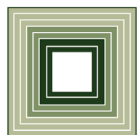


# 2021-2023 General Fund Consensus Revenue Forecasts

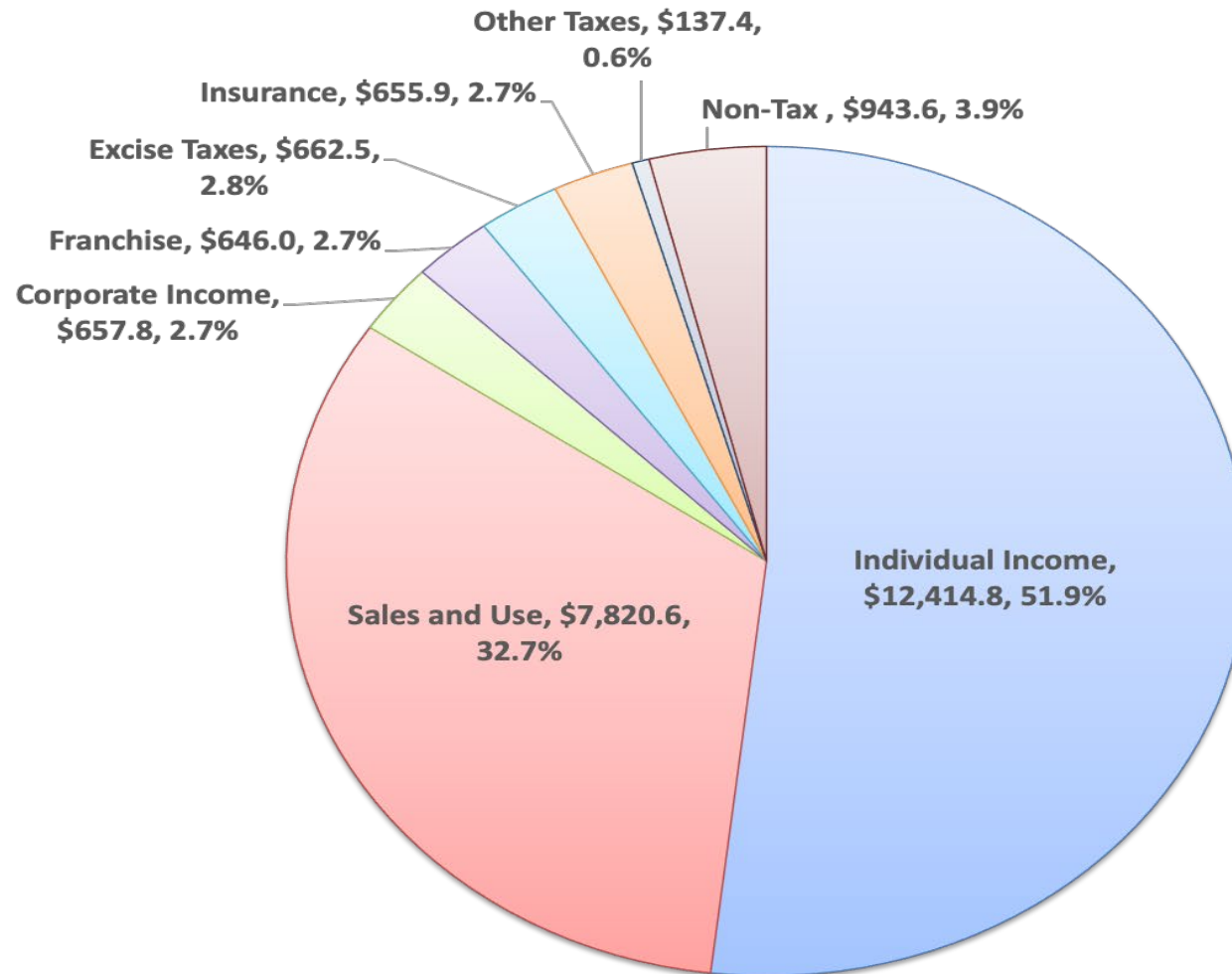
**Barry Boardman, Ph.D.**  
**Fiscal Research Division**  
**February 17, 2021**



