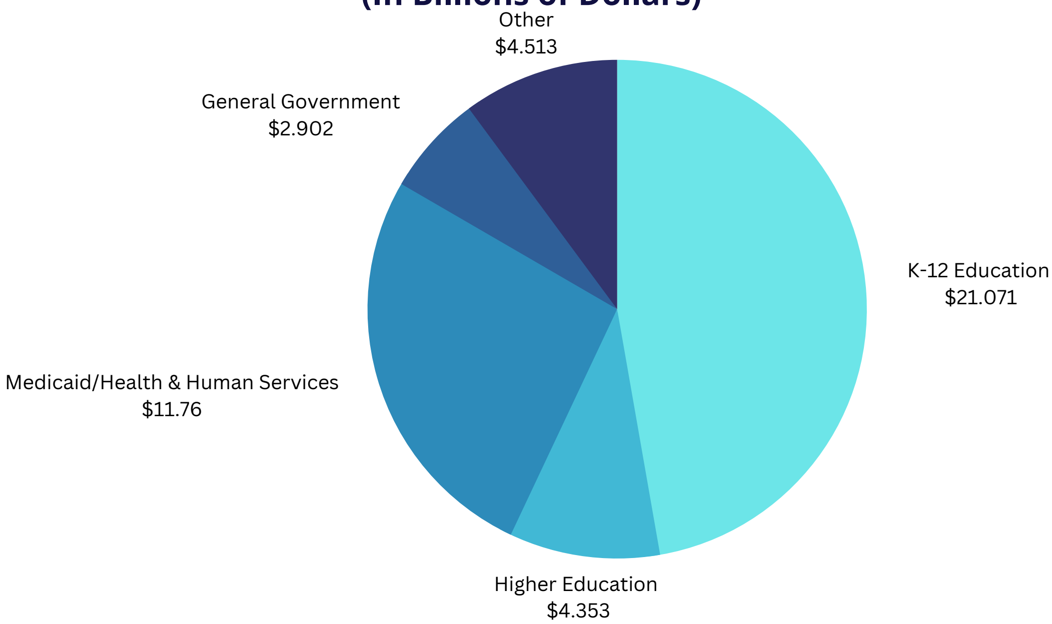
IFPI Issue Brief

Indiana's 2023 Legislative Session - A Brief Summary of a Session Long on Fiscal Impact

In the days leading up to the end of the legislative Session, fiscal leaders at the Indiana General Assembly found themselves in a good spot. The Spring Revenue Forecast indicated they had $1.5 billion more to play with as they reached the final stretch in budget negotiations. On the last day of the Session, it became clear that this revenue buffer was necessary to reach a final agreement. The agreement was reached in the middle of the night on April 27th.

At the behest of the House Republicans, Indiana has embarked upon a costly and near-universal school choice expansion (aka school vouchers for private schools). When it became clear that this expansion would result in many public schools receiving modest increases (or, in some cases, even slight funding declines) while private schools would see a generous increase, Senate members insisted that the school budget funding formula be revised. A compromise was reached, where less money would go to pay off teacher pension debt to increase funding to public schools.

Summary of 2024/2025 Indiana State Budget (HEA 1001)
(In Billions of Dollars)



Source: Indiana House Republicans

The K-12 funding compromise increased tuition support by close to $1.5 billion – a 10% increase over the previous biennium, and roughly the same amount of increased revenue expected from the most recent revenue forecast.

The updated budget proposal leaves about $2.7 billion in reserves, at the upper threshold of the state budget agency's recommendation. Excess revenue above $3 billion will go to the state's teacher pension debt. Already, the budget pays down the fund by about $3 billion over the biennium.

At the end of the day, Indiana passed a balanced $44.6 billion biennial budget that maintains healthy fiscal reserves, pays down pension debt, increases K-12 funding, and accelerates already planned decreases in the state's individual income tax rate. Other bills that impact Indiana's fiscal health also passed this Session. A high-level summary of the most pertinent legislation is outlined below.

