

FY 2019-21

CONSENSUS REVENUE FORECAST

AND

STATE BUDGET OUTLOOK

BARRY BOARDMAN, PH.D.
BRIAN MATTESON

FISCAL RESEARCH DIVISION
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Presentation Outline

» Consensus Revenue Forecast

- Consensus Process
- Current Fiscal Year Forecast
- 2019 Biennium Forecast

» Budget Outlook

- State General Fund Budget Overview & Outlook

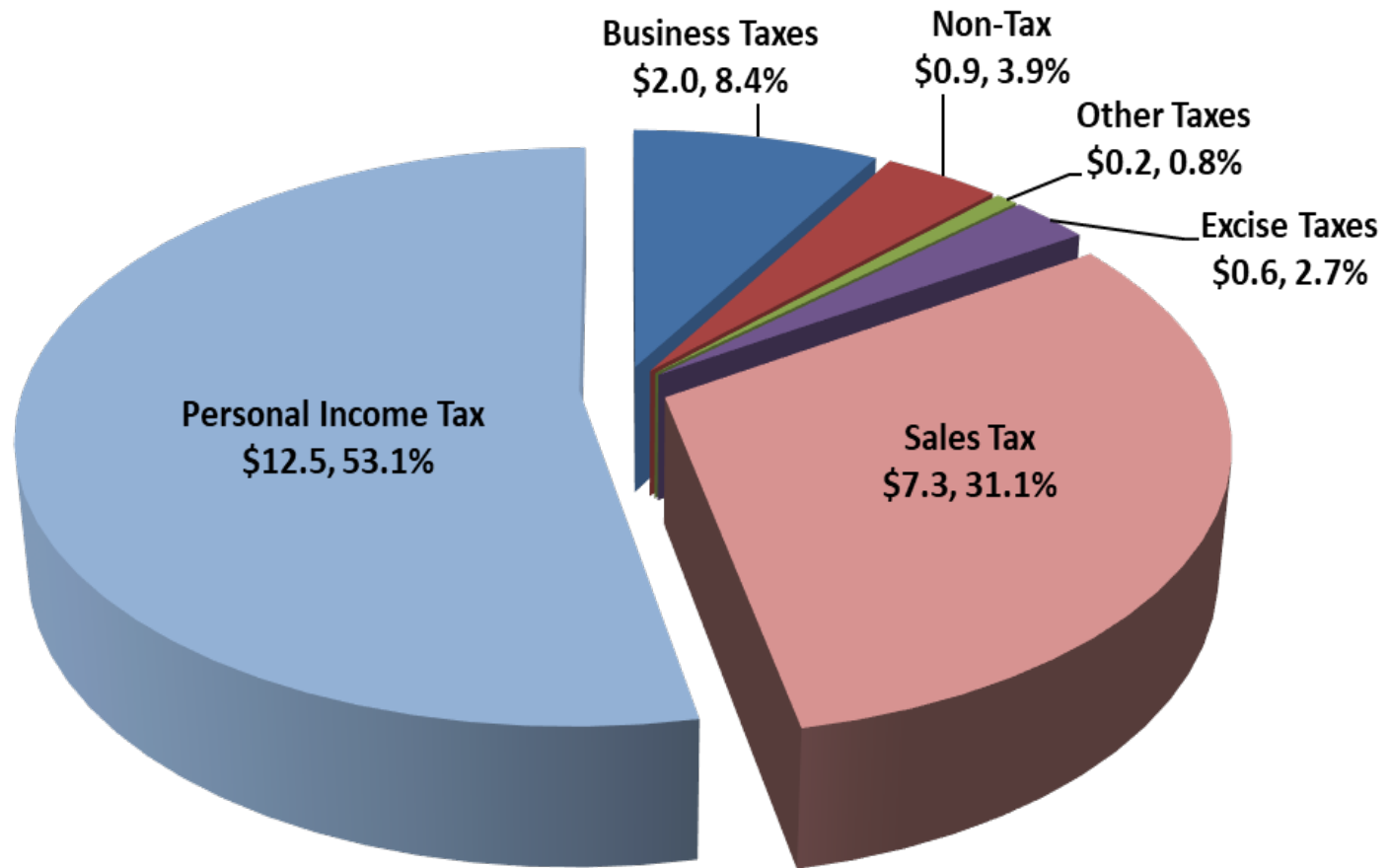
Consensus Revenue Process

- » Statutory Guidelines do not address the budget revenue forecast process.
- » The Fiscal Research Division and the Office of State Budget and Management develop independent forecasts.
- » Before the Governor's biennial budget is released, forecasters meet to develop a consensus forecast.

Consensus Revenue Process

- » In early May, after April receipts have been recorded, the legislature and/or the Governor can request a revised consensus forecast.
- » In even-numbered years the forecast is revised for the second year of the biennium. The revised forecast is usually issued in early May.

FY 2017-18 General Fund, \$23.56 B



2019 Biennium Consensus Forecast



Consensus Forecast

Fiscal Year	Revenue (\$ millions)	Y/Y Change (\$ millions)	Percent Change
2018-19 (est.)	\$24,080.8	\$515.7	2.2%
2019-20 (est.)	\$24,814.1	\$733.2	3.0%
2020-21 (est.)	\$25,801.4	\$987.3	4.0%

Consensus Forecast: Current Year

- » Collections projected to be \$150.8 million above \$23.9 billion revenue forecast (+0.6%)
- » Personal Income taxes projected to be 0.4% below forecast (down \$53.3 M)
 - Federal Tax Cut and Jobs Act
 - Over payments in December of 2017 meant lower January 2019 estimated payments - these payments were \$148 million below what would have been expected.

Consensus Forecast: Current Year

- » Sales taxes ahead of target by 1.5% (up \$117.8 M)
 - U.S. Supreme Court's June 2018 ruling in *South Dakota v. Wayfair, Inc.*, granted states additional authority to require retailers to collect and remit sales tax.
- » Business taxes - Corporate Income, Franchise tax, and the Insurance Gross Premium tax combined are 0.9% ahead of target (up \$16.5 M)

