



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

OFFICE OF THE SECRETARY

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May 15, 2024

The Honorable Terry Rice, Co-Chair
The Honorable Jeff Wardlaw, Co-Chair
Arkansas Legislative Council
State Capitol
Little Rock, Arkansas 72201

Dear Senator Rice and Representative Wardlaw:

In accordance with Arkansas Code Annotated §10-3-1404(a)(1), I am attaching tables summarizing the May 15, 2024, revision to the official general revenue forecast for Fiscal Years 2024 and 2025.

Summary of Net Available Revenues:

FY 2023 Actual Revenues:

In FY 2023 net available revenues totaled \$7,185.4 million, a decrease of \$292.0 million or 3.9 percent from FY 2022. A surplus of \$1,161.1 million resulted from exceeding the full amount of the allocations in the Revenue Stabilization Law.

Current Year:

For FY 2024 Net Available revenues are expected to reach \$6,910.2 million, a decrease of \$275.2 million, or 3.8 percent from FY 2023 results. Year-to-date actual growth after ten months in the fiscal year has been 5.5 percent below year earlier levels, resulting in \$250.8 million, or 4.6 percent, above the February 1, 2024 forecast at that point. Individual Income Tax collections have been better than projected with \$193.2 million over the prior forecast. Sales and Use Tax collections have been above the prior forecast with most major sectors contributing to the gain. Corporate Income tax collections, while down from previous year, are also above the prior forecast following three years of growth. The downward adjustment has been more limited than expected.

The FY 2024 forecast is expected to fund the allocations “A” + “B” in the current Revenue Stabilization Law (RSA) and provide a surplus above RSA of \$708.1 million. The forecast includes the projected fiscal impact of individual and corporate income tax rate cuts passed during the First Extraordinary Session of the 94th General Assembly.

FY2025 Forecast:

For FY 2025 net available revenues are expected to reach \$7,075.2 million, an increase of \$165.0 million or 2.4 percent above FY 2024. The FY 2025 forecast is expected to fund the allocation “A” in the current Revenue Stabilization Law (RSA) and provide a surplus above RSA of \$763.7 million. The forecast includes the projected fiscal impact of individual and corporate income tax rate cuts passed during the First Extraordinary Session of the 94th General Assembly.

Economic Forecast Assumptions

Economic models employed by the Department of Finance and Administration indicate continued easing in inflation and growth rates over the next two years. The reasons for the slowdown remain the same -- past monetary tightening, flat equity values weighing on consumer spending – but the extent of the slowdown has diminished. The upgrade to near-term growth reflects more demand for housing and higher levels of consumption.

At the consumer level in the U.S., nominal dollar consumer expenditure growth will further decelerate from 9.2 percent growth in 2022 and 6.0 percent in 2023 to 5.1 percent in 2024 and 4.4 percent in 2025. Total wage income will also decelerate from 7.8 percent in 2022 to 6.3 percent in 2023 to 5.6 percent in 2024 and 4.2 percent in 2025. A period of near-zero net U.S. job growth appears likely during this period of below-trend growth with low investment rates and depleted consumer spending.

The Arkansas economy remains resilient in labor market indicators, with unemployment rates at or below the U.S. average. Many other indicators of growth are lower year-to-year after unusual growth in recent years from stimulus programs and elevated household savings rates. Individual and corporate income tax collections, while below prior year levels, have been major contributors to revenue amounts above forecast YTD in FY2024. A conservative forecast remains in place over the biennium for corporate income tax collections because of its history of volatility.

The short-term outlook for the Arkansas economy indicates stable and moderate growth for total personal income by fiscal year from FY24 to FY25. Wage and Salary Income, a preferred indicator for Payroll Withholding Tax collections is expected to decelerate from elevated gains in FY23 (8.0 percent) and FY24 (5.4 percent) to 4.2 percent in FY25. This deceleration corresponds to lower net employment growth over time and less wage inflation. Last year’s job gains in manufacturing are expected to turn negative in 2024 and 2025. Growth in construction employment continues to be strong but most major sectors are slowing in growth. Collectively, Arkansas will experience slower growth over FY24 and FY25 in the aftermath of historic gains that included effects of high inflation.

