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INDIANA UNIVERSITY PUBLIC POLICY INSTITUTE

POLICY CHOICES

for Indiana's Future



A BALANCED TAX POLICY

ONE KEY TO INDIANA'S ECONOMIC FUTURE

Taxes are, perhaps, the most maligned part of government. And yet, in an economic development sense, tax systems must support everything from the vitality of city cores to the resilience of regional economies. They must support systems and infrastructure – transportation of people, goods, energy, information and more – that are vital to quality of life, business development and job creation.

Indiana's economy and the lives of its citizens have changed in fundamental ways since the jurisdictional boundaries and methods for taxation were initially developed 200 years ago. Despite the Great Recession, Indiana is in a tenuous but manageable fiscal position, and its tax rates are competitive.

But to position the state to compete successfully – regionally, nationally and globally – our tax structure must be dependable, consistent and simple with a diverse and broad tax base. Taxing jurisdictions must adapt to reflect goals, modern life and economic conditions to provide and sustain services and raise revenue.

Context: Federal outlook

Our federal government's fiscal situation and its corresponding actions will have a significant impact on Indiana's future. Deficit-driven federal reforms to spending on infrastructure, entitlement programs and health services could mean fewer federal funds directed to states to cover costs. In addition, corporate taxation at the federal level presents challenges in attracting business investment and retaining global-economy industries.

The United States now has the second-highest corporate tax rate among member countries in the Organization for Economic Cooperation and Development. In addition, the United States is one of very few industrialized countries to tax foreign earnings of home-domiciled global companies. Finally, the United States is falling behind in incentives that encourage innovation. These significant disparities undermine the competitiveness of U.S.-headquartered firms and contribute to the decline in U.S. manufacturing employment.

The ability of our national economy to secure and profit from globally advanced industry jobs directly affects the sustainability of state economies as well. While Indiana cannot directly control what happens in Washington, D.C., our leaders and elected officials should encourage positive action at the federal level to create a business climate that benefits Indiana and other states.

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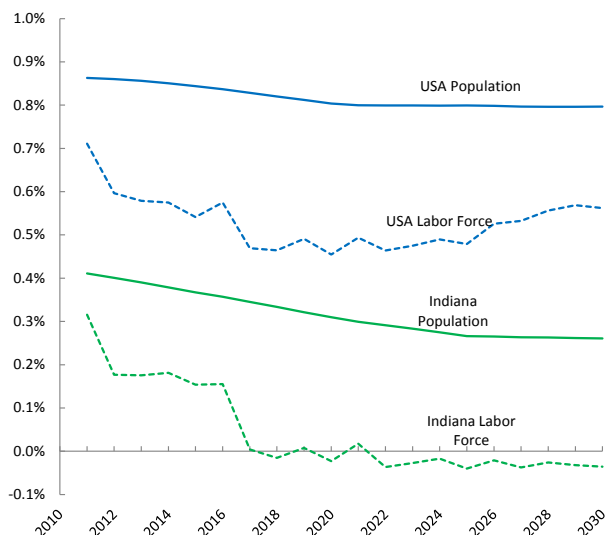
While federal policies greatly influence what policy choices are available to the states, the options presented here focus on what Indiana's policy leaders can control at the state and local level.

Challenges facing the state of Indiana

The last decade presented major challenges for Indiana's economy and long-term prospects for growth. Indiana lost 250,000 of its 3.1 million total jobs between 2008 and 2011. Adjusted for inflation, Indiana personal income grew by 4 percent since 2000, compared to 14 percent for the nation. The economic recovery from the most recent recession has been constrained by people paying off debts instead of spending; household debt as a share of income grew 11 percent between 2000 to 2008, but has dropped 15 percent since.

As the Baby Boom generation reaches retirement age, there will be fewer people in the workforce to support those not working. Consequently, the state has less potential for robust growth in personal income, and, therefore, less potential revenue from individual income taxes. While the national labor force is expected to grow 10 percent during the next 20 years, Indiana's will grow by only 1 percent (Figure 1). In other words, a larger share of retirees will be relying on fewer working people to drive the economy that ultimately supports them. These retirees will consume different services than younger generations, many of which are untaxed. Spending on health services, retirement programs and Medicaid are likely to increase as our population ages.

