

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, presented its forecast for fiscal years 2003 through 2005 in December 2002.

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 second quarter of 2002, employment in Indiana declined by 116,000. Nonfarm personal income in the state increased by 5.1%, 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 1001-2002ss:

- 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 14.0% in FY 2003, by 8.2% in FY 2004, and by 4.7% in FY 2005. Removing the revenue measures enacted as part of HEA 1001-2002ss 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 1.5% in FY 2003, by 3.0% 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 — averaging 2.6% through the last six months of FY 2003, 3.0 percent for FY 2004, and 3.5 percent for FY 2005;
- Inflation rates — as measured by the GDP implicit price deflator — of 1.3 percent for the last six months of FY 2003, 1.4 percent in FY 2004, and 1.6 percent in FY 2005;
- Growth in Indiana non-farm personal income averaging 3.8% through the last six months of FY 2003, 4.3% for FY 2004, and 4.9% for FY 2005.