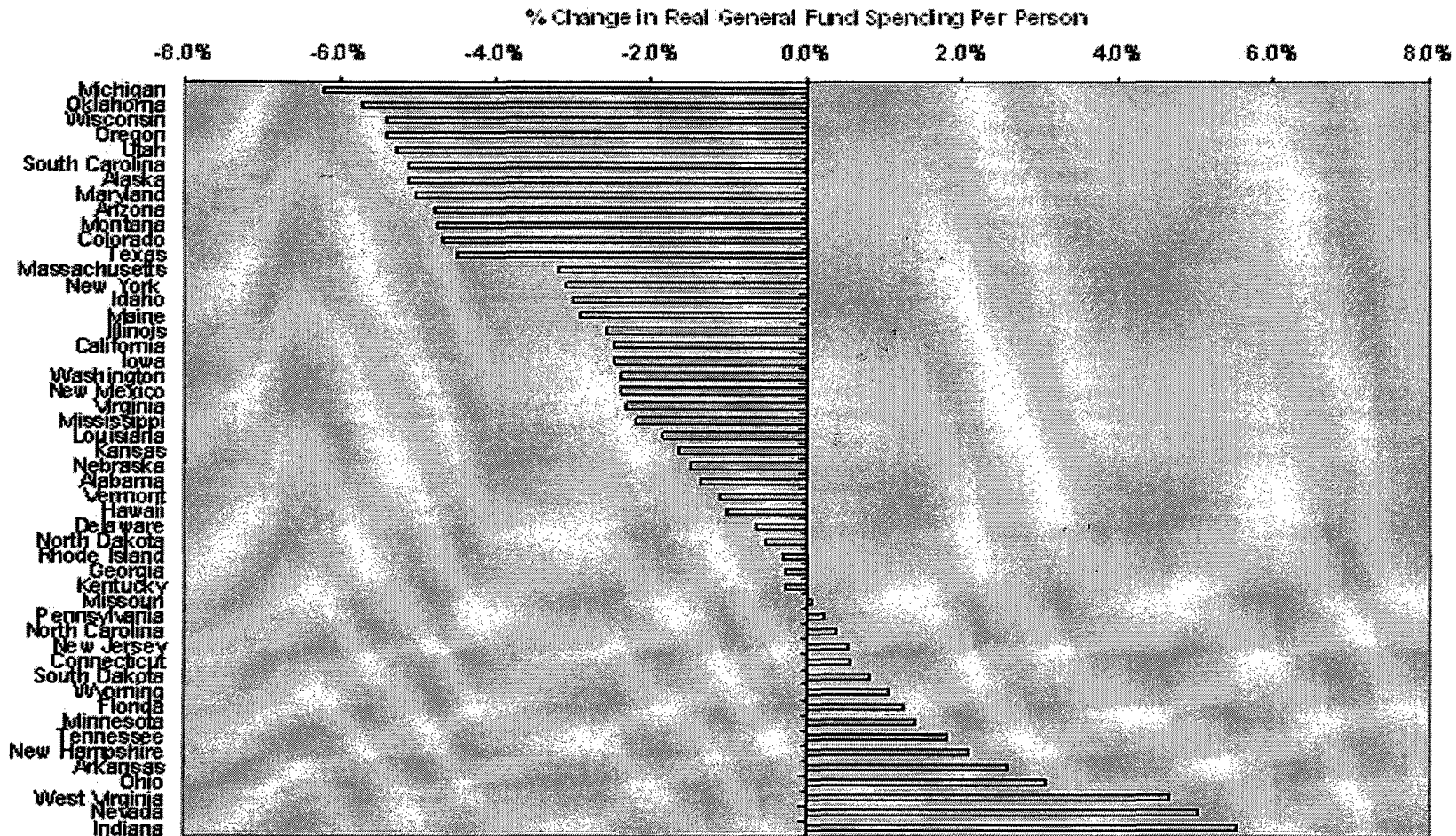


FY 2006 – 2007 Budget Briefing

Charles E. Schalliol
Director of the Office of Management and Budget

Indiana Has Led the Nation in Spending Increases Per Person... 2

