



Fiscal Policy BRIEF

September 18, 1992

The Indiana Fiscal Position: The Gap Remains

The State of Indiana closed out FY92 with cash balances somewhat stronger than had been projected, but with a sizable gap remaining between ongoing revenues and projected expenditures. The 1993-95 biennium will present a significant fiscal challenge.

Background. The State entered FY92 with total General Fund/Property Tax Replacement Fund (GF/PTRF) balances of \$587.4 million following a \$237.6 million decline during the 1989-91 biennium. State Budget Agency projections in early 1992 indicated that the balances would fall by another

\$258.8 million during the 1991-93 biennium.

The anticipated reduction in balances was only part of the problem. In addition, the gap between ongoing revenues and authorized expenditures was substantially greater than the decline in the State cash position would suggest, because the gap was being closed in large part by use of non-recurring resources. Since the use of one-time measures will soon cause more problems than it will solve, the necessity facing the State for FY94 and beyond is that of bringing spending in line with the revenue stream. (For

more background detail, see Fiscal Policy Bulletin 1992:1, *The State of Indiana Fiscal Problem: Current Outlook*, February 1992.)

Fiscal Year 1991-92. FY92, which ended on June 30, 1992, saw both a temporary strengthening of the GF/PTRF cash position and a reduction in the previously forecast gap between revenues and expenditures. (See Tables 1 and 2.)

FY92 expenditures were \$98.3 million below budget, while revenues were \$71.6 million above forecast. The principal reductions in spending occurred in the Department of Correction (\$40.5 million in unspent appropriations and \$21.3 million in prison construction reversions). Virtually all of the revenue above forecast came from miscellaneous revenue (\$62.8 million) and corporate taxes (\$19.0 million). The major revenue producers, the individual income tax and the sales tax, were almost exactly at their forecast levels.

Fiscal Year 1992-93. Current plans for closing the \$184.6 million gap in FY93 are as follows (in millions):

Eliminate GF working balance	\$138.9
Rainy Day Fund transfer	38.3*
Delay payments to local units	7.5

*Would leave Rainy Day Fund with \$303.1 million

Total	\$184.7
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Although the Rainy Day Fund would retain a relatively large balance, none of the above measures will help to close the gap going into FY94 and beyond.

Table 1
Actual and Projected Expenditures and Continuing Revenues
General Fund/Property Tax Replacement Fund
FY 1989-90 to FY 1992-93 (dollars in millions)

Fiscal Year	Expenditures	Percentage Increase (Decrease)	Revenues	Percentage Increase	Surplus (Deficit)
1989-90	\$ 5,502.8	10.0	\$ 5,491.2	4.3	\$ (11.6)
1990-91	5,812.4	5.6	5,560.4*	1.3	(251.8)
1991-92 budget	5,843.3	0.5	5,720.7*	2.9	(122.6)
1991-92 actual	5,745.0	(1.2)	5,784.5*	4.0	39.5
1992-93 projected	6,215.2	8.2	6,030.6*	4.3	(184.6)

Note: FY92 expenditures are substantially lower than they otherwise would have been because of a delay to FY93 in payments to local units of government (\$293.3 budget; \$287.3 actual). FY93 expenditures take into account \$84.2 million in planned spending reductions ordered by the administration.

* Revenue column includes lottery revenues diverted to support General Fund in FY92 and FY93 and excess Rainy Day Fund interest earnings in FY91, FY92, FY93. Lottery revenues are technically non-recurring since they will revert to their original dedicated purposes in FY94 unless the law is amended to retain the diversion. If lottery revenues are not included, the FY93 gap increases to \$344.2 million.

Source: State Budget Agency; IFPI calculations

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Outlook for 1993-95. Although the outcome of FY92 was better than forecast, closing the gap in the 1993-95 biennium must be accomplished in the face of certain obstacles: 1) an economy that continues to grow only very slowly; 2) uncertainties with respect to lottery revenues, which will revert to their original uses unless the law is changed and which have fallen well short of original expectations; 3) continued rapid growth in the Medicaid program; 4) additional education expenditures resulting from expansion of the Indiana compulsory school attendance law; and 5) additional welfare expenditures to implement a court settlement calling for reduced caseloads for social workers.

On the plus side, achievement of revenue targets in FY93 will require a smaller than expected percentage increase because revenues were higher than forecast in FY92. Second, the Rainy Day Fund continues to show a significant balance, although the state must retain relatively large fund balances to ward off cash flow problems. Finally, reversions of unspent appropriations tend to be higher in the second year of a biennium than in the first because the appropriation authority of some programs carries through the entire biennium.

Table 2
State of Indiana Fiscal Position
FY 1989-90 to FY 1992-93 (dollars in millions)

Fiscal Year	GF/PTRF Revenues	Gen. Fund Working Balance	Tuition Reserve	Rainy Day Fund Balance	Total Balances	Balances as % of Revenue
1989-90	\$ 5,491.2	\$ 372.2	\$ 144.0	\$ 318.0	\$ 834.2	15.2%
1990-91	5,560.4	109.4	155.0	323.0	587.4	10.6
1991-92	5,784.5	138.9	165.0	328.6	632.5	10.6
1992-93	6,030.6	0.0	165.0	303.1	468.1	7.8

Source: State Budget Agency; IFPI calculations

A Note on Payment Delays. The single largest one-time measure used by the state to balance the budget was the device of delaying payments to localities for FY92 to FY93. This had the effect of reducing GF/PTRF outlays in FY92 by \$287.3 million. Because local units in Indiana are on a Jan. 1- Dec. 31 fiscal year, however, the only impact on their finances was a slowdown in cash flow. This device was em-

ployed in FY83, but was reversed in FY85 when the State made 13 payments.

Because Indiana presently is on cash basis accounting, rather than generally accepted accounting principles (GAAP), the State could continue indefinitely without "making up" the delayed payment. A payment delay of this sort, however, is not in accordance with GAAP.

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