

**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# **State General Fund Budget Overview and Outlook**

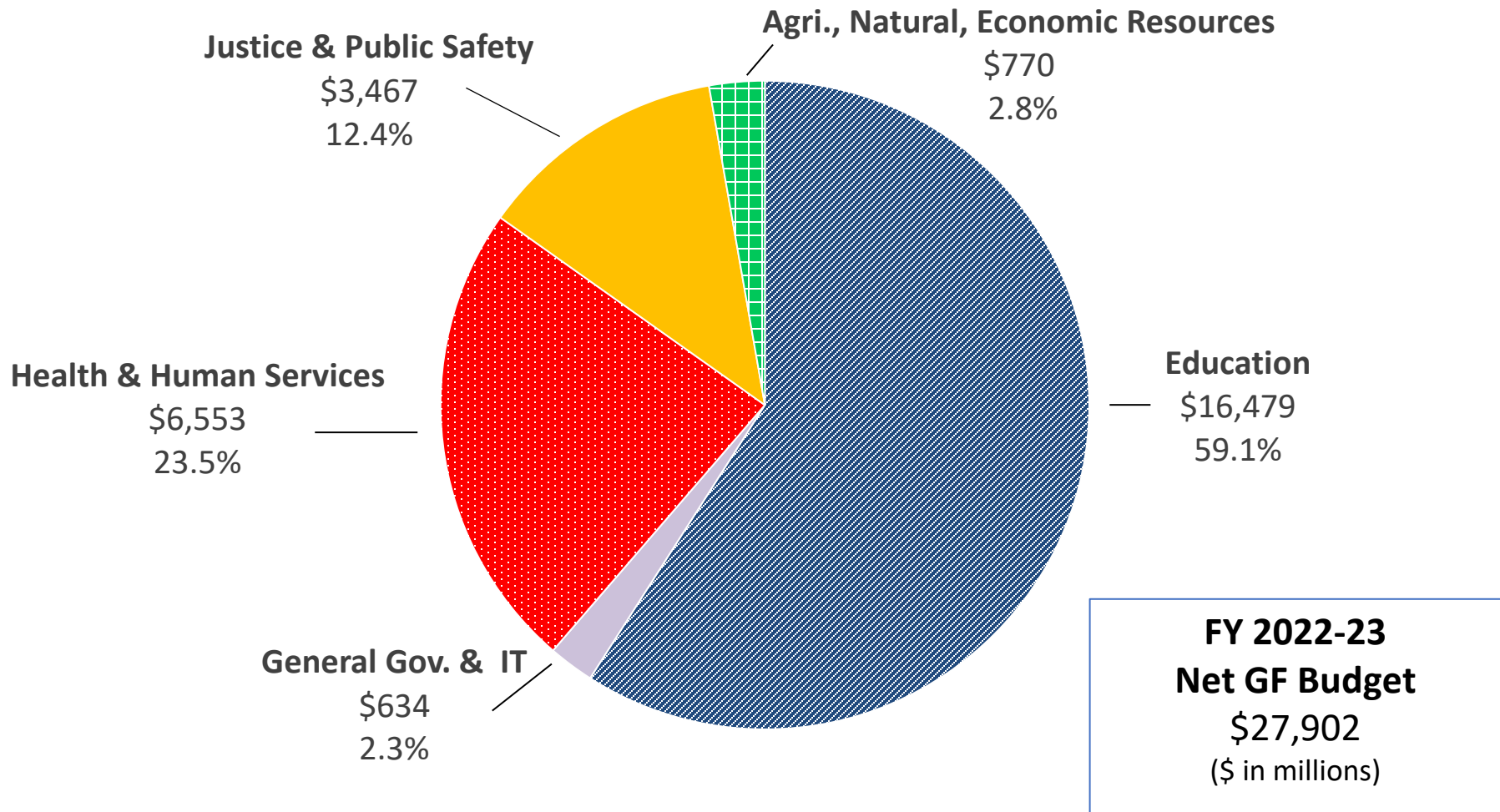
**February 21, 2023**

# Budget Presentation Overview

- 1) FY 2022-23 State Budget Overview
- 2) 2021 and 2022 Legislative Session Budget Highlights
- 3) 2023 Session Budget Outlook
  - FY 2023-25 Base Budget
  - Major Budget Pressures
- 4) Key Takeaways



