

The Howey Political Report



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“QUOTE” OF THE WEEK

“I didn't pick Dick Cheney because of Wyoming's three electoral votes....”

- Texas Gov. George W. Bush

Espich explains the McIntosh tax plan

Candidate may give details this week

By **BRIAN A. HOWEY**

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INDIANAPOLIS - With growing anticipation over the David McIntosh property tax cut plan, the Republican's campaign made one of the architects of that plan - State Rep. Jeff Espich - available to HPR on Monday.

This *HPR Interview* took place at LePeep's in downtown Indianapolis with Espich and Rob Collins, McIntosh's press spokesman. Prior to the interview, Collins noted that Pat Kiely of the Indiana Manufacturer's Association has not played a major role in development of the plan. HPR had reported the McIntosh campaign as identifying Kiely, Joe Loftus, Kevin Brinegar of the Indiana Chamber and Espich as the chief architects of the McIntosh tax plan. After the interview, Collins said he disagreed with some of Espich's talk of capping growth of all state agencies to the rate of inflation plus 1 percent.

McIntosh is expected to announce details of his property tax cut plan later this week, or, if he speaks at the Republican National Convention, the following week. This is an abbreviated edition of the newsletter, emphasizing this HPR Interview

HPR: Obviously you're going to be the point man on the floor and in Ways and Means should a Gov. McIntosh tax plan become reality. Give us an understanding of how this will work.

Espich: It all goes back to the theory that the Senate had in Senate Bill 21, which was if you restrict the growth in spending, cut that to a level somewhat below the 6 percent we've known as the norm - 3.5 to 3 percent average per year - you would essentially save about \$100 million per percent(age point) that you cut your budget. You've got a \$10 billion budget in the State of Indiana. So if you cut 1 percent, you save \$100 million. The interesting thing is that it's cumulative. If you save \$200 million this year, that's another \$200 million the second year. So by the end of four or five years, you've got a billion dollars you've actually cut out of the spending before it otherwise occurred had you continued to spend at the level of 6 percent. Bill Sheldrake

HPR

INTERVIEW

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BAYH CANCELS VACATION PLANS: WTHR-TV's Kevin Rader reported that U.S. Sen. Evan Bayh has canceled plans to stay at Figure Eight Island in North Carolina, the same vacation destination of Vice President Al Gore. The Bayhs and Gores vacationed at the island last year at the same time, though not together. In response to questions about Bayh and veepstakes, the senator told Rader, "This is a process that needs to be kept confidential. I can be discreet." Bayh said that "the better people to talk to are the Gore people." CNN reported that Gore met with Warren Christopher, his head of veep selection, on Tuesday. CNN identified George Mitchell, and Sens. Bob Graham of Florida, Joe Lieberman of Connecticut, Dick Durbin of Illinois and John Kerry of Massachusetts as on the "short list."

CHENEY IMPACT ON BAYH: Christopher has met with Gore regularly and, Democratic sources say, they have kept the process "as private as possible." How does the Cheney pick impact the potential selection of Indiana Sen. Evan Bayh? There had been some speculation that had Bush selected either Sen. John McCain or Elizabeth Dole, Gore would have to respond with a heavy-

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(of the Indiana Fiscal Policy Institute) has a wonderful bar graph. He went back two bienniums plus this one - three bienniums ago - and said if we had spent at inflation plus 1 percent, which would be 3 to 3.5 percent rather than 6 percent, at the end of this year, at the end of the biennium, we'd have \$1.7 billion per year that would be going unspent. Simply because you save \$250 million the first year, \$500 million the second, \$750 million the third. Very simplistically, I guess, the McIntosh concept is to take that idea and that savings and put it into property tax relief. Frank O'Bannon has been unwilling to talk in terms of that kind of restriction in growth of spending, so he's found it very difficult to offer a comparable plan to property tax relief. There are actually two issues here in terms of tax cuts that we need to talk about. One is the historical promise to cut property taxes by every politician in Indiana since whenever. Frank said four years ago he was going to cut them 12 percent. Nonetheless, there has been that historical promise to cut property taxes. There's been that historical goal of getting rid of the inventory tax to try and stimulate economic growth. The second issue and more urgent perhaps is the issue of the fair market value case. What we find out is that the latest studies show that the average residential property tax bill will go up 32 percent; business down about 18 percent.

HPR: How do we know that if the rules haven't been written yet?

