

Budget Overview

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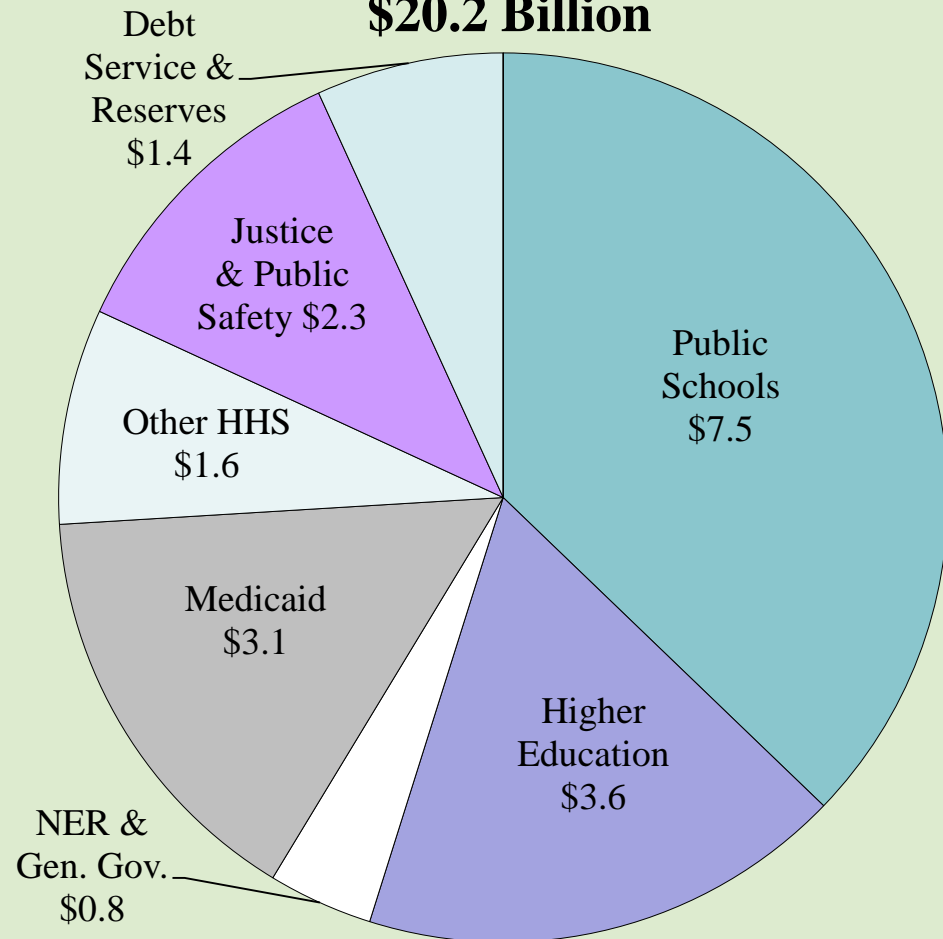
FISCAL RESEARCH DIVISION
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Presentation Overview

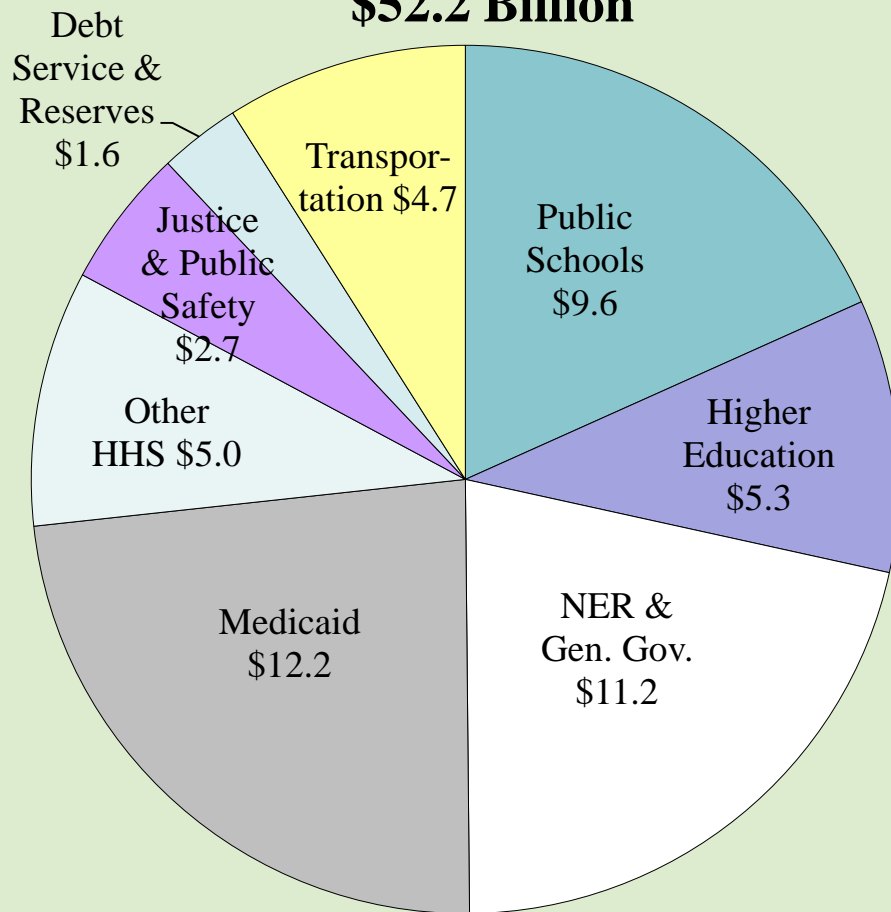
- The State Budget
- Growth Trends and Budget Drivers
- Budget Conditions
- Recent Budget Shortfalls & Legislative Actions
- Budget Pressures for 2013-15 Biennium

