



**THE FISCAL HEALTH OF INDIANA'S
LARGER MUNICIPALITIES:
CITY OF SOUTH BEND
MUNICIPAL PROFILE**

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Introduction

This document is a summary of financial information on the City of South Bend assembled from several public sources. It is intended to serve as a supplementary document to the Indiana Fiscal Policy Institute report *Fiscal Health of Indiana's Larger Municipalities* released in December, 2016. It was not prepared for or vetted by the City of South Bend prior to its release and does not serve in any manner as a publication of the City. Rather it is the author's interpretation of the data gathered from publicly available sources.

Economic Climate

Based on this study's Composite Economic Index, the City of South Bend has been functioning in the fourth most difficult economic climate of the eighteen selected municipalities.

In 1970, the City of South Bend had 125,580 residents. That total represented 53 percent of the St. Joseph County population. In 2014, the estimated population of South Bend was 101,190. That total represented 38 percent of the St. Joseph County population, a decrease of 15 percentage points from 1970. Between 1970 and 2014, South Bend lost 24,390 residents, a 19 percent decline. Between 2006 and 2014, South Bend lost an estimated 3,715 residents for a 3.5 percent decrease.

Total personal income in St. Joseph County increased by 12.6 percent between 2006 and 2013. This was the fourth lowest percentage increase among the fifteen counties that contained our selected municipalities. Per capita personal income in 2013 in St. Joseph County was \$37,989, sixth highest among the selected counties. This was 98.4 percent of statewide per capita personal income. In 1970, per capita personal income in St. Joseph County was 101.0 percent of the statewide per capita personal income.

St. Joseph County has experienced long-term gain in employment. In 1970 the countywide total employment (full and part-time employment) was 104,506. By 2007, employment in the county had increased to 157,837. However, the county experienced a loss of employment between 2007 and 2013 to a total of 149,490 by 2013. The longer-term increase between 1970 and 2013 was 43.0 percent, the seventh lowest rate of increase among the fifteen counties that contained the eighteen selected municipalities. The shorter-term decline between 2007 and 2013 was 5.3 percent, the fourth worst performance among the fifteen counties. This data is from the Bureau of Economic Analysis Total Employment by county data and is based on place of work not place of residence.

The Gross Regional Product in St. Joseph County in 2013 was \$11,525,935,353. The per capita GRP was \$43,193 in 2013. This was the seventh highest GRP per capita of the fifteen counties containing our selected municipalities.

Of the eighteen municipalities included in this study, South Bend ranked 15th on a Composite Economic Index of several municipal and countywide economic indicators (short and long-term population change, short and long-term employment change, total personal income growth, per capita personal income, gross regional product per capita, gross assessed valuation change, and gross assessed valuation per capita). It scored 92 out of a possible 270 points. This indicates that the City of South Bend has been operating in a difficult economic environment in comparison with the group of municipalities included in

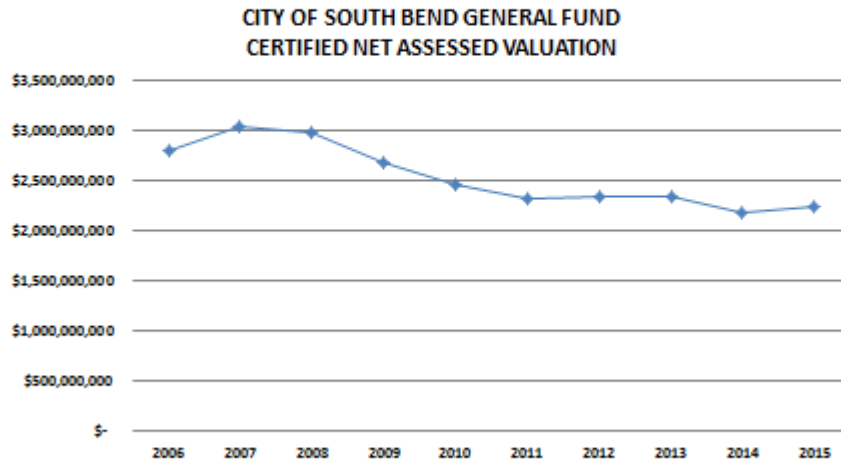
this study. Some of these factors, such as per capita personal income relate closely to the relative income tax performance and others such as change in gross assessed valuation impact both property tax levies and circuit breaker credits.

Assessed Valuation

The gross assessed valuation for the City of South Bend was \$4,837,489,612 in 2014 pay 2015. This was a 4.1 percent decrease from the 2007 pay 2008 gross assessed valuation. Gross assessed valuation was \$47,806 per capita in 2014 pay 2015, ranking 14th among the eighteen selected municipalities. In 2007 pay 2008 the standard homestead deductions were 17.7 percent while the 2014 pay 2015 combination of the standard and supplemental homestead deductions represented 24.5 percent of South Bend's gross assessed valuation. In 2007 pay 2008 9.4 percent of the city's gross assessed valuation was captured in tax increment financing districts and this increased to 24.1 percent in 2014 pay 2015. Net certified assessed valuation in 2007 pay 2008 was 65.0 percent of gross assessed valuation (less the gross assessed valuation captured in tax increment districts). By 2014 pay 2015, this had fallen to 54.0 percent.

