

2008 Indian Lake Planning Commission

**Strategic Review of Growth and
Financial Development Needs**

2010-2020

August 16, 2008

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The best predictor of the near future is the recent past; the best predictor of the distant future is a crystal ball.... Author Unknown

A previous 1994 Report discussing Growth and Financial Development needs for Indian Lake Borough, covering 1994-2004, provided insightful analysis and a recent review of that report indicated there would be value in a new/updated strategic review for the future. Looking at the 1994 report in the post 2004 (~2007) timeframe showed it to be accurate on 2 important issues; (1) the need for revenue growth and the need for new homes to be built to provide for that revenue growth; and (2) the need to consider future dam work, with a warning that it could be expensive, and a caution that the Borough should not get caught flat-footed.

The 1994 report seems to have sparked some needed housing growth over the period 1994-1998 (10+ homes/year), but it was short-lived and growth slowed substantially over the following 10 years (average 4 homes/year from 1998-2008). The lapse back to pre-1994 growth rates over the period 1998-2008 resulted in a net difference of 60 fewer homes in 2008; if they had been built it would have brought approximately \$60,000 in additional Borough revenue this year (2008); not insignificant. Likewise, follow-through with planning for expensive dam work did not occur and a current shortfall exists, with our small community being faced with up to \$7 Million debt to effect DEP mandated repairs.

The current Borough Council sanctioned this 2008 Update and Strategic Review to help lead us through the current shortfall and to provide tools for projecting controlled future community and financial growth, and to assess our ability and options for dealing with this impending debt.

This Strategic Review is provided in 3 parts; (1) reflections and the historical perspective, (2) development of projections and (3) new candidate strategies for future leadership.

It is our hope only that you, the reader, may learn a fraction from this report that we the authors have learned in its preparation.

Original Signed by:

Robert Hanson

Robert Vogel

Joseph Bucks

I- Historical Perspective: 1974-2006 ... Perspectives on the data ...

Expenses

All \$ in \$K (1000)	1974	1978	1982	1986	1990	1994	1998	2000	2002	2004	2006	2008
Expenses												
Admin												
Payroll	5	13	8	22	20	42	23	35	36	37	37	40
Benefits	1	2	1	2	3	6	33	34	43	56	64	35
Insurance	2	5	9	21	46	30	15	14	11	14	18	66
Contract Services							1	9	2	39	12	20
Commissions							8	8	8	10	14	16
Auditor							4	4	4	4	4	6
Legal							3	9	5	6	8	66
Fire and Ambulance							10	7	9	11	12	13
Sewage Inspections							15	6	5	8	12	6
Office	4	12	19	12	25	23	37	51	43	30	29	33
MISC							6	5	4	3	5	4
Works												
Payroll			19	18	62	82	67	79	84	90	90	124
Benefits			1	2	7	20	0	0	0	0	0	
Snow Removal							10	8	4	11	17	25
Roads	15	30	88	118	49	61	70	57	62	267	145	133
Signs							0	1	0	4	4	2
Vehicles			15	29	23	43	55	43	19	37	66	45
Contracted	12	19	12	19	19	28	0	0	13	6	15	
Police	18		1	3	23	49	67	50	50	112	94	89
Dam & Lake		6	31	13	4	18	19	16	25	114	135	197
Water					41		0	0	0	0	0	
Debt												
General												
Sewage			23									
Roads		41	34									
Dam Remed.												102
MISC	13	27	4	18	26				1			
TOTAL Expenses	70	155	265	277	348	402	441	434	428	859	783	1022
Dwellings	378	419	448	488	500	508	549	553	560	572	584	589
Adj. Millage	2.61	2.61	2.18	3.05	3.92	5.23	4.79	4.79	4.79	4.79	5.79	10.5

Debt was moderate in the late 70's and throughout the 80's, ranging from \$13K to \$61K in each year. This debt was needed to cover DEP-mandated engineering studies and proposals for public sewerage, yielding no viable options. Millage rates were raised substantially to get debt under control, more than doubling from a low of 10 mills (2.2 adjusted) in 1980-82 to 24 mills (5.2 adjusted) in 1994. Debt pretty much disappeared in the 90's (until now) and millage rates have been essentially unchanged until the 2008 increase of ~80% to cover the first phase of the dam work. (There was a revenue-neutral

county-wide assessment and millage adjustment in 1998 where all millages were decreased, and assessments increased by offsetting amounts)

This restraint of expenses speaks well of Borough management over that period. This is remarkable since some municipalities use millage changes regularly as a substitute for true balancing.

Review of other expenses over this same 30+ year period shows fiscal control. For the 20 year period between 1982 and 2002 Borough expenses averaged 15-20 % less than inflation over the same period (see CPI data immediately below for reference). Between 2002 and 2006 there have been sharp increases in road work, police, and work on the dam, all within budget with a modest 1 mil increase in 2006.

	1974	1978	1982	1986	1990	1994	1998	2000	2002	2004	2006
Consumer Price Index	147.7	195.4	289.1	328.4	391.4	444	488.3	515.8	538.8	565.8	603.9

Income

All \$ in \$K (1000)	1974	1978	1982	1986	1990	1994	1998	2000	2002	2004	2006	2008
Income												
Taxes												
Real Estate	48	33	52	77	115	152	153	161	152	196	258	460
Transfer		2	9	8	26	11	23	31	38	57	44	40
Earned Income		4	15	14	18	17	31	32	35	40	38	41
Per Capita		1	1	1	1	1	0	0	0	0	0	
Licenses/Permits/Fines												
Boat			1	2	8	31	33	39	48	64	68	103
Misc.		1	1	4	9	8	16	14	15	21	19	19
Interest												
Interest							5	6	4	6	12	11
Grants												
Liq. Fuels	10	16	22	24	23	31	38	50	47	42	48	55
Service Corp.	11	30	82	75	70	83	87	79	81	92	92	86
Misc.	4	7	6	7	4	10	17	16	20	64	144	91
Services												
Water	6	7	5	8	47	44	45	37	34	23	25	32
Police						6	4	3	0	0	0	
Sewage							10	8	12	38	24	25
							0	0	0	0	0	
MISC	5	3	13	11	35	8	0	0	4	2	0	3
Transfers/Carryover							0	38	0	212	0	58
TOTAL	84	104	207	231	356	402	462	515	490	857	772	1022

Income has been steady in most areas, and most importantly has kept pace with expenses. Income from Misc. Grants, particularly recently, is most impressive, up by nearly 10 times over the past 10 years. Until just recently this has been sufficient to offset the increases in police, road and dam expenses. In the private, non-profit areas it is hard to cultivate grant revenue and it is a major contributor (~ \$350K) to ILB revenue since 1998.

