



Budget Process Overview

ICC Annual Conference 2024
December 3, 2024

Baker Tilly Municipal Advisors, LLC is a registered municipal advisor and wholly-owned subsidiary of Baker Tilly US, LLP, an accounting firm. Baker Tilly US, LLP, trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2024 Baker Tilly US, LLP

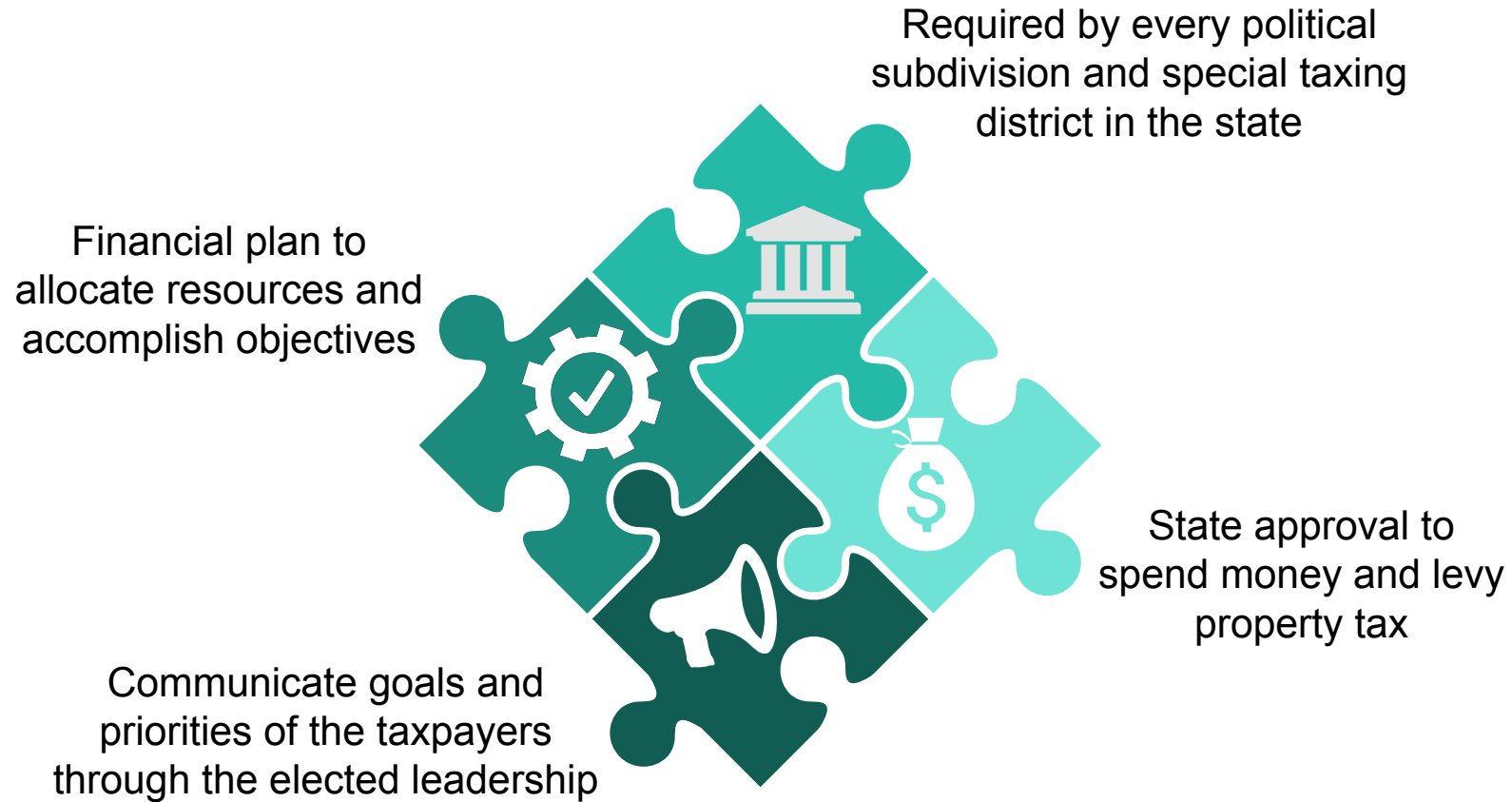
Objectives

- Review Basic concepts of local government budgeting
- Review Budgeting Roles and Responsibilities
- Discuss Budget preparation strategies and best practices
- Review annual budget timeline

