



North Carolina Budget Update

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State Budget Director***

Integrity

Innovation

Teamwork

Excellence

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Agenda

- North Carolina Today
 - Economic & Demographic Trends
- FY 2023-25 Budget
- Federal Funding
- Looking Ahead to FY 2024-25

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North Carolina Today

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North Carolina's Economy

- **11th** largest economy in the nation
 - **\$715 billion** state GDP in 2022 (2.8% of US)
 - Manufacturing **14% of GDP** versus 10% for US
- **Employment 7% higher** than pre-pandemic peak as of October
 - **5.27 million** North Carolinians in the labor force
 - Unemployment historically low at **3.4%**
 - State government employment 4.0% of total in NC vs. 3.3% nationally
 - Local education positions included in 4% above

Sources: Bureau of Economic Analysis (GDP, in current dollars); BLS (labor force and employment)

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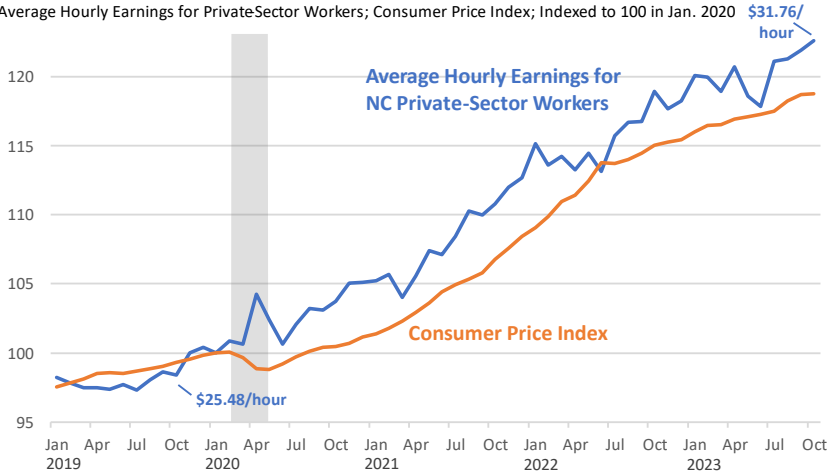
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Wage Growth Has Outpaced Inflation

Wage Growth in North Carolina Has Outpaced Inflation

Average Hourly Earnings for Private-Sector Workers; Consumer Price Index; Indexed to 100 in Jan. 2020



Source: US Department of Commerce, Bureau of Labor Statistics; Shaded area indicates recession

- Average hourly wage **up nearly 22.6%** since January 2020
- Consumer prices **up roughly 18.8%** since beginning of 2020

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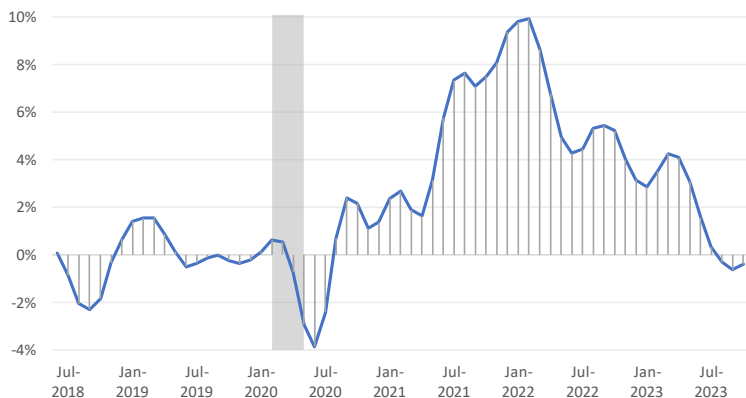


Falling Goods Inflation Slowing Growth of Sales Tax Revenues

- Prices for taxable goods rose rapidly in 2021 and 2022
- This inflation contributed to sales tax revenue growth until mid-2023
- Sales tax growth moderating in recent months

