

**June 13, 2001**

As required by Indiana Code 4-12-1-12, the State Budget Agency hereby transmits to Governor Frank O'Bannon, Auditor of State Connie Nass and each member of the Indiana General Assembly:

- A list of appropriations made during the 2001 Regular Session of the Indiana General Assembly, and
- A report on how these appropriations will affect the fiscal status and affairs of the State.

### **Revenues:**

Economic growth slowed significantly during FY 2001. The economic forecast projects real Gross Domestic Product growth to slow still further in FY 2002 to 1.9% before accelerating in FY 2003 to 3.2%. Indiana nonfarm personal income is projected to increase by 4.7% in FY 2002 and 5.2% in FY 2003. The State's revenue forecast of General Fund and PTRF revenues reflects this gradual acceleration in economic growth with total estimated revenue increasing by 4.2% in FY 2002 and 4.6% in FY 2003.

### **Expenditures:**

#### **Education**

Funding for elementary and secondary education comprises the largest component of Indiana's state budget. The General Assembly appropriated \$3.4 billion in FY 02 (an increase of 4% over FY 01 appropriation) and \$3.5 billion in FY 03 (an increase of 3.3% over FY 02 appropriation) for tuition support. School corporations operate on a calendar year accounting system, so this translates into a 3.5% increase in total state and local formula support for calendar years 02 and 03. There were two notable changes made to the school formula: (1) The Vocational Education grant moved from a wage-based calculation to a market-demand-based calculation and (2) the Foundation Grant calculation was modified to account for students who receive free lunch and to account for students who have Limited English Proficiency.

Below are three new K-12 initiatives approved by the General Assembly:

- The Reading Diagnostic Assessment Program, funded at \$2.5 million each fiscal year, provides all first and second graders in Indiana public and non-public schools assessment and remedial programs/activities on a voluntary basis.
- \$10 million is made available each fiscal year to assist school corporations with funding Full Day Kindergarten programs. School corporations will apply to the Department of Education to receive grants based upon the number of students enrolled in full-day programs.

- A Professional Development grant funded at \$20 million in FY 2003 gives school corporations the resources necessary to improve teacher and administrator skills and comply with recent education accountability legislation.

### **Higher Education**

Total state appropriations for higher education, including cash-funded capital projects, increased by \$56.4 million (4.1%) for FY 2002 and by an additional \$29.1 million (2.0%) for FY 2003. The budget includes an additional \$58 million in one-time funding over the biennium for technology support. The higher education budget includes \$6.5 million for community college start-up costs, \$5.8 million to freeze tuition at Ivy Tech State College and Vincennes University and \$4.5 million for the new School of Informatics at Indiana University. In addition to the appropriations above, the General Assembly approved \$228.8 million in bonding authority for capital projects for the state's colleges and universities.

### **Economic Development**

The General Assembly appropriated \$50 million for the O'Bannon/Kernan 21<sup>st</sup> Century Research and Technology Fund.

### **Health and Human Services**

State appropriations for health and human services totaled \$2 billion for FY 2002 and \$2.07 billion for FY 2003, with the Family and Social Services Administration (FSSA) receiving nearly 96% of these funds. The FSSA's appropriations grew by \$150.2 million (8.6%) for FY 2002 and \$74 million (3.9%) for FY 2003 over FY 2002.

The Medicaid program received appropriations of \$1.17 billion for FY 2002 and \$1.25 billion for FY 2003. General Fund appropriations for Medicaid increased by \$21.4 million (1.9%) for FY 2002 over the 2001 projected expenditure level of \$1.15 billion and an additional \$78 million (6.6%) in FY 2003. The Children's Health Insurance Program (CHIP) received an appropriation from the Tobacco Master Settlement Agreement Fund of \$29 million for 2002 and \$33.6 million for 2003.

For the Division of Disabilities, Aging and Rehabilitative Services, the General Assembly appropriated an additional \$30.6 million for FY 2002 and \$22.2 million for FY 2003 over the FY 2001 funding level of \$199.2 million for services for the developmentally disabled. The increases include an additional \$6 million per year appropriated for the Community and Home Options for Institutional Care for the Elderly and Disabled (CHOICE) program and an additional \$6.5 million appropriation for vocational rehabilitation services - \$3.0 million in FY 2002 and \$3.5 million in FY 2003. Increases of \$ 2.5 million in FY 2002 and \$2.8 million for FY 2003 were provided for Assisted Living, Adult Guardianship and Day Services programs. An additional \$13.3 million were provided for the Developmentally Disabled Client Services program out of the Tobacco Fund in FY 2002 and \$30.2 million in FY 2003.

Appropriations for mental health services increased by \$15 million for the biennium with additional funding being provided for the seriously mentally ill and disturbed.

The General Fund appropriations for the Indiana Department of Health (ISDH) and Special Institutions total \$81.2 million in FY 2002 and \$82.4 million in FY 2003. The ISDH budget includes increases for the Minority Health Initiative including a new appropriation for a Sickle Cell related program. The ISDH budget also includes appropriations from the Tobacco Master Settlement Agreement Fund for Newborn Screening, Local Health Maintenance, Community Health Centers, and the Local Health Department.

Additional appropriations from the Tobacco Master Settlement Agreement Fund include \$10 million in FY 2002 and \$20 million in FY 2003 for the Indiana Prescription Drug Program. The Indiana Health Care Advisory Board received \$33.6 million in FY 2002 and \$38.2 million in FY 2003.

