FY04-05 Biennial Budget Recommendations
to
The State Budget Committee

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Revenue Forecast

	Actual FY02	Forecast FY03	Forecast FY04	Forecast FY05	% Chg FY02-FY05
Gen'l Fund	7,096.9	7,184.5	7,187.3	7,487.3	+5.5%
PTRF	1,612.0	2,741.0	3,552.5	3,756.8	+133%
Total	8,708.9	9,925.5	10,739.8	11,244.1	

- The FY03 budget was built on forecasted General Fund revenue of $8,249.6 million and Property Tax Relief Fund revenue of $1,737.4 million for a total of $9,987.0 million.

- Even after including anticipated revenue from new taxes, the new forecast predicts $62 million less in the FY02-03 budget period than was projected in the April 2001 forecast on which the current budget was based.

- Of all state tax revenue collected in FY02 and deposited in the General Fund and Property Tax Relief Fund, 13.5 percent was used for property tax relief. With the passage of HEA 1001-2002(ss) 21 percent will be used for property tax relief in FY04 and in FY05.

Appropriations and Combined Reserves

Adjustments to FY03 from the June 30, 2002 closeout include the new revenue forecast, a reduction in the Day Case liability, an increase in the payment delay for property tax replacement to include the amount attributable to the increased property tax replacement and inclusion of the homestead credit, and to recognize a general fund obligation for motor vehicle excise tax replacement of $135 million. The proposed appropriations in the recommendation are $11,323.3 for FY04 and $11,552.1 for FY05. This results in a reduction in the operating deficit from $850 million in FY03 to $217 million in FY05. The estimated combined reserves are $286.0 million at the end of FY04 and $319.3 million at the end of FY05. The Rainy Day Fund will be reduced. The Tuition Reserve will not have to be used.

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 million 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

Expenditure proposals for FY04-05

Public schools

- Tuition support appropriations from the General Fund and Property Tax Replacement Fund are flat-lined.
- $200 million will be realized over the biennium from the Energize Indiana initiative (generated by securitizing part of Indiana's yearly tobacco settlement payment) for:
    - funding the CY03 school formula deficit. $50 million
    - Academic Achievement Grants to schools to eliminate the achievement gap, the disparity in achievement among students of varying family income level and ethnic background. $100 million
    - Grants to provide technical assistance to low-performing schools; and grants to leverage federal dollars to pay for Internet connections, INSPIRE database connections, and school library printed materials. $50 million
- The "Energize Indiana" provisions will be included in bills separate from the budget bill.
- Several grants will be cut, saving $34.4 million in FY04 and $68.7 million in FY05. The savings will be used to reduce the deficit and to fund academic achievement grants in future years.
    - Half of the ADA flat grant will be cut in FY04, yielding $17.9 million, and 100 percent will be cut in FY05, yielding $35.8 million [ADA flat grants are used to supplement operating costs and the local debt service levy]
    - Half the transportation grant will be cut in FY04, yielding $12 million, and 100 percent will be cut in FY05, yielding $24 million. [The transportation grant and special and voc ed transportation grants supplement the local transportation levy]
    - Half of the special and vocational education transportation grant will be cut in FY04, yielding $4.45 million, and 100 percent will be cut in FY05, yielding $8.9 million. Totals for the biennium are $34.4 million in FY04, and $68.7 million in FY05. These savings will be used for deficit reduction and to fund the Academic Achievement Grants in future years.

Higher education

- General Fund operating appropriations are flat-lined at levels established for FY03 in the Deficit Management Plan. This represents a decrease in base spending of about $40 million.

- Higher education rehabilitation and repair is $12.8 million per year, or 25 percent of what the R&R formula generates. This is a decrease of $45.1 million in appropriations from the last biennium, and an increase in $21.6 million over the current biennium expenditures.

Medicaid

- Funding will be at the level called for in the forecast. Updated information from the federal government will allow the state to reduce expenditures by $4 million in FY05.

- Because of the recent decision in the Brandon Collins case we recommend language that would ensure the counties' share in the cost of services that are reimbursable under the Medicaid program and provided to Medicaid eligible children receiving services in private psychiatric residential treatment facilities.

FSSA, Health, Institutions

- In the current biennium, the Family and Social Services Administration made permanent and one-time reductions of more than $100 million.

