Governor's Recommended Budget

Presentation to the House Ways and Means Committee

January 18, 2011

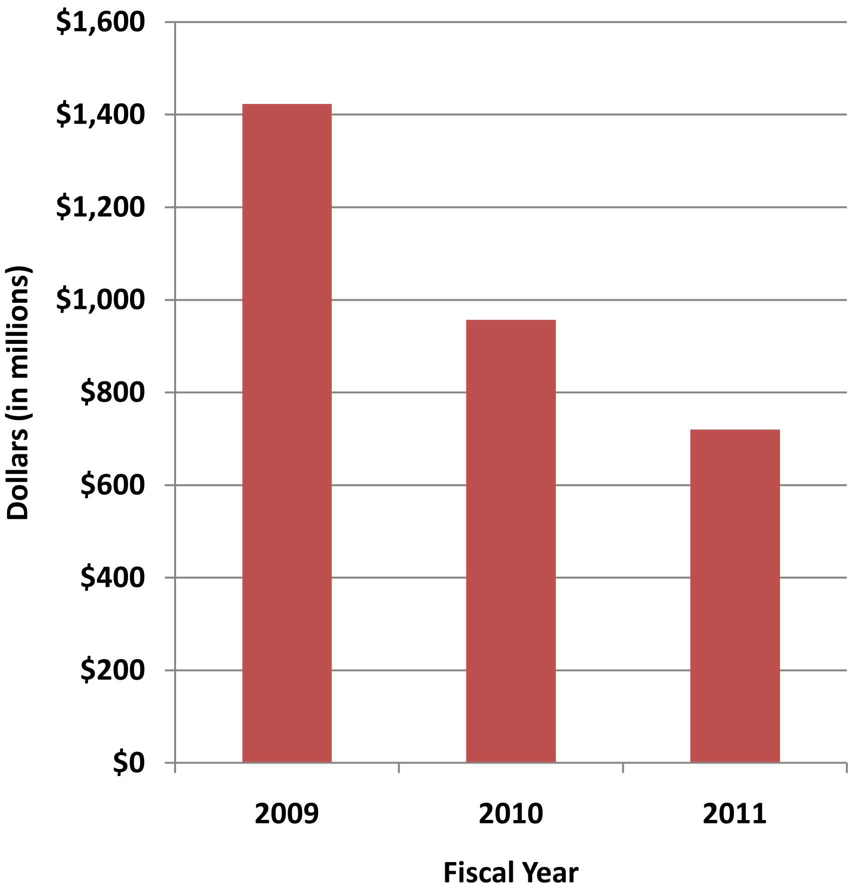
Agenda

- 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

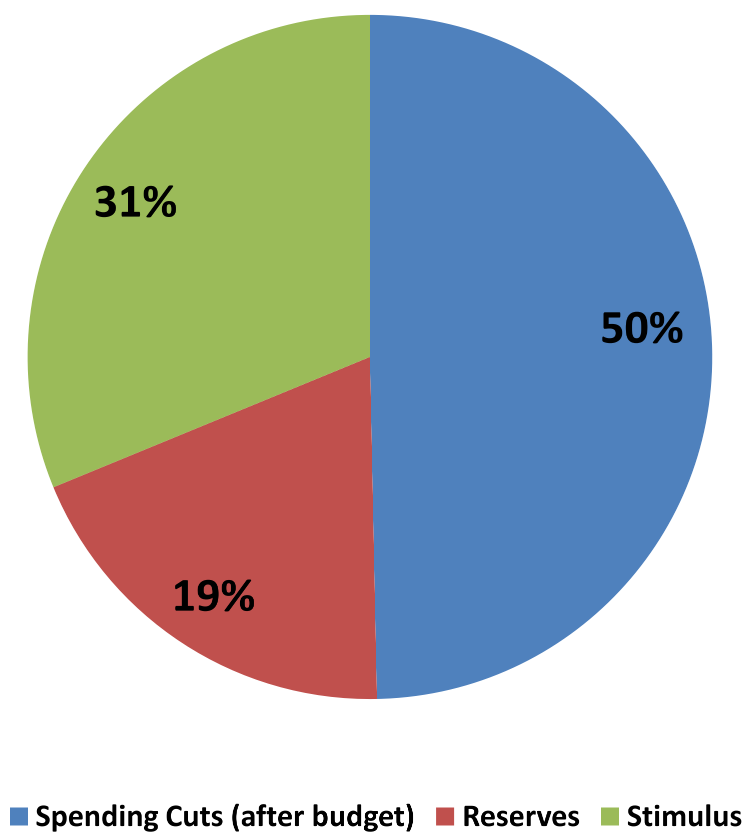
Review of FY09-11…
the Starting Point for FY12-13

A Balanced Approach to Revenue Declines

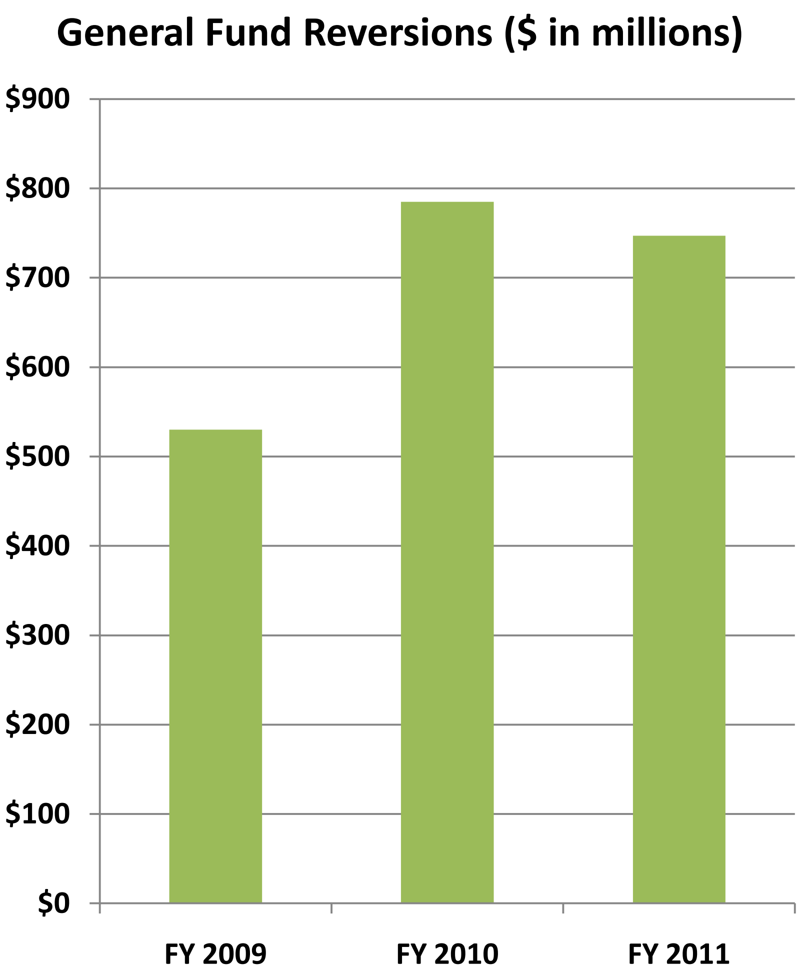
Over $3 billion revenue "miss" vs. budget

