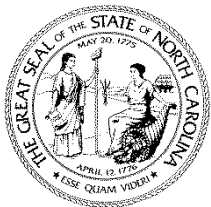


Governor McCrory's Recommended 2015-2017 Budget

Governor Pat McCrory



Lee H. Roberts
State Budget Director
Office of State Budget and Management
March 10, 2015

FISCAL DISCIPLINE

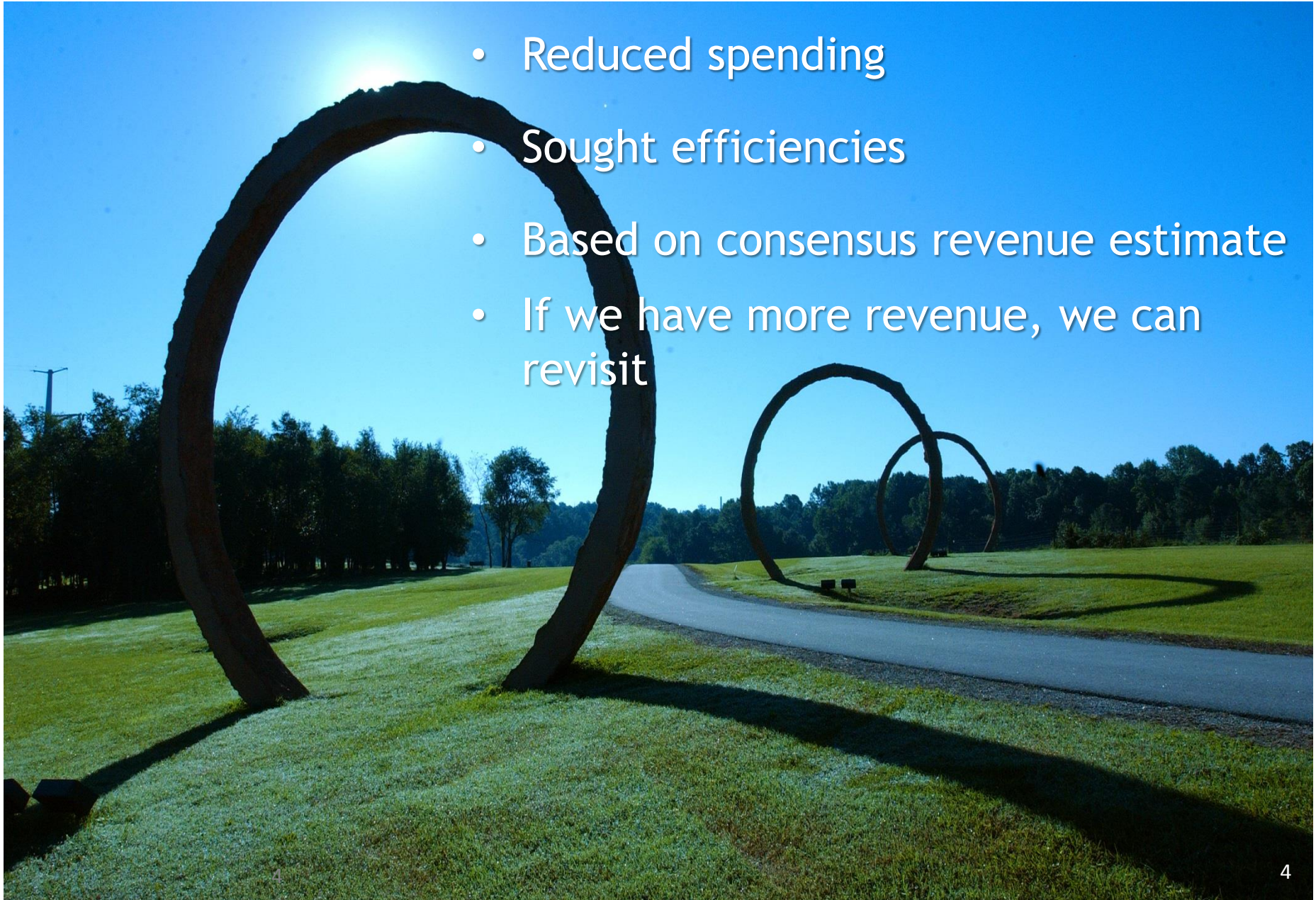
- NO NEW TAXES
- Triple A bond rating from all three major ratings agencies
- Budget grows more slowly than inflation and population
- Balanced budget, consistent with state constitution



MOST OF GENERAL FUND IS ALREADY OBLIGATED BY STATUTE

- More than \$3 billion annually to maintain the retirement system and health plan for state employees
- 76% of new spending (\$741 million) devoted to education and Medicaid
- Medicaid
 - \$3.8 billion or 18 % in year one
 - \$4 billion or greater than 18 % in year two

- Reduced spending
- Sought efficiencies
- Based on consensus revenue estimate
- If we have more revenue, we can revisit

