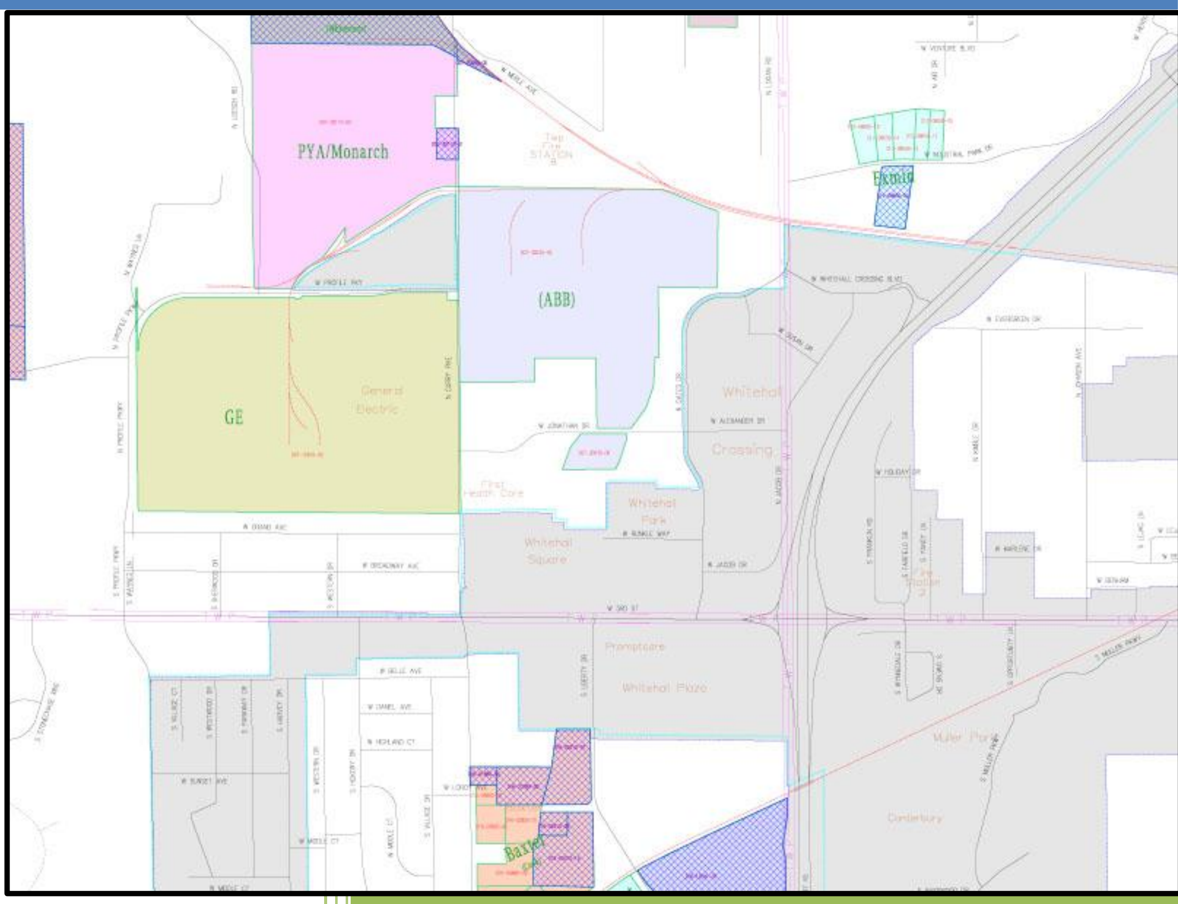
V600 Capstone Report

City of Bloomington West Side Area Analysis



Indiana University

School of Public & Environmental Affairs

4/25/2012

Report by Spring 2012 Capstone Class *Analysis of the City of Bloomington's "Payment in Lieu of Taxes Agreement" with the West Side Area* at Indiana University's School of Public and Environmental Affairs

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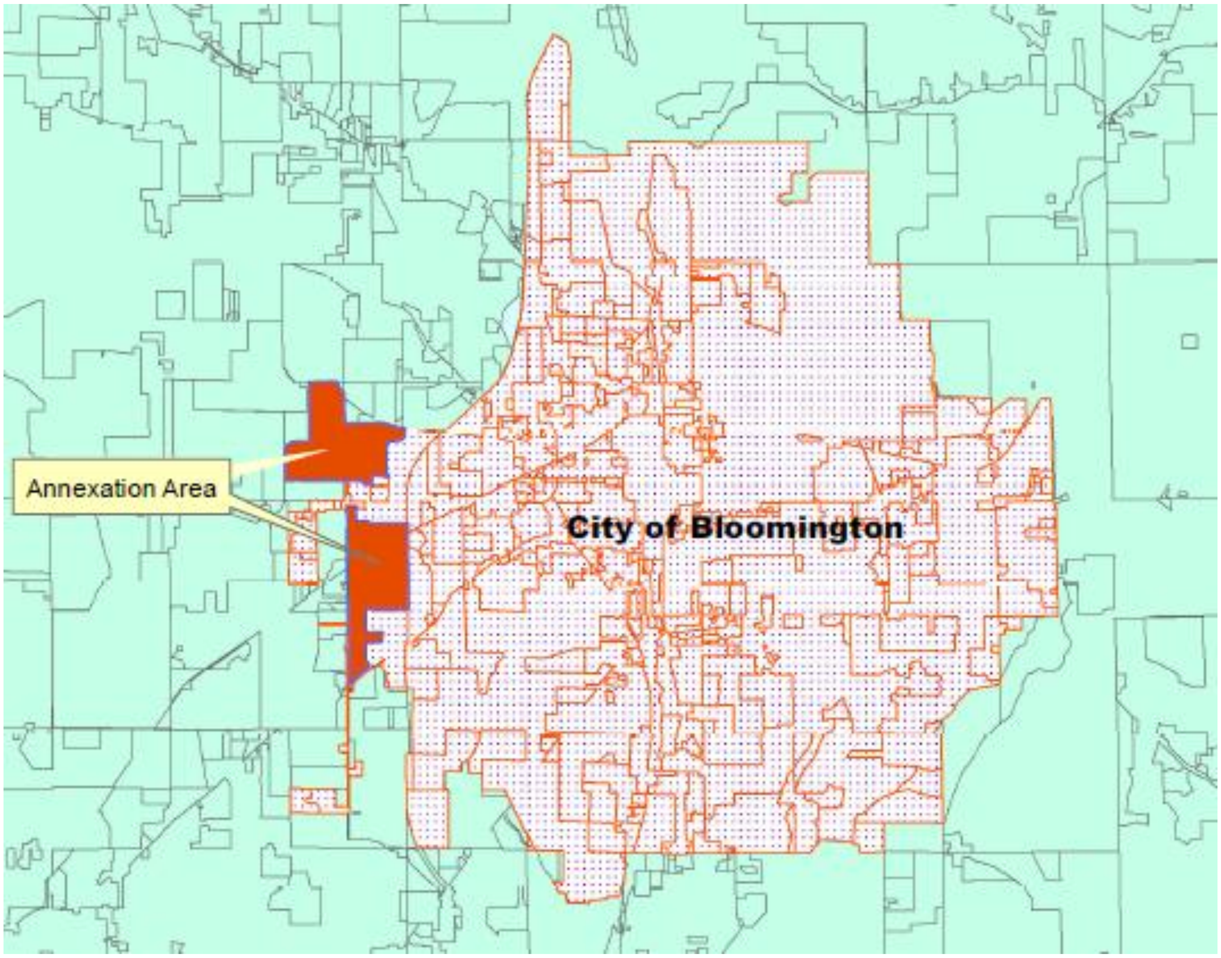
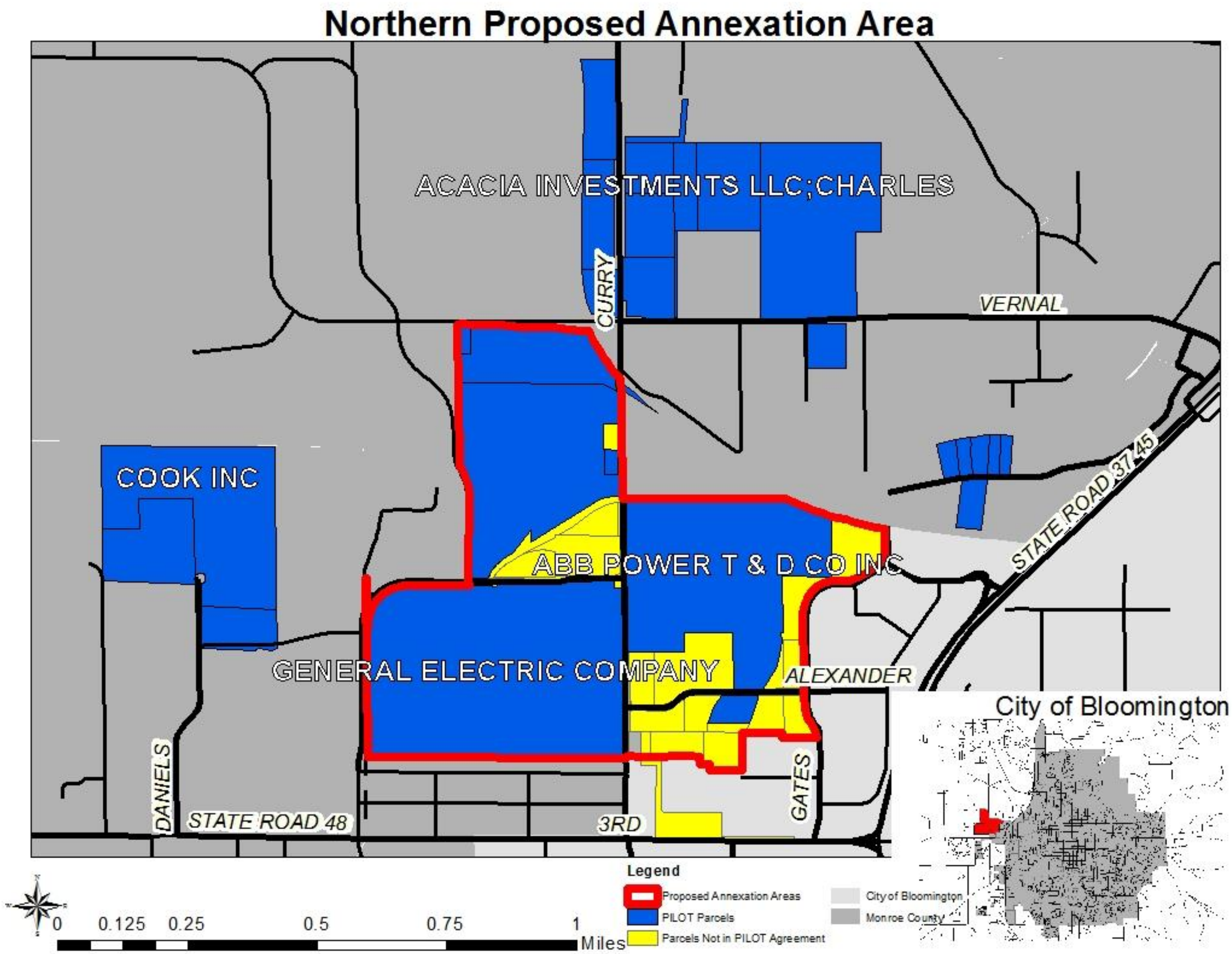
Annexation Area in Relation to City of Bloomington Boundaries




Northern Proposed Annexation Area
ACACIA INVESTMENTS LLC;CHARLES
COOK INC
ABB POWER T & D CO INC
GENERAL ELECTRIC COMPANY
CURRY
VERNAL
STATE ROAD 37 45
ALEXANDER
GATES
3RD
STATE ROAD 48
DANIELS
City of Bloomington
Legend
Proposed Annexation Areas
PILOT Parcels
Parcels Not in PILOT Agreement
City of Bloomington
Monroe County
0 0.125 0.25 0.5 0.75 1
Miles

Southern Proposed Annexation Area

Executive Summary

In 1979, after three attempts at annexation, the City of Bloomington entered into a Payment in Lieu of Annexation (PILOA) agreement with the businesses located in the West Side Area (WSA). In this agreement, the City agreed to provide a minimal level of services in exchange for an annual payment in place of the taxes that otherwise would have been charged under annexation. The agreement was renewed in both 1987 and 1998 with the current agreement set to expire December 31, 2012. The current agreement includes 57 businesses. The City is scheduled to receive $250,000 annually under the current PILOA agreement, however, the City averages payments of just $204,668 annually due to delinquency rates with PILOA businesses. The City faces two viable options: annexation of the area or renegotiation of the PILOA agreement. This report provides a full analysis of these options.

Annexation

Annexation would add substantial assessed value to the city's property tax base, as well as expand the level of services provided to the area. This would significantly alter City expenditures and revenues.

The City would incur increased expenditures totaling approximately $246,735 in the first year following annexation. The City would experience increased expenditures in the areas of public safety (Fire/EMS, Police) of $81,879 and public works services (snow/ice removal, sidewalk maintenance) of $164,855.

The City would face two options for how annexation would affect the property tax levy. It could either increase the levy by the percentage increase in assessed value due to the annexation (the max levy), or by the increase in service costs. The max levy would yield $1,114,000 in additional revenue in the year following annexation, of which the property tax increase of $1,018,390 represents the largest component of the total. Under the max levy option, the City could direct surplus revenues, amounting to roughly $867,266 in the first year, into the general budget. These funds would also be available to support capital projects in the annexation area, as it is likely that the WSA will need expanded public infrastructure for roads and mass transit in the near future. The max levy option would leave property tax rates unchanged for those already in the City and dramatically increase rates only for those in the annexation area.

Alternatively, the City could increase the levy by the cost of new services provided to the area. Due to substantial expansion of the property tax base but only a slight increase in the levy, properties already within the City would actually experience slight tax relief as a result of the annexation. The average resident with a home value of $160,900 would experience an estimated 2.79% decrease in their property tax bill, amounting to $36.90.

Adding $1,018,390 to the City's property tax levy would yield additional COIT revenue of about $162,089 in the 2013 budget year and $191,133 in the 2014 budget year. Over the next 15 years, the decision to annex would be expected to increase the City's amount of COIT revenue by about 2% over a baseline scenario without annexation.

There are economic advantages and disadvantages to annexation. In terms of advantages, annexation could promote tax equity by more fairly distributing the cost of City services. It is also important that the City gain planning control of the annexation area due to the increase in business activity that will result from the expansion of I-69 in the WSA. Additionally, the presence of some environmental risks in the WSA could be more effectively managed by the City. Finally, the City can provide more incentives for new businesses to relocate on those properties.

In terms of disadvantages, exposure to the full City tax rate would drastically increase property tax bills for existing businesses. This tax increase may cause some businesses, specifically renters, to consider relocation. Our findings, however, indicate it is very unlikely that annexation and associated tax costs would themselves provoke a mass exodus of business from the WSA.

The length of the past PILOA agreements illustrate that the West Side industries are highly valued in the region. The goal of the City is not only to avoid remonstrance, but also to communicate that annexation is a beneficial process and prevent an adversarial relationship with these businesses. The City's approach in handling the annexation process can have a lasting effect throughout the community for many years into the future. Based on a review of annexation in Bloomington and throughout Indiana, the City should consider the following recommendations to ease the process of annexation, mitigate any opposition that may arise, and build a stronger relationship between the City, County, and the WSA.

First, the City must develop a strong position statement regarding its intent and legal right to annex the West Side industries. Second, the City should develop a robust fiscal plan and timeline for annexation. Due to the amount of detail and diligence required, the City also should consider hiring outside counsel to oversee the process. The City must go beyond the legal requirements for public notification and strive for complete transparency with the community and other levels of government. Additionally, the City should stay aware of legislative developments at the state level that could impact the annexation process. The City should also consider implementing an industrial zone with reduced zoning restrictions as a "carrot" to annexation for the affected businesses.

Renegotiate the PILOA

If annexation does not occur, the City will likely renegotiate a PILOA agreement with the businesses. Our research into other PILOA agreements, both in Indiana and other states, has allowed us to develop some basic best practices that the City could follow when designing and enforcing a new agreement. First, transfer of ownership should be facilitated by legal recording with Monroe County to avoid lack of payment by new owners who do not sign the agreement directly. The City should also explore the possibility of using property liens as a secondary method of enforcement. The City should also negotiate for higher payments more closely based on assessed value, and use the existing New World computer system to manage payments over the life of the agreement. The new PILOA agreement can also be used as an economic development tool to incentivize businesses in the area to make improvements.

Supplemental Material:

A compact disk has been included with this report that allows city officials to perform sensitivity analysis on the information presented in this this report.

Fiscal Analysis Model

This Excel spreadsheet was developed to perform the necessary calculations required in a fiscal analysis of an annexation. The spreadsheet contains worksheets relating to the calculation of additional expenditures and revenues from an annexation. The model allows for sensitivity analysis regarding both the costs and revenues, and assumptions regarding the rates at which they may change over time. This allows the City to consider the impact of changing the initial assumptions and hypothetical scenarios. Though the assumptions can be modified, the best estimates of the current cost of various City services have been incorporated into the model. These cost models feed into calculation of additional revenues. The current model incorporates growth and inflation rate assumptions to provide an initial real growth rate for each service cost and revenue source.

Cost Models:

These descriptions provide details on how the costs represented in the Fiscal Impact Model were developed.

Monroe County Output Multipliers

This spreadsheet contains the IMPLAN data necessary to determine the effect of every dollar spent by a business through the local economy. The spreadsheet has data relating to the business' output, employment, and income rates.

Shift – Share Appendix

This document presents a more detailed discussion of the economic makeup of Bloomington and the Westside Industries.

<u>City of Bloomington West Side Area Analysis</u>

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In December 2012 the Payment in Lieu of Annexation (PILOA) agreement between City of Bloomington and the West Side industries is set to expire. Expiration of this agreement presents three policy options for City of Bloomington; Annex the West Side Area (WSA), renew the PILOA agreement, or allow the agreement to expire.

The following analysis was performed between January and April 2012 using analytical methods focusing on legal, planning, finance, and economic implications of the policy options. It begins with a history of the PILOA agreement and annexation area, continues with an analysis of annexation, and ends with an analysis of PILOA renewal.

Chapter 1: Overview of Analytical Framework

This chapter will begin with a history of the PILOA agreement from 1967 through the present. We define a hypothetical annexation area. Based on this area, we examine some of the economic characteristics of the West Side industries. Finally we conclude with a discussion of the economic makeup of Monroe County as a whole and the implications of development of I-69.

Section 1.1: History of the Bloomington PILOA Agreement[1]

The historical record in the *Herald Telephone* (later the *Herald Times*), and the now-defunct *Courier Times* notes three unsuccessful annexation attempts of the WSA by the City of Bloomington in 1967, 1973, and 1975. The first of these attempts was based on a 1967 ordinance that attempted to annex 5,000 acres of land on the West Side, including the WSA; the City was sued by a group of over 3,000 landowners and the case remained in the court system through 1972. In 1972, the Council successfully ended the lawsuit by repealing the ordinance.[2]

The following year, the Council again attempted to annex the WSA by ordinance, but their goal was much smaller than the 1967 attempt: only Westinghouse, General Electric, Otis Elevator, and the headquarters of the Courier Times were impacted.[3] This proposal was fought in court not only by the companies but by the Monroe County Auditor, who contested when exactly the City was able to start collecting property taxes on the WSA.[4] The industries themselves contested that they were being harassed by the City, and that this attempt, similar to the 1967 efforts, failed to fulfill the requirements set out in Indiana law for involuntary annexation.[5] For reasons that remain unclear, the WSA won their case against the City, likely on the grounds that the conditions for involuntary annexation were not fulfilled. The 1975 proposal is also less than detailed in the historical record, but the City's review of that year notes the end of a lawsuit in the Indiana Court of Appeals with a judgment for General Electric, so it is likely that this was the end of the third annexation attempt.

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[1] See Appendix 37: An overview of governance and enforcement mechanisms for the 1987 and 1998 PILOA agreements
[2] Paeth, Greg. "Annexation Ordinance is Repealed by Council." *Courier Times*. 7 April 1972.
[3] Acres, Mark. "West Side Industrial Plants 'Invited' Into Bloomington." *Herald Telephone*. 2 February 2, 1973.
[4] Schrader, Bill. "City Faces 2nd West Side Battle." *Herald Telephone*. February 25, 1973.
[5] Paeth, Greg. "West Side Suits are Filed." *Courier Tribune*. April 13, 1973.

By 1979, the WSA industries and the City had been fighting over annexation for over a decade. In February of that year, the industries then occupying the WSA (General Electric, Otis, Westinghouse, Wetterau, and Cook) presented the City with an idea for a payment in lieu of annexation based on a similar arrangement that had been used and renewed in Lafayette. This agreement, which would have been retroactive to January 1 of that year, offered the City $1.5 million over the course of fifteen years in return for avoiding annexation of both personal and real property.[6] The City presented a counter-offer to the industries in March and requested a shorter contract (11 rather than 15 years) as well as an added clause that the industries would not oppose any annexation attempts by the City at the end of the contract.[7] Toward this end, the City proposed that all funds gained from the agreement would be put into a special non-reverting fund and drawn out for purposes of providing services to and eventually annexing the "Johnson addition" (no geographic information is given in the record), which would allow the City to gain the necessary contiguity that had been a problem in previous annexation attempts.[8]

The goals were clear for both sides of the deal: the City would more easily fulfill the Indiana statute requirements for annexation in the future, and the industries would gain a measure of stability and improved business climate. General Electric and Cook both promised physical plant expansion if the deal was passed.[9] When the deal was passed in early October, there was still discussion in the Council as to whether the agreement was the best move, but the majority held that $1.5 million was "better than nothing," as one councilman put it. The final agreement was to last twelve years and was passed along with an ordinance requiring Mayor Francis McCloskey to submit studies to guide possible future annexation processes within the year.[10]

The 1987 Agreement

The 1987 agreement explicitly references the City's desire to annex the WSA, but also refers to planned expansion by the companies in the agreement as a reason for not annexing. If the first agreement was a way to keep all parties involved from extending a decade-long court battle, this second agreement appears to have been more concerned with the economic development of Bloomington.