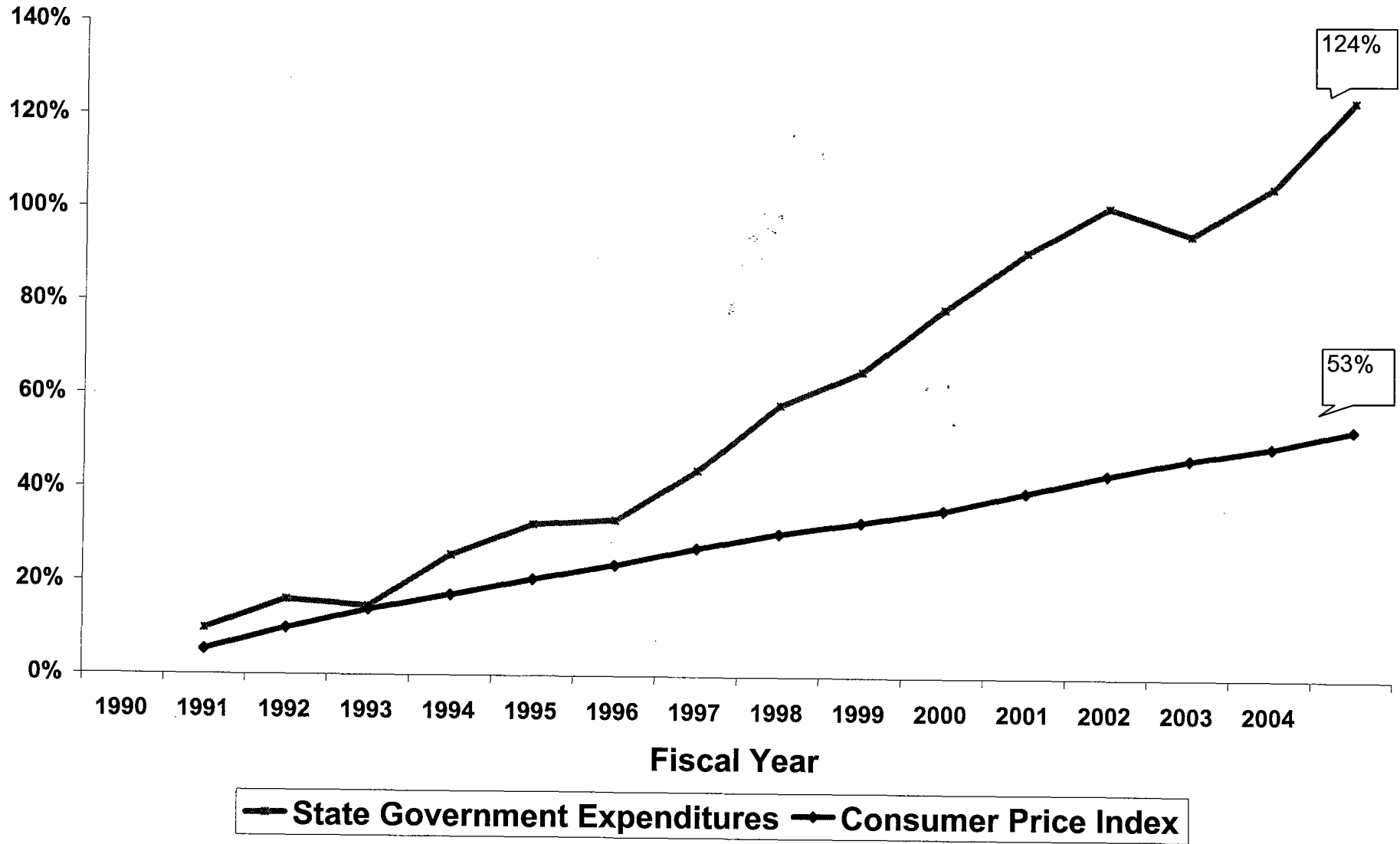
Average Annual Percent Change FY2002 to FY2004



Source: Center on Budget and Policy Priorities. Elizabeth C. McNichol, "Fiscal Crisis is Shrinking State's Budgets," February 25, 2004.

