

TABLE 1

## Governor's Recommended Budget Adjustments for FY 2022-23

FY 2022-23

	FY 2022-23
<b><u>Budget Availability</u></b>	
Unappropriated Balance from Prior Fiscal Year	2,380,495,252
Adjustments to Availability & Technical Corrections (S.L. 2021-189, S.L. 2022-6)	(17,853,808)
Over Collection of Revenues FY 2021-22 (consensus forecast adjustment)	4,241,300,000
Reversions (S.L. 2021-180)	200,000,000
<b>Beginning Unreserved Fund Balance</b>	<b>6,803,941,444</b>
<b><u>Revenue</u></b>	
Certified Revenue (S.L. 2021-180, S.L. 2021-189)	28,751,644,526
Consensus Forecast Adjustment	1,957,955,474
Insurance and Treasurer Nontax Transfer	5,475,316
<b>Revised Revenue</b>	<b>30,715,075,316</b>
<b>Revised Budget Availability</b>	<b>37,519,016,760</b>
<b><u>Investments to Reserves per S.L. 2021-180, S.L. 2021-189</u></b>	
State Capital and Infrastructure Fund (SCIF)	(1,345,500,000)
Savings Reserve	(1,134,006,722)
Additional Transfer to SCIF	(1,039,500,000)
State Emergency Response and Disaster Relief Reserve	(375,000,000)
Medicaid Transformation Reserve	(246,000,000)
Information Technology Reserve	(165,000,000)
NC GREAT Program (S.L. 2019-230)	(15,000,000)
Unfunded Liability Solvency Reserve	(10,000,000)
<b>Subtotal Investments to Reserves</b>	<b>(4,330,006,722)</b>
<b><u>Additional Investments to Reserves</u></b>	
State Capital and Infrastructure Fund (SCIF)	
State Government & UNC System Capital, Repair & Renovation, Flex Fund	(538,805,915)
Public Schools	(500,000,000)
Economic Development Projects Reserve	(450,000,000)
Workforce and Economic Development Reserve	(182,540,000)
Affordable Housing Reserve	(165,000,000)
State Emergency Response and Disaster Relief Reserve	(125,000,000)
Clean Energy and Environment Reserve	(105,000,000)
Medicaid Transformation Reserve	(100,000,000)
Matching Funds Reserve	(100,000,000)
Information Technology Reserve	(57,000,000)
Medicaid Contingency Reserve	(50,000,000)
Radio Island Infrastructure Reserve	(20,000,000)
Contingency and Emergency Fund	(10,000,000)
<b>Subtotal Investments to Reserves</b>	<b>(2,403,345,915)</b>
<b>Revised Budget Availability after Investments to Reserves</b>	<b>30,785,664,123</b>
<b>Enacted Budget</b>	<b>26,980,674,610</b>
<b><u>Supporting North Carolina's Human Capital</u></b>	
Additional 2.5% Increase for all State-funded Employees, 5% LEOs and Healthcare Professionals	258,918,500
Labor Market Retention and Adjustment Funds (2% Agencies/UNC/CC's + min. market)	165,148,000
Additional Increase for Teachers and Principals	209,895,000
Master's Pay Restoration	9,000,000
Retention Bonuses for State Employees and Teachers (\$1.5k/2k/3k)	827,000,000
Comprehensive Living Wage (temporary & contract, child & adult care workers)	87,250,000
Additional Retiree COLA 1% R/1% NR	84,637,500
Workers' Compensation Settlement Funds	10,000,000
<b>Subtotal</b>	<b>1,651,849,000</b>
<b><u>Strengthening Education and Workforce Systems</u></b>	
Public School Enrollment	68,300,000
Comprehensive Remedial Plan Year 3 & DPI Priorities	440,652,455
Local Teacher Supplement Program	75,000,000
UNC System and Community Colleges Priorities	69,636,222

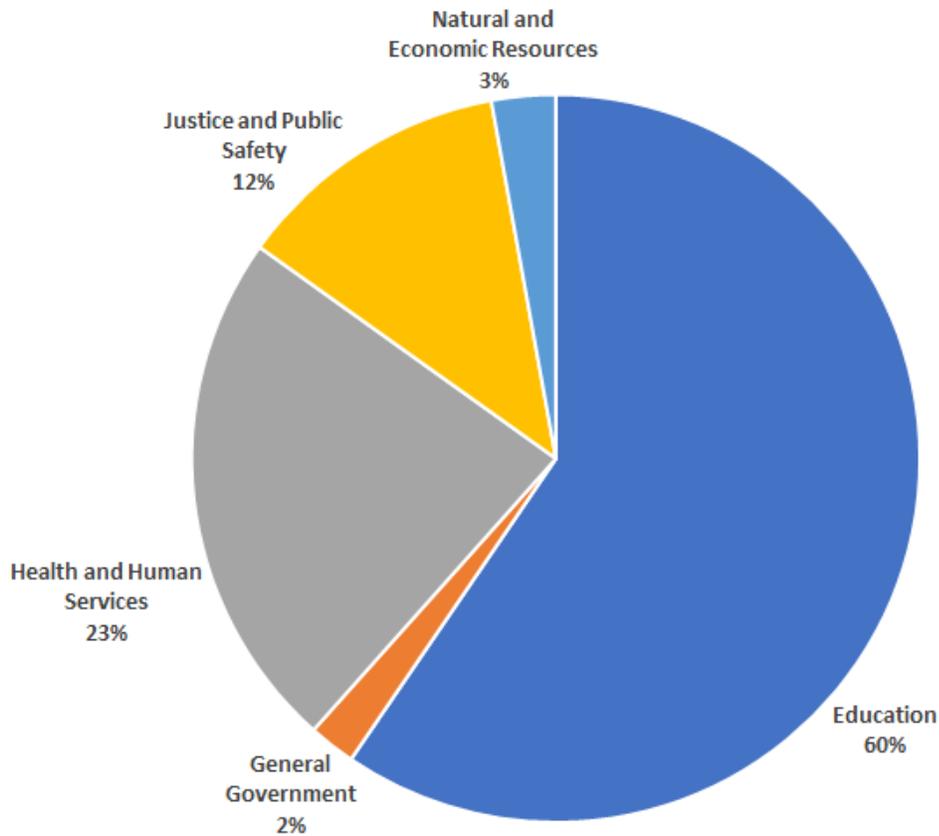
**Governor's Recommended Budget Adjustments for FY 2022-23**

