

# **FY12/13 Budget**

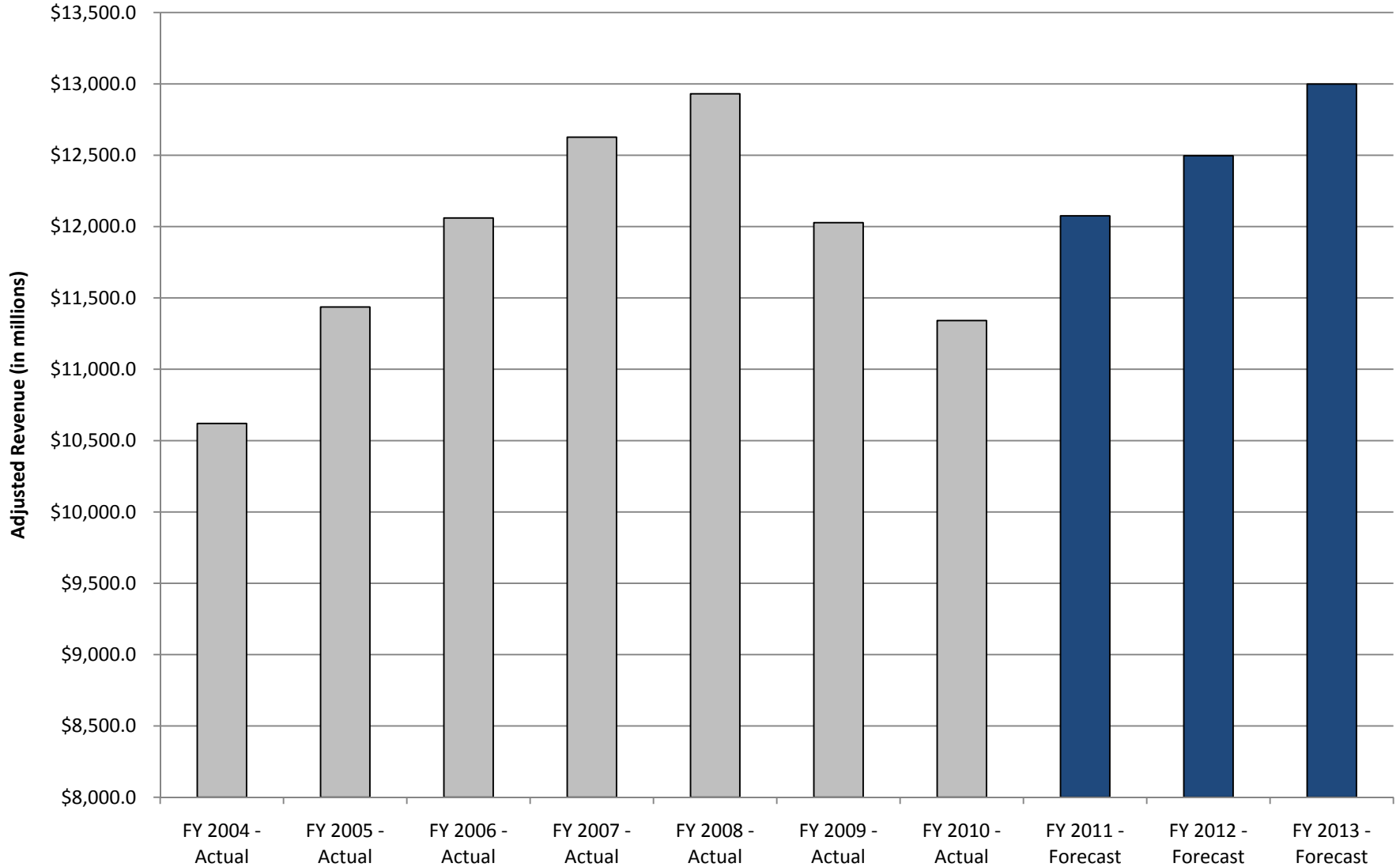
Senate Appropriations Committee

Rep. Jeff Espich

March 21, 2011

# Actual and Forecast General Fund Revenue - Net of 1% Increase in the Sales Tax

(in millions)

