

NORTH CAROLINA
Strong, Resilient, Ready



Governor Roy Cooper's Recommended Budget 2021-23



Office of State Budget and Management
Office of the Governor
Raleigh, North Carolina

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osbm.nc.gov

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Questions about Governor Cooper's Recommended Budget 2021-23 or requests for further information may be directed to the Office of State Budget and Management, 20320 Mail Service Center, Raleigh, NC 27699-0320, or telephone (984) 236-0600. The document may also be downloaded from the Office of State Budget and Management's website at osbm.nc.gov.

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**STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR**

ROY COOPER
GOVERNOR

March 24, 2021

The North Carolina Senate
The Honorable Phil Berger, President Pro Tempore

The North Carolina House of Representatives
The Honorable Tim Moore, Speaker

The People of North Carolina

Dear Mr. President, Mr. Speaker, Members of the North Carolina General Assembly, and Fellow North Carolinians:

As our state strives to emerge from the COVID-19 pandemic, we have an extraordinary opportunity and responsibility to lead a resurgence for every community, and I am pleased to present a budget recommendation that provides relief, ignites recovery, and charts a path to ensure North Carolina is stronger than ever.

Last year, we collaborated to provide emergency relief in public health and economic assistance. I ask that we continue to work together to make long term investments in needed services, infrastructure, and our most valuable resource, the people of North Carolina.

The pandemic impacted our most vulnerable communities the hardest and their road to recovery is the most precarious. We must make significant commitments to education, including early childhood education and literacy, to make up for achievement gaps exacerbated by the pandemic. Access to high-speed internet, affordable healthcare, and clean water is necessary for all of our communities to share in an equal recovery.

We can confront these challenges with confidence. Our state budget availability is strong, with nearly \$5 billion in unreserved cash in the General Fund as we enter the FY 2021-2023 biennium. Our economic forecast anticipates continued economic expansion. And our debt affordability of almost \$15 billion over the next 10 years presents the state with a generational opportunity to make lasting investments at historically low interest rates.

This recommendation is a fiscally responsible path forward, structurally balanced and based on recurring state revenue. Some funding that would ordinarily be proposed in this budget will be presented in my forthcoming recommendations for how we should invest funds from the federal American Rescue Plan.

Thank you for your hard work and dedication to the people of North Carolina. Together, we can invest in our people, our economy, and our infrastructure to lead our state into a new era of resilience and opportunity for all North Carolinians.

Sincerely,

A handwritten signature in black ink that reads "Roy Cooper".

Roy Cooper

CC: The Honorable Dan Blue
The Honorable Robert Reives



Empower Success Through Education

Retaining & Developing Talented Educators

Devotes \$485 million to teacher and administrator compensation, increasing average pay for existing teachers by 10%, reducing plateaus for veteran teachers, and restoring Master’s Pay.

Funds a 10% increase in the Principal salary schedule and a 7.5% increase for Central Office and non-certified public school employees. Provides funds to implement a \$15/hour minimum wage for non-certified, public school employees such as teaching assistants, school nutrition employees, and bus drivers.

Provides bonuses for teachers, principals, non-certified public school employees, university employees, and state-funded local community college employees. Includes a \$2,000 bonus for those employees in the current fiscal year and \$1,000 bonuses in each year of the biennium.

Invests \$52 million to recruit, retain, and support North Carolina’s educator workforce, with scholarships, support for training and development, and funding for pilot projects in high-need districts.

Ensuring a Sound Basic Education for All

Provides an additional \$200 million to expand resources for:

- Disadvantaged Student Supplemental Funding and At-Risk Allotments
- Exceptional Children and Limited English Proficiency Allotments
- Increased low wealth funding for eligible counties to improve low-performing and high poverty schools.

Allocates \$19 million to build out the regional support model to support local school systems.

Supports student physical and mental health with \$80 million to allow districts to hire more school nurses, counselors, psychologists, and social workers.

Invests \$3.9 million to provide free school meals for up to 97,500 students and \$6 million for schools to adopt a community schools model addressing out-of-school learning barriers.

Investing in Early Learning and Development

Invests more than \$78 million in early education and child development.

Increases NC Pre-K reimbursement rates and slots using lottery proceeds so that more children can attend Pre-K.

Invests over \$45 million in the Child Care WAGE\$ program and a new Birth-K pay equity program.

Provides \$20 million to Smart Start early childhood initiative.

Dedicates over \$10 million to individualized early intervention services.

Improves wages for early childhood education providers and direct care workers.

Educating the Workforce of Tomorrow

Recommends \$40 million to create the NC GROW (Getting Ready for Opportunities in the Workforce) Completion Incentive and Aid for Students Seeking Industry Credentials Program to incentivize enrollment in high-demand curriculum programs or non-credit, short-term workforce training programs leading to industry credentials in fields with documented employer demand and competitive wages. Includes funds for staff recruitment, development, and retention in those programs.

Provides an additional \$30 million for need-based financial aid funds for in-state students seeking to attend a North Carolina Community College, UNC System institution, or a NC independent college/university.

Provides an additional \$20 million over the biennium to the NC Promise Program and \$2.5 million for schools with small enrollments or special missions.

Supports improving graduation rates and student success at UNC's Historically Minority Serving Institutions with an additional \$7.5 million, as well as increased doctoral funding at NC Agricultural & Technical University.

Reinvigorate Economic Opportunity & Resilience

Investing in North Carolina's Future

Recommends placing a \$4.7 billion General Obligation Bond on the November 2021 ballot to ask voters to address key infrastructure needs across North Carolina, including:

- \$2.5 billion for public schools to address the over \$8 billion in documented needs

- \$783 million for the UNC System, including \$295 million for Health and Safety projects

- \$500 million for the Community College System

- \$430 million for Health and Safety projects across State Government

- \$460 million for Parks, Zoos, Museums, and Historic Sites

The state can afford to take on up to \$14.5 billion in additional debt over the next ten years, as calculated by the nonpartisan Debt Affordability Committee.

Strengthening North Carolina Business and Industry

Bolsters business, agriculture, and industry in North Carolina with \$45.4 million over the biennium, including support for One NC Small Business Fund and Carolina Small Business Fund. Helps rural and economically distressed communities embrace an innovation-based economy and funds marketing of North Carolina business and agriculture across the country and globe.

Supporting Our Communities

Commits to community growth and vitality with more than \$111 million over the biennium for projects,

including \$79.7 million for Water Resource Development Projects allowing communities to leverage federal funds for navigation, water management, and flood mitigation.

Bolsters the Housing Trust Fund, the state's most flexible source of affordable housing funding, by committing an additional \$7.7 million to the Fund. Expands rental assistance and housing initiatives for disabled, homeless, and low-income adults by over \$6 million. Provides \$1.9 million to the Local Government Commission within the Department of State Treasurer.

Create Healthier, Safer Communities

Healthier North Carolinians and a Healthier Economy

Recommends expanding Medicaid eligibility beginning October 1, 2021 to provide healthcare access for more than 600,000 North Carolinians. This also helps struggling rural hospitals, aids our opioid epidemic response, and secures North Carolina's share of federal resources, injecting over \$5 billion of funding into the state.

Directs more than \$250 million in Medicaid resources to address social determinants of health that contribute to health disparities.

Caring for the Vulnerable

Increases funding by over \$15 million to expand housing and employment supports for individuals with disabilities.

Dedicates \$1 million to adaptive equipment and assistive technologies to help people with disabilities live, work, and be educated in their communities.

Expands nutrition, transportation, and in-home aid services for older and vulnerable adults with \$7 million in funding and \$4 million to improve state oversight of long-term care facilities.

Improves safety and outcomes for children experiencing abuse or neglect, with \$8 million for child welfare services to address critical staffing and training needs.

Invests \$53 million for enhancements of the Child Welfare Data System to improve monitoring and service delivery.

Healthier Environment Means Stronger Communities

Commits over \$300 million into environmental stewardship, increasing access to parks, and enhancing the state's resiliency to future flooding events. Includes a \$210 million increase for the Parks and Recreation Trust Fund and Land and Water Fund and \$83 million in funding to reduce flood risk, develop forests, improve access to parks and trails, and preserve farmland.

Provides \$3.8 million each year of the biennium to mitigate emerging compounds and \$67.3 million in FY 2021-22 to reduce nitrogen oxide emissions.

Invests over \$100 million to expand clean energy access and advance clean energy development. Includes \$50 million to local communities and schools for clean energy and transportation; an additional \$23 million to assist low-income households in saving energy and reducing utility bills; and \$14.5 million for clean energy economic development and grants for start-ups and small businesses.

Recommends \$500,000 to fund the development of a Clean Transportation Plan for North Carolina.

Safe and Secure in North Carolina

Recommends \$27.2 million in the first year of the biennium for safety and security equipment in the public safety system, including safety improvements in prisons.

Aims to reduce recidivism with \$11.6 million over the biennium for probation, parole, post-release supervision, and other re-entry programs.

Invests \$10 million over the biennium for sexual assault evidence testing to solve cases, to increase capacity in the State Crime Labs, and to provide information to victims and the criminal justice system.

Builds capacity in our judicial system with \$16 million for automating court processes and more than \$33 million toward programs to ensure access to high-quality representation and mediation.

Advance a Dynamic and Effective Government

Promoting Good Governance

Builds state government capacity, providing \$6.8 million annually to fund data analysts, internal auditors, and researchers within state agencies to improve services and lead to a more efficient use of tax dollars.

Provides \$1 million each year for evidence-based grants to fund rigorous program evaluations.

Establishes a NC Management Fellowship Program to enhance the talent pipeline for state government.

Maintains funding for identity theft and fraud prevention at the Department of Revenue, which would result in significant savings for the state.

Funds new positions at NC DOT and the DOT Office of Inspector General to improve reporting, transparency, and financial oversight.

Supporting State Employees

Provides a 5% salary increase in FY 2021-22 and a 2.5% salary increase in FY 2022-23 for UNC and state-funded local community college employees and a 2.5% salary increase in each year of biennium for all other state employees.

Funds a \$1,000 bonus in each year of the biennium for all state-funded employees.

Budgets \$58.3 million to attract and retain a strong state workforce by funding salary adjustments needed to reflect market rates and address compression, pay equity, and hard-to-staff, high turnover positions.

Recommends \$47.9 million over the biennium to establish a pay plan for certified employees within Adult Correction and Juvenile Justice to reduce turnover and \$6.6 million for programs to ensure a sustainable law enforcement workforce pipeline.

Recognizes retirees and the increased costs of living with a 2% recurring increase and an additional 2% nonrecurring in each year of the biennium.

Provides \$10.2 million to improve security in and around government buildings.

Improving Customer Service Through Infrastructure Investments

Allocates \$393 million in Repairs and Renovations Reserve funds for state capital projects, including \$100 million toward energy efficiency improvements.

Modernizes service delivery and capacity with \$327.8 million over the biennium for large scale information technology investments. Including:

- Developing an integrated case management system, e-Courts, for the Judicial Branch;
- Modernizing Community College workforce IT systems and Public Schools business systems;
- Creating an enterprise-level human resource recruitment and management system;
- Continuing the development and implementation of the new state financial backbone;
- Developing an online permitting system for the Department of Environmental Quality;
- Replacing the communication systems within all State Highway Patrol vehicles;
- Modernizing the Department of Health and Human Services' (DHHS) NC FAST system; and
- Transitioning DHHS' facilities to electronic health records.

American Rescue Plan: Bold Next Steps for NC

President Biden signed the American Rescue Plan Act of 2021 into law on March 11, 2021. This far-reaching package is being examined by the state as we await further guidance from federal agencies. We anticipate receiving nearly \$5.3 billion in state Fiscal Recovery Funds and an additional \$277 million in Coronavirus Capital Project Funds. Several priority items were removed from the Governor's state general fund budget and bond proposals because they are eligible to be funded from the ARP.

Top budget priority items for ARP include:

- Expanding highspeed internet access
- Investing in water, sewer, and housing infrastructure
- Funding to promote economic stability, inclusion, and growth in the public and private sectors
- Further assistance for vulnerable populations

North Carolina should take full advantage of the opportunities presented by these federal investments to think boldly to strengthen North Carolina as we emerge from the pandemic. This includes much-needed investments in public infrastructure and to address the evolving nature of commerce in a post-pandemic world. The Governor will present a comprehensive recommendation for these federal funds later this spring that reflects this vision.

Table 1

Governor's Budget Recommendations for FY 2021-23

	FY 2021-22	FY 2022-23
Budget Availability		
Unappropriated Balance from Prior Fiscal Year	457,272,694	1,740,186,845
Over Collection of Revenues FY 2020-21	4,136,300,000	-
Reversions (estimated)	400,000,000	-
Savings Reserve per G.S. 143C	(575,200,000)	-
Educator Bonuses in May 2021 - \$2,000 K-12; UNC; Community Colleges	(447,408,350)	-
Beginning Unreserved Fund Balance	3,970,964,344	1,740,186,845
Investments to Reserves		
Savings & Contingencies		
Savings Reserve (above statutory requirement)	(524,800,000)	-
Medicaid Contingency Fund	(150,000,000)	-
Medicaid Transformation Reserve	(64,000,000)	(160,000,000)
Retiree Health Benefits Fund (OPEB liability)	(150,000,000)	-
Subtotal	(888,800,000)	(160,000,000)
Infrastructure and Resiliency		
Capital Improvements Projects Reserve		
Plan and Design Bond Projects	(106,063,500)	-
UNC System Repairs and Renovations	(143,555,000)	-
UNC System Comprehensive Renovation & Modernization (projects <\$15m)	-	(462,170,000)
State Agency Recommendations	(173,941,234)	-
State Agency Repairs and Renovations	(75,000,000)	(75,000,000)
Repairs and Renovations - Energy Efficiency Projects	(50,000,000)	(50,000,000)
Energy and Environment Reserve	(225,000,000)	(175,000,000)
Information Technology Reserve	(169,925,950)	(157,911,556)
State Emergency Response and Disaster Relief Fund	(100,000,000)	-
Subtotal	(1,043,485,684)	(920,081,556)
Subtotal Investments to Reserves	(1,932,285,684)	(1,080,081,556)
Total Unreserved Fund Balance	2,038,678,660	660,105,289
Base Revenue Forecast	27,350,600,000	28,461,500,000
Earned Income Tax Credit & Child and Dependent Care Tax Credit	(365,500,000)	(208,300,000)
Disproportionate Share Transfer	33,400,000	33,400,000
Treasurer and Insurance Nontax Transfers	3,812,862	4,718,196
Revised General Fund Availability	29,060,991,522	28,951,423,485
Recommended Appropriations		
Base Budget	24,827,052,197	24,837,431,680
Must Do's		
Education Enrollment, NC Promise, Independent Colleges	287,287,979	298,833,271
Medicaid Rebase	68,378,242	614,220,759
State Health Plan	98,318,703	200,429,307
Retirement System Actuarial Requirements	108,942,627	108,942,627
Subtotal	562,927,551	1,222,425,964

Governor's Budget Recommendations for FY 2021-23

	FY 2021-22	FY 2022-23
<u>Supporting NC's Human Capital</u>		
Teachers and Principals - average 5.7%/4.3% (total 10%)	289,409,211	478,053,773
Noncertified Public School Employees - 5%/2.5% (total 7.5%)	75,584,205	115,265,913
UNC System and Community Colleges Employees - 5%/2.5 % (total 7.5%)	221,079,664	337,146,488
Compensation Bonus for All Education Employees - \$1,000 each year	223,704,174	223,704,174
State Employees - 2.5%/2.5% (total 5%)	77,551,508	157,041,804
Compensation Bonus for All Non-Education Employees - \$1,000 each year	49,632,657	49,632,657
Retirees COLA - 2% Recurring	92,915,333	92,915,333
Retirees Bonus - 2% each year	72,530,586	72,530,586
Subtotal	1,102,407,338	1,526,290,728
<u>Critical Support for North Carolinians</u>		
Education	300,994,544	539,408,765
Health and Human Services	234,447,627	272,541,948
General Government	77,245,476	60,965,245
Justice and Public Safety	136,768,926	121,197,417
Agriculture, Natural, and Economic Resources	94,981,101	95,871,513
Statewide Reserves	(16,020,083)	(9,070,911)
Subtotal	828,417,591	1,080,913,977
Total Recommended Adjustments	2,493,752,480	3,829,630,669
Total Recommended Budget	27,320,804,677	28,667,062,349
Balance	1,740,186,845	284,361,136

Table 2 & Figure 1
Recommended General Fund Budget by Function
FY 2021-22

	FY 2021 -22 Recommended	% of GF Budget
Education	\$ 16,096,219,836	58.92%
General Government	\$ 578,586,211	2.12%
Health and Human Services	\$ 5,882,107,678	21.53%
Justice and Public Safety	\$ 3,309,519,695	12.11%
Natural and Economic Resources	\$ 732,834,807	2.68%
Reserves and Other Adjustments	\$ 33,670,000	0.12%
Debt Service	\$ 687,866,450	2.52%
Direct Capital Appropriation	\$ -	0.00%
Total General Fund Budget	\$ 27,320,804,677	100.00%

