STATE OF ARKANSAS
ASA HUTCHINSON
GOVERNOR

November 14, 2018

Senator Bill Sample, Co-Chair
Representative Jim Dotson, Co-Chair
Arkansas Legislative Council
Arkansas General Assembly
State Capitol Building
Little Rock, AR 72201

Dear Co-Chairs:

Attached you will find my balanced budget recommendation for state general revenue for the 2019-2021 biennium. This budget funds the priorities of the state, including Educational Adequacy and an increase in the minimum teacher salary schedule, provides for the enactment of a sizable and significant reform to Arkansas's income tax code, and incorporates projected savings from the reorganization of state government.

Four years ago, the first step was taken toward my goal of lowering our top income tax rate with the introduction and enactment of the Middle Class Income Tax Reduction, followed by the low income tax reduction. With this budget, I am submitting a plan to you that will continue that reform of our income tax code over the next four years.

This budget provides for $111 million in tax relief to Arkansas taxpayers over the biennium through the enactment of the first two phases of the 2-4-5.9 Plan. This proposal reflects the significant work of the Tax Reform and Relief Legislative Task Force and the policy direction they established. The plan simplifies our tax tables and brackets, provides for a sizable increase in the standard deduction, and will reduce our top rate to 6.5% in 2020 and 6.3% in 2021. Federal tax conformity and the adding of magazine subscriptions to the sales tax base will offset part of the fiscal impact.

Raising the statewide minimum teacher salary is a top priority of mine during the next biennium, as part of my commitment to increase the minimum teacher salary from $31,800 to $36,000 over the next four years. In addition to the increases provided for Adequacy, I propose creating a $60 million program to address the funding needs of school districts below the new minimum teacher

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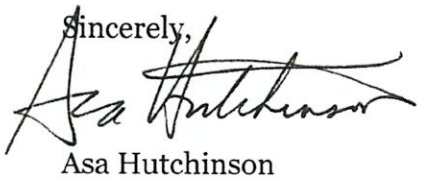
salary. Funding will be provided by the Educational Adequacy Fund in FY2020 to implement this initiative.

In October, I announced my plans for transforming and streamlining the structure of state government by reducing the number of cabinet agencies from 42 to 15. My goal is to align agencies strategically in order to increase our efficiency and improve the service we provide to the citizens of Arkansas. As a result of this plan, I have incorporated $7.5 million of assumed general revenue savings into my budget for FY21.

In addition, this budget provides for the public safety needs of the state, with new funding for a State Police troop school and additional corporal positions, the hiring of additional parole and probation officers, the operating expenses of the new crime laboratory, and continued funding for crisis stabilization units.

Sincerely,



Asa Hutchinson

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Attachment

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STATE GENERAL REVENUE
2019 - 2021 Executive Recommendations

