

Maintaining Fiscal Soundness and Promoting Operational Excellence

The Governor’s Recommended Budget takes an intentional and forward-looking approach to ensure essential government services are funded while also recognizing that improvements can be made, inefficiencies cut out, and savings realized. Targeted investments of \$91 million will expand the state’s capacity to evaluate whether programs and policies achieve intended outcomes; to efficiently manage state resources and identify waste, fraud, and abuse; and to use data and technology to further streamline government operations, enhance transparency, and deliver services that are more accessible, responsive, and cost-effective—achieving greater value for every taxpayer dollar spent.

Ensuring Funds to Maintain Essential Programs and Prepare for Future Challenges

Provides a balanced budget and ensures revenues are adequate to meet the needs of a growing state, while also setting aside \$500 million in reserves. This budget maintains the current personal and corporate income tax rates and provides targeted tax cuts for working families. The budget further ensures the state continues to operate essential programs by adequately funding the Medicaid rebase and K-12 and higher education enrollment to accommodate the demands of a growing population. The State Health Plan, which is facing a deficit, receives an additional \$150 million in FY 2025-26 and over \$300 million in FY 2026-27 to promote fiscal solvency and balance state funding with employee contributions to cover the budget gap.

There is a high level of uncertainty around the federal government and potential funding freezes, cuts, and shutdowns. Federal funds account for over 43% of the state’s total budget, and many state workers who provide essential services are fully or partly funded by federal funds. This budget provides the Office of State Budget and Management access to the Federal Funds Reserve. Quick access to these funds will be necessary to ensure that legally required commitments can be met if federal funds are reduced or eliminated.

Effectively Utilizing and Managing State Resources

Expanding evaluation and evidence-based policy across state government

Establishes the IMPACT Center (Innovation & Modernization for Performance, Accountability, & Cost-Effective Transformation) to advance projects that substantially improve government operations and cut inefficiencies in state programs and policies. These projects will aim to streamline processes and reduce waste, fraud, and abuse while maintaining or improving service quality and outcomes. The Center will be administered by the Office of State Budget & Management (OSBM), with funds allocated to empower agencies to identify and implement required efficiency transformations, which may include training staff, procuring modern technologies or improving technology adoption, and building capabilities in areas such as agile project management, user-centered (UX) design, data analytics, artificial intelligence, A/B testing, and performance management.

Ensuring accountable and responsible management of state funds

Invests \$5.5 million for additional staff for agency operations, including **internal auditors, budget and finance staff, grants managers, data analysts, and human resource positions** across 11 state agencies to ensure compliance with state and federal regulations, accurate and timely financial management, and the ability to respond to HR needs. Agencies include the Departments of Agriculture and Consumer Services, Insurance, Military and Veterans Affairs, Natural and Cultural Resources, and Public Safety; the

Offices of Administrative Hearings, State Auditor, State Budget and Management, State Controller, and State Human Resources; and the State Bureau of Investigation.

Improving and Securing Access to Government Services

Constituents' expectations about government have changed considerably over the last five years. Around 60% of people strongly prefer to interact with government services online. To serve people in the ways that are easiest for them, the Governor's Recommended Budget invests in a Constituent Portal and Identity Verification to empower North Carolinians with real-time, secure access to information and self-service options on a centralized platform. Expected outcomes from a constituent portal include increased constituent engagement, efficiencies in service delivery, cost savings, and decreased call volumes – while increasing access to information, reducing fraud, and improving user satisfaction.

With the rise in identify theft and fraud, the state must ensure technology solutions accurately identify and authenticate users and all transactions and related data are secure. Therefore, the budget also invests in robust identity verification solutions for DIT's constituent portal and the Department of Transportation's Division of Motor Vehicles self-service portal.

