



# NC 2010 LEGISLATIVE SESSION BUDGET AND FISCAL POLICY HIGHLIGHTS

## Executive Summary

On June 30, 2010, the General Assembly ratified Senate Bill 897, the Appropriations Act for FY 2010-2011. The Appropriations Act (S.L. 2010-31) appropriates \$19.0 billion in General Fund availability and addresses budgetary gaps caused by \$787.9 million in revenue shortfalls, \$430.6 million in unanticipated costs in the Medicaid program, and \$86.6 million from additional enrollment in community colleges and universities. Of the adjustments made by the General Assembly to balance the budget, the most significant was the use of \$562.5 million in additional federal American Reinvestment and Recovery Act (ARRA) funds for Medicaid assistance. Of this amount, \$518.9 million from the Federal Medicaid Assistance Program (FMAP) is uncertain; the Appropriations Act includes a contingency plan to balance the budget in the event FMAP funds are not forthcoming.

This brief summarizes the major budgetary actions of the General Assembly. More specifically, the brief highlights:

- Revenues and revenue adjustments
- The use of Federal ARRA funds
- Budget reductions
- The education lottery
- Budget increases
- Legislative actions related to federal healthcare reform
- The structural budget deficit in future years

The appendix to this brief provides details on the actions of the General Assembly in the areas of revenues and appropriations. The appropriations section of the appendix is organized by subcommittee area.

## Availability for FY 2010-11

### Revenues

When the General Assembly convened on May 12, 2010, it faced a lower revenue forecast and the loss of the State estate tax. These two factors resulted in a \$787.9 million reduction in General Fund availability for FY 2010-11, from \$19.6 billion to \$18.8 billion, a reduction of 4.0%.

The Fiscal Research Division and the Office of State Budget and Management revised their April 2010 consensus revenue forecast for FY 2010-11 downward by \$702.9 million. The two major factors behind the lower revenue forecast are: 1) a lower revenue base from which revenue can grow, the result of lower than expected sales tax and personal income tax revenues in FY 2009-10; and 2) a downgraded economic forecast for the nation and the State's economy. The result of these two factors is that baseline revenue collections (removing tax law changes) for FY 2009-10 were lowered to a 4.5% year-over-year decline compared to a 2.2% decline forecast in May 2009, and for FY 2010-11, the forecast downgraded growth from 3.3% to 2.7%.

In addition to the lower revenue forecast, the State will lose another \$85.0 million in Estate Tax revenues. The North Carolina Estate Tax is tied to the federal internal revenue code referencing the federal estate tax, which expired January 1, 2010 (it is scheduled to be reinstated in 2011). In the absence of the federal estate tax no State estate tax will be collected.

## Adjustments to Revenues

During the 2010 session, the General Assembly made revenue adjustments totaling \$60.0 million. The most significant of these was a refundable income tax credit to small business taxpayers whose gross receipts are less than \$1 million. The credit amount is 25% of the unemployment insurance contributions the taxpayers paid with regard to employees' wages. A list of all legislative adjustments to revenues is included below:

<b>Revenue Adjustments: Senate Bill 897</b>	<b>Impact on Revenues FY 2010-11</b>
Internal Revenue Code Conformity	\$ (7,700,000)
Unemployment Insurance Refundable Tax Credit	(34,100,000)
Increase Sales Tax Prepayment Threshold	(7,000,000)
Relieve Annual Report Compliance Burden on Small Businesses	(400,000)
Fair Tax Penalties	0
Extend Sunsets on Various Tax Incentives	(3,500,000)
Improve Tax and Debt Collection Process	3,000,000
Modernize Sales Tax on Accommodations	1,700,000
Modernize Admissions Tax and Restore Amenities Exclusion	(700,000)
Reduce Franchise Tax Burden on Construction Companies	(1,500,000)
Remaining Reserve for Pending Finance Legislation	(1,080,000)
<b><u>Other Revenue Adjustments</u></b>	
Keeping North Carolina Competitive Act (S.L. 2010-91)	(8,850,000)
Renewable Energy Incentives (HB 1829)	(700,000)
Various Economic Incentives (S.L. 2010-147)	830,000
Economic Incentives Alignment and Changes (SB 1215)	0
<b>Subtotal - Revenue Adjustments</b>	<b>\$ (60,000,000)</b>

## **Appropriations for FY 2010-11**

In response to the revenue shortfall, the General Assembly reduced the General Fund budget for FY 2010-11 from \$19.6 billion to \$19.0 billion. The net reduction in appropriations consists of three broad categories of adjustments:

- 1) replacement of \$562.5 million in State funds with additional federal Medicaid assistance,
- 2) budget reductions totaling \$905.5 million, and

- 3) increased funding of \$866.5 million to address unanticipated growth in Medicaid costs, a dramatic increase in higher education enrollment, and other legislative priorities.

The major legislative actions within each of these three broad categories of adjustments are discussed below.

## **Replacing State Funds with Federal ARRA funds**

The Federal American Recovery and Reinvestment Act (ARRA) of 2009 provided a significant source of nonrecurring funds to help North Carolina and all other states respond to their revenue shortfalls. To help address the budgetary shortfall for FY 2010-11, S.L. 2010-31 replaces \$562.5 million in State Medicaid funds with additional federal ARRA funds. Combined with the \$1.0 billion in federal ARRA funds appropriated during the long session under Senate Bill 202, the use of this additional \$562.5 million brings the total amount of federal ARRA funds used to replace State funding to roughly \$1.6 billion. The chart below breaks these funds out by agency.

