

Budget Recommendations 2025-27

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Agenda

- State Outlook
- Revenues
- Budget Recommendations
- Q&A



NC Population is Growing

NC's Population is Large

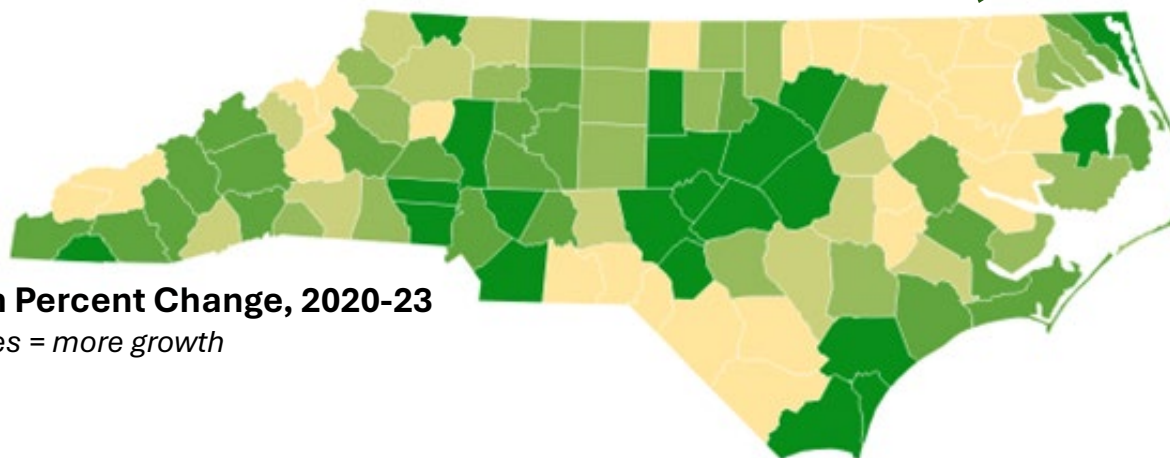
More than **11 million** people now live here

...and Getting Larger

350+ people move here per day!

...across the state

74 out of 100 counties growing



Population Percent Change, 2020-23
Darker shades = more growth

Most of the state's growth is driven by people moving here

For every 1 person reaching *retirement ages* (60 – 64),
The number of people entering *prime working ages* (20 – 24):



1950: 3.2

1970: 2.3

1990: 1.9

2010: 1.2

Today: 1.1



Source: US Census Bureau, Decennial Census
& NC OSBM, Vintage 2022 Population Estimates



Job growth steady

- 11th largest economy in nation
- Unemployment remains low at **3.7%** (January 2025)

NC is attracting investment

- 17,000 new jobs, \$15.2B invested in 2024
- Technology, pharmaceuticals, advanced manufacturing

Workforce

- Prime working age population growing slower as baby boomers retire
- Wage growth slowing, but expected to outpace national average



Economic Uncertainties Abound

Inflation

- Progress on reducing inflation has stalled
- Tariffs expected to increase prices

Interest Rates

- Federal Reserve rate cuts contingent on bringing down inflation
- Longer-term interest rates have risen

Consumer Behavior

- Consumer confidence, spending
- Consumer spending growth dependent on rising asset values

Federal Funds

- What funds and programs will be cut
- Impact on unemployment



Consensus Revenue Forecast FY 2025-26, 2026-27

FY 2025-26

\$34.89B

+ 0.5% year-over-year

FY 2026-27

\$34.07B

-2.4% year-over-year

**State will hit first trigger and individual income tax rate will drop to 3.49% - \$823 million in FY 2026-27; over \$2 billion FY 2027-28 and after*



Individual Income Tax Triggers

- Individual Income Tax Triggers are defined in statute
- Calendar Years 2024 to 2026 (set by statute, no trigger)
 - 2024: 4.50%
 - 2025: 4.25%
 - 2026: 3.99%

