

# THE STATE'S REVENUE & BUDGET OUTLOOK



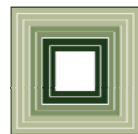
**February 2009**

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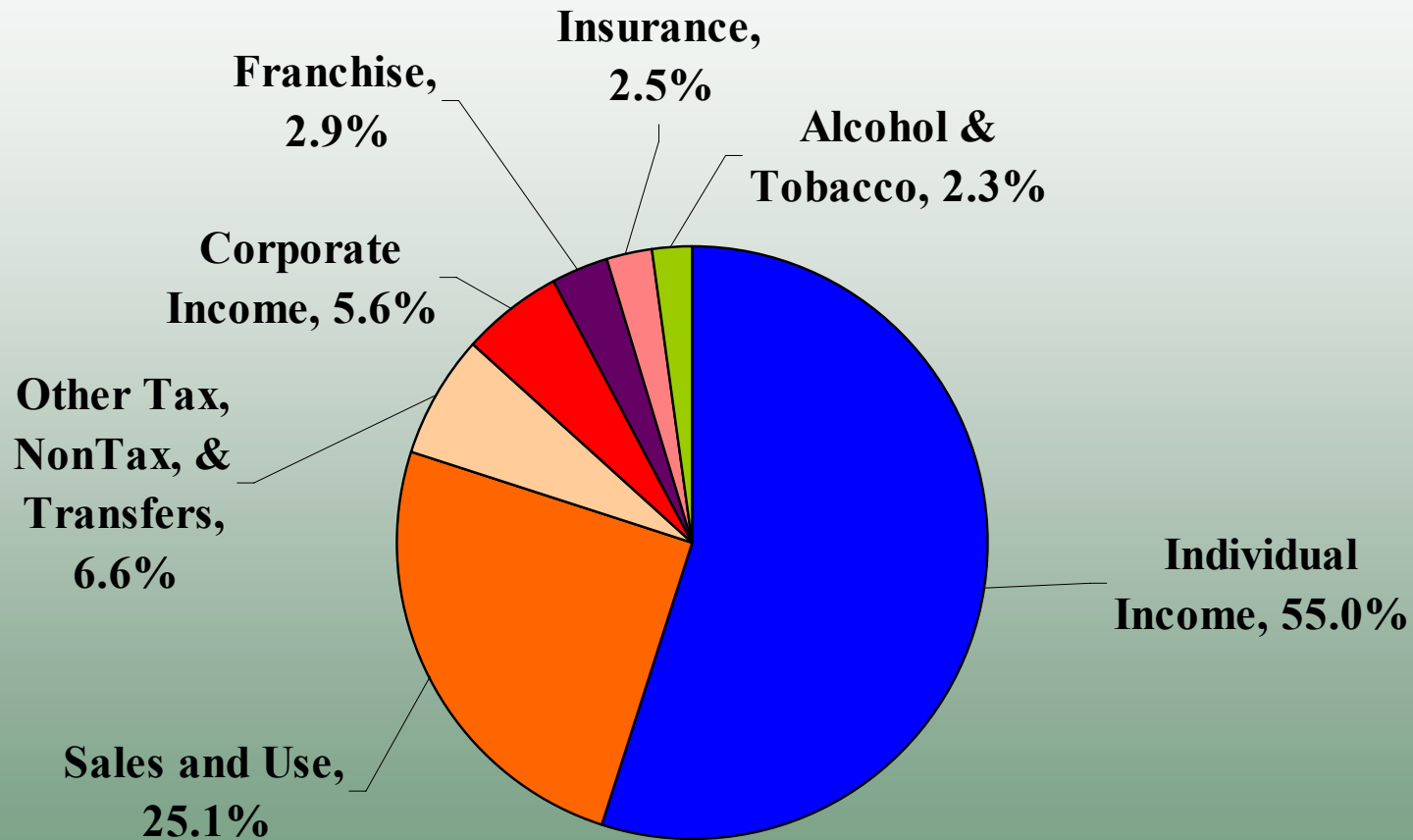
**Fiscal Research Division**

