



STATE OF INDIANA

Michael R. Pence
Governor

STATE BUDGET AGENCY

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As required by Indiana Code 4-12-1-12(a), the State Budget Agency hereby transmits to Governor Michael R. Pence, Auditor of State Suzanne Crouch, and the Indiana General Assembly the following report on the appropriations made during the 2015 regular session of the Indiana General Assembly.

Summary

Under the new budget, State government will spend less than it takes in. The FY 2016 – FY 2017 budget is structurally balanced with annual revenues exceeding recurring, annual expenditures in both FY 2016 and FY 2017. Pension obligations are fully met, and the Medicaid forecast is fully funded. This budget increases funding in key areas such as education and pensions, while reducing appropriations for most executive branch agencies by 3% compared to FY 2015 appropriations. As a result, the state's combined balances are projected to exceed \$1.8 billion dollars at the end of each fiscal year. These reserves are in place to protect taxpayers and critical services in the event of an economic downturn.

Appropriations

The total General Fund appropriations made by the 2015 regular session of the Indiana General Assembly are \$15.4 billion for FY 2016 and \$15.8 billion for FY 2017. This includes annual operating appropriations of \$15.2 billion in FY 2016 and \$15.7 billion in FY 2017, biennial line item capital appropriations of \$73 million, annual transfers of \$100 million to the Major Moves 2020 Trust Fund, and a one-time appropriation of \$20 million in FY 2016 to cover the cost of a thirteenth check for pension recipients. Total appropriations from all sources of funds (state General Fund, dedicated funds, and federal funds) are \$31.6 billion for FY 2016 and \$31.9 billion for FY 2017.

K-12 Education

Funding for elementary and secondary education comprises the largest component of Indiana's state budget. The K-12 tuition support for FY 2015 totaled \$6.7 billion. In the budget, the General Assembly appropriated \$6.8 billion for FY 2016 and \$7.0 billion for FY 2017 for K-12 tuition support from the General Fund. Full day kindergarten students are again funded through tuition support rather than through a separate grant. The budget increases K-12 funding by \$474 million over the biennium.

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For the Department of Education, the Honors Diploma Grant is increased for low-income students from \$1,000 to \$1,400. Per student “foundation” funding is increased from \$4,587 to \$4,967 in FY 2016, followed by an increase to \$5,088 in FY 2017. The budget continues to fund Teacher Performance Awards, previously named School Performance Awards, at \$30 million in FY 2016 and increases the FY 2017 appropriation to \$40 million. These funds are awarded to effective and highly effective teachers in the form of a cash bonus. Additionally, the budget provides a new appropriation for the Dual Language Immersion Pilot Program Fund. This fund will provide grants to school corporations and charter schools to encourage students to study multiple foreign languages by offering the State Certificate of Biliteracy.

The legislature created the Charter and Innovation Network School Grant Program under the State Board of Education and appropriates \$10 million annually to the program. This is an annual grant program that provides funding to charter and innovation network schools that do not receive local funding for the following: capital improvements, technology, and transportation and school buses. Eligible schools will receive \$500 multiplied by the school’s current average daily membership count. Other K-12 education funding includes the Charter School Board’s appropriation increase to \$750,000 in both FY 2016 and FY 2017.

School corporations were again granted the authority to pay for utilities and property insurance out of their capital project funds and to increase their local capital projects fund levy to cover those costs. Total appropriations for K-12, excluding pre-1996 teacher pensions, are \$7.1 billion in FY 2016 and \$7.27 billion in FY 2017.

The budget includes a General Fund appropriation for the pre-1996 teachers’ retirement fund of \$763.3 million in FY 2016 and \$765.3 million in FY 2017. A portion of the FY16 appropriation includes \$20.3 million to fund a thirteenth check for pension recipients.

