



The Governor's Recommended 2013-15 Budget

Governor Pat McCrory



Art Pope

State Budget Director

Office of State Budget and Management

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Governor's Priorities and Summary

- Governor McCrory has structured his budget around three main priorities
 - Economy
 - Education
 - Efficiency and Transformation in State Government
- Presents a budget that continues North Carolina's long tradition as a national leader in fiscal management
 - Maintains and enhances reserves in excess of \$900 million
 - Will allow North Carolina to continue to be one of only eight states to hold the Triple A bond rating from all three rating agencies
 - Leaves \$131 million unspent in FY 2013-14 and \$332 million unspent in FY 2014-15
- Authorizes no new debt
- Authorizes no tax increases
- Budgets 9% less per capita than the budget did 5 years ago, while the state population has grown by 560,000
- Budget grows responsibly, consistent with inflation of 1.5% and below the overall economic growth anticipated for FY 2013-14



General Fund Availability

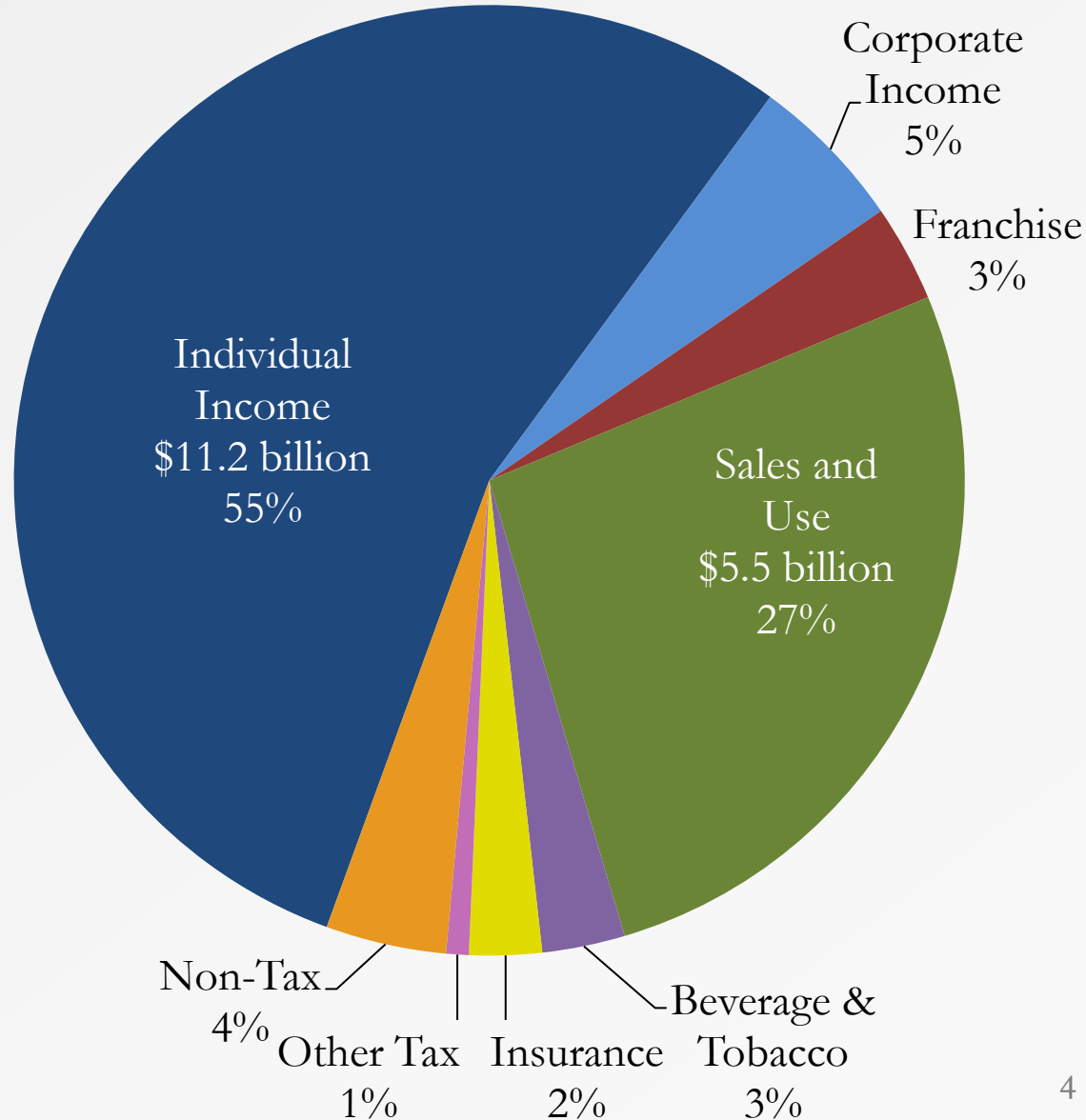
Brief Description	FY 2013-14	FY 2014-15
Availability		
<u>Credit Balance:</u>		
Unappropriated Balance	213,432,878	130,825,236
Anticipated Overcollections from FY 2012-13	102,600,000	0
Anticipated Reversions from FY 2012-13	125,000,000	0
Medicaid Funding Required for FY 2012-13	(123,100,000)	0
Transfer to Savings Reserve Account	(200,000,000)	(130,825,236)
Transfer to Repair and Renovations Account	(117,932,878)	0
<i>Subtotal Credit Balance</i>	<u>0</u>	<u>0</u>
<u>Revenue Based on Existing Tax Structure</u>	20,567,000,000	21,513,600,000
<u>Revenue Changes:</u>		
Repeal Estate Tax	(52,000,000)	(57,000,000)
Other Funds and Transfers	142,493,840	135,304,087
Repeal Transfer to Public School Building Capital Fund	75,000,000	75,000,000
<i>Subtotal Revenue Changes</i>	<u>165,493,840</u>	<u>153,304,087</u>
Total Availability	<u>20,732,493,840</u>	<u>21,666,904,087</u>



