



State Budget Update

Kristin Walker

December 9, 2025

Agenda

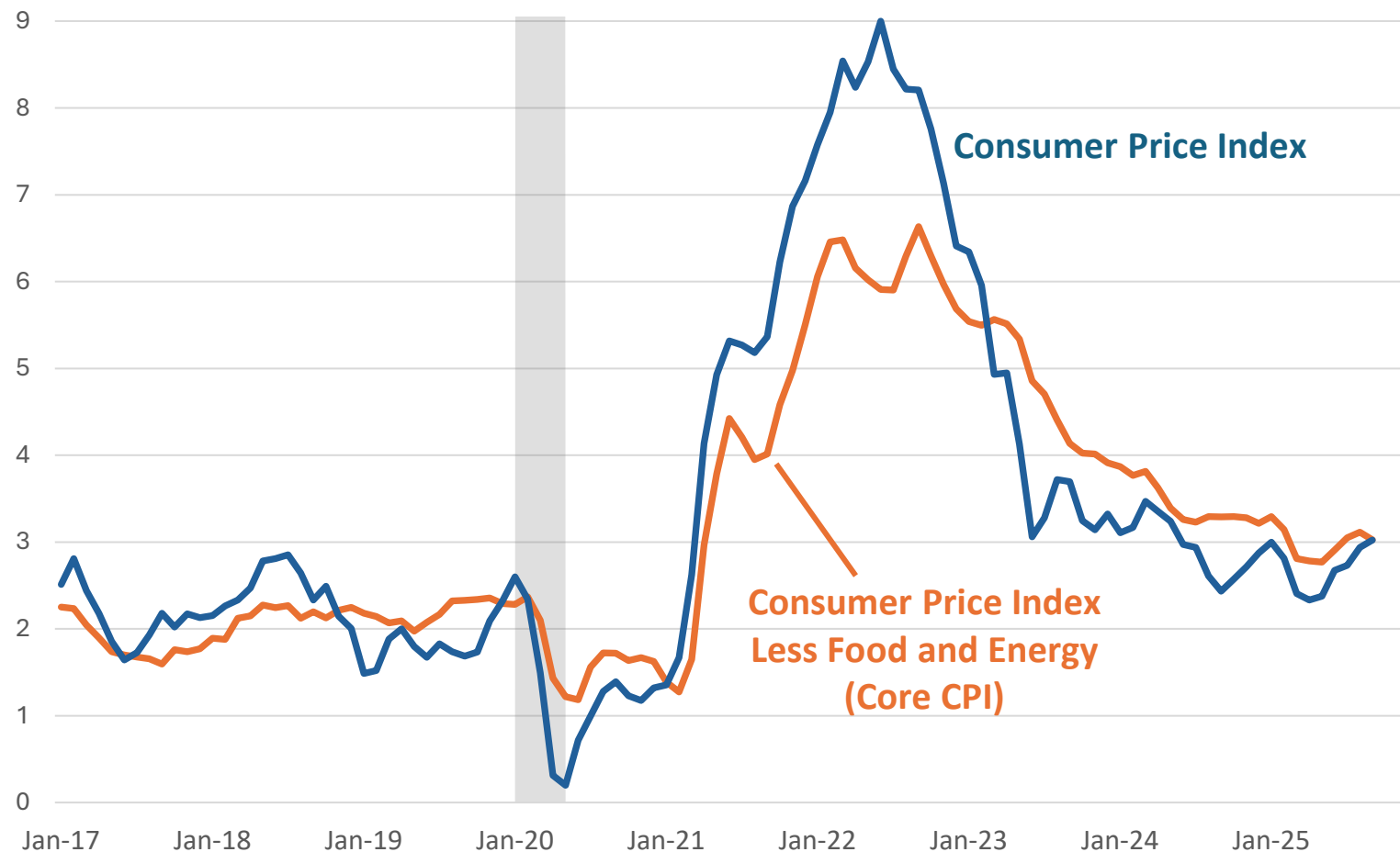
- Economic & Demographic Trends
- The Current Budget
- Revenues
- Federal Funds
- News & Events
- Q&A

Economic Trends



Inflation Down From Peak But Still Elevated

Consumer Price Index; Consumer Price Index Less Food and Energy (Core CPI); Percent Change from Previous Year



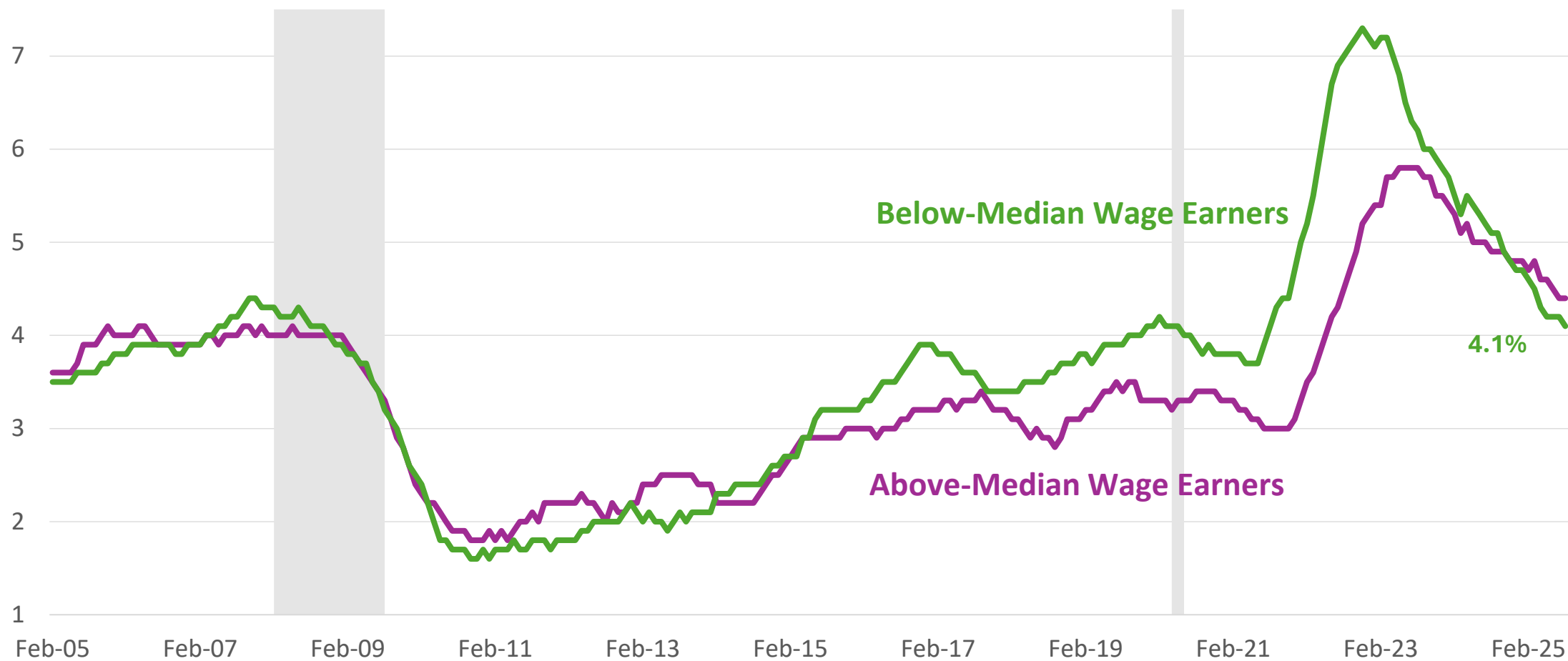
- Full CPI and core CPI both up 3.0% over 12 months
- Fed expects inflation not to return to 2% until 2027

Source: Bureau of Labor Statistics, accessed via Federal Reserve Economic Data (FRED); Shaded area indicates recession



