



STATE OF INDIANA

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STATE BUDGET AGENCY

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As required by Indiana Code 4-12-1-12(a), the State Budget Agency hereby transmits to Governor Eric J. Holcomb, Auditor of State Tera Klutz, and the Indiana General Assembly the following report on the appropriations made during the 2017 regular session of the Indiana General Assembly.

Summary

Under the new budget, State government will spend less than it takes in. The FY 2018 – FY 2019 budget is structurally balanced with annual revenues exceeding recurring, annual expenditures in both FY 2018 and FY 2019. Pension obligations are fully met, and the Medicaid forecast is fully funded. In addition, this budget increases funding in key areas such as education, pensions, and law enforcement. As a result, the state's combined balances are projected to exceed \$1.8 billion at the end of FY 2018 and \$1.9 billion at the end of FY 2019. These reserves are in place to protect taxpayers and critical services in the event of an economic downturn.

Appropriations

The total General Fund appropriations made by the 2017 regular session of the Indiana General Assembly are \$15.9 billion for FY 2018 and \$16.4 billion for FY 2019. This includes annual operating appropriations of \$15.8 billion in FY 2018 and \$16.3 billion in FY 2019, biennial line item capital appropriations of \$143 million, \$20 million for the Indiana Biosciences Research Institute, and appropriations in both FY 2018 and FY 2019 of \$26.9 million to cover the cost of a thirteenth check for pension recipients. Total appropriations from all sources of funds (state General Fund, dedicated funds, and federal funds) are \$33.6 billion for FY 2018 and \$34.5 billion for FY 2019.

K-12 Education

Funding for elementary and secondary education comprises the largest component of Indiana's state budget. The K-12 tuition support appropriation for FY 2017 totaled \$6.9 billion. The General Assembly appropriated \$7.0 billion for FY 2018 and \$7.1 billion for FY 2019 for K-12 tuition support from the General Fund.

Within the K-12 tuition support funding formula, per student foundation funding is increased from \$5,088 to \$5,273 in FY 2018, followed by an increase to \$5,352 in FY 2019. Additionally, the General Assembly increased per student funding for students with severe disabilities from

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\$8,800 to \$8,976 in FY 2018 and \$9,156 in FY 2019 and added developmental delay as a new category for mild and moderate disabilities in the special education grant for FY 2019.

The General Assembly created the School Corporation Efficiency Incentive Grant program under the Department of Education with an appropriation of \$5 million in FY 2019. The grants will provide \$250 per student to school corporations formed from a reorganization of two or more school corporations. Another new program created in the budget is the STEM Program Alignment, which receives a \$1 million appropriation in each year of the biennium to research and provide recommendations to improve K-12 student achievement and participation in STEM subjects and to improve coordination between STEM initiatives. The budget increased funding for the Non-English Speaking Program from \$10.4 million in FY 2017 to \$15 million and \$17.5 million in FY 2018 and FY 2019 respectively.

Other K-12 funding includes increased funding to the School and Library Internet Connection program. The additional \$1.5 million appropriated in each year of the biennium will be granted to local schools and libraries to help pay a portion of their annual connectivity costs. The legislature increased funding for the Charter and Innovation Network School Grant Program under the State Board of Education to \$15 million annually. This annual grant program provides funding to charter and innovation network schools that do not receive local funding for the following: capital improvements, technology, and transportation and school buses.

School corporations were again granted the authority to pay for utilities and property insurance out of their capital project funds and to increase their local capital projects fund levy to cover those costs. Total appropriations for K-12, excluding pre-1996 teacher pensions, are \$7.33 billion in FY 2018 and \$7.46 billion in FY 2019.

The budget includes a General Fund appropriation for the pre-1996 teachers' retirement fund of \$887.9 million in FY 2018 and \$913.9 million in FY 2019. A portion of both of the FY 2018 and FY 2019 appropriation includes \$21.7 million to fund a thirteenth check for pension recipients.