This focus on economic development and retaining the industries likely led to a number of provisions within the contract, including the withdrawal of several pending lawsuits attempting to halt the annexation of a neighboring property on the West Side and, more importantly, an agreement by the City to not annex any land that would give them the required contiguity for annexation at a later date. The agreement also states that any attempt at annexation by the City would be considered a breach of that contract. Pursuant to a greater focus on economic development, the 1987 agreement lays out the structure of a Joint Committee, a primary goal of which was to recruit new industries to the WSA and to renegotiate the agreement when

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[6] Wright, Mike. "West Side Industries offer $1.5 million to avoid annex." *Herald Telephone*. 2 Feb. 1979.
[7] Wright, Mike. "City, west industries debate pact." *Herald Telephone*. 30 June 1979.
[8] Wright, Mike. "Industries' 'no-annex' deal gets committee approval." *Herald Telephone*. 27 Sept. 1979.
[9] Scanzoni, Dave. "West Side industries okay pact with City to offset annexation." *Herald Telephone*. 2 Sept. 1979.
[10] Wright, Mike. "On 5-3 vote, Council ratifies 'no-annex' deal." *Herald Telephone*. 5 Oct. 1979.

necessary. According to interviews with elected officials during that time, the 1987 renegotiation was moving toward another payment in lieu of taxes agreement but with higher rates paid to the City. However, the addition of another legal representative to the negotiation stopped that movement, and the resulting agreement was very similar to the previous one. This occurrence may be the reason that the contract references economic development rather than focusing on the possibility and legality of annexation by the City.

The 1998 Agreement

The 1998 agreement took effect four years prior to the expiration of the 1987 contract, again with a term of 15 years. In many respects, the 1998 agreement was remarkably similar to its predecessor. The greatest distinction between the two was the increase of signatories from 5 to 12.

Parties to the Agreement

Five companies were signatories to the 1987 agreement: General Electric, Otis, Westinghouse, Wetterau, and Cook; all were participants of the original 1979 agreement. Despite this continuity, the City recognized the possibility for the ownership or occupancy of the WSA to shift, and made provisions in the contract for such a change. New industries in the area would have a five-year grace period upon purchasing the property after which a set amount (.17*total assessed value*Bloomington property tax rate) would be paid. Half of all monies contributed by new industries would go to reduce the share paid by other industries (see below), while any addition would increase the total amount going to the City above the original amount per year agreed on ($125,000 from 1987 to 1994, and $150,000 from 1995 to 2002).

Recent History

Since 2001 the City was scheduled to receive $2.5 million in PILOA payments. During that time period 18% of these payments, $453,225, have not been paid by property owners. Problems with collection of payment began in the mid-2000's, particularly after the sale of the former Otis Elevator property to new parties. Letters informing the new owners of their obligations were sent out in 2007, but it was not clear if the contract Otis had signed was recorded in the Monroe County Recorder's Office. Though Otis claimed that its successors had assumed liability whether it was recorded or not, the enforcement issue remains problematic. It is likely that the City would have to take many of the new owners to court to enforce payment, potentially leading to a lengthy lawsuit like those seen in the 1960's and 1970's. This issue is further complicated by the Indiana Law Encyclopedia Covenant, which requires that any covenant be in the buyer's chain of title or deed to satisfy the constructive notice requirement, which would be essential to any enforcement action.[11]

[11] Wright, Mike. "On 5-3 vote, Council ratifies 'no-annex' deal." *Herald Telephone*. 5 Oct. 1979.

Economic Makeup of WSA Through the Years

In the intervening years since the original PILOA agreement, the WSA has experienced dramatic evolution in its economic composition, both among the signatories and among their non-signatory neighbors. As late as the 1997 contract, just 12 parties comprised the PILOA areas. Since then, these parcels have splintered into 28 titles. Much of this diversification is due to the Otis Elevator compound, which has been split among 16 new owners. While many of the new owners are holding companies, the businesses now operating in this area are very diverse: they vary from a publishing company and a department store to office parks and auto dealerships.

There are at least 60 businesses operating within PILOA parcels. For the purpose of our analysis of possible annexation, this number is limited to 48.[12] While this includes many of the original "big players," it also includes the many newcomers to the Otis compound, as well as a set of roughly 30 tenants in the Public Investment Corp (PIC) properties on the south end of the PILOA. PIC land is home primarily to industrial service providers, such as auto repair shops and industrial parts suppliers. However, there are some unique operations, such as a daycare center, a dog kennel, and a commercial bakery. Many are locally owned, but some are national brands.

Another challenge is the unusual shape of current city boundaries near the area of the original PILOA agreement. The result is that there are now many other businesses operating between PILOA zones that are not subject to the payment. This exacerbates the problem of non-contiguous City boundaries, and creates many arbitrary tax/payment penalty lines between neighboring parcels. At least 12 properties and associated businesses would be drawn into any new agreement or annexation, including Circle Prosco, Mirwec Film, and several locally owned establishments.[13]

Section 1.2: Potential Annexation Boundaries

Several geographical features of the PILOA properties make it impossible under Indiana Law[14] to annex them into the City without annexing additional non-PILOA properties. In order to create a useful basis of comparison for this report, we have developed a hypothetical annexation area.[15][16][17] Through consultation with City Planning Director Tom Micuda[18], we established an area composed of two blocks of parcels that the City could feasibly annex in one phase[19], minimizing additional service costs and opposition.

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[12] See Appendix 1: PILOA Businesses Subject to Annexation
[13] See Appendix 4: Non-PILOA Businesses Subject to Annexation
[14] "…Territory sought to be annexed may be considered 'contiguous' only if at least one-eighth (1/8) of the aggregate external boundaries of the territory coincides with the boundaries of the annexing municipality" [IC 36-4-3-1.5].
[15] See Appendix 5: Annexation Area in Relation to City of Bloomington Boundaries
[16] See Appendix 6: Northern Proposed Annexation Boundary
[17] See Appendix 7: Southern Proposed Annexation Boundary
[18] Micuda, Tom. Interview by Carrie Albright and Benjamin Romlein. In person. Bloomington, IN. 9 Feb. 2012.
[19] See Appendix 8: A brief discussion of the decision to consider phases versus one –time annexation,

The annexation area in this report differs from the PILOA properties. Some large properties (such as Cook) have been excluded[20], while some small non-PILOA properties have been included. The maps in Appendices 4 and 5 show how the PILOA properties and the proposed annexation region differ.

There are several PILOA properties that would escape the proposed annexation boundary, due to their non-contiguity with the City or their uniquely rural situation. For example, all properties north of the rail line that crosses Highway 37 near Vernal Pike are excluded from the analysis (by the recommendations of Tom Micuda[21]) for a host of reasons, including lack of service accessibility. On Industrial Park Drive, the proposed boundary would address the current arbitrary payment liability for just six of the roughly forty parcels. Also stranded in the countryside and lacking contiguity are all of the Acacia Investment properties and RC One. The final non-contiguous parcel is Cook on Daniels Way. While it remains feasible for the City to extend annexation to the Cook property—especially as compared to the businesses north of the rail line—for the purpose of our analysis the proposed annexation boundary encircles only the directly contiguous parcels.[22]

In total, there would be at least 60 businesses directly affected by our proposed annexation boundary, not including the property owners or the PILOA signatories outside of the boundary. As mentioned, some of the affected property owners are holding companies, but some are affiliated with the occupying businesses.[23] Counting all parties with some stake in the City's decision to renegotiate the PILOA, let it expire, or annex (by our proposed boundaries), there could be as many as 90 businesses and owners affected. While there is no available data as to revenues or employment levels for these operations, it is clear that a great many livelihoods rely on these businesses, and they comprise a substantial portion of greater Bloomington's economic base.

The WSA is a unique area in that there is very little evidence of long-range planning; the businesses moved in and expanded organically. While this is not necessarily detrimental to economic growth, the result is that there are now some unconventional neighbors.[24] Likewise, though there is very little vacant land, it is generally low-density. While the area hosts a diversity of operations, the majority of property use is industry or related to support services for industry. According to our interviews, some businesses benefit from the local cluster of light industry, while others enjoy the area for its proximity to major thoroughfares and transportation routes. Some were particularly drawn to the area for its affordability and lighter regulations, as compared to being within the City.

[20] Businesses not included in the annexation area include those west and north of our proposed boundaries: Cook Inc. (Daniels Way), , Adams Crossing, LLC, Donald and Waneta Grubb, RC One LP, and TDDM LLC.
[21] Micuda, Tom. Interview by Carrie Albright and Benjamin Romlein. In person. Bloomington, IN. 9 Feb. 2012.
[22] See Appendix 2: PILOA Businesses NOT Subject to Annexation
[23] See Appendix 3: PILOA Property Owners Subject to Annexation
[24] For example, a daycare service and a dog kennel neighbor gas suppliers and auto repair shops.

PILOA Properties Excluded from Annexation Area

Three distinct groups of PILOA properties were not included in the annexation area.[25]

Cook Inc., located to the northwest of the PILOA area, was not included primarily because it would require additional annexation of intermediate rural properties in order to establish contiguity. It is difficult to justify which and how many rural properties to include.

The smallest rural annexation legally required to establish contiguity would essentially create a peninsula of City property jutting out into Monroe County. Such an annexation would create arbitrary inequities, whereby annexed rural property owners would be required to pay different tax rates than their non-annexed neighbors. City services and infrastructure would extend to annexed rural properties but non-annexed areas would be excluded, no matter how close in proximity. Such a plan would also create jurisdictional confusion amongst police and fire departments that would impair their ability to respond quickly and efficiently to emergency situations.

To solve the problems of tax and service inequities, the City could annex a large block area extending south of Cook. This would relieve many of the inequities and service complications created by a peninsula. The main concern is that it would be not be easy to justify to rural property owners why their land should be annexed into the City, and why they should pay City tax rates. Additionally, there are political consequences to any annexation decision. There is the strong possibility that rural residents could protest what they perceive to be an arbitrary annexation. Any annexation plan must try to minimize the potential for an organized opposition that could lead to formal remonstrance.[26]

Acacia Investments LLC, properties located north of the PILOA area, around the intersection of Curry Pike and Vernal Pike, were not included for two reasons. First, unless the properties directly southeast of these properties were annexed, it would create a “donut hole” of County property inside of the City of Bloomington. This would create complications for service providers and jurisdictional confusion. Second, the property in this area (and in the “donut hole”) does not appear to be built to City standards. Annexation of this area would require the City to assume the costs of infrastructure improvements. By contrast, the properties in the proposed annexation area already include up-to-date infrastructure and would only require the City to assume maintenance costs.[27]

Industrial Park Drive properties, located to the northeast of the PILOA area, carried some of the same problems as the Acacia Investment properties located nearby. First these properties are located along a street (Industrial Park Drive) that contains non-PILOA properties to the east and west. One potential solution would be to annex all properties along Industrial Park Drive. This, however, may lead to further complications. Industrial Park Drive is a long dead-end street with many small properties located along it. These properties can only be accessed from W. Vernal

[25] See maps above
[26] Micuda, Tom. Interview by Carrie Albright and Benjamin Romlein. In person. Bloomington, IN. 9 Feb. 2012.
[27] Ibid.

Pike off of SR-37. Difficult access from nearby highways would increase the cost of providing services to this area. Like the Acacia Investment area, Industrial Park Drive contains low quality roads that would add to maintenance costs. Annexation would require the City to renegotiate zoning codes with each individual parcel owner. In addition, the development of I-69 will further restrict access to this location.[28]

Section 1.3: Monroe County Economic Makeup

We performed a Shift-Share analysis[29] to categorize the businesses in the WSA by their comparative advantage or disadvantage status. There are three sources that feed into a shift-share analysis: the national growth effect, the industry mix effect, and the competitive share. The third component, the competitive share, provides valuable insight into which industries are prone to be successful in a given locality, due to unique benefits such as geographic location, infrastructure, or market access. These unique benefits culminate in employment growth exceeding national and industry-specific averages. For our purposes, a comparative advantage in a particular industry indicates that Monroe County provides an advantage to a firm due to its location and conditions, as compared to other regions. A comparative disadvantage indicates that Monroe County has some deficiencies that make for a less favorable operating environment for that industry.

Manufacturing, Professional and Business Services, and Information are three industries in the WSA that face a clear comparative advantage in Monroe County. Of the over 60 businesses that were identified as potentially being affected by a new agreement or annexation, these industries account for approximately 20 of them. Examples of businesses identified by this comparative advantage include Author Solutions, Baxter Pharmaceuticals, Cook Polymer, and LK Technologies. For these industries, Monroe County provides unique conditions that make their growth potential very large.

The three industries in the WSA that face a comparative disadvantage are Trade, Transportation, and Utilities; Education and Health; and Construction. Combined, these three industry groups account for approximately 25 businesses in the WSA. Examples of businesses indicated in this category include ABC Supply, Indiana Oxygen, Menards, and Nash Finch MDV. This does not mean that these businesses are certain to struggle, but may mean these businesses will experience lower growth in employment.

Section 1.4: Interstate 69 Impact on Current Analysis

The expansion of Interstate 69 presents a complication to our analysis. The WSA proposed in this report will see major changes from both a planning and economic development perspective after the completion of construction of I-69.

[28] Ibid.
[29] See Appendix 9: Shift Share Analysis Methodology.

Planning Implications of I-69

The construction of Interstate 69 from Indianapolis to Evansville, passing through Bloomington and using existing State Road 37 roadway, is projected to substantially increase vehicular traffic in the Bloomington corridor. Using the Indiana Statewide Travel Demands Model, INDOT projects I-69 extension will increase travel from Bloomington State Road 46 to Martinsville State Road 39 from 57 to 78 percent.[30] The annexation of the WSA may exacerbate stress on traffic flows in the WSA as the area expands and attracts additional commuters, residents, and mass transit. A large increase in vehicular traffic near the WSA will place greater demands on road maintenance and construction in the area. The City will have to consider additional maintenance and new construction of highway frontage streets, and intersecting roadway, to accommodate increased traffic.[31] Curry Pike and Liberty Drive are identified as existing State Road 37 frontage roadway that may require extending and widening in response to increased traffic flows. Major crossing streets (State Roads 46, 48, and 45) are maintained by the State; however, there are a number of local intersecting streets that may receive increased usage as a result of interstate construction and West Side expansion.

Annexation along with the construction of Interstate 69 on existing State Road 37 would place greater demands on the City to address bicycle and pedestrian crossings to uphold the principles of a multi-modal transportation system across the highway. In 2010 the City commissioned a study by engineering students at Rose Hulman Institute of Technology to assess potential State Road 37 bicycle and pedestrian crossing locations. The three crossings examined were: (i) a CSX railroad underpass north of Gates Drive, (ii) at Third Street, and (iii) an Indiana Rail overpass south of Third Street. In planning for I-69, recommendations that follow adhere to current codes and regulations for crossing structures near interstate highways.[32][33]

The study concludes that based on overall costs, technical feasibility, aesthetics, and future uses the grade-separated CSX railroad underpass is the preferred crossing.[34] The U.S. Department of Transportation endorses grade-separated rail crossings for their emphasis on safety, but recommends constructing the underpass as short as possible to thwart illegal activity.[35] The CSX location additionally provides the opportunity to connect to existing multi-modal trail systems. The Rose Hulman study proposed a trail begin at Whitehall Crossing Blvd, cross State Road 37, and use the rail to connect to the B-line trail.[36] The City may also consider the Third Street and Indiana Rail crossings to strengthen alternative transportation connectivity to the WSA.

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[30] U.S. Department of Transportation and Indiana Department of Transportation. " I-69 Evansville to Indianapolis, Indiana tier 1 environmental impact statement and section 4(f) evaluation." 5 Dec. 2003.
[31] See Appendix 10: Frontage Routes
[32] See Appendix 11: Bicycle and Pedestrian Crossings
[33] DGF Consulting Engineers. "SR 37 grade-separated crossing." 13 May 2010.
Retrieved from: http://bloomington.in.gov/media/media/application/pdf/7027.pdf
[34] DGF Consulting Engineers. "SR 37 grade-separated crossing." 13 May 2010.
Retrieved from: http://bloomington.in.gov/media/media/application/pdf/7027.pdf
[35] U.S. Department of Transportation. "Rails-with-trails: Lessons learned, literature review, current practices, conclusions." Aug. 2002.
Retrieved from: http://www.fhwa.dot.gov/environment/recreational_trails/publications/rwt/railswithtrails.pdf
[36] See Appendix 12: Multi-Modal Trail Connectivity

Economic Development Implications of I-69

It is important that City of Bloomington gain economic planning control of the annexation area due to the increase in business activity that will result from the expansion of I-69. The increased traffic flow through the interchanges on I-69 will increase incentives for businesses to consider location in Bloomington directly off of the interstate. This can have a major impact in attracting firms that transport goods nationwide. The lack of an interstate is cited by Ron Walker, Director of the Bloomington Economic Development Corporation (BEDC), as a major deterrent for many firms from locating in the City.[37] The addition of I-69 will increase the likelihood of firms locating in the WSA and it is essential that the City is a part of this planning process.

The City should consider annexing a larger area of the WSA because it will prevent a haphazard development of the empty parcels in the WSA. The City should consider the future growth potential of this area after I-69 expansion and understand the implications of allowing it to grow in an unstructured manner. After the completion of I-69, rural parcels will increase in market value due to the increased traffic in the area. This may induce owners to consider selling properties to developers.

[37] Walker, Ron. Interview by James Still, Brian Smith, Ed Klaunig, Marlon Webb. In person. Bloomington, IN. 29 March 2012.

Chapter 2: Annexation Analysis

This chapter examines how annexation will affect various stakeholders in Monroe County. The chapter begins by discussing how annexation will generally impact the economy and infrastructure of the West Side Area (WSA). Following that is a quantitative analysis of how annexation will impact government revenues and expenditures, and how that will in turn affect specific business decisions. The chapter concludes with a look at the legal and administrative procedures related to annexation, as well as a discussion of best practices.

Section 2.1: Impacts on WSA Economy and Infrastructure

This section examines how annexation could transform the economic character and physical infrastructure of the WSA. It opens with a general discussion of how annexation will create advantages and disadvantages for current and future stakeholders in the WSA, namely business owners and residents. Following that are brief overviews of how annexation would affect transportation infrastructure and environmental remediation efforts in the WSA.

Economic Advantages and Disadvantages of Annexation

Annexation will allow the City of Bloomington to control planning in the WSA, increase equity in payments for City services, and allow the vacant WSA properties to be more effectively marketed to potential firms.

Property tax equity within the City of Bloomington would be improved. Businesses currently within City limits are indirectly covering the cost of City services for the businesses in the WSA. This includes services such as roads, which are used by the employees and clients to get to the business location in the WSA. Therefore the businesses in the WSA do not pay for City services they benefit from while businesses within City limits pay for these benefits through increased property taxes. By annexing the WSA this equity concern would be diminished.

The City could increase Parks and Recreation development in the WSA. This can be a major factor in business attraction as many high tech firms value an aesthetically appealing industrial environment. By allowing Parks and Recreation to plan new trails, bike routes, and green areas in the WSA it would allow for increased marketability of the area to firms that value these services.[38]

The capability of Bloomington Economic Development Corporation and City of Bloomington Department of Economic and Sustainable Development to cooperate on attracting firms to locate on the vacant WSA properties such as the ABB parcel would be improved through annexation. In addition, the cooperation between the City and County on business attraction may result in

[38] Walker, Ron. Interview by James Still, Brian Smith, Ed Klaunig, Marlon Webb. In person. Bloomington, IN. 29 March 2012.

increased opportunities for grants and outside funding sources to promote brownfield development.[39]

Annexation may have an adverse effect on business retention with the West Side industries. The businesses in the annexation area would be subject to a tax increase that could crowd out other spending and investments for the firms. The firms would have to internalize these costs through increased prices for service, decreased workforce or wages, decreased profits, increased efficiency through innovation, or through a mixture of these various options. The businesses may also consider relocation within Bloomington, to another location within Monroe County, or to a different location completely. As a result, another city or county may receive the benefits of a new business operating within its borders.

A specific concern with respect to this annexation is the possibility of numerous businesses locating to a similar, newly built property elsewhere in the County that is outside of Bloomington City limits. In severe circumstances this relocation could result in widespread vacancies and abandonment of improved properties within the annexation area, while outlying areas become plagued with sprawl.

Relocation is of particular concern with the rental properties located on the southern portion of the annexation area. Many of these firms have not invested substantially in their location and face manageable moving costs. The relocation cost is more significant for the large properties in the northern part of the annexation area because they have invested millions of dollars in their properties.

A disadvantage of annexation is the lack of additional tangible benefits that can be offered to businesses currently operating out of the annexation area. The business owners overwhelmingly view the annexation as a cost increase with no benefits as a result. The businesses are less concerned that they may have underpaid for City services and benefits in the past; they are concerned with profitability and business survival. The annexation will not help their competitiveness and the lack of tangible benefits for those being annexed may further exacerbate their frustration.

Transportation Infrastructure Improvements

The proposed annexation of the WSA has many implications for transportation in the City of Bloomington. The City would absorb several streets that are currently maintained by Monroe County. In addition, the City would also take on the responsibility of implementing street improvements as well as providing alternative transportation facilities in this area.

There are several transportation improvement projects that have already been planned within the proposed annexation area at various levels of government.[40] While the necessity of these projects is not changed with an annexation, the funding source is affected for some projects should these

[39] Walker, Ron. Interview by James Still, Brian Smith, Ed Klaunig, Marlon Webb. In person. Bloomington, IN. 29 March 2012.
[40] See Appendix 13: Planned Transportation Improvement Projects

areas become part of the City of Bloomington rather than Monroe County. For projects that are within the potential annexation area, and are not part of the State's jurisdiction, the City of Bloomington must match 20% of Federal Government funds.

Mass Transit Service

Bloomington Transit (BT) offers nine separate bus routes throughout the City of Bloomington, including one local route servicing the College Mall and surrounding apartment complexes. The incorporation of the West Side industries does not require any provision of services from Bloomington Transit, which is a private service. However, there is potential for redirecting the route currently running through several WSA properties.

Upon discussion with BT Director Lew May, the proposed changes would: (i) shorten the heavily-trafficked Route 2 to no further than the White Hall Plaza and (ii) initiate a second local route, henceforth known as the West Side Route, to strictly service a designated area west of Highway 37. The proposed West Side Route would serve to provide an equal level of service to West Side residents and commuters, as well as mitigate potential traffic and connectivity burdens associated with I-69.[41][42]

<u>The total cost of a new West Side route is $379,420.</u> The costs associated with these proposed changes involve the capital cost of purchasing an additional bus, and operating costs of staffing and bus maintenance.[43] BT has considered three possible bus designs for purchase: a small bus, a large diesel bus, and a large hybrid bus, priced at $85,000, $400,000, and $625,000, respectively. The life span for a large bus is 12 years, while the small bus needs replaced every five years. Bloomington Transit currently utilizes the large hybrid buses for existing routes, but due to the localized nature of the West Side Route and the potential budget restrictions, May recommends the small bus design.[44]

Operational cost estimates are based on the West Side Route providing service Monday-Friday from 6:30am-11:30pm; additionally, Saturday services would be available from 7:30am-6:30pm. It is estimated that the operating cost per hour of service is $60 for 2012. Regarding staffing, an additional route will require at least two full-time operators and potentially a part-time driver as well. Finally, the cost of any information updates or route signage are expected to fall into regular budget expectations.[45]

Environmental Remediation

The Bloomington Environmental Commission's website on Toxics Releases shows three properties in the annexation area which have produced environmental pollutants in the past.[46]

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[41] See Appendix 14: West Side Route Map
[42] May, Lew. Interview by Ed Klaunig and Benjamin Romlein. In person. Bloomington, IN. 21 Feb 2012.
[43] See Appendix 15: Bloomington Transit Costs
[44] May, Lew. Interview by Ed Klaunig and Benjamin Romlein. In person. Bloomington, IN. 21 Feb 2012.
[45] Ibid.
[46] Bloomington Environmental Commission. "Toxic Releases." Last accessed 23 April 2012.
Retrieved from: https://bloomington.in.gov/documents/viewDocument.php?document_id=3000

These properties are

1. ABB (300 N. Curry Pike)
2. Otis Elevator (301 N. Curry Pike)
3. General Electric (Various addresses on S. Liberty Drive)

According to Ron Walker, ABB is now officially remediated, which means it can now be marketed to industrial firms. Along with the other remediation programs[47], ABB also participated in the Voluntary Remediation Work Plan program, which was reviewed and approved in 1999 by the Indiana Department of Environmental Management (IDEM) and EPA, and completed in February of 2011. Despite the remediation efforts, however, there are still covenants on the property which limit specific types of development. These include a restriction on building residential property, and excavating and moving dirt off of the remediated ABB property.[48]

The ABB property is currently vacant, but remediation has made it a more attractive location for firms. The company LG, for instance, has considered buying the property.

