Accelerate
Indiana
Municipalities

2025 BUDGET BULLETIN

RELEASED MAY 2024

aim 2025 BUDGET BULLETIN

The **Aim Budget Bulletin** is published by Aim, Accelerate Indiana Municipalities, as a service to its members. Aim thanks Baker Tilly Municipal Advisors, with special thanks to Paige Sansone, for assistance in the preparation of this bulletin.

This **Aim 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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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.

April 15	Deadline for Gateway submission of the TIF Management Report. The report includes information concerning tax increment finance districts. IC 36-7-14-13
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
May 31	Deadline for units to submit to the DLGF cumulative fund proposals. IC 6-1.1-41-4
May 31	Deadline for County Auditor to distribute Supplemental Local Income Tax distributions to qualifying taxing units.
June 14	Last day for redevelopment commissions to report on available TIF excess AV ("TIF Pass Through"). 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 14	Deadline for fiscal officers to submit a report of any annexations that took place within the previous calendar year. IC 6-1.1-17-0.7
June 30	Deadline for State Budget Agency ("SBA") to provide Maximum Levy Growth Quotient (MLGQ) to civil taxing units, school corporations, and the DLGF. IC 6-1.1-18.5-2(c)
June 30	Deadline for Gateway submission of Pre-Budget Report.
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 15	Deadline for the DLGF to provide estimates for non-property tax revenues of MVH, LRS, ABC Gallonage, FIT, CVET, and Excise based on historical distribution amounts.
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	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.
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 1	Deadline for a county adopting body to make a decision and provide notice to the affected local taxing unit if the county adopting body makes any fiscal decision that has a financial impact to an underlying local taxing unit.
August 15	Deadline for the State Treasurer to 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.
August 16	Deadline for the DLGF to release the first Local Income Tax estimates for the ensuing year. The report will be posted on the DLGF's website. IC 6-3.6-9-5

September 1	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
September 30	Deadline for Gateway submission of Economic Development Reporting. IC 4-33-23-17
September 30	Deadline for the SBA to provide the second LIT estimates for the 2025 distributions. IC 6-3.6-9-5
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 12	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
October 19	Last day for units to file excess levy appeals for annexation/consolidation/extension of services, three-year growth factor, emergency, and correction of error with the DLGF. IC 6-1.1-18.5-12; IC 6-1.1-18.5-13(1); IC 6-1.1-18.5-13(3); IC 6-1.1-18.5-13(13); IC 6-1.1-18.5-14
October 22	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 class two 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 class two cities, the public hearing maybe held any time after introduction of the ensuing year budget. IC 6- 1.1-17-5(a)
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 and submit an ordinance modifying local income tax rates effective January 1 of the ensuing year. IC 6-3.6-3-3
November 1	Deadline for taxing units to adopt ensuing year budgets, tax rates, and tax levies. This deadline is subject to the scheduling of the public hearing. IC 6-1.1-17-5(a) 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 class two and three cities to adopt salary ordinances for non-elected officials. IC 36-4-7-3
November 8	Last day for units to submit their ensuing year budgets, tax rates, and tax levies to the DLGF through Gateway. IC 6-1.1-17-5 If IC 6-1.1-17-5.2 applies and the fiscal body overrides the veto of the adopted budget, the deadline is five (5) business days after the action to override the veto is taken.
December 30	Deadline for units to file shortfall excess levy appeals with the DLGF. IC 6-1.1-18.5-12(a)(2); 6-1.1-18.5-16
December 31	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 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 class two and three 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 to qualify for property taxes payable in the following year. 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 1	Date by which annexation must become effective so that the reorganized unit can seek adjusted max levy for taxes payable the following year.
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
March 1	Not later than 60 days after the close of the fiscal year, units are required to file an 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. (Note: In leap years, the annual report is due on February 29.) IC 5-11-1-4

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 Aim Budget 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; and,
- 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

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-B: Financial Statement — Estimate of available funds; computation of tax rates.

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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The Expense Side

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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 supplies 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. **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. **Capital Outlays** — 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.

5. **Debt Service** — This category is limited to projected expenditures for principle, interest, and lease payments on outstanding debt.

