

THE STATE'S REVENUE & BUDGET OUTLOOK



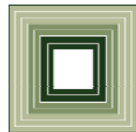
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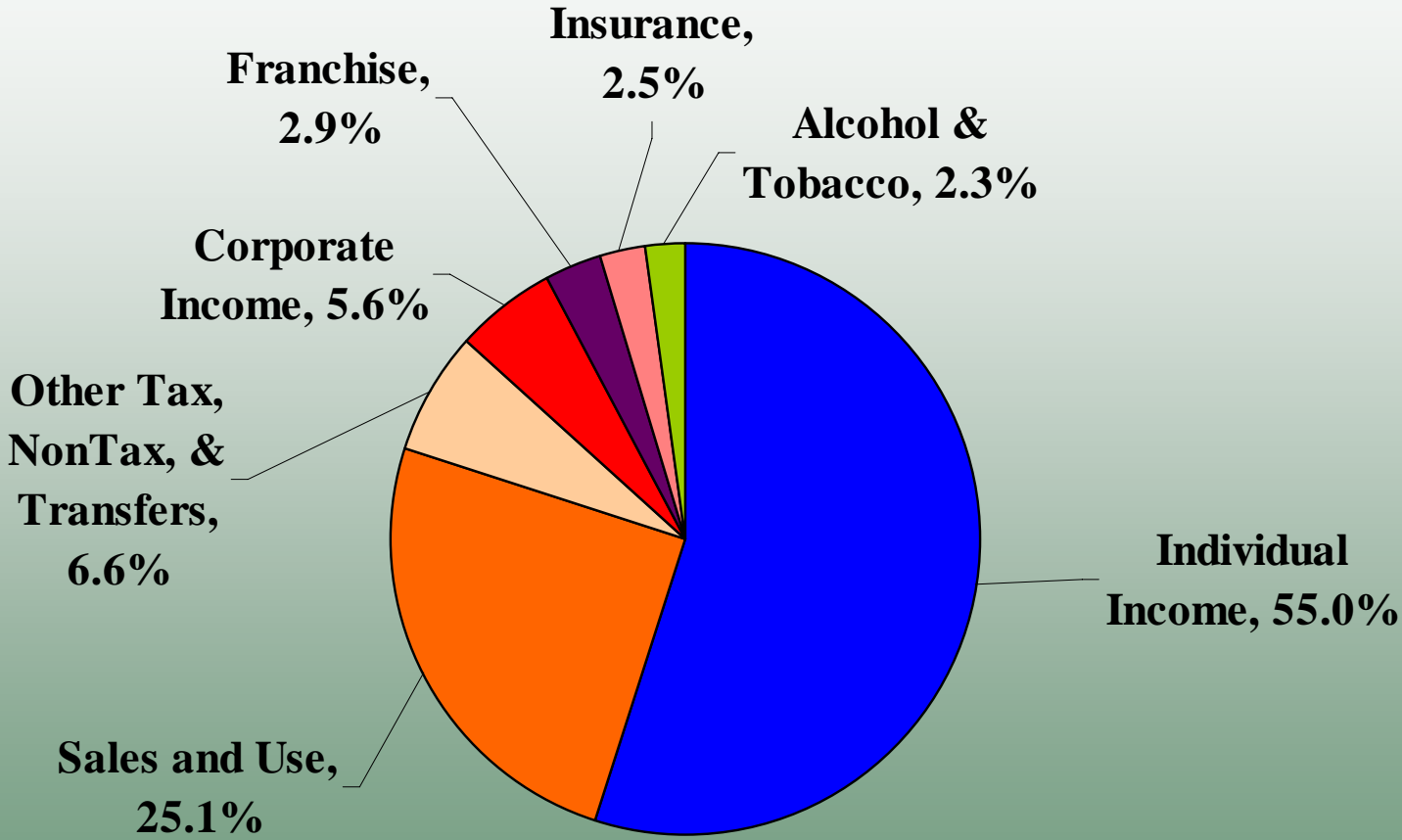
Fiscal Research Division

