

General Fund Revenue  
Forecast for  
Fiscal Years 2011-2013  
Revenue Forecast Technical Committee

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Presented to the State Budget Committee  
December 15, 2010

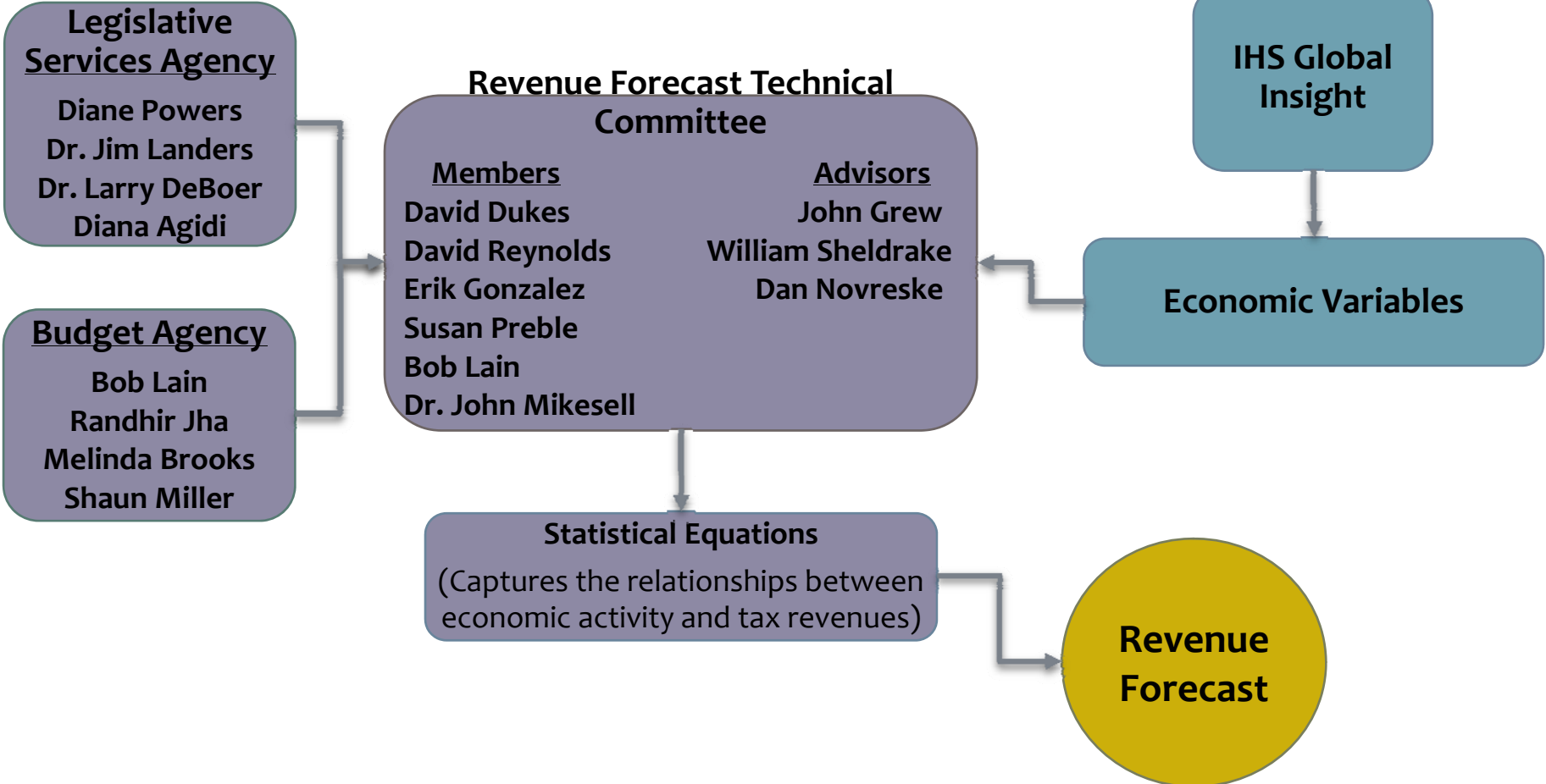
# Indiana Revenue Forecast

## Two Step Process

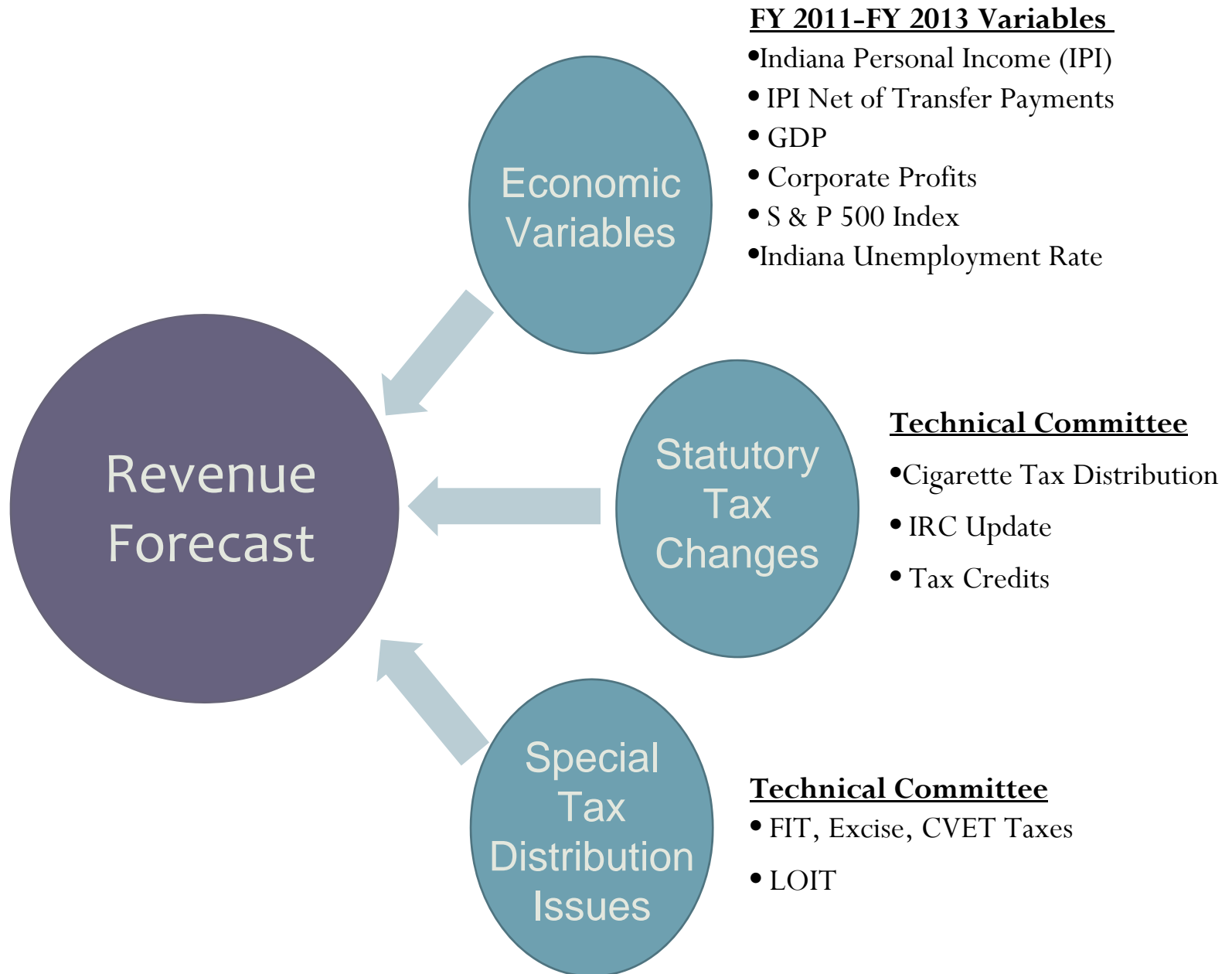
- Consensus
- Not Statutorily Based
- Forecast of Annual Revenue

### Revenue Forecast

### Economic Forecast



# Preparation of the Forecast



# Considerations for this Forecast

## Overall Performance

- Performing well; relative to targets Corporate taxes are underperforming and Individual Income tax is overperforming.

## Corporate Tax

- First recession without a Corporate Gross Income Tax
- Lack of history adds uncertainty

## LOIT

- Reversal from over-distributing relative to current collections to under-distributing relative to current collections.

