Accelerate
Indiana
Municipalities

# BUDGET BULLETIN 2020

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# 2020 BUDGET BULLETIN

**The City and Town Budget Bulletin** is published by Accelerate Indiana Municipalities as a service to its members. The Association thanks the Department of Local Government Finance (DLGF) and Baker Tilly's Paige Sansone for their assistance in the preparation of this bulletin.

**This City and Town Budget Bulletin** is designed to assist city and town officials with the responsibility of developing and adopting a budget. The first section of this publication is a narrative that discusses some generalities of the Indiana municipal budget process, including how to determine expenses and revenues, and how to balance the budget. The text organizes the budget process into the logical steps that a municipality would take to reach the final adoption of a budget. Supplements follow to help with specific components of a municipal budget. All municipalities may not need to use the information provided in every supplement to complete a budget.

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# 2020 Budget Calendar and Procedures

**NOTE:** The dates below reflect the statutory deadlines. In many cases, deadlines occurring on a Saturday, Sunday, or legal holiday are effective on the next business day.

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| April 15 | Last day for redevelopment commissioners or their designees to file with the unit's executive, fiscal body, and the DLGF a report setting out the activities during the preceding calendar year. The report must also include information concerning tax increment finance districts. IC 36-7-14-13 |
| April 30 | Deadline for units to submit to the DLGF cumulative fund proposals. IC 6-1.1-41-4 |
| May 15 | Deadline for the DLGF to provide unit level Supplemental Local Income Tax distribution reports to qualifying counties. IC 6-3.6-9-15 |
| June 14 | Last day for redevelopment commissions to report on available TIF excess AV. IC 36-7-14-39(b)(4); IC 36-7-14-48(f); IC 36-7-14-52(c); IC 36-7-15.1-26(b)(4); IC 36-7-15.1-35(f); IC 36-7-15.1-53(b)(4); IC 36-7-15.1-62(c) |
| June 30 | Deadline for State Budget Agency ("SBA") to provide Assessed Value Growth Quotient (AVGQ) to civil taxing units, school corporations, and the DLGF. IC 6-1.1-18.5-2(c) |
| July 14 | Deadline for the DLGF to provide to each unit an estimate of the maximum Cumulative Capital Development Fund tax rate they may impose for the ensuing year. IC 6-1.1-18.5-9.8(b) |
| July 14 | Deadline for the DLGF to provide to each taxing unit an estimate of the maximum permissible property tax levy for the ensuing year, along with guidance on calculating allowable adjustments to the maximum levy. IC 6-1.1-18.5-24 |
| July 31 | Deadline for the DLGF to provide to each taxing unit that levies a property tax an estimate of the amount by which property tax distributions will be reduced in the ensuing year due to circuit breaker credits. IC 6-1.1-20.6-11.1. |
| July 31 | Deadline for County Auditors to provide to the DLGF and each political subdivision a notice via Gateway of the assessed value withholding from the ensuing year certified net assessed values ("CNAV"). IC 6-1.1-17-0.5 |
| August 1 | Deadline for county auditors to certify net assessed values for the ensuing budget year with the DLGF. The DLGF will make values visible to political subdivisions via Gateway. IC 6-1.1-17-1 |
| August | No later than at its first meeting in August, the county fiscal body reviews the estimated maximum levies and circuit breakers for each taxing unit and then prepares and distributes a written recommendation or distributes the minutes of the meeting once approved. |
| September 3 | Last day for units subject to binding review, including certain libraries under IC 6-1.1-17-20.3, to submit proposed budgets, tax rates, and tax levies for the ensuing year to the county fiscal body or other appropriate fiscal body for binding adoption. IC 6-1.1-17-20, IC 6-1.1-17-20.3 |
| October 1 | Effective date for LIT rate changes adopted by ordinance after December 31 and before September 1. IC 6-3.6-3-3 |
| October 1 | Deadline for the State Budget Agency ("SBA") to certify the actual local income tax distributions for the ensuing year. IC 6-3.6-9-5 |
| October 11 | Last day to post notice to taxpayers of proposed budgets, tax levies and public hearing for the ensuing year (Budget Form 3) to Gateway. (Notice must be posted at least ten (10) days before the public hearing, which must occur at least ten (10) days before the adoption for most taxing units. IC 6-1.1-17-3 |

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| October 19 | Last day for units to file excess levy appeals for school transportation fund, annexation/consolidation/extension of services, three-year growth factor, emergency, and correction of error with the DLGF. IC 20-46-4-10; IC 6-1.1-18.5-12; IC 6-1.1-18.5-13(1), (3), (13); IC 6-1.1-18.5-14 |
| October 21 | Last possible day for taxing units to hold a public hearing on their ensuing year budgets. Public hearing must be held at least ten (10) days before budget is adopted (except in Marion County and in second class cities). This deadline is subject to the scheduling of the adoption meeting, which could be held on or before November 1. IC 6-1.1-17-5. In Marion County and second class cities, the public hearing maybe held any time after introduction of the ensuing year budget. IC 6- 1.1-17-5(a). Note that November 1 is the last date for adoption of the budget. |
| October 29 | Last possible day ten or more taxpayers may object to a proposed ensuing year budget, tax rate, or tax levy of a political subdivision. Objection must be filed not more than seven (7) days after the public hearing. THIS DEADLINE IS SUBJECT TO THE SCHEDULING OF THE PUBLIC HEARING. IC 6-1.1-17-5(b) |
| October 31 | Deadline to adopt ordinance modifying local income tax rates effective January 1 of the ensuing year. IC 6-3.6-3-3 |
| November 1 | Deadline for all taxing units to adopt ensuing year budgets, tax rates, and tax levies. IC 6-1.1-17-5(a) |
| November 1 | If a taxpayer objection petition is filed, the appropriate fiscal body shall adopt with the appropriate ensuing year budget a finding concerning the objections in the petition and any testimony presented at the adoption meeting. IC 6-1.1-17-5(c) |
| November 1 | Deadline for second and third class cities to adopt salary ordinances for non-elected officials. IC 36-4-7-3 |
| November 4 | Last day for units to submit their ensuing year budgets, tax rates, and tax levies to the DLGF through Gateway. |
| December 14 | Last day for the DLGF to accept additional appropriation requests for the current year budget from units. IC 6-1.1-18-5 |
| December 31 | Deadline for the DLGF to certify budgets, tax rates, and tax levies unless a taxing unit in a county is issuing debt after December 1 in the year preceding the budget year or intends to file a shortfall appeal under IC 6-1.1-18.5-16; IC 6-1.1-17-16 |
| December 31 | Deadline for the DLGF to certify budgets, rates, and levies unless a taxing unit in a county is issuing debt after December 1 or intends to file a shortfall excess levy appeal. (See also January 15.) |
| December 31 | Deadline for towns to adopt salary ordinance for the ensuing budget year. IC 36-5-3-2. Note that the ordinance must be adopted the year before it is effective. |
| December 31 | Deadline for second and third class cities to adopt salary ordinances for elected officials. |
| December 31 | End of business for calendar/budget year. |
| January 1 | Beginning of new calendar budget year. |
| January 1 | Last day for a new civil taxing unit to become established in order to qualify for property taxes payable in 2021. IC 6-1.1-18.5-7 |
| January 1 | Effective date for local income tax rate changes adopted by ordinance after August 31 and before November 1. IC 6-3.6-3-3 |
| January 15 | Deadline for the DLGF to certify budgets, tax rates, and tax levies if a taxing unit in a county is issuing debt after December 1 in the year preceding the budget year or intends to file a shortfall appeal under IC 6-1.1-18.5-16; IC 6-1.1-17-16 |
| January 31 | Units file Annual Salary Report (100R) for preceding calendar year with SBOA. The 100R must be filed before the DLGF can approve an ensuing year budget or additional appropriations for a taxing unit. IC 5-11-13-1 |

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|---|---|
| March 1 | Units file Annual Report for preceding calendar year with SBOA. The Annual Report must be filed before the DLGF can approve an ensuing year budget or additional appropriations for a taxing unit. IC 5-11-1-4 |
| March 1 | Deadline for each political subdivision to submit annual report to the DLGF in Debt Management of any outstanding bonds or leases (as of January 1). IC 5-1-18-9 |
| March 1 | Last day for political subdivisions to report to the DLGF information and data on their retiree benefits and expenditures. IC 36-1-8-17.5 |

# Getting Started

The ideal way to construct a budget is to begin with needs — what services should be provided and at what level. Another approach is to begin the budget by examining the current budget. It is important to understand the current financial situation prior to making important fiscal decisions on what to include in the next year's budget.