Wage Growth Decelerating

12-Month Moving Average of Median Wage Growth, in Percent, By Wage Level

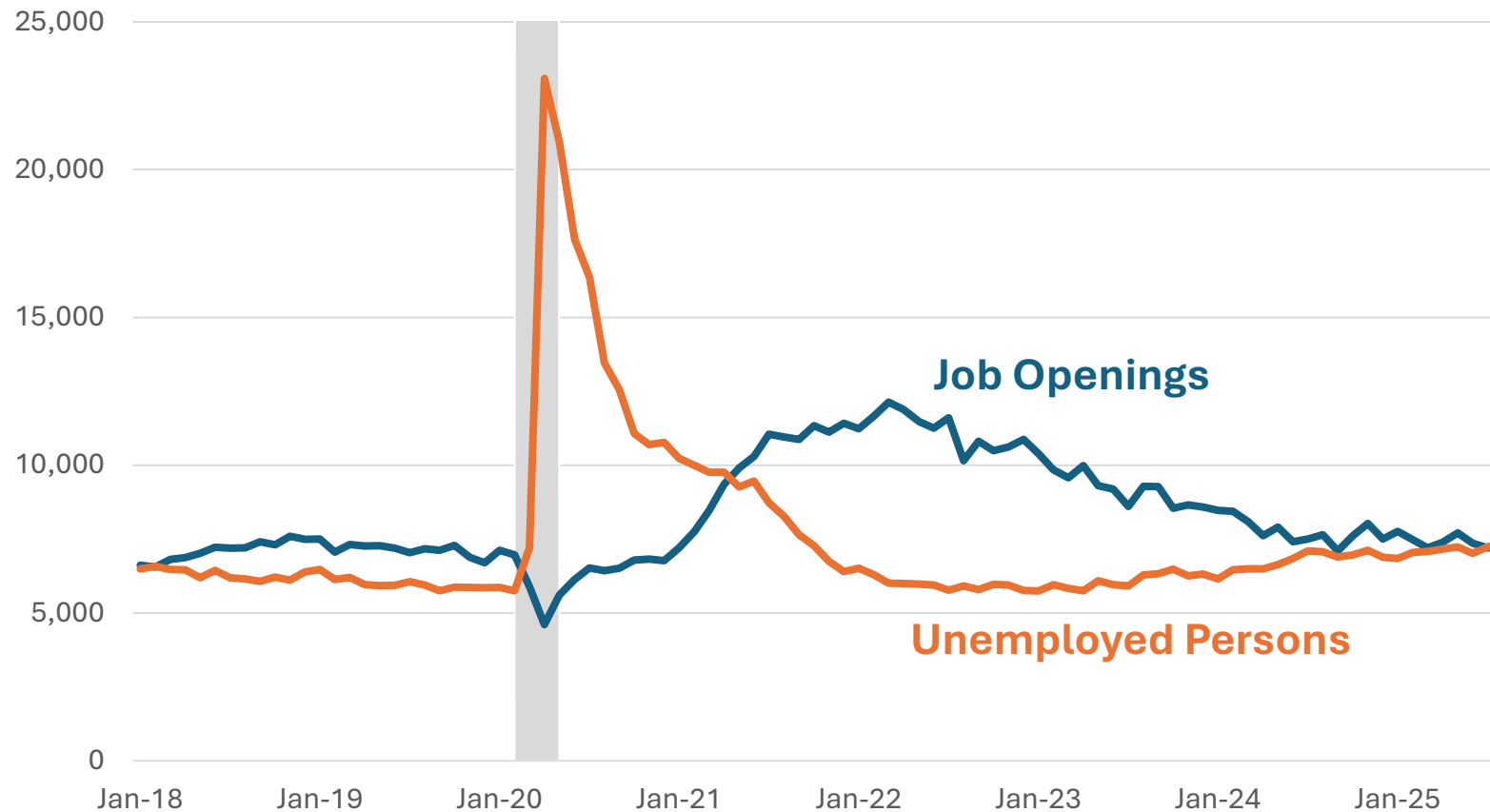


Source: Atlanta Federal Reserve Wage Tracker, Current Population Survey



Labor Market Stagnation

Job Openings Per Unemployed Person Have Been Declining Since 2022
(In Thousands)



- Job openings down; Unemployment up
- Hiring rate lowest level since 2013 – most noticeable among smaller businesses

Source: The U.S. Bureau of Labor Statistics

Trends to Watch

- **Low consumer sentiment and confidence**
- Rising **burden of costs** for housing, food, transportation, and other necessities
- Consumer spending rising among wealthiest; stagnant or falling for others

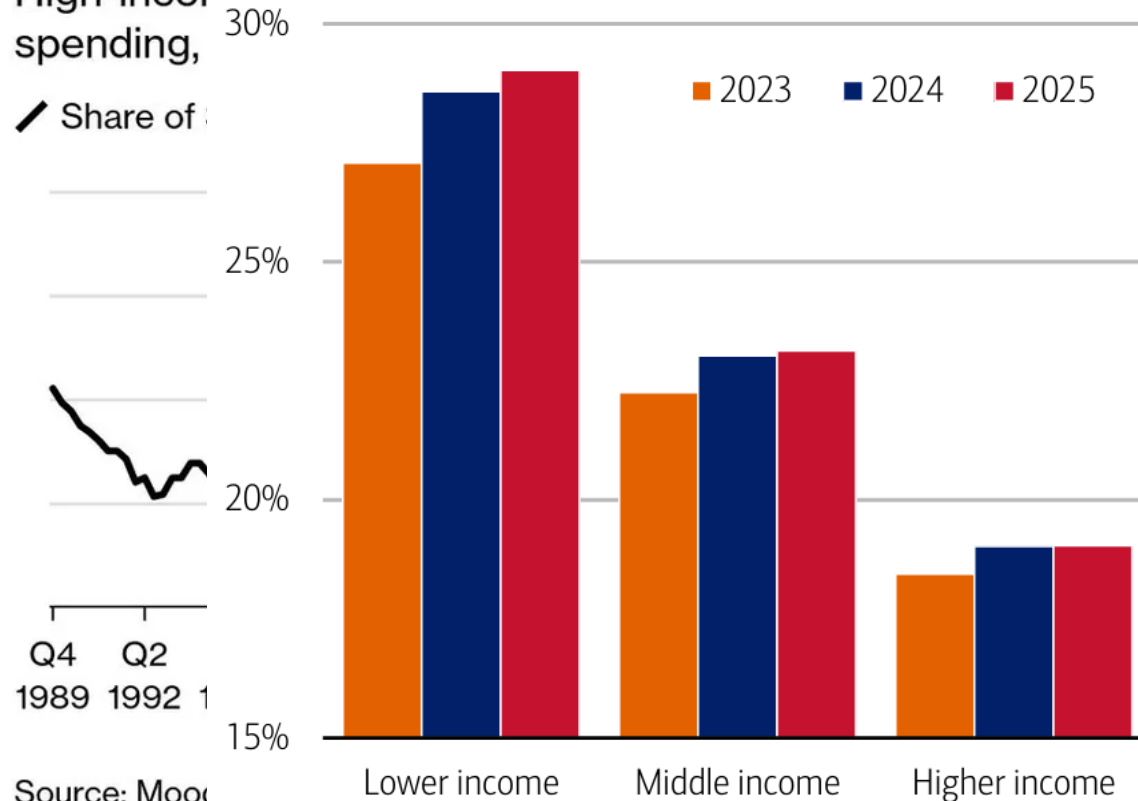
Lower-income households have the highest share and largest increase of households living paycheck to paycheck

Proportion of households where necessity spending is above 95% of their income, by income range (% , yearly)

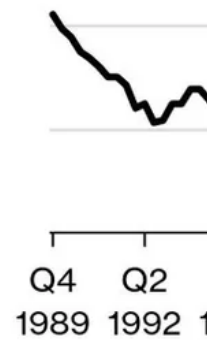
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High-income spending,

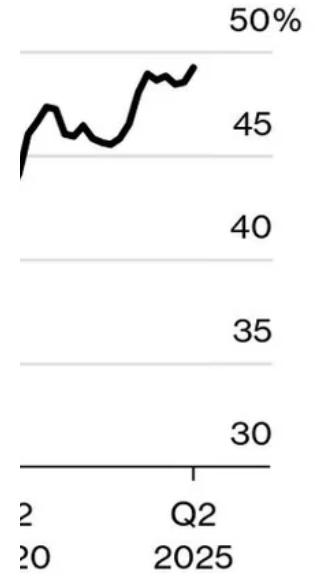
Share of



sumer



Source: Moor



Bloomberg

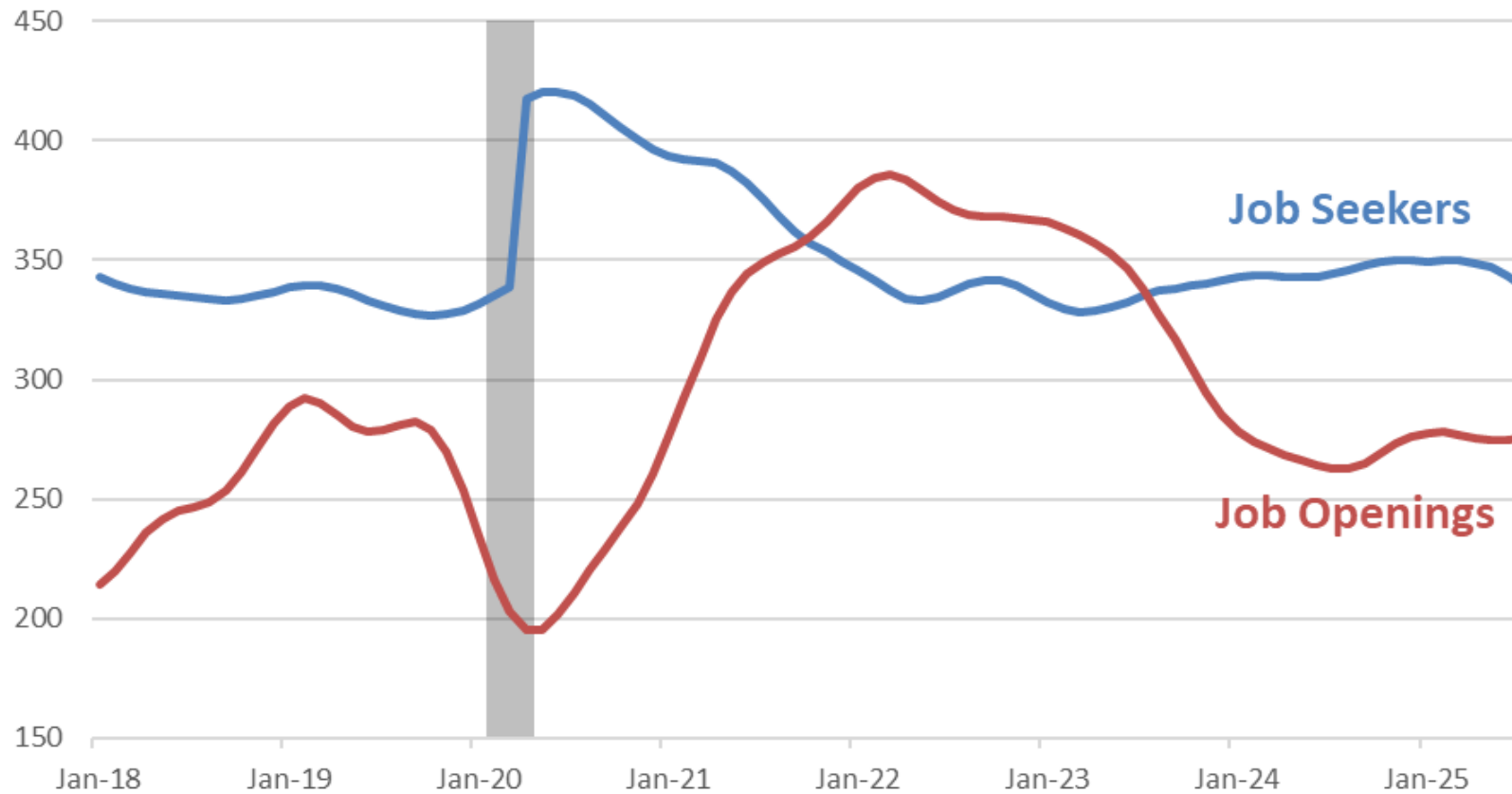
Source: Bank of America internal data. Data is through the third quarter of every year.

