

Battling the Budget Blues

2003's Dominant Issue a Balancing Act

At this time one year ago, most people said it couldn't be done. It involved comprehensive tax restructuring while also dealing with property reassessment, onerous personal property tax regulations and budget relief. Legislators weren't convinced it was the right time and most political observers didn't see a consensus on the horizon. Although there was a strong will from the Chamber and other business allies for the long-needed tax changes, there was no mandate to act in 2002. It's not as though it was a budget year in the General Assembly, one that required an agreement before the legislators could finish their work.

It took negotiation, compromise and 40 days of a special session, but legislators completed the tax restructuring in late June.

Flash forward 12 months. It is a budget-writing year, one that begins with an unprecedented two consecutive years of declining tax revenues and an estimated \$760 million deficit for the next biennium. (The new revenue forecast was issued in December, following the deadline for this issue, with the administration's budget plan not expected until early January).

Add in the need to protect the gains realized in the tax restructuring legislation and the importance of additional investments in education and economic development. There are certainly no easy budget fixes and no guarantee that the state is going to grow its way out of the current economic downturn.

The result:

"We're in extraordinary times," says Marilyn Schultz, a former legislator and education administrator who took over as state budget director on July 1 of last year. "It's unlike any time I've seen in my 30 years around the legislature."

Vi Simpson (D-Bloomington) has been in the state Senate for 18 years and is the chair of the State Budget Committee. Her answer: "I would like to see us change the way we govern."

State Seasonally Adjusted Non-Farm Employment Comparison

January 2000 — June 2002

State	# Job		% Job	
	Gain/Loss*	Rank	Gain/Loss	Rank
Illinois	-73.3	48	-1.22%	43
Indiana	-118.8	51	-3.95%	51
Kentucky	2.2	31	0.12%	31
Michigan	-99.3	49	-2.14%	48
Ohio	-111.6	50	-1.99%	47
Nevada	62.1	4	6.16%	1
North Carolina	-34.7	44	-0.89%	41

* in thousands

Source: Bureau of Labor Statistics, Indiana Fiscal Policy Institute

By the numbers

Many of the depressing statistics can be found in charts throughout this story. They include:

- Revenues that plummeted more than \$343 million below forecast in fiscal year 2002, following a \$90 million drop the year before
- A \$2.4 billion surplus in 1998 that is at least a \$760 million deficit entering 2003. New House Ways & Means Committee chair Bill Crawford (D-Indianapolis) put the number at likely closer to \$1 billion during the Chamber's Central Indiana Legislative Preview
- A 51st place state ranking in job loss (118,000 jobs gone between January 2000 and June 2002)
- Spending between 1995-2001 that saw the biggest percentage gains in areas such as social services, regulatory agencies and corrections, and the lowest gains in education (K-12 and higher ed) and economic development

The 2002 tax restructuring provided

State Revenues Plummet

(in millions)

	Total General Fund Revenue	Change from Previous Year	% Change from Previous Year
FY 2000	9,142.70		
FY 2001	9,052.00	-90.7	-1.00%
FY 2002	8,708.80	-343.2	-3.70%
<i>IQ 2003 -76.7 million (3.2%) below forecast</i>			

Source: State Budget Agency

By Tom Schuman

funds for budget relief, but not enough to offset the growing gap. Neither did more than \$750 million in estimated cuts and reversions from the 2002-2003 budget (plus an additional \$250 million in Medicaid spending below the December 2001 forecast).

There were also tax increases in the 2002 plan, making a repeat this year very unlikely. The focus thus shifts to other areas.

Agency agendas

A portion of the answer appears to be a new way to conduct state government business. Schultz says most state agencies have been subject to an average 11% budget cut (7% in permanent cuts made last year and absorbing another 4% in additional fringe benefit costs). The budget requests for the next biennium may not exceed the already reduced level, but the real change comes in the process.

“We’ve tried to de-emphasize the budget presentation based on the talking head model,” Simpson explains. “We’re focusing more on issues, problems. That may be three or four agencies working together, departments thinking about better ways to solve problems.”