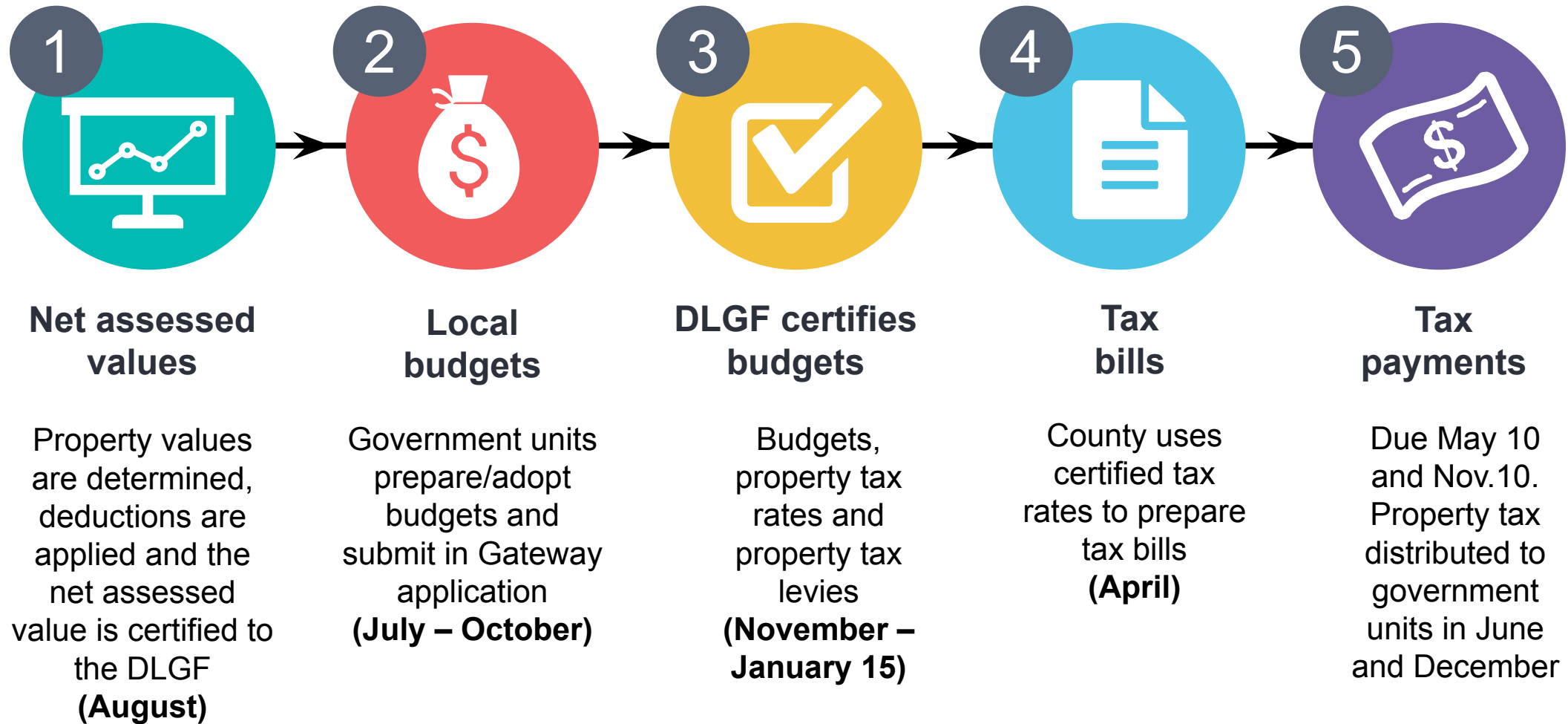
Budget process



Annual budgets for local government



The property tax/budget cycle



State agencies – budgeting and accounting

- Department of Local Government Finance (DLGF)
 - Ensures property tax assessments and local government budgeting are carried out in accordance with Indiana law
- State Board of Accounts (SBOA)
 - Responsible for auditing governmental units and providing guidance and training related to accounting and financial reporting





- Gateway is a collection platform for local government to submit data to the state of Indiana
- Also serves as a transparency portal allowing public access
- Used by local officials, financial advisors, academic researchers and taxpayers
- Public access - <https://gateway.ifionline.org/>

Property taxes

Net Assessed Value (“NAV”)

- Tax base: net value (after deductions and abatements) of real and personal property

Property Tax Levy

- Funds generated by applying the tax rate to each \$100 of NAV

*Formulas: $\text{tax rate} * (\text{NAV}/100) = \text{property tax levy}$
 $\text{property tax levy} / (\text{NAV}/100) = \text{tax rate}$*



Maximum property tax levy

- The maximum amount of property tax dollars that may be levied in any budget year
- Maximum levy growth quotient (MLGQ)
 - An annual statewide levy growth factor based on a 6-year average of non-farm personal income (affected by changes in the economy)
 - 2021 – 4.2%
 - 2022 – 4.3%
 - 2023 – 5.0%
 - 2024 – 4.0%
 - 2025 – 4.0%



Maximum property tax levy (cont'd)



- Annual growth not affected by changes in:
 - Population
 - Property values
 - Development (commercial/residential)
 - Local expenditures (appropriations)

❖ **Budgeted appropriations do not determine the maximum levy limitation**

What are circuit breaker tax credits?



- Credits that limit a taxpayer’s total property tax liability to a fixed percentage of the gross assessed value
- Computed property tax bill is compared to the “cap”
- Taxes over the cap are simply not paid
- The result is a reduction in property taxes collected and distributed to taxing units
- Circuit breaker credits are allocated to taxing units based on the percentage the taxing unit’s tax rate is to the overall district tax rate