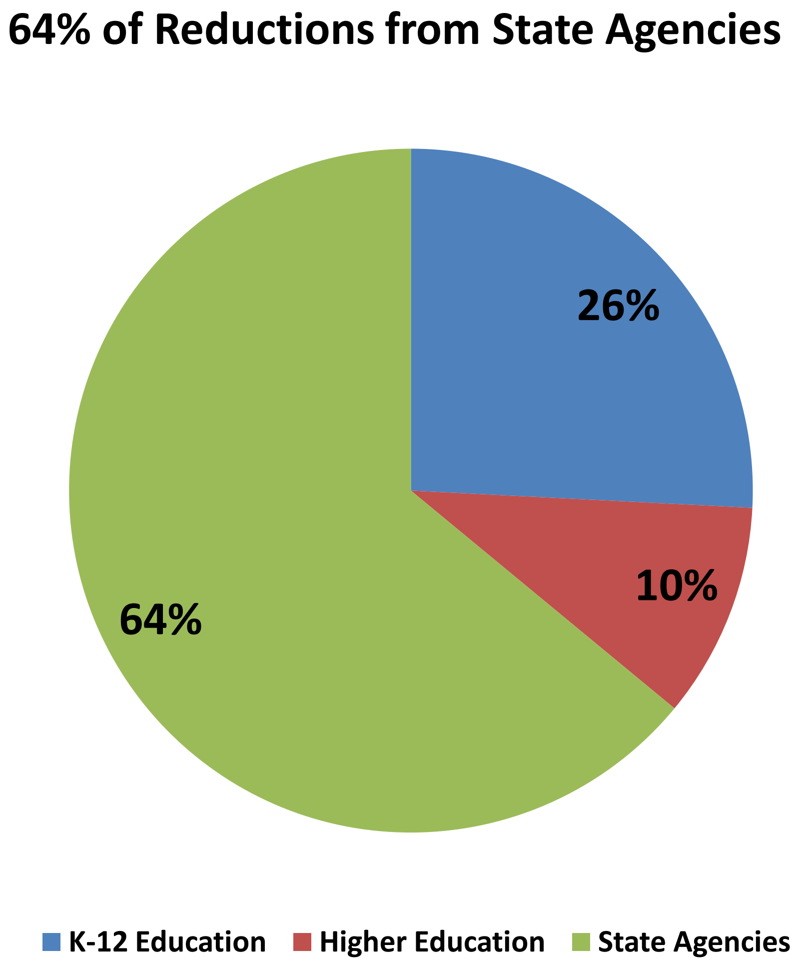


Closed by spending cuts, prudent use of reserves and stimulus funds

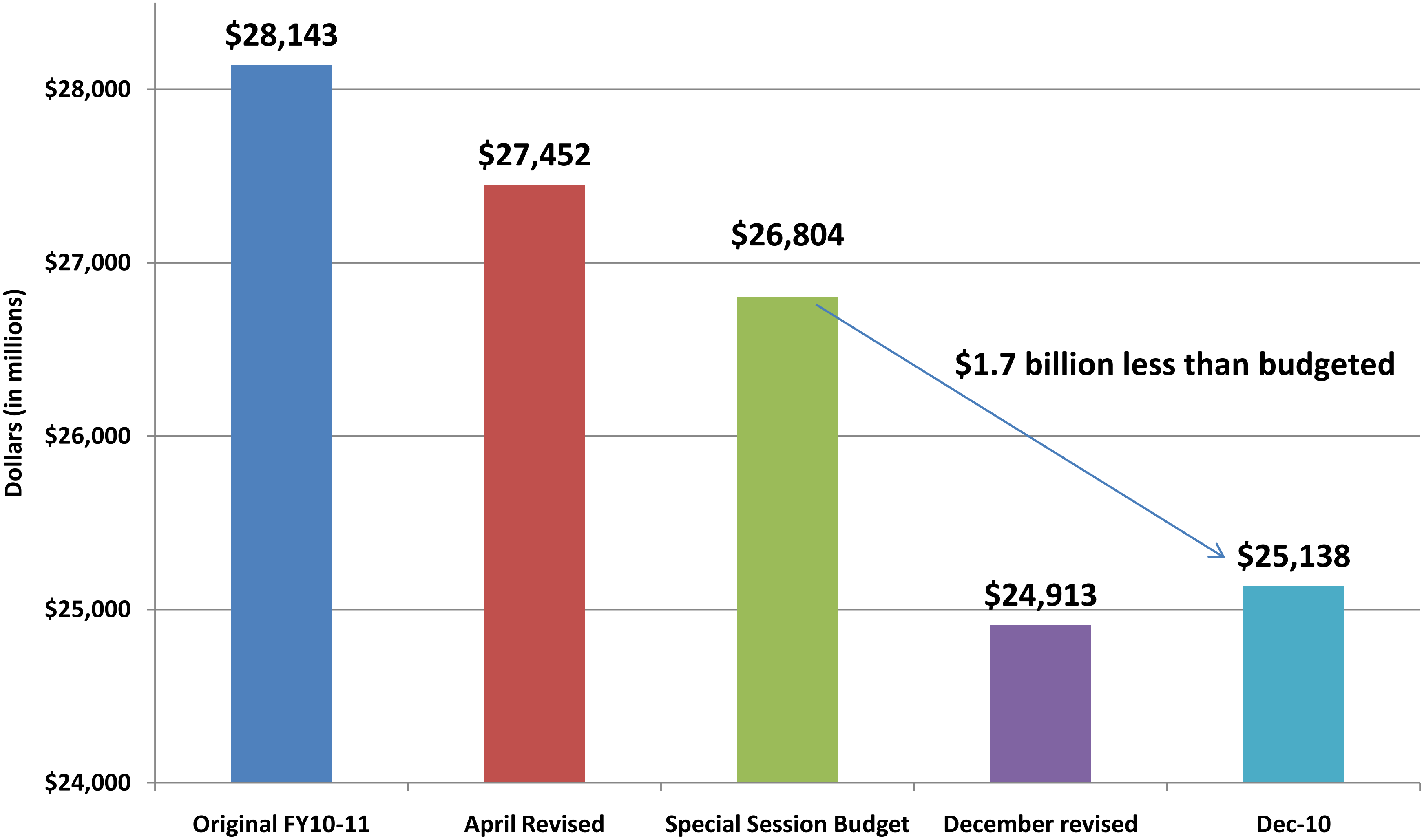


Dramatic Spending Reductions by State Agencies Preserved Scarce Resources for Education

