

# STATE OF INDIANA BUDGET REPORT

FOR THE BIENNIUM JULY 1 2003 TO JUNE 30, 2005



SUBMITTED TO

**FRANK O'BANNON**

GOVERNOR  
STATE OF INDIANA

BY THE  
**STATE BUDGET COMMITTEE**



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**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**

<b>Function of Government</b>	<b>Reduced Appropriations for the FY04-05 Biennium</b>
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.

**GENERAL FUND and PROPERTY TAX REPLACEMENT FUND  
COMBINED STATEMENT of ESTIMATED UNAPPROPRIATED RESERVE**  
(Millions of Dollars)

	<u>Estimated FY 2003</u>	<u>Estimated FY 2004</u>	<u>Estimated FY 2005</u>
<b>Resources:</b>			
Working Balance at July 1	0.0	0.1	0.1
<b>Current Year Resources</b>			
Forecast Revenue	9,925.5	10,739.8	11,244.1
DSH	66.3	66.3	66.3
Other Revenue Sources or Transfers In			
Transfer from Lottery and Gaming Surplus Account (BIF)	175.0	113.0	47.0
Transfer from Dedicated Fund Balances	69.7	150.0	29.9
Transfer from Mental Health Fund	66.3	-	-
Increase in Administrative Fees	-	8.8	8.8
Transfer From (To) Rainy Day Fund	46.5	213.9	(31.6)
Total Current Year Resources	<u>10,349.3</u>	<u>11,291.8</u>	<u>11,364.5</u>
<b>Total Resources:</b>	<u>10,349.3</u>	<u>11,291.9</u>	<u>11,364.6</u>
<b>Uses: Appropriations, Expenditures, and Reversions:</b>			
<b>Appropriations</b>			
Budgeted Appropriations	10,497.8	11,323.3	11,552.1
Adjustments to Appropriations	135.0	-	-
HEA 1001 (ss) - 2002	589.4	-	-
Higher Education HEA 1196 - 2002	(29.0)	-	-
K-12 Education HEA 1196 - 2002	(119.1)	-	-
<b>Total Appropriations</b>	<u>11,074.1</u>	<u>11,323.3</u>	<u>11,552.1</u>
<b>Other Expenditures and Transfers</b>			
Judgments and Settlements	55.7	8.0	8.0
<b>Total Appropriations &amp; Expenditures</b>	<u>11,129.8</u>	<u>11,331.3</u>	<u>11,560.1</u>
<b>Payment Delays</b>			
Higher Education Allotment	(2.9)	-	-
Tuition Support Distribution	(18.2)	-	-
Property Tax Replacement Credit	(340.6)	(14.5)	(11.1)
<b>Reversions</b>	<u>(418.9)</u>	<u>(25.0)</u>	<u>(185.4)</u>
<b>Total Net Uses:</b>	<u>10,349.2</u>	<u>11,291.8</u>	<u>11,363.6</u>
Auditor's Adjustment			
<b>General Fund Reserve Balance at June 30</b>	<u>0.1</u>	<u>0.1</u>	<u>1.0</u>
<b>Reserved Balances:</b>			
Tuition Reserve	265.0	265.0	265.0
Rainy Day Fund	228.0	20.9	53.3
Total Combined Balances	<u>493.1</u>	<u>286.0</u>	<u>319.3</u>
Payment Delay Liability	<u>(735.4)</u>	<u>(750.0)</u>	<u>(761.1)</u>
<b>Combined Balance as a Percent of Operating Revenue</b>	4.9%	2.6%	2.8%

Totals may not add due to rounding



**General Fund and Property Tax Replacement Fund  
Appropriation Differences by Functional Category**

<b>Functional Category</b>	<b>Appropriation</b>	<b>Recommendation</b>	<b>Recommendation</b>	<b>Differences from FY 2002-03</b>	
	<b>FY 2002-03</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>
General Government	333,247,970	320,684,327	323,920,200	(12,563,643)	(9,327,770)
Corrections	569,029,425	596,150,000	611,650,000	27,120,575	42,620,575
Other Public Safety	112,262,633	70,282,052	70,282,625	(41,980,581)	(41,980,008) (1)
Conservation and Environment	96,510,356	77,777,525	77,869,944	(18,732,831)	(18,640,412)
Economic Development	72,661,432	47,966,958	47,966,958	(24,694,474)	(24,694,474)
Transportation	1,136,429	465,000	465,000	(671,429)	(671,429)
Mental Health	240,658,657	240,696,230	240,696,230	37,573	37,573
Public Health	112,001,582	103,458,273	103,678,441	(8,543,309)	(8,323,141)
Medicaid	1,248,800,706	1,343,519,812	1,452,319,812	94,719,106	203,519,106
Other Social Services and Veterans	502,687,005	449,103,430	449,103,430	(53,583,575)	(53,583,575)
Higher Education	1,411,089,536	1,398,834,757	1,394,964,700	(12,254,779)	(16,124,836)
Elementary & Secondary Education	3,756,701,317	3,808,829,846	3,774,686,299	52,128,529	17,984,982
Teachers Retirement	472,000,000	305,529,000	346,832,000	(166,471,000)	(125,168,000) (2)
Other Education	12,562,587	11,668,403	11,668,403	(894,184)	(894,184)
PTR and Homestead Credits	1,731,417,761	2,305,500,219	2,414,545,424	574,082,458	683,127,663
Distributions - Gen. Fund	189,477,592	40,811,892	41,111,892	(148,665,700)	(148,365,700) (3)
Operating Subtotals	10,862,244,988	11,121,277,724	11,361,761,358	259,032,736	499,516,370
Higher Education Construction	35,366,183	12,798,219	12,798,218	(22,567,964)	(22,567,965)
Other Construction	176,484,454	189,186,783	177,587,038	12,702,329	1,102,584
Capital Subtotals	211,850,637	201,985,002	190,385,256	(9,865,635)	(21,465,381)
<b>Grand Totals</b>	11,074,095,625	11,323,262,726	11,552,146,614	249,167,101	478,050,989
General Fund Only	7,870,952,260	7,494,697,357	7,614,536,040	(376,254,903)	(256,416,220)

(1) \$35 million of the reductions in the Other Public Safety category represent the use of dedicated funds in lieu of general fund.

(2) The reductions in the Teachers Retirement Fund represent the use of dedicated funds in lieu of general fund. No reductions in current teacher pensions are contemplated.

