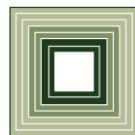


2015 -17 CONSENSUS REVENUE FORECAST AND BUDGET OUTLOOK

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Fiscal Research Division
February 12, 2015**

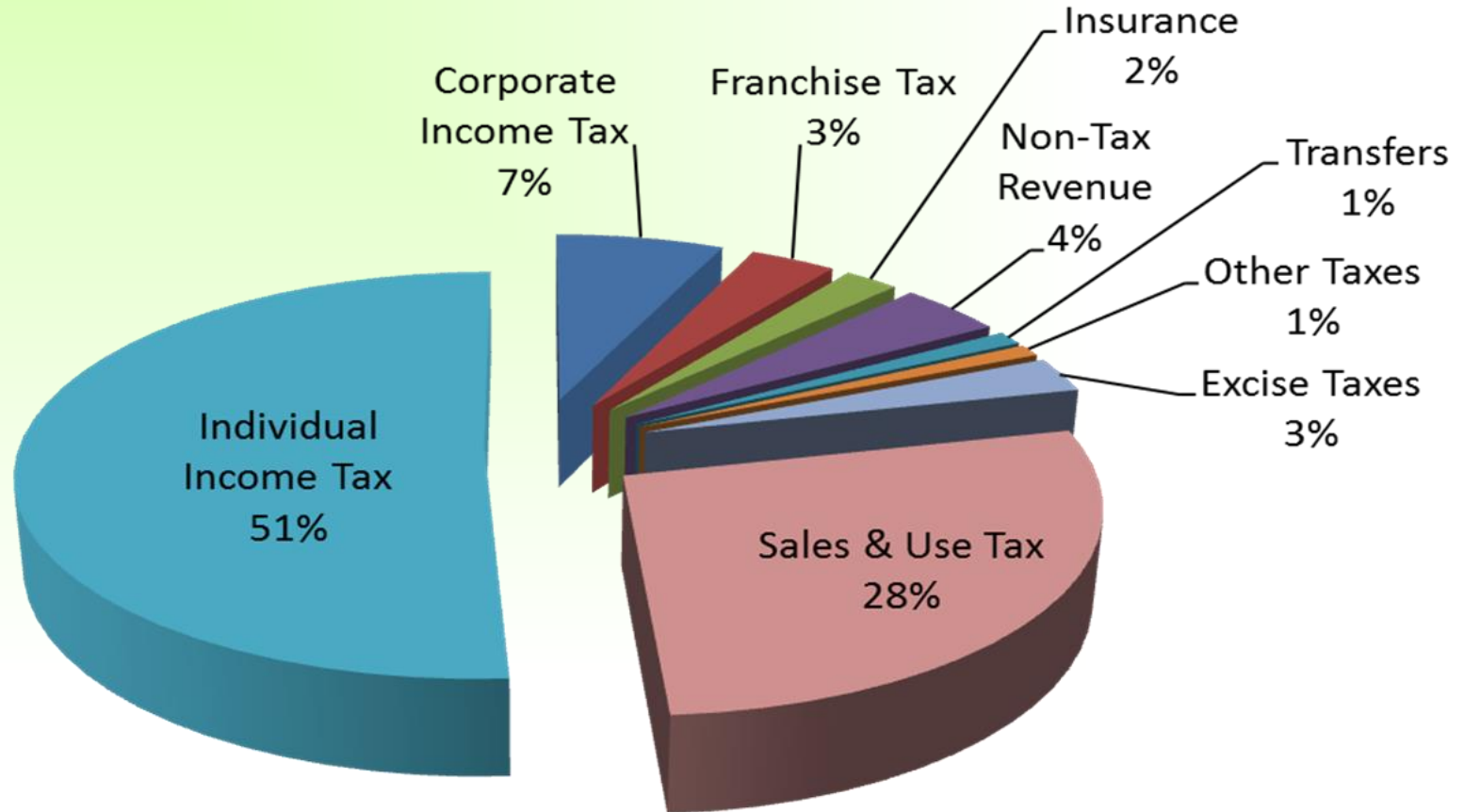


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Presentation Outline

- Consensus Revenue Forecast
 - Current Fiscal Year
 - 2015-17 biennium Forecast
- Budget Outlook

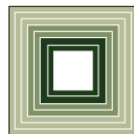
FY 2013-14 State General Fund, \$20.15 Billion



How Do 2014-15 Revenues Look So Far?