Meanwhile, Ron Walker says that BEDC has not been concerned with the Otis or GE properties, because these areas have not been identified as contaminated sites. According to Walker, since these properties have properly maintained the level of hazardous material at their manufacturing sites in accordance with the law[49], his office would not actively seek remediation on properties like GE and Otis which are currently occupied.[50]

The proposed annexation area includes predominantly industrial zoned properties. Incorporating these parcels into Bloomington City Limits may help businesses obtain funds for any necessary environmental cleanup, according to Ron Walker from BEDC and Danise Alano-Martin from the Bloomington Office of Economic Development and Sustainability. Walker and Alano-Martin both agree that one of the annexation advantages for industrial properties lies in the resources and personnel the City of Bloomington can offer. These resources may apply to environmental clean-up projects such as Brownfield programs, as well as methods of blight reduction such as Infield programs and Tax Increment Financing Districts.[51]

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[47] PCB contamination cleanup was an agreed order with the United States Environmental Protection Agency.

[48] Walker, Ron. Interview by James Still, Brian Smith, Ed Klaunig, Marlon Webb. In person. Bloomington, IN. 29 March 2012.

[49] GE is also in the Institutional Control Registry, which is a legal measure that checks for the residual contamination of the cleaned up site

[50] Walker, Ron. Interview by James Still, Brian Smith, Ed Klaunig, Marlon Webb. In person. Bloomington, IN. 29 March 2012.

[51] Ibid.

Section 2.2: Quantitative Analysis of Fiscal and Economic Impacts

Financial Analysis

If Bloomington wishes to annex an area of the WSA then a fiscal plan must be developed. This section provides an overview of the financial implications of annexation and a starting point for further financial studies that might be required for annexation to proceed.

Expenditures

It is important to note that the property owners within the proposed annexation area are already receiving each of the services outlined in the cost models. These public works, public safety, and utility provisions are currently provided by Monroe County. Those properties included in the annexation plan will continue to receive each of these services, but through the City of Bloomington instead of the county. The resources of the City may prove greater, more advanced, or more efficient than those of the County, and thus we consider this transition to be a benefit to the WSA property owners.

Current City/County datasets were used to determine the costs of providing the annexation area with basic City services: public works, utilities and public safety. The total additional expenditures the City would incur from annexing the proposed area is $246,735[52].

Snow/ice removal, sidewalk maintenance, and EMS/fire represent the largest annual costs at $62,969, $68,773 and $65,626 respectively[53]. It is important to note however that these estimates (snow removal and EMS/fire particularly) are highly dependent upon the actual demand for these services in a given year. Though the costs of providing a given unit of any service may rise predictably, the demand itself will likely vary based on variety of factors (e.g. the lack of snowfall this winter). In this case we assumed the demand in the annexation area would remain largely static over the period. This is not an unreasonable assumption considering the area's small population and that many of the costs themselves are based upon the miles of road in the annexation area, which will likely remain unchanged.

Appendix 18 provides a projection of the three aforementioned largest service costs over the next 15 years. Though this assumes unchanged demand for services over the period, alternative analysis can be performed using the model, reflecting different assumptions regarding service demand. Appendix 19 displays the total projected service costs over the next 15 years. These costs are extrapolations of the current (2012) cost of service assumptions derived by the planning group. The growth of these costs is based on an assumed nominal growth rate of 5.51% of which inflation is 3.12% and real growth is 2.39%[54].

Revenue

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[52] See Appendix 16: Cost Summaries
[53] See Appendix 17: Service Cost Breakdown
[54] See Appendix 20: Growth Assumptions and Implications

The main revenue sources that will be impacted by an annexation are the property tax, county option income tax (COIT), and automobile-related taxes. From 2007 to 2011, the automobile-related taxes accounted for 5% of total revenue while the property tax and the COIT constituted 49% and 17% respectively. The total additional revenue for 2012 under conditions of annexation is $1,114,000. However, this will increase in the future as the full value of the COIT is received[55]. This proves to be much larger than the $246,735 cost estimate to provide the area with services.

Revenues: Property Tax

After calculation of the maximum levy in the event the annexation had occurred in 2011, we have concluded the City could have received an additional $1,018,390 annually beginning in 2012. This assumes complete compliance and that the City chose to levy the maximum amount. The area is comprised of businesses with high value real estate and a low population which results in maximizing the increase in assessed value while minimizing the necessary expenditures.

Indiana Code 6-1.1-18.5-3 Version b became effective January 1, 2012 and explains the process for calculating the maximum property tax levy[56]. The first calculation is the same for every government each year and it adjusts the maximum levy by a general growth factor based on the change of Indiana personal income. After determining the baseline maximum levy a City with an annexation is required to perform two additional calculations. These calculations represent the percent increase in assessed value from the annexation and the amount of any expected additional costs from servicing the annexed area.[57] The greater of these two calculations determines the maximum property tax levy[58].

While our analysis suggests the City can generate significant surplus revenue from the annexation, another possibility is to allow the annexation to reduce the property tax burden on current residents. If the City chose to only levy a property tax large enough to cover the additional expenditures that would be incurred then current City residents would see a decrease in their property tax bill. By calculating the tax rate that would occur in 2012 under scenarios assuming a maximum levy and one only large enough to cover costs, a property with an assessed value of $160,900 could potentially see a decrease in its bill of $36.90 or 2.79%. This corresponds with a rate decrease to 0.7978 from 0.8207. It is important to note that this potential savings only accrues to current residents if the City does not levy the maximum amount. The annexed area would see their property tax rate increase by 0.7978. The West Side businesses reside in Van Buren and Richland Townships which means their total property tax rates would be 2.1697 and 2.4658 respectively under the partial levy increase and 2.1926 and 2.4887 under

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[55] See Appendix 21: Additional Revenue due to Annexation

[56] The DLGF created a worksheet based on this process which can be found at: http://www.in.gov/dlgf/files/Sample_Max_Levy_Detailed_Report_2012_with_annexation.pdf

[57] Bailey, B. E. "Legislative changes to maximum permissible levies." State of Indiana, Department of Local Government Finance. 2011. Retrieved from website: http://www.in.gov/dlgf/files/110516_-_Bailey_Memo_-_HEA_1004_and_1288_Max_Levy_Guidance.pdf

[58] See Appendix 22: Property Tax Methodology

the full levy[59]. This also serves as evidence that the City does not need to be concerned with the businesses in the area reaching the 3% property tax cap on industrial property.

Revenues: County Option Income Tax[60]

The State of Indiana allows local units of government to receive tax revenue through the COIT.[61] The tax base for the COIT is Indiana individual adjusted gross income within the county levying the tax. This tax is collected by the State from county taxpayers at the same time as the Indiana individual income tax is collected. In Monroe County, the COIT is levied at a statutory rate of 1.05%. The state annually certifies a distribution of COIT revenue to each county, based on anticipated income tax receipts for the county in the coming year.

Most of the revenue received from the COIT is distributed to governments based on their share of the adjusted total property tax levy within the county during the previous year. For example, in 2012, $22.6 million was available for distribution to local governments in Monroe County. The City of Bloomington levied 40% of the total adjusted property tax levy in the County in the previous year, and claimed 40% of the total COIT revenue available for distribution in 2012 ($8.4 million). The County auditor is responsible for performing the calculations needed to distribute the COIT.

Any action that affects the City of Bloomington's property tax levy has the potential to affect the City's expected COIT revenue, including annexation. Annexation would expand the number of properties subject to the City of Bloomington's tax rate. If the annexation increases the City's property tax levy, it could increase Bloomington's share of the total property tax levied by governments within Monroe County. The increase in levy share would lead to additional revenue from the COIT. A decision to renew the PILOA agreement or discontinue the PILOA agreement would not have any direct effect on COIT revenue because PILOA payments do not affect the distribution of this tax.

The results indicate that the decision to annex would have a modest impact on the amount of COIT revenue the City of Bloomington could expect to receive. Adding $1,018,390 to the City's property tax levy would yield additional COIT revenue of about $162,089 in the 2013 budget year and $191,133 in the 2014 budget year. Over the next 15 years, the decision to annex would be expected to increase the City's amount of COIT revenue by about 2% over a baseline scenario without annexation.

Revenues: Automobile-Related Taxes[62]

The annexation of the WSA industries could have revenue implications for the auto rental excise tax, the wheel tax, and motor vehicle excise tax. Under the Indiana Code I.C. 6-6-5-10, the County auditor shall distribute the total amount of excise taxes for each taxing district based on

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[59] Data from the 2012 Monroe County Auditor's Property Tax Abstract
[60] See Appendix 23: COIT Methodology
[61] Indiana Code IC 6-3.5-6
[62] See Appendix 24: Motor/Wheel Excise Tax

the distribution of property tax revenues. Thus, to provide an estimate of the change in excise tax revenue from annexation, we use a rolling average of property tax levy in five previous years. The estimated wheel and excise surtax revenue will account for 4.25% of the City's property tax levy while auto and craft excise tax revenue will constitute 5.13%[63]. This corresponds to an increase in Wheel tax and Excise Surtax of $43,331 and an increase in Auto and Craft Excise of $52,279. We expect the additional revenues from motor excise taxes in the annexed area to remain stable into the future by assuming that there will not be any significant change in the distribution of property tax revenues in Monroe County after the annexation of the West Side Area.

Fiscal Benefits of Annexation

In summary, the City has the opportunity to realize additional revenue through annexation. Annexing the WSA would raise <u>$1,018,390 in additional property tax revenue</u>, even though the <u>cost of services for that area is only $246,735</u>. The additional revenue could be added to the City's budget or used to lower the city-wide tax rate by approximately 2.79%. If the city adds the property tax revenue to its budget it would also realize additional revenue from the County Option Income Tax, which would yield approximately 2% more revenue than a scenario without annexation. There is also a possibility of a slight increase in automobile-related taxes under an annexation scenario. The total additional revenue the City could realize from all taxes affected by annexation is approximately <u>$1,114,000.</u>

Regardless of the City's decision about the usage of revenue from annexation, properties in the WSA would be expected to experience larger property tax bills once they are subject to the City's tax rates. The WSA properties are located in Van Buren and Richland Townships and their total tax rates would be $2.1926 per $100 in assessed value and $2.4887 per $100 in assessed value under a full levy increase.

Economic Impact of Annexation

Annexation and the Business Climate: A Literature Review

Research in tax economics indicates that property taxes, on average, carry a greater negative impact on business activity than other state and local taxes.[64] [65] [66] Property taxes are also known to affect the location of jobs within a region, but generally do not have an effect on the growth rate of employment.[67] [68] Haider finds that "taxes rarely make for business relocation decisions

[63] Average of the percentages provided in Appendix 24: Motor/Wheel Excise Tax.

[64] Bartik, T. J. "Who Benefits From State and Local Economic Development Policies?" W. E. Upjohn Institute for Employment Research. 1991. Kalamazoo, MI.

[65] Bartik, T. J. "The Effects of State and Local Taxes on Economic Development: A Review of Recent Research." *Economic Development Quarterly* 6. 1992. Pp. 102-110.

[66] In multiple studies, Bartik (1991, 1992) found that the negative impact of a state or local tax on business activity is generally less than the increase in that tax, but that this does not necessarily hold true when only property taxes are considered.

[67] Luce, T. F., Jr. "Local Taxes, Public Services, and the Intrametropolitan Location of Firms and Households." *Public Finance Quarterly* 22. 1994. Pp. 139-167.

except where extremely tax-sensitive businesses and border considerations drive economic activity."[69] Wu adds that property tax rates have a negative effect on the number of service businesses, but not manufacturing businesses.[70] This is attributable to the fact that manufacturing facilities require a great deal of up-front capital investment.

The property tax rate can also affect the operations, and value, of current businesses. In general, property taxes, and other local taxes, are a small part of business operational expenses. For most manufacturing firms, labor represents 30 to 40 percent of operating costs, transportation and utilities represent 35 to 45 percent of operating costs, and local taxes represent 3 to 5 percent of operating costs. In the service sector, labor represents 60 to 80 percent of operating costs, and taxes account for 4 to 6 percent of operating costs.[71] In a limited sample of Chicago manufacturers who had left the City, taxes, crime, and congestion were cited by businesses as being the major sources of dissatisfaction with their Chicago locations. These were not, however, found to actually drive relocation decisions, which were instead driven primarily by a lack of site availability for industrial expansion.[72]

To relate these findings to the WSA, the area has historically been industrial, but more recently has seen an increase in the number of service and retail industries in the proposed annexation area. These businesses, especially the renters, may be sensitive to the increase in taxes. It is possible that businesses operating on the margins might be driven out of business by the property tax increases, while new firms might choose to locate just beyond the boundaries of the City of Bloomington. In the case of annexation, smaller businesses and those with smaller profit margins would be more likely to relocate, while it is unlikely that businesses with more investment in built property would be so tempted.

Impact on Broader County Economy

We assume that a tax increase on West Side industries will reduce other business expenditures in the local economy by crowding them out. In other words, $1 in property tax increase will result in reduced business expenditures of $1 plus the indirect effects of that $1 not being spent across the City. The business may eventually find ways to "pass it on" in higher prices and lower wages, but it is reasonable to expect that initially the cost would be internalized.

IMPLAN (IMpact analysis for PLANning) is an economic modeling system that can help us quantify the potential impact of property tax increases on local economic activity.[73] These

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[68] Mark, S. T., McGuire, T. J., and Papke, L. E. "The Influence of Taxes on Employment and Population Growth: Evidence From the Washington, D.C. Metropolitan Area." *National Tax Journal* 53. 2000. Pp. 105-123.
[69] Haider, Donald. "Business Location, Taxes, and Property Taxes." The Civic Federation. Research Series on Taxes and Property Classification in Cook County. 1998.
[70] Wu, Yonghong. "Property Tax Exportation and Its Effects on Local Business Establishments: The Case of Massachusetts Municipalities." *Economic Development Quarterly* 24. 2010. Pp. 3-12.
[71] Federal Reserve Bank of Chicago, "Designing State-Local Fiscal Policy for Growth and Development." *Assessing The Midwest Economy Project*, Chicago, IL. 1996.
[72] The Boston Consulting Group. "Strategies For Business Growth in Chicago's Neighborhoods" Boston, MA: BCG. Feb. 1998.
[73] Within these IMPLAN multipliers, we focus on the Type SAM (Social Accounting Matrix) multipliers The Type SAM multipliers are the direct, indirect plus induced effects where the induced effect is based on the information in

multipliers report the ripple effect of every dollar spent by an industry as the dollar moves through the local economy, affecting output, employment, and income.

We examined the WSA to determine which industries have the largest multiplicative effect in the economy of Monroe County. For output, employment, and income, the three leading industries vary, as outlined below. According to the output multipliers, we expect that for every $1 lost to taxes in the industry of investment advice, there will be a decrease of $1.77 in economy-wide output. For the same $1 tax lost in the industries of pet care services and child daycare services, we expect economy-wide output losses of $1.72 and $1.70, respectively. Regarding employment multipliers, we expect a decrease of 4.13, 2.91, and 2.62 employees economy-wide for every one employee lost in pharmaceuticals, banking and real estate, and lessors of nonresidential buildings, respectively. For the income multiplier effect, there is a decrease of $3.04, $2.94, and $2.49 in economy-wide income for every $1 lost in pharmaceuticals, real estate, and commercial bakeries.

We consider one hypothetical example of how increased property taxes might affect a single business and the local economy. For this case study, we will consider Baxter Pharmaceutical[74]. Looking at static effective tax rates[75] for 2010[76], if Baxter had been located inside the City, its tax bill would have been $389,415.03 instead of $270,485.56[77]—an increase of $118,929.46, or 44 percent. Multiplying this tax increase by the IMPLAN multipliers[78], we expect that the local economy's output would be reduced by $159,365 and local income reduced by $361,546. If the tax displaced two workers, for example, we expect that 8.26 other workers in the local economy would become unemployed. These figures quantify the potential larger economy-wide costs associated with increased taxes. Again, this example is based on the simple static effective tax rates observed for 2010 across the local tax jurisdictions; a dynamic analysis would estimate slightly smaller effects due to the increased assessed value in the City's property tax base.

While these are substantial economy-wide effects, it is important to recognize the benefit across the economy for any relief of tax burdens of businesses already in the City. This would occur if the City chose to annex and only increase the levy by the added WSA service costs. Under these circumstances, new WSA tax burden would offset some prior burden of other industries within Bloomington; those tax savings would be available for consumption and investment, and would be multiplied through the economy. However, in the case of annexation, the new burden would be concentrated among a few property owners in the WSA, while the tax benefits would be spread among the thousands of City residents. Thus, the marginal benefits for the City residents may not carry the magnitude of immediate and substantially increased tax costs in the WSA[79].

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the social account matrix. The social account matrix includes the amount each industry must produce in order for the purchasing industry to deliver one dollar's worth of output to final demand.

[74] Pharmaceuticals have the greatest income and employment multiplier effects in the area. This particular example ignores the tax abatement that Baxter currently receives from the county.

[75] See Appendix 25: Effective Tax Rates by Tax Jurisdiction

[76] Effective tax rate is calculated by dividing the tax bill from 2010 by the assessed value of the properties.

[77] This example disregards Baxter's current abatement on county property taxes.

[78] Output, employment, and income multipliers for pharmaceuticals: 1.34, 4.13, and 3.04, respectively

[79] Big changes (plant closing or plant opening) would likely carry a weightier impact per dollar than having business revenues fall or rise just slightly.

If the City pursued annexation and proposed the maximum levy without alleviating the burdens of properties already within the City, however, the net effect of increased taxes would be negative and likely very large. New taxes would function essentially as a further "invisible tax" on some segments of the local economy, because prices for WSA goods and services would increase, and some purchasing power would be removed from those businesses. The only mitigating factor for local economic effects would be the purchasing power of the government as it spends the taxes, but these transfers would likely not accrue to the business community. Therefore, if the City were to direct new taxes (above new service costs) into the general fund rather than to lower taxes on all other residents, there would be substantially more economic "losers" than in the case that new taxes in the WSA were transferred to City residents and businesses.

Section 2.3: Stakeholder Perspectives

We conducted interviews with ten businesses located in the WSA. Our interviews with business and owner stakeholders reveal that there is dissatisfaction with local government efforts to provide a friendly business climate and a feeling of negativity over how annexation would affect their business operations. We note that these interviews may not represent the sentiments of the larger Bloomington business community. Ron Walker informed us that the WSA features a high concentration of business owners who located there because of favorable tax and regulatory conditions.[80] This group would naturally resist any indication of government intrusion. There also is a certain amount of self-selection involved in the interview process. It is possible that those business owners with a negative view on the business climate of Bloomington were more likely to respond to our interview requests than those who have a positive or ambivalent view of the business climate. Unfortunately, it was beyond the scope of our project to interview representative businesses from all corners of the City to provide a more well-rounded analysis of perceptions of the business climate. It is very possible that many other businesses in Bloomington would support annexation of the WSA and resist suggested efforts to make the community more "business friendly," if that were to mean elimination of certain regulations that make Bloomington the unique community that it is.[81]

Business Climate

On the whole, our ten respondents consistently ranked the County as more favorable to business than the City, with average scores of 3.1 and 2.1 out of 5, respectively.[82][83] Almost every respondent indicated that the City signage regulations are overbearing, and there were also mentions of green space, parking space, lighting, and landscaping regulations that negatively affect the perception of the community's business climate.

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[80] Walker, Ron. Interview by James Still, Brian Smith, Ed Klaunig, Marlon Webb. In person. Bloomington, IN. 29 March 2012.
[81] Appendix 27: Additional Interview Quotes from Business Stakeholders
[82] The question: Generally, what is your opinion of the business climate in Bloomington? Possible responses: 5-Very favorable to business; 4-Somewhat favorable; 3-Neither; 2-Somewhat unfavorable; 1-Very unfavorable.
[83] See Appendix 26: Summary Statistics of Business Interview Questions

The comments regarding signage regulation were particularly colorful. One respondent shared the following:

> I could think of one nightmare that every, I mean every business owner I've ever talked to has faced: the Sign Gestapo. Whether they want to believe it or not, people talk about Bloomington in other communities, about it being so restrictive about signs and things like that. That's why many businesses over here want to stay slightly outside [City limits]…You can go to almost any other community and they encourage business, not discourage it. I've earned the right to say this because I'm from Bloomington, born and raised here. In fact, if I could go back to that point of time when I came to Bloomington, I probably wouldn't come back…If I'd known the direction of this City, I probably wouldn't have come here. Go to Lexington, Kentucky. They've got a beautiful town and they encourage business.

Another commented that "this is one of the hardest areas [in the state] when it comes to developing. We can't put a sign out because we have them on the building. You can only have so much square footing."

There are similar sentiments regarding green space regulations. One small business owner found it incredulous that when she built her property, "they made us plant 100 trees and bushes. And when we added on we had to put $10,000 more of trees and bushes." Yet another respondent provided the following anecdotes:

> I've been recently dealing with two companies that tried to expand within the City. [The planning commission] made it so difficult that one had to forego their downtown plans—they're going to the Printpack building out by GE. The other one was Circle Prosco, and the City made it so difficult with green space and parking space and what they were going to have to spend that they shut down the plan.

As a final note on regulation, one remarked that he "doesn't feel safe in downtown Bloomington at night anymore" because of low-light regulations. He attributed these rules to the fact that there are no business owners on the City council. "They have no clue. As long as they do not listen to small business owners we will see more failures."

