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****News Release****

**Mid-Biennial Update
Message to Policymakers: Do No Harm**

Today, the Indiana Fiscal Policy Institute (IFPI) released its latest Fiscal Policy Budget Brief: “Mid-Biennial Update – ‘Message to Policymakers: Do No Harm.’” The Brief assesses the State’s fiscal condition at the legislative half-way point in the 2006-2007 biennial budget and recommends that policymakers do little – or nothing – that would increase the risk to the State’s fiscal outlook.

According to the Brief, the December 14th, 2005 revenue forecast update reflected what the state has seen in recent months: a significant slowing of revenue collections. In spite of a clearly successful tax amnesty program, the risks inherent in the current budget remain.

Steve Johnson, President and CEO of the Institute, says “We are uneasy with the stagnating growth of Indiana’s tax revenue collections – particularly at this point on Indiana’s road to budgetary balance. ‘Do no harm’ means doing nothing that would jeopardize Indiana’s path to achieving budgetary structural balance at the end of the biennium and beyond.”

For the first six months of fiscal year 2006, revenue growth appears to have slowed considerably. The revenue forecast of 2.4% growth in 2006 reflects that slowing and the IFPI sees it as a sign for caution, as that level of growth is inconsistent with a growing economy. The IFPI compared it with the pattern of the 1990s and, while no two economic cycles are the same, the last time revenue growth fell below 3.0% (in 2000), the next year found Indiana, and the nation, in a recession.

According to IFPI analysis, structural budgetary balance is still reached in 2007. The structural surplus (current, ongoing revenue less current, ongoing expenditures) is about \$190 million in 2007. In addition, the “bottom line” at the end of the biennium, at \$973.6 million (7.8% of operating revenue), is marginally improved from the end of the 2005 fiscal year. Still, that improvement masks a more ominous reality. Reserve balances remain at historic lows and delayed payments to schools and local governments totaling \$726.8 million remain on the books, waiting for sufficient funds so that they can be reversed.

The IFPI analysis finds that in spite of a budget that returns the State's finances to structural balance, a successful tax amnesty program, and early administrative successes by the Daniels administration, Indiana is clearly experiencing a budgetary "malaise." Revenue growth is slowing dramatically, reserves remain at historic lows and delayed payments to schools and local governments have not been reversed.

The IFPI's recommendations:

1. **There is no need for a mid-budget course correction.** While revenue is not performing at the level forecasted when the General Assembly enacted the budget, the updated forecast does not mean that the sky is falling. The existing budget plan, while not everything that most would want, was needed then to help bring the State back to structural balance and that goal is still achievable.
2. **Do not add further risk to the State's fiscal condition.** This budget, and the outlook for the State's fiscal health, is still at risk. There are storm clouds and the State is experiencing a budgetary malaise. Legislative budget writers and Administration budget officials need to be diligent during the next year. Keep the mittens on, the coats buttoned, and the scarves and cap snugly in place, so that Indiana's budget hopefully doesn't catch a real serious cold.
3. **In other words – don't spend any more money.**
 - i. NO tax cuts
 - ii. NO additional appropriations
 - iii. Keep a tight rein on the existing spending

Historically, the "short" Session of the Indiana General Assembly has been one in which the only actions taken should in response to emergencies. There are no emergencies. Given the precarious state of Indiana's fiscal condition, the best, and only fiscally sound, course is to do little – or nothing.

The full report can be found by following the below link to our website (<http://www.indianafiscal.org/docs/BudgetBrief2006-01.pdf>) or by contacting our office:

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