In Indiana, maximum levy controls cap the revenue that can be raised by property taxes. This limits revenues available to local governments. Currently, the maximum levy growth is based on a six-year average of Indiana's non-farm personal income (growth quotient). This growth quotient is calculated annually by the State Budget Agency.

Indiana Code provides that municipalities may seek approval to increase their maximum levy above the growth quotient under certain circumstances. Indiana Code sets forth a process to appeal for an excessive levy. This topic is discussed in greater detail in Supplement 4 of this bulletin.

Local governments may levy additional taxes outside of the property tax controls. In addition to property taxes levied to pay the debt service on bonds, local governments may establish cumulative capital development funds (CCDF). These funds are rate-driven funds, meaning that the funds are limited by specific rates pursuant to Indiana Code. Supplement 5 will provide additional information regarding cumulative funds.

Municipalities in counties that have adopted local income taxes receive revenues from these taxes in addition to property taxes collected and other receipts and are included in the budget as miscellaneous revenue. Local income tax allocated to certified shares may be used for any governmental or lawful purpose.

# The Budgeting Process

Municipal budgeting is the process of matching needed expenditures for the ensuing year with available funds or resources to pay for goods and services. Sometimes the process of compiling the financial needs of each department is temporarily performed independently of the process of calculating available revenues. Prescribed procedures will compel municipal officials, at some point, to match expenditures with revenues.

Municipal budgeting in Indiana is not one budget, but several budgets. In effect, there is a separate budget for each fund. Each fund will require separate compilation of budgeted expenses **(Form 1)**, estimate of miscellaneous revenues **(Form 2)** and a financial statement **(Form 4-B)**. After this process has been completed for every fund, the results will be compiled on the notice to taxpayers of budget estimates and tax levies **(Form 3)**.

The budgeting process is conducted differently from municipality to municipality. As long as statutory guidelines are met, officials may use any procedure that works for their municipality. Traditionally, the philosophy of key officials and the financial condition of each municipality will have a bearing on the nature of the actual budget process in each locale.

## City Budgets

Indiana Code 36-4-7 prescribes a procedure for formulating city budgets. Basically, the law calls for the following:

- Each department head or the fiscal officer prepares a **Form 1** (the budget estimate) showing the amount of money required to operate the department in the next budget year.
- The city fiscal officer prepares an estimate of revenues available for the budget year and an estimate of all other expenditures not covered under the departmental budgets.
- The mayor meets with the department heads and the fiscal officer to review and revise the estimates.
- The fiscal officer prepares a report for the mayor of estimated department budgets including expenses, revenues and projected cash for all municipal funds.

Next, the budget is submitted to the city council for action.

## Town Budgets

Indiana Code 36-5-3-3 prescribes a similar procedure in towns, but allows towns to provide by ordinance, for a different budget procedure. Many towns have opted to complete **Form 1** (Budget Estimate) by fund, rather than by department. For example, the police, fire and town administration budgets may all be contained in the **Form 1** completed for the General Fund.

## City and Town Budget Forms

**Form and Function**

**NOTE:** All forms are available to download from Gateway in various formats including PDF, Excel, and Word. The forms can be downloaded after logging into Gateway.

**Form 1:** Budget Estimate — Estimate expenditure needs; one form for each department (or fund in towns).

**Form 2:** Miscellaneous Revenues — Estimate miscellaneous revenues; one form for each fund.

**Form 3:** Notice to Taxpayers — Legal advertisement for publication; notice of budget meeting.

**Form 4:** Ordinance — Adoption document for budget and tax rates.

**Form 4-A:** Budget Report — Summary of budget actions.

**Form 4-B:** Financial Statement — Estimate of available funds; computation of tax rates. This form is known as the "sixteen line statement."

**Debt Worksheet:** Lists principal and interest payments for debt repaid from a debt service fund.

**Current Year Financial Worksheet (Formerly Line 2 worksheet):** Additional calculations for Form 4B.

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# 2020
# The Expense Side

# Form 1

The process of building a budget begins with estimates of the unit's needs during the next fiscal year. How many police or firefighters will the unit employ? How much will they be paid? What benefits will be offered? Will you need to purchase new police or firefighting equipment? Will you need to provide training? All of these questions, and many more, must be considered as the budget is formulated.

Committing these ideas to paper begins with the completion of **Form 1**. This form contains the necessary expenditures proposed for the coming year.

**Form 1** is fairly straightforward. Information showing the department or fund's estimated expenses in the ensuing budget year is entered according to the categories on the form and is totaled by each major budget classification, with a grand total at the end.

The major budget classifications and some special considerations are:

1. **Personal Services** — this category includes all expenses associated with personnel, including wages, salaries and fringe benefits. There are many statutory requirements for different classification of municipal employees or officials. These are outlined in Supplement 6.

   Special considerations include:
   - Proposed staffing levels;
   - Wage adjustments;
   - Changes in fringe benefits, such as increasing health insurance, unemployment insurance or worker's compensation costs; and,
   - Pension costs, particularly police and fire pensions for cities and for those towns participating in the police and fire pension system.

2. **Supplies** — this category includes virtually all types of supplies, including office supplies, operating sup plies and repair and maintenance supplies.

   Special considerations include:
   - Changes in demand for supplies caused by the addition of new programs or termination of old ones; and
   - Possible cost changes, especially in supplies such as fuels and other petroleum-related products.

3. **Other Services and Charges** — this is a broad category that encompasses a wide variety of expenditures including:
   - Professional services (such as legal or engineering services);
   - Communications and transportation (telephone, postage, etc.);
   - Printing and advertising;
   - Insurance (other than that contained in personal services);
   - Utility services;
   - Repairs and maintenance;
   - Rentals (including hydrant rental);
   - Debt service; and
   - Other services and charges (such as organization memberships or costs of official bonds). Membership dues for Accelerate Indiana Municipalities (Aim) are an example of one of the dues a municipality would budget in this category.

Special considerations include:
- Changes in demand for, or cost of, professional services;
- Changes in postage or telephone rates; and
- Changes in insurance costs (auto, liability and property).

4. This category is limited to projected expenditures for capital improvements. Capital outlays may be budgeted for land, buildings, other improvements, machinery and equipment, and other capital needs.

   Special considerations include:
   - Long-term or ongoing projects requiring capital expenditures, such as right-of way acquisition;
   - Method of financing (purchase, lease-purchase, etc.); and
   - Fire apparatus, police vehicles, street sweepers, sanitation equipment, etc.

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# 2020
# The Revenue Side

# Form 2

**Form 2** must be completed for each fund that is budgeted. **Form 2** is an estimate of miscellaneous revenues which will be deposited into the fund. Miscellaneous revenues mean everything except property taxes. For each fund, only use those lines reflecting revenue types that are deposited into that fund. For example, when completing the **Form 2** for the Cumulative Capital Improvement (Cig Tax) Fund, most units would use only line R111.

Column A of **Form 2** is for revenue estimated to be collected during the last six months of the current year. Column B is for revenue estimated to be collected during the next fiscal and calendar year beginning January 1 and ending December 31.

