

Table 1
Governor's Recommended Budget Adjustments

	FY 2024-25
<u>Composition of Budget Availability</u>	
Unappropriated Balance from Prior Fiscal Year	1,564,437,931
Overcollections Consensus Estimate FY 2023-24	413,138,702
Reversions FY 2023-24 (S.L. 2023-134)	300,000,000
Additional Reversions	200,000,000
Subtotal Estimated Beginning Unreserved Balance	2,477,576,633
 <u>Investments to Reserves per S.L. 2023-134</u>	
State Capital and Infrastructure Fund (SCIF statutory requirement)	(1,461,333,238)
Additional Capital Improvements (over SCIF statutory requirement)	(700,000,000)
Clean Water and Drinking Water Reserve	(1,000,000,000)
Economic Development Reserve	(100,000,000)
Transportation Reserve	(100,000,000)
State Emergency Response and Disaster Relief Fund	(75,000,000)
Housing Reserve	(60,000,000)
NC Innovation Reserve Shifted to Fund Child Care	0
Medicaid Contingency Reserve	0
Savings Reserve	0
Subtotal	(3,496,333,238)
 <u>Adjustments to Reserves</u>	
Invest Inflation Reserve	1,000,000,000
Subtotal	1,000,000,000
 <u>Revenues</u>	
Certified Tax Revenue (S.L. 2023-42; S.L. 2023-134)	31,884,670,000
Certified Non-Tax Revenue (S.L. 2023-7; S.L. 2023-42; S.L. 2023-93; S.L. 2023-134)	1,480,876,093
Consensus Forecast Adjustment	1,003,753,907
Subtotal	34,369,300,000
 <u>Adjustments to Revenue</u>	
Individual Income Tax Fairness, Rate at 4.5% for Income >\$200K/100K (MFJ/single)	126,900,000
Maintain Lowest Corporate Income Tax Rate at 2.5%	74,200,000
Maintain General Fund Sales Tax Transfer to DOT at 4%	236,900,000
Child and Dependent Care Tax Credit	(57,800,000)
Conservation Tax Credit	(4,700,000)
Subtotal	375,500,000
 <u>Adjustments to Availability</u>	
Insurance Non-Tax Transfer	19,321,482
Subtotal	19,321,482
Revised General Fund Availability	34,745,364,877

Governor's Recommended Budget Adjustments

FY 2024-25

Investments

Enacted Budget (S.L. 2023-134; S.L. 2023-14) **30,902,650,283**

Securing State Government Talent

Teacher Pay - \$47,500 starting; average 8.5% raise; Master's Pay	359,259,000
Employee Retention Bonus (\$1,500 for <\$75k; \$1,000 for >\$75k)	399,685,000
State Employee COLA to 5% (2% add'l / 3% add'l for those not eligible for ELMAR)	250,760,000
Enhanced Labor Market Adjustment Reserve (ELMAR)- 2%	195,809,000
Position Fundshift Reserve	14,160,000
Retiree One-Time Additional Payment - 3%	109,555,000
Subtotal Compensation Investments	1,329,228,000

Securing a Better Educated Future Through Public Schools

Vouchers Moratorium	(174,171,729)
Child Care and Early Education	687,400,000
K-12 Enrollment and Investments	364,434,464
Higher Education Enrollment and Investments	151,974,075
Subtotal Education Investments	1,029,636,810

Securing a Healthy, Safe, and Resilient Future for North Carolinians

Medicaid Rebase	458,001,256
Health and Human Services	466,583,235
Justice and Public Safety	88,307,504
Agriculture, Natural, and Economic Resources	233,400,060
General Government	34,478,233
Statewide Reserves	4,281,829
Subtotal Programmatic Investments	1,285,052,117

Total Recommended Adjustments **3,643,916,927**

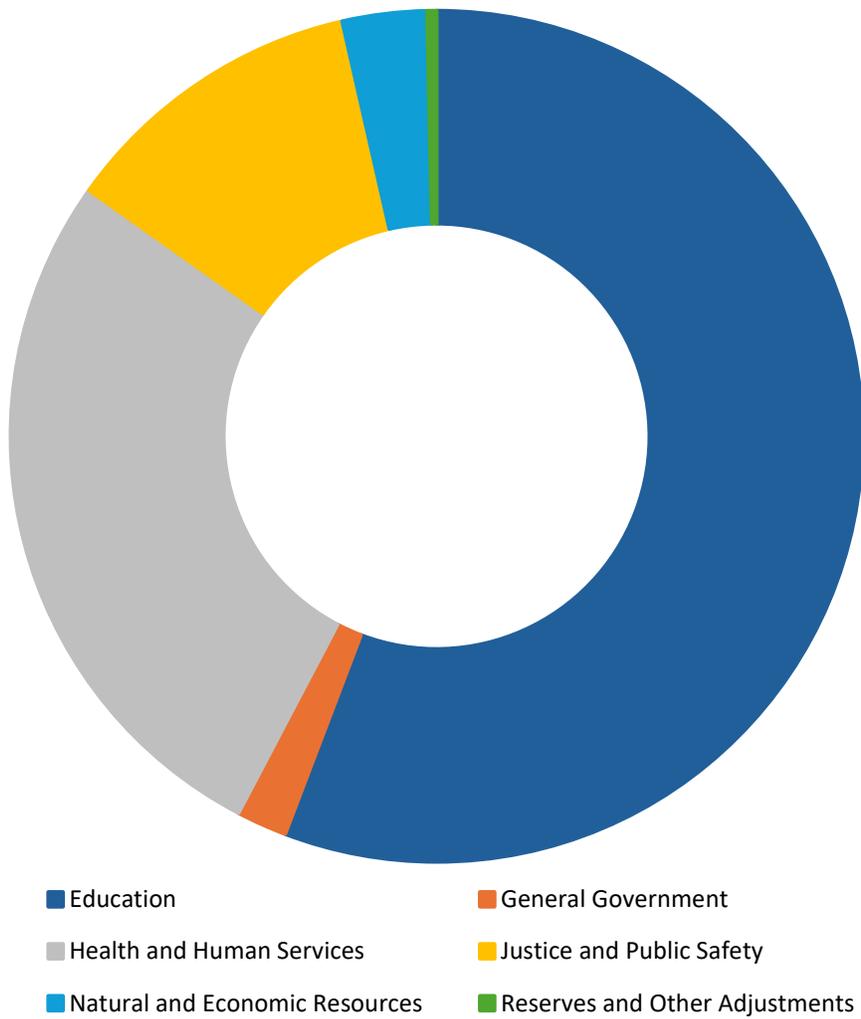
Total Recommended Appropriations **34,546,567,210**

