

July 29, 2010

Dear Colleagues,

When I wrote this letter two years ago, I warned that it was doubtful that Indiana would remain immune to the national economic slowdown that hit in late 2008 and early 2009. No one predicted the precipitous decline in state revenues that has occurred since that time. Over the past two fiscal years, revenues have declined 13% compared to previous levels. However, I am proud to report that unlike so many other states, Indiana addressed these challenges using simple common sense principles—don't spend money you don't have, don't pass the buck to future generations by recklessly borrowing and, most importantly, don't make the stress and burden on our fellow citizens worse during a national recession by impounding more of their income through higher taxes. Through your efforts, we acted quickly and boldly to more closely align our spending to the permanent reset of lower state revenues. We carefully deployed our reserves and rainy day funds to protect critical services. Collectively, these measures enable us to enter the FY 2012-2013 budget in a far stronger position than most states, including all of our neighboring states.

However, the FY 2012-2013 budget session will present numerous challenges. The State's reserves, built up through years of strong fiscal management, are projected to be nearly exhausted by the end of the current biennium. State revenue collections for FY 2011 are expected to be no better than FY 2006 levels. Federal stimulus funds appropriated by the General Assembly to support spending in the current budget will be exhausted. A stark illustration of the challenges that lie ahead is the fact that the base budget passed by the General Assembly in the last budget spends over a billion dollars more than current revenue collections. Therefore, maintaining Indiana's solvency will require the continued vigilance and good stewardship of our fellow citizens' dollars that you have consistently demonstrated. We must continue to decrease spending on a year-over-year basis to match our expected revenue stream. To be clear, it remains the top priority of this administration to continue to protect Hoosier taxpayers by spending within our means, by addressing our challenges without borrowing from the future or other reckless gimmicks, and by ensuring that Hoosier families and businesses keep as much of their hard earned income as possible through low taxes. Addressing our challenges head on through the common sense principles set forth will position Indiana well for the new private sector jobs and investment that will ultimately produce additional revenue to support government programs and services.

In May, I distributed budget guidance to assist your agencies in planning for FY 2012-2013 budget development. As stated then, the budget development process will require additional time and attention from your staff, as we continue to migrate towards performance-informed budgeting. Agencies are encouraged to identify programs that can be eliminated or reduced in order to reduce overall state spending or to make funds available to be reallocated to higher priority programs. Especially in the current fiscal climate, it is imperative that programs demonstrate the achievement of important outcomes if they are to continue to receive funding.

Attached you will find FY 2012 and FY 2013 Budget Instructions for your organization. Many of the formats and procedures will be familiar to your staff, but there are some notable exceptions:

1. The "Base", as determined in consultation with your Budget Analyst, will generally be limited to the FY 2011 appropriation level minus the FY 2011 reserve. Budget Analysts will work with their agencies on an individual basis to establish the base budget and to determine if adjustments need to be made to reflect implemented cost savings measures.
2. This year's submissions will again include your agency's key performance indicators with targets and results. These should have been approved by the Government Efficiency and Financial Planning (GEFP) division within the Office of Management and Budget (OMB). Moreover, you should include your proposed program metrics in your budget submission. Budget requests for programs that do not have metrics approved by GEFP will not be considered. This requirement includes requests for new programs in addition to existing programs.
3. We anticipate a very limited number of requests for expanded services and/or new programs. Please keep these requests to absolutely critical needs; as noted above, there are unlikely to be sufficient revenues to cover existing programs, let alone new programs. These "back page" requests must have Budget Agency approval prior to submission and include possible funding mechanisms to support these requests.¹
4. Due to the go-live of the ENCOMPASS project in September 2009, this year's submissions will include information from both the State's prior (GEAC) and current (PeopleSoft) accounting/financial systems. BudSTARS will incorporate both fund/center and fund information to assist decision makers in transitioning from GEAC to PeopleSoft. There will be some additional work required to help make the conversion. Specifically, we may need your assistance in calculating FY 2010 expenditure information for federal funds-fund/centers as a result of the new treatment of federal funds in the projects module. Please watch for additional guidance from the Budget Agency on this topic. Your participation and patience with this process are appreciated.
5. **Your budget must be submitted electronically by September 24th.**

As you prepare your submissions, I urge you to keep in mind the Governor's direction of operating Indiana state government with the fewest resources required to deliver essential services to Hoosiers.

