Governor’s Recommended Budget

Presentation to the House Ways and Means Committee

January 18, 2011
Agenda

• Review of FY09-11...the Starting Point for FY12-13
• Governor’s FY12-13 Budget Parameters
• Overview of Available Resources—State Revenue Forecast
• Governor’s Budget Submission—Recommended Appropriations
• Structural Balance
• Reserves
• Review of Budget Parameters
Review of FY09-11...
the Starting Point for FY12-13
A Balanced Approach to Revenue Declines

Over $3 billion revenue “miss” vs. budget

Closed by spending cuts, prudent use of reserves and stimulus funds

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Dollars (in millions)</th>
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<tbody>
<tr>
<td>2009</td>
<td>$1,600</td>
</tr>
<tr>
<td>2010</td>
<td>$1,400</td>
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<tr>
<td>2011</td>
<td>$1,000</td>
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- Spending Cuts (after budget): 50%
- Reserves: 19%
- Stimulus: 31%
Dramatic Spending Reductions by State Agencies
Preserved Scarce Resources for Education

General Fund Reversions ($ in millions)

64% of Reductions from State Agencies

<table>
<thead>
<tr>
<th>Year</th>
<th>K-12 Education</th>
<th>Higher Education</th>
<th>State Agencies</th>
</tr>
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<tbody>
<tr>
<td>FY 2009</td>
<td>26%</td>
<td>10%</td>
<td>64%</td>
</tr>
<tr>
<td>FY 2010</td>
<td>10%</td>
<td>64%</td>
<td>26%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>64%</td>
<td>10%</td>
<td>26%</td>
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</table>
Budgeted Revenue: FY10-11

- Original FY10-11: $28,143
- April Revised: $27,452
- Special Session Budget: $26,804
- December revised: $24,913
- Dec-10: $25,138

$1.7 billion less than budgeted
Actual Expenditures Dramatically Lower than Budgeted Appropriations... Reset to Match Income

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<tbody>
<tr>
<td>Dollars (in millions)</td>
<td></td>
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<tr>
<td>Appropriations</td>
<td>12,000</td>
<td>13,000</td>
<td>14,000</td>
<td>14,500</td>
<td>15,000</td>
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<tr>
<td>Expenditures</td>
<td>11,500</td>
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<td>12,500</td>
<td>13,000</td>
<td>13,500</td>
<td>13,000</td>
<td>13,000</td>
</tr>
</tbody>
</table>
Annual Expenditure Growth (Actual)

Year: 2005 - 2.67%
Year: 2006 - 1.90%
Year: 2007 - 2.81%
Year: 2008 - 3.95%
Year: 2009 - 0.54%
Year: 2010 - -1.91%
Statewide Actions Taken to Restrain Spending

- Leaving vacant positions unfilled
- Reduction of in-state and out-of-state travel
- Voluntary unpaid leave
- Unpaid internships
- Reduction in professional organization memberships
- Increased utilization of offender labor
- Ceased purchasing business cards
- Ceased printing annual reports
- Reduced number of capital projects
- 2-year salary freeze

- Moved from leased space into government campus
- Closed or consolidated regional offices
- Increased use of electronic communication
- Utilization of technology to drive efficiencies
- Reduction of vehicle fleet
- Renegotiation of contracts
- Reduction in media and advertising expenses
- Centralization of HR and accounting services
Full-Time Active State Employees
State Reserves (Cash balance - liabilities)
Total State Reserves
(in millions)

- After Governor's Actions To Date
- Budget Actual: No Actions
- Budget Plan

<table>
<thead>
<tr>
<th>Date</th>
<th>After Governor's Actions To Date</th>
<th>Budget Actual: No Actions</th>
<th>Budget Plan</th>
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<tbody>
<tr>
<td>1/1/2009</td>
<td>$1,329</td>
<td>$1,329</td>
<td>$1,329</td>
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<tr>
<td>1/1/2010</td>
<td>$830</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>1/1/2011</td>
<td>$678</td>
<td>($492)</td>
<td>($492)</td>
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1/1/2009
1/1/2010
1/1/2011

