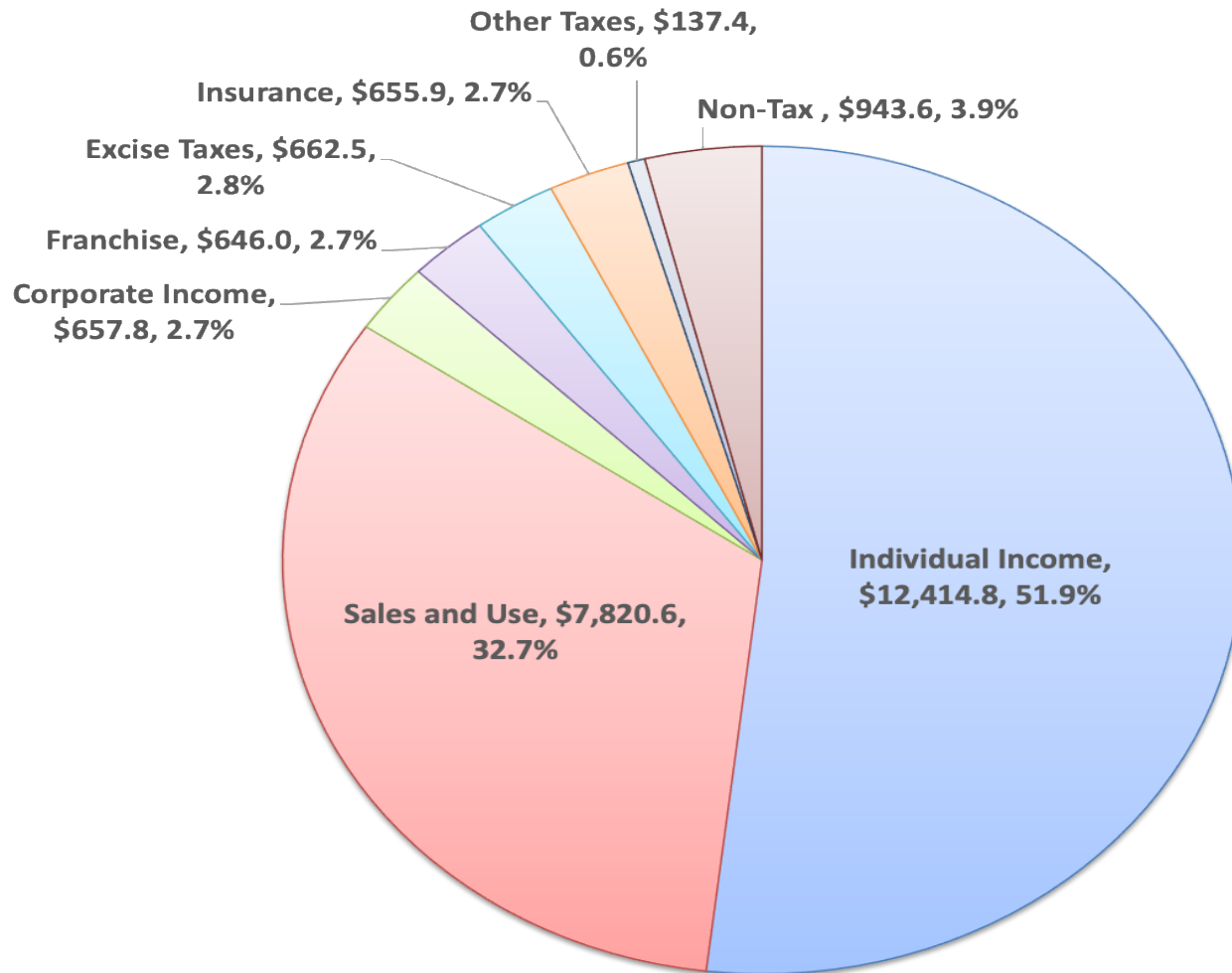


Consensus Revenue Forecast

Fiscal Year 2019-20 General Fund Revenue (\$ millions)



Consensus Revenue Forecast

Consensus Revenue Process

- Statutory Guidelines do not address the budget revenue forecasts
- Fiscal Research and the Office of State Budget and Management develop independent forecasts
- Prior to release of Governor's biennial budget, the Consensus Forecast group meets to develop a consensus

