FISCAL IMPACT STATEMENT

LS 6933
BILL NUMBER: HB 1001
NOTE PREPARED: Feb 27, 2017
BILL AMENDED: Feb 23, 2017

SUBJECT: State Budget.
BILL STATUS: As Passed House

FIRST AUTHOR: Rep. Brown T
FIRST SPONSOR: Sen. Kenley
IMPACT: State & Local

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

Summary of Legislation: (Amended) State Biennial Budget: This 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.

Higher Education Bonding Provisions: The bill provides for bonding authority for capital projects for higher education institutions. It also repeals the bonding authority for the Purdue University West Lafayette-Animal Disease Diagnostic Laboratory enacted in 2007.

Legislative Evaluation and Oversight Program: The bill terminates the Legislative Evaluation and Oversight Program.

Rainy Day Fund: This bill replaces the statutory appropriation from the Counter Cyclical and Revenue Stabilization Fund to the state General Fund based on the budget report with a limited discretionary transfer determined by the Budget Director and approved by the Governor.

Distressed Unit Provisions: This bill adds powers for an emergency manager appointed by the Distressed Unit Appeal Board (DUAB) and removes the requirement to carry out certain actions. The bill adds conditions for the termination of distressed status. The bill also permits an emergency manager to request that the DUAB waive the requirement that protected taxes are not reduced as a result of the circuit breaker credit for excessive property taxes. The bill specifies for purposes of a claim against a governmental entity that the emergency manager is acting on behalf of the distressed political subdivision and not the state. The bill also provides civil immunity for an emergency manager with respect to an act or omission made in the
course and scope of duties prescribed by the DUAB.

This bill also eliminates certain special provisions applying to school corporations, including the provisions applying to the Gary Community School Corporation. The bill designates the Gary Community School Corporation as a distressed political subdivision. It also requires the DUAB to annually review the Gary Community School Corporation to determine whether the designation of distressed unit status should be terminated. The bill also requires the emergency manager to report to the DUAB monthly instead of quarterly. The bill permits the Attorney General to represent the emergency manager upon request in certain matters.

Tax Provisions-

Cigarette Tax: The bill increases the cigarette tax by $1 to $1.995 per pack of regular-size cigarettes (and a corresponding increase for larger cigarettes), and uses the additional revenue for reimbursements of Medicaid providers. It also establishes the Medicaid Provider Reimbursement Fund for deposit of a part of the cigarette taxes, registration fees, fines, and penalties collected under the cigarette tax law.

Military Retirement Income Tax Deduction: This bill provides for an income tax deduction for military retirement and survivor's benefits of $8,000 for the 2018 taxable year and $16,000 for a taxable year after 2018 (retains a $5,000 deduction for military income that is not a military retirement benefit, which is now a combined deduction including military income and military retirement benefits).

School Scholarship Income Tax Credits: The bill increases the maximum school scholarship income tax credits that may be awarded during a state fiscal year beginning after June 30, 2017, to be the greater of $12,500,000 or the total amount of credits awarded in the most recent state fiscal year multiplied by 120%.

Venture Capital Investment Tax Credit: The bill eliminates the expiration provisions in current law for the venture capital investment tax credit. The bill provides that a taxpayer may assign all or part of a venture capital investment tax credit. The bill also specifies certain restrictions on the assignment of a venture capital investment tax credit. It also provides that the issuance or assignment of a certificate or tax credit under the venture capital investment tax credit is not subject to the Indiana securities law.

Acute Care Hospital Tax Credit: The bill provides that an acute care hospital is entitled to a credit against the hospital's adjusted gross income tax liability equal to 50% of the property taxes paid in Indiana. (The current credit is equal to 10% of the property taxes paid in Indiana.) The bill also provides that the amount of any unused credit may be claimed as a refundable tax credit.

Local Income Tax: The bill repeals requirements for estimates of local income tax certified distributions by the Budget Agency.

Miscellaneous Provisions-

Next Generation Trust and Trust Fund: The bill changes the name of the Next Generation Trust and Trust Fund to the Next Level Indiana Trust and Trust Fund. The bill establishes the Next Level Indiana Board to be the trustee of the trust fund and to direct the investments of the trust. The bill also provides broader investment powers to the trustee. It also caps the investments that may be made by the Next Level Indiana Trust Fund at 50% for investments that maximize risk-appropriate returns and that make significant investments in Indiana funds and companies. The bill also removes obsolete provisions concerning the trust
Horse Racing Commission Provisions: The bill specifies that money in each horse breed development fund is continuously appropriated to make payments ordered by the Horse Racing Commission. It specifies that the Horse Racing Commission's share of the money in the Gaming Integrity Fund is continuously appropriated to carry out the purposes of the fund. It also specifies that the money in the Standardbred Horse Fund is continuously appropriated to carry out the purposes of the fund.

Indiana Tourism Task Force: The bill establishes the Indiana Tourism Task Force to study the tourism departments of other states for the purposes of learning: (1) the structure of state tourism departments; (2) the level of funding provided to state tourism departments; and (3) the relationship between state funding of a state's tourism department and the economic impact of tourism on the state.

Law Enforcement Academy: The bill merges the Law Enforcement Academy Building Fund and the Law Enforcement Training Fund into the Law Enforcement Academy Fund with no changes to the funds' uses. The bill allows the Law Enforcement Academy to charge a fee to all users for training and corresponding marginal and fixed costs according to an annual cost and fee schedule approved by the Budget Director. The bill also allows the academy to house and train law enforcement agencies from outside Indiana.

