

*MANAGEMENT'S
DISCUSSION AND
ANALYSIS*

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following is a narrative overview and analysis of the State of North Carolina's (the State) financial performance for the fiscal year ended June 30, 2024. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

- The State's total net position increased by \$4.89 billion or 5.61% as a result of this year's operations. Net position of governmental activities increased by \$3.79 billion (4.75%) and net position of business-type activities increased by \$1.1 billion (or 15%). At year-end, net position of governmental activities and business-type activities totaled \$83.68 billion and \$8.47 billion, respectively.
- Component units reported net position of \$29.66 billion, an increase of \$3.47 billion or 13.25% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

Fund Financial Statements

- The fund balance of the General Fund decreased from \$22.4 billion at June 30, 2023 (as restated) to \$20.89 billion at June 30, 2024, a decrease of 6.73%. The decrease was mainly due to an increase of expenditures for Medicaid expansion, educational state aid to local education agencies, community colleges, and state universities, and economic development initiatives.
- The Highway Fund reported a fund balance of \$1.17 billion at June 30, 2024, a decrease of \$27.69 million from the previous year with a fund balance of \$1.2 billion at June 30, 2023. This decrease was mainly due to the expenditures for highway and other infrastructure maintenance as well as an increase in operating costs that surpassed revenues.
- The Highway Trust Fund reported a fund balance of \$844.46 million, a decrease of 21.46% from the previous year. The fund balance decrease is attributable to expenditures outpacing revenues.
- The Unemployment Compensation Fund reported net position of \$5.24 billion at June 30, 2024 compared to \$4.56 billion at June 30, 2023, as restated, an increase of \$681.23 million or 14.94%. The increase in net position is related to various fluctuations. Unemployment rates remained low during the 2023-24 fiscal year, with a rate of 3.6% reported in June 2024.
- The N.C. State Lottery Fund reported net ticket sales of \$5.38 billion, an increase of 23.78% from the previous year. As required by law, the Lottery transferred \$1.092 billion to the General Fund to support educational programs.
- The N.C. Turnpike Authority (NCTA) reported net position of \$588.3 million, an increase of \$262.86 million or 80.77% from the previous year. The NCTA reported operating income of \$34.31 million, which represents an increase of \$32 million from the prior year, related to a \$17.39 million increase in operating revenues, mostly related to toll revenues, and a \$14.61 million decrease in operating expenses, mostly related to a decrease in capital outlay. NCTA also had a \$31.48 million decrease in nonoperating expenses, mostly related to a decrease of \$30.82 million in debt interest and fees. NCTA also reported \$172.42 million in capital contributions, an increase of \$96.97 million, and \$130.35 million in transfers in, an increase of \$17.37 million, which contributed to the increase in net position.
- The EPA Revolving Loan Fund reported net position of \$2.37 billion, an increase of 6.83% from the previous year. Operating income was \$3.48 million, and net nonoperating revenues of \$124.53 million consisted primarily of federal capitalization grants.

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was \$73.02 billion, an increase of 5.56% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for state highway projects (\$3 billion), an expressway project (\$981.02 million), a new system for managing and administering social service benefits (\$789.98 million), a relocation project for the DHHS campus (\$175.21 million), and a new education campus to house several educational system offices (\$39.15 million).

Long-term Debt

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes from direct borrowings) of \$7.19 billion, a decrease of 4.43% from the previous fiscal year-end.
- In connection with the limited obligation bonds, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 14 states with a triple-A rating from all three rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (pension and other postemployment benefits trend information and General Fund budgetary schedule) and other supplementary information (combining financial statements) in addition to the basic financial statements. These components are described below.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Position (pages 50 and 51) presents all the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 52 and 52) presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In the government-wide financial statements, the State's activities are divided into three categories:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 76. Discretely presented component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 184 and 185).

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 274 begins the individual fund data for the nonmajor funds. The State's funds are divided into three categories (governmental, proprietary, and fiduciary) and they use different accounting approaches.

Governmental funds – Most of the State's basic services are reported in the governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., inflows and outflows of spendable resources) and the balances left at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements using the modified accrual basis of accounting and a current financial resources measurement focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationships (or differences) between them. Information is presented separately in the governmental fund financial statements for the General Fund, the Highway Fund, and the Highway Trust Fund, all of which are considered to be major funds. Data for all other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds – When the State charges customers for the services it provides, whether to outside customers or to agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, which is the same method used by private sector businesses. Enterprise funds are used to report activities for which fees are charged to external users for goods and services. The Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the State's most significant enterprise funds. Internal service funds are used to report activities that provide goods and services to the State's other programs and activities on a cost-reimbursement basis,

such as the State Property Fire Insurance Fund, the Motor Fleet Management Fund, Computing Services Fund, and the State Telecommunications Services Fund. Because the State's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority, all of which are considered to be major funds. Conversely, separately aggregated columns are presented for the nonmajor enterprise funds and the internal service funds. Individual fund data for the nonmajor enterprise funds and internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These funds include pension and other employee benefit trust funds, private-purpose trust funds, and custodial funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 74 of this report.

Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes: 1) pension plan and employer trend information related to the net pension liability, employer contributions, and investment returns, 2) information related to the total pension liability for pension plans not administered through a trust, 3) other postemployment benefits (OPEB) trend information related to the net OPEB liability, employer contributions, and investment returns, and 4) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

Other Supplementary Information

Other supplementary information includes the introductory section; combining financial statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds, and nonmajor discretely presented component units; a statement of cash flows for the State Health Plan, a major component unit, which does not issue separate financial statements; and the statistical section.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The State's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$92.14 billion at the close of the most recent fiscal year (see total primary government column). The following table was derived from the government-wide Statement of Net Position:

Net Position as of June 30, 2024 and 2023

(dollars in thousands)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total Primary</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>		<u>Percentage</u>
	<u>2024</u>	<u>2023**</u> <u>(as restated)</u>	<u>2024</u>	<u>2023</u> <u>(as restated)</u>	<u>2024</u>	<u>2023**</u> <u>(as restated)</u>	<u>Change</u> <u>2023-24</u>
Current and other non-current assets	\$43,884,547	\$40,500,527	\$9,410,173	\$8,279,370	\$53,294,720	\$48,779,897	9.26%
Capital assets, net	69,877,598	66,281,599	3,145,675	2,895,503	73,023,273	69,177,102	5.56%
Total assets	<u>113,762,145</u>	<u>106,782,126</u>	<u>12,555,848</u>	<u>11,174,873</u>	<u>126,317,993</u>	<u>117,956,999</u>	<u>7.09%</u>
Total deferred outflows of resources	5,935,478	4,056,216	123,333	88,278	6,058,811	4,144,494	46.19%
Long-term liabilities	16,789,003	16,519,539	3,131,638	2,824,384	19,920,641	19,343,923	2.98%
Other liabilities	15,903,561	11,823,700	978,808	1,002,019	16,882,369	12,825,719	31.63%
Total liabilities	<u>32,692,564</u>	<u>28,343,239</u>	<u>4,110,446</u>	<u>3,826,403</u>	<u>36,803,010</u>	<u>32,169,642</u>	<u>14.40%</u>
Total deferred inflows of resources	3,329,737	2,707,431	102,610	75,171	3,432,347	2,782,602	23.35%
Net position:							
Net investment in capital assets	66,300,651	62,491,254	810,927	598,198	67,111,578	63,089,452	6.38%
Restricted	2,050,249	1,788,260	181,140	166,230	2,231,389	1,954,490	14.17%
Unrestricted	<u>15,324,422</u>	<u>15,508,158</u>	<u>7,474,058</u>	<u>6,597,149</u>	<u>22,798,480</u>	<u>22,105,307</u>	<u>3.14%</u>
Total net position	<u>\$83,675,322</u>	<u>\$79,787,672</u>	<u>\$8,466,125</u>	<u>\$7,361,577</u>	<u>\$92,141,447</u>	<u>\$87,149,249</u>	<u>5.73%</u>

** Net position – ending as reported in the 2023 (as restated) columns for Governmental Activities and Total Primary Government in the table on the preceding page (Changes in Net Position for Fiscal Years Ending June 30, 2024 and 2023) is \$100.2 million less than the restated net position at July 1 reported on Exhibit A-2 and Note 23. This difference represents the amount of restated grouped assets in governmental funds related to the adoption of Implementation Guide 2021-1, Section 5.1. in the current fiscal year.