Balance **198,797,667**

Table 2
Recommended General Fund Budget by Function 2024-25

	2024-25 Recommended	% of GF Budget
Education	19,272,320,315	55.79%
General Government	661,113,613	1.91%
Health and Human Services	9,366,017,592	27.11%
Justice and Public Safety	4,019,702,988	11.64%
Natural and Economic Resources	1,105,387,291	3.20%
Reserves and Other Adjustments	122,025,411	0.35%
Total General Fund Budget	\$ 34,546,567,210	100.00%

Figure 1
Recommended General Fund Budget by Function
FY 2024-25



**Table 3: Governor's Recommended General Fund Budget
2024-25 Adjustments**

Budget Code	Function	2024-25				2024-25				Net Position Change	
		Enacted Budget	Recurring	Nonrecurring	Positions	Recurring	Nonrecurring	Positions	Net Change		
		Decrease				Increase					
Education											
13510	Department of Public Instruction	11,959,016,128	-	-	-	633,761,114	464,166,065	30.00	1,097,927,179	13,056,943,307	30.00
16800	Community Colleges	1,515,602,757	-	-	-	122,866,685	40,587,401	3.00	163,454,086	1,679,056,843	3.00
160XX	University System	4,407,489,063	-	-	-	66,266,815	62,564,287	-	128,831,102	4,536,320,165	-
	Total Education	17,882,107,948	-	-	-	822,894,614	567,317,753	33.00	1,390,212,367	19,272,320,315	33.00
General Government											
11000	General Assembly	99,725,556	-	-	-	2,522,000	1,503,325	-	4,025,325	103,750,881	-
13000	Office of the Governor	6,771,035	-	-	-	735,000	94,434	-	829,434	7,600,469	-
13005	Office of State Budget and Management	11,531,103	-	-	-	918,132	155,158	18.00	1,073,290	12,604,393	18.00
13085	OSBM-Special Projects	10,550,000	-	-	-	-	-	-	-	10,550,000	-
13010	NC Housing Finance Agency	10,660,000	-	-	-	-	-	-	-	10,660,000	-
13050	Department of Military and Veterans Affairs	11,642,217	-	-	-	2,004,380	179,521	12.00	2,183,901	13,826,118	12.00
13100	Office of the Lieutenant Governor	1,343,471	-	-	-	44,000	16,993	-	60,993	1,404,464	-
13200	Department of Secretary of State	19,244,123	-	-	-	1,865,509	372,640	8.00	2,238,149	21,482,272	8.00
13300	Office of the State Auditor	19,271,929	-	-	-	815,000	248,071	-	1,063,071	20,335,000	-
13410	Department of State Treasurer	209,074	-	-	-	-	-	1.00	-	209,074	1.00
13412	State Treasurer - Retirement System	22,923,708	-	-	-	-	-	-	-	22,923,708	-
13900	Department of Insurance	53,288,051	-	-	-	11,739,167	7,582,315	23.00	19,321,482	72,609,533	23.00
13902	Industrial Commission	3,777,513	-	-	-	560,000	136,915	-	696,915	4,474,428	-
14100	Department of Administration	67,509,561	-	-	-	5,817,000	707,724	6.00	6,524,724	74,034,285	6.00
14111	Office of State Human Resources	11,151,323	-	-	-	755,296	318,357	3.50	1,073,653	12,224,976	3.50
14160	Office of the State Controller	35,961,579	-	-	-	1,238,316	400,282	2.00	1,638,598	37,600,177	2.00
14660	Department of Information Technology	78,971,190	-	-	-	4,421,000	1,564,120	17.00	5,985,120	84,956,310	17.00
14700	Department of Revenue	121,112,788	-	-	-	6,069,848	1,770,234	6.00	7,840,082	128,952,870	6.00
18025	State Board of Elections	9,759,207	-	-	-	2,414,612	129,094	12.00	2,543,706	12,302,913	12.00
18210	Office of Administrative Hearings	8,232,718	-	-	-	259,000	120,024	-	379,024	8,611,742	-
	Total General Government	603,636,146	-	-	-	42,178,260	15,299,207	108.50	57,477,467	661,113,613	108.50
Health and Human Services											
14410	Division of Central Management and Support	225,983,470	-	-	-	29,271,887	10,346,501	-	39,618,388	265,601,858	-
14411	Division of Aging and Adult Services	53,629,635	-	-	-	1,336,439	22,545	-	1,358,984	54,988,619	-
14420	Division of Child Development and Early Education	297,398,292	-	-	-	330,396,000	299,816,224	-	630,212,224	927,610,516	-
14430	Division of Public Health	138,215,527	-	-	-	12,743,446	1,472,312	81.00	14,215,758	152,431,285	81.00
14440	Division of Social Services	238,942,261	-	-	-	277,000	97,214	-	374,214	239,316,475	-
14445	Division of Health Benefits	5,787,435,949	-	-	-	1,001,702,321	-	20.00	910,248,461	6,697,684,410	20.00
14435	Division of Child & Family Well-being	60,558,254	-	-	-	17,592,000	151,862	1.00	17,743,862	78,302,116	1.00
14450	Division of Services for the Blind, Deaf and Hard of Hearing	9,489,592	-	-	-	1,146,610	34,722	-	1,181,332	10,670,924	-