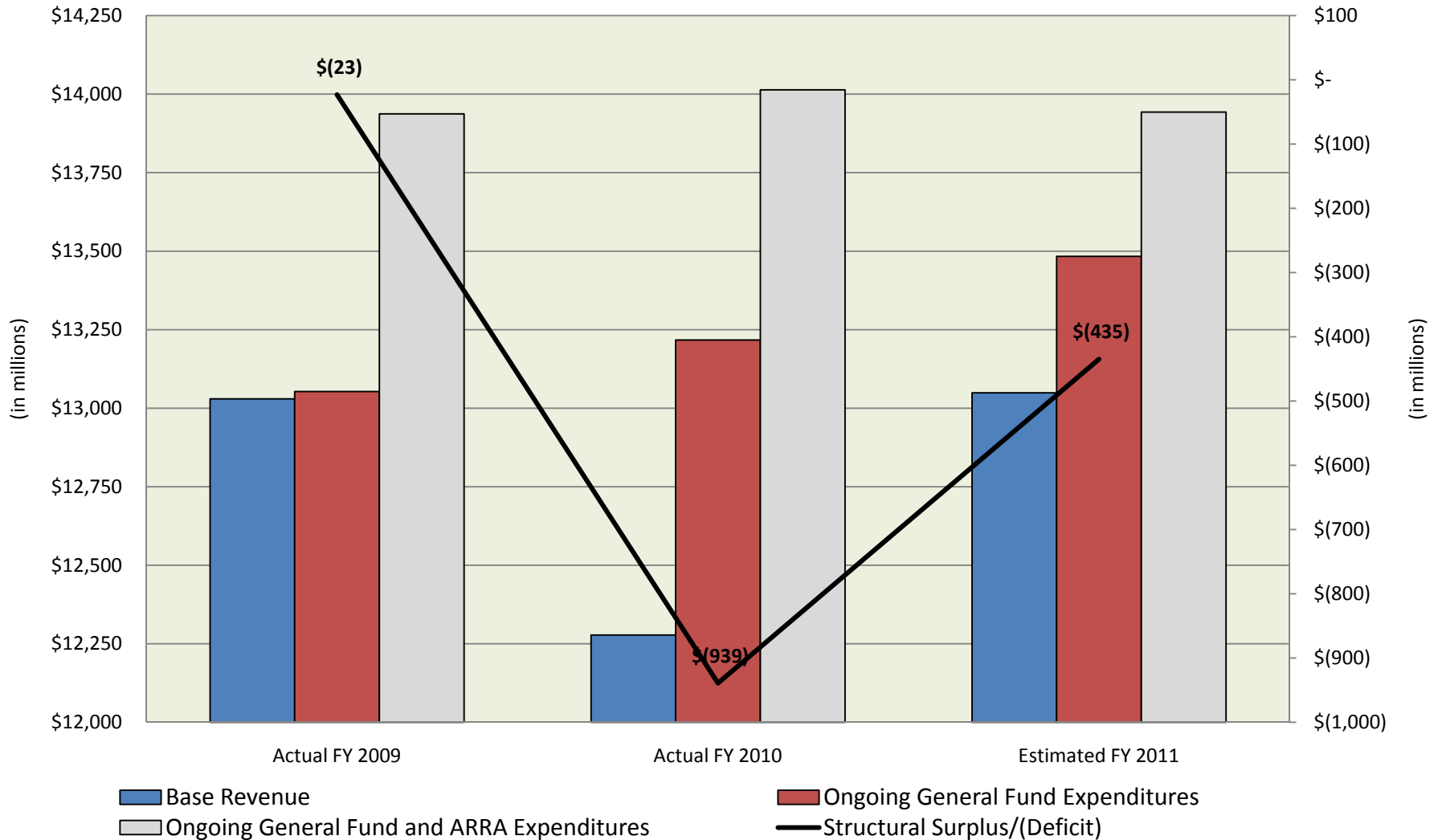


Note: Sales Tax increased to 7% in April 2008

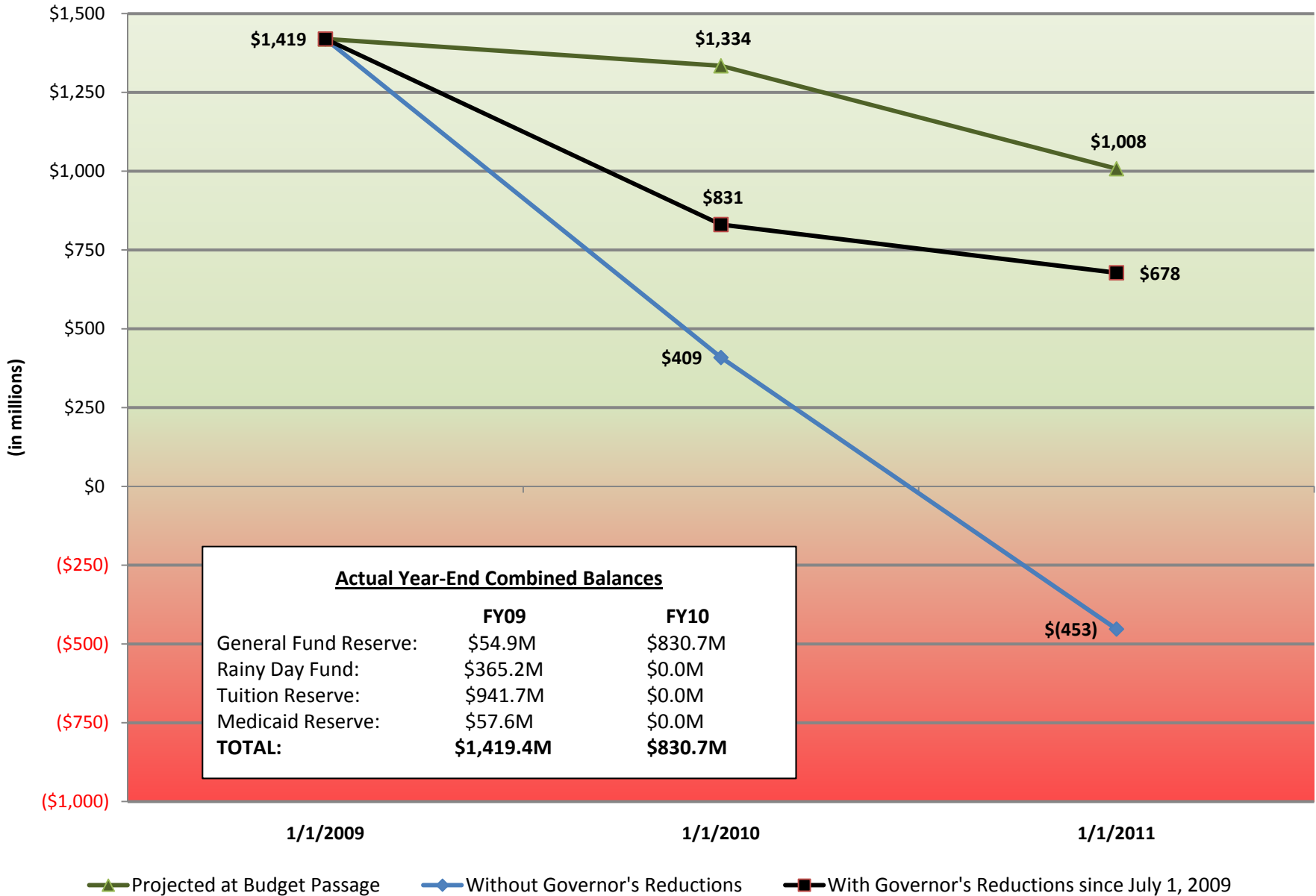
# Total Base Revenue v. Net Ongoing General Fund Expenditures & Structural Surplus/(Deficit)