Consensus Revenue Forecasts

Consensus Revenue Process

- In early May, after April receipts have been recorded, the legislature and/or the Governor can request a revised consensus forecast
 - April “surprise” from individual and corporate income tax payments
- An additional revision to the General Fund forecast after June’s collections may be requested
- In even-numbered years there is a revision to the forecast for the second year of the biennium. The revised forecast usually takes place in early May after April’s receipts are tabulated

General Fund Consensus Forecast

Consensus Forecast

Fiscal Year	Revenue (\$ millions)	Y/Y Change (\$ millions)	Percent Change
2020-21	\$27,602.6	\$3,663.3	15.3%
2021-22	\$27,350.6	(\$252.0)	(0.9%)
2022-23	\$28,461.5	\$1,110.9	4.0%

- Forecast projects \$4.13 billion in over collections

Consensus Revenue Forecasts

FY 2020-21 Outlook

- For this fiscal year collections are well-ahead of expectations. Through January collections are \$2.5 billion over what the May 2020 forecast expected
- There are several reasons -
 - Better than expected April collections which were delayed until July
 - Federal CARES act bolstered household and business income
 - The impact of the recession has not been widespread – a K-shaped recession and recovery

Consensus Revenue Forecasts

FY 2020-21 Outlook

- Federal CARES act bolstered household and business income
 - Households have received an estimated \$18 billion
 - NC businesses have received an estimated \$12.5 billion
- The impact of the recession was not been widespread – a K-shaped recession and recovery
 - Most middle- and upper-income households experienced little economic distress
 - Service workers and part-time workers hit the hardest –we still have over 200,000 fewer jobs than last February

Consensus Revenue Forecasts

FY 2020-21 Outlook

- When controlling for shift of \$1.08 billion
 - Individual Income increased 3.8%
 - Sales tax collections – 8.0%!
 - Corporate Income and Franchise tax – 4.9%
 - Total General Fund increased 6.0%
- Net Impact is overcollections of \$4.13 billion

Consensus Forecast

FY 2020-21 assumptions on the rest of the fiscal year –

- No shift, up or down, in economic growth for second-half of fiscal year
- The effects from the pandemic begin to lessen this spring
- *Important assumption is that April expectations for refunds and final payments are met*
- Assumes federal relief/stimulus - the size and timing could impact both household and business income

Consensus Revenue Forecasts

Biennium 2021-23 Outlook

- The improved current fiscal year forecast means there is a larger revenue base to start the next biennium
- Uncertainty about the virus and federal response increase the potential for greater variation in the forecast
- Short-run partial recovery versus long-run recovery back to pre-COVID economic activity
 - Replacing small businesses lost during the recession will take longer
 - Permanent employment losses are increasing
 - Many have been unemployed a long time and that means it will take longer for the economy to heal

Consensus Forecast

Biennium 2021-23 Outlook

- In FY2021-22, expect to collect \$252 million *less* due to the billion-dollar shift of revenue
 - Adjusting for the revenue shift yields a 3.1% growth in revenue
- **Personal Income** projected to drop 2.5% below previous fiscal year due to tax shift
- **Sales tax** projected to increase by 3.1%
- **Corporate Income and Franchise** taxes are project to fall 13.2%

Consensus Forecast

Biennium 2021-23 Outlook

- FY2022-23 ,expected to collect \$1,110.9 million more than previous fiscal year with 4.0% growth
- **Personal Income** projected to increase 3.4% above the previous fiscal year
- **Sales tax** projected to increase by 3.7%
- **Corporate Income and Franchise** taxes are projected to grow by 3.6%
- Insurance Gross Premiums tax increases 20.5% with addition of Medicaid Managed Care provider fees

Consensus Revenue Forecasts

To summarize

- The forecast expects overcollection for this fiscal year of \$4.13 billion
- Next fiscal year revenues fall (0.9%) - adjusted for tax shift it represents a 3.1% pace of growth
- The last year of the biennium revenue growth projected to increase by 4.0%
- Economic decisions will continue to be impacted by the pandemic with added uncertainty from size and timing of a federal response
- A full return to a pre-COVID economy not expected until mid-2022 – the forecast approach remained cautious given these uncertainties