FY 2021-23 Budget Recommendations

Charles Perusse
State Budget Director
March 25, 2021
North Carolina Today

• Snapshot of economy
• Recovery uneven
• Population trends
• American Rescue Plan (ARP)

Guiding Principles and Priorities
Outline

Budget Availability

Infrastructure and Resiliency

Must Do’s

Supporting NC’s Human Capital

Critical Support for North Carolinians (by subcommittee)
North Carolina’s Economy

• 11th largest economy in the nation
  • $594 billion state GDP in 2020 Q3 (2.8% of US)

• Employment diminished by pandemic, but is slowly recovering
  • Total labor force down 70,000 from a year prior (5.04 million)
  • Number employed down nearly 188,000 from a year prior (4.74 million)
  • 5.9% unemployment rate, down from the peak of 13.5% in May 2020

• Wages were below national average even before pandemic
  • $36,910 median annual wage in 2019 (ranked 35th among all states)
  • $48,550 mean annual wage in 2019 (ranked 29th)

Sources: Bureau of Labor Statistics and NC Commerce (employment and wages); Bureau of Economic Analysis (GDP, in current dollars)
Recovery Uneven

Job losses more significant in leisure/hospitality and lower wage jobs

Employment rates for low-wage North Carolina workers down nearly 25% in mid-January 2021 compared to the beginning of last year
Strength of financial and housing markets helped higher income households

Consumer spending shift to taxable goods vs in-person services boosted NC sales tax revenues

Federal stimulus packages boosted income and spending
Population Trends

• Population growth projection: 10.6 million in 2020 to **11.7 million in 2030**
  • Net migration remains key to population growth

• Population is growing more urban
  • Population growth in six urban counties = 54% of NC’s 2010-19 growth

• Population growing older
  • 1 in 5 residents will be 65+ by 2028
    • By 2035, the older population (65+) will exceed childhood population (<18)

• Population growing more diverse
  • 38% are Black, Hispanic, Asian, American Indian, or multiracial individuals
    • These racial/ethnic groups to account for 2 of every 3 persons added by 2030
American Rescue Plan (ARP)

• Signed into law on March 11, 2021
• Several priorities removed from this set of recommendations
• Top items to consider for ARP include:
  • Expanding highspeed internet access
  • Investing in water, sewer, and housing infrastructure
  • Business assistance, particularly those hit hardest by the pandemic
  • Further assistance for vulnerable populations
Guiding Principles and Priorities
Governor’s Vision and Guiding Principals

Continue advancing a vision of a North Carolina that is:

• Better educated
• Healthier
• Keeps more money in people’s pockets
• Conducive to residents living abundant, purposeful lives

While:

• Making a substantial investment to the Savings Reserve and other contingency accounts
• Proposing a comprehensive two-year budget that is balanced and lives within our means
Priorities

Infrastructure and Resiliency

Supporting NC’s Human Capital

Critical Support for North Carolinians
# Budget Availability

<table>
<thead>
<tr>
<th></th>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Budget Availability</strong></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Unappropriated Balance, Over Collections, Reversions</td>
<td>4,993,572,694</td>
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<tr>
<td>3</td>
<td>Educator Bonuses in May 2021 - $2,000 K-12; UNC; Community Colleges</td>
<td>(447,408,350)</td>
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<tr>
<td>4</td>
<td>Savings Reserve</td>
<td>(1,100,000,000)</td>
</tr>
<tr>
<td>5</td>
<td>Medicaid Contingency Fund</td>
<td>(150,000,000)</td>
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<tr>
<td>6</td>
<td>Medicaid Transformation Reserve</td>
<td>(64,000,000)</td>
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<tr>
<td>7</td>
<td>Retiree Health Benefits Fund (OPEB liability)</td>
<td>(150,000,000)</td>
</tr>
<tr>
<td>8</td>
<td>Cash Capital and R&amp;R</td>
<td>(548,559,734)</td>
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<tr>
<td>9</td>
<td>Information Technology Reserve</td>
<td>(169,925,950)</td>
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<tr>
<td>10</td>
<td>Energy and Environment Reserve</td>
<td>(225,000,000)</td>
</tr>
<tr>
<td>11</td>
<td>State Emergency Response and Disaster Relief Fund</td>
<td>(100,000,000)</td>
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<tr>
<td>12</td>
<td><strong>Subtotal</strong></td>
<td><strong>2,038,678,660</strong></td>
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<tr>
<td>13</td>
<td>Base Revenue Forecast</td>
<td>27,350,600,000</td>
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<tr>
<td>14</td>
<td>Earned Income Tax Credit &amp; Child and Dependent Care Tax Credit</td>
<td>(365,500,000)</td>
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<tr>
<td>15</td>
<td>Disproportionate Share Transfer</td>
<td>33,400,000</td>
</tr>
<tr>
<td>16</td>
<td>Treasurer and Insurance Nontax Transfers</td>
<td>3,812,862</td>
</tr>
<tr>
<td>17</td>
<td><strong>Revised General Fund Availability</strong></td>
<td><strong>29,060,991,522</strong></td>
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</tbody>
</table>
**Refundable Earned Income Tax Credit (EITC)**
- Helps about 880,000 low-and-moderate income NC families, most with income less than $50,000 a year
- Refundable credit equal to 5% of the federal EITC

