Indiana Fiscal Policy Institute

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NEWS RELEASE

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The House of Representatives Budget, Chapter 2: Structural Balance – Yes Fiscal Integrity - ???

The Indiana Fiscal Policy Institute (IFPI) today released the second in a series of Budget Briefs that will analyze and report on the progress of the Indiana budget on its road to enactment in April.

Last month, we examined Governor Daniels' budget proposal from the perspective of several important budget and fiscal issues we first raised last July[1]. Those issues included the State's structural budget deficit, the depletion of cash reserves, the delay of payments to local schools, colleges and universities, and governments, and the improper use of the pension stabilization fund, among others. This Brief now brings the House of Representatives budget (as passed by the House on February 21, 2005) under that same light.

The most troublesome aspect of the State's circumstances is that it has been more than three years since the end of the last recession and the State is not prepared for the next one which, history indicates, could arrive before the next biennium ends.

A side by side comparison of Governor Daniels' and the House-passed budget proposals finds:

- **Neither budget attempts to address the over $700 million in payment delays.**
- **Both stop the raiding of the Pension Stabilization Fund to subsidize the General Fund's obligations to the Teachers' Retirement Fund.**

[1] To read or reference these publications, please visit the Indiana Fiscal Policy Institute's website at http://www.indianafiscal.org. "Hard Questions, Tougher Decisions" is located at http://www.indianafiscal.org/docs/Bulletin2004-1.pdf and "Governor Daniels' First Budget: Defeating the Deficit - Chapter 1 is at http://www.indianafiscal.org/BudgetBrief2005-01.pdf .

- **There are only marginal differences in spending levels for the significant spending categories.**
  - **State spending is only slightly higher in K-12 education in the House-passed budget, as it relies on local property taxes to fund a small increase.**
  - **The House-passed budget intends to restrict the growth in Medicaid spending to 3% per year. Neither the 3% growth rate proposed by the House or the 5% growth rate proposed by the Governor are realistic expectations, given recent history and the current Medicaid forecast.**
  - **State expenditures for property tax relief are higher in the House-passed budget, but are used primarily to fund K-12 education.**
- **While the Governor's budget does not begin rebuilding the Rainy Day Fund, the House-passed budget taps further into it to plug a $65.0 million budget gap in fiscal year 2006. It repays that $65.0 million in fiscal year 2007, but does not add to it.**
- **Combined balances at the end of the biennium are lower in the House-passed budget, with only 5.8%, or $720.7 million, in reserve.**
- **Unlike the Governor's budget, the House-passed budget does not raise taxes.**

According to Steve Johnson, President of the Institute, "As with the Governor's budget proposal, the House-passed budget eliminates the structural deficit by the end of the biennium. Both recognize the importance of and sound fiscal policy behind the Pension Stabilization Fund, but many other questions affecting the State's long term fiscal integrity remain unanswered."

Neither budget proposal contemplates reversing the payment delays. Neither begins rebuilding the Rainy Day Fund and the House-passed budget actually transfers money out of it. Finally, unrealistic expectations, particularly in Medicaid appropriations, only extend the precarious fiscal uncertainty Indiana has experienced since the last recession ended over three years ago. If the current expansion is an "average" one, the next recession will arrive before the end of the next biennium – just over two years away.

As Mr. Johnson said, many more questions regarding the fiscal health of Indiana need to be answered. Chapter 3 will be written in the State Senate, and the IFPI will be looking for more answers.

This report is available on-line at http://www.indianafiscal.org/pubs.html or 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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