

NORTH CAROLINA GENERAL ASSEMBLY



HIGHLIGHTS: FISCAL AND BUDGETARY ACTIONS 2008 REGULAR SESSION

**PREPARED BY THE
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This document provides highlights of fiscal and budgetary actions on North Carolina's FY 2008-09 Budget as enacted during the 2008 Regular Session of the 2007 General Assembly

In addition, *Highlights* provides summaries of selected substantive legislation and an expanded view of the State's budget with summaries of selected program and budgetary information.

This document and other fiscal and budgetary information are available online at <http://www.ncleg.net/fiscalresearch/>

The Fiscal Research Division is a nonpartisan, central staff office which provides fiscal and policy information to the Legislature.

To the Members of the General Assembly:

This *Highlights* report has been prepared by the Fiscal Research Division to identify items with significant budget impact or which represent significant fiscal policy changes enacted by the General Assembly during the 2008 Legislative Session. As such its purpose is to provide summary level information and, thus, is not a comprehensive listing of each item or action.

Additionally, *Highlights* includes information on the revenues and expenditures of all state government operations and functions regardless of the source. In accordance with the State Budget Act (G.S. 143C), all fees, gifts, and federal grants no matter whether they are deposited to the General Fund, Special Revenue Funds, Enterprise Funds, or other governmental or proprietary funds are recognized as state funds. When all governmental and proprietary funds are recognized, total appropriations are \$49.9 billion for Fiscal Year 2008-09. Although the \$49.9 billion represents a dramatic increase over the \$42.9 billion Fiscal Research reported for FY 2007-08, most of this increase can be attributed to the inclusion of numerous operating budgets previously not reported and thus not included in our 2007 *Highlights*.

It is expected that *Highlights* will continue to evolve into a comprehensive picture of all state spending and all state resources available in order to facilitate legislative scrutiny in all fiscal matters.

How to use *Highlights*:

Immediately following the Staff Assignment list and Table of Contents is an Executive Summary which provides high-level information on appropriations for the FY 2008-09 State Budget including the General Fund, Highway Fund, Highway Trust Fund and other Special Revenue Funds and selected special provisions of Session Law 2008-107 (House Bill 2436), the 2008 Appropriations Act.

The second section of *Highlights* consists of an agency-by-agency analysis, arranged by appropriations subcommittee area. Each subcommittee section begins with a brief overview of the subject area, list of state agency budgets under their purview and a list of subcommittee members and FRD staff responsible for the area. Each subcommittee summary page is followed by an overview for each agency/department/division operating budget that briefly describes the agency's duties and responsibilities, summarizes appropriations, and provides highlights of budget adjustments and special provisions that were of significance. Many agency overviews are followed by more detailed information on selected programs and initiatives, including a description of and funding for each program or initiative, relevant statutory references and legislative history.

Since the General Assembly's Finance Committees operate in tandem with the appropriations committees, *Highlights* includes a completely separate section to delineate the Committees' role and work. The Finance Section includes an analysis of North Carolina's economic situation and addresses the major revenue and finance law changes enacted during the 2008 Session.

Our *Highlights* Salaries and Benefits Section summarizes the major provisions that affect state and local government employee salaries and benefits.

In addition to the print version, this document may be viewed online at:

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

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Administrative Hearings
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Cultural Resources
General Assembly
Governor's Office
Insurance
Information Technology Services
Housing Finance Agency
Licensing Boards
Lieutenant Governor
Revenue
Secretary of State
State Board of Elections
State Budget and Management
State Controller
State Ethics Commission
State Treasurer

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Subcommittee/Departments/Coverage

Justice and Public Safety

Correction
Crime Control & Public Safety
Judicial
Justice
Juvenile Justice & Delinquency Prevention

Health and Human Services

Natural and Economic Resources

Environment and Natural Resources
Agriculture
Commerce
Labor

Transportation

Education

Public Instruction (K-12)
Community Colleges
University of North Carolina

Economy and Taxation

Revenue Estimates
Finance Committees
Revenue Laws Study Committee
Economic Issues
State Bond Proposals
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Executive Summary

Executive Summary

State of North Carolina
Sources of Funds
FY 2008-09

	FY 2008-09
Beginning Unreserved Fund Balance	599,037,699
Tax Revenue	
Individual Income	11,386,200,000
Corporate Income	1,191,500,000
Sales and Use	5,374,300,000
Other	1,887,400,000
Subtotal Tax Revenue	19,839,400,000
Nontax Revenue	
Investment Income	248,063,829
Judicial Fees	204,800,000
Disproportionate Share Receipts	100,000,000
Other	292,370,881
Transfer from Highway Funds	165,100,000
Subtotal Nontax Revenue	1,010,334,710
Subtotal General Fund Availability¹	21,448,772,409
Federal Funds	11,855,554,097
Highway Funds ²	2,765,610,000
Other Departmental Receipts	7,875,746,677
Transfers from Other Funds & Availability ³	6,081,935,179
TOTAL	\$50,027,618,362

¹ Based on June 30, 2008 actual unreserved fund balance; S.L. 2008-107. Section 2.2(a) estimated \$21,355,967,434.

² Excludes transfers to General Fund Availability of \$147.5 million.

³ Total funds as presented reflect the combination of State funds as certified by the Office of State Budget and Management; in some cases totals have not been adjusted for duplication due to limitations in certified budget information.

Executive Summary

Total Appropriations by Subcommittee/Area

The General Assembly appropriated \$49.9 billion for FY 2008-09 from the \$50.0 billion total of all sources of funds for the operations, capital improvements, and debt service payments for the 22 principal State departments, agencies and offices, and boards and commissions. The following table provides a breakdown of appropriations by legislative subcommittee or area.

Appropriations Subcommittee/Area	Certified FY 2008-09	Percentage of Total
Education	16,124,998,913	32.3%
Health & Human Services	17,013,567,719	34.1%
General Government	3,142,731,334	6.3%
Justice & Public Safety	2,719,013,378	5.4%
Natural & Economic Resources	5,452,507,568	10.9%
Capital	138,166,283	0.3%
Reserves & Debt Service	1,951,032,990	3.9%
Transportation	3,392,795,202	6.8%
Total¹	\$49,934,813,387	100.0%
Unappropriated Balance Remaining²	92,804,975	

¹ Total includes appropriation of general-purpose revenue, special revenue funds, agency receipts, and transfers from other funds; in some cases agency budgets may include duplication due to interagency transfers and other limitations in certified budget information.

² Unappropriated Balance Remaining reflects actual or final balance as of June 30, 2008 (as per Office of State Budget and Management and the Office of State Controller); S.L. 2008-107 estimated \$0.

Executive Summary

State Position Summary

The following table provides an estimate of total State positions (full-time equivalents) as of December 2007. At the time of this publication, this data was being updated.

**State of North Carolina
Full-time Equivalent Position Counts
December 2006**

	<u>General Fund¹</u>	<u>Highway Fund²</u>	<u>Other Funds⁵</u>	<u>Total</u>
State Government				
UNC System ³	35,933	0	23,180	59,113
Justice and Public Safety	31,352	2,307	822	34,481
Health and Human Services	18,563	10	720	19,293
Transportation	0	14,733	19	14,752
Natural and Economic Resources	5,301	147	3,631	9,079
General Government	5,065	94	1,024	6,183
Education (State Administration)	980	0	12	991
Subtotal	97,194	17,291	29,408	143,893
Local Education				
Public Schools ^{3 & 4}	162,280	69	0	162,349
Community Colleges ³	16,480	0	0	16,480
Subtotal	178,760	69	0	178,829
Total by Fund	275,954	17,359	29,408	322,722

Source: Survey of State Agencies and Other State-funded institutions, Fiscal Research Division, NC General Assembly, Office of State Budget and Management, December 2007.

¹ Salary Base includes 587 positions in Reserve budget codes.

² Includes 5,868 work order positions funded out of construction and maintenance line-items in the Highway Fund Budget.

³ Includes FTE growth due to projected enrollment growth for the 2008-09 fiscal year.

⁴ The total number contains some non-FTE counts that may slightly overstate the overall total position count.

⁵ Includes Enterprise, Internal Service, Institutional, Special, and Trust Funds.

Executive Summary

General Fund

The General Fund, which operates principally under the appropriations act enacted by the General Assembly, is the main operating fund of State government, accounting for the ordinary, everyday operations for which special funds have not been established. The discussion that follows addresses the sources of revenue and the General Assembly's appropriation of those resources.

Condition of the Fund Statement

	<u>FY 2008-09</u>
Ending Unreserved Fund Balance	1,584,831,621
Less Reserves:	
Savings Reserve Account	786,649,678
Savings Reserve - 2008 Session Action	-
Repairs and Renovations - 2008 Session Action	69,839,238
Disaster Relief (Isabel)	97,158,859
Miscellaneous Reserves	<u>32,146,147</u>
Subtotal	985,793,922
Beginning Unreserved Fund Balance¹ at June 30, 2008	599,037,699
<u>Revenue</u>	
Tax Revenue	19,839,400,000
Non-Tax Revenue	845,234,710
Highway Funds Transfer	<u>165,100,000</u>
Subtotal	20,849,734,710
Agency Revenue	18,552,416,693
Total General Fund Availability	\$40,001,189,102
<u>Less Appropriations</u>	\$39,908,384,127
Balance Remaining	<u><u>\$92,804,975</u></u>

¹ Beginning Unreserved Fund Balance after earmarkings (actual as per Office of State Budget and Management and Office of State Controller); 2008 Appropriations Act, S.L. 2008-107, estimated \$506,232,724 as the Beginning Unreserved Fund Balance.

Executive Summary

Funds Available for Appropriation

The General Fund is comprised of two major components which provide the source of money from which the General Assembly may make appropriations. Combined, the two total \$39.9 billion for FY 2008-09. The largest of these totals \$21.4 billion and is derived from a variety of sources such as income, corporate and sales taxes as well as the Unreserved Fund Balance which is the result of prior year over-collections and unspent appropriations. This is often referred to as General Fund Availability. The other component, agency revenue from federal funds, grants, fees, and transfers from other funds, totals roughly \$18.6 billion.

General Purpose Revenue

The \$21.4 billion in Availability for FY 2008-09 represents a 2.4% increase over the previous fiscal year. The modest growth in General Fund availability is the result of several factors: A downward adjustment in tax revenue growth from the original biennium projections; an estimated \$0.5 billion in over-collections and unspent funds from FY 2007-08 compared to \$1.2 billion the previous fiscal year; and the Legislature's enactment of modest tax and fee adjustments. During budget deliberations, tax revenues were reduced by an additional \$45 million in recognition of growing weaknesses in the economy. For additional information on the General Assembly's adjustments to revenue, see the Finance Committee Section.

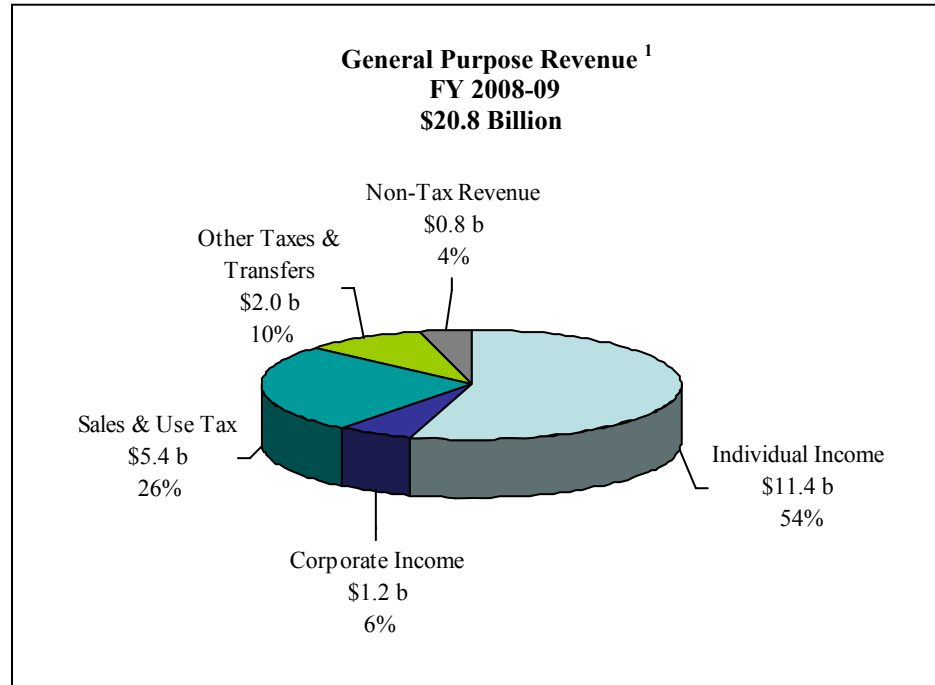
The following table presents the amounts and sources of funds available for appropriation within the General Fund.

Total General Fund FY 2008-09		
Source of Funds	Amounts	Percentage
Taxes	19,839,400,000	49.7%
Nontax Revenues	1,010,334,710	2.5%
Unreserved Fund Balance ¹	506,232,724	1.3%
Subtotal	21,355,967,434	53.5%
Agency Revenue	18,552,416,693	46.5%
Total	\$39,908,384,127	100.0%

¹ Amounts presented as enacted in S.L. 2008-107; when Unreserved Fund Balance is adjusted for actual June 30, 2008 totals, total General Fund Availability is \$40,001,189,102.

Executive Summary

The following chart provides a breakdown of the various sources of general purpose revenue in the General Fund. The total does not include the Unreserved Fund Balance and agency revenue.



¹ Percentages are based on the consensus revenue forecast revised to include additional revenue adjustments as enacted by S.L. 2008-107 (HB 2436).

Agency Revenue

In addition to general purpose revenue, the General Fund receives a total of \$18.6 billion in agency revenue from federal grants and reimbursements, fees for services and transfers from various special revenue funds. The next table presents agency revenue as certified by the Office of State Budget and Management.

Subcommittee/Area	Certified FY 2008-09 Revenue
Health and Human Services	12,012,701,239
Education	4,238,880,483
Natural and Economic Resources	242,611,827
Justice and Public Safety	285,839,118
General Government	1,584,131,507
Debt Service/Capital	188,252,519
Total	\$18,552,416,693

Executive Summary

As depicted in the chart that follows, the largest source of agency revenues are federal funds; the majority of these, \$6.7 billion, are reimbursements from Medicaid.

Source	Certified FY 2007-08	Percentage of Total
Federal	10,491,231,343	56.5%
Highway Funds	147,141,104	0.8%
Receipts	4,495,096,137	24.2%
Transfers from Other Funds	3,418,948,109	18.4%
Total	\$18,552,416,693	100.0%

General Fund Appropriations

The 2007 General Assembly enacted a total budget of \$39.9 billion for FY 2008-09 from all sources within the General Fund. The majority of this total, a net General Fund appropriation of \$21.4 billion, is derived from general purpose revenue. This represents a 3.4% increase over the \$20.7 billion in FY 2007-08. The following chart reflects the budget by legislative subcommittee or spending area:

Subcommittee/Area	Total General Fund Appropriations¹ FY 2007-08	% of Total	Net General Fund Appropriations²	% of Total
Education	15,657,467,336	39.2%	11,418,586,853	53.5%
Health & Human Services	16,927,618,181	42.4%	4,914,916,942	23.0%
Justice & Public Safety	2,374,708,977	6.0%	2,088,869,859	9.8%
Natural & Economic Resources	815,871,673	2.0%	573,259,846	2.7%
General Government	2,043,518,687	5.1%	459,387,180	2.2%
Capital & Debt Service	960,467,868	2.4%	772,215,349	3.6%
Salaries & Benefits ³	1,099,534,350	2.8%	1,099,534,350	5.1%
Other Reserves	29,197,055	0.1%	29,197,055	0.1%
Total	\$39,908,384,127	100.0%	\$21,355,967,434	100.0%

¹ Total General Fund appropriations as presented reflect the combination of agency budgets as certified by the Office of State Budget and Management – in some cases agency budgets may include duplication due to interagency transfers and other limitations in certified budget information.

² As per S.L. 2008-107.

³ Reflects only the portion of salary increases directly supported by general purpose revenue, not agency revenue such as fees and grants.

Executive Summary

Major Budget Drivers

The table below presents appropriations for selected areas or categories by all sources (within the General Fund) as compared to net appropriations. Total appropriations generally reflect major budget drivers that are often impacted by outside influences such as demographics and the economy. Thus North Carolina's \$39.9 billion General Fund budget, like those of most states, is largely driven by education and Medicaid costs.

Net appropriations generally reflect the portion of the General Fund for which the General Assembly exercises a great deal of discretion in that these funds are derived from general purpose revenue such as sales and personal income taxes. Most of the funds from net appropriations are budgeted in the areas of education and health care.

State General Fund Appropriations by Major Budget Category FY 2008-09

Appropriations by Major Budget Category	Total General Fund	% of total	Net General Fund Appropriations	% of total
Public Schools	9,752,416,328	24.4%	7,802,046,538	36.5%
Higher Education ¹	5,905,051,008	14.8%	3,616,540,315	16.9%
Medicaid	11,740,011,999	29.4%	3,179,171,463	14.9%
Correction	1,260,409,784	3.2%	1,226,917,398	5.7%
Mental Health ²	1,262,464,793	3.2%	742,987,556	3.5%
Environment ³	537,391,794	1.3%	370,748,987	1.7%
Courts ⁴	453,141,042	1.1%	450,831,662	2.1%
Capital and Debt	960,467,868	2.4%	772,215,349	3.6%
Other	8,037,029,511	20.1%	3,194,508,166	15.0%
Total	\$39,908,384,127	100.0%	\$21,355,967,434	100.0%

¹ Includes universities and community colleges.

² Includes mental health, developmental disabilities and substance abuse services.

³ Includes environment and agriculture funds.

⁴ Excludes funds for indigent defense.

Executive Summary

Selected Budget & Fiscal Policy Highlights

Compensation Increases

The single largest funding priority of the General Assembly was compensation increases for teachers and State employees, which totaled \$368 million. Teachers and instructional support staff received an average increase of 3.0%. University and community college faculty also received an additional 3.0%. Most of the other State-funded positions received increases of 2.75%.

Capital Improvements

The General Assembly also devoted significant resources to Capital Improvements, an additional \$129 million from General Fund appropriations, as well as \$857 million from a combination of general obligation bonds and certificates of participation.

Local Infrastructure

The General Assembly also appropriated \$50 million in nonrecurring funds to the Rural Center for grants to local governments to address critical needs in supplying drinking water, wastewater treatment and natural gas lines.

Gang Prevention

The General Assembly appropriated \$10,000,000 for implementation of Senate Bill 1358. The nonrecurring funds for FY 2008-09 are aimed at gang prevention. This action follows a 2007 nonrecurring appropriation of \$4.8 million and a \$3.6 million appropriation for the last biennium to address gang intervention and suppression.

For additional information, please see the Justice and Public Safety, Department of Crime Control and Public Safety Section.

Job Development Investment Grants (JDIG)

A total of \$15,000,000 in additional recurring funds to address the cash flow needs of JDIG. For additional information, please see the Natural and Economic Resources, Department of Commerce Section.

Fiscal Policy

The Continuation Review initiative, originally authorized by the General Assembly in 2007, was continued in 2008 and will likely be expanded in the future. This initiative eliminates the recurring funding for seven programs, and provides funding on a nonrecurring basis for one year, pending the results of written reports from program administrators, and after the Appropriations Committees determine whether these programs should be increased, continued, reduced or eliminated.

The General Assembly selected the following programs for continuation review:

- Department of Crime Control and Public Safety
 - Tarheel Challenge Academy

Executive Summary

- Department of Transportation
 - Spot Safety Program
- Department of Commerce
 - Safety Inspection Program
- Community College System
 - Military Business Center
- Department of Health and Human Service
 - Purchase of Medical Care Services Program
- Department of Administration
 - Parking Office
- Department of Environment of Natural Resources
 - Forest Development Fund

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Savings Reserve Account

Section 2.2(c1) directs that no additional funds be credited to the Savings Reserve Account, thus waiving the requirement in G. S. 143C-4-2 which mandates that the State Controller reserve one-quarter of the year-end unreserved fund balance for purposes of the Savings Reserve Account. As of June 30, 2008, the Savings Reserve balance is \$786,649,768 or 46% of the \$1.4 billion goal (8% of the previous fiscal year appropriation) specified in G.S. 143C-4-2(c).

Highway Trust Fund

Section 2.2(d) amends Section 2.2(d), S.L. 2007-323, to reduce the \$170,000,000 statutory transfer from the Highway Trust Fund to the General Fund by \$25,000,000 for FY 2008-09.

For more detailed information on legislative action impacting the transfer of funds from the Highway Trust Fund, please see the Transportation Section.

Disaster Reserve Fund

Section 2.2(g) directs the State Controller to transfer \$26,000,000 from the State Disaster Reserve Fund to the General Fund as general purpose revenues to support State appropriations for FY 2008-09. This action leaves a balance in the Reserve Fund of \$71,158,859 (as of June 30, 2008.)

Executive Summary

Disproportionate Share Receipt Reserve

Section 2.2(h) directs the State Controller to transfer \$19,300,000 from the balance in the Disproportionate Share Receipt Reserve, leaving a balance of \$3,500 at June 30, 2008.

Section 5.1 Civil Penalties and Forfeitures/Fund Availability and Appropriation

This section delineates the \$132,038,000 in net proceeds and appropriations from civil penalties and forfeitures collected by various State agencies pursuant to Article IX, Section 17 of the NC Constitution. FY 2008-09 appropriations are as follows:

School Technology Fund	\$ 18,000,000
School Public School Fund	<u>\$114,038,000</u>
Total	\$132,038,000

Section 5.2 Education Lottery

This section delineates the \$405,250,000 in net proceeds and appropriations from the State Lottery Fund pursuant to G. S. 18C-164. For more detail on the legislative action, please see Special Topics Section, *Lottery*.

Section 6.1 Appropriation of Cash Balances

Amends the 2007 Appropriations Act {S.L. 2007-323, Section 6.1} to appropriate all State funds as defined in the State Budget Act, {G.S. 143C-1-1(d)(25)} which are included in the budget supplement titled "Governor's Recommended Budget for Governmental and Proprietary Funds and Selected Component Units 2008-09" and as revised by the General Assembly.

For a listing of each governmental and proprietary fund and selected component unit, please refer to the Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets dated July 3, 2007.

Section 6.9 Federal and Other Receipts from Pending Grant Awards

This section appropriates funds from grants awarded subsequent to the enactment of the 2008 Appropriations Act, provided the application for those grants were made prior to May 14, 2008. Agencies must report to the Joint Commission on Governmental Operations prior to expending the grant funds.

For a listing of each grant, please see The Governor's Budget 2008 {House Bill 2697, Section 6.2.}

Executive Summary

Highway and Highway Trust Funds

Revenues for the State's transportation programs come from the Highway Fund and Highway Trust Fund. These funds' primary revenue sources are the motor fuels tax, the Highway Use Tax, and licenses and fees. For FY 2008-09, the funds total \$3.9 billion. The following presents a consolidated statement of the funds.

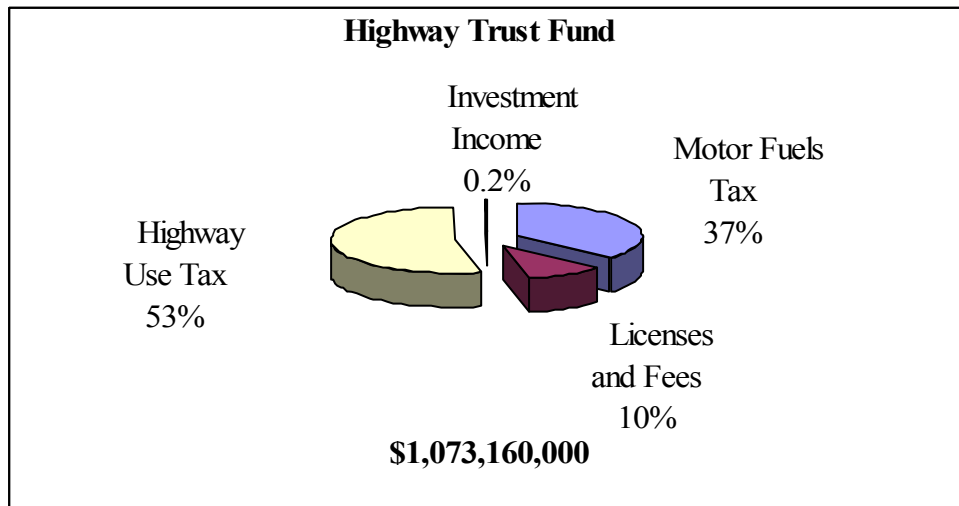
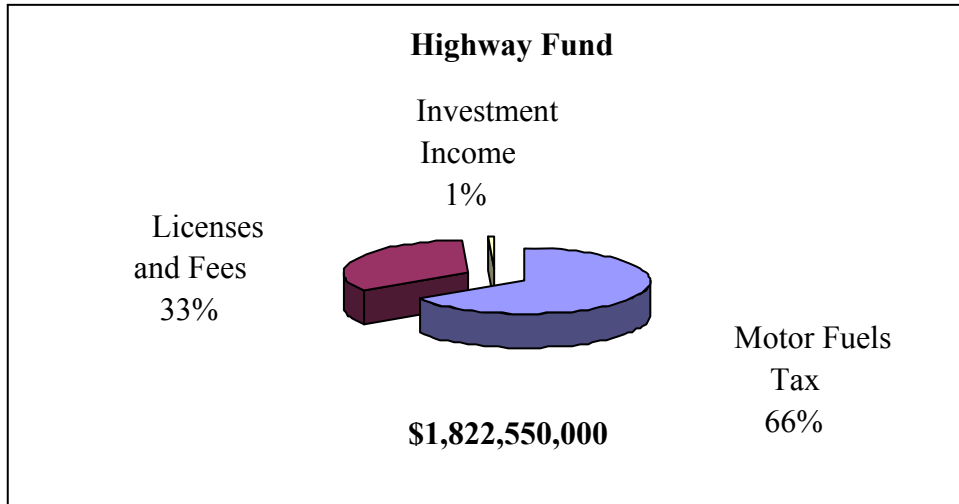
Consolidated Funds Statement FY 2008-09 Budget

	<u>FY 2008-09</u>
Beginning Unreserved Fund Balance	0
 <u>Highway Fund</u>	
Motor Fuels Tax	1,199,680,000
Licenses and Fees	606,870,000
Highway Use Tax	
Investment Income	16,000,000
 <u>Highway Trust Fund</u>	
Motor Fuels Tax	394,850,000
Licenses and Fees	106,220,000
Highway Use Tax	569,970,000
Investment Income	2,120,000
Federal Funds and Other	<u>\$ 981,502,109</u>
Total Funds Available	\$3,877,212,109
 <u>Less Appropriations</u>	 \$3,877,212,109
 Balance Remaining	 <u><u>\$ 0</u></u>

Executive Summary

Highway and Highway Trust Funds

Fiscal Year 2008-09



Executive Summary

The following table provides a breakdown for the Department of Transportation (DOT) operating budget by major categories of expenditures. This chart shows the total budget for DOT and includes revenues from the Highway Fund, Highway Trust Fund, and Federal Funds.

Department of Transportation	Certified Budget FY 2008-09
Highway Construction	\$1,692,948,252
Highway Maintenance	944,142,429
Powell Bill / Aid to Municipalities	147,793,365
Division of Motor Vehicles	129,338,577
Administration	163,039,152
Debt Service	144,790,300
Public Transportation	83,144,229
Ferry Operations	32,313,921
Airports Program	47,758,616
Rail Services	21,330,883
Facility Repairs	14,334,221
Reserves and Other	49,582,885
TOTAL¹	\$3,470,516,830
Revenues (federal aid and other)	(981,502,109)
NET HIGHWAY FUNDS AND HIGHWAY TRUST FUND APPROPRIATIONS	\$2,489,014,721

¹ Does not include \$164.5 million to General Fund as nontax revenue, \$33.9 million to Department of Public Instruction for driver education; \$193.9 million to State Highway Patrol; and other miscellaneous transfers.

Executive Summary

State Lottery Fund

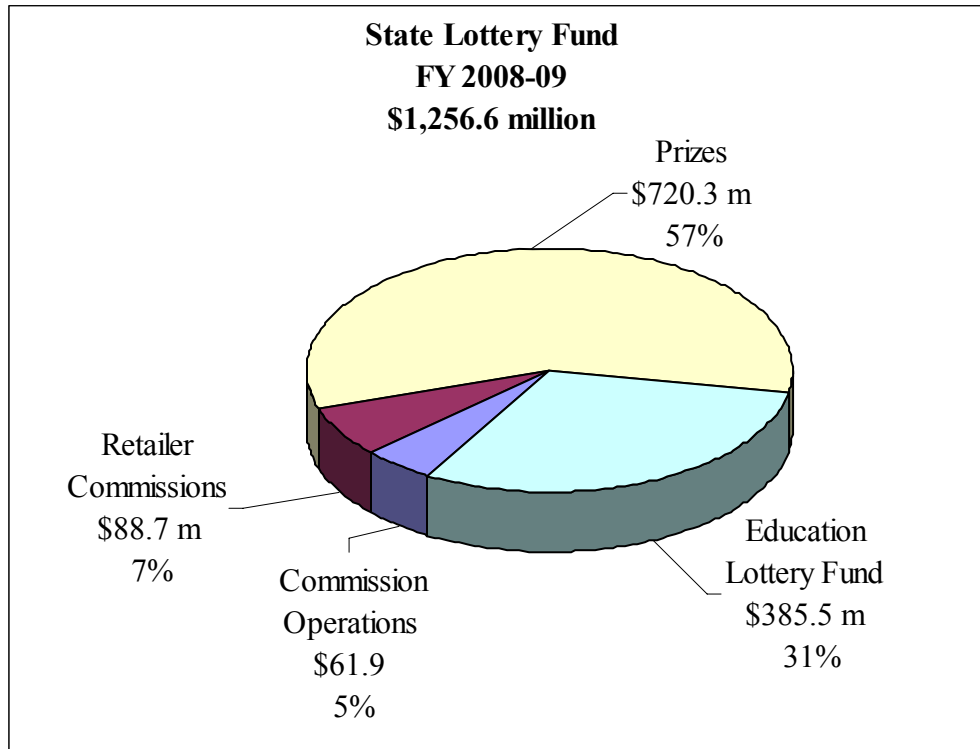
The North Carolina State Lottery Fund (Education Lottery), established in G.S. 18C, is a major enterprise fund for the State. Proceeds generated from retail sales of lottery products are the principal source of revenue. As noted below, significant operating expenses include the cost of prizes and retailer commissions. A portion of the proceeds are transferred to a separate budget to cover the cost of the Lottery Commission and related administrative expenses. Pursuant to G.S. 18C-164, net proceeds from the Lottery Fund are transferred to the NC Education Lottery Fund and the NC Education Lottery Reserve, which are both located administratively within the Office of State Budget and Management.

Lottery Fund (Enterprise Fund-54641)

	FY 2008-09
Revenue	\$1,256,584,138
Expenditures	
Lottery Prizes	720,392,300
Retailer Commission	88,760,000
Lottery Commission Support	61,931,838
Total	\$871,084,138
Net Proceeds (Revenue less Expenditures)	385,500,000
Transfer from Lottery Reserve (S.L. 2008-107, Sec. 5.2(b))	19,750,000
Total Available for Transfer to Education	\$405,250,000
Appropriation of Net Proceeds (S.L. 2008-107, Sec. 5.2(c))	
Class Size Reduction	127,864,291
More At Four Program	84,635,709
Public School Building Capital Fund	154,200,000
Scholarships	38,550,000
Total	\$405,250,000
Balance Remaining	\$0

Executive Summary

The chart that follows reflects the amount and percentage allocation of Lottery Fund expenditures for FY 2008-09.



For additional information on the State Lottery, see Special Topics Section.

Appropriations Subcommittee Summaries

Education

Appropriations Subcommittee on Education

Subcommittee Summary:

The Education Subcommittees, consisting of 22 members of the General Assembly, review and recommend the budget for the State’s public pre-kindergarten programs; elementary and secondary (K-12) schools; vocational, technical, college-transfer, and other courses offered through 58 community colleges; and the State’s 16 universities and affiliated programs.

Subcommittee Membership:

Rep. Rick Glazier, Chair
 Rep. Marian N. McLawhorn, Chair
 Rep. Ray Rapp, Chair
 Rep. Larry M. Bell
 Rep. Linda P. Johnson
 Rep. Marvin W. Lucas
 Rep. Mark K. Hilton
 Rep. Bryan R. Holloway
 Rep. Earline W. Parmon
 Rep. Louis M. Pate, Jr.
 Rep. Cullie M. Tarleton
 Rep. Laura I. Wiley

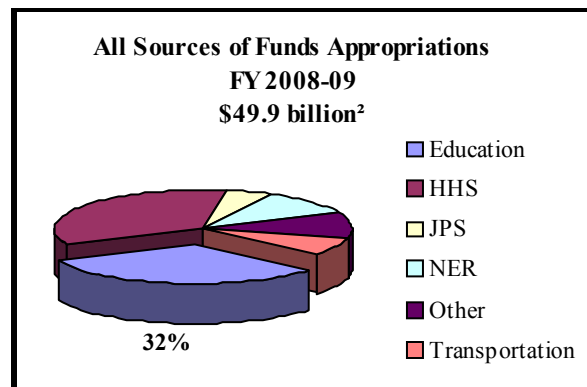
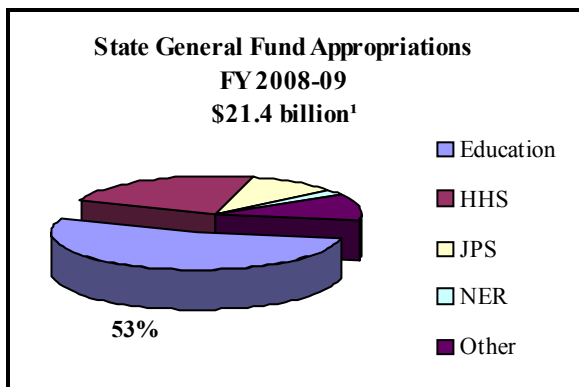
Sen. Vernon Malone, Sr. Chair
 Sen. A.B. Swindell, IV, Sr. Chair
 Sen. Julia Boseman, Chair
 Sen. Joe Sam Queen, Chair
 Sen. Richard Stevens, Chair
 Sen. Tony Foriest
 Sen. Fletcher L. Hartsell, Jr.
 Sen. Martin L. Nesbitt, Jr.
 Sen. Jean Preston
 Sen. Jerry W. Tillman

Staff:

Richard Bostic, Team Leader
 Brian Matteson
 Kristopher Nordstrom
 Andrea Poole

Budget Comparison:

The combined budgets under the Education Subcommittees total \$11.4 billion or 53% of net General Fund appropriations for FY 2008-09. Of the total funds appropriated from all sources, a total of \$16.1 billion, or 32%, is dedicated to education. The following charts illustrate the Education Subcommittees’ total as compared to other appropriations subcommittees’ totals:



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Department of Public Instruction

NC Constitution, Art. IX, Sec. 2 Uniform System of Schools
 G.S. 115C-1 General and Uniform System of Schools
 NC Constitution, Art. IX, Sec. 5 Powers and Duties of Board
 G.S. 115C-12 Powers and Duties of the Board Generally
 NC Constitution, Art. III, Section 7 Establishes Superintendent of Public Schools

Agency Description:

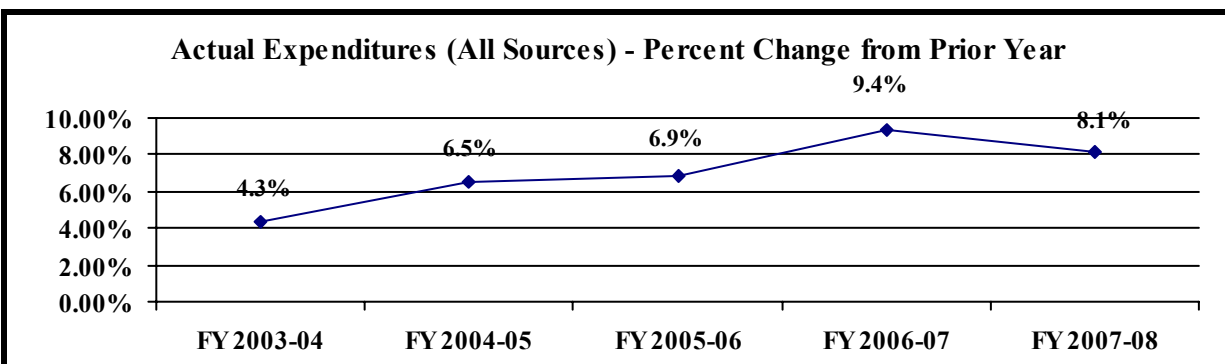
The NC Department of Public Instruction (DPI) is charged with implementing the State’s public school laws and the State Board of Education’s policies and procedures governing prekindergarten through 12th grade public education. The elected State Superintendent of Public Instruction heads the Department and functions under the policy direction of the State Board of Education. DPI provides services to local public school districts in curriculum and instruction, accountability, finance, teacher and administrator preparation, licensing and professional development, and other support.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	8,161,089,221	8,927,234,404	9,651,816,022	9,671,421,685
Revenue	1,293,780,269	1,549,880,042	1,674,680,883	1,869,375,147
Net Appropriations	\$6,867,308,952	\$7,377,354,362	\$7,977,135,139	\$7,802,046,538
Positions (FTE)	585.20	631.20	636.20	636.20

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 certified budget for public education is \$9.7 billion. Approximately \$7.8 billion (81%) is appropriated from net General Fund appropriations. The remainder of the budget is funded from federal aid (15%), transfers from other State funds (4%), and other miscellaneous revenues (less than 1%). The FY 2008-09 certified budget is \$175.1 million less than the FY 2007-08 actual expenditures. However, once adjustments are made for \$457.1 million in legislative salary and benefit increases, the FY 2008-09 budget for public schools is \$10.1 billion, 4.9% more than FY 2007-08 actual expenditures. This increase can be attributed to a growing student population, expanded funding for More at Four, transportation fuel, expansion of existing allotments, and salary increases for education personnel. Over the last five years, the average percentage change in actual expenditures was 7.0%. Note that position totals in the table above include DPI personnel only. They do not include any personnel employed by the local school districts (LEAs).



Department of Public Instruction

Budget Tables

This table summarizes the Department of Public Instruction's General Fund operating budget.

Department of Public Instruction (13510 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
State Public School Fund		
<i>Instructional Support and Related Services</i>		
Classroom Teachers	2,812,213,187	2,807,104,398
Teacher Assistants	435,952,838	470,074,164
Instructional Support Personnel	337,924,779	342,887,893
Personnel Benefits and Longevity	1,024,083,824	1,000,144,268
School Building Administration	242,021,295	247,453,962
Classroom Materials/Instructional Supplies	119,180,304	87,441,858
ABC Incentive Awards	102,453,728	90,000,000
<i>Categorical Programs</i>		
Academically or Intellectually Gifted	61,024,522	64,750,307
At-Risk Student Services	220,711,563	215,500,104
Children with Special Needs	640,736,579	638,601,766
Disadvantaged Student Supplemental Funding	67,109,487	75,406,867
Improving Student Accountability	40,543,743	36,977,973
Low Wealth Supplemental Funding	188,218,913	188,276,923
Small County Supplemental Funding	41,135,007	42,467,708
Transportation	369,857,162	389,456,527
Vocational Education	308,319,977	299,038,231
Other State Public School Fund	1,185,634,889	932,990,097
Subtotal, State Public School Fund	8,197,121,797	7,928,573,046
Education Management	27,937,146	32,697,296
Office of School Readiness	135,436,560	170,891,251
Reserves and Transfers	39,890,521	67,281,608
Federal Programs	1,147,992,938	1,368,024,908
Other Department of Public Instruction	103,437,060	103,953,576
TOTAL	\$9,651,816,022	\$9,671,421,685
Revenue	(1,674,680,883)	(1,869,375,147)
NET GENERAL FUND APPROPRIATIONS	\$7,977,135,139	\$7,802,046,538

Note: Certified FY 2008-09 budget levels do not include the \$191.2 million provided for legislative salary and benefit increases for education personnel.

Department of Public Instruction

The following table provides a breakdown of the funds administered by the Department of Public Instruction, including the General Fund operating budget.

Department of Public Instruction	Actual FY 2007-08	Certified FY 2008-09
DPI (13510 – General Fund)	9,651,816,022	9,671,421,685
Special Revenue (23510 – Special Fund)	6,744,179	5,557,676
School Technology (23511 – Special Fund)	40,633,817	32,315,000
DPI IT Projects (23515 – Special Fund)	12,482,183	31,077,644
Public School Building Fund (29110 – Special Fund)	239,500,617	245,840,923
DPI Trust (63501 –Trust Fund)	12,608,817	13,963,410
DPI Trust Medicaid (63503 –Trust Fund)	13,923,386	8,553,542
DPI Trust (63510 –Trust Fund)	11,870,075	9,506,149
Public Instruction Trust (63511 –Trust Fund)	36,205,876	35,805,781
DPI Internal Service (73510 – Special Fund)	93,792,250	165,639,592
TOTAL	\$10,119,577,222	\$10,219,681,402

*Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

**\$5 million was made available in the Reserves to allow teachers to take up to one personal leave day per year without having to pay the required substitute deduction

Other Funds

The Department of Public Instruction is administratively responsible for the Public School Capital Building Fund. However, this fund does not appear as part of the operating budget or other funds under the purview of the Department of Public Instruction.

Public School Building Capital Fund (29110) Balance: \$242,891,909 (as of June 29, 2008)

The General Assembly created the Fund through the School Facilities Finance Act of 1987 (S.L. 1987-622 and S.L. 1987-813). Responsibility for its administration was transferred from the Office of State Budget and Management to the Department of Public Instruction (DPI) in 2004 (S.L. 2003-284, Section 7.33). Proceeds from the Fund support county capital spending for public school building construction, repair or renovation, land acquisition, and equipment needed to implement a local school technology plan.

The Fund’s two primary revenue sources are the annual proceeds from a 1% increase in the State’s Corporate Income Tax rate (approximately 7.25% of the total rate) and 40% of the annual net revenues from the North Carolina Education Lottery. Revenues from the Corporate Income Tax are distributed to counties solely on the basis of average daily membership (ADM) in their public schools. Lottery revenues are distributed 65% based on ADM and 35% based on

Department of Public Instruction

a measure of county local tax effort. The FY 2008-09 budget included a provision that reserved \$14.2 million of Lottery revenues for those counties that do not otherwise qualify for the 35% pool of funding.

In FY 2007-08, Fund revenues totaled \$242,279,149. Of this amount, approximately \$87.2 million was from Corporate Income Tax revenues, approximately \$140 million was from Lottery revenues, and approximately \$15 million was from interest earned on the fund's balances.

Significant Legislative Budget Actions

Transportation Fuel

In S.L. 2007-323, diesel fuel was funded at \$1.83 per gallon for the FY 2008-09 certified budget. The General Assembly appropriated an additional \$35 million to defray the increasing cost of diesel fuel. These additional funds should be sufficient to cover fuel costs of approximately \$3.23 per gallon. The Department of Public Instruction is instructed to use funds available from the State Public School Fund to cover fuel costs above the budgeted amount, if any.

More at Four

The General Assembly appropriated an additional \$30 million to the More at Four program, bringing total funding to \$170.6 million per year. The General Assembly did not specify the proportion of expansion funding that will be used for additional slots or the proportion that will be used to increase the per-slot funding amount.

(S.L. 2008-107, Sections 5.2 and 7.17)

Class Size Reduction

In FY 2006-07, the General Assembly appropriated \$127.9 million from the Education Lottery Fund for "class size reduction" – keeping K-3 student-to-teacher ratios at 18:1. For FY 2008-09, the budgeted appropriation from the lottery fund for class size reduction decreased to approximately \$108.1 million, as actual lottery revenues have been lower than originally anticipated. Due to the decrease in available funds from the lottery fund, the General Assembly has directed the transfer of \$19.8 million from the Education Lottery Reserve Fund to the General Fund in order to maintain K-3 student-to-teacher ratios at 18:1.

(S.L. 2008-107, Section 5.2)

Disadvantaged Student Supplemental Funding (DSSF)

Recurring funding for DSSF increased by \$6 million, bringing total annual funding to \$75.4 million for FY 2008-09. DSSF is allocated to all local education agencies (LEAs) to meet the needs of disadvantaged students.

(S.L. 2008-107, Section 7.9)

Academically or Intellectually Gifted (AIG)

Recurring funding for the AIG allotment increased by \$3.2 million, bringing total annual funding to \$64.8 million for FY 2008-09. This amount represents an increase in per-student funding of over 9%.

(S.L. 2008-107, Section 7.2)

Department of Public Instruction

Children with Disabilities (CWD)

Recurring funding for the CWD allotment increased by \$6.2 million, bringing total annual funding to \$638.6 million for FY 2008-09. This amount represents an increase in per student funding of nearly 6%.

(S.L. 2008-107, Section 7.1)

School Connectivity

The General Assembly provided an additional \$10 million for the School Connectivity Initiative, bringing total recurring funding to \$22 million in FY 2008-09. These funds support the implementation of State-funded and -supported IT infrastructure in the LEAs. This effort will increase schools' abilities to use up-to-date instructional technology and allow greater equality of access to instructional technology to all of the State's students.

(S.L. 2008-107, Section 7.6)

Learn and Earn

The General Assembly appropriated an additional \$3.4 million of recurring funds and \$110,000 in nonrecurring funds to support 14 additional Learn and Earn high schools. Learn and Earn high schools are located on a university or community college campus where students earn both high school and college credit for their coursework. This expansion funding brings the total number of Learn and Earn high schools to 56.

Dropout Prevention Grants

The General Assembly provided \$15 million to fund the second year of a nonrecurring grant program to support innovative programs that address dropout prevention. Grants of up to \$150,000 will be awarded on a competitive basis to LEAs, schools, local agencies, or nonprofit organizations.

(S.L. 2008-107, Sections 7.14 and 7.14A)

Mentoring

Acting upon the recommendation of the Joint Legislative Study Committee on Public School Funding Formulas, the General Assembly expanded funding for mentoring services by \$3 million. These additional funds support the establishment of a flexible mentoring program to serve all first- and second-year teachers as well as first-year instructional support personnel.

(S.L. 2008-107, Section 7.8)

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 7.6 School Connectivity Initiative

Section 7.6(a) allows annual transfers up to \$600,000 to the Friday Institute at North Carolina State University to evaluate the effectiveness of using technology and its impact on certain educational outcomes approved by the State Board of Education. The Friday Institute will report annually to the State Board of Education. The transfers to the Friday Institute will end June 30, 2013. Section 7.6(b) allows \$250,000 to be used to sustain the Education E-Learning Portal.

Department of Public Instruction

Section 7.8 Allotment For Mentoring Services

Section 7.8 changes the allotment formula for the Mentoring allotment. Funds are now distributed based on the number of first- and second-year teachers and first-year instructional support personnel paid from State, federal, and local sources.

Section 7.10 Modify Low-Wealth School Funding Formula

Per the recommendation of the Joint Legislative Study Committee on Public School Funding Formulas, Section 7.10 essentially freezes low-wealth funding for the 2008-09 school year, allowing only adjustments for increases in legislative salary increases and other benefits.

Section 7.11 Additional Lottery Funds for School Buildings

Section 7.11 provides additional construction funds from the North Carolina Education Lottery to those LEAs that do not qualify for the 35% pool of funding (based on a measure of county local tax effort) in FY 2008-09 equal to the increase in appropriations from the Lottery Fund to the Public School Building Capital Fund.

Section 7.14 Reestablish Committee on Dropout Prevention

Section 7.14 reestablishes the Committee on Dropout Prevention and provides updated processes and criteria for awarding grants in FY 2008-09. The first \$5.5 million will be awarded to applicants who did not receive funding in FY 2007-08. The remainder will be awarded on a competitive basis to all applicants. Finally, the provision allows \$100,000 of the funds to be used to hire a consultant to evaluate the program.

Section 7.16 Comprehensive Support for School Systems and Schools

Section 7.16 provides additional flexibility to implement reforms in school districts participating in the Comprehensive Support Model in the 2008-09 school year. The Comprehensive Support Model is a new initiative that seeks to build technical capacity across the LEA in order to create sustainable improvements in student achievement.

Section 7.18 Plant Operation Funding

Section 7.18 allows the State Board of Education to use up to \$1 million from the Public School Building Capital Fund to fund the Plant Operation Section of the School Support Division at DPI.

Section 7.23 Increases in Student Population due to BRAC Activity

Section 7.23 outlines the process for allotting additional teacher positions to those LEAs that are expected to be impacted by Base Realignment and Closure (BRAC) activity. DPI will allot additional teachers to the unit based on the greater of (i) the local school administrative unit's first month ADM or (ii) fifty percent (50%) of the projected increase in ADM resulting from BRAC activity that is in excess of the increase anticipated in the allotted ADM.

Section 7.25 Child Nutrition

Section 7.25 extends the date by which all elementary schools must implement Child Nutrition Program standards to the end of the 2009-10 school year. The section encourages LEAs to take steps towards implementation during the 2008-09 school year.

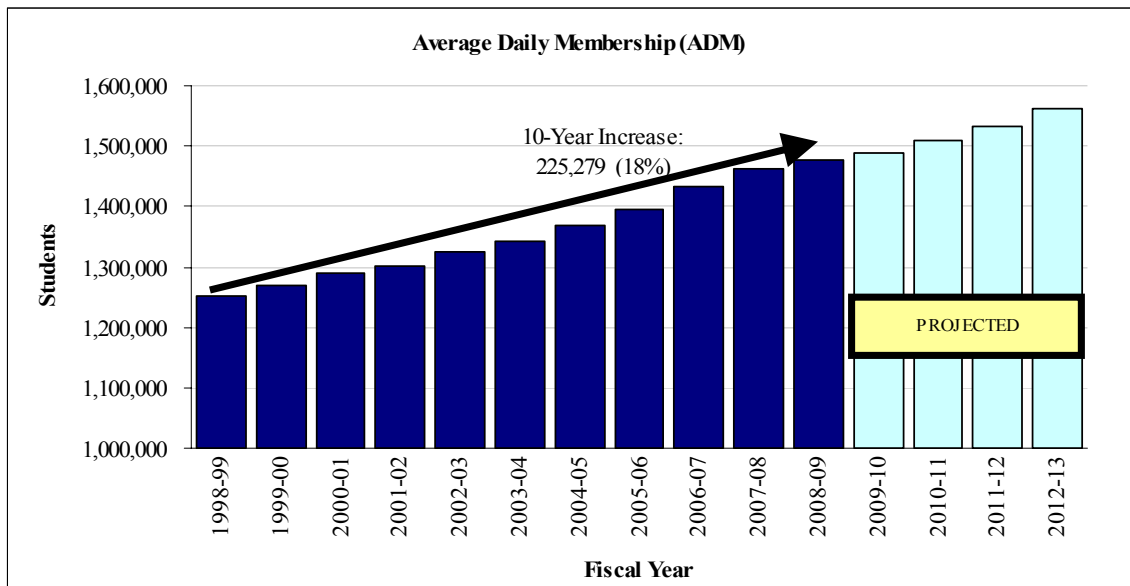
Department of Public Instruction

Select Programs and Other Budgetary Information

Average Daily Membership (ADM)

North Carolina has experienced significant growth in the number of public school students. DPI measures this concept using “average daily membership,” or ADM. DPI calculates ADM as the sum of the number of days in membership for all students in a given month divided by the number of school days in the month. This measurement is taken at the end of the first and second month of school, and the higher of the two amounts is compared against the projected ADM for the school. The greater of these two figures is a school’s “allotted ADM” and is used in DPI funding formulas to determine LEA funding levels.

From FY 1998-99 to FY 2008-09 there has been an 18.0% increase in the State’s allotted ADM – an average annual increase of 1.7% per year. The FY 2008-09 total allotted ADM of 1,476,566 students is 14,826 students (1.0%) greater than the FY 2007-08 level. ADM growth has contributed to increased public education costs, as the growing student population requires additional teachers, instructional support, and other costs that are tied to ADM.



ABC Bonuses

ABC bonuses are a significant budget item, with annual appropriations averaging \$97.8 million per year over the last ten years. ABC bonuses have traditionally been budgeted on a nonrecurring, year-to-year basis to account for changes in the end-of-grade or end-of-course tests that might affect the amount of bonuses that are expected to be paid.

As shown in the table below, annual expenditures on ABC bonuses fluctuate substantially. Expenditures often differ from the appropriated amount, indicating the difficulty in accurately budgeting for this program.

Department of Public Instruction

ABC Bonuses

Fiscal Year	Appropriated (Budgeted)	Expenditures	% of Schools Making High Growth	% of Schools Making Exp. Growth
1997-98	\$72,400,000	\$25,648,842	32.5%	24.2%
1998-99	\$89,425,243	\$113,580,635	65.5%	18.3%
1999-00	\$118,000,000	\$121,877,659	58.2%	23.0%
2000-01	\$120,000,000	\$100,439,954	45.2%	24.6%
2001-02	\$93,100,000	\$75,504,360	24.1%	35.6%
2002-03	\$101,000,000	\$99,760,240	35.5%	39.3%
2003-04	\$96,000,000	\$139,052,809	72.9%	21.4%
2004-05	\$108,000,000	\$100,770,053	35.2%	39.9%
2005-06	\$100,000,000	\$93,133,274	26.0%	43.2%
2006-07	\$90,000,000	\$67,264,991	11.2%	43.1%
2007-08	\$70,000,000	\$100,548,912	24.3%	47.6%
2008-09	\$90,000,000	\$94,235,612*	55.2%	26.8%

* Note that Section 7.3 of S.L. 2008-107 limits the amount that can be expended for ABC bonuses in 2008-09 to \$94,235,612. If expenditures had not been capped and all eligible employees given the full bonus amount, expenditures on ABC bonuses would have totaled over \$134 million.

Eligibility

All State- and locally-paid certified staff members and teacher assistants in North Carolina’s public schools are eligible to receive ABC bonuses. For schools making “High Growth,” the State Board of Education is authorized to provide bonuses of up to \$1,500 to each certified staff member¹ and bonuses of up to \$500 to teacher assistants. For schools making “Expected Growth,” the State Board of Education is authorized to provide bonuses of up to \$750 to each certified staff member and bonuses of up to \$750 to teacher assistants.

Calculation of a School’s ABC Status

Determining a school’s ABC status requires comparing the number of students who have positive “academic change” versus those who have negative “academic change.” Academic change, based on end-of-grade or end-of-course assessment results, is measured on a scale where zero is no change in results from the standard year, less than zero is worse than the standard year, and greater than zero is better than the standard year. It can be used to compare an individual student’s performance to his or her past performance or to the average student’s performance.

Determining if a School Meets Expected Growth

An elementary or middle school meets Expected Growth if its average “academic change” score is greater than 0. For high schools, other weighted components are

¹ Certified personnel are personnel employed in positions within job classifications which require licenses issued by the Licensure Section based on the completion of approved education program requirements as specified by the State Board of Education. This includes principals, assistant principals, teachers, guidance counselors, social workers, media specialists, and certified nurses.

Department of Public Instruction

included in the school’s academic change composite, including change in the passing rate on the competency test, change in the dropout rate, and change in the percent of students in the college/university prep or college tech prep courses of study.

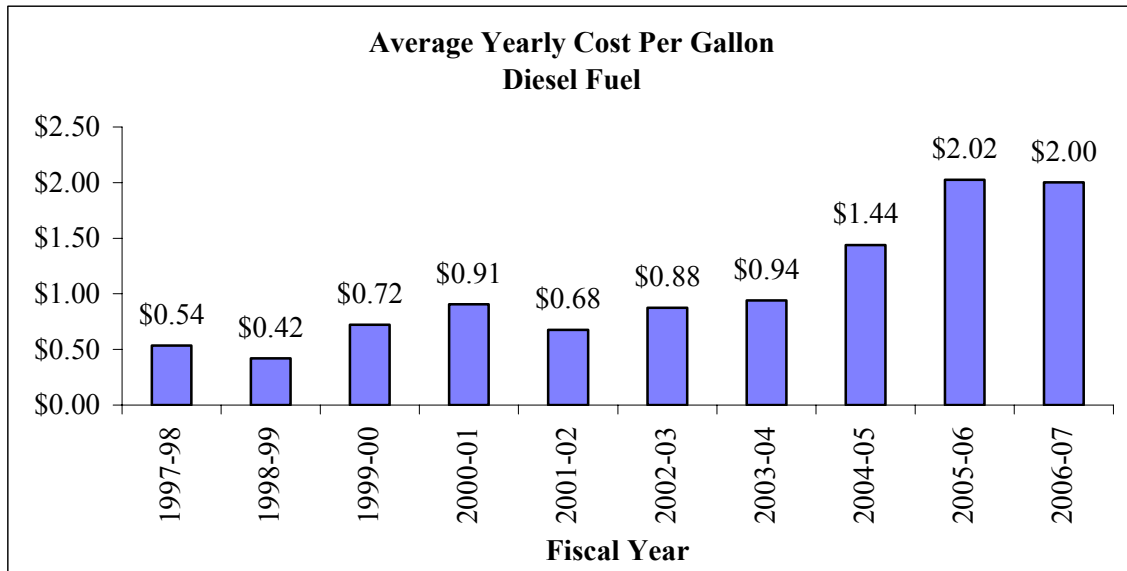
Determining if a School Meets High Growth

An elementary, middle, or high school meets High Growth if the number of children with an “academic change” score of 0 or greater is at least 1.5 times the number of children with negative “academic change” scores.

Transportation Fuel

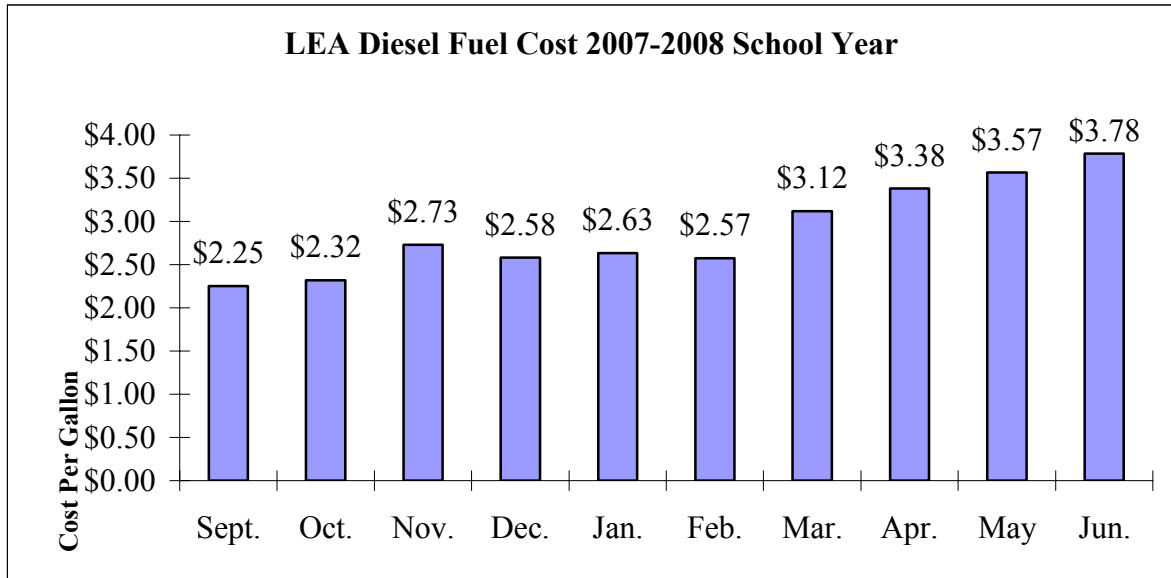
Nearly all expenditures for diesel-fuel-powered yellow school buses are funded by the State. In school year 2007-08, approximately 25 million gallons of fuel were used to transport public school students to and from school. Transportation fuel costs are supported by DPI through an allotment that also supports other transportation-related expenses such as bus-driver salaries and benefits, vehicle maintenance, and bus repair.

As the cost of fuel for the individual consumer has greatly increased over the last two years, so has the cost of fueling North Carolina’s school buses. The FY 2007-08 budget provided sufficient funding to support diesel fuel costs at an average of \$1.69 per gallon in FY 2007-08 (\$46.0 million total) and \$1.83 per gallon in FY 2008-09. These amounts were somewhat consistent with the historical expenditure levels on fuel, as shown in the table below:



School districts purchase fuel on a contract basis, with bulk purchasing providing some savings from the prices that the consumer pays at the pump. Additionally, school district fuel purchases are not subject to Federal excise taxes or certain other fees. However, these factors did not insulate school districts from the significant diesel fuel cost increases that began almost immediately after the passage of the FY 2007-08 budget. The following table tracks the average per-gallon cost of diesel fuel to North Carolina’s school districts throughout the 2007-08 school year:

Department of Public Instruction



Due to these increases, actual FY 2007-08 fuel expenditures amounted to approximately \$2.92 per gallon and totaled \$67.9 million, almost 50% greater than the budgeted total. DPI covered nearly all of these additional expenditures with funds that were not needed to support other budgeted public schools purposes.

Recognizing the rapid diesel fuel cost increase, the General Assembly increased the FY 2008-09 transportation budget by \$35 million. This amount is projected to support fuel expenditures of approximately \$3.23 per gallon. As of October 2008, the average per gallon diesel fuel costs to school districts in school year 2008-09 was approximately \$3.27 per gallon.

Additional Legislation

S.L. 2008-209 (HB 15) Some Personal Leave Time/No Penalty

Section 1 of this law amends G.S. 115C-302.1(d) to allow teachers to take up to one personal leave day per year without having to pay the required substitute deduction. This section of the law expires on June 30, 2009. Section 2 of this law amends G.S. 115C-302.1(d) to allow teachers to take personal leave days on non-protected teacher workdays without having to pay the required substitute deduction. There are no students present on teacher workdays, and therefore a substitute is not required. This section of the law does not expire.

S.L. 2008-86 (HB 2360, SB 1763) Board Certified Teachers Serve as Full-Time Mentors

This law amends G.S. 115C-296.2 to exempt full-time mentors from having to spend at least 70% of worktime in classroom instruction in order to qualify for the National Board for Professional Teaching Standards (NBPTS) salary increment of 12%. Full-time mentors must meet the following eligibility requirements to receive the NBPTS salary increment:

- Teach in a classroom for at least two years after receiving NBPTS certification;
- Complete the mentor training required by the teacher’s LEA;

Department of Public Instruction

- Serve as a full-time mentor for no more than three consecutive years;
- Teach in a classroom for at least three years after serving as a full-time mentor to be eligible to be reassigned as a full-time mentor; and
- Mentor at least 15 beginning teachers each year.

S.L. 2008-181 (HB 2431, SB 1780) Studies Act of 2008

Section 24.1 of HB 2431 directs the State Board of Education to conduct a study to develop a framework for a North Carolina Board Certification Process for Principals and Assistant Principals. A draft proposed framework is to be delivered to the Joint Legislative Education Oversight Committee by December 1, 2008.

Section 25.1 requires each LEA to collect various data relating to K-12 physical education. Data on Student Body Mass Index must be collected by a trained professional such as a school nurse and compiled in a single, statewide, publicly accessible database hosted by an entity approved by DPI.

Section 33.1 mandates that the Joint Education Oversight Committee contract with an independent organization to study the roles that regional education service centers could play in the delivery of professional development throughout the State.

S.L. 2008-118 (HB 2438) 2008 Budget Technical Corrections

Section 3.3 of this law allows DPI to use up to \$430,000 in funds appropriated for Learn and Earn Online for 14 planning grants for Learn and Earn (“bricks and mortar”) sites in the 2008-09 fiscal year. Section 3.4 authorizes OSBM to provide up to \$1 million to DPI for the purpose of informing 8th and 9th grade students about opportunities to gain access to college coursework.

Community College System

G.S. 115D-1 Statement of Purpose
 G.S. 115D-2.1 State Board of Community Colleges
 G.S. 115D-3 Community Colleges System Office

Agency Description:

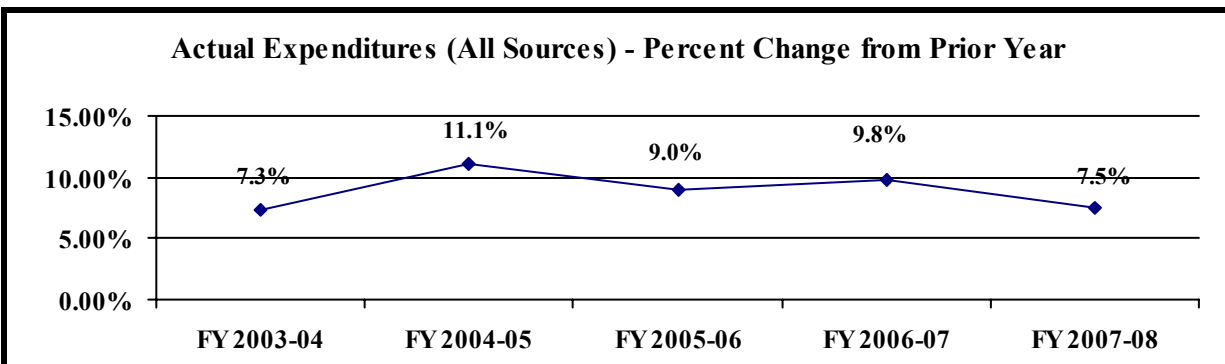
The NC Community College System consists of 58 institutions that provide vocational and technical, college-transfer, and basic skills/adult literacy courses. The State Board of Community Colleges is authorized to adopt all policies, regulations, and standards for the operation of the System. The Community Colleges System Office, headed by the System President, provides State-level administration and leadership of the System under the direction of the State Board.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	1,072,055,713	1,176,727,026	1,265,196,631	1,165,268,226
Revenue	247,179,367	245,513,022	284,326,249	231,985,525
Net Appropriations	\$824,876,346	\$931,214,004	\$980,870,382	\$933,282,701
Positions (FTE)	200.75	200.00	203.00	204.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 certified budget for the Community College System is \$1.2 billion. Approximately \$933.3 million (80%) is appropriated from net General Fund appropriations. Tuition and registration fees provide an additional \$183.7 million, or 16%, of the System budget. The remaining 4% is funded primarily with federal funds and a \$14 million transfer from the Escheat Fund for the System’s need-based financial aid program. The FY 2008-09 certified budget is \$99.9 million less than the FY 2007-08 actual expenditures, a 7.9% decrease. Note, however, that the FY2008-09 certified budget does not yet include over \$130 million in projected expenditures, including salary and benefit increases, carry forward from FY 2007-08, and information-technology project funding. Over the last five years, the average percentage change in actual expenditures was 8.9%. Budget increases have been driven primarily by enrollment growth and salary increases for faculty and professional staff. Note that the position totals in the table above only include those personnel employed by the Community Colleges System Office and do not include personnel employed at the local community colleges.



Community College System

Budget Tables

The following table provides a breakdown of the NC Community College System’s total General Fund operating budget by program.

Community College System (16800 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Community Colleges – Operating State Aid	1,131,648,126	1,120,095,223
Community College System Office	30,878,208	29,082,021
Financial Aid	13,981,202	13,981,202
Transfer to Carryforward	40,445,425	0
Other Transfers and Reserves	48,243,670	2,109,780
TOTAL	\$1,265,196,631	\$1,165,268,226
Revenue	(284,326,249)	(231,985,525)
NET GENERAL FUND APPROPRIATIONS	\$980,870,382	\$933,282,701

Note: "Transfer to Carryforward" contains funding that, by law, does not revert at the end of the fiscal year. Examples of included programs and the relevant General Statute citation include

- Education Equipment and Library Books – \$14.3 million, G.S. 115D-31(c),
- Institution Performance Accountability – \$9 million, G.S. 115D-31.3,
- Over-realized tuition and fees to be used for the Equipment Reserve Fund – \$5.9 million G.S. 115-31(e), and
- New and Expanding Industry Training – \$3.6 million, G.S. 115D-5.1(d).

The 2008-09 certified budget does not yet include this \$40.4 million, which will be recorded as revenue.

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Enrollment Growth

The Community College System received a total of \$23.8 million in recurring funds for FY 2008-09 to fully fund budgeted enrollment growth. According to the 2007-08 spring semester census, community college enrollment has increased by 6,455 full-time equivalent (FTE) students, from 195,375 to 201,830, an increase of 3.3%. An additional \$2.5 million in nonrecurring funds was appropriated for FY 2008-09 for an Enrollment Growth Reserve, which assists colleges that experience actual growth significantly higher than the amount budgeted.

Community College System

Equipment

The System received an additional \$5.0 million in nonrecurring funds to purchase instructional equipment at all 58 colleges. These funds are in addition to the \$31.3 million included in the base budget for this purpose. Funds shall be distributed in accordance with the existing equipment formula.¹

Allied Health

In recognition that curriculum programs in allied health – such as nursing, radiology, and dental hygiene – are on average more expensive to provide, the System received \$4.0 million in recurring funds, in addition to the \$5.6 million in recurring funds appropriated in the 2007 Session. Funds may be used for allied health faculty, equipment, or supplies. Funds may also be used for National League of Nursing Accreditation fees.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 8.3 Report on the Effect of Additional Allied Health Funding

Section 8.3 requires the Community College System Office to report on the impact of additional funding received for nursing and allied health programs. The report must be made by March 1, 2009, to the Joint Legislative Education Oversight Committee, the Fiscal Research Division, and the Office of State Budget and Management.

Section 8.7 Consolidate Workforce Development Programs

Section 8.7 consolidates the existing New and Expanding Industry Training (NEIT), Focused Industrial Training (FIT), and Customized Industry Training (CIT) programs into one program. This section also allows a limited amount of funds to be used to increase community colleges' internal capacity to provide customized training.

Section 8.10 Funds for Campus Security

Section 8.10 authorizes colleges to use up to 2% of their existing institutional support budget for campus security. This additional flexibility shall be used to supplement and not supplant existing local funding for campus security.

Section 8.17 No Fees for First Aid Courses Taken by School Employees

Section 8.17 amends G.S. 115D-5(b) to provide a tuition waiver for non-certified elementary and secondary school employees taking CPR and First Aid courses at community colleges. Previously, only teachers were eligible for this tuition waiver.

Section 8.18 Students in the Gateway to College Program May Enroll in Developmental Courses

Section 8.18 amends G.S. 115D-5 to add a new subsection directing the State Board of Community Colleges to allow high school students who are enrolled in Gateway to College Programs to enroll in developmental courses based on an assessment of their individual student needs by a high school and community college staff team. The State Board of

¹ North Carolina Community College System, *Accounting Procedures Manual* (Raleigh, July 1, 2006).

Community College System

Community Colleges must include this coursework in computing the budgeted FTE for the colleges.

Select Programs and Other Budgetary Information

Enrollment Growth

The community colleges' operating budgets are largely determined by their budgeted full-time equivalent (or budgeted FTE). FTE is an artificial metric used for budgeting and other purposes, and it is defined as 256 student membership hours per semester (based on a typical semester of 16 weeks times 16 student membership hours per week).² Note that this measurement is different than a full-time student – a student is generally considered full-time if enrolled in 12 or more credit hours.³ The increase in budgeted FTE from year to year makes up a community college's enrollment growth.

Budgeted FTE is currently funded based on the prior year's actual FTE or the average of the three previous years' actual FTE, whichever is higher, and is calculated separately for curriculum, continuing education, and basic skills enrollment.⁴ This process, called the Modified Budget Stability Formula, provides colleges a measure of stability in years of declining enrollments.

Once the total increase in budgeted FTE is calculated, the amount of funding needed to fully fund enrollment growth can be calculated based on the cost per FTE.

Below is a history of enrollment growth funding, including budgeted FTE and the appropriation needed to fund the enrollment growth.

Fiscal Year	Budgeted FTE	
	Growth	Appropriation
1998-99	680	\$2,000,000
1999-00	5,735	\$18,769,897
2000-01	6,601	\$22,280,910
2001-02	3,101	\$10,000,000
2002-03	15,939	\$51,848,813
2003-04	10,639	\$32,036,563
2004-05	8,047	\$23,432,327
2005-06	2,280	\$7,802,343
2006-07	2,137	\$7,125,475
2007-08	2,296	\$8,827,981
2008-09	6,455	\$23,779,955

² 23 NCAC 1A.0101(4).

³ 23 NCAC 1A.0101(2).

⁴ The actual FTE numbers used to calculate budgeted FTE do not include all actual FTEs enrolled at a college. This formula does not include funding for summer term curriculum courses, self-supporting classes, and FTE generated by certain categorical programs (for example, customized training).

Community College System

Enrollment's Relationship to Unemployment

As noted above, enrollment is one of the biggest factors in community colleges' budgets. When one compares the percent change in actual FTE to the percent change in the number of unemployed North Carolinians for the previous calendar year,⁵ the percent change in persons unemployed explains about 50% of the enrollment growth or decline.⁶ Another way to state this is that as unemployment increases, the State can also expect community college enrollment to increase.

Additional Legislation

S.L. 2008-135 (HB 1076) Fee Waiver/The University of North Carolina and Community Colleges

S.L. 2008-135 amends G.S. 115B to add a new section directing the University of North Carolina and the community colleges to permit persons age sixty-five and older, who qualify as legal residents of North Carolina and residents for tuition purposes, to attend classes for up to six hours of credit or noncredit purposes each academic semester without the required payment of fees, with some exclusions. According to 23 NCAC 2D.0201, the Board of Trustees of a community college may establish on an annual basis the following optional fees:

- course-specific fees,
- student activity fee,
- computer-use and technology fee, and
- parking fee.

S.L. 2008-135 specifically excludes course-specific fees and the computer-use and technology fee from the waiver, waiving only the student-activity fee and parking fee.

This section became effective August 1, 2008, and applies to classes for any academic semester beginning on or after that date.

⁵ U.S. Bureau of Labor Statistics. 6 Oct. 2008 <<http://www.bls.gov/data/>>.

⁶ $R^2=.5004$. A correlation, or "r", describes the strength of a straight-line relationship. The square of the correlation, or " R^2 " represents the portion of the variation in the values on the y-axis (in this case, % Change in Actual FTE) that is explained by variation in values on the x-axis (in this case, % Change in Person Unemployed).

University of North Carolina System

North Carolina Constitution, Art. IX, Sec. 8 Higher education
 G.S. 116 - 4 Constituent Institutions
 G.S. 116 - 11 Powers and Duties of UNC Board of Governors

Agency Description:

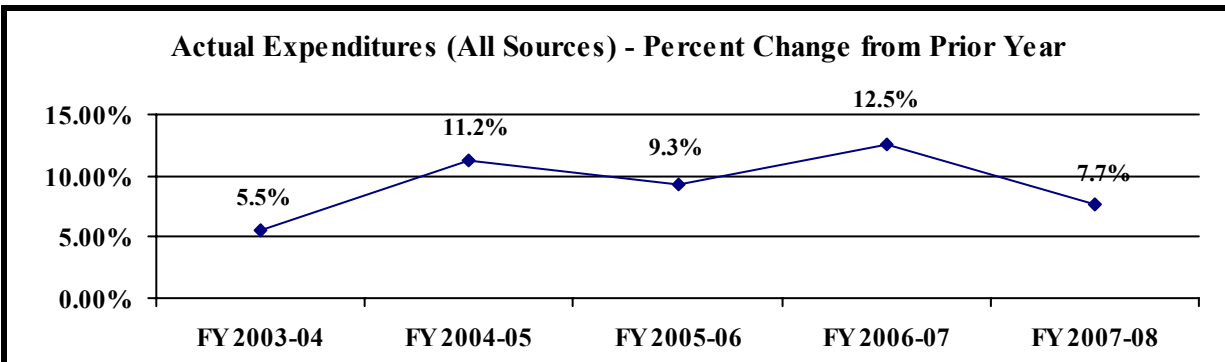
The University of North Carolina system consists of sixteen universities, one residential high school, a statewide agricultural extension service, a statewide system of medical residency training, a major hospital/health care system, and several affiliated institutions. The University is governed by a 32-member Board of Governors elected by the General Assembly. Administrative matters of the system are handled by a President appointed by the Board.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	3,133,909,667	3,524,862,467	3,796,844,851	3,855,592,535
Revenue	987,862,487	1,089,172,212	1,183,416,499	1,172,334,921
Net Appropriations	\$2,146,047,180	\$2,435,690,255	\$2,613,428,352	\$2,683,257,614
Positions (FTE)	33,034.64	35,150.94	34,912.20	34,984.70

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 certified budget for the University of North Carolina system is \$3.86 billion. Approximately \$2.7 billion (70%) of the budget is appropriated from net General Fund appropriations. The remainder of the budget is funded from tuition (20%), transfers from the Escheat Fund for financial aid (4.5%), and miscellaneous revenues (5.5%). The FY 2008-09 certified budget is a 1.5% increase over the FY 2007-08 actual expenditures. However, the certified budget does not include \$206.4 million in salary and benefit increases in the FY 2007-09 biennium. With this adjustment for salary and benefits, the UNC system’s operating budget is \$4.06 billion for FY 2008-09. The adjusted operating budget for FY 2008-09 is 5.4% larger than the FY 2007-08 actual expenditures. Over the last five years, the average percentage change in actual expenditures was 9.2%. This increase can be attributed to enrollment growth, operating costs of new buildings, increased financial aid, and various new campus programs and initiatives. The position totals in the table above include personnel funded by the General Fund, tuition receipts, and the UNC Hospitals Enterprise Fund. The totals do not include positions funded by Institutional Funds for dining, housing, and other campus services.



University of North Carolina System

Budget Tables

The following table provides a breakdown of the UNC system's total operating budget by campus and central office administrative functions.

UNC System (16000 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Appalachian State University	191,878,234	175,312,877
East Carolina University – Academic Affairs	320,732,475	309,660,119
East Carolina University – Health Affairs	57,703,415	50,367,536
Elizabeth City State University	42,935,471	40,888,108
Fayetteville State University	75,552,969	70,900,444
NC A&T University	151,209,534	143,532,136
North Carolina Central University	117,674,516	109,803,916
North Carolina State University	593,596,698	547,453,033
NCSU – Agricultural Extension Service	58,657,936	57,561,381
NCSU – Agricultural Research Service	78,939,048	62,740,554
UNC-Asheville	52,007,036	47,733,502
UNC-Chapel Hill Academic Affairs	485,512,668	462,558,712
UNC-Chapel Hill Health Affairs	262,147,690	242,228,503
UNC-CH Area Health Education Centers (AHEC)	49,879,303	47,818,875
UNC-Charlotte	272,302,662	249,711,260
UNC-Greensboro	223,451,342	210,119,796
UNC-Pembroke	72,378,024	70,293,684
UNC-School of the Arts	38,845,835	34,022,522
UNC-Wilmington	155,452,337	142,200,411
Western Carolina University	118,992,327	111,984,357
Winston-Salem State University	86,912,983	86,244,210
North Carolina School of Science and Math	19,294,163	17,903,753
UNC – General Administration	76,162,771	51,542,724
UNC – Institutional Programs (Reserves for Salary; other)	0	207,658,990
UNC – Related Education Programs (Financial Aid)	141,615,449	259,677,162
UNC Hospitals	53,009,965	45,673,970
TOTAL	\$3,796,844,851	\$3,855,592,535
Revenue		
Tuition Only	(812,700,307)	(785,210,421)
Escheat Fund	(83,886,397)	(174,818,216)
Misc. Revenue	(286,829,795)	(212,306,284)
Revenue Subtotal	(1,183,416,499)	(1,172,334,921)
NET GENERAL FUND APPROPRIATIONS	\$2,613,428,352	\$2,683,257,614

University of North Carolina System

The following table provides a breakdown of the funds* administered by the UNC system, including the General Fund operating budget.

Total Appropriations by Fund	Actual	Certified
	FY 2007-2008	FY 2008-2009
Campus Operating Budgets (160xx – General Fund)	3,796,844,851	3,855,592,535
UNC Hospitals – Auxiliary Enterprises (56095)	500,602	414,849
UNC Hospitals – Operating Fund (56096)	740,823,064	812,556,177
TOTAL	\$4,538,168,517	\$4,668,563,561

Note: *Total Appropriations by Fund as presented reflect only those funds as certified by the Office of State Budget and Management. See table in Select Programs and Other Budgetary Information for summary of federal grant funds and institutional funds that are not part of the UNC system operating budget.

Other Funds

The UNC Hospitals Operating Fund contains the budgeted expenditures and revenues for a 727-bed entity that includes North Carolina Memorial Hospital, North Carolina Children’s Hospital, North Carolina Neurosciences Hospital, and North Carolina Women’s Hospital.

UNC Hospitals Operating Fund (56096)

Balance: \$346,789,583 (as of June 29, 2008)

UNC Hospitals is governed by the board of directors of the University of North Carolina Health Care System, an affiliate of the University of North Carolina system. The UNC Hospitals Operating Fund is an enterprise fund supported by patient revenues.

UNC Hospitals’ workload in 2008 included 62,446 emergency room visits, 781,914 clinic visits, 24,517 surgical cases, and 3,796 births (UNC Health Care System 2007 Annual Report). UNC Hospitals has an authorized headcount of 6,278 positions in FY 2008-09. UNC Hospitals is part of the broader UNC Health Care System authorized in G.S. 116-37 that includes a network of community medical practices, home health agencies, and an air and ground patient transportation system.

Significant Legislative Budget Actions

Campus Safety

In the aftermath of the campus shooting at Virginia Tech, UNC President Erskine Bowles created a UNC Campus Safety Task Force to examine the UNC system’s ability to protect its students and staff from violent crime. The Task Force devised recommendations to 1) prevent violent crime on campuses, 2) build capacity to respond to violent crime and extreme events if they occur, and 3) build capacity to engage in safety and disaster planning in a coordinated manner. Based on the Task Force findings, the UNC Board of Governors requested funding

University of North Carolina System

to increase counseling and psychiatric services, provide additional resources for campus police, install emergency notification systems, and improve safety in student housing. The General Assembly provided \$6.0 million in recurring funds and \$9.0 million in nonrecurring funds for this campus safety initiative.

