FISCAL BENCHMARKING
for Indiana's Local Governments

Indiana's Approach to Fiscal Benchmarking

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PUBLIC POLICY INSTITUTE

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Fiscal Benchmarking for Indiana's Local Governments

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Indiana University Public Policy Institute

The IU Public Policy Institute, established in 1993 within the Indiana University School of Public and Environmental Affairs (SPEA), delivers unbiased research and data-driven, objective, expert analysis to help public, private, and nonprofit sectors make important decisions that directly impact quality of life in Indiana and throughout the nation. Using the knowledge and expertise of a multi-disciplinary staff and faculty, PPI provides data and analysis that addresses a wide range of issues. PPI helps leaders, citizens, businesses, and organizations solve problems, seize opportunities, and create positive change. PPI also supports the Indiana Advisory Commission on Intergovernmental Relations (IACIR).

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Introduction

The laws governing how Indiana's local governments operate and how they raise revenue to fund those operations have changed significantly in the last five years. Constitutional limits on property tax rates and an increasing reliance on local option income taxes move local governments away from stable sources of revenue toward sources that are inherently more cyclical. These changes may diminish the ability of local government to provide services that support a social safety net, facilitate economic development, and protect and educate citizens.

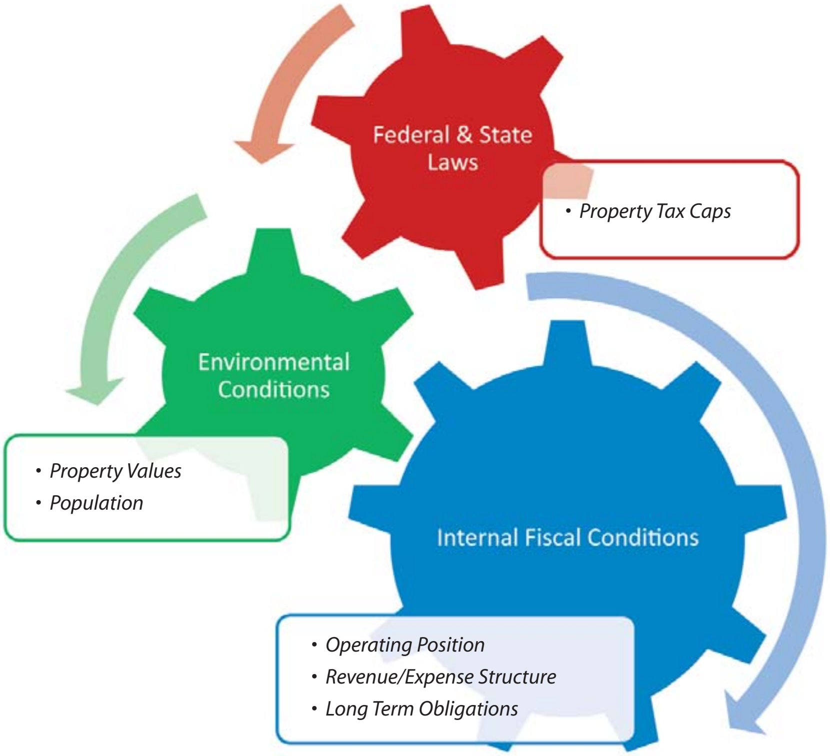
Nationally, there is a gap in current research that assesses the fiscal health of local governments in a comparative and comprehensive manner. Elected officials, members of the private and nonprofit sectors, and citizens can benefit from a comprehensive analysis of the fiscal health of local governments. State leaders should have timely and comprehensive indicators of revenue capacity, spending demands, debt service, and investments for local governments. Local leaders should know how they compare to similar units around the state. Citizens should be able to assess local government's performance. Fiscal benchmarking is useful for understanding the financial situation of local governments relative to one another and identifying local government fiscal distress.

The goal of the *Fiscal Benchmarking for Indiana's Local Governments* project is to provide timely and accessible analysis about the financial health of Indiana's local governments. The project is sponsored by the Indiana University Public Policy Institute (PPI), an applied research institute and part of the Indiana University School of Public and Environmental Affairs. Indiana's local governments differ in size, scope of operations, and resources. However, those governments share similar fiscal challenges. For instance, recent statewide changes to cap property taxes have imposed new fiscal challenges on Indiana's local governments, and constrained the ability of local governments to raise revenue through the property tax. In turn, many local governments now use local-option income taxes to replace lost property tax revenue. Other local governments may have instituted new user charges to support the expense of specialized services rather than allocate general funds. The outcome of either of these choices can be evaluated using financial indicators that measure the productivity, volatility, and diversity of a local government's sources of revenue.

Thanks to stronger state-mandated reporting requirements, a variety of financial data related to the revenue, spending, and debt of Indiana's local governments is now available from the website Indiana Gateway for Government Units (gateway.ifionline.org/). Each fiscal year, the project team will use government-reported data on revenues, spending, and debt to construct a series of fiscal indicators that measure the level of fiscal health for each county, city, town, and township. Regular assessment of the fiscal health of Indiana's local governments informs the debate on statewide policies aimed at local government, the reasons for fiscal stress, and the best practices of local government financial management.

This report provides an introduction to fiscal benchmarking and the *Fiscal Benchmarking for Indiana's Local Governments* project. It begins with a description of fiscal benchmarking, a review of general approaches to benchmarking, followed by a discussion of ongoing fiscal benchmarking projects in other states. Next, some background on the *Fiscal Benchmarking for Indiana's Local Governments* project, with a discussion of its approach to fiscal benchmarking. The report concludes with a look at the indicators that will be used to gauge the fiscal situation of Indiana's local governments.

What is Fiscal Benchmarking?



Fiscal benchmarking is the assessment of the financial conditions of a local government within the context of the socioeconomic attributes of the jurisdiction. Such an assessment documents the ability of a local government to meet current and future obligations. Although there are a variety of approaches to fiscal benchmarking, it is typically accomplished by comparing the financial situation of a local government to that of similar units in a state or region over time. Given the environmental and fiscal circumstances unique to each local government, there is no one-size-fits-all indicator of fiscal health. However, measurement across a variety of standardized fiscal and environmental indicators can provide a useful approximation of the fiscal health of a local government.

Benefits of benchmarking

Historically, changes in local government conditions in the United States share common characteristics. Those changes are most often the result of changes in environmental conditions, growth in government beyond the capacity of its tax base, and poor financial management (Kleine, Kloha, & Weissert, 2002). The pressures faced by cities in the late 1970s and early 1980s resulted in a concerted effort to assess and track local government fiscal health and performance (Jacob & Hendrick, 2013).

More recently, the Great Recession has imposed similar environmental conditions on local governments across the United States, increasing local government fiscal distress. High unemployment, slow personal income growth, and a decline in home prices have strained the growth of the tax bases of local governments and increased demands for social spending. Several U.S. cities filed for Chapter 9 bankruptcy in the past five years, including Detroit, due to these environmental factors as well as long ignored unfunded long-term liabilities.

