

## How the Indiana Budget Summary is Compiled

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Indiana makes available much information about its state budget, but it is scattered in several documents. To provide an overview of state finances, it is useful to pull the figures together on a single page. This requires that decisions be made about how to treat balances, revenues, appropriations, and budget adjustments—all from different documents—in a way that remains consistent over the decades.

The budget summaries for fiscal years 2008 and 2009 are particularly challenging to compile, because of the enormous changes made in the budget by the 2008 property tax reform. This paper offers the details for how the summary was compiled. The details for these two years also may give readers a sense for how the summaries were compiled in earlier years.

In July each year Indiana's State Budget Agency releases the closeout documents, offering information about Indiana's state budget updated through the recently ended fiscal year. In particular, the documents show the state's combined balances—the money in the bank—for the state's operating funds. These figures provide the main check on the budget summary. The budget summary is right only when the summary balances are the same as those in the closeout statement.

Table 1 shows the budget summaries for 2008 and 2009.

### 2008

*Start of Year Balances.* These are the end of year balances from the previous fiscal year, available in the Budget Agency's closeout statement for fiscal 2007. The Medicaid Reserve, Tuition Reserve and Rainy Day Fund balances from the end of fiscal 2007 summed to 748.5 million. The closeout statement for 2008 has "Working Balance at July 1" of 537.2 million. This is the general fund balance. The total is 1,285.7 million, shown in the budget summary. All summary dollar figures are rounded to the nearest million.

*Revenues.* The 2008 closeout statement has actual revenues collected during fiscal 2008 for the major taxes. The figures for the individual income tax, 4,837.5 million; the corporate income tax, 909.5 million; and gaming, 582.9 million; are taken directly from the closeout statement.

Sales taxes are shown in the closeout statement at the 6% rate in effect for the first nine months of the fiscal year. The listed figure is 5,534.4 million. HEA 1001 increased the sales tax by one point as of April 1, so for three months in fiscal 2008 the sales tax was 7%. The closeout document provides a table showing HEA 1001-2008 Sources and Uses. This table shows added sales tax collections at 151.6 million. The sum of these two figures is 5,686.0, shown in the summary.

All Other Revenues include taxes on tobacco, alcohol, inheritance, and insurance, plus interest earnings and a miscellaneous category. The closeout statement sums these revenues at 1,066.4 million. However, each year the closeout statement combined balance table shows revenues in addition to the "actual forecasted revenue." In 2008 these are Disproportionate Share Hospital (DSH) at 65.2 million, Quality Assessment Fee at 19.7 million, and Miscellaneous Revenue at 35.9 million. These three are added to all other revenue in the summary, which yields 1,187.2 million.

Table 1

**Indiana Budget Summary, 2008-09**

	<b>Actual 2008</b>	<b>Budget 2009</b>
<b>Start of Year Balances</b>	1,286	1,413
<b>Revenues</b>		
Sales Tax	5,686	6,330
Individual Income Tax	4,838	4,726
Corporate Income Tax	910	822
Gaming	583	576
All Other	1,187	1,143
<b>Total</b>	<b>13,203</b>	<b>13,598</b>
<b>Appropriations</b>		
K-12 Education	4,830	6,169
Higher Education	1,654	1,744
Medicaid	1,587	1,664
Property Tax Relief	2,308	1,802
Health & Social Services	943	1,237
Public Safety	721	801
All Other	943	1,086
<b>Total</b>	<b>12,986</b>	<b>14,502</b>
<b>Current Year Surplus/Deficit</b>	<b>217</b>	<b>(904)</b>
Transfers from (to) Other Funds	19	13
Reversions	133	91
Payment Delays (Reversals)	(241)	(31)
<b>Total Adjustments</b>	<b>(89)</b>	<b>73</b>
<b>End of Year Balances</b>		
General Fund	593	(252)
Tuition Reserve	400	400
Medicaid Reserve	58	58
Rainy Day Fund	363	376
<b>Total</b>	<b>1,413</b>	<b>582</b>
<b>Total Balances % of Revenue</b>	<b>10.7%</b>	<b>4.3%</b>
Payment Delay Liability	31	-

Total Revenue in the summary is 13,203. This differs from the closeout figure of 13,233.0, because the Transfer from Medicaid Reserve of 30.0 million is not counted. This is a transfer of balances between two funds that are included in the combined balance total, so they cancel out (see Transfers to (from) Other Funds below).

