courier-journal.com
LOUISVILLE, KENTUCKY • SOUTHERN INDIANA

January 12, 2010

Study: Urban areas subsidize state spending in rural counties

By Lesley Stedman Weidenbener
lstedman@courier-journal.com

INDIANAPOLIS – State taxes paid in Indiana's urban counties essentially subsidize state spending in rural counties, according to a study released Tuesday by the Indiana Fiscal Policy Institute.

A snapshot of state tax collections and spending from Jan. 1, 2008, through June 30, 2009, shows that 22 counties – including Clark – were so-called "donor" counties. That means tax collections from those counties were generally higher than state spending on schools, Medicaid, highways and other programs in those areas.

All other counties – including most Indiana counties in the Louisville metro area – are recipient counties, meaning more state money is spent in them than is collected in them.

"It is clear Indiana's large metropolitan areas are a key driver of tax revenue statewide," said John Ketzenberger, president of the Indiana Fiscal Policy Institute. "It is hoped this report will give policymakers more information with greater geographic precision to consider as they contemplate the state's future budget and tax policy."

But the report comes with a number of caveats. Chief among them is that sales tax collections are credited in the counties in which they are paid, rather than to the counties where the buyers live. That's because there is no data to determine buyers' addresses, said Michael Hicks, director of the Ball State University Center for Business and Economic Research, which conducted the study for the institute.

That could somewhat skew the results, giving urban retail and tourism centers where substantial sales taxes are collected a substantial boost in collections verses spending.

However, casino and income tax collections were credited in the opposite way – according to the home county of the gambler or the worker. So Harrison County, for example, did not get credit for the millions in wagering taxes paid by gamblers. Instead, researchers used a state study of the residences of casino customers to determine where to credit those taxes.

That's in part why Harrison County appears as a recipient county – albeit barely.

The numbers can also be skewed by transportation or other large project spending. Hicks said a key reason that Clark County is listed among the donors is because it had no major highway projects within its borders during the study period.

Once spending on the Ohio River bridges projects ramps up, Clark County will likely move off the donor list and into the recipient category, Hicks said.

The study was not meant to influence any particular legislation or programs. But Hicks said there's value for lawmakers in understanding how tax collections and spending are influenced by geography.

It also dispels a myth that state money flows into Indianapolis and stays there, Ketzenberger said.

"The numbers speak for themselves," he said.

Marion County's per-capita tax collections are nearly $477 higher than the state's per-capita spending in the county, the report showed. For Clark County, that number was $405.

The county with the highest per-capita net tax payment was Vanderburgh with $1,251. Hicks said that's primarily because Evansville is a relatively isolated urban center that draws people from rural areas for shopping and other activities.

The highest per-capita recipient county during the study's time period was Cass with $1,944 more in state spending than per-capita collections. Jefferson, Jennings and Crawford counties were also among the top recipient counties.

Reporter Lesley Stedman Weidenbener can be reached at (317) 444-2780.