Higher Education

The General Assembly increased university operating funding by roughly \$16 million in FY 2018 and \$38 million in FY 2019 for a biennial total of \$2.7 billion. The budget continues to fund a percentage of university operating based on performance matrices established by the Commission for Higher Education. Performance funding is 5.2% of operating in FY 2018 and 6.5% of operating in FY 2019.

Student Financial Aid received General Fund appropriations in FY 2018 and FY 2019 totaling \$351 million and \$336 million, respectively. The budget creates the Workforce Ready Grants program under the Commission for Higher Education which is appropriated \$2 million in FY 2018 and FY 2019 to provide grants to adults who pursue high value certificates. Additionally, the budget fully funds the Next Generation Hoosier Educators Scholarship program which provides a renewable scholarship of \$7,500 annually to high-achieving students who pursue a

career in education after graduating college. The budget provides funding for up to 200 awards in FY 2018 and up to 400 awards in FY 2019.

The biennial budget also appropriates \$167 million in university line items. The legislature created a number of new line item appropriations including \$1.5 million annually for Purdue's Think Summer initiative, \$2.35 million annually for Indiana State's Student Success initiatives, and \$750,000 annually campus security enhancements at the University of Southern Indiana. Annually, the total dual credit appropriations for all universities increased by \$8 million. In total, the State will spend \$22.7 million annually on dual credit courses, which are taken by high school students and satisfy requirements for earning credits towards a high school diploma and a college degree.

Health and Human Services

The budget appropriates \$3.5 billion in FY 2018 and \$3.8 billion in FY 2019 from the General Fund for Health and Human Services for operating expenses. The Family and Social Services Administration (FSSA) was appropriated \$2.8 billion from the General Fund in FY 2018 and \$3.0 billion in FY 2019. Of the appropriation granted to FSSA, the largest amount is for Medicaid Assistance. This budget fully funds the April 12, 2017 Medicaid forecast by appropriating \$4.2 billion over the biennium along with \$128 million of prior year Medicaid surplus funds. General Fund appropriations for Medicaid Assistance total \$2.0 billion in FY 2018 and \$2.2 billion in FY 2019. Medicaid Assistance was also appropriated \$6.0 million each year of the biennium from the Tobacco Master Settlement Fund. The Healthy Indiana Plan (HIP) which is funded by cigarette tax revenue and incremental hospital assessment fees for the state share of expenditures is not included in the Medicaid Assistance appropriation. The budget also includes \$23.8 million in FY 2019 for the first year of operational expenses for a new Nero-Diagnostic Institute that will replace Larue Carter Memorial Hospital.

The budget includes an appropriation under the Governor's Office for substance abuse prevention, treatment, and enforcement. \$5 million is appropriated annually from the Addiction Services Fund to assist this purpose.

FSSA is appropriated \$47.5 million from the Tobacco Master Settlement Fund in both FY 2018 and FY 2019 for health and human service programs. Included in the Tobacco Master Settlement Fund appropriations for FSSA is a \$3 million annual increase in the budget for Adult Protective Services from the FY 2017 budget.

For FSSA's Office of Early Childhood and Out-of-School Learning, the Pre-K Education Pilot appropriation was increased to \$22 million for each fiscal year of the new biennium compared to the \$10 million appropriation each year in the current biennium.

The Department of Child Services (DCS) was appropriated \$629.3 million in FY 2018 and \$679.3 million of state General Fund dollars in FY 2019. These appropriations represent a \$75 million increase and \$125 million increase in FY 2018 and FY 2019 respectively over the previous biennium's appropriations.

The Indiana State Department of Health (ISDH) receives General Fund appropriations of \$31.8 million in FY 2018 and \$31.8 million in FY 2019. ISDH's also receives \$64.2 million in FY 2018 and \$63.7 million in FY 2019 from the Tobacco Master Settlement Fund. Among the new ISDH appropriations are \$500,000 over the biennium for opioid overdose intervention and \$10 million over the biennium for the Nurse Family Partnership program.

