



STATE OF INDIANA

Eric J. Holcomb
Governor

STATE BUDGET AGENCY
212 State House
Indianapolis, Indiana 46204-2796
317/232-5610

Jason D. Dudich
Director

June 4, 2018

Dear Colleagues,

In his most recent State of the State address, Governor Holcomb highlighted some of your efforts as he complimented Indiana's fiscal position. The Governor noted our honestly balanced budget, AAA credit rating, and healthy reserve levels. In addition, the Governor explained how these characteristics have influenced Indiana's quality of life. Your fiscal discipline has helped to keep taxes low. As a result, Indiana is recognized nationally for its low cost of doing business and low cost of living.

As always, our priorities for the next biennium consist of firm commitments to an annual structural surplus, maintaining reserves to support critical operations in the event of an economic downturn, holding the line on spending, protecting Hoosier taxpayers, and funding our obligations. We will continue to spend within our means and address our challenges without borrowing from the future or using other budget gimmicks. We will work to ensure that Hoosier families and businesses keep as much of their hard earned income as possible through low taxation. These common-sense principles have served Indiana well in recent years, and will best position the State for continued private sector job growth and investment in the future.

To achieve these ends, it is imperative that agency budget requests be **fully and timely completed by Monday, August 20** to assist in our submission of the next biennial State budget in the 2019 legislative session. As shown more fully below with corresponding milestones and deadlines, there are additional documents and information that agencies must submit.

Attached, you will find FY 2020 and FY 2021 Budget Instructions for your organization. These instructions are the forms and directives of the State Budget Agency for preparation of the biennial budget as authorized by Ind. Code 4-12-1-7. The general approach to developing and submitting budget requests will be familiar to your staff, but there are some notable exceptions:

1. The "Base," as determined in consultation with your Budget Analyst, will generally be limited to your actual spending totals for FY 2018. Budget Analysts will work with their agencies on an individual basis to establish the base budget.
2. We anticipate that "change package" requests for expanded services and/or new programs align with the Governor's five pillars. You must propose program measures (metrics to indicate success of a program) to accompany any request for a new program.

Agencies may request a change package that increases their Personal Services appropriation by 3.3% above their actual FY 2018 spending on Personal Services. This amount is intended to cover pay-for-performance and benefits increases that went into effect in the middle of FY 2018 and for similar increases in FY 2019. It is generally expected that these change packages will be

paid for by the same source that is normally used to fund an agency's Personal Services expenses. Your Budget Analyst can assist you with this calculation.

All proposed change packages, including the previously mentioned Personal Services change packages, are considered part of the deliberative process and will be ranked with other proposals in light of the December 2018 revenue forecast and the Governor's funding priorities. It is expected that no outside communication or lobbying on these proposals will occur unless and until the Governor approves them as part of his final submitted budget.

3. The State is again using Hyperion software for budget submission. The system provides for a more seamless flow of information while retaining many aspects of the former budgeting software system (e.g., reports, change packages, etc.).
4. **All vehicle purchases for the FY 2020 and FY 2021 biennium will continue to be made by the Department of Administration.** Agency budget requests should not include expenditures to purchase new fleet vehicles. An assessment of your agency's fleet should be conducted, so that you will be able to determine your fleet needs for each year during the FY 20/21 biennium. Please submit your needs assessment for vehicle purchases to IDOA Fleet Services via email (fleetservicesva@idoa.in.gov) by Friday, July 6, 2018. Agencies should still include the maintenance costs associated with their vehicles in their budget request for the FY 20/21 biennium.

The following are key documents and deadlines necessary for each agency's **operating** budget submission and are fully described below:

Deadline	Task	Format/Method
Friday, June 22	Establish agreed-upon FY 2019 reserve target with your Budget Analyst	E-mail confirmation from SBA on agreed-upon spending plan
Friday, July 6	Submit Fleet Needs Assessment to IDOA	Excel document
Friday, July 20	Establish agreed-upon CYE (FY 2019) and Base with your Budget Analyst	E-mail confirmation from SBA on agreed-upon CYE and Base
Monday, August 20	Submit Agency Overview and Fund Narratives to your Budget Analyst	Word document
Monday, August 20	Electronic submission of FY 2020 and FY 2021 agency budgets	Hyperion

