



STATE OF ARKANSAS  
**Department of Finance  
and Administration**

**OFFICE OF THE DIRECTOR**

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December 1, 2013

The Honorable Bill Sample, Co-Chair  
The Honorable John Edwards, Co-Chair  
Arkansas Legislative Council  
State Capitol  
Little Rock, Arkansas 72201

Dear Senator Sample and Representative Edwards:

In accordance with Arkansas Code Annotated §19-4-304 (b) (1), I am submitting our Official General Revenue Forecast for Fiscal Year 2015 with an update for Fiscal Year 2014. This law states that the Director of the Department of Finance and Administration shall submit the annual revenue forecast to the Legislative Council not later than December 1 of the year preceding a Fiscal Session. Included in the tables are selected economic assumptions and the details of the updated revenue forecasts for Fiscal Years 2014 and 2015.

Summary of Net Available Revenues:

Actual

- In FY 2013 net available revenues totaled \$5,027.0 million, an increase of \$275.4 million or 5.8% from FY 2012. This amount was \$299.5 million above the net available distribution level at \$4,727.5 million, representing surplus funds.

Forecast

- For FY 2014 net available revenues from collections are expected to reach \$4,943.8 million, a decrease of \$83.2 million, or -1.7 percent from FY 2013 net available. Year-to-date actual growth after four months in the fiscal year has been 4.3 percent above year earlier levels, resulting in \$37.8 million above forecast at that point. The forecast for FY 2014 is revised lower by \$13.8 million or 0.3 percent from the prior forecast. This results in removal of the prior indicated surplus but retains the fully-funded budget, including the \$18.9 million for Rainy Day Fund. The target rate of growth to meet the new forecast is negative at -1.7 percent for net available funds and -0.2 percent for gross general revenue as part of the expectation that income tax strategy will unwind from the income shift effect for tax year 2012 that helped generate a \$299.5 million surplus in FY 2013.

The forecast is expected to fund all of the allocations of the Revenue Stabilization Law.

- For FY 2014 net available revenues collected are expected to reach \$4,943.8 million, a decrease of \$83.2 million or -1.7 percent from FY 2013.
- For FY 2015 net available revenues are expected to reach \$5,040.7 million, an increase of \$96.9 million or 2.0 percent above FY 2014. This amount is net of the \$85.2 million decrease from enacted tax changes.

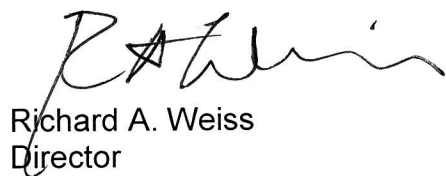
### **Economic Forecast Assumptions**

Economic forecasts used to guide budget planning in Arkansas indicate modest growth near term and some acceleration in FY 2015, similar to prior versions. The change in economic growth is small relative to the inclusion of \$85.2 million of enacted tax policy changes over the same period. Payroll employment growth in Arkansas is expected to move past 1.5% growth, while private sector growth is expected to approach 2.0% growth. Wage income growth will approach 5.0% and outpace total income growth as nonwage sources of income moderate. Per capita income in the state will pass \$38,400 and annual Gross State Product will pass \$118 billion in current dollars. Inflation will remain low by historic standards and low relative to the target of the Federal Reserve for instituting upward adjustment for interest rates.

Risk factors for the forecast remain sizable. Although a host of economic indicators point to continued, gradual improvement in the state and national recovery, low income gains pose a threat to sustained growth in consumption. Added risk is posed by uncertainty in business investment for new equipment spending and expansion plans. One upside factor for growth is the potential for lower energy prices from potential oversupply and its beneficial effects for consumer discretionary spending, transport costs, and industrial input costs.

I have attempted to provide this information in a format that facilitates your work. A narrative summary of the revenue forecasts and tables for quick reference are included with this letter.

Sincerely,



Richard A. Weiss  
Director

RAW/jps  
Attachments (3)

## **STATE AND NATIONAL ECONOMIC AND REVENUE FORECASTS**

The following sections summarize the economic outlook for the nation and Arkansas for FY 2015 with comments updating current year conditions.

The revenue forecasts are conditionally based on the expected economic conditions in the state and nation as of October 2013. The U.S. and state economic forecasts were compiled from simulations representing structural economic modeling systems at IHS Global Insight, Inc., a national forecast provider. The Office of Economic Analysis and Tax Research, Office of the Director, DFA, prepared the general revenue forecast.

