Introduction to Budgeting and Municipal Finance for Indiana Law Enforcement Managers

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Overview

- Budgeting Basics
- Fund Structure (or Fund Types)
- Budget Structure (Accounting Structure)
- Budget Process
- Budget Presentations
- Budget Issues and Trends
- Controls and Limits
- Local Officials Roles in Process
Definitions
Budgeting Terms

• Definition of “Budget”
  • A budget is a financial plan that includes both revenues and expenditures for a specified period of time. It’s a legally binding financial plan.

• Purpose of Budgeting
  • A budget allocates financial resources within the government to fund the operating and capital plans. The budget should be a communications device for officials to openly discuss the priorities with the public.
Budgeting Terms

• Definition of Appropriation:
  • The legal authority from a fiscal body to spend or enter into obligations. That authority is within certain controls, such as the amount within a fund, the amount by a department, and a limited amount within a certain type of expense.
Budgeting Terms

• Definition of “Net Assessed Value”
  • The “net” total taxable property value in a jurisdiction. This is the total value of all property less any exempt property minus any deductions such as a homeowners deduction. Assessed value is the “tax base” of a geographic area.
  • Gross assessed value minus deductions equals “net assessed value.”
Budgeting Terms

- Property Tax Rate – A ratio between the net assessed value and the tax levy. The tax rate multiplied times the assessed value (per $100) results in the amount of taxes the unit will charge (levy).

\[
\text{Levy} = \text{Tax Rate} \times \left( \frac{\text{Net Assessed Value}}{\$100} \right)
\]
Budgeting Terms

• Property Tax Levy –
  1. The amount of tax a government charges property owners or,
  2. The amount of tax revenue generated for government from taxable property.

Levy = Tax Rate X (Net Assessed Value)
$100
Budgeting Terms

- Maximum Property Tax Levy or “Max Levy”:
  - Property tax levies to local governments are allowed to increase no more than the 6 year average increase in non-farm personal income. This increase is usually between 2% and 4%.
  - Also referred to as the “frozen levy.”
Basics of Budgeting

- **Budget Controls**
  - State level of control is by fund and total for tax supported funds.
  - Control at the local level is set by ordinance or resolution and is established at the fund, department, and major classification.
- **Penalties** – IC 6-1.1-18-10
  - If the proper officer makes an excessive appropriation they are guilty of malfeasant in office and liable for 125% of the amount.
Forms of Budgeting

- Line Item Budgeting
- Zero Based Budgeting
- Program Budgeting
- Budgeting by Objectives
- Performance Based Budgeting
Funds
Funds

• A fund is a separate account for specific revenues and expense.
  • Intent is to separate dedicated fees and charges and use only for intended purpose.

• Types of Funds
  • General Fund
    • Includes all operating costs and revenues not required to be included in another fund.
    • This fund is for the general provision of government services and not designated for specific purposes.
    • Funds most activities of the government.
Funds

- Special Revenue Funds
  - Used to account for revenues reserved or designated for specific purposes.
- User Fee Funds
  - Accident Report, Gun Permit, and Law Enforcement Training.
- State (Law Enforcement) Equitable Share
- Federal (Law Enforcement) Equitable Share
- Deferral Fee Fund
Funds

• Special Revenue Funds (Continued)
  • Motor Vehicle Highway
    • Cities and towns with population 5,000 or less may use 15% for law enforcement; All other cities and towns may use 10%.
  • Drug Free Community
  • Grants
Funds

• Capital Funds
  • Primarily used for acquisition or construction of fixed assets or equipment including fleet.
  • Construction Fund from bond proceeds.
  • Cumulative Capital Funds can be used to accumulate cash for future planned expense. Also may be used to purchase equipment, vehicles, land, and buildings.