Sincerely,



Christopher A. Ruhl
Director

Cc: Governor Mitchell E. Daniels

¹ Approval must be granted in writing from the Budget Director for agencies or institutions whose agency heads are appointed by the Governor or Lieutenant Governor.

I. BUDGET SUBMITTAL

This set of instructions focuses on budget preparation policy. It explains how to develop, request, and justify all operating funding for FY 2012 and FY 2013. All state agencies, including executive, legislative, judicial, and other entities that receive appropriations, must submit proposed budgets to the Budget Agency. Budget information must be submitted for all funds-fund/centers that receive appropriations from the General Assembly and all funds-fund/centers that had activity, or will have activity, in any of the years from FY 2009 through FY 2013.

Your budget must be submitted electronically by September 24th. A summary of key deadlines can be found in Section X (Budget Submission) on page 12.

Please read these instructions carefully before starting to prepare your budget, particularly noting the information required in the Agency Overview, the Base, Reallocations, Special Initiatives, and Legal Fund Balance Reports sections.

Note: The FY 2012 and FY 2013 budget development process will utilize the BudSTARS system consistent with recent years. In order to transition from the previous chart of accounts in GEAC to the new chart of accounts in PeopleSoft, you will note that BudSTARS contains both fund/center and fund information. Although this creates some additional work during the current budget development cycle, it is a necessary step to assist decision-makers in both the legislative and executive branches in budget development. All agencies will utilize the new uniform chart of accounts to capture account (previously object) information.

An updated BudSTARS User Manual can be found on the Budget Agency intranet site at: http://www.sba.state.in.us/budget1213/Budstars_User_Manual_V7.pdf

Separate instructions have been developed for Capital Budget requests. Please call your Budget Analyst if you have questions.

II. AGENCY OVERVIEW (TRANSMITTAL LETTER)

An Agency Overview must be prepared and submitted with your proposed budget. Due to constraints within the BudSTARS budgeting program, the agency overview should be electronically submitted separate from BudSTARS. The purpose of the overview is to summarize the agency's total budget request. It should reflect your plan to allocate the resources available to you to provide the best services to taxpayers.

You will want to include in your overview:

1. A description of your agency's programs and functions (by department or division, as appropriate), prioritized from most to least important
2. Accomplishments and challenges over the last two years

3. Your objectives for the next biennium
4. Your agency's key performance indicators, and a discussion of some or all of your program measures
5. An organizational chart
6. Any programs to be reduced, eliminated, and/or replaced by other programs (these should be described in some detail)
7. Any reallocation of funds to accomplish these changes should also be included

If any new special initiatives are approved to be proposed for funding in the next biennium, they must be described in the Agency Overview. **As outlined later in these instructions, special initiatives will be prioritized along with new initiatives from all agencies and will only be funded if sufficient resources are available. Special initiatives need prior approval from the Budget Agency.** Likewise, if there are any major challenges anticipated that could affect the operating budgets of the agency, recommendations on how to address these challenges should be included.

The Agency Overview is an integral part of the budget submission and should be prepared with particular care. The letter, which will be provided to the Governor and members of the Budget Committee, the House Ways and Means Committee, and the Senate Appropriations Committee, should demonstrate the agency's mission, purpose, and effectiveness as reflected in the budget. It is the primary document the Governor and the General Assembly will use to understand and assess your budget request.

Please work with your Budget Analyst to develop this information and submit your Agency Overview to your Budget Analyst by September 17th.

