MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2023

The following discussion and analysis of the State of Indiana's financial performance provides an overview of the state's financial activities for the fiscal year (FY) ended June 30, 2023. Please read it in conjunction with the transmittal letter at the front of this report and the state's financial statements, which follow this section.

Financial Highlights

- For FY 2023, on a government-wide basis, the assets and deferred outflows of the State of Indiana exceeded its liabilities and deferred inflows by $30.5 billion. This compares with $26.1 billion for FY 2022.
- At the end of the FY 2023, unassigned fund balance for the General Fund was $1.7 billion, or 8.4% of the total General Fund expenditures.
- On a government-wide basis for the primary government, the state incurred expenses net of program revenues of $20.5 billion, which are offset by general revenues totaling $25.0 billion, giving an increase in net position of $4.5 billion.
- General fund forecasted revenue for the primary government decreased by $132.5 million, or 0.6%, from FY 2022.
- Combined general fund reserve balances for FY 2023 were $2.9 billion.
- An excess reserves calculation was triggered at the conclusion of FY 2022 that directed $2.5 billion of the reserve balance to reduce the teachers pre-1996 pension liability. This transfer was made in FY 2023.
- During the special legislative session in August 2022, the Indiana General Assembly passed, and Governor Holcomb signed, a taxpayer refund of $200 per taxpayer. This was in addition to a $125 taxpayer refund previously provided in FY 2022.
- Indiana's Pre-1996 Teachers' Retirement Fund Pay-Go Plan's funded status increased from 37.5% to 63.6%. This led to overall funded status of INPRS managed pension plans increasing from 74.8% to 82.2%.
- Indiana is one of a minority of states that has the highest credit rating assigned by all three independent credit rating agencies: Fitch, Moody's, and Standard & Poor's Ratings Service (S&P). Fitch's October 2023 report states that "Indiana remains very well positioned to deal with economic downturns, with exceptionally strong gap-closing capacity in the form of ample budgetary reserves, robust control over revenues and spending, and a demonstrated willingness to take timely budgetary actions."
- Indiana continues to position itself as one of the lowest debt-level states in the country. Net tax supported debt (NTSD) represents just $366 per capita, the 7th lowest in the country ("Ability to service long-term liabilities and fixed costs improves", Moody's Investor Service, September 26, 2023). Indiana has continued its low debt discipline by not issuing any appropriation debt over the last budget cycle. Due to Indiana's strong cash position, capital projects were cash funded as opposed to debt financed in order to maintain maximum financial flexibility.
- Indiana has received several accolades for its business environment. This includes favorable rankings of 6th in the nation and best in the Midwest in Chief Executive Magazine's annual "Best States for Business" survey (April 2023), top 10 best states for business tax climate according to the Tax Foundation 2023 index, and 1st in infrastructure according to CNBC.

Key Economic Indicators

	Dec. 31, 2022	Dec. 31, 2021	% Change
Total Labor Force	3,396,110	3,289,362	3.2%
Total Employed Labor Force	3,308,815	3,239,887	2.1%
Total Goods and Service Employment	3,246,900	3,199,300	1.5%
Service-Providing Employment	2,535,300	2,480,900	2.2%
Goods-Producing Employment	711,600	695,900	2.3%
Unemployment Rate	2.6%	1.5%	72.8%
Median Household Income	66,785	62,743	6.4%

Sources: Indiana Department of Workforce Development, Bureau of Labor Statistics, and U.S. Census Bureau.

Salaries and benefits for state employees represent approximately 5.2% of governmental fund expenditures. The following table shows a ten-year history of the count of full-time state employees.

Full Time State Employees Paid Through The State Comptroller's Office

Year	Governor's Authority	Judiciary	Other Elected Officials	On Disability Leave	Total
2023	28,432	1,113	868	405	30,818
2022	27,828	1,092	831	643	30,394
2021	28,803	964	896	576	31,239
2020	29,607	950	1,147	576	32,280
2019	28,868	922	1,124	556	31,470
2018	28,634	908	1,095	590	31,227
2017	28,286	894	1,062	646	30,888
2016	28,315	886	1,107	669	30,977
2015	28,157	865	1,083	744	30,849
2014	28,279	845	1,065	783	30,972

For more information on personnel paid through the State Comptroller, please read the Statistical Section.

Overview of the Financial Statements

This Financial Section consists of four parts: management's discussion and analysis (this part), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the state. The first two statements are government-wide financial statements that provide both long-term and short-term information about the state's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the state government, reporting the state's operations in more detail than the government-wide statements.