BUDGET SPENDING PRIORITIES

Healthcare and Medicaid

The budget allocates $100 million to help the state’s mental health clinics provide more services, including crisis teams to respond to people who call the 988-suicide hotline. The Indiana Behavioral Health Commission had determined that $130 million was needed yearly to build the mental health system.

The budget invests $225 million over two years into Indiana’s public health system. This is roughly half of what the Public Health Commission recommended to bring Indiana’s system up to the national public health spending per capita standard.

Medicaid spending is a noted concern for Senate fiscal leaders, as it continues to grow as a share of the total budget. Part of this was due to the expansion of Medicaid during Covid-19. However, starting on April 1, 2023, Indiana began unwinding the Medicaid continuous enrollment provision. Adopted in March 2020, the continuous enrollment provision has protected coverage for millions enrolled in Medicaid during the past three years. FSSA officials believe between 375,000 and 500,000 Indiana Medicaid recipients will no longer qualify for Medicaid coverage due to increased earnings, access to employer-sponsored health insurance, or some other reason.

According to a report published by KFF, a nonprofit research organization formerly known as the Kaiser Family Foundation that tracks health policy, Indiana has adopted policies to reduce unnecessary Medicaid cancellations and promote continuity of coverage.

HEA 1004 will require a review of Medicaid reimbursement rates in Indiana, utilizing more Indiana-focused data. It also creates the Health Care Cost Oversight Task Force.

Economic Development

The budget gives the Indiana Economic Development Corporation a $500 million **deal-closing fund** (something for which the economic development community has advocated for many years), paired with a complimentary $150 million revolving fund for site acquisition.

The budget allocates over $500 million for **READI 2.0** project funding. Unlike the original READI program, however, this new funding is limited to capital projects and infrastructure improvements. Previous READI projects included some programmatic investments, with are disallowed moving forward.

The state will provide $120 million for capital projects at the new Indiana University Indianapolis and Purdue University Indianapolis. An additional $30 million is being provided for the Next Level Trails program.

HEA 1005 establishes the residential housing infrastructure program and revolving loan fund through the Indiana Finance Authority. This is intended to increase housing infrastructure in areas that need more housing stock.

Salary Increases

A contentious last-minute (and under the radar) increase in **state elected official pay** took place in the budget. This change brings state elected officials' pay more in line with other states, and ties their income to that of a state supreme court justice. This equates to a 48% increase for the Governor, a 60% increase for the Lieutenant Governor, a 45% increase for the Attorney General, and a 38% increase for the Auditor, Treasurer, and Secretary of State. This provision does not go into effect until 2025, and it will likely result in the Governor making over $200,000 in 2025 (Governor Holcomb currently makes $133,683 per year).

This change is on the heels of a 2022 compensation study from the State Personnel Department that resulted in a new employee classification system and a minimum 5% cost of living increase for all executive branch employees in 2023 (some individuals were entitled to a larger percentage increase).

The budget also increased the **minimum hiring salary** for the State Police to $70,000 from $53,690, a 30.4% increase.

All these salary increases also have impacts on pension and benefits payments.

Education

Funding for K-12 schools and initiatives makes up 47% of the new two-year budget. This includes new funding for a nearly universal expansion of the voucher program to help families pay tuition at private parochial or non-religious schools and an increase for non-English speaking students, plus additional changes that benefit charter schools.

