FY 2009-11
Presentation of Governor Perdue’s Recommended Budget

Prepared by:
The Office of State Budget and Management
March 17, 2009
I. Governor Perdue’s Budget Priorities
II. Summary of FY 2009-11 Budget
III. Recommendations by Subcommittee
IV. Economic and Revenue Update
V. Summary
Governor Perdue’s Budget Priorities

• Growing North Carolina’s Economy
• Improving Public Education
• Keeping Higher Education Accessible and Affordable
• Protecting Our Most Vulnerable Citizens
• Keeping Our Communities Safe
• Making Government More Efficient and Accountable
• Fiscal Responsibility
• Truth-in-budgeting (payroll / enhanced flexibility)
• Targeted reduction approach
  – One size does not fit all
• Focus on protecting & preserving core services
I. Governor Perdue’s Budget Priorities
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## FY 2009-11 Initial Appropriation Requirements

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continuation Budget</strong></td>
<td>$ 22,114</td>
<td>$ 22,815</td>
</tr>
<tr>
<td>(Includes Education Enrollment, Medicaid, State Health Plan, Retirement System Contribution, and Teacher Salary Step Increase)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Expansion Budget</td>
<td>$ 170</td>
<td>$ 123</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 22,283</td>
<td>$ 22,938</td>
</tr>
</tbody>
</table>

All figures in millions of dollars.

![Continuation Budget and Expansion Budget Graph](image.png)
## Consensus Baseline Revenue Forecast

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th>Change from 2008-09*</th>
<th>FY 2010-11</th>
<th>Change from 2008-09*</th>
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</thead>
<tbody>
<tr>
<td><strong>Personal Income</strong></td>
<td>$10,385</td>
<td>-9%</td>
<td>$10,962</td>
<td>-4%</td>
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<tr>
<td><strong>Sales &amp; Use</strong></td>
<td>$5,038</td>
<td>-6%</td>
<td>$5,400</td>
<td>0%</td>
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<tr>
<td><strong>Corporate Income</strong></td>
<td>$772</td>
<td>-35%</td>
<td>$824</td>
<td>-31%</td>
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<tr>
<td><strong>Alcohol and Tobacco</strong></td>
<td>$451</td>
<td>54%</td>
<td>$451</td>
<td>54%</td>
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<tr>
<td><strong>Other Taxes and Revenue Sources</strong></td>
<td>$2,215</td>
<td>-16%</td>
<td>$2,267</td>
<td>-14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$18,862</td>
<td>-10%</td>
<td>$19,904</td>
<td>-5%</td>
</tr>
</tbody>
</table>

*Change from Budgeted FY 2008-09 Revenue. All figures in millions of dollars.

### Chart

- **FY 2009-10**
  - Personal Income
  - Sales & Use
  - Corporate Income
  - Alcohol and Tobacco
  - Other

- **FY 2010-11**
  - Personal Income
  - Sales & Use
  - Corporate Income
  - Alcohol and Tobacco
  - Other

### Legend
- Personal Income
- Sales & Use
- Corporate Income
- Alcohol and Tobacco
- Other

### Axes
- Millions
- $5,000 to $25,000
### Initial Requirements vs. Base Revenue

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Revenue Forecast</td>
<td>$18,862</td>
<td>$19,904</td>
</tr>
<tr>
<td>Initial Appropriation Requirements</td>
<td>$22,283</td>
<td>$22,938</td>
</tr>
<tr>
<td>Balance</td>
<td>$(3,422)</td>
<td>$(3,034)</td>
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All figures in millions of dollars.
### FY 2009-11: Measures to Balance

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget Reductions</strong></td>
<td>(-) $1,302</td>
<td>(-) $1,289</td>
</tr>
<tr>
<td><strong>Federal Recovery Funds</strong></td>
<td>$1,714</td>
<td>$1,211</td>
</tr>
<tr>
<td><strong>Revenue Changes</strong></td>
<td>$580</td>
<td>$707</td>
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<tr>
<td><strong>TOTAL Measures to Balance</strong></td>
<td>$3,596</td>
<td>$3,207</td>
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All figures in millions of dollars.
## Federal Recovery Funds

### FY 2009-10 and FY 2010-11

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
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<tbody>
<tr>
<td>Federal Medicaid Assistance Program (FMAP)</td>
<td>$1,004</td>
<td>$501</td>
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<tr>
<td>Fiscal Stabilization – Education</td>
<td>$581</td>
<td>$581</td>
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<tr>
<td>Fiscal Stabilization – General Purpose</td>
<td>$129</td>
<td>$129</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$1,714</strong></td>
<td><strong>$1,211</strong></td>
</tr>
</tbody>
</table>

*All figures in millions of dollars.*

### Bar Chart

- **FY 2009-10**
  - FMAP
  - Education
  - General Purpose

- **FY 2010-11**
  - FMAP
  - Education
  - General Purpose

**Scale:**
- Millions
  - $0
  - $400
  - $800
  - $1,200
  - $1,600
  - $2,000
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IV. Recommendations by Subcommittee

