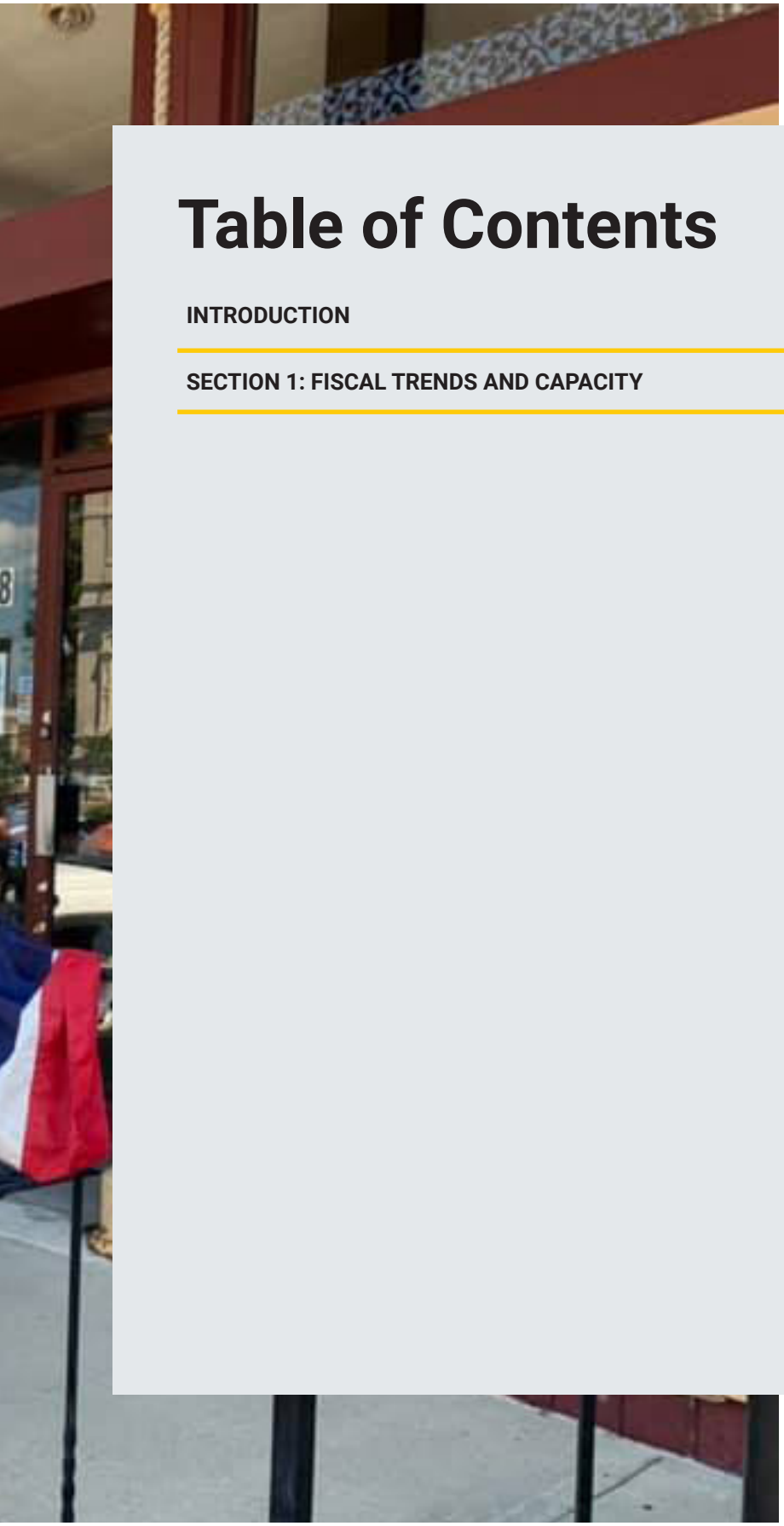
FORWARD
KOSCIUSKO COUNTY
MOVING FORWARD TOGETHER

SECTION SEVEN
COUNTY FISCAL CONDITIONS

COMMUNITY
CONDITIONS ASSESSMENT

FEBRUARY 7, 2022

Storefront | Warsaw Main Street



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Alleyway | Syracuse Chamber of Commerce

