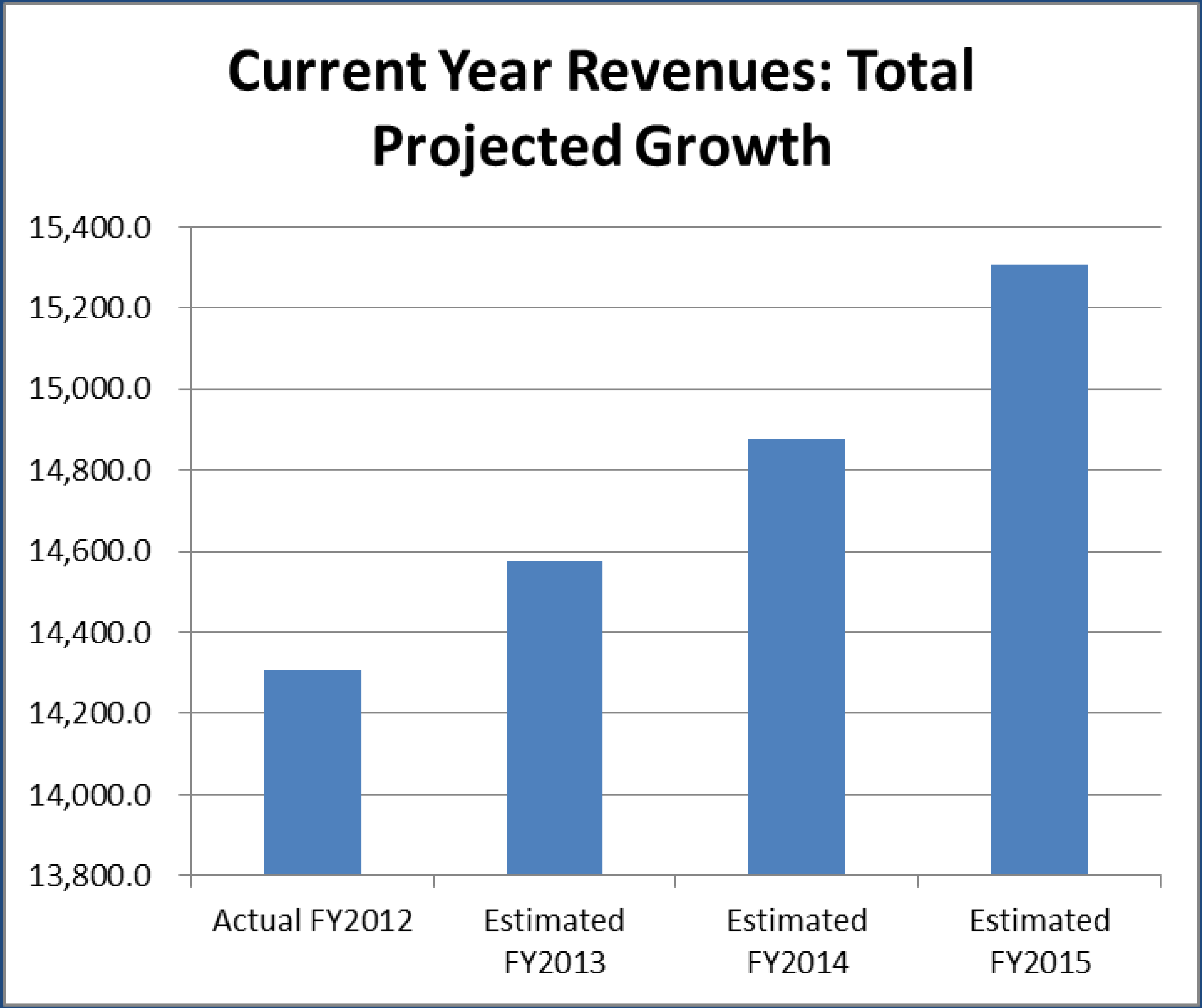
Pence Administration FY2014/2015 Budget: Key Policies

- Pass an honestly balanced budget
- Fund our priorities
- Hold the line on spending
- Reduce taxes to promote economic growth
- Maintain adequate reserves

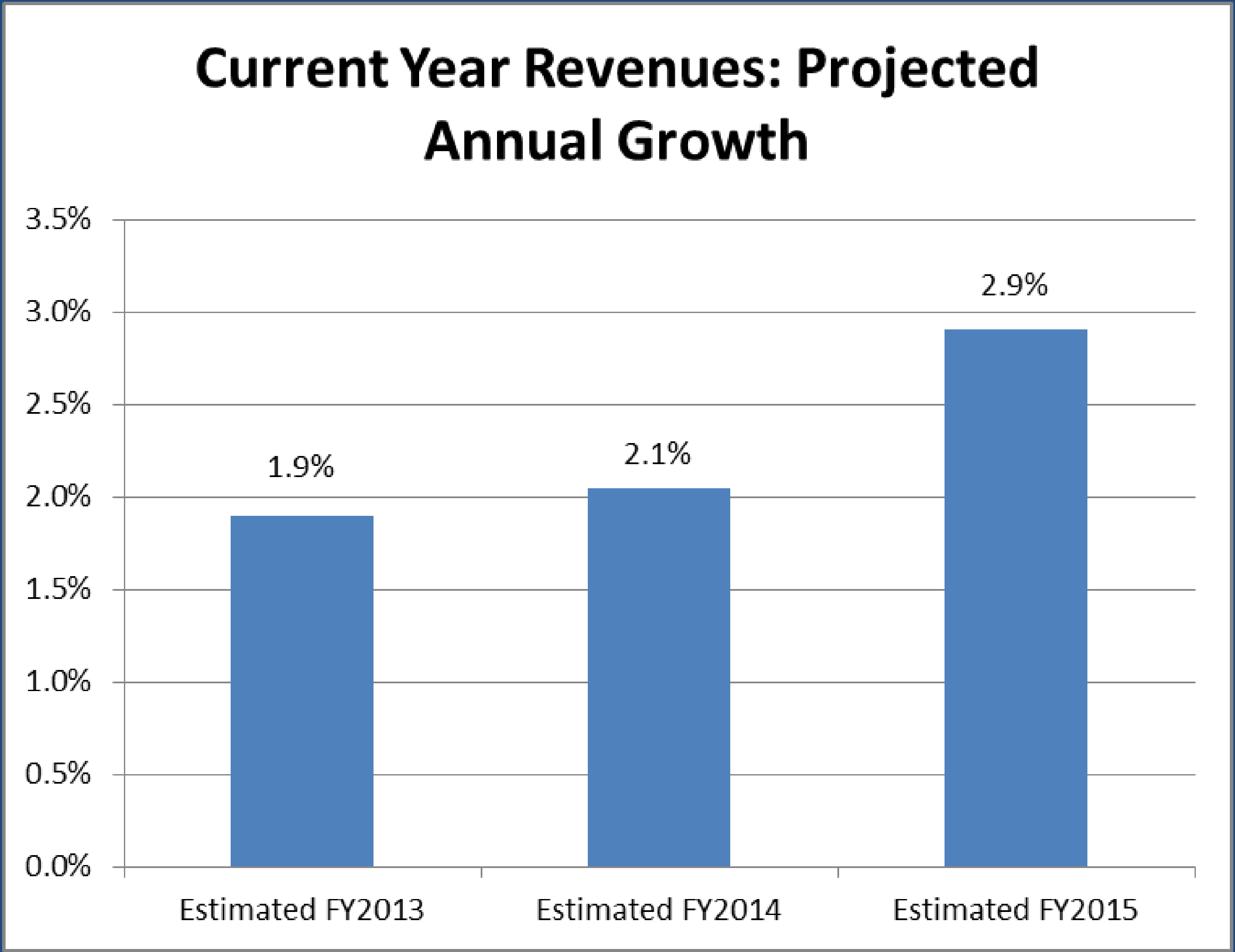
Pass an Honestly Balanced Budget

- Honestly balanced budget = “structural balance”
- Annual expenditures should not exceed annual revenues
  - Critical factor in credit rating
- Projected FY14/15 baseline budget scenario (per December 2012 forecast):
  - FY14 general fund revenues: $14.876B
  - FY15 general fund revenues: $15.308B
  - FY2013 base expenditures: $14.214B
- Projected FY 14/15 baseline structural balance (revenues less base expenditures):
  - FY14: $788M
  - FY15: $1.221B