General Fund Revenue by Source

FY 2013-14 General Fund Revenues = \$20.6 billion

- Individual income tax - comprises more than half of all General Fund revenues
- Sales and use tax - comprises more than one quarter of total General Fund revenues
- All other taxes combined comprise 15% of total General Fund revenues
- Non-tax revenue sources comprise remaining 4%



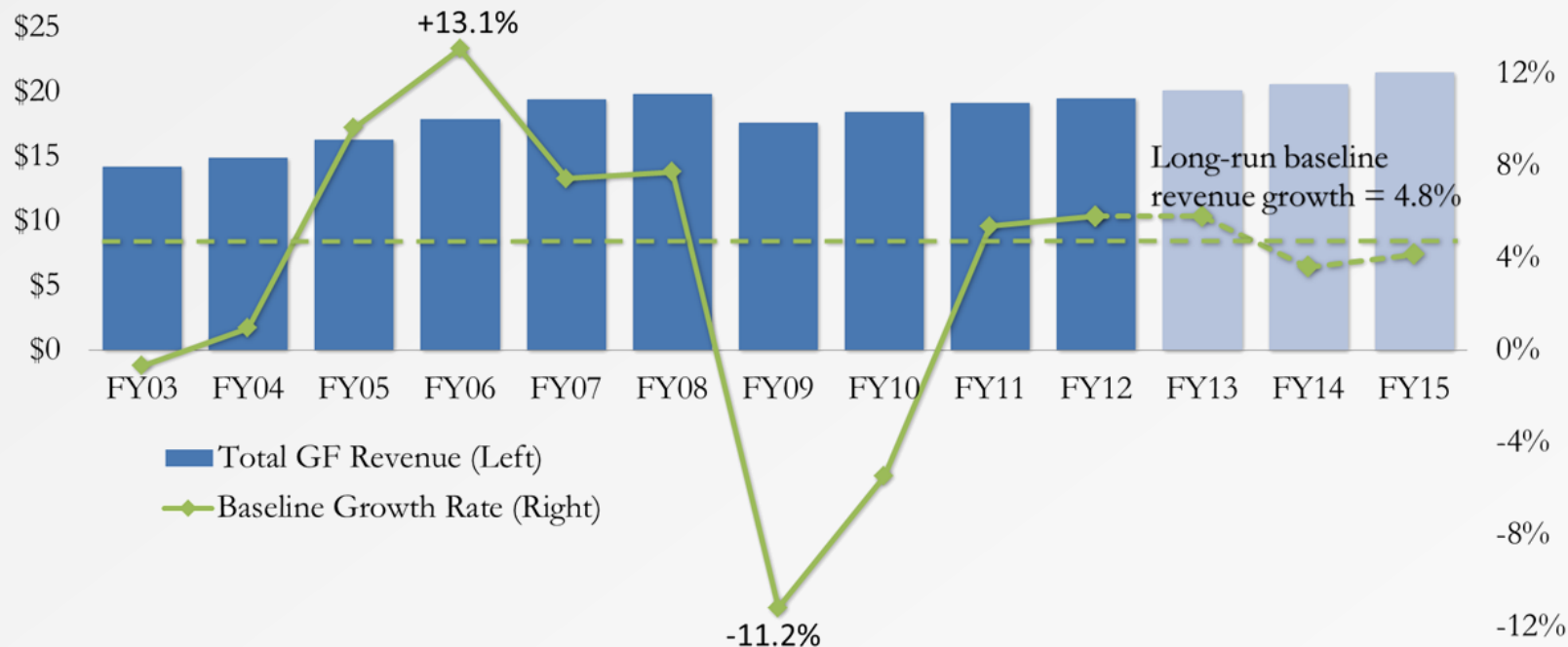


Revenue Forecast for FY 2013-15

Forecast for FY 2013-15 Anticipates Modest Growth

- Consensus General Fund Revenue Forecast with the Fiscal Research Division
- FY 2013-14 Base Growth: 3.6%
- FY 2014-15 Base Growth: 4.1%
- Below long-term average and typical growth realized during economic recoveries

Billions of current-year dollars (left axis); Year-over-year percent change (right axis)



Note: Baseline revenue growth measures economy-based changes in annual own-source general revenue, controlling for tax-law changes.



Other Funds and Transfers

Budget transfers other funds into the General Fund – Greater Transparency

	FY 2013-14	FY 2014-15
Retention of Golden LEAF Funds	65,000,000	65,000,000
Natural Heritage Trust Fund	9,900,000	9,900,000
Parks and Recreation Trust Fund	27,500,000	27,500,000
White Goods Management Account	1,217,796	1,217,796
Scrap Tire Disposal Account	2,675,291	2,675,291
Solid Waste Trust Fund	4,011,000	4,011,000
Master Settlement Agreement Funds**	25,000,000	25,000,000
Repeal NC Public Campaign Fund	4,125,171	0
Repeal NC Political Parties Financing Fund	1,064,582	0
Transfer from NC Flex FICA Funds	2,000,000	0
Total	142,493,840	135,304,087

**Additional funds may be available in April 2013 pending final audit of disputed payments arbitration per settlement agreement