Falling Goods Inflation Slowing Growth of Sales Tax Revenues

Consumer price index for commodities less food, energy, and used vehicles, 3 -month moving average annualized rate



Source: Bureau of Labor Statistics, Accessed 11/21/2023

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Current Economic Conditions & Near-Term Outlook

Recent US Growth Rapid, But Likely to Slow

- Rapid growth in third quarter (US GDP +4.9%) likely to slow in the near term in response to higher-for-longer interest rates

US & NC Employment Growing, But Pace Is Slowing

- US unemployment rate rose 0.5% from April low; pace of employment growth slowing
- NC employment growth has mirrored US growth, but unemployment remains near lowest level since 2000

Inflation Continues to Ease

- Inflation fell to 3.2% in October, down from 8.9% peak in June 2022
- Federal Reserve unlikely to raise short-term rates further

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NC Population Trends

10.7 million

NC's population
in 2022

+1 million

NC's growth rate
exceeds national
average. We are
projected to add
1 million people
by **2030**

95%

Growth from
domestic and
international
migration last
year

Source: US Census Bureau, Population Estimates, Vintage 2022; North Carolina Office of State Budget and Management, Population Projections, Vintage 2023.

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NC Population Trends

Most NC counties are growing

- 72 of 100 counties projected to grow through 2025
- Largest gains in major urban counties and surrounding counties
- Charlotte (4th) and Raleigh (11th) among fastest growing cities in nation
- Fast growth in retirement destinations

Changing demographic characteristics

- Prime working-age population (25-44) growing more rapidly than the total population through 2030
- Population 65+ will exceed the number of children (<18) by 2031
- Population diversifying: Hispanic and Asian populations growing fastest

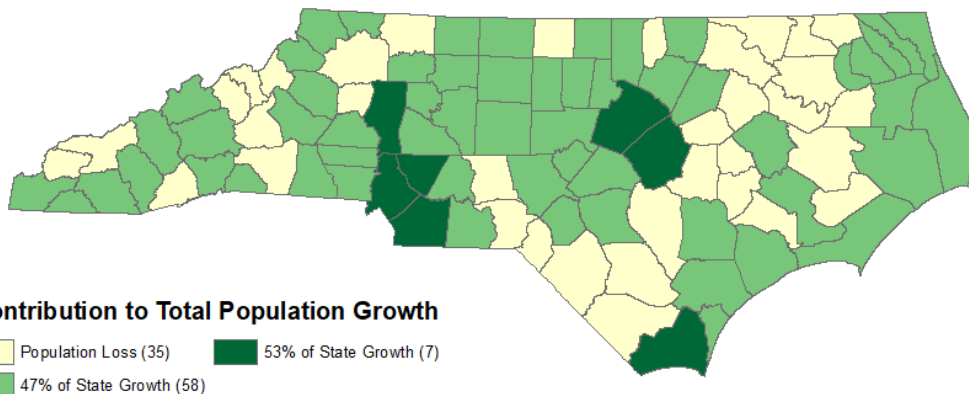
Source: [Brookings Institution](#); US Census Bureau, 2020 Census; North Carolina Office of State Budget and Management, Population Estimates, Vintage 2022 & Population Projections, Vintage 2023

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7 Counties Accounted for 53% of Overall Growth April 2020 to July 2022