FUND ACCOUNTS	FY19 FORECAST	Fiscal Year 2020 BASE LEVEL[1]	Executive Rec	TOTAL	OVER BASE	Fiscal Year 2021 BASE LEVEL[1]	Executive Rec	TOTAL	OVER FY20
General Education	2,156,934,175	2,156,851,204	30,818,606	2,187,669,810	1.4%	2,156,859,138	85,528,158	2,242,387,296	2.5%
State Library	5,641,919	5,641,919	0	5,641,919	0.0%	5,641,919	0	5,641,919	0.0%
Career Education	31,964,455	31,964,521	0	31,964,521	0.0%	31,964,587	0	31,964,587	0.0%
PUBLIC SCHOOL FUND	**2,194,540,549**	**2,194,457,644**	**30,818,606**	**2,225,276,250**	**1.4%**	**2,194,465,644**	**85,528,158**	**2,279,993,802**	**2.5%**
GENERAL EDUCATION FUND									
Dept. of Education	15,677,561	16,298,264	0	16,298,264	0.0%	16,346,412	0	16,346,412	0.3%
Educational Facilities Partnership[2]	41,828,951	41,828,951	0	41,828,951	0.0%	41,828,951	0	41,828,951	0.0%
Academic Facilities &Transportation	2,509,256	2,617,738	0	2,617,738	0.0%	2,622,158	0	2,622,158	0.2%
Educational Television	5,278,441	5,465,076	0	5,465,076	0.0%	5,476,514	0	5,476,514	0.2%
School for the Blind	7,016,941	7,234,724	0	7,234,724	0.0%	7,248,129	0	7,248,129	0.2%
School for the Deaf	10,142,113	10,511,853	0	10,511,853	0.0%	10,532,727	0	10,532,727	0.2%
State Library	3,514,711	3,615,572	0	3,615,572	0.0%	3,616,803	0	3,616,803	0.0%
Dept. of Career Education	4,790,510	4,802,243	0	4,802,243	0.0%	4,812,645	0	4,812,645	0.2%
Rehabilitation Services	12,897,526	12,910,638	0	12,910,638	0.0%	12,926,505	0	12,926,505	0.1%
Subtotal - General Education	**103,656,010**	**105,285,059**	**0**	**105,285,059**	**0.0%**	**105,410,844**	**0**	**105,410,844**	**0.1%**
Technical Institutes:									
Northwest TI	3,062,951	3,148,724	0	3,148,724	0.0%	3,157,818	0	3,157,818	0.3%
Riverside VTS	2,296,614	2,353,432	0	2,353,432	0.0%	2,358,647	0	2,358,647	0.2%
Subtotal - Technical Institutes	**5,359,565**	**5,502,156**	**0**	**5,502,156**	**0.0%**	**5,516,465**	**0**	**5,516,465**	**0.3%**
TOTAL GENERAL ED. FUND	**109,015,575**	**110,787,215**	**0**	**110,787,215**	**0.0%**	**110,927,309**	**0**	**110,927,309**	**0.1%**
HUMAN SERVICES FUND									
DHS-Administration	20,449,298	21,981,320	1,979,766	23,961,086	9.0%	21,991,203	1,979,766	23,970,969	0.0%
Aging and Adult Services	70,000	70,000	0	70,000	0.0%	70,000	0	70,000	0.0%
Children & Family Services	123,951,648	125,202,457	0	125,202,457	0.0%	125,216,852	0	125,216,852	0.0%
Child Care/Early Childhood Ed.	1,062,433	1,289,380	825,247	2,114,627	64.0%	1,289,676	825,247	2,114,923	0.0%
Youth Services	48,693,779	48,769,900	0	48,769,900	0.0%	48,771,852	0	48,771,852	0.0%
Devel. Disab. Services	64,839,336	66,948,287	35,436	66,983,723	0.1%	66,965,346	35,436	67,000,782	0.0%
Medical Services	2,182,425	2,337,188	0	2,337,188	0.0%	2,337,880	0	2,337,880	0.0%
DHS-Grants	1,251,591,562	1,251,591,562	61,623,904	1,313,215,466	4.9%	1,251,591,562	127,006,026	1,378,597,588	5.0%
Behavioral Health[3]	101,534,223	98,014,199	831,614	98,845,813	0.8%	98,039,017	831,614	98,870,631	0.0%
Provider Services and Quality Assurance	4,652,477	4,927,671	457,953	5,385,624	9.3%	4,929,692	457,953	5,387,645	0.0%
Services for the Blind	1,886,566	1,965,700	0	1,965,700	0.0%	1,966,164	0	1,966,164	0.0%
County Operations	47,886,932	49,815,598	(1,630,016)	48,185,582	-3.3%	49,837,962	(1,630,016)	48,207,946	0.0%
TOTAL HUMAN SERVICES	**1,668,800,679**	**1,672,913,262**	**64,123,904**	**1,737,037,166**	**3.8%**	**1,673,007,206**	**129,506,026**	**1,802,513,232**	**3.8%**