The Indiana Department of Veterans' Affairs is appropriated \$4.2 million FY 2018 and \$3.9 million in FY 2019 from the General Fund. This is a \$5.1 million increase in funding over the previous biennium. Included in this is a \$910,000 appropriation each year of the biennium for veteran service organizations.

General Government

The legislative branch agencies received an increase to their budgets in comparison to FY 2016 and FY 2017. The biennial appropriation of \$115.6 million for the legislative branch agencies includes additional full-time positions for the Legislative Services Agency, funding for the National Black Caucus of State Legislators Conference, and an increase in operating expenses for the House and Senate.

General Fund appropriations for the judicial branch increased compared to the FY 2017 appropriations levels. The budget includes pay raises in FY 2018 and FY 2019 for local judges and prosecutors. There were funding increases of \$1.2 million for Guardian ad Litem and \$500,000 for Adult Guardianship programs within the Supreme Court's budget for the FY 2018 – FY 2019 biennium. An additional \$2 million in FY18 and \$3M in FY 2019 was appropriated for Trial Court Technology.

The budget includes biennial appropriations of \$35.1 million from the Cigarette Tax Fund for the retiree health benefit trust fund to cover benefits for state employees under SEA 501-2007. In addition, the budget includes other post-employment benefit appropriations for the Indiana State Police as well as conservation and excise officers.

The budget appropriates \$200,000 in FY 2018 under the Office of Management and Budget for a water infrastructure safety and reliability hub.

Public Safety

The budget appropriates approximately \$449.8 million from the General Fund and dedicated funds for the operations of the Indiana State Police (ISP) for the biennium, including increased funding for the Indiana Intelligence Fusion Center and for ISP pensions. This also includes appropriations of \$8.7 million and \$20.8 million for FY 2018 and FY 2019 respectively for increases to the ISP salary matrix.

Elsewhere, the budget provides the Indiana Law Enforcement Academy the opportunity to implement a fee structure to meet increased training demands. The budget also appropriates \$18 million in funding for the Secured School Safety Grants administered by the Indiana Department of Homeland Security. The budget also increases appropriations to by \$500,000 to the Criminal Justice Institute for Sexual Assault Victims' Assistance.

For the Department of Corrections, \$736.5 million and \$739.2 million was appropriated from the General Fund for FY 2018 and FY 2019, respectively. This is in comparison to the FY 2017 General Fund appropriation of \$728.8 million. These changes are for increased contract expenses as well as an additional \$100,000 for the Parole Division for the supervision of Sexually Violent Predators on lifetime parole.

Conservation and Environment

This budget appropriates \$46.2 million from the General Fund and \$76.7 million from dedicated funds for the Department of Natural Resources (DNR) in FY 2018. In FY 2019, the General Fund appropriation increases to \$48.3 million, while the dedicated fund appropriations remain unchanged. In both years of the budget, DNR receives additional funding for law enforcement pay matrix increases.

The Indiana Department of Environmental Management (IDEM) receives \$22.9 million from the General Fund and \$95.6 million from dedicated funds in FY 2018. In FY 2019, the General Fund amount stays the same, while the dedicated fund appropriations increased to \$95.7 million. These appropriations for IDEM include additional funding for lead contamination clean up in East Chicago.

Transportation

The budget appropriates more than \$4.7 billion from General Fund, dedicated fund, and federal funds for transportation, including distributions to local units of government. This includes a \$44 million appropriation in FY 2018 and \$45 million in FY 2019 from the General Fund for public mass transportation. In addition, HEA 1002 increased transportation funding in the biennium by approximately \$1.2 billion. This added funding resulted from the passage of fuel excise tax and surcharge tax increases of an estimated \$0.10 per gallon indexed each year to 2024, and various registration fee increases.

Additionally, the budget invests \$18 million over the biennium in rail development in Northwest Indiana. This includes \$12 million over the biennium for the state's share of the West Lake Corridor project and \$6 million in FY 2019 for the double tracking of the South Shore rail line. The appropriation to the Northwest Indiana Regional Development Authority will be backed by the growth in sales and individual income tax earned within the West Lake corridor, South Shore corridor, and rail transit development districts in those areas.