Figure 1 illustrates the changes in net assessed valuation for South Bend from 2005 pay 2006 through the current year. The certified net assessed valuation for the City of South Bend General Fund is \$2,230,375,068 for 2014 pay 2015. That is down substantially from \$2,805,444,968 in 2005 pay 2006. Between 2007 pay 2008 and 2008 pay 2009, where the impact of the increases in the homestead deductions enacted in HEA 1001-2008 first occurred, the certified net assessed valuation for South Bend declined by 9.8 percent, the tenth largest decline among the eighteen selected municipalities. Between 2008 pay 2009 and 2014 pay 2015, the City of South Bend's net assessed valuation continued to decline by an additional 16.8 percent, the highest rate of decrease among the selected municipalities. Net assessed valuation per capita in South Bend was \$22,041 in 2014 pay 2015, ranking last among the eighteen municipalities. Over the past year, net assessed valuation for the City of South Bend General Fund increased by 2.2 percent. In 2014 pay 2015, 24.1 percent of the City of South Bend's General Fund net assessed valuation was captured by tax increment financing districts. This was the second highest percentage among the eighteen selected municipalities.

FIGURE 1



In 2006 pay 2007, the City of South Bend’s certified net assessed valuation was 30.0 percent of the net assessed value countywide in St. Joseph County. By 2014 pay 2015, the City’s portion of the countywide net assessed value had decreased to 28.4 percent.

Annual Property Tax Certified Budgets, Levies and Rates

2007 Certified Budgets, Levies and Rates for Property Tax Supported Funds

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$0	\$51,224,462	\$1.6838
Fire Pension	\$0	\$1,615,405	\$0.0531
Police Pension	\$0	\$1,451,127	\$0.0477
Park & Recreation	\$0	\$8,694,590	\$0.2858
CCD	\$0	\$1,040,430	\$0.0342
Total	\$0	\$24,346,601	\$2.1046

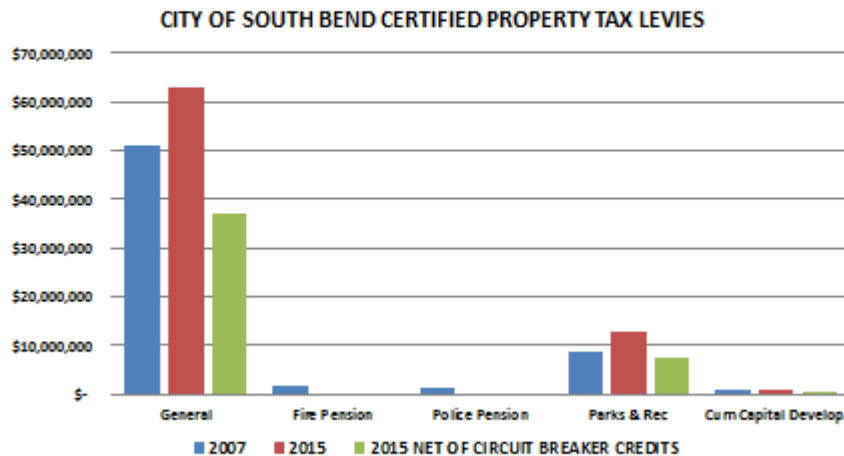
*The 2007 budget was not approved by the DLGF as it was not properly advertised.

2015 Certified Budgets, Levies and Rates for Property Tax Supported Funds

Fund	Budget	Certified Levy	Rate/\$100 AV
General	\$52,642,236	\$63,148,609	\$2.8313
Park & Recreation	\$10,968,933	\$12,659,609	\$0.5676
CCD	\$542,691	\$724,872	\$0.0325
Total	\$64,153,860	\$76,533,090	\$3.4314