Pass an Honestly Balanced Budget



Pass an Honestly Balanced Budget



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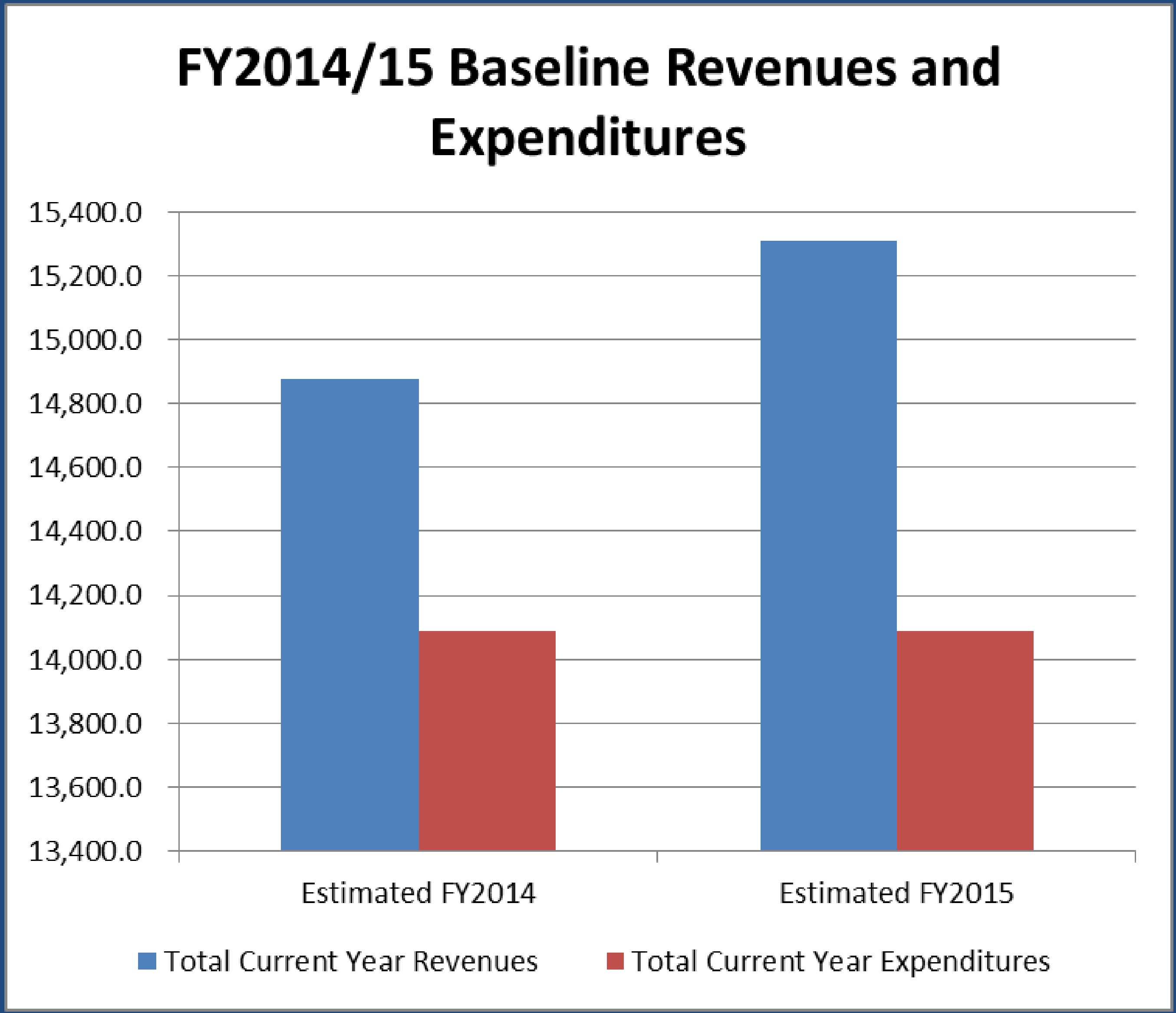

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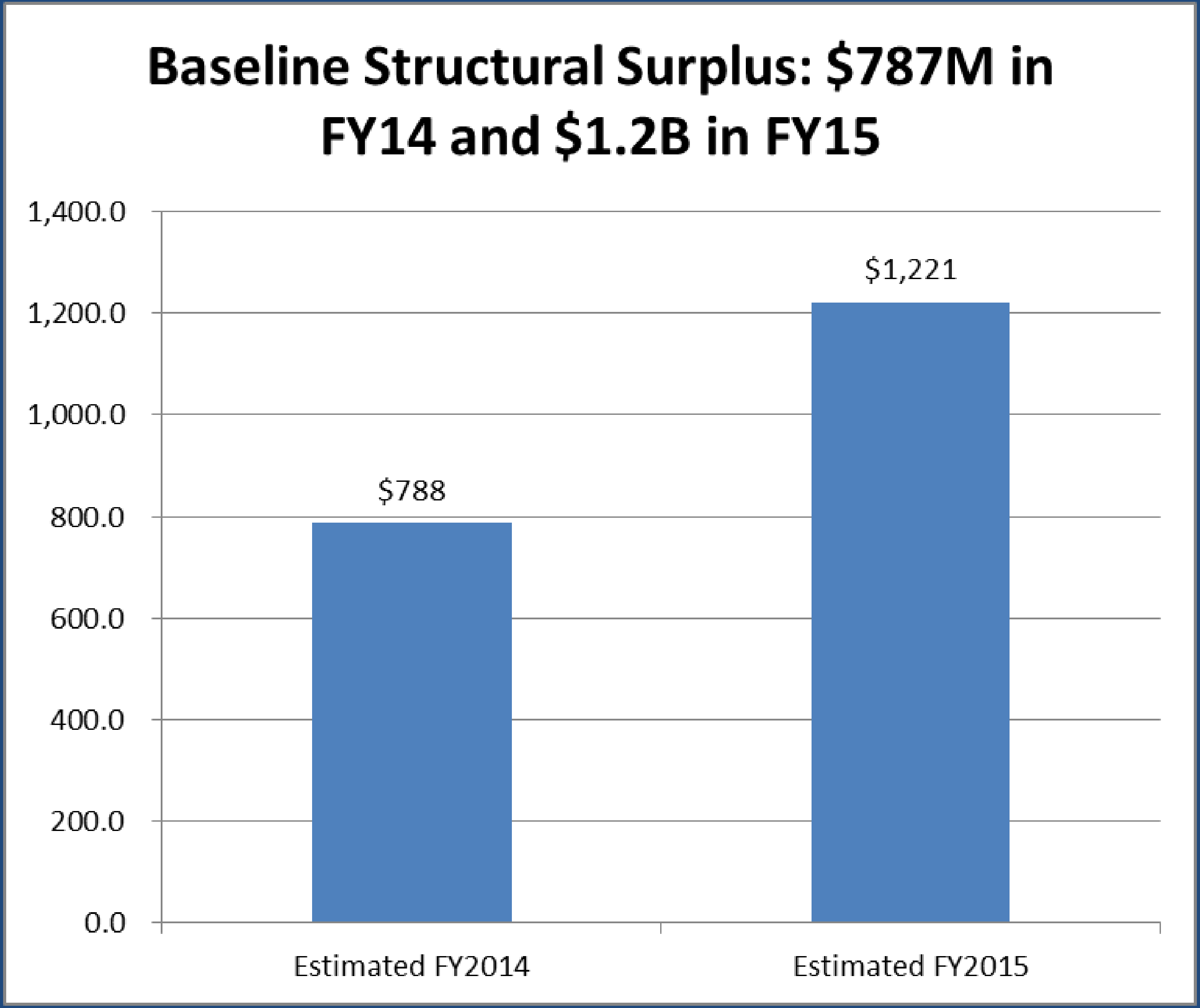