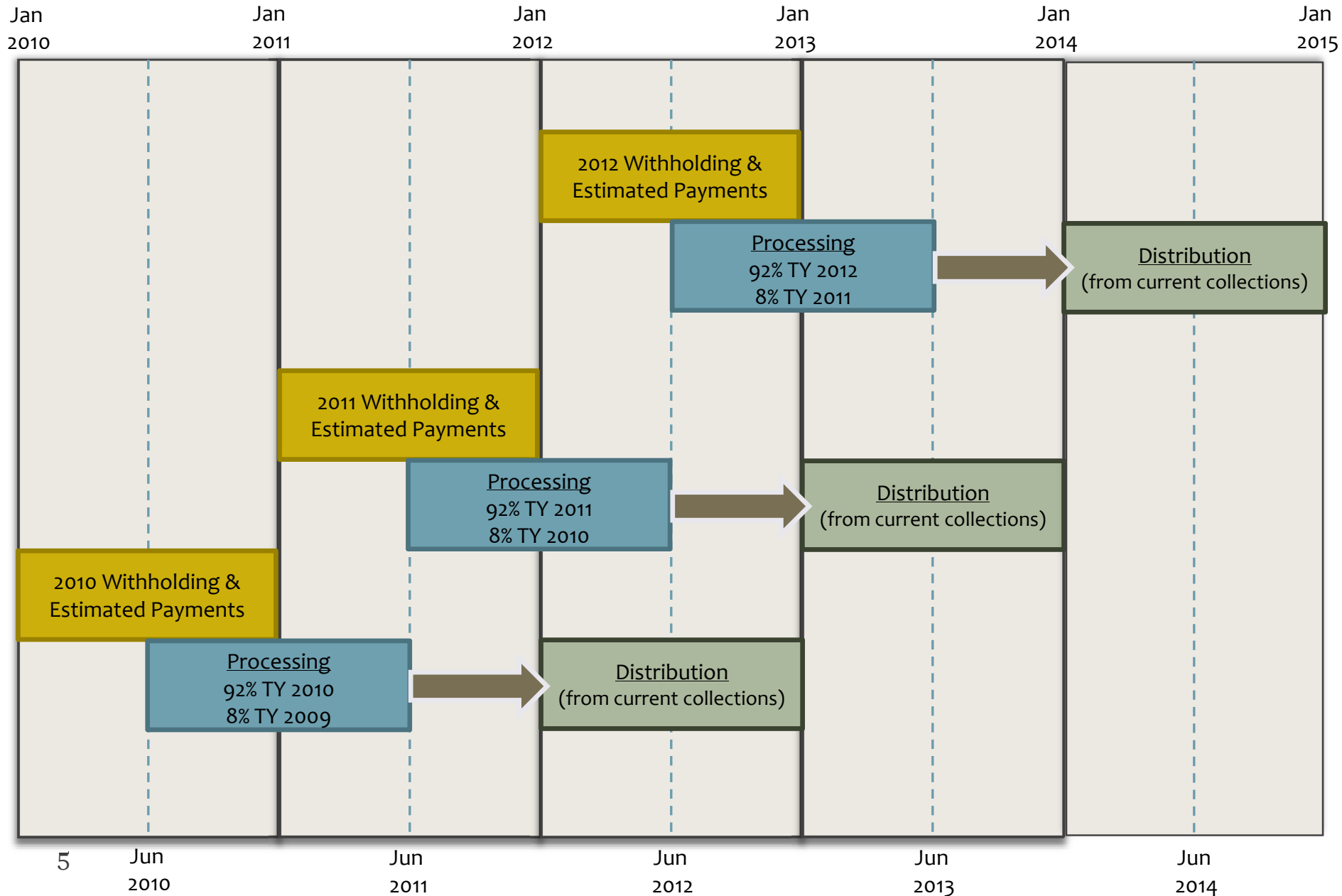
## Revenue Collections

- Revenue collections are becoming more stable allowing the Committee to begin to transform back to more traditional forecasting models.

## Riverboat and Racino Wagering

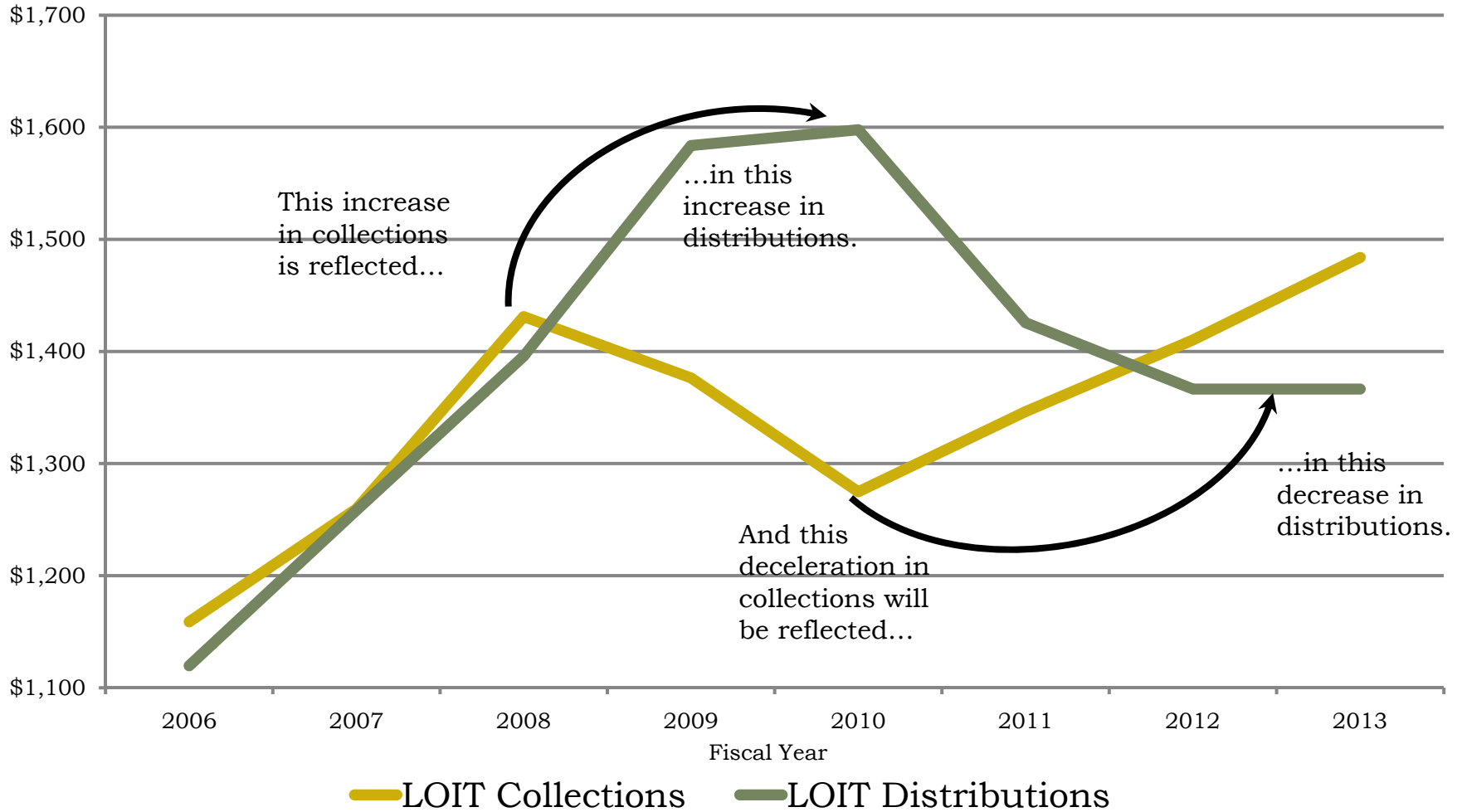
- Beginning in the second year of the forecast, collections from Riverboat and Racino wagering are expected to decline due to increasing out-of-state competition.