Note: When you submit your final budget electronically, please email a copy of your Agency Overview to your Budget Analyst. Please note that BudSTARS will require you to enter something for the Agency Overview. Simply enter "Refer to separate submission". If you wish to also include your Agency Overview in BudSTARS as in years past, refer to the *BudSTARS User Manual* Chapter 3, Step 7 for instructions on how to enter the Agency Overview. See Chapter 2, Section F for general tips on entering narrative information.

III. CURRENT SERVICES REQUEST

The current services budget has the following components:

A. Historical Expenditures

All expenditures made in FY 2009 and FY 2010 are provided for you in BudSTARS. These historical figures have been transferred electronically from the Auditor's records to your budget file. The FY 2010 expenditures have been updated to reflect expenditures as of June 30, 2010, along with any adjustments made during fiscal close-out. You should review these numbers and verify their accuracy. If there is a material error, please contact your Budget Analyst.

Note: Although historical expenditure data has been loaded from the Auditor's records, you will need to identify the funding sources for these expenditures. Refer to the *BudSTARS User Manual* Chapter 3, Step 5 for instructions on how to enter funding source information for these fiscal years.

B. Staffing Table Position Control Records

Staffing Table Position Control Records (PCRs) have been loaded into BudSTARS from the State Personnel Department's database (PeopleSoft) as of June 30, 2010. This data is used to calculate salary and fringe benefits expenditure levels for your budget submission. It is critical that this information be reviewed and updated as necessary.

The following two sections (C and D) set limits for your agency's Current Year Estimate and Base. To stay within these limits, it may be necessary for PCRs to be flagged as unfunded and not included. A dollar adjustment to personal services to reflect changes in the funding status of a PCR will not be acceptable.

Note: Use the procedures described in Chapter 3, Step 2 of the *BudSTARS User Manual* to review and update your PCR data.

C. Current Year Estimate (CYE)(FY 2011)

You are required to estimate expenditures that will be made in FY 2011 ending June 30, 2011. The CYE cannot exceed your FY 2011 spending plan, which is to be agreed upon with your Budget Analyst no later than August 13th. Any exceptions to this will need to be discussed with your Budget Analyst prior to budget submission. **Budget Agency analysts will work with each agency to appropriately calculate the agency's current year estimate.**

D. The Base

Your total base may not exceed your Current Year Estimate (FY 2011 Spending Plan which includes agreed upon reserves). It may be necessary to unfund and not include specific PCRs to avoid exceeding the base limitation. It also may be necessary to restrict an agency's base to something below the CYE based on statewide priorities. **Budget Agency analysts will work with each agency to appropriately calculate the agency's base.**

Base adjustments will be very rare, although the Budget Agency recognizes there may be conditions that warrant an adjustment. Because of functional or operational changes, an agency's spending pattern might change from those described in the Current Year Estimate. For example, the General Assembly's budget reflects different service levels during the long and short session years. Annualization of a new state facility opening during FY 2011 would be another possible example of a necessary base adjustment. For example, a new facility opening February 1, 2011 would have the CYE reflecting the cost of 5 months of operation and the Base would reflect 12 months of operation. On the other hand, if an agency is implementing cost savings measures during FY 2011, it may only realize a partial year of those savings. As a

result, the Base would reflect 12 months of cost savings. Your Budget Analyst will help you if you believe you have a condition that warrants an adjustment.

Overtime expenditures must be managed within existing levels of funding.

For agencies and programs funded with dedicated and/or federal funds, 2007 SEA 501 (Retiree Medical Benefits Accounts) expenses must be managed within existing levels of funding.

You may not include in the Base any adjustments for general inflation or any other price increase.

Expanded services and new services are not part of an agency's base; they are part of the expanded or new services budget request. Do not incorporate expanded or new services into your base. Funding for these initiatives will be recommended only if they survive the prioritization process.

You must calculate your CYE and Base, and contact your Budget Analyst by Friday, August 20th to discuss and agree upon these figures.

Note: Use the procedures described in Chapter 3, Step 3 of the *BudSTARS User Manual* to enter your CYE and Base amounts for each expenditure account (previously object).