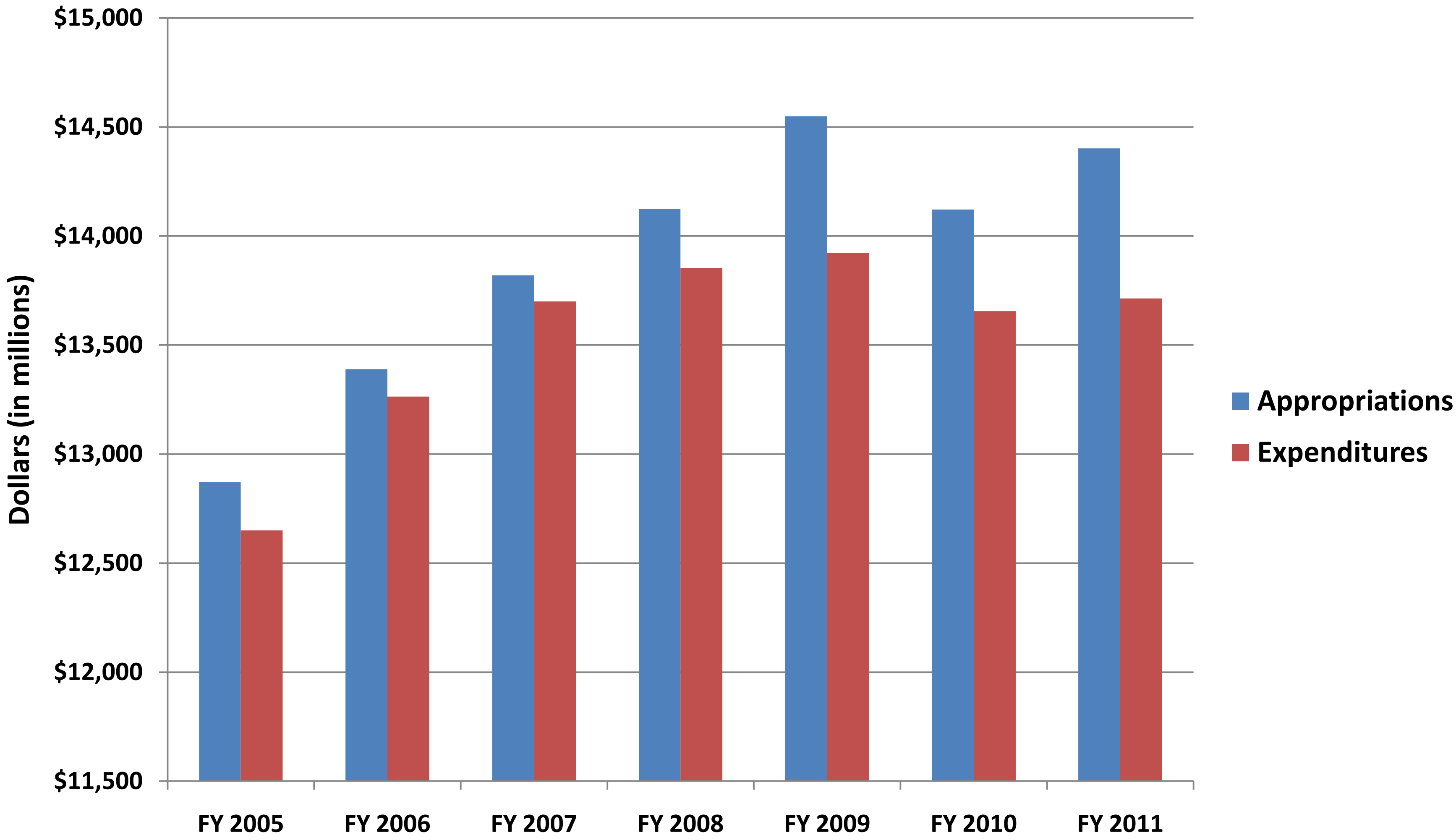


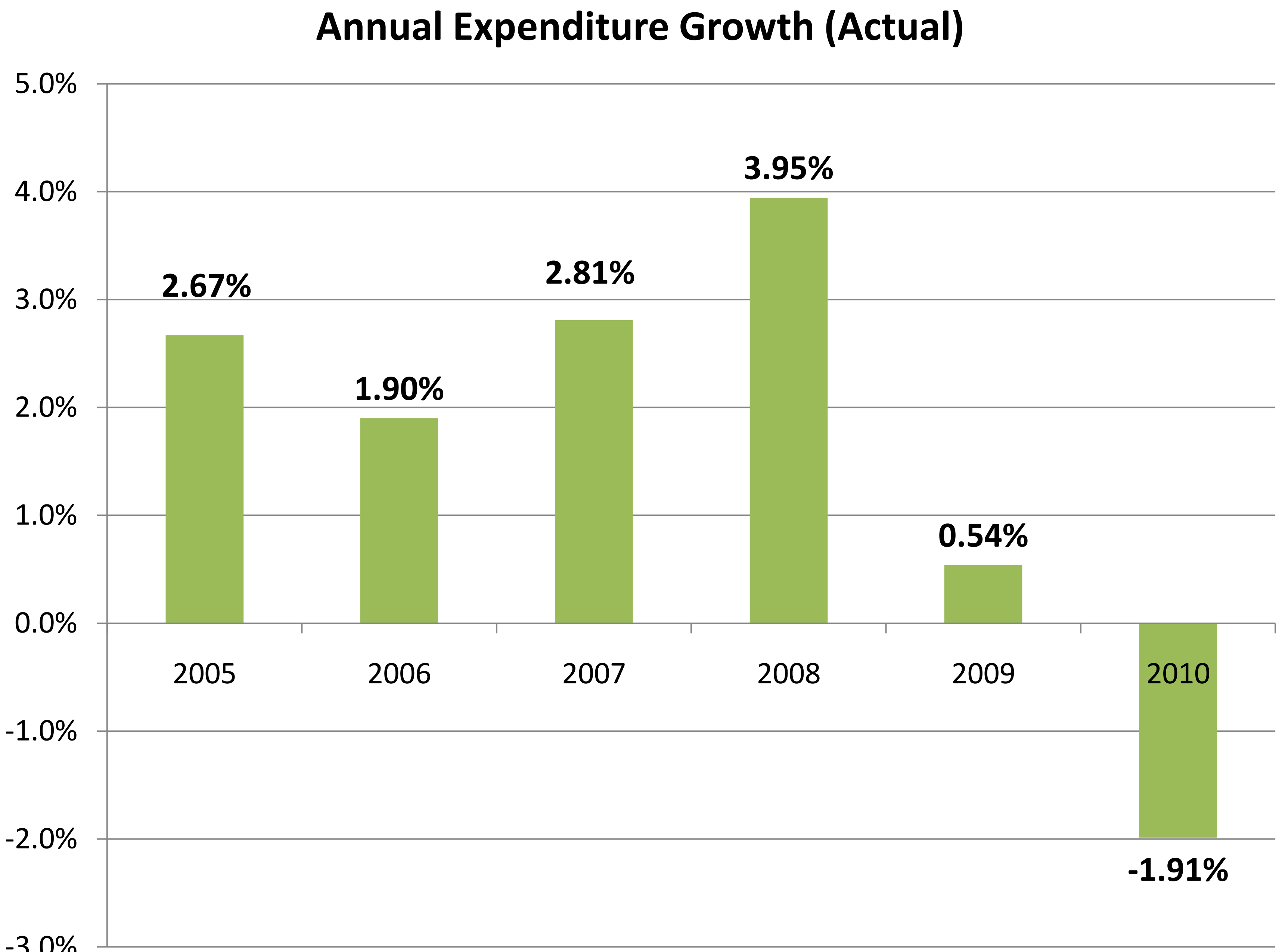


Budgeted Revenue: FY10-11



Actual Expenditures Dramatically Lower than Budgeted Appropriations… Reset to Match Income

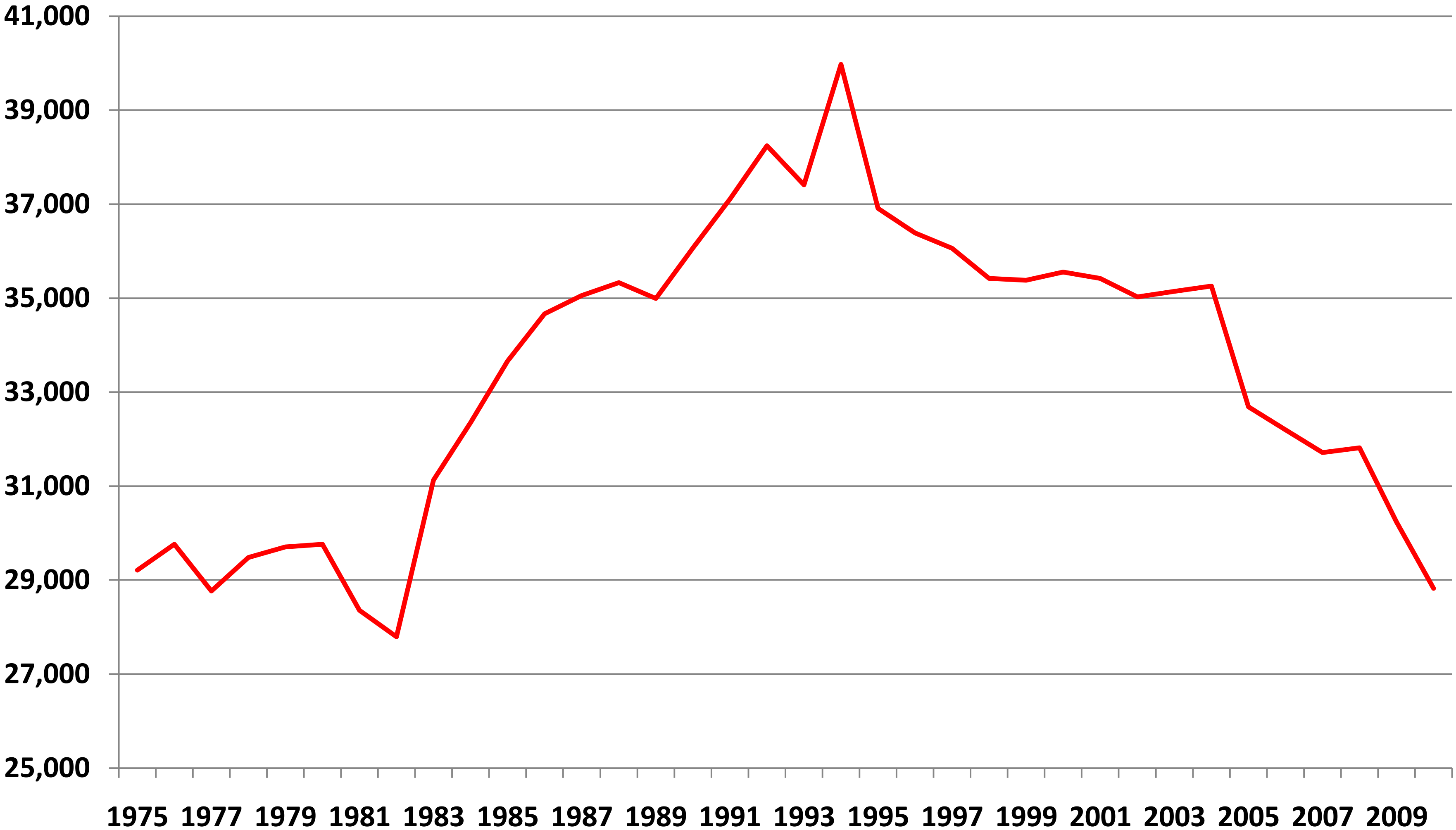



