



# Natural and Economic Resources Subcommittee FY 2011-13 Budget Highlights

Fiscal Brief

February 2012

The North Carolina General Assembly House and Senate Appropriations Subcommittees on Natural and Economic Resources (NER Subcommittee) determine the budget for six State agencies: the Departments of Agriculture & Consumer Services (DACs), Commerce, Environment & Natural Resources (DENR), and Labor; the Clean Water Management Trust Fund (CWMTF); and the Wildlife Resources Commission (WRC). NER also funds 21 nonprofits and 10 boards and commissions. For a complete list of entities funded through NER, click [here](#).

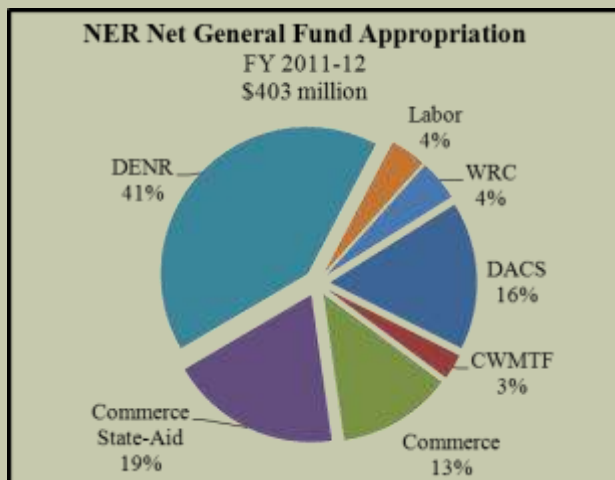
### Actual and Certified Expenditures and Receipts<sup>1</sup>

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
<b>Expenditures</b>	652,350,357	720,474,996	644,850,164	602,760,314
<b>Less: Receipts</b>	241,059,283	281,067,917	241,885,723	241,774,623
<b>Net General Fund Appropriations</b>	411,291,074	439,407,079	402,964,441	360,985,691
<b>Positions (FTE)</b>	5,400	5,444	5,224	5,075

<sup>1</sup> Department or Division level budget and FTE information is provided in tables at the end of this budget brief.

### Budget Overview

The Certified FY 2011-12 Net General Fund Appropriation for the Natural and Economic Resources Subcommittee Agencies is \$403 million. This is a reduction of 16 percent from the Continuation Budget. The General Fund Appropriation funds approximately 5,224 full-time equivalent positions (FTE), 3.2 percent fewer than the Continuation Budget FTE. The chart below shows the subcommittee budget by agency.



S.L. 2011-145, Appropriations Act of 2011 (H.B. 200), as amended by S.L. 2011-391, 2011 Budget Technical Corrections (H.B. 22), appropriates \$403 million for the Natural and Economic Resources (NER) agencies and nonprofits. The FY 2011-12 Continuation Budget for NER agencies was \$479.8 million. Subcommittee reductions were based on an estimated State budget gap of \$2.6 billion. Click [here](#) for more information on the FY 2011-12 budget gap. The NER Subcommittee reduced spending by \$76.8 million for FY 2011-12. The NER Subcommittee discussed various reduction options, focusing on three primary objectives: 1) streamlining and realigning programs, 2) reducing the size and operating costs of the NER agencies, and 3) shifting to new funding sources. This Fiscal Brief provides a summary of the FY 2011-13 NER Budget.

### Streamlining and Realigning Programs

Several divisions and functions were transferred or consolidated across NER agencies. Most of these changes affected programs within DENR, although some transfers affected DACS, Commerce, and the associated boards and commissions. Transfers also affected some State agencies outside of the NER Subcommittee including the Department of Health and

Human Services (DHHS) and the Department of Transportation (DOT).

