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# Commentary: State's strong balance sheet means different policy choices

**By John Ketzenberger**
**The Statehouse File**

Indiana closed its books Thursday on fiscal year 2012 and there were smiles all around.

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Commentary

That's easy to understand when you consider the news: Indiana's structural surplus — the amount of revenue exceeding ongoing expenses — is about $500 million. Overall reserves topped $2.15 billion. It has been a long time since the state's balance sheet was so robust.

I'm not trying to turn the smiles upside down, then, by saying the budget-writing session of the General Assembly that begins in January may be one of the most difficult we've seen in some time.

I’m not trying to discount the difficult choices Gov. Mitch Daniels and legislators had to make in the last three budgets, two of them wracked by the effects of economic recession. I am saying that it is much easier to say no when there’s not much money to spend than it is to say no when there’s apparently a lot of money to spend.

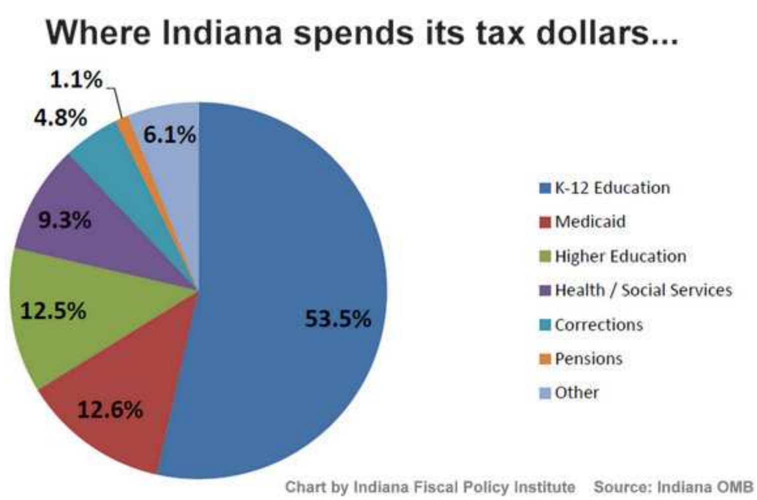
The state’s strong balance sheet threatens to release pent-up demand for additional spending, whether it’s for additional tax cuts or education or social services, as if Hoover Dam split down the middle.

While $2.15 billion is still a lot of money, and the $500 million structural surplus is really healthy, a burp in the economy can erase much of it. That is especially true if lawmakers can’t resist temptation and decide to spend a good portion of the reserves.

Remember, we’re in a period of transition, one we haven’t seen in at least a generation. There will be a new governor next year, fresh off the election trail where all kinds of promises are made.

This new governor will be dealing with a General Assembly likely to have about 40 percent of its members in either their first or second terms.

And speaking of learning the ropes, there will be a new chairman of the House Ways and Means Committee, the group that takes the first whack at building a budget.




Put money in the the bank with pent-up demand and season it with unseasoned policymakers and what do you have? A potential recipe for financial disaster, especially if the economy flops.

So let’s step back a second and look at how we got here, remembering all of the sacrifice that went into it.

When Daniels took office the state faced a structural deficit — baseline expenditures in excess of revenue — of more than $820 million. In addition, the state still hadn’t made up payment delays to local governments, schools and higher education of more than $710 million.

Anticipated increases at the time for Medicaid, human services, property tax relief and public safety meant likely expenditures were nearly $2 billion greater than available revenue.

The governor enacted a series of spending cuts, including more than $450 million from K-12 and higher education spending, which accounts for nearly two-thirds of the state's spending. These cuts combined with targeted spending reductions in the health and human services area and severe hiring restrictions served to reset the state's expenditure levels during this same time.

General Fund expenditures dropped 7.7 percent between Fiscal Year 2008 and FY 2009, almost exactly in line with the decline in revenue. The decline in general fund expenditures between FY 2009 and FY 2010 was 1.1 percent, establishing a new level nearly on par with spending during FY 2005.

Indiana received about $2 billion from the American Recovery and Restoration Act during fiscal years 2009-11, which was also critical to the administration's ability to navigate the recession. The so-called federal stimulus allowed Indiana to spend less general fund money through means such as more favorable federal match rates for Medicaid. These funds clearly helped Indiana achieve its current fiscal success.

That's a lot of effort, so it would be a shame to waste it with a thoughtless spending spree.

Let's hope then, that lawmakers take a considered approach to the budget by spending only on programs that improve the state's overall outlook.

Let's hope, too, that legislators make a distinction between the structural surplus and the reserve funds. Additional spending for ongoing programs, such as education, should not exceed the structural surplus while reserve funds should be used for one-time expenditures such as capital projects.

Those who worked so hard to put Indiana's bottom line back in black earned those smiles they shared recently. It's true that the difficult choices they made to improve Indiana's financial condition came at a cost to Hoosiers and now is the time to carefully think about how to mitigate those cuts.

The new governor and General Assembly will be operating from a position of financial strength. If we're lucky they'll act like it so we don't find ourselves working out of another hole any time soon.

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