K-12 Funding Summary

Grant	FY 2023	FY 2024	FY 2025
Basic Tuition Support	$6,934,277,861	$7,263,011,427	$7,308,018,558
Special Education	$703,737,801	$745,914,955	$788,794,551
Career & Technical Education	$179,211,060	$204,766,003	$226,711,765
Honors/Academic Performance	$29,143,700	$49,104,140	$50,952,960
Choice Scholarship	$307,165,741	$530,099,570	$606,773,727
Non-English Speaking Program	$26,497,314	$35,673,624	$37,653,566
Mitch Daniels Scholarship	$1,220,000	$1,220,000	$1,220,000
Total	$8,181,253,476	$8,829,789,719	$9,020,125,127

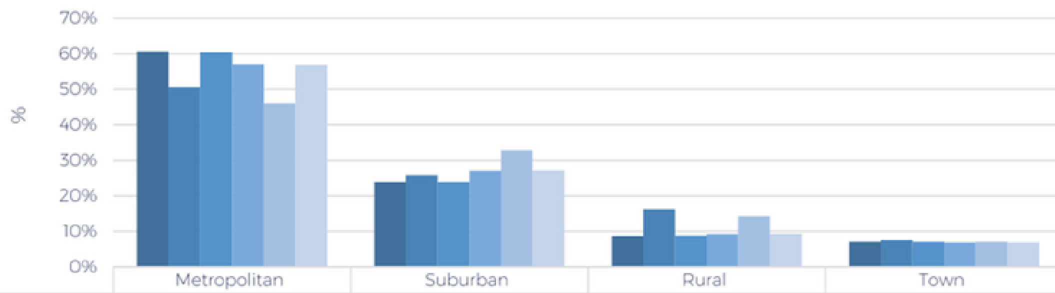
Source: Indiana Legislative Services Agency

Choice Scholarships (also known as school vouchers) have been in Indiana for well over a decade and are now available to almost all household income ranges due to this budget. Families of four are now eligible if they have an income of up to $220,000, which equates to 400% of the income requirement to receive a federal reduced-price lunch. It is estimated that an additional 41,800 students will now qualify for vouchers due to this change.

It will be interesting to see how this change impacts the decision of students and their parents. Will this result in 41,800 students transitioning out of the public school system into private schools, or will it subsidize costs for students already enrolled in private schools?

The Indiana Department of Education provides yearly data on the utilization of vouchers, and we know that the average voucher student is white, middle-income, and lives in a metropolitan area. Typically, less than 10% of all Choice students live in rural areas, where there may not be non-public school options. At what point will the demand for Choice meet the private school supply? Will more private schools leverage this resource to build schools in rural areas? This is something that the Indiana Fiscal Policy Institute will continue to track over time.

Choice Utilization by Geography



	Metropolitan	Suburban	Rural	Town
20-21 P1	60.57%	23.79%	8.65%	6.99%
20-21 P2	50.51%	25.77%	16.21%	7.51%
20-21 Total	60.40%	23.82%	8.78%	7.00%
21-22 P1	56.99%	26.96%	9.20%	6.85%
21-22 P2	46.02%	32.80%	14.20%	6.98%
21-22 Total	56.79%	27.07%	9.29%	6.85%

Source: Indiana Department of Education

The state budget also removed the requirement that families must pay for **textbooks and other related materials** by setting aside $160 million in a curricular materials reimbursement fund.

Per HEA 391 school districts in Lake, Marion, St. Joseph, and Vanderburgh counties are required to **share property tax referendum revenue with charter schools**. A per-student grant for charters and charters that are part of school districts would increase to $1,400 per student from $1,250. Lawmakers also provided a $25 million fund for capital grants for charters schools.

The budget provided $16.3 million in funding for **Goodwill Excel Centers** (multiple locations statewide) and **Christel House DORS** (Indianapolis) , to provide an increase in adult learning opportunities for these two programs.

The budget **expanded eligibility for On My Way Pre-K** . Specifically income eligibility requirements were increased to 150% of the federal poverty level – this was previously 127% of poverty level.

HEA 1002 is the new program championed by House Republicans around **"reinventing high school"**. This program creates a new Career Scholarship Account program with opportunities for vocational and work-based-learning opportunities for high schoolers. Many questions remain about how this program will be administered, and if there is sufficient employer and student demand. The budget allocates $15 million over the biennium for these accounts.

