

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7401**

**BILL NUMBER:** HB 1001

**NOTE PREPARED:** Feb 20, 2023

**BILL AMENDED:** Feb 20, 2023

**SUBJECT:** State Budget.

**FIRST AUTHOR:** Rep. Thompson

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
X FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *State Budget*: The bill appropriates money for capital expenditures, the operation of the state, K-12 and higher education, the delivery of Medicaid and other services, and various other distributions and purposes.

**State Offices and Administration Provisions**

*State Comptroller*: The bill provides that the Auditor of State is also known as the State Comptroller. It provides that, after June 30, 2023, the Auditor of State shall use the title "State Comptroller" in conducting state business, in all contracts, on business cards, on stationery, and with other means of communication as necessary.

*Opioid Settlement Fund*: The bill establishes the Opioid Settlement Fund into which funds received from opioid litigation settlements must be deposited.

*Budget*: The bill allows the Budget Committee to submit the budget report and budget bill or bills to the Governor on or before the second Monday of January, or the third Monday of January in the year in which a gubernatorial election is held (instead of before that date).

*State Employee Health Care*: The bill requires the State Personnel Department to require a contractor, when contracting for health care coverage for state employees, to use value based coverage.

*Regional Economic Acceleration and Development Initiative (READI)*: The bill provides that specified expenses are eligible to be funded by the fund established under the Regional Economic Acceleration and

Development Initiative (READI). It provides that the READI program expires on June 30, 2026.

*Salary Increases for State Elected Officials and Court Officers:* The bill provides for the calculation of salary increases for the Governor and state elected officials. It also provides for the calculation of salary increases for court officers.

*Fund Repeals:* The bill repeals the Public Mass Transportation Fund, Financial Responsibility Compliance Verification Fund, and Special Education Fund.

*Reversions:* The bill provides that unexpended and unencumbered amounts appropriated to the Legislative Services Agency in a state fiscal year ending before July 1, 2024, do not revert to the state General Fund.

*Leave Conversion Pilot Program:* The bill extends the judicial and legislative branch leave conversion pilot program through June 30, 2025.

*Transfer:* The bill requires the State Comptroller to transfer \$80 M from the Tobacco Master Settlement Agreement Fund to the State Construction Fund on July 1, 2023.

*Federal Funds:* The bill provides that unexpended and unencumbered amounts appropriated from the federal economic stimulus fund in the state fiscal year ending before July 1, 2023, do not revert to the state General Fund.

*FY 2023 Appropriations:* The bill appropriates money for various purposes for the state fiscal year ending June 30, 2023.

#### Tax Provisions

*Economic Development Tax Credits:* The bill allows the Indiana Economic Development Corporation to certify an applicable tax credit that exceeds the maximum allowable amount after review by the Budget Committee.

*Dependent Exemption:* The bill allows an individual to claim an increased exemption amount for a dependent child in the first year in which the exemption amount may be claimed for the child. It reduces the individual income tax rate to 2.9% by 2026 and eliminates all trigger provisions in current law.

*Local Income Tax:* The bill allows a county fiscal body to impose a tax rate on the adjusted gross income of local taxpayers in the county for public health purposes.

*School Corporation Property Tax:* The bill provides that a certain amount of property tax revenue distributed to a school corporation's operations fund must be determined without regard to the property tax caps. It provides that the corresponding reduction in tax revenue to other political subdivisions must be allocated proportionately. It establishes phased-in maximum tax rates that apply to certain school corporations.

#### Health and Human Services Provisions

*Medicaid Rate Schedule:* The bill requires the Office of Medicaid Policy and Planning to: (1) develop a schedule for the review of Medicaid reimbursement rates; and (2) provide a copy of the schedule to the Budget Committee; not later than November 1, 2023.

*Pre-K Pilot Program:* The bill increases the maximum amount of a grant made under the Prekindergarten Pilot Program.

*Commission:* The bill establishes the Commission on Improving the Status of Children Fund to support the staffing and operations of the commission.

*Child Development Programs:* The bill repeals the distribution schedule for appropriations made for certain child development programs.

*Reimbursement Rates:* The bill deletes reimbursement rate parameters for reimbursement of managed care organizations under the Healthy Indiana Plan.

*Health Assessment Fees (HAF) and Quality Assessment Fees (QAF):* The bill extends the sunset of the collection of HAF and health facility QAF from June 30, 2023, to June 30, 2025.

#### Pension Provisions

*Millie Morgan Retirement:* The bill allows certain members of the public employees' retirement fund or Indiana state teachers' retirement fund to file an election to begin receiving retirement benefits while holding a position.

*State Police Pensions:* The bill changes the state police pre-1987 benefit and supplemental pension benefit calculation from being based on the sixth year of service to the fourth year of service.

#### Public Safety Provisions

*Regional Public Safety Fund:* The bill establishes the Regional Public Safety Training Fund. It repeals provisions relating to the establishment of the: (1) Indiana Homeland Security Foundation; (2) Indiana Homeland Security Fund; and (3) Fire Training Infrastructure Fund.

*State Police Salaries:* The bill changes the number of years of service on which the salary matrix for state police employees is based to 15 years (instead of 20 years).

*County Misdemeanant Fund:* The bill requires the Department of Correction to deposit the amount appropriated for the County Misdemeanant Fund by a county's multiplier.

*Secure School Fund:* The bill provides that a part of state user fees shall be deposited in the Indiana Secured School Fund.

#### K-12 Education Provisions

*Definitions:* The bill defines "base student funding" and "state student funding".

*Operations Grant:* The bill requires the State Comptroller to distribute a grant amount to schools based on a targeted amount of funding and the net collected revenue the school received from its operations fund levy in the previous calendar year.

*Credential Completion Grant:* The bill establishes the Credential Completion Grant.

*Choice Scholarship:* The bill removes pathways for Choice Scholarship eligibility. It increases the annual income maximum for Choice Scholarship eligibility.

