



# State of Indiana

Eric J. Holcomb, Governor

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June 12, 2023

As required by Indiana Code 4-12-1-12(a), I hereby transmit to Governor Eric J. Holcomb, Auditor of State Tera Klutz, and members of the Indiana General Assembly the following report on the appropriations made during the 2023 regular session of the Indiana General Assembly.

## Summary

The latest biennial budget is structurally balanced with forecasted annual revenues exceeding recurring, annual expenditures in both FY 2024 and FY 2025. Pension obligations are fully met, and the Medicaid forecast is fully funded. In addition, this budget increases funding in key areas, including education, pensions, Medicaid, public health, and infrastructure. As a result, the state's combined General Fund balances are projected to exceed \$2.6 billion at the end of FY 2023 and remain close to \$2.7 billion throughout the FY 2024 – FY 2025 biennium. These reserves are in place to protect taxpayers and critical services in the event of an economic downturn.

The total General Fund appropriations (both one-time and recurring) made during the 2023 regular session of the Indiana General Assembly are \$3.1 billion for FY 2023, \$22.0 billion for FY 2024, and \$22.6 billion for FY 2025. This includes \$3 billion in capital appropriations for FY 2023 – FY 2025.

Total appropriations from all sources of funds (General Fund, dedicated funds, and federal funds) are \$51.6 billion for FY 2024 and \$51.3 billion for FY 2025.

## K-12 Education

Funding for K-12 tuition support is the largest appropriation in Indiana's state budget. The General Assembly appropriated \$8.84 billion for FY 2024 and \$9.03 billion for FY 2025 for tuition support from the General Fund. The tuition support formula, which allocates dollars to local school corporations, increased per pupil funding for several categories including foundation, English learners, and special education. In addition, the General Assembly further expanded the Choice Scholarship program, provided new Academic Performance grant funding, and increased credential completion grants in CTE funding.

Education funding increases outside of the K-12 tuition support includes: a new line item of \$100 million over the biennium for Academic Improvement Initiatives, an approximate \$6 million increase per year for school safety, and an additional \$10 million over the biennium in S-5 funding. The General Assembly also increased funding for textbook reimbursement by a total of \$242 million over the biennium, completely covering the cost of textbooks for traditional public and charter school students for FY24 and FY25.

The legislature increased funding for the Charter and Innovation Network School Grant Program under the Department of Education from \$47.5 million in FY 2023 to \$52.6 million in both FY 2024 and FY 2025. This annual grant program provides funding on a per pupil basis to charter and innovation

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network schools that do not receive local funding for capital improvements, technology, and transportation. Additionally, a one-time appropriation of \$25 million in FY24 was included for Charter School Capital Grants.

The budget includes a General Fund appropriation for the pre-1996 account in the Teachers' Retirement Fund (TRF) of roughly \$1.04 billion in FY 2024 and \$1.07 billion in FY 2025. Additionally, the budget appropriates \$700 million one-time in FY 2023 to help pay down future liability in the pre-1996 account. A provision in the bill also requires any combined reserve balances in excess of \$3 billion at the end of calendar year 2024 and calendar year 2025 to be transferred to the pre-1996 account.

Total appropriations for K-12 education, including pre-1996 teacher pensions, are \$10.40 billion in FY 2024 and \$10.64 billion in FY 2025.

### **Higher Education**

The budget appropriates \$3.02 billion for university operating funding during the FY 2024 – FY 2025 biennium, growing it by 5.3% in FY 2024 and 7.15% in FY 2025 compared to the FY 2023 funding level. The General Assembly continues to fund a percentage of university operating based on performance matrices established by the Commission for Higher Education (CHE) in FY 2024 and FY 2025, of which \$34 million is to be allocated by the Commission under the newly implemented "Prospective Model". In addition to operating funding, the budget also appropriates \$616 million in FY 2023 for university capital and \$300.3 million over the biennium for fee-replaced debt service.

The budget maintains support for student financial aid by appropriating roughly \$400.5 million annually for CHE's various financial aid programs including 21<sup>st</sup> Century Scholars and the O'Bannon Grant, which is comprised of the Higher Education Award and the Freedom of Choice Scholarship.

### **Health and Human Services**

The budget appropriates \$5.7 billion in FY 2024 and \$6.1 billion in FY 2025 from the General Fund for Health and Human Services (HHS) operating expenses.

