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FISCAL IMPACT STATEMENT

LS 7470

BILL NUMBER: HB 1001

NOTE PREPARED: Feb 22, 2013

BILL AMENDED: Feb 21, 2013

SUBJECT: Biennial Budget.

FIRST AUTHOR: Rep. Brown T

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: *State Budget:* This bill appropriates money for capital expenditures, the operation of the state, the delivery of Medicaid and other services, and various other distributions and purposes.

Committee Provisions: The bill abolishes the Select Joint Commission on Medicaid Oversight, and transfers its duties to the Health Finance Commission. The bill also abolishes the Health Finance Advisory Committee and the Health Policy Advisory Committee within the Health Finance Commission. The bill also repeals obsolete study committees.

State Reserves: The bill provides that the Office of Management and Budget (OMB) may not consider a balance in the state tuition reserve fund when calculating the amount of state reserves at the end of a state fiscal year.

Budget Submission: The bill requires the Budget Committee to submit the budget report and budget bill or bills to the Governor before the third Monday of January, if the budget report and budget bill or bills are prepared in the same calendar year that a gubernatorial election is held.

Gaming: This bill provides for revenue sharing from part of the slot machine revenue currently used to support the horse racing industry. The bill includes transfers to the Twenty-first Century Research and Technology Fund and the Training 2000 Fund in the revenue sharing. The bill also reduces the amount of slot machine revenue required for the support of the horse racing industry to \$10,000,000 per racino. It also makes conforming changes, and repeals obsolete provisions in the riverboat law.

Estate and Transfer Taxes: This bill repeals the Indiana estate tax and the Indiana generation skipping transfer tax.

Transportation Funding: The bill removes the requirement that one-half of the amount appropriated for the State Police Department be deducted from the Motor Vehicle Highway Account Fund before the statutory allocation to cities, towns, counties, and the Department of Transportation is made.

Cigarette Tax Distributions: The bill provides that 4% of cigarette tax revenue must be deposited in the State Retiree Health Benefit Trust Fund. (Current law requires the deposit of 5.74% of the revenue in the State Retiree Health Benefit Trust Fund after June 30, 2013.) It also provides for the deposit of an additional 1.74% of cigarette tax revenue in the state General Fund.

Department of Correction Provisions: This bill removes the expiration date on a statute specifying the amount that the Department of Correction (DOC) will reimburse certain health care providers.

Social Services: The bill provides that certain rules of the Family and Social Services Administration (FSSA) remain in effect until December 31, 2013. The bill doubles the amounts that FSSA may pay for the funeral and cemetery expenses of recipients of Temporary Assistance for Needy Families or supplemental assistance for the aged, blind, or disabled. The bill requires the Office of Medicaid Policy and Planning (OMPP) to: (1) develop a plan that would require the Medicaid aged, blind, and disabled population as well as a Medicaid recipient who receives long-term care services to enroll in the risk-based managed care program; (2) submit the plan to the Budget Committee not later than December 31, 2013; and (3) seek federal approval. The bill requires the OMPP to implement the plan not later than July 1, 2014, if certain conditions are met.

HAF/QAF: This bill also extends the hospital assessment fee (HAF). (Under current law, the fee expires on June 30, 2013.) It also extends the health facility quality assessment fee (QAF). (Under current law, the fee expires on June 30, 2014.) It also repeals a provision that provides for the expiration of the health facility QAF and updates statutory references to the HAF.

Child Protection Assessments: This bill specifies that certain reports of known or suspected child abuse or neglect require the Department of Child Services to initiate a child protection assessment and that other reports require the department to forward the report to a local office for a determination whether the department shall initiate an assessment.

Education: This bill establishes the Science, Technology, Engineering, and Mathematics Teacher Recruitment Fund. The bill requires the Education Roundtable to establish a grant program. The bill also extends a public-private partnership program to include facilities used to house students in connection with a hospitality or food management facility, repeals certain scholarship programs, and establishes student teaching stipends.

Tuition Reserve Transfer: The bill requires the Auditor of State to transfer \$150,000,000 from the state General Fund to the State Tuition Reserve Fund on July 1, 2013, and July 1, 2014.

School Funding Formula: The bill converts the school funding formula from a calendar year formula to a state fiscal year formula. The bill also provides that: (1) an average daily membership (ADM) count of students enrolled in a public school in Grades K-12 must be taken during the school year in September and February; and (2) state tuition support must be distributed based on the latest count of students. The bill requires state tuition support distributions to be made every month rather than every 40 days. It also makes related changes

in various calculations to reflect the change in counting procedure. It provides for basic tuition support payments to charter school corporations in the first six months of initial operation. It also defines the terms "enrolled" and "attending" for purposes of the tuition support formula. The bill repeals the charter school startup grant and operating advances programs.

