

Purdue Cooperative Extension Service

On Local Government

**Recession, Recovery,
and Indiana Government Budgets**

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For more information

DeBoer's Indiana Local Government Information website:
www.agecon.purdue.edu/crd/Localgov

ECONOMIC OUTLOOK

Economic Rules of Thumb

- U.S. Real GDP must rise 3% to keep the unemployment rate from rising
- U.S. Real GDP must rise 4.5% to bring the unemployment rate down 1% during a year
- If the unemployment rate is more than 5%, the inflation rate tends to fall
- If the unemployment rate is more than 6% higher than the inflation rate, the Federal Reserve won't increase interest rates

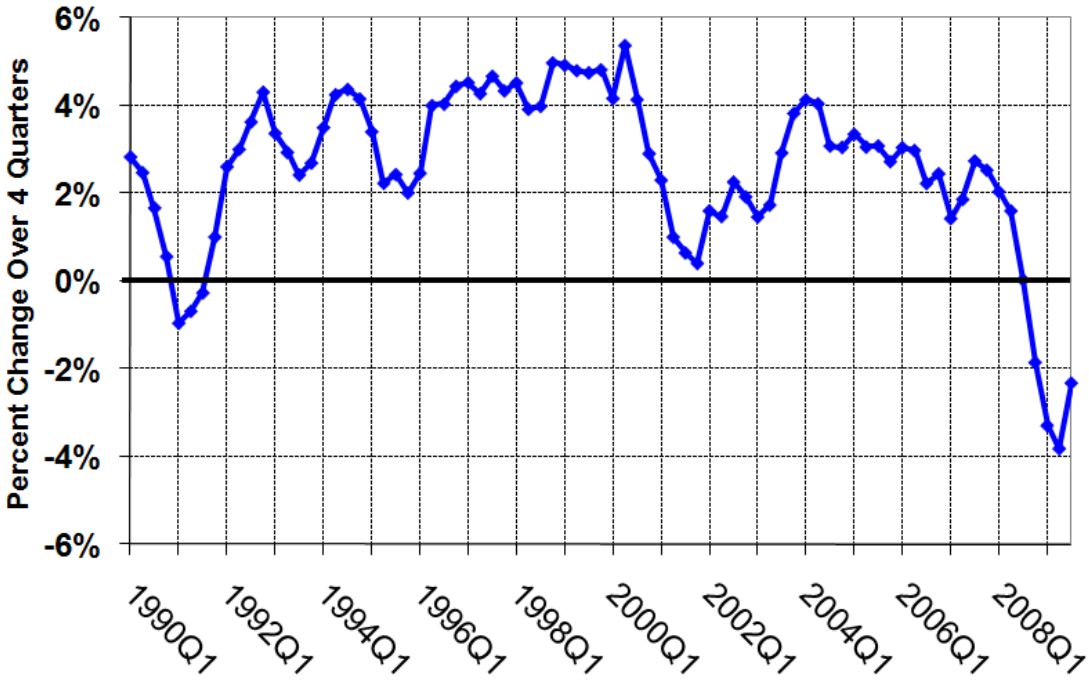
Implications of the Rules of Thumb

- U.S. Real GDP must rise 3% to keep the unemployment rate from rising
 - If the expansion starts off slowly, the unemployment rate will keep increasing
- U.S. Real GDP must rise 4.5% to bring the unemployment rate down 1% during a year
 - About the best we can hope for is a 1% drop in unemployment during 2010
 - It will take at least five years to get the unemployment rate back down to 5%, where it was before the recession
- If the unemployment rate is more than 5%, the inflation rate tends to fall
 - There will be downward pressure on inflation for some time to come
 - There's no big inflation threat any time soon, though oil prices are always a wild card
- If the unemployment rate is more than 6% higher than the inflation rate, the Federal Reserve won't increase interest rates
 - A 10% unemployment rate and a 1% inflation rate mean Fed will keep the federal funds rate near zero during 2010

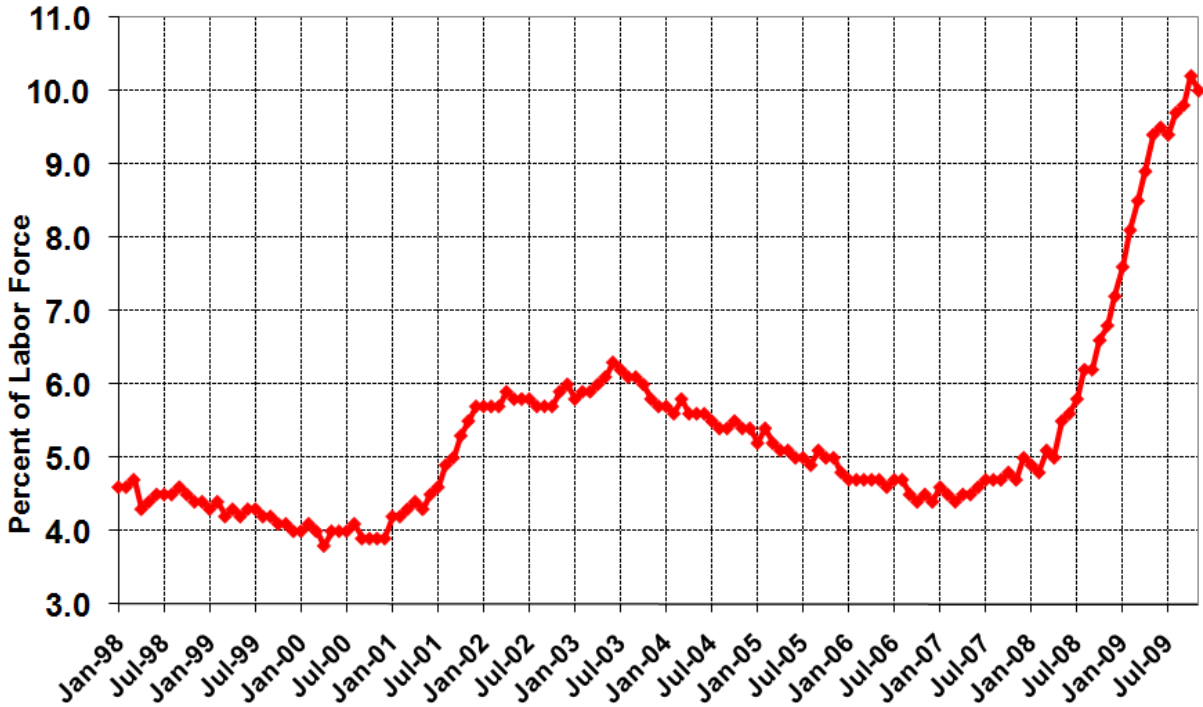
Summary

- The unemployment rate will stay above 9% in 2010, and may increase a little
- The unemployment rate won't get back down to 5% until the end of 2014, at the earliest
- There's no big inflation threat any time soon, and the inflation rate may go down
- The Federal Reserve won't increase its interest rate in 2010