Please note, additional instructions are being sent on for **capital** budgeting. Key deadlines associated with capital budgeting are:

- Friday, June 15** Request that the Division of Public Works develop a master plan (if you do not have a master plan)
- Friday, July 27** Master plans submitted to your Budget Analyst
- Monday, August 20** Capital forecast submitted to your Budget Analyst
- Monday, August 20** Inventory of deferred maintenance submitted to your Budget Analyst
- Monday, August 20** FY 2020 and FY 2021 PM (preventive maintenance) spending plan and Capital Transmittal/Overview Letter submitted to your Budget Analyst
- Monday, August 20** Electronic submission of FY 2020 and FY 2021 agency budget

As you prepare your operating budget and capital budget submissions, I urge you to keep in mind the Governor's Next Level Agenda and five pillars of state improvement.

Sincerely,

Jason D. Dudich
Budget Director

cc: Governor Eric J. Holcomb

I. BUDGET SUBMITTAL

This set of instructions focuses on budget preparation policy. It explains how to develop, request, and justify all operating funding for FY 2020 and FY 2021. All state agencies, including executive, legislative, judicial, and other entities that receive appropriations (including separately elected offices), must submit proposed budgets to the Budget Agency. Budget information must be submitted for all funds that receive appropriations from the General Assembly and all funds that had activity, or will have activity, in any of the years from FY 2017 through FY 2021.

Your budget must be submitted electronically by Monday, August 20. A summary of key deadlines can be found in Section IX (Budget Submission) on page 11.

Please read these instructions carefully before starting to prepare your budget, particularly noting the information required in the Agency Overview, the Base, Reallocations, Special Initiatives, and Legal Fund Balance Reports sections.

Note: For the FY 2020 and FY 2021 budget development process, all agencies will use the Hyperion system directly. Budget Analysts have already been working with agencies to schedule Hyperion training.

However, work on elements of your budget not impacted by the Hyperion submission process can and should begin independently of data entry into Hyperion. Documents that are not submitted through Hyperion are:

- Agency Spending Plan
- CYE (FY 2019) and Base calculations
- Change Package Questionnaire and Narrative Justification
- Agency Overview letter
- Fleet Needs Assessment
- Program Performance evaluation information
- Fund Narratives

As indicated below, some of these documents have deadlines earlier than August 20.

Note: For agencies that have an MOU with the State Budget Agency for accounting services, please work with your budget analyst to complete the following steps so that your budget request is entered into Hyperion by Monday, August 20:

- Submit the Agency Overview (see Section II) and Fund Narratives (see Section VI)
- Revenue Estimates (see Section VII) should be sent in a spreadsheet format.
- Budget requests should also be in a spreadsheet format and follow the outline for Current Services Requests and Special Initiatives explained in Sections III and IV, respectively.

Separate instructions have been developed for Capital Budget requests. Please call your Budget Analyst if you have questions.

II. AGENCY OVERVIEW (TRANSMITTAL LETTER)

An Agency Overview must be prepared in conjunction with your proposed budget. This is a Word document that should be electronically submitted to your Budget Analyst separately from loading actual budget data via Hyperion. The purpose of the overview is to summarize the agency's total budget request. It should reflect **your plan** to allocate the resources available to you to provide the best services to taxpayers at the lowest cost possible.

You will want to include in your overview:

1. A description of your agency's programs and functions (by department or division, as appropriate), prioritized from most to least important
2. Accomplishments and challenges over the last two years
3. Your objectives for the next biennium aligned with the Governor's Next Level Agenda
4. Your agency's key performance indicators identified by the Management Performance Hub
5. An organizational chart
6. Any programs to be reduced, eliminated, and/or replaced by other programs (these should be described in some detail)

If there are any major challenges anticipated that could affect the operating budgets of the agency, recommendations on how to address these challenges should be included.

The Agency Overview is an integral part of the budget submission and should be prepared with particular care. The letter, which will be provided to the Governor and members of the Budget Committee, the House Ways and Means Committee, and the Senate Appropriations Committee, should demonstrate the agency's mission, purpose, and effectiveness as reflected in the budget. It is the primary document the Governor and members of the General Assembly will use to understand and assess your budget request.

Please work with your Budget Analyst to develop this information and submit your Agency Overview to your Budget Analyst by **Monday, August 20**.