A fiscal conditions assessment was conducted to analyze fiscal structure, trends, and capacity for accommodating and leveraging development in the county. The fiscal relationships between County Government and the local municipalities in Kosciusko County were also examined, vis-à-vis the provision of local services

SYSTEMS

FISCAL TRENDS AND CAPACITY

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Structure

The structure of County Government was examined along with its responsibilities. The role of the County in providing services was also examined vis-à-vis that of local municipal governments.

In general, it was determined that the County has primary responsibility for providing services outside of municipal boundaries and for providing certain delineated services countywide, both inside and outside of municipal boundaries. Those countywide services generally include operation of the County Jail, services provided by the Sheriff and Health departments, 911 emergency dispatch and coordination, agricultural support services, and maintenance of County roads and highways. Meanwhile, municipal governments have primary responsibility for maintenance of city streets, police and fire protection, and wastewater services, among others. Several municipalities are primary providers of parks and recreation services. While the County does not currently provide that service, parks and recreation are within the bounds of services provided by counties in Indiana.

The County and several municipalities have oversight for planning, zoning, and development, with County jurisdiction restricted to areas outside of Warsaw and several municipal boundaries. A survey conducted of municipal treasurers for this planning effort found that many municipalities have little interaction or coordination with the County on planning or economic development, other than in zoning in Tax Increment Financing districts, for example. Representatives of the County concurred with this observation. County planning is guided through the Kosciusko County Area Plan Commission (APC). The County and municipalities can raise capital financing through the issuance of general obligation bonds, and Kosciusko County has issued bonds through Tax Increment Financing (TIF) to pay for capital projects in the past.

Revenues

Kosciusko County generated total receipts of $230,639,000 in fiscal year 2020. revenues are summarized by type in the following chart. This analysis focused on General Fund revenues as an indicator of the overall balance of revenues sourced by the County. As shown below, roughly one-half (49%) of County General Fund revenues (in FY2020) are generated by property taxes, with another 27% generated through income taxes (including the local option income tax (LOIT) and the economic development income tax (EDIT)). The third largest share of County revenues is generated by charges for service, accounting for 15% of General Fund revenue. Other revenue sources are relatively small, including vehicle taxes, investment income, fines/fees & forfeitures (FFF), and various inter-governmental distributions. Planning, zoning, and building permit fees accounted for about 1.0% of 2020 revenues.

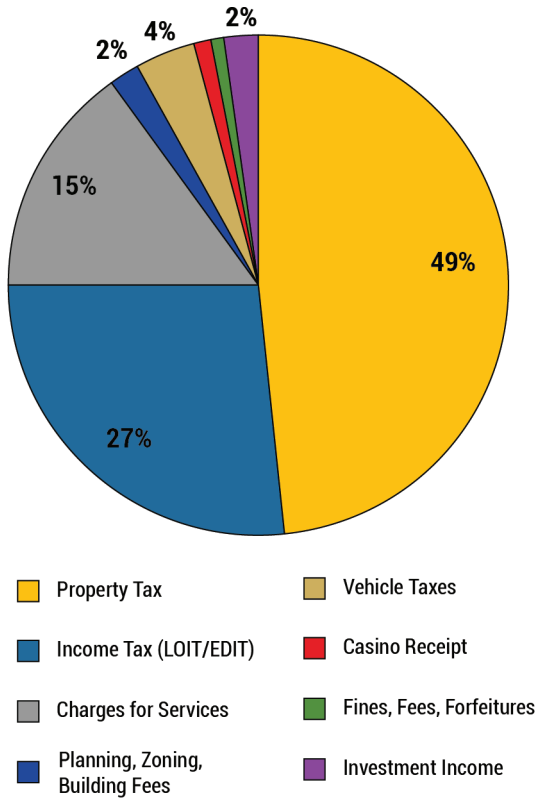
Expenditures

The County's expenditures totaled $222,252,000, based on the FY2020 Comprehensive Audited Financial Report (CAFR). The expenditures reflect the General Fund, but with the addition of Highway and Health fund expenditures. Altogether, infrastructure costs (including repair and maintenance of roads & highways, bridges, drainage, etc.) represent about 25% of total expenditures. The Sheriff, County Jail, Communications and other emergency services account for 21% of the total. The county court system represents about 10% of costs, while administration accounts for 7%.

