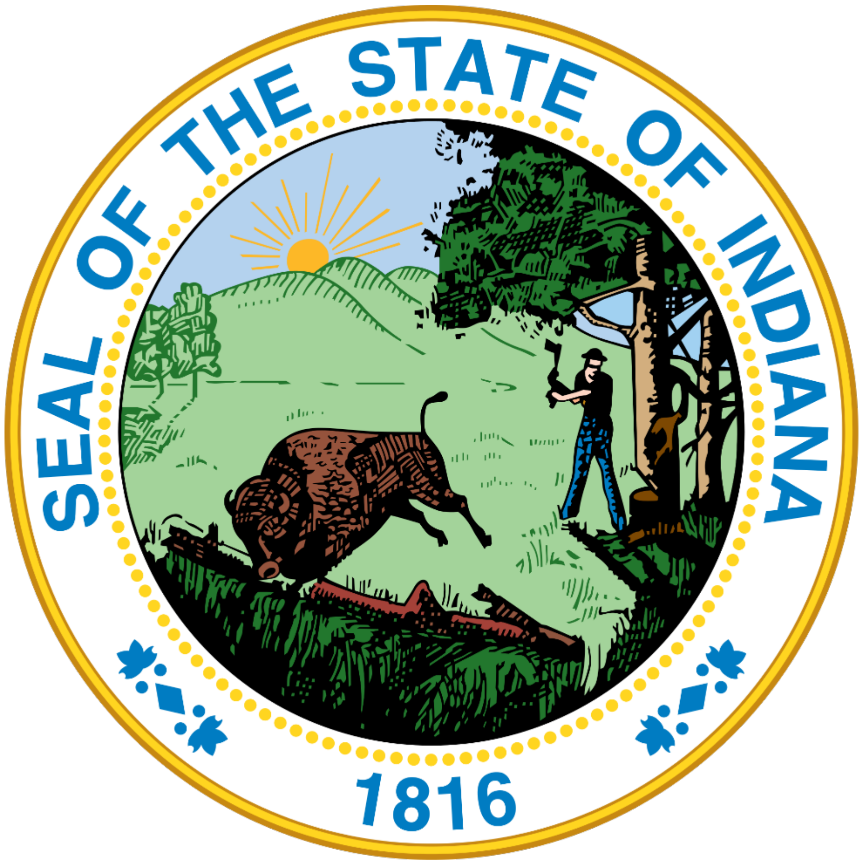
MANAGEMENT'S DISCUSSION AND ANALYSIS



STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2022

The following discussion and analysis of the State of Indiana's financial performance provides an overview of the state's financial activities for the fiscal year (FY) ended June 30, 2022. Please read it in conjunction with the transmittal letter at the front of this report and the state's financial statements, which follow this section.

Financial Highlights

- For FY 2022, on a government-wide basis, the assets and deferred outflows of the State of Indiana exceeded its liabilities and deferred inflows by $24.4 billion. This compares with $20.5 billion for FY 2021.
- At the end of the current FY, unassigned fund balance for the General Fund was $3.9 billion, or 23.9% of the total General Fund expenditures.
- On a government-wide basis for the primary government, the state incurred expenses net of program revenue of $19.9 billion, which are offset by general revenues totaling $24.8 billion, giving an increase in net position of $4.9 billion.
- General fund forecasted revenue for the primary government increased by $1,783.3 million, or 9.2%, from FY 2021.
- Combined general fund reserve balances for FY 2022 were $6.124.7 million.
- For the first time since FY 2012, the statutory, FY 2021 calculation resulted in the determination of excess reserves. A total of $1.1 billion was used to reduce statutorily directed pension liabilities and to pay for taxpayer credits in FY 2022.
- An additional excess reserves calculation was triggered at the conclusion of FY 2022 that directed $2.5 billion of the balance to the reduce the teachers pre-1996 pension liability.
- Indiana is one of a minority of states that has the highest credit rating assigned by all three independent credit rating agencies: Fitch, Moody's, and Standard & Poor's Ratings Service (S&P). From the January 2022 report, S&P cited four areas in issuing the AAA credit rating: historically modest economic growth across all sectors, maintenance of strong budgetary reserves, active budget management, and low overall debt levels. Fitch's January 2022 rating report issued AAA due to "the state's low long-term liability burden and exceptionally strong operating profile, including prudent budget management leading to robust financial reserves."
- Indiana continues to position itself as one of the lowest debt-level states in the country. Net tax supported debt (NTSD) represents just $217 per capita, the 5th lowest in the country (Moody's Debt, Pension, and OPEB Liabilities Report, September 7, 2022).
- Indiana has received several accolades for its business environment. This includes favorable rankings of 6th in the nation in Chief Executive Magazine's annual "Best States for Business" survey (April 2022), top 10 best states for business tax climate according to the Tax Foundation 2023 index, and 1st in infrastructure according to CNBC.
- Indiana's personal income growth rates exceeded every bordering state from 2015 to 2020 and continues to rank in America's Top 10 States for lowest cost of living according to the Council for Community and Economic Research. The State's unemployment rate is below the national average and the labor participation rate is higher than the national average.

