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FISCAL IMPACT STATEMENT

LS 7470

BILL NUMBER: HB 1001

NOTE PREPARED: May 7, 2013

BILL AMENDED: Apr 26, 2013

SUBJECT: Biennial Budget.

FIRST AUTHOR: Rep. Brown T

FIRST SPONSOR: Sen. Kenley

BILL STATUS: Enrolled

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill does the following.

State Budget: This bill appropriates money for capital expenditures, the operation of the state, the delivery of Medicaid and other services, and various other distributions and purposes.

School Funding Formula: The bill also establishes the K-12 school funding formula.

The bill also requires the Auditor of State to transfer \$150 M to the Tuition Reserve Fund on July 1, 2013, and on July 1, 2014.

State Reserves: The bill provides that the Office of Management and Budget may not consider a balance in the State Tuition Reserve Fund when calculating the amount of state reserves at the end of a state fiscal year for purposes of the automatic taxpayer refund.

Tax Provisions-

Adjusted Gross Income Tax: The bill reduces the adjusted gross income tax rate on noncorporate taxpayers to: (1) 3.3% for taxable years beginning after 2014 and before 2017; and (2) to 3.23% for taxable years beginning after 2016.

Gaming: The bill provides that the racino slot machine wagering tax is imposed on 91.5% of adjusted gross receipts. It also specifies that such adjusted gross receipts include the 15% distribution from racinos. The bill

also caps supplemental distributions of wagering tax revenues at \$48 M statewide.

Inheritance, Estate, and Transfer Taxes: The bill provides that the inheritance tax expires on January 1, 2013, rather than on January 1, 2022. It also specifies that a county is not entitled to an inheritance tax replacement amount for a state fiscal year beginning after June 30, 2013. This bill also repeals the Indiana estate tax and Indiana generation skipping transfer tax.

HAF/QAF: The bill authorizes a hospital assessment fee (HAF) through June 30, 2017 and extends the health facility quality assessment fee (QAF) through June 30, 2017.

Circuit-breaker Credit for Bonds: The bill provides that the exception to the circuit-breaker credit for bonds and leases issued or entered into before July 1, 2008, in St. Joseph County or Lake County also applies to certain bonds or leases issued or entered into to refund those preexisting obligations.

Motor Vehicle Excise Tax and Wheel Tax Provisions: The bill permits a county income tax council to impose a motor vehicle excise surtax and a wheel tax for a county. (Current law permits the county council to impose these taxes.) The bill also specifies that the body that initially imposes the excise surtax and wheel tax is the body that is empowered to increase, decrease, or rescind the excise surtax and wheel tax.

Other Tax Provisions: The bill reallocates certain cigarette tax revenues, updates references to the Internal Revenue Code, changes financial institution tax distributions to local governments, and provides that any increase after January 1, 2013, and before March 1, 2013, in the Marion County supplemental auto rental excise tax rate or the Marion County admissions tax rate may not continue in effect after February 28, 2023.

Transportation Funding Provisions-

MVHA Distributions (Including Sales Tax Provisions): The bill allocates 1% of state gross retail tax collections to the Motor Vehicle Highway Account (MVHA). The bill also removes State Police expenses from MVHA distributions.

Major Moves 2020 Trust Fund: The bill establishes the Major Moves 2020 Trust Fund and specifies that money is to be used exclusively for major highway expansion projects that enhance the ability to transport goods in and through Indiana, upon appropriation by the General Assembly. It provides that the fund is considered a trust fund, and that money may not be transferred, assigned, or otherwise removed from the fund by the State Board of Finance, the Budget Agency, or any other state agency. On July 1, 2013, and on July 1, 2014, the Auditor of State is to transfer \$200 M to the fund from the state General Fund.

Freeway Projects: The bill provides that the Indiana Finance Authority may enter into public-private agreements for freeway projects in addition to toll road projects. The bill defines a freeway project as a nontolled highway project subject to a public-private agreement and specifies that additional statutory authority is not necessary to issue a request for proposals or to enter into a public-private agreement for a freeway project. The bill provides that freeway projects are not subject to a preliminary feasibility and economic impact study required by current law before entering into a public-private agreement for a toll road project. It also provides that lodging facilities constructed on or adjacent to a freeway project are not part of the freeway project and specifies that the general law concerning public-private partnerships may not be construed to affect a project carried out under the law governing public-private agreements for toll road projects and freeway projects.

Other Education Provisions-

Turnaround Academy Tuition Support Repayments: The bill provides that if the State Board of Education determines that the Indianapolis Public School Corporation or any other school corporation is entitled to a distribution to correct the amount that was withheld during July through December 2012 from state tuition support and federal funds otherwise to be distributed to the school corporation under the turnaround academy statute, the state board receives an appropriation of \$7,405,892 to make corrected distributions. The bill also requires the recipient school corporation to dismiss and not pursue any claims against the state, the special management team, or the turnaround academy with regard to distributions.

Scholarship Programs: The bill increases the total amount of school scholarship tax credits that may be awarded in a state fiscal year to \$7.5 M.

The bill also authorizes transfers from the State Tuition Reserve to the state General Fund if the budget director, after review by the Budget Committee, makes a determination that the amount of the distribution for that state fiscal year for basic tuition support has been reduced because the amount of the distributions for the state fiscal year for Choice Scholarships has exceeded the estimated amount of the distributions for Choice Scholarships. It provides that such a transfer may not exceed \$25 M per state fiscal year and specifies that the amounts transferred shall be used to augment the appropriation for state tuition support and shall be distributed to school corporations to restore the distributions for basic tuition support that have been reduced.

The bill also establishes the Science, Technology, Engineering, and Mathematics Teacher Recruitment Fund and establishes the High-need Fields and Minority Student Teacher Stipend Programs. It also repeals the Nursing Scholarship and scholarships for special education, occupational therapy, and physical therapy students. It creates a scholarship program for medical students.

Financial Literacy Program: The Department of Education is to develop a financial literacy program for students enrolled in kindergarten through Grade 12.

State Educational Institution Provisions: The bill authorizes a state educational institution to develop and finance a hospitality facility through a financing and operating agreement with a developer and specifies that the hospitality facility must be generally available to students, faculty, staff, or visitors without discrimination and at reasonable charges.

The bill also repeals certain previously authorized higher education bonding authority.

Medicaid and Social Services Provisions-

Medicaid Provisions: The bill provides that the Family and Social Services Administration (FSSA) may not implement a waiver or Medicaid state plan amendment without having it reviewed by the Budget Committee. The bill also doubles the amounts that FSSA must pay to funeral directors and cemeteries for the burial expenses of Temporary Assistance to Needy Families (TANF) and Medicaid recipients and specifies the distribution of disproportionate share payments for specified fiscal years to specified hospitals and psychiatric institutions.

Department of Child Services Provisions (DCS): The bill requires the Department of Child Services to investigate all reports of child abuse or neglect received from a judge or prosecutor and requires DCS to

forward all reports of child abuse or neglect received from medical personnel, school personnel, a social worker, law enforcement officials or personnel, judiciary personnel, or prosecutor personnel to the appropriate local office.

Department of Correction Provisions: The bill provides that if the Department of Correction or a county incurs medical care expenses in providing medical care to an inmate and the medical care expenses are not reimbursed, the department or the county shall attempt to determine the amount, if any, of the medical care expenses that may be paid: (1) by a policy of insurance that is maintained by the inmate and that covers medical care, dental care, eye care, or any other health care-related service; or (2) by Medicaid. It removes the expiration date for the Medicare plus 4% provision concerning certain medical costs incurred by the Department of Correction or a county.

Miscellaneous Provisions-

Committee Provisions: The bill abolishes the Health Finance Advisory Committee, the Health Policy Advisory Committee, and the Select Joint Commission on Medicaid Oversight, and transfers their duties to the Health Finance Commission. The bill also requires studies of various topics and repeals obsolete study committees.

Postemployment Benefits: The bill requires political subdivisions to annually report certain information concerning other postemployment benefits (OPEB) to the Department of Local Government Finance.

