



December 2025 REVENUE FORECAST

Methodology and Technical Documentation

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Introduction

This document provides an overview of the December 2025 state revenue forecast. The calculation instructions, model specifications, summary statistics, and forecasts are included.

For further information and assistance in the calculation of models, please contact the State Budget Agency's Office of the Chief Economist and Tax Analysis at 317-232-5610.

Revenue Forecast Committee

The revenue forecast technical committee is comprised of members from both the executive and legislative branches. Staff from both the State Budget Agency and Legislative Services Agency have a vital role in the process by assisting with data analysis and modeling. Each forecast model and revenue estimate are agreed to by the technical committee on a consensus basis.

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Economic Forecast

The forecast committee uses economic forecasts from S&P Global Market Intelligence (formerly IHS Markit). Forecasts cited in this document are provided by S&P Global Market Intelligence, a leading economic consulting firm. S&P Global Market Intelligence is routinely ranked among the leading economic forecasters in studies by The Wall Street Journal and Bloomberg Markets.

Section I: Commentary on the Economic Forecast

S&P Global Market Intelligence (formerly IHS Markit) projects U.S. real gross domestic product growth of 2.1% in FY 2026, 2.1% in FY 2027, and 1.6% in FY 2028. During the same period, Indiana's real gross state product is projected to grow by 2.7% in FY 2026, 2.2% in FY 2027, and 1.8% in FY 2028. Additionally, Indiana personal income are projected to grow by 5.2% in FY 2026, 5.8% in FY 2027, and 5.1% in FY 2028.

In the context of evolving policy dynamics, economic data, and timing of economic activity around these dynamics, key economic indicators that were initially revised downwards from December 2024 through April 2025 have been revised upwards in December 2025 by S&P Global Market Intelligence. Besides growth projections of the broad economy, growth projections particularly for wages and personal income have been revised upwards from April 2025. In addition to stronger-than-expected financial market performance, the combination of economic performance through the end of 2025 and expectations of federal and state policy actions drive the outlook through the biennium.

Economic and State General Fund revenue trends should be interpreted within historical perspective and in the context of macroeconomic dynamics and evolving policy actions at the federal and state levels. Following temporary federal stimulus (monetary, fiscal etc.) and other idiosyncratic dynamics (pandemic related etc.) that pushed economic indicators above historical trends and General Fund revenues from \$18.5B in FY 2021 (excl. deferred payments from FY 2020 to FY 2021 due to deferral of the tax year 2020 federal tax deadline) to \$21.2B in FY 2022 (14.4% growth), the FY 2024-2025 period experienced a rebalancing in the economy following above-trend growth through FY 2023. FY 2026 through FY 2027 is projected to see a transition period in the context of changing federal policy on tariffs, tax policy, monetary policy and more.

Key risks ahead include whether the current capital spending upcycle and strength of financial markets, which have been linked with business investments and wealth effects on income and spending, will continue to support growth for Indiana's tax base in the context of potential price increases for businesses and households. While sectors such as pharmaceuticals, healthcare and industries such as trade, transportation and utilities that may see tailwinds from higher investments related to artificial intelligence- and other technology-related investments, continue to see higher growth potential, the specific growth outlooks around housing and the auto sector face headwinds in the context of affordability and limited employment growth.

Overall, FY 2025 State General Fund revenues grew by 3.5% compared to FY 2024. As for the biennium, the State General Fund revenues are projected to grow at an annual rate of approximately 4.2% in FY 2026 and 2.7% in FY 2027.

Below are some notes on the December 2025 economic forecast from S&P Global Market Intelligence.

