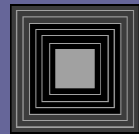


Legislative Briefing:
State Budget Overview and Outlook
2007 Legislative Session

January 30, 2007



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Overview of Presentation

- Budget Overview
- Historical Trends & Comparisons
- Outlook for 2007 Session

Highlights:

2006 Legislative Session

- State Appropriations* Increased 8.95%
from FY 2005/06
- Various Tax Adjustments (\$193 m)
- One-time Relief
 - County Share of Medicaid \$27.4 m
 - Highway Trust Fund Transfer (\$195 m)
- Education Initiatives \$333 m
- Mental Health Services \$95 m
- Salary Increases \$764 m
- Savings Reserve Account \$324 m
- Repairs & Renovations \$222 m
- Capital Improvements \$206.3m

*Excludes capital improvements

Total State Budget by Source

Fiscal Year 2006-07

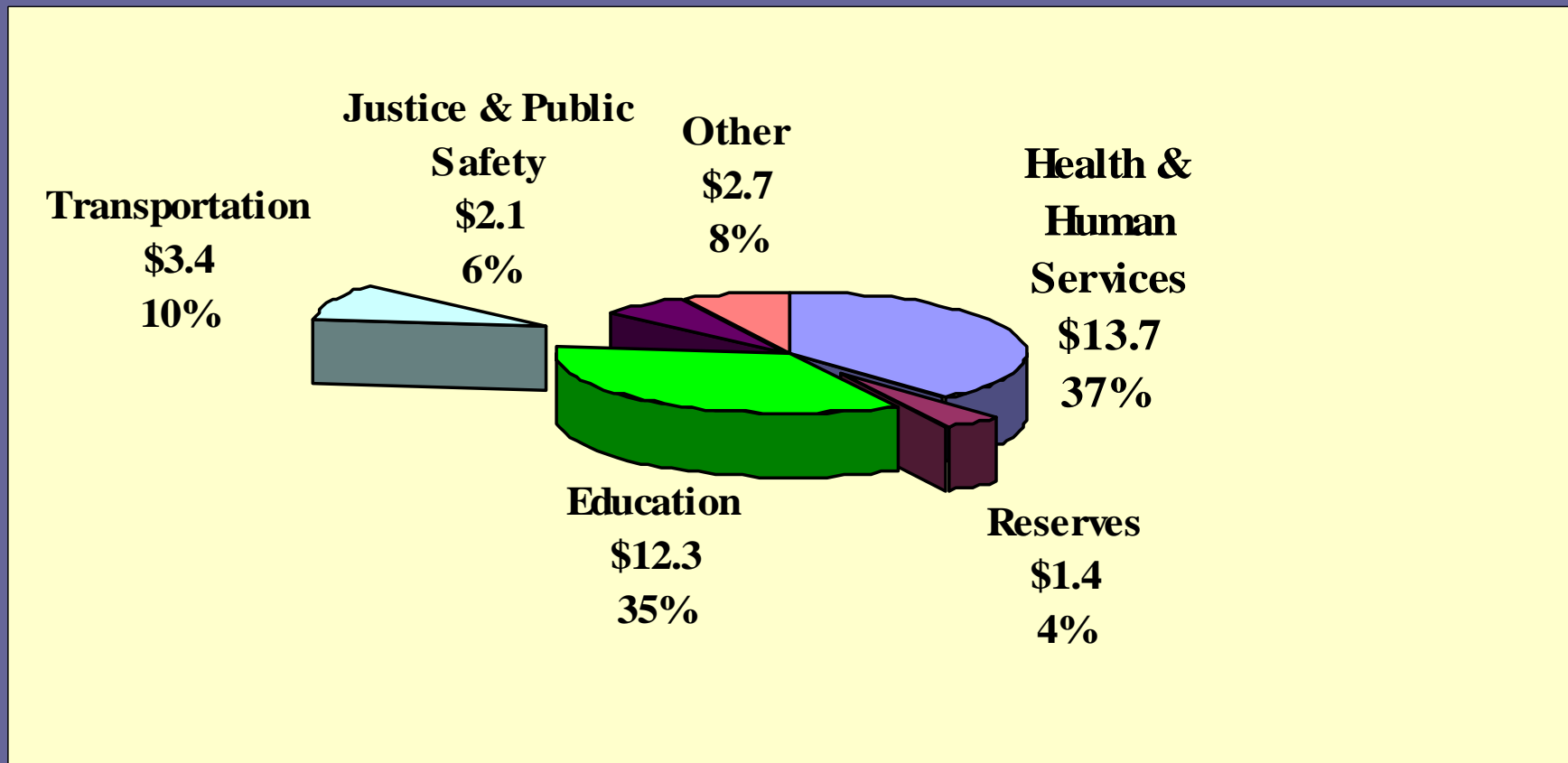
FY 2006-07

	<u>(\$ millions)</u>	<u>percentage</u>
General Fund	18,866.0	52.92%
Highway Fund/Highway Trust Fund	2,836.88	7.96%
Federal Funds	10,495.71	29.44%
Departmental Receipts/Other Sources	3,452.68	9.68%
Total State Budget -- All Sources	35,651.23	100.00%