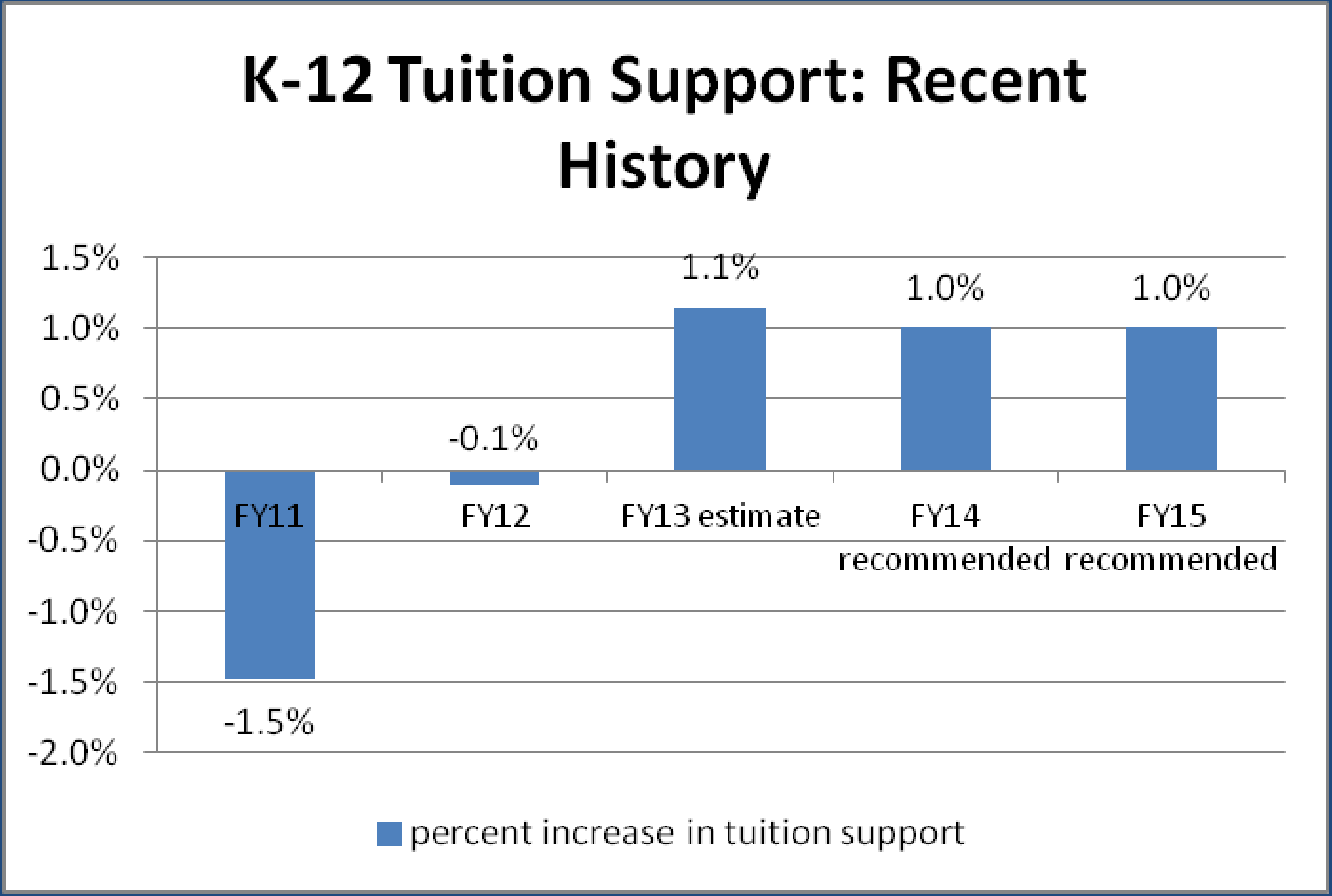
Fund Our Priorities

- Administration goals are to:
  - Increase private sector employment
  - Attract new investment
  - Improve math and reading skills of elementary students
  - Increase graduation rates
  - Improve quality of the workforce
  - Increase the health and safety of Hoosier families