The largest component of the State's net position (72.84% for fiscal year 2024) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. An additional portion of net position represents restricted net position (\$2.23 billion). Net position is restricted when constraints placed on its use is either 1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or, 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net position, consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

The government-wide statement of net position for governmental activities reflects unrestricted net position of \$15.32 billion at June 30, 2024, a decrease of \$183.74 million from the prior year or 1.18%. The State of North Carolina, like many other state and local governments, issues general obligation debt and special indebtedness and distributes the proceeds to state agencies, local governments, and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings throughout the State, including the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the \$4.81 billion bonds and special indebtedness outstanding for governmental activities at June 30, 2024, approximately \$1.9 billion is attributable to debt issued as state aid to component units and local governments. The statements of net position of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. However, by issuing such debt, the State is left to reflect significant liabilities on its statement of net position (reflected in the unrestricted net position component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances.

Additionally, as of June 30, 2024, the State's governmental activities have significant unfunded liabilities for compensated absences of \$625.04 million, pension liabilities of \$4.15 billion, net OPEB liabilities of \$5.22 billion, workers' compensation of \$608.12 million, and claims and judgments payable of \$731.7 million (see Note 8 to the financial statements).

The State's overall net position increased \$4.89 billion or 5.61% (total primary government) from the prior fiscal year. The net position of the governmental activities increased \$3.79 billion or 4.75% and business-type activities increased \$1.1 billion or 15%. The following financial information was derived from the government-wide Statement of Activities:

Changes in Net Position for the Fiscal Years Ended June 30, 2024 and 2023
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2023-24
	2024	2023** (as restated)	2024	2023 (as restated)	2024	2023** (as restated)	
Revenues:							
Program revenues							
Charges for services	\$ 3,688,248	\$ 3,275,585	\$ 6,565,265	\$ 5,436,216	\$ 10,253,513	\$ 8,711,801	17.70%
Operating grants and contributions	31,868,809	31,073,628	335,070	320,229	32,203,879	31,393,857	2.58%
Capital grants and contributions	1,264,471	1,266,732	172,643	75,564	1,437,114	1,342,296	7.06%
General revenues							
Taxes:							
Individual income tax	16,464,017	16,799,392	—	—	16,464,017	16,799,392	(2.00%)
Corporate income tax	1,501,535	1,728,595	—	—	1,501,535	1,728,595	(13.14%)
Sales and use tax	12,099,961	11,657,850	—	—	12,099,961	11,657,850	3.79%
Motor fuels tax	2,499,716	2,619,790	—	—	2,499,716	2,619,790	(4.58%)
Franchise tax	738,220	857,100	—	—	738,220	857,100	(13.87%)
Highway use tax	1,195,898	1,186,526	—	—	1,195,898	1,186,526	0.79%
Insurance tax	1,238,193	1,165,117	—	—	1,238,193	1,165,117	6.27%
Beverage tax	591,463	592,168	—	—	591,463	592,168	(0.12%)
Tobacco products tax	257,414	283,849	—	—	257,414	283,849	(9.31%)
Other taxes	386,324	339,835	—	—	386,324	339,835	13.68%
Tobacco settlement	119,212	156,549	—	—	119,212	156,549	(23.85%)
Federal COVID-19	470,171	673,203	—	—	470,171	673,203	(30.16%)
Unrestricted investment earnings	988,438	553,841	—	—	988,438	553,841	78.47%
Noncapital contributions	6,843	35,475	325	747	7,168	36,222	(80.21%)
Miscellaneous	75,960	79,241	748	—	76,708	79,241	(3.20%)
Total revenues	<u>75,454,893</u>	<u>74,344,476</u>	<u>7,074,051</u>	<u>5,832,756</u>	<u>82,528,944</u>	<u>80,177,232</u>	<u>2.93%</u>
Expenses:							
General government	3,086,211	2,751,093	—	—	3,086,211	2,751,093	12.18%
Primary and secondary education	16,203,270	15,512,806	—	—	16,203,270	15,512,806	4.45%
Higher education	6,546,740	5,665,180	—	—	6,546,740	5,665,180	15.56%
Health and human services	34,623,699	32,313,673	—	—	34,623,699	32,313,673	7.15%
Economic development	1,366,638	756,992	—	—	1,366,638	756,992	80.54%
Environment and natural resources	1,188,692	865,794	—	—	1,188,692	865,794	37.30%
Public safety, corrections and regulation	4,775,262	4,269,861	—	—	4,775,262	4,269,861	11.84%
Transportation	4,404,717	3,825,507	—	—	4,404,717	3,825,507	15.14%
Agriculture	302,166	396,929	—	—	302,166	396,929	(23.87%)
Interest on long-term debt	149,195	172,351	—	—	149,195	172,351	(13.44%)
Unemployment compensation	—	—	232,396	276,982	232,396	276,982	(16.10%)
N.C. State Lottery	—	—	4,291,544	3,332,492	4,291,544	3,332,492	28.78%
EPA Revolving Loan	—	—	55,403	21,005	55,403	21,005	163.76%
N.C. Turnpike Authority	—	—	187,270	224,730	187,270	224,730	(16.67%)
Regulatory programs	—	—	168,506	152,144	168,506	152,144	10.75%
Insurance programs	—	—	34,925	37,217	34,925	37,217	(6.16%)
North Carolina State Fair	—	—	14,757	16,728	14,757	16,728	(11.78%)
Other business-type activities	—	—	16,606	15,852	16,606	15,852	4.76%
Total expenses	<u>72,646,590</u>	<u>66,530,186</u>	<u>5,001,407</u>	<u>4,077,150</u>	<u>77,647,997</u>	<u>70,607,336</u>	<u>9.97%</u>
Increase in net position							
before contributions and transfers	2,808,303	7,814,290	2,072,644	1,755,606	4,880,947	9,569,896	(49.00%)
Contributions to permanent funds	11,048	9,925	—	—	11,048	9,925	11.31%
Transfers	968,096	888,056	(968,096)	(888,056)	—	—	—
Increase (decrease) in net position	3,787,447	8,712,271	1,104,548	867,550	4,891,995	9,579,821	(48.93%)
Net position - beginning - restated	79,887,875	71,075,401	7,361,577	6,494,027	87,249,452	77,569,428	12.48%
Net position - ending	<u>\$ 83,675,322</u>	<u>\$ 79,787,672</u>	<u>\$ 8,466,125</u>	<u>\$ 7,361,577</u>	<u>\$ 92,141,447</u>	<u>\$ 87,149,249</u>	<u>5.73%</u>

Governmental Activities. For fiscal year 2024, revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State’s business-type activities, an increase in net position of \$3.79 billion (4.75%) resulted for governmental activities. Total revenues increased by \$1.11 billion (1.49%) while total expenses increased by \$6.12 billion (9.19%).