BANK OF AMERICA INSTITUTE



North Carolina - Labor Market Mirrors U.S. Trends

North Carolina Job Openings vs. Job Seekers *(in thousands)*



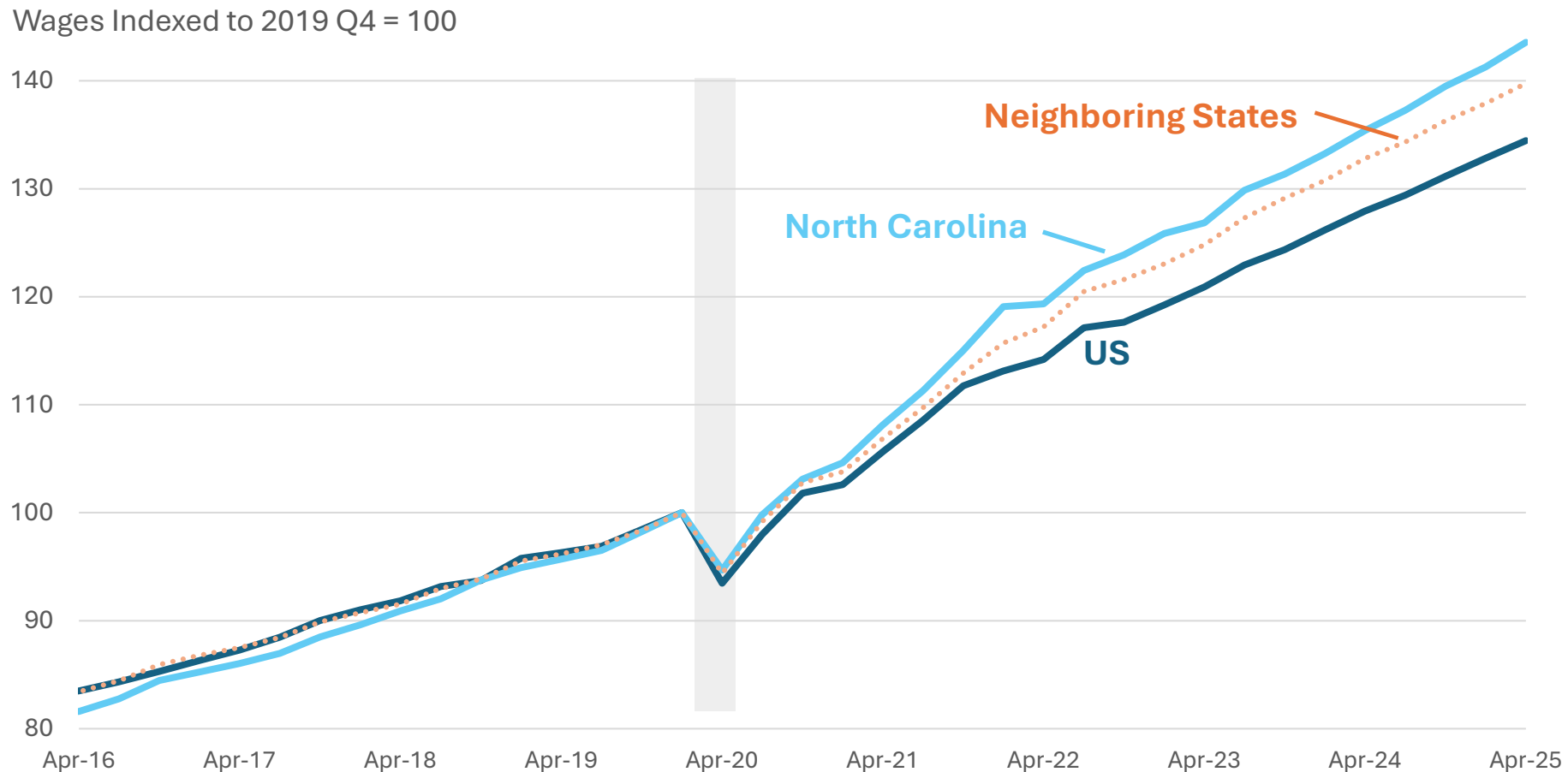
Source: NC Department of Commerce - LEAD



NC Wage Growth Outpacing Rest of U.S.

Strong wage growth has boosted income and sales tax collections

NC wage growth outpaces nation since the early pandemic

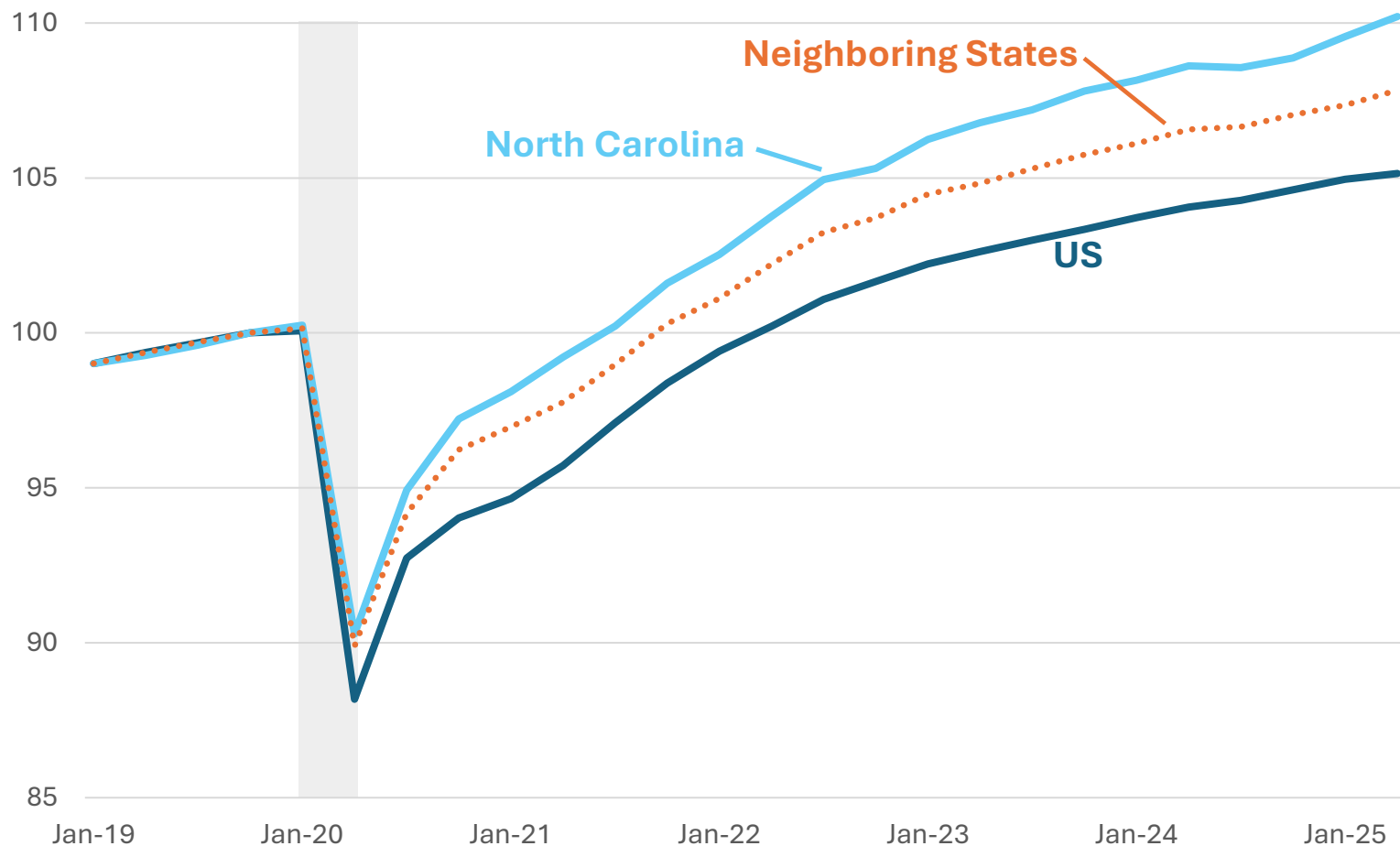


Source: Bureau of Labor Statistics



NC Employment Growth Also Outpacing Rest of U.S.

Total Nonfarm Employment from 2019Q4



NC employment growth outpacing the US and neighboring states

- Smaller job losses in pandemic vs. US
- Faster recovery from initial shutdown
- More robust job gains since pandemic



NC is attracting investment

- 33,000 new jobs, \$23B announced investment in 2025
- Technology, cloud computing, manufacturing, finance

Job growth positive but slowing

- Preliminary data show NC jobs up 1.6% over 12 months as of August but likely to be revised down
- Unemployment remains low at **3.7%** (August 2025)

Workforce

- Working age population growing slower as baby boomers retire
- Wage growth slowing, but outpacing national average

Why Does This Matter?