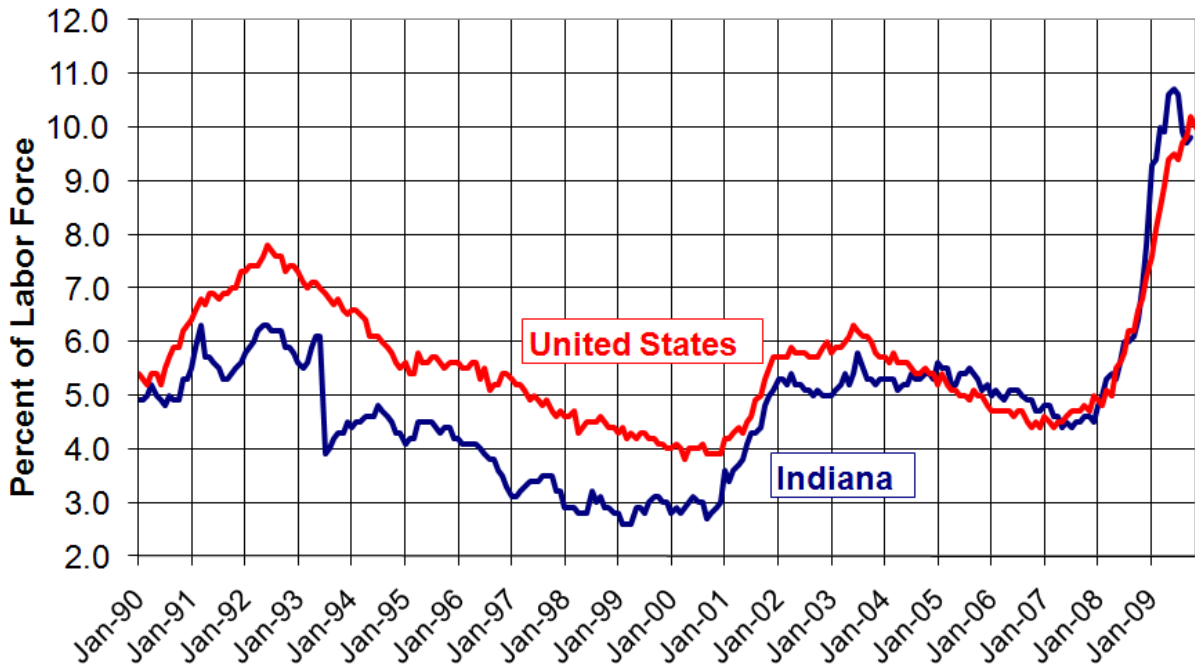
Real GDP Growth



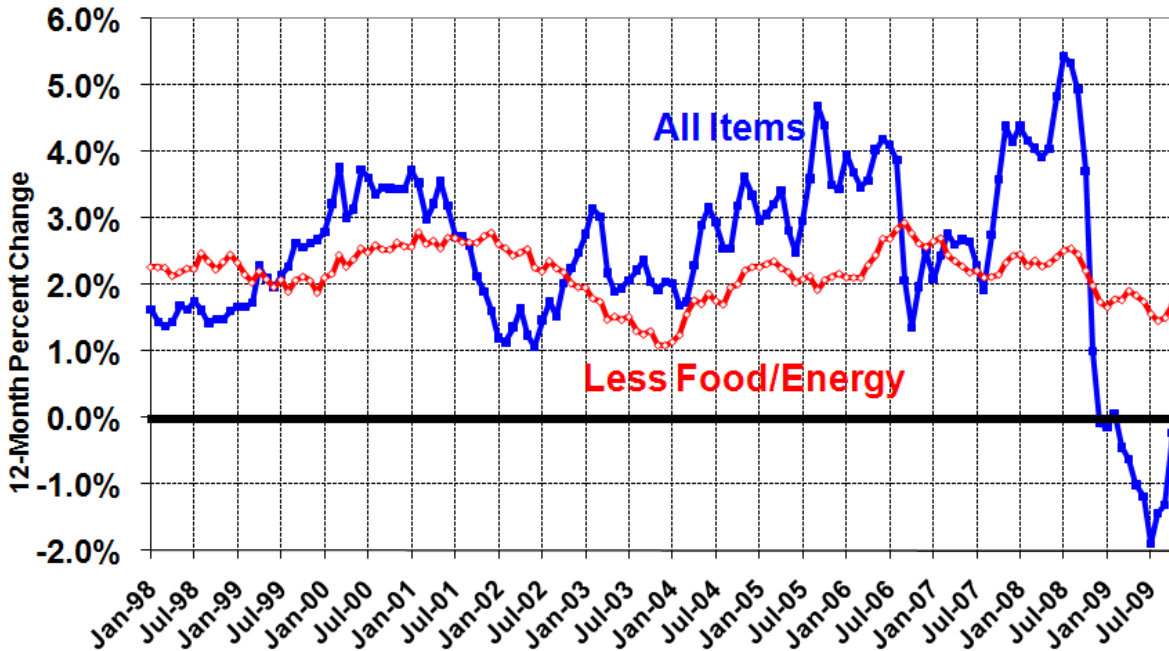
Unemployment Rate



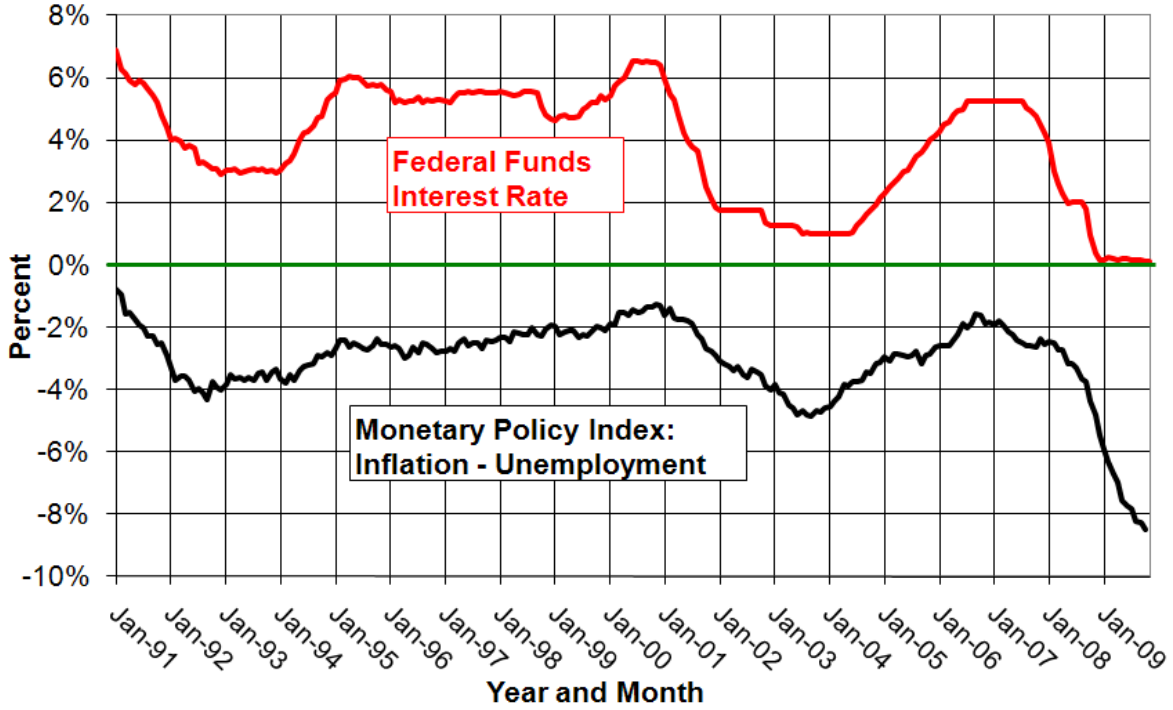
Unemployment Rate, Indiana and U.S. 1990-2009



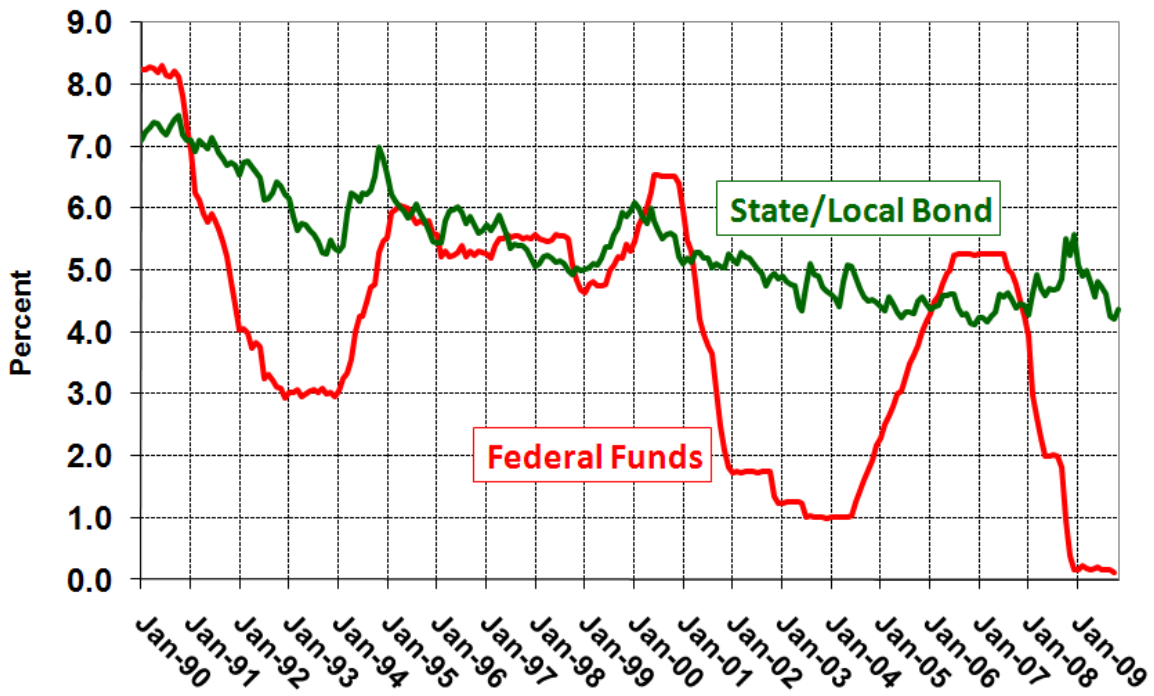
Inflation Rates: All Items and Less Food/Energy, 12-Months, CPI



The Federal Funds Rate and a Monetary Policy Index



Federal Funds and State/Local Bond Interest Rates



INDIANA'S STATE BUDGET

STATE REVENUE FORECAST TOTAL GENERAL FUND REVENUE FORECAST Fiscal Years 2010 and 2011 December 15, 2009 (in millions \$)