**North Carolina General Assembly**



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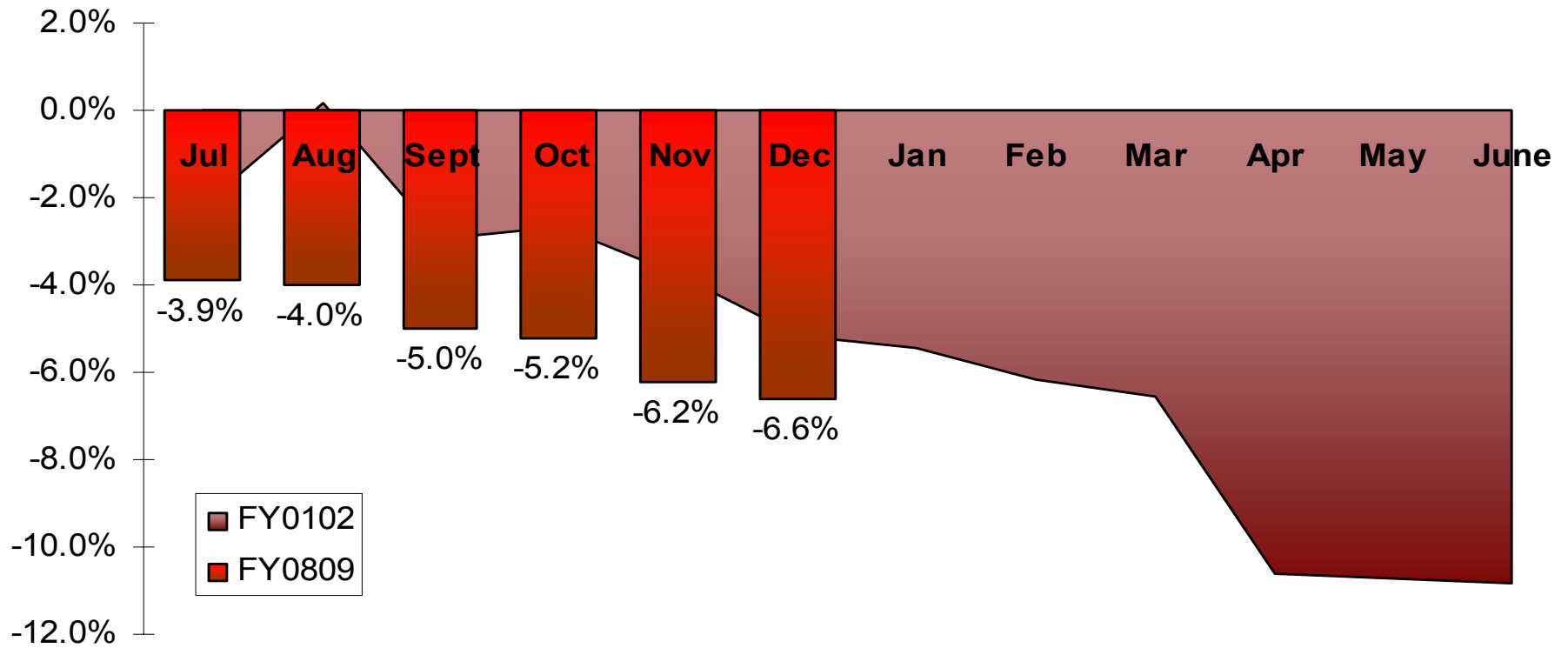
# State General Fund, FY 2007-08



