



CITY OF SOUTH BEND, IN JAMES MUELLER, MAYOR
DEPARTMENT OF ADMINISTRATION AND FINANCE

Personnel & Finance Committee: 2022 Budget – Council Working Session #1

August 25, 2021

Responses to Council Questions

Question #1 (Council member Hamann): Is the City legally required to collect “Payments in Lieu of Taxes” (PILOTs) from the water and wastewater utilities into the General Fund?

The City is not legally **required** to collect payments in lieu of taxes from the utilities into the General Fund. However, it is in the City’s best interest to continue to do so.

If the provision of water and/or wastewater services was done by a private business (as is the case with many localities, including various localities in Indiana), the assets of that enterprise would be subject to property taxes.

The theory behind assessing taxes on the assets of the utilities is the same as the theory behind assessing property taxes in general: the businesses that operate in any municipality benefit from municipal services for which there is no direct charge (police/fire protection, maintenance of roads, etc.). The water and wastewater utilities are no exception to that rule, despite the fact that they are legally exempt from paying property taxes as a part of a municipality. Accordingly, the “PILOT” payments are a mechanism to recognize and pay for the benefit that the utilities receive from the governmental services provided by the City. The City utilizes these PILOT payments to make necessary investments in core governmental activities, and eliminating the PILOT would place a significant burden on the General Fund that would require drastic changes and cuts in City operations to overcome.

The City has made a commitment to calculating these PILOT payments in a systematic, predictable and fair manner by using the value of the assets contained within the water and wastewater divisions to calculate the amount of the payments. To determine the amount of the payment the City multiplies the total net asset value (acquisition cost minus accumulated depreciation) by 3%, which is the property tax cap for commercial entities in Indiana.

Finally, during the budget meeting, Council member Hamann alluded to payments that occur in the other direction (i.e. payments from the General Fund to the utilities). With the exception of City departments paying water bills for various City-owned locations (which amounted to \$138,000 out of the General Fund in 2020), this is an extremely uncommon situation. Only in very rare circumstances does the City transfer tax dollars into the water and wastewater utilities.



Question #2 (Council member Hamann): What would be the cost of raising the minimum wage for City employees to \$14 / hour for part-time/seasonal employees and \$17 / hour for full-time employees?

As compared to the currently proposed budget (which already makes a commitment to raise minimum wage for City employees to \$12/hour for part-time/seasonal and \$15/hour for full time), the City estimates that it would cost at least \$400,000 - \$500,000 additional in annual expense to make this change. This represents direct salaries, FICA, and overtime costs.

Importantly, this analysis assumes that there is no “ripple effect” on increasing salaries. In other words, part-time positions that currently make more than \$14/hour or full-time positions that currently make more than \$17/hour are assumed to continue at their current rate. It is worth digging into this assumption further – raising the minimum wage in an organization typically results in wage increases for workers further up the wage ladder because employers generally want to maintain some progression in internal pay scales (see: Wicks-Lim, Jeannette. 2006. “[Mandated Wage Floors and the Wage Structure: New Estimates of the Ripple Effects of Minimum Wage Laws.](#)”).

Question #3 (Council member Hamann): Please add subtotals and positions in the line-item detail provided to Council.

This will be added to the Council packets going forward.

Question #4 (Council member Hamann): Do we have data on GVI effectiveness and have we thought about new approaches to violence reduction?

The Office of Community Initiatives within the Mayor’s Office is primarily responsible for designing and implementing violence reduction initiatives in the community. The budget for this division will be presented at the upcoming “Strategic Operations” budget hearing, including discussions of how the department attempts to implement new approaches to violence reduction.

Question #5 (Council Vice President McBride): Are we still making payments to Zion United Church of Christ for the use of their space for senior activities that were formerly held at Howard Park?

Yes. The City last made a payment on this lease on 1/12/2021, for the lease term of July – December, 2020. The lease agreement that the City has with the Church is still in effect, and we expect to make a payment for 2021 in the upcoming months.

As a side note, these senior social programs could be accommodated in the Howard Park Event Center. We relocated them to Zion during Howard Park construction. The core group liked the space so much, they requested to remain at Zion permanently. This on-going lease reflects that accommodation.

Question #6 (Council member Niezgodski): When will Council receive an update on the results of the “Build the Budget” initiative?

The City is planning on sharing these results with Council (at least) four times through the budget process, while updating the analysis each time as new responses come in via 311 and the online survey:

- August 11: 2022 Budget Overview Meeting
- September 1: Strategic Operations
- September 10: Strategic Initiatives
- September 27: 2022 Budget Formal Public Hearing