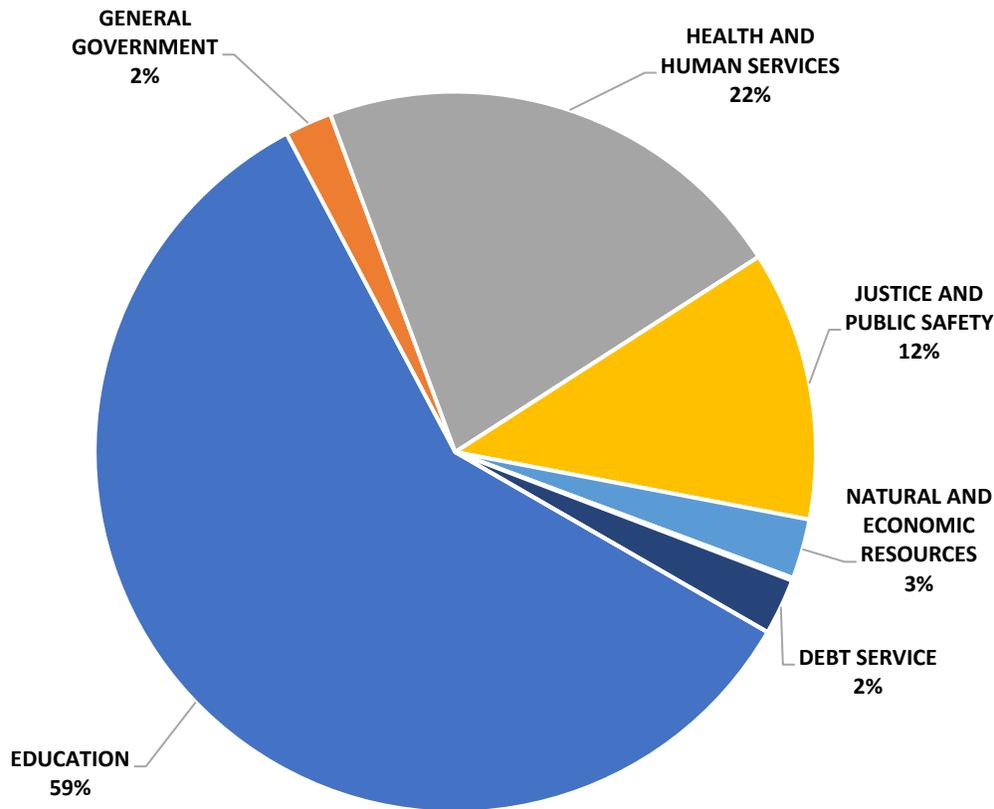


Table 3
Governor's Recommended General Fund Budget
2021-22 Adjustments

Budget Code	Function	Decrease				Increase				Net Change	2021-22	Net
		2021-22 Base Budget	Recurring	Nonrecurring	Positions	Recurring	Nonrecurring	Positions	Recommended Net Appropriation		Position Change	
Education												
13510	Department of Public Instruction	10,016,320,410	-	-	-	923,690,040	191,742,388	19.00	1,115,432,428	11,131,752,838	19.00	
16800	Community Colleges	1,219,687,975	-	-	-	124,509,448	88,527,155	10.00	213,036,603	1,432,724,578	10.00	
160xx	University System	3,163,406,651	-	-	-	339,996,990	28,338,779	9.00	368,335,769	3,531,742,420	9.00	
	Total Education	14,399,415,036	-	-	-	1,388,196,478	308,608,322	38.00	1,696,804,800	16,096,219,836	38.00	
General Government												
11000	General Assembly	74,106,502	-	-	-	2,938,690	4,978,318	-	7,917,008	82,023,510	-	
13000	Office of the Governor	5,716,753	-	-	-	976,837	70,464	9.00	1,047,301	6,764,054	9.00	
13005	Office of State Budget and Management	8,847,063	-	-	-	2,092,984	89,930	6.00	2,182,914	11,029,977	6.00	
13085	OSBM-Special Projects	2,000,000	-	-	-	-	-	-	-	2,000,000	-	
13010	NC Housing Finance Agency	10,660,000	-	-	-	7,660,000	-	-	7,660,000	18,320,000	-	
13050	Department of Military and Veterans Affairs	9,739,815	-	-	-	4,357,734	1,111,266	9.00	5,469,000	15,208,815	9.00	
13100	Office of the Lieutenant Governor	927,695	-	-	-	121,057	11,434	1.00	132,491	1,060,186	1.00	
13200	Department of Secretary of State	15,024,385	-	-	-	2,245,277	1,342,332	6.00	3,587,609	18,611,994	6.00	
13300	Office of the State Auditor	14,956,470	-	-	-	1,395,045	192,440	-	1,587,485	16,543,955	-	
13410	Department of State Treasurer	4,944,656	-	-	-	494,786	25,664	17.00	520,450	5,465,106	17.00	
13412	State Treasurer - Retirement System	32,020,423	-	-	-	350,000	-	-	350,000	32,370,423	-	
13900	Department of Insurance	43,707,418	-	-	-	2,472,941	819,471	2.00	3,292,412	46,999,830	2.00	
13902	Industrial Commission	8,892,754	-	-	-	202,923	77,926	-	280,849	9,173,603	-	
14100	Department of Administration	56,491,926	-	-	-	4,894,088	14,037,369	20.00	18,931,457	75,423,383	20.00	
14111	Office of State Human Resources - General	9,328,736	-	-	-	2,066,976	979,000	9.00	3,045,976	12,374,712	9.00	
14160	Office of the State Controller	25,736,372	-	-	-	4,097,148	248,259	20.00	4,345,407	30,081,779	20.00	
14660	Department of Information Technology	54,745,710	-	-	-	6,382,874	179,748	3.00	6,562,622	61,308,332	3.00	
14700	Department of Revenue	91,788,708	-	-	-	14,012,803	9,873,270	4.00	23,886,073	115,674,781	4.00	
18025	State Board of Elections	7,656,931	-	-	-	967,060	2,177,679	2.00	3,144,739	10,801,670	2.00	
18210	Office of Administrative Hearings	6,661,033	-	-	-	600,621	88,447	4.00	689,068	7,350,101	4.00	
	Total General Government	483,953,350	-	-	-	58,329,844	36,303,017	112.00	94,632,861	578,586,211	112.00	
Health and Human Services												
14410	Division of Central Management and Support	143,211,097	-	-	-	62,005,826	3,208,068	23.00	65,213,894	208,424,991	23.00	
14411	Division of Aging and Adult Services	44,294,755	-	-	-	13,452,488	49,157	-	13,501,645	57,796,400	-	
14420	Division of Child Development and Early	228,663,307	-	-	-	20,710,837	1,993,970	5.00	22,704,807	251,368,114	5.00	
14430	Division of Public Health	157,704,181	-	-	-	12,815,855	879,238	18.00	13,695,093	171,399,274	18.00	
14440	Division of Social Services	194,966,648	-	-	-	10,810,966	7,208,305	15.00	18,019,271	212,985,919	15.00	
14445	Division of Health Benefits	3,923,177,500	-	(187,247,355)	-	333,600,759	-	-	146,353,404	4,069,530,904	-	
14450	Division of Services for the Blind, Deaf and	8,769,334	-	-	-	173,785	73,854	1.00	247,639	9,016,973	1.00	
14460	Division of Mental Health/Developmental	787,769,825	-	-	-	40,945,851	7,139,652	12.00	48,085,503	835,855,328	12.00	
14470	Division of Health Services Regulation	20,911,947	-	-	-	2,038,349	369,376	14.00	2,407,725	23,319,672	14.00	
14480	Division of Vocational Rehabilitation	40,320,526	-	-	-	754,624	1,334,953	4.00	2,089,577	42,410,103	4.00	
	Total Health and Human Services	5,549,789,120	-	(187,247,355)	-	497,309,340	22,256,573	92.00	332,318,558	5,882,107,678	92.00	
Justice and Public Safety												
12000	Judicial Branch	604,818,743	-	-	-	37,465,989	11,574,419	112.00	49,040,408	653,859,151	112.00	
12001	Judicial Branch - Indigent Defense	127,986,495	-	-	-	12,722,894	1,312,007	21.00	14,034,901	142,021,396	21.00	
13600	Department of Justice	50,687,077	-	-	-	6,012,158	6,772,210	19.00	12,784,368	63,471,445	19.00	
14550	Department of Public Safety	2,252,042,404	-	-	-	123,085,962	75,039,337	202.00	198,125,299	2,450,167,703	202.00	

Budget Code	Function	Decrease				Increase				2021-22 Recommended Net Appropriation	Net Position Change
		2021-22		Positions	2021-22		Net Change				
		Base Budget	Recurring		Recurring	Nonrecurring					
Total Justice and Public Safety											
		3,035,534,719	-	-	-	179,287,003	94,697,973	354.00	273,984,976	3,309,519,695	354.00
Natural and Economic Resources											
13700	Department of Agriculture and Consumer	133,745,819	-	-	-	11,577,293	7,210,317	20.00	18,787,610	152,533,429	20.00
13800	Department of Labor	19,478,747	-	-	-	4,208,238	305,470	3.00	4,513,708	23,992,455	3.00
14300	Department of Environmental Quality	87,194,513	-	-	-	8,547,453	49,496,532	58.80	58,043,985	145,238,498	58.80
14350	Wildlife Resources Commission	12,807,582	-	-	-	710,747	182,750	2.00	893,497	13,701,079	2.00
14600	Department of Commerce	11,742,694	-	-	-	2,676,007	171,735	18.00	2,847,742	14,590,436	18.00
14601	Commerce - General State Aid	16,155,810	-	-	-	-	3,000,000	-	3,000,000	19,155,810	-
14602	Commerce - Economic Development	150,175,700	-	(8,000,000)	-	5,000,000	-	-	(3,000,000)	147,175,700	-
14800	Natural and Cultural Resources	188,912,246	-	-	-	20,049,207	6,895,619	68.00	26,944,826	215,857,072	68.00
14802	Natural and Cultural Resources - Roanoke	590,328	-	-	-	-	-	-	-	590,328	-
Total Natural and Economic Resources											
		620,803,439	-	(8,000,000)	-	52,768,945	67,262,423	169.80	112,031,368	732,834,807	169.80
Debt Service											
19420	General Debt Service	720,940,153	-	(34,690,083)	-	-	-	-	(34,690,083)	686,250,070	-
19425	Federal Reimbursement	1,616,380	-	-	-	-	-	-	-	1,616,380	-
Total Debt Service											
		722,556,533	-	(34,690,083)	-	-	-	-	(34,690,083)	687,866,450	-
Reserves and Other Adjustments											
19001	Contingency and Emergency Reserve	-	-	-	-	2,000,000	-	-	2,000,000	2,000,000	-
19004	Salary Adjustments	-	-	-	-	6,450,000	-	-	6,450,000	6,450,000	-
19005	OSHR - Market Adjustment	-	-	-	-	3,500,000	-	-	3,500,000	3,500,000	-
19012	General Fund Reserve - Golden L.E.A.F.	-	-	-	-	-	-	-	-	-	-
19031	Disaster Expenditures	-	-	-	-	-	-	-	-	-	-
19035	Management Flexibility	-	-	-	-	-	-	-	-	-	-
19048	Reserve for Workers' Compensation	-	-	-	-	-	5,000,000	-	5,000,000	5,000,000	-
19060	Reserves and Adjustments	-	-	-	-	-	-	-	-	-	-
19085	Limited Obligation Bonds Reserve	-	-	-	-	-	-	-	-	-	-
19086	State Capital & Infrastructure Fund	15,000,000	-	-	-	-	-	-	-	15,000,000	-
19X11	Reserve for IT Rates	-	-	-	-	1,720,000	-	-	1,720,000	1,720,000	-
Total Reserves, Debt Service, and Other											
		15,000,000	-	-	-	13,670,000	5,000,000	-	18,670,000	33,670,000	-
Direct Capital Appropriation											
19600	Capital Improvements	-	-	-	-	-	-	-	-	-	-
Total Direct Capital Appropriation											
		-	-	-	-	-	-	-	-	-	-
Total											
		24,827,052,197	-	(229,937,438)	-	2,189,561,610	534,128,308	765.80	2,493,752,480	27,320,804,677	765.80

Table 4 & Figure 2
Recommended General Fund Budget by Function
FY 2022-23

	FY 2022 -23 Recommended	% of GF Budget
Education	\$ 16,785,983,696	58.55%
General Government	\$ 570,960,086	1.99%
Health and Human Services	\$ 6,480,548,127	22.61%
Justice and Public Safety	\$ 3,359,146,071	11.72%
Natural and Economic Resources	\$ 741,938,747	2.59%
Reserves and Other Adjustments	\$ 33,670,000	0.12%
Debt Service	\$ 694,815,622	2.42%
Direct Capital Appropriation	\$ -	0.00%
Total General Fund Budget	\$ 28,667,062,349	100.00%

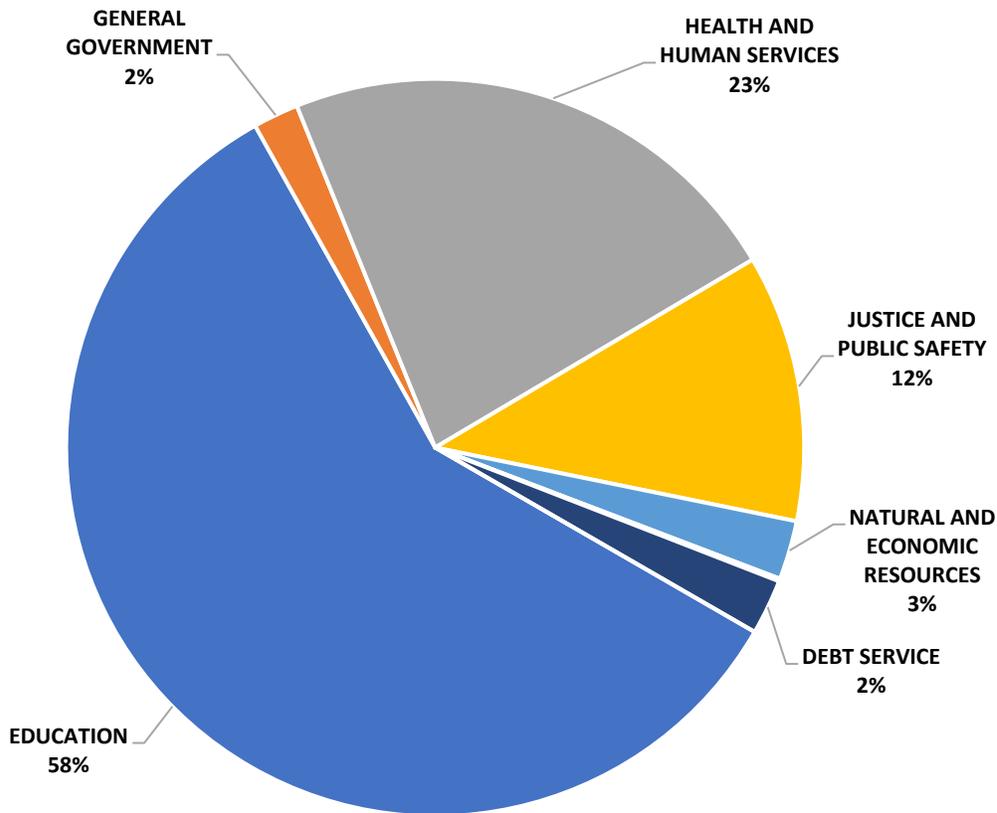


Table 5

Governor's Recommended General Fund Budget
2022-23 Adjustments

Budget Code	Function	Decrease				Increase				Net Change	2022-23	Net
		2022-23 Base Budget	Recurring	Nonrecurring	Positions	Recurring	Nonrecurring	Positions	Recommended Net Appropriation		Position Change	
Education												
13510	Department of Public Instruction	10,016,320,410	-	-	-	1,438,859,041	196,383,323	26.00	1,635,242,364	11,651,562,774	26.00	
16800	Community Colleges	1,219,687,975	-	-	-	175,041,094	25,340,155	10.00	200,381,249	1,420,069,224	10.00	
160xx	University System	3,173,523,123	-	-	-	492,039,200	48,789,375	9.00	540,828,575	3,714,351,698	9.00	
	Total Education	14,409,531,508	-	-	-	2,105,939,335	270,512,853	45.00	2,376,452,188	16,785,983,696	45.00	
General Government												
11000	General Assembly	74,106,502	-	-	-	6,307,003	1,322,740	-	7,629,743	81,736,245	-	
13000	Office of the Governor	5,716,753	-	-	-	1,110,675	70,464	9.00	1,181,139	6,897,892	9.00	
13005	Office of State Budget and Management	8,847,063	-	-	-	2,279,563	89,930	3.00	2,369,493	11,216,556	3.00	
13085	OSBM-Special Projects	2,000,000	-	-	-	-	-	-	-	2,000,000	-	
13010	NC Housing Finance Agency	10,660,000	-	-	-	7,660,000	-	-	7,660,000	18,320,000	-	
13050	Department of Military and Veterans Affairs	9,739,815	-	-	-	4,517,963	111,266	9.00	4,629,229	14,369,044	9.00	
13100	Office of the Lieutenant Governor	927,695	-	-	-	144,737	11,434	1.00	156,171	1,083,866	1.00	
13200	Department of Secretary of State	15,024,385	-	-	-	2,617,323	842,832	6.00	3,460,155	18,484,540	6.00	
13300	Office of the State Auditor	14,956,470	-	-	-	1,786,789	192,440	-	1,979,229	16,935,699	-	
13410	Department of State Treasurer	4,944,656	-	-	-	531,866	25,664	17.00	557,530	5,502,186	17.00	
13412	State Treasurer - Retirement System	32,020,423	-	-	-	700,000	-	-	700,000	32,720,423	-	
13900	Department of Insurance	43,707,418	-	-	-	3,551,595	609,071	2.00	4,160,666	47,868,084	2.00	
13902	Industrial Commission	8,892,754	-	-	-	345,577	77,926	-	423,503	9,316,257	-	
14100	Department of Administration	56,491,926	-	-	-	5,649,099	967,369	20.00	6,616,468	63,108,394	20.00	
14111	Office of State Human Resources - General	9,328,736	-	-	-	2,738,837	1,229,000	14.00	3,967,837	13,296,573	14.00	
14160	Office of the State Controller	25,736,372	-	-	-	5,607,577	248,259	20.00	5,855,836	31,592,208	20.00	
14660	Department of Information Technology	54,745,710	-	-	-	6,785,687	179,748	3.00	6,965,435	61,711,145	3.00	
14700	Department of Revenue	91,785,656	-	-	-	16,055,183	9,123,270	4.00	25,178,453	116,964,109	4.00	
18025	State Board of Elections	7,656,931	-	-	-	1,510,068	1,162,679	2.00	2,672,747	10,329,678	2.00	
18210	Office of Administrative Hearings	6,673,718	-	-	-	752,522	80,947	4.00	833,469	7,507,187	4.00	
	Total General Government	483,962,983	-	-	-	70,652,064	16,345,039	114.00	86,997,103	570,960,086	114.00	
Health and Human Services												
14410	Division of Central Management and Support	143,239,336	-	-	-	64,761,130	958,068	28.00	65,719,198	208,958,534	28.00	
14411	Division of Aging and Adult Services	44,294,755	-	-	-	13,535,389	49,157	-	13,584,546	57,879,301	-	
14420	Division of Child Development and Early	228,663,307	-	-	-	47,905,455	43,970	5.00	47,949,425	276,612,732	5.00	
14430	Division of Public Health	157,787,226	-	-	-	16,394,296	879,238	18.00	17,273,534	175,060,760	18.00	
14440	Division of Social Services	194,966,648	-	-	-	12,715,547	6,258,305	15.00	18,973,852	213,940,500	15.00	
14445	Division of Health Benefits	3,923,185,409	-	-	-	704,929,593	319,151	-	705,248,744	4,628,434,153	-	
14450	Division of Services for the Blind, Deaf and	8,769,334	-	-	-	283,112	73,854	1.00	356,966	9,126,300	1.00	
14460	Division of Mental Health/Developmental	787,769,827	-	-	-	49,699,221	7,139,652	12.00	56,838,873	844,608,700	12.00	
14470	Division of Health Services Regulation	20,911,947	-	-	-	2,752,896	369,376	14.00	3,122,272	24,034,219	14.00	
14480	Division of Vocational Rehabilitation	40,322,779	-	-	-	1,235,196	334,953	4.00	1,570,149	41,892,928	4.00	
	Total Health and Human Services	5,549,910,568	-	-	-	914,211,835	16,425,724	97.00	930,637,559	6,480,548,127	97.00	
Justice and Public Safety												
12000	Judicial Branch	604,818,743	-	-	-	54,732,425	9,325,308	132.00	64,057,733	668,876,476	132.00	
12001	Judicial Branch - Indigent Defense	127,991,599	-	-	-	23,708,013	882,007	34.00	24,590,020	152,581,619	34.00	
13600	Department of Justice	50,687,077	-	-	-	7,430,438	3,772,210	19.00	11,202,648	61,889,725	19.00	
14550	Department of Public Safety	2,252,151,869	-	-	-	189,867,716	33,778,666	245.00	223,646,382	2,475,798,251	245.00	