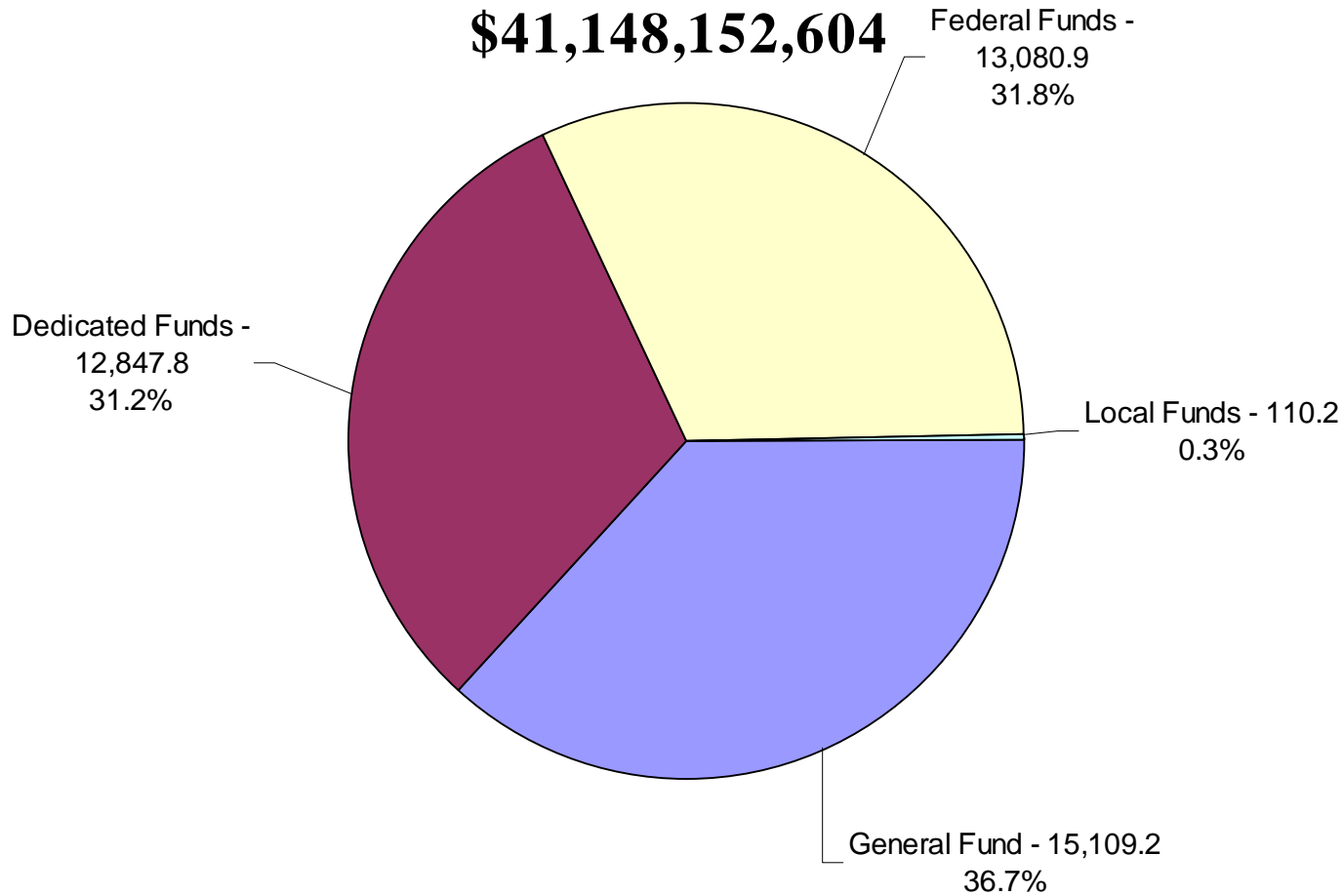
(3) The FY 2002-03 distribution appropriation includes a one-time transfer of \$135 million of general fund to the lottery and gaming surplus account to cover a deficit in the account as required by statute.