State Budget, FY 2012-13

General Fund Appropriations \$20.2 Billion



All Sources \$52.2 Billion

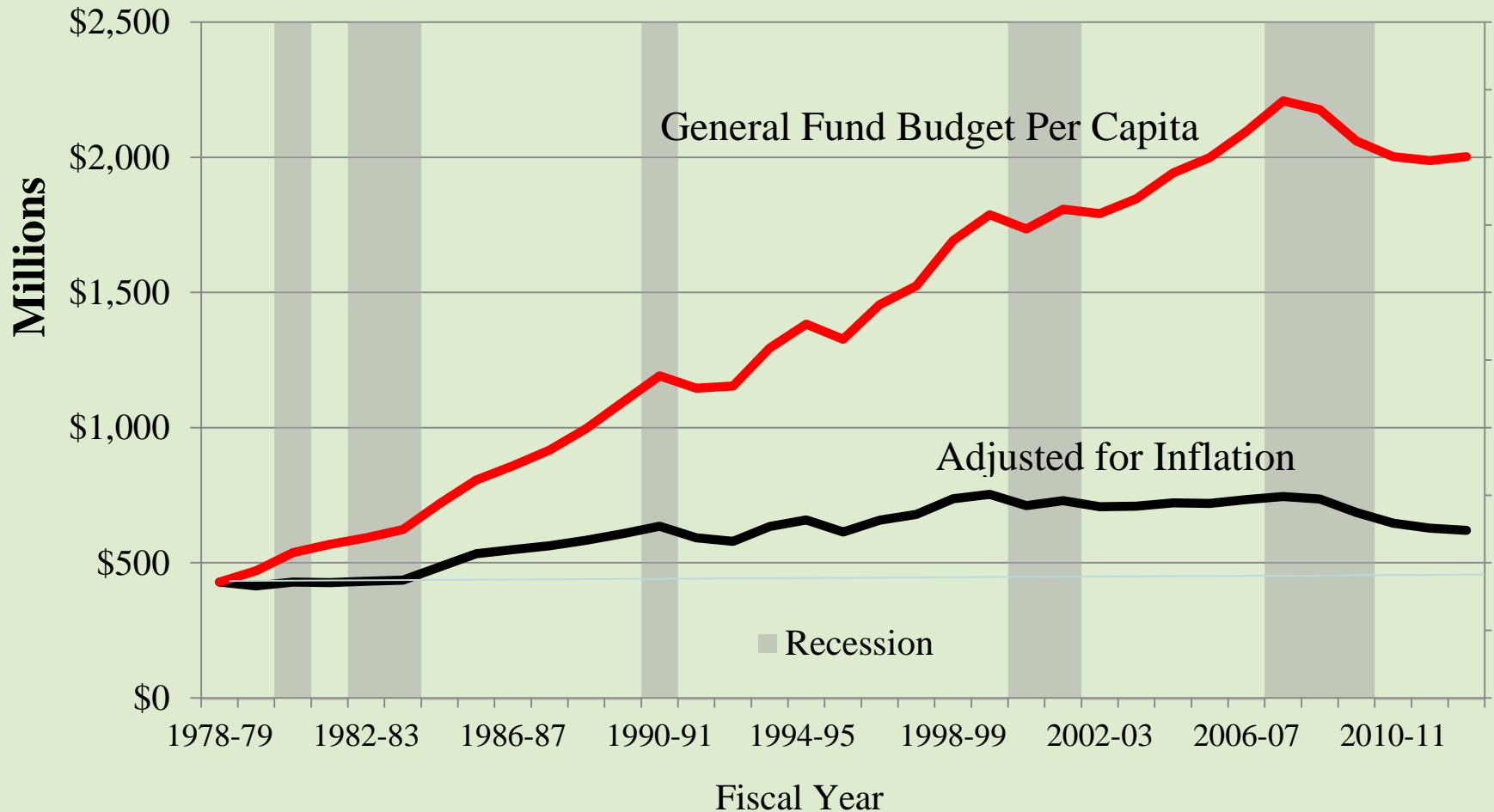


Source: Office of State Budget and Management. Totals may not add due to rounding.