- Collections through January are \$215 million below the \$11.8 billion target.
- **Personal Income** tax lags behind target – down 5.8%
- **Sales** taxes ahead of target by 2.3%
- Business taxes, **Corporate Income** and **Franchise** tax, combined are 5.7% ahead of target

FY 2015-17 Consensus Forecast



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Consensus Revenue Process

- 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

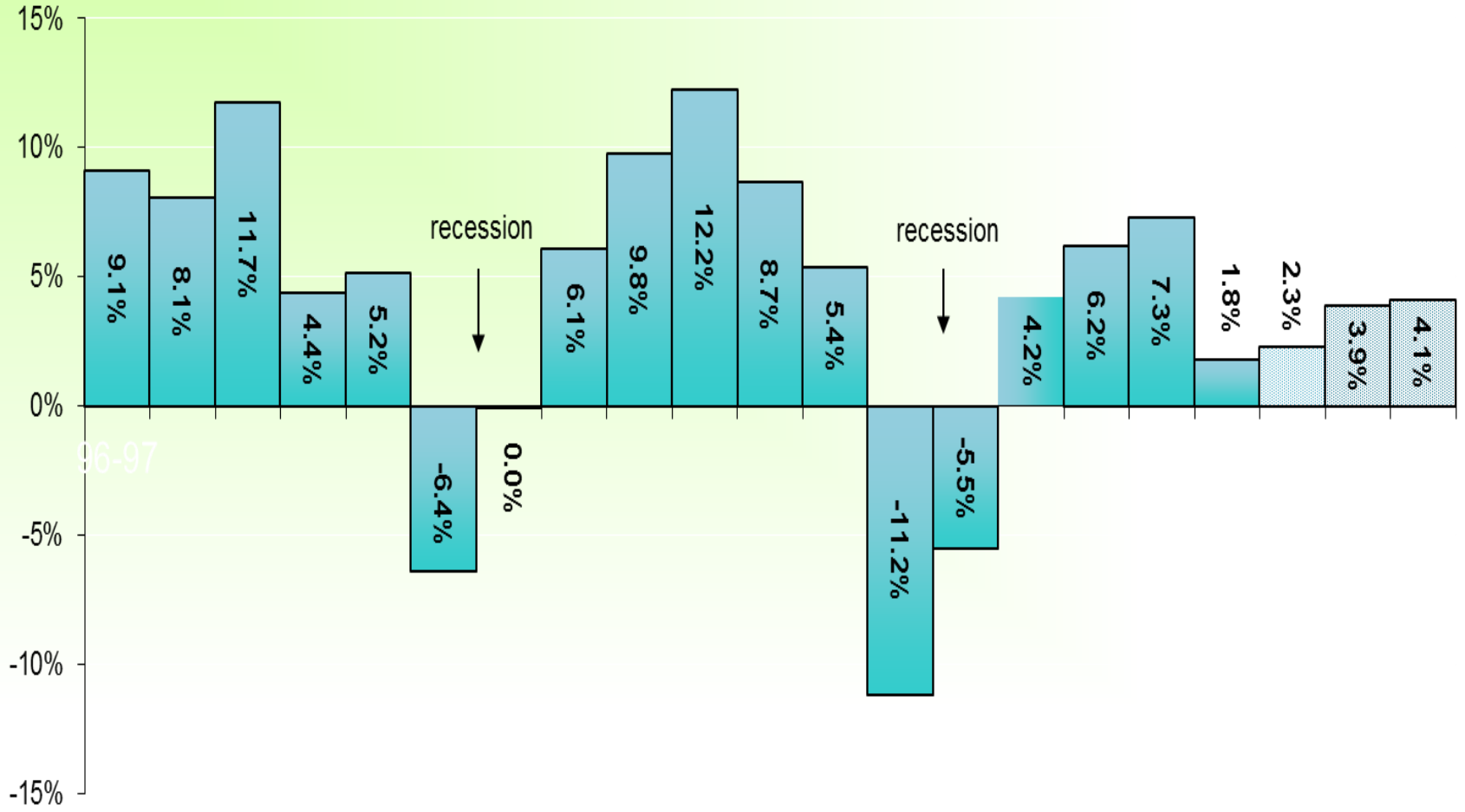
Consensus Revenue Process

- 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

Consensus Forecast

Fiscal Year	Revenue (\$ millions)	Change (\$ millions)	Percent Change
2014-15 (est.)	\$20,730.1	\$586.4	2.9%
2015-16 (est.)	\$21,409.9	\$679.8	3.3%
2016-17 (est.)	\$22,296.6	\$886.7	4.1%