Fiscal benchmarking provides a useful resource to observe local government fiscal health. Typically, local governments make budgeting decisions for the upcoming fiscal year on the basis of revenue and spending in the prior fiscal year. The continuous nature of the budgeting cycle provides little opportunity for reflection on broader trends affecting a local government's finances. Fiscal detriments associated with changes in broader economic conditions may be difficult to identify over the course of the year-to-year budget cycle. Local government officials often lack the time and resources to monitor the medium-term fiscal outlook of their operation relative to similar units. Fiscal benchmarking compiles several years of the economic and financial data of local governments and presents these data in a comparative context. This allows policymakers to observe the fiscal health of their local government relative to its counterparts across the state or region.

Fiscal benchmarking has benefits for many of stakeholders. State policymakers need to understand how state policies affect the financial health of local governments and be alerted to local governments experiencing fiscal distress. Local government policymakers and financial managers can benefit from data analysis that illustrates how the fiscal health of their local government compares to that of other local governments across the region. This enables policymakers and financial managers to detect the broader trends affecting local governments in the region and observe governmental unit responses to fiscal adversity.

The benefits of fiscal benchmarking extend beyond local government policymakers and financial managers. Voters need information to determine whether or not the elected officials of their local governments are meeting their demands for public services. Effective fiscal benchmarking can provide an accessible resource for all these stakeholders to understand the fiscal situation of their state's local governments.

Technical requirements for successful benchmarking

Fiscal benchmarking projects compile financial and economic data to assess the fiscal health of local governments within a region. Some state fiscal benchmarking projects go further by analyzing the financial health of local governments in a comparative context.

Fiscal benchmarking is a data-driven enterprise, meaning that all state fiscal benchmarking projects depend on the collection and analysis of financial and economic data to make inferences about the fiscal health of local governments. Successful fiscal benchmarking of local governments requires high quality financial data that is timely, accessible, accurate, and uniform. The best financial data are produced by local governments that use the generally accepted accounting principles (GAAP) mandated by the Government Accounting Standards Board (GASB, 1999). The GAAP directs local governments to adopt uniform financial reporting standards to allow comparison across governmental units. It also encourages local governments to produce a comprehensive annual financial report (CAFR) to provide a clear picture how public services are financed and the cost of those services. However, just a handful of states mandate that local governments follow GAAP standards. A lack of high quality, audited financial data is a significant barrier to successful fiscal benchmarking.

Fiscal benchmarking also requires analysis of the local government internal fiscal performance against changes in environmental (exogenous) conditions. Environmental changes include national recessions, long-term population shifts, state-level policy changes, and other events. These external pressures have the potential to affect the revenue streams and spending decisions of local governments. Successful fiscal benchmarking projects employ regional and local economic data in concert with financial data to create effective indicators of financial health. Financial data are typically obtained directly from local governments while economic data are produced by statistical agencies of the U.S. federal government. Economic data include population, unemployment, personal income, among others.

Finally, successful fiscal benchmarking requires relevant analysis of fiscal and economic conditions that is useful to both financial managers and ordinary citizens. This means that any reports and briefs should provide context about laws, events, and trends relevant to understanding local government financial health.

General approaches

Academics and practitioners have identified a number of approaches to measure the financial situation of local governments. Any fiscal benchmarking effort requires consideration of local government finances from a variety of perspectives. This section describes three approaches to fiscal benchmarking. Each approach carries relative advantages and disadvantages, but taken together, can provide a comprehensive view of the financial situation of local governments. Currently, all state fiscal benchmarking efforts use some variety of these techniques described below.

Trend analysis

The simplest approach to fiscal benchmarking is to consider the trends of various fiscal indicators over time for one local government. The most recognized example of this practice is the Financial Trend Monitor System (FTMS), developed by the International City/County Management Association (ICMA) in 2003 (Groves, Godsey, & Nollenberger, 2003). This approach assesses local government finances across 42 fiscal indicators that measure 9 factors of fiscal health: revenue, expenditures, operating position, debt, unfunded liabilities, capital, community needs and resources, intergovernmental constraints, and disaster risk. Two additional factors, political culture and external economic conditions, are evaluated qualitatively. By applying the FTMS to the finances of a local government, policymakers are able to examine local government fiscal condition, identify existing and emerging fiscal problems, and develop remedies (Groves et al., 2003).

The trend analysis approach, as encapsulated by the FTMS, is useful for local officials to assess changes in the financial condition of a local government over time. However, this approach does not consider the fiscal health of similar local governments relative to one another. Additionally, it is usually difficult to identify which year in a local government's history is truly representative of healthy finances.

Group comparison

A second approach to fiscal benchmarking identifies the fiscal health of local governments by comparing them to one another across a common set of financial indicators (Jacob & Hendrick, 2013). These indicators measure local governments across a number of financial dimensions, including revenue, spending, and debt. Typically, local governments are compared across unit type or population size. Fiscal distress is identified by comparing units to an average or median for the group, or by identifying outlier governments who are underperforming across a number of metrics relative to other units.

This approach is useful for evaluating the fiscal situation of local governments relative to other, similar local governments. However, this approach assumes that local governments of the same size or class should perform similarly across a group of indicators. This may not always be the case, as some localities, for instance, may be growing faster than others and thus the local government must take on more debt to expand infrastructure or services to meeting growing demand. Furthermore, it may be the case that all or most local governments in a region are fiscally distressed. In this case, all local governments would appear healthy relative to one another, but would be doing poorly overall.

Scoring system

A third approach attempts to score the fiscal health of local governments against an "industry benchmark" (Sohl, Peddle, Thurmaier, Wood, & Gregory, 2009). This approach combines aspects of trend analysis and group comparison by evaluating the performance of local governments across a variety of fiscal and socioeconomic indicators over time relative to a predetermined standard. The standard represents an ideal value indicative of complete fiscal health for that class of local government.

This approach almost always incorporates some type of scoring system to compare the performance of units within a region relative to one another for the purpose of monitoring fiscal stress (Jacob & Hendrick, 2013). For instance, the Brown 10-point test scores the financial health of local governments in a state or region relative to one another by calculating ten ratios (Brown, 1993). Those ratios are:

1. total revenues per capita,
2. total general fund revenues from own sources as a percentage of total general fund revenue,
3. general fund revenues from other sources as a percentage of total fund revenue,
4. operating expenditures per total expenditures,
5. total revenues as a percentage of total expenditures,

6. unreserved general fund balance as a percentage of total general fund revenues,
7. total general fund cash and investments as a percentage of total general fund liabilities,
8. total general fund liabilities per total general fund revenues,
9. direct long-term debt per capita, and
10. debt service as a percentage of total revenues.

After these ten ratios are calculated, the ratios are compared across local governments. Units that are performing poorly on a selected indicator relative to other local governments in the region receive points, which are totaled to produce a total score for each local government. Higher total scores typically indicate a local government is experiencing a higher degree of fiscal stress than its peers in the state or region.

