

## New Revenue: Frequently Asked Questions

*As of March 29, 2022. As details are developed, this document will be updated.*

### About the Local Income Tax

#### What is a Local Income Tax (LIT)?

The Local Income Tax (or LIT) is a tax on income, paid by individuals. It is a proportionate tax on adjusted gross income, assessed at a flat rate, meaning that the more income you earn, the more tax you pay. The LIT rate is set and imposed countywide.

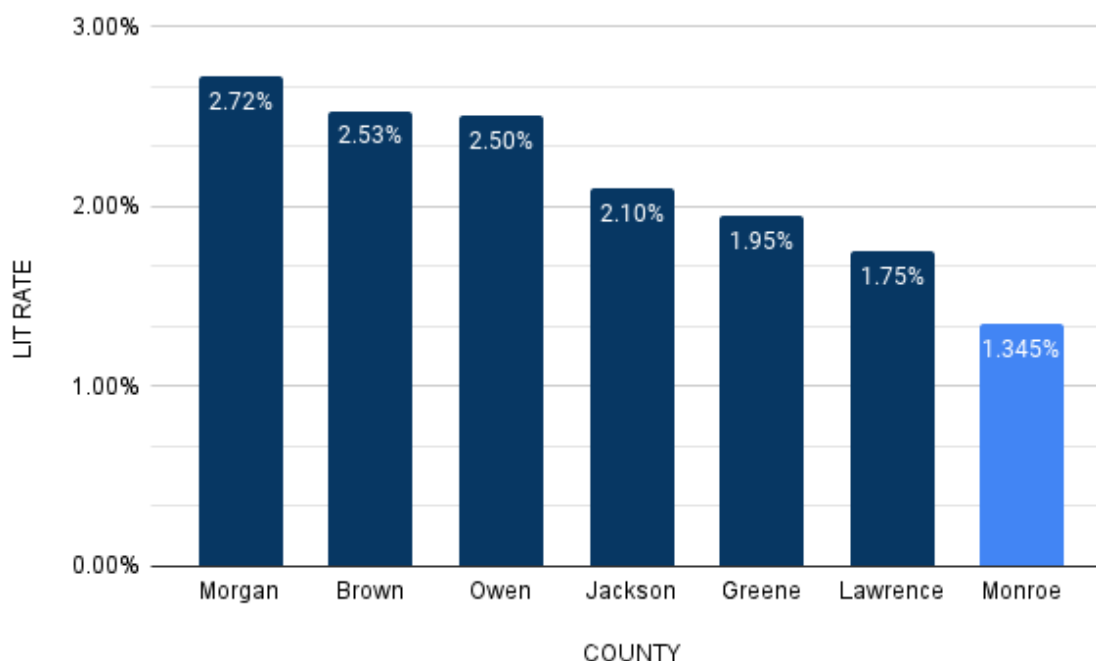
#### What is our current Local Income Tax rate?

The LIT rate for Monroe County is currently 1.345% of adjusted gross personal income for Monroe County residents.