Source: Department of Local Government Finance Annual Budget Orders

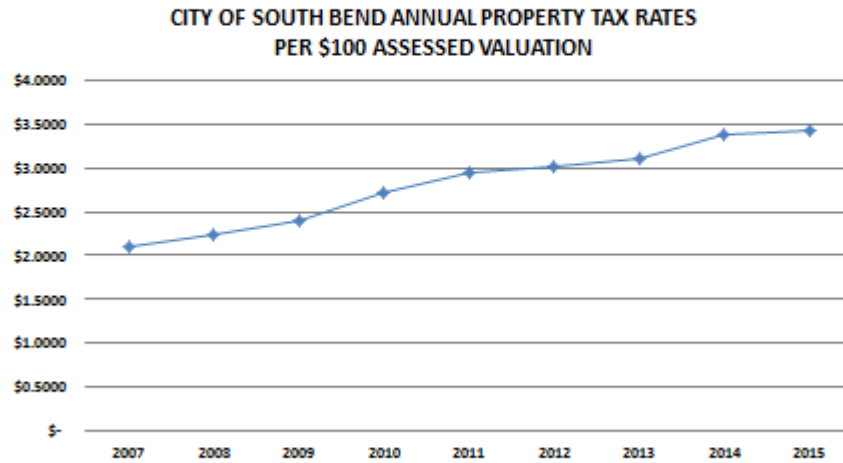
FIGURE 2



The City of South Bend's 2015 property tax rate of \$3.4314 ranked as the highest among the eighteen selected municipalities. South Bend's property tax rate increased by \$1.3268 between 2007 and 2015. This was a 63.0 percent increase. The increase, in cents per \$100 assessed valuation, ranked highest among the selected communities and was the third highest as a percentage increase.

The City of South Bend has adopted a Cumulative Capital Development fund with a 2015 rate of \$0.0325. It does not levy property taxes to support its Police and Fire Pension Funds. It also does not levy property taxes to support any debt service funds. There is a separate taxing unit for the South Bend Redevelopment Commission with a 2015 rate of \$0.0687.

FIGURE 3



Circuit Breaker Impacts

In 2015, the City of South Bend lost \$31,636,602 in property tax revenue due to Circuit Breaker credits. That was 40.5 percent of its Certified Property Tax Levy, the second highest among the selected municipalities. After adjusting for inflation, the 2015 total Certified Levy net of Circuit Breaker Credits was 61.5 percent of its 2007 Certified Levy. In 2015 Circuit Breaker Credits allocated to the City of South Bend were \$313 per capita (second highest among the eighteen municipalities) and \$1,418 per \$100 of assessed valuation (highest). The City of South Bend lost another \$15,017,606 in property tax revenue due to the Circuit Breakers in its tax increment financing districts.

FIGURE 4

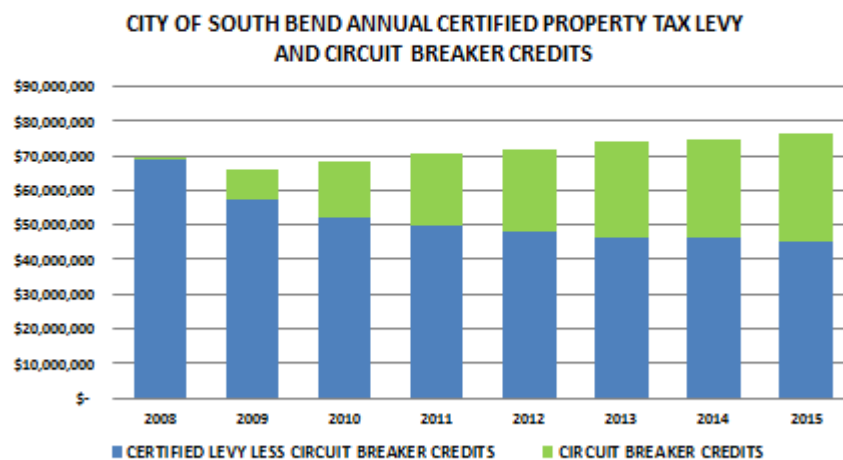


FIGURE 5

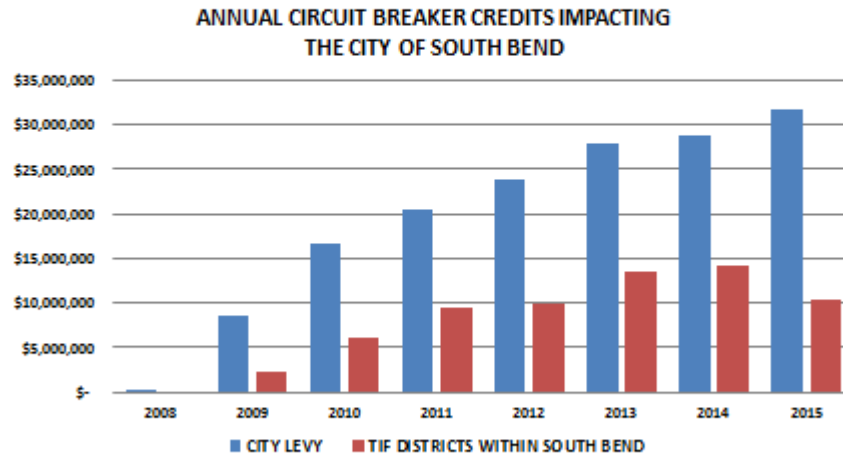
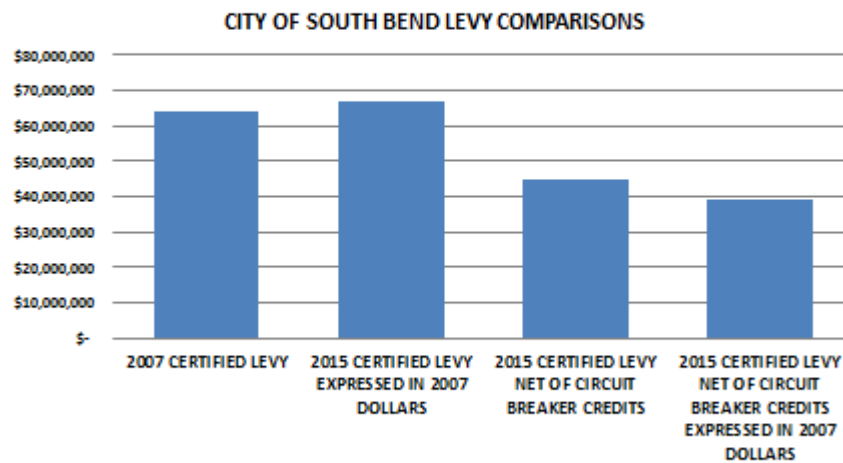