# Statutory Collection and Distribution of LOIT

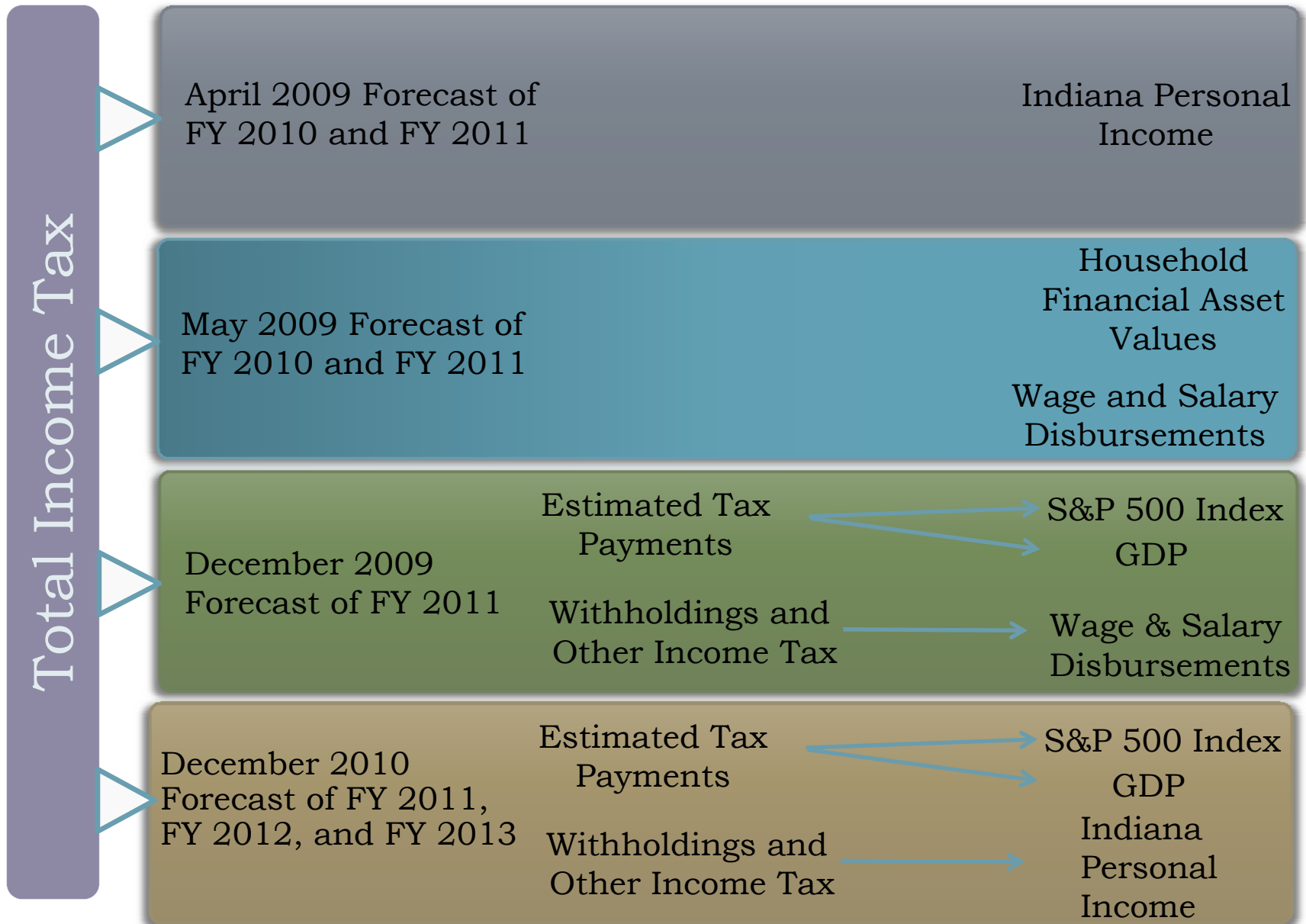


# LOIT Distribution Lag

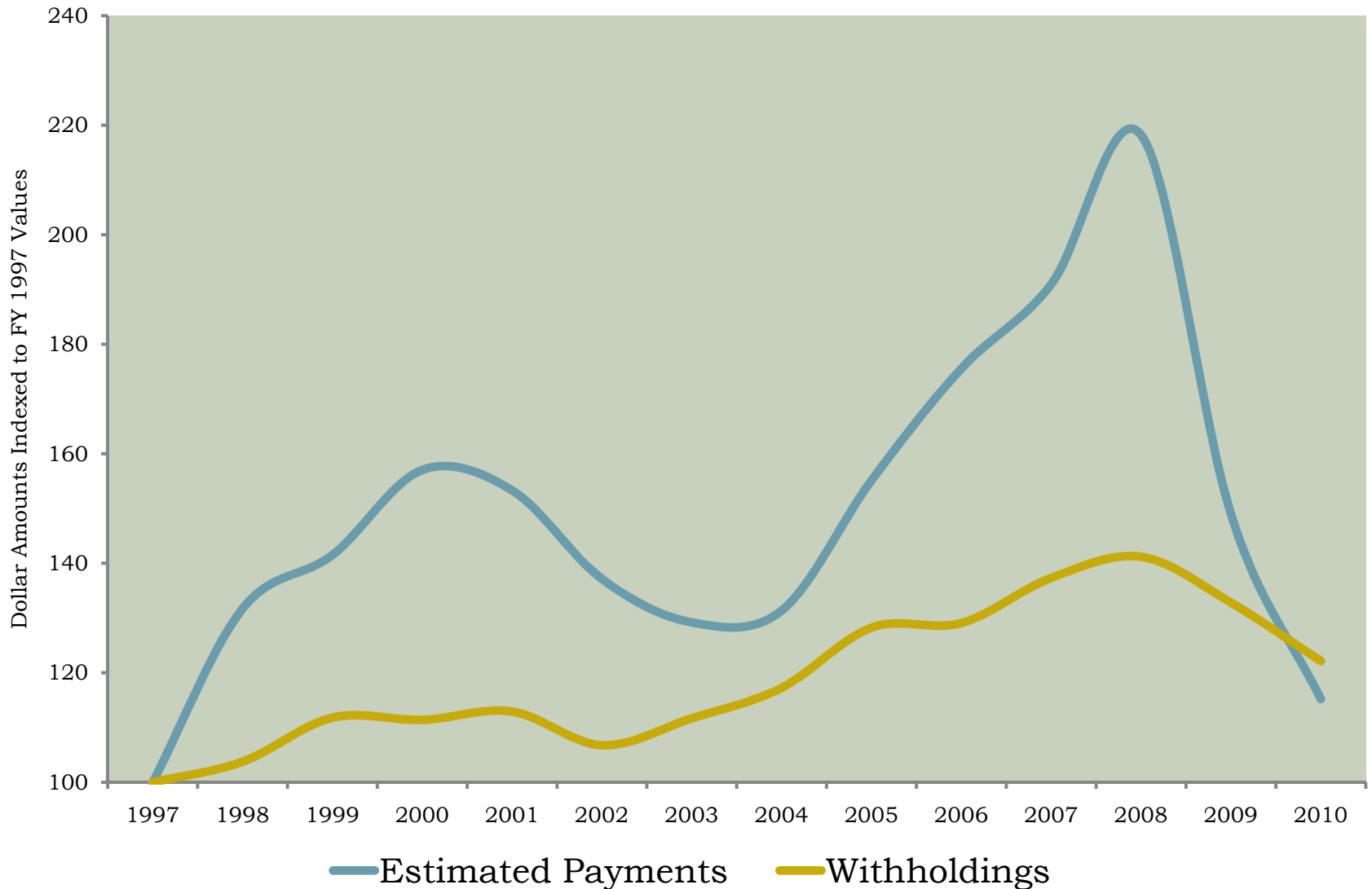
(In Millions)



