Indiana Fiscal Policy Institute

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For Immediate Release
July 19, 2004

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Indiana's Fiscal Condition: Hard Questions, Tougher Decisions

The Indiana Fiscal Policy Institute (IFPI) today released its latest report, *Indiana's Fiscal Condition: Hard Questions, Tougher Decisions*. Although the State closed fiscal year 2004 with better results than expected, it's fiscal and budgetary condition remains untenable. As the next biennial budget development and debate begins, hard questions will need to be answered and tougher decisions will need to be made, according to the IFPI.

The report examines Indiana's fiscal condition as reported by the Governor and the State Budget Agency's 2004 fiscal year-end closeout, the current state of affairs, and looks ahead to the issues facing the state as it crafts the next budget. Key findings include:

⇒ The state finished the fiscal year with more cash in reserve than forecasted, which was mainly the result of higher than expected revenue collections and lower than expected expenditures.

⇒ The State continues to face a structural deficit (expenditures greater than available revenue) of $824.2 million, amounting to over 7% of the existing revenue stream.

⇒ The State still owes local governments, K-12 schools, and higher education institutions $717.0 million from a delayed payment that helped balance the books ending fiscal year 2002.

⇒ The State's core priorities, including education, health care, and public safety will compete with the very real pressure to eliminate the structural deficit, reverse the payment delays and rebuild the State's reserves.

⇒ The questions that need to be answered are:

1. Should the payment delays to local governments, schools, and higher education be reversed? It will require at least $717.0 million to reverse all three. Given that this tool has

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been used in each of the last three recessions, it should be a high priority to make it available for future use. In other words, if not now, when?

2. Should the use of the Pension Stabilization Fund to subsidize the General Fund teacher's pension obligations stop?

3. Should State and higher education capital asset maintenance, repair, and rehabilitation funding be returned to levels consistent with complete maintenance of state capital assets?

4. Can funding increases for education, Medicaid, and public safety continue?

5. Should the State begin rebuilding its reserves in the soon to be depleted Rainy Day Fund?

6. Should taxes be increased to maintain funding levels consistent with the core priorities expressed by the General Assembly in recent budgets?

"Looking at the next budget, the State finds itself at a crossroads of competing interests with no easy way out," says Steve Johnson, President of the IFPI. "It can continue to support the core priorities, such as education, health care, property tax relief and public safety, as it has during the last several budgets, or it can eliminate the structural deficit, reverse payments delays, and begin rebuilding reserves. It cannot do it all without a very significant tax increase. Therein lays the dilemma for Indiana's policymakers."

"I believe that it helps to improve the general public's understanding of the budget and the fiscal circumstances of the state for the Indiana Fiscal Policy Institute to provide an analysis. Your article should help put into perspective the challenges facing the General Assembly and the Governor in the coming legislative session," says Marilyn Schultz, Indiana State Budget Director.

Upcoming publications by the IFPI will look to the past for help in answering the above questions, beginning with a comparison of how the state fared during and recovering from the last three recessions.

This report is available on-line at http://www.indianafiscal.org/pubs.html in PDF format and can be obtained by contacting the Indiana Fiscal Policy Institute, One North Pennsylvania Street, Suite 1000, Indianapolis, IN 46204, Telephone 317-237-2890, FAX 317-237-2893, or email us at IFPI@indianafiscal.org.

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