

North Carolina Economic & Budget Outlook

Office of State Budget and Management

OSC Financial Conference
December 2018

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Outline

- North Carolina Today
 - Economy
 - Population Trends
- FY 2018-19 Budget
- Hurricane Florence
- FY 2019-21 Budget Outlook
- OSBM Updates
- Questions

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North Carolina Today

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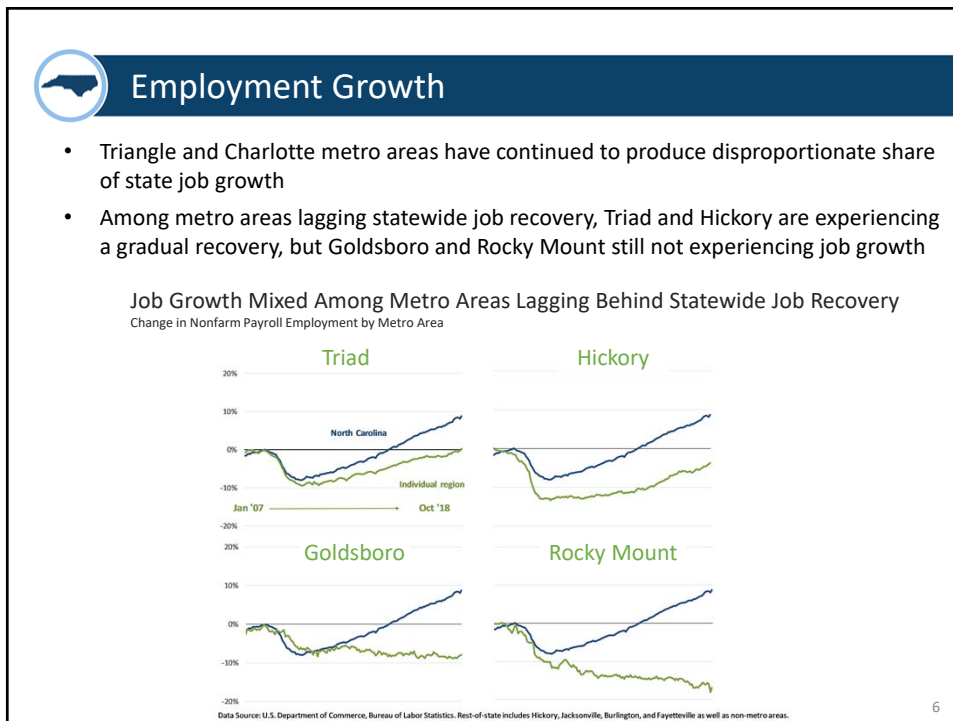
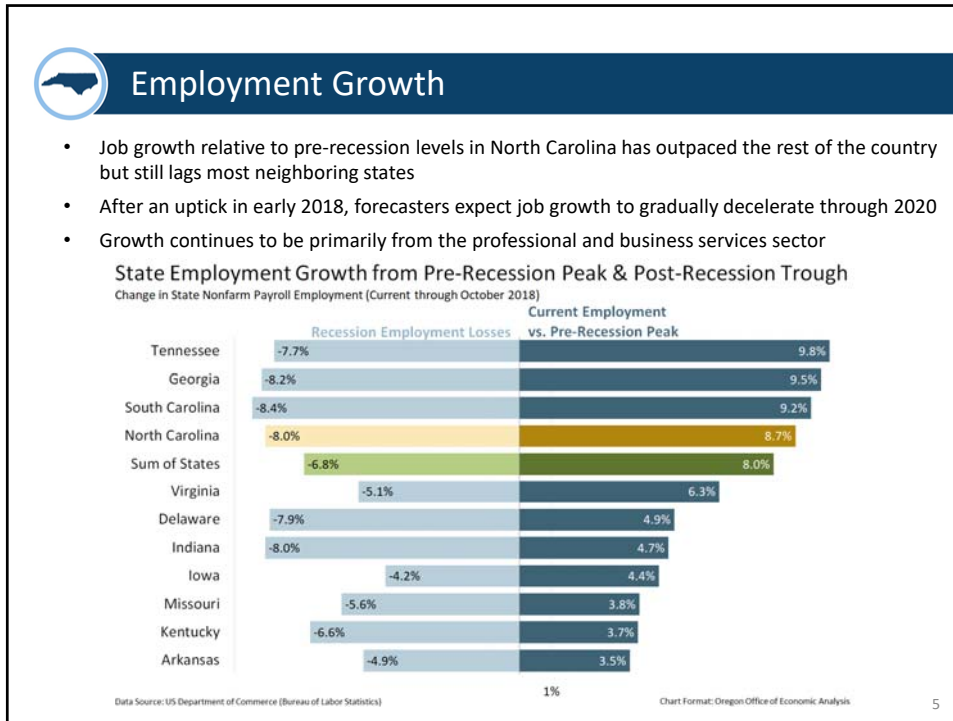