*Academic Performance Grant:* The bill provides that a school corporation is eligible for an Academic Performance Grant.

*Adult Learners:* The bill increases the total number of adult learner students at the Excel Centers for Adult Learners and Christel House DORS centers for whom the school may receive state funding.

*Curricular Materials:* The bill provides that the parent of a student or an emancipated minor who attends an accredited nonpublic school and who meets financial eligibility requirements may request reimbursement of fees charged for curricular materials. The bill prohibits school corporations and charter schools from charging a fee for curricular materials to students.

*Innovation Network School Grant Program:* The bill repeals the Charter and Innovation Network School Grant Program, and it establishes the Inno'vation Network School Grant Program.

*Indiana Education Scholarship Account (ESA) Donation Fund:* The bill establishes the Indiana Education Scholarship Account Donation Fund to accept donations for administration of the Indiana Education Scholarship Account Program.

#### Higher Education Provisions

*Outcomes-based Formula Fund:* The bill establishes the Outcomes-based Formula Fund from which the Commission for Higher Education may annually request distributions from the Outcomes-based Formula Fund for each state educational institution.

#### Court Provisions

*Court Fees:* The bill provides that state user fees remaining after required distributions shall be distributed to the state General Fund (instead of the Court Technology Fund).

*Indiana Criminal Justice Institute:* The bill makes certain amendments to the Juvenile Diversion Grant Program, the Juvenile Community Alternatives Grant Program, and the Juvenile Behavioral Health Competitive Grant Pilot Program (programs). It requires grants for the programs to be administered by the Indiana Criminal Justice Institute in consultation with the Juvenile Justice Oversight Committee (oversight committee) and the grant process workgroup created by the oversight committee, taking into consideration the grant program report prepared and submitted to the Commission on Improving the Status of Children in Indiana by the oversight committee.

*Pro Bono Fund:* It requires the State Comptroller to deposit distributions of pro bono legal services fees received from the: (1) clerk of a circuit court; (2) clerk of a city or town court; or (3) Marion County small claims court; in the Pro Bono Legal Services Fund.

The bill makes conforming changes.

**Effective Date:** (Amended) Upon passage; July 1, 2022 (retroactive); January 1, 2023 (retroactive); June 29, 2023; July 1, 2023; January 1, 2024; July 1, 2024.

**Explanation of State Expenditures:** (Revised) *State Appropriations:* The following summary table shows state appropriations that are provided in this bill for FY 2024 and FY 2025.

<b>Appropriations by Function</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>For the Biennium</b>
General Government	867,258,766	870,502,966	0
Corrections	931,398,882	937,590,189	0
Other Public Safety	447,149,391	449,922,501	0
Conservation and Environment	119,586,584	120,353,578	0
Economic Development	216,695,285	208,481,149	0
Transportation	45,000,000	45,000,000	0
FSSA Administration	19,975,512	19,975,512	0
Office of Medicaid Policy and Planning	3,840,146,727	4,119,693,188	0
Mental Health and Addictions	308,154,453	308,154,453	0
Family Resources	154,614,613	155,675,431	0
Aging Services	59,283,620	59,283,620	0
Disability and Rehabilitation Services	55,660,054	55,660,054	0
Department of Child Services	946,578,288	951,942,447	0
Public Health	109,889,654	190,057,513	0
Other Health and Human Services	97,397,554	108,255,294	0
State Student Assistance	400,394,066	400,394,066	0
Other Higher Education	1,753,153,104	1,756,925,077	0
Education Administration	68,761,735	69,761,735	0
Student Funding	8,941,512,500	9,128,862,500	0
Other Local Schools	155,662,384	155,708,255	0
Teacher Retirement	1,035,200,000	1,066,300,000	0
Other Education	13,408,927	13,413,543	0
Distributions	50,500,000	50,500,000	0
<b>Total GF Operating</b>	<b>\$20,637,382,099</b>	<b>\$21,242,413,071</b>	<b>\$0</b>
Higher Education Construction	47,020,852	47,020,852	0
Other Construction	684,218,991	620,364,969	0
<b>Total Construction</b>	<b>731,239,843</b>	<b>667,385,821</b>	<b>0</b>
<b>Total GF (Operating + Construction)</b>	<b>\$21,368,621,942</b>	<b>\$21,909,798,892</b>	<b>\$0</b>
Lottery and Gaming Surplus	0	0	0
Other Dedicated - Operating	2,481,955,885	2,513,867,746	0
Other Dedicated - Construction	144,654,734	61,002,460	0
Tobacco Settlement	158,804,523	159,020,387	0
Federal	1,472,994,484	1,499,442,852	0
<b>Total (Dedicated and Federal)</b>	<b>\$4,258,409,626</b>	<b>\$4,233,333,445</b>	<b>\$0</b>
<b>Total - All</b>	<b>\$25,627,031,568</b>	<b>\$26,143,132,337</b>	<b>\$0</b>

### State Offices and Administration Provisions

(Revised) *Tax Expenditure Report*: The bill removes the expiration date for the Tax Expenditure Report produced by the Legislative Services Agency (LSA). LSA can continue to publish the report within existing resources.

(Revised) *Augmentation*: The State Budget Agency must notify of the Budget Committee for each augmentation request that exceeds \$100,000. This provision can be implemented with existing staff and resources.

(Revised) *Auditor of State*: Under the bill, the Auditor of State's title officially changes to State Comptroller. The name change will result in a minor workload increase that can be implemented with existing staff and resources.

(Revised) *Commission on Improving the Status of Children (CISC)*: The bill establishes a CISC Fund to support the executive director, staff, and operations of the CISC.

(Revised) *Voting Systems Technical Oversight*: The bill changes the administration of the Voting Systems Technical Oversight Program Account from the Election Division to the Secretary of State. It is likely the Secretary of State would be able to administer the account within existing resources.

