

1 State of Arkansas
2 83rd General Assembly
3 First Extraordinary Session, 2002

SR 3

4
5 By: Senator Gwatney
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8 **SENATE RESOLUTION**

9 RESPECTFULLY REQUESTING THE GOVERNOR AND THE
10 CHIEF FISCAL OFFICER TO ALTER THE GENERAL REVENUE
11 FORECAST FOR THE 2003 FISCAL YEAR TO REFLECT A
12 2.5% GROWTH IN "NET AVAILABLE REVENUES FOR
13 DISTRIBUTION".

14 **Subtitle**

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16 THE CHIEF FISCAL OFFICER TO ALTER THE
17 GENERAL REVENUE FORECAST FOR THE 2003
18 FISCAL YEAR TO REFLECT A 2.5% GROWTH IN
19 "NET AVAILABLE REVENUES FOR
20 DISTRIBUTION".
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23 WHEREAS, the Arkansas General Assembly has convened in Special Session to
24 address general revenue shortfalls in the 2002 fiscal year; and

25 WHEREAS, the 2002 fiscal year budget has had three budget cuts since
26 the events of September 11 leading us to this point today; and

27 WHEREAS, we do not believe that the Administration's projection of a
28 4.8% growth (\$152,900,000) in "net available revenues for distribution" for
29 the 2003 fiscal year will be realized; and

30 WHEREAS, we do not believe that the Administration's projection of a
31 3.7% increase (\$54,800,000) in sales taxes paid by individuals for the 2003
32 fiscal year will be realized because individuals and entities would have to
33 increase spending by 3.7% to generate that revenue; and

34 WHEREAS, state employees will only receive a 2.6% cost of living
35 adjustment on July 1, 2002, employees in the private sector operations are
36 looking at pay increases of similar amounts, and the state's portion of

1 teacher pay raises promised in 2001 have been set aside; and

2 WHEREAS, for individuals to have 3.7% more disposable income after they
3 have paid their FICA and state and federal taxes, they will have to receive
4 approximately a 4.5% to 5.5% increase in income which would exceed what we
5 have already pointed out to be the COLA to be paid to state employees, and we
6 believe a 3.7% increase would be outside the norm for the coming calendar
7 year; and

8 WHEREAS, we believe that even if individuals and entities received a
9 4.5% to 5.5% increase in income resulting in 3.7% more in disposable income,
10 they would not spend it all on taxable goods and services; and

11 WHEREAS, in order to believe that individuals will spend 3.7% more
12 money, you have to believe if they don't receive it through earnings, they
13 will go borrow the money; we believe that many people already have
14 substantial debt and if they have 3.7% extra money, they will retire debt
15 and/or save the money; and

16 WHEREAS, the State of Arkansas ranked 6th out of fifty states in
17 bankruptcy filings per capita in 2001, and this is an alarming statistic
18 which we should not take lightly in state government as the Administration
19 anticipates a 3.7% growth in increase in sales tax revenue; and

20 WHEREAS, although we believe it is possible for individual income tax
21 revenues to rise 3% (\$53,300,000) during the 2003 fiscal year, we would like
22 to point out the following items:

23 (1) The Administration has already revised its individual
24 estimates forecast for June 15, 2002 down from \$51,000,000 to \$34,000,000;

25 (2) We believe the September 15, 2002 forecast for payments of
26 estimates by individual taxpayers should be closer to the \$34,000,000 figure;

27 (3) In December 2002 and January 2003, when people will pay
28 their January 15 estimate for the 2003 fiscal year, we believe it will be
29 less than what was paid in the prior year (\$77,000,000) for the same time
30 frame, and we believe it will probably be closer to \$56,000,000; and

31 (4) Another unknown variable is that we have no way of knowing
32 what capital loss carry forward dollar amounts and business loss carried
33 forward dollar amounts individuals and businesses have that will offset
34 against any future taxable earnings; and

35 WHEREAS, the Administration's budget forecasters have forecasted
36 \$220,000,000 in individual estimates to be paid during the 2003 fiscal year;

1 and

2 WHEREAS, this will leave the State short \$130,000,000 that would have
3 to be received by the May 15 deadline and the June 15 deadline; and

4 WHEREAS, even if we receive that money by May 15, there will only be
5 six weeks left in the 2003 fiscal year, and even if we reach the
6 Administration's forecast, this money would be received too late in the
7 fiscal year for us to utilize to pay our ongoing operations; and

8 WHEREAS, we believe the Administration's corporate income tax increase
9 of \$13,500,000 (6.9%) to be excessive because corporations will be faced with
10 higher operating costs which will include, among other things, property and
11 casualty insurance rate increases due to the events of September 11,
12 currently increases as high as 25% in some instances; and

13 WHEREAS, we believe that it will be difficult for corporations to
14 rebound at the rate that would cause them to pay 6.9% more in corporate
15 income tax than the prior year; and

16 WHEREAS, the use tax revenue figure of a 9.8% increase (\$22,300,000) we
17 believe is too high; and

18 WHEREAS, on June 6, 2002, the Administration revised the 2003 forecast
19 as reflected in Attachment 2. As can be reviewed therein, the bottom-line
20 rate of growth for "net available" is identical at 4.8% which is the same as
21 the April 18, 2002 forecast reflected in Attachment 1. However, the rates of
22 growth for all components of the same forecast have now been adjusted to
23 accommodate the 4.8% increase yet reflect some of the concerns that members
24 had voiced up to that point. Pursuant to a motion during the same meeting,
25 the Committee expressed strong, unanimous concern to the Governor by written
26 letter asking the Administration to lower the 2003 forecast; and

27 WHEREAS, we believe the Administration's 2003 forecast to be too
28 ambitious; and

29 WHEREAS, we believe that the revenue forecast provided by Legislative
30 staff of 2.7% (\$85,400,000) growth in "net available revenues for
31 distribution" to be more realistic, and in fact, a one-year government bond
32 is now yielding 2.3%, and a one-year CD purchased at a bank in Little Rock is
33 now yielding approximately 2.5%; and

34 WHEREAS, we believe those figures are more appropriate when addressing
35 the forecast for the coming fiscal year; and

36 WHEREAS, we hope we reach the Administration's budget forecast, and we

1 hope we have pointed out that if, in fact, we do reach it, we will reach it
2 so late in the 2003 fiscal year as to have had budget shortfalls prior to May
3 of 2003.

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5 NOW THEREFORE,

6 BE IT RESOLVED BY THE SENATE OF THE EIGHTY-THIRD GENERAL ASSEMBLY OF THE
7 STATE OF ARKANSAS:

8

9 That it respectfully requests that the Governor and the Chief Fiscal
10 Officer of the State alter the general revenue forecast for the 2003 fiscal
11 year to reflect a 2.5% growth in "net available revenues for distribution".
12 If our general revenues grow at a greater rate, we can raise the forecast at
13 a later time rather than face cuts or an emergency situation that would arise
14 at the final hour in the 2003 fiscal year.

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**OFFICIAL GENERAL REVENUE FORECAST
2001-2003 BIENN IUM**

Millions of Dollars	FY 01			06/03/02	FY 02			04/18/02	FY 03		
	Actual	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH		
INDIVIDUAL INCOME	1,804.7	92.3	5.4	1,774.6	-30.1	-1.7	1,893.0	118.4	6.7		
CORPORATE INCOME	234.5	-18.7	-7.4	197.1	-37.4	-15.9	204.8	7.7	3.9		
SALES TAX	1,447.7	46.3	3.3	1,464.6	16.9	1.2	1,497.0	32.4	2.2		
USE TAX	230.1	-0.9	-0.4	227.7	-2.4	-1.0	238.0	10.3	4.5		
ALCOHOLIC BEVERAGE	30.5	-0.2	-0.6	32.6	2.1	7.0	33.0	0.4	1.2		
TOBACCO	96.8	3.8	4.1	87.7	-9.1	-9.4	85.0	-2.7	-3.1		
INSURANCE	81.2	5.9	7.9	76.4	-4.8	-5.9	78.0	1.6	2.1		
RACING	6.0	-0.3	-5.5	4.1	-1.9	-31.1	4.0	-0.1	-2.4		
SEVERANCE	9.5	2.7	39.5	6.4	-3.1	-32.7	6.0	-0.4	-6.2		
CORPORATE FRANCHISE	7.9	0.9	13.1	7.9	0.0	0.0	7.9	0.0	0.0		
ESTATE	9.4	-5.6	-37.4	19.9	10.5	112.8	11.9	-8.0	-40.2		
REAL ESTATE TRANSFER	2.6	0.0	-0.1	2.6	0.0	0.0	2.6	0.0	0.0		
MISCELLANEOUS	17.6	0.7	4.0	15.8	-1.8	-10.1	20.9	5.1	32.3		
TOTAL GROSS	3,978.2	126.8	3.3	3,917.3	-60.9	-1.5	4,082.1	164.8	4.2		
LESS: MCF (SCS/COF)	119.4	3.8	3.3	117.5	-1.9	-1.6	122.5	5.0	4.2		
INDIVIDUAL REFUNDS/MOA	249.1	1.8	0.7	268.4	19.3	7.7	263.1	-5.3	-2.0		
CORPORATE REFUNDS	48.2	16.5	51.8	58.0	9.8	20.3	54.0	-4.0	-6.9		
CLAIMS RESERVE	0.0	0.0	N.A.	0.0	0.0	N.A.	10.0	10.0	N.A.		
ECON DEVEL INCENTIVE FUND	4.7	2.1	82.5	7.9	3.2	67.4	10.2	2.3	29.8		
WATER & SEWER BONDS	5.5	0.9	20.0	4.9	-0.6	-11.4	5.6	0.7	14.3		
COLL SVNGS BOND DEBT SRV	24.0	1.6	7.0	24.0	0.0	0.1	24.0	0.0	0.0		
MLA CITY/CO TOURIST	9.2	2.2	31.3	8.2	-1.0	-10.6	8.1	-0.1	-1.2		
EDUC EXCEL TRUST FUND	223.9	13.7	6.5	228.8	4.9	2.2	232.1	3.2	1.4		
DESEGREGATION	32.8	1.8	5.8	32.8	0.0	0.0	32.8	0.0	0.0		
ELDERLY TRANSPORTATION	2.5	0.1	3.8	2.2	-0.3	-13.2	2.3	0.1	4.5		
ALLOTMENT RESERVE	---	---	---	---	---	---	---	---	---		
NET AVAILABLE	3,258.9	82.4	2.6	3,164.7	-94.3	-2.9	3,317.5	152.8	4.8		

PREPARED BY ECONOMIC ANALYSIS AND TAX RESEARCH, DF&A
OFFICIAL NET AVAILABLE ESTIMATE, JUNE 3, 2002 (FY 2002): (97.00% of A)

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USE TAX	230.1	-0.9	-0.4	227.7	-2.4	-1.0	250.0	22.3	9.8						
ALCOHOLIC BEVERAGE	30.5	-0.2	-0.6	32.6	2.1	7.0	33.7	1.1	3.4						
TOBACCO	96.8	3.8	4.1	87.7	-9.1	-9.4	87.0	-0.7	-0.8						
INSURANCE	81.2	5.9	7.9	76.4	-4.8	-5.9	79.3	2.9	3.8						
RACING	6.0	-0.3	-5.5	4.1	-1.9	-31.1	4.2	0.1	2.4						
SEVERANCE	9.5	2.7	39.5	6.4	-3.1	-32.7	6.6	0.2	3.1						
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WATER & SEWER BONDS	5.5	0.9	20.0	4.9	-0.6	-11.4	5.6	0.7	15.1						
COLL SVNGS BOND DEBT SRV	24.0	1.6	7.0	24.0	0.0	0.1	24.0	0.0	0.0						
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DESEGREGATION	32.8	1.8	5.8	32.8	0.0	0.0	32.8	0.0	0.1						
ELDERLY TRANSPORTATION	2.5	0.1	3.8	2.2	-0.3	-13.2	2.2	0.0	0.0						
ALLOTMENT RESERVE	---	---	---	---	---	---	---	---	---						
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