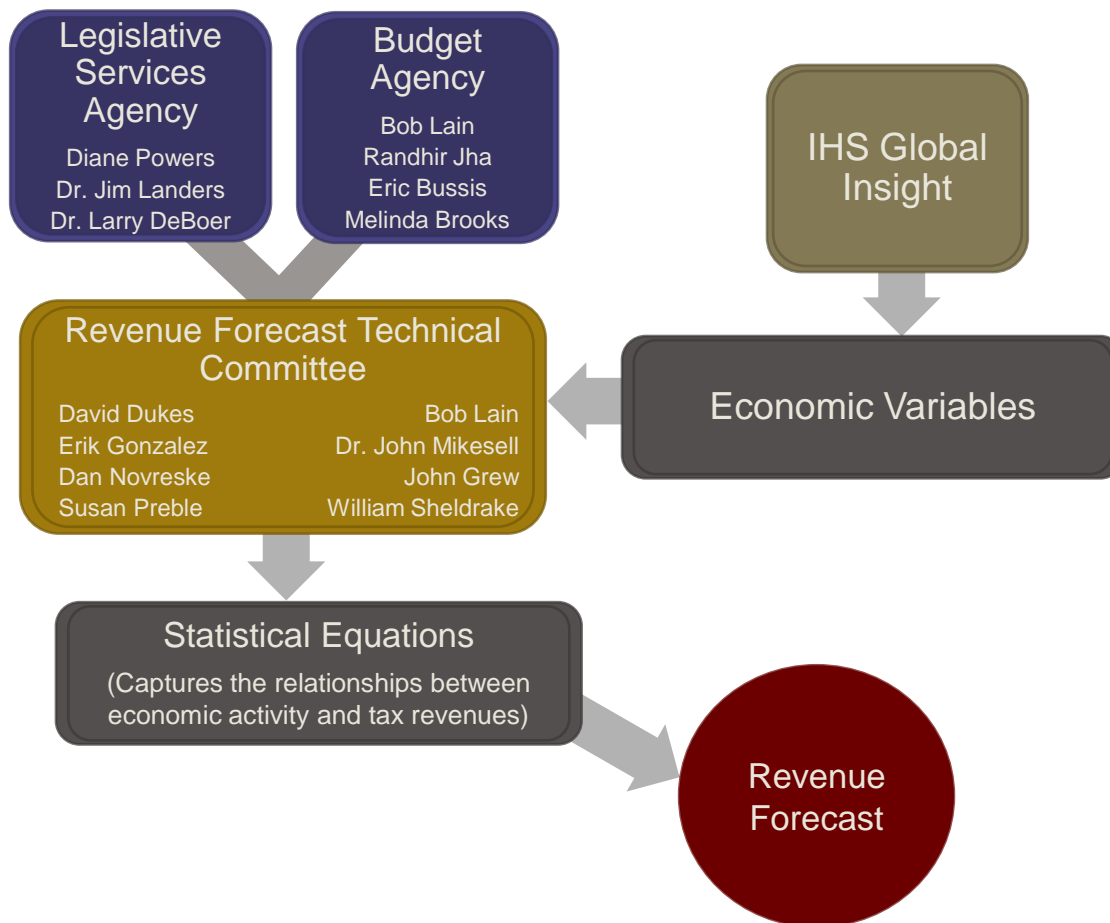


General Fund Revenue Forecast Update

Revenue Forecast Technical
Committee

**Presented to the State Budget Committee
December 15, 2009**

Revenue Forecast Process

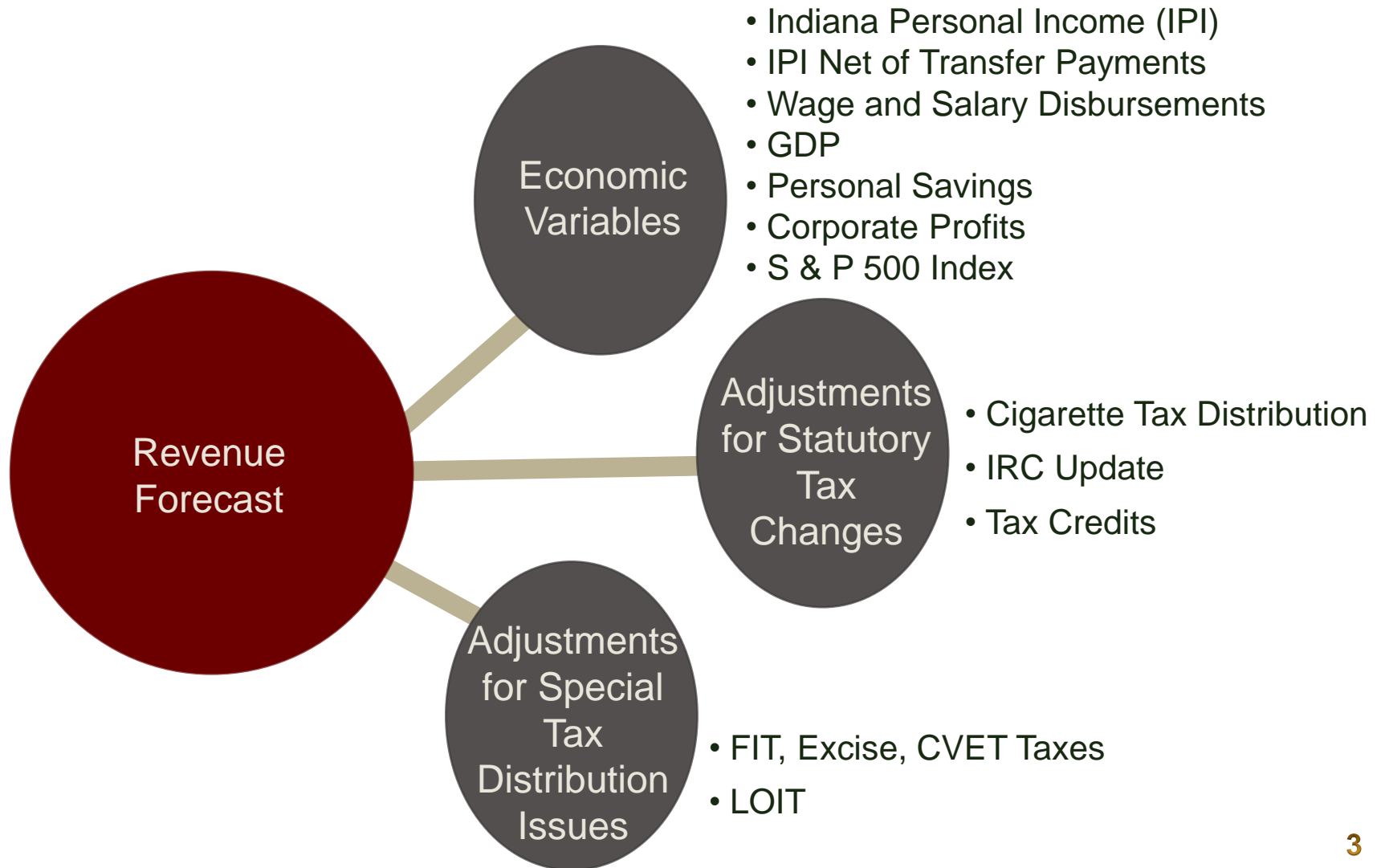


- Consensus

- Not Statutorily Based

- Forecast of Annual Revenue

Preparation of the Forecast



Special Considerations for this Forecast

Unprecedented economic volatility and uncertainty

Unprecedented decline in state revenues

Retention of two additional committee members

Forecast Committee started deliberations for December forecast on October 8th; Committee met ten times

Evaluated many different combinations of economic variables and revenue models to improve forecast accuracy

The Role of Monthly Targets

- The Committee forecasts annual revenue yields and does not forecast monthly revenue targets
- The limited availability of monthly data could make monthly forecasting very difficult
- Monthly targets are intended only to identify trends in revenue collections
- Monthly targets open the process up to timing and processing issues that add complexity
- Monthly targets would be expected to have greater error rates than annual forecasts
- Targets based on historical collections may be biased to overestimate leading into a recession and underestimate moving out of a recession
- Delayed MVET/CVET collections caused actual revenues to miss targets and overstate revenue shortfalls for July-November
- Dependence on monthly targets reflects a fundamental change in the Forecast process

Special Issues

New Variables and Revenue Models

U.S. Bureau of Economic Analysis retroactive change in the Indiana Personal Income series