Additional Tax Cut for Corporations

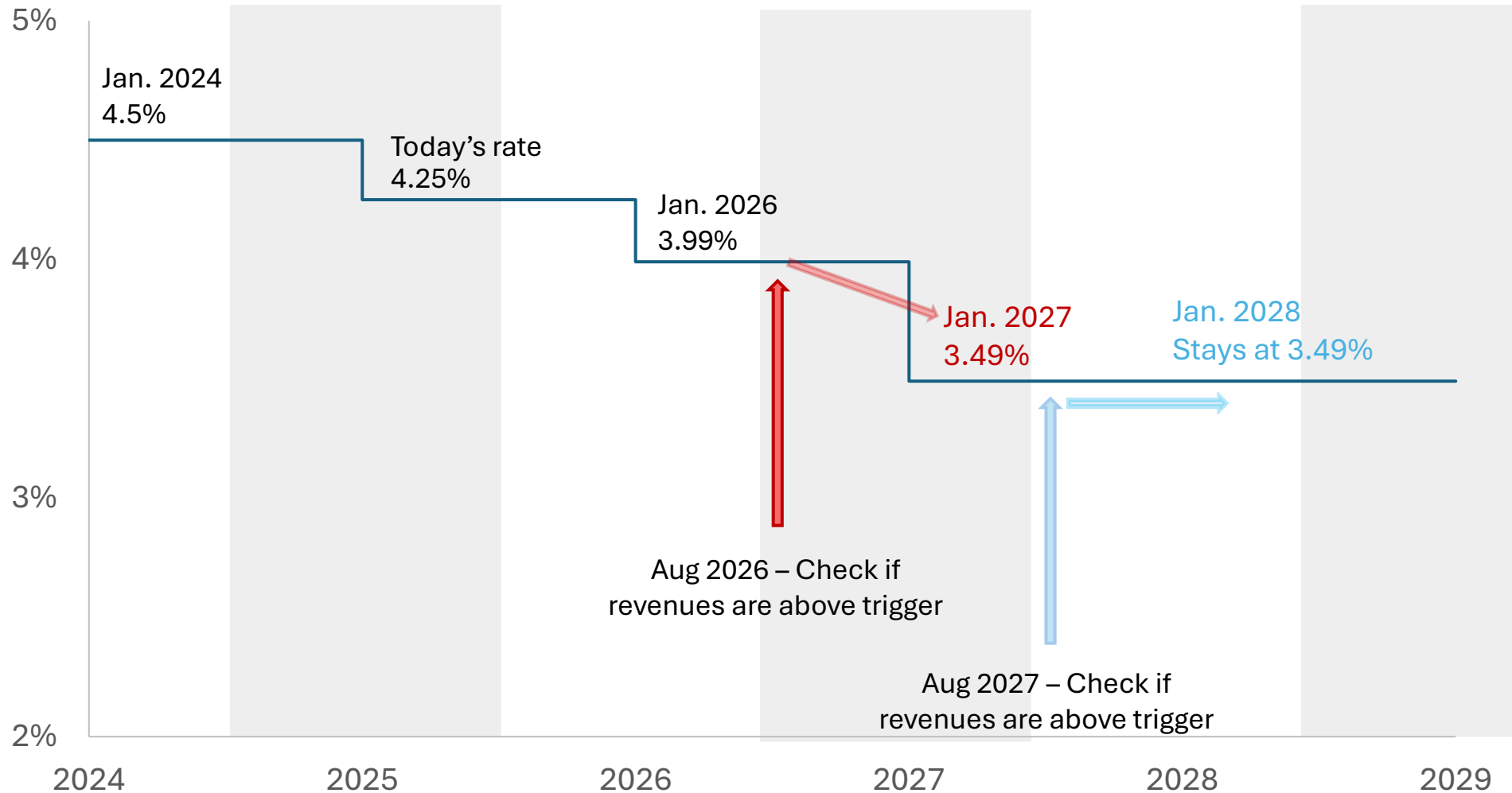
Corporate Income Tax
drops to **0%**
by statute, no triggers,
by 2030

After 2026: Tax Rates Determined by Trigger

- If actual revenues for the Fiscal Year starting FY 2025-26 **is greater than** the trigger, the tax rate **automatically decreases by 0.5%** in the following calendar year



