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March 25, 2021

North Carolina ***Strong, Resilient, Ready***

FY 2021-23 Budget Recommendations

Integrity

Innovation

Teamwork

Excellence



Outline

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 Today





North Carolina's Economy

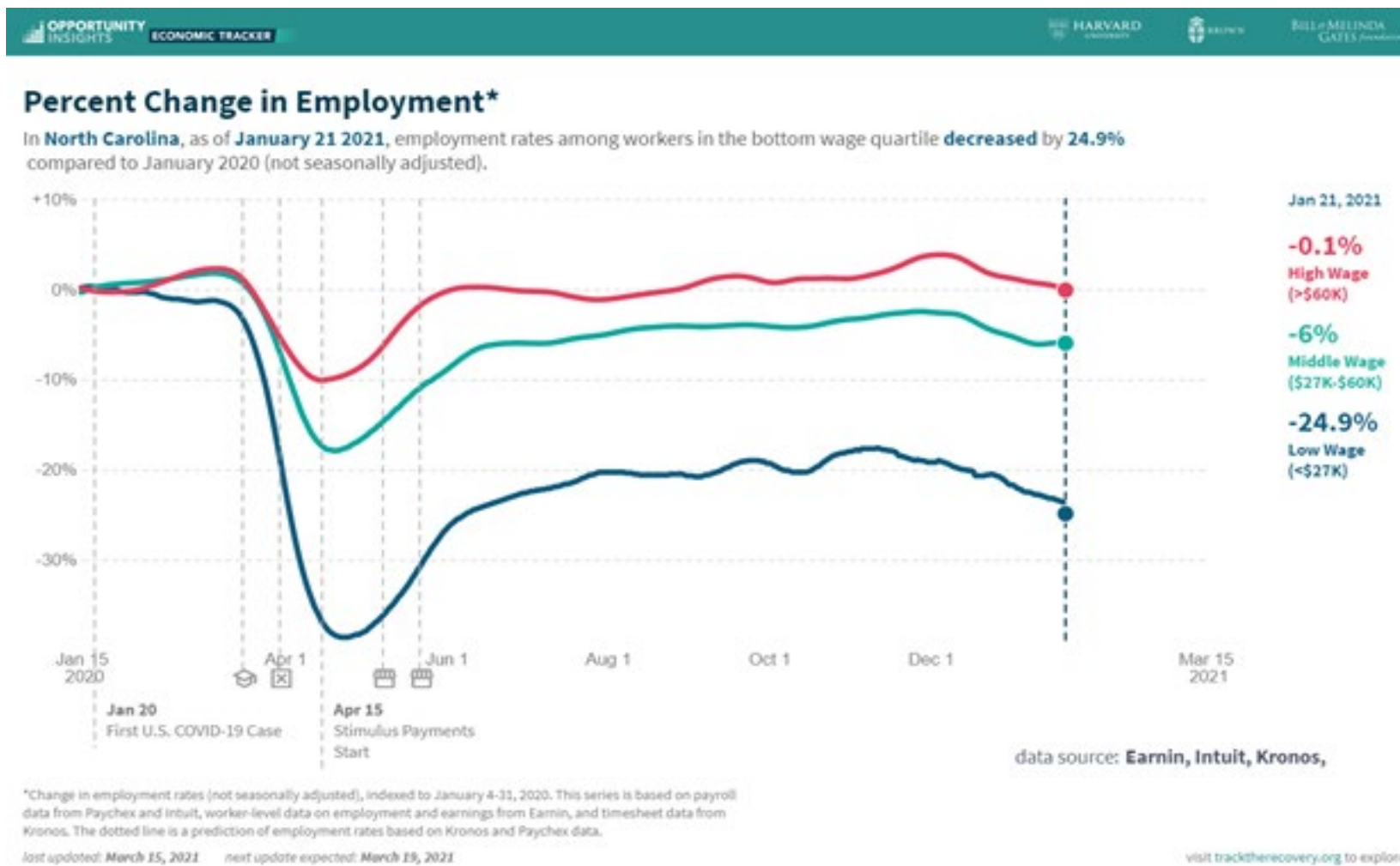
- 11th largest economy in the nation
 - **\$594 billion** state GDP in 2020 Q3 (2.8% of US)
- Employment diminished by pandemic, but is slowly recovering
 - Total labor force down **70,000** from a year prior (5.04 million)
 - Number employed down nearly **188,000** from a year prior (4.74 million)
 - **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)