Below is a guideline for completing **Form 2** for the General Fund, CCIF, MVH and LRS funds:

| **Line** | **Column A**<br>Revenue received between July 1 and December 31 of the *current* year | **Column B**<br>Revenue received between January 1 and December 31 of the *ensuing* year |
|---|---|---|
| R112 — Financial Institutions Tax (FIT) | Use current figures* | Base figures on past collections and best estimate |
| R114 — Excise tax | Use current figures* | Base figures on past collections and best estimate |
| Local Income Taxes | DLGF provides estimate | DLGF provides estimate |
| R208 — Dog license | Use current figures* | Base figures on past collections and best estimate |
| R203 — Building permits | Use current figures* | Base figures on past collections and best estimate |
| R207 — Street cut permits | Use current figures* | Base figures on past collections and best estimate |
| R109 — Liquor license | Use current figures* | Base figures on past collections and best estimate |
| R136 — Alcohol gallonage | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| R111 — Cigarette tax for General Fund | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| R410 — Fire contracts | Use contract amount | Use contract amount |
| R502 — Court docket fee | Estimate from court | Estimate from court |
| R503 — Ordinance violations | Use current figures* | Base figures on past collections |
| R913 — Miscellaneous Revenue | Use best estimate | Use best estimate |
| R913 — Other sources | Use best estimate | Use best estimate |
| *If you know that the figures will change, use your best estimate. | | |

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|---|---|---|
| **Cumulative Capital Improvement Fund** | | |
| R111 — Cigarette Tax | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| **Motor Vehicle Highway Fund** | | |
| R116 — MVH distributions | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| MVH #1 | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| MVH #2 | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| **Local Road & Street Fund** | | |
| R113 — LRS | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| R135 - Commercial Vehicle Excise Tax (CVET) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |
| R110 - Riverboat Wagering Tax Revenue Sharing | Use Budget Revenue Estimates from Auditor of State's Office (available in June) | Use Budget Revenue Estimates from Auditor of State's Office (available in June) |

# Form 4-B

After compiling the proposed expenditures on **Form 1** and miscellaneous revenues on **Form 2**, the Budget Estimate and Financial Statement **Form 4-B** should be completed. This form, sometimes referred to as the sixteen line statement, summarizes the total revenue needs for the fund and shows the sources from which that revenue will come. It is usually helpful to complete an initial draft using the best data available at the time and then make adjustments as better information is gained throughout the budget process.

The first five lines are used to compute total cash needs.

**Line 1**— the budget estimate for the ensuing year which is the total shown on **Form 1**.

**Line 2** — necessary expenditures for the last half of the present year. In most cases, this will be the unexpended appropriation as of June 30 of this year (shown on the Current Year Financial Worksheet).

**Line 3** — the amount of additional appropriations the municipality anticipates making before the end of the current year (shown on the Current Year Financial Worksheet).

**Line 4a** — used to show temporary loans made to the fund that must be repaid prior to the year's end (shown on the Current Year Financial Worksheet).

**Line 4b** — used to show temporary loans made to the fund that will not be repaid by December 31 of the present year (shown on the Current Year Financial Worksheet). (Repayment must be made by June 30 of the ensuing year and requires a resolution by the fiscal body.)

**Line 5** — the sum of lines 1-4 and represents total cash need for the ensuing 18 month period.

**Line 6** — the actual cash balance, including investments, as of June 30 of the current year (shown on the Current Year Financial Worksheet).

**Line 7** — all property tax settlements due for the present year, but not yet received as of June 30 (shown on the Current Year Financial Worksheet). Unless there is a delay in the June settlement, this will normally be the December settlement. This information should be available from the county auditor.

**Line 8** — the miscellaneous revenue data compiled on **Form 2**. The miscellaneous revenue anticipated to be received in the last six months of the current year is taken from Column A of **Form 2** and placed on line 8A. The revenue anticipated for the upcoming year is taken from Column B of **Form 2** and placed on line 8B.

**Line 9** — the total of lines 6 thru 8.

The remainder of the form is to calculate the amount of property taxes that will be needed to fund the budget and meet the indicated cash needs.

**Line 10** — result from subtracting the amount on Line 9 from Line 5. This represents the amount of money needed just to cover expenses for the next 18 months.

**Line 11**— amount desired for an operating balance. Since many municipalities experience cash flow difficulties, there is a provision for an operating balance.

**Line 12** — sum of lines 10 and 11. It represents the total amount of money needed from the coming year's property tax resources.

**Line 13a** — Starting with Budget Year 2017, CAGIT PTRC no longer exists under the new local income tax structure and therefore, this line will be pre-populated with $0.

**Line 13b** — the amount of "levy freeze" LOIT the unit will receive. (Applies to Levy Freeze counties only.) The levy freeze LOIT is a subsidy of property tax levy growth by state-collected, non-property tax sources.

**Line 14** — Line 13 **subtracted** from Line 12. This is the net amount to be raised from property taxes.

The amount shown on Line 14, once finalized, represents the amount of property taxes that will be levied in the ensuing year to fund the municipality for the next 18 months. In almost all cases, the initial data in the **Form 4-B** will need to be adjusted before the budget is finalized. In some instances, more accurate information will be available than the figures at hand initially. In other instances, the initial amount of property taxes to be levied exceeds the amount that can be levied.

# Balancing the Budget

After making an initial calculation of the net amount of property tax levy on line 14 of **Form 4-B** for all funds that are under property tax controls, a comparison must be made with the maximum levy allowed by law. The levy controls are not applied on each fund individually, but reapplied on the sum of all funds under the controls.

Examples of funds that are not under the controls are the Cumulative Capital Development Fund (CCDF) and Debt Service Fund. Although the CCDF is not under the controls, it is subject to rate limitations **(see Supplement 5)**.

After adding all controlled levies together, the sum should be compared to the maximum levy allowed by law. Units should contact the DLGF concerning calculation of the maximum levy. Their phone number is (317) 232-3777.

If the amount of property tax levy is less than the maximum levy, the budget can be fully funded without further adjustments. Some items may still require more scrutiny. In particular, the amount shown for an operating balance may need to be reviewed to see if it is adequate for the cash flow needs of the municipality.

If the amount of property tax levy shown on Line 14 is more than the maximum levy, action must be taken to bring the budget into balance. There are several measures which can be taken, some more severe than others.

1. The targeted operating balance, if any, can be reduced. At first glance, this is an easy way to balance the budget without reducing expenditures shown on **Form 1**. If the original operating balance is more than needed for cash flow, this may be a rational approach; however, if the original balance is needed, lowering the amount will drive up borrowing costs. Using this technique is a one-time device. The amount of operating balance used to fund the ensuing budget will not be available in the next budget cycle.

2. Miscellaneous revenues can be increased. While many of the revenues listed on **Form 2** are fixed, some are not. User fees, licenses and permits can sometimes be increased. If local option taxes are imposed or increased, the resulting revenue increases will be reflected in miscellaneous revenue.

3. Remaining appropriations for the last half of the current year may be reduced by Council resolution. This will allow additional funding for the ensuing year's budget. A "Line 2 Reduction of Appropriation Resolution" must be submitted with the budget in order for the DLGF to consider the reductions when working the ensuing year's budget.

4. The budget estimate for the ensuing year can be lowered. This is the process of cutting the budget. If the initial budget allocated a substantial amount of funds for desirable, but non¬essential items, this process will be relatively painless. Unfortunately, many municipalities are in a position that difficult choices will have to be made. It will be through this process that critical policy decisions will be made.

5. The municipality can appeal for an excessive levy. There are limited situations provided in Indiana law where the municipalities can appeal to the DLGF for a levy in excess of the maximum. The permissible grounds for such an appeal, the process and a sample resolution are included in Supplement 4. *If the municipality decides to appeal, the Gateway Notice to Taxpayers and adopted budget must reflect the amounts included in the appeal.*

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# 2020
# Wrapping it Up

# Submitting the Budget Notice to Taxpayers on Gateway

Budget **Form 3**, Notice to Taxpayers of Budget Estimates and Tax Levies, is the budget form that is submitted on Gateway for public viewing. It contains information on proposed budgets, tax levies and public hearings. **Forms 1, 2, 4-A and 4-B** must be completed before attempting to complete **Form 3**, as all information therein is taken from other forms.

Great care should be taken in completing **Form 3**. Once **Form 3** is submitted on Gateway, the budget and tax levy may be decreased by the Council or the DLGF, but in most cases they cannot be increased. For that reason, it is important that the amounts shown on the Gateway Notice to Taxpayers provide the unit with sufficient flexibility should information change between posting the notice on Gateway and final budget approval. For example, units should make sure that should assessed valuation figures change, the unit has advertised a levy sufficient to raise necessary revenues.

**Form 3** must be posted on Gateway at least ten (10) days before the public hearing on the budget. The Public Hearing must be at least ten (10) days before the meeting at which the budget is adopted.

The last days for the public hearing and the budget adoption meeting can be found in the Budget Calendar. Actual dates are the decision of the local legislative body.

# Budget Hearing and Final Adoption

After the Gateway submission of **Form 3**, the fiscal body (city or town council) must conduct a pre-adoption public hearing, as shown in the Notice to Taxpayers, and a meeting for final adoption of the budget, also as shown in the Notice to Taxpayers.

Public hearings provide municipal officials with a chance to explain to the public the contents of the budget. Through the budget presentation, officials acknowledge their priorities for the next fiscal year, the revenues necessary to fund that budget and the source of those revenues. Officials can also explain to the public the revenue limitations which are imposed upon municipal government. The hearings give the public a chance to have input in the budget process.

