

NORTH CAROLINA GENERAL ASSEMBLY



HIGHLIGHTS: FISCAL AND BUDGETARY ACTIONS 2007 REGULAR SESSION

**PREPARED BY THE
FISCAL RESEARCH DIVISION
300 N. SALISBURY STREET, SUITES 203 & 619
RALEIGH, NORTH CAROLINA 27603-5925
(919) 733-4910**

www.ncleg.net/fiscalresearch

FOREWORD

This document provides highlights of fiscal and budgetary actions on North Carolina's FY 2007-09 Biennial Budget as enacted during the Regular Session of the 2007 General Assembly.

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

Acknowledgements

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

Staff Assignments

Director

Lynn Muchmore

Support StaffDebora Bridgers
Agnes Perry**Subcommittee/Departments/Coverage****Analysts****Budget Development**House and Senate Appropriations Committees
Statewide Budget Issues
Appropriations Bill Coordination
Savings Reserve Account
Budget Technical Corrections Bill Coordination
Joint Commission on Governmental Operations
Program Justification Reviews CoordinationMarilyn Chism - House
Karen Hammonds-Blanks
- House
Susan Morgan - Senate
Evan Rodewald - Senate**Capital Budgeting/Planning**

Jim Klingler

Information Technology

Karlynn O'Shaughnessy

Salaries and BenefitsMark Trogdon, Team Leader
Marshall Barnes
Stanley Moore**General Government**Administration
Auditor
Cultural Resources
General Assembly
Governor's Office
Insurance
Housing Finance Agency
Licensing Boards
Lieutenant Governor
Office of Administrative Hearings
Office of Information Technology Services
Revenue
Secretary of State
State Board of Elections
State Budget and Management
State Controller
State Ethics Commission
State TreasurerDouglas Holbrook, Team Leader
Amna Cameron

Staff Assignments**Subcommittee/Departments/Coverage****Analysts****Justice and Public Safety**

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

Jim Mills, Team Leader
John Poteat
Jean Sandaire
Denise Thomas

Health and Human Services

Department of Health and Human Services

Melanie Bush, Team Leader
Michele Alishahi
Lee Dixon
Denise Harb
Andrea Poole

Natural and Economic Resources

Environment and Natural Resources
Agriculture
Commerce
Labor

Kristine Leggett, Team Leader
Andrew Pennock
Kristin Walker

Transportation

Lisa Hollowell, Team Leader
Joseph Futima
Bob Weiss

Education

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

Jennifer Haygood, Team Leader
Brian Matteson
Kristopher Nordstrom
Richard Bostic

Economy and Taxation

Revenue Estimates
Finance Committees
Revenue Laws Study Committee
Economic Issues
State Bond Proposals
Fiscal Trends Commission

Rodney Bizzell, Team Leader
Barry Boardman
David Crotts
Joy Hicks
Brian Slivka
Martha Walston

Governmental Performance Audit

Michele Nelson

Electronic Information Management

Christopher Black

From the Director

January 2008

To the Members of the NC General Assembly:

The Fiscal Research Division is pleased to present “Highlights,” a compilation of selected 2007 legislative session fiscal and budgetary actions and related information. This document represents a departure, in content and form, from past Overviews of legislative fiscal and budgetary actions issued by the Division. First, since the General Assembly typically makes significant adjustments to the second year of its biennial budget, this publication will focus primarily on the FY 2007-08 budget. Additionally, past Overviews have focused almost exclusively on appropriations from general purpose tax and non tax revenues, often referred to as General Fund Availability. In contrast, this document includes information on the appropriations from all governmental or proprietary funds regardless of their source and formal classification. Specifically, this document recognizes items such as 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.

The principal reason for this change in content is the new State Budget Act that took effect July 1, 2007. That law places new emphasis on Article V, Section 7 of the North Carolina Constitution, which (1) prohibits all withdrawals from the State treasury except as authorized by an act of appropriation, and (2) requires an accurate account of the receipts and expenditures of all State funds. The inclusion of all State funds creates a more realistic picture of legislative responsibility and authority. When General Fund departmental revenues are fully recognized, budgeted General Fund spending for Fiscal Year 2007-08 amounts to \$35.9 billion rather than \$20.7 billion. When all governmental and proprietary funds are recognized, the Total State Budget becomes \$42.9 billion. This comprehensive view of spending should encourage more scrutiny of the State’s financial resources.

The language of the State Budget Act also necessitates a clarification of key terms. Over time, the term “State appropriation” has been used interchangeably with the term “General Fund Appropriation” and has come to denote only the authority to expend money from that Fund’s general purpose revenues. This is unfortunate, as it masks the fact that the General Assembly must appropriate all money expended from the State treasury regardless of the source from which that money is derived. To be consistent with the emphasis of the State Budget Act, the term “State appropriation” or “Total Appropriation by Fund” as used in this document will denote the authority to expend any State funds. The term “General Fund Appropriation” will refer to the total authorized spending from the General Fund. And the term “Net General Fund Appropriation” will be used to refer to the appropriation of the General Fund’s general purpose revenues. Definitions of these and other key terms are included in the Glossary section of this document.

From the Director**(cont.)**

Finally, the change in the Overview's content also warrants a modification in its format. The major component of prior Overviews was a modified version of the annual Joint Conference Committee Report on the Continuation, Expansion, and Capital Budgets. For the most part, the Conference Committee Report only details legislative actions that (a) modify the continuation budget recommended by the Governor, (b) expand operating programs, or (c) authorize capital spending; and then only as these require expenditures of general purpose revenues from the General Fund. Such limited scope is a source of frequent confusion among users. So while the Conference Committee Report will be posted on the Fiscal Research Division website and therefore conveniently available, the new format used in this and future "Highlights" will reflect a broader perspective. Substantive legislative action will be complemented with summaries of fiscal, budgetary, and program information for each agency and for selected programs and services within those agencies.

Sincerely,



Lynn Muchmore, Director
Fiscal Research Division

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EXECUTIVE SUMMARY

TOTAL STATE BUDGET

Executive Summary

STATE OF NORTH CAROLINA Sources of Funds Fiscal Years 2007-09

	FY 2007-08	FY 2008-09
Balance Remaining from Prior Year		269,504,098
Beginning Unreserved Fund Balance	1,173,100,000	-
Tax Revenue		
Individual Income	10,895,100,000	11,426,500,000
Corporate Income	1,095,100,000	1,212,300,000
Sales and Use	5,049,400,000	5,469,400,000
Other	1,799,900,000	1,881,500,000
Subtotal	18,839,500,000	19,989,700,000
Nontax Revenue		
Investment Income	212,000,000	222,200,000
Judicial Fees	208,186,118	215,421,220
Disproportionate Share Receipts	100,000,000	100,000,000
Other	205,615,692	218,560,455
Transfer from Highway Funds	190,690,000	190,110,000
Subtotal Nontax Revenue	916,491,810	946,291,675
Subtotal General Fund Availability ¹	20,929,091,810	21,205,495,773
Federal Funds	11,476,144,695	11,923,900,688
Highway Funds ²	2,857,828,250	2,845,120,500
Other Departmental Receipts	5,758,190,087	5,673,741,264
Transfers from Other Funds & Availability	2,122,792,137	2,256,843,593
Total³	\$43,144,046,979	\$43,905,101,818

Note:

¹ As per S.L. 2007-323, Section 2.2(a); S.L. 2007-540 and S.L. 2007-532.

² Excludes transfers to General Fund Availability - \$190.7 million and \$190.1 million.

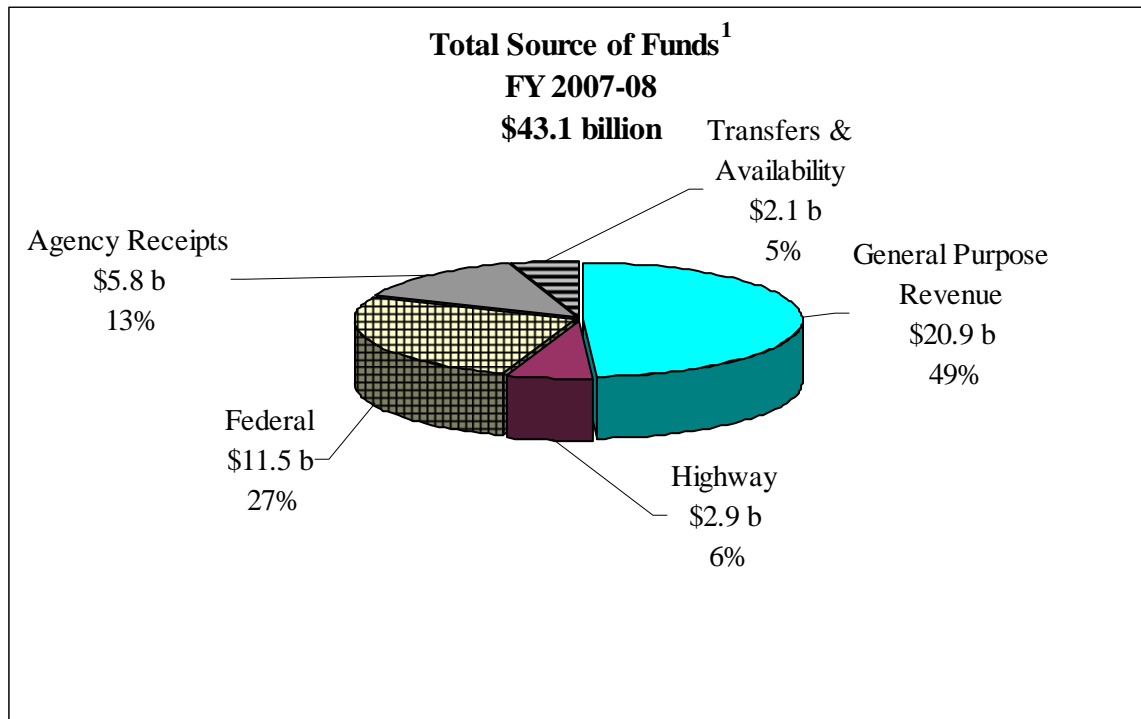
³ Total funds as presented reflect the combination of State funds as certified by the Office of State Budget and Management – in some cases totals have not been adjusted for duplication due to limitations in certified budget information.

Executive Summary

TOTAL STATE BUDGET

On July 31, 2007, the General Assembly ratified House Bill 1473 (S. L. 2007-323), the Current Operations and Capital Improvements Appropriations Act of 2007, enacting the FY 2007-2009 Biennial State Budget. In addition to the 2007 Appropriations Act, the General Assembly enacted S.L. 2007-540 (HB 1517), S.L. 2007-532 (HB 265) and S.L. 2007-552 Extra Session (HB 4), which made additional appropriations. Thus totals have been adjusted and are noted accordingly.

Since the General Assembly typically makes significant adjustments to the second year of its biennial budget, this publication will focus primarily on the FY 2007-08 budget. The following chart presents the total of all funds available for appropriation for FY 2007-08.



Note:

¹ Total Sources of Funds as presented reflect only those certified by the Office of State Budget and Management; includes general purpose revenue (derived primarily from taxes), agency receipts, transfers from other funds, and may reflect duplication as certified in some agency or program budgets.

Executive Summary

TOTAL APPROPRIATIONS BY SUBCOMMITTEE/AREA

The General Assembly appropriated \$42.9 billion for FY 2007-08 from the \$43.1 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 2007-08	Percentage of Total
Education	15,196,513,931	35.4%
Health & Human Services	16,479,991,036	38.4%
General Government	795,473,601	1.9%
Justice & Public Safety	2,480,694,870	5.8%
Natural & Economic Resources	2,702,665,751	6.3%
Capital	230,741,100	0.5%
Reserves & Debt Service	1,504,812,022	3.6%
Transportation	3,483,650,570	8.1%
Total¹	\$42,874,542,881	100.0%
Unappropriated Balance Remaining²	269,504,098	

Note:

¹Pursuant to S.L. 2007-323, Section 6.1; S.L. 2007-540; and S.L. 2007-532, 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.

²Unappropriated Balance Remaining is adjusted to incorporate appropriations made in S.L. 2007-540 and S.L. 2007-532; Unappropriated Balance Remaining as enacted in S.L. 2007-323, Section 2.2(a) is \$270,504,098.

Executive Summary

State Position Summary

The table below provides an estimate of total State positions (full-time equivalents) as of December 2006. At the time of this publication, this data was being updated.

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

Government Sector	General Fund¹	Highway Fund²	Funds⁵	Total by Sector
State Government				
UNC System ³	35,883	-	21,600	57,483
Justice and Public Safety	30,354	2,346	752	33,451
Health and Human Services	18,482	10	721	19,213
Transportation	-	14,664	-	14,664
Natural and Economic Resources	5,313	145	3,651	9,109
General Government	4,987	100	1,004	6,091
Education (State Administration)	862	-	11	873
Subtotal	95,880	17,265	27,739	140,884
Local Education				
Public Schools ^{3 & 4}	159,352	74	-	159,426
Community Colleges ³	15,935	-	-	15,935
Subtotal	175,287	74	0	175,361
Total by Fund	271,167	17,339	27,739	316,245

Notes:

¹Salary Base includes 772 positions in Reserve budget codes.

²Includes 5,840 work order positions funded out of construction and maintenance line-items in the Highway Fund Budget.

³Includes FTE growth due to projected enrollment growth for the 2007-08 fiscal year.

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

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

Source:

Survey of State Agencies and Other State-funded institutions, Fiscal Research Division, NC General Assembly, Office of State Budget and Management, December 2006.

GENERAL FUND

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. For the purpose of this document, statutory earmarks for the Savings Reserve Account (also known as the Rainy Day Fund) and Repairs and Renovation totaling \$320 million, may be excluded from totals; if so this is noted accordingly.

Condition of the Fund Statement

	FY 2007-08	FY 2008-09
Balance Carried Forward from Previous Year		317,585,587
Ending Unreserved Fund Balance	2,303,320,801	1,254,724,899
Less Reserves:		
Savings Reserve Account	611,649,678	786,649,678
Savings Reserve - 2007 Session Action	175,000,000	-
Repairs and Renovations - 2007 Session Action	145,000,000	-
Disaster Relief (Isabel)	114,041,586	114,041,586
Miscellaneous Reserves	36,448,048	36,448,048
Subtotal	1,082,139,312	937,139,312
Beginning Unreserved Fund Balance¹, at June 30 2007	1,221,181,489	317,585,587
<u>Revenue</u>		
Tax Revenue	18,839,500,000	19,989,700,000
Non-Tax Revenue	725,801,810	755,681,675
Highway Funds Transfer	190,690,000	190,610,000
Subtotal	19,755,991,810	21,253,577,262
Agency Revenue	15,196,469,560	15,627,402,624
Total General Fund Availability	\$36,173,642,859	\$36,880,979,886
<u>Less Appropriations</u>	\$35,856,057,272	\$36,321,649,162
Balance Remaining	\$317,585,587	\$559,330,724

Note:

¹Beginning Unreserved Fund Balance after earmarkings (actual as per Office of State Budget and Management and Office of State Controller); 2007 Appropriations Act, S.L. 2007-323, estimated \$1,173,100,000 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 \$36.1 billion for FY 2007-08. The largest of these totals \$20.9 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 almost \$15.2 billion.

General Purpose Revenue

The \$20.9 billion in Availability for FY 2007-08 represents a 10% increase over the previous fiscal year. This increase is the result of significant revenue growth, an estimated \$1.2 billion in over-collections and unspent funds from FY 2006-07, and the Legislature's enactment of modest tax and fee adjustments, including removing the sunset on the ¼ cent State Sales & Use Tax first enacted in 2001. The \$1.2 billion in FY 2006-07 over-collections are attributable to the stronger than expected job growth across the state, record stock prices that fueled retail sales and business investment as well as the use of conservative revenue estimates during the 2006 legislative session. 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 2007-08**

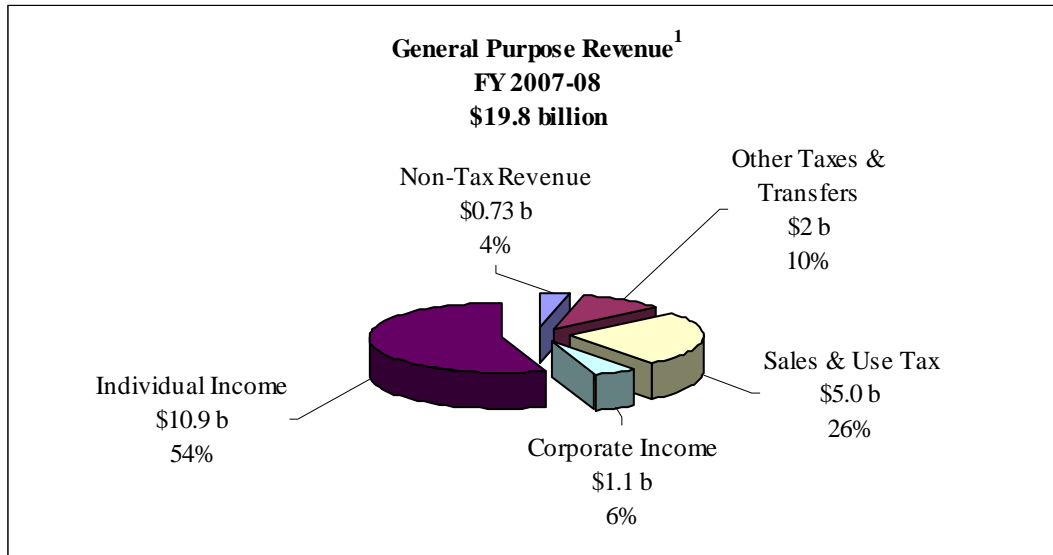
Source of Funds	Amounts¹	Percentage
Taxes	18,839,500,000	52.2%
Nontax	916,491,810	2.5%
Unreserved Fund Balance	1,173,100,000	3.2%
Subtotal	20,929,091,810	57.9%
Agency Revenue	15,196,469,560	42.1%
Total	\$36,125,561,370	100.0%

Note:

¹Amounts presented as enacted in S.L. 2007-323; when Unreserved Fund Balance is adjusted for actual June 30, 2007 totals, total General Fund Availability is \$36,173,642,859.

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.



Note:

¹Percentages are based on the consensus revenue forecast revised to include additional revenue adjustments as enacted by S.L. 2007-323 (HB 1473).

Agency Revenue

In addition to general purpose revenue, the General Fund receives a total of \$15.2 billion in agency revenue from federal grants and reimbursements, fees for services and transfers from various special revenue funds. For FY 2007-08 this represents an 8% increase from the FY 2006-07 budget. The next table presents agency revenue as certified by the Office of State Budget and Management.

Subcommittee/Area	Certified FY 2007-08 Revenue
Education	3,105,853,212
General Government	111,060,818
Justice and Public Safety	147,741,473
Health and Human Services	11,486,005,814
Natural and Economic Resources	209,727,137
Debt Service	136,081,106
Total	\$15,196,469,560

Executive Summary

As depicted in the chart that follows, agency revenue are largely the result of federal funds; the majority of these, \$6.4 billion, are reimbursements from Medicaid.

Agency Revenue by Source		
Source	Certified FY 2007-08	Percentage of Total
Federal	10,038,589,026	66.1%
Highway Funds	140,052,531	0.9%
Receipts	3,420,128,720	22.5%
Transfers from Other Funds	1,597,699,283	10.5%
Total	\$15,196,469,560	100.0%

GENERAL FUND APPROPRIATIONS

The 2007 General Assembly enacted a total budget of \$35.9 billion for FY 2007-08 from all sources within the General Fund. The majority of this total, a net General Fund appropriation of \$20.7 billion, is derived from general purpose revenue. This represents a 9.5% increase over the \$18.9 billion in FY 2006-07 and the largest increase since FY 1998-99. The following chart reflects the budget by legislative subcommittee or spending area:

Subcommittee/Area	Total General Fund Appropriations¹		Net General Fund Appropriations	
	FY 2007-08	% of total		% of total
Education	14,384,659,958	40.1%	11,278,806,746	54.6%
Health & Human Services	16,117,107,211	44.9%	4,631,101,397	22.4%
Justice & Public Safety	2,205,459,839	6.2%	2,057,718,366	10.0%
Natural & Economic Resources	863,888,150	2.4%	654,161,013	3.2%
General Government	549,388,992	1.5%	438,328,174	2.1%
Capital & Debt Service	976,997,958	2.7%	840,916,852	4.1%
Salaries & Benefits Increases	648,365,630	1.8%	648,365,630	3.1%
Other Reserves	110,189,534	0.3%	110,189,534	0.5%
Total	35,856,057,272	100.0%	\$20,659,587,712	100.0%

Note:

¹Total 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. 2007-323, Section 2.2(a); S.L. 2007-540 and S.L. 2007-532.