The bill also specifies that, before February 1 of each calendar year, the Department of Education must determine the result of: (1) the total amount of the special education grants that would have been received by a school corporation during the months of July, August, September, October, November, and December of the preceding calendar year and January of the current calendar year if the grants had been based on the count of students with disabilities that was made on the immediately preceding December 1; minus (2) the total amount of the special education grants received by the school corporation during the months of July, August, September, October, November, and December of the preceding calendar year and January of the current calendar year. The bill provides that if the result is positive, the school corporation shall receive an additional special education grant distribution, and if the result is negative, the special education grant distribution that otherwise would be received by the school corporation shall be proportionately reduced. The bill provides that the career and technical education grant and other tuition support grants apply to virtual charter schools.

The bill also provides for complexity grants and full-day kindergarten grants, makes technical corrections, and repeals the primetime grant.

Workforce Provisions: The bill extends indefinitely the ability of the Department of Workforce Development (DWD) to spend money received from the federal government in 2002. The bill allocates amounts recovered in certain enforcement proceedings between the Securities Division Enforcement Account and the state General Fund.

Debt Repayments: The bill appropriates money to defease bonds on the State Museum and forensics and health sciences lab.

Effective Date: Upon passage; June 30, 2013; July 1, 2013; January 1, 2014.

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

State Appropriations: The following summary is for state appropriations that are provided in this bill for FY 2014 and FY 2015.

Appropriations by Function (SECTION 1-36)	FY 2014	FY 2015	For the Biennium
General Government	\$513,854,415	\$548,327,082	\$159,246,865
Corrections	672,211,305	679,413,528	
Other Public Safety	245,697,555	240,621,550	495,372
Conservation and Environment	75,045,919	74,672,172	
Economic Development	41,661,058	41,725,364	10,243,458
Transportation	42,581,051	42,581,051	
FSSA Administration	15,764,735	15,764,735	
Medicaid	2,019,203,064	2,150,703,064	
Mental Health and Addictions	254,284,598	254,284,598	
Family Resources	179,444,503	179,444,503	
Aging Services	65,553,385	65,553,385	
Disability and Rehabilitative Services	124,870,162	124,870,162	
Department of Child Services	555,824,694	555,722,694	
Public Health	31,534,164	31,534,164	
Other Health and Human Services	29,928,432	30,099,232	20,000
State Student Assistance Commission	323,982,470	309,211,259	
Other Higher Education	1,478,789,559	1,475,823,846	
Education Administration	27,118,762	27,118,762	
Tuition Support	6,632,900,000	6,701,800,000	
Other Local Schools	193,051,657	212,501,657	
Teacher Retirement	788,916,000	792,705,000	
Other Education	7,152,197	7,152,197	20,980
Distributions **	110,000,000	72,600,000	
Total Operating	\$14,429,369,685	\$14,634,230,005	\$170,026,675
Construction - Higher Ed			\$254,335,893
Construction - Other			\$460,621,570
Total Construction	\$0	\$0	\$714,957,463
Total GF (Operating + Construction)	\$14,429,369,685	\$14,634,230,005	\$884,984,138
BIF	\$10,652,823	\$10,652,823	\$8,564,500
Other Dedicated - Operating	1,155,106,959	1,150,503,123	91,522,528
Other Dedicated - Construction			73,755,918
Tobacco Settlement	119,287,039	119,287,039	24,454,692
Federal	919,900,000	865,899,999	
Total (Dedicated and Federal)	\$2,204,946,821	\$2,146,342,984	\$198,297,638
Total - All *	\$16,634,316,506	\$16,780,572,989	\$1,083,281,776

* Retroactive Appropriations: FY 2013: \$128,000,000 (for State Museum and Forensics and Health Sciences Lab bonds).

** Distributions total does not include \$8.1 M in each year of the biennium for the Alcoholic Beverage Commission Gallonage Tax, which is appropriated in current statute, but is not in this bill.

Education-

K-12 Education: The bill establishes a school formula for FY2014 and FY2015. The basic changes in the school formula from the current 2013 formula are the following.