# STATE OF INDIANA - RECOMMENDED EXPENDITURES

## 2003-2005 Biennium

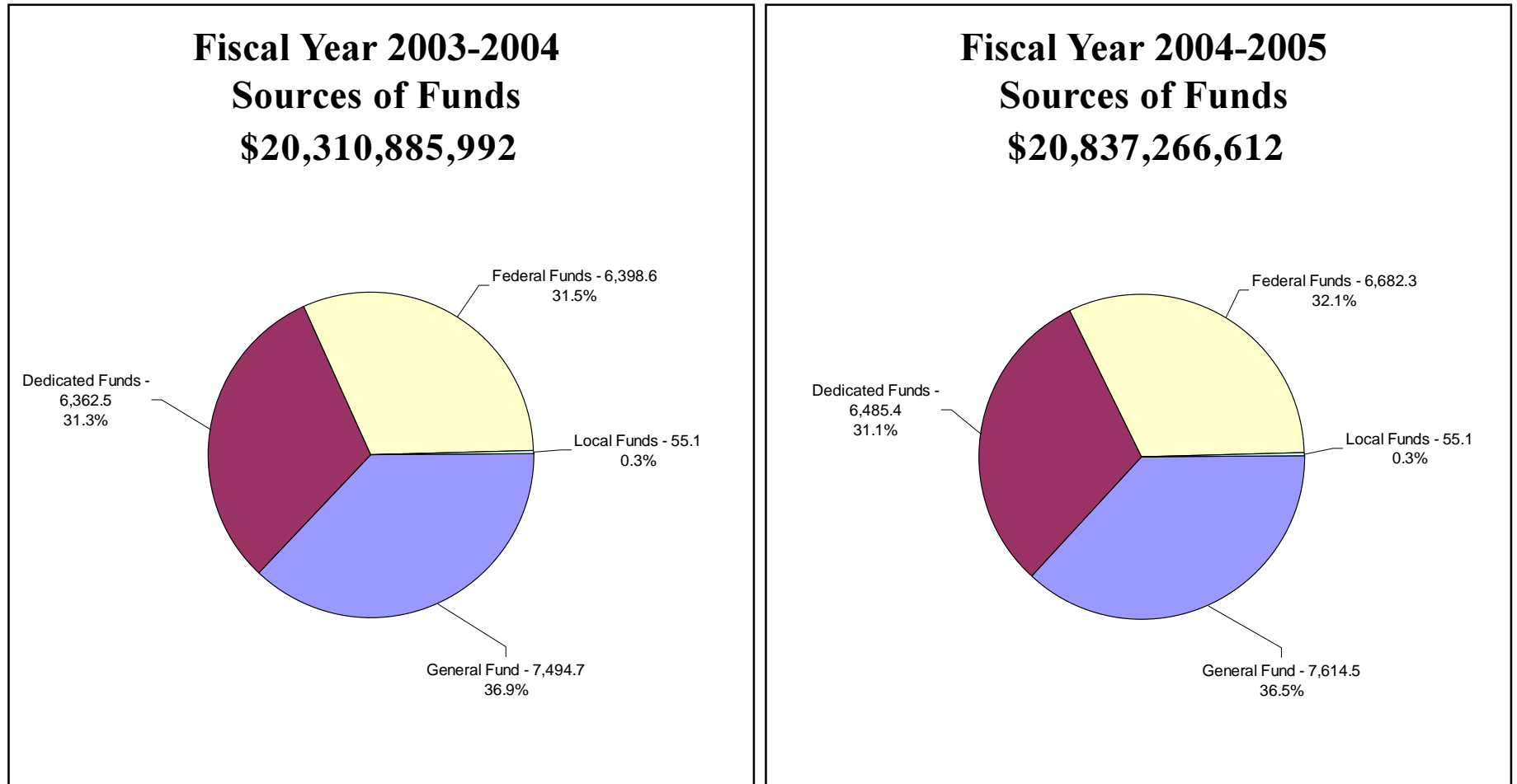
### Sources of Funds

**\$41,148,152,604**



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES

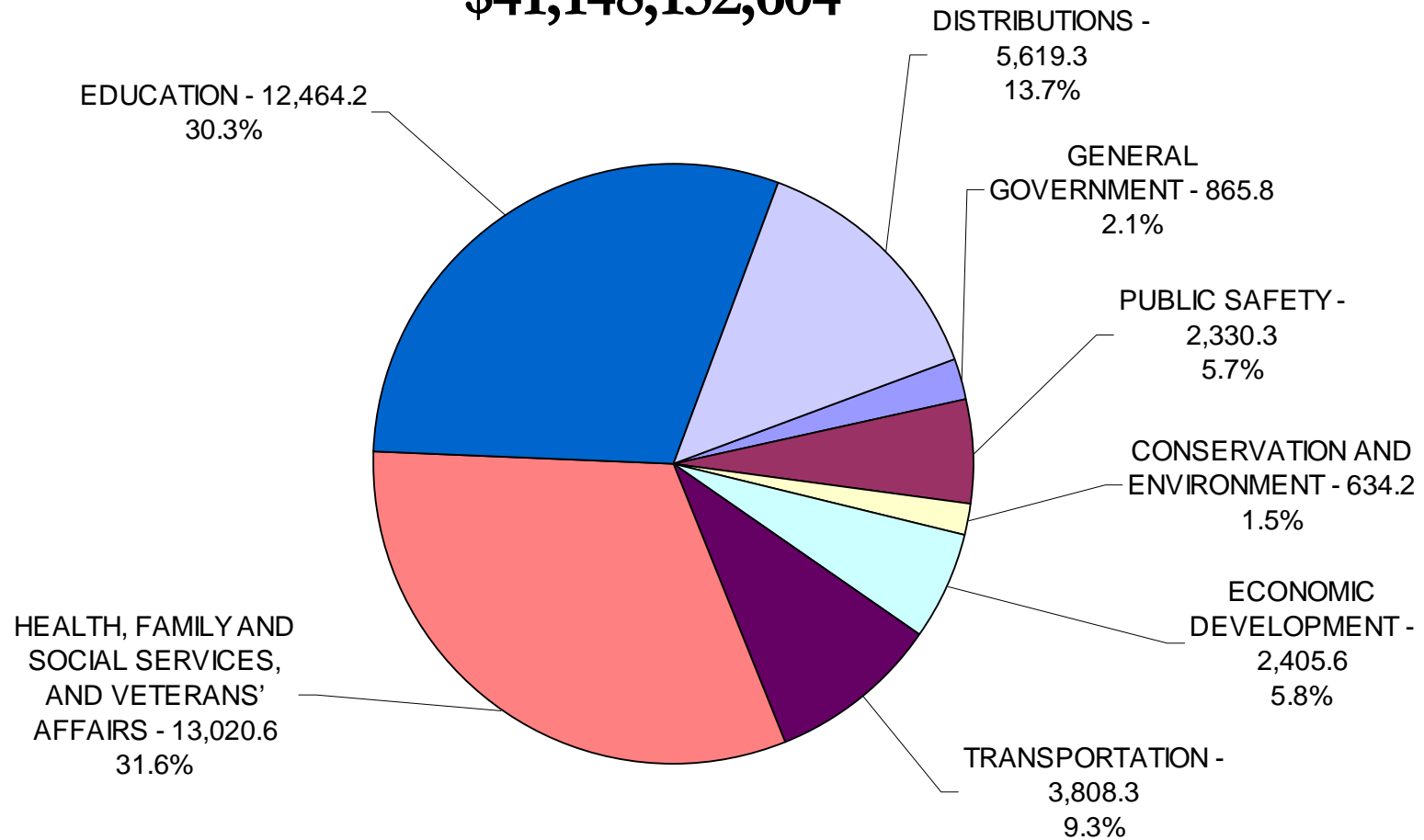


Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES

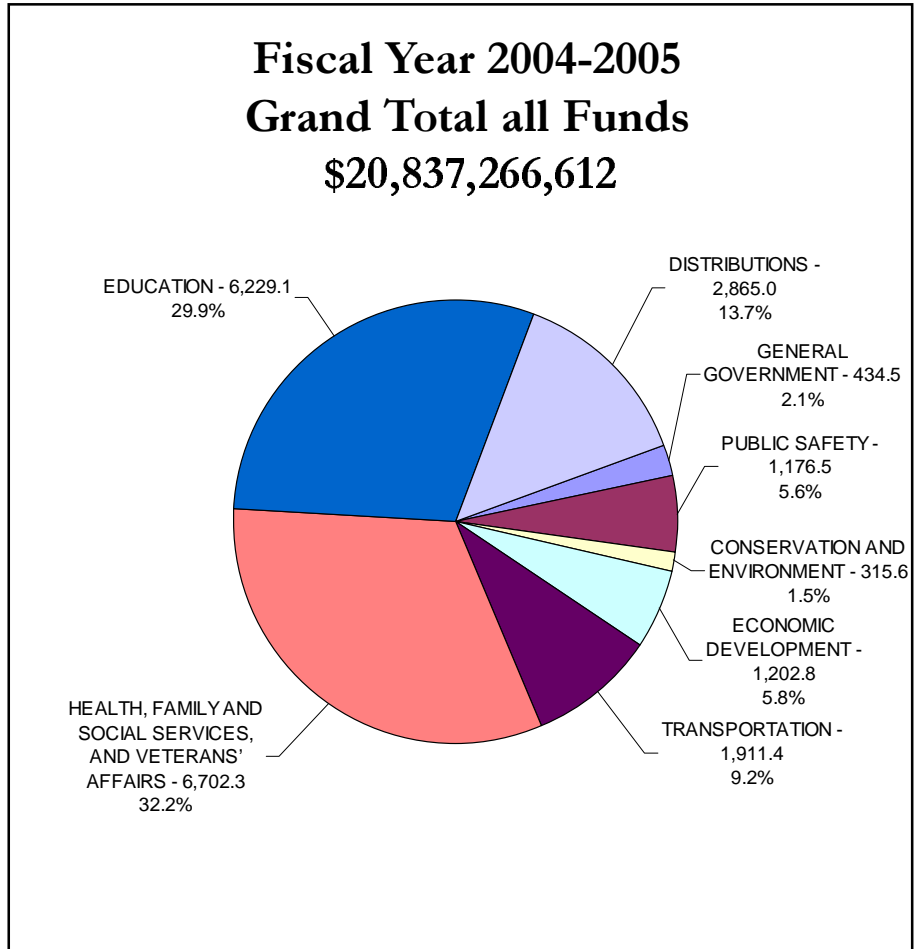
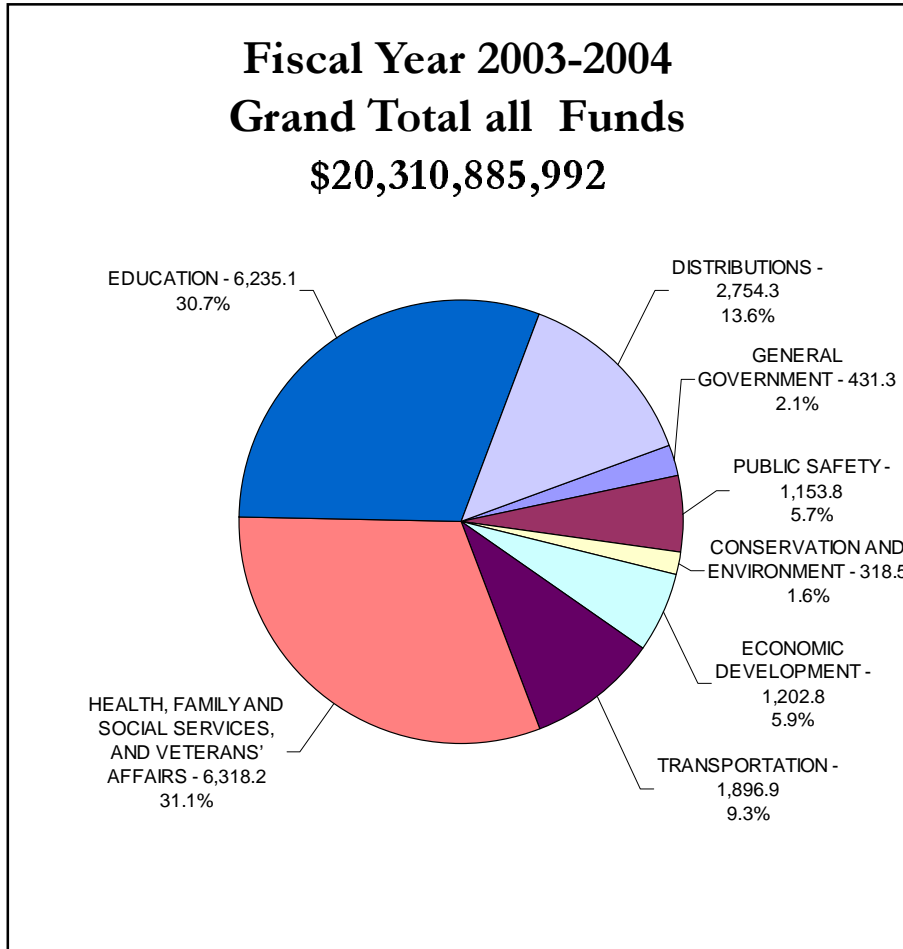
## 2003-2005 Biennium