• Debt Service Funds
  • Used to make principal and interest payments.
  • Usually supported by property tax or income tax.
Cumulative Funds

• Established to collect tax and accumulate balances for future capital purchases or projects.
• Purpose of fund is established by the ordinance that creates the fund. For ex: Fleet Replacement.
• Units may have multiple cumulative funds.
• Cumulative funds are “rate controlled” but
  • Amount of property tax levy allowed outside of maximum controls is limited.
• Budget, levy, and rate must be adopted with annual budget.
Types of cumulative funds for cities and towns:

- **Cumulative Capital Development (CCD)**
  - Outside max levy and max rate is 0.0500.
  - Maximum rate may be reached in increments.
- **Cumulative Capital Improvement (CCI)**
  - Maximum rate is 0.3300 but inside max levy.
- **Cumulative Fire**
- **Cumulative Building**
Establishing Cumulative Funds

- Ordinance to establish the fund must be approved by the fiscal body.
- Requires a public hearing with a 10 day notice to the public.
- Must be approved by the DLGF.
- Memo on DLGF website describing the requirements.
- Cumulative Funds must be re-established to increase the rate.
- Rate may be inside the maximum levy controls.
Public Safety LOIT

- County wide Local Option Income Tax for Public Safety.
- Must have a LOIT for Property Tax Credits or Levy Freeze in order to adopt Public Safety LOIT.
- Maximum Public Safety income tax rate is 0.25%.
- Only available for cities, towns, county, and fire departments (including townships) and only for public safety activities. (Includes criminal justice)
- Budgeted as separate fund.
Budget Structure

• Budget and accounting is organized in a structure by department, fund, and major classification.

Example:

• Agency: Police Dept
• Fund: General
• Major Class: Personal Services, Supplies, Other Services & Obligations, Capital
Budget Structure

• Budgets are structured to provide legal controls and accountability.
  • Designed so money is used by and for what it was intended.
  • Provide information to the public.
  • Guide and control operations (plan).
  • Provides units with the ability to amend original budget to adjust for changing priorities and emergencies.
Budget Revisions

• Officials can amend budgets by adopting ordinances or resolutions that may:
  • Increase or decrease appropriations,
  • Transfer appropriations from one classification to another. (For example: transfer budget dollars from supplies to capital.)
  • Increases, decreases, and transfers require passage of a resolution or an ordinance by fiscal body in a public meeting.
• Very few provisions in Indiana Code allow for the transfer of cash from one fund to another.
Budget Amendments

- Budget amendments to increase appropriations;
  - Limited to available funding.
  - Additional appropriations from tax supported funds, MVH, LR & S, and rainy day funds also require DLGF approval.
- Requires a public notice and hearing.
- Occasionally, budgets need to be reduced to reflect reduced amounts of resources.
  - For instance, a town may only receive 90% of the property tax they anticipated.
Budget Amendments

- Budgets transfers;
  - Transfers within the same fund, department and major classification.
  - Transfers do not change the amount appropriated within a fund and department.
- Requires a public notice and hearing.
- Appropriation transfers do not require approval by the DLGF.
Budget Amendments

• Fund transfers:
  • Defined as a transfer of cash from one fund to another.
  • Cities, towns, and counties are allowed to pass ordinances or resolutions allowing transfers of funds from EDIT fund or rainy day fund to other appropriated funds.
  • Transfer of funds require a 10 day public notice advertised in local papers and passage of an ordinance or resolution indicating from one fund to another.
  • Transfer of funds are reported to the DLGF.
  • Once the funds are transferred they still require an appropriation in order to spend.
Where The Dollars Go

Indianapolis 2012 Budget

- General Govt: 7%
- Public Safety: 44%
- Public Works: 29%
- Health & Welfare: 0%
- Recreation & Culture: 3%
- Econ Dev.: 10%
- Interest: 7%

Indianapolis 2012 Budget

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Where The Dollars Come From

2012 Indianapolis Revenues

- Property Tax: 29%
- Charges for Services: 25%
- Grants & Contributions: 20%
- Miscellaneous: 2%
- Other Taxes: 24%
Fiscal Limits
Fiscal Limits