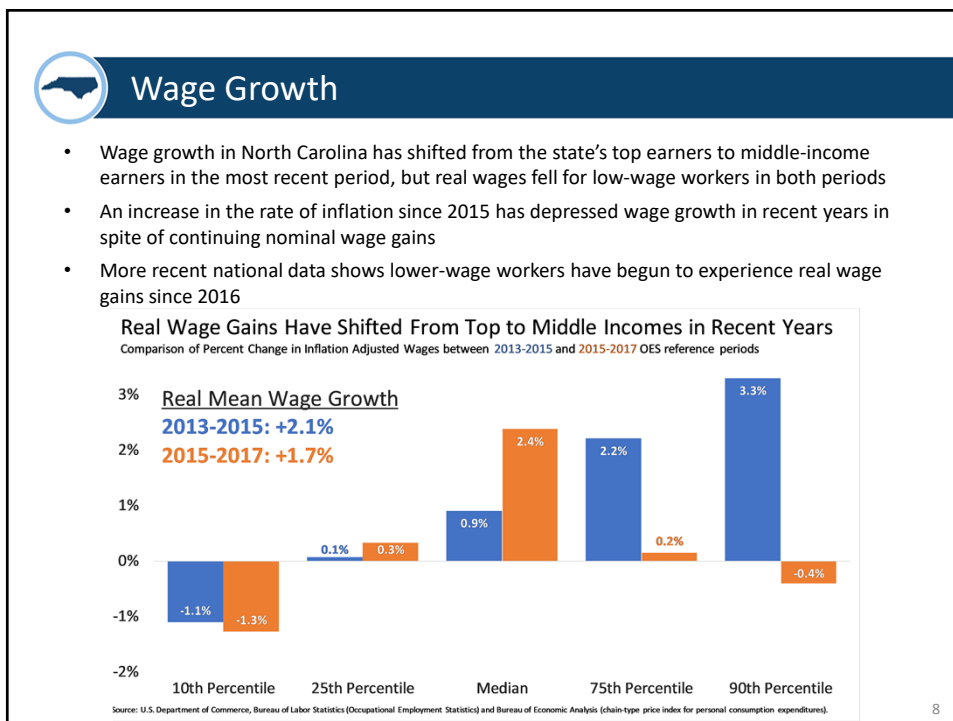
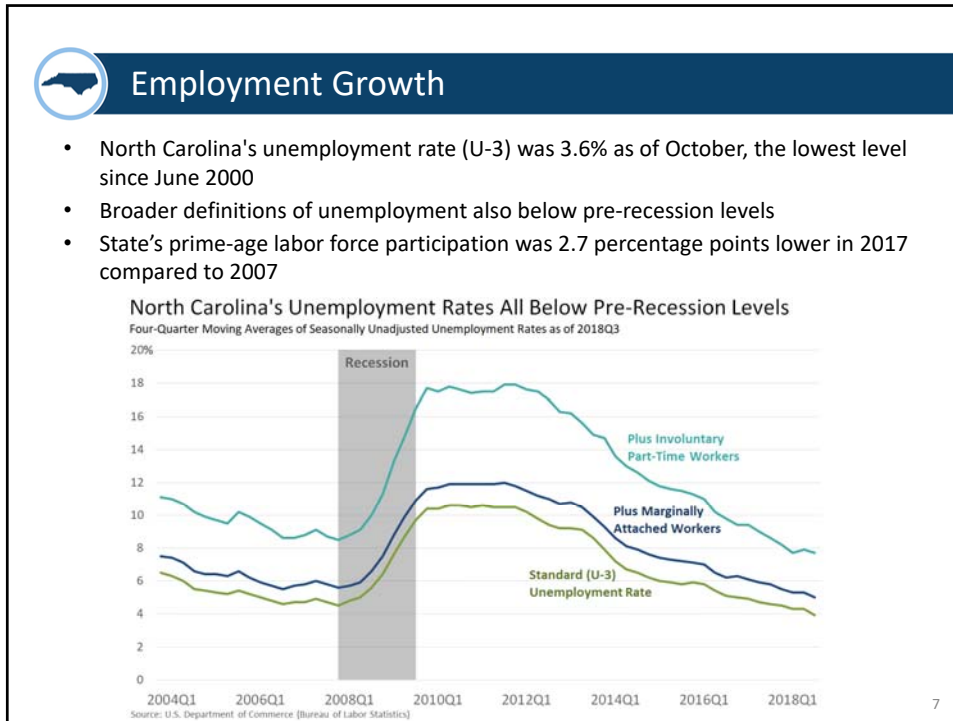
Snapshot of North Carolina's Economy