FIGURE 6



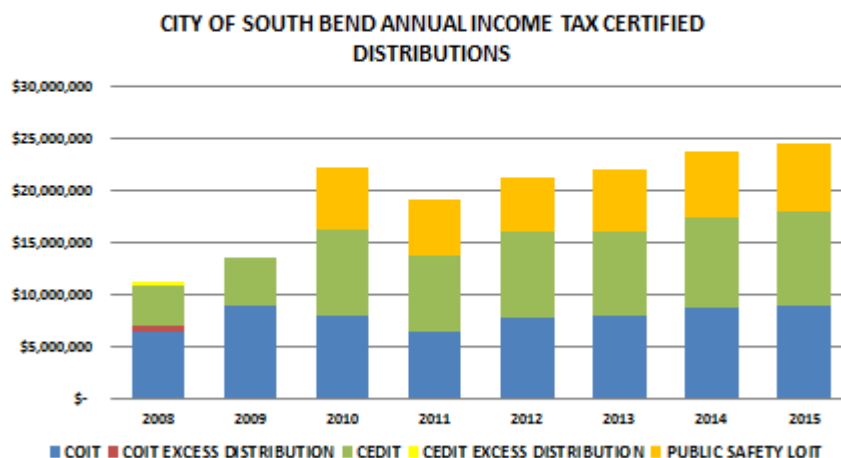
Local Income Taxes

St. Joseph County has a County Option Income Tax at a 0.6% rate and a County Economic Development Income Tax at a 0.4% rate. St. Joseph County adopted the Public Safety LOIT in 2010 at 0.25% and adopted the LOIT for Property Tax Relief, also in 2010, at the 0.5% rate. The City of South Bend does not have a controlling percentage of votes in the St. Joseph County Income Tax Council.

In 2008, the City of South Bend received \$11,139,664 in local income tax distributions. By 2015 these distributions had increased to 24,507,308. The 2008 distribution would have needed to be \$12,346,981 in 2015 to keep pace with inflation.

Local income tax revenue represented 13.9 percent of South Bend’s “core income” (certified property tax levy plus income tax revenue) in 2008. This proportion grew significantly as income tax revenue represented 35.3 percent of “core income” (certified property tax levy less circuit breaker credits plus income tax revenue) in 2015.

FIGURE 7



Fiscal Capacity Index

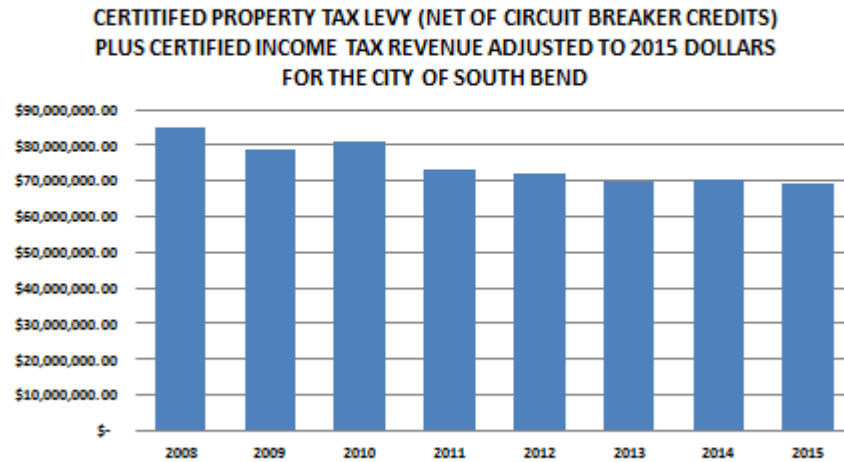
After exploring the changes which have occurred to the property and income tax revenues to the City of South Bend, what has been the overall impact on the fiscal capacity of this municipality? To better understand that impact, a simple “Fiscal Capacity Index” has been created. “Core income” as defined in this study is the combination of (1) annual certified property tax levies net of circuit breaker credits; and (2) annual local option income tax certified distributions. In addition, property tax levies have been adjusted to remove the 2008 levies for those Police and Fire Pension Funds that were taken over by the state in 2009 to allow for a more accurate year-to-year comparison.