- **Indiana's spending increased by nearly 6% per person between FY2002 and FY2004, the largest increase of any state.**
- **Meanwhile, in more than 2/3 of all states, spending per person actually decreased.**

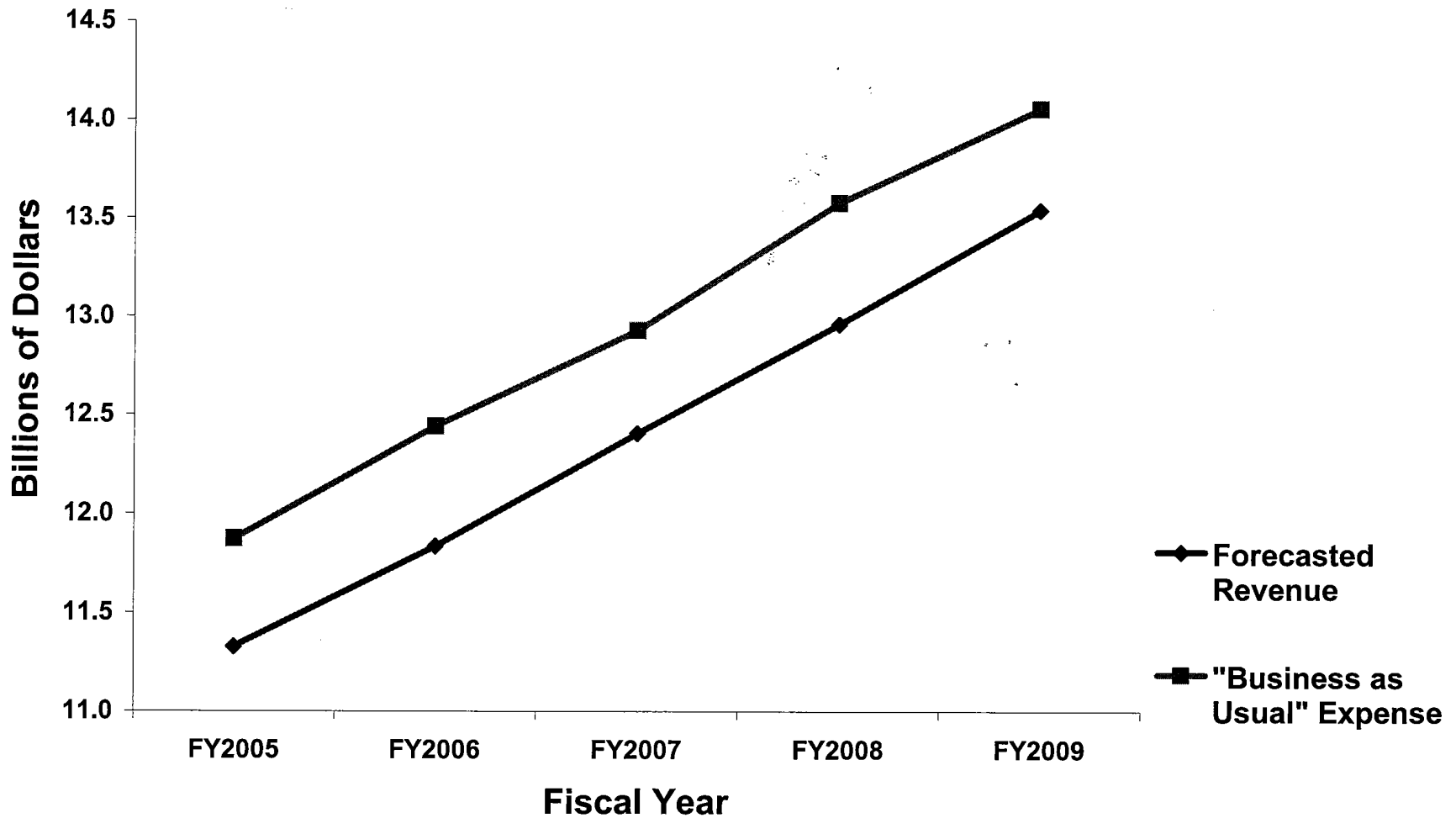
Indiana Expenditures Have Grown at more than 2.3 times the rate of Inflation



Where are we?

- **Structural Deficit of \$646 million for FY 2006**
- **Indiana's General Fund has a "negative net worth" - debts to schools and local government exceed reserves**
- **General and Rainy Day Funds have been drawn down to less than 18 days of operations**
- **Further, the fiscal integrity of the state does not improve in the foreseeable future – expenses grow at least as fast as revenue**

Revenue Never Catches up to Expenses



We must slow expense growth to address the structural deficit

We propose slowing spending growth from 6% this past decade to 1.5% in FY06 and 1.2% in FY07

Spending Restraint is at the Center of the Governor's Plan

1. Flatline Property Tax Replacement Credit (PTRC)
2. Hold Medicaid to 5% Growth
3. Flatline All Education Spending (K-12 and Higher Education)
4. Flatline Department of Corrections
5. Flatline State Agency Capital

These actions reduce “Business as Usual” spending and the deficit by approximately \$395 million in FY 2006 and \$740 million in FY 2007.

