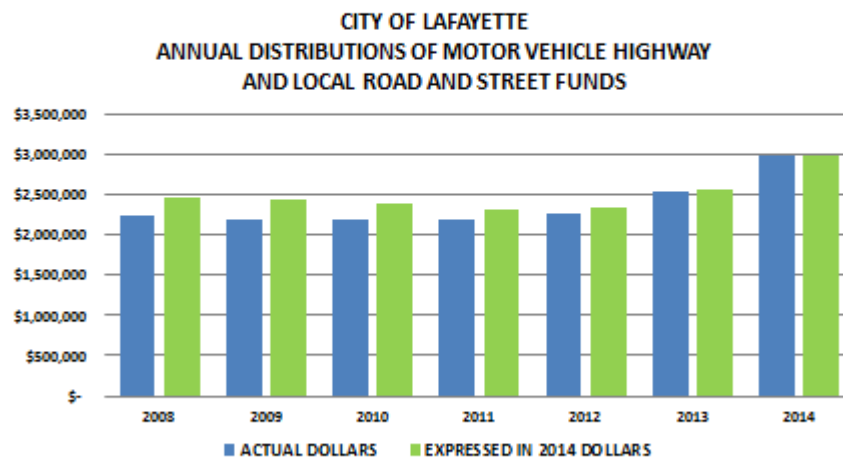
Highway Funding

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 Lafayette.

In 2008, the City received a combined total of \$2,238,901 from the MVH and LR&S distributions. By 2012, these distributions had increased slightly to \$2,271,168. 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 Lafayette. By 2014, the first full year that the increase was in effect, Lafayette's combined distributions had increased to \$2,985,022. This was a 33.3 percent increase over the 2008 distributions, ranking as the seventh highest percentage change among the selected municipalities. After adjusting for inflation, this was a 21.3 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 Lafayette does levy property taxes to support its MVH Fund. In 2015, its levy for this fund net of circuit breaker credits was \$2,032,546.

FIGURE 13



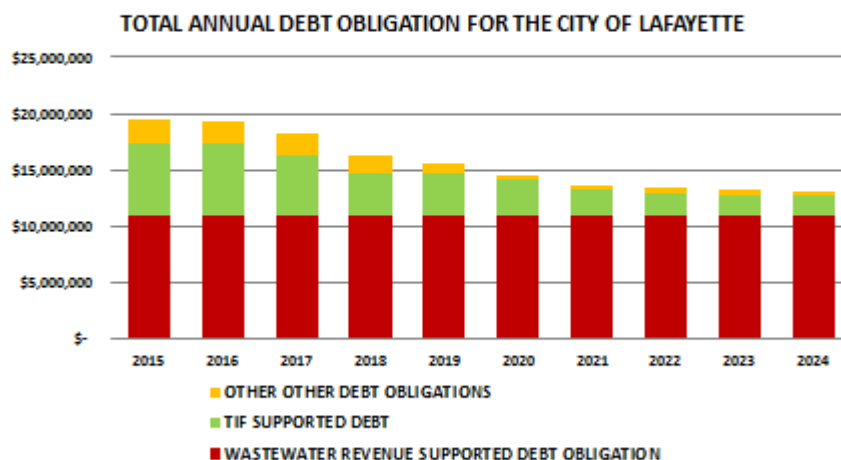
Debt

Per information available on the Indiana Gateway database, as of July 1, 2014, the City of Lafayette had total outstanding debt of \$215,556,416. This was \$3,063 of outstanding debt per capita, ranking seventh highest among the selected municipalities.

Of the total outstanding debt, 66.6 percent was supported by wastewater revenues, none was supported by water revenues and 28.2 percent was supported by tax increment finance revenues. The total outstanding debt per capita for the City of Lafayette, excluding debt supported by wastewater, water and TIF revenues was \$160, the third lowest among the selected municipalities.

As of July 1, 2014, the City of Lafayette had \$25,183,500 in outstanding debt supported with County Economic Development Income Tax revenues. This was 4.7 times the City's 2015 CEDIT certified distribution. At least a substantial portion of the pledged CEDIT must be as a back-up to other debt.

FIGURE 14



The 2024 projected total debt payments of all current outstanding debt is 66.6 percent of the 2015 projected payments. The IUPUI Public Policy Institute's Fiscal Benchmarking Project did not report a 2012 Debt Service Ratio for the City of Lafayette.

Summary Observations

The City of Lafayette has been operating in a relatively strong economic environment compared with the group of municipalities included in this study, ranking sixth on the Composite Economic Index. Of particular note, Tippecanoe County experienced the third highest percentage increase in total personal income among the fifteen counties containing one or more of the selected municipalities.

Gross assessed valuation in the City of Lafayette increased only slightly between 2007 pay 2008 and 2014 pay 2015. The 1.8 percent growth was below the composite rate for all eighteen municipalities included in the study. The City did have one of the higher ratios of net assessed valuation to gross assessed valuation. From 2008 pay 2009 to 2014 pay 2015 annual net assessed valuation first declined and then began to increase, with the most recent year being only slightly higher than in 2008 pay 2009 (1.6%). Net assessed valuation per capita in Lafayette of \$43,071 ranked third among the selected municipalities. In 2014 pay 2015, fifteen percent of the City's General Fund net assessed valuation was captured in tax increment financing districts.

The City of Lafayette's 2015 property tax rate of \$1.0103 ranked as the fifth lowest among the selected municipalities. The City also had one of the lowest rates of growth in its property tax rate between 2007 and 2015 among the selected municipalities. In fact, its 2015 rate is lower than it was in 2011. Lafayette's growth in its property tax levy between 2006 and 2015 was just higher than the increase needed to keep pace with inflation but was lower than the composite rate of levy growth over this period for all eighteen selected municipalities. Given the relatively low municipal property tax rate along with the relatively lower rates for the taxing units that share Lafayette's tax base, it is not surprising that the City has experienced only a modest impact from the property tax caps. In 2015, Lafayette lost only 5.4 percent of its certified property tax levy to circuit breaker credits. This was the fourth lowest percentage among the selected municipalities.

In 2008 Tippecanoe County had a local income tax rate of 1.05 percent. By 2015 this rate had increased to 1.1 percent with the increase entirely attributable to a change in the CEDIT Homestead Credit that was adopted to offset the homeowner impact when inventory was removed from the tax base. While the local income tax rates that generate direct revenue to the City of Lafayette did not change between 2008 and 2015, the City's income tax revenue did grow by 1.3 percent after adjusting for inflation. However, actual annual income tax revenues did decline in the years of and immediately following the great recession. The relatively modest circuit breaker impact and the ability of income tax revenues to recover from the recession allowed Lafayette's "core revenue" to essentially keep pace with inflation when comparing 2015 with 2008. The City ranks fifth highest on this study's Fiscal Capacity Index.

Since 2011 the City of Lafayette has been able to maintain a year-end balance in its Rainy Day Fund of nearly \$3 million. However, it has struggled to maintain a positive year-end balance in its General Fund. The combined 2014 year-end balance in the two funds, when expressed on a per capita basis, ranked in the bottom half of the selected municipalities. Lafayette had the lowest 2014 per capita disbursements from all Governmental Funds of any of the eighteen selected municipalities (\$1,194). Lafayette's per capita outstanding debt as of July, 2014 of \$3,051 ranked as the seventh highest of the eighteen selected municipalities. Approximately two-thirds of that debt was being supported by wastewater user fee revenues. Lafayette's cumulative "core revenue" between 2009 and 2015 lost ground to inflation. Notwithstanding that cumulative loss, the City ranked seventh on this study's Index of Overall Fiscal Health.