- Budgets are limited to the amount of available fund balances.
  - Fund balance = cash minus obligations
- Property tax levies are “controlled” and can only grow by a 2% to 5% average per year with few exceptions.
- Property tax bills are limited by circuit breaker credits (or tax “caps”) which are 1% for homesteads, 2% for non-homestead residential, and 3% for industrial and commercial – Impact will vary.
Fiscal Limits

- Property tax increases are controlled, or limited by the state statute.
- Controls are also known as “frozen levy”.
- Levy is not frozen, but increases are limited to the maximum amount allowed in the previous year plus a growth quotient – AVGQ (usually 2%-5%).
- There are exceptions to the controls such as debt service payments (bonds) and leases.
- Those exceptions could be substantial and eventually led to circuit breakers or tax caps.
Property Tax

• National polls show that property tax is the 2nd most hated tax – 2nd only to federal income tax.
• Property tax is “regressive”
  • That is it has no regard for income levels and is more harmful to lower incomes.
• Property owner has very little control over the amount of the tax or where it goes.
• Not paying the tax will result in the loss of the property to the county.
Property Tax

- Amount of property tax is based on the assessed value of property and the tax rate charged:

- Tax Levy = Tax Rate \times \left( \frac{AV}{100} \right)
Property Tax Rates

- Property Tax rates are charged by numerous local governments*:
  - County 0.6650
  - City 0.7700
  - Township 0.1400
  - School 1.5400
  - Libraries 0.1400
  - Other 0.2450
  - Total 3.5000

* Rates vary depending upon the location of the property.
Property Tax Bills

- Example:
  - Gross Assessed Value $150,000
  - Less Homestead Deduction 45,000
  - Less Supplemental Homestead (35%) 36,750
  - Less Mortgage Deduction 3,000
  - Net Assessed Value $65,250

  - Tax Rate (per $100) 3.5000
  - Taxes $2,284

- Circuit Breaker Calculation (Gross AV times 1%) $1,500
- Circuit Breaker Credit = ($2,284 - $1,500 =) $(784)

- Taxpayer saves $784 per year due to Circuit Breaker.
Circuit Breakers

Important Points Regarding Circuit Breakers:
- Circuit Breakers are protections for property taxpayers.
- Overwhelmingly approved by voters.
- Governments that experience Circuit Breaker Credits will have reduced property tax collections.
- Reductions are allocated proportionately to all funds that levy property taxes.
- Tax revenues reduced by Circuit Breaker Credits cannot be recovered by other property taxes.
- Tax increases approved by voter referendum are exempt from Circuit Breaker calculation.
Property Tax Reform

• Beginning with 2009 budgets, rates, and levies, the state assumed the cost of several services that traditionally had been paid by property tax:
  • Family & Children Services (Welfare),
  • School Operating Funds,
  • Pre-School Special Education,
  • Pre-1977 Police & Fire Pension costs,
  • Cost to counties for housing juveniles in state facilities,
  • State Fair & State Forestry, and
  • State added a new homestead deduction of 35% of residual AV but repealed HSRC and PTRC.
Impact of Property Tax Reform

- Transferring those costs to the state moved a large portion of the property tax burden to the sales tax.
- Property tax levies to pay for those services were “volatile”.
- Transfer resulted in approximately 30% reduction in property tax levy state-wide.
- Reduced property tax burden means circuit breakers only affect around 1/3 of property taxpayers – mostly in larger urban areas.
Where Property Taxes Go
(Based on 2010 Property Tax Rates After Tax Reform)

County: 19%
Township: 4%
City/Town: 22%
Schools: 44%
Library: 4%
Other: 7%
Other: 7%
Budget Process
Budget Process

• DLGF issues budget memos and instructions in late spring.
• Local officials guide their budget development process by issuing guidelines and then having budgets submitted by departments.
• Budget is presented to fiscal body (council).
• Fiscal body adopts budget by Nov. 1.
• Adopted budget submitted to DLGF for review and certification of tax rates.
• Budget covers 18 month cycle.
Budget Process Overview

**June 2017**
Settlement and distribution of property taxes to the units. Assessors certify gross AV to auditor.

**May 2017**
Property taxes collected. May 10 – 1st installment
November 10 – 2nd installment.

**March 2017 – April 2017**
County auditor prepares Abstract of Taxes, county treasurer mails property tax statements.

**June – July 2016**
Budget instructions distributed to all departments and offices. Fiscal officer begins to compile data and prepare budget.