1. Property Tax Replacement Credit “Freeze”

- **Growth in the Property Tax Replacement Credit (levy, “rule”, and business inventory) would consume \$50M in FY 2006 and \$174M additionally in FY 2007**
- **The State bears this rapidly growing burden, but does not control decisions causing its growth**
- **However, local governments depend on this current PTRC revenue and expect the growth to continue**

1. PTRC (cont.)

The state can and will help local government achieve greater efficiency through:

- **Shared services and programs**
- **Identification of other efficiencies**

After these reductions, we must offer other local funding sources to offset remaining levy growth (if any)...

1. Other Revenue Sources Can be Made Available, for example...

- Greater flexibility and control over local option income taxes (COIT, CAGIT and EDIT)
 - Expand the permissible uses of revenue
 - Allow counties to impose tax on commuters
 - Eliminate the cap on existing rates
- County option payroll tax
- County option realty transfer tax
- County option excise taxes (cigarette, alcoholic beverage, motor fuel)
- Increased flexibility to levy food and beverage taxes

We will look to the General Assembly to determine which alternatives are best...

2. Holding Medicaid Growth to 5% will be Difficult

Some actions under consideration:

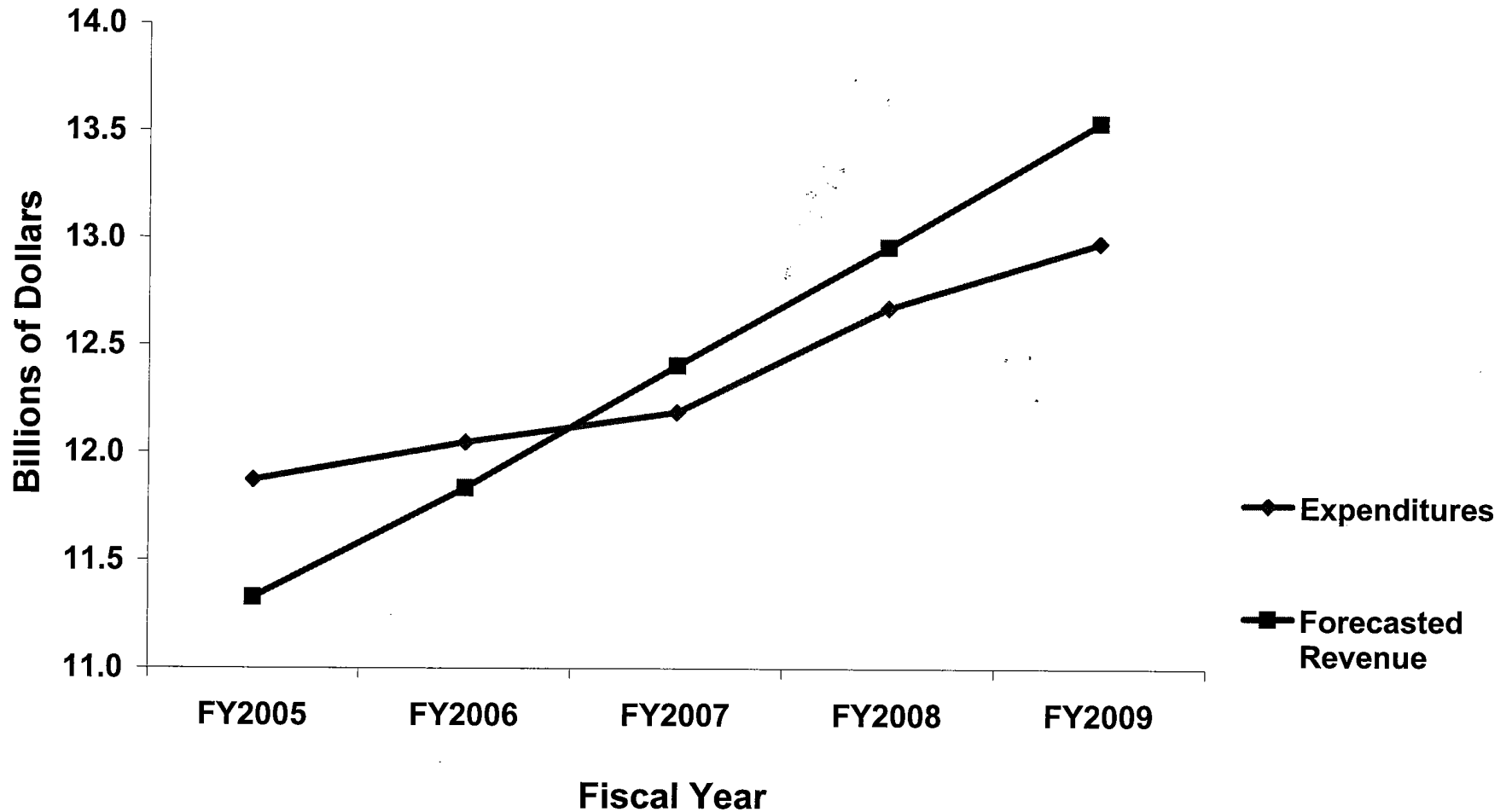
- **Medicaid hold-backs**
- **Targeted reductions in waiver programs**
- **Ensure individuals apply for Medicaid before enrolling in the state's own programs**
- **Aggressive pursuit of additional Medicaid waivers for program flexibility**
- **Competitively bid some state services**
- **Review of optional Medicaid and waiver services**
- **Substantially more administrative flexibility**