Consensus Forecast: Current Year

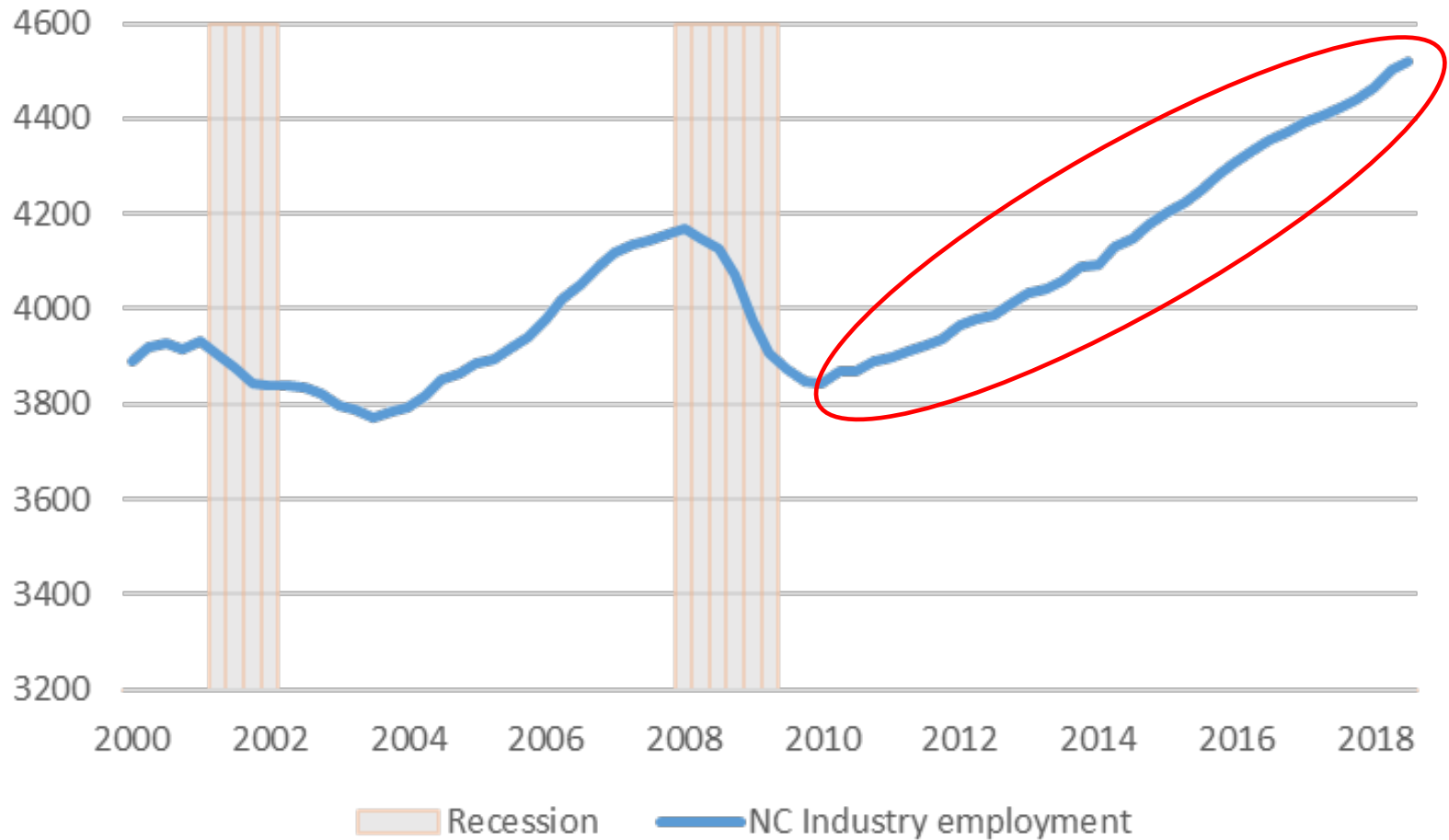
Assumptions on the rest of the fiscal year:

- No shift, up or down, in economic growth for second-half of fiscal year.
- Important: April expectations for refunds and final payments are met.
- Income shifts from federal income tax changes added some uncertainty.

Consensus Forecast

Fiscal Year	Authorized General Fund Revenue (\$000s)	Actual Collections (\$000s)	Revenue Surplus/Shortfall (\$000s)	Percent Revenue Surplus/Shortfall
2003-04	14,594,243	15,073,342	479,099	3.3%
2004-05	15,545,159	16,215,372	670,213	4.3%
2005-06	16,716,295	17,774,349	1,058,054	6.3%
2006-07	18,016,574	19,360,944	1,344,370	7.5%
2007-08	19,755,992	19,824,856	68,864	0.3%
2008-09	20,849,735	17,626,702	(3,223,033)	-15.5%
2009-10	18,927,580	18,636,781	(290,799)	-1.5%
2010-11	18,977,800	19,183,147	205,347	1.1%
2011-12	19,142,029	19,534,015	391,986	2.0%
2012-13	20,003,985	20,541,576	537,591	2.7%
2013-14	20,603,500	20,153,218	(450,282)	-2.2%
2014-15	20,962,800	21,446,826	484,026	2.3%
2015-16	21,720,700	22,149,255	428,555	2.0%
2016-17	22,119,950	22,614,083	494,133	2.2%
2017-18	23,125,000	23,565,191	440,191	1.9%

NC Industry Employment (thousands)



2019-2021 Economic Outlook

- » Economy expected to maintain its steady pace of growth.
- » Continued employment gains are projected to grow above 1.2% during biennium.
 - 120,000 to 140,000 more jobs added
- » Employment gains put upward pressure on individual wages.
 - Inflation-adjusted average hourly wages increased 1.7% in 2018
- » Steady employment growth, rising wages assumed to continue – moderating somewhat in FY 2020-21.
- » July 2019 will mark the longest economic expansion in recorded history – dating back to the 1850s.