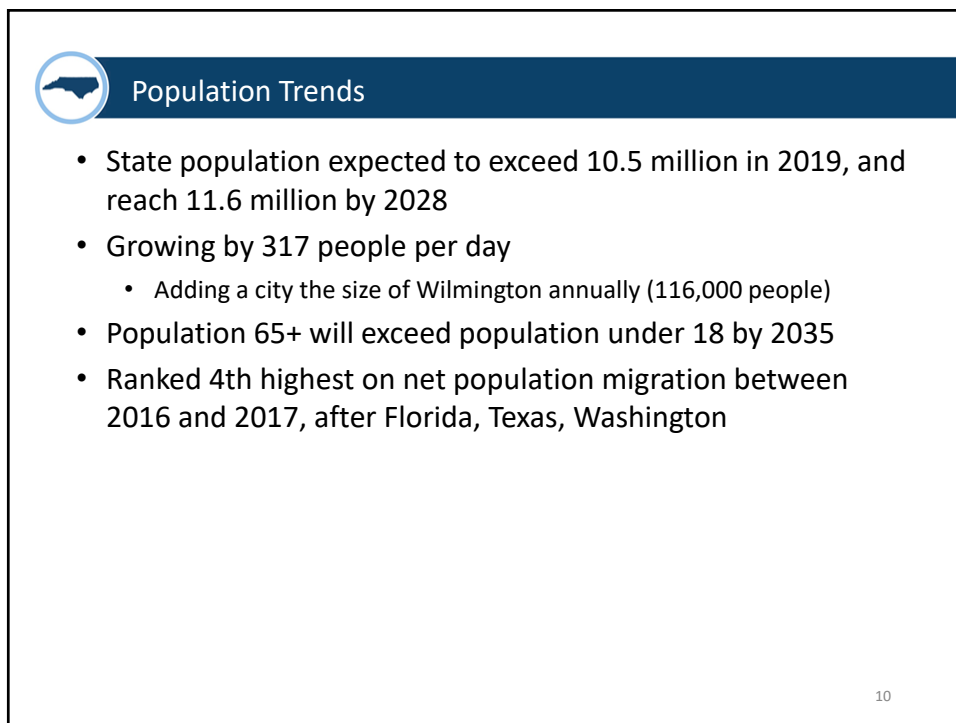
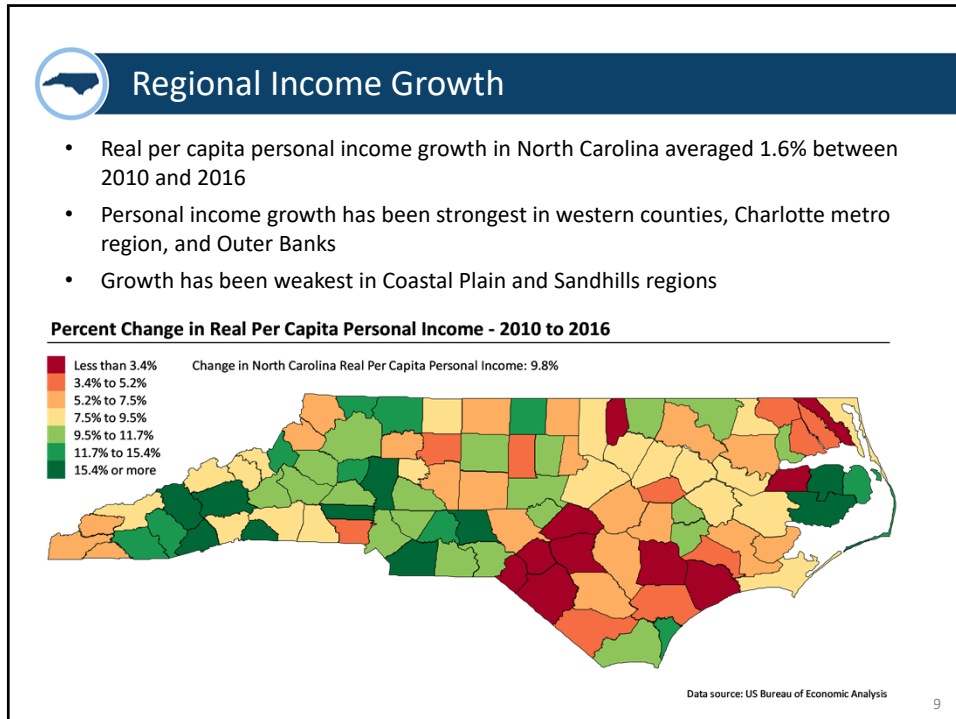
- Total Labor Force: 4.99 million
- Total employed: 4.81 million
- Unemployment Rate (as of October): 3.6%
- Total State GDP: \$565 billion (2.8% of U.S.; ranked #11)
 - Manufacturing 18.5% of state GDP, 9.5% of employment
- 2017 Annual Wages: \$34,750 median (ranked #36 highest) & \$46,080 mean
 - Lowest to Highest Median County Annual Wage: \$24,985 (Bertie) to \$46,615 (Durham)
- Largest Private Employers (2018 Q1)
 1. Walmart
 2. Duke University
 3. Food Lion
 11. Smithfield Foods, Inc. (Largest Manufacturer)

