



STATE OF INDIANA

Eric J. Holcomb
Governor

STATE BUDGET AGENCY

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June 8, 2021

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 2021 regular session of the Indiana General Assembly.

Summary

The FY 2022 – FY 2023 budget is structurally balanced with forecasted annual revenues exceeding recurring, annual expenditures in both FY 2022 and FY 2023. 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, and infrastructure. As a result, the state's combined balances are projected to exceed \$2.4 billion at the end of FY 2021 and grow to more than \$2.6 billion by the end of the FY 2021 – FY 2023 biennium. 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 during the 2021 regular session of the Indiana General Assembly are \$18.5 billion for FY 2022 and \$18.9 billion for FY 2023. This includes annual operating appropriations of \$17.6 billion in FY 2022 and \$18.4 billion in FY 2023 and capital appropriations of \$926 million in FY 2022 and \$516.1 million in FY 2023.

The General Assembly appropriated over \$3.1 billion from the federal American Rescue Plan (ARP) Act. Total appropriations from all sources of funds (General Fund, dedicated funds, and federal funds) are \$46.2 billion for FY 2022 and \$45.9 billion for FY 2023.

In addition to the amounts above, the Indiana General Assembly appropriated \$983 million from the General Fund in FY 2021 for bond defeasance, cost of living adjustments for pension recipients, upgrades to Indiana's Law Enforcement Academy, liability reduction in the pre-1996 account of the teachers' retirement fund, and student learning recovery grants.

K-12 Education

Funding for K-12 tuition support is the largest appropriation in Indiana's state budget. The General Assembly appropriated \$7.86 billion for FY 2022 and \$8.20 billion for FY 2023 for tuition support from the General Fund. The tuition support formula, which allocates dollars to local school

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corporations, increased per pupil funding for several categories including foundation, complexity, and special education. In addition, the General Assembly expanded income eligibility for Choice Scholarships to 300% of the amount required for the individual to qualify for a free or reduced-price lunch. The Choice Scholarship award amount was also increased to 90% of state tuition support, and foster children are now a distinct eligible category for Choice Scholarships.

The budget requires school districts to direct at least 45% of their tuition support dollars to full-time teacher pay and sets minimum teacher salary floors based on level of tuition support funding. The budget requires school districts to submit reports to the Department of Education if they are not able to set a minimum annual salary of \$40,000 for teachers beginning in FY 2023.

The legislature increased funding for the Charter and Innovation Network School Grant Program under the State Board of Education from \$22.5 million in FY 2021 to \$36.7 million in FY 2022 and \$47.5 million in FY 2023. This annual grant program provides funding on a per pupil basis to charter and innovation network schools that do not receive local funding for capital improvements, technology, and transportation. Additionally, the appropriation for the Non-English Speaking Program was increased by \$5 million annually. This program provides development instruction to K-12 English learners to increase their English language proficiency and academic achievement.

The budget includes a General Fund appropriation for the pre-1996 account in the teachers' retirement fund (TRF) of \$975 million in FY 2022 and \$1.0 billion in FY 2023. Additionally, the budget appropriates \$600 million one-time in FY 2021 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 \$2.5 billion at the end of FY22 to be transferred to the pre-1996 account.

Total appropriations for K-12, including pre-1996 teacher pensions, are \$9.17 billion in FY 2022 and \$9.55 billion in FY 2023.

Higher Education

The budget appropriates \$2.82 billion for university operating funding during the FY 2022 – FY 2023 biennium. The budget restores university operating appropriations to their FY 2021 levels in FY 2022 and continues to fund a percentage of university operating based on performance matrices established by the Commission for Higher Education in FY 2023. Performance funding is 7% of operating in FY 2023. In addition to operating funding, the budget also appropriates \$171.2 million over the biennium for university capital and \$326.5 million for fee replaced debt service.

The budget maintains support for student financial aid by appropriating roughly \$388 million annually for CHE's various financial aid programs including 21st 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 \$4.2 billion in FY 2022 and \$4.6 billion in FY 2023 from the General Fund for Health and Human Services (HHS) operating expenses.

The Family and Social Services Administration (FSSA) appropriations are \$3.3 billion in FY 2022 and \$3.7 billion in FY 2023. This budget fully funds the April 15, 2021, Medicaid forecast by appropriating \$2.7 billion in FY 2022 and \$3.0 billion in FY 2023, totaling \$5.7 billion of General Funds, the largest appropriation under HHS. The Medicaid Assistance appropriation includes increased funding for the reimbursement of assisted living services, home health services, as well as home and community-based service providers. The Children's Health Insurance Program (CHIP), previously funded through the Tobacco Master Settlement Fund (TMSF), is funded through the General Fund in this budget.

