

INVESTMENTS *for a* Determined North Carolina

Governor Roy Cooper's
FY 2019-21 Budget Recommendations



Table of Contents

North Carolina Today

- Economy
- Population Trends
- Budget and Policy Environment

Governor's FY 2019-21 Recommended Budget Framework

- Vision and Guiding Principles
- Budget Priorities

Budget Recommendations

North Carolina Today



Snapshot of North Carolina's Economy

Total Labor Force: 4.98 million

- Total employed: 4.8 million
- Unemployment Rate: 3.6% (lowest level since 2000)

Total State GDP: \$569B (2.8% of U.S.; ranked #10)

- Manufacturing 18.6% of state GDP, 10.5% of employment

2017 Annual Wages: \$34,750 median (ranked #36 highest) & \$46,080 mean

- Lowest to Highest Median County Annual Wage: \$24,985 (Bertie) to \$46,615 (Durham)

Largest Private Employers (2018 Q1)

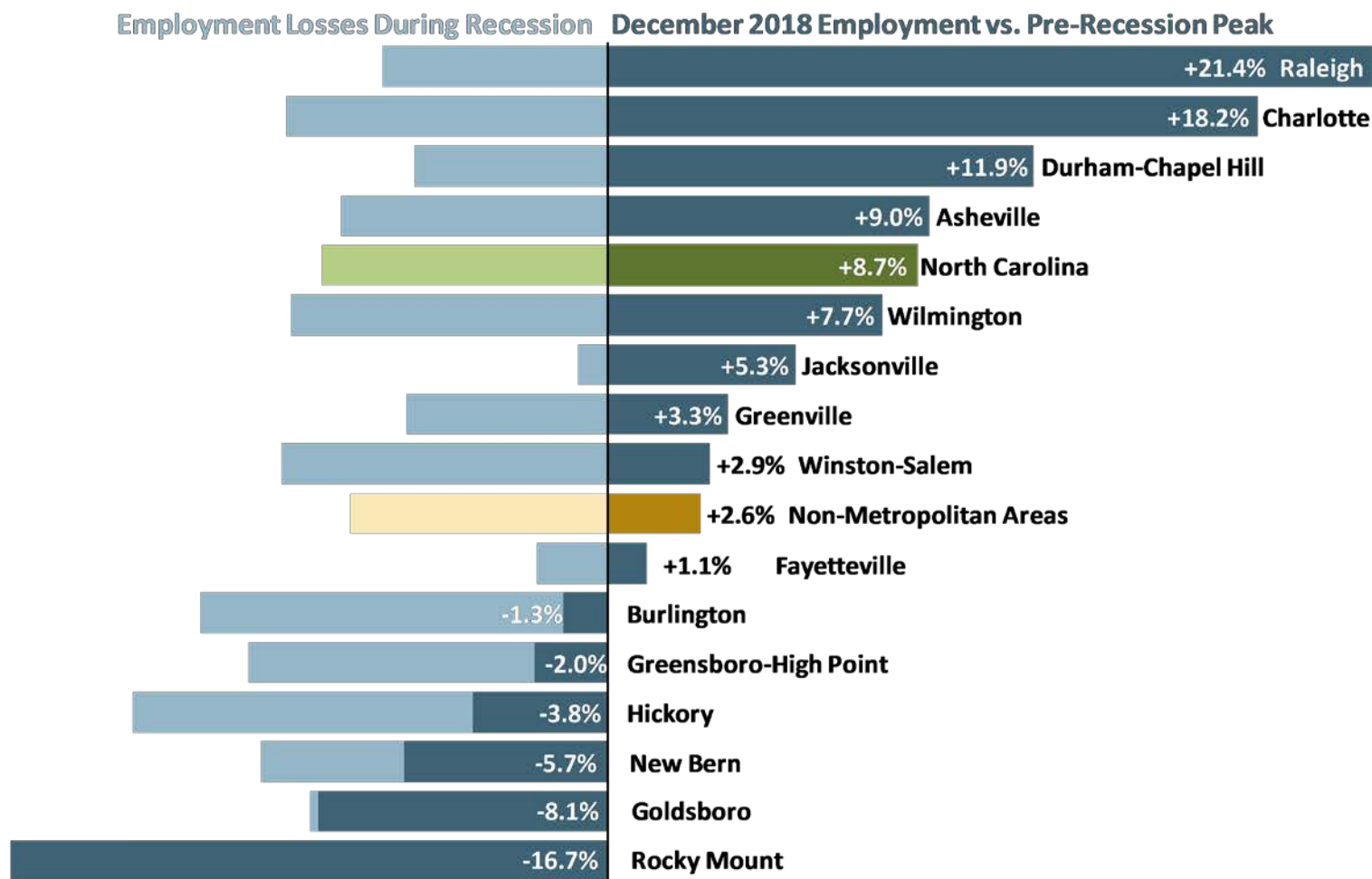
1. Walmart
2. Duke University
3. Food Lion
11. Smithfield Foods, Inc.
(Largest Manufacturer)