Fish and Wildlife Fund Provisions: This bill provides that Deer Research and Management Fund fee revenue, migratory waterfowl stamp revenue, and game bird restoration stamp revenue may be retained in the Fish and Wildlife Fund if the Budget Agency finds that it would reduce the balance in the Fish and Wildlife Fund below $3,000,000 at the end of the state fiscal year.

Medicaid Provisions-

HAF and QAF: The bill changes the expiration dates for the hospital assessment fee (HAF) and the health facility quality assessment fee (QAF) from June 30, 2017, to June 30, 2021.

Comprehensive Care Health Facilities: The bill modifies the replacement facility exemption for purposes of the prohibition on the approval of licensure of comprehensive care health facilities and comprehensive care beds, and extends the prohibition through June 30, 2023.

Medicaid Waiver Services: The bill also provides for an increase in the reimbursement rate for certain services provided to an individual under a Medicaid waiver and whose services are delivered by direct care staff.

K-12 Education Provisions-

School Formula: This bill provides for K-12 school funding. It also permits a transfer of up to $25 M in each state fiscal year from the State Tuition Reserve Account to the state General Fund to cover for any reduction in state tuition support distributions because Choice Scholarships exceed estimates.

School Corporation Efficiency Incentive Grant Program: The bill establishes the School Corporation Efficiency Incentive Grant Program.

School Corporation Reorganization Grants: The bill provides that certain reorganized school corporations
are eligible for a one-time efficiency incentive grant if requirements are met. The bill provides that the grant may be used to: (1) pay expenses associated with the reorganization, including professional service fees, legal costs, and necessary capital expenditures; and (2) provide salary bonuses to teachers. The bill also provides that the amount of the grant is $500 multiplied by the most recent ADM (average daily membership) count of the reorganized school corporation. It also provides that a reorganized school corporation may increase its new combined maximum permissible school transportation levy and school bus replacement levy by 3% after all other adjustments.

**Charter School Funding:** The bill increases the funding from $6,600 to $6,850 per student for three charter schools that provide adult education. The bill also increases the number of students that may be funded for the Christel House DORS centers and the Gary Middle College charter schools.

**School Security Programs:** The bill provides that accredited and nonaccredited nonpublic schools are eligible to receive a matching grant to establish a school security program.

**East Chicago School Corporation:** The bill permits the governing body of the School City of East Chicago School Corporation to file a waiver to exempt the Carrie Gosch Elementary School building from the requirement to make the school building available to a charter school for lease or purchase. It also requires the Department of Local Government Finance to grant the waiver if requested.

**Other Miscellaneous Provisions—**

**Automated Record Keeping Fee:** The bill specifies that the automated record keeping fee continues to be $19 after June 30, 2017, through June 30, 2019 (under current law, the fee becomes $5 after June 30, 2017), and provides that the fee becomes $5 after June 30, 2019.

**ABLE Board:** The bill specifies powers of the Treasurer of State, acting as the chairperson of the Achieving a Better Life Experience (ABLE) Board, related to the approval of expenses of the ABLE Board and the ABLE Authority.

**Requests for Information for Public-Private Agreements:** The bill provides that a governmental entity may issue a request for information with respect to a public-private agreement: (1) to consider the factors involved in, the feasibility of, or the potential consequences of a contemplated project involving a public facility or transportation project; (2) to prepare a request for proposals; or (3) to evaluate any aspect of an existing public-private agreement. The bill provides that responses to a request for information are confidential unless confidentiality is waived in writing. The bill also provides that the governmental entity issuing the request for information is not required to take any action after receiving a response to a request for information. It also repeals provisions authorizing the Indiana Finance Authority to enter into a public-private agreement for communications systems infrastructure with a single offeror based solely on a request for information.

**Health and Safety Contingency Fund Provision:** The bill provides $5,000,000 from a 2013 appropriation for the Health and Safety Contingency Fund to rehabilitate a state-owned building to be used to provide services to Indiana's veterans.

**State Bicentennial Capital Account:** The bill requires the Budget Agency to transfer an amount from the state General Fund to the State Bicentennial Capital Account to cover obligations incurred before July 1, 2017. It also provides that the amount transferred may not exceed $5,500,000.
Leaves Conversion Pilot Program: The bill extends the legislative and judicial branch Leave Conversion Pilot Program through June 30, 2019.

Compensation Study: The bill requires the Budget Agency to do a comparison of salary and benefits for conservation officers, state excise police, and gaming agents.

Study Committee Assignment Regarding Local Option Program: The bill urges the Legislative Council to assign to a study committee the topic of having a local option program to provide a property tax assessed value deduction for some long-time owner-occupants of residences if the residences are located in designated distressed areas where real property values have risen markedly as a consequence of the renovation of other residences or the construction of new residences in the area.

Technical Corrections: This bill also makes technical corrections.

Effective Date: (Amended) Upon passage; June 1, 2017; June 15, 2017; June 29, 2017; July 1, 2017; August 1, 2017; January 1, 2018.

Explanation of State Expenditures: The bill has the following state expenditure impacts.