There seems to be a general sentiment among business owners that they are also weary of the City's stance against heavy industry. One respondent provided the following:

> There is nobody that is actively pursuing large [firms] looking to invest or come into a facility. Because we have a high skill labor force, there are a lot of people around here that know how to work in factories. You put a whole lot of people in a factory and the trickle-down effect is immense. They all say that everybody loves to come here to retire, or come to school, but there's [sic] some of us in-between those two places and need to work.

Among respondents, there was little sympathy for the City's prioritization of arts. As one put it, "Arts are great in a driving economy. I appreciate art, but people don't eat paintings or sculptures. We've put all our eggs in that basket. But what's an arts district? People need to be making something." Another added that City officials "need to go take a ride to Columbus. That's where people that like art and business and whatever get along just fine. You have big business pumping money back into that town. It works. You can incorporate all of that into the City plan."

One respondent expressed great concern over the fact that "throughout the state, Bloomington is known as anti-business." He claimed to have gauged this sentiment for several decades from business associates across the state. In addition, he recalled that when Wal-Mart first moved into Bloomington, the Wall Street Journal quoted executives as saying that they had never faced so much red tape anywhere else in the country.[84] This sentiment was echoed by another PILOA zone owner, who recounted that "despite the property being outside [the City's] jurisdiction, the City of Bloomington Planning Director showed up to oppose the project."

The most common recommendation for making Bloomington more business friendly involved the composition of the City council and the planning commission. One respondent remarked that it seems like the council wants Bloomington to always look like it looked 50 years ago. Another commented that there is "an abundance of people on the City council who are regressive. They want to go back to the 1800s. They hate cars, but cars mean commerce!" The majority of respondents do not expect the local business climate to improve until more small business owners or former factory workers are elected to the council.

Another unique bit of advice, which actually has strong roots in the economic development literature, is that the City should better utilize the university:

> They ought to use the resources there: statistics, planning, and business savvy; they could basically have a partnering with business incubation, think tanks, joint ventures, et cetera. With the networking the university has to businesses around the world, they should utilize that biggest asset.

He was especially disappointed when he saw a Purdue-led venture at NSA Crane, and the multi-campus Purdue Research Park in Lafayette: "Where is ours down here? It wouldn't be ugly. It could look like the Ivy Tech campus. Put some effort in there, gang."

Business Impact

It is difficult to discern the likely impact of annexation on affected businesses. None of those interviewed expressed excitement about the prospect of annexation and most opposed the idea. Broadly, it appears that the larger businesses with capital-intensive facilities would not be sensitive to tax changes, but some smaller scale operations with local owners may be overexposed in the event of a substantial tax increase. Another broad observation is that businesses that own their land are going to be locked down, but renters of any size would be more open to exploring alternate locations. Especially for those businesses that originally located in the WSA because of the cheap rent and tax costs—which include several of our respondents—there would be a great impetus to look elsewhere once those benefits cease to exist.

[84] We were unable to find the article to corroborate this story.

Among renters, it is likely that only those already on the margin and considering a move would be pushed to make a move by annexation, and such businesses are probably in a precarious position regardless. That said, five of the seven locally based respondents indicated that they had explored the market for moving in recent years, so many of the renting businesses may be sensitive to increasing tax costs.

One important insight from the interviews is that all businesses leasing from Public Investment Corp (PIC) pay the full tax bill directly, so any change in tax liability would be felt immediately by those 30 firms. For other businesses renting within the area-to-be-annexed, the increased taxes would likely be passed on only partially and over time, though it would vary on a case-by-case basis[85]. Because of the unique leasing obligations for PIC properties and the seemingly transient nature of its business base, it appears likely that any move-outs induced by annexation would occur among its renters.

We asked the businesses how they would account for increased tax costs. The larger businesses and the corporate operations generally indicated that they had “not a lot of elasticity to pass this on.” These bigger firms would face “a combination of internalization, as well as cost-cutting measures.” One large firm indicated that layoffs in the corporate facility would be the likely result. The smaller and locally owned firms were split between increasing prices on their goods and services and exploring the potential to move to an alternate, more cost-effective site. Anecdotally, one business indicated that they had already made dramatic cuts to employee benefits packages due to increasing taxes, and resented the prospect of having to make further cuts for the sake of perceived government overreach.

Regarding annexation’s impact in terms of its potential benefits, the respondents were unanimous in their estimation that annexation would yield no benefit to their businesses. One offered the potential benefit that could arise if the City agreed to re-zone his property for retail, but this is a unique circumstance. With respect to bike and pedestrian pathways and increased bus service, all respondents indicated that their customers could not possibly be served by those means, due to the nature of their products and services. Because there is little in terms of new services that the City can offer these businesses in exchange for increased taxes, it is equally difficult to predict their potential response in terms of remonstrance.

The larger PILOA owners indicated that they would be very interested in renegotiating the agreement. This should come as no surprise, because a contractual payment could be smaller than the increased property tax bill. The downside to PILOA renegotiation is that the City would have to choose with caution which properties to attempt to include in the new arrangement, as some properties are too invaluable to risk upsetting the balance of amenable parties. Annexation, on the other hand, would ruffle many more feathers, but it would be a one-time exercise.

[85] The literature found that, generally, anywhere from 30 to 45 percent of the inter-jurisdictional difference in property taxes is shifted to tenants, which the remaining 55 to 70 percent were absorbed by property owners in the form of lower property values.
Source: McDonald, John F, “Incidence of the Property Tax on Commercial Real Estate: The Case of Downtown Chicago,” *National Tax Journal* 46. 1993. Pp. 109-120.

In sum, it is very unlikely that annexation and associated tax costs would themselves provoke a mass exodus of business from the WSA. It may instigate some movement of renting businesses, but these firms would likely move or close at some later point regardless of the municipal boundary. About half of respondents indicated that annexation would negatively affect the business climate because of new tax costs and a stricter regulatory environment. The other half recognized that annexation would have no effect on perceptions of the community's business-friendliness, because most people assume that the WSA is already part of Bloomington proper.

The far greater risk for economic development prospects in the area involve the larger regulatory concerns raised in our interviews, as outlined earlier. Firms considering a move to Bloomington will no doubt inquire as to the experience of firms already located in the WSA. Such inquiries may reveal, for example, the experience of one of our respondents: after locating in Bloomington in a competitive process, they were hit with multiple "hidden" tax increases, plus they were unaware of the PILOA agreement. The more noteworthy concern is whether the City's aggressive regulatory environment and the associated reputation will deter employers from moving into the area. Of course, there are tradeoffs between various quality-of-life ideals and deregulation, but the City should consider lessening the regulatory burden within the WSA specifically. This would serve to improve the area's business climate, as well as the perceptions of current employers. Setting up the annexation area as a reduced-regulation "industry zone" may be the best available "carrot" for inducing cooperation with the City's designs of a large-scale annexation of this diverse business community.

Section 2.4: Annexation Process: Start to Finish

This section focuses on the administrative procedures that must be followed by City officials and annexation area stakeholders in the event of annexation. This section begins with a discussion of the legal procedures that the City must follow as it prepares to annex County parcels. Should the property owners of parcels slated for annexation choose to protest the City's actions, this report lays out the legal procedure for remonstrance. Finally, we discuss the process that must occur after annexation is successful, whereby properties zoned under County standards will eventually need to be transitioned to City zoning standards.

Legal Annexation Procedure

The Indiana statute governing annexation, IC 36-4-3, gives great discretion to municipalities to annex territory.[86] The law establishes multiple paths to annexation in Indiana, but those paths fall into two categories - annexation initiated by property owners and annexation initiated by municipalities. Under both types of annexation, the territory to be annexed must meet contiguity requirements established by law. According to those requirements, "territory sought to be annexed may be considered 'contiguous' only if at least one-eighth (1/8) of the aggregate external boundaries of the territory coincides with the boundaries of the annexing municipality" [IC 36-4-3-1.5].

[86] IC 36-4-3, accessed 7 February 2012 at http://www.in.gov/legislative/ic/2010/title36/ar4/ch3.html.

Cities must take care to closely follow the process of annexation established by law because in cases of remonstrance, if contiguity requirements are met, remonstrators must prove that the municipality did not follow annexation procedure to prevent an annexation. It is advisable that cities establish a central point person, whether that be a city employee or outside counsel, to ensure that all the procedural requirements of annexation are met. An overview of the annexation process can be found in Appendix 28. Additional requirements, defined by IC 36-4-3-3-5, can be found in Appendix 29.

Previous procedural challenges to annexation have occurred over the assignment of council districts. In City of Muncie v. Lowe, 705 NE 2d 528 - Ind: Court of Appeals 1999, the City argued that "requiring a city to assign territory to a district at the time it passes an annexation ordinance places the city in an absurd situation."[87] Such a requirement requires a city to redistrict the entire city "at or around the same time and that this process could be thrown into chaos by a remonstrance."[88]The Court ruled, however, that only when an annexation ordinance comes into effect must a city redistrict as required by Indiana Code. An annexation ordinance must assign council districts to annexed territory.[89]

Additionally, "a municipality must develop and adopt a written fiscal plan and establish a definite policy by resolution of the legislative body" [IC36-4-3-3.1(a)]. The requirements of the fiscal plan are defined by IC 36-4-3-13(d) and are listed in Appendix 30.

It should be noted that though Indiana statute requires municipalities to develop a fiscal plan, the code "does not provide detailed criteria for the contents or analysis in a fiscal plan."[90] Thus fiscal plans prepared to meet the legal requirements for annexation vary widely between municipalities.

Because the statute does not "set criteria that judges or others can use to evaluate the quality of analyses or whether a minimum standard has been met," a wide range of fiscal plans have been accepted by Indiana Courts.[91] City of Hobart v. Carter, 644 NE 2d 898 - Ind: Court of Appeals, 4th Dist. 1994, provides an example of one of the instances when the Court ultimately ruled against the City for an inadequate fiscal plan due to the City's lack of evidence that it followed the legal requirements set by IC 36-4-3-13. Appendix 31 provides a brief summary of the court's ruling.

Municipalities are also required to hold public hearings on proposed annexation ordinances and provide notice of the hearing in accordance with Indiana Code 5-3-1. A public hearing notice must be published sixty days prior to the public hearing and "the municipality shall hold the

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[87]City of Muncie v. Lowe, 705 NE 2d 528 - Ind: Court of Appeals 1999. Accessed 14 March 2012: http://scholar.google.com/scholar_case?case=102944550432498055&q=City+of+Muncie+v.+Lowe,+705+N.E.+2d+528+(App.+1999)&hl=en&as_sdt=2,15.
[88] Ibid.
[89] Ibid.
[90] Lindsey, Greg and Jamie Palmer, "Annexation in Indiana: Issues and Options," Center for Urban Policy and the Environment, Indiana University School of Public and Environmental Affairs, Indianapolis, IN (1998), accessed 25 January 2012 at http://www.iacir.spea.iupui.edu/documents/Fullreport_fromWeb_wCover.pdf, pg. 36.
[91] Ibid. pg. 37.

public hearing not earlier than sixty (60) days after the date the ordinance is introduced" [IC 36-4-3-2.1 (b)]. In the case of annexation initiated by 100% of landowners, a public hearing notice must be published twenty days prior to the public hearing [IC 36-4-3-2.1 (d)]. This is because, according to statute, "the municipality may introduce and hold the public hearing on the annexation ordinance not later than thirty (30) days after the petition is filed with the legislative body" [IC 36-4-3-5.1(e)].

In addition to the public hearing notice, a municipality must provide notice by mail to "each owner of real property, as shown on the county auditor's current tax list, whose real property is located within the territory proposed to be annexed" [IC 36-4-3-2.2(b)]. Again, this is reduced to twenty days prior to the public hearing in the case of annexation requested by 100% of property owners [IC 36-4-3-2.2 (f)]. The requirements of the mailed notice to impacted property owners are defined by IC 36-4-3-2.2 and are listed in Appendix 32.

According to the code, "a municipality may adopt an ordinance" between thirty and sixty days after the public hearing is held [IC 36-4-3-2.1(c)]. In instances of annexation initiated by 100% of landowners, "the municipality may adopt the annexation ordinance not earlier than fourteen (14) days after the public hearing [IC 36-4-3-5.1(f)].

Citizen Appeals Procedure: Remonstrance

Remonstrance is the process by which annexation can be challenged by residents of the affected areas. This is a concern for Bloomington since it can be a lengthy and expensive process that halts the annexation proceedings.

Indiana Code 36-4-3-13 provides that municipal annexation may be appealed by property owners if sixty-five percent (65%) of the property owners or the owners of more than seventy-five percent (75%) of the assessed value of the land in the annexed territory file a written remonstrance with the circuit or superior court of the County in which the annexed territory is located within ninety (90) days of the publication of the annexation ordinance. Indiana law places the burden on municipalities to prove that annexation is in the best interest of residents, however, grounds for remonstrance are generally limited to procedural arguments.

In 2005, an exception to the above remonstrance threshold was passed making it easier for cities and towns to annex areas with at least eighty percent (80%) of the boundary if the annexation area is contiguous to the municipal parcel, and if the area contains fewer than 100 parcels. In these cases written remonstrance may only proceed if signed by at least seventy-five percent (75%) of the land owners.

To successfully challenge remonstrance, evidence must be presented that demonstrates that the municipality has developed and adopted a written fiscal plan by resolution of the legislative body. The fiscal plan must contain all required components as stipulated by Indiana Code 36-4-3-1 (d). In addition, the court can rule against annexation if <u>all</u> of the following conditions are true:

- Fire and police protection and street and road maintenance are adequately provided by an entity other than the municipality.
- The annexation will have a significant financial impact on the residents or property owners.
- The annexation is not in the best interest of the land owners.
- The aforementioned remonstrance thresholds are met.

Anecdotal evidence from our discussions with other municipalities suggests that the remonstrance process is often fueled by emotional appeals rather than procedural complaints. Given this, Bloomington should consider whether or not the political will exists to pursue annexation prior to initiating the process and ensure that resources exist to fight legal challenges to annexation.

Post-Annexation Procedure: Zoning

Monroe County and the City of Bloomington each have their own zoning jurisdictions. In the event of annexation, County zoning designations must eventually convert to their corresponding City designations.

Over the years the annexation area has consisted of several light/medium industrial companies (such as GE, ABB, PIC and Otis), commercial companies (such as Crane Federal Credit Union and Tieman Tire of Bloomington) and public lands. The County traditionally zoned the WSA as General Industrial due to the extended industrial development history of the region.

Regulations for Former County Zoning Jurisdictional Area

The proposed Annexation Area contains four major types of zoning districts under the County's zoning ordinance. For purposes of this section, the zoning districts are defined as follows:

- <u>General Commercial (CG) District</u>: Shopping centers, centrally located for the easy accessibility of the larger community.
- <u>Limited Industrial (IL) District</u>: Light industry, whose development includes site design, architecture, and signage of a high quality meant to minimize impact on nearby residential or commercial areas.
- <u>General Industrial (IG) District:</u> Intensive use of property to accommodate heat, processing, and storage associated with heavy industries.
- <u>Planned Unit Development (PUD) District</u>: Specially designed ordinance intended to encourage flexibility in development. Affected features may include land use, design, City services, and variances due to site specific conditions.[92][93]

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[92] See Appendix 33: WSA Zoning Boundaries

[93] Monroe County, IN. "Monroe County Zoning Ordinance." Last accessed 23 April 2012. Retrieved from: http://www.co.monroe.in.us/tsd/Government/Support/Legal/MonroeCountyCode.aspx

Transition

A critical issue in the annexation of County properties is the shift from County to City zoning jurisdiction. In this case, there are no major conflicts of long-term development plans between either jurisdiction. The divergence between current County and City Zoning Jurisdictions is the classification of the heavy/light industrial zone.

From the City's perspective, the WSA should be classified as 'light industry' instead of 'heavy industry'. Heavy industry, often categorized as "capital intensive," includes mining and manufacturing of steel, natural gas, and coal.[94]

The City of Bloomington encourages light industry, or "labor intensive" industry. Light industries include areas such as health care industry and developments in information technology.[95] Light industry avoids the natural resource implications of heavy industries such as mining and instead emphasizes innovation and development.

The Industrial General (IG) zoning designation for the City strives to achieve two goals: to support the existing and future industrial uses that accommodate the basic employment needs for the surrounding area, and to ensure that the industries established in Bloomington serve to mitigate the potential negative impacts, such as noise, vibration, outdoor storage, and detriment to air or water quality, that may affect nearby properties.[96]

While heavy industry is possible through IG Conditional Use, guiding principles such as the Growth Policy Plan[97] are in place to achieve the City goals.

Implementation

In the case of full annexation of the WSA, the first major step would be to identify the existing County zones and their compatible City zones.

The discrepancies in the zoning requirements would then need to be articulated. A key to this transition is communication with the property owners of the zoning changes and the corresponding changes to future land uses. In this circumstance, City Planners would need the opportunity to discuss the shift of zoning districts with the parcel owners. While there will be variations in the zoning restrictions, owners must be informed of the "grandfathering" nature of the restrictions. Because each property was developed in adherence to the County zoning

[94] Teubal, Morris. "Heavy and Light Industry in Economic Development." *The American Economic Review* 63, No. 4. Sept. 1973. Pp. 588-596.
[95] City of Bloomington. 2002 Growth Policies Plan. 18 May 2005.
Retrieved from: https://bloomington.in.gov/media/media/application/pdf/49.pdf
[96] Bloomington Planning Department. "Unified Development Ordinance (UDO)." Last accessed: 23 April 2012 Retrieved from: http://bloomington.in.gov/udo
[97] The Growth Policy Plan (GPP) is a comprehensive guide for the City of Bloomington to assist in decision making for planning and development, developed in 2002 and amended in 2005. This guide serves to identify the priorities for the direction of the City.

requirements, each is considered "in compliance" with the City's designation, whether or not its use restrictions differ from the prior County designation. While there are discrepancies in the use requirements, it is only upon altering the property or facility that they will be obligated to conform to the City zoning standards.

That means if a firm is failing to comply with the new zoning requirements imposed by the City, it would be permitted to do so through the "grandfathering" process until it chooses to make land or facility improvements, such as building an additional parking facility on its lot. At that point, it will then be required to meet any outstanding compliance guidelines immediately.

This conversation with property owners is meant to be one of reassurance, in which a transition in zoning is not a threat or a forcible change, but instead an opportunity to continue with business as usual. It is then the choice of the parcel owner to embark on any additional alterations, thus adopting existing zoning requirements as well.

Section 2.5: Best Practices for Annexation

The length of the past PILOA agreements illustrate that the West Side industries are highly valued in the region. The goal of the City is not only to avoid remonstrance, but also to communicate that annexation is a beneficial process and prevent an adversarial relationship with these businesses. The City's approach in handling the annexation process can have a lasting effect throughout the community for many years into the future. Based on a review of annexation in both Bloomington and throughout Indiana, the City should consider the following recommendations to ease the process of annexation, mitigate any opposition that may arise, and build a stronger relationship between the City, County, and the WSA.

Administrative

The City must develop a strong position statement regarding its intent and legal right to annex the WSA. The City's official position must be confidently portrayed to the public at large. City residents and the owners of West Side businesses should understand that annexation is in the best interest of the City as a whole, and well within the legal rights of the City to pursue. This official statement must be advocated by a central figure within City administration. Since the mayor acts as the chief executive, it naturally follows that he be the main point person. A review of Bloomington's recent history reveals that the current mayor has limited experience with annexation and it is recommended that the mayor work closely with his current staff in the Legal, Planning, Controller, and Economic Development Offices to facilitate internal coordination and communication around a unified public position.

Additionally, the City should develop a robust fiscal plan and timeline for annexation, adhering to the specific requirements as prescribed by Indiana statute and in consideration of the grounds upon with owners may remonstrate.

Political

The City must go beyond the legal requirements for public notification and strive for complete transparency. City officials and political leaders should schedule town meetings affirming the City's official position. Indiana statutes require that an ordinance be issued as an initial step in the annexation process. Yet, given the need to garner political will, the City should also seek public testimony from a coalition of individuals and groups in support of annexation (e.g., citizens, businesses and community groups).

In addition to public meetings, the City should take advantage of all channels of communication. The City should develop a section of its website to clearly outline past, current, and future annexation plans. The City of Kokomo maintains a section of their website that outlines reasons, effects, and areas of annexation.[98] While the City of Bloomington has an annexation webpage on its website, the information is limited. Following the City of Kokomo as an example would provide a more comprehensive and informative resource for citizens.

The City should also keep other governmental entities informed of their interest and plans for annexation. Officials need to clearly communicate their intent to Monroe County leaders and state-level officials, including representatives in the State Senate and House. It is important that the City present its intention to annex the WSA prior to any opposition doing so. Annexation proceedings will be more successful if the City acts in a collaborative manner and involves all stakeholders.

Pending Legislation

It is strongly recommended that the City remain aware of pending legislation related to annexation. In the past several years legislation has been introduced into the Indiana General Assembly making municipal annexation more difficult or amending the legal process by which annexation may be challenged. Most recently, SB 222 was introduced into the Indiana Senate. This legislation provides that in determining a municipality's levy limits for a particular ensuing calendar year, the cap on increased assessed value applies to all annexation. The legislation also stipulated that annexation may be defeated without showing at the hearing that (1) at least 65% of the owners of the land oppose annexation; or (2) the owners of more than 75% in assessed value of the land oppose annexation if a court determines that several conditions have not been met. At the time of writing, this legislation has not been acted upon by the Senate. However, the City should continue to monitor the Indiana General Assembly and maintain close contact with Bloomington's representatives in the State Senate and House regarding the City's intention to pursue annexation.

Business Climate

If the City of Bloomington chooses to annex the WSA, there are several options the City could utilize to welcome businesses into the City and maintain an attractive West Side business

[98] For reference see http://www.Cityofkokomo.org/main.asp?SectionID=25

climate[99]. In particular, the City may consider offering tax abatements, creating an impoundment fund, or creating a zone with reduced planning controls. All three of these options could help mitigate negative effects that may result from an annexation.

Abatements to Phase-In the Annexation

Offering property tax abatements for properties intended to be annexed would result in more gradual increases in property tax bills. Since many businesses would likely see a dramatic increase in their property tax rate following annexation, businesses may need to modify cash flows or operating procedures to pay their tax bill. Phased in tax abatements would provide increased certainty regarding future costs.

Short-Term Impoundment Fund for Infrastructure Improvements

An impoundment fund which reserves a portion of West Side businesses' property tax payments for local improvements may help maintain a positive business climate. While an impoundment fund may not win over remonstrating owners prior to annexation, it could help resolve any outstanding animosity after annexation. This fund could be managed by a volunteer board consisting of annexed business owners.

Industrial Zone with Reduced Planning Restrictions

Interviewed businesses have disclosed a dislike of City and County planning controls and general ordinances, which have been perceived as too restrictive. While businesses would likely be opposed to annexation because of increased costs, some businesses may support an annexation proposal that also brings less restrictive ordinances to the WSA. As a result, the City could consider coupling annexation with the creation of an industrial zone with reduced zoning restrictions.