Enrollment Growth

The General Assembly fully funded the UNC Board of Governors' request for \$74.4 million to fund an additional 8,082 student full-time equivalent (FTE). The FY 2008-09 UNC system student FTE is expected to total 190,878.

Science and Engineering

The General Assembly invested in a number of science and engineering programs in 2008. \$6.0 million was appropriated to continue the phase-in of operating funds for UNC facilities opening on the NC Research Campus at Kannapolis in the fall of 2008. The Engineering Schools at NC State University and NC A&T State University received \$2 million each to bolster their research programs. A second year of funding (\$3 million) was provided for the phase-in of the new Graduate School of Nanoscience and Nanoengineering at NC A&T State University and UNC-Greensboro. The Research Competitiveness Fund that was created in 2007 was continued with a \$1 million nonrecurring appropriation. A Forensic Science Program was funded at Western Carolina University (\$500,000) and NCSU's Advanced Transportation Energy Center received \$250,000.

Principal Fellows Program

A \$1.74 million reserve fund was created to provide \$20,000 payments to members of Class 10 of the Principal Fellows Program if they work an additional six months after they complete their current four-year service commitment. The 87 participants in Class 10 of the Principal Fellows Program (PFP) had their stipend reduced by \$20,000 two months after accepting the PFP scholarship loan in 2003.

(S.L. 2008-107, Section 9.4)

EARN Scholars

The EARN (Education Access Rewards North Carolina) Scholars program was created in 2007 to provide \$4,000 grants to students from families with incomes that are less than 200% of the federal poverty level (\$42,400 for family of four in 2008). The 2008 General Assembly expanded the EARN Scholars program to include private college students as it begins its initial year in the fall of 2008. This expansion of the EARN program will cost \$6.2 million in FY 2008-09.

(S.L. 2008-107, Section 9.2)

Distinguished Professors Endowment Fund

The General Assembly appropriated \$4.6 million to the Distinguished Professors Endowment Fund to match a grant from the C.D. Spangler Foundation that provides a distinguished professorship to each of the 16 UNC campuses.

University of North Carolina System

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 9.4 Optional Scholarship for Certain Graduates of the Principal Fellows Program

As described under “Significant Legislative Budget Actions,” this corresponding special provision provides a \$20,000 payment to members of Class 10 of the Principal Fellows Program if they complete an additional six months of service after they complete their current four-year service commitment. The funds are taken from the balance in the Principal Fellows Trust Fund.

Section 9.10 Higher Education Studies/Distance Education and UNC Enrollment Growth Funding Formulas

This section directs the Program Evaluation Division to study the cost of distance education programs and to conduct a review of enrollment growth funding models.

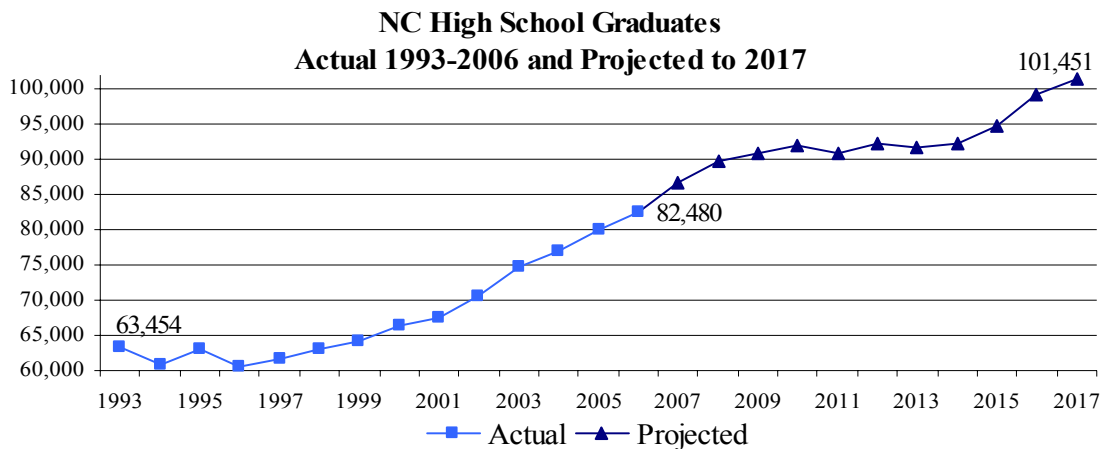
Section 9.11 Legislative Tuition Grant/Redefine Part-Time Student

This section permits North Carolina residents attending private colleges in the state and taking at least 6 hours of credits each semester to qualify for a *pro rata* share of the Legislative Tuition Grant.

Select Programs and Other Budgetary Information

College Enrollment

Enrollment growth is the biggest budget driver for the UNC system. Population growth, increased numbers of community college transfer students, increased college access by underrepresented groups, and increased interest in life-long learning/obtainment of advanced skills place tremendous pressure on the State to increase access to its universities. One example of increased demand is the growth in the number of North Carolina high school students. Based on current graduation rates, the number of public and private high school graduates will increase from 82,480 in 2006 to 101,451 in 2017 (see chart below).

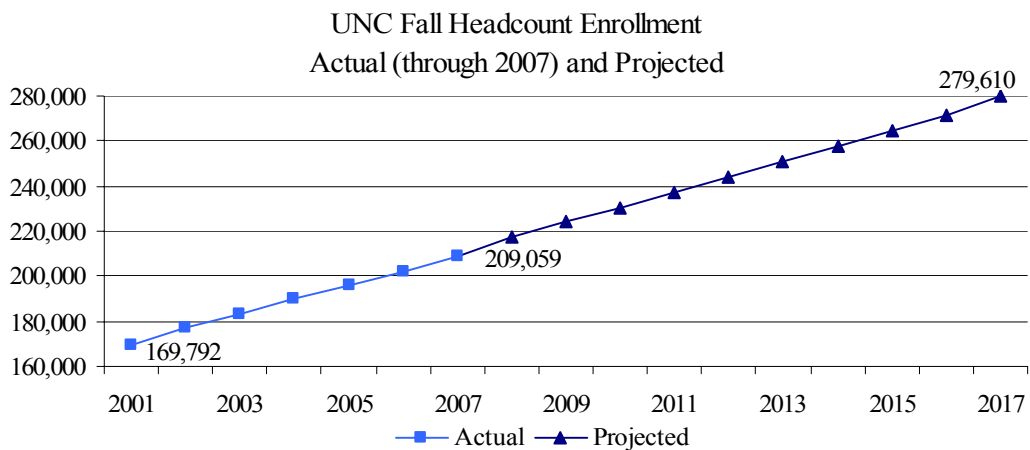


Source: UNC – General Administration

University of North Carolina System

The UNC system traditionally enrolls 31% to 32% of high school graduates and will be expected to continue accepting its share of the additional students each year.

The Academic Planning Section of UNC General Administration makes annual enrollment projections for the UNC Board of Governors. The Section’s preliminary projection produced in Fall 2008 is shown in the chart below. UNC’s total combined on-campus and online enrollment is expected to increase by 70,410 students over the next decade.



Source: UNC – General Administration, October 2008

What is the fiscal impact of 70,410 more students in the UNC system by 2017? In 2007, the Finance staff at UNC General Administration calculated the average State appropriation per UNC resident student was \$12,897. Given this current subsidy, the operating budget for the UNC system would have to grow by \$908.1 million by 2017 to handle the influx of students. This enrollment growth will also create tremendous capital needs for the UNC system.

Total UNC System Revenues

The General Fund operating budget does not include federal research grants, gifts, investment income, and auxiliary accounts for student dining, housing, and other fee-based activities. The chart below shows all revenue sources for the UNC system in FY 2006-07 as reported to the Integrated Postsecondary Education Data System (IPEDS).

	FY 2006-07
All Revenue Sources	ACTUAL
State appropriations (excluding capital)	2,543,060,697
Auxiliary enterprises (dining, housing, etc.)	1,058,544,036
Federal appropriations and contracts	916,318,492
Tuition and fees	959,448,820
Hospital sales and services	787,795,559
Investment income	528,285,887
Gifts, including contributions from affiliated organizations	173,481,473
Local/private operating grants and contracts	172,052,988
Other Sources	225,810,896
Total Revenues	\$7,364,798,848

University of North Carolina System

Source: Integrated Postsecondary Education Data System (IPEDS) Finance Summary

Additional Legislation

S.L. 2008-135 (HB 1076) Fee Waiver UNC & Community Colleges

This act waives fees for up to 6 hours of classes for North Carolina residents age 65 or older. Community College course-specific fees are excluded from the waiver.

S.L. 2008-192 (SB 2015) University of North Carolina School of the Arts

This act renames the North Carolina School of the Arts as the University of North Carolina School of the Arts.

S.L. 2008-204 (SB 1925) UNC Nonappropriated Capital Projects/Airport Authority

This act has several distinct parts:

- Parts 1 through 3 and 6 are summarized in the Capital Section of this report.
- Part 4 allows UNC system to create an airport authority to support the UNC Health Care System.
- Part 5 changes the interest rate of the Nursing Scholars Program, the Graduate Nurse Scholarship Program for Faculty Production, and the Principal Fellows Program from 10% per year to a rate not to exceed 10% per year.

Health and Human Services

Appropriations Subcommittee on Health and Human Services

Subcommittee Summary:

The Health and Human Services Subcommittee, consisting of 15 members of the General Assembly, review and recommend the budget for the 30 divisions and offices that make up the Department of Health and Human Services (DHHS). DHHS is divided into four broad service areas: health, human services, administrative, and support functions. DHHS also oversees 18 facilities, including developmental centers, psychiatric hospitals, alcohol- and drug-abuse treatment centers, schools, early intervention programs, and 3 neuromedical centers.

Subcommittee Membership:

Rep. Beverly Earle, Chair
 Rep. Verla Insko, Chair
 Rep. Bob England, Chair
 Rep. Jeff Barnhart
 Rep. William Brisson
 Rep. Debbie Clary
 Rep. Linda Coleman
 Rep. Wil Neumann
 Rep. Charles Thomas

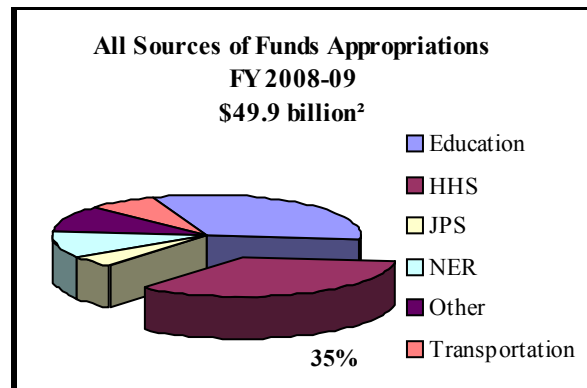
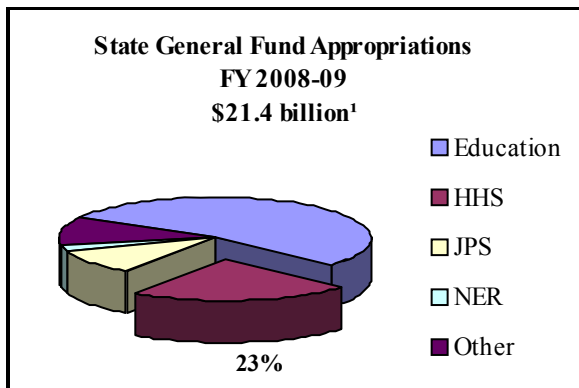
Sen. Doug Berger, Chair
 Sen. Bill Purcell, Chair
 Sen. Harris Blake
 Sen. Charlie Dannelly
 Sen. James Forrester
 Sen. Steve Goss

Staff:

Melanie Bush, Team Leader
 Michele Alishahi
 Lee Dixon
 Denise Harb

Budget Comparison:

The combined budgets under the Health and Human Services Subcommittees total \$4.9 billion, or 23% of net General Fund appropriations and \$17.0 billion, or 35% of all funding sources reported for FY 2008-09. The following charts illustrate the Health and Human Services Subcommittees' total as compared to other appropriations subcommittee totals:



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Department of Health and Human Services

G.S. 143B-137.1 Department of Health and Human Services-Duties

Agency Description:

The North Carolina Department of Health and Human Services (DHHS) is the largest agency in State government. DHHS provides health insurance coverage for low-income children and the aged, blind, and disabled; public health prevention and education services; mental health and substance-abuse services; services for the developmentally disabled and people who are deaf, blind, or hard of hearing; services for the aging; and child-welfare and social services. DHHS also maintains State mental health, developmental disability, and substance-abuse treatment centers.

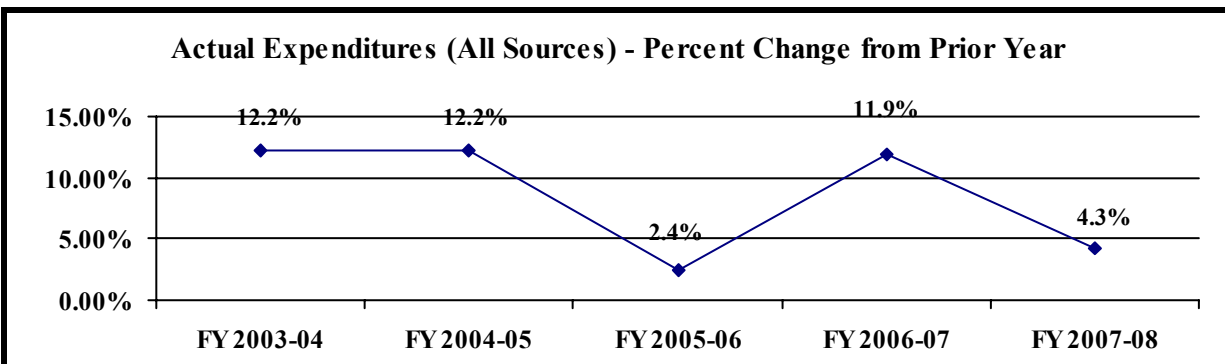
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	14,403,574,251	16,117,806,436	16,807,346,814	16,635,001,670
Revenue	10,378,388,656	11,884,326,836	12,191,020,090	11,720,084,728
Net Appropriations	\$4,025,185,595	\$4,233,479,600	\$4,616,326,724	\$4,914,916,942
Positions (FTE)	18,250.23	18,389.20	18,583.47	18,854.43

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The operating budget for the Department of Health and Human Services is \$16.6 billion in FY 2008-09. This represents a 1.0% decrease from the level of actual expenditures in FY 2007-08. In addition to net General Fund appropriation fluctuations, actual expenditures vary based on the overall Medicaid and NC Health Choice caseloads, federal block grant funding levels, federal grant receipts, and general social and economic pressures that increase the number of North Carolinians in need.

DHHS actual expenditures have increased by an average of 8.6% between FY 2003-04 and FY 2007-08, primarily due to increases in Medicaid caseloads and costs. Approximately 71% of the DHHS budget is from federal receipts for Medicaid and block grants, with the remaining 29% from net General Fund appropriations.



Division of Aging and Adult Services

G.S. 143B-181.1 Division of Aging, Creation, Powers, and Duties

Agency Description:

The Division of Aging and Adult Services has two major functions – services for the elderly and services for disabled adults. The Division partners with the 17 Area Agencies on Aging and the 100 county departments of social services to deliver services for elderly and disabled adults.

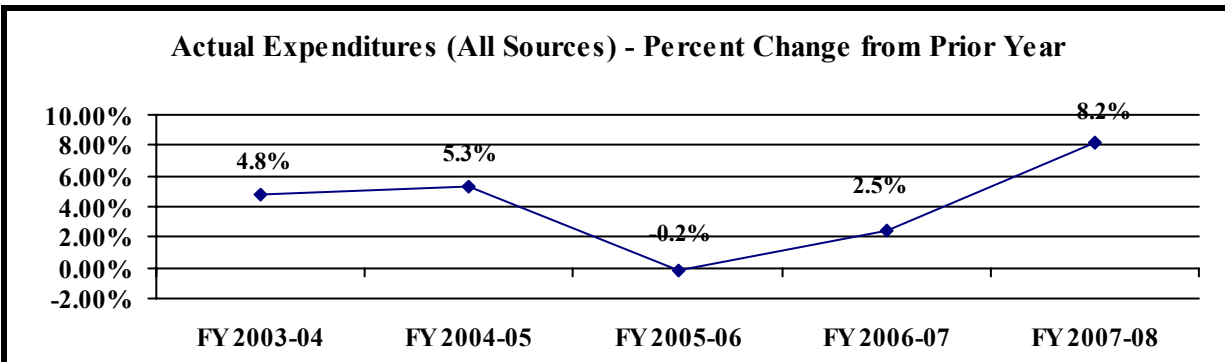
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	79,768,745	81,742,499	88,407,097	87,451,843
Revenue	49,796,040	47,744,208	52,504,637	49,206,664
Net Appropriations	\$29,972,705	\$33,998,291	\$35,902,460	\$38,245,179
Positions (FTE)	57.00	57.00	57.00	57.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 operating budget for the Division of Aging and Adult Services is \$87.5 million. This represents a decrease of 1% from actual FY 2007-08 expenditures.

The Division’s budget has increased by an average of 4.1% between FY 2003-04 and FY 2007-08. In this time, the Division of Aging merged with Adult Services, although much of the adult services funding remains within the Division of Social Services. Approximately 56% of the Division budget is from federal receipts from the Older Americans Act and the Social Services Block Grant.



Division of Aging and Adult Services

Budget Tables

The following table provides a breakdown of Special Appropriations in the Division of Aging and Adult Services' total General Fund operating budget.

Division of Aging and Adult Services (14411 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
State Administration	2,840,439	2,485,416
Adult Services	2,748,326	2,900,002
Community-based Services	79,377,953	78,950,858
Elder Rights Program	3,426,234	3,082,064
Prior Year Earned Revenues	14,145	33,503
TOTAL	\$88,407,097	\$87,451,843
Revenue	(52,504,637)	(49,206,664)
NET GENERAL FUND APPROPRIATIONS	\$35,902,460	\$38,245,179

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Project CARE

The General Assembly appropriated \$500,000 nonrecurring for FY 2008-09 for Project CARE (Caregiver Alternatives to Running on Empty), a respite-care program for caregivers of people with Alzheimer's disease and dementia. The funding will replace expiring federal grants.

Home and Community Care Block Grant

The General Assembly appropriated an additional \$2 million in recurring funds for the Home and Community Care Block Grant, the main source of in-home and community-based services for seniors in local communities.

Adjustment to State/County Special Assistance

The State/County Special Assistance program was reduced by \$2.5 million recurring based on the anticipated level of spending for FY 2008-09.

State/County Special Assistance Rate Increase

A total of \$2.9 million in recurring funds was appropriated to the Division of Social Services to increase the State/County Special Assistance rate for residents in adult care home facilities

Division of Aging and Adult Services

from \$1,173 to \$1,207 per month, effective January 1, 2009. Counties will provide matching funds, resulting in a total funding increase of \$5.7 million.
(S.L. 2008-107, Sec. 10.2)

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 10.16A Adult-Care Home Training/Technical Assistance

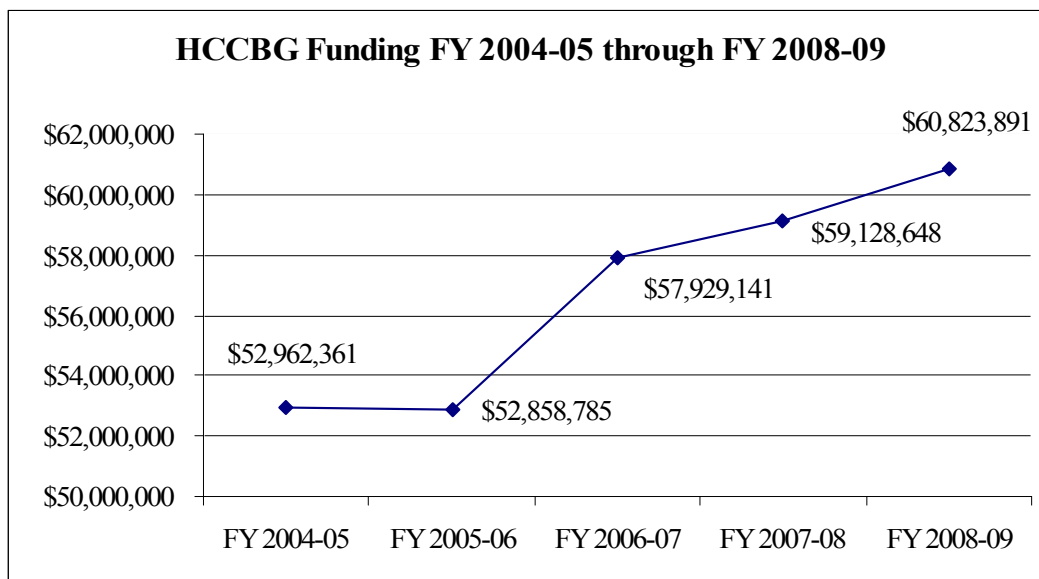
Section 10.16A allocates \$35,000 of funds appropriated to the Division of Health Service Regulation for the Adult-Care Home Quality Improvement Consultation program. The provision also allocates funds for training and technical assistance to implement the star rating certificate program and to fund the development and implementation of training activities by the NC adult-care home provider associations.

Select Programs and Other Budgetary Information

Home and Community Care Block Grant FY 2008-09 Budget: \$60,823,891

G.S. 143B-181.1(a)(11) established a Home and Community Care Block Grant (HCCBG) for Older Adults to be administered by the North Carolina Division of Aging and Adult Services. It includes funding for in-home and community-based services currently available through the Division of Aging and Adult Services, as well as a portion of funding targeted for in-home and community-based services previously administered by the North Carolina Division of Social Services. It is the Division’s largest source of funding for services.

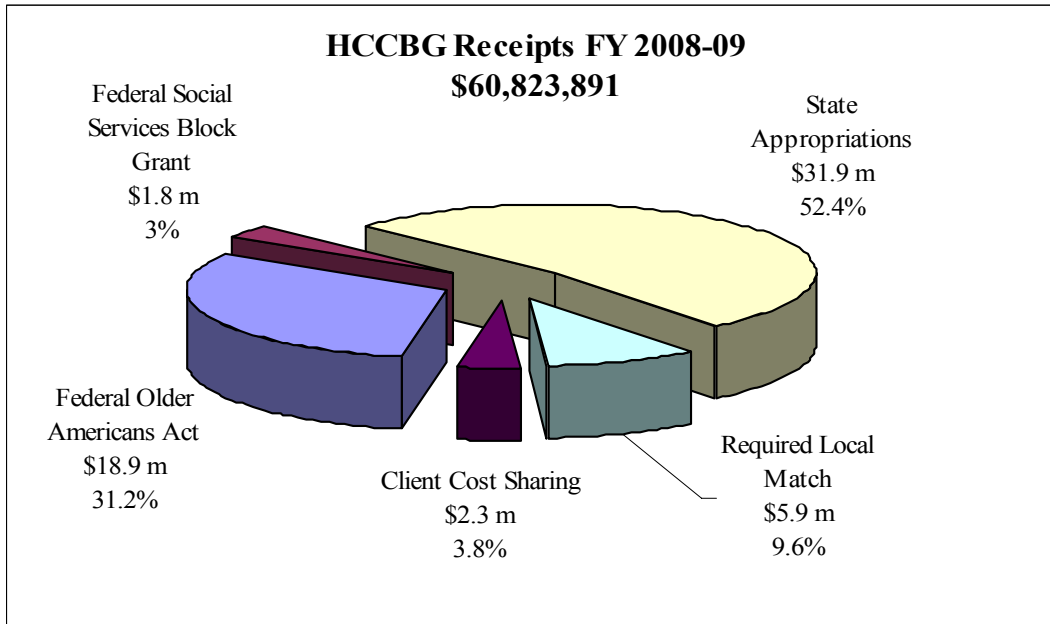
The following graph shows HCCBG funding levels from FY 2004-05 through FY 2008-09.



Source: Division of Aging and Adult Services

Division of Aging and Adult Services

The following chart shows the composition of HCCBG receipts for FY 2008-09.



Source: Division of Aging and Adult Services

Additional Legislation

No relevant information to report.

Divisions of Blind, Deaf and Hard-of-Hearing

G.S. 143B Services for the Blind, Deaf and Hard of Hearing

Agency Description:

The Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing are tasked with serving persons who are blind, visually impaired, deaf, hard-of-hearing, deaf-blind, or speech-impaired; their families; the agencies and organizations that serve them; and the businesses that employ them or serve them as customers. The Division of Services for the Blind provides a comprehensive range of services through seven regional resource centers. The Division of Services for the Deaf and Hard-of-Hearing works with families, local agencies, and employers to support persons who are deaf or hard-of-hearing.

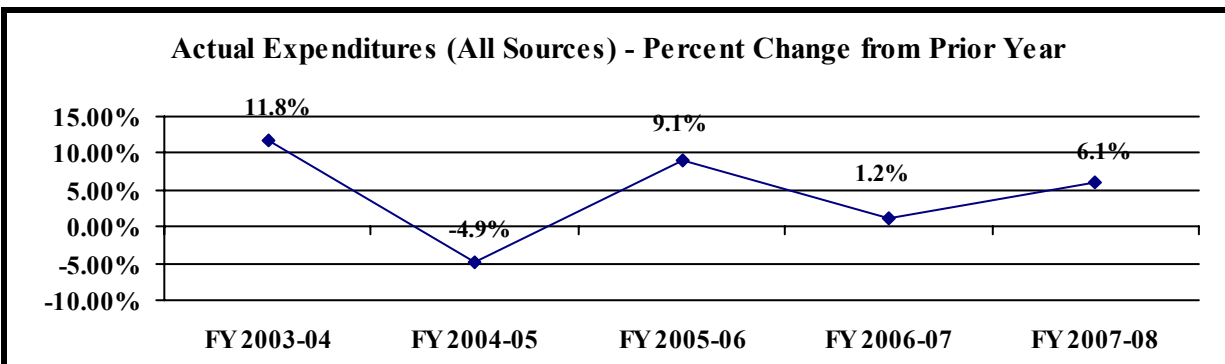
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	28,153,747	28,480,806	30,219,970	30,263,088
Revenue	18,868,434	19,867,967	19,898,625	18,753,445
Net Appropriations	\$9,285,313	\$8,612,839	\$10,321,345	\$11,509,643
Positions (FTE)	312.00	312.00	319.00	319.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing is \$30.3 million in FY 2008-09, or approximately \$50,000 over the actual expenditure level in FY 2007-08. Nearly 75% of the funds are devoted to rehabilitation and independent-living activities. Slightly less than 62% of the Divisions’ expenditures come from receipts, including federal Vocational Rehabilitation funding and the Social Services Block Grant.

During the past five fiscal years the average percent change in the budget for the two Divisions has been 4.7%. The changes over this period resulted from a combination of decreased indirect costs, fewer recipients, and increased salaries and fringe benefit costs.



Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing

Budget Tables

The following table provides a breakdown of the total General Fund operating budget by division for the Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing.

Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing (14450 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Division of Services for the Blind		
Control Fund	116	0
Management and Support	1,525,669	1,425,152
Special Assistance for the Blind	544,685	903,614
Medical Eye Care	0	0
Independent Living	8,364,516	8,108,041
Rehabilitation Program	15,835,964	15,876,943
Business Enterprise	793,548	860,986
Division Subtotal	27,064,498	27,174,736
Division of Services for the Deaf and Hard-of-Hearing		
Administration	498,297	552,577
Regional Resource Centers	2,521,132	2,535,775
Federal Indirect Reserve	84,768	0
Prior Year Earned Revenue	161,509	0
Prior Period Refunds	(110,234)	0
Division Subtotal	3,155,472	3,088,352
TOTAL	\$30,219,970	\$30,263,088
Revenue	(19,898,625)	(18,753,445)
NET GENERAL FUND APPROPRIATIONS	\$10,321,345	\$11,509,643

The following table provides a breakdown of the funds administered by the Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing including the General Fund operating budget.

Total Agency Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DSBDHH (14450 – General Fund)	30,219,970	30,263,088
DSBDHH (24450 – Special Fund)	2,816,294	2,674,914
DSBDHH (54450 – Enterprise Fund)	49,142	66,363
DSBDHH (64450 – Trust Fund)	859	1,025
Hard-of-Hearing-Trust Telecommunication (67425 – Trust Fund)	10,800,701	9,981,780
TOTAL	\$43,886,966	\$42,987,170

Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing

Other Funds

The Division for Services for the Deaf and Hard-of-Hearing is responsible for administering the funds derived from a surcharge placed on all landline and cellular telephones.

Telecommunications Trust Fund (67425)
Balance: \$18,605,074 (as of June 29, 2008)

The Telecommunications Trust Fund was initially established by the General Assembly in 1989 as the Dual Party Relay System Fund in G.S. 62-157. Funds are currently derived from a surcharge on land and wireless telephones. A surcharge of 25 cents per line per month is assessed to every landline and wireless telephone. Funds are used to support a contract for telecommunications relay services and the purchase and distribution of telecommunications equipment. In addition, outreach and technology support are offered.

Telecommunications Trust Fund—FY 2007-08	
Balance June 30, 2007	16,270,484
Revenue	
Telephone Surcharge	5,842,017
Cellular Telephone Surcharge	7,293,274
Expenditures	(10,800,701)
Balance June 30, 2008	\$ 18,605,074

S.L. 2003-341 mandates a reserve balance of at least \$9.5 million.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing

Additional Legislation

No relevant information to report.

Division of Central Management and Support

G.S. 143B-138.1 Department of Health and Human Services

Agency Description:

The Division of Central Management and Support (DCMS) provides agency-wide administrative support to the 30 divisions and offices within the Department of Health and Human Services. Sections include Budget and Analysis, Human Resources, the Internal Auditor, the Controller, Division of Information Resource Management, Property and Construction, Citizen Services, Policy and Planning, Governmental and Community Relations, Office of Medicaid Management Information System Services, and the Secretary’s Office. DCMS also includes the Office of Rural Health and Community Care. This office administers several health care grant programs and activities serving low-income, uninsured persons and Medicaid and Health Choice enrollees.

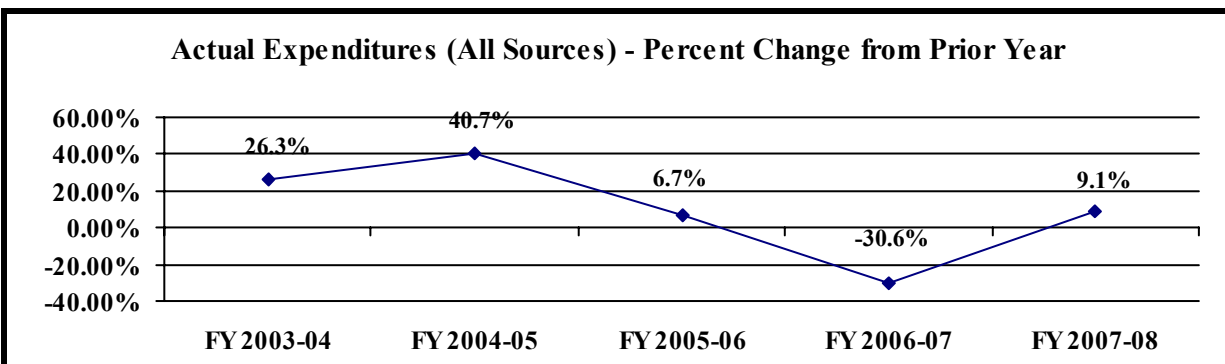
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	287,679,909	199,746,930	217,884,213	148,868,146
Revenue	174,627,077	130,840,346	133,603,431	96,085,934
Net Appropriations	\$113,052,832	\$68,906,584	\$84,280,782	\$52,782,212
Positions (FTE)	835.25	710.25	723.25	718.25

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Central Management and Support is \$148.9 million in FY 2008-09. Federal receipts, including Medicaid and block grant funding, represent 64.5% of the Division’s budget, while net General Fund appropriations represent 35.4.5%. The FY 2008-09 Certified Budget represents a nearly 31.7% decrease from FY 2007-08 actual expenditures, primarily because FY 2007-08 included federal receipts that DHHS received for the Medicaid Management Information System.

The Division’s actual expenditures have changed an annual average of 10.4% between FY 2002-03 and FY 2007-08. The variation from year to year is primarily a result of appropriations to the More at Four Program and the Office of Rural Health, and the transfer of the More at Four Program to the Department of Public Instruction.



Division of Central Management and Support

Budget Tables

The following table provides a breakdown of the Division of Central Management and Support total General Fund operating budget by category.

Division of Central Management (14410 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Administration	17,565,265	11,184,307
Office of the Controller	18,978,537	17,545,637
Division of Human Resources	2,846,303	2,763,173
Division of Information Resource Management	65,166,123	56,996,864
Office of Medicaid Management Information System	5,939,046	799,692
Office of Citizen Services	1,388,556	1,464,197
NC Council on Developmental Disabilities	2,265,736	1,192,605
Office of Economic Opportunity	31,897,967	34,459,213
Office of Research Demonstration and Rural Health	33,050,397	25,180,920
Reserves and Transfers	300,000	(6,750,000)
Indirect Cost Reserve	216,740	116,418
Prior Year Earned Revenue	2,190,922	2,715,120
Prior Year Audits and Adjustments	13,657,999	0
Reserves for Automation	22,420,622	1,200,000
TOTAL	\$217,884,213	\$148,868,146
Revenue	(133,603,431)	(96,085,934)
NET GENERAL FUND APPROPRIATIONS	\$84,280,782	\$52,782,212

Total Agency Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
DCM (14410 — General Fund)	217,884,213	148,868,146
Central Administration Trust (64410 — Special Fund)	-	268,419
Central Administration Trust Interest (64412—Special Fund)	280,715	475,325
TOTAL	\$ 218,164,928	\$ 149,611,890

Division of Central Management and Support

Other Funds

The Office of the Lieutenant Governor is administratively responsible for the Health and Wellness Trust Fund. However, this fund does not appear as part of the operating budget or other funds under the purview of the Lieutenant Governor. The fund, administered by a 28-member Health and Wellness Commission and staff, has historically provided funding for many health and human services related programs and initiatives.

Health and Wellness Trust Fund

Balance: \$77,009,509 (as of June 29, 2008)

The General Assembly established the Health and Wellness Trust Fund (HWTF) in 2000. Funds are derived from payments made by the tobacco industry in accordance with the Master Settlement Agreement. S.L. 2000-147 established the fund in G.S. 147-86.30 and mandated that it develop a comprehensive plan to finance programs and initiatives to improve the health and wellness of North Carolinians. S.L. 2004-179 amended G.S. 147-86.30 to direct that a portion of these funds be used to pay the debt service for State health-related facilities.

Significant Legislative Budget Actions

Community Health Centers

The General Assembly appropriated an additional \$4 million in FY 2008-09 for federally qualified health centers, State-designated rural health centers, free clinics, public health departments, school-based health centers, and other nonprofit organizations. Funds are to provide primary and preventive services to the uninsured or medically indigent patients.

Rural Hospital Operations and Maintenance

The General Assembly appropriated \$2 million for FY 2008-09 for small rural hospitals needing assistance with hospital operations and infrastructure maintenance. The funds may be used for capital and operational needs and pilot demonstration programs to ensure the long-term survivability of rural hospitals.

Health Net

The General Assembly appropriated \$3,750,000 for FY 2008-09 to sustain 18 provider networks and add five or six new networks to coordinate and manage the free health care that will now be provided to 40,000 low-income, uninsured patients with annual incomes below 200% of the federal poverty level. The 18 provider networks were initially funded through a federal grant from the Health Resources and Services Administration. Providing these 40,000 individuals with a "medical home" reduces the burden and financial drain on the health care system and helps assure that the individuals will receive care and treatment before a chronic condition worsens or an illness reaches an acute stage. Up to \$250,000 is to be used for technical assistance to community networks seeking to apply for Health Net grants or Care-Share Health Alliance grants funded through the Duke Endowment.

Division of Central Management and Support

Information Technology (IT) Reductions and Realignment

The FY 2008-09 budget reduced the Automation Reserve Fund by \$3.6 million on a recurring basis to align funding with recent years' expenditure levels. In addition, \$5 million was realigned on a one-time basis from NC FAST to reduce State appropriations. Of this amount, \$645,681 was used for the transition of the NC Health Choice Program from the State Health Plan to DHHS and for the implementation of the new Power MHS claims processing system.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

The Department of Health and Human Services (DHHS) was directed to make the full development of the replacement Medicaid Management Information System (MMIS) a top priority. In addition, the General Assembly directed that the replacement MMIS must have the capability to fully implement the administration of NC Health Choice, NC Kids' Care, Ticket To Work, Families Pay Part of the Cost of Services under the CAP-MR/DD, CAP Children's Program, and all relevant Medicaid waivers and the Medicare 646 waiver, as it applies to Medicaid eligibles.

Further, from the funds appropriated, the General Assembly provided DHHS the resources to contract with an outside consultant to serve as project manager/coordinator to oversee the development and implementation of the MMIS project.
(S.L. 2008-107, Sec. 10.9)

Select Programs and Other Budgetary Information

Community Services Block Grant

FY 2008-09 Budget: \$17,847,392

The General Assembly appropriated \$17,847,392 of federal Community Services Block Grant funds in the FY 2008-09 budget. In North Carolina the CSBG is administered by the Office of Economic Opportunity within DHHS. CSBG is designed to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. CSBG can be used to fund programs and other activities that assist low-income individuals and families to attain self-sufficiency, provide emergency assistance, support positive youth development, promote civic engagement, and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

Division of Central Management and Support

Community Services Block Grant Expenditures

Funded Activities	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	FY 2008-09 Certified
Community Action Agencies	15,071,666	15,071,666	15,071,666	16,062,653
Limited Purpose Agencies	837,315	823,261	823,261	892,370
NC DHHS/OEO	837,315	823,261	823,261	892,369
Total Expenditures	\$16,746,296	\$16,718,188	\$16,718,188	\$17,847,392

More than 90% of the FY 2008-09 funds (\$16.1 million) have been allocated to community action agencies. Limited purpose agencies will receive 5% of the funds, and the Office of Economic Opportunity will use the remaining 5% for administration of the grant.
(S.L. 2008-107, Sec. 10.17)

Additional Legislation

No relevant information to report.

Division of Child Development

G.S. 131D-1 Inspection and Licensing of Facilities
 G.S. 143B-168.3 Child Care Commission
 G.S. 143B-168.12 Early Childhood Initiatives/North Carolina Partnership for Children

Agency Description:

The Division of Child Development is tasked with early childhood services, including increasing access to high-quality child care for low-income families, ensuring the safety of children in child-care arrangements, increasing the availability of high-quality child care in North Carolina, and ensuring that young children enter school ready to learn through Smart Start, an early childhood initiative.

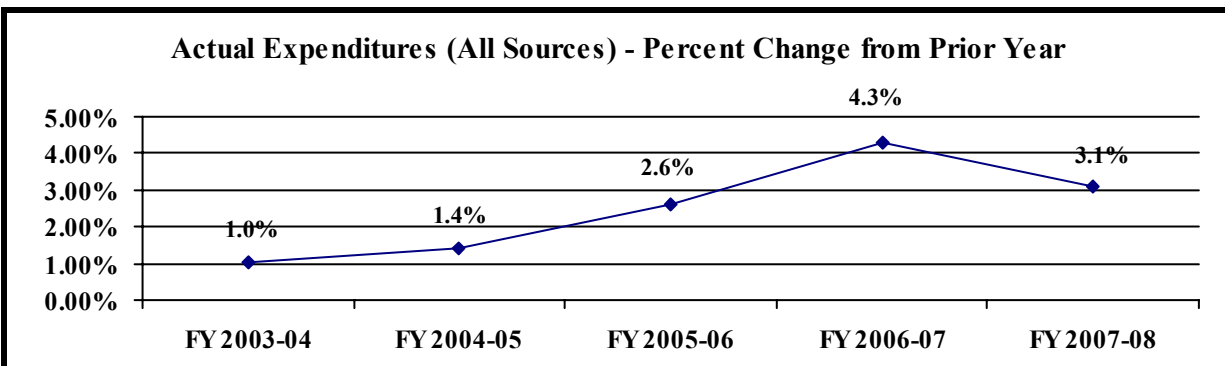
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	578,361,628	603,325,629	622,093,159	638,387,370
Revenue	309,835,169	309,445,779	316,214,552	333,505,585
Net Appropriations	\$268,526,459	\$293,879,850	\$305,878,607	\$304,881,785
Positions (FTE)	279.75	293.75	293.75	297.75

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Child Development is \$638.4 million in FY 2008-09. The FY 2008-09 budget represents a 2.6% increase from the Division’s FY 2007-08 actual expenditures. Net General Fund appropriations account for 48% percent of the Division’s budget, while 52% of the Division’s budget is derived from receipts, mainly federal Child Care Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF) block grants funds.

The Division’s actual expenditures have grown an average of 2.5% between FY 2003-04 and FY 2007-08, a result of increased spending for subsidized child care and changes in Smart Start funding.



Division of Child Development

Budget Tables

The following table provides a breakdown of the Division of Child Development total General Fund operating budget by category.

Division of Child Development (14420 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
General Administration	19,120,610	21,309,013
Early Childhood Initiatives/ NC Partnership for Children	204,963,934	209,697,835
Child Care Subsidy Services	398,008,615	407,380,522
TOTAL	\$622,093,159	\$638,387,370
Revenue	(316,214,552)	(333,505,585)
NET GENERAL FUND APPROPRIATIONS	\$305,878,607	\$304,881,785

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Child-Care Subsidies

The General Assembly appropriated an additional \$9 million from the federal TANF Block Grant for FY 2008-09 to reduce the number of children on the child-care subsidy waiting list. The additional funding includes \$4.9 million to remove an estimated 1,110 children from the waiting list and \$4.1 million to replace nonrecurring funds to maintain services for an estimated 931 children. As of June 2008, 34,172 children are on the waiting list.

Smart Start

The General Assembly appropriated an additional \$500,000 recurring for FY 2008-09 to provide increased funding for local Smart Start initiatives. This funding is in addition to the \$5.5 million recurring appropriated in S.L. 2007-323 to provide additional funding for local Smart Start initiatives for FY 2008-09. Smart Start is a public-private initiative that provides early education funding to all 100 counties in the State.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Division of Child Development

Select Programs and Other Budgetary Information

Subsidized Child Care Program

The Subsidized Child Care Program provides financial support to low-income children and families. Child care subsidies are provided for children through age 12 (up to age 17 for the developmentally disabled). Families whose income is 75% or less of the State median income (adjusted for family size) are eligible to participate in the program. Parents pay a part of child care costs by paying 8%, 9%, or 10% of their income. For FY 2007-08, \$431.5 million in State and federal funds were available for child care subsidies.

The following table contains the latest available data on the number of children served, expenditures, and the number of children on the waiting list for subsidized child care as of June 2008.

June 2008 Children Served, Expenditures, and Average Payments¹

Program	Children Served	Direct Subsidy Expenditures	Average ² Payment	Children on the SCC Waiting List
Non-Work First	87,806	31,946,629	\$364	33,376
Work First	7,022	2,859,915	\$407	796
Smart Start	13,878	3,524,287	\$254	-
More At Four	861	276,000	\$321	-
Total	109,567	\$38,606,831	\$368	34,172

¹ Represents payments made in July 2008 for children served in June 2008

² Includes part-time and part-month care.

Source: Division of Child Development Monthly Statistical Summary, June 2008

Additional Legislation

S.L. 2008-123 (HB 685) Allow Smart Start to Retain Unexpended Funds

S.L. 2008-123 amends S.L 2008-107 to allow funds appropriated for the North Carolina Partnership for Children (NCPC) that are unexpended in FY 2007-08 to remain available to the NCPC to reallocate to local Smart Start partnerships. The bill also amends G.S. 143B-168.15 to allow State funds that are unexpended at the end of a fiscal year to remain available to the NCPC to reallocate to local partnerships.

Office of Education Services

G.S. 115C Education of Children with Disabilities
 G.S.143B Educational Programs in Residential Schools
 G.S.143B-216.41 Pupils Admitted; Education

Agency Description:

The Office of Education Services (OES) is the central office for North Carolina’s early intervention, outreach, resource support, and three schools serving blind and deaf infants, toddlers, and school age children. OES also works to guide all DHHS educational programs by providing information and services for the psychiatric hospital schools, mental health residential schools, and the educational programs in the developmental disabilities centers.

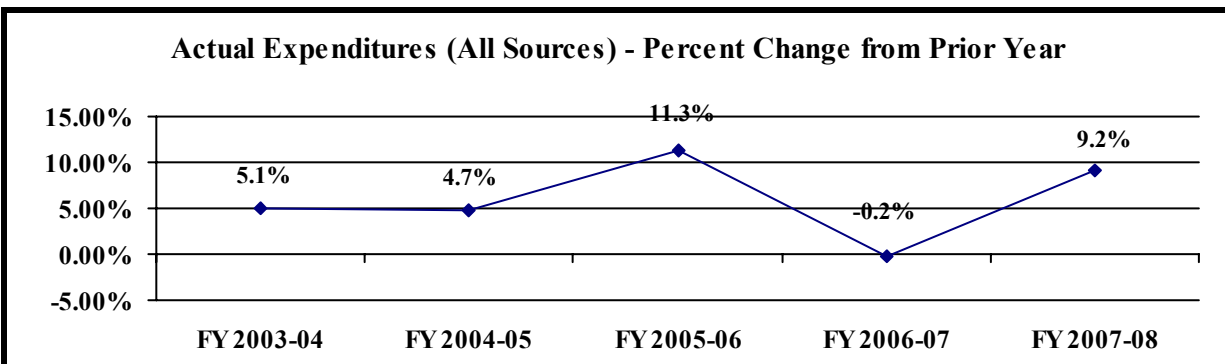
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	37,111,202	37,048,529	40,459,128	41,887,650
Revenue	3,497,929	2,408,918	3,096,284	2,333,253
Net Appropriations	\$33,613,273	\$34,639,611	\$37,362,844	\$39,554,397
Positions (FTE)	629.87	651.87	658.13	658.13

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Office of Education Services is \$41.9 million in FY 2008-09. The FY 2008-09 budget represents a 3.5% increase from the Office’s FY 2007-08 actual expenditures. Receipts from the Department of Public Instruction for transportation costs for the students at the schools for the deaf and the blind represent 5.6% of the total expenditures in FY 2008-09. State appropriations fund 94.4% of the OES budget.

The Office of Education Services’ budget increased an average of 6.0% between FY 2003-04 and FY 2007-08, primarily a result of legislative salary increases for the staff and personnel of the schools for the deaf and blind.



Office of Education Services

Budget Tables

The following table provides a breakdown of the Office of Education Services total General Fund operating budget by category.

Office of Education Services (14424 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Western NC School for the Deaf	10,146,195	9,778,053
Eastern NC School for the Deaf	11,077,430	10,887,367
Governor Morehead School	8,106,883	10,081,729
Governor Morehead Preschool	3,935,280	3,960,824
Early Intervention Services – Preschool	3,949,080	3,734,593
Family Resource Centers	957,176	966,189
Central Administration	2,279,592	2,457,261
TOTAL	\$40,459,128	\$41,887,650
Revenue	(3,096,284)	(2,333,253)
NET GENERAL FUND APPROPRIATIONS	\$37,362,844	\$39,554,397

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Governor Morehead School for the Blind

The General Assembly appropriated \$698,940 in nonrecurring State funds for FY 2008-09 to purchase a new telephone and campus-wide emergency system for the Governor Morehead School for the Blind.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Office of Education Services

Additional Legislation

No relevant information to report.

Health Choice

G.S. 108A-70.20 Establishes a health insurance program for children

Agency Description:

Health Choice is North Carolina’s State Children’s Health Insurance Program (SCHIP). The program provides families access to health insurance for their children, ages 6 through 18. To be eligible, a family must have annual income of between 100% and 200% of the federal poverty level, be ineligible for Medicaid, and have no health insurance. The program is administered by Blue Cross Blue Shield of North Carolina through the State Employees Health Plan.

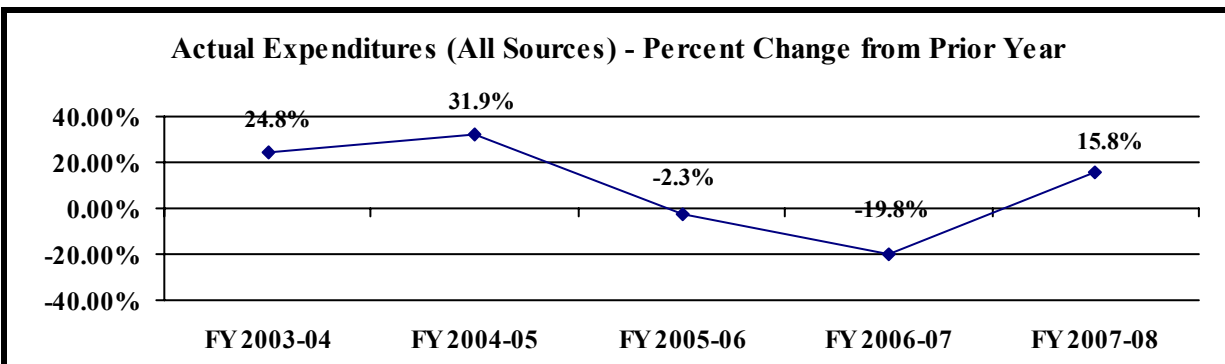
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	260,416,445	208,935,558	241,897,953	270,549,259
Revenue	192,261,038	158,723,227	182,519,040	201,101,240
Net Appropriations	\$68,155,407	\$50,212,331	\$59,378,913	\$69,448,019
Positions (FTE)	1.00	1.00	1.00	1.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 budget is \$270.5 million. This is an increase of 11.8 % over FY 2007-08. Nearly 75% of the amount, \$201.1 million, is federal revenue. The current budget allows the enrollment in Health Choice to increase by 6% during FY 2008-09 to approximately 129,694 children.

Expenditures for the Health Choice Program have increased at an average of 10.1% during the past five years. However, this figure does not present a complete analysis, especially based on the trend line shown in the table below. The percent change from the fiscal year prior to FY 2003-04 was due to a rapidly increasing number of children enrolling in the program. The decline in expenditures in FY 2005-06 and FY 2006-07 is due to the General Assembly’s decision to shift children from birth through age five to the State’s Medicaid program beginning January 1, 2006. Since January 2006, the number of eligible children enrolling in Health Choice has continued to grow.



Health Choice

Budget Tables

The following table provides a breakdown of the Health Choice total General Fund operating budget by category.

Health Choice (14446 – General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
State Administration	67,767	430,726
Medical Payments	241,830,186	270,118,533
TOTAL	\$241,897,953	\$270,549,259
Revenue	(182,519,040)	(201,101,240)
NET GENERAL FUND APPROPRIATIONS	\$59,378,913	\$69,448,019

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Health Choice

The General Assembly appropriated an additional \$9,411,246 in FY 2008-09 to allow enrollment in NC Health Choice to increase by 6% annually. The 6% cap on the growth of enrollment is based on the month of highest program enrollment during the prior fiscal year. The General Assembly expressed its concern that DHHS had allowed the 6% cap in enrollment to be exceeded during FY 2007-08 and directed DHHS to inform the required committees if it anticipated that enrollment would exceed the cap. In addition, DHHS is to take the necessary steps to freeze new enrollment in the program if the 6% cap is in jeopardy of being exceeded.

(S.L. 2008-107, Sec. 10.14)

Health Choice Administration

The Health Choice program has been managed by the State Health Plan (SHP) and benefit claims have been paid by Blue Cross Blue Shield of North Carolina (BCBSNC). In 2007, a DHHS/SHP task force began meeting to plan for the transition of the program from the SHP to the Division of Medical Assistance (DMA). The task force submitted its report to the General Assembly in April 2008, recommending that administration of the NC Health Choice be the responsibility of DMA.

This transition will allow DMA to better coordinate the administration of NC Health Choice with other DMA programs for low-income children. Administration and management of Health Choice is to be the total responsibility of DHHS no later than June 30, 2010. BCBSNC must also move the administration of the Health Choice benefit from its legacy

Health Choice

claims processing system to a new PowerMHS system. The General Assembly appropriated \$1,495,618 for the implementation of the new PowerMHS claims administration system. The state funds will be matched by Federal funds at a 3:1 ratio, for a total of \$5,982,472. (S.L. 2008-107, Sec. 10.13)

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 10.12 Expand Health Choice/NC Kids' Care

Section 10.12 directs DHHS to expand NC Health Choice to implement NC Kids' Care, which will provide health insurance coverage to children in families with incomes above 250% of the federal poverty level. DHHS is to submit any necessary State Child Health Insurance Plan amendments to the federal government to implement this program.

NC Kids' Care does not become effective until July 1, 2009, or upon reauthorization of the SCHIP program by Congress. Furthermore, DHHS is not to apply for a SCHIP amendment until Congress has acted to ensure sufficient funding to support the current NC Health Choice Program.

(S.L. 2008-107, Sec. 10.12)

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Division of Health Service Regulation

G.S. 131D Inspection and Licensing of Facilities
 G.S. 131E Health Care Facilities and Services

Agency Description:

The Division of Health Service Regulation (DHSR), formerly known as the Division of Facility Services (DFS), establishes and enforces the regulation of health- and social-care facilities serving North Carolina citizens. The Division has several major functions: medical facilities planning, licensure and regulation of the construction and operation of health and social care facilities, operation of the health care personnel registry, and development of a statewide emergency medical services (EMS) system.

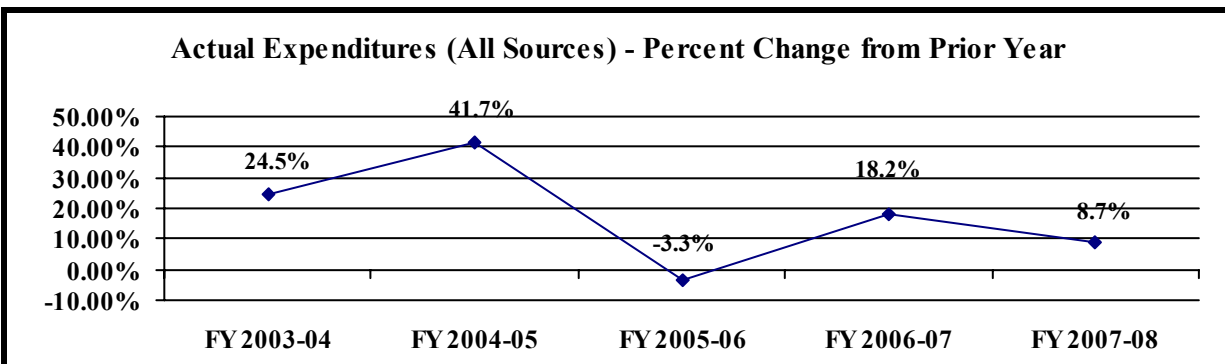
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	44,735,163	52,894,476	57,493,541	54,868,813
Revenue	33,426,454	37,242,903	38,797,425	33,390,557
Net Appropriations	\$11,308,709	\$15,651,573	\$18,696,116	\$21,478,256
Positions (FTE)	449.00	471.00	505.00	505.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Health Service Regulation is \$54.9 million in FY 2008-09. The FY 2008-09 budget is a decrease of 4.6% from FY 2007-08 actual expenditures, primarily due to the decision to return fee revenues to the General Fund in exchange for a guaranteed State appropriation.

General Fund appropriations represent 39% of the FY 2008-09 budget. The primary sources of receipts include licensure fees, federal bioterrorism grants, and federal Medicare and Medicaid funds. The average annual percent change in expenditures between FY 2003-04 and FY 2007-08 was 18%. This change is primarily due to increased federal bioterrorism grants and increased licensure and inspection fees and requirements.



Division of Health Service Regulation

Budget Tables

The following table provides a breakdown of the Division of Health Service Regulation’s total General Fund operating budget.

Division of Health Service Regulation (14470 – General Fund)

	Actual FY 2007-08	Certified FY 2008-09
Management and Support	3,043,887	1,688,689
Facility and Health Services	34,591,787	33,111,036
Emergency Medical Services	16,674,870	17,492,475
Plan and Develop Health Care	2,599,711	2,576,613
Indirect Reserves	537,264	0
Prior Year Earned and Uneamed Revenue	46,022	0
TOTAL	\$57,493,541	\$54,868,813
Revenue	(38,797,426)	(33,390,557)
NET GENERAL FUND APPROPRIATIONS	\$18,696,116	\$21,478,256

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Construction Review

A total of \$822,028 was appropriated for 8 positions in the Construction Review Section to provide more timely review of construction plans for health care and local confinement facilities. The cost of these positions is offset by increased construction review fees that will be deposited into the General Fund as non-tax revenue.

(S.L. 2008-107, Sec. 29.5(a))

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 10.16A Adult Care Home Training/Technical Assistance

Section 10.16A rewrites Section 10.54(b) of S.L. 2007-323 to allocate \$35,000 of the funds appropriated to DHHSR for the Adult Care Home Quality Improvement Consultation program. Remaining funds are allocated for training and technical assistance to implement the star rating certificate program and to fund the development and implementation of training activities by the North Carolina adult care home provider associations.

Division of Health Service Regulation

Section 29.5 Health Care Construction Project Fee Increases

Section 29.5 amends G.S. 131E-267 to increase the fee for the review of health care facility construction projects for hospitals, nursing homes, ambulatory, surgical facilities, psychiatric hospitals, adult care homes, family care homes, ICF/MR group homes, group homes, and other residential projects. Additional revenue from the fee increase will pay for the staff expansion in the Construction Program. Fees vary by type of project.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Division of Medical Assistance

G.S. 108A-54 Authorization of Medical Assistance Program
 G.S. 108A-70.10 Medical Assistance Provider False Claims Act

Agency Description:

The Division of Medical Assistance (DMA) manages the operation of the Medicaid Program and the NC Health Choice Program. The Division operates both programs through internal staff and external contracts, including claims processing, medical policy, rate-setting, auditing, quality assurance, recipient and provider services, utilization management, and program integrity. DMA partners with county departments of social services for eligibility determination.

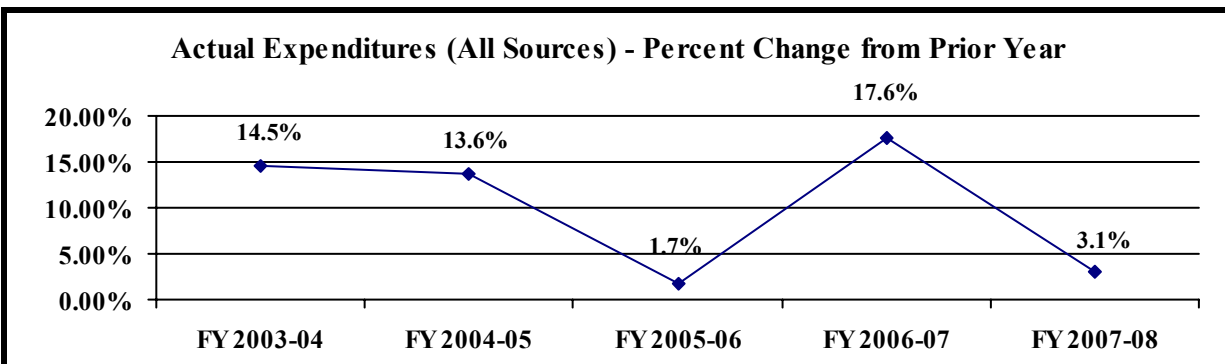
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	9,567,707,678	11,252,170,760	11,596,523,640	11,740,011,999
Revenue	8,761,856,392	8,602,692,355	8,681,390,165	8,560,840,536
Net Appropriations	\$805,851,286	\$2,649,478,405	\$2,915,133,475	\$3,179,171,463
Positions (FTE)	375.25	377.25	392.25	392.25

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The current operating budget for the Division of Medical Assistance is \$11.7 billion in FY 2008-09. General Fund appropriations account for approximately 27.1% of the budget in FY 2008-09. The FY 2008-09 budget represents a 1.2% increase over the Division’s FY 2007-08 actual expenditures. The budget varies based on overall Medicaid caseload and overall health care costs. Federal funds generally account for 90% of all family planning services costs, 75% of NC Health Choice service costs, 64% of other Medicaid service costs, and 50% of most administrative costs. The State is required to make up the difference through State matching funds. Roughly 74% of the expenditures in DMA’s budget are offset by federal receipts for Medicaid.

The average annual increase between FY 2003-04 and FY 2007-08 is 10.1%, primarily due to increases in caseload and overall health care costs. The jump in total expenditures between FY 2005-06 and FY 2006-07 was largely due to federal changes enacted in FY 2006-07 regarding how the Division accounts for Disproportionate Share Hospital (DSH) expenditures.



Division of Medical Assistance

Budget Tables

The following table provides a breakdown of the Division of Medical Assistance total General Fund operating budget by program.

Division of Medical Assistance (14445 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	35,697,065	36,524,145
Contracts and Agreements	116,380,963	90,587,971
Medical Assistance – Total	10,710,457,685	10,903,893,677
County Administration	1,161,095	1,014,000
Payments	9,540,256,465	9,946,173,728
Cost Settlement Payments	1,507,968,898	1,239,962,136
Adjustments and Refunds	(338,928,773)	(283,256,187)
Disproportionate Share Hospital (DSH) Payments and Enhanced Payments	576,516,918	594,806,206
Medical Assistance Undisposed	9,151,279	0
Reserves and Transfers	101,174,481	100,000,000
Prior-Year Earned Revenue	38,756,834	14,200,000
Prior-Year Adjustments	8,388,414	0
TOTAL	\$11,596,523,640	\$11,740,011,999
Revenue	(8,681,390,165)	(8,560,840,536)
NET GENERAL FUND APPROPRIATIONS	\$2,915,133,475	\$3,179,171,463

The following table provides a breakdown of the funds administered by the Division of Medical Assistance, including the General Fund operating budget.

Total Agency Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DMA (14445 – General Fund)	11,596,523,640	11,740,011,999
DMA (24445 – Special Fund)	255,830,863	291,872,767
TOTAL	\$11,852,354,504	\$12,031,884,766

Division of Medical Assistance

Other Funds

The Division of Medical Assistance is administratively responsible for the Medicaid Special Fund. However, this fund does not appear as part of the operating budget for the Division of Medical Assistance.

Medical Assistance – Special Fund (24445)

Balance: \$38,164,167 (as of June 29, 2008)

The Medical Assistance Special Fund, established to receive payments authorized in G.S. 108A-55, has three purposes:

- Disproportionate Share Hospital (DSH) Gain receipt fund: collects deposits on any gains realized from the DSH and Enhanced Payment Programs;
- Disproportionate Share Hospital (DSH) Settlement account: records settlement payments for the DSH Program or other authorized actions by the North Carolina General Assembly; and
- Undispositioned Refunds account: temporarily houses undispositioned refunds in which a category of service or fiscal year cannot be determined at the time of deposit. When these elements are determined, the money is then transferred to budget code 14445, the Medical Assistance General Fund.

Significant Legislative Budget Actions

Provider Inflationary Increases

The Division was directed to reduce the amount that providers receive in inflationary increases by \$35.3 million in State funds in FY 2008-09. Exempt from the reduction are federally qualified health clinics, rural health centers, school-based and school-linked health centers, State institutions, pharmacies, outpatient hospitals, and the non-inflationary components of the case-mix reimbursement system for nursing facilities.

CAP-MR/DD Slots

The General Assembly appropriated \$6.7 million for up to 1,738 new Community Alternatives Program for People with Mental Retardation/Developmental Disability (CAP-MR/DD) slots beginning November 1, 2008. The full year cost of the CAP-MR/DD slots is \$10 million.

Community Supports Program

The General Assembly reduced the budget for Community Support Services program by a net \$86.4 million in State appropriations.

(S.L. 2008-107, Sec. 10.15A)

Medicaid Rebasing

The General Assembly reduced State funding for Medicaid by \$65.5 million primarily due to an increase in federal funding caused by a change in the Medicaid matching rate.

Division of Medical Assistance

Management of Chronic Care

The General Assembly reduced the General Fund appropriation for Medicaid by \$28.9 million in State funds due to the expansion of chronic care management for the aged, blind, and disabled provided by the 14 regional networks of Community Care for North Carolina.

Additional Drugs placed on State Maximum Allowable Cost List

The General Assembly reduced the General Fund appropriation for Medicaid by a net \$5.0 million in State funds due to anticipated savings in the Division of Medical Assistance by adding generically-available specialty drugs to the State Maximum Allowable Cost list and pricing single-source specialty drugs using enhanced specialty discounts.

(S.L. 2008-107, Sec. 10.10.(e))

Delayed Start to NC Kids' Care

The General Assembly reduced the General Fund appropriation for NC Kids' Care by \$7 million due to the delayed start of the NC Kids' Care health insurance program to July 1, 2009.

(S.L. 2008-107, Sec. 10.12)

Dental Rates

The General Assembly appropriated \$5 million in State funds to increase rates for Medicaid dental providers.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 10.10 Medicaid Policy Change

Section 10.10 amends Section 10.36 of S.L. 2007-323, which established Medicaid eligibility requirements, the services provided to recipients, and the allowable payment levels for Medicaid providers. The following changes were made to the Medicaid provision:

- Requires the Division to inform the Office of State Budget and Management before making a medical policy change that will exceed \$3 million in total requirements and that is required for federal compliance. Previously, changes made to comply with federal law did not have to be submitted to the Office of State Budget and Management.
- Eliminates the requirement that all personal care services must receive prior authorization.
- Eliminates the requirement that all Medicaid-enrolled providers must obtain performance bonds. The Division may require an enrolled provider to purchase a performance bond based upon criteria specified in the Session Law.

Section 10.15A Improve and Strengthen Fiscal Oversight of Community Support Services

Section 10.15A makes numerous policy changes to the Medicaid-funded community support services, effective July 1, 2008, as follows:

Division of Medical Assistance

- Directs DHHS to revise the community support service definitions and submit the new definitions for federal approval. The revised definitions are to focus on rehabilitative services and minimizing over-expenditures.
- Directs DHHS to replace the current “blended rate” for community support services with a tiered rate structure that reimburses providers based on their levels of skill, education, or professional knowledge. Once the tiers are implemented, within sixty days at least 35% of community support services must be delivered by qualified professionals, and within six months at least 50% must be provided by qualified professionals.
- Allows the Secretary of DHHS to designate mental health, developmental disability, and substance abuse services that require national accreditation, and requires the Secretary to provide timeframes within which providers of those services must achieve the national accreditation.
- Directs DHHS to implement a community-support-provider appeals process for certain providers on a temporary basis (to expire July 1, 2010). The appeal process is to be conducted by a hearings officer within DHHS, and providers may appeal the final decision to Wake County Superior Court. Finally, DHHS may suspend a Medicaid provider’s endorsement pending a final agency decision.
- Directs DHHS to adopt guidelines for local management entities to ensure that only qualified service providers are endorsed and that all providers are held accountable.
- Requires prior authorization for all community support services and limits community support services to eight hours per consumer per week.
- Directs DHHS to work with the Office of Administrative Hearings to streamline the process for hearing Medicaid recipient appeals. This provision was amended by the 2008 Budget Technical Corrections Act, which is discussed under “Additional Legislation.”

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

S.L. 2008-118, Sec. 3.13, 2008 Budget Technical Corrections Act

Section 3.13 amends S.L. 2008-107, Sec. 10.15A.(h1) and adds sections 10.15A(h2) - (h6) as follows:

- Subsection (a) amends S.L. 2008-107, Sec. 10.15A.(h1) to establish a temporary appeals process for Medicaid applicants and recipients who have been denied, terminated, suspended or reduced benefits. Further, requires DHHS to notify the recipient at least 30 days before the adverse determination is effective and to let the recipient know of his/her

Division of Medical Assistance

right to appeal. Allows applicants and recipients 30 days to appeal, and directs that an appeal is a contested case under Chapter 150B of the General Statutes, to be heard by an administrative law judge.

- Subsection (b) amends S.L. 2008-107, Sec. 10.15A to add subsections (h2) - (h6):
 - Subsection (h2) directs that prior to a hearing before the administrative law judge, mediation is to be offered to the applicant or recipient. If mediation is successful, the mediator is to tell this to the administrative law judge. If mediation is unsuccessful, the administrative law judge is to hear the case and make a determination. The burden of proof in the hearing is on the Department if the adverse determination being appealed is imposing a penalty or is reducing, terminating, or suspending a benefit previously granted.
 - Subsection (h3) directs DHHS to transfer \$2 million of the funds appropriated to it to the Office of Administrative Hearings (OAH) and directs OAH to allocate the funds for mediation services for Medicaid applicant and recipient appeals and for other services necessary to conduct the appeals process.
 - Subsection (h4) directs DHHS to discontinue by October 1, 2008, its internal appeals process for Medicaid applicant or recipients and directs the Department to offer any outstanding appeals the opportunity to appeal to OAH.
 - Subsection (h5) clarifies that S.L. 2008-107 does not prevent DHHS from reviewing any case with a Medicaid applicant or recipient on an informal basis before issuing a notice of adverse determination.
 - Subsection (h6) provides that this appeals process expires July 1, 2010. Further, specifies a reporting requirement for DHHS and OAH regarding the costs, effectiveness and efficiency of the appeals process to make recommendations regarding whether this temporary process should be continued.

Division of Mental Health, Developmental Disabilities and Substance Abuse

G.S. 122C Mental Health, Developmental Disabilities, and Substance Abuse Act of 1985

Agency Description:

The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (DMHDDSAS) provides prevention, intervention, treatment, and services to people who have or are at risk of having mental illness, developmental disabilities, and substance-abuse problems.

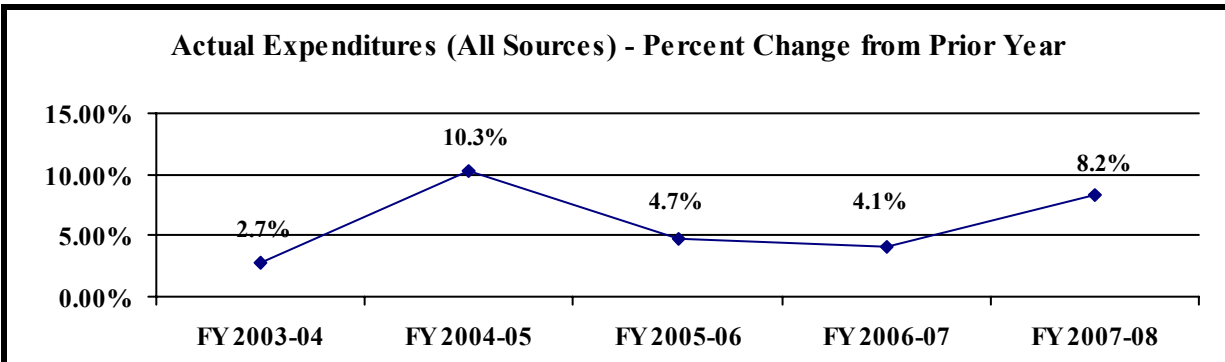
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	1,311,200,118	1,364,580,070	1,476,987,761	1,262,464,793
Revenue	699,556,370	692,871,015	760,524,864	519,477,237
Net Appropriations	\$611,643,748	\$671,709,055	\$716,462,897	\$742,987,556
Positions (FTE)	11,591.11	11,653.12	11,756.12	12,019.08

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services totals \$1.3 billion for FY 2008-09. The budget represents a 14.5% decrease from FY 2007-08 actual expenditures. However, the FY 2008-09 budget does not include a number of sources of receipts and expenditures that will be reflected in actual expenditures. For example, actual expenditures for FY 2007-08 include the following items that were not included in the FY 2008-09 budget: \$142.4 million in Disproportionate Share Hospital (DSH) funds earned by State institutions and \$15.5 million in prior-year earned revenue.

Net General Fund appropriations in the FY 2008-09 budget have increased 3.7% over FY 2007-08 actual appropriations and make up 58.9% of the budget. Sources of receipts for DMHDDSAS include Medicaid and federal block grants. The average annual percent change in expenditures is 6% from FY 2003-04 to FY 2007-08.



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

Budget Tables

The following table provides a breakdown of the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (DMHDDSAS) total General Fund operating budget by category.

Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (14460 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Community Services		
Mental Health Services	68,715,826	122,625,179
Developmental Disabilities Services	104,028,549	153,671,748
Substance Abuse Services	64,872,272	88,425,199
Nondisability Specific Services & Local Admin.*	309,204,503	185,688,501
State-Operated Services		
Psychiatric Hospitals**	476,714,287	299,741,159
Developmental Centers (ADATC)*	238,757,066	221,084,039
Neuro-Medical Centers	23,193,645	27,535,260
Residential Programs for Children	107,659,069	99,719,265
	2,502,343	5,812,986
State Administration	36,621,037	32,791,055
Regional Maintenance Programs	19,535,727	14,039,427
Reserves, Transfers, Carryforwards & Adjustments	25,183,437	11,330,975
TOTAL	\$1,476,987,761	\$1,262,464,793
Revenue	(760,524,864)	(519,477,237)
NET GENERAL FUND APPROPRIATIONS	\$716,462,897	\$742,987,556

*Note: The FY 2008-09 Certified Budget for “nondisability specific services” is significantly lower than FY 2007-08 actual expenditures. Correspondingly, the FY 2008-09 Certified Budgets for Mental Health (MH) Services, Developmental Disability (DD) Services, and Substance Abuse (SA) Services are notably higher than FY 2007-08 actual expenditures.

Many Local Managing Entities (LMEs) have converted to single-stream funding, whereby they receive State funds in one funding stream rather than in separate streams for MH, DD, and SA. However, the certified budget did not take this into account. As a result, these funds were certified in the individual MH, DD, and SA budget lines but will be spent during FY 2008-09 from the nondisability specific category. A budget revision will be needed during FY 2008-09 to address this issue.

**Note: Funding for the R.J. Blackley Alcohol and Drug Abuse Treatment Center (ADATC) is located in the budget for the psychiatric hospitals and is therefore not included in the total funding for ADATCs.

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

The following table provides a breakdown of the funds* administered by DMHDDSAS including the General Fund operating budget.

Total Agency Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DMHDDSAS (14460 – General Fund)	1,476,987,761	1,262,464,793
Julian Keith ADATC (24401 – Special Fund)	32,237	32,318
WB Jones ADATC (24403 – Special Fund)	46,621	33,234
NC SPC. Care Center (24404 – Special Fund)	39,093	32,899
Black Mt. Center (24406 – Special Fund)	29,400	19,375
Mental Health/DD/SAS (24460 – Special Fund)	506,895	178,535
Dorothea Dix (24462 – Special Fund)	284,766	258,163
Broughton Hospital (24463 – Special Fund)	153,081	163,178
Cherry Hospital (24464 – Special Fund)	160,318	158,030
Umstead Hospital (24465 – Special Fund)	195,078	172,878
Riddle Center (24466 – Special Fund)	492,324	656,885
O'Berry Center (24467 – Special Fund)	429,269	402,479
Murdoch Center (24468 – Special Fund)	123,473	127,643
Caswell Center (24469 – Special Fund)	625,725	633,496
Town of Butner (54465 – Special Fund)	3,731,193	1,984,618
Longleaf Neuro-Medical (64404 – Special Fund)	5,441	1,995
Black Mt. Center (64406 – Special Fund)	104	123
Dorothea Dix-Trust (64462 – Special Fund)	50	10
Broughton Hospital (64463 – Special Fund)	51,993	53,050
Cherry Hospital (64464 – Special Fund)	22,129	18,837
J. Iverson Riddle Dev. Ctr. (64466 – Special Fund)	131,991	100,311
O'Berry Center (64467 – Special Fund)	194,151	82,450
Murdoch Center (64468 – Special Fund)	56,857	57,088
Caswell Center (64469 – Special Fund)	1,788	1,870
Black Mt. Center (67406 – Special Fund)	13,224	6,275
Dorothea Dix (67462 – Special Fund)	14,181	8,039
Broughton Hospital (67463 – Special Fund)	84,930	55,757
Cherry Hospital (67464 – Special Fund)	213,260	151,200
Riddle Center (67466 – Special Fund)	70,685	100,198
O'Berry Center (67467 – Special Fund)	35,212	32,943
Murdoch Center (67468 – Special Fund)	148,102	168,661
Caswell Center (67469 – Special Fund)	321,329	337,696
Butner Area Central Services (74465 – Special Fund)	608,469	749,978
TOTAL	\$1,485,811,130	\$1,269,245,005

*Total Appropriations by Fund as presented reflect only those budgets as certified by the Office of State Budget and Management.

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

Other Funds

The Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services is administratively located in the Office of State Budget and Management. However, a plan for the expenditure of these funds is developed by DMHDDSAS, and funds are transferred to DMHDDSAS for disbursement to local agencies as necessary.

Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs (63007) Balance: \$4,688,087 (as of June 29, 2008)

The Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs (Trust Fund) was established in 2001 by the General Assembly. Funds are derived from direct appropriations by the General Assembly, as well as savings from downsizing of State institutions.

The Trust Fund shall be used only to

- Provide start-up funds and operating support for programs and services that provide more appropriate and cost-effective community treatment alternatives for individuals currently residing in the State's MH/DD/SA services institutions;
- Facilitate reform of the MH/DD/SA services system and expand and enhance treatment and prevention services in these program areas to remove waiting lists and provide appropriate and safe services for clients; and
- Provide bridge funding to maintain appropriate client services during transitional periods as a result of facility closings.

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

Significant Legislative Budget Actions

Local Crisis Response System

The General Assembly appropriated \$22.9 million to improve the local crisis response system, including:

- \$5.8 million for mobile crisis-intervention teams, of which \$4.7 million is recurring funding and \$1.1 million is nonrecurring funding;
- \$8.1 million recurring for local psychiatric inpatient bed capacity;
- \$1.9 million for Systemic Therapeutic Assessment, Respite, and Treatment (START) crisis teams for the developmentally disabled, of which \$1,737,250 is recurring funding and \$138,993 is nonrecurring funding; and
- \$6.1 million for walk-in crisis and immediate psychiatric aftercare, of which \$4,463,947 is recurring funding and \$1,650,000 is nonrecurring funding.

The General Assembly provided specific direction that the funds appropriated for local psychiatric inpatient-bed capacity cannot be used to supplant other funds for the purchase of psychiatric inpatient services under contract with community hospitals, including beds or bed days being purchased through Hospital Pilot funds appropriated in S.L. 2007-323.

(S.L. 2008-107, Sec. 10.15(k-n))

State-Operated Mental Health and Substance Abuse Treatment Facilities

The General Assembly appropriated \$10.9 million for staffing, clinical, and operational improvements at State mental health and substance abuse treatment facilities, of which all but \$51,951 is recurring funding. The funds include \$9.1 million to support 126 new staff positions at the State's mental health, developmental disability, and substance abuse facilities; \$1.3 million to support recruitment and workforce development initiatives at the State's facilities; and \$472,785 for four positions to create a pharmacy program at the Julian F. Keith Alcohol and Drug Abuse Treatment Center.

The General Assembly also appropriated \$5.2 million non-recurring for the Dorothea Dix Hospital Overflow Unit, a 60-bed psychiatric unit of the new Central Regional Hospital to remain open on Dorothea Dix Campus.

(S.L. 2008-107, Sec. 10.15(h-i))

Housing for People with Disabilities

The General Assembly appropriated \$7 million non-recurring to the North Carolina Housing Trust Fund of the North Carolina Housing Finance Agency to finance additional apartments for disabled individuals and directed that the apartments be affordable to persons with incomes at the SSI level. In addition, the General Assembly appropriated \$1 million in recurring funds for operating subsidies for independent- and supportive-living apartments for disabled individuals.

(S.L. 2008-107, Sec. 10.15(o))

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

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 10.15 Mental Health Changes

Section 10.15 provides specific direction on key areas of the management and provision of MH/DD/SA services. Following is a summary of significant subsections of Section 10.15.

Section 10.15.(g) prohibits DHHS from transferring any patients to the new Central Regional Hospital (CRH) until the Secretary provides the Governor with a written report stating that CRH will provide a safe and secure environment for patients and staff. It allows DHHS to transfer patients from Dorothea Dix Hospital to CRH after patients have been transferred from John Umstead Hospital only if

- 1) the Secretary has determined that an inspection of CRH indicates no findings of noncompliance with conditions of participation from the Centers for Medicare and Medicaid Services (CMS), and
- 2) the Secretary finds that CRH is in compliance with Joint Commission on the Accreditation of Healthcare Organizations standards for accreditation.

Sections 10.15.(h-i) allow DHHS to open and operate up to 60 beds at the Central Regional Hospital Wake Unit on the Dorothea Dix Campus on a temporary basis; direct that one-time funds appropriated for the Dorothea Dix Hospital overflow unit be used to support the temporary opening and operation of the Central Regional Hospital Wake Unit; and direct that positions established to support the Central Regional Hospital Wake Unit be established as time-limited positions.

Section 10.15.(t) directs DHHS to assist LMEs in successfully transitioning individuals from developmental disability centers into the community.

Section 10.15.(v) directs DHHS to include veterans and their families as target populations within the MH/DD/SAS system.

Section 10.15.(w) directs DHHS to develop a service authorization process that requires a comprehensive clinical assessment to be completed by a licensed clinician before non-crisis services are delivered.

Section 10.15.(x) directs DHHS to develop a plan to return service authorization, utilization review, and utilization management functions to LMEs and to report on the plan's development by February 1, 2009. The provision requires that by July 1, 2009, these functions shall be returned to as many LMEs necessary to represent 30% of the State's population. This section also requires that LMEs who will provide these functions must be nationally accredited or have met certain application requirements and meet all requirements of the existing vendor contract.