Aim strongly suggests that municipal officials invite their state legislators to attend the budget hearings. It is important to educate your legislators on the budget process, the difficult decisions you must make in order to enact a budget and the fiscal constraints imposed by certain laws. Inviting their participation in the budget process can heighten their sensitivity to local government finance issues.

After the budget is adopted, by passage of the appropriation ordinance, it is filed electronically through Gateway, in accordance with the Budget Calendar.

During the months of November and December, the DLGF will conduct field hearings on local government budgets. The hearings are usually conducted in the county courthouse. Municipal officials are strongly encouraged to attend the budget field hearing for their unit. The budget field representatives will not review budgets during the public hearings. The hearings are an opportunity for taxpayer input. Upon conclusion of the hearings, field representatives will meet at regional sites throughout the State to conduct budget reviews.

During the review process, the hearing officer may make adjustments to the budget due to updated revenue estimates, later expenditure estimates, statutory property tax controls, changes in assessed valuation, or other necessary adjustments. Keep in mind, in most cases, the DLGF's hearing officer may only adjust the tax levy down from the amount advertised; the hearing officer may not increase the figures above the advertised amount. The hearing officer also determines whether the budget was properly advertised and hearings were held in accordance with the law.

It is important for local officials to come to the field hearings prepared. Officials should bring documentation of disbursements and cash balances as of June 30th in addition to debt service worksheets and amortization schedules. If it is anticipated that the hearing officer will order a budget reduction, officials should be able to make recommendation as to cuts.

Prior to issuing a final budget order, the DLGF will issue a preliminary budget called a "1782 Notice". Indiana Code (6-1.1-17-16) allows taxing units ten (10) calendar days to respond to the 1782 Notice with requested changes to the budget such as budget reductions, reallocation of property tax levy, and revision of miscellaneous revenues.

The field hearing officer's recommendations are forwarded to the DLGF for final action. By statute, the DLGF is required to certify budgets, rates and levies by January 15.

# Summary of Statutory Requirements for Budget Approval

Please be aware: You must comply with the following statutory requirements, or the DLGF has the authority to deny your budget.

## Nepotism in Hiring and Contracting with Relatives Penalties

• Failure to implement nepotism (IC 36-1-20.2-18) and disclosure requirements for contracts with relatives (IC 36-1-21-8):

• "The Department of Local Government Finance *may not approve: (1) the unit's budget; or (2) any additional appropriation for the unit*; for the ensuing calendar year until the State Board of Accounts certifies to the Department of Local Government that the unit is in compliance…"

• For more information, see Aim's "Guide on How to Comply With Indiana's Nepotism Law," which may be found on Aim's website, www.aimindiana.org.

## Internal Controls and Conflict of Interest Laws

• Beginning July 1, 2016, cities and towns must be in compliance with minimum level of internal control requirements developed by SBOA or risk not having their budgets approved by the Department of Local Government (DLFG). First, the legislative body of a city or town must ensure that internal control standards and procedures are adopted by the city or town and that all personnel have received training regarding the internal controls standards and procedures. Under IC 5-11-1-27, "personnel" is defined as an officer or employee of a city or town whose official duties include receiving, processing, depositing, disbursing or otherwise having access to funds that belong to the federal government, state government, a political subdivision or another governmental entity. Second, the fiscal officer of a city or town must annually certify in writing that the minimum internal control standards and procedures have been adopted and that all personnel not otherwise on leave status have received the appropriate training.

• After July 1, 2016, if an audit conducted SBOA finds that a city or town has not adopted internal control standards and procedures or the personnel of the city or town have not received the required training, SBOA is required to issue a comment in the city or town's examination report. If, during a subsequent audit, the SBOA finds that the internal control standards and procedures still have not been adopted or personnel have not received training, the city or town has sixty (60) days to cure the violation or SBOA is required to notify DLFG of the violation. Such a notification prohibits DLFG from approving the city or town's budget or a supplement appropriation.

• HEA 1264 also addresses the issue of volunteer firefighters and the Conflict of Interest law. Beginning July 1, 2015, the executive or member of the fiscal body of a city or town may serve as a volunteer firefighter for a volunteer fire department or a fire department that provides fire protection services to the city or town. However, a fiscal body member of a city or town who is also a volunteer firefighter for a fire department providing fire protection services to the city or town must abstain from voting on the city or town's budget and tax levies. Furthermore, if at least a majority of the members of the city or town's council are volunteer firefighters, the city or town's budget is frozen unless the executive of the city or town petitions the county fiscal body for an increase in the budget or for additional appropriations.

## Debt Issuance Report - IC 5-1-18-7

• "The department *may not approve an appropriation or a property tax levy* that is associated with a debt unless the debt issuance report for the debt has been submitted to the department, unless the department has granted a waiver under subsection (d)."

• "(d) The department may for good cause grant a waiver to the requirement under subsection (c) and approve an appropriation or a property tax levy, notwithstanding a political subdivision's failure to submit a required debt issuance report."

## Annual Financial Report - IC 5-11-13-1 (AFR)

• "(b) The department of local government finance *may not approve the budget of a county, city, town, or township or a supplemental appropriation* for a county, city, town, or township until the county, city, town, or township files an annual report under subsection (a) for the preceding calendar year."

## Notices to Taxpayers – IC 6-1.1-17-3

· The DLGF may deny budgets if the notices to taxpayers are not submitted on Gateway within the statutory timeframe. The **Form 3** (Notice to Taxpayers) must be submitted on Gateway no later than ten (10) days prior to the Public Hearing.

## Public Hearing and Adoption – IC 6-1.1-17-5

· The DLGF may deny budgets if the public hearing and adoption dates are not within the statutory timeframe. The deadline to adopt the budget is no later than November 1. The public hearing must be completed at least ten (10) days before budget adoption.

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# Supplement 1: Local Income Taxes

**With the passage of** HEA 1485 in 2015, Indiana experienced an overhaul of the Local Option Income Taxes (LOIT) system starting January 1, 2017.

Historically, there had been three types of LOIT: The legislature instituted the County Adjusted Gross Income Tax (CAGIT) in 1973, the County Option Income Tax (COIT) in 1984, and the County Economic Development Income Tax (CEDIT) in 1987. A county could not have both CAGIT and COIT at the same time – it could choose only one or the other. However, all counties could adopt CEDIT in addition to having CAGIT or COIT. The maximum rate for CAGIT was 1%, the maximum rate for COIT was 1%, and the maximum rate for CEDIT was 0.5%. When combining CAGIT with CEDIT, the maximum rate was 1.25%. When combining COIT with CEDIT, the maximum rate was 1%. Since 2005, the uses of CEDIT changed to include any governmental purpose – not just for economic development purposes, as it was originally intended. It is important to understand which governmental entity had the authority to adopt these taxes (referred to as “the adopting body”). The county council was the adopting body for CAGIT. The County Income Tax Council (whose members are the county council, and the councils from each city and town within the county (percentage of controlling vote based on population)) was the adopting body for COIT. If CAGIT or COIT had been imposed in a county, then the same adopting body had the authority to adopt CEDIT. If neither CAGIT nor COIT has been implemented, either adopting body could initiate the adoption of CEDIT.

To help offset the impacts from the circuit breaker caps, in 2007, the General Assembly permitted the adopting bodies to increase their CAGIT or COIT rates up to an additional 1% to be used for property tax relief. An additional 0.25% could also be added for public safety purposes, but only if the adopting body enacted a rate in at least the same amount for property tax relief. These additional CAGIT and COIT rates of up to 1.25% for the specific purpose of property tax relief and/or public safety are sometimes referred to as the “new LOITs.” In 2015, HEA 1475 removed the requirement that the rate for property tax relief had to be instituted as a prerequisite to adopting the public safety rate.

HEA 1475-2015 also allowed a newly enacted public safety rate to be designated toward funding a county’s 911 emergency call center otherwise known as a public safety answering point (PSAP). If there was not a Public Safety LOIT in effect as of June 1, 2015, the adopting body may adopt a resolution providing that up to 100% of the tax revenue from a public safety LOIT be dedicated to a PSAP in the county that is part of the statewide 911 system. If there was a Public Safety LOIT in effect on June 1, 2015, the adopting body may adopt a resolution providing that up to 100% of the Public Safety LOIT tax revenue derived from the part of the tax rate that exceeds the tax rate in effect on July 1, 2015, shall be dedicated to a PSAP in the county that is part of the statewide 911 system.