Incomes and Consumer Spending Drive State Revenue

Personal income tax accounts for **half** of state General Fund revenues

Sales tax accounts for **a third**

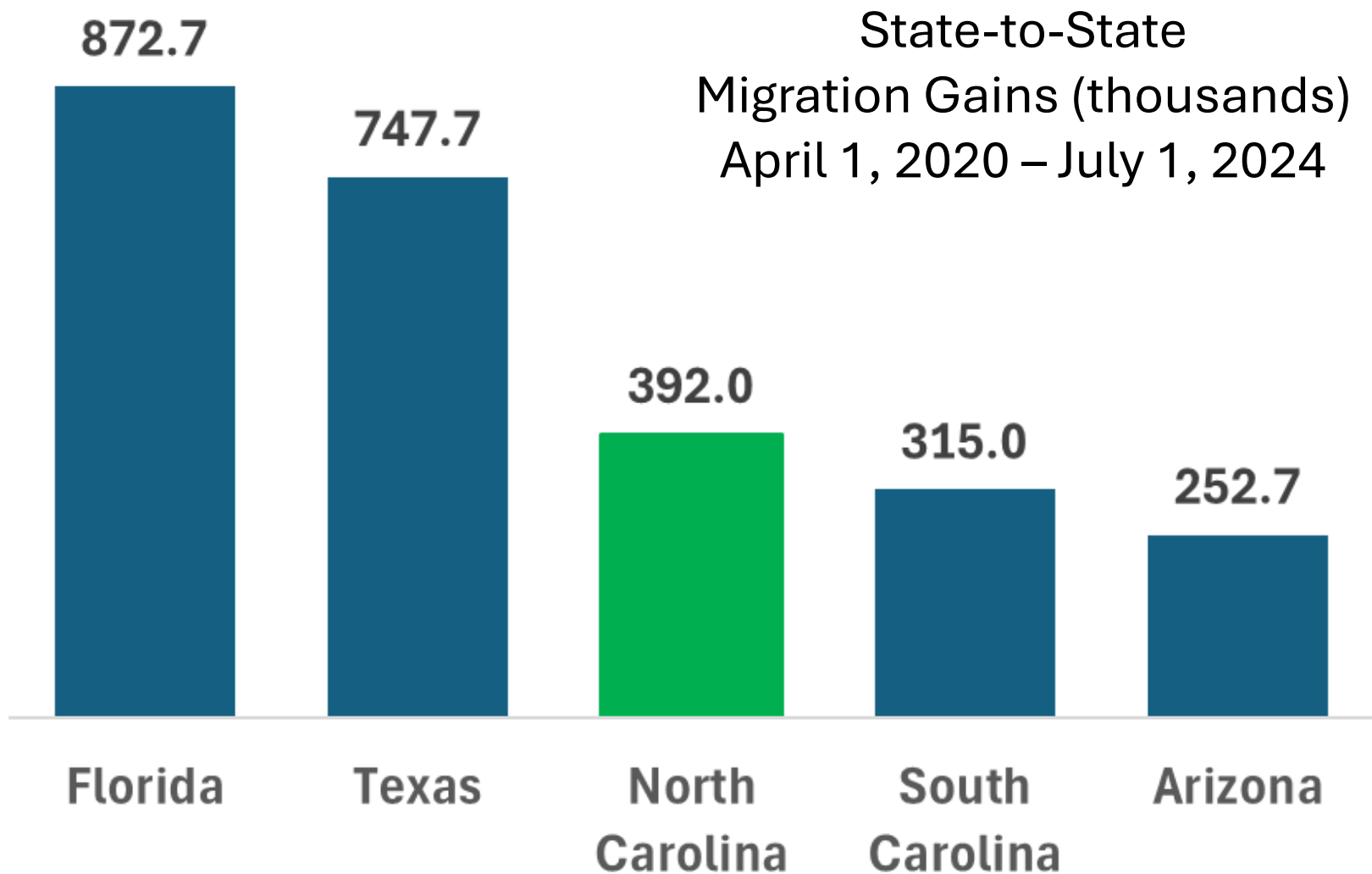


FY 2024-25 General Fund Revenue: \$34.6 billion

Demographic Trends



NC On Track to Become 7th Largest State



Since 2020

- 3rd largest population gain (+605k)
- 3rd largest net migration gain (+573k)
- 3rd largest domestic net migration gain (+392k)



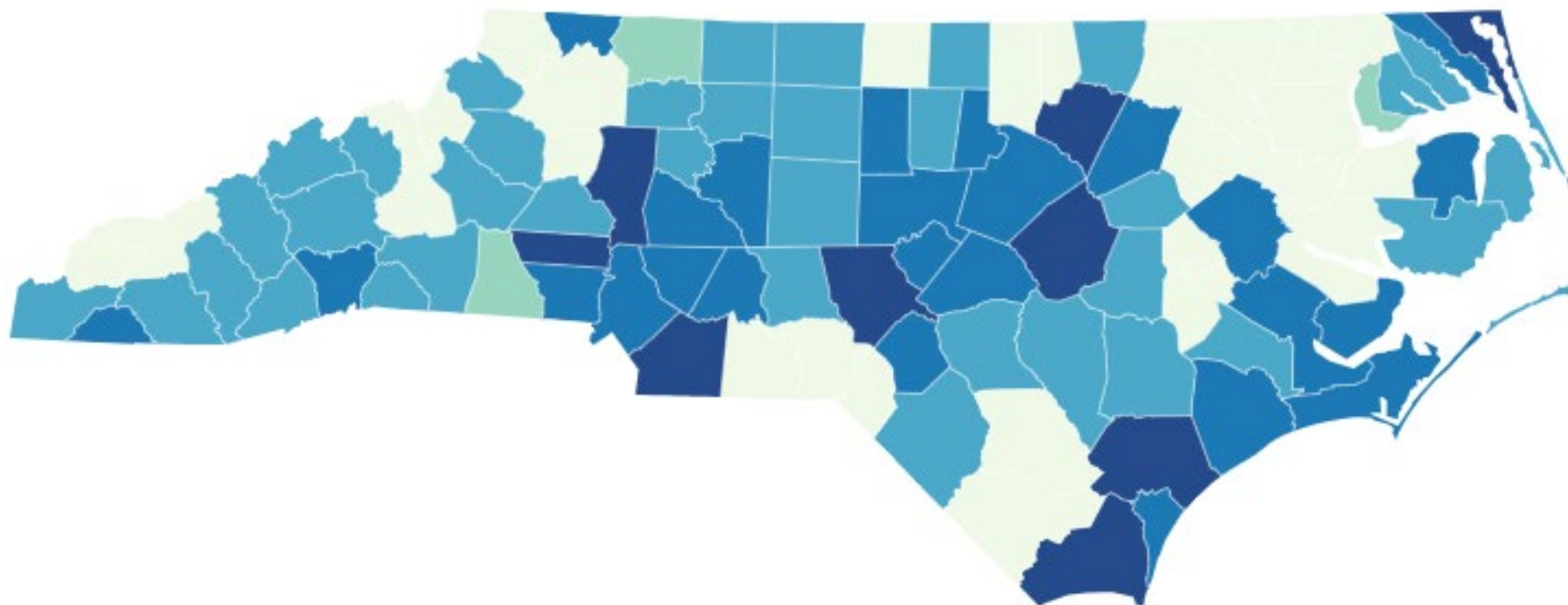
70 out of 100 Counties Gained Population

Population Percent Change, 2020 - 2024

Change from April 1, 2020 - July 1, 2024

Percent Change

< 0 0-1 1-5 5-10 ≥ 10



Map prepared by NC OSBM.

Source: NC OSBM, Population Estimates, Vintage 2024 • [Get the data](#) • Created with [Datawrapper](#)