General Fund Appropriations

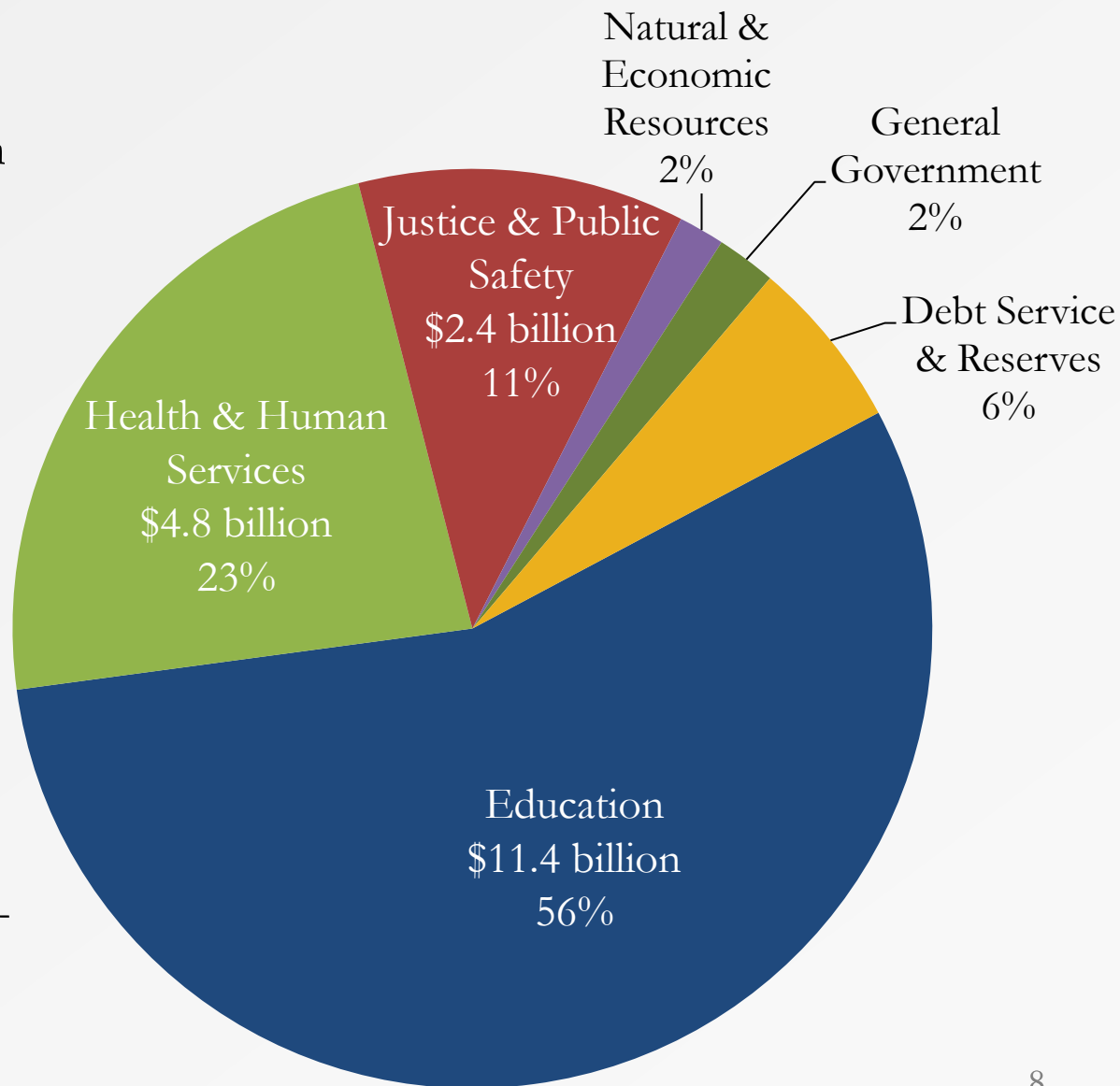
Total Availability	20,732,493,840	21,666,904,087
Recommended Appropriations		
<u>FY 2012-13 Authorized Budget</u>	20,161,042,925	20,161,042,925
<u>Major Adjustments</u> (includes Medicaid Rebase, Public and Higher Education Enrollment, other base budget changes)	275,009,131	668,005,130
<u>Fiscal Responsibility:</u>		
Transfer to Savings Reserve Account	0	69,174,764
Transfer to Repair and Renovations Account	32,067,122	150,000,000
Medicaid Risk Reserve	90,000,000	90,000,000
Other Reserves	59,000,000	64,000,000
<i>Subtotal Fiscal Responsibility</i>	181,067,122	373,174,764
<u>Salaries and Benefits</u> (includes 1% Pay Increase for All Teachers and State Employees, State Health Plan, 1% COLA for Retirees, Contribution to TSERS)	251,800,000	343,000,000
<u>Net Agency Changes</u>	(267,250,574)	(210,678,753)
Total Recommended General Fund Appropriations	20,601,668,604	21,334,544,066
General Fund Balance	130,825,236	332,360,021



General Fund Appropriations by Subcommittee

FY 2013-14 General Fund Appropriations = \$20.6 billion

- Education-related spending - more than half of all appropriations (56%)
- Health & Human Services - nearly one-quarter of all appropriations, with Medicaid accounting for more than two-thirds of HHS spending
- Justice & Public Safety – less than one-eighth of total appropriations
- General Government and Natural & Economic Resources - comprises 1/27th of all appropriations





Highlights: Public Education

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$9,811,730,401	\$11,104,716,746	\$11,200,962,588	0.9%	\$11,388,034,980	2.6%
Requirements¹			\$11,273,142,010	1.5%	\$11,460,214,402	3.2%
Receipts	\$2,232,043,999	\$3,260,113,134	\$3,301,193,662	1.3%	\$3,268,260,827	0.2%
GF Appropriation	\$7,579,686,402	\$7,844,603,612	\$7,899,768,926	0.7%	\$8,119,774,153	3.5%
GF Appropriation¹			\$7,971,948,348	1.6%	\$8,191,953,575	4.4%