# FY 2008-09 Revenues

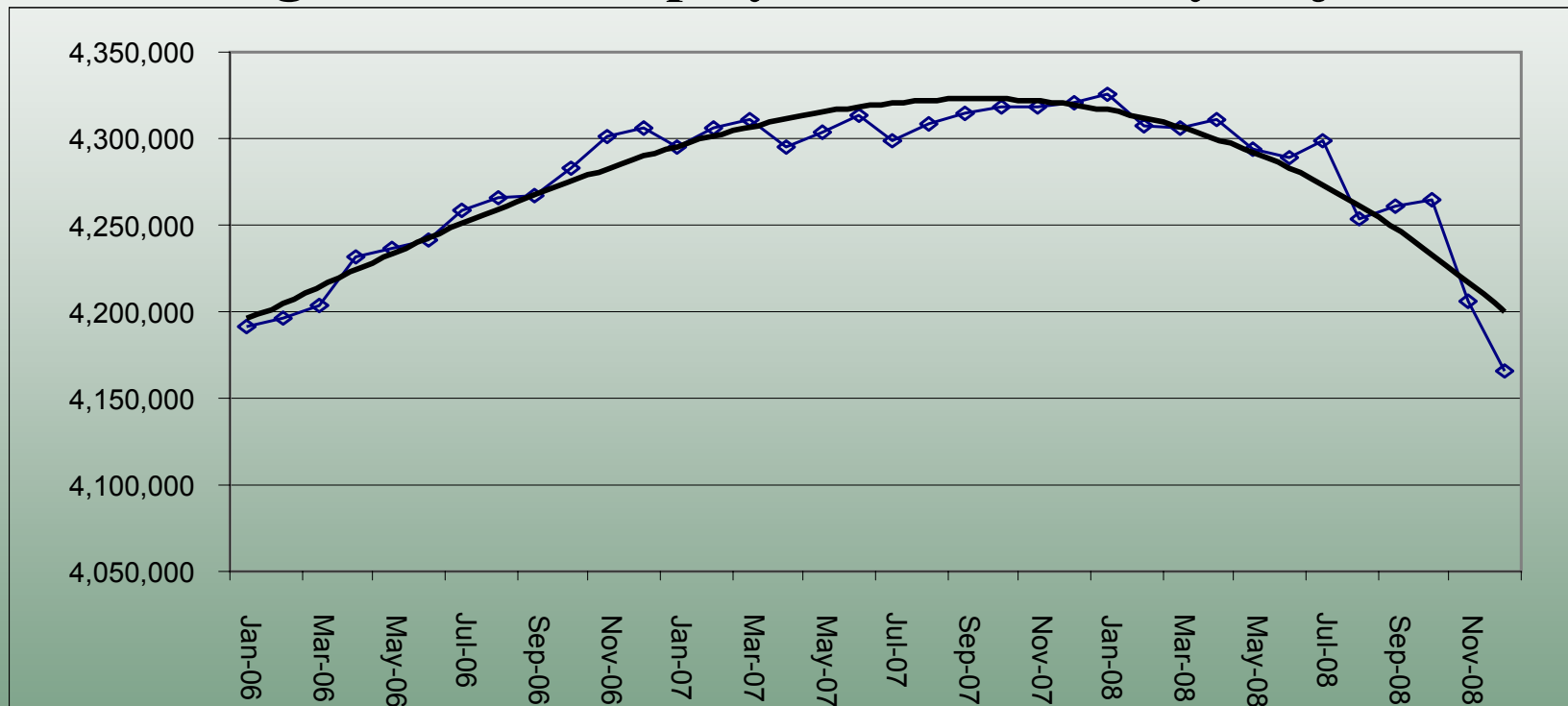
- Collections are \$625 million below \$9.5 billion target for first half of fiscal year
  - Total growth forecast 4.0%
  - Forecast envisioned economy improving second-half of FY
- Important caveat
  - 50% of collections/Only 25% risk
  - Volatile collections second half of FY