	<b>FY 2022-23</b>
Healthcare Workforce	45,000,000
Workforce and Economic Development	32,600,000
<b>Subtotal</b>	<b>731,188,677</b>
<u>Building Support for North Carolina</u>	
Additional Medicaid Rebase	267,801,698
Medicaid Expansion Effective 9-1-22 (sign-on bonus from enhanced FMAP)	(742,000,000)
Helping People Live Healthy, Productive Lives	185,472,763
General Government	29,077,596
Justice and Public Safety	73,419,614
Safe Communities/Violence Prevention Support	38,725,000
Agriculture, Natural, and Economic Resources	68,556,256
<b>Subtotal</b>	<b>(78,947,073)</b>
<b>Total Expansion Items</b>	<b>2,304,090,604</b>
<b>Total Recommended Budget</b>	<b>29,284,765,214</b>
<b>Balance</b>	<b>1,500,898,909</b>

**TABLE 2**  
**Recommended General Fund Budget by Function**  
**FY 2022-23**

	FY 2022 -23 Recommended	% of GF Budget
Education	\$ 17,796,814,892	60.77%
General Government	\$ 620,861,111	2.12%
Health and Human Services	\$ 6,958,768,176	23.76%
Justice and Public Safety	\$ 3,674,755,101	12.55%
Ag, Natural and Economic Resources	\$ 850,192,264	2.90%
Reserves and Other Adjustments Debt	\$ (616,626,330)	-2.11%
Service	\$ -	0.00%
Direct Capital Appropriation	\$ -	0.00%
<b>Total General Fund Budget</b>	<b>\$ 29,284,765,214</b>	<b>100.00%</b>

**FIGURE 1**  
**General Fund Recommended Budget by Function**  
**2022-23**



**TABLE 3**

**Governor's Recommended General Fund Budget  
2022-23 Adjustments**

Budget Code	Function	2022-23			Decrease		Increase		Net Change	2022-23	
		Enacted Budget	Recurring	Nonrecurring	Appropriated Supported Positions	Recurring	Nonrecurring	Appropriated Supported Positions		Recommended Net Appropriation	Net Position Change
<b>Education</b>											
13510	Department of Public Instruction	10,926,918,570	-	-	-	811,407,955	543,167,100	146.00	1,354,575,055	12,281,493,625	146.00
16800	Community Colleges	1,340,223,137	-	-	-	109,595,587	53,749,700	11.00	163,345,287	1,503,568,424	11.00
160XX	University System	3,640,595,408	-	-	-	208,009,856	163,147,579	13.50	371,157,435	4,011,752,843	13.50
	<b>Total Education</b>	<b>15,907,737,115</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,129,013,398</b>	<b>760,064,379</b>	<b>170.50</b>	<b>1,889,077,777</b>	<b>17,796,814,892</b>	<b>170.50</b>
<b>General Government</b>											
11000	General Assembly	80,886,149	-	-	-	2,957,300	1,615,300	-	4,572,600	85,458,749	-
13000	Office of the Governor	5,854,215	-	-	-	224,700	145,800	-	370,500	6,224,715	-
13005	Office of State Budget and Management	10,382,160	-	(198,700)	-	2,035,578	-	5.00	1,836,878	12,219,038	5.00
13085	OSBM-Special Projects	5,517,000	-	-	-	-	-	-	-	5,517,000	-
13010	NC Housing Finance Agency	10,660,000	-	-	-	7,660,000	-	-	7,660,000	18,320,000	-
13050	Department of Military and Veterans Affairs	12,266,166	-	-	-	2,414,648	5,255,100	1.00	7,669,748	19,935,914	1.00
13100	Office of the Lieutenant Governor	1,198,145	-	-	-	50,300	17,500	-	67,800	1,265,945	-
13200	Department of Secretary of State	17,472,391	-	-	-	2,136,800	438,400	7.00	2,575,200	20,047,591	7.00
13300	Office of the State Auditor	16,526,499	-	-	-	1,670,400	1,809,100	1.00	3,479,500	20,005,999	1.00
13410	Department of State Treasurer	5,045,941	-	-	-	54,600	995,700	-	1,050,300	6,096,241	-
13412	State Treasurer - Retirement System	33,255,423	-	-	-	-	-	-	-	33,255,423	-
13900	Department of Insurance	54,545,075	-	-	-	3,178,266	1,246,750	8.00	4,425,016	58,970,091	8.00
13902	Industrial Commission	9,157,791	-	-	-	1,748,600	303,600	-	2,052,200	11,209,991	-
14100	Department of Administration	61,236,842	-	-	-	3,537,121	1,189,000	18.00	4,726,121	65,962,963	18.00
14111	Office of State Human Resources - General	9,790,077	-	-	-	834,700	208,000	3.00	1,042,700	10,832,777	3.00
14160	Office of the State Controller	31,775,127	-	-	-	1,096,994	414,100	1.50	1,511,094	33,286,221	1.50
14660	Department of Information Technology	69,925,602	-	-	-	1,483,157	2,161,100	3.25	3,644,257	73,569,859	3.25
14700	Department of Revenue	113,199,325	-	-	-	4,478,085	3,252,300	1.00	7,730,385	120,929,710	1.00
18025	State Board of Elections	8,078,470	-	-	-	1,457,051	583,746	10.00	2,040,797	10,119,267	10.00
18210	Office of Administrative Hearings	7,267,117	-	-	-	252,400	114,100	-	366,500	7,633,617	-
	<b>Total General Government</b>	<b>564,039,515</b>	<b>-</b>	<b>(198,700)</b>	<b>-</b>	<b>37,270,700</b>	<b>19,749,596</b>	<b>58.75</b>	<b>56,821,596</b>	<b>620,861,111</b>	<b>58.75</b>
<b>Health and Human Services</b>											
14410	Division of Central Management and Support	180,582,599	-	-	-	31,845,692	23,386,644	60.00	55,232,336	235,814,935	60.00
14411	Division of Aging and Adult Services	52,420,986	-	-	-	4,444,700	179,400	-	4,624,100	57,045,086	-
14420	Division of Child Development and Early	242,838,661	-	-	-	45,865,600	768,600	-	46,634,200	289,472,861	-
14430	Division of Public Health	171,392,973	-	-	-	16,096,941	7,155,200	17.00	23,252,141	194,645,114	17.00
14440	Division of Social Services	216,675,409	-	-	-	23,663,025	4,439,300	-	28,102,325	244,777,734	-
14445	Division of Health Benefits	4,524,916,267	-	-	-	198,182,511	172,467,715	2.00	370,650,226	4,895,566,493	2.00
14450	Division of Services for the Blind, Deaf and	9,085,455	-	-	-	215,600	720,900	-	936,500	10,021,955	-
14460	Division of Mental Health/Developmental	858,997,139	-	-	-	38,684,200	59,410,300	1.00	98,094,500	957,091,639	1.00
14470	Division of Health Services Regulation	22,784,347	-	-	-	4,262,204	1,403,729	38.00	5,665,933	28,450,280	38.00
14480	Division of Vocational Rehabilitation	42,009,879	-	-	-	791,300	3,080,900	-	3,872,200	45,882,079	-
	<b>Total Health and Human Services</b>	<b>6,321,703,715</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>364,051,773</b>	<b>273,012,688</b>	<b>118.00</b>	<b>637,064,461</b>	<b>6,958,768,176</b>	<b>118.00</b>
<b>Justice and Public Safety</b>											
12000	Judicial Branch	689,324,697	-	-	-	36,103,231	19,265,406	105.00	55,368,637	744,693,334	105.00
12001	Judicial Branch - Indigent Defense	138,279,658	-	-	-	4,398,904	1,409,168	10.00	5,808,072	144,087,730	10.00

