



# STATE OF INDIANA

Mitchell E. Daniels, Jr.  
Governor

STATE BUDGET AGENCY  
212 State House  
Indianapolis, Indiana 46204-2796  
317/232-5610

Christopher A. Ruhl  
Director

July 7, 2008

Dear Colleagues,

At this time, more than half of all states are projecting budget shortfalls for FY 2009; many others are projecting deficits for FY 2010 and future years. As a result of the fiscal restraint enacted by Governor Daniels in recent years, the State of Indiana recently ended FY 2008 with a budget surplus for the third consecutive year and steps are being taken to ensure FY 2009 also ends with a surplus. That said, it is doubtful that Indiana will remain entirely immune to the national economic slowdown that has occurred in recent months.

Moreover, state revenues will be funding certain costs traditionally funded by a number of local property tax levies as part of the historic property tax reform plan adopted during the 2008 legislative session. While this plan provides Hoosiers with a net tax cut, these additional costs will exert additional fiscal challenges for both FY 2010 and FY 2011.

As a result, the two primary objectives during the upcoming biennium are 1) to continue to produce honestly balanced state budgets through restraint in spending and 2) to prioritize scarce resources to fund property tax relief.

Consequently, agencies should assume that the FY 2010 and FY 2011 budget will have limited, if any, funds for new or expanded programs. Agencies are encouraged to identify programs that can be eliminated or reduced in order to make funds available to be reallocated to higher priority programs, including any specific initiatives of Governor Daniels. It is imperative that programs demonstrate the achievement of important outcomes if they are to continue to receive funding.

Attached you will find FY 2010 and FY 2011 Budget Instructions for your organization. The budget development process this year will require some additional time and attention from your staff, as we continue to migrate towards a performance-informed budget. With limited resources, it is imperative that we make every effort to invest in programs that achieve results and redirect funds away from programs that have failed to do so.

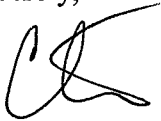
Many of the formats and procedures will be familiar to your staff, but there are some notable exceptions:

1. The "base", as determined in consultation with your budget analyst, will generally be limited to the FY 2009 appropriation level minus the reserve, with an adjustment for statewide salary increases programmed within BudSTARS.
2. This year's submissions will include details on any progress made to date with respect to your improvement plan prepared in response to the PROBE. The submission will also include a discussion of recommendations implemented, or those not implemented (and the reason they have not been implemented). You are being asked to identify programs you are recommending for reduction or outright elimination.

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3. This year's submissions will also 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 and the State Budget Agency will not be considered. This requirement includes requests for new programs in addition to existing programs.
  4. We anticipate some requests for expanded services and/or new programs. Please keep these requests to critical needs. These "back page" requests, which must have Budget Agency approval prior to submission<sup>1</sup>, will be prioritized along with other requests and available funds, which will be limited.
  5. **Your budget must be submitted electronically by September 12<sup>th</sup>.**

As you prepare your submissions, I urge you to keep in mind the Governor's direction of making your organization more responsive and cost-effective. The objective is, as Governor Daniels says, to improve services and lower costs.

Sincerely,



Christopher A. Ruhl

cc: Governor Mitchell E. Daniels

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<sup>1</sup> Approval from the Budget Agency is required 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 2010 and FY 2011. 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 accounts that receive appropriations from the General Assembly and all accounts that had activity, or will have activity, in any of the years from FY 2007 through FY 2011. This year the process will also include a status update on PROBE improvement plans, including both agency and program performance metrics. Please refer to the April 3, 2008 memo from Cris Johnston, Executive Director of GEFP, regarding "Performance Management and Performance-Informed Budgeting" for additional details:

[http://www.in.gov/omb/files/Performance\\_Measurement\\_and\\_Budget\\_Integration\\_04032008.pdf](http://www.in.gov/omb/files/Performance_Measurement_and_Budget_Integration_04032008.pdf)

**Your budget must be submitted electronically by September 12<sup>th</sup>. A summary of key deadlines can be found in Section X (Budget Submission) on page 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 Fund Balance Statements.

Note: The FY 2010 and FY 2011 budget development process will utilize the BudSTARS system consistent with recent years. In addition, all agencies will utilize the same chart of accounts (funds/centers/objects) as have been used in recent biennia. The conversion of this information into the new chart of accounts as part of the ENCOMPASS project will occur following the budget submission process.

**An updated BudSTARS User Manual can be found on the Budget Agency intranet site at: [http://www.sba.state.in.us/budget1011/Budstars\\_User\\_Manual\\_V6.pdf](http://www.sba.state.in.us/budget1011/Budstars_User_Manual_V6.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 the Budget. Due to constraints within the BudSTARS budgeting program, the agency overview should be electronically submitted separate of 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 appreciate your budget request.

