

MINUTES FROM THE JOINT COMMITTEE ON ECONOMIC AND TAX POLICY MEETING Tuesday, May 6, 2015 Room B, MAC, Little Rock, Arkansas

The Joint Committee on Economic and Tax Policy met at 2 p.m., Tues., May 6, 2015, in Room B-MAC.

Committee members in attendance: Sen. Bart Hester (**Co-Chair**), Rep. Jim Dotson (**Co-Chair**), Sen. Bruce Maloch, Sen. Greg Standridge, Sen. Larry Teague, Rep. David L. Branscum, Rep. Lane Jean, and Rep. Joe Jett **Other members of the General Assembly in attendance:** Sen. Bryan King, Rep. Dan M. Douglas, Rep. David Fielding, Rep. Kelley Linck, Rep. Nelda Speaks

Rep. Jim Dotson (Co-Chair) called the meeting to order and without objection, the minutes for May 7, 2014 were approved as written.

Rep. Jim Dotson (Co-Chair) recognizes his co-chair and then recognized Mr. Larry Walther.

Mr. Larry Walther, Chief Fiscal Officer for the State of Arkansas, recognized **Tim Leathers**, Deputy Director, Arkansas Dept. of Finance and Administration (DFA), and **Dr. John Shelnut**, Chief Economist, Economic Analysis & Tax Research, DFA. Mr. Walther then discussed the Official General Revenue Forecast report submitted to the Joint Committee on Economic and Tax Policy on May 6, 2015 (Exhibit C).

Mr. Walther stated that the governors' forecast is a conservative forecast based on continued modest growth. It provides critical funding for the budget needs and the tax cuts and tax changes in the last two sessions. The forecast revisions include updates to the economic assumptions and tax policy changes from the 90th General Assembly. The economic forecast is a combination of national and state models and provides the latest data through IHS Global Insight. The economic growth is revised for FY16 upwards and FY17 slightly downwards. The underlining economic growth for the forecast is 3.5 percent in FY16 and 4.0 percent in FY17 before any one-time tax policy changes. The biannual economic forecast has changed reflecting broader consumer and household consumption recovery and additional job growth. Indicators for consumer lead growth remain encouraging but with concerns of business investment because of the export and energy sectors. The forecast focuses on non-farm personal income, wages, salary income, and inflation factors. The tax policy changes and one-time factors are also applied.

FY15 budget will fully fund "A" + Rainy Day Fund + "B" + "B1" + "C". Prior to April there was a \$92.4 million surplus over the current Revenue Stabilization Law. For April approximately \$47 million was received unexpectedly from extensions and returns. Also received was \$24 million of early corporate income tax. In April the close out was \$163,800 million above forecast. DFA is analyzing the payments and other factors on how they will impact the surplus and future tax years.

FY16 net available revenue is expected to be \$5,186.2 million (0.7 percent) or \$34.9 million above FY15. Reflective of \$26.5 million from tax changes by the 90th General Assembly and \$56 million from tax changes by the 89th General Assembly. The FY16 forecast is expected to fund the allocations "A" + Rainy Day Fund + "B" + "B1" and 58 percent (\$5.8 million) of "C" in the current Revenue Stabilization Law. Category "C" was \$7 million for school facilities and \$3 million for school transportation.

FY17 net available revenue is expected to be \$5,290 million (2.0 percent) above FY16 or 103.8 million above FY16. This amount reflects tax cuts in FY17 of \$100.77 million by the 90th General Assembly.

Mr. Walther, Mr. Leathers, Dr. John Shelnut, and members of the Senate and House were recognized and contributed to the discussion as needed. Topics included:

- 41.7 million on Insurance Department (Governor Correction)
- Agriculture - not represented in the forecast
- Economic and General Revenue growth rate FY16 and FY17
- Rainy Day Funds

There being no further business, the meeting adjourned.