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The Revenue Side

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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** Revenue received between July 1 and December 31 of the *current* year	**Column B** Revenue received between January 1 and December 31 of the *ensuing* year
R112 — Financial Institutions Tax (FIT)	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
R114 — Excise tax	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
R138 - R142 — 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 DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
R111 — Cigarette tax for General Fund	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
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.		
Cumulative Capital Improvement Fund		
R111 — Cigarette Tax	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)

Motor Vehicle Highway Fund		
R116 — MVH distributions	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
Local Road & Street Fund		
R113 — LRS	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
R135 - Commercial Vehicle Excise Tax (CVET)	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)
R110 - Riverboat Wagering Tax Revenue Sharing	Use Budget Revenue Estimates from DLGF website (available in July)	Use Budget Revenue Estimates from DLGF website (available in July)

Form 4-B

After compiling the proposed expenditures on **Form 1** and miscellaneous revenues on **Form 2** Financial Statement Form **4-B** should be completed. This form is broken out into two sections: July to December (current year) and January to December (budget year). Each section concludes with an estimated ending cash balance as of December 31st. This form summarizes the total revenues and expenses for the last half of the current year and twelve months of the budget year. 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.

July to December – Current Year

Line 1 — The actual cash balance, including investments, as of June 30 of the current year (shown on the Current Year Financial Worksheet).

Line 2 — 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 3 — The miscellaneous revenue anticipated to be received in the last six months of the current year (from Column A of Form 2).

Line 4 — Total cash and revenues July 1 through December 31 of the current year.

Line 5 — Necessary expenditures for the last half of the present year. In most cases, this will be the unexpended appropriation as of June 30 of the current year (shown on the Current Year Financial Worksheet).

Line 6 — The amount of additional appropriations the municipality anticipates making before the end of the current year (shown on the Current Year Financial Worksheet).

Line 7 — Outstanding temporary loans made to the fund that must be repaid prior to the current year end (shown on the Current Year Financial Worksheet).

Line 8 — Total expenses required July 1 through December 31 of the current year.

Line 9 — Estimated ending cash balance as of December 31st of the current year.

January to December – Budget Year

Line 10 — Reserved for DLGF application of levy excess.

Line 11 — Estimated property tax levy.

Line 12 — Estimated circuit breaker tax credits.

Line 13 — The revenue anticipated for the upcoming year (from Column B of Form 2).

Line 14 — Estimated total revenues for the budget year.

Line 15 — Budgeted appropriations for the budget year (from Form 1).

Line 16 — Outstanding 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 17 — Total expenses for the budget year.

Line 18 — Estimated ending cash balance as of December 31 of the budget year. Also known as "Operating Balance."

The estimated net assessed value and property tax rate is shown at the bottom of Form 4-B.

The amount shown on Line 11, once finalized, represents the amount of property taxes that will be levied in the ensuing budget year. 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 amount of property tax levy on line 11 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 applied 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. In July, the DLGF provides estimated maximum levies for the ensuing budget year on their website.

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. The recommended minimum operating balance is equal to 15% of budget year disbursements.

If the amount of property tax levy shown on Line 11 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 "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 excess 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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Wrapping It Up

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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, 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 use conservative net assessed values when preparing the budget in Gateway to ensure tax rates are sufficiently high enough to allow for the full maximum levy should final net assessed values for the budget year decline from current year's net assessed values.

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.

Public Hearing and Budget 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.

DLGF Budget Review

During the final review process, the DLGF may adjust 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 may only adjust the tax levy down from the amount advertised; the DLGF may not increase the figures above the advertised amount. The DLGF also determines whether the budget was properly advertised and hearings were held in accordance with the law.

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 DLGF will take the requested changes under consideration and the Department moves to finalize the budgets. By statute, the DLGF is required to issue a final Budget Order containing the certified budgets, rates, and levies by **December 31**. The deadline is extended to **January 15** if a taxing unit in a county is issuing debt after **December 1** or intends to file a shortfall levy appeal.

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…"

Internal Controls and Conflict of Interest Laws

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.

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.

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(d)

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).

Subsection (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 (AFR) – IC 5-11-13-1 (b)

Subsection (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: Property Tax Caps (Circuit Breaker)

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The term "circuit breaker" refers to caps on property taxes. The concept is much like an electrical circuit that trips when it reaches a certain limit. When property taxes reach the prescribed cap, further taxation would exceed the limit, 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. It is important to note that in 2023 the Indiana General Assembly amended the definition of homestead to include one acre, one home, one garage, and one additional residential structure. All other property on the parcel is now subject to the 2% cap, rather than 3%.

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.

