



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

OFFICE OF THE DIRECTOR

1509 West Seventh Street, Suite 401
Post Office Box 3278
Little Rock, Arkansas 72203-3278
Phone: (501) 682-2242
Fax: (501) 682-1029
<http://www.dfa.arkansas.gov>

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,

A handwritten signature in cursive script that reads "Larry W. Walther".

Larry W. Walther
Director

LWW/jps
Attachments (3)

STATE AND NATIONAL ECONOMIC AND REVENUE FORECASTS

The following sections summarize the economic outlook for the nation and Arkansas for FY 2017 with comments updating current year conditions.

The revenue forecasts are conditionally based on the expected economic conditions in the state and nation as of January 2016. The U.S. and state economic forecasts were compiled from simulations representing structural economic modeling systems at IHS Global Insight, Inc., a national forecast provider. The DFA Office of Economic Analysis and Tax Research, Office of the Director, prepared the general revenue forecast.

Summary of Economic and Revenue Estimates for FY 2016

- **FY 2016 U.S. Gross Domestic Product (Real Output).** This summary is based on the January 2016 baseline forecast of IHS Global Insight, Inc. During FY 2016, the United States economy is expected to produce final goods and services valued in inflation-adjusted dollars at \$16,542.8 billion, an increase of \$360.1 billion or 2.2 percent. Two general measures of inflation indicate limited price pressures during the year. The Consumer Price Index is expected to increase 0.5 percent and the GDP price deflator is expected to rise by 1.3 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$18,311.9 billion, an increase of \$636.7 billion or 3.6 percent over FY 2015.
- **Average annual U.S. oil prices** are estimated at \$39.70 per barrel (domestic crude for refiners) in FY2016. A global energy commodity route is creating severe volatility in the markets and in forecast assumptions. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2016 state nonfarm personal income** is estimated at \$116.4 billion (current dollars), an increase of \$4.55 billion or 4.1 percent over FY 2015.
- **FY 2016 state wage and salary disbursements** are estimated at \$53.51 billion, an increase of \$2.20 billion or 4.3 percent. Total disbursements reflect the combined effects of net job growth, longer average work weeks, and any gains in wage rates, bonuses, or level of overtime pay rates.
- **FY 2016 state total payroll employment** is expected to reach a level of 1.218

million jobs, an increase of approximately 16,900 jobs or 1.4 percent. Private sector employment growth is expected to gain 1.8 percent.

FY 2016 Gross General Revenues

Gross general revenues are estimated at \$6,408.9 million, a decrease from FY 2015 of \$61.8 million, or -1.0 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, \$300.8 million is estimated to be distributed (net) in FY 2016.

FY 2016 Net Available General Revenues

Net available revenues collected are estimated at \$5,226.3 million, a decrease of \$24.2 million or -0.5 percent compared to FY 2015.

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

FY 2016 Selected Special Revenues:

- **FY 2016 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 2016: \$477.6 million.

- **FY 2016 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, \$31.3 million is estimated to be distributed in FY 2016.
- **FY 2016 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2016, the soft drink excise tax is forecast at \$43.0 million, representing a 2.6 percent increase compared to FY 2015 collections.

Summary of Economic and Revenue Estimates for FY 2017

- **FY 2017 U.S. Gross Domestic Product (Real Output).** During FY 2017, the United States economy is expected to produce final goods and services valued at \$17,037.3 billion in inflation-adjusted dollars, an increase of \$494.4 billion or 3.0 percent. The two inflation measures of consumer price index (CPI) and GDP price deflator are expected to gradually move up in response to recovery in the overall economy. The consumer price index (CPI) is expected to increase 2.1 percent and the GDP price deflator is expected to increase 1.9 percent in FY 2017.
- **U.S. gross domestic product in current dollars** is estimated at \$19,211.7 billion for FY 2017, an increase of \$899.7 billion or 4.9 percent.
- **Average annual U.S. oil prices** are estimated at \$50.70 per barrel (domestic crude for refiners' price) in FY 2017. Oil prices are expected to gradually recover over the forecast period. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2017 state nonfarm personal income** will reach \$121.77 billion (current dollars), an increase of \$5.36 billion or 4.6 percent over FY 2016. Nonfarm income is expected to expand gradually in a low-inflation economic environment and with limited national growth acceleration.
- **FY 2017 state wage and salary disbursements** are estimated at \$56.27 billion, an increase of \$2.75 billion or 5.1 percent.
- **FY 2017 state total payroll employment** is expected to reach a level of 1.235 million jobs, an increase of approximately 17,000 jobs or 1.4 percent in FY 2017. Private sector employment is expected to gain 1.6 percent.

FY 2017 Gross General Revenues

The forecast for gross general revenues in FY 2017 is \$6,580.8 million, an increase of \$171.9 million or 2.7 percent over FY 2016.

The total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY2017 is assumed to remain at 3.2 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, an estimated \$315.6 million may be distributed (net) in FY 2017.

FY 2017 Net Available General Revenues

For FY 2017, net available general revenues are estimated at \$5,333.1 million, an increase of \$106.8 million or 2.0 percent over FY 2016.

FY 2017 Selected Special Revenues:

- **FY 2017 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 2017: \$495.9 million.

- **FY 2017 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 \$27.8 million may be distributed (net) in FY 2017.
- **FY 2017 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2017 the forecast is \$42.1 million, representing a -2.0 percent decrease compared to FY 2016.

**Office of the Director,
Economic Analysis and Tax Research,
Department of Finance and Administration
February 1, 2016**

**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			
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.



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1509 West Seventh Street, Room 404
Post Office Box 3278
Little Rock, Arkansas 72203-3278
Phone: (501) 682-1688
Fax: (501) 682-1086
<http://www.dfa.arkansas.gov>

MEMORANDUM

TO: Larry Walther, Director
Tim Leathers, Deputy Director

FROM: John Shelnett, Economic Analysis & Tax Research

SUBJECT: **General Revenue Report for April (FY 2016)**

DATE: May 3, 2016 Copy: Governor's Office
Management Services

YEAR-TO-DATE REVENUE SUMMARY

Year-to-date Net Available General Revenues: Year-to-date net available general revenues total \$4,487.9 million, which is \$160.2 million or 3.7 percent above year ago levels. After ten months into the fiscal year, net available revenue is above forecast by \$110.0 million or 2.5 percent.

Year-to-date Gross General Revenues: Year-to-date gross collections total \$5,394.4 million, representing an increase of \$21.5 million or 0.4 percent above last year. Gross general revenues are above forecast by \$22.5 million or 0.4 percent.

Year-to-date Individual Income Taxes: Year-to-date individual income tax collections total \$2,661.0 million, \$49.1 million or -1.8 percent below FY 2015 collections and \$3.8 million or 0.1 percent above forecast.

Year-to-date individual income tax refunds total \$306.4 million, down \$154.4 million or -33.5 percent compared to last year and \$72.9 million or -19.2 percent below forecast. Amounts below forecast in refund categories add to net available revenue results.

Year-to-date Sales and Use Tax Collections: On a year-to-date basis, sales and use taxes total \$1,923.5 million, an increase of \$73.7 million or 4.0 percent from FY 2015

and \$3.2 million or 0.2 percent above forecast.

Year-to-date Corporate Income Taxes: Year-to-date corporate revenues total \$392.8 million, a decrease of \$11.3 million or -2.8 percent below year-to-date FY 2015. Corporate income is above forecast by \$3.3 million or 0.9 percent.

Year-to-date corporate income tax refunds total \$63.4 million, an increase of \$23.4 million compared to the same year-to-date period last year. Corporate refunds are \$6.8 million below forecast or -9.7 percent.

APRIL REVENUE SUMMARY

April Net Available General Revenues total \$661.3 million, \$37.2 million or 6.0 percent above last year and \$37.1 million or 5.9 percent above forecast.

Results in April, the largest collection month of the year, were above forecast in Individual Income tax and below forecast in Corporate Income tax and Sales tax. Also, refunds in both Individual and Corporate Income tax were less than expected, adding to Net Available revenue by a combined \$26.9 million.

The results include a one-time deposit of \$8.1 million. This was recorded as Miscellaneous revenue in the report. The deposit to general revenue represents excess funds after the cessation of operations of the Arkansas Comprehensive Health Insurance Pool.