Figure 1. Projected annual growth rates of population and labor force, 2010-2030



Source: Calculated from the data; U.S. Bureau of Labor Statistics; U.S. Census Bureau

The recent economic downturn produced other harsh realities, as well:

- Indiana owes the federal government more than \$1.8 billion for unemployment benefits, with interest on that debt being paid now.
- The unfunded liability of Indiana teacher pensions has grown from \$7.5 billion in 2000 to \$11 billion in 2010.
- Stagnant personal income growth during this period produced a 7 percent decline in state and local revenue through 2010 (Table 1). Revenues as a percentage of income have dropped as more individuals pay off debt rather than spend or invest. This downturn, in combination with Indiana's increased reliance on consumption and income to drive revenue growth, caused revenue collections to decrease.

Table 1. Indiana state and local tax collections, 2010

Revenue class	2010 Revenue (millions \$)	Annual % change (adjusted for inflation)			Total % change (adj. for inflation) 2000-10
		2000-08	2009-10	2000-10	
Sales Tax	\$5,936	2.80%	-5.90%	2.40%	27.10%
Property Tax (Net)	5,304	-1.1	-4	-1.5	-13.8
Individual Income Tax	3,875	0.4	-11.6	-2	-18.5
LOITs	1,589	4.2	2.4	4.6	56.7
Gaming taxes	875	5.3	-1.3	4.4	53.9
Motor fuels taxes	760	-0.6	-6.4	-2.1	-19
Corporate Income Tax	583	-3.7	-32.3	-7.3	-53.3
All tax collections	23,428	1.3	-7.4	0.1	1.1

Source: Indiana State Budget Agency; Indiana Department of Local Government Finance

Note: Excludes approximately \$300M in corporate tax revenues collected through the E-Checks collection system.

See <http://www.in.gov/filesPress/120611overview.pdf>

To make matters worse, much of Indiana's road network has surpassed its useful life span of 30 years and is in need of immediate repair. Yet Indiana faces significant shortfalls in funding needed to meet current road needs. State Motor Vehicle Highway Funds have decreased due to less driving and increased use of fuel efficient vehicles. The upcoming state budget has distributed less for highway programs than in previous years. In addition, Major Moves Toll Lease proceeds are expected to have been spent by the end of FY13.

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And yet, despite these challenges (or because of them), Indiana has made concerted efforts to maintain its fiscal health through the financial crisis. As a result, state government is in a relatively strong position in the short term, with revenues sufficient to cover budgeted costs through FY 2013. The local government picture is less clear, and comprehensive analyses of local fiscal sustainability are needed. Still, Indiana has many policy options for the future of public finance.

Defining the problem

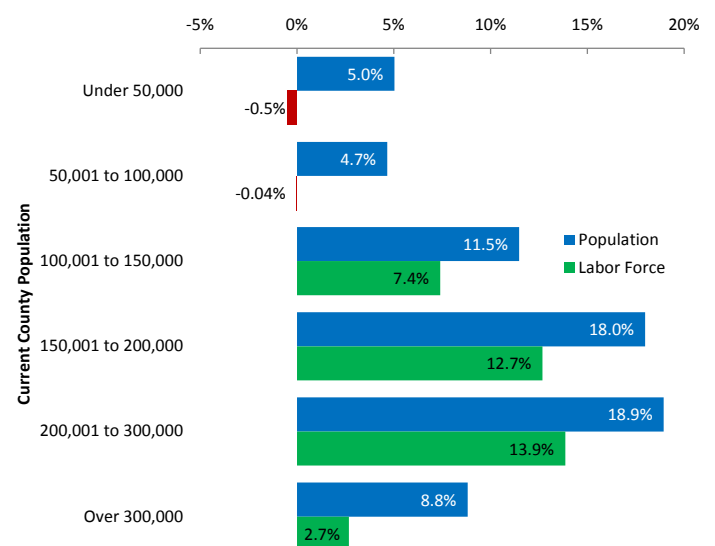
A lack of sustained income growth, especially in key economic sectors, has compounding effects in terms of government revenues and economic vitality. Specifically, it constrains consumption, investments and construction of new homes. It also results in fewer home and property improvements, and stagnant investment in business property. That, in turn, means assessed valuations of Indiana property will likely grow more slowly than they otherwise would, which, of course, reduces property tax revenues for local government. Thus, the recession's impact on personal income will continue to affect local government revenues for some time to come.