**Table 3: Governor's Recommended General Fund Budget
2024-25 Adjustments**

Budget Code	Function	2024-25				2024-25				Net Position Change		
		Enacted Budget	Recurring	Nonrecurring	Positions	Recurring	Nonrecurring	Positions	Net Change		Recommended Net Appropriation	
		Decrease				Increase						
14460	Division of Mental Health/Developmental Disabilities/Substance Abuse Services	853,645,907	-	-	-	6,369,000	2,776,456	-	-	9,145,456	862,791,363	-
14470	Division of Health Services Regulation	25,691,577	-	-	20.00	2,540,871	280,610	-	-	2,821,481	28,513,058	20.00
14480	Division of Vocational Rehabilitation	44,172,882	-	-	-	3,782,390	151,696	-	-	3,934,086	48,106,968	-
	Total Health and Human Services	7,735,163,346	-	(91,453,860)	122.00	1,407,157,964	315,150,142	122.00	1,630,854,246	9,366,017,592	9,366,017,592	122.00
	Justice and Public Safety											
12000	Judicial Branch	778,917,942	-	-	29.00	34,723,412	12,912,165	-	-	47,635,577	826,553,519	29.00
12001	Judicial Branch - Indigent Defense	156,751,765	-	-	10.00	5,775,924	13,437,893	-	-	19,213,817	175,965,582	10.00
13600	Department of Justice	66,968,192	-	-	20.00	7,708,371	1,185,895	-	-	8,894,266	75,862,458	20.00
14550	Department of Public Safety	645,217,274	-	-	94.00	50,453,167	30,231,317	-	-	80,684,484	725,901,758	94.00
15010	Department of Adult Correction	2,046,002,926	-	-	-	72,378,000	40,558,252	-	-	112,936,252	2,158,939,178	-
15020	State Bureau of Investigation	49,960,339	-	-	9.00	5,666,154	854,000	-	-	6,520,154	56,480,493	9.00
	Total Justice and Public Safety	3,743,818,438	-	-	162.00	176,705,028	99,179,522	162.00	275,884,550	4,019,702,988	4,019,702,988	162.00
	Natural and Economic Resources											
13700	Department of Agriculture and Consumer Services	182,244,062	-	-	6.00	9,766,132	21,222,082	-	-	30,988,214	213,232,276	6.00
13800	Department of Labor	26,356,022	-	-	1.00	2,187,237	1,049,002	-	-	3,236,239	29,592,261	1.00
14300	Department of Environmental Quality	109,554,904	-	-	14.00	11,186,377	107,865,627	-	-	119,052,004	228,606,908	14.00
14350	Wildlife Resources Commission	16,730,640	-	-	1.00	2,525,880	598,787	-	-	3,124,667	19,855,307	1.00
14600	Department of Commerce	15,250,222	-	-	12.00	27,086,000	3,613,312	-	-	30,699,312	45,949,534	12.00
14601	Commerce - General State Aid	30,005,810	-	(1,500,000)	-	1,500,000	-	-	-	30,005,810	-	-
14602	Commerce - Economic Development	158,348,245	-	-	-	1,000,000	10,000,000	-	-	11,000,000	169,348,245	-
14800	Natural and Cultural Resources	281,690,918	-	-	31.00	17,000,331	70,105,701	-	-	87,106,032	368,796,950	31.00
	Total Natural and Economic Resources	820,180,823	-	(1,500,000)	65.00	72,251,957	214,454,511	65.00	285,206,468	1,105,387,291	1,105,387,291	65.00
	Debt Service											
19420	General Debt Service	-	-	-	-	-	-	-	-	-	-	-
	Total Debt Service	-	-	-	-	-	-	-	-	-	-	-
	Reserves and Other Adjustments											
19xxx	Reserves and Other Adjustments	117,743,582	(468,171)	-	-	-	4,750,000	-	-	4,281,829	122,025,411	-
	Total Reserves and Other Adjustments	117,743,582	(468,171)	-	-	-	4,750,000	-	4,281,829	122,025,411	-	-
	Direct Capital Appropriation											
	Total Direct Capital Appropriation	-	-	-	-	-	-	-	-	-	-	-
	Total	30,902,650,283	(468,171)	(92,953,860)	-	2,521,187,823	1,216,151,135	490.50	3,643,916,927	34,546,567,210	34,546,567,210	490.50

