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FISCAL IMPACT STATEMENT

LS 7265 | **NOTE PREPARED:** Feb 25, 2005
BILL NUMBER: HB 1845 | **BILL AMENDED:** Feb 24, 2005

SUBJECT: State Funds and Appropriations.

FIRST AUTHOR: Rep. Noe | **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

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

Summary of Legislation: (Amended) The 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.

The bill provides that the amount deposited in the Counter-Cyclical Revenue and Economic Stabilization Fund is calculated on the General Fund revenue deposited in the State General Fund or the Property Tax Replacement Fund. The bill allows money in the Counter-Cyclical Revenue and Economic Stabilization Fund to be transferred to the Property Tax Replacement Fund under certain circumstances. It also increases the maximum amount that may be retained in the Counter-Cyclical Revenue and Economic Stabilization Fund from 7% to 10% of total state General Fund revenues.

Effective Date: (Amended) June 15, 2005; July 1, 2005.

Explanation of State Expenditures: (Revised) *Rainy Day Fund Balance:* This bill makes three changes relating to the Rainy Day Fund (RDF) Balance.

(1) The bill changes the definition of “General Fund revenue to include all general purpose tax revenue and other unrestricted general purpose tax revenue, including federal revenue-sharing monies credited to the General Fund (GF) *and* the Property Tax Replacement Fund (PTRF). Currently, the definition only includes monies

deposited in the General Fund.

This definitional change also affects the formula which directs the transfer of GF revenue into the RDF in years where there has been growth in adjusted personal income that exceeds 2%. The amount transferred will now be based on the amount of revenue deposited in both the GF and PTRF. This will increase the amount transferred to the RDF and allow the Fund to accumulate larger balances. This will allow the state to incorporate the significant increase in tax revenue which will be deposited in the PTRF effective with P.L. 192-2002(ss).

(2) The bill increases from 7% to 10% the maximum allowable balance in the RDF as a percentage of the total GF and PTRF balances. Current law allows for excess transfers to PTRF from the RDF if the RDF balance exceeds 7% at the end of a given state fiscal year. The change in the percentage threshold also would allow the RDF to accumulate larger balances.

(3) The bill also changes the formula which allows transfers from the RDF in years where there has been a negative growth of 2% to include transfers to the GF and PTRF. The amount appropriated to each fund is proportional to the amount needed to balance each fund.

The maximum fiscal year-end Rainy Day Fund balance for FY 2004, along with the current and proposed maximum balances for FY 2005 through FY 2007 (estimated based on the December 14, 2004, *Revenue Forecast*) are presented in the following table:

Fiscal Year	**Rainy Day Fund Max Balance @ 7 % of GF (Millions)**	**Rainy Day Fund Max Balance @ 10%of GF & PTRF (Millions)**
2004	$500.1 *	$1,062.0
2005	$537.9	$1,136.4
2006	$555.1	$1,178.9
2007	$582.7	$1,240.9
* Actual Fund Balance as of 6/30/2004 was $242.2 M.		

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: Rainy Day Fund: The Rainy Day Fund was established in 1982 (P.L. 182-1982) with the first transfers to the Fund being in FY 1985. The purpose of the Fund is to allow the state to collect and maintain general purpose tax revenue during periods of economic expansion for use during periods of economic recessions. Two major functions of the Fund are to provide resources for use when the state needs to adjust its expenditures due to revenue shortfalls, and to restrict resources available to the General Fund in expansionary years, which controls expenditure growth.

P.L. 224-2003 (Budget Bill) provided that if the budget director determines that there are insufficient funds in the General Fund any time during the fiscal year to meet its statutory obligations, the Budget Agency (with approval of the Governor and after review by the Budget Committee) may transfer amounts necessary from the Rainy Day Fund to the GF to maintain a positive balance in the GF. No funds were transferred under this provision in FY 2003, and $44.3 M were transferred in FY 2004. The Fund balance as of June 30, 2004, was $242.2 M.

Expenditure Limits: 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.

Local Agencies Affected: All.

Information Sources: *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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