1. Including allocation of statewide salary reserve

- \$43 million from Education Lottery receipts over the biennium to enhance digital learning opportunities
 - Purchases tablets for 3rd grade reading or other targeted high priority instructional needs
- \$28 million for Summer Reading Camps and Reading Plans for parents as directed by the Excellent Public Schools Act
- Focuses teacher assistant funding on grades K-1
 - Provides sufficient funds for one teacher assistant per 17 students in those grades and reduces remaining funds (\$117 million)



Highlights: NCCCS

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$1,408,984,462	\$1,458,318,427	\$1,450,873,517	-0.5%	\$1,459,873,517	0.1%
Requirements¹			\$1,462,731,714	0.3%	\$1,471,731,714	0.9%
Receipts	\$406,902,847	\$417,896,822	\$424,070,298	1.5%	\$424,070,298	1.5%
GF Appropriation	\$1,002,081,615	\$1,040,421,605	\$1,026,803,219	-1.3%	\$1,035,803,219	-0.4%
GF Appropriation¹			\$1,038,661,416	-0.2%	\$1,047,661,416	0.7%

1. Including allocation of statewide salary reserve.

- \$16.8 million each year to support higher costs and higher demand instructional programs
 - Leads to immediate employment
- \$28 million over the biennium to support technical education equipment
- Funds enrollment at the higher of current year or 2-year average (\$20 million) instead of 3-year average
- Reduces budget for benefits associated with part-time employees who are not eligible for retirement and health insurance (\$15.2 million)



Highlights: UNC System

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$4,063,837,413	\$4,240,777,779	\$4,125,195,728	-2.7%	\$4,168,334,352	-1.7%
Requirements¹			\$4,201,931,810	-0.9%	\$4,245,070,434	0.1%
Receipts	\$1,530,901,102	\$1,577,215,344	\$1,604,551,452	1.7%	\$1,611,773,786	2.2%
GF Appropriation	\$2,532,936,311	\$2,663,562,435	\$2,520,644,276	-5.4%	\$2,556,560,566	-4.0%
GF Appropriation¹			\$2,597,380,358	-2.5%	\$2,633,296,648	-1.1%

1. Including allocation of statewide salary reserve and repair and renovation reserve.

- \$63.2 million over the biennium for the initial implementation of the UNC Strategic Directions Plan
- Allocates \$50 million from the Repair and Renovation Reserves each year of the biennium for University facilities
- Mgmt. flexibility reduction of \$110.7 million for UNC campuses and UNC G.A.
- Increases non-resident tuition 6% and 12.3% at select campuses with lower non-resident rates than their public peers



DHHS: Budget Overview

TOTAL HEALTH AND HUMAN SERVICES GENERAL FUND BUDGETS

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$19,528,811,309	\$17,575,935,887	\$18,494,128,258	5.2%	\$19,051,739,102	8.4%
Receipts	\$14,944,812,786	\$12,875,232,484	\$13,735,202,590	6.7%	\$14,087,442,657	9.4%
GF Appropriation	\$4,583,998,523	\$4,700,703,403	\$4,758,925,668	1.2%	\$4,964,296,445	5.6%

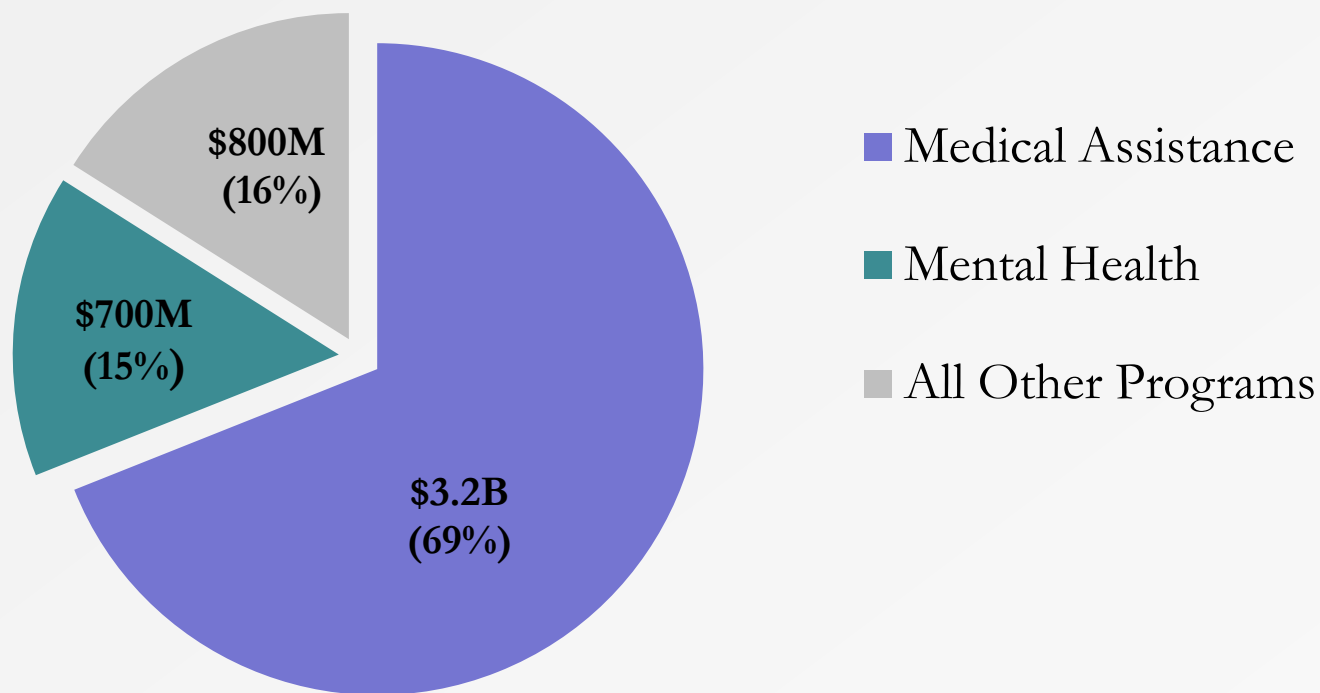
Includes:

- *Medicaid and Health Choice*
- *Social Services*
- *Mental Health*
- *Public Health*
- *Child Development and Early Education*
- *Vocational Rehabilitation*
- *Central Administration*
- *Aging and Adult Services*
- *Services for the Blind, Deaf and Hard of Hearing*



DHHS State Funding

Medical Assistance and Mental Health account for 84% of DHHS General Fund appropriations in the recommended budget



2013-14 Recommended State General Fund Appropriation



Highlights: DHHS (cont.)

Medicaid

- Governor's recommended budget funds changes in enrollment, consumption, mix of services, mandatory cost increases and "woodwork" effect of the Affordable Care Act
- \$180 million for a Medicaid Risk Reserve over the biennium

2013-15 Recommended State Investment in Medicaid

	2013-14	2014-15
Medicaid Base Budget	\$ 3,069,576,810	\$ 3,083,576,810
Rebase Services	185,000,000	390,000,000
Contracts & Settlements	29,000,000	29,000,000
Increases	27,828,664	48,000,000
Reductions	(99,325,154)	(114,152,764)
Net Change	\$ 142,503,510	\$ 352,847,236
Medicaid Recommended Budget	\$ 3,212,080,320	\$ 3,436,424,046
% Change from SFY 12-13 Authorized	3.5%	10.8%
State Medicaid Risk Reserve (proposed in reserve outside of DMA budget)	\$ 90,000,000	\$ 90,000,000



Highlights: DHHS (cont.)

Mental Health and Other Health and Human Service Priorities

- Adds \$3.8 million and \$9.4 million in each year of the biennium to the current \$10.3M budget to place those with mental illness in appropriate treatment settings (US DOJ settlement)
- Invests \$28 million over two years to equip the new Broughton Hospital
- Funds 5,000 NC Pre K slots each year with \$26M annually in lottery proceeds and state funds
- Provides \$550,000 each year for Project CARE (Caregiver Alternatives to Running on Empty)
 - Assists 800 families care for family members with Alzheimer's and avoiding more costly care



Highlights: DHHS (cont.)

Other Health and Human Services Priorities

- \$4.8 million to counties, helping them manage reduced federal funding for child protective services
- Targets state receipts of \$11.2 million and \$4.8 million state appropriations to complete the Medicaid Management Information System
- Identifies \$36 million in savings in non-Medicaid agencies through administrative reductions, accurately budgeting receipts, and returning unspent state dollars to General Fund availability
- After all adjustments, DHHS spending increases by \$58M (1.2%) in FY 2013-14 and \$264M (5.6%) in FY 2014-15



General Government: Budget Overview

TOTAL GENERAL GOVERNMENT GENERAL FUND BUDGETS

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$887,877,041	\$717,386,696	\$706,567,021	-1.5%	\$684,027,225	-4.7%
Receipts	\$485,550,632	\$303,487,512	\$276,236,419	-9.0%	\$266,291,789	-12.3%
GF Appropriation	\$402,326,409	\$413,899,184	\$430,330,602	4.0%	\$417,735,436	0.9%

Includes Departments and Offices of:

*Administration, State Personnel, State Controller,
General Assembly, Governor, State Budget and
Management, Housing Finance Agency, Lieutenant
Governor, Secretary of State, State Auditor, State
Treasurer, Insurance, Revenue, Cultural Resources,
Roanoke Island Commission, State Board of
Elections, Administrative Hearings*



Highlights: General Government

General Government Priorities

- \$10 million to compensate citizens who are verified victims of the state's former Eugenics Board program, which involuntarily sterilized North Carolinians during the 20th century
- Restores \$1.2 million over the biennium for the Tryon Palace historic site
- \$17.7 million over the biennium for development of the Tax Information Management System (TIMS)
- \$3.4 million for the state's core Banking System
- Funds the two year NC Government Efficiency and Reform Project, **NC GEAR**
 - Continue to transform government through best practices, reorganization, innovation, and customer service



NER: Budget Overview

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$695,484,349	\$688,210,088	\$624,402,932	-9.27%	\$606,292,255	-11.9%
Receipts	\$301,764,290	\$305,196,474	\$292,069,367	-4.30%	\$288,889,367	-5.3%
GF Appropriation	\$393,720,059	\$ 383,013,614	\$332,333,565	-13.23%	\$317,402,888	-17.1%

All figures in millions of dollars.

Includes:

- ***Agriculture and Consumer Services***
- ***Labor***
- ***Environment and Natural Resources***
- ***Clean Water Management Trust Fund***
- ***Wildlife Resources Commission***
- ***Commerce***
- ***Commerce - State Aid***



Department of Agriculture and Consumer Services

- Restores \$1 million over the biennium for the Agriculture Water Resources Assistance Program
 - Continues assisting farmers and landowners to increase water use efficiency, availability and storage
 - Implements best management practices to conserve and protect water resources
- Restores \$1 million in funding over the biennium for the Wine and Grape Growers Council
 - Facilitates the development of the state's grape and wine industries
- \$725,000 over the biennium for the Southeastern N.C. Agriculture Center and Farmers Market



Highlights: NER (cont.)