**FISCAL RESEARCH DIVISION**  
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# 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



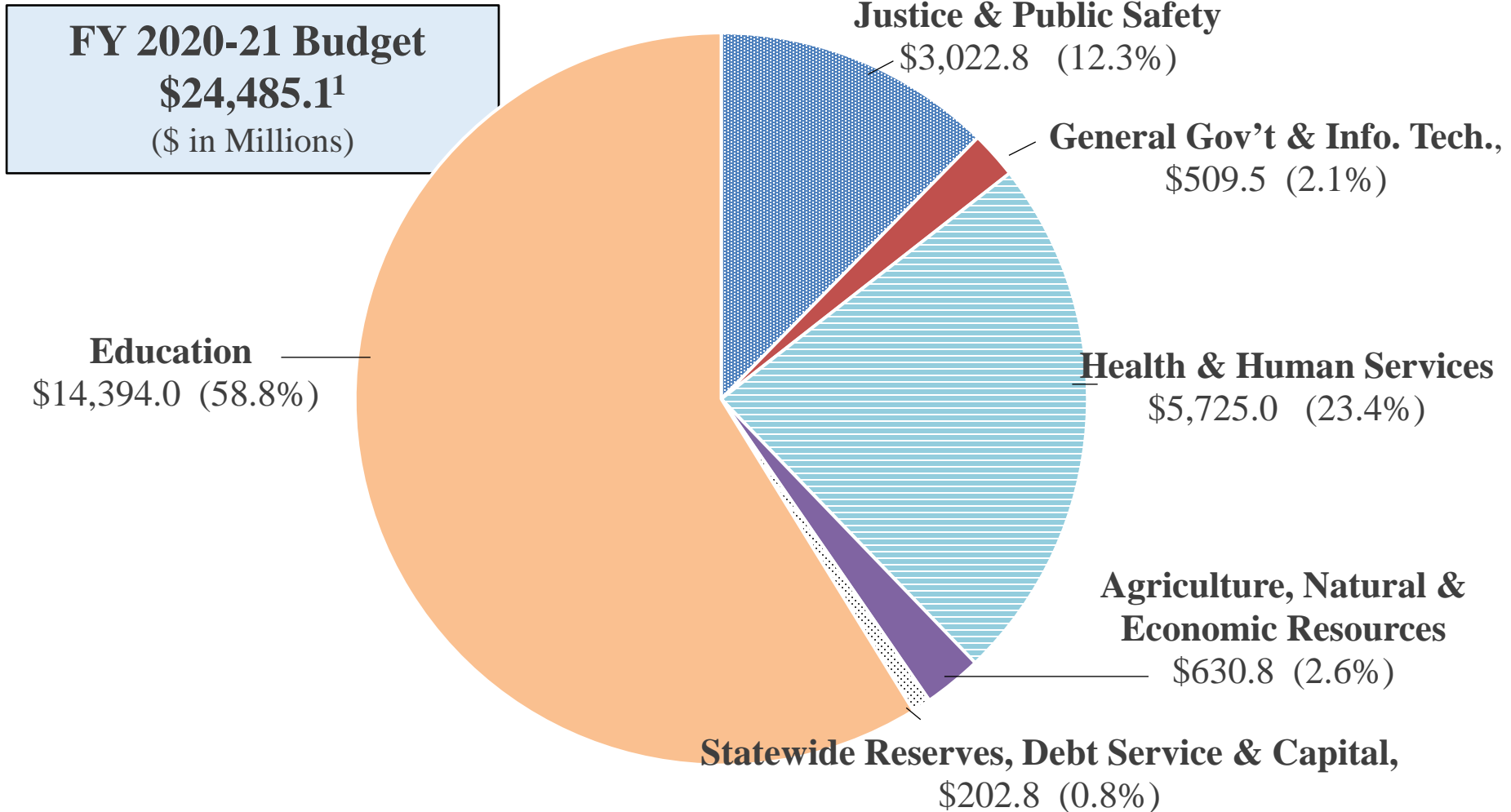
**FISCAL RESEARCH DIVISION**  
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# **State General Fund Budget Overview and Outlook**