**Table 4: Highway Fund and Highway Trust Fund Budget
2024-25 Adjustments**

Function	2024-25 Base		Decreases Net		Increases Net		Net Change	2024-25 Recommended Net Appropriation	Net Position Change
	Appropriation	Positions	Net Recurring	Nonrecurring	Net Recurring	Nonrecurring			
Highway Fund									
DOT Administration	122,151,146	-	-	-	20,971,865	4,500,000	4.00	147,623,011	4.00
Division of Highways									
Administration	40,389,207	-	-	-	-	-	2.00	40,389,207	2.00
Construction	77,543,078	-	-	-	-	-	-	77,543,078	-
Maintenance	\$1,776,047,972	-	-	-	401,503,110	-	-	2,177,551,082	-
Planning and Research	-	-	-	-	-	-	-	-	-
OSHA Program	358,030	-	-	-	-	-	-	358,030	-
Total Division of Highways	1,894,338,287	-	-	-	401,503,110	-	2.00	2,295,841,397	2.00
State Aid to Municipalities	154,875,000	-	-	-	31,000,000	-	-	185,875,000	-
Multi-Modal									
Airports	160,274,429	-	-	-	-	-	-	160,274,429	-
Bicycle	-	-	-	-	10,000,000	-	-	10,000,000	-
Ferry	58,614,849	-	-	-	12,640,000	5,675,000	-	76,929,849	-
Public Transportation	69,510,286	-	-	-	3,000,000	-	-	72,510,286	-
Railroads	45,299,938	-	-	-	10,000,000	-	-	55,299,938	-
Total Multi-Modal	333,699,502	-	-	-	35,640,000	5,675,000	-	375,014,502	-
Governor's Highway Safety Program	324,111	-	-	-	289,280	-	-	613,391	-
Division of Motor Vehicles	163,796,614	-	(19,220,000)	-	2,161,282	2,428,000	20.00	149,165,896	20.00
Other State Agencies	16,961,164	-	-	-	223,751	-	-	17,184,915	-
Transfer to General Fund	-	-	-	-	-	-	-	-	-
Other Reserves	5,471,434	-	-	-	40,694,591	21,498,000	-	67,664,025	-
Capital Improvements	-	-	-	-	-	43,571,863	-	43,571,863	-
Total Highway Fund	2,691,617,258	(19,220,000)	-	-	532,483,879	77,672,863	26.00	3,282,554,000	26.00
Highway Trust Fund									
Administration	42,184,023	-	-	-	225,278	-	-	42,409,301	-
Construction									
Strategic Prioritization Program	\$2,187,651,914	-	(126,950,556)	-	-	-	-	2,060,701,358	-
Intrastate System	-	-	-	-	-	-	-	-	-
Urban Loop System	-	-	-	-	-	-	-	-	-
Secondary Roads	-	-	-	-	-	-	-	-	-
Total Construction	2,187,651,914	(127,050,556)	-	-	-	-	-	2,060,601,358	-
State Aid to Municipalities	-	-	-	-	-	-	-	-	-
Bonds									
Bond Redemption	72,930,000	-	-	-	-	-	-	72,930,000	-
Bond Interest	48,506,775	-	-	-	-	-	-	48,506,775	-
Total Bonds	121,436,775	-	-	-	-	-	-	121,436,775	-
NC Turnpike Authority	49,000,000	-	-	-	-	-	-	49,000,000	-
Transfer to Ports	45,000,000	-	-	-	-	-	-	45,000,000	-
NC Mobility Fund	-	-	-	-	-	-	-	-	-
Transfer to Visitor's Centers	640,000	-	-	-	-	-	-	640,000	-
Uncommitted Trust Fund Admin	58,566	-	-	-	-	-	-	58,566	-
Total Highway Trust Fund	2,445,971,278	(126,950,556)	-	-	225,278	-	-	2,319,146,000	-

Economic Outlook

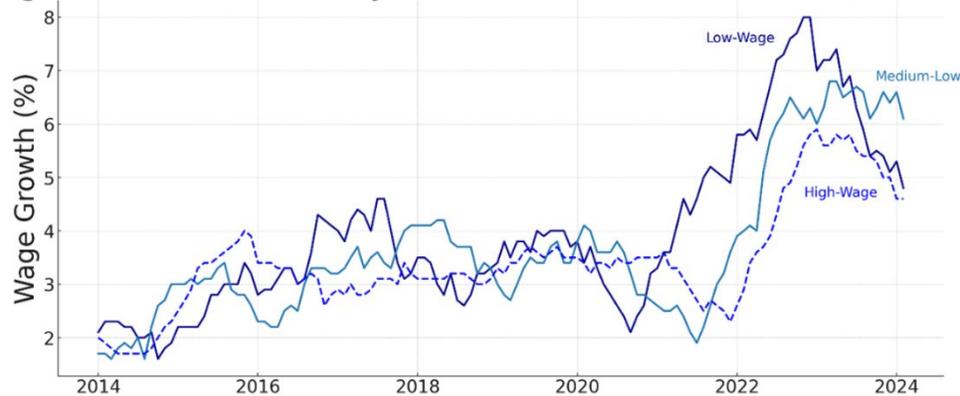
Economy Remains Resilient

The labor market remains steady both nationally and within North Carolina, while inflation has decelerated notably throughout the last year. These trends and the resulting economic growth have slightly exceeded expectations from last spring. Our baseline economic outlook reflects a “soft landing,” where inflation gradually decreases to the Federal Reserve’s 2% target without disrupting economic growth and employment gains. However, significant uncertainty remains around inflation and labor market trends going forward.

Pandemic and Recovery Wage Growth: Robust Recovery for Lower Wage Workers

Wage growth during the COVID-19 pandemic initially fell but then rose to levels not experienced in decades before trending lower starting in the middle of 2022. The early pandemic wage trends, with a growth slowdown for lower-wage workers and steady growth for higher-wage counterparts, reversed from mid-2021 through the end of 2022. While the lowest-wage workers saw the highest wage growth in 2022, by the end of 2023, the wage growth rates had stabilized and were similar across all wage groups.

Wage Growth Over Time by Income Level in the South Atlantic Region



Source: OSBM analysis of Federal Reserve Bank of Atlanta data, accessed 4/1/2024
Notes: "Low-wage" wage growth is the median year-over-year wage growth for workers with hourly earnings in the bottom quartile. "Lower-middle" is median wage growth for the second quartile, and "high-wage" is median wage growth for workers with earnings in the top half.

