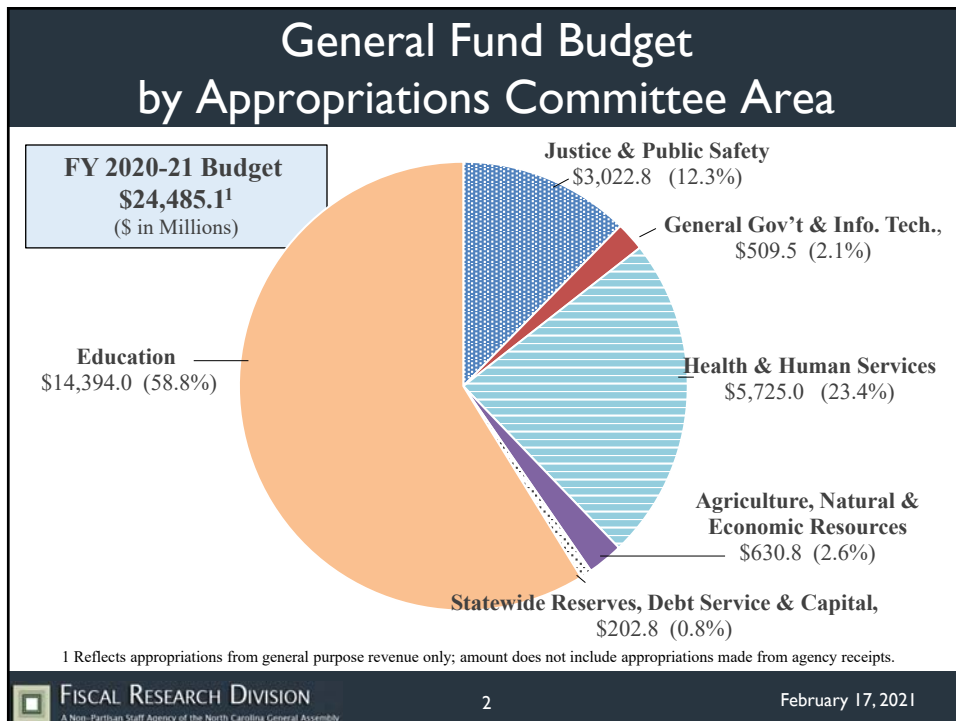


**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# State General Fund Budget Overview and Outlook

February 17, 2021

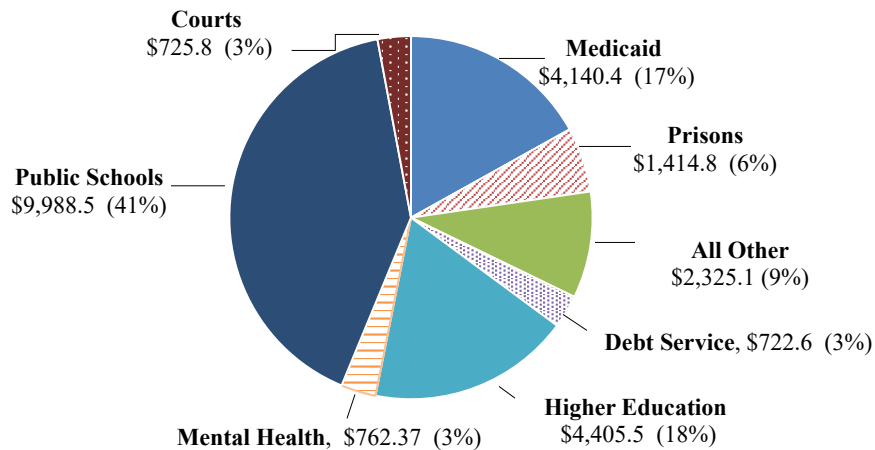
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## General Fund Appropriations by Key Budget Drivers

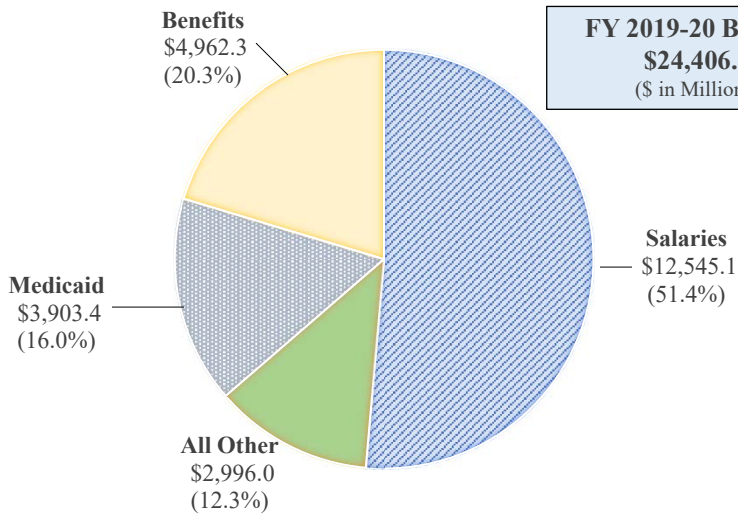
**FY 2020-21 Budget (in Millions)**  
**\$24,485.1**



