

As required by Indiana Code 4-12-1-12(a), the State Budget Agency hereby transmits to Governor Mitchell E. Daniels, Auditor of the State Tim Berry, and the Indiana General Assembly the following report on the appropriations made during the 2009 regular and special sessions of the Indiana General Assembly.

Summary

This budget increases funding in key areas such as K-12 education, student financial aid, and corrections, while reducing General Fund appropriations for most executive branch agencies by an average of eight to ten percent. As a result, the state's combined balances are projected to exceed one billion dollars at the close of the biennium. This budget also includes a number of economic development initiatives: more than \$1 billion in funding from Major Moves for highway construction and renovation, authorization for numerous higher education capital projects, and several infrastructure projects utilizing American Recovery and Reinvestment Act (ARRA) funds.

This budget eliminates funding for more than a dozen underperforming programs, and reduces funding for dozens of other programs that have not demonstrated adequate results.

Appropriations

The total General Fund appropriations made by the 2009 regular and special sessions of the Indiana General Assembly are \$13.6 billion for FY 2010 and \$14.1 billion for FY 2011, compared to \$14.4 billion for FY 2009. General Fund appropriations decline by 5.7% in FY 2010, and then increase by 4.0% in FY 2011. The decline in FY 2010 is mostly attributable to the use of ARRA funds for Medicaid and Higher Education in lieu of General Fund appropriations. Total appropriations from all sources of funds (state General Fund, dedicated funds, and federal funds) are \$26.9 billion for FY 2010 and \$26.9 billion for FY 2011, compared to \$26.2 billion for FY 2009.

The foregoing appropriations include all levies assumed under HEA 1001 (2008), the property tax reform bill passed in March 2008. These include levies such as the Family and Children Fund, Hospital Care for the Indigent (HCI), Medical Assistance to Wards (MAW), Child Psychiatric Fund, Children with Special Health Care Needs, Marion County Health and Hospital Corporation, State Fair, State Forestry, Public Safety Pension, Pre-School Special Education, and the remaining portion of K-12 Tuition Support.

The budget requires the Governor to cause reversions of \$25 million from state General Fund appropriations to non-public safety agencies and programs in both FY 2010 and FY 2011.

K-12 Education

Funding for elementary and secondary education comprises the largest component of Indiana's state budget. The General Assembly appropriated \$6.42 billion for FY 2010 (an increase of 22.7% over the FY 2009 appropriation, mostly attributable to the state assuming 100% of tuition support costs beginning on January 1, 2009) and \$6.56 billion for FY 2011 (an increase of 2.1%

over the FY 2010 appropriation) for K-12 tuition support from the General Fund. Five notable changes have been made to the school formula: (1) modifies the de-ghoster from a 5-year phase out to a 3-year phase out for declining school corporations, (2) lowers “foundation” funding from \$4,825 to \$4,550 in CY 2010 and \$4,505 in CY 2011 per student, (3) incorporates Special Education Pre-School in the school funding formula (formerly an outside grant), (4) discontinues funding for New Facilities Appeals, and (5) provides a “restoration grant” to restore school corporations to CY 2009 funding level. Additionally, enrollment growth was fully funded consistent with prior budgets.

School corporations were again granted the authority to pay expenditures for utilities and property insurance out of their capital projects funds and to increase their local capital projects fund levy to cover those costs. Appropriations for full-day kindergarten are \$58.5 million in both FY 2010 and FY 2011. Total appropriations for K-12 are \$7.7 billion in FY 2010 (an increase of 23.8% over FY 2009, mostly attributable to the state assuming 100% of tuition support costs beginning on January 1, 2009) and \$7.8 billion in FY 2011 (an increase of 1.3% over FY 2010).

The budget includes an education trigger that automatically distributes 50% of excess state revenue, if any, to school corporations at the end of FY 2010. Excess revenue is defined as revenue that exceeds the May 27, 2009, state revenue forecast for FY 2010.

State appropriations to cover administrative expenses within the State Department of Education were combined and then reduced by \$1 million from the operating base, or 8.1%, compared to the FY 2009 appropriation.

The budget includes a \$5 million biennial appropriation for School Improvement Programs from ARRA State Fiscal Stabilization Funds. The appropriation is to be used for the Woodrow Wilson teaching fellowship program for new math and science teachers in underserved areas, and to support start-up costs to establish New Tech high schools in Indiana.

The budget fully funds growth at charter schools, and allows for a pilot project at virtual charter schools of up to 200 students in 2010 and 500 students in 2011. Virtual charter schools are funded at 80% of the average statewide tuition support. The budget includes a tax credit for organizations providing scholarships for low income children to attend public or private schools. The Indiana General Assembly previously prohibited the use of student test scores for teacher evaluations. The State of Indiana can now use student test scores if federal rules, regulations, or directives require their use. The budget bill requires a two year study of issues related to the school funding formula.