# The Impact of April Payments & Refunds on Revenues



# Key Revenue Collection Trends

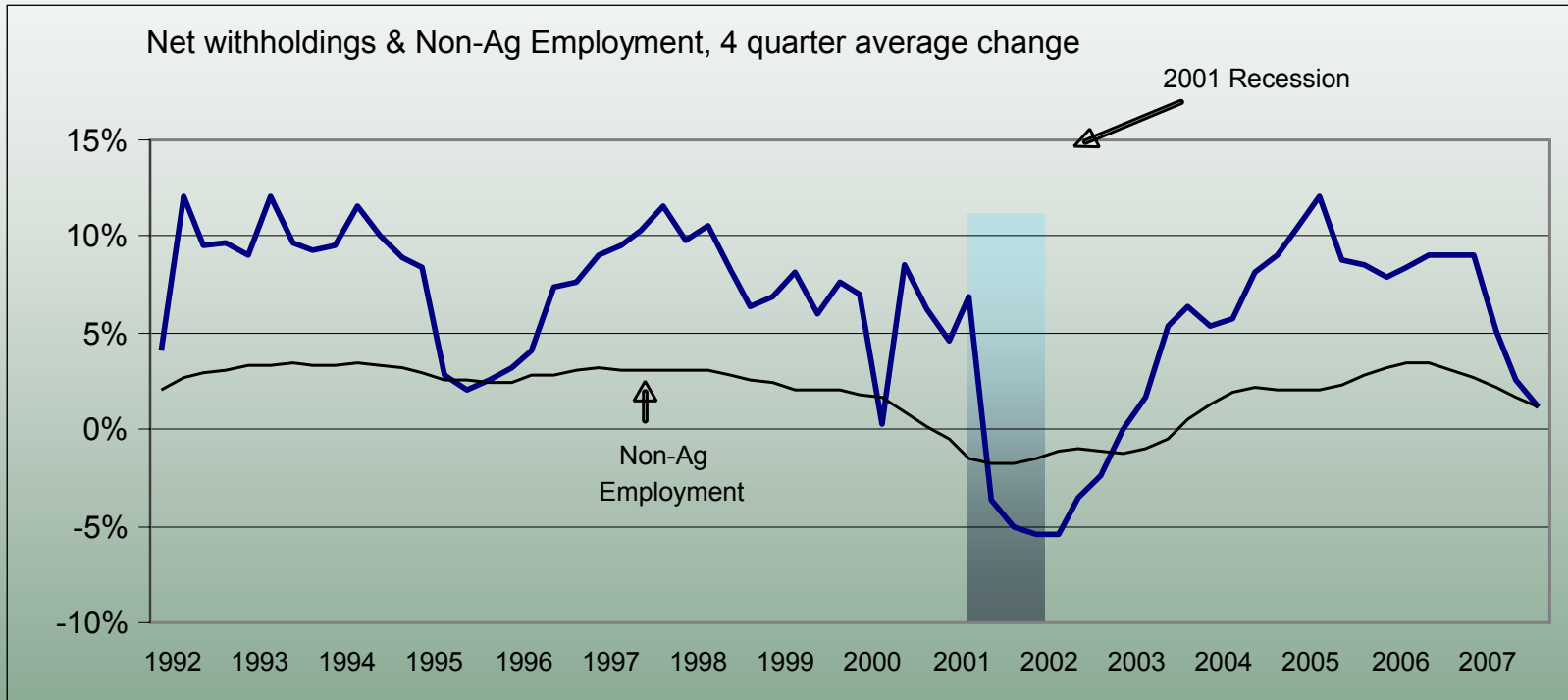
## Non-Agricultural Employment, Seasonally Adjusted



