



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

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Introduction

This document is a summary of financial information on the City of Gary 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 Gary 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 Gary has been functioning in the fifth most difficult economic climate of the eighteen selected municipalities.

In 1970, the City of Gary had 175,415 residents. That total represented 32 percent of the Lake County population. In 2014, the estimated population of Gary was 77,909. That total represented 16 percent of the Lake County population, a decrease of 16 percentage points from 1970. Between 1970 and 2014, Gary lost 97,506 residents, a 56 percent decline. Between 2006 and 2014, Gary lost an estimated 19,806 residents for a 20.3 percent decrease.

Total personal income in Lake County increased by 18.0 percent between 2006 and 2013. This was the ninth highest percentage increase among the fifteen counties that contained our selected municipalities. Per capita personal income in 2013 in Lake County was \$37,797, seventh highest among the selected counties. This was 97.9 percent of statewide per capita personal income. In 1970, per capita personal income in Lake County was 105.1 percent of the statewide per capita personal income.

Lake County has experienced long-term gain and short-term decline in employment. In 1970 the countywide total employment (full and part-time employment) was 230,297. By 2007, employment in the county had increased to 249,148. The county experienced a loss of employment between 2007 and 2013 to a total of 244,926 by 2013. The longer-term increase between 1970 and 2013 was 6.4 percent, the second worst performance among the fifteen counties that contained the eighteen selected municipalities. The shorter-term decline between 2007 and 2013 was 1.7 percent, the sixth best performance 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 Lake County in 2013 was \$26,229,152,181. The per capita GRP was \$53,376 in 2013. This was the fourth highest GRP per capita of the fifteen counties containing our selected municipalities.

Of the eighteen municipalities included in this study, Gary ranked 14th 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 107 out of a possible 270 points. This indicates that the City of Gary 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

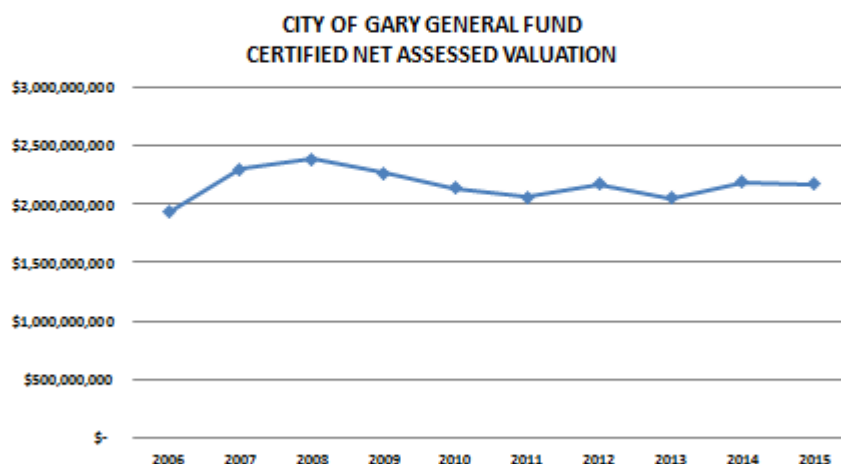
tax performance and others such as change in gross assessed valuation impact both property tax levies and circuit breaker credits.

Assessed Valuation

The gross assessed valuation for the City of Gary was \$3,529,120,192 in 2014 pay 2015. This was a 15.4 percent decrease over the 2007 pay 2008 gross assessed valuation. Gross assessed valuation was \$45,298 per capita in 2014 pay 2015, ranking as the second lowest among the eighteen selected municipalities. In 2007 pay 2008 the standard homestead deductions were 13.4 percent while the 2014 pay 2015 combination of the standard and supplemental homestead deductions represented 21.5 percent of Gary's gross assessed valuation. In 2007 pay 2008 6.1 percent of the city's gross assessed valuation was captured in tax increment financing districts and this increased to 10.2 percent in 2014 pay 2015. Net certified assessed valuation in 2007 pay 2008 was 61.0 percent of gross assessed valuation (less the gross assessed valuation captured in tax increment districts). By 2014 pay 2015, this had increased to 66.2 percent.