Baseline Tax Revenue Growth, FY 1996-97 to FY 2016-17



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

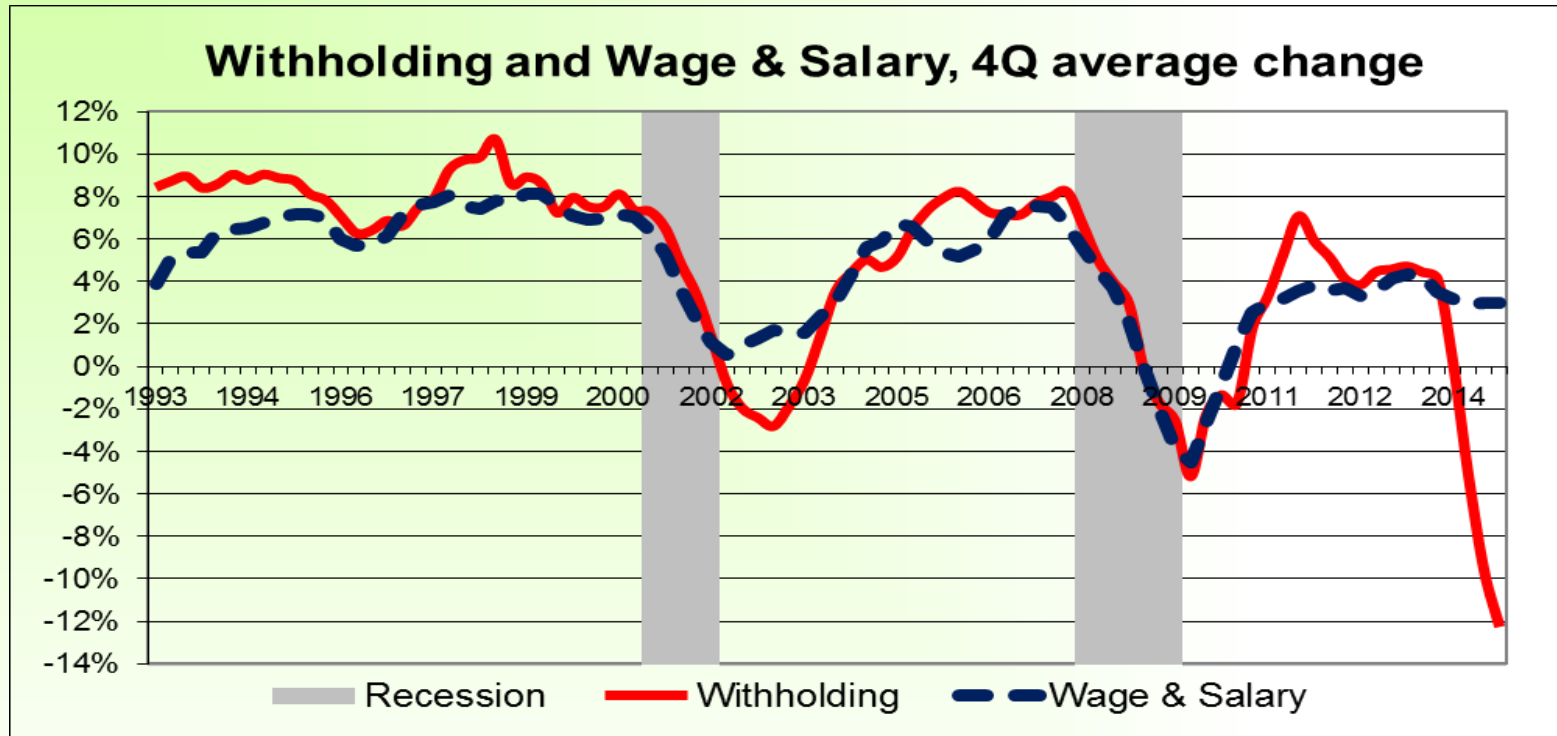
2015-2017 Economic Outlook

- Overall economy expected to maintain steady, yet moderate growth
- Employment gained momentum in 2014, projected to grow above 2% during biennium
 - 85,000 to 95,000 jobs added each year
- Employment picture suggest upward pressure on wages as 2016 approaches
- Improved household balance sheets and more confidence in economy help maintain solid retail sales growth