1. The formula is changed from a calendar year basis to a fiscal year basis.
2. The foundation grant is increased from \$4,405 in CY 2013 to \$4,547 in FY 2014 and \$4,574 for FY 2015. The added premium that was awarded schools with an ADM of 500 and above is discontinued.
3. The free and reduced lunch percentage used in the formula is updated to the 2012 school year's percentage of students eligible for free or reduced lunch. Additionally, it is only used in the FY 2014 formula. In the FY 2015 formula, it is replaced by the percentage of students receiving free textbooks. The free and reduced lunch funding level in the complexity index is increased from \$2,190 in CY 2013 to \$2,273.50 for FY 2014. The free textbook funding level is \$2,287 for FY 2015. As a percentage of the foundation grants, the funding level in FY 2014 and FY 2015 is increased slightly from approximately 49.74% to 50%.
4. The funding associated with the complexity index is computed as a separate Complexity Grant in FY 2014 and FY 2015. The second tier calculation of the complexity index is increased from 1.31 in CY 2013 to 1.33 in FY 2014 and 1.35 in FY 2015.
5. The ADM counts are currently taken twice a year, in February and September, but only the September count is used for funding purposes. Starting in FY 2014, the September count will be used for July-December funding calculations and the February count for January-June funding distributions. Starting in FY 2014, for the purposes of computing tuition support, the current count cannot be less than 90% of the previous count.
6. "Previous Year Revenue" for FY 2014 is the equivalent "Previous Year Revenue" for FY 2013 plus the FY 2013 Prime Time Grant minus the funding in the formula for the complexity index.
7. The transition to foundation is changed for schools transitioning down to foundation. Schools would transition down to foundation over five years in FY 2014 and four years in FY 2015. The previous starting point for the transition down to foundation in CY 2013, the lesser of 120% of target revenue or Previous Year Revenue per ADM, is removed. In FY 2014 and FY 2015, the starting point is Target Revenue or the Previous Year Revenue per ADM.
8. The one-year transition for schools moving up to foundation is continued.
9. The Prime Time calculation is discontinued in FY 2014 and FY 2015. The funds previously distributed in FY 2013 are added to the definition of Previous Year Revenue.
10. The Special Education, Career and Technical Education, and Honors grants are funded at the same level as CY 2013.
11. Full-day kindergarten is funded in the formula for FY 2014 (\$2,448 per eligible student) and FY 2015 (\$2,472 per eligible student).
12. The funding for virtual charter schools is increased from 87.5% to 90% of the school foundation amount multiplied by the current ADM. In addition to Special Education grants, virtual charters would be also eligible for Career and Technical Education, Honors grants, Complexity, and full-day kindergarten grants.

The following table outlines the increase over current CY 2013 funding levels.

	Current CY 2013	FY 2014	FY 2015
Transition to Foundation	4,509,349,804	4,648,062,611	4,667,608,808
Complexity	1,058,087,610	1,150,892,402	1,186,720,489
Full-Day Kindergarten	189,864,000	196,968,528	202,686,696
Special Education	508,600,913	514,604,399	518,260,018
Career & Technical	98,579,488	103,673,736	107,212,035
Prime Time	117,486,068		
Honors	18,075,600	18,607,050	19,287,900
Total	6,500,043,483	6,632,808,726	6,701,775,946

ADM Count: The bill also makes various changes to clarify if the spring or fall ADM count is to be used in calculations. (Currently, there is only one ADM count taken in the fall that is used for the following calendar year.) The provision should have a minor impact.

Science, Technology, Engineering, and Mathematics Teacher Recruitment Fund: The bill establishes this fund to provide grants to Indiana organizations that recruit science, technology, engineering, and mathematics teachers for employment by Indiana school corporations. The Education Roundtable will administer the fund. The Roundtable is to establish the following two grant programs:

1. A grant program to encourage the growth of existing organizations that recruit science, technology, engineering, and mathematics teachers.
2. A grant program to encourage the establishment of programs that increase the pool of high-quality science, technology, engineering, and mathematics teachers in Indiana.

The fund consists of appropriations made by the General Assembly, grants, gifts, and donations. The money in the fund does not revert at the end of the fiscal year.

State Tuition Reserve: The bill requires the Auditor of State to transfer \$150 M from the state General Fund to the State Tuition Reserve Fund on July 1, 2013, and an additional \$150 M on July 1, 2014.

High-Need Student Teaching Stipend: The bill creates the High-Need Student Teaching Stipend to be paid to students when they do their student teaching in special education or a high-needs field. The stipend is \$5,000 if the student's GPA is at least 3.5, based on a 4-point scale, and \$4,000 if the student's GPA is between 3.0 and 3.5. The stipend is paid from the High-Need Student Teaching Stipend Fund.

Minority Student Teaching Stipend Fund: The bill also creates the Minority Student Teaching Stipend to be paid to students when they do their student teaching in special education or a high-needs field. The stipend is \$5,000 if the student's GPA is at least 3.5 and \$4,000 if the student's GPA is between 3.0 and 3.5. The stipend is paid from the High-Need Student Teaching Stipend Fund.

Nursing Scholarship Program: The Nursing Scholarship Program is terminated. The Nursing Scholarship Fund is repealed, and the balance in the fund on June 30, 2013, is to be transferred to the state General Fund. On June 30, 2012, the Nursing Scholarship Fund has assets of about \$172,926 and awarded scholarships of about \$326,501 to 313 nurses. The annual state General Fund appropriation was \$377,179 to the Nursing Scholarship Fund.

Special Education Services Scholarship: The Special Education Services Scholarship Program is terminated. The Minority Teacher Scholarship would continue to be paid from the Minority Teacher or Special Education Services Scholarship Fund.

