

Insights

Take Five: 5 Things you Need to Know About Indiana Government - December 2022

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1. Revenue and Economic Forecast

Economic Forecast

Tom Jackson, principal economist for U.S. Regional Economics, presented the **Economic Forecast**. The state economy remains on solid footing, despite broader economic concerns. Recently improved real and financial conditions are expected to delay the onset of a milder recession going into 2023. Indiana's projection of real GDP growth in 2022 ranged from 1.8 to 1.9% and -0.2% to 0.3% in 2023; In 2024, GDP is expected to grow 1.8%. Inflation is expected to ease from 4.6% in Q3 of 2022, to 2.6% by Q4 in 2023.

Indiana's labor force participation is still in recovery mode, which may cause a reduction in business activities. Indiana has experienced an increase in payroll gains, providing short term growth, but making it more difficult to reduce inflation. Hoosiers over age 55 are increasing in retirement numbers, with some leaving the workforce to provide care for parents or grandchildren, or experiencing difficulty moving for new jobs due to affordability.

Residential fixed investment is down 16.3% and will create a large impact as it is a major contributor to overall GDP value. Higher mortgage interest rates and increased costs for building materials have led to a decrease in new home building in addition to decreased sales of existing homes. The pace of homebuilding in 2023 is expected to slow down, contributing to the already short supply of housing, especially for younger age groups.

Indiana's unique position in the auto manufacturing industry will help moderate a recession thanks to increased demand and production of automobiles and an ease in supply chain shortages for materials including semiconductors.

Revenue Forecast

Krista Ricci, Senate Majority Fiscal Analyst, presented the 2023, 2024, and 2025 **Revenue Forecast** with Hari Razafindramanana of the State Budget Agency. The updated revenue forecast adds nearly \$370M more revenue than previous projections expected to Fiscal Year (FY) 23 for a total of \$1.6B and \$1.24B more revenue than previous projections expected in FY 24-25, bringing Indiana's structural surplus to \$2.5B and total combined balances to nearly \$4.8B by the end of State Fiscal Year (SFY) 2023. A detailed chart of the total General Fund Revenue Forecast is available [here](#). State agencies have requested more than \$700M in new spending.

Senator Mishler released the following statement after the conclusion of the meeting:

"Our state remains on sound financial footing thanks to Indiana's longstanding commitment to fiscal discipline.

"However, the economic growth is estimated to slow. While we have new money to spend, the agency requests to the State Budget Committee exceed that amount. Those requests do not include K-12 tuition

support or increased Medicaid costs. We also have over \$1 billion in capital project overruns from the 2021 budget.

"As we look toward our next state budget, I am confident that we can continue to make investments in the Hoosier state while exercising the discipline necessary to keep Indiana in a fiscally sound position."

Ranking Democrat on the House Ways and Means Committee, Gregory Porter also released the following statement:

"Economists believe we're headed toward a slight economic downturn of some sort in 2023. I am confident the reserves we have and positive growth augured by today's forecast will help us weather any storms. But in the long run, high-wage employers have signaled they will leave Indiana for greener pastures if we don't invest in our people through public health and education.

"I can't help but mourn how earlier this year, Republicans eliminated the utility receipts tax, a revenue source of \$220 million annually. This was not a tax burden borne by everyday Hoosier families – it primarily affected large corporations with big electricity bills. It would be a real shame if we are not able to fully fund the recommendations made by the Governor's Public Health Commission, which annually come to nearly the same amount as the utility receipts tax revenue, because of a corporate giveaway. I will always put Hoosiers' health ahead of corporate profits.

2. Medicaid Forecast

Allison Taylor, Director of the Office of Medicaid Policy and Planning at the Family and Social Services Administration, presented the **Medicaid forecast** with Rob Danler of Milliman. The data in the presentation is based on the public health emergency (PHE) ending on April 30, 2023. If the PHE ends on this date, the extra FFCRA federal funding match of an additional 6.2% would end on June 30, 2023. Once the PHE ends, the state will complete a redetermination for everyone on Medicaid to determine those who are no longer eligible for services, which will take about 12 months. There has been growth in Medicaid enrollment of over 780,000 lives since January 2020, and over 375,000 members are projected to lose eligibility. After this process is completed, the forecast projects that Indiana will retain just under 2 million lives on all of the Medicaid programs.

Overall, state and federal Medicaid expenditures are expected to grow 7.6% over FY2023 levels to \$18.865 billion in FY2024, and then grow 1.2% over FY2024 levels to \$19.087 billion in FY2025. The state general fund assistance need is projected at \$3.518 billion for FY2024 and \$3.725 billion in FY2025.

Slide 10 of the presentation outlines the projected cost of the program changes that are included in the forecast, including the following items:

1. HIP Equalization: \$9.4 million in FY2024 and \$23.0 million in FY2025
2. The onboarding of the MLTSS program in the first quarter of 2024: \$32.4 million in FY2024 and \$67.5 million in FY2025
3. Additional births resulting from SEA 1 during the 2022 special session: \$4.6 million in FY2024 and \$9.0 million in FY2025.

3. Governor's Public Health Commission

One of the most discussed agenda items headed into the 2023 legislative session is Indiana's public health spending. The Governor's Public Health Commission released a **report** over the summer recommending Indiana increase its current \$55 per capita spending to the national average of \$91 per capita. This would require additional investment of \$120 million in 2023, and an additional \$240 million in 2024, to be earmarked in the state budget. However, legislative leaders have questioned the ability for the public health system to adequately spend additional dollars, with Speaker Todd Huston stating "I just want to make sure the additional investments are used

in a way that are consistent with the current investments we're making and that they have clear, measurable outcomes." In a preview of Governor Holcomb's priorities for the 2023 session, he emphasized that Indiana will be able to "work up" to the spending goal. The Governor is planning to outline his full legislative agenda on January 4, 2023.

4. Governor's Workforce Cabinet

Another key policy area for the upcoming session is workforce development, and the Governor's Workforce Cabinet has released a list of **30 recommendations** for legislators to consider. The report's recommendations focus on barriers to workforce entry, including educational attainment and access to childcare. In June 2020, Indiana's college enrollment dropped to a record low at 53%, compared to 65% in 2015. To address the availability and affordability of childcare, the report suggests reducing the minimum age requirement for employees working in a childcare center to 16 and increasing the income eligibility limit for child care vouchers. The cabinet also recommends incentivizing colleges and universities to enroll students in "key degree programs" determined by the state.

5. 2024 Governor's Race

Indiana's 2024 race for Governor has already begun with two high-profile campaign announcements from US Senator Mike Braun and Lieutenant Governor Suzanne Crouch last week. The pair join Eric Doden, a businessman from Fort Wayne who launched his campaign back in June, as candidates in the race. In their announcements, Senator Braun spoke about tackling Indiana's issues "in a place where we can do it, where the rubber meets the road, and that's back home in our state", while Lieutenant Governor Crouch touted her conservative credentials saying, "I have the leadership and experience to act on what our state needs to be successful." There will likely be other candidates that enter the Governor's race before the nominee is decided at the Republican convention in June of 2024, and Senator Braun's announcement in particular has already led other Republicans to consider running for the US Senate seat in 2024, although none have yet announced their plans.

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