(Revised) State Appropriations: The summary table below shows state appropriations that are provided in this bill for FY 2018 and FY 2019.
<table>
<thead>
<tr>
<th>Appropriations by Function</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>For the Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$600,420,267</td>
<td>$598,691,902</td>
<td>$22,190,000</td>
</tr>
<tr>
<td>Corrections</td>
<td>736,518,304</td>
<td>739,281,807</td>
<td></td>
</tr>
<tr>
<td>Other Public Safety</td>
<td>264,207,849</td>
<td>272,610,124</td>
<td></td>
</tr>
<tr>
<td>Conservation and Environment</td>
<td>78,836,312</td>
<td>79,257,174</td>
<td></td>
</tr>
<tr>
<td>Economic Development</td>
<td>112,247,943</td>
<td>111,974,943</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Transportation</td>
<td>47,000,000</td>
<td>47,000,000</td>
<td></td>
</tr>
<tr>
<td>FSSA Administration</td>
<td>16,577,158</td>
<td>16,577,158</td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>1,793,793,897</td>
<td>2,085,793,897</td>
<td></td>
</tr>
<tr>
<td>Mental Health and Addictions</td>
<td>270,810,382</td>
<td>275,587,214</td>
<td></td>
</tr>
<tr>
<td>Family Resources</td>
<td>131,065,230</td>
<td>131,065,230</td>
<td></td>
</tr>
<tr>
<td>Aging Services</td>
<td>61,215,777</td>
<td>61,215,777</td>
<td></td>
</tr>
<tr>
<td>Disability and Rehabilitative Services</td>
<td>120,513,116</td>
<td>120,513,116</td>
<td></td>
</tr>
<tr>
<td>Department of Child Services</td>
<td>604,268,041</td>
<td>604,268,041</td>
<td></td>
</tr>
<tr>
<td>Public Health</td>
<td>31,761,440</td>
<td>31,761,440</td>
<td></td>
</tr>
<tr>
<td>Other Health and Human Services</td>
<td>89,112,729</td>
<td>89,428,883</td>
<td></td>
</tr>
<tr>
<td>State Student Assistance</td>
<td>353,972,217</td>
<td>338,797,104</td>
<td></td>
</tr>
<tr>
<td>Other Higher Education</td>
<td>1,568,544,079</td>
<td>1,590,639,377</td>
<td></td>
</tr>
<tr>
<td>Education Administration</td>
<td>36,242,818</td>
<td>41,242,818</td>
<td></td>
</tr>
<tr>
<td>Tuition Support</td>
<td>7,053,504,250</td>
<td>7,172,504,250</td>
<td></td>
</tr>
<tr>
<td>Other Local Schools</td>
<td>178,784,407</td>
<td>182,084,407</td>
<td></td>
</tr>
<tr>
<td>Teacher Retirement</td>
<td>887,900,000</td>
<td>913,900,000</td>
<td></td>
</tr>
<tr>
<td>Other Education</td>
<td>7,743,296</td>
<td>7,743,296</td>
<td></td>
</tr>
<tr>
<td>Distributions *</td>
<td>66,328,183</td>
<td>66,328,183</td>
<td></td>
</tr>
<tr>
<td><strong>Total GF Operating</strong></td>
<td>$15,111,367,695</td>
<td>$15,578,266,141</td>
<td>$42,190,000</td>
</tr>
<tr>
<td>Construction - Higher Ed</td>
<td>$3,000,000</td>
<td>$204,286,684</td>
<td></td>
</tr>
<tr>
<td>Construction - Other</td>
<td></td>
<td>$453,228,301</td>
<td></td>
</tr>
<tr>
<td><strong>Total Construction</strong></td>
<td>$3,000,000</td>
<td>$0</td>
<td>$657,514,985</td>
</tr>
<tr>
<td><strong>Total GF (Operating + Construction)</strong></td>
<td>$15,114,367,695</td>
<td>$15,578,266,141</td>
<td>$699,704,985</td>
</tr>
<tr>
<td>Lottery and Gaming Surplus; BIF</td>
<td>$11,473,198</td>
<td>$11,484,477</td>
<td>$4,600,000</td>
</tr>
<tr>
<td>Other Dedicated - Operating</td>
<td>2,211,209,399</td>
<td>2,231,356,335</td>
<td></td>
</tr>
<tr>
<td>Other Dedicated - Construction</td>
<td></td>
<td>100,019,975</td>
<td></td>
</tr>
<tr>
<td>Tobacco Settlement</td>
<td>113,355,066</td>
<td>112,886,680</td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>950,068,000</td>
<td>980,520,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total (Dedicated and Federal)</strong></td>
<td>$3,286,105,663</td>
<td>$3,336,247,492</td>
<td>$104,619,975</td>
</tr>
<tr>
<td><strong>Total - All</strong></td>
<td>$18,400,473,358</td>
<td>$18,914,513,633</td>
<td>$804,324,960</td>
</tr>
</tbody>
</table>

* The Distributions total does not include $8.776 M for the Alcoholic Beverage Commission Gallonage Tax or $203,688 for Motor Vehicle Excise Tax Replacement, which are appropriated annually in current statute but not in this bill.

This table also does not include a maximum transfer by the State Budget Agency of $5.5 M from the state General Fund to the State Bicentennial Capital Account to cover obligations incurred before July 1, 2017.

The bill also contains several additional statutory provisions.
Higher Education Bonding Provisions: The bill authorizes higher education capital projects as approved by Commission for Higher Education (CHE) and IC 21-33-3, to be constructed using bonds in addition to appropriated funds. The trustees of the following institutions may issue and sell bonds after June 30, 2018, (i.e., FY 2019) where the sum of principal costs does not exceed the total authority. The total authority amounts are listed in the table below by institution and project.