Figure 1 illustrates the changes in net assessed valuation for Gary from 2005 pay 2006 through the current year. The certified net assessed valuation for the City of Gary General Fund is \$2,172,015,857 for 2014 pay 2015. That is up from \$1,928,676,298 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 Gary declined by 5.1 percent, the third least impacted among the eighteen selected municipalities. Between 2008 pay 2009 and 2014 pay 2015, the City of Anderson's net assessed valuation continued to decline by an additional 4.2 percent, the sixth highest rate of decrease among the selected municipalities. Net assessed valuation per capita in Gary was \$27, in 879 2014 pay 2015, ranking 14th among the eighteen municipalities. Over the past year, net assessed valuation for the City of Gary General Fund declined by 0.6 percent. In 2014 pay 2015, 10.2 percent of the City of Gary's General Fund net assessed valuation was captured by tax increment financing districts.

FIGURE 1



In 2006 pay 2007, the City of Gary’s certified net assessed valuation was 9.9 percent of the net assessed value countywide in Lake County. By 2014 pay 2015, the City’s portion of the countywide net assessed value had increased to 10.4 percent.

Annual Property Tax Certified Budgets, Levies and Rates

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

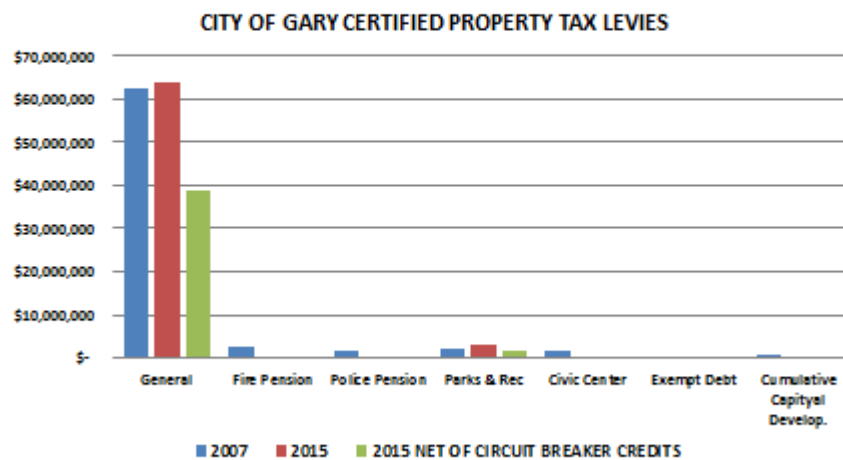
Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$69,192,722	\$62,591,178	\$2.7248
Fire Pension	\$6,994,119	\$2,448,701	\$0.1066
Police Pension	\$6,057,103	\$1,702,146	\$0.0741
Civic Center	\$1,413,719	\$1,849,160	\$0.0805
Park & Recreation	\$2,208,581	\$1,966,311	\$0.0856
CCD	\$650,000	\$739,664	\$0.0322
Total	\$86,516,244	\$71,297,160	\$3.1038

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

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$51,601,730	\$64,039,716	\$2.9484
Exempt Debt Service	\$889,575	\$123,805	\$0.0057
Park & Recreation	\$1,195,621	\$2,869,233	\$0.1321
CCD	\$167,104	\$136,837	\$0.0063
Total	\$53,854,030	\$67,169,591	\$3.0925