Forecast: 2019 Biennium

- » During the upcoming biennium, key collections from Sales and Personal Income taxes to reflect the stronger economic conditions
- » Personal Income – employment gains putting upward pressure on wages
 - Wage growth projected at 5.1% and 5.3%, respective fiscal years
 - 1.9% and 4.0% growth in collections
 - Collection growth reflects tax reductions enacted in 2017 and effective in tax year 2019

Forecast: 2019 Biennium

- » Sales tax growth projected to grow by 5.3% and 4.6%, respectively
 - Part of the FY2019-20 growth increase attributable to *Wayfair*, which is projected to add as much as \$130-\$140 million
- » Corporate Income tax is often volatile and while a smaller part of the overall tax structure with the lower rate, still contributes to forecast error
 - Starting with the 2019 tax year, the rate falls from 3.0% to 2.5%
 - Decline 1.6% in FY 2019-20, rebound to 6.3% growth in FY 2020-21
- » Franchise tax and Insurance Gross Premium tax are far less volatile
 - Combined growth during the biennium of 2.7% and 3.0%

Forecast Summary

- » Revenue Forecast reflects a projection for solid economic conditions.
- » Despite stronger footing for the economy, modest growth is forecast into 2021.
- » Steady economic growth forecast and still developing tax impacts result in 3.0% and 4.0% growth.
 - Baseline growth, which removes tax law changes, of 5.1% and 4.3%

State General Fund Budget Overview and Outlook

Budget Presentation Overview

» 2017 and 2018 Legislative Session Budget Highlights

» FY 2018-19 State Budget Overview

» 2019 Session Budget Outlook

- FY 2019-21 Base Budget
- Major Budget Pressures
- Other Budget Items

2017 Session: Budget & Fiscal Highlights

» Tax Changes

- FY 2017-18: (\$7M)
- FY 2018-19: (\$579M)

» Compensation (FY 2017-18: \$336M)

- \$1,000 salary increase for most State employees
- 3.3% avg. salary increase for teachers & instructional support personnel
- \$35M to increase school-based administrator pay
- \$18M to complete final of 3 phase correctional officer pay plan

2018 Session: Budget Highlights

» Compensation (\$517M)

- Greater of: 1) 2% salary increase -or- 2) Increase to \$31,200 annual salary for State agency employees
- 6.5% avg. salary increase for teachers & instructional support personnel
- Additional salary increases for correctional personnel and highway patrol

» Safety Initiatives

- \$15M for Prison Safety enhancements and additional security measures
- \$28M for increased School Safety personnel and programming

» Statewide Reserves

- \$135M to fully fund the Medicaid Transformation Fund
- \$161M to bring Savings Reserve balance to \$2 billion
- \$155M for capital projects & \$65M for repairs & renovation of State facilities

2017-2018 Budget Policy Highlights

» Savings Reserve

- Enacted S.L. 2017-5, mandatory minimum reservation of 15% of net tax revenue growth