Total State Budget by Function

Fiscal Year 2006-07

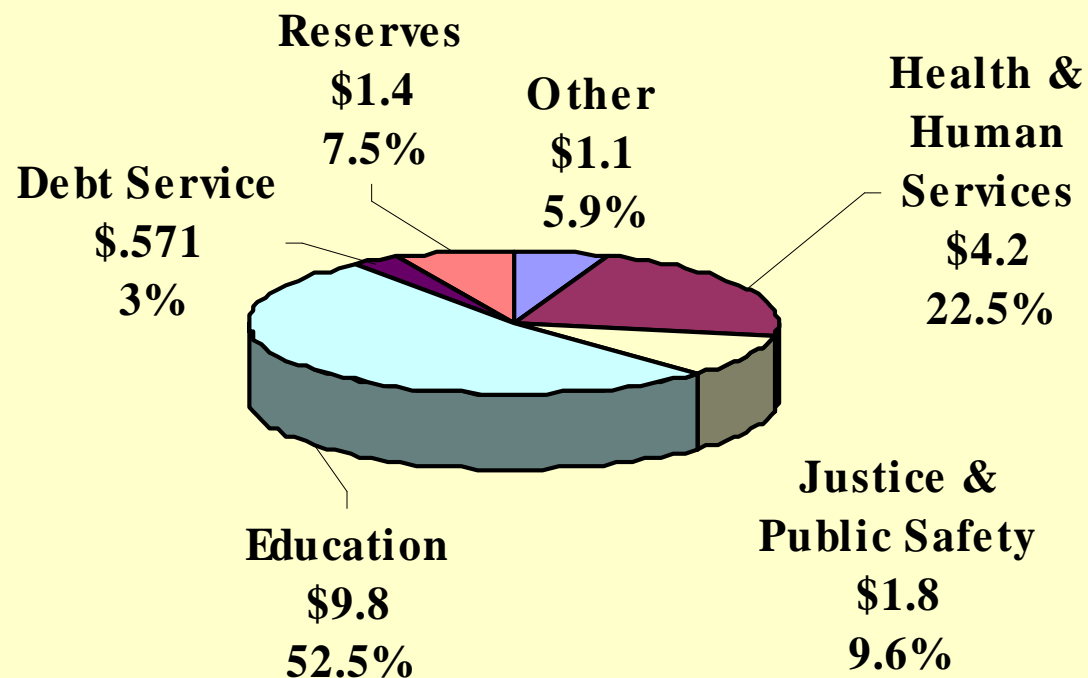
\$35.65 Billion



Total State General Fund Operating Budget by Function

Fiscal Year 2006-07

\$18.66 Billion*



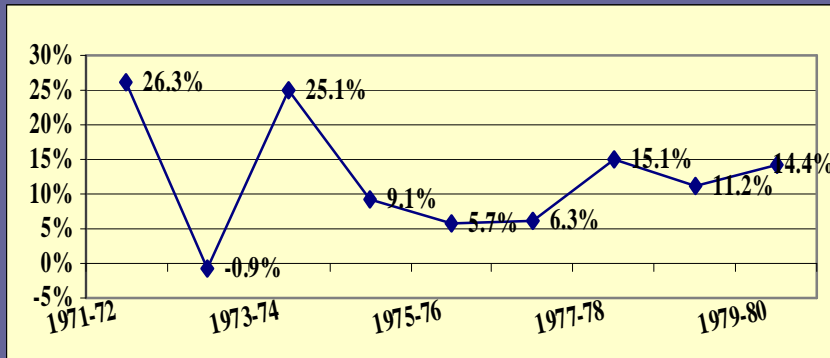