A. Education
B. Health and Human Services (HHS)
C. General Government/
   Natural and Economic Resources/
   Justice and Public Safety
   (GG/NER/JPS)
D. Infrastructure
E. Transportation
F. Statewide Reserves
## Education: Budget Overview

<table>
<thead>
<tr>
<th></th>
<th>Revised FY 2008-09</th>
<th>FY 2009-10</th>
<th>% Change</th>
<th>FY 2010-11</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Schools</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Requirements</td>
<td>$11,108</td>
<td>$11,226</td>
<td>1%</td>
<td>$11,377</td>
<td>2%</td>
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<tr>
<td>Receipts</td>
<td>$2,898</td>
<td>$3,214</td>
<td>11%</td>
<td>$3,213</td>
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<tr>
<td>Appropriations</td>
<td>$8,210</td>
<td>$8,012</td>
<td>-2%</td>
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<tr>
<td><strong>UNC System</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Requirements</td>
<td>$4,019</td>
<td>$4,159</td>
<td>4%</td>
<td>$4,247</td>
<td>6%</td>
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<tr>
<td>Receipts</td>
<td>$1,292</td>
<td>$1,301</td>
<td>0.7%</td>
<td>$1,318</td>
<td>2%</td>
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<tr>
<td>Appropriations</td>
<td>$2,727</td>
<td>$2,858</td>
<td>5%</td>
<td>$2,929</td>
<td>7%</td>
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<tr>
<td><strong>Community Colleges</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Requirements</td>
<td>$1,203</td>
<td>$1,293</td>
<td>8%</td>
<td>$1,345</td>
<td>12%</td>
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<tr>
<td>Receipts</td>
<td>$238</td>
<td>$266</td>
<td>12%</td>
<td>$277</td>
<td>17%</td>
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<tr>
<td>Appropriations</td>
<td>$965</td>
<td>$1,027</td>
<td>6%</td>
<td>$1,068</td>
<td>11%</td>
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</tbody>
</table>

All figures in millions of dollars.

1. Revised per Executive Order No. 6, 1/13/2009
2. Includes Teachers’ Salary Step Increase
3. From FY 2008-09
# Education: Enrollment Changes

<table>
<thead>
<tr>
<th></th>
<th>FY 2008-09</th>
<th>FY 2009-10</th>
<th>Change ¹</th>
<th>FY 2010-11</th>
<th>Change ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Schools</td>
<td>1,476,566</td>
<td>1,464,914</td>
<td>-0.8%</td>
<td>1,478,795</td>
<td>1%</td>
</tr>
<tr>
<td>UNC</td>
<td>191,489</td>
<td>196,194</td>
<td>2%</td>
<td>200,862</td>
<td>2%</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>201,625</td>
<td>214,144</td>
<td>6%</td>
<td>225,614</td>
<td>5%</td>
</tr>
</tbody>
</table>

Figures are FTE/ADM.

1. From FY 2008-09
2. From FY 2009-10
Governor Perdue’s Education Budget

• **Protects K-12**
  – Total public education spending (including federal recovery dollars) greater in FY 2009-10 than FY 2008-09
  – Enrollment is 0.8% lower

• **Continues to provide access to UNC system** for North Carolinians at reasonable and affordable cost
  – Fully funds enrollment growth and need-based financial aid
  – Does not recommend an increase in tuition

• **Community college budget focuses on strategic areas**
  – Ensure workforce development
  – Create jobs for the future
  – Does not increase tuition
Education: Budget Reductions

• Total Reductions: $578 million
  • Public Education: $318 million
  • UNC System: $196 million
  • Community Colleges: $64 million
Major Reductions in Public Education

- Adjust DPI salaries and LEA benefits to 97%
  - More closely matches actual salary and benefit expenditures
- LEA flexibility reduction ($144 mm/year)
  - Allocated based upon average daily membership
  - Shall not directly impact classroom services
  - LEAs strongly encouraged to use federal recovery funds to mitigate this reduction
• Reduce funding for textbooks ($38 mm, NR)
  • Due to delay in middle and high school math textbook adoption
  • LEAs will continue to have funds available to purchase remaining textbooks

• Reduce appropriation for technology fund ($4 mm/year, NR)
  • Federal recovery funds provide $16 million to be used for educational technology
  • Governor also recommends appropriation of the $18 million in fines held in escrow by the UNC System
• Adjust financing for school bus replacement ($7.5 mm/year)
  • Replacement from 3 years to 4 years
  • Will not reduce number of buses scheduled for replacement over the biennium

• Eliminate Improving Student Accountability allotment ($38 mm/year)
  • LEAs are encouraged to use DSSF and federal recovery funds to mitigate this reduction
Major Reductions in the UNC System

• Adjust UNCGA salaries to 97% and UNC campus salaries to 98%
  • More closely matches actual salary expenditures
• Reduce UNC Hospital transfer due to their large fund balance ($10 mm/year for 2 years)
• Reduce Legislative Tuition Grant budget ($4 mm)
  – Consistent with reduction for the UNC campuses
  – State Contractual Scholarship Fund (need-based financial aid program for private colleges) is held harmless
Major Reductions in the UNC System (cont.)