[99] Some of these recommendations are based on experiences in Kokomo and Fishers.
See Appendix 34: Indiana Case Studies: Annexation, Economic Development, and Business Climate

Chapter 3: PILOA Renegotiation

This chapter examines the implications of a PILOA renewal with the WSA. It first presents the Indiana Code that establishes the legality of and PILOA and PILOT agreements. It then presents case studies on the experiences varying cities have had with different types of PILOA agreements. It concludes with an overview of the best practices the City of Bloomington should follow in the event of PILOA negotiations.

The economic, financial, and planning implications of PILOA renewal are not included in this chapter because they do not substantially change with PILOA renewal.

Section 3.1: Indiana Law

In Indiana, municipalities and property owners may enter into payment in lieu of annexation (PILOA) agreements under IC 36-4-3-21(a). The specific permissions outlined by the code can be found in Appendix 35.

Municipalities are given authority to adopt ordinances to require property owners to make payments in lieu of taxes (PILOT) by IC 36-2-6-22. In general, the code requires that the agreement be subject to the approval of the property owner and the payment structure be based on assessed value. The full requirements of the code are listed in Appendix 36.

Section 3.2: PILOT Case Studies

Frankfort, Indiana: Annexation Phase-In Agreement

The City of Frankfort, Indiana and the Frito Lay Company entered into an annexation phase-in agreement that has recently ended in annexation. The structure of this agreement may provide insight into how the City of Bloomington may structure a similar agreement with the West Side Area (WSA).

Background to the Frankfort Annexation Phase-In Agreement

The Frankfort, Indiana agreement was entered into between Frankfort, a City with just over 16,000 residents and the Frito Lay Company of Plano, Texas. Frito Lay operates a facility just outside Frankfort and employs approximately 1,500 individuals. The agreement is dated December 30th, 2002. The City of Frankfort recognized Frito Lay as an asset to their community and in the interest of the City and for the benefit of long-term planning, the two entities entered into this phased annexation agreement.

Agreement Structure

The primary service provided by the City of Frankfort to Frito Lay is fire protection, which was previously provided under a separate fire protection contract. Under the new agreement, Frito Lay agreed to make payments in lieu of taxes to the City of Frankfort for the continuation of fire protection services from 2003 through 2012. Annexation would take effect January 1, 2012 and fire protection would then be provided by the City along with other municipal services. The phased annexation from 2003 through 2012 was termed the "Transition Period." Initially signed in 2002, the first term of the agreement was four years, which was then extended for four more years. The Annexation Phase-In Agreement specified that in 2009 the City would begin the annexation process and the annexation would be in full effect in 2012. During the three-year annexation period, Frito Lay would be given tax abatement until January 1, 2013.

Features of the Agreement

- Frito Lay was required to sign a Waiver of Remonstrance and agree not to remonstrate against annexation.
- Payments agreed upon constituted a lien on the real property of the Frito Lay Company.
- The agreement was recorded by the Clinton County, Indiana Recorder.
- Any transferees or successors of Frito Lay on the real property would be bound by the agreement.
- If the Company failed to make an agreed upon payment within 10 days of the due date, the material breach of contract allowed the City of Frankfort to immediately proceed with annexation.
- Any other breaches of contract gave the City of Frankfort the right to proceed with annexation immediately.

Lafayette, Indiana: Annexation Phase-In Agreement

Background to the Lafayette Annexation Phase-In Agreement

Another example of an Indiana PILOA agreement ending in annexation occurred in Lafayette, Indiana. In 1986, Subaru and Isuzu broke ground on a large new automotive plant just outside of the City that was projected to employ 1,500 local workers.[100] Though employment at the plant was lower than expected,[101] Subaru valued the plant (still known as SIA) enough to buy out Isuzu in the early 1990's and keep the facility open through changes in the automobile market.

Although it is unclear when the City achieved the contiguity requirements for annexation, in 1998 the City Council passed legislation setting up a PILOA agreement for SIA that would end in the plant's annexation in 2005.[102] Interestingly, Subaru requested the annexation by the City; although the history is not completely clear, it appears that the company was interested in services that the City could provide, including joint fire protection.[103]

Structure Payment Amounts

The City of Lafayette benefitted greatly from the PILOA agreement- SIA paid the City $350,000 in the first year of the agreement (1999), and the amount increased year by year; by 2005, the

[100] Laurendeau, M. "Subaru-isuzu -- blue skies over Lafayette." *Indiana Business Magazine* 31(11). 1987.
[101] Matz, K. "SIA, governor disagree on job training funds." *Lafayette Business Digest.* 13(10). 1995.
[102] Lafayette City Council, Ordinance 98-55 (Amended).
[103] "SIA, 100 others to be annexed." *Lafayette Business Digest*. 19(35). 1998.

year before the actual annexation took place, Subaru paid $1,900,000 through the agreement[104]. After the annexation, the ordinance allows for the use of state-sanctioned property tax abatement for the SIA plant.[105]

Corpus Christi, Texas: Industrial District Agreement

The State of Texas allows, like Indiana, for unilateral annexation of extraterritorial land by the city. Accordingly, Texas also allows for the creation of "Industrial District Agreements," which serve the purpose of a PILOA agreement. A representative from the Corpus Christi Regional Economic Development Corporation provided us with a sample agreement that the City of Corpus Christi (population approximately 300,000) uses to work with extraterritorial industries.[106] While the Texas legal framework may be somewhat different from what exists in Indiana, some aspects of the Corpus Christi agreement can be instructive as Bloomington considers what provisions might be included in future PILOA agreements.

Main Contract Features

The contract requires that the industry in question be located within the City's extraterritorial jurisdiction. Unlike the currently existing Bloomington agreements, the Corpus Christi agreement is with only one company. The agreement names the property of the company as an Industrial District for the 10 years that the contract is in effect. The contract has the following effects, which are similar to those envisioned by the Bloomington agreements:

- Under the agreement the City may not annex the Industrial District,
- The City may enforce only minimal zoning requirements,
- No City services are provided (except for fire service, which requires an additional payment as described below), and
- The industry must make a good faith effort to procure needed supplies from the surrounding counties.

Payment Amounts

Payments required from the industry are equal to 100% of what the industry would pay in property taxes on real property excluding improvements, plus 60% of what the industry would pay in property taxes on improvements. To encourage new industrial development, new land acquired by the company automatically comes under the agreement, but payments for new improvements are phased in gradually over 12 years before coming to the full 60% amount. To receive City fire protection, the industry must pay an additional 15% of what its property tax would be for improvements, on top of the payments detailed above. Alternatively, the industry may contract with a certified private fire protection firm.

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[104] Lafayette City Council, Ordinance 98-55 (Amended).
[105] Lafayette City Council, Ordinance 98-55 (Amended).
[106] Martinez, Emily. City of Corpus Christi, Regional Economic Development Corporation. 2 March 2012.

Enforcement

Enforcement of the Corpus Christi agreement does not depend on self-policing, since each industry is contracted with independently. Rather, if the company fails to comply, then the City can terminate the agreement and the City can sue to recover remaining payments, attorney fees and other costs of collection (as would be the case with delinquent taxes). In these cases notice must be given and the industry then has 60 days to comply. Additionally, the City is entitled to a tax lien in the event of a default. At the same time, the company can enjoin the City from annexation if the City ever breaks its agreement and attempts annexation.

Transfer of Ownership Provisions

The Corpus Christi agreement specifies that if the property in the industrial district is being subdivided and sold, the seller can avoid platting and remains responsible for payments under the agreement unless a supplemental industrial district agreement has been entered into by the buyer. Alternatively, if the property is platted, then the buyer inherits the agreement. The same is true if the entire industrial district property is sold.

Section 3.3: Best Practices for PILOA Renegotiation

Our research into other jurisdictions with PILOA agreements has given us some insight into how such agreements are best used and the way in which they can be structured for the benefit of both the companies involved and the City.

Parties

- Maintain a joint agreement between the City and all industries in the WSA.

  Unfortunately, we were unable to locate any PILOA agreements with the complexity of Bloomington's situation. Although the SIA annexation in Lafayette involved 100 other property owners, the ordinance approving annexation only concerned payments from the Subaru plant; the Frankfort-Frito Lay annexation was similarly structured. Agreements in Corpus Christi are always signed with a single business in a defined industrial area. The situation in Bloomington clearly requires that any new agreement be signed by multiple property owners and, correspondingly, that all businesses signing the agreement feel the legitimacy of potential annexation by the City.

- Rather than a joint committee, the City could use a single point person to coordinate all agreement-related matters with a single point person representing the industries.

  Administratively, the 1987 and 1998 agreements had a number of requirements for communication with the businesses at different points in a lack-of-payment situation. While the Joint Committee was supposed to ease this process for the City, as well as recruit new businesses to the City, its lack of use indicates that this structure may be unworkable. Instead, it may be easier for the contract to be managed by a single point person responsible for communicating necessary information to the businesses and by a corresponding point person at the City. We found no precedent for the Joint Committee in other agreements, and it would be easier for the two point people to coordinate any needed renegotiation discussions than it would be for a committee and to communicate about any defaults. The timeline for renegotiation of the agreement should be explicit, and any changes can be coordinated through the two point people.

Governance and Enforcement

- Transfer of ownership should be facilitated by legal recording with Monroe County.

A clear weakness of the existing agreement is the lack of planning for the transfer of land ownership to new parties. Any new agreement should be recorded with Monroe County, to make sure that any new subdivision of WSA land does not impact the City's revenue from the agreement.

- Explore the possibility of using property liens as a secondary method of enforcement.

The Frankfort agreement was written to allow the amount of the agreement to be used as a lien against Frito Lay's property. Similarly, the Corpus Christi agreement was written to allow any delinquent payments to be placed as a lien against the property. While it is unlikely that the businesses in the WSA would agree to have their yearly payments used as a lien to prevent sale and title transfer, it is possible that they might agree to have delinquent payments used as liens. This could provide a measure of additional security to the City and to the businesses, as they could worry less about curing another party's default. If liens are used, the City will need to establish clear lines of communication with the businesses in the area as well as a firm timeline about when annexation procedures would begin following a business default on the agreement.

Payment

- The City should thoroughly investigate the possibility of adding payments due to Monroe County property tax bills.

If the payments due through the agreement can be added to the property tax bill, the City will find enforcement far simpler. It would also be easier in this scenario to remove the yearly payment from the agreement, and alternatively, assign the business payments directly to the assessed value. This would structure the agreement more like a traditional property tax, and would make it much easier to explain to any new entrants to the industrial area.

- If it is not possible to add the payments due to property tax bills, the set yearly payment structure should be continued and should be based on assessed value in the industrial area in the year the agreement is signed.

- The City should negotiate for higher payment amounts based more closely on property assessed value in the industrial area. The use of the New World computer system will enable this process to be much easier to manage from a City perspective than it was in the past.

The actual amounts gained by other agreements for their respective cities were also much higher than the amounts aimed by the Bloomington agreement. The amount that Bloomington would gain from a new agreement would be settled in negotiations with the businesses, and it would be critical in these negotiations to stress that the City has all of the legal requirements for annexation already met.

PILOA as Economic Development Tool

Our research indicates that there are two primary ways to approach PILOA agreements- as a bridge to annexation, with phased-in payments gradually approximating the amount that the companies would pay under normal property taxes; or as an economic development tool to attract and retain businesses that might choose to relocate or locate elsewhere if full property taxes were assessed. Our conversations with City Officials indicate that the City of Bloomington has thus far used its agreement as more of an economic development tool than an actual bridge to real annexation, though it appears that the City has had the legal requirements for annexation fulfilled for decades.

- The City can continue to use the set percentages payment structure as an incentive for companies in the industrial area to do property improvements.

Effectively, the structures of the older Bloomington agreements incentivized businesses in the industrial area to improve their property, as their payment structure was set throughout the life of the agreement (usually 15 years).

- The City could use the formula described in the 1998 agreement (or a modification) to incorporate the WSA into its existing economic development plan.

The 1998 agreement described a formula that would, if developed by the Joint Committee, dedicate additional money collected through the agreement into road and traffic improvement based on increased payroll and capital improvements. The City could develop this formula in a new agreement in a way that could incentivize businesses in the industrial area to hire more workers or to expand their businesses in return for either increased money spent on road and traffic improvements or even decreased percentages paid to the City.

Chapter 4: Conclusions

Annexation: Impact on City Stakeholders

The largest quantifiable benefit to the City of Bloomington would come from additional tax revenues. Annexation would yield $1,114,000 in additional revenue in the year following annexation. Of this, $1,018,390 would come from property taxes.

A small fraction of these revenues would go towards the cost of providing services to the annexation area. It is estimated that the additional cost of services resulting from annexation would total $246,734 in the first year following annexation. Public safety services would represent the majority of these costs, at an estimated $164,855.

Annexation: Impact on WSA Stakeholders

Annexation will extend City of Bloomington Public Works and Public Safety services to the WSA. While many of these services are currently provided to the area through the County, the City can devote more resources to the provision of some of these services, such as road maintenance or fire protection.

In the long run, as the economy and demography of the WSA changes, especially with the construction of Interstate 69, the City will be better equipped than the County to provide WSA stakeholders with improved infrastructure, mass transit and connectivity enhancements, and environmental remediation efforts.

The most obvious downside for WSA stakeholders comes with the payment of City property taxes. Some businesses, especially those who rent property, may consider relocation. However, based upon the finding in this report, increased taxes are unlikely to drive away major WSA industries.

Annexation: Best Practices

Should the City decided to annex the WSA, we suggest they adhere to the following best practices:

- Develop a strong position statement regarding the intent and legal right of the City to annex the WSA.
- Develop a robust fiscal plan and timeline for annexation.
- Consider hiring outside counsel to oversee the process.
- Go beyond the legal requirements for public notification and strive for complete transparency with the community and other levels of government.

- Stay aware of legislative developments at the state level that could impact the annexation process.

- Consider implementing an industrial zone with reduced zoning restrictions as a "carrot" to annexation for the affected businesses.

Renegotiate the PILOA: Best Practices

Should the city decide to renegotiate a PILOA agreement, they should follow these best practices:

- Transfer of ownership should be facilitated by legal recording with Monroe County to avoid lack of payment by new owners who do not sign the agreement directly.

- Use property liens as a secondary method of enforcement.

- Add agreed PILOA payments due to Monroe County property tax bills.

- Negotiate for higher payments more closely based on assessed value.

- Use the existing New World computer system to manage payments over the life of the agreement.

- Use the new PILOA agreement as an economic development tool to incentivize businesses in the area to make improvements.

The City of Bloomington and the West Side industries have a longstanding relationship. While it has been contentious at times it is clear through the three past PILOA renegotiations that it is mutually beneficial. The WSA is, however, changing. The sale of Otis resulted in splintering of parcels and an increase in business activity in the WSA, complicating the possibility of PILOA renegotiation. In addition, the expansion of Interstate 69 will result in further development of the WSA in the near future.

The City's approach in handling the annexation process can have a lasting effect throughout the community for many years into the future. By following the best practices and processes outlined in this document the City can ensure the impact is positive.

Appendix

Appendix 1: PILOA Businesses Subject to Annexation

ABC Supply
Advantage Auto
Affordable Dentures
American Rentals
Apex Financial
Apria Healthcare
Aunt Millies Bakeries
Author Solutions
AutoChoice
Barry Company
Baxter
Bill Resch Insurance
Bloomington United Gymnastics School
Bloomington United Soccer School
Carmichael Truck & Auto
Carpets Plus
Cook Polymer (Formerly Sabin)
Dog House
Eckart Wholesale Supplies
Fastenal
Fed Ex
General Electric
HD Supply Waterworks
Indiana MRI
Indiana Oxygen
Industrial Service & Supply Co.
K & K Sales
Kern Financial Services
Liberty Family Dentistry
Liberty Park Warehouse
Lincare
LK Technologies
Meineke
Menards
ModusLink
Nash Finch MDV
Penny Lane Daycare, West
Penske
Stanley Steemer
Stephens Honda/Hyundai
Teamwork
Terminix
Tieman Tire Co.
Universal Products & Services Inc
Weddle Foods
Wendy's of Bloomington
West Side Tractor Sales
X-printware & Promotions

Appendix 2: PILOA Businesses NOT Subject to Annexation

Acacia Investments
Adams Crossing LLC
Cook Inc. (Daniels Way)
Grubb, Donald E & Waneta J
RC One LP
TDDM LLC

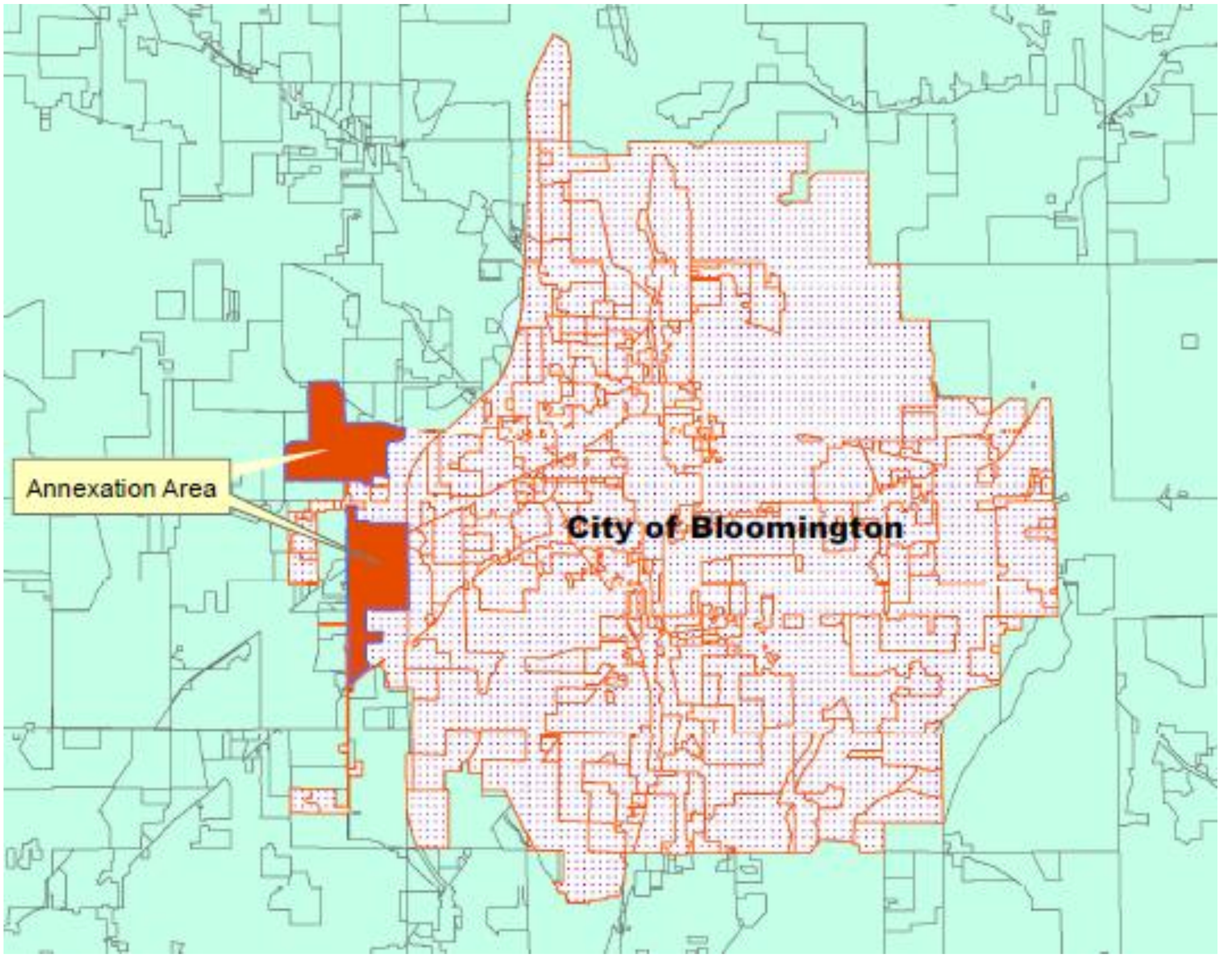
Appendix 3: PILOA Property Owners Subject to Annexation

Owners	Associated Businesses
1663 Liberty LLC	Author Solutions
ABB Inc.	*Not in Operation*
Baxter Pharmaceutical Solutions	Baxter Pharma
Bryan Rental Inc	K & K Sales
Cook (Formerly Sabin)	Cook Polymer
Davis, R O Real Estate LLC	Stephens Honda & Hyundai
General Electric Company	General Electric
Grocery Supply Acquisition Corp	Nash Finch MDV
Jack Craig & Jeff Hamilton	ModusLink
James Hammond	American Rentals
Jastrenski Holdings LLC	Liberty Family Dentistry
Liberty Park LLC	Liberty Park Warehouse
LK Associates LLC	LK Technologies
Menards	Menards
Michael Woodson	Bill Resch Insurance; BMV
Perfection Bakeries Inc	Aunt Millies Bakeries
Public Investment Corporation	*Many: see below*
Richland Development Group	Terminix; HD Waterworks; Eckart Wholesale
Shaw, Robert and Nancy	Fastenal; Carpets Plus
Tower Holdins LLC	*Cell tower*

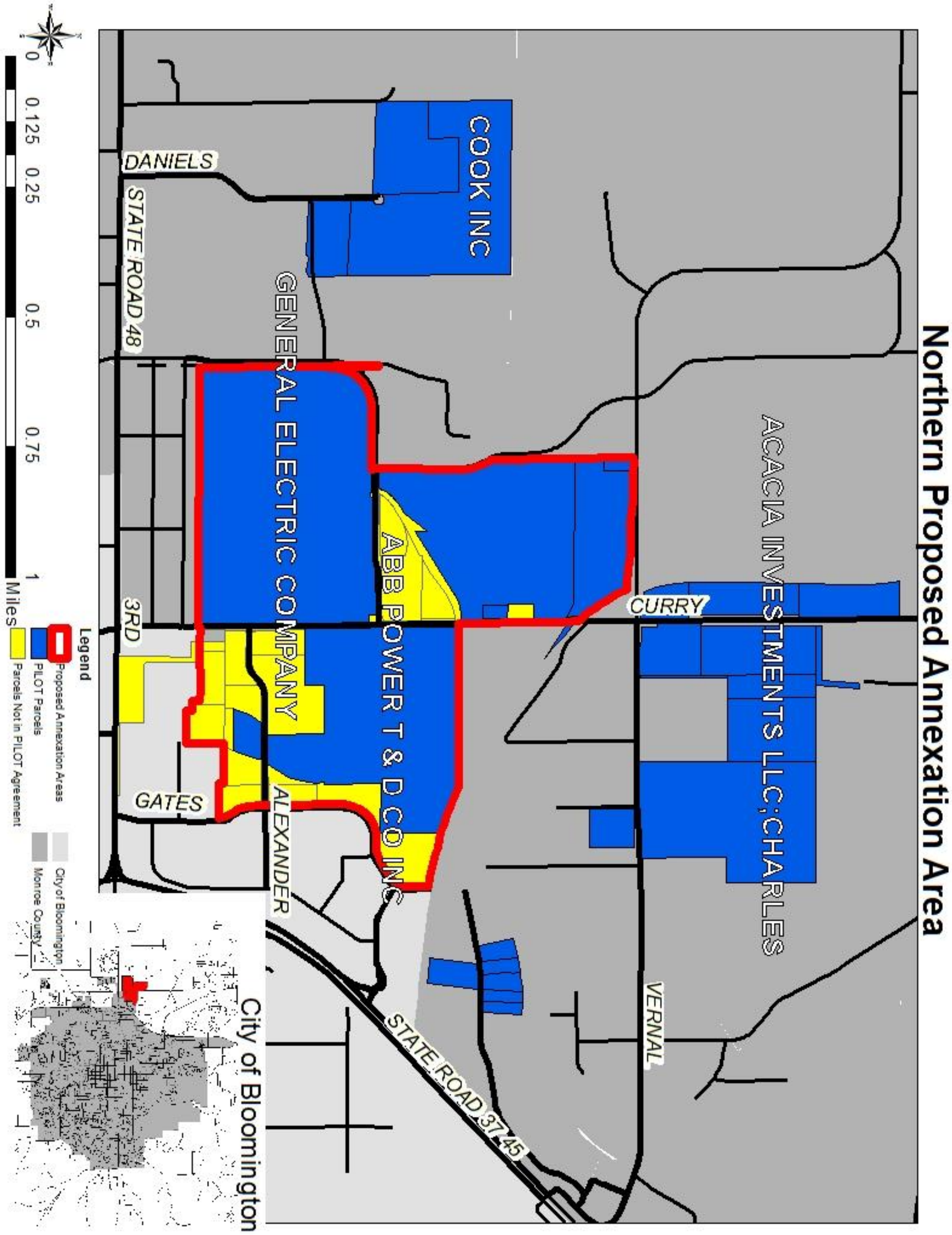
Appendix 4: Non-PILOA Businesses Subject to Annexation

Owners	Associated Business
Allan MacKay, Dr.	First Health Care
Amerigas	Amerigas
Circle-Prosco Inc.	Circle-Prosco
Crane Federal Credit Union	Crane Federal Credit Union
DBOB Bloomington	Extra Space Storage
Foret Claire Properties	Bright Chiropractic
Jack Thomson	Building Associates Inc
Matthew Reiter	Interstate Battery
Michale Sonneborn	Commercial Services
Mirwec Film, Inc.	Mirwec Film
Public Investment Corp	*Formerly Mastertech Auto*
Union Savings Bank	Union Savings Bank (West)

Appendix 5: Annexation Area in Relation to City of Bloomington Boundaries



Appendix 6: Northern Proposed Annexation Area



Appendix 7: Southern Proposed Annexation Area

Appendix 8: One-Time vs. Phased Annexation

Tom Micuda proposed several options for phased annexation that would incorporate different sections of the PILOA properties into the City of Bloomington at separate times (see map below).

