Presentation Outline

• General Fund Revenue Sources
• Consensus Revenue Forecast
• Current Revenue and Economic Trends
• Potential Risks and 2013-15 Forecast
General Fund Revenue Sources
State General Fund, FY 2011-12

- Personal Income $10.3B, 52.6%
- Sales & Use Tax $5.3B, 26.9%
- Franchise Tax $0.6B, 3.1%
- Corporate Income Tax $1.1B, 5.8%
- Other Taxes $1.2B, 6.1%
- Transfers $0.3B, 1.5%
- Non-Tax $0.8B, 4.0%
Stable Sources of Revenue
Volatile Sources of Revenue
Consensus Revenue Forecast
Consensus Revenue Process

• Statutory Guidelines do not address the budget revenue forecast

• Since the 1990s, a consensus forecast has been used

• Fiscal Research and the Office of State Budget and Management develop forecasts independently
Consensus Revenue Process

• Prior to release of Governor’s biennial budget, forecasters meet to develop a consensus forecast

• In early May, after April receipts have been recorded, the legislature and/or the Governor can request a revised consensus forecast
Consensus Revenue Process

• A small informal revision may be warranted before final passage of the budget

• In even-numbered years a consensus revision to the second year biennium forecast takes place in early May
Consensus Forecast: FY 2012-13

Baseline growth forecast (previous year in parentheses)

- Sales Tax 3.7% (6.2%)
- Personal Income 4.7% (5.4%)
- Corporate Income 4.1% (11.6%)
- Total General Fund 4.4% (6.2%)
Baseline Tax Revenue

The Great Recession’s impact on State revenues can be clearly seen from the economy-based growth rates. Only a modest rebound afterwards given size of the drop in revenue.

Baseline Tax Revenue Growth, FY 1996-97 to FY 2012-13

Note: The last column represents the current forecast baseline estimate.
Current State Revenue and Economic Trends
How Do 2012-13 Revenues Look So Far?

• Collections through December are meeting the $9.8 billion target.

• Key revenue sources are essentially on target.

• **Caveat:** Most of the forecast risk occurs in second half of the fiscal year.

• 2012 Final Payments and Refunds, plus 2013 Estimated Payments in April and June
How Do 2012-13 Revenues Look So Far?

- Net withholding income tax is up 4.4%.
- Sales tax collections are a little behind target.
  - Will not know how holiday sales affected collections until January numbers are tabulated.
- Baseline (tax-adjusted) sales collections for the second quarter of the fiscal year were up 3.2%.
  - This was below the 3.7% target.
Tracking Economy-Based Collections

The consensus forecast expects baseline Sales Tax growth for FY 2012-13 to be 3.7%, well-below last year’s growth. Any further slowdown in collections will put pressure on the second-half of the fiscal year to meet this expectation.
Personal Income withholding growth began to moderate in Q3 and Q4 of 2012.
Key Economic Trends

Non-Ag employment well-below peak in February 2008. Employment has increased by 145,000 jobs since the trough in February 2010.

Source: NC Employment Security Commission
Risks to Revenue Forecast
Risks to Revenue Forecast

Since the revenue forecast in May, the State’s economic forecast has been downgraded.

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>December</th>
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</thead>
<tbody>
<tr>
<td>Gross State Product (nominal)</td>
<td>5.6%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Wage &amp; Salary Income</td>
<td>5.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Employment (Non-Ag)</td>
<td>1.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>9.1%</td>
<td>8.9%</td>
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<tr>
<td>Retail Sales</td>
<td>6.1%</td>
<td>5.2%</td>
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Risks to Revenue Forecast

- Risk Factors
  - Global demand improving but remains weak
    - Eurozone
    - China
  - $50k business exemption adds volatility to second-half risks – estimated $460 million reduction in revenue
  - Contraction US GDP growth in 4th quarter of 2012
  - Fiscal Cliff
    - Cross the board tax increases – resolved
    - Spending cuts
Risks to Revenue Forecast

- **Upside Risks** –
  - US Housing improving, poised for rebound
  - Employment stabilizing
  - Service sector gaining strength
  - Leading indicators point to improvement
  - Investment and hiring decisions wait it out

**Bottom line:** Our economy though stronger than last year, still cannot withstand mild economic shocks.
2013-2015 Biennium Outlook

- Steady improvement through 2013
- Employment growth accelerates into 2014
- NC outpaces US economic growth going into 2015
- Global Conditions require added caution
Key Points

• General Fund revenue is on target.

• Sales tax collections and withholding income tax are slightly behind projections.

• Volatile second-half has added uncertainty with new $50k business exemption.


• Global economic uncertainty means a very cautious biennium forecast is warranted.