



Indiana Fiscal Policy Institute

NEWS RELEASE

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The Senate Passed Budget

Chapter 3:

More Answers, Still More Questions

The Indiana Fiscal Policy Institute today released the third in a series of Budget Briefs that follows the progress the Governor and the Indiana General Assembly are making in enacting the next two year State budget.

The Senate passed budget has provided more answers to the questions faced by Indiana's budget writers, yet more questions remain unanswered and some new ones have come to the forefront.

Beyond interesting new ideas for maintaining a minimal level of funding for K-12 education and the reallocation of resources in other areas, such as higher education, none of the three budget proposals have shown much imagination in terms of preparing the state for the next economic downturn or revitalizing our lagging economy.

There has been no discussion of a general tax increase; only "one-year, one-time" increases or the taxing of those who engage in "sinful" behavior of cigarette smoking has been proposed. More leadership is needed in terms of securing Indiana's fiscal integrity and providing a climate for economic growth in the longer term.

Summarizing the findings of the report, Steve Johnson, President of the Institute, said, "As we have mentioned several times, the clock continues ticking toward the inevitable next economic downturn, which history tells us could be sooner rather than later. While no one ever likes a tax increase, the Governor and the General Assembly have yet to propose a budget that restores Indiana's fiscal health and integrity."

In sum, there is very little overall difference between the Senate passed budget and either of its predecessors. The Senate passed budget differs by less than \$100 million from either previous budget, a difference of only 1/3 of 1% (0.0033). However, some differences emerge, including:

1. The Senate passed budget stops the use of the Pension Stabilization Fund to subsidize the General Fund. It also, like the House passed budget, stops the transfer of members from the old, pre-1996

account of the TRF to the new 1996 account. In addition, it dedicates \$683 million from the Pension Stabilization Fund to eliminate the unfunded liability in the new 1996 account in TRF.

2. The Senate passed budget proposes to reverse the payment delays in 2007 by \$323.4 million and it allows the Budget Agency to transfer \$100 million from the General Fund to the Rainy Day Fund at the end of fiscal year 2007.
3. While funding for K-12 education is only marginally higher than the House passed budget, the Senate passed budget creates a new local option income tax that can be used instead of the local property tax to fund the school formula. This change, and a school formula that relies more on local taxes, would mean that property tax levies, income taxes, or a combination of both paid by local taxpayers would have to increase by 11.8% in calendar year 2006 and by 10.7% in calendar year 2007 in order to fully fund the Senate passed school formula.
4. The Senate passed budget increases the cigarette tax by 19 cents, which generates \$92 million and \$93 million of additional revenue in fiscal years 2006 and 2007, respectively.
5. The Senate passed budget redirects over \$76.2 million per year of gaming tax distributions currently received by the local units of government to the State Property Tax Replacement Fund.
6. The State's obligation for local property tax relief increased from \$568.2 million, or 10.3% of the budget, in 1990 to \$2.05 billion, or 17.8% of the budget, by 2005. The Senate passed budget, in contrast, caps property tax relief at that \$2.03 billion level which, in 2007, reduces that spending category to 16.2% of the budget.

The last point illustrates a clear policy change emerging as the General Assembly reaches the end of the Session. The capping of property tax relief represents a monumental shift in state policy regarding local units of government, schools, and property taxpayers by reversing a 15 year trend of increasing subsidization of property taxpayers and local governments.

After looking for answers in three budget proposals, we find them lacking. The Senate passed budget eliminates the structural deficit and proposes replenishing reserves and reversing delayed payments to local governments and schools, but it still needs to provide better answers for questions of adequate funding for Medicaid or making investments in education and economic development needed to revitalize Indiana's economic future.

This report is available through the following hyperlink: <http://www.indianafiscal.org/BudgetBrief2005-03.pdf> 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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