Municipal Unit Strategic Taskforce (MUST) – Overview & Updates

Monday, July 27, 2026

ASSOCIATION OF INDIANA COUNTIES

aim
Accelerate Indiana Municipalities

bakertilly

Today's Agenda

Legislative Updates

Review the 2025 & 2026 changes to the Local Income Tax (LIT) framework

Understanding the MUST

Explain the purpose of the Municipal Unit Strategic Taskforce (MUST) and its role in future LIT planning

Planning for Succes

Discuss financial modeling, collaboration, and best practices for preparing for the MUST process

Key Policy Decisions

Identify the strategic questions local officials should be discussing now

Resources

Highlight the tools, guidance, and support available from AIC, Aim, and Baker Tilly

Accelerate Indiana Municipalities

2025 & 2026 Legislative Changes

- SEA 1 (2025) established a new framework for adopting LIT rates & distribution
    - Reduced the total LIT rate cap from 3.75% to 2.9%
    - Eliminated property tax relief rate (maximum 1.25%)

- SEA 1 (2025) established separate rates within the 2.9% total rate cap for county services, fire & EMS, non-municipal units, and a countywide rate for cities & towns or a municipal rate for cities & towns

- HEA 1210 (2026) delayed the implementation of the new framework to 2029, with new rates being adopted in 2028 (Recent DLGF guidance indicates distribution under the new framework would begin in 2030)

- HEA 1210 (2026) allows every city or town to petition the county council to adopt a countywide rate for municipal services
    - First time adoption carries for 3 years, then annually adopt thereafter
    - A provision protecting debt was added

Accelerate Indiana Municipalities

Current LIT Framework (Prior to SEA 1)

- Total LIT Rate Cap: 3.75% (excluding special purpose)

- County Council (former CAGIT County) or Local Income Tax Council (former COIT County) may set the LIT rates

Local Income Tax	Type	Maximum Rate (2026 - 2028)
Certified Shares	Expenditure	N/A
Public Safety	Expenditure	N/A
Economic Development	Expenditure	N/A
Correctional Facility	Expenditure	0.20%
EMS	Expenditure	0.20%
Judicial System	Expenditure	0.20%
Acute Care Hospital	Expenditure	0.10%
Total - Expenditure LIT		**2.50%**
Property Tax Relief	Property Tax Relief	1.25%
Special Purpose	Special Purpose	N/A
Grand Total - All LIT		**3.75%**

bakertilly

LIT – Coverage for Outstanding Debt

- If bonds or leases are outstanding and payable from local income tax, the expenditure tax rate beginning January 1, 2029, must be at least sufficient to generate one and twenty-five hundredths (1.25) times the sum of:
  - Highest annual outstanding debt service
  - Highest annual lease payments
  - Any amounts required under the agreements for bonds or leases to be deposited in a sinking fund or other reserve
- This requirement remains in effect only until the maturity date of those debt obligations.
- Before August 1 of each calendar year, the fiscal officer of each county, city, and town shall provide the DLGF with the total amount of the county's, city's, or town's debt service obligations payable from local income tax revenues that will be due in the ensuing calendar year.

bakertilly

New LIT Structure – Beginning 2029

OR

	County Services (1)	Fire/EMS (1)	Non-Municipal Units (1)	Municipal Services - County-Wide Rate (all municipalities may opt-in) (2)	Municipal Services (at least 3,500 population)
Max Rate	1.2%	0.4%	0.2% (Max .05% per unit type)	1.2%	1.2%
Adopting Body	County Council	County Council	County Council	County Council	City/Town Council
Distribution Method	Directly to County	Weighted between service territory and population as determined by county council to all units that provide fire protection	Distributed by population of the unit divided by the population of all units in the county of that type	Distributed to each eligible city and town at a rate of 1.5 times the population share of the city or town	Directly to municipality
Tax Base	AGI of taxpayers living within the County	AGI of taxpayers living within the County	AGI of taxpayers living within the County	AGI of taxpayers living within the County excluding those that live within municipalities that adopt their own rate	AGI of taxpayers living within the municipality

(1) The combined rate for County Services, Fire Protection/EMS, and Non-Municipal may not exceed 1.70%.
(2) The county retains a portion of the county expenditure rate when the combined population of the participating cities and towns is less than 66.67% of the countywide population (the point at which the statutory 1.5 population multiplier reaches 100%).
(3) Special Purpose LIT does not expire at the end of 2028 and will continue to be available to counties through special legislation.

bakertilly

What is MUST?

