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# **2017-19 CONSENSUS REVENUE FORECAST AND BUDGET OUTLOOK**

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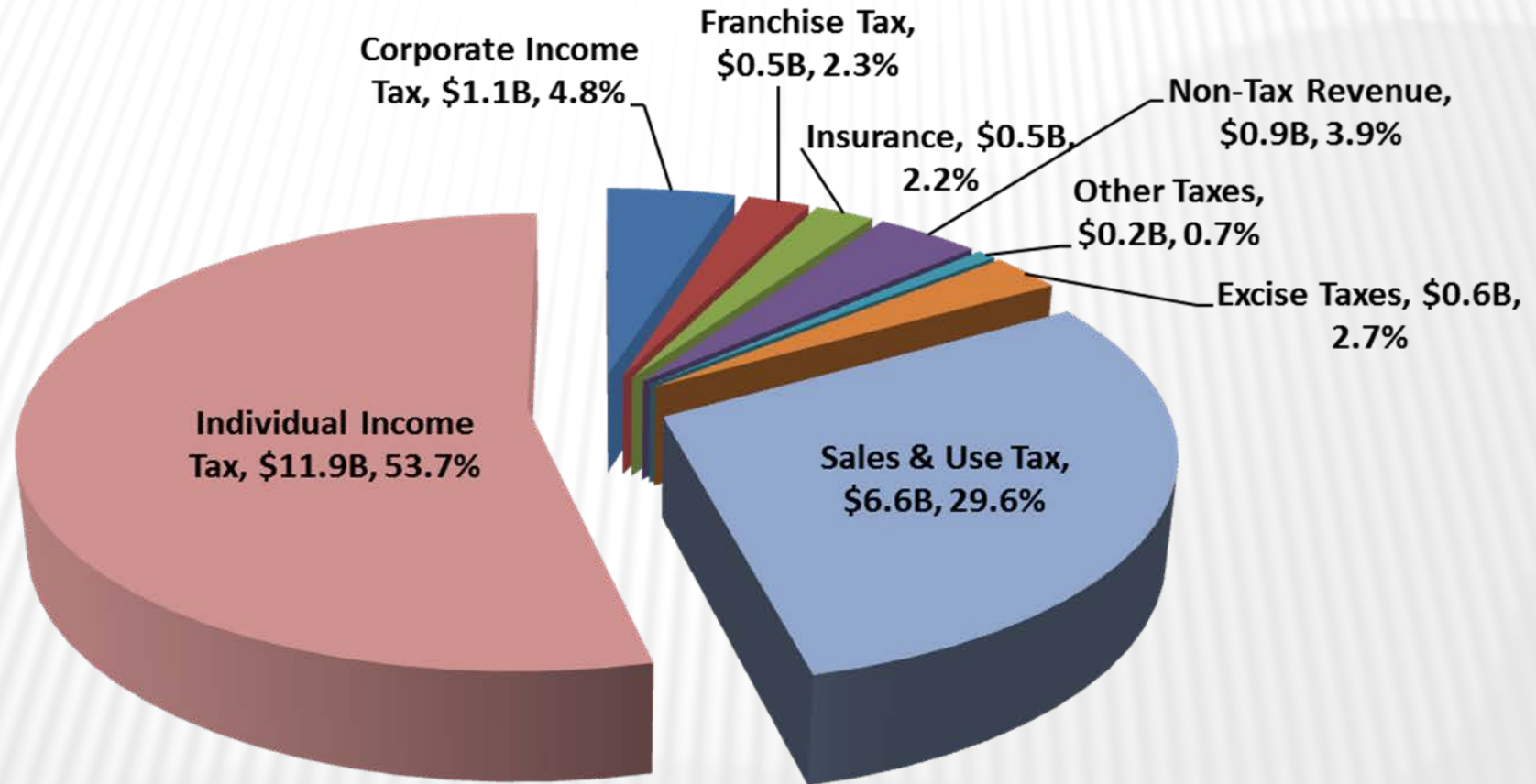
# Presentation Outline

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- Consensus Revenue Forecast
  - Current Fiscal Year
  - 2017-19 Biennium Forecast
- Budget Outlook