Budget Code	Function	Decrease				Increase				2022-23 Recommended Net Appropriation	Net Position Change	
		2022-23		Positions	Recurring	Nonrecurring	Positions	Recurring	Nonrecurring			Net Change
		Base Budget	Recurring									
Total Justice and Public Safety		3,035,649,288	-	-	-	275,738,592	47,758,191	430.00	323,496,783	3,359,146,071	430.00	
Natural and Economic Resources												
13700	Department of Agriculture and Consumer	133,763,582	-	-	-	14,313,243	1,860,317	20.00	16,173,560	149,937,142	20.00	
13800	Department of Labor	19,484,524	-	-	-	4,716,699	305,470	3.00	5,022,169	24,506,693	3.00	
14300	Department of Environmental Quality	87,188,334	-	-	-	9,799,258	36,499,944	58.80	46,299,202	133,487,536	58.80	
14350	Wildlife Resources Commission	12,807,582	-	-	-	1,012,314	182,750	2.00	1,195,064	14,002,646	2.00	
14600	Department of Commerce	11,742,694	-	-	-	3,246,461	161,735	20.00	3,408,196	15,150,890	20.00	
14601	Commerce - General State Aid	16,155,810	-	-	-	-	3,000,000	-	3,000,000	19,155,810	-	
14602	Commerce - Economic Development	150,175,700	-	-	-	5,000,000	15,000,000	-	20,000,000	170,175,700	-	
14800	Natural and Cultural Resources	188,912,246	-	-	-	23,177,137	2,842,619	68.00	26,019,756	214,932,002	68.00	
14802	Natural and Cultural Resources - Roanoke	590,328	-	-	-	-	-	-	-	590,328	-	
Total Natural and Economic Resources		620,820,800	-	-	-	61,265,112	59,852,835	171.80	121,117,947	741,938,747	171.80	
Debt Service												
19420	General Debt Service	720,940,153	-	(27,740,911)	-	-	-	-	(27,740,911)	693,199,242	-	
19425	Federal Reimbursement	1,616,380	-	-	-	-	-	-	-	1,616,380	-	
Total Debt Service		722,556,533	-	(27,740,911)	-	-	-	-	(27,740,911)	694,815,622	-	
Reserves and Other Adjustments												
19001	Contingency and Emergency Reserve	-	-	-	-	2,000,000	-	-	2,000,000	2,000,000	-	
19004	Salary Adjustments	-	-	-	-	6,450,000	-	-	6,450,000	6,450,000	-	
19005	OSHR - Market Adjustment	-	-	-	-	3,500,000	-	-	3,500,000	3,500,000	-	
19012	General Fund Reserve - Golden L.E.A.F.	-	-	-	-	-	-	-	-	-	-	
19031	Disaster Expenditures	-	-	-	-	-	-	-	-	-	-	
19035	Management Flexibility	-	-	-	-	-	-	-	-	-	-	
19048	Reserve for Workers' Compensation	-	-	-	-	-	5,000,000	-	5,000,000	5,000,000	-	
19060	Reserves and Adjustments	-	-	-	-	-	-	-	-	-	-	
19085	Limited Obligation Bonds Reserve	-	-	-	-	-	-	-	-	-	-	
19086	State Capital & Infrastructure Fund	15,000,000	-	-	-	-	-	-	-	15,000,000	-	
19X11	Reserve for IT Rates	-	-	-	-	1,720,000	-	-	1,720,000	1,720,000	-	
Total Reserves and Other Adjustments		15,000,000	-	-	-	13,670,000	5,000,000	-	18,670,000	33,670,000	-	
Direct Capital Appropriation												
19600	Capital Improvements	-	-	-	-	-	-	-	-	-	-	
Total Direct Capital Appropriation		-	-	-	-	-	-	-	-	-	-	
Total		24,837,431,680	-	(27,740,911)	-	3,441,476,938	415,894,642	857.80	3,829,630,669	28,667,062,349	857.80	

Table 6

**Governor's Recommended Highway Fund and Highway Trust Fund Budget
2021-22 Adjustments**

Function	FY 2021-22 Base Budget	Decreases			Increases			Net Change	2021-22 Recommended Net Appropriation	Net Position Change
		Recurring	Nonrecurring	Positions	Recurring	Nonrecurring	Positions			
Highway Fund										
DOT Administration	114,302,608	-	-	-		3,896,575	-	3,896,575	118,199,183	-
<i>Division of Highways</i>										
Administration	39,016,247	-	-	-	511,258		-	511,258	39,527,505	-
Construction	36,100,000	-	-	-			-	-	36,100,000	-
Maintenance	1,547,865,260	-	-	-	67,288,722		-	67,288,722	1,615,153,982	-
Planning and Research	-	-	-	-			-	-	-	-
OSHA Program	358,030	-	-	-			-	-	358,030	-
State Aid to Municipalities	143,102,801	-	-	-			-	-	143,102,801	-
<i>Multi-Modal</i>										
Airports	148,673,992	-	-	-			-	-	148,673,992	-
Bicycle	790,106	-	-	-			-	-	790,106	-
Ferry	51,975,639	-	-	-	10,500,000		-	10,500,000	62,475,639	-
Public Transportation	134,046,482	-	-	-		25,000,000	-	25,000,000	159,046,482	-
Railroads	154,635,592	-	-	-	22,000,000		-	22,000,000	176,635,592	-
Governor's Highway Safety Program	14,111,092	-	-	-			-	-	14,111,092	-
Division of Motor Vehicles	175,991,862	-	-	-	2,950,349		-	2,950,349	178,942,211	-
Other State Agencies	15,717,532	-	-	-			-	-	15,717,532	-
Transfer to General Fund	-	-	-	-			-	-	-	-
Other Reserves	12,729,529	-	-	-	29,447,700		-	29,447,700	42,177,229	-
Capital Improvements	-	-	-	-		10,742,859	-	10,742,859	10,742,859	-
Total Highway Fund	2,589,416,772	-	-	-	132,698,029	39,639,434	-	172,337,463	2,761,754,235	-
Highway Trust Fund										
Administration	23,986,763	-	-	-			-	-	23,986,763	-
<i>Construction</i>										
Strategic Prioritization Program	1,256,703,662	-	-	-			-	-	1,256,703,662	-
Intrastate System	-	-	-	-			-	-	-	-
Urban Loop System	-	-	-	-			-	-	-	-
Secondary Roads	-	-	-	-			-	-	-	-
State Aid to Municipalities	-	-	-	-			-	-	-	-
<i>Bonds</i>										
Bond Redemption	49,795,000	-	-	-			-	-	49,795,000	-
Bond Interest	43,247,400	-	-	-			-	-	43,247,400	-
NC Turnpike Authority	49,033,092	-	-	-			-	-	49,033,092	-
NC Mobility Fund	-	-	-	-			-	-	-	-
Transfer to Ports		-	-	-		45,000,000	-	45,000,000	45,000,000	-
Reserve for Visitor's Centers	400,000	-	-	-			-	-	400,000	-
Total Highway Trust Fund	1,423,165,917	-	-	-	-	45,000,000	-	45,000,000	1,468,165,917	-

Table 7

**Governor's Recommended Highway Fund and Highway Trust Fund Budget
2022-23 Adjustments**

Function	FY 2022-23 Base Budget	Decreases			Increases			Net Change	2022-23 Recommended Net Appropriation	Net Position Change
		Recurring	Nonrecurring	Positions	Recurring	Nonrecurring	Positions			
DOT Administration	117,699,183	-	-	-		730,170		730,170	118,429,353	-
<i>Division of Highways</i>										
Administration	39,388,843	-	-	-	-			-	39,388,843	-
Construction	36,100,000	-	-	-				-	36,100,000	-
Maintenance	1,582,506,115	-	-	-				-	1,582,506,115	-
Planning and Research	-	-	-	-				-	-	-
OSHA Program	358,030	-						-	358,030	-
State Aid to Municipalities	143,102,801	-	-	-				-	143,102,801	-
<i>Multi-Modal</i>										
Airports	150,673,992	-	-	-				-	150,673,992	-
Bicycle	790,106	-	-	-				-	790,106	-
Ferry	59,975,639	-	-	-				-	59,975,639	-
Public Transportation	144,236,996	-	-	-				-	144,236,996	-
Railroads	82,114,856	-						-	82,114,856	-
Governor's Highway Safety Program	14,111,092	-	-	-				-	14,111,092	-
Division of Motor Vehicles	178,942,668	-	-	-				-	178,942,668	-
Other State Agencies	15,717,532	-	-	-				-	15,717,532	-
Transfer to General Fund	-	-	-	-				-	-	-
Other Reserves	34,842,357				20,680,816			20,680,816	55,523,173	-
Capital Improvements	-	-	-	-		15,453,506		15,453,506	15,453,506	-
Total Highway Fund	2,600,560,210	-	-	-	20,680,816	16,183,676		36,864,492	2,637,424,702	-
Highway Trust Fund										
Administration	23,986,763	-	-	-				-	23,986,763	-
<i>Construction</i>										
Strategic Prioritization Program	1,405,503,662	-	-	-				-	1,405,503,662	-
Intrastate System	-							-	-	-
Urban Loop System	-							-	-	-
Secondary Roads	-							-	-	-
State Aid to Municipalities	-							-	-	-
<i>Bonds</i>										
Bond Redemption	52,290,000	-	-	-				-	52,290,000	-
Bond Interest	40,757,650							-	40,757,650	-
NC Turnpike Authority	49,033,092	-	-	-				-	49,033,092	-
Transfer to Ports	-					45,000,000		45,000,000	45,000,000	-
NC Mobility Fund	-							-	-	-
Reserve for Visitor's Centers	400,000	-	-	-				-	400,000	-
Total Highway Trust Fund	1,571,971,167	-	-	-		45,000,000		45,000,000	1,616,971,167	-

Table 8

Summary of General Fund Base Budget Adjustments, 2021-22

Budget Code	Function	2019-20 Actual	2020-21 Authorized	Base Budget Requirements	Base Budget Receipts	Base Budget	\$ Change from 2020-21 Auth	% Change from 2020-21 Auth	Base Budget Positions
Education									
13510	Public Education	\$ 9,664,331,806	\$ 9,987,410,026	\$ 12,182,234,990	\$ 2,165,914,580	\$ 10,016,320,410	\$ 28,910,384	0.29%	1,063.587
16800	Community Colleges	\$ 1,188,516,465	\$ 1,229,581,496	\$ 1,604,773,074	\$ 385,085,099	\$ 1,219,687,975	\$ (9,893,521)	(0.80%)	221.550
160xx	University System	\$ 3,117,897,104	\$ 3,170,083,027	\$ 5,138,485,059	\$ 1,975,078,408	\$ 3,163,406,651	\$ (6,676,376)	(0.21%)	35,522.314
	Total Education	\$ 13,970,745,375	\$ 14,387,074,549	\$ 18,925,493,123	\$ 4,526,078,087	\$ 14,399,415,036	\$ 12,340,487	0.09%	36,807.451
General Government									
11000	General Assembly	\$ 71,856,061	\$ 74,106,502	\$ 74,667,502	\$ 561,000	\$ 74,106,502	\$ -	0.00%	540.350
13000	Governor's Office	\$ 5,242,444	\$ 5,576,809	\$ 6,615,513	\$ 898,760	\$ 5,716,753	\$ 139,944	2.51%	52.000
13005	State Budget and Management	\$ 8,358,064	\$ 8,765,358	\$ 8,978,843	\$ 131,780	\$ 8,847,063	\$ 81,705	0.93%	55.000
13010	NC Housing Finance Agency	\$ 10,660,000	\$ 30,660,000	\$ 10,660,000	\$ -	\$ 10,660,000	\$ (20,000,000)	(65.23%)	0.000
13050	Military and Veterans Affairs	\$ 9,107,497	\$ 9,572,445	\$ 67,155,001	\$ 57,415,186	\$ 9,739,815	\$ 167,370	1.75%	91.750
13085	OSBM-Special Projects	\$ 17,156,500	\$ 8,603,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ (6,603,000)	(76.75%)	0.000
13100	Lieutenant Governor	\$ 728,434	\$ 927,695	\$ 927,695	\$ -	\$ 927,695	\$ -	0.00%	7.000
13200	Secretary of State	\$ 14,163,856	\$ 14,626,165	\$ 15,386,741	\$ 362,356	\$ 15,024,385	\$ 398,220	2.72%	178.553
13300	State Auditor	\$ 12,792,448	\$ 14,808,414	\$ 21,471,173	\$ 6,514,703	\$ 14,956,470	\$ 148,056	1.00%	160.000
13410	State Treasurer	\$ 4,027,339	\$ 4,944,657	\$ 67,989,217	\$ 63,044,561	\$ 4,944,656	\$ (1)	(0.00%)	397.600
13412	State Treasurer - Retirement/Benefits	\$ 31,437,256	\$ 32,020,423	\$ 33,220,423	\$ 1,200,000	\$ 32,020,423	\$ -	0.00%	0.000
13900	Insurance	\$ 41,190,054	\$ 43,547,878	\$ 52,066,118	\$ 8,358,700	\$ 43,707,418	\$ 159,540	0.37%	452.137
13902	Industrial Commission	\$ 9,205,524	\$ 9,642,754	\$ 22,460,603	\$ 13,567,849	\$ 8,892,754	\$ (750,000)	(7.78%)	146.204
14100	Administration	\$ 63,984,400	\$ 65,385,859	\$ 66,628,348	\$ 10,136,422	\$ 56,491,926	\$ (8,893,933)	(13.60%)	356.149
14111	Office of State Human Resources - General Fund	\$ -	\$ -	\$ 9,429,624	\$ 100,888	\$ 9,328,736	\$ 9,328,736	0.00%	63.550
14660	Information Technology	\$ 51,466,670	\$ 54,745,710	\$ 55,156,933	\$ 411,223	\$ 54,745,710	\$ -	0.00%	107.750
14160	State Controller	\$ 22,498,385	\$ 25,742,217	\$ 26,552,574	\$ 816,202	\$ 25,736,372	\$ (5,845)	(0.02%)	167.454
14700	Revenue	\$ 87,185,512	\$ 91,779,469	\$ 155,095,449	\$ 63,306,741	\$ 91,788,708	\$ 9,239	0.01%	1,463.386
18025	State Board of Elections	\$ 6,237,738	\$ 7,604,808	\$ 7,758,931	\$ 102,000	\$ 7,656,931	\$ 52,123	0.69%	66.000
18210	Office of Administrative Hearings	\$ 5,949,959	\$ 6,540,124	\$ 7,921,704	\$ 1,260,671	\$ 6,661,033	\$ 120,909	1.85%	55.790
	Total General Government	\$ 473,248,144	\$ 509,600,287	\$ 712,142,392	\$ 228,189,042	\$ 483,953,350	\$ (25,646,937)	(5.03%)	4,360.673
Health and Human Services									
14480	Vocational Rehabilitation	\$ 37,127,360	\$ 40,318,276	\$ 156,002,121	\$ 115,681,595	\$ 40,320,526	\$ 2,250	0.01%	989.250
14411	Aging and Adult Services	\$ 42,703,200	\$ 44,294,755	\$ 156,196,515	\$ 111,901,760	\$ 44,294,755	\$ -	0.00%	77.000
14440	Social Services	\$ 178,894,200	\$ 194,964,600	\$ 1,962,379,539	\$ 1,767,412,891	\$ 194,966,648	\$ 2,048	0.00%	402.000
14450	Services for the Blind, Deaf, and Hard of Hearing	\$ 7,356,903	\$ 8,769,334	\$ 42,596,973	\$ 33,827,639	\$ 8,769,334	\$ -	0.00%	335.510
14410	Central Administration	\$ 124,181,935	\$ 139,403,666	\$ 235,183,857	\$ 91,972,760	\$ 143,211,097	\$ 3,807,431	2.73%	988.000
14420	Child Development and Early Education	\$ 226,597,837	\$ 228,663,307	\$ 807,780,318	\$ 579,117,011	\$ 228,663,307	\$ -	0.00%	336.000
14430	Public Health	\$ 152,328,746	\$ 156,971,576	\$ 971,712,464	\$ 814,008,283	\$ 157,704,181	\$ 732,605	0.47%	1,960.960
14445	Medical Assistance	\$ 3,804,844,140	\$ 4,137,530,933	\$ 14,864,863,270	\$ 10,941,685,770	\$ 3,923,177,500	\$ (214,353,433)	(5.18%)	469.000
14460	Mental Health/Disabilities/Substance Abuse	\$ 739,124,745	\$ 752,474,203	\$ 1,601,236,593	\$ 813,466,768	\$ 787,769,825	\$ 35,295,622	4.69%	11,271.100
14470	Health Services Regulation	\$ 19,011,898	\$ 20,420,222	\$ 76,225,433	\$ 55,313,486	\$ 20,911,947	\$ 491,725	2.41%	578.500
	Total Health and Human Services	\$ 5,332,170,963	\$ 5,723,810,872	\$ 20,874,177,083	\$ 15,324,387,963	\$ 5,549,789,120	\$ (174,021,752)	(3.04%)	17,407.320
Justice and Public Safety									
12000	Judicial	\$ 578,375,400	\$ 604,269,700	\$ 606,039,793	\$ 1,221,050	\$ 604,818,743	\$ 549,043	0.09%	5,970.250
12001	Judicial - Indigent Defense	\$ 125,493,916	\$ 127,784,074	\$ 140,297,520	\$ 12,311,025	\$ 127,986,495	\$ 202,421	0.16%	554.000
13600	Justice	\$ 52,049,075	\$ 53,687,077	\$ 93,681,674	\$ 42,994,597	\$ 50,687,077	\$ (3,000,000)	(5.59%)	789.885
14550	Public Safety	\$ 2,198,974,347	\$ 2,240,194,166	\$ 2,514,604,984	\$ 262,562,580	\$ 2,252,042,404	\$ 11,848,238	0.53%	24,727.416
	Total Justice and Public Safety	\$ 2,954,892,738	\$ 3,025,935,017	\$ 3,354,623,971	\$ 319,089,252	\$ 3,035,534,719	\$ 9,599,702	0.32%	32,041.551

