

# **GENERAL FUND REVENUE REPORT & ECONOMIC OUTLOOK**

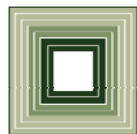


**March 2010**

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**North Carolina General Assembly**



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Overview

- Revenue collections through February
- Economy-based taxes trends
- Forecasts risk for remainder of fiscal year
- Economic outlook for FY 2010-11
- Temporary expiration of the federal Estate Tax in 2010

# How Do Revenues Look So Far?

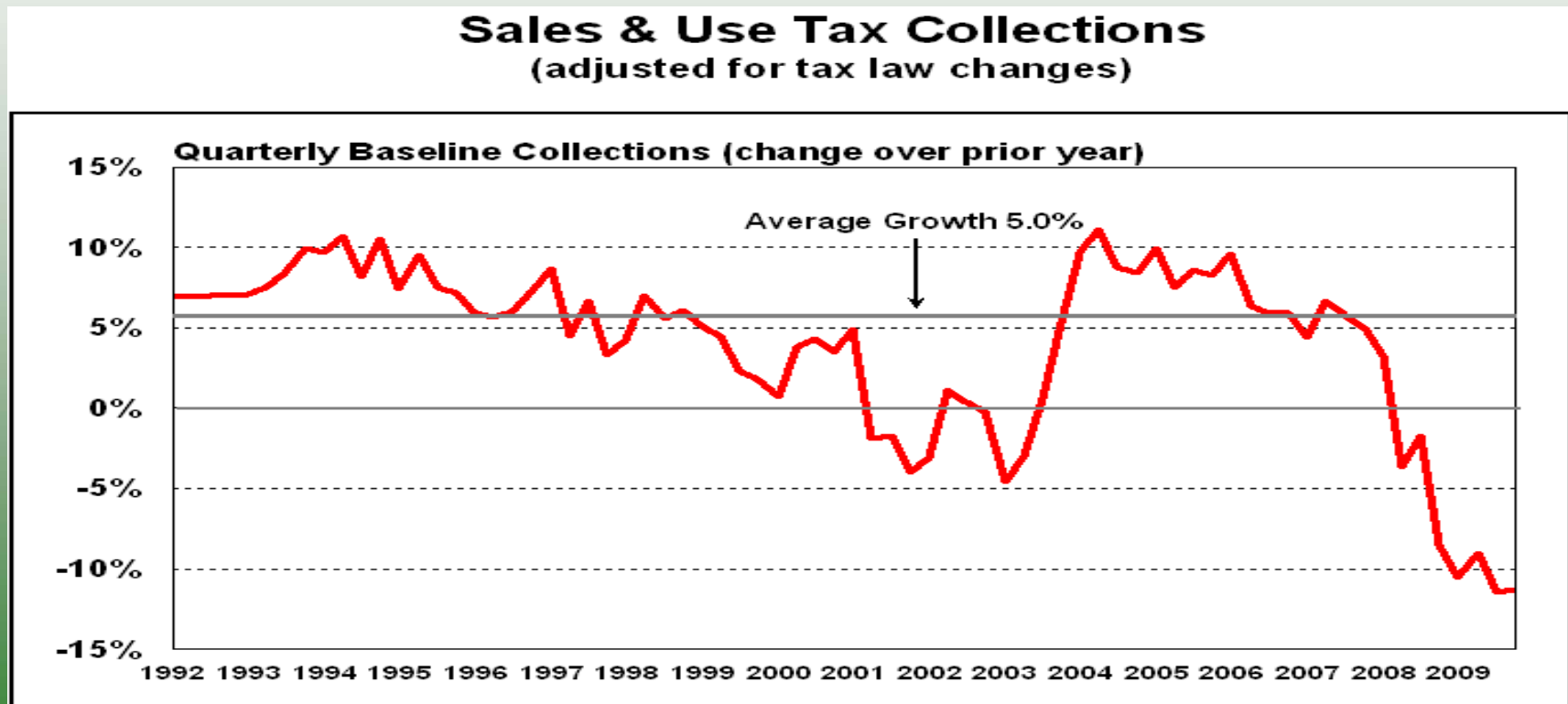
- State's collections \$45 million below \$12.1 billion target through February
  - Resolution payment initiative collected \$422 million from over 200 corporate taxpayers
  - The budget included \$150 million from this initiative
  - Without the \$272 million shortfall would be \$320 million or 2.6% below target