**August – Sept 2016**
AVs certified to DLGF by August 1. Fiscal officer prepares public notices for September 13 and 20 advertisement deadlines

**October 2016**
October 1 – Last day for non-binding review by county fiscal body.
October 22 – Last day to hold public hearing on budget.

**November 2016**
November 1 – Last day for units to adopt 2017 budget.
November 3 – Last day for civil units to file adopted budgets with county auditor.

**November 2016 – February 15, 2017**
DLGF reviews budget material and issue 1782 Notices, and certify 2017 budget orders.
Preparing Your Budget (TIPS)

- Always count the number of pay periods in the coming year.
- Budget for full staffing levels unless otherwise directed.
- Assume a slightly higher percent of employees subscribing to family health insurance plans.
- Work with your fiscal officer to develop budget guidelines to follow while developing the budget.
- Be conservative when estimating revenues.
Preparing Your Budget (TIPS)

- Budget covers 18 months so you can reduce spending this year to supplement next year's budget.
- Review contractual obligation for benefits.
- Compare Y-T-D spending levels to budget.
- Look for areas of under spending and over spending — if necessary force under spending.
- Under spending can be saved or transferred to other areas.
- Transfers may require an ordinance or resolution.
Budget Presentation

• Ideal budget presentation will satisfy criteria as:
  • **Financial Plan (Status and projected)**
    • Details of budgeted expense and revenues.
  • **Communications Device**
    • The best presentations include a mission statement, a discussion of the agencies goals, and builds public support.
  • **Policy Document**
    • Clear statement of the general policies of the agency.
  • **Operations Guide**
    • General discussion of the duties and services of the agency.
  • May include performance measures.
Budget Presentation

- Have a clear message
  - Clearly and briefly state your goals.
    - Have at least three major points.
      - Supporting statements for each major point.
      - Include statistics & data to support position.
  - Written
    - More elaborate than spoken statement.
      - Emphasize goals and major points.
      - Provide supporting data.
      - Make it suitable as a press release.
2013 Performance Objectives

- Install 25 next generation mobile data computers (MDC) in cruisers (Phase 1)
- 10% reduction in auto accidents in public safety photo enforcement locations
- Maintain 10% proactive policing time to reduce crime and disorder
- 25% reduction in gun-related Part 1 Violent crimes involving CIRGV members
- Complete JusticeWeb/EIS county-wide data sharing initiative
- Reduce bar/rental hall related felonious assaults by 33%
Budget Presentation

• Describe your department.
  • Mission
  • Jurisdiction
  • Services and/or functions
    • Major activities
    • Major changes
  • Performance of your department.
    • Performance measures
Budget Presentation

Police Department - Organizational Chart

- Chief of Police
  - Assistant Chief of Police
  - Police Technology Sergeant
  - Accreditation Coordinator
  - Office Manager
    - Investigations Command Captain
    - Support Commander Captain
    - Patrol Commander Captain
Police Department

With nearly 100 sworn officers, the Fishers Police Department is dedicated to the safety of the community. The department is made up of three policing divisions: Investigations, Support Command, and Patrol. These divisions work together to ensure the safety of Fishers residents. All divisions are based out of the department headquarters located in the Municipal Complex.

Investigations: The mission of the Investigations Division is to provide to the community the protection of uncovering crimes before they are committed and to bring to justice those criminal who choose to commit crimes within our community.