Source: NC OSBM, Population Estimates, Vintage 2022

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Polling Question

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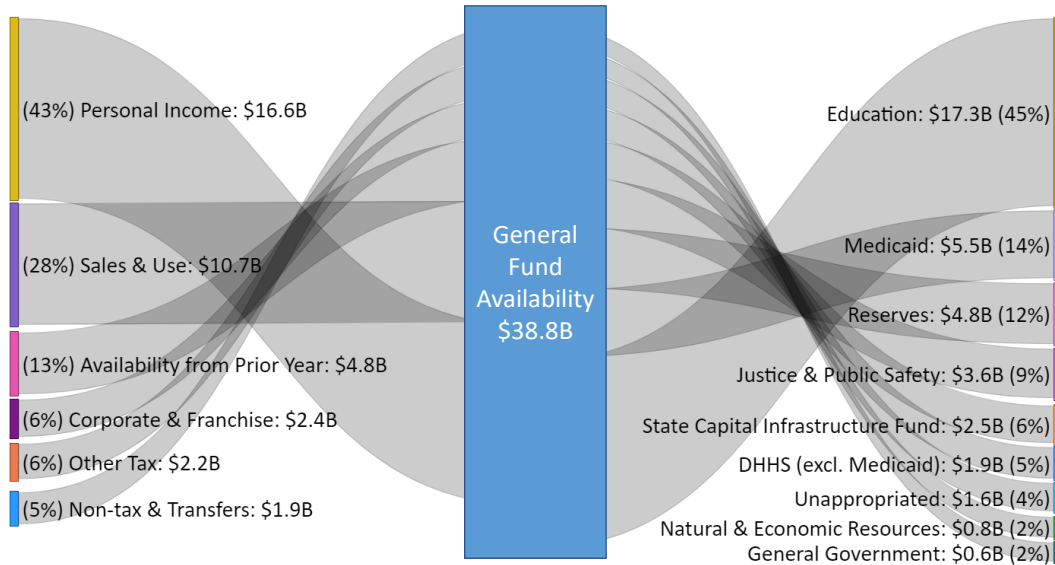
Summary 2023-25 Biennial Budget

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General Fund Sources and Uses of Funding: FY 2023-24



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General Fund Revenue for FY 2023-24

Certified revenues for FY 2024 = **\$33.7 billion**

So far this year...

Revenue collections through October = **\$10.5 billion, \$168M (1.6%) higher than target.**

- Tax revenue collections: \$10.0 billion, \$188M (1.9%) *above target*
- Nontax revenue: \$523 million, \$19M (3.5%) *below target*

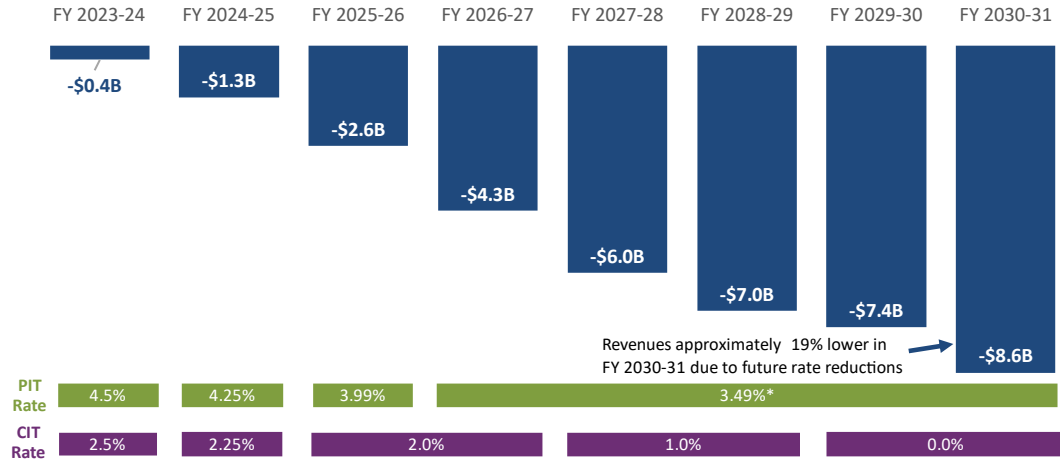
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Impact of Upcoming Income Tax Reductions