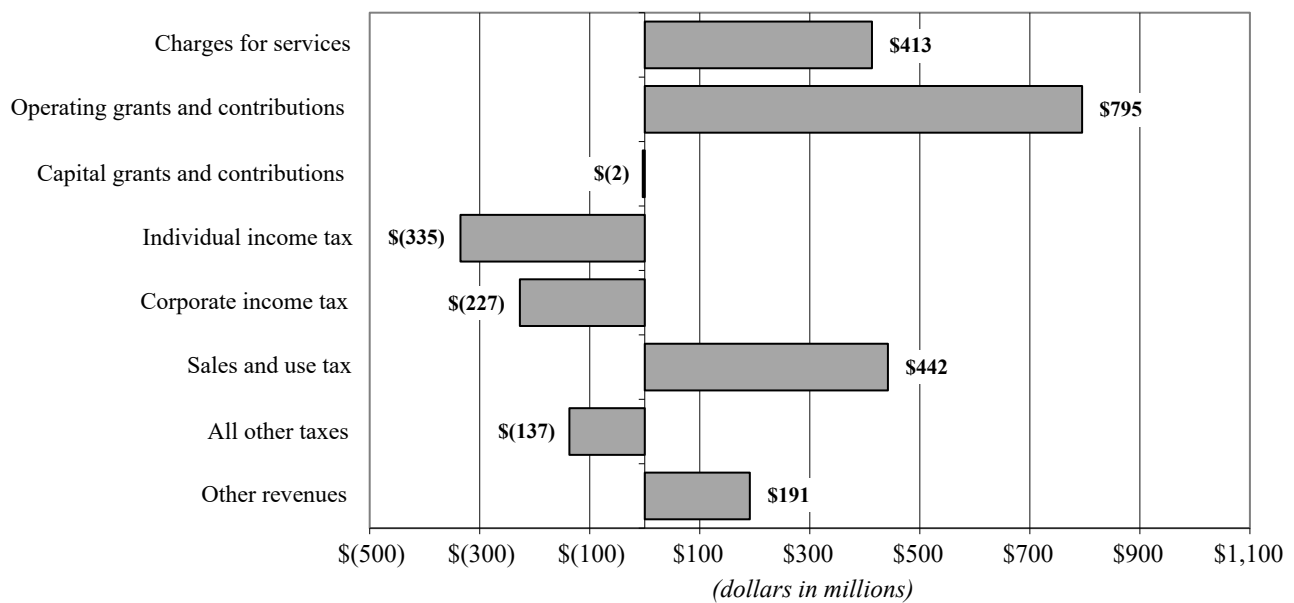
The following factors were the primary reasons for the increase in total revenues:

- Operating grants and contributions saw an increase of \$795.18 million or 2.56%, primarily due to the Medicaid Expansion that commenced on December 1, 2023. This initiative added nearly 500,000 new Medicaid members, with 90% of their costs being funded by federal receipts.
- Sales and use tax experienced an increase of \$442.11 million, representing a growth of 3.79%. This positive trend can be attributed to the sustained strength in consumer spending throughout the year.
- Charges for services rose by \$412.66 million or 12.6%. This increase is primarily attributed to the assessments collected from hospitals related to non-federal shares of the Medicaid expansion program, which encompasses both services and administrative costs.

The reduction in individual income tax partially offset the revenue increases, with a decrease of \$335.38 million (2%) resulting from Session Law 2021-180 that lowered the individual income tax rate from 4.99% to 4.75%, effective January 1, 2023.

The following chart reflects the dollar change in governmental activities revenues by source between fiscal years 2023 and 2024:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2023 and 2024**



For fiscal year 2024, spending significantly increased in almost all of the State’s functional areas, except for agriculture and interest on Long-term debt. Activity within agriculture function experienced a decline, primarily driven by a decrease in disaster relief spending when comparing fiscal year 2024 to fiscal year 2023.

Total health and human services (HHS) spending increased by \$2.31 billion or 7.15%. These increases were driven primarily by three factors: 1) gradual continuing coverage of Medicaid eligibility redetermination since the end of the public health emergency, 2) the implementation of Medicaid Expansion, and 3) increased spending associated with the Healthcare Access and Stabilization Program (HASP). Medicaid Expansion and HASP did not require any increase in State funding, as the expansions were fully supported by federal funds.

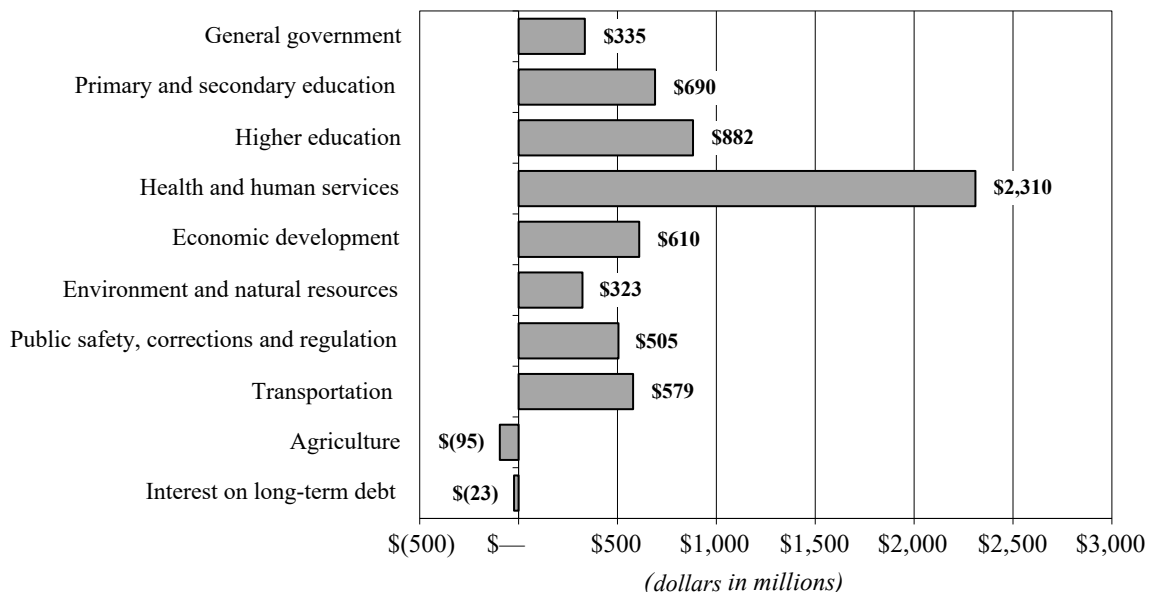
In fiscal year 2024, funding for higher education experienced a substantial increase of \$881.56 million, representing a growth of 15.56%. Similarly, primary and secondary education saw an increase of \$690.46 million, or 4.45%. This significant growth in educational funding is primarily attributed to the enhanced state aid allocated to local education agencies (LEAs), community colleges, and state universities, which has been bolstered by the availability of COVID-19 relief funds.

Economic development increased by \$609.65 million, or 80.54%. This significant growth can be attributed in part to increased spending on the recent Job Development Investment Grant (JDIG) initiative with Toyota for job creation, education investment, and workforce development. Additionally, a new state program awarded funding to NCInnovation, a new component unit of the State created to connect public university researchers with industry partners, private sector knowledge, and support services to accelerate effective commercialization strategies across the State.

Transportation spending increased by \$579.21 million, a growth of 15.14%. The primary factor for this increase is due to the authorization by Session Law 2023-134 to award grants from the Transportation Reserve Fund to various local county airports for improvements.

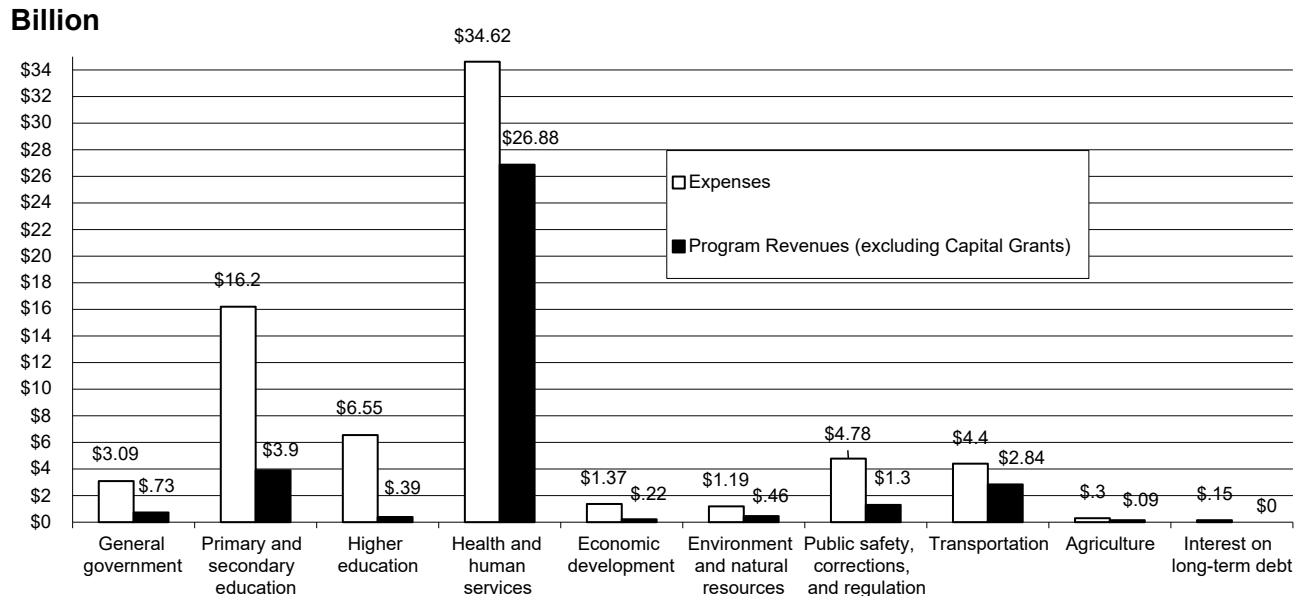
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2023 and 2024:

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2023 and 2024**



The following chart depicts the total expenses and total program revenues of the State’s governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

**Expenses and Program Revenues - Governmental Activities
For the Fiscal Year Ended June 30, 2024**



Business-type Activities. Business-type activities reflect an overall increase in net position of \$1.1 billion or 15%, primarily due to the increase in net position in the Unemployment Compensation Fund. The increase in net position of \$681.23 million or 14.94% in the Unemployment Compensation Fund (Trust Fund) related to various fluctuations. The Trust Fund reported operating income of \$581.12 million, an increase of \$113.06 million or 24.15%. The increase in operating income related to a \$73.63 million or 10.21% increase in employer unemployment contributions received and a \$46.34 million or 16.89% decrease in unemployment benefits paid. The Trust Fund also reported nonoperating revenues of \$117.28 million, which included \$121.13 million in investment earnings, noncapital grants of \$482 thousand, and miscellaneous expenses of \$4.33 million. The N.C. Turnpike Authority’s (NCTA) net position increased by \$262.86 million or 80.77% primarily due to receiving \$172.42 million in capital contributions, an increase of \$96.97 million or 128.51% from the prior year. NCTA also received \$130.35 million in transfers related to project participation from the Highway and Highway Trust Funds in the current fiscal year, which is an increase of \$17.37 million or 15.37% from the prior year. Along with the capital contributions and transfers, NCTA reported \$34.31 million in operating income and \$69.47 million in nonoperating expenses. The net position increase of \$151.74 million or 6.83% in the EPA Revolving Loan Fund is due to the Loan Fund continuing to focus on streamlining its processes resulting in more infrastructure projects completed during the year, using a cash flow model to better predict fund disbursements and revenue, and prioritizing the spending of funds from the U.S. EPA (federal) capitalization grant for these projects. The N.C. State Lottery Fund’s net position did not change and will continue to remain constant as a result of legislative changes in the methodology used to calculate net revenues to be distributed to the State’s governmental activities, as required by statute. A more detailed discussion of the State’s business-type enterprise activities is provided in the following section (see Enterprise Funds).

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. At June 30, 2024, the State's governmental funds reported combined fund balances of \$27.63 billion, a decrease of 1.94% from the prior fiscal year-end (as restated). Of this amount, \$5.36 billion is classified as unassigned fund balance in the General Fund (available for spending at the State's discretion). The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (e.g., inventories), 2) restricted for particular purposes by external sources, 3) committed for particular purposes by the General Assembly, or 4) assigned for particular purposes by the Office of State Budget and Management. The major governmental funds are discussed individually below.

General Fund

The General Fund serves as the primary operating fund for the State. As of June 30, 2024, the General Fund fund balance decreased by 6.73%, or \$1.51 billion, to \$20.89 billion. Although General Fund revenues grew slightly from \$66.64 billion to \$67.31 billion, a 1% increase, expenditures rose at a more significant rate, climbing by \$5.11 billion (8.12%) from \$62.98 billion to \$68.09 billion.

This increase in expenditures was observed across all general fund functions and was primarily driven by Medicaid Expansion, state aid to local education agencies (LEAs), community colleges, state universities, and various economic development initiatives. While revenues from federal funds and fees, licenses, and fines saw substantial gains of \$2.24 billion (8.79%) and \$424.57 million (34.77%), respectively, these were counterbalanced by declines in Federal COVID-19 funds (\$2.06 billion or 38.85%), as well as drops in individual (\$335.38 million or 2%) and corporate income taxes (\$216.22 million or 12.53%).

Historically, the Medicaid program has been a significant driver for the General Fund. In fiscal year 2024, Medicaid enrollment increased by 40,005 members (1.36%). This growth is attributed to the FFCRA requirement, which ensured that beneficiaries receiving enhanced FMAP coverage could not be dropped or downgraded during the COVID-19 public health emergency. Additionally, the State's Medicaid expansion, launched in December 2023, enrolled 479,150 members by the fiscal year-end. As a result, both federal fund receipts and expenditures significantly grew, with 90% of the costs covered by federal funding. Additionally, the Medicaid program concluded the fiscal year with \$4 million in unspent state appropriations, reverting these funds to the General Fund. This marks the 11th consecutive year that the Medicaid program has ended with cash reserves, a contrast to the nearly \$2 billion shortfall experienced over four years prior to fiscal year 2014.

While the increase in federal receipts for Medicaid expansion was significant, it was largely offset by a reduction in Federal COVID-19 relief funds, impacting programs for immunizations, testing, low-income heating subsidies, and childcare assistance. Moreover, overall tax revenues in the General Fund decreased by \$532.22 million (1.6%) in fiscal year 2024. The decline in individual income tax collections was largely due to legislative changes affecting withholding amounts for tax years 2023 and 2024. Specifically, Session Law 2021-180 reduced the individual income tax rate from 4.99% to 4.75%, effective January 1, 2023, while Session Law 2023-134 further lowered this rate to 4.5%, effective January 1, 2024. Corporate income tax revenues also fell by \$216.22 million (12.53%) compared to the previous year, primarily due to a reclassification of business tax collections, shifting from corporate to individual income tax. Although this change does not affect overall General Fund revenue, it results in a notable decrease in corporate income tax collections.

North Carolina's labor market has continued to grow through June 2024. The number of payroll jobs in North Carolina has increased steadily since the pandemic shutdown in 2020, according to data compiled by the Bureau of Labor Statistics. By March 2023, the seasonally adjusted unemployment rate had fallen to 3.3% and has been in the range of 3.3% to 3.6% through June 2024. The number of non-farm jobs was over 5 million in June 2024. In June 2024, there were 67,200 more jobs than in June 2023 and 211,400 more than in June 2022. The trend annualized growth rate for employment was 1.4% during the 2023-2024 fiscal year, which slowed from the prior year.

General Fund Budget Variances

The original General Fund budget, including state appropriations and appropriations supported by departmental receipts, serves as a starting point or plan for the Governor to execute the General Fund budget pursuant to the powers granted by the Constitution and State Budget Act. At the state level in North Carolina, it is not unusual for the budget to change during the fiscal year in relation to budget adjustments made to accommodate departmental receipts. The General Fund budget supported by state appropriation is a subset of the General Fund financial schedule presented in the ACFR as required supplementary information. The current ACFR schedule reflects all spending required to support the State's General Fund activities and the funding to support those activities, including state tax and non-tax revenues, federal revenues, student tuition, and other fees, licenses, and fines. Under current state budget management practice, particularly related to departmental federal receipts, primary emphasis is placed on comparisons of the final authorized budget and actual spending.

At the state level, budgetary cuts related to state appropriations are implemented by decreasing allowable actual expenditures, as opposed to decreasing the state appropriation through a formal legislative process. The Governor and state agencies maintain legal authority to spend the dollars originally appropriated to them; furthermore, in past years the actual spending has been limited by the collection of tax and non-tax revenue. In extremely rare cases, the General Assembly has held special sessions to formally amend the authorized and certified state appropriation budget.