Other Miscellaneous Provisions: The bill restores citation numbering in Article V convention law as adopted by the Senate in SB 224 and requires the county chairman of a major political party to provide the name and address of the precinct committeemen and vice committeemen to an elected official, upon request of the elected official. It also provides for funding of the Securities Division.

This bill appropriates money to defease bonds on the State Museum and the Forensics and Health Sciences Lab, and it provides that on July 1, 2013, the Auditor of State shall transfer \$10 M from the Mine Subsidence Insurance Fund to the state General Fund. The bill also repeals the 2009 appropriation for carrying out architectural and engineering work for a trauma care center in the city of Gary.

Effective Date: Upon passage; January 1, 2013 (retroactive); May 15, 2013; June 1, 2013; June 30, 2013; July 1, 2013; January 1, 2014.

Explanation of State Expenditures: The bill has the following state expenditure impacts.

State Appropriations: The following summary is for state appropriations that are provided in this bill for FY 2014 and FY 2015.

Appropriations by Function (SEC 1-36)	FY 2014	FY 2015	For the Biennium
General Government	\$523,642,431	\$555,701,606	\$155,696,865
Corrections	672,211,305	683,413,528	
Other Public Safety	244,964,926	239,888,921	20,245,372
Conservation and Environment	75,195,919	74,822,172	200,000
Economic Development	66,328,058	66,392,364	60,243,458
Transportation **	242,581,051	242,581,051	
FSSA Administration	15,764,735	15,764,735	
Medicaid **	2,225,353,064	2,162,303,064	
Mental Health and Addictions	253,584,598	253,584,598	
Family Resources	174,444,503	174,444,503	
Aging Services	65,553,385	65,553,385	
Disability and Rehabilitative Services	124,747,172	124,747,172	
Department of Child Services	551,027,286	551,027,286	
Public Health	31,574,164	31,574,164	
Other Health and Human Services	29,998,432	29,919,232	20,000
State Student Assistance Commission	323,982,470	309,211,259	
Other Higher Education	1,496,716,033	1,493,750,914	
Education Administration	18,618,762	18,618,762	
Tuition Support	6,644,500,000	6,714,400,000	
Other Local Schools	187,611,657	220,361,657	
Teacher Retirement	788,916,000	792,705,000	
Other Education	7,532,197	7,532,197	20,980
Distributions ***	110,000,000	72,600,000	
Total Operating	\$14,874,848,148	\$14,900,897,570	\$236,426,675
Construction - Higher Ed			\$272,335,893
Construction - Other			\$472,065,260
Total Construction	\$0	\$0	\$744,401,153
Total GF (Operating + Construction)	\$14,874,848,148	\$14,900,897,570	\$980,827,828
Lottery and Gaming Surplus; BIF	\$10,652,823	\$10,652,823	\$8,864,500
Other Dedicated - Operating	1,145,871,870	1,141,078,492	55,522,528
Other Dedicated - Construction			73,755,918
Tobacco Settlement	119,487,039	119,287,039	24,704,692
Federal	919,900,000	865,899,999	
Total (Dedicated and Federal)	\$2,195,911,732	\$2,136,918,353	\$162,847,638
Total - All *	\$17,070,759,880	\$17,037,815,923	\$1,143,675,466
<p>* Retroactive Appropriations: FY 2013: \$300,000 to Indiana Charter School Board (for operating expenses); \$91.2 M to repay the Common School Fund for outstanding charter school loans; \$70 M and \$58 M to defease bonds on the State Museum and Forensics and Health Sciences Laboratory, respectively; \$1.9 M Preneed Consumer Protection Fund; \$7,405,892 to Dept. Of Education (for turnaround school settlement charges).</p> <p>** Includes appropriations of \$200 M each year to Major Moves 2020 Trust Fund and \$250 M to Medicaid Contingency Fund. Transfer of \$300 M to Tuition Reserve is not included as an appropriation.</p> <p>*** Distributions total does not include \$8.1 M for the Alcoholic Beverage Commission Gallonage Tax or \$203,688 for Motor Vehicle Excise Tax Replacement, which are appropriated annually in current statute but not in this bill.</p>			

Education-

K-12 Education:

School Formula: The bill establishes a school formula for FY 2014 and FY 2015.

The basic changes in the school formula from the current 2013 formula are the following.

1. The formula has been changed from a calendar year basis to a fiscal year basis.
2. The foundation grant is increased from \$4,405 in CY 2013 to \$4,569 in FY 2014 and \$4,587 for FY 2015. The added premium that was awarded schools with an ADM of 500 and above has been discontinued.
3. The free and reduced lunch percentage used in the formula is updated to the 2013 school year's percentage of students eligible for free or reduced lunch. Additionally, it is only used in the FY 2014 formula. In the FY 2015 formula, it is replaced by the percentage of students receiving free textbooks during the 2014 school year. The free and reduced lunch funding level in the complexity index is increased from \$2,190 in CY 2013 to \$2,285 for FY 2014. The free textbook funding level is \$2,294 for FY 2015. As a percentage of the foundation grants, the funding level in FY 2014 and FY 2015 has increased slightly from approximately 49.74% to 50%.
4. The funding associated with the complexity index is computed as a separate Complexity Grant in FY 2014 and FY 2015. The second tier calculation of the complexity index is increased from 1.31 in CY 2013 to 1.33 in FY 2014 and 1.35 in FY 2015. A conversion charter school would be awarded the same complexity grant per student as the sponsor school corporation.
5. The ADM counts are currently taken twice a year, in February and September. Starting in FY 2014, the September count will be used for July- December state tuition support funding computations and the February count for January-June funding computations. Schools will submit an estimated count that will be used until the September count is finalized. In FY 2014 and FY 2015, for the purposes of computing tuition support, the February count cannot be less than 90% of the September count of the previous year, regardless of the actual amount of February count.
6. Previous Year Revenue for FY 2014 is the equivalent Previous Year Revenue for FY 2013 minus the funding in the formula for the complexity index.
7. The transition-to-foundation computation is changed for schools transitioning down to foundation. Schools would transition down to foundation over 5 years in FY 2014 and 4 years in FY 2015.
8. The one-year transition for schools moving up to foundation is continued.
9. The prime time calculation has been discontinued in FY 2014 and FY 2015.
10. The Special Education, Career, and Technical Education grants are funded at the same level as CY 2013. However, the Honors grant is increased from \$900 to \$1,000 per student.
11. Full-Day Kindergarten is funded in the formula for FY 2014 (\$2,448 per eligible student) and FY 2015 (\$2,472 per eligible student).
12. The funding for virtual charter schools is increased from 87.5% to 90% of the school foundation amount multiplied by the current ADM. In addition to special education grants, virtual charters would also be eligible for Career and Technical Education, Honor grants, Complexity, and Full-Day Kindergarten grants.

The following table outlines the increase over current CY 2013 funding levels.

	Current CY 2013	FY 2014	FY 2015
Foundation	4,347,942,332	4,579,886,413	4,622,109,760
Trans-to-Foundation	154,401,494	55,013,154	37,486,670
Complexity	1,056,795,685	1,153,647,268	1,185,400,960
Full-Day Kindergarten	189,864,000	197,301,456	202,081,056
Special Education	508,057,510	513,913,470	517,955,958
Career and Technical	98,052,563	102,256,578	105,012,275
Prime Time	117,484,455	0	0
Honors	18,075,600	20,729,000	21,419,000
Total	6,490,673,639	6,622,747,339	6,691,465,679

ADM Count: The bill makes various changes to clarify if the spring or fall ADM count is to be used in calculations. Currently, there is only one ADM count taken in the fall that is used for the following calendar year. The provision should have minor impact.

Performance Awards: The bill establishes two performance awards. Based on 2011 and 2012 data, approximately 322 school corporations would qualify for awards totaling about \$30 M in FY 2015.

The first award is based on the percentage of ISTEP and end-of-course assessment tests with passing scores. Schools with either more than a 72.5% passing rate or at least a 5% increase in their passing rate from the previous year would qualify for a grant. A school with a passing rate of at least 90% or growth of 5% or more in its passing rate would receive \$47 for each passing test. If a school's passing rate is between 72.5% and 90%, the school would receive \$23.50 for each passing test.