The major revenue sources for the Borough are Taxes (~50%) which are largely controllable by millage rates and growth in the tax base (new homes), Grants (~10%) which were discussed above, Boat Licensing (~10%, \$100K in 2008, tripling over the past 10 years), Service Corporation contributions (10-15% and dependable), Liquid Fuel Taxes (5% and dependable), and the remaining 10-15% from a variety of sources, some bookkeeping offsets such as water and sewage income-expense offsets.

We have done well. No one expected a \$7M dam remediation effort to emerge.

II- Projections Forward to 2020...

There are many major items of expense or income over which we have little or no control. Expenses such as the dam remediation; certain benefits; certain insurances; audits; aspects of snow removal, road repairs, police, fire and ambulance, and vehicles are considered necessities and hard to control. Income items such as County Real Estate Assessments and transfers; certain grants and taxes, such as Liquid Fuels Tax, are largely beyond our control. Luckily we have a track record, and many items of both income and expense vary with inflation and the Consumer Price Index. They may be predicted, but not controlled.

Some items can be controlled or influenced to balance budgets and meet budget demands. Controlling what we can is the basis for strategy.

Expenses - Expenses are generally more controllable and discretionary than income. As stated before, ILB expenses seem to have a history of control and restraint, running lower than inflation. The only candidates for perhaps a closer look are recent rises in benefits and insurances, police and vehicles, and some Public Works expenses, such as payroll, roads, etc.

Legal expenses are a target of opportunity and we have wrestled with whether we need to assume these will continue. We consider them as under our control, or certainly under our influence. Our perspective is that legal fees are costing us the equivalent tax revenues of 60+ homes. Our plea/hope is for both concerned citizens and Council members to behave differently (less litigious and less autocratic, respectively) going forward. Failing this, other strategies for curbing this expense are discussed in the section on Leadership Strategies.

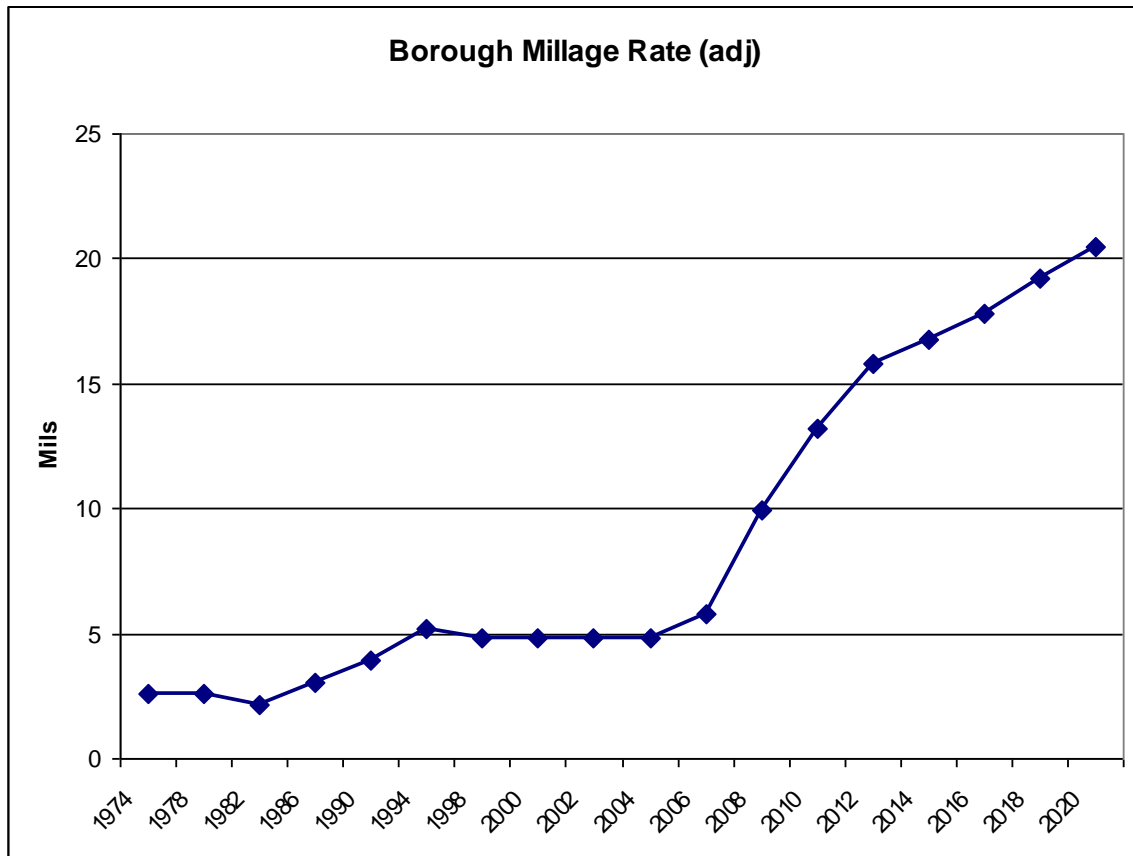
All considered, however, the issue of dam debt cannot nearly be solved by controlling expenses.

