



Department of  
**Community Investment**

**Memorandum**

June 11, 2015

TO: South Bend Redevelopment Commission  
FROM: David Relos, Economic Resources *DR*  
SUBJECT: Professional Services Proposal – H.J. Umbaugh & Associates  
Analysis of Potential Future Circuit Breaker Impacts

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This professional services proposal from H.J. Umbaugh & Associates is to provide planning services of circuit breaker impacts and analysis of local option income taxes, and includes:

- Preparation of a base line report of the 2015 circuit breaker impacts
- Summarize debt levies including possible new debt and debt to be retired supported by property taxes
- Analyze assessed value trends
- Provide estimates of possible changes in tax levies and tax credits
- Summarize existing and estimated future local income tax levels
- Summarize data related to existing base and incremental assessed values and tax increment revenue streams
- Based on the above data, calculate estimated gross levies, net levies, tax rates, and estimated circuit breaker impacts for 2016 – 2020

Most of this analysis is being done for the City's Department of Administration & Finance, but because it also includes analysis of various TIF components, the Commission is being asked to cover 1/3 of the \$15,000 cost.

Staff requests approval of this proposal in the amount of \$5,000.



# UMBAUGH

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May 15, 2015

Mr. John H. Murphy, Controller  
City of South Bend  
227 W. Jefferson Blvd.  
South Bend, Indiana 46601

Re: City of South Bend, Indiana – Financial Services Agreement - Analysis of Potential Future  
Circuit Breaker Impacts and LOIT Revenues

Dear John:

You have requested that H.J. Umbaugh & Associates, Certified Public Accountants, LLP (the "Firm") provide to the City of South Bend (the "Client") those services more fully set forth in Exhibit A hereto (the "Services").

## Fees and Costs

Fees charged for work performed are generally based on hourly rates, as set forth in Exhibit B, for the time expended, a fixed amount or other arrangement as mutually agreed upon as more appropriate for a particular matter. Hourly rates for work performed by our professionals vary by individual and reflect the complexity of the engagement.

In addition to fees, we also charge for various ancillary services, for which you will be invoiced. Such charges may include long distance telephone charges, photocopying, facsimile transmission, computer research, mileage, travel expenses and other similar charges specifically applicable to the engagement.

## Disclosure of Conflicts of Interest with Various Forms of Compensation

The Municipal Securities Rulemaking Board (MSRB) is expected to require us, as your municipal advisor, to provide written disclosure to you about the actual or potential conflicts of interest presented by various forms of compensation. Exhibit C sets forth the potential conflicts of interest associated with various forms of compensation. By signing this letter of engagement, the signee acknowledges that he/she has received Exhibit C and that he/she has been given the opportunity to raise questions and discuss the matters contained within the exhibit with the municipal advisor.

## Billing Procedures

Normally, you will receive a monthly statement showing fees and costs incurred in the prior month. Occasionally, we may bill on a less frequent basis if the time involved in the prior month was minimal or if arrangements are made for the payment of fees from bond proceeds. The account balance is due and payable on receipt of the statement and we reserve the right to charge 1% interest per month for outstanding unpaid balances over thirty (30) days from the date of billing. Once our representation has been concluded or terminated, a final billing will be sent to you. If requested to provide an estimate of our fees for a given matter, we will endeavor in good faith to provide our best estimate, but unless there is a mutual agreement to a fixed fee, the actual fees incurred on any project may be less than or exceed the estimate. Any questions or errors in any fee statement should be brought to our attention in writing within sixty (60) days of the billing date.

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#### Termination

Both the Client and the Firm have the right to terminate the engagement at any time after reasonable advance written notice. On termination, all fees and charges incurred prior to termination shall be paid promptly.

#### Accountants' Opinion

In performing our engagement, we will be relying on the accuracy and reliability of information provided by Client personnel. We will not audit, review, or examine the information. Please also note that our engagement cannot be relied on to disclose errors, fraud, or other illegal acts that may exist. However, we will inform you of any material errors and any evidence or information that comes to our attention during the performance of our procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. We have no responsibility to identify and communicate significant deficiencies or material weaknesses in your internal control as part of this engagement.

The responsibility for auditing the records of the Client rests with the Indiana State Board of Accounts and the work performed by the Firm shall not include an audit or review of the records or the expression of an opinion on financial data.