Budget Code	Function	Decrease			Increase			Net Change	2022-23		
		2022-23		Appropriated Supported Positions	Appropriated Supported Positions		Net		Recommended Appropriation	Net Position Change	
		Enacted Budget	Recurring		Nonrecurring	Recurring					Nonrecurring
13600	Department of Justice	62,244,762	-	-	-	4,688,085	1,729,200	16.00	6,417,285	68,662,047	16.00
14550	Department of Public Safety	2,498,242,170	-	-	-	112,966,120	106,103,700	140.00	219,069,820	2,717,311,990	140.00
	<b>Total Justice and Public Safety</b>	<b>3,388,091,287</b>	-	-	-	<b>158,156,340</b>	<b>128,507,474</b>	<b>271.00</b>	<b>286,663,814</b>	<b>3,674,755,101</b>	<b>271.00</b>
	<b>Natural and Economic Resources</b>										
13700	Department of Agriculture and Consumer	162,899,992	-	-	-	7,779,141	6,003,400	6.00	13,782,541	176,682,533	6.00
13800	Department of Labor	22,092,770	-	-	-	1,567,581	832,100	-	2,399,681	24,492,451	-
14300	Department of Environmental Quality	102,060,465	-	-	-	7,238,901	11,009,660	52.00	18,248,561	120,309,026	52.00
14350	Wildlife Resources Commission	20,247,766	-	-	-	930,491	1,553,800	1.00	2,484,291	22,732,057	1.00
14600	Department of Commerce	12,692,720	-	-	-	14,069,846	3,866,300	51.00	17,936,146	30,628,866	51.00
14601	Commerce - General State Aid	20,205,810	-	-	-	1,000,000	-	-	1,000,000	21,205,810	-
14602	Commerce - Economic Development	162,898,236	-	-	-	1,000,000	20,000,000	-	21,000,000	183,898,236	-
14800	Natural and Cultural Resources	231,358,549	-	-	-	24,116,936	14,767,800	36.00	38,884,736	270,243,285	36.00
14802	Natural and Cultural Resources - Roanoke	-	-	-	-	-	-	-	-	-	-
	<b>Total Natural and Economic Resources</b>	<b>734,456,308</b>	-	-	-	<b>57,702,896</b>	<b>58,033,060</b>	<b>146.00</b>	<b>115,735,956</b>	<b>850,192,264</b>	<b>146.00</b>
	<b>Debt Service</b>										
19420	General Debt Service	-	-	-	-	-	-	-	-	-	-
	<b>Total Debt Service</b>	-	-	-	-	-	-	-	-	-	-
	<b>Reserves and Other Adjustments</b>										
19xxx	Reserves and Other Adjustments	64,646,670	-	(711,053,000)	-	29,780,000	-	-	(681,273,000)	(616,626,330)	-
	<b>Total Reserves and Other Adjustments</b>	<b>64,646,670</b>	-	<b>(711,053,000)</b>	-	<b>29,780,000</b>	-	-	<b>(681,273,000)</b>	<b>(616,626,330)</b>	-
	<b>Direct Capital Appropriation</b>										
19600	Capital Improvements	-	-	-	-	-	-	-	-	-	-
	<b>Total Direct Capital Appropriation</b>	-	-	-	-	-	-	-	-	-	-
	<b>Total</b>	<b>26,980,674,610</b>	-	<b>(711,251,700)</b>	-	<b>1,775,975,107</b>	<b>1,239,367,197</b>	<b>764.25</b>	<b>2,304,090,604</b>	<b>29,284,765,214</b>	<b>764.25</b>