• UNC GA flexibility reduction of 5% ($3 mm)
  – UNC System President and the UNC Board of Governors have flexibility to implement

• UNC campus flexibility reduction of 3.6% ($97 mm)
  – Make reductions in areas based upon interests of each campus
Major Reductions in NCCCS

• Adjust NCCCS Office salaries to 97% and college salaries to 98%
  – More closely matches actual salary expenditures

• Reduce/eliminate certain categorical allotments ($4 mm)

• Reduce supplemental multi-campus funding ($2 mm)
  – Colleges will continue to receive FTE funding for enrollment generated at these sites
Major Reductions in NCCCS (cont.)

• Restructure continuing education fee rates ($9 mm)
  • New sliding scale based upon length of each course
  • Will not reduce access to training for dislocated workers

• Community college flexibility reduction ($21 mm)
  • Shall not directly impact retraining for displaced workers or course offerings to high school students
Education: Budget Expansion Items

- **Total Expansion Items:** $67 million

- **Public Education:** $21 million
- **UNC System:** $28 million
- **Community Colleges:** $18 million
Expansion Highlights: Public Education

• Provide $5 million to:
  – Investigate and pilot **diagnostic assessments** in elementary grades
    • Ensure deficiencies in reading/math addressed before middle school
  – Replace standard course of study with a **21st century curriculum**
  – Develop a plan to **restructure the ABCs Accountability System**
  – Replace the current EOG and EOC tests with **assessments aligned with the new curriculum**
    • Using national assessments wherever possible
• Increase funding for the statewide program that provides **tailored and sustained support to struggling schools and districts** ($3 mm)

• Continue **dropout prevention grant initiative** ($7 mm)
  – Addresses truancy, academic failure, and school transition

• Full funding for **additional 12 Learn and Earn schools** scheduled to open in the 2009-10 school year
Expansion Highlights: UNC System

• Full funding for **UNC Need-Based Financial Aid** ($23 mm)
  – Continue the expansion to ensure that all eligible students receive a grant
  – Will hold recipients harmless from increases in the cost of education

• Support ECU Brody School of Medicine’s ability to **provide care for indigent patients** ($4 mm)
• JobsNOW
  – 65 additional health faculty targeted in areas with high shortage and waiting list of students ($5 mm)
  – 20 grants to colleges for programs serving areas of major need in technical fields ($3 mm)
    • Transportation, engineering, industrial, military, construction, and green technology
  – JobSupport ($3 mm in federal recovery funds)
    • Meets child care, tuition, and transportation needs of displaced workers while they pursue retraining
• **Address equipment and technology needs** ($5 mm, R)
  – Reduce program waiting lists
  – Meet training needs

• **Enrollment growth reserve** ($3 mm)
  – Assists colleges experiencing enrollment growth > 5%
IV. Recommendations by Subcommittee

A. Education

B. Health and Human Services (HHS)

C. General Government/
Natural and Economic Resources/
Justice and Public Safety
(GG/NER/JPS)

D. Infrastructure

E. Transportation

F. Statewide Reserves
## HHS: Budget Overview

### Health and Human Services

<table>
<thead>
<tr>
<th></th>
<th>Revised FY 2008-09</th>
<th>FY 2009-10</th>
<th>% Change</th>
<th>FY 2010-11</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements</td>
<td>$16,860</td>
<td>$17,848</td>
<td>6%</td>
<td>$18,537</td>
<td>10%</td>
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<tr>
<td>Receipts</td>
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<td>$12,563</td>
<td>4%</td>
<td>$12,988</td>
<td>7%</td>
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<tr>
<td>Appropriation</td>
<td>$4,763</td>
<td>$5,285</td>
<td>11%</td>
<td>$5,549</td>
<td>17%</td>
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</tbody>
</table>

*All figures in millions of dollars.*

1. Revised per Executive Order No. 6, 1/13/2009
2. From FY 2008-09
HHS Budget Drivers (before reductions/expansion)

- **Medicaid Forecast:**
  - $497 million FY 2009-10
  - $750 million FY 2010-11
  - $1,247 million FYs 2009-11

- **MH/DD/SA** - $62 million continuation budget increase
  - Operating reserve for Cherry Hospital
  - Truth-in-budgeting increases
Total General Fund Reductions:

– $274 million in FY 09-10

• Medicaid reductions - $147 mm (54%)
  – Freeze provider inflationary rate reductions ($101 mm)
  – Reduce prescription drug ($20 mm)
  – Modify personal care services ($14 mm)

• MH/DD/SA reductions -$33 mm (12%)
  – Close two 25 bed adult units Cherry/Broughton ($6 mm)
  – Close Wright and Whitaker Schools ($3 mm)
  – Remove IT reserve for Cherry/CRH ($21 mm)
Total General Fund Reductions:

– $274 million in FY 09-10

• Child Development reductions - $29 mm (10%)
  – Replace state w/federal for child care subsidy ($13 mm)
  – Reduce Smart Start on nonrecurring basis ($9 mm)
  – Replace state funds with federal for TEACH ($4 mm)

• Social Services reductions - $24 mm (9%)
  – Eliminate state funds for Work First Cash assistance ($7 mm)
  – Offset state funds with federal recovery funds ($11 mm)
  – Reduce REACH scholarship funds ($3 mm, NR &R)

• Truth-in-budgeting reform - $23 mm (8% of total)
Total General Fund Expansion Items:

– $22 million in FY 09-10

• **Increase access to health care** to children of working families & the uninsured
  – Expand SCHIP to 8,000 children ($4 mm)
  – Provide recurring funds for Health Net ($1 mm)

• **Support older adults & caregiver families**
  – Expand Home and Community Care Block Grant ($1 mm)
  – Provide recurring funds for Project CARE ($0.5 mm)
Total General Fund Expansion Items:

– $22 million in FY 09-10

• **Improve institutional and community-based resources** that provide services to the mentally ill
  – Crisis services-local inpatient bed capacity ($12 mm)
  – Training and workforce development ($0.3 mm)
  – Truth-in-budgeting adjustments ($30 mm)
  – Dorothea Dix Overflow Unit ($3 mm)

• **Other critical items** (Receipt-supported)
  – Medicaid Management Information System ($11 mm in prior year earned revenue)
  – Federal recovery funds for child care subsidy ($54 mm)
IV. Recommendations by Subcommittee

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## GG/NER/JPS: Budget Overview

<table>
<thead>
<tr>
<th></th>
<th>FY 2008-09</th>
<th>FY 2009-10</th>
<th>% Change</th>
<th>FY 2010-11</th>
<th>% Change</th>
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<tbody>
<tr>
<td><strong>General Government (GG)</strong></td>
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<tr>
<td>Requirements</td>
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<td>Receipts</td>
<td>$128</td>
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<td>-2%</td>
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<tr>
<td>Appropriation</td>
<td>$448</td>
<td>$438</td>
<td>-2%</td>
<td>$440</td>
<td>-2%</td>
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<td><strong>Natural and Economic Resources (NER)</strong></td>
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<tr>
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<td>-9%</td>
<td>$670</td>
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<td>Receipts</td>
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<td>$539</td>
<td>$469</td>
<td>-13%</td>
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<tr>
<td><strong>Justice and Public Safety (JPS)</strong></td>
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<td></td>
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<tr>
<td>Requirements</td>
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<td>$210</td>
<td>-0.5%</td>
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<tr>
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<td>$2,100</td>
<td>$2,202</td>
<td>5%</td>
<td>$2,223</td>
<td>6%</td>
</tr>
</tbody>
</table>

All figures in millions of dollars.

1. Revised per Executive Order No. 6, 1/13/2009
2. From FY 2008-09
• Allocation of FY 2009-10 Appropriation for General Government ($438 million)

- Revenue: 20%
- Cultural Resources: 17%
- DOA: 17%
- Housing Finance: 3%
- Controller: 5%
- Insurance: 7%
- Assembly: 13%
- All Other: 18%
Allocation for Natural and Economic Resources

- Allocation of FY 2009-10 Appropriation for NER ($469 million)

- **Commerce**
  - State Aid: 15%
  - Commerce: 10%
  - Labor: 3%

- **Agriculture**: 13%

- **DENR**¹: 43%

- **CWMTF**²: 16%

1. Department of Environment and Natural Resources
2. North Carolina Clean Water Management Trust Fund
Allocation for Justice and Public Safety

• Allocation of FY 2009-10 Appropriation for JPS ($2,202 million)

- Correction 60%
- Crime Control 21%
- Courts 21%
- Justice 4%
- Indigent Defense 6%
- Juvenile Justice 7%
GG/NER/JPS: Budget Reductions

• **Total Reductions:**
  
  FY 2009-10 $237 million  
  FY 2010-11 $250 million  

• Generally includes:
  
  – Payroll reductions to more closely match actual expenditures  
  – Reductions to operating accounts agency-wide  
  – Position eliminations  
  – Fund-shifting various expenditures to receipt support  
  – Reductions to pass-throughs at 7%
Other Reductions for General Government

• Reduction for the Volunteer Safety Workers’ Compensation Fund ($3 mm, NR)

• Elimination of the Investigation Unit and Criminal Justice Planning Program for the State Capitol Police ($0.1 mm)

• Elimination of Grants Training Unit in the Office of the State Auditor ($0.3 mm)
Other Reductions for NER

- Reduction for the Clean Water Management Trust Fund ($25 mm, NR)
- Elimination of the BRIDGE Young Offenders Forest Conservation Program ($1 mm)
- Elimination of the Office of Environmental Education ($0.4 mm)
Other Reductions for JPS

• Elimination of the Sentencing Services Program ($3 mm)

• Elimination of the Support Our Students Program ($6 mm)

• Closure of Prison Facilities with High Operating Costs ($24 mm)
  – McCain Correctional Hospital
  – Wilmington Residential Facility for Women
  – Umstead, Guilford, Gates, Haywood, and Union Correctional Centers
• **Total Expansion:**
  