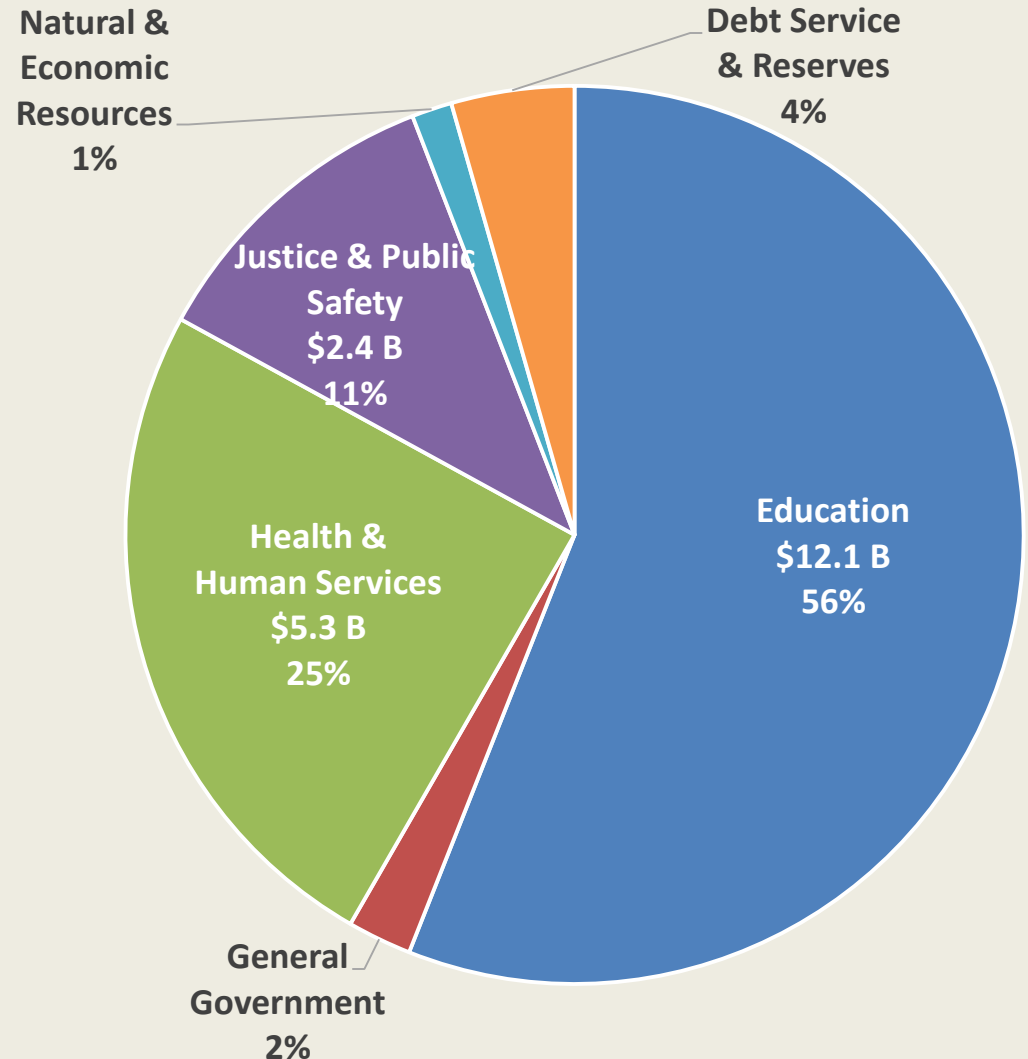




- Will collect more than \$43.7 billion during the next two years
- Must be effective, efficient, accountable
- Spend where it matters most

FY 2015-16 General Fund Appropriations = \$21.5 billion

- Education is 70% K-12, 22% university system, and 8% community colleges
- Health & Human Services is more than 2/3 Medicaid
- Justice & Public Safety is 73% Public Safety (law enforcement & corrections), 25% Judicial, and 2% Justice
- General Government and Natural & Economic Resources combine to comprise nearly 4% of all appropriations





- Fulfill our pledge to raise the starting salary for public school teachers to **\$35,000**
- This budget proposes **MORE THAN HALF A BILLION DOLLARS** in new funding for k-12 education

- Corrections officers
 - 10,000 officers
 - Reflects relative danger of prisons
 - Last increased in the mid-1980s
- State Highway Patrol troopers
 - Five percent step increase for eligible troopers
- Longevity pay
 - Continues for nearly 40,000 state employees
- \$82 million salary exception fund
 - To attract and retain highly effective employees and employees in high-demand fields



- Targeted, long-term investments
- Vital to competitiveness
- Pay for assets that will last for 50 years as they are used
- Historically low interest rates
- Will not jeopardize our credit ratings



- 1.8 million people or 18% of our state population supported by Medicaid
 - \$7.8 billion over two years
- Mental health
- Pre-K
- Other key social services

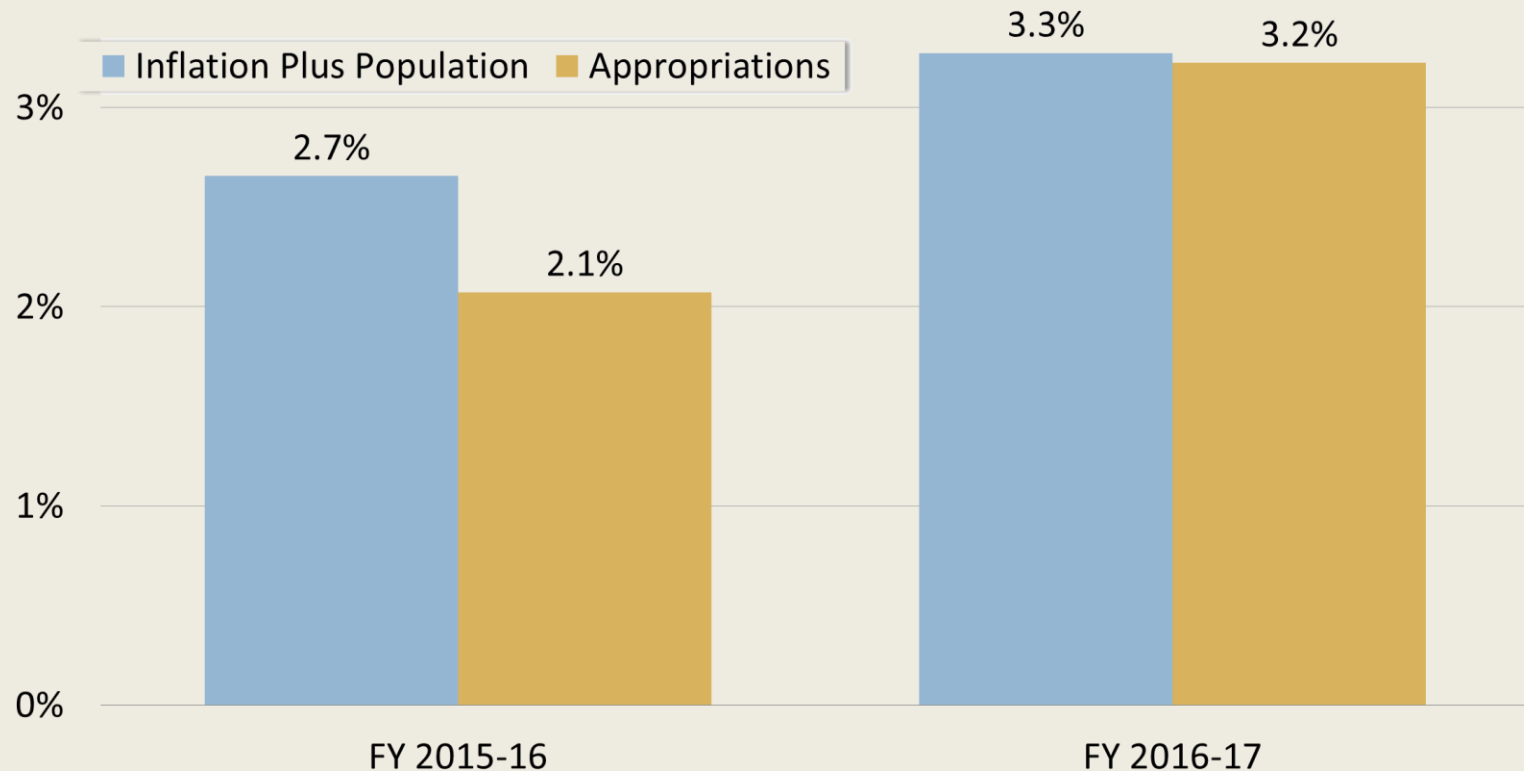


Grows more slowly than inflation and population

Remaining well below the statutory cap

Recommended Appropriations to Grow Slower than Population & Inflation

Year-Over-Year Growth in Projected CPI-U Plus Population and Recommended General Fund Appropriations