Revenue - Housing growth (increased revenue base), millage rates, and boating revenue will remain the Borough's 3 major tools to meet the budget shortfall and balance the budget over the next 10+ years.

The question has been asked "If we had sustained the growth recommended and sparked by the 1994 Study, would we be in this bind?" The answer is clearly yes, but clearly to a lesser degree. We would have needed 300 more homes on the tax roles today to avoid a tax increase and 30 homes per year is 3 times the highest realized since the 1970's (when sewerage and septic systems were non-issues). Sustained growth of 10 homes per year would have gotten us 10% more homes, and lessened the extent of our problem by perhaps 30%. We'd still be in a bind.

The second question we've been asked is "If we start a major push for new development now, can we avoid large tax increases?" The answer to that is clearly "no". The dam work and debt service are near term expenses and aggressive housing growth of 10-20 homes per year will not build the tax base in time. It is equally clear however that such growth can allow the tax rates to cap at a slightly lower amount and to begin to decline

towards today's levels sooner. With **no** housing growth, millage will have to nearly double (to > 20 mils) and continue to rise well past 2020, perhaps to 2040 when the debt is fully paid (see graph below for the modeled projection for zero housing growth). There are many strategies, including housing growth, to prevent that from occurring. They are addressed later in Section III under Leadership Strategies. Some specific candidate actions are addressed as well.



In general, realistic growth, coupled with continued sound fiscal responsibility ...and with restraint on the part of litigious-minded residents ... can help curb potential tax increases beyond that needed for the dam work. **Dealing with the dam work, however, will require thought, innovation and some aggressive strategies that may be neither simple nor universally popular.**

Projecting detailed budgets for outyears, while possible, depends entirely on the **strategy** chosen to raise revenue to cover expenses, and great detail tends to cloud the issues. Expenses are dominated by debt to cover the dam remediation work, which is expected to grow from around \$120K in 2009 to over \$400K/year for 2013 out past 2040. The Borough's ultimate response/control, to balance revenue to the expenses, is to raise taxes (millage). For purposes of discussing Leadership Strategies in this report, all figures are brought back to millage rates for ready comparison purposes, and charts like the above used to compare.

III- Leadership Strategies ... Minimize and Even the Burden

A- Legal:

If we cannot overturn the recent spike in litigation and public dissent, we should strongly consider options like arbitration, or establishing a formal local appeal process to reduce or discontinue runaway legal costs and effort. Improved communication, particularly with part-time residents, might serve to diffuse emotion-charged issues. We cannot legislate away a resident's right to challenge and to seek justice, but we can make it less necessary and less costly. We've done it before; current legal expense is 6X our previous high in any year.

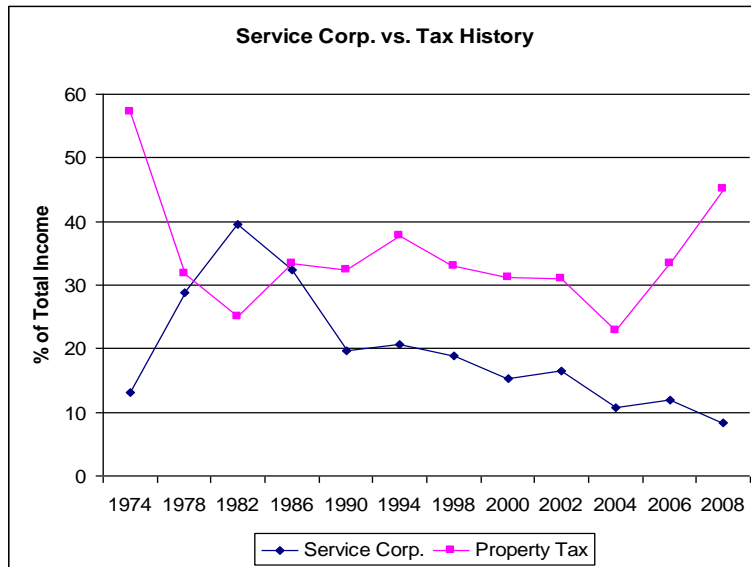
B- Reallocate Major Funding Streams:

The Borough and the Service Corp. together exercise a high degree of control over some of the larger funding streams, representing 75-80% of our revenues. Relying on property taxes alone seems inequitable.

The Service Corp. has the unique ability to level a per-property assessment, independent of property value, residency status or income. A portion of the value of owning property at the Lake is indeed enjoyed by each and every property owner, regardless of whether they boat, and regardless of their residency status. A per-property assessment addresses that. (This currently represents ~10% of Revenue, down from 20-40% in past years)

The Borough has the ability to charge for **Boat/PWC licenses**, which uniquely 'taxes' exclusively those who enjoy the Lake by boating, regardless of residency status or property value. (This currently represents ~10% of Revenue, up slightly from most previous years)

Property taxes traditionally place more of the burden on those who ostensibly have greater ability to pay, based on the relative value of their property. Lakefront homeowners pay ~double that of back-lot homeowners for the ability to enjoy the Lake without leaving their property. Owners of vacant lots pay nearly nothing. (Property Tax represents **nearly 50%** of Revenue, up from 25-30% in earlier years and on a sharp rise currently. In the late 1970's and 1980's property taxes and Service Corp. Assessments were roughly **equal** in terms of revenue).



Income Taxes also tax those more able to pay, based on wages and income. However, at Indian Lake this doesn't hold so well; many properties are owned by non-residents whose income taxes are paid elsewhere and have **zero** benefit to the Borough, or by retirees whose income has already been taxed earlier in their careers, or is not taxable. Local income taxes have become a dominant revenue source for many residential communities, but not so for Indian Lake. (This currently represents <5% of Revenue, down slightly from past years)

Re-balancing between these sources, each being supported by the same pool of residents and property owners, should be revisited for equity of purpose and impact on property owners/residents.