North Carolina General Assembly



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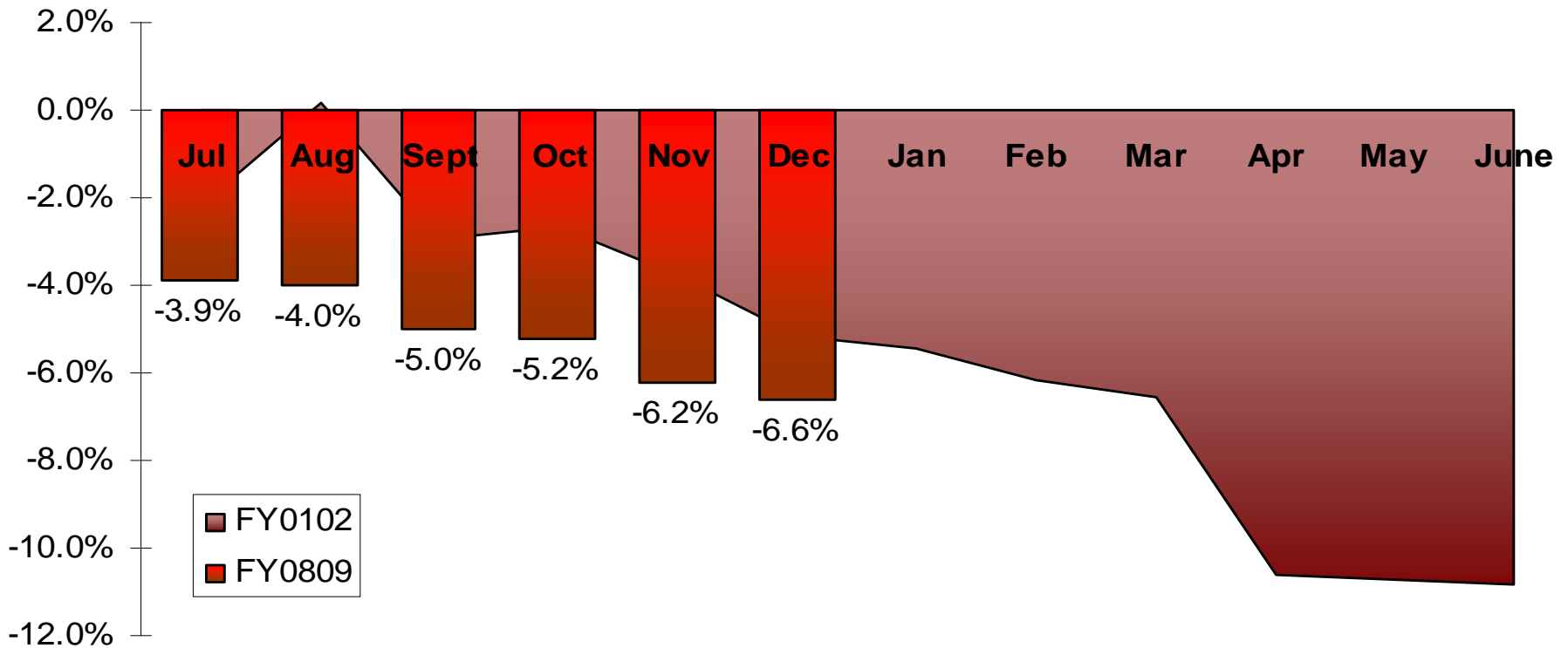
State General Fund, FY 2007-08



