MANAGEMENT’S DISCUSSION AND ANALYSIS

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2019

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, 2019. 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. Because of prior period adjustments and reclassifications as described in Note IV(G) of the Notes to the Financial Statements, FY 2018 numbers have been restated.

Financial Highlights

- For FY 2019, on a government-wide basis, the assets and deferred outflows of the State of Indiana exceeded its liabilities and deferred inflows by $15.5 billion. This compares with $12.5 billion for FY 2018, as restated.
- At the end of the current FY, unassigned fund balance for the General Fund was $1.0 billion, or 7.2% of the total General Fund expenditures.
- On a government-wide basis for the primary government, the state incurred expenses net of program revenue of $15.5 billion, which are offset by general revenues totaling $18.5 billion, giving an increase in net position of $3.0 billion.
- General revenue for the primary government increased by $1.0 billion, or 5.7%, from FY 2018. Income tax revenue increased $501.4 million. Sales tax revenues increased by $280.7 million. Income and sales tax revenue increased due to an increase in the median household income, increased tax compliance by remote sellers due to the 2018 Supreme Court ruling on Wayfair vs. Dakota, a stronger economy partially attributed to the federal Tax Cuts and Jobs Act of 2017, and a continued low unemployment rate. In addition, investment income increased $110.9 million from FY 2018. This is attributed to higher interest rates and a larger investment portfolio.
- Combined budget balances for FY 2019 were $2.3 billion. Those balances consisted of $834.5 million in the General Fund, $577.6 million in the Medicaid Contingency Reserve Fund, $338.9 million in the Tuition Reserve Fund, and $519.1 million in the Rainy Day Fund (which has grown from a $0 balance at the end of FY 2010).
- $2.3 billion is an historic high and represents 13.9% of the General Fund expenditures for FY 2019. These historically high reserve balances will protect the state's critical operations during the next economic downturn. Moody's Analytics released a Stress-Testing States report in October 2019 indicating that Indiana was one of only "28 states that have the funds they need for the next recession."
- Indiana is one of only thirteen states with the top bond rating from all three major credit rating agencies. According to the independent credit rating agency Fitch, the rating "reflects Indiana's historical pattern of low debt, balanced financial operations, and a commitment to funding reserves to provide a cushion in times of economic and revenue decline." Standard & Poor's (S&P) December 21, 2018 rating reflects "the state's proven commitment to and significant focus on strengthening the budget through extensive use of management controls that have led to maintenance of structural balance, growth in reserves, and continued funding of long-term liabilities."
- Indiana continues to position itself as one of the lowest debt-level states in the country. Net tax supported debt (NTSD) represents just $295 per capita, the 6th lowest in the country.
- In 2019, Indiana received several accolades for its business environment. This includes ranking 1st in the Midwest and 5th in the nation in Chief Executive Magazine's annual "Best & Worst States" survey (May 2019), 1st in the Midwest and 10th overall in the Tax Foundation's State Business Tax Climate Index (2019), and 1st in Infrastructure according to CNBC's 2019 America's Top States for Business ranking (July 2019).

Key Economic Indicators

	Dec. 31, 2018	Dec. 31, 2017	% Change
Total Labor Force	3,366,433	3,319,899	1.4%
Total Employed Labor Force	3,252,706	3,215,269	1.2%
Total Goods and Service Employment	3,182,200	3,160,200	0.7%
Service-Providing Employment	2,486,600	2,477,500	0.4%
Goods-Producing Employment	695,600	682,700	1.9%
Unemployment Rate	3.4%	3.2%	6.3%
Median Household Income	55,746	54,181	2.9%

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

Salaries and benefits for state employees represent approximately 8.0% 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 - In Pay Status	On Disability Leave - Not in Pay Status	Total
2019	28,868	922	1,124	363	193	31,470
2018	28,634	908	1,095	370	220	31,227
2017	28,286	894	1,062	425	221	30,888
2016	28,315	886	1,107	419	250	30,977
2015	28,157	865	1,083	455	289	30,849
2014	28,279	845	1,065	471	312	30,972
2013	28,398	831	1,049	511	345	31,134
2012	28,485	835	1,049	545	349	31,263
2011	28,472	830	1,067	610	351	31,330
2010	29,911	846	1,056	647	341	32,801

