Shattering Indiana's Piggy Bank:

Both the House and Senate Budget and Tax Plans for the FY00-FY01 Biennium Will Eventually Deplete the State's Accumulated Surplus

Center on Budget and Policy Priorities
Indiana Coalition on Housing and Homeless Issues

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Michael Mazerov

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Collaborating Organization

The Indiana Coalition on Housing and Homeless Issues is a statewide association dedicated to the right of all Indiana citizens to safe, decent, and affordable housing and necessary supportive services. From its inception in 1988, ICHHI has endeavored to act as a unifying entity for organizations and individuals throughout the state of Indiana who seek to improve the opportunities for low-income and homeless citizens.

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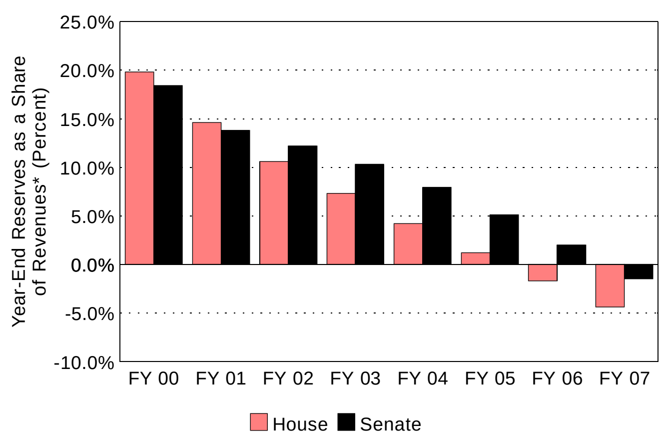
The author is solely responsible for the contents of this report.

Executive Summary

The FY00-FY01 budget and tax restructuring packages recently adopted by the Indiana House of Representatives and Senate differ in many significant ways. They have, however, one feature in common: both plans would build into Indiana's fiscal structure such large revenue reductions and spending increases that the state's currently healthy financial reserves would eventually be depleted.

As the graph indicates, both the House and Senate fiscal blueprints would likely reduce the state's accumulated surplus from the $2.1 billion level it is expected to reach at the end of the current fiscal year to zero by the end of four state budget cycles — eight fiscal years. Under the House plan, the surplus is exhausted by the end of FY06. Under the Senate plan, the surplus disappears in FY07. As the graph reveals, the accumulated surplus actually turns into a deficit under both plans in the year it is drawn down to zero. Accordingly, some combination of tax increases and spending cuts would be needed in

Effect of House and Senate Budget and Tax Plans on Indiana's Financial Reserves
(Year-End Reserves as a Share of Revenues)



*Combined reserves in General Fund, Rainy Day Fund, Property Tax Replacement Fund and Tuition Reserve as a share of revenues in those funds.

FY06 under the House plan and FY07 under the Senate package to satisfy the legal requirement that Indiana balance its budget each year.

The House and Senate Tax Proposals

In order to "give back" Indiana's $2 billion-plus accumulated surplus, both the House and Senate have enacted major cuts in income and property taxes for individuals and in property taxes for businesses:

- The House has largely accepted the income tax relief plan initially put forth by the Senate. The House and Senate tax packages each provide approximately $850 million in cumulative income tax relief to households over the next eight years.

- The House package would provide approximately $1.5 billion in property tax relief to businesses from FY00 through FY07. It also would provide approximately $1.4 billion in property tax relief to homeowners over the same period.

- The Senate plan would provide more property tax relief for businesses during the next eight fiscal years than House plan would — approximately $2.3 billion. Property tax relief for homeowners would equal approximately $900 million between FY02 and FY07 under the Senate plan.

The House and Senate Budgets

The House and Senate fiscal packages also differ on the spending side of the budget. The key differences include:

- The House package implements Governor O'Bannon's proposal that the state fully underwrite the cost of providing all-day kindergarten for school systems that elect to make this service available to parents. The Senate did not approve optional all-day kindergarten, but it appropriated equivalent funds to finance a new Education Block Grant to be provided to local school systems. The block grant could be used to finance all-day kindergarten or other K-12 education activities, such as remedial education programs.

- In addition to implementing optional all-day kindergarten, the House increased spending on both K-12 and higher education by approximately $400 million over the appropriations recommended by the State Budget Committee last December. The Senate appropriated $84 million less for education than the House in the upcoming biennium.

- The Senate enacted major one-time contributions to pay down the unfunded liabilities of both the Teacher Retirement Fund and the local police and fire pension fund. The Senate also appropriated $200 million in one-time funds for local road and street improvements over the next biennium. The House plan has no comparable provisions.

The Impact of the House and Senate Plans on Indiana's Financial Reserves

There has long been bipartisan consensus in Indiana that the state should seek to retain financial reserves large enough to forestall a need to raise taxes or make major expenditure reductions when recessions strike the state's economy. With the budgets under consideration in the House and Senate, the state is on the brink of a fundamental change in fiscal policy that would undermine this prudent goal. Unfortunately, neither the House nor the Senate appear to be considering adequately the long-run impact of their budget and tax packages on the state's accumulated surplus.

Governor O'Bannon has stated that he is committed to preserving state reserves of at least $1.1 billion. That amount is equal to 12 percent of combined General Fund / Property Tax Replacement Fund revenues currently forecasted for FY99. An earlier report jointly released by the Center on Budget and Policy Priorities and the Indiana Coalition on Housing and Homeless issues, *A Piggy Bank, Not a Money Machine* (December 1, 1998), lent support to the Governor's position that reserves of this order of magnitude are prudent and probably necessary to avoid tax increases during a future recession of medium severity. State legislators from both parties have endorsed this target.

Both the House and Senate budget and tax proposals would allow the state to end the upcoming biennium with more than adequate reserves when measured against this 12 percent of revenue target. If the House plan were to be enacted, Indiana would end the FY00-FY01 biennium with combined reserves in the General Fund, "Rainy Day Fund," and Tuition Reserve Fund of $1.41 billion — 14.6 percent of the revenues currently forecasted for FY01 in the General Fund and Property Tax Replacement Fund combined. If the Senate plan were to be implemented instead, the state would end FY01 with somewhat smaller reserves — $1.36 billion, or 13.9 percent of FY01 revenues.

However, the state's financial status would change dramatically in years after the next biennium under both the Senate and House plans. Under a realistic scenario that assumes most Indiana state revenues and expenditures will grow at the same rate as overall Indiana personal income subsequent to the FY00-FY01 biennium, the state's financial reserves would be steadily drawn down. Under the House plan, Indiana's reserves would be depleted by the end of FY06; without tax increases and / or spending cuts, the state would actually run a $200 million deficit that year. Under the Senate plan, the state's reserves would be exhausted during FY07; again, roughly $200 million in tax increases or spending cuts would be needed to balance the FY07 budget were the Senate package to be enacted. The necessary fiscal adjustments beyond FY07 would be particularly large under the Senate plan as the inventory tax cut continued to phase in.