# FY 2015-16 GENERAL FUND, \$22.15 B

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# Consensus Revenue Process

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- Statutory Guidelines do not address the budget revenue forecast
- Fiscal Research and the Office of State Budget and Management develop independent forecasts
- Prior to release of Governor's biennial budget, forecasters meet to develop a consensus forecast

# Consensus Revenue Process

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- 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 there is a revision to the forecast for the second year of the biennium. The revised forecast usually takes place in early May

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# 2017-19 BIENNIUM CONSENSUS FORECAST



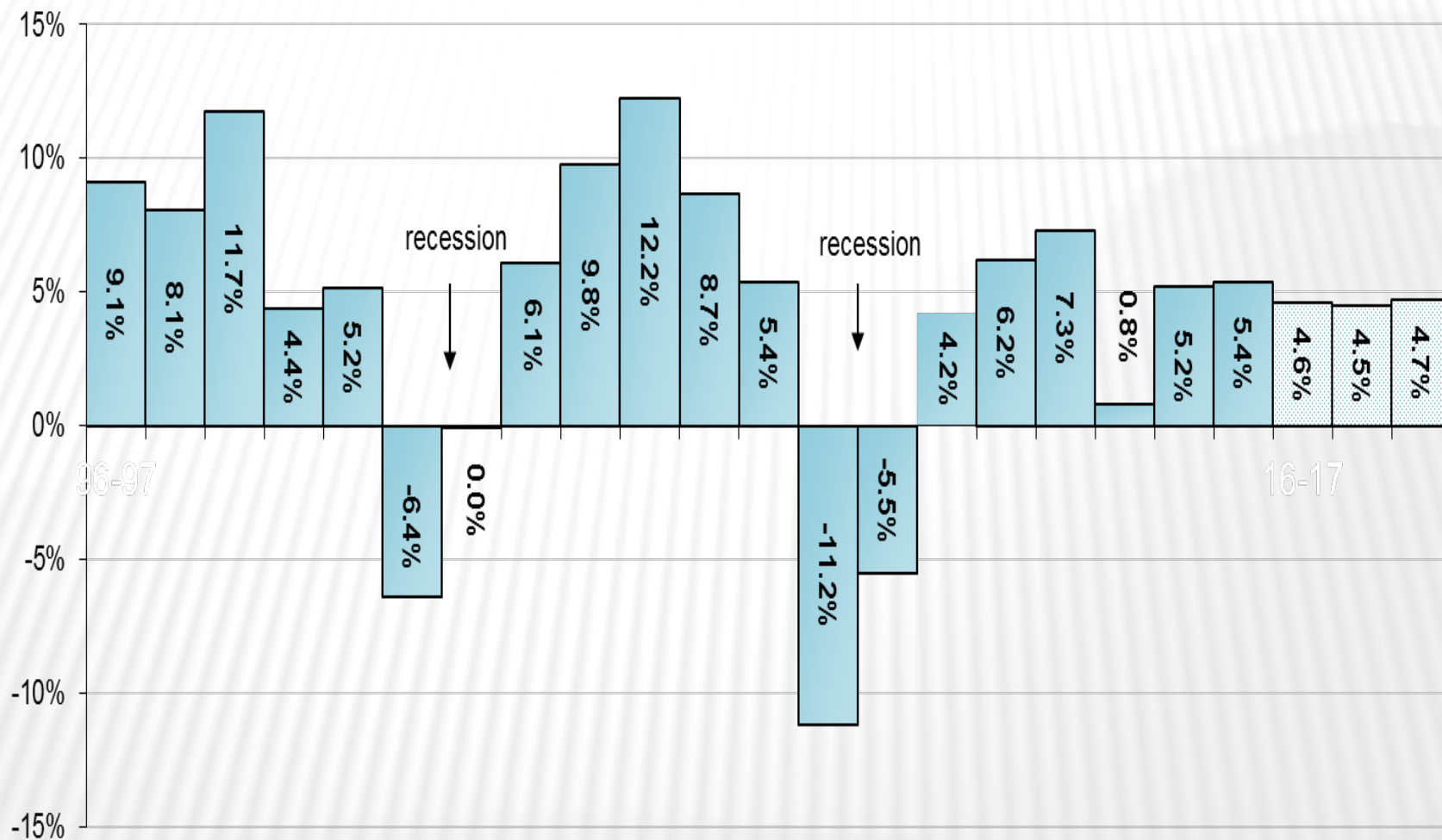


# CONSENSUS FORECAST

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<b>Fiscal Year</b>	<b>Revenue (\$ millions)</b>	<b>Y/Y Change (\$ millions)</b>	<b>Percent Change</b>
2016-17 (est.)	\$22,672.6	\$520.5	2.3%
2017-18 (est.)	\$23,166.7	\$494.1	2.2%
2018-19 (est.)	\$24,155.4	\$886.7	4.3%