Economy: Regional Employment

State Employment Gains Concentrated in Major Metro Areas

Change in Nonfarm Payroll Employment by Metropolitan Area



Data Source: US Department of Commerce (Bureau of Labor Statistics)



Population Trends

- State population expected to exceed 10.6 million in 2020, and reach 10.8 million by 2021
- Growing by 334 people per day
 - Adding population the size of Winston-Salem during the biennium
- Ranked only behind Florida and Texas in net domestic migrants
- By 2030, 1 in 5 North Carolinians will be age 65+
- By 2035, the older population (65+) will exceed childhood population (<18)
- Between 2019-2029,
 - Older adult population (65+) will increase by 584,000
 - Childhood population (<18) will increase by 103,000



Previously Enacted Major Tax Changes Effective 1/1/19

- Individual income tax rate reduced from 5.499% to 5.25%
- Standard deduction will increase from \$17,500 to \$20,000 (MFJ)
- Corporate income tax rate reduced from 3.0% to 2.5%
- Estimated impact of -\$410M in FY 2018-19 and -\$1.02B in FY 2019-20

Wayfair Decision

- U.S. Supreme Court decision on collections of sales tax from out-of-state sellers
- Estimated sales tax revenue increase of at least \$100M in FY 2018-19 and more in FY 2019-20

Base Budget

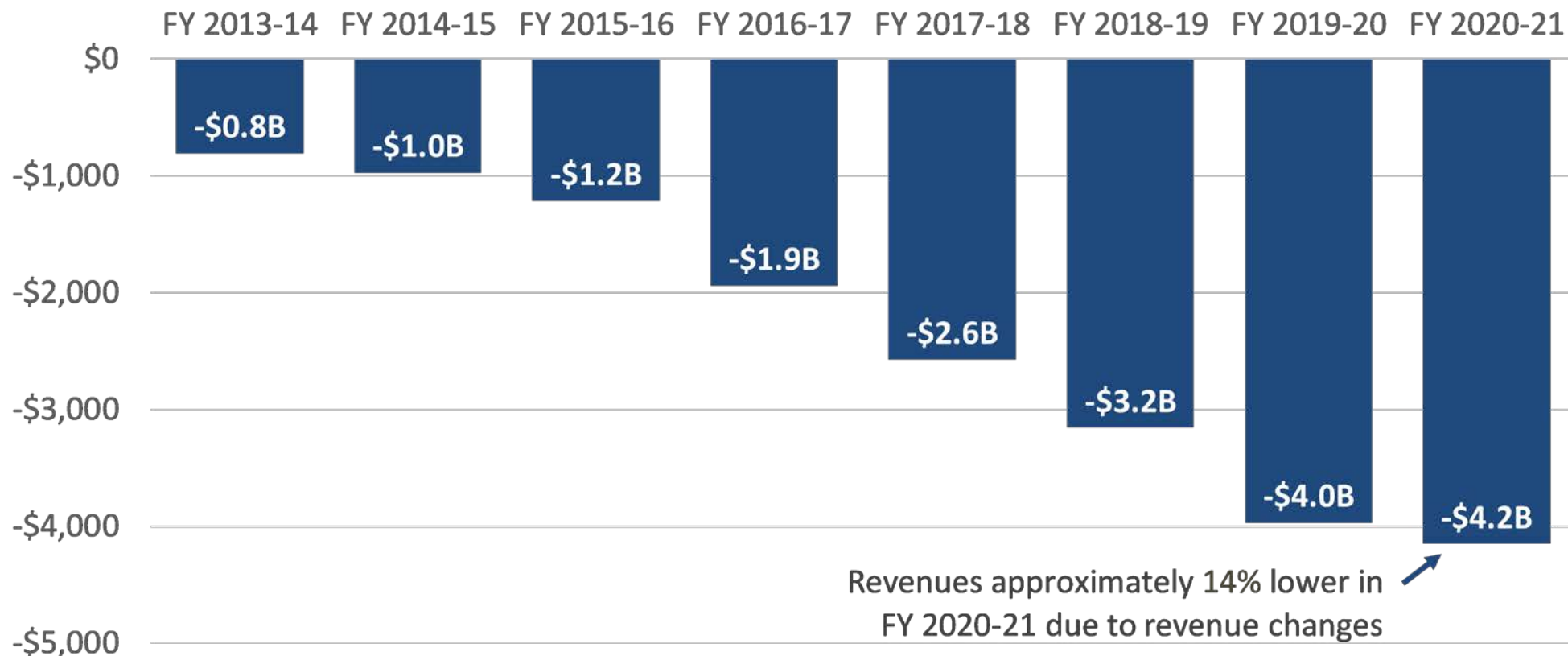
- Phased class-size reduction, additional NC Pre-K slots, and Opportunity Scholarships will increase base budget by \$80M each year of biennium



