

# The O'Bannon-Kernan Balanced Budget Plan



**November 15, 2001**

<a href="#"><u>Introduction</u></a> .....	2
<a href="#"><u>From \$2B Reserve to Budget Crisis</u></a> .....	3
<a href="#"><u>Why Indiana cannot wait for a balanced budget</u></a> .....	5
<a href="#"><u>The Plan</u></a> .....	6
<a href="#"><u>The Plan for July 1, 2001 to June 30, 2002 (FY 2002)</u></a> .....	7
<a href="#"><u>FY 2002 Payment Delays – \$538M</u></a> .....	7
<a href="#"><u>FY 2002 Reversions – \$176M</u></a> .....	7
<a href="#"><u>FY 2002 Revenue Enhancements – \$61M</u></a> .....	8
<a href="#"><u>FY 2002 Medicaid Cuts – \$100M</u></a> .....	8
<a href="#"><u>FY 2002 Grand Total – \$1.09B</u></a> .....	8
<a href="#"><u>The Plan for July 1, 2002 to June 30, 2003 (FY 2003)</u></a> .....	9
<a href="#"><u>FY 2003 One-Time Transfer – \$115M</u></a> .....	9
<a href="#"><u>FY 2003 Reversions – \$203M</u></a> .....	9
<a href="#"><u>FY 2003 Medicaid Cuts from Forecast – \$150M</u></a> .....	9
<a href="#"><u>FY 2003 General Fund Cuts – \$153M</u></a> .....	9
<a href="#"><u>FY 2003 Revenue Enhancements and Reallocations – \$820M</u></a> .....	10
<a href="#"><u>FY 2003 Grand Total – \$1.44B</u></a> .....	11
<a href="#"><u>The Plan for the FY 2003-2005 Biennium, July 1, 2003 to June 30, 2004</u></a> .....	12
<a href="#"><u>Annual Revenue Transfers and Enhancements – \$274M</u></a> .....	12
<a href="#"><u>Indiana’s 2001-03 Reserve Statement Without the Plan</u></a> .....	13
<a href="#"><u>The 2001-3 Budget with New Revenue Projections</u></a> .....	15
<a href="#"><u>Indiana’s 2001-03 Reserve Statement With the Plan</u></a> .....	18
<a href="#"><u>Reserve Statement for Two Biennia</u></a> .....	20

## Introduction

Indiana responded to the nation's greatest – and longest – economic expansion in history by investing in the improvement of our schools and other important state programs, and by cutting the tax burden for its citizens. Now, Indiana – like many states that took similar actions in good economic times – is faced with severe revenue declines that were not anticipated by economists. Our challenge is how to balance our budget and still preserve and build on the progress we have made in our public schools and other priority programs.

The economic effects of the September 11 terrorist strikes are compounding the nation's economic difficulties and exacerbating Indiana's fiscal difficulties. But Indiana's deficit is primarily caused by the actual revenue shortfalls of FY 2001 and the reduced revenue forecast in FY 2002 and 2003.

Our budget today is not in balance, nor will it be in balance on June 30, 2002, even with a transfer of \$165M from the Rainy Day Fund. That transfer will allow the state's General Fund – commonly thought of as the state's checkbook – to maintain a cash balance from which we will be able to pay our bills but it will not balance the budget. It would be irresponsible for our budget to remain out of balance at the close of this biennium, June 30, 2003. The O'Bannon-Kernan Balanced Budget Plan enables the state to balance its budget by that date and for the next biennium as well.

The investments and tax cuts made possible by the economic expansion are simply out of our reach now. Our current revenue projections and reserve balances do not permit that rate of expenditure growth to continue. The conditions that led Indiana to its current financial crisis were not – and could not – be foreseen. Because other unanticipated events will likely occur in the future, we must be prepared for them. In order to be prepared, we must not deplete all of our reserves. This Plan provides for balance while also maintaining a prudent reserve.