³Reflects 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 \$35.9 billion General Fund budget, like 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. FY 2007-08 appropriations largely follow the Legislature's continuing practice of significant emphasis in the areas of education, economic development, and health care.

State General Fund Major Budget Categories FY 2007-08

Appropriations by Major Budget Category	Total General Fund	% of total	Net General Fund Appropriations	% of total
Public Schools	9,509,102,990	26.5%	7,714,429,569	37.3%
Higher Education ¹	4,875,556,968	13.6%	3,564,377,177	17.3%
Medicaid	11,345,677,668	31.6%	2,920,359,272	14.1%
Correction	1,243,873,156	3.5%	1,214,065,645	5.9%
Mental Health ²	1,197,328,279	3.3%	713,081,821	3.5%
Environment ³	528,160,348	1.5%	379,535,863	1.8%
Courts ⁴	435,065,745	1.2%	432,747,865	2.1%
Other	6,721,292,118	18.7%	3,720,990,500	18.0%
Total	\$35,856,057,272	100.0%	\$20,659,587,712	100.0%

Note:

¹Includes universities and community colleges.

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

³Includes environment and agriculture funds.

⁴Excludes Indigent Defense.

Executive Summary

Expenditures by Type

Almost 90% of the cost for providing education, economic development, healthcare, and the other areas, are concentrated in two key areas, State employees and Aid and Public Assistance. For the FY 2007-08 budget, \$5.8 billion or 16% is appropriated for the salaries and related benefits for the 95,880 employees across the State.

The majority of State funds, \$25.3 billion (70.6%), are appropriated for Aid and Public Assistance payments. These payments are made primarily to outside organizations and local governments such as the State's 100 counties and the 117 local public school systems. Payments are also made to individuals in the form of financial assistance (cash assistance) and to vendors or providers as reimbursement for the provision of medical care to the State's Medicaid recipients. Of the \$25.3 billion, approximately \$9.1 billion or 35.9% is appropriated for Medicaid (payments to providers of medical goods and services); and \$7.7 billion or 30.5% to local school systems.

The next table provides a breakdown of the budget by expenditure type.

State General Fund Expenditures by Type FY 2007-08

<u>Expenditure Type</u>	<u>Amounts¹</u>	<u>Percentage of total</u>
Personal Services ²	5,848,117,871	16.3%
Purchased Services	1,537,934,066	4.3%
Supplies	321,175,163	0.9%
Property, Plant & Equipment	234,949,721	0.7%
Other Expenses & Adjustments	68,288,656	0.2%
Aid and Public Assistance	25,314,131,056	70.6%
Reserves	320,699,409	0.9%
Intragovernmental Transfers	2,210,761,329	6.2%
Total	\$35,856,057,272	100.0%

Note:

¹Amounts are estimated based on the FY 2007-08 Authorized Budget as of December 2007.

²General Fund only; excludes appropriations which support similar expenses in local public schools and community colleges.

Executive Summary

SELECTED BUDGET & FISCAL POLICY HIGHLIGHTS

BUDGET

For the second consecutive year, the Legislature placed priority on State employee compensation increases, granting increases totaling \$501 million and providing the majority of State employees with increases of 4%. Public school teachers and instructional support personnel received increases averaging 5%, while university faculty and professional staff, community college faculty and professional staff and certain judicial personnel received funds to support increases of 5%. Other key funding highlights follow.

- Education funding grew by \$394 million with significant focus on universities, pre-kindergarten, and efforts to improve the State's public middle schools.
- The State's Savings Reserve was increased by \$175 million bringing the total funds available for emergency needs to \$786.6 million.
- Natural and Economic Resources funding grew \$198 million, for the largest overall percentage increase of 43% for statewide water and sewer needs and various economic development initiatives.
- Capital Improvements funding totaled \$231 million or 12% over the previous year, and included funds for planning and construction of various projects in the university system and State agencies.
- Spending for Justice and Public Safety increased by 5.76%, largely associated with an effort to address the need for additional personnel in the court system. A total of 654 new court positions will be added over the biennium.

FISCAL POLICY

In addition to the spending highlights, the General Assembly enacted several significant budget and fiscal policy measures:

Continuation Reviews

In Section 6.21 of the 2007 Appropriations Act (S.L. 2007-323) the General Assembly authorized a Continuation Review initiative of eight specified programs. As part of this initiative, the General Assembly eliminated the recurring funding for those eight programs and funded the programs on a nonrecurring basis for Fiscal Year 2007-08 only.

Executive Summary

The General Assembly also directed the six departments/agencies that administer these eight programs to provide written reports by February 1, 2008 to the Appropriations Committees in accordance with specified requirements. These reports will provide the bases for the Committees' review of the programs. Restoration of funding for the programs is subject to the Appropriations Committees' review and their determination of whether to continue, reduce, or eliminate funding for them.

The following programs were selected for a continuation review:

- Administrative Office of the Courts
 - Association of Clerks of Superior Courts
 - Conference of District Attorneys
- Department of Correction
 - Criminal Justice Partnership Program
- Department of Juvenile Justice and Delinquency Prevention
 - Juvenile Crime Prevention Councils
- Department of Environment and Natural Resources
 - Environmental Stewardship Initiative
- UNC Board of Governors
 - Center for Nursing
- Department of Health and Human Services
 - Office of Policy and Planning
 - Dental Supplies/Division of Public Health

Medicaid County Share

During the 2007 Session, several bills were introduced in both the Senate and the House of Representatives addressing the issue of North Carolina's 100 counties' financial participation in the cost of the Medicaid program. While no stand-alone bills were enacted, the Appropriations Committees incorporated the budget and policy changes required to effect the gradual elimination of county government participation in Medicaid.

Section 31.16 of S.L. 2007-323, mandates the phase-out of counties' share of Medicaid costs over a three-year period beginning in the first year of the biennium, FY 2007-08. The state will assume \$86.2 million in costs the first year; \$271.2 million in FY 2008-09; and an additional \$593.2 million by FY 2009-10. The phase-out which includes a transfer of county Medicaid costs to the State in exchange for ¼ cent local sales tax revenue, is intended to offset the State's additional cost. To offset the local revenue loss, counties will now have the option, based on local voter approval, to increase local sales tax or establish a property transfer tax.

For additional information on this issue, see Special Topics Section.

OTHER FUNDS

Executive Summary

HIGHWAY AND HIGHWAY TRUST FUNDS

The budget for the State's transportation programs and initiatives is administered through the Department of Transportation (DOT). The agency's primary revenue sources are the motor fuels tax, the Highway licenses and fees, and federal funds. For each year of the FY 2007-09 biennium, the budget totals \$3.9 billion. The following presents a consolidated statement of the funds.

Consolidated Funds Statement

FY 2007-09 Biennial Budget

	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Beginning Unreserved Fund Balance, June 30, 2007	30,000,000	
Revenue		
<u>Highway Fund</u>		
Motor Fuels Tax	1,194,460,000	1,189,500,000
Licenses and Fees	597,150,000	610,980,000
Highway Use Tax		
Investment Income	10,500,000	10,500,000
<u>Highway Trust Fund</u>		
Motor Fuels Tax	393,100,000	391,480,000
Licenses and Fees	113,100,000	115,910,000
Highway Use Tax	620,980,000	630,290,000
Investment Income	1,100,000	1,100,000
Federal Funds	942,685,116	942,686,251
Other	24,328,180	24,342,136
Total Funds Available	\$3,927,403,296	\$3,916,788,387
<u>Less Appropriations</u>	<u>\$3,927,403,296</u>	<u>\$3,916,788,387</u>
Balance Remaining	<u><u>0</u></u>	<u><u>0</u></u>

Executive Summary

**Department of Transportation
FY 2007-08 Budget
Expenditures by Category
(\$ in billions)**

Expenditure Category	Certified FY 2007-08	Percentage of Total
Construction	\$1.80	51.4%
Maintenance	.90	25.7%
Administration	.17	4.9%
Powell Bill / Aid to Municipalities	.15	4.3%
Division of Motor Vehicles	.12	3.4%
Public Transportation	.11	3.1%
Debt Service	.09	2.6%
Airports	.05	1.4%
Reserves and Others	.05	1.4%
Ferries	.03	0.9%
Rail	.02	0.6%
Facility Repairs	.01	0.3%
TOTAL¹	\$3.50	100.0%

Note:

¹Does not include \$190.7 million to General Fund as nontax revenue; \$33 million to Department of Public Instruction for driver's education; \$206 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.

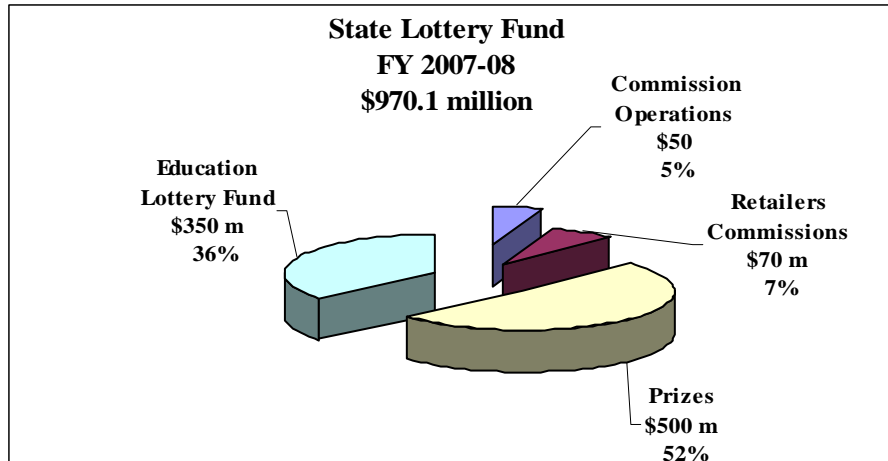
Lottery Fund (Enterprise Fund-54641) Condition of the Fund Statement

Revenue	FY 2007-08
Gross Sales	957,700,000
Fees and Licenses	5,184,289
Investment Earnings	7,257,924
Total	\$970,142,213
Expenditures	
Lottery Prizes	499,835,045
Retailer Commission	70,000,000
Lottery Commission Support	50,307,168
Total	\$620,142,213
Net Proceeds	\$350,000,000
Appropriation of Net Proceeds (S.L. 2007-323, Section 7.1)	
Class Size Reduction	90,364,291
More At Four Program	84,635,709
Public School Building Capital Fund	140,000,000
Scholarships	35,000,000
Total	\$350,000,000
Balance Remaining	0

In addition to the funds discussed above, \$50 million was deposited (during FY 2005-06) into the Education Lottery Reserve Fund for contingencies as directed in G.S. 18C-164(b).

Executive Summary

The chart that follows reflects the amount and percentage allocation of Lottery Fund expenditures for FY 2007-08.



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

APPROPRIATIONS SUBCOMMITTEE SUMMARIES

**APPROPRIATIONS
SUBCOMMITTEE ON
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 prekindergarten 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

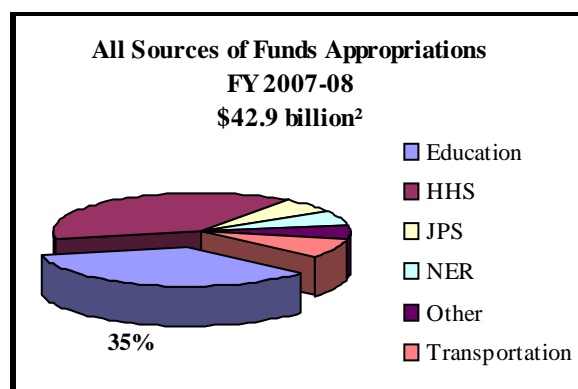
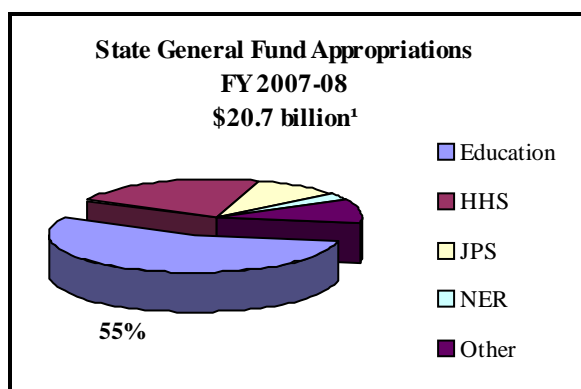
Sen. Vernon Malone, Sr. Chair
 Sen. A.B. Swindell, IV, Sr. Chair
 Sen. Julia Boseman, Chair
 Sen. Joe Sam Queen, Chair
 Sen. Richard Stevens, Chair
 Sen. Tony Foriest
 Sen. Fletcher L. Hartsell, Jr.
 Sen. Martin L. Nesbitt, Jr.
 Sen. Jean Preston
 Sen. Jerry W. Tillman

Staff:

Jennifer Haygood, Team Leader
 Richard Bostic
 Brian Matteson
 Kristopher Nordstrom

Budget Comparison:

The combined budgets under the Education Subcommittees total \$11.3 billion or 55% of net General Fund appropriations for FY 2007-08. Of the total funds appropriated from all sources, a total of \$14.7 billion, or 35%, 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

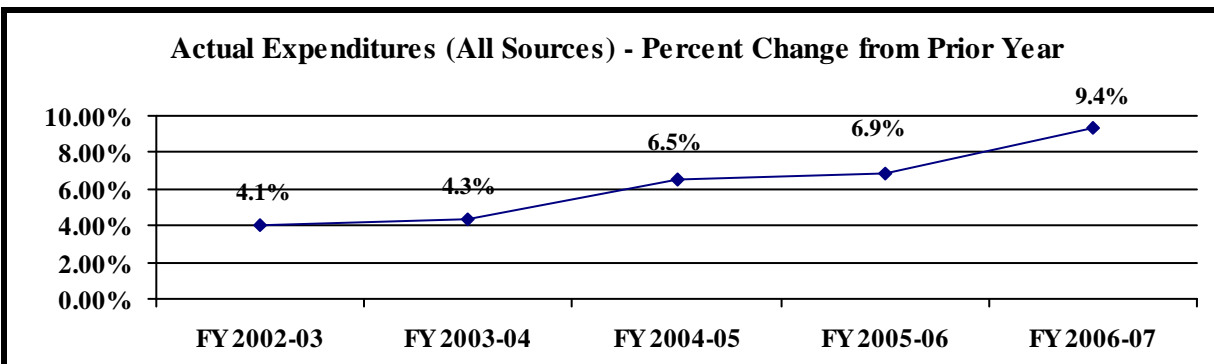
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	8,161,089,221	8,927,234,404	9,509,102,990	9,540,535,941
Revenue	1,293,780,269	1,549,880,042	1,794,673,421	1,832,220,656
Net Appropriations	\$6,867,308,952	\$7,377,354,362	\$7,714,429,569	\$7,708,315,285
Positions (FTE)	585.20	631.20	636.20	636.20

Budget Overview:

The biennial budget for public education is \$9.5 billion. Approximately \$7.7 billion (81%) is appropriated from the net General Fund appropriations. The remainder of the budget is funded from federal aid (14%), transfers from other State funds (3%), and other miscellaneous revenues (2%). The FY 2007-08 budget is 6.5% greater than the FY 2006-07 actual expenditures. This increase can be attributed to a growing student population, expanded funding for More at Four, class size reduction, expansion of existing allotments, and creation of new programs and initiatives. Once adjustments are made for legislative salary and benefit increases, the FY 2007-08 budget for public schools is \$9.9 billion, or 10.3%, more than FY 2006-07 actual expenditures. Over the last five years, the average percentage change in actual expenditures was 6.2%. Note that position totals in the table above include DPI personnel only. It does not include any personnel employed by the local school districts (LEAs).



Department of Public Instruction

BUDGET TABLES

The following table provides a summary of the Department of Public Instruction's total General Fund operating budget, highlighting the most significant allotments to local school administrative units.

Department of Public Instruction (13510-General Fund)	Certified FY 2007-08	Certified FY 2008-09
State Public School Fund		
<i>Instructional Support and Related Services</i>		
Classroom Teachers	2,804,641,119	2,837,597,670
Teacher Assistants	464,460,408	469,116,568
Instructional Support Personnel	342,805,900	346,846,387
Personnel Benefits and Longevity	997,384,745	1,007,172,238
School Building Administration	249,312,893	252,751,875
Classroom Materials/Instructional Supplies	83,022,559	87,963,864
Textbooks	99,490,211	101,853,156
ABC Incentive Awards	70,000,000	0
<i>Categorical Programs</i>		
Academically or Intellectually Gifted	60,956,722	61,653,391
At-Risk Student Services	213,609,468	215,332,050
Children with Special Needs	634,181,342	641,083,628
Disadvantaged Student Supplemental Funding	68,455,599	69,406,867
Improving Student Accountability	36,977,973	36,977,973
Low Wealth Supplemental Funding	189,024,342	185,372,880
Small County Supplemental Funding	42,647,708	42,647,708
Transportation	345,901,658	358,456,527
Vocational Education	300,446,092	301,021,646
Other State Public School Fund	818,483,198	839,421,374
Subtotal, State Public School Fund	7,821,801,937	7,854,675,802
Education Management	33,383,890	33,287,296
Office of School Readiness	140,891,251	140,891,251
Reserves and Transfers	41,159,108	39,793,108
Federal Programs	1,368,024,908	1,368,024,908
Other Department of Public Instruction	103,841,896	103,863,576
TOTAL	\$9,509,102,990	\$9,540,535,941
Revenue	(1,794,673,421)	(1,832,220,656)
NET GENERAL FUND APPROPRIATIONS	\$7,714,429,569	\$7,708,315,285

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.

Total Appropriations by Fund	Certified FY 2007-08	Certified FY 2008-09
DPI (13510 – General Fund)	9,509,102,990	9,540,535,941
School Technology (23511 – Special Fund)	32,315,000	32,315,000
DPI-Trust (65510 – Trust Fund)	23,628,286	23,628,286
TOTAL	\$9,565,046,276	\$9,565,046,276

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 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: \$115,106,617
(as of June 30, 2007)**

The Fund was created by the General Assembly through the School Facilities Finance Act of 1987 (S.L. 1987-622 and 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 two primary revenue sources for the Fund are the annual proceeds from a 1% increase in the State's Corporate Income Tax 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 a measure of county local tax effort. In FY 2006-07, Fund revenues totaled \$249,047,189. Of this amount, approximately \$109.0 million was from Corporate Income Tax revenues and approximately \$131.0 million was from Lottery revenues, with the approximately \$9.0 million of interest earned on these amounts comprising the remainder of Fund revenues.

Department of Public Instruction

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

More at Four

The General Assembly provided an additional \$56 million for each year of the biennium to the More at Four program, bringing total funding to \$140.6 million per year. This additional funding expands the program by 10,000 slots for additional children (bringing the total number of slots to 28,653) and increases the per-slot amount by \$400 (bringing the total funding per slot to \$4,450). (S.L. 2007-323, Section 5.2 and 7.24)

Class Size Reduction

In FY 2006-07, the General Assembly appropriated \$127.9 million from the Education Lottery Fund (ELF) to "class size reduction" – keeping K-3 student-to-teacher ratios at 18:1. For FY 2007-08, the budgeted appropriation from the ELF for class size reduction decreased to \$90.4 million, as actual lottery revenues were lower than originally anticipated. As a result of the decrease in available funds from the ELF, the General Assembly appropriated \$37.5 million in nonrecurring funds from the General Fund in order to maintain K-3 student-to-teacher ratios at 18:1.

(S.L. 2007-323, Section 5.2)

Disadvantaged Student Supplemental Funding (DSSF)

Recurring funding for DSSF increased by \$17.6 million, bringing total annual funding to \$69.2 million for each year of the biennium. DSSF is used to address the capacity needs of local school administrative units to meet the needs of disadvantaged students. All local education agencies (LEAs) receive DSSF funding to assist in meeting the educational needs of their disadvantaged students.