The Municipal Unit Strategic Taskforce (MUST) is a collaborative process established by HEA 1210 (2026) to evaluate Local Income Tax (LIT) structures and future funding priorities among local government units.

Each county *may*, prior to October 1, 2026, convene a MUST with one representative from the county council and each city and town fiscal officer in the county to negotiate and establish through unanimous support a local income tax distribution agreement as it pertains to the county's local income tax rates.

The committee may not include representatives from the fire protection and emergency medical services as defined in IC 6-3.6-6-4.3 and nonmunicipal civil taxing units as defined in IC 6-3.6-6-0.5.

The purpose of the MUST is to establish a local income tax distribution agreement to send to the Department of Local Government Finance (DLGF). The DLGF will compile a report of all local income tax distribution agreements and submit the report to the legislative council in an electronic format prior to December 1, 2026.

Why the MUST Matters

The MUST provides communities with an opportunity to:

- Coordinate long-term financial planning across local governments.
- Evaluate how future LIT decisions affect every governmental unit.
- Assess taxpayer impacts and identify opportunities for taxpayer relief while maintaining essential local services.
- Balance local autonomy with regional collaboration.
- Identify opportunities to improve service delivery, enhance efficiencies, and examine opportunities to better align local funding with the beneficiaries of services.
- Communicate local priorities to the General Assembly through the DLGF report.

Key Takeaway: The quality of the conversations is just as important as the final report.

bakertilly

Planning Begins Before the First MUST Meeting

Steps Before Convening the Taskforce

- ✓ Understand the legislative framework
- ✓ Identify goals of each local unit
- ✓ Review current LIT distributions
- ✓ Gather revenue projections
- ✓ Evaluate taxpayer impacts and opportunities for tax relief
- ✓ Identify long-term service, infrastructure, and fiscal priorities across the county
- ✓ Assess whether taxpayer liability aligns with the beneficiaries of local services (tax incidence)
- ✓ Understand local service delivery responsibilities

bakertilly

Collaboration Creates Better Outcomes

- Begin discussions/collect data early
- Engage all affected local governments and key stakeholders
- Focus on county-wide outcomes, including taxpayers, not individual governmental winners and losers
- Share financial information openly
- Recognize that long-term relationships are more valuable than short-term negotiations

Financial Modeling Informs Better Decisions

Questions Financial Models Should Answer

- Can every unit maintain sustainable revenue?
- Which communities gain or lose revenue under each option?
- How does each option affect taxpayers and tax liability?
- How do funding choices align with the beneficiaries of local services?
- What Fire/EMS rate may be required?
- How do different municipal rate choices affect other municipalities and the county?

The Goal

- Financial modeling creates a common understanding of fiscal impacts, allowing discussions to focus on policy choices rather than competing assumptions.

Gathering the Data

- AIC offers a LIT Modeling Portal (working with the county auditor)
- Taxpayer Incidence Analysis – compares how the overall tax burden is distributed among taxpayers

- Aim has estimates and projections for all 92 counties – contact Campbell Ricci

- Work with financial advisor to determine projections and estimates based on the client's stated priorities and objectives

- Gather supporting data including assessed value trends, population trends, expenditures per capita, Fire/EMS funding, debt obligations, major fiscal and capital commitments, other revenue sources, service demands, etc.

Gathering the Data – Public Availability

Indiana Gateway

Line-item budget detail

Estimates of misc. revenue (can determine which budgets are funded from LIT and utilization of other revenue options such as wheel tax and food & beverage tax)

Actual receipts, disbursements, and cash balances through 2025 (historical data)

Debt management – outstanding debt obligations and maturity dates

Assessed values

DLGF website

Current certified LIT distributions

Certified budgets, rates, levies, and net assessed values

Property tax revenue losses from circuit breakers and other property tax credits

Expenditures per capita reports

United States Census Bureau

Population (municipal, township, unincorporated areas)

Mean income per household

# of households

EMS / Fire Rate

Why Start Here?