This method provides a comparative perspective of the fiscal health of local governments across a uniform scoring system. However, the Brown scale suffers from several weaknesses. First, the values selected for the standard of each indicator may be arbitrary, as there is usually no one perfect number indicative of fiscal health. Second, a scoring system can penalize certain local governments that may score well on individual indicators but fail to perform as well as their peers on the same metric. For instance, a city running a surplus by collecting more revenue than it spends is considered a sign of fiscal health. However, if the surplus collected by the local government is smaller than that of all its peers in the state, it would receive a low score giving it the appearance of experiencing fiscal distress. This can lead some local governments to systematically appear as fiscally distressed when in reality they simply fail to perform as strongly as their peers.

In summary, academics and practitioners have identified a number of approaches to the fiscal benchmarking of local governments. All of these approaches share the common characteristic of using financial and economic data to understand the fiscal situation of a local government over time. Some go further by comparing local governments to one another. Each of the approaches has strengths and weaknesses that must be addressed in the fiscal benchmarking process.

Fiscal benchmarking in other states

A number of state governments currently engage in fiscal benchmarking using one or more of the approaches described above to monitor the fiscal health of their local governments. Some states use fiscal benchmarking to monitor the need for state intervention in local government finances, while others use fiscal benchmarking to provide information on and highlight the best practices of local governments within the state. This section highlights the fiscal benchmarking efforts of Georgia, Michigan, New York, and North Carolina.

Georgia

The Georgia Department of Community Affairs (DCA) has engaged in fiscal benchmarking of local governments for over a decade, producing a report summarizing their results annually. Georgia's fiscal benchmarking project analyzes the fiscal situation of counties, consolidated city/county governments, and municipalities. The annual Fiscal Planning Guide includes benchmarks for revenues, expenditures, debt service, debt patterns, assets by unit class, and the revenues and expenditures of enterprise operations (Georgia Department of Community Affairs, 2013).[1]

Georgia does not publish data for individual units in their annual report, but rather aggregates selected measures across all local governments of a similar population size and reports the per capita level and averages for each measure. The strength of this approach is that it enables local government officials to examine the finances of their government relative to the finances of governments of comparable population size. According to state law the financial data used to produce the Fiscal Planning Guide (www.dca.state.ga.us/development/research/programs/fpg.asp) is submitted to DCA annually. However, some local governments fail to submit their financial reports, making the totals in the report incomplete.

[1]Enterprise operations are legal entities created by a government to undertake commercial activities on behalf of the owner government. Some common enterprise operations of local governments are sewers, solid waste, and airports.

One downside to Georgia's approach to fiscal benchmarking is that it is difficult to determine whether changes in aggregate are driven by all units evaluated or just a few experiencing large changes. Additionally, Georgia's annual report publishes data only for the most recent fiscal year, requiring readers to consult prior years' reports if they wish to follow trends over time.

Michigan

Michigan's earliest fiscal benchmarking efforts date back to two laws (Public Act 70 of 1990 and Public Act 34 of 2001) intended to facilitate the creation of an early warning system of local government fiscal distress. In 2002, the Michigan Department of Treasury and researchers from the Institute for Public Policy and Social Research at Michigan State University identified measures to better predict fiscal distress (Kleine, Kloha, and Weissert, 2003). These indicators graded local governments on a 10-point scale of specific financial and economic indicators that suggest fiscal distress, and were intended to improve upon those in the Brown 10-point scale. The nine benchmarks used to identify fiscal distress are:

1. population growth,
2. real taxable value growth,
3. large real taxable value decreases,
4. general fund expenditures as a percentage of taxable value,
5. general fund operating deficit,
6. prior general fund operating deficits,
7. general fund balance as a percentage of general fund revenues,
8. major fund deficits in current or previous year, and
9. general long-term debt as a percentage of real taxable value.

The indicators recommended by Kleine et al. (2002) were subsequently adopted by the Michigan Department of Treasury to evaluate the fiscal health of Michigan local governments. If a local government underperforms on any of these metrics, the government receives a point on the 10-point scale. Cities with scores at or above a value of 5 are considered to be showing signs of future fiscal distress. A value of 5 indicates that the local government is on *fiscal watch* and the local government is officially notified of the high score. A score of 6 or 7 places the local government under *fiscal warning* where the local government is notified of their score and placed on a published list for the current and future year. A score of 8, 9, or 10 places the local government under *fiscal emergency* and the local government is placed on a published list for the current and future year, and put under automatic review by the state. Scores for all Michigan local governments are published on a third-party website, Munetrix (www.munetrix.com/States/MI).

The indicators used for Michigan's fiscal benchmarking of local governments also serve an important regulatory and oversight role. Local governments that are experiencing probable fiscal distress as identified by the Michigan Department of Treasury are placed under financial review by the Governor of Michigan and a financial review panel. If the panel reports back to the governor that fiscal stress exists, Michigan law (Public Act 72 of 1990 and Public Act 436 of 2012) allows for the appointment of an Emergency Financial Manager for local governments experiencing fiscal distress. Emergency financial managers have been appointed to a number of Michigan cities and school districts in recent years, including the city of Benton Harbor (2010), the city of Pontiac (2011), and the city of Flint (2013). In March 2013, Detroit's financial management was placed under the control of an emergency financial manager who later filed for Chapter 9 bankruptcy protection with the Federal government.

New York

The New York Office of the State Comptroller (OSC) began local government fiscal benchmarking, called the New York Fiscal Stress Monitoring System, in 2013 (New York Division of Local Government and School Accountability, 2013) with the purpose of identifying counties, cities, towns, and school districts experiencing fiscal distress and to avoid service disruptions. Local government and school district financial data come from information these units already submit to OSC as part of their regular reporting requirements.

The New York Fiscal Stress Monitoring System incorporates many best practices in fiscal benchmarking. It uses economic as well as financial indicators to account for environmental changes that can lead to fiscal distress. The scores generated from the indicators are used to classify local governments into categories that are easy to understand for the general public. The results of the system are used to determine if a local government requires additional state resources, such as budget reviews, technical assistance, financial planning, and additional training.

Local governments and school districts are evaluated on a variety of financial and environmental indicators. Similar financial indicators are used for local governments and school districts, including fund balance, operating deficit, cash position, short-term debt, and fixed costs. The environmental indicators used for local governments include population, property value, poverty rate, employment base, and sales tax receipts. The environmental indicators used for school districts include enrollment, graduation rate, property value, and share of students receiving free or reduced-priced lunch.

Each local government and school district receives a score for each of these indicators, based largely on how the indicator has changed from prior fiscal years. The scores are then tallied across indicators and each local government and school district receives an overall classification of no designation, susceptible to fiscal distress, moderate fiscal distress, or significant fiscal distress. The OSC publishes the final scores for all units in a summary file available on their website along with an abridged list of all units experiencing some level of fiscal distress. Although the OSC makes the data used to calculate their measures of fiscal distress available on their website, they do not currently produce an annual report containing each unit's scores on individual indicators. This makes it more difficult for the general public to see how their local government is performing relative to others in the state.

