

FY 2010-2011 Budget Recommendations

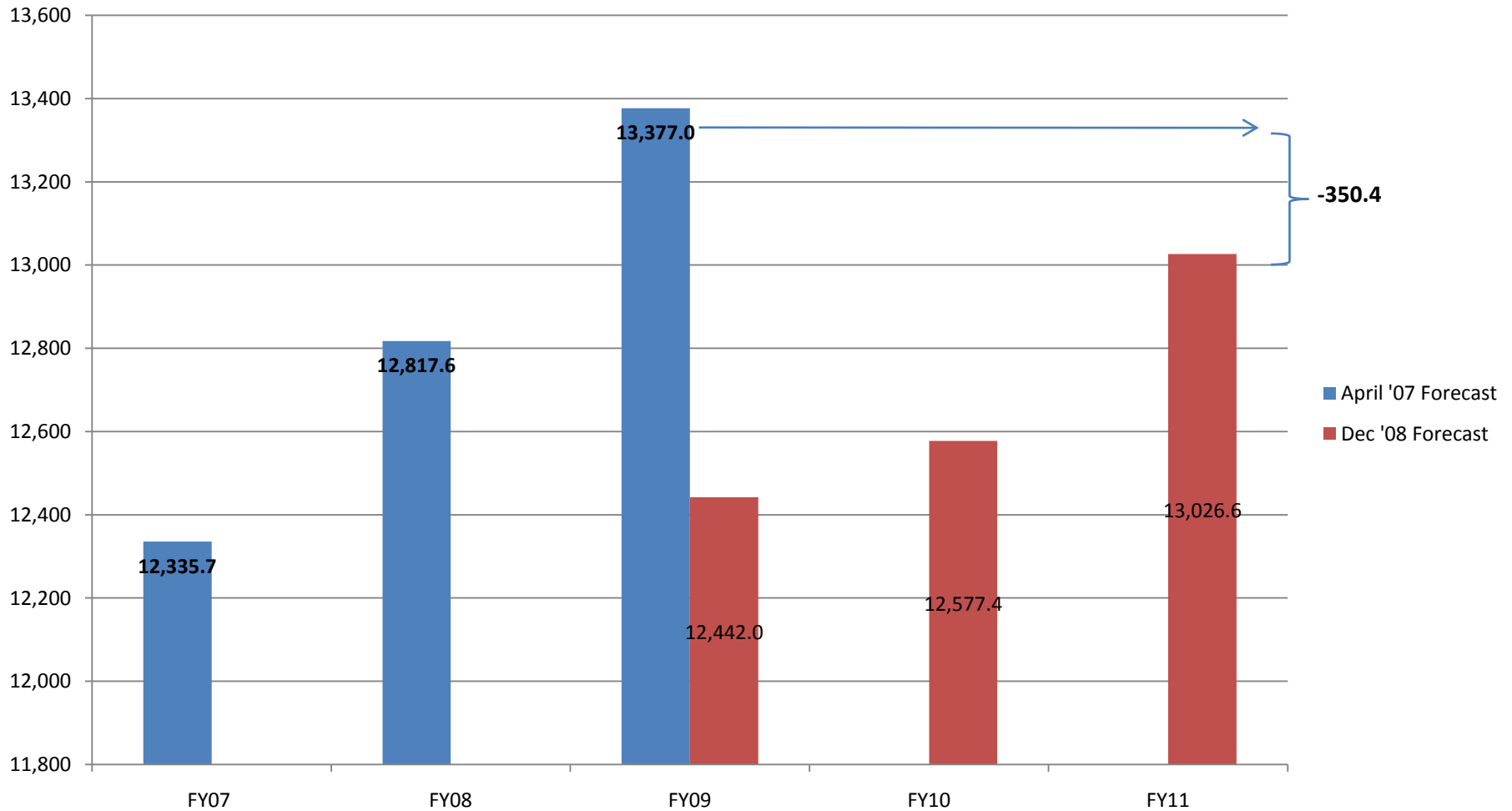
Governor Mitch Daniels
Office of Management and Budget
State Budget Agency
January 8, 2009

