



State Budget Update

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&

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Agenda

- Current Budget
- Outlook & Revenue
- Hurricane Helene
- Budget Development
- Transition



2024

It's been a lot

- Short session *not* short
- Federal shutdown threats
- NCFS still new
- IBIS issues
- Biennial Budget Development
- Hurricane Helene





Certified

- SL 2024-1
- SL 2024-40
- SL 2024-51 Disaster Recovery Act I
- SL 2024-53 Disaster Recovery Act II

Not Yet Certified

SL 2024-55

> Certification entries due Dec 6

> Completion goal Dec 13

Vetoed, Potential override

SB 382



Major Items Funded in 2024 Legislation



Enrollment growth funding

- Community Colleges
- Public schools



Funding for child care stabilization grants



Funding for Medicaid rebase



Additional \$463 million for Opportunity Scholarships



Hurricane relief



Big picture – how much is appropriated

\$31.6 billion “operating budget” appropriated

+ **\$4.6 billion** appropriated out of reserves (non-Helene)

+ **\$877 million** additional appropriation for Helene-related activities*

= \$37.1 billion

* \$77 million from unobligated funds was also transferred into Helene Fund for a total of \$954 million



1 Federal Shutdown

Continuing Resolution expires **Dec 20**

Potential impact due to OSBM **Dec 13**

2 Recovery Funding

Federal disaster funding unclear

Governor requested **\$25B** in federal funding.



Incompatibility

Productivity decline for users

Costs and risks

IBIS is...

- An in-house system
- 15 years old
- Has 581 current users
- Is antiquated, upgrade is not possible



KEEP CALM

AND

BUDGET ON

Polling Question

Outlook



NC Population is Growing

NC adding 350+ people per day!

- 74 of 100 counties projected to grow through 2025
- **50% of growth** projected to occur in Triangle & Charlotte areas (2020-2050)
- Fast growth in suburban areas, near natural amenities, retirement destinations
- Last decade, majority of smaller municipalities lost population

Source: US Census Bureau, 2020 Census & Vintage 2022 Population Estimates; North Carolina Office of State Budget and Management, Population Estimates, Vintage 2022 & Population Projections, Vintage 2023

*50 largest cities as of 2020



Aging and diversifying population will require different mix of services

- The 65+ population is increasing more than 2x faster than the total population
- Prime working age population (25-64) is growing more slowly than the overall population as more baby boomers exit workforce
- With declining fertility rates and aging, almost all population growth will depend on migration
- Hispanic and Asian populations are growing fastest

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





Economic Outlook - The Positives

Jobs are plentiful

- 11th largest economy in nation
- Unemployment near historic low at **3.7%** (October 2024)

NC is attracting investment

- 14,000+ new jobs, \$12.9B invested in 2023
- Clean energy, tech, and manufacturing

Inflation is easing

- Fell to 2.6% in Oct 2024 for all goods & services
- Federal Reserve cut interest rates by 0.75%, more cuts expected



Economic Outlook – Challenges Ahead

Growth

Employment

Workforce

Housing



GDP growth slowed in 2024, signs of transition to average or below-average growth

Oct 2024 unemployment rate (4.1%) was 0.7% above 2023 low, slowing

Prime working age population growing slower as baby boomers retire

Recent rate reductions by Fed did not reduce mortgage rates



Growth & opportunities uneven, with more disparity in rural areas

Employment growth has slowed compared to 2023

Shortage of appropriately skilled workers

Housing in short supply and not affordable

+ slower growth in prime working age population

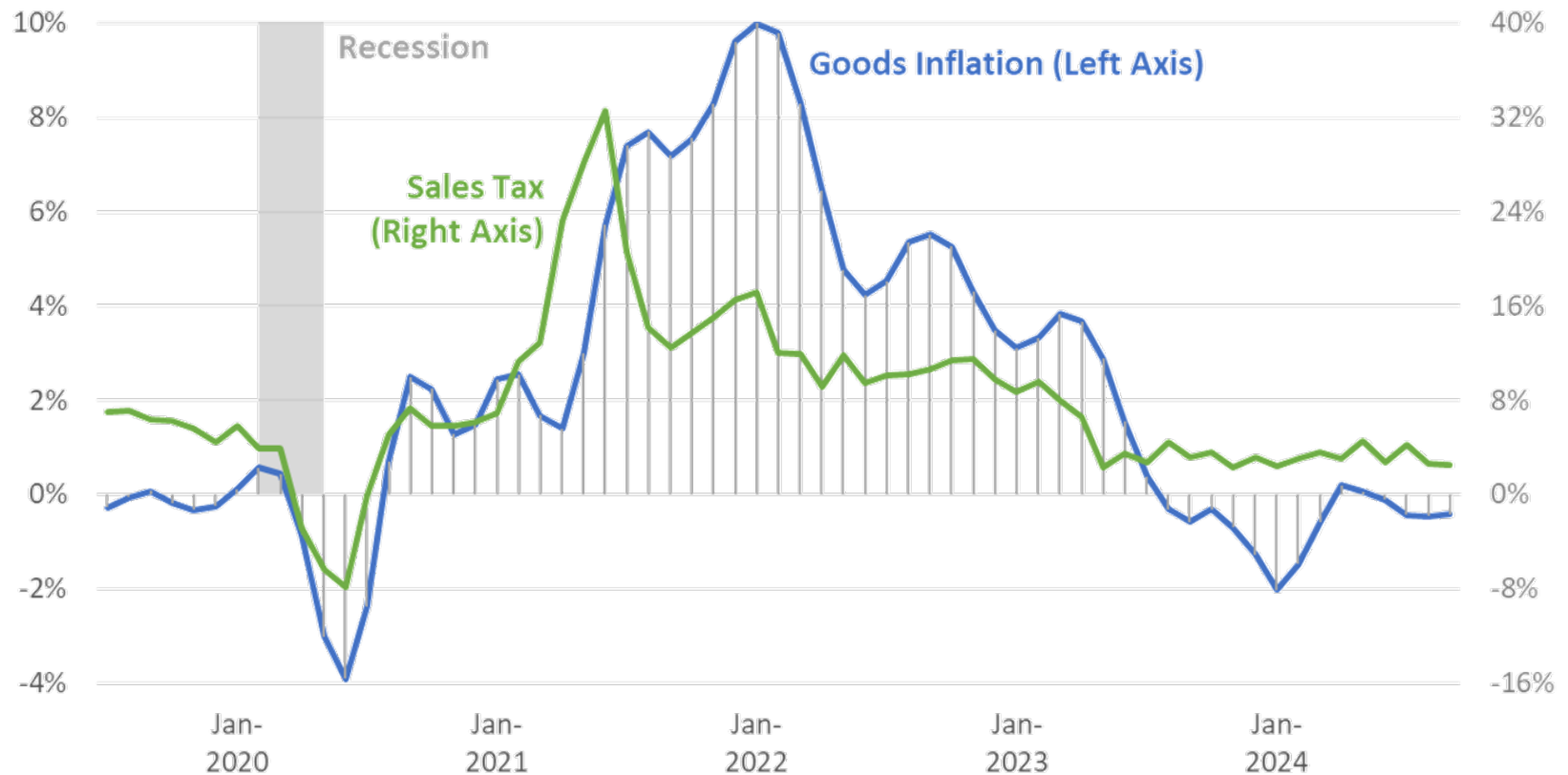


Falling Goods Inflation Slowing Growth of Sales Tax Revenues

- Prices for taxable goods rose rapidly in 2021 and 2022
- This inflation contributed to sales tax revenue growth until mid-2023
- Sales tax growth moderating and steadily 3-4% since mid-2023 as goods inflation dipped below 0%

Goods Inflation No Longer Boosting Sales Tax Revenues

Blue: Consumer price index for commodities less food, energy, and used vehicles, 3-month moving average annualized rate
Green: Year-over-year percent change in gross sales tax collections, 3-month moving average



Sources: Bureau of Labor Statistics, Accessed 11/13/2024; Department of Revenue



What does this mean for state government?

