

December 13, 2023

State Fiscal Outlook

North Carolina Office of the State Controller
Financial Conference




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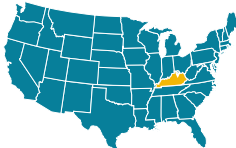


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Fiscal Conditions of the States

State fiscal conditions over the past several years have been heavily impacted by combination of federal COVID-19 aid and rising state tax collections.

States experienced double-digit growth in revenue collections in both fiscal 2021 and fiscal 2022 while total balances and rainy day funds reached record levels.

State spending growth remained strong in fiscal 2023 partly due to one-time expenditures. Revenue growth slowed from record highs in fiscal 2023, although most states once again ended the year with a budget surplus as revenues exceeded projections.

Most fiscal 2024 budgets are assuming continued slower spending growth. Revenue forecasts for fiscal 2024 remain conservative.

States have taken steps to prepare for an economic slowdown. Actions include building up rainy day funds, using one-time funds for one-time purposes, making additional pension payments, and paying down long-term debt.

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Areas of Increased Focus in Fiscal 2024 Enacted Budgets

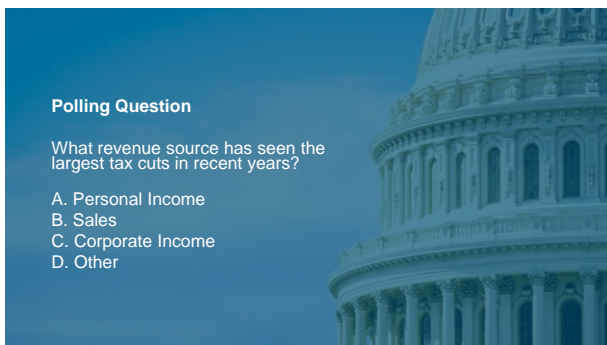
- Workforce and economic development
- Substance abuse
- Mental Health
- Affordable Housing
- Others: state government reforms, clean energy and natural resources, veterans services, local aid



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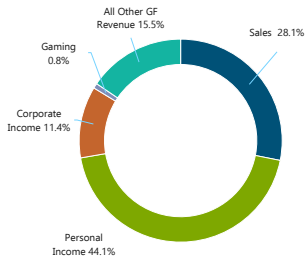
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Revenue Sources in the General Fund (%)

FY22
\$1,184 Billion



Source: NASBO State Expenditure Report

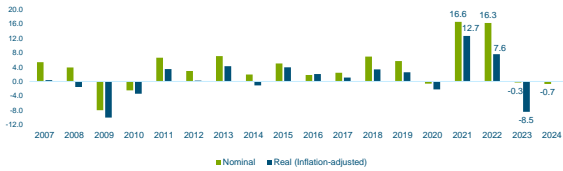
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After Two Fastest Growing Years on Record, Revenues On Track for Small Declines in Fiscal 2023 and Fiscal 2024

Annual General Fund Revenue Changes, Fiscal 2007 To Fiscal 2024 (Percentage Change)



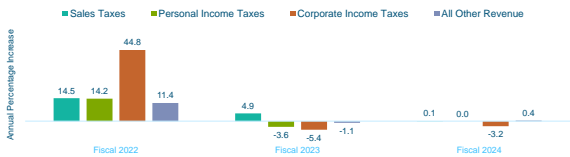
Note: Fiscal 2023 figure is estimated as of spring 2023 and fiscal 2024 figure is projected based on governor's recommended budgets.

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General Fund Revenue Sources



Note: In fiscal 2022, personal income taxes made up an estimated 45.2% of general fund revenue, sales taxes 28.5%, corporate income taxes 10.3%, and all other revenue 16.0%.

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31 States Adopted Net Tax Cuts in Fiscal 2023

Summary of Enacted State Revenue Changes, Fiscal 2023

Revenue Type	Sales Tax	Personal Income Tax	Corporate Income Tax	Cigarette/Tobacco Tax	Motor Fuel Tax	Alcohol Tax	Gaming/Lottery Revenue	Other Tax	Fees	All Revenue Changes
# of States Enacting Increases	3	2	3	1	0	0	1	6	5	5
# of States Enacting Decreases	19	26	16	2	3	0	1	15	4	31
Net Change (\$ in Millions)	-\$1,621	-\$8,346	-\$4,021	+\$27	-\$1,147	\$0	-\$3	-\$1,218	+\$91	-\$16,237
Net Change - General Fund Only (\$ in Millions)	-\$1,600	-\$8,319	-\$3,989	-\$5.5	-\$650	\$0	-\$10	-\$929	-\$27	-\$15,528

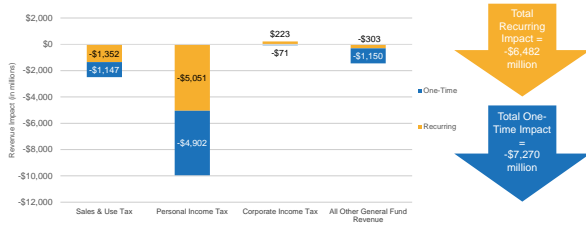
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Governors in Most States Recommend Net Tax Cuts in FY24

Summary of Net One-Time and Recurring Revenue Impacts of Recommended Changes by Tax Type, FY24



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Polling Question

How many states made midyear budget cuts due to a shortfall in FY23?