The bill also repeals $30 M in bonding authority for the Animal Disease Diagnostic Laboratory at Purdue.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Project</th>
<th>Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>IU Bloomington</td>
<td>Old Crescent Renovation - Phase III</td>
<td>$58.5M</td>
</tr>
<tr>
<td>PU West Lafayette</td>
<td>Agricultural and Geological Engineering / Building</td>
<td>$49.0M</td>
</tr>
<tr>
<td></td>
<td>Renovation and Addition</td>
<td></td>
</tr>
<tr>
<td>PU Northwest Campus</td>
<td>Bioscience Innovation Building</td>
<td>$35.1M</td>
</tr>
<tr>
<td>University of Southern IN</td>
<td>Physical Activities Center Classroom Expansion and</td>
<td>$21.0M</td>
</tr>
<tr>
<td></td>
<td>Renovation - Phase II</td>
<td></td>
</tr>
<tr>
<td>Ball State University</td>
<td>Science, Technology, Engineering, Math and Health</td>
<td>$67.5M</td>
</tr>
<tr>
<td></td>
<td>Professions Facilities - Phase II</td>
<td></td>
</tr>
<tr>
<td>Ivy Tech Community College</td>
<td>Kokomo Renovation and Addition</td>
<td>$20.2M</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$251.3M</strong></td>
</tr>
</tbody>
</table>

Rainy Day Fund: The bill provides that in a year of a revenue shortfall as it relates to the budget report, the Budget Director with the approval of the Governor may reverse all of the transfers made from the Rainy Day Fund to the state General Fund during that state fiscal year.

Current law provides for statutory transfers between the Rainy Day Fund and the state General Fund. The bill makes changes to the level of statutory transfer and requires the approval of the Governor to make the transfer. Depending on future budgets and revenue collections, the bill could impact the balances in the Rainy Day Fund and state General Fund. The bill will have no impact on the state combined balance.

Distressed Unit Provisions: The bill allows emergency managers of a school corporation to request a loan from the Common School Fund to support the school corporation’s operating or capital needs. If the request is ultimately granted by the State Board of Finance, expenditures from the fund will increase.

This bill also allows the emergency manager of a school corporation that has been designated as a distressed political subdivision to request a loan from the Rainy Day Fund. Furthermore, it removes provisions under current law that allow a school corporation to request a loan if its superintendent and governing body jointly file a request to the Distressed Unit Appeals Board (DUAB). If the bill changes the frequency of loan requests, there could be a change in the number of distressed units that receive loans from the fund. Ultimately, the bill’s impact on the fund will depend on the decisions of school corporations, emergency managers, the DUAB, and the State Board of Finance (which receives a recommendation from the DUAB regarding the loan request before making the decision on loan approval). The maximum loan a distressed school corporation could receive from the fund is the lesser of $5M or $1,000 multiplied by the school’s 2012 average daily membership.
The bill also permits emergency managers to request technical assistance from the DUAB and state agencies. Any such assistance would likely represent only a workload increase for the DUAB or any other state agency. The bill’s provision that the Attorney General (AG) may represent an emergency manager in a legal action under certain circumstances could increase the AG’s workload.

**Tax Provisions**

**Military Retirement Income Tax Deduction:** The State Department of Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the military income deduction. The DOR's current level of resources should be sufficient to implement these changes.

**Local Income Tax:** The bill reduces the administrative tasks performed by the State Budget Agency (SBA). They should be able to dedicate existing resources to other functions. The associated cost savings are likely insignificant because the SBA performs many other local income tax-related tasks including providing certified distribution estimates for the following calendar year before June 1.

**Medicaid Provisions**

**Comprehensive Care Health Facilities:** The bill revises the conditions for replacement facilities to receive an exemption under the moratorium on construction of nursing facilities and extends the moratorium for an additional five years until June 30, 2023. In 2013, comprehensive care facility occupancy rate was reported to be 80.26%. As of July 1, 2016, the Indiana Department of Health (ISDH) reported the nursing facilities had an occupancy rate of 75%. In October 2015, FSSA reported that a theoretical 3% decrease in occupancy has the potential to cost Medicaid about $22 M ($7.5 M of state dollars). To the extent that the moratorium would reduce the number of facilities and certified beds, the provisions should save state funds in the long term.

In December 2014, there were a total of 527 comprehensive care facilities in the state. As of the end of September 2016, there were 551 comprehensive care facilities. The numbers of licensed beds by certification status are provided in the following table.

<table>
<thead>
<tr>
<th>Certification</th>
<th>Dec. 2014 Beds</th>
<th>Sept. 2016 Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid Only</td>
<td>1,307</td>
<td>992</td>
</tr>
<tr>
<td>Medicare Only</td>
<td>6,941</td>
<td>7,262</td>
</tr>
<tr>
<td>Medicaid &amp; Medicare</td>
<td>42,620</td>
<td>44,749</td>
</tr>
<tr>
<td>Not Certified/Private</td>
<td>823</td>
<td>522</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,691</strong></td>
<td><strong>53,525</strong></td>
</tr>
</tbody>
</table>

**Medicaid Waiver Services:** The reimbursement rate for certain services under the Home- and Community-Based Services Waiver and the Family Support Waiver will increase by 5%, or an estimated $30.7 M based on FY 2016 claims data. Services provided through a waiver must be cost-neutral compared to the costs of services provided in an institutional setting. If the 5% increase were to cause the cost of services to exceed the cost-neutrality requirement, waiver recipients’ services budgets may be reduced or the additional costs
may be paid exclusively with state funds.

**K-12 Education Provisions**

*School Formula:* The bill establishes a school formula for FY 2018 and FY 2019. The basic changes in the school formula from the current FY 2017 formula are the following.