This will take concerted action... this year's spending is projected to be \$121 million over appropriations.

3. The State Must Do What it Can to Assist Schools...

- **Share and Adopt Best Practices**
- **Reduce Building Costs**
- **Lower Bonding Costs**
- **Assist with General Efficiencies**
- **Pool Purchasing (e.g., Health Insurance, Procurement, IT, etc.)**
- **Eliminate Unnecessary Overhead and Assets**

These Actions Do Not Balance the Budget in FY 2006



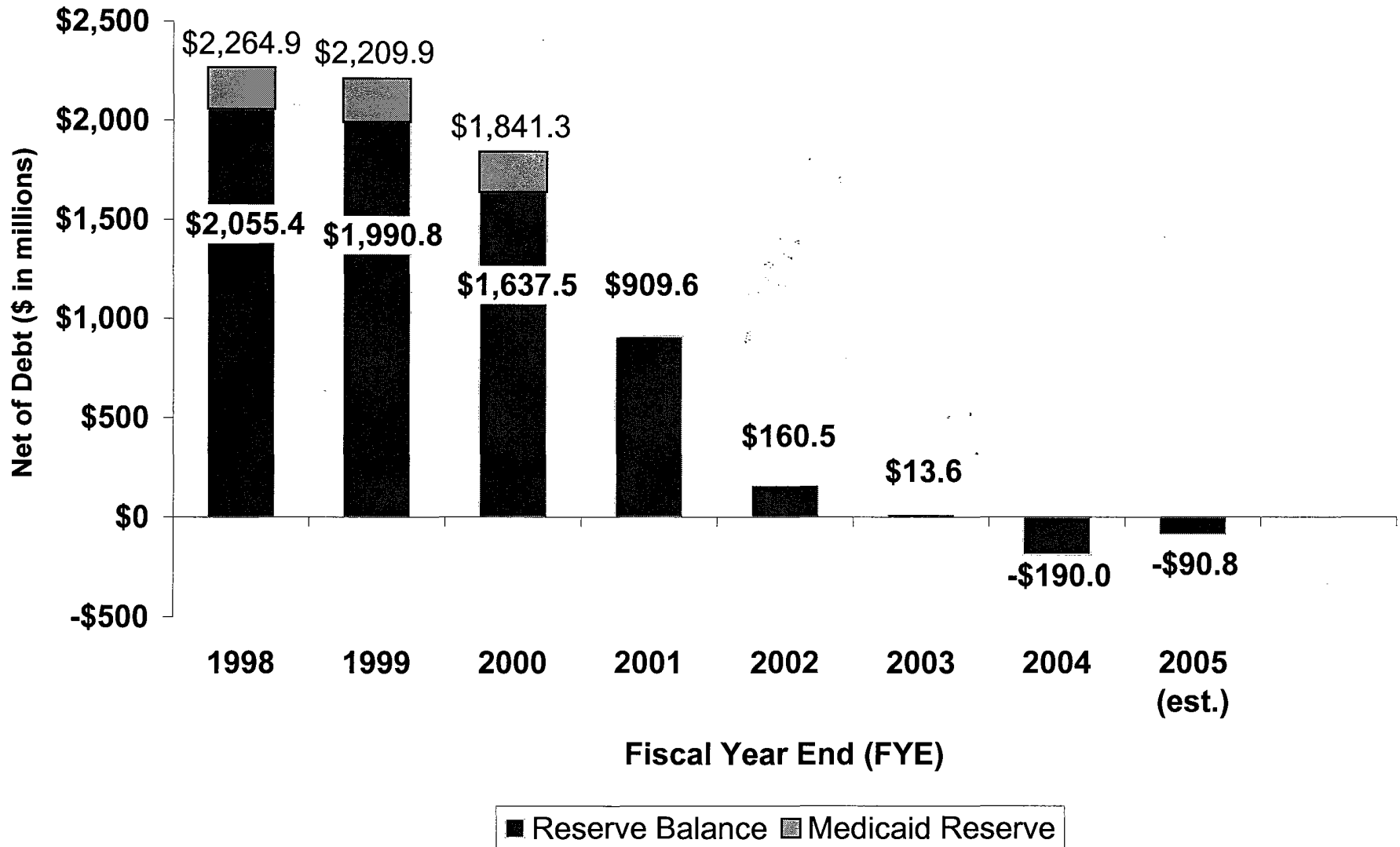
Revenue growth must hit forecasts to close gap...