- It is encouraged for counties to consider the Fire/EMS rate first in the process as a best practice
- Understanding Fire/EMS funding needs provides context for subsequent LIT rate discussions
- The selected rate may influence the remaining capacity available for county and municipal expenditure rates
- It encourages discussion of funding a countywide public safety service before allocating remaining revenues

Questions to Consider

- Who currently provides fire protection, EMS, and dispatch services throughout the county?
  - What geographic areas are served by each provider?
- What interlocal agreements, contracts, or service territories currently exist, and are any changes anticipated?
- How are fire, EMS, and dispatch services currently funded?
- Are there opportunities for shared services, consolidation, or operational efficiencies?
- Are future capital, equipment, staffing, or facility needs anticipated?

Key Takeaway: The Fire/EMS discussion is more than setting a tax rate, it is an opportunity to evaluate service delivery, funding responsibility, and long-term sustainability before allocating the remaining LIT capacity.

Convening the MUST Meeting

County Council Representative

- Appointed by the county council in a public meeting (does not have authority to bind unit to the recommendation)
- Other council members and county elected officials are encouraged to attend

Cities/Towns Representative(s)

- Fiscal officer of each city or town
- Other municipal elected officials are encouraged to attend

Meeting Requirements

- Subject to Indiana's Open Door Law (consistent with DLGF and Public Access Counselor guidance)
- Public notice requirements apply
- No proxy voting by task force members
- Recommendations require unanimous agreement of the voting members

Meeting Preparation

- Schedule initial meeting and potential subsequent meetings
- Clearly distinguish voting members from attendees – other local officials and stakeholders are encouraged to attend
- Identify goals and objectives of the MUST meeting
- Distribute requested financial information before the meeting
- Establish expectations for information sharing and discussion

Accelerate Indiana Municipalities

Convening the MUST – Baker Tilly Guidance

- Notify elected officials from all taxing units, school and library representatives, fire districts/territories, and special units (such as airport authorities)
- Meetings should be structured with specific action items
- Allow attendees to provide input/comments
- Post as a public meeting
- Provide a virtual option
- Establish meeting protocols (meeting cadence, documentation, attendance, etc.)

Baker Tilly – Lessons Learned

#1 – Education is the Foundation

- Information shared in the MUST process is an important tool for municipal leaders
- What is common knowledge to one community can be new territory to another
- Sharing information dispels misconceptions and counters misinformation

#2 – Collaboration is Key

- Relationships matter
- Counties and municipalities benefit from working together
- Economic development conversations become broader

#3 – Planning and Participation

- Start sooner rather than later
- Compile data from available resources
- Plan for varying participation
- Consensus may not happen

Common Questions

- **What if** ….
    - not everyone participates?
    - we can’t all agree on what to include in the report?
    - we don’t think the structure currently in statute for 2029 works well for our units?

Even Without Consensus - Create the Report

If consensus is not reached, discuss why and highlight the areas where agreement was reached.

Lack of unanimous support can speak to issues that the planned structure doesn’t address

Address participation issues

Create a structure that works best for your communities, even if it requires something not currently in statute

A thoughtful report – even without unanimous support – provides valuable information for policymakers.

Baker Tilly – Decision Framework: Questions You Should Be Asking

County Officials

- What balance best supports county-wide service delivery?
- How can financial sustainability be maintained across all units?
- How important is Fire/EMS funding?
- What funding is needed for the libraries, schools, and townships?

Communities 3,500 and above population

- Is adopting a municipal rate the best option?
- What rate supports long-term priorities and needs?
- How does that affect countywide rates?

Communities under 3,500 population

- Would a countywide municipal services rate provide sufficient revenue?
- What rate supports long-term priorities and needs?
- Do you want the option to adopt your own municipal rate?

Other questions:

- Is the goal to remain revenue or rate neutral?
- Is there an opportunity to generate additional LIT revenue to bridge funding gaps caused by property tax relief initiatives from SEA 1 (2025)?
- Is there an opportunity for taxpayer relief?

2027 Potential Legislative Changes

- Clarify the order and timing of when each rate is set
- Remove the requirement to adopt the LIT rate annually
- Clarity around the FIRE/EMS rate
  - Distribution formula
  - How it can be used (general fund vs. fire & EMS specifically)

! *DISCLAIMER: The items listed above are potential topics for future legislative consideration. AIC **has not** adopted a legislative priority list for future sessions.*

aim
Accelerate Indiana Municipalities

Key Takeaways

- Start discussions/data sharing early
- Financial modeling improves decision-making
- Collaboration produces stronger long-term outcomes
- The MUST process is an opportunity to shape the future

The most successful counties will use the MUST process to build stronger relationships, better financial strategies, and a shared vision for their communities.