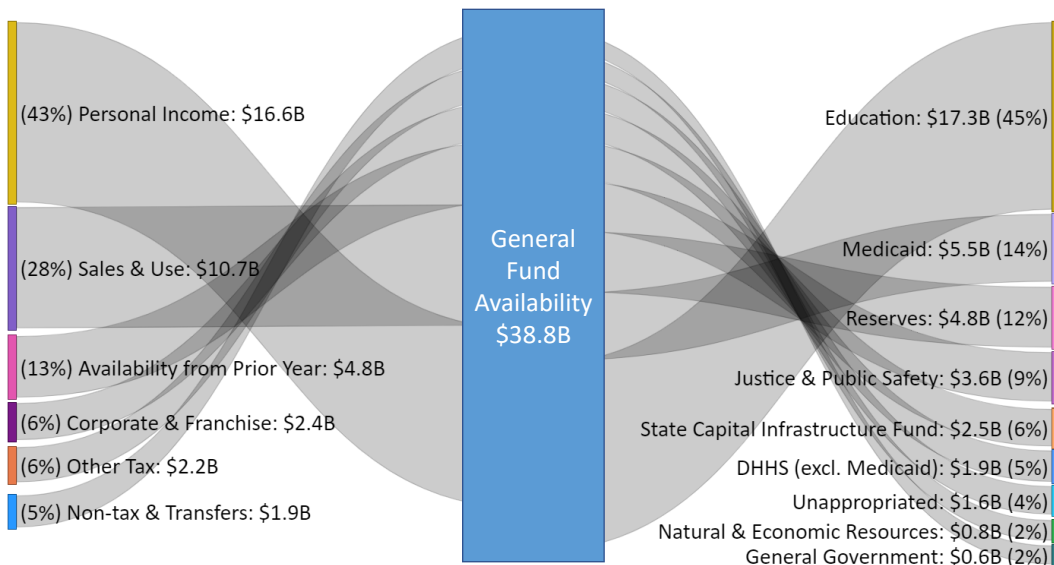
Upcoming Income Tax Reductions in Current Law Will Reduce Annual Revenues by \$8.6 Billion in FY 2030-31
 Revenue impacts in billions compared to 2023 policy (4.75% personal income tax rate and 2.5% corporate income tax rate)



Source: OSBM revenue-impact estimates and projected revenues; Note: Tax rates listed are those in effect as of January 1st in each fiscal year.
 *OSBM non-consensus projections anticipate hitting the first personal income tax reduction threshold (trigger) in FY26, but no subsequent rate-reduction triggers.



General Fund Sources and Uses of Funding: FY 2023-24





Availability, Appropriations, Reserves

Total Availability: \$38.8 billion

\$36.2 billion Appropriated

- \$6.4 billion “above the line” / Reserves
- \$29.8 billion “below the line”

\$2.6 billion Unappropriated

- \$1 billion to Reserves
 - \$400 million for Medicaid Contingency
 - \$600 million for the Economic Development Project Reserve
- \$1.6 billion ending unreserved balance (carried over to FY 2024-25)

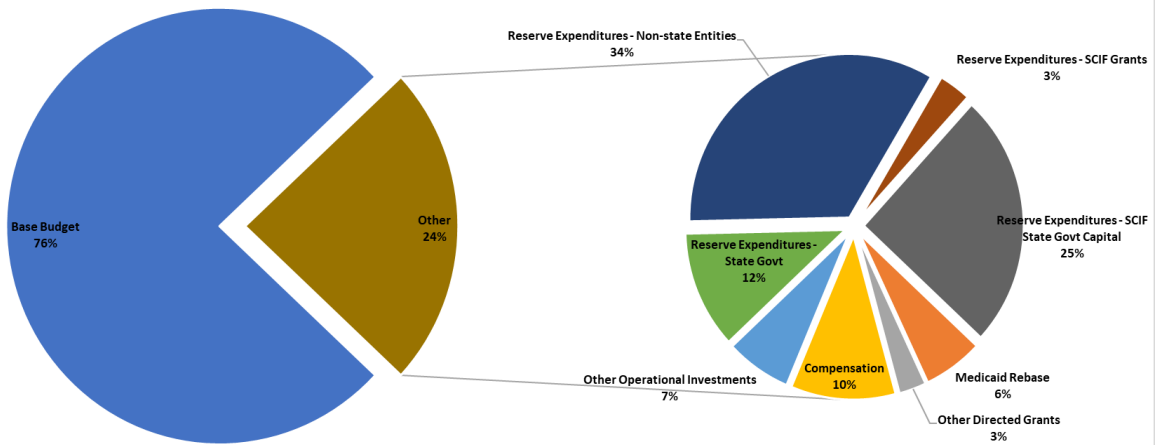
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\$36.2 Billion Appropriated

