Budget Recommendations FY 2023-25

Kristin Walker
State Budget Director
First in Opportunity

- North Carolina Today
- Guiding Principles
- Priority Investments
- Subcommittee Highlights
North Carolina’s Moment of Opportunity

• Budget surplus
• Great potential for federal funds
• Population growth & record job creation
• Need to
  • Respond to the most pressing issues facing the state
  • Spark opportunities for North Carolinians to thrive and prosper
North Carolina’s Population Growth

• NC had 3rd largest population gain in nation last year
  • 133,000 new North Carolinians
  • 95% due to migration into the state
• By 2025, estimated 11 million will live in NC
  • We gained 100,000+ people each year last decade
• By 2029, 1 in 5 North Carolinians will be 65+

Did You Know?
Since 2018 NC’s population has increased 5%.
State employee headcount has decreased 11% in same period.*

*Based on February headcounts; doesn’t include local state-funded positions.
North Carolina’s Economy

• NC's economy is the 11th largest in the nation
• Unemployment is historically low at 3.8%
• Labor force participation has improved since 2020-21 but remains below 2019 levels
• Wage growth in NC has outpaced inflation; up 17% since pandemic started
• Economic growth likely to slow and accounted for in consensus forecast
Guiding Principles for FY 2023-25

- Maintain Fiscally Sound Budget
- Create Opportunities for North Carolinians
- Ensure Services for North Carolinians
- Build Healthy, Resilient Communities
Expected Revenue & Adjustments

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<tr>
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<th>FY 2023 – 24</th>
<th>FY 2024 – 25</th>
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<tr>
<td>Consensus Revenue Forecast</td>
<td>$33,706</td>
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<td>Recommended Policy Changes – recurring</td>
<td>$279</td>
<td>$716</td>
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<td>Additional PHP revenue - recurring</td>
<td>$75</td>
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<tr>
<td>Total General Fund Recurring Revenues</td>
<td>$34,060</td>
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**Tax Fairness for North Carolinians**

- Personal Income Tax
  - Incomes > $200k remain at 4.75%
  - Incomes < $200k continue tax cuts
- Corporate tax rate maintained at 2.5%

**Sales Tax Transfer to Highway Fund**

- Maintain 2% transfer of General Fund sales tax to Highway Fund
## Fiscally Sound Budget - Overview of Investments

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<tr>
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<th>FY 2023 – 24</th>
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<tr>
<td>Base Budget</td>
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<td>Comprehensive Remedial Plan Years 2 and 3 Baseline</td>
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<td>Compensation</td>
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<td><strong>Total</strong></td>
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Unappropriated Reserves: $6.8 billion

$4.25 billion in Savings Reserve
$1 billion Stabilization & Inflation Reserve
$532.7 million State Emergency Response & Disaster Relief Fund
$717.8 million Medicaid Contingency Reserve
Guiding Principles for FY 2023-25

Maintain Fiscally Sound Budget

Create Opportunities for North Carolinians Education

Ensure Services for North Carolinians

Build Healthy, Resilient Communities
## Ensures a Sound Basic Education

### Fully funds Years 2, 3, 4, and 5 of the Comprehensive Remedial Plan

$4.5 billion

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<th>Category</th>
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<td>- Teaching Fellows</td>
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<td>- NC New Teacher Support</td>
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<td>- NC Principal Fellows</td>
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<td>- Limited English Proficiency Funding</td>
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<td>- Teaching Assistant Funding</td>
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<td>- Professional Development</td>
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<td>- Specialized Instructional Support Personnel</td>
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<td>- Early Learning Pilot</td>
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<td>- Early Intervention</td>
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<td>- Family Connects</td>
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<td><strong>Postsecondary and Career Alignment</strong></td>
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Ensuring a Sound Basic Education