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 they have 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 13,209.5	$ 12,650.7	$ 1,104.3	$ 864.6	$ 14,313.8	$ 13,515.3
Capital assets	17,258.6	16,889.3	0.4	0.2	17,259.0	16,889.5
Total assets	30,468.1	29,540.0	1,104.7	864.8	31,572.8	30,404.8
Deferred outflows of resources	1,459.7	1,574.7	-	-	1,459.7	1,574.7
Total deferred outflows of resources	1,459.7	1,574.7	-	-	1,459.7	1,574.7
Current liabilities	3,713.5	4,138.1	64.8	59.3	3,778.4	4,197.4
Long-term liabilities	13,490.8	15,169.4	24.2	25.3	13,514.9	15,194.7
Total liabilities	17,204.3	19,307.5	89.0	84.6	17,293.3	19,392.1
Deferred inflows of resources	226.0	79.1	-	-	226.0	79.1
Total deferred inflows of resources	226.0	79.1	-	-	226.0	79.1
Net position:						
Net investment in capital assets	16,353.6	15,907.5	0.4	0.2	16,354.0	15,907.7
Restricted	1,102.6	1,088.6	962.5	732.4	2,065.1	1,821.0
Unrestricted	(2,958.7)	(5,268.0)	52.8	47.6	(2,905.9)	(5,220.4)
Total net position	$ 14,497.5	$ 11,728.1	$ 1,015.7	$ 780.2	$ 15,513.2	$ 12,508.3

At the end of the current FY, net position for the primary government increased by $3.0 billion.

Current and other assets increased by $798.5 million due primarily to an increase in tax revenues which resulted in more cash, cash equivalents, and investments.

Capital assets increased by $369.5 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 to maintain and build the state's infrastructure. Another contributor to the increase in capital assets was from new software in development for the Family and Social Services Administration's (FSSA) Indiana Eligibility Determination and Services System (IEDSS), an internal system to determine eligibility for benefits including healthcare, and at the Indiana Department of Revenue (IDOR) for Project NextDOR, a modernization of the current tax system.

Total liabilities decreased $2.1 billion due to the decreases in net pension liability of $1.3 billion, net OPEB liability of $266.7 million, and securities lending collateral of $410.3 million. The net pension liability decreased due to contributions to the TRF 1996 plan and a change in actuarial assumptions for all pension plans. The OPEB liability decreased due to a change in benefit terms to the Indiana State Police OPEB plan. The securities lending decrease is attributed to less securities out on loan as of the FY end.

Deferred inflows of resources increased $146.9 million due to deferrals related to pensions from changes to actuarial assumptions and other inputs of the PERF plan.

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 Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	$ 3,450.6	$ 2,783.6	$ 484.5	$ 529.3	$ 3,935.1	$ 3,312.9
Operating grants and contributions	13,263.9	12,275.7	-	-	13,263.9	12,275.7
Capital grants and contributions	1,132.6	1,067.6	-	-	1,132.6	1,067.6
General revenues:						
Income taxes	6,864.3	6,362.9	-	-	6,864.3	6,362.9
Sales taxes	8,085.7	7,804.9	-	-	8,085.7	7,804.9
Other	3,557.7	3,343.6	20.7	10.4	3,578.4	3,354.0
Total revenues	36,354.8	33,638.3	505.2	539.7	36,860.0	34,178.0
Program Expense						
General government	1,578.1	1,390.2	-	-	1,578.1	1,390.2
Public safety	1,516.4	1,573.4	-	-	1,516.4	1,573.4
Health	402.2	390.5	-	-	402.2	390.5
Welfare	16,136.2	14,923.6	-	-	16,136.2	14,923.6
Conservation, culture and development	554.0	588.2	-	-	554.0	588.2
Education	10,582.9	11,312.1	-	-	10,582.9	11,312.1
Transportation	2,772.1	2,820.0	-	-	2,772.1	2,820.0
Interest expense	45.5	45.5	-	-	45.5	45.5
Unemployment compensation fund	-	-	243.5	257.3	243.5	257.3
Other	-	-	24.2	25.1	24.2	25.1
Total expenses	33,587.4	33,043.5	267.7	282.4	33,855.1	33,325.9
Excess (deficiency) before transfers	2,767.4	594.8	237.5	257.3	3,004.9	852.1
Transfers	2.0	2.1	(2.0)	(2.1)	-	-
Change in net position	2,769.4	596.9	235.5	255.2	3,004.9	852.1
Beginning net position, as restated	11,728.1	11,131.2	780.2	525.0	12,508.3	11,656.2
Ending net position	$ 14,497.5	$ 11,728.1	$ 1,015.7	$ 780.2	$ 15,513.2	$ 12,508.3

