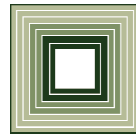


# **GENERAL FUND REVENUE OUTLOOK**



**Joint Legislative Commission on Governmental  
Operations  
October 20, 2010**



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



# Overview

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- First Quarter Collections
- Economic Conditions and Forecast Risks
- The 2011-13 Biennium: Budget Issues





## How Do 2010-11 Revenues Look So Far?

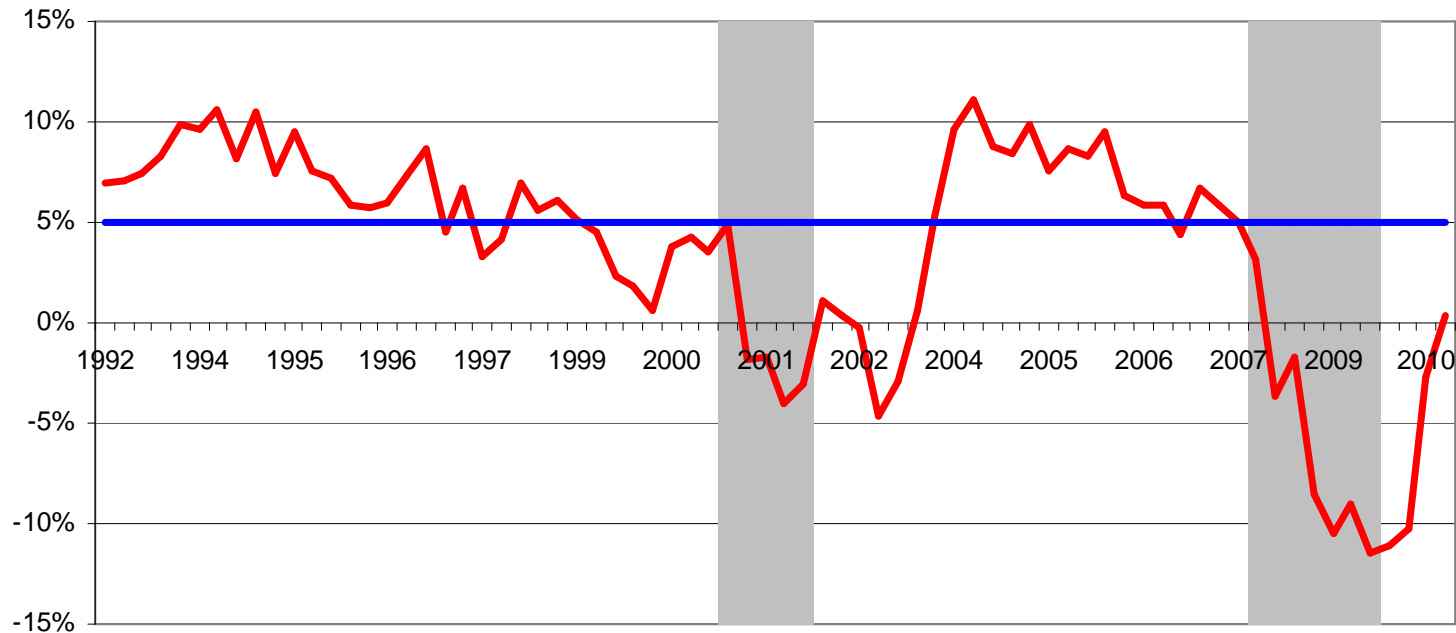
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- Collections through September are running \$18 million *below* a \$4.5 billion target.
- Key sources of tax revenue have bottomed out.
- Too early to claim sustainable growth.

# Key Revenue Collection Trends

## Sales and Use Tax Collections (adjusted for tax law changes)

Quarterly Baseline Collections (change over prior year)

