

42nd Annual State Construction Conference

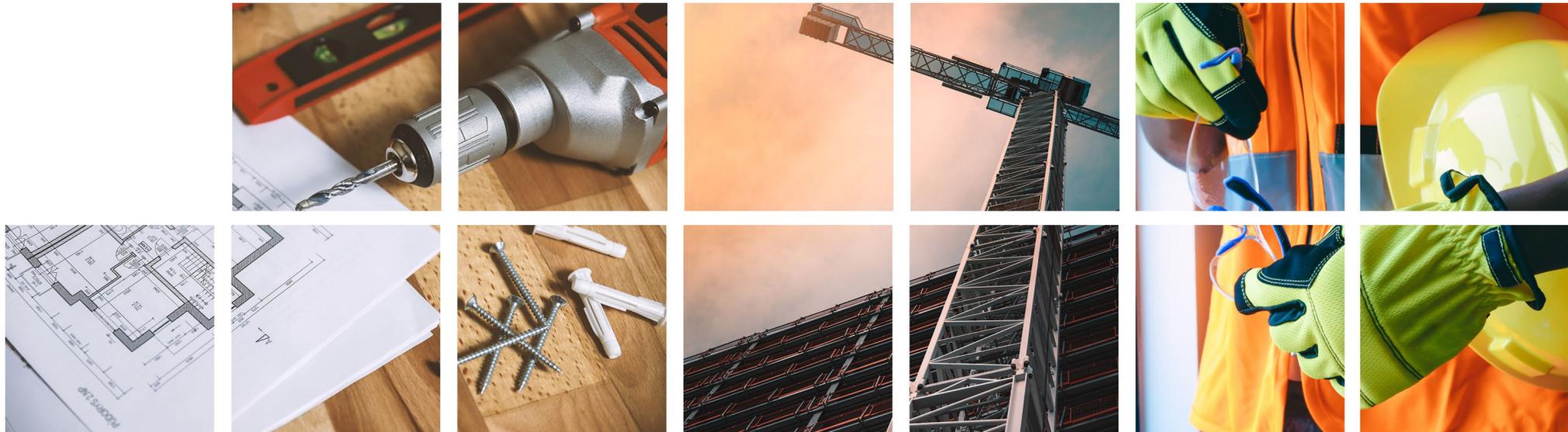
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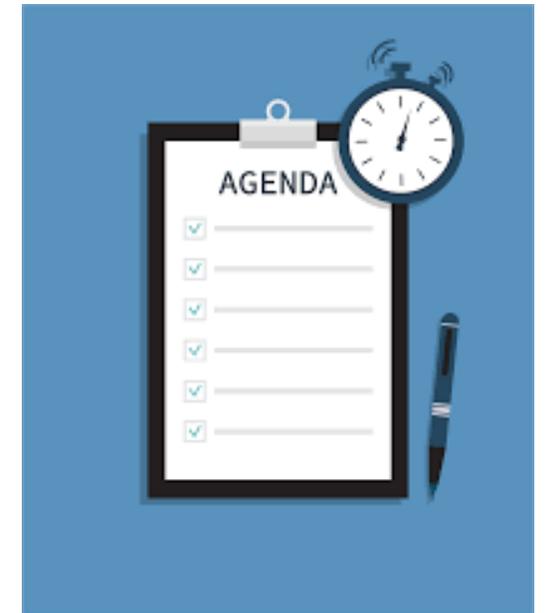
State Capital Funding: Background to 2023-25 Budget

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Agenda

1. State revenue forecast and potential impact on funding available for capital investment
2. Budget process and outline timeframe for 2023-25 budget
3. Brief overview – how state capital funding works
4. Review of recent state capital funding trends



Inflation Concerns Outweigh Strong Job Market

Strong Job Market

- January 2023 unemployment rate of 3.4% lowest since 1969
- Nearly two job openings per unemployed person in December
- Workers wages were up 5.1% in December versus one year ago

Inflation Concerns

- More than 80% of Americans rate the economy as fair or poor¹
- Inflation remains a top concern despite recent easing

1. January 2023 Gallup Poll



North Carolina Economy Outpacing Rest of US

- Job Growth Since December 2019
 - North Carolina +5.3%
 - US +1.8%
- Wage and Salary Income Since 2019 Q4
 - North Carolina +23.4%
 - US +19.9%
- Real GDP Since 2019 Q4
 - North Carolina +7.8%
 - US +4.4%



General Fund Revenue Forecast

- Collections for FY 2022-23 projected to surpass forecast by \$3.25 billion, or 10.7%.
- Forecast anticipates revenues declining slightly over the biennium