Through the budget development process for the 2003-2005 biennium budget, the State Budget Agency will continue to impose spending constraints. Total state expenditures will be held to an annual growth rate **below 4 percent for FY 2004 and 2005.**

This Plan is the result of work done by the State Budget Director at my direction. Since May 2001 she has worked with fiscal managers, analysts, economist, and lawyers to craft a remedy to the budget that does not undo the progress we have made in our public schools and other areas of state government. The working group crossed political as well as public and private sector lines and includes counsel from state budget directors and analysts who have weathered the state's budget challenges over the past 40 years.

## From \$2B Reserve to Budget Crisis

On June 30, 1999, Indiana's combined reserves totaled \$1.99B. Throughout the 1999 legislative session, as the General Assembly considered reducing the level of combined reserves, I asked that reserves be retained at a level of at least \$1.1B, or about 12 percent of revenues.

Through bipartisan agreement, the biennial budget enacted during the 1999 legislative session for the period July 1, 1999, through June 30, 2001, reduced the reserves by about \$800M in one-time targeted spending:

- \$290M to reduce future teachers' retirement fund liabilities;
- \$200M for local road construction;
- \$155M in state infrastructure investments;
- \$80M for new university buildings; and
- \$82M for university technology investment.

To bring revenue in line with the state's expenditure commitments, we further enacted a number of tax cuts during the 1999 legislative session. Those tax cuts were **based on the assumption that the state would continue to experience normal revenue growth**. Through the investments and tax cuts, we agreed on a budget that reduced the reserves from \$2B to a **projected \$1.2B** at the end of the biennium on June 30, 2001. Primarily due to the national economic slowdown, **actual combined** reserves at the close of FY 2001 were **\$910M**, or 9.8 percent of total revenues. Those combined reserves include the Rainy Day Fund, Tuition Support, Medicaid Reserve Account and the General Fund. The General Fund balance was \$19M at the close of FY 2001.

The current biennial budget provides for appropriations in excess of projected revenues, creating a **structural deficit, which means revenues are inadequate to cover ongoing expenses**. As enacted, the 2001-2003 budget appropriated more than \$500M per year more than ongoing revenues (projected in the April 2001 forecast). In order to address that deficit in the short term, the General Assembly authorized several one-time measures to help address the budget deficit by:

- Using \$375M in gaming revenue reserves;
- Using the \$200M Medicaid Reserve Account;
- Delaying about \$538M in property tax relief payments to schools, universities, and local units of government; and
- Using the \$526M Rainy Day Fund.

As the economy slowed, Indiana also began to experience a **cyclical deficit, which means the state's deficit rises and falls with the performance of the economy**. Monthly revenues began to cause concern as early as July 2000. The annual revenue forecast in December 2000 showed a dramatic decline in revenues, reducing the FY 2001 projection by \$252M. In April 2001, projected revenues for 2001 were reduced by another \$231M.

When the 2001-2003 budget was passed in April 2001, it was based upon revenue growth as forecast in April 2001:

- For FY 2001, revenue was expected to increase by 0.2 percent over the prior year.
  - That projection represented a reduction of \$614M from the amount forecast in April 1999 upon which the 1999 investments and tax cuts were based.
- Revenue growth for FY 2002 was projected to be 4.2 percent, and revenue growth for FY 2003 was projected to be 4.6 percent.

At the end of FY 2001, the state failed to meet even the lowered projection, bringing \$107M less revenue than expected by the April 2001 forecast – and \$721M fewer than forecast in April 1999.

The state's actual revenue collections in FY 2001 were \$91M below actual collections in FY 2000 – meaning that for the first time since 1980 the state had experienced negative revenue growth, which is defined as a decline in revenue growth compared to the prior fiscal year.

The state's General Fund (GF) reserve, therefore, was reduced from \$833M at the beginning of FY 2001 to \$19M at the end. Total reserves, which also include Rainy Day Fund, Tuition Reserve and Medicaid Reserve were \$910M.

Because of the severity of the state's financial condition, I asked that the revenue forecast update be conducted a month early. On November 14, 2001, that updated forecast **further** reduced projected revenues by nearly \$1.3B for the biennium, July 1, 2001 through June 30, 2003.