	Actual 2009	2010		Percent		Percent Growth Over 2009	2011		Percent		
		Prior Forecast	Updated Forecast	Diff. From Prior Forecast	Diff. From Prior Forecast		Prior Forecast	Updated Forecast	Diff. From Prior Forecast	Diff. From Prior Forecast	
Major Taxes											
Sales & Use	6,153.3	6,131.7	5,932.0	-199.7	-3.3%	-3.6%	6,438.4	6,166.8	-269.6	-4.2%	4.0%
Individual AGI	4,313.8	4,289.3	3,775.7	-513.6	-12.0%	-12.5%	4,547.2	4,120.5	-426.7	-9.4%	9.1%
Corporate - AGI, URT, USUT, FIT	839.0	800.0	547.3	-252.7	-31.6%	-34.8%	819.3	733.1	-86.2	-10.5%	33.9%
Riverboat Wagering	545.4	541.1	554.5	13.4	2.5%	1.7%	554.0	574.7	20.7	3.7%	3.6%
Rachno Wagering	52.8	104.7	117.2	12.5	11.9%	86.6%	106.7	122.1	15.4	14.4%	4.2%
Subtotal Major Taxes	11,914.2	11,866.8	10,926.7	-940.1	-7.9%	-8.3%	12,485.6	11,719.2	-746.4	-6.0%	7.3%
Other Revenue											
Cigarettes*	290.3	282.5	280.0	-2.5	-0.9%	-3.5%	274.6	276.4	1.8	0.7%	-1.3%
Insurance	183.7	177.2	177.2	0.0	0.0%	-3.5%	177.2	177.2	0.0	0.0%	0.0%
Inheritance	185.7	167.5	155.0	-12.5	-7.5%	-16.5%	167.5	155.0	-12.5	-7.5%	0.0%
Alcoholic Beverages	16.1	16.0	16.6	0.6	3.8%	3.1%	16.0	17.0	1.0	6.3%	2.4%
Riverboat Admissions	12.8	15.7	16.4	0.7	4.5%	27.7%	15.7	16.7	1.0	6.7%	1.8%
Interest	61.9	50.0	20.0	-30.0	-60.0%	-67.7%	65.0	35.0	-30.0	-46.2%	75.0%
MV, CVET & FIT Recapture	13.0	339.7	284.6	-55.1	-16.2%	2084.7%	251.3	239.5	-11.8	-4.7%	-15.8%
Miscellaneous Revenue	228.5	199.7	199.7	0.0	0.0%	-12.6%	199.7	199.7	0.0	0.0%	0.0%
Subtotal Other Revenue	992.0	1,248.3	1,149.5	-98.8	-7.9%	15.9%	1,167.0	1,116.5	-50.5	-4.3%	-2.9%
Total General Fund	\$12,906.2	\$13,115.1	\$12,076.2	-\$1,038.9	-7.9%	-6.4%	\$13,632.6	\$12,835.7	-\$796.9	-5.8%	6.3%

* Prior year revenues and forecasted revenues for the Cigarette Tax Account have been adjusted to reflect the new distribution under HEA 1001-2009 and to provide a comparison to the prior year.

Indiana State Budget Summary, FY 2000-2011
(millions of dollars, updated through December 2009 revenue forecast)

	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Avg. Ann. Change 2000-09	2009-11
Start of Year Balances	1,991	1,638	910	534	720	533	750	1,089	1,286	1,413	1,419	667		
Revenues														
Sales Tax	3,651	3,687	3,761	4,172	4,721	4,960	5,226	5,379	5,686	6,153	5,932	6,169	6.0%	0.1%
Individual Income Tax	3,753	3,780	3,541	3,644	3,808	4,213	4,322	4,616	4,838	4,314	3,776	4,121	1.6%	-2.3%
Corporate Income Tax	985	855	709	729	645	825	925	987	910	839	547	733	-1.8%	-6.5%
Gaming	-	-	-	431	602	585	590	625	583	621	672	697		5.9%
All Other	810	801	784	1,072	1,143	905	1,370	1,096	1,187	1,125	1,194	1,062	3.7%	-2.8%
Total	9,200	9,123	8,796	10,049	10,918	11,489	12,434	12,703	13,203	13,052	12,121	12,781	4.0%	-1.0%
Appropriations														
K-12 Education	3,905	4,182	4,185	4,380	4,247	4,512	4,582	4,647	4,830	6,169	7,584	7,669	5.2%	11.5%
Higher Education	1,331	1,390	1,411	1,440	1,474	1,528	1,544	1,588	1,654	1,744	1,726	1,756	3.0%	0.3%
Medicaid	1,042	1,144	1,171	1,249	1,266	1,383	1,455	1,525	1,587	1,664	1,821	1,874	5.3%	6.1%
Property Tax Relief	1,057	1,154	1,180	1,157	2,097	2,143	2,153	2,189	2,308	1,699	90	-	5.4%	-100.0%
Health & Social Services	757	774	858	855	767	768	836	860	943	1,237	1,354	1,354	5.6%	4.6%
Public Safety	621	623	678	681	695	697	718	718	721	801	781	796	2.9%	-0.3%
All Other	1,005	923	824	1,136	763	719	787	831	943	1,122	1,122	1,064	1.2%	-2.6%
Total	9,718	10,190	10,307	10,898	11,310	11,750	12,075	12,359	12,986	14,436	14,478	14,512	4.5%	0.3%
Current Year Surplus/Deficit	(518)	(1,067)	(1,511)	(850)	(392)	(262)	359	345	217	(1,385)	(2,357)	(1,731)		
ARRA Medicaid								405		549		289		
ARRA Fiscal Stabilization								587		276		221		
ARRA Total								992		825		510		
Transfers from (to) Other Funds	30	236	617	376	138	257	12	70	19	73	16	20		
Reversions	134	103	145	323	63	222	125	119	133	357	763	450		
Payment Delays (Reversals)	-	-	374	337	3	-	(156)	(337)	(241)	(31)	-	-		
Total Adjustments	165	339	1,135	1,036	204	479	(20)	(148)	(89)	399	779	470		
End of Year Balances														
General Fund	833	19	0	137	0	119	411	537	593	55	(482)	(948)		
Tuition Reserve	265	265	265	305	291	291	317	317	400	942	721	425		
Medicaid Reserve	-	100	-	-	-	24	34	88	58	58	58	58		
Rainy Day Fund	540	526	269	279	242	317	328	344	363	365	371	382		
Total	1,638	910	534	720	533	750	1,089	1,286	1,413	1,419	667	(84)		
Total Balances % of Revenue	17.8%	10.0%	6.1%	7.2%	4.9%	6.5%	8.8%	10.1%	10.7%	10.9%	5.5%	-0.7%		
Payment Delay Liability	-	-	372	711	712	726	622	286	31	-	-	-		

Revisions for 2010 and 2011 based on July 2009 closeout document, and the Governor's press releases from Nov. 6, Dec. 4 and Dec. 15, 2009.
Prepared by Larry DeBoer, Department of Agricultural Economics, Purdue University and Purdue Cooperative Extension Service, December 2009.

Table 1. Indiana Budget Summary, 2009-11
May 2009 revenue forecast

	Actual	Budget	Budget
	2009	2010	2011
Start of Year Balances	1,413	1,419	1,334
Revenues			
Sales Tax	6,153	6,132	6,438
Individual Income Tax	4,314	4,289	4,547
Corporate Income Tax	839	800	819
Gaming	621	646	661
All Other	1,125	1,322	1,140
Total	13,052	13,189	13,606

Appropriations			
K-12 Education	6,169	7,584	7,669
Higher Education	1,744	1,726	1,756
Medicaid	1,664	1,821	1,874
Property Tax Relief	1,699	90	-
Health & Social Services	1,237	1,354	1,354
Public Safety	801	781	796
All Other	1,122	1,122	1,064
Total	14,436	14,478	14,512

Current Year Surplus/Deficit	(1,385)	(464)	(397)
ARRA Medicaid	405	549	289
ARRA Fiscal Stabilization	587	276	221
ARRA Total	992	825	510
Transfers from (to) Other Funds	73	16	20
Reversions	357	363	50
Payment Delays (Reversals)	(31)	-	-
Total Adjustments	399	379	70

End of Year Balances			
General Fund	55	185	144
Tuition Reserve	942	721	425
Medicaid Reserve	58	58	58
Rainy Day Fund	365	371	382
Total	1,419	1,334	1,008
Total Balances % of Revenue	10.9%	10.1%	7.4%

Table 2. Indiana Budget Summary, 2009-11
Dec. 2009 revenue forecast, Governor's reversions

	Actual	Budget	Budget
	2009	2010	2011
Start of Year Balances	1,413	1,419	667
Revenues			
Sales Tax	6,153	5,932	6,169
Individual Income Tax	4,314	3,776	4,121
Corporate Income Tax	839	547	733
Gaming	621	672	697
All Other	1,125	1,194	1,062
Total	13,052	12,121	12,781

Appropriations			
K-12 Education	6,169	7,584	7,669
Higher Education	1,744	1,726	1,756
Medicaid	1,664	1,821	1,874
Property Tax Relief	1,699	90	-
Health & Social Services	1,237	1,354	1,354
Public Safety	801	781	796
All Other	1,122	1,122	1,064
Total	14,436	14,478	14,512

Current Year Surplus/Deficit	(1,385)	(2,357)	(1,731)
ARRA Medicaid	405	549	289
ARRA Fiscal Stabilization	587	276	221
ARRA Total	992	825	510
Transfers from (to) Other Funds	73	16	20
Reversions	357	763	450
Payment Delays (Reversals)	(31)	-	-
Total Adjustments	399	779	470