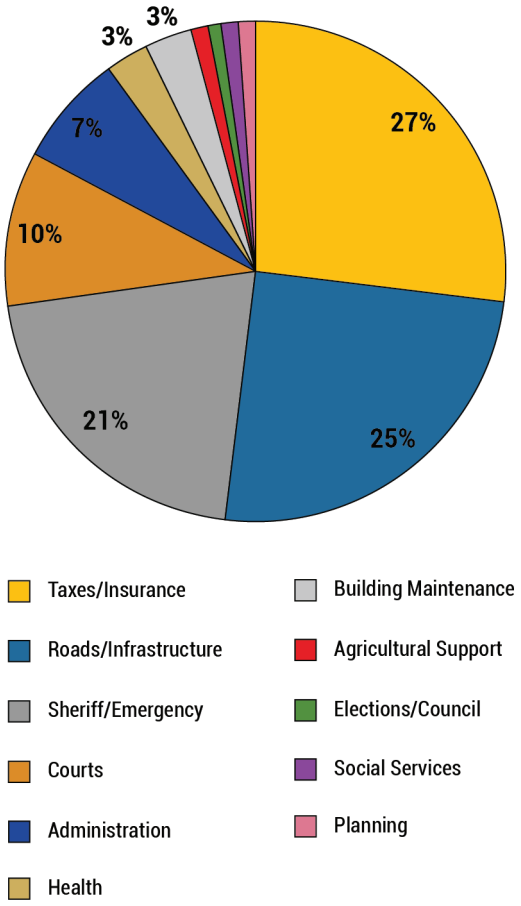
Health expenditures account for 3% of the County budget. Building maintenance and repair also account for 3% of expenditures. About one percent each is spent on agricultural support, elections and council, social services (veterans, child services), and planning. In addition, another 27% of County expenditures are used for employment taxes and health insurance benefits, included among funds expended from the County Commissioners fund.

Charts for the county's revenues and expenditures can be seen below.

General Fund Revenue Sources (2020)



General Fund Expenditures (2020)



Trend Analysis

The Kosciusko County CAFR was analyzed and past trends assessed in terms of revenues and expenditures by specific category. These trends are discussed below.

Revenues

Overall, the County's revenue stream among the selected categories increased by 66.1% in the ten-year period from fiscal year 2011 through 2020. After accounting for inflation, revenues still increased by 51.1% in real (constant dollar) terms. However, growth was not consistent among all categories of revenue. For example, charges for service increased by more than 272% in real terms (above the rate of inflation), while revenues from fees, fines, and forfeitures fell by 56% in real dollars over the same period. The percentage change in real dollars for several key categories is summarized below. It should be noted that the Inheritance Tax was drawn down and eliminated in Indiana by 2016. Therefore, there is no longer revenue generated to Kosciusko County from this source.