Process

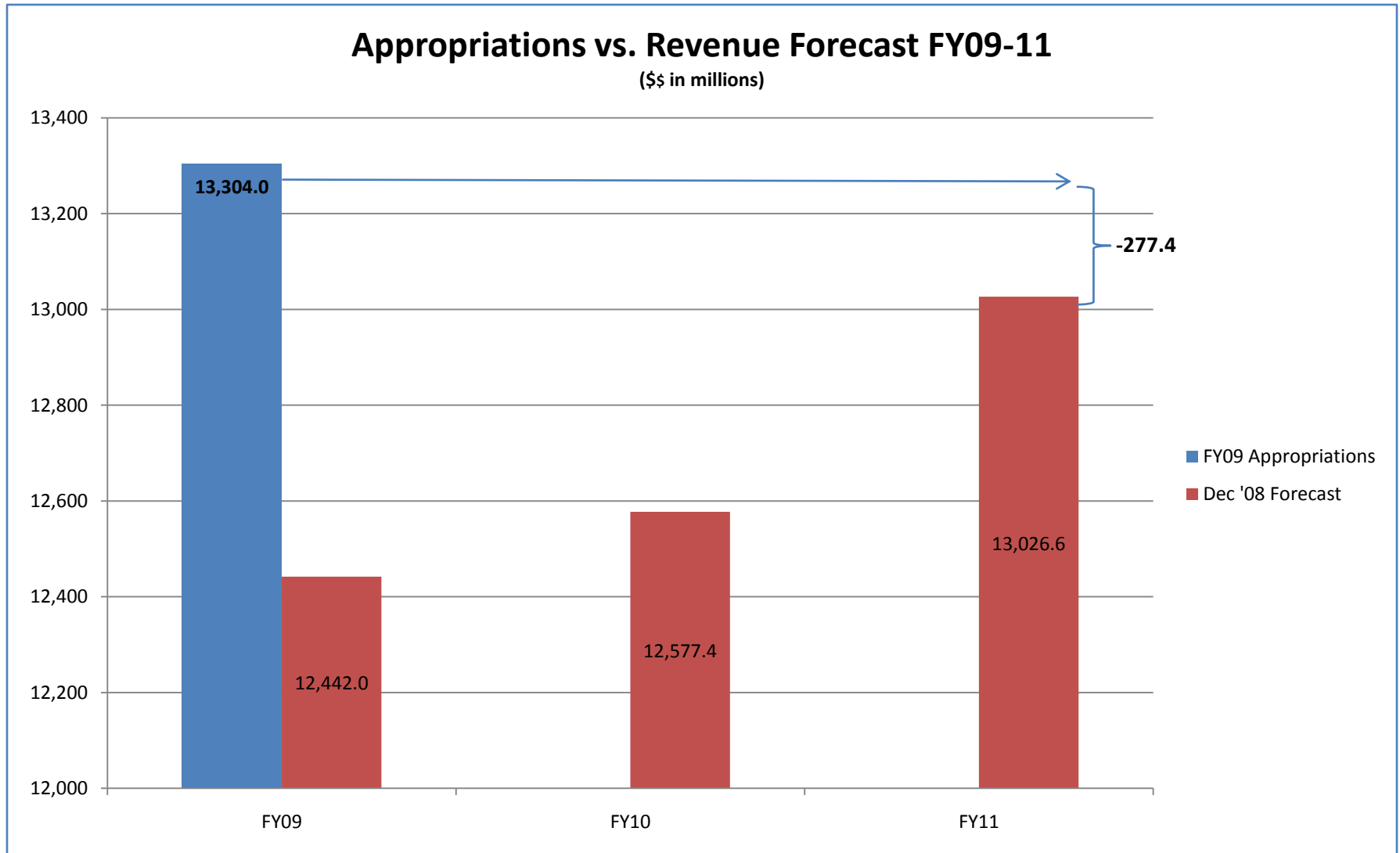
- Budget hearings held in November and December
- Recommended budget report shared with fiscal analysts on January 5th
- Office hours held by budget director and staff on January 6th and January 7th for budget committee members, alternates and staff to provide feedback and ask questions
- Recommended budget report considered by budget committee on January 8th

It's the Economy...

Revenue Forecast FY07-FY11
(in millions)



Appropriations in the last budget exceed forecast revenue in this budget



Summary of the Challenge / Opportunity

- The December 11, 2008 forecast lowered FY 2009 revenue by \$720 million. This lower base carries through for FY 2010-11, and projects the state would collect \$2.1 billion less revenue over the next thirty months compared to the prior forecast
- Actual December revenues missed forecast by \$33 million
- Modest revenue growth from the dramatically lower base is projected for FY 2010-11; but even with some growth:
 - FY 2011 forecast revenue is \$277 million below FY 2009 appropriation; and
 - FY 2011 forecast revenue is only 0.7% above actual FY 2008 collections—virtually no growth over a three year period
- If no adjustment is made to reduce base spending, reserves would be exhausted prior to FY 2011 and a sizeable budget shortfall would still exist
- **Governor Daniels: “Indiana’s budget problems are more manageable than most, if only we have the will to manage them”**

Guiding Principles

- Balanced Budget
- With NO tax increases
- Maintain the current level of operating balances which falls at the lower end on the scale of a prudent amount
- No payment delays
- Avoid the catastrophic cuts to critical services that other states are making
- Protects public safety, children, K-12 education and property tax relief

Why Maintain a Prudent Level of Reserves?

- Economic conditions may deteriorate further. It's unclear how long or how hard it will rain. Consider:
 - The December 2008 forecast reduced expected tax collections for FY 2009 by nearly \$1 billion compared to the budget forecast
 - What if actual collections in FY 2010 or 2011 miss by \$1 billion? What if the April 2009 forecast reduces revenue collections further?
 - During the last economic downturn in the early 2000s, actual collections missed the December pre-budget session forecast by more than \$1.6 billion
 - The current level of general fund reserves would fund only 15 days of state government spending at the biennial recommended amount
- To prevent spending beyond taxpayers' means. Spending reserves is one time gain for long term pain. Avoiding difficult but necessary decisions will only exacerbate the problem

Summary FY 2010-2011

- Total Revenue: \$28.354 billion
 - Assumes December 11, 2008 revenue forecast is met
- Total Appropriations: \$28.344 billion
 - 8.5% increase compared to 2008-09 biennial budget.
Excluding HEA 1001, 1% decrease compared to 2008-09 biennial budget
- Biennial Surplus: \$10 million
- Projected Total Combined Balances as of June 30, 2011: \$1.3 billion
 - \$10 million more than the projected reserves at the close of FY 2009