E. Request for FY 2012 and FY 2013

Please note: Your total request for FY 2012 (excluding new/expanded services) may not exceed your Base without the prior approval of the Budget Agency.² Your total request for FY 2013 (excluding new/expanded services) may not exceed your FY 2012 total request without the prior approval of the Budget Agency.

Your requests for FY 2012 and FY 2013 may not include a change in, or an adjustment from, the Base for general inflation or any other price increase.

1. Reallocations

Agencies that are planning to reduce or redirect agency resources from those budgeted in the Base may request the reallocation of the savings generated by those changes to other initiatives and objectives for FY 2012 and FY 2013. These requests for reallocations may take place between points within a fund-fund/center or between funds-fund/centers within a legal fund.

Note: Changes from the Base to the request years can only be accomplished through the completion of Change Packages (either Current Services or New Services), and each package must include a narrative explanation and justification. If there is going to be a significant reallocation from Other Operating to Personal Services or from Personal Services to Other Operating, then creating a separate Current Services Change Package

² Approval must be granted in writing from the Budget Director for agencies or institutions whose agency heads are appointed by the Governor or Lieutenant Governor.

would be appropriate. See Chapter 3, Step 4 in the *BudSTARS User Manual* for assistance in creating Change Packages.

2. Personal Services (Point 1)

Agencies may also request that savings achieved through efficiencies be reallocated to Point 1 to request additional positions, if needed, for existing services/programs or special initiatives approved by the Budget Agency. However, requests for additional positions will be scrutinized closely and only granted in very rare instances, if at all.

Note: Reallocation of funds from Other Operating to Personal Services (or vice versa) can only be accomplished through the completion of a Current Services Change Package as described above. If additional positions are being requested, please see Chapter 3, Step 2 in the *BudSTARS User Manual* for assistance. Adequate narrative explanation and justification will be necessary.

REMINDER: THE TOTAL REQUEST FOR EACH FISCAL YEAR AFTER ANY REALLOCATIONS MAY NOT EXCEED THE BASE WITHOUT THE APPROVAL OF THE BUDGET AGENCY.

IV. PERFORMANCE METRICS

The GEFP division will work with your agency to define your programs for the purposes of linking program measures to your respective funds-fund/centers.³ Budget requests for programs that do not have metrics approved by GEFP will not be considered. This requirement includes requests for new programs in addition to existing programs. For detailed instructions, refer to the memorandum regarding Program Prioritization and Measure Identification attached to the quarterly metrics reminder sent by Cris Johnston on July 3rd. Please note the due date for the completion of this task has been revised to September 17th.

These requirements apply only to executive branch agencies and do not apply to legislative agencies, judicial agencies, or separately elected officials. However, the Budget Agency respectfully requests those agencies to participate voluntarily in the performance measurement initiative.

Unlike FY 2009 – FY 2011, the budget development process will not be utilizing the performance-budgeting capabilities of BudSTARS. Rather, this information will be compiled through existing data collection tools (primarily Excel workbooks). This should reduce the time required for agencies to submit their performance metrics. Please contact your GEFP analyst with any questions.

³ All exceptions must be granted in writing by the Government Efficiency and Financial Planning division within OMB.

V. SPECIAL INITIATIVES (New/Expanded Services)

If any new or expanded services or initiatives are to be included in the budget request for an agency or institution whose agency head is appointed by the Governor or Lieutenant Governor, the initiatives must be pre-approved by the Budget Agency. The Budget Agency will be contacting you to discuss all proposed Special Initiatives. **It should be noted that these initiatives will be prioritized along with new initiatives from all other agencies and will only be funded if sufficient resources are available. Overall agency performance, as well as the performance of existing programs, will be considered when reviewing and prioritizing special initiatives.**

For all other state agencies and institutions, any new special initiatives should be described in enough detail so that the importance of the new initiative to the State is easily understood.