(Revised) *Indiana Gaming Commission (IGC)*: The bill clarifies the codes related to appropriations for the IGC from the Riverboat Wagering Tax deposited in the State Gaming Fund. These provisions will confirm the current practices, and it will not have any fiscal impact.

*State Board of Accounts*: The bill requires the Audit and Financial Reporting Subcommittee of the Legislative Council to ensure that rates charged for performing an audit by the State Board of Accounts do not exceed 80% of the market rate cost.

*Federal Fund Reversion*: The bill states that the balances in the account in the Federal Economic Stimulus Fund created for the American Rescue Plan Act that are unexpended and unencumbered at the close of FY 2023 do not lapse, but instead remain available for expenditure during FY 2024 or FY 2025 for the purpose for which the appropriation was originally made. The changes in the bill could reduce reversions received by the state General Fund at the close of FY 2023.

*Salary Increases for State Elected Officials and Court Officers*: The bill changes the calculation of salary increases for the following positions: Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General, judicial officers, prosecuting attorneys, and legislators. The calculation for salary increases would also be used to determine increases to pension benefits for beneficiaries of the Judges Retirement System. The impact on state expenditures in FY 2025 will depend on the average salary increases provided to state Executive Branch employees in FY 2024 and in following years. Under current law, salary increases for judicial positions are based on pay increases for state Executive Branch employees in the same or similar salary brackets.

(Revised) *Value-Based Insurance Design (VBID)*: The bill will increase workload for the State Personnel Department (SPD) to bid a contract for the state employees health plan built on a value-based insurance design (VBID). The initial process to incorporate VBID may require additional resources beyond the SPD's current appropriation. The additional funds and resources required could be supplied through existing staff

and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions. [VBID alters cost-sharing by eliminating or reducing the insured's share for care with clinically proven benefits, and it increases costs to the insured for procedures with low therapeutic value. By reducing out-of-pocket expenses, VBID encourages insureds to seek care of chronic conditions and avoid procedures with low value.]

(Revised) *Fund Changes*: The bill provides that the Wabash River Heritage Corridor Commission Fund does not revert to the state General Fund, and that the money in the fund is continuously appropriated. [The fund has not had a balance since FY 2011.] In addition, the bill continually appropriates revenue to the Economic Development Fund and the Indiana Crime Guns Task Force Fund.

This bill repeals the Public Mass Transportation Fund, and it will transfer an estimated \$20 M in funds from the Public Mass Transportation Fund to the state General Fund at the end of FY 2023.

Repealing the Financial Responsibility Compliance Verification Fund will transfer between \$11.8 M and \$13.2 M in revenue to the BMV Commission Fund during FY 2023. The bill will increase revenue to the BMV Commission Fund in FY 2024 and after from reinstatement fees collected by the BMV, which are estimated to be between approximately \$1.9 M and \$2.5 M per year.

The Special Education Fund established under IC 20-35-4-4 is repealed at the start of FY 2024. This represents a decrease in state expenditures largely dependent on appropriations that would have been made to the fund, if any. [\$172,856 was appropriated to this fund in FY 2022 and FY 2023.]

The bill eliminates the Mental Health Centers Fund and increases the distribution of Cigarette and Tobacco Products Tax revenue to the state General Fund beginning in FY 2024. The Mental Health Centers Fund is estimated to receive about \$2.2 M in FY 2024 and \$2.1 M in FY 2025. Under the bill, this revenue would be deposited in the state General Fund.

(Revised) *Leave Conversion Pilot Program*: This bill allows the Legislative Council and the Indiana Supreme Court to continue the Leave Conversion Pilot Program for the legislative and judicial branches of state government until FY 2026. The fiscal impact of this provision will depend upon legislative and judicial branch actions. Average annual expenditures for the pilot program have been \$0.27 M since 2010.

(Revised) *Appropriations*: The bill appropriates \$2.756 B from the state General Fund in FY 2023. The appropriations include \$1 B to the IEDC for a closing fund and READI 2.0 program, \$800 M to the Department of Correction for correctional facility upgrades, \$481 M to state educational institutions for capital projects, \$350 M to the Indiana Department of Administration for two capital projects, \$115 M to the Department of Natural Resources, and \$10 M to the Department of Education as a match for the Lilly Endowment literacy grants.

*Transfers*: The bill transfers \$80 M to the State Construction Fund from the Tobacco Master Settlement Agreement Fund in FY 2024.

### *Health and Human Services Provisions*

(Revised) *Opioid Settlement Fund*: The bill changes how funds are utilized from opioid litigation settlements. Instead of being placed into the Agency Settlement Fund, the funds will be divided based on the

predetermined percentages into state and local unrestricted opioid settlement accounts and state and local abatement opioid settlement accounts.

*Child Development Programs:* Any amount over \$11,339,063 that is appropriated to the First Steps Program is distributed by statute. Repeal of this distribution will allow current legislative and administrative action to distribute all appropriated funds. [The First Steps Program was appropriated \$18 M in both FY 2022 and FY 2023, requiring distribution of \$6.7 M to the Division of Disability and Rehabilitative Services infrastructure (up to 10%), systems points of entry contracts (40% or more), and the rates of some services providers (50% or more)].

(Revised) *Reimbursement Rates:* The bill facilitates reimbursement rate equalization among HIP 2.0 providers and providers of other Medicaid managed care programs. The bill also establishes a legislative requirement for the FSSA to periodically review all provider reimbursement rates based on a schedule developed by FSSA. [New rates for Indiana Medicaid providers are set to take effect on January 1, 2024, equalizing provider reimbursement rates among all Medicaid programs. Federal rules enacted in November 2020 prohibited differential rates. The Indiana Medicaid program agreed to bring HIP 2.0 rates into alignment with other Medicaid provider payment rates in an appeal of a federal Medicaid ruling that Indiana Medicaid was out of compliance and subject to a recall of \$500 M for inappropriate provider payments.]