**Jennifer Hoffmann, Principal Fiscal Analyst**

**February 17, 2021**

# General Fund Budget by Appropriations Committee Area



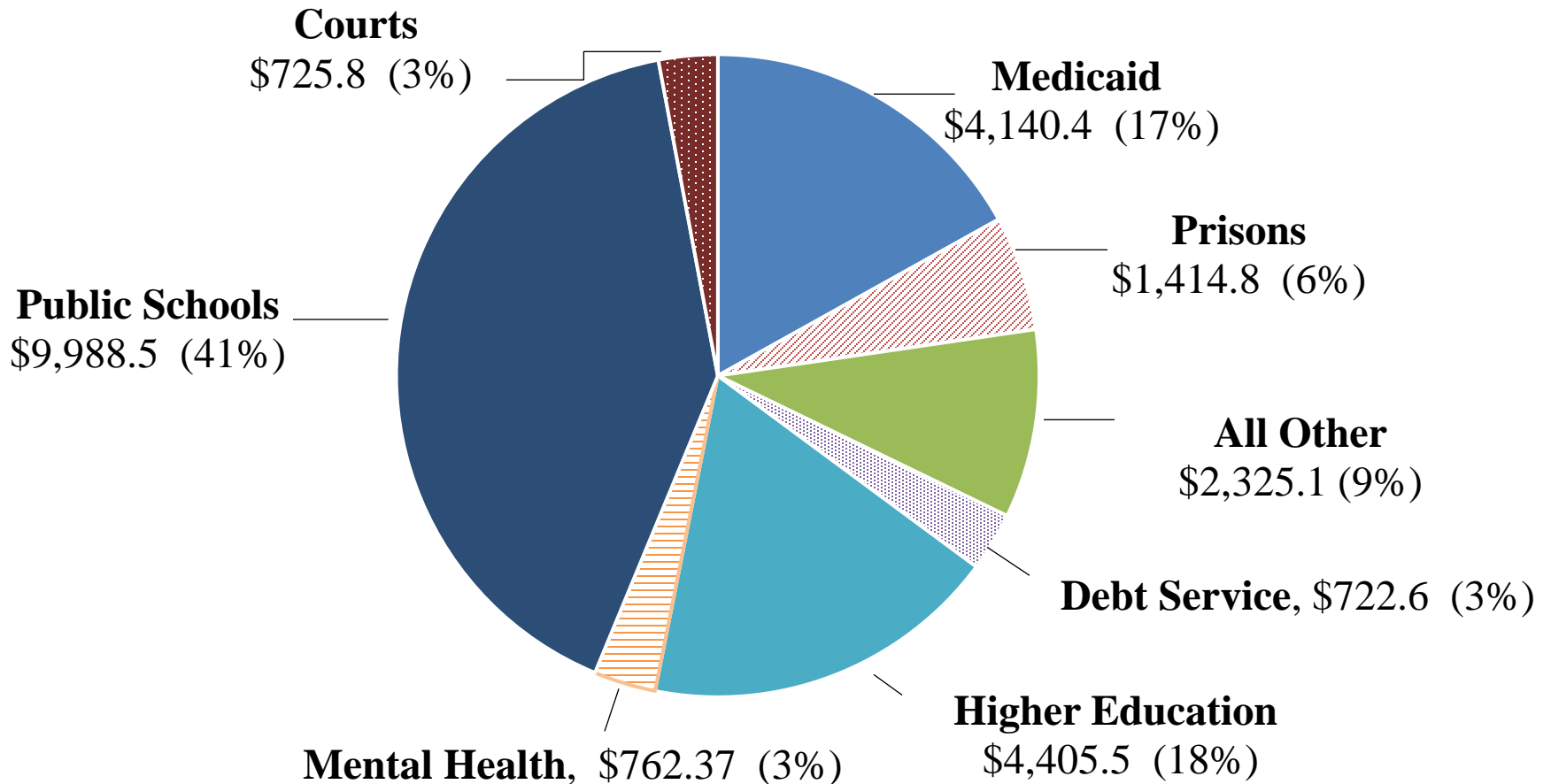
<sup>1</sup> Reflects appropriations from general purpose revenue only; amount does not include appropriations made from agency receipts.