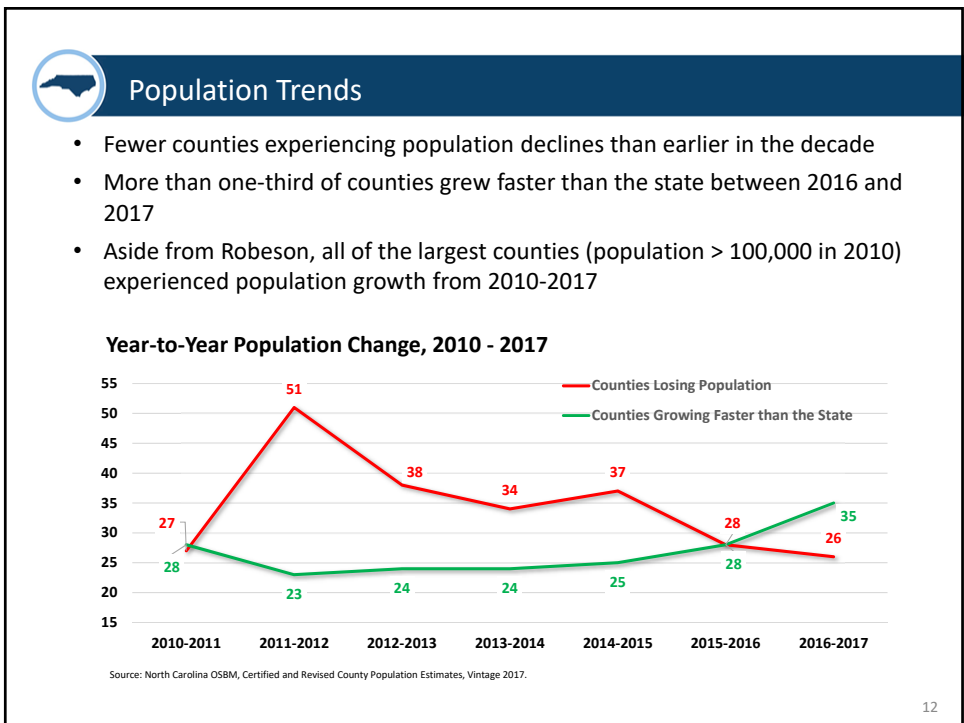
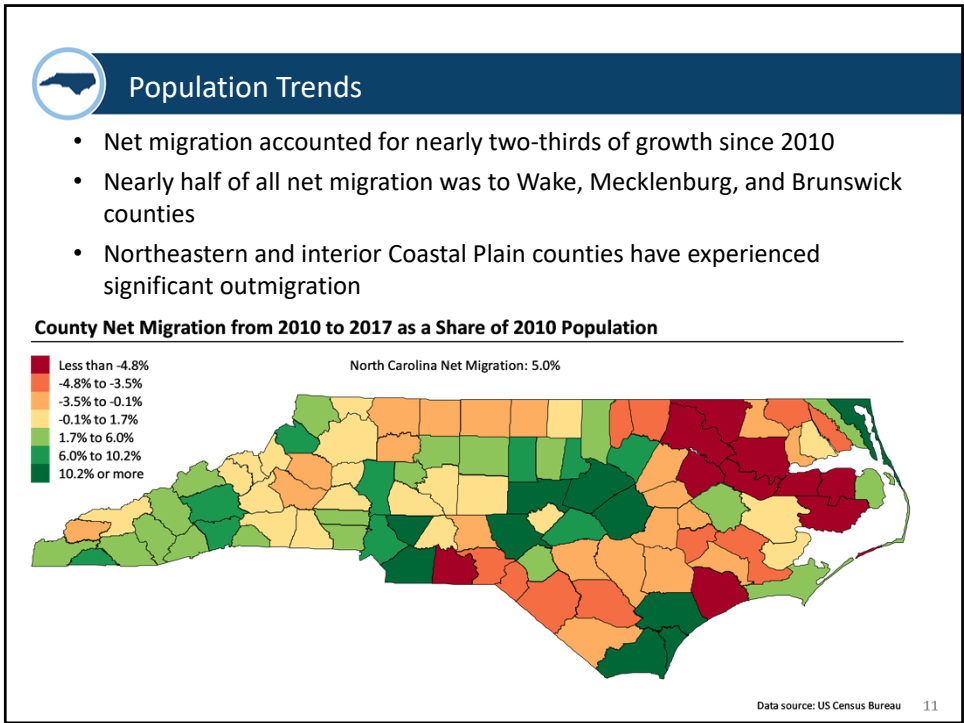
Sources: October 2018, Bureau of Labor Statistics; 2017 Annual Average, Bureau of Economic Analysis

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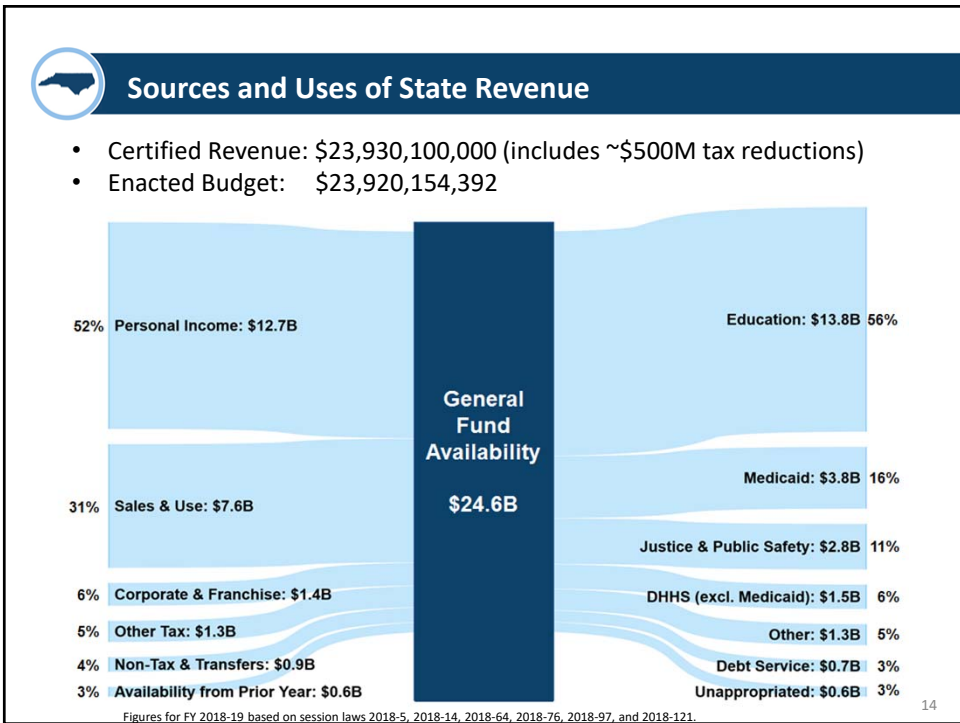