The bottom line is that neither the House nor the Senate fiscal plan for the coming biennium appears to be sustainable over the long term. Both plans would eventually compel state policymakers to raise taxes, cut state programs, reduce state aid to schools and local governments, or some combination of all three, to avoid running the state's financial balances down to zero. Fiscal problems resulting from these plans would not be postponed to FY06 or FY07, however. If the state wishes to preserve a level of financial reserves that Indiana officials have recently said are needed to avoid tax increases in a future recession, then tax increases or spending cuts will have to be implemented long before reserves are actually exhausted. Indeed, if 12 percent of current revenues is the consensus target for reserves, then neither the House nor the Senate plans can be maintained through FY03 without sacrificing this objective; the House plan would draw down reserves to 10.6 percent of revenues at the end of FY02, and the Senate plan would cut the accumulated surplus down to 10.4 percent of revenues at the end of FY03.

The House or the Senate plans could be modified to make them consistent with the goal of maintaining an adequate surplus. Wholesale changes are not required. The one major adjustment in both plans that would help retain reasonable levels of reserves would be the elimination — or substantial scaling-back — of proposals to provide new property tax relief to businesses. The Senate's plan to effectively eliminate local property taxes on business inventories is expensive and inconsistent with retaining adequate financial reserves; proceeding with a total phase-out of inventory taxes would make major spending cuts or offsetting tax increases all but inevitable after FY06. By contrast, the more limited inventory tax relief targeted to small businesses contained in the House plan could possibly be accommodated as a trade-off for some other spending or tax relief priorities. On the other hand, one aspect of the House plan raises concerns about revenue depletion — the provision to provide permanent, new property tax relief to businesses and households by having the state assume financial responsibility for county welfare expenditures.

What Are Some Alternatives to the House and Senate Proposals?

Quite apart from their questionable long-term affordability, an additional shortcoming of both the House and Senate fiscal blueprints is that they would commit Indiana to major, difficult-to-reverse changes in its property tax system when the state appears to be only two or three years away from much more fundamental property tax restructuring. Although few public officials have acknowledged it, the Supreme Court's December 1998 *Town of St. John* decision will require a major revamping of the state's property appraisal rules — notwithstanding that the court did not mandate appraisal at full market value. Even if the state ultimately only has to move part-way down the continuum from its current "true tax value" system toward full market valuation, there will still be major shifts in property tax burdens unless legislators take steps to mitigate them. In the absence of offsetting policy changes, businesses are likely to pay considerably less property tax and homeowners considerably more. Owners of older homes would pay higher property taxes and owners of newer homes would pay lower taxes.

Indiana policymakers likely will want to ameliorate the property tax shifts that would accompany a change in property appraisal rules toward market-based valuations. The most straightforward means of doing so would be to spend state revenues on additional property tax relief for taxpayers who otherwise would face higher property tax bills. Accordingly, the prudent course of action for the state may be to forego *any* new property tax relief for businesses or households and instead retain maximum financial reserves to cushion the shifts in property tax burdens that will accompany the revamping of the state's appraisal system two or three years in the future. This would mean that the House's plan to remove county welfare spending from the property tax and any form of inventory tax relief would be put off and only considered in the context of the overall restructuring of the Indiana property tax system. The Senate's plan, which would commit the state now to a total phase-out of the inventory tax, seems particularly ill-timed, given that business appears poised to reap substantial but unknown amounts of property tax reduction from the change in the state's appraisal rules.

Whatever decisions are ultimately made during this session of the Indiana General Assembly concerning the level of state spending and the mechanisms and magnitude of property and income tax reductions, perhaps the most important outcome of the current debate could be an understanding in Indiana of the urgent need to implement more systematic procedures for evaluating the long-term consequences for state finances of permanent spending and revenue decisions. Few families can afford to have a breadwinner take a lower-paying job without considering the consequences for the college fund or the retirement nest egg. A state government can't afford to think short-term either — not even a state sitting on a $2 billion surplus.

I Introduction

On December 1, 1998, the Center on Budget and Policy Priorities and the Indiana Coalition on Housing and Homeless Issues jointly released an analysis of the outlook for Indiana state government finances. Titled *A Piggy Bank, Not a Money Machine: Fiscally Sound Indiana Still Faces Hard Choices on Future Budget and Tax Policy*, the report cautioned that Indiana should not expect recent favorable fiscal trends to continue indefinitely.

Specifically, the report discussed why Indiana policymakers should not count on state revenues continuing to grow more rapidly than state expenditures. The report explained that much of the recent rapid growth in Indiana personal income and sales tax revenues is attributable to the sharp run-up in the stock market and the decline in the share of current income households are saving, neither of which trends can be expected to continue at their recent pace for much longer. The report also focused on recent moderation in the rates of growth of higher education and Medicaid spending and questioned as well whether these trends could continue in light of anticipated growth in the college age and elderly populations.

A Piggy Bank, Not a Money Machine acknowledged that the state could afford to "spend down" its $2 billion accumulated surplus to a level approaching the target set by Governor O’Bannon — $1.1 billion, or approximately 12 percent of current combined revenues in the General Fund and Property Tax Replacement Fund. However, the report concluded that whatever combination of tax relief and spending increases was enacted to reduce the state’s financial reserve to this level, the package would have to be limited and temporary. Otherwise, Indiana fiscal policymakers would have to reverse course and enact tax increases or cuts in ongoing programs to avoid "over-shooting" and reducing the state’s accumulated surplus *below* the level necessary to avoid tax increases in a future recession.

Subsequent to the publication of *A Piggy Bank, Not a Money Machine*, the state released its December 1998 revenue forecast for the FY00-FY01 biennium. On the basis of that forecast, the State Budget Committee prepared the "as-submitted" budget — the starting point for the General Assembly's development of the actual budget. Governor O'Bannon then proposed a major property and income tax relief/restructuring package to reduce the state's surplus. Substantial portions of the Governor's tax proposals were incorporated in H.B. 1001, the budget bill approved by the House on February 24th. On the spending side of the budget, H.B. 1001 boosted K-12 and higher education spending significantly above the appropriations included in the as-submitted budget and also adopted the Governor's proposal to have the state underwrite the cost of making all-day kindergarten available in any school district that takes the option to do so beginning in the 2000-2001 school year.

More recently, the Senate acted on its tax and budget proposals for the upcoming biennium. On March 2nd the Senate passed a series of bills implementing *its* plan for income and property tax relief. On March 30th the Senate adopted its proposed budget by extensively amending H.B. 1001. There are not enormous differences between the spending levels approved by the House and those approved by the Senate in most ongoing program areas. However, the Senate did substitute a few major one-time spending items for some of the higher levels of education spending incorporated in the House budget. These differences, and major differences in the House and Senate approaches to property tax relief, are currently under negotiation in a House-Senate conference committee.