(Revised) *Prekindergarten Pilot Program:* The bill redistributes some four-year-olds from the limited program eligibility group to the eligible group and increases the maximum grant amount. The differences between the two groups include parent eligibility requirements, enrollment period, and the limit on the appropriation designated for the program. The impact of the bill on state spending is indeterminate and will be based on the actions of the legislature and the FSSA. [The prekindergarten program combines state and federal funds to provide prekindergarten services and wraparound child care. Child Care and Development Fund (CCDF) is allocated to the states based on federal formula.]

(Revised) *Hospital Assessment Fee (HAF) and Incremental Hospital Assessment Fee (Incremental HAF):* The bill continues the HAF and the Incremental HAF through FY 2025. The HAF charged to hospitals will be reduced with a reduction to the state General Fund reimbursement rate from 28.5% to 26%. The state General Fund assessment provides reimbursement of state administrative costs associated with Medicaid.

### Pension Provisions

*State Police Pensions:* The bill changes the basic pension calculation for state police in the Pre-1987 plan from being based on the 6-year trooper salary to being based on the 4-year trooper salary. To the extent that the pension calculation based on a 4-year trooper salary under the new matrix is greater than the pension calculation of a 6-year trooper under the current matrix, pension and disability costs for members of the state police will increase, reducing the funded status of the plan, and requiring higher future appropriations for state police pensions. As of July 1, 2022, the Pre-1987 plan had 696 benefit recipients and 10 active members.

*Millie Morgan Retirement:* If members of PERF and TRF Pre-'96 Account begin drawing their defined benefit retirement annuities sooner than they otherwise would under current law, benefit payments from PERF and the TRF Pre-'96 Account would increase. PERF employers would stop paying employer contributions for any individuals who begin taking retirement benefits between the age of 65 and 69 with 20 years of service and remain employed, which would reduce their expenditures for employer contributions after the bill goes into effect. The combination of increased benefit payments and potential for reduced



employer contributions would increase the unfunded liability of PERF and the TRF Pre-'96 Account. For PERF, the increased unfunded liability would be amortized over 20 years and paid for and accounted for under future employer contribution rates. The TRF Pre-'96 account is funded through state General Fund appropriations to the Pension Stabilization Fund.

### Public Safety Provisions

*Indiana Secured School Fund:* The bill eliminates the Indiana Safe Schools Fund and transfers funds that would have deposited to it to the Indiana Secured School Fund instead. Under current law, just over \$400,000 is transferred from the State User Fee Fund to the Indiana Safe Schools Fund annually. The bill would instead transfer that \$400,000 to the Indiana Secured School Fund. The bill also transfers any balance that remains in the Indiana Safe Schools Fund at the end of FY 2023 to the Indiana Secured School Fund.

*State Police Salaries:* The bill requires the Indiana State Police Board to change the salary matrix to be based on 15 years of service instead of 20 years of service. These new salary adjustments will have a significant increase in expenditures for the Indiana State Police.

(Revised) *Regional Public Safety Training Fund:* The bill establishes the new Regional Public Safety Training Fund and transfers the funds from repealed provisions into the new fund. The new fund will manage the duties and responsibilities contained in the repealed provisions. An estimated \$3 M, not including any additional encumbrances, would be transferred into the new established Regional Public Safety Training Fund from the repealed Indiana Homeland Security Fund and Fire Training Infrastructure Fund. [The bill also repeals the Indiana Homeland Security Foundation.]

The bill changes the distribution of the first \$2 M of the Public Safety Fee from the Regional Public Safety Fund to the state General Fund. After the first \$2 M, the distribution will be split evenly between the State Disaster Relief Fund and the state General Fund. The fee collected \$5.4 M in FY 2022. The bill also changes the distributions but not the collections of the First Responder License Plate Fee. These fees will be deposited into the new Regional Public Safety Training Fund.

### K-12 Education Provisions

(Revised) *Student Funding Formula:* The bill establishes a State Student Funding Formula (currently known as the State Tuition Support Funding Formula) for FY 2024 and FY 2025. The bill makes the following modifications from the current law formula as follows:

- 1.) The foundation amount increases from \$6,235 in FY 2023 to \$6,482 in FY 2024 and \$6,528 in FY 2025.
- 2.) The complexity amount increases from \$3,775 in FY 2023 to \$3,940 in FY 2024 and \$3,981 in FY 2025.
- 3.) The combination of the Foundation Grant and Complexity Grant, which is currently called "Basic Tuition Support" is now called "Base Student Funding".
- 4.) Funding for all special education categories is increased by 5% annually.
- 5.) Funding for high value level 1 and high value level 2 career and technical education (CTE) courses is increased by 5% annually.
- 6.) Virtual ADM, which is currently funded at 85% of the foundation amount, will receive 100% of the foundation amount under the bill.
- 7.) The Choice Scholarship eligibility is modified. Beginning in FY 2024, Choice pathway requirements are eliminated and the maximum annual household income eligibility will be increased from 300% to 400% of the amount to qualify for the Federal Free or Reduced Price Lunch (FRL) Program.

8.) The bill establishes the Operations Fund as part of the student funding formula. The fund provides traditional school corporations and non-virtual charter schools with a target amount per non-virtual ADM. The FY 2024 grant will equal \$1,400 per non-virtual ADM, less the amount received from operations fund property taxes while the FY 2025 grant will be based on \$1,500 per non-virtual ADM. (The operations fund property tax amount includes pension debt property tax, if any, which counts against the operations maximum levy.)

9.) The bill establishes the Early Literacy Grant. The grant is capped at \$10 M statewide in both FY 2024 and FY 2025 and will be based upon I-Read 3 scores, the complexity index, and the number of students in special education and English language learner programs.

