

**TO GOVERNOR FRANK O'BANNON
AND
THE MEMBERS OF THE INDIANA GENERAL ASSEMBLY:**

The remainder of this Budget Report contains the Budget Agency's submission of its recommendations for appropriations for the biennium including fiscal years 2002 and 2003, along with historical information on the state's appropriations and expenditures.

These recommendations, unlike recommendations in recent biennia, posed a serious challenge. For the first time since the recession of 1990-1991 (and the years immediately following), the State is faced with shrinking, rather than growing, revenue growth expectations. The revenue forecast delivered to the Budget Committee on December 19, 2000 reduced the fiscal year 2001 revenue forecast by over \$250 million. That meant that the first revenue forecast for fiscal years 2002 and 2003 would be more than \$250 million less, each year, than would have otherwise been the case. In other words, the state faced the prospect of budget recommendations and enacting a budget with approximately \$800 million less to appropriate.

At the same time, the State has many long-standing commitments to its citizens, and expectations for increases in programs funded by state general funds are at very high levels. Our most vulnerable citizens – the disabled, the very young, the elderly – are clearly in need of assistance. Governor O'Bannon made K-12 education his highest priority, and it continues to be. We must find a way to honor those commitments.

As required by the conditions in our economy and our Constitution, these recommendations are the result of difficult choices. They are intended to be the best "starting point" available to us, given that changes will be made by the General Assembly as the budget moves from here to enactment. It is not meant to be the ending point, but it does contain our best recommendation in many areas.

It funds our commitment to Medicaid at a level that we believe we can afford, and still provides services to those who rely upon them. It funds our commitment to our citizens' safety, opening two new correctional facilities. It adequately funds the upkeep and maintenance of the state's physical resources and facilities. It prudently uses Tobacco Settlement receipts consistent with Governor O'Bannon's plan to improve Hoosiers' health and well-being. It implements a plan to more effectively assist our disabled citizens by closing outdated and outmoded facilities and building and opening more responsive, closer-to-home regional health care facilities. It includes funding to provide more and better care in the community instead of in institutions. It includes a minimal amount of funding to continue the success we have seen in the first year of the Community College of Indiana. And it maintains basic state services.

It also funds Governor O'Bannon's Education Improvement Plan, the Governor's highest priority. However, it does not adequately fund either the K-12 tuition support formula or Higher Education, generally. Thus, it is imperative that financing alternatives be explored. Therein lies the biggest challenge facing decision makers. The task ahead is daunting, but affords a real opportunity to do the right thing for Indiana's citizenry and future.

As presented below, these recommendations honor many of our commitments, although difficult, and in some cases, unpopular, choices had to be made. I look forward to working with the General Assembly to finish the work we have started with these recommendations.

Betty Cockrum, State Budget Director
22 January 2001

ECONOMIC CLIMATE AND REVENUE PROJECTIONS

Following the 1990-1991 recession, Indiana and the U.S. entered what would become the longest economic expansion in the nation's history. While there is no reason to believe that a recession is imminent, economic growth has slowed. Real U.S. Gross Domestic Product increased by 2.2% in the third quarter of 2000, the slowest growth experienced since the third quarter of 1996. In Indiana, employment growth has slowed with nonfarm payroll employment increasing by 0.6% between the third quarter of 1999 and the third quarter of 2000.

On December 19, 2000, the Revenue Forecast Technical Committee lowered its forecast of General Fund and Property Tax Replacement Fund revenues for FY 2001 by \$252 million. The Committee forecasted revenue growth for FY 2002 and FY 2003 of 4.9% and 5.4% respectively. Between FY 1993 and FY 2000, General Fund and Property Tax Replacement Fund Revenues increased by an average of 6.3% per year.

K-12 EDUCATION

Budget recommendations for K-12 education include Governor O'Bannon's \$130 million education improvement plan. Highlights of that plan include:

- A \$45 million School Readiness Block Grant, beginning in FY 2003.

- Early Reading and Math Readiness Block Grants, funded at \$14 million and \$4 million per year respectively, that target educational resources at critical periods of educational development.
- A Professional Development grant funded at \$30 million per year beginning in FY 2003 that gives school corporations the resources necessary to improve teacher skills and comply with recent education accountability legislation.
- \$4 million to fund 500 Master Teachers that will train other teachers in the latest reading and math instructional techniques.
- A \$1 million Reading and Math reward program that will provide incentive funding to schools that show the greatest improvement in basic skills.
- \$2 million per year to provide take-home reading books to lower-income children.
- \$1 million to retrofit Indiana's Education Service Centers in support of early reading and math instruction.

