



Fiscal Policy
NEWS RELEASE

One North Pennsylvania St., Suite 1000, Indianapolis, IN 46204 ■ (317) 237-2890 ■ FAX (317) 237-2893

Press Release

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Indiana's Fiscal Challenge 2002: Choosing a Path to Recovery

Contact: William Sheldrake, Indiana Fiscal Policy Institute (317) 237-2890

The Indiana Fiscal Policy Institute today released a new report *Indiana's Fiscal Challenge 2002: Choosing a Path to Recovery*. The Institute's latest report outlines the difficult choices facing the Governor and the Indiana General Assembly as they convene to address the State's fiscal crisis in the 2002 session of the legislature.

In outlining the reasons for the State's current budget crisis, the report finds:

- ⇒ *The current recession has placed the State in its worst budget crisis in at least 20 years, yet the recession isn't the only cause.*
- ⇒ *Indiana's manufacturing job losses now total 53,200; more manufacturing jobs than were lost during the national recession of 1979-82 and the restructuring period that followed.*
- ⇒ *During the mid-1990's, when the state was awash in cash, elected officials built an appetite for spending that has exacerbated the recession's effect on the budget.*
- ⇒ *A myriad of tax reductions cut deeply into the State's revenue while not addressing the looming reassessment problem.*

- ⇒ *As a consequence of the recession, the State's fiscal structure exhibits an operating deficit, the annual difference between total revenues and total expenditures, of approximately \$800 million, and it is growing.*
- ⇒ *Governor O'Bannon's Balanced Budget Plan adds more than \$800 million a year in additional revenue.*
- ⇒ *The Governor's Plan also cuts \$797.2 million of spending in the FY 2002 and FY 2003 biennium. The spending cuts include \$250 million in projected Medicaid expenditures, also in this biennium.*
- ⇒ *In order to balance the budget in FY 2004 without raising new taxes, approximately \$1.5 billion must be cut from projected spending in FY 2004 and 2005.*

“This report presents a wealth of information on the nature of the state’s current fiscal situation,” said Kevin Brinegar, Senior Vice President, Indiana Chamber of Commerce. “It brings the issues into sharper focus for the General Assembly, the administration, lobbyists, and the public at large. The Institute’s report outlines clearly the parameters that bound the decision alternatives facing policy makers and presents the consequences of those fiscal policy choices. *Indiana’s Fiscal Challenge 2002* is a must read.”

In a clear, yet detailed analysis of the Governor’s balanced budget plan, the report concludes:

- ⇒ *The Governor’s balanced budget plan while laying out a comprehensive, defensible path to recovering from this crisis, is not the only method of constructing a road to recovery.*
- ⇒ *There is nothing “easy” about what needs to happen and both the Governor and the legislature will need to clearly and convincingly address both spending reductions and increasing resources.*
- ⇒ *Perhaps the biggest shortcoming of the plan is the goal of trimming on-going expected Medicaid costs by more than 10%. This will be, by far, the most difficult budget-cutting task.*

⇒ *A no-tax-increase solution to the problem is difficult to construct and unless revenues grow at improbably high rates will lead to even more severe budget deficits with correspondingly deeper spending cuts.*

The report demonstrates that many aspects of the state's current fiscal situation were discernable more than 2 years ago. It shows that the state is now spending approximately \$800 million a year more than it is taking in. Policy choices in the past four years have made this mismatch and the recovery from the recession much more difficult.

Interestingly, those choices seem to follow no stated, consistent, strategic fiscal policy plan. "*Indiana's Fiscal Challenge 2002* puts price tags on the choices now faced by the legislature and the administration," said Bill Sheldrake, President of the Indiana Fiscal Policy Institute. "It defines the trends that have derailed the state's budget and illustrates the need for timely, thoughtful, and comprehensive action."

The report concludes that respecting long-term trends – and the taxing and spending policy decisions that reflect those trends – is a fundamental requirement of sound state fiscal policy. In addition, effective financial controls and highly trained, skilled, and experienced fiscal management professionals go hand in hand in keeping the state on the right fiscal path. To improve the State's ability to travel the rough recessionary road, State officials should place a greater emphasis on evaluating the programs and services it provides, the report recommends.

The report examines the Governor's proposed balance budget plan and provides an easily understandable analysis of the tax increases and spending cuts the Governor says are needed. It also looks at a hypothetical "no tax increase" alternative – and concludes that if no tax increase is enacted, then budget cuts amounting to nearly \$1.5 billion in the next 24 months will be necessary to keep the State's deficit from growing to an unmanageable size.

“Indiana’s Fiscal Challenge 2002 serves to further emphasize the critical issues the state is facing and the need to act now,” said Betty Cockrum, State Budget Director. “I hope the state’s decision-makers will invest the time to read it and give it careful thought.”

The Indiana Fiscal Policy Institute is an independent, statewide, non-partisan, non-governmental public policy research organization focusing on state and local policy issues in Indiana. Through its research on state pensions, education, tax policy and the economy, the Indiana Fiscal Policy Institute has contributed to the process of policy development on problems of both immediate and long-term interest to Indiana citizens.

The report is available on-line at <http://www.indianafiscal.org/pubs> 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 at IFPI@indy.net.