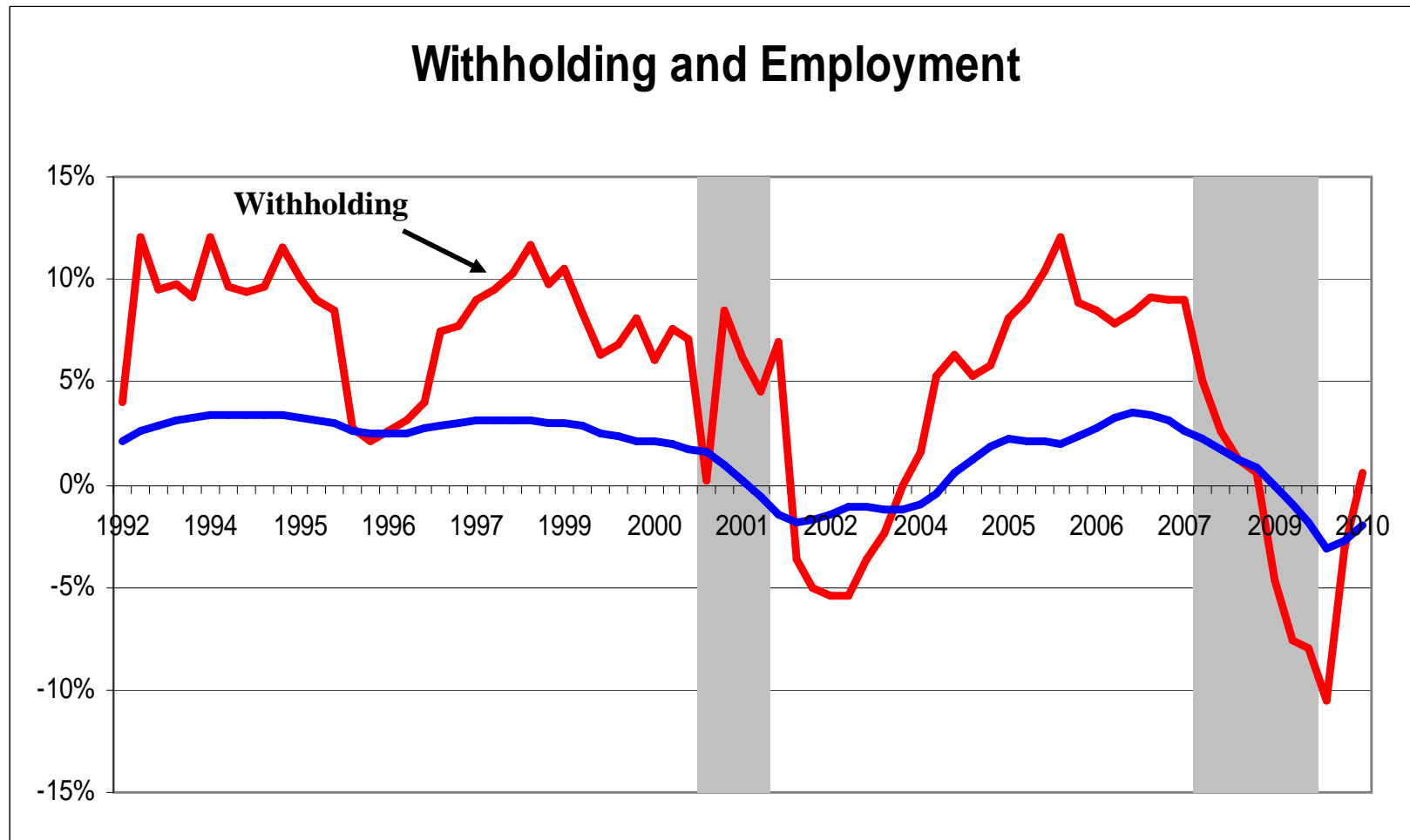


# Key Revenue Collection Trends

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- Double-digit, year-over-year losses have ended
  - We have yet to see Y/Y growth above 1% (long term average is 5%)
- Modest growth is encouraging, but collections are **12.6% below** first quarter of FY 2007-08