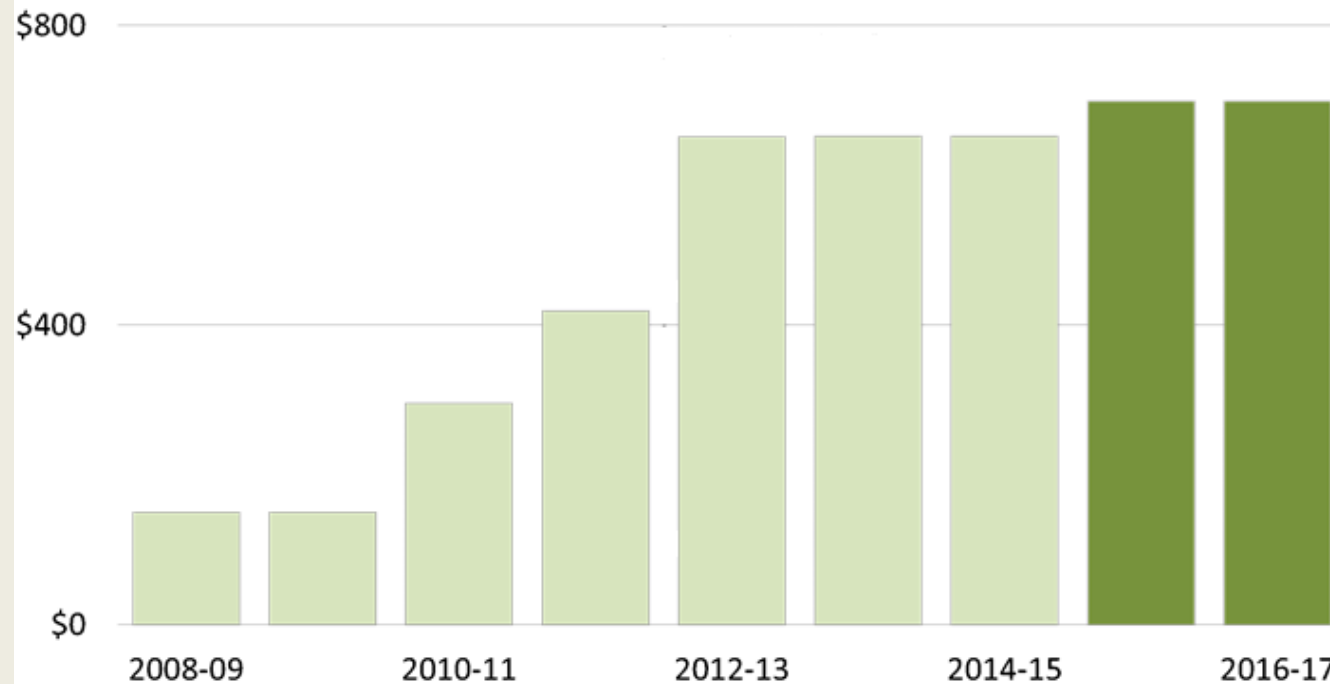
Sources: OSBM (recommended appropriations) and Congressional Budget Office (projected growth in CPI-U)

Strengthening and enhancing reserves in excess of \$650 million

One of only ten states with a Triple A bond rating from all three major rating agencies

Allocates an additional \$47 million to the Rainy Day Fund

Year-End Savings Reserve Balance in Millions of Current-Year Dollars

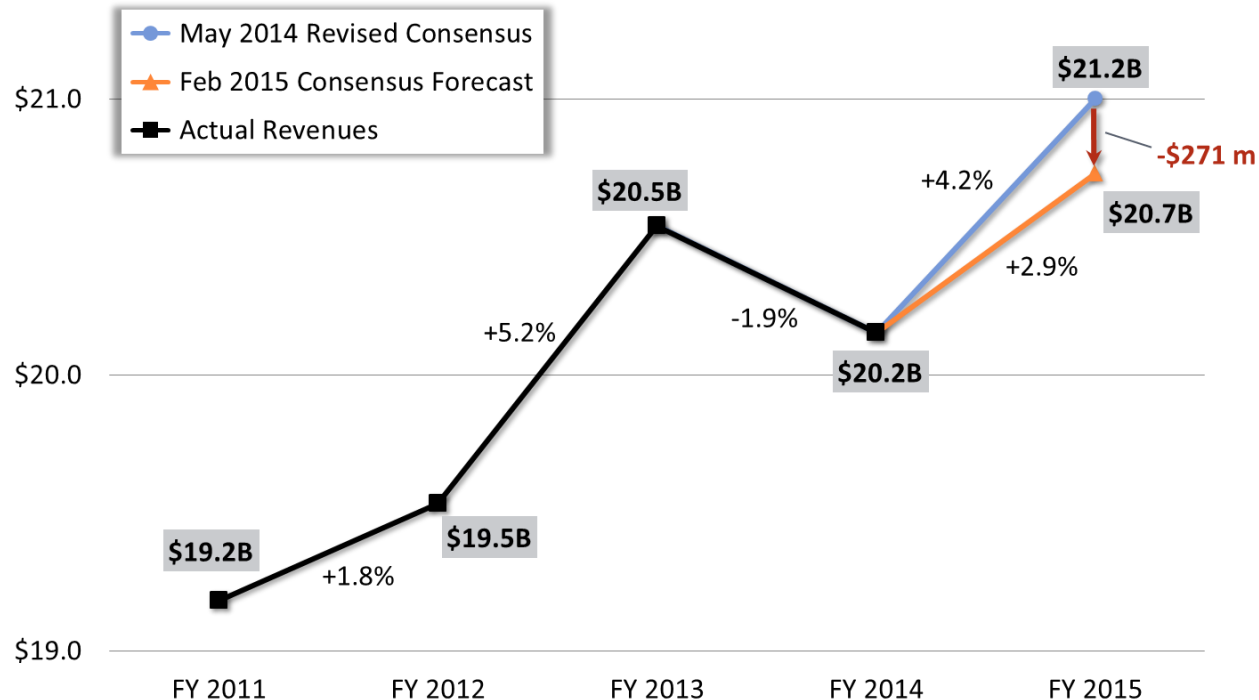


Note: All balances as of end of fiscal year.