*Appropriations.* The closeout statements lists Budgeted Appropriations (excluding HEA 1001) at 13,001.9 million. This is the starting point for the summary. This figure matches the total for appropriations by function list on page 11 of the List of Appropriations document published in 2007, after the 2008-09 budget was passed. The appropriation breakdown from that document is used for the budget summary.

K-12 Education includes the following categories from the functional budget: Education Administration, Tuition Support-general Fund, Tuition Support-PTR Funds, Social Security-Teachers, Teachers Retirement, Other Local Schools and Other Education. These add up to 4,830.4 million, which is the figure in the summary.

Higher Education is a single category in the functional budget, listed at 1,685.5 million. However, the 2008-09 appropriations included scheduled repayment of past payment delays. This was a departure from previous years, when the repayments were not included in appropriations. The summary budget is assembled each year, and in the past payment delays and repayments were listed as a separate category. For consistency, the repayments must be subtracted from 2008 appropriations.

In the 2008 budget, 145.1 million was budgeted for repayments in 2008, according to footnote 2 in the 2008 closeout statement. In section 182 of the budget bill itself, 62.1 million is appropriated to “eliminate the accrued payment delay balances to state educational institutions,” that is, to reverse the payment delays to higher education. Half was to be distributed in fiscal 2008 and half in 2009.

In order to count the payment delays as a separate category, then, 31.1 million is subtracted from the higher education appropriation, leaving the 1,654.4 figure in the summary.

Medicaid has a single line in the functional budget. The figure there, 1,586.6 million, is used in the summary.

Property tax relief starts with one line in the functional budget, PTR and Homestead Credits, 2,310.7 million. The closeout statement lists PTRC and Homestead Credit Adjustments at -38.0 million, and HEA 1001-2008 Expenditures at 149.7 million. Both of these figures are added to property tax relief in the summary.

In addition, the Legislative Services Agency fiscal note on the 2008-09 budget bill describes a reversal of additional payment delays in the property tax replacement credit distribution. An amount is not calculated, but it is estimated here as the total reversal, 145.1 million, less the amount in the higher education appropriation, 31.1 million, which is 114.0 million. This amount is included in the PTR and Homestead Credit appropriation, but in the summary it is listed separately, so it must be subtracted from the property tax relief appropriation.

The result is 2,308.4 million, which is listed in the summary for property tax relief.

The closeout balance statement has another entry relating to payment delays, called Accelerated Reversal of Payment Delays, at 95.7 million. This is also not included in appropriations in the budget summary, so that it can be counted in a separate category.

Health and Social Services is the sum of several categories in the functional budget: Mental Health, Public Health, Family and Children, and Social Services and Veterans. The sum from the function budget is 942.8 million, which is used in the budget summary.

Likewise, Public Safety is the sum of Corrections and Other Public Safety. The total is 720.5 million, which is the figure in the summary.

All Other appropriations starts with the sum of the remaining functional budget categories: General Government, Conservation and Environment, Economic Development, Transportation, Distributions-General Fund, Post-Budget Adjustments, and Total Construction. The sum is 925.4 million. Figures from the closeout balance statement also are added to All Other. These are LOIT Distribution, 11.8 million; Judgments and Settlements, 6.6 million, and Adjustments to Appropriations, -0.6 million. The result is 943.2, the amount in the summary.

As on the revenue side, some of the figures listed in the closeout statement under Other Expenditures and Transfers are not included as appropriations in the summary. These are Transfer to State Tuition Reserve, 33.4 million, and Transfer to State Tuition Reserve (per HEA 1001 – 2008), 50.0 million. Again, these are transfers from one part of combined balances to another, and so cancel out in the summary.

Total Appropriations are 12,986.3 in the budget summary. The closeout balance statement lists Total Appropriations and Expenditures as 13,310.5 million. The differences are the removal of the budgeted payment delays of 145.1 million, the accelerated reversal of payment delays of 95.7 million, and the state tuition reserve transfers of 83.4 million. The budget summary figure is the closeout figure less these amounts.

*Current Year Surplus/Deficit.* This figure, 216.8 million, is simply the difference between the summary's 2008 revenues and 2008 appropriations. It is one way to measure the current year budget balance, though it is not the way that this balance was measured in the Budget Agency's presentation in July. Nonetheless, this method shows positive balances in 2006, 2007 and 2008, which is consistent with the Budget Agency's results.

*Transfers from (to) Other Funds.* The combined balances are the sum of the General Fund, the Medicaid Reserve Fund, the Tuition Reserve Fund, and the Rainy Day Fund. Transfers between these funds set up offsetting entries in the combined funds. The 83.4 million transfer to the Tuition Reserve fund, for example, implies an 83.4 million transfer out of the General Fund.