Sections 10.15.(aa-bb) prevent DHHS from taking action prior to January 1, 2010, that would result in a merger or consolidation of LMEs, including establishing consortia or regional arrangements. Exempt from these sections are LMEs that did not meet catchment-area population requirements as of January 1, 2008 (Foothills and Johnston LMEs), and a

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

proposed administration service agreement under development as of March 1, 2008 (Guilford, Smoky Mountain, and Mecklenburg LMEs).

Sections 10.15.(cc-ee) amend G.S. 122C-115.4(b) relating to the Secretary’s authority to remove the primary functions of an LME and to delegate these functions to another LME. Under the amended Statutes, primary functions cannot be removed from an LME unless

- 1) The LME has failed to achieve a satisfactory outcome on any critical performance measures for three consecutive months, and
- 2) The Department has provided the LME with technical assistance for at least three months. Previously, the Department was required to provide a minimum of six months of technical assistance.

Section 10.15A Improve And Strengthen Fiscal Oversight Of Community Support Services

Section 10.15A makes numerous policy changes to Medicaid-funded community-support services. The provision directs DHHS to alter the community-support-service definitions and to implement a temporary appeals process, allows DHHS to designate services that require national accreditation, and directs other changes to the service. More information about Section 10.15A is found in the Division of Medical Assistance section of this document.

Select Programs and Other Budgetary Information

Mental Health Block Grant (S.L. 2008-107, Sec. 10.17) FY 2008-09 Budget: \$12,676,923

The Mental Health Block Grant, administered by DMHDDSAS, provides federal assistance to states for the provision of community-based services for people with mental illness. The table below compares funding from FY 2006-07 through FY 2008-09.

Mental Health Block Grant Funding History

Funded Activities	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Community-based Services for Adults	7,996,966	5,654,932	6,854,932
Community-based Services for Children	1,524,084	3,921,991	3,921,991
Comprehensive Treatment Service Program	1,500,000	1,500,000	1,500,000
UNC School of Medicine, Psychiatry Dept.	0	0	300,000
DMHDDSAS Administration	47,328	100,000	100,000
Total	\$11,068,378	\$11,176,923	\$12,676,923

Substance Abuse Prevention and Treatment Block Grant (S.L. 2008-107, Sec. 10.17) FY 2008-09 Budget: \$48,702,624

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

The Substance Abuse Prevention and Treatment Block Grant provides federal assistance to states for the provision of prevention and treatment services. States are required to use 20% of their allotment for prevention, to maintain financial commitment to services for pregnant addicts and women with children, and to give preferential treatment to pregnant addicts.

Of the funds available, \$500,000 will be spent on State administration of the grant, \$47.3 million on substance abuse services through DMHDDSAS, and \$881,335 by the Division of Public Health (DPH) on risk reduction projects, aid to counties, and maternal health projects. The chart below compares funding for this block grant from FY 2006-07 through FY 2008-09.

Substance Abuse Prevention and Treatment Block Grant Funding History

Funded Activities	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Division of MHDDSAS			
Alcohol and Drug Abuse Services in State Facilities and in Communities	10,351,678	20,287,390	21,938,080
Services for Pregnant Women and Women with Dependent Children	7,687,437	8,069,524	8,069,524
Services to Intravenous Drug Abusers and Others at Risk of HIV/AIDS	3,591,293	4,816,378	5,116,378
Child Substance Abuse Prevention	6,408,824	5,835,701	7,186,857
Services To Children and Adolescents	8,582,253	4,940,500	4,940,500
Juvenile Services - Family Focus	413,683	851,156	0
DMHDDSAS Administration	357,120	500,000	500,000
Division of Public Health			
HIV/STD Risk Reduction Projects	353,865	633,980	633,980
HIV/STD Prevention by Local Health Depts.	201,735	209,576	209,576
Maternal and Child Health Hotline	37,509	37,779	37,779
Total	\$37,985,397	\$46,181,984	\$48,632,674

Additional Legislation

S.L. 2008-131 (SB 1770) Expand Medical Examiner Jurisdiction/Study

This act directs the Secretary of DHHS to report all deaths occurring in State facilities listed in G.S. 122C-181 to the local medical examiner and expands the medical examiners' jurisdiction to include these facilities.

The act also directs the Commission for Mental Health, Developmental Disabilities, and Substance Abuse Services to study the current death-reporting requirements under G.S. 122C-26(5)c and to assess the need for any additional reporting requirements or modifications to existing rules. The Commission is required to report its findings to the Joint

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

Legislative Oversight Committee on Mental Health, Developmental Disabilities, and Substance Abuse Services by November 1, 2008.

S.L. 2008-107 (HB 2431) appropriates \$158,326 to the Office of the Chief Medical Examiner for one position and increased operating costs associated with this change.

S.L. 2008-174 (HB 2306) Children with Disabilities in Residential Treatment Programs

This act requires the State Board of Education and DHHS to determine the agency responsible for providing special education and related services, in compliance with State and federal law, to children with disabilities placed in private psychiatric residential treatment facilities by public agencies other than the local educational agency. The State Board and DHHS must report their findings and any recommended legislation or policy changes to the Joint Legislative Education Oversight Committee and the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities, and Substance Abuse Services by January 1, 2009.

S.L. 2008-210 (SB 2081) National Instant Criminal Background Check System Reporting/Restoration

This act requires the clerk of superior court to report to the National Instant Criminal Background Check System (NICS) any individual who

- Is involuntarily committed for inpatient mental health treatment;
- Is involuntarily committed to outpatient mental health treatment and is found to be a danger to himself, herself, or others;
- Is acquitted of a crime by reason of insanity; or
- Is found mentally incompetent to proceed to criminal trial.

The act also creates a process for persons who previously were involuntarily committed for mental health services to petition the courts to restore the petitioner's rights to purchase, possess, or transfer firearms.

Division of Public Health

G.S. 130A Authority and Duties of the Division of Public Health

Agency Description:

The Division of Public Health (DPH) provides and manages preventive services, education, training, and epidemic outbreak services to local communities and health care professionals. The Division is involved in a wide range of activities, including cancer control, diabetes, asthma, heart disease, early intervention and child development, teenage pregnancy, maternal and infant health, tobacco-use prevention, nutrition, obesity and physical activity, and immunization. The Division also provides supervision and support for the 86 county and district public health departments.

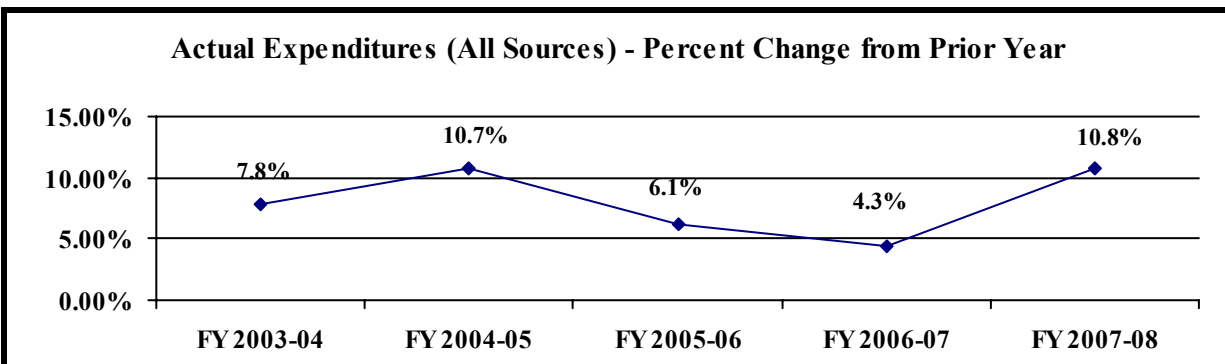
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	645,961,599	673,884,984	746,555,338	716,050,781
Revenue	500,350,904	513,265,466	567,161,658	527,082,534
Net Appropriations	\$145,610,695	\$160,619,518	\$179,393,680	\$188,968,247
Positions (FTE)	1,902.00	2,044.96	2,051.97	2,060.97

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Public Health totals \$716.1 million for FY 2008-09, of which the Division will spend approximately 78% on local public health services. The budget is partially funded with \$527.1 million in receipts, which represent 73.6% of the Division’s budget. Of this amount, approximately 78.4% are from federal program, block grants, and the Women, Infant, and Children food program, Medicaid represents 6.2%, and fees, philanthropic grants and other revenues represent the remaining 15.4% of receipts.

During the past five fiscal years, the average annual increase in actual expenditures in the Division of Public Health’s budget has been 7.9%. The increases are a result of federal receipts from Medicaid and grants.



Division of Public Health

Budget Tables

The following table provides a breakdown of the Division of Public Health’s total General Fund operating budget by program.

Division of Public Health (14430 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration, Local, and Community Support		
Division Offices	14,875,888	6,139,564
Office of the Chief Nurse	1,127,149	1,509,994
Local Health Services	27,540,693	19,350,072
Women's and Children's Health		
Women's Health	61,273,005	56,896,489
Early Intervention Program	78,059,427	77,188,383
Child Health	35,470,563	39,275,682
Nutrition Services	318,363,359	314,758,402
Immunization	27,662,884	28,544,117
Chronic Disease and Injury Prevention		
Chronic Disease Prevention	28,932,360	32,072,065
Highway Safety Scientific Service	4,022,877	2,734,396
Epidemiology		
HIV/STD Prevention and Care	67,684,518	60,305,194
Public Health Laboratory Services	19,690,400	17,854,806
Bioterrorism Grants	29,667,613	28,316,609
Communicable Diseases	6,743,328	6,717,572
Occupational and Environmental Epidemiology	3,448,660	4,407,544
Office of the Chief Medical Examiner	6,228,799	5,444,529
Oral Health	5,959,262	6,086,615
Vital Records	4,685,250	3,437,162
State Center for Health Statistics	4,450,314	4,976,782
Federal Indirect Cost Reserve	652,326	34,804
Control Fund	16,663	
TOTAL	\$746,555,338	\$716,050,781
Revenue	(567,161,658)	(527,082,534)
NET GENERAL FUND APPROPRIATIONS	\$179,393,680	\$188,968,247

Other Funds

No relevant information to report.

Division of Public Health

Significant Legislative Budget Actions

Obesity Demonstration Grants

The General Assembly appropriated \$2 million to the Division of Public Health to award five Childhood Obesity Prevention Project grants to counties. Each county will use its grant to implement strategies proven to prevent childhood obesity that also support *Eat Smart, Move More: North Carolina's Plan to Prevent Overweight, Obesity and Other Chronic Diseases*. Each project will conduct a comprehensive public awareness campaign in conjunction with existing county bicycle and pedestrian plans, as well as programs in preschools and child care centers, pediatrics practices, YMCAs, hospitals, schools, and the faith community.

Community Focused Eliminating Health Disparities Initiative

The General Assembly appropriated an additional \$1 million to the Community Focused Eliminating Health Disparities Initiative (CFEHDI), bringing the total funding for the initiative to \$3.0 million in FY 2008-09. The additional funds are to be used for concerted efforts to address large gaps in health status among minority populations in the state. (S.L. 2008-107, Section 10.4)

Public Health Funds to Aid Counties

The Division of Public Health received an additional, recurring \$4.8 million to allocate to local health departments as non-categorical General Aid to County funds to improve the delivery of the ten essential public health services. These funds are not to be used to supplant existing State, local, or federal funds allocated to the counties for this purpose.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

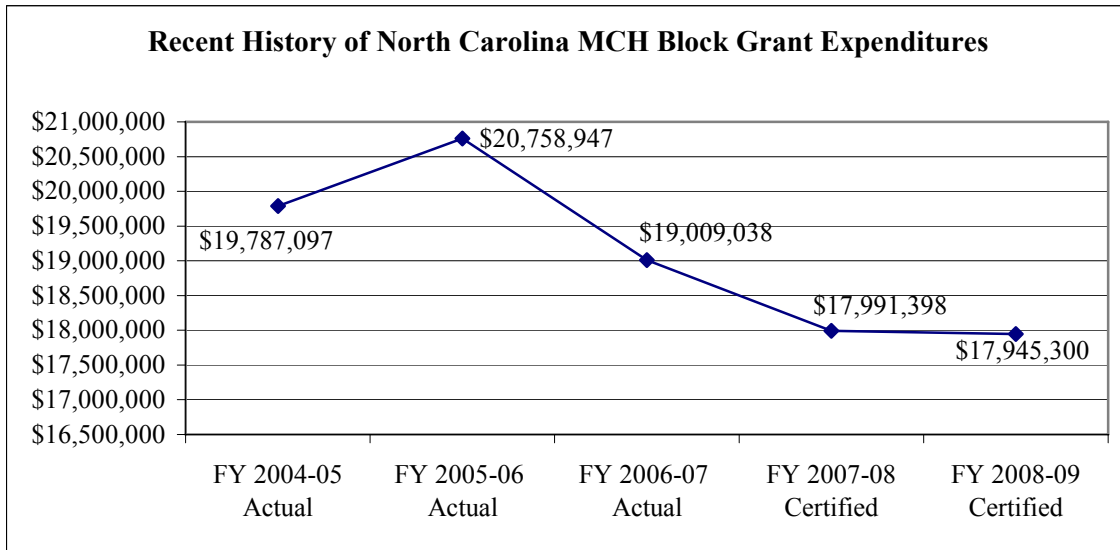
Maternal and Child Health Block Grant

FY 2008-09 Budget: \$17,945,300

For FY 2008-09 the General Assembly appropriated \$17,945,300 to the North Carolina MCH block grant. Funds are used to maintain and strengthen the Division of Public Health's planning, promoting, coordination, and evaluation of health care for pregnant women, mothers, infants, children, and children with special health care needs. Funds are also used to provide health services for mothers and children who do not have access to adequate health care.

The following chart shows the expenditure and appropriation data for the Maternal and Child Health Block Grant over the past four fiscal years.

Division of Public Health



(S.L. 2008-107, Sec. 10.17)

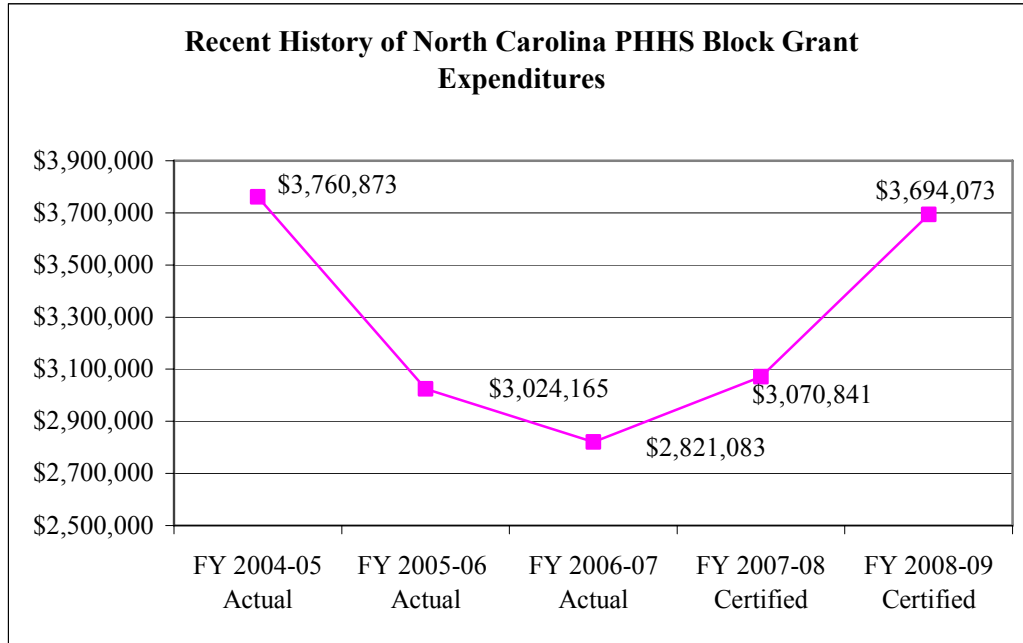
Preventive Health and Health Services (PHHS) Block Grant (S.L. 2008-107, Sec. 10.17)
FY 2008-09 Budget: \$3,694,073

For FY 2008-09, the General Assembly appropriated \$3,694,073 for the PHHS block grant. Funds are used to maintain and strengthen the Division of Public Health’s planning, promotion, and coordination of health promotion and disease prevention.

Nearly 80% of the current funds go directly to local health departments to address Healthy People 2010 objectives, such as obesity, stroke, heart disease, and diabetes. Local communities report that these funds leverage almost \$1.8 million in local funds for these activities. The remainder of the funds is divided among community initiatives that screen elementary-school-age children for dental care and monitor fluoride levels in communities, HIV/STD Prevention and Community Planning, and emergency medical services for rape victims.

The following table shows expenditure and appropriation data for the PHHS Block Grant during the past four fiscal years.

Division of Public Health



Additional Legislation

No relevant information to report.

Division of Social Services

- G.S. 108A-71 Public Assistance and Social Services Programs
- G.S. 108A-100 Protective Services
- G.S. 110-45 Control Over Child Caring Facilities
- G.S. 110-129.1 Child Support
- G.S. 131D-10.1 Control Over Child Placing and Child Care

Agency Description:

The Division of Social Services (DSS) supervises North Carolina’s federally mandated, county-administered social-services system. The federal government authorizes national programs and a majority of the funding, the 100 local county departments of social services deliver the services and benefits, and the Division provides oversight and support. DSS provides training, technical assistance, and consultation to the local staff who work in programs for families and children, including Child Welfare, Family Support, Work First, Child Support, and Food and Nutrition Services.

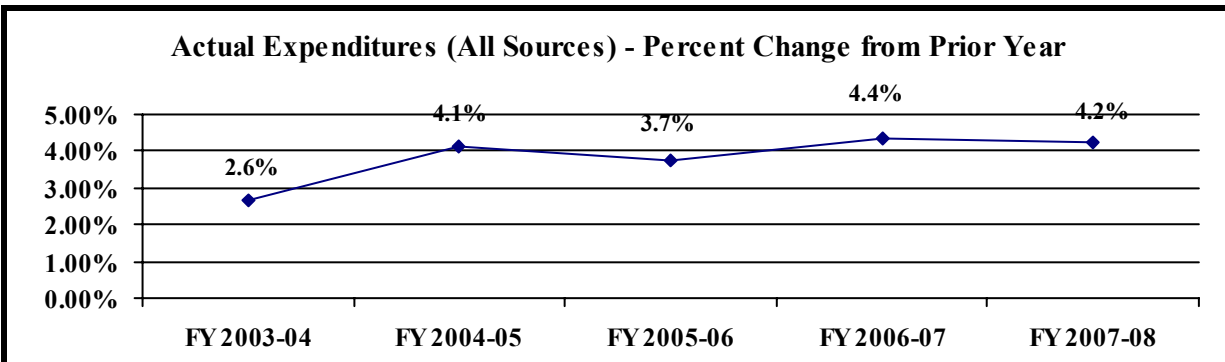
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	1,434,827,773	1,497,274,405	1,560,715,468	1,507,319,558
Revenue	1,250,607,804	1,294,276,044	1,351,223,050	1,284,947,738
Net Appropriations	\$184,219,969	\$202,998,361	\$209,492,418	\$222,371,820
Positions (FTE)	767.00	766.00	772.00	772.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Social Services is \$1.5 billion in FY 2008-09. The FY 2008-09 budget is 3.4% less than FY 2007-08 actual expenditures. Total revenues have remained relatively flat, primarily due to capped federal funding for the Social Services Block Grant (SSBG) and the Temporary Assistance for Needy Families (TANF) Block Grant.

The DSS budget has increased an average of 3.8% between FY 2003-04 and FY 2007-08, primarily as a result of changes in federal funding levels and changes in net General Fund appropriations to State/County Special Assistance, Foster Care and Adoption Assistance Payments, and State and local administrative costs. State appropriations account for 14.8% of the Division’s budget and the remaining 85.2% is derived from federal SSBG and TANF block grant funds.



Division of Social Services

Budget Tables

The following table provides a breakdown of the Division of Social Services total General Fund operating budget by category.

Division of Social Services (14440 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration and Program Support		
State Administration	18,747,374	19,928,448
Energy Assistance and Food Stamp Program Management	25,967,051	16,230,754
Child Welfare Services Program Management	43,436,991	51,449,543
County Government Administration and Program Support	391,948,376	338,142,772
Services and Assistance		
County Services	583,864,678	533,920,412
State/County Special Assistance Program*	148,386,098	153,775,738
Work First Family Assistance	80,103,324	97,235,693
Foster Care Assistance	84,791,930	99,374,053
Adoption Assistance	81,125,715	91,857,800
Energy Assistance	40,261,363	34,099,073
Refugee Assistance	2,958,343	3,424,601
Contracted Services	15,878,999	19,085,646
Child Support Enforcement	37,602,957	46,500,732
Reserves, Transfers, and Prior Year Earned Revenue and Adjustments	5,642,269	2,294,293
TOTAL	\$1,560,715,468	\$1,507,319,558
Revenue	(1,351,223,050)	(1,284,947,738)
NET GENERAL FUND APPROPRIATIONS	\$209,492,418	\$222,371,820

* The State/County Special Assistance Program is administered by the Division of Aging and Adult Services.

Other Funds

No relevant information to report.

Division of Social Services

Significant Legislative Budget Actions

State/County Special Assistance

The General Assembly appropriated an additional \$2.9 million recurring for FY 2008-09 to increase the State/County Special Assistance monthly rate from \$1,173 to \$1,207, effective January 1, 2009. Counties are required to provide matching funds, resulting in a total funding increase of \$5.7 million. State/County Special Assistance for Adults provides a cash supplement to help low-income individuals residing in adult care homes pay for their care. (S.L. 2008-107, Sec. 10.2)

Foster Care and Adoption Assistance

The General Assembly appropriated an additional \$8.2 million recurring for FY 2008-09 to increase foster care and adoption assistance rates, effective January 1, 2009, and to establish standardized monthly rates for private foster care child placing agencies and residential child care facilities. Assistance payments are provided to help families with the cost of raising foster care and adopted children. (S.L. 2008-107, Sec. 10.7)

Food Banks

The General Assembly appropriated an additional \$1.5 million nonrecurring for FY 2008-09 to be equally distributed to the regional network of food banks in North Carolina. Up to \$500,000 of the increased funding may be used to offset increased costs for fuel consumption related to transporting food.

Child Welfare Collaborative

The General Assembly appropriated an additional \$900,000 nonrecurring for FY 2008-09 to expand the social work programs to four additional universities: UNC-Charlotte, Fayetteville State University, UNC-Pembroke, and Western Carolina University. The purpose of the Child Welfare Collaborative is to counter the high attrition rate in child welfare by increasing the number of social workers in local departments of social services who are trained in child welfare.

Work First Family Assistance

The General Assembly reduced appropriations for Work First Family Assistance in FY 2008-09 by \$9.4 million recurring and \$800,000 nonrecurring. The reduction leaves approximately \$97.2 million available for Work First Family Assistance, including \$6.4 million in State appropriations and \$90.8 million in federal Temporary Assistance for Needy Families Block Grant funds. Work First Family Assistance provides financial assistance to help families become more independent and self-supporting.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 10.7 Changes to Foster Care and Adoption Assistance Payments

Section 10.7 made several changes to the Foster Care and Adoption Assistance programs. Effective January 1, 2009, this section increases the rates for State participation in the foster care assistance program as follows:

Division of Social Services

- Ages 0 to 5: Rate increase from \$390 to \$475;
- Ages 6 to 12: Rate increase from \$440 to \$581; and
- Ages 13 to 18: Rate increase from \$490 to \$634.

The provision also increases the rates for the adoption assistance program to make them consistent with foster care rates:

- Ages 0 to 5: Rate increase from \$390 to \$475;
- Ages 6 to 12: Rate increase from \$440 to \$581; and
- Ages 13 to 18: Rate increase from \$490 to \$634.

In addition, Section 10.7 directs the State and counties participating in the foster care and adoption assistance programs to each contribute 50% of the nonfederal share of the cost of care for children placed in family foster care homes or residential child care facilities. The provision requires that counties be held harmless from contributing 50% of the cost of care for a child placed in a family foster care home or residential facility until the child leaves the foster care system or experiences a placement change, whichever comes first.

Finally, Section 10.7 allows the Department of Health and Human Services to establish foster care and adoption assistance payment rates based on the U.S. Department of Agriculture's Expenditures on Children by Families Index, subject to State appropriations for each fiscal year.

Select Programs and Other Budgetary Information

Temporary Assistance to Needy Families Block Grant

FY 2008-09 Budget: \$378,018,805

In August 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). Better known as federal welfare reform, passage of PRWORA ended decades of the Aid to Families of Dependent Children (AFDC) entitlement program and replaced it with the Temporary Assistance for Needy Families (TANF) Block Grant. This action gave states flexibility to create their own welfare programs that emphasize self-sufficiency and work. The TANF Block Grant has the following goals:

- To assist needy families with children so that children can be cared for in their own homes;
- To reduce dependency by promoting job preparation, work, and marriage;
- To reduce and prevent out-of-wedlock pregnancies; and
- To encourage the formation and maintenance of two-parent families.

(S.L. 2008-107, Sec. 10.17)

Division of Social Services

Social Services Block Grant **FY 2008-09 Budget: \$66,347,353**

The purpose of the Social Services Block Grant is to provide funds to states for services to individuals, families, and entire population groups to accomplish the following goals:

- Achieve or maintain economic self-support to prevent, reduce, or eliminate dependency;
- Prevent or remedy neglect, abuse, or exploitation of children and adults who are unable to protect their own interests;
- Preserve, rehabilitate, or reunite families;
- Prevent or reduce inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and
- Secure referral or admission for institutional care when other forms of care are not appropriate or provide services to individuals in institutions.

The primary providers of these services are the 100 county departments of social services. (S.L. 2008-107, Sec. 10.17)

Low-Income Home Energy Assistance Program Block Grant **FY 2008-09 Budget: \$46,882,504**

The purpose of the Low Income Home Energy Assistance Program (LIHEAP) grant is to assist eligible low-income households with their home energy bills. Up to 10% of these funds may be used for State and local planning and administration. Up to 15% may be used for low-cost residential weatherization.

(S.L. 2008-107, Sec. 10.17)

Additional Legislation

S.L. 2008-69 (HB 2738) Electing Counties/Hold Harmless

This act allows Work First electing counties to be held harmless in FY 2008-09 for Work First Family Assistance up to the actual TANF Block Grant allocation for FY 2007-08. The electing counties are Beaufort, Caldwell, Catawba, Iredell, Lenoir, Lincoln, Macon, and Wilson counties.

Division of Vocational Rehabilitation

G.S. 143.547 Duties and Responsibilities

Agency Description:

The Division of Vocational Rehabilitation Services is tasked with promoting the employment and independence of people with disabilities. Its role is to facilitate timely access to comprehensive rehabilitation services through the delivery of direct services and the provision of information about programs, projects, and facilities funded by the federal government. It also serves as the federal contract agency for making medical determinations regarding a person’s eligibility for Social Security Disability Insurance and Supplement Security Income.

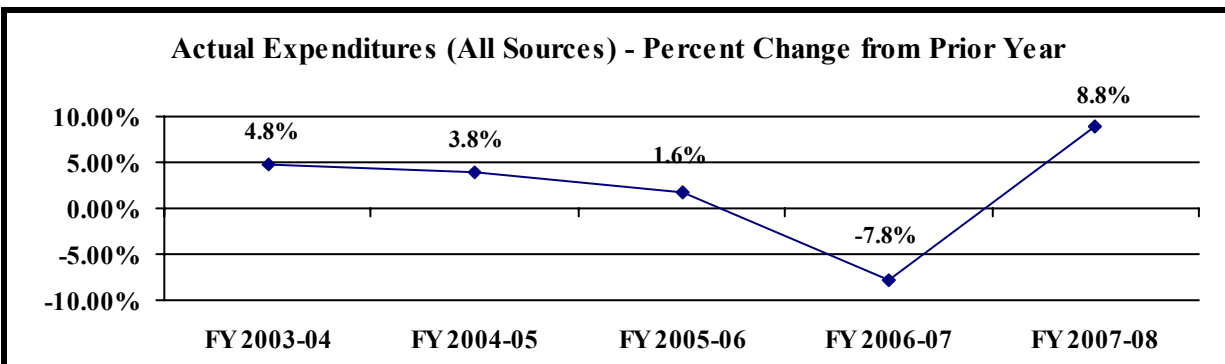
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	127,650,243	117,721,789	128,109,546	136,878,370
Revenue	85,576,129	74,948,609	84,086,358	93,360,005
Net Appropriations	\$42,074,114	\$42,773,180	\$44,023,188	\$43,518,365
Positions (FTE)	1,051.00	1,051.00	1,054.00	1,054.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Division of Vocational Rehabilitation is \$136.9 million in FY 2008-09. The FY 2008-09 budget represents a 6.8% increase from the Division’s FY 2007-08 actual expenditures. Nearly two-thirds of the funds are devoted to Counseling and Placement, Case Services and Independent Living services to support disabled residents. More than 67% of the Division’s budget is made up federal receipts from the federal Rehabilitation Act.

During the past five fiscal years, the Division’s budget has grown at an average rate of 2.2%. The sizeable increase in the Division’s expenditure between FY 2006-07 and FY 2007-08 resulted from adjusting the eligibility threshold for Independent Living and Vocational Rehabilitation programs to 125% of the federal poverty level. Most of this increase was funded with federal receipts.



Division of Vocational Rehabilitation

Budget Tables

The following table provides a breakdown of the Division of Vocational Rehabilitation's total General Fund operating budget by category.

Division of Vocational Rehabilitation (14480 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Vocational Rehabilitation	3,118	0
Management and Support Services	8,504,439	7,533,814
Counseling and Placement Services	42,358,491	43,515,092
Community Rehabilitation Facilities and Programs	2,845,081	2,811,064
Case Services	51,475,248	61,425,416
Social Services Block Grant	251,018	0
Client Assistance Program	290,259	313,189
Supported Employment Program	616,352	616,352
NC Assistive Technology Project	1,886,096	1,897,539
Independent Living Programs	19,790,288	18,434,293
Federal Indirect Cost Reserve	448,043	331,611
Prior Year Earned Revenue and Adjustments	(358,888)	0
TOTAL	\$128,109,545	\$136,878,370
Revenue	(84,086,358)	(93,360,005)
NET GENERAL FUND APPROPRIATIONS	\$44,023,187	\$43,518,365

The following table provides a breakdown of the funds administered by the Division of Vocational Rehabilitation, including the General Fund operating budget.

Total Agency Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DVR (14480—General Fund)	128,109,545	136,878,370
Regional Facilities (24480 — Special Fund)	526,652	606,781
Disability Determination (24481—Special Fund)	49,747,948	59,528,734
TOTAL	\$178,384,145	\$197,013,885

Other Funds

The Division of Vocation Rehabilitation administers the Disability Determination Service and the federal funds that support the activities associated with it. Because this is a contracted service, any balances at the end of the fiscal year do not carry forward but instead revert back to the federal government. Thus, the balance in this fund on June 30 of each year is \$0.

Division of Vocational Rehabilitation

Disability Determination (24481)

Balance: \$0 (as of June 29, 2008)

The Disability Determination Services (DDS) Fund is the operating budget for a State-administered, federally funded service that makes disability determinations for residents with severe disabilities who apply for income support through the Social Security Administration (SSA). Residents apply for benefits at local SSA Offices, and applications are forwarded to DDS for a disability determination. However, SAA is responsible for making final eligibility decisions.

SSA administers two disability programs designed to replace part of the income an individual or family loses due to disability:

- Social Security Disability Insurance (SSDI)—covers workers who are disabled, disabled widows/widowers, and disabled adult children of workers; and
- Supplemental Security Income (SSI)—covers adults and children based on income.

For FY 2008-09, this Fund's budget is \$59.5 million, the majority of which supports 660 positions. The Fund is supported solely from federal receipts and funds transferred from the Division of Medical Assistance to cover Title XIX match requirements for Medicaid eligibility determinations.

Significant Legislative Budget Actions

Vocational Rehabilitation Case Services Program

The General Assembly reduced the Division of Vocational Rehabilitation's General Fund budget by \$2 million non-recurring in FY 2008-09. This reduction is based on the anticipated level of expenditures.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Justice and Public Safety

Appropriations Subcommittee on Justice and Public Safety

Subcommittee Summary:

The Appropriations Subcommittee on Justice and Public Safety consists of 20 members of the General Assembly. The Subcommittee reviews and recommends the budget for all State criminal justice agencies. The major programs covered under the Subcommittee include adult and juvenile corrections and rehabilitation, law enforcement, the courts, and emergency management.

Subcommittee Membership:

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 Rep. Jimmy Love, Chair
 Rep. Philip Frye
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 Rep. Pat Hurley
 Rep. Carolyn Justus
 Rep. Joe Kiser
 Rep. Annie Mobley
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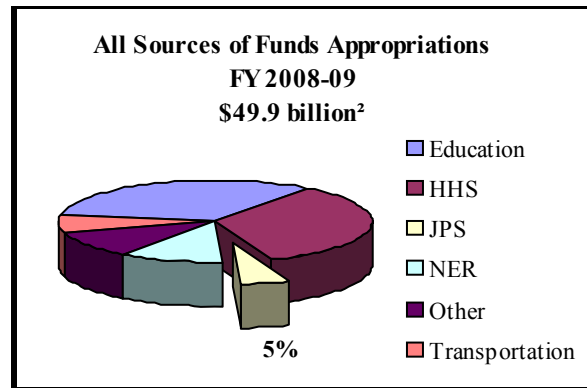
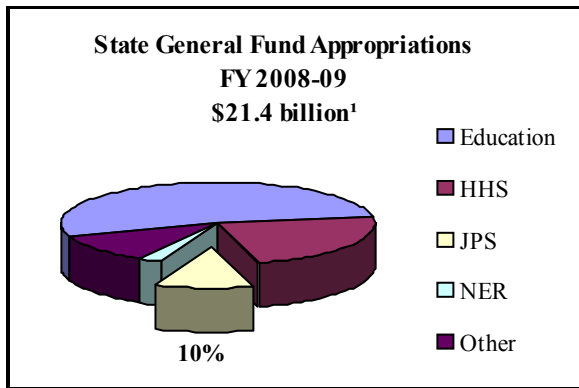
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 Sen. Ed Jones
 Sen. Tony Rand

Staff:

Denise Thomas, Team Leader
 Douglas Holbrook
 John Poteat
 Jean Sandaire

Budget Comparison:

The combined budgets under the Appropriations Subcommittee on Justice and Public Safety total \$2.1 billion or 10% of net General Fund appropriations and 5% of all funding sources reported for FY 2008-09. The following charts illustrate the Justice and Public Safety Subcommittee's total compared to other appropriations subcommittee totals:



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Department of Correction

G.S. 143B-260 Department of Correction Creation
 G.S. 143B-261 Department of Correction Duties

Agency Description:

The Department of Correction (DOC) manages three primary programs: prisons, community corrections, and substance-abuse treatment. A fourth major program, the Post Release Supervision and Parole Commission, is housed in the Department but operates independently. The Division of Prisons manages over 70 facilities whose functions include providing security, basic health services, education, and work programs for over 40,000 inmates. The Division of Community Corrections manages probation and parole services for over 117,000 offenders, including special programs such as sex offender monitoring. The Division of Alcohol and Chemical Dependency serves incarcerated offenders, probationers, and parolees by providing a continuum of treatment services ranging from 35-day outpatient programs to 12-month residential programs.

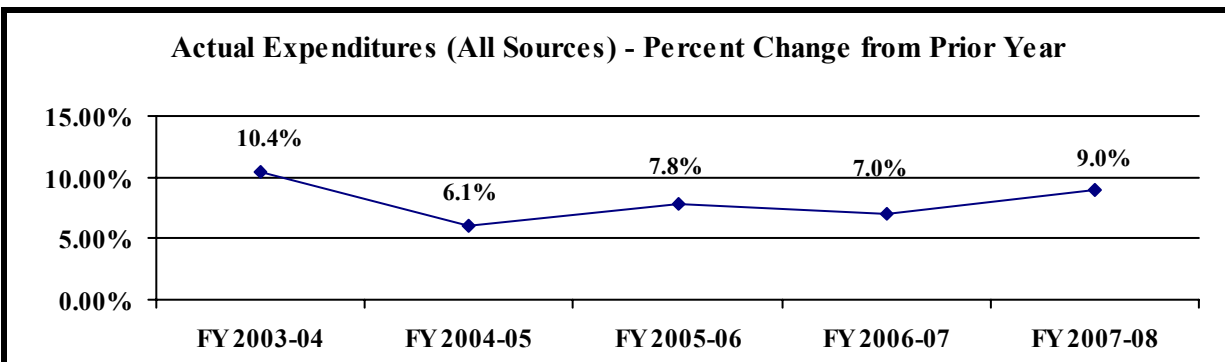
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	1,119,765,756	1,197,827,113	1,305,322,343	1,260,409,784
Revenue	43,054,573	42,098,619	51,703,397	33,492,386
Net Appropriations	\$1,076,711,183	\$1,155,728,494	\$1,253,618,946	\$1,226,917,398
Positions (FTE)	20,437.50	20,611.50	21,066.50	21,264.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The total budget for the Department of Correction is \$1,260,409,784 for FY 2008-09. The FY 2008-09 budget is a decrease of 3.4% over the actual expenditures for FY 2007-08; this decrease is due to the legislative salary increase for 2008-09 not being included in the certified budget. Approximately 97% of DOC operations are funded by net General Fund appropriations with only 2.7% of the budget coming from receipts. The largest single receipt item is the annual transfer of \$11.3 million from the Highway Fund to cover the cost of operating inmate road squads and litter crews. The average annual percentage change in the DOC budget from FY 2003-04 to FY 2007-08 is 8.1%.

Approximately 73% of the DOC FY 2008-09 budget is for personnel costs (salaries and benefits). The Division of Prisons is the major budget driver in Correction - 79% of the total DOC FY 2008-09 budget, or approximately \$1 billion, is appropriated to the Division.



Department of Correction

Budget Tables

The following table provides a breakdown of the Department of Correction total General Fund operating budget by major program and fund code.

Department of Correction (14500 General Fund)	Actual FY 2007-08	Certified FY 2008-09
Departmental Management	58,407,874	52,364,395
Division of Alcohol and Chemical Dependency	16,381,382	18,876,883
Division of Prisons	1,062,447,651	1,001,821,552
Division of Community Corrections	160,351,756	148,419,251
Post-Release Supervision and Parole	1,350,173	1,373,633
Reserves (Prisons, Community Corrections)	566,819	631,918
Grievance Resolution Board	5,816,689	36,922,152
TOTAL	1,305,322,343	1,260,409,784
Revenue	(51,703,397)	(33,492,386)
NET GENERAL FUND APPROPRIATIONS	1,253,618,946	1,226,917,398

The following table provides a breakdown of the funds administered by the Department of Correction, including the General Fund operating budget.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Department of Correction (14500-General Fund)	1,305,322,344	1,260,409,784
Correction (24500-Special)	2,576,647	2,016,335
Correction (24501-Special IT)	131,443	359,700
Correction (24502-Canteen Fund)	14,829,630	13,393,003
Correction (24503-Special-Interest Earning)	0	2,072
Correction Enterprises (74500-Internal Services Fund)	91,346,263	85,509,921
TOTAL	\$1,414,206,327	\$1,361,690,815

Other Funds

Correction Enterprise (Fund 74500)
Balance: 12,069,839 (as of June 30, 2008)

The Department of Correction manages a special internal-service fund known as the Correction Enterprise Fund. The fund is established in G.S. 148-2 as the "Prison Enterprise Fund." G.S.

Department of Correction

148-70 authorizes DOC to use the labor of inmates in various prison industries and to dispose of the products that the inmates produce through sale to public entities. This fund operates solely on receipts from the sale of goods and services.

The Correction Enterprise program is designed to provide work experience and rehabilitative opportunities for inmates and to provide quality goods and services to tax-supported entities. In FY 2007-08, the program employed over 2,200 inmates in such industries as farming, meat processing, janitorial products, laundry operations, and sign manufacturing.

The Enterprise program is authorized to sell products to any tax-supported entity, but approximately 90% of its sales are to State agencies. The Enterprise program is allowed to retain revenue for capital and operating requirements once other obligations have been met. Recurring obligations include an annual \$500,000 transfer from the Enterprise Fund to the General Fund and a transfer to the Victims Compensation Fund. The formula for allocating funds to the Victims Compensation Fund is established in G.S. 148.2, and the transfer amounted to \$251,049 in FY 2007-08.

The chart below shows the actual expenditures and receipts for FY 2007-08 and the certified budget for the Correction Enterprise Fund in FY 2008-09.

Correction Enterprise Fund Budget		
Budget Category	FY 2007-08	FY 2008-09
Total Requirements	96,494,817	85,091,196
Receipts	91,346,262	85,509,921
Change in Fund Balance	-5,148,554	\$418,725

Significant Legislative Budget Actions

New Prison Construction

The Capital Section of S.L. 2008-107 authorized special indebtedness (Certificates of Participation, or COPs) to fund construction of a new healthcare facility at NC Correctional Institution for Women. This section also authorized COPs to finance additional minimum custody beds at Scotland and Tabor Correctional Institutions and medium custody beds at Bertie and Lanesboro Correctional Institutions. The add-on beds at the four institutions will increase prison bed capacity by 1,500 beds with a projected completion date during FY 2011-12. The total indebtedness for these projects is \$109.2 million.

Reduce Various Medical Budgets

The General Assembly adopted the Governor’s recommendation to reduce line items within the prison health services budget, requiring the Department to use available funds to close any gaps in needed services. The reductions totaled \$6.6 million recurring funds and \$3 million non-recurring funds and affect the budgets for prescription drugs, contractual employees, hospitalization, and other services.

Department of Correction

Substance-Abuse Treatment Program for Females

S.L. 2008-107 authorized the establishment of a substance-abuse treatment program for female probationers and parolees. This residential treatment program is analogous to the DART-Cherry program for male offenders. The program is a treatment option for probationers facing revocation into prison and is also an option allowing for parole of offenders who need treatment prior to returning to the community. It offers 28- and 90-day interventions. The program will have capacity for 300-360 female offenders each year and has a first-year cost of \$1.8 million.

Reserve for Probation Supervision

The General Assembly appropriated \$2 million recurring and \$500,000 nonrecurring to a nonreverting reserve to implement the Department's plan to address critical community correction resource needs. The funds will be used to implement recommendations from a National Institute of Corrections review of the Division's urban offices.

(S.L. 2008-107, Sec. 17.3)

Restore Criminal Justice Partnership Program (CJPP)

The General Assembly restored \$9.1 million in recurring funding for the CJPP. The funds had been eliminated pending the results of a continuation review. In addition, the program received \$257,729 recurring in expansion funds.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 17.1 Temporary Housing Funds

The General Assembly authorized the Department of Correction to use available funds to secure temporary housing for offenders whose release date is pending and who, due to lack of an acceptable home plan, are at risk of being homeless. This provision primarily applies to released sex offenders who are under much greater restriction with respect to their housing than the majority of offenders. This provision allows the Department to procure housing for these offenders in an appropriate setting not to include hotels, motels, or residential facilities housing vulnerable populations, and not to exceed 30 days.

Section 17.3 Reserve Fund for Probation and Parole Staffing and Resources

This provision established a \$2.5 million reserve fund at the Office of State Budget and Management to address the recommendations from the National Institute of Corrections review. The funds will not revert at the end of the fiscal year.

Section 17.4 Report on Probation and Parole Caseloads

This provision modified the Probation Caseload report to include Probation Parole Officer III and Chief Probation Parole Officer caseloads, and the process of assigning offenders to an appropriate supervision level. The Office of State Personnel, in conjunction with the Department, shall conduct a compensation study of probation parole officers, including positions with similar job duties, similar education and experience, and appropriate labor markets from which typical applicants are drawn.

Department of Correction

Select Programs and Other Budgetary Information

The following table compares DOC program information from 2002 to the most recent information available (2007). The growing population of older inmates will continue to a place on the prison health-services budget.

Correction Facts

Category	2002	2007	% Change
Inmate Population	33,021	38,423	16.4%
Community Supervision Population	115,102 (2,2272 parolees)	115,195 (1,969 parolees)	0.1% (-13.3%)
Prison Admissions	23,760	27,936	17.6%
A through E Felons in Prison	54%	56%	3.7%
Inmates Aged 50 or Older	2,637 (7.9% of total)	4,224 (10.9% of total)	60.2%

Source: DOC Automated Query System and DOC Budget Reports as of 06/30/02 and 06/30/07.

Additional Legislation

S. L. 2008-214 (HB 274) Street Gang Prevention Act

The legislature passed the Street Gang Prevention Act (House Bill 274) in the 2008 session. This bill enhances a number of criminal penalties when crimes are committed in association with a criminal street gang. As such, the bill will increase the number of offenders sent to prison. The bill's prison bed impact is difficult to estimate, since there are no reliable estimates of the number of gang members within North Carolina. Using a minimum impact scenario, this bill could produce a need for over 300 new prison beds by 2010, adding to the previously projected bed shortfall.

Department of Crime Control and Public Safety

G.S. 143B-473. Department of Crime Control and Public Safety – Creation.

G.S. 143B-474. Department of Crime Control and Public Safety – Duties.

Agency Description:

The Department of Crime Control and Public Safety (CCPS) administers programs that focus on reducing crime and enhancing public safety. Among the agency’s nine divisions are the NC National Guard, State Highway Patrol, Alcohol Law Enforcement, Emergency Management, and the Governor’s Crime Commission.

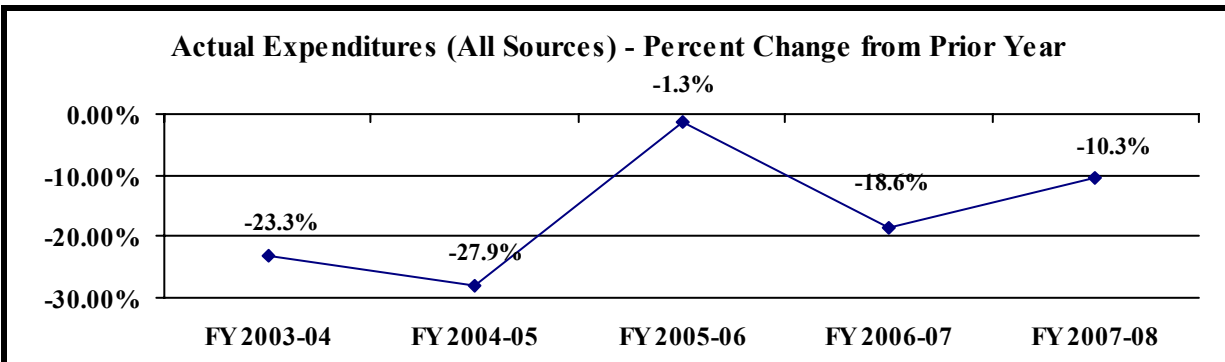
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	208,453,577	169,594,019	152,165,209	112,473,464
Revenue	172,242,030	118,072,130	99,606,113	68,404,252
Net Appropriations	\$36,211,547	\$51,521,889	\$52,559,096	\$44,069,212
Positions (FTE)	484.50	500.50	520.75	515.75

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The certified budget for the Department of Crime Control and Public Safety is \$112,473,464 for FY 2008-09. The FY 2008-09 amount is about 26% less than the total agency expenditures for FY 2007-08. The FY 2008-09 budget is funded with \$44.1 million in net General Fund appropriations (39%) and \$68.4 million in receipts (61%). The receipts consist of federal assistance/grant funds that support the North Carolina National Guard and Emergency Management Division. The State Highway Patrol Division is funded by a transfer from the Highway Fund (approximately \$206 million annually).

Overall, the agency’s spending has fluctuated by an average of -16.3% over the last five years due to variances in the year-to-year receipts. The agency’s annual expenditures have been decreasing over the last five years. Between 1999 and 2005, the agency received over \$400 million in federal and State disaster relief funds for relief/mitigation efforts associated with Hurricanes Floyd (1999), Frances (2004), and Ophelia (2005). As of October 2008, these funds are almost spent.



Department of Crime Control and Public Safety

Budget Tables

The following table provides a breakdown of the Department of Crime Control and Public Safety total General Fund operating budget.

Crime Control & Public Safety (14900 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	9,293,077	4,258,278
National Guard	31,488,293	26,071,068
Civil Air Patrol	172,424	136,328
Butner Public Safety	3,676,523	3,379,521
Alcohol Law Enforcement	12,355,598	10,300,833
Emergency Management	44,195,294	38,488,282
Victim Compensation Services	8,541,671	11,485,723
Governor's Crime Commission	42,442,329	18,353,431
TOTAL	\$152,165,209	\$112,473,464
Revenue	(99,606,113)	(68,404,252)
NET GENERAL FUND APPROPRIATIONS	\$52,559,096	\$44,069,212

The following table provides a breakdown of the funds administered by the Department of Crime Control and Public Safety

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
General Fund (14900 - General Fund)	152,165,209	112,473,464
Highway Fund (24960 - Highway Fund)	230,138,520	205,861,547
CC&PS (24961-Seized & Forfeiture Assets)	1,771,276	1,500,000
CC&PS (24962-Juvenile Justice Block Grant)	7,382,493	11,655,971
CC&PS (24963-Special Rev. Disaster Relief)	22,400,524	62,449,480
Other Special Grants (24964 - DHS Grant Program)	21,876,757	60,971,988
TOTAL	\$435,734,779	\$454,912,450

Department of Crime Control and Public Safety

Other Funds

The Department of Crime Control and Public Safety (CCPS) is responsible for the funds listed below. However, these funds do not appear as part of the agency's operating budget funds.

The Highway Fund (24960)

Balance \$6,280,994 (as of June 30, 2008)

Chapter 2 of the 1921 Session Laws established the Highway Fund to provide funding for road/highway maintenance and other transportation related initiatives. The State Highway Patrol is funded primarily from the Highway Fund. This Division also receives funding from other transfers and grants to support its programs. Of the approximately \$206 million transferred annually to CCPS for the Highway Patrol Division, 64% is used for personal services (2,371 positions). The remaining amount is used to pay for supplies, equipment, and other purchased services.

Significant Legislative Budget Actions

Tarheel Challenge Academy Continuation Review

Section 6.7 of S.L 2008-107 required the Tarheel Challenge Academy to undergo a continuation review. Tarheel Challenge Academy is a National Guard program that helps high school dropouts learn life skills and pass their Graduate Educational Development (or GED) exam. The program's annual funding (\$1.1 million) was made nonrecurring for FY 2008-09. The program will have to submit a final report that provides information about the effectiveness of the program to assist the General Assembly in determining whether to continue, reduce, or eliminate funding for it.

Reserve for Sheriff Department Grants

The FY 2008-09 Budget provided \$250,000 nonrecurring to the Governor's Crime Commission for grants of up to \$25,000 each to sheriffs' offices to assist with the enforcement of sex offender laws.

Significant Special Provisions

Section 18.1 Governor's Crime Commission Study/Expand Juvenile Jurisdiction

This provision directed the Governor's Crime Commission to study the legal, systemic, and organizational impact of expanding the Department of Juvenile Justice and Delinquency Prevention's jurisdiction to include persons 16 and 17 years of age who commit crimes and infractions under State Law or an ordinance of local government. The Crime Commission is to report its findings and recommendations to the General Assembly by April 1, 2009.

Section 18.2 Enhance Rape Victims Assistance Program

To further enhance the State's Rape Victims Assistance Program (RVAP) this provision amended G.S. 143B-480.2 to expand the program's eligibility criteria to include rape victims who have a collateral source of payment. In addition, the program's authorizing language was changed to allow for more consistency in program administration. With these changes,

Department of Crime Control and Public Safety

some of the victims who are eligible to receive assistance from the RVAP are now also eligible for additional assistance from the Victims Compensation program to pay for other costs (lost wages, counseling, etc.) that a victim may incur as a result of the rape.

Section 18.3 Report on the Use of Illegal Immigration Funds

This provision directed the North Carolina Sheriffs' Association to report on the \$600,000 appropriated to the association in the FY 2008-09 Budget for immigration enforcement activities. These funds are used by the Association to assist sheriffs' offices interested in participating in the Immigration and Customs Enforcement (ICE) 287(g) program. This report is due to the General Assembly by March 1, 2009.

Select Programs and Other Budgetary Information

Gang Prevention

Since 2005, the General Assembly has appropriated \$18.4 million for gang prevention, intervention, and suppression programs. The FY 2008-09 Budget included a \$10 million reserve for gang prevention grants. The Governor's Crime Commission will distribute these funds through a competitive grant program to local government and community groups for gang violence prevention programs. The table below provides a history of the appropriations for gang violence prevention.

State Gang Prevention Funds

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
(millions)	2.1	1.5	4.8	10.0	18.4

Enhancement of the Rape Victim Assistance Program

To ensure that rape victims incur no out-of-pocket costs related to forensic examinations, the General Assembly made significant policy and budget changes to the State's Rape Victim Assistance Program (RVAP) in the FY 2008-09 Budget. Prior to the 2008 Session, the program only paid for forensic examinations for rape victims who had no collateral source of payment.

The FY 2008-09 Budget expanded RVAP eligibility criteria (Section 18.2 of S.L. 2008-107) to allow the program to pay 100% of forensic exam costs for rape victims who have no collateral source of payment and to bill co-pays for rape victims that have a collateral payment source. The policy changes were in addition to a \$1.1 million increase to the program's annual budget to make certain that the program is able to cover the anticipated increase in payouts associated with the policy changes.

Department of Crime Control and Public Safety

Additional Legislation

In addition to the \$10 million appropriated in the budget, the General Assembly also ratified two bills to address the issue of gangs in the State.

S.L. 2008-214 (HB 274) Street Gang/Suppression

S.L. 2008-214, The Street Gang Intervention and Suppression Act, created multiple new offenses for participating in criminal street gang activity. The Fiscal Research Division estimated that this bill will cost a minimum of \$26–\$28 million to implement. This estimate is covered in further detail in the Department of Corrections section of this document. The cost associated with this bill is driven by the large pool of offenders who could be convicted and sentenced to active prison time due to the penalties outlined in this law.

S.L. 2008-56 (SB 1358) Street Gang/Prevention and Intervention

S.L. 2008-56, The Street Gang Prevention Act, directed the Department of Juvenile Justice and Delinquency Prevention and other State agencies to assess gang threat levels in communities around the state to allow for the development of programs that will more adequately meet each community's needs. The bill also directed the Governor's Crime Commission to use the \$10 million that was included in the FY 2008-09 budget to administer a gang prevention grant program.

Department of Justice

NC Constitution, Article III, Section 7 Other Elective Officers

G.S. 143A-49 Creation.

G.S.143A-49.1 Attorney General; Powers and Duties.

Agency Description:

The North Carolina Department of Justice (DOJ) provides legal, law enforcement, and consumer protection services to state agencies, local governments, and the citizens of the State. The Department consists of three major divisions. The Legal Services Division provides legal representation and legal opinions to all State agencies; the State Bureau of Investigation (SBI) assists local law enforcement with a wide variety of investigations, including homicides, missing person cases, robberies, and property crimes; and the Training and Standards Division administers the mandatory certification program for law enforcement officials.

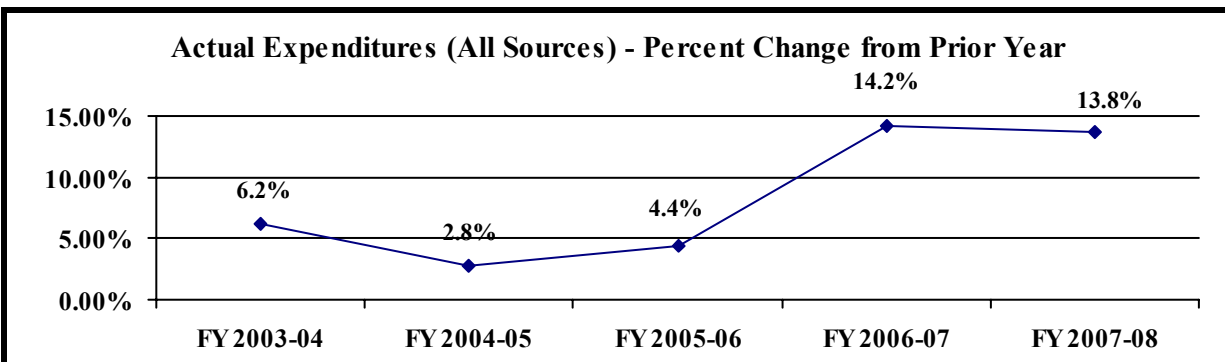
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	102,791,185	117,422,257	130,602,987	118,272,976
Revenue	22,476,523	25,598,283	31,678,400	26,528,064
Net Appropriations	\$80,314,662	\$91,823,974	\$98,924,587	\$91,744,912
Positions (FTE)	1,257.25	1,273.25	1,329.75	1,332.75

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The certified budget for the Department of Justice is \$118,699,734 for FY 2008-09. The FY 2008-09 amount is about 9.4% less than the total agency expenditures for FY 2007-08. The FY 2008-09 budget is funded with \$92 million in net General Fund appropriations (77%) and \$27 million in receipts (23%). The receipts consist of fees collected for permits and services rendered to State agencies and the public. The budget also includes federal grants. On average, the agency's budget has grown by about 8.3% over the last five years. This increase can mostly be attributed to net General Fund appropriation increases to support the agency's increasing personnel, space, and technology needs.

The agency's FY 2008-09 certified budget is 9.4% less than the prior year's total expenditures. This is because actual federal grant receipts exceeded the amount originally budgeted. In addition, the certified budget does not include the legislated salary increases that are reflected in the year-end total expenditures.



Department of Justice

Budget Tables

The following table provides a breakdown of the Department of Justice total General Fund operating budget.

Department of Justice (13600 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	4,952,632	2,861,383
Legal Services	50,337,430	44,179,899
State Bureau of Investigation (SBI)	65,751,319	62,068,168
Criminal Justice and Training and Standards	9,561,606	9,163,526
TOTAL	\$130,602,987	\$118,272,976
Revenue	(31,678,400)	(26,528,064)
NET GENERAL FUND APPROPRIATIONS	\$98,924,587	\$91,744,912

The following table provides a breakdown of the funds administered by the Department of Justice

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
General Fund (13600 - General Fund)	130,602,987	118,272,976
Justice (23600 - Special)	12,755,034	11,946,441
Special Recurring (23601 - Justice Special)	2,974,351	2,571,559
Justice (23606 - Seized & Forfeited Assets)	1,434,205	1,290,587
Justice (63600 - Private Protective Services)	0	34,223
Justice (63602 - Alarm Systems Recovery)	0	5,000
TOTAL	\$147,766,577	\$134,120,786

Other Funds

Special Recurring Receipts (Fund 23601) **Balance: \$302,634 (as of June 30, 2008)**

The Special Recurring Receipts Fund is used to deposit fees collected for tuition, protective service licenses, firearm permits, and various fines/penalties. This fund also contains revenue from the sale of training materials at the Justice Academy Book Store and receipts from the US Department of Justice for a marijuana eradication program that the Department administers.

Department of Justice

Significant Legislative Budget Actions

The FY 2008-09 Budget included two items to further support the operation of the State Bureau of Investigation (SBI) crime laboratories.

Forensic Firearms Analyst Positions

The General Assembly appropriated \$133,784 in recurring funds to the SBI for two forensic firearms analyst positions to address recent increases in firearms and ballistic case submissions.

SBI Crime Laboratory Equipment

The General Assembly appropriated \$174,321 in nonrecurring funds to the Division of State Bureau of Investigation for equipment purchases and other start-up costs for the two forensic firearms analyst positions.

Significant Special Provisions

No relevant information to report.

Select Programs and Other Budgetary Information

Crime Laboratory Funding

The State Bureau of Investigation (SBI) currently operates three crime laboratories located in Raleigh, Asheville, and Greensboro. Over the last two biennia, the General Assembly has supported the SBI crime labs by approving funding for staffing, equipment, and construction/leasing of new laboratory space. Specifically, the General Assembly has funded the following items to support the SBI crime labs:

FY 2005-06

- 6 Forensic Chemist positions for methamphetamine response (\$365,820)
- 4 Forensic Computer Analyst positions (\$197,394)
- 7 DNA Evidence Processing/Analysis positions (\$478,221)

FY 2006-07

- 5 Chemistry Technicians (\$542,284)
- 1 Forensic Analyst
- 1 Molecular Geneticist
- SBI Lab Expansion (two generators) (\$600,000)

FY 2007-08

- 3 DNA Processing Technicians (\$412,776)
- New Piedmont Triad Regional Laboratory (\$1.1 million)

Department of Justice

FY 2008-09

- 2 Forensic Firearms Analyst positions (\$133,784)

The Piedmont Triad Regional Crime Laboratory, funded in FY 2007-08, opened in June 2008 in Greensboro. In addition to the items listed above, a \$4.5 million expansion of Raleigh Crime Lab was completed in 2007. Historically, the SBI has had to use private laboratories to assist with case-work backlogs in the areas of convicted offender DNA and Rape Kit processing. However, with the funding received from the General Assembly over the last three years, the SBI has eliminated this backlog and is working towards processing cases more quickly.

Additional Legislation

No relevant information to report.

Judicial Department

NC Constitution, Art. IV Judicial

Agency Description:

The North Carolina court system is a uniform statewide and State-operated system consisting of three divisions: the Appellate Division, the Superior Court Division, and the District Court Division. Court administration and budgeting are centralized under the Administrative Office of the Courts. There are over 6,300 positions within the court system, including judges, magistrates, district attorneys, clerks, programs, and administrative staff. Major programs include drug treatment court, family court, Guardian ad Litem (GAL), interpreter services, dispute resolution, custody mediation, and business court.

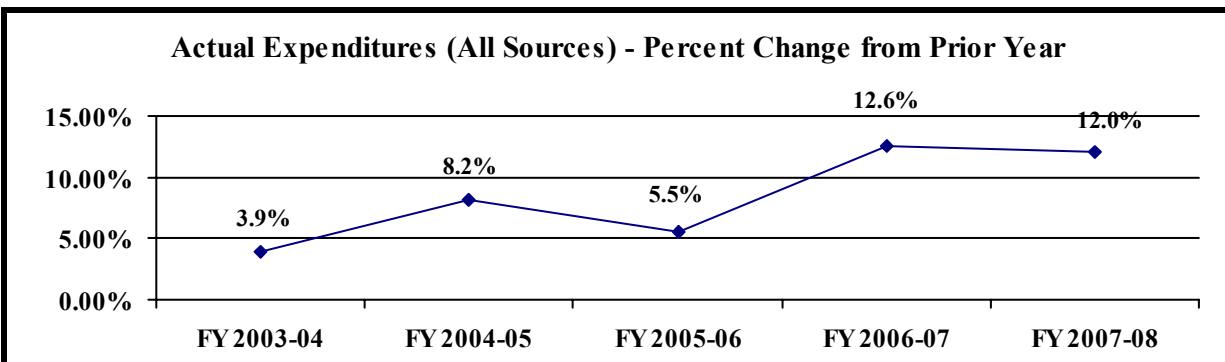
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	354,356,250	398,879,095	446,740,939	453,141,042
Revenue	2,383,283	3,917,379	3,556,602	2,309,380
Net Appropriations	\$351,972,967	\$394,961,716	\$443,184,337	\$450,831,662
Positions (FTE)	5,377.95	5,659.44	6,046.19	6,313.19

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 certified budget for the Judicial Department - Administrative Office of the Courts (AOC) is \$453,141,042. Over 99% of AOC’s cost is supported by General Fund appropriations, with less than 1% supported by receipts which are budgeted at \$2,309,380 in FY 2008-09. AOC spent \$446,740,939 in FY 2007-08, a 12.0% increase over the prior year. AOC received \$36 million in expansion funding in FY 2007-08, including nearly 400 new courtroom and technology positions. The expansion funding was generated from \$40 million in new and increased court fees authorized for FY 2007-08. AOC collects the court fees and remits them directly to the General Fund or to individual counties.

The FY 2008-09 certified budget is about \$6.4 million more than the amount spent the prior year and provides 300 new positions. As indicated in the chart below, AOC’s expenditures have increased, on average, 8.4% annually in the past five fiscal years. The 12 percent annual growth rates for the past two fiscal years reflect the impact of the expansion funding generated by increasing court fee revenues for the General Fund.



Judicial Department

Budget Tables

The following table provides a breakdown of the Judicial Department’s total General Fund operating budget.

Judicial (12000 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Administration	57,177,451	49,928,978
Appellate	13,031,296	12,735,462
Trial Court	279,894,418	263,677,065
Equipment and Other Reserves	19,667,543	47,301,225
District Attorney Offices	79,717,425	78,540,177
Sentencing and Policy Advisory Commission	809,408	958,135
TOTAL	\$450,297,541	\$453,141,042
Revenue	(3,556,602)	(2,309,380)
NET GENERAL FUND APPROPRIATIONS	\$446,740,939	\$450,831,662

The following table provides a breakdown of the funds administered by the Judicial Department

Total Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
Judicial (12000-AOC)	450,297,541	453,141,042
AOC (22001-Special Revenue Funds)	9,099,614	13,621,947
AOC (22004-Reserve for Safe Roads)	1,931,426	1,965,554
AOC (22005-Worthless Check Fund)	1,601,622	803,619
AOC (22006-IT Fund)	7,323,230	2,179,963
AOC (22007-Appellate Courts Printing:Comp.)	534,195	509,489
AOC (22008-Special Revenue -GF)	0	14,515
TOTAL	\$470,787,628	\$472,236,129

Other Funds

No relevant information to report

Judicial Department

Significant Legislative Budget Actions

Judicial Telephone Systems

The General Assembly reduced the Judicial Department's General Fund budget by \$1,658,249 recurring and \$1,695,084 nonrecurring to eliminate the continuation-budget funding for telephone service and equipment. Telephone system costs for the Judicial Department and the individual county courthouses will be supported by a new \$1 court fee. Additional information about Judicial telephone systems may be found in the "Select Program and Other Budgetary Information" section of this document.
(S.L. 2008-107, Sec. 29.8)

Restoration of Recurring Funds for District Attorney and Clerks Conferences

S.L. 2007-323 eliminated the continuation budget funds for the NC District Attorney and Clerks of Superior Court Conferences. Both conferences were provided non-recurring funding for Fiscal Year 2007-08 only, pending the findings and recommendations of the continuation reviews mandated under Section 6.21 of S.L. 2007-323. Based upon the continuation review findings, S.L. 2008-107 restored the recurring continuation funding for the NC District Attorney Conference, \$401,289, and the Clerks of Superior Court Conference, \$121,402.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 14.8 JCPC Effectiveness Study

Section 14.8 directed the NC Sentencing and Policy Advisory Commission, which is housed in the Judicial Department, to conduct a feasibility study to measure the effectiveness of programs that receive JCPC (Juvenile Crime Prevention Councils) funding through the Department of Juvenile Justice and Delinquency Prevention.

Section 14.9 Legal Assistance to Homeowners

Section 14.9 authorized legal-aid agencies to assist consumers in cases involving predatory mortgage lenders, loan-service abuses, and foreclosures. Legal-aid agencies receive a portion of the court-fee revenues collected by AOC.

Section 14.14 Probation Officer Access to Automated Court Information System

Section 14.14 directed the Administrative Office of the Courts (AOC) to use \$100,000 from the Court Information Technology Fund to develop an interface which will give probation officers updated information on arrests and charges pending against probationers.

Select Programs and Other Budgetary Information

Judicial Telephone Systems

S.L. 2007-323 prohibited the use of state funds to purchase and install county courthouse telephone systems, effective July 1, 2008. Thus the counties would become responsible for the purchase, installation, and maintenance cost of courthouse telephone systems. In

Judicial Department

response to concerns raised by county government officials, the General Assembly included Section 29.8 of S.L. 2008-107, which repealed this provision and authorized a new state court-facility fee in district and superior courts. The new \$1 fee became effective July 20, 2008, and is to be used “for the upgrade, maintenance, and operation of the judicial and county courthouse phone system.” As a result of the new fee, the Judicial Department’s General Fund budget was reduced by \$1,658,249 recurring and \$1,695,084 nonrecurring to eliminate the continuation budget funding for telephone service and equipment. The new court-facility fee is projected to generate approximately \$1,500,000 annually, which will be deposited into the existing Court Technology Fund, a non-reverting special fund.

Funds to Purchase Judicial Center Building

Prior to 2007, the Administrative Office of the Courts’ (AOC) staff were located in a combination of State- and privately-owned buildings in five separate sites around Raleigh. In 2007, AOC consolidated its staff in one leased space. Section 27.8(a)(16) of S.L. 2008-107, authorized \$34 million in financing for the purchase of the Judicial Center building.

Additional Legislation

No relevant information to report.

Judicial - Office of Indigent Defense

G. S. 7A-498.3 Responsibilities of Office of Indigent Defense Services

Agency Description:

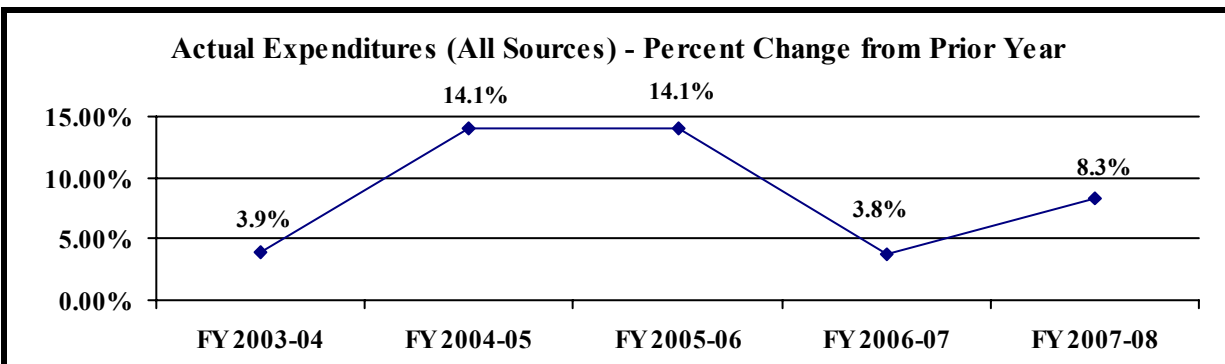
The Office of Indigent Defense Services (OIDS) was established in 2000 to carry out the State’s constitutional responsibilities to provide legal representation to indigent defendants and others entitled to counsel under North Carolina law. The Office’s responsibilities are to (1) oversee the provision of legal counsel to indigent defendants in matters before the State courts, with such legal representation and counsel provided either by court-appointed private attorneys or by staff attorneys employed by OIDS; (2) administer the Sentencing Services Program which assesses offenders and provides detailed sentencing plans to the courts prior to sentencing; and (3) provide legal advice and assistance to Department of Correction inmates.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	105,408,413	109,383,079	118,482,030	124,427,406
Revenue	10,615,308	11,850,458	10,268,642	8,871,115
Net Appropriations	\$94,793,105	\$97,532,621	\$108,213,388	\$115,556,291
Positions (FTE)	371.75	376.50	376.50	376.50

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The certified budget for OIDS is \$124,427,406 in FY 2008-09, with 92.9% of OIDS’ cost supported by the General Fund appropriation and 7.1% funded from receipts, budgeted at \$8,871,115. The FY 2008-09 certified budget is 5.0% higher than the actual amount spent in FY 2007-08. OIDS’ expenditures in FY 2007-08 were \$118,482,030 and were offset by \$10.3 million in revenue. The chart below provides the annual percentage increases in the OIDS expenditures for each of the past five fiscal years, with an average annual increase of 8.8%. The primary cost drivers for OIDS in recent years are the growing demand for services and a \$10 increase in the hourly rate paid to private attorneys assigned to represent indigent persons.



Judicial – Office of Indigent Defense

Budget Tables

The following table provides a breakdown of Judicial – Office of Indigent Defense Services’ total General Fund operating budget.

Judicial - Office of Indigent Defense (12001 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Indigent Persons Attorney Fund	82,323,034	91,664,281
Public Defender Service	31,246,221	28,303,297
Indigent Defense Service (Administration)	2,095,833	1,683,397
Sentencing Services Program	2,816,942	2,776,431
TOTAL	\$118,482,030	\$124,427,406
Revenue	(10,268,642)	(8,871,115)
NET GENERAL FUND APPROPRIATIONS	\$108,213,388	\$115,556,291

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Funding for Private Assigned Counsel

The General Assembly appropriated \$1,135,000 nonrecurring to address the growth in demand and the expected shortfall in the *Indigent Persons Attorney Fund*.

Eliminate Public Defender Expansion Funds

S.L. 2007-323 provided \$1,570,057 recurring to expand the number of public defender offices and attorney positions around the State. S.L. 2008-107 eliminated these funds because the Indigent Services Commission did not recommend any new offices in FY 2008-09.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 14.1 Pilot Program for Alternative Scheduling

This provision authorized the Office of Indigent Defense Services (OIDS) to pilot an alternative scheduling program to reduce the amount of waiting time for attorneys in court.

Judicial – Office of Indigent Defense

Section 14.3 OIDS Expansion of Existing Public Defender Offices

This provision authorized OIDS to use up to \$2.3 million from funds appropriated for the Private Attorney Fee Fund to create new positions in Public Defender offices across the state.

Section 14.4 Repeal Public Defender Expansion Authority

The provision repealed Section 14.4(b) of S.L. 2007-323, which allowed OIDS to establish new public defender offices without prior action by the Legislature.

Select Programs and Other Budgetary Information

Private Attorney Fee Payments

The total FY 2008-09 appropriations is \$115,556,291, 6.8% greater than the Office of Indigent Defense Services' (OIDS) actual expenditures in the prior fiscal year. In FY 2007-08, for the first time since its inception, OIDS ended the fiscal year with a surplus, approximately \$51,000. Each year, rising indigency rates and increased private attorney costs outpace the growth in General Fund availability. In 2007, the Legislature appropriated \$4.8 million recurring to fund a \$10 increase in the hourly contract rate paid to private attorneys who represent indigent persons. The hourly rate increase, from \$65 to \$75, was effective January 1, 2008. For FY 2008-09, the first full year of the increase, \$8.5 million recurring was provided.

Cost Saving Initiatives

The General Assembly continued to address the need to contain the growing cost of indigent representation. Each year, the budget bill includes authorization for OIDS to spend up to a specified amount from the Indigent Persons Attorney Fund to establish new attorney and support positions in the public defender offices around the State. Generally, representation provided by the public defender offices costs less than that provided by contracted private attorneys. S.L. 2008-107 included two new provisions that seek to reduce the cost of providing representation to indigent persons. Section 14.7, *Feasibility Study on Providing OIDS with Indigent Case Information*, directs the Administrative Office of the Courts (AOC) and OIDS to consult to develop a statewide system to gather information earlier in the process for determining if persons are eligible for indigent defense services. Such a system would ensure that only persons who are truly indigent would receive services. Section 14.1, *Pilot Program for Alternative Scheduling*, allows OIDS to pilot an alternative scheduling program to reduce the amount of waiting time for attorneys in court. The office must pay attorneys for the time spent in court waiting for cases to be heard. A 2005 study indicated that between 20 and 30 percent of OIDS payments to attorneys was for the time spent waiting in court.

Additional Legislation

No relevant information to report.

Department of Juvenile Justice and Delinquency Prevention

G.S. 143B-516. Duties and powers of the Department of Juvenile Justice and Delinquency Prevention

Agency Description:

The Department of Juvenile Justice and Delinquency Prevention (DJJDP) is the cabinet agency responsible primarily for serving adjudicated juveniles and at-risk youth in a combination of increasing levels of restrictions from community-based programs to secure facilities. The sanctions given to a juvenile depend upon the level of the offense (minor, serious, and violent) and the history of delinquency (low, medium, and high).

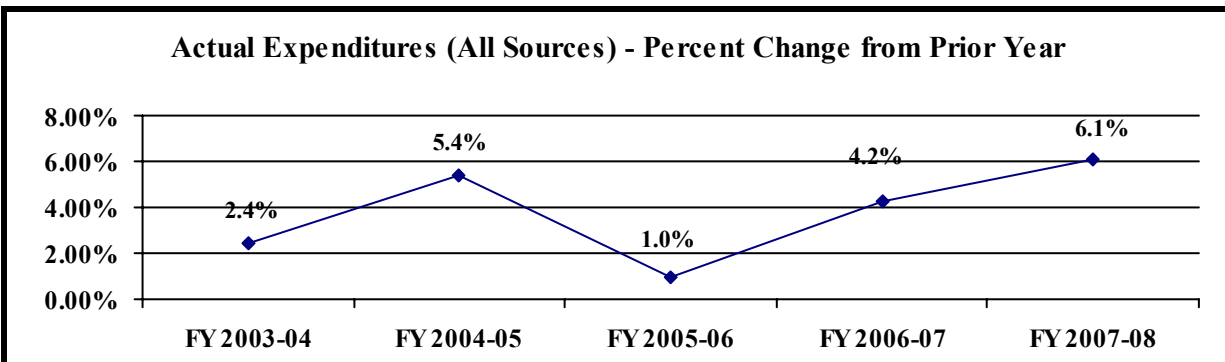
In 1998 the General Assembly ratified the Juvenile Justice Reform Act (S.L. 1998-202), which revised the Juvenile Code and established an Office of Juvenile Justice in the Governor’s Office. The new Office was created by merging the Division of Youth Services from Health and Human Services and the Juvenile Services Division from the Administrative Office of the Courts. On July 1, 2000, the Office of Juvenile Justice was elevated to a new cabinet-level agency, the Department of Juvenile Justice and Delinquency Prevention.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	149,716,036	156,053,380	165,506,123	170,530,579
Revenue	10,430,333	13,177,764	12,114,724	10,780,195
Net Appropriations	\$139,285,703	\$142,875,616	\$153,391,399	\$159,750,384
Positions (FTE)	1,890.00	1,952.00	1,902.00	1,973.60

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The certified budget for the Department of Juvenile Justice and Delinquency Prevention is \$170,530,384 for FY 2008-09. The FY 2008-09 budget is an increase of 3% from the actual expenditures for FY 2007-08. The average annual percentage change in the DJJDP budget from FY 2002-03 to FY 2007-08 is 3.8%. Net General Fund appropriations account for 93.7% of the Department’s budget, with major receipts derived from county detention receipts and a DHHS transfer for an afterschool program. The major budget drivers for DJJDP are detention centers, youth development centers (YDCs), and intervention and prevention programs. The operating cost of the State’s nine juvenile detention centers is \$17.1 million (10.1% of the certified budget); the operating cost of the five YDCs is \$54.6 million (32% of the certified budget), and the cost of providing intervention and prevention services is \$57.4 million (33.6% of the certified budget).



Department of Juvenile Justice and Delinquency Prevention

Budget Tables

The following table provides a breakdown of the Department of Juvenile Justice and Delinquency Prevention’s total General Fund operating budget.

Department of Juvenile Justice and Delinquency Prevention (14060—General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administrative Services	9,081,630	8,050,945
Detention Services	18,820,107	17,153,422
Youth Development Centers	47,796,146	54,589,344
Special Initiatives	23,381,652	24,189,340
Support our Students	8,941,040	8,901,468
Center for the Prevention of School Violence	393,571	287,394
Intervention & Prevention Services	57,091,977	57,358,666
TOTAL	\$165,506,123	\$170,530,579
Less Receipts	(12,114,724)	(10,780,195)
GENERAL FUND APPROPRIATIONS	\$153,391,399	\$159,750,384

The following table provides a breakdown of the funds administered by the Department of Juvenile Justice and Delinquency Prevention

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Juvenile Justice & Delinquency Prevention (14060- General Fund)	165,506,123	170,530,579
Juvenile Justice (24060-Special)	1,548,969	1,513,938
TOTAL	\$167,055,092	\$172,044,517

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Provide Detention Staffing

Department of Juvenile Justice and Delinquency Prevention

The General Assembly appropriated \$726,357 recurring funds for 30 additional detention-center staff, including one psychologist at each of the State's nine centers, one nurse at the Cumberland Detention Center, 18 additional youth-counselor technician and supervisor positions, and two additional cooks.

Restore and Expand Juvenile Crime Prevention Council (JCPC) Funding

The General Assembly restored \$22.6 million recurring for the JCPCs, which had been eliminated as a result of a continuation review, and provided \$500,000 recurring in expansion funds.

Eliminates Eckerd EFFORT Project Funds

The General Assembly eliminated \$2,695,662 for the Eckerd EFFORT project due to administrative barriers to implementing the project as envisioned.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 16.1 JCPC Grant Reporting and Certification

This provision modified the Department's report on JCPC grants, required in Section 18.2 of S.L. 2007-323, to include the number of at-risk, diverted, and adjudicated juveniles served in each county. In addition, it required the Department to report on its efforts to ensure that local JCPCs prioritize funding for adjudicated youth. The provision is the result of information received during the Continuation Review.

Section 16.2 Support Our Students (SOS) Grant Eligibility

This provision expanded the type of programs that are eligible to apply for SOS grants to include community-based non-profits, school systems, and local government agencies.

Section 16.3 JCPC Formula Revision

This provision directed the Department, the NC Juvenile Services Association, and the Community Alternatives for Youth, in consultation with the Fiscal Research Division, to develop and recommend a revision to the JCPC funding formula. The provision is the result of a recommendation from the Continuation Review.

Select Programs and Other Budgetary Information

The major legislative action in the 2008 session focused on Detention Centers and the results of the Continuation Review of Juvenile Crime Prevention Councils completed by the Department. Below are highlights.