**TABLE 4**

**Highway Fund and Highway Trust Fund Budget  
2022-23**

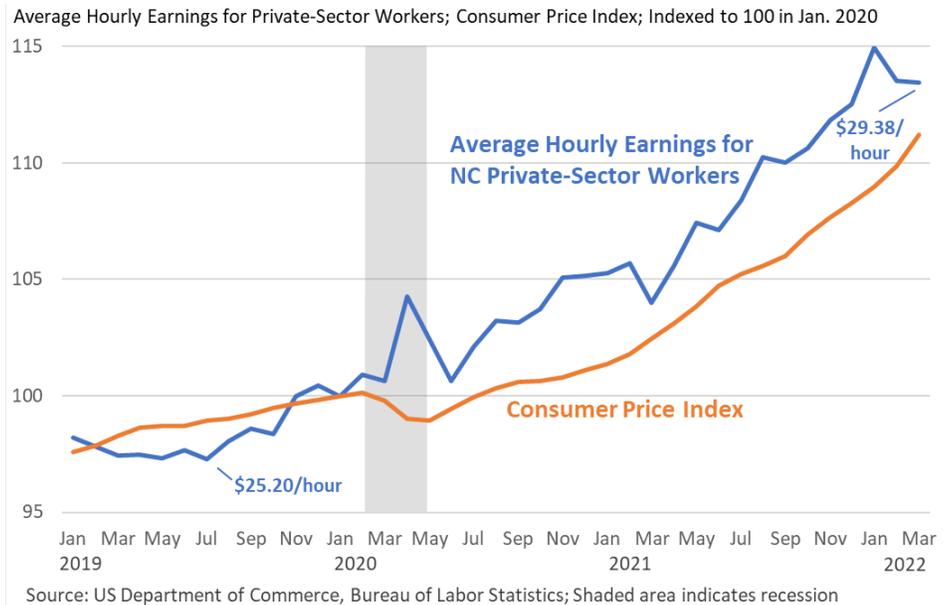
Function	FY 2022-23 Enacted Budget	Decreases			Increases			Net Change	2022-23 Recommended Net Appropriation	Net Position Change
		Recurring	Nonrecurring	Appropriated Supported Positions	Recurring	Nonrecurring	Appropriated Supported Positions			
<b>Highway Fund</b>										
DOT Administration	100,537,699	-	-	-		12,561,825		12,561,825	113,099,524	-
<b>Division of Highways</b>										
Administration	38,028,745	-	-	-	1,891,010			1,891,010	39,919,755	-
Construction	77,543,078	-	-	-				-	77,543,078	-
Maintenance	1,507,422,182	-	-	-	258,206,293			258,206,293	1,765,628,475	-
Planning and Research	-	-	-	-				-	-	-
OSHA Program	358,030	-	-	-				-	358,030	-
Division of Highways Total	1,623,352,035	-	-	-	260,097,303			260,097,303	1,883,449,338	-
State Aid to Municipalities	154,875,000	-	-	-				-	154,875,000	-
<b>Multi-Modal</b>										
Airports	134,572,588	-	-	-	600,000			600,000	135,172,588	-
Bicycle	790,106	-	-	-	10,000,000			10,000,000	10,790,106	-
Ferry	48,225,247	-	-	-	17,190,735			17,190,735	65,415,982	-
Public Transportation	92,675,277	-	(24,070,648)	-		2,000,000		(22,070,648)	70,604,629	-
Railroads	42,613,338	-	-	-	12,000,000			12,000,000	54,613,338	-
Multi-Modal Total	318,876,556	-	(24,070,648)	-	39,790,735	2,000,000		17,720,087	336,596,643	-
Governor's Highway Safety Program	305,546	-	-	-				-	305,546	-
Division of Motor Vehicles	152,428,637	-	-	-	10,950,359			10,950,359	163,378,996	-
Other State Agencies	15,717,916	-	-	-				-	15,717,916	-
Transfer to General Fund	-	-	-	-				-	-	-
Other Reserves	13,460,789	-	-	-	60,672,276			60,672,276	74,133,065	-
Capital Improvements	-	-	-	-		3,543,972		3,543,972	3,543,972	-
<b>Total Highway Fund</b>	<b>2,379,554,178</b>	-	<b>(24,070,648)</b>	-	<b>371,510,673</b>	<b>18,105,797</b>		<b>365,545,822</b>	<b>2,745,100,000</b>	-
<b>Highway Trust Fund</b>										
Administration	37,900,919	-	-	-				-	37,900,919	-
<b>Construction</b>										
Strategic Prioritization Program	1,608,618,412	-	-	-				-	1,608,618,412	-
Intrastate System	-	-	-	-				-	-	-
Urban Loop System	-	-	-	-				-	-	-
Secondary Roads	-	-	-	-				-	-	-
Construction Total	1,608,618,412	-	-	-				-	1,608,618,412	-
State Aid to Municipalities	-	-	-	-				-	-	-
<b>Bonds</b>										
Bond Redemption	52,290,000	-	-	-				-	52,290,000	-
Bond Interest	40,757,650	-	-	-				-	40,757,650	-
Bond Total	93,047,650	-	-	-				-	93,047,650	-
NC Turnpike Authority	49,000,000	-	-	-				-	49,000,000	-
Transfer to Ports	-	-	-	-		45,000,000		45,000,000	45,000,000	-
NC Mobility Fund	-	-	-	-				-	-	-
Reserve for Visitor's Centers	400,000	-	-	-				-	400,000	-
Uncommitted Trust Fund Admin	1,533,019	-	-	-				-	1,533,019	-
<b>Total Highway Trust Fund</b>	<b>1,790,500,000</b>	-	-	-	-	<b>45,000,000</b>		<b>45,000,000</b>	<b>1,835,500,000</b>	-