Economic Development

Over the biennium, the budget appropriates \$266.9 million from the General Fund for economic development programs, which is an increase of \$75.5 million compared to the previous biennium.

The budget provides a new appropriation for Business Promotion and Innovation under the Indiana Economic Development Corporation (IEDC). The \$15 million annual appropriation is for the establishment of a fourth Indiana port, to incentive additional direct flights to Indiana's international and regional airports, to support international trade activities, and to create strategic

partnerships with communities and institutions of higher education in the state to advance innovation and entrepreneurship. Also, for the IEDC, the budget continues to fund the 21st Century Research and Technology Fund at \$30 million annually from the General Fund and dedicated funds.

The budget includes an appropriation of \$20 million in FY 2019 for the Indiana Biosciences Research Institute. The Institute will seek to leverage private sector investment to support life-science research and commercialization in Indiana.

The budget also creates the Next Level Indiana Trust fund to replace the Next Generation Trust Fund. The Next Level Indiana Trust fund will have expanded investment options, including up to \$250 million for high-growth Indiana companies. Proceeds from the investments will continue to fund Indiana's roads and bridges.

For the Department of Workforce Development (DWD), the budget increases the appropriation for Dropout Prevention to \$8 million annually. Additionally, the appropriation for the Work Indiana program increased from \$2.4 million to \$5 million annually. In addition to the funding increases, DWD was also provided with more oversight of the Career and Technical Education (CTE) grant within the K-12 Tuition Support formula in FY 2019.

Capital and Construction

The capital budget for the FY 2018 – FY 2019 biennium represents a continued commitment to the preservation of the state's existing infrastructure, with a high priority on preventive maintenance and repair and rehabilitation rather than new construction. The capital budget increases funding for preventive maintenance of state facilities from \$52.2 million in the FY 2016 – FY 2017 biennium to \$58.9 million in the FY 2018 – FY 2019 biennium. The capital budget also includes \$182 million for repair and rehabilitation projects at state facilities and \$341.6 million for lease rental payments.

The FY 2018 – FY 2019 budget requires that the Indiana Department of Administration (IDOA) use an existing \$5 million appropriation to rehabilitate and improve the Indiana War Memorial building located at 777 North Meridian Street in the city of Indianapolis. The General Assembly reallocated the remaining health and safety contingency funding from the State Budget Agency (SBA), so that the building may be used to provide services to Indiana Veterans.

In addition to the preventive maintenance funding levels, the capital budget for the Indiana State Police (ISP) includes \$30 million to construct or rehabilitate three (3) regional laboratories currently located in Ft. Wayne, Lowell and Evansville. The plan allows for increased square footage to accommodate the needs of ISP.

Another new initiative for the FY 2018 – FY 2019 biennium includes \$33 million for the first of three phases to design and implement a modernized integrated tax system. The Department of Revenue (DOR) received \$16.1 million in FY 2018 and \$16.9 million in FY 2019.

The capital budget also includes a bicentennial match for the Indiana State Museum and Historic Sites, as well as continued funding to the Department of Transportation for airport development. Additionally, the capital budget includes funds to address multiple roofing projects across the State of Indiana.

The budget again includes appropriations for both the stadium and convention center and state fair lease payments. These appropriations, \$92.7 million in FY 2018 and \$95.8 million in FY 2019, are required, but are not anticipated to be spent as locally derived revenues are projected to cover the lease payments.

For state universities, the General Assembly continued to fund some capital projects with cash. Indiana University, Purdue University, Indiana State University, Ivy Tech Community College, and Vincennes University all received a General Fund appropriation for one or more cash funded capital projects totaling \$62.1 million over the biennium. Including repair and rehabilitation, fee replaced bonding authority and cash funded capital projects, the budget provides approximately \$519.4 million in capital-related funding over the biennium.