Budget Code	Function	2019-20 Actual	2020-21 Authorized	Base Budget Requirements	Base Budget Receipts	Base Budget	\$ Change from 2020-21 Auth	% Change from 2020-21 Auth	Base Budget Positions
Natural and Economic Resources									
13700	Agriculture and Consumer Services	\$ 129,473,367	\$ 133,077,170	\$ 196,448,314	\$ 62,702,495	\$ 133,745,819	\$ 668,649	0.50%	1,811.521
13800	Labor	\$ 17,962,313	\$ 19,324,137	\$ 39,658,872	\$ 20,180,125	\$ 19,478,747	\$ 154,610	0.80%	378.000
14300	Environmental Quality	\$ 81,902,451	\$ 100,226,997	\$ 255,006,113	\$ 167,811,600	\$ 87,194,513	\$ (13,032,484)	(13.00%)	1,097.871
14350	Wildlife Resources Commission	\$ 12,053,305	\$ 11,858,585	\$ 94,382,144	\$ 81,574,562	\$ 12,807,582	\$ 948,997	8.00%	655.000
14600	Commerce	\$ 9,369,689	\$ 11,742,694	\$ 68,689,734	\$ 56,947,040	\$ 11,742,694	\$ -	0.00%	172.051
14601	Commerce - State Aid	\$ 16,155,810	\$ 16,155,810	\$ 16,155,810	\$ -	\$ 16,155,810	\$ -	0.00%	0.000
14602	Commerce - Economic Development	\$ 150,155,700	\$ 150,175,700	\$ 150,295,700	\$ 120,000	\$ 150,175,700	\$ -	0.00%	0.000
14800	Natural and Cultural Resources	\$ 181,243,861	\$ 186,975,876	\$ 231,632,149	\$ 42,719,903	\$ 188,912,246	\$ 1,936,370	1.04%	1,860.821
14802	Natural and Cultural Resources - Roanoke Island	\$ 590,328	\$ 590,328	\$ 590,328	\$ -	\$ 590,328	\$ -	0.00%	0.000
Total Natural and Economic Resources		\$ 598,906,824	\$ 630,127,297	\$ 1,052,859,164	\$ 432,055,725	\$ 620,803,439	\$ (9,323,858)	(1.48%)	5,975.264
Debt Service									
19420	General Debt Service	\$ 705,756,629	\$ 720,940,153	\$ 739,593,748	\$ 18,653,595	\$ 720,940,153	\$ -	0.00%	0.000
19425	Federal Reimbursement	\$ 1,452,854	\$ 1,616,380	\$ 1,616,380	\$ -	\$ 1,616,380	\$ -	0.00%	0.000
Total Debt Service		\$ 707,209,483	\$ 722,556,533	\$ 741,210,128	\$ 18,653,595	\$ 722,556,533	\$ -	0.00%	0.000
Reserves and Other Adjustments									
19001	Contingency and Emergency Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19004	Salary Adjustments	\$ 9,462,070	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19005	OSHR - Market Adjustment	\$ 425,888	\$ 2,624,316	\$ -	\$ -	\$ -	\$ (2,624,316)	(100.00%)	0.000
19012	General Fund Reserve - Golden L.E.A.F.	\$ 15,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19031	Disaster Expenditures	\$ 5,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19035	Management Flexibility	\$ -	\$ (645,400,000)	\$ -	\$ -	\$ -	\$ 645,400,000	(100.00%)	0.000
19060	Reserves and Adjustments	\$ (9,462,070)	\$ (1,944,202)	\$ -	\$ -	\$ -	\$ 1,944,202	(100.00%)	0.000
19084	25-Year Law Enforcement Retirement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19085	Limited Obligation Bonds Reserve	\$ 35,999,999	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19086	State Capital & Infrastructure Fund	\$ -	\$ 125,000,000	\$ 15,000,000	\$ -	\$ 15,000,000	\$ (110,000,000)	(88.00%)	0.000
Total Reserves, Debt Service, and Other Adjustments		\$ 56,425,887	\$ (519,719,886)	\$ 15,000,000	\$ -	\$ 15,000,000	\$ 534,719,886	(102.89%)	0.000
Total General Fund Operating Budget		\$ 24,093,599,414	\$ 24,479,384,669	\$ 45,675,505,861	\$ 20,848,453,664	\$ 24,827,052,197	\$ 347,667,528	1.42%	96,592.259

Table 9

Summary of General Fund Base Budget Adjustments, 2022-23

Budget Code	Function	2019-20 Actual	2020-21 Authorized	Base Budget Requirements	Base Budget Receipts	Base Budget	\$ Change from 2020-21 Auth	% Change from 2020-21 Auth	Base Budget Positions
Education									
13510	Public Education	\$ 9,664,331,806	\$ 9,987,410,026	\$ 12,182,234,990	\$ 2,165,914,580	\$ 10,016,320,410	\$ 28,910,384	0.29%	1,063.587
16800	Community Colleges	\$ 1,188,516,465	\$ 1,229,581,496	\$ 1,604,773,074	\$ 385,085,099	\$ 1,219,687,975	\$ (9,893,521)	(0.80%)	221.550
160xx	University System	\$ 3,117,897,104	\$ 3,170,083,027	\$ 5,148,601,531	\$ 1,975,078,408	\$ 3,173,523,123	\$ 3,440,096	0.11%	35,522.314
	Total Education	\$ 13,970,745,375	\$ 14,387,074,549	\$ 18,935,609,595	\$ 4,526,078,087	\$ 14,409,531,508	\$ 22,456,959	0.16%	36,807.451
General Government									
11000	General Assembly	\$ 71,856,061	\$ 74,106,502	\$ 74,667,502	\$ 561,000	\$ 74,106,502	\$ -	0.00%	540.350
13000	Governor's Office	\$ 5,242,444	\$ 5,576,809	\$ 6,615,513	\$ 898,760	\$ 5,716,753	\$ 139,944	2.51%	52.000
13005	State Budget and Management	\$ 8,358,064	\$ 8,765,358	\$ 8,978,843	\$ 131,780	\$ 8,847,063	\$ 81,705	0.93%	55.000
13010	NC Housing Finance Agency	\$ 10,660,000	\$ 30,660,000	\$ 10,660,000	\$ -	\$ 10,660,000	\$ (20,000,000)	(65.23%)	0.000
13050	Military and Veterans Affairs	\$ 9,107,497	\$ 9,572,445	\$ 67,155,001	\$ 57,415,186	\$ 9,739,815	\$ 167,370	1.75%	91.750
13085	OSBM-Special Projects	\$ 17,156,500	\$ 8,603,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ (6,603,000)	(76.75%)	0.000
13100	Lieutenant Governor	\$ 728,434	\$ 927,695	\$ 927,695	\$ -	\$ 927,695	\$ -	0.00%	7.000
13200	Secretary of State	\$ 14,163,856	\$ 14,626,165	\$ 15,386,741	\$ 362,356	\$ 15,024,385	\$ 398,220	2.72%	178.553
13300	State Auditor	\$ 12,792,448	\$ 14,808,414	\$ 21,471,173	\$ 6,514,703	\$ 14,956,470	\$ 148,056	1.00%	160.000
13410	State Treasurer	\$ 4,027,339	\$ 4,944,657	\$ 68,039,962	\$ 63,095,306	\$ 4,944,656	\$ (1)	(0.00%)	397.600
13412	State Treasurer - Retirement/Benefits	\$ 31,437,256	\$ 32,020,423	\$ 33,220,423	\$ 1,200,000	\$ 32,020,423	\$ -	0.00%	0.000
13900	Insurance	\$ 41,190,054	\$ 43,547,878	\$ 52,066,118	\$ 8,358,700	\$ 43,707,418	\$ 159,540	0.37%	452.137
13902	Industrial Commission	\$ 9,205,524	\$ 9,642,754	\$ 22,460,603	\$ 13,567,849	\$ 8,892,754	\$ (750,000)	(7.78%)	146.204
14100	Administration	\$ 63,984,400	\$ 65,385,859	\$ 66,628,348	\$ 10,136,422	\$ 56,491,926	\$ (8,893,933)	(13.60%)	356.149
14111	Office of State Human Resources - General Fund	\$ -	\$ -	\$ 9,429,624	\$ 100,888	\$ 9,328,736	\$ 9,328,736	0.00%	63.550
14660	Information Technology	\$ 51,466,670	\$ 54,745,710	\$ 55,156,933	\$ 411,223	\$ 54,745,710	\$ -	0.00%	107.750
14160	State Controller	\$ 22,498,385	\$ 25,742,217	\$ 26,552,574	\$ 816,202	\$ 25,736,372	\$ (5,845)	(0.02%)	167.454
14700	Revenue	\$ 87,185,512	\$ 91,779,469	\$ 155,096,811	\$ 63,311,155	\$ 91,785,656	\$ 6,187	0.01%	1,463.386
18025	State Board of Elections	\$ 6,237,738	\$ 7,604,808	\$ 7,758,931	\$ 102,000	\$ 7,656,931	\$ 52,123	0.69%	66.000
18210	Office of Administrative Hearings	\$ 5,949,959	\$ 6,540,124	\$ 7,934,389	\$ 1,260,671	\$ 6,673,718	\$ 133,594	2.04%	55.790
	Total General Government	\$ 473,248,144	\$ 509,600,287	\$ 712,207,184	\$ 228,244,201	\$ 483,962,983	\$ (25,637,304)	(5.03%)	4,360.673
Health and Human Services									
14480	Vocational Rehabilitation	\$ 37,127,360	\$ 40,318,276	\$ 156,004,374	\$ 115,681,595	\$ 40,322,779	\$ 4,503	0.01%	989.250
14411	Aging and Adult Services	\$ 42,703,200	\$ 44,294,755	\$ 122,881,371	\$ 78,586,616	\$ 44,294,755	\$ -	0.00%	77.000
14440	Social Services	\$ 178,894,200	\$ 194,964,600	\$ 1,962,379,539	\$ 1,767,412,891	\$ 194,966,648	\$ 2,048	0.00%	402.000
14450	Services for the Blind, Deaf, and Hard of Hearing	\$ 7,356,903	\$ 8,769,334	\$ 42,596,973	\$ 33,827,639	\$ 8,769,334	\$ -	0.00%	335.510
14410	Central Administration	\$ 124,181,935	\$ 139,403,666	\$ 235,255,297	\$ 92,015,961	\$ 143,239,336	\$ 3,835,670	2.75%	988.000
14420	Child Development and Early Education	\$ 226,597,837	\$ 228,663,307	\$ 807,780,318	\$ 579,117,011	\$ 228,663,307	\$ -	0.00%	336.000
14430	Public Health	\$ 152,328,746	\$ 156,971,576	\$ 971,814,383	\$ 814,027,157	\$ 157,787,226	\$ 815,650	0.52%	1,960.960
14445	Medical Assistance	\$ 3,804,844,140	\$ 4,137,530,933	\$ 14,864,874,323	\$ 10,941,688,914	\$ 3,923,185,409	\$ (214,345,524)	(5.18%)	469.000
14460	Mental Health/Disabilities/Substance Abuse	\$ 739,124,745	\$ 752,474,203	\$ 1,601,236,595	\$ 813,466,768	\$ 787,769,827	\$ 35,295,624	4.69%	11,271.100
14470	Health Services Regulation	\$ 19,011,898	\$ 20,420,222	\$ 76,231,658	\$ 55,319,711	\$ 20,911,947	\$ 491,725	2.41%	578.500
	Total Health and Human Services	\$ 5,332,170,963	\$ 5,723,810,872	\$ 20,841,054,831	\$ 15,291,144,263	\$ 5,549,910,568	\$ (173,900,304)	(3.04%)	17,407.320
Justice and Public Safety									
12000	Judicial	\$ 578,375,400	\$ 604,269,700	\$ 606,039,793	\$ 1,221,050	\$ 604,818,743	\$ 549,043	0.09%	5,970.250
12001	Judicial - Indigent Defense	\$ 125,493,916	\$ 127,784,074	\$ 140,302,624	\$ 12,311,025	\$ 127,991,599	\$ 207,525	0.16%	554.000
13600	Justice	\$ 52,049,075	\$ 53,687,077	\$ 93,681,674	\$ 42,994,597	\$ 50,687,077	\$ (3,000,000)	(5.59%)	789.885
14550	Public Safety	\$ 2,198,974,347	\$ 2,240,194,166	\$ 2,514,714,449	\$ 262,562,580	\$ 2,252,151,869	\$ 11,957,703	0.53%	24,727.416
	Total Justice and Public Safety	\$ 2,954,892,738	\$ 3,025,935,017	\$ 3,354,738,540	\$ 319,089,252	\$ 3,035,649,288	\$ 9,714,271	0.32%	32,041.551

Budget Code	Function	2019-20 Actual	2020-21 Authorized	Base Budget Requirements	Base Budget Receipts	Base Budget	\$ Change from 2020-21 Auth	% Change from 2020-21 Auth	Base Budget Positions
Natural and Economic Resources									
13700	Agriculture and Consumer Services	\$ 129,473,367	\$ 133,077,170	\$ 196,466,278	\$ 62,702,696	\$ 133,763,582	\$ 686,412	0.52%	1,811.521
13800	Labor	\$ 17,962,313	\$ 19,324,137	\$ 39,664,649	\$ 20,180,125	\$ 19,484,524	\$ 160,387	0.83%	378.000
14300	Environmental Quality	\$ 81,902,451	\$ 100,226,997	\$ 255,007,643	\$ 167,819,309	\$ 87,188,334	\$ (13,038,663)	(13.01%)	1,097.871
14350	Wildlife Resources Commission	\$ 12,053,305	\$ 11,858,585	\$ 94,382,144	\$ 81,574,562	\$ 12,807,582	\$ 948,997	8.00%	655.000
14600	Commerce	\$ 9,369,689	\$ 11,742,694	\$ 68,689,734	\$ 56,947,040	\$ 11,742,694	\$ -	0.00%	172.051
14601	Commerce - State Aid	\$ 16,155,810	\$ 16,155,810	\$ 16,155,810	\$ -	\$ 16,155,810	\$ -	0.00%	0.000
14602	Commerce - Economic Development	\$ 150,155,700	\$ 150,175,700	\$ 150,295,700	\$ 120,000	\$ 150,175,700	\$ -	0.00%	0.000
14800	Natural and Cultural Resources	\$ 181,243,861	\$ 186,975,876	\$ 231,632,149	\$ 42,719,903	\$ 188,912,246	\$ 1,936,370	1.04%	1,860.821
14802	Natural and Cultural Resources - Roanoke Island	\$ 590,328	\$ 590,328	\$ 590,328	\$ -	\$ 590,328	\$ -	0.00%	0.000
Total Natural and Economic Resources		\$ 598,906,824	\$ 630,127,297	\$ 1,052,884,435	\$ 432,063,635	\$ 620,820,800	\$ (9,306,497)	(1.48%)	5,975.264
Debt Service									
19420	General Debt Service	\$ 705,756,629	\$ 720,940,153	\$ 739,593,748	\$ 18,653,595	\$ 720,940,153	\$ -	0.00%	0.000
19425	Federal Reimbursement	\$ 1,452,854	\$ 1,616,380	\$ 1,616,380	\$ -	\$ 1,616,380	\$ -	0.00%	0.000
Total Debt Service		\$ 707,209,483	\$ 722,556,533	\$ 741,210,128	\$ 18,653,595	\$ 722,556,533	\$ -	0.00%	0.000
Reserves and Other Adjustments									
19001	Contingency and Emergency Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19004	Salary Adjustments	\$ 9,462,070	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19005	OSHR - Market Adjustment	\$ 425,888	\$ 2,624,316	\$ -	\$ -	\$ -	\$ (2,624,316)	(100.00%)	0.000
19012	General Fund Reserve - Golden L.E.A.F.	\$ 15,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19031	Disaster Expenditures	\$ 5,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19035	Management Flexibility	\$ -	\$ (645,400,000)	\$ -	\$ -	\$ -	\$ 645,400,000	(100.00%)	0.000
19060	Reserves and Adjustments	\$ (9,462,070)	\$ (1,944,202)	\$ -	\$ -	\$ -	\$ 1,944,202	(100.00%)	0.000
19084	25-Year Law Enforcement Retirement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19085	Limited Obligation Bonds Reserve	\$ 35,999,999	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.000
19086	State Capital & Infrastructure Fund	\$ -	\$ 125,000,000	\$ 15,000,000	\$ -	\$ 15,000,000	\$ (110,000,000)	(88.00%)	0.000
Total Reserves and Other Adjustments		\$ 56,425,887	\$ (519,719,886)	\$ 15,000,000	\$ -	\$ 15,000,000	\$ 534,719,886	(102.89%)	0.000
Total General Fund Operating Budget		\$ 24,093,599,414	\$ 24,479,384,669	\$ 45,652,704,713	\$ 20,815,273,033	\$ 24,837,431,680	\$ 358,047,011	1.46%	96,592.259

***Budget and Economic Outlook,
Revenue Forecasts, and
Demographic Analysis***

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Five-Year Budget Outlook

The following fiscal analysis is presented pursuant to G.S. 143C-3-5(f)-6 and offers a five-year forecast of revenues and expenditures for General Fund net appropriations. The forecast includes the following assumptions:¹

- The first two years (FY 2021-22 and FY 2022-23) reflect the Governor’s Recommended Budget as presented in this document.
- OSBM used the following growth factors for the subsequent three years using the Governor’s FY 2022-23 Recommended Budget as the base:
 - Revenue is grown annually at 4.4%, based on an average of IHS Markit projections of income growth and historical average tax-law-adjusted General Fund revenue growth that encompasses the last two recessions and economic expansions prior to the COVID-19 pandemic, adjusted for revenue-law changes;
 - Enrollment in K-12 education is based on the State Demographer’s projections for growth in the population age 5-18;
 - Community College and University enrollment growth uses 4-year historical average growth rate to avoid data quality issues and the impact of the Great Recession;²
 - Medicaid rebase adjustment growth employs a 10-year historical average growth rate of the Bureau of Labor Statistics’ Consumer Price Index for Medical Care;
 - Agency budgets are grown using a forecast of the Bureau of Economic Analysis’ State and Local Government Consumption Chained Price Index combined with the State Demographer’s 2020 vintage projections of NC population; and
 - Projected debt service for current and proposed investments is included.