Individual Income tax collections contributed \$4.8 million above forecast in April, as Withholding Income tax from payrolls offset shortfalls compared to forecast in Returns with Payments and Estimated Payments.

Corporate Income tax receipts fell below year ago collections and below forecast for the month, falling \$3.0 million below forecast.

Sales and Use tax revenue rose 1.4 percent compared to year ago but were 0.8 percent below forecast. This amounted to \$1.6 million below forecast for the month.

Among smaller revenue sources, Tobacco was above forecast (+\$1.7 million) and Games of Skill was also above forecast (+\$0.5 million).

April Gross General Revenues: April collections total \$793.7 million, a decrease of \$7.5 million or -0.9 percent below last year and \$8.4 million or 1.1 percent above forecast.

April Individual Income Tax collections total \$505.3 million. Collections decreased by \$4.8 million, or -0.9 percent compared to last year. With respect to the forecast, collections were \$4.8 million or 1.0 percent above expected levels. Gains from

Withholding tax on payrolls accounted for most of the increase from year ago levels and forecast.

April Individual Income Tax Refunds total \$68.2 million, \$42.5 million below last year and \$23.1 million below forecast. Refund amounts below forecast add to net available fund results.

April Sales and Use Tax Collections: April collections total \$192.7 million, an increase of \$2.6 million or 1.4 percent above last year. Collections were below monthly forecast levels by \$1.6 million or -0.8 percent. The collection results largely reflect taxable sales activity in March.

April Corporate Income Tax collections total \$55.9 million, a decrease of \$10.5 million from year ago, and \$3.0 million or -5.1 percent below forecast.

April Corporate Income Tax Refunds total \$2.4 million. This amount is \$2.2 million below year ago levels. Refunds were \$3.8 million below forecast.

April Tobacco Tax collections, a smaller component of general revenue in annual terms, total \$18.5 million. Collections decreased by \$1.1 million or -5.7 percent from year earlier levels and were 10.0 percent above forecast. Monthly changes in tobacco tax collections can be attributed to uneven patterns of stamp sales to wholesale purchasers.

SPECIAL REVENUES OF NOTE

Year-to-date Soft Drink Tax (for Medicaid Program Trust Fund): Year-to-date collections of the dedicated soft drink tax total \$37.3 million, an increase of 7.2 percent from last year.

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.

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. In April 2016, \$46.9 million was collected and deposited to the fund. After deductions, the net amount is \$45.5 million. The monthly collection is equivalent to a gain of 10.2 percent from prior year collections.

APRIL 2016 YEAR-TO-DATE GENERAL REVENUE REPORT
ECONOMIC ANALYSIS AND TAX RESEARCH, DFA

FORECAST DATE: 2/1/2016

MILLIONS OF \$

	ACTUAL FY15	FORECAST FY16	ACTUAL FY16	CHANGE FROM FORECAST		CHANGE FROM LAST YEAR	
				DOLLAR DIFFERENCE	PERCENT DIFFERENCE	DOLLAR DIFFERENCE	PERCENT DIFFERENCE
INDIVIDUAL INCOME	2,710.1	2,657.2	2,661.0	3.8	0.1	-49.1	-1.8
CORPORATE INCOME	404.1	389.5	392.8	3.3	0.9	-11.3	-2.8
SALES AND USE	1,849.8	1,920.3	1,923.5	3.2	0.2	73.7	4.0
ALCOHOLIC BEVERAGE	43.1	43.8	43.9	0.1	0.2	0.8	1.8
TOBACCO	182.0	180.4	183.9	3.5	2.0	1.9	1.1
INSURANCE	67.4	62.7	62.8	0.1	0.2	-4.5	-6.7
RACING	2.3	2.3	2.2	-0.1	-4.4	-0.1	-5.5
GAMES OF SKILL	38.2	44.2	46.0	1.8	4.1	7.8	20.3
MISCELLANEOUS ¹	75.8	71.5	78.2	6.7	9.4	2.4	3.2
TOTAL GROSS	5,372.9	5,371.9	5,394.4	22.5	0.4	21.5	0.4
LESS: SCSF/COF ²	171.9	171.9	172.6	0.7	0.4	0.7	0.4
INDIV INCOME TAX REFUNDS	460.8	379.3	306.4	-72.9	-19.2	-154.4	-33.5
CORP INCOME TAX REFUNDS	40.0	70.2	63.4	-6.8	-9.7	23.4	58.4
CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ECON DEVEL INCENTIVE FUND	10.1	15.8	7.3	-8.5	-53.6	-2.8	-27.6
WATER/SEWER BONDS	12.4	12.4	12.4	0.0	0.0	0.0	0.0
COLLEGE SAVINGS BONDS	5.2	4.7	4.7	0.0	-0.9	-0.6	-10.6
CITY & COUNTY TOURIST	2.8	1.0	1.0	0.0	4.7	-1.8	-62.6
SCHOOL DESEGREGATION	72.1	65.8	65.8	0.0	0.0	-6.3	-8.7
EDUCATIONAL EXCELLENCE	247.9	250.8	250.7	-0.1	0.0	2.8	1.1
EDUCATIONAL ADEQUACY	21.9	22.1	22.2	0.1	0.3	0.2	1.1
TOTAL DEDUCTIONS	1,045.2	994.0	906.5	-87.5	-8.8	-138.7	-13.3
NET AVAILABLE	4,327.7	4,377.9	4,487.9	110.0	2.5	160.2	3.7

REVENUE FORECAST SUMMARY FOR APRIL

YEAR-TO-DATE GROSS	\$ 22.5 MILLION OR 0.4% ABOVE FORECAST
YEAR-TO-DATE NET AVAILABLE	\$ 110.0 MILLION OR 2.5% ABOVE FORECAST

1) Miscellaneous includes severance, corporate franchise, real estate transfer, dyed diesel, and other miscellaneous taxes.

2) State Central Services Fund and Constitutional Officers Fund.

APRIL 2016 GENERAL REVENUE REPORT
ECONOMIC ANALYSIS AND TAX RESEARCH, DFA

FORECAST DATE: 2/1/2016

MILLIONS OF \$

					CHANGE FROM FORECAST		CHANGE FROM LAST YEAR	
	ACTUAL	FORECAST	ACTUAL	DOLLAR	PERCENT	DOLLAR	PERCENT	
	APR FY15	APR FY16	APR FY16	DIFFERENCE	DIFFERENCE	DIFFERENCE	DIFFERENCE	
INDIVIDUAL INCOME	510.1	500.5	505.3	4.8	1.0	-4.8	-0.9	
CORPORATE INCOME	66.5	58.9	55.9	-3.0	-5.1	-10.5	-15.9	
SALES AND USE	190.0	194.3	192.7	-1.6	-0.8	2.6	1.4	
ALCOHOLIC BEVERAGE	4.2	4.4	4.2	-0.2	-5.3	-0.1	-1.6	
TOBACCO	19.6	16.8	18.5	1.7	10.0	-1.1	-5.7	
INSURANCE	0.5	0.5	0.9	0.4	89.4	0.5	107.7	
RACING	0.4	0.4	0.3	-0.1	-26.2	-0.1	-26.4	
GAMES OF SKILL	4.8	4.8	5.3	0.5	11.4	0.5	10.7	
MISCELLANEOUS ¹	5.1	4.7	10.5	5.8	124.0	5.4	106.1	
TOTAL GROSS	801.2	785.3	793.7	8.4	1.1	-7.5	-0.9	
LESS: SCSF/COF ²	25.6	25.1	25.4	0.3	1.2	-0.2	-0.9	
INDIV INCOME TAX REFUNDS	110.7	91.3	68.2	-23.1	-25.3	-42.5	-38.4	
CORP INCOME TAX REFUNDS	4.6	6.2	2.4	-3.8	-60.7	-2.2	-47.6	
CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
ECON DEVEL INCENTIVE FUND	1.3	3.8	1.6	-2.2	-56.8	0.3	26.2	
WATER/SEWER BONDS	1.2	1.2	1.2	0.0	0.0	0.0	0.0	
COLLEGE SAVINGS BONDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CITY & COUNTY TOURIST	0.7	0.2	0.3	0.1	30.9	-0.4	-62.6	
SCHOOL DESEGREGATION	6.0	6.0	6.0	0.0	-0.3	0.0	0.0	
EDUCATIONAL EXCELLENCE	24.8	25.1	25.1	0.0	-0.1	0.3	1.1	
EDUCATIONAL ADEQUACY	2.2	2.2	2.2	0.0	0.7	0.0	1.1	
TOTAL DEDUCTIONS	177.2	161.1	132.4	-28.7	-17.8	-44.8	-25.3	
NET AVAILABLE	624.0	624.2	661.3	37.1	5.9	37.2	6.0	