(S.L. 2007-323, Section 7.8)

Expansion of Additional Allotments

The General Assembly increased recurring funding for several allotments. The table below summarizes these increases and the total amount of funding in each allotment in FY 2007-08:

Allotment	Recurring Increase	Total FY 2007-08 Funding
Instructional Supplies/Materials	\$2.8 million	\$83.0 million
Academically or Intellectually Gifted	\$1.8 million	\$60.9 million
Children with Disabilities	\$5.0 million	\$634.2 million
Small County Supplemental Funding	\$2.1 million	\$42.6 million

(S.L. 2007-323, Sections 7.7, 7.10, and 7.11)

School Connectivity

The General Assembly provided \$12 million in each year of the biennium to support the partial implementation of a new plan for 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. 2007-323, Section 7.28)

Learn and Earn Online

Learn and Earn Online is a new program that delivers online college credit courses to high school students. For FY 2007-08, the General Assembly appropriated \$6.5 million in recurring funds and \$5 million of nonrecurring funds to a nonreverting reserve fund. Any unspent funds from the

Department of Public Instruction

reserve will supplement the \$10.1 million of recurring funds the General Assembly appropriated to the program for FY 2008-09.

(S.L. 2007-323, Section 7.27)

Dropout Prevention Grants

The General Assembly established a new \$7.0 million nonrecurring grant program that will distribute funding on a competitive basis to support innovative programs that address dropout prevention. Grants may be made to LEAs, schools, local agencies, or nonprofit organizations. The grants will be of varying sizes, up to \$150,000.

(S.L. 2007-323, Section 7.32)

Focused Education Reform Pilot Program

The General Assembly provided \$4.4 million for FY 2007-08 and \$7.2 million for FY 2008-09 in order to fund the first two years of a three-year education reform pilot program. The program, now known as the Collaborative Project, is administered by the Public School Forum of North Carolina. The program will incorporate targeted professional development, after-school programming, teacher recruitment and retention bonuses, and achievement bonuses for school administrators. The LEAs participating in the program are Caswell County, Greene County, Mitchell County, Warren County, and Washington County.

Literacy Coaches

An additional \$5.7 million was provided over each year of the biennium to expand the number of literacy coaches serving in middle schools from 100 to 200. Literacy coaches provide research-based teaching practices and job-embedded professional development to assist teachers in the development of specialized curricula. As part of this effort, an additional \$2.0 million was also provided to the Teacher Academy to provide specialized training of new and existing literacy coaches.

(S.L. 2007-323, Section 7.23)

<p style="text-align: center;">SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473</p>
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Section 7.23 21ST CENTURY LITERACY COACHES

Section 7.23 provides funds for the hiring of 100 additional literacy coaches and directs the State Board of Education to develop a site selection process. This provision allows literacy coaches with certification from the National Board of Professional Teaching Standards (NBPTS) to remain on the NBPTS teacher salary schedule, thereby retaining their 12% salary increment.

Section 7.24 MORE AT FOUR PROGRAM AND OFFICE OF SCHOOL READINESS

Section 7.24(d) expands program eligibility criteria for More at Four to include children of active duty members of the armed forces, including the North Carolina National Guard, State military forces, or a reserve component of the armed forces, or children of armed forces members who were injured or killed while serving on active duty. Subsection (f) grants additional funding flexibility, allowing DPI to allot funds up to 90% of the full cost of the additional slots for a county if the county demonstrates financial need and granting the exception will not reduce access statewide to More at Four slots.

Department of Public Instruction

Section 7.28 SCHOOL CONNECTIVITY INITIATIVE

In addition to dictating rules and guidelines for how the \$12.0 million in School Connectivity funds must be spent, Section 7.28(f) allocates up to \$300,000 to establish NC Virtual within the Governor's Office, while Section 7.28(h) allows up to \$1.0 million to be used to establish up to eight regional positions to assist LEAs with implementation of the initiative.

Section 7.31 STUDY OF PUBLIC SCHOOL FUNDING FORMULAS

Section 7.31 creates the Joint Legislative Study Committee of Public School Funding Formulas. The section directs the Committee to study nine funding formulas and submit a report of its findings and recommendations to the 2008 Regular Session of the 2007 General Assembly. The list of funding formulas to be studied was increased to twelve by S.L. 2007-345 (2007 Budget Technical Corrections Act), Section 5.3. S.L. 2007-345, Section 5.3 also authorizes the Committee to use up to \$1.0 million from funds available to the General Assembly to conduct the study and to hire an outside consultant, if necessary.

Section 7.36A CHILD NUTRITION

Section 7.36A extends the date by which all elementary schools must implement Child Nutrition Program standards to the end of the 2008-09 school year. The section encourages LEAs to take steps towards implementation during the 2007-08 school year and requires the Child Nutrition Services Section of DPI to study how State funds allocated to support the implementation of nutrition standards in elementary schools should be distributed to ensure fair and equitable distribution of resources.

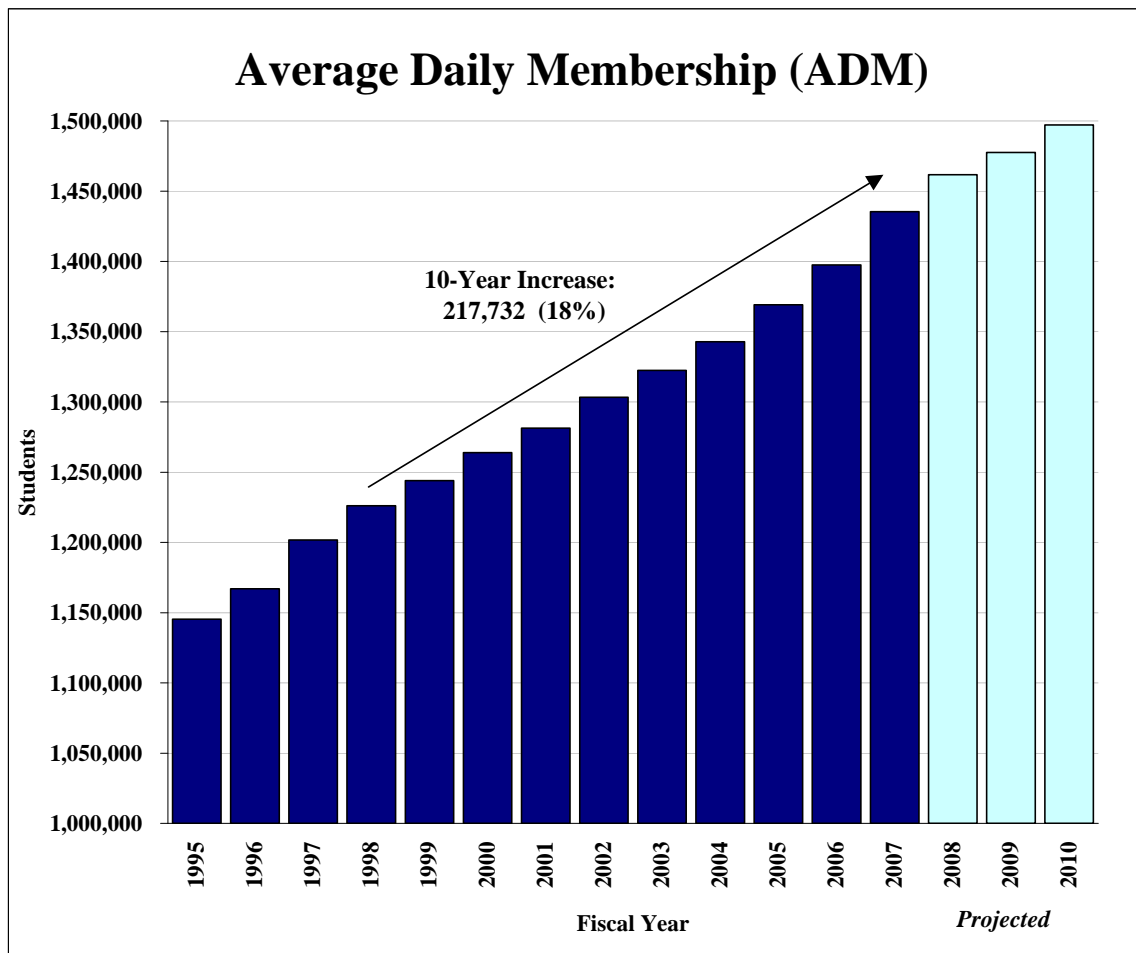
SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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Average Daily Membership (ADM)

North Carolina has experienced significant growth in the number of students attending public schools. DPI measures this concept using a term called 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 1999 to 2008 there has been a 17.5% increase in the State's allotted ADM – an average annual increase of 1.8% per year. The 2007-08 total allotted ADM of 1,461,470 is 25,995 (1.8%) greater than the 2006-07 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.

Department of Public Instruction



Teacher Salaries

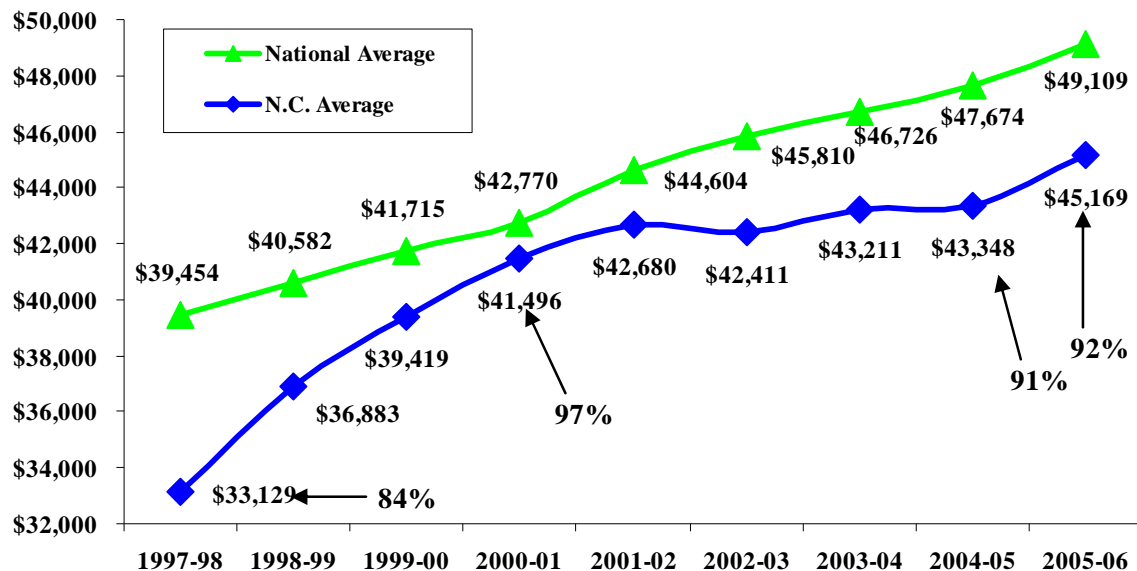
DPI allots teacher positions to local school districts based on allotted ADM and then pays the salary of teachers that fill those positions. Teacher salaries are based on experience, educational attainment, and level of professional licensure.

As of the 2004-05 school year, North Carolina is ranked 24th nationally in average teacher salary. While the State has been around the national average for average teacher salary, it has lagged further behind other states on beginning teacher salary. However, since the 2004-05 school year, the beginning salary has been increased from \$25,420 to \$30,000, an 18.0% increase, or an average annual increase over the three-year period of 5.7%.

The figure which follows displays the substantial gains the North Carolina average teacher salary has made over the last 10 years, moving from 84% to 92% of the national average by FY 2005-06. However, not captured in the figure (as national data are not yet available) was a dramatic average teacher salary increase between FY 2005-06 and FY 2006-07 of \$2,488, or 5.7%. Coupled with the projected 5.0% average teacher salary increase provided in FY 2007-08, the trend for NC teacher salaries has been rising significantly.

Department of Public Instruction

Average 10-Month Teacher Salaries

**Low Wealth Supplemental Funding**Purpose of Low Wealth

Counties across the State have differing abilities to generate local tax revenue to support LEAs. As such, the Low Wealth allotment was created to distribute additional State resources to those counties that are not able to generate local resources at a level equal to the State average for all counties. This funding allows those counties to enhance their instructional programs to improve student achievement.

Eligibility

Any LEA located in a county in which the calculated county wealth is less than the State average wealth is eligible for Low Wealth funding. For the 2007-08 school year, 80 LEAs (70 counties) will receive Low Wealth funds. *Note that eligibility is tied solely to the county's ability to generate local tax revenue.* Eligibility is *not* tied to any measurement of the number of students who might be considered low income or at risk. Other allotments (Disadvantaged Student Supplemental Funding, At-Risk, Improving Student Accountability) address the needs of disadvantaged student populations.

Allotment Formula

The Low Wealth formula is complex but essentially requires only three steps (for a more complete description of the Low Wealth allotment formula, please refer to the *2006-2007 Allotment Policy Manual* available on DPI's web site):

1. Determine a county's "wealth" by calculating the amount of local tax revenue that county could generate based on property value and other sources, taking into account density of a county's taxable property.

Department of Public Instruction

2. Determine how that amount compares with what the county could generate if it had the ability to generate wealth at the statewide average. Counties below the average are eligible for supplemental funding.
3. Determine how much supplemental funding would be required to bring that county up to the statewide average local revenue per student.

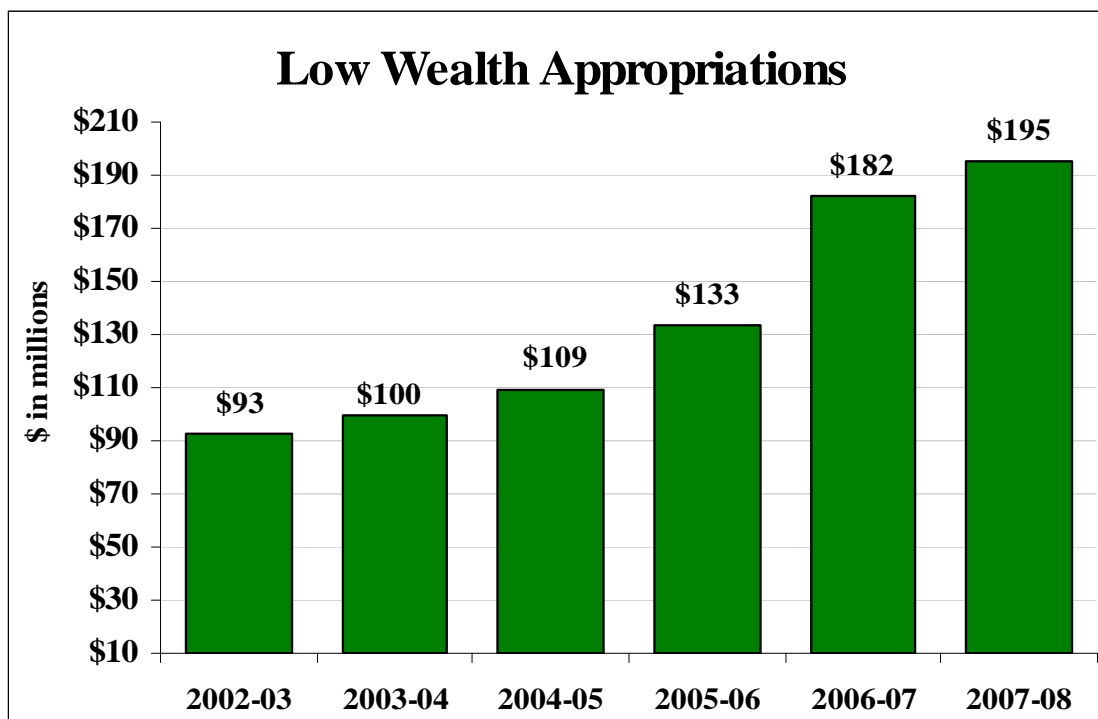
An eligible county must meet one of the following standards in order to receive 100% of what is required to bring local school funding to the statewide average:

1. Effective tax rate equal to or above the State average; or
2. Local contributions equal to or exceeding what the formula calculates that a county could contribute.

If the county is unable to meet either of these criteria, it will instead receive a prorated amount based on how the county's actual local funding per student compares to funding per student that would be expected given the county's relative wealth.

Funding

Appropriations for Low Wealth Supplemental Funding have increased from \$93.0 million in FY 2002-03 to \$195.4 million in FY 2007-08, or at an average rate of 16.0% per year. The 2006-07 school year was the first year that funding levels were sufficient to provide all eligible LEAs meeting eligibility and effort requirements the additional funding required to bring their per-student funding to the State average.



Note: Appropriations for FY 2007-08 include adjustments made to the certified budget for salary and benefit increases.

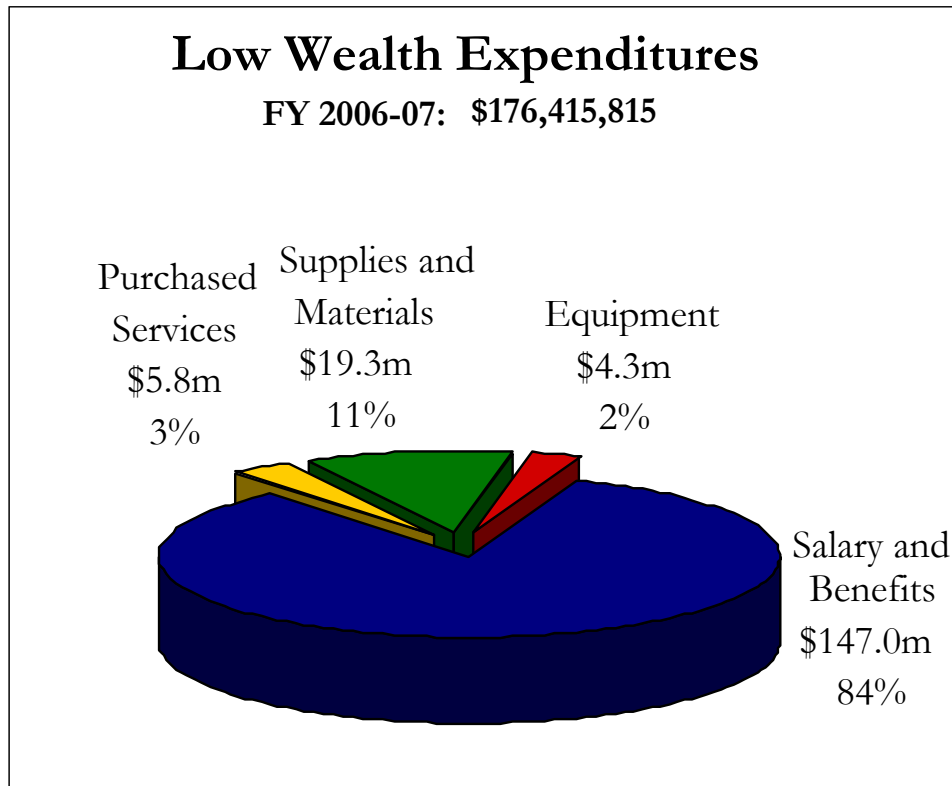
Department of Public Instruction

Eligible Uses of the Funds

Low Wealth funds can be spent on a variety of items, including:

- Instructional services such as teachers, supplies, and equipment;
- Local salary supplements; and
- Staff development.

The chart below demonstrates how Low Wealth funds were spent during the 2006-07 school year.



Disadvantaged Student Supplemental Funding (DSSF)

Purpose of DSSF

DSSF provides supplemental funding to LEAs to more fully address the needs of disadvantaged students.

Eligibility

All LEAs with an approved DSSF plan are eligible for funding. LEAs must submit to the State Board of Education (SBE) a plan detailing how they will use DSSF monies in conjunction with other available funds to meet the educational needs of the LEA's population of disadvantaged students. The plan must be approved by the SBE before the LEA can receive its allotment.

