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

Current Year Revenues: Total Projected Growth

- Actual FY2012
- Estimated FY2013
- Estimated FY2014
- Estimated FY2015
Pass an Honestly Balanced Budget

Current Year Revenues: Projected Annual Growth

- Estimated FY2013: 1.9%
- Estimated FY2014: 2.1%
- Estimated FY2015: 2.9%
Pass an Honestly Balanced Budget

FY2014/15 Baseline Revenues and Expenditures

- Estimated FY2014: Total Current Year Revenues
- Estimated FY2015: Total Current Year Expenditures
Pass an Honestly Balanced Budget

Baseline Structural Surplus: $787M in FY14 and $1.2B in FY15

$788

$1,221
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

K-12 Tuition Support: Recent History

- FY11: -1.5%
- FY12: -0.1%
- FY13 estimate: 1.1%
- FY14: 1.0%
- FY15: 1.0%

percent increase in tuition support

recommended recommended
Fund Our Priorities

Pence Budget Doubles Growth in K-12 Tuition Support

- FY 12-13: 1.0%
- FY 14-15 recommended: 2.0%

percent increase in tuition support
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

Pence Budget: $347M Estimated Transportation and Infrastructure Investment
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

Projected Surplus After Funding Our Priorities

- Estimated FY 2014: 518
- Estimated FY 2015: 759
Fund Our Priorities

General Fund Appropriations by Functional Category
2013-2015 Biennium

- Education, 18,838.0, 64.3%
- Health and Human Services, 6,675.1, 22.8%
- Transportation, 85.2, 0.3%
- Economic Development, 134.6, 0.5%
- Public Safety, 1,667.2, 5.7%
- General Government, 1,495.8, 5.1%
- Distributions, 199.2, 0.7%
- Conservation and Environment, 184.9, 0.6%
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

Pence Budget Holds Spending Growth Well Below Inflation

- FY14/15 average spending increase: 1.4%
- 10 year average inflation increase: 2.5%
Hold the Line on Spending

Pence Budget Holds Appropriations Growth Below Recent Increases

- Appropriations Increase, past 4 budgets: 2.8%
- Appropriations Increase, Pence Budget: 1.5%
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

Projected Budget Surplus After Funding Our Priorities

<table>
<thead>
<tr>
<th>Estimated FY 2014</th>
<th>Estimated FY 2015</th>
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<tbody>
<tr>
<td>518</td>
<td>759</td>
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Reduce Taxes to Promote Economic Growth

After Funding Priorities, Pence Budget Allocates $521 million to Permanent Tax Relief

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<thead>
<tr>
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<th>FY 2014</th>
<th>FY 2015</th>
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<tr>
<td>Remaining Surplus</td>
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<td>238</td>
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<tr>
<td>Total Tax Relief</td>
<td>251</td>
<td>521</td>
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</tbody>
</table>
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

**Pence Budget Grows State Reserves**

- **Estimated FY 2013:** 14.1%
- **Estimated FY 2014:** 14.2%
- **Estimated FY 2015:** 15.6%

*Total reserves as % of next year's appropriations*
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