Investments will provide

• 1,000 new nurses and social workers
• 115 school psychologist internship positions
• 17 new Principal Turnaround Coaches
• Up to 1,730 Teaching Fellows with forgivable loans
• Up to 2,709 new teacher assistants
• Up to 97,500 students no-cost school meals
• Early intervention services to 10,000 more children
• NC Pre-K to 5,000 more children
Recruiting & Retaining Educators

$1.8 billion to recruit and retain high-quality educators and school-based administrators

- Starting salary at least $46k/year
- Minimum raises 10% year 1, 6% year 2
- Reduces plateaus for veteran teachers
- Restores masters pay

- $1,500 retention bonus for those making under $75k

NC Rising
With these changes NC will rank:
1st in Southeast for average salary and
16th in nation for starting pay and average teacher pay
$1 billion for construction and renovation of public school facilities

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<th>Allocation Total</th>
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$1 billion for construction and renovation of public school facilities

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Guiding Principles for FY 2023-25

Maintain Fiscally Sound Budget

Create Opportunities for North Carolinians
    Workforce & Economic Development

Ensure Services for North Carolinians

Build Healthy, Resilient Communities
Multifaceted Approach

- **On-the-Job Training and Credentialing** - Nearly $40 million
- **High-Demand and High-Need Workforce Development** – More than $230 million
  - ECU Growing the Primary Care Workforce
  - NC A&T Agriculture Research and Extension Match
  - UNC-Pembroke Health Sciences Program Expansion
  - NCCCS, UNC, Independents given funds to allocate as needed

- **Hard-to-staff Industry Supports** – More than $215 million
  - Rates for personal care services and skilled nursing facilities
  - NC Child Care WAGE$ program to attract and retain early childhood educators
Strategic WorkForce Investment Trust Fund (SWFT) to spur workforce development, on-the-job training, credentialling programs

- $30 million in year 1 and $45 million in year 2 recurring for community college faculty bonuses
- $15 million recurring in year 2 for grants to Workforce Development Board
- $10 million Workforce Resilience Grants at NCCCS
- $10 million (each) recurring in year 2 to UNC and NCCCS for high-demand workforce needs

Funded via assessment based on employers’ UI tax, while reducing UI tax by a larger amount – suspended when UI Trust Fund falls below $1 billion
Updates Unemployment Benefits

- Increases max weekly benefit to $450; adjust annually for inflation
- Uses quarter with highest earnings to calculate benefit
- Increases minimum weekly benefit to $100 from $15
- Increases max duration above 12 weeks when unemployment rate rises above 4.5%; provide 20 weeks when unemployment above 6%
- Increase max duration to 20 weeks when unemployment rises more than 0.5 percentage points
Childcare Access for Working Parents

- $500 million child care stabilization grants
- $100 million recurring child care subsidy rate floor for low wealth counties
- $11 million community college campus child care programs
- $100 million capital funding for NC Pre-K public school classrooms

NC Labor Market Today

- Labor force grew 130,000 in 2022
- Job openings exceed job seekers
- 56% of NC business owners report concerns about adequate staffing
Economic Development

$325 million Reserve to Spur Economic Growth
• $100 million Megasite Development
• $70 million Sports & Entertainment venues
• $50 million NCInnovation
• $50 million Radio Island
• $25 million Golden LEAF
• $20 million One North Carolina Small Business
• $3 million NC Biotechnology Center
• $2 million for targeted industry development
• $5 million to respond to Canton Paper Mill closure *

$50 million for Downtown Revitalization Grants
Hundreds of billions of dollars for infrastructure, research and innovation, climate, manufacturing, and STEM.