- Led to an overforecast based on May 09 equation

Rapid growth in transfer payments as a share of Indiana Personal Income

- Transfer payments generate less sales tax revenue

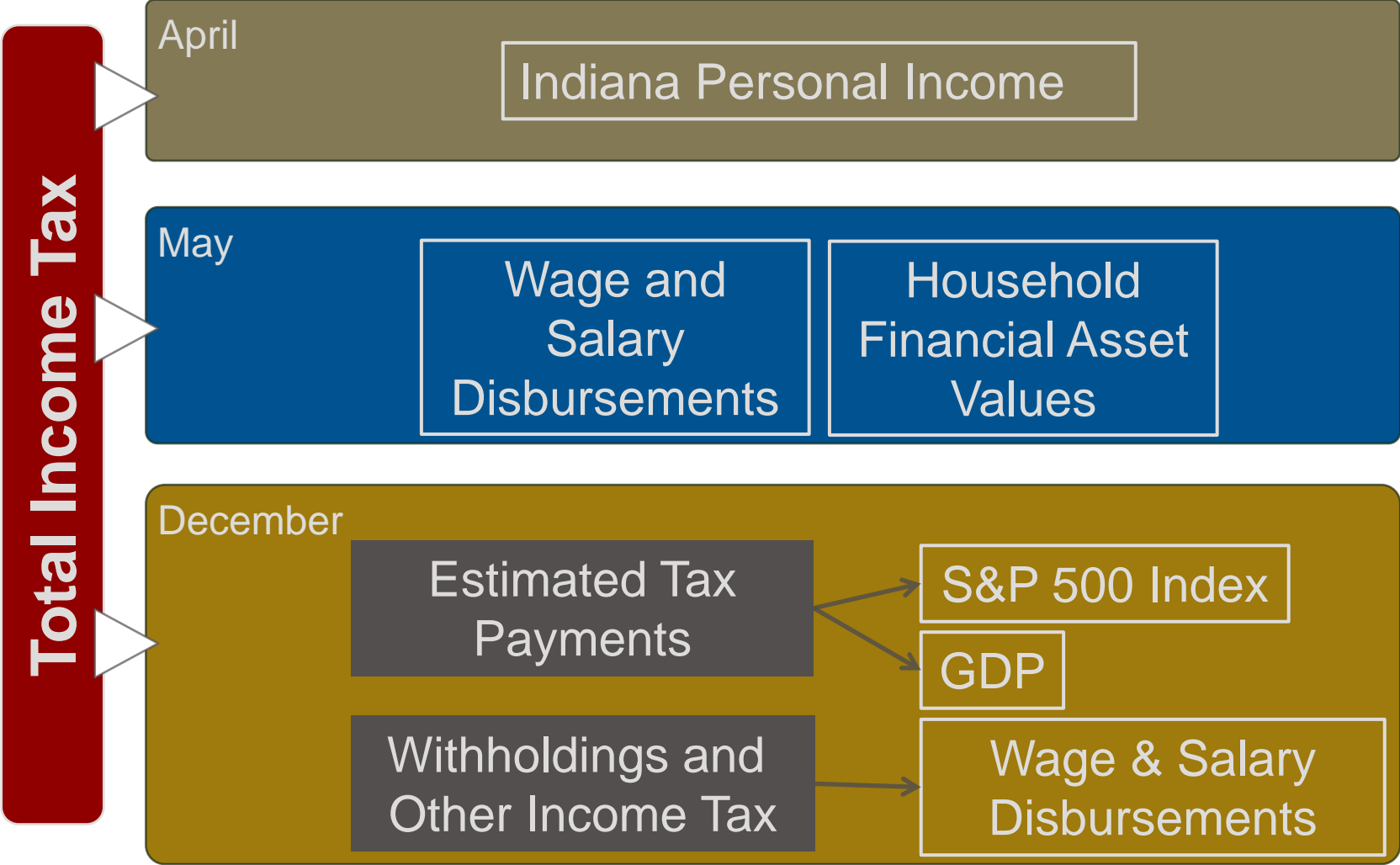
“Safe Harbor” requirements for filing estimated income tax payments tend to backload revenue collections coming out of a recession

Wage income and nonwage income respond to different economic factors and respond differently to changes in the business cycle

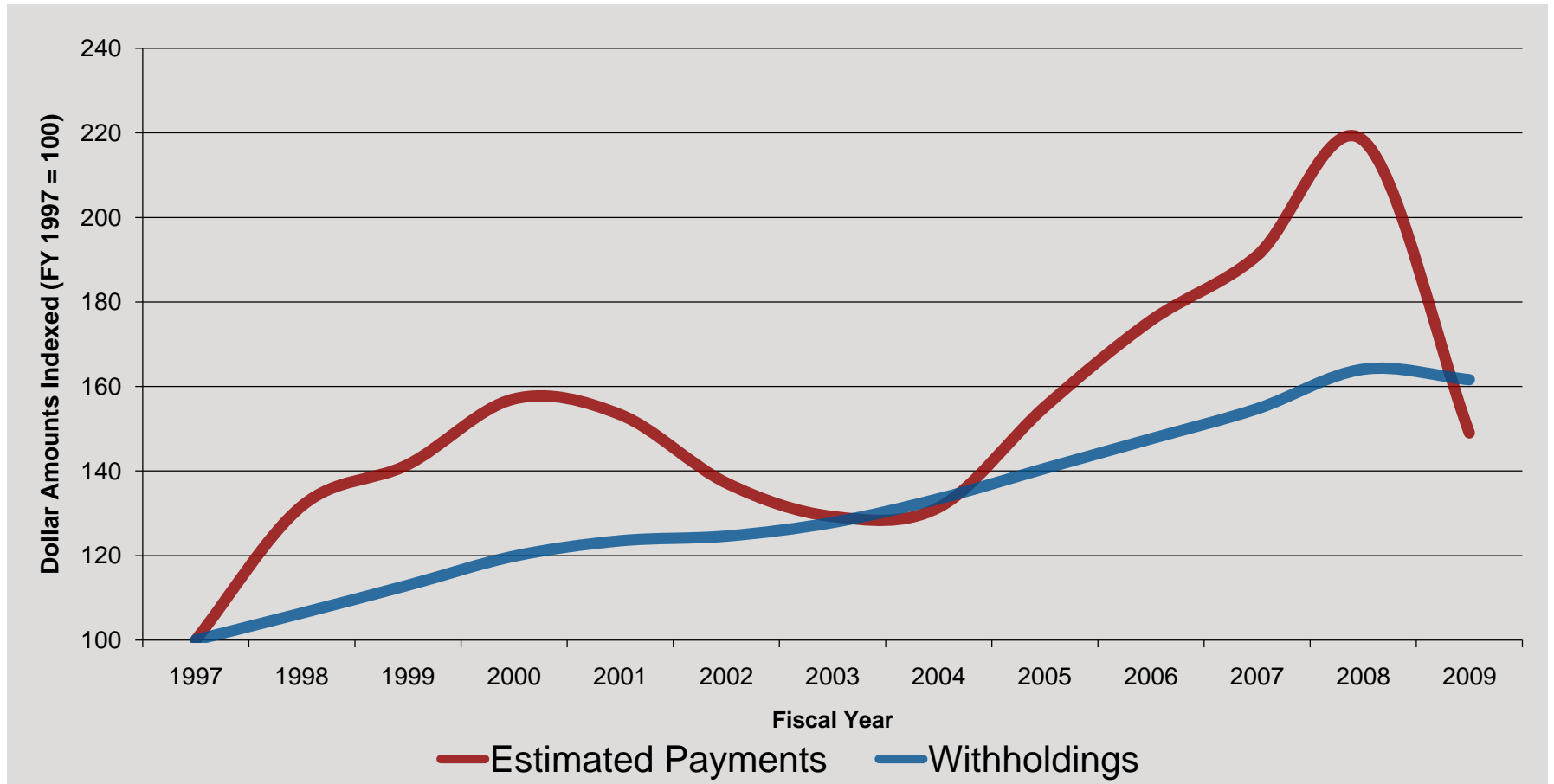
Key Economic Issues and Variables

Wage and Salary Distributions	<i>New</i> IPI Net of Transfer Payments	Indiana Personal Income
<i>New</i> S & P 500 Index	<i>New</i> Personal Savings	Corporate Profits
GDP	Household Financial Assets	Personal Consumption Expenditures

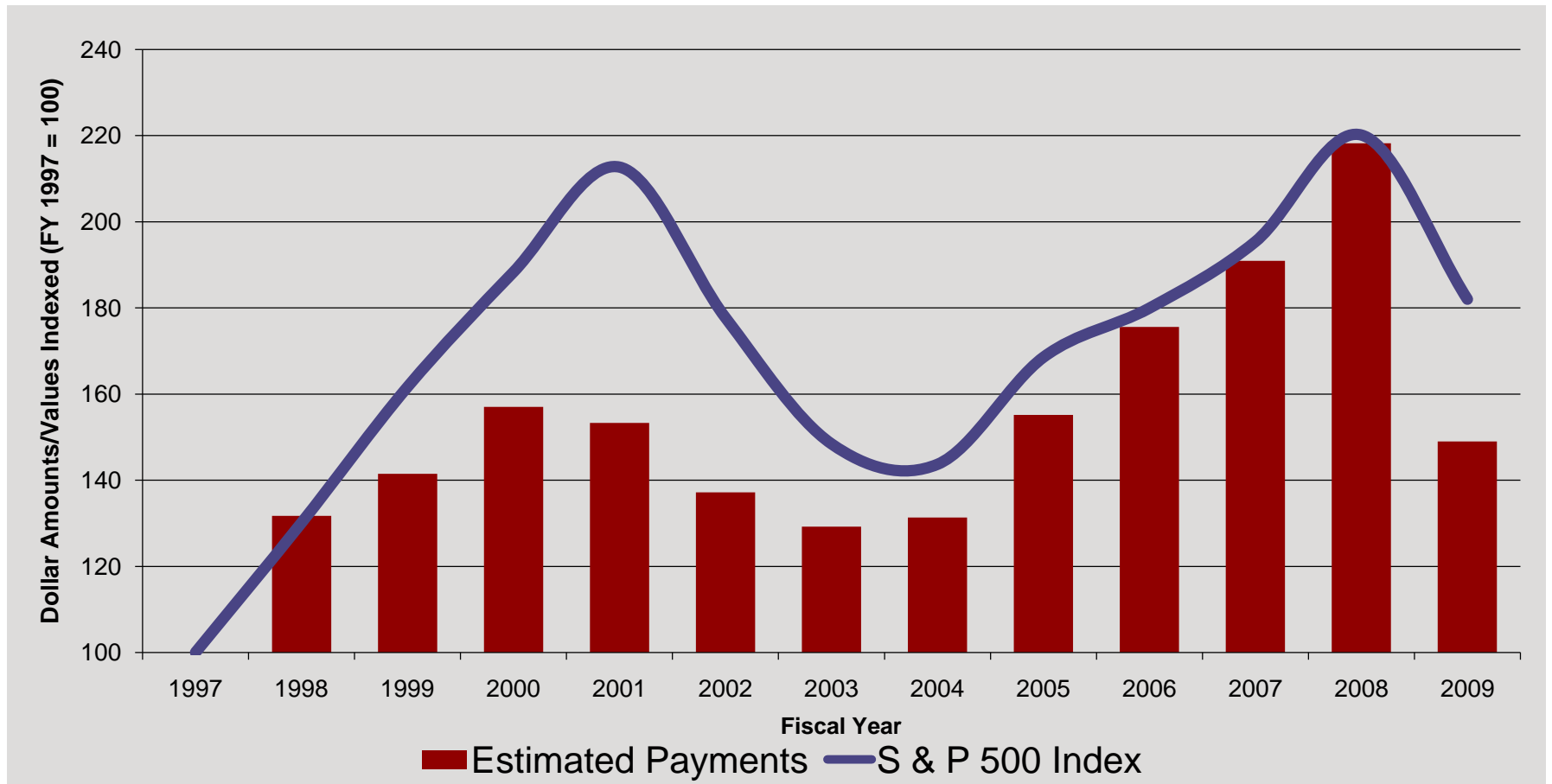
Changes in the Individual Income Tax Model