<b>ARRA Funds Replacing State Spending</b>	<b>FY 2010-11</b>
<b><u>Education:</u></b>	
Dept. of Public Instruction - Fiscal Stabilization Funds	373,281,648
UNC - Fiscal Stabilization Funds	144,202,648
<b><u>Health &amp; Human Services:</u></b>	
Early Intervention	2,700,000
Older/Blind Americans	260,590
Vocational Rehabilitation	201,170
Foster Care	2,874,089
Medicaid FMAP	984,187,004
Medicare Part D Clawback	79,419,834
<b><u>Justice &amp; Public Safety:</u></b>	
Dept of Correction - Stabilization	12,926,135
<b>TOTAL</b>	<b>\$1,600,053,118</b>

## **Contingency Plan if FMAP Not Forthcoming**

Of the \$562.5 million in additional federal aid appropriated under the Appropriations Act, \$518.9 million depends on the outcome of congressional action; Congress is considering legislation to extend enhanced Federal Medicaid Assistance (FMAP) aid for an additional six months. Although the outcome of Congressional legislation is uncertain, like most States, North Carolina factored this additional federal aid into its budget. In the event additional FMAP funding is not forthcoming, section 2.3 of the

Appropriations Act directs the Governor to backfill through the following means, in order of priority:

- Transfer \$30.0 million from the Disaster Relief Fund
- Transfer \$35.0 million of unclaimed lottery prize money and excess receipts
- Use \$50.0 million in interest earnings from governmental and proprietary funds
- Use \$22.8 million from the unappropriated General Fund balance
- Cut \$ 26.6 from Medicaid provider rates
- Use \$38.0 million from the Savings Reserve
- Reduce by \$139.0 million the State's contributions to the Teachers' and State Employees' Retirement System
- Implement an additional one percent (1%) Management Flexibility Reduction to reduce allocations by \$177.5 million

### **Budget Reductions**

Senate Bill 897 enacted \$905.5 million in budget reductions. The table below lists the largest of these reductions.

#### **Major Budget Reductions in Senate Bill 897**

##### **Education**

Education lottery receipts	\$ (121,243,793)
Revised estimate for teacher salaries	(44,950,676)
Replace More at Four funds with federal (TANF) funds	(30,559,012)
School buses and public school transportation	(21,900,000)
Management flexibility reduction for UNC	(70,000,000)
Increase community college tuition	(30,025,612)
Management flexibility reduction for community colleges	(15,000,000)

##### **Health and Human Services**

Reform of in-home personal care services	(50,714,943)
Increase Medicaid savings through Community Care of NC	(45,000,000)
Manage rates and utilization of mental health services	(41,000,000)
Medicaid program integrity	(40,000,000)
Use of federal TANF funds to supplant State Child Care funds	(23,625,329)
Immunization changes	(15,894,853)

##### **Justice and Public Safety**

Reduce inmate medical costs	(20,500,000)
Revise estimate of prison inmate population	(22,000,000)
<b>Subtotal - Major Budget Reductions</b>	<b>\$ (592,414,218)</b>

Many of these budget reductions appear as management flexibility reductions. Management flexibility reductions provide discretion to the appropriate heads of agencies, departments, universities, community colleges and public schools as to how the cuts or reductions are implemented.

### **Education Lottery**

The single largest reduction to the General Fund for FY 2010-11 reflects the use of an additional \$121.2 million in lottery funds directed to fund teacher positions. This additional funding comes from 1) additional projected lottery receipts, and 2) the redirection of funds from other lottery programs as outlined in the chart below.

#### **Additional Lottery Funds to Support Teachers**

Increase in net revenues for teachers (allocate 50% of revenue growth consistent with Lottery Act):	\$36.6 million
Reallocation of school capital funds (allocating less than the 40% of revenues called for by statute)	\$62.8 million
Funds from Lottery Reserve	\$16.8 million
Redirect some lottery funds from More at Four to teachers	<u>\$5.0 million</u>
<b>Subtotal of additional lottery funds to support teachers</b>	<b>\$121.2 million</b>

In addition to directing more funds to teachers, the General Assembly also made the following changes in lottery funding:

- For FY 2010-11 only, counties have flexibility to use their school capital allocations to support classroom teachers.
- School capital funding for counties is based solely on headcount for FY 2010-11. Previously, funds were allocated on the basis of headcount (65%); and local tax effort (35%), although in the last two years counties not eligible for funding based on tax effort received additional funding.
- \$26.6 million of lottery scholarship funds were redirected solely to UNC need-based aid. The broader lottery scholarship program supports students at community colleges and private universities in addition to those at UNC.
- As mentioned above, if federal FMAP funds are not forthcoming, \$35.0 million in unclaimed prizes, and \$10.0 million in excess lottery revenues are to be used to address the shortfall.



**Budget Increases**

Although the General Assembly reduced the State budget by \$601.5 million overall, there were \$866.5 million in budget increases in specific areas.

**Health and Human Services (HHS)**

The most significant budgetary increase is in Medicaid. Disregarding the action to replace State Medicaid funds with additional federal aid (see above), the Appropriations Act increased the Medicaid budget by \$430.6 million. This increase is primarily the result of difficulties in implementing Medicaid cuts specified in the 2009 Appropriations Act, Senate Bill 202; in some cases, these cuts failed to receive federal approval. Other factors behind the unanticipated increase in the Medicaid budget were increased enrollment from higher unemployment, and increased consumption of Medicaid services from program beneficiaries.

Apart from the Medicaid program, the most significant budgetary increases for HHS included \$40.0 million to restore funds for mental health, developmental disabilities and substance abuse cut from the budget in the 2009 Appropriations Act, and \$14.2 million for the AIDS Drug Assistance Program.

**Education**

The General Assembly appropriated an additional \$86.6 million for unanticipated enrollment increases in higher education, particularly the community college system. During FY 2009-10, community college enrollment increased 15.3%. This dramatic growth in enrollment is a result of greater demand for community college training during the recession.

Other significant increases in the area of education were \$24.0 million for UNC building reserves, \$34.8 million to repeal a UNC tuition increase implemented by Senate Bill 202, and \$21.0 million to restore community college programs for prisoner education that were under continuation review.

**Economic Development**

Fiscal Research defines economic development programs as those intended to lead to job creation. The 2010 Appropriations Act appropriates \$73.8 million for such programs and projects, primarily through the Department of Commerce, but also through the Department of Environment and Natural Resources and the UNC system.

The table below lists major economic development items funded in the Appropriations Act, Senate Bill 897.