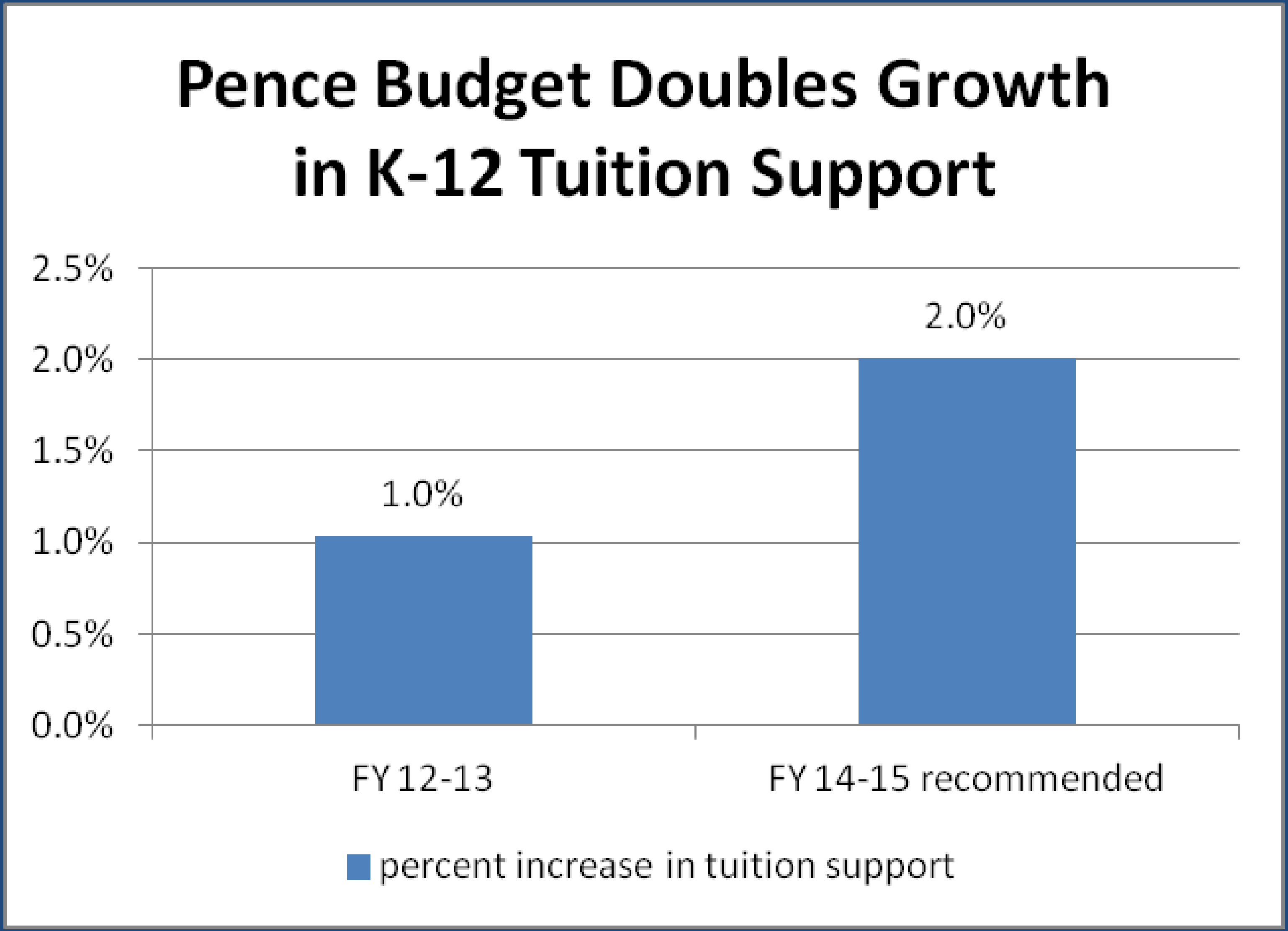
Fund Our Priorities

- Education and Workforce – Recommended Budget Highlights
  - Increases tuition support by 1% in FY14 and another 1% in FY15
    - $137 million increase in FY14/15: $63 million in FY14 and $64 million increase in FY15
    - Recommending the FY15 increase be performance-based: school quality, IREAD-3, graduation rate
  - Permanent funding for full day kindergarten
  - Vocational: total of $6 million over the biennium to implement Indiana Works Councils

Fund Our Priorities



Fund Our Priorities



Fund Our Priorities

- Education and Workforce – Continued
  - Increases teacher excellence grant by $6 million per year
  - Increases dropout prevention funding by $6 million per year
  - $18 million in adult workforce improvement funds over two years
  - Fully funds pre-96 teachers' pension
  - Increases higher education operating by 1% in FY14-15
    - First new higher education operating dollars in past 2 budgets
    - Follows CHE recommendation on performance funding
  - Provides new dollars for repair and rehabilitation at our universities

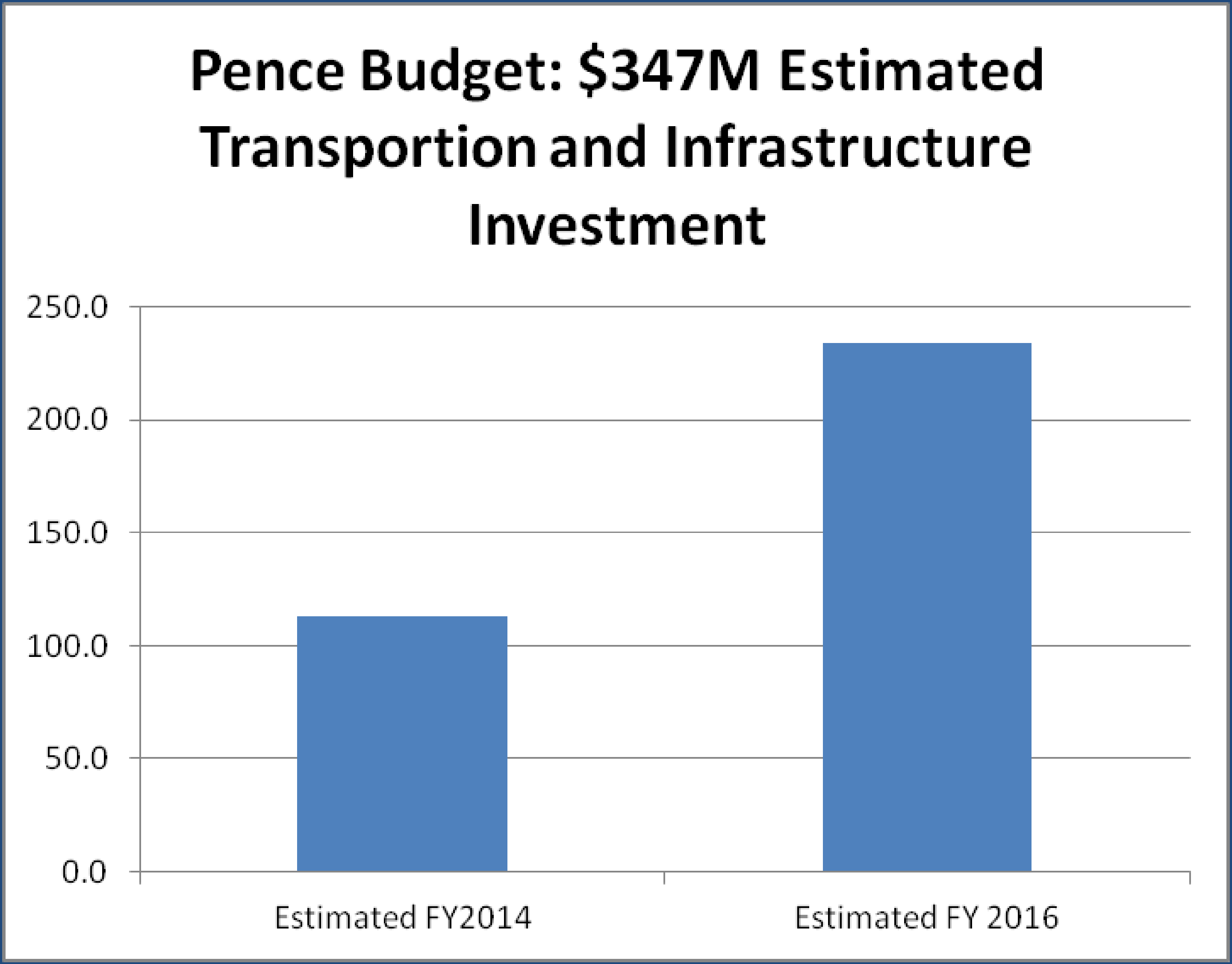
Fund Our Priorities

- Economic Development – Recommended Budget Highlights
  - Indiana Applied Research Enterprise: budgets $3 million over 2 years for life sciences commercialization and collaboration
  - Office of Defense Development: separates from energy, budget $600k+
  - Office of Energy Development: separates from defense, budget $180k+
  - Veteran service office (VSO) training: increases dollars available for training and certification of VSOs to assist Hoosier veterans with benefits claims

Fund Our Priorities

- Transportation
  - Repurposes excess balances designated for transfer to pension funds into a new transportation fund
  - Generates $347M+ in additional transportation dollars
    - estimated $113 million for transportation at the end of FY2013
    - another potential $234 million at the end of FY2015
  - Places these transportation dollars into a new transportation fund
  - Does NOT change the Automatic Taxpayer Refund (ATR)