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 also receives \$1.2 million annually for Indiana 211, a program that assists Hoosiers in finding local resources on a 24/7 basis. This service was previously funded under the Indiana Housing and Community Development Authority.

\$50 million in FY 2022 and \$50 million in FY 2023 are appropriated to FSSA from the federal American Rescue Plan (ARP) Act to address mental health needs across the state.

The budget appropriates \$5 million from the TMSF 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 Indiana's drug crisis. In addition, the bill provides a framework for the distribution of any proceeds from legal settlements related to litigation redressing the impacts of the opioid epidemic.

The Department of Child Services (DCS) appropriations are \$885.6 million in FY 2022 and FY 2023. These appropriations represent a decrease of \$24.6 million and \$14.6 million, respectively, for the biennium as compared to the previous biennial budget appropriations. The budget bill requires that \$10 million of annual funding be used for the purpose of home-based provider rate increases. The Indiana Department of Child Services is committed to providing the right care to the right child at the right time which has resulted in a decrease in caseloads, from 22,261 at the end of FY 2019 to 19,322 in April 2021. This decrease has not only helped the agency to operate within its financial means but allowed their family case managers to better focus on those Hoosier families and children that most need DCS services.

The Indiana Department of Health (IDOH) receives General Fund appropriations of \$12.8 million in FY 2022 and \$12.6 million in FY 2023. IDOH also receives \$90.4 million in both years of the biennium from the TMSF as well as a new federal ARP Act appropriation to provide grants to address health issues and challenges. In contrast to previous biennia, the agency's main administrative appropriation is fully funded by the TMSF rather than a combination of TMSF and General Fund. In addition, IDOH continues to receive federal funding to address and respond to the COVID-19 global pandemic.

General Government

General Fund appropriations for the House, Senate and the Commission for Uniform State Laws remained close to the same compared to the previous biennium appropriation levels: however, other divisions of the legislative branch received an increase in their FY 2022 and 2023 budgets. In total, \$124.5 million was appropriated over the biennium for the legislative branch agencies. This includes funding for a consolidated Technology Infrastructure, Software and Services fund and the new Council of State Governments Juvenile Justice Data Research Project.

The budget includes increases in FY 2022 and FY 2023 for local judges, as well, as an additional \$4 million each year of the biennium for the Indiana Prosecuting Attorneys' Council (IPAC). \$3 million of this new appropriation is for a new High Tech Crimes Unit program. The budget bill requires the remaining \$1 million to assist Indiana State Police's Internet Crimes against Children enforcement 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 Dr. Martin Luther King Jr. Holiday Commission.

Additionally, this budget includes \$2.5 million 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.

Public Safety

The budget appropriates \$527.4 million from General Fund and dedicated sources for the operations of the Indiana State Police (ISP) in the FY 2022 and FY 2023 biennium. These appropriations include funding to maintain the number of troopers at current staffing levels. The budget appropriates federal ARP Act funding to provide COVID-19 hazard pay stipends in FY 2022 and salary matrix increases in FY 2023. Additionally, \$20 million of federal ARP Act funding is appropriated to support a statewide body camera program implemented by the ISP in FY 2022. Additional General Fund capital appropriations will help fund a new ISP post and laboratory facility at the current Lowell site in northwest Indiana.

This budget also increases appropriations to the Criminal Justice Institute (CJI). The increased funding establishes the Indiana Crime Guns Task Force and Local Law Enforcement Training Grants program within CJI.

For the Department of Correction (DOC), \$824.9 million and \$830.3 million is appropriated from the General Fund for FY 2022 and FY 2023, respectively. This is in comparison to the FY 2021 General Fund appropriation of \$761.8 million. These changes are for increases in personnel and contract expenses as well as an additional \$3 million and \$4 million for FY 2022 and FY 2023, respectively, for the County Jail Maintenance Contingency Fund which reimburses local sheriffs for housing DOC's offenders in local jails. Federal appropriations support a \$8.5 million appropriation for COVID-19 hazard pay stipends and \$7 million for stab resistant vests in FY 2022.

The Indiana Department of Insurance (IDOI) is appropriated \$125.3 million in FY 2022 and \$122.0 million in FY 2023 from dedicated fund sources. Included in these amounts, IDOI received a new appropriation of \$4.3 million in FY 2022 and \$1.0 million in FY 2023 to support the creation of an All Payer Claims Database (APCD).