The Rainy Day Fund, however, earns interest that is not included in All Other revenues. It also receives funds from Repayment of Loans. The closeout statement includes an accounting of the Rainy Day Fund. The amount that interest and repayments added to the fund in 2008 was 18.8 million. This figure is listed in the summary under Transfers. It is a positive number, so it is counted as a transfer into the combined balance.

In some years this transfer line includes other amounts, for example transfers to the general fund from the Build Indiana Fund. Such transfers did not take place in 2008.

*Reversions.* Reversions are appropriations that are authorized but not spent. The money reverts to the general fund. Every year some authorized appropriations are not spent, but in times of revenue shortfalls, Governors sometimes order state agencies to spend less than they are authorized to spend. Then reversions increase. This occurred in 2008, so the closeout balance statement lists reversions as a relatively large amount, -132.8 million.

Reversions are listed as a positive number in the summary, because they add to the balances remaining in the general fund. They are subtracted from Appropriations in the closeout statement, which amounts to the same thing.

*Payment Delays (Reversals).* When revenues are tight, the state sometimes delays payments to local governments, school corporations and universities. This occurred in fiscal 2002 and 2003. Since then, the state has worked to reverse these delays, moving payments forward to an earlier fiscal year. The 2008-09 budget appropriated 145.1 million for this purpose in 2008. To be consistent with past practice, this amount is listed separately, and so was subtracted from the higher education and property tax relief appropriations.

In 2008 the state accelerated the reversal of past payment delays. The closeout statement lists 95.7 million under Accelerated Reversal of Payment Delays. The sum of this figure and the 145.1 million budgeted figure is 240.8 million, which is the amount in the summary.

Since this is an added expenditure, which subtracts from combined balances, it is listed as a negative adjustment. In the closeout balance statement it is listed as a positive expenditure.

*Total Adjustments.* Total Adjustments are the sum of transfers, reversions and payments delays or reversals. In 2008 this sum was -89.3 million. It is subtracted from total balances—the cost of the payment delay reversals exceeded the reversions and fund transfers in.

*End of Year Balances.* The combined balance of 1,413.2 million is the sum of the Start of Year Balances, 1,285.7 million, Current Year Surplus/Deficit, 216.8 million, and Total Adjustments, -89.3 million. This figure matches the Total Combined Balances for fiscal 2008 shown in the closeout balance statement. The non-general fund balances are taken as given in the closeout statement, and the general fund balance is the difference between the total and these other balances. The general fund balance in the summary, 593 million, also matches the closeout figure.

Total balances as a percent of revenue is simply the combined balances of 1,413 million as a percentage of total revenues, 13,203 million. The figure is 10.7%. This is very close to the Balance as a Percent of Operating Revenue of 10.63%, listed in the balance history table in the closeout statement. The closeout statements use balances net of the payment delay liability, divided by actual forecasted revenue plus DSH. The summary uses balances gross of the liability (keeping with past practice), and divides by revenues including DSH, the quality assessment fee, miscellaneous revenue, and HEA 1001 revenues.

The payment delay liability shows how much of the 2002-03 payment delay remains to be reversed. The figure, 31.1 million, comes directly from the closeout statement.

## **2009**

Fiscal 2009 is not yet complete, so its budget summary is a combination of projected revenues, budgeted appropriations, and start of year balances.

*Start of Year Balances.* The combined End of Year Balances for 2008 are the Start of Year Balances for 2009. This figure, 1,413.1 million, matches the combined balances for the end of fiscal 2008 on the closeout statement.

*Revenues.* The revenue figures start with the December 11, 2008 revenue forecast revision. These are the latest projections for fiscal 2009. The forecast document provides projections for the sales tax at 6% and 7%. The 7% sales tax is projected at 6329.9 million, which is the figure used in the budget summary. The summary figures for the individual income, corporate income and gaming revenues are also taken directly from the forecast.

All Other Revenues include taxes on tobacco, alcohol, inheritance, and insurance, plus interest earnings and a miscellaneous category. The closeout document sums these revenues at 1,061.8 million. For 2009 the closeout statement projects revenues from Disproportionate Share Hospital (DSH) at 67.0 million, Quality Assessment Fee at 18.0 million, and Miscellaneous Revenue at 15.0 million. In addition, there are two categories of Enrolled Acts, 2007 and 2008 (excluding HEA 1001-2008, the property tax reform), what reduce revenue by 18.4 million. These amounts are added to All Other revenue in the summary, which yields 1,143.4 million.