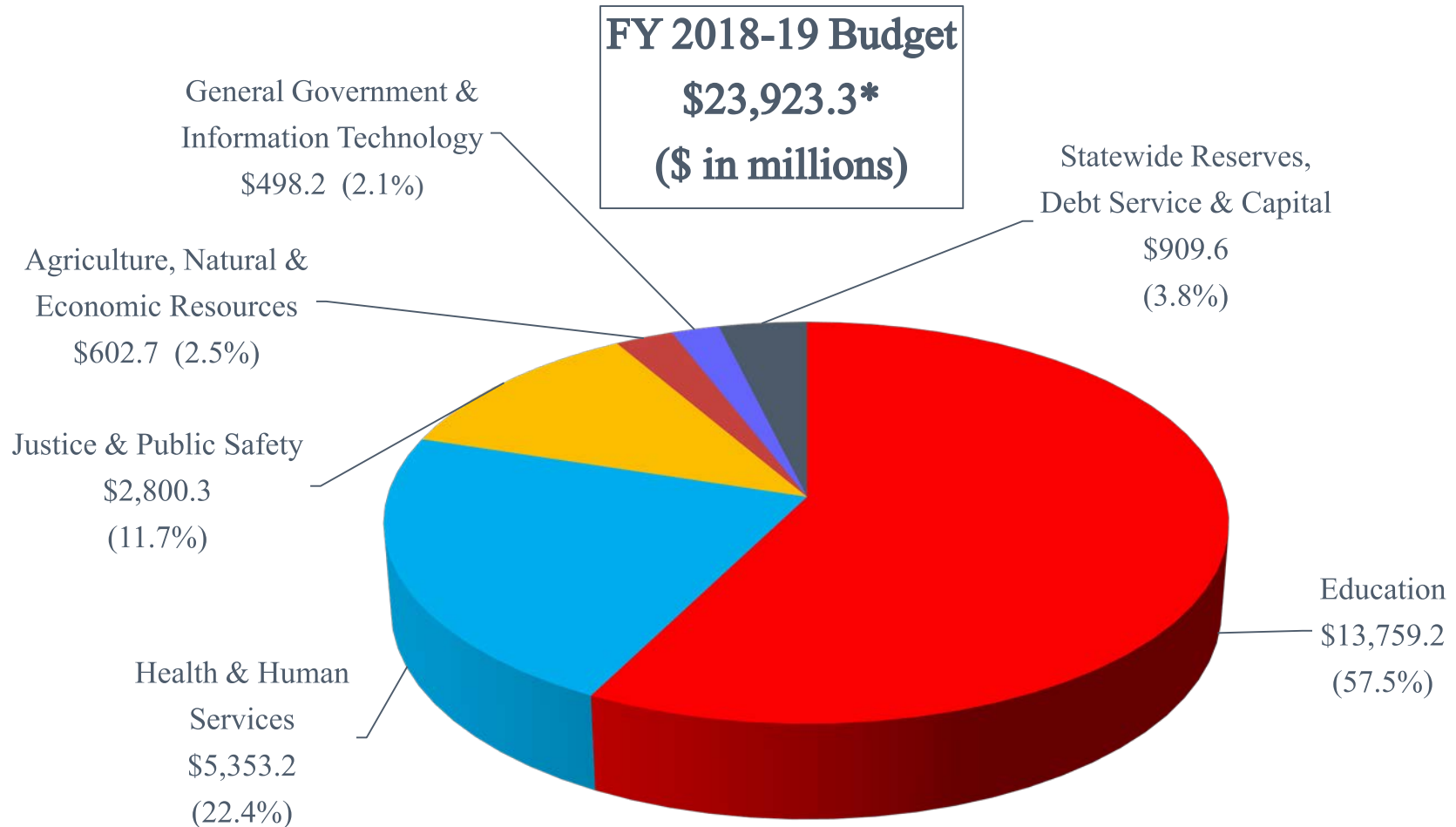
» State Capital and Infrastructure Fund

» Juvenile Justice Reinvestment Act (Raise the Age)

» Statutory Appropriations

- Program Enhancement (\$61M in FY 2018-19)
- NC Pre-K (\$9.3M in FY 2018-19)
- Opportunity Scholarships (+\$10M annually, through FY 2027-28)

Where Does the Money Go?



*Reflects appropriations from general purpose revenue only; amount does not include appropriations made from agency receipts.

Where Does the Money Go?

FY 2018-19 Key Budget Drivers (Net GF Appropriations: \$ in Millions)

Public Schools	9,546.1	39.9%	} 73%
Higher Education	4,213.1	17.6%	
Medicaid/Health Choice	3,812.7	15.9%	
Mental Health	708.6	3.0%	
Prisons	1,370.7	5.7%	
Debt Service	717.5	3.0%	
Judicial	676.8	2.8%	
<u>All other</u>	<u>2,877.8</u>	<u>12.0%</u>	
Total	23,923.3	100.0%	

Disaster Relief and Recovery Funding

» Hurricane Matthew

- Disaster Recovery Act of 2016: \$200M
- 2017 Appropriations Act: \$100M
- 2018 Appropriations Act: \$60M

» Hurricane Florence

- Established Hurricane Florence Disaster Recovery Fund.
- \$849M in State funds committed (\$756M from Savings Reserve).
- \$94M available in Fund for future appropriations.

