

Budget & Economic Outlook and OSBM Updates

Office of State Budget and Management

OSC Financial Conference
December 12, 2017

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Outline

- **North Carolina Today**
 - Population & Demographics
 - Economy
- State Budget
- Recent Policy Changes & Impact on Future Budgets
- OSBM Updates
 - Common Sense Government
 - Performance Management
 - Results First

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Population and Demographics

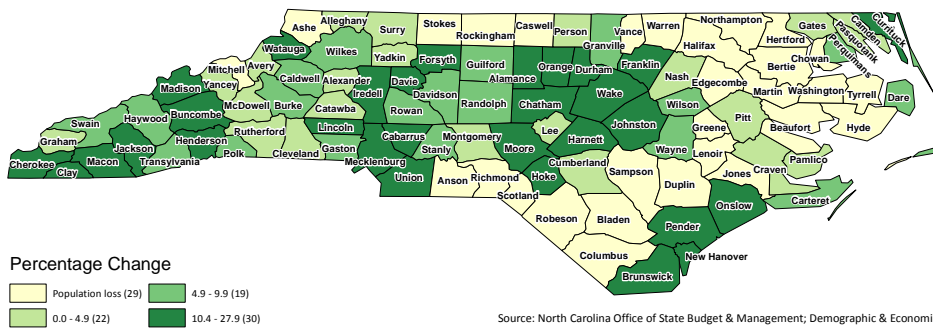
- Approaching 10.3 million people and 9th most populous state
- North Carolina is growing by 318 people per day; 110k+ per year
 - Adding the equivalent population of a city the size of High Point this year
- The state's population has grown by more than 7% since 2010
- Approximately a quarter of the population is 18 years of age or younger
- Nearly a sixth of North Carolinians are 65 or older
- Ranked 4th highest for net population migration in 2016 after Florida, Texas, and Washington



Population Considerations

- State population projected to grow by 1.1 million (11.2%) by 2027
 - 29 counties will lose population
 - 41 counties will grow between 0-10%
 - 30 counties will grow by more than 10%, some as much as 28%
- Population 65+ will grow three times faster than total population

Projected Percentage Population Change in North Carolina Counties, 2017 - 2027



Snapshot of North Carolina's Economy

- Total Labor Force: 4.95 million
- Non-Farm Employment: 4.4 million
- Unemployment Rate: 4.1%
- Total State GDP: \$522 billion (2.8% of U.S.; ranked #10)
 - Manufacturing 19.8% of state GDP, 10.5% of employment
- 2016 Annual Wages: \$33,920 median (ranked #36 highest) & \$45,280 mean
 - Lowest to Highest Median County Annual Wage: \$25,595 (Bertie) to \$46,004 (Durham)
- Largest Private Employers (2017 Q1)
 1. Walmart
 2. Duke University
 3. Food Lion
 10. Smithfield Foods, Inc. (Largest Manufacturer)

Sources: October 2017, Bureau of Labor Statistics; 2016 Annual Average, Bureau of Economic Analysis