January 18, 2005

Although Balancing the Budget in two years, it does not:

- **Restore adequate cash reserves – in fact, they would decline**
- **Restore the Rainy Day Fund as protection against future downturns in the economy**
- **Reduce our debt to school and local government**

Change in Official Combined Reserve Balance including Debts Owed to Schools and Local Government



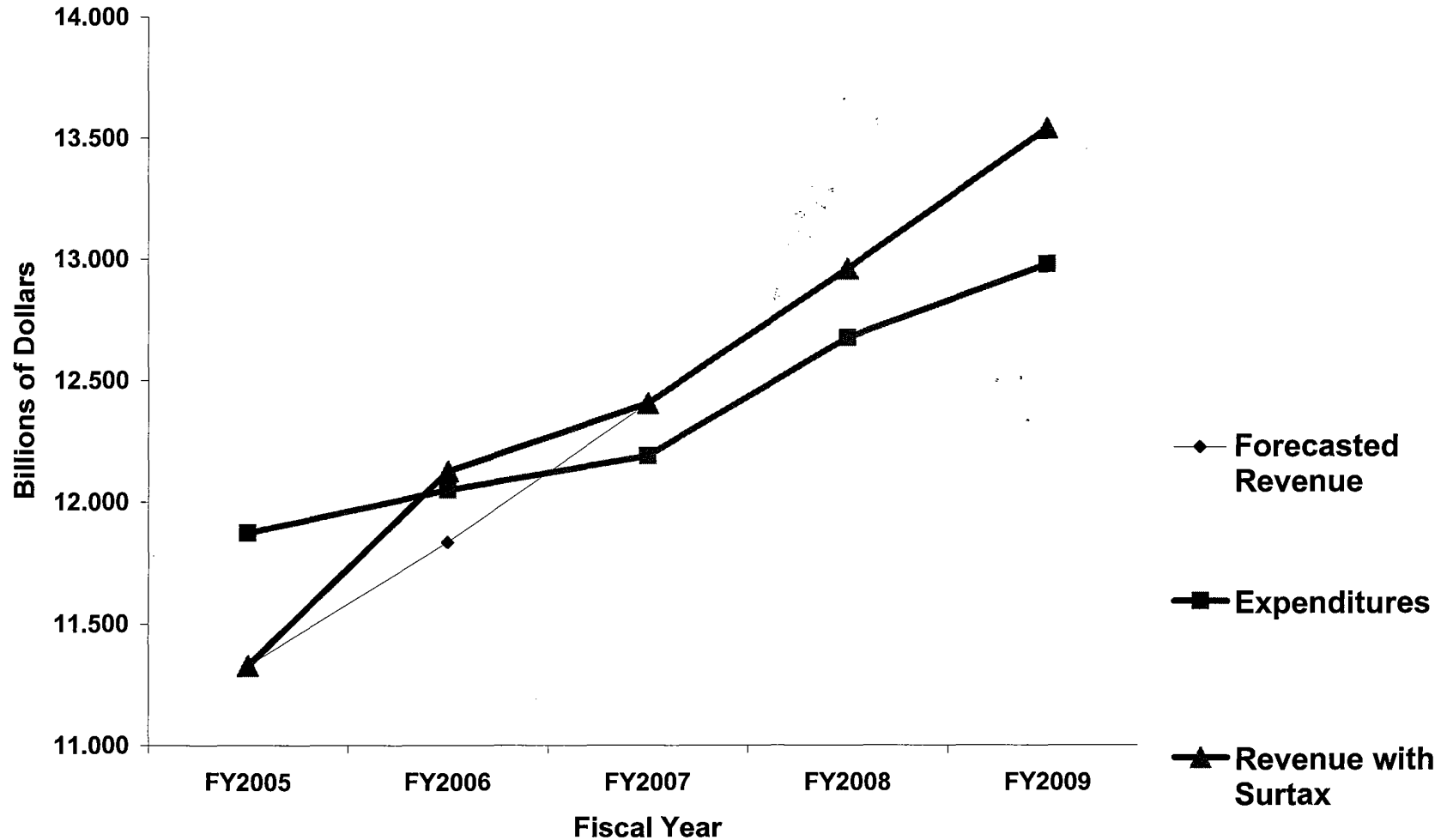
Note: The reserve balance consists of the following: GF/PTRF, Tuition Reserve, Rainy Day Fund, Medicaid Reserve (added in FY01), and the debts owed to schools and local government (added in FY02). January 18, 2005