# Net General Fund (GF) Budget by Appropriations Committee Area



# Where Does the Money Go?

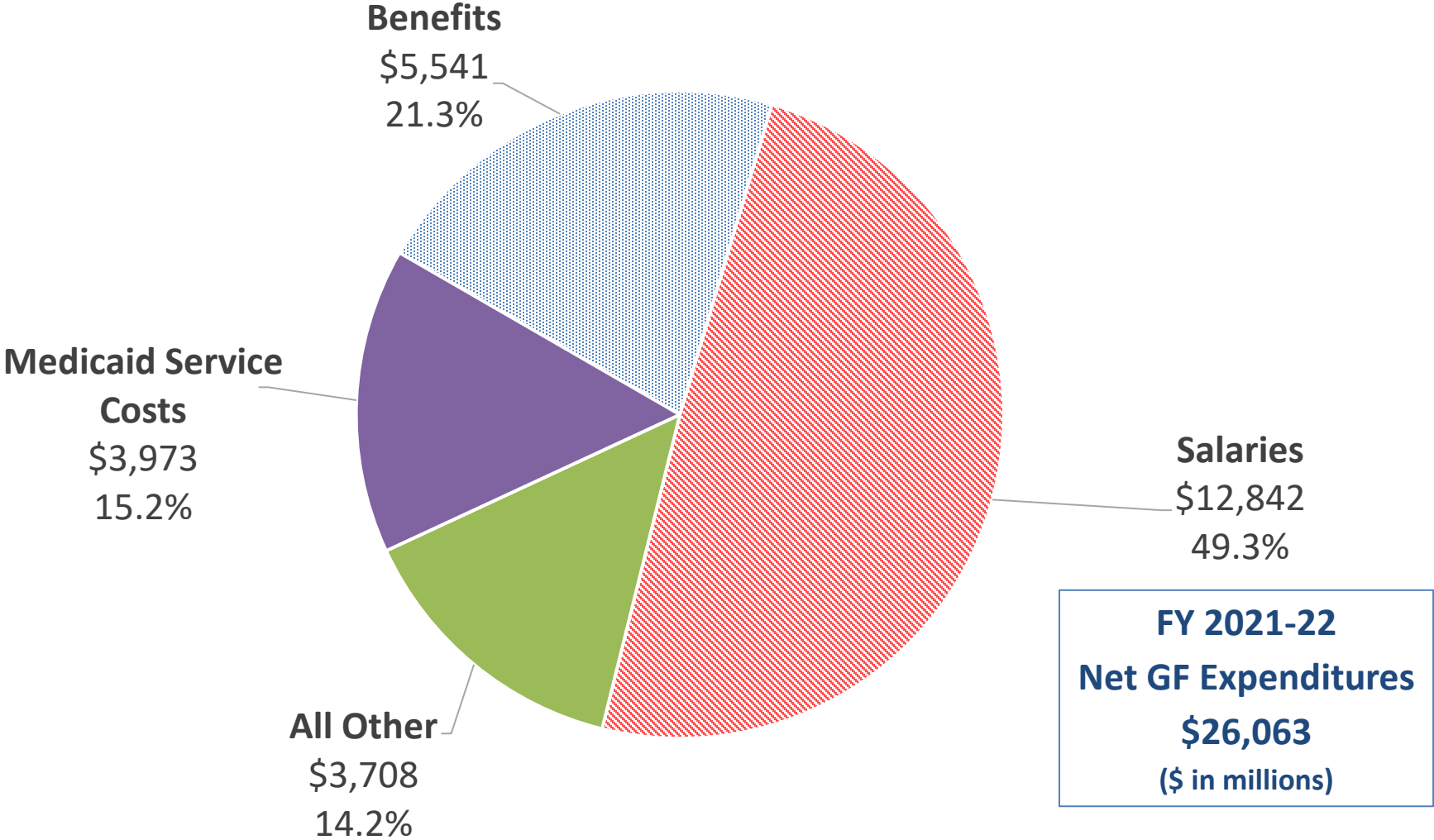
## FY 2022-23 Key Budget Drivers (Net GF Appropriations: \$ in Millions)

Public Schools	11,279	40.4%	} 76%
Higher Ed	5,200	18.6%	
Medicaid	4,714	16.9%	
Correction	1,917	6.9%	
Mental Health	866	3.1%	
Courts	853	3.1%	
Public Safety	633	2.3%	
All Other	2,440	8.7%	
<b>Total</b>	<b>27,902</b>	<b>100%</b>	

Source: Condition of the Fund & Certified Budget



# FY 2021-22 GF Expenditures by Type



# FY 2021-23 Significant Budget Actions

- Finance Changes
- Compensation Increases
- American Rescue Plan Act (ARPA) COVID Funds
- General Fund Reserves
- Capital Investments through the State Capital and Infrastructure Fund (SCIF)



# Significant Budget Actions – Finance

- Lowers Personal Income Tax: 5.25% to 3.99% starting in 2022
- Phases out Corporate Income Tax starting in 2025
- Redirects sales tax revenue to Transportation
  - FY 2022-23 Impact: \$208M (2%)
  - FY 2023-24 Impact: \$420M (4%)
  - FY 2024-25 Impact: \$644M (6%)