Governmental Activities

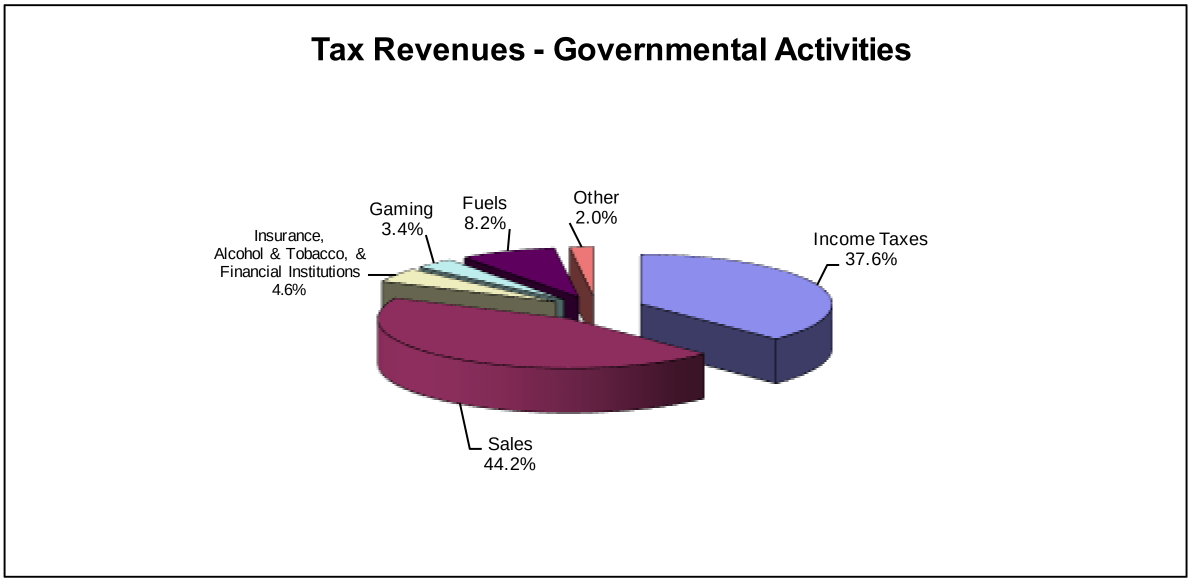
Program expenses exceeded program revenues by $15.7 billion. General revenues and transfers were $18.5 billion. The increase in net position was $2.8 billion, which is 7.6% of total revenues and 8.2% of total expenses.

Excess (deficiency) before transfers increased $2.2 billion from FY 2018 to FY2019.

Increased revenues were driven mainly by increased current service charges, operating grants and contributions, income tax revenue, sales tax revenue and investment income. Current service charge revenue increased $667.0 million mostly from an amended and restated concession and lease agreement by and between the state and its toll road vendor. Operating grants and contributions increased $988.2 million from increases in federal funding related to the Medicaid program. Income tax revenue increased $501.4 million, sales tax revenue increased $280.7 million, and investment income increased $100.7 million as explained in the financial highlights section.