The Family and Social Services Administration (FSSA) appropriations are \$6.87 billion in FY 2024 and \$7.37 billion in FY 2025. This budget fully funds the April 19, 2023 Medicaid forecast by appropriating \$3.72 billion in FY 2024 and \$4.20 billion in FY 2025, totaling \$7.9 billion of General Funds, the largest appropriation under HHS. The Medicaid Assistance appropriation includes funding for new program changes include equalizing managed care program rates and continuous coverage expansion for children up to age 18 under Medicaid and the Children's Health Insurance Program (CHIP). Also included in the Medicaid Assistance appropriation is \$254 million in FY 2024 and \$339 million in FY 2025 to provide for rate reimbursement updates for providers of home health, dental services, non-emergency medical transportation (NEMT), Division of Disability and Rehabilitative Services (DDRS) waivers, Division of Aging waivers, and the Child Mental Health Wraparound Program (CMHW).

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With Congress' passage of the Consolidated Appropriations Act of 2023, the continuous coverage for Medicaid beneficiaries that has been in place since the 2020 Families First Coronavirus Response Act (FFCRA) was enacted is now effectively decoupled from the Public Health Emergency (PHE). As such, this phases out the enhanced federal matching funds received for the Medicaid program and reinstates the standard eligibility renewal process. As a result, Medicaid enrollment growth will continue to decrease throughout the new biennium.

The Healthy Indiana Plan (HIP) is not included in the Medicaid Assistance appropriation because the sources of funding come from cigarette tax revenue and incremental hospital assessment fees for the state share of expenditures.

FSSA will receive an increased appropriation of \$3 million for Indiana 211, a program that assists Hoosiers in finding local resources on a 24/7 basis.

The budget appropriates \$5 million from the State Unrestricted Opioid Settlement Account to the Substance Abuse Prevention, Treatment, and Enforcement Program administered by the Governor's Office in collaboration with the Division of Mental Health (DMHA) to combat drug addiction.

The Division of Mental Health and Addiction will receive an additional appropriation of \$50 million each year of the biennium to expand mobile crisis services and establish crisis stabilization units across the state, physical locations that will provide receiving and stabilization services. The budget also appropriates \$9.35 million in FY 2024 and FY 2025 from the State Unrestricted Opioid Settlement Account to Division of Mental Health and Addiction (DMHA) for Substance Abuse Treatment and Opioid Overdose Intervention.

The Department of Child Services (DCS) appropriations are \$976.8 million in FY 2024 and \$952.2 million in FY 2025. These appropriations represent an increase of \$91.2 million and \$66.6 million, respectively, for the biennium as compared to the previous biennial budget appropriations. The budget bill requires that \$18.8 million in FY 2024 and \$19.7 million in FY 2025 of annual funding be used for the purpose of home-based provider rate increases. Additionally, DCS was appropriated \$30 million in FY 2024 be used for the purpose of awarding grants to community-based providers, residential treatment services providers, and licensed child placing agencies. Lastly, \$13.8 million of the new funding will allow the Department of Child Services to provide a daily per diem to kinship caregivers to better support households with these types of placements.

Though appropriated in the General Government section of the budget bill to the State Budget Agency, funding for local public health increased from \$6.9M annually to \$75 million in FY 2024 and \$150 million in FY 2025 to support local health departments with the provision of core public health services, marking one of the largest investments in public health in Indiana history. The source of the local health funding shifted from the Tobacco Master Settlement Fund to the General Fund. The Indiana Department of Health (IDOH) received additional funding to support the ongoing health emergency preparedness as well as provide for improvements in the state's trauma system. Finally, IDOH continues to receive the same level of funding for their Safety PIN and Nurse Family Partnership programs that were increased during the 2022 Special Session.

The Indiana Department of Veterans' Affairs (IDVA) received a new, annual General Fund appropriation of \$1 million in each year of the biennium to combat Veteran suicide along with \$1 million in FY 2024 and \$1.25 million in FY 2025 from the Veterans' Affairs Trust Fund to support implementation of the federal partnership initiative: the Governor's Challenge of Preventing Suicide Among Service Members, Veterans, and their Families.

### **General Government**

The budget bill provides \$144 million in appropriations from the General Fund for the Legislative Branch which includes the House, Senate, Legislative Services Agency, Indiana Lobby Registration Commission, and the Commission for Uniform State Laws for FY 2024 and 2025. Funding is also included for a new rulemaking transparency project.