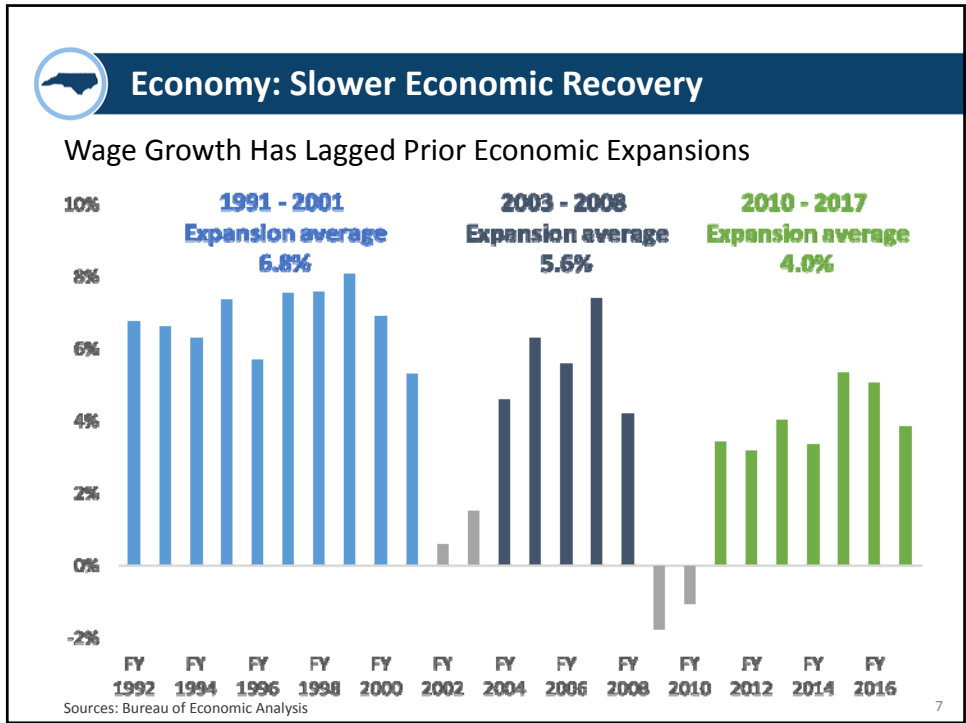
Economy: Regional Employment

Job Growth Has Been Uneven Across Different Regions of the State
Change in Nonfarm Payroll Employment by Metropolitan Area

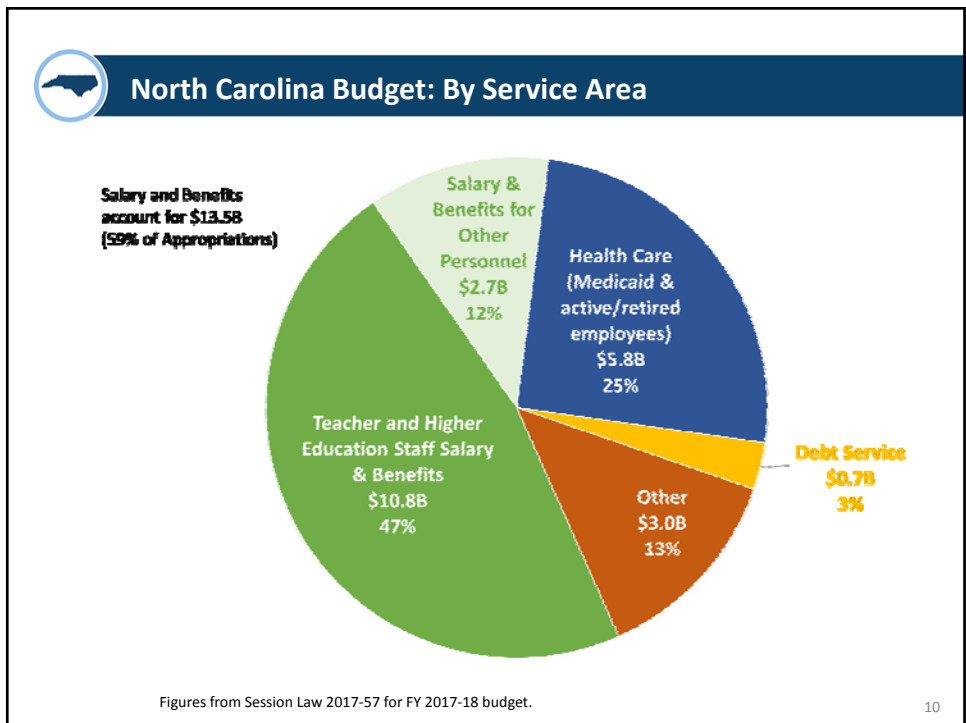
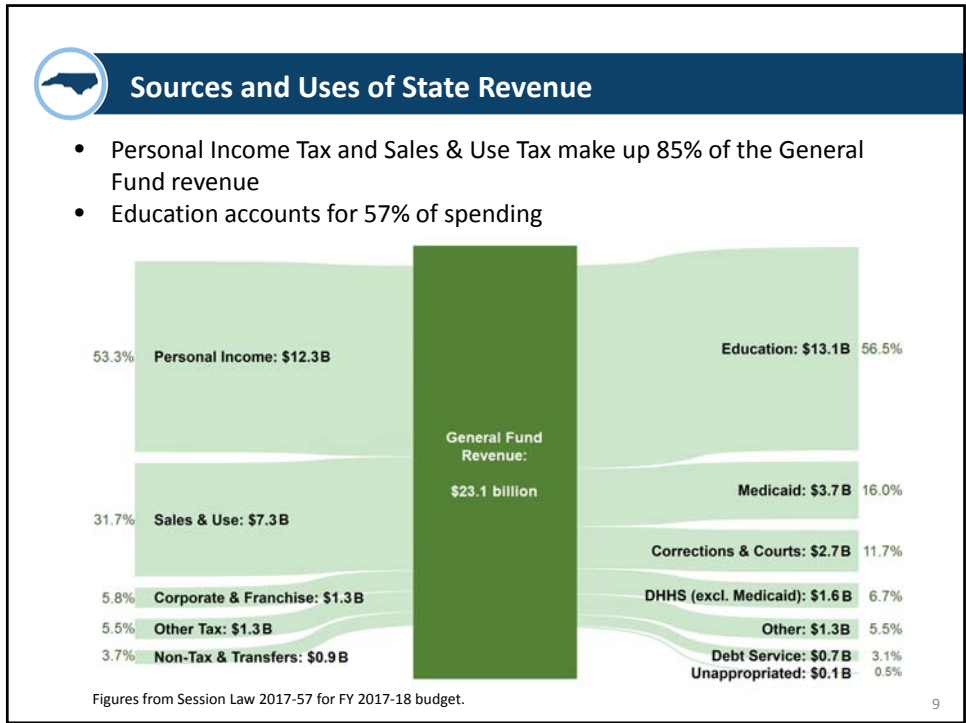
Employment Losses During Recession | October 2017 Employment vs. Pre-Recession Peak