\$34.2 billion
FY 2024-25
Consensus
Revenue Forecast

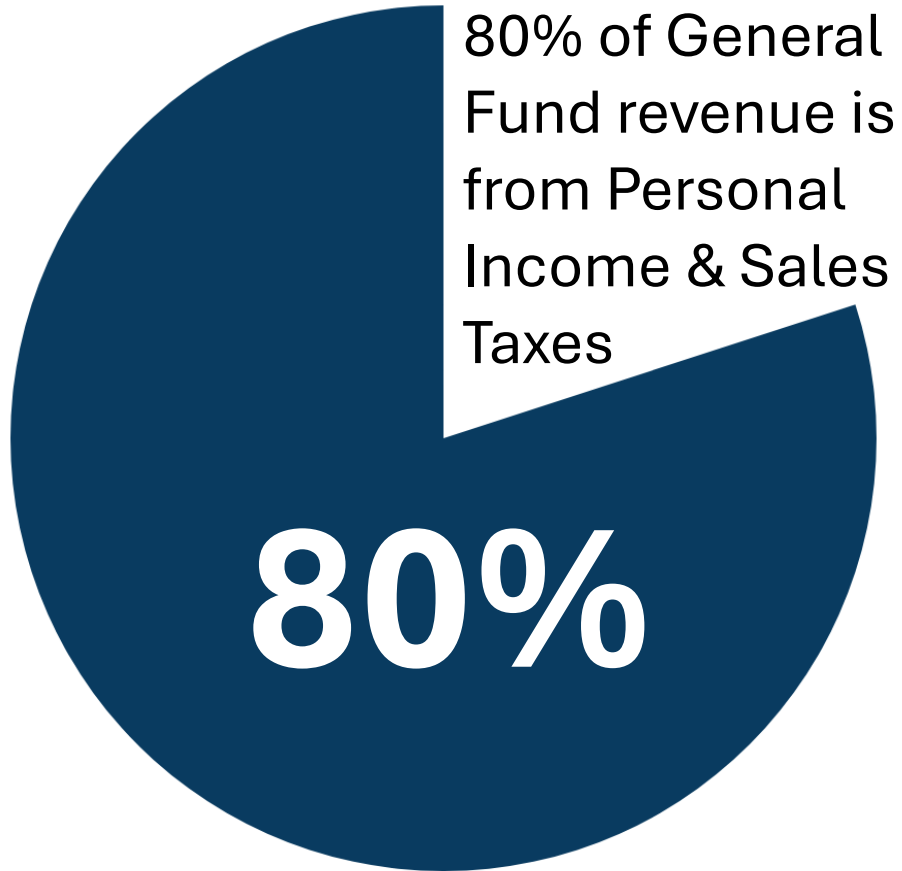
- Only +1.4% growth (+\$471 million) from prior year

FY 2025-27 Projections

- Flat growth FY 2025-26
- Negative growth FY 2026-27



What's Behind Flat Revenue Growth?



Jan 1, 2025

- Personal Income Tax (PIT) – (4.5%), drops to 4.25.% PIT is largest source of state revenue (49%)
- Corporate Income Tax (CIT) – (2.5%), down to 2.25%

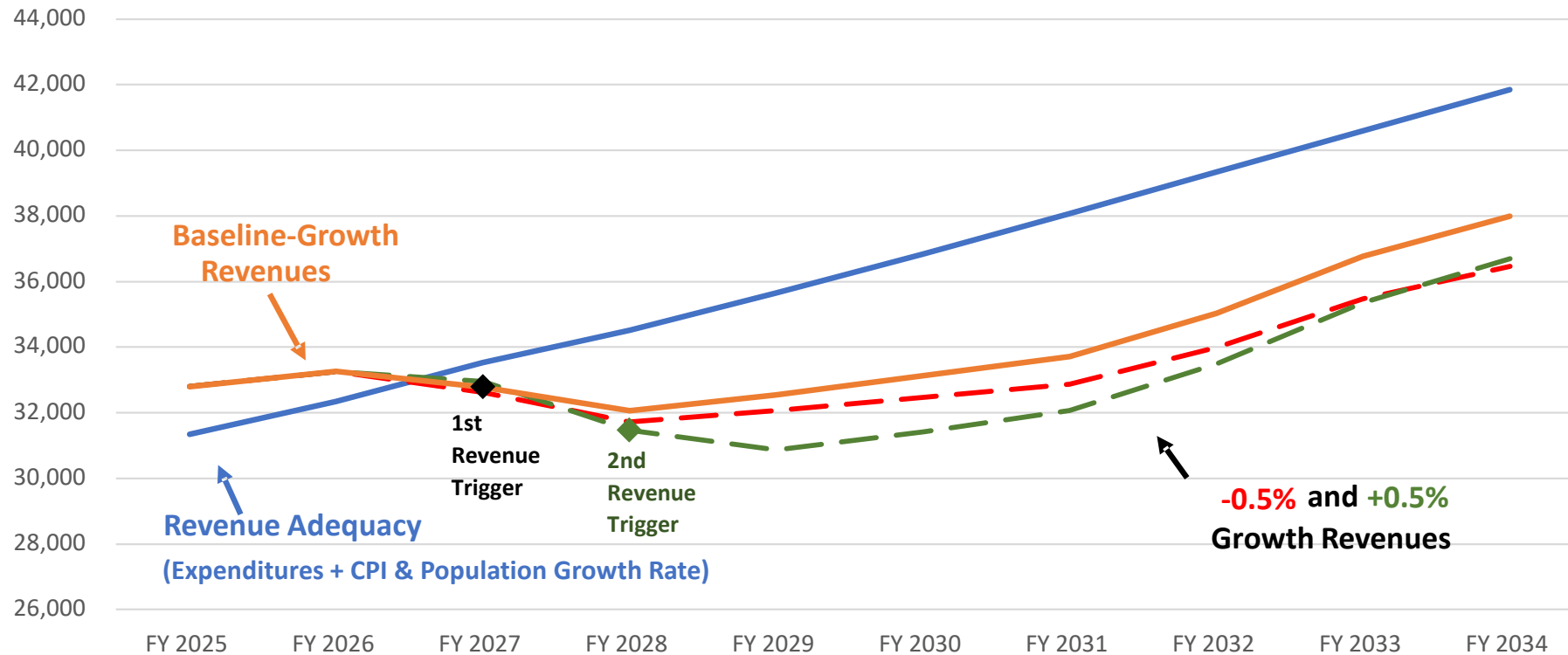


Reductions to PIT and CIT revenue expected to have a **\$8.5 billion** impact by 2030.

Stable economic growth + enacted & triggered tax cuts = Shortfalls beginning in FY 2026-27

Low and High Growth Scenario Revenues

Revenue and Expenditure Levels in Millions of Dollars



- 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.