2023-24 Expenditures



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Key General Fund Budget Drivers - \$29.8 billion

Education

Medicaid

People >> *everything the state does depends on our people*

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Education Highlights

Compensation Increases

- Raises teacher salaries 3.6% in FY 2023-24, average raise of 6.7% over biennium
- Increases salaries for principals & non-certified personnel 7.0% over biennium; Additional 2.0% increase for bus drivers in FY 2023-24

Workforce Support

- Funds 120 additional school health personnel (\$10 million)
- Invests \$59.5 million for community colleges to retain key faculty, increase worker supply in areas of labor shortages

School Safety Efforts

- Support school safety (\$36.85 million)

Opportunity Scholarship Expansion Impact

An additional **\$1.9 billion** (above previous funding) transferred from General Fund to Opportunity Scholarship reserve fund over next 10 years

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Compensation

- 4% pay raise in 2023; 3% raise in 2024
- 4% one-time supplement for retirees
- 5.5% pay raise in 2023 for employees on a step-pay plan; 3% in 2024
- 1.5% Labor Market Adjustment Reserve (LMAR) for most agencies

State
Vacancy
Rate
22.9%

Sept 30, 2023

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Reserves FY 2023-24

- **\$6.4 billion** appropriated out of Reserves:
 - Over \$2.4 billion for State Capital and Infrastructure Fund
 - \$1.2 billion for Regional Economic Development Reserve
 - \$1 billion for Clean Water & Drinking Water Reserve
 - \$276 million from the State Emergency and Disaster Relief Fund
 - \$250 million for NC Innovation Reserve
 - Over \$148 million for Information Technology Projects

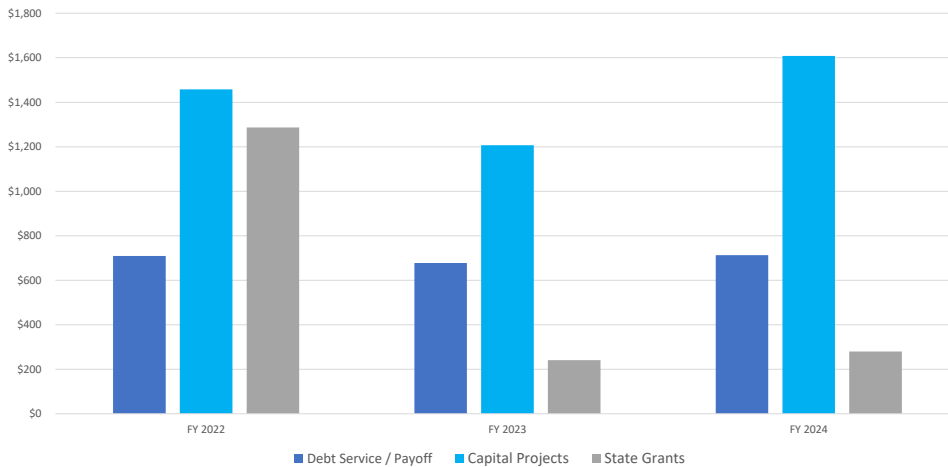
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State Capital and Infrastructure Fund