10.) The Non-English Speaking Program (NESP) was previously a line-item appropriation but is now incorporated into the student funding formula. Schools receive \$384 or \$550 per English language learner, depending on the score a student receives on the WIDA Consortium ACCESS assessment. In FY 2023, schools received \$312 or \$447 per English language learner.

11.) The Career Scholarship Account Program is added to the student funding formula as part of the CTE Grant. It provides students in grades 10-12 who wish to participate in the program with \$5,000 that can be used to pay the cost associated with certain career courses, course sequences, and apprenticeships.

12.) The bill establishes the Academic Performance Grant. The grant has the following components:

- a. \$3,500 for students who graduate one semester early;
- b. The Honors Grant as it exists under current law;
- c. \$3,000 for each student who receives an Associates degree while still in high school;
- d. \$2,000 for each student who completes the Indiana College Core 30 while in high school;
- e. \$40 for each dual credit or dual enrollment credit hour completed (with a maximum award of

\$1,200).

Schools receive \$3,500 for each student who graduates early. For each individual student, schools receive the highest grant calculated under items b through e. The Honors Grant is unchanged from current law and is calculated based on the graduating class in the previous fiscal year. Items c through e will be based on the graduating class from the fiscal year before the previous fiscal year, such that the FY 2024 calculation will be based on the FY 2022 graduating cohort.

13.) The bill establishes the Credential Completion Grant as a new grant that is included in the student funding formula beginning in FY 2024. The grant is awarded to schools and participating entities as follows:

a. For accredited or nonaccredited schools, \$500 for each of their students who received an industry recognized credential upon completion of a course sequence or apprenticeship.

b. For each student who received an industry recognized credential upon completion of a course sequence or apprenticeship, the CSA participating entity that provided the course sequence or apprenticeship receives \$500.

The following table summarizes the estimated state student funding by grant from FY 2023 through FY 2025.

### Estimated State Student Funding Expenditures by Grant

Grant	FY 2023	FY 2024	FY 2025
Base Student Funding	\$6,935,938,336	\$7,170,865,381	\$7,173,139,054
Special Education	\$703,737,801	\$745,914,955	\$788,794,551
Career & Technical Education	\$179,211,060	\$204,433,200	\$229,904,075
Honors	\$29,143,700	\$66,228,000	\$69,459,920
Choice Scholarship	\$307,165,741	\$522,528,720	\$594,644,136
Early Literacy	\$0	\$10,000,009	\$10,000,003
Non-English Speaking Program	\$26,497,314	\$33,960,348	\$35,489,108
Operations Fund	\$0	\$115,441,514	\$138,135,288
Career Scholarship Accounts	\$0	\$7,070,000	\$14,140,000
Mitch Daniels Scholarship	\$1,220,000	\$1,220,000	\$1,220,000
Total	\$8,182,913,951	\$8,877,662,127	\$9,054,926,135

FY 2023 estimates reflect the current tuition support formula; FY 2024 and FY 2025 estimates reflect the bill's proposed student funding formula.

If the actual distribution exceeds the appropriation of \$8,897,000,000 for FY 2024 and \$9,075,000,000 for FY 2025, the difference, up to \$25 M per fiscal year, can be transferred from the State Tuition Reserve Account. If the amount appropriated plus the \$25 M (augmented appropriation) is still less than the actual distribution, the distribution would be reduced so that it equals the augmented appropriation.

(Revised) *Curricular Materials*: Under current law, the DOE reimburses public schools for some of the costs of providing free textbooks for students who are eligible for free or reduced-price lunches. Additionally, parents of students who meet the same eligibility criteria who attend nonpublic schools can also be reimbursed. Under the bill, only the parents of students at nonpublic schools would be eligible for the reimbursement, which would reduce state expenditures. In FY 2022, public schools were reimbursed \$41.4 M according to DOE Form 9 data. Additionally, the bill could increase state General Fund expenditures by up to \$39 M to meet the state's required maintenance of effort (MOE) for the Temporary Assistance for Needy Families block grant. The bill does not appropriate money to the Curricular Materials Fund to pay for textbook reimbursement for eligible students at nonpublic schools.

(Revised) *Charter and Innovation Network School Grant Program*: The bill eliminates the charter and innovation network school grant program. In FY 2023, eligible schools received \$1,250 per ADM under the program. However, most of the charter schools that would have received the charter and innovation network school grant will now receive \$1,400 in FY 2024 and \$1,500 in FY 2025 per ADM from the Operations Fund. Certain innovation network charter schools that are part of Indianapolis Public Schools would not be eligible for grants from the Operations Fund, but those schools would receive a grant from the Participating Innovation Network Charter Schools Grant Program in an amount equivalent to what they would receive from the Operations Fund.

(Revised) *Non-English Speaking Program (NESP)*: The bill makes the Non-English Speaking Program, which was previously a line-item appropriation, part of the State Student Funding Formula. However, adult charter schools and the Indiana School for the Deaf, which currently receive grants from the program, do not receive State Student Funding distributions. The bill specifies that those schools would still receive a grant that is calculated in the same way the NESP Grant is calculated.

(Revised) *Honors Grant*: Beginning in FY 2024, this bill could increase state expenditures by removing a provision that prohibits public schools from receiving an Honors Grant award per student who receives a Core 40 diploma with academic honors by taking an alternative science, technology, engineering, or mathematics (STEM) course. Ultimately, the impact on funding is expected to be small and will depend on the number of students who graduate with academic honors by completing alternative STEM courses.

*Education Scholarship Account Funds*: Current law allows the Treasurer of State to deduct 5% of the funds made available for the Indiana Education Scholarship Account (ESA) program to cover administrative costs. Under the bill, the administrative costs of the program would be paid through a direct appropriation from the General Assembly. The impact on state expenditures will depend upon legislative action.

(Revised) *Adult Learners*: The bill increases the total number of adult learner students at Christel House DORS and the Excel Centers for whom the school may receive state funding by 625 full-time equivalent (FTE) students in FY 2024. This cap is raised by an additional 1,400 FTE in FY 2025. Adult charter schools receive \$6,750 per FTE adult learner, so state expenditures could increase by up to \$4.2 M and \$9.5 M in FY 2024 and FY 2025, respectively.