Consumption-based taxes are also affected. Since the recession, many households are working to pay off debts and regain a solid financial footing. Constrained consumer spending has decreased prospects for economic expansion because less spending means lower expectations and more uncertainty for businesses. Constrained demand for private goods and services has caused businesses to refrain from investments and from hiring new workers. Ultimately, while lower debt loads and better personal finance management may put citizens in a better fiscal situation, this presents challenges for state governments that rely on sales taxes and other consumption-related revenues to fund services.

In addition, Indiana faces increasing geographic disparities. In rural areas, we can expect the labor force to be smaller in 20 years than it is now (Figure 2). Urban areas will have a greater ability to compete for 21st century jobs, which

are concentrated in science, technology, engineering and mathematics. Ultimately, strategies for economic development and long-term growth need to recognize that different areas have different needs, assets and opportunities for growth. Rural areas may need to consider more growth-from-within strategies and different-from-city tax structures that foster business development and innovations by people who are there for the long term.

Figure 2. Indiana projected total percent growth in population and labor force, by county population, 2010-2030

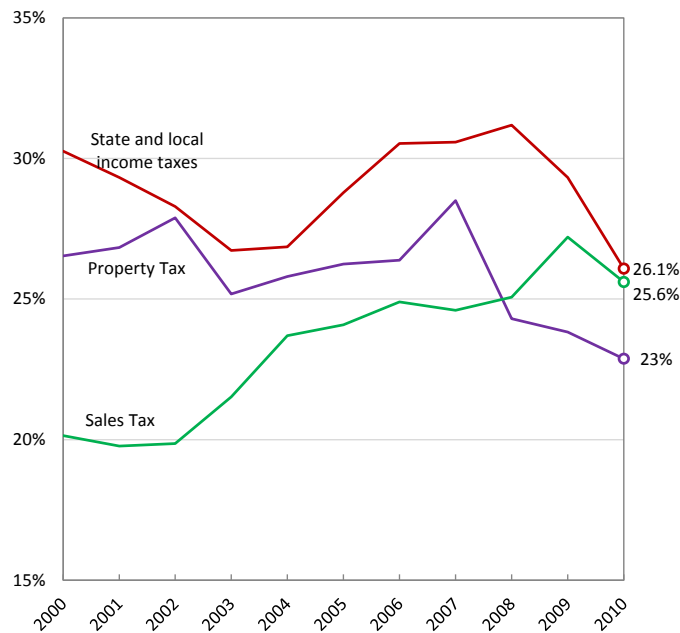


Source: Calculated from the data; U.S. Bureau of Labor Statistics; U.S. Census Bureau

Property tax reform, increases in the state sales tax rate and corporate tax restructuring have altered the mix of revenue, in that government now relies more on income and consumption taxes (Figure 3). But local governments, especially, have been hit hard by these changes. Revenue losses from property tax caps and stagnant growth in local income taxes have forced local leaders to explore cost-cutting and reductions in services.

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Figure 3. Share of state and local revenues from income, property and sales taxes in Indiana (2010 dollars)



Source: Calculated from the data; Indiana Legislative Services Agency

Local governments face greater challenges than state government for fiscal sustainability. Property tax caps and increasing reliance on local option income taxes create more revenue volatility. Generally, taxing districts with higher rates and those in city/town regions face more significant losses of property tax revenue from the circuit-breaker credits (amount over the tax cap). Legislation enacted in 2008 and 2009 is having significant impact on local budgets, and will continue to do so. In recent recession years, distributions of local income tax revenues exceeded collections. Consequently, future distributions will be restrained to allow balances to grow. For 2012, 90 percent of all counties will have income tax distributions at or below 2011 levels, a complete reversal of historical trends.

Finally, Indiana and its communities face a serious challenge in maintaining and enhancing their core assets to promote growth and attract people to live here. A well-maintained and comprehensive network of roads, bridges, sewers, utilities and high-speed Internet access drives quality of life and quality of economy. Current and anticipated federal budget cuts likely mean little to no additional capacity for new projects and insufficient funding for the preservation of our current system. At the local level, recent estimates on

local road needs show a \$5.4 billion backlog on short-term projects (Table 1).