Total Revenue in the summary is 13,597.9. It differs from the December 2008 revenue projection by the amounts in the July 2008 closeout document which are included in All Other Revenues.

*Appropriations.* The closeout statement lists Budgeted Appropriations (excluding HEA 1001, the 2008 property tax reform) at 13,427.1 million. This figure matches the total for operating and construction for the General and Property Tax Replacement Funds functional budget published in 2007, for the 2009 budget. The appropriation breakdown from that document is used for the budget summary.

K-12 Education includes Education Administration, Tuition Support-general Fund, Tuition Support-PTR Funds, Social Security-Teachers, Teachers Retirement, Other Local Schools and Other Education. These add up to 5,047.8 million.

HEA 1001-2008 has the state take over several education property tax levies, which will increase state education appropriations beyond what was originally budgeted. The HEA 1001-2008 Sources and Uses table in the closeout statement provide spending estimates. Added are the Tuition Support Levy, the Pre-School Special Education Levy, the School Circuit Breaker Replacement Credits, and the increased Tuition Support for New Facilities Appeals. These sum to 1,121.4 million. This figure plus the original budget figure sum to the budget summary figure, 6,169.2 million.

Higher Education is a single category in the functional budget, listed at 1,775.2 million. Section 182 of the budget bill included 62.1 million to reverse past payment delays to higher education. Half was to be distributed in fiscal 2008 and half in 2009. The budget summary lists reversal of payment delays as a separate category, so this appropriation must be subtracted from the higher education appropriation. In order to count the payment delays in its own category, then, 31.1 million is subtracted from the higher education appropriation, leaving the 1,744.1 figure in the budget summary.

Medicaid has a single line in the functional budget. The figure there, 1,663.7, is used in the summary.

Property tax relief starts with one line in the functional budget, PTR and Homestead Credits, 2,302.3 million. The closeout statement lists PTRC and Homestead Credit Adjustments at 78.7 million, which are added in. The closeout statement also lists Accelerated Reversal of Payment Delays at -105.5 million, a negative number. This part of the appropriation in the budget bill for reversal of property tax relief payment delays is not needed in 2009 because of the accelerated payment in 2008. That appropriation was 136.6 million, according to closeout statement footnote 2. Of that amount, 31.1 million was to reverse higher education payment delays, leaving 105.5 million in property tax relief. This amount is subtracted from property tax relief in the budget summary.

HEA 1001-2008 has a major impact on property tax relief. The higher sales tax will fund added homestead credits in 2008 and 2009. The portion in fiscal 2009 is 540.3 million, according to the HEA 1001-2008 Sources and Uses table in the closeout statement. This amount is added to property tax relief in the budget summary.

Starting in calendar 2009, the state will no longer pay property tax replacement credits or homestead credits to local governments. This covers the second half of fiscal 2009. The HEA 1001-2008 Sources and Uses table shows Revoke PTRC and HSC as a Source positive number, at 1,014.3. In the budget summary it is subtracted from property tax relief. The result is 1,801.5 million, which is listed in the summary for property tax relief.

Health and Social Services starts with the sum of several categories in the functional budget: Mental Health, Public Health, Family and Children, and Social Services and Veterans. The sum from the function budget is 956.2 million. HEA 1001-2008 increases this amount, due to the state takeovers of county welfare levies. These takeovers are listed in the HEA 1001-2008 Sources and Uses table, in the lines labeled Family and Children Levy, Child Psych Levy, the MAW Levy, CSHCN Levy, HCI Levy, and Marion County Health and Hospital Corp. The sum is 280.8 million, so the health and social services line in the budget summary is 1,237.0.

Public Safety starts with the sum of Corrections and Other Public Safety in the functional budget, 740.9 million. The HEA 1001-2008 Sources and Uses table shows added appropriations for Public Safety Pension and Juvenile Incarceration Costs totaling 60.0 million. The sum of these two, 800.9 million, is the amount in the budget summary.

All Other appropriations starts with the sum of the remaining functional budget categories: General Government, Conservation and Environment, Economic Development, Transportation, Distributions-General Fund, Post-Budget Adjustments, and Total Construction. The sum is 941.1 million. Figures from the closeout statement also are added to All Other. These are Judgments and Settlements, 8.0 million, and Enrolled Acts-2008 (excluding HEA 1001), 12.8 million.