It does not appear that any individual or organization inside or outside state government has attempted to analyze the impact of either the House or the Senate plans on the state's financial condition beyond the next biennium. In particular, no one has looked at the impact upon the state's accumulated surplus. This is troublesome, because both plans make permanent changes on both the revenue and spending side of the state budget. The purpose of this report is to fill in this information gap and evaluate whether the House and Senate plans are likely to be sustainable in the long run and consistent with the desire of Indiana public officials to permanently maintain adequate financial reserves.

This report's principal conclusion is that neither plan is sustainable; by the end of four state budget cycles, both plans would deplete Indiana's accumulated surplus. Long before that point was reached, significant tax increases and/or spending cuts would be needed in order to maintain financial reserves at a level adequate to provide a financial cushion against a moderate recession.

One disclaimer is necessary. This analysis does not purport to be a rigorous long-range *forecast* of the fiscal condition of Indiana state government. Such a projection would require access to a comprehensive revenue forecasting model (for both Indiana state revenues and local property tax levies), a detailed breakdown of current state expenditures as between personnel-related costs and other items, and good data with which to predict school and university enrollments, nursing home admissions, inmate populations, demand for health care services, useful lives of physical facilities, workforce development needs, and other demographic and economic variables that potentially affect the spending side of the state budget. These resources and data cannot readily be obtained by persons and organizations outside of state government.

Instead, this analysis should be viewed as presenting scenarios of how the state's fiscal situation is likely to evolve under the House and Senate budget proposals if, for the reasons described in *A Piggy Bank, Not a Money Machine*, the pace of Indiana state revenue growth drops back down to the rate of expenditure growth in the years subsequent to the upcoming biennium.

Experts within Indiana state government with access to more sophisticated tools and more detailed data undoubtedly will be able to demonstrate that future revenue and expenditure trends are likely to differ measurably from the assumptions underlying the scenarios presented here. In the final analysis, the purpose of this exercise is not to predict the future but rather to challenge Indiana fiscal policymakers to present an official long-range forecast of revenues and the cost of providing current state services — starting with the current House and Senate budget and tax proposals. It borders on reckless public policy to make long-term or permanent changes on either the revenue or expenditure side of the budget — let alone both — without evaluating the long-term effect on the state's finances.

II Comparing the House and Senate Fiscal Blueprints

The House and Senate budget proposals differ in detail with respect to both revenue and spending provisions. The long-term fiscal impact of each of the plans, however, is similar.

The House and Senate Tax Proposals

In order to "give back" Indiana's $2 billion-plus accumulated surplus, both the House and Senate have enacted major cuts in income and property taxes for individuals and in property taxes for businesses:

- The House has largely accepted the income tax relief plan initially put forth by the Senate. (The only Senate income tax proposal not accepted by the House is a bill that would provide tax breaks for sole proprietors purchasing health insurance.) The House and Senate income tax relief packages would provide approximately $850 million in cumulative income tax relief to households between FY00 and FY07.[1] The plans cut income taxes through a permanent

[1] All revenue impact figures discussed in this report are taken from the Legislative Service Agency's (hereafter LSA) Fiscal Impact Statements. Consistent with the objective of this report to present a longer-term perspective on the impact of the proposed House and Senate budgets, the cumulative impact over eight fiscal years (four biennia) will be discussed. This generally requires extrapolation of LSA's estimates using future anticipated growth rates presented in the Fiscal Impact Statements themselves. Where no such future growth rates are presented, this report assumes that the annual fiscal impact of a tax cut grows beyond the last fiscal year for which LSA estimates the revenue loss at a rate equal to the rate in the last year for which LSA provided figures. The year-by-year components of the property tax, income tax, and miscellaneous revenue cuts contained in the House and Senate budgets are presented in (continued...)

extension of the extra $500 income tax exemption for children (which had been scheduled to expire at the end of calendar year 2000) and a new, permanent $1000 boost in this same exemption. Both plans also increase the personal exemption for the elderly and the deduction for renters.

- The House package would provide approximately $1.5 billion in property tax relief to businesses over the next eight years. Property tax relief is provided in the House budget through three mechanisms: a new, state-funded credit for local property taxes paid on the first $12,500 in inventory owned by each business, authorization for businesses to deduct up to $2,500 of property taxes in calculating their corporate income tax liability, and the assumption by the state government of financial responsibility for certain welfare costs currently underwritten by local property taxes. The $1.5 billion estimate of business property tax relief under the House plan is the sum of the cost to the state of the direct inventory tax credit (approximately $275 million over eight years), the cost of the business property tax deduction ($150 million), and a rough estimate of the share of local property tax reductions that will be reaped by businesses when the state takes over local welfare costs (about $1.1 billion).[2]

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[1] (...continued)
Appendix Tables 1 and 2. The source for all revenue impact figures cited with respect to the House budget is the LSA analysis of H.B. 1001 dated March 2, 1999. The revenue impact estimates for the tax provisions embodied in the Senate plan are taken from the individual Fiscal Impact Statements prepared by LSA for each of the individual Senate tax cut bills. (The relevant Fiscal Impact Statements for the Senate income tax cuts cited in this paragraph are those prepared for Senate Bills 198, 297, 247, 7, and 629.) Finally, it is important to note that some of the "tax cuts" embodied in both H.B. 1001 and the Senate proposals actually take the form of spending increases on a variety of state-paid credits or general aid provided to local governments.

[2] This should be considered a rough, "back-of-the envelope" estimate of the share of general property tax relief that will flow to businesses as a result of the state assumption of county welfare costs. In a report issued in June, 1998, staff of the Indiana House Ways and Means Committee estimated that homeowners pay approximately 39 percent of Indiana property taxes, farms approximately 8 percent, and businesses approximately 53 percent. (See: *State Budget and Fiscal Issues Handbook*, p. 49.) This report treats 50 percent of farm property taxes as residential and 50 percent as "business," for an overall estimate that homeowners pay 43 percent of property taxes and businesses 57 percent. These percentages are then applied to the net, year-by-year revenue impacts for the county welfare takeover estimated in LSA's analysis of H.B. 1001. This is only a rough estimate of the distribution of the property tax relief arising from this proposal between homeowners and businesses because it ignores complex feedback effects on both homestead and property tax replacement credits. The author does not have access to the information necessary to model these effects. It would be highly desirable for LSA to prepare such an estimate, so that the amount of business property tax relief provided by the Senate and House proposals could be rigorously compared and publicly debated.

- The Senate plan would provide more property tax relief for businesses during the next eight fiscal years than House plan would — approximately $2.3 billion. The Senate plan reduces the effective cost to businesses of property taxes by allowing property tax payments to reduce the businesses' income tax liabilities. Two mechanisms are used. First, businesses would be allowed to deduct from their taxable incomes one-half of all property taxes paid on real estate and personal property (machinery, equipment, and inventories).[3] Second, businesses will be allowed a phased-in, dollar-for-dollar credit against their income tax liability for local property taxes on their inventories.[4] In the first year, 10 percent of property taxes on inventory may be credited against income tax liability; this rises by 10 percentage points annually until all inventory taxes may be credited.