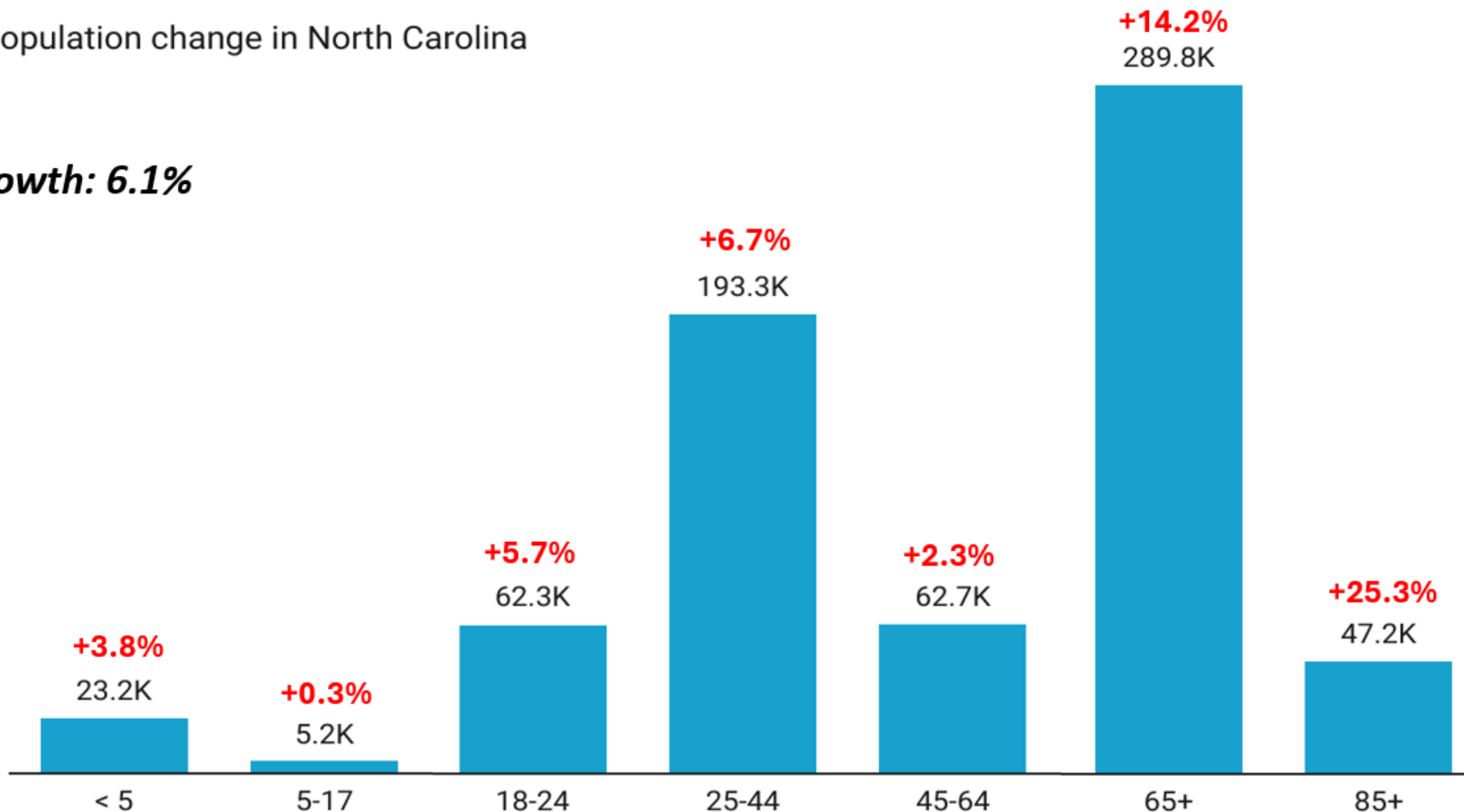


NC Population is Changing

Change by Age Group, 2025-30

Projected population change in North Carolina

Total growth: 6.1%

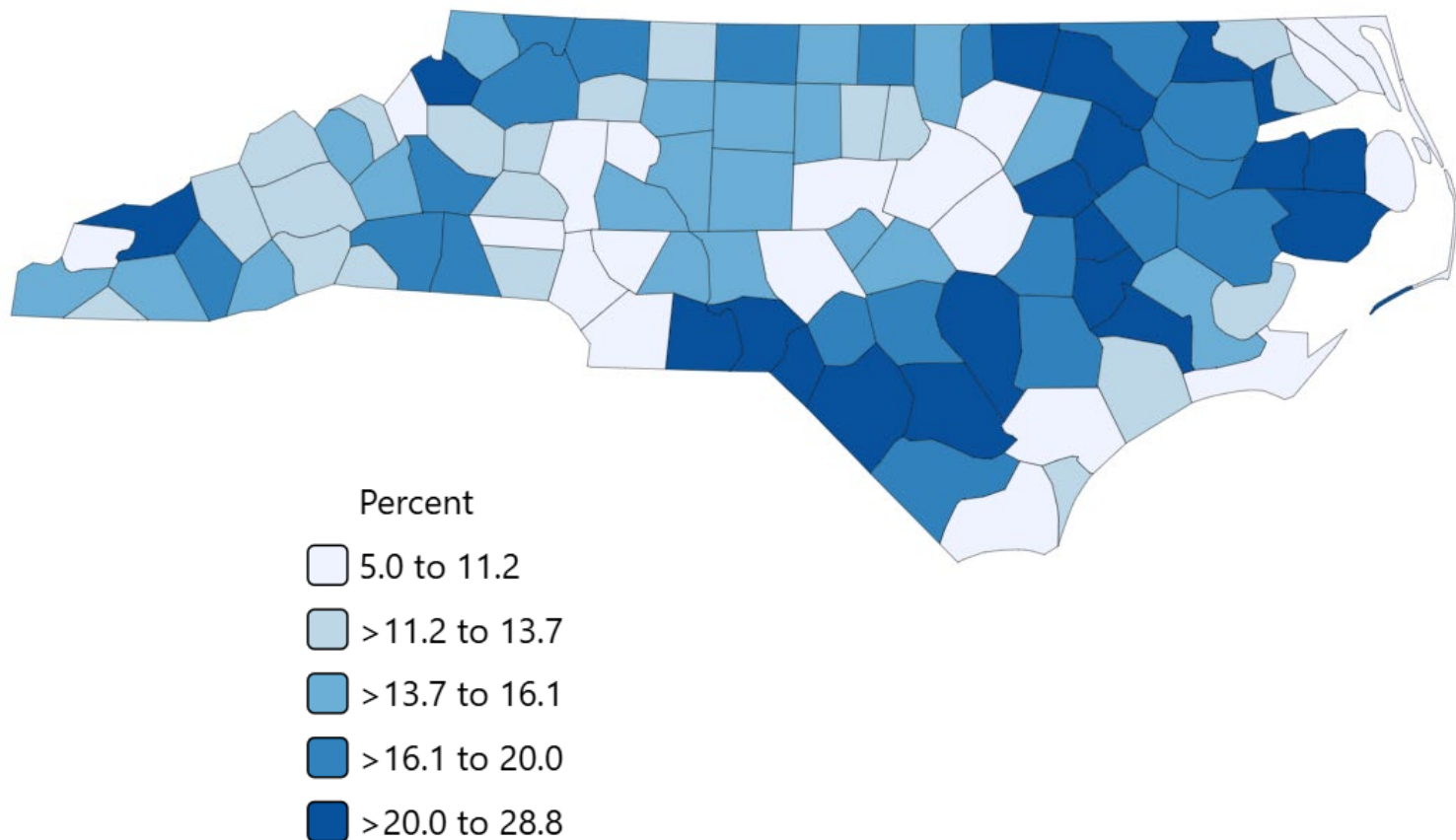


Source: NC OSBM, Population Projections, Vintage 2024 • Created with Datawrapper



Poverty Remains High in Many Eastern, Sandhills Counties

Persons in Poverty By County, 2019-2023 Average



Highest poverty in **rural counties** in eastern and southern NC

Scotland, Robeson, and Halifax counties among highest-poverty counties, with rates exceeding 25%

Lowest-poverty areas include the eastern Triangle, Charlotte metro, and coastal communities

Source: 2023 American Community Survey, Five-Year Estimates



Migration Drives Population Growth in NC

In 2024, **92%** of NC population increase due to migration

- 50% domestic
- 42% international

Looking ahead



Natural population
decrease (deaths > births)
to begin in early 2030s



CBO demographic outlook
now anticipates **lower net
immigration**

Source: Congressional Budget Office

Why Does This Matter?



Population Impacts Economic Activity & Service Needs

1

State services
shift as residents
age

2

Needs vary by
region

3

Growth depends
on attracting
people to move to
NC

Polling Question

Current Budget



No 2025-27 Appropriations Act

1

NC is only state without a state budget for current year

4

of biennia we've started without a new budget since the continuing resolution was put in statute

2

+ years since the NCGA passed a comprehensive budget bill



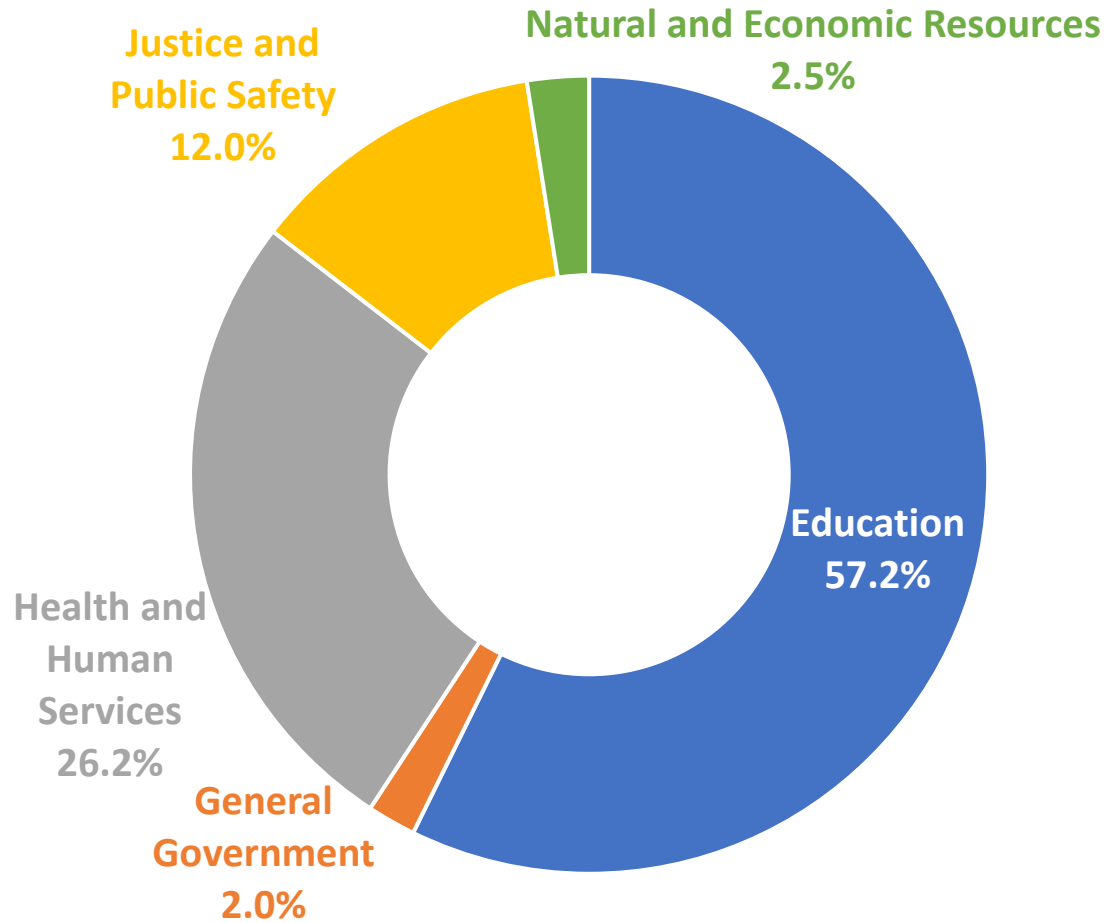
Continuing Budget Authority

- State is operating under the Continuing Resolution (G.S. 143C-5-4) and various smaller appropriation bills:
 - SL 2025-26
 - SL 2025-89 – “Mini Budget 1”
 - SL 2025-91
 - SL 2025-92 – “Mini Budget 2”
 - SL 2025-93
 - SL 2025-97 – “Mini Budget 3”
- Unless specifically addressed in one of the above smaller appropriation bills – the Continuing Resolution holds