Outside Acts

The Indiana General Assembly enacted several pieces of legislation during the 2017 regular session that impact General Fund revenues and expenditures. The most notable measures include: (1) changes to transportation infrastructure funding in HEA 1002, (2) changes to the sales tax on recreational vehicles and cargo trailers in SEA 172 (3) establishment of an entrepreneur and enterprise district pilot program in SEA 514, and (4) a filing deadline change for the financial institutions tax in SEA 515.

Additional details on the impact of legislation passed by the Indiana General Assembly during the 2017 regular session can be found in Section E.

Revenues

The economic and revenue forecasts, upon which the FY 2018 – FY 2019 budget is based, were presented to the State Budget Committee on April 12, 2017. Total General Fund forecasted revenue is estimated to be \$15.59 billion in FY 2018 and \$16.18 billion in FY 2019. Forecasted General Fund revenues are estimated to increase by \$420.9 million (2.8%) in FY 2018 and by \$592.6 million (3.8%) in FY 2019.

Economic forecasts project continued economic expansion through the upcoming biennium. The forecast that serves as the basis for revenue estimates currently projects Real U.S. gross domestic product growth of 2.3% in FY 2017, 2.6% in FY 2018, and 2.3% in FY 2019. Similarly, Real Indiana gross state product is forecasted to grow by 1.8% in FY 2017, 2.3% in FY 2018, and 2.0% in FY 2019. U.S. corporate profits are forecasted to increase by 7.5% in FY 2017, 6.6% in FY 2018, and 4.1% in FY 2019. Indiana personal income is forecasted to grow by 3.9% in FY 2017, 4.3% in FY 2018, and 4.8% in FY 2019. Nominal Indiana wages and salaries are forecasted to increase 4.4% in FY 2017, 4.5% in FY 2018, and 5.0% in FY 2019. Indiana personal income net of government transfer payments is forecasted to increase 3.9% in FY 2017, 4.3% in FY 2018, and 4.7% in FY 2019

Over the past year, the number of employed Hoosiers has increased and the unemployment rate has decreased. The labor force participation rate and the changing demographics of the labor force are key aspects to Indiana's economic outlook. In the upcoming biennium, the unemployment rate is projected to continue to decline - reaching 4.0% in FY 2018. The Indiana labor force participation rate is projected to average 63.6% in FY 2017, 63.3% in FY 2018, and 63.3% in FY 2019.

Previous legislative sessions enacted reductions to the individual income tax rate, the corporate tax rate, and the financial institutions tax rate. The individual income tax rate was reduced from 3.4% to 3.3% beginning January 1, 2015 and was reduced to 3.23% on January 1, 2017. The corporate tax rate continues the enacted gradual decline to 4.9% in FY 2022. The financial institutions tax rate also continues to decline to 4.9% in CY 2023.

The April 12, 2017 revenue forecast was presented before the end of the 2017 legislative session and could not account for several revenue measures subsequently passed by the General Assembly and signed into law by Governor Holcomb. These included the elimination of sales tax on special fuels, increases in fuel tax and vehicle registration fees, expansion of economic development credits, and various changes to the Indiana tax code.

In addition to the revenues included in the revenue forecast, other revenues are deposited in the General Fund annually, including the Hospital Assessment Fee (HAF) and the Quality Assessment Fee (QAF), which were both extended in the budget through June 30, 2019.

Reserve Balances

Indiana's combined reserve balance is projected to total \$1,769.3 million at the beginning of the FY 2017 – FY 2019 biennium. This combined balance includes reserves of \$297.2 million in the General Fund, \$577.6 million in the Medicaid Reserve fund, \$346.7 million in the Tuition Reserve fund and \$547.7 million in the Rainy Day Fund.

The estimated reserve balance at the end of the FY 2017 – FY 2019 biennium is projected to remain in excess of \$1.9 billion, protecting taxpayers and critical services against future recessions.

A Combined Statement of Actual and Estimated Unappropriated Reserve (the Reserve Statement) follows this cover letter and reflects the best information available following the passage of the budget by the General Assembly.

Respectfully submitted,



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State Budget Agency