State General Fund Budget Overview and Outlook

February 17, 2021

General Fund Budget by Appropriations Committee Area

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

Justice & Public Safety
$3,022.8 (12.3%)

General Gov’t & Info. Tech.,
$509.5 (2.1%)

Health & Human Services
$5,725.0 (23.4%)

Agriculture, Natural &
Economic Resources
$630.8 (2.6%)

Statewide Reserves, Debt Service & Capital,
$202.8 (0.8%)

1 Reflects appropriations from general purpose revenue only; amount does not include appropriations made from agency receipts.
**General Fund Appropriations by Key Budget Drivers**

<table>
<thead>
<tr>
<th>Expenditure Type</th>
<th>FY 2020-21 Budget (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Schools</td>
<td>$9,988.5 (41%)</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$4,140.4 (17%)</td>
</tr>
<tr>
<td>Prisons</td>
<td>$1,414.8 (6%)</td>
</tr>
<tr>
<td>All Other</td>
<td>$2,325.1 (9%)</td>
</tr>
<tr>
<td>Mental Health</td>
<td>$762.37 (3%)</td>
</tr>
<tr>
<td>Courts</td>
<td>$725.8 (3%)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$722.6 (3%)</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$4,405.5 (18%)</td>
</tr>
</tbody>
</table>

**FY 2020-21 Budget**

$24,485.1

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**General Fund Appropriations by Expenditure Type**

<table>
<thead>
<tr>
<th>Expenditure Type</th>
<th>FY 2019-20 Budget (in Millions)</th>
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</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$12,545.1 (51.4%)</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$3,903.4 (16.0%)</td>
</tr>
<tr>
<td>Benefits</td>
<td>$4,962.3 (20.3%)</td>
</tr>
<tr>
<td>All Other</td>
<td>$2,996.0 (12.3%)</td>
</tr>
<tr>
<td>FY 2019-20 Budget</td>
<td>$24,406.8 ($ in Millions)</td>
</tr>
</tbody>
</table>

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February 17, 2021
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

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)
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
### 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

### 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
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

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 (+)
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
    - Higher Education Enrollment - $85.9 million
    - Medicaid Rebase - $463 million

* debt service removed, covered by SCIF

**FY 2021-23 General Fund Budget Outlook**

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

1 Base adjusted for debt service  
2 Make no assumptions about adjustments in availability or spending
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

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

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
**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.*

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**Questions?**

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