## FY 2009 - FY 2011 Estimated

*\*Net ongoing general fund expenditures with ARRA expenditures shown for illustrative purposes*



# Actual and Projected Combined Balances (in millions)



# FY12/13 Revenue Projections

	REGULAR REVENUE	DIFFERENCE V. Prior Year
<b>FY11 Base Regular Revenue (December 2010 Forecast)</b>	<b>\$12,951M</b>	
FY12 Estimated Revenue (3.5% growth)	\$13,402M	+\$451M
FY13 Estimated Revenue (4.1% growth)	\$13,946M	+\$544M
<i>New Biennial Revenue (growth vs. FY11)</i>		<i>+\$1,446M</i>

# FY12/13 Budget Overview

- Budget Parameters:
  - No tax increases
  - Structural balance by FY13
  - Maintain sufficient reserves to protect taxpayers
  - Protect K-12 education
- The FY12/13 budget must protect Hoosier taxpayers, preserve vital services, and allow Indiana to maintain the stable and sound fiscal environment necessary to create Hoosier jobs

# FY12/13 Budget Overview

- Embraced principle of a “spending freeze” budget
  - Hoosiers are making do with less, so too should their state government
- Most executive branch agencies held to actual FY11 spending levels for both FY12 and FY13
  - FY12 and FY13 appropriations for most agencies are 15% below their FY11 appropriations and 25% below their FY09 appropriations
  - Notable exceptions:
    - Medicaid
    - Indiana Comprehensive Health Insurance Association
    - Pension obligations

# K-12 Education

- K-12 education is the top funding priority
  - K-12 funding accounts for nearly half of the state budget
- Preserves current statewide tuition support funding for K-12 schools for both CY12 and CY13
  - Statewide tuition support maintained at CY11 levels for CY12 and CY13 (3.5% reduction vs. CY09)
- Maintains funding for DOE grant programs related to student instruction (i.e., full day kindergarten, textbook reimbursement)

# K-12 Tuition Support Formula

- Formula allows money to follow the student
  - Formula includes:
    - No “deghoster”
    - No restoration grants
    - No small school grants
- Transition to target foundation
  - Schools that are below foundation transition to foundation immediately
  - Schools that are more than 20% above foundation transition immediately to their foundation amount plus 20%
  - Schools that are above foundation transition to foundation over a nine year period
- Complexity index continues to be based on number of students on free or reduced lunch

# Higher Education

- Funds university operating budgets based on performance
  - As a whole, flat-lines university operating budgets at actual FY11 levels
  - Distributes 5% of overall university operating funding via performance formula
  - Directs over half of the performance funding to degree completion variables to incentivize degree attainment
- Does not fund repair and rehabilitation projects in favor of providing more funding to operating budgets
  - Universities may use operating appropriations to fund necessary projects, giving them greater flexibility in how they use state dollars
- Does not authorize any new capital projects
  - Over \$350M of university capital projects authorized in previous budgets are already on the books and awaiting approval
  - In FY13, budget provides 50% of debt service funding for six projects approved by CHE but awaiting Budget Committee approval

# SSACI

- Preserves current levels of funding available to Hoosier students through the Frank O'Bannon (FOB) and 21<sup>st</sup> Century Scholars programs
  - HEA and FOC award appropriations were increased in the last budget
- Transfers the responsibility of funding postsecondary education for prisoners from SSACI to the DOC
  - SSACI spent over \$9M on grants to prisoners in FY10 and projects to spend about \$7M on grants to prisoners in FY12
  - DOC is in a better position to provide targeted associate's and certificate degree programs to prisoners that will give them the skills they need to obtain employment upon release (DOC studies show that post-incarceration employment significantly reduces recidivism rates)
  - DOC can serve the same number of prisoners served by FOB grants for less than half the cost
  - \$3.9M per year transferred to DOC for prisoner education
- \$3.1M of annual savings from above initiative reinvested in financial aid for part-time college students