- Global Conditions require added caution

Consensus Forecast

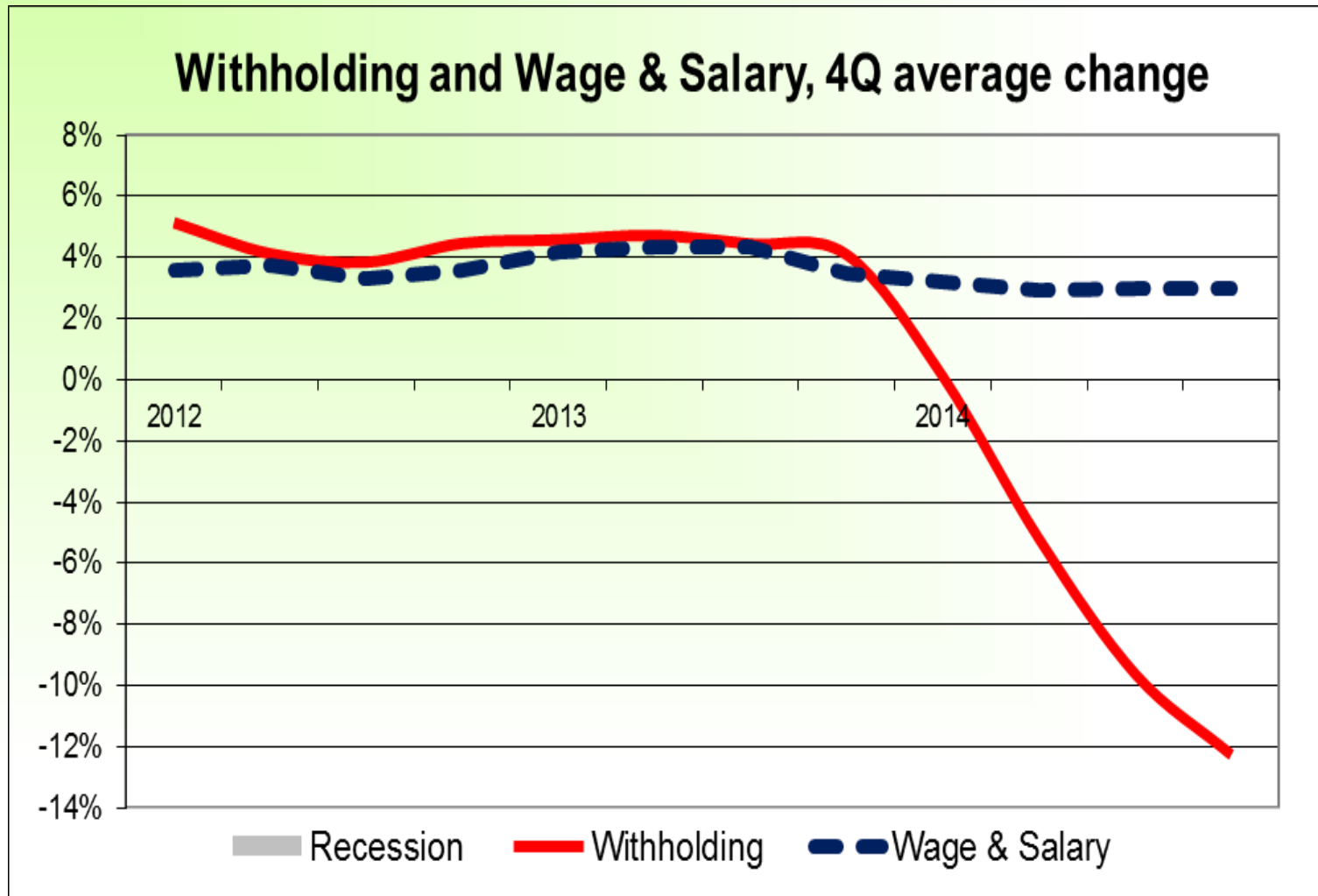
- Cautious approach needed for budgeting – added caution is warranted with over \$2 billion in tax changes enacted in 2013
- Forecast expects current year collections to be below the budgeted amount by \$271 million (1.3%)
 - Main cause is slower than expected wage growth
- **Important assumption is that April expectations for lower refunds and higher final payments are met**
 - Withholding changes
 - Broader tax base