### **Summary of Economic and Revenue Estimates for FY 2014**

- **FY 2014 U.S. Gross Domestic Product (Real Output).** This summary is based on the October 2013 baseline forecast of IHS Global Insight, Inc. During FY 2014, the United States economy is expected to produce final goods and services valued in inflation-adjusted dollars at \$15,879 billion, an increase of \$294.3 billion or 1.9 percent. Two general measures of inflation indicate limited price pressures during the year. The Consumer Price Index is expected to increase 1.5 percent and the GDP price deflator is also expected to rise by 1.5 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$17,050 billion, an increase of \$557.1 billion or 3.4 percent over FY 2013.
- **Average annual U.S. oil prices** are estimated at \$103 per barrel (domestic crude for refiners) in FY2014. Offsetting effects of improvement in domestic and international macroeconomic conditions on the demand side and encouraging domestic oil supply gains will result in net change of moderate price declines across the second half of FY 2014 and the following fiscal year. Weekly and monthly price swings could vary widely around the annual averages. Potential for more rapid supply gains and greater price decline of domestic crude is limited to the optimistic forecast case at this time.
- **FY 2014 state nonfarm personal income** is estimated at \$107.54 billion (current dollars), an increase of \$3.53 billion or 3.4 percent over FY 2013.
- **FY 2014 state wage and salary disbursements** are estimated at \$49.96 billion, an increase of \$1.48 billion or 3.0 percent. Total disbursements reflect the combined

effects of net job growth, longer average work weeks, and any gains in wage rates, bonuses, or level of overtime pay rates.

- **FY 2014 state total payroll employment** is expected to reach a level of 1.193 million jobs, an increase of approximately 12,800 jobs or 1.1 percent. Private sector employment growth is expected to gain 1.3 percent.

### **FY 2014 Gross General Revenues**

Gross general revenues are estimated at \$6,203.7 million, a decrease from FY 2013 of \$10.5 million, or -0.2 percent.

In addition to the usual deductions from gross general revenues, such as the Constitutional Officers Fund, the State Central Services Fund, and refunds of individual and corporate income taxes, the following trust fund is noted:

- **Act 1315 (1999) Educational Excellence Trust Fund.** Act 1315 (1999) established a benchmark of 14.14 percent which is applied against actual sales and use tax collections of the previous fiscal year. Under this formula, \$290.5 million is estimated to be distributed (net) in FY 2014.

### **FY 2014 Net Available General Revenues**

Net available revenues collected are estimated at \$4,943.8 million, a decrease of \$83.2 million or -1.7 percent compared to FY 2013.

FY 2014 allocations: The forecast is expected to fully fund 100% of "A" + "B" + "C" + \$18.9 million Rainy Day Fund set-aside.

### **FY 2014 Selected Special Revenues:**

- **FY 2014 Educational Adequacy Fund:** Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Effective with FY 2008, a portion of the six-cent per gallon dyed diesel tax is also deposited to the Educational Adequacy Fund to partially offset the revenue loss from exempting

dyed diesel from sales tax.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. Estimate for FY 2014: \$452.8 million.

- **FY 2014 WorkForce 2000 (Special Corporate Income Taxes).** Act 1315 (1999) established a benchmark of 6.78 percent which will be applied against net corporate income tax collections in the previous fiscal year. Under this formula, \$26.4 million is estimated to be distributed in FY 2014.
- **FY 2014 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2014, the soft drink excise tax is forecast at \$43.3 million, representing a -2.8 percent decrease compared to FY 2013 collections.

### **Summary of Economic and Revenue Estimates for FY 2015**

- **FY 2015 U.S. Gross Domestic Product (Real Output).** During FY 2015, the United States economy is expected to produce final goods and services valued at \$16,356 billion in inflation-adjusted dollars, an increase of \$476.9 billion or 3.0 percent. The two inflation measures of consumer price index (CPI) and GDP price deflator are expected to gradually move up in response to recovery in the overall economy. The consumer price index (CPI) is expected to increase 1.7 percent and the GDP price deflator is expected to increase 1.8 percent in FY 2015.
- **U.S. gross domestic product in current dollars** is estimated at \$17,877 billion for FY 2015, an increase of \$826.8 billion or 4.8 percent.
- **Average annual U.S. oil prices** are estimated at \$98.30 per barrel (domestic crude for refiners price) in FY 2015. Oil prices are expected to gradually decline over the forecast period. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2015 state nonfarm personal income** will reach \$112.68 billion (current dollars), an increase of \$5.13 billion or 4.8 percent over FY 2014. Nonfarm income is expected to expand gradually in a low-inflation economic environment and with limited national growth acceleration.
- **FY 2015 state wage and salary disbursements** are estimated at \$52.44 billion, an increase of \$2.48 billion or 5.0 percent.
- **FY 2015 state total payroll employment** is expected to reach a level of 1.214 million jobs, an increase of approximately 20,490 jobs or 1.7 percent in FY 2015.

Private sector employment is expected to gain 1.9 percent.

### **FY 2015 Gross General Revenues**

The forecast for gross general revenues in FY 2015 is \$6,333.6 million, an increase of \$129.9 million or 2.1 percent over FY 2014.

The total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY2015 is assumed to remain at 3.3 percent.

In addition to the usual deductions from gross general revenues, such as the Constitutional Officers Fund, the State Central Services Fund, and refunds of individual and corporate income taxes, the following trust fund is noted:

- **Act 1315 (1999) Educational Excellence Trust Fund.** Act 1315 (1999) established a benchmark of 14.14 percent which is applied against actual sales and use tax collections of the previous fiscal year. Under this formula, an estimated \$298.7 million may be distributed (net) in FY 2015.

### **FY 2015 Net Available General Revenues**

For FY 2015, net available general revenues are estimated at \$5,040.7 million, an increase of \$96.9 million or 2.0 percent over FY 2014. The results include the effects of \$85.2 million in tax policy changes enacted and scheduled to effect FY 2015 collected revenue.

### **FY 2015 Selected Special Revenues:**

- **FY 2015 Educational Adequacy Fund:** Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Effective with FY 2008, a portion of the six-cent per gallon dyed diesel tax is also deposited to the Educational Adequacy Fund to partially offset the revenue loss from exempting dyed diesel from sales tax.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. Estimate for FY 2015: \$458.0 million.

- **FY 2015 WorkForce 2000 (Special Corporate Income Taxes) Act 1315 (1999)** established a benchmark of 6.78 percent which will be applied against net corporate income tax collections in the previous fiscal year. Under this formula, an estimated \$26.9 million may be distributed (net) in FY 2015.
- **FY 2015 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2015 the forecast is \$42.1 million, representing a -2.8 percent decrease compared to FY 2014.

**Office of the Director,  
Economic Analysis and Tax Research,  
Department of Finance and Administration  
December 1, 2013**

**OFFICIAL GENERAL REVENUE FORECAST  
2013 - 2015 Biennium**

Millions of Dollars

	Actual	FY 13 Increase	% CH	12/01/13 Estimate	FY 14 Increase	% CH	12/01/13 Estimate	FY 15 Increase	% CH
INDIVIDUAL INCOME	3,144.4	249.2	8.6	3,076.8	-67.6	-2.1	3,173.4	96.6	3.1
CORPORATE INCOME	431.1	-4.1	-1.0	442.4	11.3	2.6	450.2	7.8	1.8
SALES AND USE	2,124.5	22.5	1.1	2,184.4	59.9	2.8	2,208.0	23.6	1.1
ALCOHOLIC BEVERAGE	52.6	1.8	3.6	53.2	0.6	1.1	54.0	0.8	1.5
TOBACCO	230.3	-9.6	-4.0	221.7	-8.6	-3.7	214.7	-7.0	-3.2
INSURANCE	109.9	10.6	10.7	102.1	-7.8	-7.1	112.2	10.1	9.9
RACING	3.0	-0.4	-12.0	2.6	-0.4	-12.5	2.5	-0.1	-3.8
GAMES OF SKILL	35.9	8.5	31.0	39.1	3.2	8.9	40.7	1.6	4.1
SEVERANCE	21.9	-1.2	-5.0	24.0	2.1	9.8	22.9	-1.1	-4.6
CORPORATE FRANCHISE	8.0	0.0	0.0	8.0	0.0	0.0	8.0	0.0	0.0
REAL ESTATE TRANSFER	2.6	0.0	0.0	2.6	0.0	-0.3	2.6	0.0	0.0
MISCELLANEOUS	50.0	12.7	33.9	46.8	-3.2	-6.4	44.4	-2.4	-5.1
<b>TOTAL GROSS</b>	<b>6,214.2</b>	<b>290.0</b>	<b>4.9</b>	<b>6,203.7</b>	<b>-10.5</b>	<b>-0.2</b>	<b>6,333.6</b>	<b>129.9</b>	<b>2.1</b>
LESS: SCS/COF	204.7	9.3	4.8	204.7	0.0	0.0	209.0	4.3	2.1
INDIVIDUAL REFUNDS	494.8	1.5	0.3	534.7	39.9	8.1	553.5	18.8	3.5
CORP REFUNDS	55.6	-1.1	-1.9	59.5	3.9	6.9	60.5	1.0	1.7
CLAIMS RESERVE	0.0	0.0	0.0	10.0	10.0	0.0	10.0	0.0	0.0
ECON DEV INCENTIVE	10.6	-6.0	-36.1	23.4	12.8	121.6	23.4	0.0	0.0
WATER/SEWER BONDS	14.8	0.0	0.0	14.8	0.0	0.0	14.8	0.0	0.0
COLL SAVINGS BONDS	23.9	6.2	34.9	24.0	0.1	0.3	24.0	0.0	0.0
MLA CITY/CO TOURIST	2.8	-2.5	-46.7	2.8	0.0	-0.3	2.8	0.0	0.0
EDUC EXCEL TRUST	287.4	7.4	2.6	290.5	3.1	1.1	298.7	8.2	2.8
DESEGREGATION	67.1	-0.9	-1.3	69.8	2.7	4.0	69.8	0.0	0.0
ELDERLY TRANSPORT	0.0	-0.2	-100.0	0.0	0.0	0.0	0.0	0.0	0.0
EDUCATIONAL ADQCY	25.4	0.7	2.6	25.7	0.3	1.1	26.4	0.7	2.7
<b>NET AVAILABLE</b>	<b>5,027.0</b>	<b>275.4</b>	<b>5.8</b>	<b>4,943.8</b>	<b>-83.2</b>	<b>-1.7</b>	<b>5,040.7</b>	<b>96.9</b>	<b>2.0</b>
LESS: SURPLUS TO ALLOTMENT RESERVE FUND	299.5			0.0					
<b>NET AVAILABLE DISTRIBUTION</b>	<b>4,727.5</b>	<b>121.6</b>	<b>2.6</b>	<b>4,943.8</b>	<b>216.3</b>	<b>4.6</b>	<b>5,040.7</b>	<b>96.9</b>	<b>2.0</b>

Prepared by Economic Analysis and Tax Research, DFA

Net Available Estimate for FY14: 100% of A, B, C plus \$18.9 million Rainy Day Fund.

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**ECONOMIC ASSUMPTIONS AND THE  
OFFICIAL GENERAL REVENUE FORECAST  
2013 - 2015 Biennium**

Millions of Dollars	FY-13			12/01/13			FY-14			12/01/13			FY-15		
	Actual	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH			
INDIVIDUAL INCOME TAX	3,144.4	249.2	8.6	3,076.8	-67.6	-2.1	3,173.4	96.6	3.1						
INDIVIDUAL REFUNDS	<u>494.8</u>	<u>1.5</u>	<u>0.3</u>	<u>534.7</u>	<u>39.9</u>	<u>8.1</u>	<u>553.5</u>	<u>18.8</u>	<u>3.5</u>						
NET INDIVIDUAL INCOME	2,649.6	247.7	10.3	2,542.1	-107.5	-4.1	2,619.9	77.8	3.1						
CORPORATE INCOME TAX	431.1	-4.1	-1.0	442.4	11.3	2.6	450.2	7.8	1.8						
CORPORATE REFUNDS	<u>55.6</u>	<u>-1.1</u>	<u>-1.9</u>	<u>59.5</u>	<u>3.9</u>	<u>6.9</u>	<u>60.5</u>	<u>1.0</u>	<u>1.7</u>						
NET CORPORATE INCOME	375.5	-3.1	-0.8	382.9	7.4	2.0	389.7	6.8	1.8						
SALES AND USE TAX	2,124.5	22.5	1.1	2,184.4	59.9	2.8	2,208.0	23.6	1.1						
NET ECONOMIC TAX REVENUE	5,149.6	267.1	5.5	5,109.4	-40.2	-0.8	5,217.6	108.2	2.1						
OTHER TAX REVENUE	<u>514.2</u>	<u>22.4</u>	<u>4.6</u>	<u>500.1</u>	<u>-14.1</u>	<u>-2.7</u>	<u>502.0</u>	<u>1.9</u>	<u>0.4</u>						
<b>GROSS GENERAL REVENUES</b>	<b>6,214.2</b>	<b>290.0</b>	<b>4.9</b>	<b>6,203.7</b>	<b>-10.5</b>	<b>-0.2</b>	<b>6,333.6</b>	<b>129.9</b>	<b>2.1</b>						
LESS: SCS/COF	204.7	9.3	4.8	204.7	0.0	0.0	209.0	4.3	2.1						
INDIVIDUAL REFUNDS	494.8	1.5	0.3	534.7	39.9	8.1	553.5	18.8	3.5						
CORPORATE REFUNDS	55.6	-1.1	-1.9	59.5	3.9	6.9	60.5	1.0	1.7						
CLAIMS	0.0	0.0	0.0	10.0	10.0	0.0	10.0	0.0	0.0						
ECON DEVEL INCENTIVE FUND	10.6	-6.0	-36.1	23.4	12.8	121.6	23.4	0.0	0.0						
WATER/SEWER BONDS	14.8	0.0	0.0	14.8	0.0	0.0	14.8	0.0	0.0						
MLA CITY/CO TOURIST	2.8	-2.5	-46.7	2.8	0.0	-0.3	2.8	0.0	0.0						
DESEGREGATION SETTLEMENT	67.1	-0.9	-1.3	69.8	2.7	4.0	69.8	0.0	0.0						
EDUC EXCEL TRUST FUND	287.4	7.4	2.6	290.5	3.1	1.1	298.7	8.2	2.8						
ELDERLY TRANSPORTATION	0.0	-0.2	-100.0	0.0	0.0	0.0	0.0	0.0	0.0						
COLLEGE SAVINGS BONDS	23.9	6.2	34.9	24.0	0.1	0.3	24.0	0.0	0.0						
EDUCATIONAL ADEQUACY	25.4	0.7	2.6	25.7	0.3	1.1	26.4	0.7	2.7						
NET AVAILABLE	<u>5,027.0</u>	<u>275.4</u>	<u>5.8</u>	<u>4,943.8</u>	<u>-83.2</u>	<u>-1.7</u>	<u>5,040.7</u>	<u>96.9</u>	<u>2.0</u>						
LESS: SURPLUS TO ALLOT. RESERVE	299.5			0.0											
<b>NET AVAILABLE DISTRIBUTION</b>	<b><u>4,727.5</u></b>	<b><u>121.6</u></b>	<b><u>2.6</u></b>	<b><u>4,943.8</u></b>	<b><u>216.3</u></b>	<b><u>4.6</u></b>	<b><u>5,040.7</u></b>	<b><u>96.9</u></b>	<b><u>2.0</u></b>						

**ECONOMIC ASSUMPTIONS**

	FY 2013			FY 2014			FY 2015		
U.S. GDP Nominal (Billion \$)	16,493.2	585.0	3.7	17,050.3	557.1	3.4	17,877.1	826.8	4.8
U.S. GDP Real (Billions 2009\$ Chain-Weight)	15,584.3	305.9	2.0	15,878.6	294.3	1.9	16,355.5	476.9	3.0
U.S. GDP Deflator (Chain-Wt, 2009=100)	105.8	1.7	1.6	107.4	1.6	1.5	109.3	1.9	1.8
U.S. CPI Price Index (1984=100)	231.4	3.8	1.7	234.8	3.5	1.5	238.8	4.0	1.7
OIL - Avg. Dom. Crude to Refinery (\$ per barrel)	100.0	-2.6	-2.6	103.3	3.3	3.3	98.3	-4.9	-4.8
AR. Net General Revenue (Million \$)	5,663.7	289.6	5.4	5,609.5	-54.2	-1.0	5,719.6	110.1	2.0
AR. Net GR % of Non-Farm Personal Income	5.4	0.1	2.4	5.2	-0.2	-4.2	5.1	-0.1	-2.7
AR. Non-Farm Personal Income (Million \$)	104,010.3	2,997.8	3.0	107,542.7	3,532.3	3.4	112,676.0	5,133.3	4.8
AR. Wage & Salary Disbursements (Million \$)	48,488.8	1,326.8	2.8	49,964.2	1,475.4	3.0	52,442.7	2,478.5	5.0
AR. Non-Farm Proprietor Income (Million \$)	6,954.5	279.5	4.2	7,355.1	400.6	5.8	7,739.6	384.5	5.2
AR. Per Capita Income (\$)	35,760.9	993.3	2.9	36,808.5	1,047.5	2.9	38,419.7	1,611	4.4
AR. GSP Nominal (Million \$)	110,593.0	2,147.8	2.0	113,680.3	3,087.3	2.8	118,903.1	5,222.8	4.6
AR. Employment Total Payroll (Thousands)	1,180.4	3.6	0.3	1,193.2	12.8	1.1	1,213.7	20.5	1.7
AR. Employment Private Sector (Thousands)	964.7	4.5	0.5	977.4	12.6	1.3	995.7	18.3	1.9
AR. Employment Manufacturing (Thousands)	155.4	-1.6	-1.0	155.9	0.5	0.3	160.0	4.1	2.6
AR. New Car/Light Truck registrations (Thous.)	125.4	11.3	9.9	131.1	5.7	4.6	137.0	5.9	4.5
AR. Retail Sales (Million \$)	37,626.2	1,627.0	4.5	38,995.3	1,369.1	3.6	40,316.4	1,321.1	3.4