The second award is based on the school corporation nonwaiver graduation rate. A school with a nonwaiver graduation rate over 75% or with at least a 5% increase in its nonwaiver graduation rate would qualify for a grant. A school with a nonwaiver graduation rate of 90% or more or with at least a 5% increase would receive \$176 for each nonwaiver graduate. A school with a nonwaiver graduation rate of between 75% and 90% would receive \$88 for each nonwaiver graduate.

Adjustment to Tuition Support Appropriation for Choice Scholarship Expenditures: The total amount of tuition support consists of funds for basic tuition support, Choice Scholarships, grants, and Mitch Daniels early graduation scholarships. Currently, if the total amount of funds for tuition support to be distributed for a particular year exceeds the total amount appropriated, the amount distributed is proportionately reduced so that the total distribution is within appropriations. For FY 2014 and FY 2015, the bill provides that if the actual amount of expenditures for Choice Scholarships exceeds the estimated amount, the Budget Agency, after review by the Budget Committee, may supplement with a transfer from the Tuition Reserve Fund the appropriation for basic tuition support by an amount equal to the additional expenditure, up to \$25 M.

Charter School Loans: The state would repay the Common School Fund loans made to charter schools for the first six months of operation before the school received tuition support funding. As of June 30, 2013, there will be about 194 outstanding loans totaling about \$91.2 M.

Admission to the Transition-to-Training (T2T) Program: Under current law, the admission requirements for the T2T program include some combination of a bachelor's degree (with a specific GPA), a master's degree,

and professional experience in the content area the applicant desires to teach. This bill expands the requirement to include applicants who possess a bachelor's degree and proof that the individual has passed the state-approved content area examination in the subject area that the individual intends to teach. This should increase the pool of applicants for the program.

Excel Centers: The Excel Centers for Adult Learners, a charter to a school that would serve students who are at least 20 years of age and who have dropped out of high school before receiving a diploma, that are located in Indianapolis, Anderson, Kokomo, Lafayette, and Richmond, the Christel House Academy DOR center, and the Gary Middle College charter school would be removed from funding through the school formula and funded as a separate line item in the state budget. Funding would be at \$6,600 per student.

The bill also prohibits the granting of new charters to Excel Centers. The bill authorizes the mayor of Indianapolis to grant a charter to a maximum of three Christel House Academies that will serve these students. The charters must be granted before July 1, 2013. These charter schools are not entitled to receive state funding.

Science, Technology, Engineering, and Mathematics Teacher Recruitment Fund: The bill establishes the Science, Technology, Engineering, and Mathematics Teacher Recruitment Fund to provide grants to Indiana organizations that recruit science, technology, engineering, and mathematics teachers for employment by Indiana school corporations. The Education Roundtable will administer the fund. The roundtable is to establish the following two programs:

1. A grant program to encourage the growth of existing organizations that recruit science, technology, engineering, and mathematics teachers.
2. A grant program to encourage the establishment of programs that increase the pool of high-quality science, technology, engineering, and mathematics teachers in Indiana.

The nonreverting fund consists of appropriations made by the General Assembly, grants, gifts, and donations. *State Tuition Reserve:* The bill requires the Auditor of State to transfer \$150 M from the state General Fund to the State Tuition Reserve fund on July 1, 2013, and an additional \$150 M on July 1, 2014.

Minority Teaching Scholarship Program -The bill creates the Minority Teaching Scholarship Program in place of the Minority Teacher or Special Education Services Scholarship Program. On June 30, 2012, the Minority Teacher or Special Education Services Scholarship Fund had assets of about \$33,030 and had awarded scholarships of \$328,383 to 151 students. Scholarship recipients in this program have to agree to teach for at least three years following certification as a teacher. In the previous program recipients had to agree to teach for at least three of first five years following certification.

High-Need Student Teaching Stipend - The bill creates the High-Need Student Teaching Stipend to be paid to students when they do their student teaching in special education or a high-need field. The stipend may not exceed \$5,000 if the student's GPA is at least 3.5 based on a 4-point scale or \$4,000 if the student's GPA is between 3.0 and 3.5.

Minority Student Teaching Stipend Fund -The bill creates the Minority Student Teaching Stipend to be paid to minority students when they do their student teaching as part of the student's degree requirements. The stipend may not exceed \$5,000 if the student's GPA is at least 3.5 based on a 4-point scale or \$4,000 if the student's GPA is between 3.0 and 3.5.

Nursing Scholarship Program: The Nursing Scholarship Program is terminated. The Nursing Scholarship

Fund is repealed, and the balance in the fund on June 30, 2013, is to be transferred to the state General Fund. On June 30, 2012, the Nursing Scholarship Fund had assets of about \$172,926 and had awarded scholarships of about \$326,501 to 313 nurses. The annual General Fund appropriation to the Nursing Scholarship Fund was \$377,179.

Primary Care Shortage Area Scholarship: The bill establishes the Primary Care Shortage Area Scholarship to provide scholarships to medical students enrolled at the Marian University College of Osteopathic Medicine who agree to provide primary care services (i.e., family practice, pediatrics, obstetrics and gynecology, internal medicine, and psychiatric services) in a shortage area after becoming a licensed physician (including an osteopathic physician). The stipend would be a maximum of \$10,000 annually, and a qualified student may receive the scholarship for a maximum of four school years. The Marian University College of Osteopathic Medicine is to administer the program. The school is to submit a written request to the Commission for Higher Education (CHE) for approval. After approval, the CHE would forward the request to the Budget Committee for review.

Turnaround Schools: The bill makes a FY 2013 appropriation of \$7,405,892 from the state General Fund to the State Board of Education to make distributions to the Indianapolis Public School Corporation and any other school corporation of amounts that were withheld from state tuition support and federal funds during 2012.

Financial Literacy Program: Under the bill, the Department of Education is to develop a financial literacy program for students enrolled in kindergarten through Grade 12. The program must emphasize the following:

1. Developing financial responsibility.
2. Managing personal finances.
3. Using credit and incurring debt.
4. Saving and investing.

As the bill makes no specific appropriation for this program, it is expected that the Department would develop this program within existing resources.

Choice Scholarship: The bill would require that for a student or sibling of the student to qualify for a Choice Scholarship because they received a scholarship from a scholarship granting organization that the scholarship be at least \$500. This provision would apply for scholarships received for the first time after June 30, 2013.

The bill increases the maximum Choice Scholarship for 1st through 8th grade students from \$4,500 to \$4,700 for FY 2014 and to \$4,800 for FY 2015. In FY 2013, approximately 3,854 of the 9,135 Choice Scholarships were funded at the \$4,500 maximum level. As a result, in FY 2013, a \$200 increase in the maximum scholarship for 1st through 8th grade students would have cost an additional \$770,800; a \$300 increase would have cost an additional \$1,156,200. The impact could grow as more students use the Choice Scholarship Program.

University Bonding: The bill removes the bonding authority of three university projects included in the 2007 and 2009 budget bills that are no longer necessary. The following is the list of the projects.

Project	Amount
Ivy Tech - Lamkin Center of Instructional Development and Leadership	\$1,000,000
Ivy Tech - Warsaw A & E	\$1,000,000
Indiana University Purdue University Fort Wayne Northeast Indiana Innovation Center	\$10,000,000
Total	\$12,000,000

Tax Provisions-

Inheritance, Estate, and Transfer Taxes: The bill eliminates replacement payments from the state General Fund for a state fiscal year beginning after June 30, 2013. Current law provides that counties will not receive distributions for state fiscal years beginning after June 30, 2022. (See *Explanation of Local Revenues.*)

There could also be a savings to the DOR from a reduction in staff of the Inheritance Tax Section. The April 1, 2013, state staffing table indicates that the Inheritance Tax Division has eight full-time employees with an annual salary of about \$318,000. Current law provides for a phaseout of the Inheritance Tax by CY 2022, which could also result in savings from a reduction in staff over time.