**Major Economic Development Items in SB 897**

One NC Fund	12,500,000
Institute for Regenerative Medicine	10,000,000
Jobs Maintenance and Capital Development Fund	6,500,000
Biofuels Center	5,000,000
Biotechnology Center	5,000,000
Regional Economic Development Commissions	5,000,000
Other Economic Development	29,800,000
<b>Subtotal - Major Economic Development Items</b>	<b>73,800,000</b>

**Other Budget Actions**

**Salaries and Benefits**

Teachers and State employees received no salary increases. Senate Bill 897 maintains the freeze on most salary increases for teachers and State employees as enacted last session.

Senate Bill 897 authorizes local boards of education and the President of the University of North Carolina to implement furloughs of state-funded employees, under certain circumstances, to offset the LEA funding flexibility adjustment and the UNC management flexibility reduction including the additional 1% Management Flexibility reduction, if implemented, respectively.

Senate Bill 897 also provided no additional funding to increase the State's employer contributions to the Teachers' and State Employees' Retirement System. To address the potential loss of Federal Funds (FMAP), 1.36% of the State's employer contributions are directed to a reserve in the Office of State Budget and Management. If this reserve is not needed to address the loss of Federal Funds (FMAP), it will be transferred to the Teachers' and State Employees' Retirement System.

**Federal Health Care Reform**

Federal health care reform legislation, the Patient Protection and Affordable Health Care Act (P.L. 111-148) and the Health Care and Education Affordability Act (HR 4872), enacted in March 2010, will extend health care coverage to the uninsured. The NC Institute of Medicine estimates



that in 2009, 1.75 million North Carolinians under age 65 were uninsured.

The immediate budgetary impact of federal health care reform legislation on the State is minimal. However, during the 2010 Session, the General Assembly took the following actions:

- Authorized the NC Commissioner of Insurance to administer and enforce the federal health insurance market reform provisions.
- Authorized NC Inclusive Health, to administer the federal high risk pool in the State.

### **Structural Budget Deficit in Future Years**

Nonrecurring revenues and appropriations suggest a budget gap of roughly \$3.2 billion for FY 2011-12; this figure does not include adjustments for growth in revenues, education enrollment, health care costs, and other inflationary factors. The \$19.0 billion budget for FY 2010-11 is funded, in part, with \$1.3 billion in availability that will expire at the end of the fiscal year; of this amount, roughly \$1.1 billion is from a temporary increase in the sales tax. The budget is also balanced, in part, with federal ARRA funds totaling \$1.6 billion. Finally, approximately \$0.3 billion in nonrecurring cuts were used to help balance the budget for FY 2010-11.

*For additional information, please contact:*

*Fiscal Research Division*

*NC General Assembly*

*300 N. Salisbury St., Room 619*

*Raleigh, North Carolina 27603-5925*

*(919) 733-4910*

<http://www.ncleg.net/fiscalresearch>

# Appendix



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

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*Note: Many of the following items will contain page numbers. The page numbers that begin with letters are referencing Senate Bill 897's June 28, 2010 [Joint Conference Committee Report on the Continuation, Expansion and Capital Budget](#). The page numbers regarding special provisions are referring to the [Current Operations and Capital Improvements Appropriations Act of 2010, SB 897, S.L. 2010-31](#)*

## Revenue Adjustments

### Unemployment Insurance Refundable Tax Credit

- Provides tax and administrative relief to small businesses, extends various economic development incentives, incorporates four proposals recommended by the Revenue Laws Study Committee, and clarifies the application of penalties in cases of forced consolidation. Included in the bill is a refundable income tax credit to small business taxpayers whose gross receipts are less than \$1 million. The credit amount is 25% of the unemployment insurance contributions the taxpayers paid with regard to its employees' wages. (SB 897, Sec. 31)

### Various Economic Incentives

- Extends or expands various tax credits, including the Article 3J Tax Incentives for Growing Businesses. The bill also expands the film production credits and creates a new tax credit for interactive digital media. (HB 1973)

### Expansion of Sales and Use Tax Incentives

- Expands the sales and use tax exemption for internet datacenters and subjects manufacturing machinery purchased by datacenters to the lower tax rate of the lesser of 1% or \$80. The legislation also provides sales and use tax refunds for turbine and pulp and paper manufacturers for purchases building materials, supplies, fixtures, and equipment. (SB 1171)

### Renewable Energy Incentives

- "Extends the credits for constructing renewable fuel facilities and biodiesel producers and reinstates and expands the credit for a renewable energy property facility. (HB 1829)

### Revenue Adjustments

	<b>Impact on Revenues FY 2010-2011</b>
<b>Revenue Adjustments: Senate Bill 897</b>	
Internal Revenue Code Conformity	(7,700,000)
Unemployment Insurance Refundable Tax Credit	(34,100,000)
Increase Sales Tax Prepayment Threshold	(7,000,000)
Relieve Annual Report Compliance Burden on Small Businesses	(400,000)
Fair Tax Penalties	0
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Modernize Admissions Tax and Restore Amenities Exclusion	(700,000)
Reduce Franchise Tax Burden on Construction Companies	(1,500,000)
Remaining Reserve for Pending Finance Legislation	(1,080,000)
<b>Other Revenue Adjustments</b>	
Keeping North Carolina Competitive Act (SB 1171, HB 1958)	(8,850,000)
Renewable Energy Incentives (HB 1829, SB 1183)	(700,000)
Various Economic Incentives (HB 1973)	830,000
Economic Incentives Alignment and Changes (HB 1880, SB 1215)	0
<b>Subtotal - Revenue Adjustments</b>	<b>(60,000,000)</b>

# Education

## Public Schools

### Technical Adjustments

- Makes a series of technical adjustments that reduce the required General Fund appropriation for Public Schools by approximately \$216.5 million. The adjustments include revisions to budgeted student headcount, estimated teacher salary, budgeting additional receipts from the Education Lottery (\$121.2 million), and reflecting the termination of certain hold harmless provisions. While these adjustments reduce the General Fund appropriation, they do not materially impact the total resources available on a per student basis. If these technical adjustments are backed out, the cut to Public Schools is less than one percent. (Pages F-1 and 2, Items 1-6)

### Educational Value-Added Assessment System

- Provides \$1 million in additional funding to support the Educational Value-Added Assessment System (EVAAS) and implement the Teacher Module. This system enables school districts to be able to track anticipated student performance and implement instructional strategies in a data-based manner. It will also provide a tool to assess the impact of teachers on their students. (Page F-4, Item 21)