Key Economic Indicators

	Dec. 31, 2021	Dec. 31, 2020	% Change
Total Labor Force	3,289,362	3,321,235	-1.0%
Total Employed Labor Force	3,239,887	3,175,002	2.0%
Total Goods and Service Employment	3,199,300	3,047,500	5.0%
Service-Providing Employment	2,480,900	2,373,100	4.5%
Goods-Producing Employment	695,900	674,400	3.2%
Unemployment Rate	1.5%	4.4%	-65.9%
Median Household Income	62,743	60,813	3.2%

Sources: Indiana Department of Workforce Development, Bureau of Labor Statistics, and U.S. Census Bureau.

Salaries and benefits for state employees represent approximately 5.0% of governmental fund expenditures. The following table shows a ten year history of the count of full time state employees.

Full Time State Employees Paid Through The Auditor of State's Office

Year	Governor's Authority	Judiciary	Other Elected Officials	On Disability Leave	Total
2022	27,828	1,092	831	643	30,394
2021	28,803	964	896	576	31,239
2020	29,607	950	1,147	576	32,280
2019	28,868	922	1,124	556	31,470
2018	28,634	908	1,095	590	31,227
2017	28,286	894	1,062	646	30,888
2016	28,315	886	1,107	669	30,977
2015	28,157	865	1,083	744	30,849
2014	28,279	845	1,065	783	30,972
2013	28,398	831	1,049	856	31,134

For more information on personnel paid through the Auditor of State, please read the Statistical Section.

Overview of the Financial Statements

This Financial Section consists of four parts: management's discussion and analysis (this part), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the state. The first two statements are government-wide financial statements that provide both long-term and short-term information about the state's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the state government, reporting the state's operations in more detail than the government-wide statements.

- The governmental fund statements tell how general government services such as public safety, education, and welfare were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the Unemployment Compensation Fund.
- Fiduciary fund statements provide information about the financial relationships in which the state acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as the retirement plan for the state's employees.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the state as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the state's net position and how it has changed. Net position, which equals the state's assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, is one way to measure the state's financial health, or position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State of Indiana is improving or deteriorating. To assess the overall health of the state, additional non-financial factors should be considered, such as changes in the state's tax base, the condition of the state's roads and the state's student population. The government-wide financial statements of the state are divided into three categories:

- **Governmental activities**. Most of the state's basic services are included here, such as the state's roads and bridges, and health and environmental programs. State sales and income taxes and federal grants finance most of these activities.
- **Business-type activities**. The state provides goods and services through these activities that are financed or recovered primarily through fees and user charges. The Unemployment Compensation Fund, the Inns and Concessions Fund, and the Indiana Residual Malpractice Insurance Authority are included here.
- **Discretely Presented Component Units**. These are legally separate discretely presented entities for which the state is financially accountable. These include, among others, the Indiana Finance Authority, the State Lottery Commission of Indiana, the Indiana Bond Bank, the Indiana Housing and Community Development Authority, and colleges and universities that receive state funding.

Fund Financial Statements

The fund financial statements provide more detailed information about the state's most significant funds, not the state as a whole. Funds are accounting devices that the state uses to keep track of specific sources of funding and spending for particular purposes. The State of Indiana uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The state has three kinds of funds: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds**. Most of the state's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs.

   *Relationship and Reconciliation***.** Because the information provided in the governmental funds statements does not encompass the additional long-term focus of the government-wide statements, reconciliation pages are provided. On the page following each governmental fund's financial statement, these reconciliations explain the differences between the government-wide and the fund financial statement. Government-wide statements use full accrual accounting. Revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements use the modified accrual basis of accounting. Revenues are recognized when earned so long as they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. Specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

   Non-current assets such as infrastructure, land, and property, plant and equipment appear on the government-wide statements but not on the governmental fund statements where they are expensed as acquired rather than capitalized. Non-current liabilities such as capital lease payables and net pension liabilities also appear on the government-wide statements but not on the fund statements. Internal service funds are included as part of the governmental activities in the government-wide statements but not the governmental fund financial statements because they provide services to the governmental funds.

2. **Proprietary funds**. Services for which the state charges customers a fee are generally reported in proprietary funds. These funds use the economic resources measurement focus and the accrual basis of accounting. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact, the state's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information such as cash flows. The state uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the state's other programs and activities. An example would be the State Employee Health Insurance Fund.

3. **Fiduciary funds**. The state is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The state is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the economic resources measurement focus and the accrual basis of

accounting. All of the state's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the state's government-wide financial statements, because the state cannot use these assets to finance its operations.

