

GENERAL FUND AND PROPERTY TAX REPLACEMENT FUND REVENUES

Indiana's state revenue forecast, which includes estimates of state General Fund and Property Tax Replacement Fund revenues, is developed by the Revenue Forecast Technical Committee. The committee, which consists of budget agency, legislative caucus staff, and a representative from academia, updated its forecast for fiscal years 2003 through 2005 in April, 2003.

The U.S. economy entered a recession in March, 2001. As with past recessions centered around the manufacturing sector, Indiana felt the effects earlier than the nation. Employment peaked in Indiana in the second quarter of 2000. Between the second quarter of 2000 and the third quarter of 2003, employment in Indiana declined by 135,500. Non-farm personal income in the state grew at an average annual rate of 3.4%, or 1.6 percentage points more than inflation, during the same period. Steep declines in stock values combined with reduced corporate profits to further depress state revenues. As a result, General Fund and Property Tax Replacement Fund revenues declined by 1.0% in FY 2001 and 3.8% in FY 2002 – the first back-to-back declines in recorded history.

The revenue forecast for fiscal years 2003 through 2005 incorporates the following revenue measures enacted as part of HEA 1001-2002(ss):

- Cigarette and tobacco products taxes were increased effective July 1, 2002;
- The tax rates for sales and use taxes were increased effective December 1, 2002;
- Riverboat wagering taxes were restructured and a portion of the revenues directed to the Property Tax Replacement Fund.

General Fund and Property Tax Replacement Fund revenues are forecasted to increase by 13.4% in FY 2003, by 8.3% in FY 2004, and by 4.7% in FY 2005. Removing the revenue measures enacted as part of HEA 1001-2002(ss) reveals that this revenue forecast is for a slow recovery in state revenues. Without these revenue measures, the forecast would have been for General Fund and Property Tax Replacement Fund revenues to increase by 1.3% in FY 2003, by 3.1% in FY 2004, and by 4.5% in FY 2005.

The revenue forecast is based upon the following projections:

- Real growth in the nation's economy — as measured by real U.S. Gross Domestic Product — of 2.2 percent in the last quarter of FY 2003, 2.8 percent in FY 2004, and 3.4 percent in FY 2005;
- Inflation rates — as measured by the GDP implicit price deflator — of 1.6 percent for the last quarter of FY 2003, 1.6 percent in FY 2004, and 1.8 percent in FY 2005;
- Growth in Indiana non-farm personal income of 4.0 percent in the last quarter of FY 2003, 3.9 percent in FY 2004, and 4.9 percent in FY 2005.