- In FY04-05, additional, permanent spending reductions of more than $7.6 million will be made, including:
    - A 2 percent cut in Division of Family and Children local county administration, yielding more than $3.3 million.
    - Transfer of $1.25 million from IMPACT and other job-related programs to Department of Workforce Development.
    - Closure of a wing or ward at one of the state developmental centers, saving $1.7 million.
    - Closure of a wing or ward at a state hospital, saving $1.35 million.

- Funding will continue for CHOICE, Project Safe Place, domestic violence programs, the Youth Services Bureau and the Evansville Psychiatric Children's Center and the Evansville State Hospital.

- Under Governor O'Bannon, Indiana has pursued establishment of regional health-care facilities. To further this endeavor, we call for the General Assembly to authorize bonding to finance construction of an additional regional health care facility. Based on authority provided in previous years, this additional authority will provide the authority to bond to finance construction of a total of five regional health care facilities.

- Several Health and Human service agencies are currently unable to absorb the financial obligation of the Healthcare Insurance Portability and Accountability Act compliance. The State Budget Agency is working with these agencies to identify $7.4 million in 2003 and $11.9 million in the 04-05 biennium to become HIPAA compliant.

Tobacco Settlement

The recommendation is to appropriate a total of $164.3 million which represents the 60% of the accumulated settlement payments as provided in statute. Allocations to programs will be based on appropriations by the General Assembly.

Corrections

- The proposed appropriation reflects additional beds in operation to support an expected increase in inmate population. (The average daily cost per adult male inmate is $48.) We will open five pods (1,000 beds) at Miami Correctional Facility over the biennium, bringing it to full capacity at an additional cost of $16.3 million. We also will open four pods (576 beds) at New Castle Correctional Facility over the biennium at a cost of $7.7 million. Five pods (720 beds) will remain unopened at New Castle.

- Regarding juvenile corrections, the recommendation is to apportion beds by county population and allow counties to buy beds from other counties at the same rate if a county wishes to exceed this cap. We propose language which will allow county officials to increase their county's levy one time during the biennium to pay the amount the county owes the state for past bills.

- The recommendation adds $150,000 each year to the Department of Administration budget for the establishment of the Department of Corrections Ombudsman Bureau.

- The recommendation adds $10 million annually in institutional health care funding for the prisons. This recognizes the current spending levels.

State Police

- The recommendation funds two new recruit classes, that allows the State Police to maintain current staffing levels.

- Funding and positions of the Indiana War Memorials Commission security have been moved to the State Police to provide greater coordination and flexibility.

General Government Agencies

- **Department of Revenue.** The recommendation funds 27 existing field auditor positions at $916,000. This will generate revenue well in excess of the cost. The recommendation funds the maintenance and support of the Returns Processing System for $3 million annually.

- **Board of Tax Review.** The recommendation adds $99,968 a year to ensure sufficient staff to handle reassessment appeals.

- **Department of Natural Resources**. DNR will use $1.1 million in dedicated funds to offset General Fund expenditures.

- **IDEM**. IDEM's General Fund budget will be cut by $4.9 million annually. IDEM will use federal funds and $2.6 million annually in dedicated state funds to offset the cut.

- **The State construction** budget has been reduced by $56.6 million for the biennium from both General Fund and dedicated funds. This means that, for four years, the state will have performed only preventative maintenance and repairs that are crucial to health or safety.

- **The Indiana Heritage and Cultural Agency** will be created by combining the Indiana State Library, the Public Records Commission, the Historical Bureau, the Indiana War Memorials Commission and the divisions of Historic Preservation and Archaeology and Historic Sites from DNR. Leaving vacant positions unfunded saves about $190,000. Other costs savings eventually will be realized through efficiencies in administrative functions.

- **The Professional Licensing Agency and the Health Professions Bureau** will be combined, saving approximately $800,000.

Teacher Retirement

The recommendation uses $190 million each year from the Pension Stabilization Fund to pay current and increased costs in benefits. This represents a portion of the $650 million that has been deposited in the fund since 1995 by special appropriation of the General Assembly. The $30 million that automatically goes into the fund will continue.