North Carolina

The North Carolina Local Government Commission (LGC) was established in the early 1930s to regulate borrowing and financial reporting by North Carolina's local governments.[2] As part of its oversight role, LGC is responsible for evaluating the fiscal health of North Carolina's local governments. Each year, LGC analysts review financial data submitted by counties, cities, and special districts, initially for reporting errors and later for financial problems indicative of fiscal stress. Units demonstrating symptoms of fiscal stress are sent an official letter by the LGC requiring a response in writing from the unit's governing board on how it plans to address the problem. Most units are able to correct their problems without state assistance, but in a few instances over its history, the LGC appointed a financial manager to assume control of a local government (Coe, 2007).

The LGC also works to improve local government financial reporting across the state and provides training to North Carolina's local government financial managers. Thanks in part to these efforts, North Carolina's local governments have fully implemented the guidelines for local government reporting in GASB Statement No. 34 (Coe, 2007). As a result, North Carolina local governments must produce government-wide financial statements. Financial statements on governmental operations and enterprise funds are reported using the accrual basis of accounting and governmental funds use the modified accrual basis. The uniform financial reporting mandated by the guidelines provides the LGC with standardized financial data allowing for an apples-to-apples comparison of local governments in North Carolina.

The LGC uses the unified data reporting standards to produce their selected measures of fiscal stability. The LGC's Fiscal Analysis Tool (www.nctreasurer.com/slg/Pages/Fiscal-Analysis-Tool.aspx) allows residents and local government financial managers to compare the performance of their local government to others in the state across a number of indicators of resource flow and stock for governmental activities, the general fund, water and sewer

[2]In addition, the University of North Carolina School of Government operates the North Carolina Benchmarking Project, which focuses on municipal service delivery performance. For more information, visit www.sog.unc.edu/node/910.

funds, and the electric fund (Rivenbark, Roenigk, & Allison, 2009). The Fiscal Analysis Tool website allows users to select a local government and peer governments for comparison across the LGC's suite of fiscal indicators.

At the government-wide level, governmental activities are separated into measures of resource flow and stock. Four measures of resource flow are calculated: (1) inter-period equity, identified by the total margin ratio; (2) financial performance, as measured by the annual percentage change in net assets; (3) self-sufficiency, as measured through the expense ratio; and (4) financing obligations, measured through the debt service ratio. The government-wide measures of resource stock consist of (1) liquidity, captured by the quick ratio; (2) solvency, identified by the net assets ratio; (3) leverage, measured by the debt-to-assets ratio; and (4) capital, as captured by the capital-assets condition ratio.

These same eight measures of resource flow and stock are used to measure fiscal health at the enterprise fund level. Not all local governments in North Carolina have enterprise funds separate from their general fund, and thus this level of reporting is excluded from the LGC's analysis for those governments. At the general fund level, the measures of fiscal health are again broken into three measures of resource stock and flow. The resource flow category is comprised of three measures: (1) service obligation, captured through a calculation of operations ratio; (2) dependency, measured through intergovernmental ratio; and (3) financing obligations captured by debt service ratio. The resource stock measures are comprised of (1) liquidity, captured by the quick ratio; (2) solvency, measured by fund balance available as a percentage of expenditures; and (3) leverage, captured by debt as a percentage of assessed value.

The benchmarking methodology employed by North Carolina is designed to detect fiscal distress before state intervention is required. In that regard, it primarily serves a regulatory/oversight role over the management of local government finances. However, the Fiscal Analysis Tool allows North Carolina residents to view a report of the fiscal health of their local government, increasing local government fiscal transparency. The requirement for local governments to report their financial data using modified accrual accounting provides a more complete picture than cash accounting, and makes it harder for local governments to hide long-term liabilities. According to Coe (2007), North Carolina has more local governments with the highest bond rating than any other state as a result of the LGC's oversight efforts.

Table 1. Fiscal benchmarking by state

State	Year	Sponsor	Purpose	Description
Georgia	2001	Georgia Department of Community Affairs	Transparency	Publishes Annual Planning Guide which highlights aggregate/average performance of counties and consolidated cities/towns as well as municipalities across a number of fiscal indicators. Primary audience is state and local government financial managers.
Michigan	2006	Michigan Department of Treasury	Regulatory and Oversight	Designed to evaluate the fiscal stress of cities and school districts using 9 fiscal indicators. Assigns all units a final score of fiscal health along a 10-point scale based on their indicator performance relative to other units in the state. Units experiencing a fiscal emergency may be appointed an Emergency Financial Manager by the state. Used for state regulation and oversight of local government financial management.
New York	2013	New York Office of the State Comptroller	Transparency and Oversight	Used to evaluate the fiscal health of counties, cities, towns and school districts using a variety of economic and financial indicators. Designates fiscal distress of each unit based on performance on all indicators. Units experiencing significant fiscal distress may receive state assistance. Used primarily for oversight of local government financial management and transparency to residents.
North Carolina	1932*	North Carolina Local Government Commission	Regulatory and Oversight	Designed to evaluate the fiscal stability of counties, cities and special districts using fiscal indicators of resource stocks and flows. Units underperforming on one or more measure receive written notice from state. Used for state regulation and oversight of local government financial management. The Fiscal Analysis Tool allows users to view performance of government units relative to peers across indicators.
Indiana	2013	Indiana University School of Public and Environmental Affairs & Indiana University Public Policy Institute	Transparency	Publishes Comprehensive Annual Report detailing performance of local governments across 36 indicators of economic and financial health. Highlights strongest and weakest performing units. Produces additional analysis of the impact of statewide laws on local government finances.

* Year that the oversight system began (Coe, 2007)

About the Fiscal Benchmarking for Indiana's Local Governments Project

Fiscal benchmarking is useful for understanding the financial situation of local governments relative to one another and identifying local government fiscal distress. However, there is currently little formal analysis of the fiscal health of individual Indiana local governments in a comparative context. Most Hoosiers lack the time and resources to explore local government financial and economic data stored across disparate government databases with little context or interpretation provided.

The *Fiscal Benchmarking for Indiana's Local Governments* project aims to remedy this deficiency by providing timely data and analysis on the financial situation of Indiana's local governments. Thanks to stronger state-mandated reporting requirements, a variety of financial data related to the revenue, spending, debt, and liquidity of Indiana's local governments is now available from the Indiana Gateway for Government Units (gateway.ifionline.org). The project uses these raw data to create a suite of fiscal indicators that provide an annual snapshot of local governments' financial health. Together, these indicators will help to provide a more complete and comparative picture of the fiscal landscape of Indiana's counties, townships, and cities and towns.

Fiscal Benchmarking for Indiana's Local Governments is sponsored by the Indiana University Public Policy Institute (PPI), a multidisciplinary applied research institute within the Indiana University School of Public and Environmental Affairs.

The advisory committee of the *Fiscal Benchmarking for Indiana's Local Governments* project is comprised of public finance faculty from the School of Public and Environmental Affairs (SPEA) at Indiana University and local government financial managers from across Indiana. Committee members provide guidance to research efforts, review and contribute to publications, and help present and disseminate research findings.