Source: Department of Local Government Finance Annual Budget Orders

FIGURE 2

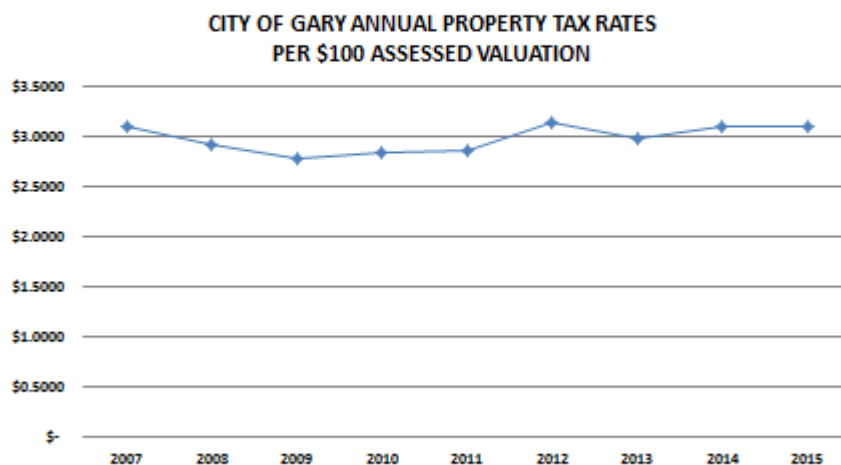


The City of Gary’s 2015 property tax rate of \$3.0925 ranked as the second highest among the eighteen selected municipalities. Gary’s property tax rate decreased by \$0.0113 between 2007 and 2015. This

was a 0.4% decrease. The change, in cents per \$100 assessed valuation, ranked as the second lowest among the selected communities and also was the second lowest as a percentage change.

The City of Gary has adopted a Cumulative Capital Development Funds and has a rate for the fund in 2015 of \$0.0063. It did not levy property taxes to support its Police and Fire Pension Funds in 2015. In 2015, 0.2 percent of its property tax rate is used to support debt service funds.

FIGURE 3



Circuit Breaker Impacts

In 2015, the City of Gary lost \$26,503,260 in property tax revenue due to Circuit Breaker credits. That was 39.3 percent of its Certified Property Tax Levy, the third highest among the selected municipalities. After adjusting for inflation, the 2015 total Certified Levy net of Circuit Breaker Credits was 50.0 percent of its 2007 Certified Levy. In 2015 Circuit Breaker Credits allocated to the City of Gary were \$340 per capita (the highest among the eighteen municipalities) and \$1,220 per \$100 of assessed valuation (second highest). The City of Gary lost another \$5,592,325 in property tax revenue due to the Circuit Breakers in its tax increment financing districts.