Financial Analysis of the State as a Whole

Net Position

The following is condensed from the Statement of Net Position:

State of Indiana
Condensed Schedule of Net Position
(in millions of dollars)

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Current and other assets	$ 22,497.1	$ 19,025.0	$ 1,802.7	$ 698.8	$ 24,299.8	$ 19,723.8
Capital assets	19,352.6	18,483.0	0.3	0.3	19,352.9	18,483.3
Total assets	41,849.7	37,508.0	1,803.0	699.1	43,652.7	38,207.1
Deferred outflows of resources	2,268.0	2,256.8	-	-	2,268.0	2,256.8
Total deferred outflows of resources	2,268.0	2,256.8	-	-	2,268.0	2,256.8
Current liabilities	7,311.0	6,263.0	93.6	84.2	7,404.6	6,347.2
Long-term liabilities	10,947.8	12,503.1	23.5	23.5	10,971.3	12,526.6
Total liabilities	18,258.8	18,766.1	117.1	107.7	18,375.9	18,873.8
Deferred inflows of resources	1,482.9	457.9	-	-	1,482.9	457.9
Total deferred inflows of resources	1,482.9	457.9	-	-	1,482.9	457.9
Net position:						
Net investment in capital assets	18,507.6	17,720.4	0.3	0.3	18,507.9	17,720.7
Restricted	1,344.8	1,160.8	1,627.6	531.5	2,972.4	1,692.3
Unrestricted	4,523.6	1,659.6	58.0	59.6	4,581.6	1,719.2
Total net position	$ 24,376.0	$ 20,540.8	$ 1,685.9	$ 591.4	$ 26,061.9	$ 21,132.2

At the end of the current FY, net position for the primary government increased by $4.9 billion.

Current and other assets increased by $4.6 billion, with $3.5 billion attributable to increases in tax revenue received in governmental activities, and $1.1 billion attributable to an increases in the Unemployment Compensation fund's cash balance due to decreased expenditures resulting from less unemployment claims than in the prior year.

Capital assets increased by $869.6 million. The principal reason for the increase in capital assets were increases in land, infrastructure, and construction in progress at the Indiana Department of Transportation primarily due to the continuation of the Next Level Agenda initiative, which focuses on maintaining and building the state's infrastructure. In addition, there were increases in software work-in-progress, and in the change in reporting requirements for leases.

Total liabilities decreased $497.9 million primarily due to the additional contributions to TRF Pre-1996 Pension Plan resulting from the budget surplus realized at the end of the fiscal year, thus reducing the net pension liability.

Deferred inflows of resources increased $1.0 billion primarily due to significant experienced investment gains deferred for the difference between the projected and actual earnings on pension plan investments.

Changes in Net Position

The following is condensed from the Statement of Activities:

State of Indiana
Condensed Schedule of Change in Net Position
(in millions of dollars)

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues:						
Charges for services	$ 3,282.5	$ 3,401.5	$ 779.6	$ 657.4	$ 4,062.1	$ 4,058.9
Operating grants and contributions	21,355.1	20,093.2	-	-	21,355.1	20,093.2
Capital grants and contributions	1,540.9	1,326.6	-	-	1,540.9	1,326.6
General revenues:						
Income taxes	9,069.4	8,021.5	-	-	9,069.4	8,021.5
Sales taxes	10,445.6	9,400.4	-	-	10,445.6	9,400.4
Other	3,756.5	3,868.9	1,568.9	4,853.6	5,325.4	8,722.5
Total revenues	49,450.0	46,112.1	2,348.5	5,511.0	51,798.5	51,623.1
Program Expense						
General government	3,063.0	2,136.1	-	-	3,063.0	2,136.1
Public safety	1,904.0	1,799.5	-	-	1,904.0	1,799.5
Health	682.4	809.7	-	-	682.4	809.7
Welfare	22,235.8	20,264.6	-	-	22,235.8	20,264.6
Conservation, culture and development	1,397.6	1,508.2	-	-	1,397.6	1,508.2
Education	13,050.0	11,649.6	-	-	13,050.0	11,649.6
Transportation	3,243.6	3,355.3	-	-	3,243.6	3,355.3
Interest expense	11.6	38.9	-	-	11.6	38.9
Unemployment compensation fund	-	-	1,226.7	5,381.6	1,226.7	5,381.6
Other	-	-	27.3	23.6	27.3	23.6
Total expenses	45,588.0	41,561.9	1,254.0	5,405.2	46,842.0	46,967.1
Excess (deficiency) before transfers	3,862.0	4,550.2	1,094.5	105.8	4,956.5	4,656.0
Transfers	-	0.6	-	(0.6)	-	-
Change in net position	3,862.0	4,550.8	1,094.5	105.2	4,956.5	4,656.0
Beginning net position, as restated	20,514.0	15,990.0	591.4	486.2	21,105.4	16,476.2
Ending net position	$ 24,376.0	$ 20,540.8	$ 1,685.9	$ 591.4	$ 26,061.9	$ 21,132.2

