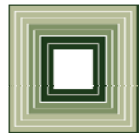


GENERAL FUND REVENUE REPORT



February 5 , 2008



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

Highlights

- Revenues through December are slightly ahead of forecast with a surplus of \$125 - \$130 million.
- The biggest risk to the 2007-08 forecast is the national economic slowdown driven by housing and financial sector losses. Higher energy prices are a risk to General Fund receipts if they begin to cut into consumer spending.
- Unlike many other states, these risks should be adequately covered by a moderately cautious revenue forecast. The forecast builds in a lot of downside protection for the volatile revenue sources (April 15 returns) and assumes a slowdown in the economy-based withholding and sales taxes.

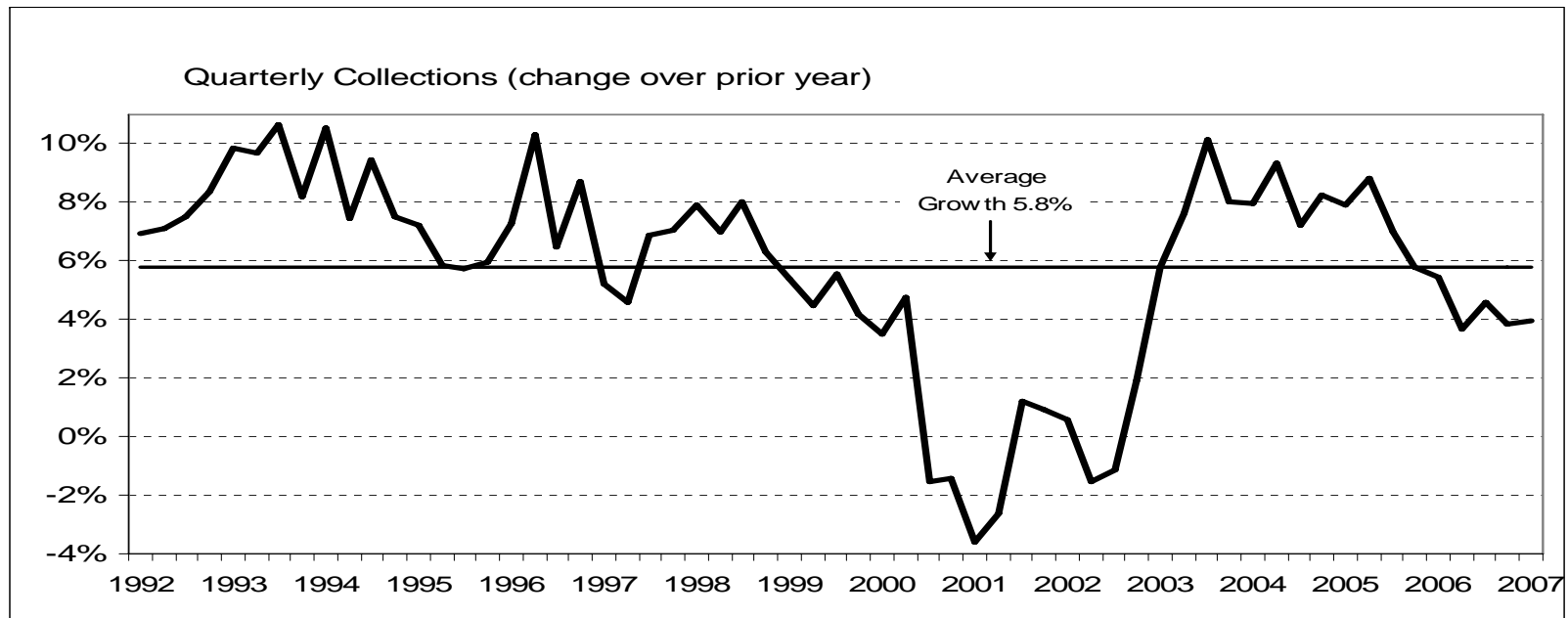
How Do 2007-08 Revenues Look So Far?

- General Fund revenue for the first half of the fiscal year came in about \$125-\$130 million ahead of a \$9.1 billion target for the period.
 - In other words, collections are running 1.4% above expectations. However, the impact of the weakening economy on consumer spending is beginning to have an effect on the State's economy-based taxes. Revenue forecast assumptions have anticipated this slowdown and revenue growth is expected to slow dramatically during the second half of the fiscal year.

How Do 2007-08 Revenues Look So Far?

It is clear from looking at economy-based taxes that an economic slowdown is underway. Baseline sales tax growth for July-December was 3.9%, well below the long-term average growth of 5.8%, but above the annual forecast growth of 2.9%.