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



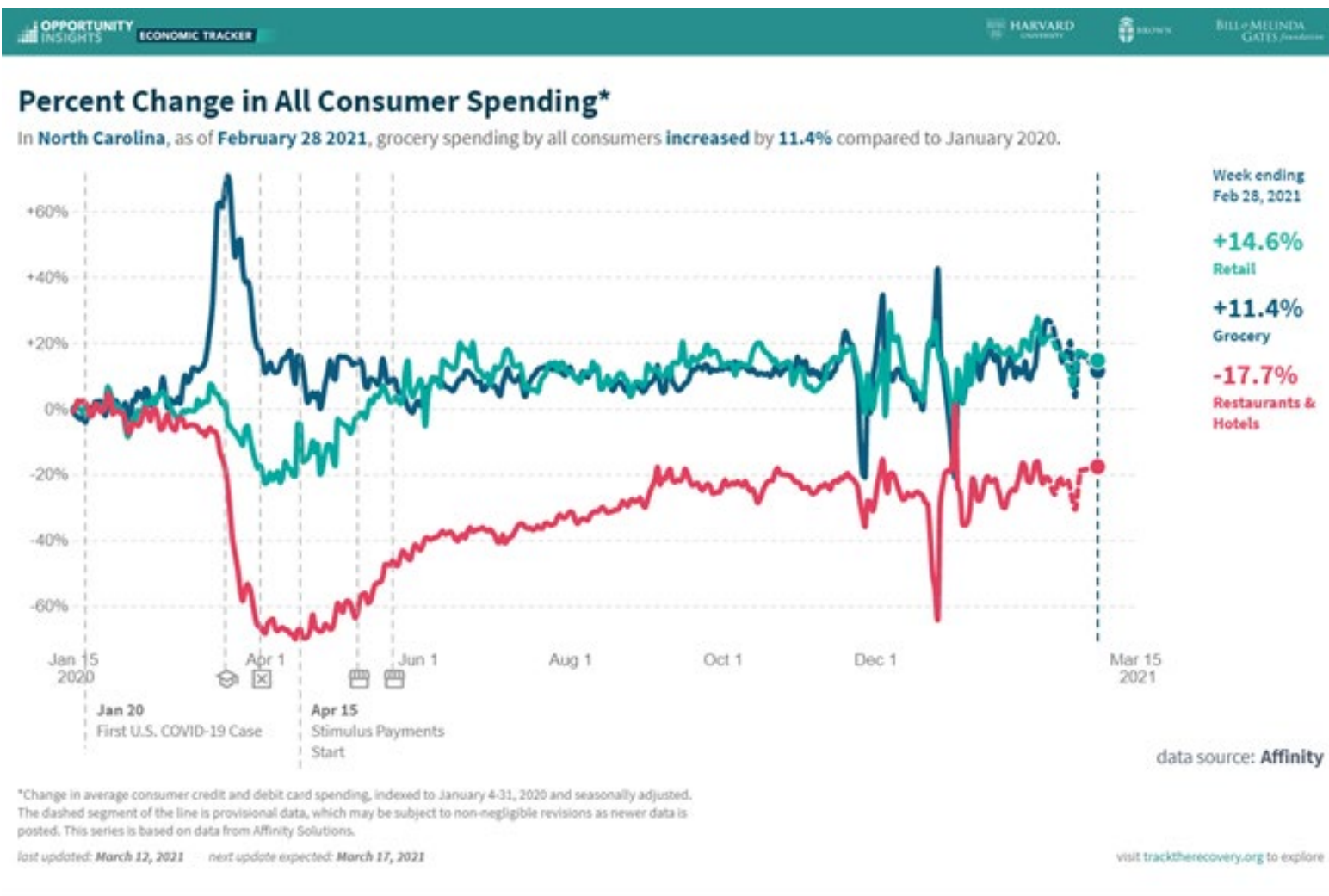


Recovery Uneven

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 Principles

Continue advancing a vision of a North Carolina that is:

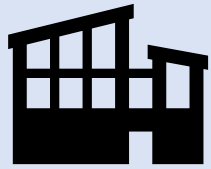
- Better educated
- Healthier
- Keeps more money in people's pockets
- Conducive to residents living abundant, purposeful lives