COUNTY REVENUE STREAMS

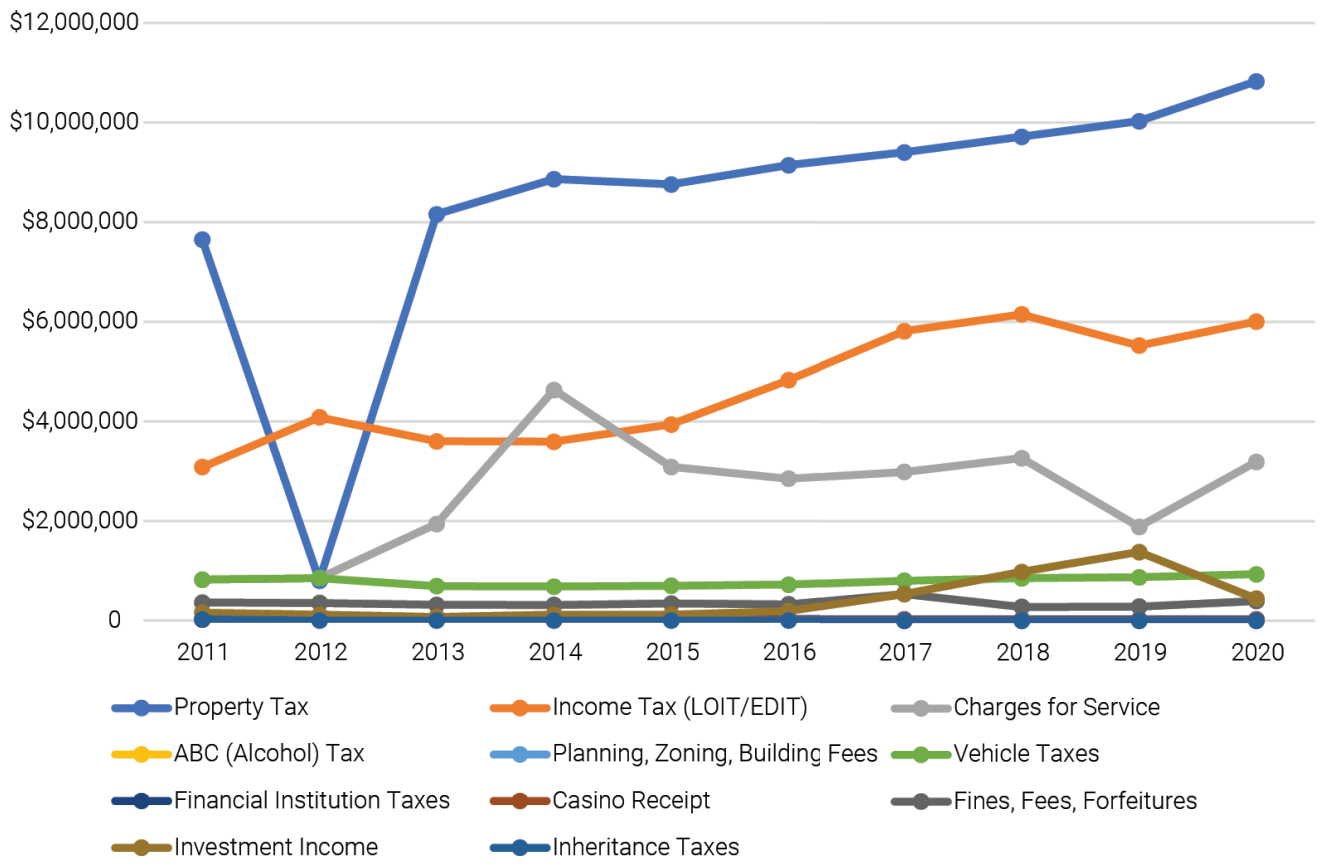
Category	Ten-year Change (Yearly Change)
Charges for Service	+272.5% (+27.3%)
Investment Income	+163.2% (+16.3%)
ABC (Alcohol) Tax	+126.3% (+12.6%)
Income (EDIT, LOIT) Tax	+79.7% (+8.0%)
Planning, Zoning, Building Fees	+67.8% (+6.8%)
Vehicle Taxes	+38.8% (+3.9%)
Financial Institution Taxes	+37.1% (+3.7%)
Property Tax	+26.4% (+2.6%)
Casino Receipt	-19.4% (-1.9%)
Fines, Fees & Forfeitures	-55.9% (-5.6%)
Inheritance Taxes	-100.0% (-10.0%)

Source: Randall Gross / Development Economics.