**June 30, 2016 was the deadline date to adopt a LOIT under the “old system.” As of July 1, 2015, any new ordinances adopted to enact a LOIT will be under the “new system” which went into effect January 1, 2017 in accordance with HEA 1485-2015 and HEA 1081-2016.**

## The New LOIT System

To simplify the LOIT system, in 2015, HEA 1485 was passed. Under the new system, all local option income taxes including CAGIT, COIT, CEDIT, special LOIT, new LOIT, the public safety LOIT, etc. are referred to as “LIT” or Local Income Taxes. There are three possible rate components for LIT as follows: Expenditures, Property Tax Relief, and Special Rate (if a special rate has been instituted.) A special rate is where the General Assembly has passed a law granting a county an additional rate for a specific purpose (i.e. to fund a jail).

The adopting body in the county remained the same under the new system. If the county previously had CAGIT, then the adopting body is the county council. If the county previously had COIT, then the adopting body is the County Income Tax Council, now referred to in the statute as the “Local Income Tax Council.” If the county had neither CAGIT nor COIT previously, the county council is the adopting body. The adopting body has the authority to set the rates and the uses for Expenditure and Property Tax Relief LIT. The maximum rate for Expenditure LIT is 2.5%. The adopting body dictated how the Expenditure rate will be used by all units in the county – either for public safety, economic development or certified shares. The maximum rate for Property Tax Relief is 1.25%. The adopting body dictates where the relief is targeted among the 1, 2, and 3% tax cap groups.

No action was required by the adopting body to switch to the new system. For example, if, prior to the new system effective date, a county had a 0.5% CEDIT rate, a 0.5% COIT rate, a 1% COIT property tax relief rate, and a .25% COIT public safety rate for a total of 2.25% and no action was taken by the adopting body to make changes, when the new system came online on January 1, 2017, this county had an Expenditure rate of 1.25% where 0.5% was designated for economic development, 0.5% was designated for certified shares, and .25% was designated for public safety. It had a 1% rate for Property Tax Relief and the relief was targeted as the adopting body had previously designated.

**Going forward, the adopting body can make changes to the Expenditure and Property Tax Relief rates and to the designated uses. These changes can occur unless there are limitations due to the fact that a unit within a county has already pledged LIT revenue to pay for an outstanding obligation.**

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# Supplement 2: Property Tax Caps (Circuit Breaker)

**The term "circuit breaker"** refers to caps on property taxes. The concept is much like an electrical circuit that trips when it is overloaded. When property taxes reach a certain amount, further taxation would be an overload on the taxpayer, so property taxes are capped at a certain amount and the taxpayer is not required to pay beyond the capped amount. The taxpayer receives a credit for the amount of property taxes due beyond the cap and these credits must be funded out of local governments' budgets.

In 2011 under HEA 1001-2008, the owner of a homestead began paying no more than 1% in property taxes based on his or her home's gross assessed value. (Gross assessed value is the dollar value assigned to property by the local assessor. It does not include exemptions and deductions and excludes business inventories.) For agricultural, other residential rental properties, or long-term care properties, a taxpayer pays no more than 2% of the property's gross assessed value. For all other types of real and personal property, such as business property, property taxes are capped at 3% of the property's gross assessed value.

Circuit breaker caps apply to all units of local government, including special taxing districts, and to school corporations.

**Circuit Breaker Caps:**

| | |
|---|---|
| Residential homesteads | 1.0% |
| Agricultural, other residential rental, long-term care facilities | 2.0% |
| All other real and personal property | 3.0% |

**How is this credit funded?**

· Credits must be funded by all local taxing units (except school tuition support funds) from other revenues, fund balances or budget reductions, in proportion to their levy.
· Taxing units may not increase property taxes or borrow funds to offset any shortfall in revenues.
· HEA 1072-2012 requires all debt service levies to be allocated without the application of the credit in order to fully fund debt service obligations. The credit is applied to all other property tax levies in the same taxing district, further reducing the amount of other tax levies.

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# Supplement 3: First, Second and Third Class City Budget Calendar

**The annual compensation** for all members and employees of the police departments and fire departments of second and third class cities must be fixed by ordinance of the legislative body no later than **November 1 (IC 36-8-3-3)**. The salary ordinance setting compensation of all other appointed officers and employees must be passed no later than **November 1 (IC 36-4-7-3)**. The elected city officers' annual compensation must be fixed by ordinance of the legislative body by **December 31**. This ordinance does not have to be published under IC 5-3-1.

The last day for final adoption of budgets by officers of all classes of cities is **November 1**. The pre-adoption hearing must still be held but can be scheduled anytime between the introduction of the budget and the adoption of the budget.

Ten or more taxpayers may object to a budget, tax rate or tax levy of a political subdivision by filing an objection petition with the proper officers of the political subdivision not more than seven (7) days after the hearing. The objection petition must specifically identify the provisions of the budget, tax rate and tax levy to which the taxpayers object. If a petition is filed, the fiscal body of the political subdivision shall adopt with its budget a finding concerning the objections in the petition and any testimony presented at the adoption hearing.

Each year at least two (2) days before the first meeting of the County Board of Tax Adjustment, a political subdivision shall file with the county auditor the following:
· A statement of the tax rate and levy fixed by the political subdivision for the ensuing budget year;
· Two copies of the budget adopted by the political subdivision for the ensuing budget year; and
· Two copies of any findings concerning the objections filed by taxpayers.

The County Tax Adjustment Board will meet the first Wednesday after the city files the adopted budget.

The last day to petition the DLGF for excess levy appeals (except shortfall appeals), pursuant to IC 6-1.1-18.5-13 is October 19. These are appeals from the levy limitations of IC 6-1.1-¬18.5-13 and are not to be confused with appeals from the actions of the County Tax Adjustment Board. The deadline to file shortfall excess levy appeals with the DLGF is December 30.

Ten or more taxpayers may initiate an appeal from the county board of tax adjustment's action on a political subdivision's budget by filing a statement of their objections with the county auditor. The statement must be filed not later than ten (10) days after the public hearing notice. The statement shall specifically identify the provisions of the budget and tax levy to which the taxpayers object. The county auditor shall forward the statement, with the budget, to the DLGF.

Not later than ten (10) days after the auditor publishes the notice of taxes and levies, 10 or more taxpayers may appeal to the DLGF from final determination of the County Tax Adjustment Board action, by filing objections with the County Auditor, who forwards same to the DLGF (IC 6-1.1-17--13). Any city may make a similar appeal to restore the city's rate or tax levy as originally fixed by the municipality, if same had been reduced by the County Board. These appeals are not for excessive levies.

Taxpayers may not initiate an appeal from the action of the Tax Adjustment Board if less than 75% of the taxpayers filing the appeal objected to the budget within seven (7) days of the taxing unit's public hearing.

The DLGF's field hearings on budgets and preliminary hearings on excessive levy appeals will be held October through December.

By **January 15**, the DLGF should certify the final rates and levies as required by law.

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# Supplement 4: Appeals

**There are two** types of property tax appeals in the local government budget process:

1. Appeals from actions of the County Tax Adjustment Board. These are not a levy increase exceeding the levy limitations of IC 6-1.1-18.5-13. These appeals are filed with the county auditor for transmittal to the DLGF and commonly concern a reduction in a certain budget item made by the County Tax Adjustment Board. Appeals of this nature must be filed with the auditor within ten (10) days after the Tax Adjustment Board publishes the rates and levies. The filing period usually does not occur until after **November 28** (see budget calendar).

2. Appeals for excessive levies under IC 6-1.1-18.5-13. These are appeals asking that more property tax be levied than is allowable under the maximum levy. Petitions for relief from the levy limitations imposed by IC 6-1.1-18.5-13 (except for shortfall appeals) must be filed with the DLGF by **October 19** *(shortfall appeals must be filed with the DLGF by* ***December 31****)*. The petition must state:

   a. The government function or responsibility for which relief is necessary;
   b. That without relief the function or responsibility may not be performed; and
   c. A reasonably detailed statement of facts supporting the claim that the function or responsibility cannot be performed without relief from the levy limitations of IC 6-1.1-18.5-3.