### Grand Total All Funds \$41,148,152,604



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES



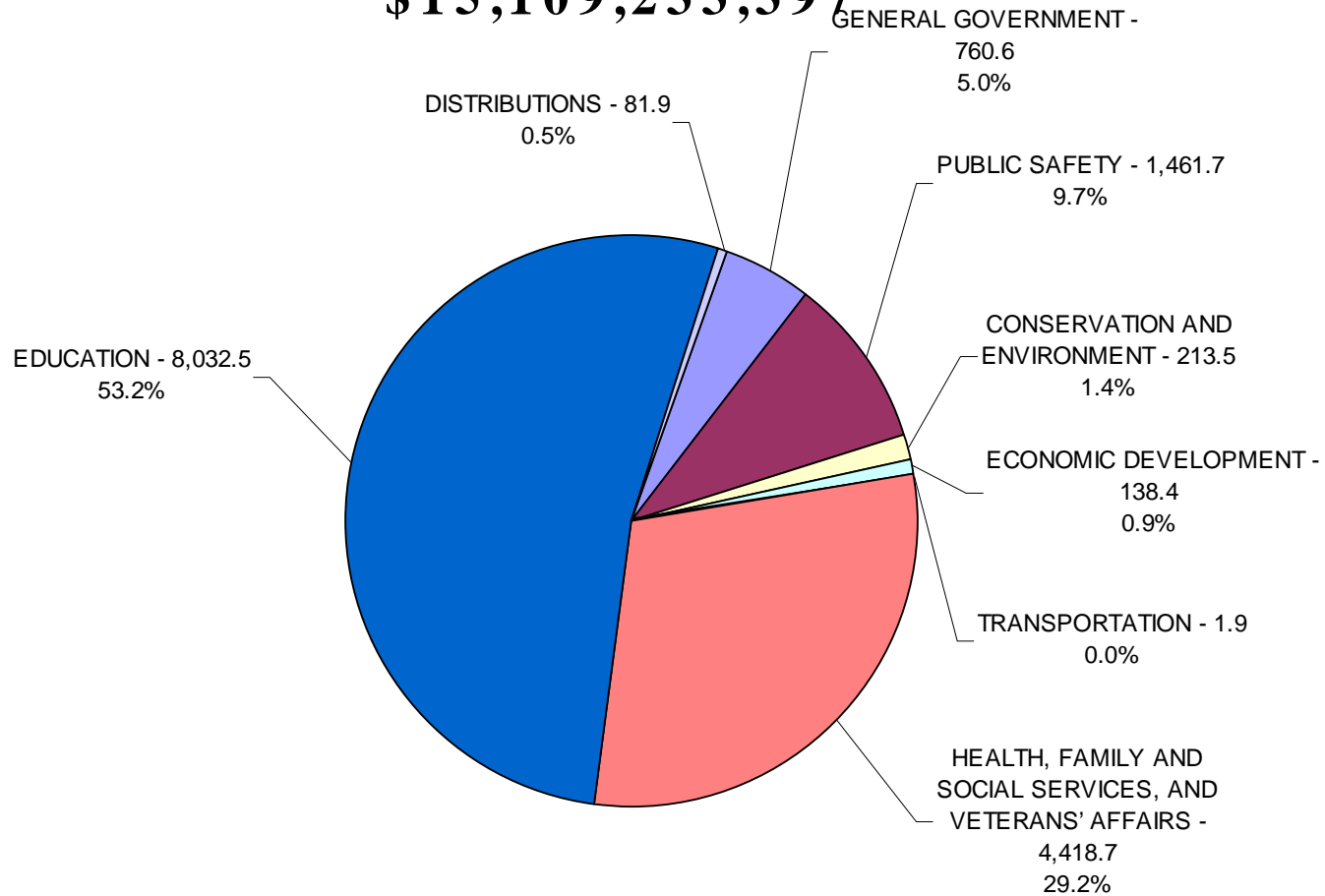
Sector Values in Millions of Dollars  
 Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES

## 2003-2005 Biennium

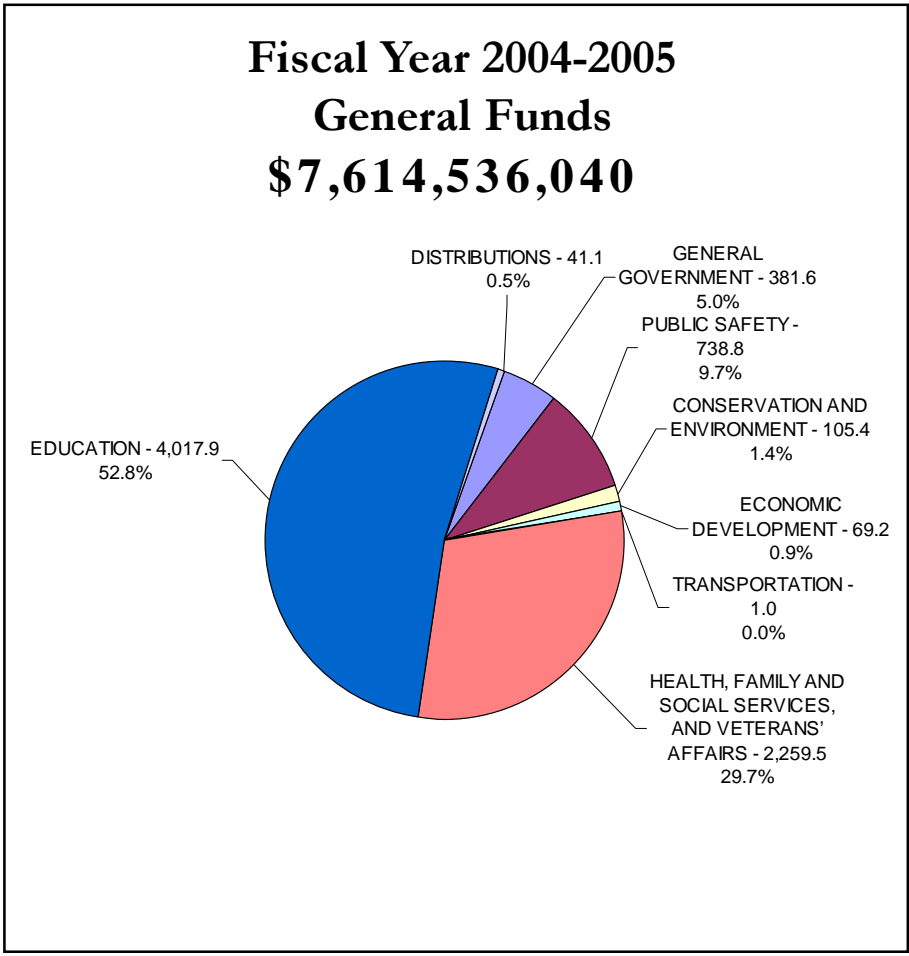
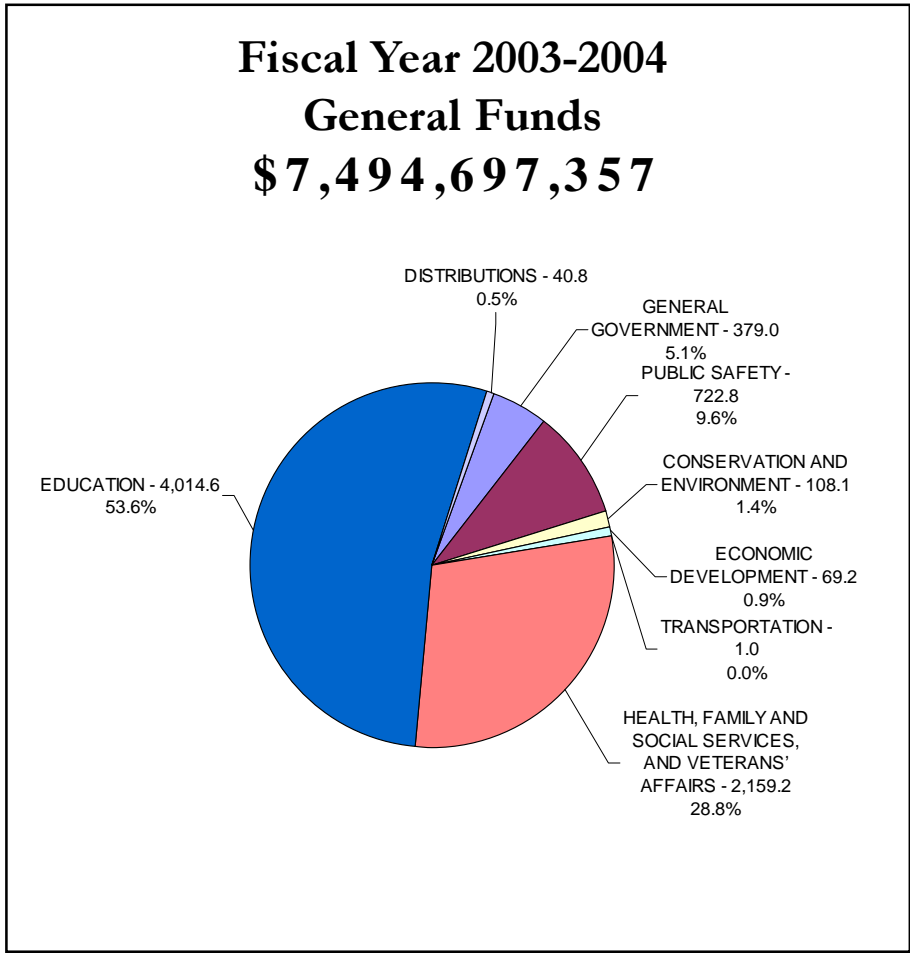
### General Funds

**\$15,109,233,397**



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

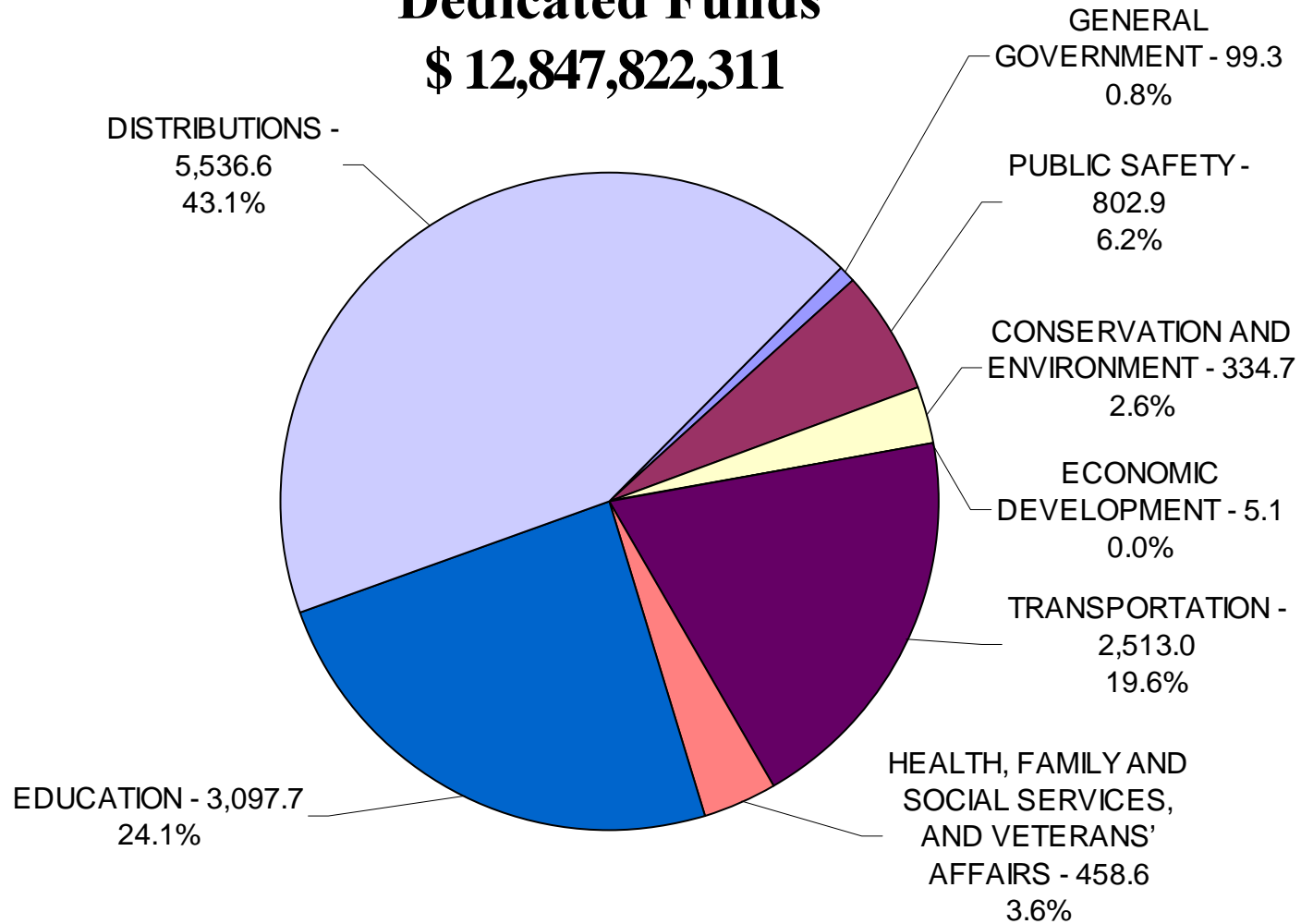
# STATE OF INDIANA - RECOMMENDED EXPENDITURES