Allotment Formula

DPI uses a two-step formula to allot DSSF funds:

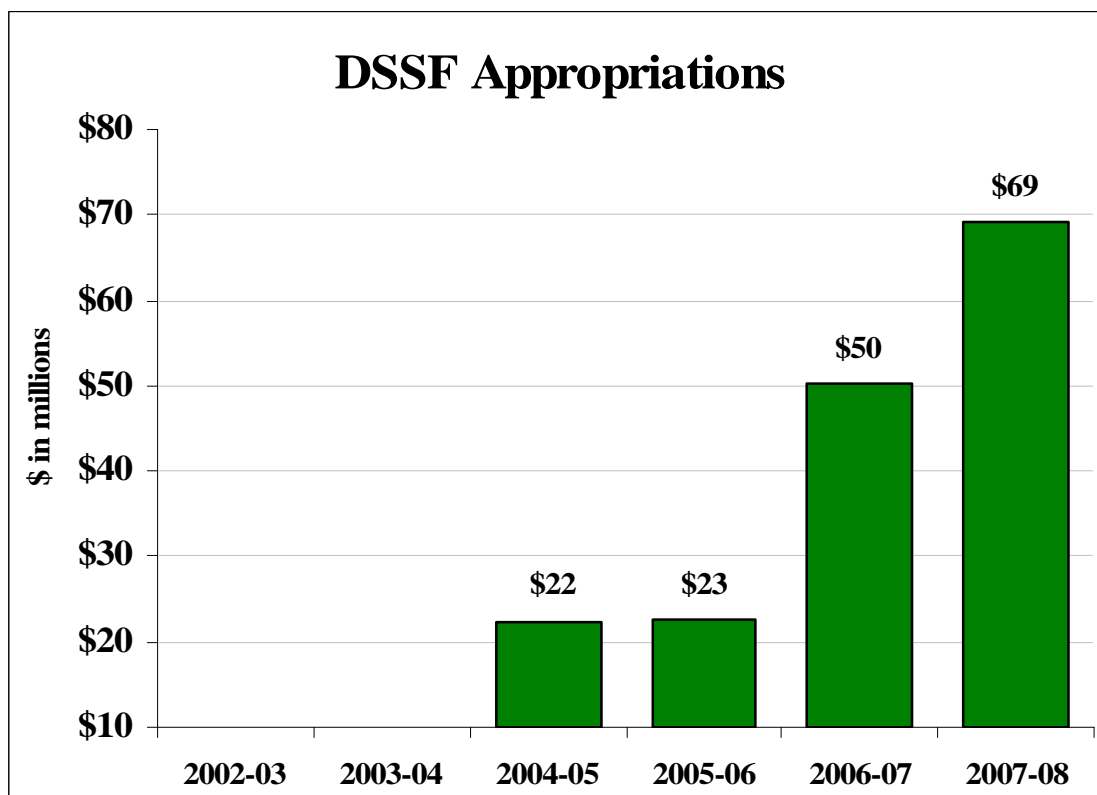
1. Estimate the number of disadvantaged students in each school district: use "principal components analysis" to create a composite score for each LEA. The resulting composite score is an estimate of the LEA's disadvantaged population based on the percent by

Department of Public Instruction

- which the LEA deviates from the State average for a composite of three variables (students living in a single-parent family, percent of school-aged population below the poverty line, and percent of students who have at least one parent with less than a high school degree), weighted by their predictive validity.
2. Provide to each LEA the dollar equivalent of one teacher (State average teacher salary, including benefits) per every:
 - a. 420.0 disadvantaged students if the LEA's wealth (determined per the Low Wealth formula) is greater than 90% of the State average;
 - b. 273.0 disadvantaged students if the LEA's wealth is greater than 80% but less than 90% of the State average;
 - c. 238.4 disadvantaged students if the LEA's wealth is less than 80% of the State average; and
 - d. 67.2 disadvantaged students if the LEA was one of the 16 LEAs to receive funding during the 2005-06 school year.

Funding

DSSF began as a 16-LEA pilot program during the 2004-05 school year. The program was expanded to provide funding to all LEAs during the 2006-07 school year. During the 2007 Session, the General Assembly expanded funding for the program by \$17.6 million, bringing total annual funding to \$69.2 million for each year of the biennium.



Note: Appropriations for FY 2007-08 include adjustments made to the certified budget for salary and benefit increases.

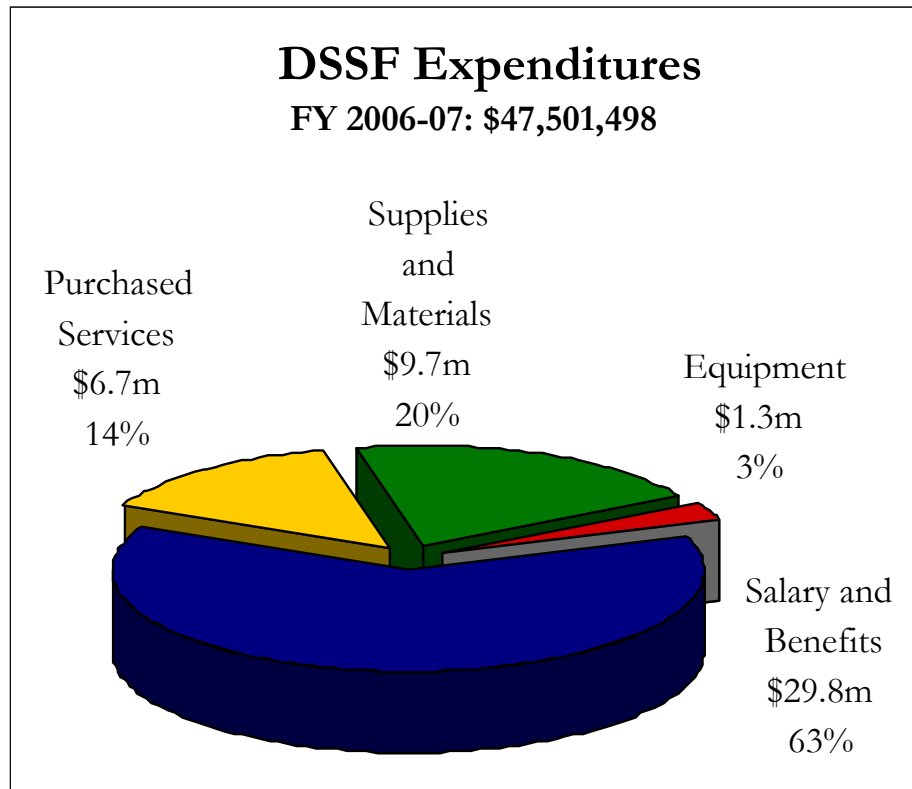
Department of Public Instruction

Eligible Uses of the Funds

DSSF funds must be spent consistent with the plans submitted to the SBE. Eligible uses for the funds include:

- Instructional positions, instructional support positions, and staff development;
- In-school or after-school remediation programs;
- Diagnostic software and progress-monitoring tools; and
- Teacher bonuses and supplements (up to 35% of funds can be used for this purpose).

The chart below demonstrates how DSSF funds were spent during the 2006-07 school year.



ADDITIONAL LEGISLATION

S.L. 2007-173 (HB 150) EVERY CHILD READY TO LEARN

This law amends G.S. 115C-364, which establishes the admission requirements for kindergarten. Beginning with the 2009-10 school year, students must reach the age of five on or before August 31 to enroll in public schools. Previously, students had to reach the age of five on or before October 16. This change will decrease the size of the incoming kindergarten class of 2009-10 by an estimated 15,360 students, decreasing State and county expenditures that year by an estimated \$78.5 million and \$25.1 million, respectively.

S.L. 2007-326 (HB 956) RETIRED TEACHERS WORK

The General Assembly extended, until October 1, 2009, the law removing any restrictions on the amount of postretirement earnings for any retiree of the Teachers' and State Employees' Retirement System who retired on or before October 1, 2007, and who is employed to teach in a

Department of Public Instruction

permanent full-time or part-time capacity that exceeds fifty percent (50%) of the normal workweek in a public school. To qualify, a teacher must have been retired for six months and not have been employed in any capacity with a public school in the six months immediately preceding the return to teaching. Each local school administrative unit will pay 11.7% of the teacher's salary to the Retirement System to fund the cost. Future retirees, who retire after October 1, 2007, may return to teaching with no earning restrictions only if, prior to retirement, they had attained (i) age 65 with 5 years of service, (ii) age 60 with 25 years of service, or (iii) 30 years of creditable service and meet the other requirements described above.

(See the Statewide Reserves: Salaries and Benefits section for additional information.)

S.L. 2007-345 (HB 714) 2007 BUDGET TECHNICAL CORRECTIONS ACT

This law amends S.L. 2007-323 (HB 1473), and modifies Section 7.31 STUDY OF PUBLIC SCHOOL FUNDING FORMULAS. Section 5.3 of S.L. 2007-345 increases the list of funding formulas to be studied to twelve and authorizes the use of up to \$1.0 million from funds available to the General Assembly to conduct the study, hiring an outside consultant if necessary.

S.L. 2007-378 (SB 914) TEACHERS CONVERT PERSONAL LEAVE TO SICK LEAVE

This law amends G.S. 115C-302.1(d). The General Assembly allows any teacher to convert all personal leave over five days to sick leave as of June 30 of each year. At the time of retirement, a teacher may also convert accumulated personal leave to sick leave for creditable service towards retirement. In the past, teachers lost all accumulated personal leave in excess of five days on June 30 of each year. This bill is expected to increase LEA expenditures on substitute teachers by \$200,000 for the 2007-08 school year, growing to \$4.9 million for the 2011-12 school year.

(See the Statewide Reserves: Salaries and Benefits section for additional information.)

S.L. 2007-445 (SB 1479) HIGH-NEEDS SCHOOLS/ADDITIONAL SUPPORT

The SBE shall designate schools which meet two or more of the following criteria as high-need schools: (1) more than 45% performing at Level 1 or Level 2, (2) teacher turnover rate greater than 25%, or (3) more than 80% of students qualify for free or reduced-price lunch. Beginning with the 2008-09 school year, schools designated as high-need will receive support through the following changes in policy or law: (1) NBPTS teachers who serve as literacy coaches, mentors, etc. shall retain their 12% salary increment, and (2) NBPTS teachers, teachers of the year, and other accomplished teachers designated by the SBE shall be given academic freedom to use research-based practices in the classroom that go beyond the standard course of study. Finally, the SBE shall consider several additional strategies outlined in this law to provide additional support to high-need schools by January 15, 2008.

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

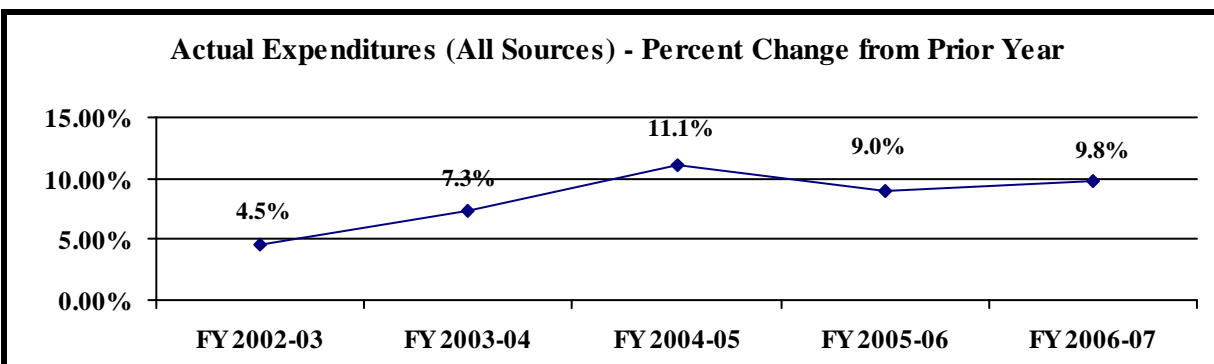
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	1,072,055,713	1,176,727,026	1,160,999,014	1,122,535,857
Revenue	247,179,367	245,513,022	222,892,854	222,892,854
Net Appropriations	\$824,876,346	\$931,214,004	\$938,106,160	\$899,643,003
Positions (FTE)	200.75	200.00	203.00	203.00

Budget Overview:

The budget for the Community College System is \$1.2 billion for FY 2007-08 and \$1.1 billion for FY 2008-09. Of the FY 2007-08 budget, approximately \$938.1 million, or 81%, is supported by net General Fund appropriations. Tuition and registration fees provide an additional \$174.6 million, or 15%, 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 2007-08 budget is \$15.7 million less than the FY 2006-07 actual expenditures, a 1.3% decrease. This decrease is due to an unusually large amount of nonrecurring funds appropriated to the System in FY 2006-07. Note, however, that the certified budget does not include salary and benefit increases. Once these adjustments are made, the FY 2007-08 budget for the System is \$36.5 million, or 3.1%, more than the FY 2006-07 actual expenditures. Over the last five years, the average percentage change in actual expenditures was 8.3%. 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)	Certified FY 2007-08	Certified FY 2008-09
Community Colleges – Operating State Aid	1,088,925,440	1,073,456,421
Community College System Office	32,882,592	32,888,454
Financial Aid	13,981,202	13,981,202
Reserves and Transfers	25,209,780	2,209,780
TOTAL	\$1,160,999,014	\$1,122,535,857
Revenue	(222,892,854)	(222,892,854)
NET GENERAL FUND APPROPRIATIONS	\$938,106,160	\$899,643,003

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Enrollment Growth

The Community College System received a total of \$8.8 million in recurring funds for FY 2007-08 to fully fund budgeted enrollment growth. Community college enrollment has increased by 2,296 full-time equivalent (FTE) students, from 193,027 to 195,323, an increase of 1.2%. An additional \$2 million in nonrecurring funds was appropriated for FY 2007-08 for an Enrollment Growth Reserve, which assists colleges that experience actual growth significantly higher than the amount budgeted.

Tuition Increase

The General Assembly increased tuition for the 2007-08 academic year by 6.3% to generate an additional \$7.5 million for expansion of community college programs. Consequently, in-State tuition increased from \$39.50 to \$42.00 per credit hour up to a maximum of 16 hours; full-time resident students will pay \$672 per semester or \$1,344 per year. Nonresident tuition will increase from \$219.50 to \$233.30 per credit hour up to a maximum of 16 hours. North Carolina has the lowest resident community college tuition rate in the Southeast.

Capital and Equipment

The General Assembly made three appropriations of nonrecurring funds for FY 2007-08 related to community college capital and equipment:

- The System received \$10.0 million in nonrecurring funds in FY 2007-08 for equipment. These nonrecurring funds are in addition to the \$31.3 million in the base budget for this purpose.

Community College System

- To improve community college capital planning, the General Assembly appropriated \$8.0 million in nonrecurring funds in FY 2007-08 for advanced planning. These funds will allow each college to develop a master facility plan.
- The System also received \$15.0 million in nonrecurring funds in FY 2007-08 for Facilities and Equipment Grant funds.
(S.L. 2007-323, Section 8.10)

Allied Health

In recognition that curriculum programs in allied health – such as nursing, radiology, dental hygiene – are on average more expensive to provide, the System received \$5.6 million in both years of the biennium to help support these programs. Funds may be used for allied health equipment and supplies or to supplement the salaries of allied health faculty.

Distance Education

The General Assembly invested \$4.8 million in recurring and \$551,400 in nonrecurring funds in FY 2007-08 to enhance the System's online distance education efforts. Funds will be used to increase bandwidth at colleges, to establish three additional Virtual Learning Centers focused on developing online content, and to create a virtual computing lab. The community colleges will also receive funding for courses provided to public school students through the Learn and Earn Online initiative. Funding for this program appears in the Department of Public Instruction budget, since community colleges receive reimbursement from the Department of Public Instruction upon verification of course enrollments. In FY 2007-08, the community colleges will be reimbursed at a rate of \$4,746 per full-time equivalent (FTE) student or approximately \$445 per three credit hour course.
(S.L. 2007-323, Sections 7.27, 8.4, and 8.7)

<p style="text-align: center;">SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473</p>
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Section 8.6 STUDY COMMUNITY COLLEGE ACCESS

Section 8.6 directs the Joint Legislative Education Oversight Committee to conduct a study to determine whether the Community College System is appropriately organized to provide adequate geographic access, while minimizing overhead costs. Specifically, the Committee shall study the current policy and procedure for approving programs and multicampuses. The Committee shall also consider whether any savings could be realized from consolidating high-cost programs at regional locations.

Section 8.8 STUDY OF FTE FUNDING FORMULA

Section 8.8 directs the Fiscal Research Division (FRD) to study whether modifications to the community college funding formulas are needed to ensure that colleges have sufficient funds to adequately serve students when enrollment increases. Specifically, FRD shall make findings and recommendations regarding the Basic Skills Block Grant, funding for equipment and instructional resources, the "other costs" factors in the Instructional and Institutional Support formulas, and the allocation of resources between the base and enrollment allotments of the Institutional Support formula.

Community College System

Section 8.10 COMMUNITY COLLEGE FACILITIES AND EQUIPMENT FUNDS

Section 8.10 directs the Community Colleges System Office to develop a competitive grant process for awarding Facilities and Equipment Grant Funds. Priority shall be given to projects that: (1) are consistent with the college's strategic plan, (2) have a high potential for promoting economic growth, and (3) are located at colleges that did not receive a grant during the previous fiscal year. The maximum grant amount is \$1 million, and grants must be matched dollar-for-dollar with non-State funds.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Facilities and Equipment Grant Fund

Per G.S. 115D-32, county governments are responsible for providing adequate funding for acquisition of land, erection of all buildings, and alterations and additions to buildings at community colleges. Nevertheless, the State previously has provided support for community college capital in the form of General Obligation bonds and State appropriations.

Section 8.10 of S.L. 2006-66 first established the Community Colleges Facilities and Equipment Grant Fund. To date, the General Assembly has appropriated \$15 million in nonrecurring funds in both FY 2006-07 and FY 2007-08 for the Fund. The maximum grant award is \$1 million, and grant funds must be matched by non-State dollars on an equal matching-fund basis consistent with G.S. 115D-31(a)(1). While grant monies may be used for equipment needs related to new or renovated buildings, funding requests for equipment only are not considered.

Grants are awarded using a merit-based application process. The Division of Business and Finance within the Community Colleges System Office reviews, evaluates, and recommends grant awards to the State Board, which makes the final grant approvals. In FY 2007-08, applications will be scored based on four criteria categories:

1. Ratio of non-State funds leveraged to State funds requested;
2. College space needs based on System projections;
3. Type of project (repairs and renovations related to safety, ADA, and OSHA compliance; repair, renovation, or construction of classrooms/labs/shops; etc.); and
4. Priority requirements outlined in Section 8.10 of S.L. 2007-323: consistency with college's strategic plan and potential for economic growth.

Section 8.10 of S.L. 2007-323 directs that priority shall also be given to those colleges that did not receive a grant award in FY 2006-07 (see award list below), and that awards shall be distributed geographically throughout the State.

FY 2006-07 Community College Facilities and Equipment Grant Awards

<u>College</u>	<u>Grant Amount</u>
Bladen Community College	1,000,000
Caldwell Community College and Technical Institute – Watauga County	950,000
Catawba Valley Community College	1,000,000
Central Carolina Community College – Western Harnett County Center	647,620
Central Piedmont Community College	1,000,000

Community College System

Durham Technical Community College – Orange County Center	375,000
Edgecombe Community College	800,000
Fayetteville Technical Community College	400,000
Gaston College	1,000,000
Guilford Technical Community College	1,000,000
Haywood Community College	705,582
Martin Community College	934,798
Pamlico Community College	750,000
Robeson Community College	1,000,000
Surry Community College	1,000,000
Wayne Community College	512,000
Western Piedmont Community College	1,000,000
Wilkes Community College	925,000

Total Awards: 18 Colleges	\$15,000,000
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ADDITIONAL LEGISLATION

S.L. 2007-230 (HB 642) AMEND COMM. COLL. PERFORMANCE STANDARDS

HB 642 amends G.S. 115D-31.3 "Institutional performance accountability," which was previously entitled "Performance budgeting." This law allows community colleges to carry forward a portion of their previous year's General Fund appropriations under two categories of performance recognition: (1) Successful Institutional Performance and (2) Exceptional Institutional Performance. Colleges may use these funds to purchase equipment, pay for initial program start-up costs, and provide one-time faculty and staff bonuses. Colleges that meet specific "low-wealth" criteria may also use these funds for maintenance of plant, such as utilities, building maintenance, and landscaping. The following table compares the programs under the previous and current versions of the law.