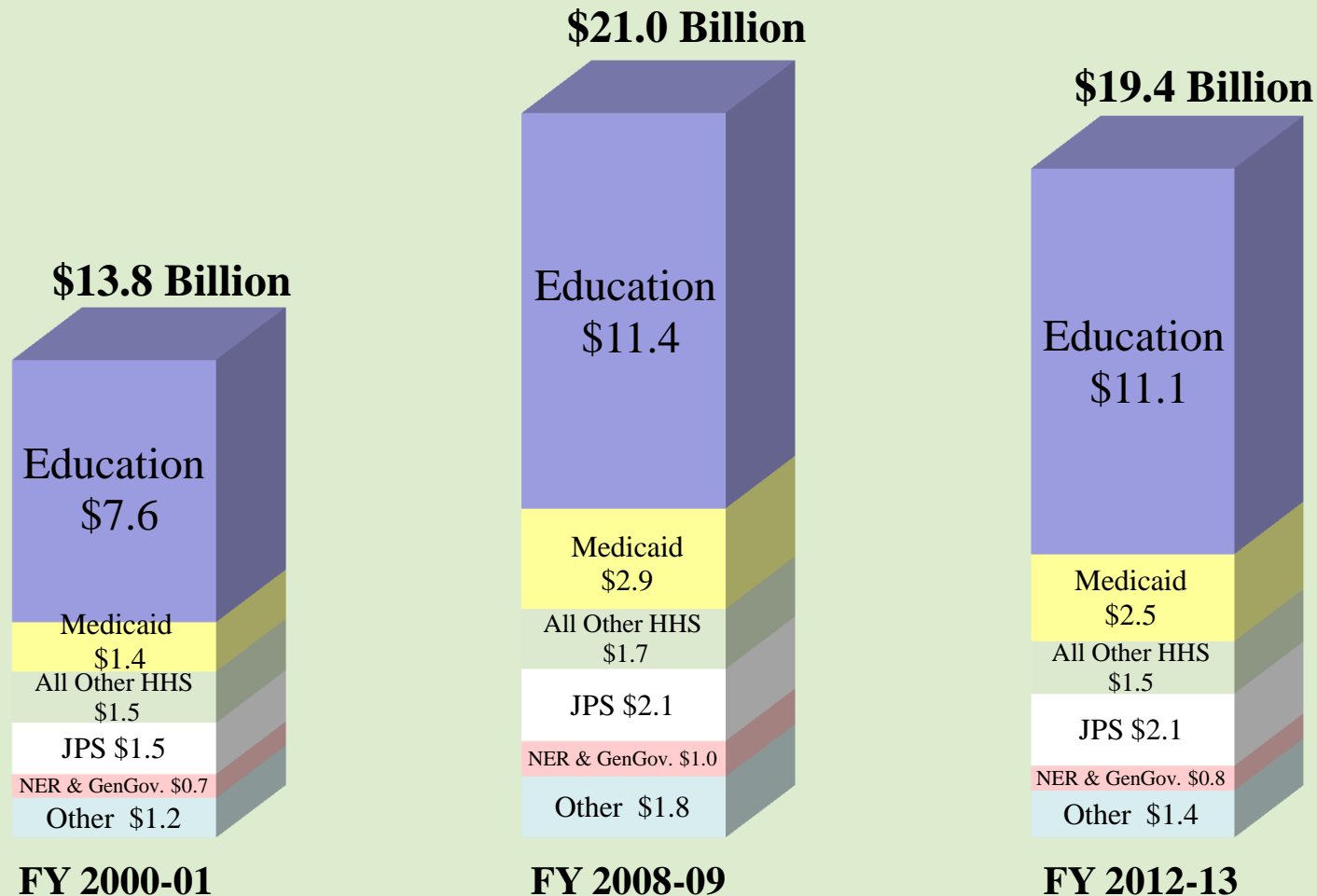
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General Fund Budget Per Capita



Adjusted General Fund Operating Budget Trends



*Adjusted for comparability to include Clean Water Management Trust Fund in NER, exclude recent shift of Highway Patrol to General Fund support, and exclude recent increases in State responsibilities for Medicaid County Share. Also adjusted to account for shift of More at Four to HHS. Totals may not add due to rounding.

Adjusted General Fund Operating Budget Trends* (\$ Billions)

	2000-01 Budget	2008-09 Budget	Annual Growth	2012-13 Budget	Annual Growth Since 2008-09
Education	\$7.58	\$11.42	5.3%	\$11.14	-0.6%
Medicaid**	1.43	2.91	9.3%	2.53	-3.5%
All Other HHS	1.49	1.74	2.0%	1.52	-3.3%
JPS	1.49	2.09	4.3%	2.09	0.0%
NER	0.34	0.57	6.8%	0.37	-10.1%
Gen. Gov.	0.35	0.46	3.6%	0.40	-3.6%
Debt Service	0.24	0.64	13.1%	0.71	2.5%
Reserves, Other	0.91	1.13	2.8%	0.66	-12.5%
Total	\$13.81	\$20.96	5.3%	\$19.41	-1.9%

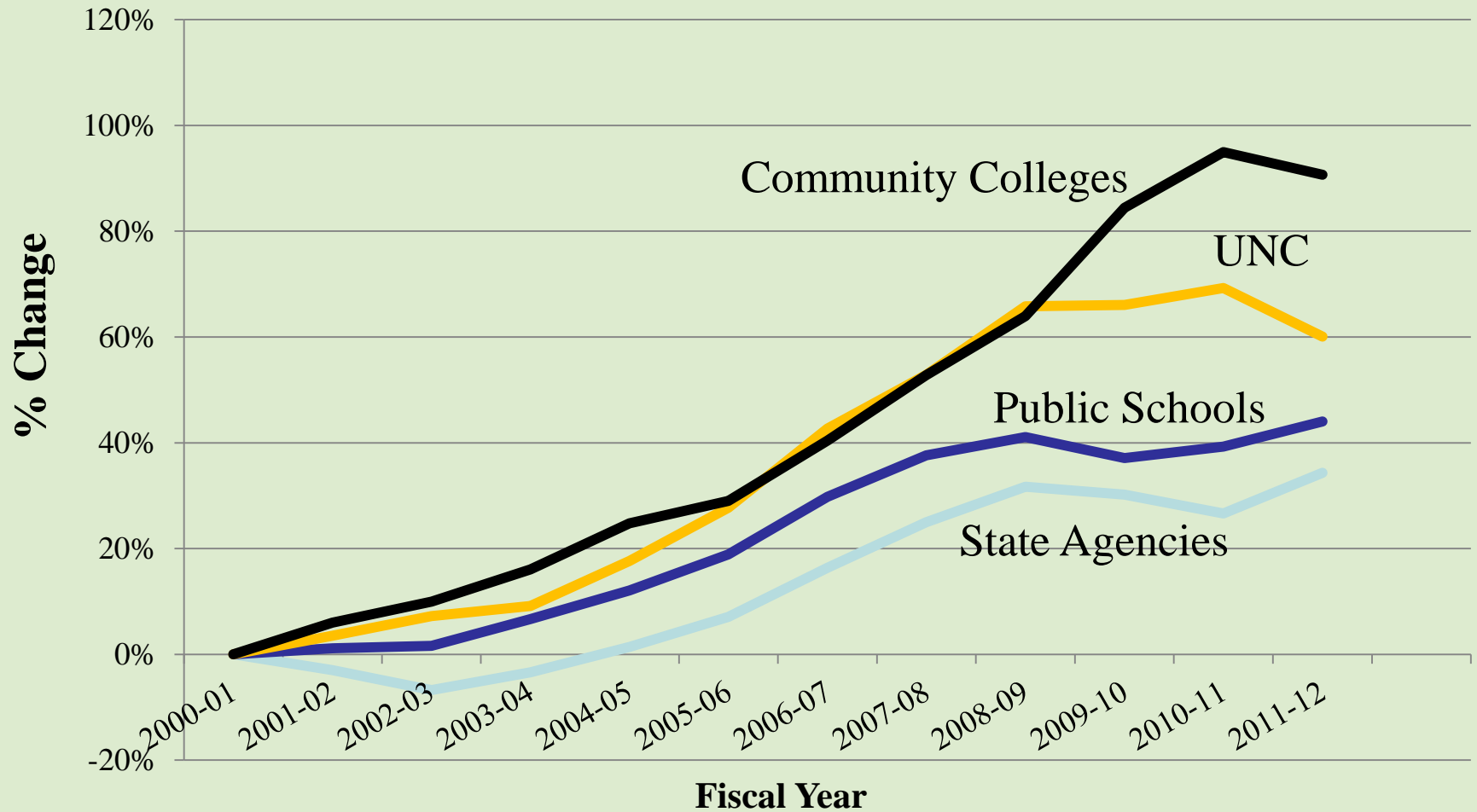
Sources: FRD Overview of 2000 Session and 2008 and 2012 Annotated Joint Conference Committee Reports.