1. Bipartisan Infrastructure Law/Infrastructure Investment and Jobs Act
   - $600 billion in existing infrastructure investment
   - $550B in new infrastructure investments

2. Chips and Science Act
   - $80B - semiconductor investments
   - Of $200B remaining
     - $80B to expand/diversify the STEM talent pipeline
     - $67B to basic and applied research
     - $11B for 20 regional innovation hubs

3. Inflation Reduction Act
   - $100+ billion to make health insurance and prescription drugs more affordable for individuals
   - $260B in tax credits for: Renewable energy, clean-tech manufacturing, clean vehicles
   - $80B in state-eligible grants
Governor’s 2023-25 Recommended Budget Alignment

Additional $225M to the Federal Infrastructure Match Reserve for a total of $320M

~$115M - Known state match requirements

~$200M – In reserve for federal funding opportunities (e.g., additional matching, investments to increase competitiveness, resources, etc.)

~$5M - Strengthens state and local government abilities to submit strong federal grant applications
### Governor’s 2023-25 Recommended Budget Alignment

**~$115M - Known state match requirements**

#### Project Reserve - Anticipated Projects

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<tr>
<th>#</th>
<th>Agency/Item</th>
<th>FY 2023-24 NR</th>
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- Wildlife Crossing Match amount is currently estimated to be $10 million

Matching resources provided in the Governor’s Recommended Budget ensure grants are pursued
Opportunity Profile - Clean School Bus Program

Source: Bipartisan Infrastructure Law

Description: Provides funds to replace school buses with zero-emission or clean school buses.

Funding Provided: $5 billion

Application Timeline:
• FY 2022 Clean School Bus Rebates are the first of many funding opportunities under the program.
• Ongoing through September 30, 2026.

Status: Neighboring states are highly competitive for this grant.

Total Number of Clean School Buses Awarded for FFY 22 Rebate Program

Source: Clean School Bus Second Report to Congress
Guiding Principles for FY 2023-25

- Maintain Fiscally Sound Budget
- Create Opportunities for North Carolinians
- Ensure Services for North Carolinians
- Build Healthy, Resilient Communities
Expanding Medicaid

Recommendations assume Medicaid expansion enrollment starts in June 2023

- Expands healthcare to estimated 600,000 North Carolinians
- Helps prevent rural hospitals from closing
- Helps fight the opioid epidemic
- $1.74 billion federal bonus
- Expected savings to General Fund of $56 million annually
- Injects $5 billion into the economy
- Estimated $240+ million boost in state and local sales taxes
Prioritizing Health and Mental Health

$1.5 billion+ total investment in mental health

$1 billion IHOPE Fund with Medicaid bonus payment

- $225 million to ensure Medicaid reimbursement rates for behavioral health services match cost of care
- $200 million expands access to mental health and substance use disorder treatment
- $175 million for integrating behavioral health treatment in primary care and schools
- $100 million to improve state psychiatric patient placement options and healthcare workforce development
- $150 million for integrating behavioral health and justice system programs
- $100 million to transform care for children in the welfare system who have behavioral health needs
- $50 million for telehealth and other technology to improve health outcomes in rural communities
Prioritizing Health and Mental Health

Additional Mental Health Items

• More than $500 million for school social workers, psychologists, nurses, and counselors
• $5.4 million for 988 Line and the NC Psychiatric Access Line
• $5.9 million for evidence-based behavioral health supports in schools, including telehealth pilots
• $8.1 million to create a crisis unit for justice-involved youth
• $6.7 million to sustain mental health services at state universities and community colleges, including the 24/7 mental health hotline and Mental Health First Aid
Prioritizing Health and Mental Health

- **Community-Based Services for People with Disabilities** – More than $160 million
  - Innovation Waiver rates - raises direct care wage to $18/hour
  - Innovation Slots – 1,000 new slots with intent to add more
  - Transitions to Community Living

- **Statewide Health Investments**
  - Rural Hospital Rescue Fund
  - Support for all end
  - Support for county social services offices as public health emergency requirements older North Carolinians to stay in their homes with needed home repairs
Guiding Principles for FY 2023-25

Maintain Fiscally Sound Budget

Create Opportunities for North Carolinians

Ensure Services for North Carolinians

Build Healthy, Resilient Communities
Challenges facing State Government

• 2022 turnover rate for state agencies: 16.8%
  • First-year employees exceeded 36%
• Average vacancy rate: 23.4% (12.3% pre-pandemic)
• Average state employee salary has increased 20% since 2010 vs. 38.3% increase in CPI
• Nationwide: 52% state/local employees considering leaving jobs
Securing the State’s Human Capital