2019 - 2021 Executive Recommendations

FUND ACCOUNTS	FY19 FORECAST	Fiscal Year 2020 BASE LEVEL [1]	Executive Rec	TOTAL	OVER BASE	Fiscal Year 2021 BASE LEVEL [1]	Executive Rec	TOTAL	OVER FY20
STATE GENERAL GOV'T FUND									
Dept. of Ark. Heritage	8,056,879	8,062,048	(549,336)	7,512,712	-6.8%	8,066,847	(549,336)	7,517,511	0.1%
Department of Agriculture	17,298,621	17,716,231	0	17,716,231	0.0%	17,723,474	0	17,723,474	0.0%
Dept. of Labor	3,227,555	3,227,813	0	3,227,813	0.0%	3,229,537	0	3,229,537	0.1%
Dept. of Higher Education	11,399,182	11,401,648	0	11,401,648	0.0%	11,402,512	0	11,402,512	0.0%
Institution Productivity Funding [4]	0	0	0	0	0.0%	0	5,318,002	5,318,002	100.0%
Dept. of H.E.-Grants	40,017,466	40,017,466	0	40,017,466	0.0%	40,017,466	0	40,017,466	0.0%
Dept. of Economic Development	11,278,566	11,097,773	0	11,097,773	0.0%	11,099,517	0	11,099,517	0.0%
Dept. of Correction	353,186,149	358,381,920	2,609,818	360,991,738	0.7%	358,519,413	4,364,752	362,884,165	0.5%
Dept. of Community Correction	87,984,370	91,025,675	2,465,958	93,491,633	2.7%	91,064,624	2,519,136	93,583,760	0.1%
State Military Department	9,310,105	9,313,129	0	9,313,129	0.0%	9,317,606	0	9,317,606	0.0%
Dept. of Parks & Tourism	20,425,108	20,775,547	0	20,775,547	0.0%	20,788,347	0	20,788,347	0.1%
Dept. of Environmental Quality [5]	3,795,216	3,981,183	(15,761)	3,965,422	-0.4%	3,982,825	(17,403)	3,965,422	0.0%
Miscellaneous Agencies	58,760,822	64,096,337	783,879	64,880,216	1.2%	60,029,583	784,201	60,813,784	-6.3%
TOTAL STATE GENERAL GOV'T	**624,740,038**	**639,096,770**	**5,294,558**	**644,391,328**	**0.8%**	**635,241,751**	**12,419,352**	**647,661,103**	**0.5%**
OTHER FUNDS									
County Aid	21,428,616	21,428,616	0	21,428,616	0.0%	21,428,616	0	21,428,616	0.0%
County Jail Reimbursement	18,263,607	18,263,607	0	18,263,607	0.0%	18,263,607	0	18,263,607	0.0%
Crime Information Center	3,759,593	3,761,319	(1,726)	3,759,593	0.0%	3,763,538	(3,945)	3,759,593	0.0%
Child Support Enforcement	12,984,053	12,984,053	0	12,984,053	0.0%	12,984,053	0	12,984,053	0.0%
Dept. of Health [6]	78,491,994	81,904,015	0	81,904,015	0.0%	81,921,714	0	81,921,714	0.0%
Performance Fund [7]	24,000,000	0	16,000,000	16,000,000	100.0%	0	24,500,000	24,500,000	53.1%
Motor Vehicle Acquisition	3,000,000	3,000,000	0	3,000,000	0.0%	3,000,000	0	3,000,000	0.0%
Municipal Aid	29,372,099	29,372,099	0	29,372,099	0.0%	29,372,099	0	29,372,099	0.0%
State Police	66,375,577	69,308,454	2,304,001	71,612,455	3.3%	69,333,530	3,673,154	73,006,684	1.9%
Dept. of Workforce Services-TANF	3,864,840	3,864,840	0	3,864,840	0.0%	3,864,840	0	3,864,840	0.0%
TOTAL OTHER FUNDS	**261,540,379**	**243,887,003**	**18,302,275**	**262,189,278**	**7.5%**	**243,931,997**	**28,169,209**	**272,101,206**	**3.8%**
INSTITUTIONS OF HIGHER EDUCATION - Four Year Institutions:		*See Footnote related to Productivity Funding.*							
Arkansas State University	59,090,991	59,090,991	(214,745)	58,876,246	-0.4%	58,827,418	48,828	58,876,246	0.0%
Arkansas Tech University	32,910,223	32,538,697	271,166	32,809,863	0.8%	32,809,863	0	32,809,863	0.0%
Henderson State University	18,971,741	18,971,741	75,980	19,047,721	0.4%	19,046,285	1,436	19,047,721	0.0%
Southern Arkansas University	16,072,947	15,740,826	1,801,893	17,542,719	11.4%	15,976,938	0	15,976,938	-8.9%
UA-Fayetteville	122,494,054	118,711,855	3,304,143	122,015,998	2.8%	120,492,533	0	120,492,533	-1.2%
UA - System	3,417,950	3,417,950	61,523	3,479,473	1.8%	3,417,950	61,523	3,479,473	0.0%
UA - Archeological Survey	2,327,380	2,327,380	41,893	2,369,273	1.8%	2,327,380	41,893	2,369,273	0.0%
UA - Agriculture	62,800,138	62,800,138	1,130,402	63,930,540	1.8%	62,800,138	1,130,402	63,930,540	0.0%
UA - Clinton School	2,295,575	2,295,575	41,320	2,336,895	1.8%	2,295,575	41,320	2,336,895	0.0%
UA - Criminal Justice Institute	1,825,769	1,825,769	32,864	1,858,633	1.8%	1,825,769	32,864	1,858,633	0.0%
UA - AR Sch.Math, Science, & Arts	1,113,015	1,113,015	20,034	1,133,049	1.8%	1,113,015	20,034	1,133,049	0.0%