Estimated Payments vs. Withholdings



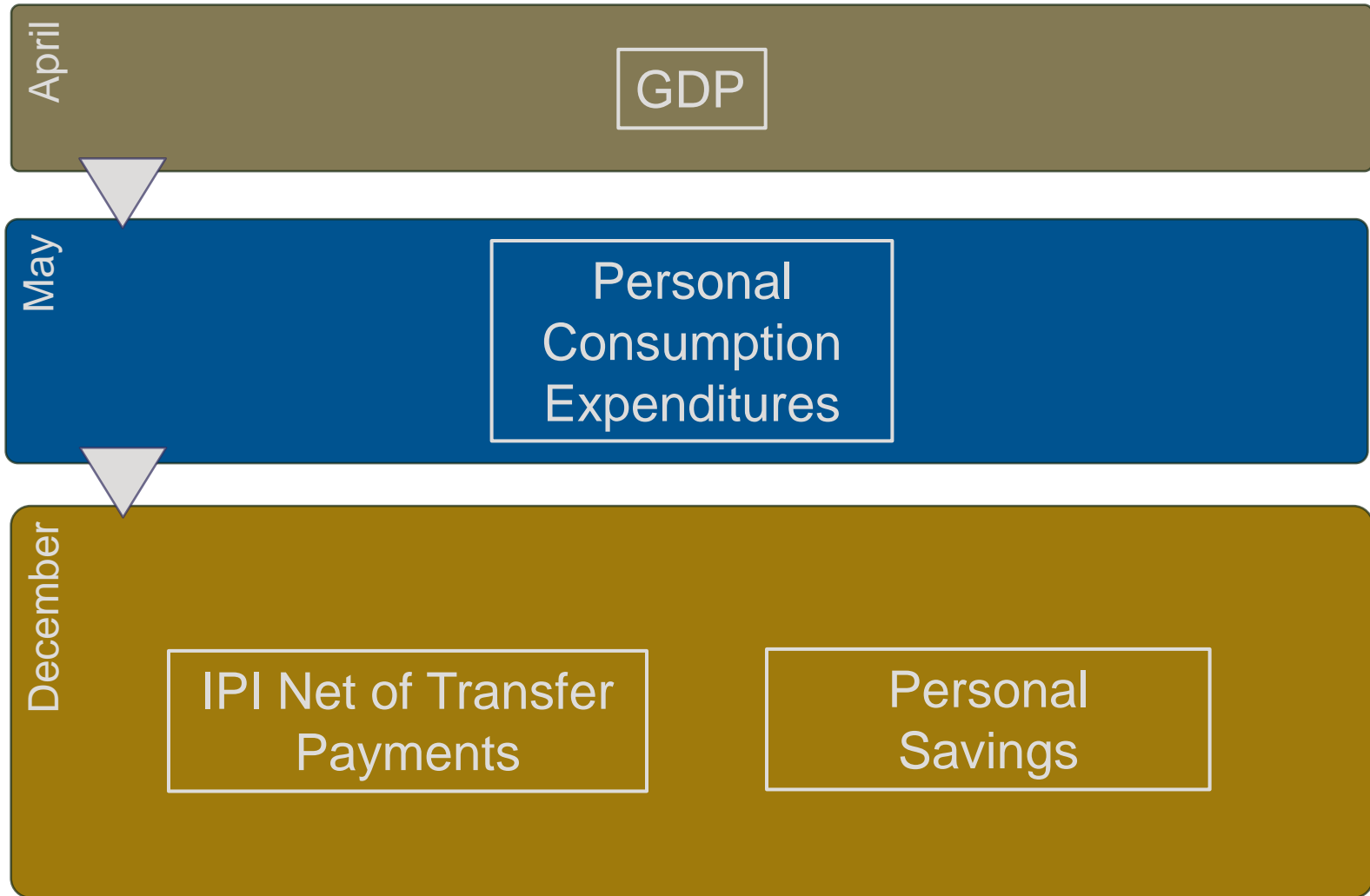
Estimated Payments vs. S & P 500 Index



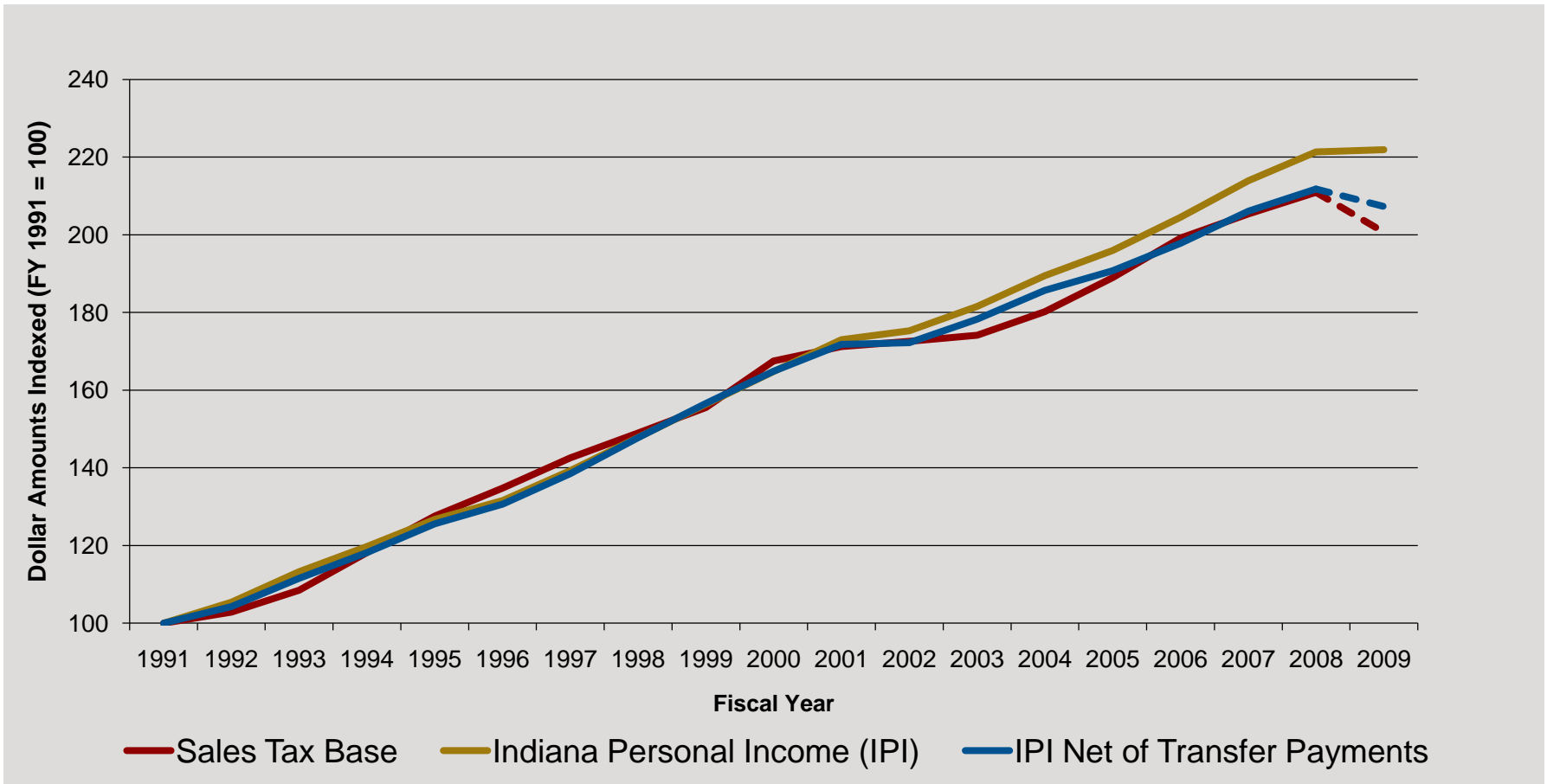
Indiana Withholdings vs. Wage and Salary Disbursements



Changes in the Sales Tax Model



Sales Tax Base vs. IN Nominal Personal Income and IN Nominal Personal Income Net of Transfers