Forecast reflects modest growth of 2.9%

General Fund Revenue: Recent History & Forecast

Billions of Current-Year Dollars

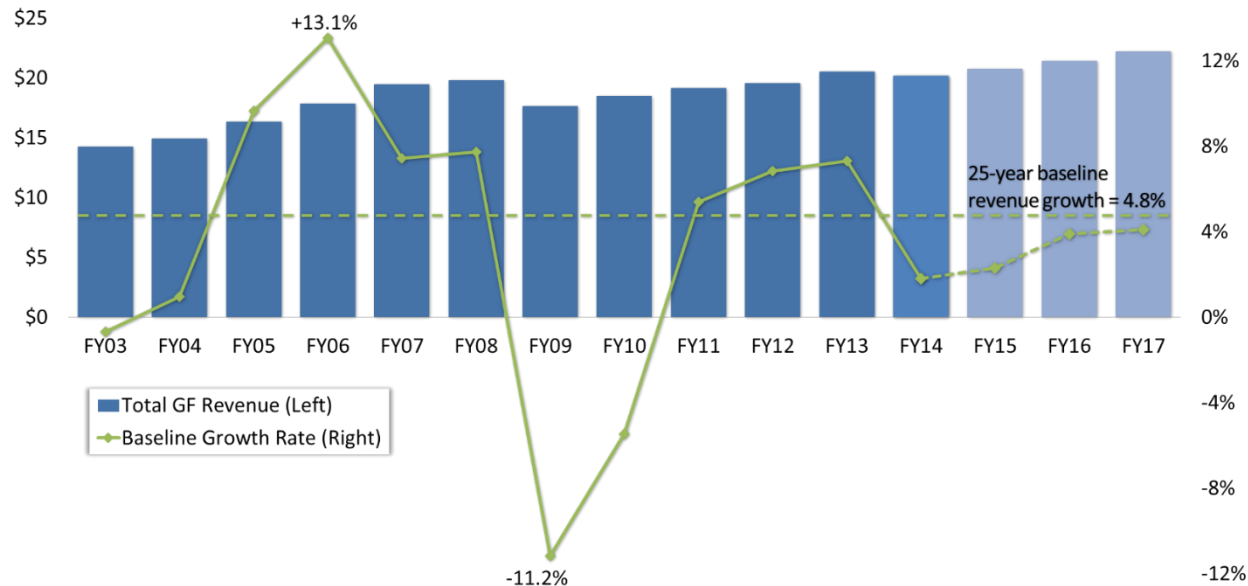


Forecast for FY 2015-17 Anticipates Moderate Growth

- Consensus General Fund Revenue Forecast with the Fiscal Research Division
- FY 2015-16 Base Growth: 3.9%
- FY 2016-17 Base Growth: 4.1%

Total General Fund Revenue: Fiscal Year 2003 to 2017

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



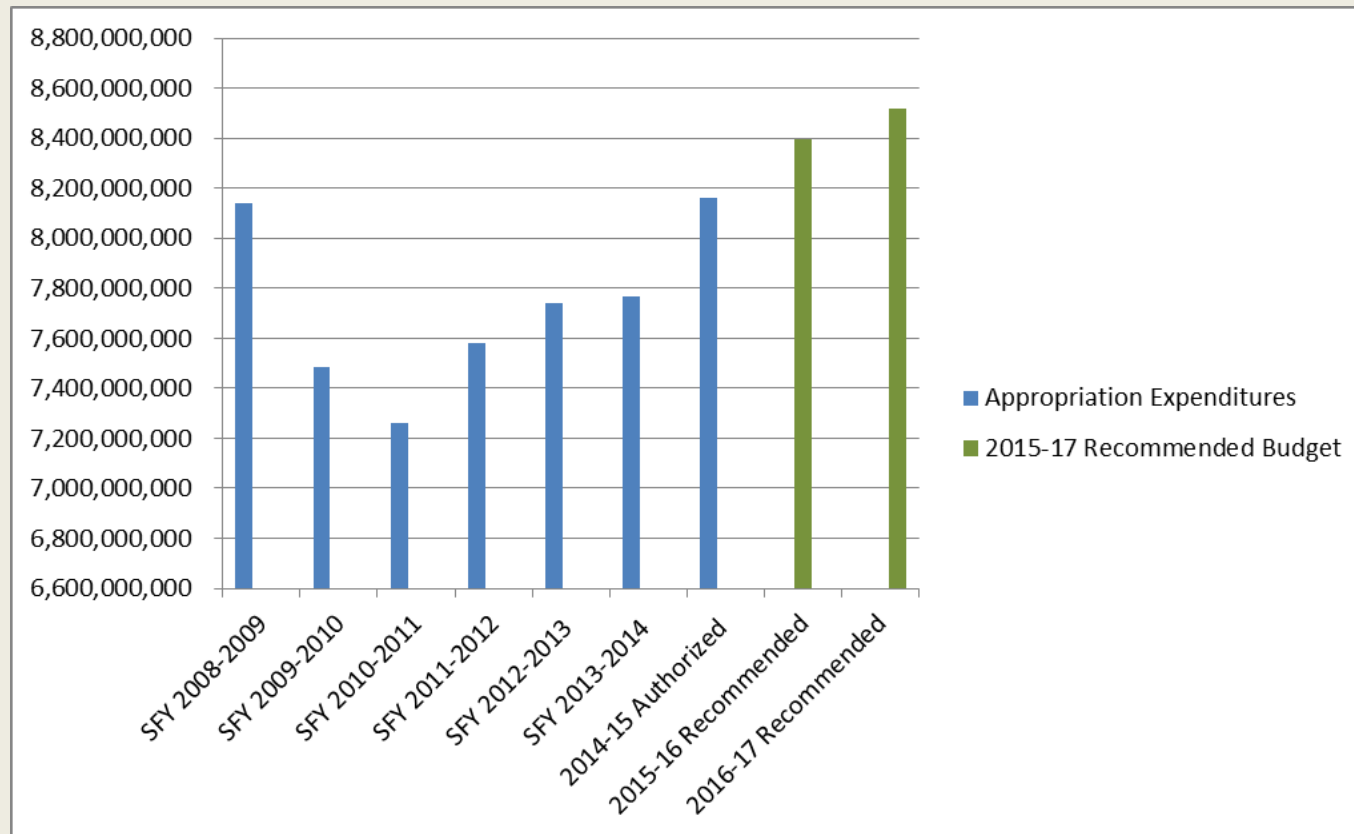
Note: Baseline revenue growth measures economy-based changes in annual own-source general revenue, controlling for tax-law changes

Marginal Cost* of Major Recommended Revenue Changes (\$ in millions)

