

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

**LS 7763**  
**BILL NUMBER: HB 1001**

**NOTE PREPARED:** Feb 20, 2025  
**BILL AMENDED:** Feb 19, 2025

**SUBJECT:** State Budget.

**FIRST AUTHOR:** Rep. Thompson  
**FIRST SPONSOR:** Sen. Mishler

**BILL STATUS:** As Passed House

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

**IMPACT:** State & Local

**Summary of Legislation:** *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.

**K-12 Education Provisions**

*Choice Scholarship Expansion:* The bill removes the annual income maximum for choice scholarship eligibility. It also requires the Department of Education to distribute choice scholarships at least twice each semester (instead of once).

*Curricular Materials Fund:* The bill repeals the chapter establishing the curricular materials fund and certain provisions related to procedures for reimbursement of costs of providing curricular materials.

*Adult Charter Schools:* The bill provides that an adult charter school is entitled to state funding in an amount that is based on the foundation amount for the state fiscal year.

*Dual Credit:* The bill requires the Secretary of Education to provide a report and recommendation to the General Assembly concerning aligning state funding for dual credit with the new high school diploma and expanding access to dual credit course work to all Indiana students.

*Education Billing:* The bill prohibits a school corporation or career and technical education center or school from charging a career scholarship student enrolled in the career scholarship account program or an approved intermediary acting on behalf of a career scholarship student a tuition or fee amount to enroll in or attend a career and technical education program, course, or class that is more than the proportionate amount that the school corporation or career and technical education center or school would receive under the career and technical education grant if the student had enrolled in and completed the applicable career and technical education program, course, or class. The bill provides that a career and technical education center that charges a career scholarship student a tuition or fee amount to enroll in or attend a career and technical education program, course, or class may not receive a credential completion grant for the student.

### Health and Human Services Provisions

*Hospital Assessment Fee (HAF) and Qualified Assessment Fees (QAF):* The bill extends the sunset of the collection of hospital assessment fees and health facility quality assessment fees from June 30, 2025, to June 30, 2027.

*Spinal Cord and Brain Injury Fund:* The bill removes the continuous appropriation for the Spinal Cord and Brain Injury Fund administered by the Indiana Department of Health.

### Tax Provisions

*Sales Tax Exemption:* The bill provides sales tax exemptions for feminine hygiene products and adult diapers.

*Income Tax Deduction:* The bill increases the income tax deduction for a person over 65 with certain qualifying income from \$500 to \$1,000.

*Health Reimbursement Arrangement Tax Credit:* The bill increases the: (1) employee threshold; and (2) maximum amount of tax credits that may be granted in a year; for purposes of the health reimbursement arrangement income tax credit.

*Rural Fund Capital Investment Tax Credit:* The bill establishes a state tax credit for certain capital investments made in rural funds (rural fund credit). It prescribes requirements for the rural fund credit.

*Hoosier Workforce Investment Tax Credit:* The bill establishes the Hoosier workforce investment tax credit. It allows an eligible business to claim an adjusted gross income tax credit for certain training costs incurred.

### Public Safety Provisions

*Salary Matrix Increases:* The bill requires that the salary matrix for State Police, capitol police officers, and Department of Natural Resources law enforcement officers be adjusted each time an adjustment is made to a pay plan for state employees in the executive branch.

### State Offices and Administration Provisions

*Tax Incentive Report:* The bill extends the review, analysis, and evaluation of tax incentives by the Legislative Services Agency through 2030.

*Budget Agency Allotments and Amounts Withheld:* The bill provides that if the Budget Director determines at any time that a state agency can perform the agency's statutory obligations with less than the amount appropriated, the Budget Director shall, with the approval of the Governor, and after notice to the state agency, reduce the amount or amounts allotted or to be allotted.

The bill requires the Budget Director to withhold not less than 5% of any appropriation to a state agency to be used for salaries or other wages for state agency employees or general operating expenses of the state agency.

*Indiana Historical Society Lease:* The bill repeals a provision allowing the Indiana Department of

Administration to enter into a lease with the Indiana Historical Society (society) for use of a building.

*Public Works Projects:* The bill provides that certain businesses providing specialized employee services receive a price preference of 15% for public works projects.

*Gary Airport Board:* The bill changes the appointment and terms of members of the board of the Gary airport authority.

*Higher Education Facilities:* The bill requires the Commission for Higher Education to annually prepare and submit to the Legislative Council and to the Budget Committee a report that examines the utilization of physical facilities for instruction at each state educational institution.