- A. 0
- B. 1
- C. 5
- D. 10

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INCREASES IN TOTAL STATE SPENDING

Year-Over-Year Percentage Increases in Total State Expenditures*



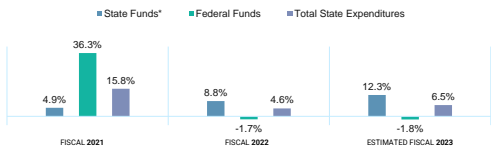
*Total state expenditures include spending from general funds, other state funds, bonds, and federal funds to states.



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YEAR-OVER-YEAR PERCENTAGE SPENDING GROWTH BY FUND SOURCE



*State funds are general funds and other state funds combined, excluding bonds. Total state expenditures are all federal and state funds.

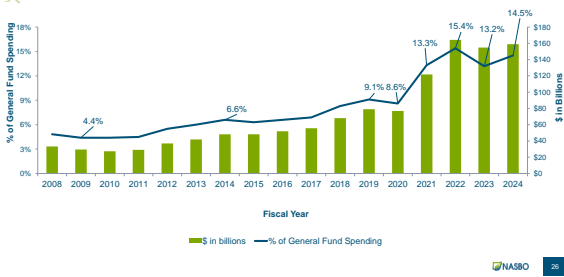


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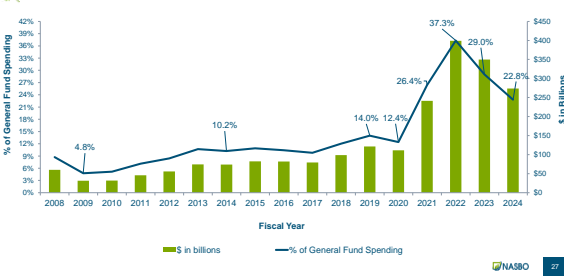
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Rainy Day Funds Remain at or Near All-Time Highs After Steep Rise from Fiscal 2020 to Fiscal 2022

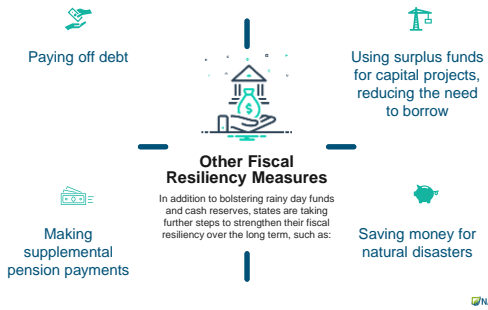


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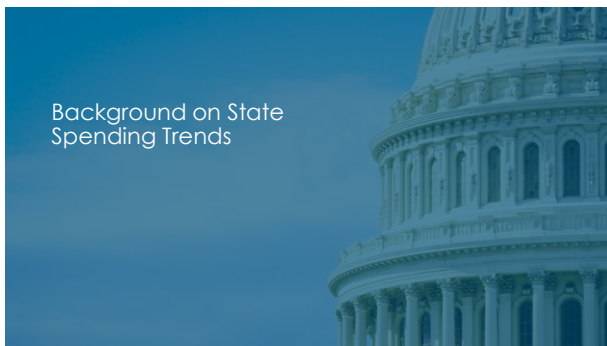
After Tremendous Growth, Total Balances Are Expected to Decline but Remain at Levels Well Above Historical Average



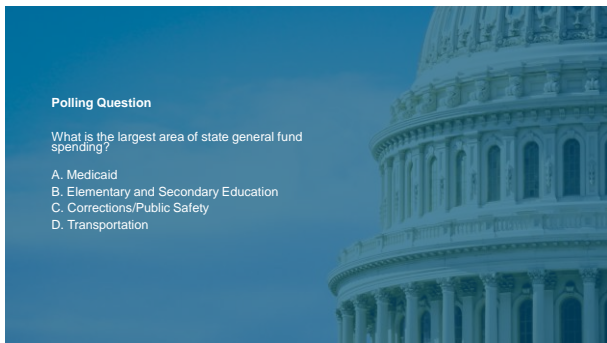
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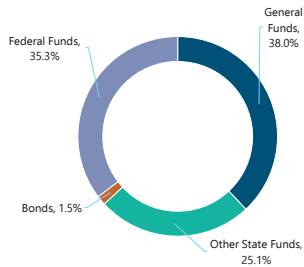
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TOTAL STATE EXPENDITURES
By Fund Source

