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Rep. Larry D. Hall

NC House 29th District

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Majority Whip

The Raleigh Report

From the Office of Representative Larry D. Hall

March 11, 2010

This week, I would like to take the time to talk to you a little bit about one of our most important interim commissions, the Joint Legislative Commission on Governmental Operations. The commission was created in 1975 to provide ongoing legislative examination and review between legislative sessions. Various general statutes and session laws also require state agencies and other entities to consult with the commission before taking action on a particular issue or to submit reports for its review.

The Commission is chaired by the leaders of both the House and the Senate: House Speaker Joe Hackney and Senator Pro-Tem Marc Basnight, respectively.

The Joint Legislative Commission on Governmental Operations has met twice since the legislative session adjourned in August, once in November and once in January. The following information highlights just some of the important issues they have considered recently.

Thank you as always for your interest in state government. If you have any questions about this information or anything else that I can help with, please contact me. I am always glad to be of service.

Revenue Outlook and Economic Report - Revenues through January are \$35 million short of forecast.

_ The General Fund revenue for the first half of the fiscal year came in about \$35 million below the \$11 billion target for the period. So far, collections are running just below expectations. The weak economy continues to affect consumer spending, and in turn, the state's economy-based taxes. Revenue forecast assumptions anticipated slow economic growth with a gradual improvement during the second-half of the fiscal year.

_ Budget pressures will continue to mount as prolonged weaknesses in the economy affect revenue collections the remainder of the fiscal year. At this stage of economic recovery, economic signals remain mixed, yet most economists believe a sustainable recovery is underway.

- Sales tax collections have been slow to recover. Our economists say that with continued employment uncertainty, cautious consumer behavior is likely to continue.

_ The expected slower job and wage growth will delay the growth of income tax withholding. The 2009-10 forecast envisioned zero growth for withholding for the year, but positive improvement was expected the last quarter.

_ Even though our economists like most others, are pessimistic about a full recovery in 2010, a cautious budgeting approach will help reduce the harm.

_ The overall economy is in much better shape than a year ago. Nonetheless, recession-like conditions will be with us for a while longer.

Medicaid - About 49 percent of the state's Medicaid budget had been spent through December 1, 2009. Year-to-date Medicaid expenditures reflect an increase of 8.8 percent compared to the same period last year. Currently, the Department of Health and Human Services is working to reduce expenditures in a time that the program is experiencing substantial growth.

_ Medicaid enrollment growth was budgeted at 8.44 percent, but actual enrollment growth is now projected at about 9.8 percent. This means that the average enrollment is projected to exceed 18,000 individuals more than budgeted.

_ The average Medicaid enrollee is using 4 percent more Medicaid services than budgeted.

_ Projections indicate that these enrollment and consumption trends could require \$72 million more state dollars than budgeted (\$285 million total dollars).

_ Based upon current experience with flu-related treatment of Medicaid enrollees, projections indicate that H1N1 may cost the Medicaid program \$13 million more state dollars than budgeted (\$52 million total dollars).

_ The size of the proposed Medicaid budget cuts is unprecedented in North Carolina, and trying to meet these lower budget targets while also seeing a significant increase in demand for services

substantially complicates the efforts. The department is trying to accomplish the budget reductions in a manner that limits damage to the state's health care delivery system and avoids the loss of access to critical services.

Federal Funds - Corina Eckl, Fiscal Program Director with the National Conference of State Legislatures, reported to the Joint Commission on Governmental Operations the fiscal conditions of the states remain dire. Twenty-one states reported a pessimistic outlook on 2010 revenues. Florida, for example, reports that annual revenues today compare to 2001 levels and are not expected to return to peak levels until 2013. Colorado has a similar experience in that annual revenues are no more than amounts collected in 2005.

_States used a variety of methods to close their budget gaps, including spending cuts, federal funds, tapping rainy day and other funds, and revenue increases. Some states like Arizona cut as little as 4 percent of their expenditures while North Carolina cut 36 percent of expenditures. ARRA funds were used at varying amounts as well. Texas bridged 97 percent of its budget gap through ARRA fund while North Carolina closed its budget gap by 31 percent through the use of ARRA funds.

_Forty-four states experienced a budget gap in FY 2009, and 46 states had a gap in FY 2010 before the budget was adopted. States collectively experienced budget gaps of \$263.8 billion from 2002-2006. The current recession, including projections through 2012, reflect budget gaps of \$386.8 billion.

_State governments will face budgetary problems at least 12 months after the US recession ends.

Community Visits & Meetings Calendar - Here are some of the activities I recently attended or have scheduled in the next few weeks. Hope to see you there.

3/02- NCLBC Mtg- Raleigh

3/22-Glaxo Luncheon-Durham

3/06- NAACP Banquet-Durham
Durham

3/23- Durh.Economy Breakfast-

3/08- Public Officials Forum-NCCU
Smithfield

3/23- Johnston Comm.College-

3/10- United Way-Durham

3/24- NC Banking Laws Mtg.-Raleigh

3/11- Economic Development Bd.-Newbern

3/25- NC Innov.Council-Greensboro

3/12- Industrial Summit-NCCU

3/17- Health Forum-Union Baptist Church

3/20- Jeanne Hopkins Lucus Luncheon-Greensboro

Larry D. Hall

Please remember that you can listen to each day's meetings and press conferences on the General Assembly's website at www.ncleg.net.