As shown above, property taxes, which constitute the largest single share of County budget revenues, have increased slowly but consistently over the ten-year period from 2011 through 2020. Income tax revenues have increased in waves, with growth slowing from 2012 to 2014, and again from 2018 to 2019. Income tax revenues do not appear to have been severely impacted in 2020 by the COVID Pandemic (which began to impact on business and employment in March of that year).

There has been erratic growth in charges for service, with a peak in 2014 and some stability between 2015 and 2018. Investment income rose with the markets through 2019 but fell off due to the impacts of the Pandemic on market stability in 2020. Vehicle tax revenues have increased modestly but consistently over the period, while casino revenues have stagnated. Clearly, there are some revenue sources that are more dependent on local real estate and economic conditions, including the property and income taxes as well as building permits and some others. But there are also revenues generated through inter-governmental transfers from State Government over which the County has little control.

County Revenue Trends (2011-2020)



Expenditures

County expenditures among the selected categories increased by 43.2% over the ten-year period from 2011. After accounting for inflation, expenditures rose by 28.1%. This compares with an overall constant dollar increase of 51.1% in revenues over the same period. Thus, the County has been able to build its reserves and utilize cash funds for infrastructure and other capital projects without having to resort to the use of bond financing and an accumulation of debt. Overall trends within specific categories of expenditures are summarized below.

As with revenues, some expenses incurred by the County have fallen over time, while others have increased more rapidly. Some of these changes over the ten-year period are captured below.