# Economic Outlook

## Despite Inflation Concerns, Wage Growth Outpaced Inflation During the Pandemic

Nearly one in four respondents in an April 2022 Gallup poll cited inflation or fuel prices as the most important problem facing the US, far more than any other aspect of the economy.<sup>1</sup>

One primary concern about high rates of inflation is that workers' pay will not keep up with rising prices. Through March 2022, North Carolina private-sector workers' earnings have outpaced inflation since January 2020. Over the past year, however, consumer price increases have accelerated and eroded some of workers' gains in earnings during the first year of the pandemic.



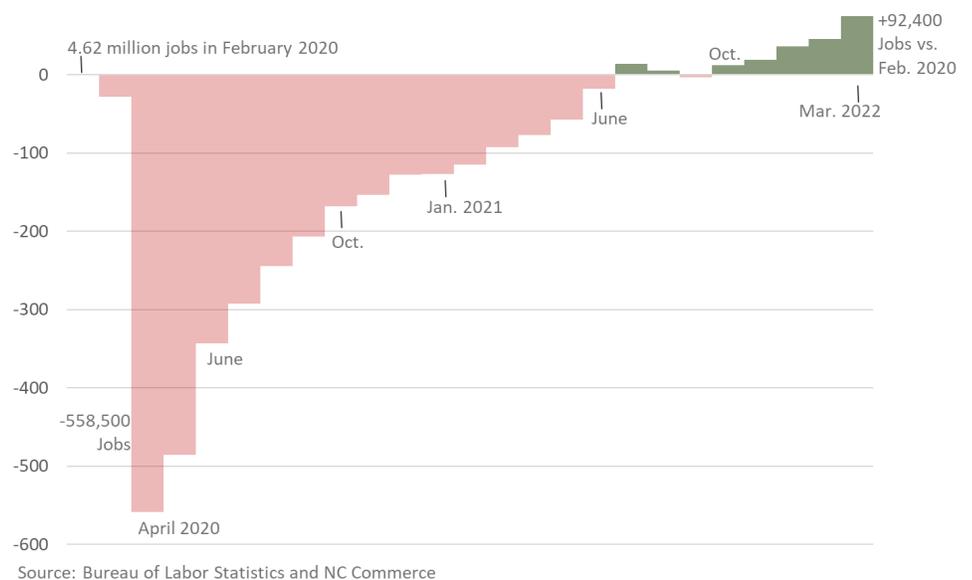
## More Jobs In North Carolina Compared to Pre-Pandemic Peak

Nearly one in eight of the 4.62 million North Carolinians employed in February 2020 were out of the job two months later. While it took nearly five years to recover from the Great Recession, it only took 15 months, until July 2021, for more North Carolinians to be on the job than at any time before the pandemic.

There were 68,000 more North Carolinians working in February 2022 than two years prior. Job gains in trade, transportation, and utilities, professional and business services, and financial

activities more than offset shortfalls in the number of jobs at leisure and hospitality businesses and in government.

Cumulative Change in Payroll Employment Relative to February 2020



## Outlook for Inflation Remains Uncertain

Overburdened supply chains are clearly among the major factors driving recent inflation. A surge in demand for consumer goods during the pandemic increased pressure on existing supply chains, at the same time public health

restrictions and facility closures reduced the ability of supply chains to meet rising demand. However, growth in demand for goods has slowed in recent months as the demand for consumer services has risen to pre-pandemic levels. For example, hotel revenues and airport passenger traffic are close to their January 2020 levels.<sup>ii</sup> Challenges in shipping logistics have moderated, although the NY Federal Reserve’s Global Supply Chain Pressure Index remains significantly above pre-pandemic levels.<sup>iii</sup> Still, the war in Ukraine and pandemic-driven lockdowns in China are adding new pressures to global supply chains.

Rising energy, food, and shelter prices have also been major contributors to recent inflation, with energy prices increasing by 14.9%<sup>iv</sup> and food prices increasing by 2.1%<sup>v</sup> between January and March. Home prices<sup>vi</sup> and rents<sup>vii</sup> rose rapidly throughout 2021. Even if recent interest rate increases cool demand for housing, a lag between rising home prices and measures of inflation ensure shelter costs will continue pushing measured inflation higher throughout 2022.<sup>viii</sup>

Whether inflation remains elevated over the remainder of the biennium will depend on whether workers are able to continue receiving wage increases well above productivity gains and whether companies are able to continue passing on higher input costs to consumers. For most of 2021, companies were able to pass on inflation costs to customers while also increasing profits. During the last quarter of 2021, however, growth in corporate profits decelerated considerably.<sup>ix</sup> Wage growth in recent months has also slowed from recent highs.<sup>x</sup> If both trends continue, particularly as borrowing costs rise as the Federal Reserve raises interest rates, inflation is likely to abate before becoming entrenched.