Tax Provisions-

Inheritance Tax: There could be a savings to the state from a reduction in staff of the Inheritance Tax Section of the Department of State Revenue. The February 3, 2013, state staffing table indicates that the Inheritance Tax Division has eight full-time employees with an annual salary of about \$309,000. Current law provides for a phaseout of the Inheritance Tax by CY 2022, which could also result in savings from a reduction in staff over time.

County Inheritance Tax Replacement Payments: This bill also changes the calculation of Inheritance Tax replacement payments to counties, which would result in an increase in expenditures from the state General Fund from FY 2014 until FY 2019 when replacement payments are eliminated by this bill. [See *Explanation of Local Revenues* for more information.]

Department of State Revenue (DOR) - The tax provisions could increase the DOR's administrative costs. The DOR may need to amend forms and computer software to incorporate the provision. In addition, the DOR may be required to process additional license applications for Internet tobacco distributors. The bill's requirements are within the agency's routine administrative functions.

Social Services Provisions-

Hospital Assessment Fee (HAF): This bill codifies the existing Hospital Assessment Fee program and extends it for the time period that the fee is being assessed. The 2012 annual assessment was for \$646 M, leveraging total expenditures of \$1.958 B. The federal share of funds would be \$1.312 B. The assessment is to be used to increase Medicaid hospital rates, replace Disproportionate Share Hospital (DSH) distributions made to the state and private psychiatric facilities (approximately \$70 M), and to provide additional state match dollars for use within the Medicaid program (approximately \$112 M).

Quality Assessment Fee (QAF): The bill also extends the existing Health Facility Quality Assessment Fee providing authorization for the required increase in Medicaid nursing facility reimbursement and the collection of the QAF after July 31, 2014. Extending the QAF would authorize an estimated total annual collection of about \$166.3 M. The state share would be \$48.9 M for FY 2015, FY 2016, and FY 2017, if nursing facility days remain constant.

FSSA Emergency Rule Extension: The bill would extend until December 31, 2013, the provisions of emergency rules concerning provider reimbursement reductions in Medicaid, including a 5% reimbursement reduction for podiatric, chiropractic, dental services, and emergency transportation services. The rules also provide for a 10% reduction in reimbursement for nonemergency transportation services. This provision would extend the savings realized by the reimbursement reductions for an additional six months beyond the expiration date. FSSA reports that savings for the first six months of the biennium are anticipated to be \$115 M.

Mandated Managed Care: The bill requires the OMPP to develop a plan to require the use of risk-based

managed care for the aged, blind, and disabled population and those Medicaid recipients that receive long-term care services. The bill requires the plan to be presented to the Budget Committee for review before December 31, 2013. The bill also specifies that OMPP is to apply for a Medicaid waiver that would require an aged, blind, or disabled Medicaid recipient or long-term care recipients to enroll in the risk-based managed care program. (OMPP currently operates Care Select, a managed care program for individuals in the aged, blind, and disabled eligibility categories - it is not mandatory at this time.) The bill requires the implementation of the waiver not later than July 1, 2014, if it is approved by the Centers for Medicare and Medicaid Services (CMS). Risk-based managed care is assumed to result in savings from a fee-for-service environment to systems implementing it. The extent to which savings might be realized by this provision is not known at this time.

TANF Funeral and Cemetery Expenses: The bill doubles payments made for the funeral and cemetery expenses for individuals who were recipients of Temporary Assistance for Needy Families (TANF) and Supplemental Assistance payments to \$1,200 and \$800, respectively. FSSA reports the increased payments will increase state expenditures by approximately \$1 M.

DCS Requirements: Under the bill, the Department of Child Services (DCS) would be required to assess all reports of child abuse and neglect received from certain professionals, which could increase the number of DCS assessments. The DCS reports that this requirement could require an additional 24 FTE staff positions at an annual cost of approximately \$1.2 M.

Repeal of Committees-

Repeal of the Select Joint Commission on Medicaid Oversight: State expenditures will be minimally reduced due to the repeal of the 12-member Select Joint Commission on Medicaid Oversight. The commission met twice during the 2012 interim and had expenses of about \$3,800. Legislative Council Resolution 12-02 established budgets of \$9,500 for study committees with less than 16 members. The specific reduction will depend upon whether the Health Finance Commission has additional meetings in order to incorporate the duties currently assigned to the Select Joint Commission on Medicaid Oversight.

Repeal of the Health Finance Advisory and Health Policy Advisory Committees: This bill also repeals the Health Finance Advisory and Health Policy Advisory Committees within the Health Finance Commission. The Health Finance Advisory Committee has not met since the 2003 interim, and the Health Policy Advisory Committee has not met since the 2006 interim. Because these committees have not met recently, repealing them should have a minimal fiscal impact.