Table 2. Indiana local transportation funding shortfalls

Item	Short term backlog (millions \$)	Long term annual needs (millions \$)
Roads and streets	\$ 3,504	\$ 715
Bridges and culverts	\$ 1,169	\$ 117
Safety Improvements	\$ 706	\$ 26
Total	\$ 5,379	\$ 858

Source: Indiana Local Technical Assistance Program Center

Addressing the problem

Good policy requires specific goals; understanding of our strengths, weaknesses, threats, and opportunities; intentional decision making and continual evaluation of results. Good tax policy also recognizes the desire to keep taxes low and keep government efficient. With growing financial pressure, delivering government services efficiently and pursuing improvements in government design and organization will be essential to maintaining a sound financial picture for Indiana.

The Commission on State and Local Tax Policy agreed early to recommend revenue increases only where necessary to fill shortfalls in existing funding. One such instance is the preservation and expansion of roads. While not recommending specific levels of investments in infrastructure, the commission identified financing to address a portion of the funding gap.

To make Indiana a desirable destination for individuals and businesses the tax system must do the following:

- Enable economic growth and business and individual well-being
- Take a balanced approach to taxation with broad bases and low rates

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- Create consistency, clarity and effectiveness through a purposeful structure and operation of state and local government
- Recognize regional differences in approaches to economic growth
- Emphasize a long-term strategy for infrastructure preservation and enhancement
- Facilitate consistency in its treatment and expectations of businesses and individuals as a precursor to economic growth

Policy choices: A blueprint for tax and organizational reform in Indiana

Government should have clarity of purpose and mission, and its processes should efficiently deliver results for its people. Decision making should be coordinated and evidence-based. Data should inform our expectations about how government should work and guide forecasts of future needs of the state. Indiana needs to recognize the sources of its opportunities and challenges and how it can position itself more effectively to meet these challenges.

While government does not create economic growth, it can encourage growth through its many roles and decisions. The following policy options attempt to better orient our government to enable real growth in the economy and in the well-being of Indiana's citizens.

The most effective way to position Indiana for future success is through targeted enhancements in three areas:

- Preserving an attractive business climate
- Designing a government structure to enable a 21st century growth economy
- Funding necessary maintenance and enhancement of our infrastructure

Preserving an attractive business climate

Taxation must be clear and methods certain. Certainty promotes confident decision making, which contributes to improving the economy.

1. Maintain a balance among income, sales and property tax revenues

The most effective way to raise revenue for public services is through a balanced and diversified portfolio of revenues drawn from relatively equal shares of taxes on income, consumption and property. The ability to raise money to fund government should not be compromised by undue susceptibility to business cycles or overreliance on one type of tax.

2. Keep the tax base broad so that rates can be low

A simple and transparent tax system using broad tax bases and low rates, investments in key infrastructure areas, and fundamental reforms at the state and local level can improve our ability to attract and retain quality jobs and improve the well-being of Indiana's citizens.

3. Limit tax incentives and tax breaks to initiatives of highest priority and expected return on investment

Credits and exemptions are tax expenditures: they are monies foregone with the hopes of creating positive incentives for economic growth and promoting equity in the tax system. Tax expenditures are not subject to budget reviews and can go without formal evaluation for years, with valuable revenue dollars doled out in the process. While some tax expenditures such as the Research and Development Tax Credit have been shown to provide tangible benefits for the state, the performances of the myriad other tax expenditures are not tracked to the extent they should be.

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4. Retain the current individual income tax rate

Indiana's individual income tax is relatively low among states with flat rates (one rate for all payers regardless of income). The Earned Income Credit provides some progressivity to the tax structure, a financial relief for people who earn less. Keeping the individual income tax at its present rate (3.4 percent) provides certainty for individuals and for small businesses that use it instead of the corporate income tax rate.

5. Retain the current, recently reduced corporate income tax rate

The recently enacted reduction in the corporate tax rate from 8.5 to 6.5 percent, combined with a single sales-factor approach, improves our state-to-state comparison and competitive position for business investment. Another percentage point decrease in the rate would get Indiana closer to the national average, but this is not currently affordable.

6. Review all tax credits, deductions and exemptions

Indiana is just one of six states in the country that do not conduct regular reviews of its tax expenditures (credits, deductions and exemptions). Future decisions should be driven by data, evidence and real-time information as to what works through periodic cost-benefit analysis of tax credits, exemptions and deductions. Those incentives that do not provide an adequate return on investment (in the form of lost revenues) should be changed.