1. The foundation grant is increased from $5,088 in FY 2017 to $5,246 in FY 2018 and $5,325 in FY 2019.
2. Beginning in FY 2018, the ADM will be based on only the fall count of eligible pupils instead of both the fall count and the spring count. The spring count would only be used as an informational count.
3. Virtual charter schools will be funded at 100% of the foundation grant amount instead of 90% of the amount.
4. The funding per ADM when computing the Complexity Grant remains at $3,539 for FY 2018 and FY 2019. The English Language Learners adjustment in the Complexity Grant’s calculation has been removed.
5. The funding for the Special Education Grant has been changed. The per-student funding for students in programs for severe disabilities has been increased from $8,800 to $8,976 for FY 2018 and to $9,156 for FY 2019. The per-student funding for students in programs for mild and moderate disabilities is unchanged at $2,300. The per-student funding for students in programs for communication disorders and for students in homebound programs remains unchanged at $500. The funding for students in special preschool education programs is unchanged at $2,750 per student.
6. Honors Grants for students eligible for the SNAP, TANF, and foster care services programs will increase from $1,400 to $1,500 per student. The funding for other honors students will increase from $1,000 to $1,100 per student.
7. The Career and Technical Education Grant remains unchanged.

The following table summarizes the estimated changes over current FY 2017 funding levels.

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foundation</strong></td>
<td>5,359,949,851</td>
<td>5,551,676,636</td>
<td>5,650,161,768</td>
</tr>
<tr>
<td><strong>Complexity</strong></td>
<td>887,339,794</td>
<td>750,974,186</td>
<td>751,766,014</td>
</tr>
<tr>
<td><strong>Special Education</strong></td>
<td>550,821,033</td>
<td>565,240,270</td>
<td>580,857,494</td>
</tr>
<tr>
<td><strong>Career &amp; Technical</strong></td>
<td>110,201,200</td>
<td>113,681,050</td>
<td>117,267,700</td>
</tr>
<tr>
<td><strong>Honors</strong></td>
<td>24,711,200</td>
<td>28,046,000</td>
<td>28,938,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,933,023,078</td>
<td>7,009,618,142</td>
<td>7,128,991,776</td>
</tr>
</tbody>
</table>

If the actual distribution exceeds the appropriation of $7,011 M for FY 2018 and $7,130 M for FY 2019, the distribution will be proportionately reduced.

*Adult High Schools:* The bill limits the number of full-time-equivalent students in Adult High Schools funded by the state at 6,205 in FY 2018 and in FY 2019. At a per-student funding level of $6,850, the total maximum funding is estimated to be $42.5 M in FY 2018 and in FY 2019.
School Security Grant Program: The bill provides that accredited and nonaccredited nonpublic schools are eligible to receive a matching grant to establish a school security program. The additional cost to fund accredited nonpublic schools is estimated at $11.8 M. The additional cost to fund nonaccredited nonpublic schools is currently unknown.

School Corporation Efficiency Incentive Grant Program: The bill establishes the School Corporation Reorganization Grant Program, which currently has no funds appropriated. The program is to be administered by the Department of Education. The grant amount is equal to $500 multiplied by the most recent ADM count. If two corporations are reorganizing, the ADM count is the smaller of the two counts. If more than two corporations are reorganizing, the ADM count is the sum of the ADM counts for all except the largest corporation. The amount of the grant will therefore depend on the size of the corporations that reorganize and the number of reorganizations that take place.

This bill provides increased funding for school corporations that reorganize. It is possible that the bill will encourage more school corporations to consider and implement reorganization plans. There have been four school reorganizations involving a total of seven corporations since 2004. The average ADM at the time of reorganization for all corporations involved was 282 students.

Miscellaneous Provisions:

Next Generation Trust and Trust Fund: The bill changes the name of the Next Generation Trust and Trust Fund to the Next Level Indiana Trust and Trust Fund. It also establishes the Next Level Indiana Board to direct the investments of the Trust. The bill establishes the Next Level Indiana Board to direct investments made from the Next Level Indiana Trust Fund. This board will replace investment oversight previously performed by the Auditor of State. The board consists of seven members, of which at least three are state employees. Transferring oversight of investments made from the Next Level Indiana Trust Fund from the Auditor of State to the board is expected to have no net impact on state workload.

Further, the bill changes the statutory restriction on the principal of the Trust by requiring that the principal cannot be distributed during the term of the trust, rather than the principal can not be diminished below the $500 M original principal amount during the term of the trust.

Increase in Trust Fund income earnings would benefit the Major Moves Construction Fund from the transfer required every five years under current law. The next transfer of income earnings is currently scheduled for March 2021.

Horse Racing Commission Provisions: The bill specifies that money in each horse breed development fund is continuously appropriated to make payments ordered by the Horse Racing Commission. The bill also specifies that the Horse Racing Commission's share of the money in the Gaming Integrity Fund is continuously appropriated to carry out the purposes of the fund. It also specifies that the money in the Standardbred Horse Fund is continuously appropriated to carry out the purposes of the fund.

Indiana Tourism Task Force: The Indiana Tourism Task Force is established by the bill to study the tourism departments of other states. The bill requires the Governor to appoint five tourism marketing professionals and two nonvoting advisers to the task force.
(Revised) **Compensation Study:** The bill requires the Budget Agency to do a comparison of salary and benefits for conservation officers, state excise police, and gaming agents. The study requirements should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

**Fish and Wildlife Fund Provisions:** Depending on the frequency that the Fish and Wildlife Fund would end the year with a balance of less than $3 M, the funding available for deer research and management activities and game bird and migratory waterfowl habitat restoration activities may be reduced. This situation has occurred at least four times in the past seven years (FY 2010 - FY 2013).

**ABLE Board:** The bill specifies powers of the Treasurer of State, acting as the chairperson of the ABLE Board, related to the approval of expenses of the ABLE Board and the ABLE Authority. Additional expenditures for administration are expected to be minimal.

(Revised) **Leave Conversion Pilot Program:** The bill allows the Legislative Council and the Indiana Supreme Court to reestablish the leave conversion pilot program for the legislative and judicial branches of state government, respectively. The fiscal impact of this provision will depend upon legislative and judicial branch actions. From FY 2012 to FY 2017, annual expenditures for the pilot program ranged from $0.22 M to $0.37 M.

