



Fiscal Policy BRIEF

May 1, 1990

Fiscal Update: 1990 General Assembly Actions

The 1990 Indiana General Assembly adopted supplemental General Fund/Property Tax Replacement Fund appropriations for the 1989-91 biennium totalling \$219.8 million (18.5 million in FY 90; \$201.3 million in FY 91). This is the highest level of supplemental GF/PTRF spending ever approved in Indiana. The effect will be to create an estimated operating deficit of \$216.2 million during FY 91, reducing the state working balance from \$425.4 million to \$209.2 million by the end of the biennium. New recurring spending commitments coupled with previously adopted commitments for the 1991-93 biennium will make pressure for a tax increase during the next biennium very likely.

General Assembly Actions

Of the total of \$219.8 million in new spending authority adopted during the 1990 session, \$158.3 million, or 72 percent, was directed to three areas: Corrections (\$100.5 million, including \$56.0 million for a new prison); Medicaid (\$33.0 million to cover the state costs resulting from Federal repeal of Medicare catastrophic insurance); and Elementary-secondary education (\$24.8 million, including increases in tuition support and Primetime). Also receiving a substantial increase was the CHOICE program (home care for the elderly and disabled) which was increased by \$10.0 million, or 49 percent, to extend the program to 11 new counties, for a total of 20.

The State Budget Agency estimates that \$70.8 million of the total increase will be non-recurring expenditures, while \$130.5 million will be added to the spending base. With respect to revenue, projected increases of \$5.2 million in FY 90 and \$19.6 million in FY 91 were

adopted, all relating to retaining conformity with Federal tax base changes. These were partly offset by \$3.0 million in reductions for FY 91, including extension of the corporate research credit.

Indiana Fiscal Position

Indiana currently enjoys one of the strongest fiscal positions in the nation. It is projected that the combination of GF working balance, tuition reserve, and rainy day fund balance will equal \$882.6 million at the close of FY 90, or 15.4 percent of GF/PTRF revenues. This is projected to drop by over \$200 million in FY 91, however, to 11.8 percent of revenues. This projection assumes that revenues will be collected as forecasted and that "reversions" (unspent appropriations) equal \$30 million in FY 90 and \$40 million in FY 91.

Outlook

By nearly any measure, reserves equalling nearly 12 percent of revenues must be considered "adequate". This is, however, only a fiscal snapshot. The projected FY 91 balance represents a 4 percentage point drop in one year and the change from an actual operating surplus of \$181.4 million in FY 89 to a projected deficit of \$216.2 million in FY 91 is a nearly \$400 million turnaround in budgetary performance during the biennium. Historically, the state has been able to reverse such a trend only by means of constrained spending and increased tax collections.

Absent major spending restraint, significant pressure will likely develop for new taxes during the 1991-93 biennium.

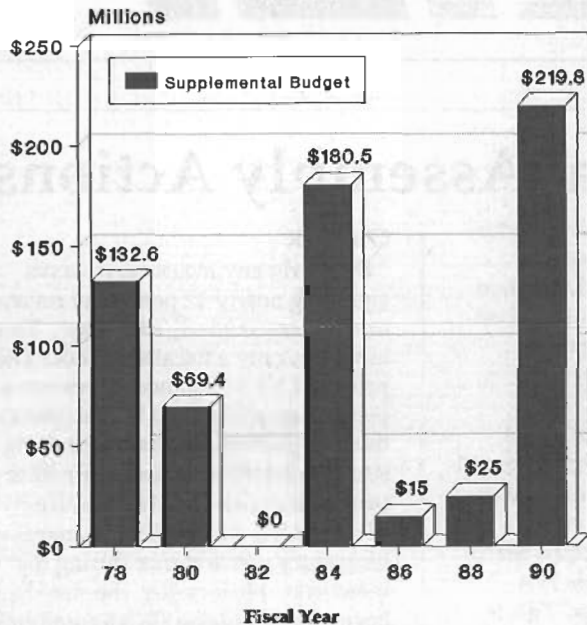
Table 1
General Fund/Property Tax Replacement Fund Operations
FY 1988-89 to 1990-91
(Dollars in Millions)

