2021-2023 General Fund Consensus Revenue Forecasts

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February 17, 2021
Consensus Revenue Forecast
Fiscal Year 2019-20 General Fund Revenue ($ millions)

- Individual Income, $12,414.8, 51.9%
- Sales and Use, $7,820.6, 32.7%
- Franchise, $646.0, 2.7%
- Corporate Income, $657.8, 2.7%
- Excise Taxes, $662.5, 2.8%
- Insurance, $655.9, 2.7%
- Non-Tax, $943.6, 3.9%
- Other Taxes, $137.4, 0.6%
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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue ($ millions)</th>
<th>Y/Y Change ($ millions)</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-21</td>
<td>$27,602.6</td>
<td>$3,663.3</td>
<td>15.3%</td>
</tr>
<tr>
<td>2021-22</td>
<td>$27,350.6</td>
<td>($252.0)</td>
<td>(0.9%)</td>
</tr>
<tr>
<td>2022-23</td>
<td>$28,461.5</td>
<td>$1,110.9</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

- Forecast projects $4.13 billion in over collections
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 projected 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
State General Fund Budget Overview and Outlook

Jennifer Hoffmann, Principal Fiscal Analyst

February 17, 2021
General Fund Budget by Appropriations Committee Area

FY 2020-21 Budget
$24,485.1¹
($ in Millions)

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

- **Justice & Public Safety**: $3,022.8 (12.3%)
- **General Gov’t & Info. Tech.**: $509.5 (2.1%)
- **Health & Human Services**: $5,725.0 (23.4%)
- **Agriculture, Natural & Economic Resources**: $630.8 (2.6%)
- **Statewide Reserves, Debt Service & Capital**: $202.8 (0.8%)

**Education**: $14,394.0 (58.8%)
General Fund Appropriations by Key Budget Drivers

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

Public Schools $9,988.5 (41%)
Mental Health, $762.37 (3%)
Debt Service, $722.6 (3%)
Higher Education $4,405.5 (18%)
All Other $2,325.1 (9%)
Prisons $1,414.8 (6%)
Medicaid $4,140.4 (17%)
Courts $725.8 (3%)

FY 2020-21 Budget (in Millions)
$24,485.1
General Fund Appropriations by Expenditure Type

FY 2019-20 Budget
$24,406.8
($ in Millions)

- Salaries
  $12,545.1
  (51.4%)

- Benefits
  $4,962.3
  (20.3%)

- Medicaid
  $3,903.4
  (16.0%)

- All Other
  $2,996.0
  (12.3%)
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
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
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
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
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

<table>
<thead>
<tr>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>$24,106.1 million *</td>
<td>$24,116.5 million *</td>
</tr>
</tbody>
</table>

- 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
    - Higher Education Enrollment - $85.9 million
    - Medicaid Rebase - $463 million

* debt service removed, covered by SCIF
## FY 2021-23 General Fund Budget Outlook

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<thead>
<tr>
<th></th>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
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<tbody>
<tr>
<td>Consensus GF Revenue Forecast</td>
<td>27,350.6</td>
<td>28,461.5</td>
</tr>
<tr>
<td>Preliminary Base Budget</td>
<td>(24,106.1)</td>
<td>(24,116.5)</td>
</tr>
<tr>
<td>Restore Recurring Funds</td>
<td>(741.9)</td>
<td>(741.9)</td>
</tr>
<tr>
<td>Funds Remaining for Approp.</td>
<td>$ 2,502.6</td>
<td>$ 3,603.1</td>
</tr>
</tbody>
</table>

1 Base adjusted for debt service
2 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

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