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

Pursuant to IC 4-12-1-9, the State Budget Committee has reviewed the requests for appropriations submitted by state agencies and universities. The State Budget Agency presented a budget recommendation to the Budget Committee on January 9, 2003. No action was taken on these recommendations by the State Budget Committee.

THE STATE'S FISCAL PICTURE

At the end of fiscal year 2002, the annual revenues for the state of Indiana had declined below the previous year's total for two years in a row. The December 18, 2002, forecast for fiscal year 2003 predicts annual revenue for 2003 will grow by only 1.5 percent over the revenue base in place prior to the passage of the tax re-structuring and tax increases resulting from the special session in June, 2002. The forecast for the General Fund (exclusive of the Property Tax Replacement Fund) for the 2003-05 biennium is that actual revenues will increase over the 2003 fiscal year by only $3 M, or 0 percent in 2004; and for 2005, by $300 M, or 4.2 percent.

The tax re-structuring and increases passed in the special session of June, 2002, provide for increased funding going into the Property Tax Replacement Fund (PTRF) to offset the expected increases for homeowners in the on-going reassessment, and to remove approximately 67 percent of the general fund levy for public schools from the property tax. With this legislation, about 85 percent of the total operating costs for schools will be paid by taxes levied by the state and returned to property owners in property tax relief. Almost all of the increases in expenditures projected in the Governor's budget recommendations will be for an increase in the property tax relief appropriation for local schools and units. Of all state tax revenues collected in FY02 and deposited in the GF and PTRF, 13.5 percent was used for property tax relief. With the passage of HEA 1001-2002 (ss) 21 percent will be appropriated for property tax relief in FY04 and in FY05.

This forecast, while showing a very slow and gradual rise out of the present economic crisis, will require very careful management of state's resources. With virtually no additional funds available for increases for the formula for funding public schools, universities, programs administered through state agencies, the budget recommendations represent a flat-lining of expenditures at the already reduced FY03 levels, with additional cuts to categorical grants for public school and in other areas.

The recommendation for the FY03-05 biennium provides for a budget “in the black” on June 30, 2005. This is achieved without tax increases and without major additional cuts for agency and educational operating budgets. However, it is “in the black” because of transfers and leaves only $319.3 M in combined reserves at the end of FY05. The Rainy Day fund will be reduced; the Tuition Reserve will not be used, and will comprise most of the remaining reserves.

INSTRUCTIONS FOR FY04-05 BIENNIUM

State agencies were required to submit budget requests that conformed with the spring 2002 Deficit Management Plan, which called for a 7 percent cut from FY03 appropriations. The agencies also were required to absorb added costs caused by inflation and past health insurance increases that, in normal budget years, would have added 5 percent to 7 percent to each agency’s personnel costs. This resulted in agency cuts or absorption of about 12 percent to 14 percent of their previous budgets.

The Recommended Appropriations for state agencies are nearly $300 M below what they would have been if the FY03 appropriations had been flat-lined.

Reduced General Fund & Property Tax Replacement Fund Appropriations for the FY04-05 Biennium

Function of Government	**Reduced Appropriations for the FY04-05 Biennium**
Family and Social Services Administration	68,475,972
General Government	124,495,338
Other Public Safety	82,039,097
Judiciary	3,708,939
Legislature	2,441,545

These reduced appropriations levels were achieved through cuts and replacement dollars from dedicated funds.

Recommendations:

1) Tuition support appropriations from the General Fund and PTRF have been flat-lined at FY03 levels. The recommendations include $200 M from the securitization of 40 percent of the Tobacco Payments be committed to k-12, with approximately $50 M to fund the FY03 school formula deficit, $50M for technology, and $200 M to help close the Achievement Gap and continued progress towards higher standards.
2) The ADA flat grant and the transportation grants will be cut by 50 percent in the first year and 100 percent in the second to reduce the deficit.
3) Appropriations for higher education are flat-lined at the FY03 levels. The Repair and Rehabilitation formula is funded at 25 percent.
4) Medicaid is funded at the forecast level.
5) Most FSSA programs are flat-lined at FY03 levels. Exceptions include a 2 percent cut in the Division of Family and Children representing a $3.3 M cut, transfer of the IMPACT program to the Department of Workforce Development; closure of a wing or ward at one of the state developmental centers, saving $1.7 M; and closure of a wing or ward at a state hospital (excluding Evansville), saving $1.35 M.
6) To accommodate the expected increases in adult male inmate populations, additional beds will be opened at Miami and New Castle, maintaining the per diem rate per inmate, but increasing costs to the state by approximately $24 M over the biennium.
7) The recommendations permit counties to increase their local levies on a one-time basis to pay the state for their past-due bills for juvenile collections.
8) This proposal uses $190 M per year from the Pension Stabilization Fund to pay current and increased costs in benefits. The $30 M annual payment from the gaming funds will continue.
9) The Personnel Contingency Fund is straight-lined at $89 M.
10) Recommendations for state capital are reduced by $56.6 M from both the General Fund and dedicated funds. This means that, for four years, the state will have performed only emergency preventative maintenance and repairs.