  FY 2009-10 $76 million  
  FY 2010-11 $32 million

• Includes both state appropriation and funds to be allocated through the Federal Recovery and Reinvestment Act
Expansion Highlights for GG

• **Sustain military morale** and welfare grants to military installations ($1 mm)

• Begin planning efforts for the establishment of the **Justice for Sterilization Victims Foundation** ($0.25 mm)

• Support recurring resources needed to stabilize the **HR/Payroll system** ($2 mm over the biennium)
Expansion Highlights for NER

- Transform the **Main Street Program** ($3 mm/year)
  - Into a comprehensive economic development tool
  - Provides grants to communities to revitalize downtown areas

- Expand **economic development opportunities** ($9 mm)

- **Promote our state** ($2 mm)
  - A business and tourism destination
  - Better market our agriculture products throughout the US

- Maximize federal funding available for **water and sewer infrastructure improvements** ($29 mm)
Expansion Highlights for JPS

- **A comprehensive gang initiative** ($15 mm in federal recovery funds)
  - Statewide Taskforce ($0.2 mm/year)
  - Expand GangNet ($2 mm)
  - Gang Prevention and Intervention Pilot Program ($6 mm)
  - Evidence-based grants ($5 mm)
  - Additional Juvenile Court Counselors ($2 mm)
Expansion Highlights for JPS (cont.)

- **Enhance supervision of probationers/parolees** ($27 mm over the biennium, state and federal recovery funds)
  - Additional Officers, Supervisors, and Trainers ($9 mm/$11 mm)
  - improve recruitment and retention ($2 mm/year)
  - New Intake Officers ($1 mm)
  - Communications equipment ($1 mm)
Expansion Highlights for JPS (cont.)

• **Assist local law enforcement** ($6 mm in federal recovery funds)
  
  – Grants to purchase VIPER (interoperable communications) equipment ($5 mm)
  
  – Expedite methamphetamine and violent crime investigations ($0.5 mm)
  
  – Supplemental grants for the COPS Hiring and Recovery Program ($0.4 mm)
IV. Recommendations by Subcommittee

A. Education

B. Health and Human Services (HHS)

C. General Government/ Natural and Economic Resources/ Justice and Public Safety (GG/NER/JPS)

D. Infrastructure

E. Transportation

F. Statewide Reserves
## Infrastructure: Budget Overview

### FY 2008-09 FY 2009-10

<table>
<thead>
<tr>
<th></th>
<th>Authorized</th>
<th>Certified-3/09</th>
<th>Difference</th>
<th>Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Improvements</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations</td>
<td>$ 129</td>
<td>$ 23</td>
<td>$(106)</td>
<td>$ 28</td>
</tr>
<tr>
<td>Repair &amp; Renovation</td>
<td>$ 70</td>
<td>$ -</td>
<td>$(70)</td>
<td>$ -</td>
</tr>
<tr>
<td>Special Indebtedness</td>
<td>$ 751</td>
<td>$ 696</td>
<td>$(55)</td>
<td>$ -</td>
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<tr>
<td>General Obligation Bonds</td>
<td>$ 107</td>
<td>$ 107</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td></td>
<td>$ 1,056</td>
<td>$ 826</td>
<td>$(231)</td>
<td>$ 28</td>
</tr>
</tbody>
</table>

*All figures in millions of dollars.*
Infrastructure: Budget Overview

• Limited Capital Financing Due to Recession
  – $28 Million in Capital Appropriation
    • Water Resources Projects ($17.6 State Match - $83M Federal/Local Contribution)
    • Biomedical Research Imaging Center ($10M)
  – No Funding for Repairs and Renovations Reserve
  – No Debt Financing for FY 2009-10
Infrastructure: Capital Funds

Authorized/Proposed Capital Funds, FY 2003-04 to FY 2009-10

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Appropriations</th>
<th>R&amp;R Reserve Account</th>
<th>Special Financing</th>
<th>GO Bonds</th>
<th>Withheld or Delayed</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2003-04</td>
<td>$776</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>FY 2004-05</td>
<td>$590</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2005-06</td>
<td>$180</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FY 2006-07</td>
<td></td>
<td>$1,148</td>
<td></td>
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<tr>
<td>FY 2007-08</td>
<td></td>
<td>$1,045</td>
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<td></td>
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<tr>
<td>FY 2008-09</td>
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<td>$1,057</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FY 2009-10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$28</td>
</tr>
</tbody>
</table>

All amounts in Millions.
Infrastructure: Repair & Renovation Funding

Repair & Renovation Funding, FY 1999-2000 to FY 2009-10

- R&R Reserve Account
- Special Financing (COPS)

* $70 million withheld in FY 2008-09.
• Biomedical Research Imaging Center – Funding Plan
  – $20.5 million previously funded (GF)
  – $10 million 2009-10 GF Appropriation
  – $229.5 million 2010-13 GO Bonds
    • Debt payments shared:
      – 70% General Fund
      – 15% UNC-Chapel Hill
      – 15% UNC-Hospitals
**Infrastructure: Debt Affordability**