Repeal of the Lewis & Clark Bicentennial Commission: The bill repeals the authority for the 19-member Lewis & Clark Bicentennial Commission. Currently, members of the commission are eligible for per diem and travel reimbursement for meeting attendance. The commission and the Indiana Lewis and Clark Foundation last met November 16, 2012. The bill leaves in place the Lewis and Clark Bicentennial license plate and the Lewis and Clark Bicentennial Fund along with the required transfer of funds to the Bicentennial Commission by the Bureau of Motor Vehicles.

Repeal of Illiana Expressway Proposal Review Committee: The bill repeals the Illiana Expressway Proposal Review Committee. The committee operates under the policies governing study committees adopted by the Legislative Council. Legislative Council resolutions in the past have established budgets for study committees in the amount of \$9,500 per year for committees with fewer than 16 members (this committee has 8 members).

The committee receives staff support from LSA.

Workforce Provisions-

Workforce Provisions: The bill extends indefinitely the ability of DWD to spend Reed Act funds received from the federal government in 2002. In 2003, \$72.2 M in federal Reed Act funds were appropriated to DWD for the modernization of the unemployment insurance system, the JOBS proposal to meet the workforce needs of Indiana employers in high-wage and high-skill occupations, and the administration of the state’s workforce investment boards. DWD has approximately \$5.2 M in these Reed Act funds remaining that have yet to be spent.

Other Provisions-

Elimination of Medicare Plus 4% Sunset Provision: Under current law, health care services that the Department of Correction (DOC) or counties provide to confined offenders are required to be reimbursed at Medicare rates plus 4%. These health care services include medical, dental, and mental health care and are provided by licensed physicians, licensed hospitals, and other health care providers. This requirement was to expire on July 1, 2013. However, the bill eliminates the expiration date.

Leave Conversion Pilot Program: This bill extends the leave conversion pilot program for legislative and judicial branch state employees through June 30, 2016. The fiscal impact of this provision will depend on legislative and judicial branch actions and appropriations. Annual expenditures since FY 2006 for the current leave conversion pilot program are reported in the table below.

Fiscal Year	Expenditures
2006	\$426,560
2007	376,687
2008	389,956
2009	381,505
2010	257,488
2011	287,277
2012	223,269

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

Transfer to and from Rainy Day Fund: The bill changes the calculations that are made to establish the annual appropriation to and from the state General Fund and the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund). It defines “current reporting period” as the most recent reporting period

for which the following information is published by the Bureau of Economic Analysis: (1) the Implicit Price Deflator for the Gross Domestic Product and (2) State Personal Income. It replaces the references to ‘calendar year’ to ‘reporting period’ and ‘Gross National Product’ to ‘Gross Domestic Period’.

Excess State Reserves: The bill makes changes to the current law as it relates to the use of excess state reserves. Under current law, after the end of each odd-numbered state fiscal year, the Office of Management and Budget (OMB) is required to establish the amount of excess reserves. The bill requires that beginning in FY 2014 the OMB may not consider a balance in the State Tuition Reserve Fund when calculating the total state reserves for purposes of determining the use of excess reserves under IC 4-10-22. This provision could potentially reduce the amount of excess reserves available for transfer to the Pension Stabilization Fund (PSF) and the automatic taxpayer refund starting in FY 2016.

Explanation of State Revenues:

Tax Provisions-

Distribution of Sales and Use Taxes: The bill changes the distribution of Sales and Use Taxes, but will not affect the total amount collected. It reduces the amount deposited in the state General Fund and deposits a portion of Sales and Use Tax revenue in the Motor Vehicle Highway Account (MVHA). Under current statute, 99.848% of Sales and Use Tax revenue is deposited in the state General Fund, 0.123% is deposited in the Commuter Rail Service Fund, and 0.029% is deposited in the Industrial Rail Service Fund. The new distribution will not affect the Commuter Rail Service Fund or the Industrial Rail Service Fund, but will allocate 98.348% to the General Fund and 1.5% to the MVHA. The table below shows estimated Sales and Use Tax revenue under the current and proposed distributions.

Fund	Current (in millions)			Proposed (in millions)		
	Distribution	FY 2014	FY 2015	Distribution	FY 2014	FY 2015
General Fund	99.848%	\$7,144.7	\$7,434.2	98.348%	\$7,021.6	\$7,306.8
MVHA	0.000%	0.0	0.0	1.500%	107.1	111.4
Commuter Rail Service Fund	0.123%	8.8	9.1	0.123%	8.8	9.1
Industrial Rail Service Fund	0.029%	2.1	2.2	0.029%	2.1	2.2
Total	100.000%	\$7,139.6	\$7,429.5	100.000%	\$7,139.6	\$7,429.5

MVHA Funds are primarily used for traffic safety programs and for construction, reconstruction, improvement, maintenance, and policing of state highways. These funds are allocated to the Department of Transportation, the Department for Traffic Safety, and the State Police Department, as well as local units of government. Of the additional distributions to the MVHA, INDOT is estimated to receive an additional \$56.7 M in FY 2014 and \$59.0 M for FY 2015.

