



STATE OF INDIANA
OFFICE OF THE GOVERNOR
State House, Second Floor
Indianapolis, Indiana 46204

Eric J. Holcomb
Governor

March 14, 2024

The Honorable Miguel Cardona
Secretary
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

Dear Secretary Cardona:

Included with this letter is Indiana's request for a waiver for the FY2023 Maintenance of Effort (MOE) requirements for K-12 education and higher education under section 2004(a) of the American Rescue Plan Act (ARPA). While the state continued to grow its general fund investment in K-12 and higher education to historic levels, other investments disrupted the FY2023 proportionality measures required by the MOE calculation provisions. Funding for elementary and secondary education as a proportion of overall state spending in FY2023 was 45.5%, 0.8% less than the 46.3% baseline years' average. State support for higher education as a proportion of overall state spending was 10.4%, 0.5% less than the 10.9% baseline years' average. Nevertheless, Indiana has remained committed to its priority investment in education.

Shortly after the signing of the state's FY2022 and FY2023 biennial budget on April 29, 2021, the State of Indiana sent a letter to the U.S. Department of Education detailing a preliminary analysis of the challenges presented by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) and ARPA MOE proportionality requirements and the context regarding the priority that Indiana has and continues to place on education funding. Despite these challenges, Indiana met the proportionality requirements for K-12 and higher education funding for FY2022. The State of Indiana requests a waiver for the FY2023 MOE requirement for K-12 and higher education funding under section 2004(a) of the ARPA.

Indiana continues to commit approximately half of the entire state budget to K-12 education and an additional 10% for higher education. The FY2022 and FY2023 budget reinforced this priority, as did the FY2024 and FY2025 budget passed in April 2023. Over the last four years, the Indiana General Assembly has continued to appropriate increasing dollars to tackle pandemic learning loss, increase per pupil funding, and reduce the unfunded liabilities in teachers' retirement funds.

Section 1 – Pandemic Response

In response to the pandemic's potential adverse impact to the budget, the state took steps early in the pandemic to restrain overall state spending. When agencies across the state were subject to significant allotment restrictions (15%) as protective measures against the pandemic, K-12 funding was exempted. Higher education funding, though restricted by 7%, was both restored and increased in the years following. No such restrictions were placed on need-based financial aid appropriations.

Due to the economic impacts from the COVID-19 pandemic and the tax filing deadline changes, the State of Indiana faced a significant revenue shortfall in FY2020. To maintain a positive balance in the General

Fund, funding was transferred from the state's reserve balances. The Budget Director's memo directing the transfer of \$577.6 million from the Medicaid Contingency and Reserve Account to the General Fund can be found in Exhibit A.

The U.S. Department of the Treasury promulgated ARPA rules instructing states and local governments how to calculate lost revenue during the COVID-19 pandemic. Based on those instructions, the state experienced a \$2.4 billion revenue loss in FY2020 compared to the counterfactual baseline growth trend of the three years prior to the pandemic. See Table 1 in the Appendix. Additional revenue loss of \$466 million was calculated for FY2023. In light of volatile revenue fluctuations during the pandemic and additional needs for Medicaid, public health, and child welfare provision, the state took a prudent approach by avoiding structural program growth that would commit uncertain future revenue growth beyond sustainable levels. More information regarding the state's revenue can be found in Exhibit B.

Additionally, state and federal Medicaid expenditures have continued to grow considerably year-to-year. As seen in Table 2, state general fund expenditures for Medicaid grew by over \$400 million in FY2023.

However, even during the pandemic, the State of Indiana never reduced appropriations for education (elementary, secondary, or higher), but increased them to historic investment levels. More information regarding Indiana's management of the COVID-19 pandemic can be found in Exhibit C.

Section 2 – Relevant Factors

As seen in Table 3, K-12 funding has increased each year since FY2017. In fact, the increase in general fund expenditures between FY2022 and FY2023 (\$386.1 million) is the largest increase year-over-year in the same span of time (a 4.7% increase from FY2022 dollars). Additionally, per pupil funding has increased each year, with FY2023 being a 4.3% increase to per pupil, the largest in several years.

As seen in Table 4, higher education funding has also continued to increase each year. Total higher education state expenditures increased by 5.73% (\$103.2 million) in FY2022 and another 1.42% (\$27.1 million) in FY2023. Per pupil funding increased by 7.95% in FY2022 and 1.66% in FY2023. Per pupil funding in FY2023, \$9,201, is the highest it's been in the last 10 years.

Indiana general fund revenues rebounded significantly as it and the nation emerged from the pandemic. Because of the unlikely sustainability of the uncommon growth in state general fund revenues, the state chose to make its largest investments in one-time infrastructure and economic improvement projects while increasing support for education and addressing significant needs in Medicaid funding. Examples of these one-time investments shown in Table 5 include economic development, transportation, and a \$730 million additional contribution to the Teachers' Retirement Fund. Other key growth items in FY2023 specific to education included investments made to the Indiana University Purdue University Indianapolis (IUPUI) Campus, Ivy Tech Community College, and the Charter and Innovation Network Fund, as seen in Table 6.