III. CURRENT SERVICES REQUEST

Hyperion **now** allows agencies to utilize two different types of transferred funds. These transfer types should be used as necessary to explain expenditures and funding for FY 2017, FY 2018, CYE (FY 2019), the Base, and the Request for FY 2020 and FY 2021.

- Transfer Funding In – This option should be used to properly reflect funding in instances when a fund received a transfer through mechanisms such as administrative action, Board of Finance, the state match transfer list, or a federal subgrant transfer.
 - Transfer Expense Out – This option should be used to properly reflect planned expense allocations to other funds. This should not be used to reflect appropriation/funding transfers.
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The current services budget has the following components:

A. Historical Expenditures

All expenditures made in FY 2017 and FY 2018 will be provided for you in Hyperion. These historical figures have been transferred electronically from the Auditor’s records to your budget file. FY 2018 expenditures will be updated to reflect expenditures as of June 30, 2018, along with any adjustments made during fiscal year close-out. You should review these numbers to verify their accuracy. If there is a material error, please contact your Budget Analyst.

Although historical expenditure data has been loaded from the Auditor’s records, you will need to identify the funding sources for these expenditures.

Unlike prior years, transfer accounts (i.e. 75xxxx accounts) are included in the actual expenditure data for FY 2017 and FY 2018. If an agency transferred dollars from a fund in FY 2017 or FY 2018, it will be reflected as an expenditure in that fund in Hyperion. However, in order to avoid double counting expenditures, agencies will need to identify the fund to which the transfer was made and ensure that the amount transferred into the fund is reflected as transferred funds. Situations in which funds are transferred out of a fund (and therefore treated as an expenditure) can be identified by locating 75xxxx accounts in form 6.1 in Hyperion. Situations in which funds are transferred into a fund (and therefore treated as transferred funds) can be identified by locating 74xxxx accounts in form 5.1 in Hyperion.

B. Staffing Table Position Control Records

Staffing Table Position Control Records (PCRs) have already been loaded into Hyperion from the State Personnel Department’s database (PeopleSoft) to reflect the most recent and accurate data available. This data is used to calculate salary and fringe benefits expenditure levels for your budget submission. It is critical that this information be reviewed and updated as necessary.

The following two subsections (C and D) set limits for your agency’s Current Year Estimate and Base. To stay within these limits, it may be necessary for PCRs to be flagged as inactive. A negative dollar adjustment to other personal services to reflect changes in the funding status of a PCR will not be acceptable.

For your information the Fringe Benefits are calculated as follows:

	FY 2019	Base	FY 2020	FY 2021
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The following are calculated as a percentage of salary:

Life Insurance	0.15%	0.15%	0.15%	0.15%
Social Security	7.65%	7.65%	7.65%	7.65%
PERF-State Share	11.20%	11.20%	11.20%	11.20%
PERF-Employee Share Paid by State	3.00%	3.00%	3.00%	3.00%
Disability Insurance	1.75%	1.75%	1.75%	1.75%
Total % of Payroll	23.75%	23.75%	23.75%	23.75%

Full-Time Employees	23.75%	23.75%	23.75%	23.75%
Part-Time Employees	21.85%	21.85%	21.85%	21.85%
Intermittent Employees	7.65%	7.65%	7.65%	7.65%

The following are calculated as a flat dollar amount per employee:

Health, Dental, Vision – Single	\$6,898	\$6,898	\$6,898	\$6,898
Health, Dental, Vision – Family	\$19,424	\$19,424	\$19,424	\$19,424
Health, Dental, Vision – Blended	\$13,925	\$13,925	\$13,925	\$13,925
Deferred Comp - State Match	\$330	\$330	\$330	\$330

While the table above reflects that health, dental, and vision rates are unchanging compared to FY 2018, we know that changes are likely. The 3.3% personal services change package that you may submit is intended to cover pay-for-performance and benefits increases in FY 2018 and FY 2019 that will be annualized in the upcoming biennium.

Note: Part-time employees are not eligible for health, dental, vision, life or disability insurance. In addition, Hyperion uses the blended rate as the default in the fringe benefits calculations. There is the option to use the single or family rate for individual PCRs.