Governmental Activities

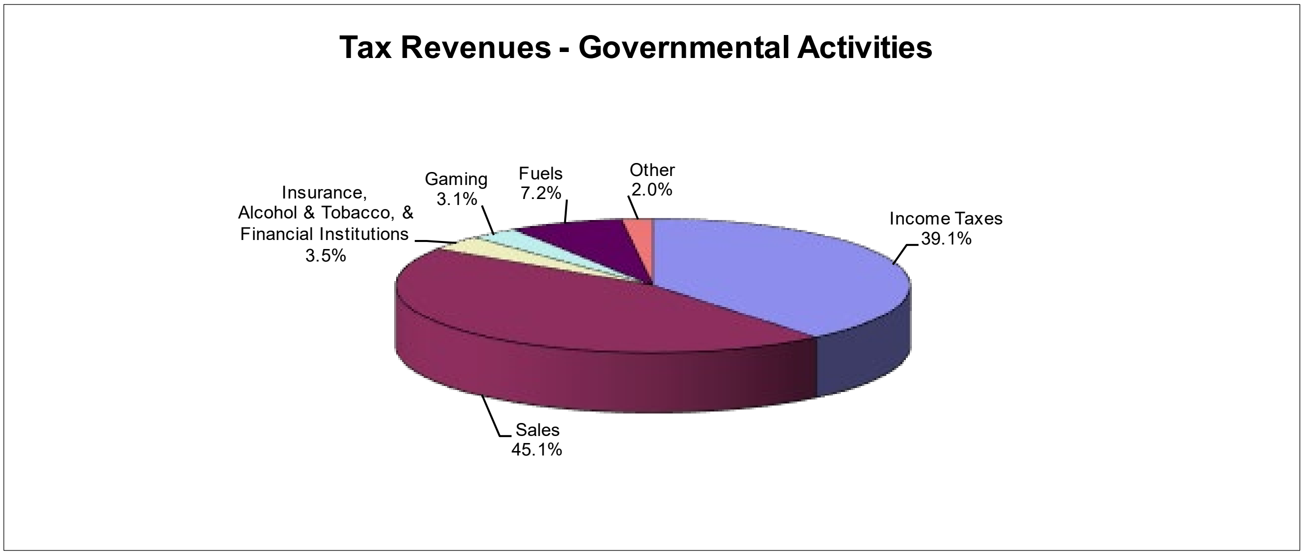
Program expenses exceeded program revenues by $19.4 billion. General revenues and transfers were $23.3 billion. The increase in net position was $3.9 billion, which is 7.8% of total revenues and 8.5% of total expenses.

Excess (deficiency) before transfers decreased $688.2 million from FY 2021 to FY2022.

Increased revenues were driven mainly by increased operating grants and contributions and income and sales tax revenue. Operating grants and contributions increased $1.3 billion mainly due to the ARPA Economic Stimulus fund. This was the first year for activity in this fund. Income tax and sales tax revenue both increased $1 billion each primarily due to rising wages, increased employment, and continued economic stimulus efforts.

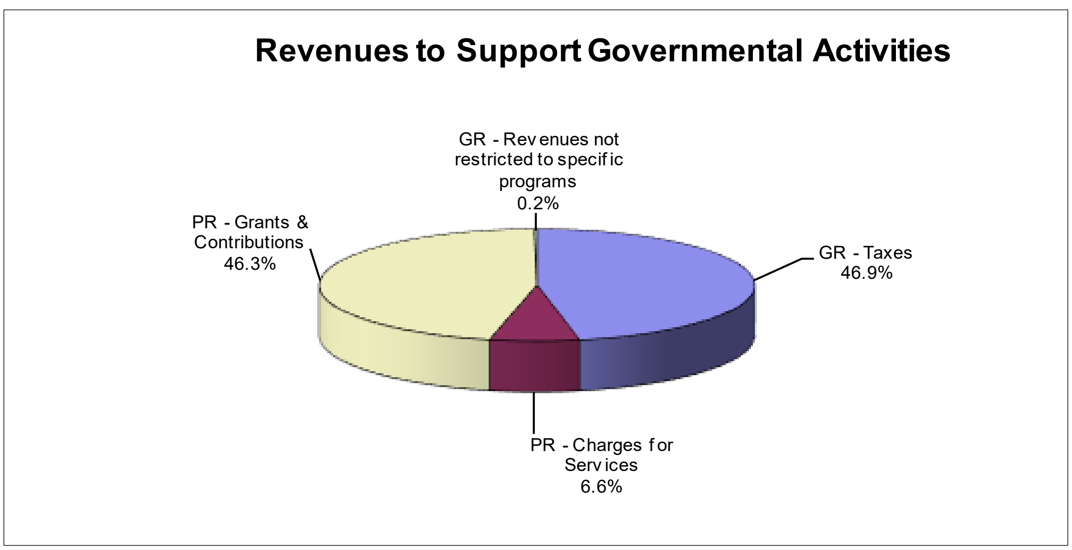
Expenses increased $4.0 billion or 9.7%. Welfare expenses increased $2.0 billion due to increases in the number of Medicaid recipients in FY2022. Education related expenses increased by $1.4 billion mostly due to increased expenditure in the COVID 19 fund and increases in the Department of Agriculture federal fund for the National School Lunch program. Local educational agencies were allowed to claim reimbursement under the Summer Seamless Waiver this year which is reimbursed at a higher rate than the normal rate under the program.