Federal relief, such as ESSER and GEER, has been critical in helping the state maintain stability and mitigate financial risks and has complemented state general fund investments. As seen in Exhibit D, schools are primarily using the federal relief to fund four key priorities: Accelerating Learning, Supporting Educators, Sustainable Innovation, and Updating Technology and Infrastructure. These federal funds are currently being deployed for one-time investments and innovative strategies.

Indiana has continued to grow its investment in K-12 and higher education at historic levels. The COVID-19 pandemic introduced a great level of uncertainty, particularly to projected revenues. The state balanced

its commitment to ongoing priority programs with prudent one-time key investments. Indiana's priority funding of K-12 and higher education is clear and continues into the current and future fiscal years, as described in Exhibits E and F. In the current biennium, large investments have already been made to key K-12 and higher education initiatives, such as teacher training in the science of reading and performance-based funding for universities.

The State of Indiana respectfully requests a waiver for the FY2023 MOE requirements for K-12 education and higher education under section 2004(a) of the ARPA.

Sincerely,

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Appendix – Documents and Data

(Revenues and expenditures expressed in millions.)

Table 1: Actual Revenue vs. Counter Factual Baseline

	FY20	FY21	FY22	FY23
Actual Revenue	\$20,813	\$25,252	\$26,801	\$26,808
Baseline	\$23,266	\$24,504	\$25,852	\$27,275
Revenue Loss	\$ (2,414)	\$748	\$948	\$ (466)

Table 2: State General Fund Growth in Medicaid Expenditures

	FY19	FY20	FY21	FY22	FY23
Expenditure	\$2,229	\$2,268	\$2,164	\$2,203	\$2,678
Growth (%)	-	+1.7%	-4.6%*	+1.8%	+21.6%

*Decrease due to enhanced federal match made available through the Families First Coronavirus Response Act.

Table 3: K-12 Total General Fund Expenditures and Per Pupil Funding Growth

	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Expenditures	\$7,205	\$7,328	\$7,414	\$7,598	\$7,603	\$8,086	\$8,462
Total Enrollment	1,110,866	1,116,556	1,117,590	1,111,333	1,112,460	1,120,155	1,124,094
Per Pupil Funding	\$6,489	\$6,563	\$6,633	\$6,837	\$6,834	\$7,219	\$7,528
Change	-	+1.14%	+1.07%	+3.08%	0.00%	+5.63%	+4.28%

Table 4: Higher Education General Fund Expenditures and Per FTE Funding Growth

	FY19	FY20	FY21	FY22	FY23
Expenditures	\$1,819	\$1,870	\$1,800	\$1,903	\$1,930
Full Time Equivalents	224,369	223,329	214,692	210,277	209,787
Per FTE Funding	\$8,106.26	\$8,372.25	\$8,384.38	\$9,051.31	\$9,201.60
Change	-	+3.28%	+0.14%	+7.95%	+1.66%

Table 5: Largest FY23 Budget Increases of General Fund Dollars

	FY23 General Fund Expenditure	FY22 to FY23 Increase	FY22 to FY23 Increase
Teachers Retirement Pension Fund	\$1,705	\$730	+74.9%
K-12 School Tuition Support	\$8,146	\$387	+4.99%
Economic Development Infrastructure	\$59	\$58	+99.2%
Rail and Transportation Investment	\$74	\$54	+73.0%

Table 6: Other Large Increases for FY2023 Expenditures in K-12 and Higher Education

	FY23 General Fund Expenditure	FY22 to FY23 Increase	FY22 to FY23 Increase
IUPUI Campus Fund	\$122	\$11	+9.00%
Ivy Tech State College Fund	\$253	\$5	+2.06%
Charter and Innovation Network Fund	\$46	\$10	+22.1%

Exhibit A. [SBA-MEMO-FY20-Medicaid-Reserve-Transfer.pdf \(in.gov\)](https://www.in.gov/sba/files/SBA-MEMO-FY20-Medicaid-Reserve-Transfer.pdf)
 (https://www.in.gov/sba/files/SBA-MEMO-FY20-Medicaid-Reserve-Transfer.pdf)

Exhibit B. [Indiana State Budget Agency Revenue Data](https://www.in.gov/sba/budget-information/revenue-data/)
 (https://www.in.gov/sba/budget-information/revenue-data/)

Exhibit C. [Indiana State Budget Agency COVID 19 Financial Management Hub](https://www.in.gov/sba/covid-19-financial-management/)
 (https://www.in.gov/sba/covid-19-financial-management/)

Exhibit D. [Indiana Department of Education GEER and ESSER Dashboard](https://www.in.gov/doe/grants/esser-geer-dashboard/)
 (https://www.in.gov/doe/grants/esser-geer-dashboard/)

Exhibit E. [FY2024-FY2025 General Fund Appropriations by Functional Category](https://www.in.gov/sba/files/27-Charts-2023-GFAppByFuncCat.pdf)
 (https://www.in.gov/sba/files/27-Charts-2023-GFAppByFuncCat.pdf)

Exhibit F. [FY2024-FY2025 K-12 and Higher Education Budget Information](https://www.in.gov/sba/files/58-Charts-2023-ED-2.pdf)
 (https://www.in.gov/sba/files/58-Charts-2023-ED-2.pdf)