Budget and Policy Environment

Combined Effect of Major Revenue Changes Enacted Since 2013 to Reduce Annual Revenues by More Than \$4 Billion by FY 2020-21

Estimates Provisional and Subject to Change -- Amounts in Millions



Sources: NC Fiscal Research Division & NC OSBM. Impacts resulting from income tax changes based on OSBM estimates. Impacts of sales tax changes and other changes based on original estimates by FRD and extrapolations of those estimates. All impacts are measured relative to a baseline of 2013 state tax law and thus exclude revenue changes resulting from sunset provisions.

Budget Framework



Governor's Vision and Guiding Principles

Continue advancing a vision of a North Carolina that is:

- Better educated
- Healthier
- Keeping more money in people's pockets
- Conducive to living abundant, purposeful lives

While:

- Not borrowing from special funds
- Making a substantial investment to the Savings Reserve
- Proposing a comprehensive two-year budget
- Halting the continued erosion of General Fund operating availability



Governor's Budget Priorities

With this in mind, we must work together to:

- Expand access to quality health care and assist rural hospitals in keeping their doors open by becoming the 38th state to expand Medicaid
- Treat and pay our teachers and other educators like the professionals they are
 - Being 37th in teacher pay is not good enough
- Improve school safety and youth mental health by providing local school districts flexible funding to hire more nurses, counselors, psychologists, social workers, and school resource officers
- Revitalize our rural communities by investing in infrastructure, broadband connectivity, and housing programs
- Ensure all North Carolinians have clean water and air

Budget Recommendations



Budget Recommendations

Budget Availability	FY 2019-20	FY 2020-21
Unappropriated Balance from Prior Fiscal Year	645,592,679	74,925,982
Over Collection of Revenues FY 2018-19	150,800,000	-
Reversions (estimated)	275,000,000	-
Transfers to Reserves		
Savings Reserve (above statutory requirement)	(119,607,840)	-
Capital Improvements Projects Reserve	(200,000,000)	-
Repairs and Renovations Reserve	(50,000,000)	-
Retiree Healthcare Reserve (OPEB Liability)	(50,000,000)	-
Information Technology Reserve		
Community Colleges System Modernization	(15,000,000)	-
Public Schools Business Systems Modernization	(20,000,000)	-
Financial Backbone ERP	(10,000,000)	-
Law Enforcement/VIPER	(15,000,000)	-
Court System	(15,000,000)	-
State Emergency Response and Disaster Relief Fund	(10,000,000)	-
Beginning Unreserved Fund Balance	566,784,839	74,925,982
Base Revenue Forecast	24,814,100,000	25,801,400,000



Budget Recommendations

Additional Recommendations

	FY 2019-20	FY 2020-21
Remove Sunset on Historic Preservation Credit	(500,000)	(9,000,000)
Prepaid Health Plans Insurance Tax Revenues	13,200,000	201,500,000
Prepaid Health Plans Insurance Tax Revenues from Medicaid Expansion	3,300,000	74,900,000
Transfer to Savings Reserve (per G.S. 143C-4-2)	(106,000,000)	(185,800,000)
Transfer to Golden LEAF	(5,000,000)	(5,000,000)
Treasurer and Insurance Nontax Transfers	2,127,367	3,014,005
Total Budget Availability	25,288,012,206	25,955,939,987

Recommended Appropriations

Base Budget	23,903,360,444	23,984,546,381
-------------	----------------	----------------

Must Do's

Public School Enrollment	22,000,000	44,000,000
UNC Enrollment, NC Promise, Independent Colleges	37,000,000	77,600,000
Medicaid Rebase Adjustment	81,819,538	283,838,752
State Health Plan - Retirees	30,538,531	61,077,063
State Health Plan - Active Employees	60,768,363	123,769,031
Retirement Systems Actuarial Requirements	102,652,925	248,221,474
Subtotal	334,779,357	838,506,320