Tax revenues for governmental activities were broken down as follows:



Tax revenues of $23.2 billion represent 46.9% of total revenues for governmental activities. This compares to $20.9 billion or 45.3% of total revenues in FY 2021. Program revenues accounted for $26.2 billion or 52.9% of total revenues. In FY 2021, program revenues accounted for $24.8 billion or 53.9% of total revenues. General revenues other than tax revenues were $94.7 million or 0.2% of total revenues. Within this amount, investment earnings had a negative revenue result of $30.4 million. This compares to 2021, when general revenues other than taxes were $377.7 million or 0.8% of total revenues and $24.4 million was investment earnings. Investment earnings decreased $54.9 million from FY 2021 to FY 2022 due to decreased rates of return on investments.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

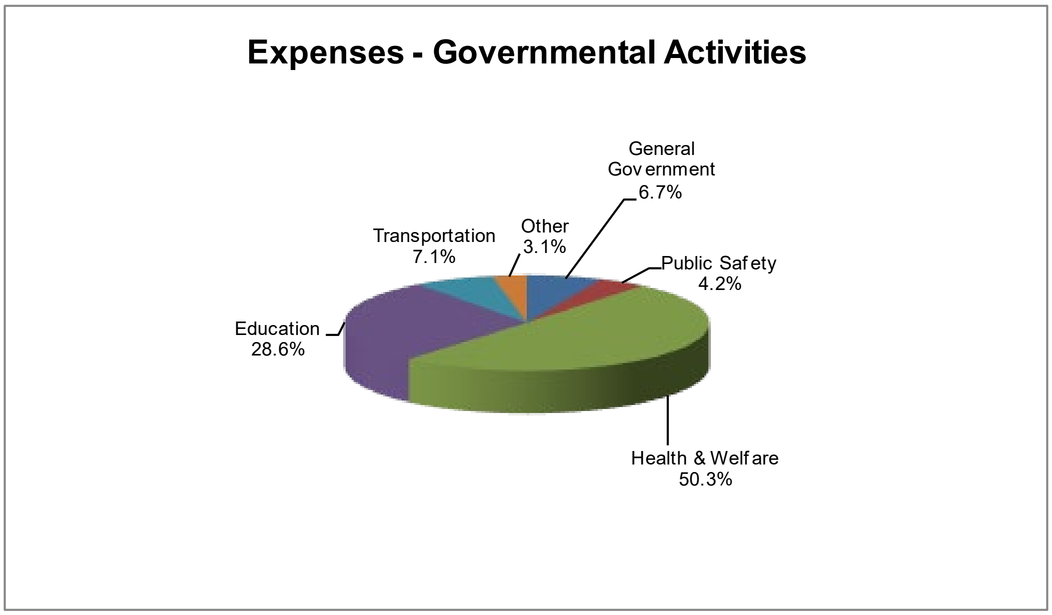
Total revenues were 108.5% of expenses which was a decrease from 110.9% in FY 2021. Total revenues increased 7.2% from $46.1 billion in FY 2021 to $49.5 billion in FY 2022. Expenses increased 9.7% from $41.6 billion in FY 2021 to $45.6 billion in FY 2022.

The largest portion of the state's expenses is for welfare, which is $22.2 billion, or 48.8% of total expenses. This compares with $20.3 billion, or 48.8% of total expenses in FY 2021. The change in welfare expenses was an increase of $2.0 billion or 9.7%. $5.3 billion of welfare expenses in FY 2022 were funded from general revenues. Some of the major expenses were Medicaid Assistance, $16.6 billion, the U.S. Department of Health and Human Services Fund, $1.5 billion, and the federal food stamp program in the U.S. Department of Agriculture Fund, $2.2 billion.