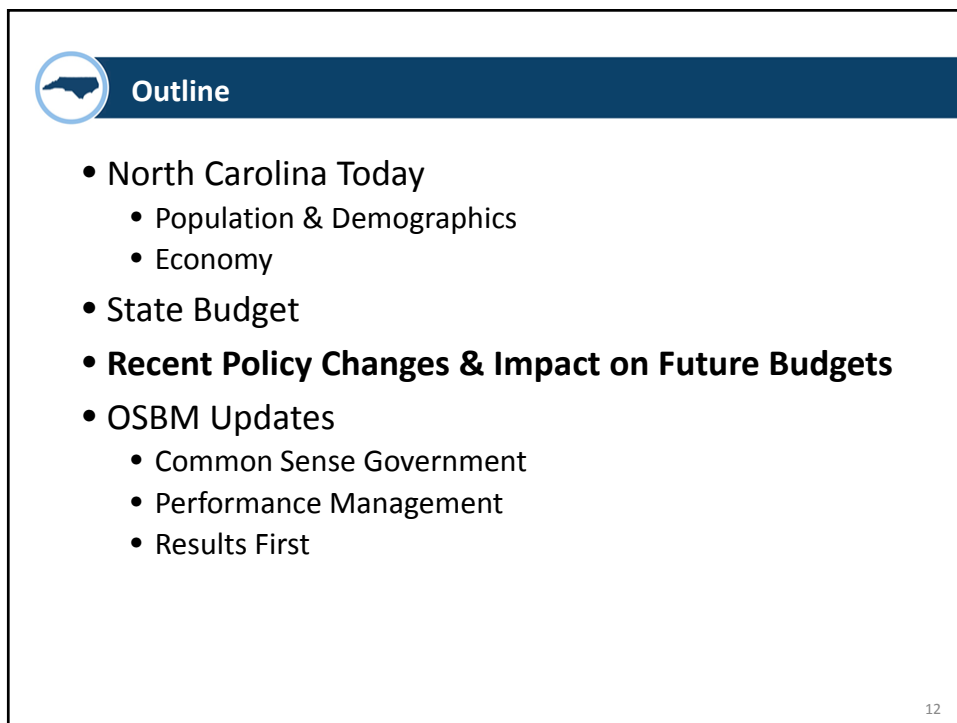
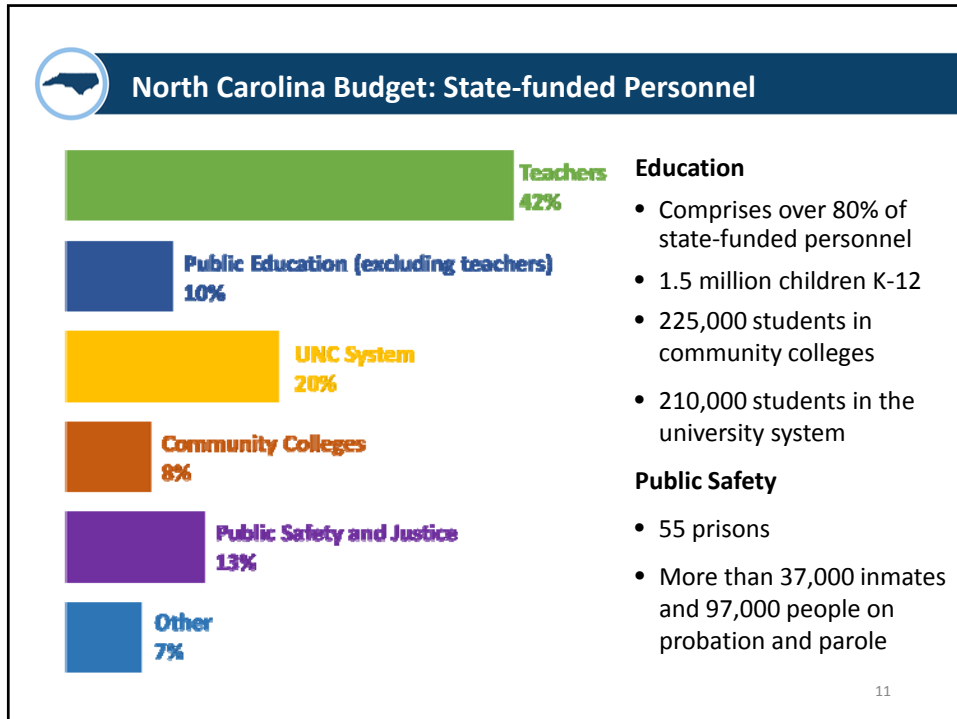
Metropolitan Area	Change in Nonfarm Payroll Employment (%)
Raleigh	+19.0%
Charlotte	+14.4%
Durham-Chapel Hill	+11.0%
Wilmington	+8.0%
Asheville	+7.1%
North Carolina	+6.3%
Jacksonville	+4.6%
Greenville	+1.5%
Fayetteville	+1.3%
Winston-Salem	-0.2%
Roe-Metropolitan Areas	-0.5%
Burlington	-0.8%
Greensboro-High Point	-2.8%
New Bern	-5.3%
Hickory	-7.2%
Goldsboro	-9.0%
Rocky Mount	-14.8%