Patrol: The Patrol Division operates 24 hours a day with dispatching services being provided by the Hamilton County Communications Center. Patrol officers respond to a variety of service related calls, such as traffic accidents, ordinance violations, or other calls for assistance. However, the division primarily concentrates on responding to crimes against persons and property and, where feasible, preventing such occurrence with a highly visible presence and proactive community enforcement measures.

Support: The Support Division is responsible for handling the day-to-day operations of the department. The division focuses on interacting with other town staff and dealing with policy, budgetary, personnel, fleet, and technology issues.
Public Safety

The Public Safety Program budget includes the Police Department, Fire Department and Emergency Management.

Police Goal
The Police Department is committed to providing a safe community with a low crime rate. This includes the maintenance of an effective, dedicated and professional police force. The Police Department strives to achieve this goal through the following strategies:

1. Increase community involvement
2. Improve police-public relations
3. Enhance police performance

Budget Allocation Explanation
The Police Department 2013-14 operating budget allocation of $85,335,000 is $8,763,000 or 11 percent more than 2012-13. The increase is due to new hires, including the addition of a new police officer in each of the ten police divisions.

Police Major Performance Measures and Service Trends
The following performance measures and service trends will be achieved with the 2013-14 budget allocation:

- Average response time (minutes)
  - Priority 1: 8:34
  - Priority 2: 8:34
  - Priority 3: 8:34
  - Priority 4: 8:34

- Crime statistics:
  - Burglary: 22
  - Larceny: 9
  - Assault: 7
  - robbery: 3
  - Drug Trafficking: 2

- Traffic accidents: 12

- Arrests:
  - Misdemeanors: 80
  - Felonies: 20

- Crime prevention activities:
  - Neighborhood watch: 1,000
  - Community policing: 200

- Other activities:
  - Public education: 50
  - Volunteer training: 20

- Equipment and technology:
  - New police cruisers: 10
  - Body cameras: 100

- Training:
  - 200 hours of in-service training

- Additional information:
  - The Police Department has implemented a new CAD system that has increased the efficiency of dispatching and responding to incidents.
  - The Police Department has increased its use of Community Policing strategies, resulting in a decrease in crime rates.
  - The Police Department has implemented a new Community Policing strategy, resulting in a decrease in crime rates.
Budget Presentation

• Financials
  • Provide multi-year annual expenses.
  • Describe major changes in the budget.
  • Level of detail is up to you, fiscal officer, or possibly even local tradition.
  • Verify accuracy of the financials.
  • Fiscal body may request additional details or more information.
• It’s within their authority and,
• responsibility since they levy the taxes.
## General Fund Expenditures Overview

<table>
<thead>
<tr>
<th>Personnel (both Sworn and Civilian)</th>
<th>2012</th>
<th>2013</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>21,076,600</td>
<td>22,421,700</td>
<td>6%</td>
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<tr>
<td>Overtime (a)</td>
<td>1,744,400</td>
<td>1,949,800</td>
<td>12%</td>
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<tr>
<td>Other Personnel Costs (b)</td>
<td>14,495,300</td>
<td>15,273,400</td>
<td>5%</td>
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<tr>
<td>Subtotal Personnel</td>
<td>37,316,300</td>
<td>39,644,900</td>
<td>6%</td>
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### Contracts & Materials

<table>
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<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Contracts (RDC)</td>
<td>2,723,100</td>
<td>3,488,500</td>
<td>28%</td>
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<tr>
<td>Gasoline and Diesel Fuel</td>
<td>960,000</td>
<td>990,500</td>
<td>3%</td>
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<tr>
<td>Fleet Charges</td>
<td>725,000</td>
<td>735,000</td>
<td>1%</td>
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<tr>
<td>Public Service Contracts (MVRCL)</td>
<td>408,000</td>
<td>416,200</td>
<td>2%</td>
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<tr>
<td>Other C&amp;M (c)</td>
<td>1,836,600</td>
<td>1,644,500</td>
<td>-10%</td>
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<tr>
<td>Subtotal C&amp;M</td>
<td>6,652,700</td>
<td>7,274,700</td>
<td>9%</td>
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<td>Capital Equipment (d)</td>
<td>845,600</td>
<td>870,000</td>
<td>3%</td>
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<tr>
<td>Debt Service &amp; Transfers</td>
<td>900</td>
<td>0</td>
<td>-100%</td>
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### Grand Total