*Evansville Professional Sports Development Area:* The bill specifies the amount of covered taxes that may be captured in the Evansville professional sports development area.

*Innovation Development District:* The bill provides for the determination of the: (1) base assessed value; (2) gross retail base period amount; and (3) income tax base period amount; in an innovation development district (district). It requires the executive of a city, county, or town, or, if applicable, executives, and the Indiana Economic Development Corporation to enter into an agreement establishing the terms and conditions governing any district (instead of only certain districts). It repeals the statewide innovation development district fund and establishes the economic development reserve account.

*Appropriation:* The bill provides that an appropriation to the Legislative Council and the Legislative Services Agency for a state fiscal year ending before July 1, 2027, reverts to the state General Fund as directed by the Personnel Subcommittee of the Legislative Council.

*Leave Conversion:* The bill provides that an employee in an entity in the legislative or judicial branch of state government is eligible to participate in a pilot program for converting unused excess accrued leave to a monetary contribution for the employee in the employee's 401(a) matching account with Hoosier START.

*Federal Fund Reversion:* The bill provides that unexpended and unencumbered amounts appropriated from the federal Economic Stimulus Fund in P.L.165-2021 do not revert to the state General Fund.

*Transfers:* The bill requires the State Comptroller to transfer: (1) \$15 M from the Addiction Services Fund; and (2) \$25 M from the Department of Insurance Fund; to the Tobacco Master Settlement Agreement Fund on July 1, 2025.

**Effective Date:** Upon passage; January 1, 2025 (retroactive); June 29, 2025; July 1, 2025; January 1, 2026; July 1, 2027.

**Explanation of State Expenditures:** *State Appropriations:* The following summary table shows state appropriations that are provided in this bill for FY 2026 and FY 2027.

<b>Appropriations by Function</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>For the Biennium</b>
General Government	997,564,441	976,585,924	-
Corrections	1,058,728,412	1,054,728,412	-
Other Public Safety	418,961,209	413,162,099	-
Conservation and Environment	114,191,678	114,191,678	-
Economic Development	183,191,222	183,191,222	-
Transportation	45,000,000	45,000,000	-
FSSA Administration	19,131,417	19,131,417	-
Office of Medicaid Policy and Planning	5,028,299,020	5,367,599,020	-
Mental Health and Addictions	350,015,388	350,015,388	-
Family Resources	151,849,576	151,849,576	-
Aging Services	56,748,222	56,748,222	-
Disability and Rehabilitation Services	55,296,419	55,296,419	-
Department of Child Services	1,127,242,447	1,127,242,447	-
Public Health	140,757,513	140,757,513	-
Other Health and Human Services	107,800,878	107,800,878	155,000,000
State Student Assistance	409,030,014	409,030,014	-
Other Higher Education	1,777,141,010	1,769,663,669	-
Education Administration	121,149,747	121,149,747	-
Tuition Support	9,423,749,800	9,614,576,600	-
Other Local Schools	212,306,067	212,306,067	-
Teacher Retirement	1,066,300,000	1,066,300,000	-
Other Education	10,488,695	10,488,695	-
Distributions	50,500,000	50,500,000	-
<b>Total GF Operating</b>	<b>\$22,925,443,175</b>	<b>\$23,417,315,007</b>	<b>\$155,000,000</b>
Higher Education Construction	55,382,733	55,382,733	-
Other Construction	486,354,014	261,643,615	-
Total Construction	541,736,747	317,026,348	0
<b>Total GF (Operating + Construction)</b>	<b>\$23,467,179,922</b>	<b>\$23,734,341,355</b>	<b>\$155,000,000</b>
Lottery and Gaming Surplus	-	-	-
Other Dedicated - Operating	2,535,126,928	2,531,861,160	-
Other Dedicated - Construction	44,546,300	87,859,794	-
Tobacco Settlement	127,703,855	127,703,855	-
Federal	1,499,442,852	1,499,442,852	-
<b>Total (Dedicated and Federal)</b>	<b>\$4,206,819,935</b>	<b>\$4,246,867,661</b>	<b>\$0</b>
<b>Total - All</b>	<b>\$27,673,999,857</b>	<b>\$27,981,209,016</b>	<b>\$155,000,000</b>

### K-12 Education Provisions

*State Tuition Support Funding Formula:* The bill establishes the State Tuition Support Funding Formula for FY 2026 and FY 2027. The bill makes the following modifications from the current law formula as follows:

- 1.) The foundation amount increases from \$6,681 in FY 2025 to \$6,891 in FY 2026 and \$6,997 in FY 2027.
- 2.) Virtual ADM, which is currently funded at 85% of the foundation amount, will receive 100% of the foundation amount under the bill.
- 3.) Beginning in FY 2026, the income eligibility for the Choice Scholarship will be eliminated.
- 4.) The bill modifies the Academic Performance Grant by adding a grant equal to \$4,000 for each student that graduates high school with a bachelor's degree.