Description	Year 1 (FY 2015-16)	Year 2 (FY 2016-17)	Year 3 (FY 2017-18)
Historic Preservation Tax Credit	\$1.7	\$10.5	\$17.7
Renewable Energy Credit for Non-Solar Projects	\$0.0	\$7.0	\$11.0
R&D Credit	\$0.0	\$58.0	\$60.0
Datacenter Machinery & Equipment Purchases	\$3.0	\$4.0	\$4.0
Interstate Air Carrier Fuel Purchases	\$0.0	\$7.5	\$15.0
Motorsports Parts	\$0.0	\$1.1	\$2.3
Motorsports Fuel	\$0.0	\$0.07	\$0.15

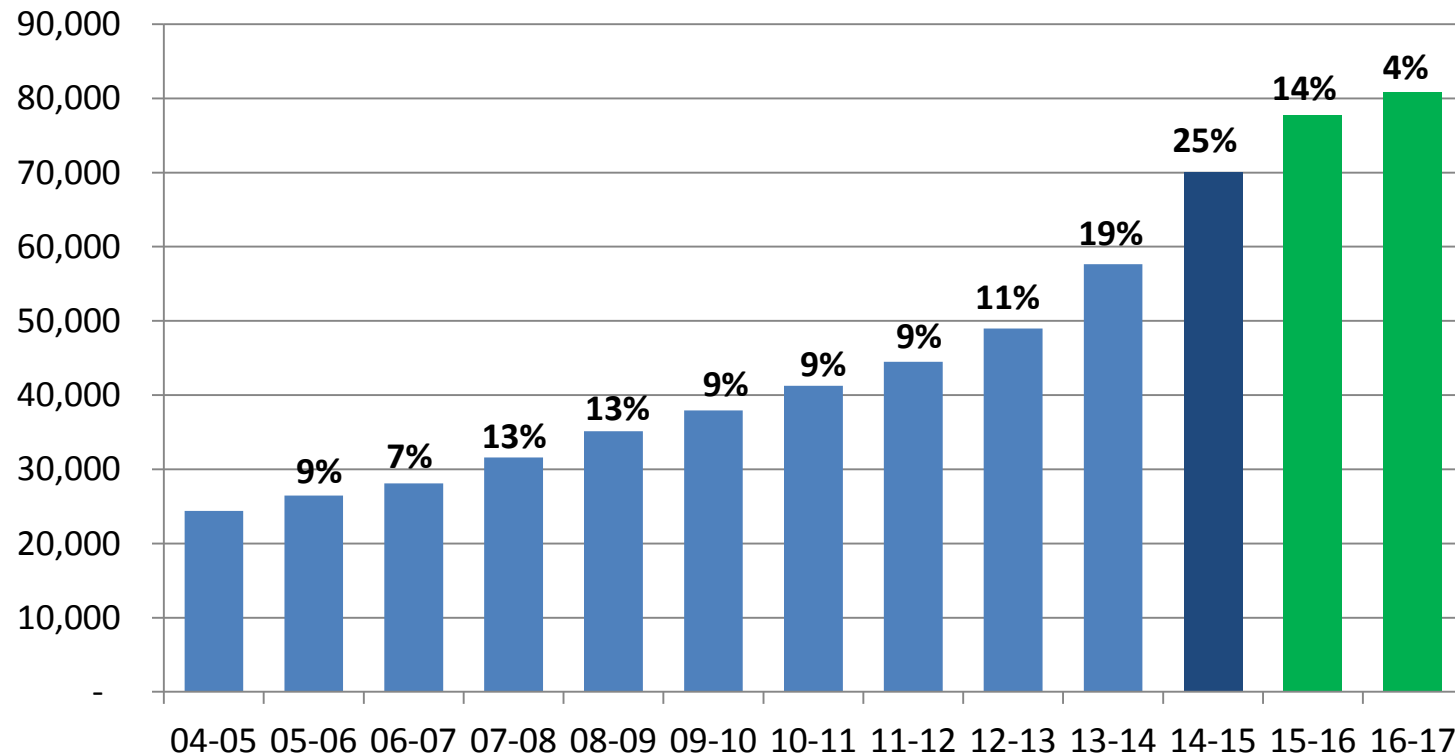
*NC Office of State Budget and Management projections

Continuing significant commitment to K-12 funding



- Since FY 2004-05, Charter Schools have grown from just over 24,000 students to nearly 70,000 students, an increase of 187 percent
- Enrollment in charter schools is projected to reach nearly 81,000 students in the next biennium

Charter School Enrollment Trends & Percent Growth



Note: FY 14-15 is based on first two months of enrollment. FY 15-16 and FY 16-17 are DPI projections.



TEACHER PAY

- \$223 million
- Increases teacher base pay to \$35,000
- Increases on salary schedule



ENROLLMENT GROWTH

- \$307 million
- Fully funds enrollment growth → 1,400 new teachers



TEACHING ASSISTANTS

- \$128 million
- Retains nearly 2,000 teaching assistants



REWARDING HIGHLY-EFFECTIVE TEACHERS

- \$15 million
- North Carolina Education Endowment Fund



INSTRUCTIONAL RESOURCES

- \$70 million
- Classroom resources including textbooks, instructional supplies and equipment



PRE-K

- Ensures access to NC Pre-K for more than 26,800 at-risk four-year-olds



BRODY SCHOOL OF MEDICINE AT ECU

- \$16 million
- Stabilizes medical education and maintains community preceptorships

ENROLLMENT GROWTH

- \$129.6 million
- Fully funds projected enrollment growth

LIMIT SUBSIDY TO PRIVATE FUNDRAISING

- Saves \$18 million each year
- No more than \$1 million in state funds on private fundraising efforts



IN-STATE TUITION FOR VETERANS

- \$11.3 million
- Supports those who defend our freedom by offering in-state tuition to qualifying non-resident veterans

COMMUNITY COLLEGE YEAR-ROUND CLASSES

- Accelerates the North Carolina talent pipeline by funding classes year-round, including in the summer, just like North Carolina businesses

COMMUNITY COLLEGE TECHNOLOGY

- \$10 million
- Critical upgrade to the central data system used by all 58 community colleges
- \$5 million for STEM equipment

VENTURE MULTIPLIER FUND

\$30 million

Invests in early stage commercial ventures, along with private sector dollars



NORTH CAROLINA RALLYING INVESTORS AND SKILLED ENTREPRENEURS (NC RISE)

\$5 million

Leverages existing entrepreneurial talent and recruits world-class investors and skilled entrepreneurs



UNIVERSITY INNOVATION COMMERCIALIZATION INVESTMENT

\$7.5 million

Invests in selecting and developing university technologies to make them attractive to investors