<table>
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<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>% Chg</th>
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<tr>
<td>Grand Total</td>
<td>44,815,500</td>
<td>47,789,600</td>
<td>7%</td>
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</table>

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(a) Safety Overtime, Court Overtime, Special Project OT, and Civilian OT
(b) Workers Compensation, Unemployment, Employee Termination, FICA, Longevity, Insurances, Insurance Waivers, Car Allowance, Cell Phone, Executive Benefits, and others not previously included
(c) All C&M accounts not included in four previous lines
(d) Does not include $323,000 for MDC replacement in 2013 (Phase 1 – 25 units)

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Budget Presentation

• Samples
  • Tempe, AZ
  • Phoenix, AZ
  • Dayton, OH
Role of the DLGF

• DLGF certifies budgets by issuing a budget order that includes budgets by unit, fund, approved property tax rates, and levies.
• DLGF determines amount of property taxes a unit may receive.
• Certifies the property tax rates that may be charged.
• DLGF approves additional appropriations for funds that are property or income, or MVH tax supported.
• DLGF enforces the maximum property tax levy controls.
• DLGF authorizes creation of certain funds.
2015-2016 Budget Issues

- Circuit breakers are 1%, 2%, and 3%. (Impact varies considerably.)
- Real estate values will impact property taxes and collections. (Values are slowly recovering.)
- Referendums are in addition to circuit breakers.
- Income tax distributions to units in 2016 are projected to continue to rise but more slowly.
- Excise taxes are rising with increased auto sales.
- Overall, revenues are slowly recovering.
2015-2016 Budget Issues

- County councils or income tax councils now have until November 30 to adopt a new local option income tax (LOIT).
- A public safety LOIT may be adopted in combination with either a property tax levy freeze LOIT (IC 6-3.5-1.1-24) or a property tax relief LOIT (IC 6-3.5-1.1-26).
- A public safety LOIT is distributed only to cities, towns, the county, and fire departments.
- Maximum public safety LOIT rate is 0.25%.
Contracts

• Contracts may be a large financial long-term commitment.
  • FOP Contract
  • Leases
  • Service Contracts
  • Handicapped Parking Enforcement
  • Parking Tickets
  • Towing Vehicles
  • Intergovernmental agreements
  • All contracts need to be appropriated
Reimbursements

- Maximize any federal and state reimbursements available.
  - Requires keeping excellent records.
  - Keep record of all costs when dealing with disasters (tornados, floods, blizzards).
  - Remember you can be reimbursed for more than just overtime expense.
- Ex: Damaged equipment, communications towers, additional fringe benefit costs.
Challenges

• Managing your budget with increasing costs.
• Uncertainty of the cost of health insurance and other benefits.
• Property tax levies are “controlled” (i.e. limited).
• Reduced funding due to potential Circuit Breaker credits.
• Financing rural and suburban public safety needs with a growing population and controlled property tax levies.
Roll of Other Officials in Budget Process

- Clerk treasurer or controller prepares.
- Unit executive (mayor or manager) proposes.
- City or town council approves.
- County council reviews budget of all units in county.
- County auditor prepares county budget, certifies AV, and distributes taxes to all units.
- County treasurer bills and collects taxes.
- DLGF certifies budgets, rates, and levies.
- State Board of Accounts audits the unit.
Summary

• Terms: Budget, AV’s, Tax Rates, Levies.
• Budgets are “legal” controls.
• Property taxes are “controlled”.
• Funds and fund structure.
• Budget structure & process.
• Budget amendments.
• Circuit breakers.
• How to begin and effectively present budget.
For More Information

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  - www.in.gov/dlgf
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  - (317) 232-3777
  - http://www.in.gov/dlgf/2338.htm