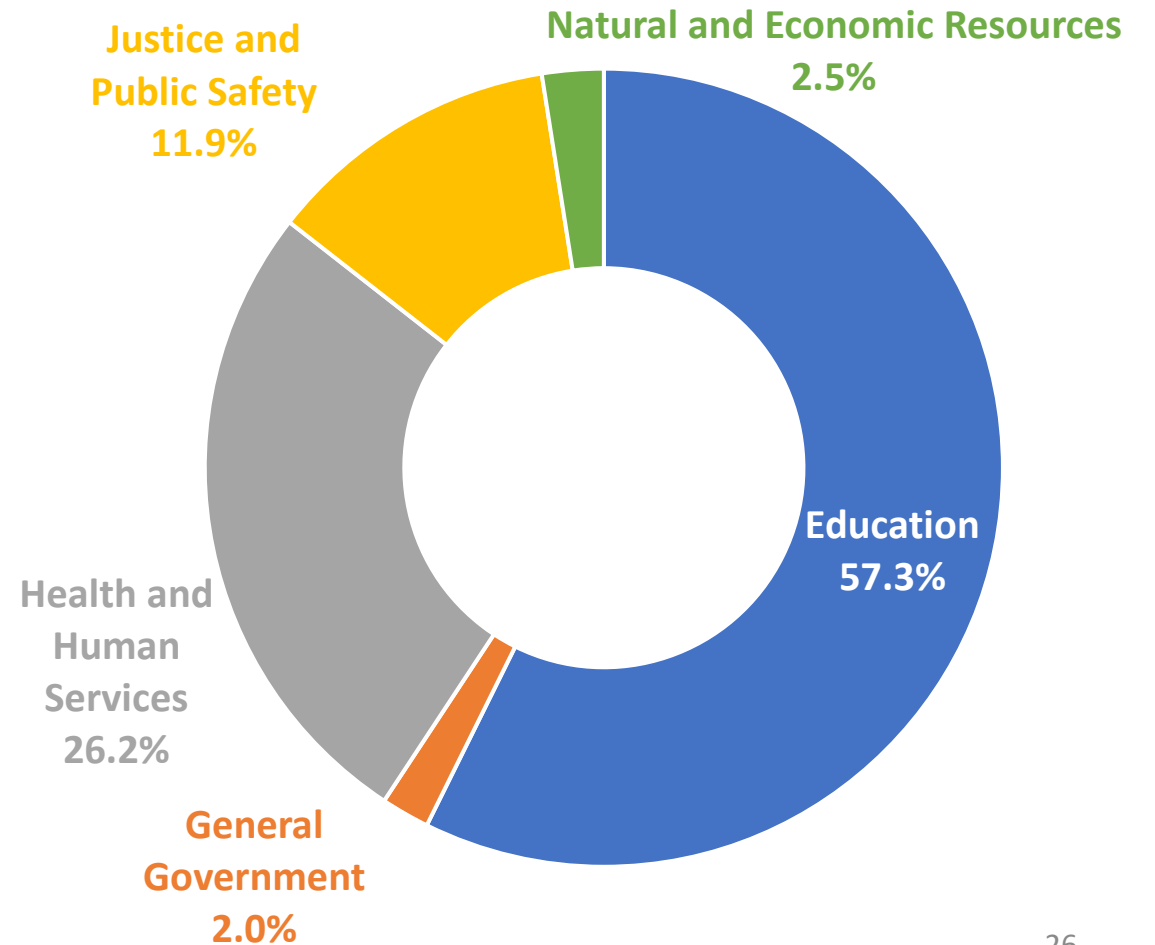


2025-27 Current Budget

FY 2025-26: \$31.9 Billion



FY 2026-27: \$32.0 Billion





2023-25 Budget vs 2025-27 Current Budget

FY 2023-24

\$29.8 B GF

+\$6.4 B Reserves

+\$2.5 B SCIF

\$38.7 B TOTAL

FY 2024-25

\$31.6 B GF

+\$4.1 B Reserves

+\$2.2 B SCIF

+\$1.4 B Helene Fund

\$39.3 B TOTAL

FY 2025-26

\$31.9 B GF

+\$0.5 B Reserves

+\$1.1 B SCIF

+\$0.5 B Helene Fund

\$34.0 B TOTAL

FY 2026-27

\$32.0 B GF

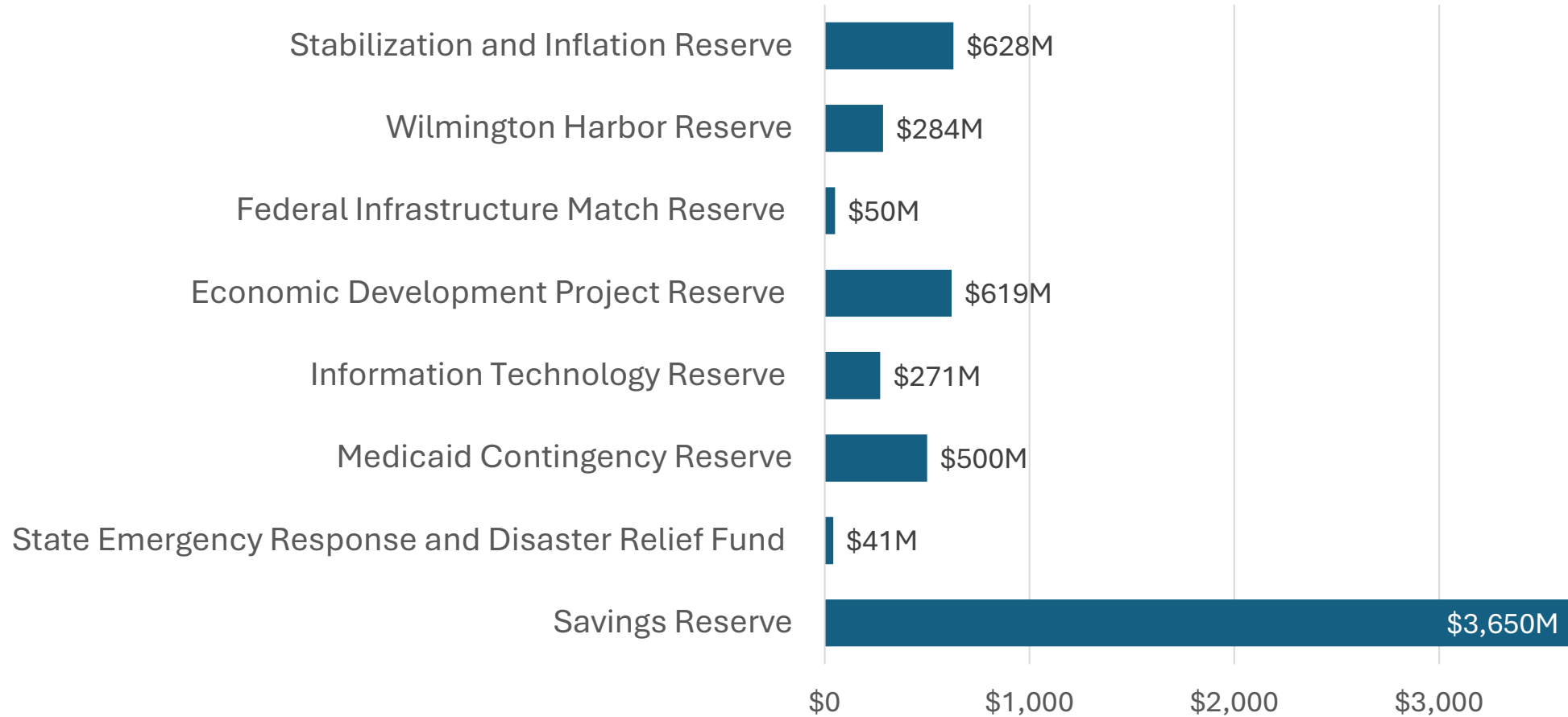
+\$0.004 B Reserves

+\$1.2 B SCIF

\$33.2 B TOTAL



Unappropriated Reserve Balance \$6 Billion

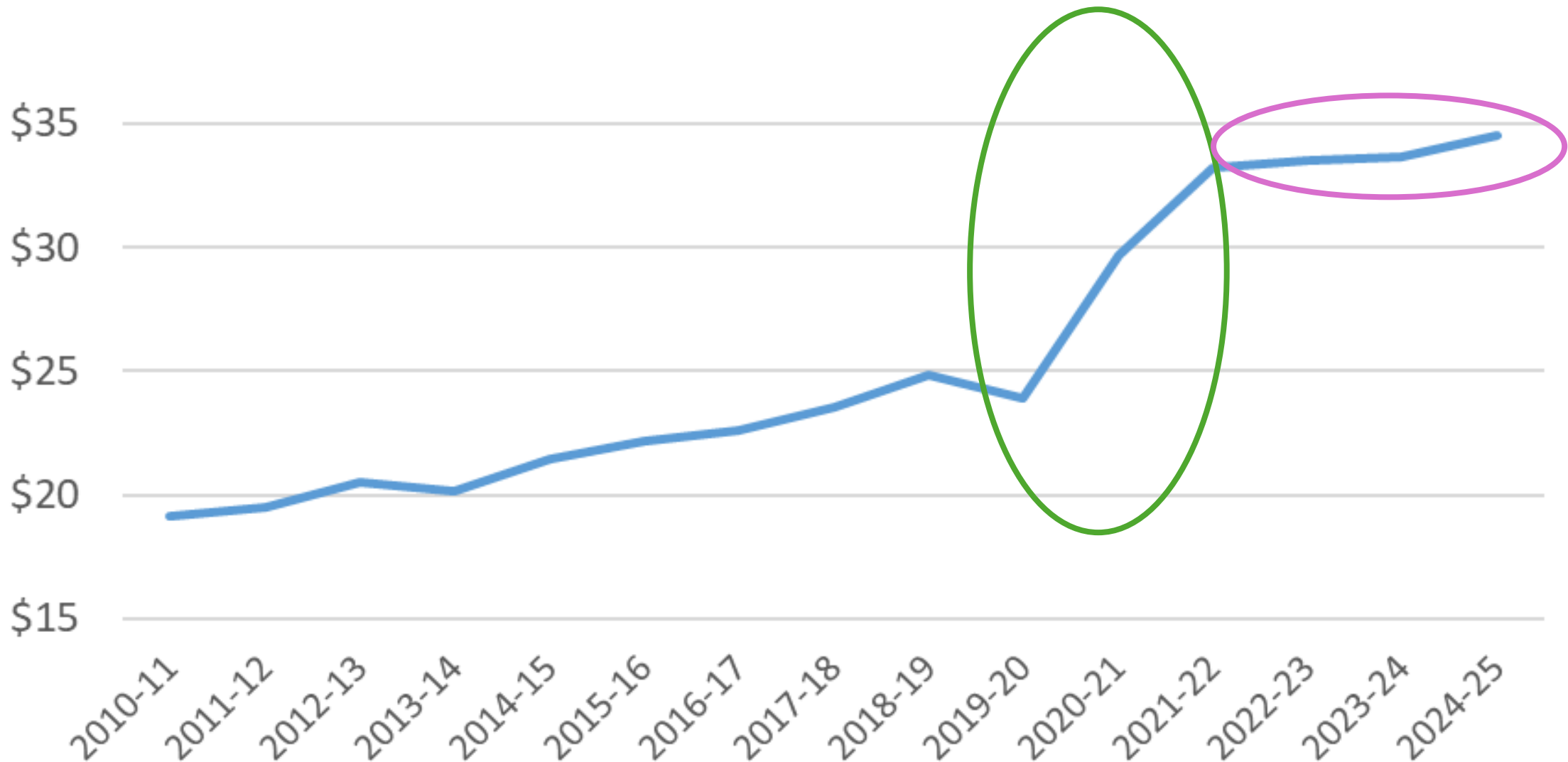


Reflects FY 2025-26 Appropriations in SL 2025-89, SL 2025-91, SL 2025-92, SL 2025-97

Revenue

Revenue Growth Has Plateaued

Actual General Fund Revenues, in Billions





FY 2025-27 State Revenue

Consensus Revenue Forecast (May 2025)

FY 2025-26 = \$34.6B

0.1% growth (+\$28M)

FY 2026-27 = \$33.8B

-2.5% growth (-\$828M)