Growth in wage and salary income will dip but remain above the long-run trend average of 3.9 percent.

The risk set is again tipped toward the alternative pessimistic case which is characterized by brief and slight declines in consumer spending and GDP. The pessimistic case with a 30% probability involves greater deceleration in real GDP growth to 1.6 percent in 2024 and 0.9 percent in 2025. Consumer spending slows 1.4 percent in 2024 to 1.2 percent in 2025. Business fixed investment rises 0.3 percent in 2024 and then drops 0.9 percent in 2025. The pessimistic case also assumes higher energy prices due to worsening in the conflicts underway in Ukraine and the Middle East. The optimistic case with a 15% probability is characterized by stronger growth of consumer spending and stronger productivity. It also assumes a subsiding in the conflicts in Ukraine and the Middle East.

The Department will act expeditiously to adjust the forecast and budgets if conditions warrant. The department utilizes more stable and conservative forecast sources and models among national forecast contractors to maintain a conservative input process. Revenue sources are evaluated separately to capture collection issues for each contributing revenue line. 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,



James L. Hudson
Cabinet Secretary

JLH/smw
Attachments (3)

STATE AND NATIONAL ECONOMIC AND REVENUE FORECASTS

The following sections summarize the economic outlook for the nation and Arkansas for the next year with comments updating current year (FY 2024) conditions. The Official Revenue Forecast for fiscal years 2024 and 2025 is included.

The revenue forecasts are conditionally based on the expected economic conditions in the state and nation as of April 2024. The U.S. and state economic forecasts were compiled from simulations representing structural economic modeling systems at S&P Global Market Intelligence. The Office of Economic Analysis and Tax Research, DFA, prepared the general revenue forecast.

Economic and Revenue Estimates for Fiscal Year 2024

- **FY 2024 U.S. Gross Domestic Product (Real Output).** This summary is based on the April 2024 baseline forecast of S&P Global Market Intelligence. During FY 2024, the United States economy is expected to produce final goods and services valued in inflation-adjusted dollars at \$22,707.2 billion, for an annual increase of \$662.5 billion or 3.0 percent. Two general measures of inflation indicate moderate near-term price gains during the year, stemming from core inflation in goods and services. 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 3.3 percent and the GDP price deflator is expected to rise by 2.8 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$28,111.3 billion, an increase of \$1,541.4 billion or 5.8 percent.
- **Average annual U.S. oil prices** are estimated at \$84 per barrel (domestic crude price to refineries) in FY 2024 from the April U.S. energy forecast. Oil prices are expected to stabilize after dropping from the war-related increases in 2022.
- **FY 2024 Arkansas total personal income** (the sum of wages and salaries, proprietor's income, rent, dividends, interest, and transfer payments) is estimated at \$169.6 billion (current dollars), an increase of \$4.6 billion, or 2.8 percent, from FY 2023. Growth in total income reflects inflation, elevated but moderating growth in payroll earnings, and flat government transfer payments to individuals.
- **FY 2024 Arkansas wage and salary disbursements** are estimated at \$79.6 billion, an increase of \$4.1 billion or 5.4 percent.
- **FY 2024 Arkansas payroll employment** is expected to reach a level of 1.359 million jobs, an increase of approximately 15,400 jobs or 1.1 percent. Private sector job change is expected to be 1.0 percent above the prior year.

FY 2024 Gross General Revenues

Gross general revenues are estimated at \$8,723.5 million, a decrease from FY 2023 of \$126.5 million, or 1.4 percent.

Pursuant to Arkansas Code §19-5-202, the total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY 2024 was set at 3.1 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, \$468.4 million has been determined to be distributed (net) in FY 2024.