With current restrictions on use, and the fact that remaining vacant lots generally don't "perc", the market value of such lots is largely being established by the cost of boat license fees vs. property taxes. The assessed value of many vacant lots is absurdly low. Total costs, including taxes, are very low on such properties and the cost of a non-resident boat license (or the need for additional resident licenses) makes purchase attractive and often sets the value. Other properties which may "perc" are owned for investment, also with no intention of near-term development. Both of these scenarios keeps the tax base down, and lower than we would like. We need to incentivise **development** of such properties (any "buildable" lot). Millage will not work, since it impacts the non-target group more than the target group. Boat license fees won't work because perhaps a large part of the target group does not boat, and boat license fees may be why they are holding the property. Only increased Service Corp. fees, or increasing assessments on these vacant lots, target this group/behavior (using pay for privilege). Equivalent reductions in millage (or avoidance of increases) could/would offset the increased Service Corp. fees for residents and homeowners (the non-targeted group). In conjunction with an enabling posture on acceptable sewage options, this strategy could likely spur the growth/development we desire.

Substantial increases in boat license fees, with equivalent reductions or avoidance of increases in millage, would be cost-neutral for the Borough, but more equitable for all property owners who boat on the lake (pay for use...). Everyone is equal out on the lake... Our Boat License policies are arguably in need of revision; an outsider looking in might find it strange that our residents find it less expensive (or even viable) to buy property and pay all the taxes (more than 80% of which leave the Borough...), in order to have a boat on the Lake.

The following table illustrates these points using 3 equivalent comparisons; each generates \$100K revenue for the Borough:

IMPACTS ----- >	Lakefront Home	Lakefront Lot	Backlot Home	NP Back Lot	Borough Impact
Avg. Assessment Value	120,000	15,000	60,000	6,000	
2 mil increase	240	30	120	12	\$100K
+ \$100 Service Corp.	100	100	100	100	\$100K
+ \$100K Boat License					\$100K

The major disadvantage with raising revenue **exclusively** via millage is the compounding effect of assessment inequities; a millage change unwittingly impacts some citizens more inequitably than others, those already paying more. A 2 mil increase costs some property owners more than \$700 and some \$2 or less. This hardly seems equitable for preserving the Lake, which benefits all properties equally in many respects.

We should not push for an assessment change... that's not the message; the Borough gets only a small return (~20% of the cost to the taxpayer) and property owners would lose leverage on their dollars spent. The point here is that there are better, smarter ways.

Property tax increases target those already bearing the largest load; they should be combined with other more equitable options. Balance between these revenue streams has been more equitable in the past, and in fairness should be revisited going forward.

Increasing **Income Tax** revenue by encouraging **residency** could be vigorously pursued as it is cost-neutral (or may be cost-advantageous) to the homeowner/prospective resident, and is a substantially untapped revenue source. We **could** even afford incentives... The direct income to the Borough is 0.5% of gross wages (the other 0.5% goes to the school district); it could easily represent **\$100,000** or more added revenue per year at the extreme. We are currently capturing only \$41K income tax revenue from 589 homes; an average of \$69 per home on an average of \$13,900 income per home.

C- Rental Tax and Boating Day-Passes:

Tax on boat rentals, and granting day-passes for a fee, should be considered (perhaps only weekdays and non-holiday weekends). The Marina could administer these for a small percentage/fee. Non-property-owners should be **only** allowed to load/offload at the Marina; the public ramp could be only for property owners' use only. Non-resident boat permittees should have to go to the Marina, helping their revenue as well. The Marina could check stickers in the process, aiding enforcement at no cost. Enforcement and Fines for non-permit boating/operation should be effective enough to provide a very strong deterrent [or large source of revenue].

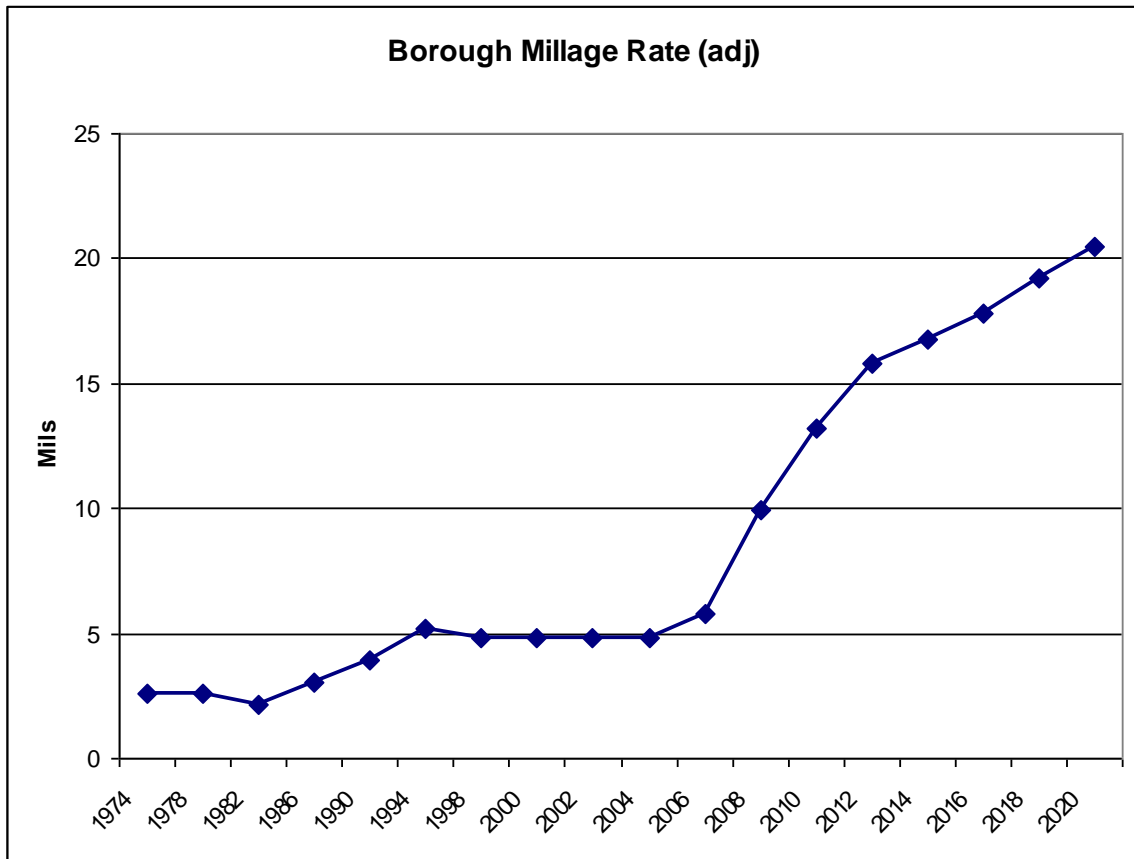
Some Lake properties are rented. Renters ostensibly pay for the privilege and use, but to the owner, not to the Borough. It could be argued that this all balances out because the owner in turn pays his fair share. It could also be argued (and is...) that renters use the Lake far more per day/week during their brief stay than an average resident or property-owner otherwise would, and are less courteous (or at least less knowledgeable of Lake etiquette). Many resort areas charge a 'rental fee/tax' to share in the rental gains on such properties. It should be easy to capture this on rentals which go through local realtors.