The following table summarizes the estimated state student funding by grant from FY 2025 through FY 2027.

<b>Estimated State Tuition Support Expenditures by Grant</b>			
<b>Grant</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Foundation	\$6,669,871,244	\$6,884,884,553	\$6,968,048,567
Complexity	\$710,768,511	\$660,173,162	\$655,308,482
Special Education	\$840,390,835	\$869,714,474	\$900,704,105
Career & Technical Education	\$218,617,285	\$237,709,535	\$257,015,935
Academic Performance Grant	\$42,686,940	\$43,624,760	\$44,558,780
Choice Scholarship	\$483,371,214	\$622,366,606	\$674,305,081
Non-English-Speaking Program	\$44,616,358	\$48,467,602	\$52,107,340
Mitch Daniels Scholarship	\$1,220,000	\$1,220,000	\$1,220,000
Total	\$9,011,542,387	\$9,368,160,692	\$9,553,268,290
FY 2025 estimates reflect the current tuition support formula; FY 2026 and FY 2027 estimates reflect the bill's proposed tuition support formula.			

If the actual distribution exceeds the appropriation of \$9,370,000,000 for FY 2026 and \$9,560,000,000 for FY 2027, 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.

*Curricular Materials:* The bill eliminates the Curricular Material Reimbursement Fund. The fund is used to provide curricular material reimbursements to public schools and certain nonpublic school students. In FY 2025, \$160 M was distributed for curricular materials.

*Adult Learners:* The bill increases the amount adult charter schools receive per FTE adult learner, which is \$6,750 under current law, to match the foundation amount (\$6,891 and \$6,997 in FY 2026 and FY 2027, respectively). This is estimated to increase state expenditures by \$1.0 M in FY 2026 and \$1.9 M in FY 2027.

*Scholarship Granting Organization (SGO) Scholarship:* SGOs use donations to provide eligible students attending eligible nonpublic schools a scholarship to help offset the tuition and fees the school charges.

Those donations are eligible for the school scholarship contribution credit, which has a statewide cap of \$18.5 M. While more students could become eligible for an SGO scholarship under the bill, state expenditures would not be impacted.

*Education Scholarship Account (ESA) Expansion:* The state expenditure impact of the bill's elimination of the income eligibility requirement for the ESA Program is dependent upon the appropriation made for the ESA Program and where any new ESA participants would have otherwise attended school.

*Workload Impact:* The bill eliminates a reporting requirement that will result in a minor workload decrease for the Department of Education and the Office of the Secretary of Family and Social Services. However, the bill also requires a report from the Secretary of Education and requires DOE to distribute Choice Scholarships at least twice per semester.

### Higher Education Provisions

*Physical Facilities Report:* The bill requires the Commission for Higher Education to complete an annual report on physical facilities used for instruction at state educational institutions, a workload increase for both the commission and the institutions to supply the commission with the data necessary to complete the report. The first report is due July 1, 2026.

### Health and Human Services Provisions

*Transfers:* The bill will transfer \$40 M in FY 2026 to the Tobacco Master Settlement Fund from two dedicated funds. In recent years, appropriations from the Tobacco Master Settlement Fund funded the administration of the Indiana Department of Health (IDOH) and the state share of programs in the IDOH, Attorney General's Office, Commission for Higher Education, Family and Social Services Administration, Graduate Medical Education Board, Lieutenant Governor, and Medical Education Board.

### Public Safety Provisions

*Salary Matrix Increases:* The bill will increase state expenditures for salaries, payroll taxes, and pension and other employee benefits for state police, capitol police officers, and DNR law enforcement officers when an adjustment is made to a pay plan for state employees beginning in FY 2028.

### State Offices and Administration Provisions

*Innovation Development District:* The bill establishes the Economic Development Reserve Account within the state General Fund and assigns the State Budget Agency the responsibility of administering the Account. The Account is to support the development and expansion of industry in Indiana - inclusive of economic development incentives for businesses located in an Innovation Development District - and shall consist of appropriations made by the General Assembly, accrued interest on the Account's fund balance, and money transferred to the Account from the Statewide Innovation Development District Fund, which is dissolved in this bill. Money in the Account at the end of the state fiscal year does not revert to the state General Fund.