Projected % of State Expenses Revenue Will Cover

- Five years from now, we are projecting revenues cover less than 92% of current expenditures adjusted for population + inflation
- If revenues grow more than we think, the first two triggers will be hit, and we collect even less revenue – covering less than 90%, maybe as low as 85%, of expenditures
- During the Great Recession, state revenues covered about 85% of expenditures

A tale of two revenue scenarios

Five years from now

Gap between
projected revenue
and expenditures

8+%

Five years from now if revenue outperforms expectations, tax cuts kick in

Gap between
projected revenue
and expenditures

15%

*What state services
will fall into the
gap?*

Polling Question



Major Budget Considerations

**Three
Quarters**

of General
Fund uses are
for **Education**
and **Medicaid**

**More than
50%**

of budget is
salaries and
benefits

**More than
10%**

of General Fund
availability went
into Reserves in
FY 2023-24



FY 2024-25 Reserve Balances (Prior to Hurricane Helene)

	Unappropriated	Appropriated
Savings Reserve	\$4,875,001,114	\$0
State Emer. Response & Disaster Relief	\$781,148,360	\$14,725,703
State Capital and Infrastructure Fund	\$0	\$2,166,333,238
Medicaid Contingency Reserve	\$976,512,736	\$0
Wilmington Harbor Enhancements	\$283,800,000	\$0
Information Technology Reserve	\$341,292,868	\$69,014,653
Economic Development Project Reserve	\$600,000,000	\$505,450,000
Innovation Reserve	\$0	\$250,000,000
Federal Infrastructure Match Reserve	\$95,676,125	\$26,082,598
Clean Drinking Water Reserve	\$0	\$1,000,000,000
Stabilization and Inflation Reserve	\$1,000,000,000	\$0
Transportation Reserve	\$0	\$100,000,000
Other Reserves (Opioid Abatement, ARPA, Medicaid Transformation, Hurricane Florence, Housing)	\$117,054,066	\$270,167,578
Ending Reserve Balance	\$9,070,485,269	\$4,401,773,770

Total FY 2024-25 Reserve Balance: **\$13.5B**

\$9.1B of funds in these reserves are unappropriated



Savings Reserve

- \$4.88 billion projected FY 2024-25 ending balance (pre-Helene)
- Current target is 11.7% of prior-year GF operating budget
\$3.5 billion



Funding level calculated by economists who take into account revenue volatility and how much money NC would need to withstand worst-case scenario recessions **for two years**



State Capital and Infrastructure Fund

- \$1.45B projected unallocated at end of FY 2024-25
- Statutorily required transfer \$1.12B for FY 2025-26, 3.5% increase for each following fiscal years
- Currently funding 64 university projects and 58 state agency projects
- \$735M in grants have been funded from the SCIF this biennium



Budget Pressures



Tax policy and economy -
insufficient revenues
predicted



More frequent and severe
disasters



Population growth, aging
population, disparities



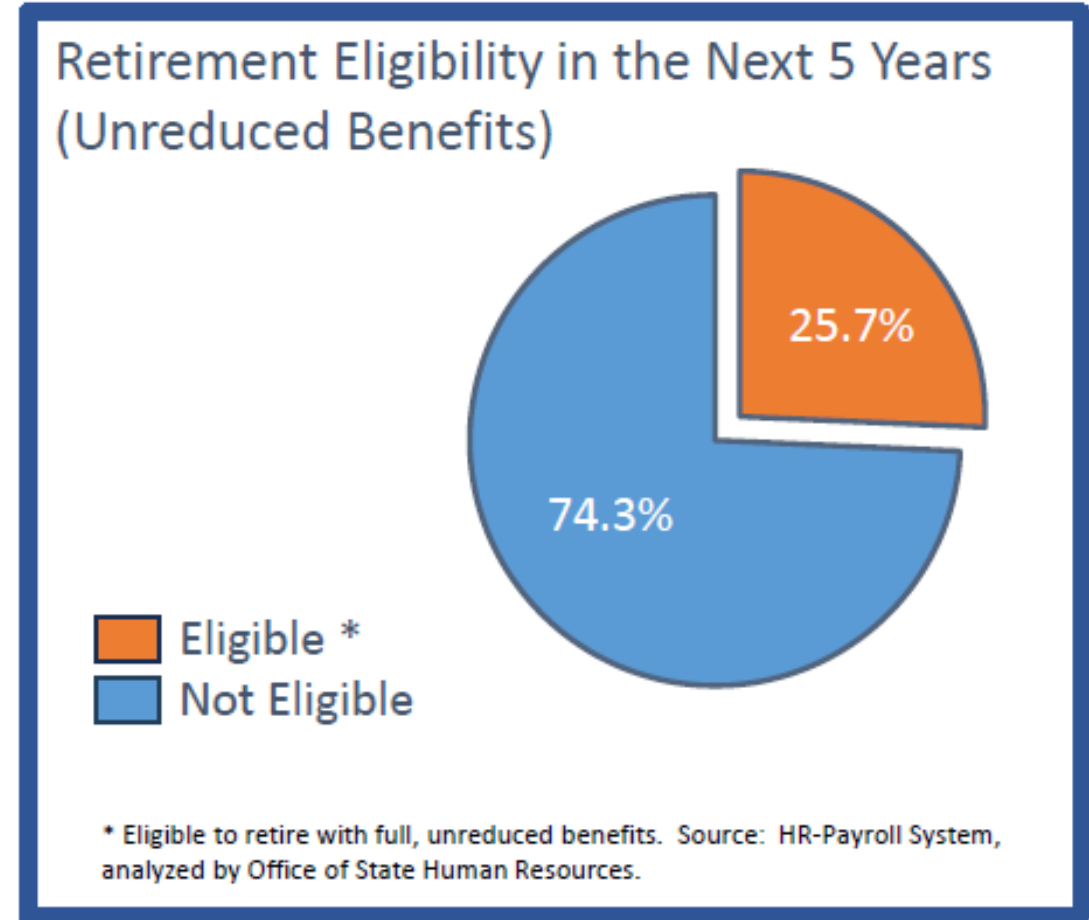
State employee
recruitment and retention