As shown by the table and graph below, expenditures are anticipated to stay below revenues throughout the five-year period.

Table 10

Five-Year General Fund Expenditure Forecast
(in millions)

	FY 2021-22 Proposed	FY 2022-23 Proposed	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate
Current Services Summary					
Revenue/Availability	29,061.0	28,951.4	29,533.4	30,845.1	32,507.2
Expenditures Base	24,827.1	24,837.4	28,301.4	29,235.8	30,134.0
New Expenditures	2,493.8	3,829.6	926.6	891.9	939.1
Expenditures Total	27,320.8	28,667.1	29,228.0	30,127.8	31,073.2
State Budget Surplus (+)/Shortfall (-)	1,740.2	284.4	305.4	717.4	1,434.0

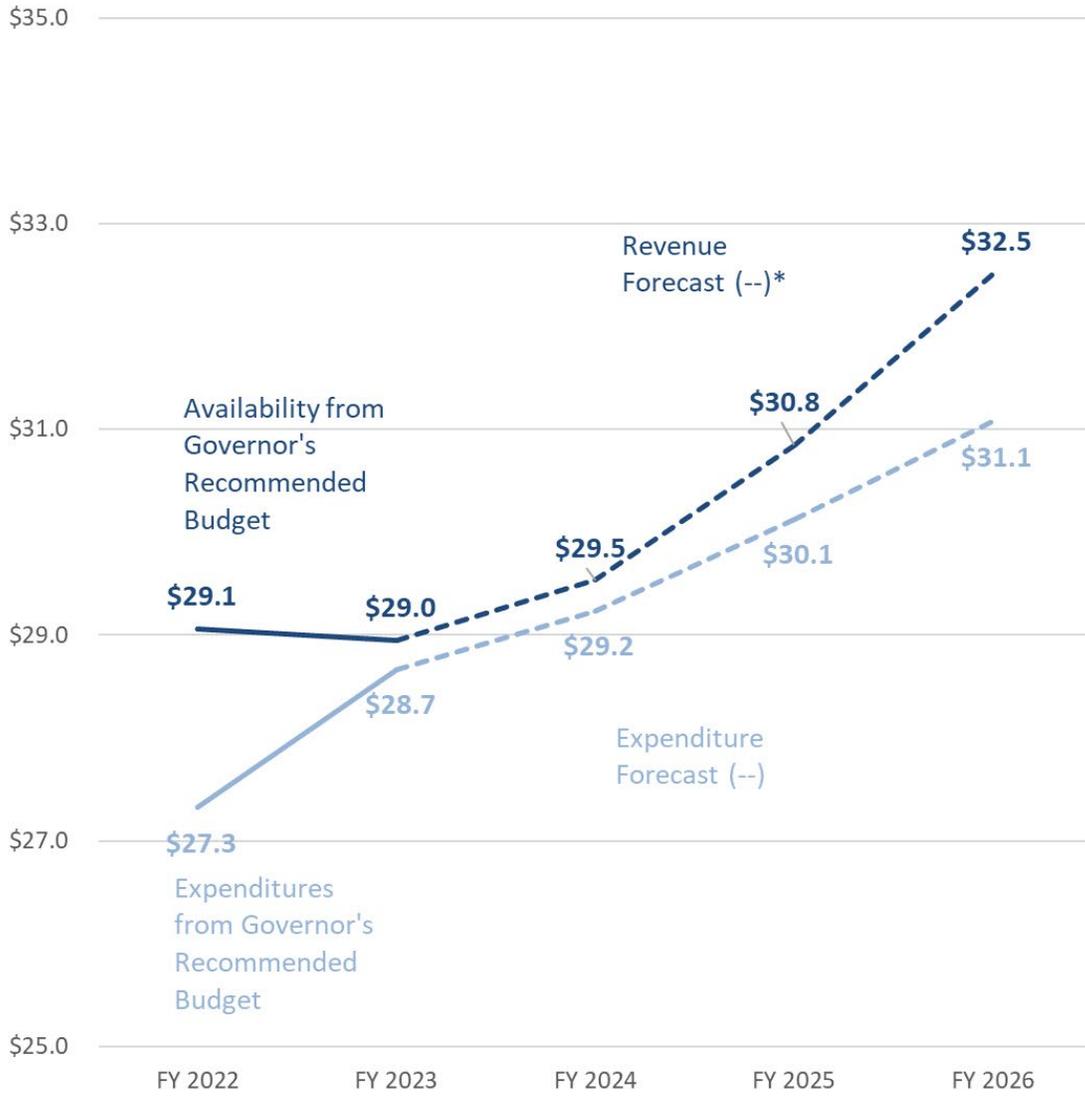
¹ Additional details and methodology are available from the Office of State Budget and Management.

² All historical averages used in the expenditure forecast are compound average growth rates.

Figure 3

General Fund Five-Year Revenue and Expenditure Forecast

Billions of Current-Year Dollars



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

Source: OSBM data and projections

Economic Outlook – The Tale of Two Recoveries

The COVID-19 pandemic has had profound effects globally and on the lives of Americans and the economy over the past year. Many factors, including effective vaccines and federal stimulus payments, have boosted the economy from the lows of Spring 2020. However, the recovery has been K-shaped, with higher-income households recovering quickly, even increasing their wealth, while lower-income households continue to struggle. This pattern is true not only for individuals, but for entire sectors of the economy. In addition to the hardships of widespread illness and loss of life, the pandemic has had outsized impacts particularly on the leisure and hospitality sector.

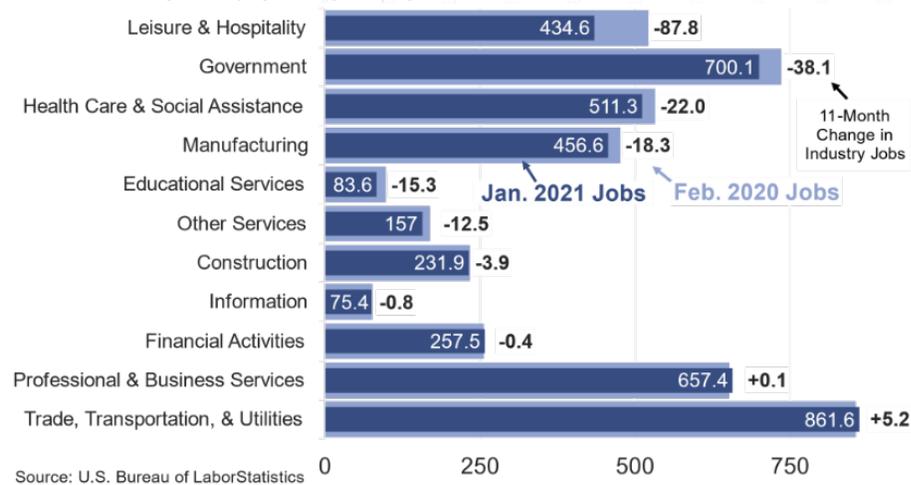
As the North Carolina economy continues to recover, it is unclear whether its future will resemble its pre-pandemic form. Some COVID-19 trends, like the increase in remote work, acceleration of automation, and transformation of retail, may linger and permanently alter the way people live their lives and the greater economy.

COVID-19 Takes Employment on a Rollercoaster Ride

The COVID-19 pandemic triggered the sharpest decline in employment since modern recordkeeping began. Of the 4.92 million North Carolinians on the job in February 2020, 867,000 (17.6%) reported being out of work two months later.¹ Although all industries in the state shed jobs between February and April last year, the pandemic devastated the leisure and hospitality sector. Leisure and hospitality businesses shed nearly half of the sector's 522,000 jobs during that time.²

Since spring of 2020, job growth has ebbed and flowed following the trajectory of the pandemic. The combination of federal stimulus payments to families, businesses, and unemployed workers, more targeted public health protocols, and pandemic adaptations by businesses and consumers restored

Figure 4
Leisure and Hospitality Jobs Hardest Hit By COVID -19 Crisis
 North Carolina Payroll Employment by Industry, Jan. 2021 vs Feb. 2020, Thousands



nearly 450,000 North Carolina jobs by the middle of July, 2020.³ Job growth stalled again in several industries between mid-November and mid-January, particularly leisure and hospitality, which accounted for 45% of the decline in non-farm payroll employment between February and January 2021 (Figure 4).⁴

¹ US Bureau of Labor Statistics. Local Area Unemployment Statistics. Accessed March 15, 2021.

² US Bureau of Labor Statistics. State and Metro Area Employment, Hours, & Earnings. Accessed March 15, 2021.

³ US Bureau of Labor Statistics. Local Area Unemployment Statistics. Accessed March 15, 2021.

⁴ US Bureau of Labor Statistics. State and Metro Area Employment, Hours, & Earnings. Accessed March 15, 2021.

Even as businesses across the nation added more than 500,000 jobs in January and February of 2021, recent employment data point to worrying trends.⁵ One is the rising share of workers who have been out of a job for 27 weeks or more, which rose to 41.5% in February, almost reaching the record-high of 45% in the wake of the Great Recession.⁶ One lesson from the Great Recession is that finding a new job becomes more difficult the longer workers are out of work.⁷ The same lesson applies to another concerning trend, the stagnating rate of participation in the labor force.

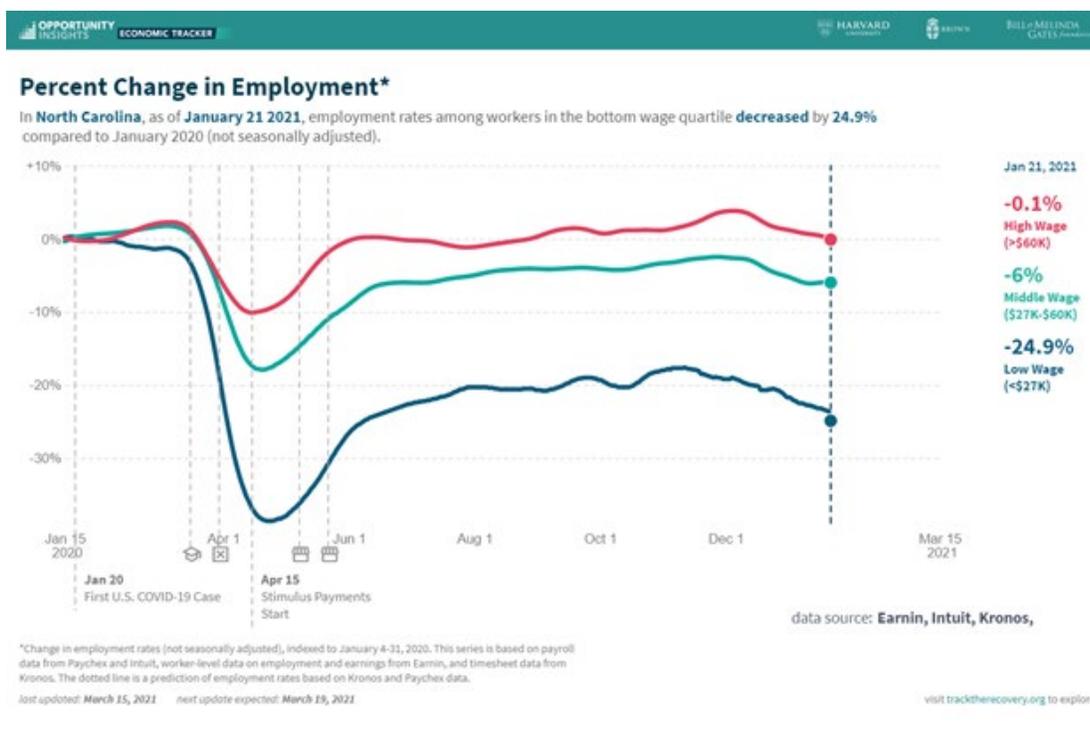
While concerns about these long-term trends remain, the billions of dollars in state and federal unemployment benefits paid to state residents have supported the state’s economy (and state and local tax revenues). A large share of these benefits was or will be spent at North Carolina businesses, providing income to business owners, supporting North Carolina jobs, and paving the way for a full economic recovery.

Wages Recover Unevenly While Federal Stimulus Drives Up Personal Income

The recession caused by the COVID-19 pandemic hit low-wage workers the hardest. While the state had 4.4% fewer payroll jobs in September 2020 compared to a year earlier, the average weekly wage was 6.9% higher.⁸ The increase in the average weekly wage was a direct result of disproportionate job losses among low-wage workers, as shown by national data⁹ and unofficial high-frequency state-level data.¹⁰

Employment rates for low-wage North Carolina workers were down nearly 25% in mid-January 2021 compared to the beginning of last year (Figure 5). The two lowest-paid industries are leisure & hospitality and retail trade, both of which

Figure 5



⁵ US Bureau of Labor Statistics. Current Employment Statistics. Accessed March 8, 2021.

⁶ US Bureau of Labor Statistics. Current Population Survey. Accessed March 8, 2021.

⁷ Nichols, Austin et. al. "Consequences of Long-Term Unemployment." Urban Institute. July 2013.

⁸ <https://www.urban.org/sites/default/files/publication/23921/412887-Consequences-of-Long-Term-Unemployment.PDF>

⁹ US Bureau of Labor Statistics. County Employment and Wages, 2020 3rd quarter. Accessed March 10, 2021.

¹⁰ Federal Reserve Bank of Atlanta’s Center for Human Capital Studies. Wage Growth Tracker. Accessed March 11, 2021.

<https://www.frbatlanta.org/chcs/wage-growth-tracker>

¹⁰ Opportunity Insights Economic Tracker. <https://tracktherecovery.org/>

have borne the brunt of the pandemic's impact on the economy. The average weekly wage in the accommodation & food services sector in North Carolina in 2020 Q3 was \$376 and in the retail trade sector \$616.¹¹ In addition, these industries historically employ higher than average percentages of women and people of color.¹² Almost a year into the pandemic women's participation in the workforce has not recovered at the same rate as men, creating further inequities.

Despite the struggle of low-wage earners, the total personal income of Americans has increased by 13.1%. This is due to the disparate effect of the pandemic on high-wage versus low-wage earners (national total wage and salary income rose by 1.1% year-over-year this January and 9.1% in the fourth quarter 2020 over a quarter prior), the federal stimulus payments (income from government benefits rose 20.1% in December over one year prior), and the better-than-expected stock market performance (dividend income increased 16.3% in December).¹³

State and federal unemployment insurance programs have provided an invaluable lifeline to nearly one million North Carolinians who have been out of work since the beginning of the COVID-19 pandemic. By the end of May 2020, the Division of Employment Security sent at least one week of state or federal unemployment insurance benefits to more than 650,000 out-of-work North Carolinians, with total payments surpassing \$3 billion (including federally funded weekly \$600 bonus payments). By March, 2021, benefit payments rose to more than \$10 billion, covering 970,000 eligible North Carolinians.

Increased Wealth for Higher Income Families and Insecurity for Lower Income Families

The strength of the financial and housing markets shows signs of a K-shaped recovery—with higher income households recovering quickly as lower-income households continue to struggle—as well. While the 2020 stock market has also been on a rollercoaster ride, the stock market recovered all its dramatic February and March 2020 losses by August. The rest of 2020 saw strong growth as the major technology firms posted gains. Despite recent spikes in market volatility, the stock market continued to reach record highs, benefiting high-income households.¹⁴

Rising demand for housing (due to low interest rates, pandemic lockdown effects, and many millennials reaching home-buying ages) paired with a depressed supply have led to price escalation. Three major national housing price indexes have shown 12-month growth between 9.2% and 11.4%. In the Charlotte and Triangle metro areas, up to a third of homes sold for above the asking price in November 2020, and housing supply has dropped to less than one month's worth.¹⁵ Nationally, the housing supply is at a 40-year low (since the National Association of Realtors began tracking), and down 22% from last year.

In contrast to the boon for home sellers, the pandemic has resulted in a major increase in the number of mortgage loans in forbearance plans – 2.7 million as of January 31, 2021, and over 80% of those were on extension under the CARES Act.¹⁶ More than 10% of adults in North Carolina are not current on rent or mortgage payments and do not have confidence they can pay next month's rent or mortgage on time, compared to a national average of 7.9%. One third of North Carolina's adult population is currently living

¹¹ NC Department of Commerce. Quarterly Census of Employment and Wages.

<https://d4.nccommerce.com/QCEWSelection.aspx>

¹² US Bureau of Labor Statistics. Current Population Survey. Accessed March 11, 2021.

¹³ Bureau of Economic Analysis, Personal Income and Outlays, January 2021. Accessed March 10, 2021.