*Excludes Capital Improvements

Historical Trends & Comparisons

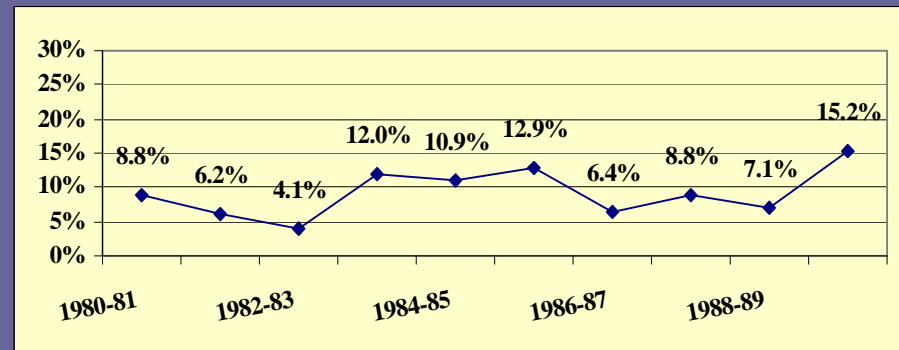
- Total Budget
- Major Program Area Trends



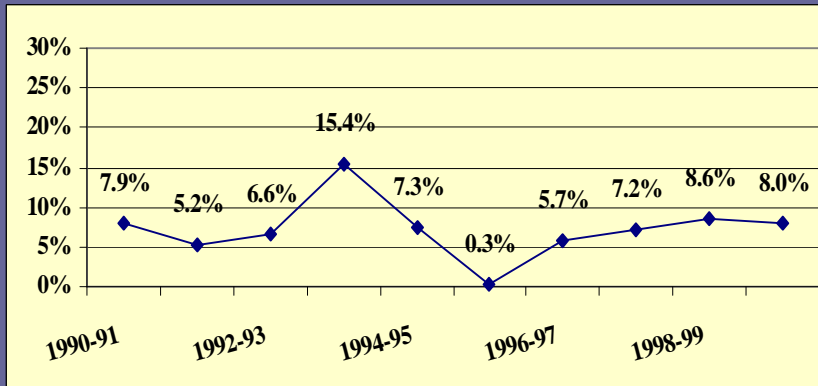
Average Growth in Total State Budget (1970 – present)



