

**City Comments on the County-commissioned Baker/Tilly (B/T) Report:
August 2, 2021**

Fiscal Plans are designed to predict expected results of a proposed annexation based on assumptions and calculations. Different assumptions can produce different results. Reedy Financial prepared the City's fiscal plans in 2017 and updated them in early 2021. B/T was hired by the County independently to review Reedy's analysis. The City has asked the County to collaborate with us for the benefit of the community by having the two firms coordinate their data and analyses but they have so far not agreed. The City's financial consultant, Reedy, therefore provides below some clarifications and context for differences in the B/T report.

1. The B/T report contains a fillable spreadsheet for property owners to estimate their individual property tax impact (an alternative method to the City's parcel by parcel tax impact analysis). The B/T spreadsheet is relatively simple - it just applies the City's full tax rate today to a parcel's 2021 tax bill. This approach doesn't include the changes in tax rates, levies, assessed values, and tax distributions following annexation in 2024 and beyond. (The B/T Report acknowledges that it is "likely" that the actual impact to property owners will be different and the actual rates will change.) The parcel by parcel analysis in the City's fiscal plan includes these standard industry assumptions to provide a more complete and accurate estimate of the expected rates and impact. In the end both are predictions of a contingent future, one simpler, and one more robust.
2. Several key B/T assumptions overstate the anticipated impact from the annexation:
 - B/T applied a different and higher overall property tax rate. For example, in Van Buren Township, B/T increased the presumed property tax rate by \$.0439. The City used standard methodology to compute post-annexation property tax rates, applying municipal rates to current tax rates and removing the City's fire rate, as required by law. It is not clear why B/T applied a higher tax rate or how they calculated the increased rate, which raises the projected post-annexation tax impacts.
 - B/T assumes zero growth in Assessed Value (AV), while the City's analysis assumes a moderate 3% annual growth in both AV and local income. Growth assumptions are standard in such analyses and more valid than an assumption of no growth. And in fact, on August 2, the 2022 Net Assessed Value data was released and the City's AV growth is up 5.03% over 2021. Assuming no growth overstates the anticipated effect of annexation. (B/T did assume growth when calculating the estimated City increased revenues from annexation.)
3. The B/T report notes the City's use of 2019 rather than 2020 property valuations and data. The City's consultants used the most current audited data at the time the fiscal plan was prepared (both in 2017, and in the updated version prepared in early 2021).

B/T used 2020 data in its report, which has only recently been made available and is still unaudited. The updated 2020 figures will be included in the final fiscal plan. Any differences are unlikely to be substantially material, and won't change the underlying import of the overall Fiscal Plan. All other assumptions will remain unchanged.

4. The B/T report shows different impacts on overlapping units of government related to Local Income Taxes (LIT)--particularly with regard to Monroe County, Monroe Fire Protection District, and the Library.

The City's consultants have been unable to replicate how B/T calculates LIT impacts on overlapping units. Notably, the B/T report shows the full LIT impact in Year 2, one year after the annexation effective date. This is not how LIT is currently calculated, and showing the full impact in year 2 creates a higher projected annexation impact.

The total LIT is expected to grow considerably between 2021 and 2024 when the annexation takes effect. The City's fiscal plan moderate assumption of 3% annual growth means the County's LIT Shares will be \$15.4M in 2024 (up from \$14.5M in 2021). The projected impact in 2025 would be revenue of \$14.9M, and therefore a projected impact of \$507,471 to the County. The same analysis was applied to the other overlapping units. This is a reasonable and standard way of estimating LIT impact.

Although annexation will reduce what LIT the County would otherwise receive, even with annexation the County is expected to receive more LIT than they receive today (with of course reduced service responsibility as well).

5. The B/T report states that the City's fiscal plan does not show any LIT impact to the Monroe Fire Protection District.

This is correct. The City's consultants do not believe there will be a LIT impact to the Monroe Fire Protection District. It is unclear how B/T calculated that there would be. The City's fiscal plan shows that by 2024, when annexation takes effect, Monroe Fire Protection District will be receiving significantly more LIT funds than they receive today. Given that the Monroe Fire Protection District substantially increased its tax levy on residents receiving their fire services in 2021, there would be no impact to Monroe Fire Protection District because they will have considerably more LIT than they receive today, regardless of annexation.

6. The B/T report claims that the City's fiscal plan inappropriately applies the percentage AV growth to gross assessed value instead of net assessed value.

This is incorrect. The City's plan applies the growth factor to net assessed value which was increased by 12% with deductions adjusted accordingly. B/T may have not taken

into account that the circuit breaker credits would also change, since these items are handled on separate databases on the City Website.