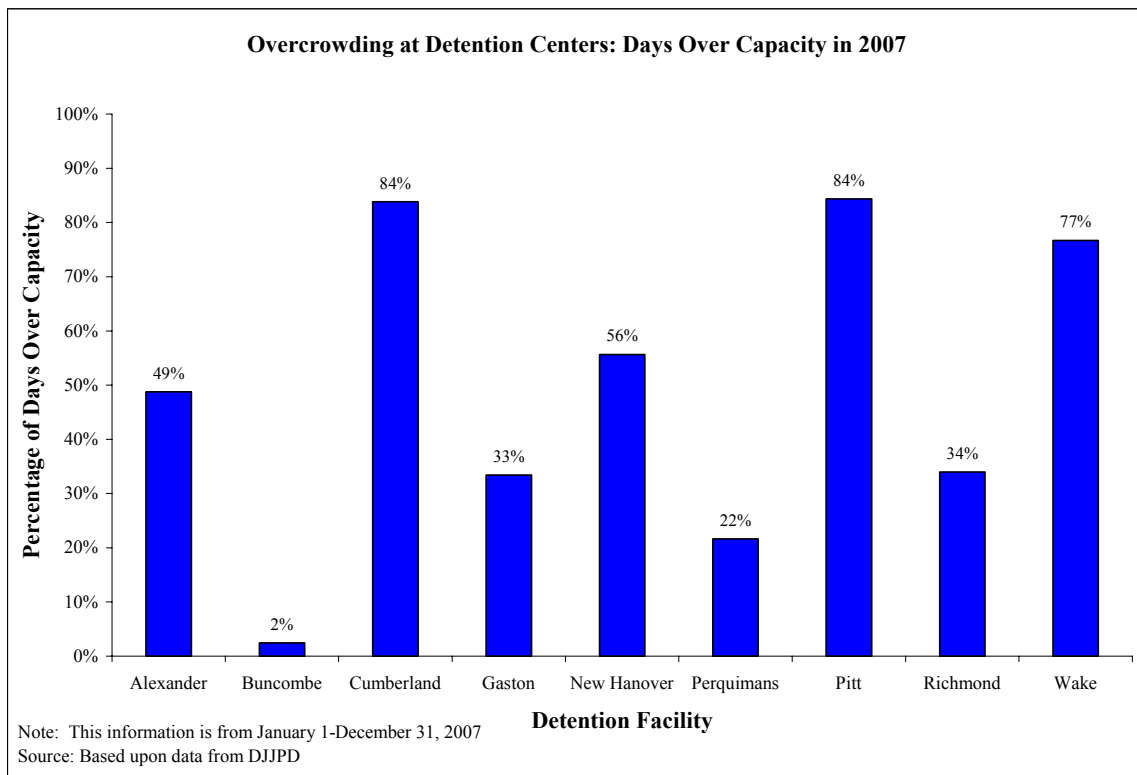
Division of Detention Services

This Division includes the nine state-owned detention centers and provides liaison services for the four county-operated detention centers in Durham, Forsyth, Guilford, and Mecklenburg counties. Detention Centers provide short-term, secure facilities for juveniles who are awaiting court, require a secure custody until another placement can be found, or

Department of Juvenile Justice and Delinquency Prevention

who have been adjudicated delinquent and have been ordered by a court to serve time in a facility.

In FY 2006-07, 7,844 juveniles were detained in the nine state facilities and four county detention facilities. Detention Services’ FY 2008-09 budget is \$17.1 million, including \$6.9 million in revenue from the counties. The Division employs 15.1% (299) of the Department’s 1,974 staff positions. Many of the state’s detention facilities face chronic problems with overcrowding, including Cumberland, Pitt, and Wake County (see below). These three facilities were overcrowded a majority of days in 2007 and were over their extended capacity (130%) more than one-third of the days.



In 2007, the General Assembly directed DJJDP to study the State-operated detention facilities, including whether the staffing levels were appropriate, housing capacity was adequate, repairs and renovations were needed, and the estimated costs to plan, design, and build new facilities. As a result of the Department’s report, the General Assembly provided 30 additional staff, including one psychologist position for each facility and additional security staff.

Division of Intervention and Prevention Services

This Division supports local Juvenile Crime Prevention Councils (JCPC) as mandated by G.S. 143B-543. JCPCs are intended to “develop community-based alternatives to youth development centers and to provide community-based delinquency and substance abuse prevention strategies and programs.” The Department supports local councils in the planning and implementation of prevention and intervention programs aimed at providing a continuum of services for youth at risk of delinquency.

Department of Juvenile Justice and Delinquency Prevention

S.L. 2007-323 eliminated \$22.4 million in recurring funding for JCPC, provided \$22.4 million nonrecurring funding, and mandated that the Department conduct a Continuation Review of the program. S.L. 2008-107 restored the recurring funding and provided an additional \$500,000 recurring. The Continuation Review questioned the current methodology for measuring JCPC program effectiveness. As a result, S.L. 2008-107 also removed the annual JCPC Effectiveness report from DJJDP and mandated that the Sentencing and Policy Advisory Commission conduct a feasibility study on measuring the effectiveness of JCPC programs. The final plan is due to the Chairs of the Appropriations Committees and the Justice and Public Safety Appropriations Subcommittee by May 1, 2009.

The Continuation Review also raised questions about the funding formula for the JCPCs. The General Assembly directed that the Department recommend a formula revision to the Joint Legislative Corrections, Crime Control, and Juvenile Justice Oversight Committee and the Justice and Public Safety Appropriations Subcommittee by December 1, 2008.

Additional Legislation

No relevant information to report.

General Government

Appropriations Subcommittee on General Government

Subcommittee Summary:

The General Government Subcommittees, consisting of 20 members of the General Assembly, review and recommend the budgets for the 15 state agencies and departments that make up the infrastructure for State government operations including collecting revenue, maintaining a banking operation, budgeting, investing state funds, maintaining a financial accounting system, constructing buildings and maintaining facilities, acquiring and managing real property, maintaining a human resources and payroll system, administering the State’s retirement systems, regulating the insurance industry, licensing businesses, administering elections, and preserving the State’s history.

Subcommittee Membership:

Rep. Bruce Goforth, Chair
 Rep. Alice Underhill, Chair
 Rep. Van Braxton
 Rep. Larry Brown
 Rep. George Cleveland
 Rep. Susan Fisher
 Rep. Ken Furr
 Rep. Sandra Hughes
 Rep. Garland Pierce
 Rep. Fred Steen
 Rep. Russell Tucker
 Rep. R. Tracy Walker
 Rep. Roger West

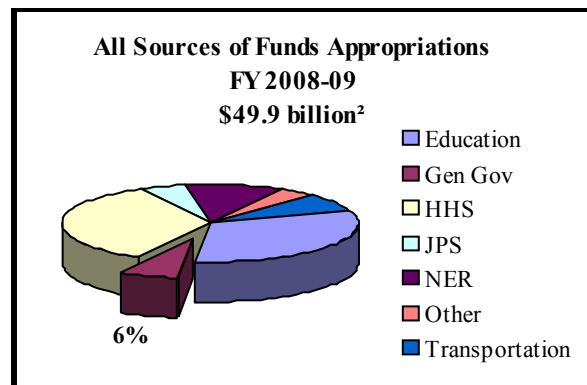
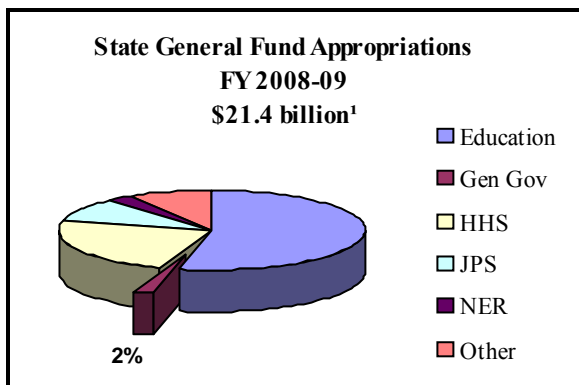
Sen. Janet Cowell, Chair
 Sen. Katie Dorsett, Chair
 Sen. Andrew Brock
 Sen. Malcolm Graham
 Sen. Neal Hunt
 Sen. John H. Kerr III
 Sen. Fred Smith

Staff:

Amna Cameron, Team Leader
 Anna Niles

Budget Comparison:

The combined budgets under the General Government Subcommittees total \$459.4 million or 2% of net General Fund appropriations. Of the \$49.9 billion in all funds reported for FY 2008-09, the total of all certified funds within General Government is \$3.1 billion or 6%. The following charts illustrate the General Government Subcommittees’ total as compared to other appropriations subcommittee totals:



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Department of Administration

G.S. 143B-367 Duties of the Department

Agency Description:

The Department of Administration acts as the business manager for North Carolina State government. The Department oversees government operations such as building construction, purchasing and contracting for goods and services, managing State vehicles, acquiring and disposing of real property, and operating auxiliary services such as courier mail delivery and the sale of State and federal surplus property. The Department also provides internal services to State agencies, including the maintenance of State-owned buildings and grounds and police security for State government facilities in Wake County. The Department also administers programs for underserved populations. For budgetary purposes, the Department includes the Office of State Personnel and the State Ethics Commission.

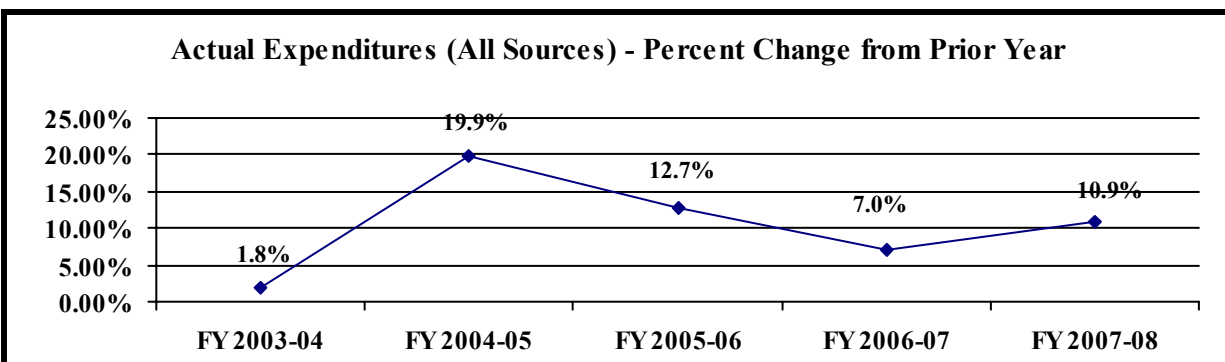
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	97,147,547	103,906,161	115,245,685	108,037,672
Revenue	35,235,425	37,725,456	40,496,038	35,801,090
Net Appropriations	\$61,912,122	\$66,180,705	\$74,749,647	\$72,236,582
Positions (FTE)	709.30	734.38	746.10	743.11

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Department of Administration totals \$108 million in FY 2008-09. 66.9% of the Department’s budget is funded by net General Fund appropriations. The remaining 33.1% of the Department’s budget is from State and federal receipts that are used to fully support the two State Veterans Homes (\$14.2 million) and primarily support the Veterans Affairs division (\$7.4 million) and the Agency for Public Telecommunications (\$5.4 million). Other divisions are partially supported by receipts.

Over the last five years, total expenditures have increased by an average of 10.4% annually. This change is due to programmatic expansions, increased federal receipts, and additional employees. The certified FY 2008-09 budget decreased 6.2% compared to the prior fiscal year as a result of the transfer of the Governor’s Advocacy Council for Persons with Disabilities to a non-profit entity. FY 2004-05 experienced the largest percent change within the last five years, 19.9%, due to programmatic expansions for the Council for Women and the Historically Underutilized Businesses division.



Department of Administration

Budget Tables

The following table provides a breakdown of the Department of Administration’s total General Fund operating budget by division. The budget includes the Office of State Personnel and the Ethics Commission. Divisions within DOA are grouped into three major categories: Internal Services, Government Operations, and the Secretary’s Office.

Dept. of Administration (14100 -General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Office of State Personnel	8,571,579	8,585,290
Ethics Commission	831,217	1,154,989
Secretary's Office:		
Office of the Secretary	1,320,443	1,231,674
Fiscal Management	1,597,998	1,430,701
Human Resources/MIS	1,692,164	1,786,424
Telecommunications	4,918,641	6,092,305
Veterans Affairs	28,353,576	28,318,403
Internal Services:		
Non-Public Education	354,941	330,045
Historically Underutilized Businesses	1,182,082	937,108
Council for Women	11,681,735	12,347,262
Human Relations Commission/MLK	928,765	735,232
Commission on Indian Affairs	665,761	508,094
Youth Involvement Office	1,003,197	923,136
State Capital Police	4,436,596	3,695,416
GACPD	692,446	0
Government Operations:		
State Construction/State Building Commission	4,474,244	4,625,095
State Property	2,313,828	1,912,200
Facilities Management	28,981,578	24,838,925
State Energy	7,343,783	3,945,000
Purchasing and Contracts	3,651,604	3,817,168
Other:		
Transition Team / Governor's Inauguration	0	420,000
Pension – Surviving Spouses	12,000	12,000
Reserves and Transfers	237,502	391,205
TOTAL	\$115,245,685	\$108,037,672
Revenue	(40,496,038)	(35,801,090)
NET GENERAL FUND APPROPRIATIONS	\$74,749,647	\$72,236,582

Department of Administration

The following table provides a breakdown of funds* administered by the Department of Administration, including the General Fund operating budget.

Total Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
Dept of Administration (14100 – General Fund)	115,245,685	108,037,672
Internal Service (74100 - Internal Service Fund)	56,917,386	62,186,130
Internal Service (Parking) (74103 - Special Revenue Fund)	155,111	4,887,834
Special Fund (24100 - Special Revenue Fund)	14,292,813	13,174,089
Special Unbudgeted Fund (24102 - Special Revenue Fund)	825,438	972,078
Special Revenue GF (24104 - General Fund)	290,325	4,515,378
DOA Trust (64100 - Special Revenue Fund)	2,000	2,000
Veteran Trust (64106 - Special Revenue Fund)	16,196,426	17,181,130

Note:

* Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

The Department uses two Internal Service Funds for divisions that provide goods or services to State agencies or other governments on a cost-reimbursement basis. In FY 2008-09, the total requirements are \$60,137,128 for Fund 74100 and \$4,887,834 for Fund 74103. The Department also maintains two Special Funds. Fund 24100 is fully receipt supported by federal funds for use by DOA, the Office of State Personnel, the State Energy Office, the Housing Finance Agency, and the Job Training Partnership Act through the Department of Labor. Fund 24104 is used primarily for funds from a reserve established by the General Assembly to improve the energy efficiency of State government buildings. In FY 2008-09, the total requirements are \$13,174,089 for Fund 24100 and \$4,515,378 for Fund 24104.

Department of Administration

Current Operations	Balance	Actual	Certified	Positions
	(as of June 30, 2008)	FY 2007-08	FY 2008-09	
Internal Service (74100)				
Motor Fleet	16,372,984	38,202,102	43,145,742	46
State Surplus Property	1,150,949	1,718,045	1,646,226	30.75
Mail Service Center	-940,230	4,018,999	4,290,312	85.5
State Parking	0	0	-32,580	1
Federal Surplus Property	754,389	639,683	660,449	9.25
Temporary Solutions Program	-94,829	12,338,557	12,475,980	7
Total - Internal Service	\$17,243,263	\$56,917,386	\$60,137,128	192.25
Internal Service (74103)				
State Parking	0	1,565,111	4,887,834	12.75
Total - Internal Service	0	1,565,111	4,887,834	12.75
Special Fund (24100)				
OSP Programs/Flex	462,214	2,972,491	3,416,093	7.5
State Energy Office	-35,790	5,169,521	4,080,927	8
FHA HUD	-256,032	352,482	446,323	5
Other	1,799,134	5,622,680	5,230,746	16.25
Total - Special Fund	\$1,969,526	\$14,117,174	\$13,174,089	37.75
Special Fund (24104)				
NC Works	-31,822	226,444	15,378	0
Energy Efficiency Reserve	4,976,119	23,881	4,500,000	0
Total - Special Fund	\$4,944,297	\$250,325	\$4,515,378	37.75

Motor Fleet (74100)

Balance: \$16,372,984 (as of June 29, 2008)

The Motor Fleet Management Division was created by the Legislature in 1982 as the central fleet agency for all of State government. The Division supplies passenger vehicle transportation to State employees for use while performing their official duties. The Division is fully supported by fees that State agencies pay to use the vehicles. Agencies are charged on a per-mile basis of \$0.33. To reduce the fleet's use of fossil fuels, the fleet includes 5,502 alternative fuel and 132 hybrid vehicles.

State Parking (74103)

Balance: \$0 (as of June 29, 2008)

The State Parking Division was created in 1999 to oversee the downtown Raleigh State government complex. The Division manages parking for full-time and temporary State employees and visitors. Parking rates have remained the same since fees were implemented for

Department of Administration

State employees, who pay \$10 per month for parking lots and uncovered parking at the top of parking decks and \$15 per month for covered parking. Visitor rates increased from \$0.50 to \$1 per hour in August 2006. Revenue generated from visitor and State employee parking fees fully supports the operations of the State Parking Division, including the debt service on State-owned parking decks.

Significant Legislative Budget Actions

Rape Crisis Program

The General Assembly appropriated \$1 million in recurring funding for FY 2008-09 to the Sexual Assault and Rape Crisis Center Fund for sexual assault and rape crisis services.

Domestic Violence Center

The General Assembly raised the divorce filing fee from \$55 to \$75. The revenue generated by the additional \$20 is dedicated to the Domestic Violence Center Fund for domestic violence shelters.

State Ethics Commission Expansion

The Commission received \$183,034 recurring and \$238,000 nonrecurring in FY 2008-09 for one Attorney position, contractual staff to reduce its work backlog, additional operating costs, moving expenses, and leased office space.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 19.1 Sexual Assault and Rape Crisis Center Fund

This provision amends G.S. 143B by adding a new section that codifies the Sexual Assault and Rape Crisis Center Fund, administered by the North Carolina Council for Women. Additional information on grants administered by the Council for Women is contained in the "Select Programs and Other Budgetary Information" section.

Section 19.2 Scholarships for Children of War Veterans

This provision modifies G.S. 165-21, which dictates the level of benefits and qualifications for the Scholarships for Children of War Veterans. The General Assembly amended the benefits so that scholarship recipients will receive the tuition amount required to attend their specific State educational institution. This provision also amends the room and board allowances for recipients attending a State educational institution. Recipients will now receive a standard allowance that is specific to a State educational institution in addition to matriculation and other institutional fees required by the institution. Section 19.2 includes a requirement that the total of scholarships awarded to the recipient may not exceed the cost of attending the State educational institution. This section also amends the definition of "State education institution" in G.S. 165-20(6) to mean any constituent institution of The University of North Carolina or any community college operated under the provisions of G.S. 115D.

Department of Administration

Select Programs and Other Budgetary Information

Office of State Personnel

The Office of State Personnel is an independent agency that is placed within the Department of Administration for budgetary purposes. The Office's director is appointed by and reports to the Governor. This Office oversees all central human resource operations within State government, including position management, compensation management, and record keeping. The FY 2008-09 budget for the Office is \$8,585,290.

The Office is currently implementing the career banding program for all positions subject to the State Personnel Act. Career banding is the melding or grouping of similar jobs or tiers of jobs into relatively wide pay bands. Since April 2008 the Office has worked with the University System to implement the career-banding program for UNC employees. The universities have completed reallocating approximately 27,405 positions into banded classes. This reallocation resulted in the universities moving from using approximately 900 graded classes to 186 banded classes. The OSP Career Banding Team worked with university human resources staff to train supervisors in the employee competency assessment, salary administration, and recruitment. It is projected that the universities will have all employee competency assessments completed by the end of December 2008. OSP has also been working with agencies on implementing career banding for the statewide critical occupational areas of Fiscal, Engineering, Nursing, Pharmacy, and Library.

Grants Awarded by the Council for Women/Domestic Violence Commission

The Department of Administration's Council for Women/Domestic Violence Commission administers three grant programs for domestic violence, rape crisis, and displaced homemakers. The Office of the Governor issued a Memorandum of Understanding in August 2007 to shift the administration of funds for rape crisis and domestic violence grants to the Department of Crime Control and Public Safety. This memorandum has since been abolished. The Council for Women will administer the domestic violence and rape crisis grants in FY 2008-09.

Domestic Violence

Domestic violence grants are funded by State appropriations and a portion of the marriage license and divorce fees. These grants from the Domestic Violence Center Fund, G.S. 50B-9, are noncompetitive. Every county has one domestic violence grantee, except for Guilford and Gates counties, which each have two. Each county grantee and the North Carolina Domestic Violence Coalition receive an equal percentage of the domestic violence funds that are appropriated annually with one exception – the two Gates County grantees split one share of the appropriation. The two Guilford County grantees receive an equal share of the appropriations.

In FY 2007-08, the Council approved grants from State appropriations totaling \$6,612,389, or \$49,338 per share, for domestic violence programs. Centers received \$1,196,378 in fees generated from marriage licenses that same year. The 2008 General Assembly increased the divorce filing fee from \$55 to \$75 to generate additional funds for the Domestic Violence Center Fund. The \$20 per filing generated from this increase will go toward domestic violence centers and the original \$55 will continue to go to the Displaced Homemakers program.

Department of Administration

Sexual Assault/Rape Crisis

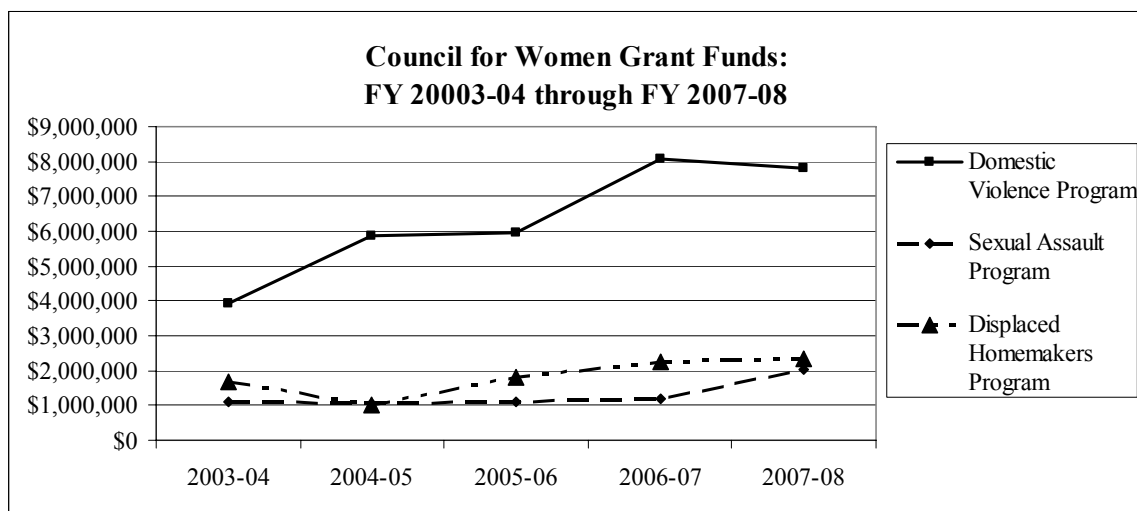
Sexual assault grant funds are appropriated annually by the General Assembly and are distributed to programs that offer these services. In FY 2007-08, stand-alone rape crisis and sexual assault providers and the NC Coalition Against Sexual Assault received \$50,000. Dual service providers split the remaining funds and received \$20,346 each. In FY 2007-08, 76 grantees received grants from the Sexual Assault and Rape Crisis Center Fund, totaling \$2,033,290.

The 2008 General Assembly provided \$1 million (S.L. 2008-107, Sec. 19.1) for the Sexual Assault and Rape Crisis Center Fund for FY 2008-09. This brings the budget for Sexual Assault and Rape Crisis to \$3,045,521 for FY 2008-09. Section 19.1 of S.L. 2008-107 codifies the Sexual Assault and Rape Crisis Center Fund and directs the North Carolina Council for Women to administer it. The funds are to be distributed in two shares: The NC Coalition Against Sexual Assault and centers that only provide sexual assault and rape crisis services are to receive an equal share of 35% of the funds, \$1,065,932. The remaining 65% of the funds, \$1,979,589, are to be distributed equally to organizations that provide sexual assault or rape crisis as well as domestic violence services or other support services.

Displaced Homemakers

Displaced homemaker grant funds are appropriated from the General Fund, G.S. 143B-394.10, and from a portion of the divorce filing fee. The grants are awarded on a competitive basis and are primarily used for job training and life skills training. Potential grantees must submit an application to the Council for Women to receive these funds. The Council awarded \$314,995 from State appropriations and \$1,613,466 from divorce filing fees in grants for displaced homemakers in FY 2007-08. No additional funds were appropriated by the 2008 General Assembly.

The following chart shows the history of the Council for Women grant funds since FY 2003-04.



Department of Administration

State Ethics Commission

S.L. 2006-201 established the State Ethics Commission to regulate and enforce the ethics law in each of the three branches of government. The Commission enforces the State Government Ethics Act (G.S. 138A) and portions of the lobbying law (G.S. 120C). The Commission is charged with receiving and evaluating disclosure statements for high-level officials and government appointees, educating covered employees and appointees, and issuing advisory opinions. The Commission also investigates probable violations in the executive branch. The legislative and judicial branches have in-house investigative authority. Prior to the Commission's establishment, the Board of Ethics had been authorized by Executive Orders issued beginning in 1977. Governor Easley terminated the Board of Ethics by Executive Order Number 116 on January 26, 2007.

Compared to FY 2005-06, the staff has increased from three to ten and the budget increased from \$224,818 to \$1,154,989 in FY 2008-09.

Additional Legislation

S.L. 2008-149 (SB 1681) Smoke-Free Motor Fleet

This bill prohibits smoking inside State-controlled passenger vehicles.

S.L. 2008-203 (SB 1946) Codify Energy Efficiency in Public Buildings

This bill repeals the Sustainable Energy Efficient Buildings Program in DOA and establishes new criteria for the construction of State buildings.

S.L. 2008-215 (SB 1875) Clarify Auditor Hotline Authority/State Ethics Commission

This bill clarifies that the State Ethics Commission is the sole State agency with authority to rule on compliance with the State Government Ethics Act and to issue interpretations and advisory opinions on the ethics laws.

Office of the State Auditor

NC Constitution, Art. III, Section 7 Other elective officers; G.S.147-64.6 Duties and responsibilities

Agency Description:

The Office of the State Auditor performs and coordinates audits of governmental organizations, programs, activities, and functions funded wholly or in part with State funds. The purpose of the audits is to examine an agency’s financial records or evaluate a program’s performance or to investigate fraud and abuse allegations reported to the hotline. The Office also assesses the security of the State’s information technology systems.

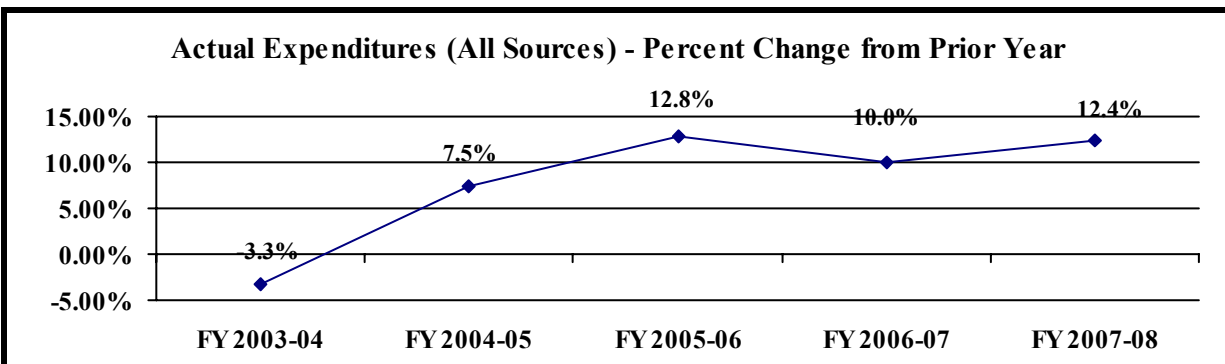
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	15,014,305	16,508,636	18,559,930	15,885,438
Revenue	3,724,781	4,241,240	5,524,956	3,422,897
Net Appropriations	\$11,289,524	\$12,267,396	\$13,034,974	\$12,462,541
Positions (FTE)	192.00	192.00	192.00	192.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the State Auditor is \$15.9 million in FY 2008-09. Approximately 78% of the Auditor’s budget is derived from net General Fund appropriations. Receipts are reimbursement for audits of certain State agencies. The FY 2008-09 budget decreased 14.4% over FY 2007-08 actual expenditures due to nonrecurring funding and reductions in the operating budget.

Over the last five years, the average percentage change in actual expenditures was 7.8%. The actual FY 2005-06 budget was \$1.5 million more than the FY 2005-06 certified budget because the Office received \$1.1 million more in receipts from State agencies than were budgeted. The FY 2006-07 budget included \$554,336 in unused funds from the prior year. The FY 2007-08 revenues are less compared to FY 2006-07 because the State Auditor expected \$600,000 less in reimbursements for audits. These two factors led to the decrease in revenues between FY 2006-07 and FY 2007-08.



Office of the State Auditor

Budget Tables

The following table provides a breakdown of the Office of the State Auditor’s total General Fund operating budget by division.

Office of the State Auditor (13300 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	1,262,135	724,228
Support Services	463,084	340,720
Field Audit	16,834,711	14,820,490
TOTAL	\$18,559,930	\$15,885,438
Revenue	(5,524,956)	(3,422,897)
NET GENERAL FUND APPROPRIATIONS	\$13,034,974	\$12,462,541

The following table provides a breakdown of funds* administered by the Office of the State Auditor, including the General Fund operating budget.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Office of State Auditor – (13300 - General Fund)	18,559,930	15,885,438
Office of State Auditor – (23300 - General Fund)	266,371	179,117
TOTAL	\$18,826,301	\$16,064,555

Note:

* Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Office of the State Auditor

No relevant information to report.

Select Programs and Other Budgetary Information

Audits of Non-Governmental Organizations

In FY 2004-05, the Office of the State Auditor created the Public Audit Interface Division to oversee State grants to non-governmental organizations (NGO). This new division enabled the State Auditor to restructure the audit process for NGOs, which increased the amount of training available, provided audit information online, and increased monitoring and oversight. The Division has been renamed to the Management Services and Nongovernmental Compliance Division.

S.L. 2004-196 made significant changes to the process for NGOs to report the receipt and expenditure of State funds and became effective July 1, 2005, for the 2006 reporting period. G.S. 143-6.2 (replacing G.S. 143-6.1) increased reporting requirements for NGOs in order to provide a consolidated and uniform report on the use of State funds. The threshold for a full audit increased from \$300,000 to \$500,000 received in State funds. Additionally, NGOs receiving \$25,000 to \$500,000 must submit a list of program activities and a schedule of receipts and expenditures. Prior to the change, NGOs receiving less than \$15,000 in State funds had no reporting requirement. The new law requires all NGOs that receive funds to, at minimum, file a compliance report. The statutory reference changed from G.S. 143-6.2 to G.S. 143-6.23 effective July 1, 2007.

In 2007, State agencies reported on \$641 million in total grants to NGOs. The Department of Health and Human Services distributed the most grant funds to NGOs of any State agency, accounting for 26% of total grants. The number of noncompliant NGOs decreased from the previous year, moving from 25.3% to 12.5%. The noncompliant NGOs for 2007 accounted for only 0.4% of total grant funds. This compared to 7.9% of total grant funds in 2006.

Additional Legislation

S.L. 2008-215 (SB 1875) Clarify Auditor Hotline Authority

S.L. 2008-215 directs the Auditor to refer allegations of criminal misconduct to the State Bureau of Investigation or the District Attorney. Allegations of violations of the State Government Ethics Act, Lobbying Act, or the Legislative Ethics Act are to be referred to the State Ethics Commission. Allegations of violations of the State election laws are to be referred to the State Board of Elections. The Auditor will provide the means for reporting allegations, including a telephone hotline, electronic mail, and the Internet.

Department of Cultural Resources

G. S. 143-406 Organization and Duties

Agency Description:

The Department of Cultural Resources houses divisions that oversee and support arts, history, and culture within North Carolina. The agency’s largest divisions include the Museums of Art and History; the Arts Council, which provides grant funds to local arts organizations throughout the State; the State Library; and Archives and History, which manages the State’s 27 historic sites. The Department is a major source of funding to local governments and local arts organizations, passing through over \$15.0 million in aid for public libraries and \$7.0 million in arts grants and direct appropriations.

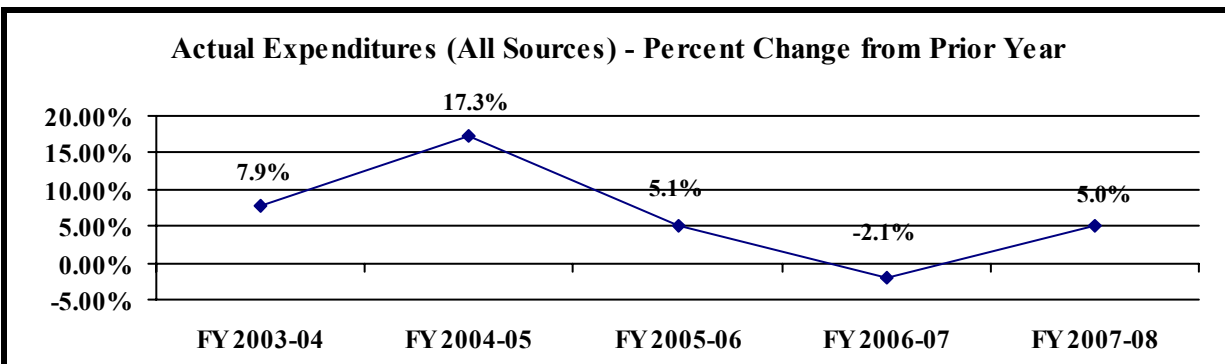
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	81,794,792	80,074,412	84,083,833	83,449,981
Revenue	8,020,177	8,847,762	8,077,704	7,783,190
Net Appropriations	\$73,774,615	\$71,226,650	\$76,006,129	\$75,666,791
Positions (FTE)	729.23	748.16	770.16	785.16

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The Department’s budget is \$83.4 million for FY 2008-09. The FY 2008-09 budget is 0.7% less than actual FY 07-08 expenditures. The Department received \$4.2 million in nonrecurring funds and received a \$439,633 reduction in recurring funds in the 2008 budget. Approximately 90.7% of the Department’s budget is derived from net General Fund appropriations. The remainder of the budget is funded with receipts from admission fees or sale of materials. The largest revenue source is a federal grant (\$4.5 million budgeted for FY 2008-09) distributed to the counties through the Aid to Public Libraries program.

Over the last five years, the average percentage change in actual expenditures was 6.6%. The budget grew 17.3% in FY 2004-05 due to nonrecurring appropriations that totaled \$12.6 million, including a \$9.2 million reserve for operating funds for the Exploris Museum in Raleigh and for planning funds for the Marine Corps Museum of the Carolinas.



Department of Cultural Resources

Budget Tables

The following table provides a breakdown of the total General Fund operating budget for the Department of Cultural Resources by program area.

Department of Cultural Resources (14800 -General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Central Administration		
Secretary's Office/Western Office	2,807,247	2,005,586
Administrative Services	2,342,457	2,168,145
Arts		
Statewide Programs and Grants	23,130,164	23,520,622
Arts Council	11,332,856	11,459,736
NC Symphony	2,803,406	2,699,614
Museum of Art	5,370,408	4,959,959
History		
Archives and History/Records	6,061,600	5,498,771
Historic Publications and Historic Preservation	2,550,498	2,489,545
History Museums	8,708,703	8,216,408
State Historic Sites	12,347,294	12,084,312
State Archeology	1,226,404	1,069,101
Other		
Library Services	5,240,478	5,479,081
Reserves	162,319	1,799,101
TOTAL	\$84,083,833	\$83,449,981
Revenue	(8,077,704)	(7,783,190)
NET GENERAL FUND APPROPRIATIONS	\$76,006,129	\$75,666,791

The following table provides a breakdown of the funds* administered by the Department of Cultural Resources, including the General Fund budget.

Department of Cultural Resources

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Cultural Resources (14800 - General Fund)	84,083,833	83,449,981
DCR Special (24800 - Special Revenue Fund)	556,165	497,240
DCR Art Museum (24801 - Special Revenue Fund)	8,593	10,000
DCR Special (24803 - Special Revenue Fund)	2,270,451	331
DCR Tryon Palace (24804 - Special Revenue Fund)	150,000	0
DCR Enterprise (54800 - Enterprise Fund)	111,298	94,032
TOTAL	\$87,180,340	\$84,051,584

Note:

*Total Appropriations by Fund as presented reflects only those funds as certified by the Office of State Budget and Management.

Other Funds

Cultural Resources Enterprise Fund (54800)

Balance: \$8,228 (as of June 29, 2008)

The Cultural Resources Enterprise Fund is the collection point for the sales desks at five of the 27 State historic sites: Bentonville Battlefield, Reed Gold Mine, Historic Halifax, James K. Polk Memorial, and Vance Birthplace. Revenues generated at the remaining 22 historic sites are kept by the non-profit group that is established to support the specific site. Gift shops or sales desks at each site sell material related to their mission. Revenues from these sales that are deposited into the Enterprise Fund are collected into one fund and may be used to purchase materials, enhance exhibits, and present programs at any of the historic sites.

Actual receipts were \$90,332 and actual expenditures were \$111,298 in FY 2007-08. The FY 2008-09 certified budget reflects anticipated receipts of \$94,032.

Significant Legislative Budget Actions

International Civil Rights Museum

The General Assembly appropriated \$500,000 nonrecurring to the International Civil Rights Museum for capital costs. The museum, a private non-profit located in Greensboro, has received \$3,055,000 in General Fund appropriations to date. The museum is expected to open in early 2010.

cARTwheels

The General Assembly provided \$1 million nonrecurring to the cARTwheels program in the Department of Cultural Resources. This program provides opportunities for school-age children to experience opera, dance, music, or theater performances in their own communities. The Arts Council will award the funds on a competitive basis to performing

Department of Cultural Resources

arts companies that provide the performances. During Fiscal Year 2007-08 the program funded performances in 48 counties.

(S.L. 2008-107, Section 19A.3(a))

Grassroots Arts/Basic Grants Program

The General Assembly appropriated \$500,000 nonrecurring to the Grassroots Arts Program. The General Assembly also provided \$175,000 nonrecurring to the Basic Grants Program. Additional information about these programs may be found in the “Select Programs and Other Budgetary Information” section.

Aid to Public Libraries

The General Assembly appropriates over \$15 million annually to the Department for distribution to counties for the operation of public libraries. This year, the General Assembly increased that appropriation by \$1,000,000 nonrecurring. Libraries are expected to match these State appropriations with a 25% maintenance of effort appropriation.

African-American Heritage Commission

The General Assembly provided \$32,500 in recurring funds for the newly-established African-American Heritage Commission.

(S.L. 2008-107, Section 19A.2)

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 19A.2 Establish African-American Heritage Commission

Section 19A.2 creates the African-American Heritage Commission within the Department of Cultural Resources to advise and assist the Department’s Secretary in the preservation, interpretation, and promotion of African-American history, arts, and culture. Of the ten members, four are appointed by the Governor, three are appointed by the President Pro Tempore of the Senate, and three are appointed by the Speaker of the House of Representatives.

Section 19A.3 Cartwheels Program

This provision requires the North Carolina Arts Council to administer cARTwheels grants through a competitive application process. While grants may be awarded to previous grantees, the provision requires that at least 25 percent but no more than 50 percent of the total grant funds be awarded to professional performing arts groups that have not received cARTwheels grants previously. Section 19A.3(b) requires the Department to report on the cARTwheels Program by December 1, 2008. This report will include a summary of the competitive application process used to select grantees; a list of the arts groups that submitted an application; the allocation of funding to the arts groups selected; and the schedule of performances for FY 2008-09.

Department of Cultural Resources

Select Programs and Other Budgetary Information

Arts Council Basic Grants/Grassroots Arts Program Expansion

The NC Arts Council operates two large grant programs, the Basic Arts Grants Program and the Grassroots Arts Program. The Basic Arts Grants Program allocates money on a discretionary basis to arts organizations across the State that submit applications for specific projects. This program grew by 4.4% in FY 2008-09 to its current funding level of \$4.1 million. This includes the \$175,000 nonrecurring authorized by the 2008 General Assembly.

The Grassroots Arts Program is established in G.S. 143B-121. The program distributes funds for the arts, primarily through local arts councils, to all 100 counties using a per-capita-based formula. The formula allocates 20% of the funding among counties on an equal-share basis and allocates the remaining 80% on a per-capita basis. The FY 2008-09 appropriation to the program is \$3,239,500, which includes the \$500,000 nonrecurring authorized by the 2008 General Assembly. This program grew by 18.2% to a funding level of \$3.2 million in FY 2008-09.

Aid to Public Libraries

The General Assembly's support of public libraries began in 1941 with a \$100,000 appropriation. The General Assembly created the Aid to Public Libraries Fund in 1955. The intent of the Fund is to improve, increase, and equalize public library service. Under G.S. 125-79(c), the Department has broad authority to determine the most appropriate fund distribution. The statute requires the formula to consider "local needs, area and population to be served, local interest," and any other factors deemed appropriate. The formula is reviewed periodically by the NC Public Library Directors' Association and was re-approved by that group in December, 2005.

Funds are distributed to the 77 regional, county, and municipal library systems that serve North Carolina's 100 counties. The FY 2008-09 appropriation to the Fund is \$16,495,451, which includes the \$1 million nonrecurring authorized by the 2008 legislature. Of these funds, 98.5% will be distributed to the 77 library systems. The Department will use the remaining 1.5% to administer the Fund, although G.S 125-89(d) allows a maximum of 7% for administrative overhead.

Additional Legislation

No relevant information to report.

Cultural Resources-Roanoke Island Commission

G. S. 143-199 Establishment and Purpose

Agency Description:

The Roanoke Island Commission (RIC) manages the historical and cultural assets of Roanoke Island. The Commission oversees Roanoke Island Festival Park, which commemorates the Roanoke voyages that occurred from 1584 to 1587 and subsequent Outer Banks history. The Festival Park includes a replica of the Elizabeth II sailing vessel. The Commission is budgeted under the Department of Cultural Resources, but is independent for operational purposes.

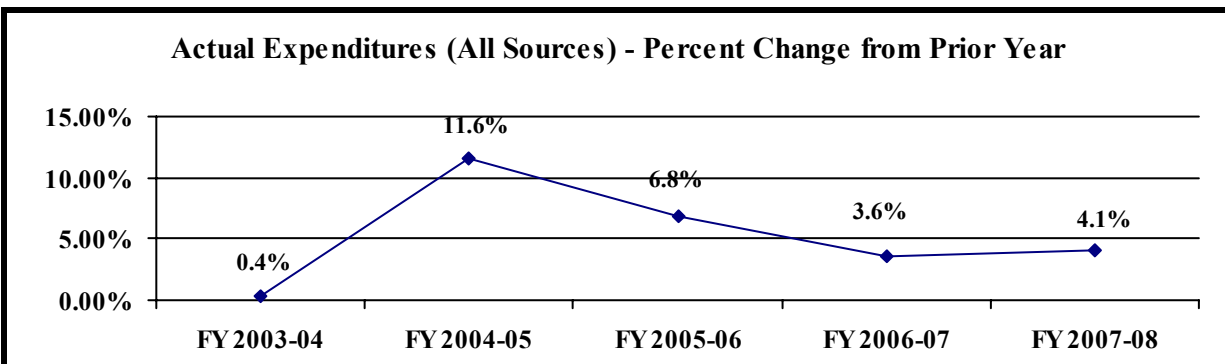
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	1,954,666	2,025,159	2,108,824	2,005,023
Revenue	0	0	0	0
Net Appropriations	\$1,954,666	\$2,025,159	\$2,108,824	\$2,005,023
Positions (FTE)	43.00	48.00	47.00	47.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

RIC operates with a budget of \$2,005,023 for FY 2008-09. This Budget Code (14802) does not include the revenues generated on site. Net General Fund appropriations are transferred to a Special Fund to be used to support the site’s staffing and operating costs. The Special Fund includes 75% of revenues generated in admission sales, but these revenues are not included in the Certified Budget for Budget Code 24802.

Over the last five years, General Fund appropriations have increased by an average of 5.3% annually. The 2003 and 2008 budgets included minor reductions to the RIC operating budget. The General Assembly has not given a direct increase in the appropriation to the RIC in the last five years. RIC’s budget has increased due to salary increases authorized by the General Assembly. RIC received an additional \$25,000 from the 2007 Energy Efficiency Reserve to repair and update its HVAC system.



Cultural Resources-Roanoke Island Commission

Budget Tables

The following table summarizes the Department of Cultural Resources' total General Fund operating budget for the Roanoke Island Commission (RIC).

Cultural Resources - Roanoke Island Commission (14802- General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
	2,108,824	2,005,023
TOTAL	\$2,108,824	\$2,005,023
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$2,108,824	\$2,005,023

The following table provides a breakdown of the funds* administered by the Roanoke Island Commission, including the General Fund operating budget.

Total Appropriation by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
Roanoke Island Commission (14802-General Fund)	2,108,824	2,005,023
Roanoke Island Special (24802-Special Revenue Fund)**	2,270,451	2,107,546
TOTAL	\$4,379,275	\$4,112,569

Note:

*Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

**The General Fund appropriation is transferred from Budget Code 14802 to Budget Code 24802. Revenues generated from admission fees are not included in the Certified Budget for Budget Code 24802. An adjustment was not made to reduce the amount transferred between the Funds. Therefore, the true total is \$2,005,023 less than what appears.

Other Funds

Roanoke Island Commission Fund (24802-2584)

Balance: \$238,838

Roanoke Island Endowment Fund (24802-2585)

Balance: \$2,083,130 (as of June 29, 2008)

Cultural Resources-Roanoke Island Commission

Budget Code 24802 contains an operating account (Fund 2584) and an endowment account (Fund 2585). These Funds are established by G.S. 143B-131.8, which directs that 75% of admission fees be deposited in the operating account while the remaining revenues are credited to the endowment account. Both Funds are non-reverting and administered by the Roanoke Island Commission (RIC). The General Fund appropriation to RIC is transferred to Budget Code 24802. All expenditures for the Roanoke Island Commission are made from the Commission’s Budget Code (24802).

The following table contains a history of expenditures and revenues from the Commission’s operating account since FY 2002-03. In FY 2007-08, the operating account had total expenditures of \$2.27 million and total revenues of \$2.37 million

Roanoke Island Commission Budget Code 24802, Fund 2584					
<u>FY</u>	<u>Total Expenditures</u>	<u>Transfer from General Fund</u>	<u>Total Revenues*</u>	<u>Unexpended Amount</u>	<u>June 30 Fund Balance</u>
2007-08	\$2,270,451	\$2,113,509	\$258,503	\$101,560	\$238,838
2006-07	\$2,159,434	\$2,025,159	\$250,115	\$115,840	\$137,278
2005-06	\$2,183,201	\$1,954,666	\$231,608	\$3,073	\$21,438
2004-05	\$2,019,500	\$1,816,577	\$216,805	\$13,882	\$18,366
2003-04	\$2,113,540	\$1,632,293	\$341,199	-\$140,048	\$4,483
2002-03	\$1,749,586	\$1,633,393	\$256,062	\$139,869	\$144,532
* Total Revenues consist mainly of the Admission Fees collected during the fiscal year. Other revenues that may appear here include: Interest Earnings, Sale of Surplus Property, and Other Misc. Revenue.					
Source: Department of Cultural Resources					

The following table lists the fund balance in the Commission’s endowment account since FY 2002-03. It has a fund balance of \$2.1 million at the end of FY 2007-08. It is the intent of the Roanoke Island Commission to build this endowment until its interest proceeds can support the site’s operations.

RIC Endowment Balance Budget Code 24802, Fund 2585	
	June 30
FY	Fund Balance
2007-08	2,083,130.12
2006-07	1,871,063.97
2005-06	1,692,894.62
2004-05	1,549,349.20
2003-04	1,427,209.59
2002-03	1,347,466.70
Source: Department of Cultural Resources	

Cultural Resources-Roanoke Island Commission

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

Friends of Elizabeth II, Inc.

The majority of State historic sites receive support from a non-profit group, often named as “Friends” of the site, incorporated solely to benefit that site. The Friends of Elizabeth II, Inc., is the nonprofit organization that supports the Roanoke Island Festival Park. Typically, State appropriations pay for an historic site’s operating costs and salaries and the Friends group provides programmatic support to the site.

Most Friends groups for historic sites receive funds generated on-site from gift shop revenues and from donations. Friends of Elizabeth II, Inc., receives revenue generated by gift shops at RIC Festival Park, through events held after operating hours, and from membership dues. In addition, the Friends group receives a commission on sales from an art gallery located in the Park. Members of the Friends group do not pay a separate admission fee to the Roanoke Island Festival Park.

G.S. 143B-131.2(b)(10) gives the Roanoke Island Commission (RIC) the authority to transfer funds that are controlled by RIC to the Friends of Elizabeth II, Inc. RIC transferred \$292,322 from the operating account within Budget Code 24802 in June 2008 to the Friends of Elizabeth II, Inc. The chart below shows transfers of State funds to the Friends of Elizabeth II over the last 5 years.

Transfers by Commission from Special Fund 24802 to Friends of Elizabeth II, Inc.

Fiscal Year	Amount	Account
2007-08	\$292,322	Operating
2006-07	\$238,918	Operating
2005-06	\$416,000	Operating
2004-05	\$500,543	Operating
2003-04	\$520,234	Operating
2003-04	\$132,531	Operating
2003-04	\$52,059	Endowment

Cultural Resources-Roanoke Island Commission

As of December 31, 2007, the Friends of Elizabeth II, Inc.'s investment and cash availability was \$7.5 million. It had additional assets totaling \$1.5 million, including museum store inventory, building and land holdings, and furniture and equipment.

The chart below summarizes its net assets from its last tax filing in 2006 as \$8.2 million.

Data from 2006 Federal Tax Filing, Form 990					
Revenues					
Direct Public Support	State Funds	Membership Dues	Museum Store Profit	Other	TOTAL REVENUE
\$33,363	\$416,000	\$25,240	\$140,327	\$561,963	\$1,176,893
Expenses					
Programmatic	Management/General	Fundrasing			TOTAL EXPENSES
\$251,623	\$22,177	\$13,144			\$286,944
Assets					
2006 Balance (Total Revenue less Total Expenses)		Carryforward from Prior Year			NET ASSETS
\$889,949		\$7,307,127			\$8,197,076

Additional Legislation

No relevant information to report.

General Assembly

NC Constitution, Article II Establishment, Powers and Duties

Agency Description:

The North Carolina General Assembly (NCGA) consists of the Senate, which has 50 members, and the House of Representatives, which consists of 120 members. The General Assembly meets in regular session beginning in January of each odd-numbered year, and adjourns to reconvene the following even-numbered year for a shorter session. Public and local laws governing the State are enacted during legislative sessions; however, legislative committees and commissions frequently meet in other months to conduct studies or develop policies for consideration by the entire body during a formal session. The institution requires support from six operating divisions providing bill drafting, program evaluation, fiscal analysis, general research and library services, and administration.

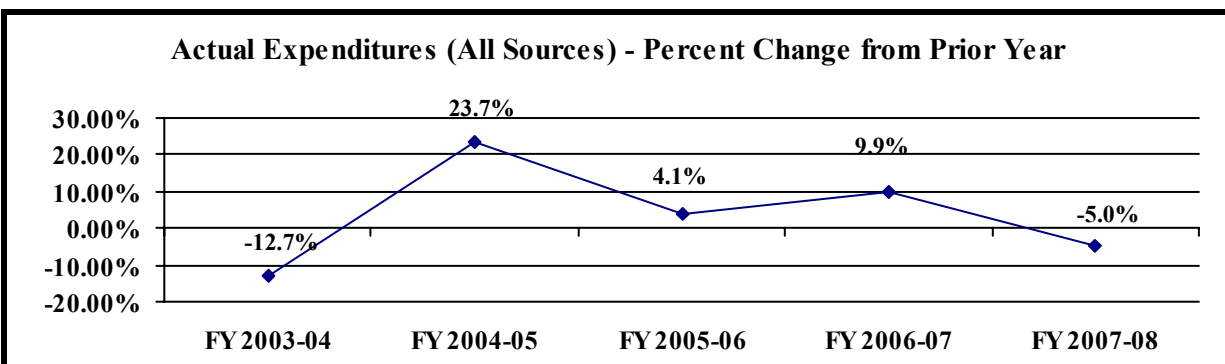
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	57,701,056	63,397,331	60,197,477	56,003,593
Revenue	13,486,446	13,304,213	13,808,680	1,143,807
Net Appropriations	\$44,214,610	\$50,093,118	\$46,388,797	\$54,859,786
Positions (FTE)	339.00	339.00	339.00	339.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The General Assembly’s budget is \$56.0 million for FY 2008-09. Approximately 2% of the Legislature’s budget is generated by receipts with the remaining funds derived from General Fund appropriations. Receipts are generated from the food-service operations in the Legislative Cafeteria and two snack bars. The change in receipts from prior years to FY 2008-09 is due to the inclusion of reversions in Actual figures that are not budgeted for in the Certified Budget. Approximately half of the budget is used for direct operation of the two houses of the legislature, while the remaining funds support the operating divisions.

The agency’s budget declined in FY 2007-08 and in FY 2008-09, but it had an average annual growth rate of 4.0% over a five-year period. The reductions in FY 2007-08 and FY 2008-09 are the result of line-item reductions to reserves, budgeting for fewer weeks that the General Assembly is in session, and temporary-employee salaries. It costs \$250,000 per week (\$1 million per month) to pay for the operations of the General Assembly when it’s in session.



General Assembly

Budget Tables

The following table provides a breakdown of the General Assembly's total General Fund operating budget.

General Assembly (11000 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
Senate	8,332,704	10,831,025
House of Representatives	11,960,587	18,600,957
Internal Operations:		
Administration	4,398,207	4,709,780
Building Maintenance	2,257,384	2,302,824
Food Service	1,622,827	1,669,345
Information Systems	5,051,481	5,473,152
Nonpartisan Divisions:		
Bill Drafting	2,560,740	2,892,537
Research	4,671,851	4,512,212
Fiscal Research	4,443,732	4,296,635
Program Evaluation	1,126,559	0
Other:		
Legislative Research	0	96,300
Institute of Government	201,398	85,000
Committees and Other Reserves	13,570,007	533,826
TOTAL	\$60,197,477	\$56,003,593
Revenue	(13,808,680)	(1,143,807)
NET GENERAL FUND APPROPRIATIONS	\$46,388,797	\$54,859,786

Note:

*The Program Evaluation Division will be funded from the General Assembly reserves until the 2009-11 biennium. General Assembly reserves are accounted for in the Actual budget amount as revenue, but are not budgeted for in the Certified Budget.

Other Funds

No relevant information to report.

General Assembly

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

General Assembly Reserve

G.S. 143C-1-2 (b) dictates that an appropriation to the General Assembly does not revert unless a reversion is directed to be made by the Legislative Services Commission. A memo dated June 23, 2008, from the Legislative Services Officer authorized the reversion of \$10 million at the end of FY 2007-08. In FY 2008-09, the General Assembly carried forward \$10,892,997 after reverting \$10 million.

Additional Legislation

No relevant information to report.

Office of the Governor

NC Constitution, Art. III Executive; G.S. 147-12 Powers and duties of Governor

Agency Description:

The Governor serves as the Chief Executive Officer and the Director of the State Budget. The Office of the Governor formulates and administers the policies of the executive branch of State government, manages a comprehensive budget for all State agencies, and executes the laws of the State of North Carolina.

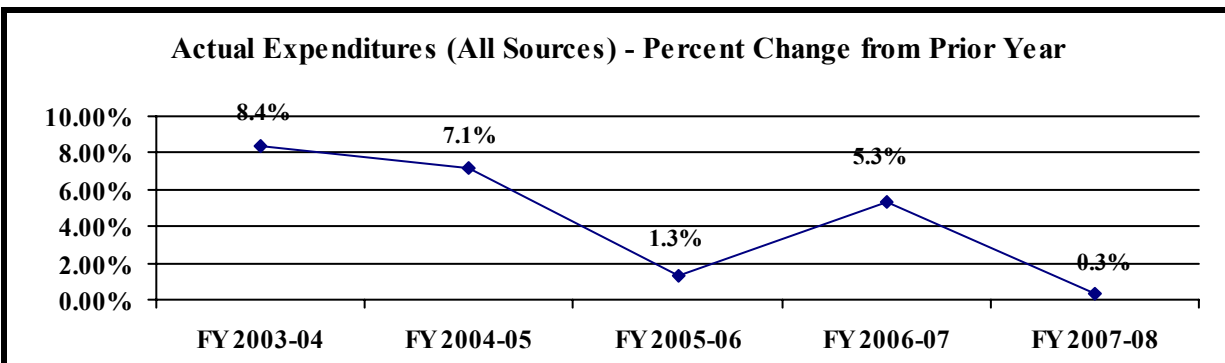
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	5,961,202	6,277,831	6,297,276	6,647,487
Revenue	307,241	470,691	456,594	431,105
Net Appropriations	\$5,653,961	\$5,807,140	\$5,840,682	\$6,216,382
Positions (FTE)	63.68	63.68	63.71	63.71

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Office of the Governor is \$6.6 million in FY 2008-09. The FY 2008-09 budget is 6.5% greater than the actual FY 2007-08 budget due to salary increases. Approximately 93% of the budget is derived from net General Fund appropriations. The remainder of the budget is funded from transfers from other State agencies, food services, and from receipts.

Over the last five years, total expenditures have increased by an average of 4.4% annually. Since FY 2002-03, the Governor’s budget has seen a 50% increase in receipts from food services and interagency transfers, a 29% increase in dues paid to national organizations, and a 33% increase in the budget for the Raleigh executive residence. In FY 2004-05, Governor Easley authorized the creation of the Center for 21st Century Skills within the Governor’s Office. Its budget for FY 2005-06 was \$243,831.



Office of the Governor

Budget Tables

The following table provides a breakdown of the Office of the Governor's total General Fund operating budget by program.

Office of the Governor (13000 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	3,563,164	3,913,782
Dues to National Organizations	454,355	464,975
Intergovernmental Relations	477,525	495,278
Citizens' Affairs	349,021	255,755
Education	511,392	564,928
21 st Century Skills	214,507	255,342
Raleigh Executive Residence	702,710	681,323
Western Executive Residence	24,603	16,104
TOTAL	\$6,297,276	\$6,647,487
Revenue	(456,594)	(431,105)
NET GENERAL FUND APPROPRIATIONS	\$5,840,682	\$6,216,382

The following table provides a breakdown of the funds* administered by the Office of the Governor, including the General Fund budget.

Total Appropriation by Fund	Actual FY 2007-08	Certified FY 2008-09
Governor (13000 - General Fund)	7,163,900	6,647,487
Governor Special (23000 - Special Revenue Fund)	351,984,338	2,816,343
Governor Interest Earning Special (23001 - Special Revenue Fund)	2,594,265	580,281
Information Technology Services ITS (24467 - Special Revenue Fund)	21,046,459	13,581,140
ITS Wireless Fund (24669 - Special Revenue Fund)	59,831,171	103,614,754
TOTAL	\$442,620,133	\$127,240,005

Note:

*Total Appropriations by Fund as presented reflects only those funds as certified by the Office of State Budget and Management.

Office of the Governor

Other Funds

Information Technology Services (ITS) Funds

Information on the ITS Funds is included in the "Information Technology" Section of this publication.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

NC Housing Finance Agency

G. S. 122A Establishment and General Powers

Agency Description:

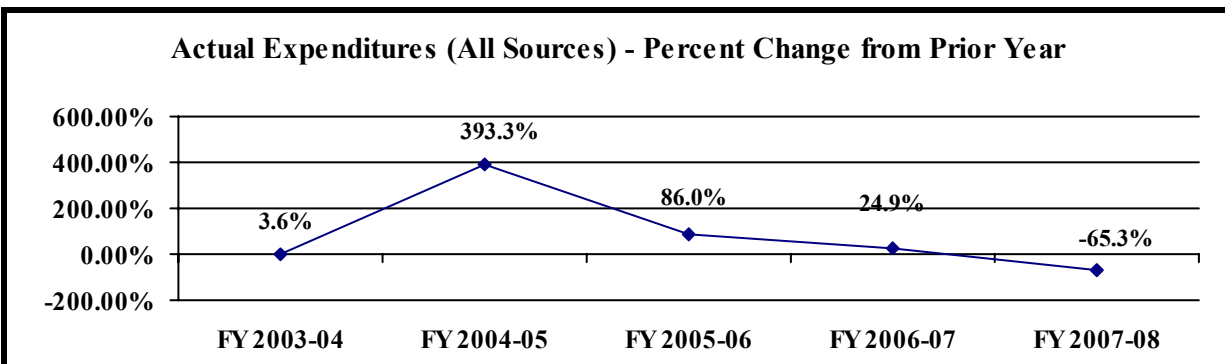
The Housing Finance Agency assists North Carolinians in achieving and maintaining home ownership. The agency provides resources to qualified applicants to purchase homes and provides incentives to builders to construct homes for lower-income homebuyers. State appropriations are used to fund programs, such as the Housing Trust Fund and the Home Protection Program, and are not used to fund staff or to operate the Housing Finance Agency.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	42,926,596	53,598,844	18,608,417	21,608,417
Revenue	32,475,651	31,410,399	0	0
Net Appropriations	\$10,450,945	\$22,188,445	\$18,608,417	\$21,608,417
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for the Housing Finance Agency is \$21.6 million in FY 2008-09. The certified FY 2008-09 budget is 16.1% higher than the actual FY 2007-08 budget due to increased funding for the Home Protection Program. In prior years, the State Housing Credit was included in actual budget figures but these figures were eliminated from this Budget Code effective FY 2007-08.

Over the last five years, total expenditures have increased by an average of 88.5% annually due to the accounting of the State Housing Credit in FY 2004-05, FY 2005-06, and FY 2006-07. A more accurate measure is the change in State Appropriations over time, which have increased by an average of 39.9% annually over the last 5 years. The fluctuations in funds is due to the appropriations for the Housing Trust Fund and the Home Protection Program. Detailed information on both programs is included under “Select Programs and Other Budgetary Information.”



NC Housing Finance Agency

Budget Tables

The following table provides a breakdown of the Housing Finance Agency’s total General Fund operating budget by program.

Housing Finance Agency (13010 -General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Housing Trust Fund	8,000,000	10,000,000
Home Match Program	1,608,417	1,608,417
Apartment Housing Initiative	7,500,000	7,000,000
Home Protection Pilot	1,500,000	3,000,000
TOTAL	\$18,608,417	\$21,608,417
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$18,608,417	\$21,608,417

The following table provides a breakdown of the funds* administered by the Housing Finance Agency, including the General Fund budget.

Total Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
Housing Finance Agency (13010 - General Fund)	18,608,417	21,608,417
HFA Special (23010 - Special Revenue Fund)	28,216,570	57,282,123
TOTAL	\$46,824,987	\$78,890,540

Note:

*Total Appropriations by Fund as presented reflects only those funds as certified by the Office of State Budget and Management.

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Home Protection Program

The General Assembly increased funding for the Home Protection Program by \$3 million recurring, doubling the nonrecurring appropriation authorized in the previous two fiscal years. The additional funds will be used to expand the Program’s coverage to the entire State.

NC Housing Finance Agency

Housing Trust Fund

The General Assembly increased the Housing Trust Fund's recurring appropriation from \$8 million to \$10 million.

Housing Assistance for Disabled Persons

The General Assembly appropriated \$7 million nonrecurring to the Housing Finance Agency to finance independent- and supportive-living apartment housing for disabled persons.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 21.1 Housing Finance Agency Shall Continue and Expand the Home Protection Program

Section 21.1(c) codifies the Home Protection Program and establishes a non-reverting fund. It requires the Housing Finance Agency (HFA) to report to the General Assembly on the Program's effectiveness by April 1 of each year. Section 21.1(d) indicates that the General Assembly's intent is that at least two-thirds of the annual appropriation will be used for loans to North Carolinians who have lost jobs as a result of changing economic conditions, with the remaining amount available to assist local financial counseling agencies. HFA must submit a report to the Appropriation Subcommittees on General Government if the amount used for loans is less than two-thirds of the annual appropriation.

Select Programs and Other Budgetary Information

Home Protection Program

The Home Protection Program (HPP), established in 2004, provides loans to homeowners at risk of losing their home due to layoffs, plant closures, or other economic shifts. Through the HPP, HFA makes short- and long-term loans to economically-distressed homeowners. The loans can equal up to 18 months of mortgage payments, including principal, interest, property taxes, and insurance. During the 18-month period, the homeowner will receive financial counseling and must work toward regaining employment by seeking jobs, attending retraining programs, or advancing education. The maximum loan is \$20,000; the average loan is \$10,000.

Originally, the program operated in eight counties. HFA expanded coverage to 27 counties in 2006 and to 61 counties in 2007. The intent of the General Assembly is to operate the program statewide. The program is expected to operate in over 95 counties this fiscal year.

The following table provides a history of funds available to the HPP since FY 2004-05.

NC Housing Finance Agency

State Appropriations to Home Protection Program

FY 2004-05	\$1,725,000
FY 2005-06	\$7,000,000
FY 2006-07	\$1,500,000
FY 2007-08	\$1,500,000
FY 2008-09	\$3,000,000

Housing Trust Fund

The Housing Trust Fund, established in 1987, provides funds to develop affordable housing for North Carolina citizens with low to moderate incomes. As of December 2007, households with incomes below 50 percent of local median income receive 83 percent of the Trust Fund’s benefits. The Fund is used to finance home ownership and rental apartments, including new construction, and to rehabilitate or make emergency repairs to existing single- and multi-family housing units. The Fund has been used to support projects in all 100 counties. Since 2006, the General Assembly has dedicated a portion of the Fund to finance independent- and supportive-living apartments for persons with disabilities.

Funds awarded through the Petroleum Violation Escrow settlement were used to make the initial \$20 million appropriation in 1987. The General Assembly made its first General Fund appropriation to the Fund in 1990. The Fund has received significant one-time funding since its inception, but until this biennium did not receive a significant recurring appropriation. The General Assembly increased the Fund’s recurring appropriation from \$3 million to \$8 million in FY 2007-08 and to \$10 million in FY 2008-09. To date, the Fund has received \$110,151,500 from the General Fund, including \$25.4 million to meet the housing needs of persons with disabilities.

Appropriations to the Housing Trust Fund					
1987-88*	\$20,074,000	1995-96	\$0	2003-04	\$3,000,000
1988-89*	(\$500,000)	1996-97	\$3,500,000	2004-05	\$3,000,000
1989-90	\$2,000,000	1997-98	\$5,000,000	2005-06	\$8,000,000
1990-91	\$924,000	1998-99	\$4,000,000	2006-07	\$18,938,500
1991-92	\$0	1999-00	\$9,000,000	2007-08	\$15,500,000
1992-93*	\$4,000,000	2000-01*	\$8,000,000	2008-09	\$17,000,000
1993-94	\$2,500,000	2001-02	\$2,790,000		
1994-95	\$4,000,000	2002-03	\$3,000,000		

Source: Housing Finance Agency

* All of 1987-88 amount and \$2 million of the FY 1992-93 and 2000-01 amounts are from the Stripper Well account. The \$500,000 reduction in 1988-89 was returned to the Stripper Well account. The remaining appropriations are transfers from the General Fund.

NC Housing Finance Agency

Additional Legislation

S.L. 2008-194 (HB 545) Clarify & Amend Various Provisions

Section 1(a) authorizes the Housing Finance Agency to use its income and assets to buy or rent property, subject to approval of the Governor and Council of State. The bill further amends the statute to authorize the Agency to appoint its own bond financing team, subject to the approval of the Local Government Commission.

Department of Insurance

NC Constitution, Article III, Section 7 Establishment
 G.S. 143A-74 Powers and Duties

Agency Description:

The Department of Insurance regulates the insurance industry by approving rates charged by insurance companies operating in the State, licensing companies and agents, and monitoring companies for compliance with applicable laws. The Commissioner serves as the State’s Fire Marshal, providing financial and technical assistance to local fire departments and rescue squads, inspecting public buildings, and enforcing the State’s building code. The Department also maintains insurance coverage for all of the State’s physical assets, licenses bail bondsmen, operates the Seniors' Health Insurance Information Program and offers a number of consumer services.

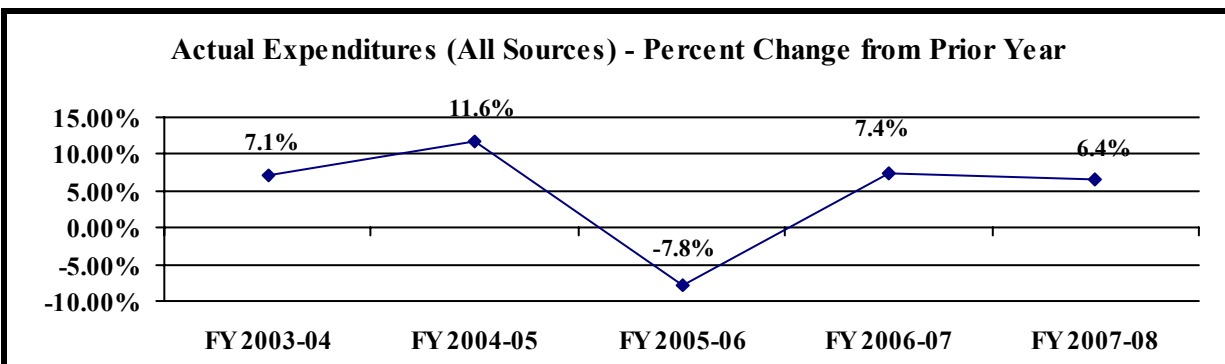
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	33,140,506	35,583,162	37,876,926	36,379,494
Revenue	6,756,545	7,196,273	7,913,835	4,809,298
Net Appropriations	\$26,383,961	\$28,386,889	\$29,963,091	\$31,570,196
Positions (FTE)	402.70	404.70	408.70	408.70

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Department of Insurance totals \$36.4 million in FY 2008-09. The Department receives 12% in direct fee revenues. However, the Insurance Regulatory Fund reimburses the General Fund for all appropriations made for the regulation of the insurance industry and other departmental operations. 87% of the Department’s FY 2008-09 budget is funded by net General Fund appropriations.

The FY 2008-09 budget represents a 4% decrease from the previous year. Expenditures have grown by an average annual growth rate of 4.9% over five years. The Department’s budget increased by 11.6% in FY 2004-05 due primarily to the transfer of the Building Code Book Sales Program from receipt support to the General Fund.



Department of Insurance

Budget Tables

The following table provides a breakdown of the Department of Insurance's General Fund operating budget by division.

Department of Insurance (13900 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	5,446,213	3,735,217
Company Services	7,153,514	8,899,442
Technical Services	8,298,083	6,261,416
Public Services	7,266,370	7,131,574
State Fire Marshal	8,977,746	9,866,845
Reserves and Transfers	735,000	485,000
TOTAL	\$37,876,926	\$36,379,494
Revenue	(7,913,835)	(4,809,298)
NET GENERAL FUND APPROPRIATIONS	\$29,963,091	\$31,570,196

The following table provides a breakdown of funds* administered by the Department of Insurance, including the General Fund budget.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Department of Insurance (13900 – General Fund)	37,876,926	36,379,494
Department of Insurance (23900 – Special Revenue Fund)	38,545,319	28,889,985
Department of Insurance (23901 – Special Revenue Fund)	1,311,149	1,240,983
Department of Insurance (23902 – Special Revenue Fund)	252,664	245,533
Department of Insurance (23903 – Special Revenue Fund)	132,664	86,192
Department of Insurance (63901 – Special Revenue Fund)	6,475,324	5,975,386
Department of Insurance (63902 – Enterprise Fund)	6,899,770	6,885,094
TOTAL	\$91,493,816	\$79,702,667

Note:

*Total Appropriations by Fund as presented reflects only those funds as certified by the Office of State Budget and Management.

Other Funds

Insurance Regulatory Fund (23900)

Balance: \$15,949,113 (as of June 29, 2008)

Department of Insurance

The Insurance Regulatory Fund, established by G.S. 58-6-25, is funded through insurance regulatory fees assessed on insurance companies and collected by the Department of Revenue, G.S. 58-6-25. These fee revenues are deposited in Fund 23900 monthly. At the end of each of the first three quarters of the fiscal year, one fourth of the annual appropriation to the Department of Insurance is transferred from the Insurance Regulatory Fund into a clearing account to reimburse the State for the appropriations. In the fourth quarter at the end of the fiscal year, the Department transfers sufficient funds to repay the year's actual expenditures.

State Property Fire Insurance Fund (63903) **Balance: \$3,798,910 (as of June 29, 2008)**

The State Property Fire Insurance Fund was created by G.S. 58-31. The Fund insures State-owned buildings and contents for fire, extended coverage and other property losses. Coverage for fire losses is provided at no charge for all operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund must pay a premium. State agencies may purchase extended coverage and other property insurance coverage, such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. The Fund insures losses up to \$2.5 million per occurrence. Most losses covered by the Fund are subject to a \$500 per occurrence deductible. Theft losses carry a \$1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. For FY 2007-08 revenues generated from insurance premiums totaled \$11,539,582. The Fund expended \$9,442,138 last year.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

Seniors' Health Insurance Information Program (SHIIP)

SHIIP provides health insurance information, counseling, and assistance to Medicare beneficiaries and/or family members in North Carolina. SHIIP was established in 1986 in response to an increased number of calls, letters, and complaints from older North Carolinians confused by their health care options. SHIIP's primary objective is to educate the public on seniors' health insurance concentrating on Medicare, Medicare supplements, Medicare Advantage, and Long-Term Care insurance. SHIIP accomplishes this objective by training volunteer counselors in all 100 counties to educate and counsel their peers on seniors' health insurance; by operating a statewide toll-free line from the Raleigh SHIIP office; and by developing educational materials for consumers. Those persons who utilize

Department of Insurance

the program more frequently are typically seniors, disabled individuals, and caregivers or adult children.

In 1992 Congress mandated all states to develop a state health insurance counseling and information program to be supported with federal funds. Since that time SHIIP has received federal grant assistance in addition to State funding. The program's FY 2008-09 certified budget is \$818,544, from General Fund appropriations. The total SHIIP certified federal amount for FY 2008-09 is \$2,255,866.

Additional Legislation

S.L. 2008-124 (HB 738) Insurance Changes

This legislation makes changes to various statutes governing automobile insurance, property and casualty insurance, health insurance, and insurance regulatory law. It requires health insurers to maintain records for a period of five years; the previous requirement was three years. The bill also provides that only admitted insurers may conduct business in the State and increases the maximum monetary penalty from \$5,000 per offense to \$5,000 for the first offense and \$10,000 for each offense thereafter.

Department of Insurance-Volunteer Safety Workers' Compensation

G.S. 58-87-10 Workers' Compensation Fund for the Benefit of Volunteer Safety Workers

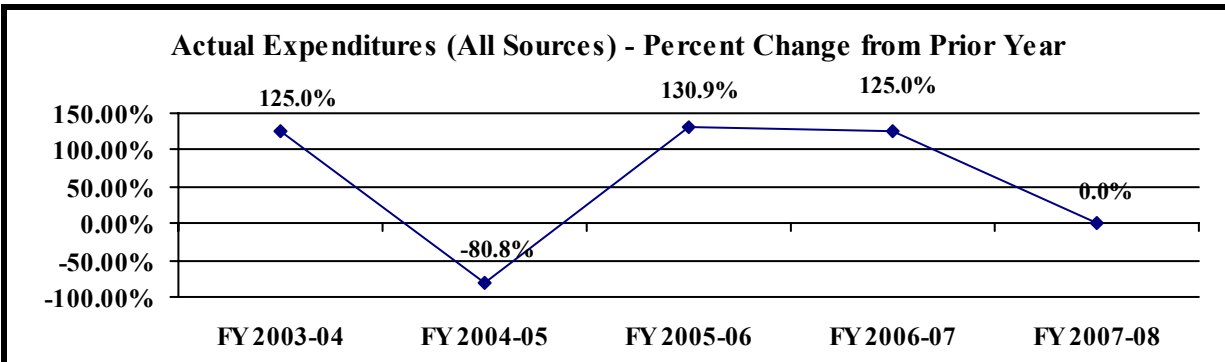
Agency Description:

The Department of Insurance receives appropriations for a Workers' Compensation Fund for persons working in volunteer fire or emergency medical departments. This special fund does not revert and retains interest revenue.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	2,000,000	4,500,000	4,500,000	3,350,000
Revenue	0	0	0	0
Net Appropriations	\$2,000,000	\$4,500,000	\$4,500,000	\$3,350,000
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The Volunteer Safety Workers' Compensation Fund receives \$3,350,000 for FY 2008-09. This amount is a reduction of \$1,150,000 from the previous fiscal year, a 25.6% decrease. Established in 1996, the General Assembly made a \$4.5 million recurring appropriation to the Department of Insurance for the Fund. Due to budget shortfalls, the appropriation has been reduced on a nonrecurring basis. Over the last five years, the average percentage change in actual expenditures was 60%.



Department of Insurance-Volunteer Safety Workers' Compensation

Budget Tables

The following table shows the General Fund appropriation to the Department of Insurance-Volunteer Safety Workers' Compensation Fund.

Department of Insurance-Volunteer Safety Workers' Compensation (13901 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
	4,500,000	3,350,000
TOTAL	\$4,500,000	\$3,350,000
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$4,500,000	\$3,350,000

Other Funds

Volunteer Safety Workers' Compensation (13901)
Balance: \$24,144,367 (as of June 29, 2008)

The Volunteer Safety Workers' Compensation Fund was established by the General Assembly in 1996, G.S. 58-87-10. It provides workers' compensation coverage for volunteer firefighters and rescue squad personnel. The volunteers pay premiums to the fund. This money, along with the annual State appropriation, is the source of funding. In FY 2007-08, the appropriation was \$4,500,000 and the premiums paid by volunteers were \$3,604,492.

Significant Legislative Budget Actions

Volunteer Safety Workers' Compensation Fund Reduction

In FY 2008-09, the General Assembly reduced the Volunteer Safety Workers' Compensation General Fund appropriation from \$4,500,000 million to \$3,350,000. The FY 2009-10 budget will return to \$4,500,000.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Department of Insurance-Volunteer Safety Workers' Compensation

Additional Legislation

No relevant information to report.

Office of Lieutenant Governor

NC Constitution Article III, Section 2 Established
 NC Constitution, Art. III, Section 6 Duties of the Lieutenant Governor

Agency Description:

The Lieutenant Governor presides over the Senate and succeeds the Governor in the event of the Governor’s death or disability. The Lieutenant Governor is a member of the Council of State and has several significant board and commission memberships, including the State Board of Community Colleges.

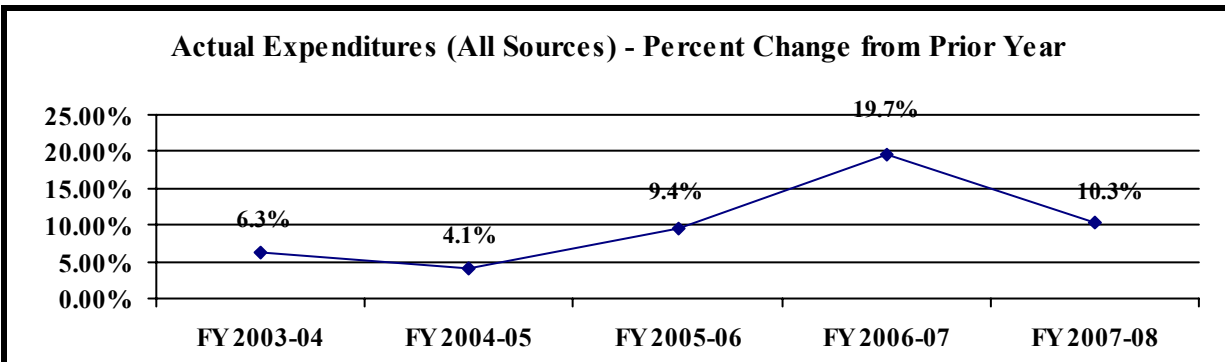
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	752,469	900,680	993,134	915,109
Revenue	1,938	6,209	37,376	0
Net Appropriations	\$750,531	\$894,471	\$955,758	\$915,109
Positions (FTE)	10.90	11.90	12.00	12.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The Lieutenant Governor’s budget, the smallest in the General Government area, is \$915,109 for FY 2008-09. The FY 2008-09 actual budget is a 7.8% decrease from FY 2007-08.

Over the past five years, the average percentage change in actual expenditures was 10%. The Office is almost entirely funded by the General Fund, with no projected revenues for FY 2008-09.



Office of Lieutenant Governor

Budget Tables

The following table displays the Lieutenant Governor’s total General Fund operating budget.