While:

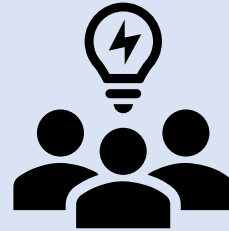
- Making a substantial investment to the Savings Reserve and other contingency accounts
- Proposing a comprehensive two-year budget that is balanced and lives within our means



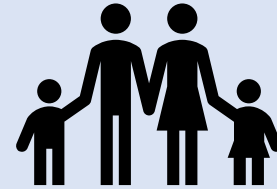
Priorities



**Infrastructure
and
Resiliency**



**Supporting
NC's
Human
Capital**



**Critical
Support for
North
Carolinians**



Budget Availability

		FY 2021-22	FY 2022-23
1	Budget Availability		
2	Unappropriated Balance, Over Collections, Reversions	4,993,572,694	1,740,186,845
3	Educator Bonuses in May 2021 - \$2,000 K-12; UNC; Community Colleges	(447,408,350)	-
4	Savings Reserve	(1,100,000,000)	-
5	Medicaid Contingency Fund	(150,000,000)	-
6	Medicaid Transformation Reserve	(64,000,000)	(160,000,000)
7	Retiree Health Benefits Fund (OPEB liability)	(150,000,000)	-
8	Cash Capital and R&R	(548,559,734)	(587,170,000)
9	Information Technology Reserve	(169,925,950)	(157,911,556)
10	Energy and Environment Reserve	(225,000,000)	(175,000,000)
11	State Emergency Response and Disaster Relief Fund	(100,000,000)	-
12	Subtotal	2,038,678,660	660,105,289
13	Base Revenue Forecast	27,350,600,000	28,461,500,000
14	Earned Income Tax Credit & Child and Dependent Care Tax Credit	(365,500,000)	(208,300,000)
15	Disproportionate Share Transfer	33,400,000	33,400,000
16	Treasurer and Insurance Nontax Transfers	3,812,862	4,718,196
17	Revised General Fund Availability	29,060,991,522	28,951,423,485



Recommended Revenue Changes (Effective for Tax Year 2021)

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

Policy	5% Refundable EITC	100% Non-Refundable CDCTC
Who Benefits?	~880k low- and moderate-income NC families	~195k NC families with out-of-pocket childcare expenses
Average Benefit	\$130 per eligible NC family	\$400 per eligible NC family
Fiscal Impact	-\$146.5M in FY21-22 -\$121.2M in FY22-23	-\$219.0M in FY21-22 -\$87.1M in FY22-23

Infrastructure and Resiliency





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



Infrastructure and Resiliency

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

	FY 2021-22	FY 2022-23
Must Do's		
Education Enrollment, NC Promise, Independent Colleges	287,287,979	298,833,271
Medicaid Rebase	68,378,242	614,220,759
State Health Plan	98,318,703	200,429,307
Retirement System Actuarial Requirements	108,942,627	108,942,627
Subtotal	562,927,551	1,222,425,964

Supporting NC's Human Capital



Budget Recommendations

	FY 2021-22	FY 2022-23
Supporting NC's Human Capital		
Teachers and Principals - average 5.7%/4.3% (total 10%)	289,409,211	478,053,773
Noncertified Public School Employees - 5%/2.5% (total 7.5%)	75,584,205	115,265,913
UNC System and Community Colleges Employees - 5%/2.5 % (total 7.5%)	221,079,664	337,146,488
Compensation Bonus for All Education Employees - \$1,000 each year	223,704,174	223,704,174
State Employees - 2.5%/2.5% (total 5%)	77,551,508	157,041,804
Compensation Bonus for All Non-Education Employees - \$1,000 each year	49,632,657	49,632,657
Retirees COLA - 2% Recurring	92,915,333	92,915,333
Retirees Bonus - 2% each year	72,530,586	72,530,586
Subtotal	1,102,407,338	1,526,290,728



