



State of Indiana

State Budget Agency
State House #212
Indianapolis, IN 46204
317-232-5610

Mike Braun, Governor

Chad Ranney, Director

June 9, 2025

As required by Indiana Code 4-12-1-12(a), I hereby transmit to Governor Mike Braun, Indiana State Comptroller Elise Nieshalla, and members of the Indiana General Assembly the following report on the appropriations made during the 2025 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 2026 and FY 2027. Recognizing a 5% reduction statewide on most line items, this budget funds Medicaid, meets Pension obligations, and provides strategic increases. Agencies are challenged to identify efficiencies through an additional 5% reserve on operating funds. The state's combined General Fund balances are projected to remain at \$2.3 billion throughout the FY 2026 – FY 2027 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 2025 regular session of the Indiana General Assembly are \$23.0 billion for FY 2026 and \$23.2 billion for FY 2027. This includes \$604.0 million in capital appropriations for FY 2026 – FY 2027.

Total appropriations from all sources of funds (General Fund, dedicated funds, and federal funds) are \$53.5 billion for FY 2026 and \$54.7 billion for FY 2027.

K-12 Education

Funding for K-12 tuition support is the largest appropriation in Indiana's state budget. The General Assembly appropriated \$9.4 billion for FY 2026 and \$9.7 billion for FY 2027 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 making it universal starting academic year 2026/27. New funding was also provided for the restructured diplomas through the Academic Performance grant. The General Assembly has continued its commitment to supporting students and educators by maintaining full funding for textbook reimbursement through tuition support, allocating \$242.0 million over the biennium.

Education funding increases outside of the K-12 tuition support include a new line item of \$100 million over the biennium for Freedom and Opportunity in Education (\$50 million in each fiscal year). This continued investment will play a vital role in strengthening education across the state, ensuring that literacy programming and training remain a priority while also providing essential resources for Hoosier teachers and students. The funding will support student learning recovery

grants, helping students bridge educational gaps, and contribute to teacher recruitment efforts, attracting and retaining top educators to enrich classrooms statewide.

The legislature has maintained funding for the Charter and Innovation Network School Grant Program under the Department of Education, allocating \$52.6 million annually for FY 2026 and FY 2027. 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.

The budget includes a General Fund appropriation for the pre-1996 account in the Teachers' Retirement Fund (TRF) of nearly \$1.1 billion in both fiscal years 2026 and 2027.

Total appropriations for K-12 education, including pre-1996 teacher pensions, are \$10.8 billion in FY 2026 and \$11.1 billion in FY 2027.

Higher Education

University operating funding during the FY 2026 – FY 2027 biennium is \$2.7 billion. In addition to this funding, \$1.1 billion is allocated for various projects and expenses supporting university functions.

The budget maintains support for student financial aid, with nearly \$400 million appropriated annually for Commission for Higher Education's financial aid and grant programs. These include 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 \$7.0 billion in both FY 2026 and FY 2027 from the General Fund to support Health and Human Services (HHS) operating expenses.

Appropriations for the Family and Social Services Administration (FSSA) amount to \$5.7 billion FY 2026 and \$5.9 billion in FY 2027.

This budget supports expected Medicaid obligations by appropriating \$4.97 billion in FY 2026 and \$5.12 billion in FY 2027, totaling \$10.09 billion in General Funds, the largest appropriation within HHS. Growth in Medicaid spending continues to be driven by high costs and utilization trends in home and community-based waiver services, pharmacy, and hospital services.

The Healthy Indiana Plan (HIP) is not included in the Medicaid Assistance appropriation, as its funding comes from cigarette tax revenue and incremental hospital assessment fees, which cover the state's share of expenditures.

The budget continues ongoing investments in the mental health system, maintaining the \$50.0 million annual General Fund appropriation for Community Mental Health and allocating \$9.4

million Opioid Settlement Funds to support treatment of opioid use disorder and co-occurring mental health conditions.

Over the biennium, \$147.3 million from the General Fund has been allocated to the FSSA's Office of Early Childhood and Out-of-School Learning to sustain childcare vouchers for families enrolled in the Child Care Development Fund program, ensuring continued access for current beneficiaries while new enrollees are subject to a waitlist for services.

The Department of Child Services (DCS) is allocated \$1.1 billion in FY 2026 and \$1.0 billion in FY 2027, reflecting increases of \$177.8 million and \$87.8 million over the base, in each fiscal year respectively. The additional funding need is driven by rising child welfare cases and an increase in the average cost per case.

The State, local, and private partnership, established in the previous biennium for the provision of local public health services, continues in the FY 2026- FY 2027 biennium with \$40 million appropriated annually to the Department of Health.

General Government

The Legislative Branch, which includes the House, Senate, Legislative Services Agency, Indiana Lobby Registration Commission, and the Commission for Uniform State Laws was appropriated \$142.3 million from the General Fund FY 2026 – FY 2027 biennium.