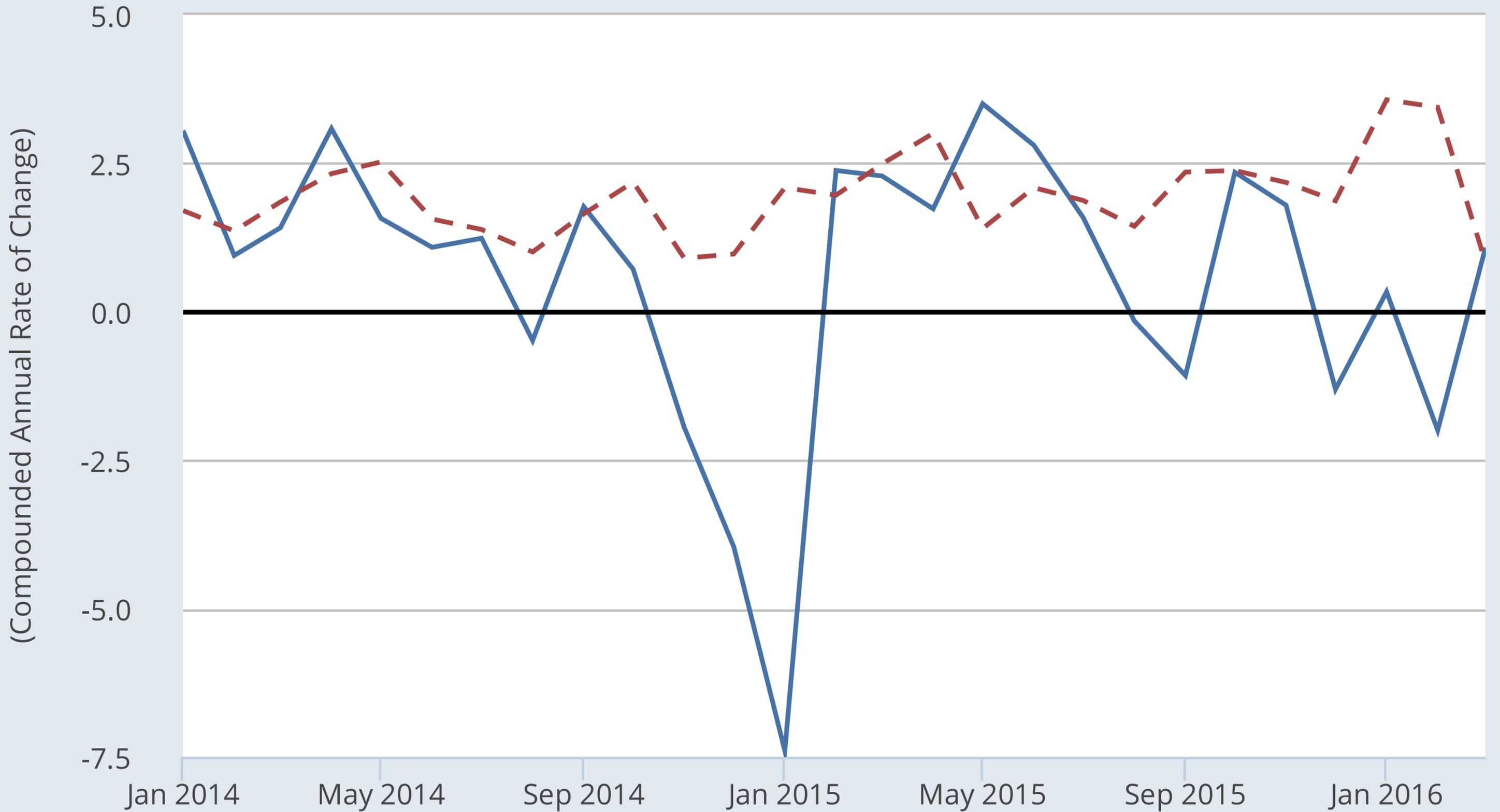
REVENUE FORECAST SUMMARY FOR APRIL

APRIL GROSS	\$ 8.4 MILLION OR 1.1% ABOVE FORECAST
APRIL NET AVAILABLE	\$ 37.1 MILLION OR 5.9% ABOVE FORECAST

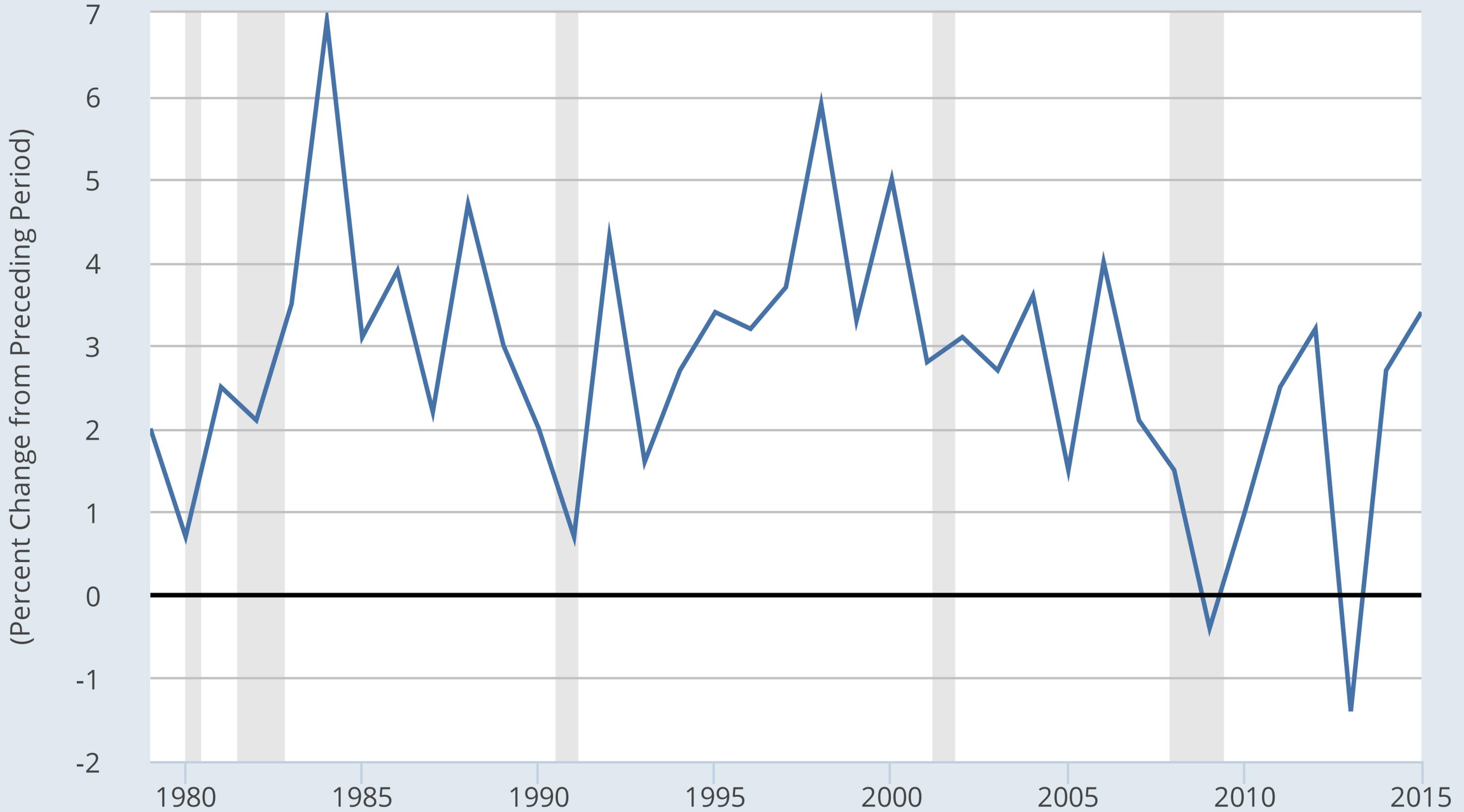
1) Miscellaneous includes severance, corporate franchise, real estate transfer, dyed diesel, and other miscellaneous taxes.