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## General Fund Appropriations by Expenditure Type

**FY 2019-20 Budget**  
**\$24,406.8**  
(\$ in Millions)



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## 2019 Legislative Session Significant Budget Actions

- Governor Cooper vetoed the Current Operation Appropriations Act (H966)
- General Assembly did not override budget veto
- The statutory Continuing Budget Authority (aka Continuing Resolution) was triggered for the first time; no government shutdown
- General Assembly enacted 21 individual supplemental appropriations bills, including
  - A base budget bill for all State agencies
  - Budgets as enacted in H966 for DOT, Community College, Elections

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## 2019 Legislative Session Significant Budget Actions

State funds appropriated for...

- Salary increases for most State employees (excluding UNC), step increases for teachers and asst. principals, and add'l funds for the retirement and health plan systems (\$297.7 mil in FY 2019-20 and \$656.4 mil in FY 2020-21)
- “Raise the Age” Implementation (\$32.7 mil in FY 2019-20 and \$47.4 mil in FY 2020-21)
- School and prison safety initiatives (\$43.3 mil in FY 2019-20 and \$29.8 mil in FY 2020-21)
- Disaster recovery for Hurricanes Matthew, Florence, Michael, and Dorian (\$293.3 mil)
- Broadband expansion (\$15 mil annually for 10 years)

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## 2020 Legislative Session Significant Budget Actions

- Pre-COVID-19 pandemic
  - In January 2020, General Fund availability showed a \$2.3 billion unappropriated balance at end of FY 2019-20 and \$3.6 billion balance at end of FY 20-21
- Mid-COVID-19 pandemic
  - In May 2020, the revised consensus forecast estimated \$4.2 billion reduction to FY 2019-21 budgeted revenues
  - Revenues would be short \$600 million to support the enacted biennial budget
- NCGA Response
  - FY 2020-21 budget adjusted to meet balanced budget req.
  - 32 bills affecting appropriations and revenue enacted between April 28 and September 3, 2020

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## 2020 Legislative Session Significant Budget Actions

### Funds appropriated for...

- Medicaid and Health Choice rebase (\$463 mil) and Medicaid Transformation (\$69.4 mil)
- K-12 and higher education enrollment growth (\$242.9 mil)
- Various capital projects (\$182.7 mil)
  - UNC projects and R&R (\$75.4 mil)
  - State agency projects and R&R, including Freedom Park (\$76.6 mil)
  - Water Resources Projects (\$30.8 mil)
- Building/Operating reserves (\$28.6 mil) for
  - NCSSM-Morganton campus
  - 9 State parks, and
  - 11 UNC building projects

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## 2020 Legislative Session Significant Budget Actions

**Federal funds** appropriated for COVID-19 pandemic relief & recovery...

- More than \$1.5 billion in federal funds received directly by State agencies from 1 of 4 federal bills
- \$3.6 billion in Coronavirus Relief Fund (CRF) funding
  - 3 main appropriations bills plus 6 additional bills more narrowly focused
- Significant CRF Allocations
  - \$645.4 mil to offset General Fund Appropriations
  - \$440.5 mil for the Extra Credit Grant program
  - \$300 mil to local governments
  - ~\$588.6 mil for K-12 and higher education, including private universities
  - ~\$219.6 mil for small business & economic development programs
  - ~\$486.3 mil for NC DHHS programs
  - ~\$154.4 mil to hospitals, clinics, providers



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## 2020 Legislative Session Budget Highlights

### Key Takeaways:

- No significant cuts to agencies
- Many of the funding sources used to support the FY 2020-21 budget were nonrecurring
- \$645 million of CRF used to offset General Fund expenditures
- Challenging budget situation for 2021-23 fiscal biennium



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## Comparing NC to Other States

NASBO reports that ...