## Baseline Tax Revenue Growth, FY 1996-97 to FY 2018-19



**Note:** The last three bars represent the current forecast baseline estimate.



# 2017-2019 ECONOMIC OUTLOOK

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- Economy expected to maintain steady, moderate growth
- The big difference is State and national economies are on much more solid footing than last biennium
- Employment gains have been steady since 2015, projected to grow above 1.8% during biennium
  - 80,000 to 90,000 jobs added each year
- Employment picture suggest greater pressure on wages to increase this year
- Improved household balance sheets and more confidence in economy help maintain solid retail sales growth

# CONSENSUS FORECAST

Fiscal Year	General Fund Authorized Revenue (\$000s)	Actual Revenue Collections (\$000s)	Revenue Shortfall/Surplus (\$000s)	Percent Shortfall/Surplus
2003-04	14,594,243	15,073,342	479,099	3.30%
2004-05	15,545,159	16,215,372	670,213	4.30%
2005-06	16,716,295	17,774,349	1,058,054	6.30%
2006-07	18,016,574	19,360,944	1,344,370	7.50%
2007-08	19,545,155	19,824,856	279,701	1.40%
2008-09*	20,849,735	17,626,702	(3,223,033)	-15.50%
2009-10*	18,927,580	18,636,781	(290,799)	-1.50%
2010-11	18,977,800	19,183,147	205,347	1.10%
2011-12	19,142,029	19,534,015	391,986	2.00%
2012-13	20,003,985	20,541,576	537,591	2.70%
2013-14**	20,603,500	20,153,218	(450,282)	-2.20%
2014-15	21,000,100	21,445,800	445,700	2.10%
2015-16	21,720,700	22,148,900	428,200	2.00%

# CONSENSUS FORECAST

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## FY 2016-17 Revenue

- Collections projected to be \$552.5 million (2.5%) above \$22.12 billion revenue forecast
- **Personal Income** tax ahead of target by 3.8%
- **Sales** taxes ahead of target by 1.9%
- Business taxes, **Corporate Income** and **Franchise** tax, combined are 15.9% ahead of target

# CONSENSUS FORECAST

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## FY 2016-17 Revenue

- No shift, up or down, in growth trends for second-half of fiscal year
- **Important assumption is that April expectations for refunds and final payments are met**
  - Estimated income tax payments made on the 2016 tax year provide little information on April outcomes
- Added complexity from recent income tax changes
  - Withholding changes (0.1% more withheld)
  - Increases in Standard Deduction in 2016, 2017

# CONSENSUS FORECAST

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## 2017- 2019 Biennium

- “Steady as she goes” – economic conditions driving forecast are similar to the last biennium forecast.
- Forecasters maintained the cautious approach adopted with recent consensus forecast as a result of, what is now, a combined \$2+ billion in tax law changes –
  - Since 2013, 105 substantive changes enacted
  - Includes base expansions (+) and rate reductions (-)



# CONSENSUS FORECAST

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## 2017- 2019 Biennium

- During the upcoming biennium, key collections from Sales and Personal Income are expected to track at the long-run average pace (baseline).
- **Personal Income** – employment gains begin to put upward pressure on wages
  - Wage growth projected at 5.2% and 5.7%, respective fiscal years
  - 2.0% and 4.7% growth in collections
  - Growth rates reflect tax reductions enacted in 2015 and 2016



# CONSENSUS FORECAST

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## 2017- 2019 Biennium

- **Sales** tax growth projected to be slightly above average
  - First time forecast has Sales growing faster than averages since onset of recession in 2008
- **Corporate Income** tax is always volatile and while a smaller part of the overall tax structure with the lower rate, still a contributor to forecast error
  - Decline 9.8% in FY 2017-18, grow 4.6% in FY 2018-19