FY 2008-09 Revenues

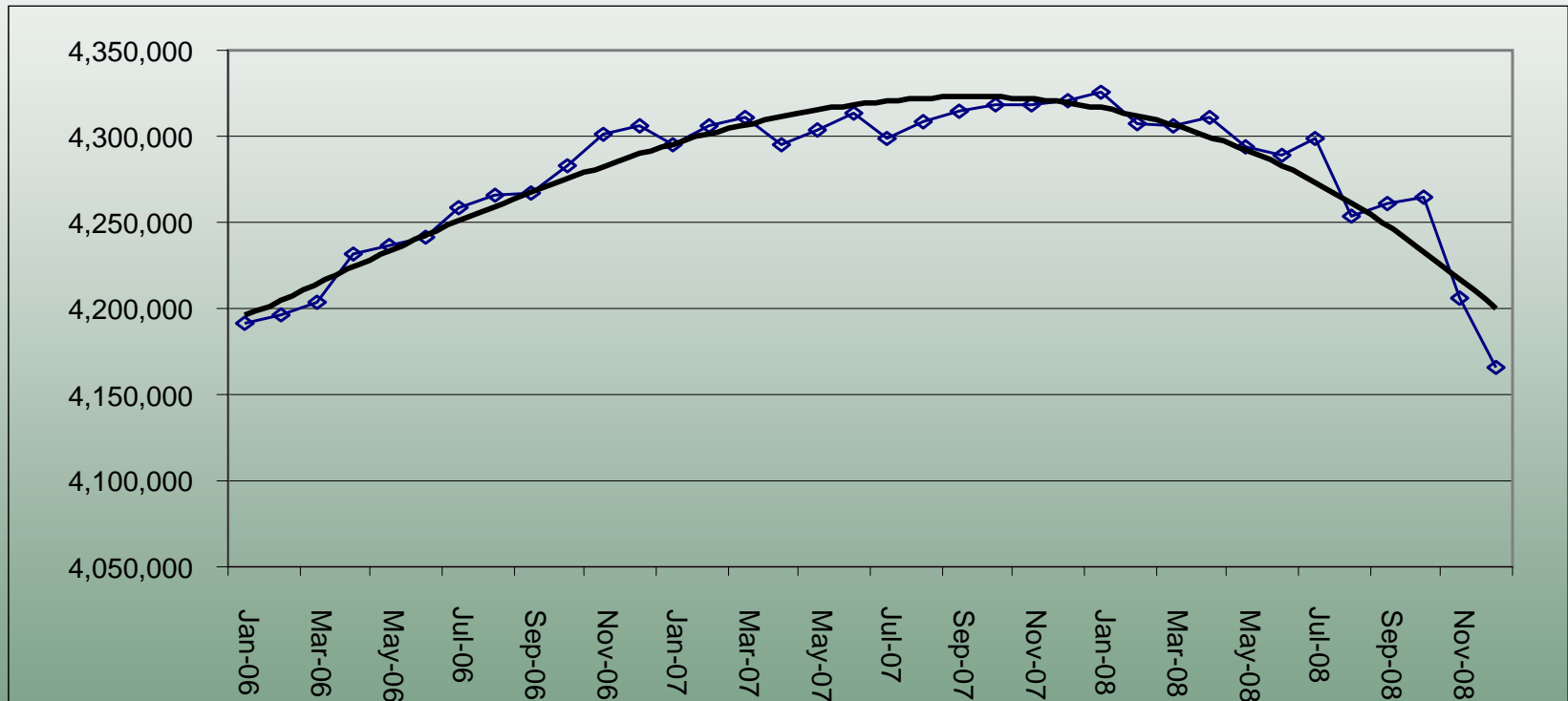
- Collections are \$625 million below \$9.5 billion target for first half of fiscal year
 - Total growth forecast 4.0%
 - Forecast envisioned economy improving second-half of FY
- Important caveat
 - 50% of collections/Only 25% risk
 - Volatile collections second half of FY