December 2009 Forecast Results

Total General Fund Revenue Forecast

Fiscal Years 2010 and 2011

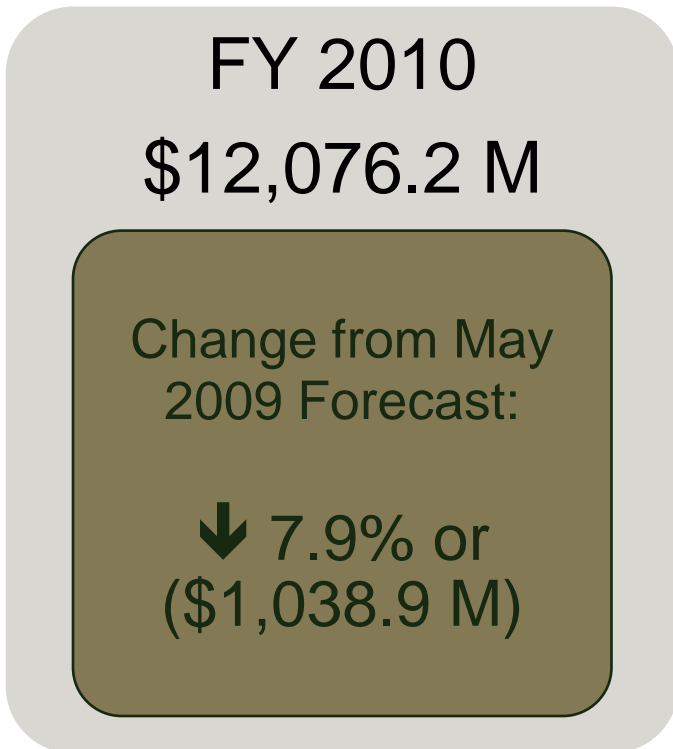
Dec 15, 2009

(In Millions)

	Actual 2009	Prior Forecast	Updated Forecast	Diff. From Prior Forecast	Percent Diff. From Prior Forecast	Percent Growth Over 2009	Prior Forecast	Updated Forecast	Diff. From Prior Forecast	Percent Diff. From Prior Forecast	Percent Growth Over 2010
		2010	2010				2011	2011			
Major Taxes											
Sales & Use	\$6,153.3	\$6,131.7	\$5,932.0	-\$199.7	-3.3%	-3.6%	\$6,438.4	\$6,168.8	-\$269.6	-4.2%	4.0%
Individual AGI	4,313.8	4,289.3	3,775.7	-513.6	-12.0%	-12.5%	4,547.2	4,120.5	-426.7	-9.4%	9.1%
Corporate - AGI, URT, USUT, FIT	839.0	800.0	547.3	-252.7	-31.6%	-34.8%	819.3	733.1	-86.2	-10.5%	33.9%
Riverboat Wagering	545.4	541.1	554.5	13.4	2.5%	1.7%	554.0	574.7	20.7	3.7%	3.6%
Racino Wagering	62.8	104.7	117.2	12.5	11.9%	86.6%	106.7	122.1	15.4	14.4%	4.2%
Subtotal Major Taxes	11,914.2	11,866.8	10,926.7	-940.1	-7.9%	-8.3%	12,465.6	11,719.2	-746.4	-6.0%	7.3%
Other Revenue											
Cigarette*	290.3	282.5	280.0	-2.5	-0.9%	-3.5%	274.6	276.4	1.8	0.7%	-1.3%
Insurance	183.7	177.2	177.2	0.0	0.0%	-3.5%	177.2	177.2	0.0	0.0%	0.0%
Inheritance	185.7	167.5	155.0	-12.5	-7.5%	-16.5%	167.5	155.0	-12.5	-7.5%	0.0%
Alcoholic Beverages	16.1	16.0	16.6	0.6	3.8%	3.1%	16.0	17.0	1.0	6.3%	2.4%
Riverboat Admissions	12.8	15.7	16.4	0.7	4.5%	27.7%	15.7	16.7	1.0	6.7%	1.8%
Interest	61.9	50.0	20.0	-30.0	-60.0%	-67.7%	65.0	35.0	-30.0	-46.2%	75.0%
MV, CVET & FIT Recapture	13.0	339.7	284.6	-55.1	-16.2%	2084.7%	251.3	239.5	-11.8	-4.7%	-15.8%
Miscellaneous Revenue	228.5	199.7	199.7	0.0	0.0%	-12.6%	199.7	199.7	0.0	0.0%	0.0%
Subtotal Other Revenue	992.0	1,248.3	1,149.5	-98.8	-7.9%	15.9%	1,167.0	1,116.5	-50.5	-4.3%	-2.9%
Total General Fund	\$12,906.2	\$13,115.1	\$12,076.2	-\$1,038.9	-7.9%	-6.4%	\$13,632.6	\$12,835.7	-\$796.9	-5.8%	6.3%

*Prior year revenues and forecasted revenues for the Cigarette Tax Account have been adjusted to reflect the new distribution and to provide a comparison to the prior year.

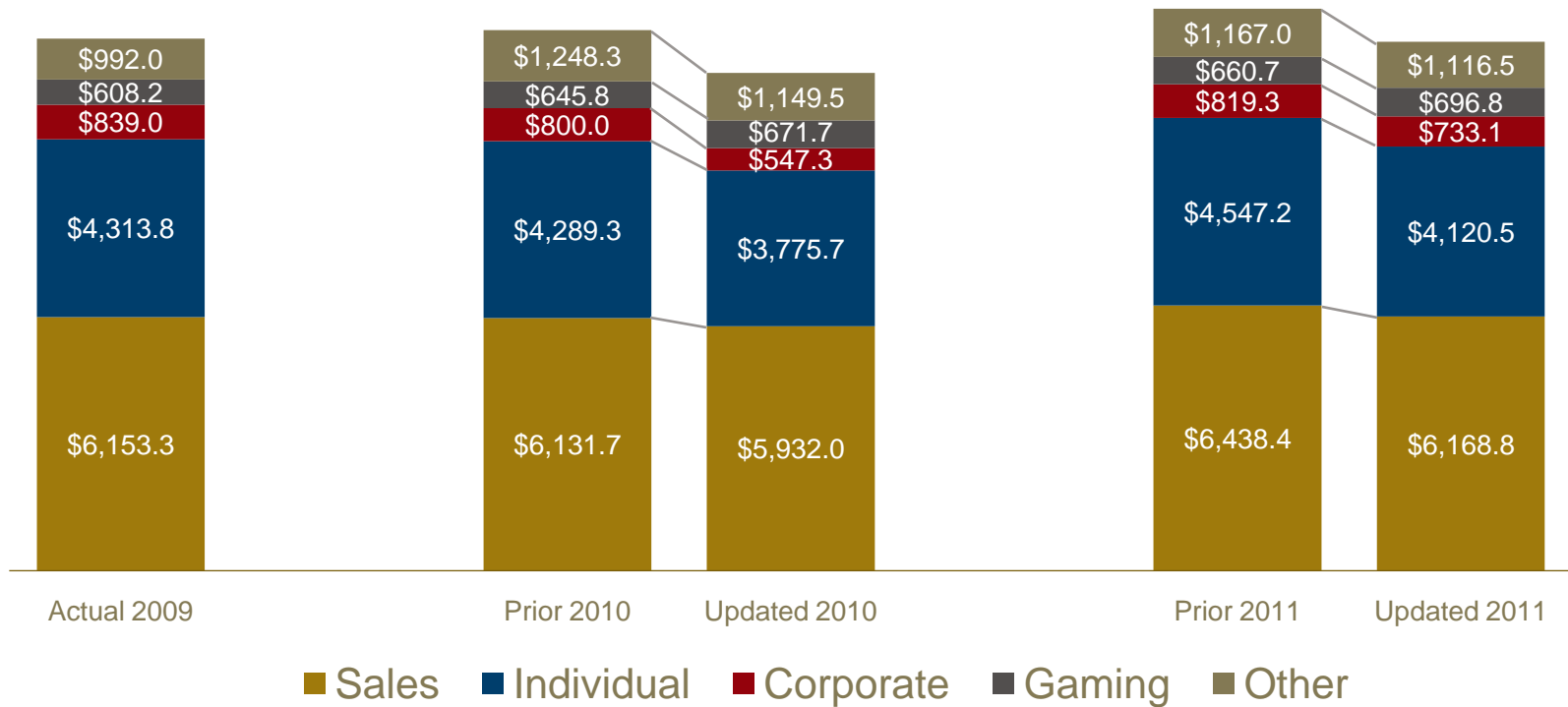
Change from May to December Total General Fund Revenue Forecast



\$1,835.8 M Decrease Over Two Years

Total Tax Revenue Estimates

Changes from May to December



Significant Factors Affecting the December 2009 Forecast

The economic outlook may be improving ,but state revenue may continue to lag

Economic conditions and LOIT distributions will continue to reduce state revenue until the fourth quarter of CY 2010 or the first half of FY 2011

Significant decrease in April estimated Income Tax payments necessitated including business cycle measures in forecast models