Department of Environment and Natural Resources

- \$5 million in matching funds for the Clean Water State Revolving Fund
 - Provides the state with access to \$25 million in federal funds to help finance projects which address water pollution programs
- \$1.2 million in matching funds for the Drinking Water State Revolving Fund
 - Provides the state with access to \$23.54 million in federal funds
 - Provides low and zero interest loans to water systems and support activities for technical assistance
- \$7 million for the Noncommercial Leaking Underground Storage Tank Fund Program
 - Assists homeowners to clean up petroleum contamination caused by home heating oil tanks

DENR - Clean Water Management Trust Fund

- \$6.75 million for the Clean Water Management Trust Fund
 - Assistance for financing projects that address water pollution problems
 - Focuses on surface waters - eliminating pollution, and protects, preserves and conserves unpolluted surface waters



Highlights: NER (cont.)

Department of Commerce

- \$79 million additional investment in the Job Development Incentive Grants Program (JDIG) and the One N.C. Program
 - Facilitates recruitment of new and expansion of existing businesses in North Carolina
- \$14 million for the Job Maintenance and Capital Development Program (JMAC)
 - Encourages businesses to retain high-paying quality jobs and large-scale capital investments
- \$3.9 million for statewide support of small businesses
 - State matching funds for federal contracts for the One N.C. Small Business Program
 - Competitive local grants for the Main Street Solutions Fund
 - Grants for the Broadband Connectivity Incentive Program to provide connectivity to unserved areas
- \$5.4 million to develop a strategic economic growth plan for N.C.
 - Will include an agency reorganization plan that will address the state's economic development efforts with a public-private partnership
 - Development of a comprehensive branding strategy to promote the state of N.C.

Department of Commerce – State Aid

- \$68 million reduction for non-governmental entities – utilizes these resources for other economic development priorities



Highlights: NER (cont.)

NC Education Lottery (Proceeds and Commission)

- Adjusts the amount of total revenues that can be utilized for advertising expenses from no more than 1% to no more than .50%
 - Results in \$14.8 million in savings over the biennium to be used for digital learning initiatives in public schools
- Identifies an additional \$2.2 million over the biennium in operating efficiencies
 - Funds to be redirected to public schools for additional digital learning initiatives



JPS: Budget Overview

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$2,674,655,293	\$2,660,857,399	\$2,652,565,038	-0.31%	\$2,637,134,202	-0.9%
Receipts	\$345,007,081	\$294,918,188	\$288,954,986	-2.02%	\$276,300,585	-6.3%
GF Appropriation	\$2,329,648,212	\$2,365,939,211	\$2,363,610,052	-0.10%	\$2,360,833,617	-0.22%

All figures in millions of dollars.

Includes:

- ***Judicial***
- ***Judicial - Indigent Defense***
- ***Justice***
- ***Department of Public Safety***



Judicial Branch

- \$7 million over the biennium to re-establish Drug Treatment Courts
 - Addresses addiction issues with court-involved persons
- \$2 million for legally mandated payments for interpreters, expert witnesses, and jury fees
- \$1.5 million to provide an additional magistrate in 16 counties
 - Improve after-hours access to citizens

Judicial Branch (Indigent Defense)

- \$5 million for FY 2013-14 to help reduce a shortfall that accumulated over several years
 - Provides payments of private counsel appointed to represent indigent defendants
- \$783,000 to update and maintain the automated case management system used by public defenders to monitor and manage caseloads



Department of Justice

- \$8.6 million over the biennium for expansion of crime labs to improve efficiency and turnaround time for law enforcement
 - Replace and modernize equipment in the State Crime Lab
 - Enhance DNA testing capability at the Triad and Western State Crime Labs
 - Enhance Toxicology testing capabilities at the Triad and Western State Crime labs
- \$2 million in funds for investigative activities that are core to the mission of the Department of Justice
 - Combatting the increase in methamphetamine abuse to allow for more timely seizure, investigation, disabling of labs, and disposal of hazardous wastes
 - Funds for the growing number and complexity of prescription drug abuse cases
 - Funds for investigation and response to cyber threats against children
- Recommend that legal and support positions and associated operating budgets utilized to provide routine legal services to state agencies be transferred from the Department of Justice to the agencies they serve, effective October 1, 2013



Department of Public Safety

- \$54 million in savings over the biennium from closing outdated inefficient prison facilities due to a declining prison population
- Reinvests \$23 million in savings for implementation of the Justice Reinvestment Act
 - Adds additional probation/parole officers to reduce caseloads
 - Provides additional staff at the Post-Release Supervision and Parole Commission to enact supervision for all felons who leave prison
- \$7 million for expanded use of electronic monitoring for offenders on supervision
- \$6.1 million for additional staff and equipment to support the Voice Interoperability Plan for First Responders (VIPER) network to assist local law enforcement agencies
- \$2.2 million to enhance technology resources to allow State Troopers to have roadside access for criminal background data
- \$1.4 million for the State Capitol Police to improve safety and security for visitors and employees in the State Government Complex
- \$625,000 to establish the Center for Safer Schools
 - Provides training and technical support to educators, law enforcement and parents in efforts to protect our children in schools throughout N.C.



Transportation: Budget Overview

	2011-12 Actual	2012-13 Authorized	2013-14 Recommended	% Change	2014-15 Recommended	% Change
Requirements	\$4,367,899,525	\$5,118,627,868	\$4,307,548,172	-15.85%	\$5,505,185,691	7.6%
Receipts	\$1,601,002,305	\$2,027,277,868	\$1,264,648,172	-37.62%	\$2,507,385,691	23.7%
HF & HTF Appropriation	\$2,770,942,830	\$3,091,350,000	\$3,042,900,000	-1.57%	\$2,997,800,000	-3.0%
Change in Fund Balance	\$4,445,610	\$ -	\$ -		\$ -	

Does not include duplication in requirements and receipts for project related costs.