As a result of the national economic slowdown, Indiana will lose a projected \$3.1B in revenue that it would have received had it achieved average revenue growth of 5.25 percent during FY 2001-2003. (Indiana's average growth rate is 5.25 percent as calculated by state economists.)

## **Why Indiana cannot wait for a balanced budget**

For the first four months of FY 2002, actual revenues were a total of \$209M below forecast. Revenues have been lower than the prior year during 9 of the prior 12 months.

Our efforts to control spending are being stymied by recent court decisions. The 2001-2003 budget requires Medicaid cost containment to adjust spending to match appropriations that were \$140M less than requested for the biennium. And although progress is being made, lawsuits over proposed rules to reduce pharmaceutical and nursing home costs have delayed the effectiveness of significant cost-cutting measures.

The Medicaid budget is also adversely affected by an Indiana Supreme Court ruling in the Day case, which will cost the state an estimated \$46M in additional expenditures in FY 2002 and \$90M in FY 2003. The ruling invalidated the portion of the Medicaid disability standard that permits the state to ignore the applicant's inability to pay for medical treatment that would lead to improvement in the applicant's medical condition. The current biennium cost projections do not include the cost of retroactive payments, which are currently indeterminable but potentially substantial.

The Legislature must act in 2002 if it is to have the opportunity to affect the current biennium. The current budget cycle will be nearly over by the time the 2003 Legislative Session ends in late April. In fact, based on the most current revenue forecast and the appropriations in the FY 2001-2003 budget, the state would run out of funds in the spring of 2003.

Base cuts have already been made in state government appropriations. Because general state government appropriations account for only 15 percent of the General Fund budget, these cuts alone cannot resolve the deficit.

**If the Legislature does not act in 2002, hundreds of millions of dollars will have to be cut from our public schools and universities, and throughout all areas of state spending. Those additional cuts will begin no later than July 1, 2002.**

**If, however, the Legislature takes action in 2002, we can preserve the existing K-12 operating budgets, including the accountability system that is just beginning to take shape.**

Our state economic experts forecast that the September 11 terrorist attacks threw the national economy into recession precisely at a time when there were indications of a recovery. Our national leaders have supported our country's response to those attacks in a bipartisan way. We in Indiana should follow that example in responding to the fiscal crises we are facing now.

## The Plan

The purpose of the O'Bannon-Kernan Balanced Budget Plan is twofold: To resolve the state's current budget deficit and to maintain essential state services, especially K-12 funding.

Under this Administration and with the support of the General Assembly, Indiana has invested significant state tax dollars to improve public schools. Students are already positively responding to these actions, and educators are preparing to follow a system of high standards, accountability and continuous improvement. These investments must continue to ensure the continuous improvement of our elementary and secondary schools and the advancement of our students.

This Plan seeks to address the budget challenges while building on the administration's priorities. It requires a four-pronged approach to deficit management:

- Both one-time and permanent base spending cuts and/or delays
- Transfers from reserve accounts
- Reallocation of tobacco settlement and gaming funds
- Revenue enhancements

## **The Plan for July 1, 2001 to June 30, 2002 (FY 2002)**

Because we are currently well into FY 2002, we must rely primarily on administrative actions to work toward a balanced budget, although some steps require legislative action. A number of these steps were already anticipated in the Budget Act and other steps have been taken by the Administration to achieve expenditure reductions in FY 2002.

### **FY 2002 Payment Delays – \$538M**

The Budget Act authorizes the delay of payments to K-12, higher education, and local units of government. Technical correction legislation will be required for the delay for local units of government. Prior to the worsening of the economy, we had hoped that we would not have to make the full delay authorized. But now, it is clear that we must, and we will delay:

- School corporations – by one month, or \$289M
- Local Government – by one payment, or \$154M
- Higher Education – by one month, or \$94M

These delays are just that – delayed funding responsibility -- and will be carried as a liability on the state's reserve statement. To do anything else would be to ignore the harmful impact these delays would have on K-12 education, local government, and higher education. The Plan enables the state, beginning in FY 2005, to begin to restore the payment delays.