End of Year Balances			
General Fund	55	(482)	(948)
Tuition Reserve	942	721	425
Medicaid Reserve	58	58	58
Rainy Day Fund	365	371	382
Total	1,419	667	(84)
Total Balances % of Revenue	10.9%	5.5%	-0.7%

Table 3. Indiana Budget Summary, 2009-11
Dec. 2009 revenue forecast, 5% Balances

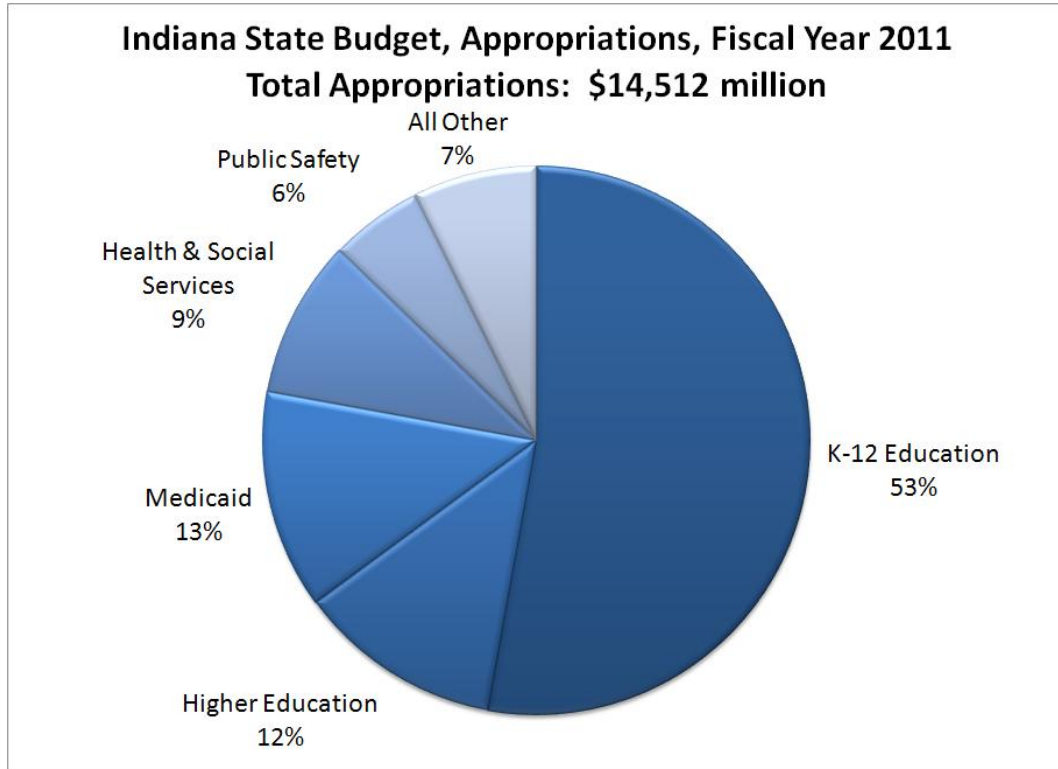
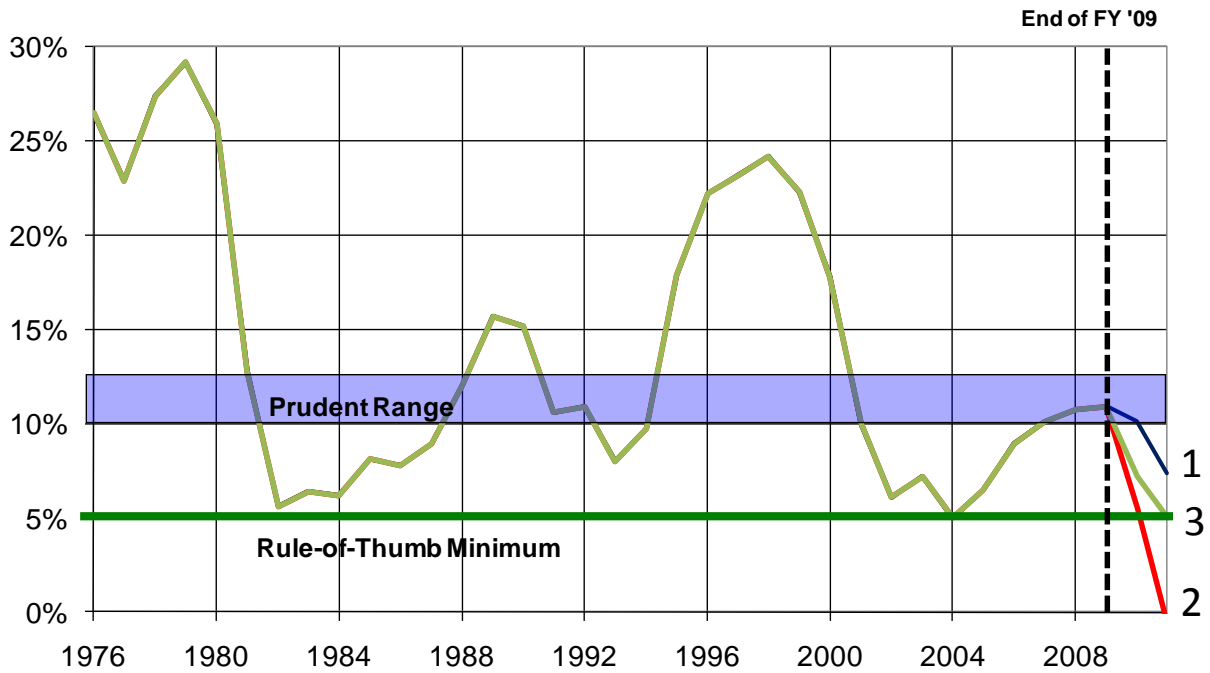
	Actual	Budget	Budget
	2009	2010	2011
Start of Year Balances	1,413	1,419	874
Revenues			
Sales Tax	6,153	5,932	6,169
Individual Income Tax	4,314	3,776	4,121
Corporate Income Tax	839	547	733
Gaming	621	672	697
All Other	1,125	1,194	1,062
Total	13,052	12,121	12,781

Appropriations			
K-12 Education	6,169	7,584	7,669
Higher Education	1,744	1,726	1,756
Medicaid	1,664	1,821	1,874
Property Tax Relief	1,699	90	-
Health & Social Services	1,237	1,354	1,354
Public Safety	801	781	796
All Other	1,122	1,122	1,064
Total	14,436	14,478	14,512

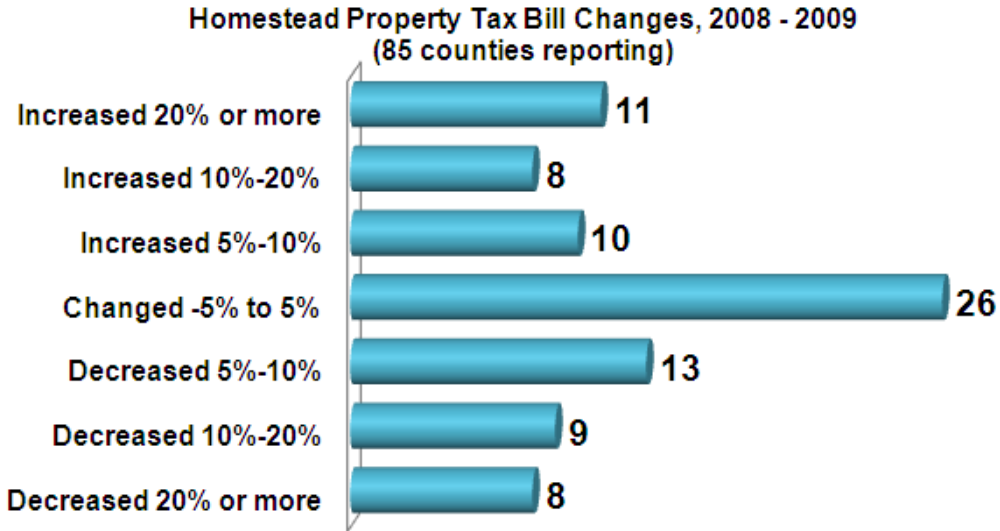
Current Year Surplus/Deficit	(1,385)	(2,357)	(1,731)
ARRA Medicaid	405	549	289
ARRA Fiscal Stabilization	587	276	221
ARRA Total	992	825	510
Transfers from (to) Other Funds	73	16	20
Reversions	357	970	970
Payment Delays (Reversals)	(31)	-	-
Total Adjustments	399	986	990

End of Year Balances			
General Fund	55	(275)	(221)
Tuition Reserve	942	721	425
Medicaid Reserve	58	58	58
Rainy Day Fund	365	371	382
Total	1,419	874	643
Total Balances % of Revenue	10.9%	7.2%	5.0%

Indiana State Fund Balances as Share of Operating Revenues, FY 1976-2009 and Three Results for 2010-11