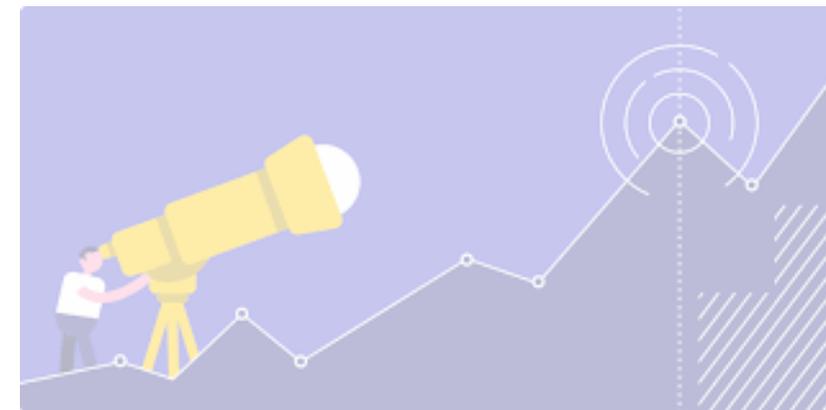
February 2023 General Fund Consensus Revenue Forecast (\$ in millions)

Fiscal Year	Revenue	Change from Prior Year (\$)	Change from Prior Year (%)
2022-23	\$33,760.2	\$551.5	+1.7%
2023-24	\$33,706.4	(\$53.8)	-0.2%
2024-25	\$33,648.3	(\$58.1)	-0.2%

Source: North Carolina General Fund Revenue Consensus Forecast, February 20, 2023

Key forecast drivers

- While recession remains a downside risk, forecast expects a ‘slowcession’, driven by Fed’s efforts to combat persistent inflation.
- Expect stagnant growth in 2023, followed by slower-than-average growth for rest of biennium.
- While baseline revenue expected to grow during biennium, lower tax rates / adjustments will reduce revenue.



Budget process & timeline

- 2023 is Long Session: budget for both 2023-24 and 2024-25
- Governor's Budget: Mid-March
- NC House & Senate Bills
- Budget Conference
- Budget certification July / August
- Fall: allocation of repairs & renovations funds (R&R) to state agencies



Capital - background

- Capital improvement are:
 - Real property acquisition,
 - New construction or rehabilitation, and
 - Repairs and renovations (R&R) over \$100,000 in value.
- State owns properties of both State agencies and UNC System.
- Local Education Authorities and Community College own local properties.
- Properties can vary in purpose, from offices in downtown Raleigh to classrooms / labs on UNC System campuses to small research stations or local offices scattered throughout the state.
- General Assembly funds capital and R&R for General Fund-supported buildings, both new and existing, through appropriations from the General Fund or with debt (e.g. Connect NC Bond) serviced by the General Fund.

State Capital & Infrastructure Fund (SCIF)

- In the 2017 long session, the General Assembly established the State Capital and Infrastructure Fund (SCIF), effective July 1, 2019.
- The intention was to change the State's established practice of funding capital by either:
 - 1) Funding 100% of a capital project up front; or
 - 2) Issuing debt for the project.
- The SCIF implements a “pay-as-you-go” capital funding policy to cash flow capital projects, where projects would be paid for over several years as funds are needed.
- Ex. Project A has a total construction cost = \$100M
 - FY 2021-22 Appropriation = \$15M
 - FY 2022-23 Appropriation = \$30M
 - FY 2023-24 Appropriation = \$30M
 - FY 2024-25 Appropriation = \$25M