The portion of the original budget comprising departmental receipts is not intended to be the sole controlling point to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year as allowed by law. General Fund departmental receipts are typically authorized for expenditure within the activity that generated the receipt. Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies by law must spend departmental receipts prior to spending tax and nontax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

Variance – Original and Final Budget

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process as well as budget adjustments that occurred during fiscal year 2023-24. In January 2023, the Office of State Budget and Management (OSBM) finalized the two-year base budget adopted by the General Assembly for the 2023-25 biennium. This was approximately 10 months prior to the adoption of the adjusted biennial budget which started on July 1, 2024. The amounts budgeted for a two-year budget cycle for federal, intra-governmental transfers, fees/licenses/fines, contributions, gifts, grants, and miscellaneous receipts were all estimates. The final budget reflects all budget revisions made throughout the fiscal year based on adjustments to agency grant and receipt revenue and movement from state reserves. Consequently, significant variances are very likely to occur when the original budget is compared to the final budget.

In addition to the normal administrative adjustments that occurred during the fiscal year, the state was still recovering from the COVID-19 pandemic and expending related funding from the American Rescue Plan Act. The state also expanded Medicaid in the 2023 Appropriations Act, which led to additional payments beyond what was originally budgeted.

Additional factors leading to variances between the original and final budget in fiscal year 2023-24 include the following:

- 1) New unanticipated federal grants and/or increased or decreased amounts in long-standing federally supported programs.
- 2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2022-23 totaled \$917 million, which increased the budget for fiscal year 2023-24 through administrative action.
- 3) Allocation of hurricane disaster funds that were appropriated and authorized in prior years but not expended until fiscal year 2023-24. State functions agriculture, environment and natural resources, and public safety, corrections and regulation were the biggest recipients.
- 4) Budgeting of cash balance for economic development grants and awarded obligations such as the Economic Development Project Grants, and the Industrial Development Fund Utility Account.
- 5) Allocation of statewide reserves to agencies and universities, including salary pay plan reserve, Clean Water Drinking Reserve, and disaster relief funding from both the State Emergency Response and Disaster Relief Fund and the Hurricane Florence Disaster Reserve.
- 6) Budgeting unspent, but appropriated funds from the State Capital and Infrastructure Fund, which totaled approximately \$3 billion in adjustments in fiscal year 2023-24.
- 7) Budgeting unspent federal State Fiscal Recovery funds, which totaled approximately \$3 billion in fiscal year 2023-24.
- 8) Budgeting of cash balances, over-realized receipts, prior year earned revenue, or unanticipated donations and grants.

Variance - Final Budget and Actual Results

Actual total own-source General Fund revenue collected (both tax and non-tax) was 2.99% higher than budgeted revenue amounts in fiscal year 2024. Tax revenues were slightly higher than budgeted (3%), mostly related to higher-than-expected sales tax collections.

Collections for individual income taxes, which accounted for 50.42% of total General Fund tax revenue collections in fiscal year 2023-24, were \$35.36 million (0.21%) higher than budgeted (on a cash basis), although refunds were higher than expected. Refunds were \$562 million (32%) above target. Double payments from pass-through business entity elections beginning in fiscal year 2022-23 drove elevated refunds in fiscal year 2024. Combined non-withholding payments were \$66 million (1.2%) above the fiscal year target. Withholding payments from wage earnings were \$475 million (3.7%) above the fiscal year target. Rising business profits for pass-through business entities drove higher-than-expected collections in non-withholding payments, while strong wage and salary growth drove higher-than-expected withholding payments. Sales and use tax collections, which comprised 35.45% of total General Fund tax revenues in fiscal year 2023-24, were \$935.82 million (8.71%) above budgeted revenue (on a cash basis). Inflation has decelerated at a slower pace than anticipated in the May 2023 consensus forecast, resulting in higher nominal consumer spending. This factor, along with strong consumer spending in fiscal year 2024, accounts for higher-than-expected sales and use tax collections. Corporate income tax collections, which accounted for 4.71% of total General Fund tax revenues in fiscal year 2024, were \$132.7 million (7.87%) below budgeted revenues (on a cash basis). Slower growth than expected for corporate profits in the May 2023 consensus forecast account for lower-than-expected collections in corporate income tax payments. Following the introduction of

North Carolina's pass-through entity tax, many corporations accrued overpayments in fiscal year 2022-23 while adjusting to the change. The resulting correction for prior year overpayments in fiscal year 2023-24 drove the corporate estimated payments below expectations.

Departmental federal funds received by agencies were less than the final authorized budgeted federal fund revenues. A variance between the budget and actual federal funds occurs because actual federal fund receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred by an agency, the actual receipt of federal funds could be significantly less than the budget.

Highway Fund

The Highway Fund dates back to 1921 when the General Assembly first imposed the gasoline tax. It accounts for most of the activities of the North Carolina Department of Transportation (NCDOT), including the maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles, transit, aviation, rail, and ferry system. The primary revenue sources of the Highway Fund are federal funds, 75% of motor fuels taxes, vehicle registration fees, and driver's license fees.

The Highway Fund reported a fund balance of \$1.17 billion at June 30, 2024, a decrease of \$27.69 million from the previous year, which was \$1.2 billion at June 30, 2023. The decrease in fund balance was the result of expenditures for maintaining the highway network and other infrastructure plus increases in operating costs that surpassed revenues.

Total revenues were \$4.72 billion, an increase of 0.96% or \$44.93 million, and total expenditures increased by 9.82% from \$4.88 billion at June 30, 2023 to \$5.36 billion at June 30, 2024. The primary reason for the increase in revenues is the enactment of Session Law 2023-134, Section 2.2.(j), which established \$450 million in transportation reserve funding in fiscal year 2024 to provide grants to various counties for airport improvements and increase funding for general maintenance of State-maintained roads. The legislation also established an additional \$100 million in transportation reserve funding for fiscal year 2025 to be used exclusively for general maintenance. Other factors that increased revenues include a large utility construction project that increased local fund revenue and an increase in the monthly average of the State Treasurer's short-term investment fund (STIF) interest rate from 2.22% in fiscal year 2023 to 4.09% in fiscal year 2024 that increased investment earnings.

Expenditures increased due to the authorization of the NCDOT Division of Aviation to award grants from the Transportation Reserve Fund to various county airports for improvements. Continued increase for capital outlays and increased spending on the maintenance of the State-maintained roads also contributed to the increase.

The State issued \$252.6 million in Grant Anticipation Revenue Vehicles (GARVEE) bonds in September 2021. This innovative financing tool was used to accelerate the construction on a variety of transportation improvement projects across the State by leveraging future federal transportation revenues. As of June 30, 2024, all GARVEE proceeds were spent.

Transportation is fundamental in continuing North Carolina's prosperity and quality of life as the state's population continues to grow. To address the growing demand on the transportation system, increased cost of supplies, and slow growing revenues, NCDOT continues to seek innovative solutions to meet the growing stress on the transportation system. Session Law 2022-74, Section 42.3.(a), established a transfer of a percentage of the sales and use tax to the Highway Fund and Highway Trust Fund. In fiscal year 2024, the percentage transferred to the Highway Fund was 1%. In fiscal year 2025 and thereafter, the percentage to be transferred to the Highway Fund is 1.5%. Session Law 2023-134 increased vehicle registration fees for electric vehicles and plug-in hybrid vehicles. The legislation also created a Transportation Commerce Tax on the gross receipts derived from each for-hire ground transport service that becomes effective July 1, 2025.

Vehicle miles traveled continue to increase each year as conditions from the COVID-19 pandemic continue to rebound. These increases place a heavier burden on the existing infrastructure and accentuate the need for additional capacity, safety, and maintenance funding to address the deterioration in service created by the increase in traffic. Furthermore, many of the State's highways were built as farm-to-market roads and were not designed to handle the heavy traffic volumes of today. Other aging highways, such as the interstate highway system, will also require increasing investment to maintain acceptable condition.

