State Fiscal Outlook

Office of the State Controller
Fiscal Officer Update

December 12, 2012

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National Association of State Budget Officers
Current Economic and Fiscal Situation
States Watching “Fiscal Cliff” Negotiations...

- Automatic spending cuts included in Budget Control Act (sequestration)
  - Impacts domestic and defense spending

- Take action on expiring tax provisions
  - Includes Bush tax cuts, AMT, payroll tax holiday, etc.

- Many program authorizations set to expire
  - Farm bill, NCLB
Federal Funds Spending, Estimated Fiscal 2011

- Medicaid: 43.5%
- Elementary & Secondary Education: 12.7%
- Higher Education: 3.9%
- Transportation: 7.2%
- Corrections: 0.2%
- Public Assistance: 2.6%
- All Other: 29.8%

Source: NASBO 2010 State Expenditure Report
Impact of Sequestration on State Budgets in 2013

Coverage Status by Grant Program
- 67% Covered
- 33% Exempt
- Both 3%

Coverage Status by Funding Amount
- Covered 18%
- Exempt 82%

Source: Federal Funds Information for States (FFIS), as presented at NASBO Fall 2012 Meeting (Note: Above figures only include programs that are part of FFIS VIP Series.)
Current Fiscal Situation: Indicators
Budget Growth

35-year historical average rate of growth is 5.7 percent

Source: NASBO Spring 2012 Fiscal Survey of States

*Fiscal ‘12 numbers are estimated
*Fiscal ‘13 numbers are recommended
FY 2013 Recommended Spending
Still $4.6 Billion Below FY 2008

General Fund Spending FY 2007-FY 2013 (In Billions)

* Fiscal 2013 is Proposed Spending
Minimal Mid-Year Budget Cuts in FY 2012, Eight States Cut $1.7B

Budget Cuts Made After the Budget Passed ($ millions)

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<th>Year</th>
<th>Number of States</th>
<th>Amount of Reduction ($ millions)</th>
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<td>2012</td>
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Recession ends

($ in Millions)

Number of States

Number of states

Amount of reduction
General Fund Revenue Projected to Surpass Fiscal 2008 by $10B

* FY 2007-2011 are actual. FY 2012 is preliminary actual and FY 2013 is proposed.
Revenue Sources in the General Fund (Percentage)

Estimated Fiscal 2011

- Personal Income: 40.4%
- Sales Tax: 32%
- Corporate Income: 6.5%
- Gaming: 0.7%
- Other Taxes & Fees: 20.5%

Source: NASBO 2010 State Expenditure Report
North Carolina Revenue Sources in the General Fund (%)

Source: NASBO 2010 State Expenditure Report
States Continue To Rebuild Reserves After Recession

Total State Balances as a Percentage of General Fund Expenditures FY 2006 — FY 2013

(Percentage of Expenditures)

FY 2006: 11.5%
FY 2007: 10.1%
FY 2008: 8.2%
FY 2009: 6.0%
FY 2010: 4.6%
FY 2011: 5.2%
FY 2012: 4.2%
FY 2013: 3.8%

- All 50 States
- Not Including Texas and Alaska
State Balance Levels Recovering

**Total Year-End Balances and Total Year-End Balances as a % of Expenditures, Fiscal 1979 - Fiscal 2013**

* Fiscal 2012 totals are estimated and fiscal 2013 are proposed

**35-year historical average is 5.9%**

Source: NASBO Spring 2012 Fiscal Survey
FY 11-12
Background on State Spending Trends
State Debt Not the Problem

Debt-to-GDP: U.S. States Compared to Advanced G20 Nations – Moody’s Investor Services & International Monetary Fund

- Advanced G-20 Nations
- U.S. States

<table>
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<tr>
<th>Year</th>
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<tr>
<td>2010</td>
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Spending by Funding Source (High Percentage Federal)