The chairman and members of the advisory board are:

- **Craig Johnson** (Committee Chairman) — Associate Professor of Public Finance; School of Public and Environmental Affairs; Indiana University Bloomington
- **Seth Payton —** Assistant Professor of Public Finance; School of Public and Environmental Affairs; Indiana University–Purdue University Indianapolis
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- **Deborah Driskell —** Township Trustee; Delaware Township, Hamilton County, Indiana
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- **Michael Griffin —** Clerk-Treasurer; Town of Highland, Indiana
- **Barbara Hackman —** County Auditor; Bartholomew County, Indiana
- **Carol Rogers —** Deputy Director, Indiana Business Research Center; Adjunct Faculty; Indiana University–Purdue University Indianapolis
- **James (Jim) Steele —** Former Controller for the Cities of Anderson and Indianapolis; CFO for City-County Council and financial advisor for local units of government

Project staff consists of PPI policy analysts and SPEA graduate students. Staff members gather financial and economic data, produce the comprehensive annual report, and assist committee members in researching special topics.

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About the Indiana University Public Policy Institute

The IU Public Policy Institute, established in 1993 within the Indiana University School of Public and Environmental Affairs (SPEA), delivers unbiased research and data-driven, objective, expert analysis to help public, private, and nonprofit sectors make important decisions that directly impact quality of life in Indiana and throughout the nation. Using the knowledge and expertise of a multi-disciplinary staff and faculty, PPI provides data and analysis that addresses a wide range of issues. PPI helps leaders, citizens, businesses, and organizations solve problems, seize opportunities, and create positive change. PPI also supports the Indiana Advisory Commission on Intergovernmental Relations (IACIR).

About the Indiana University School of Public and Environmental Affairs

SPEA was created in 1972 to address complex issues in public policy, public finance, and environmental science. SPEA's faculty is diverse and committed to high quality research. Research is funded from multiple sources, such as the World Bank, the Environmental Protection Agency, the National Institutes of Health, the National Science Foundation, and the National Endowment for the Arts. SPEA faculty members frequently work in more than one research area, and often collaborate across disciplines. The School hosts four major journals under the editorial direction of faculty, including the Journal of Policy Analysis and Management, Public Administration Review, Public Budgeting & Finance, and Small Business Economics.

Our Benchmarking Approach

The *Fiscal Benchmarking for Indiana's Local Governments* project compiles recent economic and financial data to produce a common set of fiscal and economic indicators for each local government on an annual basis. This approach allows for analysis of a local government's fiscal situation relative to the performance of similar units over the course of several years. Similar units may be all Indiana counties or municipalities with similarly-sized populations. This benchmarking approach provides readers with the flexibility to observe the historical trend of the local government across each indicator as well as how the local government's performance compares to its peers.

These indicators serve as an annual "snapshot" of a local government's fiscal health. Though the budget outlook of a local government frequently changes throughout the year, this approach allows uniform comparison of units over time and to one another. The project does not seek to rank an individual government unit's fiscal performance relative to another, but to provide the data in a context that allows for observation of broader trends in Indiana.

As fiscal benchmarking is a data-driven enterprise, *Fiscal Benchmarking for Indiana's Local Governments* uses a variety of financial and economic data obtained from the Indiana Department of Local Government Finance (DLGF), Indiana State Board of Accounts, the Indiana Auditor of State, the Indiana State Budget Agency, and the federal government to evaluate the fiscal health of Indiana's local governments. Although the Indiana Gateway for Government Units compiles a large amount of local government financial data, obtaining additional records such as property tax abstracts adds to the challenge of fiscal benchmarking Indiana's local governments. Furthermore, Indiana's local governments are only required to report their financial data using cash basis accounting rather than GAAP reporting standards, adding to the difficulty of local government fiscal benchmarking. Analysis of financial data in the comprehensive annual report is largely confined to historical and comparative analysis of summary statistics. More advanced techniques may be used for subsequent issue briefs on special topics.

Fiscal Benchmarking for Indiana's Local Governments borrows from elements of state fiscal benchmarking projects in Georgia, Michigan, New York, and North Carolina by combining aspects of trend analysis and group comparison. However, there are some notable differences with Indiana's financial data compared to these states. Like Georgia, Indiana highlights the performance of local governments in aggregate, but also includes indicator data for all local governments, allowing for comparison of the individual units relative to one another. Unlike Michigan and New York, Indiana's project does not explicitly score or grade the fiscal health of individual local governments. Since Indiana local governments are not required to follow GAAP standards, *Fiscal Benchmarking for Indiana's Local Governments* is unable to produce any indicators that capture assets and liabilities, like North Carolina. The goal of *Fiscal Benchmarking for Indiana's Local Governments* is to provide the information and analysis for voters and policymakers to reach their own conclusions about the fiscal health of their governments.

It is important to note that no single indicator provides a complete picture of the financial health of a local government. Local government financial management is at least as complicated as that of a large company with many more stakeholders involved. However, a number of indicators taken in combination are useful for identifying fiscal health or distress. For instance, a local government engaging in high spending supported by debt while experiencing depressed tax revenue will likely experience fiscal distress in future years, if it is not already. *Fiscal Benchmarking for Indiana's Local Governments* encourages readers to consider all financial dimensions of a local government, as well as economic conditions, while evaluating the fiscal health of a local government.

Comprehensive annual report

The first *Fiscal Benchmarking for Indiana's Local Governments* comprehensive annual report will evaluate the fiscal situation of Indiana's 92 counties, 1,006 townships, and 568 cities and towns using 36 indicators of fiscal health for the 2011 and 2012 fiscal years, which align with the calendar year for these Indiana's local governments. These indicators provide a snapshop of each local government's revenue, spending, and debt service. The report will contain data for each of the local governments evaluated and organized by type of government, as well as a short narrative that provides context for the data and highlights important over-the-year changes in key indicators. The report also will include technical documentation describing the sources of data and formulae for calculating indicators and a glossary. The first annual comprehensive report is scheduled for publication in early 2014.

Subsequent comprehensive annual reports will update data for prior years and present data for the next calendar year. The analytical narrative will be updated to reflect important changes and will include discussion of ongoing statewide trends. In the future, the report will include data and analysis for school districts, library districts, and other special districts. New and modified financial and economic indicators may be included in future reports as better data become available.

Issue briefs

In addition to the comprehensive annual report, the research team will produce supplemental reports on special topics affecting Indiana's local governments. Issue briefs are concise, data-driven examinations of statewide legislation and trends in Indiana local government finance. The first of these issue briefs, *40 Years of local option income taxes in Indiana: Trends, challenges, and implications for the future,* was released in 2012 (Nagle, 2012) with the Indiana Fiscal Policy Institute. Some examples of planned topics for briefs are local government enterprise operations, tax-increment financing (TIF) districts, and the Indiana Property Tax Cap Amendment. The next *Fiscal Benchmarking for Indiana's Local Governments* issue brief is planned for 2014.

In sum, the project will (1) provide an accessible tool for comparative analyses of similar governmental units across an array of fiscal indicators, (2) put the data in context to enhance the understanding of conditions facing Indiana's local governments by policymakers and voters, (3) act as an authoritative reference for policymakers and voters to assess how legislation impacts local government, and (4) identify critical issues in Indiana local government finance.