	Previous	Current
Successful Institutional Performance		
Performance measures	Six measures: five prescribed by law and one chosen by each college from an approved list	Eight measures: all prescribed by law
Evaluation standard	Must meet standard or make significant improvement	Must meet standard
Carryforward allowed per performance standard met	1/3 of 1% of final General Fund appropriation	1/4 of 1% of final General Fund appropriation
Maximum carryforward allowed	2% of final General Fund appropriation	2% of final General Fund appropriation
Exceptional Institutional Performance		
Number of performance standards that must be met	At least five of six measures	All eight measures
Number of additional criteria that must be met	None	Two: (a) licensure exam passing rates and (b) grade point average of college transfer students

University of North Carolina System

North Carolina Constitution, Art. IX, Sec. 8

G.S. 116 - 4 Constituent Institutions

G.S. 116 - 11 Powers and Duties of UNC Board of Governors

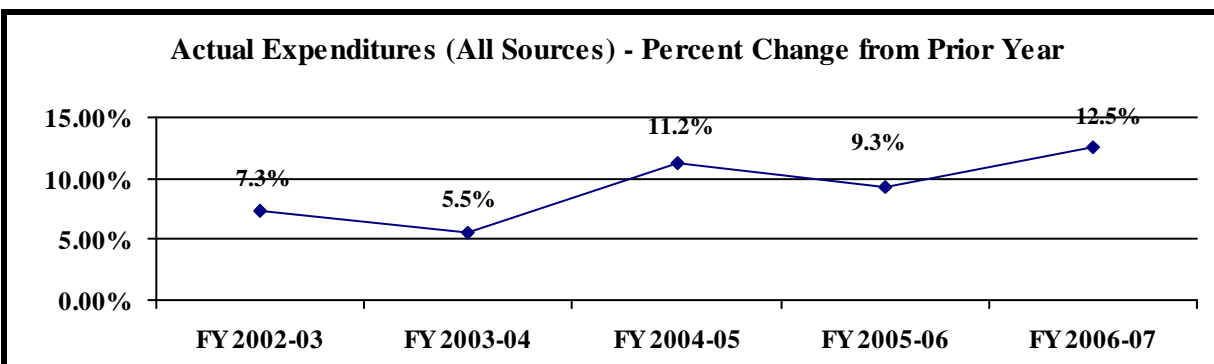
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	3,133,909,667	3,524,862,467	3,714,557,954	3,818,781,839
Revenue	987,862,487	1,089,172,212	1,088,286,937	1,162,334,740
Net Appropriations	\$2,146,047,180	\$2,435,690,255	\$2,626,271,017	\$2,656,447,099
Positions (FTE)	33,034.64	35,150.94	34,912.20	35,054.80

Budget Overview:

The current operating budget for the University of North Carolina system is \$3.7 billion in FY 2007-08 and \$3.8 billion in FY 2008-09. Approximately 71% of the budget is appropriated from net General Fund appropriations. The remainder of the budget is funded from tuition (21%), transfers from the Escheat Fund for financial aid (3%), and miscellaneous revenues (6%). The FY 2007-08 budget is a 5.4% increase over the FY 2006-07 actual expenditures. However, it must be noted that the certified budget does not include salary and benefit increases of \$120.9 million in FY 2007-08 and \$123.5 million in FY 2008-09. With the adjustment for salary and benefits, the UNC system's operating budget is \$3.8 billion for FY 2007-08 and \$3.9 billion for FY 2008-09. The adjusted operating budget for FY 2007-08 is 8.8% larger than the FY 2006-07 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. Note that 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)	Certified FY 2007-08	Certified FY 2008-09
Appalachian State University	173,952,688	175,488,056
East Carolina University - Academic Affairs	299,734,813	307,995,018
East Carolina University - Health Affairs	50,421,039	50,367,536
Elizabeth City State University	39,894,292	40,888,108
Fayetteville State University	69,952,150	71,150,853
NC A&T State University	143,355,018	144,008,499
North Carolina Central University	107,332,994	109,803,916
North Carolina School of the Arts	34,687,723	34,022,522
North Carolina State University	536,553,424	548,075,961
NCSU - Agricultural Extension Service	57,699,726	57,561,381
NCSU - Agricultural Research Service	64,018,258	62,740,554
UNC - Asheville	47,121,164	47,760,338
UNC - Chapel Hill Academic Affairs	453,911,853	463,148,464
UNC - Chapel Hill Health Affairs	237,438,657	242,964,860
UNC - CH Area Health Education Centers (AHEC)	47,818,875	47,818,875
UNC - Charlotte	242,780,817	250,467,764
UNC - Greensboro	204,381,987	210,119,796
UNC - Pembroke	68,294,992	70,352,703
UNC - Wilmington	140,283,293	142,953,351
Western Carolina University	110,813,373	112,144,022
Winston-Salem State University	82,393,337	86,244,210
North Carolina School of Science and Math	17,697,325	17,903,753
UNC - General Administration	51,381,669	51,542,724
UNC - Institutional Programs (Reserves for Salary; other)	132,601,272	132,917,624
UNC - Related Education Programs (Financial Aid)	254,363,245	294,667,162
UNC Hospitals	45,673,970	45,673,970
TOTAL	\$3,714,557,954	\$3,818,781,839
Revenue		
Tuition Only	(772,552,714)	(784,788,617)
Escheat Fund	(103,230,226)	(164,818,216)
Misc. Revenue	(212,503,997)	(212,727,907)
Revenue	(\$1,088,286,937)	(\$1,162,334,740)
NET GENERAL FUND APPROPRIATIONS	\$2,626,271,017	\$2,656,447,099

University of North Carolina System

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

Total Appropriations by Fund	Certified FY 2007-2008	Certified FY 2008-2009
Campus Operating Budgets (160xx – General Fund)	3,714,557,954	3,818,781,839
UNC Hospitals – Auxiliary Enterprises (56085-Enterprise Fund)	414,849	414,849
UNC Hospitals – Operating Fund (56096-Enterprise Fund)	756,135,838	806,482,623
TOTAL	\$4,471,108,641	\$4,625,679,311

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

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 Operating Fund (56096)

Balance: \$324,502,737
(as of June 30, 2007)

The UNC Hospitals Operating Fund contains the budgeted expenditures and revenues for a 708-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' workload in 2006 included 61,200 emergency room visits, 741,980 clinic visits, 22,347 surgical cases, and 4,000 births (UNC Health Care Annual Report). UNC Hospitals has an authorized head count of 6,231 positions in FY 2007-08. 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

University Cancer Research Fund

The State is investing \$25 million in FY 2007-08, \$40 million in FY 2008-09, and \$50 million each year thereafter in cancer research at the UNC-CH School of Medicine, the Lineberger Comprehensive Cancer Center, and the North Carolina Cancer Hospital (open in 2009). Expenditures from the University Cancer Research Fund are determined by a seven-person committee chaired by the UNC President. The priority areas for the Fund include: (1) promoting innovative research in cancer prevention and early detection, (2) turning basic research into cancer therapies, and (3) initiating a nation-leading, multicomponent cancer survivorship research

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program. The revenue sources for this Fund are a tax increase on tobacco products other than cigarettes, an allotment from the Tobacco Trust Fund, and an appropriation from the General Fund.

(S.L. 2007-323, Section 6.23)

EARN Scholars

The EARN (Education Access Rewards North Carolina) Scholars program was created to provide \$4,000 grants to students from families with incomes that are less than 200% of the federal poverty level (\$41,300 for family of four in 2007). The two-year grants are intended to replace loans in a student's financial aid package. It is hoped that the EARN scholarship combined with Learn and Earn high school programs will offer students from low-income families a debt-free college experience. The program is funded with State appropriations of \$27.6 million in FY 2007-08 and \$60 million in FY 2008-09 and an Escheat Fund appropriation of \$40 million in FY 2008-09.

(S.L. 2007-323, Section 9.7)

Need-Based Financial Aid

The existing UNC need-based financial aid program was increased by \$35.6 million per year to (1) fund an additional 5,400 income eligible students that go unfunded each year because their applications are filed after aid funds are dispersed and (2) fund inflationary cost for room, board, books, supplies, and tuition/fees. The increased funds are from the Escheat Fund.

(S.L. 2007-323, Section 9.3)

North Carolina Research Campus in Kannapolis

The NC Research Campus at Kannapolis received its second phase of funding for building leases (\$4.2 million), new faculty positions (\$4.3 million), and equipment (\$8 million nonrecurring). In 2006, the campus received appropriations of \$5 million recurring and \$1 million nonrecurring. The State's commitment to this 350-acre biotechnology research effort includes the establishment of the NCSU Institute for Fruit and Vegetable Science, the UNC-CH Nutrition Research Institute, and the UNC-C Bioinformatics Center. The public-private partnership led by Castle & Cooke, Inc., will feature the 311,000-square-foot David H. Murdock Core Laboratory Building that will be dedicated to scientific research on nutrition, fruits, and vegetables.

Online Education

The General Assembly appropriated funds for several online initiatives in the UNC system. UNC Online, UNC's one-stop access to and delivery of online degree and certificate programs, received \$4.2 million in FY 2007-08 and \$2 million in FY 2008-09. The UNC/NC Community College System 2+2 E-Learning Initiative established in 2005 received \$1 million in recurring funds each year. The UNC-Greensboro iSchool is a participant in the Governor's Learn and Earn Online initiative and will be reimbursed from funds appropriated to the Department of Public Instruction during the 2007 Session. There are 1,014 high school students enrolled in 15 courses offered by the iSchool in Fall 2007.

University of North Carolina System**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 6.15 UNC DISTINGUISHED PROFESSOR CHALLENGE GRANT INITIATIVE**

This section provides a \$4.6 million nonrecurring reserve to match a private challenge grant to create one distinguished professorship in the fields of teacher education, engineering, nursing, or traditional arts and sciences at each of the 16 constituent institutions. Section 6.15 also allocates \$1.4 million nonrecurring to address the current backlog of professorships in the Distinguished Professors Endowment Trust Fund.

Section 6.23 UNIVERSITY CANCER RESEARCH FUND

This section establishes the University Cancer Research Fund to finance cancer research at the UNC-CH School of Medicine, the Lineberger Comprehensive Cancer Center, and the North Carolina Cancer Hospital (open in 2009). The Cancer Research Fund Committee, chaired by the UNC President, determines fund allocations from the State's investment of \$25 million in FY 2007-08, \$40 million in FY 2008-09, and \$50 million each year thereafter. A portion of this new funding is derived from a tax increase on tobacco products other than cigarettes.

Section 9.6 GRADUATE NURSE SCHOLARSHIP LOANS FOR FULL-TIME NURSING FACULTY IN THE NC COMMUNITY COLLEGE SYSTEM

This section makes community college nursing faculty eligible for the Graduate Nurse Scholarship Program for Faculty Production and gives them priority in receiving the awards. Faculty utilizing this scholarship loan must teach in the NC Community College System one year for each year of financial aid received. This scholarship loan program is administered by the State Education Assistance Authority, an affiliate of the UNC system.

Section 9.10 PRINCIPALS' EXECUTIVE PROGRAM

This section mandates that the Principals' Executive Program (PEP) provide data showing the program makes a positive impact on teaching and learning. The State Board of Education and the UNC Board of Governors will develop a plan to provide feedback on PEP's performance. PEP must also develop a formal admissions policy that considers geographic diversity and gives priority to school administrators from high-need schools.

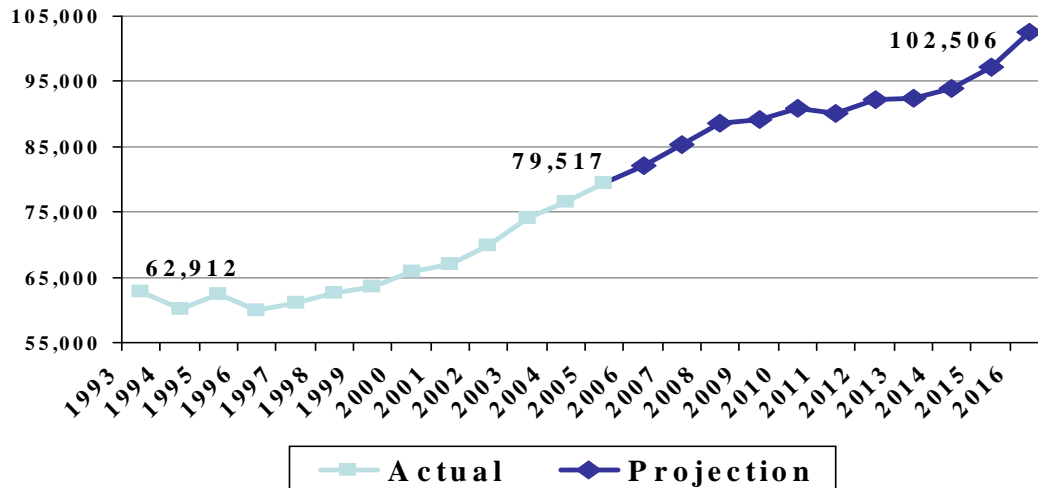
SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION**College Enrollment**

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 high school students. Based on current graduation rates, the number of public and private high school graduates will increase from 79,517 in 2005 to 102,506 in 2016. Given that the UNC system traditionally enrolls 31% to 32% of high school graduates, UNC is expected to continue accepting its share of the additional students each year.

University of North Carolina System

NC High School Graduates

Actual 1993-2005 and Projected to 2016

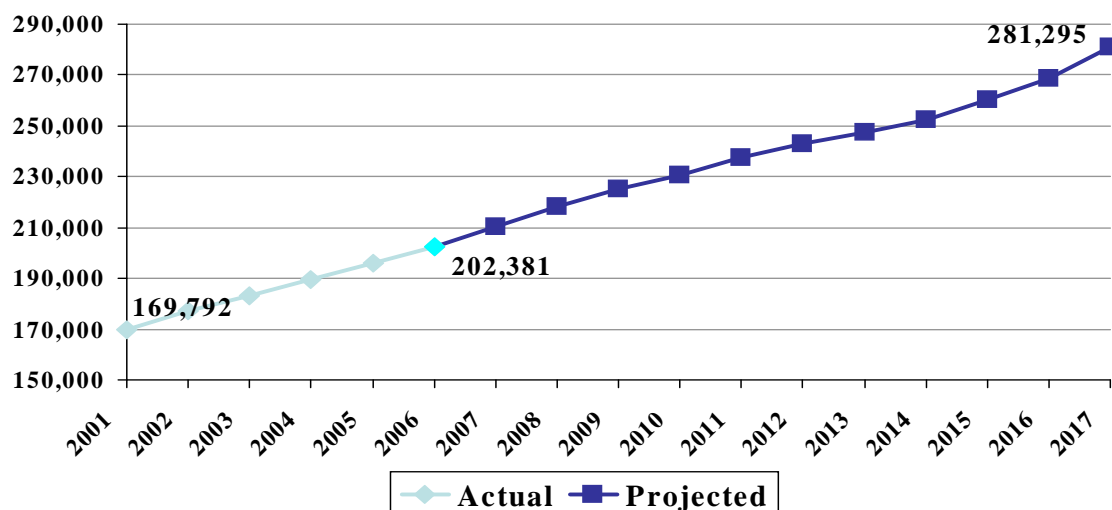


Source: UNC-General Administration

The Academic Planning Section of UNC General Administration makes annual projections of enrollment each year for the UNC Board of Governors. The Section's preliminary projection produced in Fall 2007 is shown below. UNC's total combined on-campus and online enrollment is expected to increase by 78,914 students over the next decade.

UNC Fall Headcount Enrollment

Actual (through 2006) and Projected



Source: UNC-General Administration, Three-Model Average Oct. 2007

University of North Carolina System

What is the fiscal impact of 78,914 more students in the UNC system by 2017? In 2005, the Finance staff at UNC General Administration calculated that the average State appropriation per UNC resident student was \$10,335. Given this current subsidy, the operating budget for the UNC system would have to grow by \$815.6 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 2005-06 as reported to the Integrated Postsecondary Education Data System (IPEDS).

	FY 2005-06 ACTUAL
ALL REVENUE SOURCES	
State appropriations (excluding capital)	2,249,660,073
Auxiliary enterprises (dining, housing, etc.)	1,033,891,521
Federal appropriations and contracts	895,200,005
Tuition and fees	864,331,798
Hospital sales and services	652,636,623
Investment income	308,843,901
Gifts, including contributions from affiliated organizations	168,440,180
Local/private operating grants and contracts	159,275,219
Other Sources	158,772,406
Total Revenues	\$6,491,051,726

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

ADDITIONAL LEGISLATION

Please see the Capital Section for a summary of the following:

- **S.L. 2007-322 (HB 749) UNC PRESIDENT'S ADVISORY COMMITTEE RECOMMENDATIONS**
- **S.L. 2007-394 (SB 1241) UNC NONAPPROPRIATED CAPITAL**

**APPROPRIATIONS
SUBCOMMITTEE ON
HEALTH AND HUMAN
SERVICES**

Appropriations Subcommittee on Health and Human Services

Subcommittee Summary:

The Health and Human Services Subcommittees, 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. Will Neumann
Rep. Charles Thomas

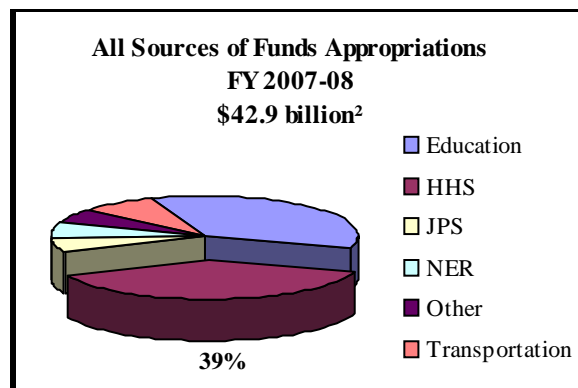
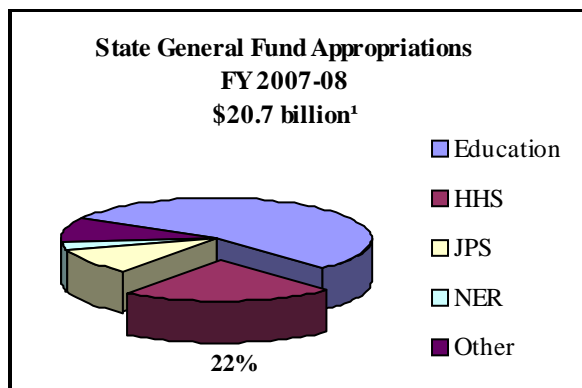
Sen. Doug Berger, Chair
Sen. Bill Purcell, Chair
Sen. Harris Blake
Sen. Charlie Dannelly
Sen. James Forrester
Sen. Steve Goss

Staff:

Melanie Bush, Team Leader
Lee Dixon
Andrea Poole
Natalie Towns

Budget Comparison:

The combined budgets under the Health and Human Services Subcommittees total \$4.6 billion, or 22% of net General Fund appropriations and \$16.5 billion, or 39% of all funding sources reported for FY 2007-08. 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:

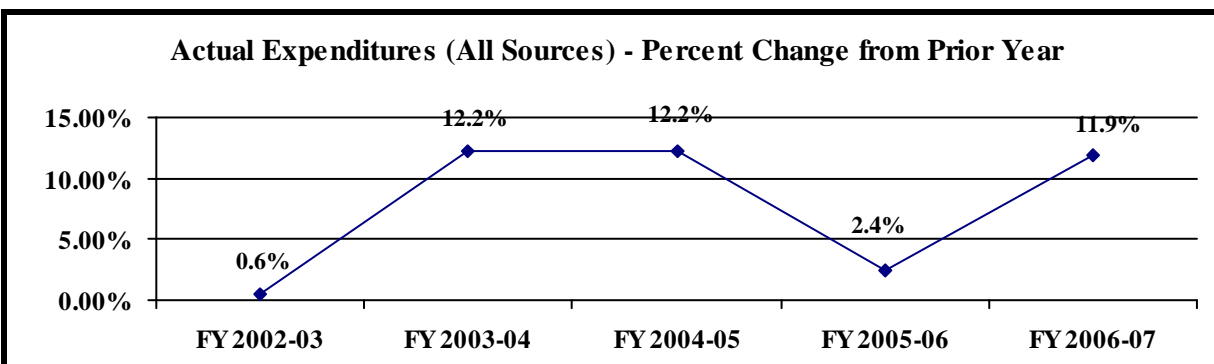
The North Carolina Department of Health and Human Services (DHHS) is the largest agency in State government. DHHS provides health insurance coverage for low-income children and the aged, blind, and disabled; public health prevention and education services; mental health and substance abuse services; 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	14,403,574,251	16,117,806,436	16,472,710,024	17,269,622,387
Revenue	10,378,388,656	11,884,326,836	11,841,608,627	12,169,422,034
Net Appropriations	\$4,025,185,595	\$4,233,479,600	\$4,631,101,397	\$5,100,200,353
Positions (FTE)	18,250.23	18,389.20	18,583.47	18,536.68

Budget Overview:

The operating budget for the Department of Health and Human Services is \$16.5 billion in FY 2007-08 and \$17.3 billion in FY 2008-09. This represents a 2.2% increase over the actual expenditures in FY 2006-07. 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 7.86% between FY 2002-03 and FY 2006-07, primarily due to increases in Medicaid caseloads and costs. Approximately 72% of the DHHS budget is from federal receipts for Medicaid and block grants, with the remaining 28% 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:

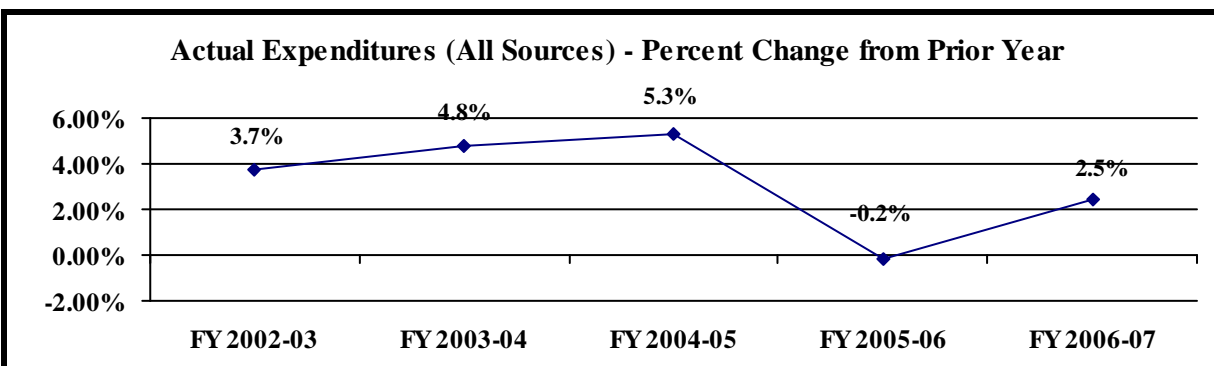
The Division of Aging and Adult Services has two major functions – services for the elderly and services for disabled adults. The Division partners with the 17 Area Agencies on Aging and the 100 county departments of social services to deliver services for elderly and disabled adults.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	79,768,745	81,742,499	84,808,688	84,546,036
Revenue	49,796,040	47,744,208	48,865,099	48,800,857
Net Appropriations	\$29,972,705	\$33,998,291	\$35,943,589	\$35,745,179
Positions (FTE)	57.00	57.00	57.00	57.00

Budget Overview:

The current operating budget for the Division of Aging and Adult Services is \$84.8 million in FY 2007-08 and \$84.5 million in FY 2008-09. This represents a 3.75% increase over actual FY 2006-07 expenditures and a 0.3% decrease between FY 2007-08 and FY 2008-09 expenditures. The decrease is due to a one-time \$200,000 non-recurring appropriation in FY 2007-08 for the Senior Center General Purpose fund. Overall revenues have remained relatively flat, primarily due to capped federal funding for the Social Services Block Grant.