Conservation and Environment

The Indiana Department of Natural Resources (DNR) is appropriated \$124.7 million in FY 2022 and \$125.3 million in FY 2023 from General Fund and dedicated funds for the operations of the agency. These appropriations include funding to maintain the number of conservation officers at current staffing levels and salary matrix increases in FY 2023. FY 2022 federal ARP Act appropriations include \$60 million for the continuance of the Next Level Trails program and \$25 million for conservation land acquisition.

The Indiana Department of Environmental Management (IDEM) is appropriated \$245.5 million from General fund and dedicated funds in FY 2022 and \$246.6 million in FY 2023. These appropriations for IDEM include funding for the riverside clean-up project and increased funding for auto emissions testing operations. Additionally, the budget appropriates dedicated funding within the biennium for IDEM to establish a Coal Ash Permitting Program.

Transportation

The budget appropriates more than \$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 2022 and FY 2023 from the General Fund for public mass transportation and \$1.2 billion from the federal ARP Act to improve infrastructure that enhances economic growth and quality of life for Hoosiers.

Furthermore, the budget provides funding for the final construction phase of Interstate Highway 69 Section 6. The construction of the final section of Interstate Highway 69 will better connect Hoosiers, accelerate economic activities, and further strengthen Indiana's position as the Crossroads of America. This project is fully funded through resources from the State Highway Fund, the last tranche of the Major Moves Construction Fund, as well as federal highway apportionments. The project is expected to be completed in 2024.

Additionally, the budget sets aside \$192 million from the Next Level Connections Fund in FY 2022 to defease any remaining highway revenue bonds issued for Section 5 of Interstate Highway 69. Decreasing the Department of Transportation's bond liability will allow the agency to redirect up to \$14.3 million annually in funding toward major projects in lieu of servicing debt.

The budget appropriates \$231 million in FY 2022 from the federal ARP Act to the Indiana Finance Authority for the Northwest Indiana Regional Development Authority (NWIRDA) to support regional transportation infrastructure projects.

Economic Development

Over the biennium, the budget appropriates \$298.2 million from the General Fund and more than \$1.7 billion from the federal American Rescue Plan Act for economic development programs at various agencies.

From the ARP Act, the budget appropriates \$500 million to the Indiana Economic Development Corporation (IEDC) for the biennium for the Regional Economic Acceleration and Development Initiative (READI). 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 appropriates \$10 million for flight expansion across Indiana, and \$250 million to increase broadband connectivity across the state. The legislature has also included \$75 million this biennium for grants to help Hoosiers pay for credentials which will help them earn a higher wage. Finally, the bill appropriates \$500 million to the Unemployment Insurance Trust Fund, which is used exclusively to pay Unemployment benefits.

From the General Fund, \$1.3 million was added this biennium for Distributions to Food Banks and the new Food Empowerment Pilot Project, which aims to help grocery stores defray costs of opening in food deserts. \$20 million was appropriated to the IEDC for Manufacturing Readiness Grants to help the state's manufacturers modernize their operations and processes. Finally, IEDC's 21st Century Research and Technology Fund appropriation was increased to \$32.75 million annually, which will be used to invest capital into startup businesses across the state and encourage small business growth.

Capital and Construction

The capital budget for the FY 2022 – FY 2023 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 was increased from \$960 million in FY 2020 – FY 2021 to \$1.4 billion in FY 2022- 2023. The budget illustrates a dedication to long-term capital management by providing \$59 million for preventive maintenance and \$183.6 million for repair and rehabilitation projects to preserve the state's existing assets.

The budget enables the state to retire \$110 million of existing capital debt obligations. The Indiana Finance Authority (IFA) will defease debt for the State Fair Coliseum, Prophetstown State Park, Newcastle Correctional Facility, and state psychiatric hospitals at Logansport, Evansville, and Madison. Retiring this debt will relieve Hoosier taxpayers in interest payments in the long term.

Further, the General Assembly made a biennial appropriation totaling \$550 million to what is called a Capital Reserve Account for the construction of the Evansville Police Post, construction of new lodges at Potato Creek and Prophetstown State Parks, and co-location of the Indiana School for the Blind and Visually Impaired and Indiana School for the Deaf.

In addition, the Capital Reserve Account appropriation may also be used for amateur sports facilities, improvements to the former GM stamping plant in Indianapolis, preliminary engineering work at Westville Correctional Facility and for Cybersecurity Infrastructure. The cash funding of

these construction projects eliminates the need for annual bond payments and leads to long-term savings.

Other major capital projects include \$50 million for the cash funding of the Fall Creek Pavilion at the Indiana State Fair, \$70 million appropriated in HEA 1006 (2021) for the expansion and renovation of the Indiana Law Enforcement Academy in Plainfield, and \$400 million for the reconstruction of the Indiana Department of Correction's Westville Correctional Facility.