- The governmental fund statements tell how general government services such as public safety, education, and welfare were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the Unemployment Compensation Fund.
- Fiduciary fund statements provide information about the financial relationships in which the state acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as the retirement plan for the state's employees.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the state as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the state's net position and how it has changed. Net position, which equals the state's assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, is one way to measure the state's financial health, or position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State of Indiana is improving or deteriorating. To assess the overall health of the state, additional non-financial factors should be considered, such as changes in the state's tax base, the condition of the state's roads and the state's student population. The government-wide financial statements of the state are divided into three categories:

- **Governmental activities**. Most of the state's basic services are included here, such as the state's roads and bridges, and health and environmental programs. State sales and income taxes and federal grants finance most of these activities.
- **Business-type activities**. The state provides goods and services through these activities that are financed or recovered primarily through fees and user charges. The Unemployment Compensation Fund, the Indiana State Park Inns Authority, and the Indiana Residual Malpractice Insurance Authority are included here.
- **Discretely Presented Component Units**. These are legally separate discretely presented entities for which the state is financially accountable. These include, among others, the Indiana Finance Authority, the State Lottery Commission of Indiana, the Indiana Bond Bank, the Indiana Housing and Community Development Authority, and colleges and universities that receive state funding.

Fund Financial Statements

The fund financial statements provide more detailed information about the state's most significant funds, not the state as a whole. Funds are accounting devices that the state uses to keep track of specific sources of funding and spending for particular purposes. The State of Indiana uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The state has three kinds of funds: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds**. Most of the state's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs.

   *Relationship and Reconciliation***.** Because the information provided in the governmental funds statements does not encompass the additional long-term focus of the government-wide statements, reconciliation pages are provided. On the page following each governmental fund's financial statement, these reconciliations explain the differences between the government-wide and the fund financial statement. Government-wide statements use full accrual accounting. Revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements use the modified accrual basis of accounting. Revenues are recognized when earned so long as they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. Specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

   Non-current assets such as infrastructure, land, and property, plant and equipment appear on the government-wide statements but not on the governmental fund statements where they are expensed as acquired rather than capitalized. Non-current liabilities such as lease and subscription-based information technology (IT) arrangements (SBITAs) payables and net pension liabilities also appear on the government-wide statements but not on the fund statements. Internal service funds are included as part of the governmental activities in the government-wide statements but not the governmental fund financial statements because they provide services to the governmental funds.

2. **Proprietary funds**. Services for which the state charges customers a fee are generally reported in proprietary funds. These funds use the economic resources measurement focus and the accrual basis of accounting. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact, the state's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information such as cash flows. The state uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the state's other programs and activities. An example would be the State Employee Health Insurance Fund.

3. **Fiduciary funds**. The state is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The state is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting. All the state's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the state's government-wide financial statements because the state cannot use these assets to finance its operations.

Financial Analysis of the State as a Whole

Net Position

The following is condensed from the Statement of Net Position:

State of Indiana
Condensed Schedule of Net Position
(in millions of dollars)

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Current and other assets	$ 24,125.7	$ 22,497.1	$ 1,769.1	$ 1,802.7	$ 25,894.8	$ 24,299.8
Capital assets	19,857.2	19,352.6	0.3	0.3	19,857.5	19,352.9
Total assets	43,982.9	41,849.7	1,769.4	1,803.0	45,752.3	43,652.7
Deferred outflows of resources	5,206.4	2,268.0	0.9	-	5,207.3	2,268.0
Total deferred outflows of resources	5,206.4	2,268.0	0.9	-	5,207.3	2,268.0
Current liabilities	8,702.1	7,311.0	202.9	93.6	8,905.0	7,404.6
Long-term liabilities	11,258.8	10,947.8	23.3	23.5	11,282.1	10,971.3
Total liabilities	19,960.9	18,258.8	226.2	117.1	20,187.1	18,375.9
Deferred inflows of resources	257.2	1,482.9	-	-	257.2	1,482.9
Total deferred inflows of resources	257.2	1,482.9	-	-	257.2	1,482.9
Net position:						
Net investment in capital assets	19,028.6	18,507.6	0.3	0.3	19,028.9	18,507.9
Restricted	2,636.5	1,344.8	1,488.5	1,627.6	4,125.0	2,972.4
Unrestricted	7,306.1	4,523.6	55.3	58.0	7,361.4	4,581.6
Total net position	$ 28,971.2	$ 24,376.0	$ 1,544.1	$ 1,685.9	$ 30,515.3	$ 26,061.9

At the end of the current FY, net position for the primary government increased by $4.5 billion.

