



*Indiana Fiscal Policy Institute Session Report No. 2:*

**Budgets and transportation bill show Republican fiscal priorities differ between governor, House and Senate**

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Given Indiana has a Republican governor and Republican super-majorities in the House and Senate, it would be easy to conclude their fiscal priorities were predictably similar. That’s not so. Using the last two years as a guide, we found significant differences between the fiscal priorities as expressed in the legislation they proposed and approved. Some disagreements have already become public this year as the House prepares to send House Bill 1001, the two-year state budget, and HB 1002, the transportation funding bill, to the Senate.<sup>1</sup> Differences exist on raising the cigarette tax, whether the sales tax on gasoline should be primarily allocated to the General Fund or dedicated solely to transportation funding, and whether teacher performance bonuses be included in the budget or not.

There is agreement among the principal players on some basic fiscal positions. Among these is support for a “balanced” budget, strong cash reserves to serve as a buffer when more difficult fiscal times arrive, a desire to maintain a favorable business tax climate supportive of continued economic development, modestly increasing revenue for K-12 and higher education, and a desire to provide increased funding for maintenance and improvement of the state’s transportation infrastructure.

We’ll begin with a look back at the 2015 session when the Fiscal Year 2015-17 state budget was enacted. That session the Senate<sup>2</sup> reduced the House’s K-12 Foundation Grant appropriation by \$218 million for FY 2016 and \$263 million for FY 2017.<sup>3</sup> While the approximately 5-percent reduction from the House FY 2017 proposed appropriation by the Senate for the FY 2017 Foundation Grant does not seem all that substantial, remember that the \$263 million difference is about the same as the annual amount doubling the cigarette tax, which is currently being discussed, or the amount of sales tax proposed to be redirected from the General Fund to transportation dedicated accounts. Even small percentage changes in the Foundation Grant appropriation are a major factor in shaping the remainder of the state budget. The Foundation Grant appropriation in the final version of the FY 2015-17 ended up looking much more like the House version than the Senate proposal.

### 2015 Budget Deliberations

	House Version	Senate Version	Final Budget
K-12 Foundation	\$4,984B/\$5,135B	\$5,058B/\$5,197B	\$5,250B/\$5,401B
Higher Education Capital Cash	\$68M	\$93M	\$92M
Higher Education Bonding	\$374M	\$358M	\$313M
Economic Development	\$192M	\$224M	\$189M

Source: Legislative Services Agency Fiscal Notes

<sup>1</sup>“Cigarette tax offsets road costs” by Niki Kelly, Fort Wayne Journal Gazette, February 16, 2017

<sup>2</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on April 15, 2015

<sup>3</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on March 4, 2015

The amount of funding made available for Higher Education capital projects is often another area of difference between House and Senate budget proposals. Two years ago, the Senate<sup>4</sup> raised the amount of cash for higher education capital from \$67.5 million to \$92.6 million. In this case the final budget looked much more like the Senate than the House version.<sup>5</sup>

Bonding authority for additional higher education capital in the 2015-17 budget also illustrated differences between the House<sup>6</sup> and Senate.<sup>7</sup> In this case the Senate reduced the authorization for new bonding from \$374 million to \$358 million. However, the budget as enacted favored neither alternative. Rather it reduced the amount to \$313 million,<sup>8</sup> likely reflecting a priority of former Gov. Mike Pence.

Operating appropriations for economic development were yet another point of difference between houses in preparation of the 2015-2017 budget. The House proposed \$192.4 million in the General Fund operating budget for economic development for the biennium<sup>9</sup> while the Senate increased that amount to \$223.6 million.<sup>10</sup> The final budget, as enacted, reduced the amount to \$189.4 – perhaps a reflection of the impact a lower April revenue forecast had on the overall budget.<sup>11</sup>

The 2016 session also witnessed significant differences in tax and fiscal policy between the House and the Senate. As HB 1001 passed the House it included doubling the cigarette tax, increasing the gasoline tax from 18 cents per gallon to an indexed rate to be determined by the Department of Revenue, and increasing the Special Fuels Tax and the Motor Carrier Surcharge Tax.<sup>12</sup> It also included a continued phase-down of the Individual Adjusted Gross Income tax rate from 3.23 percent in 2017 to 3.06 percent by 2025 and thereafter. By the time the bill passed the Senate the tax increases were removed along with the continued phase-down of the individual income tax. Supplemental registration fees on electric and hybrid vehicles were added.<sup>13</sup> The enacted version had none of the House tax increases, no continued phase-down of the individual income tax and no supplemental registration fees.<sup>14</sup> Discussion of how to provide a long-term funding solution for transportation was assigned to a study committee (the Indiana's Roads for a Stronger, Safer Tomorrow Task Force), which has set the stage for *the* fiscal issue of the current session aside from new the state budget.