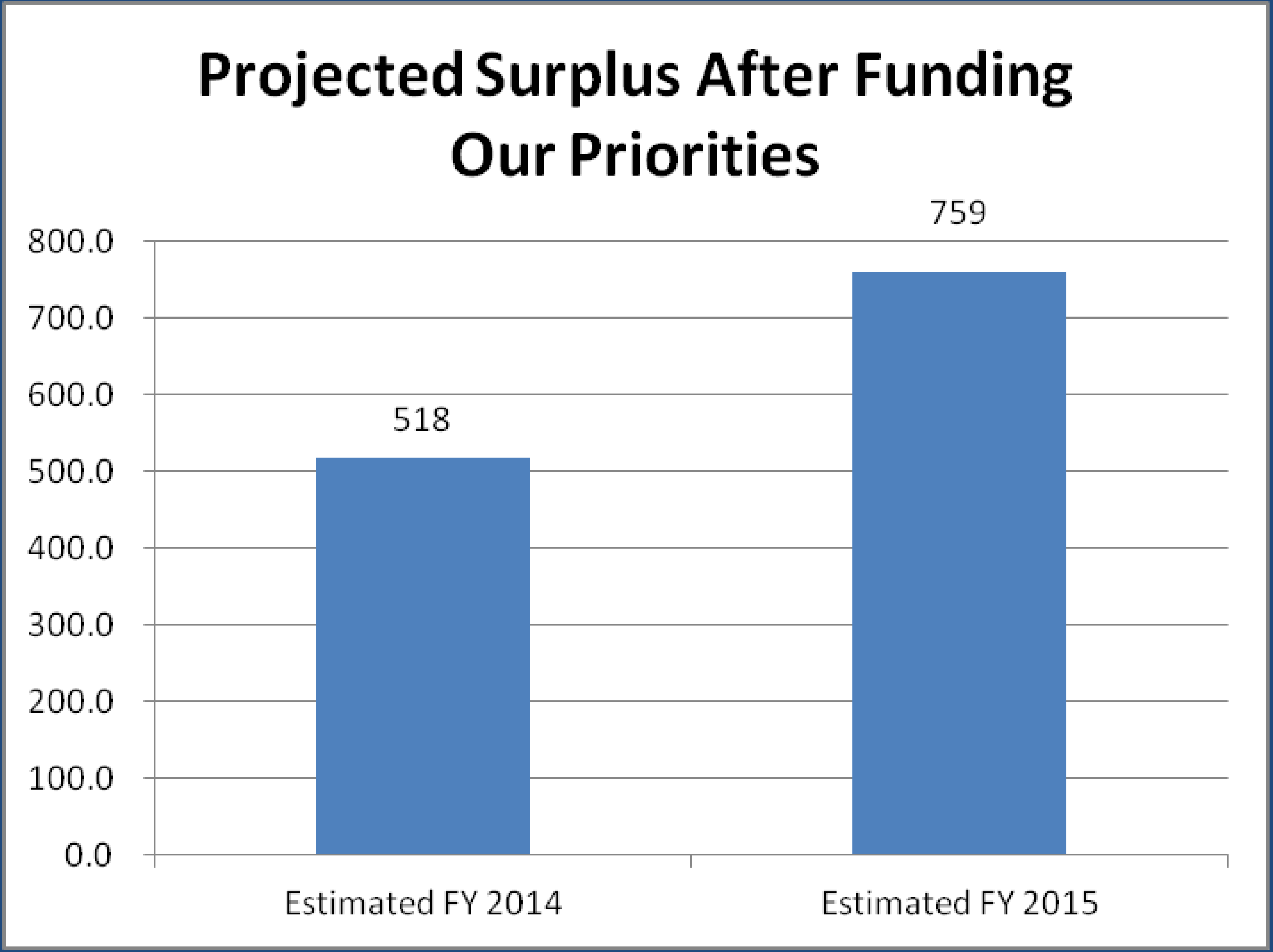
Fund Our Priorities



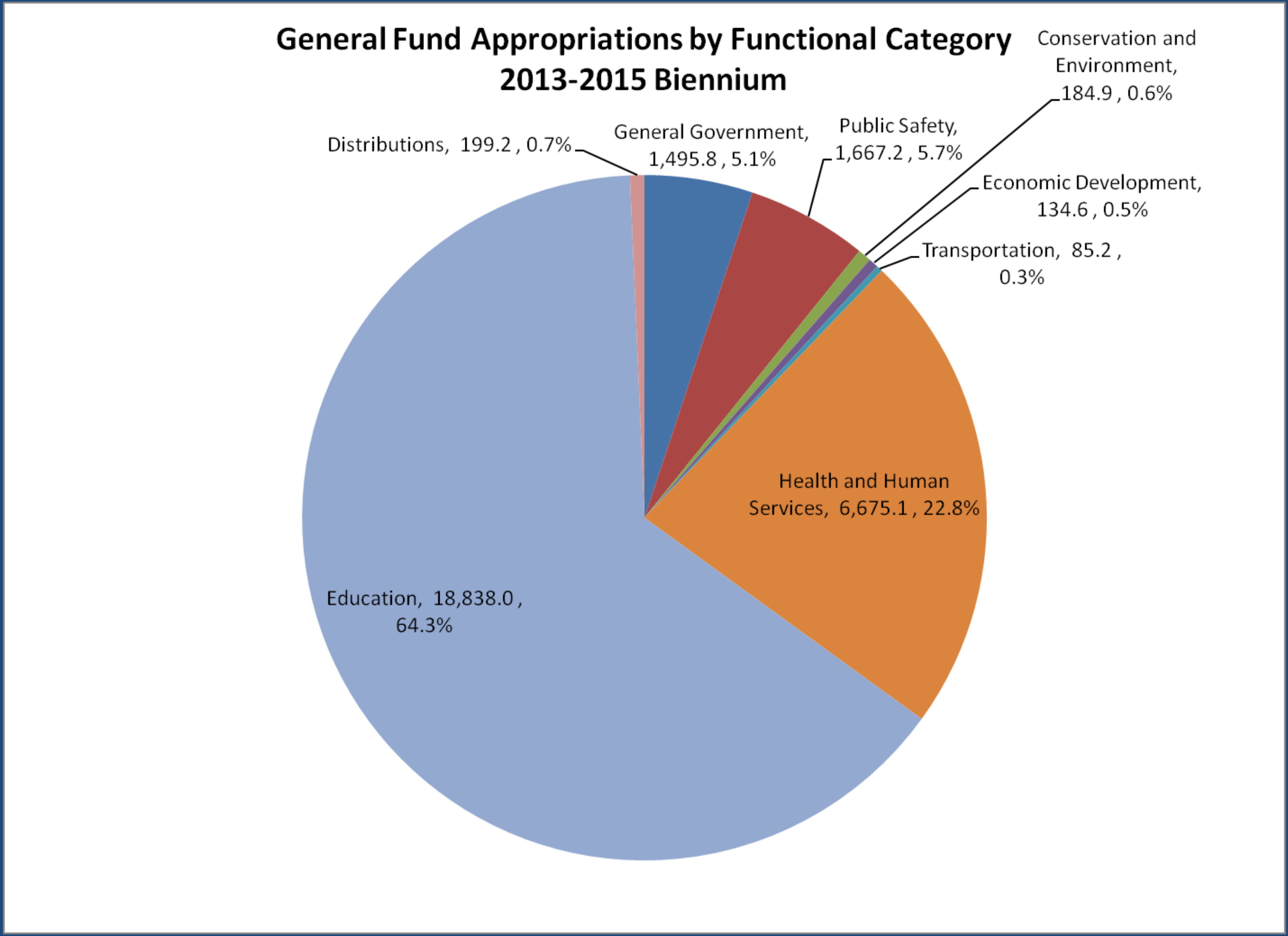
Fund Our Priorities

- Other priorities
  - Medicaid – fully funds the forecast
  - Department of Child Services: $35 million in additional program dollars
  - Department of Revenue: new dollars to implement audit recommendations
  - OPEB: fully funds the annual required contributions (ARC)
  - Statewide fire academy
  - School security funding