US economic growth has steadied, but employment weakening

- US economy is transitioning from above-potential to below-potential growth.
 - We forecast 2.0% GDP growth in 2025, 2.2% in 2026, and 1.8% in 2027, after 2.8% growth in 2024.
- Large swings in imports and exports directly impacted quarterly growth in early 2025.
 - Surge in imports in Q1 (to get ahead of expected tariffs) caused 0.6% drop in real GDP.
 - Growth jumped to 3.8% in Q2 as imports slowed dramatically.
- Tariff impacts have varied by industry but generally less than initially feared.
 - Construction, motor vehicles facing higher costs, disrupted supply chains.
 - High-tech industries seem to be less affected.
- Labor market has downshifted – payrolls 119K higher in September but declined in June and August.
 - Data releases delayed by Federal shutdown.
 - Federal government layoffs over the course of 2025 are a factor in the declines.
 - Deportations, cutbacks in legal immigration limiting the labor pool.
- Investment boom in data centers and artificial intelligence capabilities playing a large role in markets.
- We expect the Federal Reserve to pause its easing cycle further cuts until mid-2026.
 - Even with lower-than-expected tariff effects, inflation will continue to run above the Fed's target rate.

Key policy assumptions in the December 2025 US forecast

- Tariffs
 - In addition to **Section 232** tariffs currently in place, new tariffs on semiconductors (effective 2026Q1) and critical minerals (effective 2027Q1), ranging from 10% to 25%.
 - **Canada and Mexico:** IEEPA (fentanyl) tariffs of 35% on goods and auto (non-USMCA compliant) from Canada, 25% from Mexico. These step down to 15% by mid-2026.
 - **Mainland China:** It's complicated, but: IEEPA tariffs at 10%. Section 301 tariffs on certain products ranging from 25% to 100%; many date back to 2018.
 - **Other countries:** "reciprocal" tariffs at rates announced on August 1 or later, ranging from 10% to 40%.
- Fiscal
 - Permanent **extension** of 2017 personal tax cuts.
 - Additional tax relief for **overtime pay** and **tip income** and easing of cap on **the state-and-local tax deduction**.
 - **Corporate tax rate** for domestic producers declines from 21% to 15%.
 - Generic cuts in **federal outlays**.
- Federal employment reduced by 255,000 through October 2025.
- Immigration
 - Reduced by **500,000 per year** for 2025 through 2028.

Indiana economy, labor market are weathering policy-related uncertainties

- Estimates from BEA, BLS indicate that Indiana output and job growth has slowed in line with the nation.
 - Data centers, where to build them, how to power them, etc., a hot topic.
- Tariffs and their impacts have been lower than expected for Indiana industries, but still making their mark.
 - Automakers are rearranging supply chains and production decisions in response to tariffs on Mexico and Canada.
 - Pharmaceutical producers face potential onerous tariffs on imports, but companies who are expanding US production will be exempt.
- Immigration enforcement actions also are having relatively low impact in the state.
- Federal policy changes likely to prompt a change of plans for some industries
 - Removal of tax credits for electric vehicles will sideline some plans for new facilities but will bring renewed investment in production of more traditional drivetrains.
- Indiana's housing market cooling, but holding up relatively well
 - Population growth has been running a bit below national average but higher than neighboring states.
 - States and metros that experienced housing booms in the early 2020s are seeing a reversal, while the slower and steadier areas are faring better.

Section II: Economic Indicators for Indiana

Fiscal Year Amounts

Indiana Economic Indicators	FY 2025 Actual	FY 2026 Forecast	FY 2027 Forecast	FY 2028 Forecast
Personal Income (Millions \$)	453,239.54	476,954.21	504,808.16	530,519.35
Adjusted Personal Income (Less transfer payments) per Household (Thousands \$)	127.70	132.77	139.70	146.04
Household net worth per household (Thousands \$)	1,082.77	1,145.82	1119.54	1,123.83
Prior FY Home Sales	89.92	90.58	90.92	97.64
Personal Savings (Millions \$)	20,693.07	22,347.52	29,819.93	35,009.98
Nominal Wages and Salaries (Millions \$)	217,505.90	229,032.37	240,807.15	252,279.41
Real GSP, Retail Trade (Millions 2012 \$)	25,841.70	25,706.96	26,523.03	27,025.89
Gross State Product (Millions \$)	530,063.70	559,943.37	586,540.51	610,213.97