# Changes in the Individual Income Tax Model



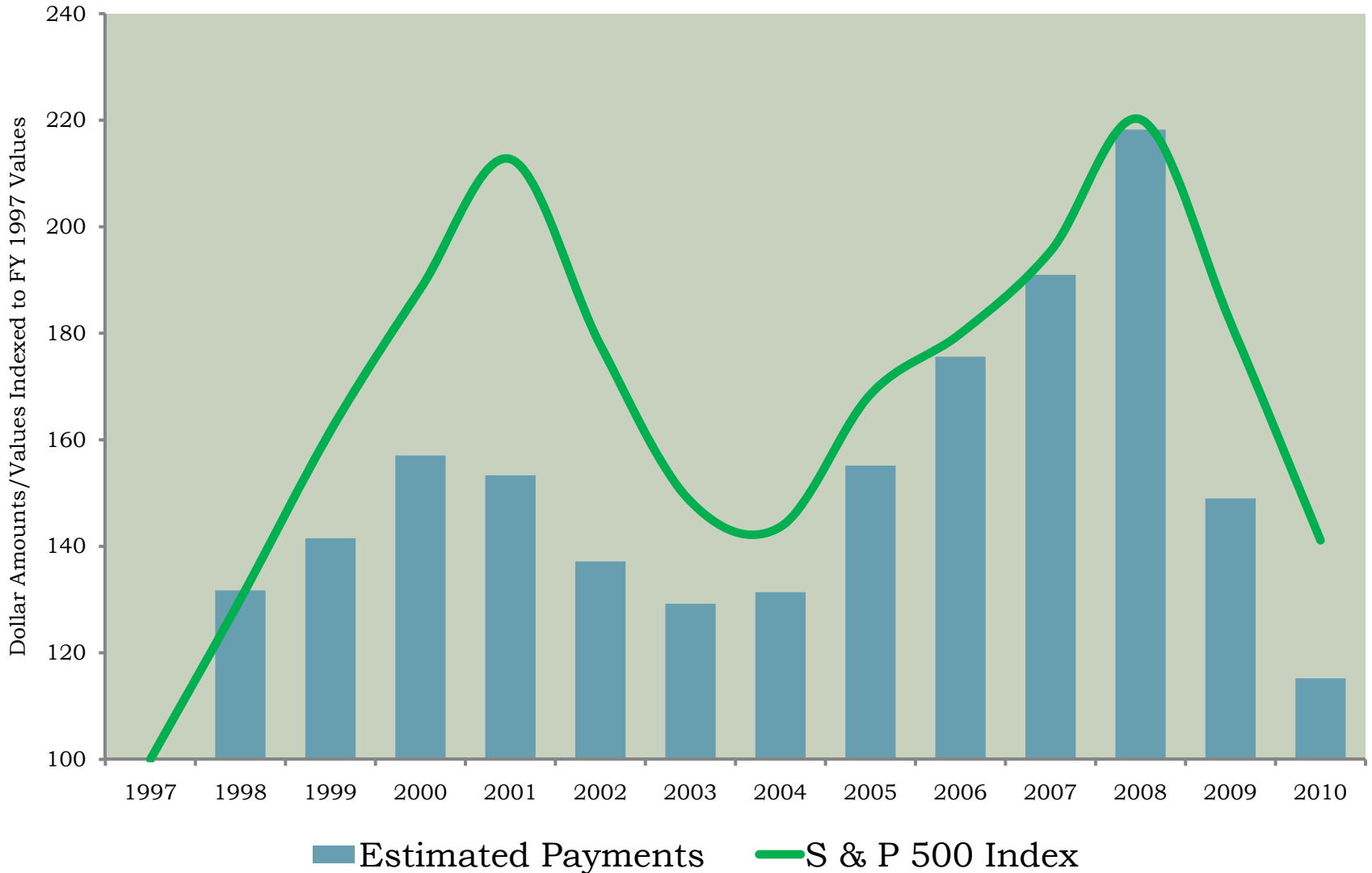
# Estimated Payments vs. Withholdings



Data Source: Indiana Department of State Revenue

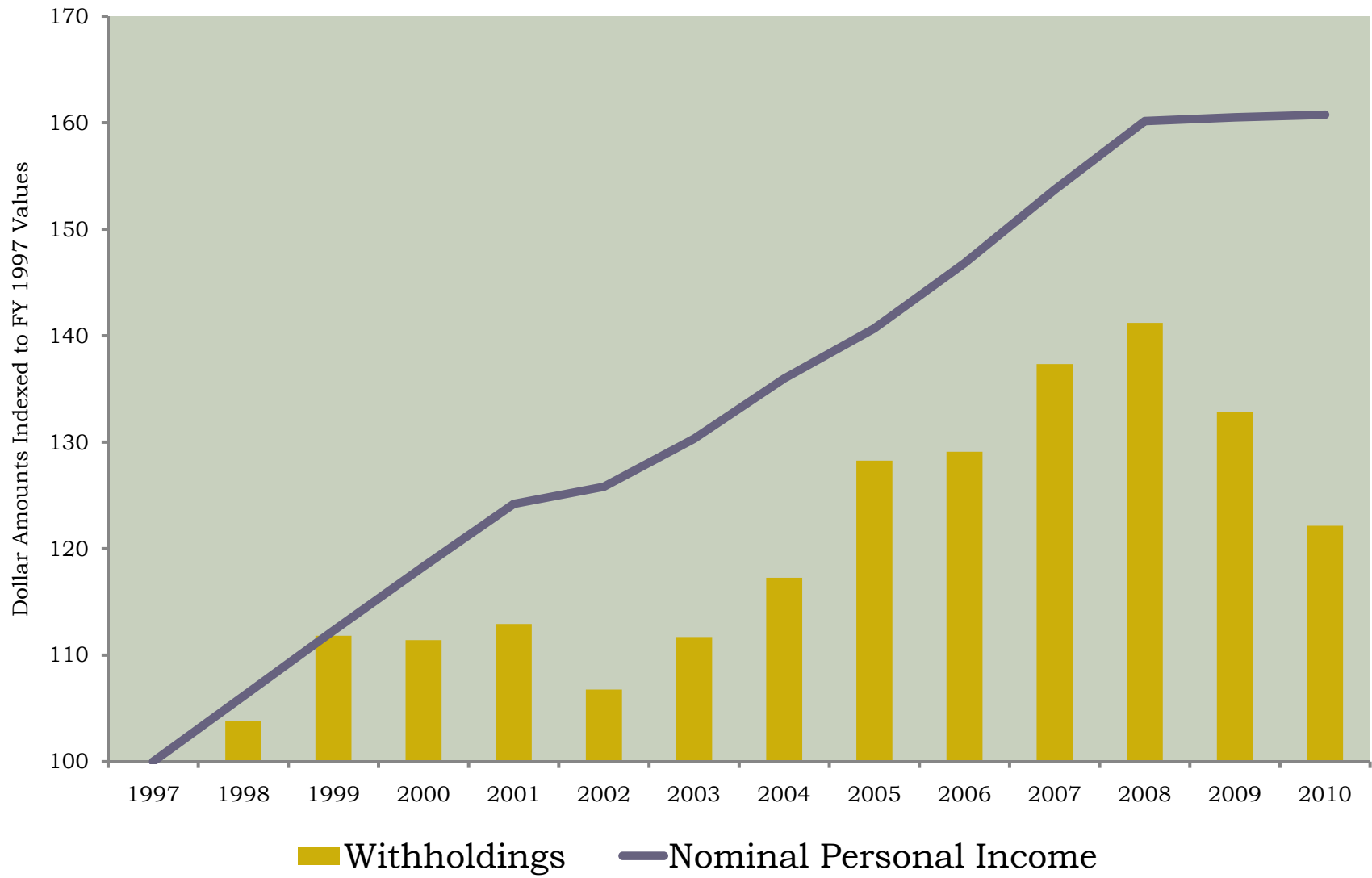


# Estimated Payments vs. S&P 500 Index



Data Source: IHS Global Insight, Indiana Department of State Revenue

# Indiana Withholdings vs. Indiana Personal Income



Data Source: IHS Global Insight, Indiana Department of State Revenue

# Changes in the Sales Tax Model

Total Sales Tax

April 2009 Forecast  
of FY 2010 and FY 2011

GDP

May 2009 Forecast  
of FY 2010 and FY 2011

Personal Consumption  
Expenditures

December 2009 Forecast  
of FY 2011