Admissions Tax Supplemental Distributions: The bill caps the admissions tax supplemental distributions from the state General Fund at \$48 M in any fiscal year. This supplemental distribution provides a guaranteed distribution (up to FY 2002 distributions) to the state and local entities receiving admissions tax distributions. If the admission tax distributions to the entities fall short of the FY 2002 distributions, then a supplemental distribution is made before September 15th of the subsequent fiscal year. The distributions were \$43.0 M in FY 2013 and are estimated to be \$46.2 M in FY 2014 and \$47.0 M in FY 2015. The cap is not estimated to impact the distributions in the FY 2014-FY 2015 biennium. In the future, if the attendance at the riverboat casinos (excluding the French Lick Casino) declines to the extent that the difference between the FY 2002 base-level distributions and the revenue from the admissions tax in a particular fiscal year is more than \$48 M, then each entity's supplemental distribution for that fiscal year would be reduced in proportion to their share of that fiscal year's admissions tax revenue.

Department of State Revenue (DOR): The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes made by the bill. The DOR's current level of resources should be sufficient to implement these changes.

EDGE Reporting: The bill requires the Indiana Economic Development Corporation (IEDC) to annually report the amount of EDGE credits granted in the prior state fiscal year to the State Budget Committee. The IEDC's current level of staff and resources should be sufficient to implement this provision.

Social Services Provisions-

FSSA Emergency Rule Extension: The bill extends until December 31, 2013, the provisions of emergency rules concerning a 5% reimbursement reduction for podiatric, chiropractic, and dental services and for emergency transportation services. The rules also provide for a 10% reduction in reimbursement for nonemergency transportation services. This provision would extend the savings realized by the

reimbursement reductions for an additional six months beyond the expiration date. The extent of the savings is not known at this time.

Medicaid Contingency and Reserve Account Appropriation and Revisions to the Medicaid Program: The bill appropriates in FY 2014, \$250 M to the Medicaid Contingency and Reserve Account. [This \$250 M appropriation is listed in the appropriations summary table, above.] The bill also specifies that FSSA may not implement any Medicaid State Plan amendment, waiver request, or revision to a State Plan amendment or waiver unless FSSA has submitted a written report to the State Budget Committee concerning the change and the Budget Committee has reviewed the amendment, waiver, or revision.

Department of Corrections (DOC) and County Sheriff's Medicaid Provision: The bill extends the provision that establishes the reimbursement for medical care services provided to persons subject to lawful detention at Medicare rates plus 4%, or 65% of the amount charged for services without a Medicare reimbursement rate. The bill also requires the DOC and counties to attempt to determine the amount, if any of medical expenses that may be paid by an offender's private health insurance or by Medicaid. The provision applies to all health care services that may be provided to an offender. The only Medicaid reimburseable service involves inpatient hospital or medical facility stays of greater than 24 hours. Services supplied to Medicaid-eligible inmates would not be reimburseable at the Medicare plus 4% rate. This may result in providers being reluctant to provide services to the inmate population. The Division of Family Resources would need to establish Medicaid eligibility for DOC offenders in order to exclude them from the population that is to have certain health care services reimbursed at the Medicare plus 4% rate. The Office of Medicaid Policy and Planning (OMPP) would be providing the state matching funds for the Medicaid services that may be provided to the eligible inmate population; the DOC and counties with detainees with eligible services would realize savings as a result of this provision. The amount of savings that may be possible is not determinable at this time.

Currently, the Medicaid Act provides an exception to the inmate prohibition for federal matching funds when a resident of a state institution or inmate becomes an inpatient in a medical institution. CMS has clarified that federal matching funds would be available when a resident or inmate is admitted as an inpatient to a hospital, nursing facility, juvenile psychiatric facility, or ICF-MR, provided that they have been admitted for longer than 24 hours and meet any additional criteria for the services such as income eligibility or level-of-care requirements for long-term care. Current Indiana Medicaid eligibility is not available generally to nondisabled adults without dependent children. The inmate exception could result in an undetermined level of savings with regard to inmates or residents that are currently eligible for Medicaid who require inpatient services. Examples would be inpatient labor and delivery services for pregnant women or juvenile offenders admitted to private inpatient psychiatric facilities. The level of savings available would depend on the extent of inpatient services currently provided that could qualify for Medicaid federal financial participation. However, there are no data available at this time regarding the extent of acute inpatient care paid for residents of state facilities or county jails. The State Budget Agency currently administers an annual General Fund appropriation of \$25 M specifically for payment for medically necessary services provided outside the institutions. The extent to which these services include inpatient services would determine the potential level of savings available to the state. Initial savings may be offset by administrative expenses necessary for OMPP to implement a program and coordinate with the affected agencies.

If Indiana Medicaid would be expanded under the provisions of the Affordable Care Act to include adults under the age of 65 with income below 138% of the federal poverty level, this exception might provide for the possibility to realize increased savings on inpatient acute-care medical expenses incurred for residents of state-run institutions and inmates of state and county correctional facilities. Members of a newly eligible

adult group would further be eligible for 100% federal matching reimbursement for the period of time between January 1, 2014, through January 1, 2017.

TANF Funeral and Cemetery Expenses: The bill doubles payments made for the funeral and cemetery expenses to \$1,200 and \$800, respectively, for individuals who were recipients of TANF and Supplemental Assistance. FSSA reports the increased payments will increase state expenditures by approximately \$1 M.

Early Education Matching Grant Program: The bill establishes an Early Education Matching Grant program for eligible child care providers in the state. As a condition of receiving grant funds, an eligible child care provider must first obtain a gift or grant from any combination of foundations, nonprofit entities, individuals, or for-profit entities. The bill annually appropriates \$2 M for grants for the program. Because a maximum matching grant amount is not specified in the bill, the total number of annual grant recipients under the program is indeterminable.

Transportation Provisions-

MVHA Funding Provisions: The bill removes the payment of various expenditures that have historically been paid out of the MVHA, including expenses for the BMV, DOR, and the Criminal Justice Institute. These expenses will be paid instead out of other funds. In total, the removal of these expenses, plus the State Police expenses, will cost the state General Fund and other funds an estimated \$134.7 M per year.

Major Moves 2020 Trust Fund: The bill also establishes the Major Moves 2020 Trust Fund and specifies that money is to be used exclusively for major highway expansion projects that enhance the ability to transport goods in and through Indiana. The bill provides that the fund is considered a trust fund, and that money may not be transferred, assigned, or otherwise removed from the fund by the State Board of Finance, the Budget Agency, or any other state agency. The bill also provides that on July 1, 2013, and on July 1, 2014, the Auditor of State is to transfer \$200 M to the fund from the state General Fund. The Treasurer of State is to invest the money in the nonreverting fund not currently needed to meet the obligations of the fund. The administration of this new trust fund falls within INDOT's routine administrative functions. [This \$200 M annual appropriation is reflected in the appropriations summary table, above.]

Freeway Public-Private Agreement (P3) Authority: The bill expands the authority of the IFA to develop nontolled facilities as P3 agreements. To the extent that the IFA could undertake a P3 for a facility that does not generate its own revenue, other revenue sources for repaying debt instruments would be required.

Elimination of requirements for a freeway P3 concerning the General Assembly's approval and completion of a preliminary feasibility study and an economic impact study prior to issuing the request for proposal could reduce time and cost to initiate a freeway P3. The requirements for a P3 for a tolled facility remain unchanged.

Validation of Agreements Entered: To the extent that any actions concerning agreements for projects undertaken within a metropolitan planning area that connect Indiana with Kentucky and that are entered into prior to April 15, 2013, may be subject to a lawsuit, the legalization and validation of these actions taken could reduce potential litigation.

Repeal of Committees-

Repeal of the Select Joint Commission on Medicaid Oversight: State expenditures will be minimally reduced due to the repeal of the 12-member Select Joint Commission on Medicaid Oversight. The Commission met twice during the 2012 interim and had expenses of about \$3,800. Legislative Council Resolution 12-02 established budgets of \$9,500 for study committees with less than 16 members. The resulting reduction in expenditures will depend upon whether the Health Finance Commission has to hold additional meetings in order to incorporate the duties currently assigned to the Select Joint Commission on Medicaid Oversight.

Repeal of the Health Finance Advisory and Health Policy Advisory Committees: The bill also repeals the Health Finance Advisory and Health Policy Advisory Committees within the Health Finance Commission. The Health Finance Advisory Committee has not met since the 2003 interim, and the Health Policy Advisory Committee has not met since the 2006 interim. As a result, repealing the committees should have no fiscal impact.