### **FY 2002 Reversions – \$176M**

We will take administrative action to revert money to the General Fund from both planned operational and capital expenditure agency budgets.

- Allotments for all state government budgets have been cut by an average of 7 percent to accomplish \$113M in reversions;
- Pay raises for state employees have been suspended through June 30, 2002, this will result in a reversion of \$15M;
- All capital projects – for both state agencies and higher education – that are not deemed essential for health and safety have been cut back, and will result in reversions of \$32M for state projects and \$16M for Higher Education Repair and Rehabilitation. It leaves intact funds for preventative maintenance.



### **FY 2002 One-Time Transfers – \$215M**

- Of the current balance in the Rainy Day Fund, we will transfer \$165M. This can be accomplished with State Budget Committee review, as stated in HEA 1001-2001, SECTION 49. Interest is transferred to the General Fund, without administrative action, as provided in HEA 1001-2001, SECTION 44.
- We will seek legislation to permit transfer of \$50M from the Tobacco Trust Fund in 2002 to avoid additional cuts in health and human services.

### **FY 2002 Revenue Enhancements – \$61M**

We will seek legislation to increase the cigarette tax by 50-cents per pack, effective May 1, 2002, which will bring in revenues of \$61M for the balance of the fiscal year. This will be a permanent revenue enhancement that will continue into future fiscal years in order to preserve education funding.

### **FY 2002 Medicaid Cuts – \$100M**

When FY 2001 was closed, it was estimated that the cost of Medicaid would exceed the appropriation by \$141 million over the 2002-2003 biennium. To cover that deficit, augmentation from the state's General Fund would have been required. In addition, the Day case, decided after the budget was finalized, will require the state to incur another \$136M over the biennium. The Family and Social Services Administration (FSSA) has identified \$100M in Medicaid reductions, and I have directed the them to identify an additional \$150M in reductions and revenue enhancements to address this deficit over the 2002-2003 biennium.

For FY 2002 we will pursue reductions in Medicaid expenditures of \$100M, to relieve the need for General Fund augmentation.

### **FY 2002 Grand Total – \$1.09B**

With these actions, our reserves will total \$799M, but when the payment delays are factored in, the reserves total \$261M.

## **The Plan for July 1, 2002 to June 30, 2003 (FY 2003)**

The Plan for the second year of the biennium, which begins July 1, 2002, includes base cuts, one-time capital project cuts, revenue enhancements, and reallocation of funds. It also suspends certain tax cuts enacted in prior legislative sessions.

### **FY 2003 One-Time Transfer – \$115M**

The General Assembly will be asked to reallocate a portion of the school capital projects fund for tuition support in Calendar Year (CY) 2002 and 2003. School corporations would be asked to transfer revenue equivalent to about 3 cents of their Capital Projects Fund levy in both CY 2002 and CY 2003 in order to fully fund the tuition support formula. This would enable the state to achieve \$115M in one-time savings in FY 2003.

### **FY 2003 Reversions – \$203M**

We will make \$203M in one-time reversions from state government operations during FY 2003.

### **FY 2003 Medicaid Cuts from Forecast – \$150M**

We will pursue reductions in Medicaid expenditures of \$150M to relieve the need for General Fund augmentation.

### **FY 2003 General Fund Cuts – \$153M**

- From the Higher Education operating appropriation, we will cut \$29M in FY 2003. At the same time, we will distribute \$29M in technology appropriations from gaming revenues that could be used to replace the operating funds or could be used for technology as originally intended.
- From state government appropriations we will:
  - Reduce software acquisition, reduce professional services contracts, and eliminate vacant positions;
  - Reduce central office administrative personnel;
  - Maximize the use of federal funds;
  - Hold expenditures for personnel at the FY 2002 level;
  - Reduce in-state and out-of-state travel, limit equipment purchases to emergency situations only;
  - Reduce the Teachers Retirement Fund – Cost of Living Appropriation by \$15M because the current appropriated amount exceeds the actuarial projection of the necessary funds for the cost-of-living adjustment.

