State of Indiana
Eric J. Holcomb, Governor

State Budget Agency
State House Room 212
Indianapolis, IN 46204
317-232-5610

Joseph M. Habig, Acting Director

MEMORANDUM

TO: All State and Quasi-State Agencies

FROM: Joseph M. Habig, Acting Budget Director

CC: Governor Holcomb, OMB Director Johnston

DATE: June 13, 2024

RE: FY2025 Reserve Policy and FY2026-2027 Supplementary Budget Instructions

FY2025 Reserve Policy

As we quickly approach the close of FY2024, it's time to focus our planning efforts on maintaining the same fiscal policy outcomes next year and beyond as those we have achieved in recent years, namely, an annual surplus, balanced budget, strong reserve levels, and a AAA credit rating.

A significant risk to budget management is unexpected costs. To ensure we can react mid-year to unforeseen circumstances while maintaining our fiscal policy goals, it is prudent to build a plan that spends less than available appropriations. To achieve this goal, we are asking all agencies to create an FY2025 spending plan that includes a 2% management reserve on all administrative and operational appropriations. We understand some programs – such as grants and distributions – will receive exemptions from the reserve target, but any exemption request must be approved by State Budget Agency (SBA). Exemption requests, with justification, must be submitted to your assigned budget analyst by email on or before **July 3, 2024**.

SBA will be using the Spending Plan, Expense, & Encumbrance Dashboard (SPEED) application to track approved spending plans by fund and will compare those to actuals each month. Please have your agency's spending plans for each fund submitted in SPEED by

August 1, 2024. Spending plans will be considered dynamic and may be adjusted with SBA approval for enterprise-wide changes or unforeseen agency needs. For additional policy guidance regarding spending plans, please refer to Financial Management Circular 1.2 (FMC-1.2-Fiscal-Spending-Plans-January-1,-2022.pdf).

While the reserve requirements apply only to executive branch agencies and do not apply to the legislature, judicial branch, or separately elected officials, we respectfully request that all state functions voluntarily participate by reserving a portion of appropriations as outlined above and submitting spending plans into SBA's SPEED application.

FY2026-2027 Supplementary Budget Instructions

Budget instructions were distributed to all agencies on May 1, 2024. Those instructions detailed the required documents, deadlines, and methods to officially submit agency budgets. Your assigned budget analyst will be sharing with you the updated templates, forms, and questions you will use to supply the documentation required in the instructions. You will receive the following from your budget analyst:

- Fund Narrative Template
- Change Package Questions (online portal will be open within the next month)
- Capital Project Questions (online portal will be open within the next month)
- Federal Assistance and Match Estimates Template
- Dedicated Revenue Estimates Template

27 Pay Dates in FY2027

With payroll paid on a bi-weekly basis, most agencies budget for 26 pay dates in a typical fiscal year. However, approximately every 10 years, the State experiences a year with 27 pay dates. FY2027 will be one of those years. This means agencies must calculate and plan to request a budget change package for FY2027 in an amount sufficient to cover the costs of a 27th pay date. To the extent you need assistance in calculating the costs, please contact your budget analyst.

State Personnel Department (SPD) Rates

When HR Service rates were estimated for agencies 2 years ago and communicated in the FY2024-2025 biennial budget instructions, the statewide salary/compensation study was months away from completion. Consequently, estimated growth rates for budget planning were far less than the actual growth in costs during this biennium. To right-size the rates with HR Service costs, agencies should plan on a 40% HR Service rate increase in FY2025.

Though this growth rate is substantial, it will be offset by a 40% reduction in disability premiums detailed below.

Disability premiums are based on a percentage of salary. After a premium holiday in FY2022, and a rate reduction from 1.33% to 1.00% of salary, there is still room for continued rate reductions in FY2025. The new premium rates for FY2025 and beyond will be lowered from 1.00% to 0.60% of salary.

It is still too early in CY2024 to know with confidence what growth rate agencies should expect next year for the health, dental, and vision benefit plans. However, medical and pharmaceutical costs continue to increase, so for budget planning purposes we recommend using the percentages in the 3rd table below. Keep in mind that health/dental/vision benefit plan rates are set on a calendar year basis.

Table 1: HR Service Rates

HR Service Rates (per PCN)	**Current (FY2024)**	**FY 2025**	**FY 2026 estimated**	**FY 2027 estimated**
Rate Increase Per Year		40%	4%	4%
Annual Full-Time Rate	$405.20	$567.28	$589.97	$613.57
Annual Part-Time Rate	$76.30	$106.82	$111.09	$115.53

Table 2: Disability Premiums

Disability Premiums (% of salary)	**Current (FY2024)**	**FY 2025**	**FY 2026 estimated**	**FY 2027 estimated**
Rate Increase Per Year		-40%	0%	0%
Annual Full-Time Rate	1.00%	0.60%	0.60%	0.60%
Annual Part-Time Rate	N/A	N/A	N/A	N/A

Table 3: Employer Share of Health/Dental/Vision Benefit Premiums

Employer Health Benefit Premiums	**Current (CY2024)**	**CY 2025 estimated**	**CY 2026 estimated**	**CY 2027 estimated**
Rate Increase Per Year		8%	6%	6%
Annual Single Rate	$8,567.52	$9,252.92	$9,808.10	$10,396.59
Annual Family Rate	$24,204.96	$26,141.36	$27,709.84	$29,372.43
Annual AVG Rate	$16,846.16	$18,193.85	$19,285.48	$20,442.61

Indiana Office of Technology (IOT) Rates

In the coming weeks, IOT will be communicating new product rates for FY2025 and estimated agency impacts based on current utilization trends. On average, the increases are expected to result in agency IOT charges increasing by 8% next year. Many product rates will remain flat, some will decrease, and others will increase based on costs to deliver the product. Primary cost drivers are increased data storage costs, software user license fees, needed replacement of out-of-warranty network switches, and improvements to financial and human resource enterprise systems. With major software contract negotiations on the horizon, we recommend agencies assume IOT rates continue to increase by 8% year-over-year in the next biennium.

There are opportunities to reduce technology consumption and thereby lower your IOT bill in the aggregate. If you need assistance in understanding your IOT bill or ideas on where to start, please work with your assigned budget analyst. SBA will be working with IOT over the next year to identify new enterprise-wide opportunities for cost containment.