

As required by Indiana Code 4-12-1-12(a), the State Budget Agency hereby transmits to Governor Mitchell E. Daniels, Auditor of the State Tim Berry, and the Indiana General Assembly the following report on the appropriations made during the 2007 regular session of the Indiana General Assembly.

## **Summary**

This budget is structurally balanced with annual revenues exceeding annual expenditures in both FY 2008 and FY 2009. The projected annual structural surpluses continue the trend of the last biennium—back to back annual surpluses in FY 2006 and FY 2007 after eight years of substantial and recurring budget deficits. Combined balances continue to trend higher and the payment delays to local units and universities are fully repaid. The FY 2008 and FY 2009 budget provides significant new funding for K-12 Education (including full-day kindergarten), Economic Development, Health and Human Services (including 5% growth in Medicaid and a comprehensive health insurance program for the uninsured), and Transportation (including \$1 billion in funding from Major Moves for highway construction and renovation).

## **Appropriations**

The total General Fund and Property Tax Replacement Fund appropriations made by the 2007 regular session of the Indiana General Assembly are \$13.0 billion for FY 2008 and \$13.4 billion for FY 2009. The annual rate of growth in appropriations is 4.6% (FY 2008 over FY 2007) and 3.4% (FY 2009 over FY 2008). Total appropriations from all sources of funds (state general fund, dedicated funds, and federal funds) are \$24.7 billion for FY 2008 and \$25.3 billion for FY 2009.

## **K-12 Education**

Funding for elementary and secondary education comprises the largest component of Indiana's state budget. The General Assembly appropriated \$3.89 billion for FY 2008 (an increase of 2% over the FY 2007 appropriation) and \$4.04 billion for FY 2009 (an increase of 4% over the FY 2008 appropriation) for K-12 tuition support. Two notable changes have been made to the school formula: (1) the complexity index was simplified from 5 factors to 1 (percent of students on free/reduced price lunch), and (2) the adjusted average daily membership (ADM) calculation was modified to provide 100% funding for new students for growing schools. School corporations were again granted the authority to pay expenditures for utilities and property insurance out of their capital projects funds and to increase their local capital projects fund levy to cover those costs. Appropriations for full-day kindergarten were \$33.5 million in FY 2008 and \$58.5 million in FY 2009. This represents a dramatic increase over the \$8.5 million in funding for full-day kindergarten in FY 2007. Total appropriations for all K-12 are \$4.85 billion in FY 2008 (an increase of 4.3% over FY 2007) and \$5.08 billion in FY 2009 (an increase of 4.7% over FY 2008).

## **Higher Education**

Total state appropriations for higher education increased \$97.2 million (6.1%) for FY 2008 over the appropriations in FY 2007, and an additional \$89.6 million (5.3%) for FY 2009 over the appropriations for FY 2008. The State Student Assistance Commission (SSACI) received appropriation increases of 10.6% in FY 2008 and an additional 3.1% in FY 2009. This increase will enable SSACI to increase maximum award levels to both independent and public colleges and universities by 7% above the FY 2007 maximums. In addition to the appropriations above, the General Assembly approved \$397 million in state funded bonding authority for new buildings and infrastructure and \$20.4 million in cash for capital projects for the state's public colleges and universities. Together with \$121 million in non-fee replaced bonding, a total of \$538.6 million in public university capital was authorized by the General Assembly in this biennium. The General Assembly provided \$62 million for repair and rehabilitation of existing university buildings and another \$62 million for repair and rehabilitation to repay the remaining higher education payment delay.

## **Other Education**

The budget appropriates \$3.8 million over the biennium to the State Library to provide and manage a variety of statewide services for local libraries. These services, including reference services, statewide delivery services, network librarian services, technology services, and professional development services, will be provided directly by the State Library or by a contractual arrangement with other service providers. The funding for these services is not new funding, but represents existing funding that is redirected to develop the statewide library services programs under the administration of the State Library.

## **Health and Human Services**

In the FY 2008 budget, Health and Human Services received \$2.54 billion in state general fund operating appropriations. In the FY 2009 budget, Health and Human Services was appropriated \$2.55 billion. An additional \$34.2 million was appropriated for capital for the biennium.

Family and Social Services Administration (FSSA) will receive approximately \$2.3 billion of state General Funds in FY 2008 and approximately \$2.33 billion in FY 2009. The FY 2008 increase of \$82.4 million over FY 2007 reflects a 3.8% increase. The increase of \$77.3 million in FY 2009 from the FY 2008 appropriation level reflects an increase of 3.4%.

Of the additional appropriation granted to FSSA, by far, the largest amount went to Medicaid Assistance. The state appropriation for Medicaid Assistance increased by \$73.4 million in FY 2008 from the FY 2007 appropriation. This increase equates to a 5% increase. The FY 2009 appropriation increased 5%, or \$77 million from FY 2008. With historic growth rates for Medicaid exceeding 5%, FSSA will be undertaking several initiatives to contain the growth rate to 5% annually, including the continued expansion of managed care, increasing the efficiency of Medicaid waiver programs, effective management of behavioral management drugs, and capping the allowable growth in proposed nursing home rate increases.