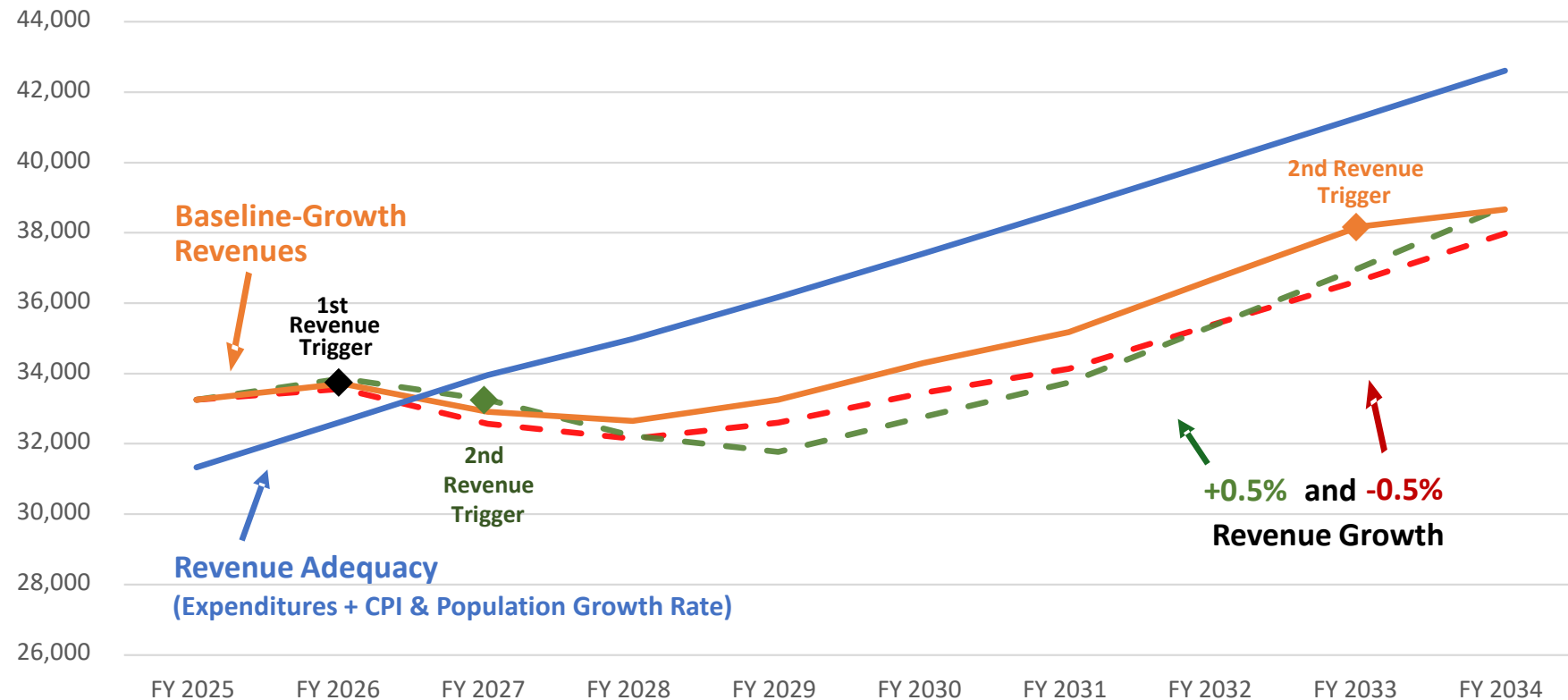
Consensus Forecast – We Will Hit First Trigger





Low and High Growth Scenario Revenues

Revenue and Expenditure Levels in Millions of Dollars



- “Revenue adequacy” is FY 2024-25 expenditures adjusted by population growth + inflation
- Lower-than-expected growth leads to bigger shortfalls beginning in FY 2026-27
- Higher-than-expected growth triggers *additional* individual income tax rate cuts, leading to even *bigger* shortfalls beginning in FY 2027-28