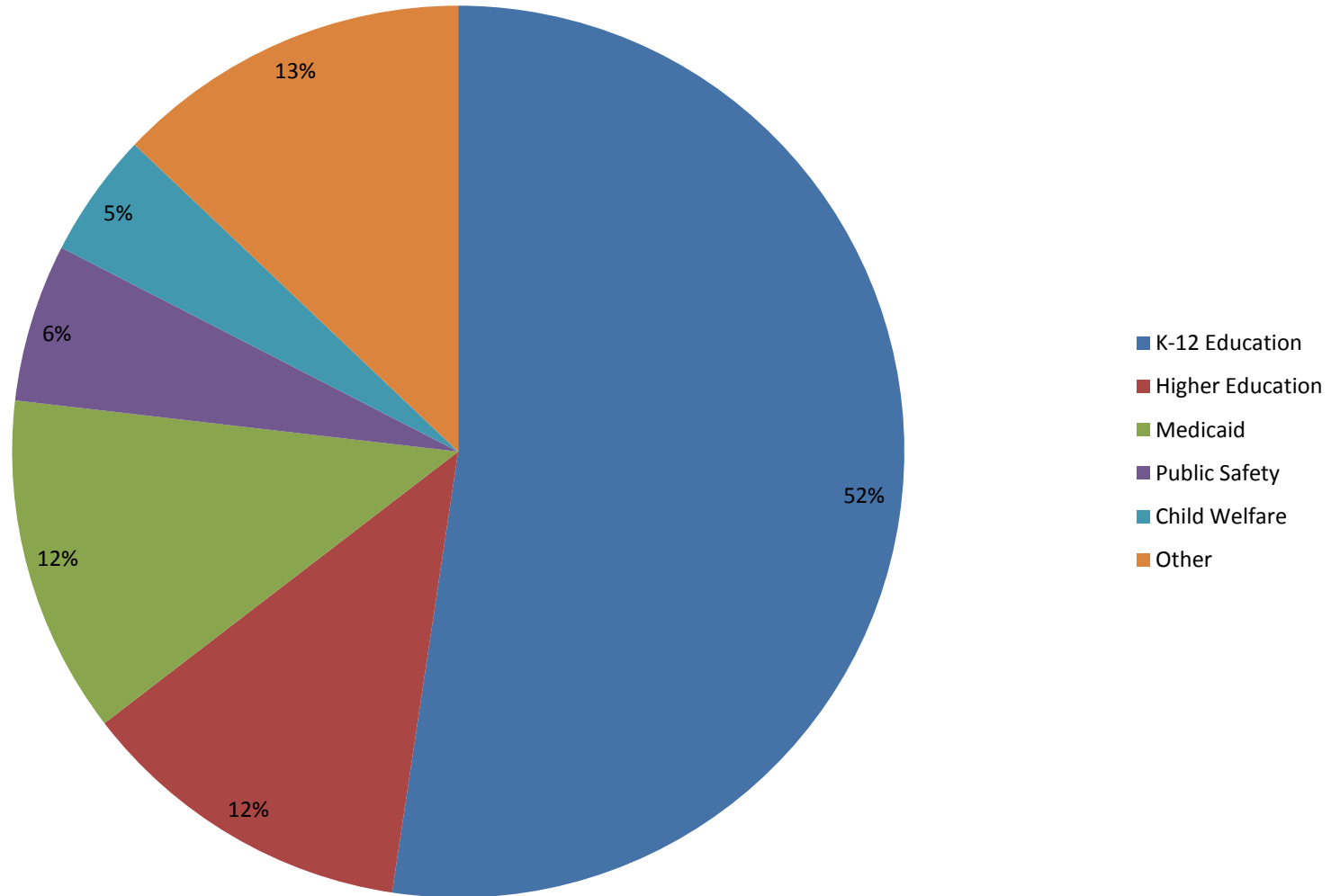
Summary FY 2010-11

- This budget will require sacrifices and contributions from all involved
- The Governor has delayed numerous initiatives impacting the state budget:
 - Increased funding for full-day kindergarten
 - Wilson Scholars initiative
 - Teacher tax credit
 - Hoosier College Promise
- Raises for state employees for CY 2009 will not occur
- Most executive branch operating budgets have been permanently reduced by 8% in FY 2010-11 compared to FY 2009 appropriation

Summary FY 2010-2011

- Recommended budget accomplishes the following:
 - Satisfies the guiding principles outlined previously
 - Protects public safety with increases for the Department of Correction
 - Increases the tuition support appropriation
 - Increases need based student financial aid
 - Fully funds obligations for Pre-1996 Teacher Pension Plan
 - Protects children with DCS budget
 - Assumes over \$2 billion (net) of local property tax levies

