



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

**OFFICE OF THE SECRETARY**  
 1509 West Seventh Street, Suite 401  
 Post Office Box 3278  
 Little Rock, Arkansas 72203-3278  
 Phone: (501) 682-2242  
 Fax: (501) 682-1029  
[www.arkansas.gov/dfa](http://www.arkansas.gov/dfa)

January 31, 2020

The Honorable Cecile Bledsoe, Co-Chair  
 The Honorable Jeff Wardlaw, Co-Chair  
 Arkansas Legislative Council  
 State Capitol  
 Little Rock, Arkansas 72201

Dear Senator Bledsoe and Representative Wardlaw:

In accordance Ark. Code Ann. §19-4-304(b)(2), I am summarizing the February 1, 2020 revision to the official general revenue forecast for Fiscal Years 2020 and 2021.

There is no change in the forecast for FY 2020 and FY 2021 in Net Available revenues.

Key economic indicators used in the forecast process have displayed minor fluctuations around a stable growth path. The two large collection categories that closely align with economic indicators are payroll withholding and sales tax. Both categories display good growth in a historically low unemployment rate environment. There are few signs of unsustainable growth conditions in the state and national economies currently. A turn to more traditional boom and bust patterns in activity or asset pricing will be monitored.

The forecast revision based on results from collections through December, updated economic assumptions, and final results from FY 2019 are included in the attached tables along with details of the revised revenue forecasts for Fiscal Years 2020 - 2021.

Summary of Net Available Revenues:

Actual

- In FY 2019 net available revenues totaled \$5,921.4 million, an increase of \$426.5 million or 7.8% from FY 2018.

Forecast

- For FY 2020 net available revenues are expected to reach \$5,737.1 million, unchanged from the prior forecast. This is a decrease of \$184.3 million, or -3.1 percent

from FY 2019 net available. Year-to-date actual change after six months in the fiscal year has been 3.8 percent above prior year levels and \$93.1 million or 3.2 percent above forecast at that point. All major revenue collection categories have generally been above forecast year to date. Provisions for increased tax refunds from prior income tax cuts are considered adequate for the tax filing season and the remainder of the fiscal year.

The FY 2020 forecast is expected to fund the allocations “A” + Rainy Day Fund + Medicaid Trust Fund Supplement + 11.3 percent of “C” in the current Revenue Stabilization Law.

- For FY 2021 net available revenues are expected to reach \$5,893.2 million, an increase of \$156.1 million or 2.7 percent above FY 2020. This result is also unchanged from the prior forecast.

## **Economic Forecast Assumptions**

The U.S. macroeconomic outlook continues to indicate stable, trend-like growth over the biennium. Recent Federal policy changes at both fiscal and monetary levels have stabilized the outlook and reduced the risk of national recession in CY 2020 and the beginning of CY 2021. These changes consist of the Bipartisan Budget Agreement of 2018 and the change in direction of interest rate policy by the Federal Reserve Board to include three rate cuts of 0.25 percent each. Uncertainty from trade conflict appears diminished with announced agreement on a new North American trade pact and progress in negotiations with China.

Economic models employed by the Department of Finance and Administration indicate continued growth in key economic drivers for revenue growth in Arkansas with moderate job gains and rising wage income. Revised private sector job growth remains moderate but with deceleration indicated by the end of the biennium as labor market constraints and resumption of rising interest rates constrain activity.

State personal income growth will continue in the range of 4.0 to 4.5 percent for total wage disbursements and 3.0 to 4.0 percent for nonwage income. Retail sales exclusive of volatile categories will grow by similar rates. Private sector job growth will slow from above 1.0 percent net annual growth to below 1.0 percent by the end of the biennium. Unemployment rates will remain low during the biennium and gradually rise afterward. The Arkansas economy remains near the national average economic growth rate but with less pressure in household cost of living measures. The prospect for broad-based benefits across many skill levels, income groups, and geographic areas looks encouraging.


The list of risk factors for the forecast remains significant in the later innings of a long expansion. By mid 2021 the U.S. economy will transition to marginally below-trend growth

largely on the assumption of waning fiscal and monetary stimulus. While these policy factors are changeable, available tools for stimulus are running low. The degree of reaction by consumers and investors to upward drift in long-term interest rates, deceleration in household wealth, and stall out in hiring rates will be key determinates of risk but starting near the end of the current biennium.

The department utilizes a more conservative forecast source among national forecast contractors in order to maintain a reasonable input process. Additional conservative provisions are added for known risk factors in state collections. We have provided a conservative revenue forecast recognizing the growth opportunities and the risk profile.

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,



Larry W. Walther  
Secretary

LWW/jps  
Attachments (2)

**Official General Revenue Forecast  
FY 2019 - 2021 Biennium**

Millions of Dollars

	FY 19			02/01/20			FY 20			02/01/20			FY 21		
	Actual	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH			
INDIVIDUAL INCOME	3,520.0	160.5	4.8	3,578.8	58.8	1.7	3,689.5	110.7	3.1						
CORPORATE INCOME	570.2	163.5	40.2	404.6	-165.6	-29.0	405.5	0.9	0.2						
SALES and USE TAX	2,465.0	47.5	2.0	2,572.4	107.4	4.4	2,649.4	77.0	3.0						
ALCOHOLIC BEVERAGE	60.5	1.2	2.0	61.0	0.5	0.8	62.4	1.4	2.3						
TOBACCO	212.0	-7.8	-3.6	205.0	-7.0	-3.3	198.7	-6.3	-3.1						
INSURANCE	161.6	46.6	40.6	120.7	-40.9	-25.3	148.4	27.7	22.9						
RACING	2.0	-0.1	-6.7	2.1	0.1	3.3	2.0	-0.1	-4.8						
GAMING	69.7	5.2	8.1	31.2	-38.5	-55.2	31.2	0.0	0.0						
SEVERANCE	10.2	0.2	2.5	10.7	0.5	4.6	9.6	-1.1	-10.3						
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	62.0	0.6	0.9	58.9	-3.1	-5.1	57.3	-1.6	-2.7						
<b>TOTAL GROSS</b>	<b>7,143.9</b>	<b>417.3</b>	<b>6.2</b>	<b>7,056.0</b>	<b>-87.9</b>	<b>-1.2</b>	<b>7,264.6</b>	<b>208.6</b>	<b>3.0</b>						
LESS: SCS/COF	220.2	11.8	5.7	218.7	-1.5	-0.7	225.2	6.5	3.0						
INDIVIDUAL REFUNDS	507.5	14.1	2.9	581.1	73.6	14.5	608.2	27.1	4.7						
CORP REFUNDS	62.7	19.9	46.5	52.4	-10.3	-16.5	53.4	1.0	1.9						
CLAIMS RESERVE	0.0	0.0	0.0	10.0	10.0	100.0	10.0	0.0	0.0						
ECON DEV INCENTIVE	11.4	-1.0	-8.4	23.4	12.0	106.1	23.4	0.0	0.0						
RECYCLING TAX CREDIT	16.0	0.0	0.0	16.0	0.0	0.0	22.5	6.5	40.6						
AMENDMENT 82 BOND	5.3	0.0	0.0	5.3	0.0	0.2	5.3	0.0	0.0						
WATER/SWR BONDS	14.8	0.0	0.0	14.8	0.0	0.0	14.8	0.0	0.0						
COLL SVNGS BONDS	23.2	0.0	-0.2	24.0	0.8	3.6	24.0	0.0	0.0						
MLA CITY/CO TOURIST	0.9	0.0	0.0	0.9	0.0	1.4	0.9	0.0	0.0						
EDUC EXCEL TRUST	331.2	10.9	3.4	342.1	10.9	3.3	352.5	10.4	3.0						
DESEGREGATION	0.0	-65.8	-100.0	0.0	0.0	0.0	0.0	0.0	0.0						
EDUCATIONAL ADQCY	29.3	1.0	3.4	30.2	0.9	3.1	31.2	1.0	3.3						
<b>NET AVAILABLE</b>	<b>5,921.4</b>	<b>426.5</b>	<b>7.8</b>	<b>5,737.1</b>	<b>-184.3</b>	<b>-3.1</b>	<b>5,893.2</b>	<b>156.1</b>	<b>2.7</b>						
LESS: SURPLUS	295.4	295.4													
<b>NET AVAILABLE DISTRIBUTION</b>	<b>5,626.0</b>	<b>131.1</b>	<b>2.4</b>	<b>5,737.1</b>	<b>111.1</b>	<b>2.0</b>	<b>5,893.2</b>	<b>156.1</b>	<b>2.7</b>						

Prepared by Economic Analysis and Tax Research, DFA

**Economic Assumptions and the  
Official General Revenue Forecast  
FY 2019 - 2021 Biennium**

Millions of Dollars	FY19			02/01/20			FY20			02/01/20			FY21		
	Actual	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH
INDIVIDUAL INCOME TAX	3,520.0	160.5	4.8	3,578.8	58.8	1.7	3,689.5	110.7	3.1						
INDIVIDUAL REFUNDS	<u>507.5</u>	<u>14.1</u>	<u>2.9</u>	<u>581.1</u>	<u>73.6</u>	<u>14.5</u>	<u>608.2</u>	<u>27.1</u>	<u>4.7</u>						
NET INDIVIDUAL INCOME	3,012.5	146.3	5.1	2,997.7	-14.8	-0.5	3,081.3	83.6	2.8						
CORPORATE INCOME TAX	570.2	163.5	40.2	404.6	-165.6	-29.0	405.5	0.9	0.2						
CORPORATE REFUNDS	<u>62.7</u>	<u>19.9</u>	<u>46.5</u>	<u>52.4</u>	<u>-10.3</u>	<u>-16.5</u>	<u>53.4</u>	<u>1.0</u>	<u>1.9</u>						
NET CORPORATE INCOME	507.4	143.6	39.5	352.2	-155.2	-30.6	352.1	-0.1	0.0						
SALES AND USE TAX	2,465.0	47.5	2.0	2,572.4	107.4	4.4	2,649.4	77.0	3.0						
NET ECONOMIC TAX REVENUE	5,984.9	337.4	6.0	5,922.3	-62.6	-1.0	6,082.8	160.5	2.7						
OTHER TAX REVENUE	<u>588.7</u>	<u>45.8</u>	<u>8.4</u>	<u>500.2</u>	<u>-88.5</u>	<u>-15.0</u>	<u>520.2</u>	<u>20.0</u>	<u>4.0</u>						
<b>GROSS GENERAL REVENUES</b>	<b>7,143.9</b>	<b>417.3</b>	<b>6.2</b>	<b>7,056.0</b>	<b>-87.9</b>	<b>-1.2</b>	<b>7,264.6</b>	<b>208.6</b>	<b>3.0</b>						
LESS: SCS/COF	220.2	11.8	5.7	218.7	-1.5	-0.7	225.2	6.5	3.0						
INDIVIDUAL REFUNDS	507.5	14.1	2.9	581.1	73.6	14.5	608.2	27.1	4.7						
CORPORATE REFUNDS	62.7	19.9	46.5	52.4	-10.3	-16.5	53.4	1.0	1.9						
CLAIMS	0.0	0.0	0.0	10.0	10.0	0.0	10.0	0.0	0.0						
ECON DEVEL INCENTIVE FUND	11.4	-1.0	-8.4	23.4	12.0	106.1	23.4	0.0	0.0						
RECYCLING EQUIP CREDIT	16.0	0.0	0.0	16.0	0.0	0.0	22.5	6.5	40.6						
AMENDMENT 82 BOND	5.3	0.0	0.0	5.3	0.0	0.2	5.3	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	0.9	0.0	0.0	0.9	0.0	1.4	0.9	0.0	0.0						
DESEGREGATION SETTLEMENT	0.0	-65.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
EDUC EXCEL TRUST FUND	331.2	10.9	3.4	342.1	10.9	3.3	352.5	10.4	3.0						
COLLEGE SAVINGS BONDS	23.2	0.8	-0.2	24.0	0.8	3.6	24.0	0.0	0.0						
EDUCATIONAL ADEQUACY	29.3	1.0	3.4	30.2	0.9	3.1	31.2	1.0	3.3						
<b>NET AVAILABLE</b>	<b>5,921.4</b>	<b>426.5</b>	<b>7.8</b>	<b>5,737.1</b>	<b>-184.3</b>	<b>-3.1</b>	<b>5,893.2</b>	<b>156.1</b>	<b>2.7</b>						
LESS: SURPLUS	295.4	295.4													
<b>NET AVAILABLE DISTRIBUTION</b>	<b>5,626.0</b>	<b>131.1</b>	<b>2.4</b>	<b>5,737.1</b>	<b>111.1</b>	<b>2.0</b>	<b>5,893.2</b>	<b>156.1</b>	<b>2.7</b>						

<b>ECONOMIC ASSUMPTIONS</b>	<b>FY 2019</b>			<b>FY 2020</b>			<b>FY 2021</b>		
U.S. GDP Nominal (Billion \$)	21,022.0	971.0	4.8	21,850.0	828.0	3.9	22,807.0	957.0	4.4
U.S. GDP Real (Billions 2012\$ Chain-Weight)	18,866.0	485.0	2.6	19,255.0	389.0	2.1	19,677.0	422.0	2.2
U.S. GDP Inflation (Chain-Wt, 2012=100)	111.4	2.3	2.1	113.5	2.1	1.9	115.9	2.4	2.1
U.S. CPI Price Index (1982-84=100)	253.3	5.2	2.1	258.4	5.1	2.0	262.1	3.7	1.4
OIL - Avg. Dom. Crude to Refinery (\$ per barrel)	64.1	3.7	6.2	57.6	-6.5	-10.1	47.4	-10.2	-17.7
AR. Gross Revenue less refunds (Million \$)	6,573.6	383.3	6.2	6,422.5	-151.1	-2.3	6,603.0	180.5	2.8
AR. Net GR % of Non-Farm Personal Income	5.0	0.1	1.4	4.7	-0.3	-6.0	4.6	0.0	-1.0
AR. Non-Farm Personal Income (Million \$)	132,210.0	6,001.0	4.8	137,408.0	5,198.0	3.9	142,641.0	5,233.0	3.8
AR. Wage & Salary Disbursements (Million \$)	58,918.0	2,156.7	3.8	61,573.0	2,655.0	4.5	64,233.0	2,660.0	4.3
AR. Non-Farm Proprietor Income (Million \$)	7,102.2	339.9	5.0	7,353.0	250.8	3.5	7,487.2	134.2	1.8
AR. Per Capita Income (\$)	43,965.0	1,706.0	4.0	45,561.0	1,596.0	3.6	47,027.0	1,466.0	3.2
AR. GDP Nominal (Million \$)	130,678.0	5,041.0	4.0	135,199.0	4,521.0	3.5	140,547.0	5,348.0	4.0
AR. Employment Total Payroll (Thousands)	1,269.1	12.7	1.0	1,283.2	14.1	1.1	1,293.0	9.8	0.8
AR. Employment Private Sector (Thousands)	1,056.5	11.9	1.1	1,068.5	12.0	1.1	1,077.1	8.6	0.8
AR. Employment Manufacturing (Thousands)	162.5	3.4	2.2	163.4	0.9	0.6	161.5	-1.9	-1.2
AR. New Car/Light Truck registrations (Thous.)	127.3	-2.4	-1.8	127.3	0.0	0.0	127.1	-0.2	-0.2
AR. Retail Sales (Million \$)	45,213.0	1,001.0	2.3	46,823.0	1,610.0	3.6	48,230.0	1,407.0	3.0

**U.S. Summary: IHS Markit, January 2020 baseline**  
**Arkansas Summary: IHS Markit, December 2019 baseline**