Total non-Medicaid spending for FSSA increased less than 1% in each year of the biennium. The additional appropriations will be used to fund increases in operations at state operated

facilities in the areas of prescription drugs, utilities, and foods. In addition, funds will be utilized to modernize technological infrastructure and enhance staffing in contract compliance. Appropriations from the General Fund to FSSA for capital projects were authorized in the amount of \$19 million over the biennium.

The FY 2008 – FY 2009 budget for the Department of Child Services provides the necessary funding to fulfill the commitment to achieve national standards for case workloads by increasing the number of case managers. The budget reflected a General Fund increase of \$48.3 million in FY 2008 over the FY 2007 appropriation and \$4.9 million increase in FY 2009 over the FY 2008 appropriation. Of this total increase, \$34 million was appropriated in FY 2008 to allow for 400 new caseworkers to be hired by July 1, 2008 in order to further strengthen the state's child protection system. An additional \$4.2 million in FY 2008 and \$1.7 million in FY 2009 was appropriated to fund an anticipated increase in the number of adoptions processed and completed.

In FY 2007, the Indiana State Department of Health (ISDH) received approximately \$56.7 million from the Tobacco Master Settlement Fund. In FY 2008, the amount received will be reduced by \$1.8 million from FY 2007 to an annual appropriation of \$54.9 million. In FY 2009, the appropriation will be reduced by \$8.8 million from FY 2008 to an annual appropriation of \$46.1 million. Funding is being shifted from the Tobacco Master Settlement Fund to the General Fund to ensure that the ISDH will continue to provide valuable public health services such as childhood vaccinations, certification of nursing homes, and programs for other targeted populations. General Fund support of ISDH will be at an appropriation level of \$57.2 million in FY 2008 and \$65.5 million in FY 2009. Operations are being funded at the appropriate levels to maintain the Soldiers' and Sailors' Home and the Indiana Veteran's Home.

Funding for Tobacco Cessation has been increased by approximately \$5.0 million from the FY 2007 appropriation. The Military Family Relief Fund was created and funded with a General Fund Appropriation of \$450,000.

Requests for General Fund capital projects amount to \$3.0 million for ISDH, \$3.6 million for the Indiana Deaf School, \$3.5 million for the Indiana Blind School and \$5.1 million for the Indiana Veteran's Home.

### **General Government**

The budget includes \$9.8 million in additional funds for the Public Defender Commission to reimburse eligible counties for public defense costs during the FY 2008-2009 biennium. The total appropriated for the Commission is \$18.9 million. Additional funds have also been appropriated to the State Court Administration for the Guardian Ad Litem program. The total appropriated for the biennium is \$5.9 million, an increase of \$4.3 million. The program provides matching funds to counties that are required to implement a guardian ad litem and court appointed special advocate program for children who are alleged to be victims of child abuse or neglect. Funding is also provided for additional staffing for the Court of Appeals and the Indiana Judicial Center.

The budget appropriates \$23 million in FY 2008 and \$23 million in FY 2009 to fund the newly created State Retiree Health Plan. This is a defined contribution plan designed to assist

employees and retirees of the legislative, judicial and executive branch with the cost of health insurance.

The budget includes an appropriation of \$90.8 million for the biennium for the state's share of the plan losses of the Indiana Comprehensive Health Insurance Association. The association is the state's health insurance program for high risk individuals.

General Fund appropriations include \$89.0 million over the biennium for the Personal Services/Fringe Benefits Contingency Fund to provide funding for expected increases in health insurance premiums and general salary adjustments.

### **Public Safety**

Over \$1.2 billion was appropriated this biennium for the operation of the Indiana correctional system. This appropriation will provide for the incarceration of approximately 27,000 adult and juvenile offenders in state correctional facilities. The biennium appropriation includes additional funds for community corrections, custodial staff salary increases, additional parole officers, expansion of county jail capacity and an increase in capacity at the New Castle Correctional Facility.

The budget also appropriates a total of approximately \$304 million for the operations of the Indiana State Police, including salary increases for troopers and additional laboratory staff.

The Adjutant General's Office was appropriated \$5.2 million over the biennium for the continued support of a state of the art Urban Training Center at Muscatatuck. The budget also appropriated \$2.4 million during the biennium to establish a Youth Challenge Program that seeks to enhance the education and development of high school dropouts.

### **Conservation and Environment**

\$610 million in general, dedicated and federal funds were appropriated this biennium for environment and conservation programs in Indiana.

### **Transportation**

Over \$5.1 billion in state, dedicated and federal funds were appropriated for transportation, including distributions to local units of government. This is a 45% increase from the FY 2006-2007 biennium, due largely to a \$1 billion appropriation from the Major Moves Construction Fund to fund highway construction and renovation projects.

