State General Fund, FY 2007-08

- Individual Income, 55.0%
- Sales and Use, 25.1%
- Other Tax, NonTax, & Transfers, 6.6%
- Corporate Income, 5.6%
- Franchise, 2.9%
- Insurance, 2.5%
- Alcohol & Tobacco, 2.3%
- Other Tax, NonTax, & Transfers, 6.6%
- Sales and Use, 25.1%
- Individual Income, 55.0%
FY 2008-09 Revenues

• Collections are $625 million below $9.5 billion target for first half of fiscal year
  – Total growth forecast 4.0%
  – Forecast envisioned economy improving second-half of FY

• Important caveat
  – 50% of collections/Only 25% risk
  – Volatile collections second half of FY
The Impact of April Payments & Refunds on Revenues

-4.0% -5.2% -6.6% -12.0%

Jul Aug Sept Oct Nov Dec Jan Feb Mar Apr May June

FY0102 FY0809
Withholding Tax Receipts

Withholding continues its downward trend coinciding with the slowdown in employment
Key Revenue Collection Trends

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

Sales tax collections go negative beginning the last quarter of FY 2007-08.
## Business Cycles and State Revenues

<table>
<thead>
<tr>
<th>NBER Recession Date</th>
<th>Months</th>
<th>Revenue Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1990 – March 1991</td>
<td>8</td>
<td>FY 1990-91</td>
</tr>
<tr>
<td>March 2001 – Nov. 2001</td>
<td>8</td>
<td>FY 2001-02</td>
</tr>
<tr>
<td>December 2007 – ?</td>
<td>14 and counting</td>
<td>?</td>
</tr>
</tbody>
</table>
State’s Economic Outlook

• Overall employment will decline in 2009
  – 1.5% decline for this fiscal year
  – 1% decline in FY 2009-10

• Personal Income forecast of 2.1% growth for FY 2009-10

• Consumers will continue to cutback on non-essentials
  – Retail sales projected to be down for most of 2009
Economic Outlook: When will things improve?

Earliest improvement 2009:Q2
– Housing prices must stabilize
– Financial markets thaw/recover from losses
– Consumer confidence must be restored
– Global markets begin to rebound
FY 2008-09 Outlook

• State’s economy slips deeper into a recession
  – employment is down 154,000 jobs
  – unemployment rate: 8.7% in December

• Revenue collections weaken
  – Fewer jobs
  – lower wages
  – and consumer cutting back

• Net result: FY2008-09 collection shortfall approximately $2 billion or 10% of budget.
FY 2009-10 Outlook

• Economic forecasters expect a prolonged recession
  – Recession-like conditions for much of 2009
  – A very sluggish recovery in 2010.
  – Employment lags behind recovery

• Difficult revenue picture developing
Management of FY 2008-09 Budget: $21.4 Billion

Governor is managing revenue shortfall with the following reductions:

<table>
<thead>
<tr>
<th>% Reduction</th>
<th>$ Amount</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Schools</td>
<td>2%</td>
<td>$159</td>
</tr>
<tr>
<td>UNC System</td>
<td>6%</td>
<td>$144</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>5% to 6%</td>
<td>$45</td>
</tr>
<tr>
<td>HHS</td>
<td>4%</td>
<td>$213</td>
</tr>
<tr>
<td>JPS</td>
<td>4% to 5.5%</td>
<td>$93</td>
</tr>
<tr>
<td>General Government/NER</td>
<td>7%</td>
<td>$63</td>
</tr>
<tr>
<td>Capital/R&amp;R</td>
<td>89%</td>
<td>$177</td>
</tr>
</tbody>
</table>

Other actions by Governor to manage shortfall:
- Federal stimulus package $934
- Debt service, credit balance, reserves $217
  $2,045
Budget Situation for FY 2009-10

• No budget, no official revenue estimate

• Rough estimate of FY 2009-10 budget gap:
  
  - **Revenues** assuming no growth, no balances, no reversions, no over collections $18.8 billion
  
  - **Budget** assuming no growth, based on recurring FY 2008-09 budget -$20.9 billion
  
  - **Budget gap** to address through budget cuts or additional revenues -$2.1 billion
FY 2009-2010: Major Budget Issues

- State Health Plan: $800 million+ General Fund shortfall over the biennium assuming current benefit levels.

- Enrollment increases typically funded: $200 million.
  - University request: $45 million.
  - Community College request: $48 million.
  - K-12 enrollment increase in FY 2008-09: $110 million.

- ABC Bonuses: $100 million.

- Medicaid:
  - Is counter cyclical. People need more assistance during recessions, when State has fewer resources.
  - 1% increase in budget = $30 million.
Comparison of Growth in Tax Revenue and Growth in Medicaid

Percent Growth

- General Fund Tax Revenue
- Medicaid Spending Growth

- 2001: 14.6%
- 2002: -3.1%
- 2003: 7.5%
- 2004: 6.8%
- 2005: 4.4%
- 2006: 8.3%
- 2007: 7.9%
- 2008: 8.9%

- 2001: 1.4%
- 2002: -3.1%
- 2003: 7.5%
- 2004: 4.4%
- 2005: 10.3%
- 2006: 5.1%
- 2007: 5.0%
- 2008: 2.3%

- 2001: -2%
- 2002: 0
- 2003: 2
- 2004: 4
- 2005: 6
- 2006: 8
- 2007: 10
- 2008: 12

- 2001: 15
Other Major Budget Pressures for FY 2009-2010

• Capital
  – Statutory obligation to fund Biomedical Research Imaging Center is $172 million
  – Repairs and renovations typically require $100 million
  – Projects funded last year in House Bill 2436 may not receive funding because of budget shortfall
Other Major Budget Pressures for 2009-2010 (Cont.)

- Each 1% salary increase for State employees: $125 million (based on FY 2008-09)

- Retirement System:
  - 1% COLA = $33 million
  - Condition of retirement fund?

- SCHIP – To take advantage of additional federal funds, State will need additional match.

Budget Resources for FY 2009-2010

• Savings Reserve has balance of $787 million, but some portion of these funds may be needed to handle FY 2008-09 shortfall.

• Federal stimulus funds will help State budget, but only over short-term. House proposal:
  – Provides $2.2 billion for Medicaid assistance over 27 months.
  – $717 million in Fiscal Stabilization that can help budget shortfall over two years.
  – Fiscal Research and OSBM are reviewing proposals to determine impacts of other provisions on State budget.