2019 - 2021 Executive Recommendations

FUND ACCOUNTS	FY19 FORECAST	Fiscal Year 2020 BASE LEVEL 1	Executive Rec	TOTAL	OVER BASE	Fiscal Year 2021 BASE LEVEL 1	Executive Rec	TOTAL	OVER FY20
U of A - Ft. Smith	20,594,615	20,594,615	(19,846)	20,574,769	-0.1%	20,574,769	0	20,574,769	0.0%
UA-Little Rock	60,755,097	60,755,097	(310,367)	60,444,730	-0.5%	60,371,149	73,581	60,444,730	0.0%
UA-Medical Sciences	86,456,661	86,456,661	1,556,220	88,012,881	1.8%	86,456,661	1,556,220	88,012,881	0.0%
UAMS - Child Abuse/Rape/Domestic Violence	735,000	735,000	13,230	748,230	1.8%	735,000	13,230	748,230	0.0%
UAMS - Pediatrics/Psychiatric Research	1,950,000	1,950,000	35,100	1,985,100	1.8%	1,950,000	35,100	1,985,100	0.0%
UAMS - Child Safety Center	720,588	720,588	12,971	733,559	1.8%	720,588	12,971	733,559	0.0%
UAMS - Indigent Care	5,342,181	5,342,181	96,159	5,438,340	1.8%	5,342,181	96,159	5,438,340	0.0%
UA-Monticello	15,946,042	15,946,042	(159,460)	15,786,582	-1.0%	15,786,582	0	15,786,582	0.0%
UA-Pine Bluff	25,567,663	25,567,663	279,922	25,847,585	1.1%	25,781,928	65,657	25,847,585	0.0%
University of Central Arkansas	53,710,747	53,645,852	655,962	54,301,814	1.2%	54,301,814	0	54,301,814	0.0%
Subtotal - 4 Year Institutions	**595,098,377**	**590,547,636**	**8,726,364**	**599,274,000**	**1.5%**	**592,953,536**	**3,231,218**	**596,184,754**	**-0.5%**
INSTITUTIONS OF HIGHER EDUCATION - Two Year Institutions:									
Arkansas Northeastern College	8,577,052	8,577,052	(85,771)	8,491,281	-1.0%	8,491,281	0	8,491,281	0.0%
Arkansas State University - Beebe	12,901,624	11,954,084	(24,298)	11,929,786	-0.2%	11,929,786	0	11,929,786	0.0%
Arkansas State Univ.-Mt. Home	3,741,956	3,684,591	156,235	3,840,826	4.2%	3,739,860	0	3,739,860	-2.6%
Arkansas State Univ. - Newport	6,721,164	6,052,216	921,406	6,973,622	15.2%	6,142,999	0	6,142,999	-11.9%
Cossatot C C of the UA	3,716,038	3,429,760	182,842	3,612,602	5.3%	3,481,206	0	3,481,206	-3.6%
East Arkansas Cmty. College	8,432,459	8,432,459	(84,325)	8,348,134	-1.0%	8,348,134	0	8,348,134	0.0%
Arkansas State Univ. - Mid-South	3,938,447	3,896,588	48,912	3,945,500	1.3%	3,945,500	0	3,945,500	0.0%
ASU - Mid-South - ADTEC	1,500,000	1,500,000	27,000	1,527,000	1.8%	1,500,000	27,000	1,527,000	0.0%