The budget recommendation for Education also reflects increased costs for special education, the Marion County Desegregation court order, textbook reimbursement, and Advanced Placement testing. Additional funding is provided to pay for the costs of distributing Indiana's new academic standards to all parents and teachers. Funds are also designated for public information activities related to the ISTEP+ Graduation Qualifying Exam.

Tuition Support appropriations increase by 2.5% in FY 2002 and 2.0% in FY 2003.

Appropriations to the Teacher's Retirement Fund reflect increased pension obligations to retired teachers. Sufficient funding is provided to fully meet those obligations.

HIGHER EDUCATION

Total operating funding for public universities is held to current appropriation levels, except for costs associated with the implementation of the Community College of Indiana, including site start-up, enrollment change, and freezing tuition at Ivy Tech State College and Vincennes University. Each university also receives funding equal to the full cost of meeting all current debt service obligations on previously approved capital projects.

The following higher education line items were eliminated: Young Abe Lincoln, Elkhart learning center, Elkhart degree programs, Elkhart Postsecondary alliance, Core 40, and the Institute on Recycling.

The State Student Assistance Commission (SSACI) budget reflects the transfer of funding for the Children of Disabled Veterans' fee remission programs from the university operating budgets, as well as additional funding of approximately \$3 million to meet the full cost of the program.

HUMAN SERVICES

In the area of Human Services, the recommended budget for the Family & Social Services Administration includes increases for community mental health services of \$5.5 million in FY 2002 and \$9.5 million in FY 2003.

The budget for the Division of Disability Aging and Rehabilitative Services is increased by \$2.5 million in FY 2002 and \$2.8 million in FY 2003 to implement the Long Term Care Task Force recommendations. These include increases for adult protective services and adult guardianships and funding for a long-term care ombudsman and new assisted living, adult foster care and adult day service waivers. The recommended budget provides an additional \$14.0 million in FY 2002 and \$30.9 million in FY 2003 from the Tobacco Settlement Fund to the developmentally disabled client services appropriation for increased community placements. It also includes increases of \$3.0 million in FY 2002 and \$3.5 million in FY 2003 for vocational rehabilitation services to draw down available federal funds.

The proposed budget does not include funding for childcare programs as requested by FSSA.

Consistent with current efforts to serve individuals in the least restrictive settings, the budget flat-lines funding for one state hospital and one developmental center for FY 2002 and reduces funding for these institutions by 25% for FY 2003.

Medicaid appropriations are increased by \$74.2 million in FY 2002 and \$83.3 million in FY 2003, respectively. These appropriations support expenditure growth of 8.0% increase for FY 2002 and 7.0% for FY 2003. The budget for the Children's Health Insurance Program, which is funded from the tobacco settlement fund, is increased by 12.0% increase in FY 2002 and 16.7% in FY 2003.

The recommended budget for the Department of Health utilizes tobacco settlement funds to fund new programs, as well as programs currently funded through the General Fund. In FY 2002, \$37.5 million is utilized from the Tobacco Settlement Fund for current and new programs. In FY 2003, a total of \$71.4 million is utilized from the Tobacco Settlement Fund.

PUBLIC SAFETY

Funding for the Department of Correction (DOC) is proposed to increase by 17% in the first year of the biennium. The increases are primarily due to the opening of two new facilities: Miami Phase II and New Castle Correctional Facility. The two new facilities will provide the department with 3,400 additional beds by the end of the biennium. Proposed funding for DOC also includes an increase of \$2.3 million for Community

Corrections for each year of the biennium for the creation of a juvenile technical rule violation center and the addition of five new counties to the program. An additional \$3.5 million each year will support expansion of the Sex Offender Management Program to offer offenders a cognitive behavioral program that allows offenders to begin to take responsibility for victimizing others.

Project Hoosier Safe-T will provide new communications infrastructure for state and local public safety personnel. Recommendations include funding both for the communications backbone and user equipment necessary for the State Police, INDOT and others to access and use the system.