Includes:

- ***Highway Fund***
- ***Highway Trust Fund***
- ***Turnpike Authority***



Highlights: Transportation

Highway Fund

- Redirects \$68 million in Highway Fund appropriations, generated from efficiencies identified in other programs, to support other Transportation priorities
- \$360 million above the 2013-15 base budget level to be directed to the Maintenance Program
 - Facilitates the continued support for a well maintained, multimodal transportation infrastructure
- Allocates \$7.5 million gained from efficiencies to establish an Economic Development Fund
 - Provides for highway improvements that promote safety and mobility initiatives with an emphasis on job creation
- Customer service improvements for citizens that conduct business with the Division of Motor Vehicles
 - Adding Saturday service to 30 driver license sites over the biennium
 - Adding self-service kiosks
 - Identifying and eliminating unnecessary exams
 - Addition of another dedicated Regional Commercial Driver License testing facility
 - Replacement of critical DMV mainframe computer applications that fail to meet current business needs



Reserves: Budget Overview

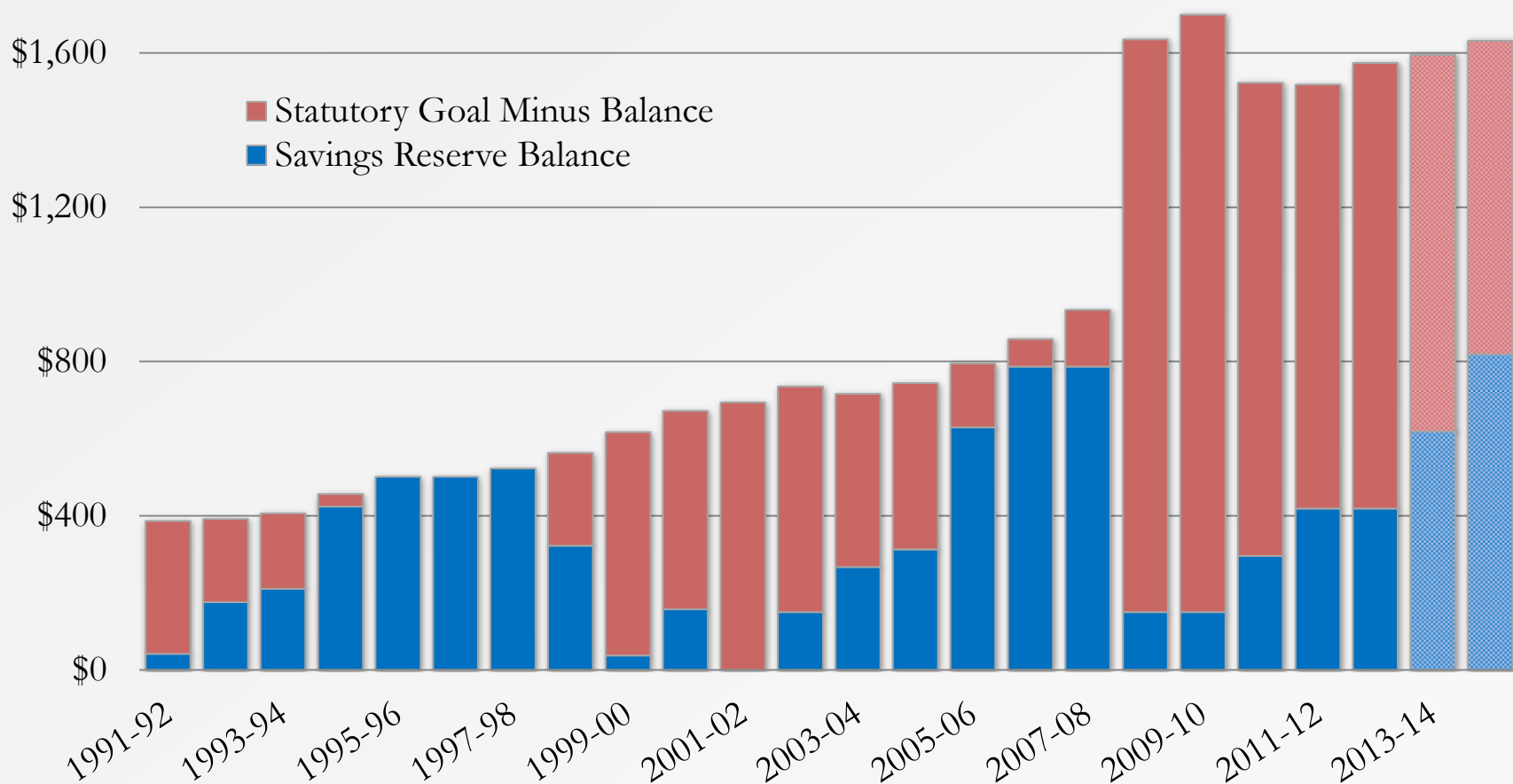
Over the biennium, \$967 million set aside in non-operating reserves to provide greater fiscal integrity to the budget. Will allow N.C. to maintain the coveted Triple A bond rating from all major rating agencies

- Fiscal Responsibility Reserves (\$600 million over the biennium)
 - \$400 million over the biennium for the Savings Reserve Account
 - \$180 million over the biennium for the establishment of a Medicaid Risk Reserve
 - \$20 million over the biennium for the Disaster Relief Reserve
- Infrastructure Reserves (\$367 million over the biennium)
 - \$300 million over the biennium for the Repairs and Renovations Account
 - \$67 million over the biennium for an Information Technology Planning Reserve
- In addition, \$131 million remains unspent for FY 2013-14 and \$332 million remains unspent for FY 2014-15



Savings Reserve Account Balances

\$400 million allocated to Savings Reserve Account over the biennium will bring balance to \$819 million in FY 2014-15 (4% of General Fund Appropriations)



Notes: 1) FY 2012-13 balance as of February 28, 2013; all others as of end of fiscal year. 2) Session Law 2006-203 raised Savings Reserve Account goal to "equal to or greater than eight percent (8%) of the prior year's General Fund operating budget," beginning with the 2007-09 biennium.