*Indiana Historical Society Lease:* The repeal of the lease of buildings to the Indiana Historical Society is expected to reduce state expenditures by approximately \$1.16 M per year.

*Treasurer of State:* The bill allows the Treasurer of State to make payments out of the state treasury upon

check drawn against a financial institution for an approved claim. The Treasurer of State will need to revise instructions and software to reflect the changes made by the bill. The Treasurer of State's current level of resources should be sufficient to implement these changes.

*Budget Agency Allotments and Amounts Withheld:* This provision allows the State Budget Director to reduce the amount allotted to the state agencies, which could reduce state expenditures depending on the actions by State Budget Agency. The provision requiring the State Budget Agency to withhold not less than 5% of certain appropriations to state agencies including state educational institutions and body corporate and politic, could result in lower expenditures in FY 2026 and FY 2027. State Budget Agency may release the withheld amount upon request by the agency and approval by the Governor. The fiscal impact will depend on actions by the agencies and the State Budget Agency.

*Gary Airport Board:* The bill would increase the workload of the Indiana Department of Transportation (INDOT) Commissioner to serve on the Gary Airport Authority Board beginning September 1, 2025. Increases in workload are expected to be accomplished within existing resources and funding levels.

*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 2025 do not lapse but instead remain available for expenditure during FY 2026 and the first half of FY 2027, 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 2025.

*Leave Conversion:* 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 2027. The fiscal impact of this provision will depend upon legislative and judicial branch actions. Average annual expenditures for the pilot program have been \$0.63 M since FY 2022.

*Price Preference:* This provision could increase state expenditures on contracts if a qualified business providing specialized employee services is awarded a contract. The impact is indeterminable and could begin in FY 2026.

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

#### **Health and Human Services Provisions**

*Hospital Assessment Fee (HAF) and Qualified 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 2027. These fees generated approximately \$1.7 B in FY 2024 and leveraged an estimated \$5.7 B in federal funds dedicated to Medicaid expenditures.

	HAF	Incremental	QAF	Total
Provider Fee	\$1.1 B	\$0.5 B	\$0.1 B	\$1.7 B
Federal Funds Leveraged	\$1.4 B	\$4.1 B	\$0.2 B	\$5.7 B
*90% Federal Match Rate				

Of the total HAF revenue, 71.5% is used to increase Medicaid hospital reimbursement up to specified limits.

The remaining 28.5% of HAF revenue is distributed to the state General Fund to offset other Medicaid costs incurred by the state. Unused funds in this allocation are distributed to the Hospital Medicaid Fee Fund. Revenue from the Incremental HAF is deposited in the Incremental Hospital Fee Fund and is used, along with other state funds, to 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.

### Tax Provisions

*Sales Tax Exemption:* This Sales Tax exemption for adult diapers and feminine hygiene products is estimated to reduce state revenues by \$11.1 M in FY 2026 and \$12.4 M in FY 2027. Sales Tax revenue is distributed to the General Fund (99.838%), Commuter Rail Service Fund (0.131%), and Industrial Rail Service Fund (0.031%).

*Personal Exemption:* Current law provides an individual AGI tax exemption of \$500 if the taxpayer is 65 years old or older and the taxpayer's federal AGI is less than \$40,000. Starting in tax year 2025, the bill increases the exemption to \$1,000. The provision would reduce about \$5 M annually in revenue to the state General Fund from the individual adjusted gross income (AGI) tax starting in FY 2026.

*Health Reimbursement Arrangement Tax Credit:* The bill increases the annual credit cap from \$10 M to \$15 M and broadens the eligibility criteria for the health reimbursement arrangement tax credit. The bill could reduce State General Fund revenue by up to \$5 M per year beginning in FY 2026. HEA 1004-2023 provided that employers with fewer than 50 employees are eligible for the credit for two years. For tax year 2025 and thereafter, the bill increases the threshold to employers with fewer than 75 employees. Unchanged by the bill, the credit amount is equal to \$400 per covered employee in a health reimbursement arrangement in the first year and \$200 per covered employee in the second year.