### Student Diagnostics

- Provides \$10 million to support and expand the Student Diagnostic and Intervention Initiative. This pilot program has focused on the use of handheld devices to support differentiated instruction in math and reading for students Grades K-3 and 5. Funds would be used to expand the pilot program from 40 schools to as many schools as funding allows. (Page F-4, Item 22)

### Textbooks

- Provides \$2.5 million to provide funds for emergency replacement of textbooks. Funds for textbooks had been completely eliminated in the 2009 Budget. (Page F-5, Item 26)

### Department of Public Instruction – Position Eliminations

- Reduces the Department of Public Instruction agency budget by \$16.4 million and eliminates 30 positions. These cuts for FY 2010-11 bring the 2-year reduction in State-funded positions to 85 below the 08-09 level. (Pages F-5 and 6, Items 28-32)

### North Carolina Virtual Public Schools

- Implements a new funding formula for North Carolina Virtual Public Schools (NCVPS) that reduces LEA allotments based on projected LEA enrollment in NCVPS courses. Each LEA's allotments will be reduced to 75% of its ADM-equivalent student enrollment in NCVPS, and the money will be transferred to NCVPS. NCVPS courses will continue to be available at no cost to all public high school students. (Page 21, Section 7.4)

#### Drivers' Education

- Requires the Highway Safety Research Center, DPI and the Highway Safety Commission to create a standard curriculum for Driver's Education that would be implemented in fall 2011. (Page 25, Section 7.12)

#### Maximize Federal Receipts and Furlough Authority

- Amends the S.L. 2009-451 to encourage LEAs to maximize all federal funds and to designate all Title I-eligible schools prior to the dismissal of classroom based personnel. The language also allows LEAs to implement furloughs in order to meet the \$305 million reduction. Furloughs are limited to a maximum of two days. (Page 25, Section 7.13)

#### New Allotments for Higher Education Tuition

- Expresses the General Assembly's intent to implement a new allotment for public schools in the FY 2011-12 school year which LEAs may use to pay the tuition of high school students taking higher education courses for which tuition is required. (Page 31, Section 7.24)

#### Community Colleges

##### Enrollment Growth

- Fully funds enrollment growth by providing an additional \$81.04 million. This funding is in addition to the \$41.1 million in the continuation budget, for a total of \$122.2 million in enrollment growth funding. Across the State, community college enrollment has increased by 15.3% (approximately 33,013 full-time equivalent or FTE students). (Page F-7, Item 33)

##### Management Flexibility

- Reduces the Community College budget by \$15 million in a management flexibility reduction. This reduction of \$15 million is in addition to the \$14 million reduction already in the FY 2010-11 budget. (Page F-7, Item 34)

##### Tuition

- Increases curriculum tuition by \$6.50 per credit hour for resident students. Curriculum tuition is increased from \$50/credit hour to \$56.50/credit hour for in-state students and \$7.20 for nonresident students (\$241.30 to \$248.50). The maximum increase per resident student will be \$208/year. This is expected to generate \$30.0 million in additional receipts. (Page F-7, Item 35)

##### Prisoner Education

- Restores \$21 million for the prisoner education program. This program was subject to continuation review in FY 2009-10
  - Funding is not restored for prison FTE in federal prisons, local jails, or programs not related to job skills or basic skills education.
  - First priority for the funds will be to fully restore the FTE for basic skills courses to the FY 2008-09 levels. Funds not used for this purpose may be used for continuing education and curriculum courses related to job skills training.
  - Department of Correction and the NC Community College System are to report to the 2011 General Assembly on a number of items.
  - 115D-5(b) is amended to reinstate the prison inmate tuition waiver.

#### Student Services and Financial Aid

- Provides more funding for student services, and increases student access to federal financial aid. As recommended by the Joint Select Committee on State-funded Student Financial Aid, this section reallocates \$50 million from classroom instruction to student services to ensure that colleges have adequate funds and resources necessary to administer and provide financial aid services to all students. Also requires that all colleges participate in the federal student loan program. (Page 34, Section 8.5)

#### Basic Skills Plus

- Provides the State Board of Community Colleges the flexibility to create a "Basic Skills Plus" program, using existing basic skills funding. The Basic Skills Plus program would provide employability skills, job-specific occupational and/or technical skills, and developmental education instruction free of charge to Basic Skills students concurrently pursuing a high school diploma or equivalent certificate at a community college. (Page 36, Section 8.10)

#### UNC System

##### Management Flexibility

- Mandates a management flexibility reduction of \$70 million in FY 2010-11 with priority on non-teaching related budget cuts. This is in addition to the \$100 million management flexibility cut in FY 2010-11 that was approved in 2009. Upon approval of the UNC President, campuses are allowed to offset this budget reduction by increasing tuition up to \$750 per academic year. (Page F-11, Item 47; Special Provision Page 45, Section 9.13)

##### Tuition for Non-resident Athletes

- Repeals the \$9.4 million reimbursement to UNC schools for their loss of revenue due to their granting resident tuition to nonresident athletes. (Page F-11, Item 48; Special Provision Page 48, Section 9.25)

##### Tuition Increases

- Repeals the FY 2010-11 legislative tuition increase and restores the \$34.8 million cut in UNC campus budgets that was made in anticipation of the campuses earning \$34.8 million in tuition receipts. Repeals the prohibition on UNC campuses to raise resident tuition in FY 2010-11. (Page F-12, Item 57; Special Provision Page 47, Section 9.20)

##### Need-based Financial Aid

- Increases UNC need-based financial aid by \$34.9 million to accommodate growth due to increased enrollment and to adjust aid for increased cost of attendance. The increased funding is from lottery receipts (\$26.7 million) and the General Fund (\$8.2 million). (Page F-12, Item 58)

#### Building Reserves

- Restores \$24 million in building reserves to pay the operating costs of 40 new and renovated buildings opened in the FY 2009-11 biennium. (Page F-12, Item 59; Special Provision Page 48, Section 9.27)