Current and other assets increased by $1.6 billion, primarily due to increases in security lending collateral, attributed to owning more US treasuries at year end compared to previous year and a higher demand for borrowing by the broker/dealer community.

Capital assets increased by $504.6 million. The principal reasons for the increase in capital assets were infrastructure and construction in progress at the Indiana Department of Transportation primarily due to the continuation of the Next Level Agenda initiative, which focuses on maintaining and building the state's infrastructure.

Deferred outflows increased from $2.3 billion in FY 2022 to $5.2 billion in FY 2023. The state contributed

$4.2 billion to the teacher's Pre-1996 retirement fund and of this amount, $2.5 billion was an additional contribution from the FY 2022 excess reserve calculation.

Total liabilities increased $1.8 billion, predominantly due to security lending collateral. Long-term liabilities increased by $310 million, primarily from an increase in pension liabilities due to the net difference between projected and actual earnings on pension plan investments. Tax refunds payable decreased by $301.6 million mostly as a result of the payout of the initial automatic taxpayer refund.

Deferred inflows of resources decreased by $1.2 billion due to changes between projected and actual earnings on pension plan investments. Deferred inflows and outflows can fluctuate annually as the investment market changes.

Changes in Net Position

The following is condensed from the Statement of Activities:

State of Indiana
Condensed Schedule of Change in Net Position
(in millions of dollars)

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Revenues						
Program revenues:						
Charges for services	$ 4,216.1	$ 3,282.5	$ 431.8	$ 779.6	$ 4,647.9	$ 4,062.1
Operating grants and contributions	21,445.7	21,355.1	-	-	21,445.7	21,355.1
Capital grants and contributions	981.1	1,540.9	-	-	981.1	1,540.9
General revenues:						
Income taxes	8,833.7	9,069.4	-	-	8,833.7	9,069.4
Sales taxes	10,978.8	10,445.6	-	-	10,978.8	10,445.6
Other	5,086.1	3,756.5	102.2	1,568.9	5,188.3	5,325.4
Total revenues	51,541.5	49,450.0	534.0	2,348.5	52,075.5	51,798.5
Program Expense						
General government	4,975.1	3,063.0	-	-	4,975.1	3,063.0
Public safety	1,978.9	1,904.0	-	-	1,978.9	1,904.0
Health	573.9	682.4	-	-	573.9	682.4
Welfare	22,954.1	22,235.8	-	-	22,954.1	22,235.8
Conservation, culture and development	1,734.8	1,397.6	-	-	1,734.8	1,397.6
Education	10,995.2	13,050.0	-	-	10,995.2	13,050.0
Transportation	3,681.3	3,243.6	-	-	3,681.3	3,243.6
Interest expense	29.9	11.6	-	-	29.9	11.6
Unemployment compensation fund	-	-	642.9	1,226.7	642.9	1,226.7
Other	-	-	32.9	27.3	32.9	27.3
Total expenses	46,923.2	45,588.0	675.8	1,254.0	47,599.0	46,842.0
Change in net position	4,618.3	3,862.0	(141.8)	1,094.5	4,476.5	4,956.5
Beginning net position, as restated	24,352.9	20,514.0	1,685.9	591.4	26,038.8	21,105.4
Ending net position	$ 28,971.2	$ 24,376.0	$ 1,544.1	$ 1,685.9	$ 30,515.3	$ 26,061.9