Repeal of the Illiana Expressway Proposal Review Committee: The bill repeals the Illiana Expressway Proposal Review Committee, which operates under the policies governing study committees adopted by the Legislative Council. This committee has not met since the 2009 interim. As a result, repealing the committee should have no fiscal impact.

Other Provisions-

Reed Act Provisions: The bill extends indefinitely the ability of the Department of Workforce Development (DWD) to spend Reed Act funds received from the federal government in 2002. In 2003, \$72.2 M in federal Reed Act funds were appropriated to DWD for the modernization of the unemployment insurance system, the JOBS proposal to meet the workforce needs of Indiana employers in high-wage and high-skill occupations, and the administration of the state’s workforce investment boards. DWD has approximately \$4 M in these Reed Act funds remaining that have yet to be spent.

Leave Conversion Pilot Program: This bill extends the leave conversion pilot program for legislative and judicial branch state employees through June 30, 2016. The fiscal impact of this provision will depend on legislative and judicial branch actions and appropriations. Annual expenditures since FY 2006 for the current leave conversion pilot program are reported in the table below.

<u>Fiscal Year Expenditures</u>	
FY 2006	\$426,560
FY 2007	\$376,687
FY 2008	\$389,956
FY 2009	\$381,505
FY 2010	\$257,488
FY 2011	\$287,277
FY 2012	\$223,269

The current leave conversion pilot program allows legislative and judicial branch state employees to annually convert vacation leave hours and sick leave hours to cash that is deposited into a 401(a) retirement savings account. The conversion rate is 60% of an employee’s hourly pay rate. The number of hours an employee can convert each year depends on the employee’s balance of vacation leave and sick leave hours.

Rainy Day Fund Transfers: The bill changes the calculations that are made to establish the annual appropriation to and from the state General Fund and the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund). It defines “current reporting period” as the most recent reporting period for which the following information is published by the Bureau of Economic Analysis: (1) the Implicit Price Deflator for the Gross Domestic Product and (2) State Personal Income. It replaces the references to ‘calendar year’ to ‘reporting period’ and ‘Gross National Product’ to ‘Gross Domestic Product’.

Excess State Reserves: The bill makes changes to the current law as it relates to the use of excess state reserves. Under current law, after the end of each odd-numbered state fiscal year, the Office of Management and Budget (OMB) is required to establish the amount of excess reserves. Current law specifies that: (1) if the amount of the excess reserves, including any carryover amounts, are less than \$50 M, the excess reserves shall be carried over to the next year; and (2) if the excess reserves are \$50 M or more, 50% of the excess reserves shall be transferred to Pension Stabilization Fund and 50% of the excess reserves shall be used for the purposes of providing an automatic taxpayer refund. The bill requires 100% of the excess reserves in FY 2014 to be transferred to the Pension Stabilization Fund, with no transfer being made for the automatic taxpayer refund. The bill does not make any changes to the use of excess reserves beyond FY 2014.

Local OPEB Liability Reporting: The bill requires that local units must report annually by February 1 to the DLGF on the state of their other postemployment benefits. Specifically, local units must provide information on OPEB liabilities, OPEB unfunded liabilities, OPEB assets, OPEB contributions, and OPEB expenditures of the preceding year.

According to SEA 249-2013, local units must also report annually to the State Board of Accounts (SBOA) on the liabilities of their pension plans and will do so through the Indiana Transparency Portal (ITP). The ITP is a joint collaboration between the Office of Management and Budget (OMB), DLGF, and SBOA. If the OPEB liability of the units is to be reported in the same manner as in SEA 249-2013, then the additional data collection falls within DLGF’s routine administrative functions, and the agency should be able to implement the provisions with no additional appropriations, assuming near customary agency staffing and resource levels.

Political subdivisions regularly report information to DLGF via the ITP. However, some political subdivisions may incur additional costs to provide the required data for their OPEB plans, particularly if the political subdivisions do not currently have actuarial reports on those plans.

[OPEB are benefits *other than pensions*, generally taking the form of health, dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. It may also include some types of life insurance, legal services, and other benefits.]

State Personnel Study: The State Personnel Department is to study the employee benefits provided to state employees and report their findings and any recommendations to the Budget Committee prior to December 1, 2013. The bill’s requirements are within the agency’s routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Article V Convention Delegates: This bill provides that if vacancies in the offices of delegate or alternate delegate to an Article V Convention occur, then the General Assembly may fill the vacancies. There should not be any additional cost associated with filling vacancies if the General Assembly is still in session. If the Governor calls for a special session of the General Assembly for the purpose of filling the vacancies of both

a delegate and the paired alternate delegate, then there would be additional state expenditures. The following table provides estimates for a one-day special session.

Estimated Expenditures for One Day of Special Session	
Per Diem*	\$13,680
Travel**	\$14,894
Total***	\$28,574
<p>* Effective 10/1/12, legislators receive \$152 per diem for every day in session (including Saturday and Sunday) and \$60.80 per diem for every day not in session. The net effect on state expenditures is an additional \$91.20 per diem for every day in special session.</p> <p>** Legislators are entitled to mileage for one round trip per week while in session.</p> <p>*** The House and Senate would also incur an unknown minor amount of expense for temporary session staff (doorkeepers and other temporary staff).</p>	

The bill provides that a delegate or alternate delegate who knowingly or intentionally votes or attempts to vote outside the scope of instructions given by the General Assembly commits a Class D felony. A Class D felony is punishable by a prison term ranging from six months to three years or reduction to Class A misdemeanor depending upon mitigating and aggravating circumstances. Assuming offenders can be housed in existing facilities with no additional staff, the marginal cost for medical care, food, and clothing is approximately \$3,234 annually, or \$8.86 daily, per prisoner. However, any additional expenditures are likely to be small. The average length of stay in DOC facilities for all Class D felony offenders is approximately ten months.

Budget Committee, Budget Agency, and Board of Finance Provisions: The bill extends by one week in a year following a gubernatorial election the schedule that the Budget Committee is to follow for the submission of the required budget report and budget bill. The bill also requires the Budget Agency to notify the Budget Committee within 30 days of a Board of Finance action to transfer money from a dedicated fund that is attributable to fees credited to the dedicated fund or of the Budget Agency's intent to transfer, assign, or reassign an appropriation or a part of an appropriation from a dedicated fund to another or to the General Fund. The Budget Agency is required to state the reason for the transfer. These provisions should have no fiscal impact since they deal with scheduling and notification. The bill also specifies that the Budget Agency may not enforce policies or procedures with regard to the judicial department, the legislative department, or separately elected officials unless the official or agency consents to comply or emergency circumstances justify extraordinary measures. This provision codifies current practice and should have no fiscal impact.

Retroactive Appropriation for FY 2013: The bill appropriates before June 30, 2013, \$70 M to defease any remaining bonds on State Museum and \$58 M to defease any remaining bonds on the Forensics and Health Sciences Laboratory.

Transfer from the Mine Subsidence Insurance Fund: The bill transfers \$10 M from the Mine Subsidence Insurance Fund to the General Fund on July 1, 2013.

Suspension of Executive Order for Rule-Making Provision: The bill allows for the suspension of Executive Order 13-03 for rule-making necessary to implement legislation enacted in the 2013 legislative session as long as a notice of intent to adopt the rule is filed by December 31, 2014.

Committee Provisions:

Pension Management Oversight Commission (PMOC): PMOC is required to study issues related to the retiree health benefit system of the Indiana State Police and report to the Legislative Council on their findings concerning this topic prior to November 1, 2013. If PMOC were to hold additional meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

Rural Economic Development Study Topic: This bill requires the Interim Study Committee on Economic Development to study the economic development challenges facing rural areas of Indiana during the summer of 2013. The findings and recommendations are due before November 1, 2013. If the committee were to hold additional meetings to address the topic within the bill, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

Early Learning Advisory Committee: The bill establishes the Early Learning Advisory Committee, which consists of six members appointed by the Governor. Staffing and Committee expenditures are to be provided from funds appropriated to the Division of Family Resources, but are expected to be minimal.