¹⁴ Gebeloff, Robert. "Who Owns Stocks? Explaining the Rise in Inequality During the Pandemic." The New York Times. January 26, 2021. <https://www.nytimes.com/2021/01/26/upshot/stocks-pandemic-inequality.html>

¹⁵ News & Observer, "What will the NC housing market be like in 2021? COVID-19 effects offer clues." December 30, 2020. <https://www.newsobserver.com/news/business/article248169035.html>

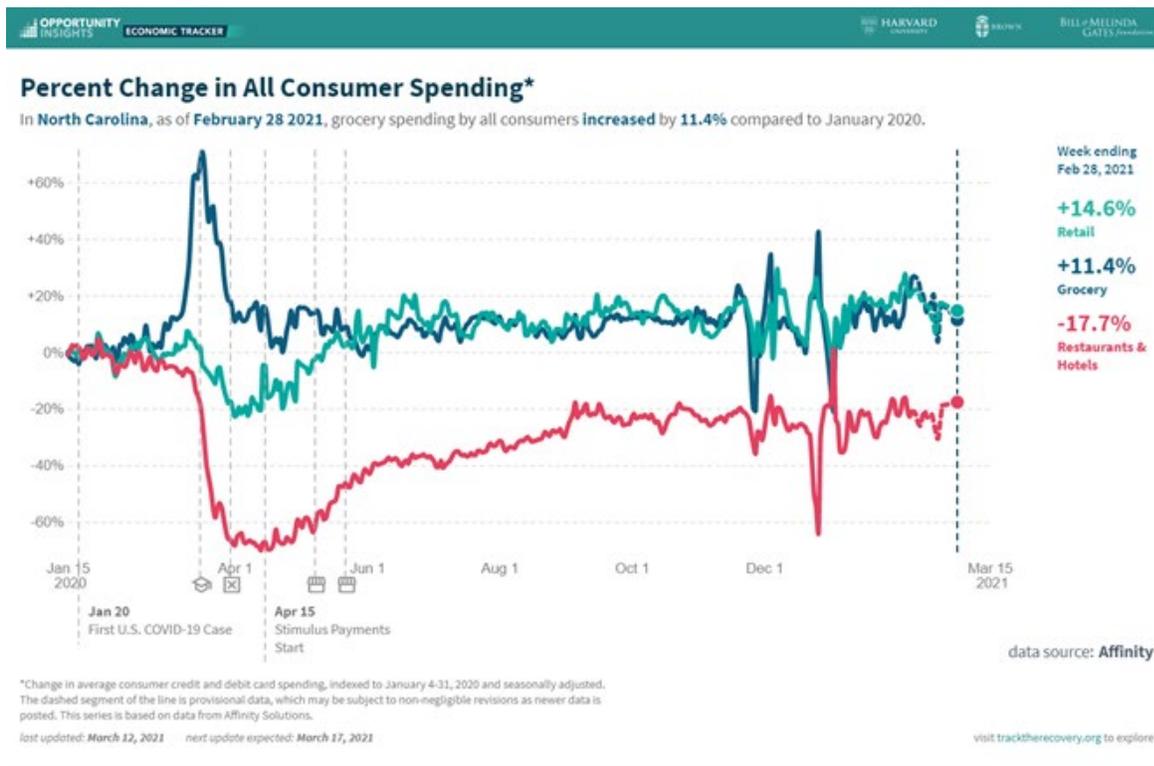
¹⁶ IHS Markit, US Economic Outlook – February 2021. Accessed March 1, 2021.

in households that have some difficulty paying for usual expenses, and 10.4% are living in a household where there was either “sometimes” or “often” not enough food to eat.¹⁷

Consumer Spending Plummeted, Then Rebounds for Goods but Not for Many Services

The COVID-19 pandemic has caused substantial, rapid changes in consumer spending over the past year. Just as grocery spending peaked in March 2020, daily spending on entertainment and recreation, restaurants and hotels, and transportation plummeted (see Figure 6), averaging more than 60% below pre-pandemic levels by the end of March 2020 and remaining suppressed since. Daily retail spending averaged roughly 20% below pre-pandemic levels from the end of March until the week of April 13, when households received the first wave of stimulus payments authorized by the federal CARES Act.¹⁸

Figure 6



Federal stimulus payments, Paycheck Protection Program loans to businesses, unemployment insurance payments, and the phased reopening of businesses gradually lifted most consumer spending from lows reached in April 2020, but the recovery was uneven. High-frequency credit and debit card data shows retail spending by North Carolinians averaging roughly 10-15% above pre-pandemic levels from June 2020 through January 2021. The same data, however, show spending at arts, entertainment, and recreation merchants and on transportation services averaging 40%-55% below pre-pandemic levels over the same period. Spending on accommodation and food services rebounded to 20-25% below pre-pandemic levels by September but declined modestly in November through January as colder weather arrived and as COVID-19 case rates rose to record highs.¹⁹

¹⁷ US Census Bureau. Household Pulse Survey. Accessed March 1, 2021.

¹⁸ Opportunity Insights Economic Tracker. <https://tracktherecovery.org/>

¹⁹ Opportunity Insights Economic Tracker. <https://tracktherecovery.org/>

The shift in consumer spending away from in-person services toward goods that are easily used or consumed at home has boosted North Carolina sales tax revenues since July 2020. Despite national personal consumption spending remaining below pre-pandemic levels in the second half of 2020, taxable retail sales averaged 7.5% above prior-year levels from July through November 2020.²⁰ Among the biggest contributors to the growth in taxable sales (and revenue) are building material retailers and, especially, general merchandise retailers. Although North Carolina does not track comprehensive data on taxable online sales, national data on e-commerce trends and limited state-level data show that online sales have contributed significantly to growth in taxable sales since the beginning of the COVID-19 pandemic.

Outlook for a Post-Pandemic North Carolina Economy

The COVID-19 pandemic has caused immense economic and personal hardship for millions of North Carolina families and businesses. The pandemic has also forced massive changes to the state's economy, including tens of thousands of temporary and permanent business closures, a rapid rise in teleworking, nearly-empty office buildings, limited service in restaurants, and sports arenas with few fans.

In the near term, North Carolina's economy will continue moving in the direction of the pre-pandemic normal. At this time, however, it is unclear how closely North Carolina's future economy will resemble its pre-pandemic economy. Below are three ways the COVID-19 pandemic may result in long-lasting changes to North Carolina's economy.

Remote Work and the Future of Downtowns

For decades, the dominant pattern of office work in North Carolina, and much of the country, featured workers commuting to downtown offices from residential areas outside central cities. The pandemic has upended this model. Prior to the pandemic, despite consistent growth in remote work since the 1990s, only a modest share of the US workforce (5-13%) worked entirely remotely.²¹ During the first wave of the COVID-19 pandemic in April and early May 2020, roughly half of the US workforce reported working from home.²²

Although remote work presents challenges and many businesses have shifted back toward in-person work in recent months, hiring managers believe the rapid shift to a remote workforce has gone better than expected.²³ Thus, it is unsurprising that businesses anticipate a large increase in remote working even after the end of the pandemic. A January 2021 survey shows businesses anticipate the share of work-from-home days among workers rising from 5.5% pre-pandemic to nearly 15% after the pandemic ends.²⁴

Such a large change in work and commuting would likely have significant downstream effects on the local economies of central cities and other employment hubs. Commercial real estate businesses have struggled during the pandemic, and a long-term shift to more remote work would cause many to shrink

²⁰ NC Department of Revenue monthly sales and use tax statistics.

²¹ Ozimek, Adam. "The Future of Remote Work." Upwork. May 2020. <https://www.upwork.com/press/releases/the-future-of-remote-work>

²² Brynjolfsson, Erik et. al. "COVID-19 and Remote Work: An Early Look at US Data." NBER. June 2020. <https://www.nber.org/papers/w27344>

²³ Ozimek, Adam. "Economist Report: Future Workforce." Upwork. December 2020. <https://www.upwork.com/press/releases/economist-report-future-workforce>

²⁴ Federal Reserve Bank of Atlanta. "WFH Is Onstage and Here to Stay." February 2021. <https://www.frbatlanta.org/blogs/macroblog/2021/02/24/wfh-onstage-and-here-to-stay>

or go out of business. Municipalities could be hurt by falling commercial property values, which have already strained many municipal budgets. Downtown businesses, such as restaurants and retail focused on serving office workers, could also struggle if many of their customers do not return after the pandemic.²⁵

Acceleration of Automation Trends

The economic upheaval caused by recent recessions has led more businesses to invest in automation while cutting payroll.²⁶ The heightened public health risks associated with having large groups of workers and customers together in indoor spaces during the pandemic has provided businesses an additional incentive to invest in automation during the COVID-19 recession.

Twenty-nine percent of 300 CEOs across the globe stated they plan to invest in automation due to COVID-19.²⁷ The trend towards increased automation has been especially significant in industries most affected by the pandemic, such as restaurants, grocery stores, hotels, meatpacking, and warehousing.^{28,29} The acceleration of automation trends in many industries will likely have a major impact on which of the millions of jobs lost during the pandemic will return, and what new jobs will rise in their place.³⁰

Transformation of Retail

Many of the shopping trends we have seen during the pandemic are an acceleration of past behaviors. The COVID-19 pandemic has accelerated the growth of online retail, with e-commerce sales growing to 14% of total retail sales in 2020 versus 11% in 2019.³¹ The rapid growth in online shopping is favoring businesses that have invested in strong digital platforms, advanced logistics, and data analytics.

Additionally, as COVID-19 health-risk concerns have persisted, businesses have increasingly relied on in-store and curbside pickup and delivery to serve customers safely and compete with online shopping. Given the convenience of these experiences, retailers will likely continue providing contactless shopping methods after the pandemic. This will only fast-track the turn away from traditional malls and department stores, leaving many communities to address the prospect of abandoned malls and the resulting loss of many entry-level jobs.³² Smaller independent retailers have also faced considerable challenges during the pandemic and will likely need to adapt to compete with the online and big-box retailers in the aftermath of the pandemic.

²⁵ Long, Heather. "Millions of Jobs Probably Aren't Coming Back, Even after the Pandemic Ends." The Washington Post. 24 Feb. 2021. www.washingtonpost.com/road-to-recovery/2021/02/17/unemployed-workers-retraining/

²⁶ Van Dam, Andrew. "When the Next Recession Comes, the Robots Will Be Ready." The Washington Post. January 24, 2019. <https://www.washingtonpost.com/us-policy/2019/01/24/when-next-recession-comes-robots-will-be-ready/>

²⁷ KPMG International and HFS Research. May-June 2020. <https://www.dailyhostnews.com/automation-a-key-enterprise-spend-theme-post-the-pandemic-era>

²⁸ Casey, Marcus and Ember Smith. "Automation from Farm to Table: Technology's Impact on the Food Industry." November 2020. <https://www.brookings.edu/blog/up-front/2020/11/23/automation-from-farm-to-table-technologys-impact-on-the-food-industry/>

²⁹ Kostuch Media Ltd. "Automation is Helping Hotels Cut Costs in a COVID-19 World." Hotelier. October 2020. <https://www.hoteliermagazine.com/automation-is-helping-hotels-cut-costs-in-a-covid-19-world/>

³⁰ Autor, David and Elisabeth Reynolds. "The Nature of Work after the COVID Crisis: Too Few Low-Wage Jobs." The Hamilton Project. July 2020. https://www.hamiltonproject.org/assets/files/AutorReynolds_LO_FINAL.pdf

³¹ US Census Bureau. 4th Quarter 2020 Retail E-Commerce Sales Report. https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

³² Rey, Jason Del. "The Death of the Department Store and the American Middle Class." Vox.com. Nov. 30, 2020. <https://www.vox.com/recode/21717536/department-store-middle-class-amazon-online-shopping-covid-19>

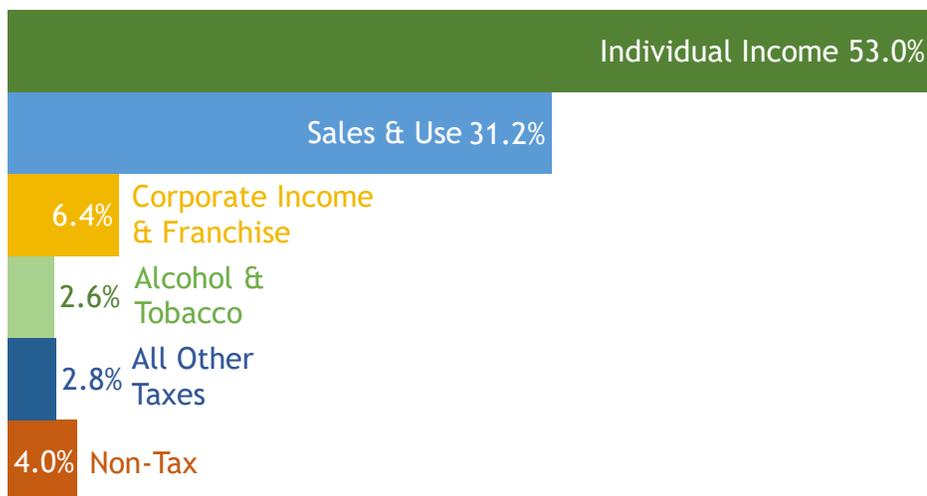
General Fund Revenue Forecast

Historically, about half of North Carolina’s total revenue originates from tax collections and other sources comprising the General Fund. The other half consists of funds from the federal government, highway funds, the Education Lottery, and other receipts and fees (e.g., tuition). However, in 2020 the state received \$14.3 billion in federal stimulus to deal with the impacts of the coronavirus pandemic in 2020, so federal receipts represent a greater percentage of the overall budget.

General Fund revenues are primarily derived from two sources: the individual income tax and the sales and use tax. Other important sources of tax revenue include corporate income and franchise taxes, taxes on insurance premiums, and excise taxes on alcohol and tobacco products. Revenue from nontax sources, such as judicial fees and earnings from investing state funds, comprise the remainder of the General Fund.

Figure 7

Individual Income & Sales Taxes Comprise Vast Majority of Own - Source General Fund Revenue



FY 2018-19 General Fund Revenues; FY 2019-20 revenues not representative of a typical year due to COVID-19 payment and filing delays

Consensus Revenue Forecast

The consensus revenue forecast anticipates a large bump in revenue growth for FY 2020-21 (15.3%), partially due to the shift in income and franchise tax deadlines from April 2020 to July 2020, effectively moving \$1.1 billion in revenue from FY 2019-20 to FY 2020-21. Federal stimulus from the CARES Act and the Consolidated Appropriations Act, 2021, has also contributed to dramatic growth in revenues in the current fiscal year.

However, for the first year of the 2021-23 biennium, revenue is forecast to decrease (-0.9%) from the current year’s temporarily boosted level and then bounce back in line with historical trends in the second year (4.1%). The following sections provide more details on the consensus revenue forecast, as

adjusted for the Governor’s recommended revenue changes described in the “Recommended Revenue Changes” section below.

Current Year Revenue

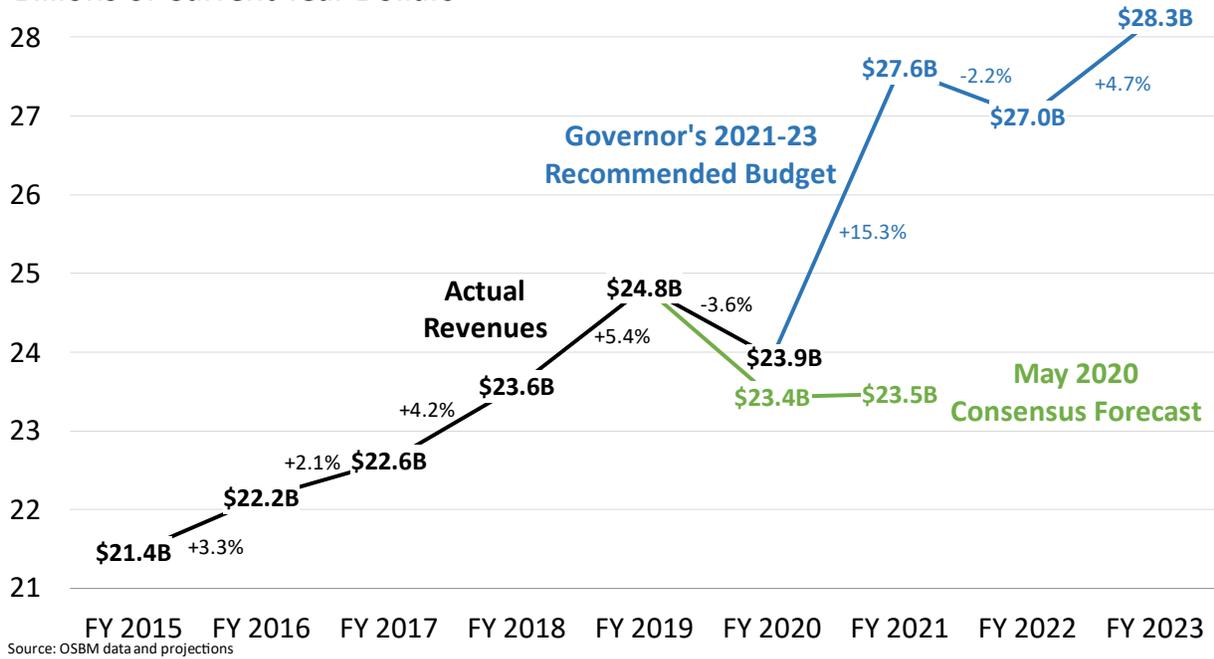
The revised consensus forecast for FY 2020-21, adjusted for recommended revenue changes, projects net General Fund revenue of \$27.60 billion. This amount is 15.3% over the \$23.94 billion collected in FY 2019-20 (see Table 11). The forecast is \$4.14 billion (17.6%) higher than the May 2020 revised revenue consensus of \$23.47 billion. The May 2020 consensus happened when most economic forecasts projected a deep, prolonged downturn in the economy and before the federal government passed two major stimulus bills to mitigate this prognosis.

- Personal income tax collections are expected to total \$14.82 billion in FY 2020-21, an increase of 19.4% over FY 2019-20. Adjusting revenue growth for the effect of delayed filing and payment deadlines results in a year-over-year increase of 5.9%. The current forecast reflects a faster-than-anticipated recovery in wage and business income plus the direct impact of withholding on more than \$10 billion in state and federal unemployment insurance benefits since March 15, 2020.
- Sales and use tax collections are forecast to increase 10.3% compared to FY 2019-20. The increase is driven by the large, stimulus-driven increase in disposable personal income and by consumers shifting spending away from many untaxed services toward taxable goods. Sales tax revenues were also boosted by increased collections from online sales, including a new requirement for marketplace facilitators to collect and remit sales tax on North Carolina purchases as of February 2020.

Although the adjusted FY 2020-21 consensus forecast assumes substantially more revenue than in May 2020, there is considerable uncertainty regarding revenue collections during the final four months of the fiscal year. Net tax collections in April often defy expectations due to annual volatility in income from dividends, capital gains, and business profits. The result is often sizable swings in income tax collections from one year to the next. The impact of 2020 federal stimulus payments, including enhanced unemployment insurance benefits and forgivable Paycheck Protection Program loans, on individual and corporate taxable income has added to already-high levels of uncertainty regarding net income tax collections in spring 2021.