7. Consider how to reduce the state sales tax rate by broadening the sales tax base on a revenue-neutral basis to include more services

Indiana's 7 percent sales tax rate is high, and proceeds from the sales tax are now the largest component of state revenues. Also, our economy and consumption continue to trend toward services and away from goods. Nearly 60 percent of all spending is on services, with an increasing share of that going to medical and health services. To reduce the sales tax rate, Indiana

should consider including more services in the sales tax base. Other states have tried taxing services with varying results, none of them a complete success. Yet broadening the sales tax base to reduce the rate would improve our profile in comparison with other states and could increase equity among payers and enterprises. The state should study the issue, gathering input from citizens, businesses, academia and government. Though there are issues associated with taxing services that deserve careful consideration, the general principle of broad-base/lower-rate taxation should create tangible benefits for Indiana's economy and public finances.

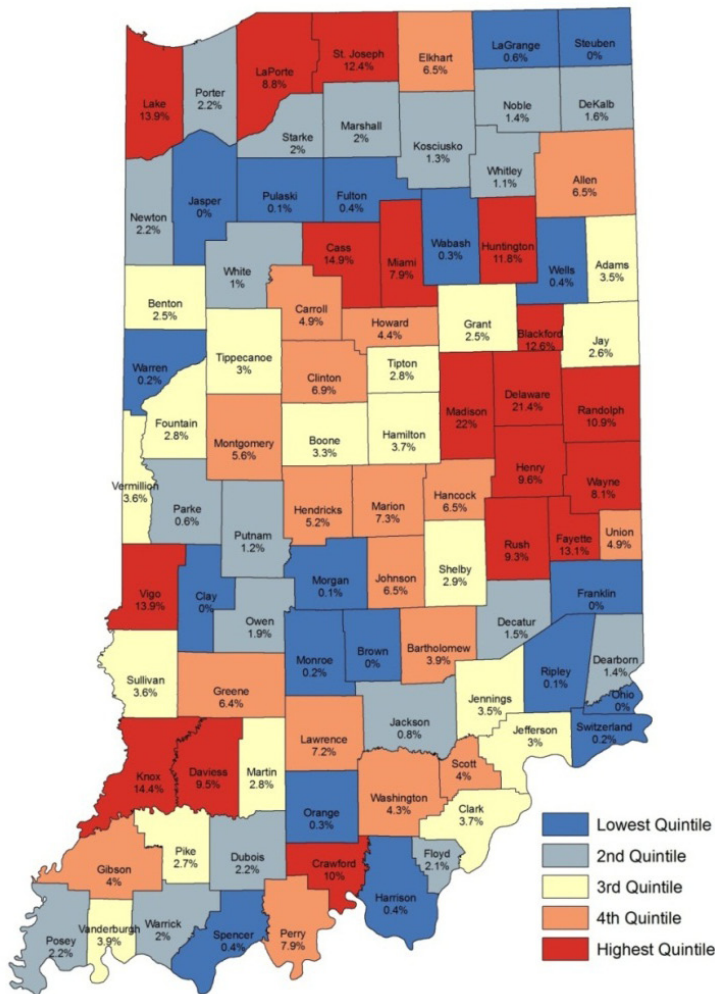
8. Conduct a comprehensive evaluation of the impact of the 2008 property tax reforms

Local governments are now feeling the effects of phased-in property tax rates and caps. The long-term impact on services is not yet clear; the impact on revenue generation is. In 2009, \$163 million in circuit-breaker credits were issued to property owners. In 2010, circuit-breaker losses increased drastically to \$430 million. As a share of total gross levies, circuit-breaker credits represented larger losses for districts with higher tax rates, upwards of 15 percent for districts with rates over \$3 per \$100 assessed values (Map 1). City/town governments were generally hardest hit, with nearly 12 percent of total levies lost to circuit-breaker credits.

As the provider of last resort, local governments must be able to raise revenue sufficient to fund services. Property tax caps, combined with additional freedom to employ local option income taxes, have shifted local government funding away from property taxes and toward income taxes. To ensure that Indiana did the right thing from a policy perspective, the state should conduct a comprehensive analysis of the impact of the 2008 property tax reforms. Indiana leaders should encourage new and innovative ideas for and from local governments to meet fiscal challenges. This study should address the fiscal position of local government under the property tax cap system and consider the options to meet funding needs.