For either type of appeal, the provisions of IC 6-1.1-17-15 apply. This statute requires that the city or town council authorize the appeal by adopting a resolution. This resolution must be attached to the appeal petition. The petition must be signed by the mayor and council president in the case of a city or the town council president in the case of a town. The petition for relief and authorizing resolution must be received by the Department of Local Government Finance, Indiana Government Center North, Room N-1058, Indianapolis, IN 46204, by **October 19** *(by* ***December 31*** *for Shortfall appeals)*.

The DLGF has indicated that some units of government miss the appeals filing deadlines for excessive levies because they believe that these appeals are to be filed after the field hearings. This is not the case. The budget calendar should be consulted for the correct filing dates.

Also, budgets are disallowed each year because of improper advertising or because the final adoption does not take place on or before the required date. Failure to conduct a public hearing before final adoption will result in the budget being disallowed. City and town fiscal officers should consult the budget calendar and follow it precisely.

**Grounds for excessive levy appeals:**
1. Annexation, Consolidation, Extension of Services: additional levy needed to cover operating costs associated with newly acquired service areas. Three-Year Growth: additional levy needed due to growth that exceeds the statewide average growth quotient by at least 2%.
2. Shortfall of Property Taxes: additional levy needed to recoup the loss of property tax due to erroneous assessed value or taxpayer refunds.
3. Correction of Error: additional levy needed to recoup the loss of property tax due to mathematical or advertising errors in the budget.
4. Emergency: additional levy needed due to lack of adequate funds to carryout functions. This appeal requires a natural disaster, an accident or an unanticipated emergency for a municipality to qualify.

Cities and towns petitioning for relief should be prepared to support their appeals with documentation or other evidence that the relief is needed. The DLGF will review the petition and issue a final determination by December 31.

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# Supplement 5: Cumultative Capital Development Fund

**Cities and towns** may establish a Cumulative Capital Development Fund (CCDF) outside the property tax controls. The CCDF is subject to strict rate limits, but can be used for any municipal purpose.

The original legislation required the funds to be established for no more than a three-year period and required their re-establishment after that time. In 1995, the three-year limitation was eliminated.

CCDFs currently in place will continue as long as they are advertised and adopted in the budget, unless the municipality decides to rescind the fund. Otherwise, the fund will continue even if the original ordinance specified an expiration date.

A municipality may, by ordinance, reduce the tax rate of the fund. If a municipality wishes to change the purposes for which the fund was established, it must follow the same steps as followed in originally establishing the fund (except the rate may remain at the “third year” level).

The process to re-establish the tax rate on a CCDF is identical to the process used to initially establish the fund with one exception. A CCDF that is re-established without a lapse is not subject to the phase-in requirements for the rate. The rate ceiling can continue at the highest rate allowed by law.

The enabling ordinance (either to establish or re-establish the fund) must specify the purpose of the fund. The purpose can be any purpose for which the city or town could establish another cumulative fund. A list of cumulative funds for cities and towns is provided in this bulletin. The ordinance must also establish the maximum rate.

For municipalities which have had a CCDF for three consecutive years or more, the maximum rate cannot exceed five cents ($.05) per $100 dollars of assessed valuation if the municipality is in a county that adopted either CAGIT or COIT. For municipalities located in a non-adopting county (EDIT only), the rate cannot exceed four cents ($.04) per $100 dollars of assessed valuation.

If a municipality is establishing a CCDF for the first time, the maximum rate must be phased in over a three-year period. The rates method above must be phased- in over three years in three equal increments. For example, for a city in a non-adopting county, the maximum rates would be $.0133, $.0267 and $.0400 respectively in years 1, 2 and 3.

**NOTE:** The DLGF is required to adjust cumulative fund rates after trending and reassessment to prevent any “windfall” which could result from increased assessed valuation attributable solely to the reassessment.

## Indiana Code Citations for Cumultative Capital Development Funds

| Statutory Authority | Fund |
|---|---|
| IC 3-11-6-9 | Cumulative Voting System Fraud |
| IC 8-10-5-17 | Cumulative Channel Maintenance Fund |
| IC 8-16-3 | Cumulative Bridge Fund |
| IC 8-16-3.1 | Major Bridge Fund |
| IC 8-22-3-25 | Airport Cumulative Fund |
| IC 14-27-6-48 | Cumulative Levee Fund (Vanderburgh Co,) |
| IC 14-33-21 | Cumulative Improvement Fund |
| IC 16-22-4 | Cumulative Hospital Sinking Fund |
| IC 16-22-8-41 | Cumulative Hospital Fund |
| IC 36-8-14 | Cumulative Fire Fund |
| IC 36-9-4-48 | Cumulative Transportation Fund |
| IC 36-9-14 | Cumulative Courthouse Fund |

| | |
|---|---|
| IC 36-9-14.5 | Cumulative Capital Development (County Unit) |
| IC 36-9-15 | Cumulative Jail Fun |
| IC 36-9-15.5 | Cumulative Capital Development (Municipality) |
| IC 36-9-16-5 | Cumulative Building, Sinking, or Capital Improvement Fund |
| IC 36-9-17-3 | Cumulative General Improvement Fund |
| IC 36-9-17.5 | Cumulative Township Vehicle and Building Fund |
| IC 36-9-26 | Cumulative Building Fund for Municipal Sewers |
| IC 36-9-27-99 | Cumulative Drainage Fund |
| IC 36-10-3-21 | Cumulative Park Fund (County and Municipality) |
| IC 36-10-4-36 | Cumulative Park Fund (Certain Cities) |
| IC 36-10-7.5-19 | Township Cumulative Park Fund |

## Process to establish/re-establish a CCDF

1. Notice of the proposed ordinance and of the public hearing to adopt the ordinance must be given in accordance with IC 5-3-1. This requires the municipality to publish notice two times, at least one week apart, with the last notice being at least three (3) days before the public hearing.
2. A public hearing must be conducted to adopt the ordinance.
3. If adopted the ordinance is submitted to the County Auditor and the municipality is required to publish a notice of adoption within thirty (30) days of adopting the ordinance to establish the cumulative fund.
4. Fifty or more taxpayers (if CCDF Fund) have thirty (30) days from publication of the notice of adoption to file a petition objecting to the tax levy with the county auditor.
5. The petition is certified by the county auditor and submitted to the DLGF. The DLGF schedules and holds a hearing.
6. Following the hearing, the DLGF will approve, disapprove or modify the requested tax rate.
7. THIS FUND MUST BE INCLUDED IN ENSUING YEAR BUDGET DOCUMENTS ON GATEWAY INCLUDING THE NOTICE TO TAXPAYERS (BUDGET **FORM 3**).

**NOTE:** The following documents must be submitted to the DLGF no later than **April 30**:
· Procedure Checklist
· Ordinance
· Proofs of Publication of Notice to Taxpayers and Notice of Adoption
· County Auditor's Certificate of No Remonstrance

Please note that the thirty (30) day remonstrance period may run past the April 30th deadline; however, proof of publication of the Notice of Adoption must be submitted to the DLGF no later than April 30th.

# Sample Ordinance to Establish a Cumulative Capital Development Fund

WHEREAS, **IC 36-9-15.5** allows municipalities to establish a Cumulative Capital Development Fund; and

WHEREAS, the (city or town) of (city/town name) find that such a fund is necessary and prudent for the financial well-being of the municipality;

NOW THEREFORE, BE IT ORDAINED BY THE (City Council/Town Council) of (city/town name).

SECTION 1. That there is hereby established the (city/town name) Cumulative Capital Development Fund.

SECTION 2. That an ad valorem property tax levy will be imposed and the revenues from the levy will be retained in the (city/town name) Cumulative Capital Development Fund.

SECTION 3. That the maximum rate of levy under SECTION 2 will not exceed:
a. ($.0133/$.0167) per $100 Assessed Valuation for 2019
b. ($.0267/$.0333) per $100 Assessed Valuation for 2020
c. ($.0400/$.0500) per $100 Assessed Valuation for 2021 and thereafter.

**NOTE:** Select the rate which applies (municipalities in CAGIT / COIT counties may use the higher figure.

SECTION 4. That the (city/town name) Cumulative Capital Development Fund is established until such time as the fund is rescinded.

SECTION 5. That the funds accumulated in the (city/town name) Cumulative Capital Development Fund will be used for (**Note below).