Distribution of Cigarette Tax Revenue: The bill changes the distribution of Cigarette Tax revenue starting in FY 2014, but it will not affect total revenue collections. The bill increases the state General Fund distribution from 54.5% to 56.2%, and it reduces the distribution to the State Retiree Health Benefit Trust Fund from

5.74% to 4%. The table below shows the estimated Cigarette Tax revenue under the current and proposed distributions.

Fund	Current (in millions)			Proposed (in millions)		
	Distrib. %	FY 2014	FY 2015	Distrib. %	FY 2014	FY 2015
General Fund	54.50%	\$251.5	\$252.3	56.24%	\$259.6	\$260.4
IN Check-Up Plan Trust Fund	27.05%	124.8	125.2	27.05%	124.8	125.2
Retiree Health Benefit Trust	5.74%	26.5	26.6	4.00%	18.4	18.5
Pension Relief Fund	5.43%	25.0	25.1	5.43%	25.0	25.1
Cigarette Tax Fund	4.22%	19.5	19.5	4.22%	19.5	19.5
General Fund - Medicaid	2.46%	11.4	11.4	2.46%	11.4	11.4
Mental Health Centers Fund	0.60%	2.8	2.8	0.60%	2.8	2.8
Total	100.00%	\$461.5	\$462.9	100.00%	\$461.5	\$462.9

Tobacco Products Tax - The bill requires a person selling tobacco products through the Internet to collect the Tobacco Products Tax. This provision would increase the number of taxpayers and result in increased tax revenue, as well as increased revenue from license fees. The amount of the increase could be approximately \$827,000, but will depend on the extent to which Indiana residents purchase tobacco products online.

The estimated revenue increase is based on national economic data. A portion of the national estimate is allocated to Indiana based on the state's GDP relative to total U.S. GDP. According to the 2007 Economic Census, total sales of tobacco products in the U.S. were about \$4.24 B. Census Bureau e-commerce data indicates that about 4.4% of all retail sales are attributed to Internet sales.

The Tobacco Products Tax rate is 24% of the wholesale price of tobacco products other than moist snuff, which is taxed at \$0.40 per ounce. Total Tobacco Products Tax revenue was about \$35.1 M in FY 2012. One-fourth of the revenue is distributed to the Affordable Housing and Community Development Fund, and the remaining 75% is allocated to the following funds: state General Fund, State Retiree Health Benefit Trust Fund, Cigarette Tax Fund, Mental Health Centers Fund, Pension Relief Fund, and Indiana Check-Up Plan Trust Fund.

The bill also requires Internet sellers of tobacco products to obtain a license before distributing tobacco products in Indiana. The annual license fee is \$25, in addition to a \$1,000 bond issued by a surety company approved by the Department of State Revenue. The total revenue increase from license fees will depend on the number of Internet distributors that distribute tobacco products in Indiana.

Gaming Provisions-

Admissions Tax Distributions to IHRC: The bill repeals current law requiring the distribution of riverboat admissions tax and admissions tax guarantee payments to the Indiana Horse Racing Commission (IHRC) instead of to the state General Fund, if certain conditions are met. This provision will not have any fiscal impact.

Distribution of Racino AGR Set-Aside: The bill changes the Racino AGR distribution to horse racing equal to 15% of racino AGR. The change will have the following impact on state funds.

Fund/Entity	FY 2014	FY 2015
State General Fund	(\$6.0 M)	\$2.6 M
21 st Century Fund	\$17.0 M	\$17.0 M
Training 2000 Fund	\$18.0 M	\$18.0 M
Thoroughbred Breed Fund	(\$6.5 M)	(\$6.4 M)
Standardbred Breed Fund	(\$8.1 M)	(\$8.0 M)
Quarter Horse Breed Fund	(\$0.8 M)	(\$0.8 M)
TOTAL	\$13.6 M	\$22.5 M

The bill requires each racino to pay 15% of their annual slot machine AGR to the following purposes:(1) \$1.5 M each to the Tobacco Master Settlement Fund; (2) \$250,000 each to the Gaming Integrity Fund; (3) \$8.5 M each to the Indiana 21st Century Research & Technology Fund; (4) \$9.0 M each to the Training 2000 Fund; and (5) \$10.0 M each to be distributed to the state Breed Development Funds, private horsemen’s associations, and horse racing purses. The bill requires that the amount of the annual AGR distribution exceeding \$29.25 M is to be deposited in the state General Fund.

Under current law, each racino is required to pay 15% of their annual slot machine AGR to the following purposes:(1) \$1.5 M each to the Tobacco Master Settlement Fund; (2) \$250,000 each to the Gaming Integrity Fund; and the remainder, up to an inflationary cap, to: (a) state Breed Development Funds; (b) private horsemen’s associations; and (c) horse racing purses. The amount the remainder that exceeds the annual inflationary cap is deposited in the state General Fund.