Provides capital funding of \$2.6 billion in FY 2023-24



Capital Projects – Highlights – FY 2023-24

- \$480.5 million in Repairs & Renovations
 - \$280.5 million UNC
 - \$200 million state agencies
- \$417.3 million for UNC System capital projects
- \$319.2 million for state agency capital projects
- \$315.4 million for Community Colleges capital projects
- \$40 million for courthouses
- \$32.9 million for hospitals

Notable Projects

- \$30 million over the biennium - DEQ's Reedy Creek Laboratory
- \$128 million - new DHHS Headquarters
- \$40 million - renovating the NC History Museum
- \$319 million - new UNC Children's Hospital



State Information Technology Projects

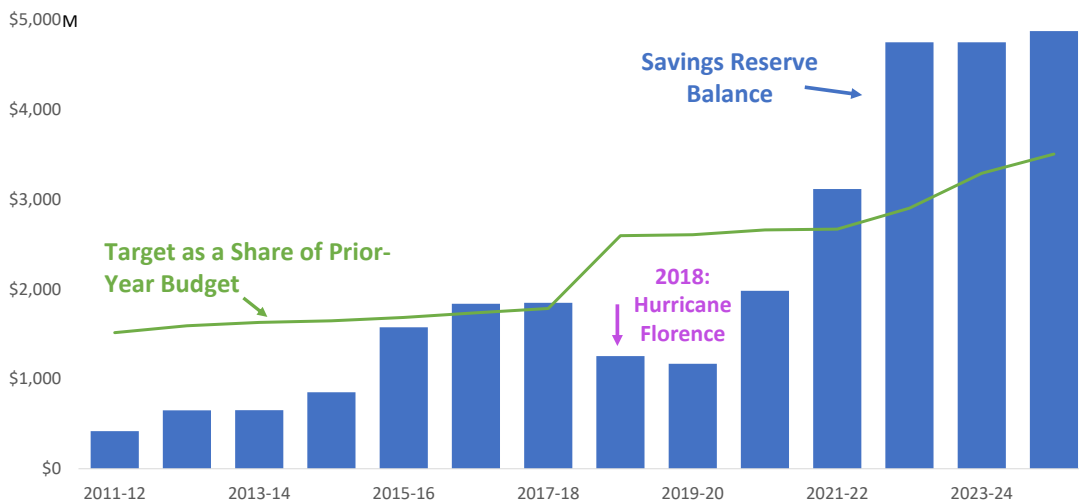
- Statewide cybersecurity (\$48 million)
- Tax system modernization (\$25 million each year)
- State Education Assistance Authority IT enhancements (\$15.6 million)
- NC General Assembly IT costs (\$15 million)
- Human Capital Management System (\$5.6 million)
- Permit transformation project (\$5.5 million each year)

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Savings Reserve Balance Above Consensus Target



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Medicaid Expansion

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Medicaid Expansion

- North Carolina became the 40th state to adopt Medicaid Expansion
- Expected to cover more than **600,000 individuals**
- Enrollment began Dec 1
- State share of expansion funded through hospital assessments
- Includes Healthcare Access and Stabilization Program (HASP), increasing hospital federal funding by \$3.2B annually from existing Medicaid population
- An additional \$6.7B is expected to be spent annually on Medicaid Expansion services and associated administration, and HASP covering the expansion population
- North Carolina is expected to gain **\$1.6B** over two years from the American Rescue Plan Act Medicaid Expansion Incentive (Budgeted in the ARPA TSF)

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Medicaid Expansion – Economic Impact

- Economy benefits from increased funds in medical sector
 - Estimated 37,200 new jobs
 - Estimated increase of Gross State Product by \$2.9 billion
- Increased financial stability for working families
 - Removes a barrier to work
 - Many eligible work in critical industries – *childcare, food services, healthcare*
- Increased state, local government revenues
 - State tax revenues to increase by \$200 million annually
 - County tax revenues up \$43 million annually
 - Estimated \$60-80 million in savings to state in other services

Source: Center for Health Policy Research, The George Washington University “The Economic and Employment Benefits of Expanding Medicaid in North Carolina: June 2019 Update”, 2019.