Fiscal Benchmarks

Under the guidance of the advisory committee, the *Fiscal Benchmarking for Indiana's Local Governments* project team has selected 36 financial and economic indicators that capture the fiscal health of Indiana's local governments. As noted earlier, no single indicator provides a full picture of a local government's fiscal health. However, local governments scoring poorly relative to their counterparts on multiple indicators may be showing signs of fiscal distress. It is important to consider past performance, as well as all dimensions of a local government's fiscal situation before raising alarm.

Data sources

Each indicator is created using publicly-available financial data submitted by the local government as well as economic data provided by the federal government. Financial data for local governments are obtained primarily from the Indiana Gateway for Government Units, a resource maintained by Indiana University's Indiana Business Research Center. Established in 1925, the Indiana Business Research Center (IBRC) is an integral unit in the Kelley School of Business at Indiana University. The IBRC provides and interprets the economic information needed by the state's business, government, and nonprofit organizations, as well as users of such information throughout the nation. The Indiana Gateway for Government Units was created by the IBRC in 2006 with the aim to streamline the collection of Indiana local government financial data on behalf of the Indiana Department of Local Government Finance (DLGF) and the Indiana State Board of Accounts (SBOA), while making the data available digitally to the public free of charge. The DLGF is responsible for collecting local government budgets and certifying local government tax levies and rates (Indiana Code § 6-1.1-17-16). The SBOA is responsible for collecting annual expenditure reports. *Fiscal Benchmarking for Indiana's Local Governments* would not be possible without the vast catalogue of Indiana local government revenue, spending, and debt data available from the Indiana Gateway for Government Units. Data on Indiana local government's assessed value and property taxes are obtained from the Indiana Auditor of State which are certified by the DLGF (Indiana Code § 6-1.1-22-5). The Indiana Auditor of State must maintain county property tax abstracts as public record. Data on the adoption of local option income tax rates comes from the Indiana State Budget Agency.

Additional regional and local economic data used to produce the economic indicators of the project are obtained from statistical agencies of the U.S. government including the U.S. Census Bureau, Bureau of Labor Statistics, and the Bureau of Economic Analysis.

Table 2. Fiscal benchmarks

Indicator	Calculation	Notes
SPENDING		
Total Spending	Total Disbursements	
Spending per Capita	Total Disbursements ÷ Population	Local government spending per resident.
Program Sustainability	Program Receipts ÷ Total Disbursements	The share of services financed through user charges and state and federal grants.
Operating Position	Total Receipts ÷ Total Disbursements	A value closer to one indicates the local government is matching revenues with spending.
Operating Balance	Total Receipts - Total Disbursements	A positive value indicates the local government's total revenue exceeds spending.
REVENUE		
Total Revenue	Total Receipts	
Revenue per Capita	Total Receipts ÷ Population	The cost of local government per resident.
Revenue by Source	Revenue by source (percentage of total revenue)	Sources: General Property Taxes; Local Income Taxes; Local Excise Taxes; Other Tax Distribution Program Distributions; Licenses and Permits; Charges for Services; Fines, Forfeitures, and Fees; Other Receipts.
General Revenue Ratio	General Tax Receipts ÷ Total Receipts	The share of total revenue raised through taxes.
Intergovernmental Revenue Ratio	Intergovernmental Receipts ÷ Total Receipts	The share of total revenue raised through the state and federal government.
Own-source General Revenue per Capita	Own-Source General Receipts ÷ Population	The share of total revenue raised through taxes levied directly by the local government.
Elastic Revenues	Elastic Receipts ÷ Total Receipts	The share of total revenue raised through sales and income taxes.
Program Autonomy	User Charge Receipts ÷ Program Receipts	The share of total program revenue raised through charges for services, licenses, fines, forfeitures, and fees.
PROPERTY TAX BASE AND LEVY		
Gross Assessed Value	Total Gross Assessed Value	Total value of property before assessed value deductions.
Homestead Standard Deduction	Total Homestead Standard Deduction	Total standard assessed value deductions for homesteads.
Homestead Supplemental Deduction	Total Supplemental Homestead Deduction	Total supplemental assessed value deductions for homesteads.
Total Non-homestead Assessed Value Deductions	Total Miscellaneous Assessed Value Deductions	Total value of other assessed value deductions.
Taxable Assessed Value	Total Gross Assessed Value - Total Assessed Value Deductions	Total value of property after assessed value deductions.
Total Property Tax Rate	Total Property Tax Rate	Total property tax rate to property owners.
Gross Tax Levy	Gross Tax Levy	Property Tax Levy before losses to property tax circuit breakers. Includes local option income tax property tax replacement credits to the local government.
Property Tax Replacement Credits by Source	Property Tax Replacement Credits by Source (percentage)	Sources: Homesteads, residential, and other.
Property Tax Replacement Credits as a Share of Gross Tax Levy	Total Property Tax Replacement Credits ÷ Gross Tax Levy	The share of the Gross Tax Levy raised through LOIT Property Tax Replacement Credits.
Tax Cap Losses by Circuit Breaker Class	Property Tax Circuit Breaker Losses by Circuit Breaker Class (percentage)	Circuit Breaker classes are: Homesteads (1%), Residential/commercial (2%), Other Property (3%), and 65+ years.
Tax Cap Losses	Total Property Tax Circuit Breaker Losses	Total Circuit Breaker Losses.
Net Tax Levy	Abstract Levy	Property Tax Levy after losses to property tax circuit breakers. Includes LOIT property tax replacement credits to the local government.

Continued on next page

Table 2. Fiscal benchmarks *(Continued from previous page)*

Indicator	Calculation	Notes
LOCAL OPTION INCOME TAX RATES		
Adopted LOITs		Sources: COIT, CEDIT, CAGIT, and rates for corrections, property tax freeze, public safety and property tax replacement.
Total LOIT Rate	LOIT Rate	Total local-option income tax rates.
LOIT Rate Utilization	Maximum LOIT Rate - Current LOIT Rate	Difference between the current total local-option income tax rate and the maximum allowable by state law.
DEBT		
Total Debt	Total Outstanding Debt Obligations	Outstanding debt includes only the remaining obligation; that is, the principal, interest, and federal tax credits of the bond, loan, or lease rental remaining to be paid. Outstanding debt does not include tax-anticipation debt.
Tax-supported Debt	Total Outstanding Tax-supported Debt Obligations	Outstanding tax-supported debt includes only the remaining obligation; that is, the principal, interest, and federal tax credits of the bond, loan, or lease rental remaining to be paid. Outstanding debt does not include tax-anticipation debt.
Total Debt per Capita	Outstanding Debt ÷ Population	Debt burden per resident.
Tax-supported Debt per Capita	Total Outstanding Tax-supported Debt Obligations ÷ Population	Tax-supported debt per resident.
Total Debt per $100 Assessed Value	Outstanding Debt ÷ Gross Assessed Value	Debt to property tax base.
Tax-Supported Debt per $100 Assessed Value	Outstanding Tax-supported Debt ÷ Gross Assessed Value	Tax-supported debt to property tax base.
Debt Service Ratio	Total Debt Service ÷ Total Disbursements	Total debt service (principal plus interest) to total spending.
POPULATION		
Population	Total Population	The total population residing within the local government's boundaries. A positive change from one year to the next indicates the community is growing.

