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The monthly revenue report of January 2010 state tax collections was released today.

Results

- Total revenue collections were $1.15 billion, 7% below total collections for the same period last year. Total collections were $75 million below the December 2009 forecast amount.
- Sales tax collections totaled $573 million for the month, 1.3% below collections for the same period last year and $9 million below the December 2009 forecast amount.
- Individual income tax collections totaled $443 million for the month, 7% below collections for the same period last year and $21 million below the December 2009 forecast amount.

Commentary

For the current state fiscal year, revenue collections are $807 million (11%) below prior year collections, comprising the following shortfalls:

- Individual income tax: $345 million (-14% vs. prior year)
- Sales tax: $286 million (-8%)
- Corporate income tax: $170 million (-43%)
- Gaming/Other: $6 million (-1%)

Compared to the May revenue forecast, which was the basis for the FY 2010 budget, actual collections are $784 million below projections. The result is that the state is drawing down its reserve funds more quickly and to a larger degree than planned to offset the greater than expected decline in revenues. On the current pace, instead of using $300 million of the state's reserve funds over the biennium—as planned in the budget bill—all $1.3 billion in reserves will be required by the end of the cycle.

Figure 1 shows an estimate of the state's combined balances at various points throughout the biennium with and without the spending reductions ordered by the Governor. Without the actions taken by the Governor, reserve funds would have been exhausted by July 2010 and the state would have ended the current budget cycle some $820 million in debt.

In order to adequately protect Hoosier taxpayers, the state must enter the next budget cycle with some level of reserves. While spending has been dramatically reduced from budgeted levels already, more action is needed. The administration proposed a series of additional cost savings measures that require the approval of the General Assembly. The total savings generated would be sufficient to offset the amount of the miss in current month revenues compared to the forecast. The Senate, by a collective vote of 143-57, has approved these measures contained in SB 1, SB 35, SB 236 and SB 298. These cost savings initiatives now await action by the House of Representatives.

In addition to the significant decline in revenue collections compared to the budget plan, a recent federal court decision has had a material adverse impact on the state's fiscal condition. An injunction has been entered in federal district court forcing the Department of Child Services to spend an additional $60 million in payments to vendors and providers. The state is currently evaluating its legal options and an appeal of that decision is likely.

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