*Adjusted for comparability to include Clean Water Management Trust Fund in FY 2000-01 budget for NER, and exclude \$270.8 million and \$576.1 million in Medicaid county share from HHS in FY 2008-09 and FY 2012-13 budgets, respectively. Adjusted to exclude \$196.6 million Highway Patrol budget, shifted to General Fund support in FY 2012-13. Also adjusted to account for shift of More at Four (NC Pre-K) to DHHS. Totals may not add due to rounding.

**Reductions in Medicaid Appropriations should be considered in the context of recent Medicaid shortfalls in FY 2009-10, FY 2010-11, and FY 2011-12.

Salaries and Benefits Spending*

% Change Since FY 2000-01



* Excludes medical benefits for active duty employees

North Carolina Education Spending Compared to Other States

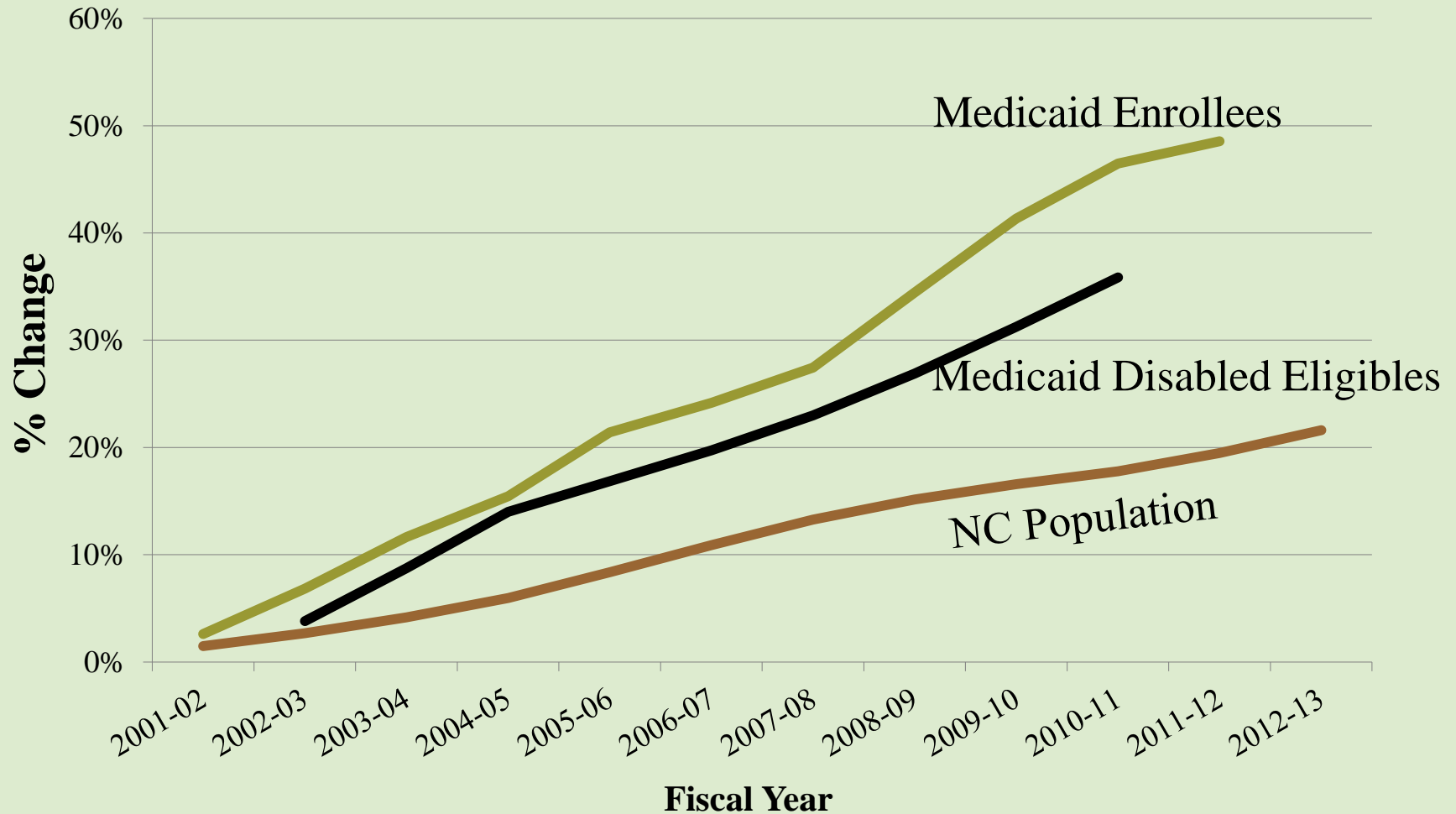
<u>K-12 (FY 2009-09)</u>	<u>\$/Student</u>	<u>State Ranking</u>
State Spending*	5,739	22 of 51
State, Federal and Local Spending*	9,101	45 of 51
 <u>Higher Education (FY 2010-11)</u>		
University Appropriations/FTE**	10,497	1 of 16
Community College Appropriations/FTE**	6,045	1 of 16
Higher Education Appropriation/FTE***	9,463	3 of 50
 University Tuition, Fees/FTE**	 5,798	 13 of 16
Community College Tuition, Fees/FTE**	1,745	16 of 16
Higher Education Tuition/FTE***	2,801	46 of 50