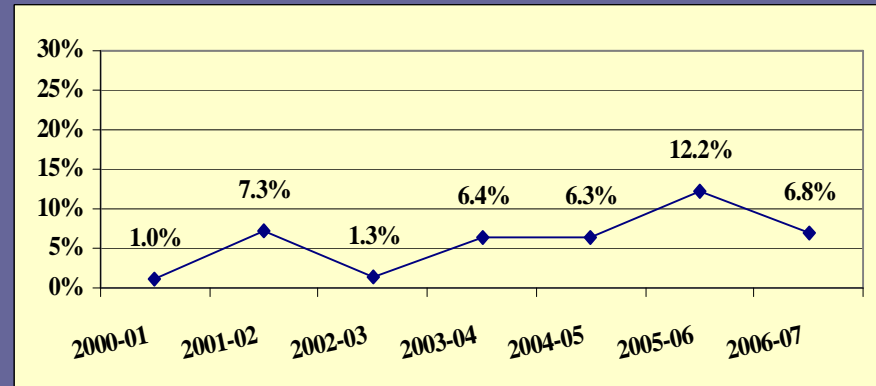
10.6% during 1970's



8.7% during 1980's

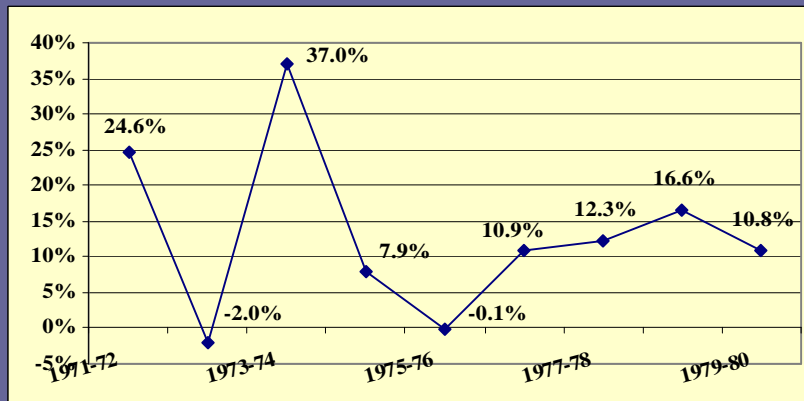


6.7% during 1990's

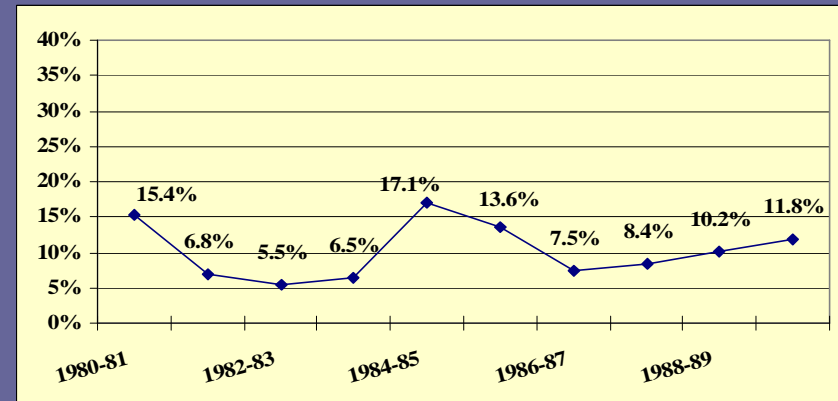


5.8% during 2000's

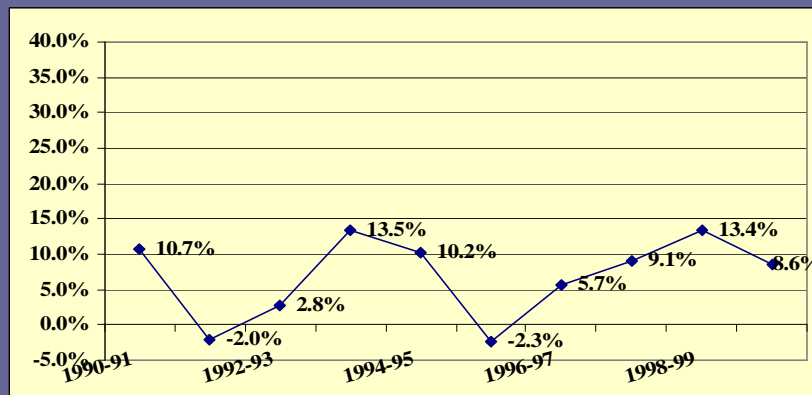
Average Growth in State General Fund Budget (1970 – present)