- For homeowners, the House plan would provide approximately $850 million in property tax relief in the next eight years as a result of the state takeover of county welfare costs.[5] The House plan also reduces the effective cost of homeowner property taxes by allowing up to $2,500 of property tax as a deduction in calculating Indiana personal income taxes; this provision will reduce homeowner income tax liabilities by approximately $500 million between FY00 and FY07. Combined, these two pieces of the House tax package provide about 50 percent more property tax relief than would be provided to homeowners under the Senate's plan to make permanent the 10 percent homestead credit. Under current law, the homestead credit is scheduled to revert to four percent in 2001. Maintaining the homestead credit at 10 percent provides approximately $900 million in property tax relief to homeowners in FY02-FY07; no new property tax relief is provided to homeowners during the upcoming FY00-FY01 biennium under the Senate plan.[6]

The House and Senate Budgets

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[3] See LSA's Fiscal Impact Statement on SB 535 dated February 23, 1999. Under the House plan, businesses would be allowed to deduct a maximum of $2,500 of property taxes paid.

[4] See LSA Fiscal Impact Statement on S.B. 459 dated January 11, 1999.

[5] See note 2.

[6] See LSA Fiscal Impact Statement on S.B. 196 dated February 23, 1999. Information in this statement was supplemented by a helpful conversation with LSA analyst Bob Sigalow.

The House and Senate packages also include different specific proposals on the spending side of the budget. The key differences include:

- The House package implements Governor O'Bannon's proposal that the state fully underwrite the cost of providing all-day kindergarten for school systems that elect to make this service available to parents. The Senate did not approve optional all-day kindergarten, but rather appropriated equivalent funds to finance a new Education Block Grant to local school systems that they could use for optional kindergarten or for enhanced activities in remedial education, summer school, and similar programs.

- In addition to implementing optional all-day kindergarten, the House increased spending on both K-12 and higher education as compared with the appropriations recommended by the State Budget Committee last December. The "as-submitted" budget recommended $10.18 billion in combined General Fund and Property Tax Replacement Fund operating expenditures for education during the upcoming biennium. The budget adopted by the House appropriates $10.68 billion — $500 million more; only $111 million of this is the cost of the kindergarten expansion.[7] The Senate appropriated $84 million less for education than the House in the upcoming biennium.

- The Senate enacted major one-time contributions to pay down the unfunded liabilities of both the Teacher Retirement Fund and the local police and fire pension fund. The Senate also appropriated $200 million in one-time funds for local road and street improvements over the next biennium. The House plan has no comparable provisions.

- Finally, the House plan also provides approximately $340 million in assistance to families with children in grades K-12 during the next eight fiscal years through a state-paid reimbursement to local governments and private schools for a portion of the cost of renting textbooks that would otherwise be charged such families.

[7] See LSA Fiscal Impact Statement on H.B. 1001.

III The Impact of the House and Senate Plans on Indiana's Financial Reserves

Governor O'Bannon has stated that he is committed to preserving state reserves of at least $1.1 billion. That amount is equal to 12 percent of combined General Fund / Property Tax Replacement Fund revenues currently forecasted for FY99. *A Piggy Bank, Not a Money Machine* lent support to the Governor's position that reserves of this order of magnitude are prudent and probably necessary to avoid tax increases during a future recession of medium severity.[8] State legislators from both parties have endorsed this target. The major objective of this analysis is to determine whether the fiscal policies embodied in the House and Senate budget bills are consistent with the widely-held goal of preserving adequate financial reserves for the state.

Tables 1 and 2 provide a long-term perspective on the policies.[9] The tables take as a given the most recent official estimate of the financial reserves with which Indiana will end FY99 this coming June 30th — $2.092 billion.[10] They also take as a given the

[8] A more recent report by Iris J. Lav and Alan Berube of the Center on Budget and Policy Priorities, *When It Rains, It Pours: A Look at the Adequacy of State Rainy Day Funds and Budget Reserves*, suggests that Indiana may need even larger reserves than the Governor supports. The Lav / Berube study projects a moderate recession scenario for FY01-FY03 and estimates that Indiana would need reserves equal to 15 percent of General Fund expenditures to avoid the need for tax increases or spending reductions.

[9] Appendix Tables 1 and 2 provide a more detailed breakdown of the year-by-year impact of the tax and expenditure provisions of the House and Senate fiscal plans.

[10] "General Fund and Property Tax Replacement Fund Preliminary Estimate of Revenues, Expenditures, and Reserves, Fiscal Years 2000-2001 Biennial Budget," April 13, 1999. Consistent with (continued...)

Table 1
Effect of House Budget and Tax Package on Indiana's Financial Reserves

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Balance	$2,092.1	$1,827.9	$1,414.6	$1,068.7	$770.0	$458.5	$133.9	($204.5)
Plus: Forecast and DSH Revenue	$9,359.1	$9,831.0	$10,296.1	$10,751.7	$11,227.6	$11,724.7	$12,243.9	$12,786.2
Less: Income Tax Relief	($77.2)	($78.7)	($109.4)	($110.9)	($112.7)	($114.4)	($116.2)	($118.0)
Less: Property Tax Deduction	($69.2)	($73.2)	($76.9)	($80.7)	($84.3)	($88.0)	($92.0)	($96.1)
EQUALS: TOTAL RESOURCES	$11,304.8	$11,507.0	$11,524.4	$11,628.8	$11,800.6	$11,980.8	$12,169.6	$12,367.6
General Fund Appropriations:	$6,978.7	$7,306.3	$7,631.4	$7,971.0	$8,325.7	$8,696.2	$9,083.2	$9,487.4
PTRF Appropriations:								
Tuition Support	$1,267.7	$1,383.2	$1,444.8	$1,509.0	$1,576.2	$1,646.3	$1,719.6	$1,796.1
PTR and Homestead Credits (current law)	$1,015.9	$1,069.6	$1,059.5	$1,042.6	$1,089.0	$1,137.5	$1,188.1	$1,241.0
Misc: Motor Vehicle Excise Distribution	$18.9	$2.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Major Initiatives and One-Time Spending								
Teacher Pension Reserve Reimbursement	$32.5	$32.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Cost of County Welfare Takeover	$106.8	$225.5	$246.1	$261.0	$272.6	$284.7	$297.4	$310.7
Textbook Credits	$40.9	$41.0	$41.2	$41.4	$42.4	$43.4	$44.5	$45.6
Inventory Credits	$15.5	$31.9	$32.7	$33.7	$36.1	$38.6	$41.3	$44.2
EQUALS: TOTAL REQUIREMENTS	$9,476.9	$10,092.4	$10,455.7	$10,858.8	$11,342.1	$11,846.9	$12,374.2	$12,925.0
YEAR-END BALANCE	$1,827.9	$1,414.6	$1,068.7	$770.0	$458.5	$133.9	($204.5)	($557.4)
As % of Revenues	19.8%	14.6%	10.6%	7.3%	4.2%	1.2%	-1.7%	-4.4%

[10] (...continued)
Indiana practice, year-end balances in the General Fund, "Rainy Day" Fund, and Tuition Reserve Fund are treated in the aggregate as the state's accumulated, discretionary surplus.