Highway Trust Fund

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet specific highway construction needs in North Carolina. Additionally, the Highway Trust Fund provides allocations for the debt service on limited obligation bonds issued for highway purposes. The principal revenue sources of the Highway Trust Fund are highway use taxes, 25% percent of motor fuels taxes, and various title and registration fees. The enabling legislation was amended in 2008 to require annual transfers to the NCTA to pay debt service or financing expenses for specified toll road construction projects (see Note 10B to the financial statements).

The fund balance of the Highway Trust Fund decreased 21.46% to \$844.46 billion at June 30, 2024. The fund balance decrease is attributable to expenditures for the Strategic Transportation Improvement Program (STIP) and other projects surpassing revenues.

Total revenues were \$2.22 billion, an increase of 18.56% from the prior year. Sales and use taxes were \$319.85 million in fiscal year 2024, which is the first year the Highway Trust Fund received a transfer of a percentage of the sales and use tax. Motor fuels taxes increased by \$17.54 million and highway use taxes increased by \$4.71 million. The increase in highway use tax was due to an increase in the number of transactions to title a motor vehicle in fiscal year 2024 compared to last fiscal year. This was fueled by increased vehicle purchases as the supply chain issues eased and the continuation of new residents moving into North Carolina who must title a vehicle with North Carolina before registering their vehicle.

The Highway Trust Fund reported \$2.17 billion in total transportation expenditures, a decrease of 5.14% or \$117.69 million from the prior year. A reduction in land acquisition and construction payments were the primary reasons for the decrease.

In May 2022, the State issued \$300 million in special indebtedness (limited obligation Build NC Bonds) as authorized by Session Law 2018-16, Session Law 2020-91 and Session Law 2021-189, which allow for up to \$3 billion in bonds over a ten-year period. To date, there have been three issuances totaling \$1.3 billion. The proceeds from the bonds can be used for certain regional and divisional transportation projects contained in the STIP. As of June 30, 2024, the unspent original proceeds of the Build NC Bonds (including Debt Service Reserve Funds) were \$121.4 million.

As discussed under the Highway Fund section, Session Law 2022-74, Section 42.3.(a), which amends General Statute 105-164.44M, established a transfer of a percentage of the sales and use tax to the Highway Fund and the Highway Trust Fund. In fiscal year 2024, 3% of the net proceeds from the State's sales tax were transferred to the Highway Trust Fund. In fiscal year 2025 and thereafter, the percentage to be transferred to the Highway Trust Fund is 4.5%.

ENTERPRISE FUNDS

The State's enterprise funds or business-type activities provide the same type of information found in the government-wide financial statements, but in more detail. The major enterprise funds are discussed individually below.

Unemployment Compensation Fund

The Unemployment Compensation Fund (Unemployment Insurance Trust Fund or "Trust Fund") reported net position of \$5.24 billion at June 30, 2024 compared to a restated net position of \$4.56 billion at June 30, 2023. The \$681.23 million or 14.94% increase in net position is related to various fluctuations in the Trust Fund's activities. Unemployment rates in North Carolina remained low during the 2024 fiscal year, never exceeding 3.6%, which was the unemployment rate in June 2024.

The Trust Fund's operating margin (operating revenues less operating expenses) was \$581.12 million for fiscal year 2024, a \$113.06 million increase or 24.15%. Operating revenues increased by \$66.72 million mostly related to a \$73.63 million increase in employer unemployment contributions received, which were \$794.61 million in the current fiscal year. The increase is attributable to an increase in the number of employers required to make unemployment contributions during the fiscal year compared to the prior year. Operating expenses decreased by \$46.34 million or 16.89% due entirely to a decrease in unemployment benefits paid, which were \$228.06 million for the current fiscal year. The decrease is due to lower unemployment rates in 2023-24 fiscal year compared to the previous fiscal year.

The Trust Fund reported \$117.28 million in nonoperating revenues, which was a decrease of \$54.05 million from the prior year. The Trust Fund reported \$482 thousand in federal noncapital grants during the fiscal year, which is a decrease of \$382 thousand or 382%. In the prior year, the Trust Fund received \$104.77 million in federal COVID-19 funds provided through the CARES ACT (Coronavirus Aid, Relief, and Economic Security Act) and the American Rescue Plan (ARP). These federal COVID-19 funds were not available in the current fiscal year. In addition, the Trust Fund reported \$121.13 million in investment earnings during the year, which was an increase of \$52.14 million or 75.59%. Investment earnings increased due to higher interest rates in the current fiscal year and a \$655.91 million increase in cash balances earning interest.

N.C. State Lottery Fund

The enabling legislation for the N.C. Education Lottery (NCEL) contains a requirement that the net revenues of the NCEL are transferred at least four times a year to the State's General Fund. The legislation defines net revenues as amounts remaining after accrual of expenses for prizes and operations, excluding balance sheet or prior-period expense adjustments of a specific nature. The NCEL transferred \$1.092 billion to the General Fund in 2024 to support educational programs for the State. The amount transferred in 2023 was \$1.016 billion.

For fiscal year 2023-24, net ticket sales increased 23.78% or \$1.03 billion from the previous fiscal year to \$5.38 billion. With this increase in ticket sales, the NCEL saw a corresponding increase in prize payouts of 32.79% or \$939 million, and an overall increase in operating income of 7.35% or \$74.68 million. Significant financial highlights include the following: awarded \$1 million or more

to an NCEL player for the 958th time; released 48 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$2.9 billion; and released Digital Instants, a new type of game, generating \$1.1 billion in gross sales.

N.C. Turnpike Authority

Major accomplishments for the N.C. Turnpike Authority (NCTA) include the Complete 540 project, a greenfield project in the greater Raleigh area in North Carolina that will link the towns of Apex, Cary, Clayton, Garner, Fuquay-Varina, Holly Springs, Knightdale and Raleigh. Phase 1, which extends the existing Triangle Expressway approximately 18.8 miles from N.C. 55 Bypass in Apex to I-40 in southeast Raleigh to partially complete the “Outer Loop” was completed in September 2024. Complete 540 Phase II is currently under construction and is anticipated to open in late 2028. This project will extend the Triangle Expressway to complete a loop around the greater Raleigh area. In addition, under a public-private partnership arrangement with I-77 Mobility Partners, LLC, the NCTA provides operational support to the I-77 Express Lanes and the I-485 Express Lanes.

The NCTA reported operating income of \$34.31 million for fiscal year 2024, which represents an increase in net operating income of \$32 million or 1,386.05% from the prior year. Contributing to the increase was a \$17.39 million increase in operating revenues. Operating revenues predominantly consist of toll revenues, fees, and sales revenue from the sale of transponders. The increase in operating revenues was related to an increase in traffic levels that created a \$13.15 million increase in toll revenues. Operating expenses decreased by \$14.61 million during the year, mostly due to a decrease of \$19.17 million in expenses for supplies and materials, including a \$17.7 million decrease in capital outlay. With the completion of Phase I Complete 540 during the year, capital outlay costs decreased. In addition to the operating income, NCTA reported \$69.47 million in nonoperating expenses (net), which represents a \$31.48 million or (31.18%) decrease mainly due to a \$30.82 million decrease in debt interest and fees related to a \$32.45 million decrease in bond interest expense. Debt interest and fees decreased as a result of NCTA refunding the Series 2010A Build America Bonds during the year.

Funding for administrative expenses continues to be advanced, as needed, from the Highway Trust Fund to be repaid from NCTA revenue collections. Interest continues to accrue on the unpaid balance of the advance.

The high cost of building, operating, and maintaining a major highway facility is typically more than the revenue a new road can generate through tolls. The gap between what tolling can pay for and the cost of the road requires additional support from the State is known as gap funding. These annual transfers from the Highway Trust Fund to the NCTA are used to pay debt service and fund required reserves on bonds issued to finance turnpike projects. The transfers in include funds received from NCDOT’s Highway Fund and Highway Trust Fund during fiscal year 2024 and the Federal Highway Administration State match. Combined transfers in from NCDOT’s Highway Trust Fund and Highway Fund increased by \$17.37 million or 15.37% related to project participation for the construction of the Southern Wake Expressway (Complete 540 project). In addition, the Federal Highway Administration (FHWA) provided additional funding of \$168.96 million in federal capital grants in fiscal year 2024 for the construction of Complete 540. Along with the federal capital funding, NCTA also received \$2.21 million in private capital grants and \$1.25 million in capital gifts. Total capital funding increased by \$96.97 million or 128.51% from the prior year.