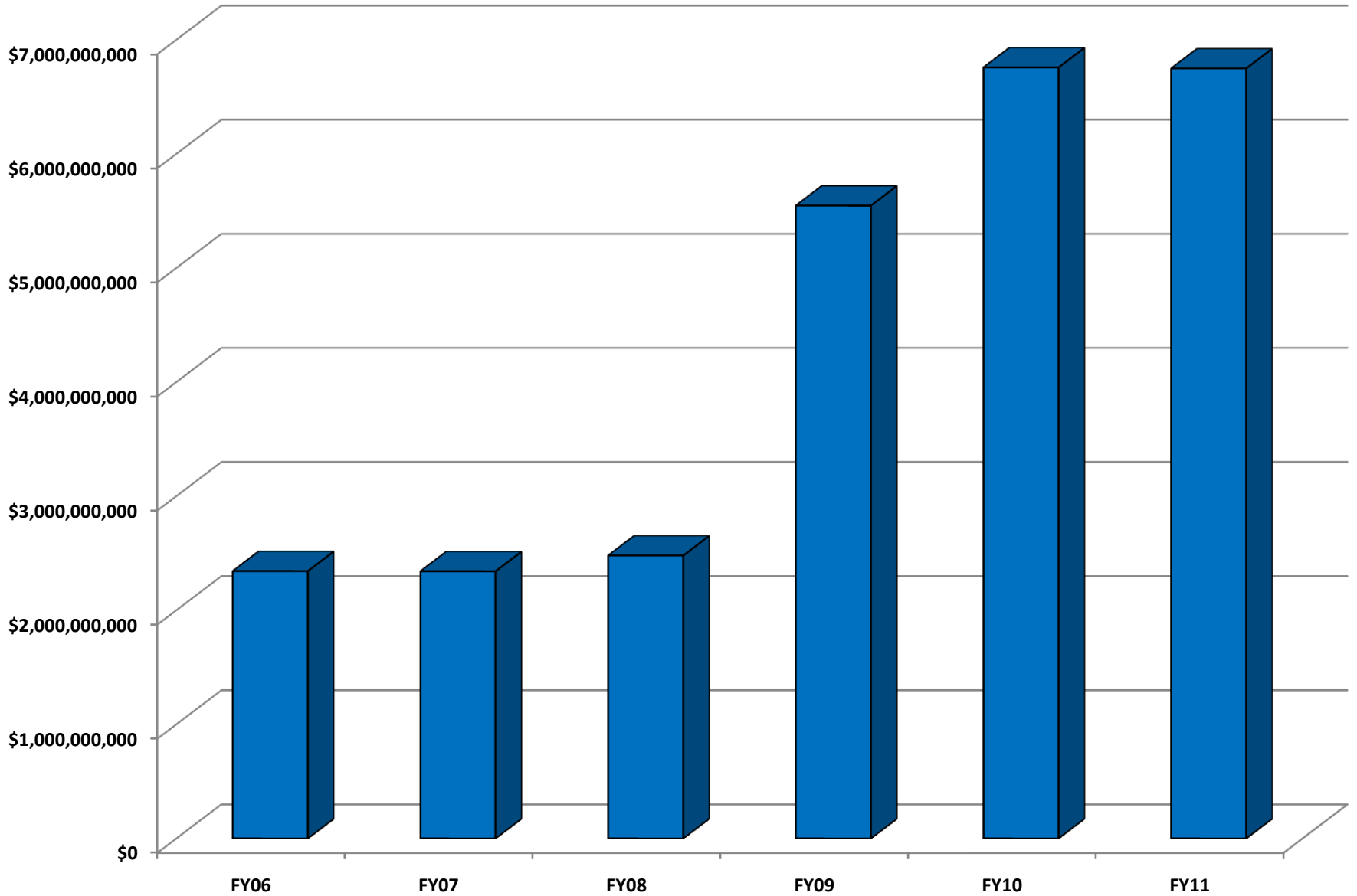
General Fund Estimated Expenses FY 2010-2011



HEA 1001 Property Tax Relief

- FY 2010-11 budget funds the following items from HEA 1001-2008:
 - **Tuition Support.** Department of Education. \$4.4 billion
 - **Special Education Pre-School.** DOE. \$12 million
 - Circuit Breaker Replacement Grant. DOE. \$85 million
 - **New Facility Appeals.** DOE. \$10 million
 - **Family & Children's Fund.** Department of Child Services. \$958 million
 - **Health Care for the Indigent.** FSSA. \$126 million
 - **Marion County Health & Hospital Corp.** FSSA. \$80 million
 - **Child Psychiatric Services.** FSSA. \$41 million
 - **Medical Assistance to Wards.** FSSA. \$26 million
 - **Children with Special Health Care Needs.** Department of Health. \$28 million
 - **State Fair.** State Fair. \$4.2 million
 - **State Forestry.** DNR. \$9 million
 - Homestead Credits. Distribution. \$150 million
 - **Police & Fire Pension.** PERF. \$208 million
- Total equals \$6.1 billion. Funded through elimination of PTRC, 1% sales tax and wagering taxes from horse-tracks
- Funding sources are net of increased renter's deduction and foregone juvenile incarceration charges

K-12 Education General Fund Appropriations



Note: FY10 & FY11 are Governor's Recommendation. FY09 through FY11 includes changes made by HEA 1001-2008