The Impact of April Payments & Refunds on Revenues



Key Revenue Collection Trends

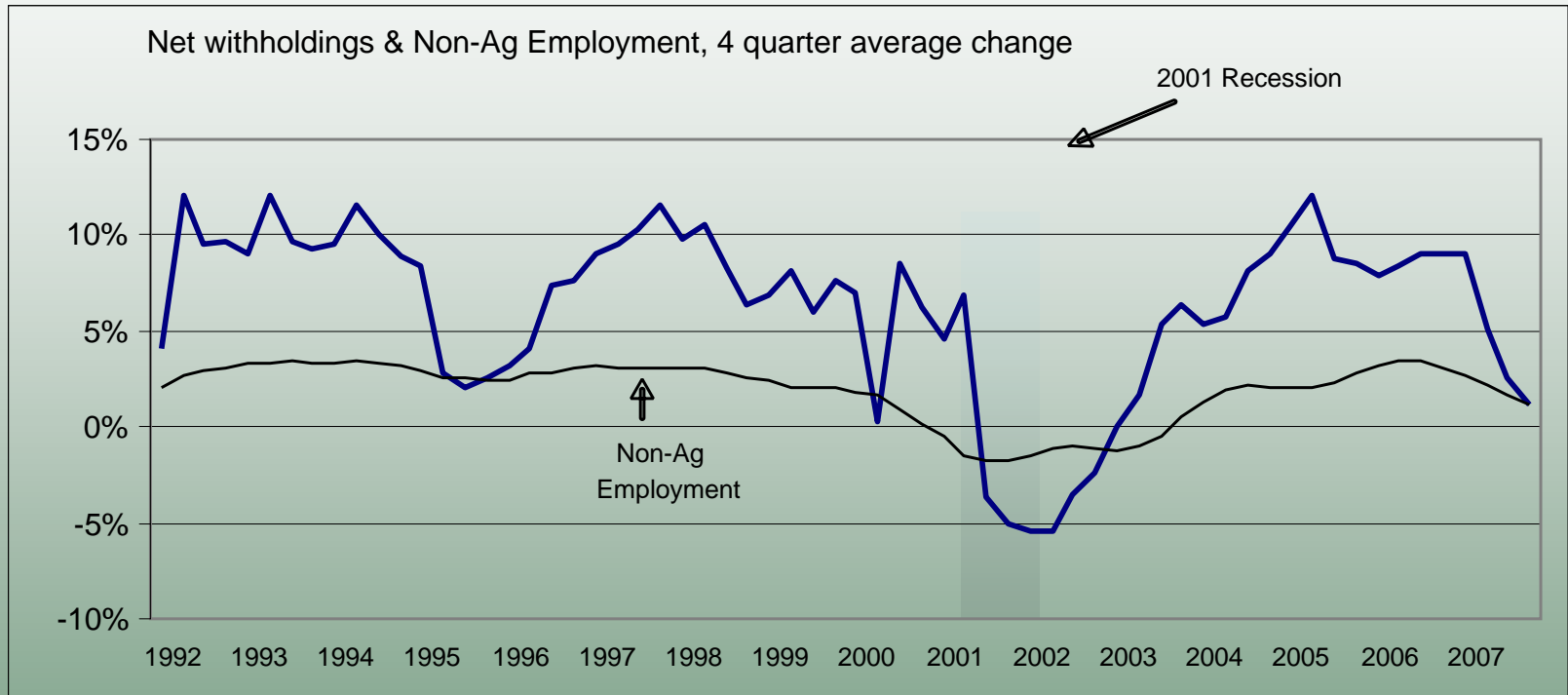
Non-Agricultural Employment, Seasonally Adjusted



