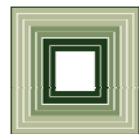


GENERAL FUND REVENUE & BUDGET REPORT

May 14, 2008

Barry Boardman, Economist

Karen Hammonds-Blanks, Principal Fiscal Analyst



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

Highlights

- Consensus forecast revised:
 - Current year increased \$151.5 million
 - FY 2008-09 is lowered \$66.5 million
- The April “surprise” never materialized
- Economic slowdown expected through 2009

Revenue Estimate Summary

- General Fund Revenues (FY 07-08)
 - Revised: \$19,907.2
 - Original: \$19,755.7
- \$ 151.5 adjustment
- Revised baseline growth from 4.0% to 4.6%

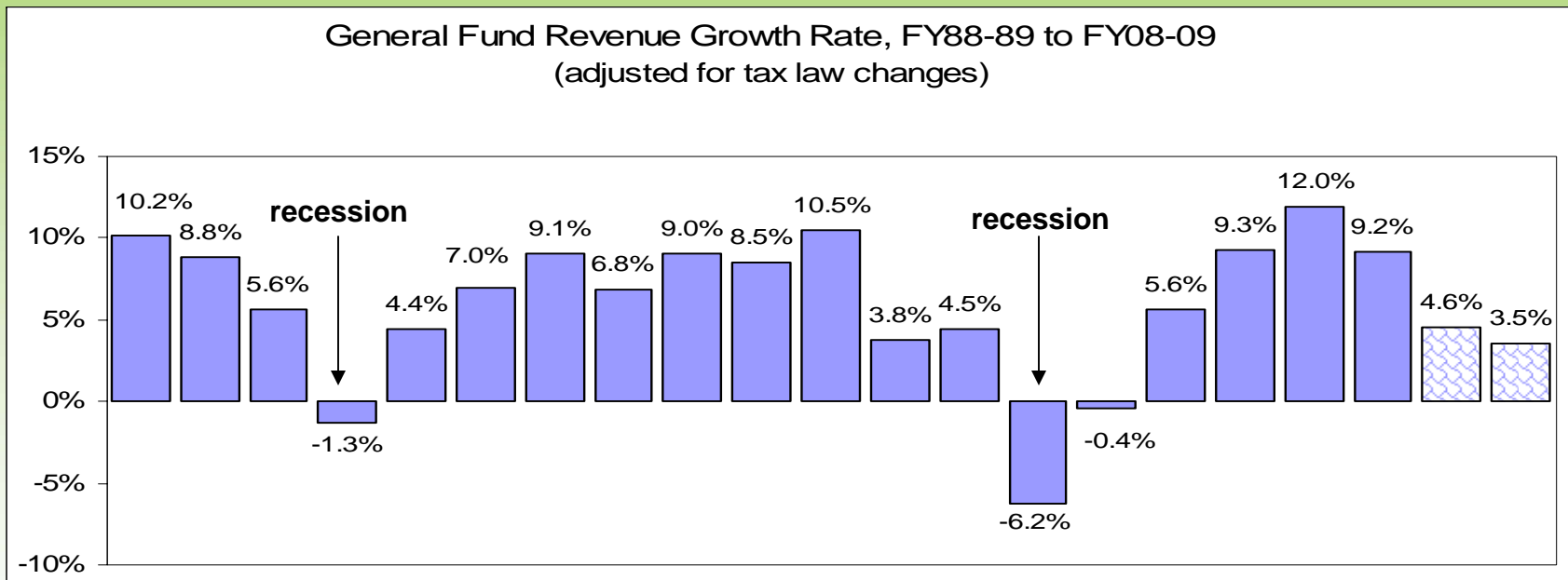
Revenue Estimate Summary

- General Fund Revenues (FY 08-09)
 - Revised: \$20,869.5
 - Original: \$20,936.0

\$ (66.5) adjustment
- Revised baseline growth from 4.7% to 3.5%.

Revenue Estimate Summary

Revised forecast envisions significant slowdown, but not a recession.