- Debt Affordability Study shows *limited capacity for new debt*

*Net Tax-Supported Debt Capacity Using 4.0% Target Ratio (millions)*

<table>
<thead>
<tr>
<th></th>
<th>FY 2008-09</th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
<th>FY 2011-12</th>
<th>FY 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Additional Debt Capacity per Year</td>
<td>$188</td>
<td>$14</td>
<td>$0.6</td>
<td>$222</td>
<td>$548</td>
</tr>
<tr>
<td>Debt Capacity Available Each and Every Year</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
</tr>
</tbody>
</table>

Source: Debt Affordability Study, February 1, 2009
Infrastructure: Debt Affordability

• Future Revenues are Uncertain
• Debt Reduces Future Budget Flexibility
• Budget Flexibility is Needed in Times of Budget Shortfalls
• Net Tax-Supported Debt Service for Existing Debt Authorizations:
  – $695 million in 2009-10
  – $753 million in 2010-11
  – Peaks in 2012 at $787 million
Infrastructure: Economic Stimulus

- Debt authorized from 2005-2009 provides economic stimulus this year
  - $2.8 billion authorized for capital projects
  - Many projects are under construction
  - $400 million to be issued in April 2009
    - Will be spent within about 8 months
    - Additional bonds will be issued late fall
  - $1.6 Billion still to be issued

- New Debt Authorizations
  - Lag time for economic impact
  - Planning Funds withheld in 2008-09 limit projects
IV. Recommendations by Subcommittee

A. Education

B. Health and Human Services (HHS)

C. Justice and Public Safety/
   Natural and Economic Resources/
   General Government (JPS/NER/GG)

D. Infrastructure

E. Transportation

F. Statewide Reserves
## Transportation: Budget Overview

### Transportation Requirements

<table>
<thead>
<tr>
<th></th>
<th>Revised FY 2008-09</th>
<th>FY 2009-10</th>
<th>Change 2</th>
<th>FY 2010-11</th>
<th>Change 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements</td>
<td>$3,607</td>
<td>$3,592</td>
<td>-0.4%</td>
<td>$3,604</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Receipts</td>
<td>$982</td>
<td>$1,051</td>
<td>7%</td>
<td>$1,062</td>
<td>8%</td>
</tr>
<tr>
<td>Appropriation</td>
<td>$2,625</td>
<td>$2,541</td>
<td>-3%</td>
<td>$2,543</td>
<td>-3%</td>
</tr>
</tbody>
</table>

*All figures in millions of dollars.*

1. Revised per Executive Order No. 6, 1/13/2009
2. From FY 2008-09
Transportation: Budget Context

• **Investment in the state’s infrastructure** is vital to economic growth

• Restoring and maintaining the state’s transportation infrastructure and promoting multi-modal transportation initiatives are a key component

• **$3.6 billion is recommended** in support of North Carolina’s Transportation Program for each year of the biennium
Transportation: Funding Sources, FY 2009-10

All figures in millions of dollars. FY 2010-11 amounts are similar. See budget document for details.
Transportation: Appropriations, FY 2009-10

All figures in millions of dollars.

FY 2010-11 amounts are similar. See budget document for details.
Federal Economic Recovery Funds

• **Federal Recovery Funds**
  – $735 million for highways and bridges
  – $103 million in transit federal formula grants

• 50% of funds required to be obligated **within 120 days**
  – The other 50% required to be obligated within one year

• **70 shovel-ready projects** totaling $466 million utilizing first half of highway & bridge funds identified

• Projects that will be funded from remaining funds for highways and bridges along with transit funds are currently being identified
Budget Reductions: Highway Fund

- **Total Reductions:**
  
  2009-10 - $142 million  
  2010-11 - $172 million

- Reduce *highway maintenance funds* by ($78 mm, $109 mm)

- Reduce *small construction funds* ($2.6 mm/year of biennium)
• Reduce **multi-modal transportation funds** ($29 mm/year of biennium)

• Reduce **salary and operating funds** for department-wide administration ($15 mm/year of the biennium)
  – 34 positions

• Reduce **transfers to other state agencies** supported with Highway Fund appropriations ($11 mm)

• Reduce salary adjustment funds, longevity funds and budget health care premiums at actual costs ($8 mm)
Budget Reductions: Highway Trust Fund

- **Total Reductions:**
  - 2009-10 - $157 million
  - 2010-11 - $173 million

- Reduce funds for *intrastate system* ($92 mm, $101 mm)

- Reduce funds for *urban loops construction* ($37 mm, $41 mm)
• Reduce funds for secondary roads construction and state aid to municipalities ($10 mm, $11 mm)

• Reduce funds for program administration ($8 mm/year of biennium)
Expansion Items: Highway Fund

- **Total Expansion Items:**
  - 2009-10 - $25 million
  - 2010-11 - $32 million

- Adjust funds as statutorily required for LUST fund, state aid to municipalities and secondary roads construction ($6 mm, $8 mm)
• Restore recurring appropriation for **Spot Safety Program** after successful continuation review ($9 mm/year of the biennium)