Explanation of State Revenues: The bill has the following state revenue impacts.

Education:

Monetizing Capital Assets: With certain restrictions, the bill permits all state educational institutions to exchange part or all of a capital asset that the institution owns in return for cash or future revenue. The transaction has to be approved by the Governor and the Budget Agency after the recommendation of the Budget Committee if the agreement will have an annual transactional value greater than \$1 M, a total transactional value greater than \$5 M, or a term greater than 10 years. Under this proposal revenues to state educational institutions could increase.

Tax Provisions-

Income Tax Rate Cut: The bill decreases the Individual Adjusted Gross Income (AGI) Tax rate from 3.4% to 3.3% in tax year 2015 and 2016 and 3.23% in tax year 2017 and thereafter. The bill will result in a revenue loss to the state General Fund estimated to begin in FY 2015 and outlined in the table below.

Fiscal Year	State General Fund Impact (in Millions)	Percent Reduction in Tax Revenues
2014	\$0	0%
2015	- \$74.2	-1.4%
2016	- \$154.2	-2.7%
2017	- \$216.3	-3.7%
2018	- \$283.0	-4.7%

The analysis assumes that the individual income tax filers will change their quarterly estimated payments and income tax withholding payments based on the reduced tax rates. These adjustments will begin January 1, 2015, for tax year 2015. The full impact of the rate cut will begin in FY 2018. The Revenue Technical Committee forecast (April 16, 2013) of individual income tax revenue was \$5,419.3 M in FY 2015. Income tax revenues for FY 2016 and FY 2017 were estimated using FY 2015 as the base year and by applying the historical compound average annual growth rate. Results from empirical literature on taxable income elasticity along with the proposed decrement in tax rate were used to calculate the impact of the rate change on taxable income for each fiscal year. The fiscal impact will continue to result in an estimated revenue loss of 4.7% of the income tax collections at the current tax rate in years after FY 2017. 100% of the state individual income tax is deposited in the state General Fund.

Distribution of Sales and Use Taxes: The bill changes the distribution of sales and use taxes, but will not affect the total amount collected. It reduces the amount deposited in the state General Fund and deposits a portion of sales and use tax revenue in the Motor Vehicle Highway Account (MVHA). Under current statute, 99.848% of sales and use tax revenue is deposited in the General Fund, 0.123% is deposited in the Commuter Rail Service Fund (CRSF), and 0.029% is deposited in the Industrial Rail Service Fund (IRSF). The new distribution will not affect the CRSF or the IRSF, but will allocate 98.848% to the General Fund and 1% to the MVHA. This diversion is expected to result in reduced General Fund revenues of \$71.0 M in FY 2014 and \$74.5 M in FY 2015. This will result in a corresponding increase in revenue for the MVHA, which is distributed to INDOT (53%) via the State Highway Fund and to counties, cities, and towns (47%). The table below shows estimated sales and use tax revenue under the current and proposed distributions.

Fund	Current (in millions)			Proposed (in millions)		
	Distribution	FY 2014	FY 2015	Distribution	FY 2014	FY 2015
General Fund	99.848%	\$7,088.4	\$7,442.1	98.848%	\$7,017.4	\$7,367.6
MVHA	0.000%	0.0	0.0	1.000%	71.0	74.5
CRSF	0.123%	8.7	9.2	0.123%	8.7	9.2
IRSF	0.029%	2.1	2.2	0.029%	2.1	2.2
Total	100.000%	\$7,099.2	\$7,453.4	100.000%	\$7,099.2	\$7,453.4

Amnesty Program for Unclaimed Use Tax on Claimed Race Horses: The bill requires DOR to establish an amnesty program for taxpayers having unpaid use tax liability for claiming transactions occurring before June 1, 2012. The state would lose revenue from interest, penalty, and collection fees that would have otherwise been due from taxpayers that participate in the program. DOR estimates that penalty and interest fees due for CY 2009 through CY 2012 are about \$100,000 to \$120,000.

Distribution of Cigarette Tax Revenue: The bill changes the distribution of cigarette tax revenue starting in FY 2014. The bill increases the state General Fund distribution from 54.5% to 56.24%, and it reduces the distribution to the State Retiree Health Benefit Trust Fund from 5.74% to 4%. The table below shows estimated cigarette tax revenue under the current and proposed distributions.

Fund	Current (in millions)			Proposed (in millions)		
	Distribution	FY 2014	FY 2015	Distribution	FY 2014	FY 2015
General Fund	54.50%	\$247.3	\$245.9	56.24%	\$255.2	\$253.7
Indiana Check-Up Plan Trust Fund	27.05%	122.8	122.0	27.05%	122.8	122.0
State Retiree Health Benefit Trust Fund	5.74%	26.0	25.9	4.00%	18.2	18.0
Pension Relief Fund	5.43%	24.6	24.5	5.43%	24.6	24.5
Cigarette Tax Fund	4.22%	19.2	19.0	4.22%	19.2	19.0
General Fund-Medicaid	2.46%	11.2	11.1	2.46%	11.2	11.1
Mental Health Centers Fund	0.60%	2.7	2.7	0.60%	2.7	2.7
Total	100.00%	\$453.8	\$451.1	100.00%	\$453.8	\$451.1

Money in the Indiana Check-Up Plan Trust Fund, the Pension Relief Fund, the Cigarette Tax Fund, and the Mental Health Centers Fund does not revert to the General Fund at the end of a fiscal year.

Tobacco Products Tax: The bill requires a person selling tobacco products through the Internet to obtain a license to distribute tobacco products in Indiana and to collect the tobacco products tax. This provision could increase the number of distributors remitting tobacco products tax, which could increase revenue from the tax and revenue from license fees. The amount of the increase could be approximately \$827,000, but will depend on the extent to which Indiana residents purchase tobacco products online.

The estimated revenue increase is based on national economic data. A portion of the national estimate is allocated to Indiana based on the state's GDP relative to total U.S. GDP. According to the 2007 Economic Census, total sales of tobacco products in the U.S. were about \$4.24 B. Census Bureau e-commerce data indicates that about 4.4% of all retail sales are attributable to Internet sales.

The tobacco products tax rate is 24% of the wholesale price of tobacco products other than moist snuff, which is taxed at \$0.40 per ounce. Total tobacco products tax revenue was about \$35.1 M in FY 2012. One-fourth of the revenue is distributed to the Affordable Housing and Community Development Fund, and the remaining 75% is allocated to the following funds: state General Fund, State Retiree Health Benefit Trust Fund, Cigarette Tax Fund, Mental Health Centers Fund, Pension Relief Fund, and Indiana Check-Up Plan Trust Fund.

The bill also requires Internet sellers of tobacco products to obtain a license before distributing tobacco products in Indiana. The annual license fee is \$25, in addition to a \$1,000 bond issued by a surety company approved by the Department of State Revenue. The total revenue increase from license fees will depend on the number of Internet sellers that distribute tobacco products in Indiana.

Elimination of the Inheritance Tax: This bill eliminates the Inheritance Tax beginning with deaths that occur after December 31, 2012. The revenue loss attributable to this bill would decline after FY 2015 due to current law which provides for a phaseout of the Inheritance Tax through CY 2022. Estimates are provided in the table below.

Fiscal Year Impact	Inheritance Tax Revenue Loss
FY 2014	(\$64.3 M)
FY 2015	(\$115.0 M)

SEA 293-2012 provided for a phaseout of the Inheritance Tax beginning with decedents whose deaths occur during CY 2013. The Inheritance Tax will no longer apply to property interests transferred by decedents whose deaths occur after December 31, 2021. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early discount).

Repeal of the Indiana Estate Tax and Indiana Generation Skipping Transfer Tax: The bill provides that the Indiana Estate Tax and the Indiana Generation Skipping Transfer Tax do not apply after June 30, 2013. The Indiana Estate Tax is permanently inoperative and will not generate any revenue due to provisions of the American Taxpayer Relief Act of 2012 (P.L. 112-240), signed into law on January 2, 2013. This Act permanently repealed the state death tax credit under the Federal Estate Tax, which was the basis for the Indiana Estate Tax.