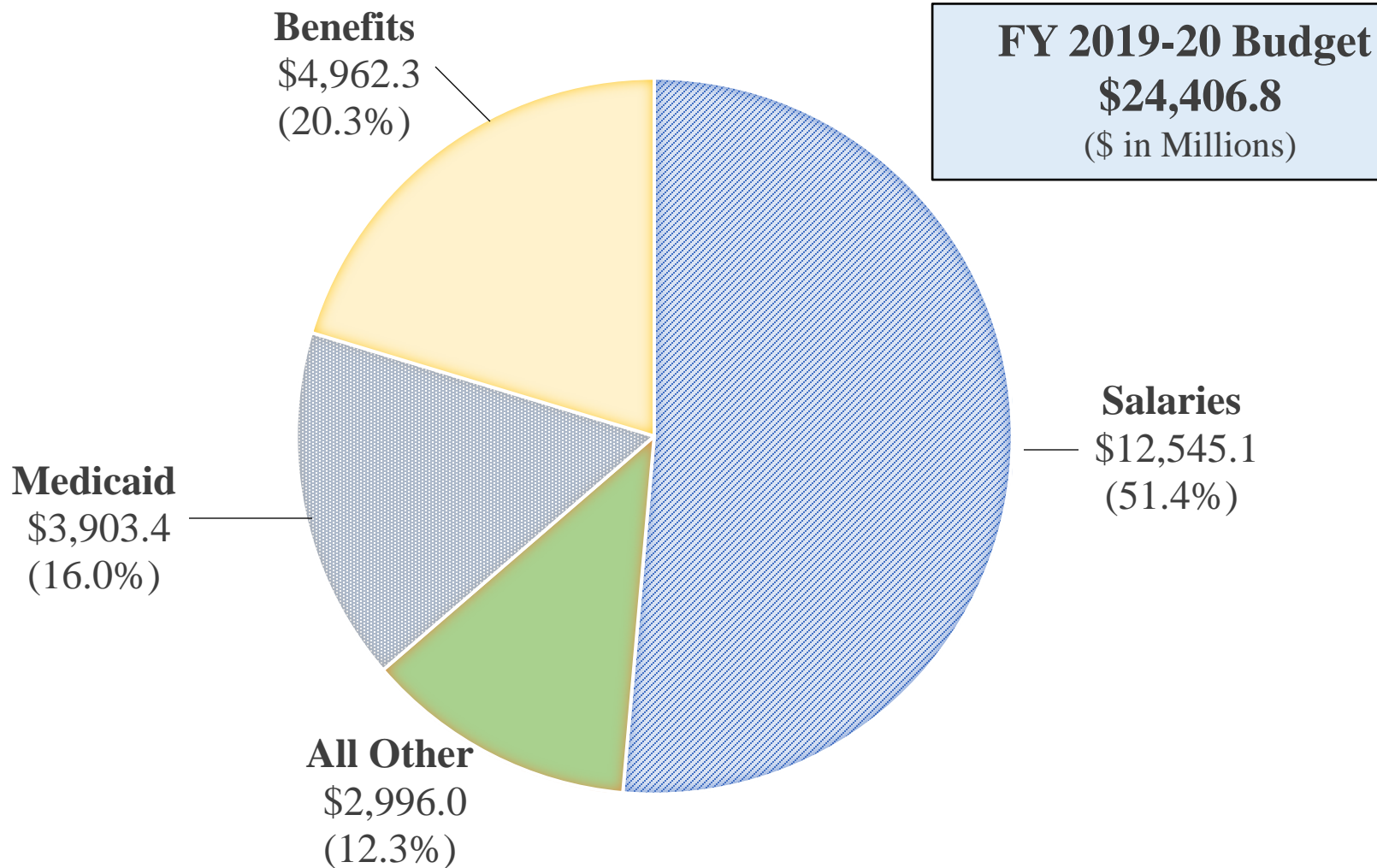


# General Fund Appropriations by Key Budget Drivers

**FY 2020-21 Budget** (in Millions)  
**\$24,485.1**



# General Fund Appropriations by Expenditure Type



# 2019 Legislative Session

## Significant Budget Actions

- Governor Cooper vetoed the Current Operation Appropriations Act (H966)
- General Assembly did not override budget veto
- The statutory Continuing Budget Authority (aka Continuing Resolution) was triggered for the first time; no government shutdown
- General Assembly enacted 21 individual supplemental appropriations bills, including
  - A base budget bill for all State agencies
  - Budgets as enacted in H966 for DOT, Community College, Elections



# 2019 Legislative Session

## Significant Budget Actions

State funds appropriated for...