Annual Expenditure Growth (Actual)
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
2.67%
1.90%
2.81%
3.95%
0.54%
-1.91%
2005
2006
2007
2008
2009
2010

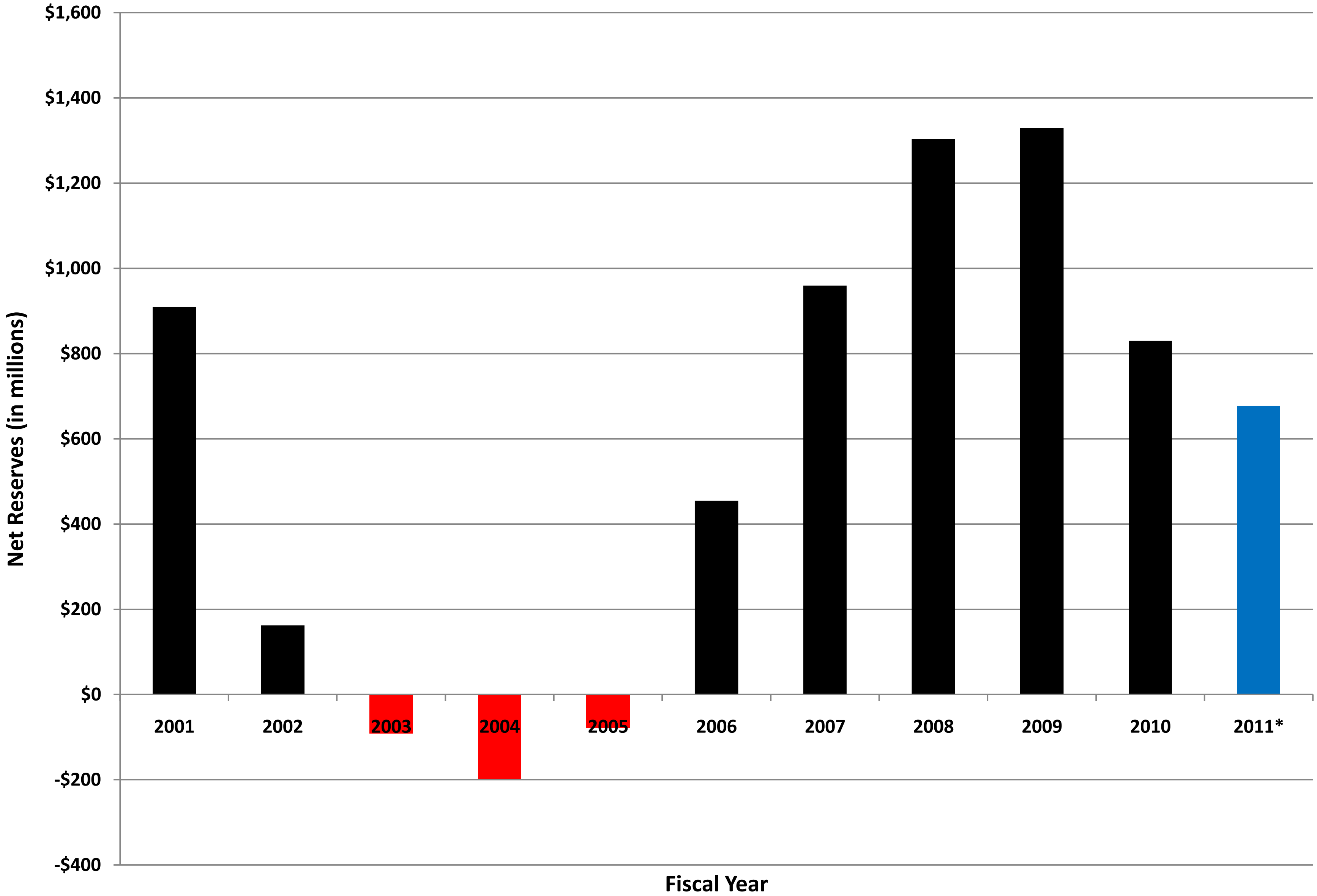
Statewide Actions Taken to Restrain Spending