FIGURE 4

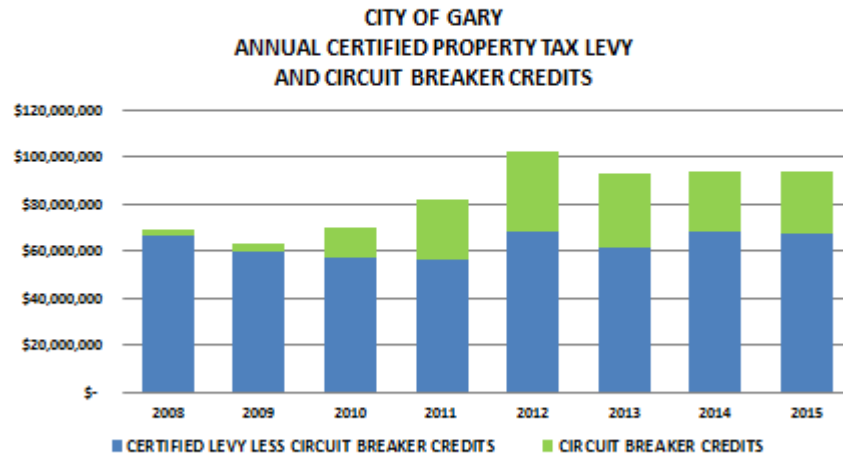


FIGURE 5

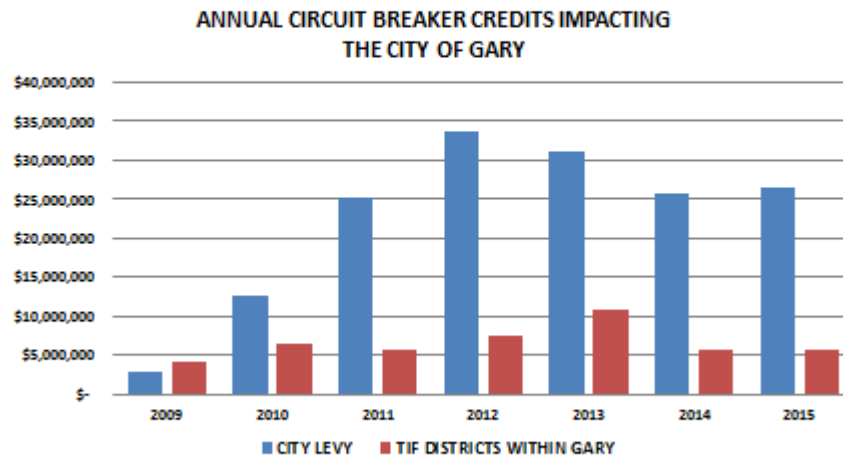
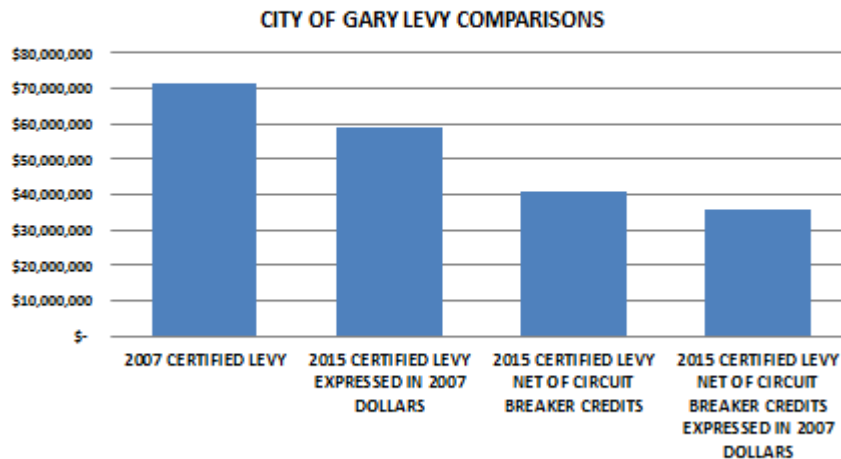


FIGURE 6

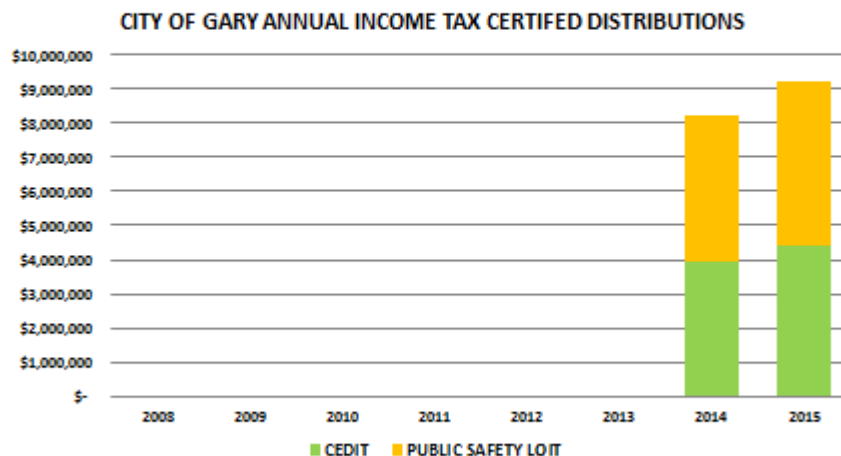


Local Income Taxes

Lake County has a County Economic Development Income Tax at a 0.25% effective in 2014. Lake County also adopted the Property Tax Relief LOIT at the 1.0% rate and the Public Safety LOIT at the 0.25% rate, both effective in 2014. The City of Gary does not have a controlling vote in the Lake County Income Tax Council.