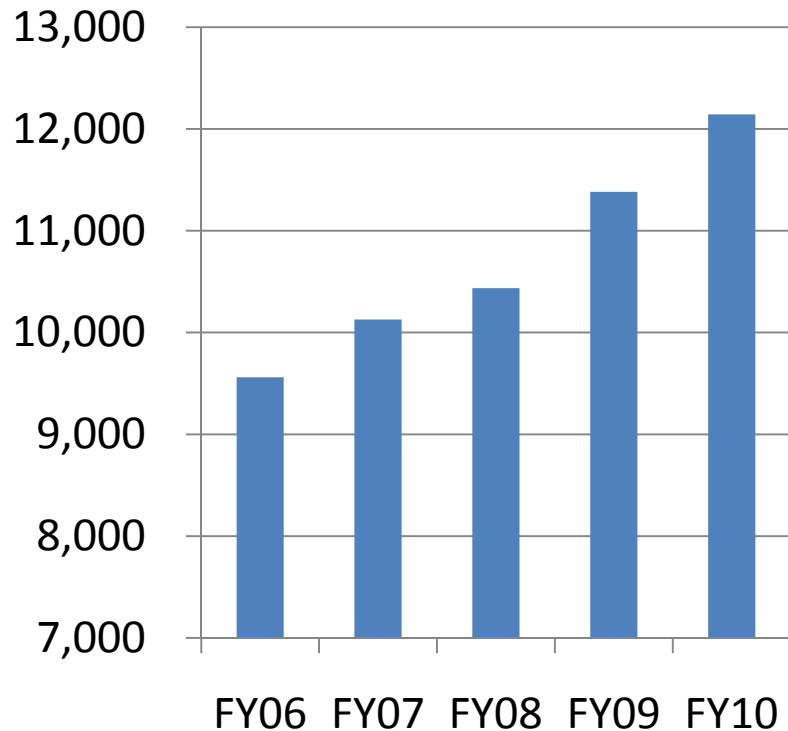
# FSSA/Medicaid

- Fully funds the Medicaid forecast
  - Assumes FSSA's estimated administrative savings targets will be met
- Maximizes the Quality Assessment Fee
  - Directs 70% of the total revenue to nursing facilities and 30% to the state General Fund
  - New revenue to the General Fund estimated at \$24M per year
- Allows FSSA to manage mental health drugs
  - Grandfathers mental health drugs prescribed to existing Medicaid patients and exempts psychiatrists from being required to prescribe only from the preferred drug list
- Funds CHOICE at \$44M in FY12 and \$49M in FY13 and allows FSSA to direct more resources to the Aged and Disabled (A&D) Waiver program
  - FSSA has increased the number of individuals served on the A&D waiver program from 3,280 in 2005 to 9,361 in 2010 while keeping the number of individuals served in nursing homes flat

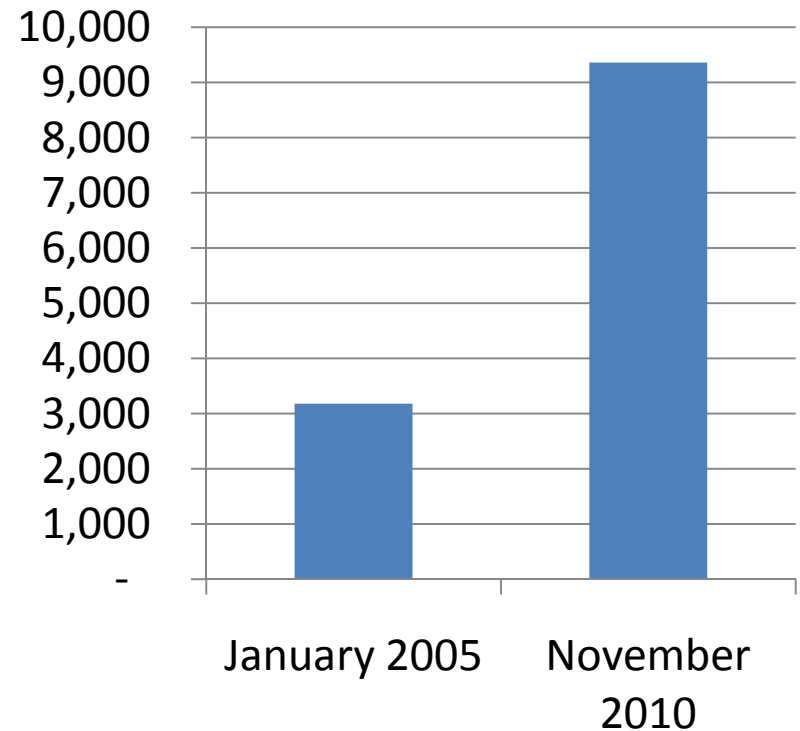
# FSSA Waiver Programs

## Waiver Counts FY06 – FY10

TBI, Autism, DD, SS Waivers



## Aged & Disabled Waiver Counts



# Department of Child Services

- Fully funds DCS's requested budget
  - FY12 budget request \$93M lower than FY11 appropriation and about \$15M lower than projected FY11 expenditures
  - Savings generated by...
    - Dramatically increasing administrative efficiency
      - Prior to 2008, child welfare was managed at the county level and funded by property taxes via the Family & Children Fund
      - 2008 property tax reforms allowed the state to assume financial responsibility of the Family & Children Fund in 2009 and eliminate wasteful and duplicative practices
    - Placing more children with relatives and fewer with institutions
      - Relative placement is a national best practice and is less expensive than placing children in more restrictive institutional settings
    - Leveraging more federal dollars, especially through the Medicaid program
      - Many counties were not utilizing available federal funding to serve the children in their care
- Provides full funding for the 800 additional caseworkers added since 2005

# Pensions

- Fully funds Actuarial Required Contributions (ARC) for all state pension obligations
  - According to PERF, many other states are intentionally underfunding pension programs (Illinois, for example) or changing retirement standards and benefit payments to address budget shortfalls
  - New Jersey recently had their bond rating reduced from AA to AA- due to an unfunded pension shortfall
- Increases General Fund contribution to Pre-1996 Teacher's Retirement fund by 3% annually
  - Maintains solvency of the Pension Stabilization Fund

# Race Horse Subsidy

- Caps race horse subsidies at \$27M annually
  - Race horse subsidies have grown from \$18M in 2007 to nearly \$58M in 2010
- Of the first 15% of adjusted gross receipts (AGR):
  - 42% will be dedicated to horse racing purposes
  - 58% will be dedicated to 1) the 21<sup>st</sup> Century Research and Technology Fund (up to \$15M per year) and 2) the state General Fund