Higher Education

Total appropriations, including ARRA funds, for higher education decreased \$7.6 million (0.4%) in FY 2010, and then increased by \$44.5 million (2.4%) in FY 2011. The State Student Assistance Commission of Indiana (SSACI) received appropriation increases of 5.5% in FY 2010 and an additional 2.5% in FY 2011. ARRA funds of \$166.7 million are intended to restore reductions in state support for institutions of higher education to their FY 2009 levels for the FY

2010-2011 biennium and can be used for repair and rehabilitation or operating purposes. In addition to the appropriations above, the General Assembly approved \$288 million in state funded bonding authority for new buildings and infrastructure at the state's public colleges and universities. Together with \$187 million in non-fee replaced bonding, a total of \$475 million in public university capital was authorized by the General Assembly in this biennium. The General Assembly reauthorized an additional \$48 million in state funded bonding authority included in the 2007 budget bill.

The budget includes \$10 million annually for the various components of the Innovation Alliance, including \$3 million for the Medical Education Center Expansion at Indiana University, \$2 million for Technical Assistance and Advanced Manufacturing at Purdue University, and \$5 million for Core Research at Indiana University and Purdue University.

Health and Human Services

The budget appropriates \$2.63 billion in FY 2010 from the state General Fund for Health and Human Services for operating expenses. For FY 2011, Health and Human Services received \$2.94 billion in General Fund appropriations for operating expenses. An additional \$28 million was appropriated from all funds for capital for the biennium.

The Family and Social Services Administration (FSSA) was appropriated \$1.92 billion of state General Fund dollars in FY 2010 and \$2.23 billion in FY 2011. Of the appropriation granted to FSSA, by far the largest amount is for Medicaid Assistance. General Fund appropriations for Medicaid Assistance total \$1.12 billion in FY 2010 and \$1.43 billion in FY 2011. Total appropriations for Medicaid Assistance (from all funding sources) are \$6.09 billion in FY 2010 and \$6.57 billion in FY 2011, compared to \$5.59 billion appropriated in FY 2009. FSSA anticipates receiving approximately \$549 million in FY 2010 and \$289 million in FY 2011 of increased federal matching funds as a result of the ARRA. Consequently, the state appropriation for Medicaid Assistance decreased by \$501 million in FY 2010 from the FY 2009 appropriation. The FY 2011 appropriation increased by \$313 million over FY 2010 due to the discontinuation of increased federal matching funds after December 31, 2010.

Total biennial appropriations for the Children's Health Insurance Program (CHIP) are approximately \$290 million, a 16% increase over the previous biennium.

The annual state General Fund appropriations for the seven Centers for Independent Living were reduced with the intent to offset the General Fund appropriation with federal funds, as was done during FY 2009.

FSSA received approximately \$78 million of appropriations from the Tobacco Master Settlement Fund in FY10 and \$81 million in FY 2011, for health-related programs.

The FY 2010 – FY 2011 budget for the Department of Child Services provides the necessary funding to maintain a sufficient number of case managers to continue to achieve national standards for case workloads. The budget appropriates approximately \$445 million from the state General Fund for the Family and Children Fund for both FY 2010 and FY 2011. The

Family and Children Fund, a local property tax levy until January 1, 2009, was assumed by the state as a result of the property tax reform bill passed during the 2008 regular session. The Department of Child Services has achieved significant efficiencies administering the Family and Children Fund, primarily by leveraging additional federal funds (including ARRA funds) and creating a single, statewide system from what was previously a 92-county system.

The budget creates a Department of Child Services Ombudsman Bureau within the Department of Administration. The annual appropriation for the Ombudsman Bureau is \$145,400.

The Indiana State Department of Health (ISDH) receives total appropriations of approximately \$328 million in FY 2010 and \$330 million in FY 2011, of which General Fund appropriations total \$36 million annually. In addition, the ISDH receives approximately \$48 million of appropriations from the Tobacco Master Settlement Fund in FY 2010 and \$51 million in FY 2011. This budget dedicates 99% of Tobacco Master Settlement Fund appropriations to health-related programs, the highest percentage ever achieved.

The budget increases operating appropriations for Community Health Centers from \$15 million in FY 2009 to \$17.5 million in FY 2010 and \$20 million in FY 2011.

The Indiana Tobacco Prevention and Cessation (ITPC) Board receives annual appropriations of \$10.9 million from the Tobacco Master Settlement Fund, an amount equal to the FY 2007 appropriation level.

General Government

The budget includes \$6 million in additional funds for the Public Defender Commission to reimburse eligible counties for public defense costs during the FY 2010 – FY 2011 biennium. The total General Fund appropriations for the Commission are \$25.7 million.