Budget Recommendations

<u>Supporting NC's Human Capital</u>	FY 2019-20	FY 2020-21
Teacher, Principal, & Assistant Principal Pay Increases	209,749,351	390,024,270
Restore Master's Teacher Pay	6,800,000	6,800,000
Eliminate Requirement that Teachers Pay for Substitutes	6,500,000	6,500,000
State Employee Pay Increases (Greater of \$500 or 1.5% each year)	135,714,904	273,800,577
Additional \$500 Recurring Public School Noncertified Personnel	28,065,163	28,065,163
Additional \$500 Recurring LEOs and Institution-based Employees	17,837,586	17,837,586
Salary Adjustment Fund	20,000,000	20,000,000
Retirees One-Time 2% Cost of Living Adjustment	74,725,058	-
Subtotal	499,392,062	743,027,596
 <u>Helping People Live Healthy, Productive Lives</u>	 107,560,923	 219,387,029
Savings from Medicaid Expansion	(30,700,000)	(69,300,000)
 <u>Making NC a Top Ten Educated State by 2025</u>		
Public Schools	116,339,207	71,796,414
Community Colleges	14,930,977	15,049,184
University System	27,265,207	40,328,414
Opportunity Scholarships - No New Scholarships	(61,675,000)	(44,093,750)
Invest NC Bond (\$3.9B General Obligation Bond - November 2020)	-	-
Subtotal	96,860,391	83,080,262



Budget Recommendations

<u>Strengthening our Economy</u>	FY 2019-20	FY 2020-21
Rural Rise Grant Program	5,000,000	10,000,000
Rural Infrastructure Investments	82,836,450	-
Housing Trust Fund/Workforce Housing Loan Program	22,340,000	2,340,000
Broadband & Homework Gap	35,000,000	-
NC Job Ready Fund	(30,000,000)	(65,000,000)
NC GROW, Finish Line Grants, Work-based Learning	30,000,000	65,000,000
Subtotal	145,176,450	12,340,000
 <u>Keeping Communities Safe</u>	 61,958,640	 62,112,694
 <u>Preserving & Growing Environmental, Agricultural, and Cultural Resources</u>	 60,468,600	 36,847,528
 <u>Modernizing Core Government Services (includes debt service)</u>	 34,229,357	 45,392,177
 Total Expansion Recommendations	 1,309,725,780	 1,971,393,606
 Total Recommended Budget	 25,213,086,224	 25,955,939,987
 Balance	 74,925,982	 -
 Percent Growth from Prior Year	 5.4%	 2.9%
Percent Growth in Recurring Budget from Prior Year	4.3%	2.8%



Supporting NC's Human Capital



Supporting NC's Human Capital

Teacher Pay Best in the Southeast in 4 Years (\$199M in FY19-20, \$370M in FY20-21)

- Restore Master's Teacher Pay (\$6.8M)
- Eliminate requirement that teachers pay for substitutes (\$6.5M)

Valuing our Dedicated State Employees

- Greater of \$500 or 1.5% cost of living adjustment each year (\$136M in FY19-20, \$274M in FY20-21)
- Additional \$500 recurring for non-certified public school personnel (\$28M)
- Additional \$500 recurring for LEOs and institution-based employees (\$18M)

Fully funds the State's retirement systems actuarial requirements & State Health Plan Premiums (\$195M in FY19-20, \$434M in FY20-21)

Includes a 2% one-time retiree cost of living adjustment (\$75M)



Helping People Live Healthy, Productive Lives



Expand and Transform Medicaid

- Close the health coverage gap by expanding Medicaid to cover 626,000 additional individuals (estimated 500,000 in first year)
 - Inject \$5B in direct spending into the state
 - Create 30,000-40,000 new jobs, bolster rural hospitals, and improve access to quality healthcare
 - No state funds will be needed to cover non-federal share
- Transform Medicaid and Health Choice from fee-for-service to managed care by leveraging \$268M of the Medicaid Transformation Reserve



Quality Early Childhood Pre-Kindergarten Services

- Funds 3,200 additional Pre-K slots and assists providers in building capacity to maximize utilization of existing slots
- Includes \$15M for the Smart Start Program (10% increase) to expand services that prepare children for success
- Increases reimbursement rate to enhance access

Supporting Abused and Neglected Children

- Adds \$1.1M to improve child welfare training
- Recommends \$3M to expand evidence-based family preservation services



Fighting the Opioid Epidemic through Expanded Treatment and Recovery Services

- Directs \$15M of Medicaid funding to expand treatment and services for individuals with Opioid Use Disorders

Helping People with Disabilities Live, Work, and Learn in Their Home Communities

- Invests \$1M in state-of-the-art adaptive equipment and assistive technologies to help those with disabilities live, work, and learn in their home communities

Healthier Families

- Grants for local Food Banks (\$1M)