Higher Education

The General Assembly increased university operating funding by roughly \$22 million in FY 2016 and \$45 million in FY 2017 for a biennial total of \$2.6 billion. The budget continues to fund a percentage of university operating based on performance matrices established by the Commission for Higher Education. Performance funding is 4% of operating in FY 2016 and 6.5% of operating in FY 2017.

Student Financial Aid received appropriations in FY 2016 and FY 2017 totaling \$368 million and \$354 million, respectively. The budget continues to fund the Primary Care Shortage Area Scholarship, which provides \$10,000 maximum scholarships to medical students enrolled at the Marian University College of Osteopathic Medicine who agree to provide primary care services in a shortage area after becoming a licensed physician. In addition, the budget creates the Medical Residency Education Fund and provides an appropriation of \$3 million in FY 2016 and FY 2017. This program expands the number of residency program openings at licensed hospitals.

The biennial budget also appropriates \$147 million in university line items. Annually, the total dual credit appropriations for all universities increased by \$6.4 million – a 77% increase from FY

2015. In total, the State will spend \$14.7 million on dual credit courses, which are taken by high school students and satisfy requirements for earning credits towards a high school diploma and a college degree.

Health and Human Services

The budget appropriates \$3.3 billion in FY 2016 and \$3.5 billion in FY 2017 from the state General Fund for Health and Human Services for operating expenses. The Family and Social Services Administration (FSSA) was appropriated \$2.7 billion from the state General Fund in FY 2016 and \$2.9 billion in FY 2017. Of the appropriation granted to FSSA, the largest amount is for Medicaid Assistance. This budget fully funds the April 16, 2015 Medicaid forecast by appropriating \$4.0 billion over the biennium along with \$128 million of prior year Medicaid surplus funds. General Fund appropriations for Medicaid Assistance total \$1.9 billion in FY 2016 and \$2.1 billion in FY 2017. Total appropriations for Medicaid Assistance (from all funding sources) are \$11.2 billion in FY 2016 and \$11.7 billion in FY 2017, compared to \$9.4 billion appropriated in FY 2015. The Healthy Indiana Plan (HIP 2.0) which is funded by cigarette tax revenue for the state share of expenditures is not included in the Medicaid Assistance appropriation.

New General Fund line item appropriations for FSSA include \$30 million over the biennium to DMHA for mental health and addiction forensic treatment service grants. In this budget, FSSA also is appropriated \$10 million annually from the General Fund for the Pre-K Education Pilot Program.

FSSA is appropriated \$42.9 million from the Tobacco Master Settlement Fund in FY 2016 and \$32.7 million in FY 2017 for health-related programs.

The Department of Child Services (DCS) was appropriated \$554 million annually of state General Fund dollars in the FY 2016 – FY 2017 biennium. This includes \$7.5 million annually to hire an additional 100 family case managers and 17 case manager supervisors. These additions will help lower the average caseloads per case manager. DCS's appropriation also includes an additional \$11 million annually compared to the last biennium for state adoption subsidies.

The Indiana State Department of Health (ISDH) receives total appropriations of approximately \$288.5 million in FY 2016 and \$283.6 million in FY 2017, of which General Fund appropriations total \$32.6 million in FY 2016 and \$31.8 million in FY 2017. ISDH's appropriation also includes \$58 million in FY 2016 and \$54.8 million in FY 2017 from the Tobacco Master Settlement Fund. The ISDH appropriations include a new \$8 million appropriation in FY 2016 and a \$5.5 million appropriation in FY 2017 from the Tobacco Master Settlement Fund for the Safety Pin Program to reduce infant mortality.

General Government

While most executive branch agency budgets were decreased by 3% compared to FY 2015 appropriation levels, the budget holds appropriations for the legislative branch relatively flat with some increases to the Legislative Services Agency compared to FY 2014 and FY 2015 appropriation levels.