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES 2003-2005 Biennium

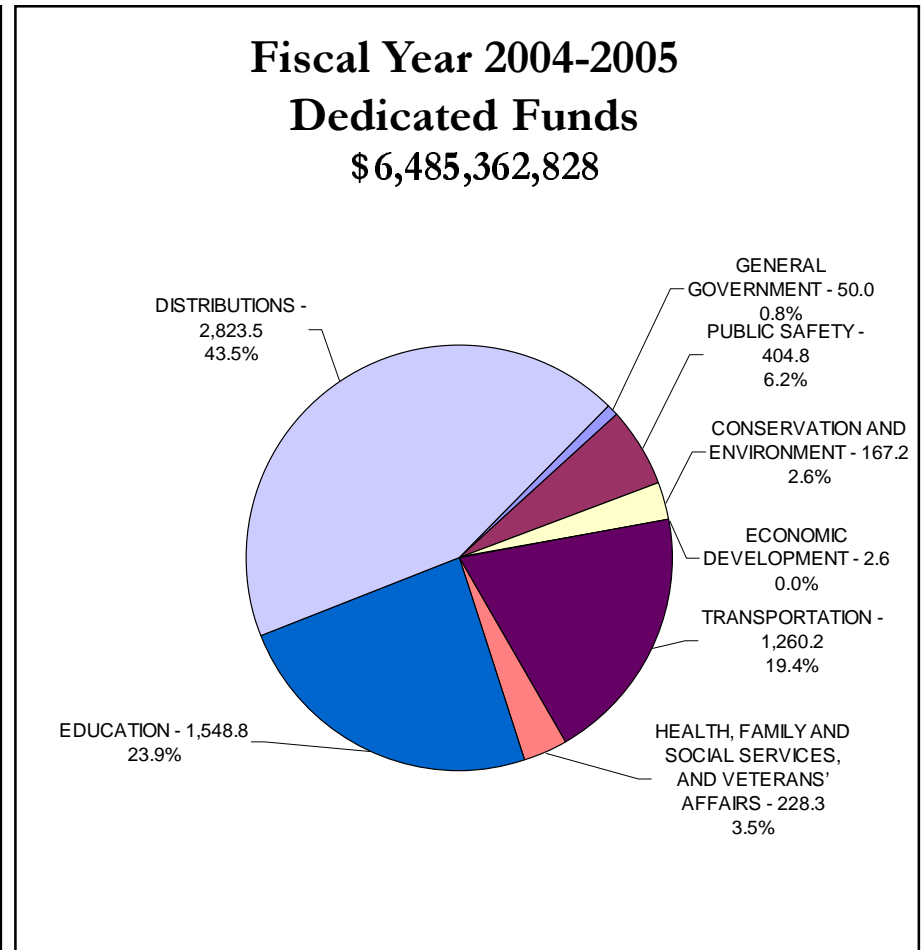
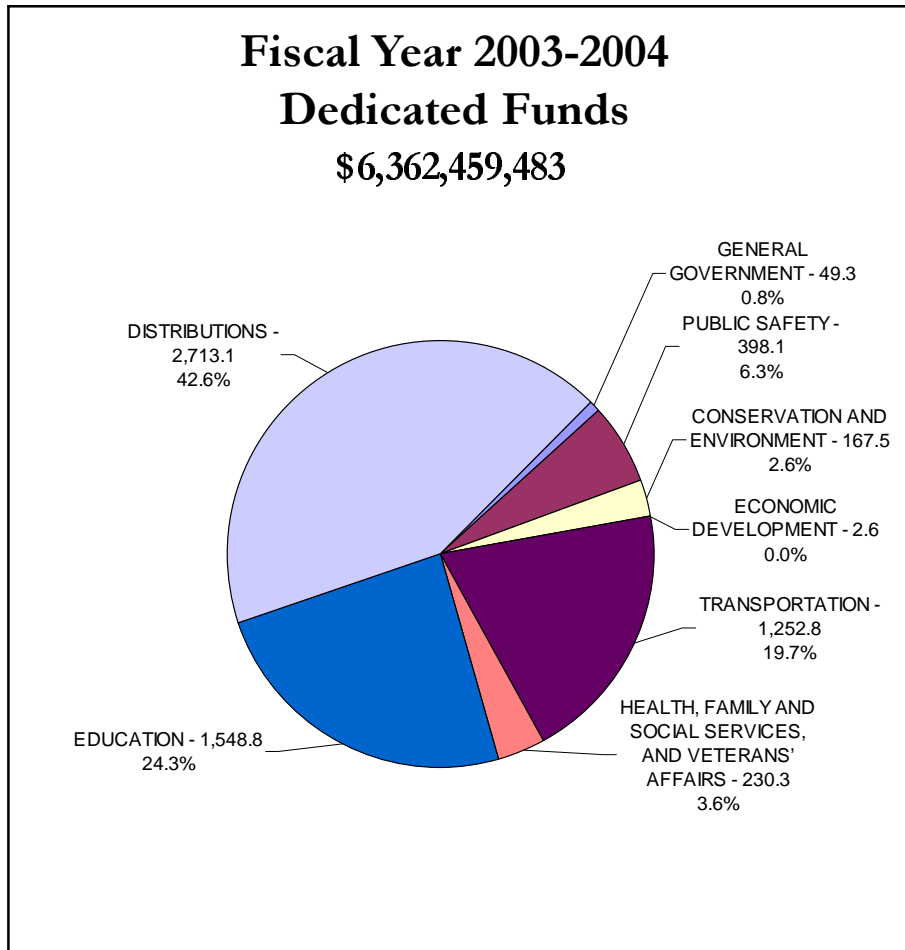
## Dedicated Funds \$ 12,847,822,311