Office of Lieutenant Governor (13100 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	\$993,134	\$915,109
TOTAL	\$993,134	\$915,109
Revenue	(37,376)	0
NET GENERAL FUND APPROPRIATIONS	\$955,758	\$915,109

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Office of Administrative Hearings

N.C. Constitution Article III, Section 11 Judicial Powers
 G. S. 7A-750 Powers and Duties

Agency Description:

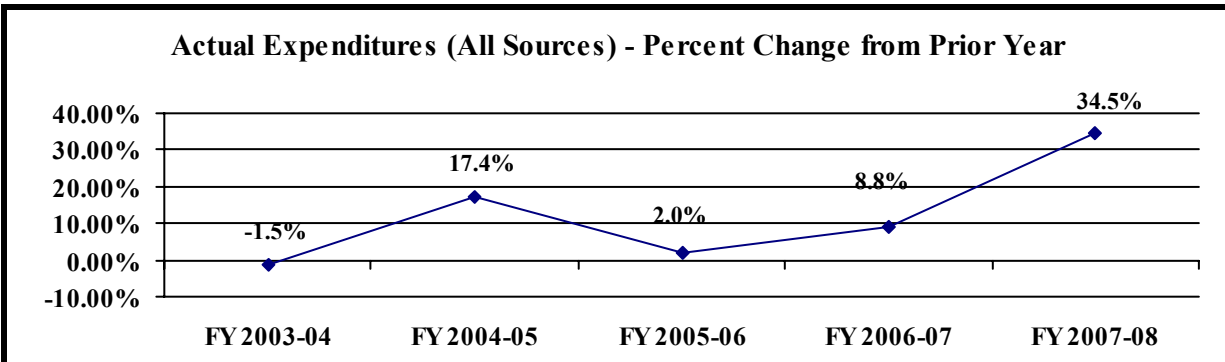
The Office of Administrative Hearings (OAH), established by the General Assembly in 1985, is an independent, quasi-judicial agency established to provide access to administrative remedy for citizens engaged in disputes with State agencies in their regulatory capacity, and to house the State’s rule-making process. The Office also includes the Civil Rights Division, which investigates claims of employment discrimination within State agencies.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	2,881,412	3,135,891	4,216,882	3,890,138
Revenue	60,969	58,775	35,419	54,859
Net Appropriations	\$2,820,443	\$3,077,116	\$4,181,463	\$3,835,279
Positions (FTE)	43.00	45.00	45.00	45.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Office of Administrative Hearings (OAH) is \$3,890,138 in FY 2008-09. The FY 2008-09 OAH budget decreased 7.7% from the previous year. Primarily supported by net General Fund appropriations (approximately 98%), the budget has grown 12.2% on average each year since FY 2003-04. The two principal sources of revenue are federal reimbursements for services provided on behalf of the Equal Employment Opportunity Commission (EEOC) and receipts from the sale of information services, the majority from the sale of the North Carolina Register. Revenues have declined over time due to reduced demand for the printed version of the Register, which is now available online without charge. There was a large increase in the OAH budget in FY 2004-05 due to transferring the Rules Review Commission into the agency.



Office of Administrative Hearings

Budget Tables

The following table provides a breakdown of the total General Fund operating budget for the Office of Administrative Hearings.

Office of Administrative Hearings (18210 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
Personal Services	\$2,977,117	\$3,160,961
Purchased Services	286,800	364,201
Supplies	13,798	14,698
Property, Plant & Equipment	100,638	346,822
Other Expenses & Adjustment	4,629	3,456
Intragovernmental Transfer	833,900	0
TOTAL	\$4,216,882	\$3,890,138
Revenue	(35,419)	(54,859)
NET GENERAL FUND APPROPRIATIONS	\$4,181,463	\$3,835,279

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Automated Rules Tracking System Replacement

The General Assembly appropriated \$253,400 nonrecurring and \$49,140 recurring to replace the Office of Administrative Hearings' Rules Automated Tracking System. This new software application enables increased public interaction and improved interagency communication processes.

Medicaid Appeals and Transfer of Funds from DHHS for Mediation

The Technical Corrections bill (S.L. 2008-118, Sec. 3.13.(b)) directed the Department of Health and Human Services by October 1, 2008 to eliminate its informal appeals process for Medicaid applicants and recipients whose Medicaid coverage was denied, terminated, suspended or reduced and transfer its caseload to the Office of Administrative Hearings to mediate these cases. The sum of \$2 million is transferred in FY 2008-09 to the Office of Administrative Hearings for expenses related to the mediation and appeals process. The Department of Health and Human Services and the Office of Administrative Hearings will each file reports to House of Representatives Appropriations Subcommittee on Health and Human Services, the Senate Appropriations Subcommittee on Health and Human Services, the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities, and

Office of Administrative Hearings

Substance Abuse Services, and the Fiscal Research Division on March 1, 2009, October 1, 2009, and March 1, 2010, on the costs, effectiveness, and efficiency of the appeals process for Medicaid applicants and recipients.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Department of Revenue

GS 143B-217 Creation
 GS 143B-218 Duties

Agency Description:

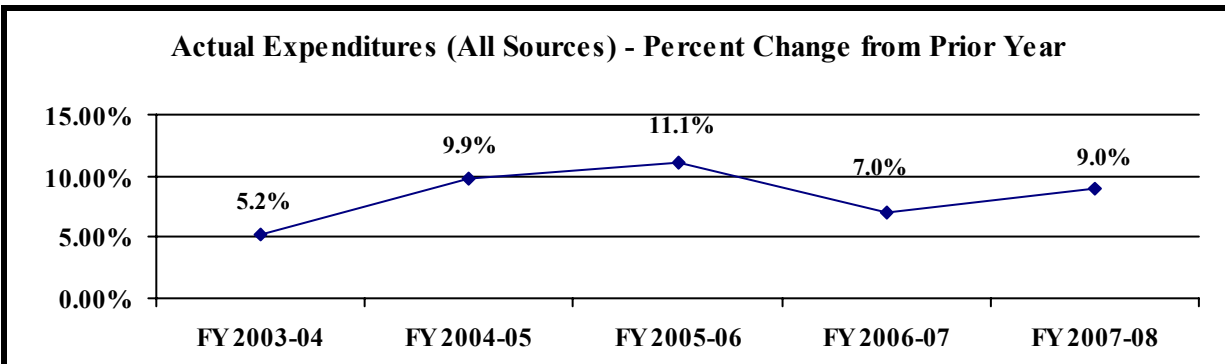
The Department of Revenue is responsible for administration of the State’s tax laws. The Department’s largest divisions are responsible for the collection of individual and corporate income taxes and sales taxes and enforcement activities for delinquent taxpayers. The Department also administers revenue laws in the areas of the gasoline tax, the unauthorized substance tax, and the property tax collected by counties.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	100,454,921	107,516,536	117,183,205	110,336,793
Revenue	19,129,986	25,328,568	25,023,483	26,422,046
Net Appropriations	\$81,324,935	\$82,187,968	\$92,159,722	\$83,914,747
Positions (FTE)	1,485.25	1,523.50	1,523.50	1,523.50

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The Department’s budget totals \$110 million for FY 2008-09. This is a 5.8% decrease from FY 2007-08. The Department is allowed to retain portions of some of the taxes it collects, such as the white goods and scrap-tire disposal taxes and the collection assistance fee charged for the collection of delinquent taxes. These receipts make up 24% of the total budget. Net General Fund appropriations of \$83.9 million make up 76% of the Department’s budget. The Department’s budget has increased over a five-year period by an annual average of 8.4%.



Department of Revenue

Budget Tables

The following table provides a breakdown of the General Fund operating budget for the Department of Revenue by division.

Department of Revenue (14700 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	2,366,150	1,994,347
Administrative Services	8,744,369	8,231,346
Collection and Examination	28,558,392	28,839,671
Corporate, Excise, and Insurance	1,051,589	970,999
Criminal Investigations	993,383	1,031,191
Documents and Payment Processing	12,888,556	12,009,719
Financial Services	772,480	807,226
Fuel Tax Compliance	1,051,653	1,560,097
Human Resources	769,528	572,939
Information Technology	18,193,327	15,592,083
Motor Fuels	5,265,931	5,412,583
Personal Taxes	725,387	674,297
Policy Analysis	557,256	592,346
Project Collect Tax	3,782,622	2,856,587
Project Compliance	5,236,227	5,711,742
Property Tax	1,406,946	1,348,958
Public Transit Tax	414,872	583,816
Sales and Use	985,945	927,872
Security	103,995	1,163,895
Taxpayer Assistance	9,466,093	9,451,903
Taxpayer Call Center	5,529,908	6,130,395
Unauthorized Substance Tax	1,573,439	1,567,945
All Other Divisions	6,745,157	2,304,836
TOTAL	\$117,183,205	\$110,336,793
Revenue	(25,023,483)	(26,422,046)
NET GENERAL FUND APPROPRIATIONS	\$92,159,722	\$83,914,747

Department of Revenue

The following table provides a breakdown of funds* administered by the Department of Revenue, including the General Fund operating budget.

Total Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
Dept of Revenue (14700 – General Fund)	117,183,205	110,336,793
Special (24700 – Special Revenue Fund)	10,378,952	12,143,764
Project Collect Tax (24704 – General Fund)	15,086,785	12,119,752
Lee Tax Credits (24706 – General Fund)	164,106	160,190
Tax Transaction Fees (24707 – General Fund)	601,061	448,194
IT Projects (24708 – General Fund)	280,442	40,000,000
TOTAL	\$143,694,551	\$175,208,693

Note:

* Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

Project Collect (24704)

Balance: \$41,551,204 (as of June 29, 2008)

The Department of Revenue is allowed to charge delinquent taxpayers a 20% collection assistance fee. This fee is retained by the Department to defray the costs of collection. The Collection Assistance Fee is imposed on tax debt that remains unpaid 30 or more days after the fee notice is mailed to the taxpayer established in G.S. 105-243.1. To impose a collection assistance fee on a tax debt, the Department must notify the taxpayer that the fee will be imposed if the tax debt is not paid in full within 30 days after the date the fee notice was mailed. The Department may not mail the fee notice earlier than 60 days after the tax debt becomes collectible under G.S. 105-241.22. The fee is collected as part of the debt.

The Department of Revenue collected \$16,309,250 through the 20% Collection Assistance Fee in FY 2007-08. In FY 2007-08 \$15.1 million was expended from the Project Collect Fund. Collections have increased by 34.7% since FY 2003-04.

Significant Legislative Budget Actions

Project Collect Receipts

The 2008 General Assembly transferred 29 State-appropriated positions to receipt support from the collection assistance fee in S.L. 2008-107. This position shift results in a \$1.36 million reduction in State appropriations to the Department.

Department of Revenue

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 23.1 Use of Collection Assistance Fee

This provision allows the Department of Revenue to use the proceeds of the collection assistance fee for the Tax Information Management System (TIMS) computer system that records tax payments and determines when the payments are overdue. For FY 2007-08, the Department was permitted to use no more than \$15 million to replace the current computer system with TIMS. For the FY 2008-09, the Department may use no more than \$25 million for this project. For additional information please see the "Select Programs and Other Budgetary Information" section.

Select Programs and Other Budgetary Information

Tax Information Management System

The TIMS (Tax Information Management System) project is part of the Department's e-Business strategic plan to provide taxpayers the ability to interact with the Department at any time. The TIMS implementation is the first phase of the e-Business strategic plan and is expected to provide a business and technical solution that will enable the Department of Revenue to 1) provide taxpayers and agency staff with a complete picture of tax liabilities, 2) enhance the Department's compliance (audit) and collections capabilities, 3) provide additional automation for current manual processes, and 4) achieve faster and more accurate processing of tax returns.

The estimated implementation date is 2011. In September 2008, the Department awarded the TIMS project contract to CGI, Inc. for \$55 million. While the Department is still finalizing project costs, the total project cost is estimated to be \$65 million. The General Assembly provided \$20 million for the project in S.L. 2007-323, \$5 million from an appropriation and \$15 million from the Collection Assistance Fee. The Department was authorized to use up to \$25 million from the Collection Assistance Fee this legislative session for the TIMS project.

Additional Legislation

No relevant information to report.

Department of Secretary of State

NC Constitution, Art. III, Section 7 Other elective officers; G.S. 147-36 Duties of Secretary of State

Agency Description:

The Department of Secretary of State oversees and enforces many business and individual activities. These activities include business, Uniform Commercial Code, and trademark registries. The Department also regulates investment activity, lobbying, and notary publics. In addition, the Department maintains major State documents and publishes State government’s reference works, including the “N.C. Manual” and the “Directory of State and County Officials.”

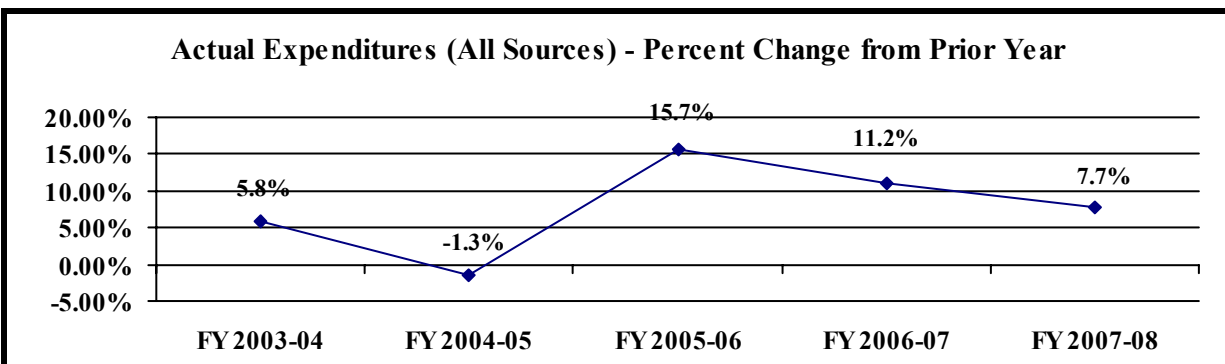
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	9,989,757	11,105,281	11,958,154	11,447,243
Revenue	940,050	1,532,556	1,114,668	568,431
Net Appropriations	\$9,049,707	\$9,572,725	\$10,843,486	\$10,878,812
Positions (FTE)	171.75	186.00	186.00	186.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Department of Secretary of State totals \$11.4 million in FY 2008-09. 95.1% of the Department’s FY 2008-09 budget is funded by net General Fund appropriations. The majority of the Department’s revenue, totaling 4.9% of the budget, is generated by licensing charitable organizations and professional fundraisers and is used to fully support the Charitable Solicitation Licensing Section. Revenue is also generated from the sale of publications.

Over the last five years, total expenditures have increased by an average of 7.8% annually. Revenue has fluctuated in recent years due to the amount of carry forwards authorized and the elimination of subscriptions for data tapes listing corporate and Uniform Commercial Code data. The FY 2008-09 budget increased 0.3% compared to the prior fiscal year due to the addition of four full-time employees and an expected reduction in revenues. The FY 2005-06 actual budget experienced the largest percent change in the last five years, 15.7%, due to operating increases to the Securities, Notary Public, and Lobbyist divisions.



Department of Secretary of State

Budget Tables

The following table provides a breakdown of the Department of Secretary of State’s total General Fund operating budget by division.

Secretary of State (13200 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
General Administration	3,037,194	2,319,209
Publications	463,252	367,634
Lobbyist Registration	581,192	584,824
Corporations	2,729,256	2,458,618
Uniform Commercial Code/Notary/Land Records	3,018,404	3,389,231
Securities	1,517,154	1,920,921
Charitable Fund Raising	611,702	406,806
TOTAL	\$11,958,154	\$11,447,243
Revenue	(1,114,668)	(568,431)
NET GENERAL FUND APPROPRIATIONS	\$10,843,486	\$10,878,812

The following table provides a breakdown of funds* administered by the Department of Secretary of State, including the General Fund operating budget.

Total Appropriation by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
Secretary of State (13205 - General Fund)	11,958,154	11,447,243
SOS Special (23200 - Special Revenue Fund)	287,367	226,921
SOS Trust Special Revenue (63201 - Special Revenue Fund)	80,468	184,420
TOTAL	\$12,325,989	\$11,858,584

Note:

*Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

Investor Protection Fund (63201-6102)
Balance: \$1,706,615 (as of June 29, 2008)

Department of Secretary of State

In 1996 the General Assembly authorized the Investor Protection and Education Trust Fund (G.S. 147-54.5). The Secretary of State uses the Fund's proceeds to provide investor protection and education to the public, including potential securities investors. The Fund is supported by settlements of securities investigations conducted by the Secretary of State.

In FY 2007-08, the fund's starting balance was \$1,698,848. It received \$88,234 in interest and expended \$80,468, primarily for contractual services. No settlement funds were received in FY 2007-08.

Health Care Directive Registry (23200-2130)

Balance: \$73,305 (as of June 29, 2008)

Since 2002, the Secretary of State has maintained a registry of legal documents in which a person gives instruction on his or her health care, such as a living will or health care power of attorney (G.S. 130A-470). To register, citizens send their legal documents to the Health Care Registry with a \$10 fee. The Secretary of State then remits a registry card to the applicant. The registry is fully receipt-supported and is staffed by one part-time contractor who processes filings and maintains an online database.

As of June 2008, the registry has received over 3,106 filings. Some of the filings were revocations for which no fee was paid. In FY 2007-08 the fund had a starting balance of \$55,882; it received \$30,075 in receipts and expended \$12,652.

Significant Legislative Budget Actions

Securities Position

The General Assembly increased the first-year and renewal filing fees from \$250 to \$2,000 for companies that offer securities and added one new Paralegal II position to ensure that companies are properly filing securities notices.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

Lobbying Registration

(G.S. 120C-100 through G.S. 120C-800)

S.L. 2005-456 (SB 612) enacted substantial lobbying reforms by expanding the scope of individuals and principals covered, restricting lobbyist activity, requiring additional reporting, and requiring that each covered person attend a lobbying education course every two years.

The law also imposed greater fines and penalties for violations of the lobbying laws. S.L. 2007-348 (HB 1111) clarified whether the State Ethics Commission or the Secretary of State

Department of Secretary of State

had responsibility for enforcing portions of the law. It also defined an indirect gift. S.L. 2008-213 further clarifies lobbying laws.

The Lobbyist Registration Division is responsible for maintaining a registry of all lobbyists, principals, solicitors, and agency and board liaisons, and a registry of expense and gift reports. For FY 2008-09 the Division includes nine positions and has a total budget of \$584,824. Prior to the implementation of the 2005 law change, the Division's budget totaled \$150,045. The 2008 legislation requires the Office of State Budget and Management to perform a staffing analysis to determine if additional staffing is needed.

Additional Legislation

S.L. 2008-158 (SB 1407) Resale of Tickets Via Internet

Section 1 of S.L. 2008-158 requires the Department to create and maintain a system for accepting initial Notices of Prohibition and for renewal notices of the resale of admission tickets.

S.L. 2008-213 (HB 2542) Clarify Ethics and Lobbying Laws

This legislation clarifies the confidentiality of advisory opinions and records accumulated by the Secretary of State during an investigation of a complaint. The legislation also clarifies the reporting of reportable expenditures. The Secretary of State is required to periodically publish an electronic registry for lobbyists and liaison personnel.

State Board of Elections

G.S. 163-22 Powers and duties of State Board of Elections

Agency Description:

The State Board of Elections supervises the 100 county boards of elections and the municipal boards of elections in administering elections and related laws, certifying election results, voter outreach and registration, voting systems and support, absentee voting, education and training, and investigations, audits, and appeals of election disputes. In addition, the State Board operates the computer systems needed to maintain statewide voter-registration information and campaign-finance reports associated with statewide elections.

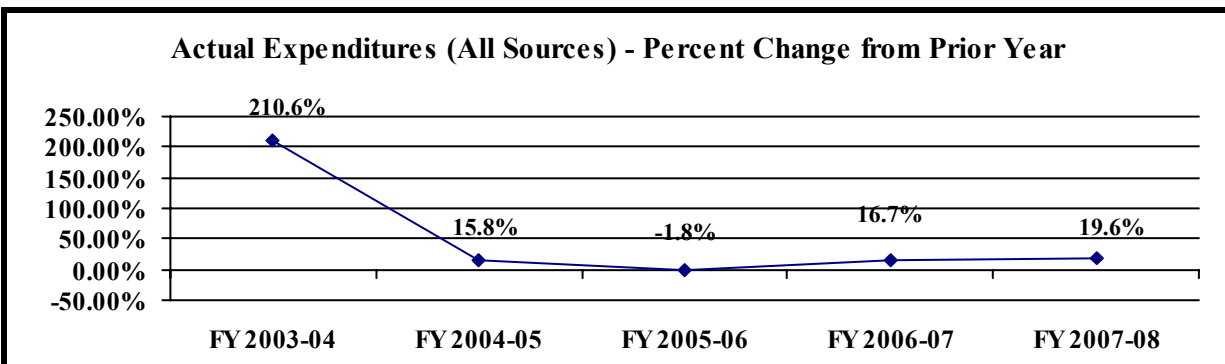
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	11,835,723	13,815,894	16,528,052	13,741,919
Revenue	6,842,758	8,503,191	9,705,493	3,532,117
Net Appropriations	\$4,992,965	\$5,312,703	\$6,822,559	\$10,209,802
Positions (FTE)	50.00	62.00	62.00	62.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the State Board of Elections is \$13.7 million in FY 2008-09. For FY 2008-09, 74.3% of the agency’s budget is derived from net General Fund appropriations. Remaining funds include significant carry forwards from the Help America Vote Act (HAVA) Fund, intrafund transfers for HAVA and the Maintenance of Effort (MOE) Fund, and minimal receipts for reimbursements for auditing expenses incurred by the Campaign Finance division.

Over the last five years, total expenditures have increased by an average of 52.1% annually. The end of the year balance for HAVA has decreased 68.5% since FY 2004-05. The 2008 General Assembly authorized the expenditure of \$1 million from the MOE funds in FY 2008-09 for operating support for one-stop absentee-voting sites for the 2008 General Election.



State Board of Elections

Budget Tables

The following table provides a breakdown of the Board of Elections' total General Fund operating budget. The budget includes its three divisions: Administration, Campaign Finance, and Information Systems, which oversees voter registration and voting systems. The budget also includes Maintenance of Effort (MOE) funds, which is the State matching appropriation for the Help America Vote Act (HAVA).

State Board of Elections (18025 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	1,383,506	1,267,856
Campaign Reporting	1,249,476	1,606,594
Voter Registration and Voting Systems	9,437,484	3,661,175
Reserves and Transfers	1,000,000	3,748,708
Maintenance of Effort	3,457,586	3,457,586
TOTAL	\$16,528,052	\$13,741,919
Revenue	(9,705,493)	(3,532,117)
NET GENERAL FUND APPROPRIATIONS	\$6,822,559	\$10,209,802

The following table provides a breakdown of funds* administered by the State Board of Elections, including the General Fund operating budget.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
State Board of Elections (18025 - General Fund)	16,528,053.00	13,741,919.00
SBE-HAVA Federal Funds (28025 - General Fund)	9,062,014.00	13,036,446.00
SBE-NC Candidate (68025 - Special Revenue Fund)	2,609,403.00	1,089,510.00
SBE-NC Political Party (68026 - Special Revenue Fund)	2,311,050.00	258,876.00
TOTAL	25,590,067.00	26,778,365.00

Note:

* Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

HAVA Fund (28025)
Balance: \$22,219,106

State Board of Elections

Public Campaign Fund (68025)

Balance: \$3,040,601 (as of June 29, 2008)

The State Board of Elections is administratively responsible for the Help America Vote Act (HAVA) funds and two voter education funds (the NC Public Campaign Fund and the North Carolina Political Party Financing Fund). Detailed information on the HAVA and Public Campaign funds appear in the section titled “Select Programs and Other Budgetary Information.”

North Carolina Political Parties Financing Fund (68026)

Balance: \$4,340 (as of June 29, 2008)

The North Carolina Political Parties Financing Fund was established by G.S.105-159.1. The Fund received \$1,531,483 in tax contributions in FY 2007-08. In FY 2007-08 the Fund expended \$2,311,050. Since tax year 2006, individual income tax filers may authorize \$3 (or \$6 if filing a joint return) of their personal income tax liability for the Fund. Prior to 2006, individual contributions were limited to \$1 (or \$2 if filing jointly). Proceeds from the Fund are distributed to political parties that are affiliated by at least 1% of the State’s registered voters and that receive at least 10% of the entire vote cast for Gubernatorial or Presidential candidates during the last preceding General Election.

Voter-Owned Elections Program (68029)

Balance: \$548,741 (as of June 29, 2008)

The Voter-Owned Elections Program was established by S.L. 2007-540 (HB 1517), which appropriated \$1 million in FY 2007-08 and \$3.6 million in FY 2008-09 for a pilot program for candidates of three Council of State offices (State Auditor, Superintendent of Public Instruction, and Commissioner of Insurance). This program provides candidates with the option of financing their campaign from a publicly-supported fund.

Significant Legislative Budget Actions

Campaign Reporting Positions

The General Assembly appropriated \$202,861 recurring to create three new Disclosure and Education Specialist positions in the Campaign Reporting Division. These positions will audit campaign finance reports and provide education to candidates, committees, and the public.

Time-Limited Position Changes

Two time-limited audit specialists were converted to permanent positions to continue auditing campaign finance reports to reduce the backlog. The positions received funding through December 2008 in the FY 2007-08 budget.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

State Board of Elections

Section 24.1 State Board of Elections MOE Fund Use

The General Assembly directed the expenditure of \$1 million in FY 2008-09 from the Maintenance of Effort (MOE) Reserve for additional operating support for one-stop absentee voting (early voting) sites for the 2008 General Election.

Select Programs and Other Budgetary Information

Help America Vote Act/Maintenance of Effort (HAVA/MOE)

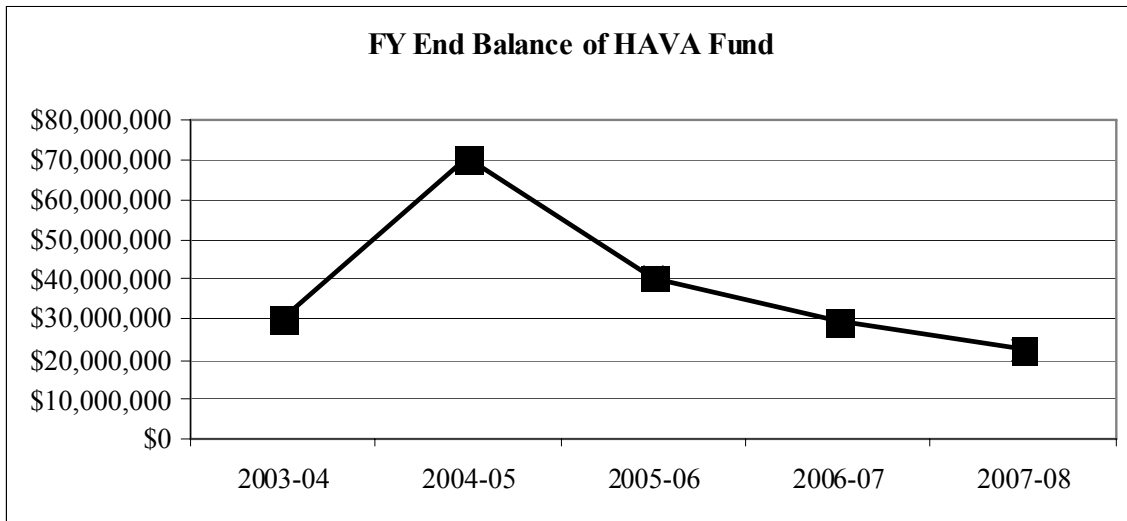
The federal Help America Vote Act (HAVA) of 2002, P.L. 107-252, was signed into law on October 29, 2002. The federal law aimed to improve the administration of elections by replacing punch-card voting systems and by establishing minimum election administration standards, such as maintenance of a single voter registration list and standardized voter registration information. Congress appropriated \$1.5 billion in federal FY 2002-03 for grants to states to assist in implementing HAVA requirements.

To qualify for federal funds, states were required to submit a state plan and implement the Maintenance of Effort (MOE) requirements of Title II, section 254(a)(7) of HAVA. The MOE requires that states maintain a level of expenditures at least equal to their expenditures for fiscal year ending prior to November 2000. The MOE state match for federal funds is 5% of HAVA Title II funds.

North Carolina received \$32,203,370 in 2003 and \$42,046,100 in 2004 for a total of \$74,249,370 in federal HAVA funds. To meet HAVA's Title II MOE requirement, North Carolina appropriated from its General Fund to a reserve \$3,457,585 recurring and \$2,090,923 nonrecurring beginning in FY 2003-04. The State must continue the recurring MOE funds as long as the State has unspent Title II funds. MOE funds must be spent on a Federal election purpose, including voting equipment. Using MOE funds for local elections, campaign financing, or the transfer of existing functions is prohibited by the federal HAVA law.

The following chart shows the history of the HAVA Fund since FY 2003-04.

State Board of Elections



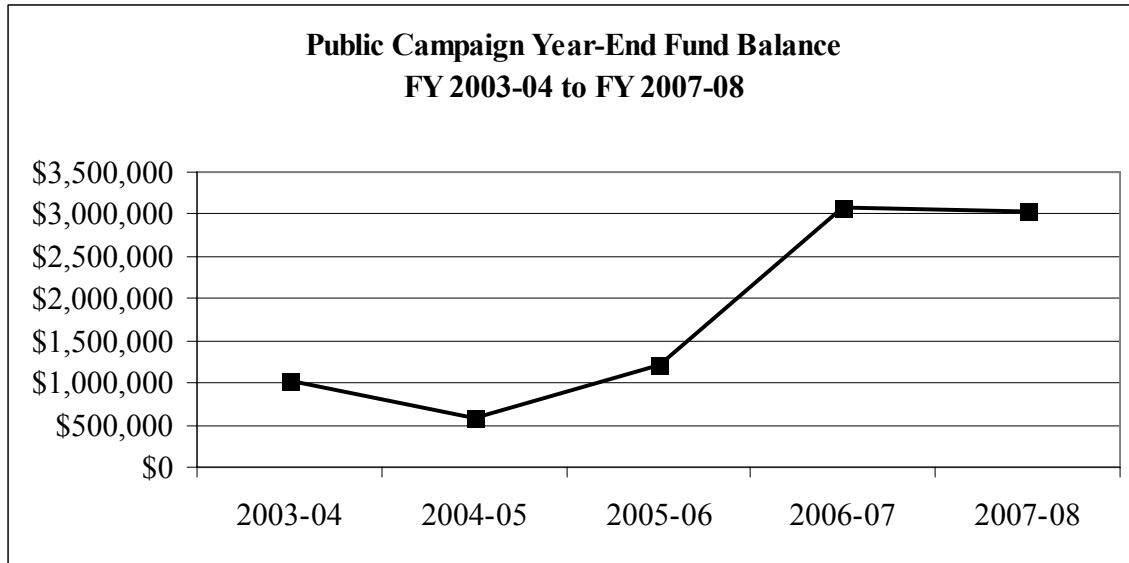
The General Assembly did not intend to use MOE funds to enhance existing personnel. The HAVA funds were expected to be exhausted by the end of FY 2005-06 and therefore should not have been spent on recurring items. The HAVA funds are currently expected to be available through FY 2009-10. The 2006 Legislature transferred 20 temporary employees to permanent status and funded the positions using MOE funds. Once HAVA funds are expended, the General Assembly will need to revisit future funding of MOE to determine if funds should continue and at what funding level.

NC Public Campaign Fund

S.L. 2002-158 (SB 1054) established the NC Public Campaign Fund in G.S. 105-159.2 to provide candidates for the State Supreme Court and Court of Appeals the option of financing their campaigns from a publicly-supported fund. To qualify, participating candidates must abide by strict fund-raising and spending limits. Funding was generated from two sources: a \$50 voluntary contribution from attorneys with payment of the annual attorney privilege license tax and voluntary \$3 contribution by individual income tax filers as designated on their tax return. S.L. 2005-276 changed the \$50 attorney contribution to a mandatory surcharge on the annual membership fee of every active member of the NC State Bar on attorneys' annual privilege license fee. In addition to these two sources, the balance of the NC Public Campaign Fund, \$563,244, was deposited into the account in FY 2002-03. The NC Public Campaign Fund enabled taxpayers to contribute all or part of their tax refund to the Fund for use by political campaigns, which was repealed in 1991.

The following chart provides a history of the Public Campaign Fund since FY 2003-04.

State Board of Elections



Additional Legislation

S.L. 2008-150 (SB 1263) Election Law Amendments

This legislation makes changes to election laws and creates the Joint Legislative Elections Oversight Committee to examine election administration and campaign finance regulation in North Carolina. It also authorizes the State Board to select elections for offices of local government in up to 10 local jurisdictions to use instant runoff voting (IRV). IRV allows voters to pick a winner by majority without having to conduct a separate runoff election.

Office of State Budget and Management

Agency Description:

The Office of State Budget and Management (OSBM) provides fiscal advice to the Governor, formulates the recommended State budget, and manages the execution of the legislatively enacted budget. In addition, OSBM monitors and estimates revenues, produces population estimates and projections, and provides economic and demographic analyses.

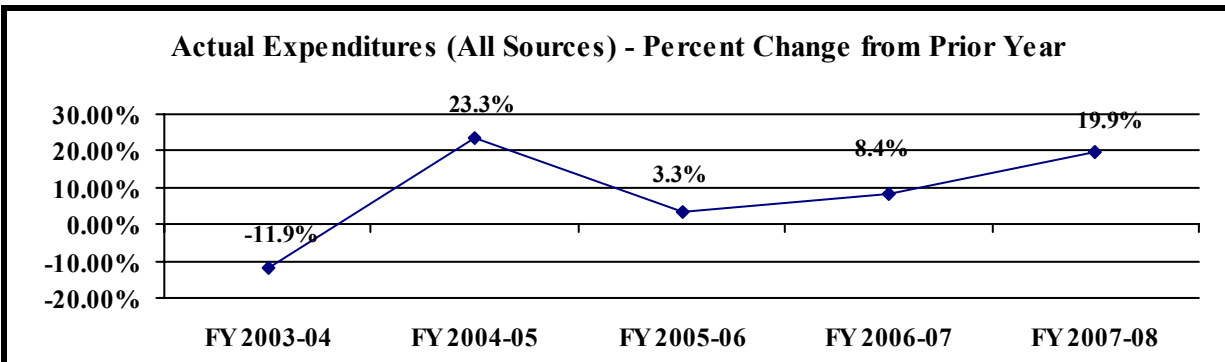
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	5,510,781	5,975,669	7,163,900	6,107,126
Revenue	646,710	505,929	1,078,002	214,444
Net Appropriations	\$4,864,071	\$5,469,740	\$6,085,898	\$5,892,682
Positions (FTE)	61.00	63.00	62.00	62.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

OSBM’s budget is \$6.1 million in FY 2008-09. Approximately 96.5% of the budget is derived from net General Fund appropriations. The remainder of the budget, 3.5%, is funded from transfers from other State agencies and from interest accrued on the Repairs and Renovations bond.

Over the last five years, total expenditures have increased by an average of 8.6% annually. Actual expenditures remained consistent until FY 2007-08 when the budget grew 19.9% compared to the prior year’s spending. The FY 2007-08 actual expenditures resulted from the addition of an Internal Audit section. Additional revenues resulted from the carry forward of \$424,000 in FY 2007-08.



Office of State Budget and Management

Budget Tables

The following table displays the Office of State Budget and Management’s total General Fund operating budget.

Office of State Budget and Management (13005 -General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
	7,163,900	6,107,126
TOTAL	\$7,163,900	\$6,107,126
Revenue	(1,078,002)	(214,444)
NET GENERAL FUND APPROPRIATIONS	\$6,085,898	\$5,892,682

The following table provides a breakdown of funds* administered by the Office of State Budget and Management, including the General Fund operating budget.

Total Appropriation by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
OSBM (13005 - General Fund)	7,163,900	6,107,126
OSBM NC Education Lottery Fund (23003 - Special Revenue Fund)	351,984,338	405,250,000
OSBM NC Education Lottery Reserve (23004 - Special Revenue Fund)	2,594,265	19,750,000
OSBM Fines and Penalties (23005 - Special Revenue Fund)	138,362,790	132,038,000
OSBM Disaster Relief-GF (23009 - General Fund)	16,918,550	6,947,157
TOTAL	\$517,023,843	\$570,092,283

Note:

*Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

State Emergency Response Account (19031)
Balance: \$17,179,977 (as of June 29, 2008)

S.L. 2006-66 included \$20 million to establish the State Emergency Response Account. These funds may be used for State disaster preparation and for response programs in accordance with G.S. 166A-6.02. The following table provides a history of expenditures from this account.

Office of State Budget and Management

Expenditures from State Emergency Response Account		
Fiscal Year	Event	Amount
2006-07	Tropical Storm Ernesto	\$992,141
	Columbus County Tornado	\$511,541
		\$1,503,682
2007-08	2007 Hurricane Season Prep.	\$337,893
	Spruce Pine Fire	\$39,404
	Taylorsville & Tryon Wind Storm	\$54,135
	Bertie, Jones & Onslow Tornadoes	\$110,863
	Evans Road Fire (Pocosin Lakes National Wildlife Refuge)	\$774,045
		\$1,316,340
2008-09	Evans Road Fire (Pocosin Lakes National Wildlife Refuge)	\$3,283,955
		\$3,283,955
Source: Office of State Budget and Management		

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 22.1 Staffing Analysis of the Ethics Commission and the Lobbyist Registration Section of the Department of Secretary Of State

This provision requires the Office of State Budget and Management to conduct a staffing analysis to determine if the level of staffing is appropriate for the Ethics and Lobbying offices. The report is due March 1, 2009.

Section 22.4 Staffing Analysis of the Youth Advocacy and Involvement Office

The Office of State Budget and Management is required to conduct a staffing analysis to determine if the level of staffing is appropriate for the Department of Administration's Youth Advocacy and Involvement Office. The report is due March 1, 2009.

Section 22.6 Study DOA Assistance to County Veterans Service Programs

Section 22.6 requires the Office of State Budget and Management and the Department of Administration to examine the effectiveness and sufficiency of State aid to county veterans service programs. The report is due March 1, 2009.

Office of State Budget and Management

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

OSBM-Special Appropriations

G.S. 58-85A.1 Creation of Fund; allocation to local fire districts and political subdivisions of the State

Agency Description:

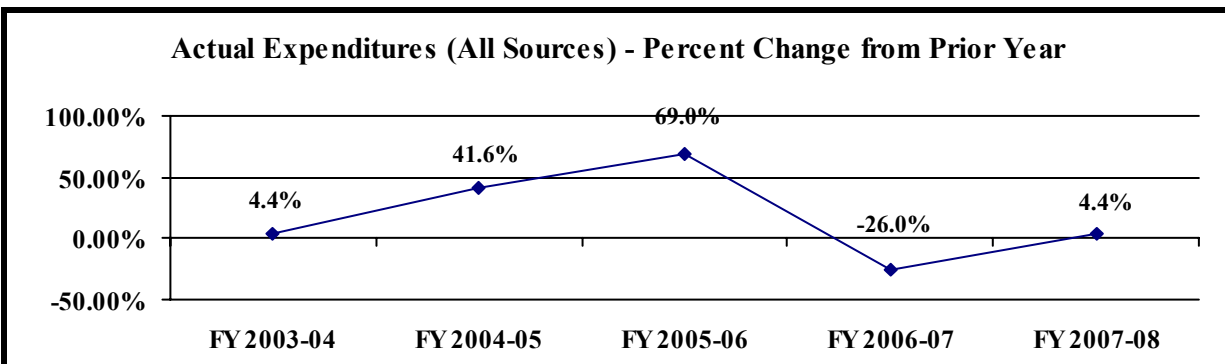
This budget is used to transfer State funds to local governments, nonprofits, or the federal government, and to establish reserves for special funding to State agencies. The budget includes three types of transfers, including transfers for Special Appropriations, to the Fire Protection Grant Fund, and to Reserves/Transfers.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	10,270,795	7,597,971	7,930,274	23,691,446
Revenue	1,273,797	1,364,061	3,957,206	1,120,000
Net Appropriations	\$8,996,998	\$6,233,910	\$3,973,068	\$22,571,446
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for this fund is \$23.7 million in FY 2008-09. The amount of expenditures varies by year based on the amount appropriated for special projects, and the Fire Protection Grant Fund, and the amount placed in reserves. The budget includes receipts to the Fire Protection Grant Fund from transfers from the Highway Trust Fund and from University of North Carolina to pay for the cost to protect its State facilities. The receipts represent 21.1% of the total expenditures from the Fire Protection Grant Fund. The FY 2008-09 increase is due to the \$15 million appropriation for the State Veterans Park.

Over the last five years, total expenditures have increased by an average of 18.6% annually. The Fire Protection Grant Fund increased three times in the last five years. It increased \$800,000 in FY 2005-06, \$300,000 in FY 2007-08 (nonrecurring) and \$300,000 in FY 2008-09 (recurring). The Reserve for Special Appropriations has experienced significant changes, shifting from \$2.2 million in FY 2004-05, to \$5.2 million in FY 2005-06, to \$100,000 in FY 2006-07 and FY 2007-08, and to \$15.6 million in FY 2008-09. The Reserve for Special Appropriations includes appropriations to specific organizations or governmental entities by the General Assembly.



OSBM-Special Appropriations

Budget Tables

The following table provides a breakdown of Special Appropriations in the Office of State Budget and Management’s total General Fund operating budget.

Special Appropriations (13085- General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Special Appropriations	513,246	16,708,446
Fire Protection Grant Fund	5,417,028	5,300,000
Reserves and Transfers	2,000,000	1,683,000
TOTAL	\$7,930,274	\$23,691,446
Revenue	(3,957,206)	(1,120,000)
NET GENERAL FUND APPROPRIATIONS	\$3,973,068	\$22,571,446

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Fire Protection Grants

Fire Protection Grants are a grant-in-aid program for local fire districts that provide fire protection services for State-owned property. The General Assembly appropriated an additional \$300,000 recurring in FY 2008-09 for a total of \$5.3 million. (Additional information is included under “Select Programs and Other Budgetary Information”)

Military Morale, Recreation, and Welfare Fund

For the fourth consecutive year, the General Assembly appropriated \$1 million nonrecurring to be distributed to each military installation’s federal Morale, Recreation, and Welfare Fund on a per capita basis.

(S.L. 2008-107, Sec. 22.3)

North Carolina Veterans Park

The General Assembly appropriated \$15 million to the City of Fayetteville to construct the North Carolina State Veterans Park.

(S.L. 2008-107, Sec. 22.7)

OSBM-Special Appropriations

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

Fire Protection Grants

(G.S. 58-85A.1 Creation of Fund)

Established in 1983, the Fire Protection Grant Fund compensates local fire departments that provide fire protection for State-owned facilities within their districts. Every other year, the Office of State Budget and Management and the Department of Insurance update the property values of State facilities and add newly-acquired or -constructed facilities. This biennial appraisal is used to modify the amount of State Fire Protection Grants provided to local fire departments.

The program received \$300,000 recurring in FY 2008-09 for a total of \$5.3 million, which includes \$1.1 million in transfers from the Highway Trust Fund and from University of North Carolina receipts.

Grants are awarded to 456 fire departments based on \$0.000255 per dollar of property value protected, with a \$50.00 minimum. Currently, grants range from \$50.00 to \$1,273,288. Of the 274 fire departments that receive grants less than \$1,000, 52 receive the minimum amount of \$50.00.

Additional Legislation

No relevant information to report.

Office of the State Controller

G.S. 143B-426.39 Powers and duties of the State Controller

Agency Description:

The Office of the State Controller provides financial management services to State agencies, ensuring that State funds are spent, accounted for, and reported consistent with national accounting standards. The Office acts as the business office for the State of North Carolina, overseeing functions related to financial accounting, cash management, payroll, and other business-related activities. The Office develops, manages, and operates the computer systems necessary to meet these business requirements.

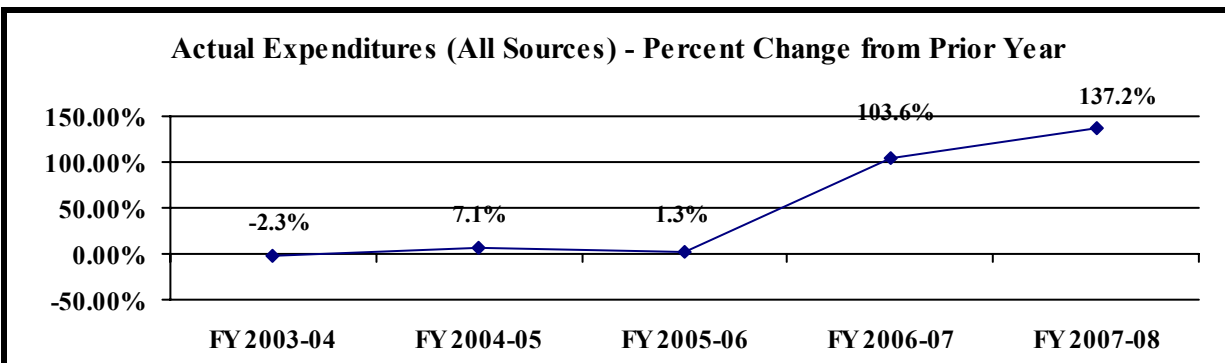
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	10,141,371	20,645,895	48,982,375	20,694,438
Revenue	285,407	352,408	1,172,494	77,680
Net Appropriations	\$9,855,964	\$20,293,487	\$47,809,881	\$20,616,758
Positions (FTE)	88.75	140.50	142.50	142.50

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the State Controller is \$20.7 million in FY 2008-09. Less than half a percent of the Controller’s budget is generated by revenues, which are primarily from registration fees. The difference in FY 2007-08 revenues is due to carry forwards from the prior year’s budget.

Over the last five years, total expenditures have increased by an average of 49.4% annually. The Controller’s budget and staffing levels significantly increased since FY 2005-06 due to the Building Enterprise Access for North Carolina’s Core Operations Needs (BEACON) project. Detailed information on the BEACON project appears under the “Select Programs and Other Budgetary Information” section. The FY 2007-08 budget is a 137% increase over the actual FY 2006-07 budget due to additional nonrecurring funds for the BEACON project and for data integration.



Office of the State Controller

Budget Tables

The following table displays the Office of the State Controller’s total General Fund operating budget.

State Controller (14160 - General Fund)	Actual FY 2007-08	Certified FY 2008-09
	48,982,375	20,694,438
TOTAL	\$48,982,375	\$20,694,438
Revenue	(1,172,494)	(77,680)
NET GENERAL FUND APPROPRIATIONS	\$47,809,881	\$20,616,758

The following table provides a breakdown of funds* administered by the Office of the State Controller, including the General Fund operating budget.

Total Appropriation by Fund	Actual FY 2007-08	Certified FY 2008-09
Controller (14160 - General Fund)	48,982,375	20,694,438
OSC Special Revenue (24160 - General Fund)	53,701,457	(2,789,153)
TOTAL	\$102,683,832	\$17,905,285

Note:

*Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

No relevant information to report.

Office of the State Controller

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 6.16 Beacon Data Integration

The Office of the State Controller, in conjunction with the State CIO, is developing a strategic plan to integrate the State's databases to allow agencies and programs to share information. A total of \$10 million has been appropriated to support the first two years of this effort, which is now in its second year.

Section 20.1 Beacon Staff to Support Statewide Enterprise Training Program

This provision authorizes the State Controller to use existing BEACON receipts to fund eight full-time, time-limited positions to support the statewide enterprise training program. This provision further directs that the 2009 General Assembly re-evaluate the function of these positions, and if the General Assembly determines that centralized training is necessary, funding for these positions must shift to General Fund support.

Select Programs and Other Budgetary Information

The BEACON Project

S.L. 2001-491, Section 17.1, authorized the Office of the State Controller to conduct a feasibility study of the State's business infrastructure and recommend a process for improving and upgrading existing systems. Based upon this study, a phased approach was adopted to replace those systems at greatest risk of failure. The 2004 General Assembly authorized the first phase of the Building Enterprise Access for North Carolina's Core Operations Needs (BEACON) project.

Phase I replaces three independent, aging HR/Payroll systems with one modern, consolidated system. Phase 1 of the BEACON project streamlines HR and Payroll functions within State agencies and allows State employees to access and change their HR information online. The total cost for Phase I is \$73,866,904, including the final installment of \$20.0 million nonrecurring appropriated by the General Assembly in FY 2007-08.

BEACON was first funded in the 2005 budget as part of the State Business Infrastructure Project authorized by S.L. 2004-129. In December 2007, BEACON became operational and included temporary employees and the Department of Transportation as participants. An additional seven agencies were added in January 2008. The remaining agencies shifted to BEACON in April 2008. BEACON affects over 84,000 State employees in 31 agencies.

Additional planned modules include Training/Events Management and E-recruitment. Training will track employees' learning histories, qualifications, and certificates, and Events Management will allow for online course scheduling. The E-recruitment module will track job applicants and create a shared resource pool. These additional modules will complete the HR/Payroll portion of the BEACON project. The 2007 budget included \$7.3 million in funding to develop and implement the Training/Events Management and E-recruitment modules. The Training/Events Management and E-recruitment modules have been delayed by the Office of State Controller. The 2009 General Assembly may seek to re-evaluate the workload of BEACON staff and consider further postponing the additional HR/Payroll modules.

Office of the State Controller

BEACON's next full phase will study the replacement of the State's legacy financial systems. The 2007 budget included \$1.5 million to plan for the replacement of these systems.

Additional Legislation

No relevant information to report.

Department of State Treasurer

NC Constitution, Art. III, Section 7 Other elective officers

Agency Description:

The Department of State Treasurer manages the State’s investment and banking services for all State agencies and institutions and oversees the issuance and repayment of all State and local debt. The Department administers the Teachers’ and State Employees’ Retirement System, Local Government Employees’ Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, and nine other benefit programs. In addition, the Department oversees and maintains the State’s database of unclaimed property.

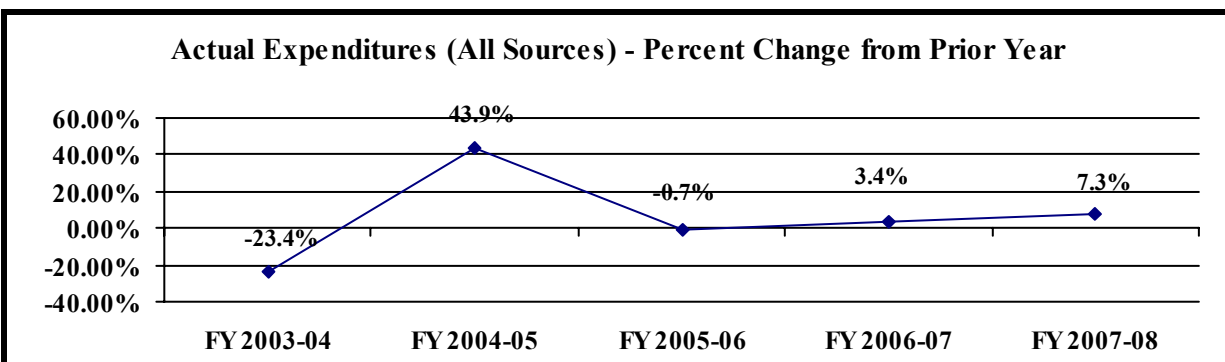
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	40,818,187	42,217,085	45,308,532	41,140,692
Revenue	32,606,575	33,691,987	36,058,193	31,050,673
Net Appropriations	\$8,211,612	\$8,525,098	\$9,250,339	\$10,090,019
Positions (FTE)	342.00	350.87	348.00	358.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the State Treasurer is \$41.1 million in FY 2008-09. Approximately 75% of the Treasurer’s budget is generated by State receipts with the remaining funds derived from net General Fund appropriations. The FY 2008-09 budget is 9.8% less than FY 2007-08 due to the completion of the online retirement database project, thus requiring less revenues. Four divisions are fully receipt-supported: General Administration, Escheats, Information Technology, and Retirement. The Financial Services and Local Government divisions are partially receipt-supported. The Investment Division was the only division fully supported by the General Fund until the passage of S.L. 2008-132. Each receipt-based division is charged a proportion of the cost to operate the IT and General Administration divisions and the portion of costs accrued to the Financial Services to administer the Department’s budget. Retirement and Escheats functions are supported by the funds each division administers.

Over the last five years, total expenditures have increased by an average of 6.1% annually. Changes in the Department’s budget from FY 2004-05 through FY 2007-08 reflect the increased requirements and receipts from the Retirement Division for the three-year funding to design, build, and implement the State’s new online retirement database.



Department of State Treasurer

Budget Tables

The following table provides a breakdown of the Department of the State Treasurer's total General Fund operating budget by division.

State Treasurer (13410 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
General Administration	1,356,293	1,344,587
Escheat Fund Administration	3,341,534	2,817,469
Information Services	6,624,798	6,574,566
Investment Management	3,247,131	4,065,146
Local Government Operations	3,966,873	3,938,177
Retirement Operations	22,185,268	17,977,194
Financial Operations	4,586,635	4,423,553
TOTAL	\$45,308,532	\$41,140,692
Revenue	(36,058,193)	(31,050,673)
NET GENERAL FUND APPROPRIATIONS	\$9,250,339	\$10,090,019

The following table provides a breakdown of the funds* administered by the Department of State Treasurer, including the General Fund budget.

Total Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
State Treasurer (13410 - General Fund)	45,321,084	41,140,692
DST Clean Water Loan Bond Proceeds (23401 - Special Revenue Fund)	9,491,618	9,830,865
DST Combined Motor Vehicle and Registration (23410 - Special Revenue Fund)	0	0
DST IT Projects (23420 - General Fund)	549,259	573,336
DST HWTF (23460 - Special Fund)	48,386,483	25,496,722
DST Blount St Properties (23480 - General Fund)	0	0
DST Escheats (63412 - Special Fund)	104,569,599	66,686,902
DST Fire Loan Trust (63414 - Special Revenue Fund)	0	0
DST Assur. Land Titles (63415 - Special Revenue Fund)	0	0
DST Drinking Water Rept. 1999C (68126 - Enterprise Fund)	29,674	111
DST Interest Wastewater Reptyt. 1999C (68128 - Enterprise Fund)	57,629	220
DST Interest Clean Water Revolving Loans (68132 - Special Revenue Fund)	1,571	1,563

Department of State Treasurer

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DST Interest Drkwtr Repayment 2003A (68137 - Enterprise Fund)	14,310	8,566
DST 2003B Interest Clean Water (68140 - Special Revenue Fund)	22,370	22,260
DST Interest Waster Repyt 2003B (68141 - Enterprise Fund)	24,663	22,670
DST Interest Drkwtr. Repyt 2002C (68142 - Enterprise Fund)	12,608	11,217
DST Interest Clean Water Revolving Loan 2004A (68148 - Special Revenue Fund)	810	1,221
DST Interest Wastewater Repayment 2004A (68149 - Enterprise Fund)	697	62,265
DST Interest Drinking Water 2004A (68150 - Enterprise Fund)	294	23,219
DST Interest Public Imp. 2005A (68154 - Special Revenue Fund)	14,159,395	34,260,718
DST Interest Nat. Gas 2005 Bond (68155 - Special Revenue Fund)	100,865	464,000
DST Interest 2006A Clean Water (68157 - Special Revenue Fund)	999,173	1,870,388
DST Interest 2006A Higher Ed (68158 - Special Revenue Fund)	11,185,085	19,196,825
DST Bond Refunding Proceeds (68163 - General Fund)	43,370	112,107
DST Interest CI 1997 (68174 - Special Revenue Fund)	283	290,480
DST Interest Public School 1997 Bond (68175 - Special Revenue Fund)	2,353	2,283,445
DST Interest Clean Water Bond 1999C (68183 - Special Revenue Fund)	126,483	59
DST Interest Higher Ed. CC2001A (68188 - Special Revenue Fund)	9,559	3,048,744
DST Interest Public Improvement Bond (68190 - Special Revenue Fund)	46,442	11,316,446
DST Interest Drkwtr. Repyt. 2002C (68192 - Special Revenue Fund)	83,781	328
DST Interest Clean Water 2002C (68193 - Special Revenue Fund)	2,621	19,472

Department of State Treasurer

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DST Interest 2007A GO Pub. Imp. (68220 - Special Revenue Fund)	24,081,230	20,240,010
DST Debt Service Clearing (69430 - Special Revenue Fund)	652,148,794	708,780,624
DST Infrastructure Finance Swap (69440 - General Fund)	99,478,125	394,834,431
DST Basis SWAP (69450 - Special Revenue Fund)	5,373,238	5,836,628
TOTAL	\$1,016,606,027	\$1,346,464,076

Note:

*Total Appropriations by Fund as presented reflects only those funds as certified by the Office of State Budget and Management.

Other Funds

Escheat Fund (63412)

Balance: \$658,808,250 (as of June 29, 2008)

The 1979 General Assembly authorized the creation of the Escheat Fund for unclaimed property transferred to the State since June 30, 1971 (G.S. 116B-5). The Department of State Treasurer maintains an online database listing owners of unclaimed property. Funds in the account are invested, and the interest earned is sent to the State Education Assistance Authority (SEAA) on or before July 15 of each year to fund student loans and grants to need-based students who attend any of the State’s public universities or community colleges. The Department of Administration, through its Scholarships for Children of War Veterans’ program, is reimbursed from the fund for the portion of scholarships that are awarded for need-based students who attend a State public university or community college. Qualifying children of deceased, disabled, combat, or POW/MIA veterans are eligible for the Veterans’ scholarship program. In FY 2003-04, the General Assembly authorized the use of the Fund’s principal for student aid to community colleges and for the Veterans’ scholarship program. Since FY 2004-05, the principal has been used for student aid to UNC, the Community Colleges, and the Veterans’ program.

Department of State Treasurer

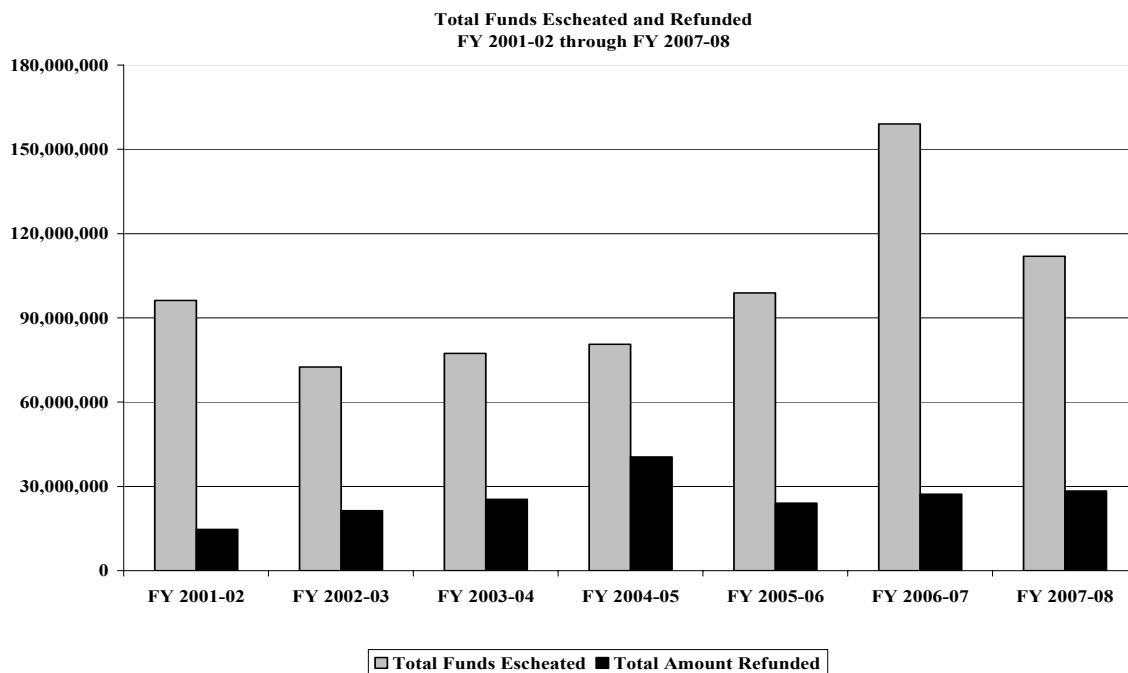
The following table details the Fund’s revenues and expenditures, including the interest and principal awarded in student aid since FY 2002-03.

Interest and Principal Used for Scholarships: FY 2002-03 through FY 2006-07						
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Amount Due SEAA (Interest)	36,390,575	36,356,125	27,255,262	24,726,366	22,730,705	27,483,812
Principal Used by General Assembly:						
UNC			16,394,115	39,992,754	42,911,650	80,499,521
Community Colleges		1,450,000	10,981,202	13,981,202	13,981,202	13,981,202
Veterans		3,728,324	3,903,324	4,297,544	5,568,222	6,228,633
Total Principal Transferred		5,178,324	31,278,641	58,271,500	62,461,074	100,709,356
Total Student Aid	\$36,390,575	\$41,534,449	\$58,533,903	\$82,997,866	\$85,191,779	\$128,193,168

Source: Department of the State Treasurer

The Escheat Fund awarded \$24.7 million in FY 2005-06, \$22.7 million in FY 2006-07, and \$27.5 million in FY 2007-08 in interest earnings to the SEAA. It returned \$24 million in FY 2005-06, \$27.2 million in FY 2006-07 and \$28.3 million in FY 2007-08 in unclaimed property to rightful owners.

The following table depicts the Fund’s financial history.



Department of State Treasurer

Retirement System Trust Funds

The State Treasurer administers the trust funds for the State's major governmental retirement systems. The figures shown below represent the total availability of each trust fund, including investments and ending cash balance, as of June 29, 2008.

Teachers and State Employees (63423)

Balance: \$57,076,700,927

Judicial (63425)

Balance: \$ 448,746,470

Local Government (63426)

Balance: \$17,573,505,699

National Guard (63430)

Balance: \$78,264,119

Legislative (63431)

Balance: \$32,271,746

Registers of Deeds (63432)

Balance: \$34,375,911 (as of June 29, 2008)

The summaries that follow provide information on the actual funds received and paid during FY 2007-08:

Teachers' and State Employees' Retirement System (63423)

(Established by G.S. 135-2, and effective since July 1, 1941)

The Teachers' and State Employees' Retirement Fund received \$452,642,676 in employer contributions and \$796,834,905 in employee contributions and paid out \$2,973,172,476 in pensions in FY 2007-08.

Consolidated Judicial Retirement System (63425)

(Established by G.S. 135-52, and effective since January 1, 1974)

The Judicial Fund received \$10,745,260 in employer contributions and \$5,034,362 in employee contributions and paid out \$26,131,665 in pensions in FY 2007-08.

Local Governmental Employees' Retirement System (63426)

(Established by G.S. 128-22 and effective since the passage of S.L. 1939-390)

The Local Government Employees' Retirement Fund received \$254,545,243 in employer contributions and \$306,182,271 in employee contributions and paid out \$738,133,324 in pensions in FY 2007-08.

Department of State Treasurer

National Guard Retirement System (63430)

(Established by G.S. 127A-40, and effective since July 1, 1974)

The National Guard Retirement Fund received \$7,007,443 in contributions transferred from the Department of Crime Control and Public Safety and paid out \$5,634,880 in pensions in FY 2007-08.

Legislative Retirement System (63431)

(Established by G.S. 120-4.9 and effective since October 1, 1983)

The Legislative Retirement Fund received \$209,253 in employer contributions and \$273,686 in employee contributions and paid out \$1,890,072 in pensions in FY 2007-08.

Registers of Deeds Supplemental Pension Fund (63432)

(Established by G.S. 161-50, effective since October 1, 1987)

The Registers of Deeds Fund received \$1,125,197 in employer contributions and paid out \$1,340,720 in pensions in FY 2007-08.

Health and Wellness Trust Fund (23460)

Balance: \$ 77,009,509 (as of June 29, 2008)

S.L. 2000-147 created the Health and Wellness Trust Fund (HWTF) to invest in programs that address the health needs of the State's vulnerable and underserved populations; to fund health-related research, prevention, education, and treatment programs; and to develop a community-based plan to prevent and reduce the health effects of tobacco use, particularly among youth (G.S. 147-86.30 Health and Wellness Trust Fund established). Per G.S. 147-86.30, the Fund also pays the debt service for certain State health-related facilities. Grants are administered and awarded by the HWTF Commission, an 18-member board administratively located within the Department of State Treasurer.

Funds are derived from payments made by tobacco companies operating in North Carolina as part of a 1999 final consent decree commonly called the Master Settlement Agreement (MSA). The Fund received a total of \$59.2 million in MSA revenue and interest payments and expended \$48.4 million during FY 2007-08. From 2003-2005, a total of \$120 million was diverted from the Fund to assist with the State's projected deficits.

Debt Service, Interest, and Bond Repayment Funds

Balance: \$1,206,728,494 (as of June 29, 2008)

The Department maintains several accounts to budget for repayment, debt service, and interest associated with the issuance of bonds for capital infrastructure projects. Included are accounts for interest from public bonds, such as clean water or public school bonds, totaling \$93,170,467; clearing accounts for debt service totaling \$1,103,615,055; and accounts for bond refunding proceeds totaling \$9,942,972.

Department of State Treasurer

Significant Legislative Budget Actions

Investment Management Division Staff Expansion

The General Assembly appropriated an additional \$763,829 recurring to the Investment Management Division in FY 2008-09 to create six new positions. Total FTE in the Division will be 28.

Audit of State Employee Retirement Service Records

The 2007 General Assembly eliminated the \$1,221,429 recurring included in the FY 2007-08 continuation budget that was authorized by the Department of State Treasurer to audit State employee retirement service records. The General Assembly appropriated \$1.2 million nonrecurring in FY 2007-08 and FY 2008-09. The funds are used to audit service records of State employees to ensure the new, online retirement database lists the correct amount of service for each employee.

Significant Special Provisions

No relevant information to report.

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select programs and other budgetary information

General Fund Reimbursement

The General Fund receives a reimbursement from Investment Income for any State appropriations to the Investment and Financial Services Divisions (G.S. 147-68.1 and G.S. 147-69.3). The General Fund also receives a reimbursement from local sales tax collection for any State appropriation made to the State and Local Government Finance Division (G.S. 105-501).

S.L. 2008-132 excluded the salaries and related benefits for five employees in the Investment Division from the reimbursement described above and directed that funds be expended directly from investment proceeds. However, this legislation does not adjust the budget to eliminate the position costs from the reimbursement. The Office of State Budget and Management will need to shift these funds in the 2009-11 continuation budget (see the "Additional Legislation" section for more information).

Online Retirement Benefits through Integrated Technology (ORBIT)

The Retirement Systems Division administers the Online Retirement Benefits through Integrated Technology (ORBIT) system. ORBIT replaces six mainframe applications to form a modern, integrated information-technology system for the State's retirement plans. ORBIT allows members and retirees online access to retirement account information. Including the appropriation for FY 2007-08, the General Assembly has authorized the use

Department of State Treasurer

of \$29,302,340 in receipts to support the planning, development, and implementation of the ORBIT system. Receipts are generated from the funds administered by the Division. The System became fully operational on October 1, 2007.

ORBIT Funding History	
FY 2003-04	\$2,741,500
FY 2004-05	\$11,594,546
FY 2005-06	\$8,517,136
FY 2006-07	\$5,650,121
FY 2007-08	\$799,037
FY 2008-09	\$1,955,433
Total	\$31,257,773

Additional Legislation

S.L. 2008-132 (HB 2728) Supplemental Retirement Board Trustees/Investment Employees

The General Assembly authorized the compensation bonus for the Chief Investment Officer to change from a performance-based incentive bonus of up to 30% of the salary to a bonus based on compensation studies conducted by a nationally-recognized firm specializing in public fund investment compensation and the Pension Plan performance. The original bonus was established by S.L. 2004-124. The bill authorizes the State Treasurer to award the compensation bonus to the Chief Investment Officer and to four Investment Director positions. The bill requires that the funding for the salaries and associated benefits for these five positions be from a direct apportionment from the investment program (as described in the “General Fund Reimbursement” section under the “Select Programs and Other Budgetary Information”).

Treasurer - Retirement for Fire and Rescue Squad Workers

G.S. 58-86.1. Fund established; administration by board of trustees; rules and regulations.

Agency Description:

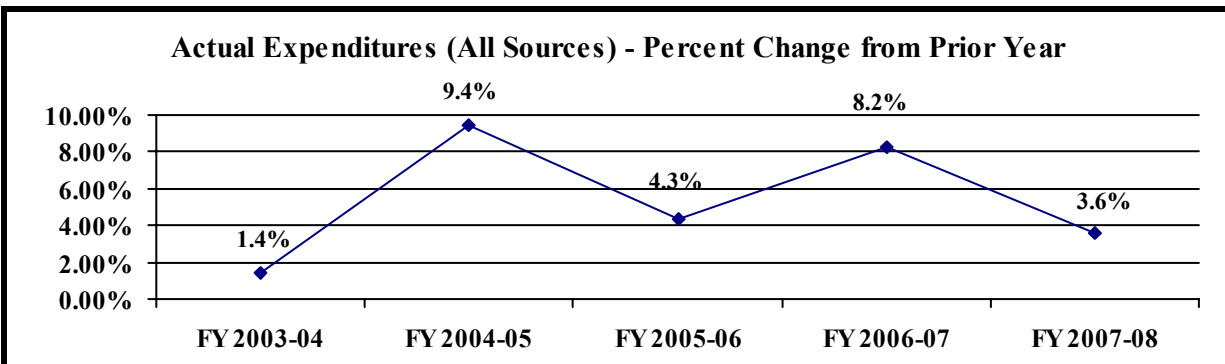
This budget code includes net General Fund appropriations to the Fire Pension Fund, the Rescue Squad Workers' Fund, and for death benefits for officers who died in the line-of-duty.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	8,251,457	8,930,457	9,253,957	10,486,808
Revenue	0	0	0	0
Net Appropriations	\$8,251,457	\$8,930,457	\$9,253,957	\$10,486,808
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for the retirement benefits is \$10.5 million in FY 2008-09. The amount of expenditures is typically increased to reflect legislative increases to the monthly pension benefit for retirees and future retirees of the Fire and Rescue Squad Workers' funds or to adjust for changes in the number of line-of-duty deaths.

Over the last five years, total expenditures have increased by an average of 5.4% annually. The FY 2003-04 budget included an increase for additional line-of duty deaths. The monthly benefit for the fire and rescue squad workers increased \$2 in FY 2005-06, FY 2006-07, and FY 2007-08, and increased \$3 in FY 2004-05 and FY 2008-09.



Treasurer – Retirement for Fire and Rescue Squad Workers

Budget Tables

The following table provides a breakdown of the Retirement for Fire and Rescue Squad Workers’ Fund located in the State Treasurer’s total General Fund operating budget. The budget includes the two retirement funds and a fund for line-of-duty death benefits.

Fire and Rescue Fund (13412 - General Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Contribution to Fire Pension	7,631,050	8,658,901
Contribution to Rescue Squad Workers	1,102,907	1,102,907
Line-of-Duty Death Benefits	520,000	725,000
TOTAL	\$9,253,957	\$10,486,808
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$9,253,957	\$10,486,808

Other Funds

Firemen’s Pension (63434)

Balance: \$296,575,870

Rescue Squad Workers’ Pension (63435)

Balance: \$35,437,728 (as of June 29, 2008)

The Department of State Treasurer maintains the Firemen’s and Rescue Squad Workers’ Pension Fund, established by G.S. 58-86. The fund is separated into two budget codes; one for firemen and one for rescue squad workers. In addition to the State appropriation, the Firemen’s Pension fund received \$2,297,789 in employee contributions and spent \$19,119,180 for pension claims in FY 2007-08. The Rescue Squad Worker’s Pension Fund received \$184,612 in employee contributions and spent \$2,097,226 for pension claims in FY 2007-08.

Significant Legislative Budget Actions

Fire Pension Fund

The General Assembly increased the monthly benefit for retired fire and rescue squad workers by \$3, from \$167 to \$170 in FY 2008-09. The monthly benefit increased by \$2 in both FY 2006-07 and FY 2007-08.

Treasurer – Retirement for Fire and Rescue Squad Workers

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Licensing Boards

- G.S. 86A Powers and Duties of the State Board of Barber Examiners
- G.S. 88B Powers and Duties of the NC State Board of Cosmetic Art Examiners
- G.S. 90-238 Powers and Duties of the NC State Board of Opticians
- G.S. 90-270.6 Powers and Duties of the NC Psychology Board
- G.S. 85B Powers and Duties of the NC Auctioneer Licensing Board
- G.S. 88A-5 Powers and Duties of the NC Board of Electrolysis Examiners

Agency Description:

The various North Carolina licensing boards were created to establish and manage authorized professional service providers in the areas of cosmetology, barber examiners, opticians, psychology, auctioneering, and electrolysis examiners. The boards provide oversight through training, examination and licensure. They are entirely receipt-supported and do not receive General Fund appropriations. The boards listed in the table below are established in statute but do not include all licensing boards.

Budget Tables

The following table provides a breakdown of the NC Licensing Boards' Enterprise Funds.

Licensing Boards	Actual FY 2007-08	Certified FY 2008-09
NC State Board of Barber Examiners (28101 – Enterprise Fund)	568,365	528,797
NC State Board of Cosmetology (28102 – Enterprise Fund)	2,362,194	2,127,587
NC State Board of Opticians (28103 – Enterprise Fund)	183,427	209,457
NC Psychology Board (28104 – Enterprise Fund)	608,072	601,235
NC State Auctioneer Licensing Board (28106 – Enterprise Fund)	620,253	508,657
NC State Board of Electrolysis Examiners (28107 – Enterprise Fund)	21,999	22,900
TOTAL	\$4,364,310	\$3,998,633
Revenue	(5,190,115)	(3,102,294)
NET GENERAL FUND APPROPRIATIONS	(\$825,805)	\$896,339

Natural and Economic Resources

Appropriations Subcommittee on Natural and Economic Resources

Subcommittee Summary:

The Natural and Economic Resources Subcommittees, consisting of 15 members of the General Assembly, review and recommend the budgets for four State agencies and various boards, commissions, and non-profits. The Committees' responsibilities encompass such varied topics as economic development, environmental regulations, State parks, marine fisheries, employment, worker safety, agronomic testing, swine farms, and beaver management.

Subcommittee Membership:

Rep. Mary McAllister, Chair
 Rep. Edith Warren, Chair
 Rep. Angela Bryant
 Rep. Pricey Harrison
 Rep. Carolyn H. Justice
 Rep. James Langdon
 Rep. Ruth Samuelson
 Rep. Bonner Stiller
 Rep. Winkie Wilkins
 Rep. Michael Wray

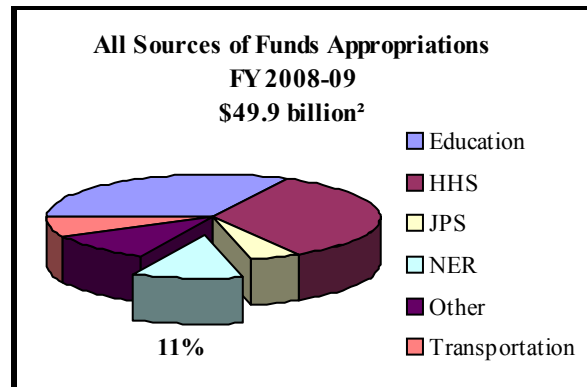
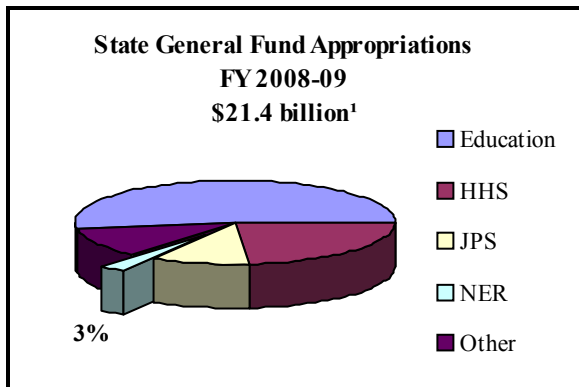
Sen. David Weinstein, Chair
 Sen. Harry Brown
 Sen. Jim Jacumin
 Sen. Ed Jones
 Sen. Floyd McKissick Jr.

Staff:

Kristine Leggett, Team Leader
 Andrew Pennock
 Kristin Walker

Budget Comparison:

The combined budgets under the Natural and Economic Resources Subcommittees total \$573.3 million or 3% of net General Fund appropriations and \$5.5 billion or 11% of the total \$49.9 billion appropriated from all sources for FY 2008-09. The following charts illustrate the Natural and Economic Subcommittees' total as compared to other appropriations subcommittee totals:



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Department of Agriculture and Consumer Services

NC Constitution, Art. III, Sec. 7, Other elective officers
 G.S. 106-22 Joint Duties of Commissioner and Board

Agency Description:

The NC Department of Agriculture and Consumer Services administers and enforces agriculture-related statutes covering agriculture practices and regulatory services to ensure consumer protection. Duties of this department include conducting agronomic testing; ensuring animal health; inspecting gas and oil stations; testing of food, drugs, and cosmetics; marketing and promoting of agricultural products; operating the State Fair and farmers markets; managing research stations; eradicating nursery and plant pests; and regulating the structural pest control industry. A Commissioner of Agriculture is elected every four years and serves as head of the Department.

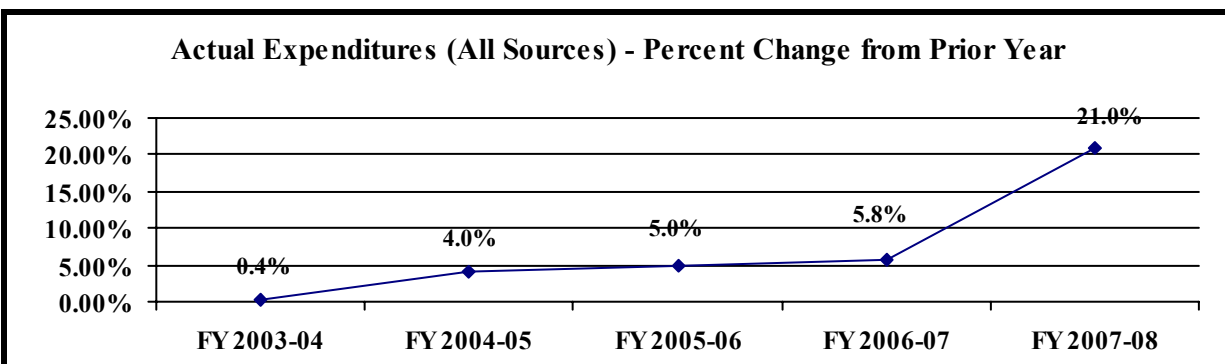
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	81,832,208	86,538,752	104,726,812	90,519,268
Revenue	30,187,951	32,404,803	33,046,975	24,859,678
Net Appropriations	\$51,644,257	\$54,133,949	\$71,679,837	\$65,659,590
Positions (FTE)	1,179.75	1,189.00	1,189.00	1,189.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 general fund budget for the Department of Agriculture and Consumer Services (DACS) is \$89,685,087. For FY 2008-09, 72.3%, or approximately \$64.8 million, is from net General Fund appropriations. The remaining 27.7% is largely comprised of federal revenue. In FY 2008-09 DACS' net General Fund appropriation decreased 14.4% from the previous year. This decrease primarily reflects the removal of the Biofuels Center of North Carolina from the Department's budget and the reduction of the appropriation to the Agricultural Development and Farmland Preservation Trust Fund (ADFPTF) from \$8 million nonrecurring in FY 2007-08 to \$4 million nonrecurring in FY 2008-09.

In FY 2007-08 the Department's budget increased primarily due to the inclusion of \$5 million nonrecurring to the Biofuels Center of North Carolina and \$8 million nonrecurring to the ADFPTF. Over the last five years, the average percentage change in actual expenditures was 7.2%. Budget increases have also been driven by salary increases and equipment purchases.



Department of Agriculture and Consumer Services

Budget Tables

The following table provides a breakdown of the Department of Agriculture and Consumer Services total General Fund operating budget by division.

Department of Agriculture and Consumer Services (13700 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration		
Agricultural Statistics	1,600,641	1,644,597
Budget & Finance	3,125,512	3,139,396
General Administration	16,211,760	7,462,509
Human Resources Office	880,942	780,736
Property & Construction	457,073	523,731
Public Affairs	447,044	434,066
Consumer Protection		
Emergency Programs	2,467,188	1,663,095
Food & Drug Protection	10,629,195	9,547,696
Meat & Poultry Inspection	6,963,039	7,316,802
Standards	6,935,626	6,536,117
Structural Pest Control & Pesticides	4,841,057	5,075,023
Veterinary Services	12,364,717	11,277,712
Agricultural Services		
Agronomic Services	3,978,124	4,310,582
Food Distribution	4,157,459	3,563,015
Marketing	10,310,419	9,673,475
Plant Industry	7,481,420	5,919,027
Research Stations	11,875,596	11,651,689
TOTAL	\$104,726,812	\$90,519,268
Revenue	(33,046,975)	(24,859,678)
NET GENERAL FUND APPROPRIATIONS	\$71,679,837	\$65,659,590

Department of Agriculture and Consumer Services

The following table provides a breakdown of the funds* administered by the Department of Commerce, including the General Fund operating budget.

Total Appropriations by Fund	Actual	Certified
	FY 2007-08	FY 2008-09
DACS (13700 – General Fund)	104,726,812	90,519,268
Raleigh Farmers Market (53700 – Enterprise Fund)	1,309,190	1,481,114
Western NC Agricultural Ctr (53725 – Enterprise Fund)	2,231,231	2,533,066
North Carolina State Fair (53750 – Enterprise Fund)	15,254,562	17,902,494
Pesticide Prev Prog Reserve (19007 – General Fund)	0	357,055
Livestock Special (23700 – Special Fund)	762,934	9,023,052
Warehouse Investment Special (23701 – Special Fund)	0	2,000
Tobacco Trust – Special (23703 – Special Fund)	24,233,916	35,041,444
Trust Special (63700 – Trust Fund)	3,654,133	474,560
Rural Rehab Loans – Proprietary (63702 – Trust Fund)	523,797	959,026
Fianance Authority – Proprietary (63703 – Trust Fund)	973,810	1,240,000
Cooperative Grading Program (63704 – Trust Fund)	5,628,177	6,428,400
TOTAL	\$159,298,561	\$165,961,479

Note:

*Total Appropriations by Fund as presented reflect only those budgets as certified by the Office of State Budget and Management.

Other Funds

The Department of Agriculture's three enterprise funds are entirely comprised of fees generated at facilities, which are then used for the operation, management, and upkeep of those facilities.

Raleigh Farmers Market (53700)

Balance: \$1,561,289 (as of June 29, 2008)

The Raleigh Farmers Market, operating since 1961, generates receipts of \$1.4 million that are used to operate and manage its facilities. The majority of the receipts are collected from lease agreements on the facilities and short-term rental fees for sellers. The market has 17 employees. For FY 2007-08 receipts into the Fund totaled \$1.4 million; expenditures were \$1.3 million.