## Risks to the Revenue Forecast

In recent months, economic policymakers have shifted their focus from aiming to accelerate the recovery from the COVID-19 recession to slowing its pace to a level consistent with a return to low, stable inflation. The revised consensus forecast assumes the US and North Carolina economies will largely follow a path of slower growth and decelerating inflation over the rest of the biennium. Historically, however, recessions have often followed periods of high inflation and low unemployment, suggesting an elevated risk of recession over the next several years.

Even before Russia’s invasion of Ukraine, economy-wide inflation had risen to the highest rate in 40 years. The war and global policymakers’ efforts to economically isolate Russia have caused the prices of food, energy, and many important global commodities to surge while also driving heightened volatility in global stock markets. Economic policymakers, particularly those at the Federal Reserve, already faced a difficult task of slowing economic growth to curb inflation without causing a recession. The economic fallout of the war in Ukraine, plus other challenges such as widespread lockdowns to stop the spread of COVID-19 in major cities in China, makes engineering such a “soft landing” even more challenging.

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<sup>i</sup> Megan Brenan. “Inflation Concerns Fueling Low Economic Confidence in U.S.” *Gallup*. April 27, 2022. <https://news.gallup.com/poll/392159/inflation-concerns-fueling-low-economic-confidence.aspx>

<sup>ii</sup> IHS Markit, April 1, 2022, Weekly Economic Commentary.

<sup>iii</sup> Benigno, et. al. “Global Supply Chain Pressure Index: March 2022 Update.” *Liberty Street Economics*. March 3, 2022. <https://libertystreeteconomics.newyorkfed.org/2022/03/global-supply-chain-pressure-index-march-2022-update/>

<sup>iv</sup> U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Energy in U.S. City Average [CPIENGSL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIENGSL>, May 3, 2022.

<sup>v</sup> U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Food in U.S. City Average [CPIUFDNS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIUFDNS>, May 3, 2022.

<sup>vi</sup> U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/USSTHPI>, April 11, 2022.

<sup>vii</sup> U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average [CUUR0000SEHA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CUUR0000SEHA>, April 12, 2022.

<sup>viii</sup> Jared Bernstein, Ernie Tedeschi, and Sarah Robinson. “Housing Prices and Inflation.” Council of Economic Advisors Blog. September 09, 2021. <https://www.whitehouse.gov/cea/written-materials/2021/09/09/housing-prices-and-inflation/>

<sup>ix</sup> U.S. Bureau of Economic Analysis, Corporate Profits with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj) [CPROFIT], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPROFIT>, April 12, 2022.

<sup>x</sup> U.S. Bureau of Labor Statistics, Average Hourly Earnings of All Employees, Total Private [CES0500000003], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CES0500000003>, April 11, 2022.

## General Fund Revenue Forecast

More than 80% of General Fund revenues are derived from the individual income tax and the sales and use tax. Other important sources of revenue include corporate income and franchise taxes, taxes on insurance premiums, excise taxes on alcohol and tobacco products, and revenue from nontax sources, such as judicial fees and earnings from investing state funds.

OSBM and the General Assembly's Fiscal Research Division issued a revised consensus revenue forecast for the 2021-23 biennium on May 9, 2022. The revised forecast includes a substantial upward revision to collections in the current fiscal year and a smaller upward revision in the second year of the biennium.

**General Fund Revenue by Fiscal Year: Recent History and Forecast**

Amounts in Millions	2018-19	2019-20	2020-21	2021-22			2022-23		
	Actual	Actual	Actual	Budget	Revised	Change	Budget	Revised	Change
Individual Income	13,166.0	12,414.7	15,822.6	14,308.8	17,242.5	2,933.7	14,259.4	15,472.5	1,213.1
Sales and Use	7,751.3	7,820.6	9,023.6	9,611.3	10,114.5	503.2	9,755.4	10,382.8	627.4
Corporate Income & Franchise	1,580.1	1,303.7	2,381.3	1,959.9	2,466.1	506.2	2,008.6	1,846.4	-162.2
All Other Taxes	1,339.4	1,456.7	1,619.7	1,676.8	1,914.8	238.0	1,853.2	2,059.1	205.9
<b>Total Tax Revenue</b>	<b>23,836.7</b>	<b>22,995.7</b>	<b>28,847.1</b>	<b>27,556.8</b>	<b>31,737.9</b>	<b>4,181.1</b>	<b>27,876.6</b>	<b>29,760.8</b>	<b>1,884.2</b>
<b>Total Nontax Revenue</b>	<b>990.0</b>	<b>943.6</b>	<b>851.8</b>	<b>853.1</b>	<b>913.3</b>	<b>60.2</b>	<b>875.0</b>	<b>948.8</b>	<b>73.8</b>
<b>Total General Fund Revenue</b>	<b>24,826.7</b>	<b>23,939.3</b>	<b>29,698.9</b>	<b>28,409.9</b>	<b>32,651.2</b>	<b>4,241.3</b>	<b>28,751.6</b>	<b>30,709.6</b>	<b>1,958.0</b>

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

### Current Year Revenue

The revised forecast projects net General Fund revenue of \$32.65 billion in FY 2021-22, an upward revision of \$4.24 billion (14.9%) from certified revenues and a 9.9% increase over FY 2020-21 revenues.

A rapid economic recovery, a booming stock market in 2021, elevated inflation, and taxpayers pulling taxable income forward into 2021 to avoid potential federal tax increases combined to drive FY 2021-22 revenues much higher than certified revenues. Projected wages in FY 2021-22 are up more than 10%, taxable sales 11-13% and 2021 domestic before-tax corporate profits nearly 30% based on data from the US Bureau of Economic Analysis. The combination of surging economic activity and tax planning significantly boosted state tax revenues in North Carolina and in most other states.