Property tax caps

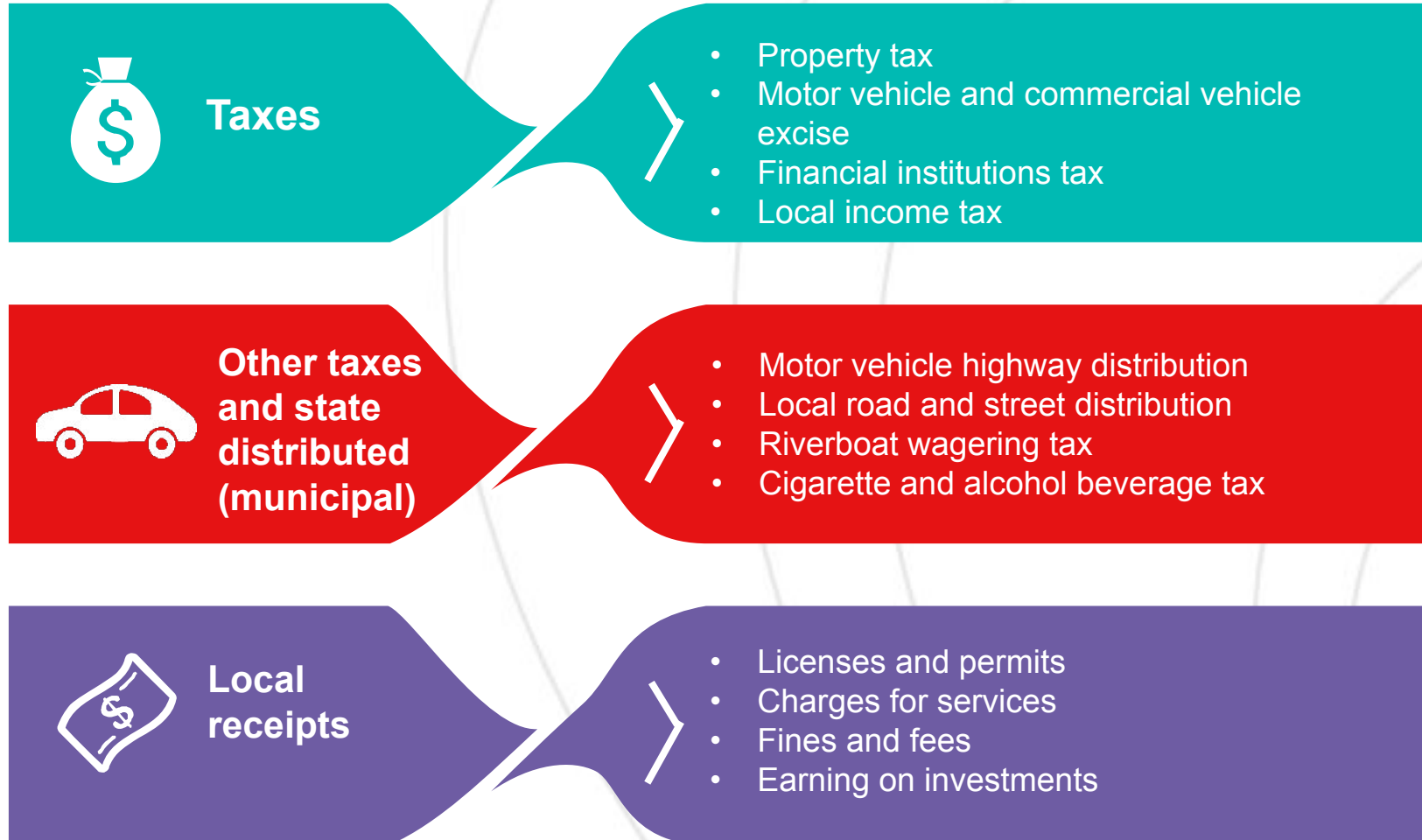
Property classification	Gross assessed value	Capped percentage	Maximum tax liability
Homestead	\$100,000	1%	\$1,000
Other residential, rental, agricultural land long-term care facilities	\$100,000	2%	\$2,000
Commercial/industrial (real/personal)	\$100,000	3%	\$3,000

Note: Debt service and operating levies created by voter referendum are not subject to circuit breaker tax caps.

Local income tax

- Tax on adjusted gross income – based upon the county in which you live
- **Property tax relief** (1.25% max)
- **Expenditure** (2.5% max, except Marion County)
 - Certified shares
 - Public safety
 - Economic development
 - Correctional facility (.2%)
 - EMS (.2%)
 - Judicial LIT (.2%)
 - Acute Care Hospital LIT (.1%)
- **Special purpose**

How does local government fund services?



Summary of basic concepts

Concept	Description	Formula (if applicable)
CNAV	Certified Net Assessed Value - net value (after deductions and abatements) of real and personal property.	
Property Tax Levy	Dollars generated by applying the property tax rate to each \$100 of CNAV.	$Levy = Rate * (NAV/100)$
Property Tax Rate	Tax rate needed to generate a determined amount of property tax dollars.	$Rate = Levy / (NAV/100)$
Maximum Levy	Maximum amount of property tax dollars that may be levied in a budget year by a taxing unit.	Annual growth from MLGQ
MLGQ	Maximum levy growth quotient - annual statewide levy growth factor based on a 6-year average of nonfarm personal income (affected by changes in the economy).	Maximum of 1.04 for 2024 and 2025
LIT	Local income tax applied to adjusted gross income based upon the county in which you live.	
Circuit Breaker Tax Credits	Credits that limit a taxpayer's property tax liability to a fixed % of a property's gross assessed value.	