In 2008, the City of Gary did not receive any local income tax distributions. By 2015 the distributions were \$9,224,578. Local income tax revenue represented none of Gary's "core income" (certified property tax levy plus income tax revenue) in 2008. In 2015 income tax revenue represented 18.4 percent of "core income" (certified property tax levy less circuit breaker credits plus income tax revenue) in 2015.

FIGURE 7



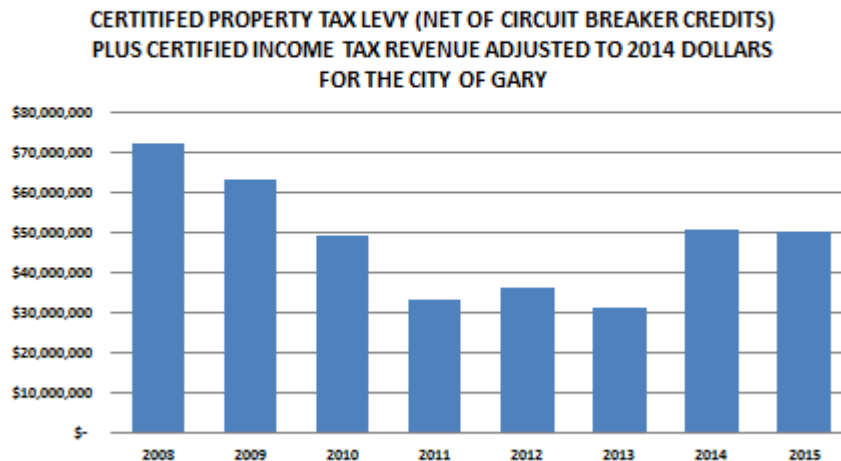
Fiscal Capacity Index

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

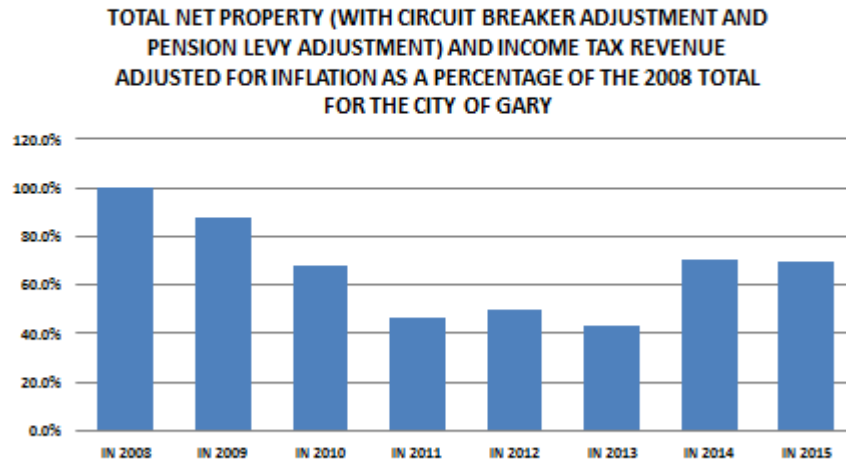
FIGURE 8



The City of Gary's total certified property tax levy, net of circuit breaker, plus income tax revenue was, after adjusting for inflation, 69.8 percent of the 2008 total.¹ This was the 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 \$156,370,177. This was the equivalent of 241 percent of 2008 core revenue.

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

FIGURE 9



Gaming Revenues

The City of Gary is one of three of the selected municipalities that receive substantial revenue from the Riverboat Admission Tax and the Riverboat Wagering Tax.