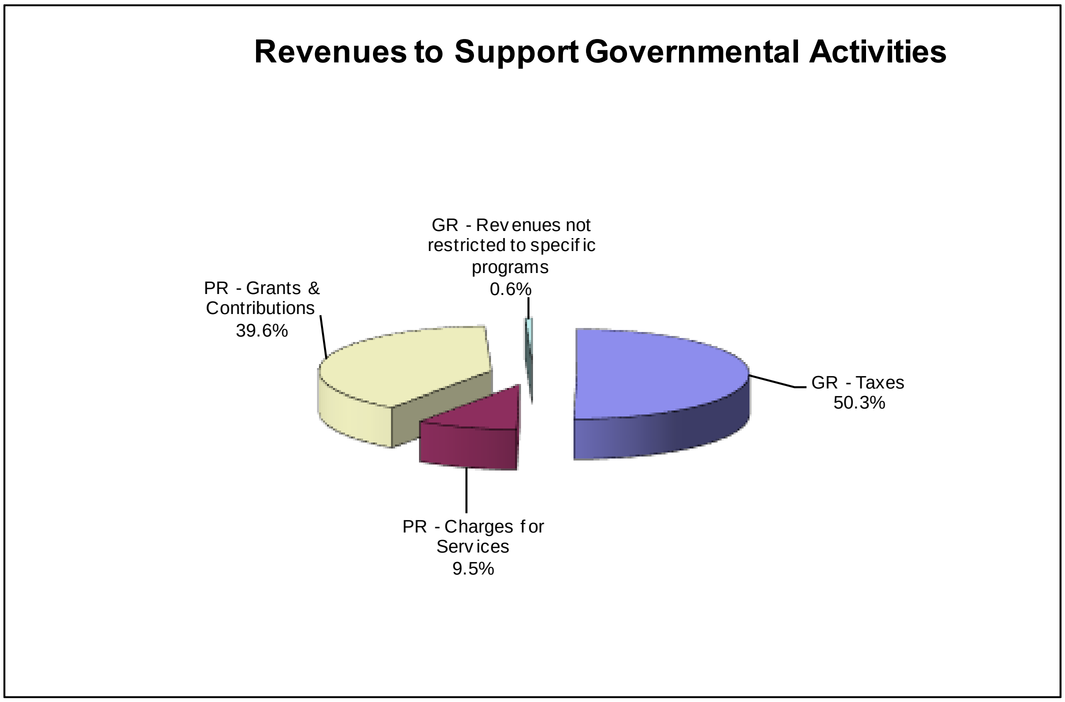
Expenses increased $543.9 million or 1.6%. Welfare expenses increased $1.2 billion primarily due to increased spending of welfare programs. This was offset by a decrease in education expenses of $729.2 million or 6.4%. The state’s liability for the TRF Pre-1996 retirement plan was reduced as a result of changes in actuarial assumptions, reducing pension expenses for the plan.

Tax revenues for governmental activities were broken down as follows:



Tax revenues of $18.3 billion represent 50.3% of total revenues for governmental activities. This compares to $17.4 billion or 51.7% of total revenues in FY 2018. Program revenues accounted for $17.8 billion or 49.1% of total revenues. In FY 2018, program revenues accounted for $16.1 billion or 47.9% of total revenues. General revenues other than tax revenues were $232.6 million or 0.6% of total revenues. Of this, $190.0 million were investment earnings. This compares to 2018, when general revenues other than taxes were $130.4 million or 0.4% of total revenues and $89.2 million was investment earnings. Investment earnings increased by $100.7 million from FY 2018 to FY 2019 or 112.8% due to higher interest rates and larger investment portfolio.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

Total revenues were 108.2% of expenses which was a decrease from 101.8% in FY 2018. Total revenues increased 8.1% from $33.6 billion in FY 2018 to $36.4 billion in FY 2019. Expenses increased 1.6% from $33.0 billion in FY 2018 to $33.6 billion in FY 2019.