Espich: This is without rules, in essence. This is strictly a fair market value scenario. If you followed the (Indiana Tax) Court decision, you don't have to be that harsh or that specific. That's why we kept telling the governor, "Write the manual. Don't go all the way to fair market value. Go half way or two-thirds of the way." That cuts that residential burden from 30 to 20 percent and then it's not so difficult for all of us to fix that. So when we're talking (about) that 32 percent, that's unaffected by rules. Then you get

into the governor's proposed rule changes and you get into the shelter allowance. The shelter allowance, which most people believe is unconstitutional but is a good political tool, would cut that 32 percent down to about 7 percent. It makes good copy because it helps alleviate that shift burden that will occur to residential property. There are a number of problems with the shelter allowance, first of all being that it's probably unconstitutional. If it wasn't, why didn't we do it a decade ago? Why haven't other states done it? Second thing is, if we base our manual on that, what happens to the average citizen's homeowners bill when it's thrown out? We've made no accommodation protecting them. We've used it all up and suddenly we're faced with the crisis of a court ruling thrown out which I think is very, very likely. Then you really do have homeowners at risk. But going further than that, with the governor's plan, he says he will remove part of the welfare costs....

HPR: Part of the welfare costs?

Espich: We took a small chunk about two years ago, we took about eight tenths of 1 percent. There are actually seven welfare levies and we took two of them away. The governor proposes to take one more of the remaining four or five away and it is the biggest one and even at that, statewide it's only worth 3.8 percent on the average resident's property tax bill. And if you take out the largest five counties, it's down to 2.9 percent. That 3.8 percent the governor proposes doesn't cover that 7 percent either. So even if you take the governor's unconstitutional shelter allowance, it still leaves 7 percent unaccounted for. So you take the average county and you've still got a 4 percent problem for the average homeowner. Now that doesn't sound too bad, except, remember, between now and then the Homestead goes back to 4 percent statutorily in 2002. The 10 percent Homestead we now have falls away after 2002. So now I've got a 4-percent growth on my welfare

bill in the average county, I've got a 6 percent loss of homestead so now I've got a 10 percent increase and between now and then I'm going to have an average net growth in property tax rates of 3.5 percent. So my bill is up 6 percent, 4 percent, (and) another 10 or 11 percent. My bill is up 20 percent by the time Frank O'Bannon's Taxpayer Protection Plan goes into effect. And that's assuming the shelter allowance remains constitutional. If it doesn't remain constitutional my bill goes up 45 percent.

HPR: We're intertwining things here. Critics of the McIntosh plan say it's based on a lot of assumptions - the rate of inflation and the fact that, as Bill Styring says, the economy doesn't tank at some point. And we're what, about 8 or 9 years into economic growth. You say revenues have been going up about 6 percent a year and the inflation rate is what? About ...

Espich: 2 to 3 percent. Let me talk about revenue growth and the stability of it. The governor said at the year-end fiscal conference that revenues have been pretty stable and growing at a rate of about 5 and 6 percent. The fact of the matter is that over the last 20 years, revenues have averaged 6.1 percent growth. There have been years when it's been up as much as 8 or 9 percent and years when it's been as low as 3 percent. In the early '90s, the slow years, we had revenue growth around 3 percent. The fact of the matter is that we will have economic downturns, but even with those economic downturns, we're going to have even better years. I think if you use a 20-year average as the basis of what revenues are going to do, it's a safe bet. It's interesting to note that the feds are even escalating their revenue growth that they see on the horizon. I think you can even assume that revenue growth will get even stronger. According to our fiscal experts, increasing productivity is increasing our revenue growth 2 and 3 percent a year above the norm. I think the bottom line answer is that a 20-year average is secure enough. I think the Mc-

Intosh plan based on 6.1 percent revenue growth over 20 years will work. Now, I'll be honest with you, if the first year that David got into office and we have a huge economic downturn, it might cause him to delay the plan for a year. It could cause a delay, but it wouldn't cause it not to work. David is simply saying that you take that estimate projection and you tie that to an expenditure pattern that is 2 to 3 percent below that and it allows you to fund the \$200 million to \$300 million a year to pay for a sustainable property tax cut.

HPR: Critics are going to play up the potential for an economic downturn.

Espich: It could delay. But David prefers to phase in the tax cut. The homestead would be picked up one year. We've got to do that in 2002. The governor hasn't proposed doing that, by the way.

HPR: That can be extended?

Espich: Why sure. It will cost \$130 million to \$140 million to do it. The governor's Taxpayer Protection Plan is a fraud. He does not have the homestead as part of his plan; there's still going to be the normal growth in property taxes of 3.5 percent a year. Those two alone are 16 percent.

HPR: Thad Nation was quoted in the *Times of Northwest Indiana* over the weekend as saying that for the McIntosh plan to work, revenues would have to be 8 to 10 percent.

Espich: That's flat out not true.

HPR: Explain.