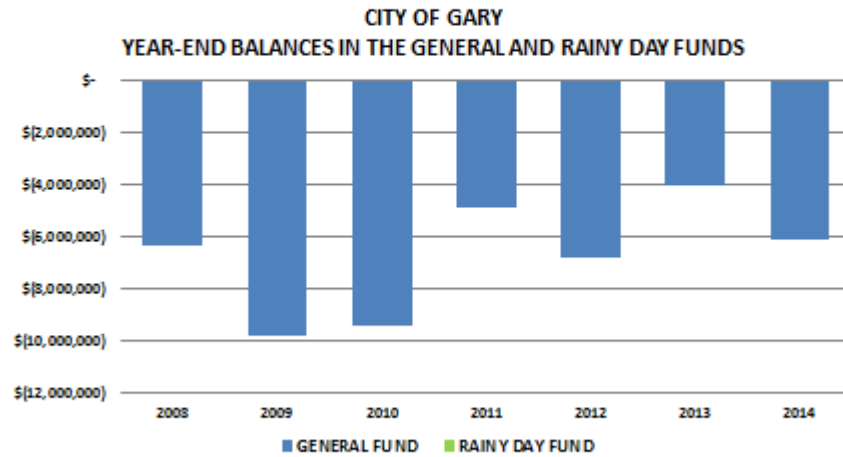
According to the 2014 Indiana Handbook of Taxes, Revenues, and Appropriations, Gary received \$2,665,558 in Riverboat Admission Tax in state fiscal year 2011 and also received an additional \$3,494,171 in a supplemental to make up for a shortfall in state fiscal year 2010 distributions. Gary received \$5,294,238 in FY 2012 plus an additional \$3,299,075 in supplemental distributions. It received \$5,220,276 in FY 2013 plus an additional \$3,420,489 in a supplemental distribution. In state fiscal year 2014 Gary received \$4,541,583, plus a supplemental distribution to account for FY 2013 shortfalls of an additional \$3,623,455. The City of Gary also received distributions of Riverboat Wagering Tax of \$11,591,063 in state fiscal years 2011; \$10,595,682 in FY 2012, \$9,535,023 in FY 2013, and \$7,868,017 in state FY 2014.

The City has a Riverboat Fund. In 2012 it had receipts of \$23,225,451 and disbursements of \$25,049,880. The fund has an ending balance of \$1,239,218 in 2012. In 2013 it had receipts of \$27,318,021, disbursements of \$23,652,497, and an ending balance of \$4,904,742. In 2014 the fund has receipts of \$26,123,276, disbursements of \$30,011,133, and an ending balance of \$1,016,885.

Year-End Balances, Annual Receipts and Annual Disbursements

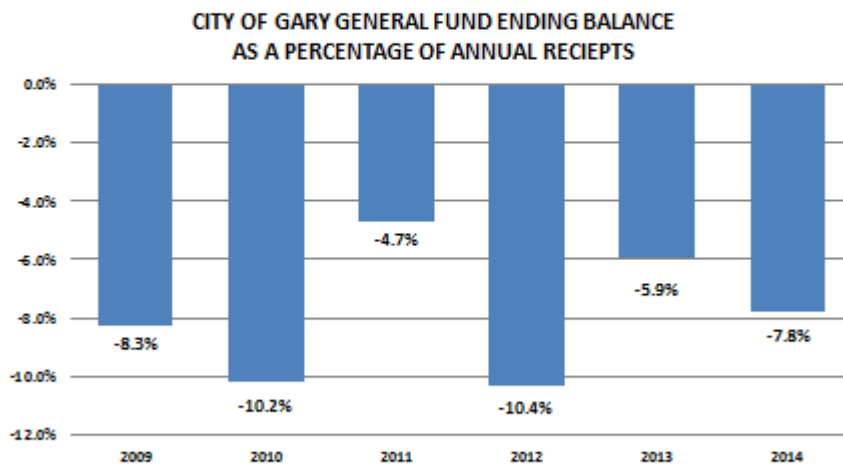
The 2014 year-end balance, including reserved and obligated funds, in the City of Gary's General Fund was a negative \$6,166,940. It had no Rainy Day Fund in 2014. Thus the combined total balance for both funds at year-end 2014 was a negative \$6,166,940. This was a negative 7.8 percent of annual receipts from both funds combined, ranking as the third worst of the eighteen selected municipalities. The combined total represented a negative \$79 per capita, the second lowest ranking. The combined General and Rainy Day fund balances increased by \$3,627,089 between 2009 and 2014. This was the 8th highest ranking among the selected municipalities.