Reserves: Information Technology

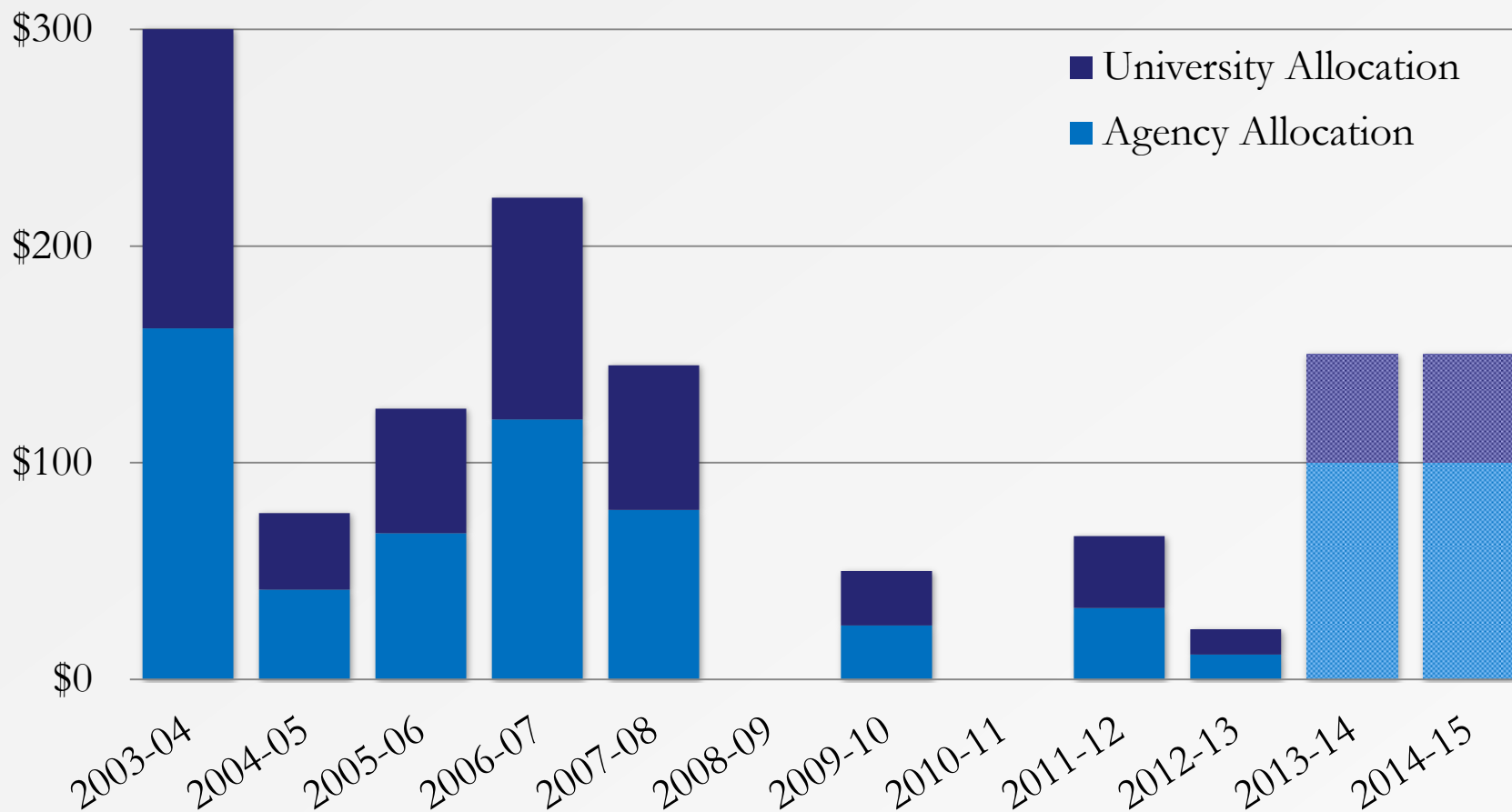
Information Technology Reserve

- Provides \$67 million over two years
 - Address critical statewide IT infrastructure and security deficiencies
 - Expand capacity for statewide IT oversight and enterprise planning
- Funds will be released to the State Chief Information Officer for implementation subsequent to the State Budget Director's approval
- Reserve will utilize \$8 million from the E-Procurement fund balance in the FY 2013-14



Repair & Renovation Account Balances

Budget Includes \$300 million over the biennium for Repair & Renovation Funding





Reserves: Salary and Benefits

- Provides a 1% cost of living salary increase to Teachers and State Employees as well as retirees
- Funds \$20 million for a salary adjustment reserve to provide for competitive pay increases and retention bonuses for key employees who are not receiving market wages

	2013-14	2014-15
1% Pay Increases for Teachers & State Employees	\$135,700,000	\$135,700,000
Salary Adjustment Reserve/Compensation Study	\$ 20,000,000	\$ 20,000,000
Retirement System Annual Contribution	\$ 36,100,000	\$ 36,100,000
1% Cost-of Living Adjustment for Retirees	\$ 35,000,000	\$ 35,000,000
State Health Plan Contribution	\$ 45,000,000	\$136,200,000



QUESTIONS ????

Electronic version of Governor McCrory's budget can be located at the Office of State Budget and Management website: osbm.nc.gov