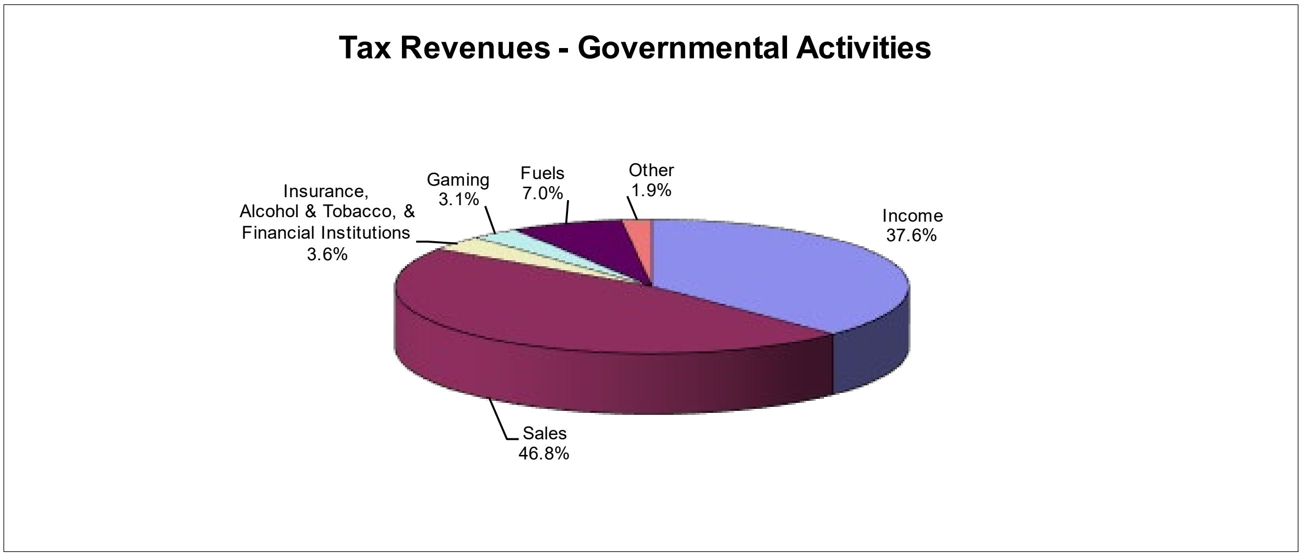
Governmental Activities

Program expenses exceeded program revenues by $20.3 billion. General revenues and transfers were $24.9 billion. The increase in net position was $4.6 billion as compared to $3.9 billion in FY 2022. The change in net position represents 9.0% of total revenues and 9.8% of total expenses.

Increased revenues were driven significantly by additional Hospital Assessment Fee revenue under the Medicaid program. A delay in getting an agreement with the hospitals in FY 2022 resulted in additional Hospital Assessment Fee accounts receivable being established and collected in FY 2023 after the agreement was finalized.

Expenses increased by $1.3 billion or 2.9%. General government expenses increased by $1.9 billion. Welfare expenses increased $718.3 million due to the continued increase in the number of Medicaid recipients from the economic impacts of the COVID-19 pandemic responses.

Tax revenues for governmental activities were broken down as follows:

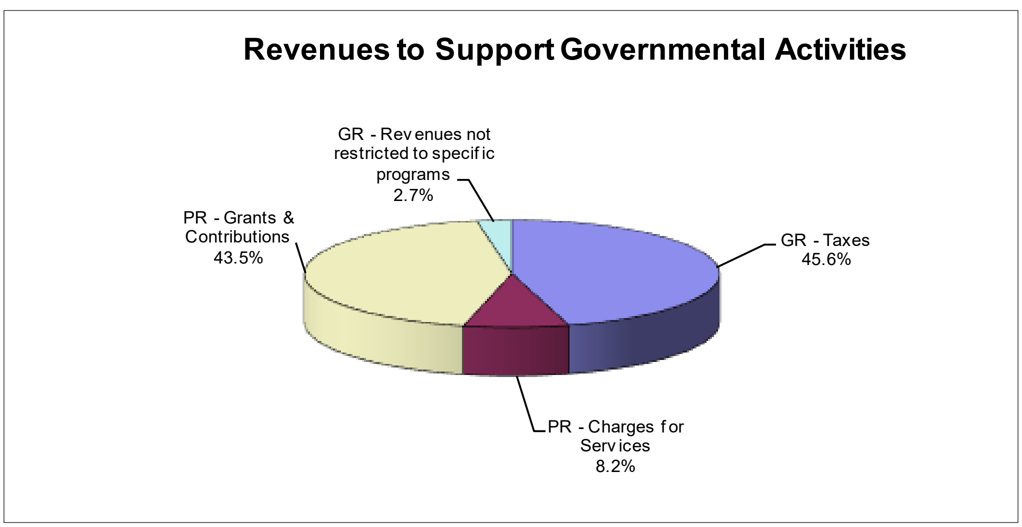


Tax revenues of $23.5 billion represent 45.6% of total revenues for governmental activities. This compares to $23.2 billion or 46.9% of total revenues in FY 2022. Program revenues accounted for $26.6 billion or 51.7% of total revenues. In FY 2022, program revenues accounted for $26.2 billion or 52.9% of total revenues.

General revenues other than tax revenues were $1.4 billion or 2.7% of total revenues as compared to $94.7 million or .2% of total revenues in FY 2022. American Rescue Plan Act (ARPA) revenues are now being reported in general revenues, multipurpose grants and contributions. Previously, these were reported under program revenue grants and contributions.