($1,000)($500)$0
Governor’s FY12-13 Budget Parameters
Budget Parameters

• NO Tax Increases
• Structural Balance by FY 2013
• Sufficient Level of Reserves to Protect Taxpayers Throughout the Biennium
• NO Gimmicks (e.g., Payment Delays, Pension Fund Raids)

Note: Spending Priorities are K-12 Education and Public Safety
Overview of Available Resources

State Revenue Forecast
FY12-13 Projected General Fund Revenues

- Sales: 47%
- Individual Income: 35%
- Corporate: 5%
- Gaming: 5%
- Other: 8%
Governor’s Budget Submission

Recommended Appropriations
## Basic Surplus Statement

<table>
<thead>
<tr>
<th></th>
<th>FY 2012</th>
<th>FY2013</th>
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</thead>
<tbody>
<tr>
<td><strong>Beginning Balances</strong></td>
<td>$678.1</td>
<td>$639.4</td>
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<tr>
<td><strong>General Fund Revenues</strong></td>
<td>$13,499.1</td>
<td>$14,043.9</td>
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<tr>
<td><strong>General Fund Expenditures</strong></td>
<td>$13,768.8</td>
<td>$13,988.4</td>
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<tr>
<td><strong>Annual Surplus/(Deficit)</strong></td>
<td>($269.7)</td>
<td>$55.5</td>
</tr>
<tr>
<td><strong>1-time Revenue/(Expenses)</strong></td>
<td>$231.0</td>
<td>$29.8</td>
</tr>
<tr>
<td><strong>Ending Balances</strong></td>
<td>$639.4</td>
<td>$724.7</td>
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</table>
Budget Overview

• With limited exceptions, the Governor’s recommended budget represents a “spending freeze” budget
  – Meaning FY12 and FY13 appropriations are flat compared to FY10 and FY11 expenditures

• Most executive branch agencies had 15% reductions to their FY11 appropriations
  – The 15% reduction is in addition to the 10% reduction made to most executive branch agency budgets for the FY10-11 budget
Examples of Agencies with Reductions of at least 15%

- Department of Natural Resources
- Department of Local Government Finance
- State Board of Accounts
- State Library
- Department of Insurance
- Commission on Proprietary Education
- Indiana Tobacco Prevention & Cessation Board
- Indiana State Department of Agriculture
- State Personnel Department
- Governor’s Office
- Department of Child Services
- Indiana State Department of Health
- Indiana Department of Environmental Management
- Office of Management & Budget
- State Fair
- Lieutenant Governor’s Office
- Indiana Arts Commission
- Historical Bureau
- Office of Inspector General
- Indiana Education Employment Relations Board
- State Budget Agency
Department of Correction

DOC Budget Request vs. Population

FY07: $677.1
FY13: $675.1

DOC budget request
DOC population
Notable Exceptions: Increases Above Base Appropriations

• Pension Obligations
  – Maintained discipline of funding the Annual Required Contribution (ARC)
  – Ensured solvency of Pension Stabilization Fund
  – FY11 General Fund Appropriations = $835 million
  – FY13 General Fund Appropriations = $952 million (+$117M)

• Medicaid
  – Funded the Medicaid forecast
  – Adjustments made for elimination of optional services and for changes that allow FSSA to manage utilization of mental health drugs and negotiate supplemental rebates
  – FY11 General Fund Appropriation* = $1,732 million
  – FY13 General Fund Appropriation = $1,867 million (+$135M)

* Normalized for impact of American Recovery and Reinvestment Act
Education

• **K-12 Education Tuition Support**
  - Approximate 3% reduction in CY 2010 vs. CY 2009
  - CY 2012 and CY 2013 flat-lined vs. CY 2011 distributions

• **Student Financial Aid**
  - FY 2012 and FY 2013 flat-lined vs. FY 2011 appropriations
    • Includes HEA, FOC, and 21st Century Scholars

• **Higher Education**
  - Approximate 9% reduction compared to FY 2009 appropriations
    • 6% in FY10-11 budget; 3% ($37M annually) in FY12-13 budget
  - State appropriations make up only 21% of university budgets
  - Health care savings opportunities are 4x the FY12-13 reduction
  - Support performance funding formula
Misc. and One-Time Revenues