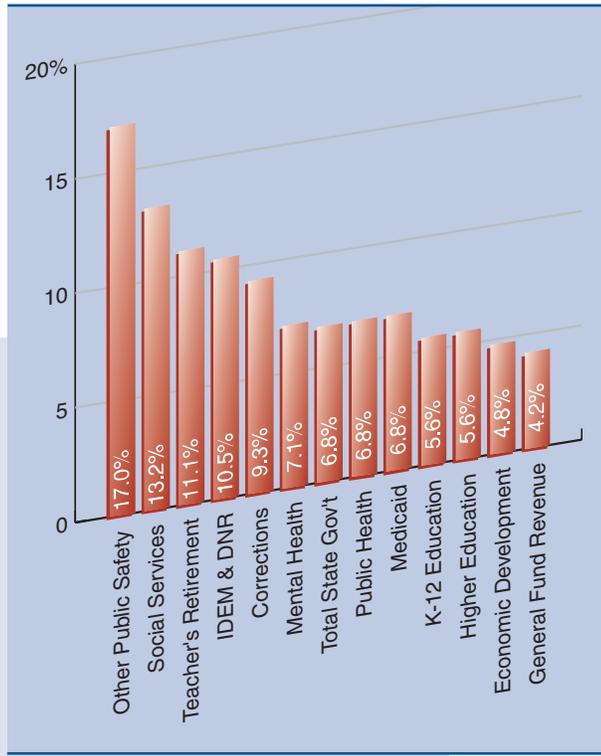
The budget committee listened to local corrections officials and national economic experts to name a few — “outside government people who have a particular emphasis or expertise,” in Simpson’s words.

The three questions asked of all government programs are: Who are the customers? What service is provided? How much does it cost? The veteran senator says those are discussions that have not taken place before.

“Everything is under the cost/benefit microscope. Frankly, we’re looking at programs to cut and some will be suspended in order to invest in education and job creation,” she notes.

“We’re reviewing every single program, looking at every single dollar. We have to make sure each dollar is spent in the most efficient way. We owe that to taxpayers. We should be doing it all the time. The recession and the budget problems moved us

Average Budget Growth (FY 1995-2001)



Source: Indiana House Republican Caucus, State Budget Agency

down this path faster than we probably would have gone. My hope is that in the future departments submit program budgets, not line-item budgets.”

How much money can be saved through this effort is unknown. Schultz supports the process, but cautions that government operations are only a part of the overall budget.

“We’re not talking the biggest part of the budget — K-12 education, higher education and property tax relief,” Schultz reiterates. “Our biggest cuts have been coming in some of the smallest percentages of the overall budget.”

Big spenders

Corrections and Medicaid spending are two major areas of uncontrolled budget growth. Again, there are no easy answers, but there is a realization that changes must be made and that there are no short-term solutions.

The Chamber and others see this as an opportunity to address the state’s long-term spending priorities.

Schultz believes at least part of the answer involves moving away from state-level services to community-based programs.

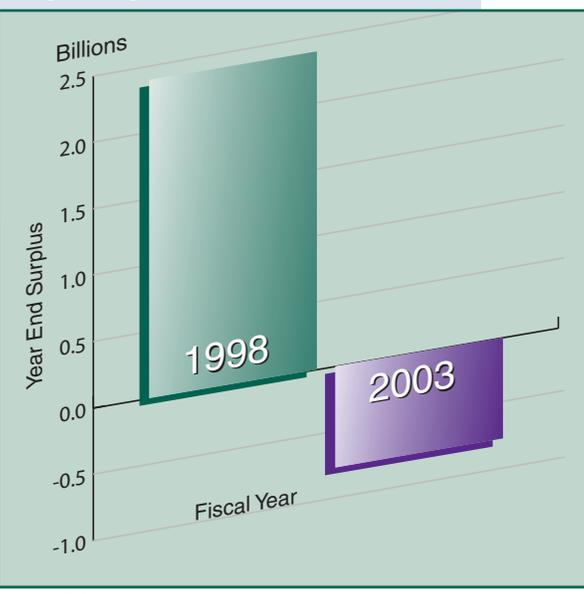
“We have to look at statutes that control the corrections population and encourage counties to move more aggressively toward community corrections,” the budget chief claims. The

dilemma in serving the developmentally disabled and those with mental illness is a difficult one, “but most of these populations are best served in communities. We have to stop thinking institutions are the way to provide services.”

Indiana is among the national leaders in the number of optional Medicaid programs it offers. Simpson says there may be some services that could be eliminated, but that’s “difficult to do politically. We’ve got poor, sick and elderly people who need to be taken care of.”

While a get tough on crime philosophy puts more people behind bars, Simpson points out that, “when you look at it from a budget perspective, you have a different view. We’re starting to realize how expensive it

Budget's Big Picture



Source: State Budget Agency

is to ship people off to a warehouse. We have to make more investments in community corrections.”

Service fees

Among the proposals defeated in 2002 was a substantial increase in environmental permit fees. Schultz admits that agencies have been instructed to look closely at their fee structures under the assumption that users should support certain functions.