Budgeting - roles and responsibilities



County government – elected officials

Executive and Legislative Body

- County Commissioners*

** Except Lake, Marion, and St. Joseph counties*

Fiscal Body

- Council

Fiscal Officer

- County Auditor

County Commissioners

- Responsible for itemized budgets for the following (IC 36-2-5-7):
 - Each building maintained or supported from county funds (ex: courthouse, jail)
 - Bridge projects itemized by location and cost (Cumulative Bridge Fund)
 - County Highway Department
 - Compensation of Co. Attorney and attorneys for the indigent
 - Health Department
 - Election Expenses
 - Principal and interest due on bonds and loans
 - Expenses related to judgments, settlements and court costs
 - Support of inmates
 - Expenses related to publishing delinquent tax lists
 - County PTABOA (property tax assessment board of appeals)
 - Other expenses made by the Commissioners under its orders

County Commissioners (cont'd)

- Review and make recommendations on the statements on positions and compensation (Form 144) as presented by the County Auditor at its July meeting. Before August 20, the Commissioners present the Form 144 and its recommendations to the County Council.
- Capital Planning:
 - Responsible for county buildings, land and property
 - Supervise construction and maintenance of roads and bridges
 - May adopt a capital improvement plan specifying the uses of revenues received

Note: AG's Opinion (1943, pg. 512) – the Commissioners have jurisdiction only over its own budgets and not over the budgets of other county offices and departments unless expressly provided for by law. Budgets of other offices or departments should not be submitted to the Commissioners for approval or action.