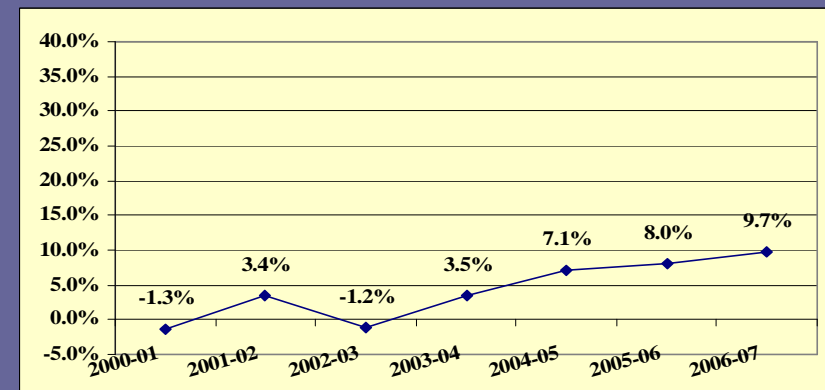
10.6% during 1970's



9.3% during the 1980's



6.6% during 1990's



4.2% during the 2000's

Three Factors Driving State Spending:

- **Changes in Inflation**
- **Changes in Population**
 - State's population averaged 1.7% growth (1995 – 2005)
 - NC now ranks 10th
 - Growth is projected to continue
- **Changes in Spending Priorities in Government Programs/Services**



Priorities in State Government Programs and Services

- State Spending Priorities Have Remained Much the Same
 - Education continues to constitute largest component of state budget
 - Medicaid and Corrections follow
- Other Areas Have Emerged such as Mental Health and Economic Development



Total General Fund Budget by Major Expenditure

Fiscal Year 2006-07 \$18.66 billion

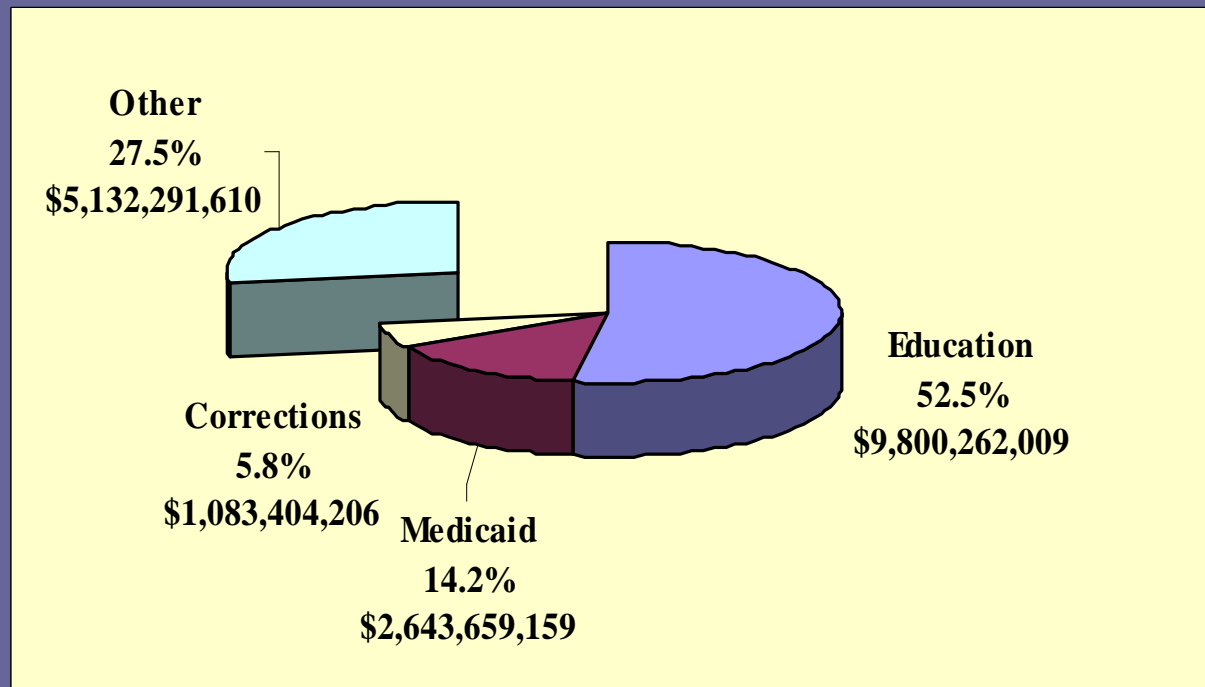
OTHER:

Reserves
\$1.4 b

Natural/Econ Resources
\$.483

Debt Service
\$.571

General Government
\$.392



*Education, Medicaid & Corrections
Constitute 72.5% (Federal & Other Funds
Excluded)*

Percentage Share of State General Fund* Budget

(Education, Medicaid and Corrections)

Fiscal Year	Education	Medicaid	Corrections
1995-96	59.5%	9.5%	7.7%
1996-97	59.6%	10.2%	7.8%
1997-98	60.3%	10.3%	7.4%
1998-99	59.5%	9.8%	7.3%
1999-00	58.0%	9.6%	6.8%
2000-01	61.0%	11.6%	6.8%
2001-02	58.8%	12.7%	6.4%
2002-03	59.2%	14.5%	6.2%
2003-04	58.8%	14.0%	6.5%
2004-05	58.3%	13.7%	6.3%
2005-06	58.4%	15.3%	6.4%

*State Funds Only

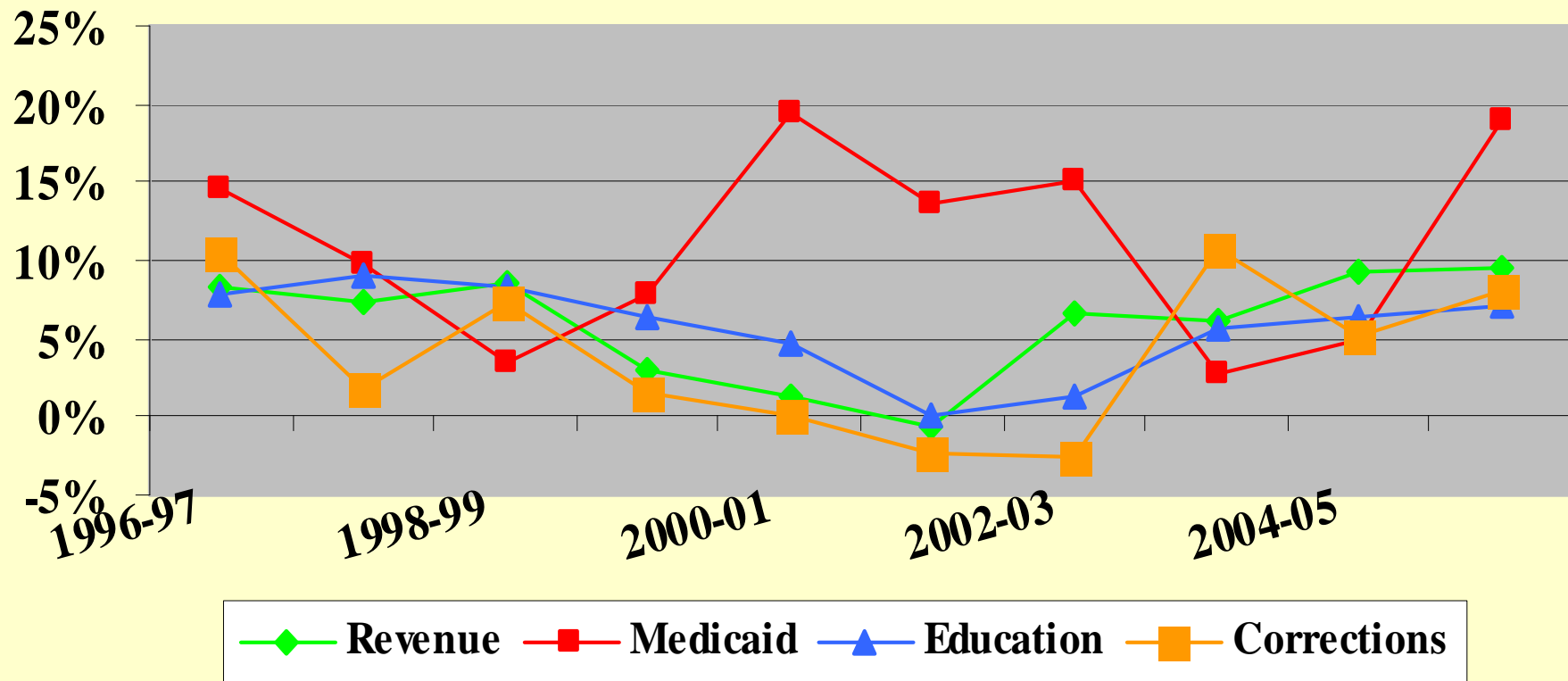
Actual Percentage Growth by Fiscal Year: Revenue Collections vs. Expenditures (Medicaid, Education and Corrections)