SECTION 6. Notwithstanding SECTION 5, funds accumulated in the (city/town name) Cumulative Capital Development Fund may be spent for purposes other than the purposes stated in Section 5, if the purpose is to protect the public health, welfare, or safety in an emergency situation which demands immediate action. Money may be spent under the authority of this section only after the (Mayor/Town Council President) issues a declaration that the public health, welfare or safety is in immediate danger that requires the expenditure of money in the fund.

SECTION 7. This fund takes effect upon approval of the DLGF.

***NOTE:*** *Insert specific reference to cumulative fund statute(s) for which the municipality wishes to use CCD fund. Include a reference to the general title or use the fund is intended.*
*Example 1: For all uses as set out in IC 36-9-15.5.*
*Example 2: For capital improvements as described in IC 36-9-16-2 or 36-9-16-3.*
*Example 3: For the improvement of public ways and sidewalks as described in IC 36-9-16.5-2.*

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# Supplement 6: Salary Ordinances

**There are three** statutes that deal with salary setting for officers and employees of cities. The first statute, IC 36-4-7-2, covers elected city officials. The city council must pass an ordinance no later than **December 31**, fixing the salaries of *elected officials* for the following year. This ordinance is *not* required to be published in accordance with IC 5-3-1. Salaries of elected officials *cannot* be changed in the year for which they are fixed and cannot be lowered beyond the amount set the previous year.

The second statute, IC 36-4-7-3, applies to appointed officers and employees *except* members of the police and fire department and requires that any ordinance to establish salaries must be passed by **November 1**, for second and third class cities. Compensation set under this statute may not be increased during the budget year for which it is fixed but may be reduced by the mayor.

The third statute, IC 36-8-3-3, applies to members of the police and fire departments and requires that the ordinance establishing these salaries be set by **November 1**, for second and third class cities. If the city council fails to adopt the ordinance, the Safety Board may fix compensation, subject to later change by ordinance. Unlike IC 36-4-7-3, the statute affecting public safety employees does not expressly restrict salary increases during the budget year.

It is not necessary to have three separate salary ordinances if all the specific requirements of each statute are met.

## Town

IC 36-5-3-2 provides for setting salaries for elected town officials and for town employees. There is no deadline for passage and the only requirements are that the salaries of elected officers may not be changed in the year for which they are fixed, nor may they be reduced below the amount fixed for the previous year. There are not publication requirements for elected town official or town employee salaries. It is recommended but not required to pass the salary ordinance with your budget. It must be passed no later than **December 31**.

In towns with a Metropolitan Police Commission, IC 36-8-9-4 provides that the Police Commission may recommend, but the town council shall determine, the compensation to be paid to members of the police department.

## Fringe Benefits

Municipalities that provide paid leave such as sick leave, vacations, etc. to employees and officials should include these policies in the salary ordinance if they have not been established in some other ordinance. In addition to setting the amount of accumulation, the ordinance should also describe how accumulated leave time is to be handled upon termination.

**NOTE:** Both cities and towns may provide for additional compensation for municipal officials (both elected and appointed) for duties in connection with a municipally owned utility or function. The additional compensation is set by the board or commission operating the utility or function, subject to the approval of the executive and legislative body.

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# Supplement 7: State Distributed Revenues

# State Liquor Excise Tax

This distribution comes from the sale and renewal of liquor licenses. This revenue is not included in any estimate from the DLGF or the State Auditor's Office. According to the Alcoholic Beverage Commission, the available license quota is filled in 99% of areas that are inside city limits. This means that a municipality's revenue from state liquor excise tax will more than likely not increase.

Cities and towns should look at the last three to five years of state liquor excise tax revenues to determine the increase or decrease for your community and budget accordingly. As a fiscal officer, another approach would be to conservatively budget 90% of what was received in the most recent calendar year.

· The ensuing year budget amount should be entered in Column B of City and Town Budget **Form 2** — Estimate of Miscellaneous Revenue. This number may be the same amount budgeted in the current year.
· In Column A, enter the amount received for the last half of the current year.

# Alcohol Gallonage Tax

A state excise tax is imposed on every gallon of alcoholic beverage sold (IC 7.1-4) and the amount set aside for cities and towns is distributed on a per capita basis.

· The Alcohol Gallonage Tax distribution for the ensuing budget year is based on estimates provided by the Auditor of State's Office (available in June). Once this amount is determined, the amount should be entered in Column B of City and Town Budget **Form 2**-Estimate of Miscellaneous Revenue, for the General Fund.

*The amount to be entered into Column A for the last half of the current year, of the same line is based on estimates provided by the Auditor of State's Office (available in June).*

# Cigarette Tax

The amount distributed to cities and towns is dedicated partly (3/14ths) to the municipalities' General Fund and partly (11/14ths) to their Cumulative Capital Improvement (Cig Tax) Fund (CCIF). **Note:** Pursuant to IC 6-7-31.1(b) the amount deposited in the CCIF may be transferred to the General Fund at any time after receipt upon Council approval.

The General Fund amount for the ensuing year is based on estimates provided by the Auditor of State's Office (available in June).This amount should be entered in Column B of City and Town Budget **Form 2** — Estimate of Miscellaneous Revenue for the unit's General Fund. The amount to be entered into Column A is based on estimates provided by the Auditor of State's Office (available in June).

The CCIF amount for the ensuing year is based on estimates provided by the Auditor of State's Office (available in June).This amount should be entered in Column B of City and Town Budget **Form 2** — Estimate of Miscellaneous Revenue for the unit's CCIF. The amount to be entered into Column A is based on estimates provided by the Auditor of State's Office (available in June).

# Gasoline Tax

Motor Vehicle Highway Fund (MVH): To project the second half of the current year and all of the ensuing year MVH revenues, cities and towns should consult the chart on page 9.

Local Roads and Streets (LRS): To project the second half of the current year and all of the ensuing year revenues, cities and towns should consult the chart on page 9.

## Gaming Revenue Sharing

Before **August 15** of every year, the State Treasurer shall distribute the $33 million of wagering taxes set aside for revenue sharing to the County Treasurer of each county that does not have a riverboat. Money will be distributed using the ratio that the county's population compares to the total population from all counties that do not have a riverboat. The County Auditor distributes the money to cities and towns based on relative population. Municipalities will receive the same distribution amount in the ensuing year as received in prior years. Money received may be used to:

- Reduce the property tax levy of the city, town or county for a particular year (a property tax reduction under this subdivision does not reduce the maximum levy of the city or town);
- Deposit in a special fund or allocation fund created under IC 8-22-3.5, IC 36-7-14, IC 36-7-14.5, IC 36-7-15.1, or IC 36-7-30 to provide funding for additional credits for property tax replacement in property tax increment allocation areas or debt repayment;
- Fund sewer and water projects, including storm water management projects;
- Fund police and fire pensions; or
- Carry out any governmental purpose for which the money is appropriated by the fiscal body of the city, town or county. Money used for this purpose does not reduce the property tax levy of the city, town or county for a particular year or reduce the maximum levy of the city, town or county under IC 6-1.1-18.5.

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# Supplement 8: Police Officer and Firefighter Pension Funds

**The intention of** the Police Officer and Firefighter Pension Funds supplement is to provide an understanding of current police and fire pension issues. With the changes to state laws regarding pensions in recent years, the Association presents this information as a Supplement to its annual *Cities and Towns Budget Bulletin*.

Included in this publication you will find:
· Statutes for police officers' and firefighters' pensions
· Description of New System (1977 fund) and Old Systems (1925, 1937, and 1953 funds)
· Explanation of funding the Pre-1977 police and fire pension funds

**NOTE:** This information applies to every city in the state with the exception of Bicknell, Greendale, Ligonier and Oakland City. This information applies to the following towns: Bremen, Brownsburg, Chesterton, Clarksville, Dyer, Griffith, Highland, Lowell, Merrillville, Munster, Plainfield, St. John, Schererville, Sellersburg and Speedway.

# Police and Fire Pension Funds

Two sets of pension funds administer police officer and firefighter pensions. Those hired after April 30, 1977, are members of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (the 1977 Fund) under IC 36-8-8. Local units of governments send employer and employee contributions to the Indiana Public Retirement System (INPRS) for investment and payment of retirement benefits for 1977 Fund members.