Estimated
Fiscal 2023



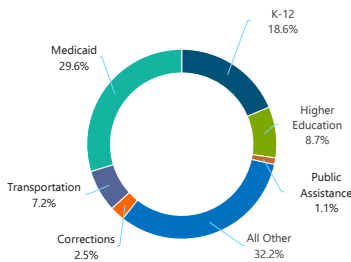
Source: NASBO State Expenditure Report

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TOTAL STATE EXPENDITURES
By Function

FY 23
\$2,956 Billion



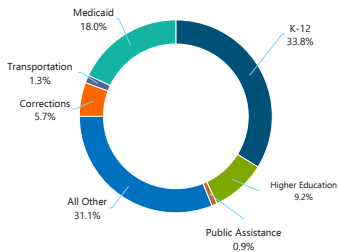
Source: NASBO State Expenditure Report

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GENERAL FUNDS EXPENDITURES
By Function

FY23
\$1,125 Billion



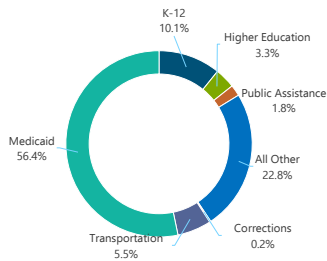
Source: NASBO State Expenditure Report

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FEDERAL FUNDS EXPENDITURES By Function

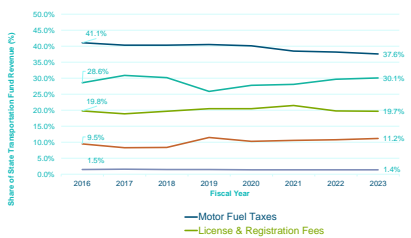
FY23 \$1,045 Billion



Source: NASBO State Expenditure Report

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Motor Fuel Taxes Gradually Decline as a Share of Transportation Revenue as Other Sources Grow

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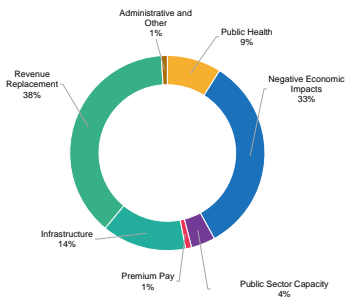


Analysis of Coronavirus State and Local Fiscal Recovery Funds (SLFRF) – through 6/30/22

- According to data released by the U.S. Treasury, states have adopted budgets for \$171.6 billion (86 percent) of their total SLFRF projects
- States have obligated \$138.3 billion of budgeted funds
- States have cumulative expenditures of \$100.2 billion
- States have until December 31, 2024, to obligate the funds and until December 31, 2026, to fully expend the funds

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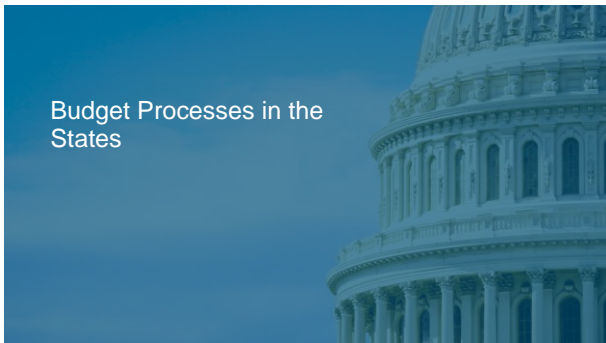


Budgeted Coronavirus State Fiscal Recovery Funds by Treasury Expenditure Category

Source: NASBO calculations based on U.S. Treasury, "July 2023 Quarterly Reporting Data through June 30, 2023."

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NASBO Publication:
Budget Processes in the States
(2021)

Compilation of data from 50 states (plus DC) on executive budget authority, budget agency organization and functions, balanced budget requirements and other aspects of the state budget process.

Recently, U.S. territories were invited to submit comparable data, which will be released by NASBO in a special report soon.

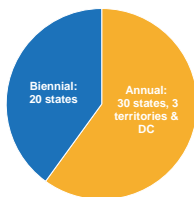


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The Budget Calendar



FISCAL YEAR START DATE



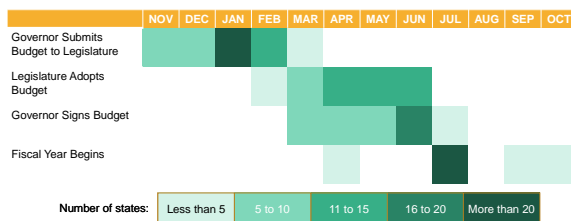
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The Budget Calendar