Investment earnings increased from negative earnings of $30.4 million in FY 2022 to positive earnings of $466.8 million in FY 2023 due to increased rates of return on investments.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

Total revenues were 109.8% of expenses which was an increase from 108.5% in FY 2022. Total revenues increased 4.2% from $49.5 billion in FY 2022 to $51.5 billion in FY 2023. Expenses increased 2.9% from $45.6 billion in FY 2022 to $46.9 billion in FY 2023.

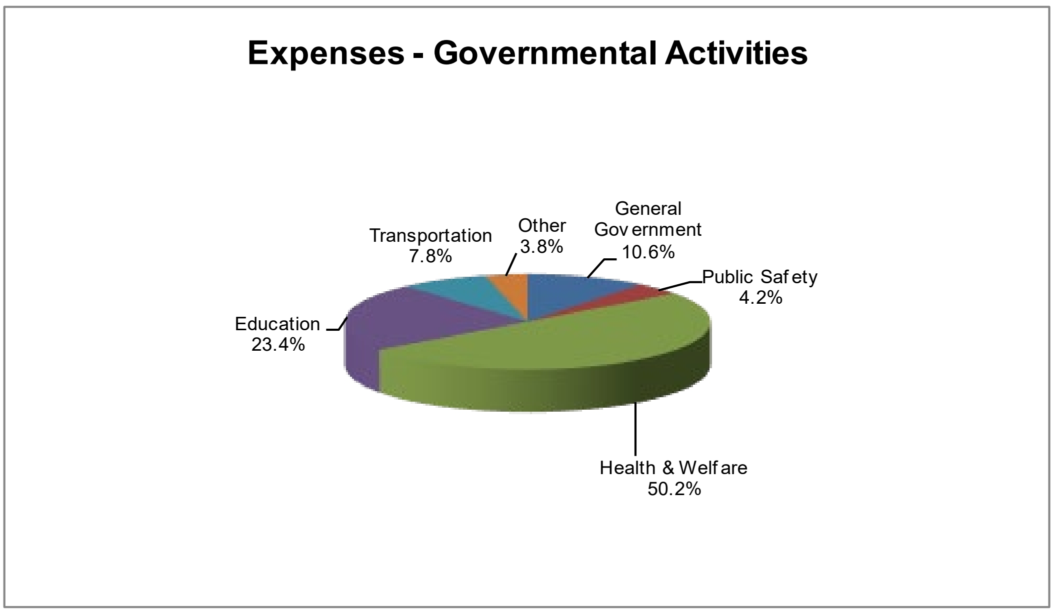
The largest portion of the state's expenses is for welfare, which is $23.0 billion, or 48.9% of total expenses. This compares with $22.2 billion, or 48.8% of total expenses in FY 2022. The change in welfare expenses was an increase of $718.3 million or 3.2%. $4.1 billion of welfare expenses in FY 2023 were funded from general revenues. Some of the major expenses were Medicaid Assistance ($17.7 billion), the U.S. Department of Health and Human Services Fund ($1.8 billion), and the federal food stamp program in the U.S. Department of Agriculture Fund ($1.8 billion).

General Government expenses increased $1.9 billion or 62.4% over the previous year. Due to excess reserves in fiscal year 2022, the state made an additional contribution to the Pre-1996 Teachers Retirement Plan of $2.5 billion and paid out $867.3 million in an additional automatic taxpayer refund in fiscal year 2023 from the state's General Fund.

Education comprises 23.4%, or $11.0 billion of the state's expenses. In FY 2022, education accounted for 28.6%, or $13.0 billion, of expenses. The change in education expenses was a decrease of $2.1 billion, or 15.7%. Some of the major expenses were tuition support of $8 billion; General Fund appropriations for state colleges and universities of $1.7 billion and Teachers' Retirement Pension of $1.7 billion; and fund expenditures for federal grant programs from the U.S. Department of Education Fund of $706.0 million, U.S. Department of Agriculture Fund of $611.2 million, and $997.5 million from the Covid-19 fund.

Transportation spending accounted for $3.7 billion, or 7.8% of expenses. Transportation comprised $3.2 billion or 7.1% of expenses in FY 2022. Transportation includes expenses related to the maintenance and construction of state infrastructure.