FY 2024 Net Available General Revenues

Net available revenues are estimated at \$6,910.2 million, a decrease of \$275.2 million, or 3.8 percent, from FY 2023.

FY 2024 revenues are expected to fund the allocations “A” + “B” in the approved Revenue Stabilization Law and a surplus of \$708.1 million is indicated.

FY 2024 Selected Special Revenues:

- **FY 2024 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 2024: \$729.8 million.

- **FY 2024 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, it has been determined that \$55.1 million will be distributed in FY 2024.

Economic and Revenue Estimates for Fiscal Year 2025

- **FY 2025 U.S. Gross Domestic Product (Real Output).** This summary is based on the April 2024 baseline forecast of S&P Global Market Intelligence. During FY 2025, the United States economy is expected to produce final goods and services valued in inflation-adjusted dollars at \$23,090.3 billion, an increase of \$383 billion or 1.7 percent. Two general measures of inflation indicate moderate price pressures during the year. The Consumer Price Index is expected to increase 2.6 percent and the GDP price deflator is expected to rise by 2.5 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$29,354.9 billion, an increase of \$1,243.6 billion or 4.4 percent over FY 2024.
- **Average annual U.S. oil prices** are estimated at \$81 per barrel (domestic crude price to refineries) in FY 2025. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2025 Arkansas total personal income** is estimated at \$178.4 billion (current dollars), an increase of \$8.9 billion or 5.2 percent over FY 2024. Personal transfer payments will add to personal income with 5.0 percent growth FY 2025.
- **FY 2025 Arkansas wage and salary disbursements** are estimated at \$83.0 billion, an increase of \$3.4 billion or 4.2 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 2025 Arkansas payroll employment** is expected to reach a level of 1.369 million jobs, an increase of approximately 10,000 jobs or 0.7 percent. Private sector jobs are expected to increase by 0.7 percent in FY 2025.

FY 2025 Gross General Revenues

Gross general revenues are estimated at \$8,699.2 million, a decrease from FY 2024 of \$24.3 million, or -0.3 percent.

The total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY 2025 is assumed to be reduced to 3.0 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. \$480.4 million is estimated to be distributed (net) in FY 2025.

FY 2025 Net Available General Revenues

Net available revenues are estimated at \$7,075.2 million, an increase of \$165.0 million or 2.4 percent compared to FY 2024.

FY 2025 revenues are expected to fund the allocation “A” in the approved Revenue Stabilization Law and a surplus of \$763.7 million is indicated.

FY 2025 Selected Special Revenues:

- **FY 2025 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 2025: \$739.5 million.

- **FY 2025 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. \$44.7 million is estimated to be distributed in FY 2025.

**Office of the Secretary and
Economic Analysis and Tax Research,
Department of Finance and Administration
May 15, 2024**