Figure 8

Volatile Revenue Growth Expected Through 2021 -23 Biennium Billions of Current-Year Dollars



Revenue Outlook for 2021-23 Biennium

Reflecting the impact of federal stimulus spending and rising vaccination rates, the revenue forecast anticipates the economy to grow significantly in 2021. Household savings has surged due to stimulus payments and restrained spending on travel, recreation, and other services. As the population approaches herd immunity to COVID-19 in mid-2021, the forecast anticipates consumers will significantly increase spending on leisure and hospitality services. Economic growth will slow to a more measured pace as the state and national economy reach full employment during the latter half of the biennium.

The forecast estimates FY 2021-22 revenue will decrease 2.2% compared to FY 2020-21, after adjusting for the recommended revenue changes. Adjusting for the impact of the revenue shift results in year-over-year growth of 1.8%. Anticipated revenue growth in FY 2022-23 will accelerate to 4.7%, after adjusting for the recommended revenue changes, but fall short of the pace of recent economic expansions.

- Personal income tax collections, which account for more than half of General Fund revenue, are expected to decrease 4.9% in FY 2021-22 (or grow 0.8%, after adjusting for the revenue shift) and increase 4.7% in FY 2022-23. The forecast anticipates wages growing 4.5-5.0% in FY 2021-22 and 4.0-4.5% in FY 2022-23 and business-income growth decelerating or even declining slightly over the biennium. The slowdown in business-income growth is primarily due to the temporary bump in income from more than \$15 billion in Paycheck Protection Program (PPP) loans to North Carolina businesses through February 2021. Under the forecast assumptions, total employment will not surpass the pre-recession peak until the end of 2021 or early 2022.

- The shift in consumer spending toward taxable goods and away from travel and in-person services during the pandemic will unwind as consumers become more confident in declining coronavirus rates starting in the second quarter of 2021. The forecast anticipates sales and use tax collections will grow at 3.1% and 3.7% in the first and second years of the biennium, respectively. This is slightly lower than the historical average sales growth, however, collections are growing from a high FY 2020-21 level due to temporarily higher spending on taxable goods during the pandemic.
- Federal stimulus policies will help drive corporate profits to record levels in FY 2020-21. The forecast anticipates a significant slowdown or an outright decline in corporate profits in FY 2021-22 before resuming significant growth in FY 2022-23. While corporate profits have significantly increased during the pandemic due to PPP loans, the impact of federal stimulus is expected to wane in 2021. In FY 2021-22, the forecast is for corporate income and franchise tax collections to decrease by 13.2% (or a 0.7% decline after adjusting for the revenue shift). The forecast anticipates growth rebounding to 3.5% in FY 2022-23.

The General Fund forecast assumes Congress passes an additional federal stimulus bill extending federal unemployment insurance programs at least through June 2021 and providing additional stimulus checks. However, due to uncertainty regarding the trajectory of the pandemic and the impact of federal stimulus on household and business taxable income, there are still significant risks to the forecast. This heightened uncertainty could lead to anticipated revenues being significantly lower or higher.

Insurance Premium Tax Revenues & Prepaid Health Plans

Under current law, the NC Department of Health and Human Services (DHHS) will transform most of the state's Medicaid program from a fee-for-service model to managed care starting July 1, 2021. Under managed care, DHHS will make capitation payments to local management entities and managed care organizations to deliver Medicaid and NC Health Choice services under contracts for prepaid health plans (PHPs).

PHP capitation payments are subject to a 1.9% tax gross premiums tax, the same rate as premiums for other health insurance plans. The additional revenue from taxes on PHP gross premiums will add an estimated \$126.8 million and \$261.3 million to General Fund revenues in FY 2021-22 and FY 2022-23, respectively (the revenue forecast includes these estimates). By FY 2022-23, PHP revenues will account for an estimated 27% of total gross premium taxes, making the gross premiums tax the third-largest source of General Fund revenue.

Recommended Revenue Changes

Refundable Earned Income Tax Credit (EITC)

The Governor recommends the reenactment of the EITC to help more than 850,000 North Carolina families, nearly all of whom earn less than \$50,000 a year, and who are more likely to be financially affected by the COVID-19 pandemic. The proposed credit is equal to 5% of the federal EITC and is refundable to cover more of low-income families, which means eligible families will receive the full credit even if it exceeds their state income tax liability.

Research of the EITC at the national level has shown that it has contributed to lower unemployment rates among single mothers, improved infant and maternal health, better school performance, greater college enrollment, and increased earnings for the next generation. The state EITC would be effective

starting in tax year 2021 and would provide a benefit of \$146.5 million in FY 2021-22 and \$121.2 million in FY 2022-23 to North Carolina families.

Child and Dependent Care Tax Credit (CDCTC)

The Governor recommends enacting a CDCTC for families with eligible care expenses for children and other dependents. The non-refundable credit would be equal to 100% of the federal child and dependent care credit for children and other eligible dependents. The proposed credit gradually phases out for married-couple families with incomes between \$75,000 and \$200,000 (and for head-of-household and single filers with incomes at 75% and 50% of these levels, respectively). This credit, effective beginning in tax year 2021, would benefit nearly 200,000 North Carolina families, reducing their child and dependent care expenses by an estimated \$219.0 million in FY 2021-22 and \$87.1 million in FY 2022-23.

Table 11
General Fund Revenue by Fiscal Year: Recent History and Forecast
(In Millions)

	2017-18	2018-19	2019-20	2020-21		2021-22	%	2022-23	%
	Actual	Actual	Actual	Budget*	Revised	Budget	Change	Budget	Change
Tax Revenue									
Individual Income	12,517.5	13,166.0	12,414.7		14,821.6	14,090.8	-4.9%	14,746.3	4.7%
Sales and Use	7,337.4	7,751.3	7,820.6		8,623.7	8,890.5	3.1%	9,222.2	3.7%
Corporate Income	739.0	830.5	657.8		1,037.2	867.5	-16.4%	912.3	5.2%
Franchise	669.0	749.6	646.0		808.2	733.4	-9.3%	745.4	1.6%
Insurance Premium	566.1	553.7	656.2		640.0	792.9	23.9%	955.3	20.5%
Alcoholic Beverage	371.1	395.9	410.6		498.2	446.7	-10.3%	465.8	4.3%
Inheritance	10.6	0.4	1.2		0.0	0.0	n.a.	0.0	n.a.
Privilege License	32.4	35.4	35.1		37.1	36.8	-0.8%	37.6	2.2%
Tobacco Products	260.3	257.2	251.9		255.7	253.6	-0.8%	252.4	-0.5%
Real Estate Conveyance	72.9	80.4	87.9		95.3	95.1	-0.2%	95.0	-0.1%
White Goods Disposal	3.9	2.9	3.3		3.1	3.1	0.0%	3.1	0.0%
Scrap Tire Disposal	5.8	6.1	6.1		6.0	6.2	3.3%	6.3	1.6%
Mill Machinery	46.7	4.3	1.1		0.9	0.0	-100.0%	0.0	n.a.
Solid Waste Disposal	2.5	2.8	2.9		2.9	2.9	0.0%	2.9	0.0%
Other Tax	0.4	0.4	0.5		0.4	0.5	25.0%	0.5	0.0%
Total Tax Revenue	22,635.9	23,836.7	22,995.7	22,627.6	26,830.3	26,220.0	-2.3%	27,445.1	4.7%
Nontax Revenue									
Investment Income	93.8	145.8	135.5		24.3	29.3	20.6%	33.2	13.3%
Judicial Fees	239.7	231.3	203.3		150.6	190.4	26.4%	218.4	14.7%
Insurance	84.5	88.5	92.4		83.1	91.1	9.6%	92.4	1.4%
Disproportionate Share	161.0	163.3	165.3		177.6	115.4	-35.0%	122.5	6.2%
Master Settlement Agreement	143.2	138.4	131.7		129.5	127.0	-1.9%	123.6	-2.7%
Other Nontax	207.2	222.6	215.3		207.2	211.9	2.3%	218.0	2.9%
Total Nontax Revenue	929.3	990.0	943.6	838.7	772.3	765.1	-0.9%	808.1	5.6%
Total General Fund Revenue	23,565.2	24,826.7	23,939.3	23,466.3	27,602.6	26,985.1	-2.2%	28,253.2	4.7%

Totals may differ from the sum of their parts due to rounding.

*The May 2020 revised consensus forecast did not include a line-item forecast for each revenue source.

Highway Fund Revenue Forecast

The Highway Fund receives funding from three sources: a portion of the state excise tax on motor fuels, Division of Motor Vehicles (DMV) licenses and fees, and interest earned on investments of the Fund's cash balances held by the State Treasurer. Historically, motor fuel revenues have accounted for almost two-thirds of Highway Fund revenues. That portion will be higher as S.L. 2020-91 increased the Highway Fund's share of motor fuel tax revenue from 71% to 81% for the current fiscal year, with this percentage dropping to 80% in FY 2021-22 and 75% thereafter.

Table 12 shows revised projections for the Highway Fund revenue collections for FY 2020-21 and projections for the 2021-2023 biennium.

Current Fiscal Year Update

The revised consensus forecast for FY 2020-21 anticipates Highway Fund revenues finishing the year 18.2% above FY 2019-20 and \$209.3 million (+9.0%) above the May 2020 consensus, as adjusted by S.L. 2020-91. This sharp year-over-year increase is due to several factors:

- Revenues, which were depressed in the last quarter FY 2019-20 due to COVID-19 restrictions, have partially recovered this fiscal year,
- S.L. 2020-91 increased the share of motor fuel revenues the Highway Fund is receiving this year,
- Revenue shifted from last fiscal year into the current year due to 2020 motor fuel tax deadline changes and delayed renewals of DMV licenses and fees, and
- Statutory requirements (G.S. 20-4.02) adjusted most DMV licenses and fees for inflation as of July 1, 2020.

The historic upward revision to the current year forecast also reflects the unprecedented uncertainty and limited available data at the time of the May 2020 revenue consensus, which assumed a much more gradual increase in economic activity. Additionally, the May 2020 consensus estimate did not anticipate the shift in motor fuel tax from FY 2019-20 into the current year.

2021-2023 Biennium Revenue Projections

Total Highway Fund revenue is expected to stay relatively flat in the first year of the next biennium (0.4% decrease) and then decrease by 1.6% in the second year. This downward trend is due to the statutory change that decreased the share of motor fuel tax revenue the Highway Fund is slated to receive – the share drops from 81% this fiscal year to 80% in the first year of the biennium and 75% in the second. Despite this, taxable gallons of fuel are anticipated to increase and reach pre-pandemic levels by the end of the biennium.

DMV revenue is estimated to decrease slightly in the first year of the biennium. This is a result of artificially high revenues in the current fiscal year due to revenue shifting from FY 2019-2020. The second year of the biennium is expected to see a modest growth in DMV licenses and fees.

Table 12

Highway Fund Revenue by Fiscal Year: Recent History and Forecast*
(In Millions)

Source	2019-20 Actual	2020-21 Budget**	2020-21 Revised	2021-22 Forecast	Year-over- year Change	2022-23 Forecast	Year-over- year Change
<u>Motor Fuels Tax</u>							
Motor Fuels	1,355.0		1,632.7	1,628.2	-0.3%	1,578.6	-3.0%
Gasoline Inspection	15.4		15.0	14.8	-1.3%	15.0	1.4%
Highway Use Reg.	0.4		0.4	0.4	0.0%	0.4	0.0%
Aviation Fuel	7.9		6.2	5.0	-19.5%	6.7	33.4%
Highway Use Tax Lease	10.0		10.0	10.0	0.0%	10.0	0.0%
Total Motor Fuel Taxes	1,388.7		1,664.3	1,658.4	-0.4%	1,610.7	-2.9%
<u>Licenses and Fees</u>							
Staggered Registration	278.7		326.5	322.3	-1.3%	326.4	1.3%
International Registration Plan	108.9		116.4	118.0	1.4%	119.2	1.0%
Driver Licenses	207.3		238.4	236.9	-0.6%	237.9	0.4%
Truck Licenses	100.7		131.6	130.8	-0.6%	131.3	0.4%
Other Licenses and Fees	61.0		64.0	63.6	-0.6%	64.1	0.8%
Total Licenses and Fees	756.5		876.9	871.6	-0.6%	878.9	0.8%
<u>Investment Income</u>	5.6		1.5	1.5	0.0%	1.5	0.0%
Total Highway Fund Availability	2,150.7	2,333.4	2,542.7	2,531.5	-0.4%	2,491.1	-1.6%

*Totals may differ from the sum of their parts due to rounding.

** May 2020 consensus revenue forecast, as adjusted by S.L. 2020-91. May 2020 consensus did not include line item forecasts.

Highway Trust Fund Revenue Forecast

The Highway Trust Fund receives support from four sources. The highway use tax (i.e., tax on vehicle sales) generally accounts for more than half of the revenue in the Trust Fund. The second source is a portion of the state excise tax on motor fuels, which S.L. 2020-91 decreased from 29% to 19% in the current fiscal year with the share increasing to 20% in FY 2021-22 and 25% thereafter. The third source is title and lien fees. The final source is interest earned from investments of the Highway Trust Fund cash balances held by the State Treasurer.

Table 13 shows revised projections for the Highway Trust Fund revenue collections for FY 2020-21 and projections for the 2021-2023 biennium.

Current Fiscal Year Update

FY 2020-21 revenues are expected to be 3.7% lower than last year and more than \$255.2 million (+20.7%) above the May 2020 consensus forecast (as adjusted by S.L. 2020-91). However, the year-over-year comparison is misleading due to two competing factors: some motor fuel tax revenue shifted from FY 2019-20 into the current fiscal year, and S.L. 2020-91 decreased the share of motor fuel tax the Highway Trust Fund receives. Additionally, title and lien fees were adjusted for inflation as of July 1, 2020, per G.S. 20-4.02, providing a small boost to revenue.

The substantial revision to the May 2020 consensus forecast reflects the uncertainty and limited data at that time. The economy, boosted by federal stimulus, has started to recover much faster than anticipated. The impact was most visible in highway use tax revenues as vehicle sales rebounded in summer of 2020 due to pent-up demand during the lockdown, favorable financing with low interest rates, and a shift in consumer spending away from services to goods.

2021-2023 Biennium Revenue Projections

Total Highway Trust Fund revenue is expected to stay flat in FY 2021-22 and increase by 10.0% in FY 2022-23. The growth in highway use tax revenue as the economy started to recover from the pandemic is only expected to continue for part of 2021. Highway use tax revenue is projected to decrease in the first year of the biennium, with stimulus waning and consumption gradually shifting back to services as vaccinations against COVID-19 progress. This decrease in revenue will be offset by increasing fuel consumption and increased share of the resulting motor fuel tax revenues the Highway Trust Fund will receive.

FY 2022-23 revenues are expected to grow as highway use tax revenue and title registration and lien recordings resume their pre-pandemic growth and fuel consumption starts to approach pre-pandemic levels. Revenues will also be bolstered by the Trust Fund receiving a higher share of motor fuel tax revenue.

Table 13

Highway Trust Fund Revenue by Fiscal Year: Recent History and Forecast*
(In Millions)

Source	2019-20 Actual	2020-21 Budget**	2020-21 Revised	2021-22 Forecast	Year-over- year Change	2022-23 Forecast	Year-over- year Change
<u>Fuel Taxes and Fees</u>							
Motor Fuel Tax	562.7		387.5	411.9	6.3%	532.5	29.3%
Highway Use	837.5		930.7	910.0	-2.2%	934.3	2.7%
Certificate of Title Fees	119.0		143.6	138.9	-3.3%	142.3	2.4%
Miscellaneous Title Fees	16.0		19.3	18.7	-3.1%	19.1	2.1%
Lien Recording	2.9		3.5	3.4	-2.9%	3.5	2.9%
Subtotal	1,538.1		1,484.6	1,482.9	-0.1%	1,631.7	10.0%
<u>Interest on Investments</u>							
	4.4		1.5	1.5	0.0%	1.5	0.0%
Total Highway Trust Fund Availability							
	1,542.5	1,230.9	1,486.1	1,484.4	-0.1%	1,633.2	10.0%

*Totals may differ from the sum of their parts due to rounding.

** May 2020 consensus revenue forecast, as adjusted by S.L. 2020-91. May 2020 consensus did not include line item forecasts.

Population Dynamics

Pandemic Slows Down Strong Population Growth Seen in Last Decade

Over the last decade, North Carolina added roughly 1.1 million people. This is the fourth largest numeric gain among states, adding more people than the states of Michigan, New Jersey, Ohio, and Virginia, combined. Only Texas (+4.2 million), Florida (+2.9 million), and California (+2.1 million) surpassed North Carolina’s population growth. This growth propelled North Carolina to the ninth most populous state in the nation in the past decade, with a population nearing 10.6 million in 2020. As a result, the state is expected to gain at least one additional congressional seat after the 2020 Census apportionment numbers are reported by April 30, 2021.

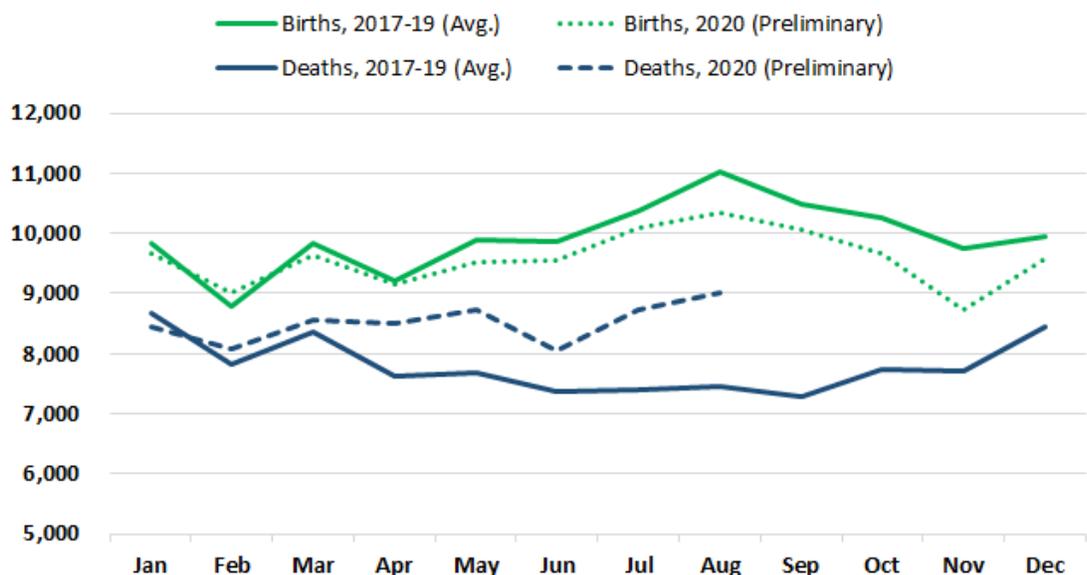
Even as the global pandemic has challenged the social fabric and economy of North Carolina, the state continues to grow, albeit at a slower rate. The State Demographer projects that the state’s population will increase by just 71,000 people from July 1, 2020 to July 1, 2021, in comparison with the pre-pandemic trend of roughly 110,000. As vaccinations become more widespread and the economy recovers, population growth will likely recover to pre-pandemic levels. Over the 2021-2023 biennium, the State Demographer projects that 225,000 people will be added and North Carolina’s population will reach 10.9 million people by July 1, 2023 (an increase of 2.1%).