US Economy				
Household Financial obligations ratio	14.63	14.61	14.36	14.39
Retail Price on All Grades of Gasoline (cents \$)	344.44	324.61	332.96	346.44
GSP / GDP, Two-Year Moving Average	0.0178	0.0177	0.0178	0.0178
Dividend Payments to individuals and Personal Interest Income (Billions \$)	4,176.20	4,316.05	4,650.13	4,978.22
S&P 500 Index	5,773.60	6,694.03	6,306.23	6,100.69
Change in Prior CY S&P 500 Index	1,142.46	784.84	387.53	(444.84)

Year-Over-Year Percentage Change

Indiana Economic Indicators	FY 2025 Actual	FY 2026 Forecast	FY 2027 Forecast	FY 2028 Forecast
Personal Income (Millions \$)	4.47%	5.23%	5.84%	5.09%
Adjusted Personal Income (Less transfer payments) per Household (Thousands \$)	3.34%	3.97%	5.22%	4.54%
Household net worth per household (Thousands \$)	6.28%	5.82%	-2.29%	0.38%
Prior FY Home Sales	-7.53%	0.73%	0.38%	7.39%
Personal Savings (Millions \$)	-7.71%	8.00%	33.44%	17.40%
Nominal Wages and Salaries (Millions \$)	4.54%	5.30%	5.14%	4.76%
Real GSP, Retail Trade (Millions 2012 \$)	5.01%	-0.52%	3.17%	1.90%
Gross State Product (Millions \$)	3.93%	5.64%	4.75%	4.04%

US Economy				
Household Financial obligations ratio	0.77%	-0.16%	-1.74%	0.22%
Retail Price on All Grades of Gasoline (cents \$)	-8.20%	-5.76%	2.57%	4.05%
GSP / GDP, Two-Year Moving Average	-0.57%	-0.20%	0.25%	0.06%
Dividend Payments to individuals and Personal Interest Income (Billions \$)	1.94%	3.35%	7.74%	7.06%
S&P 500 Index	20.41%	15.94%	-5.79%	-3.26%
Change in Prior CY S&P 500 Index	522.44%	-31.30%	-50.62%	-214.79%

Section III: Models Used in the Forecast

Sales & Use Taxes

The implied tax base for sales tax does not include gasoline use tax (“GUT” is also no longer distributed to General Fund since FY 2024). It is calculated by (1) subtracting gasoline use tax revenues from sales and use tax revenues; (2) subtracting remote sales revenues attributable to recent Wayfair decisions and marketplace facilitator legislative changes (“remote sales”); and (3) dividing the result by the prevailing sales tax rate for that fiscal year. This methodology allows for specific methodologies that capture distinctive dynamics impacting overall sales and use tax collections. Sales tax collections attributable to remote sales are forecasted separately. Data used for sales net of GUT model is also adjusted to account for legislative changes, payment timing and other specific aspects that have altered tax collections trends over time.

Notably, the sales net of GUT model uses (1) Indiana adjusted personal income (less transfers payments) per household to potentially capture a measure of income that would better reflect the ability to spend, (2) U.S household obligations ratio as a percent of disposable income to potentially capture the impact of credit on the ability and willingness to spend, (3) MA (2) Prior FY Personal Savings to capture the potential impact on current year spending from recent changes in savings, (4) MA (2) FY Home Sales to capture the taxable share of consumer spending in Indiana, and (5) MA (2) Household Net Worth per Household to capture the impact of wealth effects and household balance sheets on the willingness and ability to spend on taxable purchases.

Sales & Use Taxes: Sales Net of Gasoline Use Tax

$$\text{Log (Sales Net of GUT Tax Base)} = \beta_0 + (\beta_1 * \text{Log (Indiana Adjusted Personal Income (Less Transfer Payments) Per Household)}) + (\beta_2 * \text{U.S. Household financial obligations ratio}) + (\beta_3 * \text{Log (MA (2) Prior FY Personal Savings)}) + (\beta_4 * \text{Log (MA (2) FY Home Sales)}) + (\beta_5 * \text{Log (MA (2) FY Household Net Worth per Household)}) + \text{error term}$$

Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	6.059***
β_1	0.684***
β_2	0.028***
β_3	0.055***
β_4	0.060**
β_5	0.177**

Model Statistics:

Adjusted R ²	0.998
Predicted R ²	0.997
DW Statistic	2.552
Sample Size (n)	27

*Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*

Historical Revenue Data				
Fiscal Year	Adjusted General Fund Revenue (Millions \$)	Growth Rate	Commuter Rail Service Fund	Industrial Rail Service Fund
2021	8,925.60	13.9%	11.69	2.77
2022	9,809.99	9.9%	12.89	3.05
2023	10,322.16	5.2%	13.57	3.21
2024	10,369.92	0.5%	13.61	3.22
2025	10,633.70	2.5%	13.95	3.30

Forecast Revenue Data				
Fiscal Year	Adjusted General Fund Revenue (Millions \$)	Growth Rate	Commuter Rail Service Fund	Industrial Rail Service Fund
2026	11,230.03	5.6%	14.74	3.49
2027	11,617.66	3.5%	15.24	3.61

Forecasted revenue shown above also includes adjustments related to legislative acts and remote sales as a result of the Wayfair ruling in 2018 and other changes related to marketplace facilitators.

Individual Income Tax

The individual income tax forecast is based on (1) a model of state and local withholding payment activity, (2) a model of state and local estimated payments and other non-withholding payment activity combined with a separate estimate of individual income tax refunds, and (3) a separate estimate of local income tax revenues. The selected equations use fiscal year data rather than quarterly data. A fiscal year methodology reduces the risk of factors involving atypical timing delays affecting the model output.

The withholding payments model seeks to capture payments received for both state and local withholding on income tax, excluding non-resident partnership withholdings. The non-resident partnership withholdings attributable to individual income taxpayers are estimated separately, based on historical data.

The estimated payments & other non-withholding model seeks to capture non-withholding individual income tax payment activity. Refunds are estimated separately to arrive at the net forecast.

Lastly, an estimate for local income tax revenues is generated and subtracted from the sum of state and local individual income tax collections to arrive at the net state individual income tax revenue forecast. The local income tax forecast is based on a calculation of the statewide weighted average local income tax rate relative to the state rate. In essence, it seeks to capture the share of payments that is attributable to local income taxes.

The most recent tax cut, enacted in 2022 and accelerated in 2023, will bring the income tax rate from 3.23 percent to 2.9 percent over the next four years.

Total State Income Tax Forecast = Total State and Local Withholding Payments + Total State and Local Estimated Payments & Other Non-Withholding Payments Net of Refunds – Local Income Tax Payments

Individual Income Tax: Withholdings

The withholding forecast is based on a methodology that seeks to capture the overall state and local withholding tax payment liability. This methodology reflects the actual cash flow process as both state and local withholding income tax payments initially come in together at the Department of Revenue level as withholding tax collections. The model is therefore able to use actual data of withholding tax payments for its forecast.

While Indiana's salary and wage disbursements are the major driver of withholding, adjustments relative to personal contribution to social insurance and residence adjustment add value by accounting for factors that impact the taxable income based on which the Indiana withholding tax is applied. On the same note, a variable for Indiana prior year births is added to address significant events (newborn children etc.) that would affect a taxpayer's withholding. The 'prior year' nature of the Indiana births variable also seeks to address the timing of when taxpayers would change their withholding details.

The forecast generated by the model is adjusted to account for (1) the combined state income tax rate and statewide average local income tax rate applicable to tax payments due during that period; (2) payment delays; and (3) corporate tax payments transferred to individual income taxes (nonresident shareholders' withholdings).

$$\text{Log (Withholdings Payment Liability)} = \beta_0 + (\beta_1 * \text{Log (Indiana Wage Disbursements Less Personal Contribution to Social Insurance + Residence Adjustment)}) + (\beta_2 * \text{AR (1)}) + (\beta_3 * \text{Log (Indiana Prior Calendar Year Births)}) + \text{error term}$$

Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	0.079
β_1	0.884***
β_2	0.149***
β_3	-0.119**

Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Model Statistics:

Adjusted R ²	0.999
Predicted R ²	0.999
DW Statistic	2.005
Sample Size (n)	28

Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2021	8,555.06	9.29%
2022	9,468.10	10.67%
2023	10,167.06	7.38%
2024	11,109.00	9.26%
2025	11,678.50	5.13%

Forecast Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2026	11,512.37	-1.42%
2027	12,048.92	4.66%

Individual Income Tax: Estimated Payments and Other Non-Withholding

Similarly, to the withholding forecast, the estimated payments & other non-withholding payment forecast is based on a methodology that seeks to capture the overall state and local non-withholding tax payment liability.