Any potential future revenue loss from the elimination of the Generation Skipping Transfer Tax would be minimal. The tax has generated revenue in only two years since FY 1993: FY 2004 (\$31,254) and FY 2005 (\$3,637).

Financial Institutions Tax (FIT) Provisions: See *Explanation of Local Revenues*.

Internal Revenue Code Reference Update: The bill updates the references to the Internal Revenue Code (IRC) and specifically recouples Indiana to certain provisions of the IRC by eliminating various add-backs under the individual income tax, corporate income tax, and financial institutions tax statutes. The IRC reference update, generally, is effective beginning in tax year 2013, however, add-back eliminations are effective beginning in tax year 2012. These changes are expected to reduce Indiana taxable income, with the revenue loss beginning in FY 2014. The estimated revenue loss to the state General Fund could potentially total about \$27.5 M in FY 2014 and \$9.79 M in FY 2015. The FY 2014 revenue loss is attributable to add-back eliminations effective for both tax year 2012 and tax year 2013 and assumes that affected taxpayers will file amended 2012 tax returns and receive refunds during FY 2014.

This is a list of the stricken add-backs:

- Business start-up expenditures.
- Certain exemption of gains by S-corporations.
- Certain trade or business deductions based on employment of unauthorized alien.
- Employer-provided educational expenses.
- IRA charitable distribution.
- Motorsports entertainment complex deduction.
- Oil and gas well depletion deduction.
- Primary/secondary school teacher expenses.
- Qualified advance mining safety equipment.

- Qualified electric utility amortization.
- Qualified environmental remediation costs.
- Qualified leasehold improvement property.
- Qualified postsecondary tuition and fees.
- Qualified restaurant improvement property.
- Qualified retail improvement property.
- Qualified transportation fringe expenses.
- RIC dividends to nonresident aliens.
- Student loan interest.

School Scholarship Tax Credit: This bill increases the total amount of credit that may be awarded from \$5 M a year to \$7.5 M a year beginning in FY 2014. Increasing the annual credit limit does expose the state General Fund to the potential of an additional reduction of revenue. However, it appears unlikely this change will have an immediate impact on state revenue because only \$2.4 M in credits has been awarded for FY 2013 as of April 30, 2013. There would have to be \$2.6 M in credit claims in the next two months to reach the existing threshold of \$5 M.

Gaming Provisions-

Racino Wagering Taxes: Starting in FY 2014, the bill sets the racino slot machine wagering tax base at 91.5% of the adjusted gross receipts (AGR) generated at a racino instead of the 84.15% of AGR tax base currently being used by the racinos to compute their slot machine wagering tax. This change will result in a positive impact to the state General Fund as shown in the table below.

ENTITY / FUND	FY 2014	FY 2015
State General Fund	\$10.3 M	\$9.6 M

Under current statute, the racinos are required to pay 15% of AGR generated during the fiscal year for the following purposes: (2) the Tobacco Master Settlement Fund; (2) the state Gaming Integrity Fund; (3) the state Breed Development Funds; (4) private horsemen’s associations; (5) horse racing purses; and (6) the state General Fund. Under *In re Indianapolis Downs, LLC., et al.*, Case No. 11-11046 (BLS) (Bankr. D.DE 2011), the court heard a motion by Indianapolis Downs (owner of the Indy Live racino) for a determination of the legality of the slot machine wagering tax being imposed on all AGR amounts generated by the racinos, including the 15% of AGR distributed to various horse racing purposes and the state General Fund. The court ruled that the tax not be imposed on this 15% AGR distribution. In addition, the court granted a request by Hoosier Park (involved in a bankruptcy proceeding in the same court) to join Indianapolis Downs’ position. Consequently, the Court’s ruling applies to both racinos.

P.L 172-2011 changed the tax base from 100% of AGR to 99% of AGR beginning July 1, 2012. The two Indiana racinos also reduced their remittance to 85% of the tax base as a result of the court ruling. The reduced remittances by the racinos began in November 2011 (Indy Live on November 1st and Hoosier Park on November 9th). The state revenue forecast for the slot machine wagering tax was reduced to account for the revenue impact of the court ruling and the actions by both racinos to begin remitting the wagering tax based on 85% of AGR in accordance with the court ruling. Currently, the racinos are paying slot machine wagering taxes on 84.15% of their AGR (99% of AGR * 85%).

Medicaid Provisions-

Hospital Assessment Fee (HAF): This bill codifies the existing HAF program and extends it until June 30, 2017, or for the time period that the fee is being assessed. The 2012 annual assessment was for \$646 M, leveraging total expenditures of \$1.958 B. The federal share of funds would be \$1.312 B. The assessment is to be used to increase Medicaid hospital rates, replace Disproportionate Share Hospital (DSH) distributions made to the state and private psychiatric facilities (approximately \$70 M), and to provide additional state match dollars for use within the Medicaid program (approximately \$112 M). The bill also specifies the manner of distribution of federal DSH funds distributed for FY 2012, FY 2013, and for subsequent periods during which a hospital assessment fee is in force.

Quality Assessment Fee (QAF): The bill also extends until June 30, 2017, the existing Health Facility Quality Assessment Fee providing authorization for the required increase in Medicaid nursing facility reimbursement and the collection of the QAF after July 31, 2014. Extending the QAF would authorize an estimated total annual collection of about \$166.3 M. The state share would be \$48.9 M for FY 2015, FY 2016, and FY 2017, if nursing facility days remain constant.

Transportation Funding- The shifting of State Police and other expenses from the MVHA to other funds, as well as the Sales and Use Tax distribution provision are estimated to result in additional distributions to INDOT estimated at \$109.0 M in FY 2014 and \$110.9 M in FY 2015. [See *Explanation of Local Expenditures* for details.]

Other Provisions-

Securities Division Enforcement Account: The bill changes the allocation of revenue collected by the Secretary of State, Securities Enforcement Division. The bill requires 50% of the first \$2 M received of a civil penalty, settlement, or judgment to be deposited in the Securities Division Enforcement Account. The remaining 50% and any amount in excess of \$2 M will be deposited in the state General Fund. This provision is effective beginning July 1, 2013. This change will increase the amount of money deposited into the state General Fund and decrease the amount deposited in the Securities Division Enforcement Account and Securities Restitution Fund. The exact revenue changes are indeterminable. The future revenue depends on the compliance activities of the Securities Enforcement Division. [In FY 2012, \$497,000 in enforcement penalties was collected by the Securities Enforcement Division.]

Explanation of Local Expenditures: The bill has the following impacts on local expenditures.

Education-

Financial Literacy: School corporations should be able to provide financial literacy instruction within their funding for curriculum development. School corporations may have to substitute some courses to implement financial literacy instruction if it is a separate course, but it can also be incorporated into other appropriate subjects, including mathematics, social studies, business, family and consumer sciences, and economics. Charters schools are not required by the bill to provide financial literacy instruction.

Teaching in Charter Schools: Under current law, an individual is qualified to teach in a charter school if the

individual holds at least a bachelor’s degree with a grade-point average of at least 3.0 on 4.0 scale from an accredited postsecondary institution in the content or related area in which the individual wishes to teach. The bill extends the eligibility to those individuals who hold at least a bachelor’s degree and has passed the state-approved content area examination in the subject area the individual intends to teach. This should increase the pool of individuals eligible to teach in charter schools and could reduce charter school expenditures.

Explanation of Local Revenues: The bill has the following local revenue impacts.

Education-

Monetizing Capital Assets: Under current law, a lessee of property owned by a state educational institution has to pay property taxes on the property as if the lessee owned the property. Under this bill, the party would be exempt from all property taxes and special assessments levied against the real property. Local taxing units would have to forgo any additional revenue they would have received if the state educational institution had leased the property to the third party under current law.

Taxes-

Debt Exempt From Circuit Breakers: Under current law, property tax levies for civil taxing units and school corporations in Lake and St. Joseph Counties for debt incurred before July 1, 2008, are exempt from circuit breaker caps. This bill would also exempt instruments that are used to refinance the currently exempt debt as long as the new maturity date is not later than the original maturity date or new term is not longer than the original term.