Commercial Taxes; establishments in tourist or resort areas are generally taxed heavily since their profitability is greatly enhanced, if not assured, by the attractiveness of the community as a whole. Indian Lake does not cater to tourism, and support of tourism and its businesses is generally lackluster. Commercial enterprises at the Lake are ill-able to pick up significant share of the revenue needs and (arguably) operate largely as non-profit/community service organizations. Increasing Commercial taxes is **not** recommended.

D-Modeling the Business:

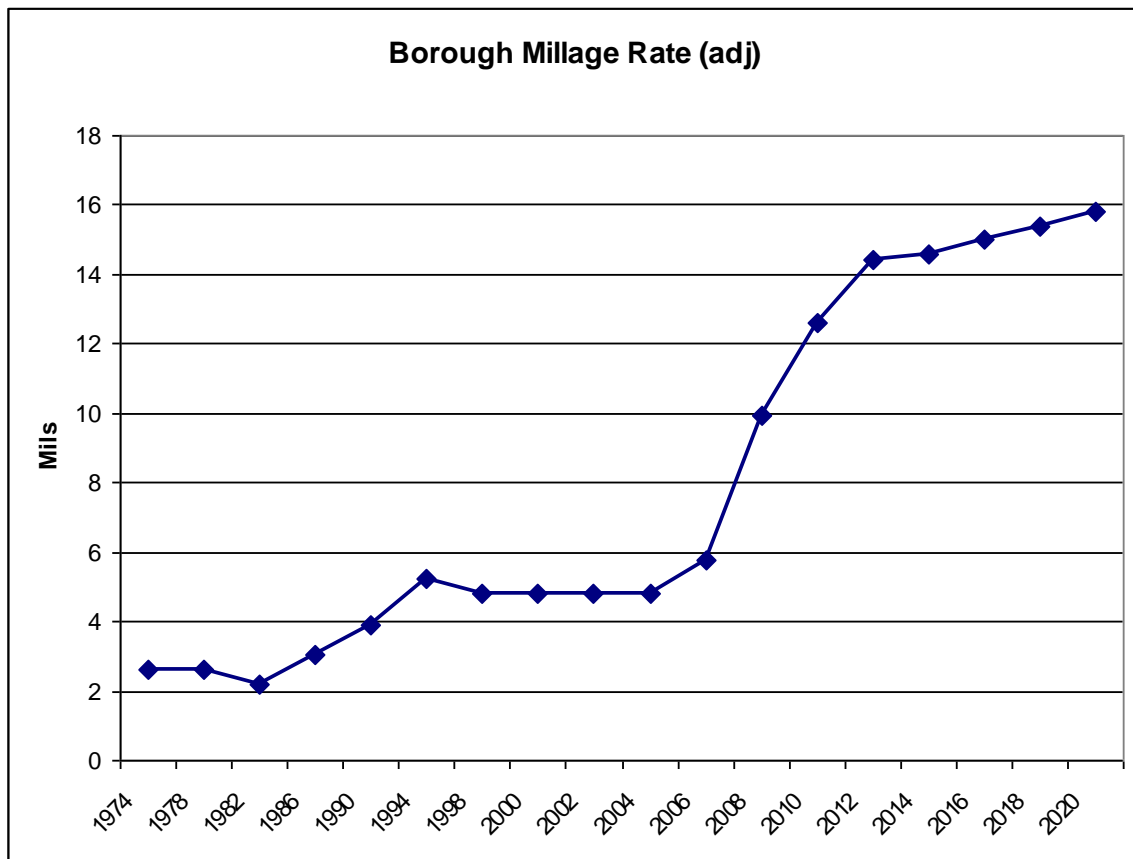
The Planning Commission developed a computer business model to experiment with some of these notions and strategies. The below describes some of the lessons learned and potential cumulative impacts by testing some of the above strategies using this model:

With **NO** housing growth, no increase in Service Corp Assessments, and no increase in boat license fees, millage will need to grow to 13 mils by 2010 and **>20 mils** by 2020 to cover expenses, including the dam debt. (This baseline was introduced in Section II.)