Modernizing State IT Systems to Improve Agency Operations and Customer Service

Improving efficiency for all state agencies

Upgrades and replaces outdated statewide legacy IT systems. The state operates several legacy IT systems that touch all aspects of state government but no longer meet needs. The Governor's Recommended Budget provides new and continued funding to replace or upgrade three of these systems, including:

- The state's budget system: The **Integrated Budget Information System (IBIS)** is over a decade old and is operating beyond its original specifications. It interfaces with the state's accounting system that now requires data validations 50-fold what IBIS was designed to sustain. IBIS currently suffers processing delays and occasionally shuts down entirely. With over 600 users across all state agencies, replacing IBIS will improve capacity to oversee budgets quickly and accurately and ensure the accountability of state spending.
- The state's legacy HR applications: The **Human Capital Management (HCM) System** project is replacing fragmented, outdated, legacy HR applications with a single unified system. The current phase of the project includes recruitment, applicant tracking, on- and off-boarding, business analytics, organizational charting, and I-9/e-verification. Once complete, the HCM will deliver automated workflows, enhance user interfaces, and provide better data analytics, all of which will improve and streamline the hiring process.
- The state's **Banking System**: The banking system houses all deposit and dispersing accounts for the state and calculates interest for budget codes and the Short-Term Investment Fund (STIF). Through this system, the state processes approximately \$1 billion in deposits per day. The system will lose vendor support without performing a needed upgrade. Lack of support could result in interruptions to payments and deposits, negatively impacting citizens, agencies, and universities.

Providing critical IT solutions to allow employees to do their jobs more effectively and efficiently Modernizes data systems across ten state agencies to help staff do their jobs more effectively and efficiently. From rounds tracking software for the Department of Adult Corrections, to tax fraud

analytics within the Department of Revenue, to software to improve case management, the Governor’s Recommended Budget makes investments in software and system supports to improve employee productivity and, thereby, government services. These investments span the Departments of Adult Corrections, Justice, Revenue, State Treasurer, and Transportation, as well as Indigent Defense Services, the Offices of the State Auditor, the State Board of Elections, and the State Bureau of Investigation.

Enhancing Customer Interactions with the State

Enables better customer service through technology and service support for the Departments of Environmental Quality, Revenue, and State Treasurer. These technological enhancements will:

- Help over 6,000 DEQ permit applicants apply for, track, and pay for permits, licenses, and certificates online through the Permit Transformation Program.
- Update the Modernized Electronic Filing (MeF) System, which enables taxpayers to submit tax returns electronically and the state to communicate tax filings with the IRS. In FY 2023-24, the MeF system processed over 5.4 million tax returns.
- Improve customer service and secure access to retirement information through enhancements to the Retirement System’s help desk and the ORBIT portal, which is the customer service gateway for the over 780,000 Teacher and State Employee Retirement System members and beneficiaries, as well as all other retirement system members.

Table 1 summarizes the Governor’s recommended investments to promote fiscal soundness and operational excellence.

Table 1: Allocation of Funds to Promote Fiscal Soundness and Operational Excellence

	Agency	FY 2025-26		FY 2026-27	
Expanding Evaluation and Evidence-Based Policy (IMPACT Center)	OSBM	\$20,000,000	NR		
Ensuring Accountable and Responsible Management of State Funds	11 agencies	\$5,450,944	R	\$5,450,944	R
		\$94,388	NR		
Improving and Securing Access to Government Services	DIT, DOT	\$4,430,463	R	\$5,880,463	R
		\$3,000,000	NR		
Improving Efficiency of Statewide Systems	OSBM, OSHR, DST	\$3,360,937	R	\$5,466,405	R
		\$25,748,000	NR		
Providing critical IT solutions to allow employees to do their jobs more effectively and efficiently	10 agencies	\$3,827,745	R	\$4,198,745	R
		\$17,065,810	NR		
Enhancing Customer Interactions with the State	DEQ, DST, DOR	\$3,300,000	R	\$3,455,000	R
		\$5,000,000	NR		
Totals for Recurring and Nonrecurring		\$20,370,089	R	\$24,451,557	R
		\$70,908,198	NR		
Grand Total		\$91,278,287		\$24,451,557	