



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

OFFICE OF THE DIRECTOR
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March 8, 2016

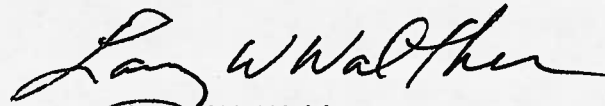
Senator Larry Teague, Co-Chair
Representative Lane Jean, Co-Chair
Joint Budget Committee
Arkansas General Assembly
State Capitol Building
Little Rock, AR 72201

Dear Co-Chairs:

Please find attached, seven pages of information related to the economic forecast and balanced budget for the 2017 Fiscal Year. The information is current with the Official General Revenue Forecast for the 2015-2017 Biennium provided to the Legislative Council on February 1, 2016 pursuant to A.C.A. §19-4-304 (b).

Also attached on pages 6-7, is a schedule reflecting the Governor's Proposed Balanced Budget under this Forecast for the 2017 Fiscal Year and compared to the 2016 Fiscal Year.

Sincerely,


Larry W. Walther
Director

LWW:db:nf



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February 1, 2016

The Honorable Bill Sample, Co-Chair
The Honorable David L. Branscum, Co-Chair
Arkansas Legislative Council
State Capitol
Little Rock, Arkansas 72201

Dear Senator Sample and Representative Branscum:

In accordance with Arkansas Code Annotated §19-4-304 (b) (1) and Act 5 of the First Extraordinary Session of 2015, I am submitting our Official General Revenue Forecast for the 2015 – 2017 Biennium. This law states that the Legislative Council shall require from the Chief Fiscal Officer of the State, by February 1 of the year of a fiscal session, the budget estimates and recommendations prepared by him.

Included in the tables are selected economic assumptions and the details of the updated revenue forecasts for Fiscal Year 2016 and the 2015-2017 Biennium.

Summary of Net Available Revenues:

Actual

- In FY 2015 net available revenues totaled \$5,250.5 million, an increase of \$228.1 million or 4.5% from FY 2014.

Forecast

- For FY 2016 net available revenues are expected to reach \$5,226.3 million, a decrease of \$24.2 million, or -0.5 percent from FY 2015 net available. Year-to-date actual change after six months in the fiscal year has been -0.7 percent below year earlier levels, but \$66.9 million above forecast at that point. Sales and Use Tax collections and other taxable measures of consumption have generally been above forecast year to date, in line with improved income growth and declining motor fuel costs to consumers.

The FY 2016 forecast is expected to fund the allocations "A" + Rainy Day Fund + "B" + "B1", and "C" and a \$35.9 million surplus over the current Revenue Stabilization Law.

- For FY 2017 net available revenues are expected to reach \$5,333.1 million, an increase of \$106.8 million or 2.0 percent above FY 2016.

Economic Forecast Assumptions

Economic models employed by the Department of Finance and Administration indicate sustained growth in key economic drivers for revenue growth in Arkansas, amid evidence of consumer and business confidence in spending and new investment. The private sector leads the total economic benchmark because of a flat or declining pattern in government categories. Also, core sectors with high wage averages and longer average work weeks lead lower wage sectors. The timing of this improvement comes as international trade and domestic commodity sectors continue to struggle locally and regionally. Energy sectors and support activities are in decline in neighboring states, while agriculture and manufacturing continue to struggle in Arkansas. Most commodity-oriented resource sectors are facing longer and shallower recovery patterns than in past cycles. The net result of this mixed condition and outlook is positive overall, as less volatile sectors continue to improve. Total wage income continues to advance amid historically low inflation and consumer energy cost.

The U.S. macroeconomic outlook provides a relevant guide for short term projections as the Arkansas economy has converged on the U.S. average in many indicators, including unemployment rate, job growth, and most recently in wage income. The state passed the national average in per capita income growth in the second half of 2015. Further transition is expected as wage income gains surpass transfer payments in relative contribution to total personal income. Opportunity for young workers and college graduates is on the upswing.

Forecasts specific for state growth indicate continued nominal growth of 5.0 percent in a low inflation and low interest rate setting. The Arkansas economy is converging on the national average growth rate after maintaining a stable footing in the protracted recovery. Consumers will again be an important driver for growth along with further recovery in housing markets and business investment. Transition to higher inflation from commodity markets and the first evidence of wage pressure in the labor market is another year away. The macro threat of overheated markets or rapid increases in interest rates appears limited across the biennial projection period.

The list of risk factors for the forecast remains significant. They range from international risk of global economic stagnation with over reliance on financial stimulus efforts to the

uncertainty of consumer spending and business investment rates. Energy sector contraction in the region is holding back investment activity while the risk of a hard landing in China's economy risks international trade. Global reliance on U.S. economic growth is troubling but not unprecedented. It suggests a mixed pattern of sector recovery based on domestic and international exposure and risks from dollar overvaluation.

The department utilizes a more conservative forecast source among national forecast contractors in order to maintain a reasonable input process. 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
Director

LWW/jps
Attachments (3)

**OFFICIAL GENERAL REVENUE FORECAST
2015 - 2017 Biennium**

Millions of Dollars

	Actual	FY 15 Increase	% CH	02/01/16 Estimate	FY 16 Increase	% CH	02/01/16 Estimate	FY 17 Increase	% CH
INDIVIDUAL INCOME	3,188.5	77.3	2.5	3,132.3	-56.2	-1.8	3,220.5	88.2	2.8
CORPORATE INCOME	493.1	52.9	12.0	469.0	-24.1	-4.9	462.3	-6.7	-1.4
SALES AND USE	2,197.8	24.6	1.1	2,305.4	107.6	4.9	2,396.0	90.6	3.9
ALCOHOLIC BEVERAGE	55.1	1.8	3.4	55.6	0.5	1.0	56.7	1.1	2.0
TOBACCO	218.5	-0.6	-0.3	214.0	-4.5	-2.1	207.6	-6.4	-3.0
INSURANCE	169.3	50.9	43.0	97.4	-71.9	-42.5	107.4	10.0	10.3
RACING	2.7	-0.3	-9.4	2.6	-0.1	-2.4	2.5	-0.1	-3.8
GAMES OF SKILL	47.3	7.8	19.9	53.2	5.9	12.4	55.3	2.1	3.9
SEVERANCE	20.3	-4.8	-19.0	9.6	-10.7	-52.8	10.4	0.8	8.3
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	67.5	18.4	37.5	59.2	-8.3	-12.3	51.5	-7.7	-13.0
TOTAL GROSS	6,470.7	228.1	3.7	6,408.9	-61.8	-1.0	6,580.8	171.9	2.7
LESS: SCS/COF	205.3	-0.6	-0.3	205.1	-0.2	-0.1	210.6	5.5	2.7
INDIVIDUAL REFUNDS	524.3	15.3	3.0	432.9	-91.4	-17.4	479.4	46.5	10.7
CORP REFUNDS	43.6	-25.5	-36.9	78.2	34.6	79.5	54.0	-24.2	-30.9
CLAIMS RESERVE	0.0	0.0	0.0	10.0	10.0	0.0	10.0	0.0	0.0
ECON DEV INCENTIVE	11.4	-1.4	-10.9	23.4	12.0	105.5	23.4	0.0	0.0
RECYCLING EQUIP CREDIT	0.0	0.0	0.0	0.0	0.0	0.0	16.0	16.0	0.0
AMENDMENT 82 BOND	0.0	0.0	0.0	0.0	0.0	0.0	5.3	5.3	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	22.1	-1.8	-7.5	24.0	1.9	8.4	24.0	0.0	0.0
MLA CITY/CO TOURIST	2.8	0.0	-0.2	1.0	-1.8	-64.3	0.9	-0.1	-10.0
EDUC EXCEL TRUST	297.4	7.0	2.4	300.8	3.4	1.1	315.6	14.8	4.9
DESEGREGATION	72.1	6.3	9.6	65.8	-6.3	-8.7	65.8	0.0	0.0
EDUCATIONAL ADQCY	26.3	0.6	2.4	26.6	0.3	1.2	27.9	1.3	4.9
NET AVAILABLE	5,250.5	228.1	4.5	5,226.3	-24.2	-0.5	5,333.1	106.8	2.0
LESS: SURPLUS	191.6			35.9					
NET AVAILABLE DISTRIBUTION	5,058.9	115.1	2.3	5,190.4	131.5	2.6	5,333.1	142.7	2.7

Prepared by Economic Analysis and Tax Research, DFA

Net Available Estimate for FY16: 100% of A, Rainy Day Fund, B, B1, C, and \$35.9 million surplus.

**ECONOMIC ASSUMPTIONS AND THE
OFFICIAL GENERAL REVENUE FORECAST
2015 - 2017 Biennium**

Millions of Dollars	FY-15			02/01/16			FY-16			02/01/16			FY-17		
	Actual	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH
INDIVIDUAL INCOME TAX	3,188.5	77.3	2.5	3,132.3	-56.2	-1.8	3,220.5	88.2	2.8						
INDIVIDUAL REFUNDS	<u>524.3</u>	<u>15.3</u>	<u>3.0</u>	<u>432.9</u>	<u>-91.4</u>	<u>-17.4</u>	<u>479.4</u>	<u>46.5</u>	<u>10.7</u>						
NET INDIVIDUAL INCOME	2,664.2	62.0	2.4	2,699.4	35.2	1.3	2,741.1	41.7	1.5						
CORPORATE INCOME TAX	493.1	52.9	12.0	469.0	-24.1	-4.9	462.3	-6.7	-1.4						
CORPORATE REFUNDS	<u>43.6</u>	<u>-25.5</u>	<u>-36.9</u>	<u>78.2</u>	<u>34.6</u>	<u>79.5</u>	<u>54.0</u>	<u>-24.2</u>	<u>-30.9</u>						
NET CORPORATE INCOME	449.5	78.4	21.1	390.8	-58.7	-13.1	408.3	17.5	4.5						
SALES AND USE TAX	2,197.8	24.6	1.1	2,305.4	107.6	4.9	2,396.0	90.6	3.9						
NET ECONOMIC TAX REVENUE	5,311.5	165.0	3.2	5,395.6	84.1	1.6	5,545.4	149.8	2.8						
OTHER TAX REVENUE	<u>591.3</u>	<u>73.2</u>	<u>14.1</u>	<u>502.2</u>	<u>-89.1</u>	<u>-15.1</u>	<u>502.0</u>	<u>-0.2</u>	<u>0.0</u>						
GROSS GENERAL REVENUES	6,470.7	228.1	3.7	6,408.9	-61.8	-1.0	6,580.8	171.9	2.7						
LESS: SCS/COF	205.3	-0.6	-0.3	205.1	-0.2	-0.1	210.6	5.5	2.7						
INDIVIDUAL REFUNDS	524.3	15.3	3.0	432.9	-91.4	-17.4	479.4	46.5	10.7						
CORPORATE REFUNDS	43.6	-25.5	-36.9	78.2	34.6	79.5	54.0	-24.2	-30.9						
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	-1.4	-10.9	23.4	12.0	105.5	23.4	0.0	0.0						
RECYCLING EQUIP CREDIT	0.0	0.0	0.0	0.0	0.0	0.0	16.0	16.0	0.0						
AMENDMENT 82 BOND	0.0	0.0	0.0	0.0	0.0	0.0	5.3	5.3	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	0.0	-0.2	1.0	-1.8	-64.3	0.9	-0.1	-10.0						
DESEGREGATION SETTLEMENT	72.1	6.3	9.6	65.8	-6.3	-8.7	65.8	0.0	0.0						
EDUC EXCEL TRUST FUND	297.4	7.0	2.4	300.8	3.4	1.1	315.6	14.8	4.9						
COLLEGE SAVINGS BONDS	22.1	-1.8	-7.5	24.0	1.9	8.4	24.0	0.0	0.0						
EDUCATIONAL ADEQUACY	26.3	0.6	2.4	26.6	0.3	1.2	27.9	1.3	4.9						
NET AVAILABLE	<u>5,250.5</u>	<u>228.1</u>	<u>4.5</u>	<u>5,226.3</u>	<u>-24.2</u>	<u>-0.5</u>	<u>5,333.1</u>	<u>106.8</u>	<u>2.0</u>						
LESS: SURPLUS	191.6			35.9											
NET AVAILABLE DISTRIBUTION	<u>5,058.9</u>	<u>115.1</u>	<u>2.3</u>	<u>5,190.4</u>	<u>131.5</u>	<u>2.6</u>	<u>5,333.1</u>	<u>142.7</u>	<u>2.7</u>						

ECONOMIC ASSUMPTIONS

	FY 2015			FY 2016			FY 2017		
U.S. GDP Nominal (Billion \$)	17,675.3	690.4	4.1	18,311.9	636.7	3.6	19,211.7	899.7	4.9
U.S. GDP Real (Billions 2009\$ Chain-Weight)	16,182.8	432.2	2.7	16,542.8	360.1	2.2	17,037.3	494.4	3.0
U.S. GDP Deflator (Chain-Wt. 2009=100)	109.2	1.4	1.3	110.7	1.5	1.3	112.8	2.1	1.9
U.S. CPI Price Index (1984=100)	236.7	1.7	0.7	238.0	1.3	0.5	243.1	5.1	2.1
OIL - Avg. Dom. Crude to Refinery (\$ per barrel)	70.4	-32.1	-31.3	39.7	-30.7	-43.6	50.7	11.0	27.7
AR. Net General Revenue (Million \$)	5,902.8	238.2	4.2	5,897.8	-5.0	-0.1	6,047.4	149.6	2.5
AR. Net GR % of Non-Farm Personal Income	5.3	0.0	-0.2	5.1	-0.2	-4.0	5.0	-0.1	-2.0
AR. Non-Farm Personal Income (Million \$)	111,857.6	4,774.4	4.5	116,410.1	4,552.5	4.1	121,773.2	5,363.1	4.6
AR. Wage & Salary Disbursements (Million \$)	51,314.4	1,907.3	3.9	53,510.8	2,196.5	4.3	56,265.1	2,754.3	5.1
AR. Non-Farm Proprietor Income (Million \$)	7,345.3	508.0	7.4	7,671.9	326.7	4.4	8,049.4	377.5	4.9
AR. Per Capita Income (\$)	38,379.2	1,381.4	3.7	39,720.8	1,341.6	3.5	41,160.3	1,439.5	3.6
AR. GDP Nominal (Million \$)	121,453.3	3,449.3	2.9	125,629.7	4,176.4	3.4	132,158.6	6,528.9	5.2
AR. Employment Total Payroll (Thousands)	1,201.1	21.5	1.8	1,218.1	16.9	1.4	1,235.1	17.0	1.4
AR. Employment Private Sector (Thousands)	987.7	21.7	2.3	1,005.0	17.3	1.8	1,021.0	16.0	1.6
AR. Employment Manufacturing (Thousands)	155.1	2.1	1.4	152.0	-3.1	-2.0	152.5	0.5	0.3
AR. New Car/Light Truck registrations (Thous.)	134.5	-3.9	-2.8	146.5	12.0	8.9	149.1	2.6	1.8
AR. Retail Sales (Million \$)	40,554.0	909.2	2.3	41,412.2	858.1	2.1	43,386.9	1,974.7	4.8

U.S. Summary: IHS Global Insight, January 2016 Baseline
AR Forecast: IHS Global Insight, January 2016 Baseline

**STATE GENERAL REVENUE
2015-2017 BIENNIUM**

FUND ACCOUNTS	CURRENT	Fiscal Year 2017	
	FY16 BUDGET	PROPOSED BUDGET	DIFFERENCE FROM FY16
General Education	\$2,127,803,780	\$2,151,529,810	\$23,726,030
State Library	4,641,919	4,641,919	0
Career Education	31,964,455	31,964,455	0
PUBLIC SCHOOL FUND	\$2,164,410,154	\$2,188,136,184	\$23,726,030
GENERAL EDUCATION FUND			
Dept. of Education	\$16,162,434	\$16,162,434	\$0
Educational Facilities Partnership	41,828,951	51,328,951	9,500,000
Academic Facilities & Transportation	2,509,256	2,509,256	0
Educational Television	5,293,237	5,293,237	0
School for the Blind	7,016,941	7,016,941	0
School for the Deaf	10,142,113	10,142,113	0
State Library	3,591,373	3,591,373	0
Dept. of Career Education	4,790,510	4,790,510	0
Rehabilitation Services	13,126,651	13,126,651	0
Subtotal - General Education	\$104,461,466	\$113,961,466	\$9,500,000
Technical Institutes:			
Crowley's Ridge TI	\$2,644,401	\$2,644,401	0
Northwest TI	3,075,886	3,075,886	0
Riverside VTS	2,301,199	2,301,199	0
Subtotal - Technical Institutes	\$8,021,486	\$8,021,486	\$0
TOTAL GENERAL ED. FUND	\$112,482,952	\$121,982,952	\$9,500,000
HUMAN SERVICES FUND			
DHS-Administration	\$16,136,255	\$16,136,255	\$0
Aging and Adult Services	16,547,666	16,547,666	0
Children & Family Services	71,092,783	91,537,075	20,444,292
Child Care/Early Childhood Ed.	1,164,457	1,164,457	0
Youth Services	47,808,456	47,808,456	0
Devel. Disab. Services	65,870,969	65,870,969	0
Medical Services	7,197,500	7,197,500	0
DHS-Grants	978,195,484	1,066,195,484	88,000,000
Behavioral Health	78,870,394	82,370,394	3,500,000
Services for the Blind	1,883,424	1,883,424	0
County Operations	48,481,487	48,481,487	0
TOTAL HUMAN SERVICES	\$1,333,248,875	\$1,445,193,167	\$111,944,292
STATE GENERAL GOVT FUND			
Dept. of Ark. Heritage	\$6,608,765	\$6,608,765	\$0
Department of Agriculture	17,300,203	17,300,203	0
Dept. of Labor	3,227,555	3,227,555	0
Dept. of Higher Education	3,399,182	5,399,182	2,000,000
Dept. of H.E.-Grants	40,017,466	40,017,466	0
Dept. of Economic Development	10,670,432	12,170,432	1,500,000
Dept. of Correction	336,663,255	340,723,785	4,060,530
Dept. of Community Correction	78,610,629	78,610,629	0
State Military Department	9,427,702	9,427,702	0
Dept. of Parks & Tourism	23,235,394	23,235,394	0
Dept. of Environmental Quality	4,252,178	4,252,178	0
Miscellaneous Agencies	64,442,126	60,616,822	(3,825,304)
TOTAL STATE GENERAL GOVT	\$597,854,887	\$601,590,113	\$3,735,227
OTHER FUNDS			
County Aid	\$21,428,616	\$21,428,616	\$0
County Jail Reimbursement	27,853,607	16,453,607	(11,400,000)
Crime Information Center	3,759,593	3,759,593	0
Child Support Enforcement	12,984,053	12,984,053	0
Dept. of Health	78,896,794	78,896,794	0
Merit Adjustment Fund	0	5,200,000	5,200,000
Motor Vehicle Acquisition	0	0	0
Municipal Aid	29,372,099	29,372,099	0
State Police	66,375,577	66,375,577	0
Dept. of Workforce Services-TANF	3,864,840	3,864,840	0
TOTAL OTHER FUNDS	\$244,535,180	\$238,335,179	(\$6,200,000)

**STATE GENERAL REVENUE
2015-2017 BIENNIUM**

FUND ACCOUNTS	CURRENT	Fiscal Year 2017	
	FY16 BUDGET	PROPOSED BUDGET	DIFFERENCE FROM FY16
INSTITUTIONS OF HIGHER EDUCATION - Four Year Institutions:			
Arkansas State University	\$59,090,991	\$59,090,991	0
Arkansas Tech University	32,216,531	32,216,531	0
Henderson State University	18,876,011	18,876,011	0
Southern Arkansas University	15,584,976	15,584,976	0
UA-Fayetteville	120,954,440	117,536,490	(3,417,950)
UA - System	0	3,417,950	3,417,950
UA - Archeological Survey	2,327,380	2,327,380	0
UA - Agriculture	62,800,138	62,800,138	0
UA - Clinton School	2,295,575	2,295,575	0
UA - Criminal Justice Institute	1,825,769	1,825,769	0
UA - AR Sch.Math, Science, & Arts	1,113,015	1,113,015	0
U of A - Ft. Smith	20,594,615	20,594,615	0
UA-Little Rock	60,755,097	60,755,097	0
UA-Medical Sciences	86,456,661	86,456,661	0
UAMS - Child Abuse/Rape/Domestic Violence	735,000	735,000	0
UAMS - Pediatrics/Psychiatric Research	1,950,000	1,950,000	0
UAMS - Child Safety Center	720,588	720,588	0
UAMS - Indigent Care	5,342,181	5,342,181	0
UA-Monticello	15,946,042	15,946,042	0
UA-Pine Bluff	25,418,885	25,418,885	0
University of Central Arkansas	53,114,705	53,114,705	0
Subtotal - 4 Year Institutions	\$588,118,601	\$588,118,600	\$0
INSTITUTIONS OF HIGHER EDUCATION - Two Year Institutions:			
Arkansas Northeastern College	\$8,577,052	\$8,577,052	\$0
Arkansas State University - Beebe	11,835,727	11,835,727	0
Arkansas State Univ.-Mt. Home	3,648,110	3,648,110	0
Arkansas State Univ. - Newport	5,992,293	5,992,293	0
Cossatot C C of the UA	3,395,802	3,395,802	0
East Arkansas Cmty. College	5,788,058	5,788,058	0
Mid-South Cmty. College	3,858,007	3,858,007	0
Mid-South - ADTEC	1,500,000	1,500,000	0
National Park Cmty. College	9,046,489	9,046,489	0
North Arkansas College	7,966,964	7,966,964	0
NorthWest Arkansas Cmty College	10,619,202	10,619,202	0
Phillips Cmty. College of the UA	9,063,088	9,063,088	0
Rich Mountain Cmty. College	3,206,869	3,206,869	0
Southern Ark. University - Tech	5,705,511	5,705,511	0
SAU-Tech-Envir. Control Center	368,404	368,404	0
SAU-Tech-Fire Training Academy	1,651,221	1,651,221	0
South Arkansas Cmty. College	6,034,307	6,034,307	0
U of A - Cmty. College at Batesville	4,131,061	4,131,061	0
U of A - Cmty. College at Hope	4,491,997	4,491,997	0
U of A - Cmty. College at Morrilton	5,022,155	\$5,022,155	0
Subtotal - 2 Year Institutions	\$111,902,317	\$111,902,317	\$0
INSTITUTIONS OF HIGHER EDUCATION - Technical Colleges			
Black River	\$6,113,516	\$6,113,516	\$0
College of the Ouachitas	3,527,261	3,527,261	0
Ozarka	3,126,475	3,126,475	0
Pulaski	15,137,437	15,137,437	0
Southeast Arkansas College	5,636,798	5,636,798	0
Subtotal - Technical Colleges	\$33,541,487	\$33,541,487	\$0
TOTAL INST'S OF H. E.	\$733,562,405	\$733,562,405	0
Rainy Day Funds	\$4,305,547	\$4,300,000	(5,547)
Total Request	\$5,190,400,000	\$5,333,100,000	\$142,700,000
OFFICIAL 2.1.16 FORECAST	\$5,226,300,000	\$5,333,100,000	
AVAILABLE REVENUE	\$5,226,300,000	\$5,333,100,000	
Surplus/(Deficit)	\$35,900,000	\$0	