Fund Our Priorities



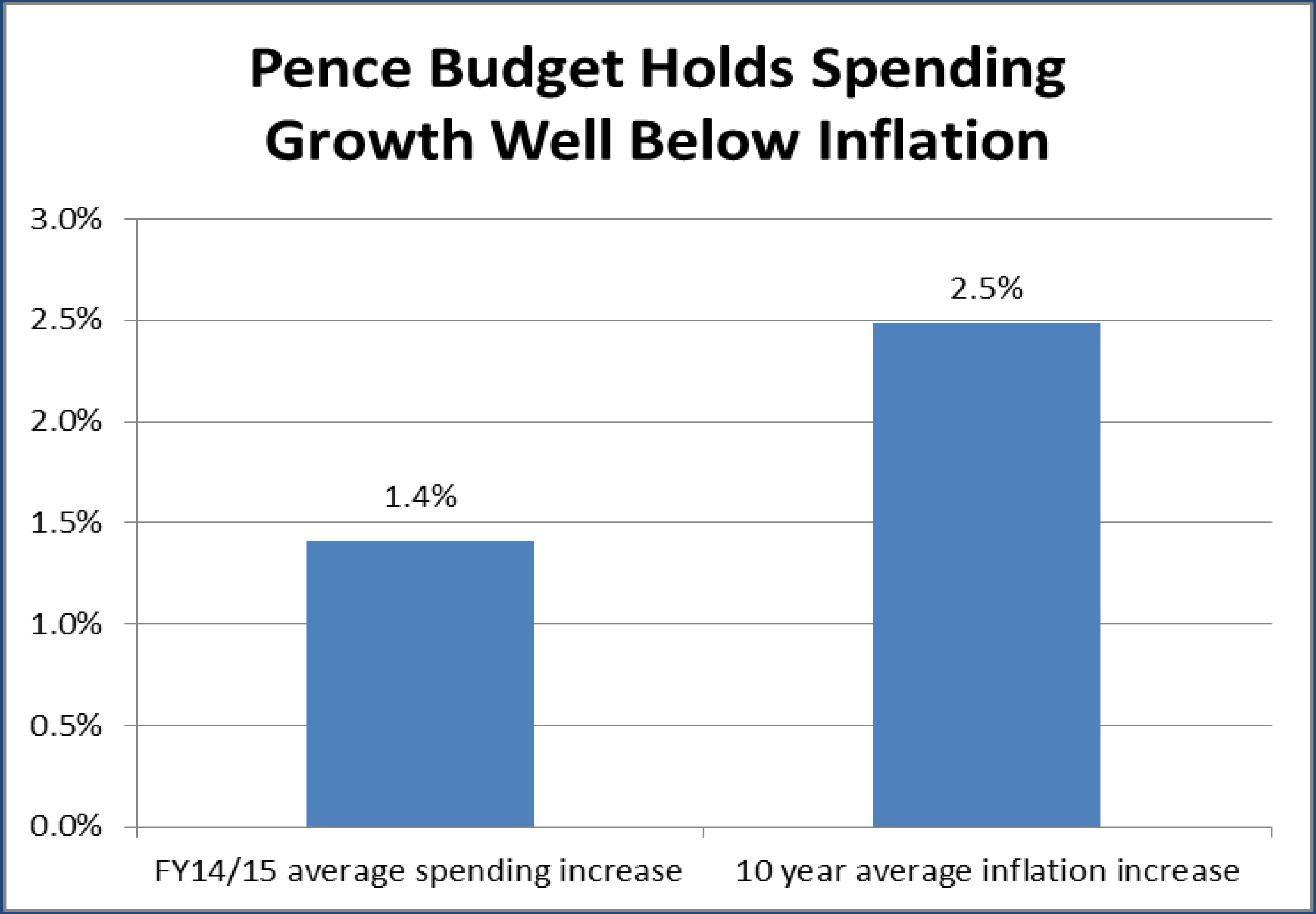
Fund Our Priorities



Hold the Line on Spending

- Appropriations growth
  - Past 8 years: 2.8%
  - Pence budget: 1.5%
- Total spending growth
  - 10-year average annual inflation: 2.5%
  - Pence budget: 1.4%

Hold the Line on Spending



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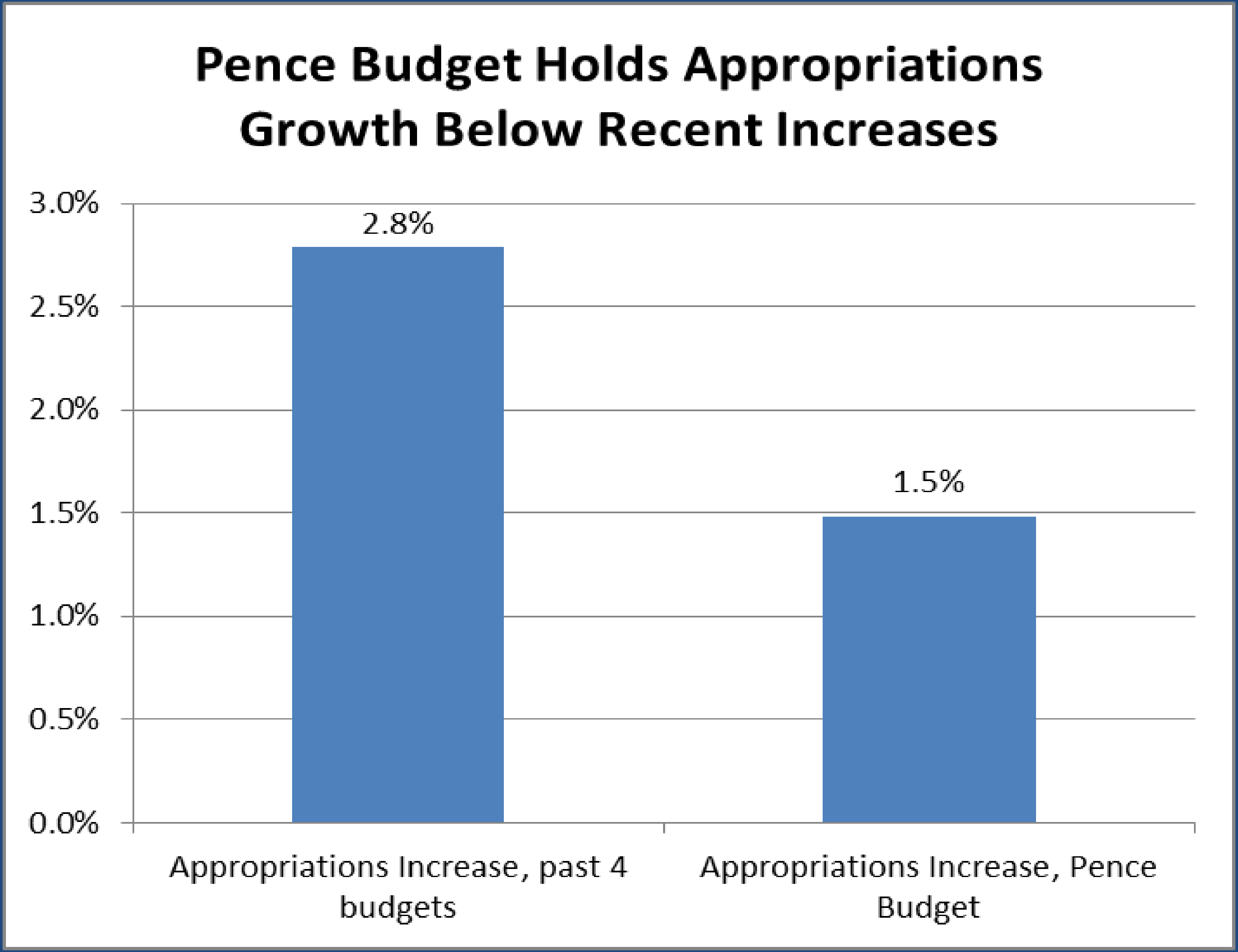