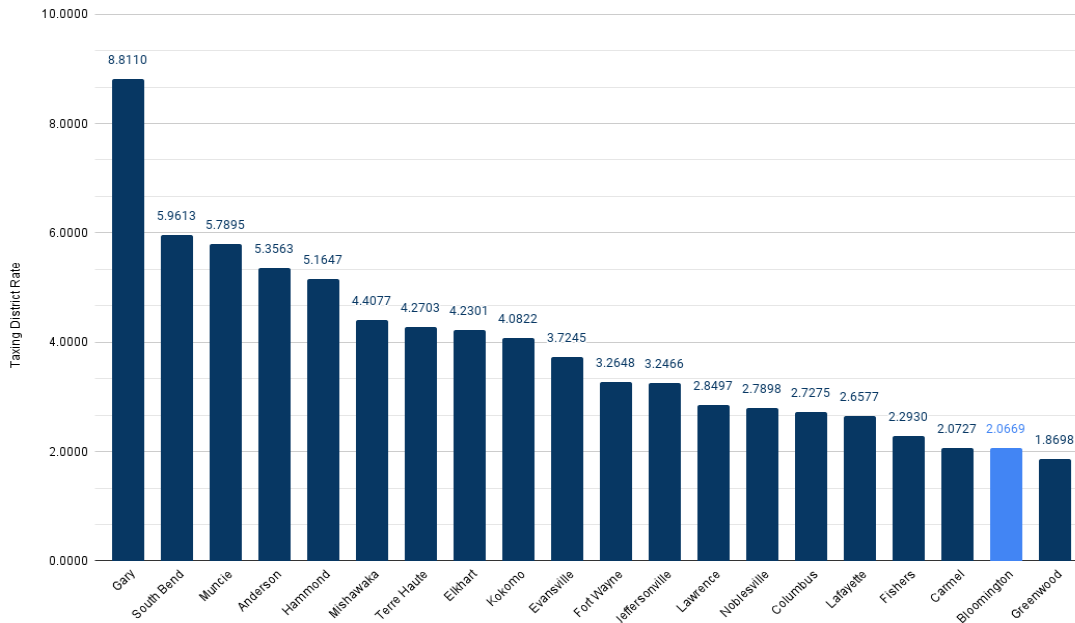
#### How does our tax rate compare to other communities?

Historically, Monroe County has among the lowest tax rates in the region, including the lowest local income tax rate of our seven contiguous counties. Monroe County's rate ranks 23rd from the lowest among the 92 counties in the state - in the bottom quartile.

*Source: Indiana Department of Revenue*



Note that among Indiana’s 20 largest cities (excluding the unique combined city/county of Indianapolis/Marion County), Bloomington is a very low-tax city. Specifically, we are in the lowest quartile of those cities both for property tax rates and local income tax rates.



Source: Reedy Financial Group

## LIT Logistics and Implementation

### How does the LIT change?

A new Monroe County tax may be proposed by the Bloomington City Council, the County Council, the Ellettsville Town Council, or the Stinesville Town Council. These Councils together form the “Local Income Tax Council” or LIT Council for Monroe County. The Councils can meet together to vote, or each council may vote on the proposed tax separately. The LIT Council has 100 votes in total, which are distributed among the member councils based on population. Because a majority of Monroe County’s population lives in Bloomington, Bloomington’s City Council has a majority share of the votes.

### I’ve heard people argue this is “taxation without representation.” Is that true?

No. The County’s Tax Council (made up of the fiscal bodies of the County, Cities & Towns) is designated in each county with the authority to impose a local income tax. Every member of each county fiscal body, like every City Council member, has representation on the LIT Board and each gets to vote on a proposed tax, with proportional voting power. A total number of 100

votes is allocated based on the population of each of the fiscal bodies within that county, as follows:

- Each of 9 City Council members: 6.30 votes
- Each of 7 County Council members: 5.49 votes
- Each of 5 Ellettsville Council members: 0.95 votes
- Each of 3 Stinesville Council members: 0.05 votes

Any combination of affirmative votes adding to more than 50 (out of a total of 100 possible votes) determines the outcome of any LIT council vote on a proposal.

### **Are funds raised by the LIT put into a special fund or the general fund for the City, and why?**

Funds resulting from a LIT increase would go into the general fund for the City, so there would be just one annual budget for the City. There are a few reasons for this:

- A LIT increase would be ongoing, as opposed to one-time monies, like federal America Rescue Plan Act (ARPA) funds.
- The revenue raised through this LIT increase wouldn't be only for one specific purpose, like revenue raised through a Public Safety (PS) LIT, but rather would be designed to meet several major pressing needs like climate change and public safety and cover increased expenses related to overall City operations.
- Our specific priorities may change over time, as our community evolves and our needs change.

The annual City budget process is public and requires approval by the City Council. This provides an annual opportunity to review and refine the way the LIT is spent.

### **Why doesn't the LIT proposal include a percentage increase?**

The first step in this process is to identify necessary community projects and programs and how much those projects will cost annually. The resulting LIT rate is primarily just a function of the work done in step one--after the Council and the Mayor and the community have identified desired projects, we sort out the resulting LIT rate as step two of the process. That rate decision is ultimately what the Council formally acts upon – adopting a new rate through formal resolutions and votes. Basic parameters on the limits of a LIT rate are of course part of the conversation, but within those limits, the focus is first on deciding which projects should be funded, not on the rate itself.