General Fund appropriations for the judicial branch increased compared to the FY 2014 – FY 2015 appropriations levels. The budget includes pay raises in FY 2016 and FY 2017 for local judges and prosecutors. There were funding increases of more than \$4.2 million for Guardian ad Litem and \$1 million for Adult Guardianship programs within the Supreme Court’s budget for the FY 2016 – FY 2017 biennium. The Judicial Center was appropriated an increase of more than \$3.8 million for FY 2016 – FY 2017, which includes funding for the judicial conference and juvenile justice reform programming. An additional \$1 million was appropriated for Probation Officers Training for the biennium. The budget also creates a new Veterans Problem-Solving Courts program within the Judicial Center in FY 2016 with an appropriation of \$1 million for this biennium.

The budget includes biennial appropriations of \$35.1 million from the Cigarette Tax Fund and \$18.9 million from the Tobacco Master Settlement Agreement Fund for the retiree health benefit trust fund to cover benefits for state employees under SEA 501-2007. In addition, the budget includes other post-employment benefit appropriations for the Indiana State Police as well as conservation and excise officers.

Public Safety

Over \$1.4 billion was appropriated from the General Fund this biennium for the operation of the Indiana correctional system, an increase of more than \$76.3 million compared to the FY 2014 – FY 2015 biennium budget. Due to an increased interest in local corrections, Community Corrections received \$34.1 million in additional funding for this biennium. An additional \$14 million for the FY 2016 – FY 2017 biennium was appropriated to the Indiana Department of Corrections for custody vacancies within the correctional facilities. As a result of changing to the correctional facilities’ mental health programs during the FY 2014 – FY 2015 biennium, there was an increase of \$5 million for mental health custody and staff for this biennium.

The budget appropriates approximately \$379 million from all funds for the operations of the Indiana State Police for the FY 2016 – FY 2017 biennium, including funds to maintain the number of troopers at current levels and actuarially fund pension and retiree medical obligations. The budget also continues to fund the Indiana State Police almost exclusively with General Fund dollars, a practice carried over from the FY 2014 – FY 2015 budget. In addition, the ISP and other law divisions of other state agencies reserved funding for a 2% increase in law enforcement pay matrices.

This budget provides \$7 million in funding for the Secured School Safety Grants. These Secured School Safety Grants were established in the FY 2014 – FY 2015 biennium and are administered by the Indiana Department of Homeland Security. The budget also increases appropriations to \$12 million for the Criminal Justice Institute to address Domestic Violence Prevention and Treatment. This is an increase of \$5.2 million over the FY 2014 – FY 2015 biennial appropriation.

Conservation and Environment

This budget appropriates \$558 million in general, dedicated, and federal funds for conservation and environmental operations and programs for the FY 2016 – FY 2017 biennium, including an

increase to the pay matrix for Conservation Officers. Also, the Lieutenant Governor's Office of Tourism has received \$500,000 from the General Fund to assist DNR with marketing efforts to attract more visitors to Indiana State Parks and Recreation areas.

Transportation

The budget appropriates more than \$4.7 billion in state, dedicated, and federal funds for transportation, including distributions to local units of government. This includes \$200 million in appropriations from the General Fund to the Major Moves Construction Fund to support major highway expansion projects. This also includes a \$43 million appropriation in FY 2016 and \$44 million in FY 2017 from the General Fund for public mass transportation.

Economic Development

Over the biennium, the budget appropriates \$191.4 million from the General Fund for Economic Development.

The budget provides a new General Fund appropriation of approximately \$1.5 million annually for the Office of Small Business and Entrepreneurship under the Lt. Governor's Office. Also under the Lt. Governor's Office, two new line items were created, the Local Marketing Tourism Program, which will be administered by the Office of Tourism, and the Historic Preservation Grants, which will be administered by the Office of Community and Rural Affairs beginning in FY 2017.