Indicators

A description of each of the indicators is provided below.

Spending

Total spending. This indicator identifies the total spending of a local government by summing the total annual disbursements of a local government for the fiscal year, with the exception of disbursements related to short-term debt, interfund transfers, and transfer to other local governments. A local government with a larger population will likely engage in greater total spending to provide adequate services to its residents. Disbursements data used to calculate this indicator are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Spending per capita. This measure captures the cost of services provided by the local government to each resident of that government by dividing the total spending of the local government by the total population of residents residing within its borders. Disbursements data used to calculate this indicator are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units. Population data are obtained from the Population Estimates Program of the U.S. Census Bureau.

Program sustainability. This indicator captures the ratio of program revenues to total spending, which serves as a measure of overall program sustainability. A local government that is able to recoup a large share of total spending through fees, user charges, and other non-tax receipts is less dependent on property and income tax revenue to finance operations. This indicator is calculated by dividing total program revenues by total spending. Program revenues include fees for licenses and permits, charges for services, fines and forfeitures, and state and federal program distributions. A value of one for this indicator indicates the local government is fully financed through user charges and state and federal program distributions. Receipts and disbursements data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Operating position. This indicator is the ratio of total revenue to total spending. It is computed by dividing total revenue of a local government by its total spending for the fiscal year. A value of less than one for this measure indicates that the local government is collecting less revenue than it is spending; while a value greater than one indicates the local government is collecting more revenue than it spends. Receipts and disbursements data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Operating balance. This measure captures whether the spending of a local government matches the revenue collected by that government by subtracting total spending from total revenue. A negative value for this measure indicates that the local government is running an annual shortfall; conversely, a positive value for this indicator shows that the local government is running an annual surplus. Receipts and disbursements data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Revenue

Total revenue. This indicator identifies the total revenue of a local government by summing the total receipts of a local government for the fiscal year, with the exclusion of receipts related to short-term debt, interfund transfers, and receipts that are otherwise not spendable. Sources of local government revenue include user charges, state and federal grants and program distributions, general property taxes, local option income taxes, local excise taxes, and other tax distributions. Larger local governments will typically collect more revenue to finance operations than smaller local governments. Receipts data used to calculate this indicator are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Revenues per capita. This indicator captures the amount of revenue obtained annually by a local government relative to the population residing within its borders by dividing its total revenue by its total population. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units. Population data are obtained from the Population Estimates Program of the U.S. Census Bureau.

Revenues by source. This indicator identifies the percentage that each source of revenue contributes toward the total receipts of a local government by dividing the receipts obtained from that source by the total revenue of the local government. There are nine sources of revenue for Indiana's local governments, which include general property taxes, local option income taxes, local excise taxes, state and federal program distributions, other tax distributions, licenses and permits, charges for services, fines and fees, and other receipts. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

General revenue ratio. This indicator measures the ratio of a local government's general tax revenue to total revenue by dividing total general tax revenue by total revenue. General tax revenue includes property taxes, local option income taxes, local excise taxes, and other state tax distributions. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Intergovernmental revenue ratio. This benchmark captures the share of intergovernmental revenues that make up the total annual receipts of a local government. Intergovernmental revenue is revenue received by local governments in the form of distributions from other tax distributions and state and federal program distributions and grants. Other tax distributions include alcohol, cigarette, casino/riverboat taxes, and other miscellaneous tax distributions. State and federal program distributions and grants are monies provided by the state and federal governments for special projects, such as for highway and street improvement or soil and water operations. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Own-source general revenue per capita. This indicator measures the tax burden of residents of a local government. It is computed for each local government by dividing total own-source general revenue by total population. Own-source general revenue includes general property tax revenue, local option income tax revenue, and local excise taxes. Local excise taxes include food and beverage taxes, innkeeper's tax, and vehicle/aircraft excise taxes. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units. Population data are obtained from the Population Estimates Program of the U.S. Census Bureau.

Elastic revenues. This indicator captures the dependence of a local government on elastic sources of revenue. Elastic sources of revenue are those that increase or decrease significantly in response to changes in environmental or economic conditions, such as income or excise taxes. A local government that is highly dependent on elastic sources of revenue may experience more fiscal distress relative to its peers during a national recession. This measure is computed by dividing the share of local option income tax and excise tax revenue by the total receipts of a local government. A value closer to one indicates that the local government is more dependent on elastic sources of revenue. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Program autonomy. This indicator identifies the share of total program revenues that are obtained from user charges by dividing total user charges by program revenues. User charges include payments made to local government through licenses and permits; charges for services; and fines, forfeitures, and fees. In addition to user charges, program revenues include state and federal grants and program distributions. A value closer to one for this benchmark indicates that a local government receives a large share of total program revenue through user charges. Receipts data used to compute this measure are reported using the cash basis of accounting and are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Property Tax Base and Levy

Gross assessed value. Gross assessed value is the total assessed value of all properties within the borders of a local government prior to the application of the homestead standard deduction and other property tax deductions. This benchmark measures the size of the potential property tax base of a local government. A local government with a large gross assessed value has the capacity to raise a significant share of tax revenue through property taxes. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Homestead standard deduction. This indicator is the total amount of a local government's gross assessed value exempted from property taxes by the homestead standard deduction. This measure captures the amount of local government's property tax base lost to this deduction. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Homestead supplemental deduction. This measure is the amount of a local government's gross assessed value exempted from property taxes by the 35 percent homestead supplemental deduction. This indicator identifies the amount of the property tax base lost to this deduction. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Total non-homestead assessed value deductions. This measure is the total amount of a local government's gross assessed value exempted from property taxes by deductions other than the homestead standard and supplemental deductions. These deductions include mortgage, veteran, age 65 and over, blind and/or disabled, energy systems, and urban development/rehabilitation deductions. This indicator identifies the amount of the property tax base lost to miscellaneous deductions. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Taxable assessed value. Taxable assessed value captures the actual size of a local government's property tax base. Taxable assessed value is computed by subtracting the total assessed value deductions (homestead standard and supplemental deduction, mortgage deduction, and total non-homestead deductions) from the total gross assessed value of a local government. This value represents the actual property tax base of a local government. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Total property tax rate. A local government's property tax rate is the rate levied for each $100 of taxable assessed value prior to property tax credits and circuit breakers. These rates are certified annually by the DLGF. Certified property tax rates for each local government are obtained from the DLGF.