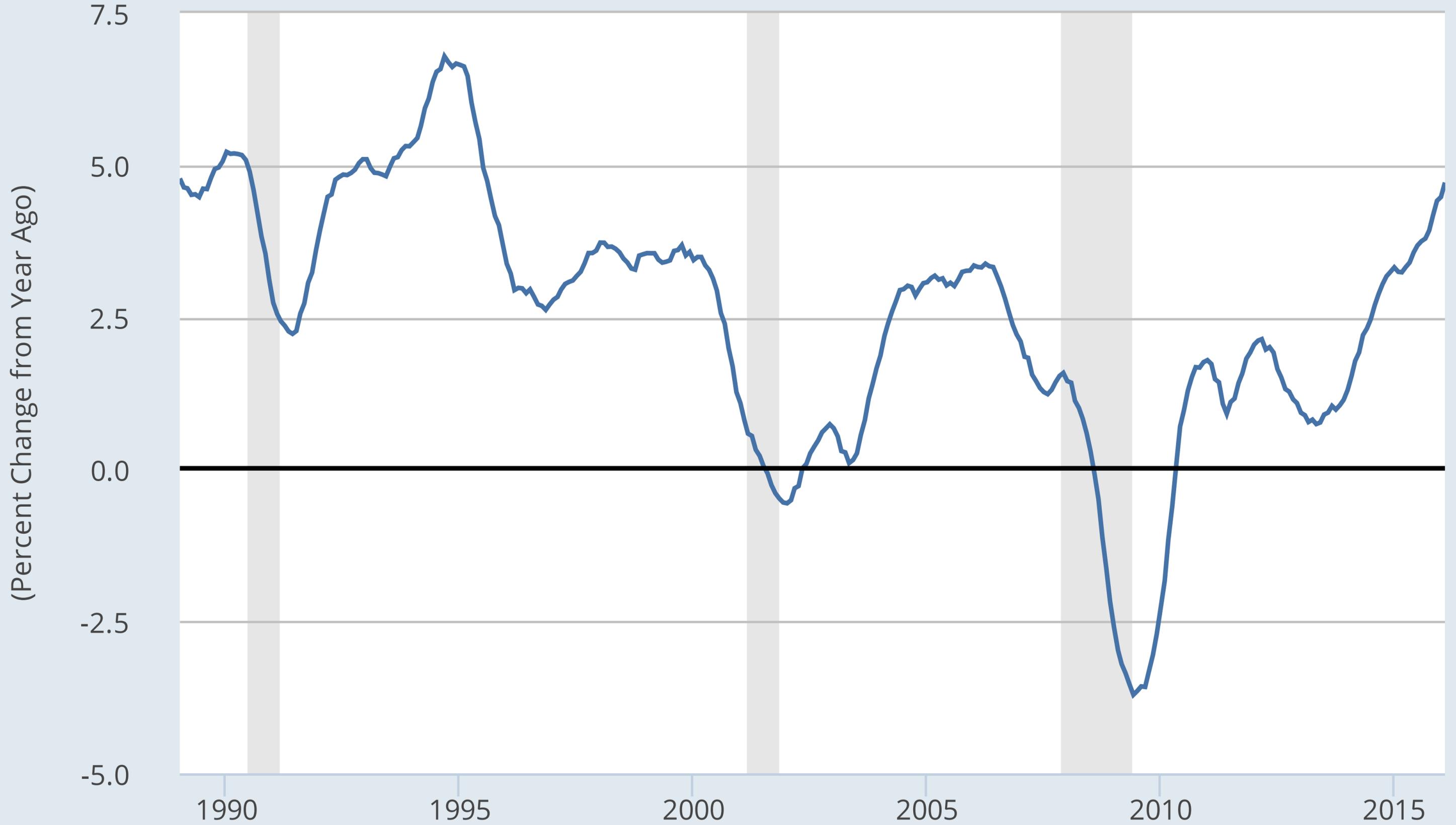
2) State Central Services Fund and Constitutional Officers Fund.

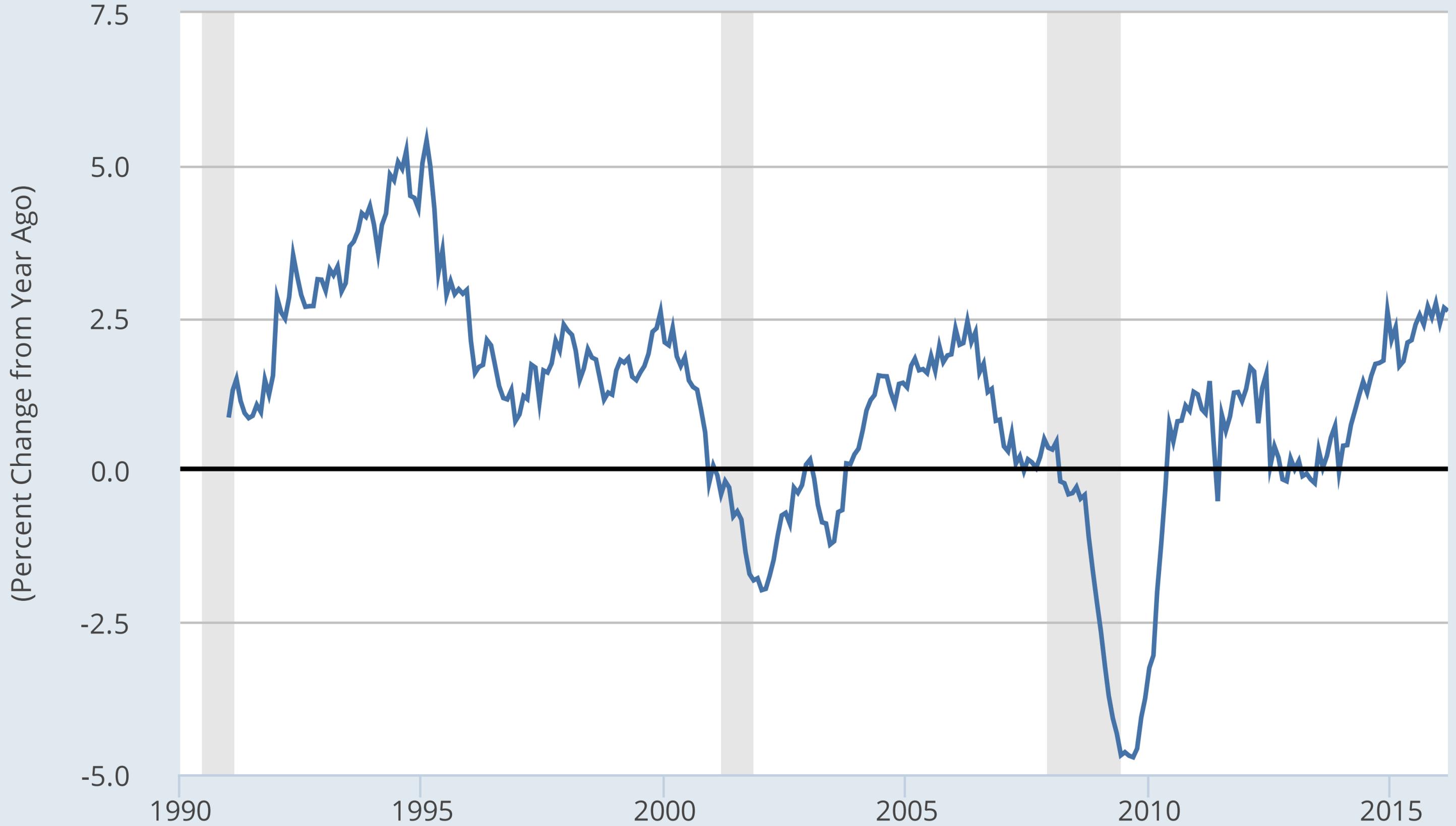
- Consumer Price Index for All Urban Consumers: All Items
- - - Consumer Price Index for All Urban Consumers: All Items Less Food and Energy

