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Revised Fiscal Estimates Present Uncertain Picture for Future Years

Economists released an [updated forecast](#) for the state's general fund revenues this week, showing declines in collections beginning in the current fiscal year. The forecast was released by the state's Consensus Forecasting Group (CFG), a group comprising economists from the Office of State Budget and Management and the General Assembly's Fiscal Research Division.

The forecast indicates declines in projected revenue surpluses starting in the current fiscal year (2024-2025) of \$364 million, representing a \$180 million decrease compared to the projections in the February forecast. It also shows additional declines in overcollections for the next two fiscal years, totaling \$217.6 million in FY25-26 and \$222.4 million in FY26-27. The report states that the forecast "anticipates modestly lower revenues in each year of the 2025-27 biennium due mainly to lower collections from sales, individual income, and corporate income taxes."

These insights come at a particularly complicated time, as legislators are considering further adjustments to the state's income tax rates in future years as part of their budget proposals. While both chambers propose reducing the rate from the current 4.25% to 3.99% in 2026, in their budget passed in April, Senate leaders proposed further reductions in future years, dropping the rate to 3.49% in 2027 and 2.99% in 2028. Their plan also enacts additional revenue triggers for future rate decreases with a long-term goal of reducing the rate to 1.99%. As a departure from the Senate's plan, House appropriators chose to hold the tax rate at 3.99% for 2027 and decreased further triggers in future years. In his proposal, Governor Josh Stein criticized the revenue triggers favored by legislative appropriators, stating that they unnecessarily created a "fiscal cliff," an economic term referring to situations where revenues decline sharply after a period of stability. His plan held the tax rate stable at 4.25% for 2026.

With budget conference negotiations likely to commence next week when legislators return from their Memorial Day recess, it remains unclear what impact this forecast will have. Legislators will likely need to consider future revenue declines as they set long-term spending targets, driven by both current needs, including Hurricane Helene recovery, and future needs.

Additional FEMA Reimbursement Denied

On May 23, North Carolina leaders received [notice](#) that their appeal of the Federal Emergency Management Administration's (FEMA) April decision for Helene-related recovery costs had been denied. Governor Josh Stein had previously requested that FEMA restore the ability for those impacted by Hurricane Helene to receive 100% reimbursement for recovery costs once the original authorization expired in March.

In his [press release](#) announcing the denial, Governor Stein said, "Despite this news, we are going to stay the course. We will keep pushing the federal and state governments to do right by western North Carolina. We will keep working with urgency, focus, and transparency to get any appropriated money on the ground as quickly as we can to speed the recovery. We will not forget the people of western North Carolina."

A critical aspect of the recovery effort is the removal of the massive quantity of debris left in the storm's wake. The governor reported this week that more than 12 million cubic yards have been removed from roads and waterways, but that has "only scratched the surface." The denial of the state's reimbursement request this week means that the state and local governments will likely bear a greater share of the costs for debris removal.

More than 100 people died from Helene, which is estimated to have caused \$60 billion in damage and recovery needs. To date, the General Assembly has approved four funding bills totaling approximately \$1.4 billion, while Congress has allocated about \$9 billion for North Carolina from a nationwide recovery package of around \$110 billion.

Stein Continues FEMA Reform Discussion

In last week's Bulletin, we detailed many of the efforts being undertaken by Governor Josh Stein and the North Carolina Congressional delegation related to reforming the Federal Emergency Management Administration (FEMA). Coupled with the multiple letters we discussed, Governor Stein also authored an [opinion article](#) that was featured in the Sunday, May 25, edition of USA Today. In it, he highlights the state's experience with the recovery from Hurricane Helene while also proposing reforms to the agency.

These include focusing on permanent rebuilding of homes and businesses as opposed to temporary solutions, simplifying the application processes for aid, providing more support for local governments, and creating an up-front grant structure to allow state governments to deploy resources sooner rather than having to deal with reimbursements.

Governor Stein closes the article with a core message — "We can't just wait for FEMA to resolve itself. We don't want FEMA eliminated. We need to fix FEMA. If we do it now – if we reduce red tape and focus on getting help to people – we'll be that much more prepared to help the victims of the next storm."



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