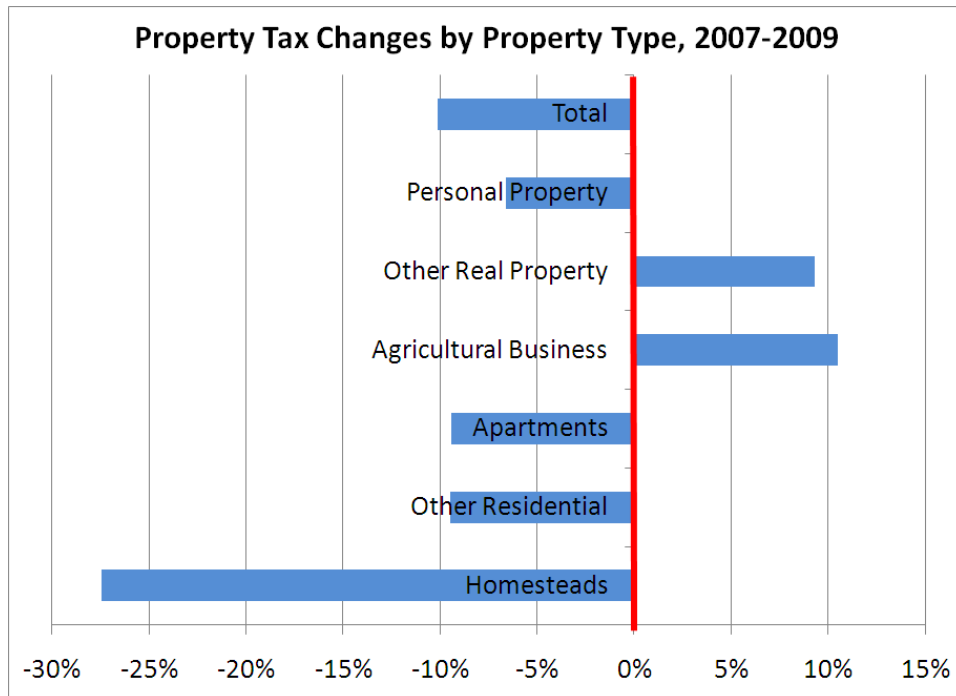


PROPERTY TAXES, 2009

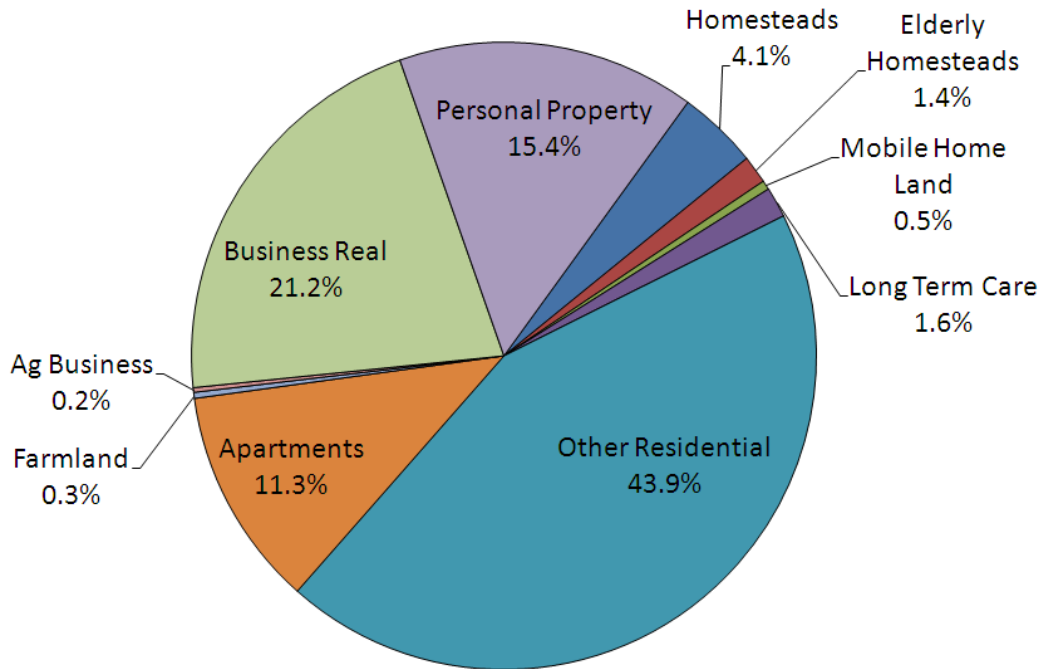


Counties where homestead owners saw tax reductions in 2009

- Counties where the school general fund or county welfare funds were a large share of the levy in 2008
- Counties that had lower state PTRC or state homestead credit rates in 2008
 - Those with more debt service levies
- Counties that adopted local option income taxes for 2009