# History of Race Horse Subsidies

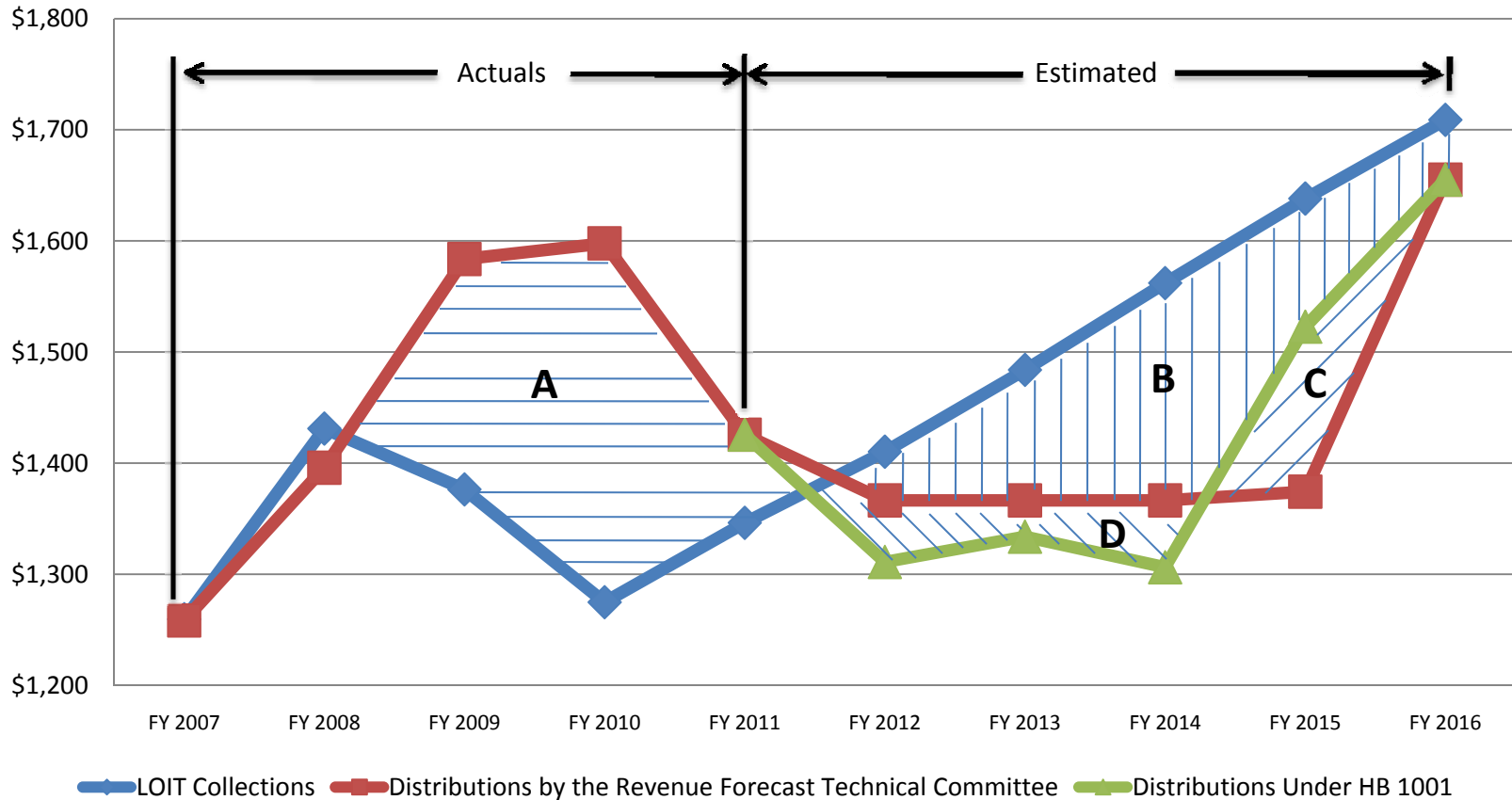
## 1995 – 2010

<b>CY</b>	<b>Race Horses</b>	<b>Track Operations</b>	<b>Promotion Fund</b>	<b>General Fund</b>
1995	\$938,469	\$0	\$0	\$0
1996	\$5,179,672	\$1,828,341	\$609,447	\$0
1997	\$11,336,253	\$4,844,128	\$1,614,709	\$0
1998	\$14,976,618	\$6,674,748	\$2,224,916	\$0
1999	\$16,398,526	\$7,409,560	\$2,469,853	\$0
2000	\$17,392,118	\$6,800,000	\$2,510,038	\$0
2001	\$18,828,790	\$6,800,000	\$2,681,563	\$0
2002	\$15,696,629	\$9,479,715	\$0	\$0
2003	\$15,685,612	\$9,375,222	\$0	\$0
2004	\$18,492,222	\$11,027,538	\$0	\$0
2005	\$18,170,209	\$10,833,558	\$0	\$0
2006	\$18,115,444	\$11,074,184	\$0	\$0
2007	\$17,437,342	\$10,945,026	\$0	\$0
2008	\$40,633,802	\$5,813,610	\$0	\$0
2009	\$64,129,028	\$0	\$0	\$0
2010	\$58,535,173	\$0	\$0	\$6,432,930