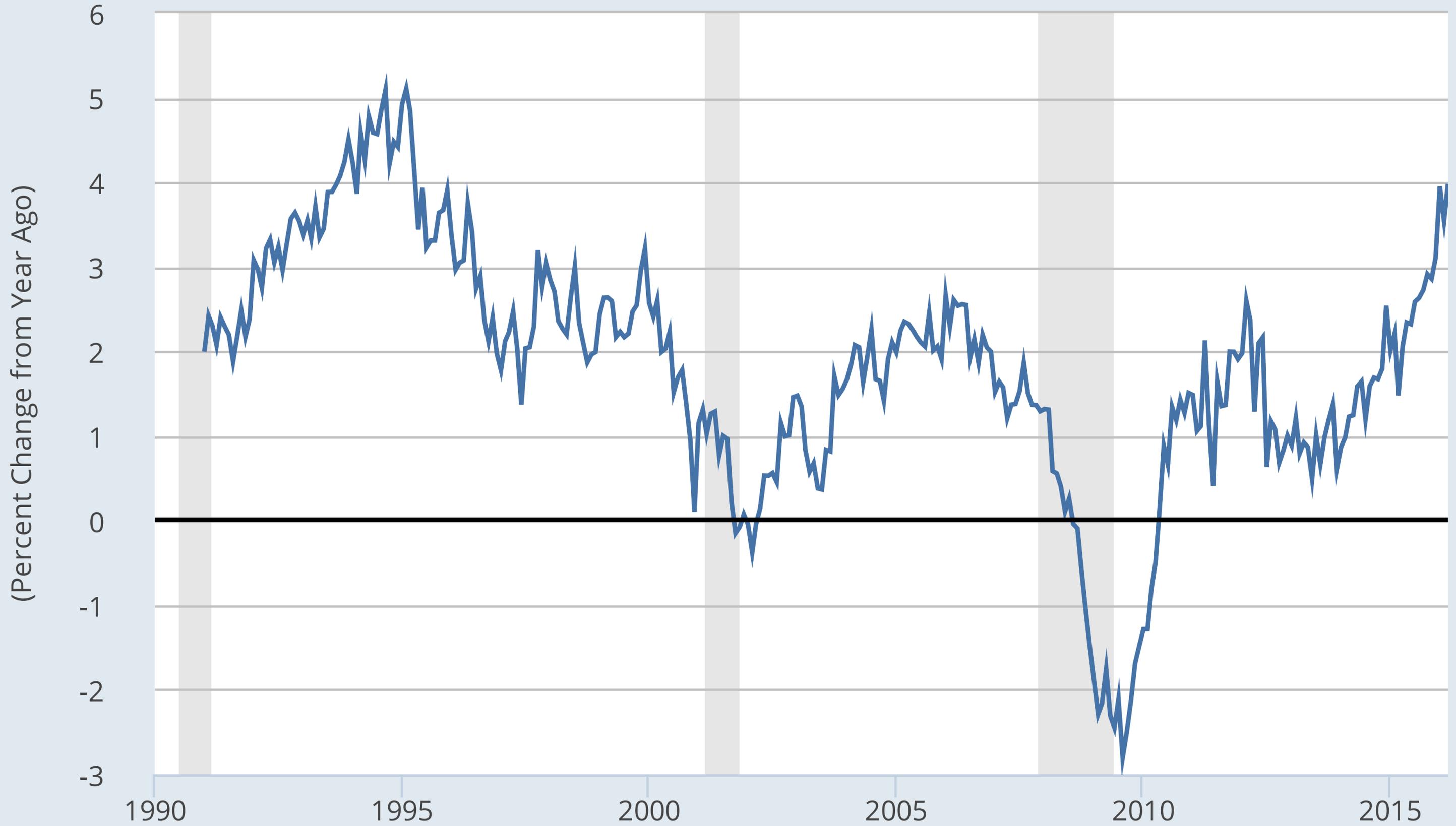


— Real Disposable Personal Income

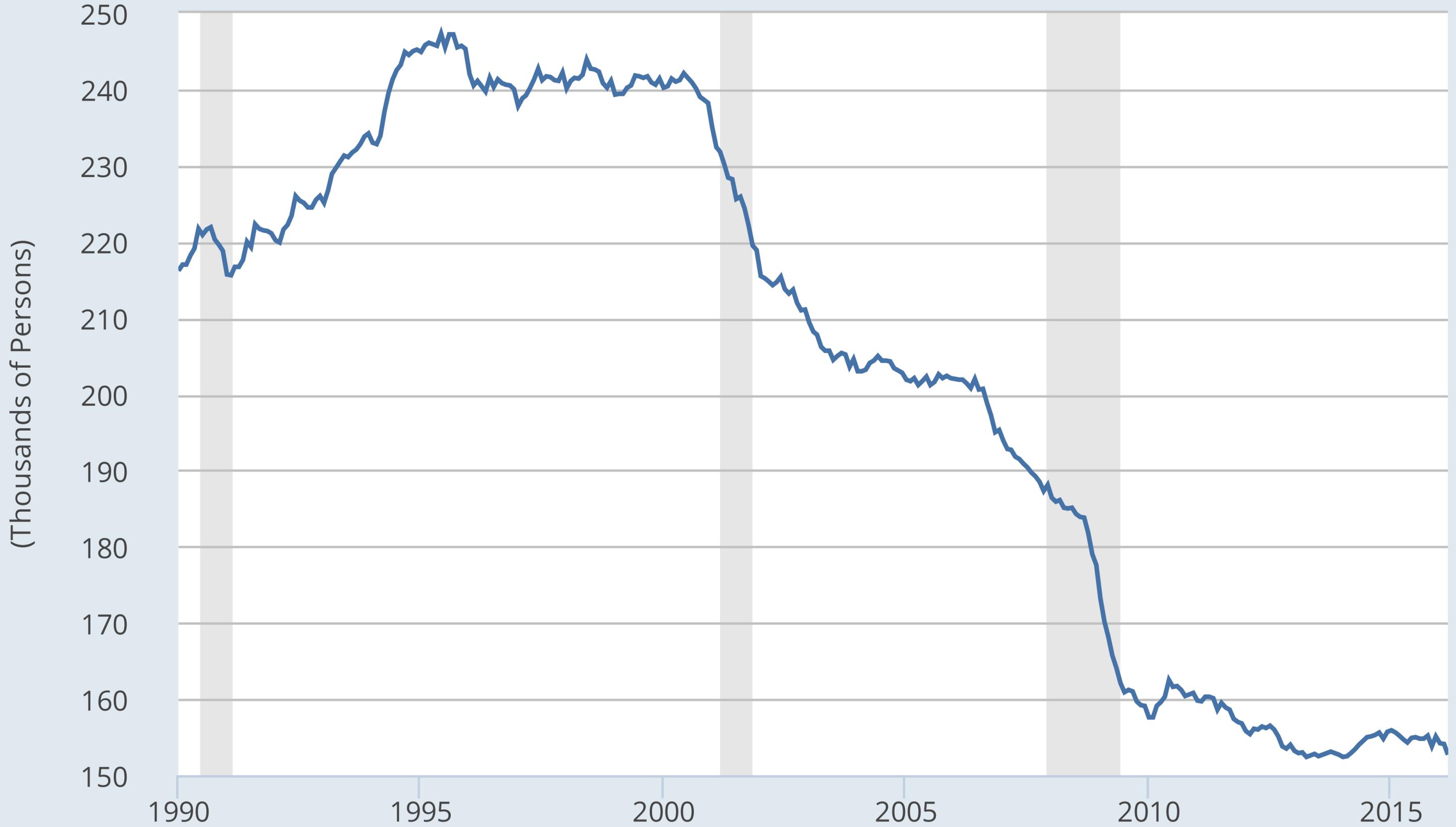




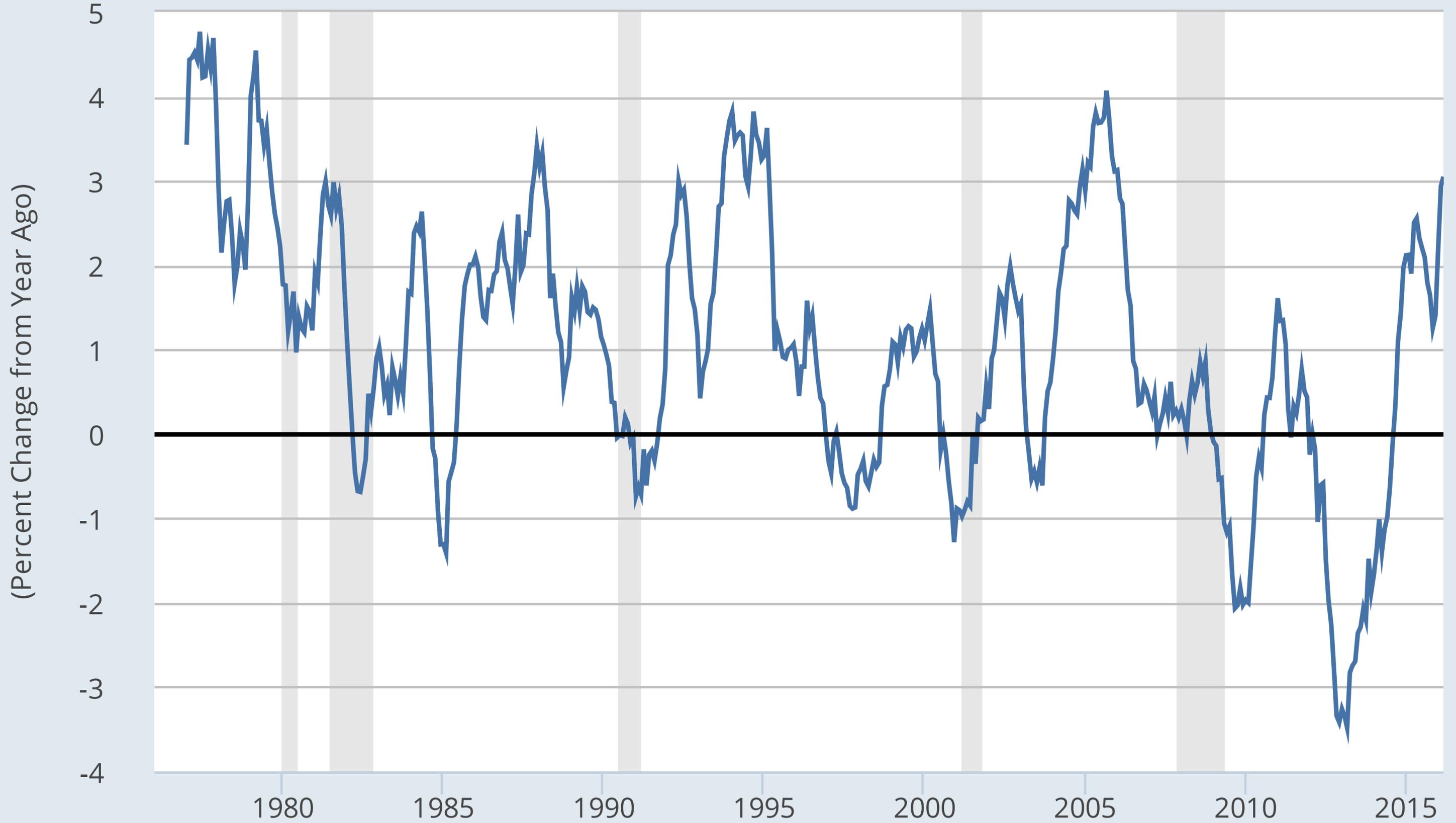


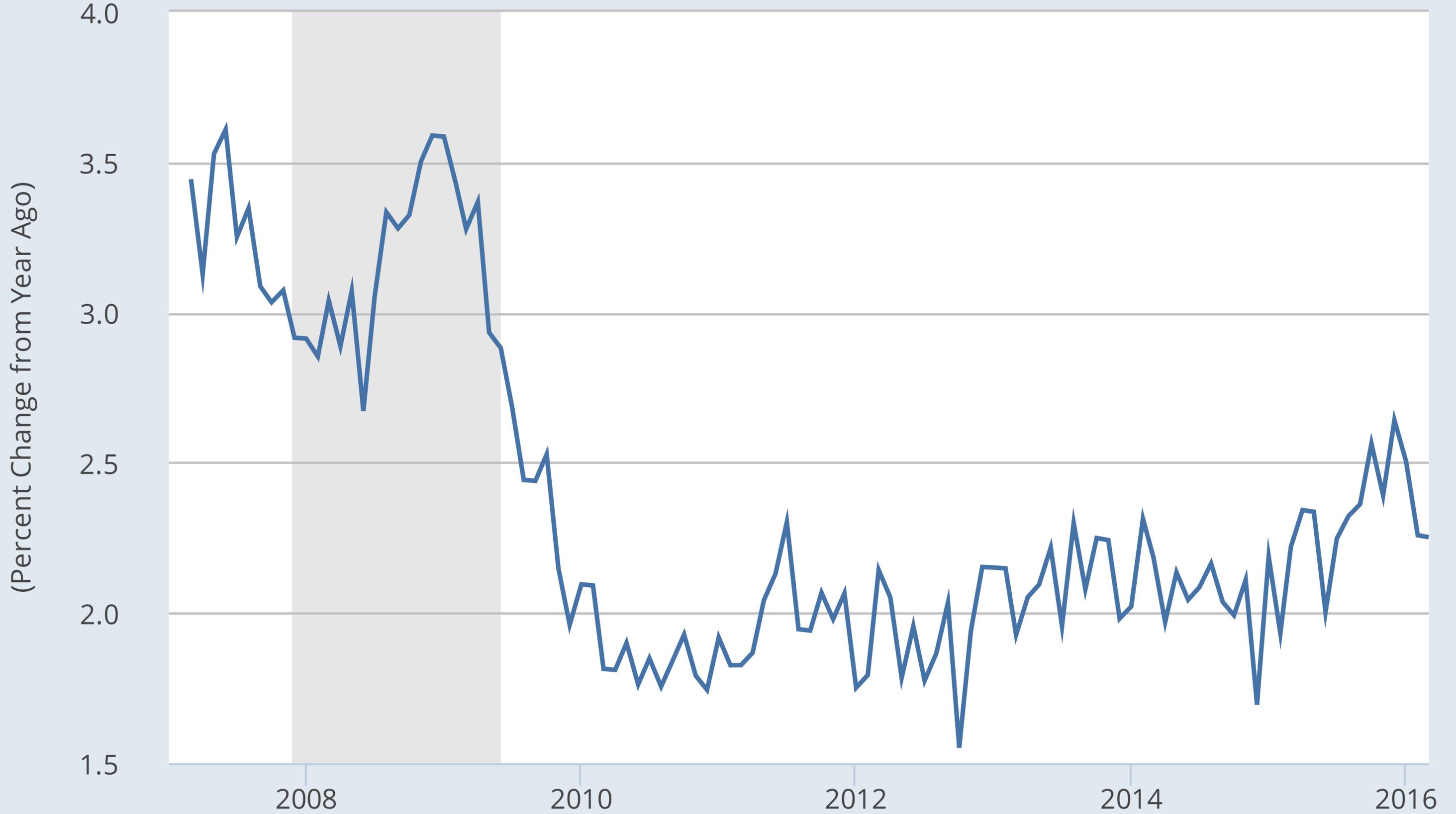


— All Employees: Manufacturing in Arkansas

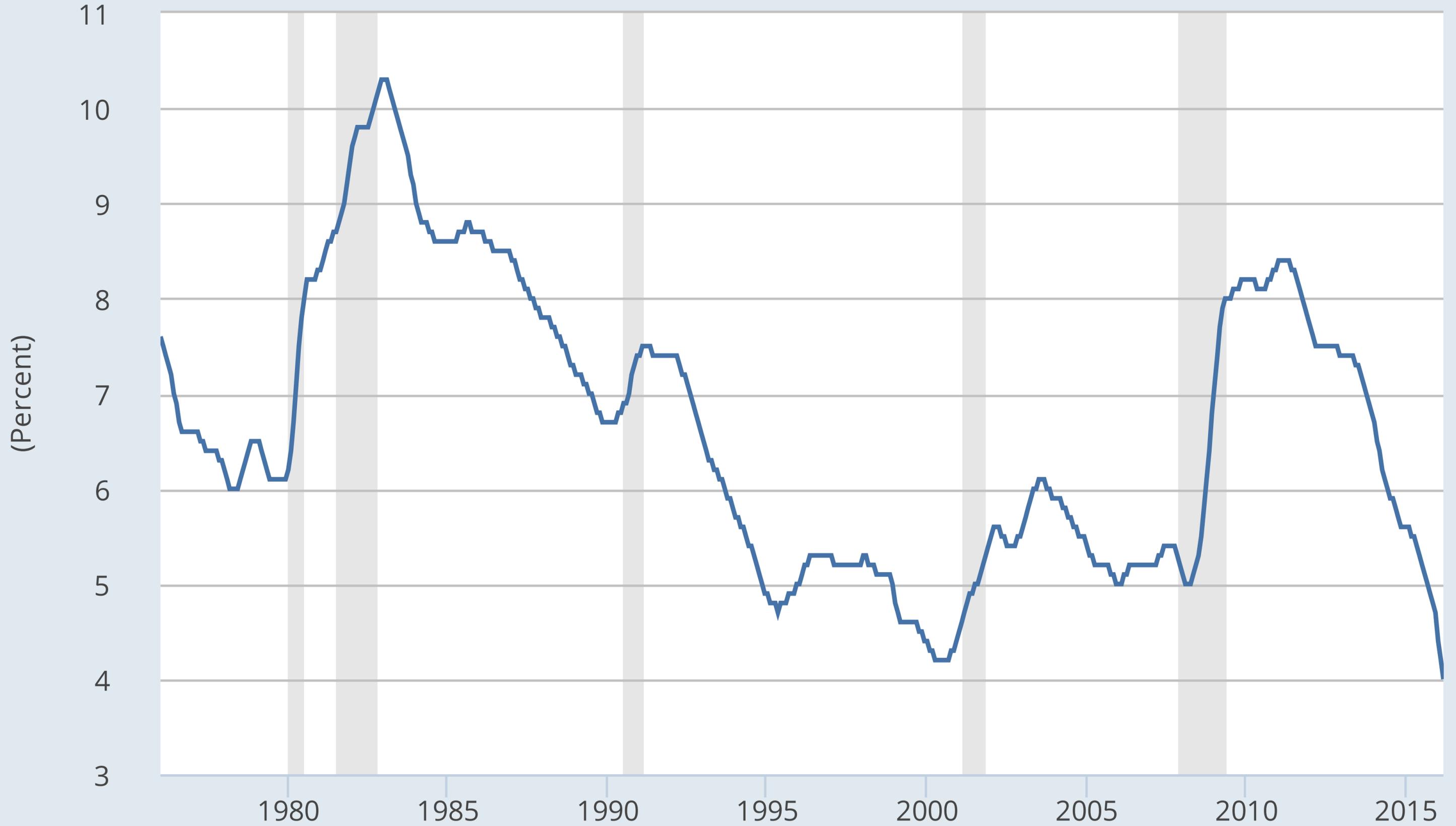


— Civilian Labor Force in Arkansas





— Unemployment Rate in Arkansas



Economic Summary and Indicator Update

John Shelnett, Administrator

DFA Economic Analysis and Tax Research

May 18, 2016

By the Numbers

Employment	2015	Q1 2016	Apr. Forecast CY 2016
Arkansas Payroll Employment Growth	1.8%	2.3%	2.1%
Private Sector Subset	2.2%	2.8%	
Private Service Producing Subset	2.4%	3.8%	
State Growth and Growth Rankings	U.S.	Arkansas	50-state Growth Rank
12-month Moving average (through Feb.)	2.0%	1.9%	17
Unemployment Rate	U.S.	Arkansas	
Official Rate (U-3) --- March 2016	5.0%	4.0%	
Expanded Definition (U-6)	9.8%	9.5% (CY '15)	
Personal Income	U.S.	Arkansas	
Total Personal Income Growth ('15/'14)	4.4%	3.9%	
Per Capita Personal Income (2015)	\$47,669	\$39,107	
Nominal Income Ratio AR/U.S.	--	0.82	
Regional Price Parity Index (cost of living)	--	0.88	
Real Income Ratio AR/U.S.	--	0.94	
U.S Inflation (actual and May '16 Forecast)	2015	2016-F	2017-F
CPI-U All Items	0.1%	1.0%	2.4%
CPI-Energy	-16.7%	-9.4%	6.1%
CPI-Core	1.8%	2.2%	2.0%
Energy Prices (actual and May '16 Forecast)	2015	2016-F	2017-F
Oil Price, WTI Spot	\$48.83	\$43.66	\$49.79
Oil Price, Refiners' Acquisition Domestic	\$49.87	\$40.99	\$47.97
Natural Gas, Henry Hub Cash Market	\$2.61	\$2.10	\$2.67

Economic Cycle Summary