Official General Revenue Forecast
FY 2024 - 2025

Millions of Dollars	FY 23	05/15/24	FY 24	Yr/Yr	05/15/24	FY 25	Yr/Yr
	Actual	Estimate	Increase	% CH	Estimate	Increase	% CH
Individual Income	3,915.9	3,830.9	-85.0	-2.2	3,753.6	-77.3	-2.0
Corporate Income	842.5	757.8	-84.7	-10.0	718.3	-39.5	-5.2
Sales and Use Tax	3,418.4	3,506.1	87.7	2.6	3,547.9	41.8	1.2
Alcohol	76.6	77.9	1.3	1.8	79.4	1.5	1.9
Tobacco	205.8	193.1	-12.7	-6.2	185.7	-7.4	-3.8
Insurance	238.5	203.7	-34.8	-14.6	257.7	54.0	26.5
Racing	1.6	1.5	-0.1	-4.1	1.5	0.0	0.0
Gaming	54.3	58.9	4.6	8.5	61.1	2.2	3.7
Severance	13.1	12.1	-1.0	-7.3	12.2	0.1	0.8
Franchise	8.0	8.0	0.0	0.0	8.0	0.0	0.0
Real Estate Transfer	2.6	2.6	0.0	-0.3	2.6	0.0	0.0
Miscellaneous	73.0	70.9	-2.1	-2.8	71.2	0.3	0.4
Total Gross	8,850.0	8,723.5	-126.5	-1.4	8,699.2	-24.3	-0.3
LESS: SCS / COF	272.3	270.4	-1.9	-0.7	263.9	-6.5	-2.4
Individual Refunds	768.1	780.4	12.3	1.6	629.1	-151.3	-19.4
Corporate Refunds	60.4	134.3	73.9	122.5	74.3	-60.0	-44.7
Claims Reserve	0.0	10.0	10.0	0.0	10.0	0.0	0.0
Econ Develop Incentive	12.8	12.0	-0.8	-6.5	18.0	6.0	50.0
Recycling Tax Credit	16.0	24.8	8.8	55.0	33.6	8.8	35.5
Wood Energy Products Credit	4.0	1.6	-2.4	-60.0	0.0	-1.6	-100.0
Amendment 82 Bonds	5.3	5.3	0.0	0.2	5.3	0.0	0.0
Water / Sewer Bonds	14.8	14.8	0.0	0.0	14.8	0.0	0.0
College Savings Bonds	18.3	23.3	5.0	27.5	23.3	0.0	0.0
City / County Tourist	0.9	0.9	0.0	1.4	0.9	0.0	0.0
Educational Excellence	432.3	468.4	36.1	8.4	480.4	12.0	2.6
Educational Adequacy	38.2	41.4	3.2	8.3	42.5	1.1	2.7
Highway Casino Transfer	21.3	25.7	4.4	20.8	27.9	2.2	8.6
Total Deductions	1,664.6	1,813.3	148.7	8.9	1,624.0	-189.3	-10.4
Net Available	7,185.4	6,910.2	-275.2	-3.8	7,075.2	165.0	2.4
LESS: Surplus	1,161.1	708.1	-453.0		763.7		
Net Available Distribution	6,024.3	6,202.1	177.8	3.0	6,311.5	109.4	1.8