# Collection of LOIT Over-Distributions

- Due to the lag between certified distributions and the actual collection of income taxes and the sharp decline in the economy, the State over-distributed \$610M of local income tax revenues to local governments over the last three fiscal years
- December 2010 revenue forecast assumes that funds will be recovered over the next four fiscal years with the bulk of the over-distributions recovered in years three and four
- Provision in budget rebalances the annual amounts recovered over the four years by increasing the amounts recovered in years one and two and decreasing the amounts recovered in years three and four
  - Versus the amounts anticipated under the December 2010 revenue forecast, proposal allows state to recover up to an additional \$55M in FY12 and \$33M in FY13

## LOIT Distributions (in millions)



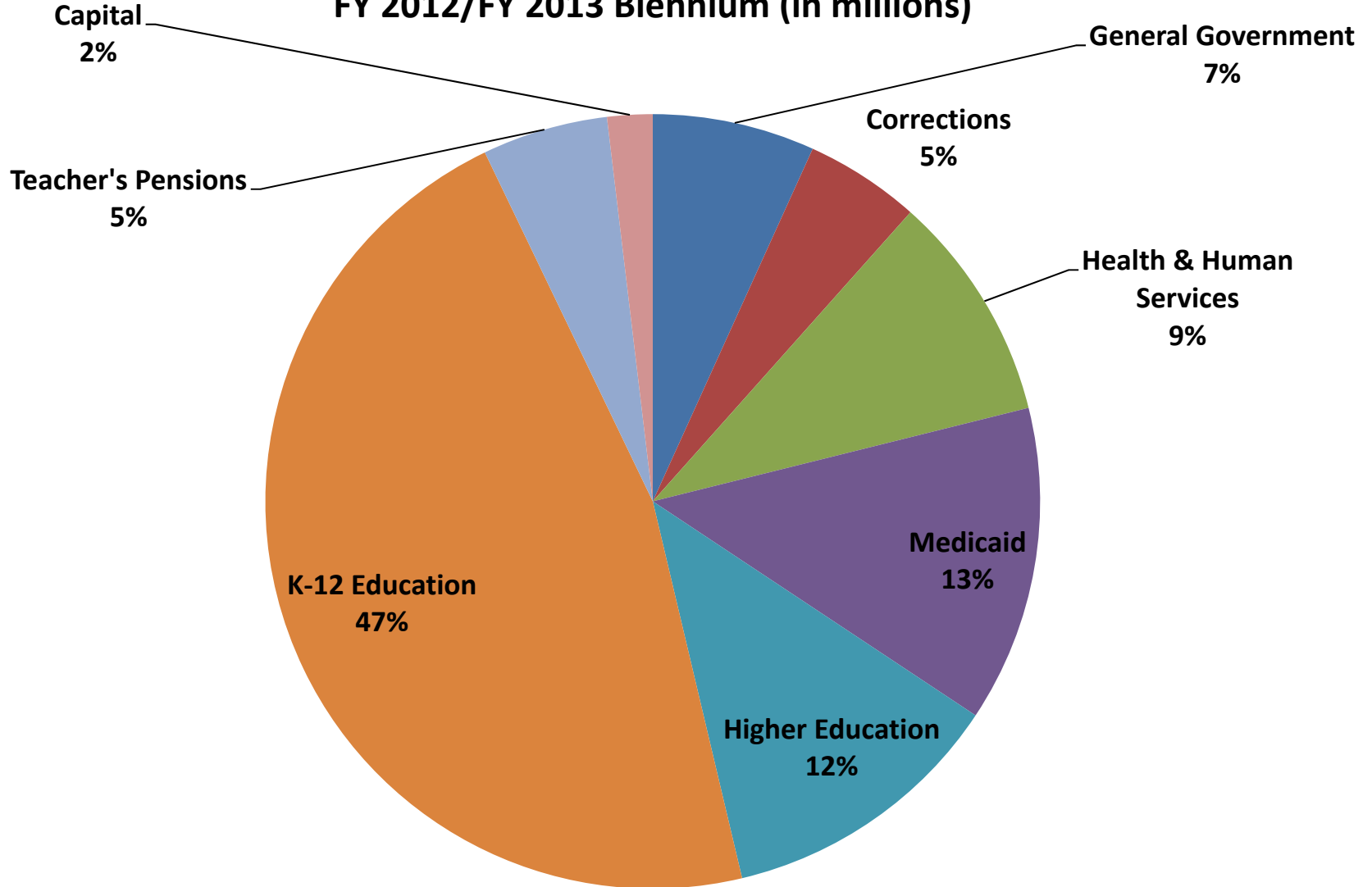
- (A) Amount of Over-distribution by State to Counties (\$610M)
- (B) Base Amount of Recovery by the State
- (C) Base Amount of Recovery by the State
- (D) Additional Short-term Recovery by the State with HB 1001

**Total amount recovered from counties by the state is (B plus C) under the revenue forecast or (B plus D) under the House budget proposal**

# Other Budget Highlights

- Provides for an Automatic Taxpayer Refund if the state's combined reserves exceed 10% of the next fiscal year's budgeted appropriations
- Directs the Budget Agency to transfer \$50M into the Tuition Reserve Fund at the end of FY12 and again at the end of FY13 if combined balances exceed 3% of the following year's budgeted appropriations
- Funds requested budgets for all public safety agencies
- Provides funding for outside bills
- Limits tuition hikes on Hoosier college students by allowing CHE to set binding tuition increase targets
- Temporarily redirects cigarette tax revenue from the Retiree Health Benefit program to the State General Fund for FY12 and FY13 only
  - Additional revenue to the State General Fund estimated at \$26.9M in FY12 and \$26.7M in FY13
  - Retiree Health Benefit program is currently overfunded and is projected to be 103% funded in FY13 even with temporary redirection
- Resets share of state sales tax revenue directed to mass transit to 2007 levels
  - Additional General Fund revenue estimated at \$7.5-8M/yr
- Temporarily decouples pay raises for legislators, judges, and prosecutors from raises given to state employees