#### East Carolina University School of Dentistry

- Provides teaching, research, and administrative staff to the East Carolina University School of Dentistry that will admit its first class in 2011 (\$6 million). Pledges to appropriate an additional \$5 million in operating funds in the FY 2011-13 biennium. (Page F-13, Item 62; Special Provision Page 47, Section 9.18)

#### Legislative Tuition Grant and State Contractual Scholarship Fund

- Increases funding for the Legislative Tuition Grant (\$2.7 million) and the State Contractual Scholarship Fund (\$1.8 million) to account for a 2.9% growth in enrollment. Allows surplus funds in the Legislative Tuition Grant program to be transferred to the State Contractual Scholarship Fund. (Page F-15, Item 62; Special Provision Page 47, Section 9.19)

#### Master Gardner Account

- Requires NC State University to restore to the Master Gardener account of \$48,878 which is the amount reverted in FY 2008-09. (Page 47, Section 9.24)

## **Health and Human Services**

### Division of Mental Health, Developmental Disabilities, and Substance Abuse Services

#### Service Funds

- Provides \$40 million for the provision of mental health, developmental disabilities, and substance abuse community services, managed through local management entities. This restores a \$40 million non-recurring reduction taken in S.L. 2009-451. (Page G-2, Item 9)

#### Three Way Contracts to increase Local Hospital Bed Capacity

- Provides \$9 million for expansion of capacity at local hospitals for crisis services. (Page G-2, Item 11)

### Division of Public Health

#### AIDS Drug Assistance Program

- Provides \$14 million to continue to serve people in the AIDS Drug Assistance Program who are enrolled as of July 1, 2010 to the extent funds are available, enroll persons with incomes up to 125% FPL who are on the waiting list as of July 1, or may enroll following July 1. (Page G-6, Item 38)

### Health Choice

#### Enrollment Growth

- Provides \$6.5 million for the Health Choice Program. This amount will allow enrollment growth of 2% or 2,750 children for a total of 137,789 children to be served by the program. (Page G-8, Item 50)

### Division of Medical Assistance

#### Enrollment Growth

- Provides \$430 million additional funds for increased growth and consumption in the Medicaid program, which North Carolina is federally-required to fund. (Page G-12, Item 75)

#### American Recovery and Reinvestment Act Funds (ARRA)

- Reduces General Fund appropriations by \$517.5 million anticipating a six month extension of the enhanced federal matching funds provided through ARRA through June 2011. (Page G-12, Item 73, Item 74)

#### Personal Care Services

- Reduces appropriations for Personal Care Services by \$50.7 million to reflect the reform of the current program to provide services for individuals who are at greatest risk of needing institutional care. Eligible recipients will need assistance with two or more activities of daily living (ADLs). (Page G-10, Item 61)

Divisions of Social Services and Child Development, Department of Public Instruction

Temporary Assistance for Needy Families ARRA Funds

- Utilizes \$63.9 million of one-time America Recovery and Reinvestment Act Funds (ARRA) TANF Emergency Contingency Funds to support the Work First Family Assistance, Subsidized Child Care, and More at Four Pre-Kindergarten programs, and to maintain historical TANF allocations for various social services programs. (Page 83, Sec. 10.37)

## **Natural and Economic Resources**

### Department of Agriculture and Consumer Services

#### Spay/Neuter Program

- Transfers the Spay/ Neuter program to the Department's Veterinary Division from the Department of Health and Human Services. (Page 99, Sec. 11.4)

#### Agricultural Development and Farmland Preservation

- Provides \$2 million in recurring funds for the Agricultural Development and Farmland Preservation Trust Fund. (Page H-2, Item 10)

#### Rose Hill State Veterinary Laboratory

- Closes the Rose Hill State Veterinary Laboratory. (Page H-4, Item 21)

### Department of Environment and Natural Resources

#### State Revolving Funds

- Fully funds the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. (Page H-14, Item 80; Page H-15, Item 81)

#### Management Efficiencies

- Eliminates or consolidates six programs, including:
  - Consolidation of the Division of Pollution Prevention and Environmental Assistance, the Customer Service Center, and the Small Business Ombudsman into the new Division of Environmental Assistance and Outreach (H-7, Item 31);
  - Consolidation of the Office of Conservation and Community Affairs and the Natural Resources Planning and Conservation Division into the new Office of Conservation, Planning, and Community Affairs (H-8, Item 35);
  - Consolidation of the Office of Environmental Education and Office of Public Affairs into the new Office of Environmental Education and Public Affairs (H-8, Item 36); and
  - Elimination of the Neuse River Rapid Response Team. (H-10, Item 53)

#### Study Merger of Division of Environmental Health with Division of Public Health

- Directs DENR, DHHS, and the Environmental Review Commission to study the potential merger of the Division of Environmental Health (DEH) with the Division of Public Health (DPH). (Page 109, Section 13.2)

#### Federal Housing and Urban Development Funds

- Creates the Sustainable Communities Task Force which will work to leverage federal Housing and Urban Development (HUD) funds (Page 112, Section 13.5). HUD has \$150 million available this year for grants to help create walkable, livable communities, which provide affordable housing, natural resources protection, enhanced economic competitiveness, and better transportation choices near employment centers.

### Aircraft Operating Efficiencies

- Requires the Department to reduce its aircraft fleet, streamline operations, and implement best practices. The Division of Forest Resources must eliminate not less than 10 aircraft, four pilots, two mechanics, and two hangars. The Division of Marine Fisheries must eliminate three helicopters. (Page H-11, Items 58 and 59; Page H-12, Item 64; Page 120, Sections 13.16 and 13.17; Page 121, Section 13.18)

### Clean Water Management Trust Fund

#### Funding Level

- Maintains funding for the Clean Water Management Trust Fund at \$50 million. (Page H-16, Item 82).

### Department of Commerce & Commerce State-Aid

#### Management Efficiencies

- Consolidates the Department's aircraft into the Department of Transportation's Aviation Division (H-19, Item 95).