- Salary increases for most State employees (excluding UNC), step increases for teachers and asst. principals, and add'l funds for the retirement and health plan systems (\$297.7 mil in FY 2019-20 and \$656.4 mil in FY 2020-21)
- “Raise the Age” Implementation (\$32.7 mil in FY 2019-20 and \$47.4 mil in FY 2020-21)
- School and prison safety initiatives (\$43.3 mil in FY 2019-20 and \$29.8 mil in FY 2020-21)
- Disaster recovery for Hurricanes Matthew, Florence, Michael, and Dorian (\$293.3 mil)
- Broadband expansion (\$15 mil annually for 10 years)



# 2020 Legislative Session

## Significant Budget Actions

- Pre-COVID-19 pandemic
  - In January 2020, General Fund availability showed a \$2.3 billion unappropriated balance at end of FY 2019-20 and \$3.6 billion balance at end of FY 20-21
- Mid-COVID-19 pandemic
  - In May 2020, the revised consensus forecast estimated \$4.2 billion reduction to FY 2019-21 budgeted revenues
  - Revenues would be short \$600 million to support the enacted biennial budget
- NCGA Response
  - FY 2020-21 budget adjusted to meet balanced budget req.
  - 32 bills affecting appropriations and revenue enacted between April 28 and September 3, 2020



# 2020 Legislative Session

## Significant Budget Actions

### Funds appropriated for...

- Medicaid and Health Choice rebase (\$463 mil) and Medicaid Transformation (\$69.4 mil)
- K-12 and higher education enrollment growth (\$242.9 mil)
- Various capital projects (\$182.7 mil)
  - UNC projects and R&R (\$75.4 mil)
  - State agency projects and R&R, including Freedom Park (\$76.6 mil)
  - Water Resources Projects (\$30.8 mil)
- Building/Operating reserves (\$28.6 mil) for
  - NCSSM-Morganton campus
  - 9 State parks, and
  - 11 UNC building projects



# 2020 Legislative Session

## Significant Budget Actions

### **Federal funds** appropriated for COVID-19 pandemic relief & recovery...

- More than \$1.5 billion in federal funds received directly by State agencies from 1 of 4 federal bills
- \$3.6 billion in Coronavirus Relief Fund (CRF) funding
  - 3 main appropriations bills plus 6 additional bills more narrowly focused
- Significant CRF Allocations
  - \$645.4 mil to offset General Fund Appropriations
  - \$440.5 mil for the Extra Credit Grant program
  - \$300 mil to local governments
  - ~\$588.6 mil for K-12 and higher education, including private universities
  - ~\$219.6 mil for small business & economic development programs
  - ~\$486.3 mil for NC DHHS programs
  - ~\$154.4 mil to hospitals, clinics, providers



# 2020 Legislative Session Budget Highlights

## Key Takeaways:

- No significant cuts to agencies
- Many of the funding sources used to support the FY 2020-21 budget were nonrecurring
- \$645 million of CRF used to offset General Fund expenditures
- Challenging budget situation for 2021-23 fiscal biennium





# Comparing NC to Other States

NASBO reports that ...