NCTA’s operating income, nonoperating net expenses and additional funding from transfers and capital grants and gifts all contributed to an increase of \$262.86 million or 80.77% in net position to \$588.3 million at the end of fiscal year 2024. In addition to factors identified above, the Complete 540 project has significant impacts on NCTA’s balance sheet. Restricted investments increased by \$265.6 million or 84.55% as NCTA invested proceeds from the sale of bonds during the year that were issued to support the Complete 540 project. Land and permanent easements increased by \$46.5 million due to the continued right of way acquisitions for the project, and construction in progress increased by \$237.32 million as the Complete 540 project construction continues. Bonds payable increased by \$291.98 million or 15.23% with the issuance of \$340.36 million of Triangle Expressway System Senior Lien Turnpike Revenue Bonds, Series 2024A and 2024B and \$417.19 million of Triangle Expressway System Revenue Bonds, TIFIA Series 2024. During the year, NCTA also closed on \$182.81 million of Monroe Expressway System State Appropriation Revenue Refunding Bonds, Series 2024 to refund the remaining Series 2010A Build America Bonds. Corresponding to the debt issued during the year, interest payable increased by \$19.08 million or 20.54%.

EPA Revolving Loan Fund

The Environmental Protection Agency (EPA) Revolving Loan Fund (Loan Fund) is comprised of the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund established by General Statute 159G-22 and receives federal and state funds. This Loan Fund was established to provide loans and grants as allowed under federal laws for wastewater projects and public water systems to meet the water infrastructure needs of the State.

The net position of the Loan Fund increased 6.83% or \$151.74 million to \$2.37 billion in fiscal year 2024. This increase in net position is due to the Loan Fund continuing to focus on streamlining its processes (requiring municipalities to follow specified timelines that resulted in more infrastructure projects being completed during the year), using a cash flow model to better predict fund expenditures and revenue, and prioritizing the expenditures from U.S. EPA (federal) capitalization resources versus state matching funds.

The amount of new loans issued during the current year was \$210.65 million, an increase of \$68.42 million or 48.11%, and the amount of principal received on existing loans during the year was \$92.97 million, a \$6.4 million or 7.39% increase. As a result, notes receivable increased by \$117.68 million or 9.24%. The increase in loans issued during the fiscal year is not unusual for a year-over-year fluctuation. Funds are managed with a long-term focus, typically with more loans issued over time. In any given year, there may be a slight increase or decrease from the previous year.

Operating income (operating revenues less operating expenses) was \$3.48 million, a decrease of \$3.85 million from the previous year, or a 52.5% decrease, due to an increase in operating expenses. The Loan fund reported a \$2.88 million increase in operating expenses, mostly related to a \$1.8 million increase in personal services and a \$1.17 million increase in other services. Net nonoperating revenues were \$124.53 million, a \$37.91 million or 43.76% increase from the prior year. Nonoperating revenues consist of noncapital grants (federal capitalization grants) and investment earnings. Noncapital grants were \$133.64 million, a \$17.93 million or 15.5% increase from the prior year related to increases in capitalization grants received from the Infrastructure and Jobs Act. Investment earnings were \$34.57 million, an increase of \$21.69 million or 168.37%, mostly related to a \$13.92 million increase in interest earnings and a \$6.29 million decrease in unrealized losses. Payments for grants, aid and subsidies were \$42.39 million, an increase of \$1.05 million or 2.54%. As the programs continue to grow and capitalization grant funding increases, the State may issue more grants to local municipalities for Clean Water and Drinking Water projects. In addition, the EPA Revolving Loan Fund received \$23.72 million in transfers for appropriated state match funds for Clean Water and Drinking Water projects, a \$4.85 million or 25.67% increase from the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION**CAPITAL ASSETS**

As of June 30, 2024, the State's investment in capital assets was \$73.02 billion, an increase of 5.56% from the previous fiscal year-end (see table below).

Capital Assets as of June 30
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2023		2023		2023	
	2024	(as restated)	2024	(as restated)	2024	(as restated)
Land and permanent easements	\$23,494,115	\$ 22,416,748	\$ 650,650	\$ 604,102	\$24,144,765	\$ 23,020,850
Buildings	2,781,351	2,995,563	54,528	56,972	2,835,879	3,052,535
Machinery and equipment	1,329,140	915,852	6,749	7,421	1,335,889	923,273
Infrastructure:						
State highway system	36,137,609	34,111,784	—	—	36,137,609	34,111,784
NC toll road system	—	—	1,269,585	1,299,269	1,269,585	1,299,269
General infrastructure	227,053	232,494	5,495	5,834	232,548	238,328
Computer software	311,938	286,067	455	380	312,393	286,447
Subscription asset	194,501	208,016	2,258	2,851	196,759	210,867
Art, literature, and other artifacts	190,296	187,454	1,293	1,293	191,589	188,747
Construction in progress	3,747,771	3,533,054	1,148,695	911,150	4,896,466	4,444,204
Computer software in development	1,053,293	1,010,515	—	—	1,053,293	1,010,515
RTU Land and permanent easements	507	442	—	—	507	442
RTU Buildings	407,966	380,737	5,405	5,930	413,371	386,667
RTU Machinery and equipment	899	1,783	562	301	1,461	2,084
RTU General infrastructure	1,159	1,090	—	—	1,159	1,090
Total	<u>\$69,877,598</u>	<u>\$ 66,281,599</u>	<u>\$ 3,145,675</u>	<u>\$ 2,895,503</u>	<u>\$73,023,273</u>	<u>\$ 69,177,102</u>

Total percent change between
fiscal years 2023 and 2024

5.43 %

8.64 %

5.56 %

Total capital assets in the Governmental Activities and Total 2023 (as restated) columns do not agree to the July 1, as restated balances in Note 5. The table above does not include \$100 thousand in restated grouped assets for machinery and equipment, while Note 5 includes the restated grouped assets in the July 1 restated balances.

The largest component of capital assets is the state highway system. North Carolina has an 80,480 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- The NCDOT reported year-end construction in progress of \$3 billion for state highway projects. Additionally, the NCTA (business-type activity) reported year-end construction in progress of \$981.02 million for the Complete 540 project. This project is being completed in two phases and involves completing the 540 loop around the greater Raleigh area. Phase one extends the Triangle Expressway approximately 18 miles while phase two will extend the Expressway an additional 10 miles to complete the 540 loop. NCTA also has \$40.44 million construction in progress for the Mid-Currituck Bridge project. This project is a 7-mile roadway toll project, which includes a two-lane bridge, that spans the Currituck Sound and connects the Currituck County mainland to the Outer Banks; it also includes a second two-lane bridge that spans Maple Swamp on the Currituck County mainland.
- The NC General Assembly (NCGA) is tasked with the planning and construction of a downtown Raleigh Education Campus as appropriated in Session Law 2022-74. The facility will house The University of North Carolina System Office, the Community Colleges System Office, the Department of Public Instruction, and the Department of Commerce. The project will cost \$325 million and is expected to be completed by October 2026. At June 30, 2024, the NCGA reported \$39.15 million in construction in progress.
- The Department of Administration (DOA) is collaborating with the Department of Health and Human Services on the Dorothea Dix campus relocation project pursuant to Session Law 2020-88. Phase 1 of this project consists of the planning expenses associated with the relocation of the campus. The relocation project is scheduled to be completed in January 2026. At June 30, 2024, the DOA reported \$175.21 million in construction in progress for the first phase of the project.

- The Department of Health and Human Services (DHHS) is replacing seven major legacy IT systems. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software in development for NC FAST totaled \$789.98 million.

As further detailed in Note 21E to the financial statements, the State has commitments of \$6.15 billion for the construction of highway infrastructure (\$5.75 billion for governmental activities and \$399.11 million for business-type activities), which are expected to be financed by motor fuels tax collections, motor vehicle fees, toll collections, federal funds, and debt proceeds. Other commitments of \$659.43 million for the construction and improvement of state government facilities are expected to be financed primarily by debt proceeds, state appropriations, and federal funds.