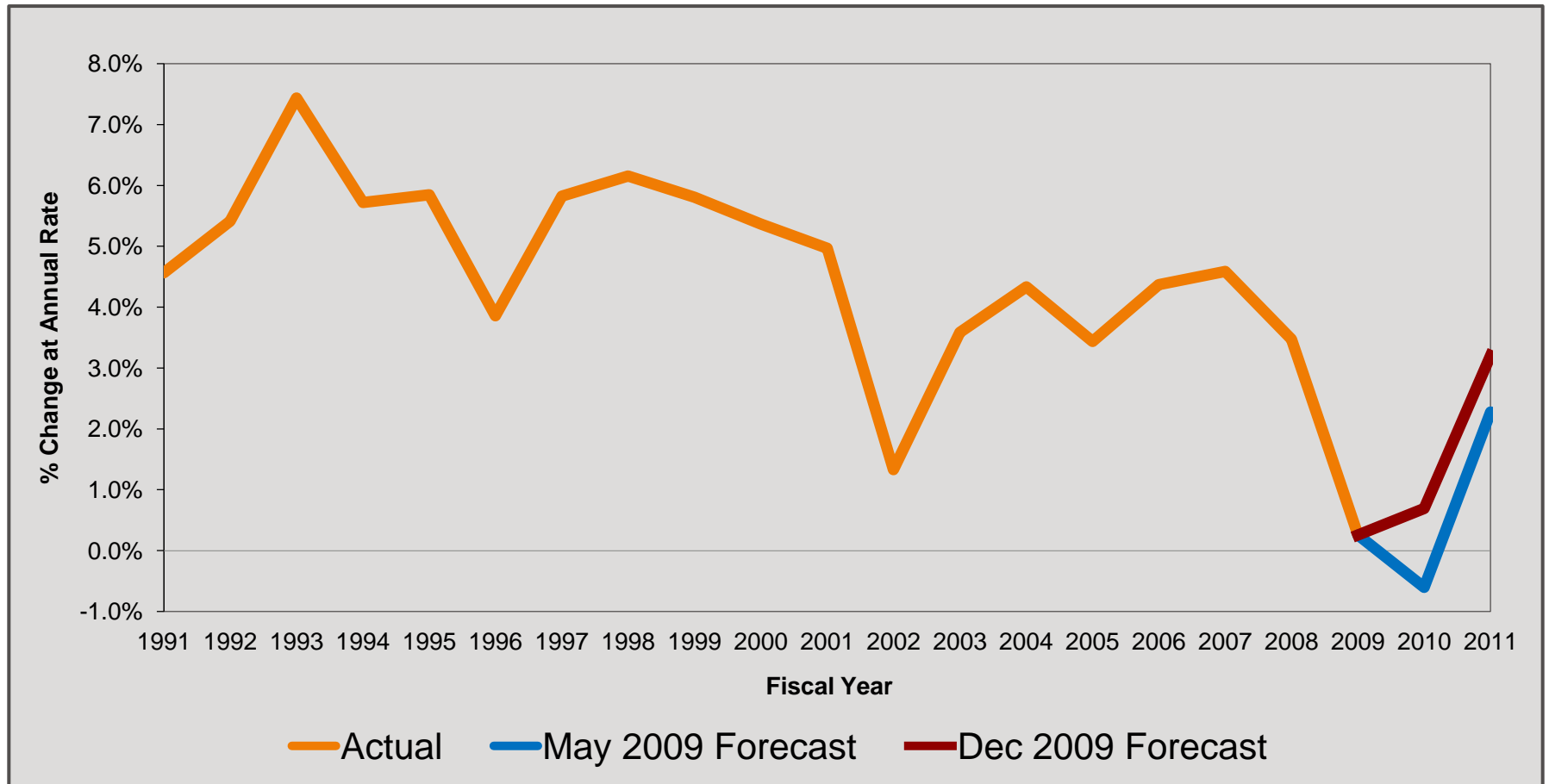
Continued declines in Sales Tax required recognition that transfer payments have a different impact on the Sales Tax base than other types of income

Committee's Perspective on the Forecast

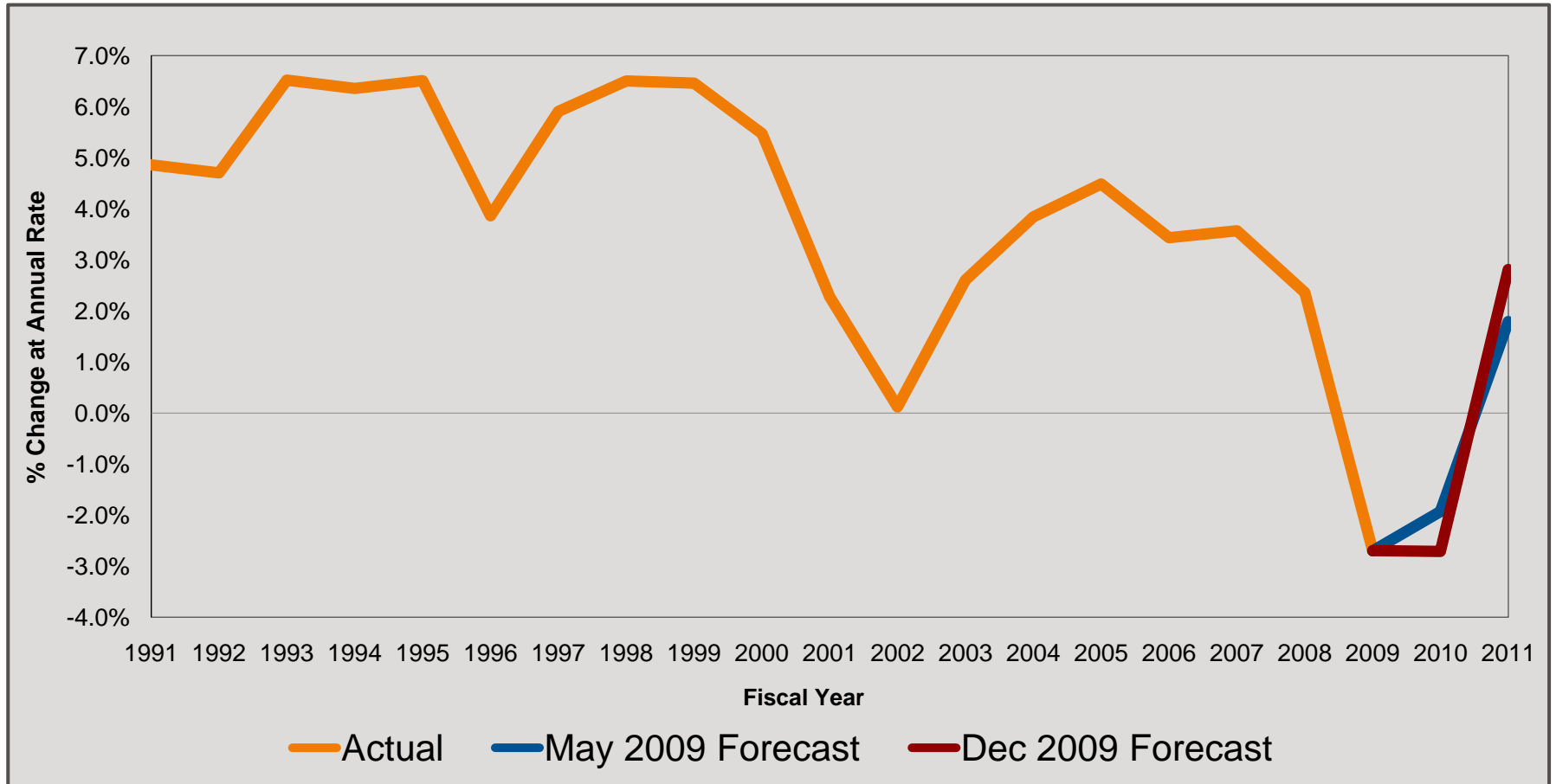
- Actual collections have missed May targets every month in FY 2010
- Actual FY 2010 revenue lags targets by approximately 9.3%
- Actual revenue through November is 11.6% behind same collections year-to-date during FY 2009
- Revenue collections will have to improve over the remainder of FY 2010 to meet the forecast of 6.4% decline
- Comparatively robust FY 2011 growth rate of 6.3% is mitigated by smaller LOIT transfers and rebound in estimated payments
- Given unprecedented economic conditions, six months of additional economic experience will better indicate new trends for FY 2011 based on Dec., Jan., and Apr., which are significant months for sales and estimated payment revenue
- The committee recommends the Budget Committee consider requesting a special forecast in mid-2010