National Park College	9,046,489	9,046,489	(90,465)	8,956,024	-1.0%	8,956,024	0	8,956,024	0.0%
North Arkansas College	8,006,028	8,006,028	(80,060)	7,925,968	-1.0%	7,925,968	0	7,925,968	0.0%
NorthWest Arkansas Cmty. College	10,619,202	10,619,202	787,056	11,406,258	7.4%	10,778,490	0	10,778,490	-5.5%
Phillips Cmty. College of the UA	9,063,088	9,063,088	(90,631)	8,972,457	-1.0%	8,972,457	0	8,972,457	0.0%
U of A - Rich Mountain	3,206,869	3,206,869	(32,069)	3,174,800	-1.0%	3,174,800	0	3,174,800	0.0%
Southern Ark. University - Tech	5,705,511	5,705,511	(57,055)	5,648,456	-1.0%	5,648,456	0	5,648,456	0.0%
SAU-Tech-Envir. Control Center	368,404	368,404	6,631	375,035	1.8%	368,404	6,631	375,035	0.0%
SAU-Tech-Fire Training Academy	1,651,221	1,651,221	29,722	1,680,943	1.8%	1,651,221	29,722	1,680,943	0.0%
South Arkansas Cmty. College	6,034,307	6,034,307	218,484	6,252,791	3.6%	6,124,822	0	6,124,822	-2.0%
U of A - Cmty. College at Batesville	4,131,061	4,131,061	64,112	4,195,173	1.6%	4,193,027	0	4,193,027	-0.1%
U of A - Cmty. College at Hope	4,555,914	4,536,917	475,943	5,012,860	10.5%	4,604,971	0	4,604,971	-8.1%
U of A - Cmty. College at Morrilton	5,022,155	5,022,155	(36,446)	4,985,709	-0.7%	4,985,709	0	4,985,709	0.0%
Subtotal - 2 Year Institutions	**116,938,989**	**114,918,002**	**2,337,223**	**117,255,225**	**2.0%**	**114,963,115**	**63,353**	**115,026,468**	**-1.9%**
INSTITUTIONS OF HIGHER EDUCATION - Technical Colleges									
Black River	6,113,516	6,113,516	(61,135)	6,052,381	-1.0%	6,052,381	0	6,052,381	0.0%
College of the Ouachitas	3,559,326	3,559,326	(35,593)	3,523,733	-1.0%	3,523,733	0	3,523,733	0.0%
Ozarka	3,126,475	3,126,475	(31,265)	3,095,210	-1.0%	3,095,210	0	3,095,210	0.0%
U of A - Pulaski Tech	15,137,437	15,137,437	(151,374)	14,986,063	-1.0%	14,986,063	0	14,986,063	0.0%
Southeast Arkansas College	5,636,798	5,636,798	(56,368)	5,580,430	-1.0%	5,580,430	0	5,580,430	0.0%
Subtotal - Technical Colleges	**33,573,552**	**33,573,552**	**(335,735)**	**33,237,817**	**-1.0%**	**33,237,817**	**0**	**33,237,817**	**0.0%**
TOTAL INST'S OF H. E.	**745,610,918**	**739,039,190**	**10,727,852**	**749,767,042**	**1.5%**	**741,154,468**	**3,294,572**	**744,449,039**	**-0.7%**