- 35 states reported General Fund collections for FY 2019-20 came in below projections
- 19 states reported mid-year budget cuts for the FY 2019-20 due to revenue shortfalls
- 15 states made withdrawals from Rainy Day funds in FY 2019-20 and another 10 have done so already in FY 2020-21
- 19 states instituted or continued hiring freezes for FY 2020-21, 7 imposed furloughs and 2 states used layoffs. Three states reduced salaries
- 23 states used targeted spending cuts and 8 state used across-the-board cuts to balance budgets for FY 2020-21



# FY 2021-23 Budget Outlook

1. Consensus Revenue (+)
2. Recommended Base Budget (-)
3. Statutory Reservations (-)
  - Savings Reserve
  - State Capital and Infrastructure Fund (SCIF)
4. Budget Drivers/Pressures(-)
5. Beginning Unreserved Fund Balance (+)



# Recommended Base Budget

## FY 2021-22

\$24,106.1 million \*

## FY 2022-23

\$24,116.5 million \*

- Continues funding for State agencies at FY 2020-21 levels with a few adjustments authorized in statute
  - Includes \$645 million in CRF offsets restored
  - Does not include items considered to be recurring that were funded with nonrecurring funds in FY 2020-21 totaling \$742 M
    - K-12 ADM & Avg. Personnel Salary Adj. - \$157.1 million
    - Higher Education Enrollment - \$85.9 million
    - Medicaid Rebase - \$463 million

\* debt service removed, covered by SCIF



# FY 2021-23 General Fund Budget Outlook

	(\$ in millions)	
	<u>FY 2021-22</u>	<u>FY 2022-23</u>
Consensus GF Revenue Forecast	27,350.6	28,461.5
Preliminary Base Budget <sup>1</sup>	(24,106.1)	(24,116.5)
Restore Recurring Funds	<u>(741.9)</u>	<u>(741.9)</u>
Funds Remaining for Approp. <sup>2</sup>	\$ 2,502.6	\$ 3,603.1

<sup>1</sup> Base adjusted for debt service

<sup>2</sup> Make no assumptions about adjustments in availability or spending



# Statutory Reservations

- **Savings Reserve (aka the Rainy-Day Fund)**
  - Requires a mandatory minimum reservation of 15% of net tax revenue growth
    - Estimated FY 2021-22: \$0
    - Statute requires State Controller to reserve an amount equal to *actual* growth, which in FY 2020-21 is estimated at **\$575.2 million**
- **State Capital and Infrastructure Fund (SCIF)**
  - Requires a transfer equal to 4% of net tax revenues deposited in the General Fund and ¼ of year end unreserved fund balance
    - Estimated FY 2021-22: **Over \$2.1 billion**
      - ¼ of unreserved fund balance estimated at **\$1.1 billion**
      - 4% of net tax revenues = **\$1.0 billion**



# Budget Pressures

- Public Schools Average Daily Membership (ADM)
- Higher Education Enrollment Adjustment
- Medicaid Rebase
- State Health Plan
- Retirement Contributions
- Building Reserves
- Information Technology Projects



# Budget Pressures

	(in millions)	
	<u>FY 2021-22</u>	<u>FY 2022-23</u>
Public Schools Average Daily Membership (ADM)	?	?
UNC Enrollment Adjustment	\$ 37.6	\$ 82.6
CC Enrollment Adjustment	?	?
Medicaid Rebase	\$ (236.0)	\$ 564.0
State Health Plan	\$ 200.0	\$ 300.0
Retirement	\$ 110.0	\$ 150.0
Building/Operating Reserves	\$ 26.3	\$ 37.1
Information Technology Projects	\$ 108.0	\$ 65.5
<b>Total Budget Drivers</b>	<b>\$ 245.9</b>	<b>\$ 1,199.2</b>



# Potential Budget Issues

- Salary Increases and Retiree Supplement (1% across-the board)
  - State employees, including UNC = \$65 mil
  - State funded local employees = \$99.3 mil
  - Retirees = \$36 mil
  - **Total: \$200.3 mil**
- Additional COVID-19 Response
- Economic Development Initiatives
- Disaster Funds
- Tax Changes





# Beginning Unreserved Fund Balance

- Unappropriated Balance Remaining in FY 2020-21
  - \$457.2 mil
- Estimated overcollections in FY 2020-21
  - \$4.1 billion
- Estimated Reversions in FY 2020-21
  - \$400 mil
- Savings Reserve transfer in FY 2020-21
  - \$575.2 mil

## Key Takeaways:

- Significant amount of funding to start FY 2021-22
- *All nonrecurring funds.*



# Questions?

Fiscal Research Division

919-733-4910

Legislative Office Building (LOB),

Suites 203 and 619