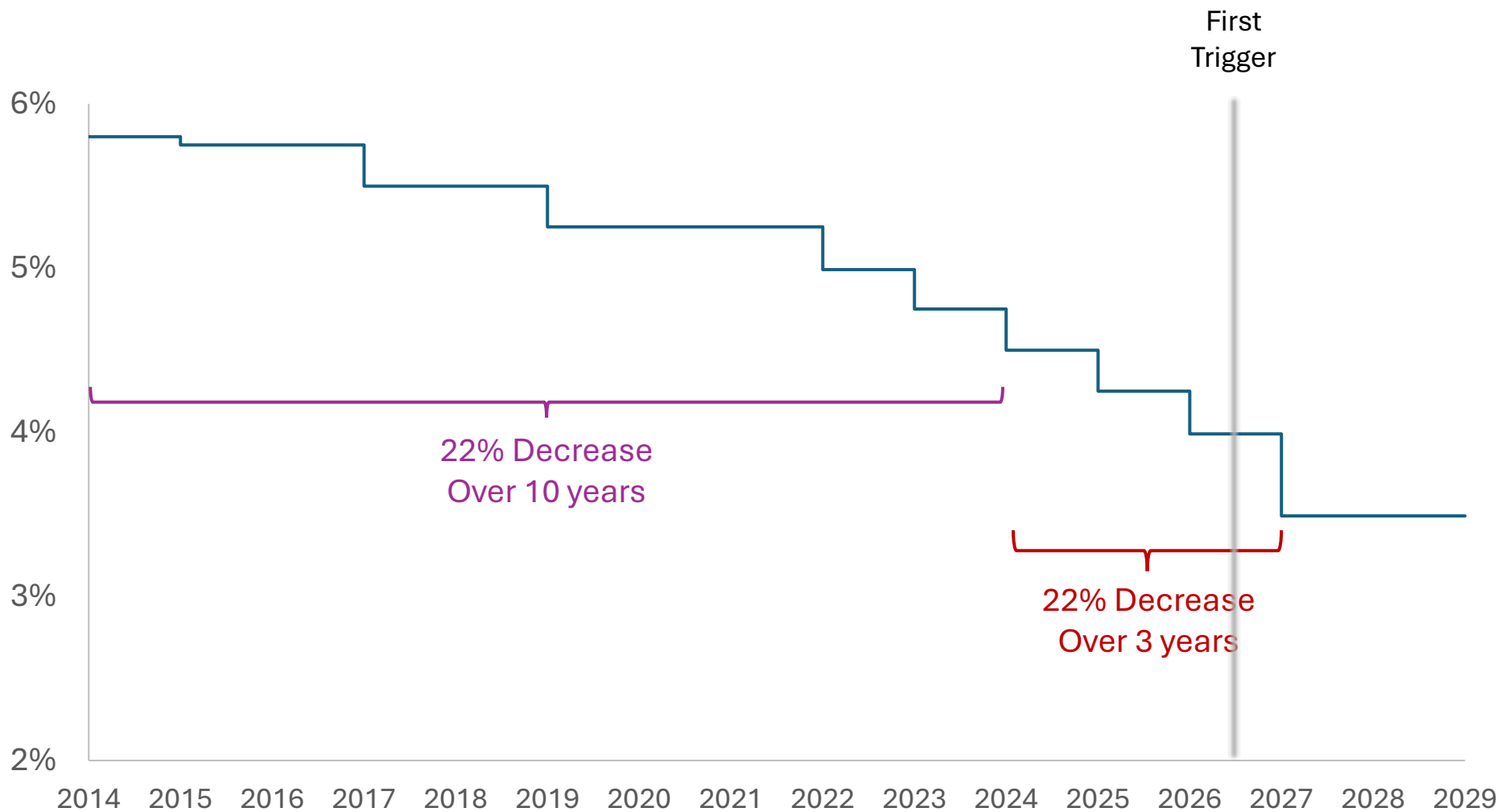
What do shortfalls look next year?

Under current law and expenditure level, projected shortfall by next year:

- **\$1** billion if revenues match forecast
- **\$1.4** billion if annual revenue growth is 0.5% slower than forecast
- **\$700** million if annual revenue growth is 0.5% faster than forecast



Trigger Cuts More Rapid Than Past Income Tax Cuts





State Budget Faces Headwinds

Less Revenue in Second Year

Hurricane Helene Recovery Needs

Federal Funds Uncertainty

Budget Recommendations for 2025-27

REVENUES AND FISCAL SOUNDNESS

Making Tax Structure Work for Everyone

- ✓ **No one will pay a higher tax rate than they do now**
- ✓ **Working families will have more money**
- ✓ **Stabilizes state finances**

Families living below 200% of federal poverty line spend nearly 75% of income on necessities

Helps cost-pressured North Carolinians pay for everyday expenses

Keeps more people in the workforce



Budget Availability

Budget Availability	FY 2025-26	FY 2026-27
Beginning Unreserved Balance	\$0.98B	\$0.40B
Additions to Reserves	(\$1.66B)	(\$1.28B)
Consensus Revenue Forecast	\$34.89B	34.07B
Tax Changes	(\$0.16B)	(\$1.35B)
Revised General Fund Availability	\$34.01B	\$34.5B



Reserve Balances – Stein Budget

	Unappropriated
Savings Reserve	\$3,730,851,114
State Emergency Response & Disaster Relief	\$1,092,148,360
Medicaid Contingency Reserve	\$976,512,736
Wilmington Harbor Enhancements	\$283,800,000
Information Technology Reserve	\$225,897,278
Economic Development Project Reserve	\$619,232,000
Federal Infrastructure Match Reserve <i>*OSBM provided access to use as needed to stabilize federal funds uncertainty</i>	\$57,562,025
Stabilization and Inflation Reserve	\$1,000,000,000
Other Reserves (Opioid Abatement, ARPA, Medicaid Transformation, Hurricane Florence, Housing)	\$28,463,060
Reserve Total	\$8,014,466,573

Unappropriated Reserve Balance: \$8.0 billion

HB47 Appropriations from Reserves: \$616M

Recommended Revenue Changes

Working Families Tax Credit

- 20% of Earned Income Tax Credit
- Credit worth up to \$1,600
- One in 6 households benefit
- Revenue impact: \$427M FY2026; \$426M FY 2027

Child Deduction Converted to Child Tax Credit

- Refundable deduction of 5% of current deduction
- Approx 884,000 families to benefit
- From \$25 - \$150 per child depending on family income
- Revenue impact: \$23M each year of biennium