Due to the added complexity combined with the limited timeframe of our project, we decided to use a one-time annexation plan, rather than phasing in parcel groups at separate times.

A phased annexation plan would require us to make several assumptions that might complicate our analyses to a point that it would weaken our ability to provide clear and accurate information to decision-makers.

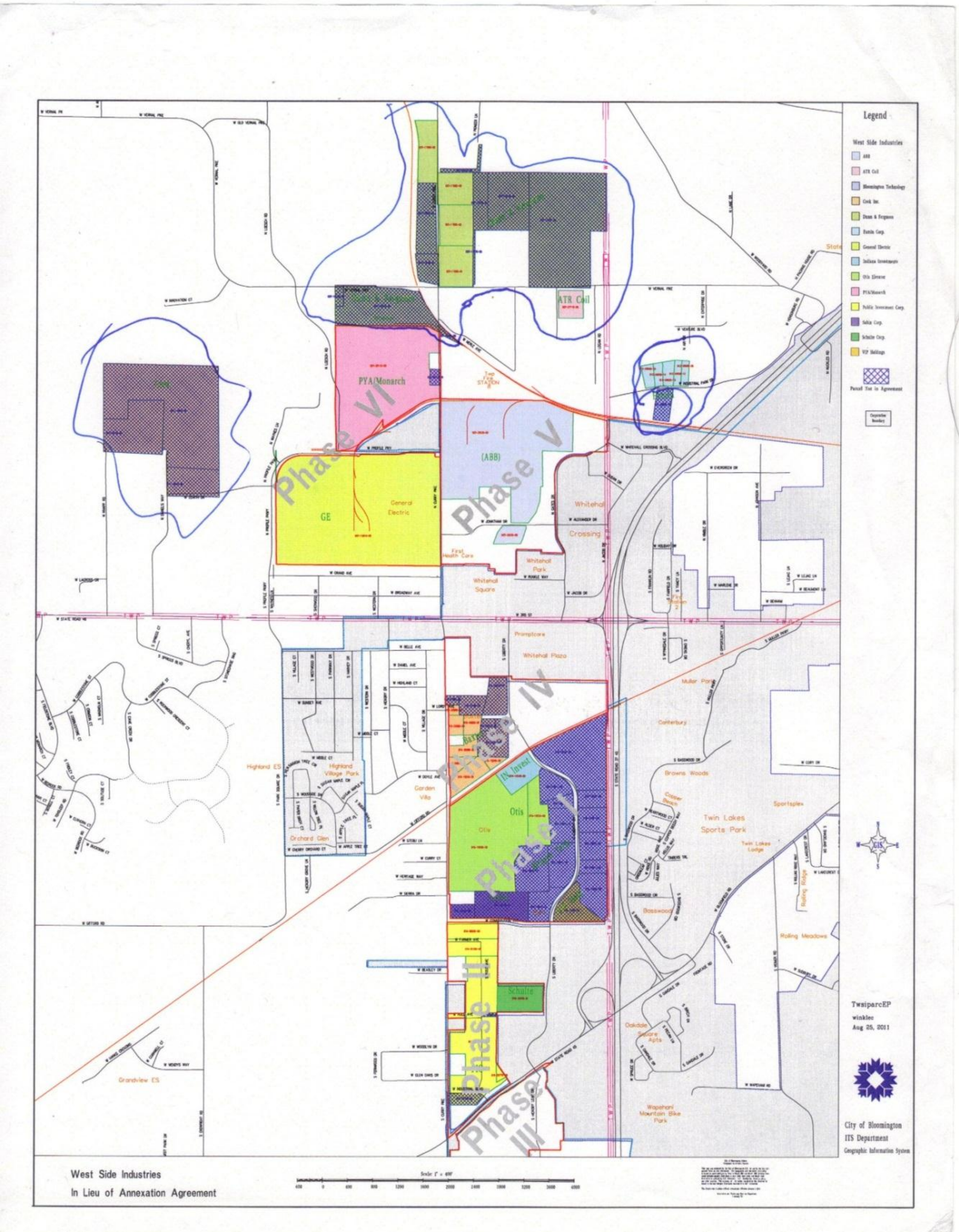
We would have to make assumptions concerning:

- The ideal chronological order in which parcel groups should be annexed.
- The approximate duration of each annexation phase.
- The effect different townships would have on duration.
- The set of unique political challenges that may accompany each parcel group.

The duration and chronological order of phases would specifically impact any analysis that involved forecasting or present value calculations. The financial and economic analysis in particular would depend heavily on forecasting and the time value of money both for revenue forecasting and service cost estimates.

It was decided that for the sake of creating a clear baseline estimate of financial and economic impact, a basic, one-time annexation plan would be used.

Phased Annexation Map, Suggested by Tom Micuda.

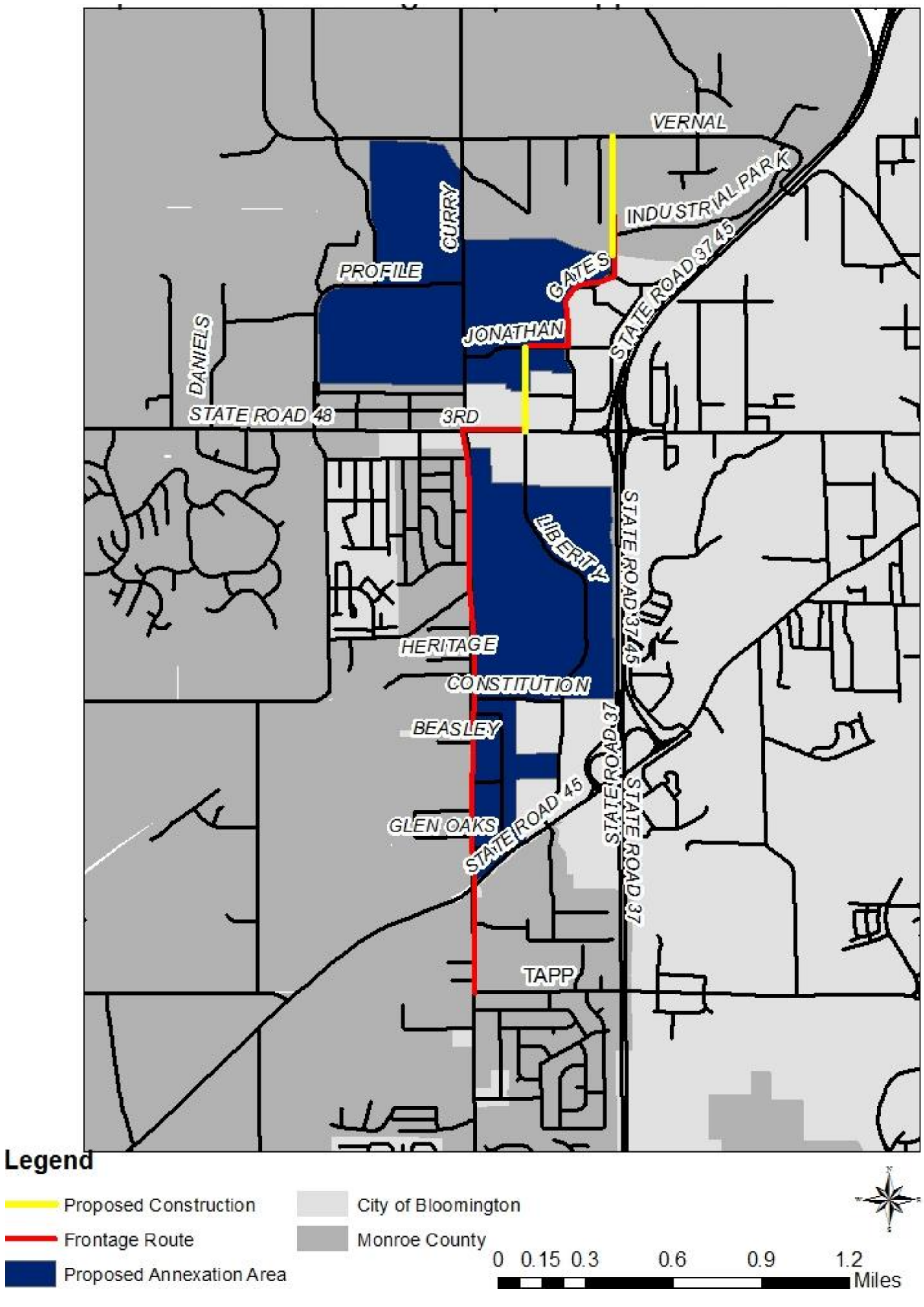


Appendix 9: Shift Share Analysis Methodology

A shift-share analysis (see supplementary files on CD) allows us to identify the sources of regional growth for each industry and to learn for which industries the region provides a competitive advantage. In our analysis, regional growth is based on the change in employment in Monroe County from 2005 to 2010.

There are three sources that feed into regional growth: the national growth effect, the industry mix effect, and the competitive share. For our study, we were most interested in the third component, the competitive share. This component represents Monroe County's comparative advantage or disadvantage for each industry. If the value is positive, the industry's location within the region gives it a comparative advantage over the same industry operating in other parts of the country. These industries are seen as fast-growing industries, as they will outgrow their counterparts at the national level. If the competitive share is negative, the industry is at a comparative disadvantage, and Monroe County is not a competitive region for operation. Out of eleven possible industry types, Monroe County provides a comparative advantage for 8 of them. The top three industries for which this is true are Manufacturing, Professional and Business Services, and Information. These three industries were responsible for the addition of 852, 292, and 255 jobs, respectively, to the Monroe County economy between 2005 and 2010. The three industries with a comparative disadvantage in Monroe County are Trade, Transportation, and Utilities; Education and Health Services; and Construction, which were responsible for the loss of 13, 135, and 200 jobs, respectively (see supplementary files on CD).

Appendix 10: Frontage Routes



Appendix 11: Bicycle and Pedestrian Crossings

SOURCE: DGF Consulting Engineers. “SR 37 grade-separated crossing.” 13 May 2010.

Appendix 12: Multi-Modal Trail Connectivity

SOURCE: DGF Consulting Engineers. "SR 37 grade-separated crossing." 13 May 2010.

Appendix 13: Planned Transportation Improvement Projects

The following street improvement projects have been identified:

- Widen Curry Pike to four lanes between Constitution Way and SR 45.
- Widen Vernal Pike to three lanes between Curry Pike and Loesch Road.
- Complete SR 37 West Frontage Road. There are two options for this project:
    - Extend Gates Drive North to Industrial Park Road or Vernal Pike
    - Extend Liberty Drive North to Jonathan Drive

The following alternative transportation infrastructure project has been identified:

- Future bike lane on Liberty Drive between SR 48 and SR 45.
- Future bike lane on SR 45 east to SR 37 – State's jurisdiction.[107]

Improve SR 45 and Liberty Drive intersection – State's jurisdiction.[108]

Complete SR 37 West Frontage Road – Approved Project.[109]

There are two options for this project:

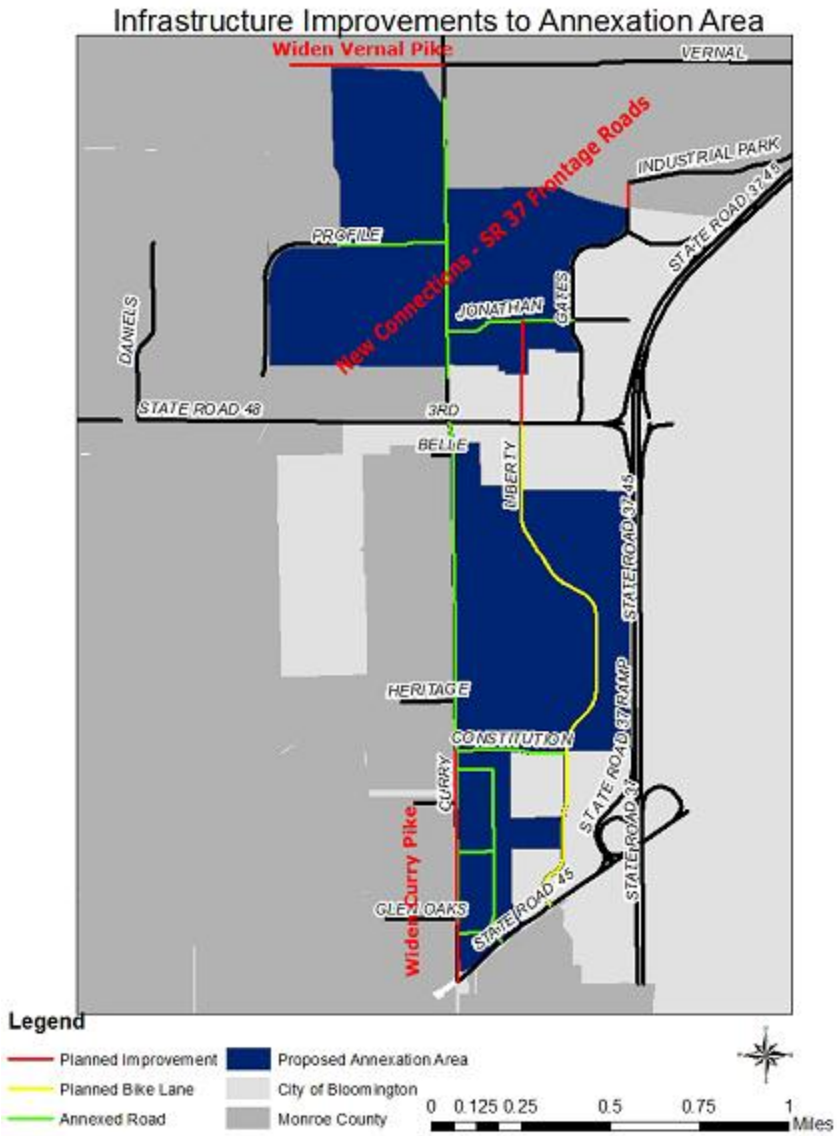
- Extend Gates Drive North to Industrial Park Road or Vernal Pike, or
- Extend Liberty Drive North to Johnathan Drive

See Map on Next Page.

[107] City of Bloomington, Indiana. *Bicycle and pedestrian transportation & greenway systems plan.* March 2008. Retrieved from: https://bloomington.in.gov/media/media/application/pdf/57.pdf

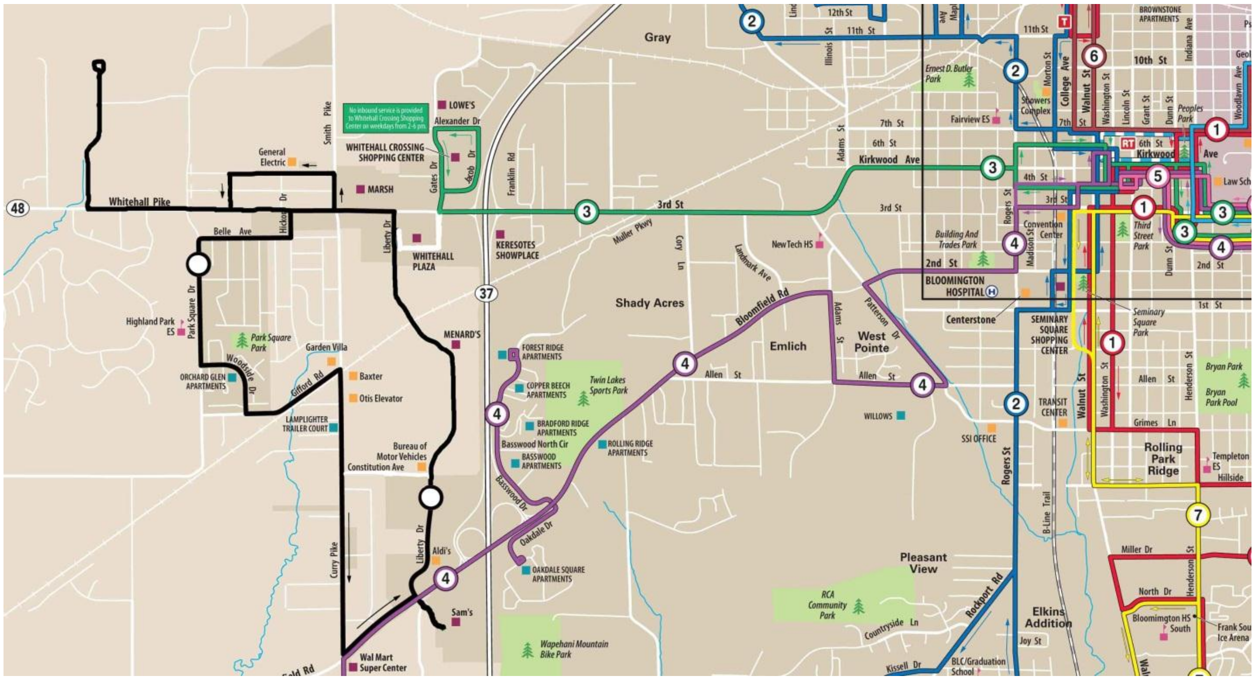
[108] Bloomington/Monroe County Metropolitan Planning Organization . *Transportation improvement program: Fiscal years 2012 through 2015.* 13 May 2011. Retrieved from: https://bloomington.in.gov/media/media/application/pdf/8956.pdf

[109] Bloomington/Monroe County Metropolitan Planning Organization. *2030 Long Range Transportation Plan.* 14 May 2010. Retrieved from: http://bloomington.in.gov/media/media/application/pdf/63.pdf



Infrastructure Improvements to Annexation Area
Widen Vernal Pike
VERNAL
New Connections - SR 37 Frontage Roads
INDUSTRIAL PARK
STATE ROAD 37/45
PROFILE
JONATHAN
GATES
DANIELS
STATE ROAD 48
3RD
BELLE
LIBERTY
STATE ROAD 37/45
HERITAGE
CONSTITUTION
CURRY
STATE ROAD 37 RAMP
STATE ROAD 37
Widen Curry Pike
GLEN OAKS
STATE ROAD 45
Legend
Planned Improvement
Planned Bike Lane
Annexed Road
Proposed Annexation Area
City of Bloomington
Monroe County
0 0.125 0.25 0.5 0.75 1
Miles

Appendix 14: West Side Route



The West Side Route proposed by Bloomington Transit Director Lew May is shown in black.