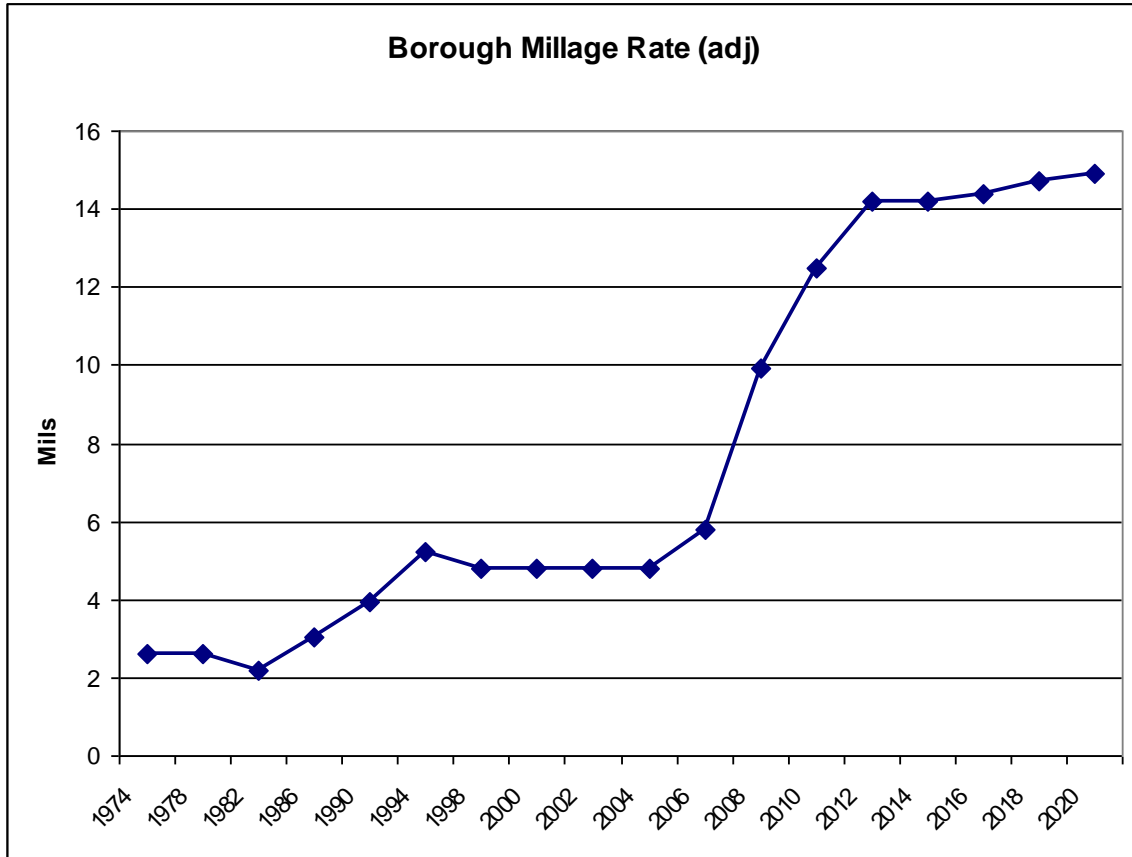
A passive approach relying only on millage doubles taxes again in 10 years

Assuming **5** homes/year development rate the required millage rises more slowly to ~18.5 mils in 2020. At **10** homes/year it rises to 17. At **15** homes/year it rises to less than **16** mils in 2020 (with 769 homes; far less than our limit). As a general rule, an **increase** in housing growth by 5 homes per year **reduces** tax burden by ~1.5 mils in ten years. The graph below is for **15** homes/year. Note that there is little or no short-term impact (reduction in millage) associated with larger growth rates; the impact is largely out beyond 2012. It should be noted at this point, also, that revenue growth from development is not limited to new home construction; major improvements to an existing home or property that increases its assessed value has a positive impact as well, and there have been several such upgrades in recent years.



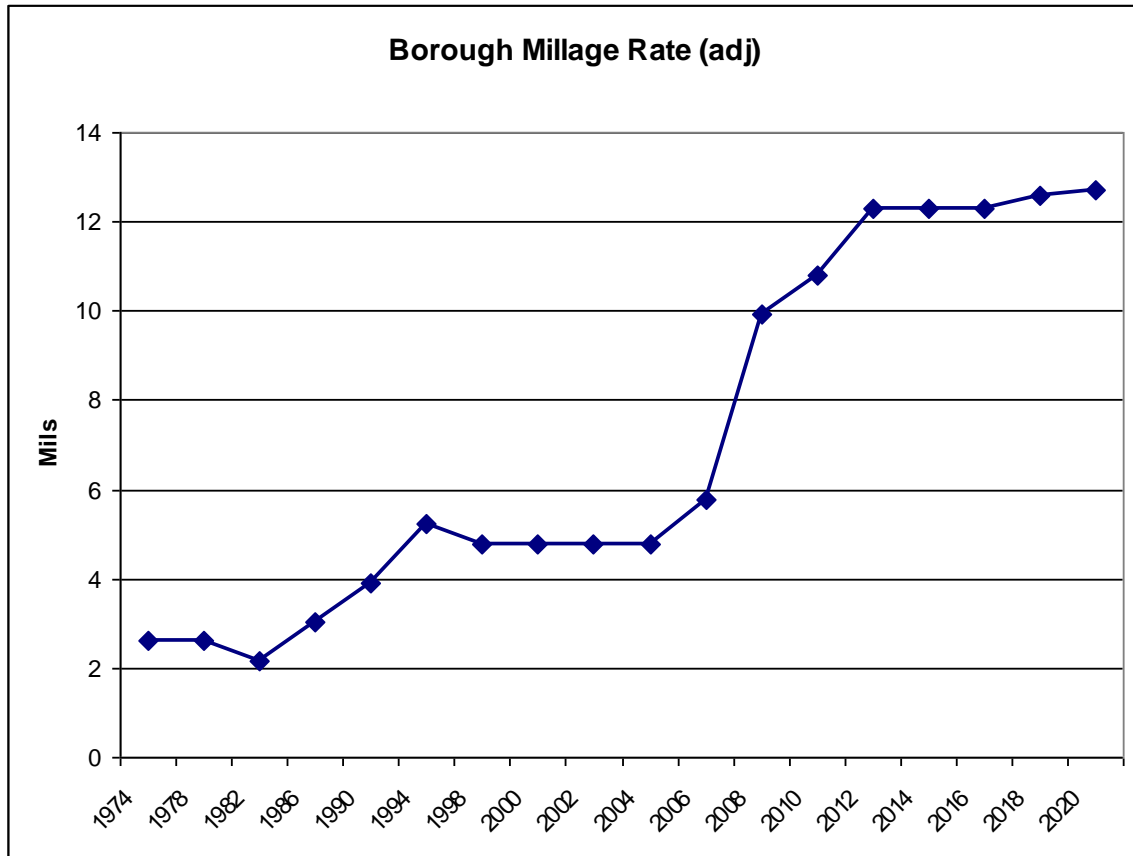
**Growth of 15 homes/year reduces tax burden by nearly 5 mils after 10 years
 (~1.5 mils decrease for each 5 homes/year rate)**

If we may assume the Service Corp raises their assessment yearly, but only to meet inflation (4.4%/year), millage would peak at ~15 mils in 2020, 4.5 mils higher than today.