Transportation Funding- Summary: The shifting of State Police expenses from the MVH to other funds and the Sales and Use Tax distribution provision are estimated to result in additional distributions to INDOT estimated to total from \$99.2 M to \$104.5 M in FY 2014 and \$101.6 M to \$106.9 M in FY 2015. [See *Explanation of Local Revenues* for details.]

Other Provisions-

Securities Division Enforcement Account: The bill changes the allocation of revenue collected by the Secretary of State, Securities Enforcement Division. This bill would allow 50% of the first \$500,000 recovered in a settlement or awarded in a judgment to be deposited in the Security Division Enforcement Account. The remainder of the settlement or judgment awarded would be deposited in the state General Fund. However, grants and donations received, costs of investigations, and civil penalties recovered will continue to be fully deposited in the Securities Division Enforcement Account. This provision is effective beginning July 1, 2013. This provision will likely have no fiscal impact. The money recovered in a settlement or awarded in a judgment by the Securities Division is traditionally civil penalties, and the bill did not change the treatment of civil penalties.

Explanation of Local Expenditures:

Tax Provisions-

Acceleration of the Phaseout of the Inheritance Tax: This bill would accelerate the phaseout of the Inheritance Tax by increasing current law credit percentages beginning with decedents who die in CY 2014 and eliminating the tax altogether for decedents who die beginning in CY 2018. Current law provides that the Inheritance Tax is eliminated for decedents who die beginning in CY 2022. The following table provides the estimated state revenue loss attributable to this bill.

Fiscal Year Impact	Estimated State Revenue Loss
FY 2015	(\$6.6 M - \$6.9 M)
FY 2016	(\$19.9 M - \$20.7 M)
FY 2017	(\$33.2 M - \$34.5 M)
FY 2018	(\$46.5 M - \$48.3 M)
FY 2019	(\$53.1 M - \$55.2 M)
FY 2020	(\$46.5 M - \$48.3 M)
FY 2021	(\$33.2 M - \$34.5 M)
FY 2022	(\$19.9 M - \$20.7 M)
FY 2023	(\$6.6 M - \$6.9 M)
FY 2024	\$0

SEA 293-12 provided for a phaseout of the Inheritance Tax beginning with decedents who die during CY 2013. The phaseout is accomplished by providing a credit against the Inheritance Tax liability that increases from 2013 through 2022. The Inheritance Tax will no longer apply to property interests transferred by decedents who die after December 31, 2021, under current statute. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early discount). The table below compares the credit percentages under current statute and under the bill.

Year of Decedent's Death	Current Credit Percentages	Proposed Credit Percentages
2013	10%	10%
2014	20%	30%
2015	30%	50%
2016	40%	70%
2017	50%	90%
2018	60%	100%
2019	70%	100%
2020	80%	100%
2021	90%	100%
2022	100%	100%

Repeal of the Indiana Estate Tax and Indiana Generation Skipping Transfer Tax: The bill provides that the Indiana Estate Tax and the Indiana Generation Skipping Transfer Tax do not apply after June 30, 2013. The Indiana Estate Tax is permanently inoperative and will not generate any revenue due to provisions of the American Taxpayer Relief Act of 2012 (P.L. 112-240), signed into law on January 2, 2013. This Act permanently repealed the state death tax credit under the Federal Estate Tax which was the basis for the Indiana Estate Tax.

Any potential future revenue loss from the elimination of the Generation Skipping Transfer Tax would be minimal. The tax has generated revenue in only two years since FY 1993: FY 2004 (\$31,254) and FY 2005 (\$3,637).

Explanation of Local Revenues:

Tax Provisions-

Distribution of Sales and Use Taxes: Revenue in the Motor Vehicle Highway Account that is distributed to local units will increase. Cities and towns receive 15% of the net amount in the MVHA, allocated based on population. Similarly, 32% is distributed to counties based on a formula that accounts for miles of county roads and motor vehicle registrations in a county relative to state totals. The Department of Transportation receives the remainder of the net amount. The net amount depends on how much will be allocated to the Department for Traffic Safety and the State Police Department.

Tobacco Products Tax: Local revenue will increase to the extent that a local unit receives funds from Tobacco Products Tax revenue. Cities and towns receive two-thirds of the money in the Cigarette Tax Fund, allocated based on population. Local units of government also receive money from the Pension Relief Fund.

Acceleration of the Phaseout of the Inheritance Tax: The acceleration of the phase out of the Inheritance Tax provided by this bill could result in an annual revenue loss to counties beginning in FY 2015. This bill would also increase the amount of replacement payments made to counties from the state General Fund beginning in FY 2014 due to the acceleration of the phase out of the Inheritance Tax and the change in the calculation of replacement payments. However, this bill provides that replacement payments will end by FY 2019 while current law phases out the replacement payments by FY 2024.