IPI Net of Transfer Payments

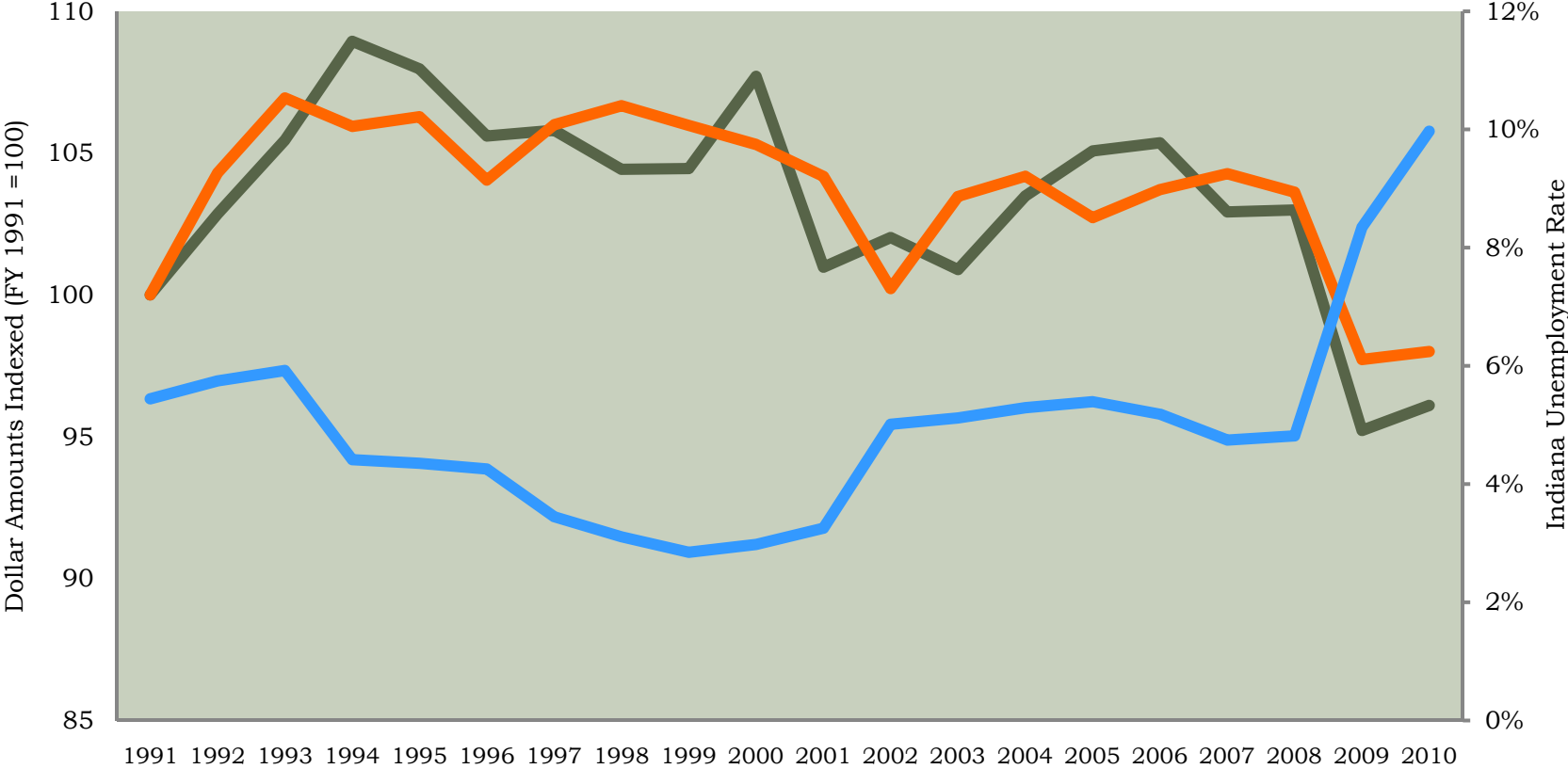
Personal Savings

December 2010 Forecast  
of FY 2011, FY 2012, and  
FY 2013

IPI Net of Transfer Payments

Unemployment Rate

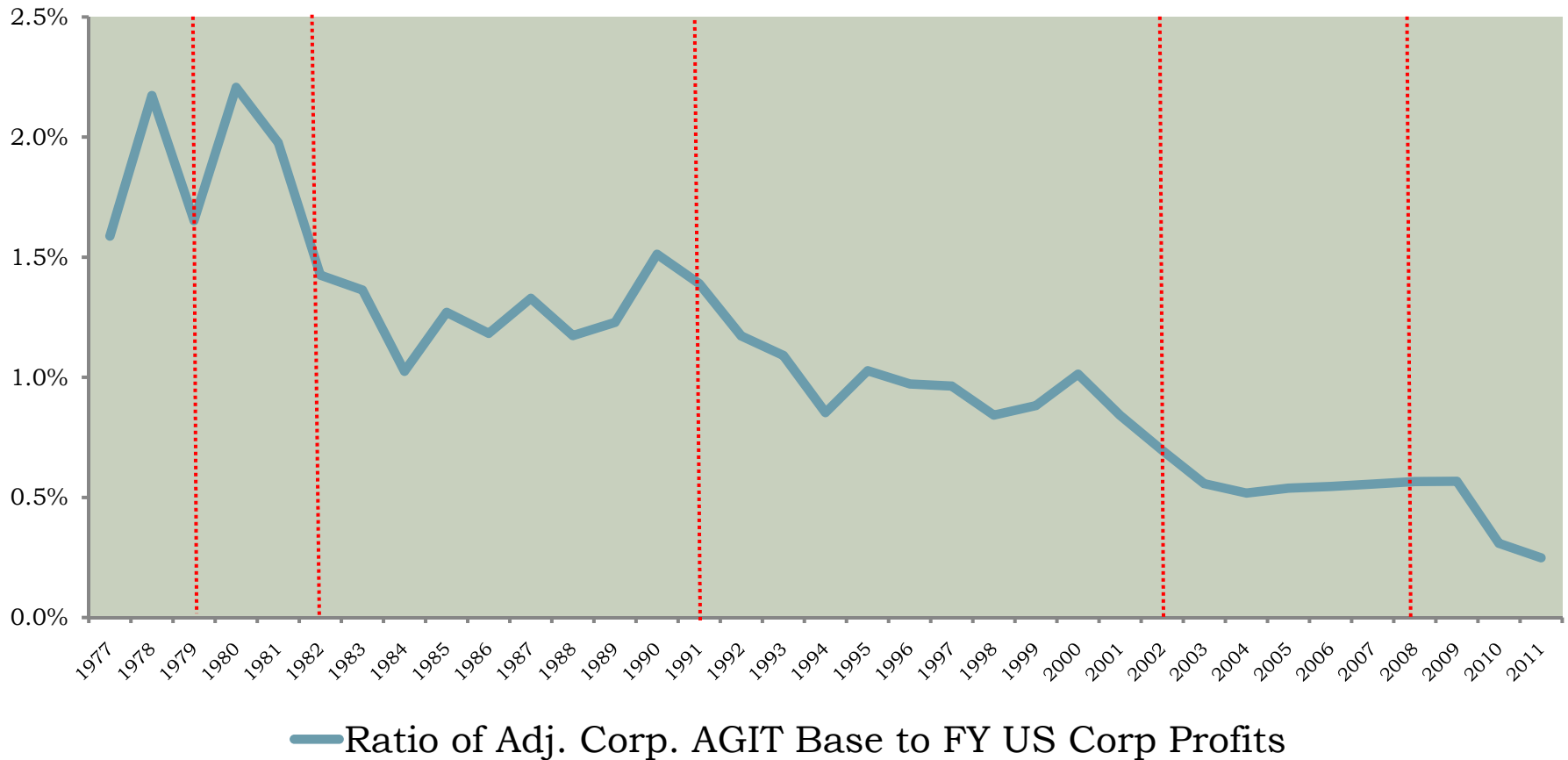
# Sales Tax Base vs. IN Nominal Personal Income Net of Transfers and Indiana Unemployment Rate



— Sales Tax Base — IPI Net of Transfers — Indiana Unemployment Rate

Data Source: IHS Global Insight; State Budget Agency

# Ratio of Adjusted Corporate Gross Income Tax Base to Fiscal Year U.S. Corporate Profits



# December 2010 Forecast Results

# Total General Fund Revenue Forecast

## Fiscal Years 2011, 2012 and 2013

### Dec 15, 2010

(In Millions \$)