Recruitment & Retention Risk: Retirements

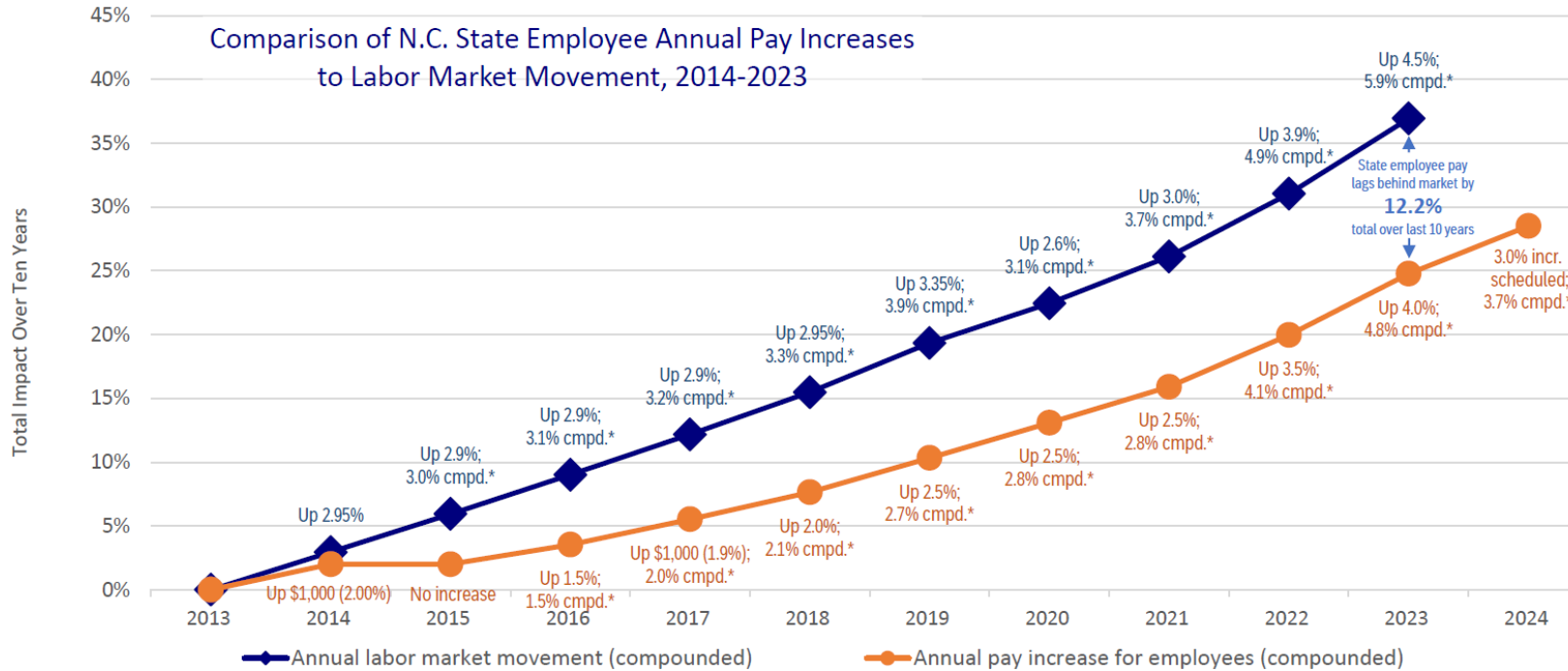
As of November 2023

- 8.3% of agency employees eligible to retire with unreduced benefits
- 25.7% to be eligible in next 5 years





State Employee Compensation a Challenge



Note: "compd." means the compounded effect of this pay increase in addition to the increases shown earlier in the graph. This graph shows how the pay would grow over ten years of a hypothetical state agency employee who made \$50,000 a year on July 2, 2013, then received only legislative increases after that date. These comparisons assume that the hypothetical employee was not in a step plan, and that the hypothetical employee did not receive the Labor Market Adjustment Reserve (LMAR) in 2022 and 2023. If the employee received LMAR in both years, the orange line would read "Up 4.5% (5.2% compd.)" for 2022, "Up 5.5% (6.7% compd.)*" for 2023, and "3.0% incr. scheduled; 3.8% compd.)*" for 2024; the gap between pay and the market would be 9.1% total. See "Data Sources and Date" on page 9 for full information on sources and methodology for chart.

December 2023

Average state employee pay: \$62,997
 Average benefit value: \$39,754*

Accounting for compounding, over the last 10 years, state employee pay...

- Lags the market by 12.2%
- Lags inflation by 5.9%

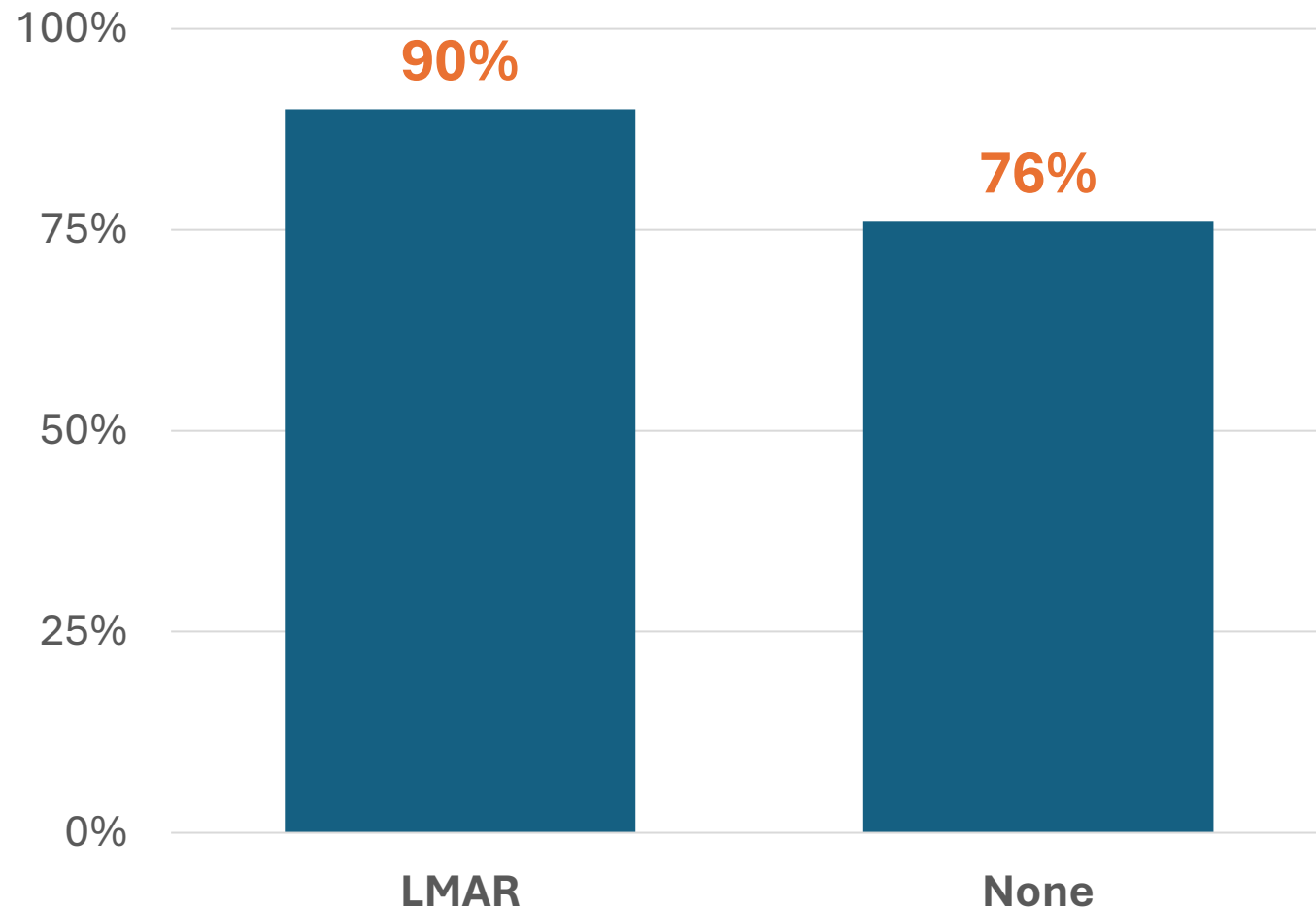
**Benefits include all leave, holidays, retirement, disability, health insurance, etc.*



Labor Market Adjustment Reserve (LMAR) Impact

July 2022 – Feb 2024:
about 1 in 3 eligible
employees received an
LMAR

Still Employed (April 2024)





Recruitment & Retention: Signs of Improvement

September is eighth consecutive month with higher employment

Turnover rate down to 12% from high of 24%

Receiving an average of 30 applications per job posting. Up from an average of 12 per post.