Making NC a Top 10 Educated State by 2025



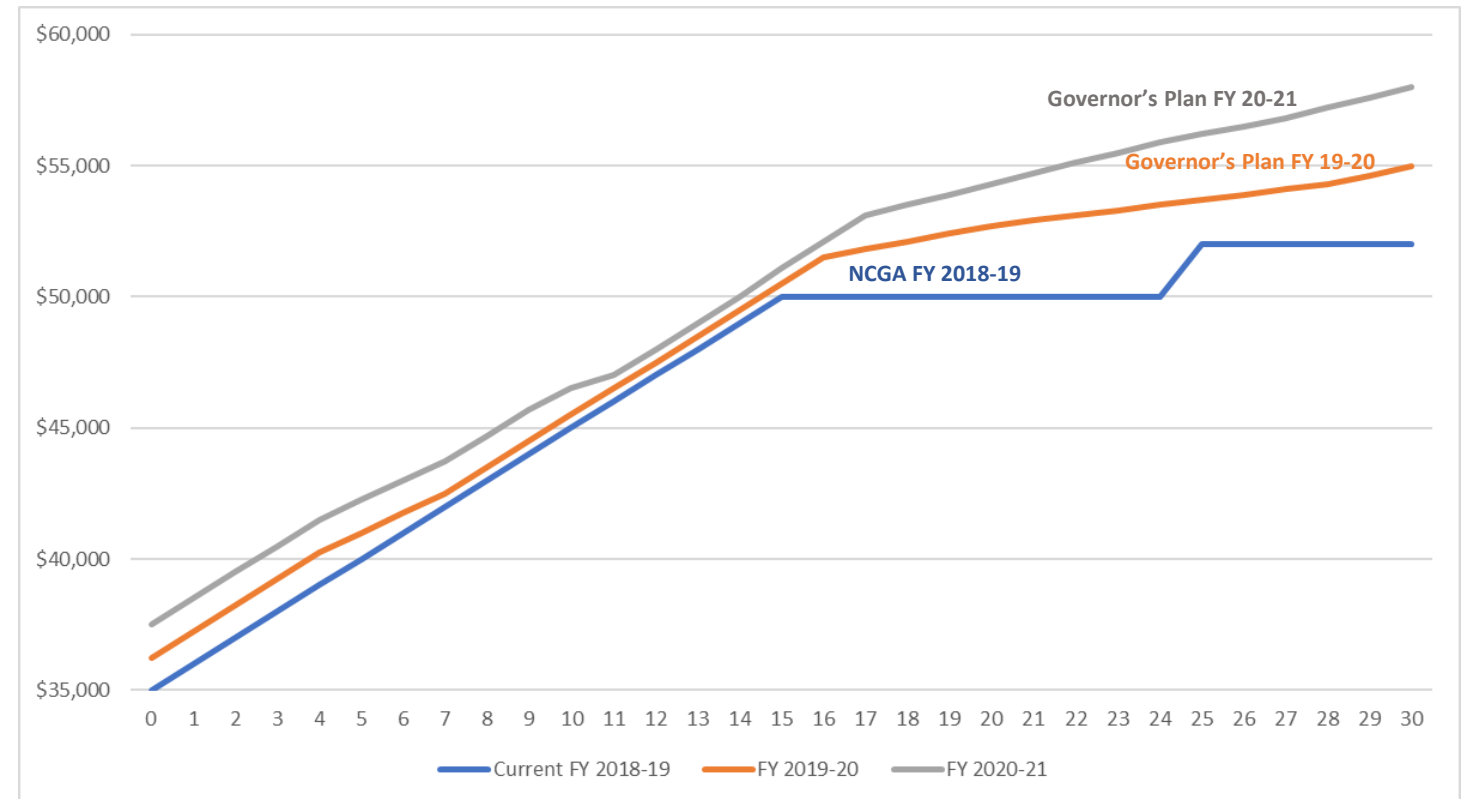
Raising Teacher Pay to Best in Southeast

Invests nearly \$199M in FY19-20 and \$370M in FY20-21 to raise teacher salaries

- Total average increase of 9.1% over the biennium
- Eliminates salary plateau for experienced teachers

Provides funding for recruiting and retaining teachers (\$10M)

Returns Teacher Salary to a 30 Year Annual Step Schedule





Principal and Assistant Principal Pay

- Provides more than \$10.6M in FY 2019-20 and more than \$20.4M in FY 2020-21 to assistant principal and principal salaries
- Creates a new principal schedule based on principal experience and school size
 - Adds a supplement for schools with more than 1,800 students



Invests \$87M in School Safety, Youth Mental Health, and Classroom Instruction

- Adds flexible funding to hire more nurses, counselors, psychologists, social workers, and school resource officers (\$40M)
- Provides funds for building improvements, equipment, communication systems, and training to improve security (\$15M)
- Invests additional funds for textbooks, instructional supplies, and digital resources (\$29M)
- Allocates funds to expand opportunities for academically gifted students from under-represented populations (\$3M)

Child Nutrition – Reduced Price Meals

- Eliminates student co-pay for reduced-price meals, providing free meals for up to an additional 115,000 students (\$5M)



Helping Students Complete Their Degrees on Time

- Invests \$25 million in the UNC system to improve graduation rates and reduce time-to-degree by providing state funding support for summer enrollments and an additional \$5 million to fund summer scholarships
- Establishes a scholarship program to encourage students to complete an associate degree at a community college before transferring to a UNC institution (\$2.6M)
- Provides funds for short-term workforce training programs (\$11M)