Western NC Agricultural Center/Mountain State Fair (53725)

Balance: \$2,400,393 (as of June 29, 2008)

Located in Fletcher, the Western NC Agricultural Center hosts the annual Mountain State Fair. Collectively, the Center and the Fair generate \$2.3 million in receipts for their operation and fund 13 employees. The Western NC Agricultural Center generates approximately 36.2% of receipts by promoting the showing and selling of livestock, hosting horse shows, and providing space for training sessions and community events. The Mountain State Fair generates the

Department of Agriculture and Consumer Services

remaining 63.8% of the receipts in their annual 10-day fair. For FY 2007-08 receipts into the Fund totaled \$2.4 million; expenditures were \$2.2 million.

NC State Fair (53750)

Balance: \$4,230,281 (as of June 29, 2008)

The NC State Fair properties are utilized year round as rental space but are most well known for the annual State Fair in October. This fund generates \$14.6 million, with approximately \$9.4 million (75%) generated by the State Fair. These receipts fund 66 employees who manage the operations, maintain the buildings and grounds, and provide security for the 344 acre property. For FY 2007-08 receipts into the Fund totaled \$14.6 million; expenditures were \$15.3 million.

The Department of Agriculture and Consumer Services administratively houses the Tobacco Trust Fund. However, this fund does not appear as a portion of their appropriated budget.

Tobacco Trust Fund (23703)

Balance: \$22,538,117 (as of June 29, 2008)

The Tobacco Trust Fund (TTF) was created in S.L. 2000-147 to provide assistance to tobacco producers, allotment holders, and persons involved in or displaced by tobacco-related businesses that were adversely affected by the Master Settlement Agreement (MSA). Funds can be used for compensatory programs and qualified agricultural programs, voted on by an 18 member Commission. To fund these projects TTF receives 25% of the Phase I annual payments from the MSA. However, historically TTF has retained less than 25% of the MSA payments, as the General Assembly has utilized this source of revenue for general availability and as a dedicated source of funds for debt service payments for specific university capital projects as prescribed by the State Capital Facilities Act of 2004 (S.L. 2004-179). In the 2007 Session, G.S. 116-29.1 was amended to dedicate \$8 million annually from TTF to the University Cancer Research Fund (S.L. 2007-323, Section 6.23 (b)). The table below provides a history of total TTF diversions.

**Tobacco Trust Fund Diversions
FY 2001-02 to FY 2007-08**

Fiscal Year	Amount (millions)
2001-02	82.0
2002-03	38.0
2003-04	37.1
2004-05	35.0
2005-06	34.0
2006-07	32.8
2007-08	14.4
Total	\$273.3

Department of Agriculture and Consumer Services

The estimated MSA payment for FY 2008-09 is \$32.9 million. Debt service obligations for the year will total approximately \$18.7 million. The General Assembly transferred \$5 million to the General Fund in S.L. 2008-107, leaving TTF with an estimated \$9.1 million in new funds for grants and operating expenses.

Significant Legislative Budget Actions

Food Distribution

The General Assembly appropriated \$200,000 nonrecurring in seed money to the Food Distribution Division to reestablish the NC Farm to School Program which purchases North Carolina produce from farmers before reselling it to schools. This program will be self-supporting in FY 2009-10.

Marketing

The General Assembly appropriated \$500,000 nonrecurring to fund green industries education and promotion. The funds are allocated as follows: \$200,000 for Got to Be NC, \$75,000 for water conservation education, and \$225,000 for water conservation promotion.

Agricultural Festivals

The General Assembly appropriated \$50,000 nonrecurring for the promotion of agriculture festivals in small towns with populations less than 5,000. In FY 2007-08 the General Assembly also appropriated \$50,000. The table below lists the festivals that received a grant from the FY 2007-08 appropriation.

Festivals Funded in FY 2007-08

Festival	Amount
Turkey Festival	10,000
NC Strawberry Festival	5,000
NC Muscadine Festival	5,000
NC Yam Festival	8,000
NC Watermelon Festival	8,000
Yadkin Valley Grape Festival	3,000
NC Blueberry Festival	10,000
NC Peach Festival	1,000
Total	\$50,000

Agricultural Development and Farmland Preservation (ADFP) Trust Fund

The General Assembly reestablished the ADFP Trust Fund in 2005 to provide grants for conservation easements, agricultural easements, and sustainable or viable agricultural programs. For FY 2008-09 the General Assembly appropriated \$4 million nonrecurring to the ADFP Trust Fund.

Veterinary Services

The General Assembly appropriated \$525,000 nonrecurring to replace the incinerator at Rollins Lab and provide two freezers for the regional laboratory system.

Department of Agriculture and Consumer Services

Capital Improvement Items

The General Assembly appropriated \$13.6 million for DACS-related capital items (see table below). More information on these projects can be found in the Capital Section of the Conference Committee Report that accompanies S.L. 2008-107.

DACS Related Capital Projects for FY 2008-09

<u>Project</u>	<u>Amount</u>
Davis Arena Renovation and Expansion at the Western NC Agricultural Center	7,450,000
Veterinary Laboratory System Study	620,000
Motor Fuels/Metrology Laboratory Study	300,000
Hunt Horse Complex	900,000
Western Carolina Farmers Market	650,000
Southeastern NC Agricultural Center Pavilion	3,700,000
Total	\$13,620,000

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 11.1(a) Certain Department of Agriculture and Consumer Services Fees

This provision requires the Department to study the feasibility and advisability of 1) increasing fees within the Rollins Laboratory System, 2) increasing the fees charged for soil testing performed by the Agronomic Services Division, and 3) employing alternative sources of funding for the "Agricultural Review." The Department must report to the Chairs of the House of Representatives and Senate Appropriation Subcommittees on Natural and Economic Resources by March 1, 2009.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Department of Commerce

G.S. 143B-431 Department of Commerce - functions

Agency Description:

The Department of Commerce is the State’s lead economic development agency, working with local, regional, national, and international companies. The Department serves existing business and industry, including providing international trade assistance; recruits new jobs and domestic and foreign investment; markets North Carolina; provides community development assistance; and promotes tourism, film, and sports development. The Department is led by a secretary appointed by the Governor.

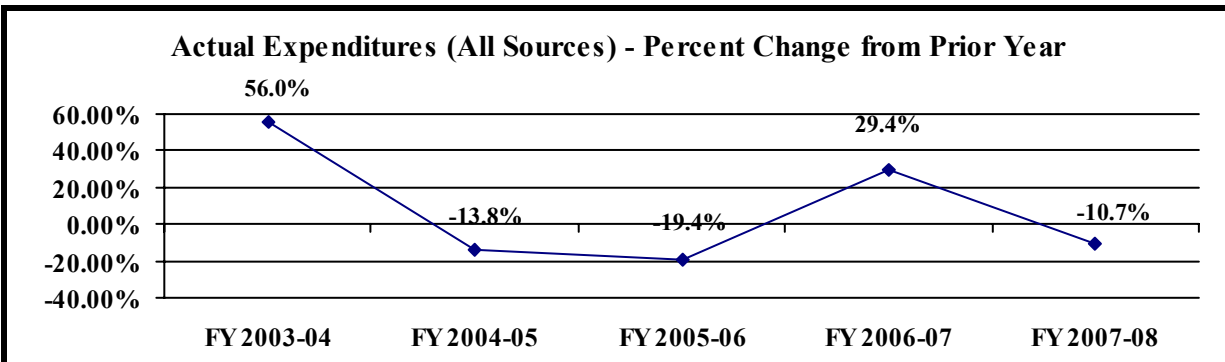
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	105,337,293	136,267,494	121,726,029	105,688,006
Revenue	56,157,916	62,117,360	60,646,904	52,423,695
Net Appropriations	\$49,179,377	\$74,150,134	\$61,079,125	\$53,264,311
Positions (FTE)	447.27	455.57	458.57	458.57

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The total General Fund budget for FY 2008-09 for the Department of Commerce is \$105,688,006, a 13% decrease from the prior year. This decrease is caused by a reduction in the amount budgeted for receipts and several nonrecurring appropriations in FY 2007-08 for economic development and tourism. \$53 million (50%) of the total budget is from General Fund appropriations. State and federal receipts, primarily Community Development Block Grant (CDBG) funds, comprise the remaining 50%.

The chart below shows the annual percentage change in Commerce’s budget since FY 2003-04. Over the last five years, the average percentage change in actual expenditures was 8.3%. Budget increases have been driven primarily by appropriations to economic development incentives programs, most of which receive nonrecurring funds each year.



Department of Commerce

Budget Tables

The following table provides a breakdown of the Department of Commerce total General Fund operating budget.

Department of Commerce – General (14600 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administrative Services	2,999,527	2,997,686
Executive Aircraft Operations	2,663,715	1,971,911
Science and Technology	354,953	338,310
Management Information Systems Division	1,528,035	1,338,025
Policy and Research Division	1,891,228	1,297,597
Marketing and Customer Service	4,322,519	1,114,072
Business and Industry Development	5,237,333	5,476,153
International Trade Division	2,583,901	2,866,328
Tourism, Film, and Sports Development	13,859,781	11,659,319
Welcome Centers	1,895,081	1,801,096
Wanchese Seafood Industrial Park	1,539,707	754,371
Commerce Finance	20,578,513	15,345,272
Community Assistance	2,605,738	2,795,704
Community Development Block Grants	43,720,384	45,607,699
Industrial Commission Administration	15,845,614	10,324,463
Reserves and Transfers	100,000	0
TOTAL	\$121,726,029	\$105,688,006
Revenue	(60,646,904)	(52,423,695)
NET GENERAL FUND APPROPRIATIONS	\$61,079,125	\$53,264,311

The following table provides a breakdown of the funds* administered by the Department of Commerce, including the General Fund operating budget.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Commerce (14600 – General Fund)	121,726,029	105,688,006
Special Fund (24600 – Special Fund)	106,698,598	187,836,387
Special Disaster Relief (24602 – Special Fund)	443,160	1,500,000
Special Morehead (24604 – Special Fund)	8,456	11,000
Special Cape Fear (24605 – Special Fund)	4,511	6,000
Clean Water Bonds (24606 – Special Fund)	726,000	2,074,474
Special Fund Grants (24609 – Special Fund)**	7,448,941	1,801,058
Special Second Injury Fund (24610 – Special Fund)	61,058	66,100
IT Projects (24611 – Special Fund)	1,075,993	2,989,549

Department of Commerce

Enterprise (54600 – Enterprise Fund)	34,152,704	37,188,681
Trust Fund EDA (64604 – Trust Fund)	90,675	200,000
Utilities Comm./Public Staff Trust (64605 – Trust Fund)	13,416,285	13,000,000
NC Rural Electric Authority (64612 – Trust Fund)	174,863	178,500
Utilities Commission/Natural Gas (64613 – Trust Fund)	3,470	3,470
CDBG Revolving Loan Fund (64616 – Trust Fund)	433,470	1,000,000
ESC – Administration Special Fund (24650)	244,748,926	246,658,700
ESC – Trust Administration Special (64650)	5,453,568	4,742,378
TOTAL	\$536,666,707	\$604,944,303

Note:

*Total Appropriations by Fund as presented reflect only those budgets as certified by the Office of State Budget and Management.

**FY 2008-09 Certified Budget for Commerce – Special Fund Grants (24609) has been reduced by \$1 million to prevent double counting of the FY 2008-09 appropriation for the Green Business Fund.

Other Funds

Several State boards and commissions are housed administratively within the Department of Commerce. Following is information about some of these funds.

State Banking Commission (54600-5811) **Balance: \$7,668,118 (as of June 29, 2008)**

Governed by G.S. 53, 54B, and 54C, the State Banking Commission charters and supervises banks located in the State, savings banks, savings and loan associations, and nondepository trust companies; licenses or registers a variety of consumer industries, including check casher and refund anticipation lenders; and licenses mortgage lenders, brokers, and their loan officers. The Banking Commission enforces regulatory compliance of all supervised financial services companies with periodic examinations and off-site monitoring techniques.

The Commission is entirely receipt supported. In FY 2007-08, the Commission had receipts from various licensing, certification, inspection, and examination fees totaling \$11,344,936 and expenditures totaling \$12,325,487. The State Banking Commission has 101 FTE positions.

Alcoholic Beverage Control (ABC) Commission and Warehouse **(54600-5881 and 54600-5882)** **Balance: \$7,014,264 (as of June 29, 2008)**

Governed by G.S. 18B, the ABC Commission provides regulation and control of the manufacture, distribution, advertisement, sale, possession, and consumption of liquors, wines, and malt beverages in the State. The ABC Warehouse, authorized by G.S. 18B-204, provides

Department of Commerce

central storage for the distribution and monitoring of all liquors sold by the 155 local, county, and municipal ABC boards in the State.

In FY 2007-08, the Commission and Warehouse had receipts of \$9,104,469 and expenditures of \$8,020,020, supporting 46 FTE positions.

Utilities Commission and Public Staff (54600-5211 and 54600-5221) Balance: \$0 (as of June 29, 2008)

The Utilities Commission administers the Public Utilities Act (G.S. 62). It regulates the rates and the quality of service of all investor-owned public utilities operating within the State. The Utilities Commission employs 63 FTE positions. In FY 2007-08, this enterprise fund had receipts and expenditures of \$5,619,950.

The Utilities Commission Public Staff (G.S. 62-15) represent the using and consuming public before the Utilities Commission in matters affecting the rates and service of regulated public utility companies. The Public Staff accomplish this through reviews, investigations, recommendations, and by resolving the public's complaints against utility companies. Their mission is to ensure adequate energy, water, and transportation services at reasonable rates. Eighty-nine FTE employees work as Public Staff. For FY 2007-08, this enterprise fund had receipts and expenditures of \$7,711,806.

Employment Security Commission (ESC) (24650) Balance: \$3,749,468 (as of June 29, 2008)

The Employment Security Commission (G.S. 96) provides employment services, unemployment insurance, and labor market information to the State's workers, employers, and the public. ESC has 2,262.25 FTE positions at its headquarters in Raleigh and at 106 offices across the State. In FY 2007-08, ESC had receipts of \$244,748,926 and expenditures of \$242,682,116. The FY 2008-09 budget is \$246,658,700. Following is a breakdown of this budget by fund source:

ESC Budget by Fund Source FY 2008-09

Fund Source	Amount
Federal	198,386,488
Local	12,195,000
State – ESC Reserve Fund	14,600,000
Intra-agency Transfers	14,990,794
Division of Social Services	4,532,000
Other	1,954,418
Total	\$246,658,700

Department of Commerce

Significant Legislative Budget Actions

One North Carolina Fund

The General Assembly provided the Department of Commerce with \$5 million nonrecurring for the One North Carolina Fund to offer economic development incentive grants to businesses creating new jobs in the State for infrastructure, repair and renovation, and machine or equipment purchases. Additional information about this Fund is provided in the Select Programs and Other Budgetary Information section.

One North Carolina Small Business Fund

The General Assembly appropriated \$3.5 million nonrecurring for the One North Carolina Small Business Fund to match grants to small businesses that have received either a federal Small Business Innovation Research Program (SBIR) or a federal Small Business Technology Transfer (STTR) Program award.

Green Business Fund

The General Assembly appropriated \$1 million nonrecurring to the Green Business Fund to provide grants to private businesses with fewer than 100 employees, nonprofit organizations, and State agencies to encourage the growth of a green economy in the State.

Job Development Investment Grant (JDIG)

The General Assembly increased the recurring appropriation for JDIG by \$15 million, from \$12.3 million to \$27.4 million. JDIG is managed by the Department of Commerce but funding for it is not appropriated to the Department. Instead, the funds are held in a Reserve Fund within the Office of State Management and Budget. Additional information about JDIG is provided in the Select Programs and Other Budgetary Information section.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 13.6A NC Wine and Grape Growers Council/Additional Funds for Research and Development

This provision amended G.S. 105-113.81A, Distribution of part of wine taxes attributable to North Carolina wine. Previously, \$800,000 of the revenue from the excise tax on unfortified wine sold in the State was appropriated to the Wine and Grape Grower's Council. This provision increased that amount by \$100,000 for a total of \$900,000 recurring. The additional funds are to be used to contract for research and development services to improve viticultural and enological practices within the State.

Department of Commerce

Select Programs and Other Budgetary Information

North Carolina's Economic Development Incentives Programs

The Department of Commerce currently administers eight direct incentives programs: the One North Carolina Fund (One NC), the Job Development Investment Grant (JDIG), the One NC Small Business Program, the Green Business Fund, the Job Maintenance and Capital Development Fund (JMAC), the Site Infrastructure Grant, the Industrial Development Fund (IDF), and the Utility Account. The largest of these are JDIG and One NC. These two programs received 77% (\$32.4 million) of the \$42.2 million appropriated to direct incentive programs in FY 2008-09.

The following table provides a history of JDIG and One NC appropriations.

JDIG and One NC Appropriations Since FY 2004-05 (in millions)

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
JDIG	\$4.50	\$9.0	\$12.4	\$12.4	\$27.4
One NC*	\$0	\$4.0	\$14.0	\$13.35	\$5.0

*Amounts shown for One NC do not match actual appropriations; they have been adjusted to reflect only those amounts actually allocated for One NC.

Job Development Investment Grant (JDIG)

The Job Development Investment Grant (JDIG) is a discretionary grant program created in 2002 to provide incentives to companies that would choose to locate elsewhere if the grant were unavailable. The program is set to expire January 1, 2010. Grants are awarded by the Economic Investment Committee (EIC), a five-person committee consisting of the Secretaries of Commerce and Revenue, the Director of the Office of State Budget and Management, and two General Assembly appointees, one recommended by the Speaker of the House and one recommended by the President Pro Tempore of the Senate.

Eligible projects create a minimum of 10 jobs in a Tier I area or 20 jobs in Tier II or III areas. Up to 25 businesses can receive grants lasting up to 12 years. The maximum annual liability cannot exceed \$15 million, although exceptions have been made in the past three years: the cap was raised to \$30 million in 2006; \$25 million in 2007; and \$25 million in 2008. Grant awards can be anywhere from 10% to 75% of tax withholdings for eligible positions. Projects must result in a net increase in employment in the State - awards cannot be granted to companies relocating within the State with no increase in employment. All award agreements must contain clawback provisions in the event the company does not meet stated performance levels. The JDIG program is governed by G.S. 143B-437.50-63.

Department of Commerce

The following table provides a statistical history of JDIG by calendar year.

JDIG Key Statistics

	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007
Number of Awards	6	19	11	19	15
Total Grant Liability	\$39,360,658	\$108,506,413	\$54,757,000	\$188,341,424	\$113,641,000
Average Grant Amt.	\$6,560,110	\$5,710,864	\$4,977,909	\$9,912,707	\$7,576,067

One North Carolina Fund

Created in 1993, the One North Carolina Fund (originally called the Governor's Industrial Recruitment Competitiveness Fund) provides grants to local governments to help recruit new and expanding businesses to create quality jobs. Grants may be used for installation or purchase of equipment, repairs or renovations to existing buildings, construction of utility infrastructure for existing or proposed building or for any other purpose specifically authorized by the General Assembly. Funds are disbursed in accordance with a schedule established in each grant agreement, usually in four equal installments. Eligible recipients must create new jobs, and a local match is required. One NC is governed by G.S. 143B-437.70-74.

The following table provides a statistical history of One NC.

One NC Key Statistics

	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Number of Awards	28	46	57	59	37
Total Grants	\$4,213,000	\$11,544,575	\$9,992,000	\$15,395,500	\$10,157,000
Average Award	\$150,464	\$250,969	\$175,298	\$260,941	\$274,514

Additional Legislation

S.L. 2008-147 (S.B. 2075) Economic Development Modifications

G.S. 143B-437.52(c) caps the maximum grant liability for Job Development Investment Grants (JDIG) at \$15 million in any calendar year. Section 2 of this bill overrides that statute and increases the maximum liability to \$25 million for calendar year 2008. A fiscal note accompanying this bill estimates the total maximum cost of increasing the cap to be \$120 million, or \$10 million per year for the next 12 years. This is the third time the cap has been lifted: the General Assembly allowed up to \$30 million in 2006 and \$25 million in 2007.

Department of Commerce-State Aid

Agency Description:

Commerce - State Aid is a pass-through budget used to direct appropriations to non-State entities. Several nonprofits receive recurring appropriations through this fund, including the seven regional economic development commissions, the 17 Councils of Government (COGs), the Institute for Minority Economic Development, and the Association of Community Development Corporations. One-time grants to non-State entities administered by the Department of Commerce are also usually included under this budget code.

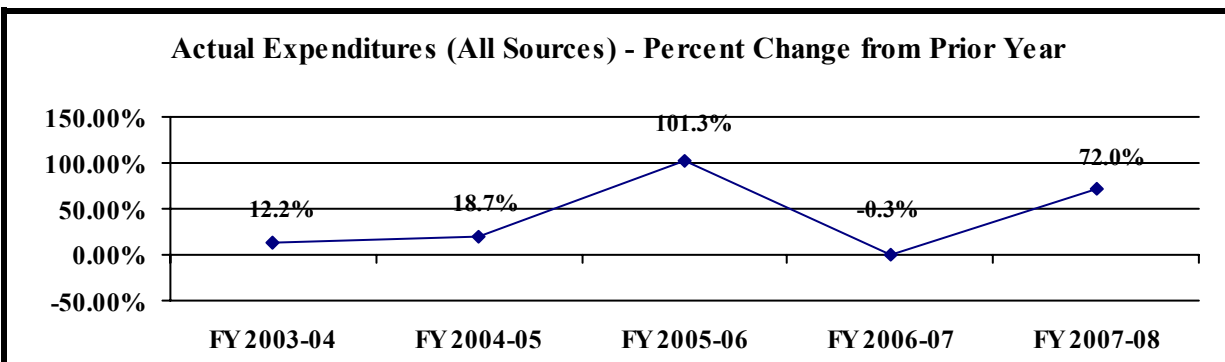
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	26,511,797	26,435,222	45,477,910	34,273,063
Revenue	0	7,510,000	10,132,676	10,000
Net Appropriations	\$26,511,797	\$18,925,222	\$35,345,234	\$34,263,063
Positions (FTE)	0.00	0.00	0.00	0.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The FY 2008-09 total General Fund budget for Commerce - State Aid is \$34.3 million, a 25% decrease from the prior year. However, this figure is misleading, since the FY 2007-08 Actual Expenditures category includes a \$10 million carry-forward for the NC Center for Automotive Research from FY 2006-07. State appropriations to Commerce - State Aid have decreased by 3% from FY 2007-08, primarily because of reductions to recurring appropriations and higher non-recurring appropriations in FY 2007-08. Since this is a pass-through budget used to administer grants to nonprofits only net General Fund appropriations will be shown here. Other revenue generated by the various entities funded through this account are not reflected in this chart. Revenues shown in FY 2006-07 and FY 2007-08 are carry-forward funds from previous appropriations.

The chart below shows the percent change over time for net General Fund appropriations made to this budget code. Over the last five years, the average percentage change in actual expenditures was 41%. Appropriations in this budget vary considerably from year to year. Seven nonprofits receive recurring funds, but in any given year, several other entities may be funded on a nonrecurring basis as well. For example, in FY 2007-08, six additional nonprofits received State funding through the State Aid budget. In FY 2006-07, only three additional entities were funded.



Department of Commerce-State Aid

Budget Tables

The following table provides a breakdown of the Department of Commerce-State Aid total General Fund budget by entity.

Commerce – State Aid (14601 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Regional Economic Development Commissions	6,775,000	6,371,888
Council of Government (COG) Funds	1,002,150	823,828
NC Center for Automotive Research (NCCAR)	995,055	0
Johnson & Wales University	2,000,000	1,500,000
Defense and Security Technology Accelerator	1,125,000	1,500,000
Kerr-Tar Economic Development Corporation Funds	2,175,000	0
Coalition of Farm and Rural Families	300,000	158,943
Land Loss Prevention	800,280	792,277
NC Community Development Initiative (NCCDI)	3,972,602	6,243,834
NC Assoc. of Community Development Corporations	1,109,360	1,098,266
NC Institute of Minority Economic Development	2,847,602	2,819,126
NC Minority Support Center	3,539,041	4,503,651
e-NC Authority	4,475,835	1,995,000
High Point International Furniture Market ¹	0	1,466,250
Biofuels Center ²	0	5,000,000
Carry-forward	14,360,985	0
TOTAL	\$45,477,910	\$34,273,063
Revenue ³	(10,132,676)	(10,000)
NET GENERAL FUND APPROPRIATIONS	\$35,345,234	\$34,263,063

Notes:

¹The High Point International Furniture Market appropriation was transferred to State-Aid from Commerce in FY 2008-09. The Market received \$1 million nonrecurring and \$875,000 recurring in FY 2007-08.

²Biofuels was funded through the DACS budget in FY 2007-08. It received \$5 million nonrecurring in FY 2007-08.

³Receipts shown for FY 2008-09 resulted from the elimination of a fund balance for Manchester CDC, Inc. Funds were appropriated for this entity in FY 2005-06, but were never used. Receipts for FY 2007-08 include the Manchester CDC funds, as well as carry-forward from FY2006-07.

Other Funds

No relevant information to report.

Department of Commerce-State Aid

Significant Legislative Budget Actions

High Point International Furniture Market

The General Assembly transferred the recurring appropriation for the Furniture Market from the Commerce budget to the State Aid budget and reduced it by 1% to \$866,250. The General Assembly appropriated an additional \$600,000 nonrecurring for FY 2008-09, for a total of \$1,466,250 for the year.

Johnson & Wales University (JWU)

The General Assembly appropriated \$1.5 million nonrecurring for this private university in Charlotte that specializes in the culinary and hospitality industries. The following table shows a history of appropriations to JWU:

Johnson and Wales University Appropriations Since FY 2003-04

Fiscal Year	Amount	Authorizing Legislation
FY 2003-04	1,000,000	S.L. 2003-284, Sec. 12.4A
FY 2004-05	1,000,000	S.L. 2003-284 (Committee Report)
FY 2005-06	1,000,000	S.L. 2005-276, Sec. 13.6(b)
FY 2006-07	1,000,000	S.L. 2006-66, Sec. 12.2
FY 2007-08	2,000,000	S.L. 2007-323 (Committee Report)
FY 2008-09	1,500,000	S.L. 2008-107 (Committee Report)
Total	\$7,500,000	

Defense and Security Technology Accelerator

The General Assembly provided \$1.5 million nonrecurring for the Defense and Security Technology Accelerator, a business incubator located in Fayetteville that focuses on economic development opportunities in industries relating to homeland security and national defense. This is the third appropriation to this entity, which received \$2 million in FY 2005-06 through the Community College budget and \$1.5 million through the State Aid budget in FY 2007-08.

Biofuels Center of North Carolina

The General Assembly provided \$5 million nonrecurring for the Biofuels Center to implement the North Carolina Strategic Plan for Biofuels leadership developed in compliance with S.L. 2006-206. In FY 2007-08, the Center received a \$5 million appropriation through the Department of Agriculture and Consumer Services budget. Since the Center is closely associated with the NC Biotechnology Center, funding for the program now passes through the State Aid budget.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Department of Commerce-State Aid

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

NC Biotechnology Center

Agency Description:

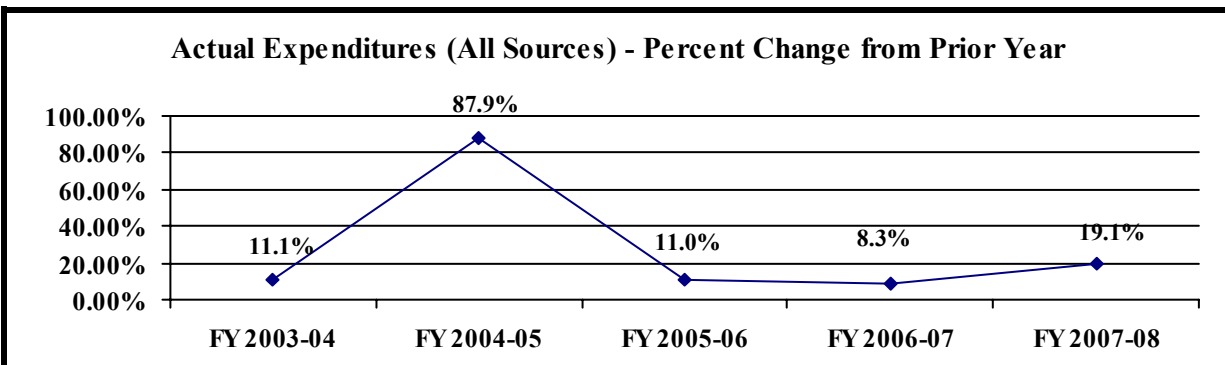
The NC Biotechnology Center is a private, nonprofit organization established to support biotechnology research, development, and commercialization in the State. The Center administers several grant and loan programs, hosts conferences, collaborates with the community colleges on a workforce training initiative, and works with local community leaders to strengthen biotechnology throughout the State.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	12,083,395	13,083,395	15,583,395	19,427,561
Revenue	16,926	0	0	0
Net Appropriations	\$12,066,469	\$13,083,395	\$15,583,395	\$19,427,561
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The FY 2008-09 General Fund budget for the Biotechnology Center is \$19.4 million, a 25% increase over FY 2007-08. This increase is due to a \$2.5 million nonrecurring appropriation to assist with renovations at the Center, and an additional \$1.5 million nonrecurring appropriation for the Economic Development Loan Program. The State appropriates funds for the Center through the State Aid budget (14601). Since this is a pass-through budget used to administer grants to nonprofits, in general, only net General Fund appropriations are shown here. Revenues generated by the Center for interest earned on loans, federal grants, or private donations are not reflected in this chart. The revenues shown for the Center in FY 2005-06 are carry-forward funds from the previous year.

The General Assembly has provided funding for the Center since FY 1983-84. The graph below shows the average percent change in funding that has occurred over the last five years. Since FY 2003-04, the average percentage change in actual expenditures was 27.5%. Budget increases have been driven primarily by increased funding for programming related to the Center’s Strategic Plan.



NC Biotechnology Center

Budget Tables

The following table shows the General Fund appropriation for the NC Biotechnology Center.

NC Biotechnology Center	Actual FY 2007-08	Certified FY 2008-09
	15,583,395	19,427,561
TOTAL	\$15,583,395	\$19,427,561
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$15,583,395	\$19,427,561

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Building Expansion

The General Assembly provided \$2.5 million nonrecurring for the Biotechnology Center's building expansion project. The remainder of the funds necessary to complete the project will come from private and federal sources.

Economic Development Loan Program

The General Assembly provided \$1.5 million nonrecurring to expand the Biotechnology loan program for pre-venture start-up companies.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

NC Biotechnology Center

No relevant information to report.

Rural Economic Development Center

Agency Description:

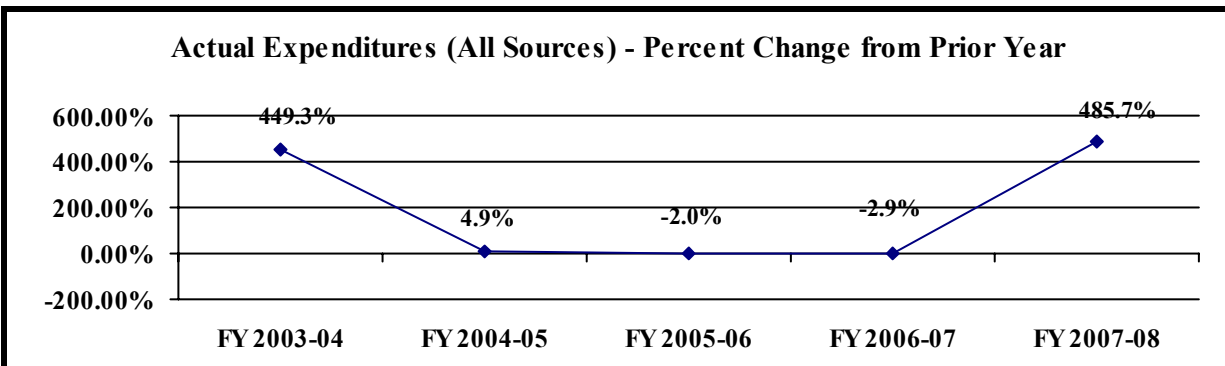
The Rural Economic Development Center is a private nonprofit which serves the State’s 85 rural counties, with a special focus on individuals with low to moderate incomes and communities with limited resources.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	25,277,607	24,552,607	143,802,607	78,059,581
Revenue	0	0	0	0
Net Appropriations	\$25,277,607	\$24,552,607	\$143,802,607	\$78,059,581
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The Rural Economic Development Center is funded by both public and private sources. This budget overview describes its State funding from net General Fund appropriations only.

The total FY 2008-09 General Fund budget for the Rural Center is \$78,059,581, a 46% decrease from the previous year. This decrease is due primarily to two appropriations in FY 2007-08 that were reduced in FY 2008-09. For FY 2007-08, \$100 million was provided for water and wastewater grants; \$50 million was provided in FY 2008-09. For FY 2007-08, \$19 million was appropriated to expand the Economic Infrastructure Fund and create the Rural Economic Transition Program; \$4 million was appropriated for this purpose in FY 2008-09. Over the past five years, the average percentage change in expenditures is 187%, reflecting the increased appropriation in FY 2007-08. The large percentage increase in FY 2003-04 is attributable to initial funding of the North Carolina Economic Infrastructure Fund; this program currently receives a recurring appropriation of \$19.5 million.



Rural Economic Development Center

Budget Tables

The following table provides a breakdown of the Rural Economic Development Center's total General Fund operating budget.

Rural Economic Development Center	Actual FY 2007-08	Certified FY 2008-09
Administration	1,511,697	1,511,697
Research and Demonstration Grants	370,000	366,574
Institute for Rural Entrepreneurship	144,000	144,000
Community Development Grants	1,047,410	1,038,010
Microenterprise Loan Program	195,000	195,000
Supplemental Grant Program	983,000	974,600
Agricultural Advancement Consortium	690,500	189,400
NC Economic Infrastructure Fund	19,500,000	19,319,700
Local Gov't Water & Sewer Improvement Grants	100,000,000	50,000,000
Rural Economic Transition Program	19,000,000	3,963,000
Opportunities Industrialization Center Funds	361,000	357,600
TOTAL	\$143,802,607	\$78,059,581
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$143,802,607	\$78,059,581

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Water, Sewer, and Natural Gas Funds

The General Assembly appropriated \$50 million nonrecurring for FY 2008-09 to the Rural Center to provide grants to local governments to help address critical needs related to supplying drinking water, wastewater treatment, and natural gas lines. Last year this program received \$100 million nonrecurring.

(S.L. 2008-107, Sec. 13.8)

Rural Economic Transition Program

The General Assembly provided \$4 million nonrecurring to the Rural Center's Economic Infrastructure Fund to aid severely distressed rural areas. Last year this program received \$19 million nonrecurring.

(S.L. 2008-107, Sec. 13.9)

Rural Economic Development Center

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 13.8 Funds for Local Government Water and Sewer Improvement Grants

Section 13.8 allocates \$50 million of the Rural Economic Development Center's FY 2008-09 appropriation to provide grants to local governments for wastewater and public water system-related projects. Up to \$4 million of these funds may be used for natural gas line projects. The Rural Center is prohibited from making loans from this allocation. The provision describes eligibility and maximum grant amounts for planning grants (not to exceed \$40,000) and supplemental grants (not to exceed \$500,000, although some exceptions may be made). Eligible local governments match grants on a dollar-for-dollar basis, although the Rural Center may require a match of less than 50% in certain instances.

The Rural Center may use up to \$1 million for administration. The Rural Center is required to report to the Joint Legislative Commission on Governmental Operations on a quarterly basis concerning the progress of the grant program beginning December 1, 2008.

Section 13.9 Rural Economic Development Center Funds

Section 13.9 allocates \$4 million of the funds appropriated to the Rural Center in FY 2008-09 to expand the NC Economic Infrastructure Fund. The Fund provides grants for building reuse and restoration projects, including brownfield projects, small-town economic recovery and revitalization projects, and economic development and agriculture diversification projects. Units of government and nonprofit organizations in rural areas are eligible for the grants, with priority given to applicants in Tier I areas. Applicants are not required to match grants from this program but are required to demonstrate the commitment of other funds to the project. The Rural Center may use up to \$80,000 of this allocation to administer the program. The Rural Center must report to the Joint Legislative Commission on Governmental Operations concerning this program by July 1, 2009.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Department of Environment and Natural Resources

G.S. 113.3 Duties of the Department

Agency Description:

The NC Department of Environment and Natural Resources (DENR) preserves and protects North Carolina’s environmental and natural resources; administers regulatory programs designed to protect air quality, water quality, and the public’s health; and offers technical assistance to businesses, farmers, local governments, and the public. The Department is led by a secretary appointed by the Governor.

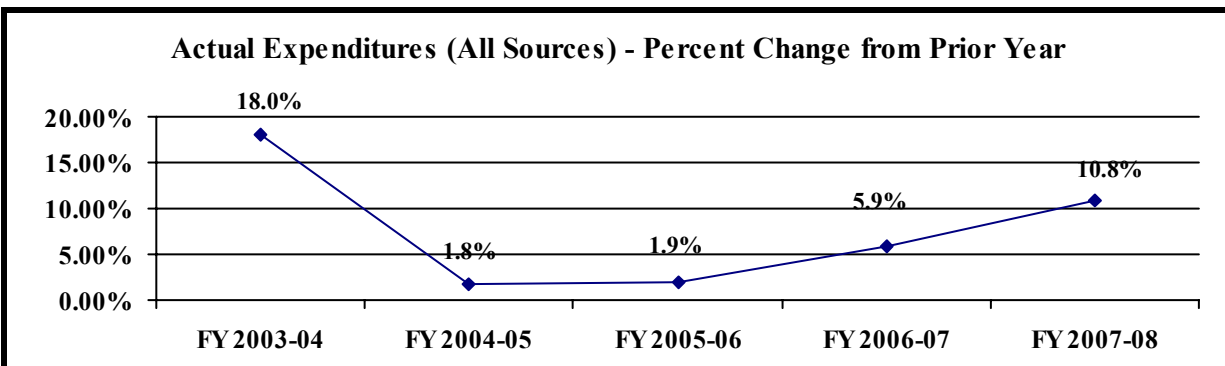
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	277,974,789	294,332,197	326,239,632	329,435,614
Revenue	107,638,975	112,505,170	121,819,944	124,346,217
Net Appropriations	\$170,335,814	\$181,827,027	\$204,419,688	\$205,089,397
Positions (FTE)	3,325.27	3,371.29	3,392.79	3,411.79

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

DENR’s FY 2008-09 General Fund budget is \$329,435,614 which reflects a 1% increase from FY 2007-08. Sixty-two percent of DENR’s budget is derived from net General Fund appropriations. Receipts comprise 38% of the budget and come primarily from federal grants, permit fees, and the sale of goods and services. The total given above reflects only those funds and positions appropriated from the General Fund.

Over the last five years, the average percentage change in actual expenditures was 7.6%. The increase in FY 2003-04 was primarily the result of funds transferred from the Department of Transportation for the Ecosystem Enhancement Program.



Department of Environment and Natural Resources

Budget Tables

The following table provides a breakdown of the Department of Environment and Natural Resources' (DENR) total General Fund operating budget by division.

DENR (14300 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration		
Administration/Regional Offices	19,105,157	17,262,952
Reserves/Transfers	21,869,618	14,828,059
Environmental		
Air Quality	4,345,029	3,291,371
Coastal Management	7,046,927	5,877,307
Environmental Health	24,072,786	23,813,090
Land Resources	7,557,964	7,574,663
Pollution Prevention & Environmental Assistance	1,632,547	1,965,146
Waste Management	19,013,675	20,450,504
Water Quality	40,223,103	47,546,671
Water Resources	5,757,920	4,994,365
Natural Resources		
Aquariums	10,632,754	9,870,178
Ecosystem Enhancement Program*	53,507	0
Environmental Education	713,502	573,946
Forest Resources	60,291,399	62,815,899
Marine Fisheries	20,320,292	23,469,742
Museum of Natural Sciences	8,122,198	7,715,967
Natural Resources Planning	2,929,998	2,702,981
Parks and Recreation	38,526,273	42,787,001
Soil and Water Conservation	16,176,465	14,902,852
Zoological Park	17,848,518	16,992,920
TOTAL	\$326,239,632	\$329,435,614
Revenue	(121,819,944)	(124,346,217)
NET GENERAL FUND APPROPRIATIONS	\$204,419,688	\$205,089,397

*The Ecosystem Enhancement Program receives funding from sources other than the General Fund.

Department of Environment and Natural Resources

The following table provides a breakdown of all certified funds* administered by DENR, including the General Fund operating budget.

Total Agency Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
DENR (14300 – General Fund)	326,239,632	329,435,614
Special (24300 – Special Fund)	31,215,965	54,369,687
Air Quality Fuel Tax (24301 – Special Fund)	11,596,623	11,578,312
Governor’s Cup Trust (24302 – Special Fund)	1,520	9,080
Marine Fish Conservation (24303 – Special Fund)	215,188	208,776
Wetlands Trust (24304 – Special Fund)	59,260,954	93,195,520
Dry-Cleaning Solvent (24306 – Special Fund)	9,355,937	11,873,156
Forest Development (24307 – Special Fund)	2,574,288	3,209,692
Special (24308 – Special Fund)	22,160,872	33,841,808
Parks and Rec. Trust Fund (24309 – Special Fund)	64,737,633	68,945,754
Disaster (24310 – Special Fund)	5,508,445	15,046,201
Interest – CI (24311 – Special Fund)	1,017,956	200,000
Special – GF (24317 – Special Fund)	294,896	1,490,711
Special Interest Bearing (24318 – Special Fund)	16,253	900,000
Clean Water Bonds WS Loan Program 1998 (24321 – Special Fund)	269,960	294,502
Marine Resources Fund (24323 – Special Fund)	2,510,758	9,452,875
DWR-FERC Interest Bearing (24325 – Special Fund)	46,300	150,000
Trust (64300 – Trust Fund)	0	46,000
Waste Water Oper. Training (64301 – Trust Fund)	450,831	542,699
Natural Heritage Trust Fund (64302 – Trust Fund)	24,999,969	65,402,740
Solid Waste Mgmt. Trust Fund (64303 – Trust Fund)	4,598,803	7,046,533
Clean Water Revolving Loan (64304 – Trust Fund)	8,985,030	9,444,769
Commercial LUST Cleanup (64305 – Trust Fund)	15,030,872	44,565,504
Waste Water Treatment Maint. (64306 – Trust Fund)	0	300,000
Conservation Grant Endowment – Permanent (64307 – Trust Fund)	26,054	179,298
Noncommercial LUST Cleanup (64308 – Trust Fund)	7,521,980	7,560,635
Water Pollution Revolving Loan (64311 – Trust Fund)	57,449,741	60,359,956
Federal Bond Revolving Loan (64312 – Trust Fund)	2,997,712	3,270,231
DENR - High Unit Cost WS Grants 1998 (64318 – Trust Fund)	10,521,201	10,888,670
CWSRF Federal Program (64319 – Trust Fund)	6,494,335	7,034,546
Drinking Water SRF - Enterprise (64320 – Trust Fund)	0	27,700,000
High Unit Cost Water Sewer Grants (64321 – Trust Fund)	0	4,264,883

Department of Environment and Natural Resources

Drinking Water SRF Bond Match (64322 – Trust Fund)	0	3,840,656
Drinking Water SRF Bond Match (64323 – Trust Fund)	106,379	105,576
Drinking Water Reserve (64324 – Trust Fund)	0	472,051
Trust Special (64326 – Trust Fund)	0	1,000
TOTAL	\$676,206,087	\$887,227,435

*Total Agency Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

DENR – Special (24300)

Balance: \$39,212,778 (as of June 29, 2008)

DENR’s Special fund contains 26 unique programs including air quality permit fees and federal funds, water quality permitting receipts, and aquarium admission receipts. The special fund was established administratively, and most individual programs are authorized in specific statutes. This special fund received a total of \$37,285,952 in receipts and expended \$31,215,965 in FY 2007-08.

Commercial and Noncommercial LUST Cleanup Funds (64305 & 64308)

Balance: \$56,376,582 (as of June 29, 2008)

The Commercial and Noncommercial Leaking Underground Storage Tank (LUST) Funds are used to reimburse owners/operators of commercial and noncommercial leaking petroleum underground storage tanks (USTs) for assessment and cleanup costs as well as third-party claims. Commercial Fund receipts include a portion of the fuel tax (¹⁹/₆₄ of a cent per gallon), UST permit fees, interest, and costs recovered from UST owners and operators. Noncommercial Fund receipts include a portion (³/₆₄ of a cent per gallon) of the excise tax on kerosene and motor fuel sales, inspection taxes on kerosene and motor fuel, and interest. Statutory authority for these funds comes from G.S. 143-215.94B and G.S. 143-215.94D.

64305 primarily houses the funds for the Commercial LUST Fund but also contains receipts for six other programs related to inactive hazardous waste and brownfields. 64308 pertains only to the Noncommercial LUST Fund. The following table summarizes the activity in these funds for FY 2007-08.

Department of Environment and Natural Resources

Commercial and Noncommercial LUST Funds, FY 2007-08

Fund Code	Fund Name	FY 2007-08 Receipts	FY 2007-08 Disburse- ments	Fund Balance as of June 29, 2008
64305-6370	Leaking Petroleum Storage Tanks	27,458,790	14,370,804	44,302,190
64305-6372	Inactive Hazardous Sites Cleanup	67,803	417,460	785,737
64305-6373	Emergency Response Fund	171,948	24,708	504,578
64305-6374	Martin Scrap Recycling Fund	5,079	0	101,794
64305-6375	Superfund Cost Share Fund	351,778	179,081	6,894,237
64305-6376	Brownfields Superfund	187,942	38,879	345,720
64305-6378	Carolina Wood Preserving	0	0	87,912
64308-6371	Noncommercial Leaking Petroleum Storage	6,030,546	7,521,980	3,354,414
Total		\$34,273,886	\$22,552,912	\$56,376,582

Parks and Recreation Trust Fund (24309)

Balance: \$56,820,573 (as of June 29, 2008)

The Parks and Recreation Trust Fund (PARTF) was created in 1994 (G.S. 113-44.15) to fund improvements in the North Carolina State Parks System, provide assistance to local governments with recreation projects, and support the Public Beach and Coastal Waterfront Access Program. PARTF receives 75% of the State share of the excise stamp tax on real estate transactions, which comprises the majority of PARTF's revenues. PARTF also receives \$5 for each personalized license plate sold in the State. Prior to 2007, PARTF did not retain interest earnings, but Section 12.8 of S.L. 2007-323 amended G.S. 113-44.15(a) to allow PARTF to retain these earnings.

In FY 2007-08, PARTF's total receipts were \$60.5 million, of which \$45.6 million was from the excise stamp tax. Total disbursements for FY 2007-08 totaled \$56.8 million, \$1.8 million of which was expended for debt repayment. In FY 2008-09 the estimated debt payment is \$2.3 million. PARTF is statutorily required to allocate its funds as follows: 65% for land acquisition, capital projects, and repairs and renovations at State parks; 30% for local government matching grants for local parks; and 5% for the Public Beach and Coastal Waterfront Access Program in the Division of Coastal Management.

Natural Heritage Trust Fund (64302)

Balance: \$26,234,559 (as of June 29, 2008)

The Natural Heritage Trust Fund (NHTF) was created in 1987 (G.S. 113-77.7) to serve as a supplemental funding source for State agencies to acquire and protect natural areas and to conduct inventories on natural heritage areas. NHTF receives 25% of the State share of the excise stamp tax on real estate transactions (G.S. 105-228.30); fees from special registration plates [\$10 from each First in Forestry plate, \$15 from each out-of-state collegiate plate, and \$15 from each personalized plate (G.S. 20-79.7(b))]; and investment earnings (G.S. 113-77.7(b)). For FY 2007-08 revenues were \$26.1 million. Expenditures were \$25 million, \$0.6

Department of Environment and Natural Resources

million of which were expended for debt repayment. In FY 2008-09 the estimated debt payment is \$0.8 million.

Significant Legislative Budget Actions

River Basin Water Supply Planning

The General Assembly appropriated \$482,384 recurring and \$26,000 nonrecurring to create five positions in the Division of Water Resources to work on river basin water supply plans to ensure sustainability of the State’s water supplies in each river basin.

Oyster Sanctuary Program

The General Assembly appropriated \$2 million recurring to fund six positions and the operations, equipment, and materials needed to operate the Oyster Sanctuary Program within the Division of Marine Fisheries. \$600,000 of the \$2 million was transferred from the Aquariums’ Oyster Hatchery Research Program.

Water Quality Monitoring

The General Assembly appropriated \$384,355 nonrecurring to fund the FerryMon and ModMon Programs to monitor water quality in the Pamlico Sound, tributary rivers, and the Neuse River.

Agricultural Drought Response

The General Assembly appropriated \$1.5 million nonrecurring to the Division of Soil and Water Conservation to support farmers following the 2007-08 drought. The funds were allocated as follows:

Pasture Renovation	\$1,150,000
Well Drilling and Repair	\$ 200,000
Pond Renovation or Construction	\$ 150,000

(S.L. 2008-107, Section 12.4(a))

Drought Reserve

The General Assembly appropriated \$660,000 nonrecurring to fund three interconnections between cities with at-risk water supplies and cities with secure water systems; to perform water audits across the State; and to purchase drought education materials. The following pairs of cities received funding for interconnections: Bessemer City to Gastonia, Yadkinville to Jonesville, and King to Winston-Salem.

Land for Tomorrow

The General Assembly appropriated \$50 million in the Capital Section of the Conference Committee Report that accompanies S.L. 2008-107 to finance the capital improvement costs of acquiring State park lands and conservation areas for the Land for Tomorrow initiative. Park projects are to be identified by the NC Parks and Recreation Authority for expanding the State Park System and the Mountains to Sea Trail. Natural heritage projects will be identified by the trustees of the Natural Heritage Trust Fund to represent the ecological diversity of the State.

Department of Environment and Natural Resources

Capital Improvement Items

The General Assembly appropriated \$134.6 million for DENR-related capital items (see table below). More information on the following capital improvement projects can be found in the Capital Section of the Conference Committee Report that accompanies S.L. 2008-107.

DENR Related Capital Projects for FY 2008-09

Project	Amount
Green Square Project	\$107,000,000
Water Resources Development Projects	\$20,000,000
Research Oyster Hatchery	\$4,300,000
Zoo Polar Bear Exhibit Renovation and Expansion	\$2,700,000
Zoo Africa Pavilion Replacement Planning	\$600,000
Total	\$134,600,000

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 12.5 Inactive Hazardous Waste Sites Cleanup Funds

The General Assembly appropriated \$400,000 from the interest earned on the Dry Cleaning Solvent Cleanup Fund in FY 2007-08 to DENR to clean up inactive hazardous waste sites.

Section 12.6 Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund

The General Assembly appropriated \$791,614 from the Commercial LUST Fund to support 11 new positions for the UST program to increase the frequency of inspections. An increase in the frequency of inspections was necessary due to concerns from the Environmental Protection Agency that North Carolina was not inspecting each facility every three years.

Section 12.7 Funds for Pending Civil Litigation Expenses

The General Assembly appropriated \$750,000 from the Inspection & Maintenance (I & M) Air Pollution Control Account to the Office of State Budget and Management to be used by the Department of Justice for expenses related to the TVA lawsuit (North Carolina v. Tennessee Valley Authority) or the Southeast Compact Lawsuit (South Carolina v. North Carolina). Any unused funds as of June 30, 2009 will revert to the I & M Account.

Section 12.11(a) Marine Fisheries Funds for the Fishery Resource Grant Program

The General Assembly prohibited DENR and the University system from using any portion of the \$1 million appropriation for the Fishery Resource Grant Program (FRG) for administrative costs. The General Assembly appropriated \$853,688 for FRG funding and \$146,312 for river herring research through DENR.

Select Programs and Other Budgetary Information

No relevant information to report.

Department of Environment and Natural Resources

Additional Legislation

No relevant information to report.

Clean Water Management Trust Fund

G.S. 113A-253 Clean Water Management Trust Fund

Agency Description:

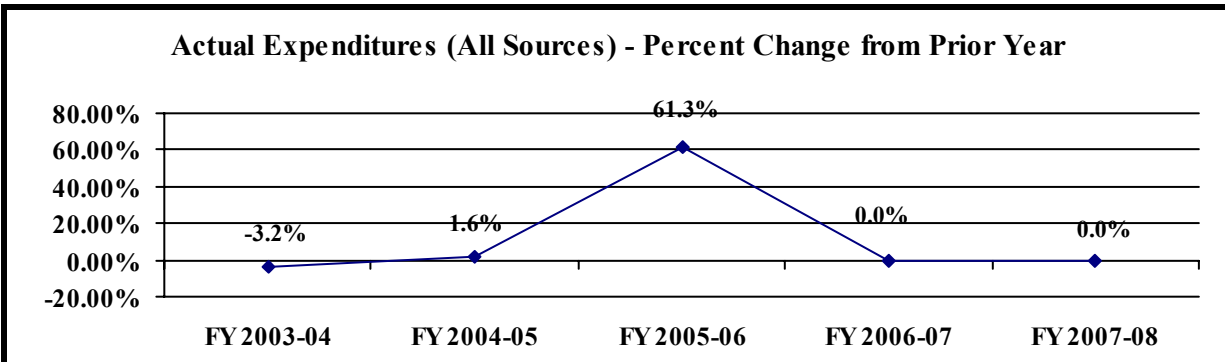
The Clean Water Management Trust Fund (CWMTF) is a nonregulatory agency which makes grants to local governments, nonprofits, and State agencies. A 21-member board of trustees reviews applications, allocates funds, and approves grants. CWMTF grants are used to preserve and/or restore riparian buffers, wetlands, floodplains, and greenways; to repair failing wastewater collection and treatment systems; to eliminate failing septic tanks and straight pipes; to prevent, reduce, collect, and treat stormwater pollution; and to plan water quality projects.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	100,000,000	100,000,000	100,000,000	100,000,000
Revenue	0	0	0	0
Net Appropriations	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

In accordance with G.S. 113A-253.1, the General Assembly appropriated \$100 million to CWMTF for FY 2008-09. There was no change in CWMTF’s appropriation from FY 2007-08 to FY 2008-09. Per G.S. 113A-253, CWMTF is eligible to receive funds from the sale of Scenic River special registration plates authorized under G.S. 20-81.12. CWMTF also receives interest earned on the fund balance. These receipts are not shown in this table because they are held in a separate special fund.

Over the last five years, the average percentage change in actual expenditures was 12%. The main factor behind increases or decreases in CWMTF’s appropriation is the overall availability of funds. In prior years, CWMTF’s statutory appropriation has been reduced to cover budgetary shortfalls.



Clean Water Management Trust Fund

Budget Tables

The following table shows the General Fund appropriation to the Clean Water Management Trust Fund (CWMTF).

Clean Water Management Trust Fund (14301 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
	100,000,000	100,000,000
<hr/>		
TOTAL	\$100,000,000	\$100,000,000
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$100,000,000	\$100,000,000

Other Funds

Clean Water Management Trust Fund (24305)
Balance: \$234,523,193 (as of June 29, 2008)

Net General Fund appropriations to CWMTF are transferred to a nonreverting special fund (24305) as authorized in G.S. 113A-253. CWMTF is authorized to use up to 2% of its available fund balance or \$1.25 million, whichever is greater, for administrative costs. In FY 2007-08 the amount spent on administration was \$2,012,304, supporting 17 FTE positions.

CWMTF receives revenue from three sources: annual appropriations under G.S. 113A-253.1; Scenic River special registration plates under G.S. 20-81.12; and interest earnings on the Trust Fund. For FY 2007-08, CWMTF had a beginning fund balance of \$205 million. It received nearly \$113 million in revenue and expended \$84 million, increasing the fund balance to nearly \$235 million at the close of the fiscal year.

Prior to FY 2001-02, CWMTF was funded with a portion (6.5%) of the unreserved fund balance of the General Fund, with a minimum allocation of \$30 million. S.L. 2000-67 directed that CWMTF no longer receive this portion of the unreserved fund balance, but rather that the Fund receive direct net General Fund appropriations of \$40 million in FY 2001-02, \$70 million in FY 2002-03, and \$100 million in FY 2003-04 and thereafter. Over the years, the amount received by CWMTF has been decreased to cover budgetary shortfalls and to provide disaster relief funding. The following table summarizes appropriations to CWMTF since its inception.

Clean Water Management Trust Fund

CWMTF Appropriations since Inception

Fiscal Year	Budgeted	Received
1996-97	47,100,000	37,900,000
1997-98	49,400,000	49,400,000
1998-99	47,400,000	47,400,000
1999-00	30,000,000	30,000,000
2000-01	30,000,000	30,000,000
2001-02	40,000,000	19,200,000
2002-03	66,500,000	63,100,000
2003-04	62,000,000	60,760,000
2004-05	62,000,000	61,540,000
2005-06	100,000,000	100,000,000
2006-07	100,000,000	100,000,000
2007-08	100,000,000	100,000,000
2008-09	100,000,000	100,000,000
Total	\$834,400,000	\$799,300,000

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Wildlife Resources Commission

G.S. 143-239 Statement of Purpose

Agency Description:

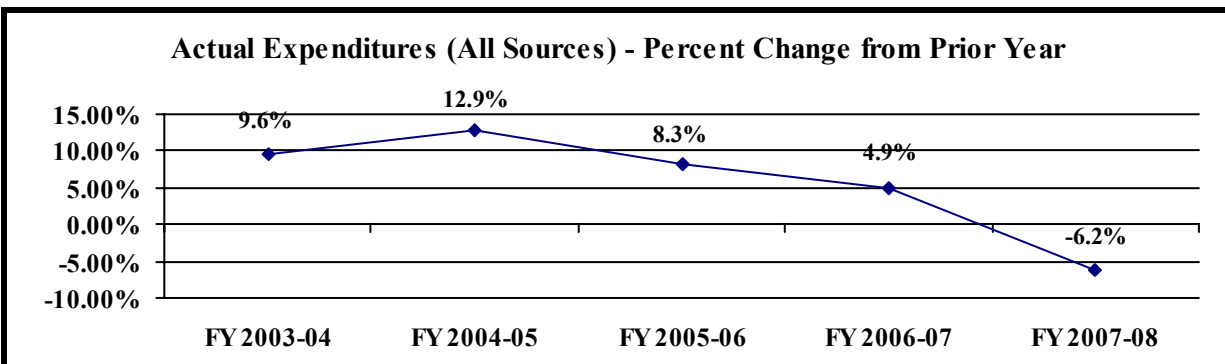
The North Carolina Wildlife Resources Commission (WRC) was created to manage, restore, develop, cultivate, conserve, protect, and regulate the wildlife resources of the State of North Carolina. WRC administers the laws relating to game, game and freshwater fishes, and other wildlife resources. WRC has a 19-member board of appointed citizens; the Board elects a chair from its members.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Revenue	77,304,005	70,883,751	66,202,074	59,686,175
Expenditures	69,018,171	68,931,350	64,685,831	59,635,509
Fund Balance Change	\$8,285,834	\$1,952,401	\$1,516,243	\$50,666
Positions (FTE)	647.00	637.50	637.50	637.50

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

WRC is entirely receipt-supported and does not receive a General Fund appropriation. For FY 2008-09, WRC’s budgeted expenditures are \$59,635,509. The FY 2008-09 budget is a 9.2% decrease from the prior year due to a projected shortfall in receipts. Receipts primarily come from transfers from the State sales tax, the gas tax, and the sale of hunting and fishing licenses. The amount of sales tax transferred is adjusted annually depending upon the State sales and use tax increase or decrease during the preceding fiscal year (G.S. 105-164.44B). All receipts received in excess of total expenditures are retained in WRC’s nonreverting special funds. WRC has experienced continued budgetary growth over the last five years, with a five-year average of 5.9%. This growth is largely reflective of the growth in the State’s sales tax revenue.



Wildlife Resources Commission

Budget Tables

The chart below details the Wildlife Resource Commission’s (WRC) operating budget by division. Intrafund transfers are excluded from the expenditure calculations below to avoid double-counting. Note that WRC does not receive a direct General Fund appropriation.

Wildlife Resources Commission (24350 – Special Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	9,334,669	8,937,206
Enforcement	20,375,734	19,934,085
Education	5,054,283	4,535,327
Inland Fisheries	8,779,615	6,991,961
Management	13,315,367	11,273,873
Engineering Services	6,398,239	4,548,269
Wildlife Fund Receipts	1,427,924	3,414,788
TOTAL	\$64,685,831	\$59,635,509
Revenue	(66,202,074)	(59,686,175)
CHANGE IN FUND BALANCE	\$1,516,243	\$50,666

The following table provides a breakdown of funds* administered by WRC. WRC manages three special funds that comprise its total budget. Two of the funds act as receiving accounts, in that they collect receipts generated by the agency's programs, which are then transferred to the main Fund (24350), which accounts for the majority of the operating expenses.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Wildlife Resources (24350 – Special Fund)	64,685,831	59,635,509
Wildlife Resources (24351 – Special Fund/Interest)	2,777,559	974,230
Wildlife Resources (24352 – Special /Noninterest)	309,155	250,000
TOTAL	\$67,772,545	\$60,859,739

*The Total Appropriations by Fund table as presented reflects only those budgets as certified by the Office of State Budget and Management.

Wildlife Resources Commission

Other Funds

Wildlife Endowment Fund (64350) **Balance: \$63,800,130 (as of June 29, 2008)**

The Wildlife Endowment Fund is established in G.S. 143-250.1 as a special trust, the income and principal of which can be used only for the purpose of supporting wildlife conservation programs of the State. The Endowment Fund is authorized to receive revenues from the following sources: gifts, grants, or contributions; proceeds from the sale of lifetime sportsman combination licenses, lifetime hunting licenses, and lifetime fishing licenses; proceeds of lifetime subscriptions to *Wildlife in North Carolina* magazine; and any amount in excess of the statutory fee for a particular lifetime license or subscription. Unless otherwise provided by law, the principal of the Endowment Fund cannot be expended. The statute further directs that the Endowment Fund cannot supplant State appropriations or agency receipts placed in the Wildlife Resources Fund. The Fund's FY 2007-08 receipts totaled \$8.4 million; expenditures were \$8.5 million.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

WRC Special Funds (24351 and 24352)

The purpose of these two special funds is to meet General Assembly requirements (S.L. 2004-124) that WRC segregate receipts that are protected by federal law. Receipts from the sale of hunting and fishing licenses are governed by federal law, which restricts their use to the protection and propagation of game and wildlife in North Carolina. Receipts from other sources, including the sales tax transfer, are not bound by federal requirements. Prior to FY 2005-06, WRC maintained these receipts in one account. To achieve the segregation of receipts, WRC established an additional special fund (24352) to budget the unprotected receipts, including watercraft registration and titling fees, excise tax on motor fuel, and sales tax transfer. Special Fund 24351 contains the majority of the protected receipts, including the sale of various licenses.

Additional Legislation

No relevant information to report.

Department of Labor

NC Constitution, Art. III, Sec. 7, Other elective officers
 G.S. 95-1 Department of Labor established
 G.S. 95-4 Authority, powers and duties of Commissioner

Agency Description:

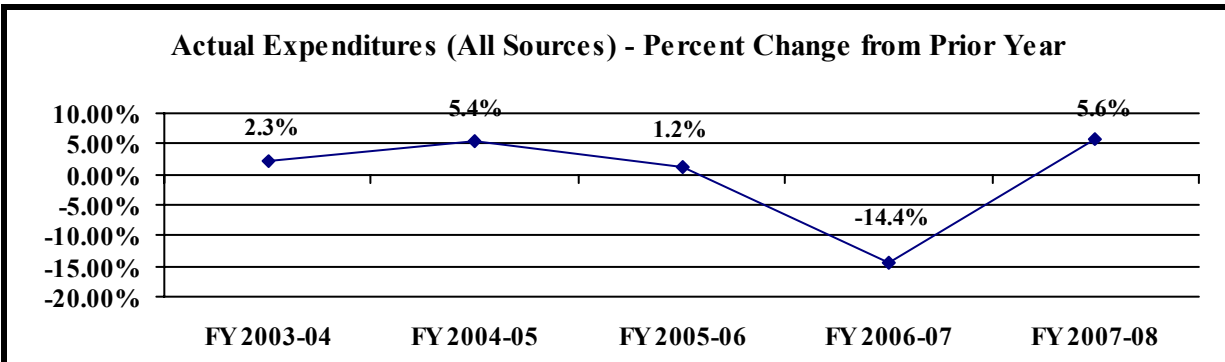
The NC Department of Labor (DOL) engages in a variety of regulatory functions related to workers in the State. Examples of DOL’s regulatory duties include occupational safety and health inspections, elevator inspections, migrant housing inspections, and boiler inspections. The Department is divided into three divisions: Administration, Occupational Safety and Health, and Standards and Inspections. A Commissioner of Labor is elected every four years and serves as head of the Department.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	28,042,595	24,010,985	25,361,414	26,102,119
Revenue	13,517,722	8,109,908	8,627,361	8,605,776
Net Appropriations	\$14,524,873	\$15,901,077	\$16,734,053	\$17,496,343
Positions (FTE)	359.77	360.75	363.75	363.75

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The total FY 2008-09 General Fund budget for the Department of Labor (DOL) is \$26,102,119, a 3% increase over the prior year actual budget. Sixty-seven percent of the Department’s budget comes from net General Fund appropriations. The remaining 33% comes from receipts; the primary source of receipts is federal grants for Occupational Safety and Health programs. Over the past five years, DOL’s budget has remained stable with a five-year average percentage change of 0.02%. The nearly \$4 million difference (14%) between FY 2005-06 and FY 2006-07 in revenue and expenditures is the result of an accounting change which moved two bureaus, Boiler Safety and Elevator and Amusement Devices, from the General Fund to a special fund.



Department of Labor

Budget Tables

The following table provides a breakdown of the Department of Labor's total General Fund operating budget by division.

Labor (13800 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Administration	5,298,947	4,760,185
Occupational Safety and Health	14,695,347	16,380,075
Standards & Inspections	5,367,119	4,961,859
TOTAL	\$25,361,413	\$26,102,119
Revenue	(8,627,361)	(8,605,776)
NET GENERAL FUND APPROPRIATIONS	\$16,734,052	\$17,496,343

The following table provides a breakdown of the funds administered by the Department of Labor including the General Fund operating budget.

Total Appropriations by Fund	Actual FY 2007-08	Certified FY 2008-09
Labor (13800 – General Fund)	25,361,414	26,102,119
Labor – Special (23800 – Special Fund)	5,712,873	5,115,002
Labor - Trust Fund IDA (63801 – Trust Fund)	4,961	2,880
Labor - Trust Fund (63800 – Trust Fund)	500,528	85,002
TOTAL	\$31,579,776	\$31,305,003

*Note: Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management.

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

Worker Safety

The General Assembly provided an additional \$901,392 recurring for the Occupational Safety and Health program. These funds will offset several years of low growth in the federal

Department of Labor

budget, add four new safety inspector positions, and transfer two partially funded positions to full State support.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

No relevant information to report.

Select Programs and Other Budgetary Information

No relevant information to report.

Additional Legislation

No relevant information to report.

Transportation

Appropriations Subcommittee on Transportation

Subcommittee Summary:

The Appropriations Subcommittees on Transportation, consisting of 23 members of the General Assembly, review and recommend the budgets for the State’s highway construction and maintenance programs, public transportation, driver’s license and vehicle registration, vehicle safety and emissions inspection programs, and the State Highway Patrol.

Subcommittee Membership:

Rep. Lorene Coates, Chair
 Rep. Nelson Cole, Chair
 Rep. Lucy Allen
 Rep. Dan Blue
 Rep. Ty Harrell
 Rep. George Holmes
 Rep. Drew Saunders
 Rep. William Current, Sr.
 Rep. Margaret Dickson
 Rep. Jerry Dockham
 Rep. Nelson Dollar
 Rep. Mitch Gillespie
 Rep. Jim Gulley
 Rep. Grier Martin
 Rep. Pat McElraft
 Rep. Arthur Williams

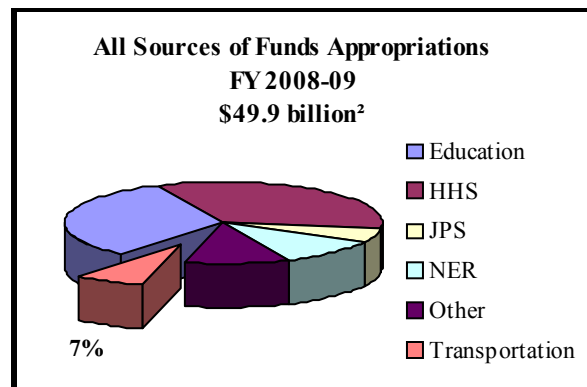
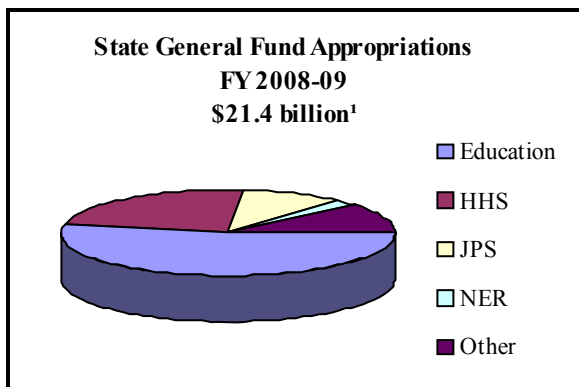
Sen. Clark Jenkins, Chair
 Sen. R.C. Soles, Jr.
 Sen. Philip Berger
 Sen. Don East
 Sen. David Hoyle
 Sen. Larry Shaw
 Sen. Bob Rucho

Staff:

Lisa Hollowell, Team Leader
 Bob Weiss

Budget Comparison:

The State’s transportation and highway patrol services are funded through the Highway Fund, Highway Trust Fund, and federal funds. Of total appropriations from all sources for FY 2008-09, a total of \$3.6 billion or 7% is dedicated to transportation programs and services. The following charts illustrate the Subcommittees’ total as compared to other appropriations subcommittee totals:



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Department of Transportation

G.S. 136-18 Powers of Department of Transportation

Agency Description:

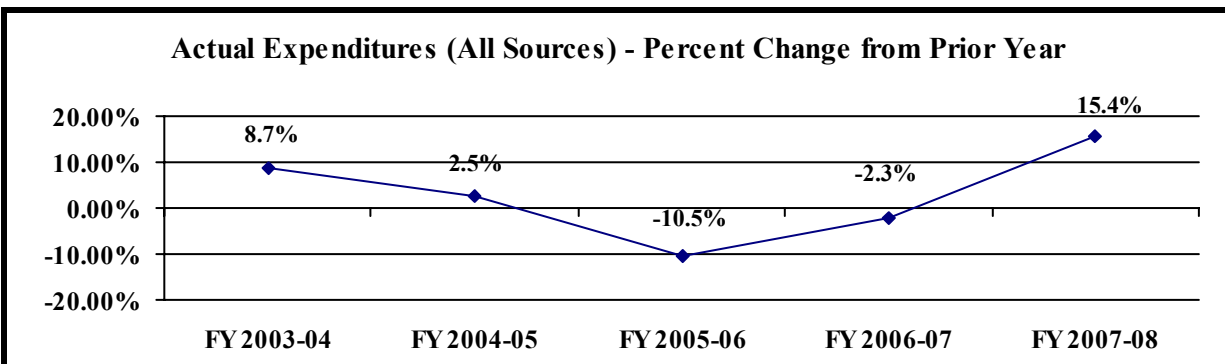
The Department of Transportation establishes and maintains a statewide transportation system consisting of over 79,000 miles of primary and secondary roads, public transportation services, intercity passenger rail service, ferry service, and an airport economic development program. The Department issues over 2.4 million driver's license and identification cards annually, registers 8.5 million vehicles annually, and oversees the vehicle safety and emissions inspection program for vehicles.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	3,097,894,096	3,026,855,041	3,494,174,361	3,470,516,830
Revenue	1,035,312,670	869,060,656	1,058,072,257	981,502,109
Net Appropriations	\$2,062,581,426	\$2,157,794,385	\$2,436,102,104	\$2,489,014,721
Positions (FTE)	14,007.00	14,664.00	14,761.00	14,680.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The budget for the Department of Transportation is \$3.5 billion for FY 2008-09. The agency receives 73% of its revenues from State motor fuels tax, Highway Use Tax, and Division of Motor Vehicle fees and 27% of its revenues from the federal government. The agency does not receive a State General Fund appropriation. The budget for FY 2008-09 is a 0.7% decrease from the actual expenditures for FY 2007-08. The Department of Transportation has averaged a 2.7% increase over the past five years in expenditures, primarily due to expenditure of bond proceeds and steady federal funds. Additionally, the legislature has increased transfers to other State agencies from the Highway Fund.



Department of Transportation

Budget Tables

The following table provides a breakdown for the Department of Transportation (DOT) Operating Budget by major categories of expenditures. This chart shows the total budget for DOT and includes revenues from the Highway Fund, Highway Trust Fund, and Federal Funds.

Department of Transportation (14222 - Special Fund)	Actual FY 2007-08	Certified FY 2008-09
Highway Construction	\$ 1,917,807,261	\$ 1,692,948,252
Highway Maintenance	849,668,077	944,142,429
Powell Bill / Aid to Municipalities	158,096,232	147,793,365
Division of Motor Vehicles	95,431,841	129,338,577
Administration	155,364,647	163,039,152
Debt Service	93,184,815	144,790,300
Public Transportation	109,097,698	83,144,229
Ferry Operations	34,929,885	32,313,921
Airports Program	34,648,177	47,758,616
Rail Services	23,280,521	21,330,883
Facility Repairs	6,970,052	14,334,221
Reserves and Other	15,695,155	49,582,885
Total	\$ 3,494,174,361	3,470,516,830
Revenues (federal aid and other)	(1,058,072,257)	(981,502,109)
NET HIGHWAY FUND AND HIGHWAY TRUST FUND APPROPRIATIONS	\$ 2,436,102,104	\$2,489,014,721

Other Funds

Grant Anticipation Revenue Vehicle Bonds (GARVEE)

The General Assembly authorized the issuance of GARVEE bonds in 2005 (S.L. 2005-403) and North Carolina issued \$299,795,869 in indebtedness in 2007. GARVEE bonds are revenue bonds that allow the State to pledge future federal highway funds to pay debt service on the bonds. The proceeds of the bond sale are being used to accelerate construction on 39 DOT projects. DOT spent \$139,946,310 of GARVEE funds for projects in FY 2007-08 and anticipates spending an additional \$341 million in FY 2008-09. The Department of Transportation expects that future bond sales will provide a total of \$900 million for transportation projects.

Department of Transportation

Significant Legislative Budget Actions

Motor Fuels Tax Cap

The General Assembly continued the cap on the gas tax for FY 2008-09 at the rate of 29.9 cents per gallon. Overall, this is an expected loss in revenues of \$432M for the fiscal year. Without the cap, the rate would have been adjusted upward for FY 2008-09. The motor fuels tax consists of a flat rate of 17.5 cents per gallon plus a variable rate that is 7% of the national weighted average wholesale price of gasoline and diesel for a six month base period. The General Assembly has capped the variable rate at 12.4 cents per gallon for three years. Consequently, the motor fuels tax rate will not exceed 29.9 cents per gallon during this fiscal year.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 25.5 Transfer Highway Trust Fund Monies in the Amount of Twenty-Five Million Dollars Beginning in Fiscal Year 2008-2009, Sixty-Four Million Dollars Beginning in Fiscal Year 2009-2010, and Ninety-Nine Million Dollars Beginning in Fiscal Year 2010-2011 to the NC Turnpike Authority for Debt Service on Bonds

This special provision amends the law that created the Highway Trust Fund by reducing the amount of the transfer from the Highway Trust Fund to the General Fund. While the law directed that \$170 million be transferred annually, this special provision reduces the transfer by \$99 million, phased in over a three-year period. This special provision further directs that the funds are to be given to the North Carolina Turnpike Authority (NCTA) to secure and service debts on bonds, pay debt service or related financing costs, and other operating reserves for toll-road projects. The funds will be used for the following toll projects: Triangle Expressway, Monroe Connector/Bypass, Mid-Currituck Bridge, and Garden Parkway in Gastonia. The funds are provided to the NCTA on a recurring basis, with expectations that the debt service will be complete in forty years following the initiation of projects.

	FY 2008-09	FY 2009-10	FY 2010-11
Triangle Expressway	25,000,000	25,000,000	25,000,000
Monroe Connector		24,000,000	24,000,000
Mid-Currituck Bridge		15,000,000	15,000,000
Garden Parkway			35,000,000
Total	\$25,000,000	\$64,000,000	\$99,000,000

Section 25.1 Increase Administrative Appropriation for the Highway Trust Fund

This special provision increases the percentage of Highway Trust Fund (HTF) dollars that may be spent for administrative purposes from 4.2% to 4.8% of the total HTF account. These funds are used to administer the HTF and provide funds to the North Carolina Turnpike

Department of Transportation

Authority (NCTA) for administration. The funds to the NCTA are a loan and will be repaid to the NCDOT in the future.

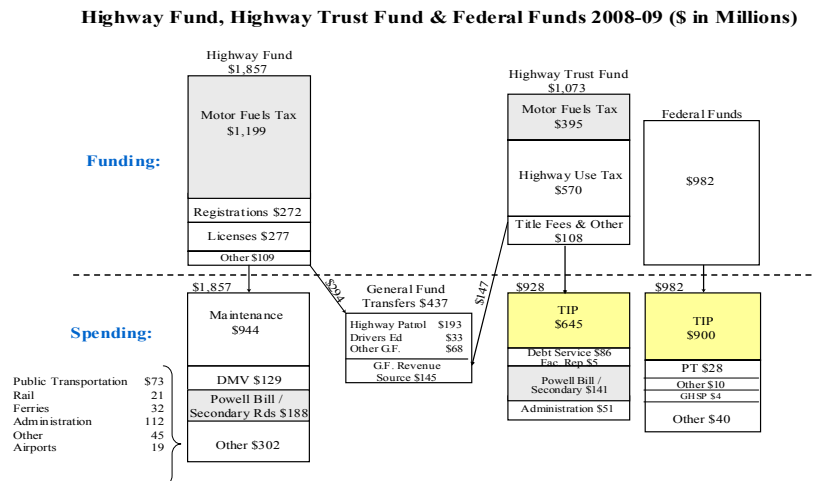
Select Programs and Other Budgetary Information

Highway Fund and Highway Trust Fund

The budget for the Department of Transportation is comprised of the Highway Fund, the Highway Trust Fund, and federal funds. Chapter 2 of the 1921 Session Laws established the Highway Fund (HF), which provides funding for road maintenance, the Division of Motor Vehicles, and other transportation programs and services. The motor fuels tax provides the majority of revenues within the Highway Fund.

The Highway Use Tax provides the majority of the revenues within the Highway Trust Fund. The General Assembly appropriates all funds; however, the Highway Trust Fund has specific requirements for expenditures prescribed within the North Carolina General Statutes (see below).

The following chart depicts the sources and uses of funds from the Highway Fund, Highway Trust Fund, and federal funds for FY 2008-09.



The GARVEE debt service is included within the TIP section.

Chart abbreviations: DMV (Division of Motor Vehicles), Drivers Ed. (Drivers Education Program within the Department of Public Instruction's budget), Other G.F. (General Fund Agencies, see listing under Highway Fund Transfers section), TIP (Transportation Improvement Program), PT (Public Transportation), and GHSP (Governor's Highway Safety Program).

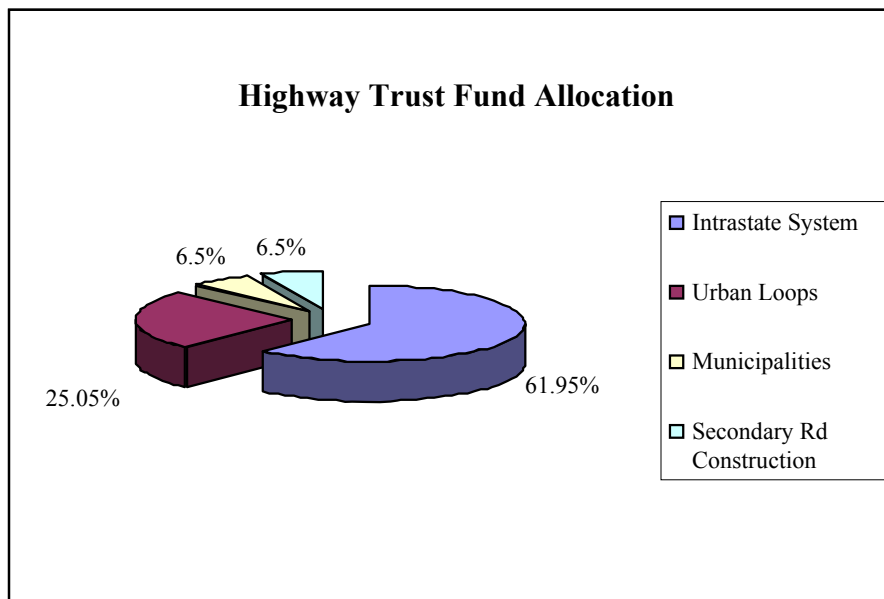
Highway Trust Fund (HTF)

The HTF is budgeted at \$1.07 billion for FY 2008-09. The General Assembly created the HTF in 1989 (G.S. 136-176) to fund the construction of particular highway and road projects, including the Intrastate System, urban loops, and secondary roads, and to provide supplemental funding to municipalities. To provide revenues for the Highway Trust Fund, the General Assembly created a Highway Use Tax, which is currently 3% of a vehicle's retail

Department of Transportation

value, less trade, with a cap of \$1,000 for commercial vehicles. The Highway Use Tax replaced a 2% sales tax on vehicles, with a cap of \$300, which had gone to the General Fund. In addition, the HTF receives one-fourth of the motor fuel taxes collected plus Certificate of Title fees and certain miscellaneous fees collected by the Division of Motor Vehicles.