#### Client Responsibilities

It is understood that the Firm will serve in an advisory capacity with the Client. The Client is responsible for management decisions and functions, and for designating an individual with suitable skill, knowledge or experience to oversee the services we provide. The Client is responsible for evaluating adequacy and results of the services performed and accepting responsibility for such services. The Client is responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

#### Additional Services

Exhibit A sets forth the scope of the Services to be provided by the Firm. From time to time, additional services may be requested by the Client beyond the scope of Exhibit A. The Firm may provide these additional services and be paid at the Firm's customary fees and costs for such services. In the alternative, the Firm and the Client may complete a revised and supplemented Exhibit A to set forth the additional services (including revised fees and costs, as needed) to be provided. In either event, the terms and conditions of this letter shall remain in effect.

#### E-Verify Program

The Firm participates in the E-Verify program. For the purpose of this paragraph, the E-Verify program means the electronic verification of the work authorization program of the Illegal Immigration Reform and Immigration Responsibility Act of 1996 (P.L. 104-208), Division C, Title IV; s.401(a), as amended, operated by the United States Department of Homeland Security or a successor work authorization program designated by the United States Department of Homeland Security or other federal agency authorized to verify the work authorization status of newly hired employees under the immigration Reform and Control Act of 1986 (P.L. 99-603). The Firm does not employ any "unauthorized aliens" as that term is defined in 8 U.S.C. 1324a(h)(3).

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Municipal Advisor Registration

The Firm is a Municipal Advisor registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. As such, the Firm is providing certain specific municipal advisory services to the Client. The Firm is neither a placement agent to the Client nor a broker/dealer.

The offer and sale of any Bonds shall be made by the Client, in the sole discretion of the Client, and under its control and supervision. The Client agrees that the Firm does not undertake to sell or attempt to sell the Bonds, and will take no part in the sale thereof.

Other Financial Industry Activities and Affiliations

Umbaugh Cash Advisory Services, LLC (“UCAS”) is a wholly-owned subsidiary of the Firm. UCAS is registered as an investment adviser with the Securities and Exchange Commission under the federal Investment Advisers Act. UCAS provides non-discretionary investment advice with the purpose of helping clients create and maintain a disciplined approach to investing their funds prudently and effectively. UCAS may provide advisory services to the clients of the Firm.

UCAS has no other activities or arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, investment company, other investment adviser or financial planner, bank, law firm or other financial entity.

If the foregoing accurately represents the basis upon which we may provide Services to the Client, we ask that you execute this letter, in the space provided below setting forth your agreement. Execution of this letter can be performed in counterparts each of which will be deemed an original and all of which together will constitute the same document.

If you have any questions, please let us know.

Very truly yours,

H.J. Umbaugh & Associates  
Certified Public Accountants, LLP

By: 

Todd A. Samuelson

The undersigned hereby acknowledges and agrees to the foregoing letter of engagement.

City of South Bend, Indiana

Date: \_\_\_\_\_

By: \_\_\_\_\_

## **EXHIBIT A**

### **Services Provided**

#### **Scope of Services**

The Firm agrees to provide services as requested by the Client for an updated analysis (last report to the Client dated October 29, 2013) of circuit breaker impacts and analysis of local option income taxes. Such update to include, but not necessarily limited to the following:

#### **Article I. Analysis of Circuit Breaker Impacts**

- A. Prepare a base line report of the 2015 circuit breaker impacts including property tax assessments, property tax levies, property tax credits, and property tax rates, all by both taxing units and taxing districts.
- B. Summarize debt levies of the Client and overlapping taxing districts including possible new debt and debt to be retired supported by property taxes. Also take into consideration the sunset of exempt debt service levies effective for 2020.
- C. Analyze assessed value trends by property classifications to determine possible trends and for making assumptions of future assessed value trends.
- D. Provide estimates of possible changes in tax levies and tax credits for the Client and overlapping units.
- E. Summarize existing and estimated future local income tax levels.
- F. Summarize data related to existing base and incremental assessed values and tax increment revenue streams for existing TIF areas.
- G. Based on data obtained in (A) through (F) above, make calculations of estimated gross levies, net levies, tax rates, and estimated circuit breaker impacts for years 2016 – 2020. Such calculations will also include sensitivity analysis for potential changes in net assessed value levels.
- H. Prepare a written report summarizing the results of the above analysis and calculations by taxing unit, taxing district, and major funds of the Client, including TIF areas.
- I. Meet with Client representatives to discuss the preliminary results as well as major assumptions. Make any required adjustments based on results of such meeting(s).
- J. Prepare a final report of findings and meet with Client as needed to present results and answer questions.

