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Our fiscal future will be challenge for next mayor

The next mayor of Indianapolis has a tremendous opportunity to build upon the successes of those who preceded him. The continuation of the city's leadership in amateur sports, the attraction and retention of promising companies, particularly technology-related companies, and the continuation of our impressive downtown revitalization are a few examples.



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However, Indianapolis' next mayor must also address some significant challenges, including replacement of an antiquated combined wastewater and storm-sewer system, tying regional growth with the city's vital urban center, and improving our educational system. How the next mayor finances these opportunities and challenges is one of the most important topics in the debate surrounding the election of our next mayor.

Municipal finance is complex, consisting of confusing tax terms and obtuse financial jargon. Most citizens and most candidates would rather argue the merits of crime prevention or education policy than wade into the murky waters of municipal bonds, tax-increment financing districts and debt-service coverage ratios. However convoluted, such a discussion is warranted to understand the extent to which our next mayor will be constrained by the city's budget and debt requirements.

In 1998, the city of Indianapolis collected about \$640 million in revenue, including \$159 million in property taxes, \$3.5 million in traffic violations, and \$90 million in federal and state funding. In 1998, the city's total operating budget equaled \$624 million.

Debt tops city expenses

The biggest expenditure in the municipal budget is payment of principal and interest on the city's outstanding debt, which totaled \$173 million, or 31 percent of the total 1998 budget. The second- and third-most expensive items in the budget were public safety, at \$139 million, and public works, at \$112 million. The city's current budget does not adequately address the nearly \$800 million in unfunded municipal employee pension obligations—obligations that have grown more than 51 percent over the last seven years.

Unlike most businesses, the city of Indianapolis can issue debt only to finance its growth. The city's debt is supported either by the value of assessed property (general-obligation bonds), revenue derived from a specific project (revenue bonds), or the city's promise to pay (moral-obligation bonds) if that revenue is insufficient. Currently, the 45 local entities with bonding authority have obligated Marion County taxpayers to repay more than \$1 billion in bonded indebtedness, an increasingly significant portion of which are moral obligation bonds.

Under the current administration, the city's general-obligation debt policy was restructured, resulting in reduced princi-

pal payments in the near term, level principal and interest payments over the term of the bonds, and a stable tax rate.

Taxpayers foot the bill

Unfortunately, this action also resulted in increased costs to the taxpayers. Before the restructuring, the city had a declining annual debt service, from \$34 million in 1992 to \$5 million in 2008. In 1999, the annual debt service would have been \$23 million. After restructuring, the city's 1999 debt service is \$30 million, an increase of almost \$7 million. The restructured general-obligation bonds now mature in 2018, with an average annual debt service of \$26 million. The city's property taxpayers will pay an additional \$193 million over the term of the bonds.

The city's fiscal leaders also decided to refinance the bonds issued for Circle Centre mall. Like a homeowner who has refinanced her home, the city enjoys a lower monthly payment, but has increased the total amount it will pay over the "life" of the bonds. The taxpayers of Indianapolis are now obligated to pay an additional \$336 million over the term of the Circle Centre bonds, which were originally issued in 1986 and now mature in 2028. Taxpayers should also be aware that the Circle Centre bonds were issued as part of a TIF (tax-increment financing) district, a type of revenue bond.

TIFs, defined

Generally, a TIF district is a designat-

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ed, typically blighted, geographic area that is targeted for redevelopment. A municipality can issue bonds to fund redevelopment within a TIF district, and the taxes that result from development are used exclusively for the repayment of the issued bonds.

TIF district bonds are among the most risky municipal bonds because the repayment of the bonds is dependent on private development and the taxes generated by that development. The key assumptions in refinancing the Circle Centre TIF bonds were the continued economic health of the TIF district, the stability of the development within the TIF area, and increases in the tax rate.

The recent refinancing assumed an aggregate increase of 24 percent in the property-tax rate within the TIF district over the next 30 years. Should the economy slow, should development within

the TIF district stagnate, or should the tax increases not be enacted, the city will be responsible for making up the difference between the debt-service requirements and the tax revenue collected. This is the city's moral obligation.

Moody's weighs in

Some people consider the restructuring and refinancing efforts of the current administration to be prudent financial management. As Moody's Investors Service noted in its July 1999 municipal credit research report, "The AAA rating assigned to the (general-obligation bond) debt of the city of Indianapolis reflects a strong and diversified economy, well-maintained financial position and a unique debt profile featuring significant amounts of debt backed by the moral obligation of the city."

However, the same report notes that the city's Circle Centre and other TIF debt "will become increasingly difficult to sustain, given the reliance on future

growth to meet the ascending debt-service requirements of the moral obligation debt. This may be a source of future fiscal pressure if the city chooses to appropriate funds to cover any potential shortfall of TIF revenue to meet debt-service requirements."

The voters should know that the city is currently in sound financial shape. However, the actions taken to minimize current financial responsibilities limit the financial flexibility of the next mayor to implement his or her policies to continue the growth of our dynamic city.

The financing of the next Eli Lilly and Co. expansion, the attraction of high-tech businesses or the funding of the repairs to our combined wastewater storm sewer system will require some very difficult decisions by the mayor to pursue and the taxpayers to fund. •

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