The pilot program allows legislative and judicial branch state employees to annually convert vacation and sick leave hours to cash that is deposited into a 401(a) retirement savings account. The conversion rate is 60% of an employee’s hourly pay rate. The number of hours an employee can convert each year depends on the employee’s balance of vacation and sick leave hours.

**Requests for Information for Public-Private Agreements:** The bill provides that a governmental entity (state and local agencies) may issue a request for information with respect to a public-private agreement. The governmental entity issuing the request for information is not required to take any action after receiving a response to a request for information. The bill also repeals provisions authorizing the Indiana Finance Authority to enter into a public-private agreement for communications systems infrastructure with a single offeror based solely on a request for information.

**Study Committee Assignment Regarding Local Option Program:** The Legislative Council could assign the topic to an existing interim study committee or establish a new interim study committee to study this topic during the next interim. Interim study committees operate on budgets established by the Legislative Council based on committee size. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of $12,500 per interim for committees with fewer than 16 members and $16,500 for committees with 16 members or more. If the Legislative Council were to assign this topic to an existing committee and the committee were to have any extra meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee’s budget.

**Explanation of State Revenues:** (Revised) **Distressed Unit Provisions:** Under the bill, if the AG represents the emergency manager in a civil action and the emergency manager prevails, attorney’s fees and revenue from various other fees will be collected from the losing party and deposited into the General Fund. In addition, revenue from other fees would be distributed to the Indiana Bar Foundation and the State User Fee Fund. Additional revenue, if any, is expected to be minimal.
Additionally, the bill would make the Gary Community School Corporation a distressed political subdivision, which requires an emergency manager rather than the financial specialist it has currently. The financial specialist is paid from appropriations made to the Distressed Unit Appeals Board. Emergency managers are paid by the distressed unit.

**Tax Provisions-**

**Cigarette Tax:** The bill increases the cigarette tax rate from $0.995 per pack of 20 cigarettes to $1.995 per pack. It also changes the distribution of cigarette tax revenue and creates the Medicaid Provider Reimbursement Fund. The following table shows the change in distribution and the estimated impact on each fund in FY 2018 through FY 2021.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Current Distribution</th>
<th>Proposed Distribution</th>
<th>Revenue Increase (Decrease) in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>FY 2018</td>
</tr>
<tr>
<td>General Fund</td>
<td>56.24%</td>
<td>32.23%</td>
<td>$0.33</td>
</tr>
<tr>
<td>Mental Health Centers Fund</td>
<td>0.6%</td>
<td>0.34%</td>
<td>$(0.02)</td>
</tr>
<tr>
<td>Cigarette Tax Fund</td>
<td>4.22%</td>
<td>2.42%</td>
<td>$0.04</td>
</tr>
<tr>
<td>Pension Relief Fund</td>
<td>5.43%</td>
<td>3.11%</td>
<td>$0.02</td>
</tr>
<tr>
<td>State Retiree Health Benefit Trust Fund</td>
<td>4%</td>
<td>2.29%</td>
<td>$0.01</td>
</tr>
<tr>
<td>Medicaid Provider Reimbursements*</td>
<td>2.46%</td>
<td>44.11%</td>
<td>$277.81</td>
</tr>
<tr>
<td>HIP Trust Fund</td>
<td>27.05%</td>
<td>15.50%</td>
<td>$0.15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>$278.32</strong></td>
</tr>
</tbody>
</table>

*Under current law, 2.46% of revenue is deposited in the General Fund for the purpose of paying appropriations for Medicaid provider reimbursements. The bill instead creates the Medicaid Provider Reimbursement Fund and deposits 44.11% of revenue into this fund.

These estimates are based on the Revenue Forecast Technical Committee December 2016 cigarette tax model. It is estimated that increasing the rate by $1.00 would reduce the forecasted number of packs sold by approximately 11% each year in FY 2018 through FY 2021. The impact on FY 2018 revenue would likely begin in August 2017.

The bill also establishes the Medicaid Provider Reimbursement Fund. This fund consists of cigarette tax revenue and registration fees, fines, and penalties related to the cigarette tax. It also consists of appropriations made by the General Assembly, gifts, grants, devises, and bequests. The money in the fund is to be used to pay the nonfederal share of Medicaid-Current Obligations and is for provider reimbursements. Money in the fund does not revert to the General Fund.

Of the amount distributed to the Cigarette Tax Fund, 1/6 goes to the Department of Natural Resources and the Department of Agriculture, 1/6 is deposited in the Clean Water Indiana Fund, and 2/3 goes to cities and towns based on population.

(Revised) **Military Retirement Income Tax Deduction:** The bill makes changes to the income tax deduction
for all military retirement income received by an individual or the individual's surviving spouse. These changes are effective beginning in tax year 2018, with the revenue impact likely to begin in FY 2019. The estimated revenue loss in FY 2019 to FY 2021 is summarized in the table below. The revenue loss could potentially grow by 1% to 3% annually, thereafter.

With an effective date of January 1, 2018, the revenue loss could begin in FY 2018 if taxpayers adjust their withholdings to account for this increased deduction.