For the Indiana Economic Development Corporation (IEDC), several line items received significant increases in funding for the FY 2016 – FY 2017 biennium. The Business Promotion Program received \$7.4 million over the biennium compared to \$3 million in the FY 2014 – FY 2015 biennium. The budget appropriates \$10 million to the Industrial Development Grant Program over the biennium – an increase of \$4 million from the FY 2014 – FY 2015 budget. The Economic Development Grant and Loan Program also received an increased appropriation.

The legislature created the Indiana Regional Cities Development Fund and appropriates \$84 million over the biennium to the fund. The Regional Cities initiative allows the IEDC, through the approval of the Budget Committee and the Indiana Economic Development Board, to provide grants and loans to regional development authorities (RDAs). Projects approved to receive a grant or loan through this fund must demonstrate economic development potential, a degree of regional collaboration and a positive return on investment.

For the Department of Workforce Development (DWD), the budget appropriates approximately \$24.4 million annually for Career and Technical Education Innovation and Advancement. This program funds statewide career and technical education and workforce development initiatives that focus on high-wage and high-demand jobs. In addition, the DWD administrative fund received an increase of \$1 million in FY 2016 and FY 2017 to provide more reemployment services and reemployment eligibility assessments to unemployed individuals.

Capital and Construction

The capital budget for the FY 2016 – FY 2017 biennium represents a continued commitment to the preservation of the state’s existing infrastructure, with a high priority on preventive maintenance and repair and rehabilitation rather than new construction. The capital budget increases funding for preventive maintenance of state facilities from \$47.3 million in the FY 2014 – FY 2015 biennium to \$52.2 million in the FY 2016 – FY 2017 biennium. The capital budget also includes \$150.8 million for repair and rehabilitation projects at state facilities and \$371 million for lease rental payments.

The FY 2016 – FY 2017 budget includes several projects related to the bicentennial celebration for the State of Indiana. Those projects include a new building for the State Archives, a State Education Center to be located within the State Library, and a new State Park Inn located at Potato Creek State Park. These projects will be paid for by proceeds from private sector use of excess state cell tower capacity. The capital budget also includes the capital appropriations for the Secretary of State’s Business One Stop, which will streamline the process by which companies do business with the State of Indiana.

The Department of Corrections’ capital budget includes funds to address large scale roofing projects at Westville Correctional, Plainfield Correctional, the Women’s Prison, and Putnamville Correctional Facility.

In addition to the preventive maintenance funding levels, the capital budget for the Department of Natural Resources includes \$1.1 million for Nature Center Education, \$1.7 million for Wyandotte Caves, \$2.3 million for Whitewater Memorial State Park/Brookville Lake, and \$24 million for the construction of a new Bicentennial Inn at Potato Creek.

The capital budget also includes a bicentennial match for the Indiana State Museum and Historic Sites, as well as continued funding to the Department of Transportation for airport development.

The budget again includes appropriations for both the stadium and convention center and state fair lease payments. These appropriations, \$111.7 million in FY 2016 and \$111.8 million in FY 2017, are required, but are not anticipated to be spent as locally derived revenues are projected to cover the lease payments.

For state universities, the General Assembly continued to fund some capital projects with cash. Indiana University, Purdue University and Vincennes University all received a General Fund appropriation for one or more cash funded capital projects totaling \$28.9 million over the biennium. Including repair and rehabilitation, fee replaced bonding authority and cash funded capital projects, the budget provides approximately \$390.6 million in capital-related funding over the biennium.

Outside Acts

The Indiana General Assembly enacted several pieces of legislation during the 2015 regular session that impact General Fund revenues and expenditures. The most notable measures include: (1) an expansion of the sales tax exemption for items directly used in the direct

production of tangible personal property, (2) the expansion and extension of the Hoosier Business Investment tax credit, (3) changes to the adjusted gross receipts (AGR) deduction for promotional free play provided to patrons of riverboat casinos and racinos, (4) the allowance of riverboat casinos to move inland, and (5) costs associated with providing substance abuse treatment drugs.

Additional details on the impact of legislation passed by the Indiana General Assembly during the 2015 regular session can be found in Section E.