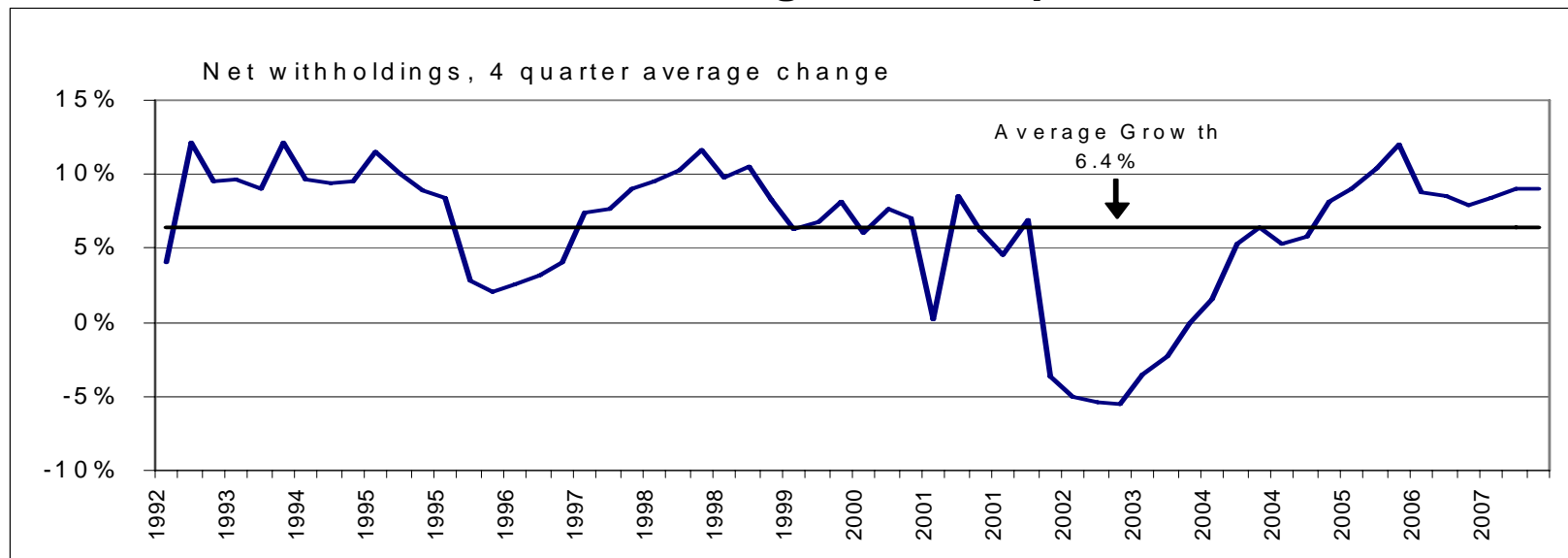
Sales & Use Tax Collections (adjusted for tax law changes)



How Do 2007-08 Revenues Look So Far? (cont.)

Withholding continues to be surprisingly resilient with growth of 7.4% through December. Growth has slowed from the 9-10% rate during 2005 and part of 2006, yet remains above historical growth of 6.4%. This suggests wage & salary employment has felt little impact from the national economic slowdown.

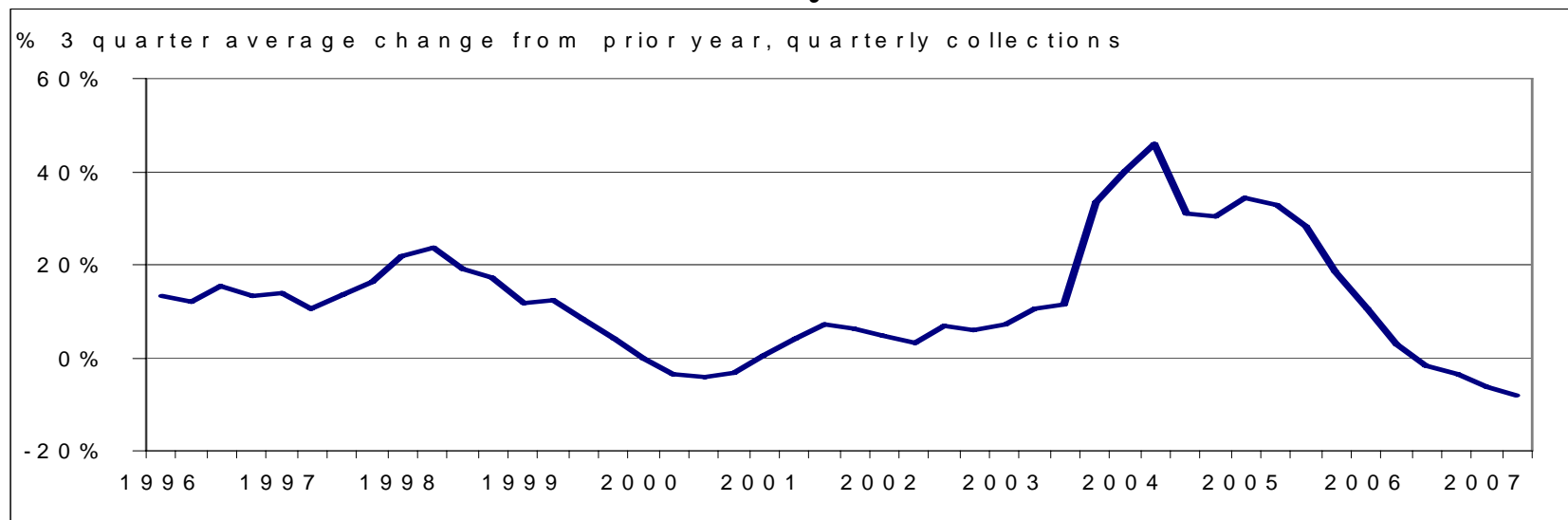
Withholding Tax Receipts



How Do 2007-08 Revenues Look So Far? (cont.)

The real estate slump has significantly reduced real estate conveyance tax collections, though not at much as in many other states (California, Nevada, Florida, Virginia for example). Collections were down 9.4% compared to July-December of last year. Though this tax does not go to the General Fund, it is a good economic indicator of retail sales.

Real Estate Conveyance Collections



We Still Have a Long Way to Go

- The first six months of a fiscal year typically contain about half of the annual tax payments, but only 20% of forecast risk.
- Most of the remaining unpredictability comes in the April-June period and is tied to corporate income tax payments and non-withholding payments under the personal income tax.
 - The latter category includes April 15 final payments (2007 tax year in this case) as well as April and June quarterly estimated tax payments for the new tax year.