#### Job Growth and Promotion

- Provides nearly \$60 million to stimulate job growth and support small businesses in North Carolina, including:

##### Trade Programs and Tourism

- Over \$2 million for various marketing and trade programs, including, Commerce's tourism and industry programs. (Page H-17, Item 87; Page H-19, Item 97; Page H-20, Item 102)

##### One North Carolina Funds

- \$12.5 million for One NC and \$1.5 million for One NC Small Business (Page H-18, Items 91 and 92)

##### Regenerative Medicine

- \$10 million for the Institute for Regenerative Medicine (Page H-23, Item 121);

##### Job Maintenance and Capital Development Fund

- \$6 million for the Job Maintenance and Capital Development Fund (JMAC) (Page H-18, Items 89 and 90)

##### Main Street Solutions

- \$1.5 million for Main Street Solutions (Page H-19, Item 94)

##### Energy Research and Green Jobs

- \$1.0 million to draw down federal grants for energy research and green jobs (Page H-20, Item 99)
- \$500,000 for Research Triangle Institute to draw down federal grants for energy research (Page H-23, Item 119)

#### Regional Economic Development Commissions

- \$5 million for the Regional Economic Development Commissions (Page H-23, Item 117)

#### InSource North Carolina Network

- \$150,000 for the InSource NC Network (Page H-18, Item 93)

#### Biofuels Center

- \$5 million for the Biofuels Center (Page H-23, Item 118)

#### Biotechnology Center

- \$5 million in additional funding for the Biotechnology Center (Page H-25, Item 122)

#### Minority Support Center

- \$750,000 for the Minority Support Center (Page H-23, Item 116)

#### Indian Economic Development Initiative

- \$100,000 for the Indian Economic Development Initiative (Page H-23, Item 120)

#### Rural Economic Development Center

- \$5.125 million for Home Grown Jobs, Small Business Assistance Fund, and the Family Farm Opportunity and Innovation Fund at the Rural Center (Page H-26, Items 124, 125, and 126)

#### Historically Underutilized Businesses

- Directs the Department of Commerce to promote historically underutilized businesses and supplier diversity when marketing the State as a tourist destination and requires the Department to report on its efforts. (Page 133, Section 14.10A)

#### Department of Labor

##### Apprenticeship Program's Fee Structure

- Reduces General Fund appropriations for the Apprenticeship program and changes the fee structure. (Page H-6, Item 28 and Page 106, Section 12.1)

# Justice and Public Safety

## Judicial Branch

### Administrative Office of the Courts

- Reduces funding for the Administrative Office of the Courts by a net of \$13.4 million.
  - \$6.7 million management flexibility reduction. (Page I-1, Item 1)
  - Eliminates 57.75 vacant positions. (Page I-1, Items 3 and 4)

### Indigent Defense Services

- Reduces funding for the Office of Indigent Defense Services (OIDS) by a net of \$4.4 million.
  - Reduces \$5.9 million nonrecurring for the Private Assigned Counsel (PAC) Budget. (Page I-3, Item 10)
  - Restores funding for the Sentencing Services Program of \$2.1 million. (Page I-3, Item 14)

### Court Fees

- Increases court fees, including District Court Criminal and Civil and Superior Court Civil. (Page 139, Sec. 15.5)

## Department of Justice

### Operations Reductions

- Reduces operating funding by \$3 million. (Page I-5, Items 15, 16, and 17)

### Medicaid Fraud Investigation

- Provides \$600,000 additional funds to leverage \$1.8 million in federal funds to add 25 new positions to the Medicaid Fraud Investigation Team. (Page I-5, Item 19)
- Requires an annual report of the Medicaid Fraud Control Unit, including program statistics and how recovered funds were allocated. (Page 142, Sec. 16.1)

## Department of Juvenile Justice and Delinquency Prevention

### Management Flexibility

- Reduces funding by \$3.8 million targeted at management flexibility. (Page I-7, Item 24)

### Youth Development Centers

- Restores funding for Samarkand Youth Development Center of \$3.5 million. (Page I-7, Item 26)
- Removes the staffing cap for the Youth Development Centers. (Page 145, Sec. 18.2)

## Department of Correction

### Lower Population Growth

- Reduces funding by \$22 million nonrecurring to the Continuation Budget based on lower than expected population growth. (Page I-8, Item 27)

### Operating Reserves

- Provides \$7.8 million additional funds in operating reserves for the two new hospitals at Central Prison and Women's Prison. (Page I-11, Items 51 and 52)

### Reclassification of Offenses

- Directs the Sentencing Commission to review all Class 3 misdemeanor offenses and make recommendations regarding reclassification of those offenses as either an infraction or a Class 2 misdemeanor. (Page 147, Sec. 19.5)

### Inmate Medical

- Establishes a reimbursement rate to be paid by the Department of Correction for medical services at 70% of billed charge when there is no contract for the service. Requires the Department to distribute hospital utilization in such a way that no hospital would serve over 5% of the overall hospital placements. Requires the Department to work with the Division of Medical Assistance to increase access to Medicaid for eligible inmates for hospital placements, and imposes a series of reporting requirements on the Department. (Page 147, Sec. 19.6)
- Reduces funding by \$20.5 million for inmate medical services. (Page I-10, Item 45)

## Department of Crime Control and Public Safety

### National Guard

- Provides \$1 million additional funds for operations and maintenance of plant at the State's 97 National Guard armories. (Page I-12, Item 57)
- Transfers the National Guard's Tuition Assistance Program to the State Education Assistance Authority. (Page I-12, Item 58, Page 143, Sec. 17.3)

# General Government

## Department of Administration

### Positions

- Eliminates appropriation for 29.85 positions agency-wide, including vacant, filled, and transfers to receipt support.
- Creates 8 new positions in Facilities Management Division for the new North Carolina Museum of Art building. (Page J-4, Item 14)
- Provides funding for 8.75 new positions to support SB 1213, “Amend State Purchases & Contracts Laws”. (Page J-5, Item 18; J-2, Item 7)

### Report on Employee Travel Costs

- Directs the Department of Administration’s Motor Fleet Management Division (MFM) to work with agencies to analyze employee travel costs and report on its findings (Page 149, Sec. 20.2).