Table 2
Effect of Senate Budget and Tax Package on Indiana's Financial Reserves

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Balance	$2,092.1	$1,725.4	$1,355.1	$1,258.7	$1,104.8	$887.2	$603.9	$248.7
Plus: Forecast and DSH revenue	$9,359.1	$9,831.0	$10,296.1	$10,751.7	$11,227.6	$11,724.7	$12,243.9	$12,786.2
Plus: Termination of Low-Income Deduction	$14.0	$14.0	$14.6	$15.2	$15.8	$16.5	$17.2	$17.9
Less: Income Tax Relief	($80.0)	($81.6)	($112.4)	($114.0)	($115.8)	($117.7)	($119.7)	($121.7)
Less: Business Property Tax Relief	($83.7)	($132.0)	($185.0)	($243.5)	($307.5)	($377.8)	($454.7)	($538.8)
EQUALS: TOTAL RESOURCES	$11,301.5	$11,356.8	$11,368.4	$11,668.2	$11,924.9	$12,132.9	$12,290.7	$12,392.4
General Fund Appropriations*	$6,951.1	$7,248.7	$7,571.3	$7,903.5	$8,255.2	$8,622.6	$9,006.3	$9,407.0
PTRF Appropriations:								
Tuition Support	$1,257.7	$1,348.5	$1,408.5	$1,471.2	$1,536.7	$1,605.0	$1,676.5	$1,751.1
PTR and Homestead Credits (current law)	$1,015.9	$1,069.6	$1,059.5	$1,042.6	$1,089.0	$1,137.5	$1,188.1	$1,241.0
Misc: Motor Vehicle Excise Distribution	$18.9	$2.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Major Initiatives and One-Time Spending:								
Extend Additional 6% Homestead Credits	$0.0	$0.0	$70.4	$146.1	$156.9	$163.9	$171.2	$178.8
Local Roads and Streets	$100.0	$100.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Teacher and Police/Fire Pensions	$232.5	$232.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
EQUALS: TOTAL REQUIREMENTS	$9,576.1	$10,001.7	$10,109.7	$10,563.4	$11,037.7	$11,529.0	$12,042.0	$12,577.9
YEAR-END BALANCE	$1,725.4	$1,355.1	$1,258.7	$1,104.8	$887.2	$603.9	$248.7	($185.5)
As % of Revenues	18.7%	13.9%	12.4%	10.4%	8.0%	5.2%	2.1%	-1.5%

*Less one-time increase in spending for Teacher and Police/Fire Pensions under "Major Initiatives".

latest official forecast that the state will receive new revenues in the General Fund and Property Tax Replacement Fund combined of $9.302 billion in FY00 and $9.774 billion in FY01.[11] They then build into the analysis the appropriations for major state programs adopted by the House and Senate as estimated by the Legislative Services Agency. Finally, Tables 1 and 2 incorporate the estimated impact on revenues and expenditures of the House and Senate "tax cut" packages.[12]

Tables 1 and 2 indicate that both the House and Senate budget and tax proposals would allow the state to end the upcoming biennium with more than adequate reserves when measured against the 12 percent of revenue target set by Governor O'Bannon. If the House plan were to be enacted and signed into law, Indiana would end the FY00-FY01 biennium with combined reserves in the General Fund, "Rainy Day Fund," and Tuition Reserve Fund of $1.41 billion — 14.6 percent of the revenues currently forecasted for FY01 in the General Fund and Property Tax Replacement Fund combined.[13] If the Senate plan were to be implemented instead, the state would end FY01 with somewhat smaller reserves — $1.36 billion, or 13.9 percent of FY01 revenues.

However, *the state's financial status would change dramatically in years after the next biennium under both the Senate and House plans*. Tables 1 and 2 extend the budget projections beyond the upcoming biennium to show the longer-run impacts of the tax cuts and expenditure increases first implemented in FY00-FY01 and of the back-loaded inventory tax cuts in the Senate plan that result in progressively larger revenue losses after FY01.

The projections for fiscal years beyond FY01 are based on the premise that Indiana's recent experience of state revenues growing faster than state expenditures is atypical and likely to end soon. (See below for a fuller discussion of this assumption.) The projections in Tables 1 and 2 assume that Indiana non-farm personal income will grow at an average annual rate of 4.5 percent after FY01, the same average rate of growth currently forecasted during the FY00-FY01 biennium for purposes of projecting Indiana state government revenues. Tables 1 and 2 also assume that most categories of state spending and revenues will grow after the next biennium at this same annual rate of 4.5 percent; the only exception to this assumption is for those new programs and tax changes embodied in the House and Senate budgets and tax plans for which the Legislative Services Agency has forecasted a different growth path.

Under this scenario, both the House and Senate fiscal plans would lead to a steady depletion of Indiana's financial reserves subsequent to the upcoming biennium. Under the House plan, Indiana's reserves would be exhausted by the end of FY06 — without tax increases and / or spending cuts, the state

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[11] Revenue forecast released by the State Budget Agency, April 13, 1999.

[12] See note 1.

[13] Technically, some of the money that is included in the "year-end balance" shown in Table 1 would be maintained in a new "Targeted Tax Relief Fund" rather than in the funds aggregated in the "year-end balance" (the General Fund, "Rainy Day" Fund, and Tuition Reserve). Under the House plan, monies in the Targeted Tax Relief Fund would be reserved for future inventory tax and textbook credits. To make a fair comparison between the impact on reserves of the Senate and House plans, funds in the Targeted Tax Relief Fund should be included in a measure of the state's discretionary reserves because both the House and Senate plans commit the state to permanent inventory tax relief. The Targeted Tax Relief Fund is merely an accounting device intended to isolate the funds that would be devoted to inventory tax credits under the House plan.

would actually run a $200 million deficit in that year. Under the Senate plan, the state's reserves would be depleted during FY07; again, roughly $200 million in tax increases or spending cuts would be needed to balance the budget in FY07 under the Senate package. The necessary fiscal adjustments beyond FY07 would be particularly large under the Senate plan as the inventory tax cut phased in to its ultimate 100 percent elimination. This provision would deprive the state of more than $650 million in revenue each year when fully implemented.