Comparing NC to Other States

» FY 2017-18 Budget Management

- 7 states made mid-year reductions to spending

» FY 2018-19 Budget Growth

- Less than 0% growth (6 states)
- 0%-2% growth (6 states)
- 2%-4% growth (18 states, including North Carolina)
- Greater than 4% (20 states)

Source: NASBO Fall 2018 Fiscal Survey of States

North Carolina's Budget Outlook

2019 Legislative Session

FY 2019-21 Budget Outlook

Components: Building the Budget

1. Consensus Revenue
2. Statutory Reservations
 - State Capital and Infrastructure Fund
 - Savings Reserve
3. Preliminary Base Budget
4. Unreserved Fund Balance

State Capital & Infrastructure Fund (SCIF)

» Effective July 1, 2019

» Fund Sources

- 4% of Projected Net Tax revenue
- 25% of unreserved fund balance

» Uses of SCIF Funds

1. Debt service
2. New State/UNC Capital projects and
Repairs & Renovations of State facilities

SCIF Revenue

4% Net Tax: \$952M

25% Fund Bal: \$249M

Total, SCIF Rev.: \$1,201M

SCIF Req. Expenditures

Debt Service: \$717M

SCIF Available Funds

\$484M

FY 2019-21 Base Budget

	(\$ in Millions)	
	FY 2019-20	FY 2020-21
Consensus Revenue Forecast	24,814.1	25,801.4
<u>Statutory Reservations¹</u>	<u>(1,056.2)</u>	<u>(1,140.1)</u>
Initial Recurring Availability	23,757.9	24,661.3
<u>Preliminary Base Budget²</u>	<u>(23,185.9)</u>	<u>(23,267.0)</u>
Recurring Balance Remaining ³	572.0	1,394.2

¹Reservations include \$103.6M (FY 19-20) & \$148.0M (FY 20-21) to the Savings Reserve and \$952.5M (FY 19-20) & \$992.0M (FY 20-21) to the SCIF.

²Does not include \$717.5M in debt service that will be supported from SCIF proceeds beginning 7/1/2019.

³Makes no assumptions about changes in availability or spending.

Beginning Estimated Unreserved Fund Balance

	(\$ in Millions)
	<u>FY 2019-20</u>
FY 2018-19 Unappropriated Balance	645.6
FY 2018-19 Overcollections	150.8
<u>FY 2018-19 Reversions (est.)</u>	<u>200.0</u>
Subtotal	996.4
<u>State Capital & Infrastructure Fund</u>	<u>(249.1)</u>
Estimated Nonrecurring Fund Balance	\$747.3

Major Budget Pressures

- » Public School Enrollment
- » Higher Education Enrollment
- » State Health Plan and Retirement
- » Medicaid/Health Choice
- » Other Funding Commitments

Major Budget Pressures

	(\$ in Millions)	
	<u>(Preliminary Estimates)</u>	
	FY 2019-20	FY 2020-21
K-12 Enrollment/Avg. Teacher Salary	22	78
Higher Education Enrollment	0	49
Retirement System	112	270
State Health Plan	93	188
Medicaid/Health Choice Rebase	64	294
Juvenile Justice Reinvestment Act	27	47
<u>Information Technology Projects</u>	<u>64</u>	<u>46</u>
Total, Major Pressures	\$382	\$972

Other Budget Pressures

- » State employee salary increases excluding public school teachers (1% = \$87.2M)
- » State-paid public school teacher and instructional support salary increases (1% = \$61.8M)
- » Economic Development activities

Questions?

Fiscal Research Division

919-733-4910

Legislative Office Building

Suites 203 and 619