Consensus Forecast



Net Withholding income growth (withholdings less refunds) dropped off dramatically from last year as a result of tax law changes in S.L. 2013-316. Even without the change net withholding would have weakened as wage and salary growth has dropped below three percent.

Consensus Forecast



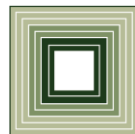
Consensus Forecast

- **Personal Income** – employment gains begin to put upward pressure on wages
 - 3.7% and 4.5% growth in collections
- **Sales tax** growth projected to be slightly above average for the biennium
 - First time forecast has Sales growing faster than averages since onset of recession in 2008
- Overall forecast takes cautious approach in light of modest economic growth forecast and still developing tax impacts

Conclusions

- General Fund collections for the first 7 months are \$215 million below forecast target.
- Economic forecasts expect conditions to remain steady through 2017, but growth will remain modest.
- A 1.3% shortfall of \$271 million for this fiscal year.
- Assumption on April refunds and payments key.
- Projected stable economic conditions combined with cautious forecast results in modest revenue growth.

State Budget Overview and Outlook



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Presentation Overview

- 2013 and 2014 Legislative Session Budget Highlights
- FY 2014-15 State Budget Overview
- 2015 Session Budget Outlook
 - Base Budget
 - Budget Pressures
 - Other Budget Items

2013 Session Budget Highlights

- Enacted Tax Simplification & Reduction Act (H 998)
 - FY 2013-14: a net projected reduction of \$86.6M
 - FY 2014-15: a net projected reduction of \$437.8M
- Increased Savings Reserve Account, \$232M
- Funded Repairs & Renovations, \$150M
- Addressed Medicaid Budget Needs:
 - FY 2012-13 Medicaid shortfall, \$496M
 - FY 2013-14 Medicaid additional appropriation, \$434M

