

FAQs from Local Income Tax and Libraries virtual exchange, 5/20/2019

Q: Where can I find the LIT tax rates? Where would I find the distributions to various units?

A: <https://www.in.gov/dlgf/7343.htm> It's called the certified local income tax report.

Q: How is the breakdown of certified shares for LIT?

A: If you look at the link to the Courtney Schaafsma presentation (2nd bullet, slide 13), it includes a nice set of graphics to explain certified shares. With certified shares, the breakdown is roughly the same as the breakdown for tax levy.

Q: Can a Council (LIT or County) change the distribution of LIT?

A: Remember that the LIT Council (if a former COIT county) wants to make a change, they have to have agreement among the unit reps who represent more than 50% of the population. In former CAGIT counties, the County Council is the appropriate council.

The fiscal body (County Council or LIT Council) can, with public notice, hearing, and vote, change a rate or how the overall LIT Expenditure Rate is distributed between the different "buckets". See Ogle and DeBoer's "Indiana's Local Income Taxes" slide for tax limits and where the dollars in each bucket are distributed.

Q: Where is the spreadsheet found of Library Operating Income?

A: Table 5 of Public Library Statistics <https://www.in.gov/library/plstats.htm>; ILF also uploaded three versions of 2017 data sorted by Library, County then Library, and by Highest Percentage to Lowest. See <https://www.ilfonline.org/events/EventDetails.aspx?id=1233739>.

Q: How does a recession impact LIT?

A: Property taxes are insulated from recession because they use a six-year average to determine allowed growth while LIT distributions are based on actual collections 2 years ago, so may suddenly increase or decline based on the difference between what is distributed and what is collected. The swings in LIT can be catastrophic if it is a large share of the library's income.

Additional comment – For the libraries that are heavily dependent upon LIT, we also want to look at your reserves. For libraries that maintain virtually no reserves or have balances less than 25% over operating expenditures AND are highly dependent upon LIT, this may be stronger cause for concern in a recession.

Q: How do you determine if your county was formerly a COIT or CAGIT county?

A: The slide from Umbaugh/IceMiller includes the map with types of counties. Probably the easiest way to determine LIT council vs County Council if you do not know is to ask the auditor. Their office certifies population to determine votes on the LIT council in the counties that were COIT. Or ask your DLGF rep.

Q: Can you explain what types of LIT legislation was proposed this past session even though it did not go anywhere? What might be on the horizon for libraries in relation to LIT revenue?

A: There were primarily two bills that would have impacted LIT:

- HB1052, which did not pass, would have decoupled the requirement to take the max levy from being able to claim your full LIT distribution. ILF supported this decoupling, as there are times that the library may not want to budget for the full max levy (i.e. in the case of high reserves), but also does not want to disproportionately impact its LIT distribution. This did not pass, largely because certain units would not voluntarily not take the max levy.

- A version or two of HB1052 also attempted to address the issue in Hamilton County where Carmel, even though it is similarly sized to Fishers, receives the majority of LIT because it has debt tied to it. The other municipalities in Hamilton County would like to see a fairer distribution of LIT for their needs.
- Some of the initial possible changes and the study of LIT moved from HB1052 to HB1427.
- HB1427 has several iterations of changes to LIT, including the methods described in the next question, largely relating to how LIT is calculated and distributed.

Q: Can you explain more about the possible study committee related to LIT and GIS?

A: The Legislative Council meets May 21, where they will determine which of the recommended study topics among the scores of topics recommended will be studied. **UPDATE AS OF 5/21** – During the 5/20 session, we were fairly confident that LIT would be an assigned study topic. The Legislative Council did NOT assign LIT as one of the study topics for 2019 interim. While it will not be studied this summer, we will likely see legislative proposals in the future. Sections of the text below that are in **GRAY** were discussed on the 5/20 call and are important to understand, but are less of an immediate concern. There are many ideas floating around about LIT:

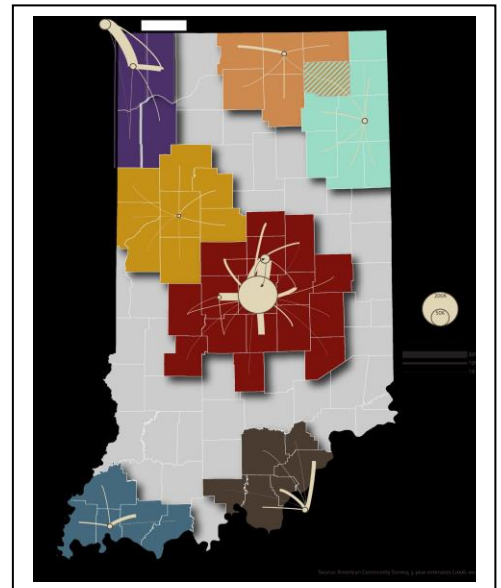
- During the 2019 session, several variations on ideas were floated for possible changes to LIT distribution:
 - the freeze on distribution if the % of LIT is more than 5% higher/lower of % of population (related to the Carmel/Fishers issue in Hamilton County);
 - the reconfiguration where LIT distribution is calculated 1/3 based on previous distribution , 1/3 levy, 1/3 AV;
 - the straight max levy model
 - GIS mapping that looks at where the taxpayer lives and works, creating various methods of dividing between the county of residence and county of employment, and ways to phase this in over time.
- Note that re-distributing LIT to a split between county of residence and of employment will have serious winners and losers, depending upon your community. GIS mapping also allows considerations at a much more granular level, as every taxpayer lives in a certain number of taxing districts (library, township, city/town, school, fire protection, waste management, county).
- The new computer system also aims to provide more real-time info with GIS mapping back to units.
- We will know more soon and provide an update after Legislative Council meets and the committee is appointed sometime after 5/21.

Q: My county has a lot of commuters, which will likely impact our LIT if they change any of it from residence to employment.

A: Yes, many counties will be impacted by changes to LIT distribution if not based on county of residence. You also want to look at who is commuting and whether net in-migration or out-migration. Nearly ¼ of all workers commute to a different county than where they live. Think of who is commuting and for what types of jobs—are your commuters higher income, average income or lower income residents? IU Public Policy Institute provided this analysis as a part of the *Thriving Communities, Thriving State* research (map at right). That said, certain legislators do not see this happening given that so many legislators represent rural areas that would lose in this scenario.

Q: How much input will the public, ILF and libraries have into the LIT study?

A: ILF aims to be at the table, as we have testified on LIT for the last two years. It really depends how the Legislative Council frames the



questions, as well as the composition of the committee. Of the Local Government and Tax Committees, this is likely to go to Interim Study on Tax and Finance.

For the last two years, we have testified that Libraries need to be at the table for any discussion of changes to calculations, allocations and distributions of LIT. We supported the decoupling of LIT from the max levy in an early version of HB1052 in 2019. ILF has not drafted a formal position about GIS mapping or impacts of certain other policy proposals related to LIT. There will be winners and losers among libraries if county of residence is changed for LIT distribution. We also need to consider how other key stakeholder groups will be lobbying on LIT issues (chambers, major employer groups, school groups, other government units).

The challenge for ILF is that proposed solutions will have winners and losers among our members. We invite your thoughts about this. Legislators live all across the areas that would be impacted.

Q: How would changes to LIT affect Hoosiers who work out-of-state (IL, KY, MI, OH)?

A: Good question. We don't know. We can't imagine that legislators would allow a scenario where funds would leave IN. However, we are not sure if the LIT would default to county of residence or go into some common fund or something else?

Q: Help me understand how LIT relates to possible solutions for unserved areas?

A: Currently, LIT is too small for libraries to address unserved. However, taxpayers living in unserved areas already have a portion of their income tax going to support the library. When we were talking with the key senator on long-term LIT changes, it was his suggestion that it could help solve the unserved areas. We might need to think creatively. It would require more than the one change to be effective.

Q: Can you explain supplemental LIT distribution? I just received an email about it with this note: "Each taxing unit will deposit their supplemental distribution into the local fund in accordance with how the funds were originally generated."

A: Last week, DLGF sent a notice of each county's supplemental distribution, which would be distributed locally based on the formula used for the last distribution. When LIT cash balances at the State are more than 15% of what is needed, the state which collects LIT will distribute the excess to counties.

Funds from supplemental distributions are receipted as other revenue, so may be expended only as part of existing appropriations. An additional appropriation may be sought if desired. The state usually specifies to which fund the supplemental distribution should go.

Q: If I receive supplemental LIT distribution, it is going to increase my cash balance, right?

A: Yes.

Q: What is a most important takeaway if you are new?

A: Know how much LIT is a part of your total operating budget. Know who controls your LIT shares (LIT Council or County Council). Be prepared to make contact with local officials if changes are possible.