Appendix 15: Bloomington Transit Costs

Estimated Expenditures for Local West Side Transit Route

Service	Hours /year	Operating cost	Total
Weekday service	4,3335	$60/hour	$260,100
Saturday service	572	$60/hour	$34,320
Capital			
Small Bus			$85,000
Total Year 1			**$379,420**

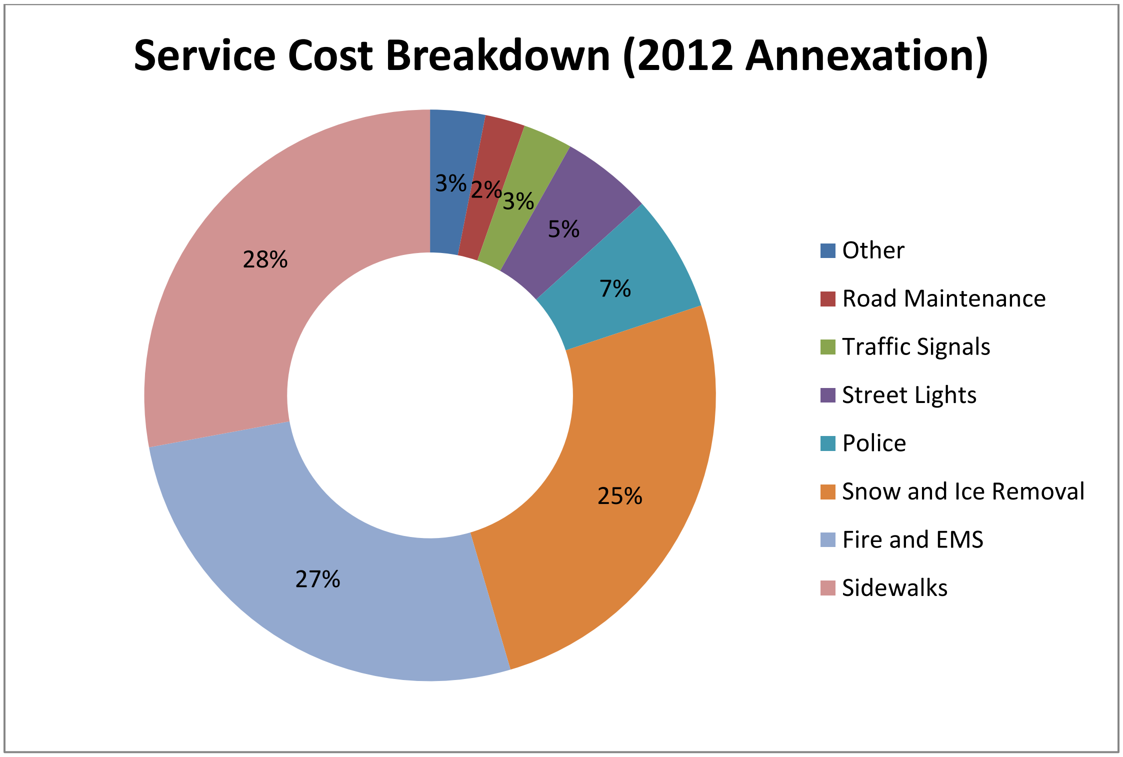
Appendix 16: Cost Summaries

Public Works: The cost data from 2011 was obtained from the City of Bloomington for the provision of certain public works services in the annexation area, which includes (i) street sweeping, (ii) snow and ice removal, (iii) leaf collection, (iv) road maintenance, (v) pavement markings, and (vi) sidewalk maintenance. Methodology used to estimate each service is presented with year 1 base estimates. <u>The total estimated cost of providing Public Works services to the annexation area in 2011 is $164,724.</u>

Utilities: By working with Bloomington Utilities Department, four utility cost models are constructed to determine the costs of providing utility services to the annexation area, which contains: (i) Sanitary Sewer Service, (ii) Water Distribution, (iii) Storm Water Drainage, and (iv) Fire Hydrants. Of these components, only Storm Water Drainage is currently being maintained by Monroe County. All other utilities are already maintained by the Bloomington Utilities Department in the annexation area. The current utilities infrastructure provides sufficient service to the potential annexation area, supporting both commercial and residential properties. Since utilities are funded through user fees (including Storm Water Drainage which would be transitioned from the County to the City), no additional costs will be assumed by the City. Methodology used to estimate each service is based on the current service policy of the Utilities Department. <u>As a result of our analysis, the total cost (including all four components) for Bloomington to annex the West Side Area will be $0.</u>

Public Safety: The costs associated with providing public safety services to the annexation area were estimated based upon the number of calls for (i) fire, (ii) EMS, and (iii) police services to the annexation properties. For each service, an average cost model was applied. The average cost was calculated by dividing the annual departmental budget by the number of annual calls within departmental jurisdiction. This provided a "cost per call" which was multiplied by the number of calls to the annexation region that year. <u>The average 2011 cost of extending public safety services to the annexation area is $81,879.</u>

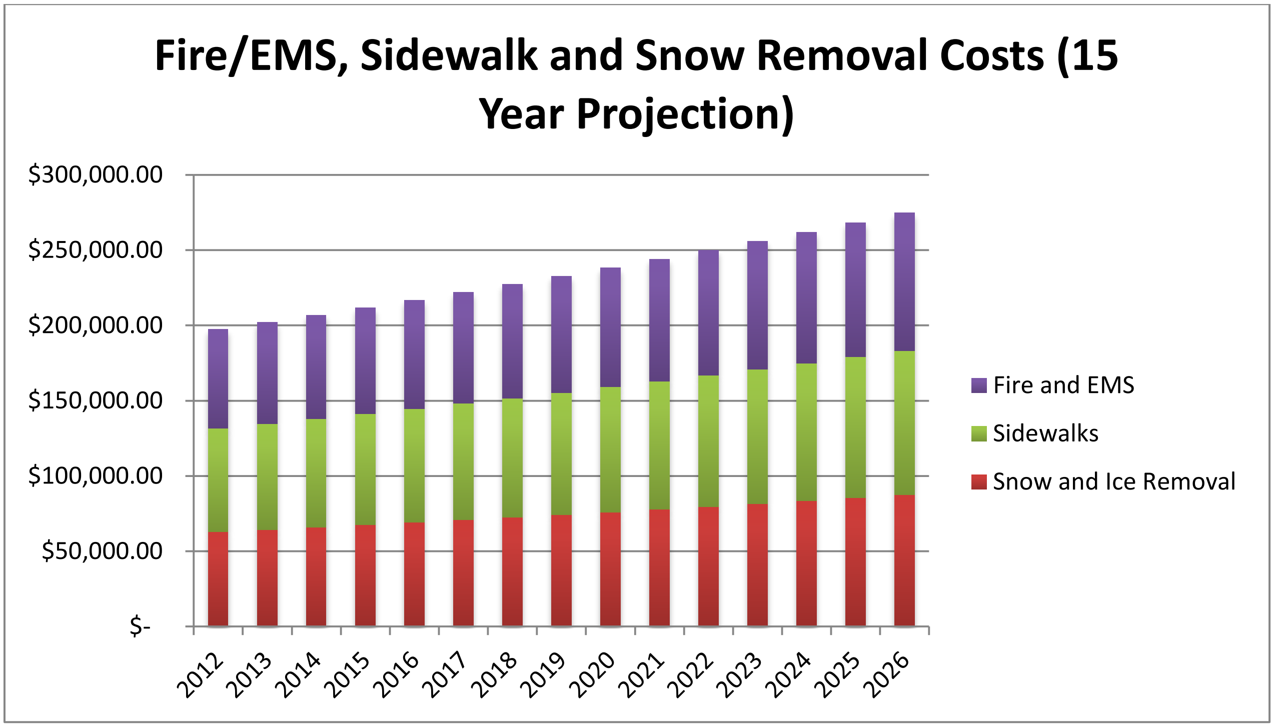
Appendix 17: Service Cost Breakdown



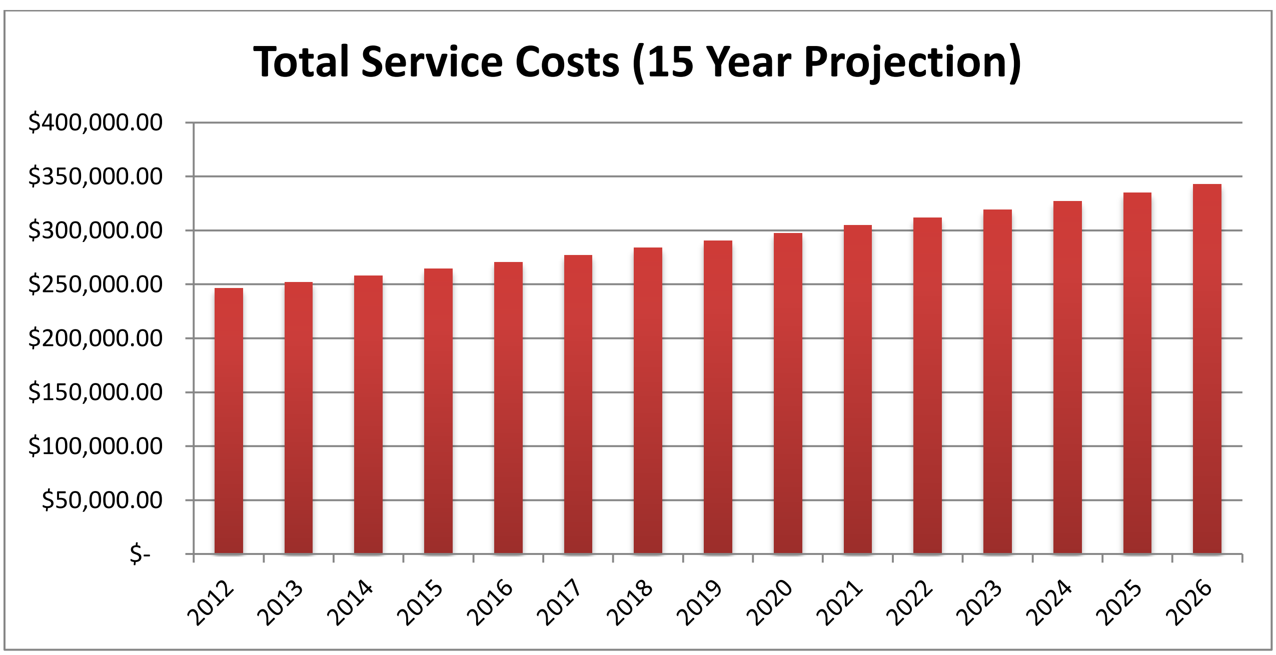
Three Year Service Cost Projections

Year	*2012*	*2013*	*2014*
Sweeping	$3,029.57	$3,101.98	$3,176.11
Snow and Ice Removal	$62,969.95	$64,474.94	$66,015.89
Leaf Collection	$1,839.86	$1,883.83	$1,928.85
Road Maintenance	$5,561.70	$5,694.63	$5,830.73
Pavement Marking Maintenance	$2,359.72	$2,416.12	$2,473.86
Signage	$36.90	$37.78	$38.68
Traffic Signals	$6,875.18	$7,039.50	$7,207.74
Street Lights	$12,672.00	$12,974.86	$13,284.96
Sidewalks	$68,773.44	$70,417.13	$72,100.10
Refuse Collections	$405.00	$414.68	$424.59
Fire and EMS	$65,626.06	$67,194.52	$68,800.47
Police	$16,253.25	$16,641.71	$17,039.44
Total	$246,402.63	$252,291.65	$258,321.42

Appendix 18: Fire/EMS, Sidewalk and Snow Removal 15 Year Cost Projection



Appendix 19: Total Service Costs (15 Year Projection)



Appendix 20: Growth Assumptions and Implications

Growth assumptions and scenarios play a key role in fiscal analyses of annexation. This section will discuss assumptions and provide the methods to project inflation, population, and demand growth rates for the City's services over fifteen year period.

Determination of inflation

Inflation adjustment factors are necessary to forecast increases in the price service costs and revenues. However, some revenues, such as the motor excise tax, may not be affected as the payments are fixed. We used the 2002 Fiscal Plan Annexation of the Canada Farm in Bloomington methodology of using the BEA's price index for state and local consumption expenditures and investments to calculate inflation and growth rates.

Box 1: Inflation rate

BEA - Government Consumption Expenditures and Gross Investment (1987-2011)	
Inflation Rate	3.12%
Rate of Growth	5.51%
Real Rate of Growth	2.53%

The Fiscal Plan Annexation of the Canada Farm in Bloomington (2002) forecasted price indexes (inflation) and consumption (demand) rates using averages and medians to forecast inflation. The estimation looked at data from 1996-2011 and chose to use the average inflation rate of 2.84%. However, our forecasts will use the moving average calculations as it is a more accurate forecasting method. Table 1 presents several estimates of inflation rate by different periods. Unlike to the method used by the City Controller's office which used a recent trend in prices to estimate inflation rate for a three-year period, we prefer the long-term price trend and moving average method because we need to project for a long-term period. We decide that the 1987-2011 trend of prices is the most relevant and appropriate. Indeed, applying three year moving average to this historical trend gives us the most reasonable inflation rate for 2012-2027.

We chose an inflation rate of 3.12%, which is the median of three year moving average of price indexes for government consumption expenditures and gross investment from the original agreement date in 1987 to 2011. We conclude this is a reasonable assumed rate of inflation, as the 2008 Fiscal Plan for Kokomo Annexation assumed a 3% inflation rate.

Growth rates of demand for services

We assume that the real change in demand of goods and services increases with the population growth of the annexation. Because we do not have demographic data of the annexed area, we will use population growth rates of Monroe County, the City, and two townships as proxy for population growths of the annexed area. We use projected population changes in Monroe County and Bloomington prepared by Indiana Business Research Center, Kelley School of Business, Indiana University to calculate population growth rates of Monroe Country and the City (using U.S. Census 2010). However, as seen in Table 2 the forecasted growth rate is around 1% and is not a realistic estimation for future increases in the annexed area's demand of government goods and services for the next 15 years. The alternative to estimate growth rates of demand for services is using the real rate of state and local government consumption. Applying the same method for inflation rate, we determine that 2.53% is the real rate of state and local government consumption.

Therefore, inflation and growth rates were determined using Bureau of Economic Analysis data for price indexes and consumption for government expenditures and gross investment. Accounting for changes of service costs due changes in prices and in real demand for services, the growth rate of service cost is assumed as 5.51% per year for the annexed area and the real rate of growth of 2.53%.

Table 1. State and Local Price Indexes for Government Consumption Expenditures and Gross Investment

Moving Average Estimation				
Price Indexes (Inflation)	**1980-2011**	**1987-2011**	**1991-2011**	**2001-2011**
3 Year Average	3.42%	3.34%	3.24%	3.77%
5 Year Average	3.40%	3.35%	3.30%	3.88%
3 Year Median	3.31%	3.12%	3.08%	4.02%
5 Year Median	3.42%	3.30%	3.13%	3.66%
Consumption (Growth)	**1980-2011**	**1987-2011**	**1991-2011**	**2001-2011**
3 Year Average	5.85%	5.55%	5.17%	4.76%
5 Year Average	6.00%	5.85%	5.46%	5.27%
3 Year Median	6.38%	5.51%	5.17%	5.38%
5 Year Median	5.83%	5.81%	5.53%	5.45%
Real Rate of Consumption (Growth)	**1980-2011**	**1987-2011**	**1991-2011**	**2001-2011**
3 Year Average	2.20%	2.13%	1.81%	0.85%
5 Year Average	2.37%	2.34%	2.02%	1.31%
3 Year Median	2.53%	2.53%	2.24%	0.69%
5 Year Median	2.68%	2.68%	2.47%	0.75%

Source: Calculation based on Bureau of Economic Analysis table "Price Indexes for Government Consumption Expenditures and Gross Investment "and “Government Consumption Expenditures and Gross Investment”

Table 2. Bloomington and Monroe County Population Estimates

Year	Population (Bloomington)	Population (Monroe County)
2012	1.66%	1.04%
2013	1.66%	1.04%
2014	1.66%	1.04%
2015	1.66%	1.04%
2016	1.43%	0.95%
2017	1.43%	0.95%
2018	1.43%	0.95%
2019	1.43%	0.95%
2020	1.43%	0.95%
2021	1.24%	0.86%
2022	1.24%	0.86%
2023	1.24%	0.86%
2024	1.24%	0.86%
2025	1.24%	0.86%
2026	1.02%	0.77%
2027	1.02%	0.77%

Source: Stats Indiana <http://www.stats.indiana.edu/topic/population.asp>

Appendix 21: Additional Revenue due to Annexation (3 Year Projection)

Revenues	**2012**	**2013**	**2014**
Property Tax	$1,018,390.06	$1,042,729.59	$1,067,650.82
Wheel and Excise Surtax	$43,331.23	$43,331.23	$43,331.23
Auto and Craft Excise	$52,279.59	$52,279.59	$52,279.59
COIT	-	$162,088.98	$191,133.16
TOTAL	$1,114,000.88	$1,300,429.38	$1,354,394.80

Appendix 22: Property Tax Methodology

The first calculation in determining the property tax levy is to find the average growth of non-farm Indiana personal income over the prior six years. The years counted are the year before the budget is adopted, plus an additional five years. That means, for example, that the levy limit for the budget in effect in 2012 is based on the annual increases in 2005-2010 (since the 2012 budget is adopted at the end of 2011, the previous year is 2010). To do this calculation each year is divided by the previous year and the values are summed and divided by six. This results in what is known as the “assessed value growth quotient” and will be the same for everyone in the state independent of an annexation occurring. This value is capped at 6% but has recently been around 3%.

The next major calculation is to determine what the maximum levy would be if no annexation occurred. This is simply multiplying the assessed value growth quotient by the previous year levy. If no annexation occurred this is where the City could stop. After the City has determined the standard change in levy they would have received without an annexation, there are two separate calculations that can determine the maximum levy.

The difficulties with these calculations arise from predicting assessed values and determining accurate expenditure estimates. The difficulty of calculating expenditures has already been discussed but estimating property values can also be difficult.

When researching property values for the entire City of Bloomington, there was difficulty in finding comparable values over time. For instance, for 2011 the Monroe County Budget Order says assessed value is $3,239,399,553, the City budget lists it as $3,228,807,732, and the Monroe County Auditor Abstract reports the value at $3,207,252,313. This is a range of $32 million and suggests that our choice of source for assessed value may have an impact on our analysis. After further research it was discovered that the value in the Monroe County Auditor Abstract is the value after all deductions, exemptions, and appeals have occurred. Due to the highly industrialized nature of the proposed annexation area, we concluded that the area would not be subject a large degree of exemptions or deductions. Therefore, we determined it is a reasonable assumption that the City assessed value in the auditor abstract and the total assessed value for the parcels are comparable. The parcel assessed values were collected through a combination of looking up the parcels in the Monroe County GIS database and by looking through documents obtained from the Monroe County Assessor’s Office. Additionally, we do not expect the annexation area to be subject to the 3% property tax cap on industrial areas. According to the 2011 Monroe County Property Tax Report compiled by the Legislative Service Agency there were no parcels subject to this cap in the entire County. Furthermore, almost half of the counties (41 of the 90 reporting) in the state had no parcels reach this cap and only eighteen counties had a loss greater than a million dollars ("2011 statewide property," 2011).

Appendix 23: COIT Methodology

The general approach to forecasting revenue is to project the COIT distribution formula to future years. Each year, the County Auditor determines the COIT allocation base for each unit of government eligible to receive distributive shares. The allocation base for each unit equals the previous year's property tax levy, the previous year's amount of COIT revenue received, and other statutory adjustments. The County Auditor sums the allocation base for all units of government in the, and then distributes the available COIT revenue according to each unit's share of the total allocation base. We created a forecast the COIT available revenue, and then calculated the effect of annexation would have on the City's allocation base. The additional COIT revenue received because of the City's increased allocation base is the amount of revenue we attribute to annexation.

An estimate of the effect of the COIT revenue is indicated in the table below. Numbers are in real (inflation adjusted) dollars, and assume a real growth of 2.39% per year. This forecast assumes the annexation had yielded $1,018,390 in additional property tax levy and was effective for the 2012 budget year. The forecast also assumes the COIT continues to be levied in Monroe County at a statutory rate of 1.05%, and local governments do not adopt additional measures diverting shares of revenue to other purposes (for example, replacement levy for additional homestead credits).

Year	Bloomington COIT revenue, no annexation	Additional COIT revenue from annexation	Bloomington COIT revenue, with annexation
2008	8,166,269		8,166,269
2009	8,589,801		8,589,801
2010	8,861,618		8,861,618
2011*	8,441,836		8,441,836
2012*	8,935,860	**	8,935,860
2013	9,389,788	162,089	9,227,699
2014	9,660,337	191,133	9,469,204
2015	9,900,695	199,563	9,701,132
2016	10,139,408	204,915	9,934,493
2017	10,382,228	209,898	10,172,330
2018	10,630,483	214,927	10,415,556
2019	10,884,582	220,065	10,664,517
2020	11,144,731	225,325	10,919,406
2021	11,411,092	230,710	11,180,382
2022	11,683,818	236,224	11,447,594
2023	11,963,061	241,870	11,721,192
2024	12,248,979	247,650	12,001,328
2025	12,541,729	253,569	12,288,160
2026	12,841,476	259,629	12,581,847
2027	13,148,388	265,835	12,882,553

* Figures for these years have been adjusted to reflect the state of Indiana's restatement of local option income tax revenue effective on April 5, 2012.
** Because the COIT formula depends on prior year information, an annexation effective for the 2012 budget year would not yield increased COIT revenue until the 2014 budget year.

The forecast above provides a general indication of the way annexation would affect the County Option Income Tax. However, actual revenue received from the COIT is highly sensitive to changes in economic activity. The tax base of the COIT is Indiana personal income, which can be volatile over the short-term. The COIT revenue available for distribution is based on the state's estimate of how much income tax will be collected in each county, as well as any adjustments made by the state for over-distributions or under-distributions in previous years. Additionally, the COIT revenue received by Bloomington is affected by the decisions other units of government in Monroe County make about taxing and spending. For example, the decision by another unit of government to increase its property tax levy would reduce Bloomington's share of COIT revenue, even if Bloomington made no change to its levy and the state distributed the same amount of money. These budgeting decisions are made in the months preceding the budget year, and so cannot be estimated with any great precision.

Appendix 24: Motor/Wheel Excise Tax

Motor Excise Tax Revenue as Percentages of Property Tax Levy of Bloomington, 2007-2011

Year	Wheel and Excise Surtax	Auto and Craft Excise Tax	Property Tax Levy	Wheel and Excise Surtax as Percentage of Property Tax Levy	Auto and Craft Excise tax as Percentage of Property Tax Levy
2007	980,600	1,450,400	24,219,742	4.05	5.99
2008	1,000,000	1,432,050	24,439,940	4.09	5.86
2009	1,150,000	1,113,808	25,136,888	4.57	4.43
2010	1,150,000	1,183,190	25,489,569	4.51	4.64
2011	1,050,000	1,231,500	25,942,897	4.05	4.75

Source: Authors' calculation based on data from 2007 City Budget, 2008 City Budget, 2009 Approved City Budget, 2010 Approved City Budget, and 2011 Approved City Budget

Appendix 25: Effective Tax Rates by Tax Jurisdiction, 2010

Total property tax paid/Total assessed value	Inside City	Outside City
Richland Twp (North of West 3rd Street)	2.43%	1.75%
Van Buren Twp (South of West 3rd Street)	1.98%	1.38%

The “effective tax rate” is simply the amount of property tax paid divided by the assessed value of the property, and thus demonstrates the differences in true tax burden across jurisdictions in the WSA. In this analysis, we use property tax data for 2010 as the base to calculate that the effective tax rates inside Bloomington proper are higher than outside of the City, including the PILOA zones. The effective tax rates vary between some properties due to County tax abatement programs, but the reported values are the baseline rates in absence of abatement. Property taxes are effectively capped at less than 3% for business property, pursuant to Indiana state law.