The Judicial Branch, including but not limited to the Supreme Court, Court of Appeals, Tax Court, Public Defenders' Office, and Indiana Prosecuting Attorneys' Council is appropriated \$590.6 million over the biennium. Appropriations include new funding under the Office of the Public Defender for Public Defender Incarcerated Defense Services which will be used to streamline the defense of incarcerated individuals in accordance with IC 33-37-2-4.

The budget allocates \$2.2 million each fiscal year 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.

A new \$300 million General Fund appropriation for the Financial Responsibility and Opportunity Growth Fund (FROG) has been established for the FY 2026 – FY 2027 biennium under the State Budget Agency (SBA). This fund allows for budget augmentations for the Department of Corrections, Family and Social Services Administration, and Department of Child Services, subject to budget committed review.

Additionally, approximately every eleven years, the State's biweekly pay schedule includes a 27th pay period. In FY 2027, the State will recognize this additional pay cycle, funded through an \$82.5 million General appropriation.

Public Safety

The budget allocates \$687.9 million from the General Fund and dedicated sources to support Indiana State Police (ISP) operations during the FY 2026 - FY 2027 biennium. Appropriations include funding to maintain and improve critical law enforcement infrastructure and to allow ISP to maintain and potentially expand the number of sworn officers and personnel. Additionally, the budget provides funding to the ISP Fusion Center and the ISP Forensic & Health Science labs.

Following Governor Braun's priority to streamline the Office of School Safety under IDHS, \$1.0 million in General Fund appropriations has shifted from the Department of Education (DOE) to the Indiana Department of Homeland Security (IDHS). This funding will cover administrative costs related to the program. IDHS' budget continues to fund the Regional Public Safety Training Fund and includes additional resources for lifesaving firefighting equipment, benefitting local and volunteer firefighters across Indiana.

This budget appropriates \$4.0 million in General Fund appropriations over the biennium to the Indiana Criminal Justice Institute (ICJI) for the continuation of the Indiana Crime Guns Task Force. Currently, this task force includes Marion County and the surrounding counties, but legislation passed during the 2025 session extends the force to include Lake County.

The Department of Corrections (DOC) is appropriated \$1.0 billion in FY 2026 and \$999.2 million in FY 2027, respectively, as compared to \$937.3 million in FY 2025. The budget increase primarily addresses increased staffing costs. In FY 2025, the DOC launched initiatives to both enhance recruitment and retention, aiming to foster a safer environment – both for staff and those in custody. Additionally, this budget increased the appropriation to the county jail maintenance contingency fund and increased the reimbursement amount to county jails that hold inmates assigned to the department.

Conservation and Environment

The Indiana Department of Natural Resources (DNR) is appropriated \$151.9 million annually in the FY 2026 – FY 2027 biennium from the General Fund and dedicated funds for the agency operations. These appropriations include funding for the administration of a Carbon Sequestration Project and the transfer of the Semiquincentennial Commission to the department.

The Indiana Department of Environmental Management (IDEM) is appropriated \$124.3 million annually from the General Fund and dedicated funds in FY 2026 – FY 2027 biennium. Appropriations include continued funding for pollution prevention, the promotion of recycling, and other Environmental Protection Agency (EPA) requirements.

Transportation

The budget appropriates over \$7 billion from the General Fund, dedicated funds, and federal funds for transportation, including distributions to local units of government and a \$45.0 million appropriation in both FY 2026 and FY 2027 for public mass transportation.

Over \$7 million has been appropriated for airport development grants. Additionally, \$7.6 million has been appropriated for highway planning and research, which will be utilized to move Indiana forward

as it continues to seek innovative solutions for infrastructure. The budget also provides \$65.5 million to maintain, rebuild, and improve various INDOT operational sites. This includes continued progress toward the consolidation of sub-districts in Southern Indiana.

Economic Development

The budget appropriates \$142.9 million in FY 2026 and \$142.3 million in FY 2027 from the General Fund for economic development programs at various agencies.

New investments were made through the creation of the Office of Entrepreneurship and Innovation. The legislature has also continued the inclusion of \$10 million this biennium to the Statewide Sports and Tourism Bid Fund to bring large-scale events to Indiana that spur economic activity across the state.

The Department of Workforce Development received an \$18.0 million annual appropriation for the Employer Training Grant Program, Workforce Ready Grants, and the new Reemployment Skills Training pilot program.

Capital and Construction

The capital budget for the biennium represents a continued commitment to take care of what we have, with \$736.5M invested in capital assets across the biennium.

The bill provides a new approach to managing capital, shifting from General Fund appropriations by agency for Preventive Maintenance, Repair & Rehabilitation, & Line-Items, to a State Agency Capital Improvement appropriation of \$200M in General Fund appropriations and an anticipated \$40M from the State Construction Fund.