Source: North Carolina Employment Security Commission

Key Revenue Collection Trends

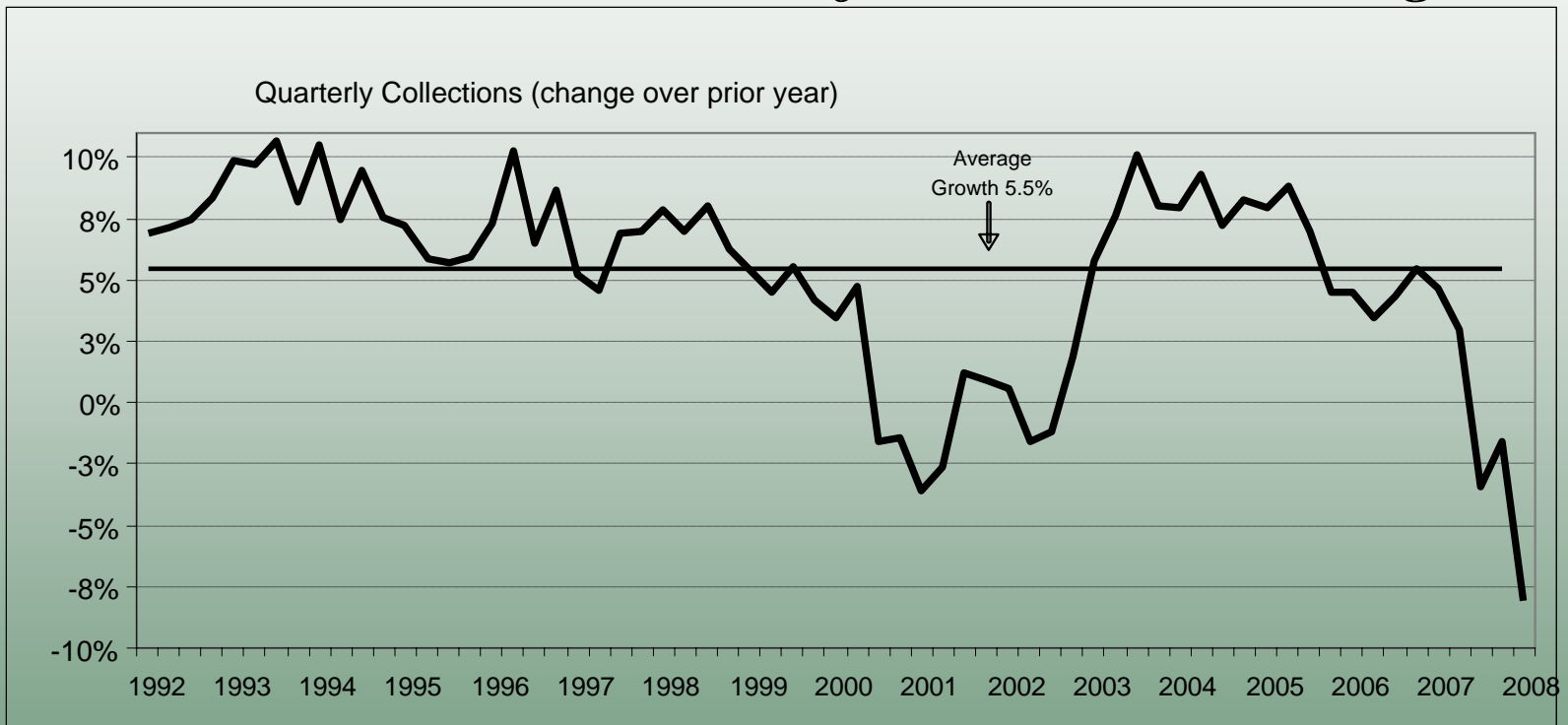
Withholding Tax Receipts



Withholding continues its downward trend coinciding with the slowdown in employment

Key Revenue Collection Trends

Sales & Use Tax Collections (adjusted for tax law changes)



Sales tax collections go negative beginning the last quarter of FY 2007-08.

Business Cycles and State Revenues

<u>NBER Recession Date</u>	<u>Months</u>	<u>Revenue Shortfall</u>
July 1981 – Nov. 1982	16	FY 1981-82 -9.2%
July 1990 – March 1991	8	FY 1990-91 -8.1%
March 2001 – Nov. 2001	8	FY 2001-02 -10.8%
December 2007 – ?	14 and counting	?