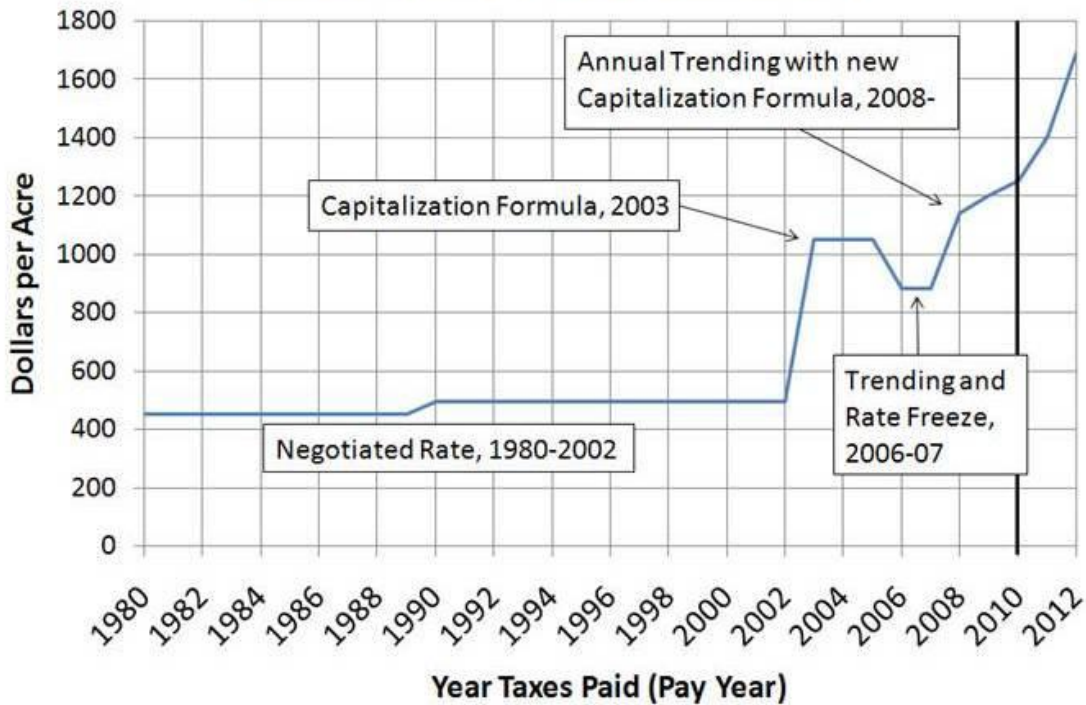


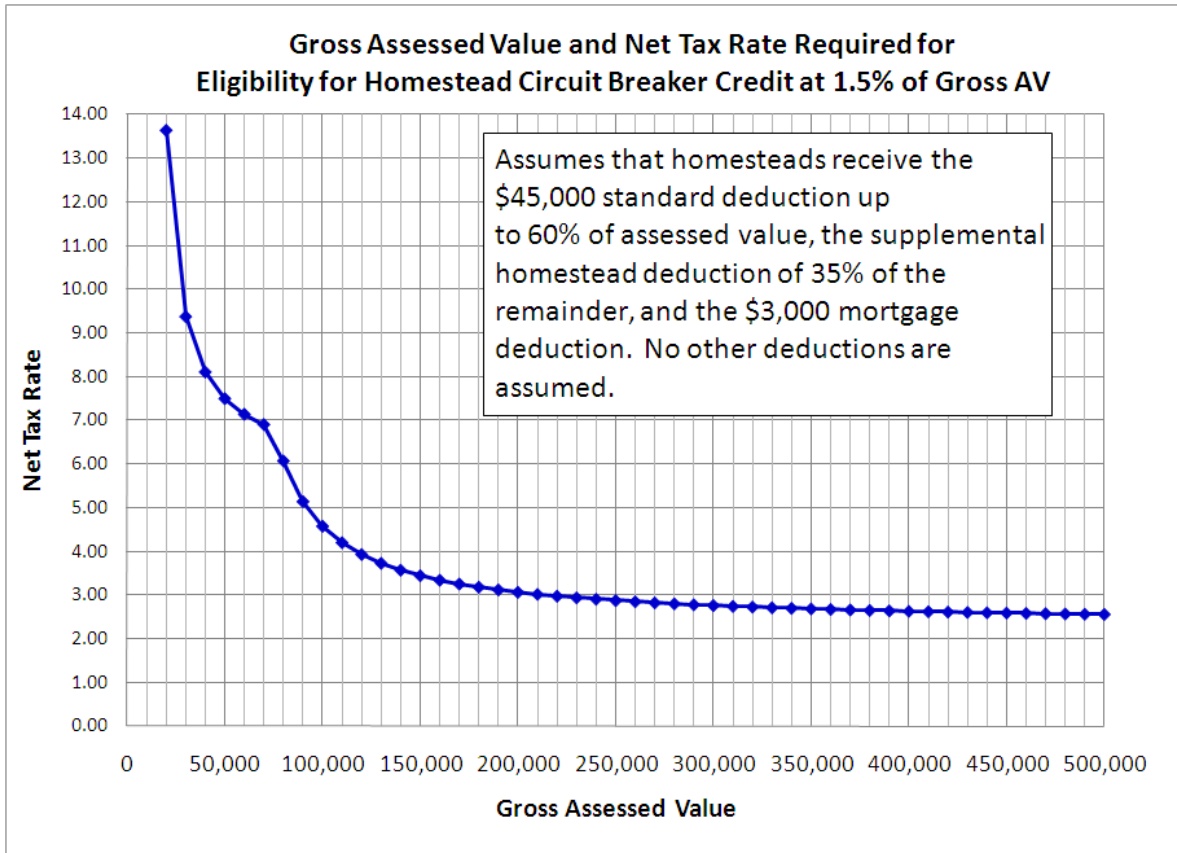
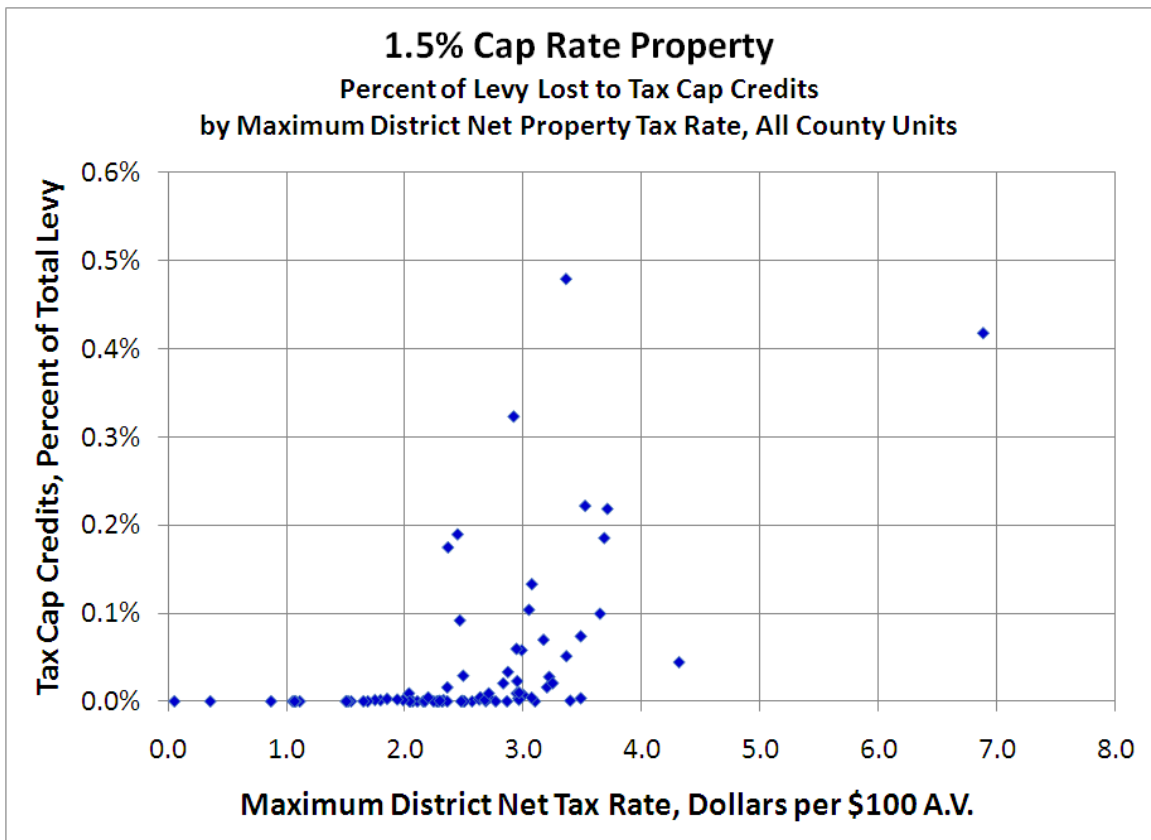
Tax Cap Credits by Property Type, 2009

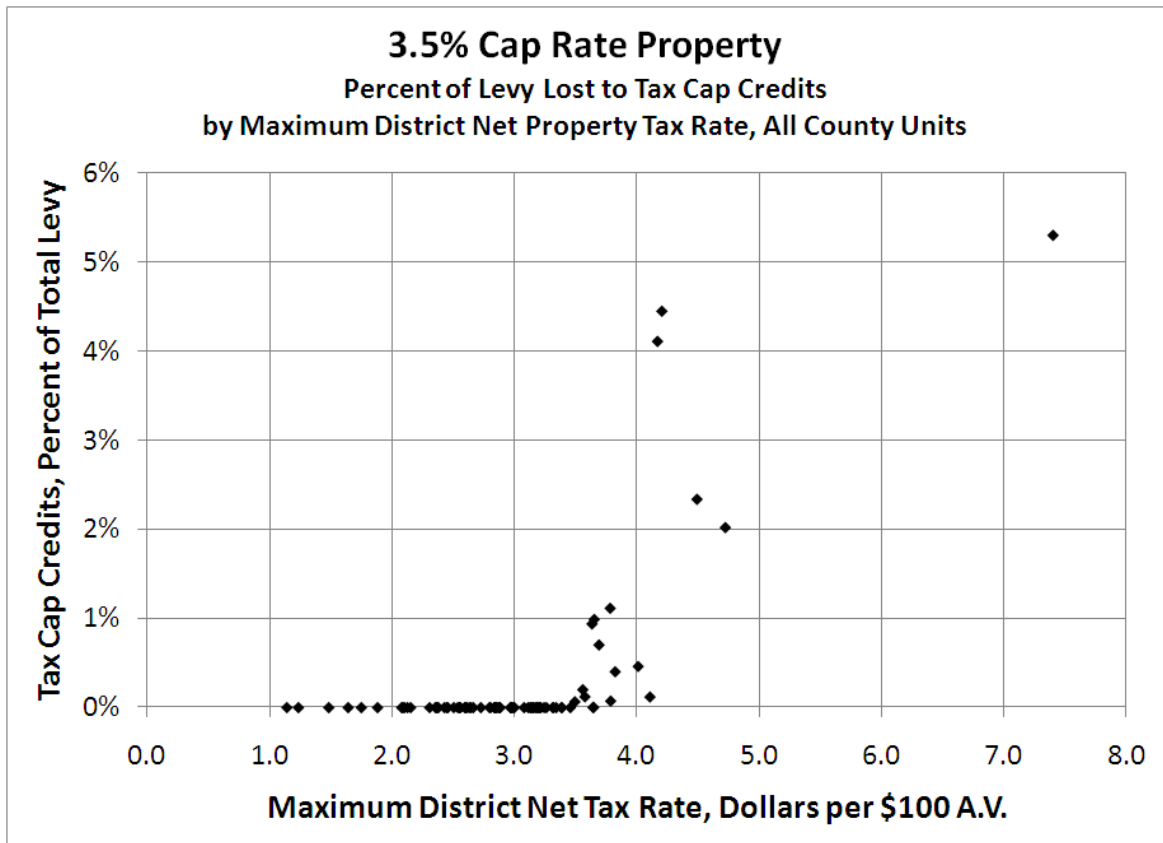
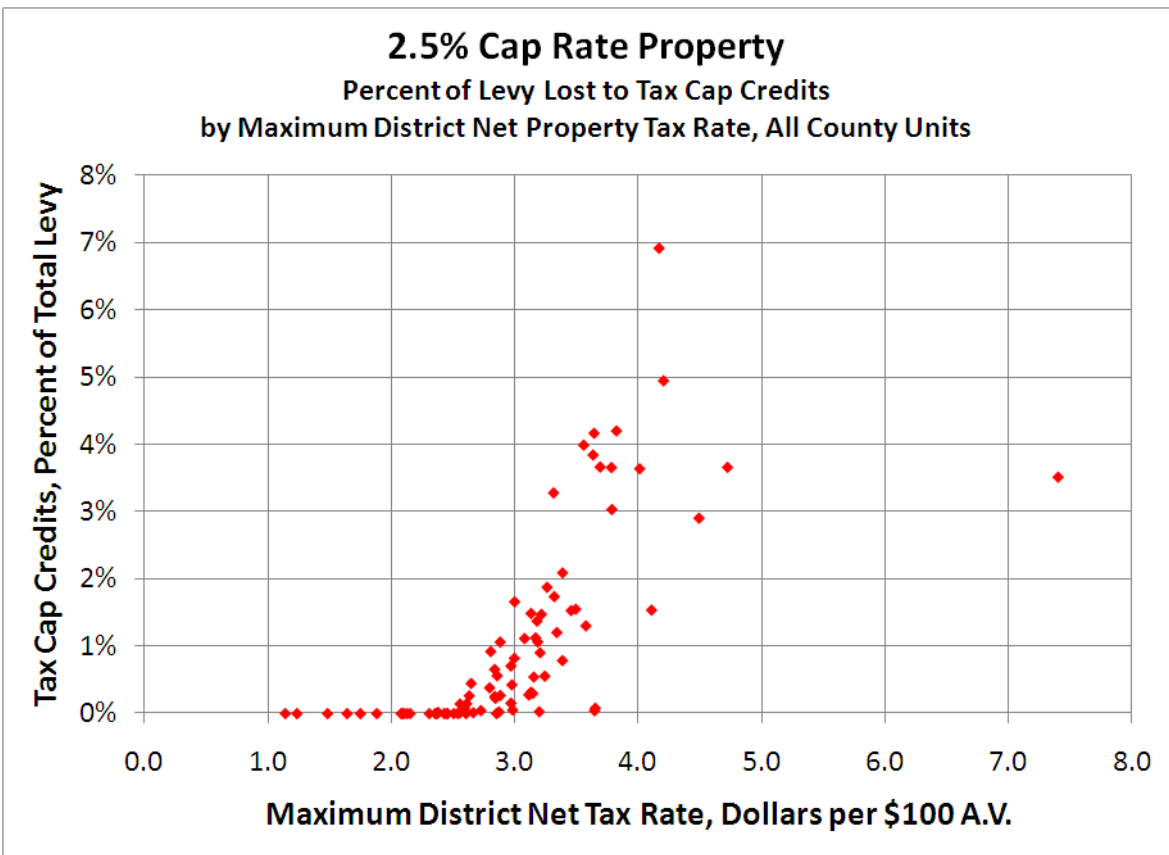