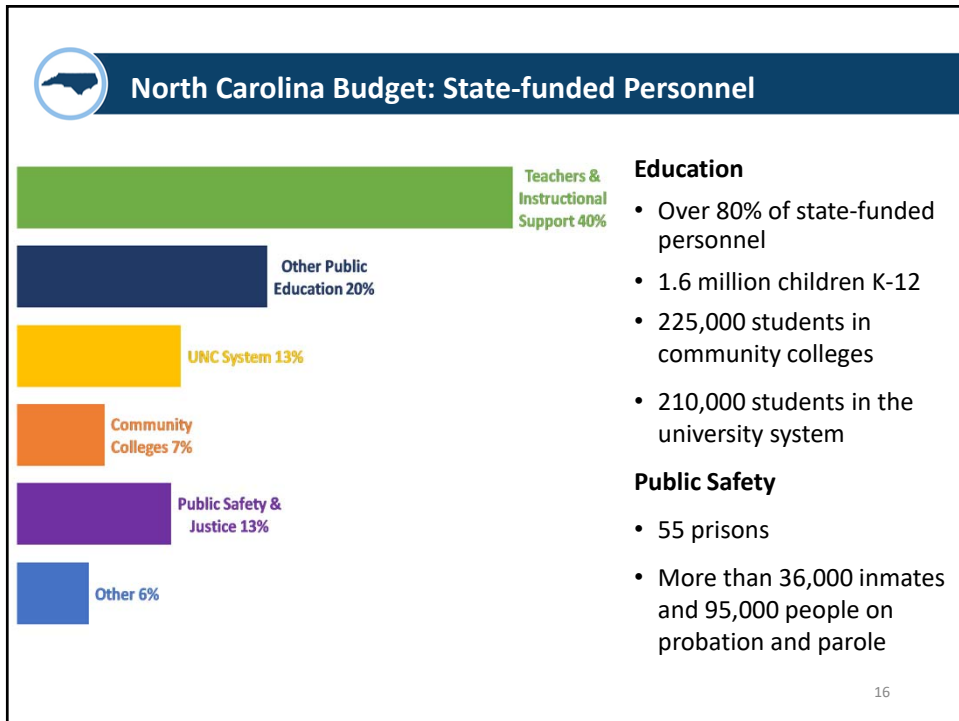
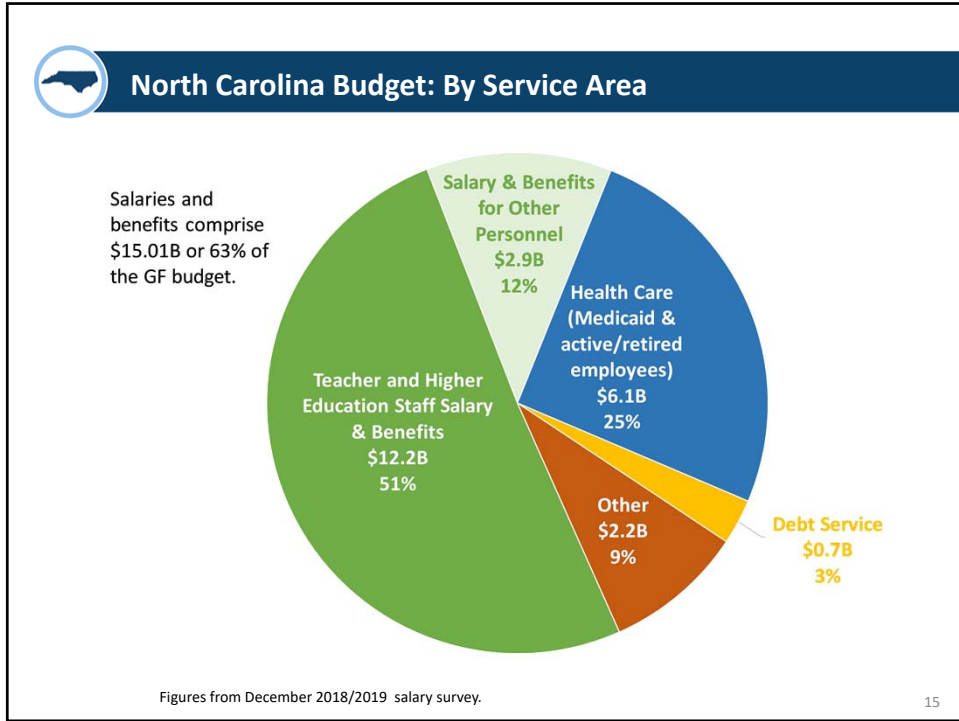