Housing infrastructure received a \$50.0 million appropriation and \$40.0 million was given to help with the water infrastructure. Another major capital project includes \$28 million for the Northern Indiana Regional Development Authority for the South Shore Line realignment project.

The budget continues to appropriate lease payments for the stadium and convention center. These appropriations, \$60.9 million in FY 2026 and \$61.3 million in FY 2027, 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 2025 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) New Quantum Research Tax Incentives through HEA 1601, (2) Extension of the employer child care expenditure tax credit through SEA 463, (3) A study on hospital pricing, PCP reimbursements rates, and provider tax reform design through HEA 1004, (4) Implementation of an Agricultural Online Portal through HEA 1149, (5) supplemental payments to qualified cities in FY 2027 through HEA 1448, and (6) System and staff cost implement and monitor

work requirements around HIP 2.0. Additional details on the impact of legislation passed by the Indiana General Assembly during the 2025 regular session can be found in Section E.

Revenues

The economic and revenue forecasts, upon which the FY 2026 – FY 2027 budget is based, were presented to the State Budget Committee on April 16, 2025. Total General Fund forecasted revenue is estimated to be \$22.23 billion in FY 2026 and \$22.26 billion in FY 2027. Forecasted General Fund revenues are estimated to increase by \$170.90 million (0.8%) in FY 2026 and \$30.20 million (0.1%) in FY 2027.

Upward revisions from September 2024 through December 2024 across key income indicators have been adjusted downward by S&P Global Market Intelligence in April 2025. While the broad economy is projected to continue to grow, growth projections for employment, wages and personal income have been revised downward from December 2024. In addition to lower financial market performance, the combination of economic performance through the first quarter of 2025 and expectations of federal policy actions drive the outlook through the biennium.

Economic and State General Fund revenue trends should be interpreted within historical perspective and in the context of macroeconomic dynamics and evolving policy actions at the federal and state level. Following temporary federal stimulus (monetary, fiscal etc.) and other idiosyncratic dynamics (pandemic related etc.) that pushed economic indicators above historical trends and General Fund revenues from \$18.5B in FY 2021 (excl. deferred payments from FY 2020 to FY 2021 due to deferral of the tax year 2020 federal tax deadline) to \$21.2B in FY 2022 (14.4% growth), the FY 2024-2025 period has been projected to experience a rebalancing in the economy following above-trend growth through FY 2023. FY 2026 through FY 2027 is projected to see a transition period in the context of changing federal policy on tariffs, tax policy, monetary policy and more. A key risk is the path of inflation and behavioral changes that impact spending, employment, investing, trade flows and more.

The forecast that serves as the basis for revenue estimates currently projects real U.S. gross domestic product growth of 2.24% in FY 2025, 1.07% in FY 2026 and 1.61% in FY 2027. During the same period, Indiana's real gross state product is projected to grow by 2.71% in FY 2025, 0.97% in FY 2026 and 1.52% in FY 2027. The U.S. gross domestic product shows a growth of 5.02% in FY 2025, 4.81% in FY 2026, and 3.69% in FY 2027. According to projections, Indiana's gross state product is projected to grow by 4.94% in FY 2025, 4.64% in FY 2026, and 3.52% in FY 2027.

Indiana personal income is forecasted to grow by 3.71% in FY 2025, 4.88% in FY 2026, and 4.91% in FY 2027. Indiana wages and salaries are forecasted to increase by 3.03% in FY 2025, 5.16% in FY 2026, and 4.47% in FY 2027. Indiana personal income net of government transfer payments is forecasted to increase 3.08% in FY 2025, 4.66% in FY 2026, and 4.72% in FY 2027. The S&P 500 is forecasted to increase by 19.24% in FY 2025, but decrease by 8.32% in FY 2026, and decrease by 5.35% in FY 2027.

Previous legislative sessions enacted reductions to the individual income tax rate, the corporate tax rate, and the financial institution 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 16, 2025 revenue forecast was presented before the end of the 2025 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 cigarettes, quantum research tax incentives and READI grants, tax credits such as the film and media tax credit and child care expenditure tax credit, etc.

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, 2027.

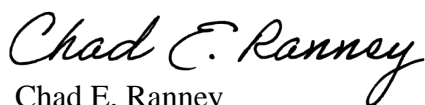
Reserve Balances

Indiana’s combined reserve balance is projected to total \$2.1 billion at the beginning of the FY 2026 – FY 2027 biennium. This combined balance includes reserve estimates of \$318.5 million in the General Fund, \$41.6 million in Medicaid Reserve fund, \$709.4 million in the Tuition Reserve fund, and \$1,068 million in the Rainy Day Fund.

The estimated reserve balance at the end of the FY 2026 – FY 2027 biennium is projected to be approximately \$2.4 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,



Chad E. Ranney
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State Budget Agency