



Hot Topic: Indiana's State Budget

Indiana's state budget looked better than it had in years at the end of the 2007 fiscal year on June 30, 2007. Revenues had exceeded spending for the second straight year. Balances had been rebuilt to 10% of the budget. Payment delays to local governments were being reversed. And in April the General Assembly had passed a budget for fiscal years 2008 and 2009 that increased education spending more than at any time this decade. Yet the revenues still exceeded spending, and balances would be maintained near 10%.

This outlook changed for the worse on December 13, 2007. On that day the state's revenue forecast was revised, downward. The national economic slowdown was projected to affect Indiana, reducing state income growth from 4.5% to 3% in 2008 and 2009. \$230 million in projected revenues disappeared. Suddenly balances looked like they would fall short of 10%. The governor immediately ordered his state agencies to cut their spending 5%. Then, in December and January, revenue collections fell short of even this revised forecast.

Is this just a temporary slowdown? If so, the state's balances and the spending restraint will handle the revenue shortfalls. \$230 million isn't much compared to a \$13 billion annual budget.

Or, is this the beginning of another recession? During the last recession, over the five fiscal years 2000 to 2004, revenues fell short of projections by almost \$3 billion. Indiana does not have the resources to cover a shortfall like that without severe spending restrictions, or even tax hikes.

Add to this the state's policy ambitions in 2008--to enact major property tax relief by taking over school general fund and county welfare programs--and it's clear that this would be a really unfortunate time to have a recession.

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