The HEA 1001-2008 Sources and Uses table has some additional all other appropriations: State Fair Levy, 1.3 million; State Forestry Levy, 2.5 million; and DLGF Database Management Levy, 0.1 million. These are added.

The closeout statement balances summary shows HEA 1001-2008 Expenditures at 1,122.4 million. The HEA 1001 Sources and Uses table shows total uses at 2,016.6 million. Subtract from this latter figure the Revoke PTRC and HSC amount of 1,014.3 million (counted as added revenue in the Sources and Uses table). This leaves 1002.3 million. An additional 120.1 million is unaccounted for in the Sources and Uses table. This amount is added to All Other in the budget summary.

The result is 1,085.9 million, the amount shown in the summary.

Total Appropriations are 14,502.3 million in the summary. The closeout document lists Total Appropriations and Expenditures as 14,543.5 million, a difference of 41.3 million. The differences are the removal of the 31.1 million in higher education budgeted payment delays, and counting the 10.2 million in renters deduction income tax losses as lower revenue instead of added spending.

*Current Year Surplus/Deficit.* This figure, -904.4 million, is the difference between the summary's 2009 revenues and 2009 appropriations. It is one way to measure the current year budget balance. This large negative number results from the downward revision of revenues in the December 2009 forecast. When

the budget was written in 2007, 2009 showed a current year surplus. The large revenue shortfall resulting from the 2008-09 recession changed this to a deficit. As of January 2009, it appears that the state's string of three straight years of balanced budgets will end in 2009, at least by this measure.

*Transfers from (to) Other Funds.* The combined balances are the sum of the General Fund, the Medicaid Reserve Fund, the Tuition Reserve Fund, and the Rainy Day Fund. There are no offsetting transfers among these funds in the closeout statement for 2009. The Rainy Day Fund is expected to earn 19.5 million in interest, receive 2.1 million in repayment of loans, and make 8.8 million in new loans. Adding the first two and subtracting the third gives the 12.8 million shown as transfers in the budget summary.

*Reversions.* Reversions are appropriations that are authorized but not spent. The July 2008 closeout lists 2009 reversions at 91.0 million. This enters as a positive number in the budget summary, since money not spent reverts to the general fund, so it is an addition to combined balances.

Reversions are likely to be much, much larger in 2009 than 91.0 million. In his state of the state message, Governor Daniels pledged not to raise taxes, not to use fund transfers or payment delays, and not to allow balances to fall. The only remaining adjustment is reversions. To fulfill these pledges, reversions would have to exceed 900 million for 2009.

*Payment Delays (Reversals).* The state expects to complete the reversal of the 2002-03 payment delays in 2009, with a 31.1 million repayment of higher education appropriations. This is the difference between the amount appropriated in the budget for payment reversals, 136.6 million (footnote 2 in the closeout statement), and the Accelerated Reversal of Payment Delays amount in the closeout balance statement, -105.5 million. The 31.1 million enters the budget summary as a negative number, since it is an added expenditure during the fiscal year, and so subtracts from combined balances.

*Total Adjustments.* Total Adjustments are the sum of transfers, reversions and payment delays or reversals. In 2009 this sum was 72.7 million. It is added from total balances. Again, this figure is likely to be much larger at the close of fiscal 2009, because of larger reversions.

*End of Year Balances.* The combined balance of 581.6 million is the sum of the Start of Year Balances, 1,413.3 million, Current Year Surplus/Deficit, -904.4 million, and Total Adjustments, 72.7 million. It is also the sum of the general fund, rainy day fund, tuition reserve and Medicaid reserve balances.

Note that the general fund balance is negative. This is not allowed. Were total balances to drop to 581.6 million, the general fund balance would likely fall to zero, then some other balance—such as the rainy day fund balance—would be reduced. If the general fund is set at zero, the rainy day fund would drop to 124.0 million.

This is not done because it presumes a policy choice that may or may not be made. The negative figure for the general fund helps show the difficulties that reduced revenues have caused for the state budget.

If reversions are larger, the budget balance will be larger as well. This is likely what will happen by the close of fiscal 2009.

Total balances as a percent of revenue is simply the combined balances of 581.6 million as a percentage of total revenues, 13,597.9 million. The figure is 4.3%. This is less than the rule-of-thumb minimum of 5% suggested by many budget authorities. Once again, if reversions are larger this percentage will be larger as well.

The payment delay liability shows how much of the 2002-03 payment delay remains to be reversed. By the end of fiscal 2009 the liability is expected to be zero.

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*Note: the above two documents are "closeout statements."*

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