• Horse Racing Subsidies
  – Breed development funds scaled back from 5x increase over 2007 to 3x increase
  – Purse subsidies scaled back from 3x increase over 2007 to 2x increase
  – General Fund Impact = $40M for the biennium

• One-Time Revenues
  – Actuarial Funding of Retiree Medical Benefits (SEA 501)
  – Transfer of Excess Interest Earnings from PDIF
Retiree Medical Benefits (SEA 501)
Actuarial Funding

• Actuarial study commissioned in December
• Study confirms that overfunding has occurred from the general fund
• Cigarette tax revenue can be directed to the general fund for FY12 and FY13
  – Study confirms plan will remain >100% actuarially funded
  – General fund will be reimbursed for overfunding of obligations
    • $26.9M in FY12 and $26.7M in FY13
  – Savings are not counted towards structural surplus/deficit
    • Savings represent one-time dollars
Public Deposit Insurance Fund

• Legislation passed unanimously last session modernized our system of protecting public deposits
  – Similar to 49 other states: Risk based; Proactive; 20x more secure

• Budget transfers $200M in excess accumulated interest earnings from the dedicated PDIF to the General Fund. Leaves $50M—the amount of assessments paid since the 1930s—in the PDIF

• The General Assembly has appropriated annual interest earnings from the PDIF to fund pension expenses since 2003

• Transfer has no impact on structural surplus/deficit, but does provide additional cushion against revenue declines
Annual Expenditure Growth (Projected)

- 2005: 2.67%
- 2006: 1.90%
- 2007: 2.81%
- 2008: 3.95%
- 2009: 0.54%
- 2010: -1.91%
- 2011*: 0.73%
- 2012*: 0.10%
- 2013*: 1.59%
Permanent Reductions to Base Spending

Net General Fund Appropriations

<table>
<thead>
<tr>
<th>Dollars (in millions)</th>
<th>FY09</th>
<th>FY13</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>$14,533</td>
<td>$13,974</td>
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Structural Balance
Structural Balance

• Structural deficit of $270 million remains in FY12
  – Associated with $300 million Medicaid stimulus cliff built into FY10-11 budget

• Structural surplus of $55 million in FY13
  – Excludes one-time funds (e.g., SEA 501 actuarial funding, PDIF)
Reserves
State Reserves (Cash balance - liabilities)

* = Projected
Automatic Taxpayer Refund

• When reserves are above 10%, money shall be returned to taxpayers as a refundable income tax credit

• It is better to leave resources in the hands of Hoosier families and businesses than government. If government has it, it will be spent
Review of Budget Parameters
NO Tax Increases

• Budget does not incorporate any tax increases
• According to the National Association of State Budget Officers (NASBO), states have raised taxes by more than $30 billion since the start of the recession
• Meanwhile, the Indiana General Assembly passed the largest tax cut in Indiana history ($600M) in HEA 1001-2008
This Week in Illinois...

• 66% increase in individual and 46% increase in corporate income taxes
• Indiana equivalent = 5.6% individual and 12.4% corporate rates
• Tax increases will take approximately $6.8 billion annually out of the incomes of Illinois families and businesses
  – First $8 billion will be needed to pay backlog of unpaid bills
• IEDC already targeting companies who have publicly stated they are looking to relocate
NO Gimmicks

• Budget does not incorporate payment delays

• Budget makes necessary contributions (ARC) to pension funds
  – 26 states are currently not making necessary contributions

• Budget protects Pension Stabilization Fund

• Budget ensures Retiree Medical Benefits Plan remains >100% actuarially funded
Structural Balance

• Budget achieves structural balance by FY13
• Recurring revenues exceed recurring expenditures by $55 million in FY13
• Structural balance does not rely upon any one-time funds (e.g., SEA 501 actuarial funding, PDIF)
• Spend a dollar, cut a dollar
Sufficient Level of Reserves

• Recommended budget ends FY13 with a projected $725 million in reserves
  – Represents just more than 5% of budgeted appropriations
  – Represents approximately 3 weeks of operating state government

• Reserves are needed to protect against revenues missing projections
Questions?