State law outlines different options for a LIT, which have different impacts on City revenue. You'll note in the examples below there's a large revenue disparity between these different LIT approaches, which is another reason the focus has been on the needs, not the percentage.

Reflecting the healthy growth of our local economy, the following are estimates, **for illustration only**, of what a 1.0 percentage point increase in the LIT would produce annually for the City:

Economic Development LIT, using population method:	\$21.04 million
Economic Development LIT, using assessed value method:	\$16.83 million
Certified Shares LIT	\$12.56 million

**What does the portion of LIT for property tax relief mean?**

Indiana Code 6-3.6-5-4 allows a county to impose a LIT rate to be used as a credit against property taxes. This allows the County to use LIT funds for the purpose of offsetting property taxes for all residents: this operates essentially as an exemption/credit on a person's property taxes.

**Why Raise the LIT?**

**Why doesn't the City just cut costs and tighten its belt instead of raising the LIT?**

The City consistently reviews and implements ways to save money through innovation and critical assessment of programs and services provided. Programs and services that have proven necessary and helpful to residents continue; those that are not are improved upon or discontinued. Savings in the past several years include solar panel installations that lower energy costs; adding quick response vehicles to the Fire Department fleet reducing wear and tear on expensive large equipment like ladder trucks; more efficient deployment of Public Works crews in longer day-shifts; and revamping how leaves are collected and processed. The scope of services, programs, and projects that the City seeks to provide to its residents, however, is much larger in scope; savings cannot fund these needs without drastic and damaging reductions in personnel and essential services.

**What would happen if the LIT didn't pass?**

Bloomington would be faced with very significant challenges in the coming years meeting our current level of services and continuing to move forward on economic, social, and environmental justice endeavors. The City Council would not be able to ratify the agreed-upon FOP contract, as there are no funds available for the additional salary costs (approximately \$1.5 million annually.) Many other initiatives such as those outlined in the Climate Action Plan (CAP), affordable housing investments, or public transit improvements would also not have funding available.

**Why is this being proposed now?**

An increase is essential if we are to be proactive about rebuilding our community from this downturn in a way that better incorporates our goals for public safety and economic, racial, and climate justice. We also have to plan ahead, and one never knows if and when the state legislature might adjust a municipality's ability to accomplish new revenues. Mayor Hamilton proposed a 0.5% increase to the LIT in January of 2020, designed for climate change action and preparedness and equity. The onset of the COVID-19 pandemic made this not feasible at

the time. In the fall of 2020, Mayor Hamilton proposed a 0.25% increase to the LIT, focused on COVID response, climate action, and economic justice. This did not receive the necessary votes to be implemented.

We are very fortunate that federal funds arrived in time to allow continued services. Significant programs and initiatives have been operated with American Rescue Plan Act (ARPA) dollars to keep our community safe and operating, and to “Recover Forward” out of the recession toward a more equitable, sustainable future. Many of these essential efforts will not be able to continue without an increase in the LIT providing ongoing funding. As our community recovers from the COVID-19 pandemic, amid rising labor and materials costs, we will not have the resources we need to meet our stated goals as a community without this increase in the LIT.

The needs are urgent and the sooner the LIT is approved the sooner we will have resources available to address our community’s needs.

### **How will this revenue help Bloomington recover from the COVID pandemic?**

City government has a responsibility to Bloomington’s future even as we seek immediately to repair the damage wrought by the COVID pandemic. The revenues generated by the proposed Local Income Tax are needed not only to compensate for the current downfall but to build the City back in a way that ensures long-term and widely distributed well-being and resiliency. Proposed investments will move us toward this stronger, more just, and more sustainable future by increasing access to jobs, housing, social services, transportation options, quality of life, retaining and attracting well-trained public safety professionals, and more.

