



Fiscal Policy

MEMORANDUM

July 31, 1990

INDIANA ENDS FY 90 WITH RECORD BALANCES

NOW THE BAD NEWS...

The State of Indiana closed out Fiscal Year 1989-90 with total revenues of \$834.2 million, or 15.2 percent of General Fund/Property Tax Replacement Fund (GF/PTRF) revenues. This continued a four-year trend of increasing reserves beginning with FY 87.

Unobligated balances in the state "Rainy Day" Fund are now at their statutory maximum of 7 percent of General Fund revenues and will grow only to the extent that they stay within this limit.

Indiana thus enters the final decade of the 20th century in a strong fiscal position, particularly in relation to other states.

During FY 90, however, the General Fund working balance declined from \$424.6 million to \$372.2 million. Although this was offset by growth in other components of total reserves, it indicates a substantial slowdown following a period of steady strengthening of the state fiscal position.

The erosion was largely the result of a \$55.8 million shortfall in revenues (revenues falling below earlier forecasts). This, in turn, was caused by a \$94.2 million shortfall in sales tax collections, only partly offset by growth in other revenues. Expenditures were very close to budgeted amounts for FY 90, but grew more than twice as fast as revenues.

The performance in FY 90 has set the stage for a difficult FY 91. Current Budget Agency projections indicate a \$216 million current operating deficit in FY 91 which would reduce the working balance from \$372 million to \$156 million. Total reserves would decline to \$636.1 million or 11.0 percent of revenues.

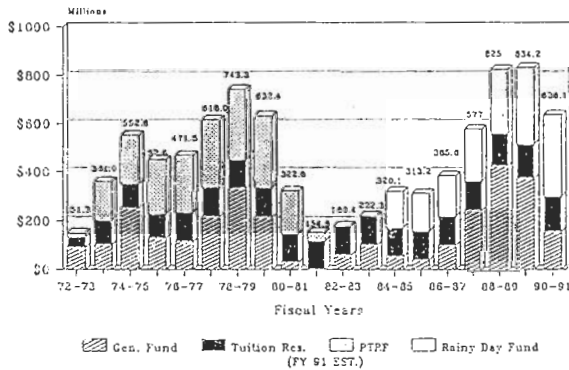
This, however, assumes that revenues achieve their previously forecast level. Because they are starting from a lower base, a rate of growth higher than originally assumed will be required to reach that level. The forecast assumes a 4.2 percent increase in FY 91 over FY 90. It will now require a 5.3 percent increase to reach this level.

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There is reason to believe that certain components of the budget may perform better than presently assumed. For example, net reversions (unspent appropriations) in FY 90 were unusually low and are likely to increase substantially in FY 91. The projected deficit for FY 91, however, is characteristic of a recession year and any softening in the economy will cause budgetary problems.

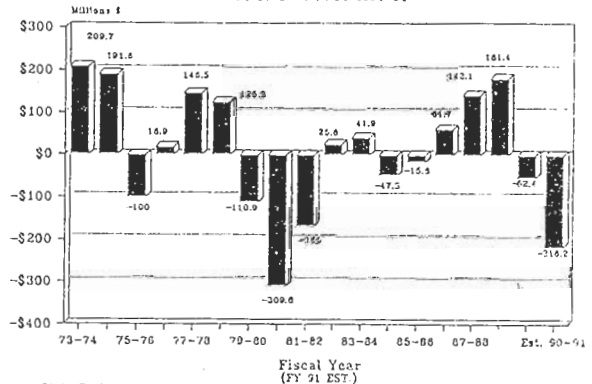
In May, we indicated that pressure for new taxes is likely to develop during the coming (1991-93) biennium. With the results of FY 90 now available, we see no reason to change this assessment.

STATE OF INDIANA FISCAL POSITION
FY 1972-73 TO FY 1990-91



Source: State Budget Agency

ANNUAL OPERATING SURPLUS (DEFICIT)
State of Indiana
FY 1973-74 TO FY 1990-91



Source: State Budget Agency



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