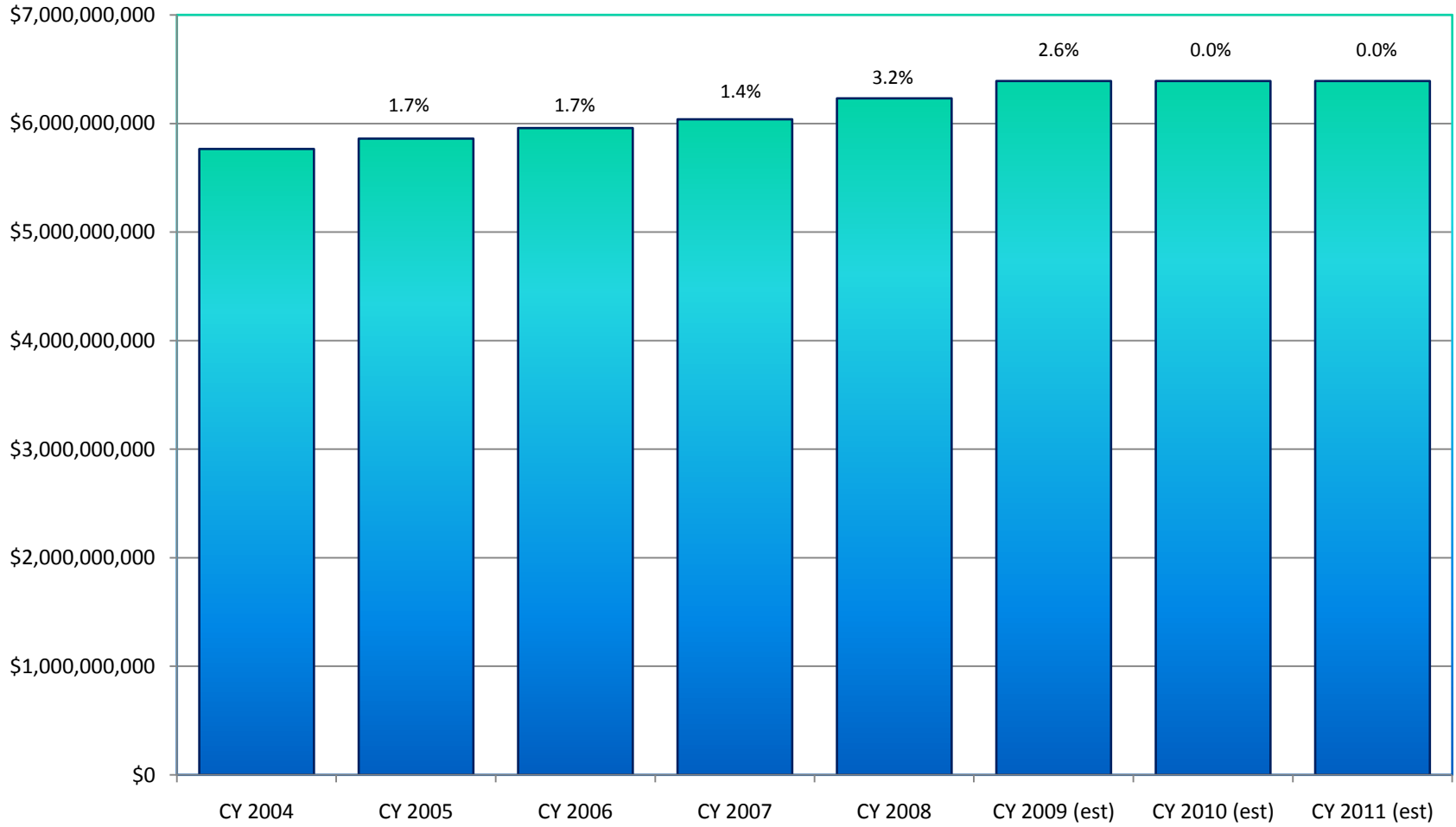
K-12 Education

- Total biennial increase of \$129 million
- \$79 million in additional funds allocated to the school funding formula for FY 2010-11
 - Result: CY 2009 funding increases 2.6% over CY 2008. CY 2010 and 2011 held constant at CY 2009 level

Seq		Actual FY 06-07	Actual FY 07-08	Current Yr Est FY 08-09	Base	Recommended FY 09-10	Recommended FY 10-11
1	1000/109040 TRF TO ST SCHOOL TUITION FND						
	General	2,243,477,336	2,154,222,511	5,205,965,312	6,337,622,892	6,364,174,566	6,390,726,240
	<i>Change from Base</i>					26,551,674	53,103,348
	Dedicated	1,719,011,655	1,709,046,991	0	0	0	0
	TOTAL	3,962,488,991	3,863,269,502	5,205,965,312	6,337,622,892	6,364,174,566	6,390,726,240