FIGURE 10



The 2014 year-end balance for all Governmental Funds for the City of Gary was \$24,684,383. This was \$317 per capita, ranking lowest among the selected municipalities. General Fund disbursements represented 34.1 percent of all Governmental Fund disbursements in 2014. The year-end balance for all Governmental Funds was 10.8 percent of the 2014 receipts in those funds. Total disbursements from all Governmental Funds in 2014 were \$238,064,561. Total disbursements from all funds, including Governmental and Enterprise type funds, was \$278,090,356 in 2014.

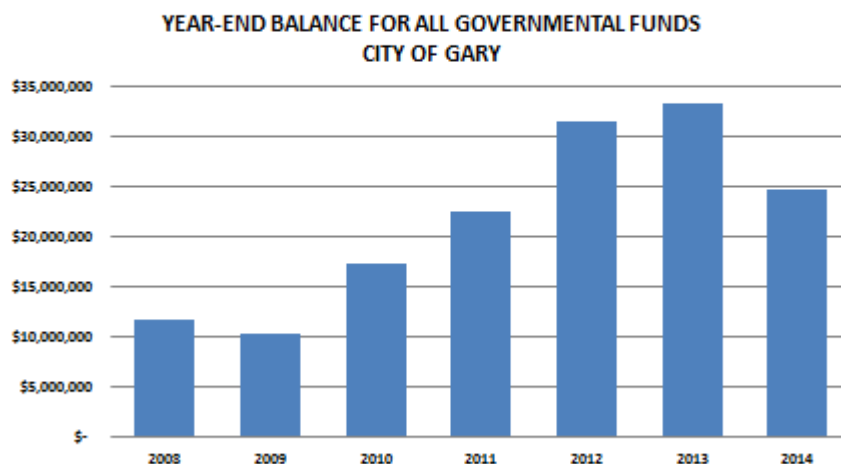
FIGURE 11



Total receipts from all Governmental Funds in 2014 were \$229,004,245. This was \$2,939 per capita, ranking as the highest among the selected municipalities. Core revenue (certified property taxes net of

circuit breaker credits plus certified income tax distributions) represented 22.0 percent of all Governmental Fund receipts in 2014 for the City of Gary.

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 Anderson was \$21,093,372 and represented 10.7 percent of total revenue. Intergovernmental revenue in 2011-2012 averaged 10.1 percent of total annual revenue. Gary ranked as the second most dependent on Intergovernmental Revenue among the selected municipalities.² The 2011-2012 average annual intergovernmental revenue per capita was \$354, ranking Gary as the second 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 Gary.

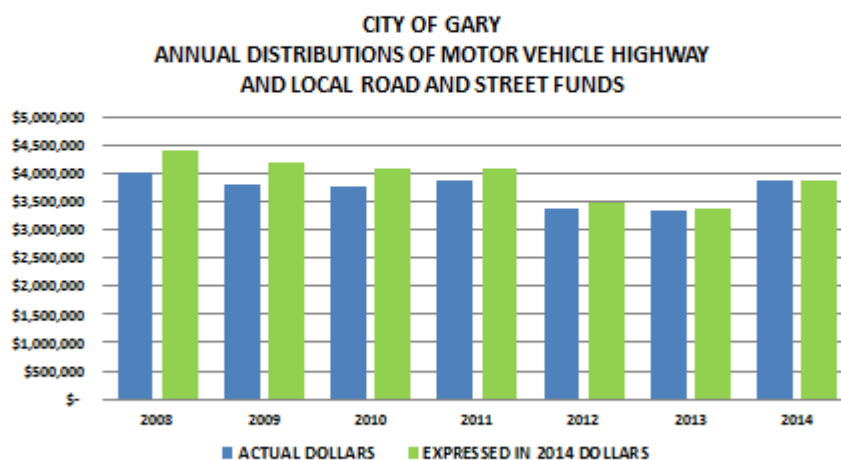
In 2008, the City received a combined total of \$4,011,844 from the MVH and LR&S distributions. By 2012, these distributions had declined to \$3,374,104. The changes to the MVH Account made by the General Assembly beginning with the 2013-2015 State Budget increased the distributions to local units, including the City of Gary. By 2014, the first full year that the increase was in effect, Gary's combined distributions had increased to \$3,872,386, yet still below the 2008 level. This was a 3.5 percent decrease from the 2008 distributions, ranking as the lowest percentage change among the selected municipalities and the only one for which the 2014 distributions were lower than those in 2008. After adjusting for inflation, this was a 12.2 percent decrease from the 2008 combined MVH and LR&S

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

distributions. The composite inflation adjusted increase for all eighteen selected municipalities was 15 percent.