The Division's budget has increased by an average of 3.22% between FY 2002-03 and FY 2006-07. 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 58% 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 the Division of Aging and Adult Services total General Fund operating budget by category.

Division of Aging and Adult Services (14411 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
State Administration	2,482,439	2,482,439
Adult Services	2,884,026	2,886,060
Community-based Services	76,328,637	76,061,970
Elder Rights Program	3,080,083	3,082,064
Prior Year Earned Revenues	33,503	33,503
TOTAL	\$84,808,688	\$84,546,036
Revenue	(48,865,099)	(48,800,857)
NET GENERAL FUND APPROPRIATIONS	\$35,943,589	\$35,745,179

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Quality Improvement Pilot for Adult Care Homes

The Division received \$264,000 in nonrecurring funds for the FY 2007-09 biennium for a Quality Improvement Pilot for Adult Care Homes to improve independence, dignity, and choice for residents. A collaboration between the adult care home industry and the State, the pilot will include adult care homes in four counties: Alamance, Buncombe, Nash, and Rutherford.

(S.L. 2007-323, Section 10.12)

Home and Community Care Block Grant

The Division received an additional \$536,000 in recurring funds in each year of the biennium for the Home and Community Care Block Grant. For more information about the Home and Community Care Block Grant, please see the Select Programs and Other Budgetary Information section.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 10.12 QUALITY IMPROVEMENT CONSULTATION PROGRAM FOR ADULT CARE HOMES

Section 10.12 directs the Division to develop and conduct a pilot quality improvement consultation program for adult care homes in no more than four counties to promote better care and improve quality of life for residents of adult care homes.

Division of Aging and Adult Services

Section 10.13 STATE-COUNTY SPECIAL ASSISTANCE

Effective October 1, 2007:

- Subsection 10.13(c) increases the maximum monthly rate for residents in adult care facilities from \$1,148 per month to \$1,173 per month;
- Subsection 10.13(d) continues the separate maximum monthly rate for residents of special care units at \$1,515 per month;
- Subsection 10.13(e) allows adjustments to the Special Assistance rate in order to shift costs to the Medicaid Program. The provision also allows a limited income disregard (subject to federal approval) for individuals whose countable income would exceed the Special Assistance rate once costs are shifted to Medicaid.

Section 10.14 SPECIAL ASSISTANCE IN-HOME

Section 10.14 codifies authorization language for the Special Assistance In-Home Program and allows up to 15% of the total caseload for the Special Assistance Program to be allocated to the Special Assistance In-Home Program. It also sets the maximum monthly payment for in-home assistance at 75% of the rate paid for individuals living in an adult care home.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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Home and Community Care Block Grant

FY 2007-08 Budget: \$58,601,669

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 is comprised of 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.

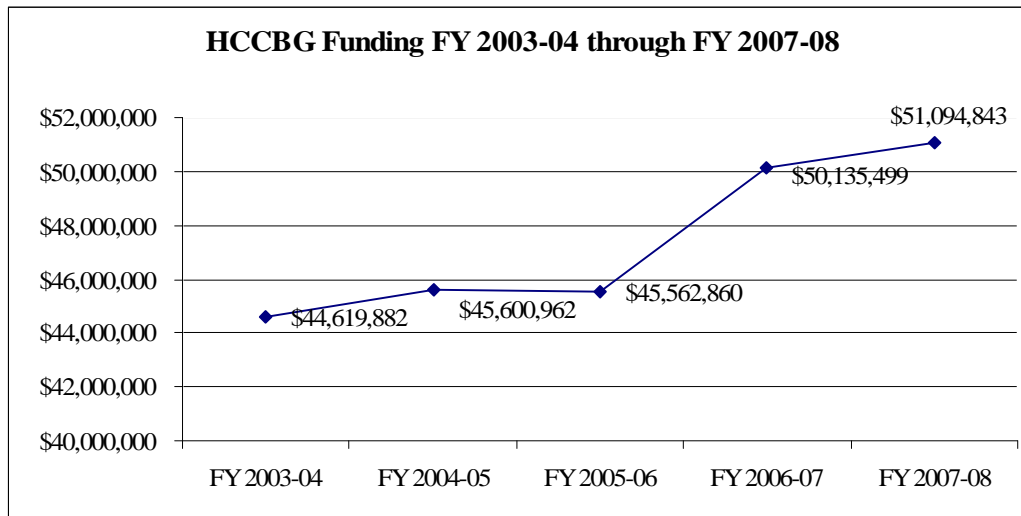
Funds from the federal Older Americans Act (P.L. 110-19) constitute approximately 38% of the Home and Community Care Block Grant, providing funding for support services, congregate meals, and home-delivered meals. The federal Social Services Block Grant provides 4% of funding, while the General Assembly appropriates an additional \$30 million in funds, accounting for 58% of the total budget.

The block grant is intended to develop and enhance comprehensive and coordinated community-based systems of services, opportunities, and protections for older adults, including:

- Home-delivered meals,
- Congregate meals,
- In-home aide, and
- Other support services.

Division of Aging and Adult Services

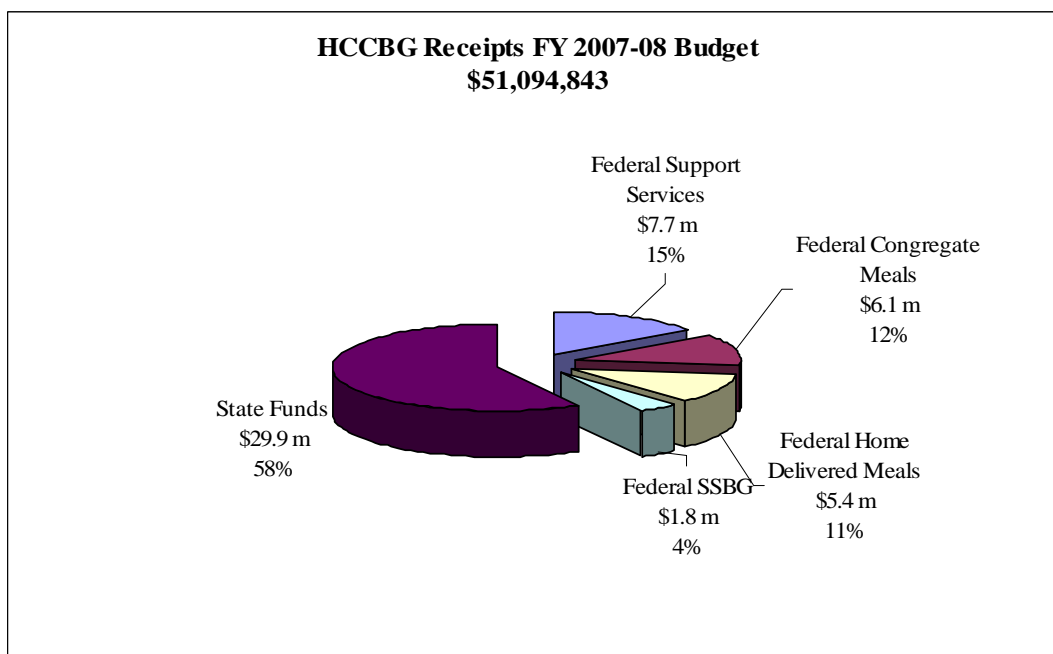
The following graph shows HCCBG funding levels from FY 2003-04 through FY 2007-08.



SOURCE: Division of Aging and Adult Services

Funds from the federal Older Americans Act (P.L. 110-19) constitute approximately 38% of the Home and Community Care Block Grant, providing funding for support services, congregate meals, and home delivered meals. The federal Social Services Block Grant provides 4% of funding, while the General Assembly appropriates an additional \$30 million in funds, accounting for 58% of the total budget.

The following chart shows the composition of HCCBG receipts for FY 2007-08.



Division of Aging and Adult Services

Block grant funds are distributed to the 17 Area Agencies on Aging, which support county programs on aging through grant agreements with Boards of County Commissioners and community service providers. The block grant gives County Commissioners discretion in deciding how the funds will be administered and budgeted in the county. Local Funding Plans adopted by Boards of County Commissioners define the services to be provided, determine funding levels for services, and identify the community service providers involved in providing Home and Community Care Block Grant services.

ADDITIONAL LEGISLATION

No relevant information to report.

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

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

Agency Description:

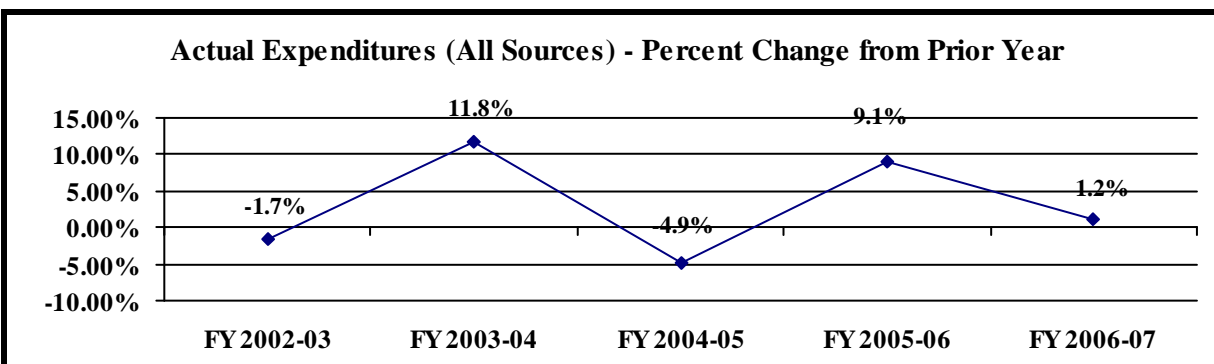
The Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing are tasked with serving persons who are blind, visually impaired, deaf, hard-of-hearing, deaf-blind, or speech-impaired; their families; the agencies and organizations that serve them; and the businesses that employ 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	28,153,747	28,480,806	29,808,819	30,035,144
Revenue	18,868,434	19,867,967	18,521,279	18,600,501
Net Appropriations	\$9,285,313	\$8,612,839	\$11,287,540	\$11,434,643
Positions (FTE)	312.00	312.00	319.00	319.00

Budget Overview:

The budget for the Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing is \$29.8 million for FY 2007-08 and \$30 million for FY 2008-09. The combined expenditures for the two divisions increased 4.6% in FY 2007-08. Of this amount nearly 75% is devoted to rehabilitation and independent living activities. Slightly more 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 3.10%. The increases and decreases during this period of time were the result of 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 Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing total General Fund operating budget by division.

Divisions of Services for the Blind and Services for the Deaf and Hard-of-Hearing (14450 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Division of Services for the Blind – Total	26,763,815	26,946,792
Management and Support	1,425,152	1,350,152
Special Assistance for the Blind	903,614	903,614
Medical Eye Care	1,934,553	1,963,920
Independent Living	5,991,177	5,991,177
Rehabilitation Program	15,648,448	15,876,943
Business Enterprise	860,871	860,986
Division of Services for the Deaf and Hard-of-Hearing – Total	3,045,004	3,088,352
Administration	552,577	552,577
Regional Resource Centers	2,492,427	2,535,775
TOTAL	\$29,808,819	\$30,035,144
Revenue	(18,521,279)	(18,600,501)
NET GENERAL FUND APPROPRIATIONS	\$11,287,540	\$11,434,643

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	Certified FY 2007-08	Certified FY 2008-09
DSBDHH (14450 – General Fund)	29,808,819	30,035,144
Hard-of-Hearing-Trust Telecommunication (67425 – Special Fund)	9,981,780	9,981,780
TOTAL	\$39,790,599	\$40,016,924

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: \$16,270,483
(as of June 30, 2007)

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. S.L. 1999-402 amended the statute to establish the Telecommunications Relay Service and Trust Fund, replacing the Dual Party Relay System. S.L. 2003-341 further amended G.S. 62-157 to extend the surcharge to 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. These activities serve to ensure that deaf, hard-of-hearing, deaf-blind, and speech-impaired individuals achieve functional equivalency in accessing telecommunications and emergency alerting systems. In addition, outreach and technology support are offered.

Telecommunications Trust Fund—FY 2006-07

Balance June 30, 2006	12,134,142
Revenue	
Telephone Surcharge	6,102, 580
Cellular Telephone Surcharge	7,119,439
Expenditures	(9,085,679)
Balance June 30, 2007	\$16,270,483

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

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Independent Living Program

The Division of Services for the Blind received \$482,121 in FY 2007-08 and \$642,827 in FY 2008-09 to establish three additional positions to serve consumers and one technology instructor to train consumers in the use of assistance technology and devices.

The Independent Living Program in the Division for Services to the Blind provides direct services to North Carolinians who are blind and visually impaired through counseling and training in home management, personal care, and safe travel skills that enable them to live independently.

Divisions of Services for the Blind and Services for the Deaf and Hard of Hearing**Vocational Rehabilitation Program**

The Division of Services for the Blind received \$200,000 of additional funding in each year of the biennium for its Vocational Rehabilitation Program.

The Vocational Rehabilitation Program facilitates consumer skills development for individuals experiencing vision loss, particularly the older population. Direct counseling and training allow individuals to become successfully employed in the career of their choice. Employing individualized needs assessment, and one-on-one and community-based group instruction in the use of adaptive techniques and technologies, individuals can successfully perform daily living activities.

Medical Eye Care Program

The Division of Services for the Blind received \$200,000 of additional recurring funding in each year of the biennium for its Medical Eye Care Program. As a result, vision-impaired persons with incomes up to 125% of the Federal Poverty Level will be eligible to receive services.

The Medical Eye Care Program provides service intervention by eye care professionals through one-on-one direct client services, including eye exams, surgery, and purchase of glasses that facilitate the prevention or reduction of vision loss.

Deaf Regional Field Office Staff

The Division of Services for the Deaf and Hard-of-Hearing received \$52,773 in FY 2007-08 and \$70,364 in FY 2008-09 to establish two Community Development Specialist positions and one Interpreter Services Consultant position.

The Regional Office Field Staff provides training and technical assistance, in compliance with the Americans with Disabilities Act and other disability laws, with hard-of-hearing services, alternative communication orientation, coping skills, and family-support training. The staff also provides direct services in the form of providing assistive listening devices, interpreter services, or computer assisted note-taking. In addition, consumers are trained in self-advocacy, disability and ability awareness, and cross-cultural education.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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No relevant information to report.

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:

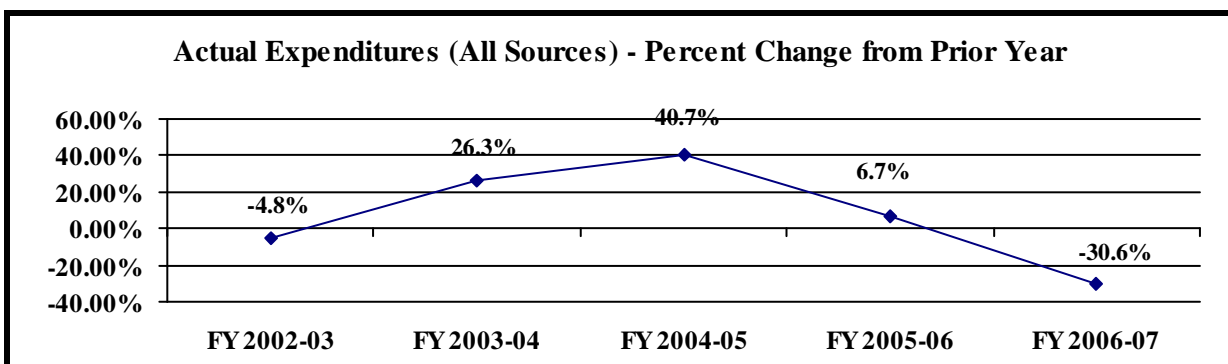
The Division of Central Management and Support (DCMS) provides agency-wide administrative support to the 30 divisions and offices within the Department of Health and Human Services. Sections include Budget and Analysis, Human Resources, the Internal Auditor, the Controller, Division of Information Resource 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	287,679,909	199,746,930	169,549,050	145,800,210
Revenue	174,627,077	130,840,346	98,666,037	83,208,032
Net Appropriations	\$113,052,832	\$68,906,584	\$70,883,013	\$62,592,178
Positions (FTE)	835.25	710.25	723.25	718.25

Budget Overview:

The budget for the Division of Central Management and Support is \$169.5 million in FY 2007-08 and \$145.8 million in FY 2008-09. The FY 2008-09 budget is 14% less than FY 2007-08 largely due to a decrease in federal receipts for the Medicaid Management Information System. Federal receipts, including Medicaid and block grant funding, represent 58.2% of the Division's budget, while net General Fund appropriations represent 41.8%.

The Division's actual expenditures have changed an average of 7.67% between FY 2002-03 and FY 2006-07. 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 provides a breakdown of the Division of Central Management and Support total General Fund operating budget by category.

Office of the Secretary (14410 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration	11,758,333	11,109,042
Office of the Controller	17,515,931	17,536,699
Division of Human Resources	2,752,075	2,763,173
Division of Information Resource Management	60,216,773	56,993,823
Office of Medicaid Management Information System	20,075,400	799,692
Office of Citizen Services	1,355,155	1,464,197
NC Council on Developmental Disabilities	1,192,605	1,192,605
Office of Economic Opportunity	32,343,150	32,343,555
Office of Research Demonstration and Rural Health Development	25,188,266	15,180,920
Reserves and Transfers	(2,848,638)	6,416,504
TOTAL	\$169,549,050	\$145,800,210
Revenue	(98,666,037)	(83,208,032)
NET GENERAL FUND APPROPRIATIONS	\$70,883,013	\$62,592,178

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. This fund, administered by a 28-member Health and Wellness Commission and its staff, has historically provided funding for man health and human services-related programs and initiatives.

Health and Wellness Trust Fund

Balance: \$66,226,223
(As of June 30, 2007)

The Health and Wellness Trust Fund (HWTF) was established by the General Assembly 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.

Since its inception, the HWTF has been used to finance a variety of programs, including:

Division of Central Management and Support

- Medication Assistance Program—Provides grants to community-based organizations to help low-income seniors and underserved populations of all ages obtain free and low-cost prescription drugs;
- ChekMeds—Educates seniors and other at-risk populations in the safe and effective use of medications to prevent adverse reactions from drug interactions and duplicative therapy;
- NCRx—Helps low-income seniors participate in Medicare's Part D prescription drug benefit;
- Teen Tobacco-Use Prevention and Cessation—Awards grants to local school, community, and statewide organizations, paid media, and store owners enforcing the state law restricting the sale of tobacco to minors;
- Youth Overweight and Obesity Prevention/Reduction Initiative—Creates and increases school and community programs to address the epidemic of childhood obesity;
- Eliminating Health Disparities Initiative—Awards grants to community-based organizations to raise awareness about health disparities within targeted minority populations; and
- The Rural HOPE program—Provides the principal for rural hospitals to obtain loans to enhance their infrastructure, in collaboration with the Duke Endowment.