**Appendices
for
December
2009
Revenue
Forecast**

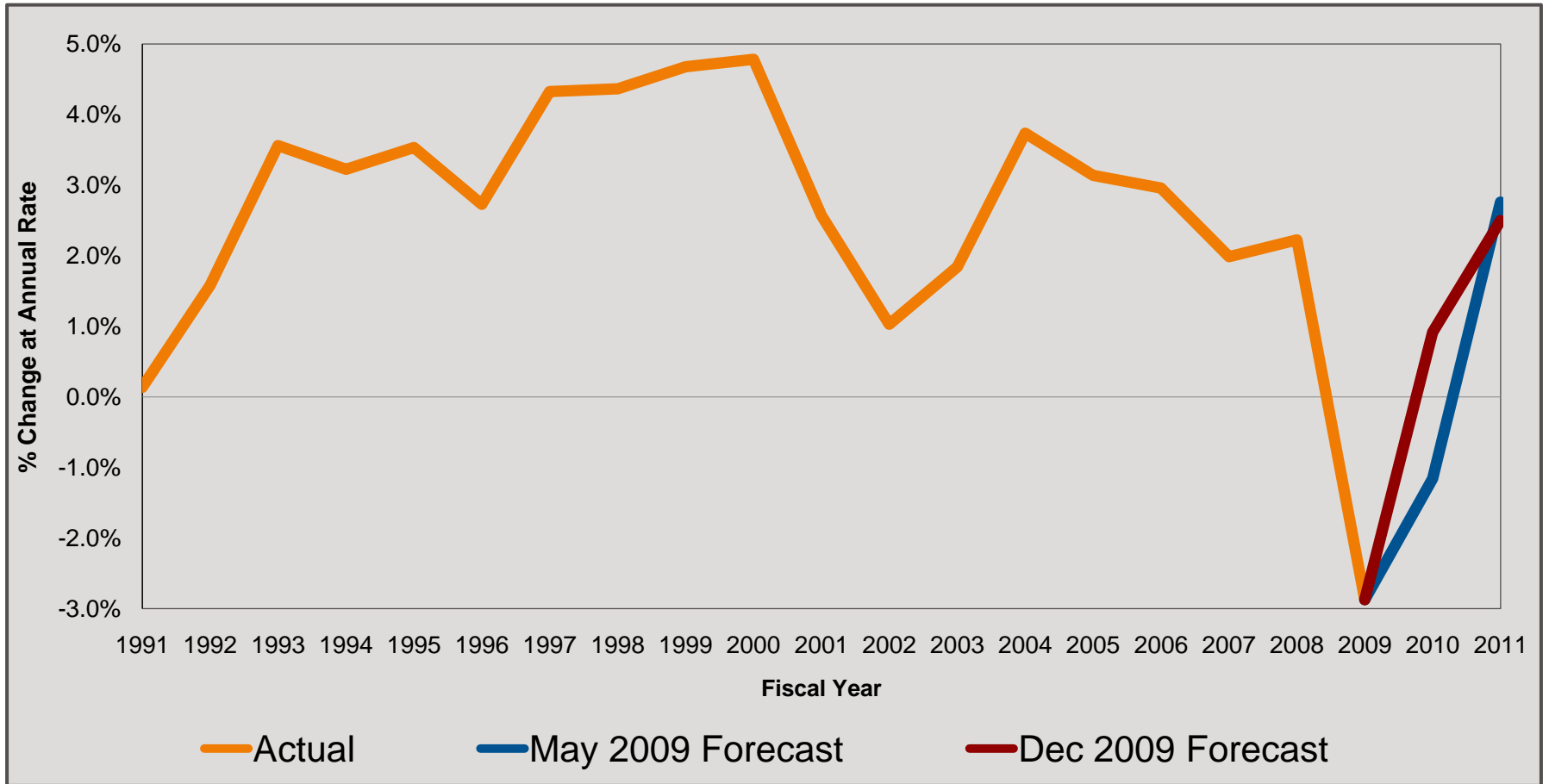
Indiana Nominal Personal Income



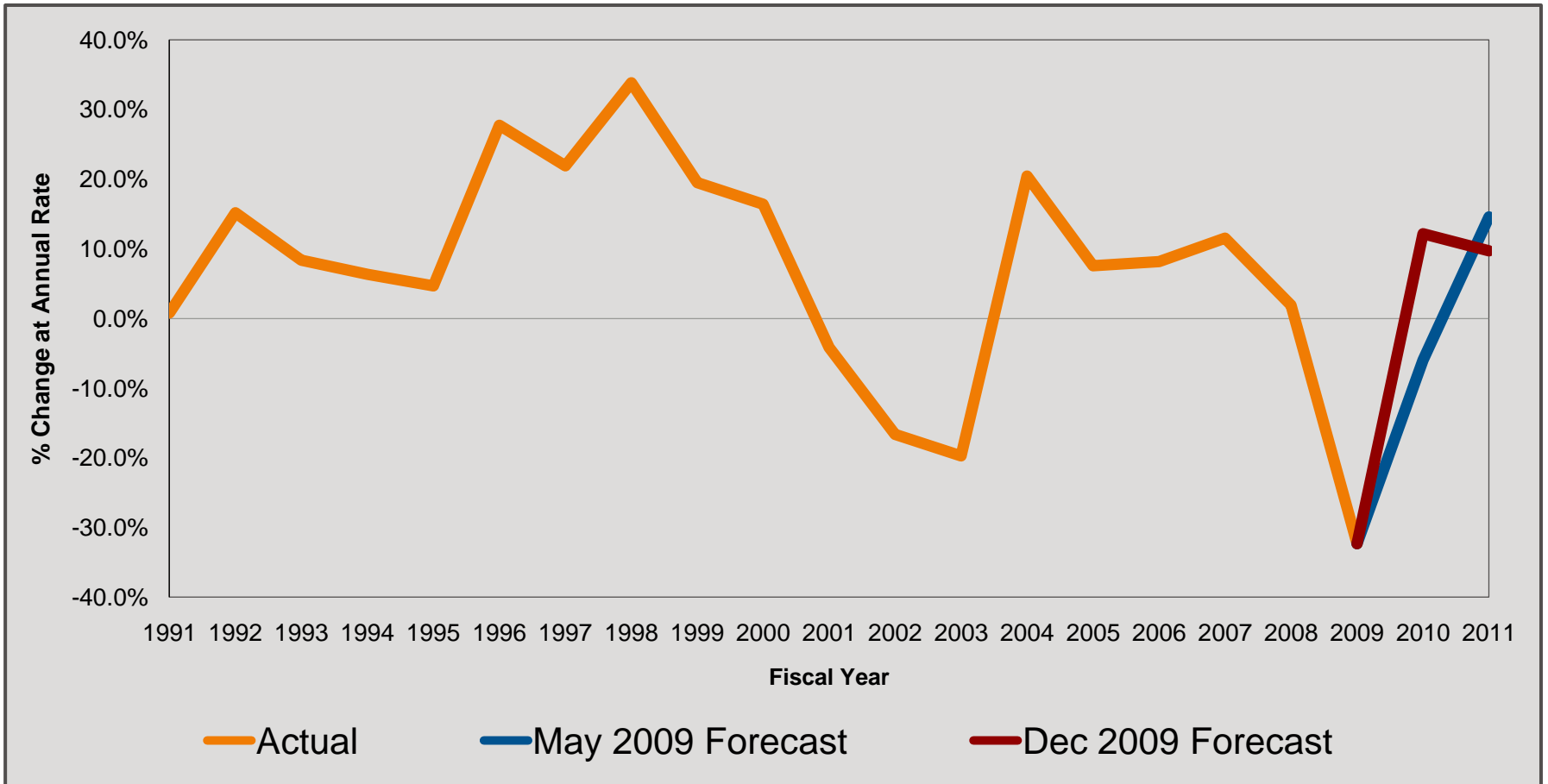
Nominal Indiana Wage and Salary Disbursements