Sources: Bureau of Labor Statistics, IHS-Markit
Note: The Goldsboro and Rocky Mount Metropolitan Statistical Areas had fewer jobs in July 2017 than at any point during the period from 2007 through 2010.



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Recent and Upcoming Major Tax Changes

Individual Income Tax

- Rate will fall from 5.499% (lowest among neighbors with income tax) to 5.25% in TY 2019, unless it is changed
 - Prior to 2014, three income tax brackets with rates of 6%, 7%, 7.75%
- Standard deduction will increase in TY 2019 from \$17,500 to \$20,000 for married, filing jointly (head of household increase is proportionately lower), unless it is changed
- Child tax credit will be converted to a deduction effective tax year 2018
- State Earned Income Tax Credit sunset after 2013

Sales and Use Tax

- Base broadened by extending general sales tax rate to service contracts, live entertainment, piped natural gas, and electricity effective in 2014
- Base expanded to include repair, maintenance, and installation services in 2016

Corporate Taxes

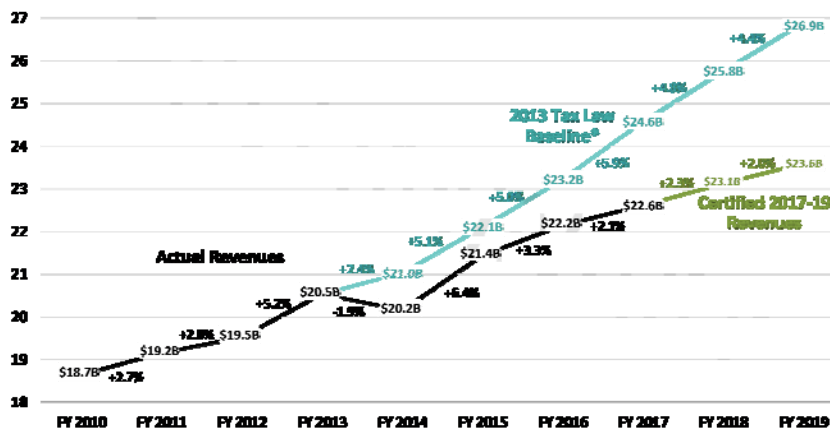
- Corporate tax rate will fall from 3.0% (lowest among states levying the tax) to 2.5% in TY 2019, unless it is changed
 - Since 2012, rate has gradually decreased from 6.9%
- Phase in change to reduce corporate taxes on corporations with low in-state sales but more in-state payroll and property to corporations with higher in-state sales
- Franchise tax for S corporations will decrease in 2019 to flat \$200 tax on the first \$1 million of net worth (0.15% rate on net worth above \$1 million)