*Source: National Center for Education Statistics; **Source: Southern Regional Education Board;

***Source: State Higher Education Officers

Medicaid Enrollment Growth

% Change Since FY 2000-01



Health Care Spending Cost Increases, 2010 to 2011

Health Care Costs	Unit Price
Inpatient	5.9%
Outpatient Visits	9.6%
Consumer Price Index	2.1%
Sources: Health Care Cost Institute, Bureau of Labor Statistics	

Health Care Costs

	<u>FY 2000-01</u>	<u>FY 2012-13</u>	<u>Annual Growth</u>
State Health Plan Employer Contribution Rates per Employee	\$2,256	\$5,192	7.2%

	<u>FY 2000-01</u>	<u>FY 2010-11</u>	<u>Annual Growth</u>
Employer Health Insurance Costs per Hour Worked (U.S. Bureau of Labor Statistics)	\$1.16	\$2.12	6.2%

	<u>CY 2000</u>	<u>CY 2010</u>	<u>Annual Growth</u>
National Health Expenditures per Capita (Center for Medicare and Medicaid Services)	4,878	8,402	5.6%

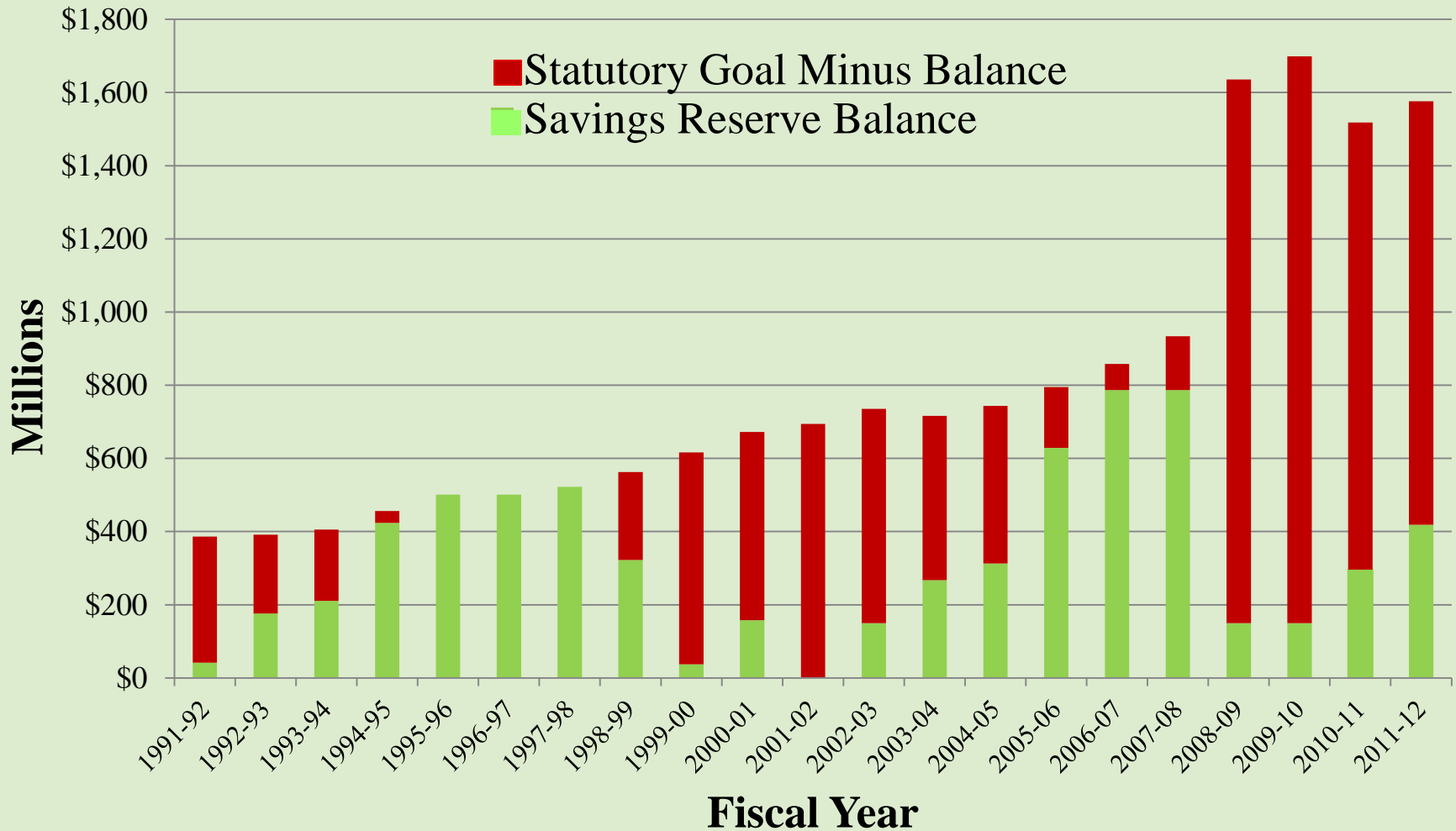
Key Points on Growth and Budget Drivers

- General Fund per capita budget has grown significantly. However, after adjusting for inflation, per capita budget growth has been much more modest.