Revenues

The economic and revenue forecasts upon which the FY 2016 – FY 2017 budget is based were presented to the State Budget Committee on April 16, 2015. Total General Fund forecasted revenue is estimated to be \$14.97 billion in FY 2016 and \$15.48 billion in FY 2017. Forecasted General Fund revenues are estimated to increase by \$346.2 million or 2.4% in FY 2016, and by \$507.3 million or 3.4% in FY 2017.

Economic forecasts project continued economic expansion through the upcoming biennium. The forecast that serves as the basis for revenue estimates currently projects U.S. gross domestic product growth of 4.1% in FY 2015, 4.3% in FY 2016, and 4.7% in FY 2017. Similarly, Indiana gross state product is forecasted to grow by 4.5% in FY 2015, 4.1% in FY 2016, and 4.2% in FY 2017. U.S. Bureau of Economic Analysis (“BEA”) U.S. corporate profits increased by 1.2% in FY 2014 and are forecasted to increase by 4.4% in FY 2015, 8.1% in FY 2016, and 2.3% in FY 2017.

Indiana personal income, as tracked by the BEA, is a key component of the Indiana revenue forecast. Indiana personal income and its components are included in the majority of models used to forecast state revenue. Nominal Indiana wages and salaries are forecasted to increase by 4.2% in FY 2015, 4.6% in FY 2016, and by another 4.4% in FY 2017. Indiana personal income net of government transfer payments is forecasted to increase by 3.1% in FY 2015, 3.9% in FY 2016, and 4.6% in FY 2017.

Over the past year, the number of employed Hoosiers has increased and the unemployment rate has decreased. The labor force participation rate and the changing demographics of the labor force are key aspects to Indiana’s economic outlook. In the upcoming biennium, the unemployment rate is projected to decline and reach 5.5% in the beginning of calendar year 2016. The Indiana labor force participation rate is projected to reach 61.4% in FY 2015, 61.6% in FY 2016, and 61.6% in FY 2017.

Previous legislative sessions enacted reductions to the individual income tax rate, the corporate tax rate, and the financial institutions tax rate. The individual income tax rate was reduced from 3.4% to 3.3% beginning January 1, 2015 and will be reduced to 3.23% on January 1, 2017. The corporate tax rate continues the enacted gradual decline to 4.9% in FY 2022. The rate drop impacts revenue throughout the biennium, and in FY 2016 the rate will be 6.5%, and in FY 2017 the rate falls to 6.25%. The financial institutions tax rate also continues to decrease.

The April 16, 2015 revenue forecast was presented before the end of the 2015 legislative session and could not account for several revenue measures subsequently passed by the General Assembly and signed into law by Governor Pence. These included expanding deductions for free play at Indiana gaming facilities, expansion of economic development credits, and various changes to the Indiana tax code.

In addition to the revenue forecast, other revenues are deposited in the General Fund annually, including the Hospital Assessment Fee (HAF) and the Quality Assessment Fee (QAF).

Reserve Balances

Indiana's combined reserve balance is projected to total \$1,933.6 million to begin the FY 2016 – FY 2017 biennium. This combined balance includes reserves of \$679.1 million in the General Fund, \$577.6 million in the Medicaid Reserve fund, \$300 million in the Tuition Reserve fund and \$376.9 million in the Rainy Day Fund.

The estimated reserve balance at the end of the FY 2016 – FY 2017 biennium is projected to remain in excess of \$1.8 billion, protecting taxpayers and critical services against future recessions.

A Combined Statement of Actual and Estimated Unappropriated Reserve (the Reserve Statement) follows this cover letter and reflects the best information available following the passage of the budget by the General Assembly.

Respectfully submitted,

A handwritten signature in black ink that reads "Brian E. Bailey". The signature is written in a cursive style with a large, looping initial "B" and a long, sweeping tail on the "y".

Brian E. Bailey
State Budget Agency