COVID-19 Challenges to Population Growth

It will be at least another year before we understand the full impacts of COVID-19 on mortality, fertility, and migration and on the resulting population change. Because of these unknowns, there is more uncertainty in projections of population change for the short term than would normally be the case.

By March 2021, there were over 11,000 reported deaths attributed to COVID-19, and preliminary monthly statistics for 2020 show deaths overall in excess of pre-pandemic expectations (Figure 9).

Figure 9
Pandemic Caused Fewer Births and More Deaths in North Carolina
Births and Deaths by Month Compared



Source: North Carolina Department of Health and Human Services, Division of Public Health, State Center for Health Statistics

While the coronavirus death rate has decreased, we will continue to see higher than expected rates of mortality until a large portion of the population receives the vaccine.

Monthly birth data, though incomplete, also indicate that 2020 births are lower than pre-pandemic expectations. During uncertain times, fertility rates typically decline as couples delay major decisions, including having children. But the pandemic’s full effect on fertility would not be seen until the last quarter of 2020 and continuing into 2021. Thus, due to more deaths and fewer births, natural increase was lower last year than in the recent past, and it will likely remain so until the pandemic is under control.

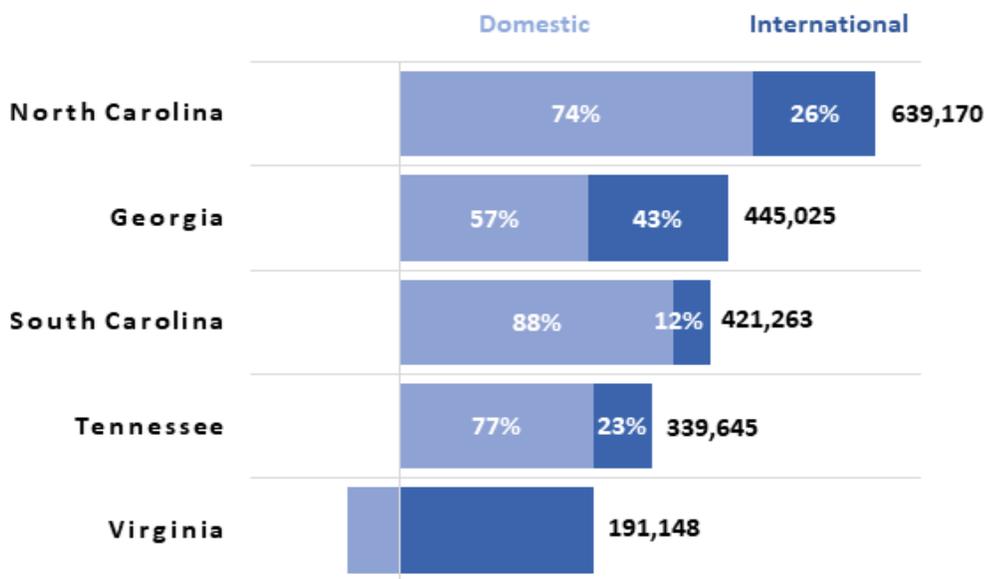
COVID-19 has challenged migration too. While people move for a variety of reasons, chief among them is job opportunities. Even relocating retirees depend upon economic stability. Prior to the pandemic, the state’s migration rate was still gradually recovering from the Great Recession, when rates slowed in urban and rural counties alike. National surveys and other indicators point to fewer permanent state-to-state moves during the pandemic. International migration, which accounts for a quarter of North Carolina’s net migration, virtually stopped due to international travel restrictions, limits on legal immigration processes, and limited economic opportunities. As the state recovers from the pandemic, pre-pandemic patterns are likely to return. Post-pandemic, North Carolina may also benefit from additional migration from other areas as employers and employees re-think flexible work options and relocate to areas with natural and other amenities.

Migration Remains A Critical Component of Recent and Future Population Growth

Beginning in the 1970s, net migration became a more important factor in North Carolina’s population

growth, reaching two-thirds of growth in the last decade. Three of every four migrants moved here from other states (the remainder having moved here from abroad). The Census Bureau estimated that 639,000 more people moved to North Carolina than left between April 1, 2010 and July 1, 2019, more than any of our neighboring states (Figure 10).

Figure 10
North Carolina Gained More Migrants Than Neighbors 2010 to 2019
 Number of Net Migrants and Percent Domestic/International



Note: International migration accounted for all of Virginia’s net gain as more Virginians leave for other states and D.C. than people move into Virginia.

Source: US Census Bureau, State Population Estimates, Vintage 2019

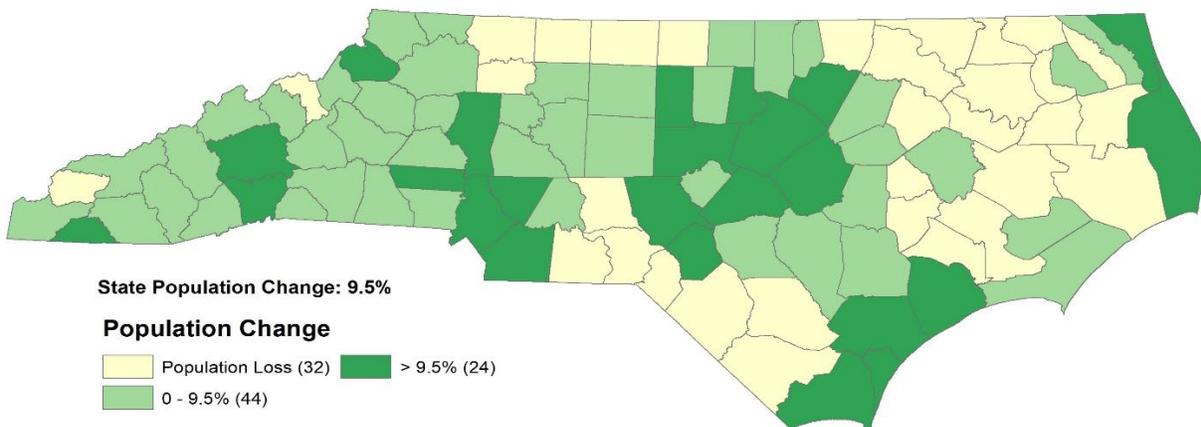
Of all 50 states, only Florida (+1.3 million net domestic migrants) and Texas (+1.1 million net domestic migrants) had more net domestic migrants than North Carolina. The importance of net migration for population growth is projected to continue, with the State Demographer projecting that 84% of the state's growth will be derived from net migration.

Rural Population Is Significant, But Most Growth Is Occurring in Urban Counties

[Rural areas and small towns](#) are an important part of North Carolina's history and culture. By 2019, 40% of the state's total population lived in a rural county (as defined by the North Carolina Rural Center) and 85% of [North Carolina's municipalities](#) had populations of less than 10,000. That said, like the nation, most of North Carolina's recent population growth has been in urban areas, with all urban and suburban counties growing between 2010 and 2019.

Population growth in North Carolina's six urban counties accounted for 54% of the 951,000 people added between 2010 and 2019, with Mecklenburg and Wake Counties alone accounting for 38%. The 14 smaller urban regional city/suburban counties accounted for another 24% of population growth, with the remaining 80 rural counties accounting for 22% of the state's population growth. Of the 32 counties that lost population between 2010 and 2019, all were classified as rural (Figure 11). Two rural counties— Onslow and Johnston—have grown enough to be re-classified as regional cities/suburban counties after the Census Bureau releases the 2020 Census results for substate areas in fall 2021. These same patterns of growth and decline are expected to continue over the course of the next decade.

Figure 11
Population Change by County, April 1, 2010 – July 1, 2019



Source: North Carolina Office of State Budget & Management, Demographic & Economic Analysis, Population Estimates, Vintage 2019.

Changes in Different Population Groups Will Impact Government Programs

Much of North Carolina's budget is devoted to education from early childhood through higher education and to medical and other support services for the aged population. Changes in key population groups have differential impacts on the demand for these budget areas.

During the last half of the previous decade, the older adult population (65+) increased by 16% every year and this rate of growth will increase to 19% annually over the course of the current decade as new cohorts of the baby boom generation enter retirement ages. There were 1.2 million North Carolinians

age 65+ in 2010, 1.8 million in 2020, and the State Demographer projects them to be 2.1 million by 2025 (see Figure 12).

While not as dramatically as the older age group, the college age population (18 to 24) has also grown over this same period. Since the population reaching 18 over the next several years was born prior to the Great Recession, when fertility rates were higher, this age group will continue to increase by about 10,000 people per year for most of this decade.

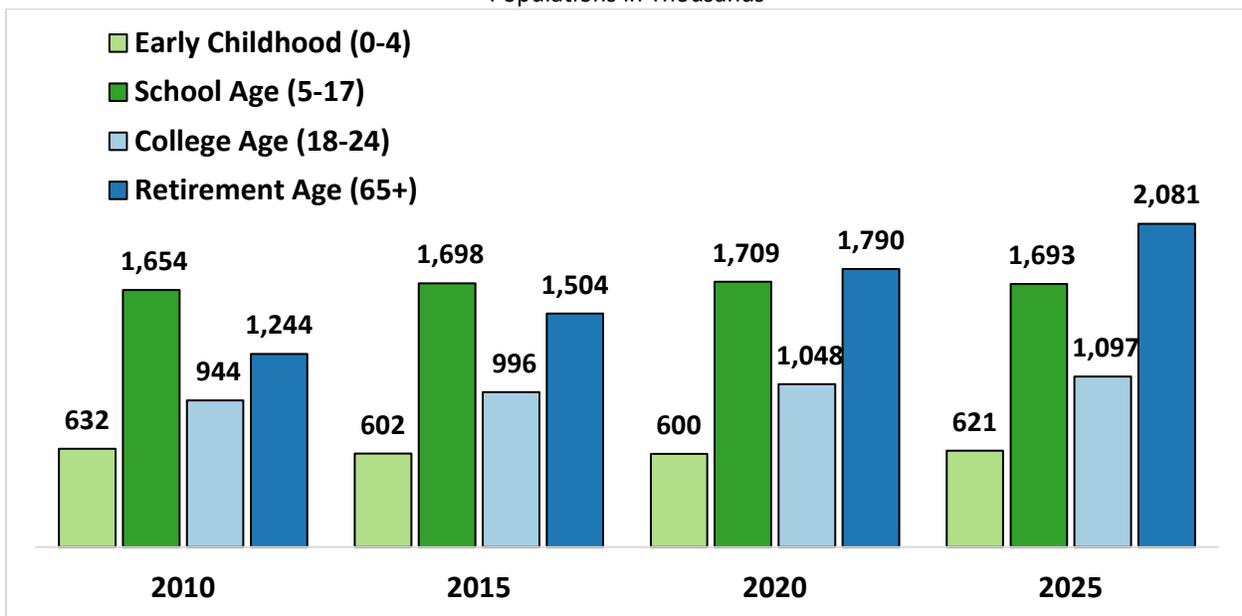
As fertility rates declined following the Great Recession leading to fewer births, the early childhood and school age populations grew at a lower rate. Over the past decade, the school age population remained relatively stable at around 1.7 million children, and this population expected to remain at this level through 2025 – with some slight decreases in some years.

Finally, the early childhood age group (0-4) is projected to grow by only 1,000 over the biennium, with most of the growth occurring during the last year, assuming full recovery from the pandemic. Once the state is fully recovered from the pandemic, annual births are projected to increase over the course of this decade with concomitant growth in the number of women of childbearing age (and especially growth in women in the ages of 25 to 44).

The changes in these key population groups highlight the fact that North Carolina’s population, like the population of the United States as a whole, is becoming older. By 2028, the State Demographer projects that one in five North Carolinians will be at least 65 years old, and by 2031 there will be more older adults (ages 65+) than children (ages less than 18).

Figure 12
Historical and Projected Age Group Populations

Populations in Thousands



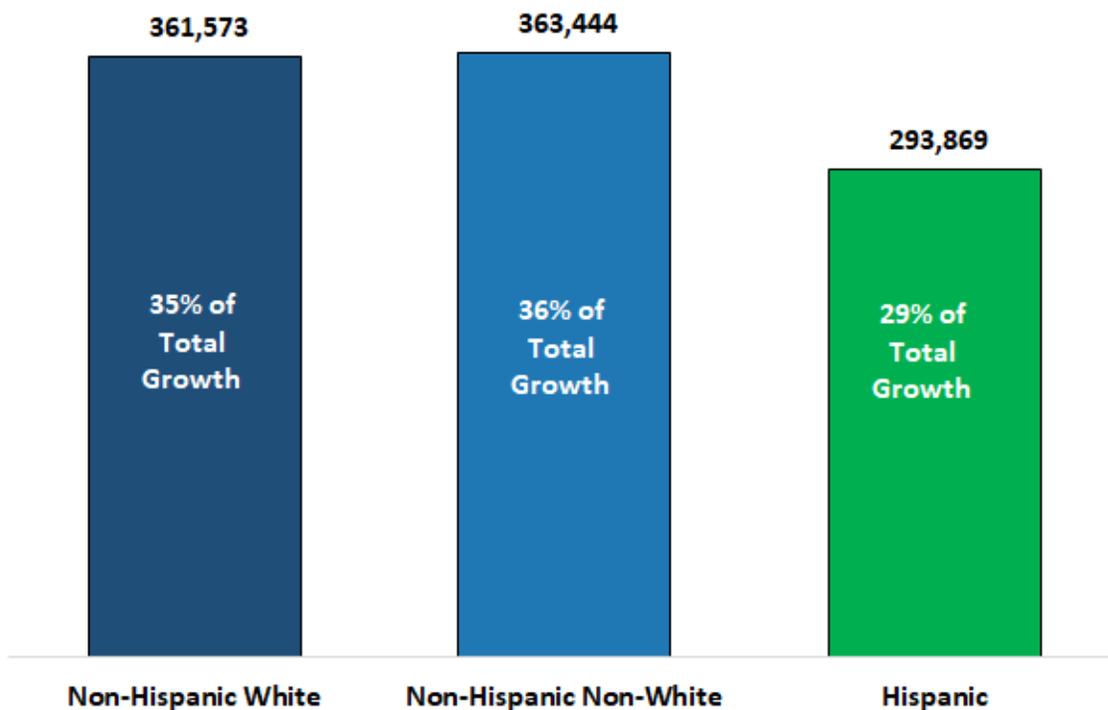
Source: North Carolina Office of State Budget and Management, [Population Estimates, Vintage 2019 and Population Projections, Vintage 2020](#)

North Carolina is Becoming More Diverse

In addition to an aging population, North Carolina, like the nation, is becoming more racially and ethnically diverse. At least 38% of North Carolinians are Black, Hispanic, Asian, American Indian, or multiracial. These race/ethnic groups have accounted for almost two-thirds of total population growth since 2010 and will account for approximately two of every three persons added between now and 2030 (Figure 13). The latest population projections suggest that by 2030, 41% of North Carolinians will be a person of color (4.8 million of 11.7 million total people). This transformation can be seen in the diversity of our schools. By 2019, close to half of the under 18 population was a child of color, and Hispanic, Asian, and multiracial children accounted for all the growth in the childhood population since 2010.

Figure 13
Five of Every Eight People Added Between Through 2030
Will Be a Person of Color

Population Growth for Each Group (Proportion of Total Growth), 2021 - 2030



Note: Hispanic includes population of any race. Non-Hispanic Non-White includes Non-Hispanic Black, Asian & Pacific Islander, and American Indian, as well as those Non-Hispanics identifying as two or more races.

Source: North Carolina Office of State Budget and Management, [Vintage 2020 Population Projections](#).

Census 2020

The 2020 Census count is complete and the first results – the state apportionment counts – will be reported by May 2021. The state apportionment counts will provide the total population of North Carolina, including military and federal workers stationed overseas and whose home of record is North Carolina. The US Census Bureau has scheduled the release of the redistricting data – the first that will show population counts for the state, counties, municipalities, and other geographic areas – for release

by October 2021. The Census Bureau will publish additional datasets that provide more demographic detail beginning in 2022.

The global pandemic disrupted the nation's once a decade population count delaying its completion and reporting of the results. With the increasing spread of the coronavirus, the Census Bureau was forced to close Area Census Offices, suspend 2020 Census field operations for over 2 months, and adjust operations and deadlines. These changes, as well as temporary moves of certain populations (such as college students) due to COVID-19, caused confusion on where and when to be counted.

Additionally, the US Census Bureau used the internet as a significant part of 2020 Census self-response, but many areas in North Carolina do not have broadband access, limiting certain population groups' access to the internet response form. While field operations were also an important part of reaching households, mostly in rural areas, controversy about counting noncitizen populations and eroding trust in government institutions led to reluctance to respond to the 2020 Census among some populations. Given all the challenges to the count, North Carolina's 2020 Census self-response rate was 63%, below the national rate of 67%. The remaining households were completed using field staff, administrative records, and imputation. According to the US Census Bureau, 99.9% of North Carolina households were enumerated.

Conducting a census is challenging even in the best of times, much less during a global pandemic. Every effort was made to obtain a full count of the population in every community, but there will likely be errors that will need to be corrected. Just as in previous censuses, the [Count Question Resolution](#) (CQR) program will provide a way for counties and municipalities to challenge (with limitations) the 2020 Census results. Because Census data are typically tied to many funding formulas, it is important that local communities review the 2020 Census results once they are reported.

All US Census Bureau produced data is prepared in a way that protects the privacy of all respondents. Except for the state apportionment counts, all 2020 Census data will use new methods to protect respondent privacy. The new [disclosure avoidance system](#) will change the number of tables and eliminate some potential critical variables released when compared to most recent censuses. It is important for state agencies, local governments, and other data users to become familiar with these changes within the context of their data needs.