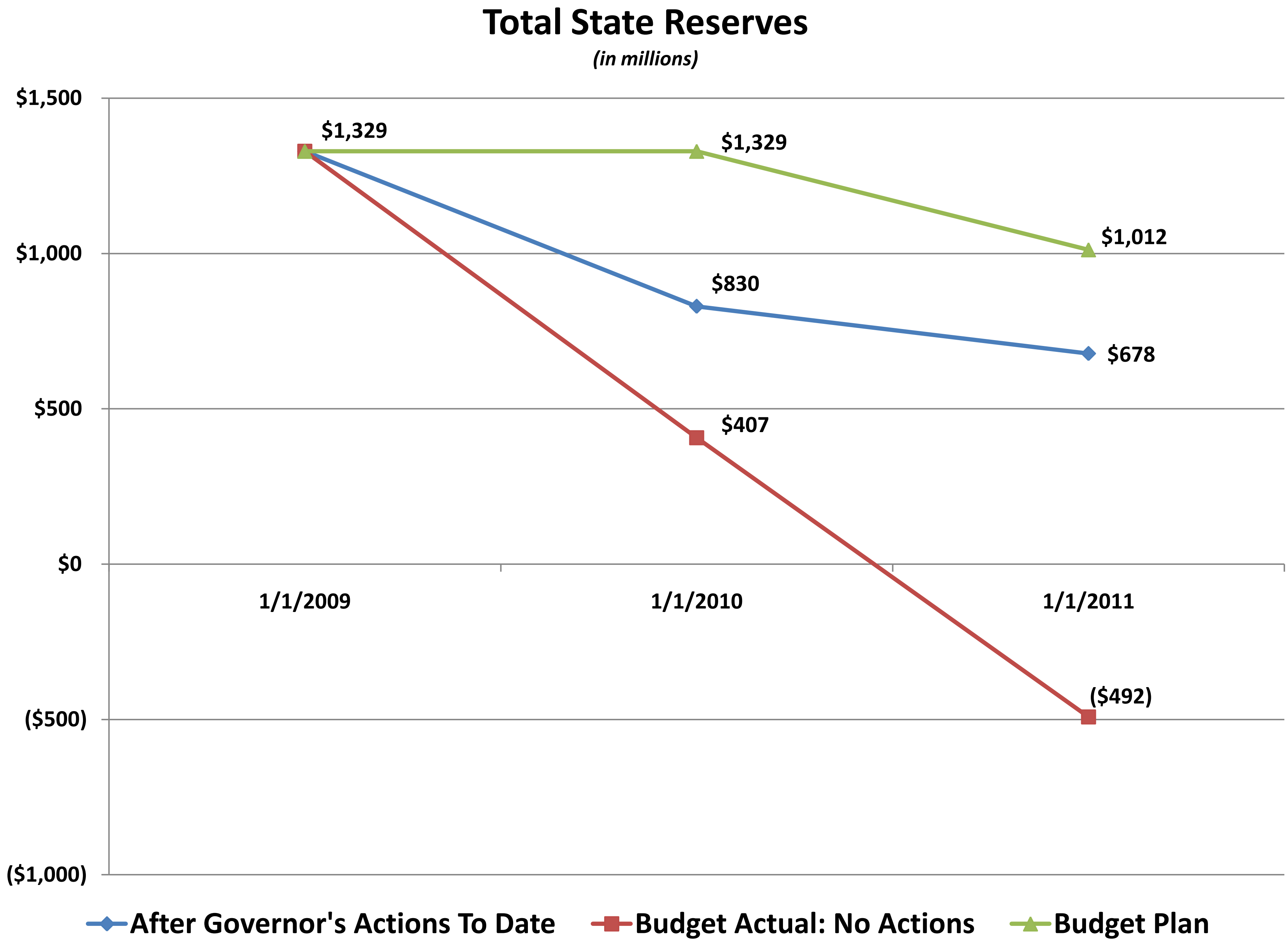
- Leaving vacant positions unfilled
- Reduction of in-state and out-of-state travel
- Voluntary unpaid leave
- Unpaid internships
- Reduction in professional organization memberships
- Increased utilization of offender labor
- Ceased purchasing business cards
- Ceased printing annual reports
- Reduced 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)
$1,500
$1,000
$500
$0
($500)
($1,000)
1/1/2009
1/1/2010
1/1/2011
$1,329
$1,329
$1,012
$830
$678
$407
($492)
After Governor's Actions To Date
Budget Actual: No Actions
Budget Plan

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)

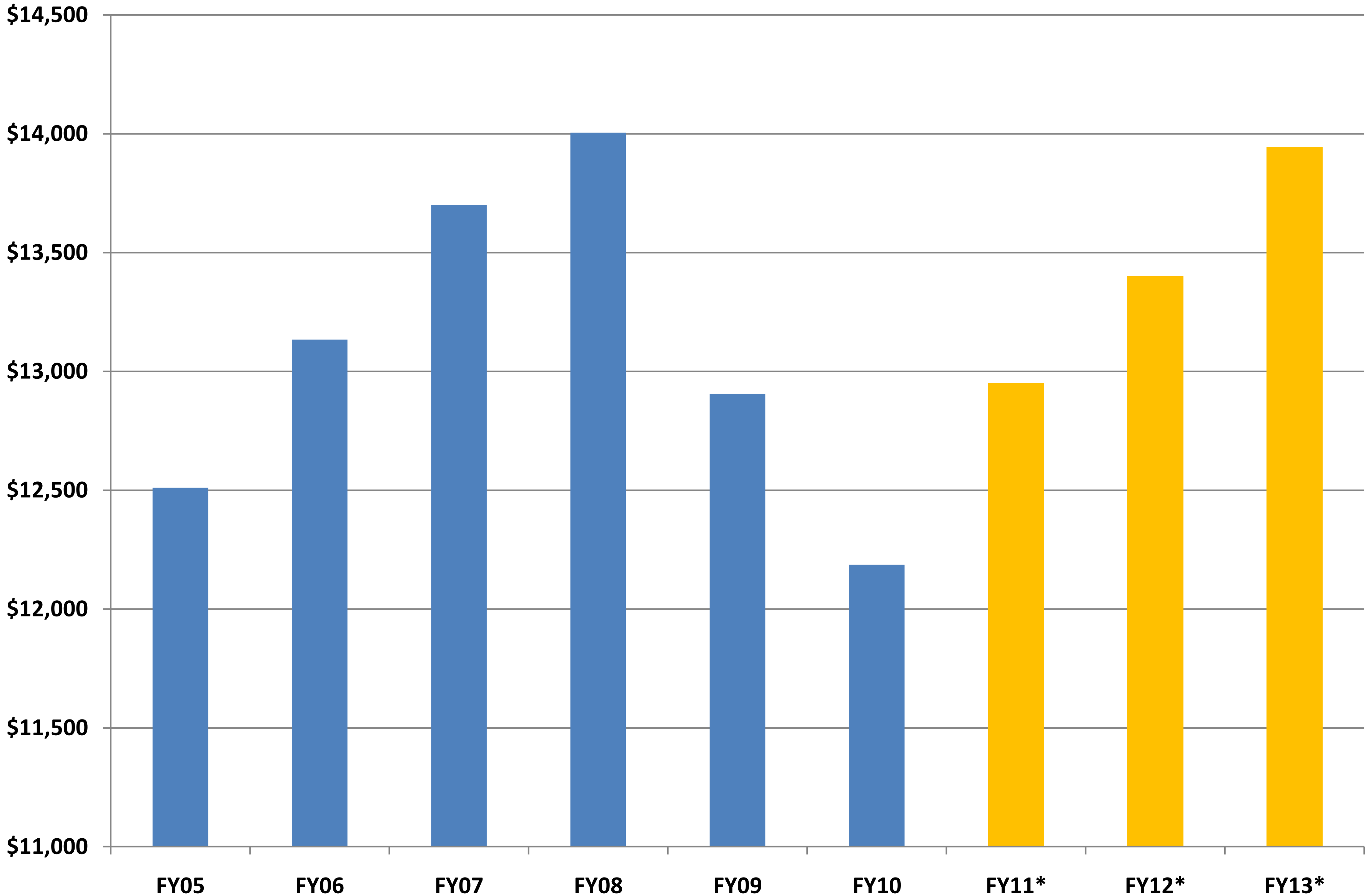
Note: Spending Priorities are K-12 Education and Public Safety