These two sources represent the two key revenue sources for most municipalities. The property tax component has been impacted by the enactment of the property tax caps and by the changes to assessed valuation both occurring through the 2008 legislation to increase homestead deductions and by the recession holding down “natural” growth in assessed valuation. Secondly, the impact of the property tax caps has been included by reducing property tax revenue by the amount of Circuit Breaker Credits attributable to each municipality. Lastly, the recession also had a depressing effect on personal income which, in turn, reduced income tax revenues.

After the annual “core income” was determined for South Bend, this revenue was then adjusted for inflation, creating the real value of the annual revenue for comparison over the 2008-2015 timeframe.

Figure 8 illustrates the inflation adjusted core income for the City of South Bend from 2008 through 2015.

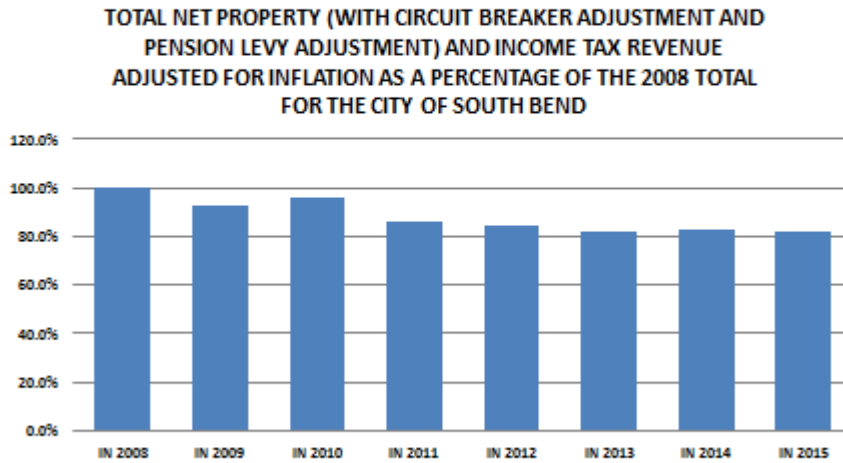
FIGURE 8



Notwithstanding the adoption of these two LOITs, the City of South Bend's total certified property tax levy, net of circuit breaker, plus income tax revenue was, after adjusting for inflation, 82.0 percent of the 2008 total.¹ This was the fifth lowest Fiscal Capacity Index ranking of the eighteen selected municipalities. Between 2009 and 2015 the cumulative loss of core revenue compared with the 2008 total was \$45,930,999. This was the equivalent of 60 percent of 2008 core revenue.

¹ The 2008 levy was adjusted to remove the Police and Fire Pension levies that the State took over in 2009.