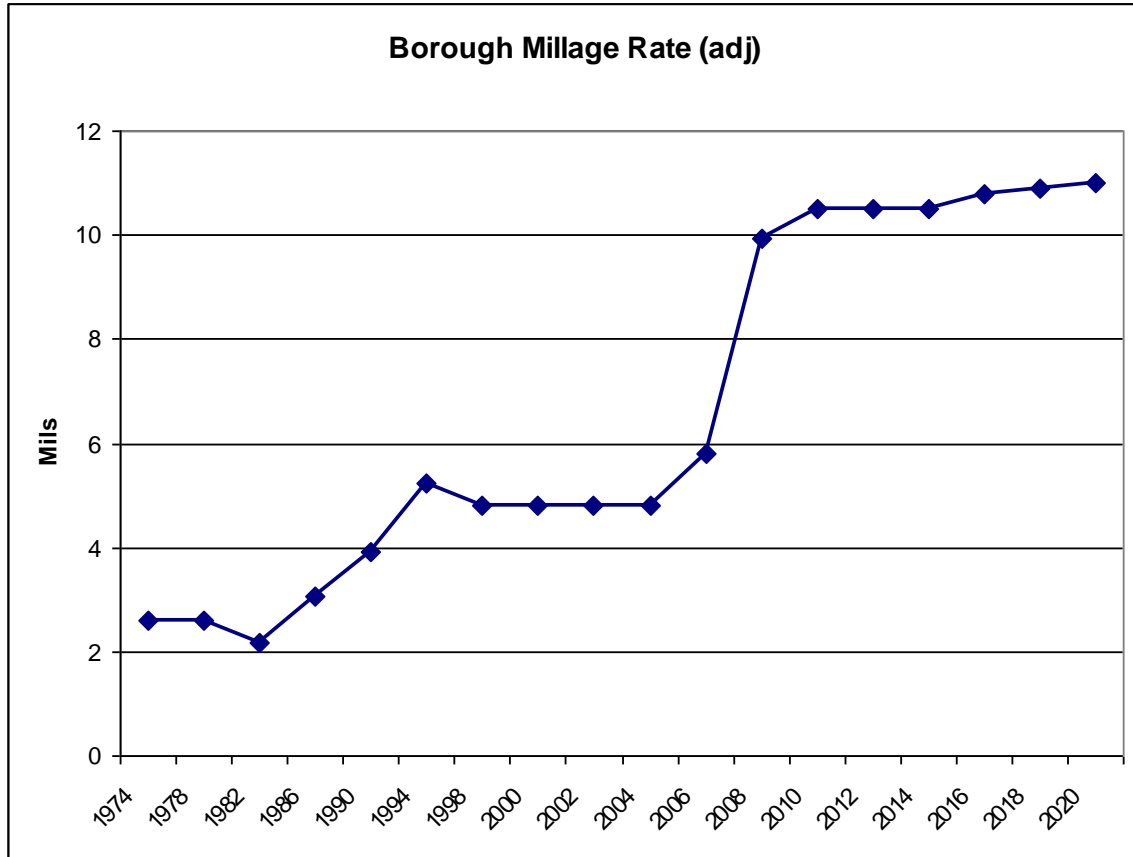
Inflationary increases in Service Corp. contribution helps a little, but not much; less than a mil by 2020

A \$100 per lot Service Corp Assessment increase (permanent; to ~\$200 per year total), coupled with inflationary adjustments, would peak the millage increase at ~12.5 mils in 2012 and essentially keep it there through 2020. That's only 2 mils higher than today's 10.5 mils. This contribution **reduces** the tax burden by ~2.5 mils **each and every year** it is in force; the benefit/payback is immediate.