• Receipt funds for completion of **combined registration and tax collection system** ($5 mm, $9 mm)

• **Increase employer share of contributions** to State Health Plan to support increase in premiums effective July 1st ($5 mm, $11 mm)

• **Increase retirement system contributions** ($1 mm/year of the biennium)
IV. Recommendations by Subcommittee

A. Education
B. Health and Human Services (HHS)
C. Justice and Public Safety/ Natural and Economic Resources/ General Government (JPS/NER/GG)
D. Infrastructure
E. Transportation
F. Statewide Reserves
Statewide Reserves: Reductions

• **Total Reductions:**

  FY 2009-10/FY 2010-11: $213 mm, $224 mm

• Freeze Longevity Payments for Two Years/Hold Retirement Calculation Harmless ($173 mm, $178 mm)

• Budget Health Care Premiums at Actual Costs ($25 mm/year)

• Reduce Debt Service Appropriations ($4 mm/year)

• Eliminate Salary Adjustment Fund monies ($4.5 mm/year)

• Eliminate (75/100) Administrative Support positions to align NC with standard 10:1 ratio ($3 mm, $4 mm)

• Budget E-Procurement Receipts ($0, $10 mm)
Statewide Reserves: Expansion Items

• **Total Expansion Items:**
  
  FY 2009-10/FY 2010-11: ($6 mm, $3 mm)

• **Bonus Leave** for State Employees in lieu of longevity payments ($0, $0)

• **2010 Census** Local Promotion ($0.75 mm, $0)

• State Web Portal and **Accountability Sites** ($0.5 mm, $0.5 mm)

• Create **Budget and Performance Management** System ($3 mm, $0.5 mm)

• **Federal Economic Recovery** Management and Accountability ($1 mm, $1 mm)
I. Governor Perdue’s Budget Priorities
II. Summary of FY 2009-11 Budget
III. Recommendations by Subcommittee
IV. Economic and Revenue Update
V. Summary
IV. Economic and Revenue Update

A. Background on Revenue and the Economy
B. General Fund Revenue Outlook: 2009-2011
C. Revenue Changes
General Fund Revenue Components

FY 2007-08 General Fund Revenue: $19.8 billion

<table>
<thead>
<tr>
<th>Tax/Source</th>
<th>$ (billions)</th>
<th>% of GF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income</td>
<td>$10.9</td>
<td>55%</td>
</tr>
<tr>
<td>Sales &amp; Use</td>
<td>$5.0</td>
<td>25%</td>
</tr>
<tr>
<td>Corporate Income</td>
<td>$1.1</td>
<td>6%</td>
</tr>
<tr>
<td>All Other Taxes</td>
<td>$2.8</td>
<td>14%</td>
</tr>
</tbody>
</table>

- NC’s tax base compared to other states:
  - More Reliance on Individual Income Tax
  - Less Reliance on Sales and Use Tax
Current Recession in Perspective: Jobs

Current recession: lost 186,000 jobs as of Jan. 2009
84,000 jobs lost in 2001 recession

% Job Loss from Peak Employment

Number of Months After Peak Employment

Source: NC Employment Security Commission

General Fund Revenue Update
FY 2008-09 GF Revenue Update

• $1.18 billion below budget through February
  – 9.2% below expected revenue
  – Recession has translated into large declines in most important revenue categories

• $2.2 billion shortfall expected in FY 2008-09
  – $18.7 billion vs. $20.9 billion budgeted
  – 10.6% below budgeted revenue; 5.9% decline compared to last year (would be largest decline in our records)
Withholding, gross sales tax collections, and employment declining
(year-over-year percent change)

Sources: OSBM Economic & Demographic Analysis, Global Insight
Key economic indicators suggest a sluggish FY 2009-10 with a rebound in FY 2010-11.

Year-over-year Growth In North Carolina (forecast):

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>1.1%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Nonfarm Employment</td>
<td>-1.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Profits</td>
<td>0.8%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>0.5%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Source: Global Insight
Consensus Forecast for General Fund Revenue

FY 2009-10

– Total: $18.9 billion, no growth (0.1%)
– Slight economic recovery starts in 2010; revenue recovery delayed

General Fund Revenue Growth (baseline year-over-year percent change)

Source: OSBM and Fiscal Research Division Consensus Forecast
Individual Income Tax
- 0.3% growth

Sales Tax
- No growth (0.0%)

Corporate Income Tax
- 0.5% decline

(baseline year-over-year percent change)
Consensus Forecast for General Fund Revenue

FY 2010-11

– Total: $19.9 billion, **5.4% growth**
– Return to FY 2007-08 Total General Fund Revenue levels

*General Fund Revenue Growth (baseline year-over-year percent change)*

Source: OSBM and Fiscal Research Division Consensus Forecast
**FY 2010-11 Forecast by Revenue Source**