## General Fund Appropriations - House Budget FY 2012/FY 2013 Biennium (in millions)

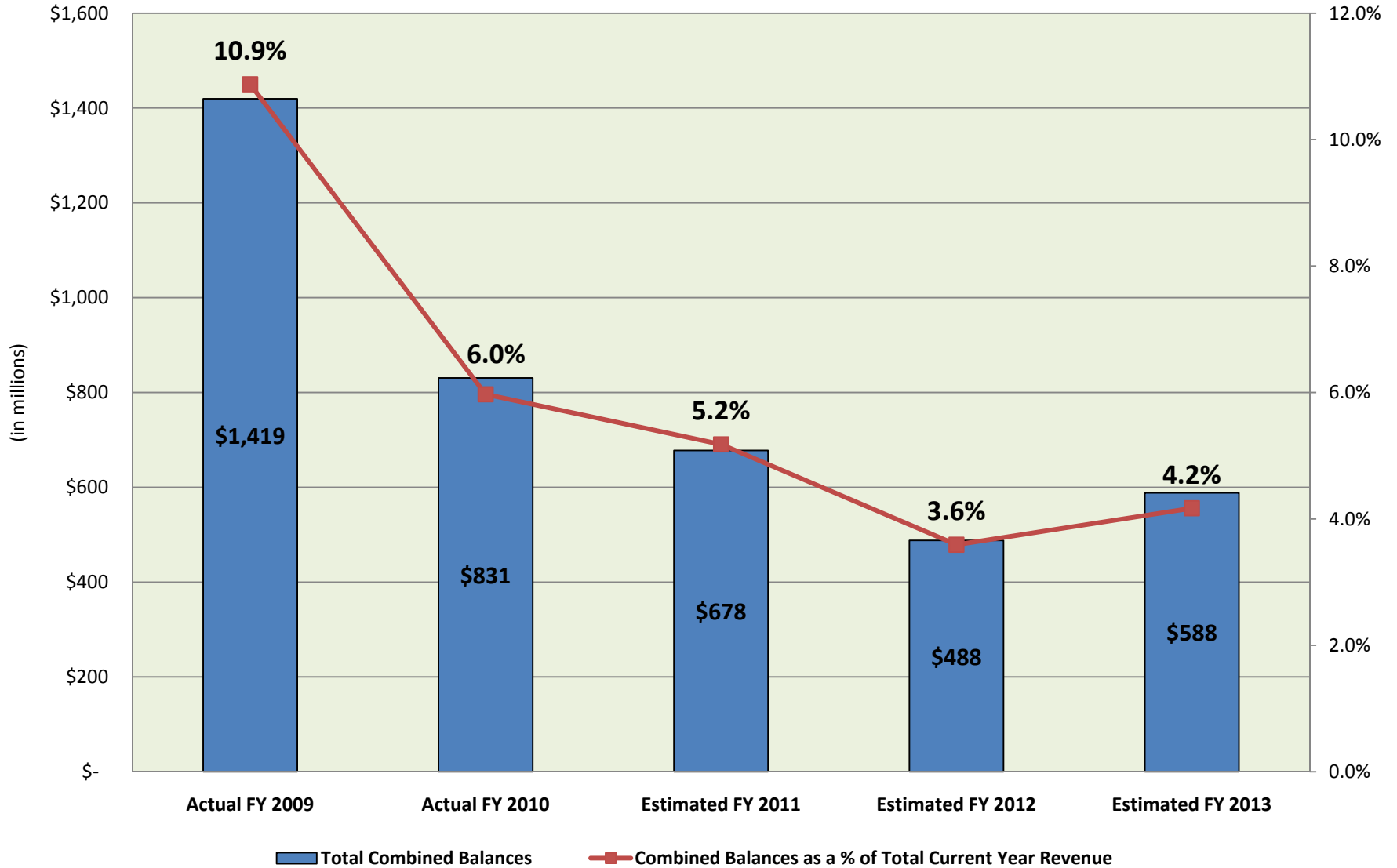


# Basic Reserve Statement

	FY12	FY13
<b>Beginning Combined Reserve Balances</b>	<b>\$678M</b>	<b>\$488M</b>
<b>General Fund Revenues</b>		
Forecasted Revenues	\$13,402M	\$13,946M
DSH/QAF	\$102M	\$102M
Other Revenue	\$89M	\$69M
Outside Acts	(\$8)	(\$4)
<b>TOTAL CURRENT YEAR RESOURCES</b>	<b>\$13,585M</b>	<b>\$14,113M</b>
<b>General Fund Appropriations &amp; Expenditures</b>		
Appropriations	\$13,908M	\$14,143M
Other Expenditures/Adjustments to Appropriations	(\$104M)	(\$103M)
Reversions	(\$25M)	(\$25M)
<b>NET APPROPRIATIONS &amp; EXPENDITURES</b>	<b>\$13,779M</b>	<b>\$14,015M</b>
<b>Ending Combined Reserve Balances*</b>	<b>\$488M</b>	<b>\$588M</b>

\*Combined reserve balance includes \$4.9M in Rainy Day Fund repayments in FY12 and \$3.1M in Rainy Day Fund repayments in FY13