Appendix 25, continued: Effective Tax Rates for Properties with Abatement, 2010

	Owner	On Site	Township	Assessed Value	2010 Tax Bill	ETR	Abatement Deduction
PILOA	Cook Inc	Cook	Richland	49,493,800	659,023.50	0.0133	11,755,525
	Cook Inc	Cook	Richland	3,248,300	54,020.72	0.0166	154,861
	1663 Liberty LLC	Author Solutions	Van Buren	4,642,700	61,413.58	0.0132	185,335
	Baxter	Baxter	Van Buren	19,631,700	218,589.90	0.0111	3,766,560
	Seeber, Thomas; Seeber, John & King, John	Terminix; HD Supply Waterworks; Eckart Wholesale Supplie	Van Buren	1,845,400	19,926.22	0.0108	39,565
	James Hammond	American Rentals	Van Buren	2,702,600	34,672.68	0.0128	186,075
	Mercier, Timothy S & Melba D Leach	Aquasystems	Van Buren	901,100	9,483.40	0.0105	212,800
	Mirwec Film, Inc.	Mirwec Film	Van Buren	1,856,600	20,902.88	0.0113	339,480
Non-PILOA	Circle-prosco Inc	Circle-prosco	Richland	2,519,900	43,969.54	0.0174	2,031

Here we look at potentially affected parties that currently have a tax abatement agreement with the County. Tax abatement can be a tool for local government in leveraging private investment and the creation of new jobs. Companies like Cook and Baxter have promised to hire additional employees in exchange for the abatement. For example, Cook Inc. is provided $11.75 million in tax deductions in exchange for maintaining 800 jobs at its West Side operation. Such agreements have helped Monroe County maintain one of the lowest unemployment rates in the state.

Appendix 26: Summary Statistics of Business Interview Questions

	Business Climate of Bloomington City (5=friendly; 1=unfriendly)	Business Climate of Monroe County (5=friendly; 1=unfriendly)	Do you see ANY benefits on annexation? (1=yes; 0=no)	Willingness to Renegotiate Pilot (5=very willing; 1=very unwilling)
Number of Responses	9	9	10	3
Mean	2.1	3.1	0.1	3.7

Appendix 27: Additional Interview Quotes from Business Stakeholders

On annexation:

"Annexation is "not something we want to look forward to."

"If there was some kind of benefit [to annexation] it might offset the taxes, but I don't think it's going to offset the taxes. They can't justify why the taxes double."

"I have been [through annexation] on a personal basis, with my home. Services actually were more restricted and basically the biggest disadvantage that I saw was that taxes doubled. And what did I get for it? Nothing. They came out and talked and said, 'you'll get fire protection,' and it was equal to what the township offered. The ambulance has nothing to do with the City, so what are they going to offer me? They're going to make me buy trash stickers. I could get the same thing done without buying trash stickers. My taxes doubled, and property value didn't increase, but I noticed a lot of regulations go into place too."

Annexation "would greatly affect any of the manufacturing that is left in that area of town."

"[City officials] don't want heavy industry. They want high tech. The medical device intrigues them, but if they're not careful, they'll lose all of it. Go tell Cook you're going to annex them and see what happens. Why do you think Bill Cook built out there and not on Curry Pike? At one point there was a deal in the works for Cook to sell everything and move out. Bill might have put up with this, but what about Junior?"

On regulation:

"Listen to small business owners. Get rid of personal agendas on City Council. Listen to the Chamber of Commerce. Get rid of crazy regulations: signs, lighting regulations and fence security."

"It's our business, why would we want to be somewhere they tell us how to do it, especially if we can go somewhere else?"

"When someone is considering moving here, roll out the red carpet. Don't give them a list of how many trees you have to plant, the limited parking, things like that. Pretty soon a guy is saying, 'Why would I want to come here?'"

Other comments:

"I was aware that when we first moved out here, City Officials tried to 'impose their will' on businesses out this way. There hasn't been any communication [regarding the PILOA] in the eight years we've been here. Our counsel made us aware of what was going on and let us know that they would keep us apprised of any developments, and it has been very, very quiet. The letter [from the Department of Economic and Sustainable Development] was the first we'd heard of it in many years."

"They can't just keep saying how nice it is to be in a University town. They've got to put up or shut up with that. They need to be serious and make improvements on property and help entrepreneurs get off the ground, monetarily, land use-wise, with infrastructure, whatever it takes."

"There is probably not anyone on that City Council who has worked in a factory. They have never had to worry about being laid off. They are oblivious to 'real life' down here."

"Basically [City] planning has created a situation in which there is old money and then minimum-wage earners. People are moving to Green Co. and Morgan Co."

"A lot of big corporations have come and gone, but little ___ has stayed right here."

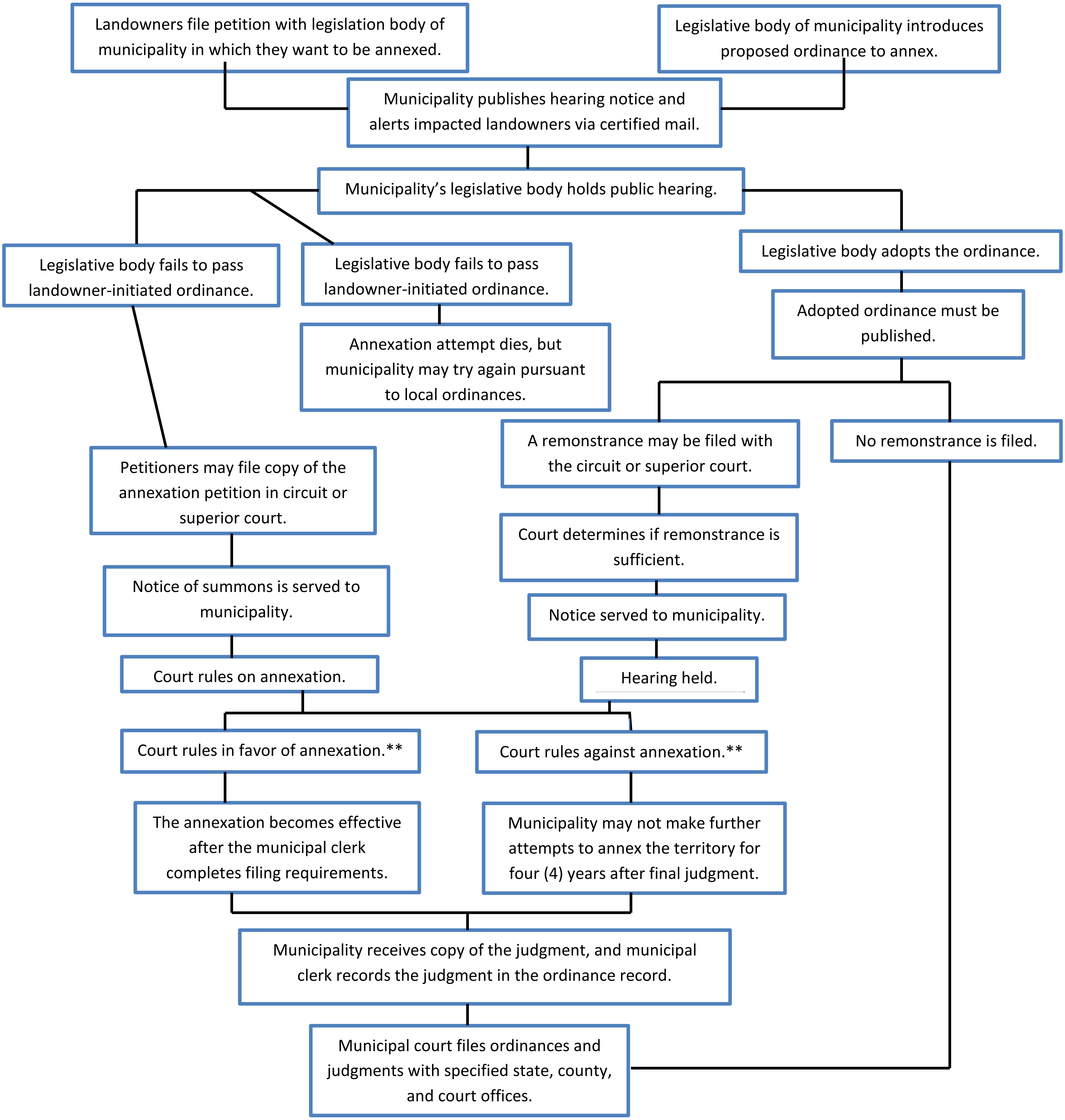
"Look at West Third Street between Adams and Rogers….Bloomington takes your tax dollars and stomps your business into the ground. Look at where they installed concrete dividers. Go ask the small business owners how that has affected their business. Until we get small business owners on that council, we will have problems."

"That's why my water bill went sky high recently; they didn't plan. The same thing is going to happen with City streets, police, etc. And then they think 'we'll just tax everyone that's already here.' Just wait, and 15 miles down the road in Green County, they'll start growing."

"My taxes are already $XX,000 per year on X acres. That's insane!" (sensitive information omitted)

"Putting us [a small business] in the same category as big corporations is just asinine. We don't have the same power to cope with higher taxes…If Bloomington wants to turn this City into only big corporations they will keep raising taxes."

*Appendix 28: Overview of Annexation Process**



* Updated from: Lindsay, Greg and Jamie Palmer, *Annexation in Indiana: Issues and Opinions* Center for Urban Policy and the Environment – SPEA, November 1998, pg. 9
http://www.iacir.spea.iupui.edu/documents/Fullreport_fromWeb_wCover.pdf.

**This decision can be appealed.

Appendix 29: Additional Annexation Requirements

According to IC 36-4-3-3.5, an annexation ordinance must include:

(1) A description of the boundaries of the territory to be annexed, including any public highway or right-of-way.
(2) The approximate number of acres in the territory to be annexed.
(3) A description of any special terms and conditions adopted to make the annexation equitable to the property owners and residents of the municipality and the annexed territory. Such terms may include:
    (1) postponing the effective date of the annexation for no more than three years; and
    (2) establishing equitable provisions for the future management and improvement of the annexed territory and for the rendering of needed services [IC 36-4-3-8].
(b) A description of any property tax abatements.

The annexation ordinance should also define “the corporate boundaries of the municipality” [IC 36-4-3(a)], and “must assign the territory annexed by the ordinance to at least one (1) municipal legislative body district” [IC 36-4-3(d)]. The requirement that an annexed territory be assigned council districts(s) has been argued before the Indiana Court of Appeals.

Appendix 30: Requirements for Fiscal Plan

IC 36-4-3-13(d)

(1) The cost estimates of planned services to be furnished to the territory to be annexed. The plan must present itemized estimated costs for each municipal department or agency.
(2) The method or methods of financing the planned services. The plan must explain how specific and detailed expenses will be funded and must indicate the taxes, grants, and other funding to be used.
(3) The plan for the organization and extension of services. The plan must detail the specific services that will be provided and the dates the services will begin.
(4) That planned services of a noncapital nature, including police protection, fire protection, street and road maintenance, and other noncapital services normally provided within the corporate boundaries will be provided to the annexed territory within one (1) year after the effective date of annexation and that they will be provided in a manner equivalent in standard and scope to those noncapital services provided to areas within the corporate boundaries regardless of similar topography, patterns of land use, and population density.
(5) That services of a capital improvement nature, including street construction, street lighting, sewer facilities, water facilities, and stormwater drainage facilities, will be provided to the annexed territory within three (3) years after the effective date of the annexation in the same manner as those services are provided to areas within the corporate boundaries, regardless of similar topography, patterns of land use, and population density, and in a manner consistent with federal, state, and local laws, procedures, and planning criteria.

Appendix 31: City of Hobart v Carter

City of Hobart v. Carter, 644 NE 2d 898 - Ind: Court of Appeals, 4th Dist. 1994, provides an example of one of the instances when the Court ultimately ruled against the City for an inadequate fiscal plan. In this example, the Court of Appeals initially ruled that "the trial court exceeded its jurisdiction in determining" that Hobart did not meet the statutory requirements of IC 36-4-3-13 and remanded the case to the trial court. According to the ruling, "the trial court's findings did not indicate whether the evidence presented at the hearing was insufficient to show … whether the services proposed for the annexed territory would not be equivalent to services provided to similar areas within Hobart."

However, upon remand, the lower court again ruled with remonstrators. The City of Hobart appealed, but this time the Court of Appeals affirmed the trial court's decision in favor of remonstrators.110 According to the ruling, Hobart failed to provide "evidence to demonstrate compliance" with IC 36-4-4-13(d) which sets the requirements of a fiscal plan for annexation.111 The Court of Appeals stated that Hobart failed to specify evidence that would have demonstrated compliance with the code.112

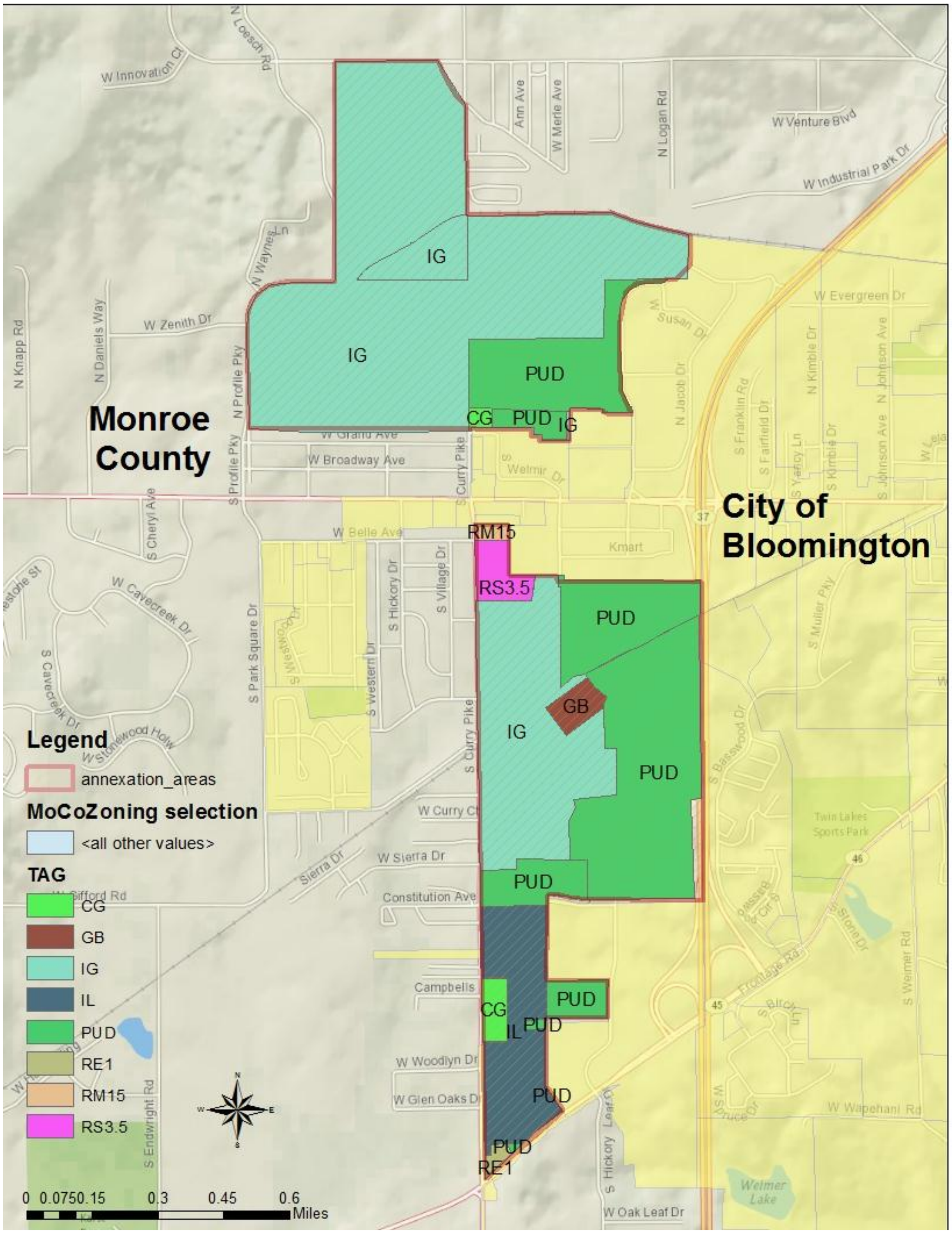
Appendix 32: Requirements of Mailed Notice of Affected Property Owners

IC 36-4-3-2.2

(1) A legal description of the real property proposed to be annexed.
(2) The date, time, location, and subject of the hearing.
(3) A map showing the current municipal boundaries and the proposed municipal boundaries.
(4) Current zoning classifications for the area proposed to be annexed and any proposed zoning changes for the area proposed to be annexed.
(5) A detailed summary of the fiscal plan [already described].
(6) The location where the public may inspect and copy the fiscal plan.
(7) A statement that the municipality will provide a copy of the fiscal plan after the fiscal plan is adopted immediately to any landowner in the annexed territory who requests a copy.
(8) The name and telephone number of a representative of the municipality who may be contacted for further information.

[110] City of Hobart v. Carter, 695 NE 2d 988 - Ind: Court of Appeals 1998. Accessed 14 March 2012: http://scholar.google.com/scholar_case?q=Carter+v.+City+of+Hobart&hl=en&as_sdt=2,15&case=14978391179809775465&scilh=0.
[111] Ibid.
[112] Ibid.

Appendix 33: WSA Zoning Boundaries



Appendix 34:

Indiana Case Studies- Annexation, Economic Development, and Business Climate

In the past five years, both Fishers and Kokomo, Indiana have undergone politically difficult annexations. While the annexations primarily involved residential zones, both annexed areas contained commercial property. In 2010, Fishers annexed an area of Hamilton County containing between 10 and 15 businesses. In 2012, Kokomo's concurrent east-side and west-side annexation areas contained between 30 and 40 businesses.

While Bloomington's West Side Industrial Area has a heavier concentration of businesses than either Fishers or Kokomo's annexed areas, City Officials from both municipalities offered pertinent insight on how businesses respond to annexations and how annexations impact business climate. Key insights relevant to the City of Bloomington include:

- Independent, local businesses will likely have higher rates of remonstrance than national businesses and franchises.[113]
- Tax abatements may be a valuable incentivizing mechanism to reduce remonstrance rates. Most business owners in Fishers, however, refused an abatement proposal.[114]
- Impoundment funds may be created to welcome annexed businesses into the City and reduce any withstanding animosity. These funds collect a portion of property tax revenue from recently annexed areas and are later spent on community improvements within the annexed area.[115]
- Recent annexations in Fishers and Kokomo have not resulted in any noticeable decrease in employment or economic activity, and no businesses have closed or relocated after being annexed.[116] [117]
- If an annexation improves the efficiency and effectiveness of City service delivery, then the annexation has aided economic development by improving residents' quality of life.[118]

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[113] Stranahan, Carey. Personal interview. 23 March 2012.
[114] Fadness, Scott. Personal interview. 30 March 2012.
[115] Ibid.
[116] Ibid.
[117] Stranahan, Carey. Personal interview. 23 March 2012.
[118] Fadness, Scott. Personal interview. 30 March 2012.

Appendix 35: PILOA Permissions

IC 36-4-3-21(a)

> In lieu of annexing contiguous territory or in cases not involving annexation, the executive and the proper administrative agency of a municipality, with the consent of the municipal legislative body, may enter into contracts with the owners or lessees of designated property in the vicinity of the municipality, providing for the payment or contribution of money to the municipality for municipal or public purposes specified in the contract. The payments under the contract may be:
> (1) related to or in consideration of municipal services or benefits received or to be received by the property owners or lessees;
> (2) in lieu of taxes that might be levied on annexation of the designated property; or
> (3) wholly unrelated to municipal services or benefits to or potential tax impositions on the designated property.
>
> Section 21(b) provides limitations on the time limit of these agreements and the structure of such agreements.

Appendix 36: PILOT Requirements

IC 36-2-6-22

> (d) Subject to the approval of a property owner, the governing body of a political subdivision may adopt an ordinance to require the property owner to pay PILOTS at times set forth in the ordinance with respect to real property that is subject to an exemption under IC 6-1.1-10-16.7
> (e) The PILOTS must be calculated so that the PILOTS are in an amount equal to the amount of property taxes that would have been levied by the governing body for the political subdivision upon the real property described in subsection (d) if the property were not subject to an exemption from property taxation.
> (f) PILOTS shall be imposed as are property taxes and shall be based on the assessed value of the real property described in subsection (d). Except as provided in subsection (j), the township assessor, or the County Assessor if there is no township assessor for the township, shall assess the real property described in subsection (d) as though the property were not subject to an exemption.
> (g) PILOTS collected under this section shall be deposited in the unit's affordable housing fund established under IC 5-20-5-15.5 and used for any purpose for which the affordable housing fund may be used

Appendix 37: Previous Agreements

Payment Structure and Amounts

Payments over the life of the 1987 agreement were to total just over $2 million, and were to be paid in semiannual installments. These installments began in the amount of $62,500 at the signing of the agreement, and increased to $75,500 in May of 1995. Each West Side industry was then assigned a portion of the semiannual amount.

The 1998 agreement followed the same structure as its predecessor. Payments started at the level of the old agreement and increased on a similar schedule. As before, each industry was assigned a portion of the total amount and new signatories to the agreement between November 1, 2002 and April 30, 2009 agreed to pay a total of 14% of the assessed value of real property in two equal installments.

Governance and Enforcement Mechanisms

The original 1987 contact sets up a fairly elaborate mechanism to deal with any failure to pay. If a single firm fails to pay, the City can declare the contract null and void with regards to that company. Upon a default, several options exist: the remaining industries could “cure” the default and contribute the defaulting company’s share to the City and must therefore be notified of any defaults, or the City could notify the company in question of their default and after 60 days or more proceed with legal action, up to and including annexation. Conversely, if the industries felt the City was not providing promised services, they could also declare the City in default and pursue legal action of their own, up to an including getting a restraining order or injunction prohibiting annexation.

The "Joint Committee" created under the terms of the August 1, 1987 agreement was intended to continue in effect and was to be comprised of two representatives of the Industries, to be selected jointly by the industries which are parties to this Agreement; two representatives of the City Administration, to be appointed by the Mayor; one representative of the Common Council; one representative of Monroe County, to be appointed by County Commissioners; and the Director of the Bloomington Economic Development Corporation. The Committee was to have similar responsibilities as under the prior agreement, including encouraging the addition of new parties, assisting in plans for utilizing payments, and developing a system to recognize industrial expansion. Little evidence exists as to the activities of the Joint Committee at that time.
In terms of allowable annexations, agreement parties are prevented under the 1998 renewal from suing to block City annexations unless the City tries to annex the actual industries. In return, the City of Bloomington was required to provide the same level of services as was provided under the predecessor agreement.

Enforcement of the 1998 agreement was very similar to the 1987 agreement. If any signatory fails to adhere to agreement terms, a certified letter was to be sent, notifying the party of pending action. If after 60 days from certified notice, the party desiring performance, in this case the City, would declare the agreement null and void with respect to offending party or all parties. As before, any industry can pay any other industry’s dues and then seek legal action against them. This mechanism was again intended to incentivize the industries to police each other and ensure that payments be made.