



General Fund Revenue Update

State of North Carolina

REVENUE HIGHLIGHTS

■ FY 2017-18 Summary

Revenue exceeded the certified revenue by \$400.2 million.

■ Tax Collections

Individual Income tax collections were 1.4% higher than forecast for the fiscal year.

Insurance gross premiums taxes increased 15% (or \$74m) over last year.

Most other tax revenue tracked closely to the original forecast.

■ Non-Tax Revenue

Revenue from non-Tax sources were nearly 10% over target.

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This report reviews the State's revenue collections for FY 2017-18, which ended June 30, 2018. It also discusses the recently revised consensus revenue forecast for the current fiscal year.

FY 2017-18 Revenue Results

FY 2017-18 General Fund revenue collections totaled \$23.56 billion, which was \$440.2 million higher than the certified revenue for the fiscal year. The \$400.2 million in over-collections was \$83.5 million higher than the recent revised forecast had projected (the revised forecast projected over-collections at \$356.7 million). Typically, end-of-fiscal-year revenue estimates made after April's collections are accurate within a range of \$15 - \$25 million. This year's estimate fell outside that range primarily due to unusually-low Sales tax refunds in June.

Tax Revenue

In May 2018, the Fiscal Research Division and the Office of State Budget and Management revised the estimate for Sales tax revenue downward because Sales tax collections had been weaker than projected over the first 10 months of FY 2017-18. Then, in June, Sales tax refunds were \$65 million lower than expected. Because of June's low refunds, the year's Sales tax collections exceeded the original May 2017 target by \$3.4 million, and far exceeded the downwardly-adjusted end-of-year estimate.

Insurance gross premiums tax continued to surge in May and June, finishing \$37 million above the recent forecast for those two months. For the year, they were up \$74 million (15.0%) over FY 2016-17. Individual Income and the Franchise tax also were key contributors to over-collections. Individual Income finished up by \$176.1 million (1.4% above forecast) for the fiscal year, and the Franchise tax for the fiscal year was up \$63.2 million (10.4% above forecast). Additionally, a settlement on the State's former Inheritance tax, which was repealed in 2012, yielded \$10.6 million in unexpected tax revenue. All other tax revenue sources tracked closely to the original forecast.

Non-Tax Revenue

In May 2017, Non-Tax collections were forecast to generate \$846.7 million for FY 2017-18, but exceeded that amount by \$82.6 million (9.8%). The gains were driven primarily by investment income and an increase in the tobacco industry Master Settlement Agreement payment (up \$23.5 million). Investment income increased as a result of higher cash holdings throughout the fiscal year and higher interest rates. Investment income was originally projected to generate \$60.1 million, but ended the fiscal year generating \$93.8 million.

The bottom line is that a cautious forecast combined with a steadily growing

A cautious forecast combined with a steadily growing economy produced yet another fiscal surplus.

In recent years, over-collections have been approximately 2% above forecast.

The revenue forecast for FY 2018-19 was revised upwards by \$276.5 million.

Most of the increase in the revenue forecast was from the Individual Income tax, and more specifically from the increase in non-wage income such as business and investment income.

economy produced yet another fiscal surplus. The surplus was consistent with the outcome of previous years at approximately 2% above forecast. The following table shows how collections have performed relative to forecast the last several fiscal years.

Table 1. Revenue Forecast & Actual Collections by Fiscal Year
(\$ thousands)

Fiscal Year	Forecast	Actual	\$ Diff	% Diff
2014-15	21,000,100	21,445,800	445,700	2.1%
2015-16	21,720,700	22,148,900	428,200	2.0%
2016-17	22,119,950	22,614,083	494,133	2.2%
2017-18	23,125,000	23,565,190	440,190	1.9%

Revised Consensus Forecast for FY 2018-19

This past May, after reviewing collections through April, the Fiscal Research Division and the Office of State Budget and Management upwardly revised the consensus revenue forecast for FY 2018-19. The revised forecast totaled \$23.87 billion, which represented an upward revision of \$276.5 million. The revision is relative to the certified budget based on the May 2017 consensus forecast and 2017 session adjustments to tax and non-tax revenue.

May 2018 Consensus Revenue Forecast (\$ millions)

	FY 18-19
Revised General Fund Revenue Forecast	\$23,871.3
Certified Budget*	\$23,594.8
Revised Amount	\$276.5

*Includes May 2017 biennium revenue forecast plus 2017 session law changes

The FY 2018-19 forecast was based off of the revised projections for FY 2017-18, but only partially, as part of the increase was considered one-time in nature. Economic conditions envisioned when the original forecast was developed last May have progressed as expected, but with the revised increase in the tax base the forecast was increased by \$276.5 million. The result is revenue growth of 1.7% over the revised FY 2017-18 forecast. The biggest gain was in Individual Income tax, which was increased by \$153.8 million. The increase was driven mostly by growth in non-withholding income such as business and investment income. Non-Tax collections contributed \$83.8 million to the increased projection, largely driven by projected increases in Investment Income and the amount of the Master Settlement Agreement payment.

APPENDIX

NORTH CAROLINA GENERAL FUND REVENUE
 (\$ Millions)

Tax Revenue	Budget 2017-18	Actual 2017-18	Target Difference	Actual 2016-17	Y/Y Pct. Change
Personal Income	\$ 12,341.4	\$ 12,517.5	\$ 176.1	\$ 11,969.7	4.6%
Sales and Use	7,334.0	7,337.4	3.4	7,004.0	4.8%
Corporate Income	732.3	739.0	6.7	752.2	(1.7%)
Franchise	605.8	669.0	63.2	748.1	(10.6%)
Insurance	482.4	566.1	83.7	492.1	15.0%
Alcoholic Beverage	368.5	371.1	2.6	353.6	5.0%
Inheritance	-	10.6	10.6	0.7	-
Privilege License	26.3	32.4	6.1	29.3	10.5%
Tobacco Products	257.1	260.3	3.2	261.8	(0.6%)
Real Estate Conveyance	68.3	72.9	4.6	67.5	8.1%
White Goods Disposal	2.2	3.9	1.7	2.5	58.2%
Scrap Tire Disposal	5.8	5.8	0.0	5.8	0.8%
Mill Machinery	50.2	46.7	(3.5)	47.3	(1.3%)
Solid Waste Disposal	2.4	2.5	0.1	2.5	(0.2%)
Other	1.6	0.1	(1.5)	0.3	-
Total Tax Revenue	\$ 22,278.3	\$ 22,635.9	\$ 357.6	\$ 21,737.2	4.1%
Nontax Revenue					
Investment Income	\$ 60.1	\$ 93.8	\$ 33.7	\$ 61.9	51.5%
Judicial Fees	240.9	239.7	(1.2)	242.1	(1.0%)
Insurance	75.5	84.5	9.0	82.8	2.0%
Disproportionate Share Master Settlement Agreement	164.7	161.0	(3.7)	164.1	-
Other	119.7	143.2	23.5	131.1	-
Other	185.8	207.2	21.4	195.0	6.3%
Total Nontax Revenue	\$ 846.7	\$ 929.3	\$ 82.6	\$ 876.9	6.0%
Total Revenue, General Fund	\$ 23,125.0	\$ 23,565.2	\$ 440.2	\$ 22,614.1	4.2%