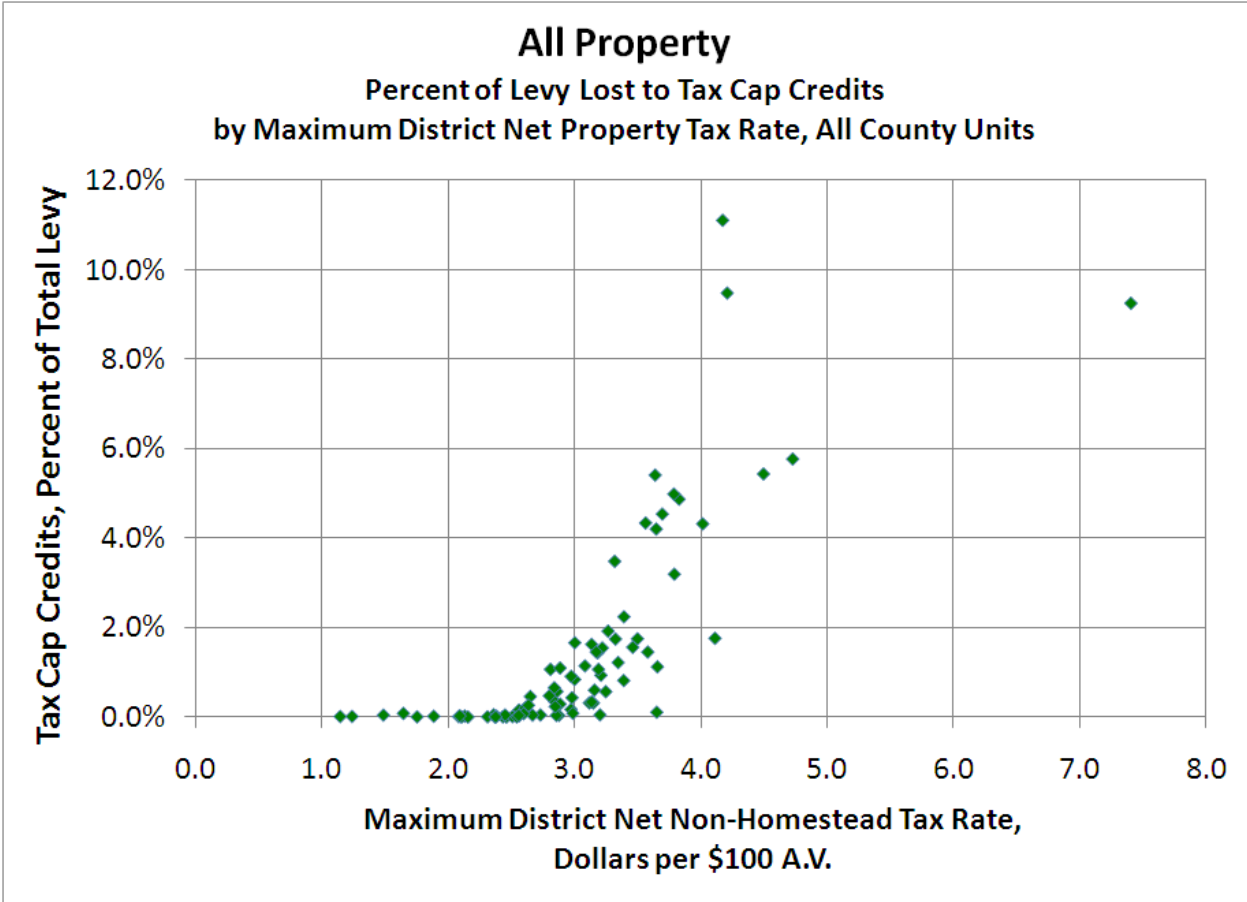
Source: Legislative Services Agency, "Estimated Impact on Net Property Tax," December 1, 2009.

Base Rate per Acre of Farmland for Property Taxation, Actual 1980-2010; and Estimated 2011-2012









Adoptions of the New Local Option Income Taxes

County	Decision Body	First Tax Year	Levy Freeze	Property Tax Relief	Distribution of Tax Relief			Total Public Safety	Total Added Rate	Total LOIT Rate
					All Taxpayers	Homesteads	Homesteads/Rentals			
Benton	County Council (CAGIT)	2008		1.00%	100%			1.00%	2.290%	
Brown	County Council (CAGIT)	2008	0.20%	0.50%		100%		0.95%	2.200%	
Carroll	County Council (CAGIT)	2009	0.20%	0.20%	100%			0.40%	1.550%	
Clay	County Council (CAGIT)	2010		0.75%	100%			1.00%	2.250%	
Clinton	County Council (CAGIT)	2010		0.25%		100%		0.50%	2.000%	
Fayette	Comersville City (COIT)	2008		1.00%		100%		1.00%	2.370%	
Fulton	County Council (CAGIT)	2009		0.25%	100%			0.50%	1.930%	
Grant	Multiple Units (COIT)	2010		1.00%	10%			1.00%	2.250%	
Howard	Kokomo City (COIT)	2008		0.50%		100%		0.50%	1.600%	
Huntington	County Council (CAGIT)	2009		0.25%		100%		0.35%	1.600%	
Jasper	County Council (CAGIT)	2008	0.30%	1.00%	100%			1.55%	3.050%	
Jay	County Council (CAGIT)	2008	0.40%	0.50%		100%		0.95%	2.450%	
Lawrence	County Council (CAGIT)	2010		0.50%	100%			0.75%	1.750%	
Marion	City/County Council (COIT)	2008	0.27%					0.52%	1.620%	
Miami	County Council (COIT)	2009		1.00%	50%	30%	20%	1.25%	2.540%	
Montgomery	Multiple Units (COIT)	2008		1.00%	20%	80%		1.00%	2.100%	
Morgan	County Council (CAGIT)	2008	0.20%	1.00%	100%			1.45%	2.720%	
Parke	County Council (CAGIT)	2008	0.30%	0.25%	100%			0.80%	2.300%	
Pulaski	County Council (CAGIT)	2008	0.40%	1.00%	100%			1.40%	3.130%	
St. Joseph	Multiple Units (COIT)	2010		0.50%	100%			0.75%	1.750%	
Steuben	County Council (CAGIT)	2009		0.25%	100%			0.50%	1.790%	
Wabash	County Council (CAGIT)	2008	0.40%	1.00%	50%	50%		1.40%	2.900%	
Warren	County Council (CAGIT)	2008	0.30%	0.25%	100%			0.80%	2.120%	
Wells	County Council (CAGIT)	2008	0.40%	0.20%	100%			0.65%	2.100%	

Sources: Legislative Services Agency; State Budget Agency; Association of Indiana Counties; Updated December 2009

Local Option Income Taxes

Total counties with LOITs: **24**
New adoptions for 2010: **5**

	<u>Total</u>	<u>New for 2010</u>
Levy Freeze	11	0
Property Tax Relief	23	5
Public Safety	16	4