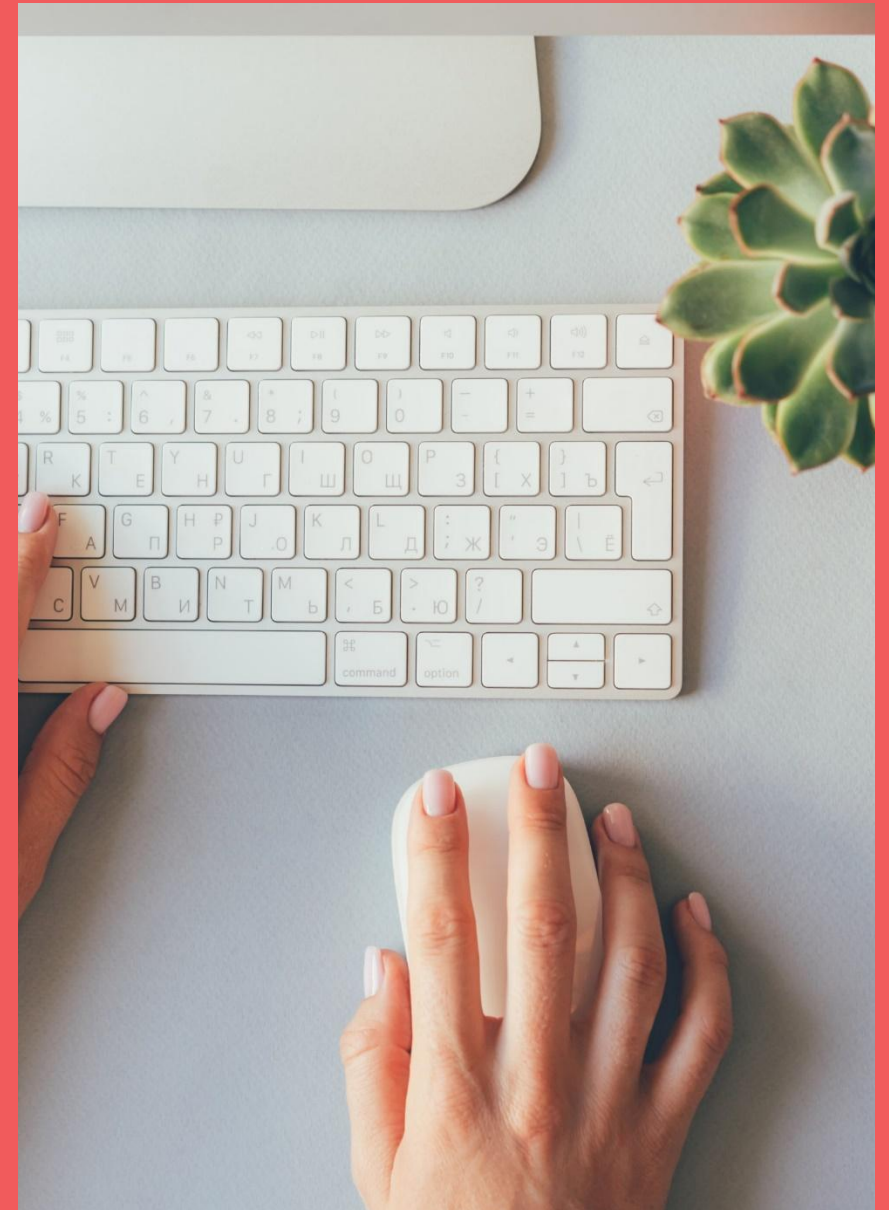
County Council



- Ultimate decision-making power regarding fiscal affairs
- Approves and fixes annual operating budgets of all county government offices and agencies
- After consideration of Form 144, adopts a salary ordinance establishing salaries, wages, per diems, and other compensation for all county officials and employees
- Appropriates county funds
- Adopts tax rates and establishes property tax levies to raise funds to meet budget requirements
- Performs non-binding (or binding) review of other local units' budgets within the County

County Auditor

- Ensures each budget estimate (Form 1) is properly prepared
- Prepares all Gateway budget forms (estimates of revenues, financial statements, debt worksheets, etc.)
- Presents budgeted expenses and estimated revenues (Gateway budget forms) to Council
- May make recommendations to the Council concerning the budget estimates
- Posts budget notice to taxpayers on Gateway
- Prepares and presents budget ordinance to the Council for approval
- Submits budget forms on Gateway after adoption



Department heads



- Prepare statements on positions and compensation (Form 144)
- Prepare itemized budget estimates (Budget Form 1)
- Meet with Council/Commissioners as needed to describe or provide justification of budget requests
- Monitor appropriations throughout the year

Fund accounting and appropriations



Uniform set of accounts prescribed by the State Board of Accounts

Fund accounts

- System for recording resources of which the use has been limited
- Separate receipts and expenditures by source, purpose, function and organizational units