More detailed information about the State's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes from direct borrowings) of \$7.19 billion, a decrease of 4.43% from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30 Bonds, Special Indebtedness, and Notes From Direct Borrowings (dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
General obligation bonds	\$ 1,645,060	\$ 1,975,940	\$ —	\$ —	\$ 1,645,060	\$ 1,975,940
Special Indebtedness:						
Limited obligation bonds	1,887,790	2,121,490	—	—	1,887,790	2,121,490
GARVEE bonds	845,715	918,940	—	—	845,715	918,940
Revenue bonds	—	—	2,060,470	1,787,362	2,060,470	1,787,362
Notes from direct borrowings	70,263	37,651	683,118	684,525	753,381	722,176
Total	<u>\$ 4,448,828</u>	<u>\$ 5,054,021</u>	<u>\$ 2,743,588</u>	<u>\$ 2,471,887</u>	<u>\$ 7,192,416</u>	<u>\$ 7,525,908</u>
Total percent change between fiscal years 2023 and 2024	(11.97)%		10.99 %		(4.43)%	

The State issues two types of tax-supported debt: general obligation (GO) bonds and special indebtedness (i.e., debt not subject to a vote of the people). GO bonds are secured by the full faith, credit, and taxing power of the State and require approval by a majority of voters. The payments on special indebtedness are subject to appropriation by the General Assembly and also may be secured by a lien on facilities or equipment. The General Statutes (Chapter 142, Article 9) prohibit the issuance of special indebtedness except for projects specifically authorized by the General Assembly. Special indebtedness is also known as appropriation-supported debt. Limited obligation bonds may be issued by the State directly rather than through a conduit issuer. The use of alternative financing methods provides financing flexibility to the State and permits the State to take advantage of changing financial and economic environments. The GARVEE bonds are a revenue bond-type debt instrument where the debt service is to be paid solely from federal transportation revenues. The State did not issue any new general obligation bonds, special indebtedness bonds or GARVEE bonds for the fiscal year ended June 30, 2024.

The State's total long-term debt (bonds, special indebtedness, and notes from direct borrowings) reported in governmental activities has increased from \$3.48 billion in 2002 to \$4.45 billion in 2024, in part due to large issuances of non-GO debt (special indebtedness) for higher education capital projects in previous years. Prior to 2003, the State only issued general obligation debt. The NCTA had its first debt issuance in 2010. The NCTA's long-term debt has increased from \$691.56 million in 2010 to \$2.74 billion in 2024.

The following is a summary of recent debt authorizations.

Build NC Bond Act of 2018

The 2017-18 Session of the General Assembly authorized the issuance of up to \$300 million annually over ten years (subsequently extended to 13 years per Session Law 2024-15), not to exceed \$3 billion in total, of special indebtedness. The maturity of the bonds is limited to 15 years and the issuance is contingent upon the N.C. State Treasurer's recommendation. The Build NC Bonds will be repaid from appropriations from the Highway Trust Fund. The proceeds will enable the N.C. Department of Transportation to accelerate Regional and Divisional transportation projects authorized pursuant to the State's Strategic Transportation Investments Act (STI), build a debt service reserve fund and pay costs incurred in connection with the issuance of bonds. The Build NC Bond Act of

2018 became effective January 1, 2019. The State has issued \$1.3 billion of Build NC Bonds to date, and approximately \$1.06 billion remained outstanding at June 30, 2024.

Connect NC Bond Act of 2015

The 2015-16 Session of the General Assembly authorized, subject to a vote of the qualified voters of the State, the issuance of \$2 billion of general obligation bonds of the State to be secured by a pledge of the faith and credit and taxing power of the State. The Connect NC Bonds were approved by a statewide voter referendum held on March 15, 2016. The general obligation bonds provided financing for various capital improvements throughout the State as follows: University of North Carolina System (\$980 million), North Carolina Community Colleges (\$350 million), local parks and infrastructure (\$312.5 million), National Guard (\$70 million), agriculture (\$179 million), State parks and attractions (\$100 million), and public safety (\$8.5 million). The 2021 Session of the General Assembly (Session Law 2021-180) repealed the remaining authorization of the Connect NC general obligation bonds that had not been issued as of June 30, 2021 and replaces it with pay-as-you-go capital for the remaining amount of \$400 million total authorization.

Credit Ratings

Credit ratings are the rating agencies’ assessment of a governmental entity’s ability and willingness to repay debt on a timely basis. As a barometer of financial stress, credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay.

The State’s general obligation bond credit ratings are as follows:

State of North Carolina General Obligation Bond Credit Ratings		
<u>Rating Agency</u>	<u>Rating</u>	<u>Outlook</u>
Fitch Ratings	AAA	Stable
Moody’s Investors Service	Aaa	Stable
Standard & Poor’s Rating Services	AAA	Stable

These ratings are the highest attainable from all three rating agencies. In 2024, Standard & Poor’s, Moody’s Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A bond rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State’s historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 14 states with a triple-A rating from all three rating agencies.

Special indebtedness is not subject to a vote of the people, and its repayment is based on the State’s annual debt service appropriation. For these reasons, special indebtedness is rated lower than the State’s general obligation bonds and typically carries a higher interest rate.

Limitations on Debt

The Constitution of North Carolina (Article 5, Section 3) imposes limitations upon the increase of certain state debt. It restricts the General Assembly from contracting debt secured by a pledge of the faith and credit of the State, unless approved by a majority of the qualified voters of the State, except for the following purposes:

1. To fund or refund a valid existing debt;
2. To supply an unforeseen deficiency in the revenue;
3. To borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50 percent of such taxes;
4. To suppress riots or insurrections; or to repel invasions;
5. To meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
6. For any other lawful purpose, to the extent of two-thirds of the amount by which the State’s outstanding indebtedness shall have been reduced during the preceding biennium.

The 2013-14 Session of the General Assembly enacted legislation (Session Law 2013-78) to limit the amount of special indebtedness that the State may incur. According to this law, special indebtedness authorized by legislation enacted after January 1, 2013 cannot exceed 25% of the total bond indebtedness of the State supported by the General Fund that was authorized pursuant to legislation enacted after January 1, 2013.

More detailed information about the State’s long-term liabilities is presented in Note 8 to the financial statements.

FUTURE OUTLOOK

Next Year's Budget and Rates

In the 2023 Legislative Session the General Assembly passed House Bill 259 (Session Law 2023-134). The General Assembly appropriated \$29.7 billion in the General Fund for fiscal year 2023-24, and \$30.8 billion for fiscal year 2024-25. The Legislature did not enact a comprehensive appropriations act to reflect the second year of the biennium. Instead, the General Assembly approved mini-budget legislation that implemented adjustments. For the fiscal year 2025, total General Fund appropriations are set at \$31.6 billion. Key adjustments included the following:

- \$877 million for Hurricane Helene recovery related activities; of this, \$335 million was designated to match federal disaster assistance,
- \$463 million for additional Opportunity Scholarships,
- \$377 million for Medicaid rebase,
- \$95 million for enrollment growth at public schools,
- \$76.7 million for enrollment growth at Community Colleges, and
- \$32.5 million for childcare stabilization grants

House Bill 259 accelerated personal income tax rate reductions starting in fiscal year 2024 and will reduce the next two years from 4.5% to 4.25% in 2025 and from 4.25% to 3.99% in 2026. The budget also authorizes up to three additional personal income tax rate reductions of 0.5% each in subsequent years that become effective if General Fund revenue meets certain thresholds. Additionally, corporate income tax rate will fall to 2.25% in 2025, 2% in 2026, 1% in 2028, and 0% in 2030.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Carolina Office of the State Controller, Accounting and Financial Reporting Section, 1410 Mail Service Center, Raleigh, N.C. 27699-1410. In addition, this financial report is available on the Office of the State Controller's internet home page at <https://www.osc.nc.gov/public-information/reports>.