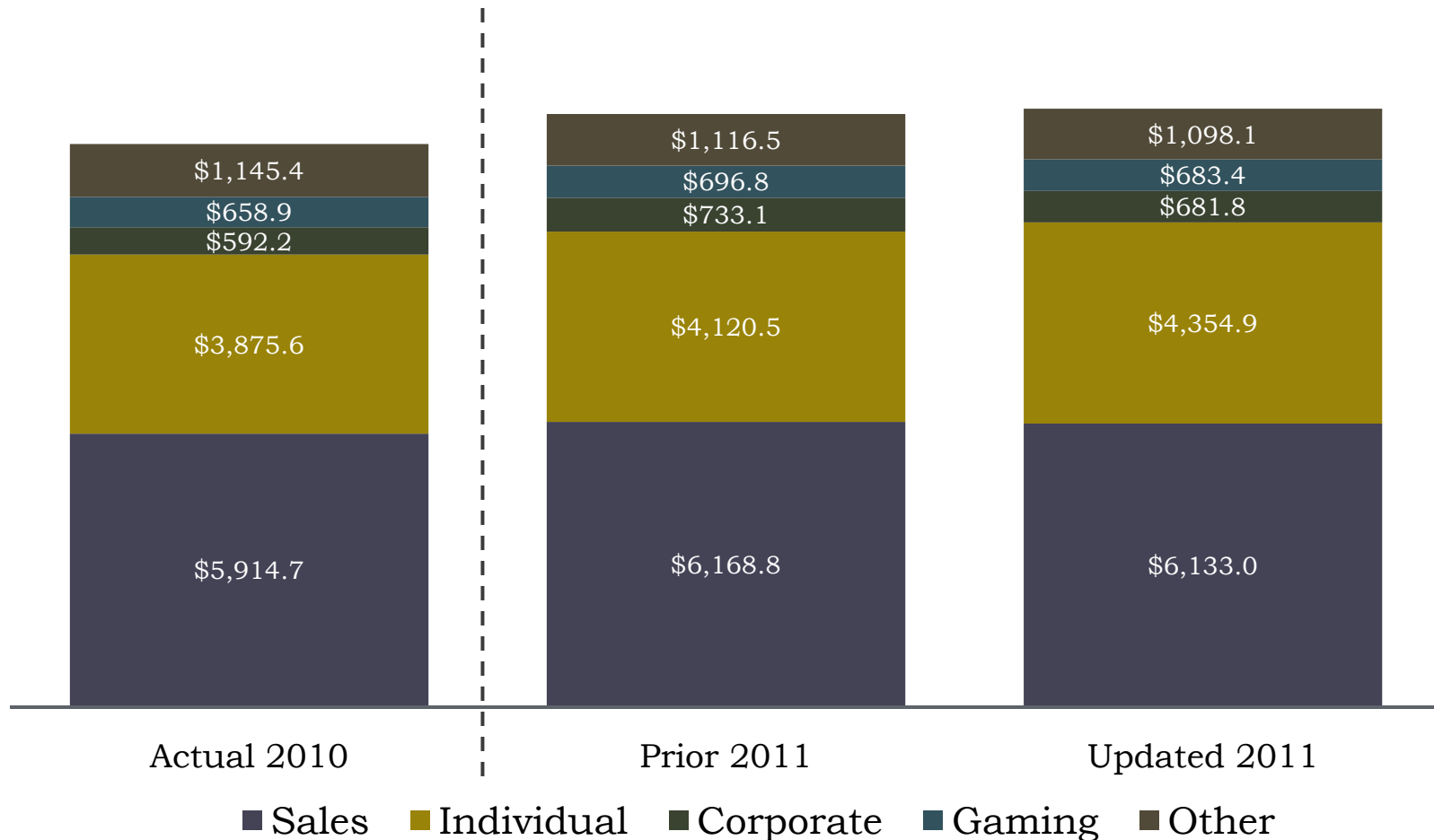
				Prior	Updated	Diff. From	Percent	Percent	Forecast	Percent	Forecast	Percent
	Actual 2009	Actual 2010	Actual Growth	Forecast 2011	Forecast 2011	Prior Forecast	Diff. From Prior Forecast	Growth Over 2010		Growth Over 2011		Growth Over 2012
<b>Major Taxes</b>												
Sales & Use	6,153.3	5,914.7	-3.9%	6,168.8	6,133.0	-35.8	-0.6%	3.7%	6,337.0	3.3%	6,624.0	4.5%
Individual AGI	4,313.8	3,875.6	-10.2%	4,120.5	4,354.9	234.4	5.7%	12.4%	4,620.0	6.1%	4,896.6	6.0%
Corporate - AGI, URT, USUT, FIT	839.0	592.2	-29.4%	733.1	681.8	-51.3	-7.0%	15.1%	688.1	0.9%	694.7	1.0%
Riverboat Wagering	545.4	538.1	-1.3%	574.7	555.3	-19.4	-3.4%	3.2%	573.1	3.2%	550.5	-3.9%
Racino Wagering	<u>62.8</u>	<u>120.8</u>	<u>92.3%</u>	<u>122.1</u>	<u>128.1</u>	<u>6.0</u>	<u>4.9%</u>	<u>6.0%</u>	<u>131.7</u>	<u>2.8%</u>	<u>131.2</u>	<u>-0.4%</u>
<b>Subtotal Major Taxes</b>	<b>11,914.2</b>	<b>11,041.3</b>	<b>-7.3%</b>	<b>11,719.2</b>	<b>11,853.1</b>	<b>133.9</b>	<b>1.1%</b>	<b>7.4%</b>	<b>12,349.9</b>	<b>4.2%</b>	<b>12,897.0</b>	<b>4.4%</b>
<b>Other Revenue</b>												
Cigarette*	290.3	270.3	-6.9%	276.4	271.5	-4.9	-1.8%	0.5%	267.2	-1.6%	265.3	-0.7%
Insurance	183.7	176.5	-3.9%	177.2	177.2	0.0	0.0%	0.4%	177.2	0.0%	177.2	0.0%
Inheritance	185.7	133.2	-28.3%	155.0	135.0	-20.0	-12.9%	1.4%	135.0	0.0%	135.0	0.0%
Alcoholic Beverages	16.1	12.7	-21.4%	17.0	16.1	-0.9	-5.3%	27.1%	16.3	1.2%	16.7	2.5%
Riverboat Admissions	12.8	20.6	60.5%	16.7	16.7	0.0	0.0%	-19.0%	16.7	0.0%	16.0	-4.2%
Interest	61.9	25.4	-59.0%	35.0	25.0	-10.0	-28.6%	-1.6%	25.0	0.0%	25.0	0.0%
MV, CVET & FIT Recapture	13.0	302.0	2218.6%	239.5	240.9	1.4	0.6%	-20.2%	201.1	-16.5%	200.8	-0.1%
Miscellaneous Revenue	<u>228.5</u>	<u>204.8</u>	<u>-10.4%</u>	<u>199.7</u>	<u>215.7</u>	<u>16.0</u>	<u>8.0%</u>	<u>5.3%</u>	<u>213.4</u>	<u>-1.1%</u>	<u>212.5</u>	<u>-0.4%</u>
<b>Subtotal Other Revenue</b>	<b>992.0</b>	<b>1,145.4</b>	<b>15.5%</b>	<b>1,116.5</b>	<b>1,098.1</b>	<b>-18.4</b>	<b>-1.6%</b>	<b>-4.1%</b>	<b>1,051.9</b>	<b>-4.2%</b>	<b>1,048.5</b>	<b>-0.3%</b>
<b>Total General Fund</b>	<b>\$12,906.2</b>	<b>\$12,186.7</b>	<b>-5.6%</b>	<b>\$12,835.7</b>	<b>\$12,951.2</b>	<b>\$115.5</b>	<b>0.9%</b>	<b>6.3%</b>	<b>\$13,401.8</b>	<b>3.5%</b>	<b>\$13,945.5</b>	<b>4.1%</b>

\* Prior year revenues and forecasted revenues for the Cigarette Tax Account have been adjusted to reflect the new distribution under HEA 1001-2009 and to provide a comparison to the prior year.

# Total General Fund Revenue Forecast

FY 2011 - \$12,951.2M

+0.9% or \$115.5M change from December 2009 to December 2010





# Committee's Perspective on the Forecast

## Individual Income Tax

- LOIT Adjustments continue to have a significant impact on the Individual Income Tax Estimate.

## Sales Tax

- Sales Tax collections continue to lag due to:
  - Increasing untaxed internet sales
  - Continued move to a service economy;
  - Transfer payments increasing as a share of personal income