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency



# STATE OF INDIANA - RECOMMENDED EXPENDITURES



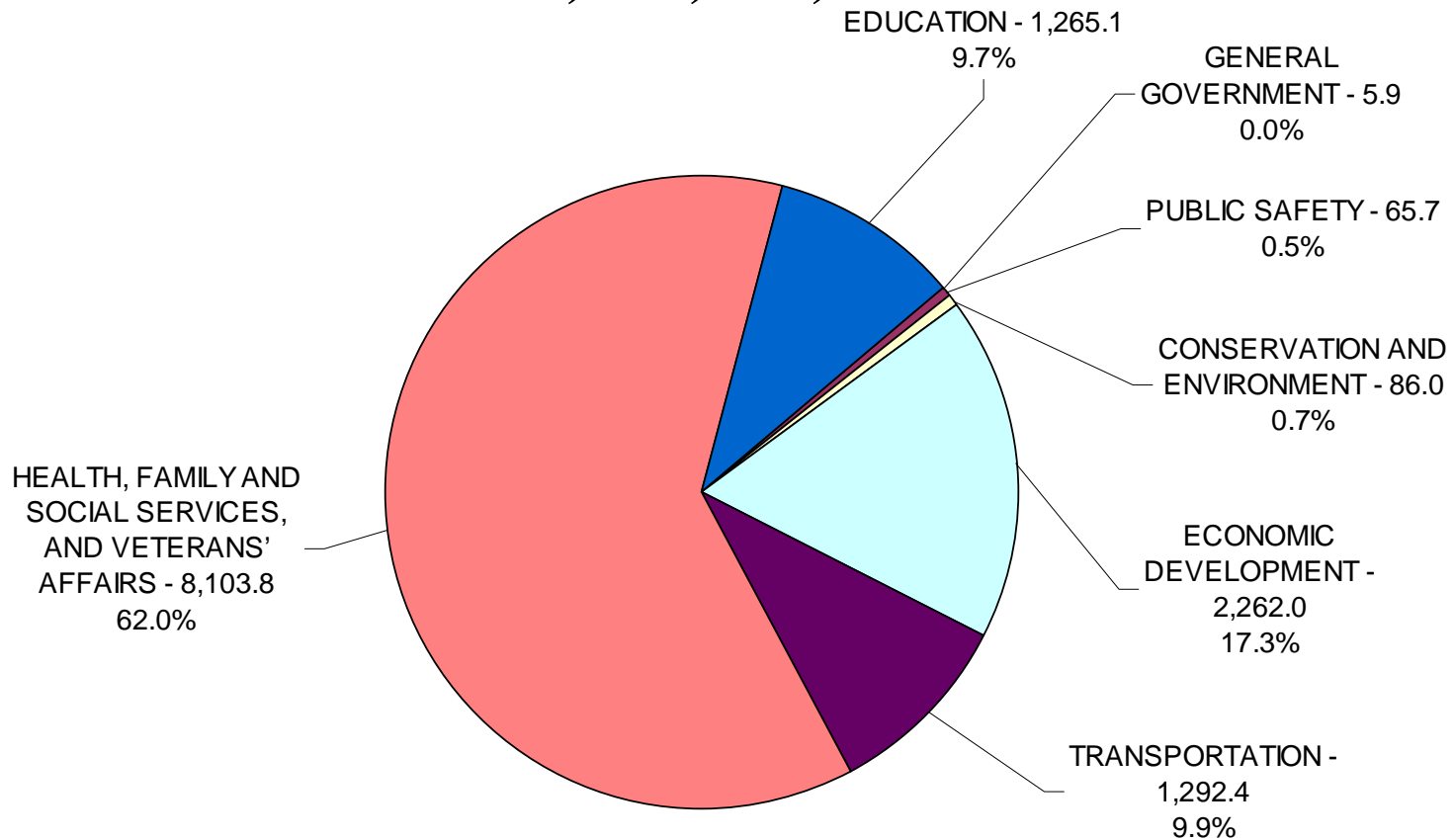
Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES

## 2003-2005 Biennium

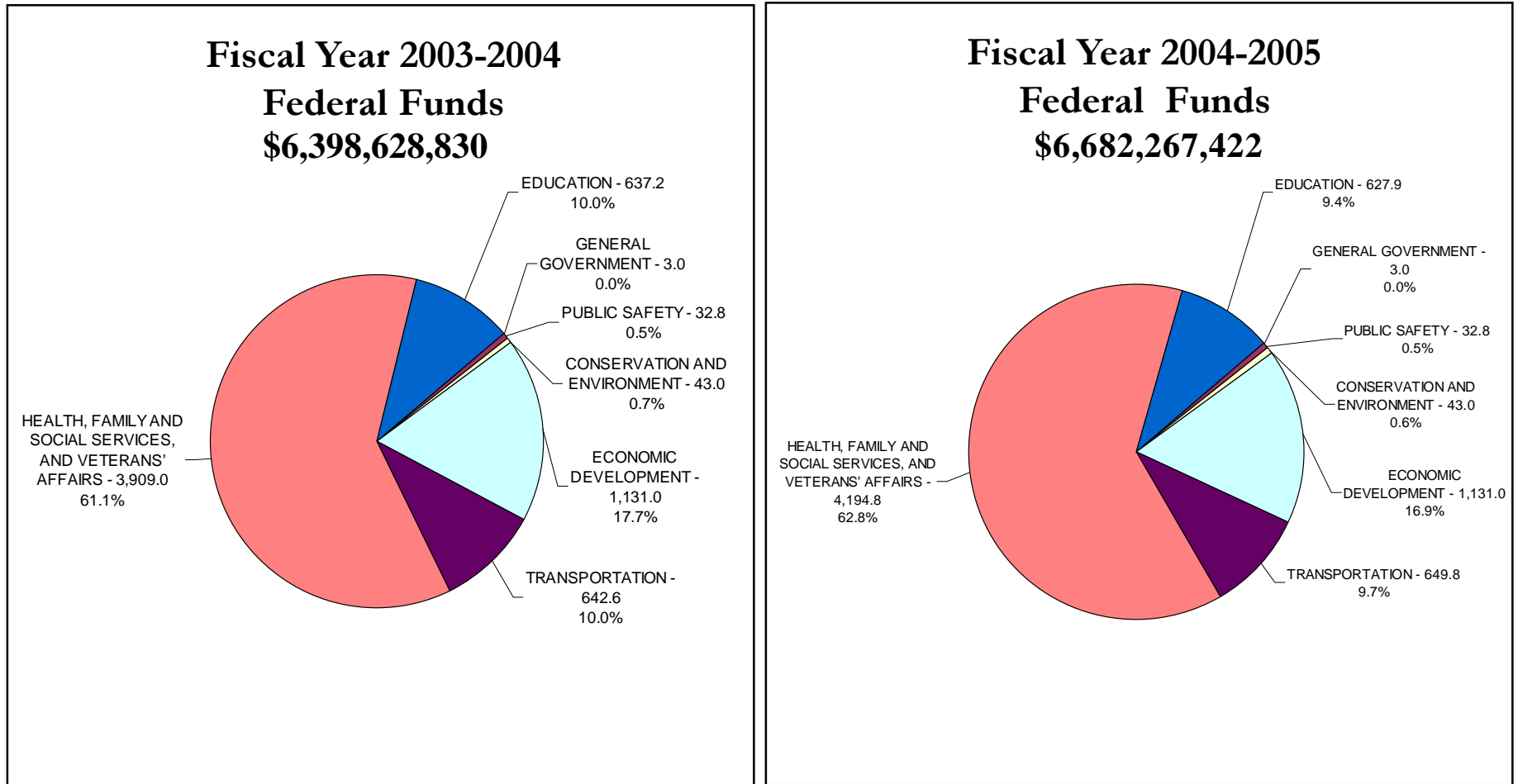
### Federal Funds

### \$13,080,896,252



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES



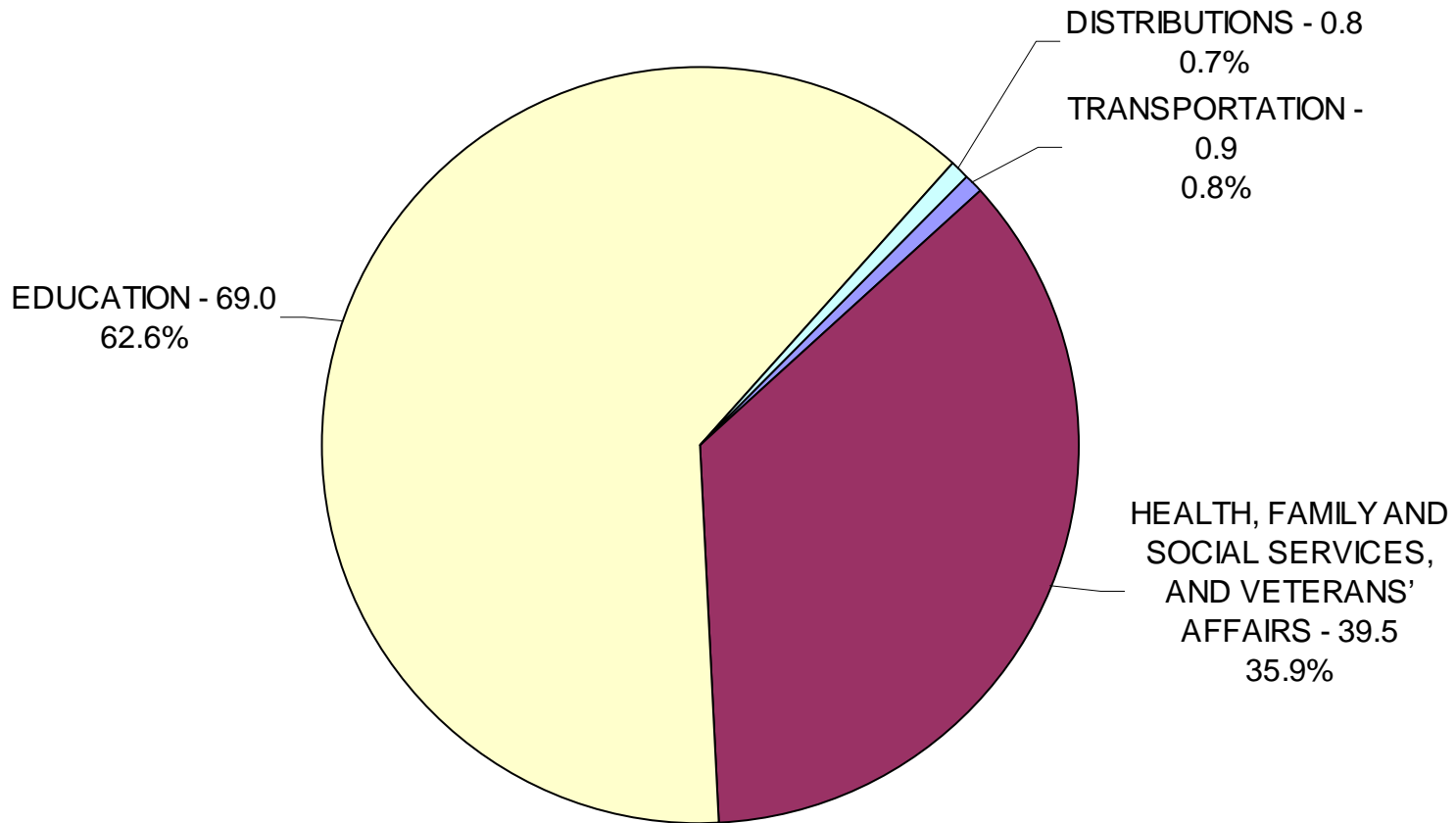
Sector Values in Millions of Dollars  
 Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES

## Local Funds

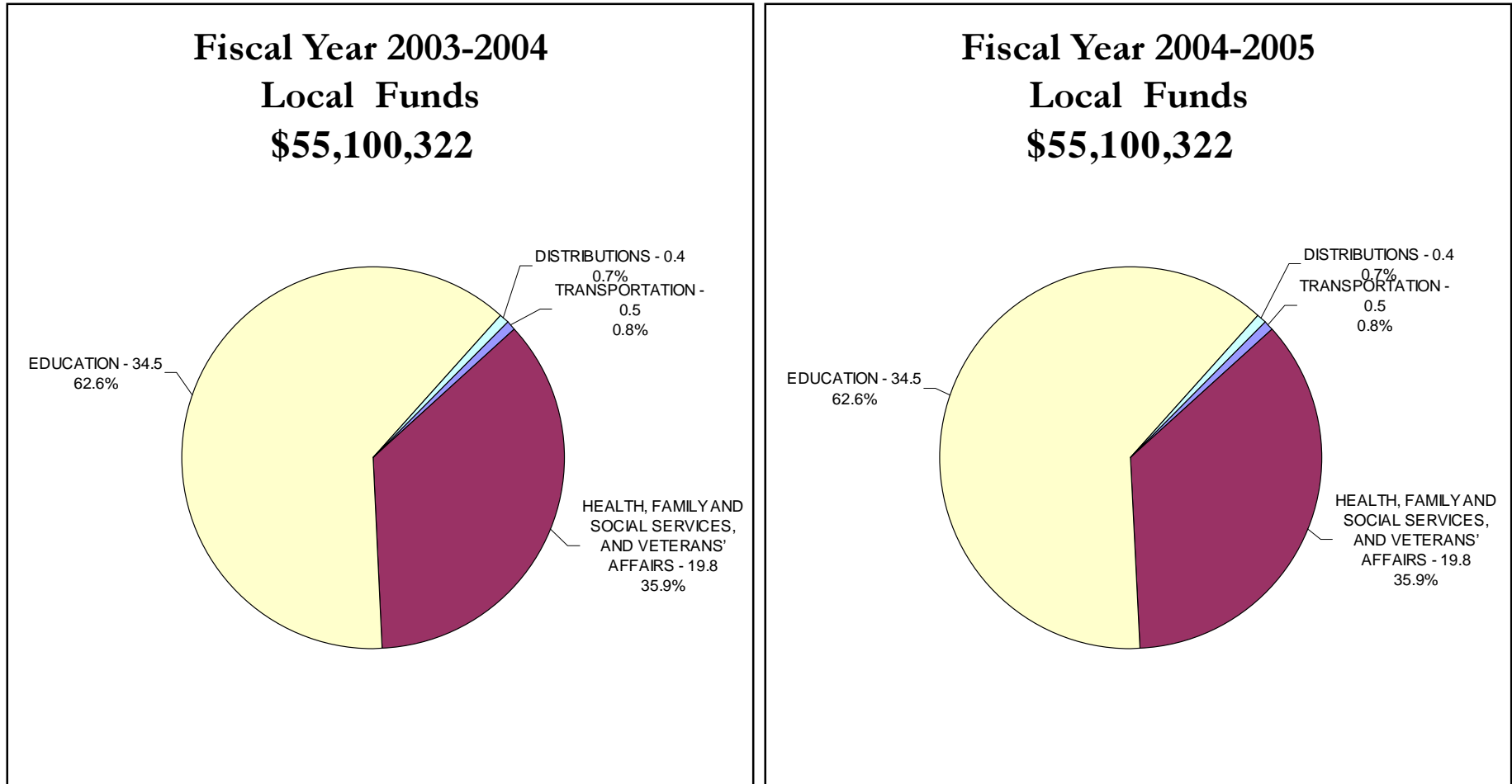
### 2003-2005 Biennium

### \$110,200,644



Sector Values in Millions of Dollars  
Source: Indiana State Budget Agency

# STATE OF INDIANA - RECOMMENDED EXPENDITURES



Sector Values in Millions of Dollars  
 Source: Indiana State Budget Agency