#### Higher Education Provisions

*Outcomes-based Formula Fund*: The bill establishes the Outcomes-based Formula Fund. The fund would be used to distribute money to SEIs based on each SEI's performance in the outcomes-based funding formula developed by Commission for Higher Education and approved by the Budget Agency.

#### Court Provisions

*Civil Legal Aid Fund*: The bill removes the annual appropriation from the state General Fund for the Civil Legal Aid Fund. Currently, the Indiana Supreme Court partners with the Indiana Bar Foundation to distribute \$1.5 M annually in grants to qualifying organizations.

*Court Fees*: The bill requires the remaining balance of the State User Fee Fund to be deposited in the state General Fund after the statutory distributions. As a result, this will reduce revenue to the Court Technology Fund. Under current law, the remaining balance of the State User Fee Fund is deposited in the Court Technology Fund. In FY 2022, an estimated \$10.6 M was deposited in the Court Technology Fund. The Pro Bono Legal Service provisions will have no fiscal impact.

(Revised) *Indiana Criminal Justice Institute*: The bill requires the ICJI to administer the Diversion and Alternative Detention Grants and the Juvenile Behavioral Health Competitive Grant Pilot Program Fund. It requires the ICJI to coordinate with the CISC and the Youth Justice Oversight Committee to administer grants in accordance with the funding formula and the recommended performance measures submitted by the Youth Justice Oversight Committee grant workgroup. The ICJI shall review applications for grants and make recommendations to the board of trustees of the ICJI regarding funding decisions. The ICJI shall work with various agencies, divisions, and experienced practitioners in the mental health and behavioral health

profession to review grant applications. The ICJI shall adopt performance measures that apply to grantees under the program taking into consideration the plan submitted to the CISC by the Youth Justice Oversight Committee. The bill will increase the workload of the ICJI

(Revised) *Indiana Supreme Court*: The bill will reduce revenue to the Indiana Supreme Court for the Indiana Conference for Legal Education Opportunity program. The bill removes the \$625,000 appropriation from the state General Fund.

### **Explanation of State Revenues:**

#### **State Offices and Administration Provisions**

(Revised) *State Board of Accounts (SBOA)*: This bill provides that each taxing unit and soil and water conservation district shall be charged an amount equal to 50% of the actual direct and indirect cost of performing an examination for certain individuals engaged in making examinations or investigations, but not to exceed \$400 per day. The bill's provision would result in a taxing unit being charged \$225 more per day by SBOA than the current rate, which is \$175 per day.

#### **Tax Provisions**

(Revised) *Individual Income Tax Rate*: Current law provides that if certain thresholds are met, then the current tax rate of 3.15% would be phased down to 3.1% for tax years 2025 and 2026, 3.0% for tax years 2027 and 2028, and 2.9% for tax year 2029 and after. This bill removes the thresholds set for rate cuts between tax year 2025 and 2029. It reduces the tax rate for 2024 and 2025 to 3%. It further reduces the tax rate for 2026 and thereafter to 2.9%.

These changes would decrease Individual Income Tax revenues starting FY 2024. The fiscal impact will depend on the reduced tax rate and whether the threshold for each year would have been met. The following estimates assume that the rate cut thresholds set under current law will be met in future years. If some or all thresholds set under current law are not met in future years, then the fiscal impact from the bill would be greater than shown in the table. If the threshold for each period is met, the final revenue impact of the rate phase down would occur in FY 2029, and there will be no impact from this provision after FY 2029. The analysis assumes that Individual Income Tax filers will change their quarterly estimated payments and income tax withholding payments based on the reduced tax rates.

<b>Fiscal Year</b>	<b>State General Fund Impact (In Millions)</b>	<b>Percent Reduction in Income Tax Revenues</b>
2024	(\$171.9)	-2.2%
2025	(\$296.5)	-3.7%
2026	(\$369.8)	-4.5%
2027	(\$384.1)	-4.6%
2028	(\$265.5)	-3.1%
2029	(\$137.6)	-1.6%

(Revised) *Economic Development Tax Credits*: The bill reduces the annual cap from \$300 M to \$250 M for awarding Indiana Economic Development Corporation (IEDC) certified tax credits. It allows the IEDC to

certify a tax credit above the cap if the IEDC determines that a tax credit should be certified. The certification above the cap is subject to a review by the Budget Committee. The applicable credits include: (1) Economic Development for a Growing Economy Tax Credit; (2) Community Revitalization Enhancement District Tax Credit; (3) Hoosier Business Investment Tax Credit; (4) Headquarters Relocation Tax Credit; (5) Redevelopment Tax Credit; (6) Film and Media Production Tax Credit. The bill requires that the any repayment received from Redevelopment Tax Credit must be deposited in the state General Fund and must be included in the calculation of the aggregate amount of applicable tax credits that the corporation may certify for a state fiscal year. This would have an indeterminable impact on the state General Fund in FY 2024 and after.

(Revised) *Gasoline Use Tax (GUT) Distributions*: The bill diverts GUT revenue that would have been deposited in the state General Fund in FY 2024 to the State Highway Fund. This would result in a transfer of approximately \$75.5 M in state General Fund revenue to the State Highway Fund in FY 2024.

(Revised) *Fuel Tax Indexing*: Extending the sunset of the indexing factors is expected to result in an estimated additional (1) \$29 M in gasoline excise tax revenue and (2) \$22 M in special fuel excise tax revenue in FY 2026 and \$56.4 M and \$45.3 M in FY 2027. Revenue increases in FY 2028 through FY 2030 would depend on changes in the consumer price index as well as the individual personal income index and fuel consumption in the state.

