July 27, 2012

Dear Colleagues,

Indiana is in an enviable fiscal position – a AAA credit rating (higher than the federal government's), a structurally balanced budget, a record level of reserves, and significantly reduced debt levels – thanks to your efforts. However, threats to the global and national economy persist. Therefore, maintaining Indiana's strong fiscal position will require the continued vigilance and good stewardship of our fellow citizens' dollars that you have consistently demonstrated. 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 using other reckless gimmicks, and by ensuring that Hoosier families and businesses keep as much of their hard earned income as possible through low taxation. These common sense principles have served Indiana well in recent years, and will best position the State for new private sector job growth and investment in the future.

It is imperative that base budgets be fully and timely completed this fall to assist the next Governor and Indiana General Assembly as they debate and adopt a budget in the 2013 legislative session.

Attached, you will find FY 2014 and FY 2015 Budget Instructions for your organization. The general approach to developing and submitting budget requests 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 2013 appropriation level minus the FY 2013 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.
2. This year's submissions will again include your agency's key performance indicators and program metrics with targets and results. These should have been approved by the Government Efficiency and Financial Planning (GEFP) division. 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 limited number of requests for expanded services and/or new programs. These "back page" requests must have Budget Agency approval prior to submission and include possible funding mechanisms to support these requests.
4. The State is currently transitioning budgeting systems from BudSTARS to Hyperion. The new system will provide for a more seamless flow of information into PeopleSoft while retaining many aspects of BudSTARS (e.g., reports, change packages, etc.). For most agencies, you will be submitting information using formatted Excel templates, which the State Budget Agency will then upload into Hyperion. It will be critical for a representative from your agency to attend training in August to ensure a smooth transition to Hyperion. I would also encourage you to get an early start on your budget

submission to avoid issues as we approach the deadline. Please watch for additional guidance from the Budget Agency on this topic.

5. **Your budget must be submitted electronically by Friday, September 28th.**

As you prepare your submissions, I urge you to keep in mind the Governor's direction of operating Indiana state government as efficiently and effectively as possible, striving for continuous improvement.

Sincerely,

Adam M. Horst
Director

Cc: Governor Mitchell E. Daniels

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 2014 and FY 2015. 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 that receive appropriations from the General Assembly and all funds that had activity, or will have activity, in any of the years from FY 2011 through FY 2015.

Your budget must be submitted electronically by Friday, September 28th. A summary of key deadlines can be found in Section X (Budget Submission) on pages 10-11.

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 2014 and FY 2015 budget development process will utilize the Hyperion system, a change from the BudSTARS system used in prior years. Most agencies, however, will be submitting information using formatted Excel templates, which the State Budget Agency will then upload into Hyperion. Your Budget Analyst will be reaching out to agency staff to schedule training on the new submission process in the coming days. However, work on elements of your budget not impacted by the new submission process (Agency Spending Plan, CYE and Base calculations, Agency Overview letter, Performance Metrics information, Fund Narratives, etc.) can and should begin immediately, and in some cases have earlier deadlines as indicated below.

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 in conjunction with your proposed budget. The agency overview will be a Word document that should be electronically submitted to your Budget Analyst separately from loading actual budget data via Hyperion or Excel templates. The purpose of the overview is to summarize the agency's total budget request. It should reflect <u>your plan</u> 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 may 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 members of the General Assembly will use to understand and assess your budget request. It will be posted to the State Budget Agency's website this fall.

Please work with your Budget Analyst to develop this information and submit your Agency Overview to your Budget Analyst by **Friday, September 21st**.

III. CURRENT SERVICES REQUEST

The current services budget has the following components:

A. Historical Expenditures

All expenditures made in FY 2011 and FY 2012 will be provided for you, either directly in Hyperion or in formatted Excel templates. These historical figures have been transferred electronically from the Auditor's records to your budget file. FY 2012 expenditures will be updated to reflect expenditures as of June 30, 2012, 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.

B. Staffing Table Position Control Records

Staffing Table Position Control Records (PCRs) will be loaded into Hyperion from the State Personnel Department's database (PeopleSoft) in early August to reflect the most recent and accurate date available. 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 inactive. A negative dollar adjustment to other personal services to reflect changes in the funding status of a PCR will not be acceptable.