## **FY 2003 Revenue Enhancements and Reallocations – \$820M**

Indiana cannot afford to stop the progress it has made in education by waiting until the national economy rebounds. Indiana cannot ignore the needs of its citizens, nor can it simply stop the delivery of essential services. The state must, instead, be poised to take advantage when the national economy rebounds, as it certainly will do sometime in the future.

To meet our obligations, we must continue to invest in our public schools and deliver essential services. To accomplish this, we will:

- Increase the cigarette tax to generate \$368M for the fiscal year;
- Increase Riverboat Gaming admission taxes by \$2 per patron to generate \$84M for the fiscal year and direct revenue to the General Fund. This revenue increase would require legislation;
- Redirect \$10M in gaming revenue from horse racing tracks to the General Fund. This transfer will still provide substantial subsidies to the horse tracks and will also require legislation;
- Transfer \$90M from the Rainy Day Fund administratively;
- Transfer \$60M of the Tobacco Fund distribution to the General Fund, and reallocate \$30M of existing Tobacco Funds. To ensure a predictable revenue source for human service programs, we will continue to use \$90M each year in Tobacco Funds for these programs;
- Collect an additional \$15M per year in user fees to relieve the General Fund;
- Suspend the following tax cuts enacted in 1999 and 2001 to achieve a savings of \$163M. This will require legislation:
  - Income tax deduction for property taxes
  - Business Add-Back
  - Personal Property Tax Credit (effective Fiscal Year 2004)

These suspensions leave in place the Temporary Homestead Credit, the state takeover of Welfare and Welfare Administration Fund, the increased senior citizens' property tax deduction, the increased income tax deduction for dependent children, the Earned Income Tax Credit, the increased senior citizens' income tax deduction, increased renters' income tax deduction and the decreased Inheritance Tax.

This Plan does not use all of the Rainy Day Fund because to do so would be irresponsible. Without a reserve balance in the Fund, Indiana would have no security against future revenue shortfall and unexpected events. For example, the November 14 revenue forecast does not take into account another terrorist attack or a greater commitment to the war in Afghanistan. It also does not take into account the possibility of a synchronized global recession. Without a reserve, Indiana could not re-position itself as the economy turns around. Modest reserves for education, Medicaid, and general expenditures must also be maintained.

**FY 2003 Grand Total – \$1.44B**

With these actions, our reserves will total \$996M, but when the payment delays are factored in, the reserves total \$458M.

## **The Plan for the FY 2003-2005 Biennium, July 1, 2003 to June 30, 2004**

In addition to the permanent base cuts and revenue enhancements made in FY 2003, the following additional revenues will be incorporated in the FY 2003-2005 biennial budget to balance the budget.

### **Annual Revenue Transfers and Enhancements – \$274M**

- The gaming revenue transfer that was temporarily enacted in the current budget will be made permanent through legislation in the amount of \$100M per year, leaving approximately \$50M each year for state and local projects;
- We will continue to use \$90M in Tobacco Funds for health-related programs; and
- The personal property tax credit, which was reestablished effective with FY 2004, will be suspended by legislation for a savings of \$84M.

## **Indiana's 2001-03 Reserve Statement Without the Plan**

GENERAL FUND and PROPERTY TAX REPLACEMENT FUND  
 COMBINED STATEMENT OF NET ACTUAL and ESTIMATED UNAPPROPRIATED RESERVE  
 (Millions of Dollars)