Please work with your Budget Analyst to develop this information and submit your Agency Overview to your Budget Analyst by August 29<sup>th</sup>.

Note: When you submit your final budget electronically, please email a copy of your Agency Overview to your budget analyst. However, 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 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 2007 and FY 2008 are provided for you in BudSTARS. These historical figures have been transferred electronically from the Auditor's records to your budget file. The FY 2008 expenditures were loaded as of June 30, 2008, and will be updated in a few weeks after the state's books have been closed. 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 Records

Staffing Table Position Control Records (PCRs) have been loaded into BudSTARS from the State Personnel Department's database (PeopleSoft) as of June 30, 2008. 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 2009)

You are required to estimate expenditures that will be made in FY 2009 ending June 30, 2009. The CYE cannot exceed your FY 2009 spending plan, which is to be agreed upon with your Budget Analyst no later than August 1<sup>st</sup>. Any exceptions to this will need to be discussed with your Budget Analyst prior to budget submission. **State 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 2009 Spending Plan which includes agreed upon reserves) adjusted for statewide salary increases programmed within BudSTARS. It may be necessary to unfund and not include specific PCRs to avoid exceeding the base limitation. It may be necessary to restrict an agency's base to something below the CYE based on statewide priorities. **State Budget Agency analysts will work with each agency to appropriately calculate the agency's base.**

Base adjustments will be very rare, although the State 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 2009 would be another possible example of a necessary base adjustment. For example, a new facility opening December 1, 2008 would have the CYE reflecting the cost of 7 months of operation and the Base would reflect 12 months of operation. Your Budget Analyst will help you if you think you have a condition that warrants an adjustment.

Overtime expenditures 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 1<sup>st</sup> 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 object.

#### **E. Request for FY 2010 and FY 2011**

**Please note: your total request for FY 2010 (excluding new/expanded services) may not exceed your Base without the prior approval of the State Budget Agency.<sup>2</sup> Your total request for FY 2011 (excluding new/expanded services) may not exceed your FY 2010 total request without the prior approval of the State Budget Agency.**

Your requests for FY 2010 and FY 2011 may not include a change in, or an adjustment from, the Base for general inflation or any other price increase.

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<sup>2</sup> Approval must be granted in writing from the Budget Director.

## 1. Reallocation

Agencies that are planning to reduce or redirect agency resources from those budgeted in the Base may reallocate, in their budget requests for FY 2010 and FY 2011, the savings generated by those changes to other initiatives and objectives. These reallocations may take place between points within a fund/center or between fund/centers within a 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 between Other Operating Points, from Other Operating to Point 1, or from Point 1 to Other Operating, then creating a separate Current Services Change Package would be appropriate. See Chapter 3, Step 4 in the *BudSTARS User Manual* for assistance in creating Change Packages.

## 2. Personal Services (Point 1)

Savings achieved through efficiencies may also 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 Point 1 (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 STATE BUDGET AGENCY.**

## IV. PROBE UPDATE AND PERFORMANCE METRICS

During FY 2008 and FY 2009 budget development, agencies were required to respond to the PROBE documents completed by GEFP. These responses were to include a program improvement plan to address weaknesses identified by the PROBE. Since then, GEFP has released two reports on the PROBE, both of which included statutory, organizational, and operational recommendations:

December 5, 2006: <http://www.in.gov/omb/files/2006PROBEReport-Full.pdf>

June 7, 2007: <http://www.in.gov/omb/files/PROBESupplementalReport.pdf>

Agencies are required to submit the following information electronically to their respective Budget Analyst and GEFP-assigned representative separate from the BudSTARS submission by August 29<sup>th</sup>:

1. details on progress made to date with respect to the program improvement plans,
2. a discussion of recommendations that have been implemented,
3. a discussion of recommendations that have not been implemented, including the reason(s) they have not been implemented,
4. identification of any program(s) being recommended for reduction or elimination, and
5. a list of program metrics with associated targets and results (approved by GEFP and the Budget Agency).

The GEFP division will work with your agency to identify your programs, and how to link program measures to your respective fund/centers.<sup>3</sup> Budget requests for programs that do not have metrics approved by GEFP and the State Budget Agency will not be considered. This requirement includes requests for new programs in addition to existing programs.