SCIF funding levels

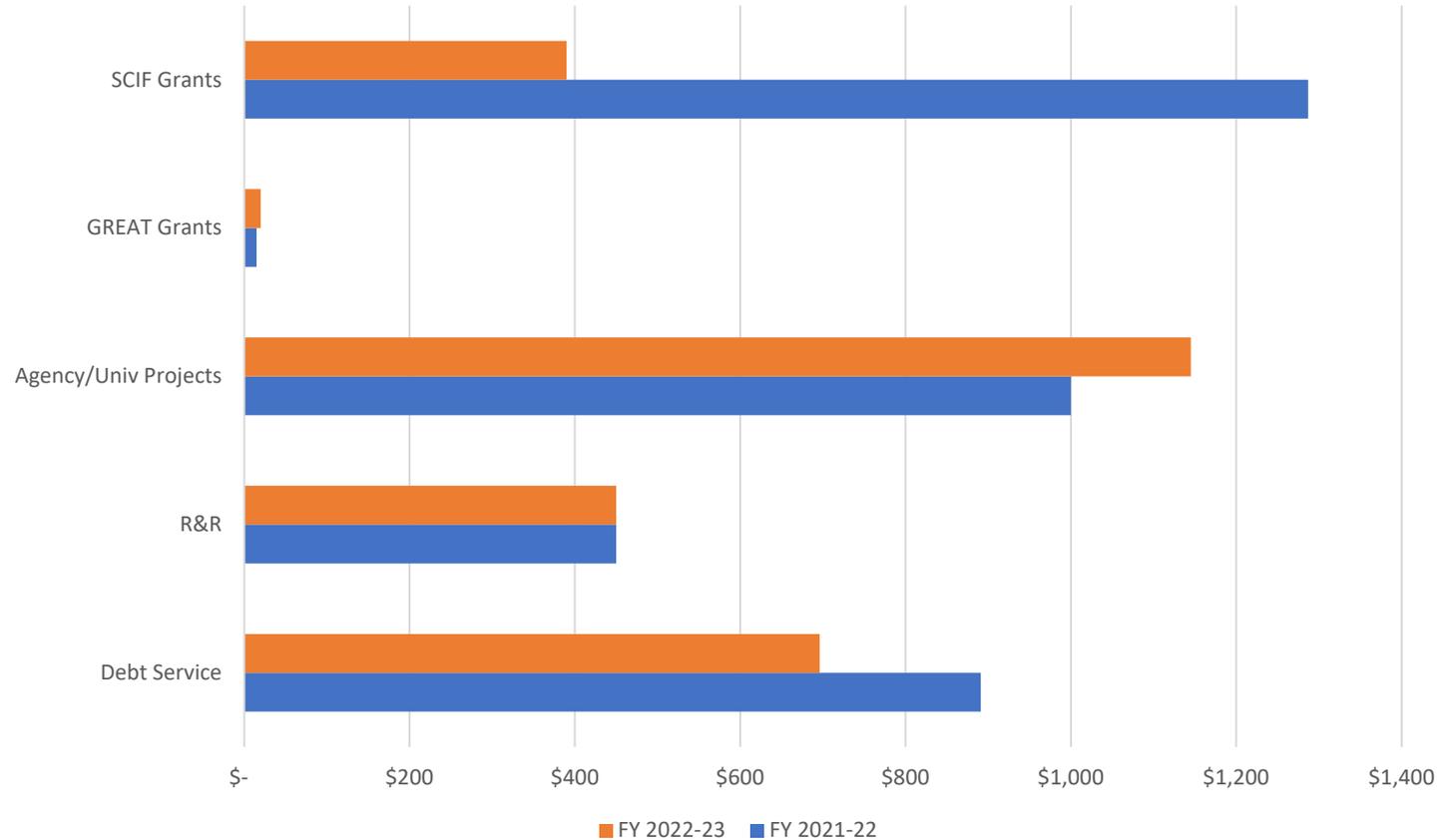
- 2021 Appropriations Act anticipates annual SCIF funding as follows:

FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
\$1.3 billion	\$1.35 billion	\$1.4 billion	\$1.45 billion	\$1.1 billion

- FY 2025-26 amount will then increase annually by 3.5% thereafter.
- Substantial additional funding in 2021-22 (\$2.34 billion) and 2022-23 (\$1.8 billion).

SCIF Capital Funding in 2021-23 biennium

SCIF Funding Distribution, FY 21-23, \$ millions



	FY 2021-22	FY 2022-23
Debt Service	\$ 891	\$ 696
R&R	\$ 450	\$ 450
Agency / Univ Projects	\$ 1,000	\$ 1,145
GREAT Grants	\$ 15	\$ 20
SCIF Grants	\$ 1,287	\$ 390
Total	\$ 3,643	\$ 2,701



2023-25 Budget

- First call on funds: debt service and existing projects – c. \$1 billion in 2023-24, \$800 million in 2024-25.
- Backlog of Repairs & Renovations at both UNC and State Agencies, and Community Colleges scheduled to receive \$100 million in each year.
- While more one-time funds forecasted, decision-makers must balance capital requests with other needs, e.g. health and education



Governor's Priorities



Positioning North Carolina to create new jobs and foster economic growth and recovery



Strengthening education and workforce development to prepare students and jobseekers for jobs today and tomorrow



Promoting healthier, safer communities



Advancing equity



Ensuring effective, accountable, well-run state government

Questions?