Child & Dependent Care Credit

- 50% of federal credit
- Reimburses a portion of eligible care expenses
- Nearly 1 in 5 families with children will benefit
- Average of \$303 per family
- Revenue impact: \$59M FY 2026; \$60M FY 2027

Back-to-School Sales Tax Holiday

- Three days in August
- Holds local governments harmless
- Revenue impact: \$29M FY 2026; \$30M FY 2027

Fiscal Soundness

- Maintain Personal Income Tax at 4.25%
- Maintain Corporate Income Tax at 2.25%
- Scheduled tax reductions disproportionately benefit wealthy taxpayers



Governor Stein's Recommended Budget

\$33.6 billion
in FY 2025-26

\$34.3 billion
in FY 2026-27

- Improving public education
- Putting more money in working families' pockets
- Building a strong workforce
- Increasing access to child care and early education
- Keeping North Carolinians safe
- Maintaining fiscal soundness & promoting operational excellence



State's Fiscal Soundness: Funding Current Services

Medicaid Rebase - \$700M each year

Enrollment growth

- K-12 schools - \$100.5M year 1; \$95.5 year 2
- Community colleges - \$75.8M each year
- UNC System - \$46.4 each year

Improves the State Health Plan solvency

- An additional \$150M in the first year and \$300 million in the second
 - Reduces the proportion of the shortfall employees will have to cover



State Employees Salaries and Benefits

Shoring Up Salaries

5.6% invested for state employees

- Raise for state employees – 2%
 - \$1,000 bonus – 1.6% (ave.)
 - Funds targeted raises (Labor Market Adjustment Reserve) – 2%
-
- COLA for state retirees – 2%

Enhancing Benefits

- More vacation leave
- Increases State Health Plan employer contribution
- Funds to renovate some state buildings to allow child care facilities

Budget Recommendations for 2025-27

EDUCATION

\$19 BILLION IN FY 2025-26

\$19.7 BILLION IN FY 2026-27

**+ \$ 190 MILLION IN NEW LOTTERY RECEIPTS
EACH YEAR**



Recruiting and Retaining Educators

Highest starting teacher pay in the Southeast

Top 10 Southeast States Teacher Starting Pay 2025

1. Virginia	\$49,477
2. Florida	\$49,184
3. Louisiana	\$47,783
4. Alabama	\$46,846
5. Mississippi	\$46,204
6. South Carolina	\$44,842
7. Georgia	\$44,053
8. Tennessee	\$43,780
9. West Virginia	\$42,895
10. North Carolina	\$42,804

Top 10 Starting Pay 2027 under Governor's Budget

1. North Carolina	\$53,000
2. Virginia	\$52,930
3. Florida	\$51,276
4. Mississippi	\$50,425
5. Alabama	\$50,243
6. Louisiana	\$50,079
7. South Carolina	\$47,847
8. Georgia	\$47,164
9. West Virginia	\$45,614
10. Tennessee	\$45,457



Raises for Educators

10.66% on average over biennium for teachers

6% for principals

\$395 million year 1
\$736 million year 2



Supporting North Carolina Educators

- ✓ \$300 tax-deductible stipend for teachers for supplies
- ✓ TA-to-Teacher tuition reimbursement program
- ✓ Capacity building & professional development investments



Students Ready to Learn & Excel

Modern Learning Tools

- Devices, digital materials for students
- Cybersecurity & broadband access



Proven Educational Programs

- Expands Science of Reading to middle grade students
- Eliminates cap on Exceptional Children
- Advanced Teaching Roles, high dosage tutoring, innovative high schools

Educational Excellence & Innovation

\$245.7M year 1; \$211.2M year 2



Fostering Student Wellbeing and Safety

- Free school breakfast
- More school health personnel
 - 330 additional nurses, counselors, social workers, psychologists
- Pilot program to limit cell phone use
 - Funds lockers, pouches, other strategies
 - Creates a study to evaluate what's most effective
- Funds 330 new School Resource Officers and training





Opportunity Scholarships

- Prioritizes public schools with an Opportunity Scholarship Program moratorium
 - Only low-income families allowed to renew their award
- Adds program accountability and oversight of tax-payer dollars
- Saves \$1.3B across the biennium to be put toward public school students and teachers



\$4 billion General Obligation Bond

- Total school facility needs exceed \$13 billion
- Each LEA gets base amount of \$10 million
- Average funding per LEA almost \$35 million
- Requires counties to provide matching funds, except Tier 1 counties