- 35 states reported General Fund collections for FY 2019-20 came in below projections
- 19 states reported mid-year budget cuts for the FY 2019-20 due to revenue shortfalls
- 15 states made withdrawals from Rainy Day funds in FY 2019-20 and another 10 have done so already in FY 2020-21
- 19 states instituted or continued hiring freezes for FY 2020-21, 7 imposed furloughs and 2 states used layoffs. Three states reduced salaries
- 23 states used targeted spending cuts and 8 state used across-the-board cuts to balance budgets for FY 2020-21

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## FY 2021-23 Budget Outlook

1. Consensus Revenue (+)
2. Recommended Base Budget (-)
3. Statutory Reservations (-)
  - Savings Reserve
  - State Capital and Infrastructure Fund (SCIF)
4. Budget Drivers/Pressures(-)
5. Beginning Unreserved Fund Balance (+)

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## Recommended Base Budget

### FY 2021-22

\$24,106.1 million \*

### FY 2022-23

\$24,116.5 million \*

- Continues funding for State agencies at FY 2020-21 levels with a few adjustments authorized in statute
  - Includes \$645 million in CRF offsets restored
  - Does not include items considered to be recurring that were funded with nonrecurring funds in FY 2020-21 totaling \$742 M
    - K-12 ADM & Avg. Personnel Salary Adj. - \$157.1 million
    - Higher Education Enrollment - \$85.9 million
    - Medicaid Rebase - \$463 million

\* debt service removed, covered by SCIF

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## FY 2021-23 General Fund Budget Outlook

	(\$ in millions)	
	<u>FY 2021-22</u>	<u>FY 2022-23</u>
Consensus GF Revenue Forecast	27,350.6	28,461.5
Preliminary Base Budget <sup>1</sup>	(24,106.1)	(24,116.5)
Restore Recurring Funds	<u>(741.9)</u>	<u>(741.9)</u>
Funds Remaining for Approp. <sup>2</sup>	\$ 2,502.6	\$ 3,603.1

<sup>1</sup> Base adjusted for debt service

<sup>2</sup> Make no assumptions about adjustments in availability or spending

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## Statutory Reservations

- **Savings Reserve (aka the Rainy-Day Fund)**
  - Requires a mandatory minimum reservation of 15% of net tax revenue growth
    - Estimated FY 2021-22: \$0
    - Statute requires State Controller to reserve an amount equal to *actual* growth, which in FY 2020-21 is estimated at **\$575.2 million**
  
- **State Capital and Infrastructure Fund (SCIF)**
  - Requires a transfer equal to 4% of net tax revenues deposited in the General Fund and ¼ of year end unreserved fund balance
    - Estimated FY 2021-22: **Over \$2.1 billion**
      - ¼ of unreserved fund balance estimated at **\$1.1 billion**
      - 4% of net tax revenues = **\$1.0 billion**

## Budget Pressures

- Public Schools Average Daily Membership (ADM)
- Higher Education Enrollment Adjustment
- Medicaid Rebase
- State Health Plan
- Retirement Contributions
- Building Reserves
- Information Technology Projects



## Budget Pressures

	(in millions)	
	FY 2021-22	FY 2022-23
Public Schools Average Daily Membership (ADM)	?	?
UNC Enrollment Adjustment	\$ 37.6	\$ 82.6
CC Enrollment Adjustment	?	?
Medicaid Rebase	\$ (236.0)	\$ 564.0
State Health Plan	\$ 200.0	\$ 300.0
Retirement	\$ 110.0	\$ 150.0
Building/Operating Reserves	\$ 26.3	\$ 37.1
Information Technology Projects	\$ 108.0	\$ 65.5
<b>Total Budget Drivers</b>	<b>\$ 245.9</b>	<b>\$ 1,199.2</b>

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## Potential Budget Issues

- Salary Increases and Retiree Supplement (1% across-the board)
  - State employees, including UNC = \$65 mil
  - State funded local employees = \$99.3 mil
  - Retirees = \$36 mil
  - **Total: \$200.3 mil**
- Additional COVID-19 Response
- Economic Development Initiatives
- Disaster Funds
- Tax Changes

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## Beginning Unreserved Fund Balance

- Unappropriated Balance Remaining in FY 2020-21
  - \$457.2 mil
- Estimated overcollections in FY 2020-21
  - \$4.1 billion
- Estimated Reversions in FY 2020-21
  - \$400 mil
- Savings Reserve transfer in FY 2020-21
  - \$575.2 mil

### Key Takeaways:

- Significant amount of funding to start FY 2021-22
- *All nonrecurring funds.*

## Questions?

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