# Significant Budget Actions – Compensation

- Salary Increases for Most State Employees
- Step Increases for Teachers
- Teacher Salary Supplements
- Federally-Funded Bonuses
- Higher Education Recruitment & Retention
- New Correctional Officer & Probation Officer Pay Plans
- Additional Retirement and State Health Plan Funding





# Significant Budget Actions – COVID Funds

- **State Fiscal Recovery Funds COVID relief (\$5.7B)**
  - Water/Sewer Infrastructure: \$1.9B
  - Broadband: \$960M
  - Premium Pay: \$678M
  - Business Recovery Grants: \$500M
  
- **Other ARPA Federal Grants (\$7.8B)**
  - Education: \$4.5B
  - Child Care: \$1.3B
  - Housing Assistance: \$830M
  - Public Health: \$496M



# Significant Budget Actions – Reserves

Reservations	FY 2021-23 (\$ in millions)
State Capital and Infrastructure Fund (SCIF)	6,831
Savings Reserve	2,768
State Emergency Response and Disaster Relief	1,370
Economic Development Projects	1,214
Stabilization and Inflation	1,000
Medicaid Transformation & Medicaid Contingency	738
Clean Water and Drinking Water	326
Information Technology Projects	294
Wilmington Harbor Enhancements	284
Housing	205
Other	397
<b>Total</b>	<b>15,427</b>



# Significant Budget Actions – Capital

SCIF Area	Amount (\$ in millions)	%
Debt Service, Elimination, Avoidance	1,587	24.0%
State Agency Capital Projects/R&R	1,252	18.9%
UNC System Capital Projects/R&R	1,098	16.6%
Other Non-State Entities	794	12.0%
Community Colleges	519	7.8%
Courthouses, K-12, Local Govt.	332	5.0%
Airports, Dams, Hospitals	289	4.4%
Trust Funds, Historic Sites, Other Parks & Rec	265	4.0%
All Other	477	7.2%
<b>Total</b>	<b>6,614</b>	<b>100.0%</b>



# Fiscal Condition of States

<b>National Association of State Budget Officers reports...</b>	<b>FY 2019-20</b>	<b>FY 2021-22</b>
GF Collection Projections	35 Below	49 Above
Mid-Year Budget Cuts	19	5
Rainy Day Fund Withdrawals	15	3
Targeted Spending Cuts	23	5
Across-the-Board Spending Cuts	8	1



# FY 2023-25 General Fund Budget Outlook

	(\$ in millions)	
	FY 2023-24	FY 2024-25
Beginning Unreserved Fund Balance <sup>1</sup>	3,917.1	TBD
Consensus GF Revenue Forecast	33,706.4	33,648.3
Statutory Reservations	(1,412.6)	(1,495.2)
Certified Budget	(27,902.2)	(27,902.2)
Funds Remaining for Appropriations or Other Uses <sup>2</sup>	8,308.7	4,250.9

<sup>1</sup> Unappropriated Balance Remaining & FY 2022-23 Anticipated Over Collections

<sup>2</sup> Makes 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 until recommended target is reached
- Target Amount=\$3.29B      Amount Reserved=\$4.75B

## **Unfunded Liability Solvency Reserve**

- 15% of tax revenue growth once Savings Reserve target is reached
- Additional contribution to OPEB (retiree medical) trust and retirement systems



# Statutory Reservations

## State Capital and Infrastructure Fund (SCIF)

- Initially: Required a transfer equal to 4% of net tax revenues deposited in the General Fund and  $\frac{1}{4}$  of year end unreserved fund balance
- Modified: S.L. 2021-180 (2021 Appropriations Act)
  - FY 2023-24: \$1.41B    FY 2024-25: \$1.46B
  - Beginning in FY 2025-26, increase 3.5% over previous FY



# Budget Pressures\*

Item	FY 2023-24	FY 2024-25
State Health Plan	TBD	
Retirement Contributions	\$30M	\$80M
Medicaid Rebase	\$300M \$140M NR	\$620M
Justice & Public Safety Operating/Building Reserves	\$8.7M \$1.1M NR	\$8.7M
Public Schools Average Daily Membership (ADM)	TBD	
Higher Education Enrollment Adjustment	TBD	

\* All figures are preliminary estimates





# Key Takeaways

Sizable funds reserved in the Savings Reserve, SERDRF, & Stabilization and Inflation Fund

Substantial investments in Capital, Broadband & Water & Sewer Infrastructure

Significant General Fund Availability



# Questions?

Fiscal Research Division

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