C. Current Year Estimate (CYE) (FY 2019)

You are required to estimate expenditures that will be made in FY 2019 ending June 30, 2019. The CYE, which is to be agreed upon with your Budget Analyst no later than **Friday, July 20**, cannot exceed your FY 2019 spending plan. **Budget Agency analysts will work with each agency to appropriately calculate the agency’s current year estimate.**

Similar to the methodology used to explain funding for historical expenditures, if an agency intends to transfer dollars from a fund in FY 2019, it should be reflected as an expenditure in that fund in Hyperion. However, in order to avoid double counting expenditures, agencies will need to identify the fund to which the transfer will be made and ensure that the amount to be transferred into the fund is reflected as transferred funds. Situations in which funds are to be transferred out of a fund (and therefore treated as an expenditure) can be identified by locating 75xxxx accounts in form 6.1 in Hyperion. Situations in which funds are to be transferred into a fund (and therefore treated as transferred funds) can be identified by locating 74xxxx accounts in form 5.1 in Hyperion.

D. The Base

Your total base may not exceed your actual spending totals for FY 2018. **Budget Agency analysts will work with each agency to appropriately calculate the agency’s base.**

Adjustments to the Base will be very rare, although the Budget Agency recognizes there may be conditions that warrant an adjustment. Because of functional or operational changes, an agency’s spending pattern might change from those described in the Current Year Estimate. For example, the General Assembly’s budget reflects different service levels during the long and short session years. Annualization of a new state facility opening during FY 2019 would be another possible example of a

necessary base adjustment. For example, a new facility opening March 1, 2019 would have the CYE reflecting the cost of 4 months of operation and the Base would reflect 12 months of operation. On the other hand, if an agency is implementing cost savings measures during FY 2019, it may only realize a partial year of those savings. As a result, the Base would reflect 12 months of cost savings. Your Budget Analyst will help you if you believe you have a condition that warrants an adjustment.

As you prepare the Base, please keep in mind the following:

- Overtime expenditures must be managed within existing levels of funding.
- For agencies and programs funded with dedicated and/or federal funds, SEA 501-2007 (Retiree Medical Benefits Accounts) and Statewide Cost Allocation Plan (SWCAP) expenses must be budgeted for and managed within existing levels of funding.
- You may not include in the Base any adjustments for general inflation or any other price increase. As noted earlier, agencies may submit a 3.3% personal services change package. This change package would be in addition to the Base and not part of the Base.
- Expanded services and new services are not part of an agency's Base; they are part of the expanded or new services change package request. **Do not incorporate expanded or new services into your Base.** Funding for these initiatives will be recommended only if they survive the prioritization process.

You must calculate your CYE and Base, and contact your Budget Analyst to discuss and agree upon these figures by **Friday, July 20**.

E. Request for FY 2020 and FY 2021

Your requests for FY 2020 and FY 2021 may not include a change in, or an adjustment from, the Base for general inflation or any other price increase.

Agencies may not submit an adjustment to the Base without prior review and approval from the Budget Agency. Acceptable adjustments to the Base are generally limited to reallocations between appropriations that do not change the overall total Base of the agency.

IV. CHANGE PACKAGES (New/Expanded Services)

Any change from the Base to the request years can only be accomplished through the completion of a change package (either Current Services or New Services). Current Services change packages should be used to accurately reflect the size and scope of an existing function already being implemented by an agency such as a request to right size the funding of a program. Given that the Base is equal to the actual spending for FY 2018, it is unlikely that many programs would need a Current Services change package in order to right size the program's funding. New Services change packages should be used to request the expansion of an existing function or to request funding for a new function that the agency is not currently performing. All Change Packages should be ranked - starting with 1 as your highest priority.

If the requested New Services or Current Services change package being submitted by the agency represents a one-time use of resources, the agency must request the creation of a new budgeting level. The submitted request should utilize the newly-created budgeting level along with a New Services or Current Services change package.

Additionally, any change package request must include a completed Change Package Questionnaire and narrative justification to be submitted along with the agency's budget request by Monday, August 20, 2018.