# Key Revenue Collection Trends



Withholding and Employment are 4 month moving averages



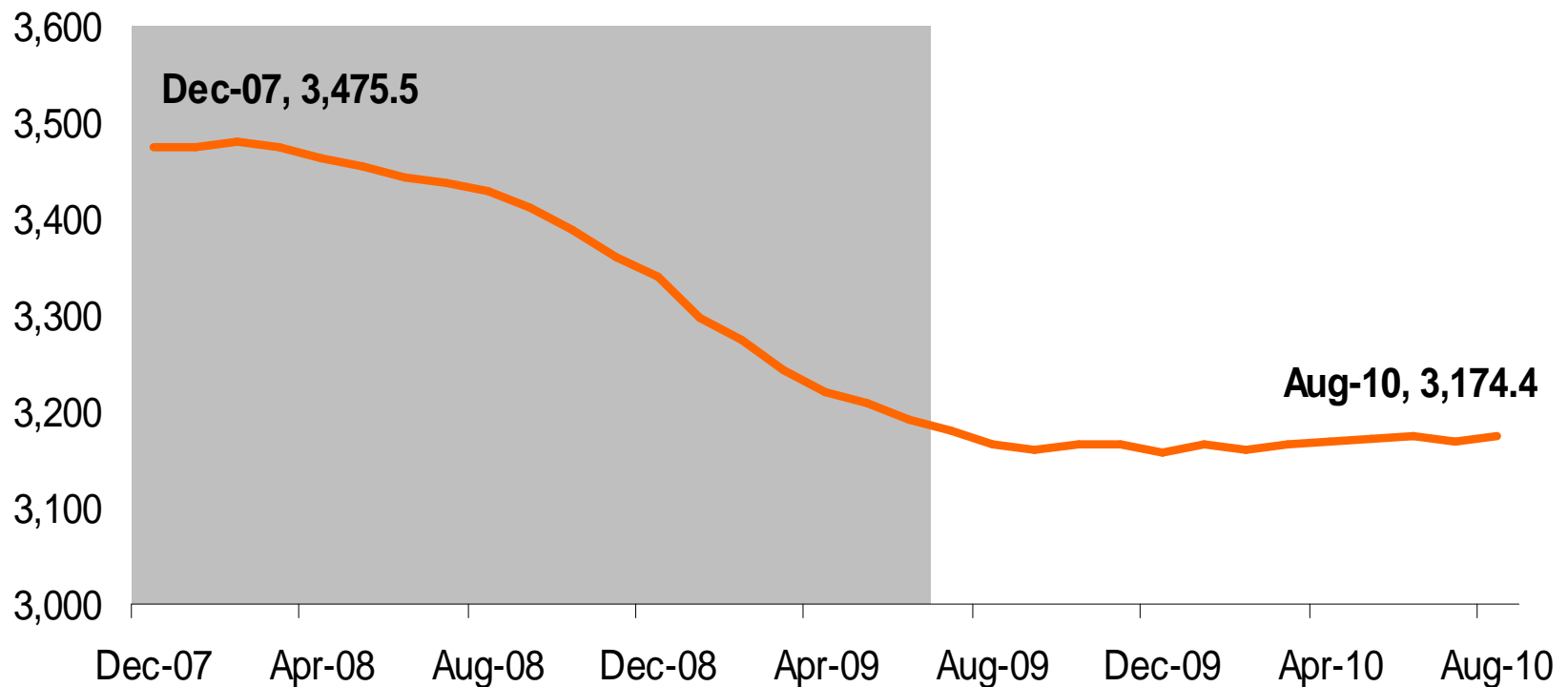
# Key Revenue Collection Trends

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- A glimmer of hope for key revenue source (40% of total General Fund revenue)
- Net withholding (wage & salary withholding less refunds) is down 0.5%.
  - This time last year they were down by 3.5%.
- In September, net withholding increased by over 3%