### **Economic Development**

The budget appropriates \$104.6 million in FY 2008 and \$123.8 million in FY 2009 from the general fund and dedicated funds to Economic Development. This represents an increase of \$8.8 million in FY 2008 over FY 2007 and \$28.8 million in FY 2009 over FY 2008. The general fund appropriation is approximately \$90 million in FY 2008 and \$110 million in FY 2009. This represents a \$41 million increase for FY 2008 over FY 2007. A substantial portion of this increase is due to a shift in funding to the General Fund for the 21st Century Research and Technology Fund from the Tobacco Master Settlement Fund. Funding for the 21st Century

Research and Technology Fund was appropriated at approximately \$70 million for the biennium. The 21st Century Research and Technology Fund plans to increase the allocation of funds set aside for matching federal SBIR/STTR awards to Indiana small companies.

The Indiana Economic Development Corporation (IEDC) was appropriated \$20 million in FY 2009 for the Indiana Life Sciences Fund (\$15 million for Indiana University School of Medicine and \$5 million to Purdue University) for the recruitment and retention of world-class scientists. The \$3 million Indiana High Growth Business Incentive Fund provides the IEDC with a new tool and resources to attract additional investment and jobs to Indiana.

### **Capital and Construction**

The capital budget for the FY 2008-2009 biennium represents a commitment to the preservation of basic infrastructure. The capital budget includes \$45.4 million for preventative maintenance for state facilities, \$156.2 million for repair and rehabilitation projects for state facilities, \$261.4 million for lease rental payments and \$144.5 million for university repair and rehabilitation. Also included are specific line item appropriations: Johnson County land acquisition for \$1.9 million, airport development for \$3.7 million, and public water supply systems for Ripley, Decatur and Jennings counties for \$10 million.

Capital appropriations in the FY 2008-2009 biennium to state supported universities increased by 138% from the FY 2006-2007 biennium. Over the FY 2008-2009 biennium, appropriations totaling \$62.2 million will fully repay the universities for the payment delay, which has been outstanding since FY 2002. The total General Fund contribution for capital appropriations in FY 2008-2009 increased 8.0% from the FY 2006-2007 biennium, and overall capital appropriations in the FY 2008-2009 biennium increased 8.7% from the FY 2006-2007 biennium.

The Department of Correction capital budget includes funding for an education building addition at the Branchville Correctional Facility, a steam distribution center at the Plainfield Correctional Facility, and a central water softener system at the Putnamville Correctional Facility.

The capital budget for the Department of Natural Resources includes funding for drinking water and wastewater projects and dam upgrades at various state parks. Various projects such as the rehabilitation of campgrounds, pools, marinas, and inns at the state parks are included in the department's appropriations.

The capital budget also includes funding for the War Memorials Commission, Indiana State Fair, and the Little Calumet River Basin Commission. Funds were appropriated to be used for federal matching grants and for construction of a terminal building at Hulman International Airport. Funding is also included for the construction of two State Police Posts, to be located in Connersville and Terre Haute.

### **Outside Acts**

The Indiana General Assembly enacted several pieces of legislation that impact General Fund and Property Tax Replacement Fund revenues. The most notable revenue measures include Senate Enrolled Act (SEA) 5 which extends the nursing facility quality assessment fee for an additional two years, SEA 480 which increases the income tax deduction from \$2,000 to \$5,000 for military pay, SEA 500 which decreases the vendor allowance on the collection of sales tax,

House Enrolled Act (HEA) 1001 which updates the Indiana tax code to the federal tax code and increases the distribution of state sales tax to public mass transit, HEA 1037 which extends the home energy sales tax exemption, HEA 1678 which increases cigarette taxes to fund health insurance for the uninsured, and HEA 1835 which authorizes electronic gaming devices at horse track facilities to fund property tax relief.

### **Revenues**

The economic and revenue forecasts upon which the FY 2008-2009 budget is based were presented to the State Budget Committee on April 16, 2007. Real Gross Domestic Product is forecasted to increase by 2.6% in FY 2007, 2.5% in FY 2008, and 2.9% in FY 2009. Nominal Indiana nonfarm personal income is forecasted to increase by 4.3% in FY 2007, 4.3% in FY 2008, and 4.6% in FY 2009. General Fund and Property Tax Replacement Fund revenues are forecasted to increase by \$275.4 million or 2.3% in FY 2007, \$481.9 million or 3.9% in FY 2008, and \$559.4 million or 4.4% in FY 2009.

### **Reserve Balances**

The State Budget Agency estimates that Indiana's total combined reserve balance will be \$863 million to begin the FY 2008–2009 biennium. This combined balance includes reserves of approximately \$170 million in the General Fund, \$316 million in tuition reserve, \$34 million in the Medicaid reserve, and \$342 million in rainy day reserves. The estimated combined reserve balance at the end of the FY 2008-2009 biennium is in excess of \$900 million. Each year of the budget projects an annual structural surplus (revenues exceeding expenditures) of \$100 million in FY 2008 and \$222 million in FY 2009. This budget completes the repayment of the payment delays to local units of government and the state's public universities and colleges.

A Combined Statement of Net Actual and Estimated Unappropriated Reserve (the Reserve Statement) follows this cover letter and is intended to reflect the estimated reserve balance at the time the budget passed the General Assembly.

Respectfully submitted,



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State Budget Agency