In the Southeast, wage growth by income level has not been on par with national trends in recent years. Wage growth at the start of the pandemic was around 3.5% both nationally and in the Southeast. Workers in the Southeast with below-average wages experienced a more pronounced slowdown in wage growth versus comparable workers in other parts of the country. Lower-wage workers in the Southeast also experienced a faster and stronger rebound than other workers. This is likely a result of the hospitality and transportation sectors seeing larger increases in wage growth in the Southeast compared to the nation.

As of the beginning of 2024, with job growth slowing and inflation easing across the U.S., national wage-growth rates for all income levels are dipping but remain well above pre-pandemic levels. In the Southeast, however, lower-middle-wage workers have yet to see a slowdown in wage growth.

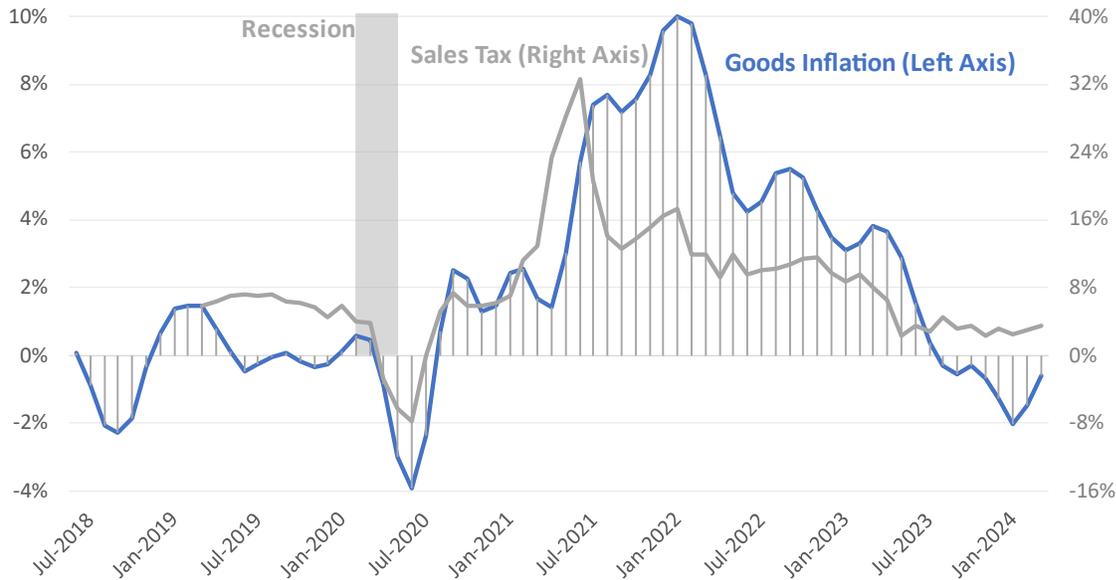
Goods Inflation is No Longer Boosting Sales Tax Revenues

Year-over-year growth in inflation, as measured by the Consumer Price Index (CPI), fell to 3.0% in 2023 from the 9.1% peak it hit in June 2022 and has hovered between 3.0% and 3.7% since. Core inflation, which excludes changes in volatile food and energy prices, peaked at 6.6% in September 2022 and has trended downward to 3.8% as of February 2024.

The rise in goods inflation, as shown in the chart below, provided a significant boost to state and local sales tax revenue from the middle of 2021 until early 2023. Improving supply chains and falling input prices have begun to modestly reverse a portion of the pandemic-era price increases for taxable goods. This has also slowed the growth of state and local sales tax revenues. With pandemic-era goods inflation in the rearview mirror, price increases for services not subject to sales taxes—especially housing—have been the primary factor keeping inflation above pre-pandemic levels.

Goods Inflation No Longer Boosting Sales Tax Revenues

Blue: Consumer price index for commodities less food, energy, and used vehicles, 3-month moving average annualized rate
 Grey: Year-over-year percent change in gross sales tax collections, 3-month moving average



Sources: Bureau of Labor Statistics, Accessed 4/10/2024; Department of Revenue

Risks to the Economic Forecast

Over the last year, inflation has steadily decelerated while economic growth and employment have remained robust, but the path ahead remains uncertain. Looking through the end of the biennium, one of three potential scenarios is likely: no landing, hard landing, and soft landing.

In the case of a “no landing” scenario, where economic and employment growth do not decline and interest rates remain elevated, rising prices and persistent demand would result in higher-than-expected revenue collections. A “hard landing,” where interest rates decrease but economic and employment growth falter, would result in an economic slowdown or outright recession and lower-than-expected revenue collections.

Many economic forecasts, including those of the Federal Reserve and large private investment banks, point to a “soft landing,” where price increases ebb even as the economy continues growing, as the likeliest outcome. However, geopolitical risk and resulting supply-chain disruptions represent moderate risk to the economy. The closure of the Port of Baltimore due to the collapse of the Key Bridge, low water levels in the Panama Canal, and security risks around the Suez Canal are just a few examples of recent supply-chain disruptions that could raise prices and reduce the availability of some goods.

Major elections across the world in 2024, particularly in the U.S. and key U.S. trading partners like Mexico and the U.K., will also factor into global economic policy, with potential impacts on private investment and international trade.