	Actual 1988-89	% Incr. (Decr.)	1989-90	Appropriations		
				% Incr. (Decr.)	% Incr. (Decr.)	
Begin Balance: July 1	\$243.2	140.6%	\$424.6	74.6%	\$425.4	0.2%
Revenues: GF/PTRF	\$5,263.5	9.5%	\$5,547.0	9.2%	\$5,780.8	0.6%
Total GF/PTRF Plus: Rainy Day Fund Transfers	\$5,263.5	9.5%	\$5,547.0	9.2%	\$5,780.8	0.6%
Total Resources	\$5,506.7	12.2%	\$5,971.6	8.4%	\$6,215.2	4.1%
Appropriations: General Fund						
Operating	\$3,844.4	9.0%	\$4,212.2	41.9%	\$4,568.1	8.0%
Capital	\$68.5	(0.1%)	\$67.4	(23.8%)	\$136.2	102.1%
Subtotal GF PTRF	\$3,932.9	8.7%	\$4,279.6	40.4%	\$4,704.3	9.2%
	\$1,151.7	8.5%	\$1,240.9	7.8%	\$1,323.1	6.6%
Total Appropriations	\$5,084.6	8.7%	\$5,520.5	8.6%	\$6,027.4	9.2%
Less: Net Reversions	\$100.3	26.8%	\$30.0	(70.1%)	\$40.0	33.3%
	\$4,984.3	8.3%	\$5,490.5	10.2%	\$5,987.4	9.1%
Plus: Adjustments	\$97.8		\$55.7		\$18.6	
Net Total Outlay	\$5,082.1	8.9%	\$5,546.2	9.1%	\$6,006.0	8.3%
Current Surplus (Deficit)	\$181.4		\$0.8		(\$216.2)	
Ending Balance June 30	\$424.6	74.6%	\$425.4	0.2%	\$209.2	(50.8%)

* Cap on rainy day fund balance will be reached in FY 1990-91; excess is to be put in PTRF
Source: State Budget Agency

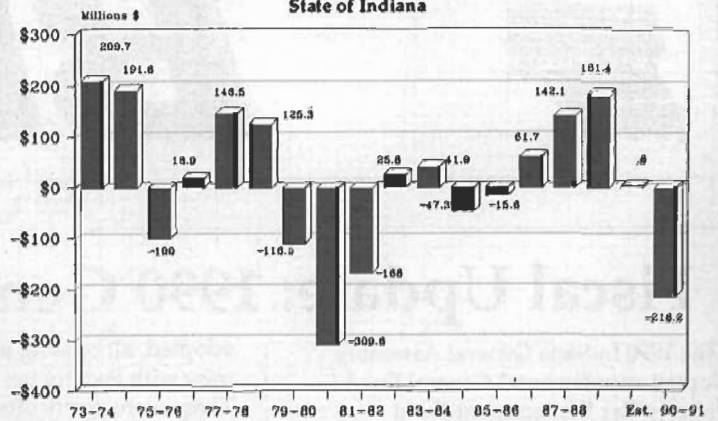
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**Figure 1
A HISTORY OF SUPPLEMENTAL BUDGETS
1978-1990**



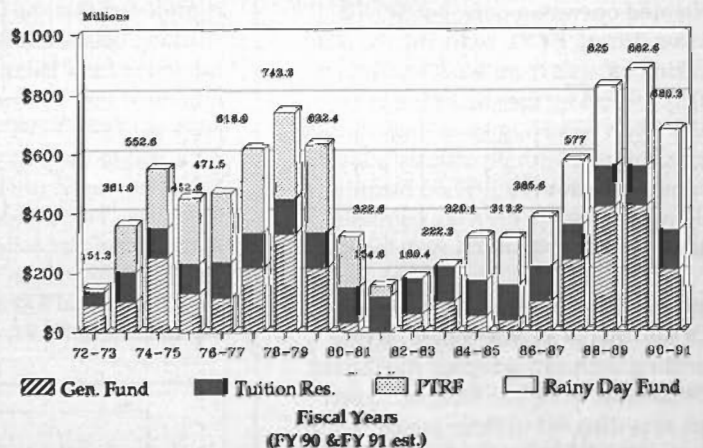
NOTE: 1984; Change in Judicial Fee Statute. Fees collected accounted in GF.
Source: State Budget Agency

**Figure 2
ANNUAL OPERATING SURPLUS (DEFICIT) GF/PTRF
State of Indiana**



Source: State Budget Agency Fiscal Years (FY 90 & 91 est.)

**Figure 3
STATE OF INDIANA FISCAL POSITION
FY 1972-73 To 1990-91**



Source: State Budget Agency (FY 90 & FY 91 est.)

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