Courts

The Courts' *operating* budgets have been increased by $4.1 million which is a 4.6 percent increase over the current budgets. The courts have made a good effort to hold down spending increases to those beyond the agencies' control, such as the 27th pay period; increased health care costs; a 2 percent staff pay increase; modest increases in funding for a new drug court, a court interpreter, and family court programs; and training programs for the Judicial Center.

Property Tax Relief

Under HEA 1001-2002(ss), this budget will include an additional $1.1 billion for school general fund property tax relief in the first year and an additional increase of $37 million in the second year. This represents approximately 67 percent of the general operating levy for schools and brings the state's share of the cost to operate schools to approximately 85 percent. It is important to note that the property tax relief per child ranges from $425 to $3,500.

Homestead Credit

In FY03, the Homestead Credit will be 20 percent and will cost $306.2 million. Those paying the most in property taxes will receive the greatest benefit. Home assessments now will be assessed based on their fair market value, so owners of homes already assessed at fair market value – those built in the last 10 years – will also receive the 20 percent credit.

Additional Resources

Energize Indiana

The Energize Indiana initiative, a long-term economic development plan offered by Governor Frank O'Bannon and Lieutenant Governor Joe Kernan, includes some short-term budget relief in order to jumpstart the economy. This initiative is not included in the budget bill. The provisions of Energize Indiana which will have a direct impact on the budget are as follows:

- **K-12**. $200 million from the securitization of the tobacco funds will be used to support public schools.

- **Scholarships**. $35 million from the Tobacco Settlement Trust Fund will address the shortfall in funding of the State Student Assistance Commission of Indiana, which provides college scholarships to low-income students. The shortfall occurred because of recent double-digit increases in university tuition.

- **21st Century Research and Technology Fund.** This fund will receive an influx of money when part of the tobacco settlement is securitized, freeing up $15 million in money from the General Fund that was approved in HEA 1001-2002(ss).

Fee increases

- **Alcohol and Tobacco Commission**. The commission is now funded with dedicated dollars, which will suffice for the next biennium. We propose a new tobacco merchant location fee of $100 annually to raise $3 million. We also propose increasing the catering fee, temporary permit fee and the server permit fee, raising another $800,000. Proceeds would be deposited in the General Fund for the biennium.

- **Department of Revenue**. We are proposing a change for the retail merchant's certificate from a one-time $25 fee to an annual fee. This change should raise $5 million annually and will assist the DOR in tracking merchants for purposes of paying required taxes.

Transfers

- **Pension Stabilization Fund**. See Teacher Retirement discussion above.

- **State Highway Funds of $35 million will be used each year to fund the State Police.** The transfer will not disrupt $700 million of construction programs planned annually by the Indiana Department of Transportation.

- **Police and Fire Pension Relief Fund.** The proposal transfers $60 million from the Pension Relief Fund to the General Fund. The $30 million that goes into the fund will continue.

- **Build Indiana Fund revenue.** The proposal transfers $33 million a year for non-gaming counties for FY03, FY04 and FY05. In addition, any excess over that needed to pay statutory obligations will be transferred to the General Fund.

- **Abandoned Property Fund.** The proposal intercepts $25 million a year, for FY '03, '04 and '05 before it is transferred to the Common School Fund.

- **Public Deposit Insurance Fund.** The proposal tranfers $50 million to the General Fund.

- **Grain Indemnity Fund.** The proposal transfers $13 million to the General Fund.

- **Other Dedicated Funds**. The proposal transfers $6.9 million from other dedicated funds**.** ($4.4 million from PEN Products and $2.5 million from the Administrative Services Fund within the Department of Administration).

Other

- Recommendations clarify HEA 1001-2002(ss) regarding the counting of riverboat revenue, which determines the taxation level. It has been stated that the legislature intended to begin the count July 1, 2002, rather than on the date that flexible scheduling was implemented. Beginning the count on this date will increase revenues by $33 million.

- The "Economic Security and Worker Assistance Act of 2002" provides an additional first-year depreciation allowance of 30% for the purpose of calculating federal adjusted gross income. Since federal AGI is the starting point for calculating Indiana corporate income taxes, the additional depreciation allowance will reduce state revenues by an estimated $78 million over the biennium. The recommendations require that Indiana corporations add-back any additional depreciation allowances claimed for the purposes of calculating Indiana income taxes.