Education comprises 28.6%, or $13.0 billion of the state's expenses. In FY 2021, education accounted for 28.0%, or $11.6 billion, of expenses. The change in education expenses was an increase of $1.4 billion, or 12.1%. Some of the major expenses were tuition support of $7.8 billion; General Fund appropriations for state colleges and universities of $1.6 billion and Teachers' Retirement Pension of $975 million; and fund expenditures for federal grant programs from the U.S. Department of Education Fund of $666.3 million and U.S. Department of Agriculture Fund of $767.4 million.

Transportation spending accounted for $3.2 billion, or 7.1% of expenses. Transportation comprised $3.4 billion or 8.1% of expenses in FY 2021. Transportation includes expenses related to the maintenance and construction of state infrastructure.

Total expenses for governmental activities were broken down as follows:



Business-type Activities

Business-type activities represent 4.5% of the Primary Government's revenues and 2.7% of the expenses. The Unemployment Compensation Fund accounts for 96.2% of business-type activities' operating revenues and 97.8% of operating expenses. The change in net position for business-type activities was an increase of $1.1 billion.

The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals and the fund covers general and administrative expenses. Revenues earned in the fund exceeded expenses by $1.1 billion. This compares to FY 2021 when this fund's revenues exceeded expenses by $104.6 million. Employer contributions into the fund increased by $117.1 million, from $633.0 million in FY 2021 to $750.1 million in FY 2022. The increase in net position of $1.1 billion is due to a decrease in unemployment compensation claims.

The following schedule shows the net expense (revenue) attributable to each function of government. Each function of Indiana government is either self-supporting (a negative number) or requires additional general revenues to cover expenses (a positive number).

Net Cost of Primary Government
(in millions of dollars)

	June 30, 2022	June 30, 2021	% Change
Governmental Activities:			
General government	$ (201.4)	$ (880.3)	-77.1%
Public safety	1,026.7	1,002.8	2.4%
Health	(673.6)	24.8	-2816.1%
Welfare	5,272.8	4,160.4	26.7%
Conservation, culture, and development	1,420.8	562.4	152.6%
Education	10,921.5	10,352.1	5.5%
Transportation	1,631.0	1,479.5	10.2%
Interest expense	11.6	38.9	-70.2%
Business-type Activities:			
Unemployment Compensation Fund	476.6	4,748.6	-90.0%
Malpractice Insurance Authority	0.3	1.2	-75.0%
Inns and Concessions	(2.6)	(1.9)	36.8%
Total	**$ 19,883.7**	**$ 21,488.5**	**-7.5%**

Financial Analysis of the State's Funds

The total Governmental fund balance for the end of FY2022 was $14.1 billion, up from $12.1 billion from last year. The General Fund accounts for most of this increase.

General Fund

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by state government which are not required to be accounted for in another fund. The fund balance of the General Fund at June 30, 2022 was $9.6 billion, which is 72.8% of total assets. This compares to a fund balance at June 30, 2021 of $6.8 billion, which was 68.2% of assets. The fund balance of $9.6 billion is comprised of nonspendable of $111.8 million, restrictions of $531.7 million, commitments of $49.0 million, and assignments of $5.0 billion, leaving an unassigned balance of $3.9 billion. The restricted amount consists of the Rainy Day Fund, which is accounted for in the General Fund. For more information on the components of fund balance, see the chart in the Notes to the Financial Statements III(B).

The General Fund's revenues increased 11.9%, or $2.2 billion, from FY 2021, mainly because of an increase in total income tax of $1.0 billion and sales tax revenue of $1.0 billion. Both income and sales tax increased due to the state's strong personal income growth, low unemployment, and strong economy.

General Fund expenditures increased $1.4 billion, or 9.7% from FY 2021. The state increased its tuition support funding to local educational agencies and appropriations to universities. In addition, funding to state agencies and universities for capital projects increased. The state also increased its funding to the Indiana Economic Development Corporation, a discretely presented component unit, for business promotion and innovation programs.

General Fund transfers in decreased $376.8 million or 28.6% from FY 2021 mainly due to a reduction in the return of unused state match funds as expenditures in those federal programs increased. Transfers out were consistent at $3.1 billion in FY 2022 as compared to $3.2 billion in FY 2021. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the fund balance of the General Fund increased $2.8 billion. Even though tax revenues increased, expenditures in the General fund did not increase at the same rate, leading to the excess of revenues over expenditures to be $801.0 million more than last year in the General fund. This is a reflection of the state government's fiscal responsibility. The strong financial performance of the state's funds led to a trigger of an additional payment of $2.5 billion towards teachers pre-1996 pension liability. After these distributions, the state still has a healthy reserve balance, providing protection from future economic uncertainty.

Public Welfare-Medicaid Assistance Fund

Medicaid is an insurance program for low-income individuals. It is jointly funded by the Federal government and the state.

