



# North Carolina General Fund

## Revenue Consensus Forecast: September Revision

### FORECAST HIGHLIGHTS

#### **FY 2018-19 over-collections higher than expected.**

The May forecast expected collections to be 2.7% above the budgeted amount. Actual collections finished 3.75% over budget.

#### **Increase in 2019 biennium revenue forecast.**

The forecast increased revenue during the biennium by a total of \$277.5 million (\$167.4 in FY 2019-20 and \$110.1 in FY 2020-21).

#### **Modest downgrade in the economic forecast.**

The most recent economic forecast has the economy growing somewhat slower than what was projected back in March of this year. Thus, present economic data is tempering the forecast for the amount of increased recurring revenues for the 2019 biennium.

#### **Revenue sources steady.**

Except for the growth in Personal Income and Sales taxes payments, other revenue sources are in line with May's forecast.

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The Fiscal Research Division and the Office of State Budget and Management have reached consensus on revising the revenue forecast upward for the 2019 biennium, due to significant over-collections for FY 2018-19.

#### **FY 2018-19 OVER-COLLECTIONS**

The May forecast expected FY 2018-19 final collections to be \$24.6 billion, or \$643.3 million over the \$23.9 billion budgeted amount. However, actual final collections proved the May forecast to be more conservative than expected. Final collections surpassed the forecast by a significant \$253.3 million, with year-end revenue totaling \$24.8 billion (\$896.6 million in over collections).

The increase stems primarily from better than expected growth in Individual Income and Sales taxes, which continued to exceed expectations in May and June. However, most of the over collections are related to the 2018 tax year. During the last quarter of 2018, equity markets grew turbulent. Fueled in part about concerns the economy may be rapidly weakening. These conditions, along with federal tax changes, led many North Carolinians to adjust their investments, increasing capital gains, which increased their 2018 taxable income.

#### **FORECAST REVISIONS FOR THE 2019 BIENNIUM**

Although final collections were \$253 million higher than what was projected in the May forecast, the revised forecast adjusts collections over the biennium upward only slightly, for a couple of reasons.

First, the forecast assumes that much of the over-collections for the fiscal year were one-time in nature. This means the revised forecast assumes the historically-high capital gain realizations of 2018 do not continue throughout the biennium.

Additionally, underlying economic conditions have been downgraded modestly since May. Although equity markets have stabilized and the economy is currently on solid footing, there are still signs of economic weakening.

The interplay of all of these economic factors results in our decision to increase the forecast by \$167.4 million for the first year of the biennium and by \$110.1 million for the second year. The smaller net impact in the second year of the biennium is a result of the most recent economic forecast that has the economy growing somewhat slower than was previously projected.

#### **General Fund Revised Consensus Forecast Summary (\$ in Millions)**

Fiscal Year	May Forecast	Collections	Change
2018-19	\$24,573.4	\$24,826.7 (A)	\$253.3
2019-20 (est.)	\$24,920.3	\$25,087.7 (F)	\$167.4
2020-21 (est.)	\$25,980.8	\$26,090.9 (F)	\$110.1

(A) Actual Collections; (F) Revised Forecast