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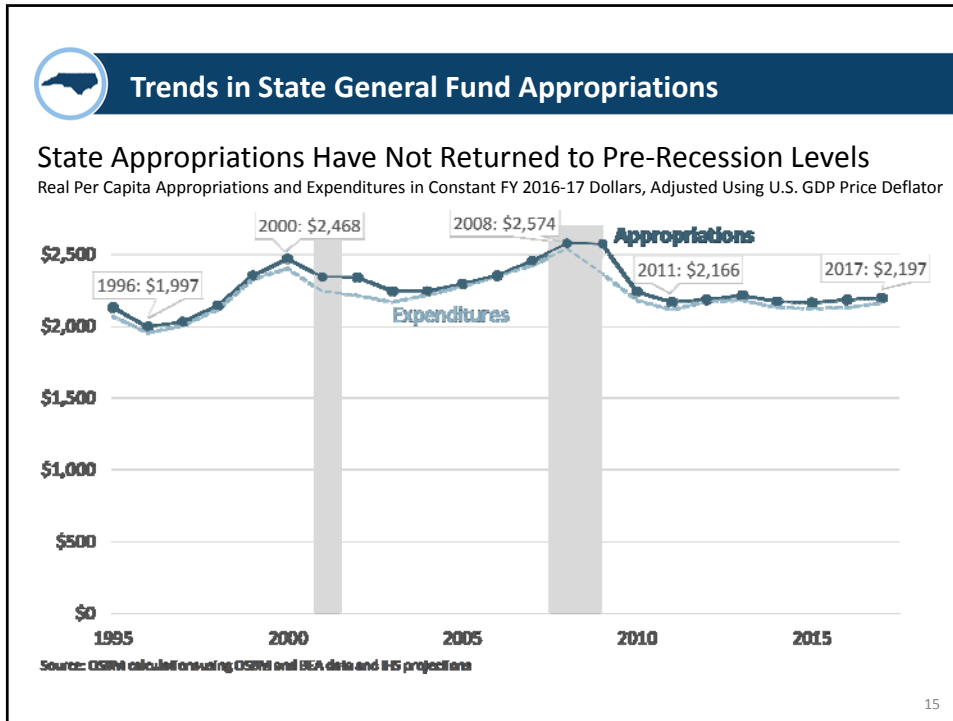
Taxes & Revenue

Tax Changes Since 2013 Reduce General Fund Revenues by More Than \$3 Billion in FY 2018-19 and Nearly \$4 Billion in FY 2019-20
Billions of Current-Year Dollars