Overview of Available Resources

State Revenue Forecast

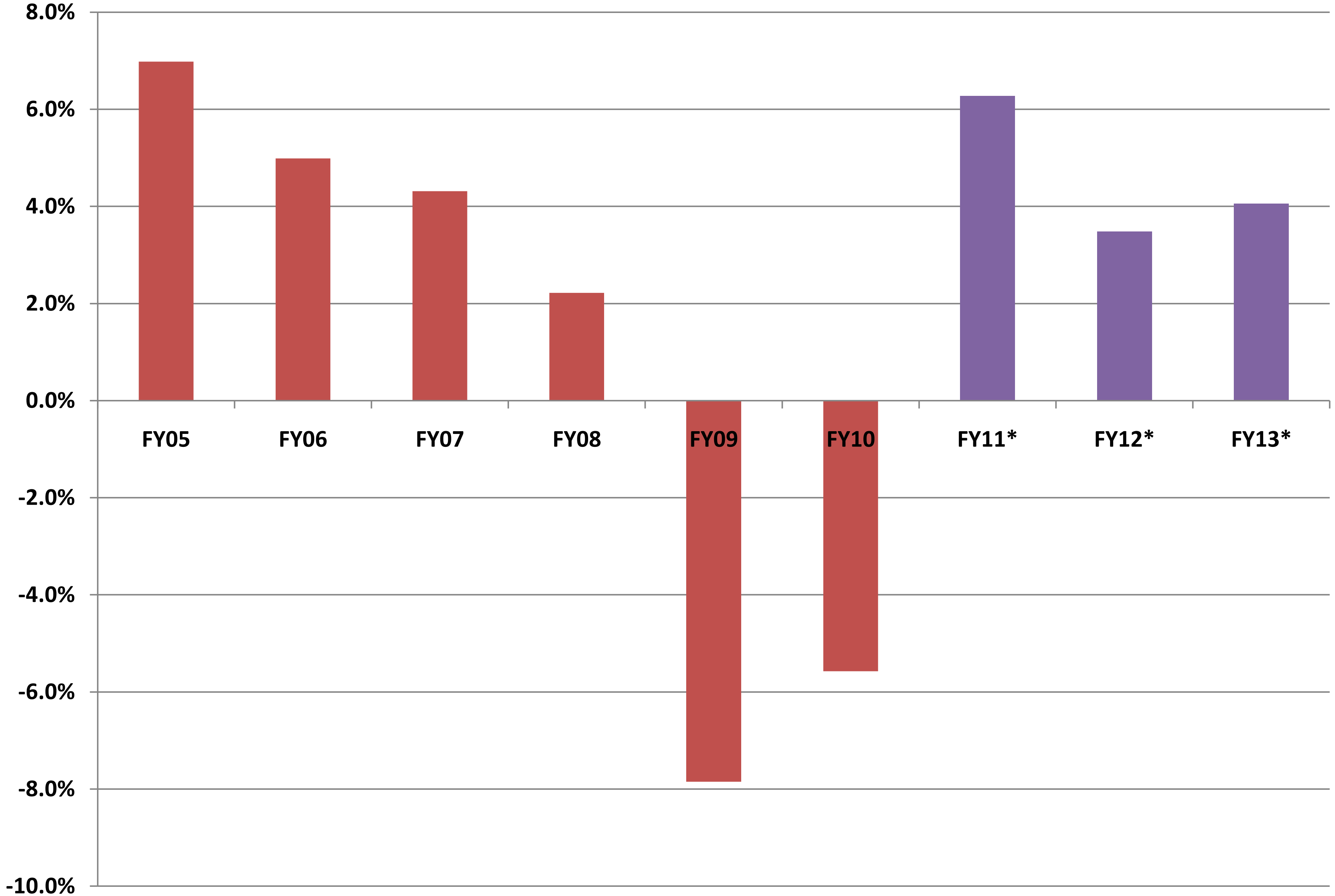
General Fund Revenues

(in millions)



* = Projected

% Change in General Fund Revenues



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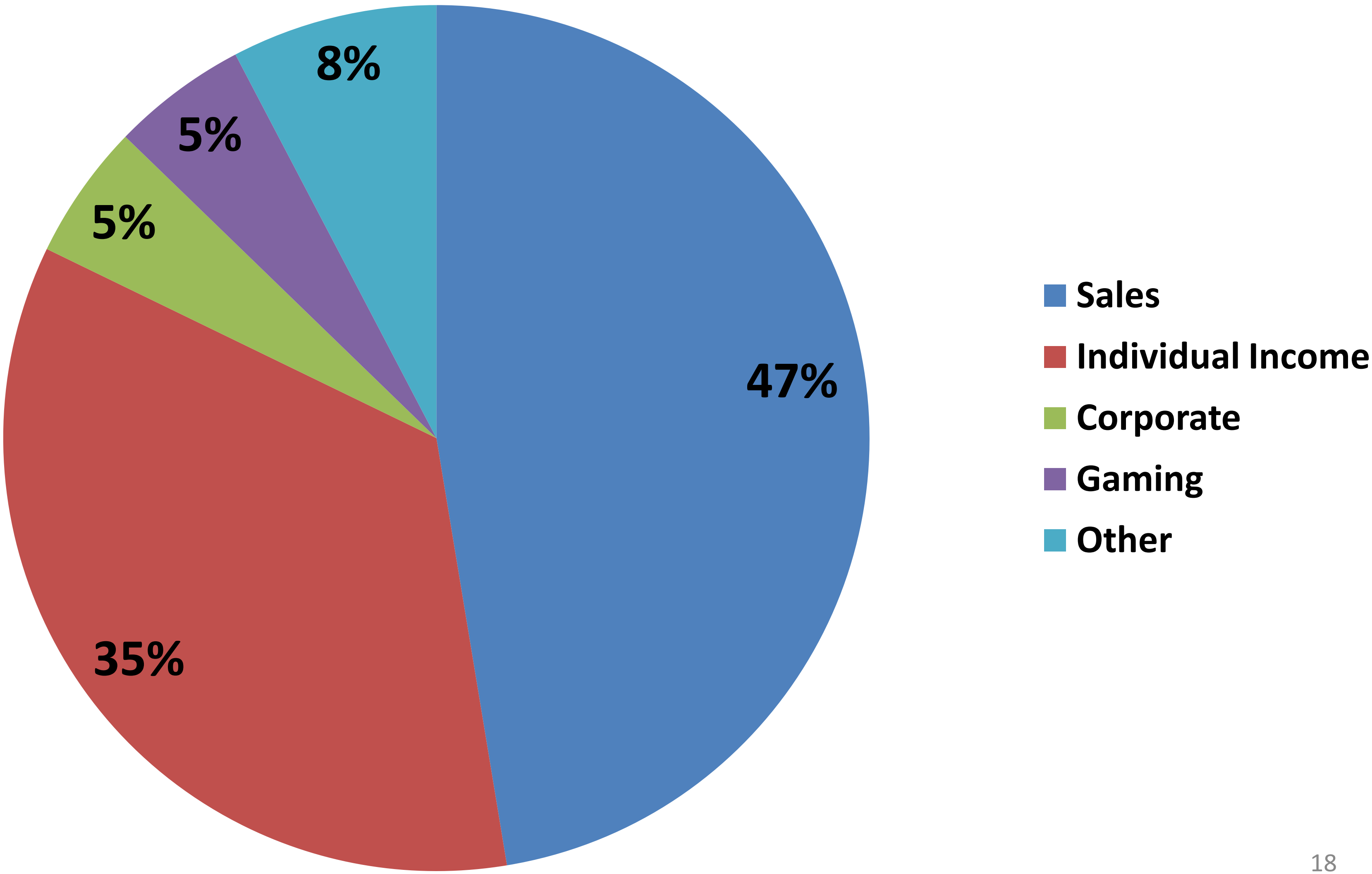
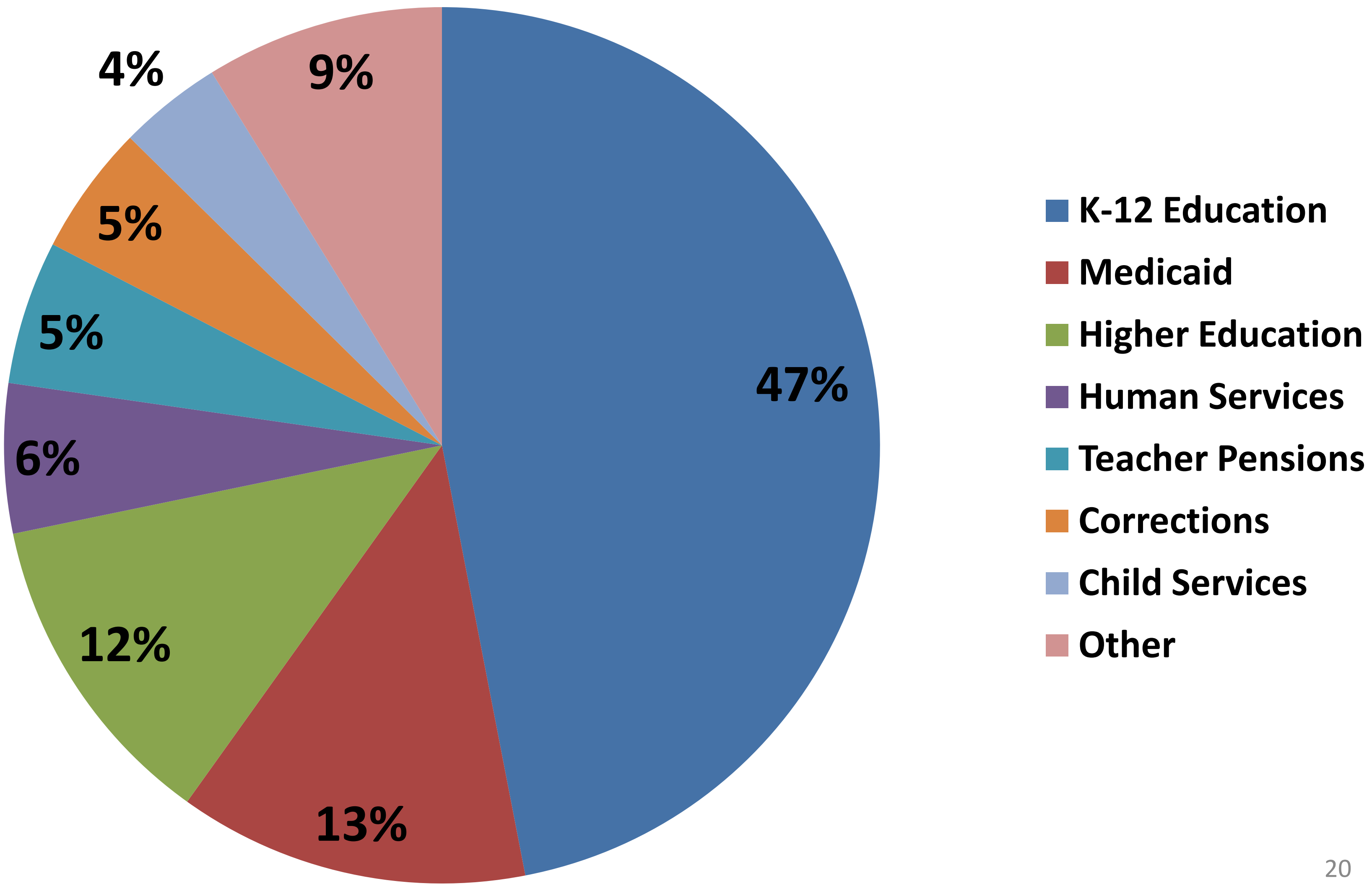
FY12-13 Projected General Fund Revenues