# FORECAST SUMMARY

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- Current collections reflect a stronger economy
  - projected over-collections of \$552.5 million
- Despite stronger footing for the economy, modest growth is forecast into 2019
- In light of modest economic growth forecast and still developing tax impacts, General Fund forecast continues cautious approach
  - Baseline growth of 4.5% and 4.7%

# GENERAL FUND BUDGET OUTLOOK

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- FY 2016-17 Budget Recap
- FY 2017-19 Base Budget
- Major Budget Pressures
- Other Potential Budget Items

# BUDGET RECAP: WHERE DOES THE MONEY GO?

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## **FY 2016-17 Net State Appropriations by Committee/Area**

Education	12,681,654,413	57%
Health & Human Services	5,020,897,501	22%
Justice & Public Safety	2,601,712,738	12%
Agriculture, Natural & Economic Resources	536,329,317	2%
General Government	427,507,960	2%
Debt Service	742,718,618	3%
Statewide Reserves, Information Tech. & Capital	330,617,043	1%
<b>Total (excluding Disaster Recovery Act)</b>	<b>\$22,341,437,590</b>	

# Budget Recap

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## Key Budget Drivers

(FY 2016-17 Net Appropriations)

Public Schools	8,733,375,580	39%	} 78%
Higher Education	3,948,278,833	18%	
Medicaid	3,605,912,350	16%	
Prisons	1,163,962,549	5%	
Debt Service	742,718,618	3%	
Mental Health	563,035,124	3%	
Judicial (excluding Indigent Defense)	511,770,044	2%	
All Other	3,072,384,492	14%	
<b>Total</b>	<b>\$22,341,437,590</b>		



# **FY 2017-19 BASE BUDGET**

## **(GENERAL FUND)**

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- **Base Budget (as defined in G.S. 143C-1-1(d)(1c))**
  - Continues most funding at FY 2016-17 levels.
  - Allows for specific adjustments (annualizations, nonrecurring, receipts, leases on real property, federal payroll taxes, reconciliation of transfers)

	<b>FY 2017-18</b>	<b>FY 2018-19</b>
Governor's Base Budget	22,175,602,923	22,202,057,767



# MAJOR BUDGET PRESSURES

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Factors related to enrollment growth, cost increases and other major funding commitments.

Examples:

- Public school enrollment growth
- Higher education enrollment growth
- Retirement/pension actuarial recommendations
- State Health Plan cost increases
- Medicaid rebase
- Public school teacher pay commitments
- Disaster recovery

# MAJOR BUDGET PRESSURES

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	<b>FY 2017-18</b>	<b>FY 2018-19</b>
K-12 Enrollment	45,000,000	120,000,000
Higher Ed. Enrollment	55,000,000	103,000,000
Retirement System	11,000,000	71,000,000
State Health Plan	80,000,000	160,000,000
Medicaid Rebase	133,000,000	270,000,000
Teacher Pay	180,000,000	361,000,000
Debt Service	24,000,000	67,000,000
Disaster Recovery Match	80,000,000	
Disaster Recovery Other	???	
<b>Subtotal</b>	<b>608,000,000</b>	<b>1,153,000,000</b>

# BUDGET PRESSURES IN CONTEXT OF REVENUES (\$ MILLIONS)

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	<b><u>FY 2017-18</u></b>	<b><u>FY 2018-19</u></b>
Consensus Revenue Forecast	23,166.7	24,155.4
Governor's Base Budget	(22,175.6)	(22,202.1)
Major Budget Pressures (from slides 20-21)	(608.0)	(1,153.0)
<b>Subtotal*</b>	<b>383.1</b>	<b>800.3</b>

\*Does not include projections of Unreserved Fund Balance.

# Other Potential Budget Items

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**FY 2017-19**

- State employee salary increases excluding public school teachers (1%=\$85.5 M)
- Retiree COLA (1% = \$43.0 M)
- Other pay plans (step increases):
  - Teacher step increase (\$12.2 M)
  - School based administrators step increase (\$3.8 M)
  - Troopers, magistrates & clerks of court (\$7.0 M)
- Pay plan for correctional officers (\$18.4 M)

# Other Potential Budget Items (Cont.)

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**FY 2017-19**

- Impacts of federal changes (e.g., FMAP)
- Long term liabilities
- Savings Reserve (NR)
- Repairs & Renovations (NR)
- Revenue law changes

# Questions?

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