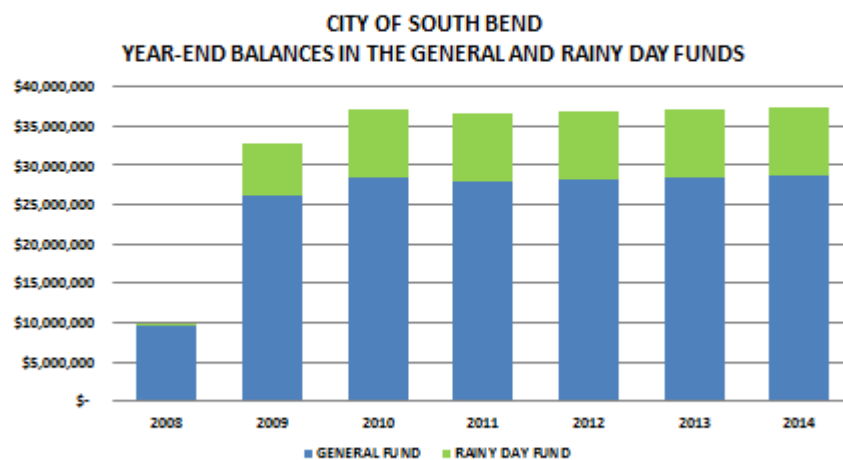
FIGURE 9



Year-End Balances, Annual Receipts and Annual Disbursements

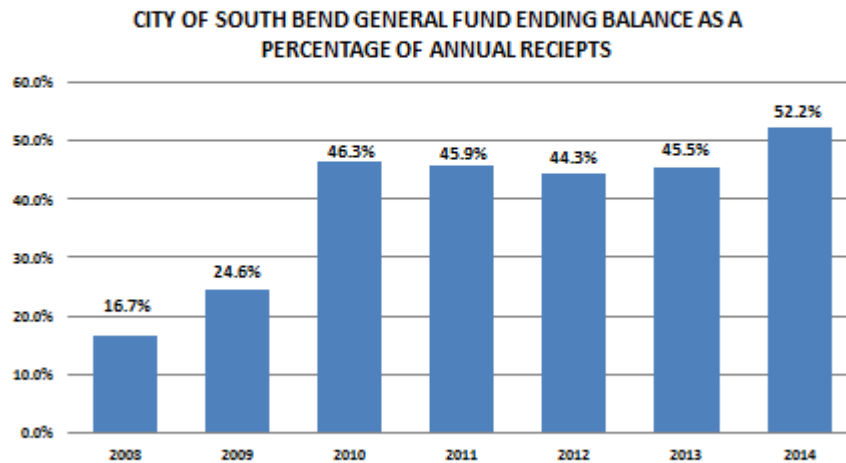
The 2014 year-end balance, including reserved and obligated funds, in the City of South Bend’s General Fund was \$28,684,573. Its Rainy Day Fund ended 2014 with a balance of \$8,647,178. The combined total balance for both funds at year-end 2014 was \$37,331,751. This was 67.9 percent of annual receipts from both funds combined, ranking as the second highest of the eighteen selected municipalities. The combined total represented \$369 per capita, also the second highest ranking. The combined General and Rainy Day fund balances increased by \$4,612,949 between 2009 and 2014. This was the 7th highest ranking among the selected municipalities.

FIGURE 10



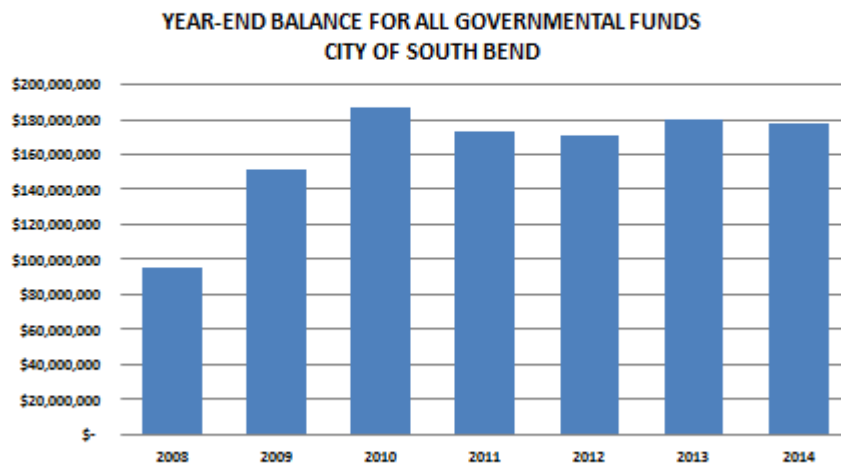
The 2014 year-end balance for all Governmental Funds for the City of South Bend was \$178,101,094. This was \$1,760 per capita, ranking as the highest among the selected municipalities. General Fund disbursements represented 18.9 percent of all Governmental Fund disbursements in 2014. The year-end balance for all Governmental Funds was 61.8 percent of the 2014 receipts in those funds. Total disbursements from all Governmental Funds in 2014 were \$289,731,172. Total disbursements from all funds, including Governmental and Enterprise type funds, were \$376,245,848 in 2014.

FIGURE 11



Total receipts from all Governmental Funds in 2014 were \$288,282,356. This was \$2,849 per capita, ranking as the second highest among the selected municipalities. Core revenue (certified property taxes net of circuit breaker credits plus certified income tax distributions) represented 24.3 percent of all Governmental Fund receipts in 2014 for the City of South Bend.

FIGURE 12



Intergovernmental Revenue

The information in this section was obtained from the IUPUI's Public Policy Institute Fiscal Benchmarking Project. 2012 intergovernmental revenue for South Bend was \$36,063,669 and represented 15.3 percent of total revenue. Intergovernmental revenue in 2011-2012 averaged 15.5 percent of total annual revenue. South Bend was the 8th most dependent on Intergovernmental Revenue among the selected municipalities.² The 2011-2012 average annual intergovernmental revenue per capita was \$356, ranking South Bend as the fourth highest among the selected municipalities.