Property tax levies could be reduced under this provision. If current interest rates are more favorable than the original rates and the maturity date is not later than the current date, then the levy needed to service the debt could be reduced. A reduction in debt levies would reduce the tax rate and reduce property tax bills for all taxpayers in the affected taxing units.

Internal Revenue Code Reference Update: This provision will decrease overall Indiana taxable income, so counties imposing local option income taxes (LOIT) could potentially experience a decrease in revenue. Using the median current LOIT rate of 1.45%, LOIT collections on a statewide basis could potentially be reduced by an estimated \$8.0 M in FY 2014 and \$4.1 M in FY 2015.

Elimination of the Inheritance Tax: This bill would reduce revenue to counties beginning in FY 2014 and declining after FY 2015 due to current law which provides for a phaseout of the Inheritance Tax through CY 2022. Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents. Estimates are provided in the table below.

Fiscal Year Impact	Inheritance Tax Revenue Loss
FY 2014	(\$5.5 M)
FY 2015	(\$9.9 M)

The bill also eliminates replacement payments from the state General Fund for a state fiscal year beginning after June 30, 2013, resulting in a minimal reduction in local revenue. Current law provides that counties will not receive distributions for state fiscal years beginning after June 30, 2022.

Financial Institutions Tax (FIT) Provisions: The bill makes changes to the distributions of the Financial Institutions Tax. It provides that the total amount of FIT distributions to local entities in a fiscal year would be equal to 40% of the total FIT revenue collected during the preceding state fiscal year. It provides that the local share of revenues would be divided among the local units proportionate to their share in CY 2012 distributions of FIT revenues. The bill also removes the provision in current law requiring a supplemental distribution of FIT to local units. Current law requires the Auditor of State to make a supplemental distribution if the FIT collections meet a certain statutory threshold in a year.

Under current law the local units of government are guaranteed distributions of FIT revenues equal to: (1) the amount received by the taxing unit under the former FIT taxes in 1989; minus (2) the amount to be received by the taxing unit in the year of the distribution from property taxes attributable to the personal property of banks. The remaining revenue is deposited in the state General Fund. A portion of the local distribution is recaptured by the state. The amount recaptured equals the FIT distribution that would have been based on property tax levies that were assumed by the state in 2009.

These provisions in the bill would mean that the change in distribution of FIT to local units would be proportionate to the change in total FIT revenues in the preceding year. The fiscal impact would depend on the magnitude of the FIT revenue collections. The total FIT revenues historically have been about \$80 M per year. Under the current law, the local distributions net of the state recapture is estimated to be \$33 M. Under this bill, local units will receive an estimated \$32 M ($\$80 \text{ M} * 40\%$). Since the state General Fund receives the remaining FIT distributions, the state General Fund would be affected inversely to the local impact under the bill.

Marion County Supplemental Auto Rental Excise Tax: The bill provides that any increase after January 1, 2013, and before March 1, 2013, in the Marion County Supplemental Auto Rental Excise Tax rate may not continue in effect after February 28, 2023. Effective March 1, 2013, the city-county council increased the tax rate from 4% to 6%. The amount collected from the increase will be deposited in the Sports and Convention Facilities Operating Fund.

The bill provides that starting in March 2023, the Marion County Supplemental Auto Rental Excise Tax rate will return to 4%. As a result, revenue to the Sports and Convention Facilities Operating Fund could potentially decrease by an estimated \$2 M annually when the rate is reduced.

The first 4% of auto rental revenue is held in the County Supplemental Auto Rental Excise Account within the state General Fund and distributed to the Capital Improvement Board. In FY 2012, total revenue collected was about \$4.1 M.

Marion County Admissions Tax: The bill provides that any increase after January 1, 2013, and before March 1, 2013, in the Marion County Admissions Tax rate may not continue in effect after February 28, 2023. Effective March 1, 2013, the city-county council increased the tax rate from 6% to 10% of the price of admission to events held in the Indiana Convention Center, Lucas Oil Stadium, Victory Field, or Bankers Life Fieldhouse. The amount collected from the increase will be deposited in the Sports and Convention Facilities Operating Fund.

The bill provides that starting in March 2023, the Marion County Admissions Tax rate will return to 6%. As a result, revenue to the Sports and Convention Facilities Operating Fund could potentially decrease by an estimated \$4.0 M to \$4.5 M annually when the rate is reduced.

The first 6% of admission prices collected is paid to the Marion County Capital Improvement Board of Managers. Total revenue in FY 2012 was about \$6.61 M.

Transportation Funding-

Shifting State Police Expenses from MVHA to Other Funds and Diversion of Sales Tax: The bill removes the requirement that the MVHA pay one-half of the amount appropriated to the State Police Department for its operations. Shifting the responsibility for payment of net State Police expenses from the MVHA to other funds would result in approximately \$90.5 M in additional MVHA funding available for distribution to INDOT, counties, and cities and towns each year, depending upon the amount of revenues into the MVHA for the biennium. Expenditures from the state General Fund or other funds will increase by a corresponding amount.

The bill also removes the payment of various expenditures that have historically been paid out of the MVHA. These include expenses for the BMV, DOR, and the Criminal Justice Institute. These expenses will be paid instead out of other funds and in total will cost these other funds an estimated \$44.2 M. In total, the removal of these expenses, plus the State Police expenses, will save the MVHA an estimated \$134.7 M per year, while costing other funds a corresponding amount.

Additionally, the bill diverts 1% of Sales and Use Tax revenues to the MVHA beginning in FY 2014. This diversion is expected to generate an additional \$71.0 M in FY 2014 and \$74.5 M in FY 2015 for the MVHA. The MVHA is distributed to INDOT (53%) via the State Highway Fund and to counties, cities, and towns (47%).

According to the bill, the State Highway Fund will directly receive an estimated additional \$109.0 M in FY 2014 and \$110.9 M in FY 2015. Local units will receive an estimated additional \$96.7 M in FY 2014 and \$98.3 M in FY 2015. A breakout of the new distribution formula for these excess amounts is below.

Estimated Baseline and Biennium Excess Local Motor Vehicle Highway Distributions			
	<i>FY 2013- Baseline</i>	<i>FY 2014</i>	<i>FY 2015</i>
Cities/Towns and Counties	\$288.2 M	\$384.9 M	\$386.5 M
INDOT	\$1,043.7 M	\$1,152.7 M	\$1,154.6 M

Surtax/Wheel Tax Adoption: Forty-five counties have not adopted the excise surtax and wheel tax. These counties could raise an estimated \$72.9 M if they adopt the taxes at the maximum rates. This bill could result in additional counties adopting the taxes. The actual impact would depend on actions taken by county income tax boards.

[Under current law, only the county council may adopt or make changes to the motor vehicle excise surtax and wheel tax. The surtax and wheel tax must be adopted together. In addition to the county council, this bill would also permit the county income tax council to adopt the surtax and wheel tax. Only the entity that adopted the tax would be permitted to modify or rescind the tax. The county income tax council currently exists in COIT-adopting counties and is comprised of the county and municipalities in the county. The votes on the income tax council are apportioned based on population where the county gets credit for the population in the unincorporated areas of the county. This bill would permit the same membership to adopt

the surtax and wheel tax in all counties that have not yet imposed the taxes, even if a county is not a COIT-adopting county. Money in the excise surtax and wheel tax funds is allocated to each city, town, and the county based on the formula for the Local Road and Street Account. The revenue is used to construct, reconstruct, repair, or maintain streets and roads. In CY 2013, the 47 currently adopting counties will generate an estimated \$62.7 M from the excise surtax and \$7.7 M from the wheel tax, for a total of \$70.4 M.]

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, State Revenue Forecast, Fiscal Year 2015, December 17, 2012; Quarterly Inheritance Tax Reports, FY 1997- FY 2012; Michelle Marshel, DWD, mmarshel@dwd.in.gov ; Revenue Forecast Technical Committee Presentation to the State Budget Committee, General Fund Revenue Forecast: Fiscal Years 2013-2015, December 17, 2012; FY 2013-2015 Revenue Forecast Cigarette Tax model; 2007 Economic Census, Census Bureau 2010 E-Stats, Bureau of Economic Analysis.

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