Within DENR, three divisions were transferred out of the agency and several programs were consolidated internally into new divisions. Both the Division of Forest Resources, with approximately \$55.3 million in General Fund expenditures and 642 FTE, and the Division of Soil & Water Conservation, with \$20.9 million in General Fund expenditures and 46 FTE, were transferred to DACS. These transfers shift the focus of the divisions to more closely align with DACS' goals of commodity promotion and assistance to North Carolina's agricultural community.

Additionally, DENR's Division of Environmental Health (DEH) was eliminated and programs within DEH were either discontinued or transferred. The bulk of the Division's programs, which work closely with local health departments on matters of environmental and public health, were transferred to DHHS. This transfer moved approximately \$20.6 million and 221 FTE from DENR to DHHS. Two of DEH's programs – the Sleep Products Section (more than \$630,000 and eight FTE) and the Grade "A" Milk Program (more than \$811,000 and seven FTE) – were transferred to DACS; these programs closely align with existing programs within DACS that work with pest control and milk inspections. Finally, both DEH's Public Water Supply Section and Shellfish Sanitation and Recreational Water Supply Section were moved within DENR to divisions that operate complimentary programs: the Division of Water Quality and the Division of Marine Fisheries, respectively.

In addition to these changes to DENR, two of Commerce's boards and commissions were transferred; these boards and commissions were under the authority of Commerce but operated independently and with little direct departmental oversight. First, the NC State Ports Authority, a predominantly self-supporting enterprise operation with an annual operating budget of approximately \$36 million and 250 FTE, was transferred to the DOT and will now directly report to the Secretary of Transportation. Second, the Employment Security Commission (ESC), which is wholly supported through federal grants, federal unemployment taxes, and State unemployment taxes, will be subsumed into Commerce as a direct report to the Secretary. ESC's annual administration expenses vary but are typically more than \$150 million, with benefit payments exceeding \$5 billion annually in recent years.

Lastly, in order to consolidate the administration of nonprofit grants appropriated through the NER agencies, four nonprofit organizations whose State grants-in-aid were previously administered by DACS and DENR were transferred to Commerce State-Aid, where all other NER nonprofit grants-in-aid are administered. These nonprofits include:

- The FFA Foundation,
- Ag in the Classroom,
- The Grassroots Science Museum Collaborative, and
- The Partnership for the Sounds.

### **Reducing Agency Size and Operating Costs**

When considering options to reduce the size and operating costs of the NER agencies, the NER Subcommittee focused on three main areas: (1) departmental management practices, (2) nonessential programs and offices, and (3) further study to highlight additional areas of potential savings. Additional operating reductions (e.g., reductions in travel or supplies) were taken in all agencies within NER.

#### *Departmental Management Practices*

The NER Subcommittee achieved over \$6 million in savings through changes to management practices such as cell phone use, span of control, and vacant positions. To realize these savings, the NER Subcommittee directed the agencies to reduce the amount spent on cell phones and motor fleet management vehicles, as well as reduce the actual number of phones and vehicles; eliminate excess longevity funding; reduce director, assistant director, and administrative positions to streamline span of control; and eliminate vacant positions, many of which had been vacant for more than a year.

#### *Nonessential Programs and Offices*

Nine programs were eliminated within DENR and Commerce. Within DENR, eliminated programs include the Working Lands Program, the Oyster Sanctuary Program, and several environmental health-related programs. These environmental health programs ended as part of the consolidation of the Division of Environmental Health with the Division of Public Health in DHHS, which is discussed in depth in the first section of this brief. Commerce's 21<sup>st</sup> Century Communities Program was also ended.

Additionally the NER Subcommittee ceased all State funding for the e-NC Authority, effectively ending that program. The NER Subcommittee also closed two regional offices – the Columbia office of the Division of Marine Fisheries and the Raleigh office of the Division of Coastal Management.

The Clean Water Management Trust Fund was reduced by 88.8 percent, leaving \$11.25 million for infrastructure projects, military buffers, and conservation easements. In addition, the automatic statutory appropriation (G.S. 113A-253.1) of \$100 million was repealed.