A Longer View: From Clothes to Cars, North Carolina’s Manufacturing Evolution

Throughout much of the 20th Century, the textile and furniture industries powered boomtown-like growth of manufacturing centers like Greensboro and Hickory. Even today, more than 24,000 North Carolinians work at nearly 400 textile manufacturing establishments throughout the state, representing a quarter of this sector’s entire U.S. workforce.¹

Now North Carolina is transitioning to a new era of manufacturing. Cars, particularly electric vehicles (EVs), are poised to drive the state’s manufacturing job growth. Companies have announced a total of \$19.2 billion in EV or battery manufacturing project investments in North Carolina, placing the state behind only Georgia (\$31.2B) and Michigan (\$20.4B).² Combining the “battery-belt” states of Georgia, North Carolina, and South Carolina, total announced investment exceeds \$63 billion. Even if only half of this investment occurs, the scale of these announcements, along with likely secondary investments from EV manufacturer suppliers, signals North Carolina’s manufacturing economy will change profoundly in the years to come.

¹ Sharp, Sara and Sarah Stone. 2021. *Exploring the Textile Economy: North Carolina Leads Nation in Textile Manufacturing* [Blog]. North Carolina State University Wilson College of Textiles.

² Environmental Defense Fund, March 2024. *U.S. Electric Vehicle Manufacturing Investments and Jobs: Characterizing the Impacts of the Inflation Reduction Act after 18 Months*.

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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 (FRD) issued a revised consensus revenue forecast for the 2023-25 biennium on April 17, 2024. The revised forecast includes a modest upward revision to collections in the current fiscal year (FY 2023-24) and a moderate upward revision in the next fiscal year (FY 2024-25).

Current Year Revenue

The revised forecast projects net General Fund revenue of \$34.14 billion in FY 2023-24, an upward revision of \$413 million (1.2%) from certified revenues and a 1.8% increase over FY 2022-23 revenues. Most of this year's anticipated overcollections are the result of economic growth proving more resilient than anticipated at the time of the last consensus forecast in May 2023. That forecast assumed a significant economic slowdown that has not occurred and shows no signs of being imminent. This year's stronger economy has fueled higher collections from individual income taxes (+\$438 million) and sales and use tax (+\$179 million), which together account for more than all of the anticipated overcollections.

Outlook for Fiscal Year 2024-25

For FY 2024-25, the revised forecast, adjusted for the Governor's recommended revenue changes and other adjustments to nontax revenues, anticipates net General Fund revenue of \$34.76 billion, an increase of \$1.4 billion (4.2%) from certified revenues and an 1.8% increase from FY 2023-24 revenues. The April 2024 economic forecast anticipates a so-called "soft landing," with inflation gradually cooling toward the Federal Reserve's 2% target while the economy continues to grow. That contrasts with the economic forecast underlying the May 2023 consensus forecast, which assumed a "slowcession" characterized by stagnant economic growth in late 2023 and much of 2024. The resilience of the economy despite headwinds from higher interest rates accounts for most of the upward revision to the consensus revenue forecast.

Growth in General Fund revenues in the budget recommendation is \$375.5 million higher than in the April 2024 consensus due to recommended revenue changes that increase revenue compared to current law by maintaining the corporate income and top individual income tax rates at 2024 levels and maintaining the Highway Fund/Highway Trust Fund sales tax transfer at 4%.

Recommended Revenue Changes

Individual Income Tax Reduction Fairness by Maintaining 4.5% Rate for Higher Incomes

The Governor recommends implementing a two-tiered income tax bracket at the \$200,000 threshold for married couples filing jointly (and 50% and 75% of this level for single filers and head of household filers, respectively). Income below these levels would be taxed at 4.25% in 2025 and 3.99% in 2026, while the current 4.5% tax rate—down from 4.75% in 2023— would continue to apply to income above the

thresholds. This change would raise \$126.9 million in FY 2024-25. North Carolina’s income tax rates would remain among the lowest in the Southeast among states that have an individual income tax.

Maintain the Corporate Tax Rate at 2.5%

The Governor also recommends maintaining the corporate income tax rate at 2.5%. This would raise \$74.2 million in FY 2024-25 and support growth in General Fund revenues in the years beyond the biennium. North Carolina already has the lowest corporate income tax rate among all states with a corporate income tax, and decreasing the tax rate further would mostly benefit large, multinational corporations.

Maintain the Sales Tax Transfer to Transportation at 4%

The Governor recommends maintaining the sales tax transfer from the General Fund to the Highway Fund and Highway Trust Fund at the FY 2023-24 level of 4% of revenues. This change increases General Fund revenues by \$236.9 million in FY 2024-25 compared to current law.

Refundable Child and Dependent Care Credit

The Governor recommends providing a refundable child and dependent care tax credit for families for eligible care expenses. Making the credit refundable will enable families to access the full benefit of the credit even if it exceeds their state income tax liability. The credit is equal to 50% of the federal credit for families with incomes up to \$150,000 if married and filing jointly and \$112,500 if filing as head of household. The credit phases out for married couples with incomes above \$200,000 and heads of household with incomes above \$150,000. This change decreases General Fund revenues by \$57.8 million in 2024-25.

Conservation Tax Credit

The Governor recommends providing a non-refundable tax credit equal to 25% of the value of land donated for eligible conservation purposes, with a cap of \$250,000 for individuals and \$500,000 for couples and businesses. This change decreases General Fund revenues by \$4.7 million in FY 2024-25. The revenue impact would rise to an estimated \$39 million in FY 2028-29.