FY 2025-26 Actual Revenue

FY 2025-26 collections running 2.7% above target through October

Revenue Factors



Franchise tax above target



Sales tax below target



Corporate income tax below target

Economic Drivers

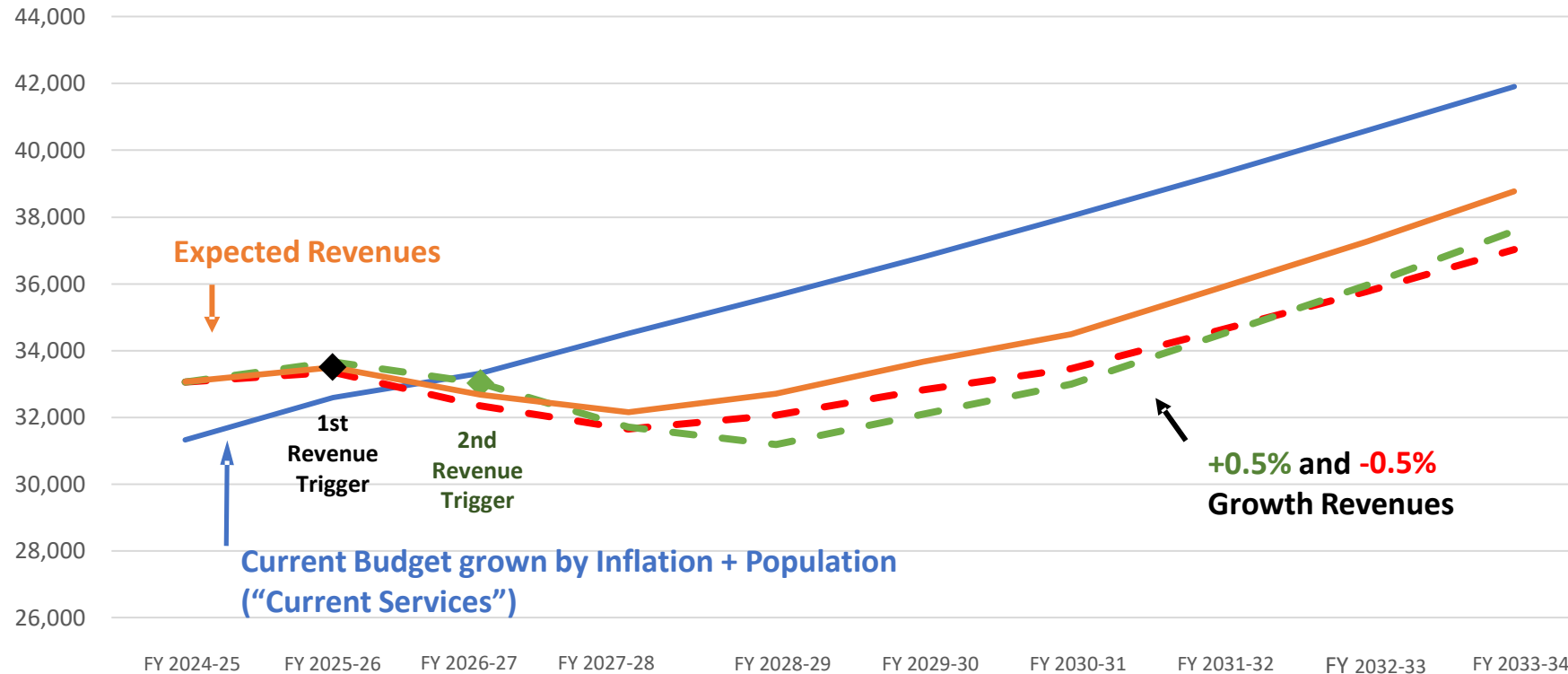
- Fueled by rising equity values
- Market value concentrated in a handful of companies
- Dependency on higher wealth taxpayers



Tax Cuts Despite Stable Economic Growth Lead to Shortfalls

Low and High Growth Scenario Revenues

Revenue and Expenditure Levels in Millions of Dollars



Projected budget gap ranges from **\$2.5B - \$4B** between FY 2027-28 and FY 2032-33

Why Does This Matter?



FY 2027-28 Structural Imbalance

\$2.5B is...

- Funding for nearly 29,000 teachers
- More than the entire annual budget of the Department of Adult Correction

In FY 2027-28

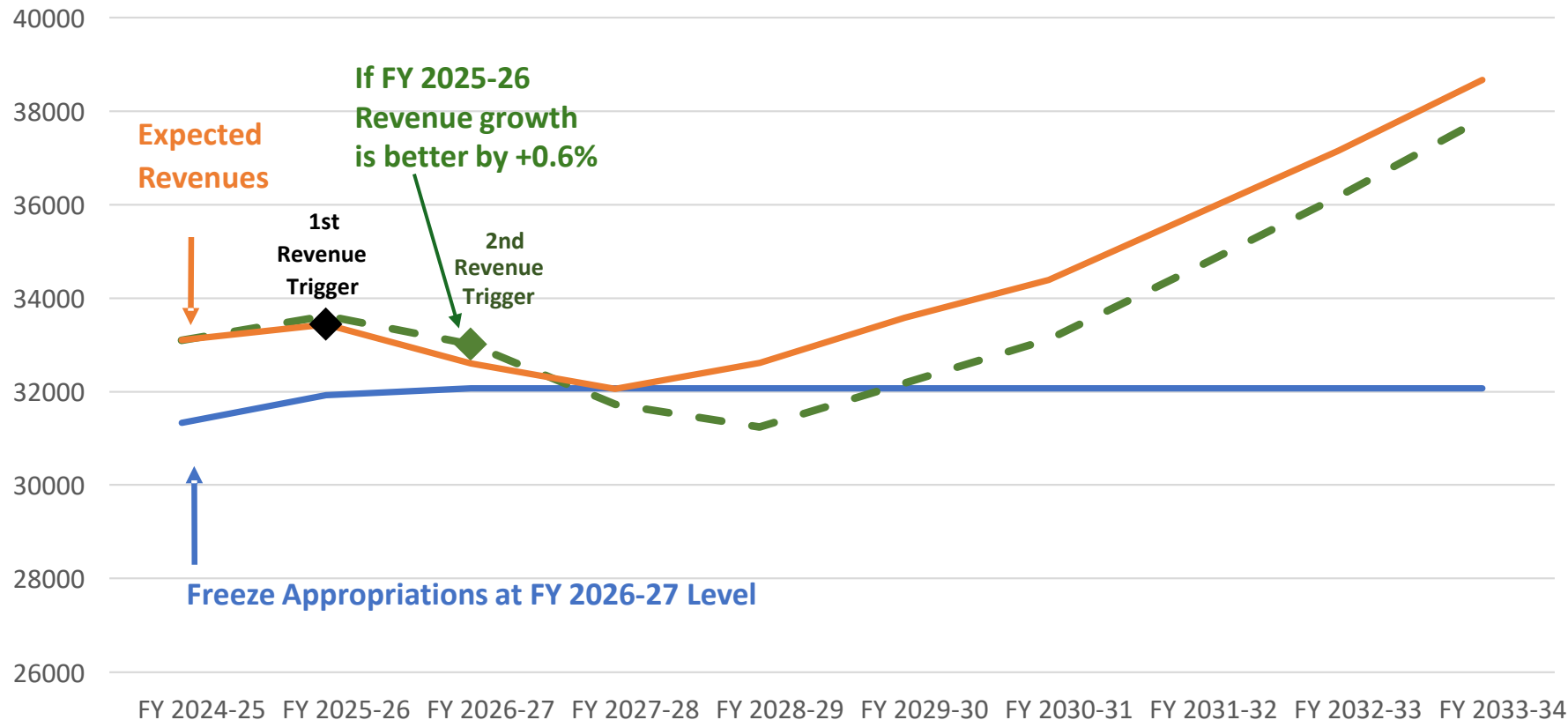
State revenues for the year will not be sufficient to sustain even the current budget with zero growth