Highway Funding

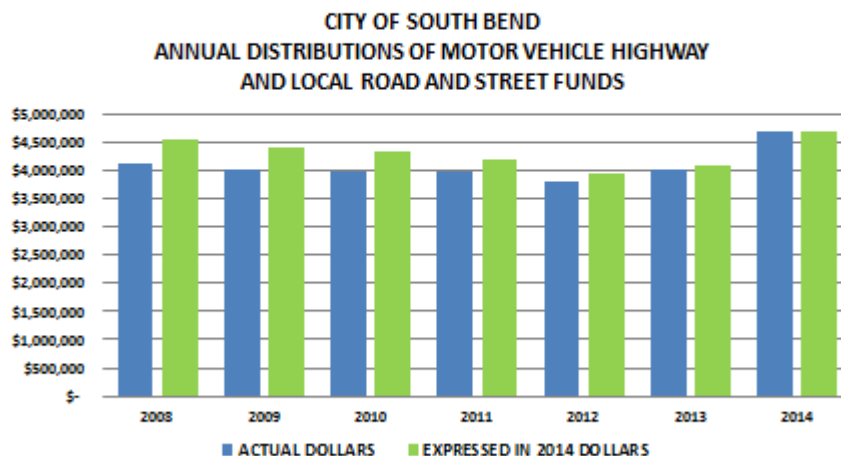
The distribution of state taxes on fuel back to local governments has traditionally been the primary revenue source to support municipal road maintenance and enhancements. While most municipalities have found it necessary to supplement this source with other revenues, particularly as distributions from the Motor Vehicle Highway (MVH) and Local Road and Street (LR&S) funds had not been keeping pace with inflation, this source remains a most important revenue stream for the City of South Bend.

In 2008, the City received a combined total of \$4,120,458 from the MVH and LR&S distributions. By 2012, these distributions had declined to \$3,809,100. The changes to the MVH Account made by the General Assembly beginning with the 2013-2015 State Budget increased the distributions to local units, including the City of South Bend. By 2014, the first full year that the increase was in effect, South Bend's combined distributions had increased to \$4,699,712. This was a 14.1 percent increase over the 2008 distributions, ranking as the second lowest percentage change among the selected municipalities. After adjusting for inflation, this was a 3.7 percent increase over the 2008 combined MVH and LR&S distributions. The composite inflation adjusted increase for all eighteen selected municipalities was 15 percent.

The City of South Bend does not currently levy property taxes to support either its MVH or LR&S Funds.

² There was no data available on Intergovernmental Revenues for the City of Lafayette.

FIGURE 13



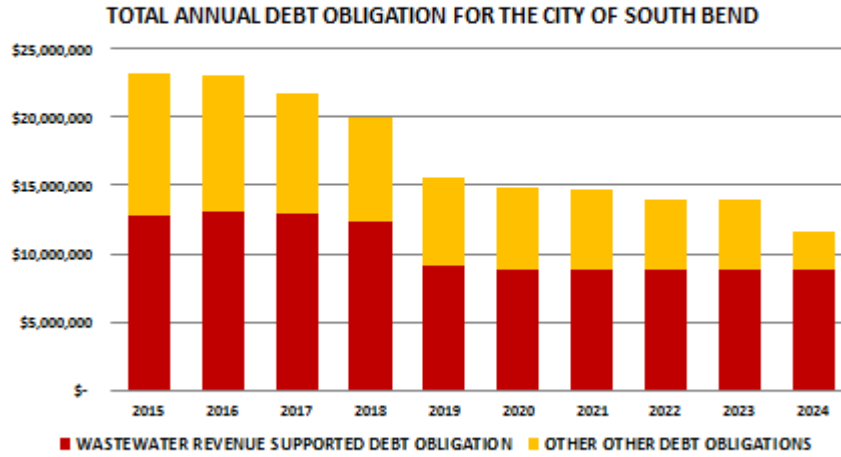
Debt

Per information available on the Indiana Gateway database, as of July 1, 2014, the City of South Bend had total outstanding debt of \$224,367,094. This was \$2,224 of outstanding debt per capita, ranking seventh lowest among the selected municipalities.

Of the total outstanding debt, 63.5 percent was supported by wastewater revenues, 13.6 percent was supported by water revenues and 3.3 percent was supported by tax increment finance revenues.

The total outstanding debt per capita, excluding debt supported by wastewater, water and TIF revenues was \$438, ninth highest among the selected municipalities. As of July 1, 2014, the City of South Bend had \$5,736,728 in outstanding debt supported with County Economic Development Income Tax revenues. This was 62.5 percent of the City's 2015 CEDIT certified distribution. The City also had \$29,044,197 in outstanding debt supported by County Option Income Tax revenues. This was 3.3 times the City's 2015 COIT certified distribution. The income tax supported debt does not appear on the Gateway Total Debt by Unit database, indicating that these sources may be serving as backup for another primary source for debt retirement.