Appropriations for the Tobacco Use Prevention and Cessation Board total \$5 million in FY 2002 and \$25 million in FY 2003.

### **General Government**

The Public Defense Fund appropriation was increased by \$3.6 million in FY 2002 and \$4.6 million in FY 2003. It will be used to reimburse local governments for Public Defender expenses. The budget also includes \$2.0 million in funding for the Judicial Automation Project, which will help local courts across the state share information.

The budget includes funding for local election equipment matching grants and local election and voter registration equipment.

General Fund appropriations include \$77.0 million for the Personal Services/Fringe Benefits Contingency Fund and \$12.0 for the Employee Recruitment and Retention Fund.

### **Public Safety**

The budget appropriates \$1.2 billion for the operation of the state correctional system in the 2001-2003 biennium as well as \$57 million for maintenance and construction expenditures. These funds will provide for the incarceration of approximately 21,000 adult and juvenile offenders and support the opening of a new correctional facility in New Castle, phase 2 of the Miami Correctional Facility and increased participation in Community Correction Programs. The Budget Agency anticipates that over 4,400 beds will become available for incoming offenders due to these enhanced facilities and programs.

The budget also appropriates a total of \$265 million for the operations of the State Police in the 2001-2003 biennium and an additional \$7.7 million for capital expenditures, including \$4.75 million for National Crime and Information Center (NCIC) upgrades.

### **Conservation and Environment**

The budget includes \$540.3 million for the operation of conservation and environmental programs in the 2001-2003 biennium. This is an increase of approximately 10% over the

last biennium, and includes additional funds for the staffing and operation of the new State Museum.

### **Transportation**

The budget includes \$3.6 billion in general, dedicated and federal funds for the Department of Transportation for the 2001-2003 biennium. This is a 4.5% increase over the previous biennium and includes \$1.3 billion for the State Highway Construction Program.

### **Capital and Construction**

The capital budget provides a 4% increase in funding for preventive maintenance at most state facilities. It includes full funding of the lease rentals for bonded facilities. In addition, it creates a new Regional Health Care Construction Account for the human services area that the State may use for a regional health facility implementation plan, a treatment and integrated care center at Logansport State Hospital, and life safety contingency funding for Larue Carter, Muscatatuck, and Fort Wayne Hospitals.

The Department of Correction budget includes funding for a new multipurpose building at North Central Juvenile Facility, LAN Infrastructure, Wabash Valley Correctional program space, and cottage renovations at the Plainfield Juvenile Correctional Facility.

The budget for the Department of Natural Resources includes funding for dam repairs, drinking water and wastewater projects, continued development at Prophetstown, Charlestown, and Fort Harrison state parks, inn expansion projects, and a State Parks centralized reservation system.

Funding is also included in the capital budget for State Police National Crime Information Center, Little Calumet River Basin Development Commission to match federal funds, INDOT airport development match, Department of Administration ADA compliance and energy savings projects, and the State Budget Agency Health and Safety Contingency Fund.

### **Balances**

This budget will test the State's ability to effectively and prudently manage its finances. The Budget Agency estimates that the General Fund balance will be \$39.7 million at the beginning of the biennium and zero at the end of each fiscal year during the biennium. In order to accomplish the balancing of the budget, the Budget Agency will delay tuition support payments to local schools, monthly distributions to state supported colleges and universities, and property tax replacement distributions to local units of government. The delay will be used to move not more than the last payment or distribution due in fiscal year 2002 to the beginning of fiscal year 2003. Effectively, 11 payments, instead of 12, will be made in fiscal year 2002 and, when the state's fiscal condition allows, a 13<sup>th</sup> payment will be made in a future fiscal year, bringing the payment schedule back to "normal."

In addition, the Budget Agency will require reversions of \$50 million in each year of the biennium.

The Budget Agency estimates that combined balances, including the tuition reserve account, the Medicaid reserve account, and the Rainy Day Fund will total \$939.3 million at the beginning of the biennium and \$899.4 million at the end of the biennium. However, the payment delays are effectively an "IOU" to schools, universities, and local governments of \$558.8 million, leaving a net combined balance of \$340.6 million (or 3.3% of operating revenue) at the end of fiscal year 2003.

### **Outside Acts**

The General Assembly enacted several measures that will reduce General Fund and Property Tax Replacement Fund revenues over the biennium. The enactment of an investment tax credit will reduce corporate income tax revenues by \$1.5 million in FY 2002 and \$3.0 million in FY 2003. The enactment of a tax credit for producers of re-refined oil will reduce corporate income tax revenues by \$1.0 million in FY 2002 and \$0.8 million in FY 2003. The General Assembly also increased the number of Community Revitalization Enhancement Districts that may be created which will reduce revenues by \$3.3 million in FY 2002 and \$5.7 million in FY 2003.

The General Assembly eliminated the ability for some retail merchants to remit sales and use taxes on a quarterly basis, which will result in a one-time increase in sales tax revenues totaling \$4.3 million in FY 2003.

In addition, the General Assembly appropriated funds for Medicaid coverage of breast and cervical cancer and the implementation of Charter School legislation. They also enacted a cost of living increase for beneficiaries of the Teachers' Retirement Fund.

Respectfully submitted,

Betty Cockrum  
State Budget Director