



January 27, 1994

**Indiana State Fiscal Position: Restoring Balance**

The state will apparently end the 1993-95 biennium with continuing revenues and expenditures in balance and with the possibility of movement toward re-establishing its key operating reserves. The 1995-97 biennium will test whether this balance can be sustained.

**Background.** FY94 will be the fifth consecutive fiscal year in which continuing General Fund/Property Tax Replacement Fund (GF/PTRF) revenues have fallen short of expenditures. This has been accomplished without a general tax increase by use of existing cash reserves (General Fund working balance, Rainy Day Fund); accounting gimmicks (delay in payments to local units from FY92 to FY93); acceleration of corporate tax collections in FY94; diversion of lottery revenues; and a series of administratively-mandated reductions in expenditures below appropriated levels.

However, cash reserves are now low by historic standards (about 6.5 percent of revenues) and further accounting gimmicks would compromise the future fiscal condition of the state without materially improving the current situation. As a consequence, it is necessary to restore and maintain budgetary balance in order to prevent the development of serious cash flow problems (currently being alleviated through borrowing from the Rainy Day Fund).

**1993-95 Biennium.** Forecasts of state revenues and Medicaid expenditures released on December 21, 1993, provide a basis for optimism that the state will be able to bring continuing revenues and expenditures into balance during FY95.

The revised forecast contemplates GF/PTRF revenues exceeding the estimates on which the current budget was based by \$20.7 million in FY94 and by \$42.9 million in FY95, even with a downward revision in the forecast of individual income tax revenues of \$24.6 million in FY94 and \$9.1 million FY95.

The new projections of Medicaid expenditures indicate the possibility that the state will meet its expenditure targets for this program, although there exists far less certainty for Medicaid than for state revenues, in large measure because many of the Medicaid cost reduction initiatives are being subjected to legal challenge.

Assuming that these forecasts are reasonably accurate *and* that state spending is not increased during FY94 and FY95, the state should be able to achieve a budget balanced on a current basis within existing revenues and begin to restore its depleted reserves to less precarious levels.

**Long-term Outlook.** Although a balanced budget in FY95 appears within reach, FY96 and FY97 will pose problems even with continued economic growth. In addition to the usual level of pent-up demand for increased spending that develops during a period of budgetary restraint, at least four fiscal challenges potentially face the state in 1995-97:

1) *Phase-in of the new K-12 school funding formula.* In 1993, the General Assembly revamped the formula by which the state distributes financial aid to local school corporations. Because shifts in property tax burden will occur among school corporations, and because the responsibility of the state will

rise, a six-year phase-in period was adopted. Years 3 and 4 will occur in FY96 and FY97 and increases will be required if the state is to adhere to the phase-in schedule.

2) *Possible resumption of rapid growth in Medicaid expenditures.* The principal effect of the new Medicaid cost controls may be that of flattening the Medicaid expenditure growth curve for a couple of fiscal years, with growth resuming after that. Unless the new controls have the effect of slowing expenditure growth after they have been fully implemented, Medicaid may once again place severe strain on the budget.

3) *Re-establishment of the state fiscal position.* In order to restore the state fiscal condition to the position that it enjoyed before FY91, the state will have to build its cash reserves back to the neighborhood of at least 10 percent of GF/PTRF revenues and reverse the delay in payments to local units of government (an amount of nearly \$300 million.)

4) *Litigation.* A number of lawsuits, especially regarding Medicaid cost controls and the taxation of financial institutions, could result in higher-than-expected expenditures or in lower-than-expected revenues.

On the positive side, FY96 could see the beginning of collection of revenues from riverboat gaming on Lake Michigan and the Ohio River. Although the number of boats and the timing of their initial operation is presently uncertain, the State Revenue Technical Committee estimates that a large boat could generate about \$15 million a year in General Fund revenue. Five boats, then, might generate \$75 million per year, although it is unlikely that this much would be collected as early as FY96.

**Projected State Medicaid Expenditures, Fiscal Years 1993-94 and 1994-95**  
(dollars in millions)

If projected Medicaid reductions are accomplished, total reduction during 1993-95 biennium will be \$515.9 million, 82 percent of which would occur in FY95.

	1993-94	1994-95
Projected Expenditures, April 1993	\$1,109.6	\$1,306.0
Projected Expenditures, Dec. 1993	1,080.2	1,041.4
Projected Expenditures assuming adoption of additional proposed expenditure controls.	1,015.0	884.7
Projected overall reduction	94.6	421.3

Source: Office of Medicaid Policy & Planning

# Fiscal Policy **BRIEF**

## General Fund/Property Tax Replacement Fund Activity, Fiscal Years 1992-93 to 1994-95 (dollars in millions)

Table below assumes that state will meet its Medicaid expenditure goals. Note that revenue from County Hospital Care of the Indigent (HCI) funds and revenue from Disproportionate Share Hospitals (DSH) account for \$80 million in FY94 and FY95. Also note that in FY94, a contribution of \$15.7 million to the Rainy Day Fund is contemplated as well as a withdrawal of \$82 million.

	1992-93	1993-94	1994-95
<b>Working Balance, July 1</b>	<b>\$138.9</b>	<b>\$9.7</b>	<b>\$0.0</b>
<b>Resources:</b>			
Forecast Revenue	\$5,970.1	\$6,246.7	\$6,513.0
Lottery	128.5	110.0	110.0
Rainy Day Fund	41.4	82.2	
Medicaid:			
HCI		35.0	35.0
DSH		45.0	45.0
Other	39.6		
Corp. Tax Filing Speedup		120.0	
Deficit Reduction			10.0
<b>Total Resources</b>	<b>\$6,179.6</b>	<b>\$6,638.8</b>	<b>\$6,713.0</b>
<b>Expenditures:</b>			
Appropriations	\$6,335.5	\$6,589.2	\$6,722.0
Medicaid:			
HCI		35.0	35.0
Excess Medicaid exp.	79.3	167.0	128.0
FY 93 Tuition Support deficiency		16.2	
Non-school corp. Social Security		1.1	2.1
<b>Sub Total</b>	<b>\$6,414.8</b>	<b>\$6,808.5</b>	<b>\$6,887.1</b>
<b>Other Expenditure Adjustments:</b>	<b>15.0</b>		
Tuition Reserve transfer			
Rainy Day Fund Transfer		15.7	
Judgments & Settlements	4.4	5.5	5.5
<b>Sub-Total</b>	<b>\$19.4</b>	<b>\$21.2</b>	<b>\$5.5</b>
<b>Reversions &amp; Reductions:</b>			
Normal Reversions	114.8	37.8	48.2
Auditor's Adjustments	10.6		
Deficit Reduction		78.3	93.5
Add'l. Medicaid Reductions		65.0	157.0
<b>Sub-Total</b>	<b>\$125.4</b>	<b>\$143.3</b>	<b>\$250.5</b>
<b>Total Expenditures</b>	<b>\$6308.8</b>	<b>\$6,648.6</b>	<b>\$6,593.9</b>
<b>Working Balance, June 30</b>	<b>\$9.7</b>	<b>\$0.0</b>	<b>\$119.1</b>

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251 N. Illinois Street, Suite 980  
 Indianapolis, Indiana 46204  
 (317) 237-2890

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