# How Do Revenues Look So Far?

- Income tax withholding down 4.1% through February
  - essentially the same as December and January
  - \$145 million below target
- Sales tax collections continue to disappoint
  - Baseline (tax-adjusted) collections down 11.0%
  - Net collections up 12.2% - budget targets expected a 15.9% increase.
  - \$125 million below target

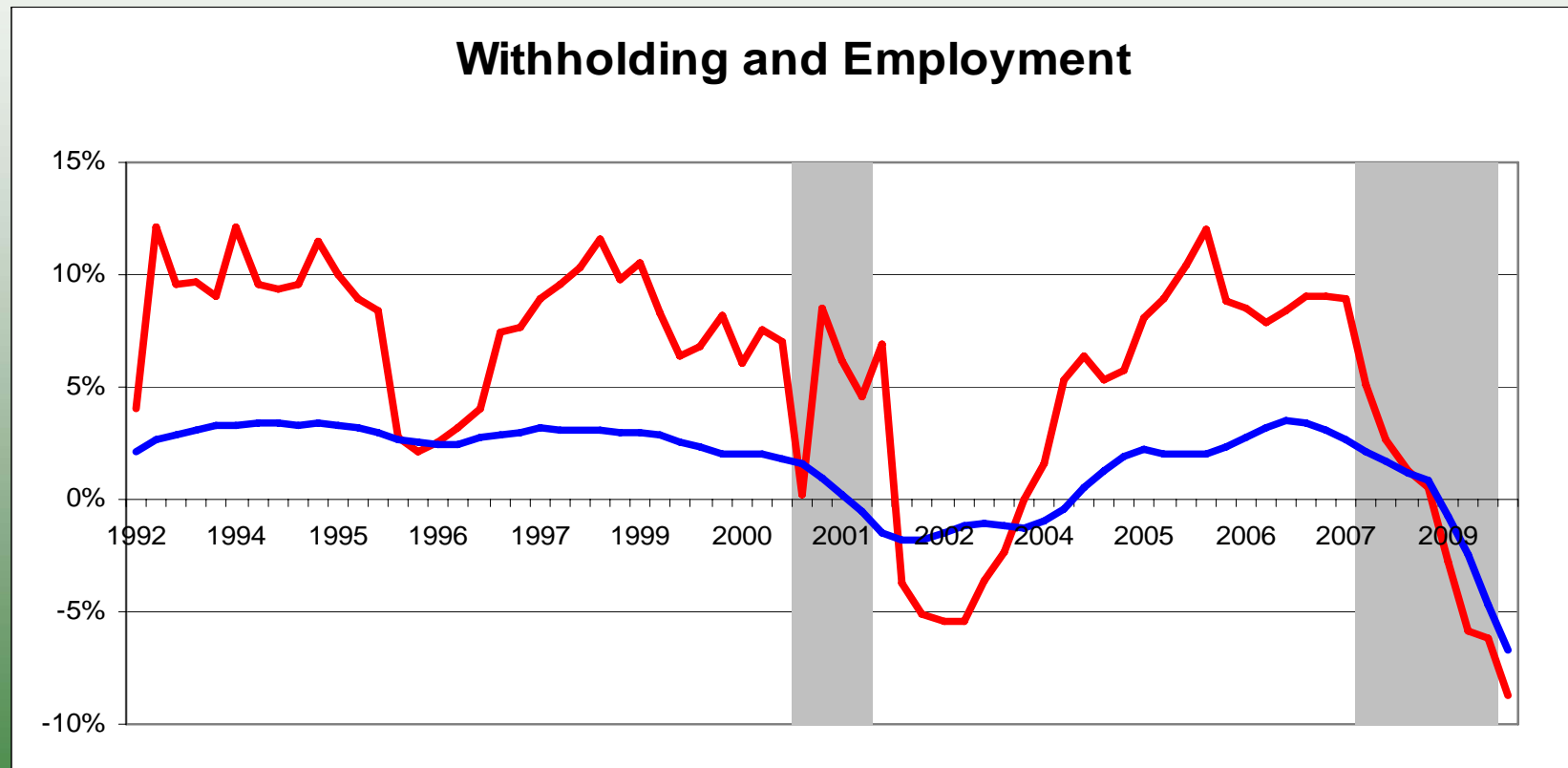
# Tracking Economy-Based Collections

Sales Tax collections reflect weak job employment outlook and recession – like consumer confidence