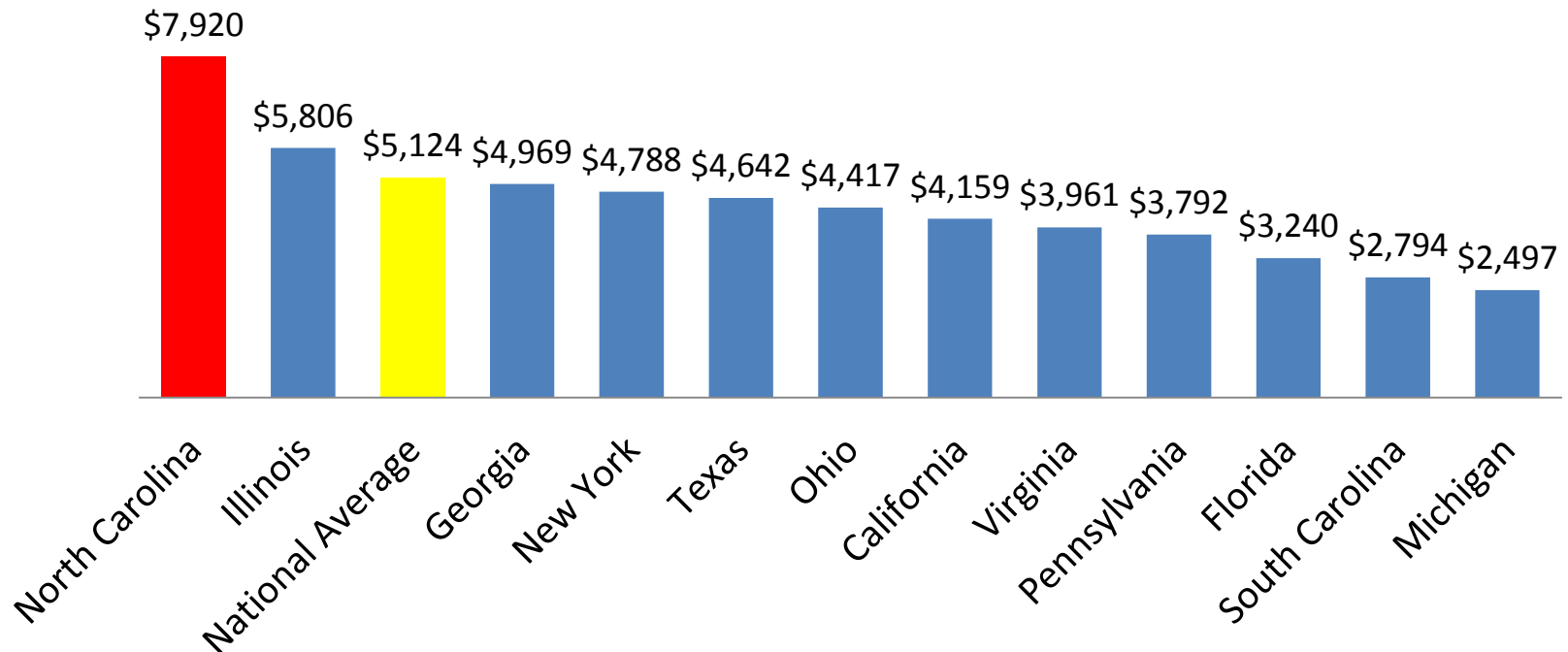


North Carolina spends a greater percentage of tax revenues on higher education *than any other state*

State Appropriation for Higher Education: % of State Taxes		
	2011-12	National Rank
50 states	9.5	
North Carolina	17.5	1
Alabama	17.3	2
Georgia	16.5	3
New Mexico	16.0	4

(Source: SREB)

General Fund Expenditures per Student: 10 Most Populous States, VA and SC



Sources: NASBO State Expenditure Report, Almanac of Higher Education 2014, Pope Center for Higher Education

Dedicates **\$4.8 billion** to lay the foundation for our 25-year transportation vision, which focuses on connecting small towns and economic centers across the state

Critical infrastructure

- Increase of \$135 million
- Strategic investments in critical infrastructure

Road Maintenance

- Increase of \$51 million
- Road preservation and improvements projects

Capital Improvements

- Increase of \$36 million
- Capital repairs and renovations under the Capital Improvement Plan

Congestion

- Increase of \$10 million
- Eases congestion, particularly in rural and small urban communities

North Carolina Government Efficiency and Reform (NC GEAR)

- More than \$14 million of savings in year one
- More than \$57 million of savings in year two of the biennium,
- Savings over ten years conservatively estimated at more than \$615 million IN PRESENT VALUE



Manage cultural and
natural resources
together



Improve integrity
and timing of vital
record registry



Recover debts
through the State
Reciprocal Treasury
Offset Program



Rationalize
state vehicles



Reduce state
employees workers'
compensation
expense



Leverage buying
power for school
districts

Reinforces North Carolina's reputation as the most military-friendly state in the nation

In-state tuition for veterans



- \$11.3 million
- In-state tuition for qualifying non-resident veterans

Department of Military and Veterans Affairs



- Protect our military mission
- Coordinate services for military communities, active duty personnel and veterans

Veterans courts



- Supports the development of additional veterans' treatment courts
- Helping veterans return to a productive life instead of being locked up for minor offenses related to mental health issues or substance abuse

Support veterans and fight crimes against children



- \$2 million
- Awarded to law enforcement agencies to hire staff to locate and rescue children in danger
- Priority will be given to veterans who have received special training from the Human Exploitation Rescue Operative (HERO) project

Recognizes the dedication of our law enforcement and corrections officers

CORRECTIONS OFFICERS



- \$21 million
- Compensates and retains our corrections officers who confront the most violent people in our state every day

HIGHWAY PATROL TROOPER STEP INCREASES



- \$3.7 million
- Funds the full five percent step increase for eligible State Troopers each year

VEHICLES



- \$11 million
- Replaces aging law enforcement vehicles
- Improves safety
- Reduces maintenance costs

CRIME LAB



- \$2 million
- Improves crime lab operations
- Reduces criminal case backlogs



COURT SYSTEM

- \$16 million
- Addresses costs associated with jurors, witnesses, interpreters, expert witnesses for prosecutors, equipment maintenance, hardware and software



NORTH CAROLINA BUSINESS COURTS

- \$1.2 million
- Expands existing North Carolina Business Courts, as recommended by the North Carolina Economic Development Board



INDIGENT DEFENSE

- \$9 million
- Funds estimated shortfall in funding required for payments to private assigned counsel contracted to represent indigent clients

Invests nearly **\$24 million** in new funding for mental health services in our prisons

Behavior health treatment units

- \$17 million
- Establishes behavior health treatment units at eight high security prisons across the state
- New positions to improve mental health screening at intake centers

Mental health beds

- \$6.7 million
- Opens another 72 inpatient mental health beds at the Central Prison Health Care Facility

Invests nearly **\$82 million** in new funding for mental health and substance abuse services