Current and future funding for these programs is contained in the following table.

Health and Wellness Trust Fund

Revenue	FY 2007-08	FY 2008-09	FY 2009-10
Principal	66,226,223	49,962,352	15,824,361
Projected MSA Payment	32,384,233	32,868,665	33,305,162
Interest Income	2,682,865	1,367,072	452,500
Total	101,293,321	84,198,089	49,582,023
Expenditures			
Debt Service	(11,375,968)	(21,846,063)	(21,689,672)
Administration	(870,419)	(876,677)	(855,893)
MSA Legal Services	(95,725)	(100,000)	(100,000)
Tobacco-Use Prevention	(17,100,000)	(17,100,000)	(15,500,000)
Eliminating Health Disparities	(4,972,123)	(4,911,665)	-
Obesity	(2,250,997)	(3,325,000)	(1,267,985)
Medication Assistance Program	(1,112,590)	(661,175)	(584,176)
NCRx	(12,000,000)	(12,000,000)	-
ChekMeds	(1,000,000)	(1,000,000)	-
Governor's Quality Initiative	(400,000)	(400,000)	(400,000)
Study Committees	(153,148)	(153,147)	-
High-Risk Pool (H265)	-	(5,000,000)	-
Rural HOPE	-	(1,000,000)	-
Total	(51,330,970)	(68,373,727)	(40,397,726)
Balance Remaining	\$49,962,351	\$15,824,362	\$9,164,297

Division of Central Management and Support**SIGNIFICANT LEGISLATIVE BUDGET ACTIONS****Health Information Systems**

The General Assembly appropriated \$5,062,920 in FY 2007-08 and \$775,086 in FY 2008-09 to complete and implement a new Health Information System (HIS). The new HIS, replacing the current 20-year-old data system, will capture, monitor, report on, and bill services provided by local health departments. The HIS Project has been approved by the State Chief Information Officer. Completion of the system is expected by November 3, 2008.

The Health Information System is intended to enhance the capability of the local health departments to record, store, and transmit health data and significantly increases the local health departments' and Division of Public Health's capacity to monitor administrative, financial, and programmatic data. This is intended to be a more effective and efficient way to handle illness and disease management and to capture payments made to local health departments.

Community Health Centers

The General Assembly appropriated an additional \$5 million in FY 2007-08 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. (S.L. 2007-323, Sec. 10.6)

Medical and Dental Recruitment Incentives

The General Assembly appropriated \$349,000 in additional recurring funding for the recruitment of physicians and other health care providers. Utilizing these new funds, along with existing funds, the Office of Rural Health expects to contract with at least 79 health care providers and place them in shortage areas across the State.

Rural Hospital Operations and Maintenance

The General Assembly appropriated \$2 million for FY 2007-08 for small rural hospitals that are in need of assistance with hospital operations and infrastructure maintenance. The funds may be used for capital and operational needs and pilot demonstration programs to address the long-term survivability of rural hospitals.

(S.L. 2007-323, Sec. 10.7)

Health Net

The General Assembly appropriated \$2,880,000 in FY 2007-08 to sustain the 18 provider networks that coordinate and manage the free health care being provided to 30,000 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 federal Health Resources and Services Administration. Providing these 30,000 individuals with a "medical home" reduces the burden and financial drain on the health care system and assures them of receiving care and treatment before a chronic condition worsens or an illness reaches an acute stage.

Division of Central Management and Support

<p align="center">SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473</p>
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No relevant information to report.

<p align="center">SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION</p>
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Community Services Block Grant
FY 2007-08 Budget: \$16,717,938

The passage of the Economic Opportunity Act of 1964 marked the creation of the nation's War on Poverty and Community Action model. The goal was and continues to be to focus federal, State, local, and private resources to enable low-income families and low-income individuals in rural and urban areas to attain the skills, knowledge, and motivation to secure opportunities for them to become self-sufficient.

The Community Services Block Grant (CSBG), the successor to the Economic Opportunity Act of 1964, is the driving force behind maintaining the community action network, which is currently made up of 1,100 Community Action Agencies (CAA) nationwide. These CAAs can be found in 96% of the counties across the nation.

The General Assembly appropriated \$16,717,938 in federal Community Services Block Grant funds for the FY 2007-08 Budget. In North Carolina the CSBG is administered by the Office of Economic Opportunity, 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 organizational infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

The CSBG program is designed to foster integrated problem solving. CAAs conduct community needs assessments. The assessment is used to advise the local agencies on how best to mobilize and allocate resources to plan, develop, and integrate programs to meet community needs.

Community Services Block Grant

Funded Activities	FY 2004-05	FY 2005-06	FY 2006-07	Certified FY 2007-08
Community Action Agencies	15,183,502	15,071,666	15,071,666	15,071,666
Limited-Purpose Agencies	848,165	837,315	823,261	823,136
NC DHHS/OEO	848,165	837,315	823,261	823,136
Total	\$16,879,832	\$16,746,296	\$16,718,188	\$16,717,938

Division of Central Management and Support

More than 90% of these funds (\$15.1 million) will be 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. In FY 2005-06, 8,378 individuals were assisted with CSBG funds.

(S.L. 2007-323, Sec. 10.55)

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:

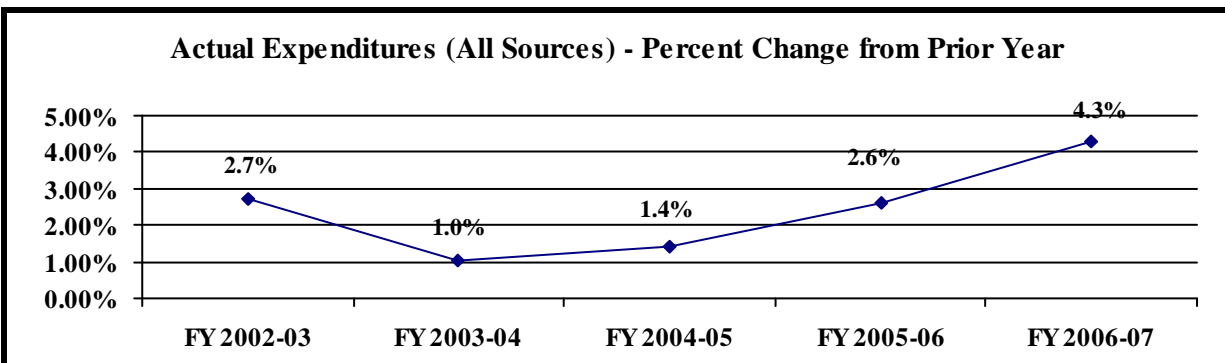
The Division of Child Development is tasked with early childhood services, including increasing access to high-quality child care for low-income families, ensuring the safety of children in child care arrangements, increasing the availability of high-quality child care in North Carolina, and ensuring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

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	578,361,628	603,325,629	632,504,119	636,744,308
Revenue	309,835,169	309,445,779	325,760,101	325,760,101
Net Appropriations	\$268,526,459	\$293,879,850	\$306,744,018	\$310,984,207
Positions (FTE)	279.75	293.75	293.75	293.75

Budget Overview:

The budget for the Division of Child Development is \$632.5 million in FY 2007-08 and \$636.7 million in FY 2008-09. The FY 2007-08 budget represents a 5% increase from the Division's FY 2006-07 actual expenditures. Overall revenues have remained relatively flat, primarily due to limited increases in federal funding for the Child Care Development Fund (CCDF) Block Grant.

The Division's actual expenditures have grown an average of 2.37% between FY 2002-03 and FY 2006-07, a result of increased spending for subsidized child care and changes in Smart Start funding levels. 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 CCDF block grant funds.



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)	Certified FY 2007-08	Certified FY 2008-09
General Administration	20,447,828	20,463,148
Early Childhood Initiatives (North Carolina Partnership for Children)	204,972,966	209,197,835
Child Development Services (Child Care Subsidy Services)	407,083,325	407,083,325
TOTAL	\$632,504,119	\$636,744,308
Revenue	(325,760,101)	(325,760,101)
NET GENERAL FUND APPROPRIATIONS	\$306,744,018	\$310,984,207

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Child Care Subsidies

A total of \$8.4 million recurring was appropriated for each year of the biennium in order to address the backlog of families and children waiting for financial assistance with child care. The additional funding is projected to remove 643 children from the child care subsidy waiting list and to implement child care market rate adjustments. As of August 2007, there were 25,207 children on the waiting list.

(S.L. 2007-323, Section 10.18A)

T.E.A.C.H. Program

A total of \$1.1 million in recurring funds in each year of the FY 2007-09 biennium was appropriated for the North Carolina T.E.A.C.H. Early Comprehensive Childhood Project to maintain the existing number of scholarship recipients. The Program provides scholarships to eligible individuals to help pay the cost of tuition, books, and travel and other supports to address retention for child care providers working on a credential or degree in early childhood education or child development.

Smart Start

A total of \$1.3 million in FY 2007-08 and \$5.5 million in FY 2008-09 in additional funds were appropriated to the North Carolina Partnership for Children to support local Smart Start initiatives.

Division of Child Development

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

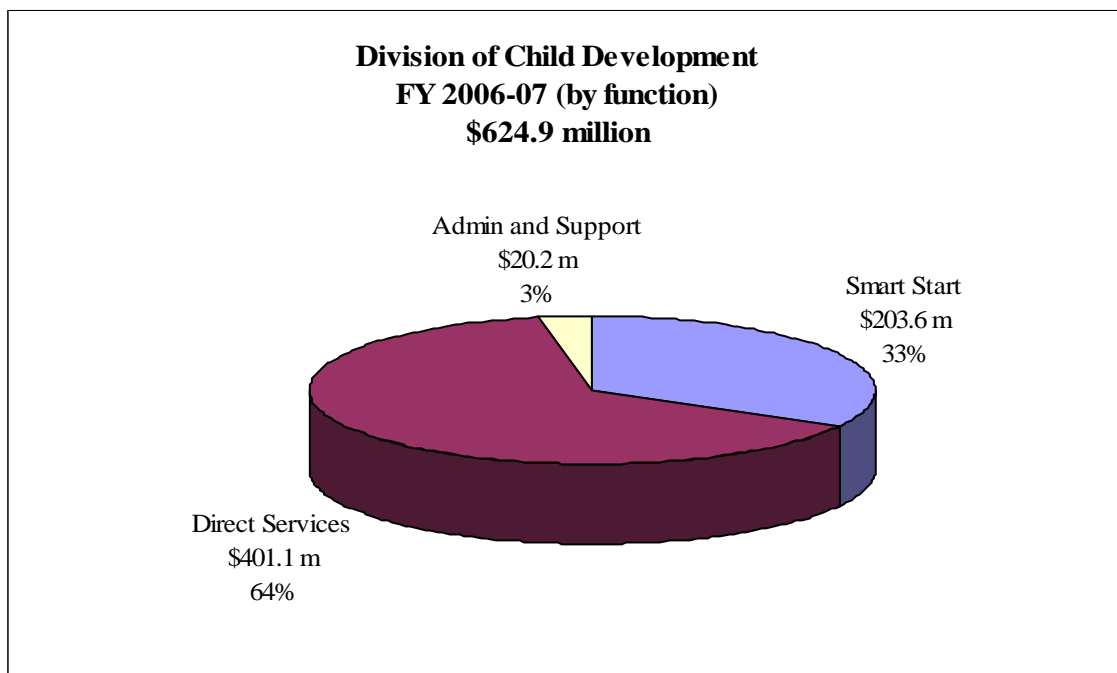
Section 10.18A CHILD CARE MARKET RATE ADJUSTMENTS

Section 10.18A directs the Department to implement child care market rate adjustments, by region, as defined in the 2007 Child Care Market Rate Study. The adjustments will be implemented as follows:

- 3-5 star child care centers in Regions 2-5 will receive 30% of the recommended rate adjustment;
- 3-5 star child care centers in Region 1 will receive 20% of the recommended rate adjustment; and
- All 3-5 star family child care homes will receive 10% of the recommended rate adjustment.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

The majority of the Division of Child Development's budget is dedicated to services. As illustrated in the chart below, in FY 2006-07, 64% of the budget was allocated for direct services to children.



Division of Child Development

Child Care Development Fund Block Grant (S.L. 2007-323, Section 10.55) FY 2007-08 Budget: \$288,296,205

In 1996 Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act (also known as federal welfare reform), and along with many changes, created the Child Care Development Fund Block Grant (CCDF). The CCDF was the result of the elimination of an entitlement program which provided a subsidy for child care expenses for welfare recipients and the consolidation of all federal child care programs into the Child Care Development Fund Block Grant (CCDF). The creation of the block grant gave states the flexibility to design their own child care subsidy and support program. In NC, the Division of Child Development administers this block grant. The CCDF's primary role is to:

- Assist with child care affordability for eligible families, and
- Improve quality and availability of child care.

Section 10.55 of S.L. 2007-323 provides the specific appropriation of the CCDF and makes allocations for FY 2007-08 as follows:

Subsidized Child Care Services	248,207,744
Quality and Availability Initiatives	31,463,419
Administration	8,625,042
TOTAL	\$288,296,205

Subsidized Child Care Program

The Subsidized Child Care Program, originally established by Congress in the early 1980s for families receiving welfare or public assistance, provides financial support to low-income children and families. Key program elements and FY 2006-07 program facts include:

- Subsidies are provided for children up to 12 years old (up to age 17 for the developmentally disabled);
- Income limit is 75% of the State median income (adjusted for family size);
- Parents pay a portion of child care cost by paying 8%, 9%, or 10% of their income;
- Totals \$420 million in State and federal funds;
- 33% of children in regulated child care settings received subsidies;
- 82% receiving child care subsidies earn less than \$25,000 per year;
- 82% of families reported child care needed for employment.

Division of Child Development

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 August 2007.

August 2007 Children Served, Expenditures, and Average Payments*				
Program	Children Served	Direct Subsidy Expenditures	Average Payment **	Children on the SCC Waiting List
Non-Work First	93,927	\$34,841,715	\$371	25,198
Work First	7,093	\$2,913,314	\$411	9
Smart Start	17,941	\$4,728,596	-	-
More At Four	702	\$200,316	\$285	-
Total	119,663	\$42,683,941	\$356	25,207

* Represents payments made in September 2007 for children served in August 2007

** Includes part-time and part-month care.

SOURCE: Division of Child Development Monthly Statistical Summary, August 2007

ADDITIONAL LEGISLATION

No relevant information to report.

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:

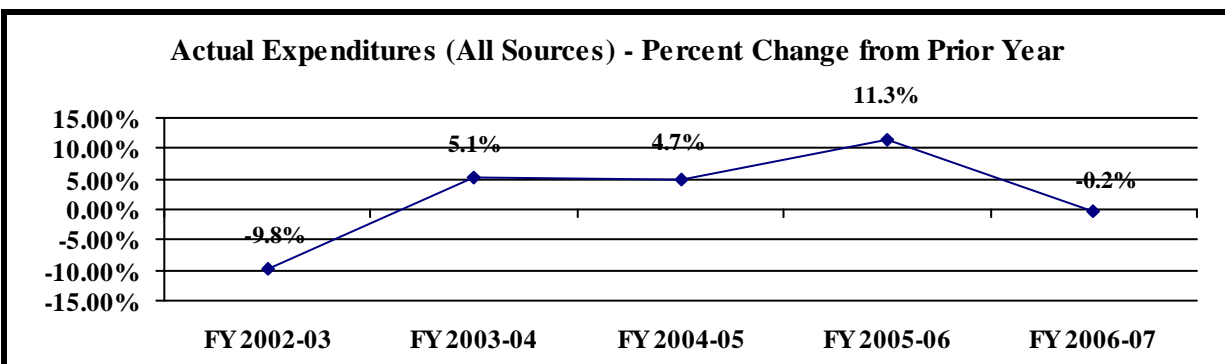
The Office of Education Services (OES) is the central office for North Carolina's early intervention, outreach, resource support, and three schools serving blind and deaf infants, toddlers, and school age children. OES also works to guide all DHHS educational programs by providing information and services 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	37,111,202	37,048,529	41,050,051	41,111,244
Revenue	3,497,929	2,408,918	2,255,787	2,255,787
Net Appropriations	\$33,613,273	\$34,639,611	\$38,794,264	\$38,855,457
Positions (FTE)	629.87	651.87	658.13	658.13

Budget Overview:

The budget for the Office of Education Services is \$41.1 million in FY 2007-08 and \$41.1 million in FY 2008-09. The FY 2007-08 budget represents an 11% increase from the Office's FY 2006-07 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% of the total expenditures in FY 2007-08. Net General Fund appropriations account for 95% of the OES budget.

The Office of Education Services' budget increased an average of 2.2% between FY 2002-03 and FY 2006-07, 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)	Certified FY 2007-08	Certified FY 2008-09
Western NC School for the Deaf	9,750,562	9,771,085
Eastern NC School for the Deaf	10,859,772	10,872,008
Governor Morehead School	9,306,059	9,327,650
Governor Morehead Preschool	3,960,824	3,960,824
Early Intervention Services – Preschool	3,728,632	3,734,593
Family Resource Centers	966,189	966,189
Central Administration	2,456,379	2,457,261
Federal Indirect Cost Reserve	21,634	21,634
TOTAL	\$41,050,051	\$41,111,244
Revenue	(2,255,787)	(2,255,787)
NET GENERAL FUND APPROPRIATIONS	\$38,794,264	\$38,855,457

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 10.20 EVALUATION OF EDUCATIONAL SERVICES TO STUDENTS WITH VISUAL AND HEARING IMPAIRMENTS

Section 10.20 directs the Department of Health and Human Services (DHHS) and the Department of Public Instruction (DPI) to:

- Evaluate educational services provided to students with visual and hearing impairments in North Carolina;
- Determine whether the Schools for the Deaf and Blind should remain under the purview of DHHS or if management of the schools should be transferred to DPI; and
- Develop a plan to reduce institutional capacity to an appropriate level.

Office of Education Services

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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Early Intervention Program for Deaf or Hard-of-Hearing Children—Birth to 3 years old

The Early Intervention Program provides services to children, age birth to three years, who are deaf, deaf and blind, and hard-of-hearing and their families. The Office contracts with professionals across the State to develop language and communication skills in home and day care settings. At the age of three, the program works to establish a smooth transition to the child's local education agency. The program's services are organized around three geographic areas: the Eastern Region covering 46 counties; the Central Region covering 14 counties, and the Western Region covering 40 counties. The program was first offered in 1973 and has been authorized and reauthorized through Session Law 1995-507 and (Section 21.80(b)) Session Law 2001-424. The Early Intervention Program received \$3,728,632 in FY 2007-08.

Residential Schools for the Deaf—Kindergarten through 12th grade

OES operates two residential schools—the North Carolina School for the Deaf in Morganton and the Eastern North Carolina School for the Deaf in Wilson. The schools provide a residential option for students who prefer to stay on campus. Both schools offer a safe learning and working environment that is barrier-free and sensitive to the diversity of the children. The Western NC School for the Deaf first opened in 1891 and is authorized under G.S. 143B-216.40. The Eastern NC School for the Deaf opened in 1964 and is authorized by the same statute. The two residential schools for the deaf received \$20,610,334 in FY 2007-08.

Resource Support Program for Students—Three to 21 years old

The Resources Support Program provides a variety of services to parents, professionals, and school systems who serve children who are deaf or hard-of-hearing. Those services include:

- Evaluation Services—Speech perception and production, receptive and expressive vocabulary and language, and assessment of auditory skill development;
- Classroom Observation and Consultation—Individual and small-group training and technical assistance to school personnel in the identification of student needs, lesson plan development, audiological management, program implementation, and monitoring of student progress;
- Demonstration Teaching—Sessions in speech, language, vocabulary, and auditory development; and
- Workshops.

First offered in 2002, the activities in the program are not mandated by statute. They were begun as a response to students who were mainstreamed into public schools after the closing of Central NC School for the Deaf in Greensboro. The Resource Support Program for Students received \$966,184 in FY 2007-08.

Governor Morehead Preschool for Visually Impaired Children—Birth to 5 years old

Early intervention services for children are available at the Governor Morehead School in Raleigh and 17 satellite locations serving all 100 counties of the State.