If there were no inflation or population growth

Baseline and High Growth Scenario Revenues

Revenue and Expenditure Levels in Millions of Dollars



High revenue growth leads to even less revenue, driving revenues below even flat spending levels



Suppressing Spending vs Budget Cuts

Current funding is equivalent of a spending plan with no population growth, 0% inflation



Relying on continuing resolution forces non-targeted, across-the-board spending restriction



Creates a surplus to offset future spending and disguise the structural imbalance



Budget Imbalance Will Continue to Grow

Over the next 5 years the gap between revenue and cost to provide current services rises to 9%-12%, depending on income tax rate cuts

- Similar to gap during Great Recession
- Programs competing for a shrinking pot of funds
- “Recession budget” strategies
 - Across the board % cuts
 - 50% of the budget in FY 2045-25 was salaries & benefits
 - Cost shifting to receipts
 - Program elimination



Shift to Receipts in FY 2025-26

More than \$325M in Fund Shifts from General Fund (GF) to Receipts

- Reduced GF appropriations to *Public School Transportation* to be replaced by Education Lottery Funds (\$160.8M)
- Reduced GF appropriations to *Need Based Scholarships (UNC)* to be replaced by Escheats Funding (\$75M)
- Reduced GF appropriations to the *State Public School Fund* to be replaced by funds from the State Textbook Fund, Civil Fine and Forfeiture Fund, and Sales and Use Tax (\$61.3M)
- Reduced GF appropriations for *Classroom Materials/Instructional Supplies/Equipment* allotment (DPI) to be replaced by Indian Gaming Education Revenue (\$14.5M)
- Reduced GF appropriations for the *Child Care Subsidy Program (DHHS)* to be replaced by funds from the federal Temporary Assistance for Needy Families (TANF) block grant (\$8M)

Polling Question

Federal Funding



Federal Government Shutdown Threat Continues

Continuing Resolution (CR) extends funding to **January 30**

State to be reimbursed for some expenditures to cover federal programs

Some programs fully funded thru **Sept. 30, 2026** (excluded from January negotiations)

- SNAP, WIC, Child Nutrition Programs, VA Health and Benefits

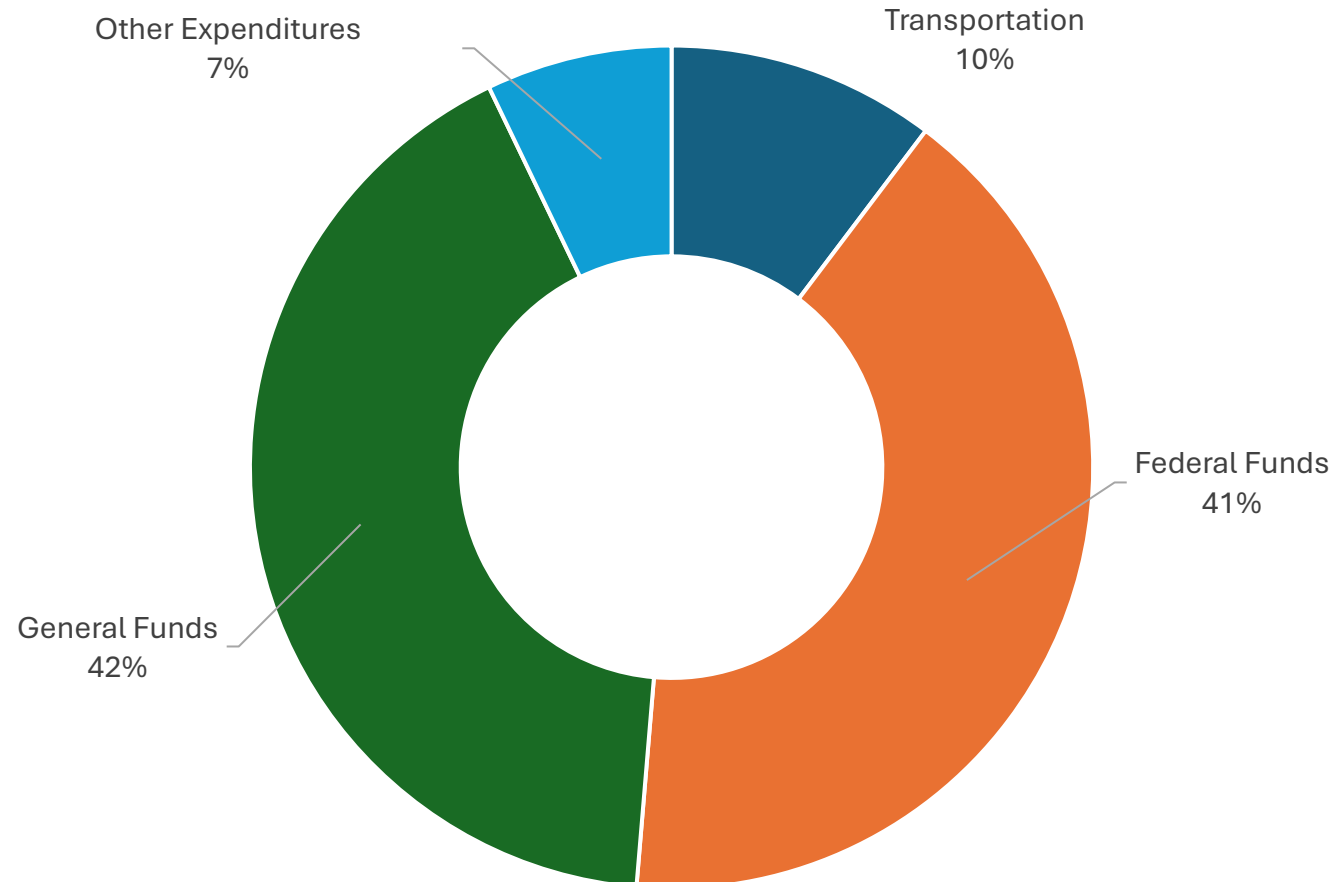
Programs at Risk

- Many Health and Human Services and Labor programs require additional appropriations to avoid service disruptions



Federal Funding in FY 2025-26 Budget

FY 2025-26 Budgeted Expenditures





Federal Funding Uncertainty

Restored



\$9.8B

Total balance of federal funding that was previously paused but has resumed

Paused



\$18.9M

Total balance of federal funding for which obligations and disbursements are currently on hold

Cancelled



\$147.6M

Total balance of federal funding which has been terminated

Why Does This Matter?



Federal Funds Increasingly Important

For OSBM

- Actively monitoring pauses, delays, and cancellations
- Leading a monthly process for agencies to report impacts
 - Questions? Contact: Jonathan.Meyer@osbm.nc.gov

For Agencies/Universities

- ***Review your federal funds:*** Understand eligible uses, flexibility, and timelines
- ***Prepare contingency plans:*** Be ready with a plan if funding is paused or eliminated

State Budget Events & News



OSBM Priority - Budget System Replacement

Funding received -
Work already
underway

Will be soliciting user
input & feedback

Will provide training
and resources

New system in place
for FY 2027-29
biennium
(base budget starts
Fall 2026)



Developing Budget Recommendations

- Short session - April 21, 2026
- Official guidance in January
- Consider last year's requests
- Continued emphasis on evidence (use of Justification Documentation Form – JDF)



Evidence Training – December 11

- 1 hour, in-person training
- Logic model to evaluate programs or policies
- Improve outcomes using evidence
- Evidence mindset to justify resource requests



Register on OSBM website
www.osbm.nc.gov/news/events

Models of innovation and efficiency in state government

The North Carolina Certified State Government Budget Professionals Program



**State Transformation
in Action Recognition**
AN AWARD OF CSG SOUTH



Certified State Government Budget Professional Program

- 104 state employees certified so far
- Registration begins early 2026
- \$670 each week (discount for registering for all 3 weeks)
- Covers:
 - *Introduction to NC Budget*
 - *Understanding the Data*
 - *Systems & Language of Budgeting*

2026 Dates

Week 1: April 27 - May 1

Week 2: June 1-5

Week 3: October 12-16



First Friday Trainings for Budget & Finance

- Sessions for state agencies & universities
- Past Topics
 - Appropriations
 - Capital Budgeting
 - Budget Revisions
 - Reports in NCFS & IBIS
 - Cash Forecasting & Allotments
 - Videos of past training on OSBM website

Request a topic for a future training!

osbm.nc.gov/budget/training-resources/first-friday-training-series

Polling Question



Stay in Touch

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