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Map 1. Property tax circuit breaker credits as a percent of the gross levy, 2010



Source: Calculated from data provided by the Indiana Legislative Services Agency

9. Continue efforts to reduce reliance on business equipment and machinery-tax revenue

Indiana's tax on business equipment and machinery ("business personal property tax") impedes economic development and investment in capital equipment. However, taxes on business equipment and machinery represent about 15 percent of property tax revenue, or about \$900 million annually. With property tax caps limiting revenue growth through that mechanism, there is a large opportunity cost to removing or reducing business personal property taxes. A study would need to identify options to replace this revenue.

10. Encourage regional planning and projects and allow regional taxing districts

Investments in regional transportation and in broadband/ high-speed Internet access are examples of critical needs for 21st century economies where use of infrastructure crosses county boundaries. Our civil, city and town, township, and county taxing units were created at a time when property owners likely consumed nearly all their public services within that territory. Often, Hoosiers consume, reside and work regionally and across district boundaries. Those who reside outside a jurisdiction but use infrastructure inside of it do not pay for its preservation and improvement.

Tax policy should enable cities and regions to undertake projects that support economic growth. Increasingly, economic activity – services, purchases and employment – transcend government boundaries. That necessitates a rethinking of how to fund government. The tax system should reflect this reality.

11. Help city centers by sharing a modest portion of local-option income tax revenues between counties of residence and counties of work

Indiana must provide greater means for regional taxation to be imposed on those who benefit from infrastructure and/or services from adjacent jurisdictions without bearing any of the tax burdens. With this focus on regional infrastructure taxing districts, there should be an effort to connect relevant taxation with relevant investment projects.

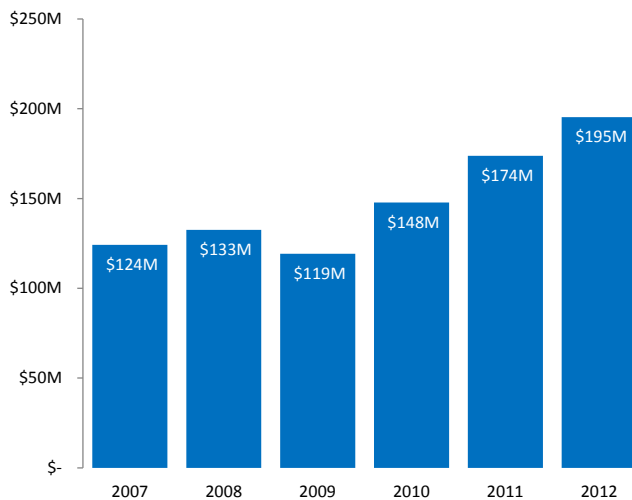
12. Expand the capabilities of the Department of Revenue to analyze collections and costs and benefits of tax policy

Indiana's system of tax administration should be predictable, fair and professional. The increasing level of cross-border commerce creates greater complexities in our tax system. Challenges in cross-state and international commerce require advanced capabilities to administer, assess, audit and review compliance and appeals. The state should provide consistency in applying case history to future decisions. Businesses and individuals should know what to expect based on their circumstances.

13. Provide sufficient resources to the Department of Revenue to enforce collection of the sales tax on Internet purchases

E-commerce makes up an increasing share of total sales. Estimates are that Indiana forgoes \$150-\$200 million annually in e-commerce revenues by not enforcing the use tax (Figure 4). Current tax law imposes the burden on the consumer for paying taxes for online purchases. Brick-and-mortar businesses are at a disadvantage because they must impose the 7 percent sales tax whereas out-of-state and online retailers do not. In addition, interstate commerce allows businesses without a true nexus in the state to set up operations and still avoid collecting taxes on sales within the state. Indiana must ensure that these revenues are collected without violating U.S. Constitutional protections against impeding interstate commerce.

Figure 4. Indiana estimated losses in use tax revenue from e-commerce sales



Source: Bruce, Fox, & Luna. (2009). State and local government sales tax revenue losses from electronic commerce. Retrieved from cber.utk.edu/ecom/ecom0409.pdf

Note: The Indiana Fiscal Policy Institute has more conservative estimates of tax revenue losses.
See <http://www.indianafiscal.org/pdf/IFPI-Internet-Sales-Tax-11.21.11.pdf>

14. Standardize tax treatment of not-for-profit organizations

Many not-for-profit organizations consume large amounts of public services. In the interest of fairness, the state should conduct a study to identify the critical issues in defining entities that receive tax-exempt

status and for establishing an appropriate mechanism for enforcing standards and collection procedures for payments in lieu of taxes. For those groups and organizations that enjoy tax-exempt status, there should be clearly defined rules and classifications for determining the burden that they create on infrastructure and service consumption at the local level. Payments in lieu of taxes should be administered consistently across the state and better represent a real benefit to society.