**Source:** North Carolina Employment Security Commission

# Key Revenue Collection Trends

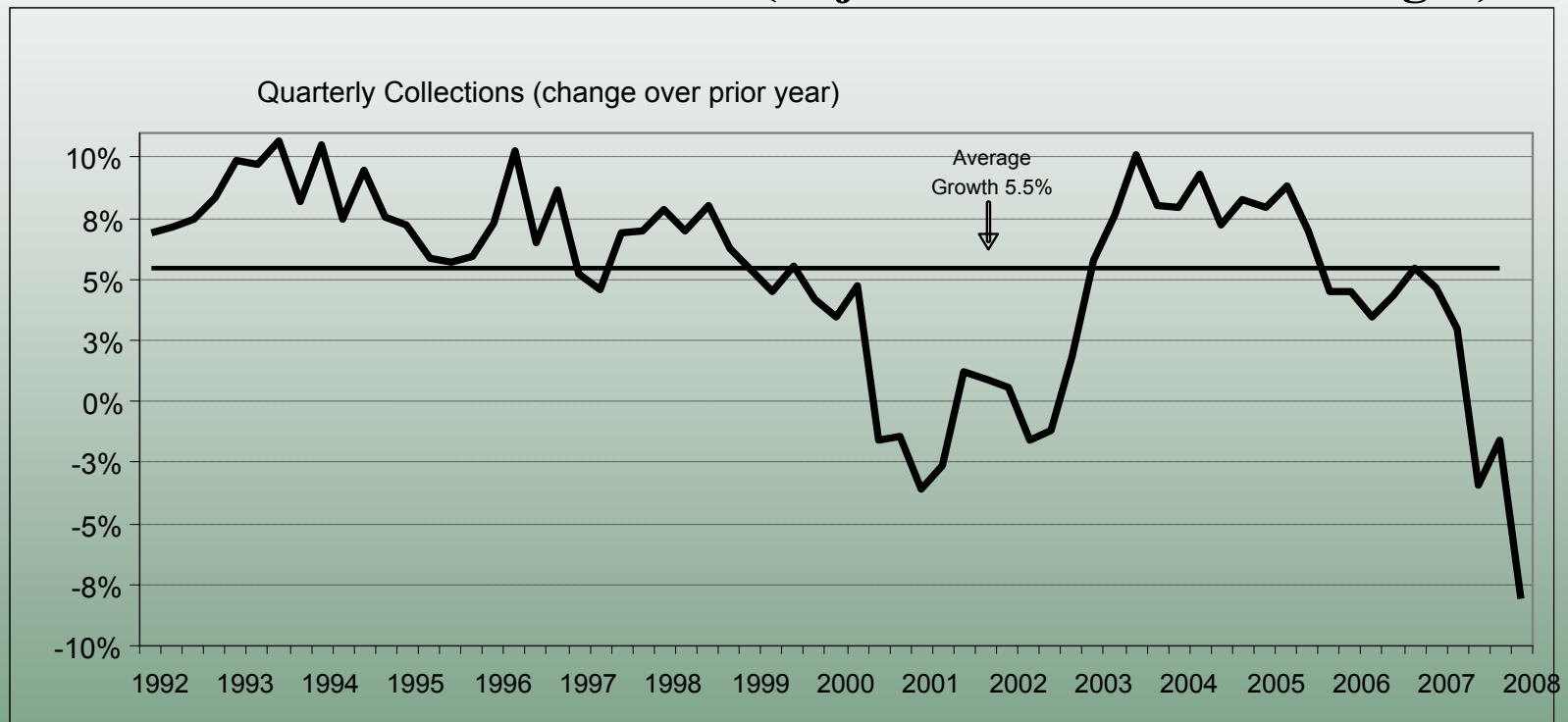
## Withholding Tax Receipts



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%	\$156
UNC System	6%	\$150
Community Colleges	5%	\$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>
	<b>\$2,048</b>