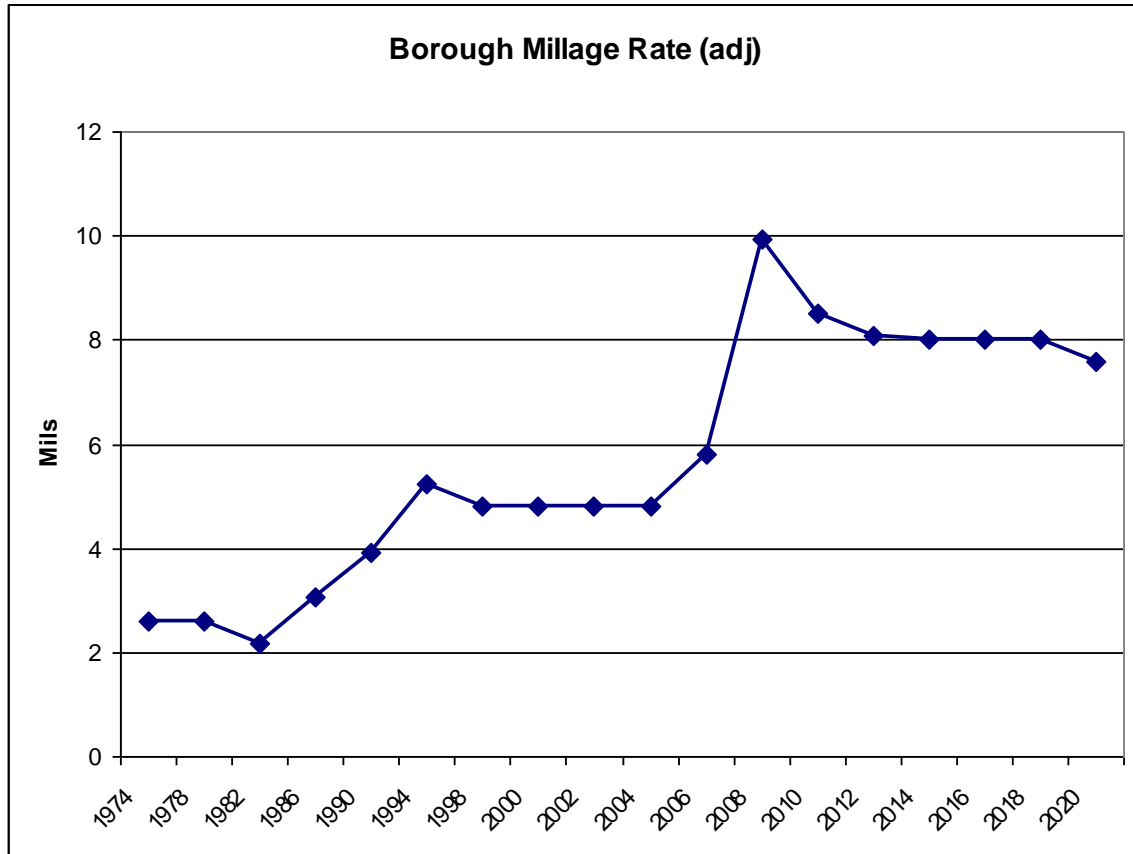
A \$100 increase in Service Corp. assessment can reduce taxes by ~2.5 mils (for each or any given year it is approved)

Further, capping Legal fees at \$10K/year (our highest ever before 2007/2008 was \$9K), would cap the millage at 10.5 mils through 2014 and it would rise only slightly to 11 by 2020.



Reducing legal expense to historical levels reduces the tax burden by > 1 mil

Increasing Boat License revenue by \$100K (approx double our 2008 revenue) would permit reducing millage to 8.5 mils in 2010 and it would begin dropping slightly thereafter, another full mil by 2020. That would be a **reduction** of 3 mils over today's rate... Note there are many ways to adjust license fees and we have not chosen any specific method. 2008 statistics are in the chart below the graph.



2008	#	\$/per	\$
Primary Powered - Approximately	700	50	35,000
Primary Non-Powered - Approximately	5	15	75
General	40	600	24,000
Secondary Powered	289	150	43,350
Secondary Non-Powered	345	15	5,175
TOTALS	1379		107,600

Doubling Boat License fees can reduce tax burden by 2.5 mils

In summary, all of the above actions together would allow for **NO** additional millage increase, **and a steady reduction back to ~7.5 mils by 2020.**

All of these strategies may not be practical or palatable to everyone, but it provides an idea of what aggressive postures can accomplish in combination.

This model (in Microsoft Excel) is available for Borough use. Training can be provided. It is currently designed to cover yearly planning out through 2020 and is readily adaptable to cover beyond 2020.

E- Other Unique Approaches Discovered in Research:

Some countries (Canada, Spain, Australia and New Zealand ?) have aggressive laws for capturing tax on **profits** made on 'local' real estate owned/sold by non-residents...(capital gains and/or ordinary income) ... essentially such gains/profits are considered **locally earned** and thereby **taxable locally** first. (Spain actually 'sieves' a sizeable percentage of the sellers proceeds and only releases the balance following full accounting/disclosure...and payment to them first). This is a **gains tax**, not a transfer tax.

Many successful non-profits and local governments pay **grant consultants** a fee for aggressively seeking and obtaining grants. ILB's grant income has been considerable in some past years, and this is projected to continue (without guarantees, however). Perhaps a fee-based consultant could improve on our success, and without downside risk.

F- Other Considerations

The single biggest obstacle to real-estate revenue growth is sewage disposal, particularly on remaining lakefront lots. To spark growth, a posture of openness to available options should be taken. Credible input should be sought on the real issues with lake discharge of high-quality TFE, given the ease of treating phosphorous and DEP guidelines for "budgeting" P-loading. We recognize this is an emotionally charged issue, but it is also one with technical merit with today's technology and DEP's support. Council may need to consider the relative merits of any and all DEP sanctioned Alternative and Experimental on-lot or community system alternatives. ILB cannot continue to wish for growth, but ignore or filibuster new or creative approaches for sewage processing. It is clear from this analysis that community-wide public sewerage in the near-term will be very difficult to fund, much like we found in the late 70's and 80's. Receipt of the DEP Lake Study on Eutrophication may well set the stage for rational consideration of new on-lot options. Converting an average vacant lot to a residence benefits the Borough revenue stream by between \$700 and \$3000 per year. (\$1000 per year would be a good rule-of-thumb). We could even afford to subsidize on-lot options that we like, to offset their high costs [over alternatives we do not like] and thus spur development. Simple encouragement, or an enabling-posture, would not cost the Borough any money.

Acknowledgements

The following people and organizations have provided data and support for this analysis:

US Bureau of Labor and Statistics; www.bls.gov/cpi

1994 Indian Lake Planning Commission; An Analysis of Finances and Growth, Indian Lake Borough, 1974-2004; Ronald Seiling, Robert Langley, Virginia Nass, Malcom Charles, Dale Worcester

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Indian Lake Service Corp.; Dick Stern, President

Somerset County; Glen Wagner, IT Department and Jane Rizzo, Assessments

Pennsylvania Department of Revenue; various web sites and databases

The World Wide Web... sources too numerous to mention...

The pages which follow represent a sub-set of the data gathered during this review. We include it here because it is interesting, and worthy of being captured for reference, and perhaps future use.