The narrative justification for a change package must include the following:

1. The agency's statutory authority (state and/or federal) to implement the program or service (or a statement that legislation will be proposed)
2. A statement as to how the program or service will help the agency accomplish its mission
3. A thorough explanation of the need for the expansion or new service, including a discussion of who, if anybody, provides these services today (e.g., federal government, local government, private sector, non-profit, etc.)
4. The number and profile of the population to be served
5. Evidence and research that the new or expanded program is likely to achieve important outcomes (this should include information from other states or jurisdictions, where applicable)
6. Specific goals, benefits, and performance measurements (approved by MPH)
7. A timetable for reporting success
8. For requests to expand existing services, results of outcome-based performance measures approved by MPH for at least the past two (2) years
9. Projected additional cost for the expanded or new service and possible sources of funding to cover the additional cost

Note: A new Position Control Record (PCR) must be established for any new positions requested due to new programs. Remember, when developing the budgets for Special Initiatives, new position requests should be budgeted at the middle of the established salary level currently in effect. Please work directly with your Budget Analyst if you have questions about what level to fund new positions classified as Executive Broadband. Fringe benefit amounts will be calculated automatically for you. Requests for new positions will be closely scrutinized.

V. FEDERAL FUNDS

Agencies should keep in mind that in circumstances where federal funding for regulatory mandates is being reduced or terminated by the federal government, it should not be assumed that the State will be able to replace the lost federal funds or reinstate terminated federal programs. Agencies should document the fiscal impact and service reductions resulting from the federal funding cutbacks. Agencies that distribute federal funds to local municipalities or other local entities will also need to assess the impact of federal revenue reductions and describe them in the account narrative.

Agencies should provide details if federal funding has decreased or is expected to decrease in future biennia. Specific figures for future biennia should be provided if available.

Note: Be sure to update anticipated budgets for all federal funds.

VI. FUND NARRATIVES

The Fund Narrative is an overview or summary of each budgeted fund. It is an important part of the budget request for each fund and presents key information that decision-makers use in determining the importance of the budget request. Like the Agency Overview, Fund Narratives should be developed as Word documents and e-mailed to your Budget Analyst by **Monday, August 20**.

Provide the following information for each Fund:

1. A summary of the program(s) or purpose of the fund
2. Specific statutory authority for the program(s)
3. Number and profile of the population served
4. Specific performance measures and goals for the new biennium (agreed upon with GEFP/MPH)
5. Major changes in the scope of the program(s)
6. New initiatives
7. Other relevant information

VII. REVENUE ESTIMATES

It is important that agencies provide revenue estimates in Hyperion for the next biennium when the budget request is submitted. **Any outside revenue sources need to be reported. These revenues may be derived from fines, fees, settlements, grants, or interest earned.** In this context, “outside” includes transfers from other legal funds, such as the General Fund, as well as federal receipts. Most agencies receive revenue of some kind.

Agencies that collect fees that are deposited in the General Fund must provide a revenue estimate for FY 2019, FY 2020, and FY 2021 in Hyperion.

Agencies are also required to provide revenue estimates for each of their dedicated funds in Hyperion. Revenue estimates must include fee revenue and interest earned, as well as federal and general fund amounts transferred in to support expenditures from the dedicated fund. The redemption of investments should NOT be included in your revenue estimates. These assets were included in the beginning balance.

Current and future federal fund receipts must also be estimated and entered in Hyperion. And, like dedicated funds, any general fund or dedicated fund dollars transferred in to federal fund budgets (such as from multiple funding sources) must also be recorded.

VIII. DEDICATED FUNDS

Programs funded partially with General Fund and other dedicated funds must demonstrate that they are using their dedicated funding sources to the fullest extent while maintaining the integrity of the legal fund. Please contact your Budget Analyst if you have questions regarding your legal fund balances.

IX. BUDGET SUBMISSION

Your budget must be electronically submitted by **Monday, August 20**. An electronic copy of the Agency Overview letter, Fund Narratives, and Performance Metrics information should also have been submitted by this date to your Budget Analyst.

Key Deadlines for Operating Budgets:

Deadline	Task	Format/Method
Friday, June 22	Establish agreed-upon FY 2019 reserve target with your Budget Analyst	E-mail confirmation from SBA on agreed-upon spending plan
Friday, July 6	Submit Fleet Needs Assessment to IDOA	Excel document
Friday, July 20	Establish agreed-upon CYE (FY 2019) and Base with your Budget Analyst	E-mail confirmation from SBA on agreed-upon CYE and Base
Monday, August 20	Submit Agency Overview and Fund Narratives to your Budget Analyst	Word document
Monday, August 20	Electronic submission of FY 2020 and FY 2021 agency budgets	Hyperion