## Combined Reserve Balances - Reserve Balances as a % of Total Revenue FY 2009 - FY 2013 Estimated



# Structural Balance Analysis

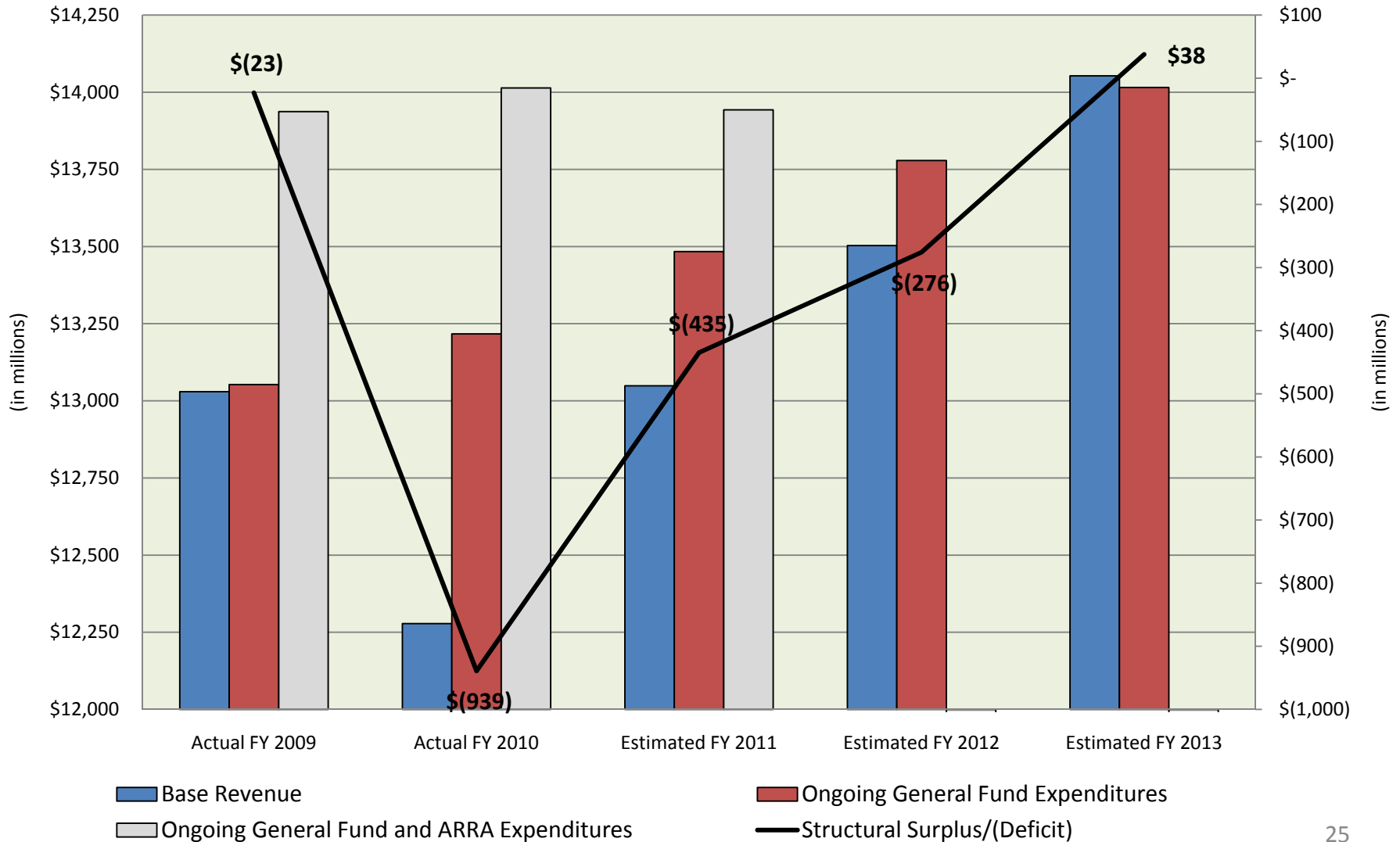
	FY12	FY13
<b>Beginning Combined Reserve Balances</b>	<b>\$678M</b>	<b>\$488M</b>
Ongoing General Fund Revenues	\$13,503M	\$14,053M
Ongoing General Fund Net Expenditures	\$13,779M	\$14,015M
<b>Structural Surplus/(Deficit)</b>	<b>(\$276M)</b>	<b>\$38M</b>
One-time Revenues/(Expenses)*	\$86M	\$63M
<b>Ending Combined Reserve Balances</b>	<b>\$488M</b>	<b>\$588M</b>

\*Includes \$4.9M in Rainy Day Fund repayments in FY12 and \$3.1M in Rainy Day Fund repayments in FY13

# Total Base Revenue v. Net Ongoing General Fund Expenditures & Structural Surplus/(Deficit)

## FY 2009 - FY 2013 Estimated

*\*Net ongoing general fund expenditures with ARRA expenditures shown for illustrative purposes*



# Bottom Line

## ✓ No tax increases

- According to NASBO, other states have raised taxes by over \$36B since the start of the recession; Illinois alone has raised taxes by \$6.8B annually

## ✓ Structural balance achieved by FY13

- Projected structural surplus = \$38M in FY13
- According to NCSL, 24 states are already anticipating FY13 budget deficits totaling more than \$66B, and 13 states are projecting deficits in excess of 10% of their general fund budgets

## ✓ Maintains sufficient reserves to protect taxpayers

- Projected FY13 year-end reserves = \$588M or 4.2% of annual revenue

## ✓ Protects K-12 education

- Preserves K-12 tuition support funding at current levels
- In Texas, for example, the legislature is considering cutting \$4.8B (about 13%) from local schools over the next two years (NYT, 2/14/11)