The HTF provides funding for the Transportation Improvement Program, a seven-year plan and schedule for construction of roads, bridges, and other capital transportation projects. G.S.136-176 requires the HTF dollars to be spent as follows: Before funds are allocated, 4.8% of the total funds may be used for administration of the Trust Fund and as a loan to the North Carolina Turnpike Authority. (S.L. 2008-107 – House Bill 2436 increased the amount of funding in FY 2008-09 to be used for administration from 4.2% to 4.8%). Additionally, \$25 million is provided to the NCTA and \$15 per car title sold is dedicated to the Secondary Roads Program. The following chart and table show the HTF project allocation as prescribed in law after accounting for the administration, secondary roads funds, and NCTA amounts.



Highway Trust Fund General Assembly Enacted Budget (FY 2008-09)

Current Operations	FY 2008-2009
Intrastate System	504,290,380
Urban Loops	203,914,028
Aid to Municipalities	52,911,824
Secondary Roads	88,102,604
Program Administration	51,409,920
Transfer to General Fund	147,531,245
North Carolina Turnpike Authority	25,000,000
Total Funds	\$1,073,160,000

Department of Transportation

Transfers

Highway Trust Fund

In addition to the funds transferred annually, as prescribed in SL 2008-107, Section 25.5 (see Significant Special Provisions section), there is an additional transfer from the Highway Trust Fund to the General Fund. G.S. 105-187.9(b)(2) requires that \$2.4 million be transferred to the General Fund. The base amount will increase or decrease annually, commensurate with the percent change in Highway Use Tax collections. For FY2008-09, the amount totals \$2,531,245.

Highway Fund Transfers

The Highway Fund provides funding to other State agencies, including

- Department of Crime Control and Public Safety for State Highway Patrol operations;
- Department of Health and Human Services for the chemical tests for the alcohol program;
- Department of Public Instruction for driver education programs;
- Department of Revenue for tax collections and auditors;
- Department of Agriculture for gasoline inspectors; and,
- Department of Environment and Natural Resources for Leaking Underground Storage Tank Fund.

The table below shows the recent history of transfers out of the HF to other state agencies.

Fiscal Year	Transfers
FY 2002-03	221,524,838
FY 2003-04	220,294,242
FY 2004-05	239,057,964
FY 2005-06	244,261,476
FY 2006-07	255,193,014
FY 2007-08	270,773,265

Secondary Roads Program

The Secondary Roads Program’s budget is approximately \$170 million annually. Of the 79,000 highway miles that the State maintains, 64,000 miles are secondary roads. In 1931, the State assumed responsibility for all county roads, relieving counties of this burden and prohibiting them from using their funds for road projects. This program began as a paving and construction program in 1989 (with the creation of the Highway Trust Fund), with the goal of paving all roads that carried 50 or more vehicles per day. In 1989, there were 16,000 miles of unpaved secondary roads and today there are fewer than 5,500 miles unpaved and fewer than half of those roads have more than 50 vehicles per day. The 2005 and 2006 Sessions of the General Assembly made significant changes, including converting the program’s focus to road improvements (S.L. 2006-258).

Department of Transportation

Additional Legislation

S.L. 2008-217 Change Format of Drivers Licenses/Under 21

This law directs the Division of Motor Vehicles to issue driver licenses and special identification cards in a vertical format to persons under the age of 21 in order to make them more easily identifiable. The law goes into effect October 1, 2008.

S.L. 2008-229 Towing of Recreational Boats Exemption

This law amended existing law to allow the towing of various size boats and boat trailers without a permit on any day of the week and at night, to require certain boat trailers to be equipped with at least two amber lamps so that the boat's dimensions are clearly visible, and to authorize NCDOT to issue annual oversize permits for boats and boat trailers for transport during daylight hours only. The Governor vetoed this bill, and the veto was overridden in special session.

Division of State Highway Patrol

G.S. 20-49 Police Authority of Division
 G.S. 20-188 Duties of Highway Patrol

Agency Description:

The State Highway Patrol (SHP), a division of the Department of Crime Control and Public Safety (CCPS), is responsible for patrolling the State’s 79,000 miles of highway, enforcing motor vehicle laws (including commercial vehicle operations) and assisting motorists. The SHP is also responsible for traffic management during emergencies such as hurricane evacuations and hazardous chemical spills.

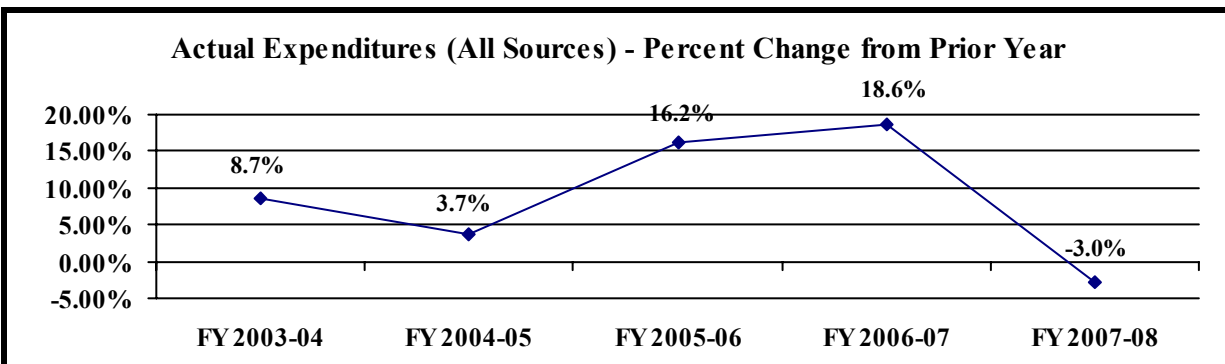
	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Revenue	209,826,520	230,024,623	232,048,083	205,861,547
Expenditures	199,886,124	237,152,209	230,138,520	205,861,547
Fund Balance Change	\$9,940,396	(\$7,127,586)	\$1,909,563	\$0
Positions (FTE)	2,324.00	2,347.00	2,376.00	2,381.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

The SHP budget for FY 2008-09 is \$205.9 million. The FY 2008-09 budget represents a 10.5% decrease from the previous fiscal year’s actual expenditures because several nonrecurring items funded in prior years had their funds expended in 2007-08. These items included \$10 million for Voice Interoperative Plan for Emergency Responders System (VIPER) that was carried forward into FY 2007-08 and \$3.9 million for a replacement helicopter funded in FY 2007-08.

The budget is supported by the Highway Fund and other receipts and does not receive a State General Fund appropriation. There has been an 8% average increase in expenditures over the past five years due to the transfer of the Motor Carrier Enforcement program from the Department of Transportation to SHP, additional trooper positions, and the construction of VIPER.



Division of State Highway Patrol

Budget Tables

The following table provides a breakdown of special appropriations in the Highway Patrol’s total operating budget. The State Highway Patrol does not receive general fund appropriations.

State Highway Patrol (24960 - Special Fund)	Actual FY 2007-08	Certified FY 2008-09
State Highway Patrol - Operations	179,537,743	169,997,809
Motor Vehicle Enforcement	33,159,335	32,185,415
Governor's Highway Safety Program Project	11,902	12,500
Health and Wellness Fair	0	32,124
Operation and Equipment Purchases	17,429,540	262,537
Reserves and Transfers	0	3,371,162
TOTAL	\$230,138,520	\$205,861,547
Revenue	(230,138,520)	(205,861,547)
NET GENERAL FUND APPROPRIATIONS	\$0	\$0

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

No relevant information to report.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 27.5 Study Relocation of Highway Patrol Training Facilities

This special provision is located within the capital section of the bill and directs the Department of Crime Control and Public Safety and the Department of Administration to study locations outside of Raleigh for a relocation of the Highway Patrol’s Garner Road training complex. These Departments will make a report on suitable locations to the Appropriations Subcommittee on Capital by February 1, 2009.

Division of State Highway Patrol

Select Programs and Other Budgetary Information

Voice Interoperability Plan for Emergency Responders (VIPER)

VIPER is a statewide voice radio communications system that will allow effective communications by all emergency responder users, including State and local public safety agencies. This system is in the construction phase and is 48% completed with 114 sites on the air. The General Assembly has appropriated approximately \$18 million since 2005, and VIPER has received \$112 million through federal Homeland Security Grants and other grant funds. The Criminal Justice Information Network Governing Board, which oversees this project for Department of Crime Control and Public Safety, reports that completion of this project will require an additional \$77 million for construction of the infrastructure. The State Highway Patrol anticipates that once the network is fully operational, the annual operational costs will be \$7.5 million, of which \$2.5 million has been appropriated from the Highway Fund for recurring maintenance costs.

Additional Legislation

No relevant information to report.

Salaries and Benefits

Statewide Reserves: Salaries, Retirement, and Health Benefits

Committee Summary:

The Senate and House Appropriations/Base Budget Committees address statewide appropriations for compensation and benefits as a full committee based on recommendations from the Chairs of the respective Appropriations Committees. This section highlights the General Assembly's 2008 Session actions to fund across-the-board compensation increases and to adequately finance various benefit systems that serve active and retired employees of State agencies, universities, local public schools, and local community college systems. The primary benefit systems described are the Teachers' and State Employees' Retirement System (TSERS) and the State Health Plan for Teachers and State Employees (State Health Plan). In addition, there are several smaller State-managed retirement systems for elected judicial and legislative officials, as well as pension funds for fire and rescue-squad workers and the National Guard.

Committee Membership:

Rep. Henry "Mickey" Michaux, Senior Chair
Rep. Alma Adams, Chair
Rep. Martha Alexander, Chair
Rep. James Crawford, Chair
Rep. Phillip Haire, Chair
Rep. Maggie Jeffus, Chair
Rep. Joe Tolson, Chair
Rep. Douglas Yongue, Chair

Sen. Linda Garrou, Chair
Sen. Charles Albertson, Chair
Sen. Charlie Dannelly, Chair

Staff:

Mark Trogdon, Team Leader
Marshall Barnes
Stanley Moore

Statewide Reserves: Salaries

G.S. 126, Art. 1, State Personnel System Established

Across-the-Board Compensation Increases

The State funds salaries and salary increases for employees of State agencies and universities and a majority of the personnel employed by local public schools and local community colleges. The General Fund payroll base is estimated to exceed \$10.8 billion for FY 2008-09. Total payroll exceeds \$15 billion, including receipts from State agencies, universities, local public schools, and local community colleges.

Significant Legislative Budget Actions

General Salary Increase: The General Assembly appropriated the following funds to provide salary increases effective July 1, 2008, for employees paid from State funds:

State Appropriations	FY 2008-09
General Fund (Recurring)	360,192,676
General Fund (Nonrecurring)	8,151,912
Highway Fund (Recurring)	14,762,342
Highway Fund (Nonrecurring)	-
Total	\$383,106,930

In accordance with S.L. 2008-107, Sec. 26.13, the General Assembly also authorized the Director of the Budget to budget increased receipts to provide sufficient funding for any employing agency to increase salaries of receipt-supported positions. The appropriations specified above do not include \$500,000 appropriated for sign-on bonuses for registered nurses employed in the Department of Health and Human Services' Division of Mental Health, Developmental Disabilities and Substance Abuse Services. These appropriations also exclude the cost to provide salary increases to receipt-supported positions. In addition, the appropriations specified above do not include the recurring costs to provide the salary increases enacted by the General Assembly effective July 1, 2007. The recurring costs to provide these increases are reflected in the individual agency certified budgets for FY 2008-09.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Sections 26.1 – 26.12, 26.13, and 26.14 General Salary Increases

State Employees Subject to the State Personnel Act – The General Assembly authorized an across-the-board annual salary increase equal to the greater of \$1,100 or 2.75%, effective July 1, 2008, for employees whose salaries are set in accordance with the State Personnel Act.

State Agency Employees Exempt from the State Personnel Act – The General Assembly authorized an across-the-board annual salary increase equal to the greater of \$1,100 or 2.75%, effective July 1, 2008, for employees whose salaries are not set in accordance with the State Personnel Act.

Statewide Reserves: Salaries

University Employees Exempt from the State Personnel Act – For faculty and non-faculty of the University of North Carolina System whose salaries are not set in accordance with the State Personnel Act, the General Assembly provided funding to support an annual salary increase of 3% effective July 1, 2008.

Community College Institutional Personnel – The General Assembly authorized an annual salary increase of 3%, effective July 1, 2008, for all community-college faculty and professional staff. The General Assembly also authorized an annual salary increase equal to the greater of \$1,100 or 2.75%, effective July 1, 2008, for all other eligible community college institution personnel.

Section 26.16 Teacher Salary Schedules

The General Assembly appropriated funds for FY 2008-09 to provide annual salary increases ranging from 2.39% to 6.63% (average of 3%) for public school teachers, effective July 1, 2008. The salary increase is based on teachers' natural movement up the salary schedule due to years-of-experience credit and an increase of \$680 for steps 0-2 and \$470 for steps 3-31 on the "A" salary schedule (slightly larger increases to the "M" and "NBPTS" schedules).

Section 26.17 School-Based Administrator Salary Schedule

The General Assembly appropriated funds for FY 2008-09 to provide annual salary increases ranging from 2.38% to 5.39% (average of 2.69%) for public-school principals and assistant principals, effective July 1, 2008. The salary increase is based on employees' natural movement up the salary schedule due to years-of-experience credit and a flat dollar increase to each step on the School-based Administrator Salary Schedule. The flat increase is slightly larger than the flat increases granted to the "A" teacher salary schedule.

Section 26.18 Central Office Salaries

The General Assembly authorized an across-the-board annual salary increase equal to the greater of \$1,100 or 2.75% effective July 1, 2008, for Superintendents, Assistant Superintendents, Associate Superintendents, Supervisors, Directors, Coordinators, and Finance Officers employed by the public schools.

Section 26.19 Noncertified Personnel Salaries

The General Assembly authorized an across-the-board annual salary increase equal to the greater of \$1,100 or 2.75% effective July 1, 2008, for noncertified personnel employed by the public schools, e.g., teacher assistants, food-service personnel, etc.

Section 26.20 Bonus for Certified Personnel at the Top of Their Salary Schedules

The General Assembly appropriated \$8,151,912 to provide a one-time bonus equivalent to 1.8% for teachers and instructional support and 2% for principals and assistant principals paid at the top of the experience-based salary schedules.

Section 26.12A Lottery Commission Compensation Increases

The General Assembly amended Article 8 of Chapter 18C by enacting a new section limiting the total dollar amount the Lottery Commission may spend for salary increases. During any fiscal year, the Lottery Commission may not spend funds for employee merit and performance-based salary increases in excess of the total amount required to award Commission employees an across-the-board salary increase. An across-the-board salary increase for this purpose is the same rate of increase as granted to State employees subject to

Statewide Reserves: Salaries

the State Personnel Act in the same fiscal year. The Lottery Commission is authorized to award merit and performance-based salary increases on an aggregated average basis.

Section 26.12B Mental Health Nurses/Sign-On Bonus

The General Assembly authorized the Department of Health and Human Services to pay sign-on bonuses to newly-employed registered nurses hired during FY 2008-09 to work in State-operated facilities in the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services. The sign-on bonus cannot exceed \$8,000 per full-time registered nurse or \$4,000 per part-time registered nurse hired to work at least 20 hours but less than 30 hours per week. One-half of the sign-on bonus is to be paid in the employee's first paycheck, with the second installment to be paid after the completion of 36 months of consecutive State service as a registered nurse in the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services.

The General Assembly appropriated \$500,000 nonrecurring for the initial installments to be paid during FY 2008-09.

Section 26.12C Licensed Ferry Personnel/Classification Study/Report

The General Assembly has directed the Office of State Personnel to conduct a classification study of licensed ferry personnel within the Ferry Division of the Department of Transportation to ensure that the Division retains and recruits the most qualified personnel, in the interests of public safety and efficiency, to accomplish the State's ferry transportation function. The Office of State Personnel is to report to the Senate and House Appropriations Committees, by the convening of the 2009 General Assembly, the findings of the study, including any related actions of the State Personnel Commission and any related salary increases or adjustments.

Section 26.12D Salary Adjustment Fund Changes

The General Assembly modified the provisions of Section 28.18 of S.L. 2007-323, which authorized the use of funds appropriated for across-the-board compensation increases, but not required for that purpose, to supplement the Salary Adjustment Fund. The Salary Adjustment Fund supports agency and university requests to increase employee salaries due to range revisions, special minimum rates, grade-to-band transfers, geographic differentials, and reallocations. The modifications include a \$484,000 earmark for the State Construction Office of the Department of Administration to adjust salaries of engineering and architect positions due to the career banding of those positions.

In addition, if the State Personnel Commission approves salary increases for licensed ferry personnel as a result of the Licensed Ferry Personnel Classification Study (see Section 26.12C above), the Ferry Division of the Department of Transportation is to receive the highest funding priority of funds available in the Highway Fund Salary Adjustment Fund.

Section 26.21 No Penalty for Teachers Taking One Day of Personal Leave

The General Assembly appropriated \$5 million to allow classroom teachers and media specialists who require a substitute to use one personal leave day during FY 2008-09 and receive full salary. Teachers and media specialists will continue to receive full salary less the required substitute deduction for personal leave days used over one day during FY 2008-09. Section 26.21 rewrites G.S. 115C-302.1(d) to implement this change only for FY 2008-09. See also S.L. 2008-209 under Additional Legislation below.

Statewide Reserves: Salaries

Additional Legislation

S.L. 2008-82 (HB 2748) Disapprove Rules Adopted by the State Personnel Commission Relative to Temporary Employees

The act disapproves rules adopted by the State Personnel Commission on February 16, 2007, and approved by the Rules Review Commission on May 17, 2007, relating to the employment of temporary employees and temporary employment services.

In addition, the act directs the Office of State Personnel to conduct a thorough analysis of State agencies' use of non-permanent employees and to develop recommendations for policies regarding the definition, selection, appointment, and duration of various categories of non-permanent employees.

The recommendations must prohibit the establishment of any new temporary employment services by individual State agencies, other than those in existence on the effective date of the act. The Office of State Personnel must report its findings to the General Assembly on or before December 31, 2008, including any recommendations for proposed legislation. To the extent it accepts the recommendations of the Office of State Personnel, the State Personnel Commission must adopt rules in accordance with the Administrative Procedures Act to implement a plan for nonpermanent employment in State government.

S.L. 2008-142 (SB 1100) Funeral Expenses for Members of the State Highway Patrol Killed in the Line of Duty

The act amends G.S. 143B-476 authorizing the Secretary of the Department of Crime Control and Public Safety to expend up to \$10,000 from available funds as reimbursement of funeral expenses for a member of the State Highway Patrol killed in the line of duty. In addition, the act directs the Department to study whether the Secretary should be authorized to reimburse family members for funeral expenses of a State law enforcement officer who is killed in the line of duty.

The study must include a determination on the maximum amount to be paid and whether additional funds should be appropriated for funeral expenses. The Department must report the results of its study along with any recommendations for legislation to the Joint Legislative Corrections, Crime Control, and Juvenile Justice Oversight Committee by January 1, 2009. Section 1 of the act authorizing the expenditure of funds for funeral expenses became effective June 1, 2008 and expires June 1, 2009. The remainder of the act became effective July 28, 2008.

S.L. 2008-181, PART XL (HB 2431) Study Commission on Compensation of the Governor's Cabinet and Elected Officials

This part creates the Study Commission on Compensation of the Governor's Cabinet and State Elected Officials. The Commission is directed to study whether compensation is fair and appropriate and whether such officials are paid according to the duties of their offices. The Commission must make its final report, including any proposed legislation, to the General Assembly by January 15, 2009.

Statewide Reserves: Salaries

S.L. 2008-209 (HB 15) No Penalty for Teachers Taking Personal Leave under Some Circumstances

S.L. 2008-107, section 26.21 (see full explanation above under Significant Special Provisions), provides teachers and media specialists full salary, with no substitute deduction, for the use of one personal leave day during FY 2008-09 (expires June 30, 2009). In addition, S.L. 2008-209 provides full salary with no substitute deduction for the use of personal leave days on non-protected teacher workdays effective August 9, 2008.

Historical Salary Statistics

Ten-Year Legislative Increase History

Fiscal Year	State Employees	Teachers
1999-00	1% COLA + 2% career growth + \$125 Compensation Bonus	4%-11%
2000-01	2.2% COLA + 2% career growth + \$500 Compensation Bonus	2.5%-13.8%
2001-02	\$625	1.0% to 6.92% (2.86% average)
2002-03	-0-	0.0% to 5.85% (1.84% average)
2003-04	-0-	1.42% to 5.86% (1.81% average)
2004-05	Greater of \$1,000 or 2.5% across-the-board increase	1.41% to 5.90% (2.5% average)
2005-06	Greater of \$850 or 2.0% across-the-board increase	1.77% to 6.27% (2.24% average)
2006-07	5.5% across-the-board increase	6.45% to 14.05% (8.23% average)
2007-08	4.0% across-the-board increase	4.05% to 9.53% (5.0% average)
2008-09	Greater of \$1,100 or 2.75% across-the-board increase	2.39% to 6.63% (3.0% average)

Statewide Reserves: Salaries

Average Salary of Employees Subject to the Personnel Act

Fiscal Year	Average Salary¹
1998-99	\$30,332
1999-00	\$31,385
2000-01	\$32,803
2001-02	\$33,474
2002-03	\$33,556
2003-04	\$33,854
2004-05	\$35,151
2005-06	\$36,691
2006-07	\$38,743
2007-08	\$40,283

¹ The average salary figures include all permanent SPA employees at a particular point in time. During these years, new programs were added and SPA coverage was extended to positions previously exempt. When new positions were added at salaries above or below the average, this resulted in an increase or decrease in average salary levels. **Therefore, changes in average salaries are not necessarily measures of salary increases authorized by the General Assembly.**

Across-the-Board Salary Cost for each 1% Increase (\$ in Millions)

Fiscal Year	General Fund	Highway Fund
1996-97	\$ 66.77	\$3.98
1997-98	\$ 70.22	\$4.19
1998-99	\$ 75.33	\$4.64
1999-00	\$ 80.69	\$4.00
2000-01	\$ 86.45	\$4.33
2001-02	\$ 89.73	\$4.32
2002-03 ¹	\$ 91.05	\$4.19
2003-04 ²	\$ 91.35	\$4.15
2004-05	\$ 95.13	\$4.37
2005-06	\$100.61	\$4.56
2006-07	\$106.89	\$4.79
2007-08	\$117.08	\$5.11
2008-09	\$124.93	\$5.37

¹ No across-the-board salary increases were funded by the General Assembly for employees in FY 2002-03 except for the salary step increases funded for teachers and school-based administrators.

² No across-the-board salary increases were funded by the General Assembly for employees in FY 2003-04 except for the salary step increases funded for teachers and school-based administrators and a one-half percent (.5%) average salary increase for Community College faculty and professional staff.

Statewide Reserves: Retirement

- G.S. 58, Art. 86, Firemen’s and Rescue Squad Workers’ Pension Fund
- G.S. 120, Art. 1A, Legislative Retirement System
- G.S. 127A, Art. 3, National Guard
- G.S. 135, Art. 1, Retirement System for Teachers and State Employees
- G.S. 135, Art. 5, Supplemental Retirement Income Act of 1984
- G.S. 135, Art. 4, Consolidated Judicial Retirement Act
- G.S. 135, Art. 6, Disability Income Plan of North Carolina

State Retirement Systems:

The State operates several retirement systems for public employees. The Teachers’ and State Employees’ Retirement System has the largest membership and assets of all the retirement systems and provides benefits to all employees of State agencies, departments, universities, local public schools, and local community colleges. As of December 31, 2007, the System had 338,490 members and paid retirement benefits of \$2.9 billion annually to 145,855 beneficiaries. The System had recognized assets of \$55.3 billion and was considered 105% funded as of December 31, 2007 (i.e., \$1.05 in assets for each \$1.00 of liabilities).

The General Assembly appropriates funds to increase retirement employer contributions to a reserve administered by the Office of State Budget and Management (OSBM). After enactment of the budget, OSBM allocates these funds to State agencies, departments, universities, local public schools, and local community colleges to pay the increased employer contributions to the Department of State Treasurer, which administers the various retirement systems.

Significant Legislative Budget Actions

The General Assembly enacted the following General Fund and Highway Fund appropriations to fund the cost-of-living adjustment for retirees of the Teachers’ and State Employees’ Retirement System and an increase in benefits for the Firemen’s and Rescue Squad Workers’ Pension Fund:

State Appropriations	FY 2008-09
General Fund for Cost-of-Living Increase	30,237,400
Highway Fund for Cost-of-Living Increase	1,462,000
General Fund for Firemen’s and Rescue Squad Workers’ Pension Fund	<u>1,027,851</u>
Total (Recurring)	\$32,727,251

The amount of budgeted receipts of employing agencies used to pay employer retirement system contributions for receipt-funded positions may be increased to pay the additional employer contributions authorized by the General Assembly.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 26.22 Salary-Related Contributions/Employer

The General Assembly adjusted the contribution rates for the Teachers’ and State Employees’ Retirement System from 3.05% of payroll to 3.36% of payroll for retirement plus 0.52% of

Statewide Reserves: Retirement

payroll for the Disability Income Plan, 0.16% of payroll for the Death Benefit and 4.1% of payroll for retiree health benefits.

Section 26.23 Provide Cost-of-Living Increases for Retirees of the Teachers' and State Employees' Retirement System, the Judicial Retirement System, and the Legislative Retirement System

Teachers' and State Employees' Retirement System - Effective July 1, 2008, the General Assembly provided a 2.2% increase in the retirement allowances paid to beneficiaries of the Teachers' and State Employees' Retirement System whose retirement began on or before July 1, 2007. In addition, beneficiaries who retired after July 1, 2007, and before June 30, 2008, were authorized an increase in their retirement allowances on July 1, 2008, equal to a prorated amount of the 2.2% increase provided to those who retired on or before July 1, 2007. The prorated amount will be determined by the Retirement System's Board of Trustees based upon the number of months that a retirement allowance was paid during 2007-08.

This increase in retirement allowances was funded in part with unencumbered actuarial gains in the Teachers' and State Employees' Retirement System as of December 31, 2006, and in part by an appropriation of \$30.2 million from the General Fund and \$1.5 million from the Highway Fund. If the increase had not been funded in part with unencumbered actuarial gains, the increase would have required a total annual appropriation of \$71.2 million from the General Fund, \$3.4 million from the Highway Fund, and \$25.6 million from receipt funds.

Consolidated Judicial Retirement System - The General Assembly provided a 2.2% increase in the retirement allowances paid to beneficiaries of the Consolidated Judicial Retirement System whose retirement began on or before July 1, 2007. In addition, beneficiaries who retired after July 1, 2007, and before June 30, 2008, were authorized an increase in their retirement allowances on July 1, 2008, equal to a prorated amount of the 2.2% increase provided to those who retired on or before July 1, 2007. The prorated amount will be determined by the Retirement System's Board of Trustees based upon the number of months that a retirement allowance was paid during 2007-08. This increase in retirement allowances was funded with unencumbered actuarial gains in the Consolidated Judicial Retirement System as of December 31, 2006. The total cost of the cost-of-living adjustment was \$700,000 annually.

Legislative Retirement System - The General Assembly provided a 2.2% increase in the retirement allowances paid to beneficiaries of the Legislative Retirement System who retired on or before January 1, 2008, comparable to the increases granted to retired beneficiaries of the Teachers' and State Employees' Retirement System. In addition, beneficiaries who retired after January 1, 2008, but before June 30, 2008, were authorized an increase in their retirement allowances on July 1, 2008, equal to a prorated amount of the 2.2% increase provided to those who retired on or before January 1, 2008. The increase was funded within the Legislative System at an annual cost of \$48,508.

Statewide Reserves: Retirement

Section 26.24 Include the Director of the Office of Indigent Defense Services as a Member of the Consolidated Judicial Retirement System

The General Assembly allowed for the transfer of the Director of the Office of Indigent Defense Services, who is serving on July 1, 2008, from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. Also, creditable service as the Director of the Office of Indigent Defense Services beginning July 1, 2004, will be transferred from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. Anyone who becomes the Director of the Office of Indigent Defense Services after July 1, 2008, will also become a member of the Consolidated Judicial Retirement System.

Section 26.25 Firemen and Rescue Squad Workers' Pension Fund

The General Assembly enacted, effective July 1, 2008, an increase in the pension for members of the Firemen's and Rescue Squad Workers' Pension Fund from \$167 to \$170 per month at a cost of \$1,027,851 annually. This increase applies to current pensioners and to those entitled to receive a pension in the future at age 55 with 20 years of service.

Additional Legislation

S.L. 2008-52 (HB 2614) Stovall Retirement

The General Assembly allowed the Town of Stovall to participate in the Local Governmental Employees' Retirement System without providing any prior service credits to its employees and not requiring the Town to pay for any prior service credits for its employees.

S.L. 2008-132 (HB 2728) Supplemental Retirement Board of Trustees

The General Assembly enacted legislation consolidating the Board of Trustees for the North Carolina Public Employee Deferred Compensation Plan [457 Plan] and the Board of Trustees for the Supplemental Retirement Income Plan [401(k) Plan] into the Supplemental Retirement Board of Trustees. The newly-created Board will consist of nine voting members. The legislation also removes the membership requirements and appointment authority for the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan and transfers its administrative authority effective July 1, 2008, to the Supplemental Retirement Board of Trustees.

S.L. 2008-163 (HB 1563) Extend Fire and Rescue Death Benefits

The General Assembly enacted legislation that provides line-of-duty death benefits to fire and rescue instructors, who are otherwise eligible for benefits, while they are conducting fire and rescue training to another eligible unit.

Statewide Reserves: Health Benefits

G.S. 135, Art. 3A, Other Benefits for Teachers, State Employees, Retired State Employees, and Child Health

G.S. 135-7(f), Retiree Health Benefit Fund

State Health Plan for Teachers and State Employees

The State Health Plan for Teachers and State Employees (Plan) administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements.

Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire departments, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. As of November 2008, enrollment in the Plan was 665,607 Plan members. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be \$2.6 billion for FY 2008-09.

Significant Legislative Budget Actions

The General Assembly reduced by \$5 million (recurring) a FY 2007-08 appropriation to the statewide reserve used to cover increases in State employees' health benefit premiums. According to the Office of State Budget and Management, the eliminated funds would not have been disbursed because employing agency requirements were adequately funded. This action did not affect the Plan's funding because the Plan does not receive funds directly from this statewide reserve.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

There were no special provisions in the 2008 Appropriations Act that affected the Plan's health benefit functions. However, please see the Health and Human Services section of this document for a summary of legislative changes (Section 10.13 -- NC Health Choice Transition) regarding the policy change to allow the Department of Health and Human Services to begin assuming over time the claims processing responsibilities for the N.C. Health Choice program. Currently these claims processing responsibilities reside fully with the Plan.

Statewide Reserves: Health Benefits

Select Programs and Other Budgetary Information

Adverse Financial Results for the Plan in FY 2007-08

The Plan's management used a significantly flawed actuarial projection to estimate funding requirements for the 2007 biennium. According to the current Executive Administrator of the Plan, some key problems with the original projection were as follows:

- Provider discounts achieved under the Preferred Provider Option (PPO) were less than projected;
- Financial savings expected from out-of-pocket cost-sharing borne by plan members under the PPO proved to be less than actual results;
- Utilization of medical services by plan members enrolled in the PPO was at a greater rate than projected;
- A component of administrative costs negotiated by the Plan's former management in its claims processing contract was not accounted for in the actuarial projection; and
- Adverse selection costs incurred from the Plan's offering multiple PPO choices and offering enhanced PPO benefits over the Indemnity plan were not accurately estimated.

As a result, the Plan experienced substantial un-projected financial losses in FY 2007-08. The Plan's operating results reveal a \$17.0 million loss for the period compared to a projected income of \$57.9 million. Furthermore, it has been disclosed by the Plan's current Executive Administrator that an estimated \$62.8 million in June 2008 medical and pharmacy claims were not paid in a timely manner by the Plan's former management. Therefore, these June 2008 claims became obligations in FY 2008-09 that will adversely affect financial operating results for the fiscal period. If the June 2008 claims had been paid on a timely basis, the reported loss for FY 2007-08 would have been an estimated \$79.7 million (\$17 million + \$62.8 million = \$79.8 million) as compared to projected income of \$57.9 million.

A swing from a projected income of \$57.9 million to a loss of \$79.8 million means the projected operating income fell short by \$137.7 million (\$57.9 million loss of projected income + \$79.8 million estimated loss). According to the Plan's Executive Administrator, the most significant cost components thought to cause this deviation are reflected in the table below:¹

¹ State Health Plan for Teachers and State Employees, Board of Trustees meeting, August 18, 2008.

Statewide Reserves: Health Benefits

**Estimated Losses not Accounted for in Projection Used to Determine Plan Funding²
State Health Plan
FY 2007-08
(\$millions)**

Over-estimated Premium Collections	(8.8)
Under-estimated Claims Paid & Administrative Expenses	
Medical Claims	(58.4)
Pharmacy Claims	(48.1)
Admin Costs	(19.7)
Sub-total	(126.2)
Total	(\$135.0)

Revised Actuarial Projection for FY 2008-09

Given the unexpected adverse financial results for FY 2007-08 and the shift of June 2008 claims to FY 2008-09, the Plan has obtained a revised actuarial projection for FY 2008-09. The Plan’s consulting actuary now reports that the Plan is expected to lose between \$264.4 million and \$280.8 million for the fiscal period. These projected losses are expected to deplete the Plan’s cash balance of \$139.8 million and leave it without sufficient operating resources to continue operations for the fiscal year. It is currently estimated by the Plan’s Executive Administrator that the Plan will not be able to pay claims on a timely basis by the end of the 2nd quarter or the beginning of the 3rd quarter for FY 2008-09.

Consequently, the reforecast of Plan finances now indicates that the Plan will require over \$300 million in additional resources to operate for the balance of the 2008-09 fiscal year. This amount represents the estimated funds necessary to pay claims and administrative expenses through June 30, 2009, plus funding a minimum stabilization reserve equal to 7.5% of projected claims.

Plan’s Revised Financial Projection for FY 2008-09³

For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of \$139.8 million. Receipts for the year are projected to be \$2.3 billion from premium collections, \$53.9 million from Medicare Part D subsidies, and \$2.7 million from investment earnings, for a total of slightly over \$2.3 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.4 billion in claim-payment expenses and \$168.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.6 billion for FY 2008-09. The Plan’s net operating loss is projected to be approximately \$264.4 million for the fiscal year, assuming a 9% annual claims growth trend. If the claims growth trend extends as high as 10.5% annually, the estimated losses could increase to approximately \$280.8 million.

Calendar Year 2007 Actuarial Valuation of Retiree Health Benefit Liabilities

The State’s second formal actuarial valuation of retired-employee health-benefit coverage reported a \$28.6 billion unfunded liability as of December 31, 2007. This liability represents,

² Financial numbers reported in the table vary slightly from those reported by the Plan’s Executive Administrator. This variance occurs to meet publication style requirements limiting the reporting of dollars to a single decimal point. The variance in dollars between those reflected in the table above and those reported are negligible.

³ Numbers may not be additive due to rounding to a single decimal point to meet publication style requirements.

Statewide Reserves: Health Benefits

in today's dollars, the unfunded benefit obligations already earned by current retirees, active employees, and inactive former employees eligible to retire at some point in the future.

The actuarial valuation was conducted according to Governmental Accounting Standards Board (GASB) standards that significantly change how public employers must measure, expense, and disclose obligations for other nonpension post-employment benefits. These standards (GASB 43 and 45) require public employers to use actuarial valuation methods and accrual accounting conventions — similar to the way pension obligations are measured and reported — to acknowledge the accumulation of Other Post-Employment Benefit (OPEB) liabilities. The most significant OPEB for the State of North Carolina is health-benefit coverage provided to retired employees of State agencies and departments, university institutions, local public schools, and local community colleges. Retired employees are eligible for health benefit coverage provided that at the time of retirement they have five years of eligible service.

Responsibility for paying the premium contribution for health benefit coverage during an employee's retirement years depends upon the "first hire" date for the employee. If an employee was first hired on or before October 1, 2006, then at the point in time they retire from service, if they have five or more years of service they are eligible for non-contributory (i.e., State paid) health benefit coverage. For employees who were first hired on or after October 1, 2006, the responsible party for payment of the premium contribution is determined by the employees' years of service at retirement. If a retiring employee has 20 or more years of service, he or she is eligible for non-contributory coverage. For an employee retiring with 10 up to 20 years of service, the premium contribution is paid on a partially contributory basis where 50% of the contribution is paid by the retired employee and the other half by the State. Finally, an employee retiring with 5 up to 10 years of service must pay 100% of the premium contribution (i.e., fully contributory basis).

Additional Legislation

S.L. 2008-168 (HB 2443) State Health Plan

The General Assembly enacted House Bill 2443 to make changes to the General Statutes necessitated by the repeal of the Plan's indemnity plan benefit option and to establish and clarify statutory guidance for the offering of a preferred-provider option benefit plan. The majority of the bill's content is technical in nature (e.g. re-codifying current law with a new section number in the General Statutes). There are, however, several significant changes made in the bill to the Plan's governing statutes that are substantive in nature from a financial perspective:

- **Authority of the Executive Administrator and Board of Trustees to offer multiple type benefit plans:** The Executive Administrator and Board of Trustees may operate group plans as a preferred-provider option, health-maintenance, point-of-service, or other organizational arrangement. Furthermore, an act of the General Assembly is required for the Executive Administrator and the Board of Trustees to change at any point in time the Plan's comprehensive benefit coverage, including co-payments, deductibles, out-of-pocket expenditures, and lifetime maximums, under any plan type option authorized.
- **Authorize an optional Medicare Advantage program:** The Plan is authorized to offer an insured Medicare Advantage product to Medicare-eligible plan members in lieu of

Statewide Reserves: Health Benefits

other coverage offered under the Plan. The Medicare Advantage product would be offered in conjunction with carve-outs for Medicare Parts A & B. Under the proposed authorization, Medicare-eligible plan members would have an option to select a Medicare Advantage plan offered through an authorized insurer under contract with the Plan. The authorizing language also requires the Plan to continue to offer the Plan's current outpatient prescription-drug coverage to all Medicare-eligible plan members regardless of whether they are enrolled in a Medicare Advantage product or continue to remain in other benefit plans offered by the Plan.

- **Cost-savings initiatives and incentive programs:** The bill codifies existing authority to allow the Executive Administrator and the Board of Trustees to authorize coverage of certain over-the-counter medications and to establish certain incentive programs. The original authority for these programs was slated to expire July 1, 2009 (see Session Law 2006-249, HB 1059).

There were also several substantive changes to the Plan's governing statutes that are unrelated to the Plan's financing. The two primary changes were (1) the creation of the State Health Plan Administrative Commission which is charged with appointing the State Health Plan's Executive Administrator (under prior law, the Executive Administrator was appointed by the Commissioner of Insurance); and (2) an authorization that allows the Board of Trustees to make final decisions in contested cases under the Administrative Procedures Act and require the Plan's Executive Administrator to execute the Board's decisions.

Capital and Debt Service

Capital Improvements and Debt Service

Subcommittee Summary:

The Senate and House Appropriations Committees generally address capital improvements and debt service appropriations as full committees based on recommendations from the Chairs of the respective Appropriations Committees. The House Appropriations Committee also relies on its 11-member standing Appropriations Subcommittee on Capital for recommendations on the construction of new State facilities, repair and renovation of existing State facilities, the acquisition of lands, and the authorization of debt financing.

Subcommittee Membership:

Rep. Bill Owens, Chair
 Rep. Larry Womble, Chair
 Rep. Walter Church
 Rep. Robert Grady
 Rep. Cary Allred
 Rep. Marilyn Avila
 Rep. Leo Daughtry
 Rep. Hugh Holliman
 Rep. Ric Killian
 Rep. William Wainwright

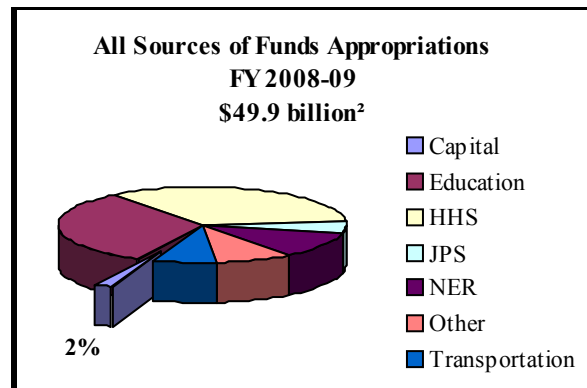
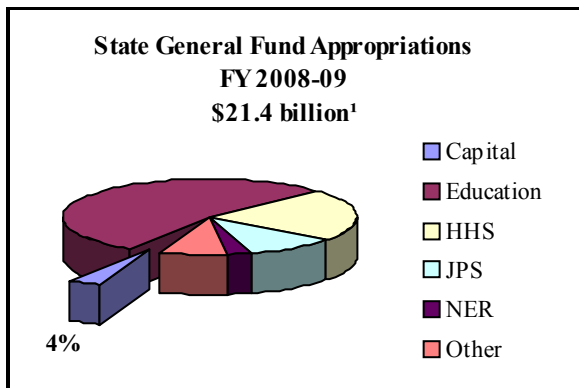
N/A

Staff:

Jim Klingler

Budget Comparison:

The General Assembly appropriated \$772.2 million in FY 2008-09 from the General Fund for capital improvements and debt service and \$960.5 million from all sources. This represents 4% of net General Fund appropriations and 2% of the total \$49.9 billion appropriated from all funds reported. The totals do not reflect the \$1.5 billion in repairs and renovations, debt authorizations, and self-liquidating capital projects. For additional information on capital improvements and debt service, see Capital Improvements Budget Section.



Note:

¹ Reflects total general purpose revenues such as taxes, nontax revenue, and other sources of availability.

² Includes State appropriations, agency receipts, special revenue, trust, and enterprise fund revenues as certified by the Office of State Budget and Management. Does not reflect unduplicated or total appropriations due to limitations in certified budget information.

Capital Improvements Budget

NC Constitution, Art. V., Sec. 3 Limitation upon the increase of State debt;
 NC Constitution, Art. V., Sec. 13[12] Seaport and airport facilities;
 G.S. 143C-8-1 Legislative intent; purpose; and
 G.S. 143C-8-5 Six-year capital improvements plan

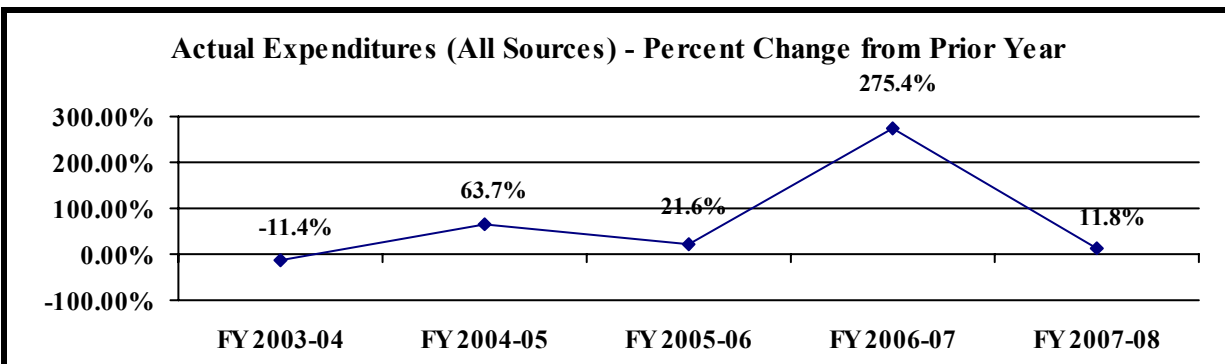
Agency Description:

The Capital Improvements Budget includes the construction, repair, and renovation of State facilities; the acquisition of State lands; and facility planning. The foundation for the capital budget is the State’s six-year capital improvements plan (CIP), required by G.S. 143C-8-5 and prepared by the Office of State Budget and Management. The Governor uses the CIP to craft the recommended capital budget. The General Assembly uses the Recommended Budget and the State CIP as a starting point for writing the capital budget.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	54,960,000	206,343,300	230,741,100	138,166,283
Revenue	0	0	0	9,084,221
Net Appropriations	\$54,960,000	\$206,343,300	\$230,741,100	\$129,082,062
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The Capital Improvements Budget for FY 2008-09 is \$138,166,283. The budget, funded solely from the General Fund, represents a \$101,659,038 decrease (44%) below FY 2007-08. The graph below excludes two key areas of capital spending, repairs and renovations and debt proceeds. The average percentage change from FY 2002-03 to FY 2007-08 is 72.2%. As the State’s revenue picture improved in recent years, the General Assembly appropriated more from the General Fund for capital improvements. Since FY 2002-03, the State used debt financing to fund most capital improvement projects, especially for the University of North Carolina System.



Capital Improvements Budget

Budget Tables

The following table provides a breakdown of the total General Fund capital improvements budget by agency.

Capital Improvements (19600 – General Fund)	Actual FY 2007-08	Certified FY 2008-09
Department of Administration	4,183,281	3,050,000
Department of Agriculture and Consumer Services	8,690,865	1,820,000
Department of Correction	8,497,557	
Department of Crime Control and Public Safety	398,094	1,601,530
Department of Cultural Resources	6,765,000	
Department of Environment and Natural Resources	49,708,200	20,600,000
Office of Information Technology Services	8,000,000	
Department of Justice	1,974,103	1,792,006
Department of Juvenile Justice and Delinquency Prevention	1,875,000	
Department of Commerce	7,500,000	605,700
University of North Carolina System	133,149,000	99,612,826
Department of Transportation		9,084,221
TOTAL	\$230,741,100	\$138,166,283
Revenue		
NET GENERAL FUND APPROPRIATIONS	\$230,741,100	\$138,166,283

Note: The General Assembly typically appropriates funds for capital projects on a one-year basis.

Other Funds

No relevant information to report.

Significant Legislative Budget Actions

In developing the FY 2008-09 Capital Improvements Budget, the Appropriations Committees considered various sources, including the Governor's Recommended FY 2008-09 Capital Improvements Budget, the State's Six-year Capital Improvements Plan, and The University of North Carolina's (UNC System) Six-Year Capital Improvements Plan.

Capital Improvements Budget

The State's capital needs, as identified in the Governor's Recommendations and the UNC System request, totaled \$2.4 billion. Since this amount exceeded the Committees' estimated resources, the Committees selected projects by considering the following:

1. Projects previously funded for construction or planning;
2. Projects ready to break ground over the next three fiscal years; and
3. Type of financing (e.g., General Fund appropriations and debt financing).

The approach resulted in a capital budget of \$129.1 million in General Fund appropriations and an authorization of \$857.5 million in debt financing. A complete list of projects can be found in the Capital Improvement Projects section.

Capital Planning

Of the total funds appropriated, the General Assembly appropriated \$61.0 million from the General Fund for the planning and design of 18 projects that do not currently have construction funding. Taking these projects through construction would require an additional \$946.0 million of funding in subsequent years.

Site Development

The General Assembly appropriated \$50.4 million from the General Fund for planning, site development, and infrastructure for projects that are not fully funded. The current estimate to complete these partially-constructed projects is \$297.0 million.

Significant Special Provisions

Session Law 2008-107 House Bill 2436

Section 2.2(b) General Fund Availability Statement

This section directs the State Controller to transfer \$69,839,238 of the General Fund's unrestricted year-end credit balance to the Repairs and Renovations Reserve Account, superseding G.S. 143C-4-3, the statutory requirement for reserving funds for repairs and renovations. More information about the Repairs and Renovations Reserve Account can be found in the Select Programs and Other Budgetary Information section.

Section 27.1 Capital Appropriations/General Fund

This section appropriates \$129.1 million from the General Fund for construction, planning, and site-development projects. A complete list of projects can be found in the Capital Improvement Projects section.

Section 27.2 Water Resources Development Project Funds

This section allocates \$20 million of General Fund appropriations for water resources development projects. Twenty-four projects are identified, and funds are allocated to provide the State match for federally funded projects through the US Army Corps of Engineers and the match for State and local water resource projects (G.S. 143-215.71). The allocation also includes \$3,619,000 for dredging contingency funds. A complete list of projects can be found in the Capital Improvement Projects section.

Capital Improvements Budget

Section 27.3 Repairs and Renovations Reserve Allocation

This section continues the General Assembly's policy for allocating funds in the Repairs and Renovations Reserve Account, 54% to State agencies and 46% to universities. For FY 2008-09, \$37,713,188 will be allocated to State agencies and \$32,126,049 to the University of North Carolina (UNC) System.

The provision also

1. authorizes UNC General Administration to allocate a portion of its funds to install sprinklers in various UNC campuses,
2. directs the Office of State Budget and Management (OSBM) to use \$6.6 million for renovations of Mattamuskeet Lodge, \$2.6 million for the Museum of History Chronology Exhibit, \$1.2 million for plans and specifications to renovate the Department of Agriculture and Consumer Services' main office building in Raleigh, \$1.3 million for renovations of the North Carolina Museum of Forestry, and \$1.0 million for renovations of Charlotte Hawkins Brown State Historic Site; and
3. directs OSBM to allocate \$2.7 million to the Energy Efficiency Reserve and directs UNC to allocate \$2.3 million to energy projects.

More information about the Repairs and Renovations Reserve Account can be found in the Select Programs and Other Budgetary Information section.

Section 27.4 Non-General Fund Capital Improvement Authorization

This section authorizes State agency construction projects that will be funded by receipts, should those receipts become available. The total cost of projects authorized is \$180,532,220. A complete list of projects can be found in the Capital Improvement Projects section.

Section 27.5 Study Relocation of Highway Patrol Training Facilities

This section directs the Department of Crime Control and Public Safety and the Department of Administration to study locations outside of Raleigh to relocate the State Highway Patrol's training facilities, currently located at the Garner Road Complex in Raleigh. The Departments must report by February 1, 2009.

Section 27.7B Biomedical Research Imaging Center

This section creates G.S. 116-29.5 and appropriates \$172 million in FY 2009-10 and \$45 million in FY 2010-11 from the General Fund to plan and construct the Biomedical Research Imaging Center building. The appropriation expires if sufficient debt is authorized on or before June 30, 2009.

Section 27.8 Special Indebtedness Projects

This section authorizes the State Treasurer, with the approval of the Council of State, to issue \$750.5 million in special indebtedness for 33 capital projects. Debt is discussed in the Select Programs and Other Budgetary Information section, and the complete list of authorized projects can be found in the Capital Improvement Projects section.

Section 27.9 Two-Thirds Bonds Act of 2008

This section authorizes the issuance of \$107 million in general obligation bonds to finance the construction of the Green Square Project, expanding the NC Museum of Natural Science

Capital Improvements Budget

and providing an office building for the Department of Environment and Natural Resources. The maximum aggregate amount is not to exceed two-thirds of the amount by which the State's outstanding debt was reduced during the biennium ending June 30, 2008.

Select Programs and Other Budgetary Information

State Debt Policy And Practice

The State of North Carolina's policies and practices for meeting the construction and maintenance needs of its government buildings and infrastructure provide a framework of clearly-defined principles within the State's laws.

Legal Authority

NC Constitution Article V, Section 3 provides that debt pledging the faith and credit of the State must be approved by a majority of qualified voters. The Constitution allows certain debts without voter approval, including tax-anticipation notes and two-thirds bonds.

Various General Statutes provide direction on the use of certain forms of debt, such as revenue bonds (Chapter 159, Article 5), certificates of participation and other special indebtedness (Chapter 142, Article 9), and special obligation bonds (G.S 116D-26).

Session Laws authorize all capital improvement projects that incur any type of debt. While the administration of certain debt is directed in statute, requirements for the administration of general obligation bonds are provided in the same session law that authorized the debt.

Administration of Debt

Once debt is authorized, the Office of State Budget and Management (OSBM) and the State Treasurer plan and propose the sale of debt. Upon final approval by the Council of State, the State Treasurer sells the debt. Proceeds are deposited in the Treasury and managed by OSBM.

G.S. 116D-26 authorizes the Board of Governors of The University of North Carolina System to issue special obligation debt and bond anticipation notes. The Board of Governors must have project authorization from the General Assembly (see S.L. 2008-204 in the section titled Additional Legislation). The Board must also get approval from the Governor.

Types of Debt

Within the legal framework discussed earlier, the State may issue various types of debt but has traditionally relied on the following:

- **General Obligation Bonds** are backed by the full faith and credit of the State and require approval by a majority of voters.
- **Revenue Bonds** are backed by revenues generally tied to the project being financed; cannot pledge the faith and credit of the State; and do not require voter approval.

Capital Improvements Budget

- **Special Obligation Bonds** are backed by various agency revenues and are similar to revenue bonds in all other respects. As set out in G.S. 116D-26, only the Board of Governors of the University of North Carolina System may issue special obligation bonds.
- **Special Indebtedness** is incurred by various means, including lease or installment purchases, Certificates of Participation (COPs), and limited obligation bonds. Backed by a pledge of appropriation, special indebtedness does not pledge the faith and credit of the State and does not require voter approval.

Under Article V, Section 3 of the North Carolina Constitution, the General Assembly may authorize general obligation debt without voter approval "to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the next preceding biennium." Such issuances are commonly referred to as "two-thirds bonds" or "legislative bonds." The issuance of \$107 million in two-thirds bonds to finance the Green Square Project, a major expansion of the NC Museum of Natural Science and a new headquarters building for the Department of Environment and Natural Resources, will be the first issued since 1992.

Debt Management

During the 2004 Session, the General Assembly enacted S.L. 2004-179, which established the Debt Affordability Advisory Committee (DAAC). The seven-member Committee, as prescribed in Chapter 142, Article 10, produces a Debt Affordability Study each February; this study provides debt-capacity and management recommendations to the General Assembly, the State Treasurer, and the Governor.

The General Assembly considers the DAAC's recommendations in formulating its strategies for addressing capital needs of the State. For FY 2008-09 the following principles were considered:

- A debt-service target equaling 4% of anticipated General Fund tax revenues and a maximum ceiling of 4.75% of anticipated General Fund tax revenues for new debt authorizations; and
- A debt principal target of \$479.7 million for each of the next five years to match the 4% debt service target.

The General Assembly authorized a total of \$857.4 million in debt for new or continuing capital projects, to be issued over the next four fiscal years. The following table compares the S.L. 2008-107 authorizations to recommended debt capacity.

Debt Capacity for New Debt Authorizations (\$ millions)				
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Debt Capacity (4% Revenue)	479.7	479.7	479.7	479.7
S.L. 2008-107 Authorizations	(479.3)	(221.8)	(134.3)	(22.0)
Remaining Capacity	\$.4	\$257.9	\$345.4	\$457.7

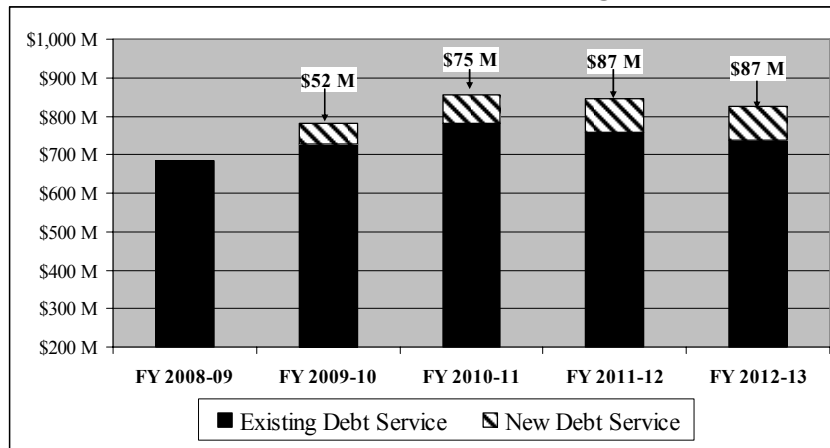
Capital Improvements Budget

Current Debt Obligations and Authorizations

The State Treasurer has estimated the State's outstanding indebtedness at \$6.3 billion in General Fund indebtedness and \$702.1 million in Highway Trust Fund indebtedness for FY 2008-09.

In addition to the State's outstanding debt, the General Assembly has also authorized \$2.1 billion in unissued State debt, including the \$857.5 million authorized in S.L. 2008-107. The following chart presents the State's projected debt service through FY 2012-13.

Estimated Debt Service FY 2008-09 through FY 2012-13



Repairs and Renovations to State Facilities

The General Assembly has also established a framework for addressing the repair and renovation needs of the State's buildings and structures. Unlike new construction projects, the General Assembly has established a funding mechanism to address ongoing maintenance needs.

Funding

The State's repairs and renovations are typically paid for by appropriations from the State General Fund. G.S.143C-4-3 directs the State Controller to transfer 25% of the General Fund's year-end unreserved fund balance to the Repairs and Renovation Reserve Account. However, S.L. 2008-107, Section 2.2(b) preempts G.S. 143C-4-3 and directs the transfer of \$69,839,238 to the Account. This amount is substantially less than the estimated \$129 million that would have been transferred per G.S. 143C-4-3.

Legal Authority

G.S. 143C-4-3 specifies the types of projects eligible for funds from the Repairs and Renovations Reserve Account, including the repair and replacement of roofs, structural repairs, repairs to meet federal and State standards, and other specified improvements.

Administration of Repairs and Renovation Funds

In keeping with past practice, S.L. 2008-107, Section 27.3, directs that State agencies receive 54% of the funds in the Repairs and Renovations Reserve Account and that The University of North Carolina System (UNC System) receive the remaining 46%. OSBM

Capital Improvements Budget

and the UNC System must each develop plans for their respective portions of the reserve account. OSBM and the UNC System must then consult with the Joint Legislative Committee on Governmental Operations prior to allocating the funds among projects. For FY 2008-09, \$37,713,188 will be allocated to State agencies and \$32,126,049 to the UNC System.

Additional Legislation

S.L. 2008-118 (HB 2438) Budget Technical Corrections Act

Section 2.6(a) corrects an error in the S.L. 2008-107 Conference Report. The section correctly states the constitutional provision granting authority to issue bonds for the Green Square Project as Article V, Section 3(1), not Article V, Section 4(2) as originally written.

Section 2.6(b) clarifies that the repairs and renovations funds allocated to the UNC Board of Governors and set aside for energy efficiency projects are to be administered by UNC and not the State Energy Office.

Section 2.6(c) clarifies that the power to authorize general obligation bonds is contingent on reducing the State debt of the current fiscal year from the prior fiscal year. Therefore, an authorization to issue general obligation bonds is necessarily time-limited. The correction adds a date to reflect this fact (June 30, 2009).

Section 2.6(d) changes the language to reflect the fact that general obligation bonds are authorized for a single project, not multiple projects.

S.L. 2008-204 (SB 1925) UNC Non-Appropriated Capital Projects

Through S.L. 2008-204, the General Assembly authorized the financing and construction of self-liquidating capital improvement projects proposed by the Board of Governors of The University of North Carolina for FY 2008-09. These projects are in addition to the capital projects contained in the 2008 Budget Act (S.L. 2008-107) and are financed with debt repaid by sources other than tuition and General Fund appropriations. These sources include housing receipts, athletic fees, dining receipts, and other receipts.

S.L. 2008-204 authorizes \$385,999,000 for the construction of 27 new projects, \$15,500,000 to supplement four previously authorized projects, and \$34,375,000 for planning five new projects. The projects include student housing, athletic facilities, student dining, and infrastructure projects. Ten of these projects will require General Fund operating support totaling \$3.8 million in FY 2009-10 and approximately \$4 million each following fiscal year.

Additionally, the bill:

- Authorizes the Board of Governors to establish an airport to serve the mission of the UNC constituent institutions and the UNC Health Care system.
- Sets the maximum repayment interest rate on State-sponsored nursing education and school administrator scholarship loan programs at 10%.

Capital Improvements Budget

- Adds responsibilities to the NC Federal Tax Reform Allocation Committee for administering federal low-income housing tax credits and public education facility bonds.
- Modifies the State construction requirements for the Gateway University Research Park, jointly administered by North Carolina Agricultural and Technical State University and the University of North Carolina at Greensboro. For construction projects using special indebtedness proceeds, Gateway University Research Park will have more autonomy.

Capital Improvement Projects

S.L. 2008-107 General Fund Appropriated Projects

Project	Appropriation	Purpose
Department of Administration		
State Capital Visitor Center	2,600,000	Planning
NC Freedom Monument	450,000	Planning
Department of Crime Control and Public Safety		
National Guard Statewide Master Facilities Plan - Phase 2	300,300	Planning
National Guard Siler City Armory Rehabilitation	929,600	Construction
National Guard Camp Butner Land Buffers - Phase 2	126,200	Land Acquisition
National Guard Camp Butner Latrine Replacement	245,430	Construction
State Bureau of Investigation Buildings 17 & 18	1,792,006	Construction
Department of Commerce		
Wanchese Capital Improvements	605,700	Construction
Department of Agriculture and Consumer Services		
Veterinary Laboratory System Study	620,000	Planning
Motor Fuels/ Metrology Laboratory Study	300,000	Planning
Hunt Horse Complex Horse Barn	900,000	Construction
Department of Environment and Natural Resources		
NC Zoo Africa Pavilion Replacement	600,000	Planning
Water Resources Development Projects	20,000,000	Projects
University of North Carolina System		
Appalachian State University - Nursing Building	4,200,000	Planning
Elizabeth City State University - Aviation Complex	1,500,000	Site Development
Fayetteville State University - Teaching Education Building	4,272,110	Planning
Millennium Campus - Joint Primary Data Center	1,852,016	Planning
NC School of Science and Math - Discovery Center	7,250,000	Planning/Site
NC State University - Engineering Complex	14,400,000	Planning
UNC Asheville - Carmichael Hall and Lecture Hall Replacement	1,100,000	Planning

Capital Improvements Budget

S.L. 2008-107 General Fund Appropriated Projects (Continued)

Project	Appropriation	Purpose
UNC Chapel Hill - Biomedical Research Imaging Center (BRIC)	35,000,000	Planning/Site
UNC Chapel Hill - Carolina North Phase 1 and School of Law	11,500,000	Planning/Infrastructure
UNC Chapel Hill – Morehead Planetarium Renovation and Expansion	1,800,000	Planning
UNC Charlotte Science Building	2,400,000	Planning
UNC Pembroke – Information Commons Building	2,000,000	Planning
UNC Wilmington – Allied Health and Human Sciences Building	4,320,000	Planning
Western Carolina University – Education and Professions Building	4,018,700	Planning
Winston-Salem State University – Science and Office Building	3,000,000	Planning
UNC Upper Coastal Plain Higher Education and Health Center	1,000,000	Planning
Total	\$129,082,062	

S.L. 2008–107 Debt Financed Projects

Project	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Total
Special Indebtedness					
ECU – Dental School	21,000,000	39,000,000	9,000,000		69,000,000
ECU – Family Medicine	16,600,000	20,200,000			36,800,000
ECSU – Education Bldg	7,000,000	8,000,000	3,000,000		18,000,000
NC A&T – Horse Barns	2,438,000				2,438,000
NC A&T – Gen. Classroom Bldg	7,000,000	13,490,000			20,490,000
NCCU – Nursing Bldg	6,000,000	11,000,000	7,500,000		24,500,000
NCSA – Central Storage Facility	11,100,000				11,100,000
NCSA – Film School Production Facility		2,000,000	5,900,000	5,000,000	12,900,000
NCSU – Centennial Library	49,000,000	19,100,000	32,000,000	9,000,000	109,100,000
NCSU – 4-H Campuses	4,000,000				4,000,000
WSSU – Student Activities Center	9,799,000				9,799,000
WSSU – Design Innovation (Supplement)	1,500,000				1,500,000
UNCCH – Dental School		25,000,000	36,000,000	8,000,000	69,000,000

Capital Improvements Budget

S.L. 2008–107 Debt Financed Projects (Continued)

Project	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Total
UNCC – Energy Production Infrastructure Center	10,000,000	22,218,000	25,000,000		57,218,000
UNCG – Academic Class. Bldg.	21,000,000	21,670,000			42,670,000
UNC System - Fire Sprinklers	10,000,000				10,000,000
UNC System - Land Acquisition	25,000,000				25,000,000
Court System Building Acquisition	34,000,000				34,000,000
NC Correctional Institution for Women Health Facility	27,000,000	18,170,000			45,170,000
Scotland CI Minimum Security Addition	6,000,000	4,000,000	3,010,000		13,010,000
Bertie CI Medium Security Addition	7,000,000	7,000,000	4,950,000		18,950,000
Tabor CI Minimum Security Addition	6,000,000	4,000,000	3,010,000		13,010,000
Lanesboro CI Medium Security Addition	7,000,000	7,000,000	4,950,000		18,950,000
Museum of Art (Supplement)	5,130,000				5,130,000
CSS Neuse - Phase 1	2,925,000				2,925,000
NC Ports Improvements	7,000,000				7,000,000
Southeastern NC Agriculture Pavilion	3,700,000				3,700,000
Western Agricultural Center Improvements	8,100,000				8,100,000
Oyster Hatchery	4,303,944				4,303,944
NC Zoo - Polar Bear Exhibit	2,700,000				2,700,000
DENR - Land for Tomorrow	50,000,000				50,000,000
Subtotal Special Indebtedness	\$372,295,944	\$221,848,000	\$134,320,000	\$22,000,000	\$750,463,944
General Obligation Bonds					
Green Square	107,000,000				\$107,000,000
Subtotal GO Bonds	\$107,000,000	\$0	\$0	\$0	\$107,000,000
Grand Total	\$479,295,944	\$221,848,000	\$134,320,000	\$22,000,000	\$857,463,944

Capital Improvements Budget

S.L. 2008-107 Non-General Fund Authorized Projects

Project	Receipts
Crime Control and Public Safety	
National Guard - Armory Improvements	8,402,273
National Guard - Asheville Field Maint. Shop	3,743,000
National Guard - Butner Training Site - Cantonment Complex	15,617,000
National Guard - Fixed Wing Hanger Complex - Morrisville	6,466,000
Department of Agriculture and Consumer Services	
Martin East. Agricultural Ctr. Improvements	500,000
Piedmont Research Station. - Grain Storage Renovation	400,000
Raleigh Farmers Market Improvements	900,000
Research Stations - Irrigation System Renovation	200,000
State Fair Campground	6,341,601
State Fair Infrastructure Improvements	500,000
State Fair Pond Improvements	500,000
Tidewater Research Station - Phase II Headhouse/Greenhouse Renovation	750,000
Triad Farmers Market Improvements	3,000,000
WNC Agricultural Center. New Vision Plan Facilities	900,000
Department of Cultural Resources	
Museum of Art - Enhanced Landscaping	7,500,000
USS NC Battleship Memorial - Phase 3 Renovations	1,977,000
Department of Environment and Natural Resources	
Bladen Lake State Forest - Shop Building	943,800
Forest Resources - Region 2 Training Building	460,500
Department of Correction	
Broughton Correctional Center - Laundry Steam Plant	1,400,000
Umstead Correctional Center - Laundry Steam Plant	1,322,965
Wayne County Correctional Center - Chase Laundry Steam Plant	1,368,926
Department of Transportation	
Statewide Transportation Operations Center	7,650,000
Wildlife Resources Commission	
Armstrong Hatchery - Lower Raceway Renovation	1,725,000
Boating Access Area Improvements	2,800,000
Centennial Campus Center for Wildlife Ed - Exhibit Completion	200,000
Centennial Campus Center for Wildlife Ed - Heat and Humidity Controls	6,000
Chowan Bridge Fishing Pier and Boating Access	2,000,000
Hampstead - Waterfront Access Marine Industry Fund	10,000,000
Land Acquisitions - State Game Land	62,660,000

Capital Improvements Budget

S.L. 2008–107 Non-General Fund Authorized Projects (Continued)

Project	Receipts
Manns Harbor - Waterfront Access Marine Industry Fund	5,750,000
Marion Depot – Drainage Repairs	200,000
McKinney Lake Hatchery – Kettle Replacement	1,955,000
New Coldwater Fish Hatchery	7,900,000
New Construction Depot	500,000
Outer Banks Center for Wildlife Education – Repairs and Improvements	223,000
Outer Banks Center for Wildlife Education – Teaching Facility	700,000
Pisgah Center for Wildlife Education – Gift Shop Extension	200,000
Pisgah Center for Wildlife Education – Outdoor Exhibit	450,000
Pisgah Center for Wildlife Education – Storage Building	150,000
Pisgah Center for Wildlife Education – Teaching Facility Upfit and Pavilion	280,000
Pisgah Center for Wildlife Education –Repairs and Improvements	148,000
Pisgah Center for Wildlife Education –Teaching Facility	564,905
Rhodes Pond Dam Repairs	500,000
Sneads Ferry – Waterfront Access Marine Industry Farm	6,500,000
Sunset Harbor – Waterfront Access Marine Industry Fund	950,000
Swan Lake – Waterfront Access Marine Industry Farm	1,700,000
Table Rock Hatchery - New Building	575,000
Table Rock Hatchery - Office Building and Workshop	345,000
Watha Fish Hatchery - Residence Replacement	707,250
Total	\$180,532,220

S.L. 2008-107 Water Resource Development Projects

Project	Authorization
Wilmington Harbor Deepening	1,000,000
Wilmington Harbor Maintenance	500,000
Morehead City Harbor Maintenance	
B. Everett Jordan Water Supply Storage	200,000
Dredging Contingency Fund	3,619,000
Deep Creek Structure 5-D (Yadkin County)	5,444,000
North Carolina Beach and Inlet Management Plan	250,000
Neuse River Basin Study	33,000
Manteo (Shallowbag Bay) Channel Maintenance	100,000
Currituck Sound Water Management Study	50,000
Planning Assistance to Communities	100,000
Bogue Banks Beach Protection	120,000
West Onslow Beach (Topsail Beach, Pender County)	-

Capital Improvements Budget

S.L. 2008-107 Water Resource Development Projects (Continued)

Project	Authorization
Belhaven Harbor Feasibility Study	15,000
Princeville Flood Control	-
Surf City - N. Topsail Beach Protection (Pender County)	-
North Carolina International Terminal	500,000
AIWW Dredging	3,119,000
State-Local Projects	2,000,000
Swan Quarter Dike Project (Hyde County)	250,000
Aquatic Plant Control, Statewide and Lake Gaston	200,000
Aquatic Weed Program Storage Facility	100,000
Dillsboro Dam Removal	400,000
Topsail Beach Emergency Nourishment	2,000,000
Total	\$20,000,000

Information Technology

Information Technology Services - Statewide

There is no standing appropriations subcommittee on Information Technology in either the House or the Senate. Because large-scale projects and related policy issues typically affect multiple agencies, information-technology budget requests are subjected to the broader jurisdiction of the full Appropriations Committees acting through their chairpersons. General Statute 147, section 33.72C, requires that these requests be reviewed and approved by the State Chief Information Officer (CIO) and the Office of State Budget and Management before reaching the General Assembly.

Staff:

Karlynn O'Shaughnessy

Budget Comparison:

The provision of information technology within State government is managed under a business enterprise model and is largely financed through an Internal Service Fund. The central Office of Information Technology Services (ITS) levies fees for computer and telephone usage and charges its customer agencies on a monthly basis. Receipts to and expenditures from the Internal Service Fund will be approximately \$241.6 million in FY 2008-09.

Additionally, the General Assembly has created a much smaller special fund, the Information Technology Fund, from which it appropriates money for new Statewide projects, research and development efforts, and ITS core management functions. For Fiscal Year 2008-09, these special fund appropriations total \$18.5 million.

Information Technology Fund

G.S. 147-33.72H Information Technology Fund

The Information Technology Fund is to be used for statewide information-technology requirements, including planning, project management, security, electronic mail, State portal operations, and the administration of systemwide procurement procedures. Expenditures involving funds appropriated to ITS from the Information Technology Fund are approved by the State Chief Information Officer in consultation with the Information Technology Advisory Board (ITAB). This board consists of 12 members with experience with State government or information technology

Section 5.3(b) of S.L. 2007-323 appropriates funds to the Information Technology Fund for the biennium as follows:

Information Technology Fund	FY 2007-08	FY 2008-09
Information Technology Operations	\$9,452,835	\$9,451,778
Information Technology Projects	\$4,497,165	\$4,129,362
BEACON/Data Integration Funds	\$5,000,000	\$5,000,000
Total	\$18,950,000	\$18,581,140

Information Technology Services - Statewide

The 911 Fund

On September 25, 1998, the General Assembly of North Carolina approved Senate Bill 1242, establishing the Enhanced 911 Wireless Fund and the North Carolina Wireless 911 Board. The objective of the act was to provide for an enhanced wireless 911 system for the use of personal cellular communications services and other wireless telephone customers. On July 27, 2007, the General Assembly of North Carolina further revised NCGS 62A, creating a 911 Board with responsibility for both wireline and wireless 911 in North Carolina and a single, statewide service charge of \$0.70 (seventy cents) per connection for any type of voice communication service provider effective January 1, 2008.

The proceeds from this service charge are deposited into a fund administered by the North Carolina 911 Board located at the Office of Information Technology Services. The 911 Board must monitor the revenues generated by the service charge. If the 911 Board determines that the rate produces revenue in excess of the amount needed, the 911 Board must reduce the rate. The reduced rate must ensure full cost recovery for voice communications service providers and for primary Public Safety Answering Points (PSAPs) over a reasonable period of time. A change in the amount of the rate becomes effective only on July 1 of an even-numbered year.

The 911 Fund is created as an interest-bearing special revenue fund within the State treasury. The 911 Board administers the Fund. The 911 Board may deduct and retain for its administrative expenses up to one percent (1%) of the total service charges remitted to it under G.S. 62A-43 for deposit in the 911 Fund. Of the remaining revenues remitted to the 911 Board for deposit in the 911 Fund:

- Fifty-three percent (53%) of the funds remitted by Commercial Mobile Radio Service (CMRS) providers to the 911 Fund are allocated for reimbursements to CMRS providers pursuant to G.S. 62A-45.
- Forty-seven percent (47%) of the funds remitted by CMRS providers and all funds remitted by all other voice communications service providers are allocated for monthly distributions

Information Technology in North Carolina

In 2004, the North Carolina General Assembly passed Session Law 2004-129, commonly referred to as Senate Bill 991. This legislation established a comprehensive, integrated system to manage the State's information technology program. The bill required a systemic process for planning and financing the State's IT resources, standards and accountability measures for IT projects, and standardized procurement procedures to create cost savings.

The bill gave the State Chief Information Officer (SCIO) responsibility for developing and administering a long-range IT plan, setting technical IT standards, reviewing and approving agency IT budget requests and major IT projects, establishing security standards, providing for the procurement of IT resources, and developing a schedule for the replacement or modification of major systems. The Office of Information Technology Services is responsible for implementing the CIO's requirements.

Information Technology Services - Statewide

The SCIO has established processes to accomplish each of these requirements. Each State agency is required to submit an IT plan every two years, and the submissions are consolidated in a State plan. The SCIO reviews and approves agency IT budget requests, as well as IT projects that cost more than \$500,000. Technical and security standards and procurement processes have been established. IT functions in individual agencies are gradually being consolidated.

Senate Bill 991 also provided oversight of the State's IT programs through the Joint Legislative Oversight Committee on Information Technology and the Information Technology Advisory Board (ITAB). The Joint Legislative Oversight Committee on IT is responsible for reviewing current information technology that affects public policy and examining systemwide issues affecting State government information technology. The ITAB is responsible for reviewing and commenting on the State Information Technology Plan and statewide technology initiatives developed by State CIO and on information technology plans of executive agencies. Both entities are now involved in the State's IT planning and development process.

History of North Carolina's Information Technology Effort

Prior to 2004, North Carolina went through a series of efforts to create a statewide information-technology organization. Senate Bill 991 was the culmination of this process. It built on previous attempts to manage State IT programs.

- In 1983, a 13-member Computer Commission was created in the Department of Administration. The Commission's duties included the development of comprehensive five-year plans, updated annually, for the acquisition and use of information technology in the affected departments.
- In 1987, the functions and powers related to the administration of information processing services were transferred to the State Controller. In 1989, the State Controller was also given control of telecommunications, and the State Information Processing Services (SIPS) was created in the office of the State Controller. The Computer Commission became a 17-member Information Technology Commission.
- In 1992, the Information Technology Commission became the 12-member Information Resources Management Commission (IRMC). The Commission's duties included the development and approval of a biennial statewide information-technology strategy.
- In 1997, technology-related functions of State government moved from the Office of the State Controller to the Department of Commerce. Cities, counties, and other units of local government were given access to SIPS services.
- In 1999, the State Information Processing Services became the Division of Information Technology Services. The IRMC was required to certify State agency information technology projects costing more than \$500,000 and given the power to suspend project certification. The Joint Legislative Commission on Governmental Operations was given authority to request cutoff of funding for decertified projects. Later in the year, the Office of Information Technology Services (ITS) was created as a division of the Department of Commerce to be managed by the Chief Information Officer. The Information Technology Management Advisory Council was also created.

Information Technology Services - Statewide

- In 2000, ITS and the IRMC were transferred to the Office of the Governor. The State Chief Information Officer was to be appointed by the Governor after consultation with the North Carolina General Assembly.

Current Status

Currently, the structure established by SB 991 is in place and functioning. A system has been implemented to ensure proper project oversight and management. Two IT Plans have been submitted, with the third due to the General Assembly in February 2009. A study of legacy information technology systems was completed, with recommendations incorporated into the 2005-2007 IT Plan. The IT Fund has been established with both appropriated funds and receipts, and cost-sharing has been implemented.

At the beginning of 2008, ITS was monitoring the status of 107 projects. The total cost to the State for these projects was estimated at \$901,638,303. Some of the major projects are listed below.

BEACON Building Enterprise Access for North Carolina's Core Operation Needs (BEACON) Human Resources/Payroll (Office of the State Controller)

BEACON is designed to provide management flexibility, increased efficiency, and improved access to personnel and finance information for agencies and employees. It includes an updated human resource/payroll system, data storage, budget management, an accounting system, and tax and revenue capabilities. The first phase, the HR/payroll initiative, was implemented Statewide in 2008. For additional information on the BEACON program, please see the General Government Subcommittee section.

BEACON Data Integration (Office of the State Controller)

The Office of the State Controller, in conjunction with the State CIO, is developing a strategic plan to integrate the State's databases to allow agencies and programs to share information. A total of \$10 million has been appropriated to support the first two years of this effort, which is now in its second year.

BEACON Criminal Justice Data Integration

The Office of the State Controller, in cooperation with the State CIO and the BEACON Project Steering Committee, is developing a Criminal Justice Data Integration Pilot in Wake County. The program will integrate and provide access to current criminal information in a centralized location, using a secure connection. It will be available to criminal justice officials at both the State and local level. \$5 million has been appropriated to support the first year of this effort.

Medicaid Management Information System (Department of Health and Human Services)

The Department of Health and Human Services is replacing its outdated Medicaid claims processing system with a new system that meets current federal requirements. The Department expects to let a contract early in 2009.

North Carolina Families Accessing Services through Technology (NC FAST) (Department of Health and Human Services)

NC FAST is designed to improve information technology support for the NC Department of Health and Human Services and county Departments of Social Services. It is intended to

Information Technology Services - Statewide

provide new technological tools and business processes that will enable workers to spend less time on administrative tasks and more time assisting families. It is being developed to automate every county's Department of Social Services and provide an interface between counties and programs.

North Carolina Window of Information on Student Education (NC WISE) (Department of Public Instruction)

NC WISE allows the capture and reporting of student information throughout students' K-12 academic careers. It provides real-time access to information, a centralized data analysis capability, automated reporting, and the automatic transfer of information between schools. The result should be the ability to track a North Carolina student throughout his or her academic career. It is scheduled for completion in 2009.

IT Consolidation Project (Office of Information Technology Services)

The IT Consolidation project is intended to implement improvements in information technology investments by focusing on the consolidation of network, data center, security, desktop, and LAN operations and services. The program is designed to ensure that agencies have the appropriate funding and organization to support and sustain the consolidation effort.

Voice Interoperability Plan for Emergency Responders (VIPER) (Department of Crime Control and Public Safety)

VIPER is an interoperable communications network for all public safety agencies in North Carolina. The system ties into the national strategy to enhance interoperable communications among first responders. A total of 238 sites are planned for Statewide coverage, with 114 online as of October 2008 and another 87 funded and under construction.

Tax Information Management System (TIMS) (Department of Revenue)

The Tax Information Management System is a new, integrated tax system that will replace the current Integrated Tax Administration System (ITAS), as well as a number of smaller systems. TIMS will provide more complete, detailed information to both taxpayers and agency staff. The estimated cost is \$63 million.

Significant Special Provisions

Session Law 2007-323 House Bill 1473

Section 5.3 Information Technology Fund Availability and Appropriation

Section 5.3 specifies funding sources and uses for the Information Technology Fund. Appropriations include \$9.5 million for IT operations, \$4.1 million for IT projects, and \$5 million for BEACON Data Integration.

Section 6.10 Improve Disaster Recovery and Business Continuity

The State CIO is to review agency disaster recovery plans and to determine if they have sufficient backup to minimize disruption to critical State services. In cases where the agency does not have sufficient backup, the State CIO is to develop plans for them to use the Western Data Center.

Information Technology Services - Statewide

Section 6.11 Multiyear Contracts for Information Technology

The Office of Information Technology Services was given the authority to procure information technology goods and services for periods not exceeding three years where the terms require payment of all or a portion of the purchase price at the beginning of the agreement.