The budget includes increases in FY 2024 and FY 2025 for local judges, and more than \$17.5 million annually for the Office of Judicial Administration's Court Technology efforts. The budget bill also codifies and funds the Commission on Improving the Status of Children and fully funds the Court's collaborative justice efforts.

The budget fully funds the Civil Rights Commission's mission and priorities through the next biennium, as well as provides an increase in funding for the Commission for Women, the Native American Indiana Affairs Commission, and the Commission on Hispanic/Latino Affairs.

Additionally, this budget includes \$250,000 from the General fund for the At-Risk Youth and Families program to the Public Defender Council. This funding will be used to train and reimburse public defenders who work with at-risk families.

The budget allocates \$525,000 for the Medicaid Fraud Control Unit under the Attorney General's Office for the purpose of auditing prescription drug costs for the Medicaid program in accordance with IC 12-15-13.6-1.

### **Public Safety**

The budget appropriates \$645.3 million from General Fund and dedicated sources for the operations of the Indiana State Police (ISP) in the FY 2024 and FY 2025 biennium. These appropriations include funding increases to the ISP salary matrix that allow for average trooper increases over 30% per sworn officer. This budget not only increases pay to all sworn officers, but also shortens the matrix from 20 years to 15, thus shortening the time to achieve full compensation, per rank. Additionally, this budget provides funding to increase the Probationary Trooper salary to \$70,000, purchase new law enforcement radios, as well as repair rehabilitate various posts.

This budget adds \$7.7 million in General Fund appropriations to the Indiana Department of Homeland Security (IDHS) for the construction of statewide fire training facilities. IDHS' budget is further increased by adding General Fund appropriations to the Regional Public Safety Training Fund. This will allow for the additional purchase of critical, lifesaving firefighting equipment needed to support local and volunteer firefighters around the State of Indiana.

This budget also increases appropriations to the Criminal Justice Institute. A majority of the increased funding is for the Juvenile Diversion Grant Program, Juvenile Community Alternatives Program, Juvenile Behavioral Health Competitive Pilot Program, and the Juvenile Recidivism Reductions Pilot Project. The above appropriations shall be granted to county detention centers on an application basis to provide resources to youth in, or at-risk of, detention.

The Department of Correction (DOC) is appropriated \$931.1 million and \$937.6 million from the General Fund for FY 2024 and FY 2025, respectively. This is in comparison to the FY 2023 General Fund appropriation of \$830.5 million. Increases will cover the costs of increased salaries, greater investment in the medical care of incarcerated individuals, and standard market increases to contracts. The DOC is also appropriated funding for facility updates, including \$800 million targeted for improvements to the Westville Correctional Facility.

The Integrated Public Safety Commission is appropriated \$5.4 million for the first time to further help maintain Indiana's public safety communication towers. Another \$2 million was appropriated to upgrade radio systems for law enforcement and work crews to improve safety and reliability in communications.

### **Conservation and Environment**

The Indiana Department of Natural Resources (DNR) is appropriated \$162.7 million in FY 2024 and \$162.5 million in FY 2025 from General and Dedicated Funds for the operations of the agency. These appropriations include funding to provide salary matrix increases in the new biennium. In addition in FY 2023, \$100 million is appropriated for a new lodge at Potato Creek State Park, \$10 million for the President Benjamin Harrison Conservation Trust Fund, and \$5 million to repair tornado-related damage at McCormick's Creek State Park.

The Indiana Department of Environmental Management (IDEM) is appropriated \$126.6 million from General Fund and Dedicated funds in FY 2024 and \$126.3 million in FY 2025. These appropriations for IDEM include funding additional Drinking Water staff in order to manage increasing sources and regulations, as well as general operating cost increases.

### **Transportation**

The budget appropriates nearly \$9 billion from the General Fund, dedicated funds, and federal funds for transportation, including distributions to local units of government. This includes a \$45 million appropriation in both FY 2024 and FY 2025 for public mass transportation and a \$900,000 appropriation in FY24 to support INDOT's continuously operating reference stations (InCORS) from the General Fund.

The budget accelerates the transition of gasoline use taxes from the General Fund to the State Highway Fund, increasing the amount of revenue received by the State Highway Fund by \$65 million dollars annually. Further, the bill moves the sunset on indexing the gasoline tax from 2024 to 2027. These changes will allow INDOT to move forward on major highway projects.

The budget provides an additional \$26 million for airport improvements for certain local and regional airports around the state as well as \$52.7 million dollars to maintain and rebuild various INDOT structures.