## Corporate Tax

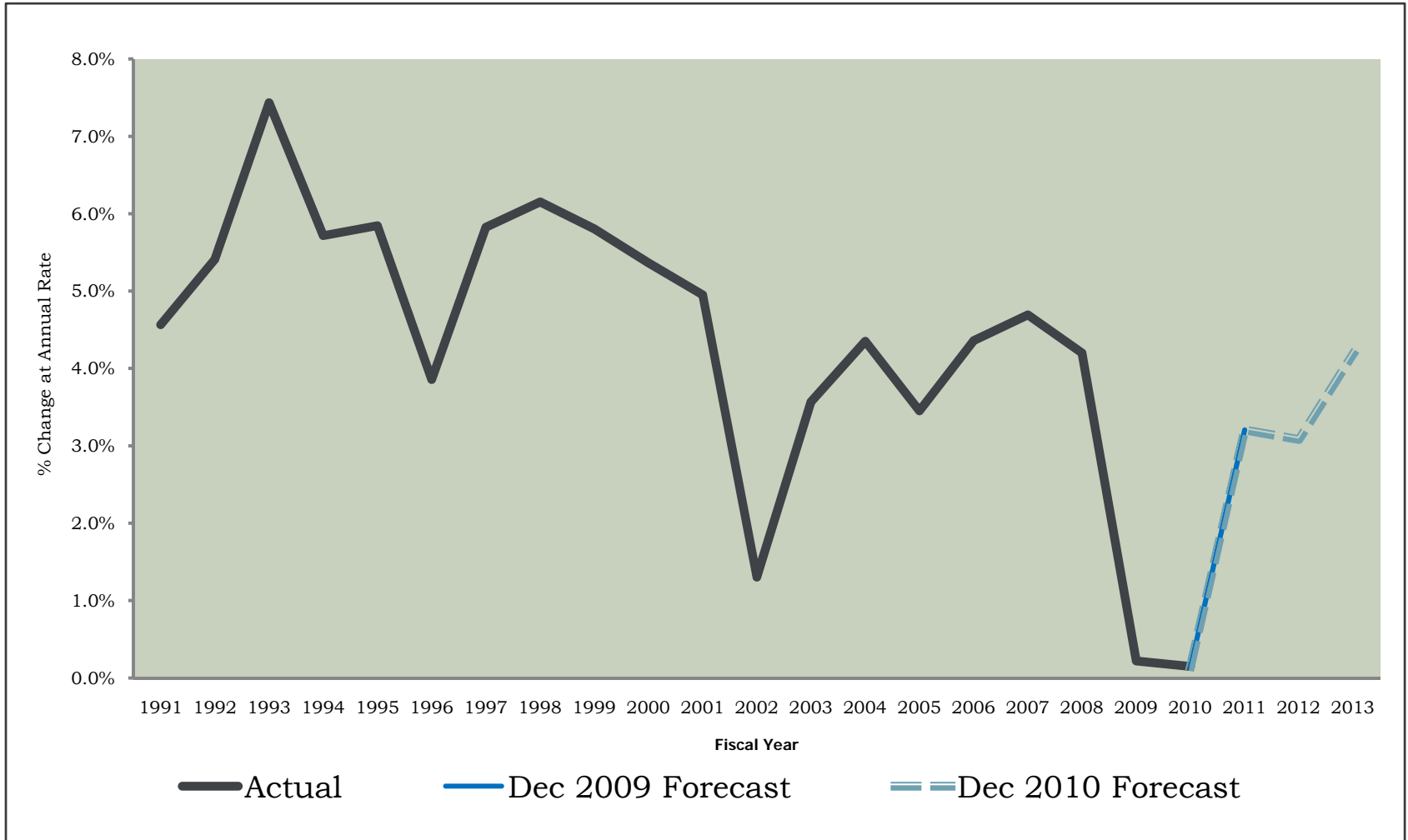
- The ratio of Indiana's Adjusted Corporate Income Tax base to U.S. Corporate profits continues to decline suggesting slower growth in revenue collections for the future.

## Total Revenue

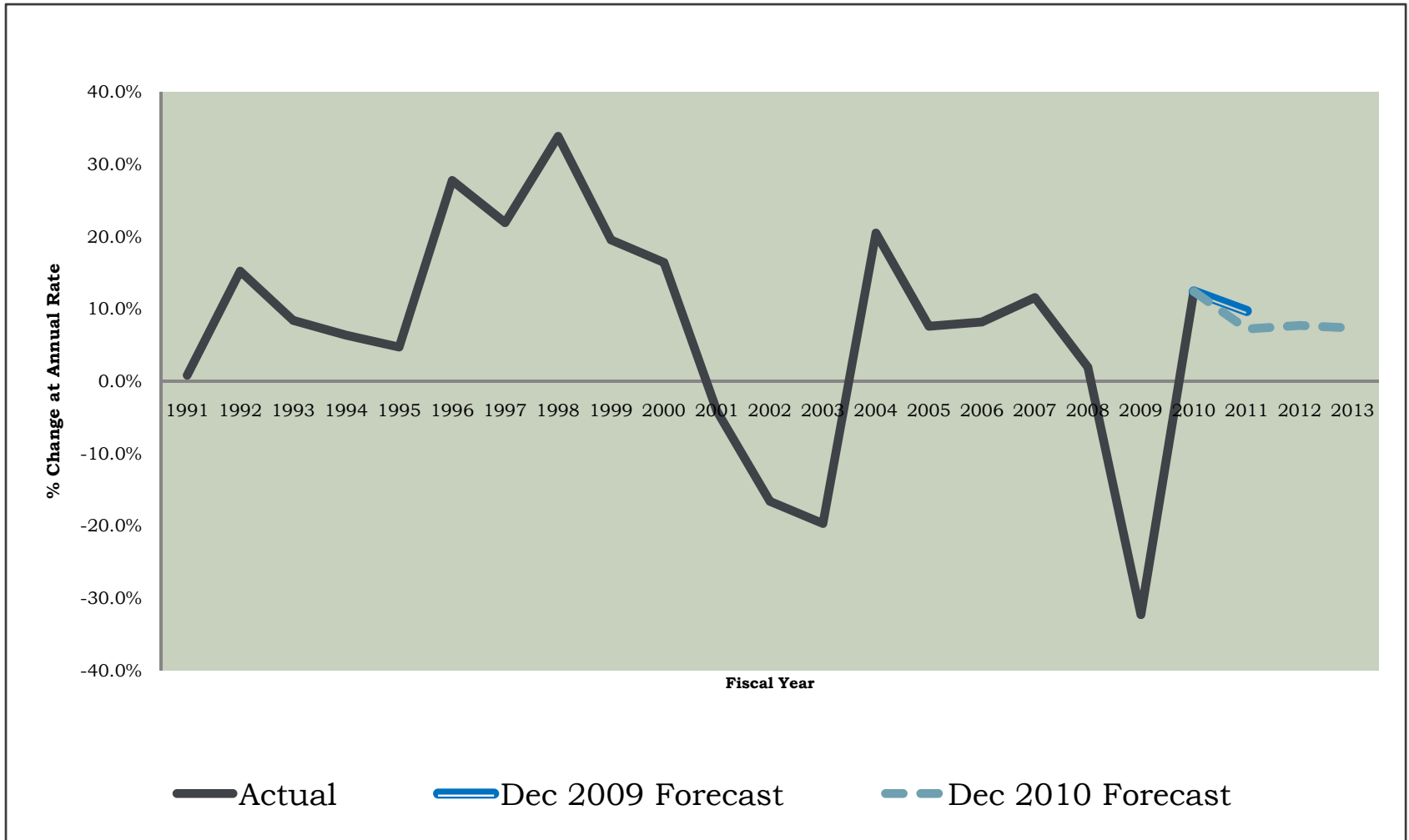
- Although annual revenue increases for each year of the biennium are approaching long-term average annual revenue growth, adjusted FY 2013 revenue is only equal to about actual FY 2008 revenues.