FY 2018-19 Budget







General Fund Revenue Performance

- General Fund revenues modestly above target through October (\$76 million, +1.0%)
- Sales tax, franchise tax, and investment income account for most of the above-target revenues
- Other revenue sources are roughly on target
- Too early to extrapolate recent revenue performance to the rest of the fiscal year
- Most of the uncertainty in revenue collections concentrated in March through early May

Revenue Source	FY 2017-18	FY 2018-19	
	Actual	Certified	YoY %
Individual Income	\$12,517.5	\$12,704.7	1.5%
Sales and Use	\$7,337.4	\$7,624.9	3.9%
Corporate Income & Franchise	\$1,408.1	\$1,393.7	-1.0%
All Other Tax	\$1,372.8	\$1,294.6	-5.7%
Total Tax Revenue	\$22,635.9	\$23,017.9	1.7%
Total Nontax Revenue	\$929.3	\$912.2	-1.8%
Total General Fund Revenue	\$23,565.2	\$23,930.1	1.5%

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Hurricane Florence

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On September 14th 2018, Florence made landfall and proved to be one of the most devastating hurricanes in North Carolina’s history


90 mph
 Top wind speed



10 ft
 Storm surge



8 trillion
 Gallons of rainfall



6
 Days in length


994,000
 Households
 in affected area


42
 North Carolina
 fatalities

 “Florence is the worst flood in East Coast history.”

 Hurricane Florence ranks among top 10 costliest US storms, expert says
 – Major news outlets

 Florence – Total Damages and Needs Assessment					
Needs assessment (\$M)					
Categories	Direct ¹	Indirect ² / Induced ³	Subtotal	Resiliency efforts	Total Damage & Needs
Business	\$3,780	\$1,900	\$5,680	\$20	\$5,700
Housing	\$5,339	\$0	\$5,339	\$291	\$5,630
Agriculture	\$1,332	\$1,023	\$2,355	\$75	\$2,430
Utilities, Water and Sewer	\$779	\$0	\$779	\$25	\$804
Natural Resources	\$410	\$0	\$410	\$145	\$554
Govt. Property and Revenue	\$333	\$69	\$402	\$5	\$407
Transportation	\$419	\$7	\$426	\$50	\$476
Education	\$275	\$28	\$303	\$0	\$303
Health and Human Services	\$192	\$40	\$233	\$0	\$233
Recovery Operations	\$194	\$0	\$194	\$0	\$194
Total	\$13,053	\$3,067	\$16,120	\$611	\$16,731

1 Defined as the results of changes in spending and investment by businesses and organizations in a given region, including money spent to pay for salaries, supplies, raw materials, and operating expenses.
 2 Defined as the results of business-to-business transactions within a given region indirectly caused by the direct effects, such as changes in spending on business supplies or product components.
 3 Defined as the results of changes in personal income caused by direct and indirect effects. Businesses experiencing changes in revenue from the direct and indirect effects will subsequently alter payroll expenditures (e.g., by hiring more employees, increasing payroll hours, raising salaries, etc.). Households will, in turn, change amounts spent at local businesses. The induced effect is a measure of the resulting change in purchases by households from businesses within a given region.



Florence – State Funding

- General Assembly transferred close to \$850 million into the Hurricane Florence Disaster Recovery Fund
- Currently, close to \$755 million has been appropriated

Source	Funds
Savings Reserve	\$756,500,000
Highway Fund	\$65,000,000
Education Lottery Reserve	\$25,000,000
Dredging Fund	\$2,000,000
S.L. 2016-124 funds	\$930,477
Total Availability	\$849,430,477

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Florence – Federal Funding

- North Carolina is anticipating \$2.5 billion in federal funds from FEMA, HUD, US DOT, and Small Business Administration
- Governor made an additional request for \$6.3 billion in federal funding on November 28th

Federal Agency	Additional Funding Request (\$M)
US Dept. of Housing and Urban Development	\$2,937
US Dept. of Agriculture	\$920
US Army Corps of Engineers	\$1,764
US Dept. of Commerce	\$320
US Dept. of Health and Human Services	\$200
US Dept. of Education	\$100
US Dept. of Interior	\$50
Total	\$6,291

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FY 2019-21 Budget Outlook

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Policy Environment

Previously Enacted Major Tax Changes Effective 1/1/19

- Individual income tax rate reduced from 5.499% to 5.25%
- Standard deduction will increase from \$17,500 to \$20,000 (MFJ)
- Corporate income tax rate reduced from 3.0% to 2.5%
- Estimated impact of -\$410M in FY 2018-19 and -\$1.02B in FY 2019-20