See Budget Recommendations, pages 10-12



Building a Strong Workforce with In-Demand Credentials

Propel NC **\$40.3M each year**

Training in high-demand skills and aligned with business needs

PROPEL
NC

Free Community College for students pursuing credentials for high-need skills



Health care workforce

Multi-dimension approach: training, credentialing





Promoting College Affordability and Success

NC Promise
supplemental
funding

Cheatham-White
Scholarship

Completion
Assistance Program

Budget Recommendations for 2025-27

HEALTH & HUMAN SERVICES

\$8.8 BILLION IN FY 2025-26

\$9 BILLION IN FY 2026-27

+\$5.7 BILLION IN RECEIPTS



Quality Child Care Access



Pays Child Care Providers More Per Child

- Child care Subsidy provider rates 13% average increase
- NC Pre-K rates 20% increase



Funds 1,000 More NC Pre-K Seats



Funds NC Pre-K Summer Learning

\$124.6M R in year 1; \$151.4M R in year 2



Investments for a Healthy North Carolina

- Leverages State's Medicaid Waiver to invest state and federal funds
 - Support & expand **Healthy Opportunities** - \$342M R by year 2, \$122M NR
 - Improves health outcomes and save health care costs
 - Cover more western NC counties
 - Ensure viability of rural and community health clinics offering primary and dental care - \$14.3M R
 - Increase access to primary and OB/GYN care - \$20M R
- 200 Innovation Waiver slots and 75 Traumatic Brain Injury Waiver slots - \$25M R by year 2
- Creates co-response teams for violence prevention and behavioral health crisis response - \$8.7M R



Medicaid Positive Impact for North Carolinians

640,000 North Carolinians enrolled in Medicaid Expansion

- Impact greatest in **rural counties**, where more than a third of Expansion enrollees live
- Provides critical source of **financial stability** for rural hospitals

Additional 2.5 million North Carolinians enrolled in regular Medicaid

- Covers 50% of all births, 40% of children, and over 60% of residents in nursing homes
- Largest payer for long-term care and substance use disorder treatment

Most enrollees would be un- or under-insured without Medicaid

Budget Recommendations for 2025-27

JUSTICE & PUBLIC SAFETY

\$4.1 BILLION IN FY 2025-26

\$4 BILLION IN FY 2026-27



Combating Crime & Drugs

- Combating drugs
 - Funds to treat opioid use disorder in correctional population
 - Fentanyl Control prosecutors at DOJ and Unit at SBI
 - Budgets settlement funds for overdose prevention, treatment access
- Increasing co-responder teams – 50 new teams (DHHS)
- Solving sexual assault cold cases
- Securing firearms
 - Supports *Secure all Firearms Effectively* (NC SAFE) campaign

Combating Crime, Drugs, Fentanyl

\$23M General Fund each year; \$74.3M opioid settlement funds



Recruiting and Retaining Law Enforcement

- Correctional officers and youth counselors
 - 6.5% raise
 - Increased starting pay to over \$40,000
- Other Public Safety personnel on statutory pay plans
 - 3% pay increase
- Bonuses to attract new employees
 - Law enforcement training graduates and out-of-state certified transfers
 - NC National Guard referrals and extensions
- Body Cameras for all field-based state law enforcement



VIPER – Voice Interoperability Plan for Emergency Responders

\$20M recurring transfer from SCIF creates stable source of funding for operation and maintenance of vital communication during emergencies

Plus:

- Expanded access for DPS, National Guard and SBI
- Network upgrades
- Tower construction/repair (particularly in western NC)



Student and Community Safety

- School safety grants - \$10 million
 - Equipment & structural improvements
- Firearm Safety - \$2.3M each year
 - Supports *Secure all Firearms Effectively* (NC SAFE) campaign
- Behavioral Threat Assessment social workers



Reentry Support

- Health coverage and care prior to release (DHHS/1115 Waiver)
 - \$9M R and \$80M NR year 1
 - \$32M R and \$100 NR year 2
- Funding for post-secondary degrees - \$2.5M R
- Support services as people return to community -\$3.1M R

Budget Recommendations for 2025-27

AGRICULTURE, NATURAL AND ECONOMIC RESOURCES

\$925.6 MILLION IN FY 2025-26

\$875.3 MILLION IN FY 2026-27



North Carolina's Farms, Natural & Recreational Lands

- NC Products to Address Food Insecurity
 - \$20M for DACS food assistance grants
 - Distribution equipment
- Wildfire Suppression
 - \$4.5 over biennium for equipment replacement backlog
 - Funds for air response to fires
- Farmland Preservation
 - Increases Farmland Preservation Trust Fund - \$5M recurring
 - Supports ag conservation easement with \$5M for military buffer zones
- Parks and Recreation Trust Fund and NC Land and Water Fund - \$2M NR, each