- Most funds (except General) are limited to specific purposes

Major budget classifications

- Personal services
 - Supplies
 - Services and charges
 - Debt service
 - Capital outlays
- Each major classification is limited to specific purposes

Appropriation



- Authorization by legislative body to make disbursements or incur obligations for specific purposes
- No expenditure may be made without an appropriation unless specifically authorized by statute
- DLGF approval required for funds that receive revenue from property taxes (includes rainy day)
- Appropriations expire at the end of a budget year

Budget preparation strategies and best practices



Budget development



Suggested resources for budget preparation

- Reconciled financials through June 30 of current year (receipts, disbursements and funds balances)
- Annual financial reports (last two to three years)
- Amortization schedules for outstanding debt
- Additional appropriations and encumbrances (approved and estimated)
- Outstanding temporary loans
- Current year 1782 Notice and Budget Order
- Certified net assessed value for current and budget year (if available)
- Form 22 for spring property tax settlement
- Budget calendar (dates of public hearing and adoption)
- Estimated disbursements for the budget year



Total estimated receipts

Property tax

Less circuit breaker credits

Plus other miscellaneous revenues

Equals total estimated revenues

Prepare sustainable expense budgets (Budget Form 1s)



- Recurring operating costs should not exceed estimated annual receipts
- Make sure increases in operating costs (raises, adding new employees, etc.) are sustainable in future years

Remember that...