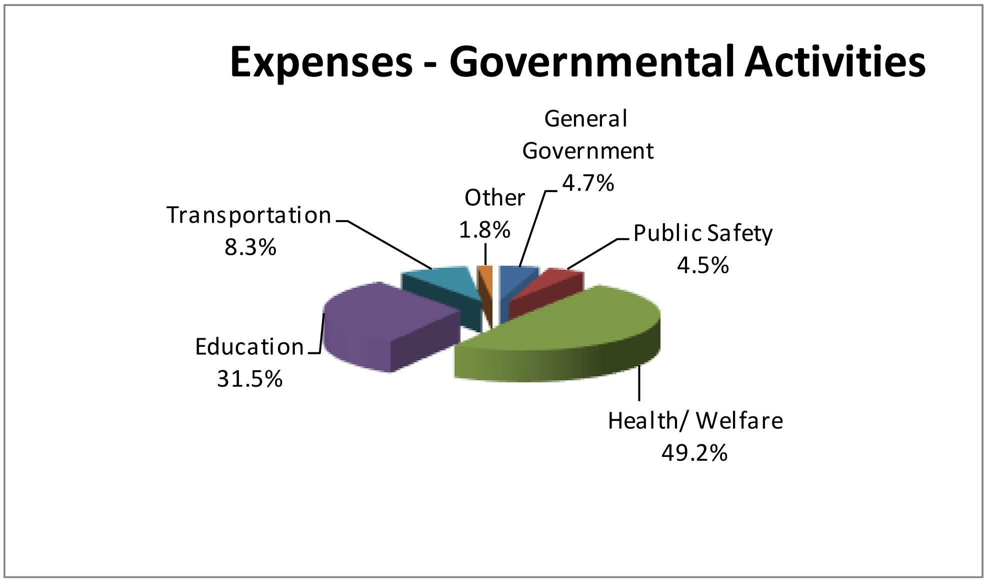
The largest portion of the state's expenses is for welfare, which is $16.1 billion, or 48.0% of total expenses. This compares with $14.9 billion, or 45.2% of total expenses in FY 2018. The change in welfare expenses was an increase of $1.2 billion or 8.1%. $3.7 billion of welfare expenses in FY 2019 were funded from general revenues.

Some of the major expenses were Medicaid Assistance, $12.6 billion, the U.S. Department of Health and Human Services Fund, $1.8 billion, and the federal food stamp program in the U.S. Department of Agriculture Fund, $831.6 million.

Education comprises 31.5%, or $10.6 billion of the state's expenses. In FY 2018, education accounted for 34.2%, or $11.3 billion, of expenses. The change in education expenses was a decrease of $729.2 million, or 6.4%. Some of the major expenses were tuition support of $7.1 billion, General Fund appropriations for state colleges and universities, $1.7 billion, Teachers' Retirement Pension, $1.1 billion, federal grant programs from the U.S. Department of Education Fund, $658.4 million, and federal grant programs from the U.S. Department of Agriculture Fund, $432.7 million.

Transportation spending accounted for $2.8 billion, or 8.3% of expenses. Transportation comprised $2.8 billion or 8.5% of expenses in FY 2018. 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 1.4% of the Primary Government's revenues and 0.8% of the expenses. The Unemployment Compensation Fund accounts for 94.5% of business-type activities' operating revenues and 91.0% of operating expenses. The change in net position for business-type activities was an increase of $235.5 million.

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. Revenue in the fund exceeded benefits and administrative expenses paid by $230.1 million. This compares to FY 2018 when this fund's revenues exceeded expenses by $254.7 million. Employer contributions into the fund decreased by $44.0 million, from $501.7 million in FY 2018 to $457.7 million in FY 2019. The increase in net position of $230.1 million is due to a low number of claims for benefits against the fund, the UI Program's strong anti-fraud and collections initiatives, a stout economy, and an increase in investment earnings.

