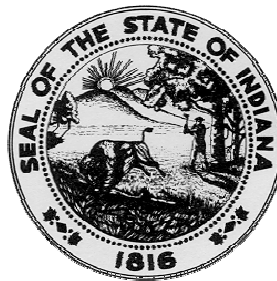


# **FY 2008 – 2009 Budget Briefing**

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# 2006 – 2007 Biennium Dramatically Improved State's Financial Condition

Governor and Legislature partnered to accomplish a great deal this biennium:

- Passed a budget that balanced in two years:
  - Projected deficit of \$132M in FY '06
  - Projected surplus of \$227M in FY '07
- Actual results in 2006 even better:
  - Balanced budget in first year – surplus of \$370M
  - Spending controls generated \$125M; received additional revenue of \$303M
- No gimmicks or deferrals

# 2006 – 2007 Biennium Dramatically Improved State's Financial Condition

*(continued)*

- After growing State Spending 5.7% annually for the last decade:
  - 2006 spending grew 1.9%
  - 2007 spending now projected to grow 2.9%\*
- No tax increases
- All K-12 payment delays of \$316M have been repaid
- Local payment delays of \$136M and university payment delays of \$40M will be repaid before end of fiscal year 2007

# 2006 – 2007 Biennium Dramatically Improved State's Financial Condition

*(continued)*

- Tax amnesty generated \$240M of unpaid back taxes
- True cash balances\* grew from \$23M at beginning of biennium to a projected \$636M at 6/30/07 – while paying back \$492M\*\* of payment delays
- Moody's and S&P both upgraded the State's credit rating this year

# Much Has Been Accomplished, More Remains To Be Done

Governor urges further strengthening of the State's Finances through the 2008 – 2009 Budget:

- Another “honestly” balanced budget in each year – no gimmicks\*
- No general tax increases
- Limiting spending growth to 4% or less
  - Below revenue forecasts of 4.2% and 4.5% growth for 2008 and 2009
- Pay back remaining local government and university payment delays

***This should leave the State with a true surplus of 8.8% of revenue, \$1.2B, at end of the biennium IF revenue forecasts are achieved.***

# Many of the Governor's Priorities are Self Funded – Do Not Require Budget Dollars

- Plan for a Healthier Indiana
  - Medical insurance for low income Hoosiers
  - Immunizations for children under two
  - Smoking cessation
  - Funded by cigarette price increases
- Attacking the “Brain Drain”
  - Hoosier Hope Scholarships
  - World Class Scholars
  - Funded by a Hoosier Lottery operating agreement
- Exploring the Commerce Connector and Illiana Expressway through private investor financing

# Governor's Priorities Having General Fund Impact

- \$400 million new dollars for support of public schools:
  - Tuition support of \$69M in 2008 and \$185M in 2009
  - Front loaded full day kindergarten costing \$49M in 2008 and \$95M in 2009
- Additional benefits to Hoosier soldiers, veterans, and their families costing a \$8M in both 2008 and 2009
- Funding the remaining 400 caseworkers needed to protect children, costing \$20M in 2008 and \$25M in 2009
- Funding Indiana higher education at 5.0% growth each year versus 1.7% average from 2002-2007

# We Can Afford These Priorities Within a Balance Budget

- The attached chart demonstrates new revenue is projected to create a base surplus of \$488M in 2008 and \$929M in 2009.
- We recommend limiting new spending to 3.8% in 2008 and 3.3% in 2009. These priorities include:
  - The Governor's priorities, and
  - Modest necessary agency spending increases
- After these uses plus repaying the remaining payment delays and funding reserves for Police and Fire Pension relief. . .

***Cash surplus rises from \$922M to \$1.2B.***



# What About Property Tax Relief?

- Property tax increases are generated by additional spending of local units of government
  - Local spending growth > 6.1% per annum since 1985
  - Hoosier's income grew at 5.2% in same period
  - Debt service on new buildings growing fastest
- Whether subsidized from State revenues or paid locally, Hoosiers will still pay for increased local spending

# What About Property Tax Relief?

*(continued)*

- Must be dealt with, but not through increased State taxing and spending
  - Prior sales tax increases for property tax relief (2%, 1974; 1%, 2002) have not solved local property tax problems.
- Solution is visible and accountable local actions:
  - County Control Boards
  - Newly adopted local revenue sources to replace property tax
- Plus, State gradual assumption of unfunded State mandates like child welfare (recommended to begin in 2009)

# High Level 2008-2009 Budget Summary

- Continued extremely lean base spending – 1.9% in '08, and 0.9% in '09
- Provides room for selected new priorities
  - Principally in education
- Many big ideas do not impact the budget
- Our recommended total spending is limited to 3.8% and 3.3%, respectively
- Given forecasted revenue growth, other priorities can also be accommodated within an honestly balanced budget
- Property tax concerns can best be dealt with through local revenue alternatives