Section 6.12 Document Management/Digital Signature Pilot

The Office of Information Technology Services is to pilot a statewide electronic management system that will include a digital signature capability. ITS is responsible for identifying a State agency to participate in the pilot.

Section 6.13 Statewide Geographic Information/Consolidation Implementation

The State CIO, the Office of State Budget and Management, and the Geographic Information Coordinating Council are to develop a detailed plan for consolidating geographic information system efforts in the State.

Section 6.14 Single Electronic Mail System

The State CIO is to develop a plan for transitioning all State agencies to a single electronic mail system by January 1, 2010.

Section 6.15 Criminal Justice Data Integration Pilot Program

As part of the BEACON Data Integration Program, the Office of the State Controller, in cooperation with the State CIO, and under the governance of the BEACON Project Steering Committee, is to develop a criminal-justice data-integration pilot program in Wake County by May 1, 2009.

Section 6.16 BEACON Data Integration

The Office of the State Controller has completed a plan and is to begin the implementation of a Statewide data-integration effort as part of the BEACON Program.

Information Technology Internal Service Fund

G.S. 147-33.83 Information Resources Centers and Services

Agency Description:

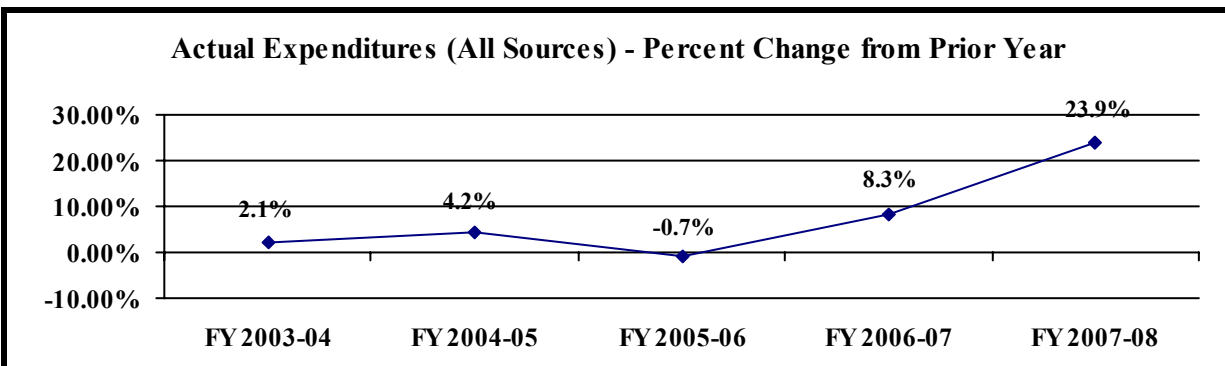
The Office of Information Technology Services (ITS) provides oversight of and assistance to State agencies on all matters related to information technology. ITS is responsible for procurement of all information technology for State agencies; submission of all rates and fees for common, shared State government-wide technology services; conducting an annual assessment of State agencies for compliance with statewide information technology policies; developing standards, procedures, and processes to implement policies approved by the State CIO; reviewing State agency information technology resources and management efforts; and developing a project management, quality assurance, and architectural review process.

	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Certified FY 2008-09
Expenditures	141,745,143	153,470,753	190,148,330	241,685,698
Revenue	134,591,187	152,236,558	202,780,752	241,393,250
Fund Balance Change	\$7,153,956	\$1,234,195	(\$12,632,422)	\$292,448
Positions (FTE)	411.00	464.00	534.00	560.00

FY 2007-08 positions are certified; actual data is not yet available.

Budget Overview:

Over FY 2008-09, the budget for the Information Technology Internal Service Fund is projected to have requirements totaling \$241,685,698 and receipts totaling \$241,393,250. This amount is slightly less than 1% of the State appropriations and is an increase of 27% over actual expenditures the previous fiscal year and 43% over the past five years. These increases are the result of expanding requirements for information technology support. All of the budget is derived from receipts from other State agencies for services provided by ITS.



Finance

Finance Committee

Committee Summary:

The Finance Committees of the General Assembly consist of 68 members, 30 in the House of Representatives and 38 in the Senate. The Committees are responsible for all bills that impact revenues, including General Fund taxes and fees, as well as revenues impacting other State funds. The Committees also consider legislation affecting revenues for local governments, including property taxation changes.

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North Carolina’s Economic Outlook

At the start of 2007, it appeared that some states including North Carolina would avoid a significant economic slowdown. But as the national and global economy worsened, North Carolina’s economy began showing signs of weakening. Employment growth stalled, leading to an increase in the unemployment rate. Consumers began cutting back on spending, dwindling demand in the retail and services sectors. Both the housing recession and the financial market turmoil began to significantly impact financial sector jobs, a key component of North Carolina’s job market. By the end of the second quarter of 2008, it was clear that the State would experience an economic slowdown along with the rest of the nation.

The initially minor slowdown experienced by the State might have been due in part to North Carolina’s relatively mild housing problems during this period. For example, real estate conveyance tax receipts in North Carolina were essentially flat compared to double-digit declines in many other states. The State’s housing bubble was limited to a few resort areas. Therefore, the statewide impact from the housing slowdown was far less severe than the nation’s. Additionally, the State continued to experience strong population and employment growth through the first half of 2007, which may have helped limit the impact from the housing slump.

North Carolina Economic Indicators

	Actual FY 2006-07	Actual FY 2007-08	Projected FY 2008-09	Projected FY 2009-10
Personal Income	7.1%	5.4%	3.5%	4.6%
Wages & Salaries	7.4%	5.3%	3.9%	5.0%
Retail Sales	7.0%	5.3%	3.7%	3.8%
Unemployment Rate	4.7%	5.0%	6.5%	6.6%
Employment (Nonagricultural)	3.4%	1.7%	0.1%	1.8%
Existing Single-family Home Sales	-0.1%	-21.3%	4.7%	8.0%
Average Hourly Earnings: Manufacturing	2.9%	3.2%	4.0%	3.4%

The economic slowdown in North Carolina began in earnest during the second quarter of 2008. The housing recession continued its slow unwinding, and financial markets began to feel the impact as housing defaults and foreclosures increased. The problems experienced by the housing and financial markets became clear when the State’s real estate conveyance tax collections in the third quarter of 2007 fell 15.4% from the same quarter the previous year. Each quarter thereafter has had double-digit declines.

As shown in the preceding table, North Carolina’s economic indicators highlight the impact of current and projected economic conditions. State personal income is expected to grow only 3.5% in FY 2008-09 and rebound modestly to 4.6% growth the following fiscal year. In comparison, the nation’s personal income is only expected to grow at 3 % and 4.1% during the next two fiscal years. In part, the slow growth in income will be driven by near zero employment growth in FY 2008-09 and only 1.8% in FY 2009-10.

Part of the employment story is the downturn in the State’s financial sector. This sector has experienced strong growth over the past several years, with over 4% growth in 2006. Financial

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sector employment is now projected to decline in both 2008 and 2009. However, the education and health services industry, such as private and public education providers and healthcare providers, is expected to continue its positive growth. While the education and health services industry will not grow at the robust rate of 5% it did in 2006, it is expected to maintain employment growth near 2.5%.

In general, North Carolina's economy is expected to be more resilient than the nation's. Nonetheless, the state, like the nation, will experience weak economic growth during the next year. Employment losses in the manufacturing industry will continue throughout the next year, but growth in the service and tech industries are expected to rebound earlier than some sectors and will be a stimulus to economic growth in the state. There is little doubt that the state will experience a significant economic slowdown over the next couple of years, but North Carolina remains in a position to perform better than the nation as a whole.

General Fund Revenue Sources

Outside of Federal funds, the primary funding source for State government operations is the General Fund. The table at the end of this section, Historical and Projected Revenue Collections, provides data for the major General Fund revenue sources as well as budgeted revenue for the 2008-09 fiscal year. While the table highlights the nominal growth in tax collections, the narrative below discusses economy-based growth. Economy-based growth focuses on the growth in tax revenue resulting from growth in the economy and provides a more accurate picture of the State's economic conditions. Nominal growth captures both revenue increases and decreases that result from tax law changes and economy-based growth.

Personal Income Tax

The largest General Fund revenue source is the personal income tax, accounting for 55% of total revenues. North Carolina income tax rates range from 6% to 7.75% (effective January 1, 2008) depending on taxable income. The largest source of taxable income is wages and salaries, amounting to an estimated 80% of the income-tax base in 2006. These payments include bonuses and certain stock options. As mentioned in the North Carolina Economic Outlook section, state personal income is expected to grow only 3.5% in FY 2008-09 and rebound modestly to 4.6% growth the following fiscal year.

Another important source of taxable income is capital gains. This income is derived from the stock market, bonds, investment real estate and the sale of assets. Income tax collections related to capital gains are extremely volatile and difficult to predict. In 2001, for example, capital gains taxes were down 48.1% compared to the previous year, while in 2004 they were up 49.8%. This source is expected to decline by 6.7% in 2008.

Sales and Use Tax

The second largest General Fund revenue source is the sales and use tax, amounting to about a quarter of State revenues. For the retail sales outlook, Fiscal Research projects that slowing job growth, coupled with problems in real estate and high-energy prices, will keep sales-and-use tax activity at minimal levels. Sales tax collections are projected to increase 3.1% for FY 2008-09, a substantial decline from the 8-10% in annual growth experienced since mid-2003.

Corporate Income Tax

The State levies a corporate income tax on the profits of C-corporations derived from business in the State. Multi-state corporations are required to use a formula to determine how much of

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their nationwide income can be attributed to North Carolina receipts. Fiscal Research expects corporate income-tax collections to remain relatively flat based on the impact on profits from tighter lending and higher interest rates, rising wages, and higher energy costs. This projection also takes into account the expected slowdown in product demand and the volatile nature of the tax.

Other General Fund Sources

The General Fund also includes the funds raised from other tax and non-tax sources. Alcoholic beverage and tobacco tax collections will represent roughly two percent of collections in the 2008-09 fiscal year. The General Fund’s non-tax revenues, investment income, fees, federal government revenues, and transfers from the Highway Trust Fund and the Highway Fund represent approximately five percent of General Fund Revenue during the 2008-09 fiscal year.

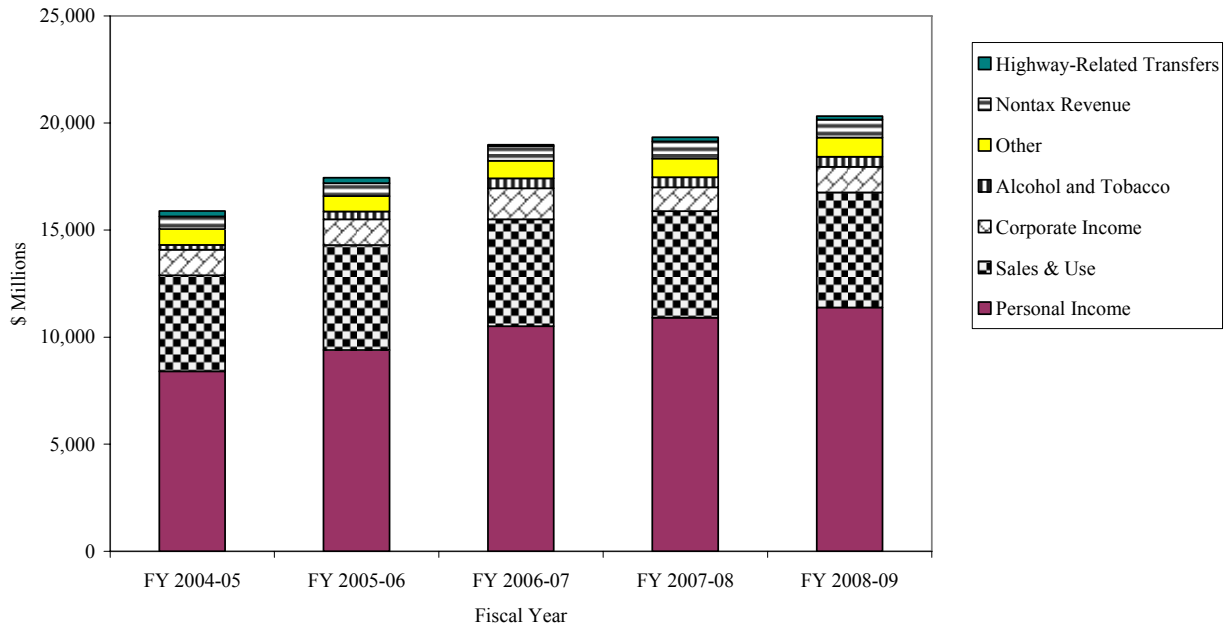
Historical and Projected General Fund Revenue Collections (\$Millions)

	Actual FY 2004-05	Actual FY 2005-06	Actual FY 2006-07	Actual FY 2007-08	Estimated FY 2008-09
Tax Revenue:					
Personal Income	8,409	9,400	10,508	10,902	11,386
Sales & Use	4,477	4,894	4,996	4,982	5,374
Corporate Income	1,194	1,204	1,451	1,112	1,192
Franchise	499	477	531	574	587
Insurance	432	432	476	493	522
Tobacco Products	43	172	241	237	236
Alcoholic Beverage	189	201	213	225	234
Other	235	242	296	307	308
Total-Tax Revenue	\$15,478	\$17,020	\$18,712	\$18,832	\$19,839
Nontax Revenue	590	599	690	801	845
Transfers:					
Highway Trust Fund	243	253	58	173	148
Highway Fund	16	0	0	18	18
Total-General Fund Revenue	\$16,327	\$17,873	\$19,460	\$19,824	\$20,850

The chart below shows the most recent five-year trend of historical and projected General Fund revenues by major category.

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Five-Year Trend in North Carolina General Fund Revenues by Major Source



Other revenue sources include: franchise, insurance, inheritance, gift, freight car lines, and miscellaneous taxes.

Nontax revenue includes: investment income, judicial fees, etc.

Significant Special Provisions

Session Law 2008-107, House Bill 2436

Section 28.1, IRC Update

Section 28.1 updates North Carolina’s reference to the Internal Revenue Code, which is used in defining and determining certain State tax provisions. By doing so, the state conforms to changes made by three federal acts, except that it delays the impact of the bonus depreciation provision authorized by the 2008 Economic Stimulus Act. To accomplish this "decoupling" from the federal accelerated depreciation provision, the act does two things:

- It requires the taxpayer to add back to federal taxable income 85% of the accelerated depreciation allowed by the 2008 Economic Stimulus Act. The add-back means that for State tax purposes, a taxpayer will deduct less in depreciation costs than the amount allowed at the federal level.
- Beginning on or after January 1, 2009, the taxpayer for North Carolina tax purposes may deduct from federal taxable income the remaining amount in depreciation cost claimed during the 2007 or 2008 tax year, divided into five equal, annual installments. This means that for State tax purposes, a taxpayer is allowed to deduct a greater depreciation amount in the outlying tax years – the normal depreciation amount plus 20% of the unclaimed accelerated depreciation amount. Over the life of an asset placed in service during 2008,

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taxpayers will be able to deduct the same amount of the asset's basis under both federal and State law; only the timing of the deduction will differ.

For FY 2008-09, the estimated fiscal impact of this change is \$1.2 million.

Section 28.2, Extend Credit for Research and Development

Section 28.2 extends the tax credit for research and development through taxable years beginning on or after January 1, 2014. The credit was scheduled to expire for taxable years beginning on or after January 1, 2009. A taxpayer that has qualified North Carolina research expenses or North Carolina University research expenses is allowed a tax credit. For University of North Carolina research expenses, the credit amount is equal to 20% of the amount the taxpayer paid to the university for the research and development. For all other qualified research expenses, the credit is equal to a specified percentage of the expenses. The estimated fiscal impact of this change is \$1 million in FY 2008-09.

Section 28.3, Extend Low-Income Housing Credit

Section 28.3 extends the low-income-housing tax credit through taxable years beginning on or after January 1, 2015. The credit was scheduled to expire for taxable years beginning on or after January 1, 2010. North Carolina has a low-income-housing tax credit modeled after the federal housing credit. A taxpayer may elect to receive the credit in the form of either a credit against tax liability or a loan generated by transferring the credit to the Housing Finance Authority in return for a 0% interest, 30-year loan equal to the credit amount. There is no additional impact on revenue from this credit in FY 2008-09.

Section 28.4, Extend Mill Rehabilitation Credit

Section 28.4 extends the mill rehabilitation tax credit to include rehabilitation projects for which an application for an eligibility certification is submitted on or after January 1, 2011. Under prior law, the credit sunset for rehabilitation expenditures incurred on or after January 1, 2011. North Carolina allows a tax credit for rehabilitating vacant historic manufacturing sites if the taxpayer spends at least \$3 million to rehabilitate the site. The credit is a percentage of the qualified rehabilitation expenditures, and the percentage varies depending on the enterprise tier location of the site and the eligibility for the federal credit. This extension will have no impact on revenue in FY 2008-09.

Section 28.5, Extend Sunset for State Ports Credit

Section 28.5 extends the State Ports tax credit through taxable years beginning on or after January 1, 2014. The credit was scheduled to expire for taxable years beginning on or after January 1, 2009. The General Assembly enacted the State Ports tax credit in 1992 to encourage exporters to use the two State-owned port terminals in Wilmington and Morehead City. The credit is allowed to a taxpayer who loads or unloads waterborne cargo from an ocean carrier at the State-owned port terminal at Wilmington or Morehead City. The tax credit is equal to the amount of postage, handling, and throughput charges paid to the North Carolina State Ports, but is limited to 50% of the tax imposed on the taxpayer for the taxable year. The maximum cumulative credit that one taxpayer may claim is \$2 million. This extension is expected to cost \$1 million in FY 2008-09.

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Section 28.6, Exempt Disaster Assistance Debit Sales

This provision ensures that purchases made with debit cards issued by groups acting on the behalf of a government agency, such as the American Red Cross (ARC), are exempt from the sales and use tax. In recent years, the ARC implemented a new method of providing financial assistance to disaster victims, giving them debit cards to purchase necessary items. Debit cards prove more efficient than disbursing order forms, ARC's old method of providing disaster assistance. The tax treatment of debit cards and disbursing order forms differ.

For purposes of the sales tax exemption, the purchaser is the disaster victim when a debit card is used and the ARC when a disbursing order is used. Therefore, purchases made with a disaster-assistance debit card have been subject to sales tax. Effective July 1, 2008, Section 28.6 of the budget guarantees that purchases made with ARC-issued debit cards receive the same sales and use tax exemption as purchases made with disbursing order forms. This exemption is expected to cost less than \$500,000 in FY 2008-09.

Section 28.7, Close Franchise Tax Loopholes by Requiring a Limited Liability Company that Elects to Be Treated as a Corporation and Captive REIT to Pay Franchise Tax

Section 28.7 provides that limited-liability companies that elect to be taxed as S corporations for income tax purposes are subject to the franchise tax in the same manner as other S corporations. The provision also provides that captive real estate investment trusts (REITs) are subject to the franchise tax in the same manner as a corporation. In 2007, the General Assembly provided that captive REITs are treated as regular corporations for income tax purposes. A REIT is an organization that uses the pooled capital of many investors to purchase and manage real estate. A REIT that is owned or controlled by a single entity is commonly referred to as a captive REIT. This section becomes effective for taxable years beginning on or after January 1, 2009, and has no fiscal impact on General Fund availability.

Section 28.8, Publicly Traded Partnerships

Section 28.8 changes the reporting and payment requirements that apply to publicly traded partnerships (PTPs) described in section 7704(c) of the Internal Revenue Code. The legislation requires a qualifying PTP to report annually to the Department of Revenue (Department) the partners in the PTP who received more than \$500 of income, rather than report the income received by every partner. It also exempts qualifying PTPs from the requirement to pay tax on the partnership income received by a nonresident. In making these changes, the provision seeks to strike a balance between the burden of complying with the reporting requirements for both the PTPs and the Department and the benefits gained by compliance. The provision is substantially the same as the model legislation recommended by the Multi-State Tax Commission. A PTP is a limited partnership whose interests are traded on stock exchanges such as the New York, American, and NASDAQ exchanges. Unlike a traditional partnership, a PTP has tens of thousands, and sometimes hundreds of thousands, of unit-holders. A PTPs' unit-holders can change daily in trades on public exchanges. There are approximately 90 PTPs in the country, and 10 of these PTPs are located in North Carolina. This section has no impact on General Fund availability and becomes effective for taxable years beginning on or after January 1, 2009.

Section 28.9, Increase Earned Income Tax Credit to Five Percent

Section 28.9 increases the refundable State earned-income tax credit (EITC), enacted last session, from 3.5% of an individual's federal earned-income tax credit to 5% of the federal

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credit. The amount of the federal credit varies depending upon the taxpayer's earned income and number of children, and is phased out as the taxpayer's earned-income rises. The federal earned-income amounts and credit amounts are indexed to inflation. The State EITC expires for taxable years beginning on or after January 1, 2013. This section becomes effective for taxable years beginning on or after January 1, 2009. The estimated cost of this change is \$13.7 million in FY 2008-09.

Section 28.9A, Extend Sunset for Small Business Employee Health Benefits

Section 28.9A extends the Small Business Employee Health Insurance tax credit through taxable years beginning on or after January 1, 2010. The credit was scheduled to expire for taxable years beginning on or after January 1, 2009. The General Assembly enacted the tax credit in 2006. The credit is allowable to a small business that provides health benefits to its full-time employees. A small business is a taxpayer that employs no more than 25 full-time employees. An eligible employee is one who works a normal work-week of 30 or more hours and whose total wages or salary received from the business does not exceed \$40,000 on annual basis. This section becomes effective January 1, 2009. The estimated fiscal impact for FY 2008-09 is \$8.5 million.

Section 28.11, Property Tax Exclusion for Disabled Veterans

Section 28.11 provides a property-tax homestead exclusion for disabled veterans who were honorably discharged and have a 100% permanent disability that is service-related. The exclusion is equal to the first \$45,000 of the property's appraised value. The exclusion also applies to the surviving spouse of a qualifying disabled veteran. The benefit is effective for tax years beginning July 1, 2009, and has no impact on General Fund revenue.

Section 28.12, Sales Tax Holiday for Certain Energy Star Rated Appliances

Section 28.12 of the budget creates a new sales-tax holiday in North Carolina for certain Energy Star products. During the first weekend in November, individuals can purchase the following products as tax exempt items: clothes washers, freezers and refrigerators, central air conditioners and room air conditioners, air-source heat pumps and geothermal heat pumps, ceiling fans, dehumidifiers, and programmable thermostats. Sales of qualified Energy Star products to be used in a trade or business or for rental purposes are not eligible for the sales tax exemption during the holiday. This legislation became effective August 16, 2008, and the holiday is expected to reduce General Fund availability by \$1.4 million in FY 2008-09.

Section 28.16, The Small Business Protection Act

Section 28.16 provides small businesses (defined as businesses with gross receipts below \$1.8 million) with certain protections related to their sales and use tax obligations:

- Consultation with the Department of Revenue regarding the application of sales and use tax laws;
- Reduction of an assessment for good-faith compliance; and
- A waiver of penalties and interest for reasonable reliance on erroneous verbal advice.

In recent years, the Department of Revenue adopted an aggressive auditing model focused on recovering un-remitted taxes for the State. The model, though very successful, uncovered areas in the North Carolina tax code relating to sales and use taxes where the law or the interpretation

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of the law was unclear. As a result, the Department's audits uncovered routine sales and use taxes errors, particularly among small businesses.

The Small Business Protection Act limits the amount of tax liability for small businesses recently audited and assessed by the Department of Revenue if the businesses meet certain requirements. The amount of the reduction in tax liability varies depending on the average monthly gross receipts of the company and the types of errors made in remitting sales and use taxes. Under the following requirements, the Department must waive penalties and reduce any assessment by the amount of sales and use tax due if:

- The business remitted all the sales and use taxes it collected during the relevant period;
- The business was not instructed in a prior audit to collect sales and use taxes in the circumstance that is the basis of the assessment;
- The business attempted to comply with the law by seeking and following advice from the Department regarding its sales and use tax obligations; and
- The business made a good-faith effort to comply with the sales and use tax laws and the assessment is based on the incorrect application of one of the following complex areas:
 1. The rate of tax that applies to food,
 2. The distinction between a retailer and a performance contractor,
 3. The distinction between a service that is exempt from tax and a service that is provided in conjunction with the delivery of tangible personal property and is part of the sales price of the tangible personal property, and
 4. The determination of whether a person is a manufacturer.

The Small Business Protection Act also sets forth several administrative requirements and provides the Department with more organizational authority when resolving tax assessments. Section 28.16 requires that the Department document verbal advice provided to taxpayers and reproduce this advice, if requested, in written form. The estimated cost of this provision for FY 2008-09 is \$2.2 million.

Section 28.17, Modify Estate Tax Law

Section 28.17 modifies the estate-tax law to remove property in other states from the estate tax base that the State cannot tax. This section became effective July 1, 2008, and applies retroactively to the estates of decedents for which the statute of limitations for claiming a refund had not expired as of December 28, 2007. The estimated cost of this change is \$2 million in FY 2008-09.

Section 28.18, Repeal Gift Tax Law

Section 28.18 repeals the State gift tax. This section becomes effective January 1, 2009, and applies to gifts made on or after that date. The fiscal impact of the repeal will be approximately \$16.9 million in FY 2008-09.

Section 28.19, State Sales Tax Exemption for Baked Goods Sold by Artisan Bakeries

Section 28.19 excludes certain bakery items sold by artisan bakers from the State sales and use tax rate. Effective January 1, 2009, the legislation represents \$1.6 million in expended taxes during the 2008-09 fiscal year and approximately \$3.5 million in taxes for subsequent years.

In 2003, the General Assembly, conforming to the requirements of the Streamlined Sales Tax Agreement (SSTA), redefined food and created two categories—food and prepared food.

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“Prepared food” became subject to both State and local sales tax, while “food” was subject only to a two percent local tax. Bakery items, prior to this legislation, fell within the definition of “prepared food” if sold in a heated state, if heated by the retailer, or if the item consisted of two or more foods mixed or combined by the retailer for sale as a single item.

Section 28.19 clarifies that certain bakery items are not considered prepared food and therefore qualify for the State sales and use tax exemption, contingent on the items being sold and the proportion of the business receipts attributed to certain bakery items. The “qualified” bakery items include breads, rolls, buns, biscuits, bagels, croissants, pastries, donuts, Danishes, cakes, torts, pies, tarts, muffins, bars, cookies and tortillas.

The legislation defines an artisan bakery as a company that derives over 80% of its gross receipts from bakery items, and whose annual gross receipts fall below \$1.8 million. This exemption is expected to have a fiscal impact of \$1.6 million in FY 2008-09.

Section 28.20, Prohibit Tax on Interior Design Services

Section 28.20 exempts interior design services provided in conjunction with the sale of tangible personal property from the sales and use tax. This provision is effective July 1, 2008, and the tax expenditure associated with this provision remains unknown. Interior designers and decorators currently report and remit sales and use taxes and income taxes without itemizing the type of tax paid.

Prior to the 2008 legislative session, the definition of sales price included "any charges by the retailer for any services necessary to complete the sale" (see G.S. 105-164.3 (35) and (37)). If design services are necessary to complete the sale of the tangible personal property, then the cost of those services (by definition of “sales price”) would be subject to sales tax. For example, if an interior decorator designed an office space that included the making and selling of drapes, then the sales and use tax would apply to all items associated with the sale of the drapes. The cost of materials would be subject to the sales and use tax as well as and the labor/time associated with making the product, such as the selection of fabric and sewing time. Under the new law, only the cost of the items sold, such as the fabric and other materials, would be subject to the sales and use tax.

Section 28.21, 1% \$80 Excise Tax on Machinery Refurbishers

Section 28.21 extends the reduced tax rate on manufacturing equipment to companies that refurbish industrial machinery. Current law allows manufacturers to purchase equipment used in the production process at reduced tax rate in lieu of the sales and use tax. In the absence of the sales tax, a 1% privilege tax rate, with a cap of \$80, is applied to the sales price of manufacturing equipment. A “manufacturing industry or plant” can take advantage of the reduced rate if the company manufactures articles for sale or some equivalent commercial purpose.

Prior to the 2008 legislation, the law provided for a reduced rate, but excluded refurbishment as an eligible manufacturing process. Section 28.21 provides that companies refurbishing industry machinery also qualify for the 1%, \$80 privilege tax rate.

Section 28.22, Clarify Sales Tax Refund

Section 28.22 clarifies which non profit organizations are eligible for a semi-annual refund of State and local sales and use taxes under G.S. 105-164.14(b). The clarification redefines

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organizations eligible for sales and use tax refunds as organizations designated as 501(c)(3)s by the Internal Revenue Service (IRS), but not categorized as one of the following organizations under the National Taxonomy of Exempt Entities (NTEE):

- Community improvement, capacity building organizations;
- Public, society benefit, multipurpose organizations;
- Mutual/membership benefit organizations; or
- Organizations whose mission or purpose is unknown.

Prior to this legislation, G.S. 105-164.14(b) defined non-profits eligible for a semi-annual refund of sales and use taxes “as nonprofit educational institutions, non-profit hospitals, certain qualified retirement facilities, and nonprofit charitable and religious organizations.” The statute provided little detail on what constituted as charitable. In the absence of a specific definition, the burden of interpretation fell on the Department of Revenue.

Section 28.22 clarifies the definition set forth under G.S. 105-164.14(b) using the National Taxonomy of Exempt Entities, a system based on Internal Revenue Service (IRS) activity codes. The IRS, in addition to 501(c)(3) status, assigns organizations activity codes using information provided at the time of application. These codes serve as the framework for the National Taxonomy of Exempt Entities (NTEE) and provide more detail on the operational activities that constitute as “charitable.” All organizations with 501(c)(3) status, by organizational mission, fall into one of the NTEE’s 26 subgroups. The clarification has no impact on General Fund availability.

Section 28.23, Extend Aviation Fuels Refunds

Section 28.23 extends the sunset for a State sales and use tax refund on fuel used by a professional motorsports racing team or a motorsports sanctioning body. The sales and use tax refund now sunsets on January 1, 2011, an extension from January 1, 2009. Section 28.23 also extends the sunset on the refund for sales and use taxes paid by an interstate passenger air carrier on the fuel it uses from January 1, 2009, to January 1, 2011. The extension of both sunsets has no fiscal impact during FY 2008-09, but represents \$1.6 million in tax expenditures during FY 2009-10 and \$3.2 million during FY 2010-11.

Section 28.24, Expand Film Industry Credit and Extend Sunset

In 2005, the General Assembly established a 15% credit for qualifying film productions in North Carolina. The credit may be taken against either the corporate income or the franchise tax. The original credit was scheduled to sunset on January 1, 2010. This section extends the sunset to January 1, 2014, and allows insurance costs and salaries up to \$1 million for highly compensated individuals to be included as qualifying expenditures for the credit. The estimated fiscal impact of this extension is \$100,000 in FY 2008-09.

Section 28.25, Expand Renewable Energy Tax Credit

Section 28.25 expands the tax credit for donating funds to a nonprofit organization to enable the nonprofit to acquire renewable energy property. The tax credit now applies as well to funds donated to a State or local governmental unit. This section becomes effective for taxable years beginning on or after January 1, 2008. The estimated fiscal impact of this provision is \$100,000 in FY 2008-09.

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Section 28.26, Increase Qualified Business Venture Tax Credit

Section 28.26 increases from \$7 million to \$7.5 million the total amount of the credit available annually to all taxpayers investing in a business venture. The credit equals 25% of the amount invested in a qualified business and may not exceed \$50,000 per individual in a single taxable year. The credit may not be taken in the year the investment is made. Instead, the credit is taken in the year following the calendar year in which the investment was made, but only if the taxpayer files an application with the Secretary of Revenue. Any unused credit may be carried forward for the next five years. The total amount of credits allowed to all taxpayers for investments made in a calendar year may not exceed \$7.5 million. The Secretary of Revenue calculates the total amount of tax credits claimed from applications filed. If the amount exceeds the cap, then the Secretary allows a portion of the tax credits claimed by allocating the total of \$7.5 million in tax credits in proportion to the size of the credit claimed by each taxpayer. The tax credit expires for taxable years beginning on or after January 1, 2015. This section becomes effective for investments made on or after January 1, 2008.

Section 28.27, Tax Deduction for the Sale of a Manufactured Home Community to Manufactured Homeowners

Section 28.27 creates an income-tax deduction equal to the taxable gain reported by a taxpayer from the qualified sale of a manufactured home community. A "qualified sale of a manufactured home community" is defined as the sale of land comprising a manufactured home community that is transferred in a single purchase to a group composed of a majority of the manufactured home community leaseholders, or to a nonprofit organization representing such a group. This section became effective for taxable years beginning on or after January 1, 2008.

The following table provides the five-year fiscal impact for each of the special provisions included in S.L. 2008-107.

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S.L. 2008-107 Appropriations Act General Fund Impact by Fiscal Year (\$Million)

Section	Title	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
28.1	IRC Update	-	(1.2)	(0.8)	4.3	4.0
28.2	Extend Credit for Research & Development	(1.0)	(2.1)	(2.3)	(2.5)	(2.6)
28.3	Extend Low-Income Housing Credit	-	-	-	(22.1)	(45.2)
28.4	Extend Mill Rehabilitation Tax Credit	-	-	(1.5)	(3.4)	(4.2)
28.5	Extend Sunset for State Ports Tax Credit	(1.0)	(2.0)	(2.0)	(2.0)	(2.0)
28.6	Exempt Disaster Assistance Debit Sales	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
28.7	Close Franchise Tax Loopholes by Requiring a LLC that Elects to be Treated as a Corporation and a Captive REIT to Pay Franchise Tax	-	-	-	-	-
28.8	Publicly Traded Partnerships	-	-	-	-	-
28.9	Increase Earned Income Tax Credit to Five Percent	(13.7)	(20.9)	(21.1)	(21.4)	(21.9)
28.9A	Extend Sunset for Small Business Employee Health Benefits	(8.5)	(17.7)	(10.1)		
28.11	Provide a Property Tax Exclusion for Honorably Discharged Disabled Veterans and Their Surviving Spouses	No General Fund Impact - \$4.3 million annual loss to local governments				
28.12	Sales Tax Holiday for Certain Energy Star Rated Appliances	(1.4)	(1.4)	(1.5)	(1.5)	(1.6)
28.16	Small Business Protection Act (include study from studies bill also – H2431)	(2.2)	(0.5)	(0.5)	(0.5)	(0.5)
28.17	Modify Estate Tax Law	(2.0)	(0.5)	(0.5)	(0.5)	(0.5)
28.18	Repeal Gift Tax Law	(16.9)	(17.5)	(18.1)	(18.5)	(18.5)
28.19	State Sales Tax Exemption for Baked Goods sold by Artisan Bakeries	(1.6)	(3.4)	(3.5)	(3.6)	(3.6)

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S.L. 2008-107 Appropriations Act General Fund Impact by Fiscal Year (\$Million) (Continued)

Section	Title	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
28.20	Prohibit Tax on Interior Design Services	-	(0.1)	(0.1)	(0.1)	(0.1)
28.21	1% \$80 Excise Tax on Machinery Refurbishes	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
28.22	Clarify 501(c)(3) Sales Tax Refund	-	-	-	-	-
28.23	Extend Aviation Fuel Refunds		(1.6)	(3.2)	(1.6)	-
28.24	Expand Film Industry Credit and Extend Sunset	(0.1)	(8.5)	(26.7)	(27.5)	(28.4)
28.25	Expand Renewable Energy Tax Credit	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
28.26	Increase Qualified Business Venture Tax Credit Cap	-	(0.5)	(0.5)	(0.5)	(0.5)
28.27	Tax Deduction for the Sale of a Manufactured Home Community to Manufactured Homeowners	-	(0.1)	(0.1)	(0.1)	(0.1)
28.28	Procedure for Tax Class Actions	No Significant Impact				

Other Bills Affecting General Fund Revenues

S.L. 2008-118 (H2438) Sales Tax Refund for Solar Electricity Facilities

S.L. 2008-118, Sec. 3.10 adds facilities that are used to manufacture “solar electricity generating materials” to G.S. 105-164.14(j) as an industry eligible for refunds of sales and use tax incurred during construction. The provision will result in tax expenditures of \$522,000 during FY 2009-10: \$349,000 in expenditures from the General Fund and \$173,000 in local revenues.

Under G.S. 105-164.14(j), the owner of an eligible facility is allowed an annual refund of sales and use taxes paid by it on qualified building materials, building supplies, fixtures, and equipment that becomes a part of the eligible facility. Building materials, building supplies, fixtures, and equipment are qualified if installed during the facility’s construction. Materials used for renovations are not included.

To be eligible for this refund, the Secretary of Commerce must certify that the facility’s owner will invest at least \$50 million of private funds to construct the facility if the facility is located in a development tier one area, and at least \$100 million if the facility is located elsewhere in the State. In addition to the investment requirement, a solar-electricity-generating materials-manufacturing business also must pay an average weekly wage that is equal to or greater than 110% of the average weekly wage for the State or the average weekly wage for the county,

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whichever is less. The refund provision expires for purchases made on or after January 1, 2013. This legislation became effective July 28, 2008.

S.L. 2008-148 (SB 1716) Supplemental Public, Educational and Government Support

S.L. 2008-148 clarifies the intent of the 2006 Video Programming Act and has no effect on General Fund revenues. The legislation pertains to the distribution of supplemental public, educational, and government (PEG) channel funding and

- Defines what constitutes a “qualifying” PEG channel and PEG channel operator and limits funding to these organizations (a PEG channel’s character-generated programming may not exceed six hours and 45 minutes);
- Requires a county or city to include in its application for funding the name of the PEG channel operator for each qualifying PEG channel it certifies (this change will ensure that the funds go to the operator of the PEG channel, even if the supplemental funding is distributed to multiple local governments);
- Requires a county or city to certify all qualifying PEG channels and to allocate the proceeds it receives equally among certified channels (the distribution to the PEG channels must be made within 30 days of the county or city's receipt of the supplemental funding);
- Provides a method to account for revenues that are distributed in error. (If it is determined that a county or city received a distribution in error, the county or city must submit a revised certification and return all funds received in error. Any funds returned will be added to the amount to be distributed in the following year as supplemental PEG funding.)

This legislation became effective August 2, 2008.

S.L. 2008-154 (HB 2509) Sales Tax Refund for Certain Nonprofits

This legislation expands the list of nonprofit organizations allowed a semi-annual refund of sales and use taxes to include nonprofit organizations that procure, design, construct, or provide facilities for constituent institutions of the University of North Carolina. S.L. 2008-154 reduces General Fund revenues by \$1.5 million in FY 2008-09. The State expects to refund approximately \$500,000 in sales and use tax during subsequent fiscal years as a result of this provision.

Some constituent institutions use nonprofit organizations to procure, design, and construct facilities, such as student housing and dining facilities, on their behalf. S.L. 2008-154 extends the semi-annual sales and use tax refund allowed to the University of North Carolina System to the organizations constructing facilities on the universities’ behalf. This legislation applies retroactively to purchases made on or after January 1, 2004.

S.L. 2008-158 (SB 1407) Resale of Tickets Via Internet

S.L. 2008-158 provides an exception to the current law allowing admission tickets to be resold on the Internet at a price greater than the price printed on the face of the ticket. The legislation imposes a 3% gross receipts privilege tax on the ticket resale. Effective August 1, 2008, the provision specifies that a person who resells tickets over the Internet under G.S. 14-344.1 acknowledges liability for the tax under G.S. 105-37.1. The fiscal impact of this legislation is unknown.

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The legislation also provides protections to the customer and to the venue: It requires a person who resells admission tickets online to provide a ticket guarantee that must be conspicuously displayed on the person's Web site. A prospective purchaser must be directed to the ticket guarantee before completion of a resale transaction. If the event is cancelled, the purchaser is denied admission through no fault of the purchaser, or the ticket is not delivered to the purchaser and the failure to receive the ticket results in the purchaser's inability to attend the event, the purchaser is entitled to a full refund of the amount paid for the ticket.

The bill allows a venue to prohibit a person from reselling tickets to an event it sponsors if it posts notice of the prohibition on its Web site and on the Web site of the primary ticket seller. A prohibition may not become valid until 30 days after the notice is posted on the Web site. The prohibition expires on December 31 of each year unless the venue renews its prohibition.

Finally, S.L. 2008-158 makes it an unfair and deceptive trade practice for a person to knowingly sell, give, transfer, use, distribute, or possess software that is primarily designed or produced for the purpose of interfering with the operation of a ticket seller who, pursuant to a written agreement with the venue, sells admission tickets over the Internet. A ticket seller, as well as the venue, has standing to bring a private right of action under the Unfair and Deceptive Trade Practice Act. Under G.S. 75-1.1, each individual violation of the statute constitutes a separate violation. If a person is found to have violated the statute, the aggrieved person is entitled to triple the amount of damages fixed by the verdict.

S.L. 2008-159 (HB 1230) Nonprofit and Tourism ABC Law Changes

This legislation expands the types of alcohol that a nonprofit organization can sell under the special one-time permit by amending G.S. 18B-1002(a)(2) to add mixed beverages to the types of permissible sales. The ABC Law Changes have no fiscal impact and became effective August 3, 2008.

S.L. 2008-207 (HB 2530) Solid Waste Tax Changes/Unsalable OTP Refund

S.L. 2008-207 (HB 2530) makes administrative changes to the Solid Waste Disposal Tax and provides for a refund to retailers for tax paid on unsold tobacco products. The Solid Waste Disposal Tax, S.L. 2008-207 portion of the bill is outlined in the local government section.

For unsalable other tobacco products (OTP), legislation permits wholesale and retail dealers who possess unsalable OTPs to return them and apply for a refund of the excise tax paid on them. A similar provision already exists for cigarettes and cigars. In S.L. 2007-323, the General Assembly increased the excise tax levied on OTP from 3% to 10%, effective October 1, 2007. The tax revenue generated from the increase goes toward the University Cancer Research Fund.

Currently, the General Fund receives 30% of the OTP excise tax revenue with the remaining 70% being dedicated to the University Cancer Research Fund. The impact of the unsalable OTP provision is estimated to be approximately \$30,000 and will decrease General Fund availability by approximately \$9,000 annually. This part of the act becomes effective October 1, 2008, and applies to products returned on or after that date.

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Bills Affecting Special Revenue Funds

S.L. 2008-177 (HB 2353) Irrigation Contractor Licensure/Fees

S.L. 2008-177 establishes a nine-member North Carolina Irrigation Contractors' Licensing Board effective October 1, 2008, and creates a comprehensive system for licensing and regulating irrigation contractors, effective January 1, 2009. The bill defines an irrigation contractor as "[a]ny person who, for compensation or other consideration, constructs, installs, expands, services, or repairs irrigation systems" and requires a license to engage in this practice. These changes are expected to generate \$940,000 in special revenue funds during the 2008-09 fiscal year and roughly \$340,000 in subsequent years.

S.L. 2008-206 (HB 2558) Home Inspector Privilege License

S.L. 2008-206 adds licensed home inspectors to the list of professions and business practices listed under G.S. 105-41(a) that are required to obtain a privilege license from the Secretary of Revenue. Adding home inspectors to the list of professions that must obtain a privilege license from the State is expected generate \$78,500 in non-tax revenue during the 2008-09 fiscal year.

It allows a city that imposed a license tax on a home inspector under G.S. 143 Article 9F for FY 2008-09 to impose and collect the tax for FY 2008-09 and prohibits cities from levying a license tax on the home inspector profession for taxable years beginning on or after July 1, 2009.

The bill gives a home inspector who is required to obtain a State privilege license on July 1, 2008, for the tax year beginning on July 1, 2008, until October 1, 2008 to submit a license application and pay the tax.

S.L. 2008-224 (SB 1314) Amend Massage and Bodywork Therapy Act

S.L. 2008-224 amends the North Carolina Massage and Bodywork Therapy Practice Act describing activities that do not constitute the practice of massage and bodywork therapy, including the diagnosis of illness or disease, and the use of treatment for which a license to practice medicine, chiropractic, nursing, physical therapy, occupational therapy, acupuncture, or podiatry is required by law.

The legislation expands the authority of the Massage and Bodywork Therapy Board (Board) to regulate massage and bodywork therapy schools. The Board also receives the authority to establish fees for licensing the schools and conduct criminal history record checks of applicants for licensure as massage and bodywork therapists. This legislation is expected to generate \$451,000 during the 2008-09 fiscal year.

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Bills Affecting Local Government Revenue

The following section highlights legislation from the 2008 Session that only affect local government revenues.

S.L. 2008-35 (SB 1876) Deferred Property Tax Changes

S.L. 2008-35 establishes uniform provisions for all of North Carolina's property tax deferral programs to eliminate disparity in terminology and administration, consolidates the rules concerning enforced collection remedies into one statute, and makes other necessary technical, clarifying, and conforming changes to the property tax statutes.

The act modifies the property tax circuit breaker program, enacted by the General Assembly in 2007 to ease the administration and implementation of the program. These changes have no impact on General Fund availability and the impact for local jurisdictions is expected to be minimal. These changes were effective for taxable years beginning on or after July 1, 2008.

S.L. 2008-144 (SB 1852) Tax on Short Term Heavy Equipment Rentals

S.L. 2008-144 replaces the property tax for short-term lease-or-rental heavy equipment with a local-option gross-receipts tax. The gross-receipts tax applies to revenue from short-term rentals or lease of earthmoving, construction, or industrial equipment that is mobile, weighs at least 1,500 pounds, self-propelled, and not designed to be driven on a highway. This can include the rental of industrial lift equipment, industrial material-handling equipment, industrial electrical-generation equipment, or similar piece of industrial equipment.

The gross-receipts tax rate that may be imposed by counties is 1.2% and the rate that may be imposed by cities is 0.8% for a combined rate of 2.0% if the heavy-equipment rental business is located in a city. The act also clarifies that short-term heavy equipment is exempt from property tax regardless of whether a county or city imposes a gross-receipts tax. The legislation does not affect General Fund availability and overall serves as a revenue-neutral change for local governments. However, individual jurisdictions will experience changes in revenue depending on where sales occur.

S.L. 2008-146 (SB 1878) Property Tax Modifications

S.L. 2008-146 (SB 1878) makes the following changes to the property tax laws, effective July 1, 2009:

- It modifies the schedule for general reappraisals of real property to reduce the discrepancy between the property tax value and its market value;
- It requires counties with a population of 75,000 or more to conduct a reappraisal of real property whenever the ratio of property sales value to tax value is less than .85 or greater than 1.15; and
- It allows other counties to advance their octennial schedule, if the board of county commissioners adopts a resolution providing for such advancement.

The legislation also modifies the present-use value ownership requirements to reflect modern estate planning and allows property to remain in present-use value when deferred taxes are paid at the time of transfer and the new owner continues to farm the land and files an application for

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present-use value status. This part of the act became effective for taxes imposed for taxable years beginning on or after July 1, 2008.

The act classifies qualified North Carolina low-income housing developments as a special class of property and requires valuation of the property to be based on the actual (rent restricted) income. This part of the act becomes effective for taxes imposed for taxable years beginning on or after July 1, 2009.

The legislation exempts from property tax free samples of prescription drugs given to physicians and other medical practitioners to dispense free of charge in the course of their practices. This part of the act became effective for taxes imposed for taxable years beginning on or after July 1, 2008.

The property tax modifications also exclude 80% of the appraised value of a solar energy electric system from property tax. This part of the act became effective for taxes imposed for taxable years beginning on or after July 1, 2008.

The legislation directs the Revenue Laws Study Committee to study whether new positions are needed to perform sales assessment ratio studies in additional counties and other functions related to the act. The Study Commission will also define income as it applies to the homestead exclusion and make necessary legislative recommendations to the House and Senate Finance Committees during the 2009-2010 sessions.

The property tax modifications related to mobile home liens are expected to provide a net gain to local governments in the amount of \$2.5-\$5.0 million annually. Conversely, the low-income housing changes may cause significant revenue loss, but an accurate estimate of these changes is not available. Except as otherwise noted above, this act became effective August 2, 2008.

S.L. 2008-165(H1770) Future Conveyances and Special Assessments

This legislation provides cities and counties with an additional financing tool for infrastructure development. Local governments under S.L. 2008-165 may issue long-term property-tax assessments and use the revenue stream to secure debt to build water and sewer systems, storm drainage systems, public transportation facilities, and schools. Effective August 3, 2008, the fiscal impact of this act is contingent on local government action.

S.L. 2008-171(HB 1889) Wildlife Land Property Tax Changes

The 2008 Wildlife Land Property Tax Changes allows land designated for wildlife conservation to be treated as a special class of property for property tax purposes. Wildlife conservation land may be appraised and taxed as if it is agricultural land and if the land

- Consists of at least 20 contiguous acres;
- Is owned by an individual, family business, entity, or family trust and has been owned by the same owner for the previous five years (with exceptions);
- Is managed by the owner of the land, pursuant to a written wildlife habitat conservation agreement with the Wildlife Resources Commission, either to protect an animal species or conserve priority wildlife habitats; and
- Has been classified as agricultural land, horticultural land, or forestland when the wildlife habitat agreement was signed, or the owner must demonstrate that the owner has been

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using the land for a purpose listed in the signed agreement for three years immediately preceding January 1 of the year for which the benefit is claimed.

If the land loses its eligibility for this wildlife/agricultural classification, the deferred taxes for the previous three years become due. This part of the act becomes effective for taxes imposed for taxable years beginning on or after July 1, 2010.

The act also directs the Revenue Laws Study Committee to study the three-year impact of the wildlife conservation land classification. The Committee is to report to the 2015 General Assembly.

Effective July 1, 2008, the act also exempts from property tax a leasehold interest in property if the property itself is exempt from property tax because it is owned by a unit of government, and the property is used to provide affordable housing for employees of the unit of government that owns the property.

There is no available estimate for these changes and except as otherwise noted, this act became effective August 4, 2008.

S.L. 2008-207 (HB 2530) Solid Waste Tax Changes/Unsalable OTP Refund

S.L. 2008-207 (HB 2530) makes administrative changes to the Solid Waste Disposal Tax by clarifying that the tax and tax return are due on a quarterly basis. The act also allows a taxpayer to recover the tax paid on tonnage it received, but for which it was not compensated, if the taxpayer has deducted the amount from its gross income as a bad debt.

The bill excludes a city or county from receiving proceeds if it does not provide solid waste management programs and services and is not responsible by contract for payment, unless the city or county is served by a regional solid waste management authority. If the city or county is served by an authority, then the city or county must forward the amount of proceeds it receives to that authority.

Finally, S.L. 2008-207 assists the Department of Revenue (DOR) with distribution by authorizing the Department of Environment and Natural Resources to provide DOR with a list of cities and counties that are excluded by May 15th of each year.

Special Topics

North Carolina State Lottery

Legislative History

The creation of a State-run lottery has been proposed repeatedly in recent decades. In the 1983 Session, Senate Bill 275 proposed a lottery whose net revenues would be dedicated to education programs. The Economic Future Study Commission, appointed to review the State's most pressing fiscal issues, recommended the creation of a State lottery to raise revenue in its 1991 formal report. Lottery bills were introduced in nearly every legislative session of the succeeding decade. In 2005 the General Assembly enacted S.L 2005-344, the State Lottery Act. The Act created both the Lottery and the North Carolina State Lottery Commission that governs its operation.

Lottery Commission and Program Structure

The State Lottery Commission has nine members. Five members are appointed by the Governor, two by the President Pro Tempore of the Senate, and two by the Speaker of the House of Representatives. The Commission selects the games to be offered, and regulates advertising according to statutory restrictions.

Several types of revenue-generating games are administered by the Lottery. Instant games, or "scratch-off" tickets, accounted for 60% of lottery sales during FY 2007-08. Ticket sales for "North Carolina PowerBall," a multi-state jackpot game, accounted for 21% of sales during the same period. Two daily numbers games, "Pick 3" and "Cash 5," made up the remaining 19% of sales.

The Commission has 241 full-time positions and its budget is housed within the Department of Commerce. The following table provides a breakdown of the Lottery Fund for FY 2007-08 and the Certified Budget for FY 2008-09.

State Lottery Fund (54641-Enterprise Fund)	Actual	Certified
	FY 2007-08	FY 2008-09
Expenditures		
Lottery Prizes and Prize Tickets	618,217,945	720,392,300
Retailer Commission	75,370,562	88,760,000
Commission/Administration	45,745,590	61,931,838
Total	\$739,334,097	\$871,084,138
Total Gross Sales & Other Receipts	\$1,088,689,626	\$1,256,584,138
Revenue	1,088,689,626	1,256,584,138
Less Lottery Expenses	(\$739,334,097)	(\$871,084,138)
Net Revenue Available for Transfer to Education Lottery Fund	\$349,355,529	\$385,500,000

Source: North Carolina Education Lottery

North Carolina State Lottery

Education Program Funding

Pursuant to G.S 18C-162, at least 35%, to the extent practicable, of total annual Lottery revenue is to be transferred into the Education Lottery Fund. Of the Education Lottery Fund balance, a portion may be credited to a contingency account and the remainder is distributed as prescribed in G.S 18C-164(c):

- 50% for More at Four, an academic prekindergarten program, and Class Size Reduction, an initiative to reduce class sizes in the early grades to no more than 18 students per teacher.
- 40% for Public School Construction to support local school construction needs. 65% of this total is distributed to each local school administrative authority based on total school enrollment. The remaining 35% of this total is distributed to local school administrative authorities with average effective county property tax rates above the State average.
- 10% for Education Lottery Scholarships, which are earmarked for needy students attending North Carolina colleges and universities.

In addition to the funds discussed above, \$50 million as directed in G.S. 18C-164(b) is held in the Education Lottery Reserve Fund for contingencies.

The following table displays the actual expenditures (and 2008-09 projected expenditures) made for each of the Lottery-supported education programs.

Expenditures for Lottery-Supported Education Programs
(\$ in millions)

Education Programs	Actual FY 2006-07 Expenditures	Actual FY 2007-08 Expenditures	Certified FY 2008-09 Appropriations
Class Size Reduction (CSR)	78.1	90.4	127.6
<i>Lottery Reserve Transfer for CSR</i>	--	--	19.8
More at Four Prekindergarten	84.6	84.2	84.6
Public School Construction	130.2	140.0	154.2
Scholarships for Needy Students	--	35.1	38.6
Total	\$323.6	\$349.7	405.2

Legislative Action—2008 Session

Some significant changes were made to the distribution of Lottery proceeds in the 2008 session. S.L. 2008-107 (Current Operations and Capital Appropriations Act of 2008) appropriated Lottery proceeds to education programs and made modifications to both the public school construction and class size reduction activities. Section 7.11 of the Act reserved the first \$14.2 million in 2008-09 public school construction proceeds for those school districts that would not have

North Carolina State Lottery

otherwise qualified for the so-called "35% pot" of funding allocated to districts with a greater than average effective property tax rate. The remaining \$140 million is appropriated according to the Lottery statute, with 65% of this amount based on student headcount and the other 35% based on the above-referenced effort formula. This change was only made for 2008-09 funding.

Section 5.2(b) of the Act transferred \$19.8 million from the Education Lottery Reserve for class size reduction. The one-time transfer is intended to provide sufficient funding in 2008-09 for K-3 student/teacher ratios of 18:1 and is in addition to the \$108.1 million appropriated for this purpose from projected annual Lottery proceeds.

See the following pages for the FY 2007-2008 NC Education Lottery Expenditures by County Table.

Fiscal Year 2007-08 NC Education Lottery Expenditures by County

COUNTY NAME	Class-Size Reduction		Sch. Capital Funding	More at Four		Scholarships		TOTAL EXPENDED
	Teachers	Expenditures		Expenditures ¹	Slots ²	Number	Spending	
Alamance County	27	1,415,661	1,446,170	1,081,902	256	468	579,832	4,523,565
Alexander County	7	357,253	362,131	312,772	74	112	141,720	1,173,876
Alleghany County	2	101,996	101,185	164,862	39	34	46,810	414,853
Anson County	5	247,781	504,442	498,716	118	69	89,306	1,340,245
Ashe County	4	207,730	210,893	418,422	99	80	88,825	925,870
Avery County	3	142,581	147,676	257,834	61	85	125,341	673,432
Beaufort County	8	444,830	452,123	380,388	90	176	188,902	1,466,243
Bertie County	3	177,825	377,577	452,230	107	78	90,295	1,097,927
Bladen County	6	339,630	351,319	866,378	205	115	136,115	1,693,442
Brunswick County	14	749,216	757,078	1,128,390	267	246	258,790	2,893,474
Buncombe County	35	1,853,549	1,886,527	815,666	193	585	706,079	5,261,821
Burke County	16	833,590	904,564	1,280,524	303	449	552,853	3,571,531
Cabarrus County	39	2,069,823	3,739,842	1,162,198	275	520	611,375	7,583,238
Caldwell County	15	789,801	836,704	338,128	80	362	421,030	2,385,663
Camden County	2	121,220	125,607	101,472	24	28	42,490	390,789
Carteret County	9	478,473	526,215	380,388	90	187	221,957	1,607,033
Caswell County	4	198,652	398,079	236,704	56	64	69,805	903,240
Catawba County	29	1,563,047	1,609,364	684,660	162	630	771,348	4,628,419
Chatham County	9	496,095	931,463	705,788	167	147	171,460	2,304,806
Cherokee County	4	220,012	234,933	291,641	69	101	122,874	869,460
Chowan County	3	158,067	162,876	126,828	30	47	61,761	509,532
Clay County	2	88,112	90,183	114,150	27	32	38,740	331,185
Cleveland County	19	1,030,639	2,044,901	1,428,436	338	413	496,973	5,000,949
Columbus County	12	617,315	1,155,163	1,229,814	291	172	192,833	3,195,125
Craven County	19	991,657	939,988	498,716	118	313	333,841	2,764,202
Cumberland County	61	3,243,043	6,398,924	5,413,526	1,281	1,278	1,571,077	16,626,570
Currituck County	5	242,975	261,899	97,245	23	47	51,949	654,068
Dare County	5	276,083	310,743	253,607	60	86	102,405	942,838
Davidson County	31	1,656,499	1,694,586	1,043,868	247	448	536,300	4,931,253
Davie County	8	413,324	812,075	452,230	107	110	132,629	1,810,258
Duplin County	12	624,258	1,085,702	443,730	105	157	179,622	2,333,312
Durham County	39	2,106,669	3,833,301	1,098,808	260	762	902,562	7,941,340
Edgecombe County	9	455,511	902,520	874,828	207	212	233,505	2,466,364
Forsyth County	62	3,304,454	6,205,492	1,614,379	382	1,166	1,386,434	12,510,759
Franklin County	10	536,146	1,021,184	253,606	60	151	184,440	1,995,376
Gaston County	37	1,955,545	3,924,832	2,408,866	570	581	675,444	8,964,687
Gates County	2	121,220	250,714	109,922	26	42	58,765	540,621
Graham County	2	80,636	77,527	126,826	30	33	37,185	322,174
Granville County	10	527,602	1,083,893	376,160	89	175	201,342	2,188,997
Greene County	4	216,274	393,496	304,318	72	61	67,560	981,648
Guilford County	81	4,308,927	8,630,746	5,430,456	1,285	1,935	2,253,245	20,623,374
Halifax County	10	529,738	1,059,413	629,720	149	194	233,662	2,452,533

Fiscal Year 2007-08 NC Education Lottery Expenditures by County

COUNTY NAME	Class-Size Reduction		Sch. Capital Funding	More at Four		Scholarships		TOTAL EXPENDED
	Teachers	Expenditures		Expenditures ¹	Slots ²	Number	Spending	
Harnett County	22	1,192,444	2,237,972	587,462	139	262	302,335	4,320,213
Haywood County	9	487,017	505,482	300,092	71	231	264,605	1,557,196
Henderson County	16	858,154	846,498	393,064	93	228	302,535	2,400,251
Hertford County	4	202,390	414,480	405,742	96	79	81,948	1,104,560
Hoke County	10	555,904	896,733	786,082	186	115	121,441	2,360,160
Hyde County	1	36,847	41,339	101,470	24	15	14,655	194,311
Iredell County	31	1,659,703	1,722,378	705,788	167	415	522,512	4,610,381
Jackson County	5	242,975	234,170	173,312	41	114	138,945	789,402
Johnston County	37	1,980,109	3,685,695	1,238,264	293	330	407,140	7,311,208
Jones County	1	79,033	154,962	211,346	50	60	66,420	511,761
Lee County	11	611,975	1,138,642	841,022	199	190	242,970	2,834,609
Lenoir County	11	569,789	1,178,197	638,172	151	294	347,908	2,734,066
Lincoln County	14	733,196	775,586	566,331	134	224	271,105	2,346,218
Macon County	5	262,199	276,909	367,710	87	182	204,638	1,111,456
Madison County	3	167,145	167,964	114,149	27	89	104,528	553,786
Martin County	5	258,461	503,839	207,122	49	56	81,035	1,050,457
McDowell County	8	406,382	413,200	460,683	109	82	99,753	1,380,018
Mecklenburg County	169	9,006,161	16,226,318	4,830,368	1,143	2,354	2,759,629	32,822,476
Mitchell County	3	135,639	140,680	152,182	36	64	77,435	505,936
Montgomery County	6	302,250	288,611	680,432	161	106	127,010	1,398,303
Moore County	14	729,992	789,068	131,052	31	239	275,930	1,926,042
Nash-Rocky Mount	21	1,120,353	2,188,166	629,721	149	298	353,222	4,291,462
New Hanover County	28	1,521,394	1,536,861	1,681,994	398	677	818,522	5,558,771
Northampton County	3	182,631	359,609	371,934	88	76	95,089	1,009,263
Onslow County	28	1,496,830	1,479,559	1,643,960	389	482	546,264	5,166,613
Orange County	20	1,088,313	2,206,738	604,364	143	258	315,348	4,214,763
Pamlico County	1	79,033	97,942	160,636	38	32	35,075	372,686
Pasquotank County	8	411,722	401,880	304,318	72	154	179,289	1,297,209
Pender County	9	474,735	502,811	519,844	123	109	119,510	1,616,900
Perquimans County	2	105,734	111,616	126,826	30	48	59,275	403,451
Person County	6	337,494	683,885	308,544	73	157	161,156	1,491,079
Pitt County	27	1,419,399	2,764,965	1,187,552	281	751	872,631	6,244,547
Polk County	3	145,785	154,545	283,190	67	44	49,665	633,185
Randolph County	28	1,503,239	1,492,979	794,534	188	361	459,808	4,250,560
Richmond County	9	499,299	985,248	688,886	163	185	208,386	2,381,819
Robeson County	30	1,589,748	2,904,490	3,156,870	747	503	556,839	8,207,947
Rockingham County	16	874,174	1,733,891	802,986	190	265	321,049	3,732,100
Rowan-Salisbury	24	1,257,594	2,662,340	693,110	164	517	624,683	5,237,727
Rutherford County	12	624,258	638,403	786,082	186	231	258,098	2,306,841
Sampson County	14	768,440	1,380,432	1,026,964	243	215	258,985	3,434,821
Scotland County	8	430,946	825,824	760,726	180	124	137,098	2,154,594
Stanly County	11	571,391	1,165,173	828,342	196	247	285,750	2,850,656

Fiscal Year 2007-08 NC Education Lottery Expenditures by County

COUNTY NAME	Class-Size Reduction		Sch. Capital Funding	More at Four		Scholarships		TOTAL EXPENDED
	Teachers	Expenditures		Expenditures ¹	Slots ²	Number	Spending	
Stokes County	8	425,606	882,261	663,528	157	136	147,118	2,118,513
Surry County	13	713,437	1,410,581	748,048	177	293	331,182	3,203,248
Swain County	2	103,598	117,276	211,348	50	47	52,435	484,657
Transylvania County	4	226,954	242,311	169,086	40	70	87,410	725,761
Tyrrell County	1	38,449	73,803	50,758	12	12	14,435	177,445
Union County	46	2,455,378	4,458,457	1,322,784	313	454	573,350	8,809,969
Vance County	9	496,095	949,311	321,222	76	208	244,611	2,011,239
Wake County	166	8,858,258	8,580,602	2,746,946	650	2,296	2,938,281	23,124,087
Warren County	3	154,863	178,649	253,606	60	82	88,035	675,153
Washington County	2	121,220	248,784	283,188	67	56	69,185	722,377
Watauga County	5	255,257	288,992	304,318	72	220	268,758	1,117,325
Wayne County	23	1,246,913	2,342,043	1,783,418	422	479	564,265	5,936,639
Wilkes County	12	652,560	641,965	1,445,338	342	231	276,016	3,015,879
Wilson County	15	807,423	1,513,447	498,714	118	224	273,877	3,093,461
Yadkin County	7	385,021	747,558	452,230	107	120	131,830	1,716,639
Yancey County	3	149,523	163,830	135,280	32	54	62,469	511,102
Unknown ³						101	111,035	111,035
DPI ⁴				5,628,567				5,628,567
Total	1,692	90,364,291	140,000,000	84,160,709	18,582	29,497	35,133,991	349,658,991

¹ More at Four (MAF) was funded in 2007-08 by a combination of \$84.6 million in Lottery proceeds and \$56.0 million in General Fund monies. Of that amount, \$123.0 million was expended. \$84.2 million was expended from Lottery proceeds, with \$78.5 million used by the counties for costs associated with MAF slots (a difference of \$5.6 million)

² MAF Slots associated with Lottery proceeds were calculated by applying the percentage of Lottery-funded county expenditures as a percentage of all MAF slots (67%)

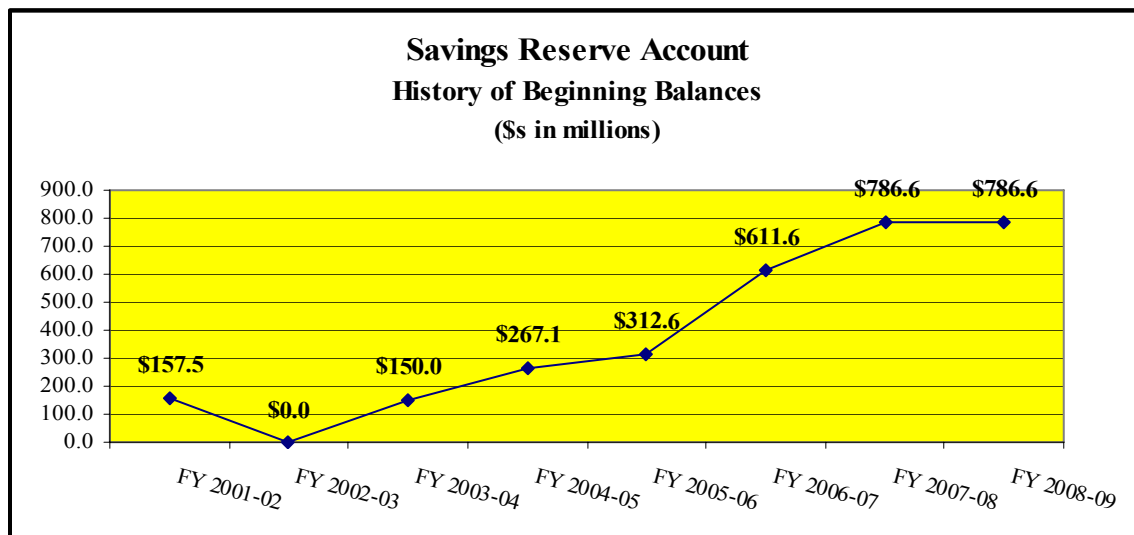
³ NCSEAA determines county of residence by a recipient's zip code. In some cases, this information is insufficient to determine the correct county.

⁴ DPI More at Four expenditures support state-level program administration, training and program evaluation. An additional \$132,748 in General Fund monies were expended for similar purposes.

Savings Reserve Account

The State's Savings Reserve Account emerged as one of several key budget reforms enacted into law following the State's 1991 budget crisis. Often referred to as the "Rainy Day Fund," the account represents a segment of the State's unreserved fund balance remaining at the end of the previous fiscal year. The funds are unappropriated by the General Assembly, or in effect "reserved" for unforeseen emergencies such as natural disasters and budgetary crises. State law (G.S. 143C-4-2(b)) specifically prohibits use of the funds without direct appropriation by the General Assembly.

To maintain a significant balance in the Reserve, State law (G.S. 143C-4-2) requires 25% of the General Fund unreserved fund balance on June 30 of each year to be credited to the Account. The following chart shows changes in the Reserve's balance since FY 2001-02.



As illustrated, the Savings Reserve Account's balance was less than \$160 million in FY 2001-02. Following a further decline in the State's fiscal situation, the balance was completely depleted in FY 2002-03. However, subsequent legislative action to curtail spending, coupled with improvement in the State's economy, helped the Legislature resume its commitment to build and maintain a healthy balance in the State's emergency reserves.

Section 143C-4-2(b) of the State Budget Act, effective July 1, 2007, established a goal to accumulate and maintain a balance in the Savings Reserve Account of at least 8% of the previous year's operating budget. For the FY 2008-09, that goal is \$1.7 billion. As of July 1, 2008, the Savings Reserve balance has reached 46% of the goal, or \$786.6 million.

The following table summarizes the history of legislative actions affecting the Savings Reserve Account.

Savings Reserve Account

Savings Reserve Account History G.S. 143C-4-2

Fiscal Year	Beginning Balance as of June 30	Legislative Action (Earmark or Appropriation)	Authorized or Mid-year Adjustments	Ending Balance as of July 1
1990-91	0	141,000,000	(141,000,000)	0
1991-92	0	41,593,253	0	41,593,253
1992-93	41,593,253	134,332,565	0	175,925,818
1993-94	175,925,818	155,678,246	(121,000,000)	210,604,064
1994-95	210,604,064	213,005,569	0	423,609,633
1995-96	423,609,633	77,342,029	0	500,951,662
1996-97	500,951,662	0	0	500,951,662
1997-98	500,951,662	21,568,899	0	522,520,561
1998-99	522,520,561	0	(200,000,000)	322,520,561
1999-00	322,520,561	967,311	(285,965,824)	37,522,048
2000-01	37,522,048	120,000,000	0	157,522,048
2001-02	157,522,048	90,000,000	(247,522,048)	0
2002-03	0	150,000,000	0	150,000,000
2003-04	150,000,000	116,666,064	391,343	267,057,407
2004-05 ¹	267,057,407	199,125,000	(153,541,447)	312,640,960
2005-06 ²	312,640,960	321,941,718	(5,790,087)	628,792,591
2006-07 ^{3,4}	628,792,591	175,000,000	(17,142,913)	786,649,678
2007-08	786,649,678	0	0	786,649,678

¹ During February 2005, \$153,541,447 was appropriated from the Savings Reserve Account pursuant to S.L.2005-1 (SB 7) Hurricane Recovery Act of 2005.

² Earmarking as per G.S. 143-15.3; a subsequent adjustment was made by the Office of Budget and Management and Office of the State Controller to reflect actual, year-end reversions.

³ S.L. 2006-66, (SB 1741), Sec. 2.2(g) created the Reserve for Motor Fuels Tax Ceiling and authorized a transfer of \$22,933,000 from the Savings Reserve Account.

⁴ Technical correction made by the Office of Budget and Management and Office of the State Controller of \$5,790,087.

Medicaid State-County Share

During the 2007 legislative session, the General Assembly enacted S.L. 2007-323, a historical fiscal policy change that began a three-year phase out of the financial participation of county governments in covering the cost of Medicaid.

The State’s Medicaid Program, which provides health insurance for over 1.3 million North Carolina residents, is projected to cost approximately \$11.7 billion in state and federal funds during FY 2008-09. The State and federal government will pay the majority of the cost of services, but counties will continue to pay for all of the administrative costs not covered by federal funds. Prior to the 2007 change, North Carolina was one of three states that required counties to fund a share of all or most Medicaid services.

Medicaid State-County Share General Fund Impact						
(\$ in millions)						
	Effective Date	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
State assumes county costs (3-year phase in)	10/1/07	-90.9	-270.8	-592.3	-669.7	-743.3
State takes ¼ cent local sales tax (all per capita) 10/1/08 and 10/1/09	10/1/08	0.0	188.4	472.1	579.9	613.5
Corporate ADM adjustments for FY 07-08		45.9				
State holds counties harmless	10/1/07	-17.1	-7.5	-19.7	-59.7	-49.6
Continue State ¼ cent sales tax	7/1/07	279.0	288.5	297.5	312.4	330.2
Total State Impact		\$ 216.9	\$ 198.5	\$ 157.5	\$ 162.8	\$ 150.8

The sections that follow highlight the budgetary impact and key implementation items of the 2007 policy change.

State and Local Sales Tax Rate Changes

The local portion of the sales tax is authorized by the General Assembly in four separate statutory articles. Under S.L. 2007-323, the State will assume a portion of the sales tax known as the Article 44 local option sales tax, which the Department of Revenue distributes to each taxing

Medicaid State-County Share

county and the municipalities in the county. The following table identifies each component of the local sales tax and shows how the State and local rates will change over time. The State rate will increase from 4.25% to 4.75% by "shifting" or decreasing the local options sales tax rate (Article 44) from 0.50% to zero by October 1, 2009.

Change in State and Local Sales Tax Rates			
	Current Law	10/1/2008	10/1/2009
State Rate	4.25%	4.50%	4.75%
Local Rate	2.50%	2.25%	2.00%
Article 39	1.00%	1.00%	1.00%
Article 40	0.50%	0.50%	0.50%
Article 42	0.50%	0.50%	0.50%
Article 44	0.50%	0.25%	0.00%

Local sales taxes are distributed to counties either on the basis of population (“per capita”) or according to where the sales occur (“point of collection”). S.L. 2007-323 changed the distribution of the Article 42 sales tax from per capita to point of collection. This change, effective July 1, 2009, favors urban counties, which do not benefit from the State assumption of Medicaid as much as more rural counties benefit.

Counties and Municipalities Held Harmless

S.L. 2007-323 provides that the State assumption of county Medicaid costs will benefit each county by a minimum net amount of \$500,000 for each of the first 10 fiscal years. In addition, municipalities are held harmless in the State assumption of the Article 44 sales tax. Because municipalities do not benefit from the State assumption of Medicaid costs, the act requires counties to fund a municipal sales tax distribution to offset the municipal impact of the phase-out of the local sales tax.

2008 Budgetary and Legislative Action

No relevant information to report.

Glossary

Glossary

Appropriation: An action by the General Assembly authorizing withdrawal of funds from the State treasury pursuant to Article V, Section 7 of the North Carolina Constitution. An enactment by the General Assembly that authorizes, specifies, or otherwise provides that funds may be used for a particular purpose is not an appropriation.

Authorized Budget: The working budget composed of the certified budget plus allowable budget revisions and adjustments approved by the Office of State Budget and Management through its statutory authority or acting on behalf of the Governor under the Governor's Constitutional role and authority as Director of the Budget.

Biennium: The two fiscal years beginning on July 1 of each odd-numbered year and ending on June 30 of the next odd-numbered year.

Capital Improvements: One-time appropriations for new construction, rehabilitation of existing facilities and repairs, and real property acquisition.

Carryforward: Funds appropriated, but unspent, in the first fiscal year of a biennium that are brought forward for expenditure in the succeeding year.

Certificates of Participation (COPs): Certificates or other instruments delivered by a special corporation as provided in this Article evidencing the assignment of proportionate and undivided interests in the rights to receive payments to be made by the State pursuant to one or more financing contracts.

Certified Budget: The budget as enacted by the General Assembly, including adjustments made for (i) distributions to State agencies from statewide reserves appropriated by the General Assembly, (ii) distributions of reserves appropriated to a specific agency by the General Assembly, and (iii) organizational or budget changes directed by the General Assembly but left to the Director to carry out.

Contingency and Emergency Fund: A special reserve which the Director of the Budget may expend for emergencies or other unanticipated needs with approval by the Council of State and as authorized by G.S. 143C-4-4.

Continuation Budget: The part of the State budget necessary to continue the current level of services when adjusted for inflation; mandated rate increases such as social security, annualization of programs, and operation of new facilities.

Continuation Review: A budget review initiative, authorized in S.L. 2007-323, Section 6.21 and S.L. 2008-107, Section 6.7, which (1) requires specified agencies whose funding was eliminated to provide written reports and (2) authorizes the Appropriations Committees of the Senate and the House of Representatives to review those reports to determine whether to restore any of the funding for those programs.

Current Operations: Cost associated with the daily activity of programs supported by the State, such as salaries, utilities, and travel; does not include capital improvements or repairs and renovation costs.

Glossary

Debt Service Funds: Accounts established for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Deficit: A budget deficit occurs when required expenditures exceed available revenue.

Departmental Receipts: Fees, licenses, federal funds, grants, fines, penalties, tuition, and other similar collections or credits generated by State agencies in the course of performing their governmental functions that are applied to the cost of a program administered by the State agency or transferred to the Civil Penalty and Forfeiture Fund pursuant to G.S. 115C-457.1 and that are not defined as tax proceeds or nontax revenues. Departmental receipts may include funds transferred into a fiscal year from a prior fiscal year.

Disproportionate Share (DSH) Funds: DSH funds are Medicaid payments made to health care providers who deliver services to large numbers of uninsured patients.

Entitlements: Payments or benefits granted by law to individuals or political subdivisions.

Encumbrance: A financial obligation created by a purchase order, contract, salary commitment, unearned or prepaid collections for services provided by the State, or other legally binding agreement.

Enterprise Fund: A fund that accounts for any activity for which a fee is charged to non-state entities for goods or services and for which that fee provides the principal source of revenue.

Expansion Budget: The part of the State budget which provides for new programs, expansion of existing programs, and salary and benefit increases.

Fiscal Note: A formal fiscal estimate, including a brief statement of costs and revenue impact, for the first five fiscal years the legislation would be in effect. As per G.S. 143C-2-3, a State agency proposing a bill that affects the State budget must prepare a fiscal analysis for the bill and submit the analysis to the Fiscal Research Division upon introduction of the bill.

Full Time Equivalent (FTE): A unit used to quantify staffing. One FTE (1.0) is a full year, 40-hour-per-week position.

Fund: A fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, and changes therein, for the purpose of carrying on stated programs, activities, and objectives of State government.

General Fund Operating Budget: The sum of all appropriations from the General Fund for a fiscal year, except appropriations for (i) capital improvements, including repairs and renovations, and (ii) one-time expenditures due to natural disasters or other emergencies.

General Fund: The fund to which revenues are deposited that are not designated for special purposes and are therefore available to support the general operations of State government.

Glossary

General Obligation Bond: Bonds used for funding permanent public capital improvements such as buildings and roads. The repayment of these bonds is made from the levy of taxes; and voter approval is required by the NC Constitution.

General Purpose Revenue: Revenue, derived primarily from taxes and various fees which are not required by law to be deposited into a fund other than the General Fund and are not designated for special purposes.

Highway Fund: The special revenue fund to which revenues are deposited that are designated for transportation-related operations and capital improvements.

Highway Trust Fund: A special revenue fund established in 1989 for the completion of certain specified highway construction projects.

Internal Service Fund: A fund which accounts for any activity that provides goods or services to other funds, departments, or agencies of the State and its component units, or to other governments on a cost-reimbursement basis.

Justification Review: Review of selected programs and agencies conducted by Fiscal Research Division as part of a pilot zero base budgeting exercise authorized in S.L. 2005-276, Section 6.34.

Lapsed Salaries: Result from unexpended appropriations that accrue because funds have been budgeted for positions that are temporarily vacant.

Negative Reserve: A method by which a budget reduction is imposed without detailing the specific lines of expenditure to be decreased.

Net General Fund Appropriation: The appropriation of the General Fund's general purpose revenue.

Nonrecurring: A term applied to revenues or expenditures that are not repeated in future years.

Nontax Revenue: Revenue, not derived from tax proceeds, that are required by statute to be credited to the General Fund.

Reversion: The unexpended, unencumbered balance of an appropriation at fiscal year end that reverts, as required by law, to the fund from which the appropriation was made.

Repairs and Renovation Account: A reserve in the General Fund to provide for the repair and renovation of State facilities and related infrastructures that are supported from the General Fund. (G.S. 143C-4-3)

Salary Reserve: Accumulates when a position is downgraded or filled at a salary amount less than the amount at which it was previously budgeted. Salary reserve can be used to increase the salary of other positions due to promotion and/or reclassification or filling a position at a salary higher than that at which the position was vacated.

Glossary

- Savings Reserve Account:** A component of the unappropriated General Fund balance that is maintained as a reserve to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. (G.S. 143C-4-2)
- Self-Liquidating Debt:** Debt obligations whose principal and interest are payable primarily from the earnings of enterprises for the construction or improvement of which they were originally issued.
- State Agency:** A unit of the executive, legislative, or judicial branch of State government, such as a department, an institution, a division, a commission, a board, a council, or The University of North Carolina. The term does not include a unit of local government or a public authority.
- State Funds:** Any moneys, including federal funds, deposited in the State treasury except monies deposited in a trust fund or agency fund as described in G.S. 143C-1-3.
- Special Revenue Fund:** A fund used to account for revenue designated for a specific purpose; revenue deposited must remain in the fund until expended for that purpose.
- Statutory Appropriation:** An appropriation that authorizes the withdrawal of funds from the State treasury during fiscal years extending beyond the current fiscal biennium, without further act of the General Assembly.
- Tax Reimbursements:** State revenue disbursed to local governments as reimbursements due to State-mandated tax relief measures which have a local financial impact on locals.
- Total General Fund Availability:** The sum of the beginning General Fund Unreserved Fund Balance and General Fund revenues for a fiscal period.
- Total Source of Funds:** All funding sources including the General Fund's general purpose revenue and agency revenue, special fund revenues (such as gasoline taxes and sale of fishing licenses); and enterprise fund revenues as certified by the Office of State Budget and Management.
- Unreserved Fund Balance:** The available General Fund cash balance effective June 30 after excluding documented encumbrances, unearned revenue, federal grants, statutory requirements, and other legal obligations to General Fund cash as determined by the State Controller. Beginning unreserved fund balance equals ending unreserved fund balance from the prior fiscal year.