**Child and Dependent Care Tax Credit (CDCTC)**
- Helps nearly 200,000 North Carolina families pay for child and dependent care expenses
- Non-refundable credit equal to 100% of the federal CDCTC
- Phases out for married-couple families with incomes between $75,000 and $200,000

**American Rescue Plan** includes minor EITC and major CDCTC enhancements for tax year 2021 only

<table>
<thead>
<tr>
<th>Policy</th>
<th>5% Refundable EITC</th>
<th>100% Non-Refundable CDCTC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who Benefits?</td>
<td>~880k low- and moderate-income NC families</td>
<td>~195k NC families with out-of-pocket childcare expenses</td>
</tr>
<tr>
<td>Average Benefit</td>
<td>$130 per eligible NC family</td>
<td>$400 per eligible NC family</td>
</tr>
<tr>
<td>Fiscal Impact</td>
<td>-$146.5M in FY21-22</td>
<td>-$219.0M in FY21-22</td>
</tr>
<tr>
<td></td>
<td>-$121.2M in FY22-23</td>
<td>-$87.1M in FY22-23</td>
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Infrastructure and Resiliency
$1.14B Cash investments over biennium

- $143M – UNC System R&R
- $150M – State Agencies R&R
- $100M – Energy efficiency R&R
- $462M – UNC System projects under $15M
- $173M – State Agency projects
- $106M – Plan and design bond projects
Invest NC Bond

• NC has $14.6B in debt capacity over next 10 years, opportunity for historically-low interest rates

• Recommends a $4.7 billion General Obligation Bond on November 2021 ballot, including:
  • $2.5B – Public schools
  • $783M – UNC System
  • $500M – Community Colleges
  • $439M – Parks/museums/zoo
  • $430M – Health and safety projects
  • $48M – Contingencies
Infrastructure and Resiliency

Modernizing IT Infrastructure - $328M over biennium

- e-Courts
- Community College business system
- Public Schools business system
- HR recruitment/management system
- NC Financial System
- DEQ Online Permitting
- State Highway Patrol vehicle communication systems
- NC FAST
- Electronic health records at DHHS facilities
Must Do’s
## Budget Recommendations

<table>
<thead>
<tr>
<th>Must Do's</th>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
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<tbody>
<tr>
<td>Education Enrollment, NC Promise, Independent Colleges</td>
<td>287,287,979</td>
<td>298,833,271</td>
</tr>
<tr>
<td>Medicaid Rebase</td>
<td>68,378,242</td>
<td>614,220,759</td>
</tr>
<tr>
<td>State Health Plan</td>
<td>98,318,703</td>
<td>200,429,307</td>
</tr>
<tr>
<td>Retirement System Actuarial Requirements</td>
<td>108,942,627</td>
<td>108,942,627</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>562,927,551</strong></td>
<td><strong>1,222,425,964</strong></td>
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Supporting NC’s Human Capital
<table>
<thead>
<tr>
<th>Supporting NC’s Human Capital</th>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers and Principals - average 5.7%/4.3% (total 10%)</td>
<td>289,409,211</td>
<td>478,053,773</td>
</tr>
<tr>
<td>Noncertified Public School Employees - 5%/2.5% (total 7.5%)</td>
<td>75,584,205</td>
<td>115,265,913</td>
</tr>
<tr>
<td>UNC System and Community Colleges Employees - 5%/2.5 % (total 7.5%)</td>
<td>221,079,664</td>
<td>337,146,488</td>
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<tr>
<td>Compensation Bonus for All Education Employees - $1,000 each year</td>
<td>223,704,174</td>
<td>223,704,174</td>
</tr>
<tr>
<td>State Employees - 2.5%/2.5% (total 5%)</td>
<td>77,551,508</td>
<td>157,041,804</td>
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<tr>
<td>Compensation Bonus for All Non-Education Employees - $1,000 each year</td>
<td>49,632,657</td>
<td>49,632,657</td>
</tr>
<tr>
<td>Retirees COLA - 2% Recurring</td>
<td>92,915,333</td>
<td>92,915,333</td>
</tr>
<tr>
<td>Retirees Bonus - 2% each year</td>
<td>72,530,586</td>
<td>72,530,586</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,102,407,338</td>
<td>1,526,290,728</td>
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</tbody>
</table>
Teachers, Principals, and Assistants Principals Pay