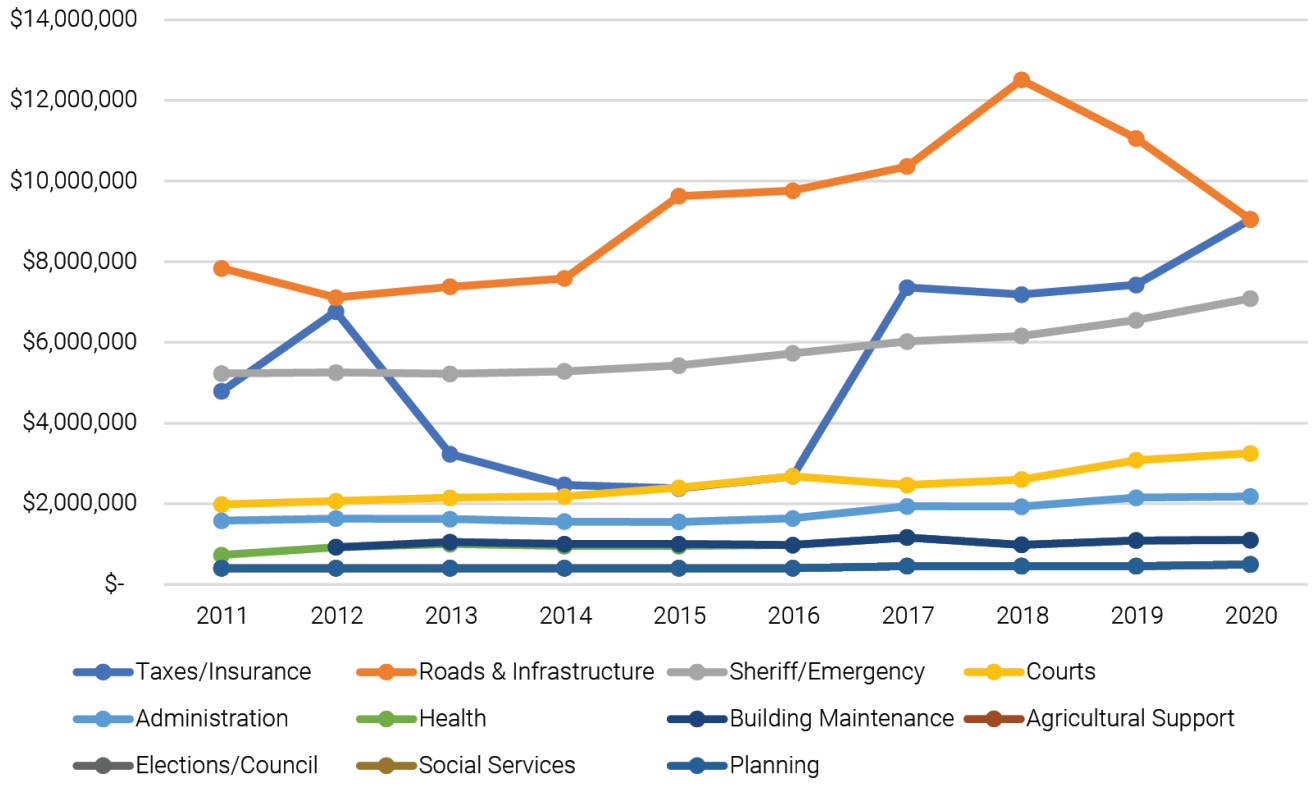
COUNTY EXPENSES

Category	Ten-year Change (Yearly Change)
Building Maintenance & Repairs	+341.7% (+34.2%)
Taxes & Insurance	+74.0% (+7.4%)
Elections & Council	+63.9% (+6.4%)
Courts	+48.7% (+4.9%)
Health	+28.4% (+2.8%)
Administration	+22.9% (+2.3%)
Sheriff/Emergency Services	+20.5% (+2.1%)
Social Services	+14.9% (+1.5%)
Planning & Development	+7.0% (+0.7%)
Agricultural Support	+2.5% (+0.3%)
Infrastructure	-6.8% (-0.7%)

Source: Randall Gross / Development Economics.

As noted in the table, maintenance and repair costs have increased at the fastest rate, about 34.2% per year after accounting for inflation. Employment taxes and health insurance costs have also increased rapidly, as they have in the private sector. At the other end, planning and development service costs have increased at nearly the slowest rate of all County services, or about 0.7% per year. This trend compares with revenues generated through planning and development, which have increased by 6.8% per year.

County Expenditure Trends (2011-2020)



Infrastructure Maintenance

Infrastructure expenditures for roads and highways, bridges, and drainage have fallen by 6.8% since 2011. Part of this decrease is due to declining inter-governmental transfers generated to the County from State government. The State has also changed its allocations to maintain a 50-50 balance between restricted and unrestricted funds. Restricted funds can only be used for new capital projects (and not for repair or maintenance of roads and highways), thus limiting the amount of money available to the County for maintenance. Because of these new restrictions, the County has had to dive into its cash reserve accounts to pay for regular maintenance costs that were formerly covered through the State funds. This shift can potentially create hardships for Kosciusko County over time, as it reduces funding that could be used for capital projects and other programs.

Resources

A review was completed of bonding capacity and fiscal tools that are available to the County, and how they have been used.

Reserves

As noted previously, Kosciusko County has maintained and grown a healthy reserve fund. The FY2020 Kosciusko County Comprehensive Audited Financial Report (CAFR) recorded an ending balance of $58,019,276, up from a starting balance of $49,631,953. As noted previously, the County uses this cash reserve to fund capital improvements, rather than relying on borrowing to fund infrastructure and other projects.

LOIT/EDIT Funds

Also as noted above, the County has received Local Option Income Tax and Economic Development Income Tax funds distributed from the State for infrastructure projects. However, up until 2019, the County was able to use funds as needed for repair and maintenance of existing highways and infrastructure. But the State has since restricted 50% of funds to new capital projects, limiting the ability of Kosciusko County to use such funds for repair or maintenance projects, which had been their primary use in the county. As a result, the County has been tapping its reserve funds not only for new capital projects but also for regular highway repair and maintenance funding. Over the long term, this use will reduce the reserve more quickly than it otherwise would have been and limits the County in its use of reserve funds for other purposes.