All debt service levies must 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 2: Class One, Two, and Three City Budget Calendar

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The annual compensation for all members and employees of the police departments and fire departments of class two and three 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**. A class one and two city may hold the budget public hearing anytime between the introduction of the budget and the adoption of the budget. Class three cities must hold the budget public hearing at least ten (10) days before adoption. (IC 6-1.1-17-5)

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. (IC 6-1.1-17-5)

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. The deadline to file shortfall excess levy appeals with the DLGF is **December 30**.

Twenty-five (25) or more taxpayers may file a written request to the County Auditor or the DLGF for a public hearing before the DLGF reviews, revises, reduces, or increases the budget of a political subdivision. At least five (5) days before the date fixed for a public hearing, the DLGF will give notice of the time and place of the hearing and of the budget by fund, levies, and tax rates to be considered at the hearing. The DLGF is not required to hold a public hearing unless the request for a hearing is received before **November 3**. (IC 6-1.1-17-16.1)

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

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SUPPLEMENT 3: Levy Appeals

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Municipalities may appeal to the DLGF 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 30****)*. The petition must state:

- The government function or responsibility for which relief is necessary;
- That without relief the function or responsibility may not be performed; and
- 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.

A levy appeal application is available on the DLGF website and includes an authorizing resolution that may signed by the Council approving the submission of the petition to the DLGF. The executed authorizing resolution must be attached to the appeal application. 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 emailed to the Department of Local Government Finance by **October 19** *(by* ***December 30*** *for shortfall appeals).*

Grounds for Excessive Levy Appeals

- **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%.
- **Shortfall of Property Taxes** — Additional levy needed to recoup the loss of property tax due to erroneous assessed value or taxpayer refunds.
- **Correction of Error** — Additional levy needed to recoup the loss of property tax due to mathematical or advertising errors in the budget.
- **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 prior to issuing the final Budget Order.

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SUPPLEMENT 4: Cumulative Capital Development Fund

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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 Aim Budget 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 mentioned 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.

Indiana Code Citations for Cumulative 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 municipality is required to publish a notice of adoption within thirty (30) days of adopting the ordinance to establish the cumulative fund.
4. Twenty-five (25) or more taxpayers 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 THE 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 **May 31:**

- Procedure Checklist
- Adopted Ordinance
- County Auditor's Certificate of No Remonstrance, when available

Please note that the thirty (30) day remonstrance period may run past the deadline to submit to the DLGF; however, proof of publication of the Notice of Adoption and all other required documentation (except the County Auditor's Certificate of No Remonstrance) must be submitted to the DLGF by the submission deadline. Also note that the Notice of Adoption must be published before May 31.

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 ($0.0400/$0.0500) per $100 of Net Assessed Valuation beginning with taxes payable in [YEAR].

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 5: **Salary Ordinances**

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Cities

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 class two and three 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 class two and three 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.

Towns

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.

ADDITIONAL NOTE: Aim annually solicits wage, salary, and fringe benefits information each year from our municipal members. The results of this voluntary survey are available to Aim members in good standing each spring.

SUPPLEMENT 6: State Distributed Revenues

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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 DLGF (available in July). 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 DLGF (available in July).

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 DLGF (available in July). 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 DLGF (available in July).

The CCIF amount for the ensuing year is based on estimates provided by the DLGF (available in July). 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 DLGF (available in July).

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 12.

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 12.

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 7: Police Officer and Firefighter Pension Funds

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The intention of this 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, Aim presents this information as a Supplement to this *Aim 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:

- Amount of benefits paid during the preceding year;
- 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
- 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:

- Administrative costs of the police and fire pension funds.
  - o Pension secretary salary
  - o Other supplies or contractual expenses to administer the funds
- 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.
- 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.
  - o 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.
- The contributions paid by the municipality for a member under IC 36-8-8-8(a).
  - o 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:

- The unencumbered balance in the police and/or fire pension fund(s) on December 31, 2008; plus
- The amount of property taxes:
  - o Imposed for an assessment date before January 16, 2008, for the benefit of the fund; and,
  - o 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:

- 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,
- 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 jsimmons@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 in.gov/perf.

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SUPPLEMENT 8: Municipal Budget Vocabulary

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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

The purpose of Aim shall be to foster, promote and advocate for the success of Hoosier Municipalities as laboratories of innovation, hubs of talent, and the engines driving our state's economy.

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