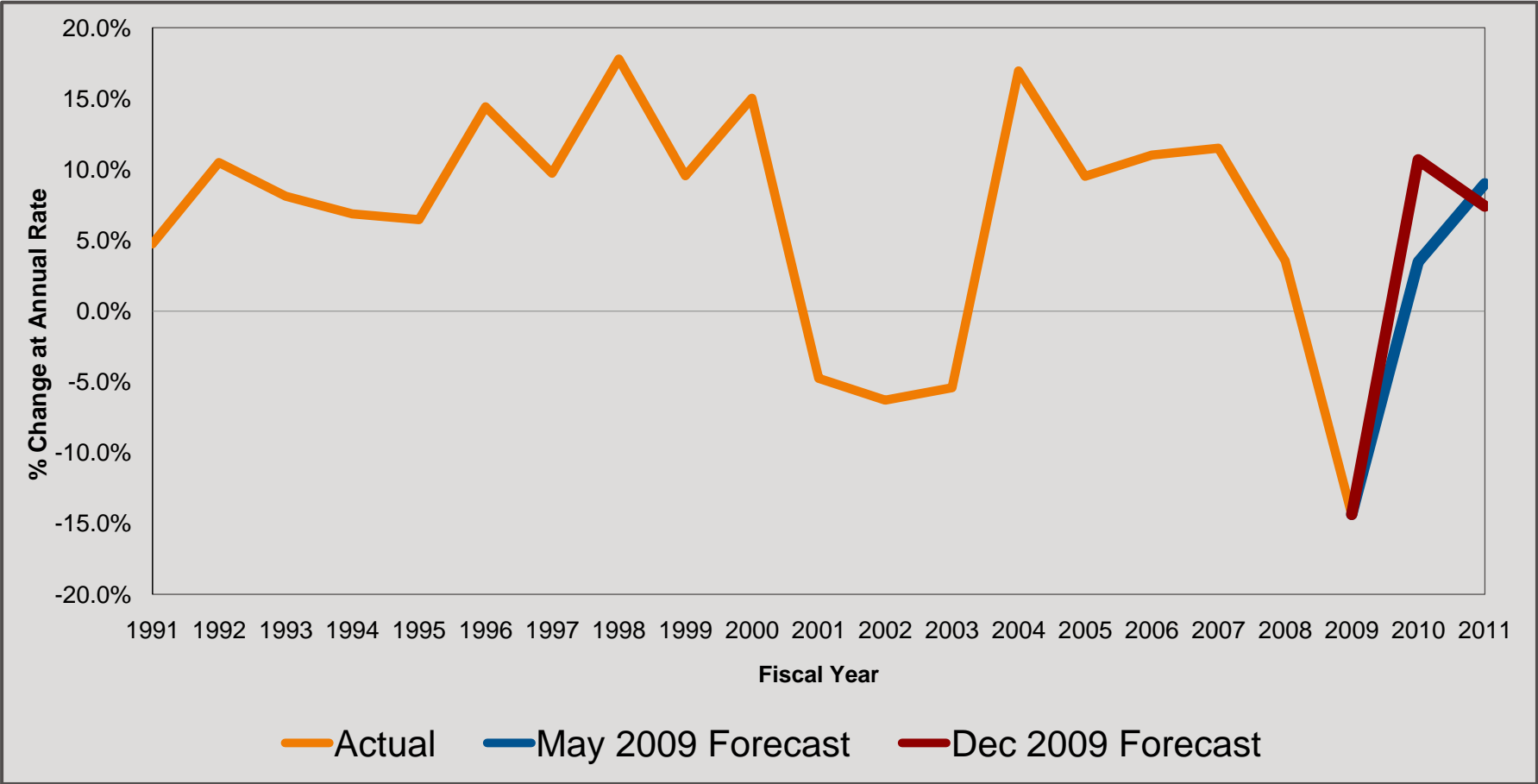
Real U.S. GDP



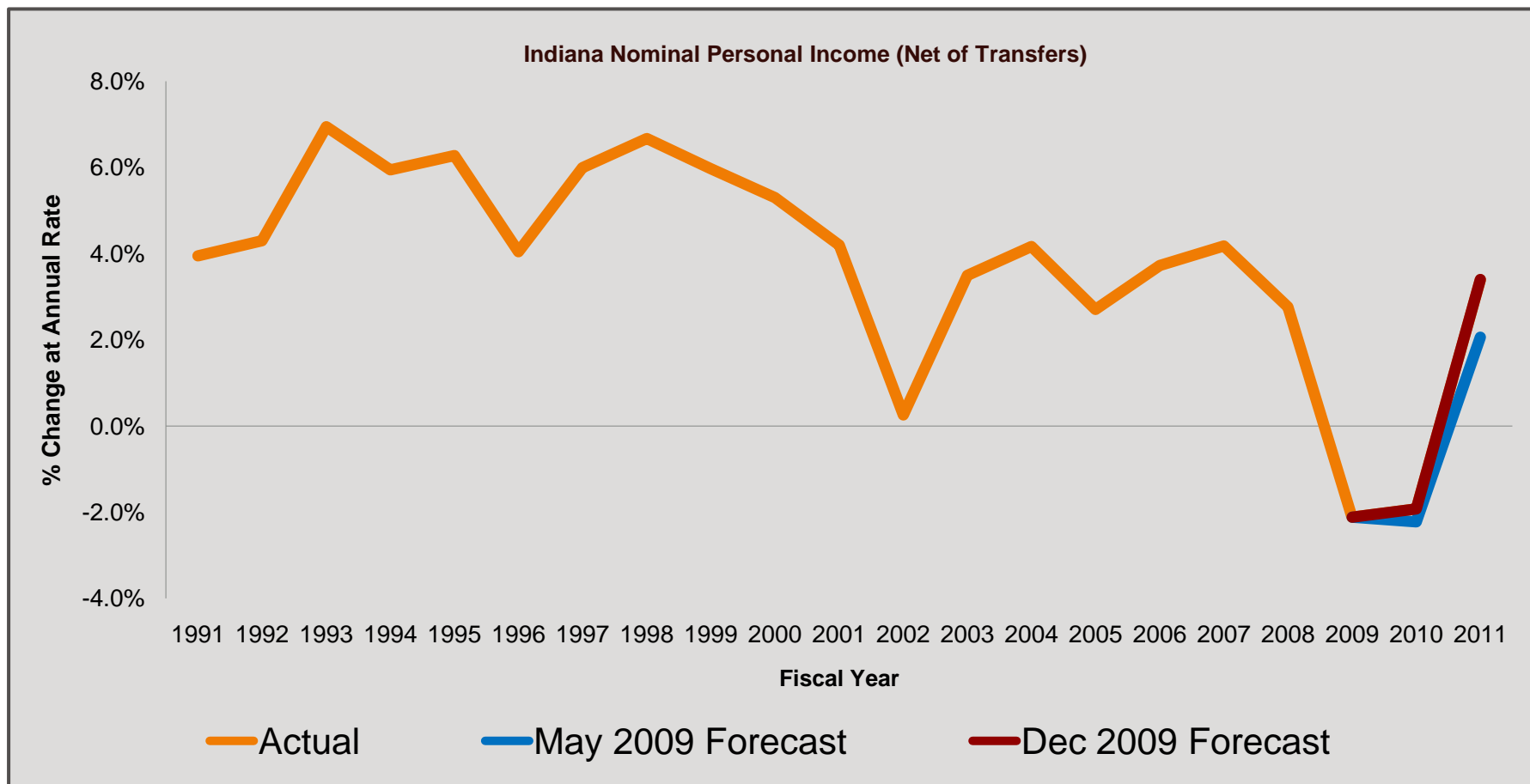
Standard and Poor's 500 Index of Common Stocks