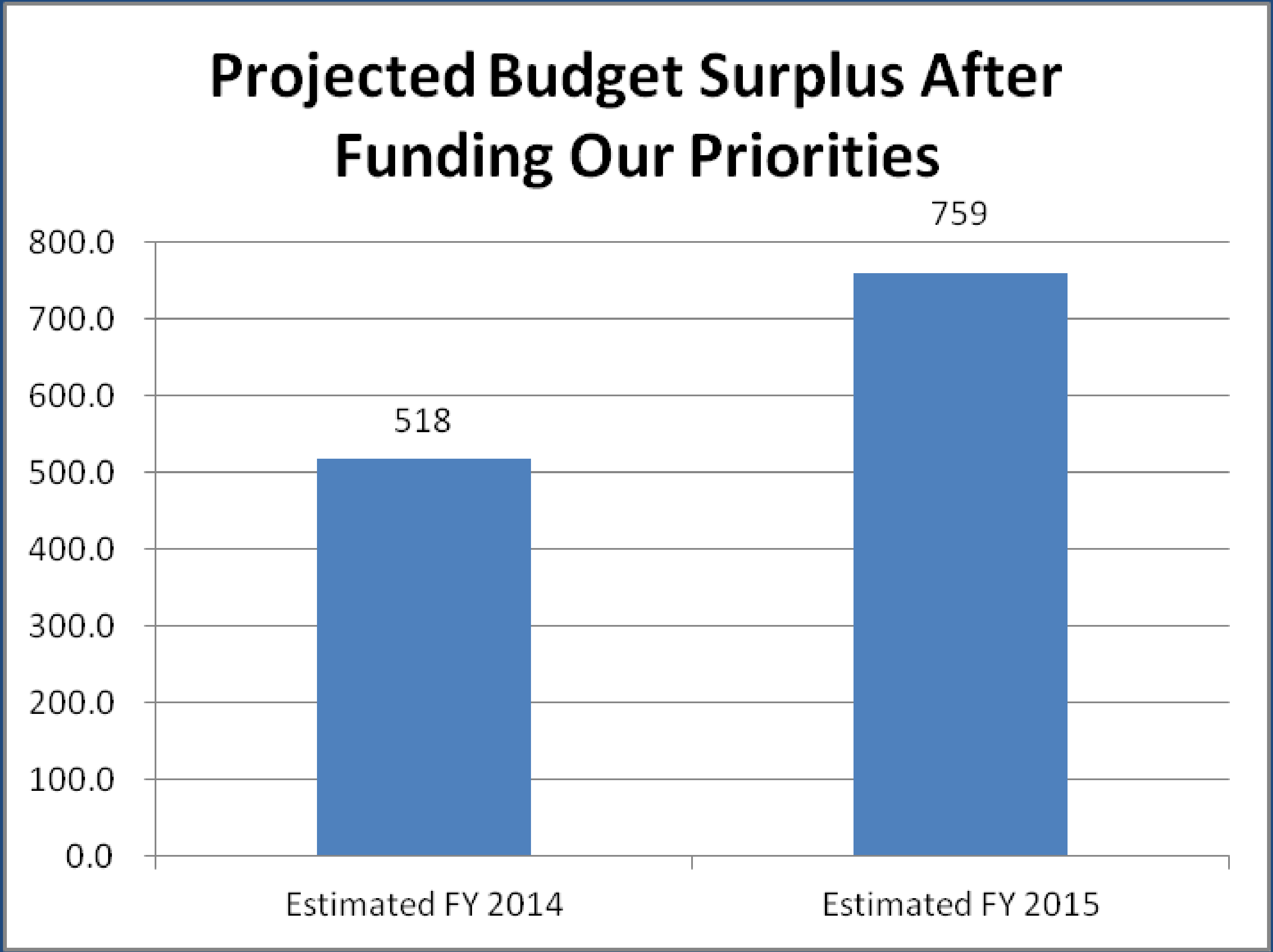
Hold the Line on Spending

- Pence budget: key savings initiatives
  - Extension of HAF and QAF
  - Redirect excess cigarette tax from 501 to general fund
  - Redirect horse racing development funds to Medicaid
  - Redirect 50% of TPC's TMSF allocation to Medicaid
  - Extends Medicaid cost-savings measures