General Fund Revenue by Fiscal Year: Recent History and Recommended Changes (\$M)*

Amounts in Millions	2022-23	2023-24			2024-25		
	Actual	Budget	Revised	Change	Budget	Revised	Change
Individual Income	16,762.5	16,583.7	17,021.6	437.9	16,280.8	17,048.5	767.7
Sales and Use	10,801.2	10,749.4	10,928.6	179.2	10,776.3	11,273.3	497.0
Corporate Income & Franchise	2,482.9	2,428.3	2,265.4	-162.9	2,381.2	2,396.6	15.4
All Other Taxes	2,136.4	2,241.3	2,286.9	45.6	2,446.4	2,436.1	-10.3
Total Tax Revenue	32,182.9	32,002.7	32,502.5	499.8	31,884.7	33,154.5	1,269.8
Total Nontax Revenue	1,352.5	1,722.9	1,636.3	-86.6	1,480.9	1,609.6	128.7
Total General Fund Revenue	33,535.4	33,725.7	34,138.8	413.1	33,365.5	34,764.1	1,398.6

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

Highway Fund and Highway Trust Fund Revenue Forecast

The largest overall revenue source for the Highway Fund and Highway Trust Fund, comprising approximately half of the total revenue, is the state excise tax on motor fuels. Both funds also receive revenue from Division of Motor Vehicle (DMV) licenses and fees, interest earned on investments of the fund's cash balances, and a transfer of a portion of the state's general sales and use tax. Additionally, the Highway Trust Fund receives all the revenue from the Highway Use Tax (i.e., sales tax on new and used vehicles sold or transferred).

Current Year Revenue

The revised consensus forecast for FY 2023-24 anticipates total Highway Fund and Highway Trust Fund revenue at \$5.27 billion (9.1% above FY 2022-23). The consensus has Highway Fund revenues finishing this year at \$3.03 billion, 1.2% above FY 2022-23 revenues and \$64 million (+2.1%) above budget. Highway Trust Fund revenues are expected to total \$2.24 billion in the current year, an increase of 21.8% over last year and 1.9% (\$43 million) higher than budgeted revenues due mostly to higher than anticipated motor fuel and sales tax transfer revenues.

SL 2022-74 transferred 2%, or \$205.5 million, of General Fund sales tax revenues to the Highway Fund in FY 2022-23. This transfer increased to 4% in FY 2023-24 (split 1% and 3% between the Highway Fund and Highway Trust Fund, respectively).

Revenue Outlook for 2025

Total Highway Fund revenue is expected to grow considerably in FY 2024-25 due primarily to higher DMV revenue resulting from the quadrennial DMV fee inflation adjustment required by SL 2015-241. (Most fees will go up by 19.2% in July 2024). The forecast also projects higher motor fuel tax, short-term lease tax, investment income, and sales tax transfer revenue in FY 2024-25. Overall, Highway Fund revenue is expected to increase by 6.1% in FY 2024-25.

The forecast anticipates total Highway Trust Fund revenue to increase by 2.1% in FY 2024-25. This increase is due primarily to growth in Highway Use Tax collections as consumers continue to take advantage of cooling prices to replace their aging cars. The quadrennial inflation adjustment for DMV fees discussed above will also result in a significant increase in revenue relative to FY 2023-24.

Two major trends provide uncertainty for future transportation revenue. In the near-term, most economic forecasts suggest new and used auto prices will continue to cool throughout FY 2024-25. One consequence of high vehicle prices during the pandemic era is that many consumers delayed purchasing a new vehicle. As auto prices continue to stabilize, more consumers will likely enter the market for a new vehicle. The extent to which consumers will satisfy this pent-up demand, however, is uncertain.

Technological advancements in recent decades and rules limiting vehicle emissions have led to gradual improvements in fuel economy since 2005.¹ Widespread adoption of vehicle electrification, spurred by rapid innovation in battery technology and manufacturing and stricter tailpipe emissions rules set to take effect in 2027, will accelerate the trend toward greater efficiency in the coming years. This trend

¹ US Environmental Protection Agency. Automotive Trends Report – 2023. <https://www.epa.gov/automotive-trends/highlights-automotive-trends-report>

will reduce motor fuel consumption and tax revenue while simultaneously increasing revenue from annual fees on electric vehicles and plug-in hybrid vehicles.

Recommended Revenue Changes

The Governor recommends maintaining the sales tax transfer from the General Fund to the Highway Fund at 4% for FY 2024-25. For the Highway Fund and the Highway Trust Fund, the recommended change represents lower availability in FY 2024-25 of \$59.2 million and \$177.7 million, respectively.

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

	2022-23	2023-24			2024-25		
	Actual	Budget	Revised	Change	Budget	Revised	Change
Highway Fund							
Motor Fuels Taxes**	1,752.8	1,791.9	1,816.5	1%	1,802.7	1,836.2	2%
Highway Short Term Lease	106.5	116.7	110.9	-5%	121.5	118.8	-2%
Licenses and Fees	886.3	897.8	914.0	2%	1,059.1	1,077.7	2%
Investment Income	32.0	40.7	60.8	49%	35.7	52.4	47%
Aviation Fuel Tax	11.3	13.3	13.2	-1%	13.9	12.0	-14%
Transfers from General Fund***	205.5	106.2	114.7	8%	162.7	118.5	-27%
Total Highway Fund Availability	2,994.3	2,966.6	3,030.1	2%	3,195.6	3,215.6	1%
Highway Trust Fund							
Highway Use Tax	1,079.5	1,112.4	1,112.4	0%	1,160.8	1,131.4	-3%
Motor Fuels Tax	591.7	598.9	607.4	1%	602.5	613.9	2%
Title Fees & Lien	147.8	140.6	146.8	4%	168.9	169.0	0%
Transfers from General Fund***	-	318.4	344.2	8%	488.2	355.3	-27%
Investment Income	21.0	28.9	31.2	8%	25.3	20.2	-20%
Total Trust Fund Availability	1,840.1	2,199.2	2,242.0	2%	2,445.7	2,289.8	-6%
Total HF & HTF Availability	4,834.4	5,165.8	5,272.1	2%	5,641.3	5,505.4	-2%

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

**Includes Gas Inspection and Highway Usage Registration.

***Estimated transfer based on Governor's proposal.

Population Dynamics

North Carolina on track to become 7th largest state in the nation

North Carolina's [strong population growth continues](#). Since 2020, the state's population has grown by 396,000 people—equivalent to adding the population of Forsyth County. This population growth was surpassed by gains in only two other states: Florida and Texas. If these trends continue, then North Carolina will likely [become the 7th largest state](#) in the nation by the early 2030s, surpassing the populations of Georgia and Ohio.