Fiscal Year	Revenue*	Medicaid	Education	Corrections
1996-97	8.40%	14.64%	7.93%	10.37%
1997-98	7.23%	9.78%	8.96%	1.85%
1998-99	8.58%	3.38%	8.22%	7.40%
1999-00	3.07%	7.90%	6.41%	1.58%
2000-01	1.21%	19.47%	4.57%	0.00%
2001-02	-0.76%	13.62%	0.03%	-2.34%
2002-03	6.67%	15.18%	1.40%	-2.51%
2003-04	6.21%	2.86%	5.52%	10.63%
2004-05	9.31%	4.97%	6.42%	5.07%
2005-06	9.47%	18.98%	7.11%	8.14%

*Reflects State General Fund Only

Actual Revenue Collections vs. Major Expenditures

Percentage Growth From Previous Fiscal Year



Changes in Total State Spending*

FY 1996/97 – FY 2005/06

	FY 1996/97	FY 2005/06	Change	% Increase
Medicaid	1,046.9	2,916.0	1,869.1	178.5%
Education	6,145.6	9,838.3	3,692.7	60.1%
Corrections	809.0	1,076.0	267.0	33.0%
All Other	2,308.0	3,015.8	707.8	30.7%
TOTAL	\$10,309.5	\$16,846.1	\$6,536.6	63.4%

*Spending in Millions

Outlook for 2007 Session

- National Picture
- General Fund Budget Outlook



National Picture

- National Conference of State Legislatures *State Budget Update: November 2006* reports:
 - 29 States will focus on Education
 - 23 will focus on Medicaid/Health Care
 - 16 will focus on Taxes
 - 16 will focus on structural issues relating to the Budget
- Revenue Performance is Key



General Fund Budget Outlook 2007 Session

- Wide Array of Budget Issues
- Pressing Areas: Education, and Medicaid – together equal 60% of state general fund appropriations.
- Other issues include State Health Plan & Retiree Health Care, State Infrastructure, Corrections, among others.
- **Typical Approach: Comparison of Anticipated Revenues with Possible Expenditure Requirements**

Expenditure Requirements

- Start with Current Year Operating Budget
 - FY 2006-07 \$18.659 billion
 - Remove Non-recurring Items* (300 million)
 - Adjust for Continuation Budget ?
(Inflationary Increases)

- “Mandated” Increases
 - Public Schools Increase in ADM 200 million
 - Medicaid Program Growth ?
 - Debt Service Requirements 50.5 million
 - Universities/Community Colleges 53.5 million

*Estimates only for discussion purposes

Typical Expansion Budget Items

- State Health Plan \$148.5 million
- Mental Health LME's 18 million
 - Administration only
 - Does not include program/services
- Retirement System Payback 45 million
- ABC Bonuses 90 million
- Capital Improvements
- State Government Infrastructure

Additional High Priority Items

- Budget Stabilization Reserve Account
 - Earmarked as 25% of the unreserved fund balance (G.S. 143-15.3)
 - Current Balance is \$634 million
- Repairs & Renovations Reserve
 - 3% of the replacement value of facilities supported by the General Fund (G.S. 143-15.3A)

Final Points

Does the State have a budget gap?

- Too Many Unknowns

 - Consensus Revenue Forecast

 - Medicaid Policy & Costs

 - Legislative Priorities

 - Congressional & Federal Government

 - Action

- Structural Budget Issues



Questions or More Information?

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