## **LIT Impact**

### **The LIT is a flat tax. Can we make the impact of the LIT more progressive (i.e. less burdensome on low-income residents)?**

Unfortunately, the State of Indiana doesn’t allow municipalities to levy a wealth tax or a progressive income tax. The LIT proposal does include \$750,000 annually for an economic equity fund that would provide direct benefits to low-income working residents and families.

### **Is the tax just for City residents or would it apply to all residents of Monroe County?**

According to state law, local income taxes are county-specific; so the LIT would apply to all Monroe County residents. Revenues are allocated to different local jurisdictions – cities, county, etc. – according to a state formula.

### **Do all Indiana counties have a tax like this?**

All 92 Indiana counties have a Local Income Tax.

### **Locally, how many new taxes or raised taxes have been enacted since 2016?**

Two. The public safety local income tax was adopted by the LIT Council in 2016 at a 0.25% rate to fund police, fire, and dispatch improvements that protect us all. The food and beverage tax, enacted by County Council in 2018, was a new 1% sales tax placed on retail sales of prepared food and beverages and will be used to fund a convention center expansion and other tourism-related projects.

## **About General Obligation Bonds**

### **What is a General Obligation (G.O.) bond?**

A general obligation bond (G.O. bond) is a municipal bond backed solely by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project. General obligation bonds are issued with the belief that a municipality will be able to repay its debt obligation through taxation or revenue from projects. No assets are used as collateral.

### **What are the benefits of using G.O. bonds to fund projects?**

G.O. bonds allow cities to fund high-cost long-term capital infrastructure that allows repayment of longer periods of time. Typically bonds are issued with a repayment term of 5 to 30 years. G.O. bonds are backed by and repaid with local property taxes and are guaranteed by the State to receive first priority funding. Because of this repayment source, they generally receive a Governmental unit's highest bond rating and are therefore considered a safe investment. In addition, these G.O. bonds are generally exempt from state and local taxes.

### **What projects are best suited to being funded with a G.O. bond?**

One-time capital investments are good projects for being funded with a G.O. bond, such as a multi-use trail or essential equipment replacements.

## **Proposed Climate Action Plan Investments**

**The proposed LIT increase provides \$1,500,000 annually in investments to implement the Climate Action Plan (CAP). What are examples of items that could be implemented?**

The Climate Action Plan can be found here: <https://bton.in/ZC2Y5>

1. Transportation investments
  - a. City fleet vehicle electrification (*CAP TL 2-A: support and encourage electric vehicle adoption*)

- b. Expanded micromobility options (example: electric bike share program) (*CAP TL 1-B*)
  - c. Transportation demand management (*CAP TL 1-A: reduce single-occupancy vehicle use*)
- 2. Energy and built environment investments:
  - a. Energy efficiency retrofits for all City buildings (*SAP 8.1: reduce non-renewable energy use from municipal operations*)
  - b. Bloomington Housing Authority solar conversion (*CAP EB1: increase distributed renewable energy*)
  - c. Continuing and expanding the Solar & Energy Efficiency Loan (SEEL) program for nonprofits and small businesses (*CAP EB5: increase financing options for energy efficiency and renewable energy*)
  - d. Continuing and expanding the Bloomington Green Home Improvement Program (BGHIP) for homeowners (*CAP EB5: promote equity in energy and resource costs and ownership*)
- 3. Local agriculture investments:
  - a. Local food purchasing incentive program (*CAP FA 3: increase and stabilize the local food market*)
  - b. School food garden program (*CAP FA 3: increase local food supply*)
  - c. Incentives for food processor businesses (*CAP FA 3: increase local food supply*)
  - d. Increased community gardens (*Sustainability Action Plan 4.2: increase food gardens within the community*)
- 4. Waste management investments:
  - a. Curbside composting program, parallel to trash and recycling services (*CAP WM1: increase organics diversion*)
  - b. Recycling services for apartment buildings and other multi-family units (4+) (*CAP WM 1: increase recyclables diversion*)
- 5. Additional tree canopy measures, such as shade trees in high heat areas and/or private tree planting incentives (*CAP G2: increase citywide tree canopy coverage*)
- 6. Funding for the Green Ribbon Panel to accelerate climate action (*CAP CE 2: attract, create, and support businesses that are committed to sustainability and climate goals*)