EDITORIAL FW J-G 10/23/15 P. 10A

Paying off the feds

Indiana finally rethinking unemployment debt

State officials are crowing over a plan to pay off Indiana's debt to the federal government for unemployment insurance borrowing.

Indeed, they deserve credit for meeting the longstanding obligation – they just aren't entitled to call it an "early" payoff. The final payment on the state's $2.2 billion federal bailout should have been paid years ago.

Gov. Mike Pence announced Thursday the state will repay the final $250 million owed on its loan with an advance from cash reserves, which have ballooned to $2 billion even as the state pays millions of dollars a year in interest.

When the Great Recession hit, three dozen states had to lean on the federal government to backfill their unemployment insurance trust funds, the source of jobless benefits. When Indiana was enjoying budget surpluses at the turn of the century, there was bipartisan support to increase unemployment benefits and cut premiums paid by employers. As a result, the state's unemployment trust fund ran out even before the downturn hit.

Indiana and Michigan were the first states in line for a handout in 2008, and Indiana remains one of just four states with an outstanding balance. Michigan paid off its obligation years earlier. But Indiana officials resisted.

"We don't want to be in the position of raising taxes and killing jobs and then have the federal government step in and forgive the loans," House Republican Leader Brian Bosma said in early 2010, even as the White House advised that no bailout was planned.

Then-Congressman Mark Souder, R-3rd, weighed in at the time: "When (states) say the federal government needs to bail them out, what they mean is run up the federal debt and have inflation and interest take off because they don't have the guts to face up to their own budget and tax questions."

The General Assembly deserves some credit for earlier changes that will finally make the unemployment trust fund structurally sound. If economic conditions remain strong, the state will build a balance of about $1 billion by 2019.

The belated payoff *is* a good move, as it takes Indiana businesses off the hook for penalties incurred as a result of the debt. Employers are currently paying $105 per employee in tax penalties, but the figure would have grown to $126 per employee next year.

Rep. Dan Leonard, R-Huntington, has been a key player in restoring fiscal integrity to the state's unemployment trust fund. He noted that the payoff will inject $327 million back into the economy.

Tapping the state's general fund for the debt isn't ideal because it shifts unemployment costs to all taxpayers. But Pence's plan – approved by the State Budget Committee – calls for the money to be repaid by the end of this fiscal year. Given that cash reserves have been growing for years with budget cuts and spending reversions, the real question might be "What took so long?"