Fiscal Year Impact	Local Share of Inheritance Tax Revenue Loss	Estimated Net Increase (Decrease) of Replacement Payments	Net Increase (Decrease)
FY 2014	-	\$27,000	\$27,000
FY 2015	(\$0.5 M - \$0.6 M)	\$91,000	(\$0.4 M - \$0.5 M)
FY 2016	(\$1.7 M - \$1.8 M)	\$50,000	(\$1.6 M - \$1.7 M)
FY 2017	(\$2.9 M - \$3.0 M)	\$21,000	(\$2.9 M - \$3.0 M)
FY 2018	(\$4.0 M - \$4.2 M)	\$0	(\$4.0 M - \$4.2 M)
FY 2019	(\$4.6 M - \$4.8 M)	(\$18,000)	(\$4.6 M - \$4.8 M)
FY 2020	(\$4.0 M - \$4.1 M)	(\$15,000)	(\$4.0 M - \$4.1 M)
FY 2021	(\$2.8 M - \$2.9 M)	(\$11,000)	(\$2.8 M - \$2.9 M)
FY 2022	(\$1.7 M - 1.8 M)	(\$7,000)	(\$1.7 M - 1.8 M)
FY 2023	(\$0.5 M - \$0.6 M)	(\$4,000)	(\$0.5 M - \$0.6 M)
FY 2024	\$0	\$0	\$0

This bill changes the calculation of Inheritance Tax replacement payments made to counties beginning in FY 2014. The new calculation method will be based upon the difference between the Inheritance Taxes retained by a county in a state fiscal year and the average amount collected between 1990 and 1997, excluding the highest year and lowest year, multiplied by the appropriate percentage. The current calculation is the Inheritance Tax replacement payment distributed to the county for FY 2012 multiplied by percentages that phase out the payments by FY 2023. The fiscal impact due to this change is summarized below.

Fiscal Year Impact	Estimated Replacement Payments Under Current Law	Estimated Replacement Payments Provided by this Bill	Net Increase (Decrease)
FY 2014	\$37,000	\$64,000	\$27,000
FY 2015	\$33,000	\$124,000	\$91,000
FY 2016	\$30,000	\$80,000	\$50,000
FY 2017	\$26,000	\$47,000	\$21,000
FY 2018	\$22,000	\$22,000	\$0
FY 2019	\$18,000	\$0	(\$18,000)
FY 2020	\$15,000	\$0	(\$15,000)
FY 2021	\$11,000	\$0	(\$11,000)
FY 2022	\$7,000	\$0	(\$7,000)
FY 2023	\$4,000	\$0	(\$4,000)
FY 2024	\$0	\$0	\$0

Transportation Funding- Summary: The shifting of State Police expenses from the MVH to other funds and the Sales and Use Tax distribution provision are estimated to result in additional distributions to INDOT

estimated to total from \$99.2 M to \$104.5 M in FY 2014 and \$101.6 M to \$106.9 M in FY 2015. Total additional distributions to counties, cities, and towns of \$87.9 M to \$92.9 M in FY 2014 and \$89.8 M to \$94.5 M for FY 2015.

Shifting State Police Expenses from MVH to Other Funds: The bill removes the requirement that the MVH pay one-half of the amount appropriated to the State Police Department for its operations. Shifting the responsibility for payment of net State Police expenses from the MVH to other funds would result in approximately \$80 M - \$90 M in additional MVH funding available for distribution to INDOT, counties, and cities and towns each year, depending upon the level of State Police appropriations for the biennium. General Fund expenditures will be affected by a corresponding amount, depending on appropriations. Additional distributions to INDOT are estimated to total from \$42.4 M to \$47.7 M annually. Additional local funds are estimated to be \$37.6 to \$42.3 M (\$25.6 M to \$28.8 M for counties and \$12.0 M to \$13.5 M for cities and towns).

Distribution of Sales and Use Taxes: Of the \$107.1 M in additional funds going to the MVHA, additional funds to INDOT are estimated to be \$56.8 M in FY 2014 and \$59.2 M in FY 2015. Additional local funds are estimated to be \$50.3 M for FY 2014 (\$34.2 M for counties and \$16.1 M for cities and towns) and \$52.2 M for FY 2015 (\$35.5 M for counties and \$16.7 M for cities and towns).

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, State Revenue Forecast, Fiscal Year 2015, December 17, 2012; Quarterly Inheritance Tax Reports, FY 1997- FY 2012; Michelle Marshel, DWD, mmarshel@dwd.in.gov; Revenue Forecast Technical Committee Presentation to the State Budget Committee, General Fund Revenue Forecast: Fiscal Years 2013-2015, December 17, 2012; FY 2013-2015 Revenue Forecast Cigarette Tax model; 2007 Economic Census, Census Bureau 2010 E-Stats, Bureau of Economic Analysis.

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