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Federal Funding Opportunities

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Generational Federal Funding Opportunities

**The Bipartisan Infrastructure Law (BIL),
Inflation Reduction Act (IRA),
Creating Helpful Incentives to Produce
Semiconductors (CHIPS) and Science Act**

Nearly \$2 trillion of dollars for

- > infrastructure,
- > research & innovation,
- > climate,
- > manufacturing,
- > STEM education

- NC will be allocated an estimated **\$11.3 billion over 5 years** in new and existing formula grants
- Potentially *billions* more in competitive grants, tax credits awarded across three bills

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State Technical Assistance and Matching Program (STAMP)

- \$10 million for **State Technical Assistance and Matching Program**
 - \$5 million for technical assistance
 - \$5 million for state match
- ~ \$95 million unappropriated in Federal Infrastructure Match Reserve
- State agencies applying for BIL, CHIPS, IRA funds are eligible to apply
- Program guidance recently released
- Learn more at OSBM's federal funds webpage:
<https://www.osbm.nc.gov/federal-funding-opportunities>

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Polling Question

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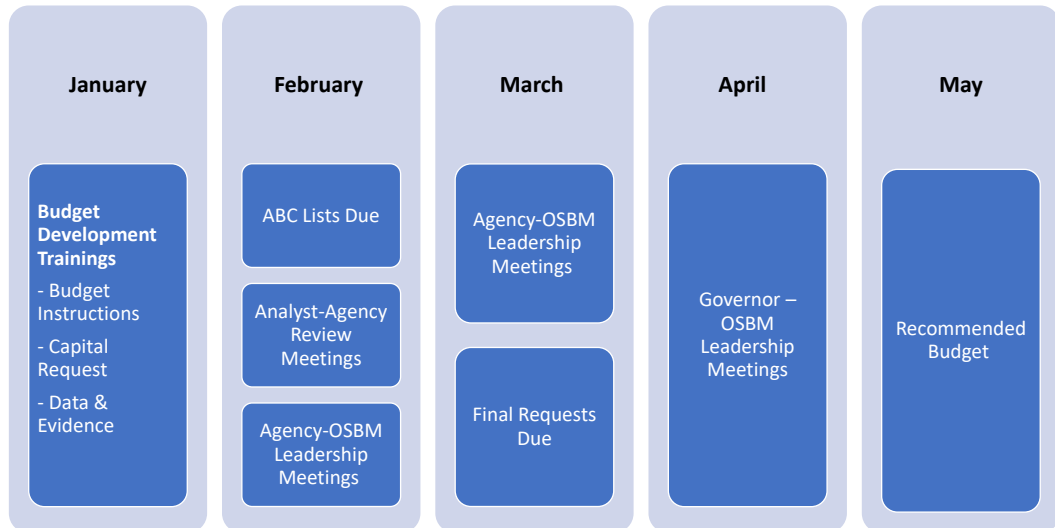
Looking Ahead: FY 2024-25

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Short Session Budget Development Process



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How OSBM Evaluates Budget Requests



Strength of business case, including details on:

- ✓ The problem
- ✓ How the request will solve the problem
- ✓ Expected impact of the proposed solution



Use of evidence and/or data

- ✓ How likely will the program or service achieve expected impact? Why?
- ✓ How will agencies measure success? How will data be collected and evaluated?



Agency strategic plan alignment

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Polling Question

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Certified State Government Budget Professional Program

- OSBM—UNC School of Government collaboration
- Unique professional development for state budget professionals
- 3-week academic program at UNC-SOG (non-consecutive weeks)
- Week 1 - May 2024
- OSBM to offer scholarships for 2024 program
- Look for email w/ details from OSBM & UNC coming soon!



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