The state economy is tracking the national average with statistically equivalent growth in most measures. Lower absolute measures of prosperity in Arkansas are partially offset by lower cost of living from regional price parity information. Recent benchmark employment revisions to all states showed acceleration in the second half of 2015 and early 2016 for Arkansas. Moderate job market expansion over the last three years raised income growth first by broadening the sector contributions and then by gains in core sectors for full time and above-average wage categories. Further decline in state unemployment rates and accelerated business investment will begin to add another factor for income growth from wage inflation in the coming years. Commodity markets and exports remain the weak link in the state and regional economies. The manufacturing and energy sectors define a two-tiered economy relative to better-performing service sectors.

Commodity price deflation and subdued wage inflation have held overall inflation near zero in recent years. Moderate energy inflation will return by late 2017 as wage inflation also becomes more evident. Core consumer inflation, excluding the volatile components of food and energy, has held below 2.0 percent annual inflation throughout the economic recovery (2009-15) limiting the case for raising interest rates by the Federal Reserve. Core inflation is expected to gradually move higher along with interest rates. Global economic weakness has also held back inflation and interest rate adjustments. Import prices for goods into the U.S. were flat in 2013 and 2014, and fell sharply with energy prices in 2015. Moderate overall inflationary price expansion is expected over the next few years.

As a result of low commodity inflation and limited growth pressure on prices generally, there will be no COLA payable in 2016 by the Social Security Administration. This determination is based on recent inflation measurement and a formula tied to the Federal fiscal year. The next determination for a 2017 COLA will be derived from the third quarter 2016 CPI average over the same period in 2015.

Income growth including inflation, as measured by U.S. personal income, is expected to reach a sustained 5.0 percent annual rate by early 2017, up from 4.5 percent growth in 2016. This growth rate reflects the combined contributions of job gains, hours worked, and the effects of inflation on earnings rates. Subtracting inflation from the growth outlook yields real gains of 3.0 percent or better which is comparable to the past two economic expansions. A long expansion combined with extended energy price suppression offers the prospect of greater income gains. Arkansas is expected to match the U.S. in this path of income growth attainment. Minor differences at the state and the national levels can be produced by short-term volatility in farm income. Lower estimated population growth in Arkansas has the effect of boosting per capita income growth relative to the national average and providing somewhat misleading estimates

of wealth attainment. Overall, the state economy has converged toward the national average for growth by most major indicators. This convergence toward the U.S. average is common for states during long expansions. The current divergence by energy states is an anomaly compared to past cycle trends.