The bottom line is that neither the House nor the Senate fiscal plan for the coming biennium appears to be sustainable over the long term. Both plans will eventually compel state policymakers to raise taxes, cut state programs, reduce state aid to schools and local governments, or some combination of all three, to avoid running the state's financial balances down to zero. Fiscal problems resulting from these plans would not be postponed to FY06 or FY07, however. If the state wishes to preserve a level of financial reserves that Indiana officials have recently said are necessary to avoid tax increases in a future recession, then tax increases or spending cuts will have to be implemented long before reserves are actually exhausted. Indeed, if 12 percent of current revenues is the consensus target for reserves, then neither the House nor the Senate plans can be maintained through FY03 without sacrificing this objective; the House plan would draw down reserves to 10.6 percent of revenues at the end of FY02, and the Senate plan would cut the accumulated surplus down to 10.4 percent of revenues at the end of FY03.

IV Why Indiana's Surplus Will Vanish

The fundamental reason that Indiana's financial reserves would eventually be depleted under both the House and Senate spending and tax plans is that both implement *large, ongoing* increases in spending and reductions in revenue despite the fact that the state's current surplus is a *one-time* accumulation.

As explained in *A Piggy Bank, Not a Money Machine,* it is highly unlikely that Indiana state finances are in a "structural surplus" position — a condition in which the "natural" rate of revenue growth exceeds the rate of spending growth that is needed to preserve the currently-chosen mix and level of state services. The report explained that, in future years, Indiana's citizens are likely to need and want most categories of state spending to grow along with their ability to pay for them — as measured by the growth of Indiana personal income. For example, Hoosiers concerned about the quality of the education their children are receiving are unlikely to want the state to spend a declining share of Indiana citizens' aggregate incomes on K-12 and higher education. Other categories of state spending may grow even faster than Indiana personal income because elected officials have little ability to control them. For example, corrections costs are heavily influenced by sentencing policies, and Medicaid spending for the elderly is largely determined by demographic trends and national medical care inflation rates. In fact, the most recent official forecast of state Medicaid spending has predicted a significant upturn during the next biennium in the rate of growth in that program relative to recent years.

At the same time, Indiana's tax system is structured in such a way that — under normal circumstances — aggregate revenue is unlikely to grow faster than Indiana personal income. Most state revenue sources grow more slowly than state personal income. Sales taxes grow more slowly than income because upper-income families tend to save progressively larger shares of income as their incomes increase, and to spend their incomes on services, which Indiana does not tax extensively. Other revenues, like alcohol and tobacco taxes, are not rising rapidly because consumption of these commodities is declining and because the tax rates are based on quantity consumed rather than the dollar amount purchased (which at least rises with overall inflation). In states where the income tax is sharply progressive — that is, structured like the federal income tax with increments to income being taxed at progressively higher rates — then income tax revenue may significantly outpace the growth in statewide income. However, this phenomenon is highly unlikely to occur in Indiana, because of the state's flat-rate income tax. In sum, Indiana's tax structure is such that, under normal circumstances, revenues in the aggregate can be expected to increase no more rapidly than Indiana personal income, and may perhaps rise at rates below personal income growth.

As explained in *A Piggy Bank, Not a Money Machine*, the accumulation of large reserves in Indiana since the 1990-91 recession is attributable to several uniquely favorable conditions that seem unlikely to continue for more than one or two more years. In particular, Indiana's income and sales tax revenues have been given a sharp boost by the extremely strong stock market. This has generated large, taxable capital gains that are subject to income tax and also has encouraged people to spend greater-than-normal shares of their incomes, which has increased sales tax receipts. Unless one expects the current stock market boom and the decline in the personal savings rate — now at a near-record low — to continue indefinitely, at some point the state will cease to accumulate additional reserves.

If it is reasonable to assume, first, that the surplus will stop accumulating in the next couple of years and, second, that the most *optimistic* forecast of what would ensue would be revenues growing at the same pace as state expenditures, then it follows that any *new* tax cuts, spending programs, or significant boosts in spending in existing programs will translate directly into a drawing-down of reserves. The House plan entails significant new tax cuts, several new state programs, and a significant boost in K-12 and higher education spending. The Senate plan entails progressively larger inventory tax cuts, several large one-time expenditures, and appropriations in most categories of state spending that are only slightly below those contained in the House budget. Not surprisingly, the projections show that the state's reserves would decline sharply if either the Senate or House fiscal plan were implemented. As shown in Tables 1 and 2, the decline would continue after FY00-FY01, because both plans implement tax cuts and spending increases that are intended to continue beyond the upcoming biennium.

V What Are Some Alternatives to the House and Senate Proposals?

Both the House and Senate fiscal blueprints would commit Indiana to significant, difficult-to-reverse changes in its property tax system at a time when the state must contemplate much more fundamental property tax restructuring. Although few public officials have acknowledged it, the Indiana Supreme Court's December 1998 *Town of St. John* decision will require a major revamping of the state's property appraisal rules — notwithstanding that the court did not mandate appraisal at full market value. Even if the state ultimately only has to move part-way down the continuum from its current "true tax value" system toward full market valuation, there will still be substantial shifts in property tax burdens unless legislators take steps to mitigate them.[14] In the absence of offsetting policy changes, businesses are likely to pay considerably less property tax and homeowners considerably more. Owners of older homes will pay higher property taxes and owners of newer homes will pay lower taxes.

Of course, Indiana policymakers likely will want to ameliorate the property tax shifts that would accompany a change in property appraisal rules toward market-based valuations. The most straightforward means of doing so — perhaps the only available mechanism given Indiana's constitution — would be to spend state revenues on additional property tax relief for taxpayers who otherwise would face higher property tax bills. Accordingly, the prudent course of action for the state may be to forego *any* new property tax relief for businesses or households and instead retain maximum financial reserves to cushion the shifts in property tax burdens that will

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[14] See: State Board of Tax Commissioners, *Final Report of the Indiana Fair Market Value Study*, March 1999.

accompany the revamping of the state's appraisal system two or three years in the future. This would mean that both the House's plan to remove county welfare spending from the property tax and any form of inventory tax relief would be put off and only considered in the context of the overall restructuring of the Indiana property tax system.[15] Committing the state now to a total phase-out of the inventory tax seems particularly ill-timed, given that business appears poised to reap substantial but unknown amounts of property tax reduction from the change in the state's appraisal rules.

Although significant new property tax relief arguably should be deferred until it can be implemented in the context of the pending overhaul of the Indiana property tax appraisal system, there is a stronger case for some immediate income tax relief for lower-income Hoosiers. In an annual survey of state income tax treatment of the poor throughout the United States released just a few weeks ago, the Center on Budget and Policy Priorities reported that in 1998 Indiana imposed the fourth-highest income tax burdens on families at the poverty line of any state.[16] The report also found that Indiana was one of only 14 states that imposes state income tax on a family headed by a worker employed full time at the minimum wage — earnings that are thousands of dollars below the poverty line for a family of four. Only seven states begin taxing families at lower income levels than does Indiana. In light of these facts, and in light of the ongoing efforts of Indiana to "make work pay" for those still on the state's welfare rolls, the determination of both the House and Senate to provide additional income tax relief to all Hoosier families — however modest — is warranted.