In terms of variables, the model uses (1) the combination of U.S personal interest income, U.S dividend payments to individuals; (2) the change in Prior CY S&P 500 index of common stocks, and (3) the prior year level of estimated payments & other non-withholding payments, and dummy variables for FY 2024 FY 2005 Onward to address unique payment disruption in FY 2024 and normalization from FY 2025 onward such as DOR business rules, compliance, and quarterly enforcement. These variables seek to capture income from investments, businesses, reconciliations, and other sources that are not captured in withholdings but affect the estimated payment and final payment liability.

The forecast generated by the model is adjusted to account for (1) payment delays; (2) impacts of legislative changes; and (3) refunds (based on average proportion of refunds relative to total individual income tax payments).

$$\text{Log (Estimated Payments \& Other Non-Withholding Payment Liability)} = \beta_0 + (\beta_1 * \text{Dividend payments to Individuals} + \text{Personal Interest Income}) + (\beta_2 * \text{Change in Prior CY S\&P 500 index of common stocks}) + (\beta_3 * \text{AR (1)}) + \beta_4 * \text{Dummy FY 2024} + \beta_5 * \text{Dummy FY 2025 Onward} + \text{error term}$$

Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	7.059***
β_1	0.0003***
β_2	0.0003***
β_3	0.280**
β_4	-0.292***
β_5	-0.435***

Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Model Statistics:

Adjusted R ²	0.990
Predicted R ²	0.989
DW Statistic	2.187
Sample Size (n)	27

Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2021	2,023.87	325.44%
2022	2,280.93	12.70%
2023	1,534.51	-32.72%
2024	1,266.87	-17.44%
2025	1,353.38	6.83%

Forecast Data		
Fiscal Year	Adjusted Revenue	Growth
2026	1,431.32	5.76%
2027	1,360.87	-4.92%

Individual Income Tax: Local Income Tax

The estimate for local income tax revenues is based on a calculation of the statewide weighted average local income tax rate relative to the state rate. In essence, it seeks to capture the share of payments that is attributable to local income taxes.

Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2021	3,047.40	0.53%
2022	3,567.88	17.08%
2023	4,125.85	15.64%
2024	4,279.72	3.73%
2025	4,344.69	1.52%

Forecast Data		
Fiscal Year	Adjusted Revenue	Growth
2026	4,388.40	1.01%
2027	4,599.24	4.80%

Corporate Taxes: Corporate AGI

The corporate adjusted gross income (“AGI”) model is based on a methodology that seeks to capture the corporate AGI tax payment liability. Notably, the model looks to address (1) overall trend in corporate profitability and size of the corporate sector but also (2) the specific dynamics that Indiana’s corporate tax base is exposed to relative to its industry composition, (3) recognition of income attributable to Indiana.

The model uses variables such as the Indiana GSP, Trade, Transp.& Utilities, Indiana GSP/US GDP, and S&P 500 Stock Index, period end.

The forecast generated by the model is combined with specific adjustments to account for (1) the blended corporate tax rate potentially applicable to tax payments due during that period; (2) payment delays; (3) material changes in corporate tax credits and impacts of legislative changes; (4) refunds; (5) corporate payments transferred to individual income taxes (nonresident shareholders’ withholdings).