15. Establish a Midwest interstate compact to coordinate economic development efforts

Competition between locations using tax incentives dilutes the common strengths of Indiana and its neighboring states. A planned system of incentives and tax administration improves the prospects for regional economic growth. Indiana should work with leaders from other states to find consensus on how a regional economy could benefit from standards and consistency in tax treatment.

Designing a government structure to enable a 21st century growth economy

Structuring government around good service delivery can provide budget relief and save time and money for citizens and public employees. Increasingly, organizations have the opportunity to integrate information and empower employees to make more decisions. In turn, they can serve the customer faster and more completely. Toward that end, Indiana should pursue improvements in government design and organization.

One potential area for improvement is to streamline the layers and units of government. Jurisdictional boundaries also serve as taxing-district boundaries. These boundaries define who can be taxed, what they can be taxed for and how much they can be taxed. Moreover, the boundaries determine who will guide the tax policies and oversee the administration of tax dollars. A taxpayer's burden depends largely on where he or she resides. So it is these boundaries – the local government structure – that drive local taxation.

Delineating more reasonable and equitable taxing boundaries is no easy task, but it is vital to improving

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the overall fairness and effectiveness of our tax system. Antiquated jurisdictional boundaries too often leave one group of taxpayers funding infrastructure and services that benefit taxpayers in many surrounding jurisdictions. Significant changes to the structure of local government are necessary to accomplish this. Such changes are needed to ensure the continued prosperity of Indiana communities, large and small.

1. Evaluate the organization of government, the quality of delivery, spans of control and organization layers

Employees who deal with the public need the authority and information to make decisions. Activities should be coordinated to minimize duplication of effort or conflicts in intent. Managers and employees should be empowered to make decisions within prescribed boundaries. Constituents should not have to make multiple stops to resolve basic needs.

In essence, the length of time a Hoosier government employee spends working on a task under his or her own discretion before requiring approval to continue must be determined, and then it must be decided whether or not that is the appropriate amount of management. For example, it might be recommended that no more than four layers exist between the highest and lowest employee within any local agency. When it comes to transactional activities, the span of control could be in a supervisor-to-subordinate ratio of 10-to-1. For operational activities, it could be 7-to-1, and when it comes to strategic or high-value activities, the span of control could be 4-to-1.

2. Promote joint purchasing and other agreements between local government units

Cost savings and better practices can be achieved through coordination of operations and purchasing. Local government leaders should consider potential alternatives to providing services in cases where levies are eliminated. Identify services that can be provided without the levy and those that cannot. A rethinking of the service provision model at the local level supports the need for efficiency in operations.

3. Continue to advocate local government reform and consolidation as a means of improving delivery of services with maximum efficiency, transparency and accountability

Indiana should continue to pursue reforms that encourage faster and better provision of public services, as outlined in the Kernan-Shepard Report on Local Government Reform. Some recommendations have been enacted into law. The state should continue to look at the creation of a County Chief Executive; integration of work of the county Treasurer, Auditor and Assessor; and a statewide benchmarking system for government productivity and fiscal performance.

Funding necessary maintenance and enhancement of our infrastructure

Indiana, like the rest of the nation, faces a serious challenge: maintaining and enhancing its core assets to promote growth and attract people to live here. A well-maintained and comprehensive network of roads, bridges, sewers, utilities and high-speed Internet access goes a long way toward defining the quality of life and quality of economy. If Indiana fails to improve its infrastructure, we'll be at a competitive disadvantage and do a disservice to ourselves as citizens.

In addition to infrastructure needs, Indiana's system of higher education is in need of attention. State funding for higher education has decreased in recent years. Universities are a critical and valuable asset for Indiana's economy. Quality of life, innovation, entrepreneurship, knowledge creation, and the attraction of growth economy jobs are all by-products from a vibrant system of higher education.