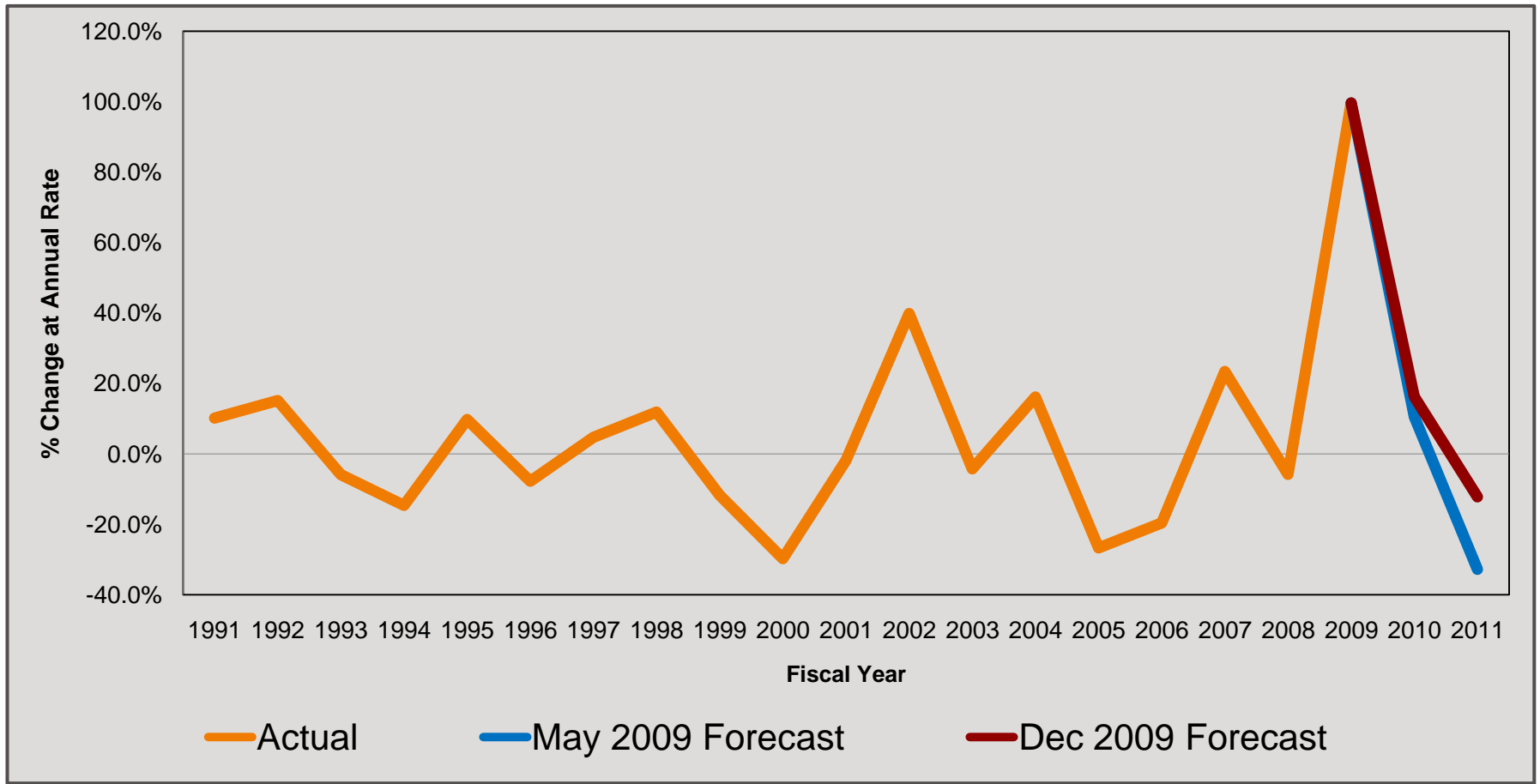
U.S. Household Financial Asset Values



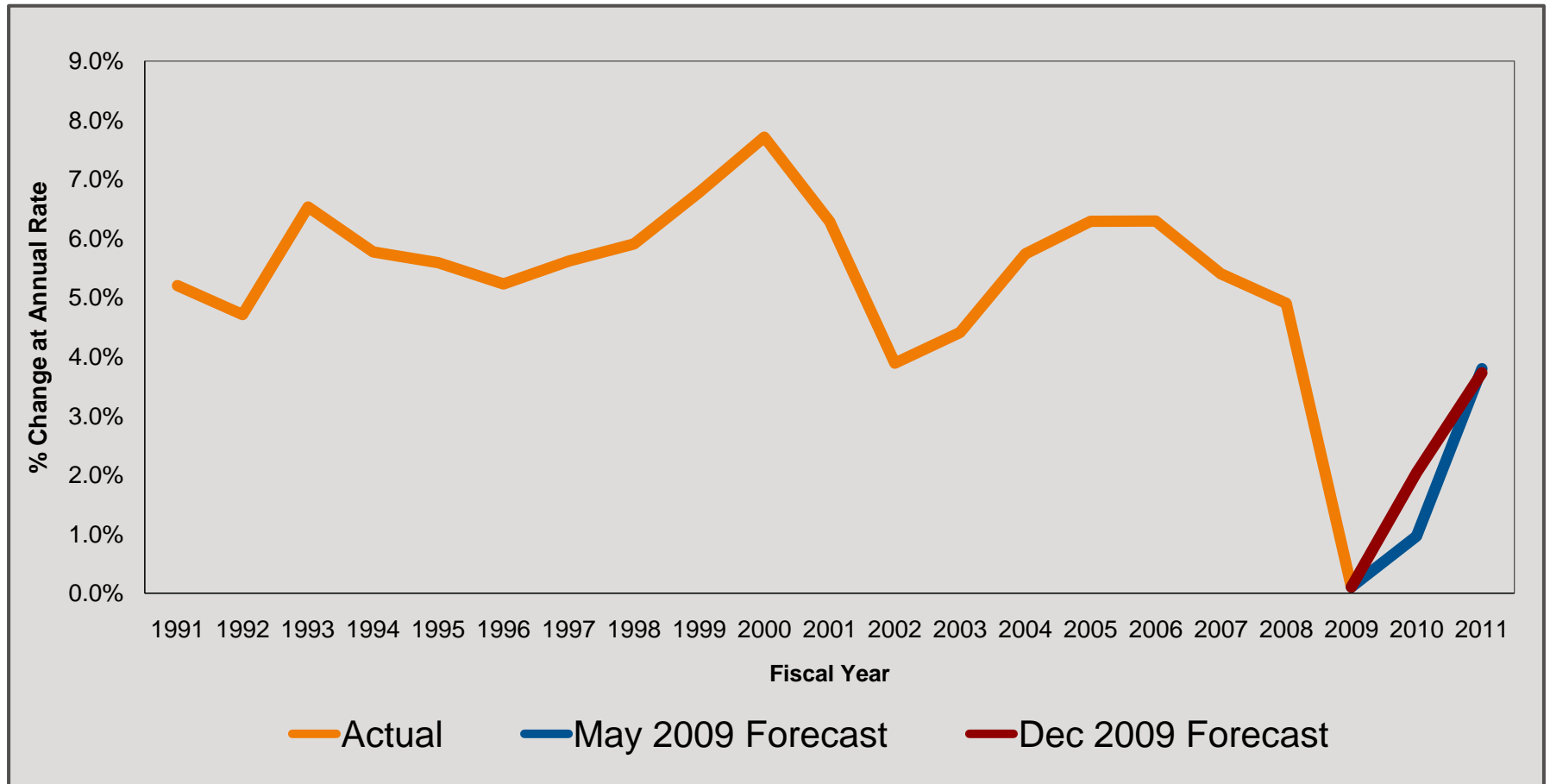
Indiana Nominal Personal Income Net of Transfer Payments



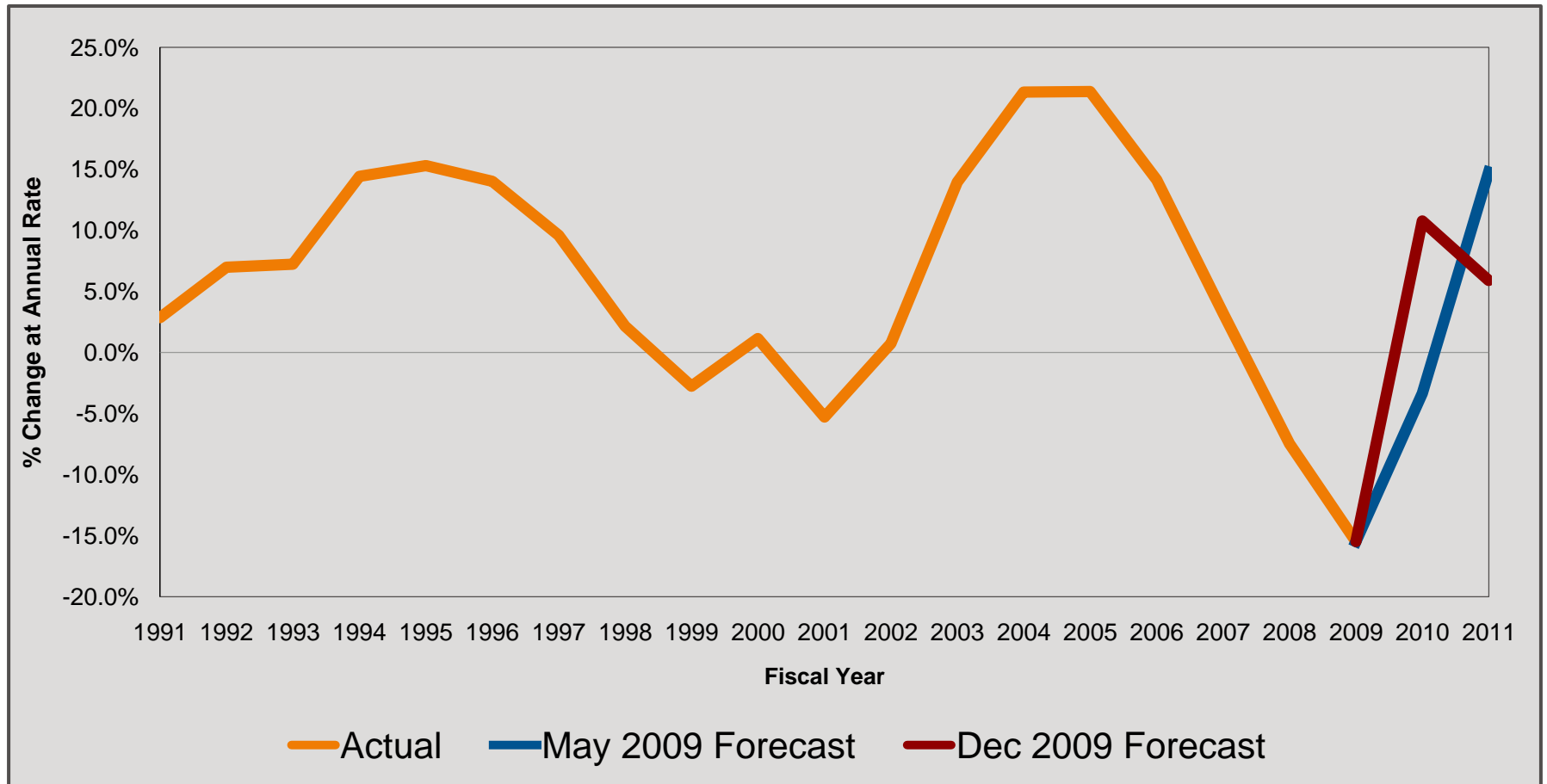
U.S. Personal Savings



U.S. Personal Consumption Expenditures



U.S. Corporate Profits



Changes in Economic Variables May to December

Nominal Indiana Personal Income (in millions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$215,734	\$220,039	2.00%
2011	\$220,647	\$227,094	2.92%

Nominal Indiana Wage and Salary Disbursements (in millions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$112,277	\$111,572	-0.63%
2011	\$114,289	\$114,711	0.37%

U.S. Household Financial Asset Values (in billions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$35,530	\$39,055	9.92%
2011	\$38,724	\$41,952	8.34%

Changes in Economic Variables May to December

U. S. Nominal Personal Consumption Expenditures (in billions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$10,097	\$10,259	1.60%
2011	\$10,481	\$10,642	1.53%

U.S. Real GDP (in billions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$11,329	\$11,620	2.57%
2011	\$11,641	\$11,910	2.31%

U.S. Corporate Profits (in billions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$1,255	\$1,381	10.04%
2011	\$1,441	\$1,463	1.52%

Changes in Economic Variables May to December

Nominal Indiana Personal Income Net of Transfer Payments (in millions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$174,853	\$174,482	-0.20%
2011	\$178,438	\$180,410	1.10%

Standard and Poor's 500 Index of Common Stocks			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	898	1,083	20.61%
2011	1,029	1,188	15.46%

U.S. Personal Savings (in billions)			
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference May 09 to Dec 09
2010	\$413	\$478	15.53%
2011	\$278	\$419	50.81%

Total Tax Revenue Estimates

Sales Tax (in millions)				
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference (\$) May to Dec	Difference (%) May to Dec
2010	\$6,131.7	\$5,932.0	(\$199.7)	-3.3%
2011	\$6,438.4	\$6,168.8	(\$269.6)	-4.2%

Individual Income Tax (in millions)				
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference (\$) May to Dec	Difference (%) May to Dec
2010	\$4,289.3	\$3,775.7	(\$513.6)	-12.0%
2011	\$4,547.2	\$4,120.5	(\$426.7)	-9.4%

Corporate Taxes (in millions)				
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference (\$) May to Dec	Difference (%) May to Dec
2010	\$800.0	\$547.3	(\$252.7)	-31.6%
2011	\$819.3	\$733.1	(\$86.2)	-10.5%

Total Tax Revenue Estimates

Gaming Taxes (in millions)				
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference (\$) May to Dec	Difference (%) May to Dec
2010	\$645.8	\$671.7	\$25.9	4.0%
2011	\$660.7	\$696.8	\$36.1	5.5%

Other Taxes (Includes FIT, Excise, CVET Transfer) (in millions)				
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference (\$) May to Dec	Difference (%) May to Dec
2010	\$1,248.3	\$1,149.5	(\$98.8)	-7.9%
2011	\$1,167.0	\$1,116.5	(\$50.5)	-4.3%

Total General Fund Taxes (in millions)				
Fiscal Year	May 2009 Forecast	Dec 2009 Forecast	Difference (\$) May to Dec	Difference (%) May to Dec
2010	\$13,115.1	\$12,076.2	(\$1,038.9)	-7.9%
2011	\$13,632.6	\$12,835.7	(\$796.9)	-5.8%