- Invests $289M in FY 2021-22; $478M in FY 2022-23
- Average increase of 10% over the biennium
- Smooths out salary plateaus
- Restores master’s pay
- $1,000 bonus per year
Supporting NC’s Human Capital

Other Public School Employees Compensation

• Provides $76M in FY 2021-22; $115M in FY 2022-23 for central office and non-certified employees

• Total 7.5% increase

• $15/hour minimum living wage

• $1,000 bonus per year

UNC/CC Employees Compensation

• Provides more than $221M in FY 2021-22; $338M in FY 2022-23

• Total 7.5% increase

• $1,000 bonus per year
Supporting NC’s Human Capital

Valuing our Dedicated State Employees
• 5% raise for state employees
• $1,000 bonus per year

...and our Retirees
• 2% retiree recurring COLA
• 2% retiree bonuses each year

Also
Correctional Officer Pay Plan
Targeted funds for hard to recruit and retain positions/compression issues
Critical Support for North Carolinians
## Critical Support for North Carolinians

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>300,994,544</td>
<td>539,408,765</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>234,447,627</td>
<td>272,541,948</td>
</tr>
<tr>
<td>General Government</td>
<td>77,245,476</td>
<td>60,965,245</td>
</tr>
<tr>
<td>Justice and Public Safety</td>
<td>136,768,926</td>
<td>121,197,417</td>
</tr>
<tr>
<td>Agriculture, Natural, and Economic Resources</td>
<td>94,981,101</td>
<td>95,871,513</td>
</tr>
<tr>
<td>Statewide Reserves</td>
<td>(16,020,083)</td>
<td>(9,070,911)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>828,417,591</td>
<td>1,080,913,977</td>
</tr>
<tr>
<td><strong>Total Recommended Adjustments</strong></td>
<td>2,493,752,480</td>
<td>3,829,630,669</td>
</tr>
<tr>
<td><strong>Total Recommended Budget</strong></td>
<td>27,320,804,677</td>
<td>28,667,062,349</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>1,740,186,845</td>
<td>284,361,136</td>
</tr>
</tbody>
</table>
Supporting All Students

• $80M for school nurses, psychologists, social workers, counselors

• $230M to eliminate caps and expand funding for
  • Children with disabilities
  • Limited English proficiency
  • Disadvantaged Student Supplemental Funding (DSSF)
  • Low wealth funding
  • Teaching assistants

• $25M for comprehensive assistance for low-performing, high-poverty schools & students

• $22M to strengthen career and college pathways
Recruiting and Retaining the Best Educators

Invests $77M to recruit, retain, and support NC’s educator workforce

- Recommends new Professional Development allotment
- Teaching Fellows, Principal Fellows, and NCCAT
- Support for beginning teachers and advanced teaching roles
- Science of reading training
- Enhance opportunities for educators of color
- Reinstates funding to pursue National Board Certification
- Specialized Instructional Support Personnel (SISP) pipeline
Making Higher Education More Affordable

- **$40M** NC GROW
- **$30M** Need-based financial aid
- **$20M** NC Promise

Supporting Minority Serving and Smaller Institutions

- **$7.5M** UNC’s Historically Minority Serving Institutions
- **$7.5M** for NC A&T doctoral programs
- **$2.5M** schools with small enrollments/special missions
Investing in Early Learning and Development

- Increases Pre-K reimbursement rates by 16% and administrative rates by 4% to increase capacity for expansion and reduce burden on local providers.
- Funds 1,500 additional Pre-K slots.
- $10M in recurring funds to add 1,700 new childcare subsidy slots.
- $20M for Smart Start.
- $35M in recurring wage increases for early childhood workforce.
- $10M in individualized early intervention services for children from birth to age 3.
Supporting Healthier North Carolinians and a Healthier Economy

- Recommends expanding Medicaid to increase health care access and capitalize on enhanced federal match
  - Covers more than 600,000 individuals at full expansion
  - Generates additional $5B in direct investment in the state
  - Draws down $1.7B in temporary enhanced federal match from ARP
  - Bolsters rural hospitals and mitigate opioid epidemic

- Fully funds the transition to Medicaid managed care on July 1, 2021
Supporting Vulnerable Children and Adults