Despite Indiana's high tax burden on the poor, and despite making permanent cuts in business property taxes, neither the House nor the Senate saw fit to include in their tax plans an extension of the earned-income deduction for low-income Hoosiers. The low-income deduction is scheduled to expire with the 2000 tax year. While there is no reason at present to doubt there will be support for extending this provision before

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[15] If the legislature ultimately decides to proceed with the current House plan for limited inventory tax relief, it should be aware that the proposal contains a serious flaw that could cause a major hemorrhage in the state's budget for inventory tax credits if it is not fixed. There is nothing in the bill to prevent businesses from dividing themselves up into numerous corporations that would each be eligible for a credit on the property tax imposed on $12,500 in inventory under the current wording of the legislation. A car dealership, for example, could separately incorporate a subsidiary to own every different model of car it sells.

[16] Nicholas Johnson, Christina Smith FitzPatrick, and Elizabeth C. McNichol, *State Income Tax Burdens on Low-Income Families in 1998: Assessing the Burden and the Opportunities for Relief*, March 1999. Available at www.cbpp.org/3-4-99sttax.pdf.

it expires, the Senate and House could have permanently extended this important provision along with their new income tax relief proposals.[17]

Finally, it is worth stressing that both the House and Senate income tax cuts could be much better targeted to those most in need of income tax relief. As noted in an earlier Center analysis of Indiana's tax structure, upper-income Hoosiers are subject to one of the lowest state income tax burdens in the United States.[18] For upper-income families who itemize their Indiana income taxes on their federal returns, moreover, up to 40 percent of the income tax relief that will be provided by the both the Senate and House plans will simply flow to the federal treasury in the form of higher federal income tax liability as a result of the lower deduction for Indiana state income tax. Thus, there is a strong case to be made that whatever level of income tax relief the legislature ultimately determines the state can afford during the next biennium, priority should be given to relief for the lowest-income Hoosiers who have one of the heaviest state income tax burdens in the country.

The legislature had placed before it two bills that would have targeted income tax relief to those most in need. H.B. 1887, authored by Representative Michael Murphy, would have raised the qualifying income level for the low-income deduction from $12,000 to $18,000. In the process, the legislation would have raised the income tax threshold — the income level at which families first begin to have a liability for state income taxes — from $8,500 to $11,500 for a family of four. S.B. 384, authored by Senator Vi Simpson, would have instituted a refundable earned income tax credit equal to 20 percent of the federal earned income tax credit as a substitute for the existing low-income deduction. Such a credit would have raised the income tax threshold to well above the poverty line and provided a rebate to lower-income Hoosiers that would partially offset sales and property taxes they also pay. The General Assembly did not, however, give serious consideration to these bills. Although the deadline for doing so

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[17] The Senate voted to repeal the earned-income deduction effective for the 1999 tax year and replace it with a cash grant of an equivalent amount, with the apparent intent of counting the entire amount of the new grant as state "Maintenance of Effort" (MOE) spending required under the federal Temporary Assistance for Needy Families (TANF) program. For some taxpayers that presently benefit from the deduction, the cash grant would provide an equivalent amount of assistance; for some other working taxpayers with very low incomes the grant would be somewhat more beneficial than the present deduction. However, it is possible that under federal law the full amount of the grant would not qualify as MOE expenditures, leaving the status of the Senate proposal somewhat unclear. In any case, the Senate appropriation for these grants — like the authorization for the existing earned-income deduction — does not extend beyond tax year 2000.

[18] Michael Mazerov, *Perspectives on the Level and Distribution of Indiana State and Local Tax Obligations,* presentation to the Indiana Citizens' Commission on Taxes, August 11, 1998.

during this session has passed, the legislature might consider limiting income tax relief measures to tax year 1999 and revisiting these bills during the short session next year.

VI Conclusion

Families with long-term financial goals like putting children through college and building a nest egg for retirement understand that most major decisions they make today will have an impact on their ability to reach these goals in the future. This is even true of decisions about how to spend an unanticipated windfall, like an end-of-year bonus or the profit on a hot stock tip. Most people understand that using a windfall to build an addition on their house will generate higher ongoing costs for property taxes, heat, and air-conditioning. Buying a big SUV when only a sedan had been planned for will lead to permanently higher costs for gasoline and insurance. What is true on the spending side of the family budget is even more true on the income side. Decisions to cut back on work hours, take a lower-paying job, or change from a two-earner to a one-earner family have major long-term financial implications; no rational family makes such a significant change without doing its best to think through the consequences.

Unfortunately, Indiana seems poised to make major long-term changes on both the revenue and expenditure side of its budget without having considered the tradeoffs this will impose against other long-term fiscal, economic, and social goals. This report demonstrates that Indiana cannot — as the House proposes — simultaneously step-up investment in K-12 and higher education, maintain financial reserves adequate to avoid tax increases in a future recession, provide all Indiana parents with an opportunity to send their children to all-day kindergarten, provide substantial income tax relief to households, and assume financial responsibility for welfare-related expenses now funded by counties. Nor can the state afford — as the Senate proposes — to eliminate the inventory tax for businesses, maintain adequate reserves, provide income tax relief, step-up investment in local streets and roads, and make major progress in addressing state and local governments' unfunded pension liabilities. These may all be worthy goals. But they are incompatible at the levels being contemplated.

Whatever decisions are ultimately made this session concerning the funding levels for state services and the mechanisms and magnitude of property and income tax relief, perhaps the most important outcome of the current debate could be an understanding in Indiana of the urgent need to implement more systematic procedures for evaluating the long-term consequences for state finances of permanent spending and revenue decisions. Few families can afford to have a breadwinner take a lower-paying job without considering the consequences for the college fund or the retirement nest egg. A state government can't afford to think short-term either — not even a state sitting on a $2 billion surplus.