# Key Revenue Collection Trends

**Total Private Employment (thousands)**



**Source:** North Carolina Employment Security Commission

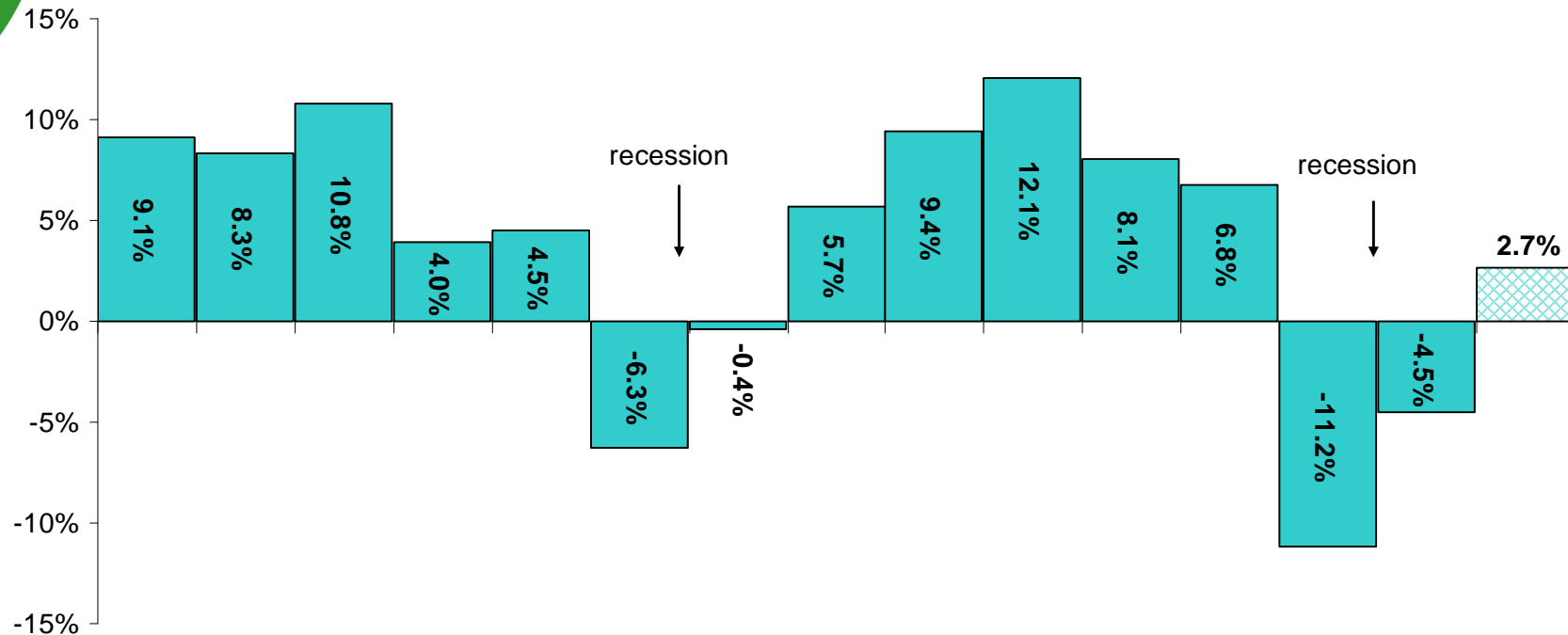




# Economic Conditions and Forecast Risks

The Great Recession's impact on State revenues can be clearly seen from the economy-based growth rates.

## Baseline Revenue Growth, FY 1996-97 to FY 2010-11



**Note:** The last column represents the current forecast baseline estimate.



# FY 2010-11:

## Revenue Estimates Take Cautious Approach

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- The forecasted baseline growth rates of key revenue components, which represent 87% of the General Fund are:
  - Personal Income Tax      3.0%
  - Sales Tax                      1.5%
  - Corporate Income Tax    3.6%



# Revenue: Things to Watch

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- The April 2010 consensus revenue forecast envisioned a gradual improvement in the State's economic conditions.
- Economic forecasts at the time expected growth to be slightly above 3% by the end of 2010.
- Economic forecasts have been downgraded to below normal growth closer to 2%..

1. Kannan, Prakash, International Monetary Fund Working Paper WP/10/83, "Credit Conditions and Recoveries from Recessions Associated with Financial Crises". March 2010.

# Revenue: Things to Watch

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- The April consensus forecast was necessarily cautious
- Used a more pessimistic growth outlook than most were anticipating
- **The cautious revenue forecast is now aligning with economic forecast revisions**

# The 2011-13 Biennium: Budget Issues

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- Total General Fund Availability for FY 2010-11 was \$18.956 billion (S.L. 2010-31)
  - Includes \$1.6 billion in federal dollars (ARRA Funds)
  - Includes \$1.3 billion in temporary Sales Tax & Income Surtax
  - Includes other one-time items totaling about \$300 million

**Impact on General Fund Availability,  
\$3.2 billion less for FY 2011-12**





# The 2011-13 Biennium: Budget Issues

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In addition to the \$3.2 billion less in availability:

- Mandated spending pressures from
  - Medicaid
  - Public School Enrollment
- Additional spending pressures include
  - An estimated \$572.4 million is needed over the next biennium to maintain current benefit levels and anticipated growth in the State Health Plan;
  - Additional funds may be needed to increase the State's employer contribution to the State Retirement System depending on the results of the System's annual actuarial valuation.
  - Post-Secondary enrollment growth

# Conclusions

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- Expected slight growth over the last quarter materialized
- Remainder of the year anticipates a gradual improvement each quarter
- The recovery expected to proceed along a slow, unsteady path
- The economy will remain vulnerable, thus increasing risks to the forecast

– A copy of the most recent Outlook report can be found at FRD's website:

[http://www.ncleg.net/fiscalresearch/generalfund\\_outlook/generalfund\\_outlook.shtml](http://www.ncleg.net/fiscalresearch/generalfund_outlook/generalfund_outlook.shtml)