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, 2019	June 30, 2018	% Change
Governmental Activities:			
General government	$ 797.3	$ 709.6	12.4%
Public safety	749.6	839.1	-10.7%
Health	(217.2)	(180.0)	20.7%
Welfare	3,696.9	3,553.5	4.0%
Conservation, culture, and developm	162.0	195.7	-17.2%
Education	9,501.0	10,164.8	-6.5%
Transportation	1,005.2	1,588.5	-36.7%
Interest expense	45.5	45.5	0.0%
Business-type Activities:			
Unemployment Compensation Fund	(214.2)	(244.4)	-12.4%
Malpractice Insurance Authority	0.4	1.1	-63.6%
Inns and Concessions	(2.9)	(3.6)	-19.4%
Total	**$ 15,523.6**	**$ 16,669.8**	**-6.9%**

Financial Analysis of the State's Funds

The following is an analysis of the state's major governmental funds. The transfers in and transfers out for these funds are explained in much greater detail in note IV(B) in the Notes to the Financial Statements.

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, 2019 was $4.3 billion, which is 63.1% of assets. This compares to a fund balance at June 30, 2018 of $3.9 billion, which was 57.6% of assets. This indicates that the state's financial position in the General Fund increased from the prior year. The fund balance of $4.3 billion is composed of restrictions of $523.2 million, commitments of $41.7 million, and assignments of $2.6 billion, leaving an unassigned balance of $1.0 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 5.8%, or $897.3 million, from FY 2018, because of the increase in total tax revenue which included $450.4 million (7.0%) in income tax and $253.4 million (3.3%) increase in sales. The increase in tax revenues is explained by a combination of factors including higher Indiana household personal income and business activity.

General Fund expenditures increased $447.9 million, or 3.2% from FY 2018. Distributions in education expenditures for state schools for teacher's retirement and tuition support increased $267.6 million. State funding of higher education grant programs increased by $67.0 million.

General Fund transfers in increased $320.9 million or 26.4% from FY 2018. Transfers out were $3.2 billion in FY 2019 as compared to $2.8 billion in FY 2018. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the net position of the General Fund increased $368.8 million.

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 Medicaid Assistance Fund received $9.1 billion in federal revenue as compared to $8.3 billion in FY 2018. State funding comes through transfers from the General Fund. Transfers in were $2.8 billion in FY 2019 as compared to $2.5 billion in FY 2018. Transfers out were $452.0 million compared with $250.4 million in FY 2018. The fund distributed $12.6 billion in Medicaid Assistance during the year, which is an increase of $1.2 billion over FY 2018. The change in fund balance decreased $52.4 million from FY 2018 to FY 2019.

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 US DHHS Fund received $1.5 billion in federal grant revenues and expended $1.8 billion. The US DHHS Fund received transfers in of $360.9 million mostly from the General Fund for various health and human services programs. The change in fund balance from FY 2018 to FY 2019 was an increase of $55.0 million.

General Fund Budgetary Highlights

Actual State General Fund forecasted revenue collections increased by $834.9 million, or 5.4%, in FY 2019 while actual expenditure growth increased by 3.5%. This resulted in a $410 million annual surplus in FY 2019. As noted above, at year-end, the State had $2.3 billion in reserves, with $834.5 million residing in the general fund, $577.6 million in the Medicaid Reserve Fund, $338.9 million in the Tuition Reserve Fund, and $519.1 million residing in the Rainy Day Fund.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $17.3 billion, which was 54.7% of total assets for the primary government. Related debt was $.9 billion. Net investment in capital assets for the primary government was $16.4 billion. Related debt was 5.2% of capital assets. Total capital assets increased $369.3 million or 2.2% and is attributable to increases in the Indiana Department of Transportation's land, infrastructure, and construction in progress. The net increase in capital assets is primarily comprised of increases for infrastructure of $147.7 million, $203.7 million in construction in progress, and $64.6 million in land. INDOT's $281.7 million increase is comprised of increases in land, $54.9 million, and infrastructure consisting of interstate roads, non-interstate roads, and bridges, $148.1 million, and CIP consisting of right of way and work in progress, $78.7 million. 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 2018 to FY 2019.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2019	2018	2019	2018	2019	2018	
Land	$ 2,439.1	$ 2,374.5	$ -	$ -	$ 2,439.1	$ 2,374.5	2.7%
Infrastructure	12,752.7	12,605.0	-	-	12,752.7	12,605.0	1.2%
Construction in progress	888.5	684.8	-	0.1	888.5	684.9	29.7%
Property, plant and equipment	3,046.0	3,026.7	1.0	0.7	3,047.0	3,027.4	0.6%
Computer software	292.9	267.3	-	-	292.9	267.3	9.6%
Less accumulated depreciation	(2,160.6)	(2,069.0)	(0.6)	(0.6)	(2,161.2)	(2,069.6)	4.4%
Total	**$ 17,258.6**	**$ 16,889.3**	**$ 0.4**	**$ 0.2**	**$ 17,259.0**	**$ 16,889.5**	**2.2%**