Shoring Up Infrastructure

- Invests in drinking water and wastewater projects by leveraging federal funds - \$22.6M in year 1
- Improves stormwater infrastructure and reduces flooding through grants to local governments - \$10M in year 1
- Assists local governments with distressed water and wastewater systems - \$10M in year 1



Work-Based learning grants

- \$2.5M NR each year
- Expands program to employers with up to 50 employees

Apprenticeships

- ApprenticeshipNC - Improves collaboration between key agencies
- NC Career Launch – expands youth apprenticeship program to 5 new rural areas



- Resource for job seekers/those looking at path to better careers
- Modernizes platform, increases speed



Financial Stability for Workforce in Transition: UI Changes

- Increases max unemployment benefit to \$470
 - Current average weekly benefit ranks 42nd in nation
- Extends period of eligibility to 16 weeks
 - Current period of 12 weeks is shortest in the nation
- If unemployment rate spikes, number of weeks will increase
- One-time credit for employer unemployment insurance quarterly tax payments

UI Trust Fund

hit record high
balance of
\$4.8 billion
as of Dec 2024

Budget Recommendations for 2025-27

GENERAL GOVERNMENT

\$819.3 MILLION IN FY 2025-26

\$761.7 MILLION IN FY 2026-27



- \$20M investment
- Use modern business and R&D best practices – such as advanced data analytics, artificial intelligence, and A/B testing – to drive innovation and efficiency.
- Aim to reduce waste while maintaining or improving service quality and policy outcomes.
 - Identify programs or regulations that should be modified or discontinued.
 - Enhance and scale activities proven to work.



Improved Efficiency and Services

- Budget and finance staff, data analysts, internal auditors
- Modernizing state IT systems
 - Constituent portal
 - DMV ID verification, self service portal
 - Statewide budget system
 - Statewide HR system
 - State banking system
 - Permit transformation program



Affordable Housing Investments

Workforce Housing Loans

Construction/rehabilitation of affordable housing

\$15M each year

Housing Trust Fund

Leverages private and federal dollars for affordable housing for low-income families, seniors, veterans, people with disabilities

\$35 million each year

Local Government Grants

Incentivizes strategies to improve affordability

\$10 million in FY 2025-26





Other Investments

- Supports and honors veterans - \$1.2M R
 - Helps active-duty service members moving to veteran status
 - Connects veterans to services
 - Honors veterans by maintaining veteran cemeteries
- Creates more apprenticeships in state government - \$5M R

Budget Recommendations for 2025-27

TRANSPORTATION

\$5.8 BILLION IN FY 2025-26

\$5.9 BILLION IN FY 2026-27



Transportation Highlights

Improves Ferry services:

- \$11.7 million to modernize Mann's Harbor Shipyard - addressing safety concerns and improving efficiency
- Funds for ferry maintenance and equipment to improve services, reduce downtime

Improves DMV customer experience:

- Funding for new DMV offices, expanded offices, 85 additional examiners
- Funds new IT systems to reduce time spent processing paperwork, improving service and increasing productivity

Highway construction and maintenance:

- Additional STIP funding - \$43.8 million in FY 2025-26; \$101.9 million in FY 2026-27
- Increases Maintenance Reserve by \$41.7 million in FY 2025-26; \$59.4 million in FY 2026-27