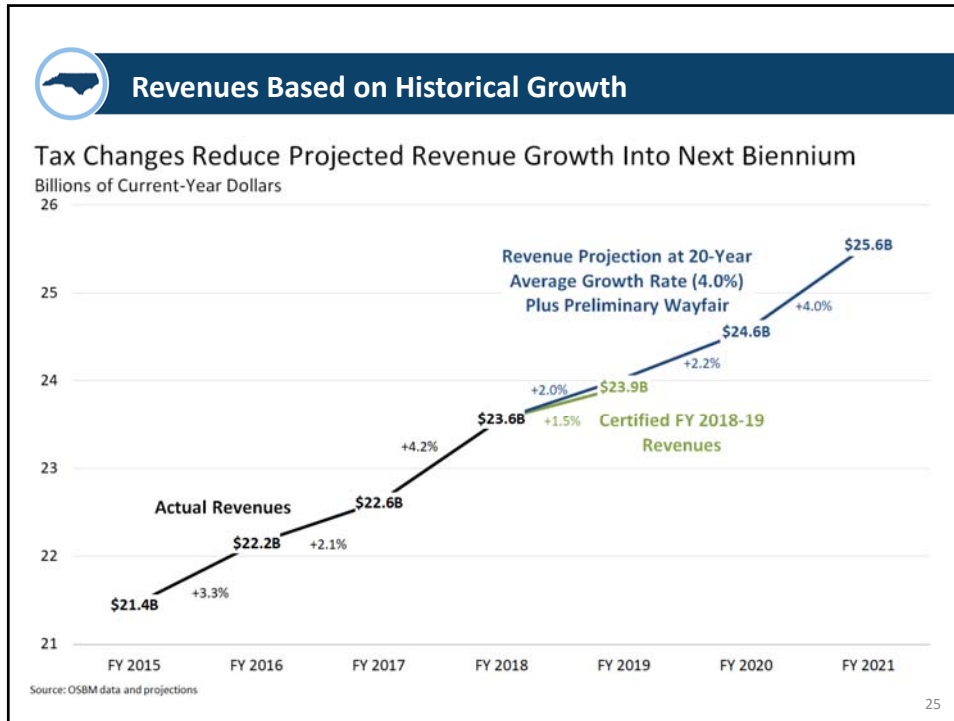
Wayfair Decision

- Recent U.S. Supreme Court decision on collections of sales tax from out-of-state sellers
- Estimated sales tax revenue increase of at least \$100M in FY 2018-19 and more in FY 2019-20

Base Budget

- Phased class-size reduction, additional NC Pre-K slots, and Opportunity Scholarships will increase base budget by \$80M each year of biennium

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- Budget Pressures for FY 2019-21**
- Statutory requirements and enrollment growth in key programs (Medicaid, education)
 - Required contributions to pension fund and State Health Plan
 - Top Ten Educated State: Improving Student Outcomes – each 1% increase in funding requires \$140M
 - Teachers and Principals Pay Plan Adjustments – each 1% = \$75M
 - State Employee pay (1% = \$85M); Retiree COLA (1% = \$50M)
 - Workforce, Rural Economic Development, and Business Innovation needs
 - Information technology / capital improvements

OSBM Updates

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OSBM Reorganization Efforts

Our goal was to:

- Create greater emphasis on data-driven, evidence-based budgeting and programs
- Increase our focus on strategic and executive level budget issues
- Reduce routine and non value add transactions and streamline processes
- Improve customer service to agencies/campuses

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OSBM Reorganization Efforts

Budget Execution Section		Budget Development and Performance Evaluation Sections
<ul style="list-style-type: none"> Interprets statutes/session laws and develops policies to guide agencies Meets with agency leadership to resolve complex/high-profile budget execution issues Reviews and approves revisions to the budget Ensures a balanced budget by monitoring expenditures and approving allotments Conducts closeout and carryforward Leads budget execution improvement initiatives Conducts Base Budget Development Process 		<ul style="list-style-type: none"> Develops Governor's budget recommendations Conducts objective analysis and develops options to support Governor's priorities Reviews and analyzes agency programs (e.g., performance/effectiveness, alternatives analysis) Meets with agency leadership to review programs and priorities Conducts budget certification

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OSBM - ADVANCE Framework

Fostering a culture of statewide organizational excellence.

- Aligning strategic planning, performance tools, and the budget process
- Championing the use of data and evidence in state government
- Improving outcomes for North Carolinians by piloting innovative tools and sharing best practices

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ADVANCE – Fostering a culture of organizational excellence

What we have accomplished:




- Researched and adopted best practices from leading states in performance management
- Increased the use of data and evidence in the budget process with revamped budget instructions
- Conducted three trainings on planning and performance for over 200 state agency leaders
- Developed the Systems Analysis pilot performance initiative

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ADVANCE – Fostering a culture of organizational excellence

What we are working on:



- Assessing how OSBM can continue to partner with state agencies and be a value add
- Providing agencies customized strategic planning feedback and assistance
- Developing a new annual strategic planning cycle that aligns to the budget process
- Piloting Systems Analysis in OSBM and just launched with the Department of Labor

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ADVANCE – Fostering a culture of organizational excellence

What's to come in 2019:



- Provide more strategic planning and performance related trainings throughout the year
- Host best practice sharing sessions and opportunities for inter-agency collaboration
- Continue to pilot and test innovative tools like Systems Analysis
- Communicate this work to the General Assembly