The budget appropriates \$100 million to the IFA from federal ARP Act funding to expand financial assistance for the maintenance and development of water infrastructure as part of the Water Infrastructure Grant Fund. In addition, a new biennial appropriation of \$60 million in federal funds was included for Water and Transportation Infrastructure Local Grants.

In FY 2022, the Department of Revenue will receive the final \$20.3 million appropriation for the design and implementation of a modernized integrated tax system, culminating a 5-year, \$90 million initiative. This will enable the Department of Revenue to consolidate the aged and disparate tax collection systems into a single system that will automate all major state revenue functions.

In closing, the budget continues to appropriate lease payments for the stadium and convention center. These appropriations, \$40.4 million in FY 2022 and \$82.6 million in FY 2023 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 2021 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 funding by funding schools' virtual instruction in SEA 2 and appropriating \$150 million in SEA 1008 for education losses resultant from the pandemic, (2) increases in the earned income tax credit in HEA 1009, (3) a tribal-state compact for gaming revenue sharing from the Pokagon Band casino, (4) one-time FY 2021 appropriations in HEA 1001 for pre-1996 TRF, 1% pension cost of living adjustments, and bond defeasance, (5) tax credit changes for venture capital, foster care support, and schools in HEA 1001 (various sections), and (6) elimination of the fee for a license to carry a handgun in HEA 1001 (Section 196).

Additional details on the impact of legislation passed by the Indiana General Assembly during the 2021 regular session can be found in Section E.

Revenues

The economic and revenue forecasts, upon which the FY 2022 – FY 2023 budget is based, were presented to the State Budget Committee on April 15, 2021. Total General Fund forecasted revenue is estimated to be \$18.08 billion in FY 2022 and \$18.84 billion in FY 2023. Forecasted General Fund revenues are estimated to decrease by \$108.47 million (0.6%) in FY 2022 but increase by \$764.08 million (4.23%) in FY 2023.

FY 2021 to FY 2023 is projected to see the recovery of the economy from the economic shock experienced in the first half of CY 2020 since the onset of the COVID-19 pandemic. As the economy transitions out of shelter in place orders, the impact of federal policy actions on employment, consumer spending and financial markets is one 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 1.51% in FY 2021, 6.05% in FY 2022 and 2.65% in FY 2023. During the same period, Indiana's real gross state product is projected to grow by 3.22% in FY 2021, 5.61% in FY 2022 and 1.23% in FY 2023. U.S. before tax corporate profits are forecasted to increase by 13.84% in FY 2021, 7.12% in FY 2022, and 2.33% in FY 2023. Indiana personal income is forecasted to grow by 7.87% in FY 2021, 0.13% in FY 2022, and 3.18% in FY 2023. Nominal Indiana wages and salaries are forecasted to increase by 5.24% in FY 2021, 6.36% in FY 2022, and 3.14% in FY 2023. Indiana personal income net of government transfer payments is forecasted to increase 4.29% in FY 2021, 5.20% in FY 2022, and 3.84% in FY 2023.

According to IHS Markit, Indiana's economy began its rebound from pandemic lows relatively quickly, but full recovery will take more time. Indiana had a relatively modest initial COVID-19 outbreak, allowing an early reopening. Many office workers were able to switch to full-time remote work, essential workers remained on the job as much as feasible amid outbreaks. Job recovery has resumed after a slowdown. State payroll employment will return to pre-pandemic peak by late 2022. In the upcoming biennium, the unemployment rate is projected to continue to decline - reaching 3.66% in FY 2022 and 3.32% in FY 2023. The Indiana labor force participation rate is projected to average 62.11% in FY 2021, 62.62% in FY 2022, and 62.72% in FY 2023.

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 corporate tax rate continues the enacted gradual decline to 4.9% in FY 2022. The financial institutions tax rate also continues to decline to 4.9% in CY 2023.

The April 15, 2021, revenue forecast was presented before the end of the 2021 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 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 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, 2023.

Reserve Balances

Indiana's combined reserve balance is projected to total approximately \$2.45 billion at the beginning of the FY 2021 – FY 2023 biennium. This combined balance includes reserves of \$1.36 billion in the General Fund, \$200 million in the Medicaid Reserve fund, \$351 million in the Tuition Reserve fund, and \$535.5 million in the Rainy Day Fund.

The estimated reserve balance at the end of the FY 2021 – FY 2023 biennium is projected to increase to just over \$2.6 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, appearing to read 'Zachary Q. Jackson', with a stylized flourish at the end.

Zachary Q. Jackson
Budget Director
State Budget Agency