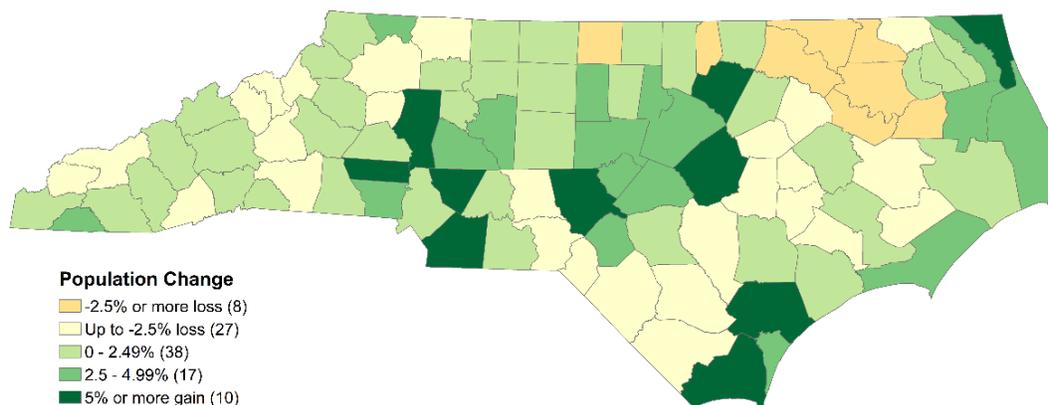
Between 2022 and 2023, North Carolina added 140,000 people (1.3%), mostly through migration. During this period, 97,000 more people moved to North Carolina from other states than those who moved away, and 29,000 more people moved to the state from other nations than moved abroad. An aging population, combined with low fertility rates, means future population growth will depend almost exclusively on [migration](#).

The State Demographer's latest [population projections](#) predict an increase of 132,000 people over the remaining year of this biennium, an equivalent of adding population slightly larger than the population of Wilmington. By July 1, 2025, an estimated **11.1 million people** will be living in North Carolina.¹

Urban and rural counties growing

The State Demographer's latest [population estimates](#) revealed that 78 counties grew between 2021 and 2022.² So far this decade, North Carolina's population growth has been more broadly distributed throughout the state than in the previous decade. Between April 1, 2020, and July 1, 2022, Wake and Mecklenburg Counties accounted for 26% of North Carolina's population growth, compared to 47% in the previous decade. Johnston, Brunswick, Cabarrus, Union, and Iredell Counties accounted for another 26%. The remaining 48% of the state's population growth occurred in 58 counties located in all regions of the state.

County Population Change, 2020-2022



Source: NC OSBM, Population Estimates, Vintage 2022

¹ North Carolina Office of State Budget & Management Population Projections, Vintage 2023

² North Carolina Office of State Budget & Management Population Estimates, Vintage 2022

Early and school age populations will begin to grow steadily

Fertility rates have remained low but relatively stable since about 2012, after last peaking in 2007.³ This, along with slower growth in the population aged 25 to 44, resulted in little to no growth in the [childhood population](#) over the last several years. By 2025, there will be 1.67 million school-age children (aged 5 to 17) – virtually unchanged since 2020. In contrast, the early childhood age population (from birth to age 4) will increase to 611,000 by July 1, 2025, representing a 3% increase since 2020. The State Demographer projects the early-childhood population to experience steady growth during the latter part of this decade. By 2030, there will be 656,000 children aged 0 to 4 and 1.68 million children aged 5 to 17, an increase of 7% and 1% respectively.

Unlike the school-age population, the young-adult population, aged 18 to 24, experienced steady growth over the course of the past decade, primarily due to the rapid growth in the childhood population that occurred in the 2000s. By the end of the 2023-25 biennium, there are projected to be 1.09 million people in this age group, representing an increase of 58,000 (5%) since 2020.

Labor force impacted by slow growing working age population

Changes in the age structure of the population will affect the age distribution of the state’s labor force. In 2024, for every person approaching retirement ages (ages 60 to 64), there were 1.1 people entering into the primary working ages (ages 20 to 24). This compares to 1.8 in 2000 and 2.3 in 1970. Overall, the population in the prime working ages (ages 25 to 64) is increasing at a slower rate than the total population between 2020 and 2025 (a 5.0% projected increase compared to 6.1% increase in total population), and this trend will continue between 2025 and 2030 (a 4.9% increase compared to 5.6%).

The number of older workers (ages 45 to 64) will increase more slowly than that of younger workers (age 25 to 44) – impacted by the fact that every year more than 120,000 North Carolina Baby Boomers will age out of that older working-age group. Between 2020 and 2025, the number of older working-age adults will increase by 3.1% and the number of younger working-age adults will increase by 6.9%. Similarly, between 2025 and 2030, these two age groups will increase in size by 3.5% and 6.2% respectively.

Population aging continues

The older adult population (age 65+) is increasing at a rate more than double that of the total population, primarily due to aging North Carolinians but also due to [retirees moving](#) to the state. At the end of the 2023-25 biennium, an expected 2.1 million older adults will be living in North Carolina, an increase of 289,000 people (16%) since 2020. By the end of this decade, [1 in 5 North Carolinians](#) will be at least 65 years old. Increases in the older population will increase demand for healthcare, social, transportation, and other services.

³ With a brief drop at the beginning of the COVID-19 pandemic.