Key Metric

Average annual wage gains in Arkansas

Covered Employment Data Series with Projected and Forecast Values

Year	Official	Ann.	Avg. Wage Per Job IHS Inc. (Apr. 2016)	
	Annual	% Chg.	CY Ann.	% Chg.
2010	\$36,254			
2011	\$37,280	2.8%		
2012	\$38,226	2.5%	2.8%	
2013	\$38,941	1.9%	1.8%	
2014	\$39,975	2.7%	2.6%	
2015	\$40,703	1.8%	Estimated	1.8%
2016	\$41,883	2.9%	Forecast	2.9%
2017	\$43,521	3.9%	Forecast	3.9%

Sources

U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Earnings

U.S. Bureau of Economic Analysis, Regional Economic Accounts

U.S. Social Security Administration

IHS Inc., U.S. Macro and State Economic Models

Federal Reserve Bank of St Louis, FRED© Economic Data system

US Economy CY Annual

May 2016

Summary of the US Economy

	Calendar Years			
	2015	2016	2017	2018
Composition of Real GDP, Percent Change				
Gross Domestic Product	2.4	1.7	2.7	2.6
Final Sales of Domestic Product	2.3	2.1	2.7	2.5
Gross Domestic Income	2.3	1.5	2.7	2.6
Avg. of GDP and GDI	2.4	1.6	2.7	2.6
Total Consumption	3.1	2.7	2.9	2.6
Durables	6.0	4.8	7.0	5.2
Nondurables	2.6	2.2	2.7	2.3
Services	2.8	2.5	2.3	2.3
Nonresidential Fixed Investment	2.8	-0.1	4.5	5.3
Equipment	3.1	0.3	5.0	6.3
Information Processing Equipment	4.8	3.6	6.0	6.9
Industrial Equipment	4.7	3.1	4.6	8.6
Transportation equipment	6.8	-1.8	3.1	2.5
Aircraft	16.8	-8.2	8.4	1.9
Other Equipment	-5.1	-4.7	6.5	7.7
Intellectual Property Products	5.7	2.1	4.1	4.0
Structures	-1.5	-3.9	3.9	5.2
Commercial & Health Care	12.8	11.7	6.5	3.0
Manufacturing	49.1	4.2	-9.1	-1.9
Power & Communication	-11.9	1.2	-5.6	-3.5
Mining & Petroleum	-35.1	-57.8	51.9	47.4
Other	12.2	9.1	6.2	3.7
Residential Fixed Investment	8.9	9.2	7.4	5.6
Exports	1.1	0.0	3.7	4.6
Imports	4.9	1.8	5.4	5.3
Federal Government	-0.3	1.2	1.4	-1.2
State & Local Government	1.4	1.3	0.9	1.1

Billions of Dollars

Real GDP	16348.9	16622.4	17077.5	17523.3
Nominal GDP	17947.0	18486.1	19385.1	20320.7

Prices & Wages, Percent Change, Annual Rate

GDP Deflator	1.0	1.3	2.1	2.2
Consumer Prices	0.1	1.0	2.4	2.5

Excl. Food & Energy	1.8	2.2	2.0	2.2
Producer Prices, Finished Goods	-3.3	-1.6	2.8	2.9
Employment Cost Index - Total Comp.	2.1	2.2	2.6	3.1

Other Key Measures

	2015	2016	2017	2018
Brent Crude, Spot Price (\$/bbl)	53.54	44.33	52.00	59.12
Productivity (%change)	0.7	0.2	1.3	1.9
Industrial Production (%change)	0.3	-1.2	2.8	3.6
Factory Operating Rate	75.5	75.0	75.7	76.4
Nonfarm Inven. Chg. (Bil. of 2009 \$)	93.2	25.7	36.2	57.3
Consumer Sentiment Index	92.9	91.6	92.8	93.1
Light Vehicle Sales (Million units)	17.33	17.75	18.19	18.07
Housing Starts (Million units)	1.107	1.167	1.380	1.499
Exist. House Sales (Total, Million units)	5.233	5.360	5.408	5.459
Unemployment Rate (%)	5.3	4.9	4.8	4.8
Payroll Employment (%change)	2.1	1.9	1.4	0.9
Federal Surplus (Unified, FY, bil. \$)	-439	-554	-582	-604
Current Account Balance (Bil. \$)	-484	-464	-463	-541

Financial Markets, NSA, Quarter Average

Federal Funds Rate (%)	0.13	0.57	1.41	2.41
3-Month Treasury Bill Rate (%)	0.05	0.44	1.35	2.34
10-Year Treasury Note Yield (%)	2.14	2.10	2.57	3.13
30-Year Fixed Mortgage Rate (%)	3.85	3.90	4.42	5.13
S&P 500 Stock Index	2061	2065	2211	2306
(Percent change)	6.8	0.2	7.1	4.3
Exchange Rate, Broad Index of Partners	1.110	1.154	1.147	1.129
(% change)	12.6	4.0	-0.6	-1.6

Incomes

Personal Income (% change)	4.4	3.8	4.8	5.1
Real Disposable Income (%change)	3.4	2.7	3.1	3.3
Saving Rate (%)	5.1	5.0	5.3	5.9
After-Tax Profits (Billions of \$)	1751	1697	1776	1789
(Percent change)	3.3	-3.1	4.7	0.7
Disposable Income (%change)	3.7	3.7	4.9	5.4

Source: IHS Inc. (May 2016)

50-State Growth Ranking through March 2016

COMPARISON OF MARCH 2016 TO MARCH 2015 (12 MONTH MOVING AVERAGE)

State	Rank March 2016	Percent Change	Rank March 2015	Thousands of Jobs		
				Job Growth	March 2016	March 2015
Utah	1	3.6	6	48.5	1,388.4	1,339.9
Florida	2	3.3	4	263.4	8,157.4	7,893.9
Oregon	3	3.3	8	57.7	1,793.7	1,736.0
Idaho	4	3.3	12	21.5	679.8	658.3
Nevada	5	3.0	1	37.0	1,265.5	1,228.5
California	6	3.0	9	467.6	16,162.9	15,695.3
Washington	7	3.0	11	91.3	3,178.1	3,086.8
Georgia	8	2.9	7	121.5	4,299.2	4,177.7
Colorado	9	2.9	2	71.4	2,558.9	2,487.4
Arizona	10	2.7	17	71.0	2,656.7	2,585.7
Tennessee	11	2.7	15	76.7	2,914.6	2,837.9
South Carolina	12	2.7	10	52.2	2,017.2	1,965.0
Delaware	13	2.4	13	10.6	451.7	441.2
North Carolina	14	2.3	14	97.5	4,264.0	4,166.5
Virginia	15	2.1	45	79.9	3,875.6	3,795.7
UNITED STATES		2.0		2,824.9	142,537.0	139,712.1
Texas	16	2.0	5	231.0	11,884.1	11,653.1
Arkansas	17	1.9	34	23.2	1,215.4	1,192.3
Hawaii	18	1.7	32	10.8	640.5	629.7
Massachusetts	19	1.7	16	57.8	3,507.9	3,450.1
Indiana	20	1.7	20	49.6	3,044.8	2,995.3
New Hampshire	21	1.6	40	10.5	659.1	648.6
Michigan	22	1.6	19	67.4	4,265.6	4,198.2
Maryland	23	1.6	39	42.0	2,671.8	2,629.8
New Jersey	24	1.5	43	61.7	4,039.8	3,978.2
New York	25	1.5	18	141.5	9,278.7	9,137.1
Kentucky	26	1.5	21	27.2	1,892.4	1,865.1
Nebraska	27	1.5	41	14.5	1,010.0	995.5
Minnesota	28	1.4	26	40.9	2,866.2	2,825.3
Ohio	29	1.4	25	75.8	5,442.2	5,366.4
Missouri	30	1.4	30	38.5	2,791.2	2,752.7
Montana	31	1.3	38	6.1	461.3	455.2
Mississippi	32	1.3	46	15.1	1,138.4	1,123.3
Illinois	33	1.3	28	78.4	5,978.0	5,899.6
Wisconsin	34	1.3	22	36.2	2,899.7	2,863.5

Alabama	35	1.2	37	24.0	1,953.1	1,929.1
Rhode Island	36	1.2	23	6.0	486.4	480.4
Vermont	37	1.1	44	3.5	313.9	310.4
South Dakota	38	1.0	29	4.3	429.2	424.9
Iowa	39	1.0	36	15.0	1,567.0	1,552.0
Maine	40	0.8	48	5.1	611.5	606.4
Pennsylvania	41	0.8	42	46.9	5,850.0	5,803.1
Connecticut	42	0.7	47	11.8	1,677.4	1,665.6
New Mexico	43	0.4	35	3.5	825.7	822.2
Kansas	44	0.3	33	4.6	1,399.5	1,394.9
Alaska	45	0.2	49	0.8	339.3	338.5
Oklahoma	46	0.2	27	3.5	1,667.1	1,663.7
Louisiana	47	-0.3	24	-6.6	1,984.7	1,991.3
West Virginia	48	-1.0	50	-7.9	761.6	769.5
Wyoming	49	-2.0	31	-5.8	288.1	293.9
North Dakota	50	-3.2	3	-14.9	448.8	463.7