# Appendices for December 2010 Revenue Forecast

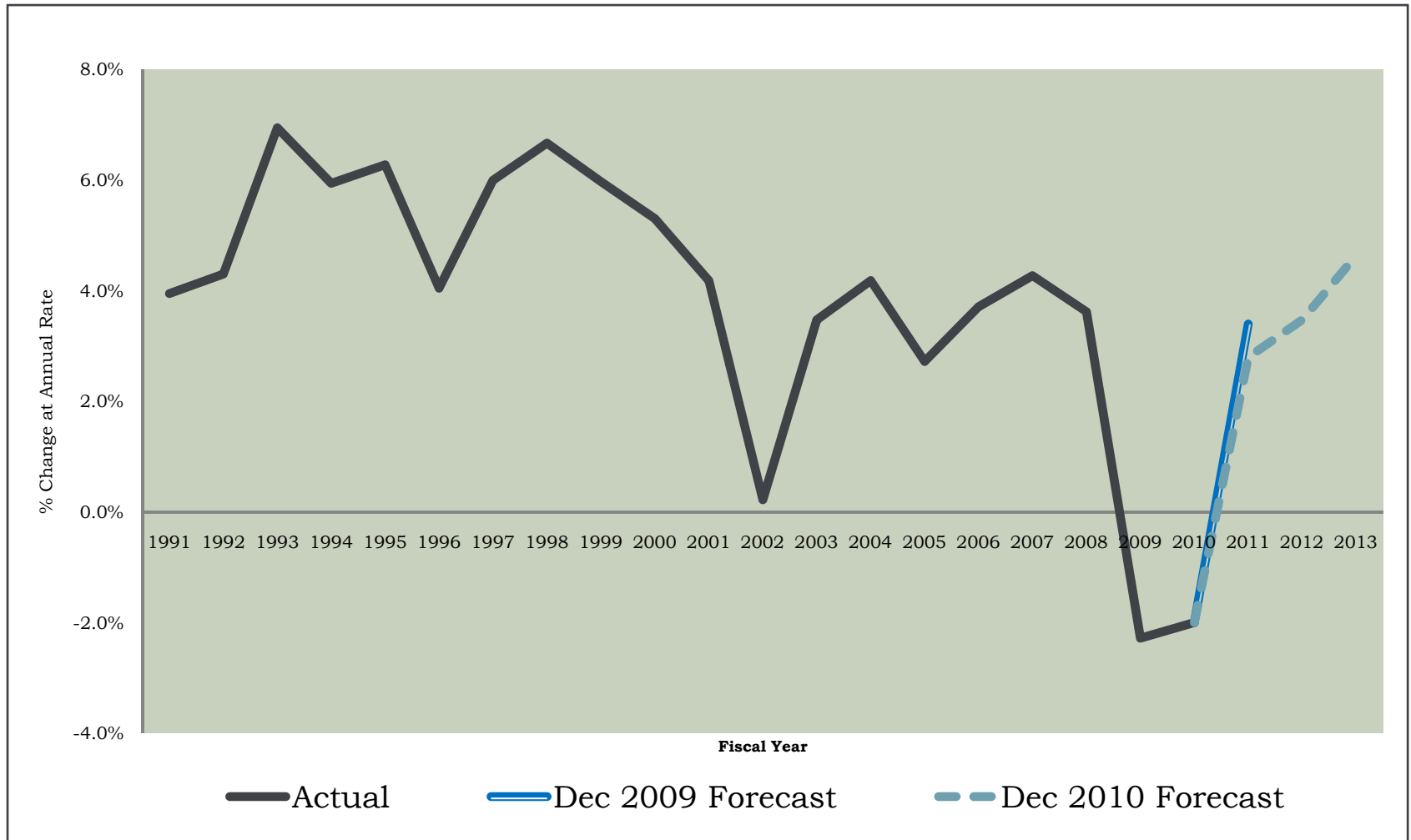
# Indiana Nominal Personal Income



# Standard and Poor's 500 Index of Common Stocks

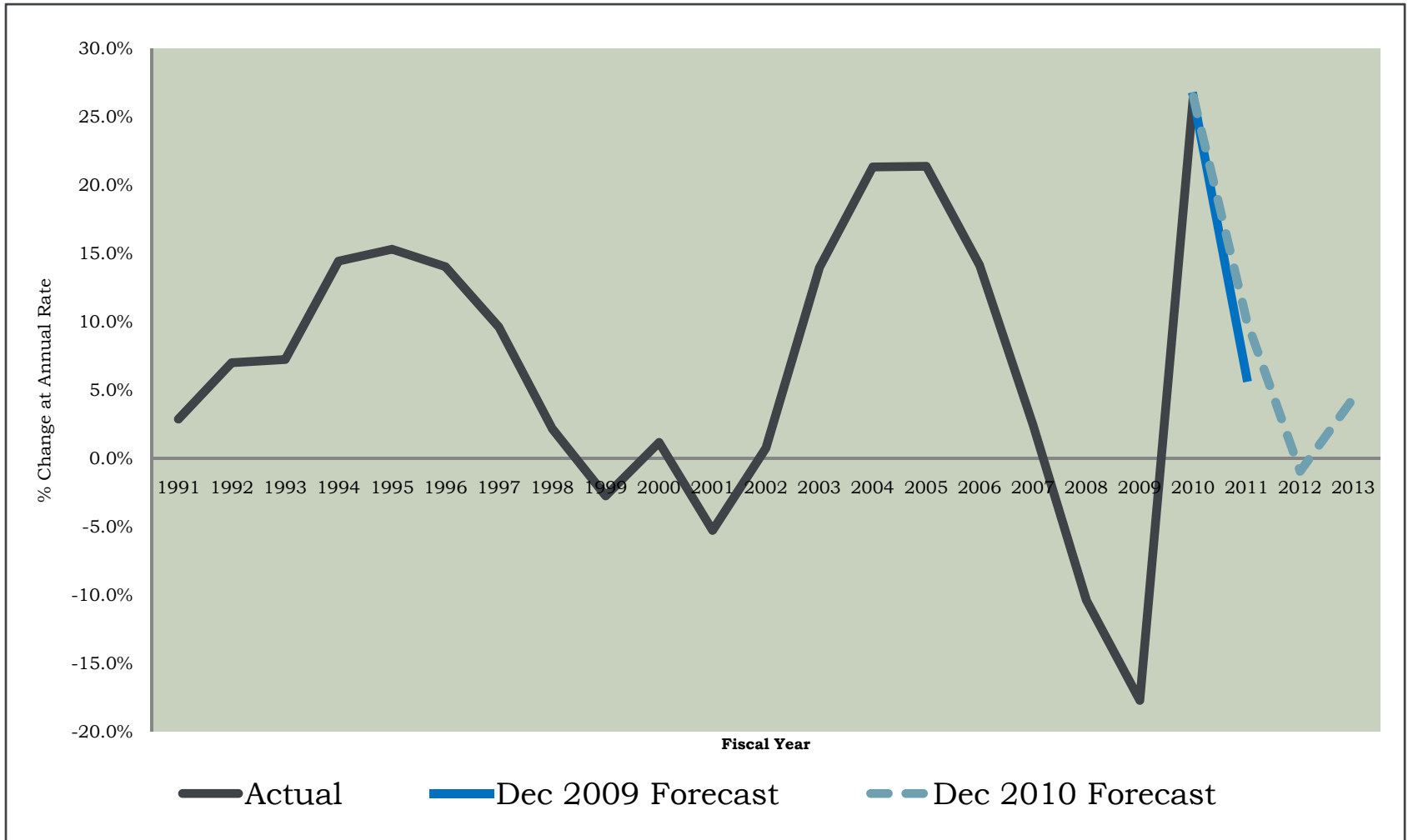


# Indiana Nominal Personal Income Net of Transfer Payments



Data Source: IHS Global Insight

# U.S. Corporate Profits



# Changes in Economic Variables December 2009 to December 2010

<b>Nominal Indiana Personal Income</b> (in millions)			
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference Dec 09 to Dec 10</b>
2011	\$227,094	\$227,488	0.17%
2012		\$234,498	
2013		\$244,313	

<b>Nominal Indiana Personal Income Net of Transfer Payments</b> (in millions)			
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference Dec 09 to Dec 10</b>
2011	\$180,410	\$180,508	0.05%
2012		\$186,786	
2013		\$195,455	

<b>U.S. Nominal GDP</b> (in billions)			
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference Dec 09 to Dec 10</b>
2011	\$15,033	\$14,927	-0.71%
2012		\$15,472	
2013		\$16,214	

# Changes in Economic Variables

## December 2009 to December 2010

<b>Standard and Poor's 500 Index of Common Stocks</b>			
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference Dec 09 to Dec 10</b>
2011	1,188	1,164	-2.05%
2012		1,253	
2013		1,345	

<b>U.S. Corporate Profits (in billions)</b>			
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference Dec 09 to Dec 10</b>
2011	\$1,463	\$1,623	10.93%
2012		\$1,607	
2013		\$1,679	



# Total Tax Revenue Estimates

<b>Sales Tax (in millions)</b>				
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference (\$) Dec 2009 to Dec 2010</b>	<b>Difference (%) Dec 2009 to Dec 2010</b>
2011	\$6,168.8	\$6,133.0	(\$35.8)	-0.6%
2012		\$6,337.0		
2013		\$6,624.0		

<b>Individual Income Tax (in millions)</b>				
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference (\$) Dec 2009 to Dec 2010</b>	<b>Difference (%) Dec 2009 to Dec 2010</b>
2011	\$4,120.5	\$4,354.9	\$234.4	5.7%
2012		\$4,620.0		
2013		\$4,896.6		

<b>Corporate Taxes (in millions)</b>				
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference (\$) Dec 2009 to Dec 2010</b>	<b>Difference (%) Dec 2009 to Dec 2010</b>
2011	\$733.1	\$681.8	(\$51.3)	-7.0%
2012		\$688.1		
2013		\$694.7		

# Total Tax Revenue Estimates

<b>Gaming Taxes (in millions)</b>				
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference (\$) Dec 2009 to Dec 2010</b>	<b>Difference (%) Dec 2009 to Dec 2010</b>
2011	\$696.8	\$683.4	(\$13.4)	-1.9%
2012		\$704.8		
2013		\$681.7		

<b>Other Taxes (Includes FIT, Excise, CVET Transfer) (in millions)</b>				
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference (\$) Dec 2009 to Dec 2010</b>	<b>Difference (%) Dec 2009 to Dec 2010</b>
2011	\$1,116.5	\$1,098.1	(\$18.4)	-1.6%
2012		\$1,051.9		
2013		\$1,048.5		

<b>Total General Fund Taxes (in millions)</b>				
<b>Fiscal Year</b>	<b>Dec 2009 Forecast</b>	<b>Dec 2010 Forecast</b>	<b>Difference (\$) Dec 2009 to Dec 2010</b>	<b>Difference (%) Dec 2009 to Dec 2010</b>
2011	\$12,835.7	\$12,951.2	\$115.5	0.9%
2012		\$13,401.8		
2013		\$13,945.5		