The budget increases appropriations for the legislative branch by 10% over the FY 2008 – FY 2009 biennium budget.

The budget includes an appropriation of \$77 million for the biennium for the state's share of the plan losses of the Indiana Comprehensive Health Insurance Association (ICHIA). The association is the state's health insurance program for high risk individuals.

General Fund appropriations for the Personal Services/Fringe Benefits Contingency Fund were reduced from \$89 million during the FY 2008 – FY 2009 biennium to \$35.6 million during the FY 2010 – FY 2011 biennium. These appropriations are used to provide funding for expected increases in health insurance premiums as well as salary increases made during the FY 2010 – FY 2011 biennium.

The budget reduces the biennial appropriation for the Departmental and Institutional Emergency Contingency Fund from \$10 million to \$2 million.

The budget reduces the annual appropriation for the State Personnel Department from \$7.4 million to \$3.7 million, but allows the Department to create an internal service fund to provide funding for centralized human resources services.

The budget appropriates \$96 million in FY 2010 and \$112 million in FY 2011 from the state General Fund to cover the obligations of the Public Safety Pension Fund, a property tax levy assumed by the state as part of House Enrolled Act 1001 (2008).

Public Safety

Over \$1.37 billion was appropriated this biennium for the operation of the Indiana correctional system. This appropriation was provided for the incarceration of approximately 28,500 adult and juvenile offenders in state correctional facilities, as well as funds for community corrections, parole officers, and county maintenance funds.

The budget also appropriates approximately \$339 million from all funds for the operations of the Indiana State Police for the FY 2010 – FY 2011 biennium, including funds to maintain the number of troopers at current levels. Total appropriations for the FY 2008 – FY 2009 biennium were \$338 million.

The budget appropriates additional funds for the Hoosier Youth Challenge Academy that seeks to enhance the education and development of high school dropouts. The biennial budget was increased from \$2.4M in the FY 2008 – FY 2009 budget to nearly \$3M in the FY 2010 – FY 2011 budget. Moreover, this budget appropriates \$2 million from the ARRA General Purpose Fiscal Stabilization Funds to the Adjutant General for capital related expenses to repurpose and renovate the Knightstown campus, formerly the site of the Indiana Soldiers' and Sailors' Children's Home, for use by the Hoosier Youth Challenge Academy.

Conservation and Environment

This budget appropriates \$596 million in general, dedicated and federal funds for environment and conservation programs for the FY 2010 – FY 2011 biennium. Total operating appropriations for the FY 2008 – FY 2009 biennium were \$611 million. An additional \$68 million was appropriated from all funds for capital for the FY 2010 – FY 2011 biennium.

Transportation

Nearly \$5.9 billion in state, dedicated, and federal funds were appropriated for transportation, including distributions to local units of government. This includes more than \$1 billion in appropriations from the Major Moves Construction Fund to fund highway construction and renovation projects, as well as \$678 million in ARRA funds. Total appropriations for the FY 2008 – FY 2009 biennium were approximately \$5.1 billion.

Economic Development

The budget appropriates \$92.4 million in FY 2010 and \$88.9 million in FY 2011 from the General Fund and dedicated funds to Economic Development. The General Fund appropriation is approximately \$57.2 million in FY 2010 and \$56.7 million in FY 2011.

The appropriation for the 21st Century Research and Technology Fund is \$35 million for the biennium, a 50% reduction from the FY 2008 – FY 2009 budget.

The budget includes \$10 million from the ARRA General Purpose Fiscal Stabilization Funds for the Midwest Institute for Nanoelectronics Discovery (MIND).

The budget also includes \$2 million from the ARRA General Purpose Fiscal Stabilization Funds to the Indiana Finance Authority for infrastructure projects at the Muscatatuck Urban Training Center.

Capital and Construction

The capital budget for the FY 2010 – FY 2011 biennium represents a commitment to the preservation of the state's existing infrastructure, with a high priority on preventive maintenance and repair and rehabilitation rather than new construction. The capital budget includes \$42 million for preventive maintenance of state facilities, \$77 million for repair and rehabilitation projects at state facilities (excluding higher education), and \$361 million for lease rental payments.

The Department of Correction capital budget includes funding for repairing the hot water generating station at the Indiana State Prison, repairing the facility perimeter wall at the Pendleton Correctional Facility, replacing fire alarm systems at the Correctional Industrial Facility, and refurbishing the water system and replacing the roof on the maximum control complex at the Westville Correctional Facility.

The capital budget for the Department of Natural Resources includes funding for drinking water and wastewater projects and dam upgrades at various state parks. Projects such as the rehabilitation of campgrounds and inns at the state parks are also included in the department's appropriations.