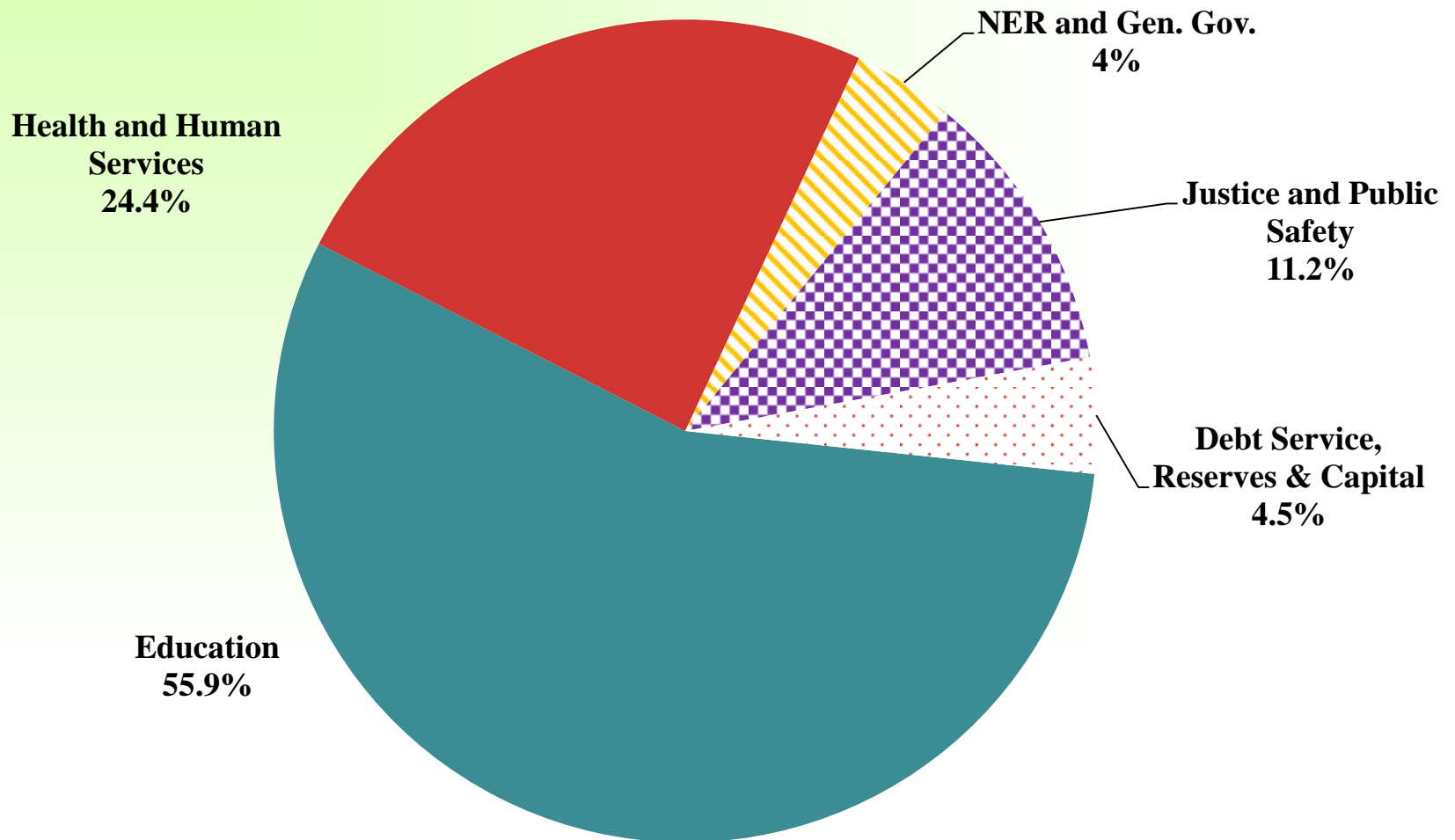
2014 Session Budget Highlights

- Availability Gap of \$644 M
 - Under-collection of revenue of \$453M
 - FY 2014-15 Consensus Forecast downward revision of \$191M
- Medicaid
 - \$136M projected claims backlog (carried over from FY 2013-14)
 - \$186M in reserve for FY 2014-15
- Salary and Retiree Increases of \$466M

Where Does the Money Go?