## State Ethics Commission

### Positions

- Provides funding for 4.0 new positions & IT costs to support online Statement of Economic Interest (SEI) filing, online education, and the requirements of HB 961, “Government Ethics and Campaign Reform Act”. (SB 1202, Sec. 11.11)

## Office of the State Auditor

### Audit Cost Reimbursement

- Directs the Battleship to reimburse the Auditor for its audit costs. (Page 149, Sec. 21.1)
- Directs the State Ports Authority to reimburse the Auditor for its audit costs. (Page 150, Sec. 21.2).

## Department of Cultural Resources

### Positions and other Funding

- Reduces the funding by a net of \$2.1 million with 12.19 positions eliminated, including vacant, filled, and transfers to receipt support; also a net non-recurring increase of \$850,000. (Page J-16 )
  - Provides expansion of \$300,593 to restore seven Heritage Tourism positions. (Page J-12, Item 39)

### Freedom Monument Project, Inc.

- \$100,000 for the Freedom Monument Project, Inc, and \$75,000 for three monuments on Capitol grounds. (Page J-13, Item 42; Page 150, Sec. 22.1)

### African American Heritage Commission

- \$100,000 for the African American Heritage Commission. (Page J-13, Item 43)

#### State Capital Foundation

- \$100,000 for the State Capitol Foundation. (Page J-14, Item 48)

#### North Carolina Symphony

- \$500,000 grant to the NC Symphony. (Page J-16, Item 53)

#### North Carolina Arts Council

- Maintains funding for the NC Arts Council's grant programs and State-Aid to Libraries at the FY 2010-11 certified amounts.

#### Office of the Governor

##### Position Eliminations

- Eliminates salaries and benefits of 3 vacant positions and reduces other operating expenditure accounts.

#### NC Housing Finance Agency (HFA)

##### Home Protection Program

- Reduces the Home Protection Program by \$2.5 million of which \$730,421 is recurring and \$1.7 million is non-recurring. (Page J-22, Item 70)

##### Housing Trust and Home Match Funds

- Maintains funding for the Housing Trust Fund - \$10 million, and Home Match - \$1,608,417 at the certified budget amounts for FY 2010-11.

##### Housing Mortgage Assistance

- Authorizes HFA to form a corporation for the purpose of meeting US Treasury requirements to receive \$159 million to assist with foreclosures. The corporation will report to the Board of Directors and to the Joint Legislative Commission on Governmental Operations upon request. If the corporation is not established by March 1, 2011, this section is repealed. (Page 150, Sec. 23.1)

#### Department of Insurance

##### Operating Reductions

- Reduces miscellaneous operating expenditures by \$1,213,620. (Pages J-23 – J-27, Items 71, 72, 74, 75 and 77)

##### Auto Retrospective Fund

- Reduces the Auto Retrospective Fund by \$1 million. (Page J-28, Item 78)

##### Federal Patient Protection and Affordable Insurance Care Act

- Authorizes DOI to administer and enforce those sections of the Federal Patient Protection and Affordable Insurance Care Act that apply to the Department's jurisdiction. The Department must apply for federal funds to support 13 positions to support this effort. If federal funds cannot be obtained, after consultation with the Joint Legislative Commission

on Governmental Operations, the Department may use funds placed in the State Budget & Management reserve for the 13 positions. (Pages 150-151, Sec. 24.2)

#### State High Risk Pool

- Authorizes the State High Risk Pool to contract with the US Department of Health and Human Services to administer the Federal High Risk Pool. (Page 151, Sec. 24.3)

#### Office of the Lieutenant Governor

##### Position Eliminations

- Eliminates 0.5 vacant positions in the amount of \$33,359. (J-30, Item 80)

#### Department of Revenue

##### Imaging System

- Provides funding for additional licenses for the Department's imaging system \$613,440. (Page J-32, Item 82)

##### E-File Platform

- Modernization of the 1040 E-file platform \$1,504,718. (Page J-32, Item 84)

##### Resolution II Initiative

- Expands the Resolution II initiative of \$846,909. (Page J-32, Item 86)

##### Positions

- Eliminates 17 vacant positions at \$801,298. (J-33, Items 89 & 90)

##### Property Tax Division Becomes Receipt-supported

- Reduces state funds for the Property Tax Division and makes the division receipt-supported, at a reduction of \$1,467,305. (J-32, Item 83) (Pages 151-152, Sec. 26.1)

##### Call Recording Funding

- Eliminates the Call Recording funding of \$700,000. (Page J-32, Item 85)

## Department of Secretary of State

### Position Eliminations

- Eliminates one filled position, three vacant positions, salary and benefits (but not the FTE) for one vacant position and transfers three positions to receipt supported. (Pages J-35 and J-36, Items 91 and 93-96)

### Business License Fees Over-realized Receipts

- Budgets over-realized receipts from Business License Fees. (Page J-35, Item 92)

## State Board of Elections

### Maximize Federal Receipts

- Authorizes 2.0 filled positions in Campaign Finance Division to be supported by Maintenance of Effort funds that qualify the Board to receive federal Help American Vote Act (HAVA) funds. (SB 1202, Section 11.19)
- Authorizes the use of federal Help American Vote Act (HAVA) funds to fund two time-limited Election Inspectors positions (Page 152, Section 27.2).

### Government Ethics and Campaign Reform Act

- Provides funding for 1.0 Attorney position and software development costs to support HB 961, "Government Ethics and Campaign Reform Act" (SB 1202, Sec.1.2.(e) and 11.18).

