STATE OF INDIANA

Eric J. Holcomb
Governor

STATE BUDGET AGENCY
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Zachary Q. Jackson
Director

July 31, 2020

Dear Colleagues,

As I promised on June 24th, I am now sending out a supplemental set of instructions for the development of the FY 2022-2023 biennial budget.

Earlier this month, the State Auditor, the OMB Director, and I announced the results of our FY 2020 close out. Through your efforts in the last three months of FY 2020, we acted quickly and boldly to more closely align our spending with lower state revenues, and we carefully deployed our General Fund reserves to protect critical services. A few of the major takeaways from FY 2020 close out include:

- Revenues – In the December 20, 2019 revenue forecast, the Revenue Forecast Technical Committee estimated that General Fund revenues for FY 2020 would be $16.79 billion. Actual General Fund revenues for FY 2020 were just under $15.37 billion – a difference of almost $1.42 billion or -8.4%. This entire revenue loss occurred in the last quarter of the fiscal year.

- Annual Surplus/Deficit – As you know, the State Budget Agency strives to make sure we spend within our means – meaning that our annual revenue exceeds our annual expenditures, leaving a surplus at the end of the year. While revenues were $1.42 billion less than expected, that revenue loss was partially offset through your timely efforts to lower spending; however, we still operated at a deficit of $882 million for FY 2020.

- General Fund Combined Balances (Reserves) – The General Fund Combined Balances consist of our General Fund and three savings accounts (the Medicaid Reserve, the Tuition Reserve, and the Rainy Day Fund). At the beginning of FY 2020, we had $2.27 billion in our General Fund Combined Balances. At FY 2020 close out, our General Fund Combined Balances were $1.42 billion. In other words, we spent down our General Fund Reserves by approximately $850 million.

Despite the abrupt challenges we faced in FY 2020, our strong fiscal management and healthy General Fund reserves have placed Indiana in a sound position to manage through the uncertainty of FY 2021. As I have previously mentioned, I know that the 15% holdbacks for FY 2021 will not be easy, but Hoosiers expect government leaders like you and me to ensure that we spend less than we take in – while still delivering critical services that add value.

As I mentioned in the first set of budget instructions, the Revenue Forecast Technical Committee (RFTC) is in the process of reforecasting our General Fund revenues. The RFTC will be presenting a revised General Fund forecast for just FY 2021 at the September 15th State Budget Committee meeting. Then, as part of the normal budget development process, the RFTC will be presenting a revenue forecast for FY 2022 and FY 2023 to the State Budget Committee in mid-December. In each of these forecasts, I am expecting revenue projections that cannot sustain our current levels of spending.

The FY 2022-2023 budget session will likely present several challenges. Maintaining Indiana's solvency will require an increased vigilance and stewardship of our fellow Hoosiers' tax dollars. It will be necessary to continue to reduce spending in order to match our expected revenue stream and continue to live within our means. Addressing these challenges through common sense principles will best position Indiana for private sector jobs and investment that will ultimately produce additional revenue for government programs and services.

In order to ensure that the budget we prepare for the Governor for FY 2022 and FY 2023 is structurally balanced, I am asking all state agencies to submit budget requests using the following three parameters:

1. Base Budget Calculation – Each agency's Base budget must be equal to its FY 2021 budget bill appropriations minus 15%. Agencies may have the discretion to:
    a. Apply the 15% reduction equally to each line item, program, or facility, or
    b. Apply a higher or lower reduction to individual line items, programs, or facilities as long as the overall reduction is equal to 15% of that agency's funding.

    It is our expectation that this 15% reduction should be applied to both General Fund and dedicated fund appropriations. Budget Analysts will work with your agency to establish the Base budget.

2. Programmatic Consolidation, Merger, or Elimination – Until both revenue forecasts are received, we must prepare for the possibility that the 15% may not be sufficient to make funds available for our most critical programs. Therefore, in addition to the 15% reduction required above, each agency should submit a list of duplicative, underperforming, and/or underutilized programs for consolidation, merger, or elimination. These requests should be submitted as negative change packages in Hyperion. Ideally, these programmatic changes would be a substantial contribution on top of the 15%; however, all ideas for programmatic changes are welcome regardless of the fiscal impact. As part of your budget submission, please include narrative information about your proposed program modification(s). This should identify impacted constituencies, necessary legislative changes, and details about the savings. To be clear, while I am requesting programmatic changes that reduce any type of spending, our combined priority is to maximize programmatic changes that will reduce General Fund spending.

    I would encourage you to work with all levels of your agency to identify opportunities for programmatic consolidation, merger, or elimination. Furthermore, I would encourage you to use the Agency Head Spot Bonus program as a means for rewarding some of the best ideas. In addition to your internal staff, please seek input from the State Budget Agency, State Personnel Department, Department of Administration, Office of Technology, and your Operation Directors in the Governor's Office for additional suggestions.

3. Positive Change Packages – As I previously mentioned, we cannot afford to continue to spend at the same levels at which we have grown accustomed. We must reduce spending statewide. There are unlikely to be sufficient revenues to cover existing programs, let alone new programs. I would discourage any agency from submitting positive change packages (budget increase requests) as part of budget development. Furthermore, positive change packages with the goal of reinstating the base reduction from #1 (Base Budget Calculation) are highly discouraged.

Lastly, I previously mentioned that the State Budget Agency would be using a new online tool for scoring change packages and capital requests. This tool can be found on the SBA intranet site (http://www.sba.state.in.us/). Look for the link titled, Capital Tracking and Change Package Questionnaire. In addition to submitting capital and change package requests in Hyperion, you must provide additional information about your capital and change package requests via this online form.

As a reminder, budget submissions are statutorily due to the State Budget Agency by September 1st. My staff and I look forward to working with every agency as we prepare a responsible budget for the Governor and manage through these challenging and uncertain times.

Sincerely,

Zachary Q. Jackson
State Budget Director

cc: Governor Eric J. Holcomb