Supporting NC's Human Capital

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



Budget Recommendations

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



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



Education – Higher Education

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



Health and Human Services

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



Health and Human Services

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



Health and Human Services

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



General Government

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



Natural and Economic Resources

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



Natural and Economic Resources

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)**



Justice and Public Safety

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

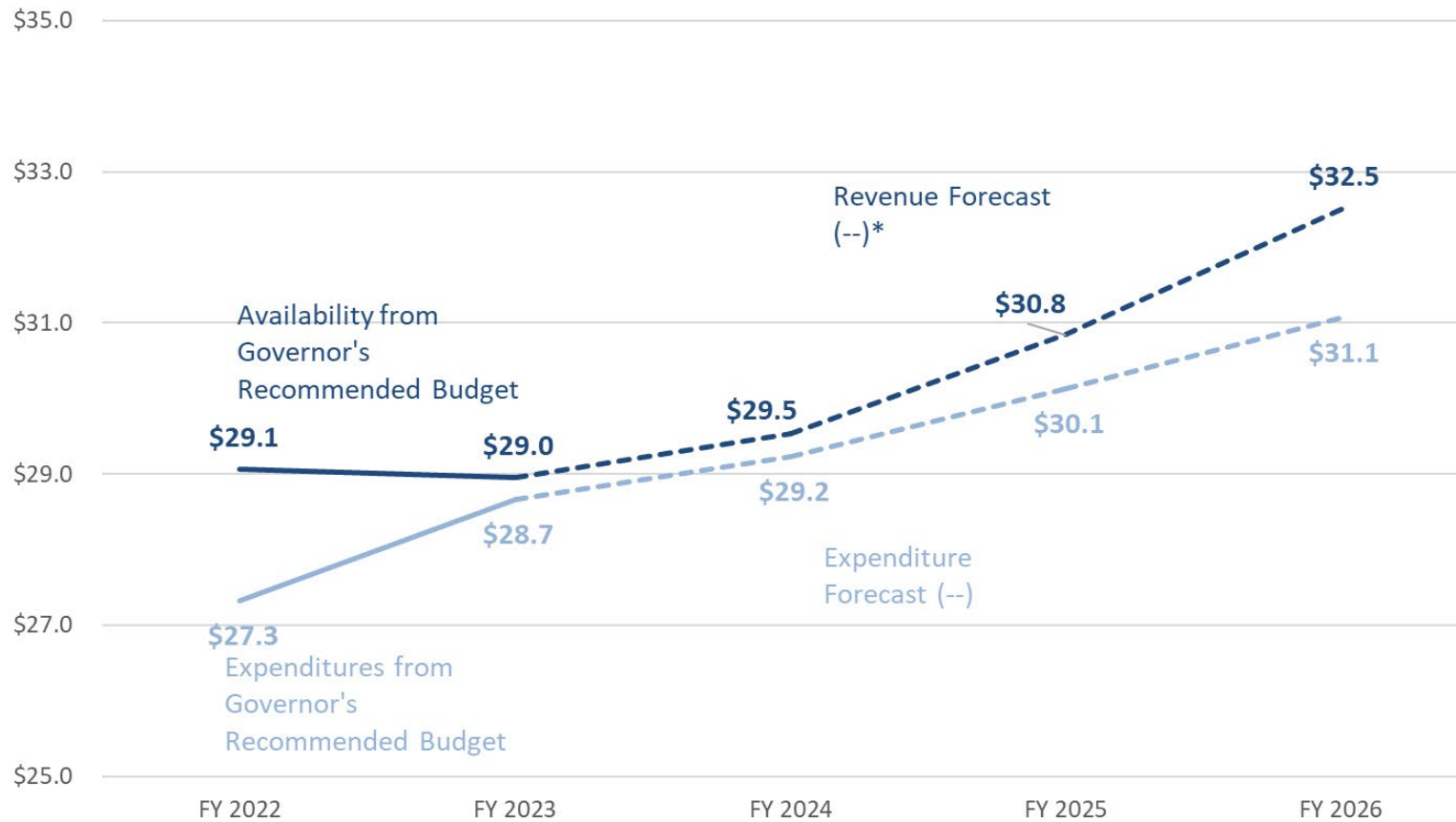
- State Highway Patrol cadet training program (**\$2M R**)
- State Bureau of Investigation positions (**\$1.1M R**)
- Criminal Justice Fellows Program (**\$664K R**)



Five-Year Forecast

General Fund Five-Year Revenue and Expenditure Forecast

Billions of Current-Year Dollars



* Includes transfers to Savings Reserves due to S.L. 2017-5.

Source: OSBM data and projections

Questions





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