Long-term Obligations

Major long-term obligations items are included in the following table. These items comprised 100% of total long-term liabilities and 78.2% of total liabilities.

The following table shows the percentage change from FY 2018 to FY 2019.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2019	2018	2019	2018	2019	2018	
Accrued liability for compensated absences	$ 177.9	$ 170.0	$ 0.8	$ 0.8	$ 178.7	$ 170.8	4.6%
Capital lease payable	904.8	974.3	-	-	904.8	974.3	-7.1%
Claims payable	-	-	23.4	24.5	23.4	24.5	-4.5%
Net pension liability	12,037.0	13,385.8	-	-	12,037.0	13,385.8	-10.1%
Other postemployment benefits	335.8	602.5	-	-	335.8	602.5	-44.3%
Pollution remediation	35.4	36.8	-	-	35.4	36.8	-3.8%
Total	**$ 13,490.9**	**$ 15,169.4**	**$ 24.2**	**$ 25.3**	**$ 13,515.1**	**$ 15,194.7**	**-11.1%**

Total long-term liabilities decreased by 11.1% or $1.6 billion. The largest decreases were for the net pension liability of $1.3 billion and for other postemployment benefits of $266.7 million. Long-term liabilities related to capital leases also decreased by $69.5 million. These decreases were offset by an increase to accrued liability for compensated absences of $7.9 million.

Net investment income increases and changes in actuarial assumptions were the major contributing factors for the decrease to the net pension liability.

The decrease for other postemployment benefits was mainly due from actuarial valuation changes in benefit terms for the Indiana State Police Plan.

The Indiana Finance Authority did not issue any new highway revenue bonds, therefore capital lease payables decreased.

Claims payable for business activities decreased by $1.1 million. This was the amount of decrease in claims payable for the Indiana Residual Malpractice Insurance Authority.

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 $12.7 billion in roads and bridges using the modified approach, $2 billion in right of way classified as land, and $34.5 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 11,202 centerline road miles of pavement along 241 routes and approximately 5,808 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 2018, 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 2018, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Total actual maintenance and preservation costs for roads were lower than planned during fiscal 2019 in all road classes. Various factors contributed to these costs being less than planned including bids that come in under the original estimates, work volumes, lower fuel costs, and redefining the repairs needed and the methods used. The average IRI RWP for Interstate roads was in the excellent condition rating range and the two other road categories, NHS roads - Non-Interstate and Non-NHS roads, were 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.

Total actual maintenance and preservation costs were less than planned for bridges on all road classes. This was due to multiple factors including bids that come in under benchmark estimates, change of scope, and reprioritization to meet the agencies goals. Bridge sufficiency ratings were within the state's policy for the maintenance of bridges in all road classes.

Economic Factors

With a 2018 Gross State Product (GSP) of $371.6 billion, Indiana's economy ranked 18th largest in the U.S. in terms of the value of goods and services. Indiana's largest contributor to real GSP growth was the durable goods manufacturing sector, which accounted for 39% of Indiana's GSP growth in 2018. The second largest contributor of Indiana's real GSP growth was trade, transportation, and utilities, which accounted for 33% of the total growth.

With the latest data as of December 2018, the manufacturing sector accounted for nearly 16% of the jobs in Indiana. The largest share of employment was in the trade, transportation, and utilities sector with 17.6% of employment. Per capita personal income was $47,720, and the State's unemployment rate was 3.46% at the end of 2018.

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 CAFR@auditor.in.gov or 317-232-3300.