June 27, 1997

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

- a list of appropriations made during the 1997 Regular Session and the First Special Session of the Indiana General Assembly; and
- a report on how these appropriations will affect the fiscal status and affairs of the State.

REVENUES

The revenue forecast for the 1997-99 biennium projects that revenue growth will be slower than the 4.9% average annual growth for fiscal years 1995-96 and 1996-97. Revenues are expected to grow by 3.4% in both FY 1997-98 and FY 1998-99. This modest growth rate reflects the expectation that the national expansion will continue over the biennium.

The General Assembly enacted several tax reduction measures that will reduce revenues during the biennium. The income tax deduction for dependent children was raised from $1,000 to $1,500 and an earned income tax credit for low income taxpayers was established. We project revenue reduction of $42.3 million in FY 1997-98 and $42.6 million in FY 1998-99.

The exemption from inheritance taxes was increased from a maximum of $10,000 to $100,000 for lineal descendants and ancestors; this will reduce revenues by $14.9 million in FY 1998-99. Indiana tax statutes were amended to conform with all changes made to the Federal income tax code since 1996; this will reduce revenues by $5.5 million in FY 1997-98 and by $11.7 million in FY 1998-99.

EXPENDITURES

<u>Education</u>. For elementary and secondary education, the largest component of the budget, the General Assembly appropriated $3.5 billion for FY 1997-98 and $3.7 billion for FY 1998-99. Total state and local school formula support will increase by $201.3 million (4.8%) in calendar year 1998 and an additional $213.5 million (4.8%) in 1999. In addition, the budget bill included $15 million for alternative schools, $8 million for early intervention programs, $2 million for Tech Prep programs and full funding of free textbooks for all children who are eligible for free school lunches (an additional $8 million). The budget bill also contains $54.2 million in deficiency appropriations for FY 1996-97 for tuition support, Primetime, and special education preschool.

The General Assembly appropriated $100 million for the biennium to reduce future state obligations to the Teachers' Retirement Fund.

Higher Education. Total state appropriations for higher education increased by $72.4 million (6.5%) for FY 1997-98 and by an additional $52.0 million (4.4%) for FY 1998-99. Through increased state appropriations and assumed student fee increases of 3% per year for Indiana residents (4% for non-residents), total higher education expenditures are expected to increase by $128.8 million (7.0%) for FY 1997-98 and an additional $80.1 million (4.0%) for FY 1998-99. The budget includes $48.1 million in one-time funding over the biennium for technology equipment and other one-time improvements. The budget also includes first-time funding of $10.0 million over the biennium for the part time student grant program and first-time funding of $7.9 million over the biennium for repair and renovation of campus infrastructure systems.

The budget appropriates $188.8 million for 26 new state-funded capital projects. Of this amount, $48.0 million is budgeted for cash funded projects. The remaining $140.8 million consists of bonding authority projects.

Economic development. Total state appropriations for economic development decreased by $8.4 million in FY 1997-98 (-10.9%) and increased by $1.4 million in FY 1998-99 (2.0%). This occurred because of a significant $9.3 million decrease for the Department of Commerce in FY 1997-98 (-13.3%). Appropriations for business and tourism promotion increased by $2.0 million for the biennium. Individual Development Accounts, a new program designed to help low-income individuals reach financial self-sufficiency, received $0.7 million in FY 1997-98 and $1.4 million in FY 1998-99.

Health and Human Services. The Health and Human Services budget which includes the Family and Social Services Administration (FSSA), the Indiana Department of Health (ISDH), and the Department of Veterans Affairs received appropriations totaling $4.21 billion for FY 1997-98 and $4.39 billion for FY 1998-99, including $1.60 billion in FY 1997-98 and $1.66 billion in FY 1998-99 from State General Funds. FSSA has been budgeted $3.95 billion for FY 1997-98 and $4.13 billion for FY 1998-99, making it the largest agency in this area of the budget.

The largest component of Health and Human Services, and the FSSA budget, is Medicaid, the joint federal-state program of health care coverage for low income individuals. Total funding of $2.64 billion in FY 1997-98 and $2.79 billion in FY 1998-99 includes $905.7 million and $964.5 million in General Fund appropriations for assistance in FY 1997-98 and FY 1998-99 respectively. This State General Fund Medicaid assistance appropriation is $25.62 million less than the March 25, 1997 Medicaid forecast for FY 1997-98, and $41.43 million less than that forecast for FY 1998-99. The budget continues the transfer of $35 million per year from the Health Care for the Indigent Fund to help finance the non-federal share of the Medicaid program.

In addition to increased funding for Medicaid programs, the FSSA budget includes additional annual funding within the Division of Disabilities, Aging, and Rehabilitative Services for the CHOICE/IN-Home Services Program of $9.4 million, bringing total

CHOICE funding to $37.5 million per year. The budget for FSSA's Division of Family and Children reflects federal welfare reform and implementation of the Temporary Assistance to Needy Families block grant. This grant replaces the Aid to Families with Dependent Children entitlement. Both the Division of Mental Health and the Division of Disabilities, Aging, and Rehabilitative Services have consolidated budgets for their respective institutions. The budgets reflect a shift of $19 million and $4.2 million respectively from the institutions to community based services over the biennium.