Expands access to Teaching Fellows Program (\$4M)



Strengthening our Economy

Strengthening our Rural Communities and Developing our Workforce



Rural Revitalization Initiative

Invests over \$140M for economic development

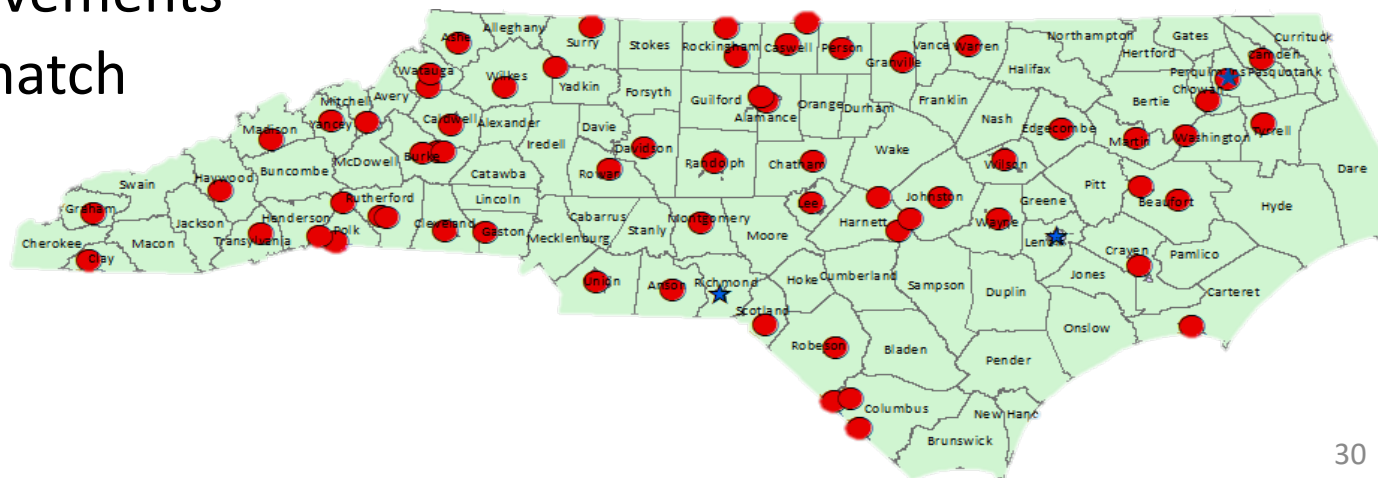
Targets our 80 most economically-distressed counties

- Rural Investments Strengthening Economies (RISE)- competitive grants for rural communities to recruit new businesses or offset costs of relocating businesses (\$5M in FY2019-20 and \$10M in FY2020-21)
- Grants for rural development projects in the 8 prosperity zones (\$8M, \$1M/zone)
- Support onsite infrastructure preparation for publicly-owned rural industrial sites (\$5M)
- Bolster local government capacity (\$2M)



Rural Revitalization Initiative

- Invests in local transformational projects (\$28M)
 - Marine Industrial Park in Perquimans County
 - The Rock Speedway and Entertainment Complex in Richmond County
 - Lenoir County & City of Kinston
- Locally identified rural economic development projects (\$26M)
 - Historic building rehabilitation
 - Streetscape and other beautification projects
 - Public infrastructure improvements
 - Will require \$1 non-state match for every \$4 of state funds





Broadband Connectivity

- Increases access and improves service to underserved households, businesses, and community anchor institutions through last mile projects (\$30M)
- Provides mobile hotspots or other devices to students or teachers without home internet access to help close the State's homework gap (\$5M)

Affordable Housing

- Assists with developing more safe and affordable housing units for low and moderate-income citizens (\$22M)
- Supports the Rural Neighborhood Revitalization Program which provides money to promote neighborhood sustainability, resiliency, revitalization, and equitable access to housing (\$6.5M)



Strengthening our Economy

- Creates the NC Grow Scholarship (\$45M over biennium)
 - Provides tuition and fees for curriculum students enrolled in high-demand fields with competitive wages
 - Provides funding for students who enroll in non-credit, short-term workforce training programs that lead to an industry credential
- Provides \$1,000 Finish Line Grants to assist students close to graduating but encountering financial emergencies through no fault of their own (\$15M)
- Assists employers in providing work-based learning opportunities to enhance their talent pipeline (\$10M)



Modernizing North Carolina through Investments in Information Technology and Infrastructure



Investing in our Infrastructure

Upgrading Technology and Enhancing Cybersecurity

\$75M to a new IT Reserve Fund to upgrade several core business, reporting, and communications systems