**Individual Income Tax**
- 5.2% growth

**Sales Tax**
- 6.2% growth

**Corporate Income Tax**
- 7.4% growth

*(baseline year-over-year percent change)*
### Projected General Fund Revenue Changes

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th>FY 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco Tax Changes</td>
<td>$343</td>
<td>$457</td>
</tr>
<tr>
<td>Alcohol Tax Changes</td>
<td>$158</td>
<td>$210</td>
</tr>
<tr>
<td>Improved Enforcement</td>
<td>$50</td>
<td>$75</td>
</tr>
<tr>
<td>Fees</td>
<td>$27</td>
<td>$31</td>
</tr>
<tr>
<td>Disproportionate Share Allocation</td>
<td>$25</td>
<td>$( - )</td>
</tr>
<tr>
<td>Tax Relief</td>
<td>$(22)</td>
<td>$(65)</td>
</tr>
<tr>
<td><strong>Net Revenue Effect</strong></td>
<td><strong>$580</strong></td>
<td><strong>$707</strong></td>
</tr>
</tbody>
</table>

All figures in millions of dollars.
Revenue Changes: Tobacco

• Cigarette Tax
  – NC has 7th-lowest cigarette tax rate
  – Increase rate $1.00 to $1.35 per pack
  – **Would be slightly above national average**
    – $311 million in FY 2009-10
    – $415 million in FY 2010-11

• Other Tobacco Products
  – Increase tax rate from 10% to 28%
  – **Similar to cigarette rate increase**
    – $32 million in FY 2009-10
    – $42 million in FY 2010-11
Revenue Changes: Alcohol and License Fees

• Alcohol Tax
  – Implement 5% tax surcharge on all purchases
  – Rates on beer and wine **have not changed in 25 years**
  – Liquor tax rate was 28% until February 2002
  – $158 million in FY 2009-10
  – $210 million in FY 2010-11

• Fee Increase on Professionals
  – Increase annual license fee on professionals from $50 to $200
  – $18 million in FY 2009-10 and FY 2010-11
Governor’s Tax Relief Package saves taxpayers:
- $22 million in FY 2009-10
- $65 million in FY 2010-11

• **Small Business Tax Relief** ($12 mm, $24 mm)
  - Profits of < $100,000 can exempt first $25,000 of net income from tax
  - Profits of $100,000 to $200,000 can exempt first $15,000 of net income

• **Founder’s Credit** ($0)
  - Encourages investment in NC entrepreneurs, drivers of economic growth
  - Excludes initial stock investments (“founder’s stock”) in NC start-up companies from capital gains

• **WaterSense Tax Holiday** ($0)
  - Promotes water conservation by NC citizens
  - Adds WaterSense devices to existing Energy Star tax holiday
Governor’s Tax Relief Package (cont.):

• **Expand Earned Income Tax Credit (EITC)** ($0, $21 mm)
  – Provide some relief for low- and moderate-income families
  – EITC increases from 5.0% to 6.5% of federal credit

• **Internal Revenue Code (IRC) Update** ($10 mm, $20 mm)
  – Makes bonus payments to combat veterans tax-free
  – Allows military death benefit contributions to retirement accounts
  – Extends deductions including tuition and schoolteacher expenses
  – Adds deduction for endangered species recovery expenses and extends deduction for conservation easements

• **Caregiver Tax Credit** ($0, $0.8 mm)
  – Offsets some costs of caring for an older family member
  – Credit for 10% of certain caregiving expenses, up to $150
Agenda

I. Governor Perdue’s Budget Priorities
II. Summary of FY 2009-11 Budget
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Summary: Governor Perdue’s Budget Priorities

1. Growing North Carolina’s Economy
   - Key investments around infrastructure, assistance to small businesses and workforce development, including:
     - $50 mm to maximize federal resources for water and sewer, navigation, flood control, drainage and beach protection projects
     - $36 mm in tax relief for small businesses
     - Jobs Now initiative: community college programs focused on preparing students for the new 21st century careers.

2. Improving Public Education
   - Year to year spending (including federal recovery monies) increases by $118 million (1.1%)
   - Per student funding increases from $5,597 to $5,736
3. Keeping Higher Education Accessible and Affordable
   – Fully funds enrollment for all students hoping to attend a community college or UNC system institution
   – Does not recommend a tuition increase

4. Protecting Our Most Vulnerable Citizens
   – Limits reductions in direct services
   – Does not displace persons currently served by Medicaid

5. Keeping Our Communities Safe
   – Invests an add’l $12 mm per year in the probation system
   – $15 million in federal recovery funds for gang-related programs
   – $2.6 billion in savings throughout state government
   – Recurring savings rather than one-time actions
   – A targeted approach when identifying reductions
   – Reduces or eliminates more than 20 duplicative, costly, inefficient or nonessential programs
   – Transitions to a budgeting approach focusing on results

7. Fiscal Responsibility
   – Per capita budget will decline by 3.2%
   – Does not authorize any additional debt in 2009-10
FY 2009-11
Presentation of Governor Perdue’s Recommended Budget

Prepared by:
The Office of State Budget and Management
March 17, 2009