Tuition Support History

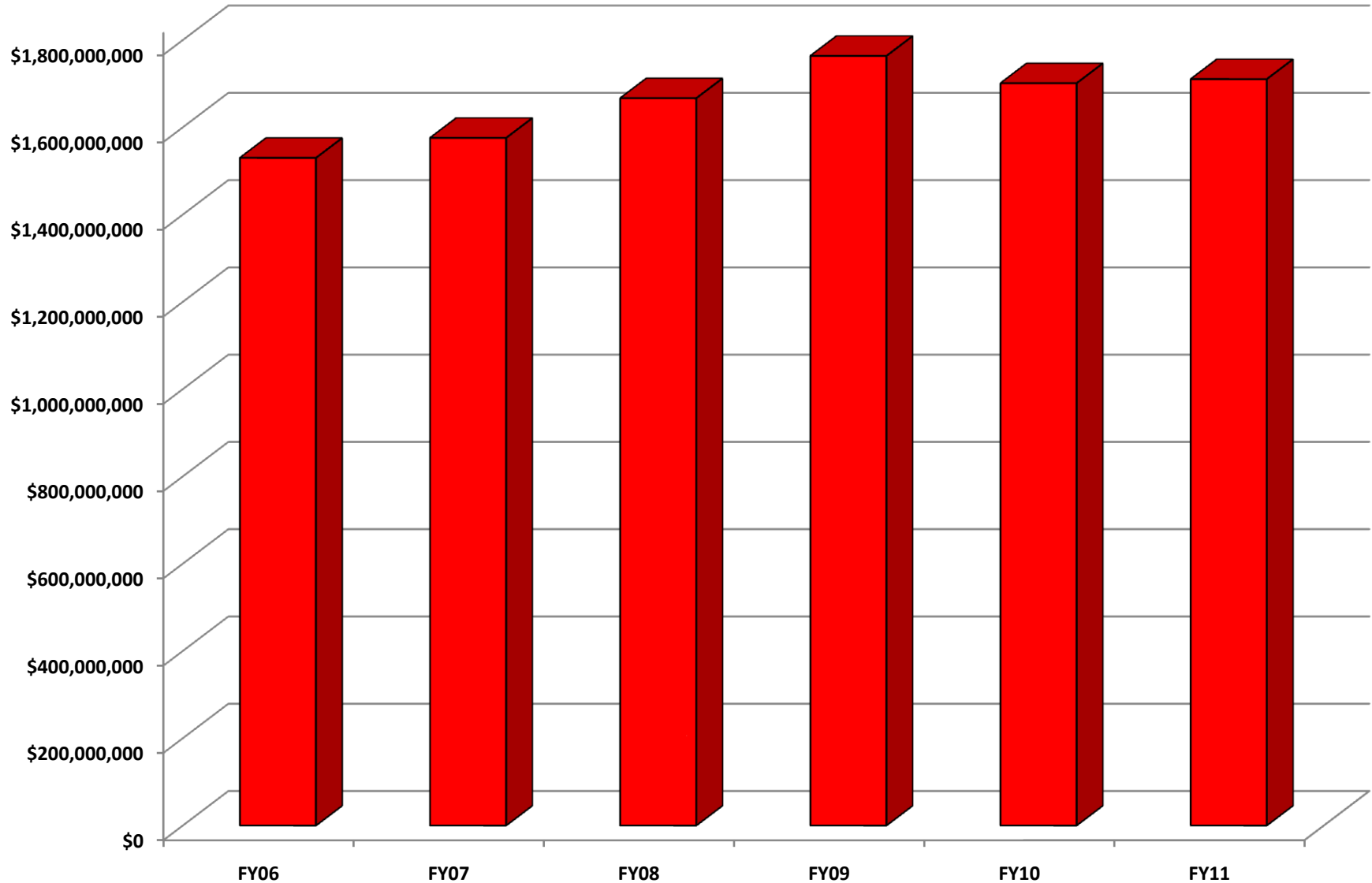
K-12 Tuition Support



K-12 Education (cont.)

- To provide greater transparency, separate fund centers with personnel and administrative expenses were consolidated into the Superintendent's overall operating budget as one line item. Total operating budget reduced by \$1 million annually, or 10%. Dollars allocated to the funding formula
- Appropriations for full day kindergarten, free textbooks, summer school and gifted and talented held constant at FY 2009 appropriations
- 5% reduction in total appropriation for other line-items
- General fund savings equals \$35 million over the biennium. Dollars allocated to the funding formula
- Recommend \$85 million in new general fund dollars to satisfy the state's obligation under the pay as you go Pre-1996 Teacher Pension Plan

Higher Education General Fund Appropriations



Note: FY09 adjusted for 1% reserve. Does not include R&R appropriations or capital cash appropriations. Includes all seven state supported universities (operating, line items, and fee replacement), and SSACI.

Higher Education

- FY 2010-11 biennial general fund appropriation 1% less than FY 2008-09 biennial appropriation
- SSACI
 - Need based student financial aid distributed by SSACI increases 5% each year in FY 2010-11 for a total of \$32.5 million in additional aid over the biennium
 - Changes in federal rules, enrollment increases, utilization of awards, and the student's choice of a public or private institution may impact the maximum award per student

Higher Education (cont.)

- Public Universities
 - FY 2010 university operating budgets are 1% above FY 2008 and 4% below FY 2009. FY 2011 budgets are held constant at the FY 2010 amounts
 - CHE performance based formula was used. Dollars were allocated to institutions based on degrees awarded, on time graduation, enrollment growth and research in lieu of inflationary increases
 - R&R funded at \$31 million per year. Same amount as FY 2008-09 formula R&R appropriation
 - Moratorium on all new capital projects funded with state taxpayer dollars, including projects previously authorized by the General Assembly in the 2007 budget, but not approved by CHE and the State Budget Committee
 - Over \$300 million of projects in the current budget have been approved by the Budget Committee through December, 2008
 - Moratorium saves \$25 million over the biennium

Economic Development

- The most important economic development tool in the budget is keeping government spending under control and taxes on Hoosier families and businesses low
- Adopting the property tax caps in the state constitution will provide certainty and tax reductions that can be reinvested by the private sector in employing Hoosiers and making new capital investments in Indiana
- Important IEDC programs are funded in FY 2010-11 at the same amount as FY 2009 appropriation
 - 21st Century Research and Technology
 - Industrial Development Grant Program
- Funding for these programs is eliminated in FY 2010-11
 - High Growth Business Incentive Fund
 - Indiana Life Sciences
 - Savings equals \$23 million per year
- No recommended modifications to tax incentives which continue to serve as the primary tool for economic development