Largest investment in state workforce in 50 years

• 5% cost-of-living increase year 1; 3% year 2
• $1,500 bonus for those making less than $75k;
  $1,000 bonus for those making more than $75k
  • Paid in two installments to address retention
• Additional 1.5% for employees on step plans
• ELMAR – Enhanced Labor Market Adjustment Reserve
  • 3% of total general fund payroll

• Retirees
  • 2% recurring COLA
  • 2% NR supplement year 1; 1% NR supplement year 2

• Funds state health plan and retirement system
Securing the State’s Human Capital

Proposed Changes to Annual Leave

<table>
<thead>
<tr>
<th>Years of Total State Service</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>1 but less than 5 years</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>5 but less than 10 years</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>10 but less than 15 years</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>15 but less than 20 years</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>20 but less than 25 years</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>

Turnover rate is more than double for employees in first year of service

Retention Pay Proposal

<table>
<thead>
<tr>
<th>Years of Total State Service</th>
<th>Current Longevity Pay</th>
<th>Proposed Retention Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 but less than 5 years</td>
<td>0%</td>
<td>1%</td>
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<tr>
<td>5 but less than 10 years</td>
<td>0%</td>
<td>1.5%</td>
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<tr>
<td>10 but less than 15 years</td>
<td>1.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>15 but less than 20 years</td>
<td>2.25%</td>
<td>2.5%</td>
</tr>
<tr>
<td>20 but less than 25 years</td>
<td>3.25%</td>
<td>3.5%</td>
</tr>
<tr>
<td>25 or more years</td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
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</table>

Longevity pay was created in the 1960s to reward long-term state service
Area Committee  Highlights
In addition to previously discussed items:

- $12.1 million year 1, 12.3 million in year 2 recurring to improve K-12 literacy
- $20 million for Promising Practices grants to K-12 schools
- $11 million recurring to expand AIG program capacity and provide technical assistance for identifying and serving under-represented student groups
- $1 million recurring in year 2 to establish a permanent Office of Learning Recovery
- $50 million for school safety grants
- $6 million to support student nutrition by reducing school meal debt
- $1.4 million in year 1, and $3.1 million in year 2 recurring for data and IT upgrades to help teachers focus services and help students stay on track for school and post-secondary success
• $37 million recurring to increase formula funding for community colleges
• $6.4 million recurring in year 1, and 15.6 million recurring in year 2 to help students afford community college and finish more quickly
• $9.1 million non-recurring in year 1, and 10 million recurring in year 2 to provide short-term training at community colleges to help people get credentials and return to work more quickly
• $2 million recurring for scholarships to ECU for students in eastern NC pursuing careers in high demand fields
• $5 million recurring for UNC- Greensboro scholarship for lower-income students
• $10.5 million recurring for Completion Assistance Program to improve graduation rates at UNC schools
Health & Human Services

- $176.5 million across biennium to support the transition to Medicaid Managed Care the Healthy Opportunities program
- $34.8 million for home improvements for aging-in-place in rural communities
- $10.2 million recurring to create a subsidy and incentivize kinship care parents to receive a foster parent license
- $620,000 recurring to establish regional director positions and implement the Regional support model, ensuring compliance with Rylan’s Law
- $7.3 million recurring in year 2 to cover actual costs of an autopsy and ensure regional autopsy centers remain open
- $12 million across biennium to upgrade outdated technology systems, strengthen cybersecurity, and digitize vital records; modernizing critical infrastructure
In addition to the $325 million from the Economic Development Reserve:

**Supports the Small and Emerging Businesses and the Film Industry**

- $2.2 million recurring for the Office of Science and Technology for small business and defense innovation development
- $1 million in both years of the biennium for film industry development
- $7 million over the biennium for the National Institute for Minority Economic Development