<table>
<thead>
<tr>
<th>Type of Military Income</th>
<th>FY 2019 Revenue Loss (millions)</th>
<th>FY 2020 Revenue Loss (millions)</th>
<th>FY 2021 Revenue Loss (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Pension (Retirees 60 years old or older)</td>
<td>$1.3</td>
<td>$4.9</td>
<td>$4.9</td>
</tr>
<tr>
<td>Military Pension (Retirees under 60 years old)</td>
<td>0.9</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Survivor's Benefit (Survivors 60 years old or older)</td>
<td>0.3</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Survivor's Benefit (Survivors under 60 years old)</td>
<td>0.2</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>$2.7</td>
<td>$9.2</td>
<td>$9.4</td>
</tr>
</tbody>
</table>

School Scholarship Income Tax Credits: The bill increases the tax credit cap from $9.5 M to $12.5 M. To the extent that the tax credit claimed in FY 2018 and fiscal years thereafter is above $9.5 M, the bill would result in loss of revenue to the state General Fund. DOR reports that the current fiscal year cap of $9.5 M was reached on December 19, 2016. The actual tax credit claims have been about 80% of the tax credit awarded for a fiscal year because the awards exceed the tax liability for some taxpayers. Based on the historical trend, it is estimated that the long-run impact would be about $2.4 M annually. The impact in FY 2018 and FY 2019 is estimated to be between $1.2 M to $2.4 M.

Venture Capital Investment (VCI) Tax Credit: The bill would allow taxpayers to assign unused VCI credits to other taxpayers under certain conditions for qualified investments made after June 30, 2017. This could result in more credits claimed as early as FY 2018. However, the full impact will likely begin in FY 2019. Credit recipients may wish to determine how much credit they can use to offset their tax liability, and it may take some time to find a person willing to receive an assignment of credit. The estimated revenue impact was based on the credits certified by the Indiana Economic Development Corporation (IEDC) and the credits claimed by taxpayers. The estimated state General Fund revenue loss associated with this provision ranges from $2.3 M to $2.8 M beginning in FY 2019.

The bill also eliminates the credit’s sunset provision, so the IEDC will be able to award new credits for qualifying investments after December 31, 2020. This will reduce state General Fund revenue beginning in FY 2022.

Acute Care Hospital Tax Credit: The bill modifies the attributes of the existing income tax credit for property taxes paid by acute care, for-profit hospitals. It increases the credit amount to 50% of the property taxes paid in Indiana for the taxable year on property used as a hospital. It also makes the credit refundable. The change goes into effect beginning in tax year 2017. The bill will decrease state General Fund revenue by an estimated $1.8 M to $2.0 M each year beginning in FY 2018. The exact revenue loss will depend on the number of qualifying parcels and the associated amount of property tax assessed. The amount of forgone revenue will increase if for-profit acute care hospitals expand or use more property as hospitals.
Medicaid Provisions-

**HAF and QAF:** The bill extends the existing hospital assessment fee (HAF) program until June 30, 2021. The 2016 annual assessment was for $500.8 M, leveraging total expenditures of approximately $1.478 B. The federal share of funds was $977.7 M. The assessment is used to increase Medicaid hospital rates, replace disproportionate share hospital (DSH) distributions made to the state and private psychiatric facilities, and to provide additional state match dollars for use within the Medicaid program.

The bill also extends until June 30, 2021, the existing health facility quality assessment fee (QAF). Extending the QAF would authorize an estimated total annual collection of about $166.7 M, leveraging total expenditures of approximately $492.2 M. The federal share of funds would be $325.5 M. A portion of the assessment is used to increase Medicaid nursing facility reimbursement rates, while approximately $49 M is distributed to the state General Fund for other Medicaid services.

Miscellaneous Provisions-

**Next Generation Trust and Trust Fund:** The bill expands investment options available to the Next Level Indiana Board for the Next Level Indiana Trust Fund (formerly the Next Generation Trust Fund). The bill requires the board to adopt an investment policy that maximizes risk-appropriate returns, make considerable investments in Indiana companies, and consider investment policies of the Indiana Public Retirement System (INPRS). The change would allow the Trust Fund to receive income from interest and capital gains depending on the investment strategy selected by the board.

**Law Enforcement Academy (ILEA):** The bill combines the Law Enforcement Academy Building Fund and the Law Enforcement Training Fund and names the combined fund the Law Enforcement Academy Fund. The following table provides the asset totals of both funds as of June 30, 2016.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Approximate Total Assets*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law Enforcement Academy Building Fund</td>
<td>$905,000</td>
</tr>
<tr>
<td>Law Enforcement Training Fund</td>
<td>$14,500</td>
</tr>
</tbody>
</table>

* Rounded to nearest $100.

Each year the two existing funds receive a combined distribution of $1.19 M from court fees. Under the bill, the distribution would remain the same and would be placed into the proposed Law Enforcement Academy Fund.

Under current law, mandatory basic training is paid from the Law Enforcement Training Fund. The bill would no longer provide the funding for mandatory basic training for an appointed trainee from the Law Enforcement Training Fund. Fees for appointed trainee mandatory basic training would be placed on a schedule of reimbursable training expenditures that would have to be paid either by the appointing law enforcement agency or the trainee. If state funding was no longer used for appointed trainee mandatory basic
training expenditures, there would be a savings that could be used for other Indiana Law Enforcement Academy (ILEA) purposes. In FY 2016, the mandatory basic training expenditures by the ILEA totaled $3.5 M.

_Fish and Wildlife Fund Provisions:_ The provisions in the bill concerning the deposit of revenues in the Fish and Wildlife Fund appear to reflect current practice. Currently, IC 14-22-12-15 requires all Department of Natural Resources (DNR) license fees to be deposited in the Fish and Wildlife Fund.

_Automated Record Keeping Fee:_ The fee level depends on whether the case is deferred or diverted or disposed by any other method (jury trial, bench trial, bench disposition, or plea). If a case is either deferred or diverted, the automated record keeping fee is $5. If the case is disposed by any other method the automated record keeping fee is $19. This $19 level will be lowered to $5, effective July 1, 2017, under current law. As proposed, the automated record keeping fee would remain at $19 until July 1, 2019. The added revenue is estimated to be $6.2 M for both FY 2018 and 2019. Revenue from the fee is deposited into the State User Fee Fund.