Total State Expenditures By Funding Source, Estimated Fiscal 2011

- General Funds: 37.7%
- Federal Funds: 34.1%
- Other State Funds: 25.8%
- Bonds: 2.5%

Source: NASBO 2010 State Expenditure Report
North Carolina Spending by Funding Source (Percentage)

Total State Expenditures By Funding Source, Estimated Fiscal 2011

- General Funds: 36.2%
- Federal Funds: 34.4%
- Other State Funds: 28.4%
- Bonds: 1.0%

Source: NASBO 2010 State Expenditure Report
Total State Expenditures: Medicaid Grows Again

Total Expenditures by Function, Estimated Fiscal 2011

- Medicaid: 23.6%
- K-12: 20.1%
- Higher Education: 10.1%
- Corrections: 3.1%
- Public Assistance: 1.6%
- Transportation: 7.6%
- All Other: 33.9%

Source: NASBO 2010 State Expenditure Report
North Carolina Total State Expenditures

NC Total Expenditures by Function, Estimated Fiscal 2011

- K-12: 18.3%
- Higher Education: 12.5%
- Medicaid: 22.1%
- Public Assistance: 0.5%
- Corrections: 2.8%
- Transportation: 8.7%
- All Other: 35.1%

Source: NASBO 2010 State Expenditure Report
Total Expenditures Percentage Growth in Spending Categories

Percentage Growth in Spending Categories Between Fiscal 2001 and Fiscal 2011 (Total Funds)

Sources: NASBO 2002 and 2010 State Expenditure Reports
General Fund: Growing Medicaid & Education 64%

Source: NASBO 2010 State Expenditure Report
North Carolina General Fund: Medicaid & Education 72%

NC General Fund Expenditures by Function, Estimated Fiscal 2011

- Medicaid: 13.3%
- Public Assistance: 0.3%
- Corrections: 7.0%
- Transportation: 0.0%
- Higher Education: 19.5%
- Elementary & Secondary Education: 39.2%
- All Other: 20.7%

Source: NASBO 2010 State Expenditure Report
General Fund Percentage Growth in Spending Categories

Percentage Growth in Spending Categories Between Fiscal 2001 and Fiscal 2011 (General Funds)

Sources: NASBO 2002 and 2010 State Expenditure Reports
Increases in Medicaid Spending and Enrollment

Source: Kaiser Commission on Medicaid and the Uninsured

Spending Growth
Enrollment Growth

Reaction: | Spending Growth | Enrollment Growth |
---|---|---|
1998 | -1.9 | 4.7 |
1999 | 0.4 | 6.8 |
2000 | 3.2 | 8.7 |
2001 | 7.5 | 10.4 |
2002 | 9.3 | 12.7 |
2003 | 5.6 | 8.5 |
2004 | 4.3 | 7.7 |
2005 | 3.2 | 6.4 |
2006 | 0.2 | 3.8 |
2007 | -0.6 | 5.8 |
2008 | 3 | 7.6 |
2009 | 7.8 | 7.2 |
2010 | 6.6 | 7.3 |
2011 | 5.5 | 4.1 |
2012 | 2.2 | -2 |

Adopted
Medicaid General Fund Growth vs. Total General Fund

If Revenue and Medicaid Grow at Same Rate Next 10 Years as Last, Revenue will Increase 30% while Medicaid will increase 46%
NC FY 2013 Recommended Spending Remains Below FY 2008

NC General Fund Spending: FY 2007-FY 2013

* FY 2007-2011 are actual. FY 2012 is preliminary actual and FY 2013 is proposed.
NC FY 2013 Revenue Slightly Exceeds FY 2008

NC General Fund Revenue: FY 2007-FY 2013

* FY 2007-2011 are actual. FY 2012 is preliminary actual and FY 2013 is proposed
State Fiscal Outlook

- Trends positive
- Back to pre-recession levels in some cases

But…
- Spending pressures will continue
- Federal funds will decline
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