All major revenue sources—and some minor sources—have contributed to projected overcollections. Collections from individual (+\$2.93 billion) and corporate income (+\$468 million) taxes, and sales and use tax (+\$503 million) will all be substantially higher than certified revenues.

### Outlook for Fiscal Year 2022-23

For FY 2022-23, the revised forecast anticipates net General Fund revenue of \$30.71 billion, an upward revision of \$1.96 billion (6.8%) from certified revenues and a 5.9% decrease from FY 2021-22 revenues.

Tax planning by high-income individuals and corporations shifted income tax revenues from FY 2022-23 into FY 2021-22, which results in a smaller upward revision to FY 2022-23 revenues. The forecast also anticipates much slower growth in wages and taxable sales in FY 2022-23 than in the first year of the biennium. The revenue forecast for the second year of the biennium also accounts for significant

downside risks to the economic forecast over the next year, including a potential contraction in economic activity or further economic disruptions from the war in Ukraine.

## Highway Fund and Highway Trust Fund Revenue Forecast

The state excise tax on motor fuels accounts for more than half of the total revenue in the Highway Fund and the Highway Trust Fund combined. S.L. 2020-91 increased the Highway Fund's portion of motor fuels revenue to 80% in FY 2021-22 and 75% thereafter, with the Highway Trust Fund receiving the remainder. While the Highway Trust Fund receives the smaller share of the motor fuels revenue, it receives all the highway use tax revenue (i.e., tax on vehicle sales). Other sources of revenue for the two funds are Division of Motor Vehicles (DMV) licenses and fees and interest earned on investments of the Funds' cash balances held by the State Treasurer.

### Current Fiscal Year Forecast

On April 28, 2022, OSBM and the Fiscal Research Division of the General Assembly revised upwards the FY 2021-22 forecasts for both funds. The new consensus forecast anticipates collections of \$2.73 billion in the Highway Fund, \$108 million (+4.1%) higher than June 2021 consensus, and \$1.63 billion in the Highway Trust Fund, \$75 million (+4.8%) higher. The upward revisions are driven in part by higher motor fuels revenues as the consumption of gallons is rebounding to pre-pandemic levels. Additionally, despite more moderate levels in vehicles sales, the higher vehicle prices have boosted the Highway Trust Fund forecast. These upward revisions in the two major sources eclipse the downward revisions to DMV fees.

### Outlook for FY 2022-2023

For FY 2022-23, the April 2022 forecast anticipates revenues of \$2.75 billion in the Highway Fund, a \$142 million (+5.4%) increase from the June 2021 consensus, and \$1.84 billion in the Highway Trust Fund, an upward revision of \$107 million (+6.2%). While the consumption of gallons is expected to revert to its average pre-pandemic growth, the conflict in Ukraine will continue to cause uncertainty in global oil markets and higher retail gasoline prices through at least the first half of FY 2022-23. Additionally, the forecast assumes the global microchip shortage will continue to constrain the supply of new vehicles through most of FY 2022-23.

### Highway Fund and Highway Trust Fund Revenue by Fiscal Year: Recent History and Forecast (M\$)\*

	2018-19	2019-20	2020-21	2021-22			2022-23		
	Actual	Actual	Actual	Budget	Revised	Change	Budget	Revised	Change
<b>Highway Fund</b>									
Motor Fuels Taxes **	1,482.8	1,370.8	1,703.0	1,667.5	1,765.9	6%	1,635.1	1,766.1	8%
Licenses and Fees	778.9	756.5	861.8	872.6	869.5	0%	875.6	872.2	0%
Short-term Vehicle Leases	10.0	10.0	10.0	79.8	90.9	14%	84.6	95.3	13%
Aviation Fuel	7.4	7.9	6.2	5.0	6.3	26%	6.6	10.0	52%
Investment Income	7.3	5.6	2.3	1.5	1.5	0%	1.5	1.5	0%
<b>Total Highway Fund Availability</b>	<b>2,286.5</b>	<b>2,150.7</b>	<b>2,583.2</b>	<b>2,626.4</b>	<b>2,734.1</b>	<b>4%</b>	<b>2,603.4</b>	<b>2,745.1</b>	<b>5%</b>
<b>Highway Trust Fund</b>									
Motor Fuel Tax	606.8	562.7	399.5	418.0	442.6	6%	546.3	590.1	8%
Highway Use	838.7	837.5	996.1	958.3	1,028.0	7%	997.9	1,086.0	9%
Title Fees & Lien	141.5	137.9	159.9	173.7	154.8	-11%	182.1	158.0	-13%
Investment Income	3.2	2.9	2.9	2.0	1.4	-30%	2.0	1.4	-30%
<b>Total Trust Fund Availability</b>	<b>1,590.1</b>	<b>1,541.0</b>	<b>1,558.5</b>	<b>1,552.0</b>	<b>1,626.8</b>	<b>5%</b>	<b>1,728.3</b>	<b>1,835.5</b>	<b>6%</b>
<b>Total HF &amp; HTF Availability</b>	<b>3,876.6</b>	<b>3,691.7</b>	<b>4,141.7</b>	<b>4,178.4</b>	<b>4,360.9</b>	<b>4%</b>	<b>4,331.7</b>	<b>4,580.6</b>	<b>6%</b>

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

\*\* Includes Gas Inspection and Highway Usage Registration.

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## Population Dynamics

### First 2020 Census Results showed North Carolina's strong growth

North Carolina continues to show strong population growth. During the last decade, our state added 904,000 people – the 6<sup>th</sup> largest population gain among states. Due to this growth, we added one more Congressional seat (now at 14) and, at 10.5 million people, we are the 9<sup>th</sup> largest state in the nation.