**Economic Assumptions and the
Official General Revenue Forecast
FY 2024 - 2025**

Millions of Dollars	FY 23 Actual	05/15/24 Estimate	FY 24 Increase	Yr/Yr % CH	05/15/24 Estimate	FY 25 Increase	Yr/Yr % CH
Individual Income Tax	3,915.9	3,830.9	-85.0	-2.2	3,753.6	-77.3	-2.0
<u>Individual Refunds</u>	<u>768.1</u>	<u>780.4</u>	<u>12.3</u>	<u>1.6</u>	<u>629.1</u>	<u>-151.3</u>	<u>-19.4</u>
Net Individual Income	3,147.8	3,050.5	-97.3	-3.1	3,124.5	74.0	2.4
Corporate Income Tax	842.5	757.8	-84.7	-10.0	718.3	-39.5	-5.2
<u>Corporate Refunds</u>	<u>60.4</u>	<u>134.3</u>	<u>73.9</u>	<u>122.5</u>	<u>74.3</u>	<u>-60.0</u>	<u>-44.7</u>
Net Corporate Income	782.1	623.5	-158.6	-20.3	644.0	20.5	3.3
Sales and Use Tax	3,418.4	3,506.1	87.7	2.6	3,547.9	41.8	1.2
Net Economic Tax Revenue	7,348.3	7,180.1	-168.2	-2.3	7,316.4	136.3	1.9
Other Tax Revenue	673.3	628.7	-44.6	-6.6	679.4	50.7	8.1
Gross General Revenues	8,850.0	8,723.5	-126.5	-1.4	8,699.2	-24.3	-0.3
LESS: SCS / COF	272.3	270.4	-1.9	-0.7	263.9	-6.5	-2.4
Individual Refunds	768.1	780.4	12.3	1.6	629.1	-151.3	-19.4
Corporate Refunds	60.4	134.3	73.9	122.5	74.3	-60.0	-44.7
Claims Reserve	0.0	10.0	10.0	0.0	10.0	0.0	0.0
Econ Develop Incentive	12.8	12.0	-0.8	-6.5	18.0	6.0	50.0
Recycling Tax Credit	16.0	24.8	8.8	55.0	33.6	8.8	35.5
Wood Energy Products Credit	4.0	1.6	-2.4	-60.0	0.0	-1.6	-100.0
Amendment 82 Bonds	5.3	5.3	0.0	0.2	5.3	0.0	0.0
Water / Sewer Bonds	14.8	14.8	0.0	0.0	14.8	0.0	0.0
College Savings Bonds	18.3	23.3	5.0	27.5	23.3	0.0	0.0
City / County Tourist	0.9	0.9	0.0	1.4	0.9	0.0	0.0
Educational Excellence	432.3	468.4	36.1	8.4	480.4	12.0	2.6
Educational Adequacy	38.2	41.4	3.2	8.3	42.5	1.1	2.7
Highway Casino Transfer	21.3	25.7	4.4	20.8	27.9	2.2	8.6
Total Deductions	1,664.6	1,813.3	148.7	8.2	1,624.0	-189.3	-11.7
Net Available	7,185.4	6,910.2	-275.2	-3.8	7,075.2	165.0	2.4
LESS: Surplus	1,161.1						
Net Available Distribution	6,024.3	6,910.2	885.9	14.7	7,075.2	165.0	2.4
ECONOMIC ASSUMPTIONS	FY2023	FY2024			FY2025		
U.S. GDP Nominal (Billion \$)	26,569.9	28,111.3	1,541.4	5.8%	29,354.9	1,243.6	4.4%
U.S. GDP Real (Billions 2017\$ Chain-Weight)	22,044.7	22,707.2	662.5	3.0%	23,090.3	383.0	1.7%
U.S. GDP Deflator (Chain-Wt, 2017=100)	120.5	123.8	3.3	2.8%	126.9	3.1	2.5%
U.S. CPI Price Index (1982-84=100)	299.7	309.6	9.9	3.3%	317.8	8.2	2.6%
OIL - Avg. Dom. Crude to Refinery (\$ per bbl.)	84.2	83.6	-0.6	-0.7%	80.8	-2.8	-3.3%
AR. Net General Revenue (Million \$)	8,021.5	7,808.8	-212.7	-2.7%	7,995.8	187.0	2.4%
AR. Net GR % of Total Personal Income	4.9%	4.6%	-0.3%	-5.3%	4.5%	-0.1%	-2.7%
AR. Total Personal Income (Million \$)	164,988.8	169,555.1	4,566.3	2.8%	178,428.9	8,873.8	5.2%
AR. Wage & Salary Disbursements (Million \$)	75,561.5	79,632.1	4,070.6	5.4%	82,988.2	3,356.1	4.2%
AR. Personal Transfer Payments (Million \$)	40,477.7	40,770.2	292.5	0.7%	42,812.7	2,042.6	5.0%
AR. Per Capita Income (\$)	53,931.4	55,028.7	1,097.3	2.0%	57,560.5	2,531.9	4.6%
AR. GDP Nominal (Million \$)	172,633.7	179,143.0	6,509.3	3.8%	185,590.3	6,447.3	3.6%
AR. Employment Total Payroll (Thousands)	1,343.4	1,358.7	15.2	1.1%	1,368.8	10.1	0.7%
AR. Employment Private Sector (Thousands)	1,134.3	1,145.7	11.3	1.0%	1,153.2	7.6	0.7%
AR. Employment Manufacturing (Thousands)	163.4	160.6	-2.8	-1.7%	156.2	-4.4	-2.7%
AR. New Car/Light Truck registrations (Thous.)	93.5	124.2	30.7	32.9%	128.2	4.0	3.2%
AR. Retail Sales (Million \$)	55,751.3	55,389.5	-361.8	-0.6%	56,037.2	647.7	1.2%