TIF and Bonding Capacity

The County is currently paying debt service on bonds issued through Tax Increment Financing (TIF) for building projects completing nearly 30 years ago. TIF allows the County and municipal governments to raise capital for debt service payments from the anticipated annual increase (the “increment”) in property taxes generated as a result of investment in new infrastructure or development projects. The County paid about $585,500 in debt service payments on TIF bonds in FY2019 but has not issued new bonds in decades. Based on the County’s State-certified 2021 assessed valuation ($6,078,894,596), Kosciusko County has gross bonding capacity of $151,972,400. As of FY2019, the County had outstanding balances of $4,363,000 on the two bonds mentioned above. As a result, the County still has net bonding capacity of about $147,609,400.

Benchmarking

The County's resources were benchmarked against comparable jurisdictions to help identify opportunities for optimizing use of resources. The county was benchmarked against 15 other counties in Indiana based on population, proximity, household income, and other factors. These counties included Wabash, Floyd, Bartholomew, Howard, Morgan, Huntington, Whitley, Hancock, Morgan, Miami, Noble, LaGrange, Howard, Elkhart, and St. Joseph. Among the total of 16 counties, Kosciusko is ranked 6th in population and 6th in median household income.

Kosciusko County is fiscally exceptional because of its relatively high-value assessment base, with an assessed value of $6.1 billion – 3rd highest of the 16 counties. The county has the highest assessed value per capita of the 16 counties: $75,758. This amount compares with an average of $50,630 in per capita assessed value for the benchmarked counties. Thus, Kosciusko's assessed values are nearly 50% higher than average per capita value for the benchmarked counties. A high assessment base helps Kosciusko retain a relatively low property tax rate of $0.2415, the lowest tax rate of the 16 counties and 82% lower than average. Kosciusko's tax rate is 173% lower than that of Miami County and 162% lower than in Howard County. From an economic development perspective, such low tax rates help the county in marketing against high-rate communities.

Kosciusko County also has very little debt, as noted previously, since it is able to fund capital projects from its cash reserves rather than relying on debt financing. About one-third of the comparable counties do rely on such financing. Those counties carry an average of about $16.67 per capita in debt service.

The county is ranked fourth in its budgeted infrastructure spending (for highways, local roads, bridges, and capital development (and excluding toll roads)). However, the county is only ranked 11th of 16 in infrastructure budget per capita. That spending ($105.90 per person) is about 20% lower than average for the benchmarked counties. As noted elsewhere in this report, the State has restricted use of 50% of income tax funds to new capital projects, reducing the County's ability to fund regular road maintenance and repair. If this policy does not change and the County's ability to fund maintenance out of its reserves falters, there may be a need to examine more diverse funding mechanisms for infrastructure maintenance.

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FISCAL

STRATEGIC RECOMMENDATIONS

Several strategies are recommended below for enhancing the County's use of resources to meet objectives, with a particular focus on planning and economic development.

Consider Funding for Parks & Recreation

Kosciusko County has been successful in attracting and retaining residents and businesses in part because of its high quality of life including its many lakes and natural resources. Opportunities should be examined to strengthen the county's recreation assets through enhanced greenway and trail systems, blue ways, and other approaches for linking the various assets together and creating more synergies between them for destination recreation. Several of the other benchmarked counties examined in this analysis operate parks and recreation departments. Such an operation does not have to be drawn along traditional lines associated with park and recreation coverage (although meeting the various communities' needs is a priority). But increasingly, parks departments are looking at creating or enhancing destination recreation tourism opportunities, especially where there is a water resource such as lakes or rivers that can benefit from watershed conservation.

Consider Use of Road Maintenance Levies

If and when the County is challenged in funding road maintenance out of reserves, there is the opportunity to impose a system of road or other special levies that respond more specifically to maintenance schedules and community transportation needs. An example is the "Pennies for Progress" levy that was imposed on a temporary basis by the City of Rock Hill, South Carolina to fund road maintenance and improvements along a major thoroughfare through the city.

Examine Opportunities for More County-Municipality Collaboration

There is a need for more collaboration and coordination between the County and local municipalities in areas including planning, economic development, transportation and (as noted above), recreation. A survey of local municipal treasurers in the county found that most had no knowledge of any coordination, shared resources, or other joint efforts between County government and their respective municipalities. At the same time, there was an interest in seeing those relationships developed.

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