Public Safety—Department of Correction

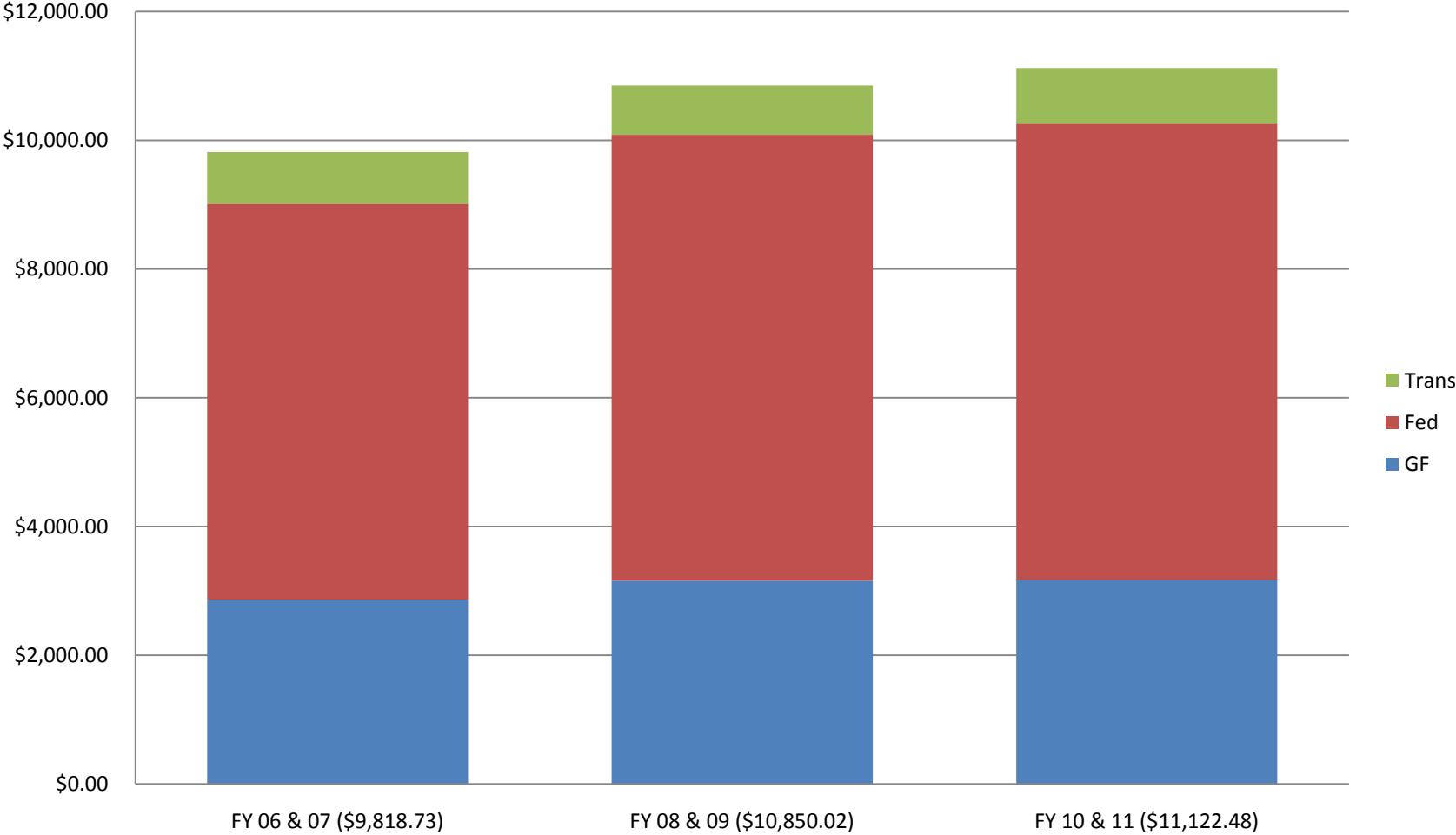
- To ensure a sufficient level of public safety for Hoosiers, DOC general fund appropriation recommended at \$679 million in FY 2010 and \$697 million in FY 2011
- This is a biennial increase of \$104 million and is attributable to:
 - An increased number of offenders
 - Base budget increases. FY 2009 appropriation equals \$635 million. Projected current year spend equals \$660 million due to:
 - Medical care expense for offenders that was unintentionally excluded from the 2007 base budget
 - 8% pay raise for correctional officers that was effective in 2007 but only 4% was included in the FY 2008-09 budget by the General Assembly
- Recommend DOC request for additional capital funds in FY 2011 to increase the number of beds by expanding capacity at two existing facilities to address the growing offender population. Capital request funded through the Post War Construction Fund

Public Safety

- Indiana State Police
 - FY 2010-11 general fund operating budget equal to FY 2009 appropriation
- Adjutant General
 - Maintains funding for Hoosier Youth Challenge Academy
 - Recommend the \$4 million request for land acquisition funds for expansion opportunities be funded from the Build Indiana Fund

Medicaid—Funding History

Medicaid Totals (in millions)



Medicaid

- Total biennial FY 2010-11 Medicaid assistance appropriation increases 2.5% over FY 2008-09 biennium
- Numerous cost savings measures and previously approved increases in the state's federal reimbursement rate assist in offsetting expected enrollment and expense growth. This enables the total appropriation to increase modestly, yet the level of support needed from state general fund dollars can be reduced
- Federal reimbursement rates for Medicaid assistance have risen over three percentage points since 2008—from 62.5% to 66%. This distinguishes the FY 2010-11 budget from the prior budget in which federal reimbursement rates declined slightly compared to prior years
- The FY 2010 recommended general fund appropriation for Medicaid is 2% below the FY 2009 appropriation. The FY 2011 appropriation is held constant with FY 2010
- The recommended appropriation does not include any assumption of a federal stimulus package
- Maintain services for eligible recipients

Department of Child Services and Family and Children's Fund

- Department of Child Services
 - FY 2010-11 general fund operating budget 3.9% below FY 2009 appropriation
 - Appropriation for DCS County Administration increases to reflect the increase in the number of caseworkers since the 2007 budget. That increase is offset by a reduction in the appropriation for SSBG which is no longer necessary to match federal funds
 - Recommended budget ensures that existing number of caseworkers to protect abused, abandoned and neglected children are funded
- Family and Children's Fund
 - Family and Children's Fund is one of the levies assumed under HEA 1001-2008. FY 2009 appropriation for six months was \$238 million
 - Recommend FY 2010-11 total appropriation for the Fund at \$479 million per year
 - DCS is currently pursuing substantial opportunities to leverage federal funding for services in lieu of state general fund dollars
 - Therefore, state general fund appropriation is recommended at \$464 million per year, with the balance of the total appropriation funded through federal dollars