The City of Gary does not currently levy property taxes to support either its MVH or LR&S Funds.

FIGURE 13



Debt

No information was available on the Indiana Gateway database for Gary debt as of July, 2014.

Summary Observations

The City of Gary has been operating in a relatively difficult economic environment in comparison with the other municipalities included in this study, ranking fourteenth out of the eighteen municipalities on the Composite Economic Index. Of particular note, between 2006 and 2014 Gary lost approximately 20,000 residents or twenty percent of its 2006 population.

Gary experienced a 15 percent decline in its gross assessed valuation between 2007 pay 2008 and 2014 pay 2015. This was the second largest decline among the eighteen selected municipalities. On a comparative basis, Gary's net assessed valuation decline over this period was less than the composite change for all eighteen municipalities. While Gary's net assessed valuation decrease attributable to the increased homestead deductions in 2008 pay 2009 was relatively modest in comparison to the other municipalities, it also experienced a modest decline in net assessed valuation between 2008 pay 2009 and 2014 pay 2015. The City of Gary currently captures approximately ten percent of its net assessed valuation in tax increment financing districts, slightly less than the composite for the eighteen studied municipalities.

The City of Gary's 2015 property tax rate of \$3.0925 per \$100 assessed value is the second highest among the selected municipalities. However, the rate has declined slightly since 2007, one of only two of the selected municipalities to have a lower property tax rate in 2015 than in 2007. Conversely, the total property tax rate in the taxing district within Gary with the highest rate was nearly \$0.80 higher

than the comparable taxing district in any of the other seventeen municipalities. This is a very important factor affecting the property tax cap impact on Gary's revenues.

Due in part to additional property tax controls placed on Lake County units of government by the General Assembly, Gary experienced virtually no growth in its certified property tax levy between 2006 and 2015. Due in large measure to the historically high property tax rate of Gary and its overlapping units of local government, the City's certified property tax levy in 2015 was reduced by \$26.5 million in circuit breaker credits. This was a loss of nearly forty percent of its certified levy, the third highest percentage loss among the selected municipalities.

In 2008 Lake County had no local income tax. By 2015 the County Economic Development Income Tax (0.25%), the Public Safety LOIT (0.25%), and the Property Tax Relief LOIY (1.0%) had all been adopted in Lake County. This added over \$9 million in "core revenue" to the City of Gary in 2015 and the Property Tax Relief LOIT indirectly served to lower the circuit breaker credit reduction to its property tax revenue. Notwithstanding the positive impacts of the local income taxes on Gary's "core revenue", the City's "core revenue" in 2015, after adjusting for inflation, was slightly less than seventy percent of its 2008 "core revenue". This placed Gary last in this study's Fiscal Capacity Index. However, the picture has been improving for Gary as in 2013 "core revenue" after adjusting for inflation was only 43 percent of 2008 "core revenues".

The 2014 year-end balance in Gary's General Fund was a negative \$6 million and it had no Rainy Day Fund. Its combined 2014 year-end balance per capita in these two funds was a negative \$79, the second lowest among the selected municipalities. 2014 disbursements per capita by the City of Gary for all Governmental Funds was \$3,056, the highest of the eighteen municipalities included in this study. Gary's cumulative loss of "core revenue" between 2009 and 2015 compared to 2008 "core revenue" was more than \$156 million and was more than twice the cumulative loss of any of the other seventeen municipalities. Gary placed next to last on this study's Index of Overall Fiscal Health.