November 2024 vacancy rate – 19%



Budget Pressures



Tax policy and economy -
insufficient revenues
predicted



More frequent and severe
disasters



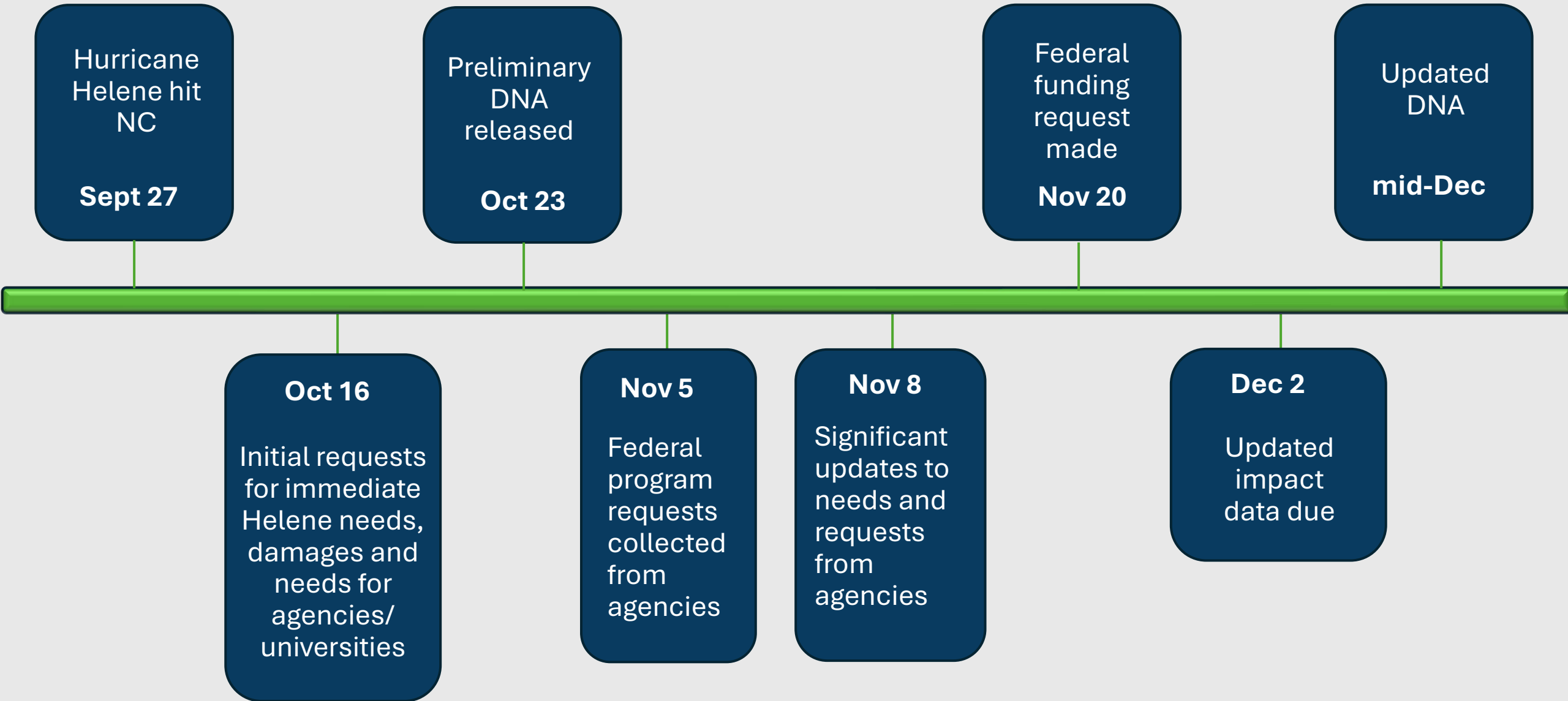
Population growth, aging
population, disparities



State employee
recruitment and retention

Budget Pressure Point – Helene Recovery





Helene Impact and Needs Assessment

Preliminary damage & needs estimates **\$53.6B** Will be updated this month

\$53.6B

Total estimated damage and needs

=

\$41.1B

Estimated direct cost

+

\$7.6B

Estimated indirect cost

+

\$4.8B

Strengthening and mitigation

Other comparable estimates

Moody's Analytics

\$38–\$58B

CoreLogic

\$30.5–\$47.5B

Source: OSBM Helene Damage & Needs 10/23/24 report

Photo credit: NCDOT – Buncombe County
Source: CoreLogic, Moody's Talks: Inside Economics "Consumer Prices & Catastrophic Hurricanes"