- \$20M for Department of Public Instruction's Business Systems ERP Modernization
- \$15M for Community Colleges ERP System Enhancements
- \$15M for Voice Interoperability Plan for Emergency Responders (VIPER)
- \$15M for Judicial Branch's Integrated Case Management System (eCourts)
- \$10M for Office of State Controller's Financial Backbone ERP

\$1.5M to protect North Carolina against cyberattacks



Investing in our Infrastructure

Currently, statewide capital and infrastructure needs are conservatively estimated to exceed \$30 billion statewide, including:

- \$8B for public school facilities (40% of school buildings statewide are greater than 50 years old)
- \$17B in water and sewer needs based on 2015 EPA study
- \$6B in repairs and renovations for UNC system and state government buildings

The Debt Affordability Advisory Committee revised its methodology in 2017 to begin allocating funds to address OPEB and Retirement System liabilities

- Total General Fund debt capacity continues to exceed \$10B



Investing in our Infrastructure

Invest NC Bond

Places a \$3.9 billion General Obligation Bond on the November 2020 ballot to ask voters to address key infrastructure needs across the State. Investments would include:

- \$2 billion for public schools
- \$800 million for water and sewer
- \$500 million for the UNC System
- \$500 million for the Community Colleges System
- \$100 million for the Museum of History and Zoo



Investing in our Infrastructure

Strategic State Agency Investments

Authorizes \$288 million in Limited Obligation Bonds to address immediate needs, including:

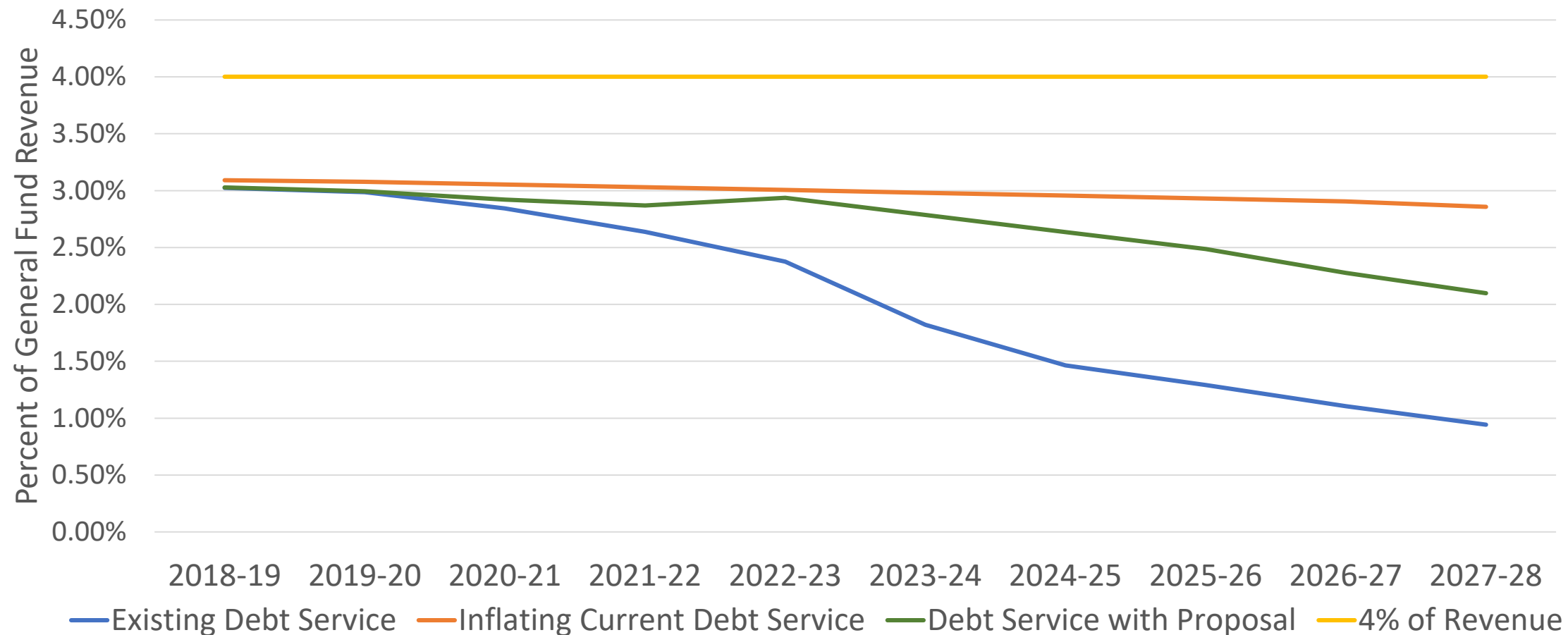
- \$258 million to relocate the Department of Health and Human Services from Dorothea Dix Park
- \$30 million to renovate and expand the Reedy Creek Lab, to better detect and identify pollutants and to protect water, soil, and air