Total expenses for governmental activities were broken down as follows:



Business-type Activities

Business-type activities represent 1.0% of the Primary Government's revenues and 1.4% of the expenses. The Unemployment Compensation Fund accounts for 93.0% of business-type activities program revenues and 95.1% of operating expenses. The change in net position for business-type activities was a decrease of $141.9 million.

The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals, and the fund covers general and administrative expenses. Expenses in the fund exceeded revenues by $139.1 million. This compares to FY 2022 when this fund's revenues exceeded expenses by $1.1 billion. Employer contributions into the fund decreased by $348.4 million, from $750.1 million in FY 2022 to $401.7 million in FY 2023. The decrease in net position of $139.1 million is primarily due to estimating an allowance for doubtful accounts on employer and overpayment receivables.

The following schedule shows the net expense (revenue) attributable to each function of government. Each function of Indiana government is either self-supporting (a negative number) or requires additional general revenues to cover expenses (a positive number).

Net Cost of Primary Government
(in millions of dollars)

	June 30, 2023	June 30, 2022	% Change
Governmental Activities:			
General government	$ 3,978.0	$ (201.4)	2075.2%
Public safety	1,096.4	1,026.7	6.8%
Health	(722.9)	(673.6)	-7.3%
Welfare	4,087.7	5,272.8	-22.5%
Conservation, culture, and development	1,254.5	1,420.8	-11.7%
Education	8,575.8	10,921.5	-21.5%
Transportation	1,980.8	1,631.0	21.4%
Interest expense	29.9	11.6	157.8%
Business-type Activities:			
Unemployment Compensation Fund	241.2	476.6	-49.4%
Malpractice Insurance Authority	0.4	0.3	33.3%
Indiana State Park Inns Authority	2.3	(2.6)	188.5%
Total	**$ 20,524.1**	**$ 19,883.7**	**3.2%**

Financial Analysis of the State's Funds

The total Governmental fund balance for the end of FY 2023 was $14.4 billion, up from $14.1 billion from last year. The General Fund accounts for most of this increase.

General Fund

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by state government which are not required to be accounted for in another fund. The fund balance of the General Fund at June 30, 2023 was $9.2 billion, which is 63.1% of total assets. This compares to a fund balance at June 30, 2022 of $9.6 billion, which was 72.8% of assets. The fund balance of $9.2 billion is comprised of nonspendable of $122.4 million, restrictions of $996.7 million, commitments of $48.9 million, and assignments of $6.3 billion, leaving an unassigned balance of $1.7 billion. The restricted amount consists of the Rainy Day Fund, which is accounted for in the General Fund. For more information on the components of fund balance, see the chart in the Notes to the Financial Statements III(B).

The General Fund's revenues increased 4.4%, or $924.5 million, from FY 2022, mainly because of an increase in investment income of $497.3 million and current service charge revenue of $390.5 million. Investment income increased due to more favorable returns on investments. Current Service Charge revenue increased due to increased distributions to the state from the Hoosier Lottery and the reclassification of the Tobacco Settlement fund from a special revenue fund to the General Fund.

General Fund expenditures increased $4.2 billion, or 26.0% from FY 2022. The most significant reasons for the increase in FY2023 were results of revenue surpluses from the previous budget biennium – the state increased funding of $2.7 billion to the Teachers Pre-1996 Retirement Pension plan of which $2.5 billion resulted from the FY2022 excess reserve calculation and authorized up to $935.0 million for the additional taxpayer refund of which $867.3 million was disbursed. Additionally, the state increased its tuition support funding to local educational agencies by $387.0 million.

General Fund net transfers remained similar to FY2022. Increases to transfers in and out primarily related to Medicaid state match funding and program funding reclassification. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the fund balance of the General Fund decreased $554.9 million. This is a reflection of the state government's continued support to reduce the net pension liabilities related to the state's pension plans.

Public Welfare-Medicaid Assistance Fund

Medicaid is an insurance program for low-income individuals. It is jointly funded by the Federal government and the state.

The fund received $15.5 billion in federal revenue as compared to $12.8 billion in FY 2022. This increase was a result of an increase in eligible recipients and higher utilization. State funding primarily comes through transfers from the General Fund. Net transfers from the General fund were $1.9 billion which was comparable to FY 2022. Increases to transfers in and out primarily related to state match funding and program funding reclassification. The fund distributed $1.1 billion more in Medicaid Assistance during the year as compared to the prior year due to an increase in the number of eligible Medicaid recipients. The fund balance increased by $338.3 million from FY 2022 to FY 2023.

U.S. Department of Health and Human Services Fund

The U.S. Department of Health and Human Services Fund is a fund to account for federal grants that are used to carry out health and human services programs.