State's Economic Outlook

- Overall employment will decline in 2009
 - 1.5 % decline for this fiscal year
 - 1% decline in FY 2009-10
- Personal Income forecast of 2.1% growth for FY 2009-10
- Consumers will continue to cutback on non-essentials
 - Retails sales projected to be down for most of 2009

Economic Outlook: When will things improve?

Earliest improvement 2009:Q2

- Housing prices must stabilize
- Financial markets thaw/recover from losses
- Consumer confidence must be restored
- Global markets begin to rebound

FY 2008-09 Outlook

- State's economy slips deeper into a recession
 - employment is down 154, 000 jobs
 - unemployment rate: 8.7% in December
- Revenue collections weaken
 - Fewer jobs
 - lower wages
 - and consumer cutting back
- Net result: FY2008-09 collection shortfall approximately \$2 billion or 10% of budget.

FY 2009-10 Outlook

- Economic forecasters expect a prolonged recession
 - Recession-like conditions for much of 2009
 - A very sluggish recovery in 2010.
 - Employment lags behind recovery
- Difficult revenue picture developing

Management of FY 2008-09 Budget: \$21.4 Billion

Governor is managing revenue shortfall with the following reductions:

	<u>% Reduction</u>	<u>\$ Amount Millions</u>
Public Schools	2%	\$159
UNC System	6%	\$144
Community Colleges	5% to 6%	\$45
HHS	4%	\$213
JPS	4% to 5.5%	\$93
General Government/NER	7%	\$63
Capital/R&R	89%	\$177

Other actions by Governor to manage shortfall:

Federal stimulus package	\$934
Debt service, credit balance, reserves	<u>\$217</u>
	\$2,045