- It is not the DLGF's responsibility to determine if your budget:
 - Has a structural deficit
 - Will deplete cash reserves
 - Will result in a surplus
 - Is balanced



Budget preparation



Use existing budget as a baseline



Review 2024 actual disbursements – how did you perform against your 2024 budget?



Review year-to-date actual disbursements. How are you tracking with the 2025 budget?



Capital plans – what should/can be included for 2026 and future?



Determine additions, reductions and adjustments



Understand that resources are limited – prioritize objectives

Budgeting best practices



Match spending plans for recurring costs with estimated annual receipts

Cash reserves should be used for nonrecurring one-time expenses



Ensure additions to recurring costs are sustainable in the long-term

Develop cash flows that go beyond the budget year (long-term financial plan)



Develop a long-term capital plan

Be proactive with capital improvements, replacements, and maintenance.



Avoid inflated spending plans

Over-budgeting can mask systemic budget deficits.

Budgeting best practices



Submit fully funded budgets to the DLGF

You have the tools necessary to develop budgets that will not be cut by DLGF



Do not ignore the potential impact of circuit breaker tax caps

Circuit breakers are a direct reduction of property tax and can negatively impact your budget



Avoid applying a flat percentage increase to the current year's budget

Prepare budgets that match estimated annual receipts



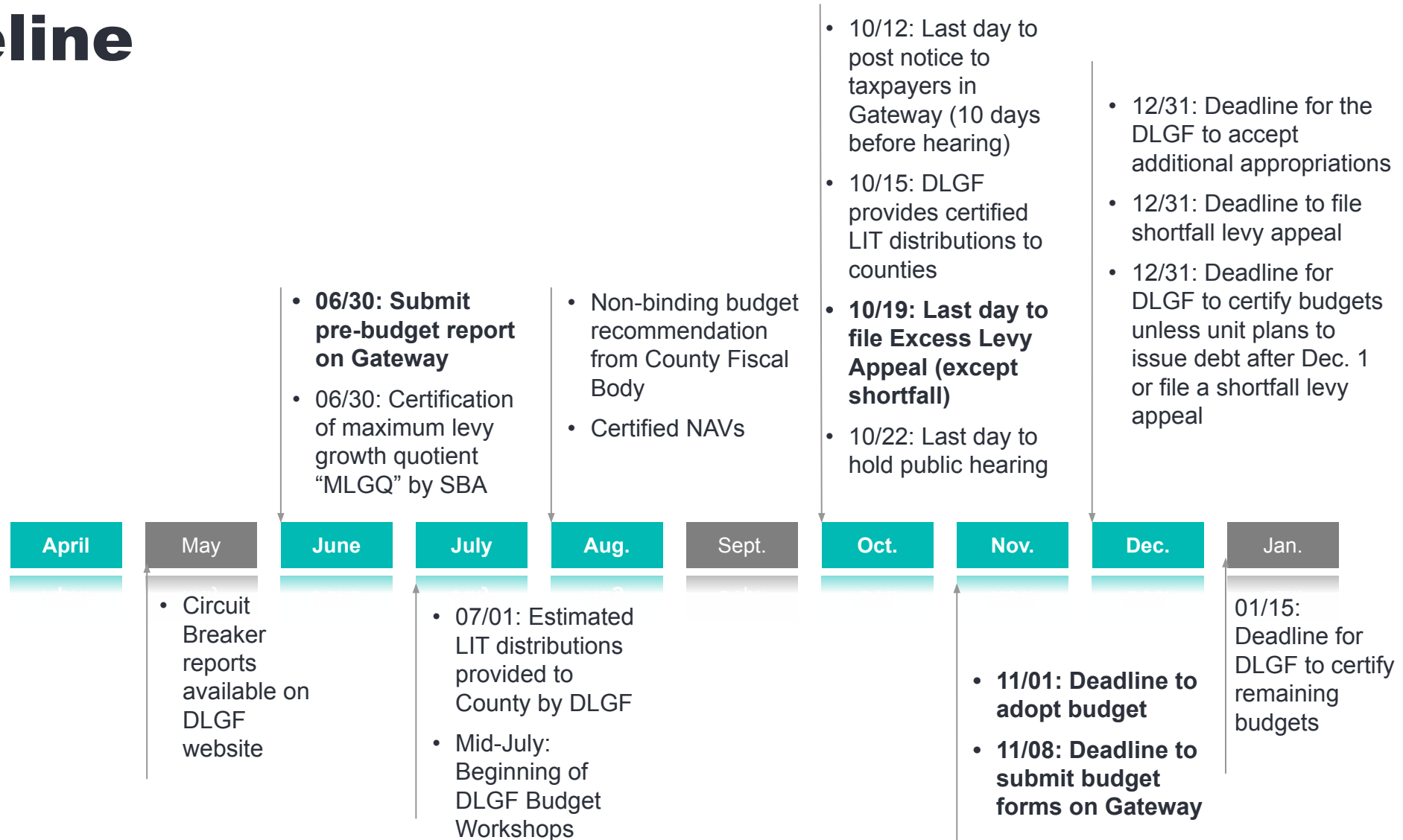
Begin the process earlier rather than later