## Office of State Budget and Management

### Position Eliminations

- Eliminates salaries and benefits of 3 vacant positions. (Page J-39, Item 103)

## Office of State Budget and Management – Special

### Position Expansion for Health Care Reform

- Provides funding in reserve for the Department of Insurance Health Reform positions - \$1,150,693 – to be used if federal funds cannot be obtained. (J-40, Item 104)

### Military Morale & Welfare Fund

- Provides \$500,000 in funding for the Military Morale & Welfare Fund. (J-40, Item 105)
- Requires military installations to report on the use of funds received from the Military Morale & Welfare Fund. (Page 152, Sec. 27A.1)

### North Carolina Symphony

- Provides \$1.5 million in matching funds for the NC Symphony. (J-41, Item 106)
- Requires the NC Symphony to raise \$8 million to receive the matching funds. Specifically it will receive \$500,000 in matching funds for the first \$4 million raised, \$500,000 for the next \$2 million raised and \$500,000 for the final \$2 million raised. (Pages 152-153, Sec. 27A.2)

## Office of State Controller

#### Maximize Federal Receipts

- Transfers three positions and operating expenses to receipt support at a savings of \$270,000 to implement the Payment Card Rebate Program. (Page J-42, Item 107)

#### Criminal Justice Law Enforcement Automated Data Services (CJLEADS)

- Provides \$8.8 million (\$8.3 million recurring and \$500,000 non-recurring) for Criminal Justice Law Enforcement Automated Data Services (CJLEADS), which is a statewide information technology project that will merge state criminal data records into one comprehensive system. (Page J-43, Item 109)

#### Beacon Project Steering Committee Membership

- Adds the State Personnel Director as a member of the Beacon Project Steering Committee. (Page 153, Sec. 27B.1)

#### Payment Card Rebate Program

- Directs OSC to establish the Payment Card Rebate Program. (Page 153, Sec. 27B.2)

#### Department of State Treasurer

##### Position Expansions

- Provides funding for three Internal Auditor positions, including receipts of \$181,390 and an appropriation of \$77,377 for the General Fund portion. (Page J-45, Item 110)

##### Retirement Service Records

- Allows the Department to use \$1.1 million in receipts to complete the 5<sup>th</sup> and final year of cleansing pre-1997 retirement service records. (J-46, Item 113)

## Transportation

### Mobility Fund

- Establishes the North Carolina Mobility Fund. The Fund will pay for transportation projects of statewide and regional significance that relieve congestion and enhance mobility across all modes of transportation. The first project to be funded will be the Yadkin River Bridge Project Phase II. Also provides that:
  - Projects will be exempt from the Equity Formula.
  - No new taxes or fees were established for the Mobility Fund.
  - First year funding of \$39 million will come from unused gap funding for North Carolina Turnpike Authority projects.
  - Future year funding will come from phasing out the current Highway Trust Fund to General Fund transfer and using those funds for the Mobility Fund. (Page 154, Sec. 28.7)

## **Reserves, Salaries and Benefits**

### Salaries

- Maintains the freeze on most salary increases for teachers and State employees as enacted last session. Maintains freeze on public school teacher, principal, and assistant principal salaries (no experience based step increase). Modified teacher and SBA salary schedules. (page 160, Section 29.2 and page 162, Section 29.3)
- Authorizes local boards of education and the President of the University of North Carolina to implement furloughs of state-funded employees, under certain circumstances, to offset the LEA funding flexibility adjustment and the UNC management flexibility reduction respectively. (Page 159, Section 29.1 and page 165, Section 29.4)
- Directs the Office of State Budget and Management and the Office of State Personnel to monitor State agencies, departments and institutions, the judicial branch and the University of North Carolina relative to compliance with the freeze on most salary increases and requires quarterly reporting to the General Assembly. Also requires the Legislative Services Officer to report quarterly on compliance relative to employees of the General Assembly. (Page 166, Section 29.5)
- Authorizes local government supplementation of salaries of certain Judicial Branch officers and employees in order to attract and retain the best qualified officers and employees. (Page 166, Section 29.7)

### Retirement

- Directs 1.36% of payroll to a reserve in the Office of State Budget and Management to be transferred to the Teachers' and State Employees' Retirement System if not needed to address the potential loss of Federal Funds (FMAP). (Page 7, Section 2.3.(h))

# Capital

## Water Resources Development Projects

- Provides \$9.13 million in General Funds to match \$27,300,000 in Federal funds and additional local funds. (M-1, Item 1)

## Department of Crime Control and Public Safety

- Provides \$2 million in General Funds to fully plan Phase I of the State Highway Patrol Training Facility in Wake County. If constructed, the full project cost is \$25.5 million. (Page M-1, Item 2)

## State Facilities Special Indebtedness

- Authorizes \$120 million in special indebtedness to be allocated to the Reserve for Repairs and Renovation. General Fund supported State agencies will receive 50% and the University of North Carolina system will receive 50% of the allocation. (Page M-1, Item 3)

## Equipment Special Indebtedness

- Authorizes \$55 million in special indebtedness for the purpose of acquiring equipment related to education and research in the fields of health, science, engineering, and technology at the North Carolina Community College System and the University of North Carolina system. UNC will receive 40% of the allocation and the Community Colleges will receive 60%. (Page M-1, Item 4)

## University Certificates of Participation

- Amends the Certificates of Participation authorizing language for the University of North Carolina-Greensboro Academic Classroom and Office Building project and further allows the University to purchase land and construct a pedestrian railroad underpass. (Page 172, Sec. 30.6)

## Green Square

- Amends SL 2009-451 and requires the General Fund to service debt for the Green Square Complex parking deck until the debt is retired. (Page 173, Sec. 30.9)

## North Carolina State Ports Authority

- Prohibits the use of General Funds to be used to fund the North Carolina International Terminal of the North Carolina State Ports Authority. Agency receipts may be used to fund the facility. (Page 173, Sec. 30.10)

## **Information Technology**

### State Portal

- Provides funding for a State Portal (\$500,000) and a statewide electronic forms and digital signatures initiative (\$653,704). (Page 10, Sec. 5.2)

### Eliminate Duplicative Information Technology Projects

- Directs the State Chief Information Officer to begin eliminating duplicate information technology capabilities within the State and to work with agencies to develop plans to integrate their efforts. (Page 14, Sec. 6.9)

### Criminal Justice Law Enforcement Automated Data Services (CJLEADS)

- Continues the development and implementation of Criminal Justice Law Enforcement Automated Data Services (CJLEADS), providing criminal justice and law enforcement professionals with a means to quickly and accurately determine an individual's criminal history. (Page 15, Sec. 6.10)

### Broadband Task Force

- Establishes a joint broadband task force to develop ways to improve broadband access and support within North Carolina. (Page 17, Sec. 6.18)

### Smart Cards

- Allows the State Chief Information Officer to use up to \$1 million of the State's E-Procurement receipts to develop integrated circuit cards, or "smart cards," that have the capability to support financial and health care transactions. (Page 20, Sec. 6.19)