Those hired prior to May 1, 1977, are members of one of three pre-1977 Funds. These retirees receive a check from the local unit's fiscal officer from a Trust and Agency Fund numbered 702 (Fire) and/or 703 (Police) per the State Board of Accounts Manual or listed as code items numbered 0341 (Firemen's Pension Fund) and 0342 (Police Pension Fund) on the Cities and Towns Annual Report (CTAR) form.

### New System (1977 Fund) — Contribution Rate is 17.5%

Cities and towns must budget a **certain percentage** of the base salary of a first class patrol officer or firefighter to pay for the employer's share of retirement benefits under the 1977 Fund. Police officers and firefighters must pay **6%** under the 1977 Fund.

### Old System (1925, 1937, and 1953 Funds)

Police officers and firefighters hired before May 1, 1977, are members of the "Old System" pension plans. These pensions were funded with a pay-as-you-go method, and became under-funded over time (often referred to as the "old funds pension liability" problem). Pension reform legislation was enacted in 1977 to combat the growing unfunded liability in these plans.

A city or town can budget for payments to the old pension plans by estimating total old plan police and fire pension costs for the calendar year, taking into account new retirees, death benefits, survivor benefits and the administrative costs of these funds.

### Funding for Old System

The State assumed **100%** of the total amount of pension, disability, and survivor benefit payments from the 1925 police pension fund (IC 36-8-6), the 1937 firefighters' pension fund (IC 36-8-7), and the 1953 police pension fund (IC 36-8-7.5). The State subtracted any distributions to the unit from the public deposit insurance fund (PDIF) that continued to be used for benefit payments and provides the funds for the remaining amount. *A city or town with police and fire pension obligations likely has the State pension relief distributions as the sole revenue source for the two funds.*

### State Relief

Even though the State funds 100% of the Old System pension obligations, Indiana Code 5-10.3-11-4 still stipulates that local units must certify to INPRS before April 1 of each year the following:

1. Amount of benefits paid during the preceding year;
2. Names of all police officers and firefighters, active, retired, and deceased who are members of the

old pension funds and are eligible to receive benefits; and
3. Other information necessary to perform an actuarial valuation of each unit's pension funds

A city's or town's distribution for that year can be withheld if this information is not submitted by April 1. Because of the way the Pension Relief Fund formulas work, INPRS cannot start calculating each city or town's distribution until all information is complete. The statute calls for INPRS to estimate by July 1 the total pension payments to be made to all cities and towns for that calendar year. PERF cannot accurately produce that estimate without the local unit's data.

## Allowable Uses of Pre-1977 Police and Fire Pension Fund Cash Balances

When the State assumed 100% of the member benefits, the general assembly also clarified the allowable uses of a city or town's police and/or fire pension fund cash balance. A local board may authorize the use of money in the funds to pay any or all of the following:

1. Administrative costs of the police and fire pension funds.
   · Pension secretary salary
   · Other supplies or contractual expenses to administer the funds
2. The costs of health insurance or other health benefits provided to members, survivors, and beneficiaries of the 1925 fund. This is an expense that the State did not assume.
3. The municipality's employer contributions under IC 36-8-8-6. This is the employer's current contribution **(17.5%)** that is usually paid from the municipality's General Fund.
   · Sec. 6. (a) Each employer shall annually on March 31, June 30, September 30, and December 31, for the calendar quarters ending on those dates, pay into the 1977 fund an amount determined by the PERF board:
      1) For administration expenses; and
      2) Sufficient to maintain level cost funding during the period of employment on an actuarial basis for members hired after April 30, 1977.
4. The contributions paid by the municipality for a member under IC 36-8-8-8(a).
   · Each fund member shall contribute during the period of the fund member's employment or for thirty-two (32) years, whichever is shorter, an amount equal to six percent (6%) of the salary of a first class patrolman or firefighter. However, the employer may pay all or a part of the contribution for the member.

The maximum amount that may be used to pay for the above allowable expenditures follows:

1. The unencumbered balance in the police and/or fire pension fund(s) on **December 31, 2008**; plus
2. The amount of property taxes:
   · Imposed for an assessment date before January 16, 2008, for the benefit of the fund; and
   · Deposited into the fund after December 31, 2008.

## Indiana Public Retirement System (INPRS) Sub-Accounts

INPRS (formerly PERF) maintains separate sub-accounts for some units of local government. There are very few municipalities with balances in their police and fire sub-accounts. These accounts are separate and distinct within INPRS and the Pension Relief Fund. A unit of local government may make deposits at any time to this separate account. Municipalities have the option of leaving it in the account or withdrawing all or part of the remaining balance once annually to pay pension benefits under the Old System.

## DROP Benefits

DROP stands for Deferred Retirement Option Plan for 1925, 1937, 1953 and 1977 Fund members. DROP gives eligible members an additional benefit option. It allows members to simultaneously earn a salary and accumulate a lump sum during the DROP period rather than additional years of service. A member participating in the DROP must still retire by the applicable municipality's mandatory retirement age and may make only one DROP election in his or her lifetime. The member must be in the DROP for at least one year and the maximum DROP period is three years. Members who elect to participate must retire on their DROP retirement date in order to receive the DROP benefit. The required employee contributions continue while the member participates in the DROP and for 1977 Fund members, the employer contributions also continue.

The options available at retirement from the DROP are:

1. A monthly pension that is based on service and salary in effect when the member entered the DROP, plus a lump sum or three annual installment payments of the amount that "accrued" while the member was in the DROP; or
2. A monthly benefit that is determined based on service and salary in effect when the member retires from the DROP, with no lump sum/installment portion.

A member who elects to enter the DROP but does not retire at the end of the DROP period loses the opportunity to elect a lump sum/installment payment through the DROP. For death (either in the line of duty or not related to duty), benefits are determined based on the applicable pension fund as though the member never entered the DROP. For disability, the disabled member may receive his/her regular monthly benefits as if he/she had never been in DROP, or receive the DROP frozen benefit plus a lump sum equal to the frozen monthly benefit times the number of months the member was in the DROP. This affords the disabled member the same elections a retiring person has available under current law. The 50% pension relief guarantee applies to the DROP benefits. Portions of the lump sum payments not reimbursed by Pension Relief Fund distributions or payments from the Public Deposit Insurance Fund may be paid outside the controlled levy.

Contact Aim with questions regarding pensions by emailing acottongim@aimindiana.org or rcook@aimindiana.org. You may also contact INPRS directly at: One North Capitol, Suite 001, Indianapolis, IN 46204 or (317) 234-5307/ (888) 526-1687. For more information, visit the PERF website at http://www.in.gov/inprs/index.htm.

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Accelerate Indiana Municipalities

# 2020

# Supplement 9: Municipal Budget Vocabulary

**Additional Appropriation**
· Permission to spend in excess of certified budget

**Encumbrance**
· An appropriation from the prior year carried over due to an obligation incurred in the form of a purchase order (obligation incurred in prior year but not paid until current year)

**Operating Balance**
· Ending cash balance (reserves) – suggested minimum is 15% of budget

**Circuit Breaker Tax Credit**
· Credit applied to tax bill if calculated tax liability exceeds caps

**Local Income Tax**
· Tax levied against adjusted gross income (based on the County in which you live)

**Maximum Levy Limit**
· Maximum amount of tax levy that can be raised by a taxing unit as certified by the DLGF. Increases annually by state-wide growth factor. (Debt Service and CCD Fund levies are excluded.)

**Net Assessed Value**
· The true tax value of real and personal property after application of deductions.

**Operating Balance (Cash Reserves)**
· Monies remaining at the end of a budget year after all revenues have been received and all expenditures have been disbursed.

**Property Tax Levy**
· Funds generated by applying the tax rate to each $100 of net assessed value.

**Previous LOIT's (before local income tax was combined into one "LIT")**
· CAGIT – County Adjusted Income Tax (cannot be adopted with COIT)
· COIT – County Option Income Tax (cannot be adopted with CAGIT)
· CEDIT – County Economic Development Income Tax (can be adopted with either CAGIT or COIT)
· Levy Freeze LOIT – used to fund future levy growth (levy replacement)
· Property Tax Relief LOIT – provides targeted relief through property tax replacement and homestead credits
· Public Safety LOIT – generates new revenue for a wide range of public safety purposes.

Accelerate Indiana Municipalities (Aim) is a coalition of municipal officials who seek to improve the quality of life- in Indiana through effective government. With over 460 members, Aim advocates for municipalities as the official voice of municipal government in Indiana, and promotes good government through education, training and leadership.

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