**Article II. Additional Analysis (As Requested by Client)**

- A. Provide additional analysis as requested by the Client specific for:
  - 1. Specific TIF allocation areas of the Client related to possible pass-through of assessed values and appropriate parcel coding.
  - 2. Possible impact of annexation.
  - 3. Sensitivity to different levels of overall tax rate.
- B. Related to local income taxes:
  - 1. Analyze current mix of current rates and revenues.
  - 2. Analyze/summarize House Enrolled Act of 1485 and potential impact to Client going forward.
- C. Compile results of analysis in (B) and (C) above in a written report as needed to present to the Client and to answer questions.

## EXHIBIT B

### Fees

For services provided as set forth in Exhibit A, fees shall be billed at the Firm's standard billing rates based upon the actual time and expenses incurred in an amount not to exceed Fifteen Thousand Dollars (\$15,000), without further authorization by the Client.

#### Standard Hourly Rates by Job Classification 01/01/2015

Partners / Principals	\$220.00	to	\$400.00
Managers	\$175.00	to	\$325.00
Accountants/Financial Analysts	\$95.00	to	\$250.00
Paraprofessional Staff	\$85.00	to	\$175.00
Support Personnel	\$75.00	to	\$120.00

- *Billing rates are subject to change periodically due to changing requirements and economic conditions. Actual fees will be based upon experience of the staff assigned and the complexity of the engagement.*

The above fees shall include all expenses incurred by the Firm with the exception of expenses incurred for out of state travel. No such expenses will be incurred without the prior authorization of the Client. The fees do not include the charges of other entities such as rating agencies, bond and official statement printers, couriers, newspapers, bond insurance companies, bond counsel and local counsel, and electronic bidding services, including Parity®. Coordination of the printing and distribution of Official Statements or any other Offering Document are to be reimbursed by the Client based upon the time and expense for such services.

## EXHIBIT C

### Disclosure of Conflicts of Interest with Various Forms of Compensation

The forms of compensation for municipal advisors vary according to the nature of the engagement and requirements of the client, among other factors. Various forms of compensation present actual or potential conflicts of interest because they may create an incentive for an advisor to recommend one course of action over another if it is more beneficial to the advisor to do so. This exhibit discusses various forms of compensation and the timing of payments to the advisors.

**Fixed fee.** Under a fixed fee form of compensation, the municipal advisor is paid a fixed amount established at the outset of the transaction. The amount is usually based upon an analysis by the client and the advisor of, among other things, the expected duration and complexity of the transaction and the agreed-upon scope of work that the advisor will perform. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the advisor may suffer a loss. Thus, the advisor may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. There may be additional conflicts of interest if the municipal advisor's fee is contingent upon the successful completion of a financing, as described below.

**Hourly fee.** Under an hourly fee form of compensation, the municipal advisor is paid an amount equal to the number of hours worked by the advisor times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if the client and the advisor do not agree on a reasonable maximum amount at the outset of the engagement, because the advisor does not have a financial incentive to recommend alternatives that would result in fewer hours worked. In some cases, an hourly fee may be applied against a retainer (e.g., a retainer payable monthly), in which case it is payable whether or not a financing closes. Alternatively, it may be contingent upon the successful completion of a financing, in which case there may be additional conflicts of interest, as described below.

**Fee contingent upon the completion of a financing or other transaction.** Under a contingent fee form of compensation, payment of an advisor's fee is dependent upon the successful completion of a financing or other transaction. This form of compensation presents a conflict because the advisor may have an incentive to recommend unnecessary financings or financings that are disadvantageous to the client. For example, when facts or circumstances arise that could cause the financing or other transaction to be delayed or fail to close, an advisor may have an incentive to discourage a full consideration of such facts and circumstances, or to discourage consideration of alternatives that may result in the cancellation of the financing or other transaction.

**Fee paid under a retainer agreement.** Under a retainer agreement, fees are paid to a municipal advisor periodically (e.g., monthly) and are not contingent upon the completion of a financing or other transaction. Fees paid under a retainer agreement may be calculated on a fixed fee basis (e.g., a fixed fee per month regardless of the number of hours worked) or an hourly basis (e.g., a minimum monthly payment, with additional amounts payable if a certain number of hours worked is exceeded). A retainer agreement does not present the conflicts associated with a contingent fee arrangement (described above).

**Fee based upon principal or notional amount and term of transaction.** Under this form of compensation, the municipal advisor's fee is based upon a percentage of the principal amount of an issue of securities (e.g., bonds) or, in the case of a derivative, the present value of or notional amount and term of the derivative. This form of compensation presents a conflict of interest because the advisor may have an incentive to advise the client to increase the size of the securities issue or modify the derivative for the purpose of increasing the advisor's compensation.