Impact by Category

\$15.9 billion for the Economy

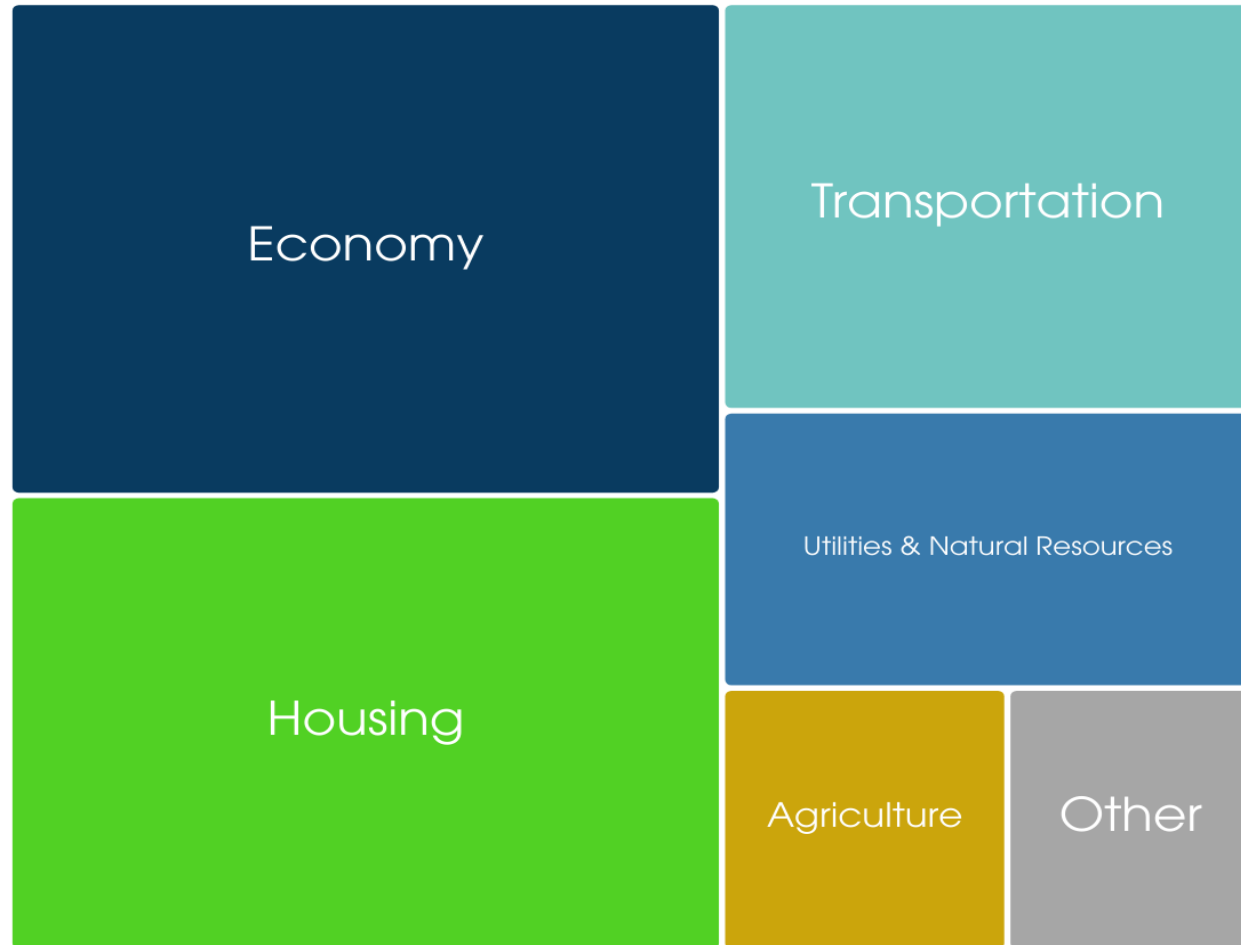
\$14.7 billion for Housing

\$9.8 billion for Transportation

\$6.7 billion for Utilities & Natural Resources

\$3.4 billion for Agriculture

\$2.9 billion for other needs





Characteristics of Successful Recoveries



Source: Harvard Belfer Center, "Bounce Back Better: Four Keys to Disaster Resilience in US Communities"



Significant Federal and State Investment Needed



\$3.9B

Governor Cooper's 10/23/24 state funding recommendation



\$25.6B

Request to the federal government to cover unfunded need

- \$8B in expected eligibility-based federal funding
- \$17.6B in **new** federal funding requests
- More federal competitive funding anticipated



Financial Impact and Recovery Funding

Financial impact & recovery funding recommendations, \$B

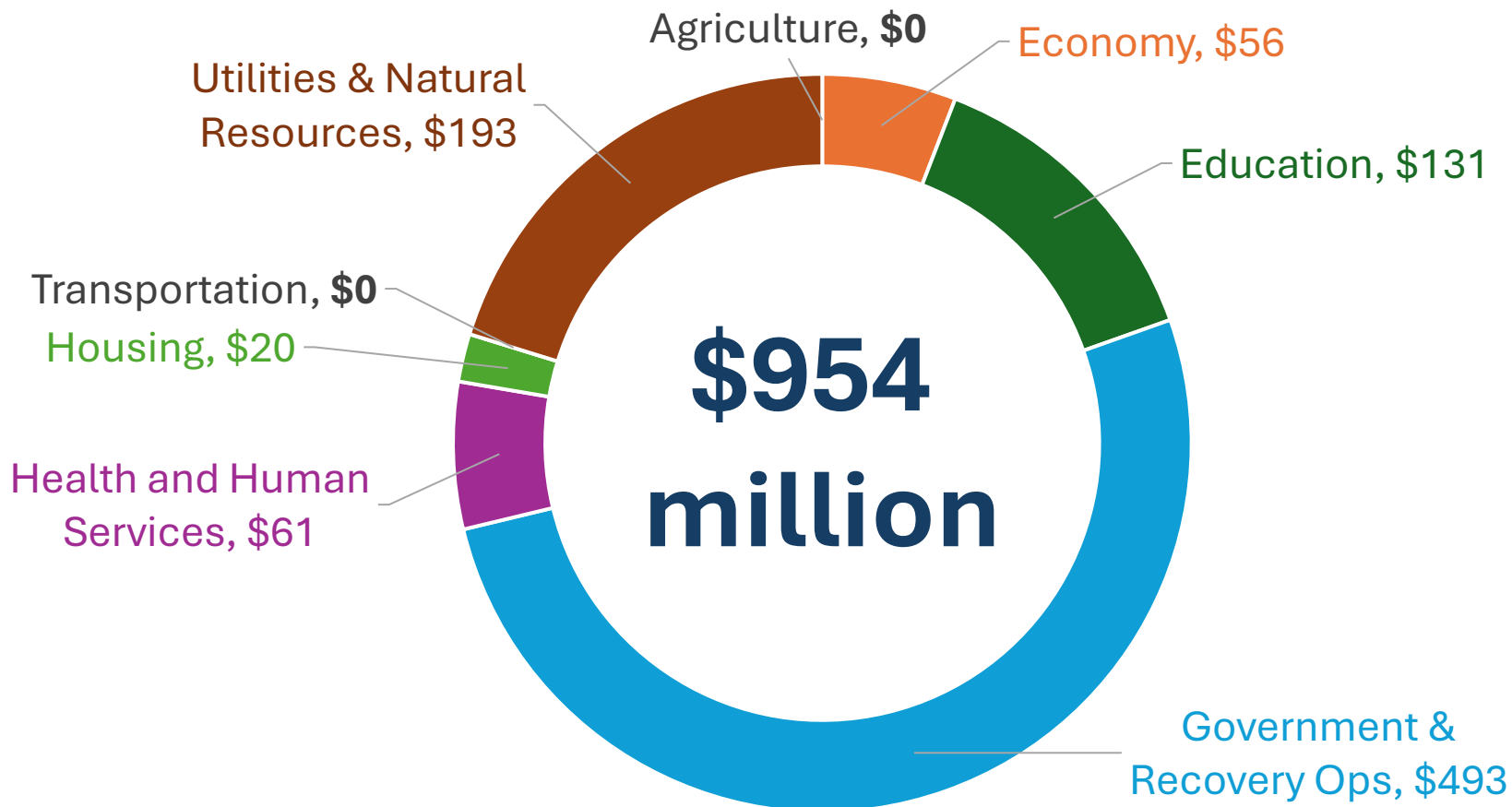
Total damage and needs	\$53.6	
Expected private and other funding	\$6.3	12%
Federal Funding Request	\$25.6	48%
Governor State Funding Recommendation (10/23/24)	\$3.9	7%
Unfunded damage and needs	\$17.8	33%

\$17.8 billion

Estimated unfunded portion of damages and needs, even if all recommendations and requests are funded



What has been funded by the state so far...





What has been funded by the state so far...

\$954 million

More than a third to match federal funds

- \$335 million to match federal disaster assistance

About a third is for loans

- \$50 million for small business loans
- \$159 million loans to local water/wastewater systems
- \$22 million loans for underground storage tanks
- \$100 million cash flow loans to local governments



Additional Funds for Local Government Assistance



\$50 million for unmet needs for state and local government, not covered by insurance or federal aid



\$7.5 million grants for local government associations' technical assistance programs



\$7 million DEQ technical assistance to local government



\$12 million DHHS support for local health departments



Comparison to Past Major Hurricane Response

Hurricane Florence

- By 3 months after landfall state funded **\$755 million**, about **4.4% of total** damages & needs
- Federal funding totaled **\$2.8 billion**, about 16% of total damages & needs.
- Ultimately, the state contributed 26% of government-funded recovery
- *Savings Reserve balance at the time \$2 billion*

Hurricane Helene

- By 3 months after landfall state funded **\$954 million**, about **1.8% of total** damages and needs
- Federal funding TBD
- *Savings Reserve balance \$4.8 billion, total unappropriated in reserves is \$9 billion*

Helene Expenditures Reporting Requirements

1. Notify OSBM & FRD of federal disaster assistance awards (grants)
2. OSBM to report quarterly on state *and* federal disaster funds
3. Follow Division of Emergency Management instructions on costs

Operating Cost

- New NCFS project
- Request OSC assign a Helene Descriptive Flex Field (DFF)
- Universities use a new program with UH00024 as identifier

Capital expenditures

- Use separate budget funds to track expenditures related to Helene

Staff time costs

- Track staff time reimbursable by FEMA



What's Next...




