



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

OFFICE OF THE DIRECTOR

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October 20, 2009

The Honorable John Paul Capps, Co-Chair
The Honorable Kathy Webb, Co-Chair
Joint Committee on Economic and Tax Policy
171 State Capitol
Little Rock, Arkansas 72201

Dear Senator Capps and Representative Webb:

In accordance with the fiduciary duties of the Chief Fiscal Officer of the State, the net available general revenue forecast for FY 2010 will be reduced by \$99.9 million, equivalent to a 2.2 percent reduction. Therefore, effective October 20, 2009, the new funding level for FY 2010 is \$4,408.8 million or 98.0% of A.

Revenue loss in all of the major revenue categories exceeded expectations in the first quarter of fiscal year 2010. Although economic and revenue forecasts continue to indicate a recovery in the second half of the fiscal year and improved comparisons with prior year performance, it was determined that expected growth would be insufficient to offset these losses.

We will continue to carefully monitor the economic situation and revenue collection performance to determine if further adjustments are needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Weiss".

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 in context with results from FY 2009.

The revenue forecasts are conditionally based on the expected economic conditions in the state and nation as of September 2009. The U.S. and state economic forecasts were compiled and averaged from three scenarios, representing large-scale structural economic modeling systems at two national forecast providers. These scenarios consisted of baseline scenarios from IHS Global Insight Inc. and Moody's Analytics, and a customized 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 and within scenarios. 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 IHS Global Insight, Inc. During FY 2010, the United States economy is expected to produce final goods and services valued in 2005 dollars at \$13,113 billion, an increase of \$41.6 billion or 0.3 percent. Two general measures of inflation indicate minimal 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 billion, an increase of \$173.3 billion or 1.2 percent from FY 2009. The small gain in nominal dollar terms is due to limited economic recovery with low inflation at this stage of the economic cycle.
- **Average annual U.S. oil prices** are estimated at \$66.9 per barrel (WTI price) in FY2010. 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. Oil prices have partially rebounded from lows during the deepest part of the recession, but remained constrained by high inventories and limited global economic recovery. 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 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 million, a decrease of \$109.1 million or -0.2 percent. Total wage disbursements represent the largest component of personal income and reflect a combination of job count, hours worked, wage rate changes, and bonuses.
- **FY 2010 state nonfarm 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, \$22.8 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 \$45.8 million, representing a decrease of -3.0% compared to FY 2009 collections.

**Office of the Director,
Economic Analysis and Tax Research,
Department of Finance and Administration
October 20, 2009**

OFFICIAL GENERAL REVENUE FORECAST
Fiscal Year 2010

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

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
Fiscal Year 2010**

Millions of Dollars	FY-09			10/20/2009	FY-10		
	Actual	Increase	% CH	Estimate	Increase	% CH	
INDIVIDUAL INCOME TAX	2,705.5	-57.4	-2.1	2,623.3	-82.2	-3.0	
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>	
NET INDIVIDUAL INCOME	2,239.0	-105.9	-4.5	2,130.7	-108.3	-4.8	
CORPORATE INCOME TAX	382.6	28.6	8.1	423.2	40.6	10.6	
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>	
NET CORPORATE INCOME	323.0	5.1	1.6	366.8	43.8	13.6	
SALES AND USE TAX	2,081.3	-29.0	-1.4	2,002.3	-79.0	-3.8	
NET ECONOMIC TAX REVENUE	4,643.2	-129.9	-2.7	4,499.8	-143.4	-3.1	
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>	
GROSS GENERAL REVENUES	5,561.2	-13.8	-0.2	5,520.9	-40.3	-0.7	
PLUS: GEN IMPROVEMENT	3.4	-1.4	-28.7	0.0	-3.4	-100.0	
REVENUE ALLOTMENT RESERVE	0.0	0.0	0.0	61.0	61.0	0.0	
LESS: SCS/COF	166.7	-0.4	-0.2	165.6	-1.1	-0.6	
INDIVIDUAL REFUNDS	466.5	48.5	11.6	492.6	26.1	5.6	
CORPORATE REFUNDS	59.7	23.6	65.3	56.4	-3.3	-5.5	
CLAIMS	0.0	0.0	0.0	10.0	10.0	0.0	
ECON DEVEL INCENTIVE FUND	15.0	4.6	45.0	23.4	8.4	56.3	
WATER/SEWER BONDS	6.0	3.6	150.0	12.9	6.9	115.0	
MLA CITY/CO TOURIST	7.1	-0.1	-1.5	7.3	0.2	2.3	
DESEGREGATION SETTLEMENT	69.3	10.6	18.0	69.8	0.5	0.8	
EDUC EXCEL TRUST FUND	288.2	-10.2	-3.4	284.1	-4.1	-1.4	
ELDERLY TRANSPORTATION	2.0	-0.1	-5.1	1.9	-0.1	-5.5	
COLLEGE SAVINGS BONDS	23.9	0.1	0.5	24.0	0.1	0.3	
EDUCATIONAL ADEQUACY	25.5	-0.9	-3.4	25.1	-0.4	-1.5	
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>	
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>	
ECONOMIC ASSUMPTIONS		FY 2009 e			FY 2010 e		
U.S. Nominal GDP (Billion \$)	14,303.8	-43.5	-0.3	14,477.2	173.3	1.2	
U.S. GDP (Billions 2005\$ Chain-Weight)	13,071.1	-302.5	-2.3	13,112.7	41.6	0.3	
U.S. GDP Deflator (Chain-Wt, 2005=100)	109.4	2.1	2.0	110.4	1.0	0.9	
U.S. CPI Price Index (1984=100)	214.6	2.9	1.4	215.6	1.0	0.5	
OIL - WTI Wellhead Avg. (\$ per barrel)	70.1	-26.8	-27.6	66.9	-3.2	-4.6	
AR. Net General Revenue (Million \$)	5,035.0	-85.9	-1.7	4,971.9	-63.1	-1.3	
AR. Net GR % of Non-Farm Personal Income	5.6	-0.1	-2.1	5.4	-0.1	-2.5	
AR. Non-Farm Personal Income (Million \$)	90,468.0	430.5	0.5	91,610.5	1,142.5	1.3	
AR. Wage & Salary Disbursements (Million \$)	44,105.1	540.1	1.2	43,996.1	-109.1	-0.2	
AR. Non-Farm Proprietor Income (Million \$)	6,000.4	-23.4	-0.4	5,906.6	-93.8	-1.6	
AR. Farm Proprietor Income (Million \$)	1,045.6	-152.4	-12.7	1,164.5	118.8	11.4	
AR. Payroll Employment (Thousands)	1,191.7	-14.1	-1.2	1,167.9	-23.8	-2.0	
AR. Manufacturing Employment (Thousands)	173.9	-12.0	-6.5	157.8	-16.1	-9.3	
AR. Prof. & Bus. Serv. Employment (Thous.)	116.0	-1.6	-1.3	114.1	-1.9	-1.6	
AR. Population (Thousands)	2,869.4	23.4	0.8	2,891.3	21.9	0.8	
AR. Per Capita Income (\$)	31,402.9	469	1.5	31,660.5	258	0.8	
AR. Retail Sales (Billion \$)	34.8	-2.7	-7.1	34.7	-0.1	-0.3	

U.S. Summary: Global Insight September 2009
AR Forecast based on Composite of Moody's and Global Insight.