	Actual <u>FY 2001</u>	Estimated <u>FY 2002</u>	Estimated <u>FY 2003</u>
<b>Resources:</b>			
Working Balance at July 1	832.6	18.6	(292.2)
<b>Current Year Resources</b>			
Forecast Revenue	9,052.0	9,005.5	9,249.5
DSH	70.9	57.5	57.5
Other Revenue Sources or Transfers In			
Transfer from Lottery and Gaming Surplus Account (BIF)		200.0	175.0
Transfer Medicaid Reserve to GF	103.4	-	-
Transfer From (To) Rainy Day Fund	46.3	26.3	26.3
Total Current Year Resources	<u>9,272.6</u>	<u>9,289.3</u>	<u>9,508.3</u>
<b>Total Resources</b>	<u>10,105.2</u>	<u>9,307.9</u>	<u>9,216.1</u>
<b>Uses: Appropriations, Expenditures, and Reversions:</b>			
<b>Appropriations:</b>			
Budgeted Appropriations	10,159.3	10,211.9	10,497.9
Appropriation Transfer (capital appropriations obligated in FY 2000)	(88.3)		
Adjustments to Appropriations	(15.7)		
Deficiency Appropriations	66.8		
Medicaid Shortfall	58.5	46.0	90.0
<b>Total Appropriations</b>	10,180.6	10,257.9	10,587.9
<b>Other Expenditures and Transfers:</b>			
Judgments and Settlements	7.0	8.0	8.0
<b>Total Appropriations &amp; Expenditures</b>	10,187.6	10,265.9	10,595.9
<b>Payment Delays</b>			
Higher Education Allotment	-	(94.4)	-
Tuition Support Distribution	-	(289.3)	-
Property Tax Replacement Credit	-	(154.1)	-
<b>Reversions</b>	<u>(102.9)</u>	<u>(128.0)</u>	<u>(107.0)</u>
<b>Total Net Uses:</b>	<u>10,084.7</u>	<u>9,600.1</u>	<u>10,488.9</u>
Auditor's Adjustment	1.9		
<b>General Fund Reserve Balance at June 30</b>	<u>18.6</u>	<u>(292.2)</u>	<u>(1,272.8)</u>
<b>Reserved Balances:</b>			
Medicaid Reserve	100.0	100.0	100.0
Tuition Reserve	265.0	265.0	265.0
Rainy Day Fund	526.0	526.0	526.0
Payment Delay Liability	-	(537.8)	(537.8)
<b>Total Net Combined Balances</b>	<u>909.6</u>	<u>61.0</u>	<u>(919.6)</u>
<b>Combined Balance as a Percent of Operating Revenue</b>	9.8%	0.7%	-9.7%
Totals may not add due to rounding.		November 15, 2001	

## **The 2001-3 Budget with New Revenue Projections**



## July 1, 2001 through June 30, 2002 (FY 2002)

### EXPENDITURE REDUCTIONS, REALLOCATIONS AND REVENUE ENHANCEMENTS

<b>Medicaid Cuts from April 2001 Forecast</b>	<b>\$100.0</b>
<b>One-time Transfers, Reallocations, and Delays</b>	
Full payment delays for K-12, higher education, and local units	\$537.8
Transfer of Rainy day fund	\$165.0
Phase in of reallocation of tobacco trust fund	<u>\$50.0</u>
<b>Total transfers, reallocations and delays</b>	<b>\$752.8</b>
<b>One-time Reversions</b>	
Cuts in operating across all categories <u>except</u> Education	\$113.0
No pay raise for state employees	\$15.0
State Capital projects cutbacks	\$32.0
Higher Education R&R cutbacks	<u>\$16.0</u>
<b>Total reversions:</b>	<b>\$176.0</b>
<b>Revenue Enhancements</b>	
Increase cigarette tax: \$0.50 per pack eff. May 1, 2002	<b>\$61.3</b>
<b>Grand Total FY 2002 Cuts, Reallocations and Reversions</b>	<b>\$1,090.1</b>
<b>Reserves as of June 30, 2002</b>	
General Fund Balance	\$51.8
Medicaid Reserve Balance	\$100.0
Tuition Reserve Balance	\$265.0
Rainy Day Fund Balance	<u>\$382.0</u>
<b>Total Reserves</b>	<b>\$798.8</b>
Combined balances as percent of operating revenue:	8.37%
Less Payment delay liability	<u>\$537.8</u>
<b>Net combined balances</b>	<b>\$261.1</b>
Net combined balances as percent of operating revenue:	2.74%