Cash-Funded Investments

- Includes \$250 million for repairs and renovations of university and state buildings



Impact on Debt Affordability



- Assumes \$3.9 billion in General Obligation Bonds on the November 2020 ballot and a beginning issuance date starting July 2021.
- Assumes \$288 million in Limited Obligation Bonds with a beginning issuance date starting mid-year FY 2019-20.
- All debt issued based on cash flow needs of projects
- Interest rate for all bonds is assumed to be 5.75% (Current AAA General Obligation Bond Yield at 2.88%)
- Bonds will be repaid over 20 years



Keeping Communities Safe



Implementation of “Raise the Age” Legislation

- Allocates additional funds to support juvenile court counselors, custody and security staff, transportation, and community-based services (\$28M in FY19-20 and \$38M in FY20-21)

Increasing Capacity for Evidence Testing

- Provides funding to analyze 15,000 untested sexual assault evidence collection kits (\$6M over the biennium)



Creating a Safe Environment for Correctional Staff

- Improves workplace safety through facility fortification and security for corrections staff by providing additional training, enhanced surveillance and detection tools, and updated technologies (\$12M)

Ensuring Law Enforcement Sustainability

- Provides the State Highway Patrol funds to address the increased enrollment in the Basic Schools cadet training program (\$2M)
- Provides \$800,000 to the State Bureau of Investigation
- Implements the Criminal Justice Fellows Program (\$660,000)



Preserving & Growing Environmental, Agricultural, and Cultural Resources



Natural and Economic Resources

Protecting Our Water Supply

- Funding to support the identification and regulation of emerging compounds (\$6.4M)
- Provides state matching funds to leverage an additional \$14M in federal funds for water infrastructure projects (\$3.5M)

Safeguarding Our Natural Resources

- Provides \$11.8 million for Clean Water Management Trust Fund and \$8.8 million for Parks and Recreation Trust Fund
- Provides funds for the creation of the Wildlife Enhancement and Stewardship Fund to address invasive species removal and native plant restoration (\$2.5M)



Making Government More Effective, Efficient, and Responsive

- Includes funds to build capacity across state government for evidence-based, data-driven decisions (\$4M)
- Provides funds for grants to state agencies for rigorous, independent evaluations of program effectiveness and results (\$1M)

Making Every North Carolinian Count in the 2020 Census (\$1.5M)

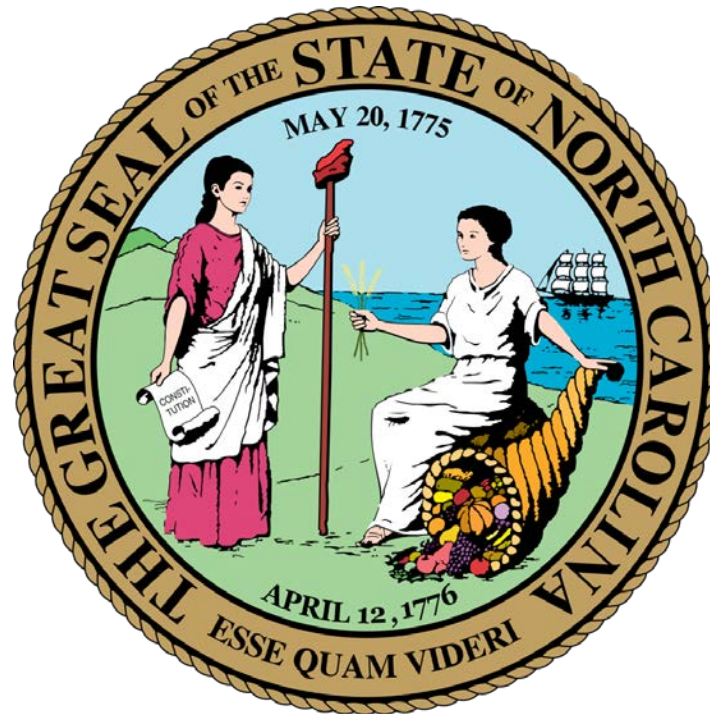




Governor's Budget Priorities

With this in mind, we must work together to:

- Expand access to quality health care and assist rural hospitals in keeping their doors open by becoming the 38th state to expand Medicaid
- Treat and pay our teachers and other educators like the professionals they are
 - Being 37th in teacher pay is not good enough
- Improve school safety and youth mental health by providing local school districts flexible funding to hire more nurses, counselors, psychologists, social workers, and school resource officers
- Revitalize our rural communities by investing in infrastructure, broadband connectivity, and housing programs
- Ensure all North Carolinians have clean water and air



Governor Roy Cooper's
FY 2019-21 Budget Recommendations