Increases in fuel tax revenue would increase distributions to the State Highway Fund. Approximately 62% of fuel tax revenue is distributed to the State Highway Fund. The bill would increase State Highway Fund revenue by \$32 M in FY 2026 and \$63 M in FY 2027, for a total of \$95 M in revenue during that time period.

Additionally, increases in special fuel tax revenue collections would increase revenue distributed to the Motor Carrier Regulation Fund. The estimated additional revenue the Motor Carrier Regulation Fund would receive each year is estimated to be approximately \$0.35 M per fiscal year. Total additional revenue collections for the Fund are estimated to be approximately \$1.02 M by the end of FY 2027.

(Revised) *Dependent Exemption*: The bill allows a taxpayer to receive a \$3,000 exemption in the first year in which the taxpayer is able to claim an exemption for that child rather than a \$1,500 exemption. Increasing the exemption for newly claimed children would reduce state General Fund revenues by an estimated \$3.8 M in FY 2024 and FY 2025.

(Revised) *School Scholarship Tax Credit*: The bill increases the total amount of School Scholarship Tax Credits that may be awarded from \$16.5 M to \$18.5 M for FY 2024 and after. [In tax year 2020, taxpayers claimed \$9.4 M in credits.]

#### Health and Human Services Provisions

(Revised) *Hospital Assessment Fees (HAF) and Quality Assessment Fees (QAF)*: The bill extends the sunset date for the HAF, the Incremental HAF, and the Health Facility QAF by two years to FY 2025. These fees generated approximately \$1.05 B in FY 2022 and leveraged an estimated \$4.6 B in federal funds dedicated to Medicaid expenditures.

<b>Fee</b>	<b>FY 2022 State Revenue</b>	<b>FY 2022 Federal Dollars Leveraged</b>	<b>Total</b>
HAF	\$533 M	\$1.03 B	\$1.57 B
Incremental HAF*	\$361 M	\$3.25 B	\$3.61 B
QAF	\$159 M	\$309 M	\$467 M
<b>Total</b>	<b>\$1.05 B</b>	<b>\$4.6 B</b>	<b>\$5.65 B</b>

\*90% Federal Match Rate

Of the total HAF revenue, 74% is used to increase Medicaid hospital reimbursement up to specified limits. Unused funds in this allocation are distributed to the Hospital Medicaid Fee Fund. The remaining 26% of the HAF revenue is distributed to the state General Fund to offset other Medicaid costs incurred by the state. Revenue from the Incremental HAF is deposited in the Incremental Hospital Fee Fund to be used to partially fund the state share of the Medicaid expansion population receiving services within the Healthy Indiana Plan. Of the Health Facility QAF revenue, 70.6% is used to increase targeted Medicaid nursing facility reimbursement rates, while approximately 29.4% is distributed to the state General Fund for other Medicaid services.

#### Education Provisions

(Revised) *Unused School Building Sales*: Current law requires, under certain conditions, school corporations to offer to sell or lease vacant and unused school buildings to charter schools or state educational institutions for \$1. If a school corporation fails to do so, the school corporation must submit any proceeds from the sale to the State Board of Education, which must distribute that money to charter schools in the school corporation's attendance area, or, if there are no charter schools in the attendance area, to all charter schools as part of the Charter and Innovation Network School Grant Program. Under the bill, rather than the proceeds potentially being distributed to charter schools through the program, the money would go to the state General Fund.

#### **Explanation of Local Expenditures:**

##### Local Offices and Administration Provisions

*State Board of Accounts (SBOA)*: This bill's provision may increase the expenses that taxing units pay to SBOA for conducting examination and investigation of their accounts.

(Revised) *Regional Economic Acceleration and Development Initiative (READI)*: This provision expands the allowable expenses for READI grants received by a qualifying local unit. [The bill appropriates \$500 M to the READI program in FY 2023. These funds will be used by the IEDC to provide grants to qualifying local units.]

##### Tax Provisions

(Revised) *Public Health Local Income Tax (LIT)*: The bill allows a county fiscal body to adopt an ordinance that imposes a LIT rate for public health purposes in the county. The adopted tax rate must be in increments of 0.01% and may not exceed 0.1%. The revenue attributable to the rate must be maintained in a separate

dedicated county fund and distributed to the county health department to be used only for public health purposes in the county.

#### Health and Human Services Provisions

(Revised) *Opioid Settlement Fund*: The bill allows for transfers of all or part of distributions to another city, county, or town to be used for the benefit of both communities. Any impact to settlement funding from this provision will depend on local action.

*Hospital Assessment Fee (HAF) and Health Facility Quality Assessment Fee (QAF)*: Local government-owned hospitals and nursing homes would continue to be assessed the HAF and QAF.

#### Pension Provisions

*Millie Morgan Retirement*: The combination of increased benefit payments and potential for reduced employer contributions would increase the unfunded liability of PERF and the TRF '96 Account. The increased unfunded liability would be amortized over 20 years and paid for and accounted for under future employer contribution rates.

#### K-12 Education Provisions

(Revised) *Curricular Materials*: Public schools would be responsible for paying for all students' curricular materials. Statewide, public school net expenditures would increase by an estimated \$105 M to \$115 M annually.

(Revised) *Adult Learners*: The bill is estimated to increase the revenues for Christel House DORS centers and Excel Centers for Adult Learners by up to \$4.2 M and \$9.5 M in FY 2024 and FY 2025, respectively. *[See Explanation of State Expenditures for more information.]*

### **Explanation of Local Revenues:**

#### Tax Provisions

(Revised) *Dependent Exemption*: Increased exemptions for dependent children in the first year that they are claimed will reduce local income tax revenue by an estimated \$1.9 M in FY 2024 and FY 2025.