Gross tax levy. The gross tax levy is the amount of revenue a local government could potentially raise through property taxes prior to consideration of property tax credits. The gross tax levy is computed by multiplying the taxable assessed value of a local government by its property tax rate and adding total local option income property tax replacement credits. Data for this measure are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Property tax replacement credits. This indicator captures the amount of a local government's property tax revenue that is replaced by local option income tax property tax replacement credits. This indicator provides the total value of property tax replacement credits for the three classes of property tax replacement credits: homestead, residential, and other. Data for this measure are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Property tax replacement credits as a share of gross tax levy. This indicator measures the share of the gross tax levy obtained from local option property tax replacement credits. There are three classes of property tax replacement credits: homestead, residential, and other. It is computed by dividing local option property tax replacement credits for each of the three classes by the gross tax levy. Data for this measure are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Tax cap losses by circuit breaker class. This indicator identifies the amount of potential property tax revenue lost to the property tax cap credits instituted in 2010 by property class. The property tax cap limits local property tax rates to 1 percent of value for residential homesteads, 2 percent of value for commercial, rental, and farmland properties, and 3 percent of value for other types of properties. There also is a 65+ circuit breaker class. Data for this measure are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Tax cap losses. This indicator captures the total amount of potential property tax revenue lost to the property tax cap credits instituted in 2010 across all property classes. Data for this measure are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Net tax levy. The net tax levy is the gross tax levy minus total tax cap credits. This indicator is sometimes referred to as the abstract levy and captures the property tax revenue available to a local government after accounting for property tax cap losses. Data for this measure are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Local Option Income Tax Rates

Adopted LOITs. This indicator identifies the mix of local option income tax revenue adopted by each County government in Indiana. Data are reported for the 2012 calendar year in a checklist style table. Counties may adopt either the County Adjusted Gross Income Tax (CAGIT) or County Option Income Tax (COIT). Counties may also adopt the County Economic Development Income Tax (CEDIT) and rates for Corrections, Property Tax Freeze (PTF), Property Tax Relief (PTR), or Public Safety. Data on local government local option income tax adoption are obtained from the State Budget Agency.

Total LOIT rate. This indicator identifies the total local option income tax rate paid by residents of a local government in the calendar year. As each local government may use one or more local option income taxes to finance services, total local option income tax rates vary across local governments. This measure is computed by summing all local option income tax rates of a local government to compute a total rate for residents of that local government. Data on local option income tax rates by local government are obtained from the State Budget Agency.

LOIT rate utilization. This measure captures the aggregate local option income tax rate of a local government relative to the maximum rate allowable by state law. Counties may adopt either CAGIT or COIT, but not both. Counties may also adopt EDIT in addition to the COIT or CAGIT. The combined EDIT and CAGIT statutory rate cannot exceed 1.25%. The maximum COIT and CEDIT basic rate is 1%. CAGIT counties have a maximum rate of 3.75% (which includes the CAGIT, CEDIT, and all supplemental local-option income taxes); COIT counties have a maximum of 3.5%; CEDIT-only counties have a maximum of 0.75% (DeBoer, 2009). This indicator is computed by subtracting the total local option income tax rate of a local government from the maximum rate allowable by state law. The value of this measure indicates how much the local government could increase total local option income rates before reaching the maximum allowable rate. Data on local option income tax rates by local government are obtained from the State Budget Agency.

Debt

Total debt. This indicator captures the total outstanding debt of a local government. Outstanding debt includes only the remaining obligation; that is, the principal, interest, and federal credits of the bond, loan, or lease rental remaining to be paid. Outstanding debt does not include tax-anticipation debt. Data on local government outstanding debt used to produce this measure are computed from individual bond, loan and lease rental records submitted to DLGF via the Indiana Gateway for Government Units.

Tax-supported debt. This indicator captures the total outstanding tax-supported debt of a local government. Outstanding debt includes only the remaining obligation; that is, the principal, interest, and federal credits of the bond, loan, or lease rental remaining to be paid. Outstanding tax-supported debt does not include tax-anticipation debt. Data on local government outstanding debt used to produce this measure are computed from individual bond, loan, and lease rental records submitted to DLGF via the Indiana Gateway for Government Units.

Total Debt per capita. This indicator captures the burden of debt upon each resident of a local government by dividing the total outstanding debt of a local government by the total population residing within its borders. Outstanding debt includes only the remaining obligation; that is, the principal of the bond, loan, or lease rental remaining to be repaid. Outstanding debt does not include tax-anticipation debt. Data on local government outstanding debt used to produce this measure are computed from individual bond, loan, and lease rental records submitted to DLGF via the Indiana Gateway for Government Units. Population data are obtained from the Population Estimates Program of the U.S. Census Bureau.

Tax-supported debt per capita. This indicator is calculated by dividing total outstanding tax-supported debt of a local government by its total population. Tax-supported debt is that which uses tax revenue as a source of repayment. Data on local government outstanding debt used to produce this measure are computed from individual bond, loan, and lease rental records submitted to DLGF via the Indiana Gateway for Government Units. Population data are obtained from the Population Estimates Program of the U.S. Census Bureau.

Total debt per $100 assessed value. This indicator captures the ability of a local government to leverage their property tax base to pay for outstanding debt. This indicator is calculated by dividing the total outstanding debt of a local government by the assessed value of all property within its borders (divided by $100). Data on local government outstanding debt used to produce this measure are computed from individual bond, loan, and lease rental records submitted to DLGF via the Indiana Gateway for Government Units. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Tax-supported debt per $100 assessed value. This indicator is computed by dividing total outstanding tax-supported debt by the assessed value of all property within its borders (divided by $100). Tax-supported debt is that which uses tax revenue as a source of repayment. Data on local government outstanding debt used to produce this measure are computed from individual bond, loan, and lease rental records submitted to DLGF via the Indiana Gateway for Government Units. Assessed value data for each local government are obtained from the county property tax abstracts which are collected and managed by the Indiana Auditor of State.

Debt service ratio. This indicator identifies the amount of debt service relative to the total spending of a local government by dividing debt service (which includes repayment of the principal of the bond, loan, or lease rental plus interest charges) by the total disbursements of a local government. Debt service and disbursements data used to calculate this indicator are obtained from the local government's Annual Financial Report submitted annually to the SBOA via the Indiana Gateway for Government Units.

Population

Total population. This measure identifies the total population residing within a local government's borders. Population growth is indicative of healthy economic conditions and an expanding tax base for local governments. Population data for Indiana's local governments are obtained from the Population Estimates Program of the U.S. Census Bureau.

Summary

Fiscal benchmarking is a valuable tool already used by several state governments to monitor and assess the fiscal health of local governments. Fiscal benchmarking projects typically use time series data and engage in comparative analysis across a common set of financial and economic indicators that capture several dimensions of local government fiscal health. The *Fiscal Benchmarking for Indiana's Local Governments* project uses these techniques to evaluate the fiscal health of Indiana's local governments.

The project team plans to release the first comprehensive annual report in 2014. The report evaluates Indiana's county, township, and city and town local governments for the 2011 and 2012 fiscal years across a set of 36 indicators that measure revenue, spending, debt, and liquidity. Fiscal benchmarking of Indiana's local governments would not be possible without the variety of financial data now available from the Indiana Gateway for Government Units. The comprehensive annual report will allow state and local officials as well as residents to appraise the fiscal situation of their local governments relative to other similar governments around the state.

In future years, the *Fiscal Benchmarking for Indiana's Local Governments* project aims to expand its analysis to school districts, library districts, and other special districts. New indicators will be developed by the project team as new financial data are made available from the Indiana Gateway for Government Units. Additional issue briefs on special topics such as statewide legislation and trends in Indiana local government finance are planned for 2014.

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