The fund received $12.8 billion in federal revenue as compared to $11.9 billion in FY 2021. This increase was a result of an increase of 6.2% in the Federal Medical Assistance Percentage (FMAP) State funding comes through transfers from the General Fund. Transfers in were $2.9 billion in FY 2022 which is the same as FY 2021. The fund distributed $1.3 billion more in Medicaid Assistance during the year as compared to the prior year due to an increase in the number of Medicaid recipients. The fund balance decreased by $358.3 million from FY 2021 to FY 2022.

U.S. Department of Health and Human Services Fund

The U.S. Department of Health and Human Services Fund is a fund to account for federal grants that are used to carry out health and human services programs.

The fund received $1.3 billion in federal grant revenues and expended $1.7 billion. Revenues and expenditures were consistent with prior year amounts with only a moderate change between the fiscal years. The US DHHS Fund received transfers in of $323.5 million mostly from the General Fund for various health and human services programs. The change in fund balance from FY 2021 to FY 2022 was a decrease of $103.0 million.

Federal COVID-19 Fund

The Federal COVID-19 Fund provides federal grant dollars to cover costs that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019. The fund includes the CARES Act, the Coronavirus Relief Fund (CRF), and additional funds provided for existing grant programs.

The fund received $1.4 billion in federal grant revenues and expended $1.7 billion for pandemic related expenditures. The change in fund balance from FY 2021 to FY 2022 was a decrease of $242.7 million. This change is the result of the state winding down its eligible expenditures under this federal program and using up the remainder of the federal funds that were advanced in the previous fiscal year.

ARPA – Economic Stimulus Fund

The ARPA-Economic Stimulus Fund provides federal grant dollars to support the state in responding to the impact of COVID-19 and in its efforts to contain COVID-19 on communities, residents, and businesses. Its uses build on and expand the support provided to the state and local governments through the CRF.

The fund received $1.7 billion in revenues and had $1.7 billion in expenses. With a transfer in of $1.6 billion, the ending fund balance was $5.8 billion. FY 2022 was the first year this fund had activity.

General Fund Budgetary Highlights

Revenue collections in FY 2022 continued to exceed forecasts and monthly targets. An updated forecast, presented on December 16,2021, estimated total General Fund collections in FY 2022 to be $20.0 billion. Excluding the deferred taxes from FY 2020 into FY 2021, the forecast expected a 7.7% year-over-year growth in revenue. However, by the end of FY 2022, actual General Fund collections totaled $21.2 billion – a 14.4% growth in revenue.

The strong revenue collections coupled with modest expenditure growth resulted in historic surplus levels. Total combined reserves grew to $6.1 billion. This again triggered a statutory excess reserves calculation that required the State to transfer $2.5 billion of reserve balance to the Indiana Public Retirement System for credit against the pre-1996 Teachers' Retirement Fund in FY 2023.

In response to Indiana's strong financial position in FY 2022, Hoosier lawmakers passed various tax changes in the 2022 regular session and the special session in August of 2022. These included a full repeal of the utility receipts tax and the utility services use tax along with a reduction in the individual adjusted gross income tax rate from the current rate of 3.23% to 3.15% in 2023 and 2024. Additional phased reductions in the income tax rate are conditional beyond 2024. During the special legislative session in August, lawmakers passed and the Governor signed an additional automatic taxpayer refund in the amount of $200 per taxpayer.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $19.4 billion, which was 44.3% of total assets for the primary government. Related debt was $0.8 billion. Net investment in capital assets for the primary government was $18.5 billion. Related debt was 4.1% of capital assets. Total capital assets increased $869.5 million or 4.7% and is mostly attributable to increases in the Indiana

Department of Transportation's land, infrastructure, and construction in progress as a result of the continued emphasis on improving the state's infrastructure through the Next Level Agenda initiative. More detailed information about the state's capital assets is presented in Note IV(D) to the Financial Statements.

The following table shows the percentage change from FY 2021 to FY 2022.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2022	2021	2022	2021	2022	2021	
Land	$ 2,700.3	$ 2,616.2	$ -	$ -	$ 2,700.3	$ 2,616.2	3.2%
Infrastructure	13,019.0	12,903.3	-	-	13,019.0	12,903.3	0.9%
Construction in progress	1,587.2	1,064.5	-	-	1,587.2	1,064.5	49.1%
Property, plant and equipment	3,785.2	3,650.2	1.1	1.1	3,786.3	3,651.3	3.7%
Computer software	937.9	907.4	-	-	937.9	907.4	3.4%
Right-to-use	230.4	-		-	230.4	-	100.0%
Less accumulated depreciation	(2,907.4)	(2,658.6)	(0.8)	(0.7)	(2,908.2)	(2,659.3)	9.4%
Total	**$ 19,352.6**	**$ 18,483.0**	**$ 0.3**	**$ 0.4**	**$ 19,352.9**	**$ 18,483.4**	**4.7%**

Long-term Obligations

Long-term obligations items are included in the following table. These items comprised 59.7% of total liabilities.