The ISDH and Special Institutions budget includes total funding of $241.0 million in FY 1997-98 and $242.0 million in FY 1998-99, including General Funds of $99.0 million and $100.2 million, respectively. The ISDH budget reflects increases for the Minority Health Initiative and Project RESPECT through resource reallocation. The budget also includes new appropriations for HIV/AIDS services, the newborn screening program, testing for drug afflicted babies, and $10 million for operating, capital, and start-up funding grants for non-profit, community based primary health care centers.

The Department of Veterans Affairs budget totals $582,793 in FY 1997-98 and $683,424 in FY 1998-99, which includes $236,976 over the biennium to provide operations funding for the new state veterans' cemetery to be constructed at Madison State Hospital. An additional $1.5 million was appropriated for the cemetery construction.

<u>General Government</u>. The total state appropriations for General Government for FY 1997-98 are $401.7 million and $409.5 for FY 1998-99. The budget bill includes $61 million for the Personal Services Contingency Fund to fund salary increases for state employees.

<u>Public Safety</u>. A total of $886.3 million is appropriated for the operations of the state correctional system in the 1997-99 biennium as well as $64.2 million for maintenance and construction expenditures. This will support a prison population that has grown 8.5%. Bonding authority was granted to develop a new 1,400 bed correctional facility for adult males, and a 350 bed facility for juvenile males.

A total of $241.9 million is appropriated for the operations of the State Police in the 1997-99 biennium and an additional $10.5 million for maintenance and construction expenditures. Included is $7.5 million for the continued development of an 800 megahertz radio system over the northern sections of the state.

<u>Conservation and Environment</u>. A total of $342.8 million is appropriated for the operations of the conservation and environmental programs in the 1997-99 biennium and $89.2 million is appropriated for maintenance and construction expenditures. This is an increase of approximately 9% over the prior biennium. There is an appropriation of $1.7 million in FY 1998-99 for the Department of Environmental Management to construct an additional auto emission testing station. Bonding authority was granted to construct a new State Museum on the grounds of the White River State Park.

Transportation. A total of $1,219.2 million in general and dedicated funds is appropriated for the Department of Transportation in the 1997-99 biennium. The budget bill includes authority to raise Bureau of Motor Vehicle fees to support bonds for the new Crossroads 2000 program. Over the next three to four years bonds in the approximate amount of $350 million will be issued to pay for highway capital improvements.

Capital and Construction. Capital appropriations for projects for the 1997-99 biennium for state agencies represent an increase of $181.6 million over the 1995-97 biennium. This increase is comprised of several "one-time" construction projects including $10 million to establish the NCAA national headquarters in Indianapolis, funding to rehabilitate buildings at the State Fairgrounds, and architect and engineering fees for the design of a 1,200 bed adult male correctional facility. The General Assembly appropriated $5 million dollars for the Indiana Heritage Trust program to purchase and preserve Indiana's valuable natural properties.

Distributions. The budget contains a monthly appropriation from the general fund of $4,166,667 to the Local Road and Street fund to be distributed to local units of government. This will result in counties receiving a total of $50.0 million annually.

The appropriation for the distribution to counties from the Lottery and Gaming Surplus Account will replace the loss of funds resulting from the auto excise tax reduction. The increase is retroactive to January 1, 1996.

BALANCES

Combined state balances (General Fund, Property Tax Replacement Fund, Tuition Reserve, and Rainy Day Fund) are projected to be $1,756.8 million on June 30, 1997, $1,492.9 million on June 30, 1998, and $1,097.9 million on June 30, 1999. These amounts represent 22.1%, 18.3%, and 13%, respectively, of General Fund operating revenue for each of those years. Although this budget "spends down" the surplus over the biennium, it does so by making "one-time" investments that do not require or imply increased spending in future years. In this report, we have included a surplus statement that separates on-going expenditures from one time expenditures.

The surplus will remain above $1 billion, a level consistent with the sound fiscal policies of the State.

The Rainy Day Fund is projected to remain at its statutory cap and the state's economic forecast does not anticipate its use during the next biennium.

OUTSIDE BILLS

Several tax reduction acts will increase expenditures. The 10% property tax Homestead Credit will require expenditures of $48.2 million in FY 1997-98 and $99.7 million in FY 1998-99. Replacing local revenues that will be lost as a result of the increased inheritance tax exemption from inheritance tax for lineal ancestors and descendants will require an expenditure of $1.6 million in FY 1998-99.

The budget act, SEA 6-1997(ss), contains some appropriations related to new or expanded programs that were contained in other legislation. Each of these amounts is reflected in Section C of this report; amounts not reflected in the budget act are included also.

Certain operating appropriations, identified in Section C of this report by account numbers with the first three digits "119", were made on a biennial basis. Most of the Appropriations listed in Section D (construction and rehabilitation) are not limited to a particular year. For convenience of presentation, these multi-year operating and construction and rehabilitation appropriations have been evenly divided between the two fiscal years of the biennium.

In addition to SEA 6-1997(ss), some additional acts became law that affect General or Property Tax Replacement Fund revenues or expenditures. These acts are listed in Section E of this report. *Appropriations in these additional acts are included in Section C of the report.*

On a personal note, I would like to thank Governor O'Bannon and all of the members of the General Assembly for the very hard work that is reflected in this budget. Indiana citizens were particularly well served by the members of the Budget Committee and the House Ways and Means and Senate Finance Committees who were deeply involved for many months in writing a budget that will enable Indiana state government to meet the needs of its citizens.

Respectfully submitted,

Peggy Boehm
State Budget Director