$\text{Log (Corporate Payments Liability)} = \beta_0 + (\beta_1 * \text{Log (GSP, Trade, Transp.\& Utilities)}) + (\beta_2 * (\text{MA (2) FY Indiana GSP/US GDP})) + (\beta_3 * \text{S\&P 500 Stock Index, period end}) + \text{error term}$
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Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	-21.444***
β_1	2.081***
β_2	433.575***
β_3	0.0001**

Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Model Statistics:

Adjusted R ²	0.975
Predicted R ²	0.635
DW Statistic	2.515
Sample Size (n)	21

Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2021	994.94	127.39%
2022	1,235.65	24.19%
2023	1,127.94	-8.72%
2024	933.29	-17.26%
2025	784.55	-15.94%

Forecast Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2026	951.98	21.34%
2027	975.69	2.49%

Corporate Taxes: Other Corporate Taxes

In addition to the corporate AGI forecast, revenues from the financial institution tax are estimated separately using historical compounded annual growth rates.

HEA-1002 (2022) repealed the Utility Receipts Tax (URT) and Utility Services Use Tax (USUT) starting July 1, 2022. These forecasts are then added together to get the total corporate tax forecast.

Financial Institutions Tax

Forecast Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2026	70.00	12.10%
2027	72.80	3.99%

Cigarette & Other Tobacco Products Tax

The committee estimates cigarette tax and tobacco products tax separately. Cigarette sales, measured in packs of 20, depend upon prior year cigarette pack sales, an estimate of the sum of the four surrounding states' nominal prices, the nominal Indiana price, and a dummy for the smoking age population. Other tobacco product sales are estimated based on an annual fiscal year trend.

$$\text{Log (Packets Sold)} = \beta_0 + (\beta_1 * \text{Log (Prior Year Cigarette Pack Sales)}) + (\beta_2 * \text{Log (Nominal Indiana Cigarette Price)}) + (\beta_3 * \text{Log (All Neighbors' Nominal Price)}) + (\beta_4 * \text{Dummy for Smoking Age Population}) + \text{error term}$$

Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	1.569***
β_1	0.835***
β_2	-0.717***
β_3	0.611***
β_4	-0.086***

*Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*

Model Statistics:

Adjusted R ²	0.984
Sample Size (n)	40

Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2021	368.70	-1.3%
2022	346.55	-6.0%
2023	317.07	-8.5%
2024	282.36	-11.0%
2025	268.70	-4.8%

Forecast Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2026	565.0	110.3%
2027	529.7	-6.2%

Note: The state General Fund receives 83.05% of the cigarette and tobacco products taxes. The historical and forecasted revenues reflect cigarette tax (net of collection allowance) to state funds.

Alcoholic Beverage Taxes

The alcoholic beverage tax model includes three equations: one for beer, one for liquor, and one for wine. The beer and liquor include fiscal year real Indiana personal income and the real beverage price. In the beer equation, the price and income variables are expressed in terms of natural logarithms, and in the liquor equation the income variable is expressed in terms of a natural logarithm. The beer equation also includes the natural logarithm of prior year beer sales.

$$\text{Log (Alcoholic Beverage Tax Revenue)} = \beta_0 + (\beta_1 * \text{Log (Indiana Real Personal Consumption Expenditure on Food \& Beverages)}) + \text{error term}$$

Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	-1.12***
β_1	1.12***

Model Statistics:

Adjusted R ²	0.920
Sample Size (n)	24

*Significance: *p < 0.1, **p < 0.05, ***p < 0.01*

<u>Revenue</u>	<u>Actual*</u> <u>FY 2025</u>	<u>Forecast</u> <u>FY 2026</u>	<u>Forecast</u> <u>FY 2027</u>
GENERAL FUND	10.2	10.9	10.9
ABC GALLONAGE FUND	10.3	11.0	11.0
STATE CONSTRUCTION FUND	21.1	22.5	22.6
ENFORCEMENT & ADMIN	3.8	4.0	4.0
PENSION RELIEF FUND	4.4	4.7	4.7
ADDICTION SERVICES FUND	3.1	3.3	3.3
TOTAL	52.9	56.4	56.6

*Total GF forecast is calculated using the actual revenue in each fund in the past three years.

Riverboat and Racino Wagering

The committee uses an equation to estimate the total adjusted gross wagering receipts of the state's eleven riverboat casinos and two racinos. Adjusted gross wagering receipts serve as the tax base for both wagering taxes. These estimates are then adjusted to compute the estimated fiscal year riverboat wagering tax collections and racino slot machine wagering tax collections. The equation estimates the quarterly total adjusted gross wagering receipts with nominal Indiana personal income, a set of dummy variables for market and seasonal changes, and an interaction variable that accounts for other economic and market circumstances.

The baseline adjusted gross wagering receipts forecast is then adjusted to account for: (1) potential competitive impacts from new casino operations in neighboring states, (2) changes in Indiana laws, (3) court decisions impacting taxation of gaming revenues, and (4) the competitive effects of a new casino in South Bend, Indiana.

Total Adjusted Gross Wagering Receipts = $\beta_0 + (\beta_1 * \text{Indiana Personal Income}) + (\beta_2 * \text{CY Q4 Dummy}) + (\beta_3 * \text{Four Winds Dummy}) + (\beta_4 * \text{Racinos Dummy}) + (\beta_5 * \text{Ohio Dummy}) + (\beta_6 * \text{Indiana Personal Income} * \text{Four Winds Dummy}) + \text{error term}$

Coefficient Statistics:

Coefficient	Estimated Coefficient
β_0	-58,969,863
β_1	3,417***
β_2	-30,399,102***
β_3	631,130,024***
β_4	58,151,248***
β_5	-0.58***
β_6	-3,108***

Significance: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Model Statistics:

Adjusted R ²	0.942
Sample Size (n)	70

Riverboat and Racino Wagering

Riverboat Wagering Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2020	200.2	-35.7%
2021	282.5	41.1%
2022	311.2	10.2%
2023	348.8	12.1%
2024	315.3	-9.6%
2025	318.6	1.0%

Riverboat Wagering Forecast Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2026	316.7	-0.6%
2027	314.9	-0.6%

Racino Wagering Historical Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2020	90.4	-24.3%
2021	126.2	39.6%
2022	141.1	11.8%
2023	139.8	-1.0%
2024	134.5	-3.8%
2025	138.5	3.0%

Racino Wagering Forecast Data		
Fiscal Year	Adjusted Revenue (Millions \$)	Growth
2026	141.6	2.3%
2027	143.4	1.3%

Section IV: Technical Explanations

General Note on Statistical Forecast Methodology

Models from this forecast are estimated using ordinary least squares regression (“OLS”). The OLS equation estimates the relationship between the explanatory variables (x) and the response variable (y). The multiple regression function is described by the equation below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_k X_k + \varepsilon$$

In this equation β_1 represents the relationship between the explanatory variable X_1 and the response variable Y , while β_0 equals the point at which the regression line intercepts with the Y axis. The variable ε is the error term. The models used to estimate the state revenue forecast use this functional form. Certain models use the natural logarithmic form of the explanatory and response variables.

In order to calculate the forecast values of state revenue (Y in the equation above) the committee uses forecast values of the explanatory variables (X) from S&P Global Market Intelligence (formerly IHS Markit). By substituting the forecast values of X in the equation, a future value of Y can be estimated.

Explanations of summary statistics

Standard summary statistics for each model are included with the model specifications.

The Adjusted R^2 listed in the model summaries describes the total variation in the response variable (Y) explained by the explanatory variables (X). An Adjusted R^2 equal to 0.90 means that 90% of the change in the dependent variable was explained by the change in the explanatory variables.

Predicted R^2 is calculated by systematically removing each observation from the data set, estimating the regression equation, and determining how well the model predicts the removed observation. It describes the total variation found in this way and determines how well the model explains new data.

The number of observations, or sample size, used to estimate the model is also listed as “ n ”. Most of the forecast models are based on annual data, meaning that a model with an “ n ” equal to thirty is using thirty years of data. Certain models are based on quarterly data and in this case the statistic refers to the number of quarters used to estimate the model.

The Durbin-Watson Statistic (DW Statistic) is a statistic that tests for first order autocorrelation in the residuals of a model. The presence of first order autocorrelation violates assumptions in regression theory thus harming model integrity.

The p-value measures the significance of the relationship between a particular explanatory variable and the response variable in the model. These p-values examine each explanatory variable’s relationship with the response variable independently.