**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.**

For the first time, the State of Indiana is utilizing aspects of the performance-budgeting capabilities of BudSTARS. Agencies are required to submit at least one program measure, referred to as a "Performance Indicator" in BudSTARS, for each enabled Reporting Level associated with a fund/center. BudSTARS requires each Performance Indicator to be given an identifying "Code". Please enter "100" for your first Performance Indicator, and then proceed to "101" and so on as needed. The actual Performance Indicator(s) will be associated with a "Performance Objective," which can be thought of as the mission or goal of the program. Please note that the Performance Objectives and Performance Indicators will appear on all budget-related reports shared with the Indiana General Assembly. Please see Chapter 3, Step 8 in the *BudSTARS User Manual* for assistance.

## **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.**

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



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 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 and the Budget Agency),
7. a timetable for reporting success, and
8. for requests to expand services, results of outcome-based performance measures approved by GEFP and the Budget Agency 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.

**As mentioned previously, the information above should also be included in your Agency Overview to be submitted by August 29<sup>th</sup>.**

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.<sup>4</sup> Fringe benefit amounts will be calculated automatically for you. Requests for new positions will be closely scrutinized.

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<sup>4</sup> Please work directly with your budget analyst if you have questions about what level to fund new positions classified as Executive Broadband.

For your information the Fringe Benefits are calculated as follows:

	FY 2009	Base	FY 2010	FY 2011
The following are calculated as a percentage of salary:				
Life Insurance	0.31%	0.31%	0.31%	0.31%
Social Security	7.65%	7.65%	7.65%	7.65%
PERF-State Share	6.30%	6.30%	6.30%	6.30%
PERF-Employee Share Paid by State	3.00%	3.00%	3.00%	3.00%
Disability Insurance	2.28%	2.28%	2.28%	2.28%
<b>Total % of Payroll</b>	<b>19.54%</b>	<b>19.54%</b>	<b>19.54%</b>	<b>19.54%</b>
Full-Time Employees	19.54%	19.54%	19.54%	19.54%
Part-Time Employees	16.95%	16.95%	16.95%	16.95%
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	\$4,743	\$4,743	\$4,743	\$4,743
Health, Dental, Vision - Family	\$12,991	\$12,991	\$12,991	\$12,991
Health, Dental, Vision - Blended	\$9,520	\$9,520	\$9,520	\$9,520
Deferred Comp - State Match	\$273	\$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 PCR's. See Chapter 3, Step 2 in the *BudSTARS User Manual* for assistance.

## 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 is known to decrease in the current or future biennia. Specific figures for future biennia should be provided if available.

Note: Be sure to update anticipated budgets for all federal fund/centers.

## **VII. ACCOUNT NARRATIVES**

The Account Narrative is a budget overview or summary of each budgeted fund/center. It is an important part of the budget request for each 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/center in the narrative component of BudSTARS, provide the following information:

- 1) a summary of the program(s) or purpose of the 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 and the Budget Agency),
- 5) major changes in the scope of the program(s),
- 6) new initiatives, and
- 7) other relevant information.

## **VIII. REVENUE ESTIMATES**

It is important that agencies provide revenue estimates in BudSTARS for the next biennium before the budget request is submitted. Agencies that collect fees that are deposited in the General Fund must provide a revenue estimate for FY 2009, FY 2010, and FY 2011. The *BudSTARS User Manual* Chapter 3, Step 6 provides the necessary instruction on entering this information in the agency budget request.

Agencies are also required to provide revenue estimates for each of their dedicated funds. Revenue estimates must include fee revenue, as well as federal and general fund receipts and interest earned. The accuracy of these estimates is important to the completion of the fund balance report that is required and described in the next section. Please contact your Budget Analyst if you need assistance with these revenue estimates.

## **IX. FUND BALANCE STATEMENTS**

All programs with dedicated funding must ensure that the fund balance report in BudSTARS is accurate and balances to the State Auditor's records. Please note that this calculation has changed recently. In particular, only reverting (control-3) fund/centers are included in the fund balance calculation. Programs funded partially with State 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 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:** Fund Balance Statements reflect the revenue and expenditures of all centers within the fund. This may include fund/centers that are budgeted by other agencies.

## **X. BUDGET SUBMISSION**

Your budget must be electronically submitted by September 12<sup>th</sup>. You must also submit by August 29<sup>th</sup> one electronic copy of the agency overview letter as well as the “PROBE Update and 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:**

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|----------------------------------|---|
| <b>August 1<sup>st</sup></b>     | Establish agreed upon FY 2009 spending plan, CYE, and Base with your Budget Analyst                               |
| <b>August 29<sup>th</sup></b>    | Submit Agency Overview to your Budget Analyst   |
| <b>August 29<sup>th</sup></b>    | Submit “PROBE Update and Performance Metrics” information to your Budget Analyst and GEFP-assigned representative |
| <b>September 12<sup>th</sup></b> | Submit FY 2010 and FY 2011 Agency Budget in BudSTARS  |