**July 1, 2002 through June 30, 2003 (FY 2003)**  
**EXPENDITURE REDUCTIONS, REALLOCATIONS AND REVENUE ENHANCEMENTS**

<b>General Fund Cuts</b>	
State Government Appropriations	\$109.0
Medicaid cuts from April 2001 forecast	\$150.0
Higher Education University Operating Appropriations	\$29.0
TRF cost of living Appropriation	<u>\$15.0</u>
<b>Total General Fund cuts</b>	<b>\$303.0</b>
<b>Total Reversions</b>	<b>\$203.0</b>
<b>One-time reallocation of 10% of the local school capital projects fund levy to replace tuition support</b>	<b>\$115.2</b>
<b>Ongoing reallocations and revenue enhancements</b>	
Cigarette tax of \$0.50 per pack	\$367.9
Increase gaming admissions tax by \$2	\$84.0
Reallocate gaming revenue from horse racing	\$10.0
Transfer of Rainy day fund	\$90.0
Reallocate tobacco trust fund revenue	\$90.0
Fee Increases	\$15.0
Suspend homeowner income tax deduction and business add-back	<u>\$162.7</u>
<b>Total reallocations and revenue enhancements</b>	<b>\$819.6</b>
<b>Grand Total FY 2003 Cuts, Reallocations and Reversions</b>	<b>\$1,440.8</b>
<b>Reserves as of June 30, 2003</b>	
General Fund Balance	\$323.4
Medicaid Reserve Balance	\$100.0
Tuition Reserve Balance	\$265.0
Rainy Day Fund Balance	<u>\$307.3</u>
<b>Total Reserves</b>	<b><u>\$995.7</u></b>
Combined balances as percent of operating revenue:	9.67%
Less Payment delay liability	<u>\$537.8</u>
<b>Net combined balances</b>	<b>\$458.0</b>
Net combined balances as percent of operating revenue:	4.45%

**July 1, 2003 through June 30, 2005 (FY 2004 and 2005)**

Annual gaming revenue transfer	\$100.0
Annual tobacco revenue transfer	\$90.0
Suspend personal property tax credit	<u>\$83.9</u>
<b>Total</b>	<b>\$273.9</b>

## **Indiana's 2001-03 Reserve Statement With the Plan**

GENERAL FUND and PROPERTY TAX REPLACEMENT FUND  
 COMBINED STATEMENT OF NET ACTUAL and ESTIMATED UNAPPROPRIATED RESERVE  
 (Millions of Dollars)

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003
<b>Resources:</b>			
Working Balance at July 1	832.6	18.6	51.8
<b>Current Year Resources</b>			
Forecast Revenue	9,052.0	9,005.5	9,249.5
Revenue Enhancement	-	61.3	639.6
DSH	70.9	57.5	57.5
Other Revenue Sources or Transfers In			
Transfer from Lottery and Gaming Surplus Account (BIF)	-	200.0	175.0
Transfer Tobacco Settlement to GF	-	50.0	90.0
Transfer Medicaid Reserve to GF	103.4	-	-
Transfer From (To) Rainy Day Fund	46.3	165.0	90.0
<b>Total Current Year Resources</b>	<u>9,272.6</u>	<u>9,539.3</u>	<u>10,301.6</u>
<b>Total Resources:</b>	<u>10,105.2</u>	<u>9,557.9</u>	<u>10,353.4</u>
<b>Uses: Appropriations, Expenditures, and Reversions:</b>			
<b>Appropriations</b>			
Budgeted Appropriations	10,159.3	10,211.9	10,493.2
Base Appropriation Reductions	-	-	(153.0)
Appropriation Transfer (capital appropriations obligated in FY 2000) (1)	(88.3)	-	-
Adjustments to Appropriations (2)	(15.7)	-	-
Deficiency Appropriations	66.8	-	-
Medicaid Shortfall (3)	58.5	-	-
K-12 Education	-	-	(115.2)
<b>Total Appropriations</b>	10,180.6	10,211.9	10,225.0
<b>Other Expenditures and Transfers</b>			
Judgments and Settlements	7.0	8.0	8.0
<b>Total Appropriations &amp; Expenditures</b>	10,187.6	10,219.9	10,233.0
<b>Payment Delays</b>			
Higher Education Allotment	-	(94.4)	-
Tuition Support Distribution	-	(289.3)	-
Property Tax Replacement Credit	-	(154.1)	-
<b>Reversions</b>	<u>(102.9)</u>	<u>(176.0)</u>	<u>(203.0)</u>
<b>Total Net Uses:</b>	<u>10,084.7</u>	<u>9,506.1</u>	<u>10,030.0</u>
Auditor's Adjustment	1.9		
<b>General Fund Reserve Balance at June 30</b>	<u>18.6</u>	<u>51.8</u>	<u>323.4</u>
<b>Reserved Balances:</b>			
Medicaid Reserve	100.0	100.0	100.0
Tuition Reserve	265.0	265.0	265.0
Rainy Day Fund	525.9	382.0	307.3
Payment Delay Liability	-	(537.8)	(537.8)
<b>Total Net Combined Balances</b>	<u>909.5</u>	<u>261.0</u>	<u>457.9</u>
<b>Combined Balance as a Percent of Operating Revenue</b>	9.8%	2.7%	4.4%