Health and Human Services

- Tobacco Master Settlement Fund
 - Recommended TMSF appropriations are slightly less than projected revenue receipts for the biennium ensuring structural balance of the fund
 - Community Health Centers. \$60 million was appropriated in the prior biennium to the CHCs. \$30 million was used for operations. \$30 million for one-time capital projects. The FY 2010-11 recommended budget appropriates \$30 million for operations, but not for capital
 - The adjustment to CHC funding allows the transfer of appropriations from the state general fund to TMSF for several health programs such as:
 - Community Mental Health Centers
 - Children with Special Health Care Needs
 - Substance Abuse Treatment
 - General fund savings equals \$29 million over the biennium

Health and Human Services

- Department of Health
 - FY 2010-11 general fund operating budget 15% below FY 2009 appropriation
 - 15% reduction includes general fund reductions for programs shifted to TMSF
- Family and Social Services Administration
 - Excludes Medicaid. Includes Mental Health/Addiction, Aging, Family Resources, Disability and Rehabilitation Services, State Hospitals and FSSA Administration
 - FY 2010-11 general fund operating budget 6% below FY 2009 appropriation

Conservation and Environment

- Department of Natural Resources
 - FY 2010-11 operating general fund budget 6% below FY 2009 appropriation
 - FY 2010-11 capital budget \$19 million below FY 2008-09 appropriation. Critical preventative maintenance and R&R is included. Discretionary new projects are not
- Department of Environmental Management
 - FY 2010-11 operating general fund budget 8% below FY 2009 appropriation

General Government

- Recommended FY 2010-11 general fund budget for executive branch state agencies that is flat or below the FY 2009 appropriation
- Agencies with base budget increases compared to FY 2009: 2—Corrections; Public Access Counselor
- Agencies with base budget 0% to -6% compared to FY 2009: 12—Examples: Department of Administration; Board of Accounts; DLGF
- Agencies with base budget -6% or more compared to FY 2009: 46—Examples: Governor's Office; Budget Agency; Department of Revenue

Judicial Branch

- Recommendations:
 - FY 2010-11 general fund budget for the judicial branch held constant with the FY 2009 appropriation
 - Exception: salary accounts within the budget were increased \$7 million to fund increases in local judicial and prosecutor salaries approved during the prior two fiscal years
 - Change package requests for additional funds are not recommended

Capital Budget Recommendations

- In total, the general fund capital budget recommendation for FY 2010-11 biennium is \$59 million below FY 2008-09 biennial appropriation
- Lease rental payments for debt service on state facilities (all funds)
 - Recommend \$139 million in FY 2010 compared to FY 2009 appropriation of \$133 million. Slight increase in FY 2011 over FY 2010
 - Excludes the legally required lease appropriation for the Indiana Stadium and Convention Center Building Authority
- Priority on preventative maintenance and R&R. Discretionary new projects not recommended
- Capital R&R appropriations for the Schools for the Blind and Deaf were shifted to Post War Construction Fund. General Fund savings equals \$4 million
 - PWCF revenues are projected to exceed expenditures on annual basis, ensuring the structural balance of the fund

Federal Stimulus

- Unclear when, how much, what form and what strings will be attached
- Focus will be on infrastructure funds (roads, bridges, etc.) which do not directly impact the state's general fund budget
- Individual and business tax relief is expected to be a component of the plan which could adversely impact state tax collections, particularly if the tax relief is retroactive
- Any money received will be one-time in nature. Spending the stimulus for on-going programs creates a budget deficit because the temporary federal funding will cease
- Spending should be on one-time initiatives that will put Hoosiers to work and build a stronger future for the state
- Recommended budget does not include any impact from potential federal stimulus package

Surplus Statement as of 1/8/09

(Millions of Dollars)

	Estimated <u>FY 2009</u>	Estimated <u>FY 2010</u>	Estimated <u>FY 2011</u>	<u>Biennial</u>
Beginning Balance	1,413.1	1,275.2	1,040.2	
Current Year Revenues				
Forecasted Revenue (1)	12,442.0	13,821.2	14,321.9	
Disproportionate Share Hospital (DSH)	67.0	67.0	67.0	
Quality Assessment Fee	18.0	18.0	18.0	
Miscellaneous Revenue (2)	15.0	-	-	
Rainy Day Fund Interest	7.2	6.4	13.1	
State Tuition Reserve Interest	8.0	7.1	14.5	
Total Current Year Revenues	12,557.2	13,919.7	14,434.5	28,354.2
Current Year Expenses				
FY09 As-Passed / FY10-11 Recommended Appropriations (3)	13,427.1	14,211.7	14,248.7	
Enrolled Acts - 2008 (excluding HEA 1001)	6.1	-	-	
Reversal of Payment Delays	(136.6)	-	-	
Adjustment for Stadium/Convention Center Appropriation	-	(40.0)	(42.0)	
Judgments and Settlements	8.0	8.0	8.0	
Total Reversions	(767.4)	(25.0)	(25.0)	
Total Current Year Expenditures	12,537.2	14,154.7	14,189.7	28,344.4
Annual Surplus / (Deficit)	20.0	(235.0)	244.8	9.8
(Current Year Revenues - Current Year Expenses)				
<u>Other Sources and (Uses) of Cash</u>				
Reduce Payment Delay Liabilities:				
Higher Education	(31.1)			
PTRF Adjust for Abstracts	(78.7)			
Net Impact of HEA 1001 (2008) (4)	(48.1)			
Total Combined Balances	1,275.2	1,040.2	1,285.0	