**Addresses customer service needs to aid in economic development**

- Over $1.2 million recurring to support the Department of Environmental Quality’s regional offices and technical assistance to the business community
- Increases fee for several DEQ programs to address capacity needs
  - Many of these fee schedules have not been updated for over 15 years.
- Over $410,000 for hands-on support for economic development projects within the Department of Commerce
Natural and Economic Resources

$128 million over the biennium to preserve farmland and protect and restore the state’s natural resources

- Increases PARTF and NCLWF to $30 million recurring, plus additional $25 nonrecurring for each
- $25 million over the biennium for Farmland Preservation
- $25 million for the Great Trails Fund
- $5 million for peatland and pocosin restoration
- $500,000 for forest management

$115 million to improve resiliency

- $42 million flood mitigation and stream rehabilitation
- $20 million Swine Floodplain buyouts
- $5.1 million for grid hardening, resiliency study
Invests $43 million over the biennium for local re-entry services, recidivism reduction programs

- $30 million for evidence-based rehabilitation programing
- $13 million to expand re-entry councils and re-entry programming

Enhances prison safety and security

- $15 million for physical life and safety improvements
- $8 million for man down system technology

Supports public safety and violent crime prevention

- $15 million for gun violence prevention grants and programming
- $10 million grants for body cameras
- $5 million for evidence-based violence intervention and prevention grants
Directs $43 million for juvenile justice improvements
  • $16.5 million to for operating, start-up costs for Richmond and Rockingham centers
  • $8 million for residential crisis unit at C.A. Dillon

Expands public defender offices and increases PAC rate
  • $17 million for eight new public defender offices, part of a plan to expand offices statewide
  • Increases the private assigned counsel rate (PAC) from $65/hour to $70/hour

Increases emergency response capabilities
  • $15 million for VIPER maintenance and equipment
  • $10 million for local emergency response capacity building
General Government

Helps North Carolinians rebuild from disaster and find affordable housing
• $99 million for disaster recovery after hurricanes and natural disasters
• $160 million for affordable housing

Better serves North Carolina’s veteran and military population
• $441,661 recurring for “Stay in NC,” focused on individuals moving into civilian life
• $1.55 million recurring for veterans services and outreach
• $450,000 recurring to enhance military affairs

Supports small businesses
• $450,000 recurring for assistance for small & historically underutilized businesses
• $320,000 recurring for RISE NC, a program to spur local entrepreneurship in rural areas
**Operational Excellence**

**Promotes best practices**
- Provides auditors to meet Council of Internal Auditing minimum standards
- Removes pen-and-ink signatures requirements
- Support record digitization and remote notarization

**Enables the use of evidence across state government**
- Provides research and evidence expertise for state agencies
- Requires program evaluations of several pilot programs
- Continues evaluation grants to support program evaluations and research partnerships
Cybersecurity

Hardens the state’s information technology (IT) systems

• $30 million for cybersecurity software/hardware upgrades for certain state agencies
• $53 million to promote a safe IT operations environment enterprisewide through investments in network, mapping, and identity security solutions.
• Invests in cybersecurity professionals to more effectively manage agency security needs

<table>
<thead>
<tr>
<th>Agency</th>
<th>Item</th>
<th>FT</th>
<th>Total Allocation</th>
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</thead>
<tbody>
<tr>
<td>DIT</td>
<td>Security Operations Center and Privacy Office Support</td>
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<td>$7,100,000</td>
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<tr>
<td>DPI</td>
<td>K12 Cybersecurity Support</td>
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<td>DOJ</td>
<td>Network Security Officer</td>
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<td>DHHS</td>
<td>Cyber and Information Security Support</td>
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<tr>
<td>DPS</td>
<td>Cybersecurity Staff, Sustainment, and Reaction Force</td>
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<td>$4,374,234</td>
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<tr>
<td>DOI</td>
<td>Cybersecurity System Support</td>
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<td>$7,227,000</td>
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<td>DOC</td>
<td>Chief Information Security Officer</td>
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<tr>
<td>SBOE</td>
<td>Chief Information Security Officer</td>
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<tr>
<td>OSA</td>
<td>Chief Information Security Officer</td>
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<td>$330,000</td>
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</table>