Begin the process no later than July to allow time for proper analysis, adjustments or unforeseen events

Budget Timelines



Timeline



Note: 1782 Notices are issued from mid-November through mid-January



Budget calendar – timing requirements



10 days

Form 3 (Notice to Taxpayers) must be posted in Gateway at least 10 calendar days prior to public hearing



10 days

Public hearing and adoption must be at least 10 calendar days apart



5 days

Budget forms must be submitted in Gateway no later than 5 business days after adoption



5 days

Budget Form 4 (ordinance) must be uploaded to Gateway no later than five business days after adoption

Local budget process

Each department prepares an itemized estimate of expenditures

Commissioners/Council meet with departments to review and revise estimates

Fiscal officer prepares a report of budgeted expenses and estimated revenues (Gateway Budget) for the executive and presents the budget to the Council

Fiscal officer posts notice to taxpayers on Gateway of date, time, and location of public hearing and adoption

Council reviews budgets and holds public hearing

Council takes official action to adopt the budget no later than November 1

Gateway budget forms

Budget Form	Description
Form 1	Line-item detail of spending plan (appropriations)
Form 2	Funding sources (other than property tax) – misc. receipts
Form 4B	Budget estimate, Financial statement, and Proposed tax rate
Form 3	Notice to taxpayers
Form 4	Budget ordinance
Debt service worksheet	Budgeted payments for property tax supported debt
Current year financial worksheet	Calculations for budget form 4B
1782 Recipients	Used to collect email addresses of those who should receive the 1782 Notice once it is available

State review of budgets

DLGF reviews budgets

- Checks each budget for mathematical errors and adherence to the statutory budget process
- Adjusts tax rates and levies to ensure levies do not exceed the maximum allowed

DLGF issues a 1782 Notice

- Preliminary determination (1782 Notice) – taxing units have 10 calendar days to respond

DLGF issues final Budget Order

- Final determination (Budget Order) certifying appropriations, tax rates and levies
- Budget Order used by County to prepare tax bills

Questions?





Susan E. Cowen, CPA

Senior Manager

(317) 465-1547

susan.cowen@bakertilly.com



Paige E. Sansone, CPA

Principal

(317) 465-1521

paige.sansone@bakertilly.com