Note: Any approved Special Initiatives will need to be submitted in the budget using the New Services Change Package process. Refer to the *BudSTARS User Manual* Chapter 3, Step 4 for instructions on how to use Change Packages. BudSTARS has the ability to let you prioritize your Change Packages. Please rank all New Services Change Packages starting with 1 as your highest priority.

Each request for expanded or new services must include in the narrative portion of the Change Package an overview that includes:

1. The agency's statutory authority (state and/or federal) to implement the program or services (or a statement that legislation will be proposed)
2. A statement as to how the program or services will help the agency accomplish its mission
3. A thorough explanation of the need for the expansion or new service, including a discussion of whom, if anybody, provides these services today (e.g., federal government, local government, private sector, non-profit, etc.)
4. The number and profile of the population to be served
5. Evidence and research that the new or expanded program is likely to achieve important outcomes (this should include information from other states or jurisdictions, where applicable)
6. Specific goals, benefits, and performance measurements (approved by GEFP)
7. A timetable for reporting success
8. For requests to expand services, results of outcome-based performance measures approved by GEFP for at least the past two (2) years. Programs that have not measured results or cannot demonstrate achieving outcomes to date will be prioritized lower than programs that have done so.
9. Possible funding mechanisms for the expanded or new service

As mentioned previously, the information above should also be included in your Agency Overview to be submitted by September 17th.

Note: A new Position Control Record (PCR) must be established for any new positions requested due to new programs. Refer to the *BudSTARS User Manual* Chapter 3, Step 2 for instructions on how to add new PCRs. Remember, when developing the budgets for Special Initiatives, new position requests should be budgeted at the middle of the established salary level currently in effect.⁴ Fringe benefit amounts will be calculated automatically for you. Requests for new positions will be closely scrutinized.

For your information the Fringe Benefits are calculated as follows:

	FY 2011	Base	FY 2012	FY 2013
The following are calculated as a percentage of salary:				
Life Insurance	0.13%	0.13%	0.13%	0.13%
Social Security	7.65%	7.65%	7.65%	7.65%
PERF-State Share	7.00%	7.00%	7.00%	7.00%
PERF-Employee Share Paid by State	3.00%	3.00%	3.00%	3.00%
Disability Insurance	1.75%	1.75%	1.75%	1.75%
Total % of Payroll	19.53%	19.53%	19.53%	19.53%
Full-Time Employees	19.53%	19.53%	19.53%	19.53%
Part-Time Employees	17.65%	17.65%	17.65%	17.65%
Intermittent Employees	7.65%	7.65%	7.65%	7.65%

The following are calculated as a flat dollar amount per employee:

Health, Dental, Vision - Single	\$4,989	\$4,989	\$4,989	\$4,989
Health, Dental, Vision - Family	\$13,800	\$13,800	\$13,800	\$13,800
Health, Dental, Vision - Blended	\$10,171	\$10,171	\$10,171	\$10,171
Deferred Comp - State Match	\$137	\$273	\$273	\$273

Note: Part-time employees are not eligible for health, dental, vision, life or disability insurance. In addition, BudSTARS uses the blended rate as the default in the fringe benefits calculations. There is the option to use the single or family rate for individual PCRs. See Chapter 3, Step 2 in the *BudSTARS User Manual* for assistance.

⁴ Please work directly with your Budget Analyst if you have questions about what level to fund new positions classified as Executive Broadband.

VI. FEDERAL FUNDS

Agencies should keep in mind that in circumstances where federal funding for regulatory mandates is being reduced or terminated by the federal government, it should not be assumed that the State will be able to replace the lost federal funds or reinstate terminated federal programs. Agencies should document the fiscal impact and service reductions resulting from the federal funding cutbacks. Agencies that distribute federal funds to local municipalities or other local entities will also need to assess the impact of federal revenue reductions and describe them in the account narrative.