FY 2014-15

\$21.1B



Where Does the Money Go?

FY 2014-15 State Appropriations by Subcommittee Area

Education	11,775,270,816	56%
Health & Human Services	5,148,161,048	24%
Justice & Public Services	2,366,128,478	11%
Natural & Economic Resources	407,326,212	2%
General Government	427,467,752	2%
Debt Service	721,591,217	3%
Statewide Reserves & Capital	236,164,622	1%
Total	\$ 21,082,110,145	

Where Does the Money Go?

Key Budget Drivers

Public Schools	8,104,976,608	38%	} 79%
Higher Education	3,670,294,208	17%	
Medicaid	3,688,548,123	17%	
Prisons	1,086,734,280	5%	
Debt Service	721,591,217	3%	
Mental Health	680,063,746	3%	
Judicial ¹	463,893,072	2%	
All Other	2,426,944,002	13%	
Total	\$ 21,082,110,145		

¹Excludes Indigent Defense Services

How does NC's Current Budget Situation Compare to Other States?

States Project Budget Shortfalls (12)

States Project Overspending (23):

- Medicaid, 14 States
- Corrections, 9 States
- K-12, 8 States
- Social Services, 4 States

Source: State Budget Update, Fall 2014 – National Conference of State Legislatures

Top Fiscal Issues States are Facing in 2015

- Medicaid/Healthcare (22 states)
- K-12 Education Funding (21 states)
- State Tax Policy (15 states)
- Transportation (12 states)

Source: State Budget Update, Fall 2014 – National Conference of State Legislatures

NC's Budget Outlook

2015 Legislative Session

Budget Outlook

- **Base Budget (as defined in G.S. 143C-1-1(d)(1c))**
 - Continues most funding at FY 2014-15 levels
 - Annualizes partially funded items enacted in the 2014 Appropriations Act
- **Budget Pressures**
 - Includes projected costs for State Health Plan and Medicaid, enrollment growth for public schools and universities and other funding commitments
- **Other Budget Pressures**

FY 2015-17 Base Budget

	<u>FY 2015-16</u>	<u>FY 2016-17</u>
General Fund Consensus Revenue Forecast	21,409,900,000	22,296,600,000
Preliminary Base Budget	20,869,104,439	20,869,150,470
Balance Remaining¹	\$540,795,561	\$1,427,449,530

¹Makes no assumptions about adjustments in Availability or spending.

Budget Pressures

- FY 2014-15 Revenue Shortfall
- Medicaid Growth
- State Health Plan
- Public School Teacher Pay
- Public School Enrollment Growth
- University Enrollment
- Other Funding Commitments

Budget Pressures

FY 2015-17

Preliminary Estimates

FY 2015-16 **FY 2016-17**

Medicaid Rebase	218,000,000	480,000,000
Public Schools Growth	70,000,000	140,000,000
University Enrollment Growth	47,500,000	78,500,000
State Health Plan	45,000,000	136,500,000
Funding Commitments:		
Teacher Pay to \$35k	41,850,000	41,850,000
Broughton Hospital	16,600,000	0
Job Maintenance and Capital Development Fund (JMAC)	9,500,000	8,500,000

Other Budget Pressures

FY 2015-17

- Economic Dev & Film Incentives (\$30M)
- Historic Tax Credits (\$9.6M - ???)
- Housing Loan Program (FY 2014-15, \$10M)
- Structural Budget Items (\$15M)
- Public Schools Driver's Education (\$26M)

Other Budget Pressures (cont.)

FY 2015-17

- State Employee Salary Increases (1% = \$134M)
- Retiree COLA (1% = \$39M)
- Other State Employee Pay Plans:
 - Teacher Step Increase (\$65M)
 - Highway Patrol, Magistrates & Clerks of Court (\$7.2M)
- Courts System Funding
- Capital
- Savings Reserve and Repair & Renovation Funds

Questions?

Fiscal Research Division

919-733-4910

Legislative Office Building

Suites 209 and 619