- Expands child welfare services ($8M); funds Child Welfare Data System ($53M)
- $4M in staff for long-term care facilities oversight and county Adult Protect Services units
- $25M in wage increases for the long-term care workforce

Helping People with Disabilities Live, Work, and Learn in Their Home Communities

- Increases housing and employment supports by $15M for Olmstead settlement
- $1M in adaptive equipment and assistive technologies
Effective, Efficient Government

- Recommends data analysts, internal auditors, and researchers ($6.9M)
- $1M for evidence-based grants for program evaluations
- Establishes NC Management Fellowship Program to recruit talented professionals to public service

Serving Veterans and Military Families

- Supports operations of Kernersville State Veterans Home
- NC Scholarship for Children of Wartime Veterans program ($2M each year)
General Government

Housing and Resources to Support Distressed Communities

- Doubles the Housing Trust Fund, the state's most flexible funding source for affordable housing, by $7.7M each year
- $1.9M over the biennium for Local Government Commission personnel and emergency operating funds to assist local government units

Increases grant funding to eligible domestic violence and sexual assault agencies ($775k R; $2M NR)
Natural and Economic Resources

**Strengthening Business**

Supports core small business programs
- **$9M** NR each year for One NC Small Business Fund
- **$3M** NR each year for Carolina Small Business Fund

Creates the Innovation AIDE program to help rural and economically distressed communities prepare for an innovation-based economy **($9M)**

Provides funds to market North Carolina
- **$5M** R for Economic Development Partnership of NC
- **$1M** NR for agricultural
Expanding Access to Natural and Cultural Resources

Bolsters statewide grant programs
- $1M R Grassroots Art Grants
- $1M R NC Science Museums Grant
- $1M R aid to public libraries

Funds State Parks and Historic Sites
- $1.5M R and $3M NR Historic Sites maintenance and resiliency
- $3M R to operate State Parks expanded and improved through ConnectNC

Supports outdoor experiences for young adults and school children
- $1M R Outdoor Experiential Science Education
- $200K R Conservation Corps North Carolina
Natural and Economic Resources

Protecting Our Water Supply
• Funds to support mitigation of emerging compounds ($3.4M R)
• Water Resource Development Projects ($80M NR)

Safeguarding Our Natural Resources
Over $300M NR over the biennium in environmental stewardship
• $210M Parks and Recreation Trust Fund and Land and Water Fund
• $56M floodplain buyouts, stream restoration
• $20M trail planning and construction
• $10M farmland preservation
• $4M forest development
Advancing Clean Energy Development and Business

• Clean energy and transportation projects for local governments/schools ($50M)
• Home energy efficiency and clean energy assistance for low-income households ($23M)
• Clean energy business grants ($14.5M)
• State Energy Centers ($4M)
Building Capacity in Judicial System
- Guardian ad Litem and Custody Mediation programs (Y1: $2.5M; Y2: $4.6M)
- Local court personnel (Y1: $5.2M; Y2: $5.0M)

Ensuring Equitable Legal Representation
- Private Assigned Counsel rate increases (Y1: $8.5M; Y2: $17M)
- Addressing staff shortages (Y1: $1.3M; Y2: $2.1M)

Increasing Evidence Testing & Data
- Sexual assault evidence testing (Y1: $6.5M; Y2: $3.5M)
- Six State Crime Lab scientist positions ($634K R)
Justice and Public Safety

Improving Public Safety and Security
• Safety and security equipment ($27.2M NR)
• Certified employee pay plan (Y1: $16.1M; Y2: $31.7M)

Fostering Successful Re-entry
• Community Corrections personnel and programming (Y1: $5.9M; Y2: $4.7M)
• Juvenile Justice re-entry support and detention beds ($5.6M R)

Ensuring Law Enforcement Sustainability
• State Highway Patrol cadet training program ($2M R)
• State Bureau of Investigation positions ($1.1M R)
• Criminal Justice Fellows Program ($664K R)
Five-Year Forecast

General Fund Five-Year Revenue and Expenditure Forecast

Billions of Current-Year Dollars

- Revenue Forecast
  - FY 2022: $27.3
  - FY 2023: $28.7
  - FY 2024: $29.2
  - FY 2025: $30.1
  - FY 2026: $31.1

- Expenditure Forecast
  - FY 2022: $29.1
  - FY 2023: $29.0
  - FY 2024: $29.5
  - FY 2025: $30.8
  - FY 2026: $32.5

Availability from Governor's Recommended Budget

* Includes transfers to Savings Reserves due to S.L. 2017-5.
Source: OSBM data and projections
Questions