### **Economic Development**

Over the biennium, the budget appropriates \$470.1 million from the General Fund for economic development programs at various agencies, representing a near 37% increase in funding from the previous biennium.

In addition to the amount mentioned above, the General Assembly continued its support for the Indiana Economic Development Corporation's (IEDC) Regional Economic Acceleration and Development Initiative (READI) program with another \$500 million appropriation over the biennium. Similar to the Regional Cities initiative from previous years, this program will provide grants to regional development authorities or nonprofit organizations for regional economic development strategies within the state. The budget also continues support in the amount of \$10 million of the biennium for flight expansion across Indiana. New investments include a one-time appropriation of \$150 million for Site Acquisition Strategies and a \$500 million appropriation over the biennium for the Deal Closing Fund, both to be overseen by the IEDC for the purpose of bringing new businesses and investments to Indiana. The legislature has also included \$103 million this biennium for grants to help Hoosiers pay for credentials which will help them earn a higher wage.

An additional \$20 million was appropriated to the IEDC for Manufacturing Readiness Grants, expanding support for the state's manufacturers and furthering the modernization of their operations and processes. Finally, the Indiana Destination Development Corporation (IDDC) received an historic investment of \$40 million of the biennium, adding \$28.3 million to the State's investment in cultivating a growing and emerging Hoosier State that attracts and retains fresh talent and business.

### **Capital and Construction**

The capital budget for the FY 2024 – FY 2025 biennium represents a continued commitment to create a budget that takes care of what we have, finishes what we started, and plans for the future. Investment into state facilities were increased from \$1.4 billion in FY 2022 – FY 2023 to \$1.9 billion in FY 2024-2025. The budget illustrates a dedication to long-term capital management by providing \$75 million for preventive maintenance and \$99.6 million for repair and rehabilitation projects to preserve the state's existing assets.

Much of the state debt obligations have already been retired, leaving only the Neuro-Diagnostic Institute as the only state facility with any debt.

The General Assembly has allocated an unprecedented \$3 billion dollars to help fund the construction of new facilities across the State. This will include funding the construction of the new Westville Correctional Facility, construction of a new State Archives building, and finishing the construction of the co-location of the Indiana School for the Blind and Visually Impaired and Indiana School for the Deaf. Also included as capital appropriations were \$500 million for the Indiana Economic Development Corporation's deal closing fund, \$700 million for the pension stabilization fund, and an unprecedented \$616 million for public universities' capital improvement projects.

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In addition to the above projects, \$75 million was appropriated to help with the housing infrastructure, \$40 million was given to help with the water infrastructure, and \$150 million was given to help with the statewide deferred maintenance. There are also funds to help build a new amateur sports facility, building a world-class white river rafting development at Origin Park, \$3 million to help with a South Bend Sports Complex, \$26 million to help improve the airports across the state, \$30 million to help expand the orthopedic device industry, and over \$49 million to help with conservation of areas across Indiana's beautiful and majestic landscapes.

Other major capital projects include, \$29 million for the State Fair help build a new Olympic indoor track facility, \$33 million to upgrade different armories across Indiana, \$7 million to help with the rehabilitation of Whitewater Canal, and \$650 million dollars for IEDC to help bring in new business to Indiana.

In the new biennium, \$32 million has been appropriated specifically for upgrading many IT systems across the state.

In closing, the budget continues to appropriate lease payments for the stadium and convention center. These appropriations, \$60 million in FY 2024 and \$60.5 million in FY 2025, are not anticipated to be spent as locally derived revenues are projected to cover the lease payments.

### **Outside Acts**

The Indiana General Assembly enacted several bills during the 2023 regular session that impact state revenues and expenditures. The most notable measures outside of the appropriations in the front section of the budget include: (1) changes to K-12 education and career preparedness through HEA 1002, (2) health care and hospital costs reform from HEA 1004, (3) mental health infrastructure improvements and correctional diversion efforts in HEA 1006, (4) occupational regulation reviews required by HEA 1343, (5) local government tax and loan provisions in HEA 1454, (6) income tax exemptions for military service members in HEA 1034, and (7) various other tax changes in SEA 419 along with a new task force established in SEA 3 to examine state and local taxes.

Additional details on the impact of legislation passed by the Indiana General Assembly during the 2023 regular session can be found in Section E.