- Education budget is 55% of General Fund. It is driven by strong enrollment growth in higher ed., and a tradition of higher ed. support more generous than most other states.
- Medicaid budget driven by strong enrollment growth, particularly among the disabled.
- Health care inflation, and increases in utilization impact the State budget through Medicaid, State Health Plan, and inmate medical costs.

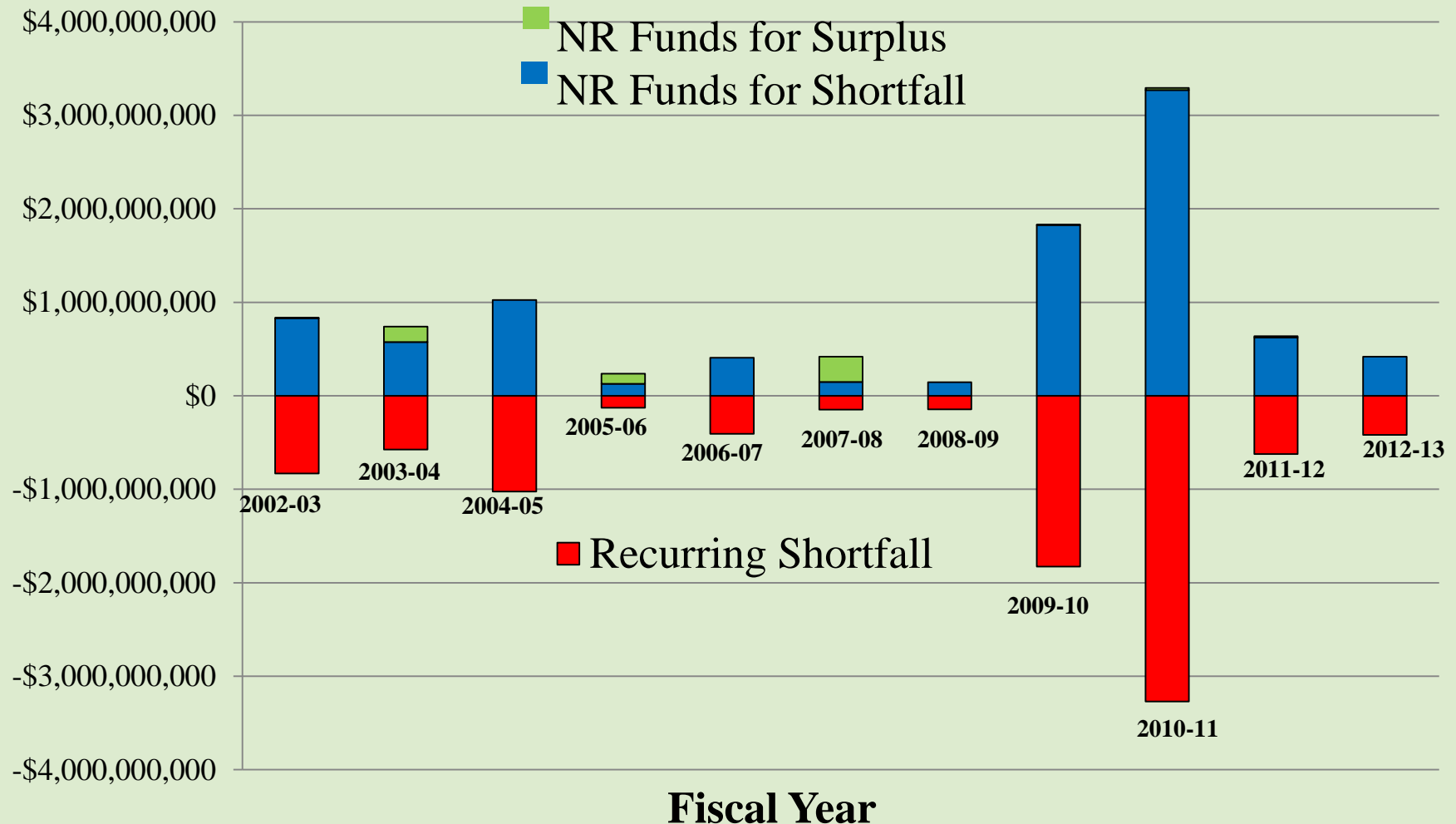
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Savings Reserve Balances & Statutory Goals



Nonrecurring (NR) Budget Surpluses and Recurring Shortfalls



Retirement System and Retiree Medical Benefits*

	Retirement System	Retiree Medical Benefits
Total Accrued Liability	\$61.8 Billion	\$30.3 Billion
Assets	<u>\$58.1 Billion</u>	<u>\$ 0.7 Billion</u>
Unfunded Liability	\$ 3.7 Billion	\$29.6 Billion
% Liabilities Funded	94%	2%
State Rank**	2	42
Actuarially Required Contribution	\$1.1 Billion	\$2.5 Billion
Appropriated Contribution	\$1.1 Billion	\$0.9 Billion
Ratio of Appropriation to ARC	100%	34%

*Source: December 31, 2011 Valuation Reports from Buck Consultants and the Segal Company.