Appendix

Table 1
Effect of House Budget and Tax Package on Indiana's Financial Reserves

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Balance	$2,092.1	$1,827.9	$1,414.6	$1,068.7	$770.0	$458.5	$133.9	($204.5)
Plus: Forecast revenue	$9,301.6	$9,773.5	$10,238.6	$10,694.2	$11,170.1	$11,667.2	$12,186.4	$12,728.7
Plus: DSH Revenue	$57.5	$57.5	$57.5	$57.5	$57.5	$57.5	$57.5	$57.5
Less: Property Tax Deductions	($69.2)	($73.2)	($76.9)	($80.7)	($84.3)	($88.0)	($92.0)	($96.1)
Less: Income Tax Relief								
Long-Term Care Insurance	$0.0	($0.2)	($0.3)	($0.3)	($0.5)	($0.7)	($1.0)	($1.3)
Elderly	($8.7)	($8.9)	($9.1)	($9.2)	($9.4)	($9.6)	($9.7)	($9.9)
Renters	($10.6)	($11.0)	($11.1)	($11.4)	($11.7)	($11.9)	($12.2)	($12.4)
Dependents	($57.9)	($58.6)	($88.9)	($90.0)	($91.1)	($92.2)	($93.3)	($94.4)
EQUALS: TOTAL RESOURCES	$11,304.8	$11,507.0	$11,524.4	$11,628.8	$11,800.6	$11,980.8	$12,169.6	$12,367.6
General Fund Appropriations:								
General Government	$320.2	$323.8	$338.2	$353.3	$369.0	$385.4	$402.5	$420.5
Public Safety	$618.7	$629.2	$657.2	$686.4	$717.0	$748.9	$782.2	$817.0
Conservation and Environment	$79.3	$80.0	$83.6	$87.3	$91.2	$95.2	$99.5	$103.9
Economic Development	$74.3	$74.7	$78.0	$81.5	$85.1	$88.9	$92.9	$97.0
Transportation	$0.9	$0.9	$0.9	$1.0	$1.0	$1.1	$1.1	$1.2
Health and Human Services	$1,759.4	$1,827.4	$1,908.7	$1,993.7	$2,082.4	$2,175.0	$2,271.8	$2,372.9
Education	$3,890.4	$4,134.8	$4,318.8	$4,511.0	$4,711.7	$4,921.4	$5,140.4	$5,369.1
Construction	$235.5	$235.5	$246.0	$256.9	$268.4	$280.3	$292.8	$305.8
PTRF Appropriations:								
Tuition Support	$1,267.7	$1,383.2	$1,444.8	$1,509.0	$1,576.2	$1,646.3	$1,719.6	$1,796.1
PTR and Homestead Credits (current law)	$1,015.9	$1,069.6	$1,059.5	$1,042.6	$1,089.0	$1,137.5	$1,188.1	$1,241.0
Misc: Motor Vehicle Excise Distribution	$18.9	$2.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Major Initiatives and One-Time Spending								
Teacher Pension Reserve Reimbursement	$32.5	$32.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Cost of County Welfare Takeover	$106.8	$225.5	$246.1	$261.0	$272.6	$284.7	$297.4	$310.7
Textbook Credits	$40.9	$41.0	$41.2	$41.4	$42.4	$43.4	$44.5	$45.6
Inventory Credits	$15.5	$31.9	$32.7	$33.7	$36.1	$38.6	$41.3	$44.2
EQUALS: TOTAL REQUIREMENTS	$9,476.9	$10,092.4	$10,455.7	$10,858.8	$11,342.1	$11,846.9	$12,374.2	$12,925.0
YEAR-END BALANCE	$1,827.9	$1,414.6	$1,068.7	$770.0	$458.5	$133.9	($204.5)	($557.4)
As % of Revenues	19.8%	14.6%	10.6%	7.3%	4.2%	1.2%	-1.7%	-4.4%

Table 2
Effect of Senate Budget and Tax Package on Indiana's Financial Reserves

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Balance	$2,092.1	$1,725.4	$1,355.1	$1,258.7	$1,104.8	$887.2	$603.9	$248.7
Plus: Forecast revenue	$9,301.6	$9,773.5	$10,238.6	$10,694.2	$11,170.1	$11,667.2	$12,186.4	$12,728.7
Plus: DSH Revenue	$57.5	$57.5	$57.5	$57.5	$57.5	$57.5	$57.5	$57.5
Plus: Termination of Low-Income Deduction	$14.0	$14.0	$14.6	$15.2	$15.8	$16.5	$17.2	$17.9
Less: Income Tax Relief								
Elderly	($8.7)	($8.9)	($9.1)	($9.2)	($9.4)	($9.6)	($9.7)	($9.9)
Dependents	($57.9)	($58.6)	($88.9)	($90.0)	($91.1)	($92.2)	($93.3)	($94.4)
Renters	($10.6)	($11.0)	($11.1)	($11.4)	($11.7)	($11.9)	($12.2)	($12.4)
Long-Term Care Insurance	$0.0	($0.2)	($0.3)	($0.3)	($0.5)	($0.7)	($1.0)	($1.3)
Sole Proprietor Health Insurance	($2.8)	($2.9)	($3.0)	($3.1)	($3.2)	($3.3)	($3.5)	($3.6)
Less: Business Tax Relief								
Inventory Tax Credits	($41.6)	($87.7)	($138.4)	($194.4)	($255.9)	($323.5)	($397.5)	($478.6)
Property Tax Add-Back	($42.1)	($44.3)	($46.6)	($49.1)	($51.6)	($54.3)	($57.2)	($60.2)
EQUALS: TOTAL RESOURCES	$11,301.5	$11,356.8	$11,368.4	$11,668.2	$11,924.9	$12,132.9	$12,290.7	$12,392.4
General Fund Appropriations:								
General Government*	$316.1	$319.9	$334.1	$349.0	$364.5	$380.8	$397.7	$415.4
Public Safety	$614.9	$616.9	$644.4	$673.0	$703.0	$734.3	$766.9	$801.1
Conservation and Environment	$86.2	$86.9	$90.8	$94.8	$99.0	$103.4	$108.0	$112.8
Economic Development	$68.5	$68.8	$71.9	$75.1	$78.4	$81.9	$85.5	$89.3
Transportation	$1.1	$1.2	$1.3	$1.3	$1.4	$1.4	$1.5	$1.6
Health and Human Services	$1,740.4	$1,799.5	$1,879.6	$1,958.5	$2,045.7	$2,136.7	$2,231.8	$2,331.1
Education**	$3,877.0	$4,108.6	$4,291.4	$4,482.4	$4,681.9	$4,890.2	$5,107.8	$5,335.1
Construction	$246.9	$246.9	$257.9	$269.4	$281.3	$293.9	$306.9	$320.6
PTRF Appropriations:								
Tuition Support	$1,257.7	$1,348.5	$1,408.5	$1,471.2	$1,536.7	$1,605.0	$1,676.5	$1,751.1
PTR and Homestead Credits (current law)	$1,015.9	$1,069.6	$1,059.5	$1,042.6	$1,089.0	$1,137.5	$1,188.1	$1,241.0
Misc: Motor Vehicle Excise Distribution	$18.9	$2.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Major Initiatives and One-Time Spending:								
Extend Additional 6% Homestead Credits	$0.0	$0.0	$70.4	$146.1	$156.9	$163.9	$171.2	$178.8
Local Roads and Streets	$100.0	$100.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Teacher and Police/Fire Pensions	$232.5	$232.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
EQUALS: TOTAL REQUIREMENTS	$9,576.1	$10,001.7	$10,109.7	$10,563.4	$11,037.7	$11,529.0	$12,042.0	$12,577.9
YEAR-END BALANCE	$1,725.4	$1,355.1	$1,258.7	$1,104.8	$887.2	$603.9	$248.7	($185.5)
As % of Revenues	18.7%	13.9%	12.4%	10.4%	8.0%	5.2%	2.1%	-1.5%

*Less one-time increase in spending for Teacher and Police/Fire Pensions under "Major Initiatives".

**Less one-time increase in Teacher Pensions listed under "Major Initiatives".