Note: A significant change from prior years is the inclusion of both fund and fund/center information in BudSTARS. For FY 2009, the expenditure information was extracted from GEAC at the fund/center level, and then mapped to the new funds in ENCOMPASS. For FY 2010, please look for additional guidance from the Budget Agency. For FY 2011 (CYE), the base, FY 2012, and FY 2013, agencies should enter their projections and requests using both fund (PeopleSoft) and fund/center (GEAC) information. This will require some additional work on the part of the agencies, but is a necessary step in assisting decision makers as the State transitions from GEAC to PeopleSoft. Please contact your Budget Analyst if you have any questions.

Agencies should provide details if federal funding has decreased or is expected to decrease in future biennia. Specific figures for future biennia should be provided if available.

Note: Be sure to update anticipated budgets for all federal funds (and fund/centers).

VII. FUND NARRATIVES

The Fund Narrative is a budget overview or summary of each budgeted fund-fund/center. It is an important part of the budget request for each fund-fund/center and presents key information that decision-makers use in determining the importance of the budget request.

To ensure that all information is provided for each fund-fund/center in the narrative component of BudSTARS, provide the following information:

- 1) A summary of the program(s) or purpose of the fund-fund/center
- 2) Specific statutory authority for the program(s)
- 3) Number and profile of the population served
- 4) Specific performance measures and goals for the new biennium (agreed upon with GEFP)
- 5) Major changes in the scope of the program(s)
- 6) New initiatives
- 7) Other relevant information

VIII. REVENUE ESTIMATES

It is important that agencies provide revenue estimates in BudSTARS for the next biennium when the budget request is submitted. Any outside revenue sources need to be reported. These revenues may be derived from fines, fees, settlements, grants, or interest earned. In this context, "outside" includes transfers from other legal funds, such as the General Fund, as well as federal receipts. Most agencies receive revenue of some kind.

Agencies that collect fees that are deposited in the General Fund must provide a revenue estimate for FY 2011, FY 2012, and FY 2013. The *BudSTARS User Manual* Chapter 3, Step 6 provides the necessary instruction for entering this information in the agency's budget request.

Agencies are also required to provide revenue estimates for each of their dedicated funds. Revenue estimates must include fee revenue and interest earned, as well as federal and general fund amounts transferred in to support expenditures from the dedicated fund. The redemption of investments should NOT be included in your revenue estimates. The assets were included in the beginning balance.

Current and future federal fund receipts must also be estimated and entered. And, like dedicated funds, any general fund or dedicated fund dollars transferred in to federal funds-fund/centers (such as from multiple funding sources) must also be recorded here.

The accuracy of these estimates is important for the completion of the legal fund balance report described in the next section. Please contact your Budget Analyst if you need assistance with these revenue estimates.

IX. LEGAL FUND BALANCE REPORTS

All programs with dedicated funding must ensure that the legal fund balance report in BudSTARS is accurate and balances to the State Auditor's records (PeopleSoft). Programs funded partially with General Fund and other dedicated funds must demonstrate that they are using their dedicated funding sources to the fullest extent. The purchasing and redeeming of investments should not be included in the expenses or the revenues when preparing the legal fund balance report; however, the amount invested should be included in the beginning and ending balances. Any interest earned should be included along with other revenue sources.

Note: Legal Fund Balance Reports reflect the revenue and expenditures of all centers within the legal fund. This may include fund/centers that are budgeted by other agencies.

X. BUDGET SUBMISSION

Your budget must be electronically submitted by September 24th along with one electronic copy of the agency overview letter and the “Performance Metrics” information.

Note: See Chapter 3, Step 9 in the *BudSTARS User Manual* for instructions on how to electronically submit your budget.

Key Deadlines:

August 13th	Establish agreed upon FY 2011 spending plan with your Budget Analyst
August 20th	Establish agreed upon CYE and Base with your Budget Analyst
September 17th	Submit Agency Overview to your Budget Analyst
September 17th	Submit “Performance Metrics” information to your GEFP-assigned representative
September 24th	Submit FY 2012 and FY 2013 Agency Budget in BudSTARS