#### *Continuation and Justification Reviews*

Four programs within NER were placed under justification or continuation review in order to examine in detail the efficiency and effectiveness of these programs. These programs will receive nonrecurring appropriations for FY 2011-12 and no funding for FY 2012-13 unless the General Assembly determines, based on the reviews, that the programs warrant continued funding. Justification reviews will be performed by Fiscal Research Division staff while continuation reviews will be conducted by the appropriate agency. Programs subject to review are:

#### Justification Review

- DACS' Southeastern Ag Center and Farmers Market (Lumberton);
- DENR's seven Regional Offices;

#### Continuation Review

- Commerce's Office of Science and Technology; and
- WRC's Conservation Education program.

#### **Shifting to New Funding Sources**

In order to more effectively use revenues tied to the delivery of government services, as well as to reduce General Fund appropriations, the NER budget increased several fees and shifted the source of funding for positions, operations, and programs. In DACS, three fees were increased and two new fees were established; these fee changes allowed the agency to take a corresponding \$385,000 General Fund reduction annually. The NER Subcommittee transferred a portion of the operating budget for several programs across NER agencies to receipts as well as 53 positions, saving over \$5.5 million in General Fund expenditures each year.

The NER subcommittee also used nonrecurring sources of funding to reduce General Fund appropriations for FY 2011-12. The NER Subcommittee used carryforward funds and/ or cash balances to meet FY 2011-12 obligations for the Clean Water State Revolving Fund and to support operations of the Division of Water Resources. Over \$20 million was diverted to the General Fund from NER special funds and earmarked tax revenue to increase General Fund availability. The NER Subcommittee also diverted \$6 million each year from the Parks and Recreation Trust Fund to support the operations of the Division of Parks and Recreation for the biennium.

Lastly, two programs, the Tobacco Trust Fund (TTF) and WRC, were taken off of receipt support. Both will now receive General Fund appropriations rather than revenue from their historical dedicated funding sources: Master Settlement Agreement funds and sales tax revenue collected on recreational equipment (i.e. hunting and fishing equipment), respectively. TTF and WRC received a reduced appropriation relative to their expected revenue from the previously receipt-based dedicated funding sources. This change will provide the General Assembly with increased oversight of these agencies and improve General Fund cash flow.

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### Actual and Certified Expenditures and Receipts

#### Department of Agriculture & Consumer Services<sup>1</sup>

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	92,173,937	96,565,639	93,985,228	90,611,898
Less: Receipts	31,732,977	40,834,111	28,524,364	28,413,264
Net General Fund Appropriations	\$60,440,960	\$55,731,528	\$65,460,864	\$62,198,634
Positions (FTE)	1,196.1	1,160.4	1,141.4	1,135.4

#### Clean Water Management Trust Fund

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	47,500,000	48,252,925	11,250,000	11,250,000
Less: Receipts	0	0	0	0
Net General Fund Appropriations	\$47,500,000	\$48,252,925	\$11,250,000	\$11,250,000
Positions (FTE)	-	-	-	-

#### Department of Commerce<sup>2</sup>

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	106,589,965	167,766,369	107,469,303	89,867,426
Less: Receipts	64,205,065	108,150,960	56,616,963	56,616,963
Net General Fund Appropriations	\$42,384,900	\$59,615,409	\$50,852,340	\$33,250,463
Positions (FTE)	459.6	452.8	432.3	427.8

#### Commerce State-aid (Nonprofit Funding)<sup>3</sup>

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	64,160,122	80,323,696	75,779,464	73,080,423
Less: Receipts	6,294,715	0	0	0
Net General Fund Appropriations	\$57,865,407	\$80,323,696	\$75,779,464	\$73,080,423
Positions (FTE)	-	-	-	-