The fund received $1.6 billion in federal grant revenues and expended $2.1 billion. Revenues increased $255.6 million and expenditures increased $343.3 million from FY 2022 to FY 2023. These increases were due to increased enrollment and utilization of the Children's Health Insurance Program (CHIP). Also, there were increases in Medicaid administration driven by increased enrollment and restarting eligibility redeterminations that were paused during the COVID public health emergency. In addition, there were increases in federal funding at the Department of Child Services due to retroactive rate increases for services and increased eligibility of DCS families and children. The US DHHS Fund received transfers in of $473.3 million mostly from the General Fund for various health and human services programs. The change in fund balance from FY 2022 to FY 2023 was a decrease of $63.1 million.

ARPA – Economic Stimulus Fund

The ARPA-Economic Stimulus Fund provides federal grant dollars to support the state in its efforts to contain COVID-19 and in responding to the impact of COVID-19 on communities, residents, and businesses. It's uses build on and expand the support provided to the state and local governments through the CRF.

The fund received $728.1 million in revenues and had $724.8 million in expenditures. The change in fund balance from FY 2022 to FY 2023 was an increase of $3.3 million. Revenues and expenditures in the fund decreased as a result of the state winding down its eligible expenditures under this federal program.

General Fund Budgetary Highlights

FY 2023 finished with revenue collections of $21.1 billion. This was slightly below (-0.6%) revenue collections for FY 2022. The state ended FY 2023 with combined General Fund balances of $2.9 million.

Revenue collections in FY 2023 finished 0.1% above the April 2023 revenue forecast. The forecast presented on April 19, 2023 projected total General Fund collections in FY 2024 to be $21.9 billion (or 2.7% above FY 2023) and FY 2025 to be $22.4 billion (or 2.5% above FY 2024).

Strong revenue collections in FY 2022 coupled with modest expenditure growth in the same fiscal year resulted in historic surplus levels. This triggered a statutory excess reserve calculation that required a FY 2023 transfer of $2.5 billion of reserve balances to the Indiana Public Retirement System for credit against the pre-1996 Teachers' Retirement Fund. Additionally, $867.3 million was returned to Hoosier taxpayers in the form of an Automatic Taxpayer Refund and $450.3 million was transferred to the Rainy Day Fund.

In response to Indiana's strong financial position in FY 2022 and FY 2023, Hoosier lawmakers passed various tax changes. These included a full repeal of the utility receipts tax and the utility services use tax along with a phased reduction in the individual adjusted gross income tax rate from the current rate of 3.23% to an eventual rate of 2.9% in 2027.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $19.9 billion, which was 43.4% of total assets for the primary government. Related debt was $0.9 billion. Net investment in capital assets for the primary government was $19.0 billion. Related debt was 4.5% of capital assets. Total capital assets increased $504.6 million or 2.6% and is mostly attributable to increases in the Indiana Department of Transportation's infrastructure and construction in progress as a result of the continued emphasis on improving the state's infrastructure through the Next Level Agenda initiative. More detailed information about the state's capital assets is presented in Note IV(D) to the Financial Statements.

The following table shows the percentage change in capital assets from FY 2022 to FY 2023.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2023	2022	2023	2022	2023	2022	
Land	$ 2,813.6	$ 2,737.1	$ -	$ -	$ 2,813.6	$ 2,737.1	2.8%
Infrastructure	13,199.3	13,019.0	-	-	13,199.3	13,019.0	1.4%
Construction/Development in progress	1,881.6	1,587.2	-	-	1,881.6	1,587.2	18.5%
Property, plant and equipment	4,134.3	3,978.8	1.1	1.1	4,135.4	3,979.9	3.9%
Computer software and subscription based IT arrangements	1,024.2	937.9	-	-	1,024.2	937.9	9.2%
Less accumulated depreciation	(3,195.8)	(2,907.4)	(0.8)	(0.8)	(3,196.6)	(2,908.2)	9.9%
Total	**$ 19,857.2**	**$ 19,352.6**	**$ 0.3**	**$ 0.3**	**$ 19,857.5**	**$ 19,352.9**	**2.6%**

Long-term Obligations

Long-term obligation items are included in the following table. These items comprised 55.9% of total liabilities.

The following table shows the percentage change from FY 2022 to FY 2023.