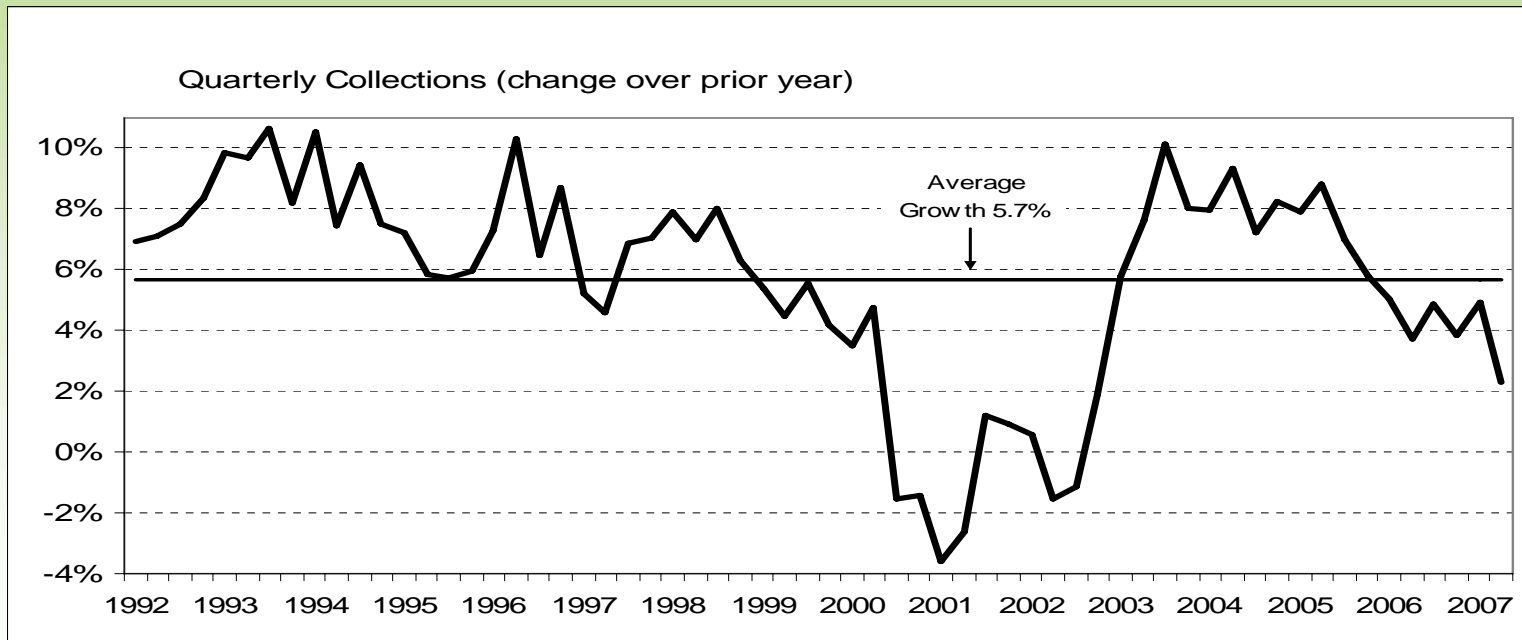


Note: The last two columns represent the current forecast baseline estimates.

Factors Leading to the Revision

Economy-based taxes indicate economy no longer in expansion phase of business cycle

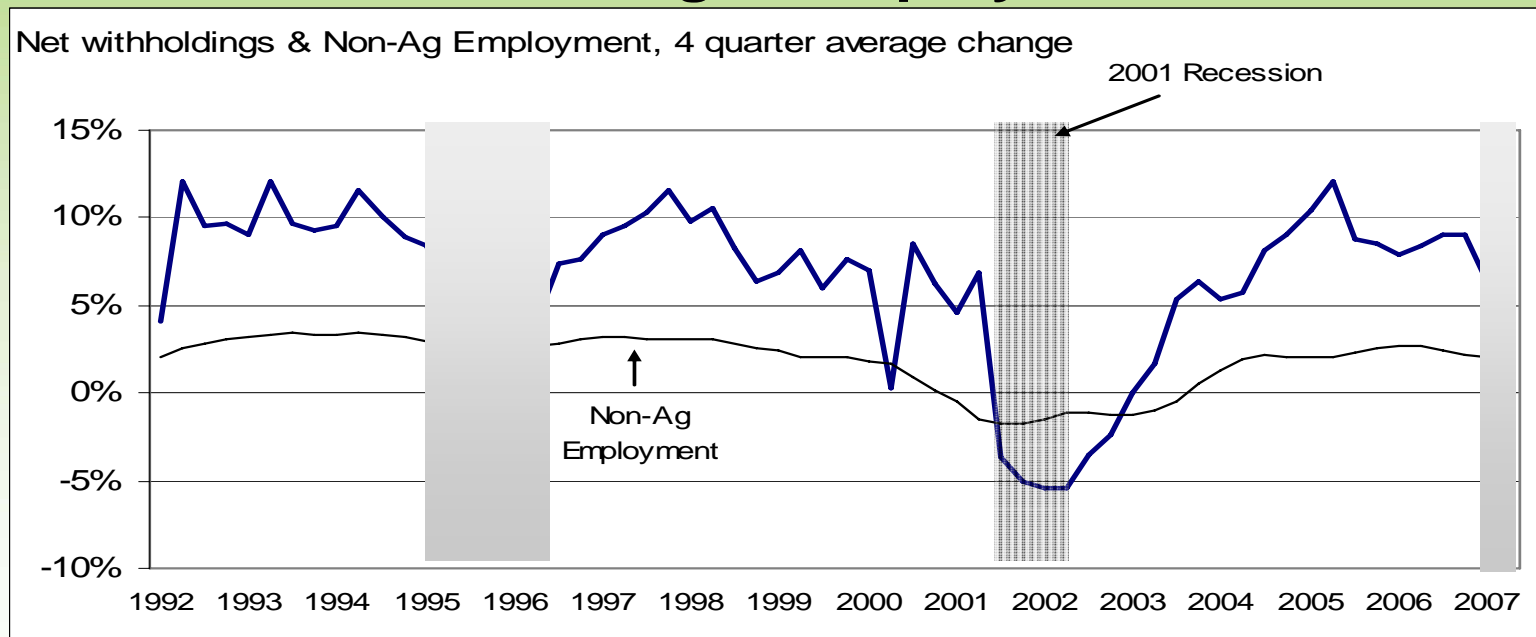
Sales & Use Tax Collections (adjusted for tax law changes)