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<sup>4</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on April 15, 2015

<sup>5</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on March 4, 2015

<sup>6</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on March 4, 2015

<sup>7</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on April 15, 2015

<sup>8</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on May 6, 2015

<sup>9</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on March 4, 2015

<sup>10</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on April 15, 2015

<sup>11</sup> Fiscal Impact Statement for HB 1001-2015 as prepared on May 6, 2015

<sup>12</sup> Fiscal Impact Statement for HB 1001-2016 as prepared on February 2, 2016

<sup>13</sup> Fiscal Impact Statement for HB 1001-2016 as prepared on March 1, 2016

<sup>14</sup> Fiscal Impact Statement for HB 1001-2016 as prepared on March 16, 2016

## 2016 Transportation Funding Differences

	House Version	Senate Version
Cigarette Tax Increase	Yes	No
Gasoline Tax Increase	Yes	No
Special Fuels Tax Increase	Yes	No
Individual Income Tax Phase-Down	Yes	No

Source: Legislative Services Agency Fiscal Notes

In the early stages of this year’s legislative session we have already witnessed some important differences between the Gov. Eric Holcomb’s proposed budget and that being forwarded by the Committee on Ways and Means. The House version<sup>15</sup> reduces the governor’s proposal<sup>16</sup> for K-12 Tuition Support by nearly \$100 million for the biennium. It also removes the \$40 million for Teacher Performance Grants included in the governor’s budget. Conversely, the House version<sup>17</sup> provides for a higher estimated budget surplus in both FY 2018 and 2019 than did the Governor’s budget.<sup>18</sup> The House budget also adds \$137 million in cash funding for higher education capital projects<sup>19</sup> while the governor’s budget made no appropriations for higher education facilities beyond repair and renovation allocations.<sup>20</sup> Lastly, the Ways and Means budget removed the governor’s proposed appropriation of \$4 million for Regional Cities planning grants, coincidentally during the same week Gov. Holcomb spoke at Regional Cities Day at the Statehouse.

## 2017 Budget Deliberations

	Governor’s Version	House Version
K-12 Tuition Support	\$7,087B/\$7,227B	\$7,011B/\$7,130B
Teacher’s Performance Grants	\$40M	0
Higher Education Capital Cash	\$67M	\$204M
Regional Cities Grants	\$4M	0
Surplus Funds—Cash	\$84.6M/\$197.5M	\$115M/\$252M

Source: Legislative Services Agency Fiscal Notes

The House – Senate differences shown here illustrate our point that regardless of the current political alignment we should anticipate—if not expect—significant changes to both the biennial budget and transportation funding when the Senate begins its considerations next month. Add to these anticipated differences the effect of the April

<sup>15</sup> Amendment #5 to HB 1001-2017 as adopted by the House Ways and Means

<sup>16</sup> House Bill 1001-2015 as introduced

<sup>17</sup> Chairman Brown’s presentation on HB 1001 to the House Committee on Ways and Means

<sup>18</sup> Presentation of Governor Holcomb’s proposed FY 2018 and FY 2019 Budget to the State Budget Committee

<sup>19</sup> House Bill 1001-2017 as amended and passed by the Committee on Ways and Means

<sup>20</sup> House Bill 1001-2017 as introduced

Revenue Forecast on modifying the revenue assumptions and the financial discussion may again change. While we may be nearly half-way through the session in terms of the calendar, the deliberation of key fiscal issues is just heating up. This will give you a guide for where to look for important policy differences in the process.

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### **About the Author**

John Stafford is the interim director of the Community Research Institute at Indiana-Purdue University Fort Wayne. He has served in various positions in local government in Elkhart and Allen counties. He received the Ivan Brinegar Municipal Management Award in 1999 given by the Indiana Association of Cities and Towns. Stafford has authored several papers and reports for the Indiana Fiscal Policy Institute.

### **About the Indiana Fiscal Policy Institute**

The Indiana Fiscal Policy Institute (IFPI), formed in 1987, is a private, non-profit government research organization. The IFPI's mission is to enhance the effectiveness and accountability of state and local government through the education of public sector, business and labor leaders on significant fiscal policy questions, and the consequences of state and local decisions. The IFPI makes a significant contribution to the important, on-going debate over the appropriate role of government. The IFPI does not lobby and does not support or oppose candidates for public office. Instead it relies on objective research evidence as the basis for assessing sound state fiscal policy.

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