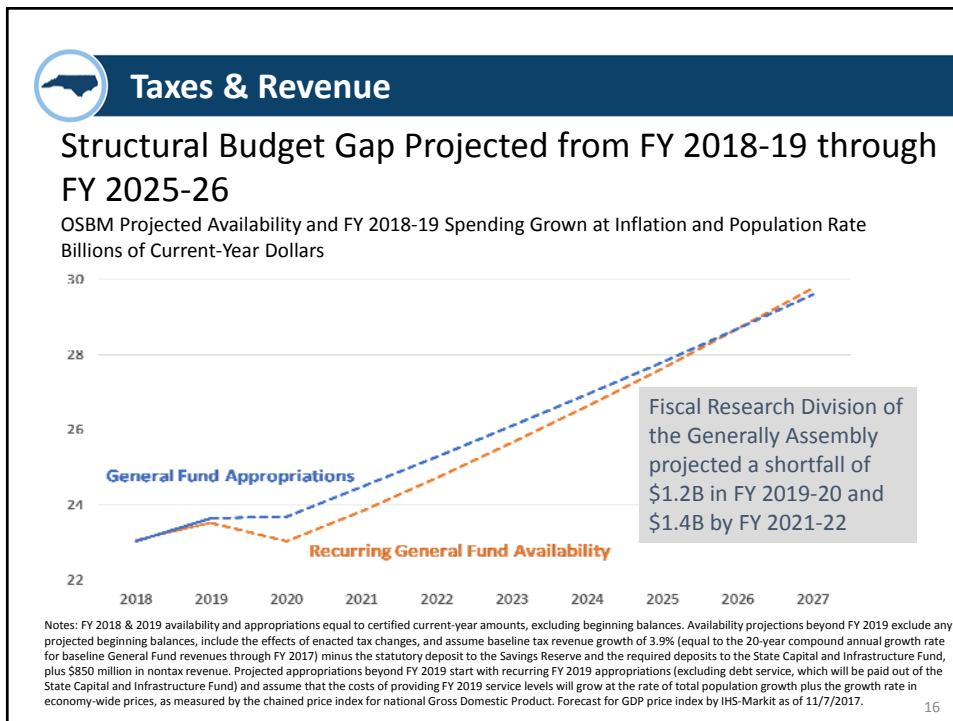


Source: CSIM data and projections. Note: 2015 Tax Law Baseline figures are preliminary estimates based on FY12 fiscal rules and fiscal revenues for tax changes enacted between 2013 and 2017 for various sources other than individual and corporate income taxes. Fiscal estimates for years that include the current CSIM estimates of the fiscal impact of tax changes enacted during 2013.

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Structural Imbalance for FY 2018-19

Certified Revenue:	\$23,594,800,000
Enacted Budget:	\$23,652,171,951

Structural Imbalance: \$57.4 million

*\$23.65 billion budget includes \$46.2 million in nonrecurring cuts: imbalance is even greater than it appears.

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Preliminary Budget Pressures for FY 2018-19

- Medicaid Federal Financial Participation Rate Reduction - \$40M
- Top Ten Educated State: Improving Student Outcomes – each 1% increase in funding requires \$130M
- Critical Needs – at least \$300M
 - Hurricane Matthew Recovery
 - Current and Future Workforce Demands, Rural Economic Development, and Business Innovation
 - Mental Health, Opioid Crisis
 - Prison Safety
 - Environment and Water Quality
- Pay Plan Adjustments for Teachers and Principals - \$30-40M
- State Employee COLA – each 1% is \$85M
- Retiree COLA – each 1% is \$50M

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Common Sense Government

Establish policies and processes that promote:

- Greater agency flexibility and accountability
- Less time spent processing transactions
- Proactive forecasting and planning

Identify strategies to:

- Eliminate non-value added administrative processes
- Simplify processes and allow agencies to conduct business efficiently
- Focus central agencies on executive level strategy and oversight

Four areas identified:

- Budget (first focus area)
- Procurement
- Capital
- HR

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Common Sense Government

Phase I Budget Administration Changes

1. **Quarterly Allotments**
2. **Lapsed Salary Changes**
 - May transfer lapsed salary through 535XXX accounts within a fund on a Type 14 budget revision
 - Can prospectively budget up to 50% of a fund's anticipated lapsed salaries
 - Additional lapsed salary in excess of the first 50% projected can be budgeted once it has been generated
3. **Automatic Upload of Repeat Budget Revisions at the start of the 2019-21 Biennium**
4. **New Receipt Supported Position form is no longer required**

Quarterly Review Pilot with DNCR

Goals:

1. Improve efficiency of analyst financial/budget reviews
2. Improve evaluation and understanding of agency financial performance and resource levels
3. Encourage legislative, financial conditions, external factors and capital projects/issues discussions
4. Incorporate ongoing program performance metrics and integrate into budget development recommendations (long-term)

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Performance Management

ADVANCE

MOVING NORTH CAROLINA FORWARD

- Performance management system modeled on best practices from other states, in particular Utah
- Building metrics and reports that inform decision-making (not just create new boxes to check)
- Piloting the process next year with select agencies
- Forming an Advisory Committee of key stakeholders

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Results First Initiative

- **Results First** is an initiative founded by the Pew Charitable Trusts and the MacArthur Foundation
- Pew works with states and local governments to implement an innovative **cost-benefit analysis** approach
- North Carolina is the **27th state** to partner with Pew
- OSBM was directed in S.L. 2017-57, Section 26.3 to be the lead agency for Results First in North Carolina
- OSBM has partnered with DHHS and Governor's Office to select first topic area in **Public Health**. Will look at programs that focus on the following outcomes:
 - Reducing the incidence of Type 2 diabetes and obesity
 - Improving maternal and child health outcomes

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Results First and ADVANCE Work Together

These initiatives are complimentary.

Results First answers:

- Are our programs the most effective options?
- Do the benefits provided outweigh the costs?

ADVANCE answers:

- Are we seeing the expected benefits?
- How do we continue to improve our programs?

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Questions

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