_Explanation of Local Expenditures:_ (Revised) _Distressed Unit Provisions:_ This bill designates Gary Community School Corporation as a distressed political subdivision. Distressed political subdivisions must have an emergency manager to assume and exercise many of the powers of the executive and legislative bodies of that political subdivision. The school corporation will pay the emergency manager’s compensation and reimburse the manager for actual and necessary expenses. Currently, Gary Community School Corporation has a financial specialist, who is paid from appropriations made to the Distressed Unit Appeals Board.

The bill grants emergency managers the following new powers that could potentially reduce a taxing unit’s expenditures:

1. Identify and implement labor force reductions;
2. Outsource services performed by employees of the distressed political subdivisions; and
3. Close facilities of the distressed political subdivision.

_Law Enforcement Academy:_ If law enforcement agencies were required to provide the training cost to the ILEA for mandatory basic training, the aggregate cost could range annually from $1.8 M to $3 M per year depending on the number of law enforcement trainees sent to the ILEA.

_Medicaid Provisions- HAF and QAF:_ Local government-owned hospitals and nursing homes would be assessed the HAF and QAF as specified in the statute. These facilities would also receive the increased reimbursement rates financed by the fees.

_K-12 Education Provisions- East Chicago School Corporation:_ If the waiver is granted by the Department of Education, the East Chicago School Corporation would have to continue to assume the cost of maintaining the Carrie Gosch Elementary School until such time as the corporation can sell or lease the building, or make it available to a charter school, as applicable.

_Explanation of Local Revenues:_ _Tax Provisions- Cigarette Tax:_ Revenue distributed to cities and towns from the Cigarette Tax Fund could increase by approximately $0.02 M in FY 2018 and $0.01 M in FY 2019. Revenue could decrease by about $0.01 M in FY 2020 and $0.03 M in FY 2021.

_Military Retirement Income Tax Deduction:_ Because the changes to the military retirement income deduction
will decrease taxable income, counties imposing a local income tax (LIT) could potentially experience a
decrease in revenue from this tax. Assuming the changes are effective beginning in tax year 2018 and based
on the current average LIT rate of 1.5%, the estimated revenue loss in FY 2019 to FY 2021 is summarized
in the table below. The revenue loss could potentially grow by 1% to 3% annually thereafter.

<table>
<thead>
<tr>
<th>Type of Military Income</th>
<th>FY 2019 Revenue Loss (millions)</th>
<th>FY 2020 Revenue Loss (millions)</th>
<th>FY 2021 Revenue Loss (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Pension (Retirees 60 years old or older)</td>
<td>0.6</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Military Pension (Retirees under 60 years old)</td>
<td>0.4</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Survivor's Benefit (Survivors 60 years old or older)</td>
<td>0.1</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Survivor's Benefit (Survivors under 60 years old)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1.2</strong></td>
<td><strong>$4.3</strong></td>
<td><strong>$4.3</strong></td>
</tr>
</tbody>
</table>

**K-12 Education Provisions-**

*School Formula-* Under the bill, the fall count instead of the spring count will be used to compute tuition
support distributions for the second six months of the fiscal year. This will increase the ADM by
approximately 1,426 in FY 2018 and by approximately 1,401 in FY 2019. Tuition support payments will
increase by $8.7 M in both FY 2018 and FY 2019 over what they would have been had the spring count been
used.

*Virtual Charter Schools -* The increase in the foundation amount for virtual charter schools from 90% to
100% of foundation would increase revenues to virtual charter schools by $6 M in FY 2018 and by $6.3 M
in FY 2019 over what they would have been had the foundation amount remained at 90%.

*Adult High Schools* - Total revenues to Adult High Schools is estimated to be $42.5 M in FY 2018 and in
FY 2019.

*School Security Grant Program-* Total revenues to accredited nonpublic schools are estimated at $11.8 M.
The revenues to nonaccredited nonpublic schools are currently unknown.

*School Corporation Efficiency Incentive Grant Program - Property Tax:* The bill allows the reorganizing
school corporation to increase the levies for the transportation, bus replacement, and debt service funds by
3%, and to also increase the capital projects tax levy for the capital projects fund. These four funds would
experience an increase in revenue depending on the changes the reorganized corporation makes.

If the school corporation levies increase, then the tax rate would also increase. Circuit breaker losses for the
reorganizing school corporation, as well as intersecting civil taxing units, could rise in areas where the circuit
breaker tax caps have been triggered.

*Participating Innovation Network Charter School* - Under this provision, a participating innovation network
charter school that entered into an agreement with a governing body before January 1, 2016, to become a
participating innovation network charter school would be considered a charter school for tuition support purposes. Its funding would be independent from the school corporation it has signed the agreement with. This would apply for FY 2018 and FY 2019. There are currently three participating innovation network charter schools in the Indianapolis Public School district that are in this category.

On the other hand, if the participating innovation network charter school entered into the agreement after January 1, 2016, it would be considered as part of the parent school corporation for tuition support purposes. There are six participating innovation network charter schools in the Indianapolis Public School district that are in this category.

The fiscal impact would depend on whether the amount of tuition support when considered separate from the parent school corporation is higher or lower than the tuition support when the schools is considered as an integral part of the parent school corporation.

**State Agencies Affected:** All.

**Local Agencies Affected:** All.

**Information Sources:**

**Fiscal Analyst:** Alan Gossard, 317-233-3546; Jessica Harmon, 317-232-9854.