The following table shows the percentage change from FY 2021 to FY 2022.

State of Indiana
Long-term Liabilities
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2022	2021	2022	2021	2022	2021	
Accrued liability for compensated absences	$ 208.2	$ 207.0	$ 0.8	$ 0.8	$ 209.0	$ 207.8	0.6%
Leases	200.5	762.4	-	-	200.5	762.4	-73.7%
Financed purchases	644.5	-	-	-	644.5	-	100.0%
Claims payable	-	-	22.7	22.7	22.7	22.7	0.0%
Net pension liability	9,781.7	11,392.2	-	-	9,781.7	11,392.2	-14.1%
Net OPEB liability	46.7	54.2	-	-	46.7	54.2	-13.8%
OPEB DC liability	23.4	44.0	-	-	23.4	44.0	-46.8%
Asset retirement obligations	10.9	7.8	-	-	10.9	7.8	39.7%
Pollution remediation	31.9	35.5	-	-	31.9	35.5	-10.1%
Total	**$ 10,947.8**	**$ 12,503.1**	**$ 23.5**	**$ 23.5**	**$ 10,971.3**	**$ 12,526.6**	**-12.4%**

Total long-term liabilities decreased by 12.4% or $1.6 billion. The largest decrease was for the net pension liability of $1.6 billion.

The continued funding for the Teachers Pre-96 Fund was the major contributing factor for the decrease to the net pension liability.

The liability for the other post-employment benefits continues to decrease as it has for the last few fiscal years as the state continues to pay down its liability related to the Retirement Medical Benefits defined contribution plan under IC 5-10-8.5-16.

The decrease in long-term liabilities was partially offset in an increase in liabilities relating to leases as a result of the implementation of GASB 87.

More detailed information about the state's long-term obligations is presented in Note IV(F) to the Financial Statements.

Infrastructure

As required by GASB Statement No. 34, the state has capitalized its infrastructure. This amounts to $13.0 billion in roads and bridges using the modified approach and $2.1 billion in right of way classified as land, and $35.2 million in property (septic, sewer, and water systems; and streets/sidewalks/curbs) and dams being depreciated. In order to utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at or above the established condition level.

Under the modified approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 11,043 centerline road miles of pavement along 240 routes and approximately 5,817 bridges that the state is responsible to maintain.

The state has consistently maintained the assessed conditions of roads over the past three years. It is the state's policy to maintain a network average International Roughness Index based on the right wheel path (IRI RWP) of no more than 101 for Interstate Roads, NHS Non-Interstate, and Non-NHS Roads (a good rating is in the range of 80–114). The most recent condition assessment, completed for FY 2022, indicated that the average IRI RWP for roads was in an acceptable range.

The state has maintained the assessed conditions of bridges at levels which are above the established benchmarks. It is the state's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83% (a good rating is 80% - 90%). The most recent condition assessment, completed in FY 2022, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Total actual maintenance and preservation costs for interstate roads, Non-NHS roads, NHS Bridges, and Non-NHS Bridges were higher than planned during fiscal 2022. Various factors contributing to this included letting additional projects, scope changes, and competitive biddings.

The total actual maintenance and preservation costs for all other road classifications were lower than planned during FY 2022. Various factors contributed to these costs being less than planned including bids that came in under the original estimates, work volumes, and redefining the repairs needed and the methods used.

The average IRI RWP for Interstate and NHS roads were in the excellent condition rating range and the Non-NHS roads was in the good condition rating range. The state’s standard of having less than 12.5% of all roads rated in poor condition was met. The average sufficiency rating for the maintenance of bridges in all road classes was excellent

Economic Factors

In March 2022, Indiana employment exceeded pre-COVID-19 pandemic levels marking a milestone in the State’s economic recovery from the global public health emergency. In addition to higher payroll, Indiana’s unemployment rate dropped to record lows at 2.2% in the spring of 2022. Indiana’s GDP in Q1 of 2022 grew 4.0% in real value which was the 4th highest growth rate in the country. However, Q2 of 2022 saw a 0.8% decline from the previous quarter, which follows the national trend. Real Indiana GDP growth from Q2 2021 to Q2 2022 was 1.7%.

In comparison to other states, Indiana’s economy ranked 19th largest in the U.S. in terms of value of goods and services in calendar year 2021. Indiana’s largest contributor to real GDP has been and continues to be the manufacturing sector. The manufacturing sector accounts for over 500,000 jobs and 16.5% of the non-farm jobs in Indiana. Canada and Mexico are Indiana’s leading merchandise export markets with chemicals, transportation equipment, and machinery accounting for nearly two-thirds of total export categories in 2021.

Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the state’s finances and to demonstrate the state’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact ACFR@auditor.in.gov or 317-232-3300.