*The State Board of Elections will procure an information security officer as a service.*
IT System Investments

Replaces Legacy IT systems and ensures integration with new financial backbone
• Supports ERP 2.0
  • Replaces the aging budget and HR systems
  • Creates a statewide Grants Management System
• Replaces the Integrated Tax Administration System, the state’s primary tax collection system
• Connects the eProcurement System with the financial backbone

Funds IT systems to improve and modernize services, including:
• The County Reimbursement System (Health and Human Services)
• Automated Collection and Tracking System (Health and Human Services)
• Online Licensure System (Public Instruction)
• Permit Transformation (Environmental Quality)
• System modernization planning (State Board of Elections)
• $1 billion for construction and renovation of public school facilities; $100 million for Pre K facilities

• $803 million for UNC projects
  • Brody School of Medicine ECU, Health Sciences at UNC Pembroke, STEM building at NC State, Nursing and Business schools at UNC-CH
  • Major renovation projects
  • Start up funds for Health and Human Sciences at NC A&T and engineering building at WCU

• $400 million for UNC repairs & renovations

• $200 million for NCCCS repairs & renovations, plus $100 million for capital and equipment

• $16 million for R&R at Historically Minority-Serving Institutions in NC Independent Colleges and Universities
$750 over biennium in state agency projects

- NC DHHS headquarters
- Museum of History
- Reedy Creek Lab
- State parks and historical sites
- New personnel, training and records center
- Samarcand training academy
- State hospitals and correctional facilities

$400 for repairs and renovations at state facilities
Transportation revenues enable significant investments

- Maintains sales tax transfer from General Fund to Highway Fund & Highway Trust Fund at 2% of state sales tax revenues
- Highway Fund & Trust Fund revenue grows by $466M (10.8%) in FY 2022-23
- Revenue grows by $159M (3.3%) in FY 2023-24 and $262M (5.3%) in FY 2024-25

<table>
<thead>
<tr>
<th>Proposed Revenues (mill.)</th>
<th>FY 2023–24</th>
<th>FY 2024–25</th>
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</thead>
<tbody>
<tr>
<td>Highway Fund</td>
<td>$2,910</td>
<td>$3,092</td>
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<tr>
<td>Highway Trust Fund</td>
<td>$2,040</td>
<td>$2,120</td>
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Note: Includes impact of maintaining sales tax transfer at 2%
Significant increases in DOT’s budget

- Highway Fund net appropriations increase $228 million (8.5%) in FY 2023-24; $410 million (15.3%) in FY 2024-25
- Highway Trust Fund net appropriations increase $205 million (11.2%) in FY 2023-24; $287 million (15.6%) in FY 2024-25
- STIP: additional $197 million in FY 2023-24 and $286 million in FY 2024-25

Ensuring North Carolina benefits from federal infrastructure funding opportunities

- S-Line: $156 million from General Fund to start state match for over $2.5 billion federal investment
- Matching grant for on-demand microtransit, planning funds for potential additional federal funding
- Additional staffing in Aviation Division to administer huge growth in federal airport grants

Addresses long-standing challenges facing DOT

- Future Transportation Funding Commission to develop plan for transitioning from gas tax reliance to alternative revenue sources
Balancing Opportunity and Responsibility

- Balances the budget
- Does not raise taxes
- Maintains nearly $7 billion in unappropriated reserves
- Responds to the most pressing needs of the state
- Sparks opportunities for North Carolinians to thrive and prosper
Governor’s Budget Recommendations FY 2023-25

Find the complete recommendation at www.osbm.nc.gov