# Tracking Economy-Based Collections

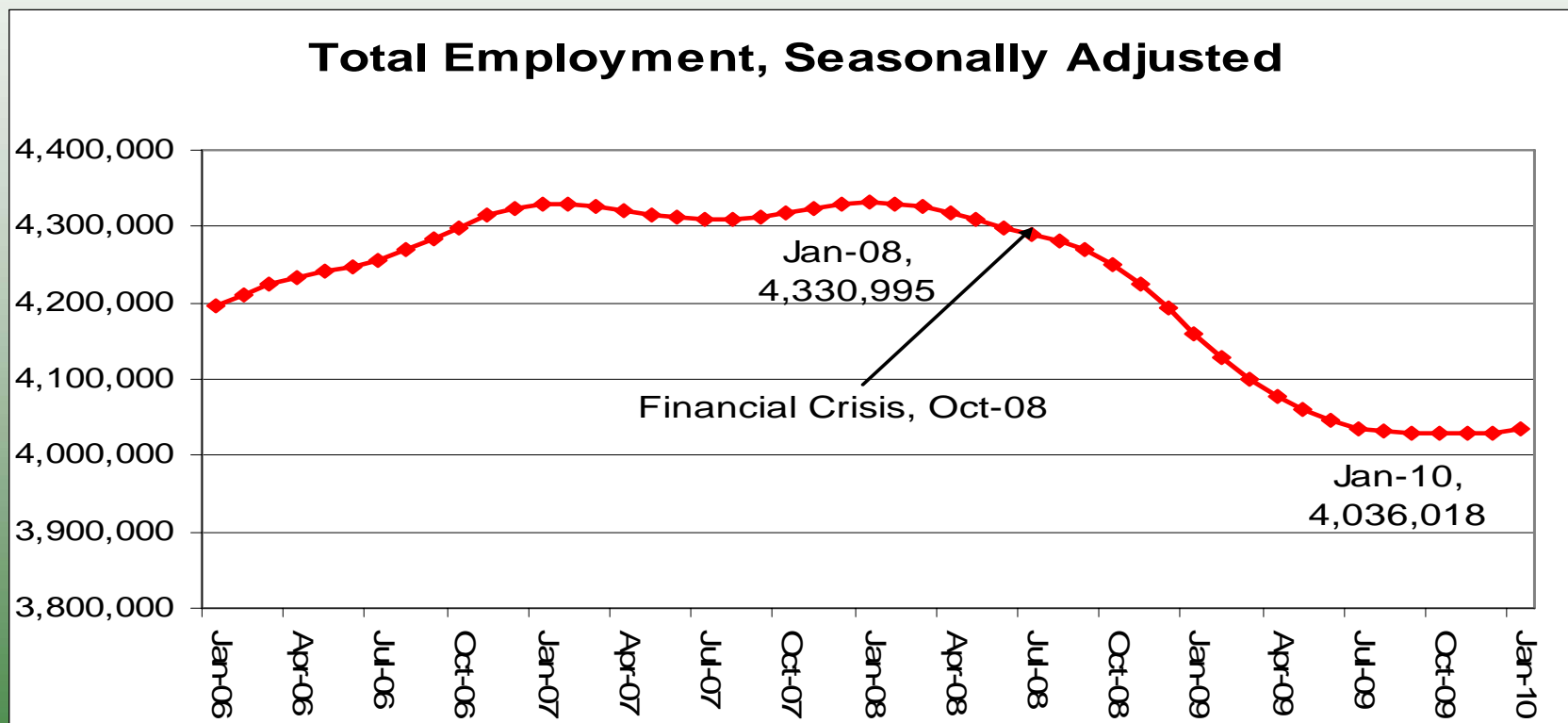
Net withholdings are nearly 2.2% below a \$5.4 billion target.



4 month moving average of percent change in quarterly net withholding and employment

# Tracking Economy-Based Collections

No gain in employment (seasonally adjusted) since start of fiscal year. Almost 300,000 fewer employed since start of recession



Source: Employment Security Commission of NC

# Revenue Forecast Outlook

- Employment and low consumer confidence
  - Expect economy-based taxes to underperform May 2008 consensus forecast targets
- April-June forecast risk
- Economic forecasts pessimistic on 2010 economy
- Budget included tentative 3.2% baseline growth in FY 2010-11.



# Revenue Forecast Outlook

- 2010-11 revenue adjustment affected by
  - forecasted pace of the recovery
  - expected lower base from weak 2009-10 collections
- Federal Estate Tax expired for the 2010 tax year
  - NC estate tax is tied to the federal tax
  - Net loss for 2010-11 collections is estimated at \$85 million.
  - Reinstated in 2011 and the NC estate tax will be applicable again