States hit key milestones in the budget process at different times of year



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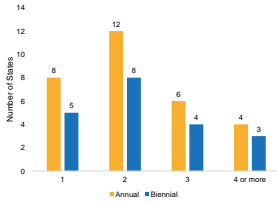
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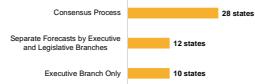
Variations in State Revenue Forecasting Processes

Participants and frequency of forecast revisions vary by state

How Often States Release Official Revenue Estimates During Fiscal Year



How States Develop Revenue Forecasts



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Developing the Budget Proposal

- Agencies submit budget requests to the governor, and sometimes directly to the legislature too
- Governor's budget is introduced as a bill(s) in legislature in **36 states and 3 territories**
- Additionally, a budget proposal is developed by a joint legislative body (prior to budget votes in either legislative chamber) in **15 states and 1 territory**

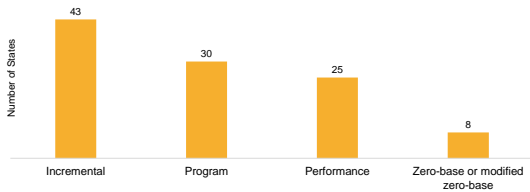
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Executive Budget Approach

States often use a combination of multiple decision-making frameworks to prepare executive budget



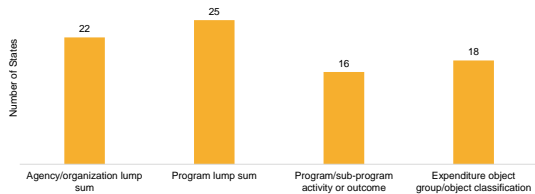
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Level of Detail in Appropriation Bills

The unit structure of line-item appropriations varies by state, and sometimes by program area within a state



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Enacting the Budget

In all but 3 states, a simple majority vote is generally sufficient to pass budget

- › Tax/revenue increases sometimes require supermajority

Number of bills comprising enacted budget ranges from 1 to 150+

- › Capital appropriations are co-located with operating appropriations in just over half of states

44 states*, 3 territories & DC provide for line-item veto authority over appropriation amounts

- › 38 states, 3 territories & DC with line-item veto power have a supermajority vote requirement for legislature to override

30 states, 2 territories & DC grant line-item veto authority over appropriation language

* This number differs from what is reported in the NASBO's Budget Processes in the States (2021) due to a change in Maryland's budget process.

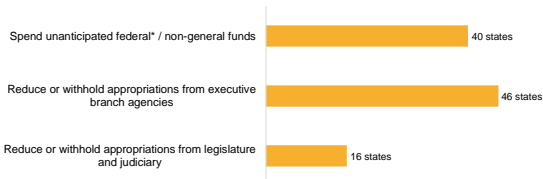
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Gubernatorial Authority After Budget Enactment

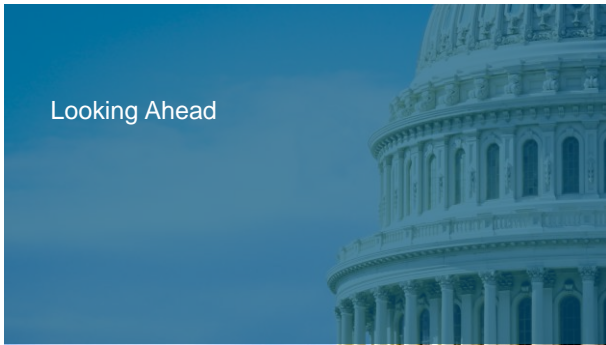
Executive Branch Authorities Without Legislative Approval



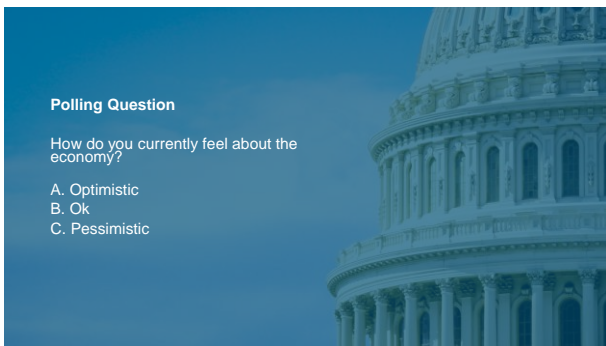
* 43 states reported separately in the survey at least some federal funds are appropriated.

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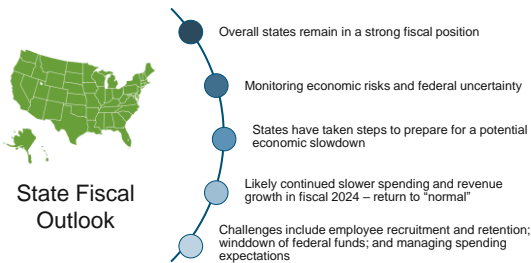
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