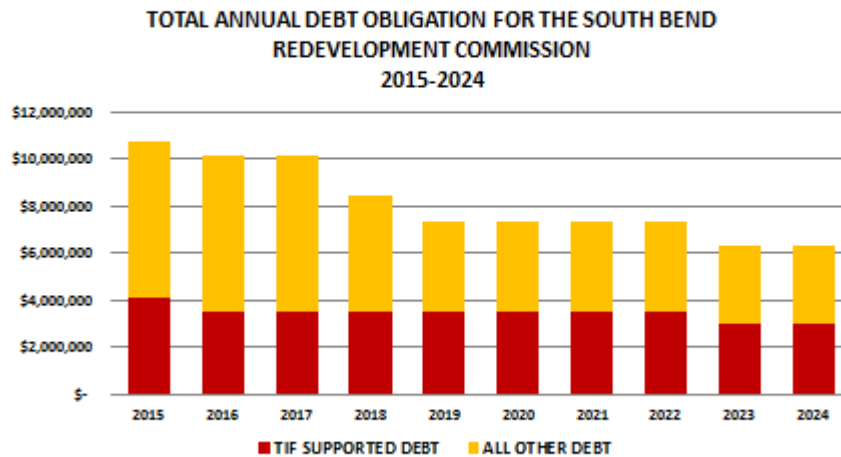
FIGURE 14



The 2024 projected total debt payments of all current outstanding debt is 49.7 percent of the 2015 projected payments. According to the IUPUI Public Policy Institute’s Fiscal Benchmarking Project, the 2012 Debt Service Ratio for the City of South Bend is 10.6 percent.

For debt purposes, the South Bend Redevelopment Commission is considered a Special District in the Gateway database. It has outstanding debt, as of July 1, 2014 of \$107,211,245. Of that total, \$34,021,592 is supported by TIF revenues and \$65,839,936 is supported by general property taxes.

FIGURE 15



The 2024 projected total debt payments of all current outstanding debt for the South Bend Redevelopment Commission is 73.4 percent of the 2015 projected payments.

Summary Observations

South Bend's fiscal profile is one of the most interesting of all the municipalities studied. It was among the most severely impacted by the property tax caps and yet has among the strongest fund balances – an unexpected combination in fiscal indicators.

The City of South Bend operates in the fourth most difficult economic climate of the eighteen municipalities selected for inclusion in this study. The City's gross assessed valuation actually declined between 2007 pay 2008 and 2014 pay 2015 by 4.1 percent. This was the fifth poorest performance of the eighteen municipalities. South Bend was one of only seven to experience an actual gross assessed value decline over this period. South Bend's lost nearly one-quarter of its net assessed valuation between 2007 pay 2008 and 2014 pay 2015. Its net assessed valuation per capita in 2014 pay 2015 was the third lowest and the City experienced the second worst percentage change in net assessed valuation over this period. South Bend continued to experience a decline in net assessed valuation after the increase in homestead deductions that were part of the 2008 legislation went into effect. Of all eighteen municipalities, South Bend experienced the largest percentage decline in its certified net assessed valuation between 2008 pay 2009 and 2014 pay 2015. The City also had the second highest percentage of its net assessed valuation captured by tax increment financing districts (24.1%) in 2014 pay 2015.

In 2015, the City of South Bend had the highest property tax rate (\$3.4314/\$100 AV) of all eighteen municipalities. It also had the largest property tax rate increase between 2007 and 2015 of the selected municipalities. The City's high property tax rate and significant decline in net assessed valuation have resulted in very substantial losses in actual property tax revenue due to circuit breaker credits. In 2015, the City of South Bend lost just over 40 percent of its certified property tax levy to the property tax caps, the second largest percentage among the selected municipalities. In addition to the City experiencing over \$31 million in circuit breaker credits, it lost an additional \$15 million in circuit breaker credits in its TIF districts.

In 2008 St. Joseph County had a 1.0 percent local income tax rate. In 2010 a Property Tax Relief LOIT was adopted at a 0.5 percent rate and a Public Safety LOIT was adopted at a 0.25 percent rate. The City's local income tax certified distributions more than doubled between 2008 and 2015. The income tax percentage of core revenue increased from 14 percent in 2008 to 35 percent in 2015. Notwithstanding the adoption of these two LOITs, the City of South Bend's total certified property tax levy, net of circuit breaker, plus income tax revenue was, after adjusting for inflation, 82.0 percent of the 2008 total. This was the fifth lowest Fiscal Capacity Index ranking of the eighteen selected municipalities.

The fiscal picture for the City of South Bend looks very different when observed from the perspective of year-end fund balances. South Bend's combined 2014 year-end balances in its General and Rainy Day Funds of \$37.3 million was the largest of all the municipalities studied. That balance was 68 percent of 2014 annual receipts in these two funds. The City was also able to grow the combined balance in these two funds between 2009 and 2014 in spite of its core revenue losses over that period. The ability of the City of South Bend to maintain, and actually increase, these fund balances given the very high level of circuit breaker credits is one of the most startling facts observed in this study.

South Bend's 2014 disbursements per capita from all Governmental Funds of \$2,863 were the second highest among the selected municipalities. Its 2014 per capita outstanding debt of \$2,217 per resident was in the lower half of the selected municipalities. The combination of a difficult economic environment and a significant loss of core revenue being offset by such strong fund balances resulted in South Bend being ranked thirteenth out of eighteen on this study's overall Fiscal Health Index.