### **Revenues**

The economic and revenue forecasts, upon which the FY 2023 – FY 2025 budget is based, were presented to the State Budget Committee on April 19, 2023. Total General Fund forecasted revenue is estimated to be \$21.85 billion in FY 2024 and \$22.43 billion in FY 2025. Forecasted General Fund revenues are estimated to increase by \$820.43 million (3.9%) in FY 2024 and \$577.79 million (2.64%) in FY 2025.

FY 2023 to FY 2025 is projected to see revenue growth closer in line with the longer-term growth trend. FY 2020 to FY 2022 were particularly impacted by the onset of the pandemic, deferral of tax deadlines, shelter in place orders, and temporary, pandemic-era federal policy actions. When adjusting for approximately \$900 million of income tax payments initially due in FY 2020 but collected in FY 2021 due to the alignment of Indiana's tax filing and payment due dates with the federal deferral to

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July 15, 2020, FY 2022 experienced double-digit, atypical growth. As the economy rebalances and the idiosyncratic forces that headlined the last two years fade into a new normal, revenue growth is projected to decelerate closer to the 2-3% range. The evolving trends in employment, consumer spending and financial markets will be some of the main aspects to watch.

The forecast that serves as the basis for revenue estimates currently projects real U.S. gross domestic product growth of 1.61% in FY 2023, 1.13% in FY 2024 and 1.81% in FY 2025. During the same period, Indiana's real gross state product is projected to grow by 0.48% in FY 2023, 0.64% in FY 2024 and 1.54% in FY 2025. The U.S. gross domestic product shows a growth of 7.33% in FY 2023, 4.35% in FY 2024, and 4.27% in FY 2025. According to projections, Indiana's gross state product is projected to grow by 7.50% in FY 2023, 3.83% in FY 2024, and 3.72% in FY 2025.

Indiana personal income is forecasted to grow by 4.78% in FY 2023, 3.38% in FY 2024, and 4.14% in FY 2025. Indiana wages and salaries are forecasted to increase by 7.84% in FY 2023, 4.23% in FY 2024, and 3.60% in FY 2025. Indiana personal income net of government transfer payments is forecasted to increase 5.86% in FY 2023, 3.70% in FY 2024, and 3.74% in FY 2025. The S&P 500 is forecasted to decrease by 9.56% in FY 2023, increase by 5.43% in FY 2024, and remain essentially unchanged in FY 2025.

According to S&P Global Market Intelligence, better-than-expected economic performance at the end of 2022 into early 2023 and continued resilience in employment and spending, in the face of higher interest rates, support growth going forward. In the context of broader macro concerns, "volatility" is expected. While employment growth will be challenged, average annual wage growth is projected to be 4.0% in FY 2024 and FY 2025.

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 was reduced to 3.23% on January 1, 2017.

The 2022 legislative session reduced the rate from 3.23% to 3.15%, effective January 1, 2023. As a result of legislation passed in 2023, the rate will drop to 3.05% in 2024, 3.0% in 2025, 2.95% in 2026, and 2.9% in 2027.

The corporate tax rate and financial institutions tax rate will remain at 4.9% over the biennium and onward. The utility receipts tax (URT) and utility services use tax (USUT) were repealed beginning on July 1, 2022 in the 2022 legislative session.

The April 19, 2023 revenue forecast was presented before the end of the 2023 legislative session and therefore, did not account for several revenue measures subsequently passed by the General Assembly. Some of these various changes affecting the Indiana tax code include, but are not limited to, changes regarding taxation of e-cigarettes and other tobacco related products, tax credits such as the venture capital investment tax credit and foster care support tax credit, as well as the determination of taxable income for Indiana tax purposes.

In addition to the revenues included in the revenue forecast, other "unforecasted" revenues are deposited in the General Fund annually, including the Hospital Assessment Fee (HAF) and the Quality Assessment Fee (QAF), which were both extended in the budget through June 30, 2025.



**Reserve Balances**

Indiana’s combined reserve balance is projected to total approximately \$2.7 billion at the beginning of the FY 2023 – FY 2025 biennium. This combined balance includes reserve estimates of \$618 million in the General Fund, \$429 million in the Medicaid Reserve fund, \$648 million in the Tuition Reserve fund, and \$1,008 million in the Rainy Day Fund.

The estimated reserve balance at the end of the FY 2023 – FY 2025 biennium is projected to be approximately \$2.65 billion, protecting taxpayers and critical services against future recessions.

A Combined Statement of 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, appearing to read 'Zachary Q. Jackson', with a stylized flourish at the end.

Zachary Q. Jackson  
Budget Director  
State Budget Agency