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FISCAL IMPACT STATEMENT

LS 7265 | **NOTE PREPARED:** Feb 17, 2005
BILL NUMBER: HB 1845 | **BILL AMENDED:**

SUBJECT: Appropriations Limit.

FIRST AUTHOR: Rep. Noe | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill revises the formula for determining the state spending cap to be 99% of available general revenue. The bill voids general appropriations whenever total appropriations exceed 99% of available general revenue and voids the appropriations made by a major budget bill whenever the bill or its conference committee report fails to include certain disclosures concerning the amount of spending being proposed by the General Assembly. The bill also requires the Budget Agency to prepare a revenue forecast and repeals the current laws concerning the state spending growth quotient.

Effective Date: July 1, 2005.

Explanation of State Expenditures: (Revised) *Expenditure Limits:* This bill establishes an appropriation limit for General Fund and Property Tax Replacement Fund expenditures. The appropriation limit is to be based on revenue projections made by the Budget Agency. The bill limits these appropriations to 99% of the state revenue and voids any appropriation that exceeds this limit. The General Assembly may authorize an appropriation that exceeds the appropriation limit if it meets the following conditions: (1) if the appropriation bill is an emergency appropriation that contains a statement with the amount of the appropriation and an explanation of the circumstances that created the need for a supplemental appropriation; and (2) the bill is adopted by a 2/3 majority of the members of both the House and Senate.

The bill repeals the expenditure limits set out in P.L. 192-2002(ss) for fiscal years beginning after June 30, 2007. P.L. 192-2002(ss) established a maximum annual percentage change for state government expenditures to be based on the percentage change in Indiana Nonfarm Personal Income over the previous six calendar years or 6% beginning in FY 2006. The annual increase in the expenditure limit for FY 2004 and FY 2005 was set at 3.5%.

This bill applies the expenditure limits to appropriations beginning in FY 2008.

Budget Bills: The bill also voids appropriation bills if a bill contains appropriations, including increases that total at least $100 M, *and* the last version of the bill (or conference committee report) available and voted on by each legislator does not contain the following information on the first or second page of the bill or in the bill's digest or synopsis:

(1) a materially accurate and complete explanation indicating the amount of surplus or deficit resulting from subtracting the total of all general appropriations made by the bill from the revenue forecast for the fiscal year;

(2) a materially accurate and complete explanation indicating the percentage of state revenue for each fiscal year affected by the appropriations made in the bill.

State Budget Agency: The bill requires the State Budget Agency (SBA) to compute an estimate of state revenue before December 31 of the even-numbered year immediately preceding the beginning of each budget period and may revise this estimate no later than 15 days before the General Assembly adjourns sine die. SBA is also required to revise the revenue estimate by December 31 of the odd-numbered year. The bill specifies the format of the revenue forecast along with the particular revenue sources which must be included. SBA is required to submit in electronic format the revenue estimate for each fiscal year along with supporting data and calculations necessary to verify the estimates. SBA currently staffs the Revenue Technical Committee which produces the current state revenue forecast, so this statutory requirement will not have an impact on SBA.

The SBA is also required to compute the amount of the General Fund and Property Tax Replacement Fund appropriations each time that a budget bill or the bill's conference committee report is being considered for final action and not later than 30 days after the adjournment sine die of the General Assembly. While the General Assembly is in session, the SBA must submit this information electronically in a format and on a schedule that allows bills and conference committee reports to be printed without delay with the required information above.

Background Information: According to the December 14, 2004, *Reserve Statement*, FY 2005 budgeted appropriations are $11,505.8 M and the expenditure limit would have been estimated to be $11,199.2 M (based on 99% of FY 2005 revenue of $11,312.3 M). If the bill applied to FY 2005, then appropriations would have had to be reduced by about $306.6 M.

The December 14, 2004, revenue forecast projects a 3.8% increase in General Fund and Property Tax Replacement Fund revenue for FY 2006, and a 5.3% increase for FY 2007. There is no official forecast of revenue collections for FY 2008 and beyond.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly, Treasurer of

State, All state agencies funded by the General Fund.

<u>Local Agencies Affected:</u> All.

<u>Information Sources:</u> *GF & PTRF Statement of Combined Estimated Unappropriated Reserve*, December 14, 2004 - State Budget Agency; December 14, 2004, *Revenue Forecast* - Revenue Forecast Technical Committee.

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