Indiana Township Association

2017 Education Conference

Funding Fire Protection

Introduction: Fire funding has two distinct components; capital and operations. Capital funding is more straight forward with established methods and caps, while operations are much more complicated to fund with multiple scenarios scrutinized outside the control of Townships.

Capital funding:

1) Pay-as-you go: ("Planning" to pay without debt, except short-term leases)
    a. Cumulative Fire Building and Equipment Fund
        i. IC 36-8-14
        ii. Raises money outside the maximum levy
        iii. Maximum rate $.0333 per each $100 of AV
        iv. Money accumulates indefinitely
        v. Can be used for capital expenditures only
        vi. Can make cash purchases or lease purchases
            1. Indiana Bond Bank (IBB) Hoosier Equipment Lease Purchase (HELP)
                a. Amortize 2-7 years based on estimated useful life
                b. Please see IBB FAQ document for HELP
            2. Lease Purchase through local bank
                a. Amortize less than 5 years, should be less than useful life
        vii. Must be appropriated (Annual Budget or Additional Appropriation)
    b. Rainy Day Fund
        i. IC 36-1-8-5.1
        ii. Subject to local restriction, can be used for any municipal purpose
        iii. Can transfer up to 10% of total annual budget
        iv. Money can accumulate indefinitely
        v. Can be used for capital expenditures
        vi. Must be appropriated (Annual Budget or Additional Appropriation)
2) Bank / Vendor loans: (When ongoing revenue streams are insufficient to fund capital needs)
    a. Indiana Bond Bank (IBB) programs
        i. Community Funding Resource (CFR)
            1. Typically, under $2.0 million and amortization to 10 years
            2. Secure with new property tax (outside maximum) or other revenue
            3. Requires Municipal Financial Advisor and Bond Counsel
            4. Please see IBB FAQ document for CFR
    b. Commercial bank loans
        i. Public Works Loan IC 36-9-41
            1. Typically, under $2.0 million and amortization to 10 years
            2. Must meet definition of "Public Works", consult Legal Counsel
            3. Repay with new debt levy outside maximum levy
            4. Most likely requires Municipal Financial Advisor and Bond Counsel
            5. Subject to Bond Cap (1/3 of 2% of assessed value)

        ii. Firefighting apparatus and equipment loan IC 36-8-13-6
            1. Amortization to 6 years
            2. Financed through an Indiana financial institution
            3. Repay with new debt levy outside maximum levy
            4. Most likely requires Municipal Financial Advisor and Bond Counsel
            5. Subject to Bond Cap (1/3 of 2% of assessed value)
    c. Vendor funding
        i. Firefighting apparatus and equipment installment contract IC 36-8-13-5
            1. Typically, amortization to 6 years
            2. Typically, financed through vendor
            3. Secure with new property tax (outside maximum) or other revenue
            4. Most likely requires Municipal Financial Advisor and Bond Counsel
            5. Subject to Bond Cap, if secured by property tax

3) General Obligation (GO) bonds: (Typically for larger amount and or longer amortization)
    a. Bond cap calculations
        i. Total property tax debt limited to 1/3 of 2% of assessed value
    b. Amortization
        i. Generally limited to 20 years
        ii. Should be for no more than the estimated useful life
        iii. Need to consider marketability and interest rate costs
    c. Requires Municipal Financial Advisor and Bond Counsel
    d. May involve underwriter, registrar, and or paying agent
4) Lease-rental purchase bonds (Building): (Typically when debt won't fit under bond cap or township does not want to tie up all its bond cap in a building)
    a. Use of Building Corporations
        i. Building corporation is required to issue lease-rental bonds and is technically the issuer of the bonds so that the debt amount does not count against the township bond cap
    b. Amortization
        i. Should be for no more than the estimated useful life
        ii. Need to consider marketability and interest rate costs
    c. Requires Municipal Financial Advisor and Bond Counsel
    d. May involve underwriter or placement agent, registrar, and or paying agent

<u>Operations funding</u>:

1) Pay-as-you go:(Plan to pay from ongoing revenue streams)
    a. Fiscal Planning
        i. Townships should project revenues and expenditures a few years into the future so that sound financial decisions can be made with foresight
    b. Revenue allocation
        i. Local Income Tax (LIT) can be allocated fully or partly to the Fire Fund regardless of how much property tax is levied in other non-fire funds
    c. Rainy Day Funds
        i. Generally, Rainy Day Funds can be used for any municipal purpose, including fire

        ii. Can transfer up to 10% of total annual budget
        iii. Money can accumulate indefinitely
        iv. Must be appropriated (Annual Budget or Additional Appropriation)

2) Fire and emergency services loans: (IC 36-6-6-14)
    a. Temporary nature
        i. Can only be used 3 out of every 5 years
        ii. Previously was an ongoing revenue source
    b. Bridge / Gap financing
        i. Should only be used to cover a short-term gap for fire protection such as an extraordinary circumstance or transition to a Fire District or Fire Territory
3) Fire Districts: (New and separate unit of government)
    a. Political concerns
        i. Establishment goes through the County Commissioners
        ii. Commissioners may not want to be involved in raising taxes
    b. Control
        i. Governing Board appointed by County Commissioners
        ii. Township loses control of fire protection
    c. Flow of funds
        i. Funds flow from taxpayers to County to Fire District
    d. Related financial issues
        i. Allows a reset of maximum levy for fire protection from DLGF
        ii. Township will lose its fire maximum levy
        iii. Township will lose LIT due to loss of fire levy
        iv. LIT will flow directly to Fire District as a separate unit of government
4) Fire Territories: (Agreement between two or more contiguous units of government to provide fire protection)
    a. Political concerns
        i. The units of government (all will be "Participating" units) must decide how to provide fire protection
        ii. The units of government must decide which one will be the "Provider" unit and which will be only "Participating" units
        iii. Each unit of government must pass identical resolutions or ordinances
        iv. Elected officials may not want to be involved in the raising of taxes
    b. Control
        i. Control is only given up to the extent agreed upon, but some control may need to be given up in order to make a deal
    c. Flow of funds
        i. Funds flow from the taxpayer to the County to the "Provider" unit
        ii. Funds may then be used to pay joint fire expenses or paid out to "Participating" units based on the agreement
    d. Related financial issues
        i. Allows a reset of maximum levy for fire protection from DLGF

ii. Agreement needs to address LIT contributions from “Participating” units to the Fire Territory since the LIT attributable to fire protection will not flow to the Fire Territory Funds

<u>NOTES</u>: