



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

OFFICE OF THE DIRECTOR
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December 1, 2009

The Honorable Henry Wilkins, IV, Co-Chair
The Honorable Allen Maxwell, Co-Chair
Arkansas Legislative Council
171 State Capitol
Little Rock, Arkansas 72201

Dear Senator Wilkins and Representative Maxwell:

In accordance with Arkansas Code Annotated §19-4-304 (b), I am submitting our Official General Revenue Forecast for FY 2011. This law states that the Legislative Council shall require from the Chief Fiscal Officer of the State the annual revenue forecast by December 1 of the year preceding a fiscal session. Included in the tables are selected economic assumptions and the details of the revised revenue forecast.

Summary of Net Available Revenues:

Forecast

- For FY 2011 net available revenues are expected to reach \$4,498.3 million, an increase of \$89.5 million, or 2.0 percent from FY 2010 net available. Modest economic and revenue growth recovery is anticipated after two years of decline in FY 2009 and projected FY 2010. Estimates of economic growth during the fiscal year have been lowered since the last assessment and release for planning purposes in April 2009.
- For FY 2011 total gross revenue from collections are expected to reach \$5,691.1 million, an increase of \$170.2 million, or 3.1 percent from FY 2010. Growth in collections among the major revenue sources will be driven by Sales and Use Tax and Individual Income Tax. Renewed growth in collections is expected from a combination of modest economic recovery and after declines in FY 2010 from one-time effects in Sales and Use Tax.

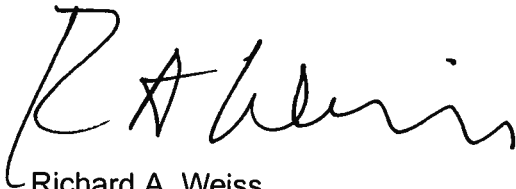
Economic Forecast Assumptions

Limited evidence of economic recovery is present in current economic and business data. In addition, timing issues about a turning point in FY 2010 for renewed job growth and business activity warrant continued caution in FY 2011 planning.

The Arkansas economy continues to outperform the national average and a majority of states. However, the same lags affecting the nation in labor market recovery, consumer confidence, and renewed business investment are a concern for revenue generation in the state. Implications of a protracted economic recovery for the nation in excess of past recession-recovery experience are reflected in the attached forecast for the state.

I have attempted to provide this information in a format that facilitates your work. You will find a narrative summary of the revenue forecasts and tables for quick reference.

Sincerely,

A handwritten signature in black ink, appearing to read "R. A. Weiss". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

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 2010 and FY 2011. The Official Revenue Forecast for the 2009-2011 Biennium Forecast is included.

The revenue forecasts are conditionally based on the expected economic conditions in the state and nation for the remainder of the biennium as of September 2009, with evaluation of economic data and forecast updates through November 2009. The U.S. and state economic forecasts were compiled and averaged from three scenarios, representing structural modeling systems at two national forecast providers. These scenarios consisted of baseline scenarios from Global Insight Inc. and Moody's Analytics, and a weak-recovery scenario from the online modeling system of Moody's. The Arkansas economic forecast was derived from each of the three national scenarios with consistent economic relationships across all sectors. 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 2010

- **FY 2010 U.S. Gross Domestic Product (Real Output).** This summary is based on the September 2009 baseline forecast of Global Insight, Inc. During FY 2010, the United States economy is expected to produce final goods and services valued in 2005 dollars at \$13,112.7 billion, or an increase of \$41.6 billion or 0.3 percent. Two general measures of inflation indicate decelerating price pressures during the year. These consist of the Consumer Price Index (CPI) and the GDP price deflator, a measure of overall price inflation spanning consumers, businesses, and government. The Consumer Price Index is expected to increase 0.5 percent and the GDP price deflator is expected to rise by 0.9 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$14,477.2 billion, an increase of \$173.3 billion or 1.2 percent over FY 2009.
- **Average annual U.S. oil prices** are estimated at \$66.90 per barrel (WTI price) in FY2010. This is a volatile indicator that has partially recovered from effects of global economic recession and continuing declines in domestic U.S. consumption. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2010 state nonfarm personal income** (the sum of wages and salaries,

proprietor's income, rent, dividends, interest and transfer payments) is estimated at \$91,610.5 million (current dollars), an increase of \$1,142.5 million or 1.3 percent over FY 2009.

- **FY 2010 state wage and salary disbursements** are estimated at \$43,996.1 million, a decrease of \$109.1 million or -0.2 percent.
- **FY 2010 state payroll employment** is expected to reach a level of 1.168 million jobs, a decrease of 23,800 jobs or -2.0 percent.

FY 2010 Gross General Revenues

Gross general revenues are estimated at \$5,520.9 million, a decrease from FY 2009 of \$40.3 million, or -0.7 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, \$284.1 million is estimated to be distributed (net) in FY2010.

FY 2010 Net Available General Revenues

Net available revenues are estimated at \$4,408.8 million, a decrease of \$25.9 million or -0.6 percent compared to FY 2009.

FY 2010 Selected Special Revenues:

- **FY 2010 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 2010: \$414.1 million.

- **FY 2010 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, \$22.77 million is estimated to be distributed in FY 2010.
- **FY 2010 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2010, the soft drink excise tax is forecast at \$45.79 million, representing a -3.0 percent decrease compared to FY 2009 collections.

Summary of Economic and Revenue Estimates for FY 2011

- **FY 2011 U.S. Gross Domestic Product (Real Output).** This summary is based on the baseline forecast of Global Insight, Inc. During FY 2011, the United States economy is expected to produce final goods and services valued at \$13,409.6 billion in 2005 base dollars, an increase of \$296.9 billion or 2.3 percent. The two inflation measures of consumer price index (CPI) and GDP price deflator are expected to increase in response to modest recovery in the overall economy. The consumer price index (CPI) is expected to increase 1.6 percent and the GDP price deflator is expected to increase 1.3 percent in FY 2011.
- **U.S. gross domestic product in current dollars** is estimated at \$14,999.4 billion for FY 2011, an increase of \$522.3 billion or 3.6 percent.
- **Average annual U.S. oil prices** are estimated at \$71.50 per barrel (WTI price) in FY 2011. This is a volatile indicator that set new highs just prior to a global commodity price slump in conjunction with deterioration in macroeconomic and financial conditions. Weekly and monthly price swings could vary widely around the annual averages. Restraints to additional price rebound are expected with the early stages of cyclical recovery in the macroeconomy.
- **FY 2011 state nonfarm personal income** (the sum of wages and salaries, proprietor's income, rent, dividends, interest and transfer payments) will reach \$93,544 million (current dollars), an increase of \$1,933 million or 2.1 percent over FY 2010.

- **FY 2011 state wage and salary disbursements** are estimated at \$44,535 million, an increase of \$539.1 million or 1.2 percent. Limited recovery in payroll job growth and low wage inflation in a slack labor market will produce modest wage gains in aggregate.
- **FY 2011 state payroll employment** is estimated to grow from a level of 1.168 million jobs in FY 2010 to 1.175 million jobs in FY 2011. This represents an increase of 6,960 jobs or 0.6 percent.

FY 2011 Gross General Revenues

The forecast for gross general revenues in FY 2011 is \$5,691.1 million, an increase of \$170.2 million or 3.1 percent over FY 2010.

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 \$273.3 million may be distributed (net) in FY2011.

FY 2011 Net Available General Revenues

For FY 2011, net available general revenues are estimated at \$4,498.3 million, an increase of \$89.5 million or 2.0 percent over FY 2010.

FY 2011 Selected Special Revenues:

- **FY 2011 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 2011: \$430.2 million.

- **FY 2011 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 \$25.66 million may be distributed (net) in FY 2011.
- **FY 2011 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2011 the forecast is \$46.4 million, representing a 1.27% increase compared to FY 2010.

**Office of the Director,
Economic Analysis and Tax Research,
Department of Finance and Administration
December 1, 2009**

OFFICIAL GENERAL REVENUE FORECAST
2009 - 2011 Biennium

Millions of Dollars

	Actual	FY 09 Increase	% CH	10/20/09 Estimate	FY 10 Increase	% CH	12/01/09 Estimate	FY 11 Increase	% CH
INDIVIDUAL INCOME	2,705.5	-57.4	-2.1	2,623.3	-82.2	-3.0	2,734.5	111.2	4.2
CORPORATE INCOME	382.6	28.6	8.1	423.2	40.6	10.6	408.1	-15.1	-3.6
SALES AND USE	2,081.3	-29.0	-1.4	2,002.3	-79.0	-3.8	2,093.1	90.8	4.5
ALCOHOLIC BEVERAGE	46.7	5.5	13.3	49.1	2.4	5.1	49.1	0.0	0.0
TOBACCO	164.6	23.6	16.7	244.3	79.7	48.4	234.0	-10.3	-4.2
INSURANCE	97.8	2.6	2.7	100.0	2.2	2.2	101.1	1.1	1.1
RACING	5.1	-0.1	-1.0	5.2	0.1	1.0	5.3	0.1	1.9
GAMES OF SKILL	6.2	0.6	10.7	7.2	1.0	16.2	7.5	0.3	4.2
SEVERANCE	15.9	-2.4	-13.3	17.7	1.8	11.2	19.2	1.5	8.5
CORPORATE FRANCHISE	8.0	0.0	0.0	8.0	0.0	0.0	8.0	0.0	0.0
ESTATE	-1.1	-0.6	109.4	0.0	1.1	-100.0	0.0	0.0	0.0
REAL ESTATE TRANSFER	7.1	0.0	0.0	2.6	-4.5	-63.4	2.6	0.0	0.0
MISCELLANEOUS	41.4	14.8	55.4	38.0	-3.4	-8.3	28.6	-9.4	-24.7
TOTAL GROSS	5,561.2	-13.8	-0.2	5,520.9	-40.3	-0.7	5,691.1	170.2	3.1
PLUS: GEN IMPROVEMENT	3.4	-1.4	-28.7	0.0	-3.4	-100.0	0.0	0.0	0.0
REV. ALLOTMENT RESERVE	0.0	0.0	0.0	61.0	61.0	0.0	0.0	-61.0	-100.0
LESS: SCS/COF	166.7	-0.4	-0.2	165.6	-1.1	-0.6	170.7	5.1	3.1
INDIVIDUAL REFUNDS	466.5	48.5	11.6	492.6	26.1	5.6	518.2	25.6	5.2
CORP REFUNDS	59.7	23.6	65.3	56.4	-3.3	-5.5	57.1	0.7	1.2
CLAIMS RESERVE	0.0	0.0	0.0	10.0	10.0	0.0	10.0	0.0	0.0
ECON DEV INCENTIVE	15.0	4.6	45.0	23.4	8.4	56.3	23.4	0.0	0.0
WATER/SEWER BONDS	6.0	3.6	150.0	12.9	6.9	115.0	14.9	2.0	15.5
COLL SAVINGS BONDS	23.9	0.1	0.5	24.0	0.1	0.3	24.0	0.0	0.0
MLA CITY/CO TOURIST	7.1	-0.1	-1.5	7.3	0.2	2.3	5.3	-2.0	-27.4
EDUC EXCEL TRUST	288.2	-10.2	-3.4	284.1	-4.1	-1.4	273.3	-10.8	-3.8
DESEGREGATION	69.3	10.6	18.0	69.8	0.5	0.8	69.8	0.0	0.0
ELDERLY TRANSPORT	2.0	-0.1	-5.1	1.9	-0.1	-5.5	1.9	0.0	0.0
EDUCATIONAL ADQCY	25.5	-0.9	-3.4	25.1	-0.4	-1.5	24.2	-0.9	-3.6
NET AVAILABLE	4,434.7	-94.5	-2.1	4,408.8	-25.9	-0.6	4,498.3	89.5	2.0
LESS: SURPLUS TO ALLOTMENT RESERVE FUND									
NET AVAILABLE DISTRIBUTION	4,434.7	82.0	1.9	4,408.8	-25.9	-0.6	4,498.3	89.5	2.0

PREPARED BY ECONOMIC ANALYSIS AND TAX RESEARCH, DF&A
NET AVAILABLE ESTIMATE FOR FY10: 98.0% of A

NET AVAILABLE FOR FY10 DOES NOT INCLUDE \$40.0 MILLION TRANSFER FROM GENERAL IMPROVEMENT FUND
(ACT 1443, SECTION 3).

**ECONOMIC ASSUMPTIONS AND THE
OFFICIAL GENERAL REVENUE FORECAST
2009-2011 BIENNIUM**

Millions of Dollars	FY-09			10/20/09			FY-10			12/01/09			FY-11		
	Actual	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH
INDIVIDUAL INCOME TAX	2,705.5	-57.4	-2.1	2,623.3	-82.2	-3.0	2,734.5	111.2	4.2						
INDIVIDUAL REFUNDS	<u>466.5</u>	<u>48.5</u>	<u>11.6</u>	<u>492.6</u>	<u>26.1</u>	<u>5.6</u>	<u>518.2</u>	<u>25.6</u>	<u>5.2</u>						
NET INDIVIDUAL INCOME	2,239.0	-105.9	-4.5	2,130.7	-108.3	-4.8	2,216.3	85.6	4.0						
CORPORATE INCOME TAX	382.6	28.6	8.1	423.2	40.6	10.6	408.1	-15.1	-3.6						
CORPORATE REFUNDS	<u>59.7</u>	<u>23.6</u>	<u>65.3</u>	<u>56.4</u>	<u>-3.3</u>	<u>-5.5</u>	<u>57.1</u>	<u>0.7</u>	<u>1.2</u>						
NET CORPORATE INCOME	323.0	5.1	1.6	366.8	43.8	13.6	351.0	-15.8	-4.3						
SALES AND USE TAX	2,081.3	-29.0	-1.4	2,002.3	-79.0	-3.8	2,093.1	90.8	4.5						
NET ECONOMIC TAX REVENUE	4,643.2	-129.9	-2.7	4,499.8	-143.4	-3.1	4,660.4	160.6	3.6						
OTHER TAX REVENUE	<u>391.8</u>	<u>44.0</u>	<u>12.6</u>	<u>472.1</u>	<u>80.3</u>	<u>20.5</u>	<u>455.4</u>	<u>-16.7</u>	<u>-3.5</u>						
GROSS GENERAL REVENUES	5,561.2	-13.8	-0.2	5,520.9	-40.3	-0.7	5,691.1	170.2	3.1						
PLUS: GEN IMPROVEMENT	3.4	-1.4	-28.7	0.0	-3.4	-100.0	0.0	0.0	0.0						
REVENUE ALLOTMENT RESERVE	0.0	0.0	0.0	61.0	61.0	0.0	0.0	-61.0	-100.0						
LESS: SCS/COF	166.7	-0.4	-0.2	165.6	-1.1	-0.6	170.7	5.1	3.1						
INDIVIDUAL REFUNDS	466.5	48.5	11.6	492.6	26.1	5.6	518.2	25.6	5.2						
CORPORATE REFUNDS	59.7	23.6	65.3	56.4	-3.3	-5.5	57.1	0.7	1.2						
CLAIMS	0.0	0.0	0.0	10.0	10.0	0.0	10.0	0.0	0.0						
ECON DEVEL INCENTIVE FUND	15.0	4.6	45.0	23.4	8.4	56.3	23.4	0.0	0.0						
WATER/SEWER BONDS	6.0	3.6	150.0	12.9	6.9	115.0	14.9	2.0	15.5						
MLA CITY/CO TOURIST	7.1	-0.1	-1.5	7.3	0.2	2.3	5.3	-2.0	-27.4						
DESEGREGATION SETTLEMENT	69.3	10.6	18.0	69.8	0.5	0.8	69.8	0.0	0.0						
EDUC EXCEL TRUST FUND	288.2	-10.2	-3.4	284.1	-4.1	-1.4	273.3	-10.8	-3.8						
ELDERLY TRANSPORTATION	2.0	-0.1	-5.1	1.9	-0.1	-5.5	1.9	0.0	0.0						
COLLEGE SAVINGS BONDS	23.9	0.1	0.5	24.0	0.1	0.3	24.0	0.0	0.0						
EDUCATIONAL ADEQUACY	25.5	-0.9	-3.4	25.1	-0.4	-1.5	24.2	-0.9	-3.6						
NET AVAILABLE	<u>4,434.7</u>	<u>-94.5</u>	<u>-2.1</u>	<u>4,408.8</u>	<u>-25.9</u>	<u>-0.6</u>	<u>4,498.3</u>	<u>89.5</u>	<u>2.0</u>						
LESS: SURPLUS TO ALLOT RESERVE															
NET AVAILABLE DISTRIBUTION	<u>4,434.7</u>	<u>82.0</u>	<u>1.9</u>	<u>4,408.8</u>	<u>-25.9</u>	<u>-0.6</u>	<u>4,498.3</u>	<u>89.5</u>	<u>2.0</u>						

ECONOMIC ASSUMPTIONS

	FY 2009 e			FY 2010 e			FY 2011 e		
U.S. Nominal GDP (Billion \$)	14,303.8	-43.5	-0.3	14,477.2	173.3	1.2	14,999.4	522.3	3.6
U.S. GDP (Billions 2005\$ Chain-Weight)	13,071.1	-302.5	-2.3	13,112.7	41.6	0.3	13,409.6	296.9	2.3
U.S. GDP Deflator (Chain-Wt. 2005=100)	109.4	2.1	2.0	110.4	1.0	0.9	111.9	1.4	1.3
U.S. CPI Price Index (1984=100)	214.6	2.9	1.4	215.6	1.0	0.5	219.2	3.5	1.6
OIL - WTI Wellhead Avg. (\$ per barrel)	70.1	-26.8	-27.6	66.9	-3.2	-4.6	71.5	4.6	6.9
AR. Net General Revenue (Million \$)	5,035.0	-85.9	-1.7	4,971.9	-63.1	-1.3	5,115.8	143.9	2.9
AR. Net GR % of Non-Farm Personal Income	5.6	-0.1	-2.1	5.4	-0.1	-2.5	5.5	0.0	0.8
AR. Non-Farm Personal Income (Million \$)	90,468.0	430.5	0.5	91,610.5	1,142.5	1.3	93,543.5	1,933.0	2.1
AR. Wage & Salary Disbursements (Million \$)	44,105.1	540.1	1.2	43,996.1	-109.1	-0.2	44,535.1	539.1	1.2
AR. Non-Farm Proprietor Income (Million \$)	6,000.4	-23.4	-0.4	5,906.6	-93.8	-1.6	6,011.3	104.8	1.8
AR. Farm Proprietor Income (Million \$)	1,045.6	-152.4	-12.7	1,164.5	118.8	11.4	1,300.8	136.3	11.7
AR. Payroll Employment (Thousands)	1,191.7	-14.1	-1.2	1,167.9	-23.8	-2.0	1,174.8	7.0	0.6
AR. Manufacturing Employment (Thousands)	173.9	-12.0	-6.5	157.8	-16.1	-9.3	155.7	-2.1	-1.3
AR. Prof. & Bus. Serv. Employment (Thous.)	116.0	-1.6	-1.3	114.1	-1.9	-1.6	116.9	2.8	2.5
AR. Population (Thousands)	2,869.4	23.4	0.8	2,891.3	21.9	0.8	2,912.7	21.3	0.7
AR. Per Capita Income (\$)	31,402.9	469	1.5	31,660.5	258	0.8	32,143.8	483	1.5
AR. Retail Sales (Billion \$)	34.8	-2.7	-7.1	34.7	-0.1	-0.3	35.6	0.9	2.4

U.S. Summary: Global Insight September 2009

AR Forecast based on Composite of Moody's and Global Insight.