**Sources: Pew Center on the States, and Retiree Health Plans in the Public Sector, Clark and Morrill.

Repairs and Renovations (R&R)

2011 Estimate of Six-Year Repairs and Renovations Needs for General Fund Buildings (Office of State Construction)	\$4,377 Million
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Funding for Repairs and Renovations since FY 2010-11	\$129 Million
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Key Points on Budget Conditions

- Savings Reserve balance is well below statutory target, but is up from FY 2009-10.
- Nonrecurring funds are being used to meet recurring budget requirements.
- NC retirement system is one of the strongest state systems in the country, but unfunded liabilities for NC retiree medical benefits are large relative to those of other states.
- There is some evidence that maintenance of State buildings is underfunded.

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Impact of Great Recession

2009-11 Biennium

	FY 2010-11
<u>Budget Gap Estimates, 2009</u>	<u>\$ Millions</u>
Consensus Revenue Forecast	\$18,113
Adjusted Continuation Budget	<u>\$22,555</u>
Estimated Gap (Difference: Revenue and Budget)	(\$4,442)
<u>Revisions to Estimates, 2010</u>	
Revenue Revisions	(\$788)
Spending Revisions: Medicaid	(\$431)
Higher Ed Enrollment	<u>(\$87)</u>
Adjusted Budget Gap for FY 2010-11	(\$5,748)

Legislative Measures to Balance Budget

FY 2010-11

	2009 Session <u>(\$ Millions)</u>	2010 Session <u>(\$ Millions)</u>	Total <u>(\$ Millions)</u>
Federal ARRA Funds	\$1,038	\$562	\$1,600
Revenue Package (incl. temp. sales & income taxes)	\$1,301	(\$60)	\$1,241
Fees	\$60	\$14	\$74
Other Availability	\$169	\$173	\$342
Net Adjustments (Savings)	\$1,958	\$556	\$2,514
Total Measures to Balance	\$4,526	\$1,245	\$5,771

Major Budget Reductions

2009 Session

<u>Item</u>	<u>FY 2009-10</u> <u>(\$ Millions)</u>	<u>FY 2010-11</u> <u>(\$ Millions)</u>
Public Schools LEA Mgmt. Flex Cut	(\$225)	(\$305)
Public Schools Textbooks	(\$48)	(\$115)
Community College Tuition Increase	(\$31)	(\$31)
UNC System Mgmt. Flexibility Cut	(\$73)	(\$100)
Medicaid – Provider Rate Reductions	(\$76)	(\$82)
Medicaid – Community Care of NC (CCNC) Savings	(\$70)	(\$78)
Closure of Seven Prisons	(\$8)	(\$22)
Clean Water Management Trust Fund	(\$50)	(\$50)

Major Budget Reductions 2010 Session

	<u>FY 2010-11</u> <u>(\$ Millions)</u>
Public Schools Education Lottery Receipts	(\$121)
Comm. Colleges Tuition Increase	(\$30)
UNC System Mgmt. Flexibility Cut	(\$70)
Medicaid – Savings Through CCNC	(\$45)
Medicaid – Program Integrity Savings	(\$40)
Medicaid – In-home Personal Care Services	(\$51)
Prisons – Inmate Medical	(\$21)

Budget Environment

2011-13 Biennium

Initial Budget Gap Estimates, 2011

\$ Millions

Consensus Revenue Forecast

\$18,800

Potential Budget Pressures

Governor's Continuation Budget

\$19,000

ARRA Funds Replacement

\$1,600

Other Nonrecurring Funds Replacement

\$400

Potential Spending Pressures

\$900

Total Potential Budget Pressures

\$21,900

Potential Gap (Difference: Revenue and Budget)

(\$3,100)

Revisions to Estimates, 2012

Revenue Revisions

\$21

Potential Spending Pressures

\$300+

Legislative Measures to Balance Budget 2011-13 Biennium

	2011 Session <u>(\$ Millions)</u>	2012 Session <u>(\$ Millions)</u>
Reversions	\$538	\$207
Unreserved Fund Balance	\$264	\$244
Fees	\$64	-
Other Availability	\$288	\$59
Net Adjustments	(\$1,138)	\$247

Major Budget Reductions

2011 Session

<u>Item</u>	<u>FY 2011-12</u> <u>(\$ Millions)</u>	<u>FY 2012-13</u> <u>(\$ Millions)</u>
Public Schools LEA Mgmt. Flex Cut	(\$124)	(\$198)
Public Schools Textbooks & Instr Supplies	(\$134)	(\$132)
Community College Tuition Increase	(\$48)	(\$60)
UNC System Management Flex Cut	(\$414)	(\$423)
Smart Start	(\$38)	(\$38)
Medicaid – Provider Assessments	(\$60)	(\$63)
Medicaid – CCNC Savings	(\$90)	(\$90)
Closure of Six JPS Facilities	(\$14)	(\$19)
Clean Water Management Trust Fund	(\$89)	(\$89)

