

Indiana tax increase is 'very real possibility' | ERIC BRADNER COLUMN

Staff Reports

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INDIANAPOLIS —If the state budget cuts of the last year have been painful, then the spending plan lawmakers craft in the spring will be excruciating.

That much became clear in the 24 hours after the leader of the Indiana Fiscal Policy Institute, a nonpartisan think tank, said a tax increase is a "very real possibility."

John Ketzenberger wasn't encouraging a tax hike Thursday morning, but he was dealing with the reality that because revenues aren't rebounding rapidly, the \$1.3 billion surplus has evaporated and stimulus money will dry up, the state will have to close a \$1.3 billion gap.

"The reality is a combination of economic growth and budget cuts won't cut the deficit," Ketzenberger said.

That statement drew a quick, sharp reaction from Gov. Mitch Daniels' office.

Chris Ruhl, director of the Office of Management and Budget, called it a "terrible and unnecessary idea and one the governor firmly opposes."

"We've proven time and again we will make the reforms and decisions required to live within our means and keep Indiana in the black without raising taxes," Ruhl said in a statement.

"We are leading the nation in recovering lost jobs in large part because we did not raise taxes while other states did."

Friday morning, Indiana House Speaker Patrick Bauer, D-South Bend, also rejected out of hand the notion of coping with the revenue decline by increasing taxes. So did Rep. Brian Bosma, R-Indianapolis, the House minority leader.

If those two men agree on the point, it's safe to assume that so does Senate President Pro Tem David Long, R-Fort Wayne, and much of the rest of a chamber that Republicans control, 33-17.

So a tax hike is off the table. What, then, will Indiana do?

The damage the recession has caused is clear: In fiscal 2009, Indiana collected 1.1 percent fewer tax dollars than it had the year before. In fiscal 2010, the state took in 5.8 percent less than it had in fiscal 2009. The result is that Indiana has about as much to spend now as it did in 2005.

The first goal will be protecting K-12 education, which has already seen a \$300 million funding cut this year, and higher education, where \$150 million has been slashed from the budget. Bauer said he thinks schools will be spared further cuts.

But that won't be an easy task. K-12 education accounts for just more than half of all of Indiana's \$14 billion or so in annual spending. Factor in higher education, and that's two-thirds of the budget.

Part of what schools might call the problem is that since Indiana stopped using property taxes as a key source of funding, the money that goes to education comes mostly from sales and income taxes.

Ketzenberger noted that revenue from those taxes is more subject to economic whims than property taxes, which are based on the assessed value of homes and businesses that don't change much from year to year.

If schools are to be held as a sacred cow, and a tax increase is off the table, the four-month, budget-writing legislative session that starts in January will be one filled with difficult choices.

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