Despite robust growth, our state added about 500,000 fewer people during the 2010s than we added during the 1990s and 2000s due primarily to declining fertility rates and an aging population. In addition, the COVID-19 pandemic slowed population growth further over the past two years. The pandemic led to more deaths than what we would have expected given our population size and age structure.

Additionally, international migration was restricted early in the pandemic and uncertainties about the future slowed domestic migration and caused individuals to postpone pregnancies.

With increases in vaccination rates and a shift away from pandemic related restrictions, we are beginning to see a return to previous levels of migration to the state and expect a recovery in fertility rates to pre-pandemic levels. The State Demographer's latest [projections](#) predict an increase of 112,000 people over FY 2021-22 – an equivalent of adding a population the size of Wilmington. By July 1, 2023, an estimated 10.7 million people will be living in North Carolina.

### Growth continues in major urban areas

The diverse job opportunities in high technology, banking, healthcare, and education have made our major urban areas attractive to those relocating to the state. Charlotte (4<sup>th</sup>) and Raleigh (11<sup>th</sup>) were among the fastest [growing large cities](#) in the nation from 2010-2020.<sup>1</sup> Only Ft. Worth, Austin, and Seattle surpassed Charlotte's rate of population growth. Between 2010 and 2020, the 20 urban counties<sup>2</sup> in North Carolina accounted for 92% of the state's population growth.

### Many rural counties challenged by population decline

For the first time in North Carolina's history, 51 counties – all rural – lost population during a decade. Limited economic opportunities persist in many of our rural counties because of long-term changes in agriculture and rural manufacturing. Over time, young people migrated from rural to urban areas for education and jobs. Without young workers to replace an aging workforce, it becomes difficult for rural communities to attract new industries – thus perpetuating the cycle. Eleven of our counties have been identified as "[persistent poverty counties](#)" – where 20% or more of the population had incomes below poverty in 1997, 2007, 2017 and 2020.<sup>3</sup>

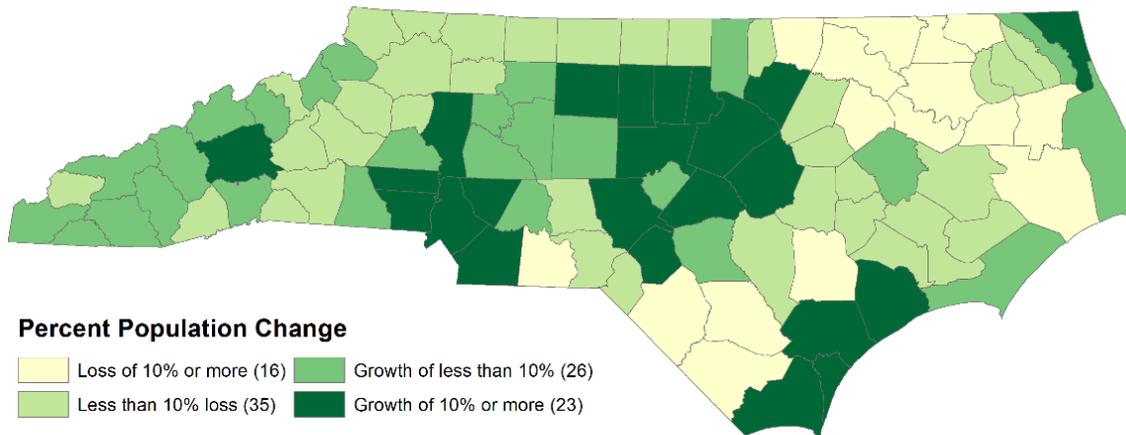
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<sup>1</sup> [2020 Census: Big cities grew and became more diverse, especially among their youth \(brookings.edu\)](#)

<sup>2</sup> Urban/Suburban/Regional Centers counties as defined by the [North Carolina Rural Center](#) for the 2010 Census. These counties had population densities of 250 people per square mile or more in 2010.

<sup>3</sup> Bertie, Columbus, Edgecombe, Halifax, Hertford, Hyde, Northampton, Robeson, Tyrrell, Warren, and Washington Counties.

## County Population Change, 2010-2020



Not all rural counties experienced population loss. Rural counties that are proximate to major urban centers or are small regional centers themselves experienced population growth. Two of these counties: Johnston and Onslow, experienced population gains such that they were redefined as [urban](#) after the 2020 Census results were published. Our mountain and coastal rural counties are attractive destinations for retirees and those seeking recreational lifestyles. Thus, many of these counties continue to experience population growth from in-migration.

### North Carolina's population is aging

Throughout FY 2021-22, the 65+ population is expected to increase by 57,000 people and continue that trend through 2030. Meanwhile, our childhood population (age less than 18) is predicted to decline slightly (by 500 people), before beginning to grow slowly for the rest of the decade. By 2028, one in five people will be 65+, and, by 2031, there will be more older adults than children. In addition, the COVID-19 pandemic has accelerated individual decisions to retire – with many retiring earlier than they initially planned. Thus, an increasing 65+ population with concomitant slower growth among the younger population has led to a lower proportion of people in the [working ages](#) relative to previous decades.

### North Carolina more diverse

For most of North Carolina's history, [American Indian](#), [Black](#), and White populations were the extent of our racial/ethnic diversity. Beginning in the 1990s, growth in Hispanic and Asian populations have broadened North Carolina's racial/ethnic diversity. In addition, more people identify themselves as multi-racial. During the last decade, the largest population gains were among Hispanic (+318,000), Asian & Pacific Islander (+135,000), and multi-racial (+282,000) populations. Between now and 2050, approximately three of every four people added to North Carolina's population will be American Indian, Asian & Pacific Islander, Black, Hispanic, or multi-racial.