Governor’s Budget Submission

Recommended Appropriations

FY12-13 Recommended General Fund Appropriations



Basic Surplus Statement

	FY 2012	FY2013
Beginning Balances	**$678.1**	**$639.4**
General Fund Revenues	**$13,499.1**	**$14,043.9**
General Fund Expenditures	**$13,768.8**	**$13,988.4**
Annual Surplus/(Deficit)	**($269.7)**	**$55.5**
1-time Revenue/(Expenses)	**$231.0**	**$29.8**
Ending Balances	**$639.4**	**$724.7**

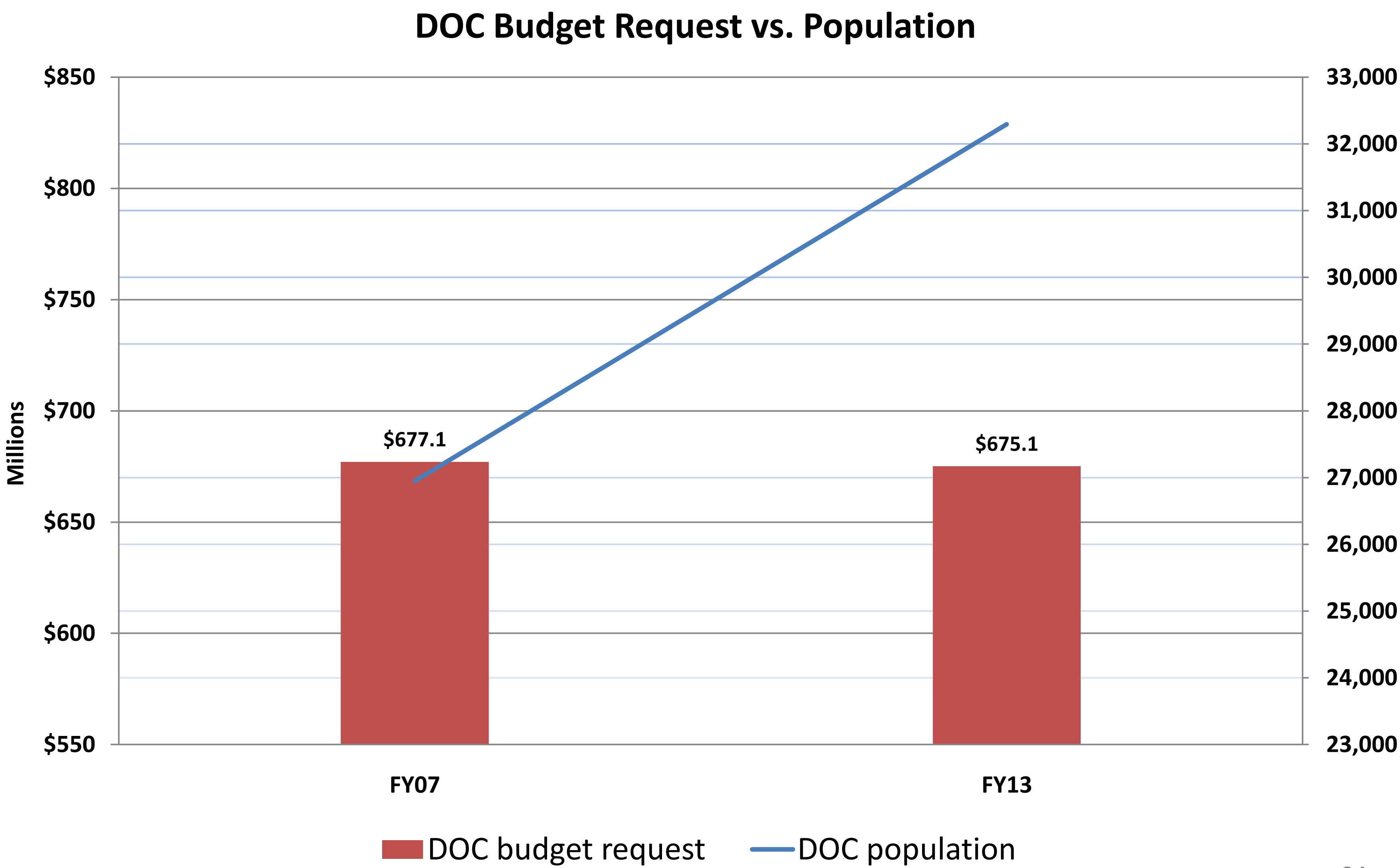
Budget Overview

- 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



Notable Exceptions: Increases Above Base Appropriations

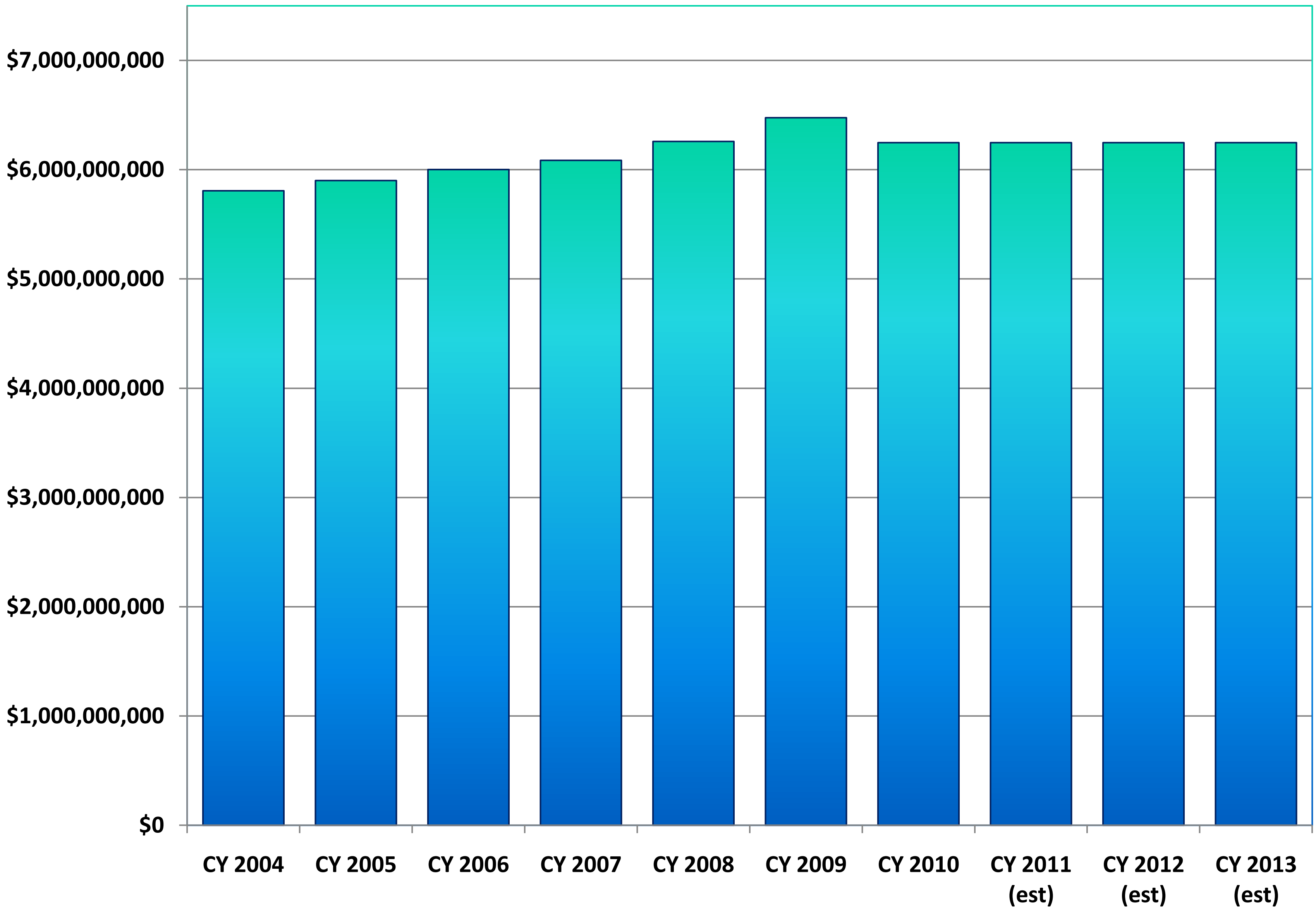
- Pension Obligations
  - Maintained discipline of funding the Annual Required Contribution (ARC)
  - Ensured solvency of Pension Stabilization Fund
  - FY11 General Fund Appropriations = $835 million
  - FY13 General Fund Appropriations = $952 million (+$117M)
- Medicaid
  - Funded the Medicaid forecast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

K-12 Tuition Support



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

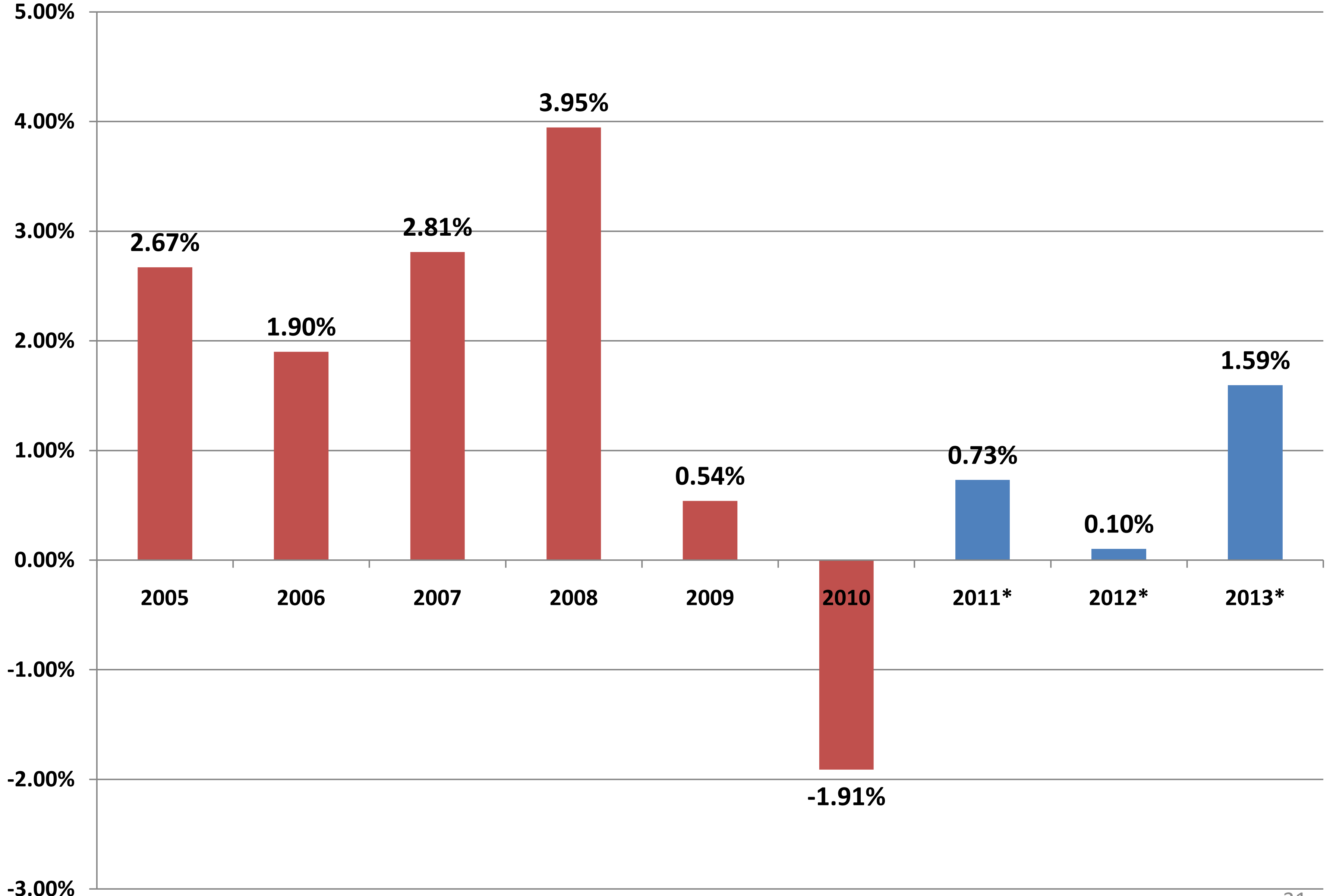
Retiree Medical Benefits (SEA 501) Actuarial Funding

