

June 2021 Consensus General Fund Revenue Forecast

The Consensus Forecasting Group, comprised of economists at OSBM and the General Assembly’s Fiscal Research Division, has revised the General Fund revenue forecast and now anticipates FY 2020-21 revenues will exceed the February 2021 consensus forecast by \$1.91B (6.9%).

The revised June consensus forecast anticipates a total of **\$60.4B for the next biennium**, with **\$29.7B in FY 2021-22** and **\$30.7B in FY 2022-23**. The combined effect of the upward revisions to the February consensus forecast in all three fiscal years adds \$6.50 billion to total General Fund availability through FY 2022-23.

June 2021 Consensus General Fund Revenue Forecast (Amounts in Millions)							
Revenue Source	FY 2019-20	FY 2020-21		FY 2021-22		FY 2022-23	
	Actual	Consensus	YoY Chg	Consensus	YoY Chg	Consensus	YoY Chg
Individual Income	\$12,414.7	\$15,702.3	26.5%	\$15,388.1	-2.0%	\$15,998.9	4.0%
Sales and Use	\$7,820.6	\$9,068.8	16.0%	\$9,681.1	6.8%	\$9,830.0	1.5%
Corporate Income & Franchise	\$1,303.7	\$2,313.5	77.5%	\$2,140.5	-7.5%	\$2,204.9	3.0%
All Other Tax	\$1,456.7	\$1,584.0	8.7%	\$1,676.3	5.8%	\$1,833.1	9.4%
Total Tax Revenue	\$22,995.7	\$28,668.6	24.7%	\$28,886.0	0.8%	\$29,866.9	3.4%
Total Nontax Revenue	\$943.6	\$840.7	-10.9%	\$819.4	-2.5%	\$840.3	2.6%
Total General Fund Revenue	\$23,939.3	\$29,509.3	23.3%	\$29,705.4	0.7%	\$30,707.2	3.4%
<i>Change vs. February 2021 Forecast</i>		<i>\$1,906.7</i>	<i>6.9%</i>	<i>\$2,354.8</i>	<i>8.6%</i>	<i>\$2,245.7</i>	<i>7.9%</i>

Source: Consensus Forecasting Group (OSBM and FRD)

Primary Factors Behind FY 2020-21 Overcollections

- Congress passed the American Rescue Plan Act (ARPA) in March. ARPA included significantly more federal fiscal stimulus than assumed in February, providing a major boost to personal incomes and household spending in the final months of the fiscal year.
- Individual and corporate income tax payments in April and May, reflecting payments for tax year 2020 returns and extension payments, were much higher than anticipated in February. The higher income tax payments indicate that household and business incomes recovered much more strongly in 2020 than previously predicted.
- Healthcare providers in North Carolina and the rest of the US have made more rapid progress vaccinating adult populations against COVID-19, allowing for an earlier end to many pandemic restrictions on commercial activity.

Primary Factors Behind Upward Revision to 2021-23 Biennium Revenue Forecast

- The large, positive “April/May surprise” in individual and corporate income tax collections indicates that incomes in 2021 and later will be growing from a higher starting level than assumed in February.
- Many households have built up large cash reserves since the beginning of the pandemic: household bank deposits increased from \$13.7 trillion in 2019Q4 to \$16.5 trillion in 2020Q4 (before the most recent round of stimulus payments).¹ This increase in savings will lead to higher consumer spending than previously assumed.
- Rising stock and housing prices will directly increase taxable incomes through higher capital gains realizations while also fueling additional consumer spending.
- Higher consumer spending, combined with higher prices for some goods and services facing temporary supply shortages, will drive business profits higher in 2021 and 2022.

¹ US Federal Reserve. Financial Accounts of the United States. “Balance Sheet of Households and Nonprofit Organizations, 1952 – 2020.” https://www.federalreserve.gov/releases/z1/dataviz/z1/balance_sheet/table/

June 2021 - Revised Transportation State Revenue Forecast

OSBM, in collaboration with DOT, and the General Assembly's Fiscal Research Division (FRD) have revised the revenue forecast for the Highway Fund and Highway Trust Fund. Forecasters project **overcollections of \$527.1 million for FY 2020-21** based on May 2020 consensus forecast. The consensus group revised total state revenue estimates to **\$4.1 billion and \$4.3 billion for each year of the 2021-2023 biennium, respectively.**

The upward revisions from the February consensus estimates result from improved economic conditions and outlook since this winter. The federal stimulus provided by the American Rescue Plan, falling rate of daily COVID-19 cases, and an increased vaccination rate have led to more North Carolinians buying cars, getting back to work and school, and starting to travel more. Additionally, the chip shortage and increase in prices have provided a boost to the Highway Use Tax (3% tax on vehicle sales). While the economy has seen a strong recovery from the pandemic, there is still uncertainty in the forecast. The forecast assumes that increasing vaccination rates will outpace the spread of new COVID-19 variants.

June 2021 Transportation State Revenue Forecast (Million \$)							
Fund/ Source	FY 2019-20	FY 2020-21*		FY 2021-22		FY 2022-23	
	Actual	Consensus	% YoY	Consensus	% YoY	Consensus	% YoY
Total Highway Fund**	\$2,150.7	\$2,535.1	17.9%	\$2,556.6	0.9%	\$2,528.8	-1.1%
Total Highway Trust Fund	\$1,542.5	\$1,556.3	0.9%	\$1,552.0	-0.3%	\$1,728.3	11.4%
TOTAL STATE REVENUE	\$3,693.2	\$4,091.4	10.8%	\$4,108.6	0.4%	\$4,257.1	3.6%
<i>Change (and % change) from Feb. 2021 Consensus</i>		\$62.5	1.6%	\$92.7	2.3%	\$132.8	3.2%
<i>Major Sources</i>							
Motor Fuel Tax	\$1,933.5	\$2,026.5	4.8%	\$2,085.5	2.9%	\$2,181.4	4.6%
Highway Use Tax	\$837.5	\$988.3	18.0%	\$958.3	-3.0%	\$997.9	4.1%

* FY 2020-21 includes close to \$80 million in Motor Fuel Tax revenue that shifted from FY 2019-20 due to tax deadlines changes in 2020.

** Session Law 2020-91 (H77) increased for FY 2020-21 the split in Motor Fuel Tax revenue between the Highway Fund and the Trust Fund from 71% in favor of the Highway Fund to 81%. The Highway Fund share decreases to 80% in FY 2021-22 and then stays at 75% thereafter.