

INDIANA Budget Report Card



INDIANA'S STRONG POLICIES for its Counter-Cyclical Revenue and Economic Stabilization Fund, which acts as a buffer against downturns, helped earn the state a top A average grade in reserve funds for fiscal 2015 through 2019. The stabilization account is driven by a formula that calls for deposits when personal income in the state grows by over 2 percent in a year and that permits withdrawals when such income declines by the same amount. Indiana is also one of twenty states recognizing revenue volatility in rainy day fund policies.

The fund is not the only cushion. Indiana's State Tuition Reserve protects school funding, and the Medicaid Contingency and Reserve Account assures payment of claims for health care. Balances in the three funds in fiscal 2019 totaled \$1.4 billion, equivalent to 8.8 percent of general fund expenditures.

Cautious budgeting practices also have largely protected the state from turning to expenditure deferrals, revenue or cost shifts, or other one-time methods of masking budgetary shortfalls. These practices helped Indiana win an A in budget maneuvers, despite a refunding of highway revenue bonds in fiscal 2017 that postponed near-term principal payments until 2020.

Indiana's two lowest averages were Cs, in budget forecasting and transparency. The forecasting grade was held down by multiyear forecasts that extend only through the upcoming biennial budget rather than the outlook of three years or longer considered a best practice. The transparency grade suffered from a lack of comprehensive, regular reporting on tax expenditures in 2015–17. Indiana also failed to report on deferred infrastructure maintenance costs. While its public worker pension funding ratio was 69 percent in fiscal 2019, 2 percentage points below the total for all states, its grade in legacy costs—where it averaged a B—benefited from actuarially based pension contributions and minimal other postemployment benefits (OPEB), principally health care.


EAST NORTH CENTRAL STATES SIDE BY SIDE: Five-Year Average Grades, Fiscal 2015–19


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Illinois	C	D	D-	D	B
Indiana	C	A	B	A	C
Michigan	B	B	C	A	B
Ohio	D	B	C	C	B
Wisconsin	D	B	A	B	B
US AVERAGE	C	B	C	B	B


NOTE States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preparing for the Storm* at VolckerAlliance.org.


INDIANA Budget Report Card, Fiscal 2015–19

BUDGET FORECASTING						
	2015	2016	2017	2018	2019	TREND
	CATEGORY GRADE	C	C	C	C	C
	Consensus Revenue Forecasts	✓	✓	✓	✓	✓
	Multiyear Expenditure Forecasts	X	X	X	X	X
	Multiyear Revenue Forecasts	X	X	X	X	X
	Revenue Growth Projections	✓	✓	✓	✓	✓
5-YEAR AVERAGE						C

BUDGET MANEUVERS						
	2015	2016	2017	2018	2019	TREND
	CATEGORY GRADE	A	A	B	A	A
	Deferring Recurring Expenditures	✓	✓	✓	✓	✓
	Revenue and Cost Shifting	✓	✓	✓	✓	✓
	Funding Recurring Expenditures with Debt	✓	✓	X	✓	✓
	Using Asset Sales and Up-Front Revenues	✓	✓	✓	✓	✓
5-YEAR AVERAGE						A

LEGACY COSTS						
	2015	2016	2017	2018	2019	TREND
	CATEGORY GRADE	B	B	B	B	B
	Public Employee OPEB Funding	✓	✓	✓	✓	✓
	Public Employee Pension Funding	✓	✓	✓	✓	✓
	Public Employee Pension Funded Ratio*	65%	59%	61%	67%	69%
5-YEAR AVERAGE						B

RESERVE FUNDS						
	2015	2016	2017	2018	2019	TREND
	CATEGORY GRADE	A	A	A	A	A
	Positive Reserve or General Fund Balance	✓	✓	✓	✓	✓
	Reserve Funds Disbursement Policy	✓	✓	✓	✓	✓
	Reserve Funds Replenishment Policy	✓	✓	✓	✓	✓
	Reserves Tied to Revenue Volatility	✓	✓	✓	✓	✓
5-YEAR AVERAGE						A

TRANSPARENCY						
	2015	2016	2017	2018	2019	TREND
	CATEGORY GRADE	C	C	C	B	B
	Consolidated Budget Website	✓	✓	✓	✓	✓
	Provides Debt Tables	✓	✓	✓	✓	✓
	Discloses Deferred Infrastructure Replacement Costs	X	X	X	X	X
	Discloses Tax Expenditures	X	X	X	✓	✓
5-YEAR AVERAGE						C

KEY

✓	Followed best practice
X	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg.

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