# Budget Situation for FY 2009-10

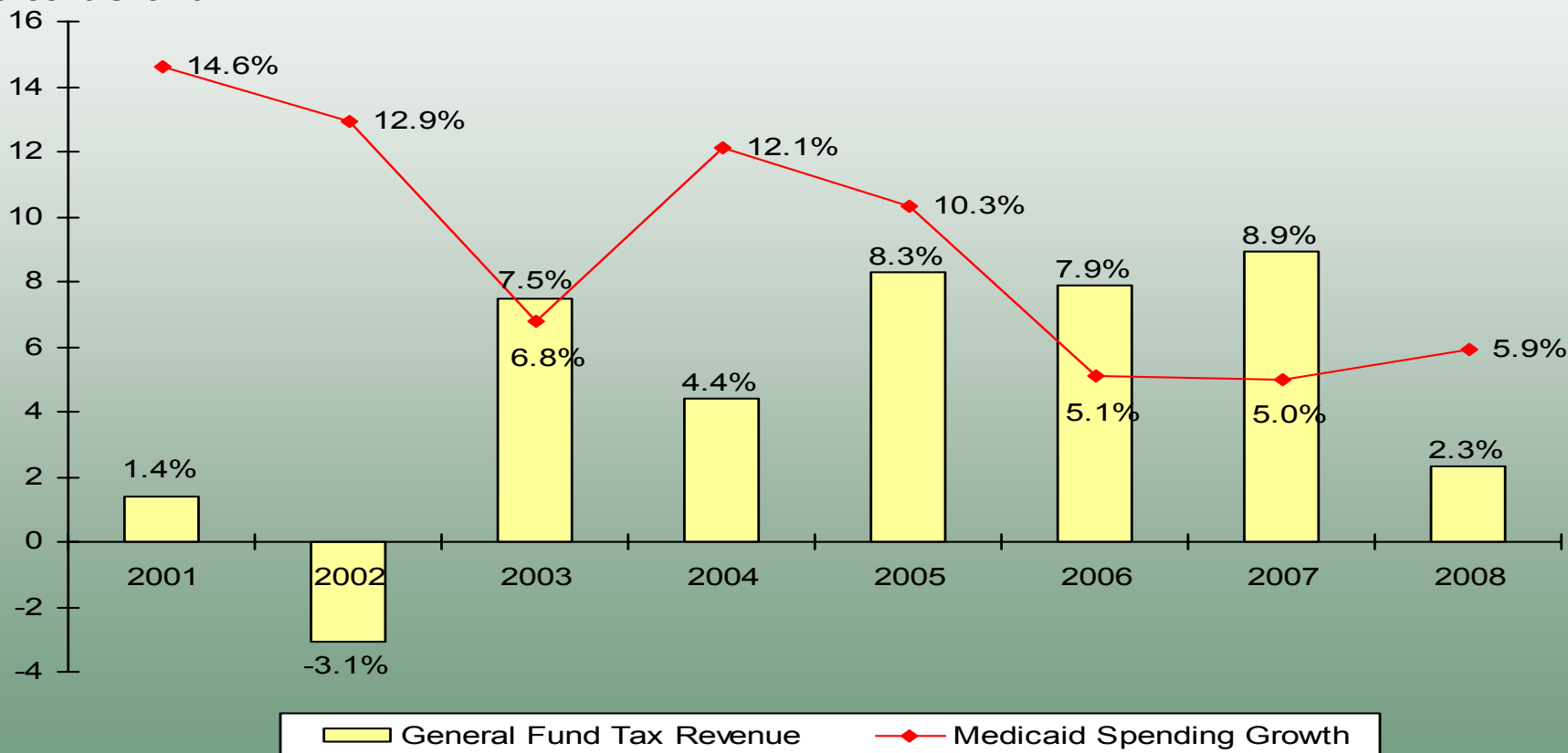
- No budget, no official revenue estimate
- Rough estimate of FY 2009-10 Budget gap
  - Revenues assuming no growth, no balances, keep reversions, no overcollections \$18.8 billion
  - Budget assuming no growth, based on recurring portion of FY 2008-09 budget \$20.9 billion
  - Budget gap that will need to be addressed by 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.
- Enrollment increases are typically funded by the State.
  - University request for enrollment is \$45 million.
  - Community College request is \$48 million.
  - K-12 enrollment increase for FY 2008-09 was \$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 BRIC 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.)

- Salary increases for State employees-last year cost \$125 million for 1% increase.
- 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 2008-2009 shortfall.
- Federal stimulus funds will help State budget, but only over short-term.
  - House stimulus funds provide additional \$509 million in 2009 and \$547 million in 2010 for Medicaid assistance.
  - Fiscal Research and OSBM are reviewing proposals to determine potential impact on State budget.