Certifying
SL 2024-55



Federal Disaster
Funds



**FY 2025-27
BUDGET**



FY 2025-27 Budget Development

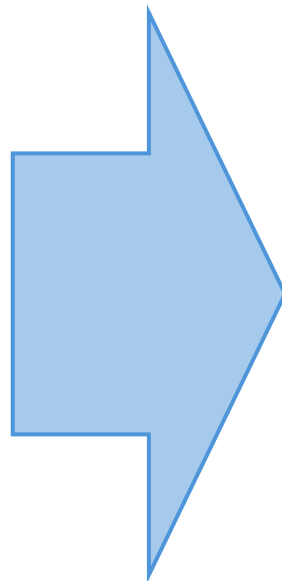
- Base Budget
- Change Budget
- Revenue Forecast
- New administration priorities



FY 2025-27 Budget Development Status

Base Budget

- Biennial opportunity
- This becomes the starting point for changes
- Represents most of budget



Change Budget

- **Dec 6** Justification Documentation Forms (JDF); IT Requests surveys; and Capital ABC lists
- **Jan 17** - Final WK-II, WK-III and Special Provision forms due
- **Feb 17** Final Special Provision language due

Continued emphasis on evidence in budgeting



JDFs and Evidence in budget requests

JDF Basic Structure:

- Basics of ask
- The Logic Model
- Evidence Scale rating
- Justification for Evidence Scale rating
- Plans and resource needs (if any) for future evaluation

Justification Documentation Form (JDF)

Instructions

- Complete this JDF to *describe* and *support* each budget request. Do not paste your responses into IBIS; just attach each JDF to its corresponding Worksheet-II (WS-II).
- OSBM recommends that budget offices delegate the JDF to staff who are most familiar with the program or policy related to the budget request. Program staff are usually in the best position to complete the JDF—especially the questions related to outputs, outcomes, and evidence—and this division of labor will reduce the burden on budget staff. Budget staff should review all form fields for completeness and to ensure accuracy of the information provided.

- Priority Rank of Request:**
To be completed by agency leadership upon review of all departmental JDFs.
- Title of Request:**
- Name of Individual(s) who Completed the JDF**
Who are the best contacts for questions about this JDF outside of the budget office, including for OSBM to contact if a consultation is requested (per Questions 8, 9, and 11)? OSBM will include the budget office on all communications involving budget requests.

Name:	Name:
Agency:	Agency:
Title:	Title:
Email:	Email:
- Funding and FTE Requested**

	FY2025-26		FY2026-27	
	Recurring	Nonrecurring	Recurring	Nonrecurring
Requirements				
Receipts				
Net Appropriation				
FTE				
- Request summary**
Summarize your request in three to five sentences, including information on the specific activities, functions, and services (if any) that will be provided if this request is funded.
- Does this request require an IT survey?**
See the IT Survey Job Aid to determine if an IT survey is required.
 Yes No

1

to address? What happens if this request is not funded?

(e.g. # trainings delivered, # people served, miles of driver if this request is funded?)

in a result(s) relative to if the request was not funded (e.g. unemployment, 10% less peak traffic congestion) does

What methods do you currently rely on to evaluate this

expenses) required to deploy the service or

vice or initiative.

qualitative methods that ask people about their

over time (e.g. monthly or quarterly reports of reports, park admissions, medical claims, etc.).

ric methods.

zed control trial (RCT).

someone from OSBM contact me to discuss.

2

It supports why the request, if

d, or promising – which will be most

ding to evaluate.

M contact me to discuss.

Supporting documentation
"theory-based" is selected, please

paper that best describes the

neone from OSBM may reach out to

service (select all that apply)?

ired to deploy the service or

ethods that ask people about

monthly or quarterly reports of

sions, medical claims, etc.).

(RCT).

M contact me to discuss

Describe your evaluation plans.

ession of the key assumptions driving

rogram or service, if applicable.

3



JDFs and Evidence in budget requests



Justification Documentation Form (JDF)

Instructions

- Complete this JDF to describe the request in detail. Attach each JDF to the request in IBIS; just attach each JDF to the request.
- OSBM recommends that program or policy related requests complete the JDF—respecting the division of labor will reduce duplication and ensure completeness and to ensure the request is well-documented.

1. Priority Rank of Request:
To be completed by agency.

2. Title of Request:

3. Name of Individual(s) who are the best contacts for this request. Contact if a consultation is needed. Communications involving this request should be directed to the contact.

Name:
Agency:
Title:
Email:

4. Funding and FTE Request:

Requirements
Receipts
Net Appropriation
FTE

5. Request summary

Summarize your request in 100 words or less. Include the program and services (if any) that will be impacted.

6. Does this request require a JDF?

See the IT Survey Job Aid to determine if a JDF is required.
 Yes No



7. Problem or opportunity

What problem or opportunity does this request seek to address? What happens if this request is not funded?



11. Level of supporting evidence for request

Based on the [North Carolina Evidence Scale](#), rate the level of evidence that supports why the request, if funded, will achieve the expected outcomes. If mixed effects, theory-based, or promising – which will be most programs and services – then strongly consider including a request for funding to evaluate.

11. Level of supporting evidence for request

Based on the [North Carolina Evidence Scale](#), rate the level of evidence that supports why the request, if funded, will achieve the expected outcomes. If mixed effects, theory-based, or promising – which will be most programs and services – then strongly consider including a request for funding to evaluate.

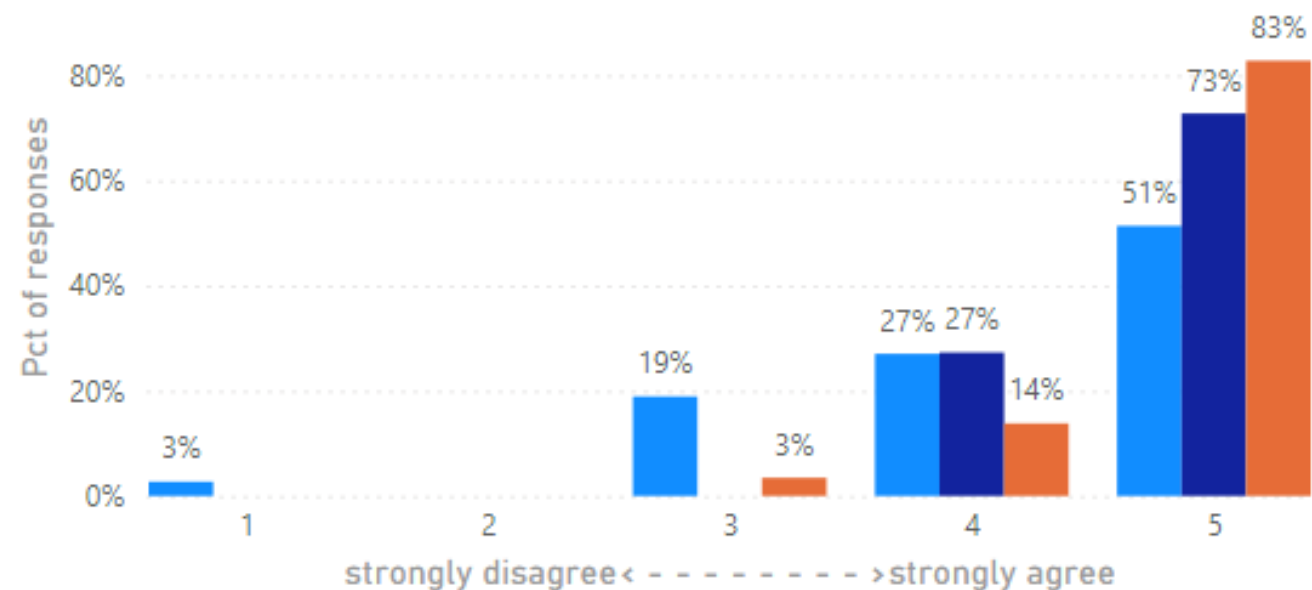
- Proven Effective
- Promising
- Theory-based
- Mixed Effects
- No Effect
- Proven Harmful
- I am not sure how to answer. Please have someone from OSBM contact me to discuss.