(Revised) *Public Health Local Income Tax (LIT)*: Under this bill's provisions, counties may choose to adopt a LIT rate for public health purposes in the county. The maximum local income tax rate a county fiscal body may impose is 0.1%. All revenue collected from this rate is distributed to the county unit. Should counties choose to adopt a LIT rate for the purpose previously noted, the county unit could receive their first certified distribution of this revenue in CY 2024 if the county fiscal body passes an ordinance before November 1, 2023. Ultimately, the fiscal impact depends on local decisions.

(Revised) *School Corporation Property Tax Summary*: The changes to the school operations fund maximum levy, protected taxes, and excluded taxes will all have an impact on the net amount of tax generated by the school operations fund, and on the revenue losses from tax caps allocated to other units and funds. Property tax bills will also be affected. The following table summarizes the estimated CY 2024, CY 2025, and CY 2026 net property tax revenue change by taxing unit type.



<b>Estimated Change in Net Property Tax Revenue (\$M)</b>			
<b>Unit Type</b>	<b>CY 2024</b>	<b>CY 2025</b>	<b>CY 2026</b>
Counties	0.3	4.5	10.3
Townships	0.1	1.1	2.4
Cities and Towns	-1.1	4.6	13.2
Traditional School Corporations	-17.0	-87.1	-177.3
Libraries	0.0	1.2	2.8
Special Units	0.3	3.4	8.1
TIF	-2.2	-8.2	-15.5
<b>Total</b>	<b>-19.5</b>	<b>-80.6</b>	<b>-155.9</b>
<b>Total Without TIF</b>	<b>-17.3</b>	<b>-72.4</b>	<b>-140.4</b>

The estimated change in net property tax by property type is shown in the following table.

<b>Estimated Net Tax Change (\$M)</b>			
<b>Property Type</b>	<b>CY 2024</b>	<b>CY 2025</b>	<b>CY 2026</b>
Homesteads	-6.2	-26.5	-52.0
Farmland	-1.9	-8.7	-17.9
Other Residential	-0.9	-5.0	-10.2
Apartments	0.0	-0.5	-1.2
Ag Business	-1.0	-4.1	-7.7
Other Real	-5.0	-19.3	-36.5
Personal Property	-4.5	-16.5	-30.4
<b>Total</b>	<b>-19.5</b>	<b>-80.6</b>	<b>-155.9</b>

(Revised) *Maximum Tax Rate*: This provision will reduce the school operations property tax levy and tax rate for most school corporations. This bill establishes a maximum tax rate for the school operations fund. Over an eight-year period beginning with taxes payable in CY 2024, the maximum operations fund tax rate for each school corporation will be reduced to \$0.40 per \$100 AV.

(Revised) *Protected Taxes*: Beginning with taxes payable in CY 2024, the school operations fund will become a protected fund. Under current law, all taxing units must allocate tax cap losses only to unprotected funds to the extent possible. If the total tax cap loss exhausts the levies in all of a taxing unit's unprotected funds, the excess is allocated to the protected funds.

The school operations fund is currently the only unprotected school fund with a property tax levy. By protecting the operations fund, all school funds will be protected, and the school corporation will allocate tax cap losses to protected, but nonexempt, funds. If school corporations apply tax cap losses to debt service funds, then the debt service fund levies may increase.

(Revised) *Excluded Taxes*: Beginning with taxes payable in CY 2024, an increasing portion of the taxes generated by the school operations fund tax rate will be paid into the fund without regard to tax cap losses. Instead, the tax cap losses that would have been allocated to the excluded portion of operations fund rate under current law will be allocated across all taxing units in the taxing district, including to the school corporation's other funds. In CY 2024, the revenue from \$0.05 of the operations fund tax rate will be excluded from tax cap loss allocation. In CY 2025, the excluded rate will be \$0.10. The excluded rate amount

will increase by \$0.05 each year until it reaches the \$0.40 maximum operations fund tax rate.

#### Health and Human Services Provisions

(Revised) *Opioid Settlement Fund*: The bill provides that if any settlement documents, court order, assurance of voluntary compliance or any other form of agreement requires at least 70% of the settlement proceeds to be used for specified purposes, any additional settlement funds must first come from funds that would be distributed from the state Unrestricted Opioid Settlement Fund. This could increase funds distributed to qualifying local units.

The bill modifies the threshold from \$1,000 to \$5,000 for when settlement distributions must be made to the county instead of a city or town, which will result in more funding for counties and less for cities and towns (this threshold applies only to the abatement share of distributions for cities and towns and not to the unrestricted share of distributions). In CY 2022, there were 190 cities and towns that distributed settlement funding to their county due to the \$1,000 threshold requirement. If the threshold was set at \$5,000 for CY 2022, this number would increase to 359 cities and towns. The bill requires state attorney fees to be deducted from the state's Opioid Settlement Fund which will reduce the amount available to allocate to cities, towns, and counties. Outside attorney fees will be deducted from the agency settlement fund. The bill also subjects distributions to a bankruptcy court order or bankruptcy settlement. The bill allows cities, towns, and counties that receive a settlement to sell their distribution, as long as they have a majority vote of the legislative body, which could provide additional funds.

#### Public Safety Provisions

*County Misdemeanant Fund*: This bill changes the population multipliers used to compute the each county's distribution from the County Misdemeanant Fund. As proposed, the population multipliers would be the single component of the distribution formula. These new population multipliers will result in a statewide shift in the revenue distributed among counties by about \$366,160. About 29 counties will receive more revenue and 63 would receive less.

#### Education Provisions

(Revised) *Student Funding Formula*: The bill's various changes to the student funding formula will increase public school revenue over FY 2023 revenue by \$472.3 M in FY 2024 and \$570.4 M in FY 2025.

(Revised) *Adult Learners*: The bill is estimated to increase the revenues for Christel House DORS centers and Excel Centers for Adult Learners by up to \$4.2 M and \$9.5 M in FY 2024 and FY 2025, respectively. *[See Explanation of State Expenditures for more information.]*

**State Agencies Affected:** All

**Local Agencies Affected:** All

**Information Sources:**

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