STATE OF INDIANA

Mitchell E. Daniels, Jr.
Governor

STATE BUDGET AGENCY
212 State House
Indianapolis, Indiana 46204-2796
317/232-5610

Christopher A. Ruhl
Director

The monthly revenue report of March 2009 state tax collections was released today.

Results

- Total revenue collections were $821 million, 15% below collections for the same period last year. A decline of this magnitude has only occurred one time in the last 214 monthly revenue reports (May 2002). Total collections were $87 million (9.5%) below the December 2008 forecast amount. Year to date collections are 5% below prior year.
- Sales tax collections totaled $389 million for the month, 11% below collections for the same period last year. This is the fifth consecutive month of lower collections compared to prior year. As indicated last month, sales tax collections have never declined compared to prior year for this many months in succession. Year to date collections are 3% below last year.
- Individual income tax collections totaled $270 million for the month, 21% below collections for the same period last year. Year to date collections are 7% below prior year. If collections ended this fiscal year 7% below last year, it would be the largest decline in income tax collections compared to prior year in state history.

Commentary

For the fourth consecutive month tax collections have lagged the most recent forecast. See Chart 1. Additionally, the magnitude of the declines compared to prior year has dramatically increased in the last four months. See Chart 2.

If the March trend of a -15% decline in revenues compared to prior year continued for the remainder of FY 2009, tax collections would be $550 million lower than the December 2008 forecast. Given these and prior months' results, it is 100% clear that the April revenue update will result in fewer resources to work with than December's forecast. This will make matching spending to available revenues difficult. Meanwhile, we are seeing numerous costly bills outside of the budget advance in the General Assembly. Every one of these bills standing alone is a veto candidate. The proper approach to funding worthy programs is to incorporate them into a budget that protects Hoosier taxpayers.

It is also important to note that revenue collections are unlikely to immediately recover for two key reasons. First, income tax generated from investment income and capital gains will be offset by the substantial capital losses that occurred in the equity markets. Second, sales tax growth will be diminished because dramatic declines in retirement portfolios and available equity in primary residences are likely to result in a higher savings rate. A recent study concluded that "new, normal" spending levels for consumers will only reach 86% of their pre-recession levels. *See March 30, 2009 AlixPartners Survey.*

CHART 1: Tax collections by month compared to original (April 2007) and new (December 2008) forecast:

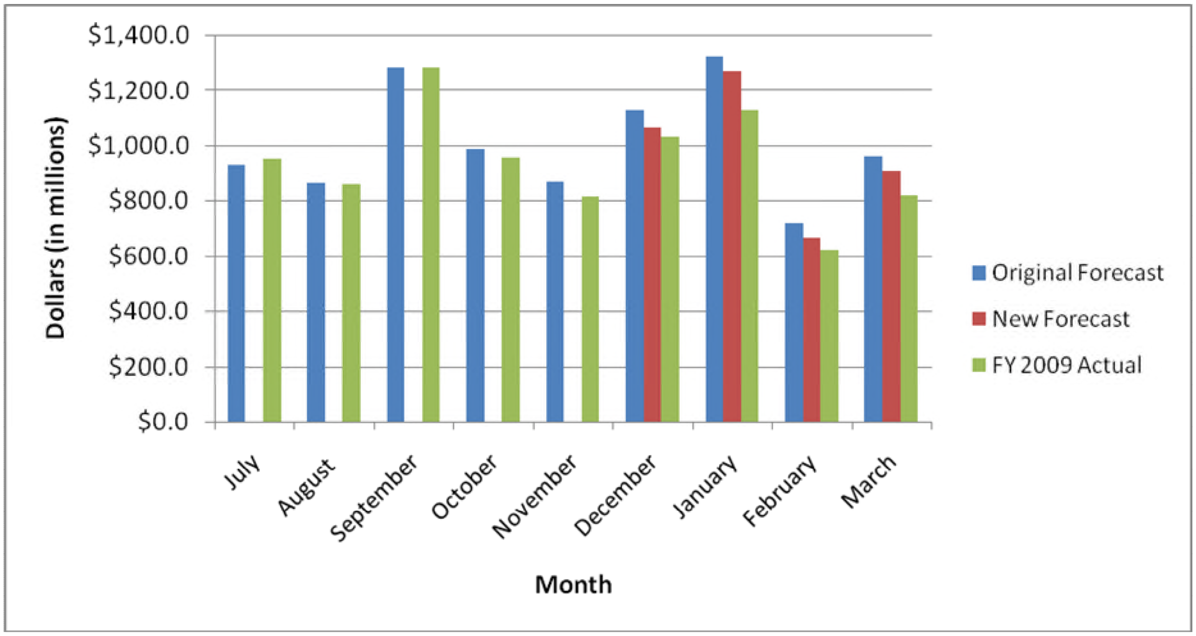
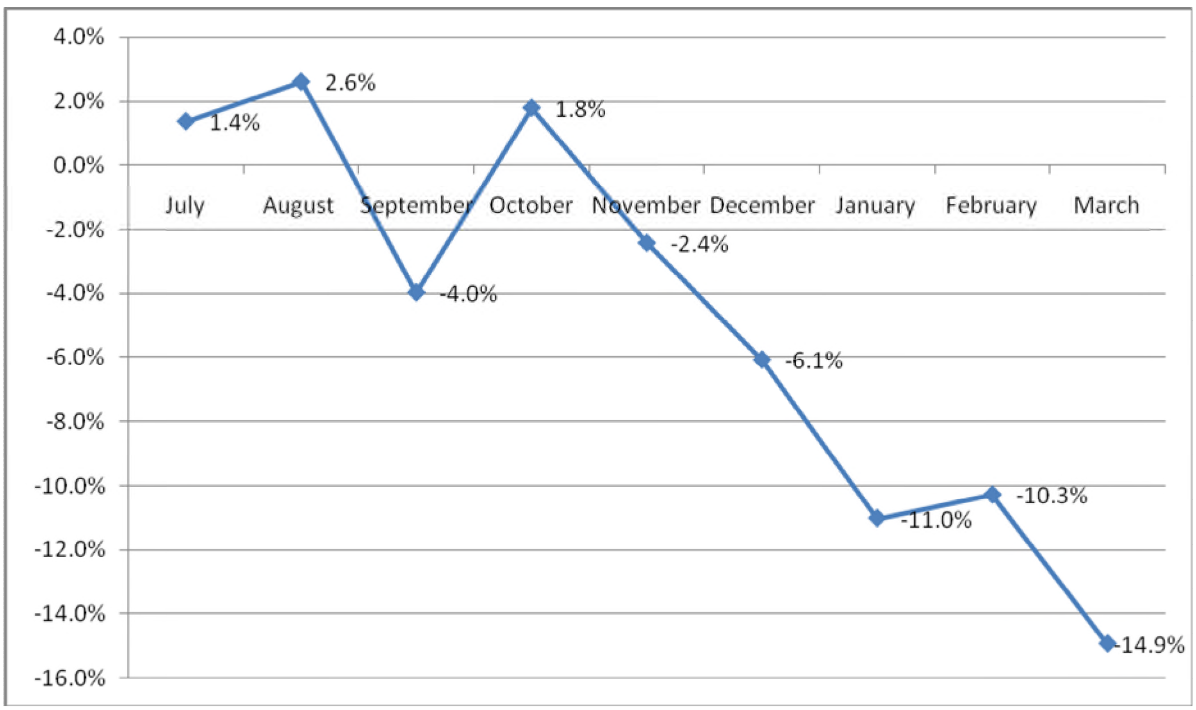


CHART 2: Tax collections by month compared to the same month from the prior year:



Christopher A. Ruhl
April 6, 2009