Factors Leading to the Revision

Through April, withholding receipts up over last year by 6.4%

Withholding & Employment



Factors Leading to the Revision

- Corporate profits remain steady:
 - Corporate and Franchise tax should beat previous forecast.
 - Rising prices have yet to erode corporate profits.
 - International demand helps many firms

Forecast Risks

- Possible early stages of mild recession
- Most economist forecast prolonged economic slowdown
- State's economic outlook less pessimistic than national economy's

Forecast Risks

- Additional risks include:
 - major spike in energy prices
 - more fallout from housing and financial markets crisis
 - external shocks such as war or national disaster
 - impact of rising food and gasoline prices

Risks to the Revised Forecast

- Recovery by first half of 2009 modest at best
- True expansion may be two years away
- Housing recession and related credit crisis will take time to unwind.

Revenue Summary

- Cautious budget approach last summer was beneficial
- Economy remains at risk
 - housing recession;
 - tight consumer credit;
 - weak income growth;
 - rising food and energy prices.

FY 2008-09 General Fund Budget Outlook

- What You Did During the 2007 Session
- Where You Are Today
- What Challenges You Are Facing

What You Did During the 2007 Session

Enacted FY 2008-09 Budget

- \$20.69 billion¹

Unappropriated Balance

- \$559 million

Note:

¹Reflects Appropriation of General Purpose Revenue only

What You Did During the 2007 Session

- Significant Compensation Increases
- Savings Reserves Increase
- Medicaid County Swap
- Significant Economic Development Funding
- Capital Improvements
- Revenue Adjustments

Where You Are Today

Revised Revenue Forecast

FY 2007-08	\$151.5 million
FY 2008-09	-\$ 66.5 million

Estimated Reversions

FY 2007-08	\$150.0 million
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FY 2008-09 General Fund Outlook

Preliminary Availability Estimates (estimates in billions)

Balance Remaining from 2007 Session	.317
Projected Reversions	.150
Projected Over-Collections	<u>.152</u>
Estimated Fund Balance w/o Earmarks	.619
Statutory Earmarks	(.309)
Beginning Unreserved Fund Balance	<u>.309</u>
Revenues enacted in S.L. 2007-323	20.936
Revision to Consensus Revenue Forecast	<u>(.066)</u>
Total Estimated General Fund Availability	\$21.179

FY 2008-09 General Fund Outlook

Estimated General Fund Availability	\$21.179
Enacted Budget FY2008-09	<u>(20.694)</u>
Amount Available for Appropriation	\$.485

What Challenges You Are Facing

Items you typically fund in Short Session:

- Mandatory Adjustments
- High Priorities or “Musts”
- Other Needs and Priorities

How Do You Respond to the Challenges

- Budget Reductions
- Revenue Adjustments
- Special Funds
- Limit Expansion

Questions or Additional Information

Fiscal Research Division

(919) 733-4910

www.ncleg.net/FiscalResearch/