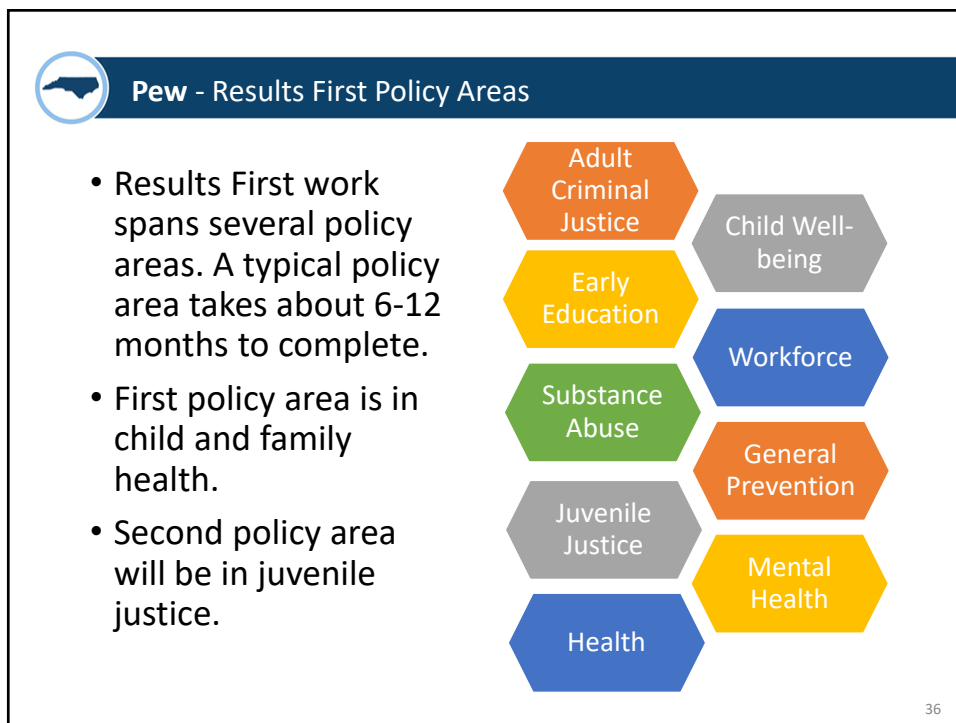
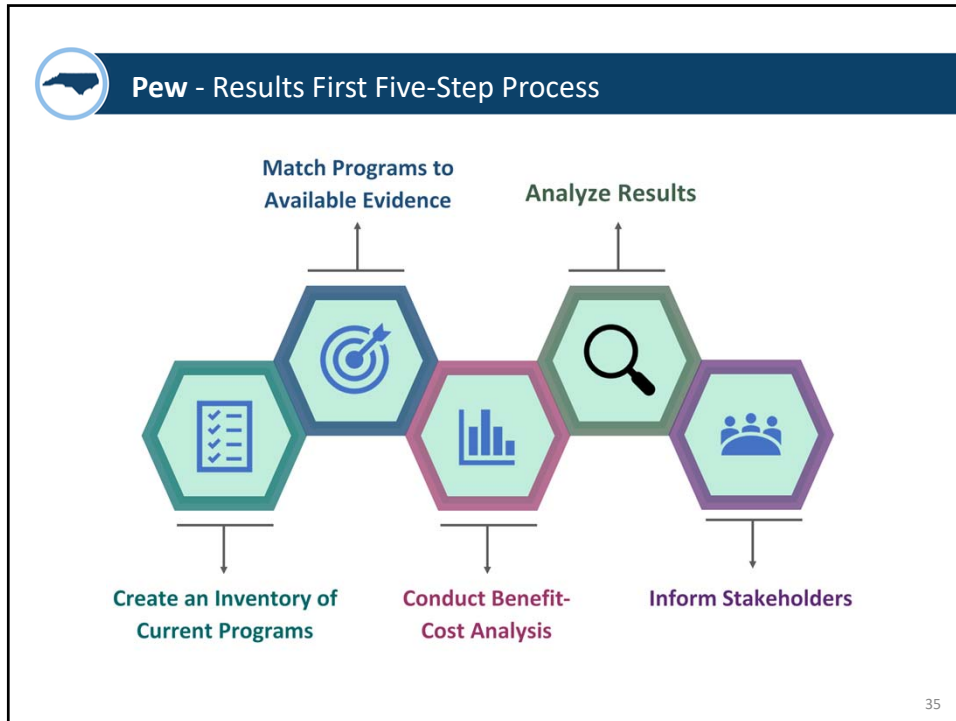
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Pew – Results First

- Uses rigorous program evaluations and benefit cost analyses to identify high-return program investments
- Informs budget and policy decisions to improve societal outcomes and maximize the value of taxpayer dollars
- Complements other tools such as performance evaluation, strategic planning, and budgeting

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Results First and ADVANCE Work Together

These initiatives are complementary

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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Recap

- North Carolina's economy is growing faster than rest of the nation, but employment and wage growth are uneven
- North Carolina's population continues to increase, primarily in the state's urban and suburban areas
- Recent tax and budget policy changes will result in tight budgets in the 2019-21 biennium
- Recovery from Hurricane Florence will require substantial state and federal resources in the coming years
- OSBM reorganized to improve customer service and focus on strategies to ensure the state gets the most "bang for its buck"

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Questions

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