1. Consider increasing the gas tax to align with neighboring states and index it to inflation to support infrastructure projects

The state Gasoline Tax stands at \$0.18 per gallon and has been at that level since 2003. Since the tax is a per-gallon charge, the increasing usage of fuel efficient and alternative energy vehicles has eroded the revenue stream even with modest increases in road usage. Adjusted for inflation, gas tax revenues have declined nearly 3 percent on average annually.

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2. Use tolls to finance road expansion projects

The leasing of the I-80/90 corridor and establishment of the \$3.4 billion Major Moves Fund has supported a robust highway program for eight years. The money received by the Major Moves Toll Lease proceeds will be spent by the end of FY13, and Indiana must now develop strategies for funding after its proceeds are gone. Tolls can be a robust mechanism for tying infrastructure funding to usage charges on that infrastructure. Bridges, sewers, water treatment, energy, education and workforce, and broadband infrastructure could also be funded in this way.

3. Develop a state plan for water, energy, information and transit infrastructure

While the need for infrastructure investment is great, there is also a need for more information on the condition and funding necessary to meet these needs. Government has a clearly defined role in preserving roads, bridges and sewers, but its role in areas such as Internet availability is less clear. Indiana should achieve a clear and focused vision of how to ensure that all Hoosier citizens and businesses have access to information delivery services, regardless of geography. In addition, Indiana should work to create and maintain a comprehensive needs and investment plan that details conditions, costs, and revenue shortfalls (where applicable) for all types of infrastructure.

4. Use a state infrastructure bank to support financing, enhance private investment potential and offset risks

State Infrastructure Banks (SIB) help states manage risks associated with large, complex infrastructure projects while acting as a revolving fund to finance more projects within a given timeframe. Indiana established its SIB in 1999, but has used it rarely. The objectives of Indiana's SIB need to be defined publicly and should include scope of work and eligibility requirements, so that entities are better informed on how to utilize this innovative financing technique.

5. Challenge universities and the General Assembly to devise a sustainable strategy for funding higher education to maintain a strong source of innovation

A university education system is a crucial component in producing and retaining the highly skilled and educated workers that employers in high technology and advanced manufacturing industries require. The universities create intellectual capital for 21st century firms. Universities should be clear on what they need to operate and to grow and how the current system either enables or prohibits their mission. The General Assembly should create a focused strategy for funding world-class institutions of learning and engagement.

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About Policy Choices

The Indiana University Public Policy Institute, part of the IU School of Public and Environmental Affairs, developed Policy Choices for Indiana's Future to identify critical issues facing Indiana in the long run. For elected officials, candidates for public office, their policy advisors and those who seek to inform their decisions, Policy Choices provides objective, nonpartisan analysis and recommendations of policy options to address these key issues.

Any objective look at a state's future could cover a wide range of issues – from homeland security to arts and culture, entitlement programs to economic development, pre-school education to eldercare. But everything we do or hope to do – everything – depends on the future of our state's economy.

For that reason, Policy Choices for Indiana's Future chose to focus its research and recommendations on three areas that will have major impact on the collective well-being of our state and the people who live and work here:

Education and workforce:

Develop the highly skilled workforce necessary for economic growth in a knowledge economy.

Energy and the environment:

Leverage the state's energy assets in an environmentally responsible, productive manner.

Tax policy:

Create a balanced tax environment that:

- 1) Enables growth
- 2) Generates the revenue required to efficiently deliver essential services and make the infrastructure investments that will keep Indiana competitive.

Because the issues involved in these three areas are large and complex, Policy Choices relied on the work of three commissions:

- Commission on Education and Workforce Development
- Commission on Energy and the Environment
- Commission on State and Local Tax Policy

Each commission included members of the Public Policy Institute's Board of Advisors, plus additional members from around the state selected because of their subject-matter expertise. Randall Shepard, Chief Justice of the Indiana Supreme Court and Mark Miles, President and CEO of the Central Indiana Corporate Partnership, led the overall project. Staff leadership was provided by the IU Public Policy Institute. You may find Policy Choices work products at www.policyinstitute.iu.edu/PolicyChoices.

The three commissions worked for 18 months to conduct research, prepare analysis and develop options for effective public policy. The three commission reports were then presented to and accepted by the IU Public Policy Institute's Board of Advisors, which now presents these findings, recommendations and choices to Indiana policymakers. The board hopes that policy choices resulting from this report will help Indiana secure a bright economic future.

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