Budget Recommendations for 2025-27

CAPITAL IMPROVEMENTS

\$1.6 BILLION IN FY 2025-26

\$1.4 BILLION IN FY 2026-27



Capital Investments – SCIF Highlights

Capital Projects

- \$442 million state for 43 agency projects
- \$127 million for 9 UNC projects

Repair and Renovations

- \$410 million state agencies
- \$410 million for UNC

Flex Funds

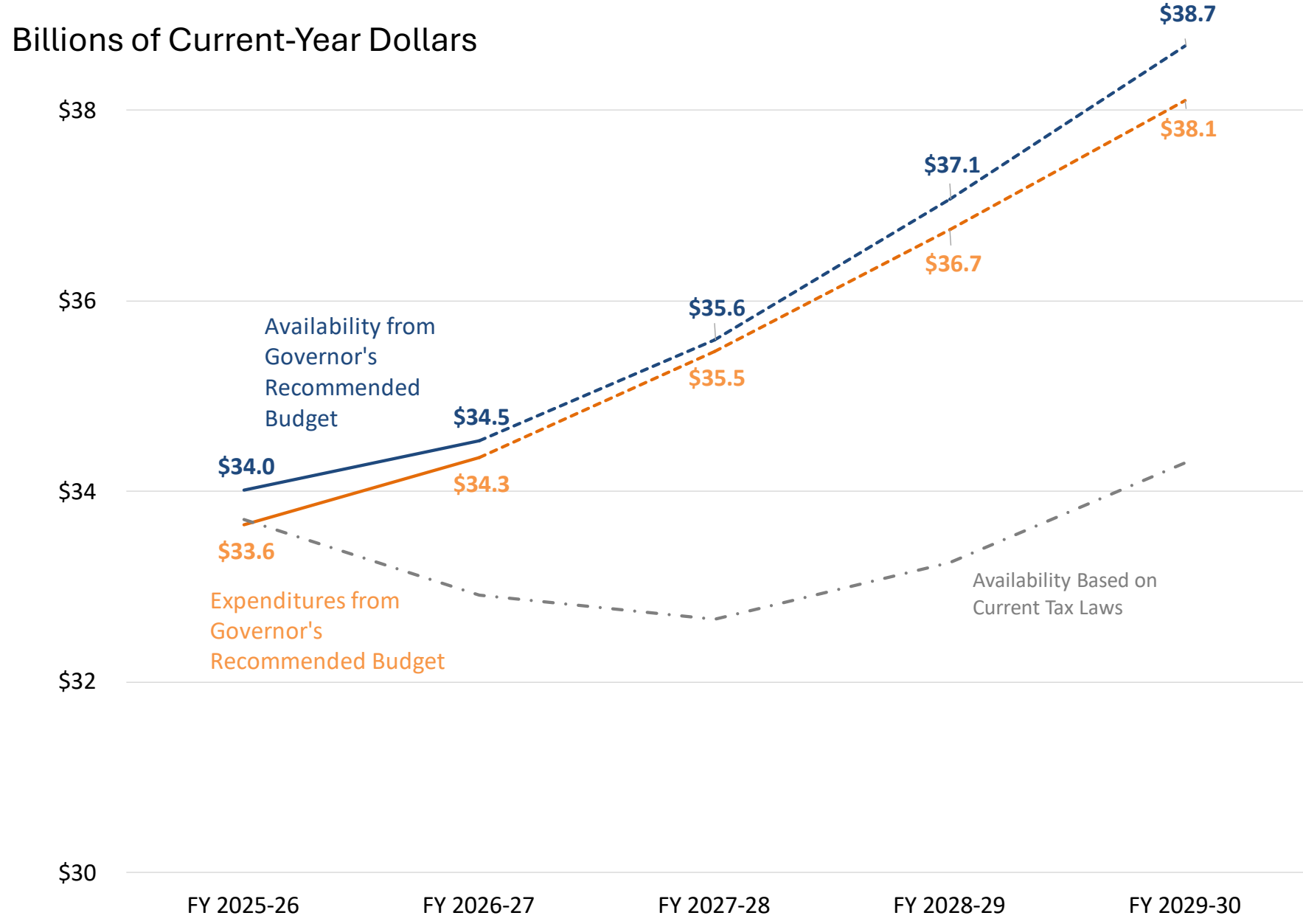
- \$30 million to complete projects needing additional funding



Capital Investments

- **State Park Access** - \$2.6 million for upgrades and access, includes Chimney Rock State Park
- **Storm & flood mitigation projects Eastern NC**
- **Rural Health Centers** – part of the NC Care Initiative
- **Adult Corrections** - More than \$82 million for facility improvements and security upgrades, including fire systems and HVAC repairs
- **UNC Children’s Hospital** - \$103.5 million
- **VIPER Network** - \$20 million recurring to improve the statewide radio network for state and local first responders and other emergency response partners to communicate.
- **Safer Schools Training Facility** – Repurposes existing school

Five-Year Revenue and Expenditure Forecast with Governor's Budget



* Includes transfers to StateCapital and Infrastruction Fund and Savings Reserve/Unfunded Liability Solvency Reserve per G.S. 143a-2.
 Source: Governor's Recommended Budget; OSBM data and projections

North Carolina Strong

Balances the budget and provides a sustainable path

- Does not raise taxes
- Cuts tax burden for working families
- Adds to already strong reserves

Invests in North Carolina

- Ensures quality public education
- Strengthens working families
- Builds a strong workforce
- Keeps North Carolinians safe
- Increases access to health care
- Invests in state employees and operational excellence

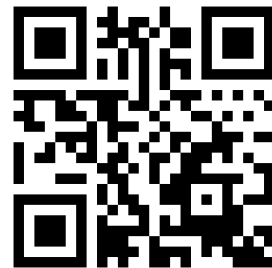
Budget Recommendations for 2025-27



High Impact
Investments

Sound Financial
Management

Governor's Budget Recommendations FY 2025-27



Find the complete recommendation at
www.osbm.nc.gov