The question, Simpson counters, is who benefits from these services. While some contend business and industry should pay more for environmental permits, she contends that the people of Indiana are the ultimate beneficiaries.

“Raising fees is an easy way to raise money,” she says. “But if you look at the public policy on which fees are raised, the argument gets a little shakier.”

Gaming options

Gaming was a major part of the 2002 tax discussions — and likely will be for years to come. Last year saw approval of dockside gaming in exchange for higher riverboat taxes, but other gaming measures were pulled out of the final budget bill. Speaker John Gregg (adamantly opposed to gaming expansion) is gone; new Speaker Pat Bauer is expected to be more receptive.

While the O’Bannon administration has also expressed gaming opposition, Schultz believes, “I would suspect it would be an unusual session these days in which we don’t look at gaming.”

Gaming revenues are now the third largest source of state revenue. Indiana’s lottery, horse racing and riverboat dollars spent have made it the third most expansive gaming state in the country.

“Anyone who thinks Indiana is not a gaming state is fooling themselves. We need to get past the old fight of whether Indiana should be a gaming state,” Simpson asserts. “For better or worse, it’s here. We’d be foolish to turn our back on it at this point in time.”

Although gaming industry lobbyists gain widespread attention, Simpson says they have no more influence in the legislature (and probably less) than lobbyists in other industries.

Tobacco funds

O’Bannon drew fire on two fronts in early December. One, proposing to spend nearly \$900 million in current and future tobacco settlement proceeds. Two, putting those funds toward a comprehensive economic development and jobs program the state has been lacking — thus eliminating the tobacco funds as an option to help solve the budget problems.

Speaking before the governor’s announcement, Schultz emphasized that the administration would not touch the 60% of

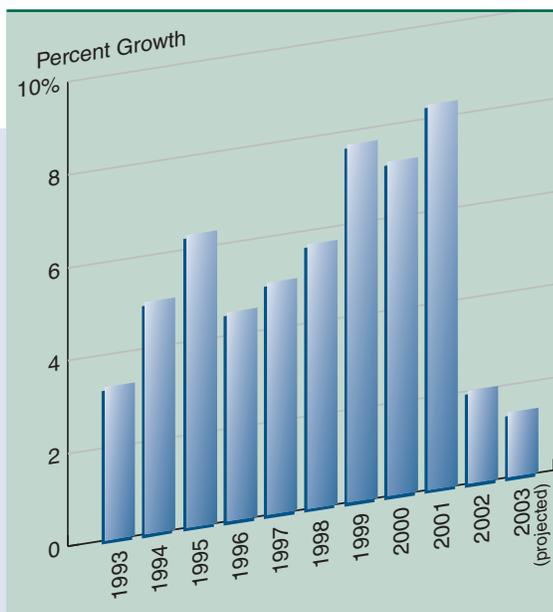
the tobacco proceeds dedicated to health-related programs. The plan, however, would tap \$195 million of the current \$277 million trust fund and proposes to borrow money, using future tobacco payments as collateral, for other economic development efforts.

Simpson was noncommittal before the announcement but did say, “Every dollar coming into the state has to be looked at.”

The administration’s Energize Indiana plan is labeled a “vision for Indiana’s future.” Many of the initiatives mirror elements of the Chamber’s *Economic Vision 2010* plan unveiled in 2000.

Chamber President Kevin Brinegar calls the resemblance of the two proposals “flattering and encouraging.” The “bold action to move Indiana forward” that the governor talked about has been advocated by the Chamber for a number of years.

50 State General Fund Expenditure Growth (1993-2003)



Source: National Association of State Budget Officers

Business role

Simpson credits the Alliance for Indiana’s Future (a broad coalition of business, education and labor interests) as playing an important role in the 2002 tax restructuring.

“I hope the Alliance continues to grow and be visible. It made a huge impact,” she recalls, “and can do that again if personal interests are set aside and they think about what is best for the entire state.”

The business community also has the responsibility to educate the public on the importance of education and workforce investments.

Schultz summarizes, “All of us need to recognize this next session is going to be a truly landmark session. We’re in adverse times we haven’t seen in

decades. The state legislature will have some very, very tough decisions to make. Business needs to be part of the whole process.”

The Chamber, as the leading broad-based business advocacy voice, is ready to continue its critical role.

“We’re ready to assist by rolling up our sleeves and addressing both our economic development and job creation priorities, as well as the extreme financial crisis facing the state,” Brinegar concludes. “To succeed will require the type of bipartisan effort among policymakers that we saw last summer.”

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