SEA 1449 makes it easier for eligible students to enroll in the Twenty-First Century Scholars Program, and SEA 167 makes FAFSA completion mandatory, to encourage more students to take advantage of post-secondary opportunities.

The budget also increased funding for **adult basic education**, provided $8 million per year for the **Governor's Workforce Cabinet**, and increased funding for the Governor's **Workforce Ready Grant** program.

TAX REFORM AND IMPLICATIONS

Fiscal leaders have indicated that they have **reduced taxes by $430 million** over the biennium, both in the budget and other legislation through tax reform.

Property tax bills shot up this year, as the pandemic's high-priced home sales and subsequent rise in assessment values. These increases for homeowners were significant, even though they didn't always translate into corresponding increases in available revenue for local governments and schools. Legislative leaders cautioned against substantial property taxpayer reform; however, HEA 1499 expands multiple deductions and temporarily limits growth in school operating referendum taxes and local unit property tax revenue. In fact, most units will see a net decrease in revenue from the bill. SEA 325 provides new definitions of homestead, residential, and non-residential property for the homestead standard deduction, which will result in lower property tax payments beginning in calendar year 2025, which will also lower revenues to local units of government.

The General Assembly implemented a slow **decrease in individual income tax rates** in 2022. The budget accelerates these rate cuts by lowering the rate to 2.9% by 2027 instead of 2029. In the 2022 legislation, each cut was only allowed if it met a set of criteria or "triggers" – these triggers were all removed from the budget.

Summary of Individual Income Tax Rate Decrease in Budget

	2022 Legislation	HEA 1001 (2023)
2023	3.15%	3.15%
2024	3.15%	3.05%
2025	3.10%	3.00%
2026	3.10%	2.95%
2027	3.00%	2.90%
2028	3.00%	2.90%
2029	2.90%	2.90%

Budget leaders indicate that acceleration of these income rate reductions will save Hoosier taxpayers over $360 million over the biennium and $1.4 B between now and 2030.

The budget includes **$70 million in additional tax cuts**, including new tax deductions for parents, updating the Earned Income Tax Credit, and exemptions for active-duty military members. The budget also has an employer childcare tax credit to incentivize employers to provide quality childcare opportunities for their workers.

SEA 3 implements a **State and Local Tax Review Task Force**. This task force will meet four times in 2023 and 4 times in 2024 and will review the state's fiscal outlook, the state's debt obligations, the funded status of pension funds, the individual income tax, the corporate income tax, the state gross retail and use tax, the property tax, and local option taxes. The Indiana Fiscal Policy Institute considers this a critical piece of legislation and applauds its passage.

The budget creates the **Funding Indiana's Roads for a Stronger, Safer Tomorrow (FIRSST) task forc**e. Part of the task of this group is to investigate funding needs for Indiana's roads and bridges, particularly as we transition to an electric vehicle economy.

SEA 2 deals with the **taxation of pass-through entities.** A pass-through entity passes its income through to its owners to be taxed on their respective returns rather than at the entity level. This bill allows certain pass-through entities to elect to pay the tax at the entity level based on each owner's aggregate share of adjusted gross income.

OTHER ITEMS OF INTEREST

Other legislation regarding taxation that passed this Session include:

SEA 46, which provides counties with an opportunity to adopt an ordinance to provide a credit against property tax liability for qualified individuals.

SEA 417 makes a variety of changes to tax code, including changes to the nonprofit organization sales tax exemption threshold, limitations on local income tax (LIT) rate for county staff expenses, and changes to reporting on LIT revenue.

SEA 419 is a behemoth of a taxation clean-up bill that makes changes regarding net operating losses for purposes of determining state adjusted gross income, changes to the calculation of corporate adjusted gross income in relation to broadband investments, successor liability for certain unpaid taxes, and several other conforming changes.