**Department of Environment & Natural Resources<sup>1, 4</sup>**

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	310,973,789	296,315,940	306,341,945	288,705,163
Less: Receipts	121,487,783	115,041,244	140,557,058	140,557,058
Net General Fund Appropriations	\$189,486,006	\$181,274,696	\$165,784,887	\$148,148,105
Positions (FTE)	3,330.1	3,417.4	3,244.4	3,105.5

**Wildlife Resources Commission<sup>5</sup>**

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Appropriation <u>FY 2011-12</u>	Appropriation <u>FY 2012-13</u>
Expenditures	0	0	18,000,000	17,221,179
Less: Receipts	0	0	0	0
Net General Fund Appropriations	\$0	\$0	\$18,000,000	\$17,221,179
Positions (FTE)	-	-	-	-

<sup>1</sup> The Certified Budget does not reflect the transfer of the Division of Forest Resources or the Division of Soil and Water Conservation from the Department of Environment and Natural Resources to the Department of Agriculture and Consumer Services. Budget revisions (BD 606s) were used to transfers these divisions; the transfers appear in the Certified Budget as of October 2011.

<sup>2</sup> Federal ARRA funds led to higher than normal FY 2010-11 actuals for the Department of Commerce.

<sup>3</sup> For Commerce State-Aid, carryforward funds from FY 2008-09 appear as revenues for FY 2009-10.

<sup>4</sup> The Certified Budget does not reflect the transfer of the Division of Environmental Health from the Department of Environment and Natural Resources to the Department of Health and Human Services. A budget revision (BD 606) was used to transfer this division; the transfer appears in the Certified Budget as of October 2011.

<sup>5</sup> In FY 2011-12, the Wildlife Resources Commission was placed on a General Fund appropriation for the first time. This table reflects only the General Fund budget for the Commission.

**Change in FTE, FY 2011-12**

	Vacant	Filled	Receipts	New	Transfers	Net Change
<b><u>Natural &amp; Economic Resources</u></b>						
DACS	(12.0)	(2.0)	(3.0)	2.0	7.0	(8.0)
CWMTF	-	-	-	-	-	-
Commerce	(4.0)	(15.0)				(19.0)
Commerce State-Aid	-	-	-	-	-	-
DENR	(51.6)	(85.5)	(45.0)	28.5	(7.0)	(160.5)
Labor	(4.0)	-	(5.0)	-	-	(9.0)
WRC						-
<b>Total NER</b>	<b>(71.6)</b>	<b>(102.5)</b>	<b>(53.0)</b>	<b>30.5</b>	<b>-</b>	<b>(196.5)</b>

## Entities Funded through the NER Subcommittee

### State Agencies receiving State appropriations in FY 2011-13 through the NER Subcommittee:

- The Department of Agriculture & Consumer Services (DACS)
- The Department of Commerce
- The Department of Environment & Natural Resources (DENR)
- The Department of Labor
- The Clean Water Management Trust Fund (CWMTF)
- The Wildlife Resources Commission (WRC).

### Nonprofits receiving State appropriations in FY 2011-13 through the NER Subcommittee:

- Ag in the Classroom (Farm Bureau)
- Councils of Government (COGs)
- Defense and Security Technology Accelerator
- FFA Foundation
- Grassroots Science Museums
- High Point Furniture Market Authority
- Institute for Regenerative Medicine (Wake Forest University)
- Johnson & Wales University
- Land Loss Prevention Project
- NC Association of Community Development Corporations
- NC Biofuels Center
- NC Biotechnology Center
- NC Community Development Initiative
- NC Indian Economic Development Initiative
- NC Institute of Minority Economic Development
- NC Minority Support Center
- NC Rural Economic Development Center
- Partnership for the Sounds
- Regional Economic Development Commissions
- Research Triangle Institute

### Boards and Commissions receiving State appropriations in FY 2011-13 through the NER Subcommittee:

- ABC Commission
- Banking Commission
- Cemetery Commission
- Credit Union Division
- Employment Security Commission
- Industrial Commission
- Lottery Commission
- Public Staff
- Rural Electrification Authority
- Utilities Commission