- 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

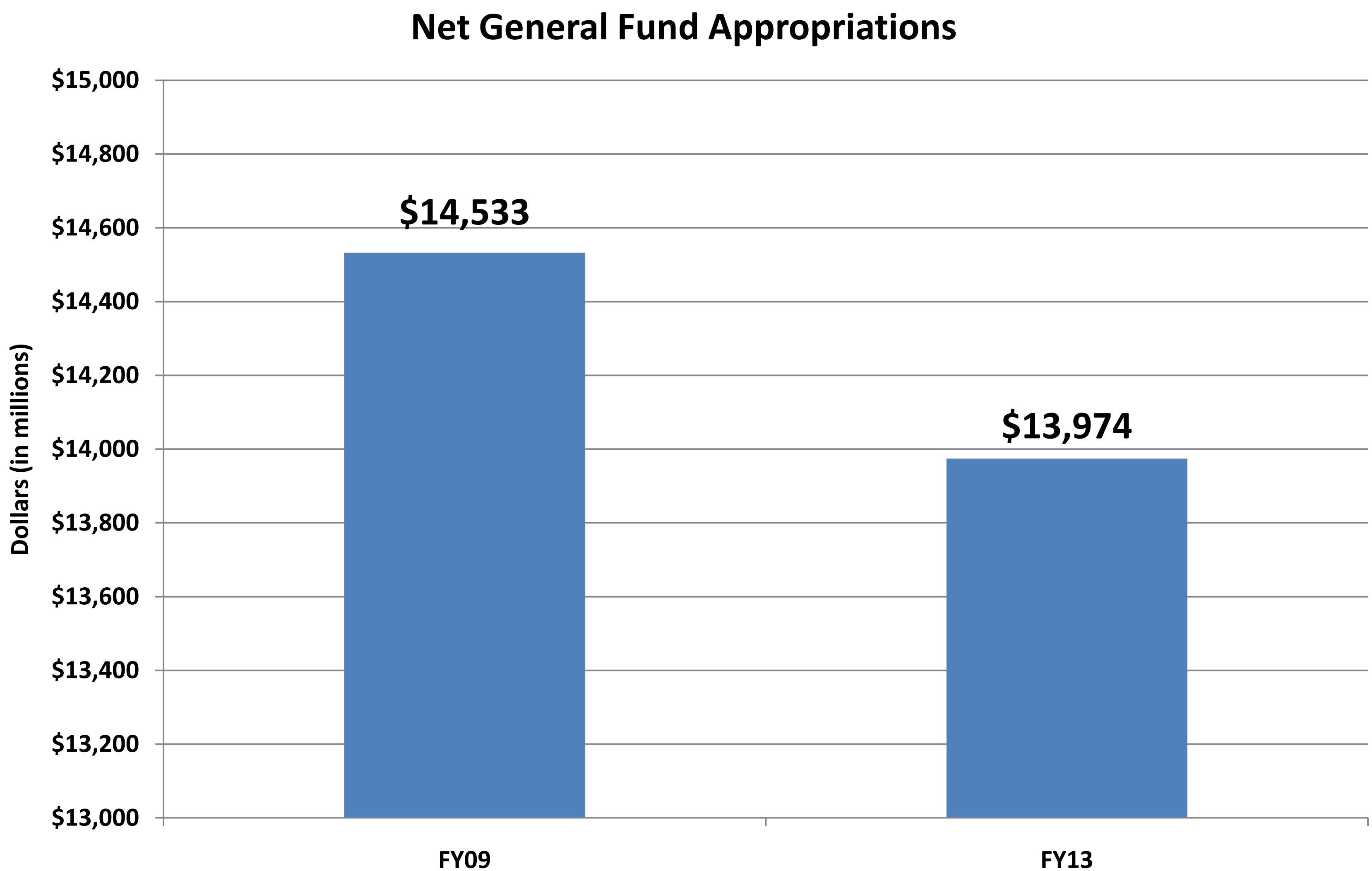
Public Deposit Insurance Fund

- 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)

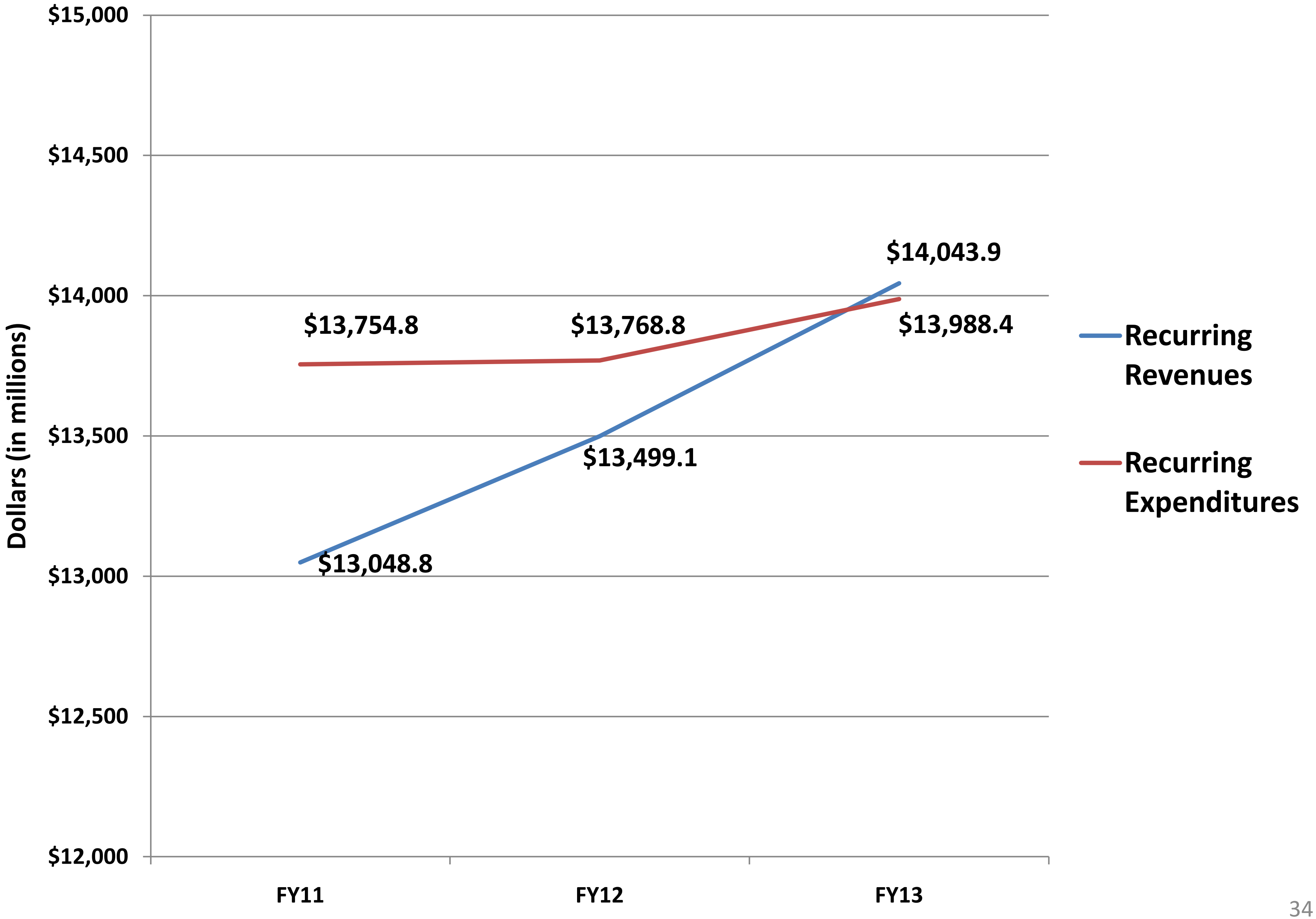


Permanent Reductions to Base Spending



Structural Balance

Structural Balance

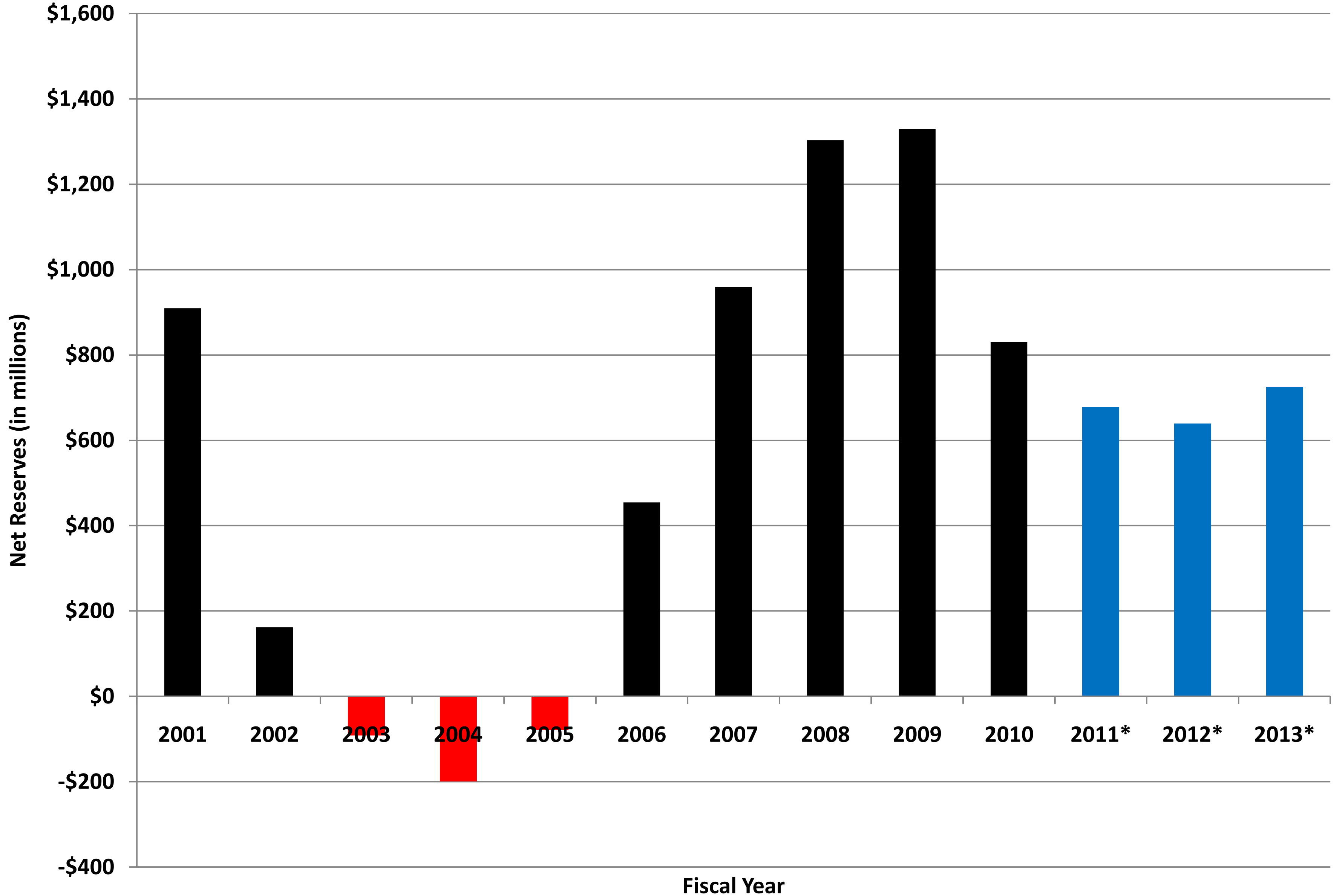


Structural Balance

- 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?