2019 - 2021 Executive Recommendations

FUND ACCOUNTS	FY19 FORECAST	Fiscal Year 2020 BASE LEVEL [1]	Executive Rec	TOTAL	OVER BASE	Fiscal Year 2021 BASE LEVEL [1]	Executive Rec	TOTAL	OVER FY20
Rainy Day Funds	15,877,476	15,877,476	0	15,877,476	0.0%	15,877,476	0	15,877,476	0.0%
Medicaid Trust Fund	5,909,000	5,909,000	0	5,909,000	0.0%	5,909,000	0	5,909,000	0.0%
Total Request	5,626,034,615	5,621,967,560	129,267,195	5,751,234,755	2.3%	5,620,514,851	258,917,317	5,879,432,167	2.2%
OFFICIAL FORECAST 11.14.18	$5,690,200,000			$5,805,900,000				$6,022,500,000	
Less: Impact of Casino Amendment (Issue 4)				(38,518,872)				(38,518,872)	
Add: Redirect 1/2 of 9 mills/1000³ Ft. Gas Assessments				$2,200,000				$2,000,000	
TAX REFORM									
Less: Executive and Legislative 2 - 4 - 5.9 Tax Reform Package				(47,413,700)				(111,061,700)	
Add: Federal Tax Conformity & Sales Tax on Magazine Subscriptions				30,389,235				30,389,235	
ADJUSTED REVENUE AVAILABLE				5,752,556,663				5,905,308,663	
Transfer to the Long Term Reserve Fund				1,321,908					
Surplus/(Deficit)	64,165,385			0				25,876,496	
DISTRIBUTION OF FUTURE SURPLUS FUNDS PURSUANT TO LEGISLATIVE MANDATE									
AR Highway Transfer Fund (25%)	15,991,346							6,469,124	
Restricted Reserve Fund (75%)	47,974,039							19,407,372	
TRANSFORMATION SAVINGS [7]									
Performance Pay Annual Funding Requirement				16,000,000				32,000,000	
Less: Transformation Savings Estimate				0				(7,500,000)	
Total General Revenue Funding Made Available for State Agencies				16,000,000				24,500,000	

1. Base Level includes adjustments for the FY18 Pay Plan Implementation, FY19 Performance Pay, 2019-2021 Retirement Contribution Rates, and calculated 2019-2021 Career Service Payments.
2. The FY2021 allocation for Educational Facilities Partnership reflects base level funding. Once funding needs for FY2021 are available, the required funding will be allocated from all Facilities Partnership funding sources.
3. The Executive Recommendation for the DHS - Behavioral Health Division includes $2,500,000 in each year for Crisis Stabilization Units. The Executive Recommendation reflects a different amount due to agency-wide reallocations.
4. Executive Recommendations for Formula Institutions reflect the Productivity Funding Distribution for FY2020. FY2021 allocations for Formula Institutions reflect the calculated base level distribution. The amount above base level is provided in the Institution Productivity Funding line.
5. The Department of Environmental Quality allocation includes funding for the Energy Office, which was transferred from Department of Economic Development. (Act 271 of 2017)
6. The Department of Health allocation includes funding for the Office of Health Information Technology, which was previously funded through the Miscellaneous Agencies Fund. (Act 270 of 2017)
7. For Performance Fund FY2021 calculation, see Transformation Savings, page 4.

DFA-Office of Budget
11/14/2018

One-time Funding Schedule
2019 - 2021 Biennium

Estimated Available Funds:		
Unobligated Balance Carryforward from General Revenue Allotment Reserve	$	18,325,125
FY18 General Revenue Amounts Reclaimed Over Forecast	$	37,278,014
FY18 Reclaimed Balances, Outlawed Warrants, and Prior Year Adjustments	$	12,525,981
Reclaimed Previous Session Projects	$	2,331,206
Total Estimated Funds for 2019-2021 Biennium	**$**	**70,460,326**
Less Mandatory/Debt Obligations:		
Dept. of Correction - Lease Payments	$	10,500,000
Total Mandatory/Debt Payments	**$**	**10,500,000**
Less Executive Recommendations:		
Quick Action Closing Fund - for job creation and retention efforts, and to attract new business and economic development to the state.	$	30,000,000
Rainy Day Fund - for state agency and statewide needs including: capital projects, statewide grants, program funding, and the unanticipated needs of the state.	$	29,960,326
Total Executive Recommendations:	**$**	**59,960,326**
Remaining Funds to Distribute	**$**	**0**