*Hoosier Workforce Investment Tax Credit:* The bill establishes a new nonrefundable tax credit which could reduce General Fund revenues by up to \$4 M annually beginning in FY 2027. Employers may claim the tax credit of up to \$5,000 per eligible employee for training expenses incurred. Employees must meet certain wage requirements for eligibility. The maximum aggregate credit per employer is capped at \$50,000. The credit may be applied to tax liability for Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, Nonprofit Agricultural Organization Health Coverage Tax, and Financial Institutions Tax. The credit may be carried forward for up to nine years.

*Rural Fund Capital Investment Tax Credit:* The bill establishes a nonrefundable tax credit for taxpayers that make an investment after June 30, 2025, in a rural fund that has been certified by the IEDC. The bill could reduce General Fund revenue by up to \$15 M each year beginning in FY 2029. The IEDC would also collect additional revenue from the \$5,000 application fee paid by each rural fund.

The credit percentage is 0% for the first two years after certification and 15% of the amount paid to the rural fund for the next four years. The IEDC may not certify more than \$15 M in credits per calendar year, excluding any amounts carried forward. The credit may be applied to Insurance Premiums Tax and Insurance Premiums Retaliatory Tax liability. Credits may be recaptured if a rural fund's investments do not meet certain criteria.

*Evansville PSCDA:* The bill increases the annual tax capture limit from \$1.17 M (based on Evansville's



population) to \$5 M in FY 2026 through FY 2030, allowing an additional \$3.83 M annual revenue capture. It also increases the maximum capture amount to \$6 M in FY 2031 through FY 2035 and \$7 M in FY 2036 through FY 2041. The Evansville PSCDA is authorized to capture Individual AGI Tax, Sales Tax, local income tax, and food and beverage tax. The PSCDA captured \$0.68 M in FY 2024, about 93% of which was state taxes. The actual increase in state revenue distributed to the PSCDA will depend on economic activity occurring in the area.

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

#### **K-12 Education Provisions**

*Reporting Requirement:* The bill eliminates a reporting requirement that will result in a minor workload decrease for school corporations.

#### **Local Offices and Administration Provisions**

*Gary Airport Board:* The bill would increase the workload of the cities of Hammond and Crown Point to serve as members of the Gary Airport Authority Board beginning September 1, 2025.

*Innovation Development District:* These provisions will result in an increase in the administrative workload for local executives who are associated with an Innovation Development District since they would be required to provide a notification of the designation of an Innovation Development District and base assessed value to the Department of State Revenue and the Department of Local Government Finance.

### **Explanation of Local Revenue:**

#### **K-12 Education Provisions**

*State Tuition Support Revenue:* The bill's various changes to the state tuition support funding formula will increase public school revenue over FY 2025 revenue by \$217.6 M in FY 2026 and \$350.7 M in FY 2027.

*Curricular Materials:* The bill's elimination of the Curricular Materials Fund and appropriation will decrease public school revenue. In FY 2025, school corporations received \$159 M from curricular material reimbursements.

*Teacher Appreciation Grants:* The bill extends the Teacher Appreciation Grant program until the end of FY 2027.

*ESA Expansion:* Students who switch from public schools to the ESA Program would decrease public schools' state tuition support revenue. However, any impact is dependent upon the appropriation made to the ESA Program and how many students that become newly eligible under the bill ultimately choose to participate in the ESA Program. [See Explanation of State Expenditures.]

*SGO Scholarship Expansion:* Students who switch from public schools to an SGO scholarship would decrease public schools' state tuition support revenue. However, any impact is expected to be small and dependent upon the number of students who become newly eligible under the bill and choose to utilize an SGO scholarship.

*Adult Learners:* The bill is estimated to increase the revenues for adult charter schools by \$1.0 M in FY 2026 and \$1.9 M in FY 2027. [See *Explanation of State Expenditures* for more information.]

### *Tax Provisions*

*Personal Exemption:* State taxable income, which is reduced by the provisions increasing the personal exemptions, is also the basis of calculating the local income tax. Based on an average local income tax rate of 1.67%, the bill would result in reducing local income tax collections by about \$2.8 M annually.

*Evansville PSCDA:* Assuming the PSCDA reaches the new annual cap, it could potentially capture \$3.83 M in addition to the maximum allowed under current law. However, the actual increase in state and local revenue distributed to the PSCDA will depend on economic activity occurring in the area. [In FY 2019 through FY 2024, approximately 7% of the revenue captured was attributable to local income tax and food and beverage tax.]

**State Agencies Affected:** All

**Local Agencies Affected:** All

**Information Sources:**

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