Property Tax Relief	23
Homesteads	5
Homesteads & Rentals	6
All Property	17

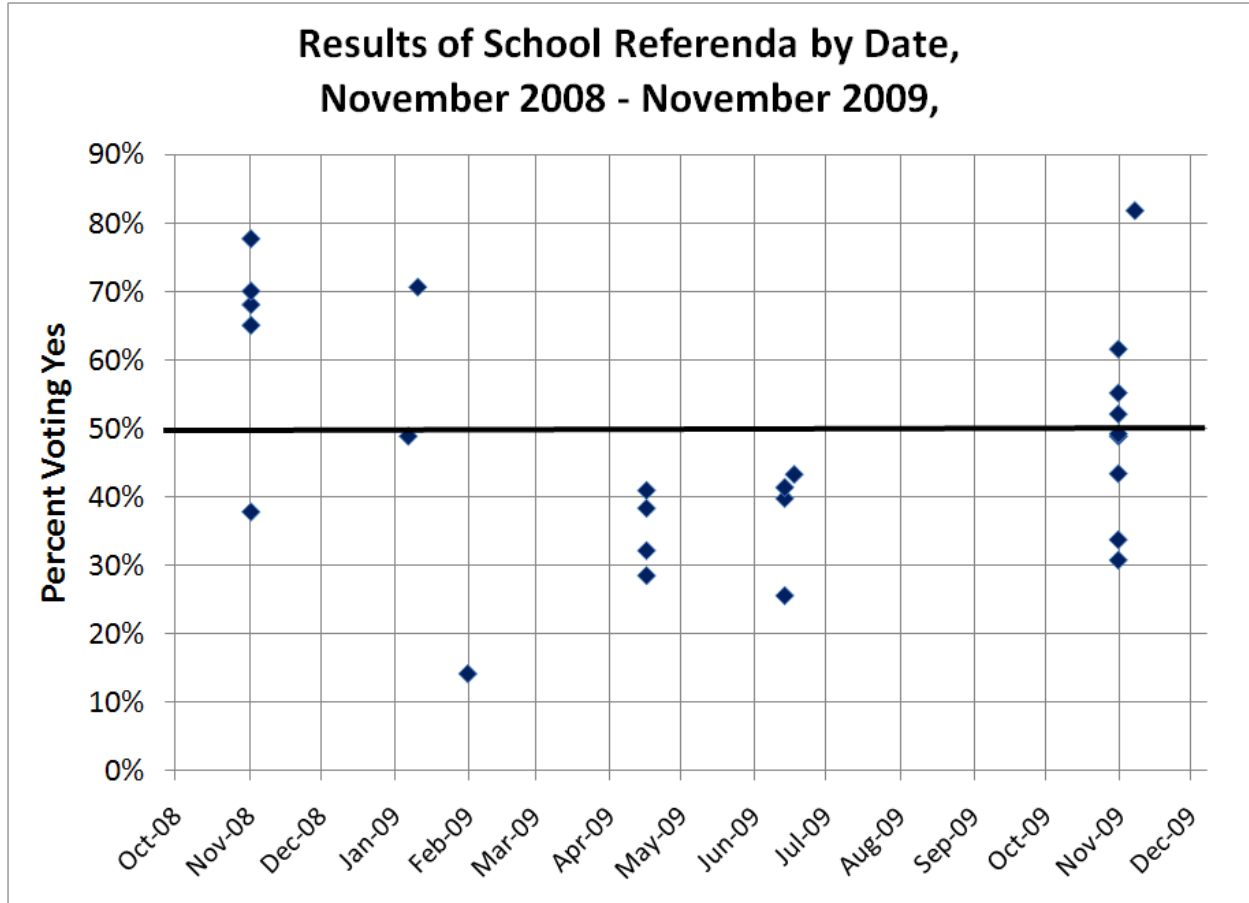
Provides property tax credits to property owners

- Average Homestead Rate: **25%**
- Average Other Residential Rate: **15%**
- Average PTRC (all property) Rate: **13%**

SCHOOL REFERENDA

School Referenda

- 25 referenda since November 2008
- 9 have passed, 16 have not passed
- 20 capital referenda—6 passed, 14 did not pass
- 5 tax referenda— 3 passed, 2 did not pass



Indiana School Corporation Capital Projects and Tax Referenda Results, 2008-2009

(Shaded entries passed; unshaded entries failed)

Date	Unit	County	Project	Project Total Amount (mil)	Tax Rate	Votes For	Votes Agnst	Pct For	Pct Agnst
11/4/2008	Bartholomew County School Corp.	Bartholomew	HS buildg renovation	89.0	0.1700	17,981	8,411	68.1%	31.9%
11/4/2008	Exansville-Vanderburgh Schools	Vanderburgh	New HS & mid school; renovation of buildings	149.0	0.1400	50,030	21,320	70.1%	29.9%
11/4/2008	Ft.rock-Hawcreek School Corp.	Bartholomew	HS/Mid School renovations; elem construction	18.8	0.7800	1,510	809	65.1%	34.9%
11/4/2008	Indianapolis Public Schools	Marion	School building renovations	278.0	0.2025	70,492	20,142	77.8%	22.2%
11/4/2008	Richard Bean Blossom	Monroe	Renovation	35.0	0.3560	2,688	4,416	37.8%	62.2%
1/9/2009	Noblesville School Corp.	Hamilton	New elementary school, renovation of buildings	59.5	0.1506	1,799	1,880	48.9%	51.1%
1/13/2009	Kankakee Valley School Corp.	Jasper	New middle school, renovation of buildings	60.0	0.3000	1,149	476	70.7%	29.3%
2/3/2009	Clinton Central School Corp.	Clinton	Renovation/additions to school buildings	22.6	0.6500	219	1,327	14.2%	85.8%
4/19/2009	Michigan City School Corp.	LaPorte	Career/tech ed center construction	39.5	0.1320	1,223	2,578	32.2%	67.8%
4/19/2009	Mooreville School Corp.	Morgan	Middle School construction	50.5	0.3140	1,674	2,689	38.4%	61.6%
4/19/2009	Mooreville School Corp.	Morgan	High School renovation	45.7	0.2325	1,780	2,564	41.0%	59.0%
4/19/2009	Nineveh-Hensley-Jackson	Johnson	New elementary school, other renovations	26.0	0.2800	647	1,622	28.5%	71.5%
6/16/2009	Delphi School Corporation	Carroll	HS/Middle School renovation	13.1	0.2800	400	605	39.8%	60.2%
6/16/2009	Lake Central School Corp.	Lake	HS renovation/expansion	95.0	0.1230	3,532	4,997	41.4%	58.6%
6/16/2009	Porter Township Schools	Porter	Boone Grove HS remodel	34.6	0.6102	498	1,448	25.6%	74.4%
6/20/2009	Maconaquah Schools	Miari	HS/Middle School renovation	19.4	0.2390	590	772	43.3%	56.7%
11/3/2009	Batesville School Corporation	Franklin/Ripley	Renovations of four school buildings	28.0	0.2020	1,185	1,544	43.4%	56.6%
11/3/2009	Beach Grove School Corp.	Marion	Tax referendum		0.3500	1,383	861	61.6%	38.4%
11/3/2009	Franklin Township School Corp.	Marion	Tax referendum--general fund		0.3333	2,192	4,930	30.8%	69.2%
11/3/2009	Franklin Township School Corp.	Marion	Tax referendum--transportation fund		0.1667	2,240	4,395	33.8%	66.2%
11/3/2009	Perry Township School Corp.	Marion	Renovation/expansion of 17 facilities	98.9	0.2641	3,851	4,025	48.9%	51.1%
11/3/2009	Southern Wells School Corp.	Wells	Tax referendum		0.1250	609	559	52.1%	47.9%
11/3/2009	Southwest Dubois Sch. Corp.	Dubois	HS/Mid School Renovation/improvements	22.5	0.5900	861	698	55.2%	44.8%
11/3/2009	Tell City-Troy Township Sch. Corp.	Perry	High School renovation/improvements	10.0	0.2800	749	772	49.2%	50.8%
11/10/2009	Hamilton Southeastern School Corp.	Hamilton	Tax referendum		0.1000	8,309	1,838	81.9%	18.1%

Compiled by Larry DeBoer, Purdue University, from news reports, Indiana Secretary of State, Department of Local Government Finance and county clerk sources.

School Referenda: What Seems to Matter?

- The proposed tax rate
- The existing debt levy per pupil
- Pupils per teacher and enrollment growth
- The change in the county unemployment rate
- The complexity index (share of pupils eligible for the school lunch program)

School Referenda: What Seems to Matter?

- The proposed tax rate

How much extra will it cost taxpayers?

- An extra ten cents per \$100 AV reduces the “yes” vote by **2.6%**

- The existing debt levy per pupil

How often have they been to the well?

- An extra \$100 per pupil *decreases* the “yes” vote by **2.5%**

- Pupils per teacher and enrollment growth

How great is the need?

- One extra pupil per teacher *increases* the “yes” vote by **10.6%**
- An extra 10% enrollment growth *increases* the “yes” vote by **5.6%**

- The change in the county unemployment rate

How’s the local economy doing?

- A 1% increase in the unemployment rate over the past year *decreases* the “yes” vote by **4.1%**

- The complexity index (share of pupils eligible for the school lunch program)

Renters who don’t pay property taxes (directly)? Urban areas where school quality has a greater effect on property values?

- An extra 0.1 on the index *increases* the yes vote by **13.1%**

School Referenda: What Doesn’t Seem to Matter—Yet?

- Capital referenda vs. tax referenda
- November election vs. special election
- Measures of income or wealth
- Share of parents in the voting population
- Share of retired people in the voting population