JUSTICE

The Public Defense Fund appropriation, used to reimburse local governments for Public Defender expenses, is increased by \$3.6 million in FY 2002 and \$4.6 million in FY 2003. \$7.2 million in funding is also provided for the Judicial Technology Automation Project, which will help local courts across the state share information.

ENVIRONMENT

The proposed budget for the Department of Natural Resources includes an additional \$7.8 million in year one of the biennium and \$9.2 million in year two to operate the new Indiana State Museum scheduled to open in Spring of 2002. The capital budget also includes 1.9 million for new exhibits.

TRANSPORTATION

The State of Indiana has invested over \$2 billion in the transportation network in the last four years. This has included over 3,000 miles of interstate rehabilitation and non-interstate preservation projects. The proposed budget for the Department of Transportation includes \$650 million per year for the State Highway Construction Program. This figure includes state, federal and bond funds.

The combination of the Bureau of Motor Vehicles Commission (BMVC) and the Bureau of Motor Vehicles (BMV) into one entity is reflected in the BMV's proposed budget. Additional funding of 1.1 million in the first year of the biennium and \$2.9 million in the second year is included for the completion of the IS-21 technology project. This project allows data sharing between several BMV computer systems that will improve the level of service at license branches.

GENERAL GOVERNMENT

The budget includes recommendations of \$87.0 million for the Personal Services and Recruitment and Retention Funds. This is the same level of funding contained in the current biennium. This level of funding will not support increases in the same amount as the current biennium because base salaries are higher and health insurance costs are expected to increase.

This budget includes funding to extend the 10% Homestead Credit by one year. Current legislation returns the rate from 10% to 4% on January 1, 2002. Extending the 10% credit until January 1, 2003 maintains current property tax policy until the effect of the next reassessment is due to occur. The cost is \$124.2 million over the biennium.

This budget includes the establishment of a new property tax appeals board. A modest fee structure is proposed for the State Board of Tax Commissioners to provide funding for services to assist local governments.

CAPITAL

The proposed capital budget provides a 4% increase in funding for preventive maintenance at most state facilities. Full funding of the lease rentals for bonded facilities is included. A new Regional Health Care Construction Account is being proposed for the human services area including a regional health facility implementation plan, a treatment and integrated care center at Logansport, and life safety contingency funding for Larue Carter, Muscatatuck, and Ft. Wayne Hospitals.

The Department of Correction budget includes funding for several repair and rehabilitation projects and some new construction. The new construction includes a multipurpose building at North Central Juvenile Facility, a segregation unit for Pendleton, a new offender visitation area for the State Prison, Wabash Valley Correctional program space, Pen Products food industry warehouse expansion, and Plainfield cottage renovations.

The proposed budget for the Department of Natural Resources includes various repair and rehabilitation projects and funding for dam repairs, drinking water and wastewater projects, development at Prophetstown, Charlestown, and Fort Harrison, inns and cabins projects, and a State Parks centralized reservation system.

Other funding in the capital budget includes, Hoosier SAFE-T (800 Megahertz), State Police National Crime Information Center, Little Calumet River Basin Development Commission state match, INDOT airport development match, Department of Administration ADA compliance, and the State Budget Agency Health and Safety Contingency Fund.

BUILD INDIANA FUND

This budget relies on the Build Indiana Fund to assist the State through the slow down in the nation's economy. The recommendation uses the Build Indiana Fund for the

- funding of a portion of Governor O'Bannon's Education Improvement Plan,
- continued funding of the 21st Century Research and Technology Fund,
- continued funding of the State Revolving Fund for community wastewater and drinking water assistance,
- continued funding (at lower levels than in previous bienniums) of technology grants for libraries, local schools, and the Intelenet Commission, and
- funding of dam repair and maintenance by the Department of Natural Resources.

The recommendation also taps the Build Indiana Fund for \$285.0 million in fiscal year 2002 and \$125.0 million in fiscal year 2003 in order to balance the budget. This "subsidy" should only be necessary for the upcoming biennium and uses accumulated reserves from the Build Indiana Fund. It should not be necessary to fund ongoing General Fund expenditures in future bienniums from the BIF, returning to the more traditional uses. Finally, these recommendations leave a reserve of approximately \$60.0 million in the BIF at the end of the biennium.