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# STATE OF INDIANA

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DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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## **Review of Fiscal Impact Analysis Concerning Town of Middletown and Fall Creek Township**

Pursuant to IC 36-1.5-4-18(e), the legislative bodies of reorganizing political subdivisions preparing a plan of reorganization after December 31, 2013, must submit a fiscal impact analysis (“Analysis”) to the Department of Local Government Finance (“Department”) at least six months before the election in which the public question will be on the ballot. The Department must do the following within a reasonable time, but not later than 30 days before the date of the election in which the public question will be on the ballot:

- (A) Review the Analysis.
- (B) Make any comments concerning the Analysis that the Department considers appropriate.
- (C) Provide the Department’s comments to the legislative body of the reorganizing political subdivision.
- (D) Post the Department’s comments on the website.

The Analysis must contain the following information:

- (A) The estimated effect of the proposed reorganization on taxpayers in each of the political subdivisions to which the proposed reorganization applies, including the expected tax rates, tax levies, expenditure levels, service levels, and annual debt service payments in those political subdivisions.
- (B) A description of the planned services to be provided in the reorganized Town and the method or methods of financing the planned services.
- (C) A description of the capital improvements to be provided in the reorganized Town and the method or methods of financing those capital improvements.
- (D) Any estimated effects on political subdivisions in the county that are not participating in the reorganization and on taxpayers located in those political subdivisions.

Following its review of the Analysis submitted by the Town of Middletown and Fall Creek Township (“Town,” and “Township,” respectively, collectively “Units”), supplemented by discussions with officials from the Units, the Department offers the following comments:

1. According to the Reorganization Plan, adopted on July 14, 2020, the reorganized Town will be known as the Town of Middletown, further subdivided into an Urban District (composed of the current Town) and a Rural District (composed of the current Township). For purposes of these comments, “reorganized Town” will refer to the Town of Middletown following reorganization. Each District will have its own certified net assessed values (“CNAV”) and tax rate attributed to it.

- The Reorganization Committee intends for the reorganized Town to keep the tax rates for the Urban District and the Rural District at the certified tax rates for the Town and Township, respectively, in 2019-pay-2020.

Along the same lines, the Analysis provides that following reorganization, all sources of revenue are to remain steady, except that receipts to the Motor Vehicle Highway Fund are expected to increase due to the Township population being factored into the road funding formula, and the public safety portion of local income tax will increase due to the Township property tax levy being factored into the attributed allocation formula. The road funding distributions will be addressed in a separate comment below. The local income tax revenue distributions in 2022, when the reorganization would take effect, are expected to be negatively affected because of the COVID-19 pandemic. The Units recognize the potential shortfalls in local income tax in 2022.

- In its Schedule of Assumptions, the Analysis uses the CNAVs for the Units for 2018-pay-2019 and 2019-pay-2020, but does not include the 2020-pay-2021 CNAV for the Units, which could more accurately reflect the CNAV for the reorganized Town. On August 5, 2020, the Henry County Auditor certified the 2020-pay-2021 net assessed values by fund for the Units. The following table compares the 2020-pay-2021 CNAVs to the 2019-pay-2020 CNAVs:

<u>Fall Creek Township</u>	<u>2020-pay-2021</u>	<u>2019-pay-2020</u>	<u>Difference</u>
General	\$140,014,621	\$141,781,177	-\$1,766,556
Township Assistance	\$140,014,621	\$141,781,177	-\$1,766,556
Fire	\$93,336,267	\$95,462,390	-\$2,126,123
Cumulative Fire	\$93,336,267	\$95,462,390	-\$2,126,123
 <u>Middletown Town</u>			
General	\$46,678,354	\$46,318,787	\$359,567
Lease Rental Payment	\$46,678,354	\$46,318,787	\$359,567
Motor Vehicle Highway	\$46,678,354	\$46,318,787	\$359,567
Civic Center	\$46,678,354	\$46,318,787	\$359,567
Cumulative Fire Special	\$46,678,354	\$46,318,787	\$359,567
Park	\$140,014,621	\$141,781,177	-\$1,766,556
Cumulative Capital Development	\$46,678,354	\$46,318,787	\$359,567

The Units are aware of the reduction in CNAV for 2020-pay-2021. It is unknown what the CNAVs will be in 2021-pay-2022 or 2022-pay-2023, the latter being the first year a CNAV will be attributed to the reorganized Town.

The Analysis breaks down the tax rates or levies by service type rather than by the above funds, so it is unclear what effect, if any, the difference in CNAVs will have on the tax rates and levies. According to the Units, the General Fund will be composed of administrative services, ambulance & emergency services, cemetery maintenance, and police dispatch, with all other services supported by individual funds. The Units also state

the Civic Center Fund will only be funded by property tax when other receipts are insufficient.

Also, the Schedule of Assumptions states the maximum levy growth quotient (“MLGQ”) for 2019-pay-2020, which is 3.5%, but does not state the MLGQ for 2020-pay-2021, which is 4.2%. The MLGQ is the rate by which the maximum tax levy a unit is able to take may grow from the previous year. A unit is not required to increase its levy by the MLGQ, and the MLGQ only increases the maximum levy the unit could take if it chose to do so. As mentioned previously the Units plan to maintain the tax rates at 2019-pay-2020 levels. The tax rate is a function of the levy and the CNAV. Therefore, whether the reorganized Town can achieve stable tax rates while receiving sufficient funding from a tax levy will depend in large part on how the CNAV has changed. For example, the reorganized Town can still increase its levy and keep its tax rates stable if the CNAV increases.

4. The Analysis provides that the cumulative capital development fund will be taxed only on the residents of the Urban District. The current rate for the fund is \$0.0360. This is consistent with the Units’ intent to keep the reorganization tax neutral. The reorganized Town has the ability to re-establish the capital development fund to increase the rate in the future.
5. IC 36-1.5-4-18(d)(4) requires that the Analysis document “Any estimated effects on political subdivisions in the county that are not participating in the reorganization and on taxpayers located in those political subdivisions.” Both Units share taxing districts with Henry County, Shenandoah School Corporation, and Middletown-Fall Creek Public Library. The Analysis states that the tax rates in these taxing districts will not change as a result of the reorganization. The Analysis does not describe any other effects on the County, the school corporation, or the library. In particular, whether the reorganization changes their local income tax and road funding distributions.

Distributions for the Motor Vehicle Highway Fund are based on 1) the proportion of a municipality’s population is compared to other municipalities in the county; and 2) the proportion of the road mileage maintained by the municipality compared to road mileage maintained by the county. According to the Analysis, these distributions are expected to increase for the reorganized Town. The Department agrees with this, since the reorganized Town will have more population and roads to maintain, but will add that there will likely be reduced distributions to other municipalities in the county (due to the reorganized Town having a larger share of the population compared to the other municipalities) and to the county (due to the reorganized Town having a larger share of road mileage).

6. The Analysis does not identify any effects of the reorganization on existing tax increment finance (“TIF”) districts or their outstanding debt. The Town of Middletown has approximately \$674,417 incremental assessed value in a TIF district for 2020-pay-2021. The Units do not believe the reorganization will have any impact on incremental revenues for the TIF district in the reorganized Town.

7. The Analysis identifies receipts for “Capital Funding” and “Capital Funds” as coming from property tax, excise and CVET, and riverboat revenues. With the exception of “Road Maintenance,” “Fire Capital,” and “Other Capital,” there is no description of what, if any, capital improvements the reorganized Town will undertake.