IFPI Issue Brief

INDIANA FISCAL POLICY INSTITUTE
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FY2023 Close-Out Snapshot
Back to Baseline

The State of Indiana closed the books on the fiscal year on June 30, 2023. On July 13th, fiscal leaders announced the state of Indiana's balance sheet. Overall, increased consumer spending that spiked revenues in 2022 returned to baseline – Indiana raised $21.6 billion in revenues in the fiscal year, which is 0.7% over revenues for the previous year. Spending totaled $18 billion, an increase of 2.4% over the previous year.

This normalization of revenues brings Indiana back within a typical (pre-Covid) range. The surplus of $2.9 billion is also more in line with historic averages.

How Much Surplus is Enough?

Many fiscal leaders believe that an appropriate number of reserves is somewhere between 10% and 15% of a state's expected revenues. Indiana's current reserves represent 13.6% of revenues. Over the past ten years, Indiana surpluses have averaged 15.1% of revenues, with a high of 28.56% of revenues in 2022, and a low of just over 9% in 2020.

State of Indiana's Surplus

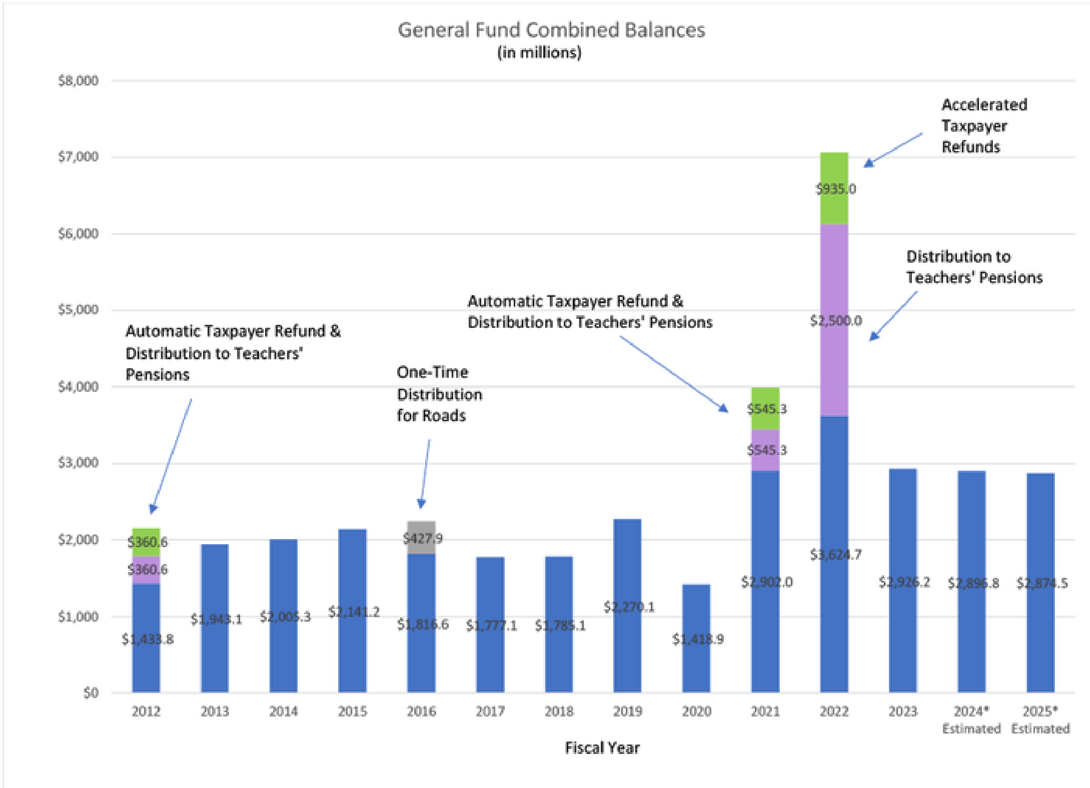
Indiana ended the fiscal year with $2.9 billion in reserves, representing a huge decrease from the $6.2 billion reserve in the previous year. The current reserve represents 13.6% of the year's revenues.

Recent legislative changes to the trigger for automatic taxpayer refunds (like the refunds that occurred in 2021 and 2022) mean that a surplus of less than $3.5 billion will not result in direct taxpayer relief. $3.1 billion in one-time capital construction project investments, coupled with a $2.5 billion teacher pension buy-down, and $935 million in previous taxpayer refunds (that didn't hit the state's books until FY 2023), brought down the surplus to the $2.9 billion level.

What is a Surplus?

Indiana has several funds that we lump into the larger $2.9 billion "surplus".
Here are their balances as of FY 2023 Close-Out:

- General Fund Balance: $831.4 million
- Medicaid Contingency & Reserve Fund: $429.2 million
- State Tuition Reserve: $652.5 million
- Counter-Cyclical Revenue and Economic Stabilization Fund (aka the "Rainy Day Fund"): $1.01 billion



Source: Indiana State Budget Agency

Revenues

Sales tax again accounted for half of all revenue brought in by the state, at close to $10.5 billion. Interestingly, even though a recession was a concern during the December revenue forecast, sales tax revenues in 2023 still exceeded 2022's $10 billion haul.

Income taxes, which include individual and corporate tax, totaled $8.8 billion, or 42% of total revenue. This is a decrease of 2022's $9.7 billion collected from income tax. This decrease is primarily due to income tax cuts put in place in 2022. In next year's report, income tax revenues will be even less, as lawmakers chose to accelerate those cuts again in the most recent budget.

Sales Tax in Indiana

Sales tax consistently funds half of all Indiana's state budget. Indiana's 7% statewide sales tax rate is the 2nd highest in the country (California has the highest at 7.25%). When adjusted for other states' average local sales tax rates, Indiana's neighbor sales tax rates are as follows: Illinois (8.82%), Michigan (6%), Ohio (7.2%), Kentucky (6%), and Tennessee (9.55%).

Source: Tax Foundation

Lawmakers will meet over the next two years to study the state's tax system, with a particular focus on whether or not to eliminate Indiana's income tax. Despite a comprehensive road funding overhaul in 2017, another study committee will revisit how to fund roads, particularly as the U.S. pivots to more electric vehicles.

Expenses

As discussed in our 2023 state budget recap, K-12 accounts for roughly half of all state spending, and Medicaid spending is the fastest-growing expenditure in the budget. In early 2023, the state began removing Medicaid recipients due to the end of the public health emergency. Because of this, over 100,000 Hoosiers have lost coverage so far. Due to the decrease in recipients, the state avoided spending $525 million, or 17.2% of the total $3 billion appropriated for this expenditure.

Summary

The state is back on solid footing after an unprecedented couple of years. Indiana's surplus is down, but in a few years (in 2030), the state will have paid down the bulk of its unfunded teacher's pension debt. When this occurs, lawmakers will have to balance a desire for tax cuts with new (and growing) spending priorities – this discussion is already beginning with the State and Local Tax Review Task Force. This is also occurring at the same time as Indiana spends down the rest of the federal Covid funding available to the state. The Indiana Fiscal Policy Institute will be there to educate citizens and stakeholders on this process as it unfolds.