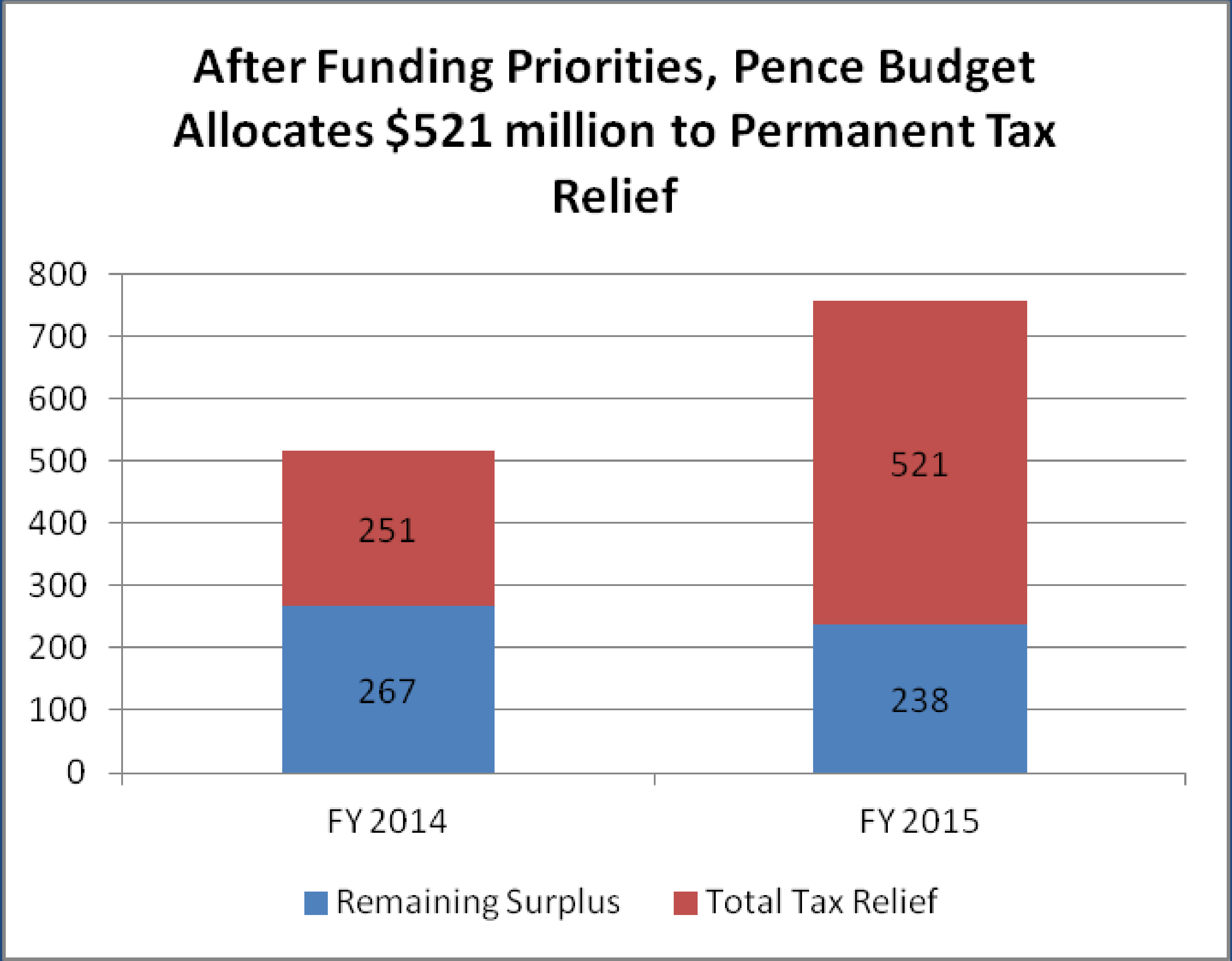
Reduce Taxes to Promote Economic Growth

- Structural budget surplus after funding priorities:
  - FY 2014: $518M
  - FY 2015: $759M
- Fiscal impact of 10% income tax cut (2-year phase in):
  - FY 2014: $251M
  - FY 2015: $521M
- Structural budget surplus after funding priorities and tax relief:
  - FY 2014: $268M
  - FY 2015: $237M

Reduce Taxes to Promote Economic Growth



Reduce Taxes to Promote Economic Growth



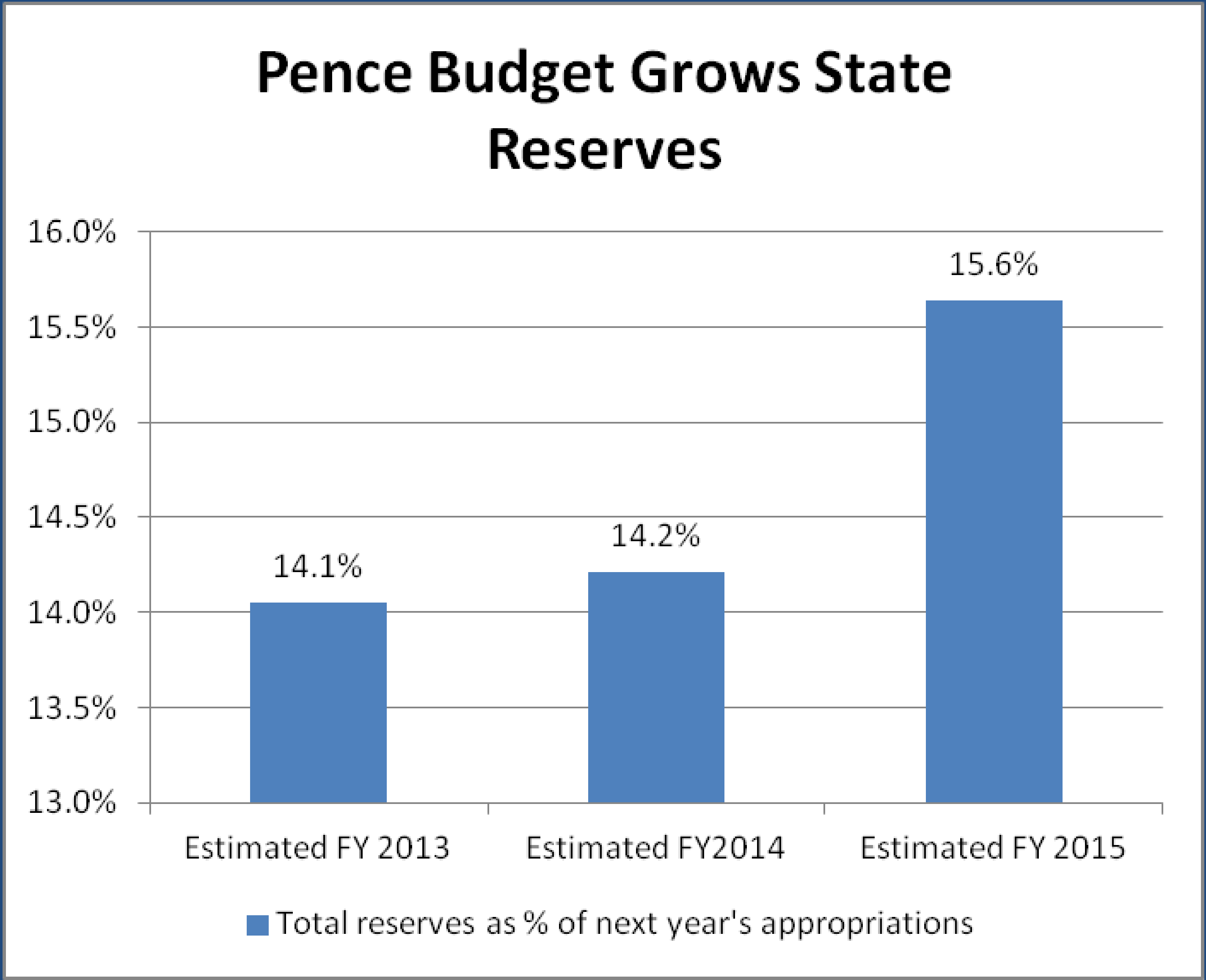
Reduce Taxes to Promote Economic Growth

- Why cut income taxes by 10%?
  - Permanently lowers taxes on most Indiana small businesses
  - Puts $500M directly back into our economy by letting Hoosiers keep more of their own money

Reduce Taxes to Promote Economic Growth

- Is the tax cut sustainable?
  - Short term: structural budget surplus of $200M+, net of tax cut
  - Medium term: $2B+ in general fund reserves and $500M+ in LOIT reserves
  - Long term: pre-96 teacher's pension fund will no longer require increased appropriations beginning in FY19

Maintain Adequate Reserves



Final Slide – Surplus Statement

- Honestly balanced budget ✓
  - FY 2014 structural surplus: $268M
  - FY 2015 structural surplus: $237M
- Fund our priorities ✓
  - 1% increase for K-12 tuition support and higher education
  - Fully funded Medicaid forecast
  - $300M+ in new dollars for transportation
- Hold the line on spending ✓
  - 2-year total spending growth less than inflation
- Reduce taxes to promote economic growth ✓
  - Part of surpluses allocated to 10% income tax rate reduction
- Maintain adequate reserves ✓
  - Reserves well in excess of 12.5% of appropriations