Espich: Once again, the simplistic way to look at it is that we have a \$10 billion budget. That makes each percent of that budget worth \$100 million. So if you save 2.5 percent, you're saving \$250 million a year that you didn't spend. He can say whatever he wants but I think by the end of the week David will be releasing detailed figures on how this will work. I can tell you he will be holding most agencies of state government to inflation plus 1 percent. Education is not going to get 6 plus percent a year from the State of Indiana.

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weight, such as party statesmen George Mitchell or Sam Nunn, both former senators who have significant international achievement. Cheney is seen more as "someone who can govern," as CNN's Bill Schneider put it, with little potential impact on the election and the traditional attributes of geography or the Electoral College (Wyoming has 3 votes). So the Cheney pick would, as CNN reported, "give Gore free rein to follow his own counsel." Those elements tend to present a favorable atmosphere for a Bayh nomination. HPR reported in its June 29 edition (Vol. 6, No. 39) that reliable sources in the Gore campaign say that Gore is more than comfortable with Bayh's ability to govern; that he would likely get the nomination if the criteria were limited to that. So the Cheney selection would tend to point to a governing veep as opposed to one deemed necessary to pull along a critical state or constituency. We still believe that Bayh would play well in the battleground Midwest, where he has had eight years of significant exposure in the Chicago, Cincinnati and Louisville media markets, as well as Indiana TV market exposure beamed into the states of Michigan, Illinois, Ohio and Kentucky - all key battle-ground states. CNN's

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Bill Schneider had a different read, saying that the Cheney selection would allow Gore to choose someone "slightly to his left to nail down his Democratic base." If that is the case, then the conservative New Democrat Bayh would not fit that mold. But former Clinton administration official Mickey Kantor told CNN that the Cheney choice would allow Gore to choose a veep that would appeal to the "independent and moderate" voter.

LUKEWARM DEMO DELEGATES: Indiana delegates and alternates to the Democratic National Convention are not overly optimistic about Al Gore's chances of winning the presidential campaign (Sylvia A. Smith, Fort Wayne Journal Gazette). About half of the delegates said they believe Gore will win, but the other half said he had only a 50-50 chance. Forty of the 46 delegates said Bayh should be on the ticket.

PENCE GETS BOOSTS: Former presidential candidate Sen. John McCain plans to campaign for Mike Pence in the 2nd District in August, and late last week the Club of Growth, a national organization dedicated to electing pro-growth conservatives to Congress, announced its endorsement of Pence (Ken de la Bastide, Anderson Herald-Bulletin).

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HPR: Has that been the average growth recently?

Espich: They've had a 5 percent growth in recent years in education funding.

HPR: So you're saying that it's going to be more like 3 to 3.5 percent?

Espich (looking at Collins): He's going to tell me to shut up.

HPR: OK, but that's a lightning rod the Democrats are going to seize on. They're saying in their *Straight Talk* that there's no way that David can fund the education programs that he's talking about.

Espich: Well, David has acknowledged from the beginning that the growth in state spending would have to be reduced. I don't think there's any secret to that; no apology for that. I don't think most of us believe that more money fixes every ill. Most of us believe there is fat in government. There's our Institute on Higher Education; has anybody looked at them to see if they really need 5 or 6 percent a year or can they get by with somewhat less than that? I don't think David has made any secret of that.

HPR: I'm going to play devil's advocate here. What about the ability to respond to fish kills? We've got Child Protective Services caseworkers with caseloads of 50 or 60 when it should be 25 or 30. State Police need a new radio system. State employees have been getting anemic wages. How do you balance the needs of running a state government and being fair to its employees.

Espich: There has not been a look in two decades at the efficiencies in the operation of state government. I don't think anyone has looked at what could make government work better. The prison system is a perfect example of that. The way we run our prison system is utterly stupid. We pay Community Corrections Corporation of America \$47 a day to keep our inmates and it costs us \$67 a day to keep our inmates and yet we won't contract with them to build a new prison.

There are hundreds of millions of dollars of inefficiencies in state government that can occur without hurting people.

HPR: I've heard people ranging from Dan Coats to Morton Marcus talk about the inevitable shift of responsibility from the federal to state government. Under this plan, he's saying he's going to cap the growth of state spending. And on the other side you've got mayors and city and county council members who fear a shift of the burden from state to local governments, which could also bump up property tax rates. How are you factoring in that shift of responsibility?

Espich: The governor has proposed holding local government spending to 4 percent. Why is it OK for him to propose that locals get along with 4 percent, but not assume that the state can't get along with the same standard? Can't we lead by example?

HPR: Why has it taken so long to provide the details of the McIntosh tax plan? You guys have been taking some major flak over this.