The capital budget appropriates \$14M to the Little Calumet River Basin Commission from ARRA General Purpose Fiscal Stabilization Funds for the completion of the Little Calumet River flood control project. This budget also appropriates \$3 million from the ARRA General Purpose Fiscal Stabilization Funds to the Indiana Veterans' Home for various repair and rehabilitation projects.

Outside Acts

The Indiana General Assembly enacted several pieces of legislation during the 2009 regular session and special session that impact General Fund revenues and expenditures. The most

notable measures include: (1) the extension of the nursing facility quality assessment fee as well as a change in the distribution percentages to account for the ARRA change in the federal reimbursement rate, (2) an update of the Indiana tax code to the federal tax code, (3) expansions of the Allen County, Marion County, South Bend, and Evansville Professional Sports Development Areas (PSDAs), (4) enactment of an income tax deduction for the installation of solar powered roof vents and fans, (5) expansion of the sales tax exemption for aircraft used for lease or rental, (6) expansion of the sales tax exemption for certain telecommunications equipment, (7) the redirection of cigarette tax revenues for the state retiree health plan account and the wellness plan and health insurance tax credit reimbursement account from the General Fund to a dedicated trust fund, (8) a new school scholarship tax credit, (9) a reduction in the cap for the refundable income tax credit for qualified media production expenditures from \$5 million to \$2.5 million, and (10) a repeal of the sales tax exemption for media equipment.

American Recovery and Reinvestment Act

The State of Indiana anticipates receiving in excess of \$4 billion from American Recovery and Reinvestment Act (ARRA) funds during FY 2009, FY 2010, and FY 2011. The ARRA directs these funds through numerous programs, the largest of which include: (1) Medicaid Assistance (\$1,187 million), (2) Education Fiscal Stabilization Funds (\$823 million), (3) Transportation (\$678 million), (4) K-12 Special Education Funds (\$263 million), (5) K-12 Title I Funds (\$222 million), (6) General Purpose Fiscal Stabilization Funds (\$183 million), and (7) various other programs.

Revenues

The economic and revenue forecasts upon which the FY 2010 – FY 2011 budget is based were presented to the State Budget Committee on May 27, 2009. Real Gross Domestic Product was forecasted to decrease by 1.66% in FY 2009 and another 1.16% in FY 2010, and then to increase by 2.76% in FY 2011. Nominal Indiana nonfarm personal income was forecasted to increase by 1.12% in FY 2009, and then to decrease by 0.60% in FY 2010 before increasing by 2.28% in FY 2011.

The May 27, 2009 forecast introduced three new economic variables to more accurately capture how state revenues track the economy: (1) Wages and salary disbursements were forecasted to decrease by 0.87% in FY 2009 and another 1.93% in FY 2010, and then to increase by 1.79% in FY 2011, (2) Household financial assets were forecasted to decrease by 15.3% in FY 2009, and then to increase by 3.47% in FY 2010 and 8.99% in FY 2011, and (3) Personal consumption expenditures were forecasted to increase by 0.52% in FY 2009, by 0.96% in FY 2010, and by 3.80% in FY 2011.

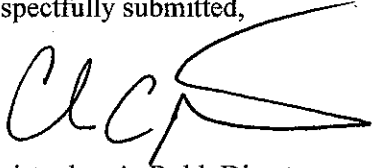
General Fund revenues, normalized for the impact of House Enrolled Act 1001 (2008), decreased by \$962.9 million or 7.4% in FY 2009. General Fund revenues are forecasted to increase by \$211.5 million or 1.6% in FY 2010, and \$516.7 million or 3.9% in FY 2011. When normalized for the impact of House Enrolled Act 1001 (2008), state General Fund revenues for FY 2011 are projected to be less than actual revenues for FY 2007.

Reserve Balances

Indiana's total combined reserve balance is \$1,419.4 million to begin the FY 2010 – FY 2011 biennium (or \$1,329.4 million after accounting for a \$90 million liability from property tax replacement and homestead credits). This combined balance includes reserves of approximately \$54.9 million in the General Fund, \$941.7 million in the state tuition reserve, \$57.6 million in the Medicaid reserve, and \$365.2 million in rainy day reserves. The estimated combined reserve balance at the end of the FY 2010 – FY 2011 biennium is in excess of \$1 billion, providing protection against further declines in state revenues and funds to protect against drastic service cuts when federal stimulus funds disappear.

A Combined Statement of Actual and Estimated Unappropriated Reserve (the Reserve Statement) follows this cover letter and reflects the best information available following the passage of the budget by the General Assembly and the closing of the state fiscal year in July 2009.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'C. Ruhl', with a large, sweeping flourish extending to the right.

Christopher A. Ruhl, Director
State Budget Agency