We have a duty to balance the budget, and we can do it with NO general and NO permanent tax increase

- **1% Increase in the State Income Tax for Tax Filers earning more than \$100,000 per year for Calendar Year 2005 only (from 3.4% to 4.4%)**
- **Total Projected Increased Revenue = \$275-300 million**

One-time revenue balances the budget next year

Balances the Budget Next Year



January 18, 2005

This Budget Accomplishes Vital Tasks:

- 1. Balances the budget now.**
- 2. Restores financial integrity.**
- 3. And, does it with NO general or permanent tax increase.**

GF/PTRF Operating Deficit Calculation

	Est. FY 2005	Est. FY 2006	Est. FY 2007
On-Going Revenue			
Forecast Revenue	11,312.3	11,736.6	12,356.6
Extension of Earned Income Tax Credit			-51.3
One-time Casino Tax Revenue	-81.2		
Federal revenue sharing for poverty hospitals (DSH)	58.8	60.2	61.6
Total On-Going Revenue	11,289.9	11,796.8	12,366.9
<i>Annual Growth over Prior Year</i>		4.5%	4.8%
One-Time Revenue			
1 year Income Surtax >\$100,000		290.0	
Pension Stabilization	190.0		
Tobacco Master Settlement	35.0	38.1	38.1
Medicaid Enhanced Federal Match	121.0		
Total One-time Revenue	346.0	328.1	38.1
Available Resources	11,635.9	12,124.9	12,405.0
On-Going Expenditures			
General Fund Appropriation	11,505.8	11,898.3	12,103.4
Teacher pensions from Pension Stabilization			
Medicaid enhanced federal match			
Department of Health from tobacco settlement			
2003, 2004, and 2005 Gen Salary Adjustment			
IN Comp. Health Insur. Assoc. Expense			
Property Tax Replacement Credits			
Pre 1/2005 Adjustments to Base	392.5		
Governor's Initiatives		41.2	10.9
Medicaid Increase (5% growth over spending)		66.5	69.9
Debt Service		9.2	11.6
IN Comp. Health Insur. Assoc. Expense		18.1	
Teacher Pension		10.7	31.7
Additional Health Expenditures from tobacco		3.1	
Developmentally Disabled Waiver - Emergency Placements		16.1	16.4
K-12 Tuition Support (last 6 months of CY formula)		22.5	
Other Gen Gov't		17.7	-0.4
Base Appropriations	11,898.3	12,103.4	12,243.5
Governor's Administrative Objective		-30.0	-30.0
Base Reversions	-25.0	-25.0	-25.0
Base Expenditures	11,873.3	12,048.4	12,188.5
Annual Growth		1.5%	1.2%
On-Going Structural Deficit		251.6	-178.4
.... With One-Time Revenue Added		-76.5	-216.5
Combined GF/PTRF Balance	658.9	735.4	951.9

* Last decade's growth in rate of spend