Increasing capacity to use evidence through training

I'm glad I attended

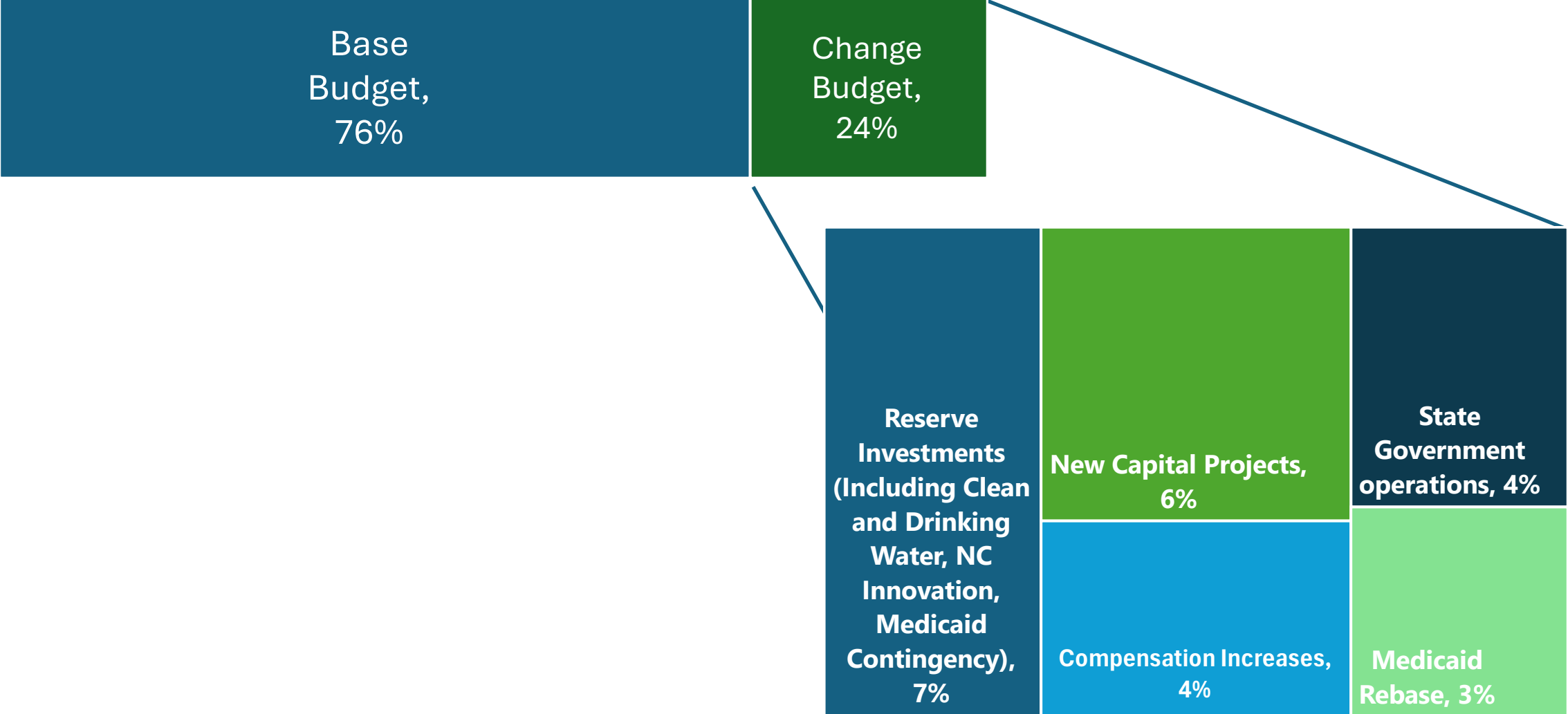
Training Date ● September 25 ● October 9 ● October 15



High satisfaction among approx. 250 state employees who attended Evidence Trainings in 2024



FY 2024-25 Expenditures: Base Budget vs. Change Budget



Polling Question

Transitions



2025 Leadership Changes

Gubernatorial Transition

- Transition team announced

7 out of 10 Council of State leaders will be new

In Coming Months

- Appointments of new leadership after inauguration/swearing in
- First budget of new administration in March

“State Government: It’s all about the budget.”

Fred Klass, former Chief Operating Officer,
California Department of Finance

From the National Association of State Budget Officers (NASBO) guide, “Gubernatorial Transitions & the State Budget”

Transition tip #1

*“Do your homework on
your new leader”*

Douglas Holbrook, Acting CFO, NC
Department of Environmental
Quality

Transition tip #2

Help leadership understand agency budget

- Connect the budget to the agency strategic mission & plan
- Funding sources
- Cost drivers
- Budget risks
- Evidence behind programs

Transition tip #3

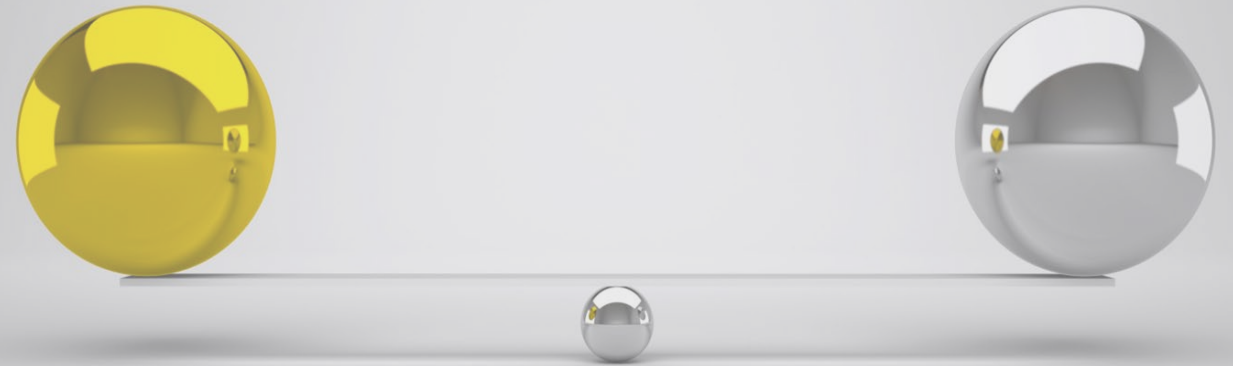
The Budget drives the agenda

“The first budget of a Governor is an opportunity to articulate and signal the most important goals and to set a path for consideration of a Governor’s plans by the legislature.”

NASBO Guide to Gubernatorial Transitions

Prepare your people

Transition tip #4



Change is
coming...

*People don't
like change*

Polling Question



Stay in Touch

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