Totals may not add due to rounding

**Reserve Statement for Two Biennia**

BALANCED BUDGET PLAN  
GENERAL FUND and PROPERTY TAX REPLACEMENT FUND  
(Millions of Dollars)

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003	Estimated FY 2004	Estimated FY 2005
Balance at July 1	832.6	18.6	51.8	323.4	316.7
Current Resources					
Revenue Estimate	9,052.0	9,005.5	9,249.5	9,735.1	10,246.2
Revenue Enhancement		61.3	639.6	650.7	660.5
DSH	70.9	57.5	57.5	57.5	57.5
Other Revenue Sources or Transfers In					
Transfer from Lottery and Gaming Surplus Account (BIF)	-	-	100.0	100.0	100.0
Transfer Tobacco Settlement to GF	-	50.0	90.0	90.0	90.0
Transfer From (To) Rainy Day Fund	46.3	-	-	-	-
Total Current Resources	<u>9,169.2</u>	<u>9,174.3</u>	<u>10,136.6</u>	<u>10,633.3</u>	<u>11,154.2</u>
Uses:					
Total Estimated Appropriations	9,859.5	10,209.4	10,337.7	10,682.5	11,036.4
Reversions	(102.9)	(176.0)	(203.0)	(53.0)	(25.0)
Total Uses:	<u>9,756.6</u>	<u>10,033.4</u>	<u>10,134.7</u>	<u>10,629.5</u>	<u>11,011.4</u>
Operating Surplus/(Deficit)	<u>(587.4)</u>	<u>(859.1)</u>	<u>1.9</u>	<u>3.8</u>	<u>142.8</u>
One-Time Resources					
Transfer from Lottery and Gaming Surplus Account (BIF)		200.0	75.0		
Transfer From (To) Rainy Day Fund		165.0	90.0		
Transfer Medicaid Reserve to GF	103.4				
Total One-Time Resources	<u>103.4</u>	<u>365.0</u>	<u>165.0</u>	<u>-</u>	<u>-</u>
One-Time Uses					
Appropriations	351.2	2.5	2.5	2.5	2.5
Judgments and Settlements	7.0	8.0	8.0	8.0	8.0
K-12 Education			(115.2)		
Adjustments and Transfers	(28.2)				
Payment Delays		(537.8)			269.0
Total One-Time Uses	<u>330.0</u>	<u>(527.3)</u>	<u>(104.7)</u>	<u>10.5</u>	<u>279.5</u>
General Fund Balance at June 30	<u>18.6</u>	<u>51.8</u>	<u>323.4</u>	<u>316.7</u>	<u>180.0</u>
Reserved Balances:					
Medicaid Reserve	100.0	100.0	100.0	100.0	100.0
Tuition Reserve	265.0	265.0	265.0	265.0	265.0
Rainy Day Fund	525.9	382.0	307.3	319.6	332.4
Payment Delay Liability	-	(537.8)	(537.8)	(537.8)	(268.8)
Total Net Combined Balances	<u>909.5</u>	<u>261.0</u>	<u>457.9</u>	<u>463.5</u>	<u>608.6</u>

Totals may not add due to rounding