Community mental health services

- \$42 million
- Investments to cover mental health needs in our communities
- Treating substance abuse in our communities

State mental health facilities

- \$39.4 million
- Start-up funding for the new Broughton Hospital
- Ensuring financial viability of state health facilities by acknowledging acuity and patient mix we serve

Provides more than \$10.8 billion in Department of Health and Human Services funding to support the well-being of our most vulnerable citizens

The Office of Chief Medical Examiner

- Increase of \$5.3 million
- Improves services and replaces equipment for the Office of the Chief Medical Examiner

Adoption and Foster Care

- Increase of \$15 million
- Funding for foster care and adoption services
- Ensures all children needing support have access

NC FAST and NC TRACKS

- Increase of \$22.9 million
- Replaces legacy IT systems to more efficiently serve citizens and pay providers

Medicaid

- \$287 million in the first year and \$461 million in the second
- Provides health coverage to more than 1.8 million low-income families

Medicaid Reform

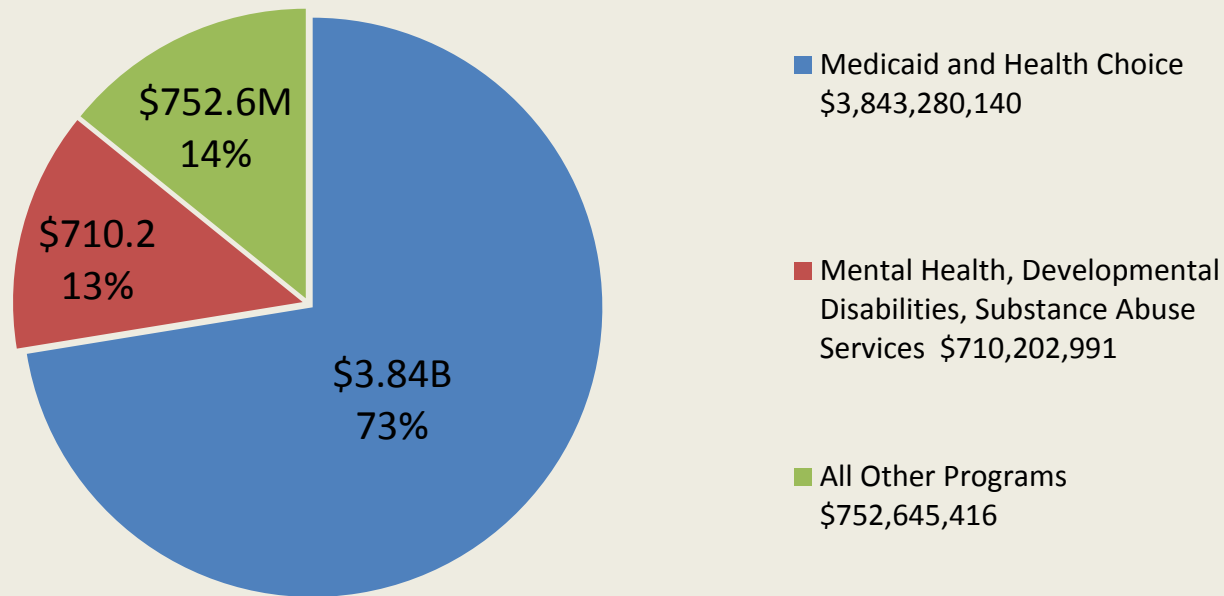
- Supports Healthy NC reform plan to put patients first and control costs for taxpayers
- Accountable Care Organization delivery model

Medicaid Risk Reserve

- \$175 million over two years
- Provides buffer against inevitable uncertainty in one of our biggest cost drivers

DHHS STATE FUNDING

Medical Assistance and Mental Health account for 86% of DHHS General Fund appropriations in the recommended budget



2015-16 Recommended State General Fund Appropriation

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$9,826,190,625	\$12,545,807,373	\$12,648,865,093	0.8%	\$12,658,957,456	.9%
Requirements¹					\$12,765,916,778	1.8%
Receipts	\$2,058,512,652	\$4,383,473,145	\$4,251,570,900	-3.0%	\$4,250,083,628	-3.0%
GF Appropriation	\$7,767,677,973	\$8,162,334,288	\$8,397,294,193	2.9%	\$8,408,873,828	3.0%
GF Appropriation¹					\$8,515,833,150	4.3%

¹ \$107 million for incremental enrollment increase for 2016-17 placed in statewide reserve

• Highlights of Savings

- Operating efficiencies of \$6 million each year
- Reduced costs of \$20 million each year in transportation

• Highlights of Investments

- Investments an additional \$110 million each year in teacher and administrator salary increases, and \$15 million over the biennium for highly effective teachers
- \$42 million in 2015-16 and \$47 million in 2016-17 to support wireless internet access and enhance student access to instructional resources
- \$100 million in 2015-16 and \$207 million in 2016-17 for teachers, teacher assistants, and other positions and resources required to fully support enrollment growth

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$4,275,146,894	\$4,342,417,394	\$4,356,494,018	0.3%	\$4,355,467,107	0.3%
Requirements¹					\$4,386,403,645	1.0%
Receipts	1,702,389,651	\$1,695,603,295	\$1,735,154,834	2.3%	\$1,722,610,554	1.6%
GF Appropriation	\$2,572,757,242	\$2,646,814,099	\$2,621,339,184	-1.0%	\$2,632,856,553	-0.5%
GF Appropriation¹					\$2,663,793,091	0.6%

1. Includes allocation of \$30.9M enrollment growth incremental increase budgeted in OSBM reserve for 2016-17.

• Highlights of Savings

- Operating efficiencies of \$49.9 million, with flexibility to achieve savings
- Leverages non-State funds of \$36.0 million in FY 15-16 and \$27.9 million in FY 16-17

• Highlights of Investments

- Provides additional \$4.4 million to continue North Carolina's commitment to offer in-state tuition to qualifying nonresident veterans.
- Stabilizes ECU Brody School of Medicine with \$8 million in each year for medical education.
- Fully funds enrollment growth of \$49.3 million and \$80.3 million for each year of biennium.