State of Indiana
Long-term Liabilities
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2023	2022	2023	2022	2023	2022	
Accrued liability for compensated absences	$ 225.7	$ 208.2	$ 1.0	$ 0.8	$ 226.7	$ 209.0	8.5%
Leases	231.3	200.5	-	-	231.3	200.5	15.4%
Subscription-based IT arrangements	26.1	-	-	-	26.1	-	100.0%
Financed purchases	571.2	644.5	-	-	571.2	644.5	-11.4%
Claims payable	-	-	22.3	22.7	22.3	22.7	-1.8%
Net pension liability	10,097.4	9,781.7	-	-	10,097.4	9,781.7	3.2%
Net OPEB liability	59.2	46.7	-	-	59.2	46.7	26.8%
OPEB DC liability	9.7	23.4	-	-	9.7	23.4	-58.5%
Asset retirement obligations	10.9	10.9	-	-	10.9	10.9	0.0%
Pollution remediation	27.3	31.9	-	-	27.3	31.9	-14.4%
Total	**$ 11,258.8**	**$ 10,947.8**	**$ 23.3**	**$ 23.5**	**$ 11,282.1**	**$ 10,971.3**	**2.8%**

Total long-term liabilities increased by 2.8% or $310.8 million. The largest increase was for the net pension liability of $315.7 million.

Net pension liabilities increased due to the net difference between projected and actual earnings on pension plan investments.

The liability for the other post-employment benefits continues to decrease as it has for the last few fiscal years as the state continues to pay down its liability related to the Retirement Medical Benefits defined contribution plan under IC 5-10-8.5-16.

More detailed information about the state's long-term obligations is presented in Note IV(F) to the Financial Statements.

Infrastructure

As required by GASB Statement No. 34, the state has capitalized its infrastructure. This amounts to $13.0 billion in roads and bridges using the modified approach, $2.2 billion in land and $35.4 million in property (septic, sewer, and water systems; and streets/sidewalks/curbs) and dams being depreciated. In order to utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at or above the established condition level.

Under the modified approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 11,110 centerline road miles of pavement along 240 routes and approximately 5,821 bridges that the state is responsible to maintain.

The state has consistently maintained the assessed conditions of roads over the past three years. It is the state's policy to maintain a network average International Roughness Index based on the right wheel path (IRI RWP) of no more than 101 for Interstate Roads, NHS Non-Interstate, and Non-NHS Roads (a good rating is in the range of 80–114). The most recent condition assessment, completed for FY 2023, indicated that the average IRI RWP for roads was in an acceptable range.

The state has maintained the assessed conditions of bridges at levels which are above the established benchmarks. It is the state's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83% (a good rating is 80% - 90%). The most recent condition assessment, completed in FY 2023, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Total actual maintenance and preservation costs for Interstate Bridges, NHS Bridges, and Non-NHS Bridges were higher than planned during fiscal 2023. Various factors contributed to this including letting additional projects, scope changes, and competitive biddings.

The total actual maintenance and preservation costs for all road classifications were lower than planned during FY 2023. Various factors contributed to these costs being less than planned including bids that came in under the original estimates, work volumes, and redefining the repairs needed and the methods used.

The average IRI RWP for Interstate, NHS roads, and non NHS roads were in the good condition rating range. The state's standard of having less than 12.5% of all roads rated in poor condition was met. The average sufficiency rating for the maintenance of bridges in all road classes was excellent

Economic Factors

Indiana employment and personal income indicators continue to grow (3.0% and 4.4% respectively in FY 2023) and trend above pre-pandemic levels. In addition to higher payroll, Indiana's unemployment rate is near 3.12% in FY 2023 compared to 3.14% in FY 2022 and 5.37% in FY 2021. Indiana's Gross State Product (GSP) in FY 2023 grew 0.7% in real value compared to 3.4% in FY 2022. This deceleration in real GSP follows the national trend as the economy transitions away from pandemic-related idiosyncratic factors (including monetary and fiscal policy, and more). Real Indiana Gross State Product growth from Q2 2022 to Q2 2023 was 1.1%.

In comparison to other states, Indiana's economy ranked 19th largest in the U.S. in terms of value of goods and services in calendar year 2022. Indiana's largest contributor to real GSP has been and continues to be the manufacturing sector. The manufacturing sector accounts for over 500,000 jobs and 16.5% of the non-farm jobs in Indiana. Canada and Mexico are Indiana's leading merchandise export markets with chemicals, transportation equipment, and machinery accounting for nearly two-thirds of total export categories in 2022.

Contacting the State Comptroller

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors a general overview of the state's finances and demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact ACFR@comptroller.in.gov or 317-232-3300.