C. Current Year Estimate (CYE) (FY 2013)

You are required to estimate expenditures that will be made in FY 2013 ending June 30, 2013. The CYE cannot exceed your FY 2013 spending plan, which is to be agreed upon with your Budget Analyst no later than **Wednesday, August 8th**. 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 FY 2013 appropriation level minus the FY 2013 reserve. It may be necessary to flag specific PCRs as inactive 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.**

Adjustments to the Base 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 2013 would be another possible example of a necessary base adjustment. For example, a new facility opening March 1, 2013 would have the CYE reflecting the cost of 4 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 2013, 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, SEA 501-2007 (Retiree Medical Benefits Accounts) and Statewide Cost Allocation Plan (SWCAP) expenses must be budgeted for and 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 to discuss and agree upon these figures by **Friday, August 17th**.

E. Request for FY 2014 and FY 2015

Please note: Your total request for FY 2014 (excluding new/expanded services) may not exceed your Base without the prior approval of the Budget Agency.[1] Your total request for FY 2015 (excluding new/expanded services) may not exceed your FY 2014 total request without the prior approval of the Budget Agency.

Your requests for FY 2014 and FY 2015 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 2014 and FY 2015. These requests for reallocations may take place between points within a fund or between funds 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). 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 would be appropriate.

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 rare instances.

> 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. Adequate narrative explanation and justification will be necessary.

[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.

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.[2] 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.

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. It is imperative that programs demonstrate the achievement of important outcomes if they are to continue to receive funding and the budget development process is an opportunity to reaffirm or adjust measures to reflect agency priorities.

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.

Key performance indicators and program performance measures will be compiled through existing data collection tools. This should reduce the time required for agencies to submit their performance metrics. Performance metrics information is due by **Friday, August 31st**. Your GEFP analyst will be contacting your agency to coordinate these specific efforts.

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, these initiatives must be pre-approved by the Budget Agency. The Budget Agency will be contacting you to discuss all proposed 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. Please rank all New Services Change Packages starting with 1 as your highest priority.

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

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 who, 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
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 Friday, September 21st.

> Note: A new Position Control Record (PCR) must be established for any new positions requested due to new programs. 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.[3] 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 2013	Base	FY 2014	FY 2015
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	9.70%	9.70%	9.70%	9.70%
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	22.23%	22.23%	22.23%	22.23%
Full-Time Employees	22.23%	22.23%	22.23%	22.23%
Part-Time Employees	20.35%	20.35%	20.35%	20.35%
Intermittent Employees	7.65%	7.65%	7.65%	7.65%

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

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

Health, Dental, Vision – Single	$5,409	$5,409	$5,409	$5,409
Health, Dental, Vision – Family	$15,533	$15,533	$15,533	$15,533
Health, Dental, Vision – Blended	$11,205	$11,205	$11,205	$11,205
Deferred Comp - State Match	$242	$242	$242	$242

Note: Part-time employees are not eligible for health, dental, vision, life or disability insurance. In addition, Hyperion 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.

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.

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 projects).

VII. FUND NARRATIVES

The Fund Narrative is an overview or summary of each budgeted fund. It is an important part of the budget request for each fund and presents key information that decision-makers use in determining the importance of the budget request. Like the Agency Overview, Fund Narratives should be developed as Word documents and e-mailed to your Budget Analyst by **Friday, September 21st**.

Provide the following information for each Fund:

1) A summary of the program(s) or purpose of the fund
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 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 2013, FY 2014, and FY 2015.

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. These 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 fund budgets (such as from multiple funding sources) must also be recorded.

IX. DEDICATED FUNDS

Programs funded partially with General Fund and other dedicated funds must demonstrate that they are using their dedicated funding sources to the fullest extent while maintaining the integrity of the legal fund. Please contact your Budget Analyst if you have questions regarding your legal fund balances.

X. BUDGET SUBMISSION

Your budget must be electronically submitted by **Friday, September 28th**. An electronic copy of the Agency Overview letter, Fund Narratives, and Performance Metrics information should also have been submitted prior to this date to your Budget Analyst.

<u>Key Deadlines:</u>

August 8th	Establish agreed upon FY 2013 spending plan with your Budget Analyst
August 9th-17th	Agency training on new budget submission process
August 17th	Establish agreed upon CYE and Base with your Budget Analyst

August 31st	Submit "Performance Metrics" information to your GEFP-assigned representative
September 21st	Submit Agency Overview and Fund Narratives to your Budget Analyst
September 28th	Electronic submission of FY 2014 and FY 2015 agency budgets