Espich: It's worth having waited this long.

HPR: (laughs) I'm not sure if you can make that case or not.

Espich: I think what David is going to release this week will be an unparalleled revelation by a gubernatorial candidate that he will put together a budget prior to taking office. It is a wholesome, new vision as to what is going on. Many have argued that he doesn't need to be that detailed in the way he presents in how he'll take in and spend money, but now he feels obligated to show with facts and figures how he can accomplish savings in state spending.

HPR: Didn't Bowen pretty much lay out how he was going to restructure the tax code in the 1972 campaign?

Espich: I think he did, but he didn't say how he was going to spend the money. What David McIntosh is going to do is propose how much money he'll spend in various categories.

HPR: When Doc Bowen lowered property taxes, he raised the sales tax in a corresponding way. This reminds me of 1980 when Ronald Reagan came out and said he was going to cut taxes, raise defense spending and balance the budget. Well in retrospect, two out of three wasn't too bad and we did win the Cold War, but it didn't add up at the time and it doesn't seem to add up now.

Espich: Well, we haven't talked about the economic growth that will occur here in Indiana if we cut some taxes. It will make this a better place to bring jobs and business. And everybody agrees that getting rid of the inventory tax will pay for itself almost in the short run. That will allow them to use that money for other purposes.

HPR: Will there be some kind of government efficiency commission?

Collins: I think we're getting too detailed here.

HPR: Well, if you say you're going to try and get substantial savings out of efficiencies, you're going to have to identify them.

Collins: You look at when the House and Senate (in Congress) were controlled by Republicans and they immediately balanced the budget. We now have a surplus. That is our historical model. The risky scheme is what they're saying, but if you look at what happened in Washington, it's very effective. You can grow your way out of tax cuts.

Espich: Philosophically, would you rather elect someone who says this is possible, or someone who says, no, it can't be done? So when David McIntosh says he believes he can cut taxes 25 percent and he falls 20 percent short, that ain't all bad.

HPR: How does Pat Bauer's personal property tax exemption play into this? And was that a good thing?

Espich: Cutting taxes is always a good thing. But that was a pathetically bad way to cut taxes. It cost us \$200 million a year to get rid of what we thought was a small part of the inventory tax. It

costs us \$200 million a year and we've got nothing for it in terms of making Indiana a better place to go and attain jobs. We could have eliminated half the inventory tax. That money could have been utilized far better to help all of us structurally.

HPR: Jeff Lewis has seen this in his TeleResearch polling and we've seen it nationally - cutting taxes is not at the top of the list of most Hoosiers and Americans. Yet it seems as if the Republican Party is obsessed with it. Am I missing something?

Collins: Look at the value and mileage O'Bannon got out of cutting the gasoline tax. It was like \$2 for 60 days. It's how you sell it; how you phrase it.

Espich: There aren't any issues that are burning on people's minds today. We're not in an economic downturn. If you ask anybody in Indiana what's the biggest problem they'd say education. There you get into the thematic thing. If I were running for governor, I'd be talking about making a bigger pie for people and growing the economy. Then you get into the next question: What can you really fix as governor? I think David sees the tax issue as one that he can fix. It can empower people by leaving more money in their pockets and it can bring economic growth, so it can solve two problems at one time. Who believes anyone is going to fix education right now? Does anybody think education will be any better four years from now under Frank O'Bannon than it is today? And I don't believe it will be any better under David McIntosh than it is today.

Collins: There's a lot of frustration on the subject.

Espich: My point is that I don't believe people think you can fix that problem, so what can you fix? If you can fix my tax problem, then at least fix the tax problem and that may help my grandkid stay in Indiana because there's a job for them.

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LUGAR CASH GROWS: Sen. Richard Lugar has nearly \$2.6 million in the bank, an increase of \$220,000 in the second quarter (Tania Anderson, Fort Wayne News-Sentinel). His Democratic opponent, David Johnson, an Indianapolis lawyer, said his cash on hand totaled slightly more than \$1 million, a \$500,000 increase in the quarter. Of that, \$275,000 is a personal loan from Johnson

SO DOES SOUDER'S: Rep. Mark Souder raised almost \$43,000 in the second quarter in his campaign for re-election in the 4th Congressional District. His Democratic opponent, Michael Foster, raised \$13,000 in the same period (Tania Anderson, Fort Wayne News-Sentinel). Souder raised \$31,000 from individuals and more than \$11,000 from PACs. All of Foster's contributions were from individuals. Souder also answered Foster's challenge to debate, saying he is willing to meet his opponent. Foster wants three debates in September and October, but Souder's campaign office said they have not yet received the request.

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