Overview: North Carolina Community Colleges

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$1,440,356,392	\$1,462,859,992	\$1,453,333,617	-0.7%	\$1,458,333,617	-0.3%
Receipts	\$424,395,744	\$413,813,125	\$418,444,740	1.1%	\$417,444,740	0.9%
GF Appropriation	\$1,015,960,648	\$1,049,046,867	\$1,034,888,877	-1.3%	\$1,040,888,877	-0.8%

- **Highlights of Savings**

- Saves \$3 million each year due to declining enrollment
- Increases community college tuition by \$4 per credit hour, maintaining North Carolina community college tuition among the lowest in the country and the southeastern region

- **Highlight of Investments**

- Fully fund enrollment in summer term curriculum classes beginning in summer 2015, which will result in additional enrollment funding in 2016-17
- \$2 million each year to allow the NC Community College System to offer in-state tuition to qualifying nonresident military veterans
- Provides \$5 million each year for a critical upgrade of the College Information System, the central data system used by all 58 community colleges
- \$5 million in the second year to purchase current, up-to-date equipment and technology used to prepare students in STEM fields

Overview: Department of Health and Human Services

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$18,468,002,559	\$18,992,200,857	\$19,601,533,472	5.75%	\$20,206,607,175	8.94%
Receipts	\$13,574,353,755	\$13,843,782,988	\$14,295,404,925	5.82%	\$14,675,807,718	8.58%
GF Appropriation	\$4,893,648,804	\$5,148,417,869	\$5,306,128,547	5.56%	\$5,530,799,457	9.92%

- Highlights of Savings**

- Operating efficiencies save 7.5 million each year by reducing vacant positions and personal services contracts
- Leverages non-state funds of \$47.4 million in year one and \$27.8 million in year two

- Highlights of Investments**

- Reflects an estimated need for \$287.5 million in year one and \$460.6 million in year two for the Medicaid rebase
- Invests \$10.2 million in year one and \$32 million in year two for Community mental health services
- Invests \$27.9 million and \$11.6 million in year two to support State operated health care facilities
- Invests \$4.5 million in year one and \$10.4 million in year two for foster care and adoption services
- Continues investment in Pre K slots from 2014-15 by providing \$5.04 million in each year
- Supports NC FAST to improve access to services by investing \$5.8 million in year one and \$13 million in year two
- Invests \$735,000 in year one and \$4.6 million in year in the Office of the Chief Medical Examiner

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$732,131,642	\$706,667,644	\$583,141,794	-17.48%	\$584,582,906	-17.28%
Receipts	\$376,227,475	\$298,080,633	\$271,228,049	-9.01%	\$271,176,161	-9.03%
GF Appropriation	\$355,904,167	\$ 408,587,011	\$311,913,745	-23.66%	\$313,406,745	-23.29%

• Highlights of Savings

- Operating efficiencies of \$2.2 million each year of biennium
- Promotes better customer service, increased revenue and more consistent oversight of state attractions by shifting the management of the attractions from DENR to the Department of Cultural Resources
- Leverages non-state resources of \$600,000 each year of the biennium

• Highlights of Investments

- \$99 and \$107 million in each year to support existing NC Competes (JDIG, One NC, JMAC) contractual obligations
- \$10 million each year to encourage long-term, sustainable film projects
- Supports the Governor's Innovation to Jobs initiative through \$5 million each year for the One NC Small Business Program
- Provides \$1 million each year to the Farmland Preservation Trust Fund

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$2,586,805,935	\$2,578,348,785	\$2,596,317,359	0.70%	\$2,666,689,055	3.43%
Receipts	\$239,048,338	\$199,746,605	\$196,862,131	-1.44%	\$196,330,419	-1.71%
GF Appropriation	\$2,347,757,597	\$2,378,602,180	\$2,399,455,228	0.88%	\$2,470,358,636	3.86%

All figures in millions of dollars.

• Highlights of Savings

- Operating efficiencies of \$16.6 million in 2015-16 and \$2 million in 2016-17
- Leverages non-state resources of \$48,000 each year of the biennium

• Highlights of Investments

- \$21 million in 2016-17 to begin implementing new salary classifications for correctional officers and supervisors
- \$1.7 million and \$1.9 million each year to fund 5% step increase for 700 eligible state troopers
- Increases funding for mental health treatment of inmates by \$24 million
- Provides \$2 million to improve State Crime Lab processes and reduce criminal case backlogs
- Addresses critical operating needs in the court system with \$6 million in 2015-16 and \$10 million in 2016-17
- Invests \$1.2 million over the biennium to expand NC Business Courts
- Funds backlog of payments to private counsel who represent indigent clients by \$9 million over the biennium
- Improves safety by providing \$1 million in each year of the biennium for law enforcement officers to use emerging technology to locate and rescue children in danger

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$673,273,702	\$741,705,572	\$716,356,890	-3.42%	\$715,888,584	-3.48%
Receipts	\$266,371,404	\$316,255,530	\$218,500,266	-30.91%	\$210,938,568	-33.30%
GF Appropriation	\$406,902,298	\$425,450,042	\$497,856,624	17.02%	\$504,950,016	18.69%

• Highlights of Savings

- Saves \$3 million each year of the biennium
- Establishes the Department of Information Technology

• Highlights of Investments

- \$2.7 million each year for Military Affairs Commission recommendations
- \$11 million in each year of the biennium in affordable housing initiatives
- \$12.1 million in year one and \$7.2 million in year two in receipts to fund information technology improvements and critical operations in the Department of Revenue
- Supports the Innovation to Jobs Initiative through:
 - \$2.5 million in each year for the Rallying Investors and Skilled Entrepreneurs for NC (NC RISE) program
 - \$2.5 million in year one and \$5 million in year two for the University Innovation Commercialization Grant Program

	2014-15 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
Requirements	\$4,468,896,312	\$4,383,900,270	\$4,424,087,791	0.92%	\$4,405,474,286	0.5%
Receipts	\$1,665,559,795	\$1,237,364,844	\$1,263,087,791	2.08%	\$1,169,074,286	-5.5%
HF & HTF Appropriation	\$2,782,266,949	\$3,146,535,426	\$3,161,000,000	0.46%	\$3,236,400,000	2.9%
Change in Fund Balance	\$(21,069,568)	\$ -	\$ -		\$ -	

- **Highlights of Savings**

- Redirects \$94 million in Highway Fund appropriations, generated from efficiencies identified in other programs, to support other Transportation priorities

- **Highlights of Investments**

- \$4.8 billion to lay the foundation for our 25-year transportation vision
- Provides \$135 million in additional funding for the strategic investments in the Highway Trust Fund
- Provides \$10 million for the Small Construction Program to ease congestion in rural and urban areas
- Funds the final phase of customer service improvements for the Division of Motor Vehicles license services

Will request a transportation bond of \$1.2 to \$1.4 billion to take advantage of historically low interest rates

- **DENR - Water Resources Development Projects**
 - Provides \$5 million each year for the State's share of Water Resources Development Projects
 - Leverages \$10.4 million in federal funds
- **Department of Public Safety - National Guard**
 - Provides \$618,000 in year one and \$5 million in year two to expand and rehabilitate National Guard Readiness Centers
 - The Readiness Centers are located in Franklin County, Onslow County, Pasquotank County and Rockingham County
- **Repair & Renovation Funds: \$47 million**

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

osbm.nc.gov