Major Budget Reductions 2012 Session

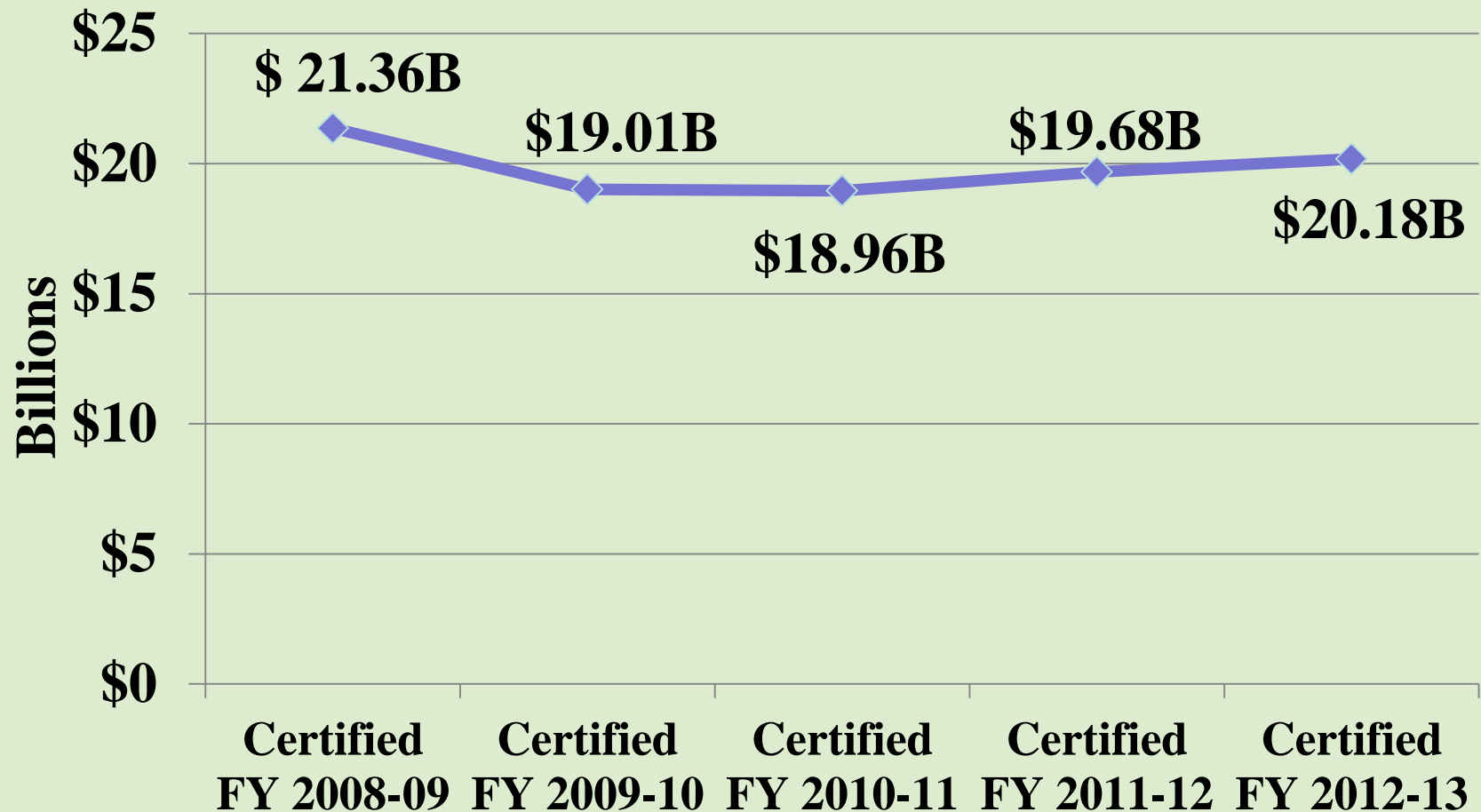
<u>Item</u>	<u>FY 2012-13 (\$ Millions)</u>
Revised Estimate of LEA Position Costs	(\$86)
Management Flexibility Reductions (all areas except Education and HHS)	(\$46)
Medicaid – CCNC Savings	(\$59)
Debt Service Savings	(\$53)

Major Budget Increases

2012 Session

<u>Item</u>	<u>(\$ Millions)</u>
Public Schools (LEA) Mgmt. Flex Adjustment	\$127
Excellent Public Schools Act	\$27
Medicaid Rebase	\$212
Federal Medicaid Liabilities	\$56
State Employee Compensation Increase	\$160

General Fund Certified Budget FY 2008-09 – FY 2012-13



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Salaries & Benefits

Potential Budget Pressures

2013-15 Biennium

<u>Item</u>	FY 2013-14 Preliminary <u>Estimate</u>	FY 2014-15 Preliminary <u>Estimate</u>
Retirement Contributions	\$37M	\$125M
State Health Plan – anticipated 4-6% increase request	\$38 - 57M (partial year)	\$114 - 171M
Salary Increases, each 1%	\$137M	\$137M

Education

Potential Budget Pressures

2013-15 Biennium

<u>Item</u>	FY 2013-14 Preliminary <u>Estimate</u>	FY 2014-15 Preliminary <u>Estimate</u>
Restoration of nonrecurring Public Schools cuts	\$115M	\$115M
Excellent Public Schools Act	\$40M	\$50M
Financial Aid	\$25M	\$25M

Health and Human Services

Potential Budget Pressures

2013-15 Biennium

<u>Item</u>	FY 2013-14 Preliminary <u>Estimate</u>	FY 2014-15 Preliminary <u>Estimate</u>
Mental Health – USDOJ Settlement	\$13M +	\$19M +
Affordable Care Act – Woodwork Effect, Administration	\$37M+	\$99M +
Medicaid	?	?

Other Areas

Potential Budget Pressures

2013-15 Biennium

FY 2013-14

Preliminary Estimate

<u>Item</u>	
Items Funded Non-recurring in FY 2012-13: VIPER, Clean Water Management Trust Fund, etc.	\$100M+ NR
Fiscal Cliff/Sequestration	\$60M+ (mainly HHS)
Repairs & Renovations	1% of building value is \$179M
Savings Reserve	Statutory goal of 8% would require additional \$1.15B NR
Unemployment Insurance Reform	\$41M NR

Questions?

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