Budget Situation for FY 2009-10

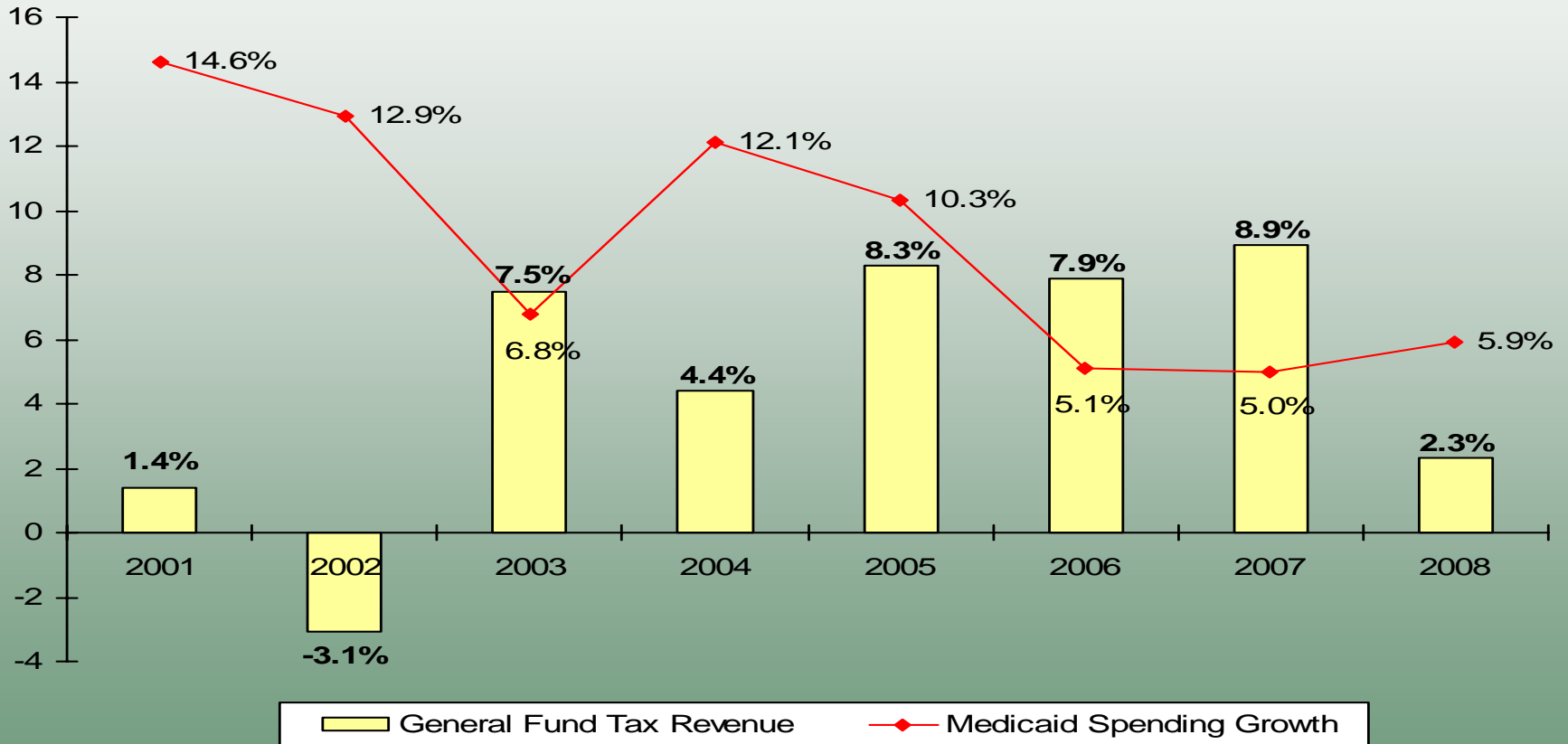
- No budget, no official revenue estimate
- Rough estimate of FY 2009-10 budget gap:
 - **Revenues** assuming no growth, no balances, no reversions, no over collections \$18.8 billion
 - **Budget** assuming no growth, based on recurring FY 2008-09 budget -\$20.9 billion
 - **Budget gap** to address through budget cuts or additional revenues -\$2.1 billion

FY 2009-2010: Major Budget Issues

- State Health Plan: \$800 million+ General Fund shortfall over the biennium assuming current benefit levels.
- Enrollment increases typically funded: \$200 million.
 - University request: \$45 million.
 - Community College request: \$48 million.
 - K-12 enrollment increase in FY 2008-09: \$110 million.
- ABC Bonuses: \$100 million.
- Medicaid:
 - Is counter cyclical. People need more assistance during recessions, when State has fewer resources.
 - 1% increase in budget = \$30 million.

Comparison of Growth in Tax Revenue and Growth in Medicaid

Percent Growth



Other Major Budget Pressures for FY 2009-2010

- Capital
 - Statutory obligation to fund Biomedical Research Imaging Center is \$172 million
 - Repairs and renovations typically require \$100 million
 - Projects funded last year in House Bill 2436 may not receive funding because of budget shortfall

Other Major Budget Pressures for 2009-2010 (Cont.)

- Each 1% salary increase for State employees: \$125 million (based on FY 2008-09)
- Retirement System:
 - 1% COLA = \$33 million
 - Condition of retirement fund?
- SCHIP – To take advantage of additional federal funds, State will need additional match.
- Highway Trust Fund – Phase out transfer to G.F.: \$39 million.

Budget Resources for FY 2009-2010

- Savings Reserve has balance of \$787 million, but some portion of these funds may be needed to handle FY 2008-09 shortfall.
- Federal stimulus funds will help State budget, but only over short-term. House proposal:
 - Provides \$2.2 billion for Medicaid assistance over 27 months.
 - \$717 million in Fiscal Stabilization that can help budget shortfall over two years.
 - Fiscal Research and OSBM are reviewing proposals to determine impacts of other provisions on State budget.