Office of Education Services

Satellite Locations of Preschool Program

Asheville	Elizabeth City	Goldsboro	Hillsborough	Morehead City	Washington
Charlotte (2)	Fayetteville	Greensboro	Jefferson	Raleigh	Wilmington
Durham	Gold Hill	Greenville	Morganton	Sanford	

The program is geared to meet the unique needs of children who are visually impaired and prepare them to function successfully and independently in a wide variety of kindergarten placements. The services are community-based and delivered in the children's homes or day care centers. First offered in 1987, the preschool program's authority was reaffirmed in S.L. 2001-424 (Sec. 21.80). The Governor Morehead Preschool program received \$3,960,824 in FY 2007-08.

Governor Morehead School

The Governor Morehead School provides a comprehensive program for visually impaired students in need of a residential setting. Additional instruction is provided that emphasizes interpersonal skills that are necessary to integrate into society. A combination of programs for those students interested in pursuing a post-secondary education and employment opportunities is offered.

In an effort to provide statewide services to all visually impaired children, the Governor Morehead School has entered into a cooperative agreement with the Department of Public Instruction. Outreach services are available to students, parents, and Local Education Agencies and include: consultation, evaluation, in-service, and teacher training. The Governor Morehead school opened in 1881 and is authorized under G.S. 143B-164.10. It received \$9,306,059 in FY 2007-08.

ADDITIONAL LEGISLATION

No relevant information to report.

Health Choice

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

Agency Description:

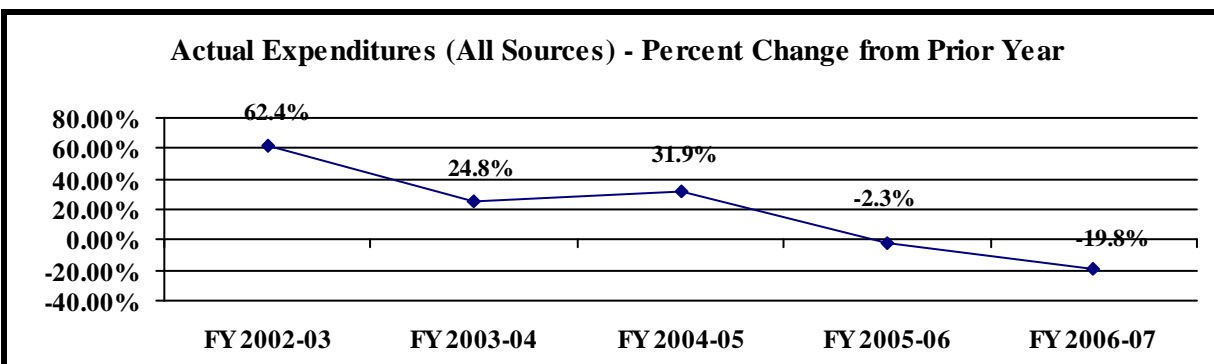
Health Choice is North Carolina's State Children's Health Insurance Program (SCHIP). The program provides families access to health insurance for their children, ages 6 through 18. To be eligible, a family must have annual income of between 100% and 200% of the federal poverty level, be ineligible for 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	260,416,445	208,935,558	226,805,564	226,556,984
Revenue	192,261,038	158,723,227	167,414,409	167,165,829
Net Appropriations	\$68,155,407	\$50,212,331	\$59,391,155	\$59,391,155
Positions (FTE)	1.00	1.00	1.00	1.00

Budget Overview:

The FY 2007-08 budget for Health Choice is \$226.8 million and the FY 2008-09 budget is \$226.6 million. This is an increase of 8.6% over FY 2006-07. Nearly 75% of the amount, \$167.4 million, is federal revenue. The current budget allows the enrollment in Health Choice to increase by 6% during FY 2007-08 to approximately 128,610 children.

Expenditures for the Health Choice Program have increased by an average of 19.4% 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 prior year for FY 2002-03 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 shifting children from birth through age 5 to the State's Medicaid program.



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)	Certified FY 2007-08	Certified FY 2008-09
State Administration	217,654	217,654
Medical Payments	226,587,910	226,339,330
TOTAL	\$226,805,564	\$226,556,984
Revenue	(167,414,409)	(167,165,829)
NET GENERAL FUND APPROPRIATIONS	\$59,391,155	\$59,391,155

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Health Choice

The General Assembly appropriated an additional \$7.5 million for FY 2007-08 to allow enrollment in NC Health Choice to increase by 6% annually. The 6% cap in enrollment growth is based on the month of highest program enrollment during the prior fiscal year. The previous cap of 3% every six months was problematic and could potentially lead to Health Choice serving fewer children if there was a drop in enrollment during the first six months of the fiscal year.

(S.L. 2007-323, Sec. 10.47)

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Background

In 1997, Congress enacted Title XXI of the Social Security Act to address the growing number of children without access to health insurance. The legislation authorized a federal block grant to states to provide health insurance for uninsured children from birth to age 18. Medicaid eligibles do not qualify for SCHIP (NC Health Choice). Under federal law, eligible families must have an income of no more than 185% of the federal poverty level (FPL). However, a state can adopt a higher eligibility level.

Health Choice

Key Program Components:

- Eligibility level set at 200% FPL;
- Operates as a stand-alone program (exclusive of Medicaid);
- Resembles NC's State Employees Health Plan with additional coverage for vision, dental, and hearing screenings, services and treatments;
- Funded by State appropriations and federal funds (73.79% federal match);
- Enrollment limited to the number of children served with available funds;
- Not an entitlement—State can freeze enrollment; and
- As of June 30, 2007, 121,331 children were enrolled in the program.

Significant Program Changes:

- School-based health centers are treated as clinics for reimbursement purposes;
- No waiting period for coverage;
- No legislative cap on enrollment;
- The waiting period to become eligible for Health Choice was eliminated; and
- Co-pays instituted.

Actions by the North Carolina General Assembly in 2005

In 2005, the General Assembly took several steps to ensure the fiscal integrity of the Health Choice Program. The tables that follow reflect those changes.

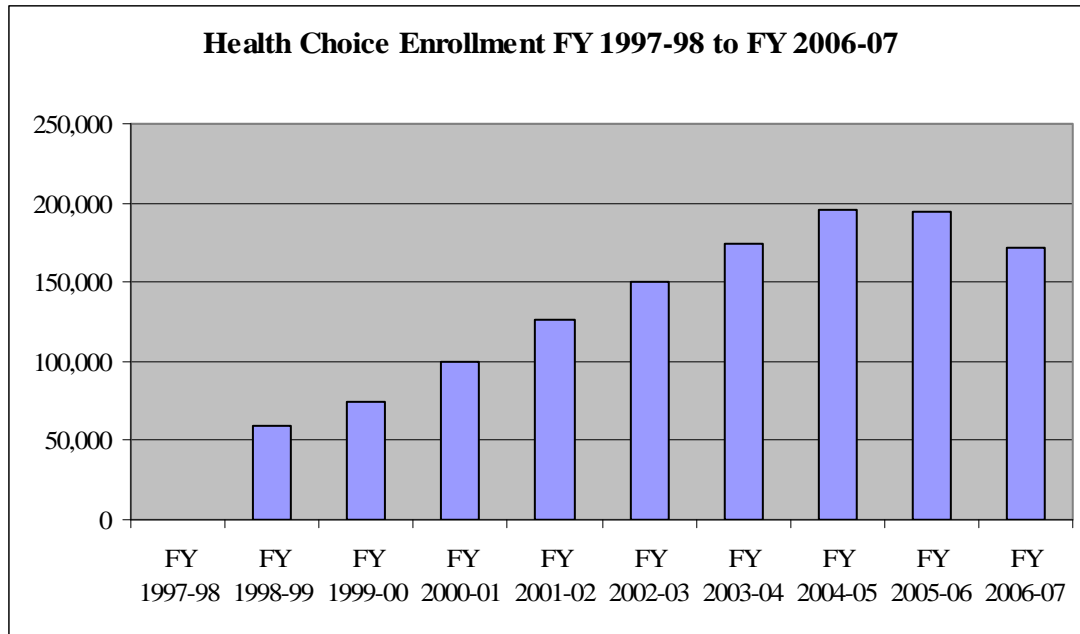
Health Choice Eligibility		
<i>Eligibility Prior to January 1, 2006</i>		
Age Group	Medicaid	Health Choice
0-1	0 to 185%	186% to 200%
1-5	0 to 133%	134% to 200%
6-18	0 to 100%	101% to 200%
<i>Eligibility as of January 1, 2006</i>		
Age Group	Medicaid	Health Choice
0-1	0 to 200%	
1-5	0 to 200%	
6-18	0 to 100%	101% to 200%

The General Assembly also authorized the Department of Health and Human Services (DHHS) to provide services to children enrolled in Health Choice through Community Care of North Carolina. Community Care is the State's Medicaid Primary Care Case Management program. The change became effective on March 1, 2007, and allows DHHS to monitor the quality of care. In addition, health care providers treating children through the Health Choice program are now reimbursed at Medicaid provider reimbursement rates, as opposed to 115% of Medicaid rates.

Health Choice

Health Choice Enrollment Data

The table below shows the growth in enrollment in Health Choice during the past ten years. Enrollment declined in 2007 because it was the first year in which children 0 through 5, who previously were eligible for Health Choice, were enrolled in Medicaid.



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:

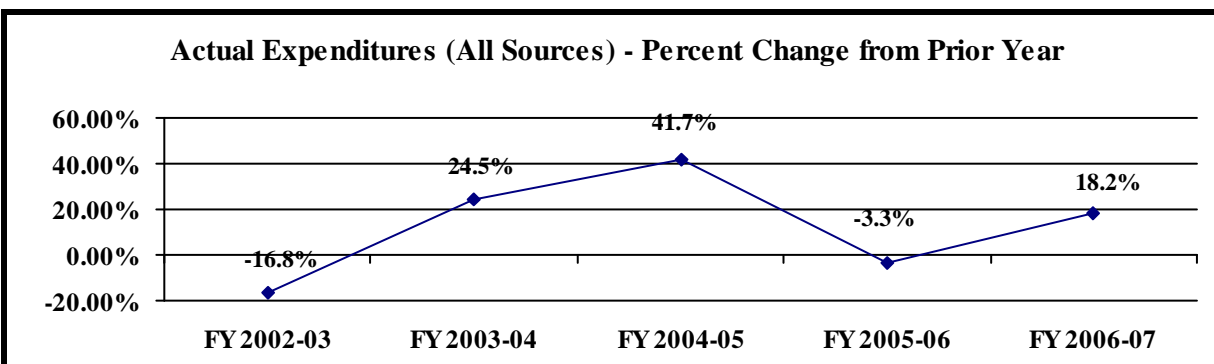
The Division of Health Service Regulation (DHSR), formerly known as the Division of Facility Services (DFS), establishes and enforces the regulation of health and social care facilities serving North Carolina citizens. The Division has several major functions – medical facilities planning, licensure 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	44,735,163	52,894,476	53,320,467	53,994,094
Revenue	33,426,454	37,242,903	33,171,983	33,337,866
Net Appropriations	\$11,308,709	\$15,651,573	\$20,148,484	\$20,656,228
Positions (FTE)	449.00	471.00	505.00	505.00

Budget Overview:

The budget for the Division of Health Service Regulation is \$53.3 million in FY 2007-08 and \$53.9 million in FY 2008-09. The FY 2007-08 budget is an increase of less than 1% from FY 2006-07 actual expenditures.

Net General Fund appropriations represent 38% of the FY 2007-08 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 2002-03 to FY 2006-07 was 10.5%. 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 total General Fund operating budget by category.

Division of Health Service Regulation (14470 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Management and Support	1,684,569	1,685,952
Facility and Health Services	31,336,950	32,234,545
Emergency Medical Services	17,695,812	17,496,984
Plan and Develop Health Care	2,603,136	2,576,613
TOTAL	\$53,320,467	\$53,994,094
Revenue	(33,171,983)	(33,337,866)
NET GENERAL FUND APPROPRIATIONS	\$20,148,484	\$20,656,228

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Certificate of Need Program

A total of \$881,105 in FY 2007-08 and \$852,687 in FY 2008-09 was appropriated for 9 new positions for the Certificate of Need (CON) Program to meet the increased volume of applications, appeals, and determinations related to the development of health care facilities and services. The funding for these positions will be offset by increased fees that will be deposited in the General Fund as nontax revenue. Section 30.4 of S.L. 2007-323 amends G.S. 131E-177(9) and G.S. 131E-182(c) to increase these fees.

(S.L. 2007-323, Section 30.4)

Construction Program

A total of \$824,396 in FY 2007-08 and \$789,720 in FY 2008-09 was appropriated for 8 new positions for the Construction Program to provide a more timely review of construction plans for health care and local confinement facilities. The funding for these positions will be offset by increased fees that will be deposited in the General Fund as nontax revenue. Section 30.5 of S.L. 2007-323 amends G.S. 131E-267 to increase these fees.

(S.L. 2007-323, Section 30.5)

Health Care Personnel Registry and Rating System for Adult Care Homes

(As amended by S.L. 2007-345 (HB 714) 2007 Budget Technical Corrections Act)

A total of \$623,274 in FY 2007-08 and \$805,750 in FY 2008-09 was appropriated for 14 positions and related costs to expand the Health Care Personnel Registry to all unlicensed staff of a health care facility who have direct access to residents, clients, or their property and to

Division of Health Service Regulation

implement a rating system for adult care homes. Section 10.54 of S.L. 2007-323 makes the appropriation of these funds contingent upon the enactment of S.B. 56, which was enacted. S.L. 2007-544 (S.B. 56) amends G.S. 131E-256 to expand the health care personnel registry and G.S. 131D-4.5 and G.S. 131D-10 to establish adult care home rated certificates and rule-making authority for those certificates.

(S.L. 2007-323, Section 10.54)

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 30.4 CERTIFICATE OF NEED FEE INCREASES TO MEET STATUTORY OBLIGATIONS

Section 30.4 amends G.S. 131E-177(9) and G.S. 131E-182(c) to increase the application fee for a certificate of need application. Increased revenue from the fee increase will pay for the staff expansion in the Certificate of Need program. The new fee per application will be \$5,000 plus an amount equal to 0.3% of the amount of capital expenditure proposed in the application that exceeds \$1,000,000. The maximum fee is \$50,000.

Section 30.5 HEALTH CARE FACILITY CONSTRUCTION PROJECT FEE INCREASES TO MEET STATUTORY OBLIGATIONS

Section 30.5 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. Increased revenue from the fee increase will pay for the staff expansion in the Construction Program. Fees vary by type of project. The maximum fee per project was raised from \$25,000 to \$200,000.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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No relevant information to report.

ADDITIONAL LEGISLATION

S.L. 2007-544 (SB 56) PENALTY REVIEW/LTC CHANGES

This act makes several changes to the General Statutes dealing with long-term care issues, including amending:

- G.S. 131D-34(h) to change the Penalty Review Committee process to require that the Committee meet as often as needed, but no less than quarterly, to review administrative penalties assessed to adult care homes and nursing homes;
- G.S. 131E-256 to expand the Health Care Personnel Registry to include agencies providing in-home aide services funded through the Home and Community Care Block Grant; licensable facilities; multiunit assisted housing with services; and community-based providers of services for the mentally ill, developmentally disabled, and substance abusers;

Division of Health Service Regulation

- G.S. 131E-256 to expand the definition and coverage of "health care personnel" for the Health Care Personnel Registry to include any unlicensed health care facility staff that has direct access to residents, clients, or their property; and
- G.S. 131D-4.5 and G.S. 131D-10 to give the Medical Care Commission the authority to adopt rules for the issuance of rated certificates to adult care homes and to require adult care homes to display the rating certificate in a location visible to the public.

S.L. 2007-182 (HB 720) NAME CHANGE/DIVISION OF FACILITY SERVICES/ COMMISSION FOR HEALTH SERVICES

This act amends various sections of the General Statutes to rename the former Division of Facility Services the Division of Health Service Regulation (G.S. 90-21.15, 131D-34, 131E-129, and 143-519) and to rename the Commission for Health Services the Commission for Public Health (G.S. 90-210.129, 7B-1413, 131D-9, and 131E-113). A fiscal note on this bill was completed for an earlier edition, which estimated the fiscal impact of changing the name of the Division of Facility Services to the Division of Health Service Regulation to be \$15,500 – \$15,000 for new business cards and \$500 for new signs. There was no estimated fiscal impact to change the name of the Commission for Health Services.

S.L. 2007-473 (HB 1685) ADULT CARE HOME OR NURSING HOME/EXPEDITED CON

This act directs the Division of Facility Services (Division of Health Services Regulation) to develop an expedited Certificate of Need (CON) review process for a current holder of a certificate of need for an adult care home or a nursing home wishing to relocate from one licensed facility or campus to another.

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:

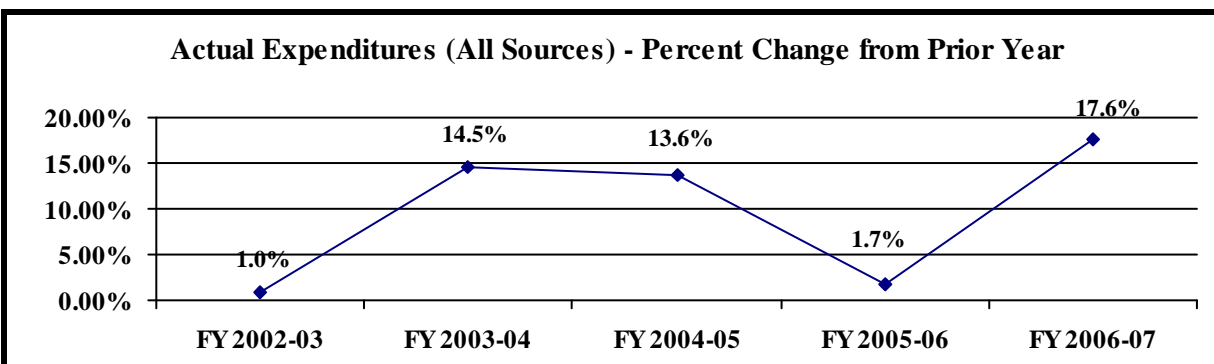
The Division of Medical Assistance (DMA) manages the operation of the Medicaid Program and the NC Health Choice Program. The Division operates both programs through internal staff and external contracts, including claims processing, medical policy, rate-setting, auditing, quality assurance, recipient 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	9,567,707,678	11,252,170,760	11,345,677,668	12,151,849,862
Revenue	8,761,856,392	8,602,692,355	8,425,318,396	8,761,856,392
Net Appropriations	\$805,851,286	\$2,649,478,405	\$2,920,359,272	\$3,389,993,470
Positions (FTE)	375.25	377.25	392.25	392.25

Budget Overview:

The current operating budget for the Division of Medical Assistance is \$11.3 billion in FY 2007-08 and \$12.2 billion in FY 2008-09. Net General Fund appropriations account for approximately 25.7% in FY 2007-08 and 27.9% in FY 2008-09. This represents only an 0.8% increase over FY 2006-07 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 is offset by federal receipts for Medicaid.

The jump in total expenditures between FY 2005-06 and FY 2006-07 is largely due to federal changes enacted in FY 2006-07 regarding how the Division accounts for Disproportionate Share Hospital (DSH) expenditures. The average annual increase between FY 2002-03 and FY 2006-07 was 9.68%, primarily due to increases in caseload and overall health care costs.



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)	Certified FY 2007-08	Certified FY 2008-09
Administration	33,907,811	34,441,689
Contracts and Agreements	72,689,876	72,855,297
Medical Assistance – Total	10,530,073,775	11,328,914,670
County Administration	1,014,000	1,014,000
Payments	9,475,870,494	10,300,378,735
Cost Settlement Payments	1,239,962,136	1,239,962,136
Adjustments and Refunds	(186,772,855)	(212,440,201)
Disproportionate Share Hospital (DSH) Payments and Enhanced Payments	594,806,206	594,806,206
Reserves and Transfers	100,000,000	106,632,000
Prior Year Earned Revenue	14,200,000	14,200,000
TOTAL	\$11,345,677,668	\$12,151,849,862
Revenue	(8,425,318,396)	(8,761,856,392)
NET GENERAL FUND APPROPRIATIONS	\$2,920,359,272	\$3,389,993,470

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	Certified FY 2007-08	Certified FY 2008-09
DMA (14445 – General Fund)	11,345,677,668	12,151,849,862
DMA (24445 – Special Fund)	291,872,767	291,872,767
TOTAL	\$11,637,550,435	\$12,443,722,629

Division of Medical Assistance

OTHER FUNDS

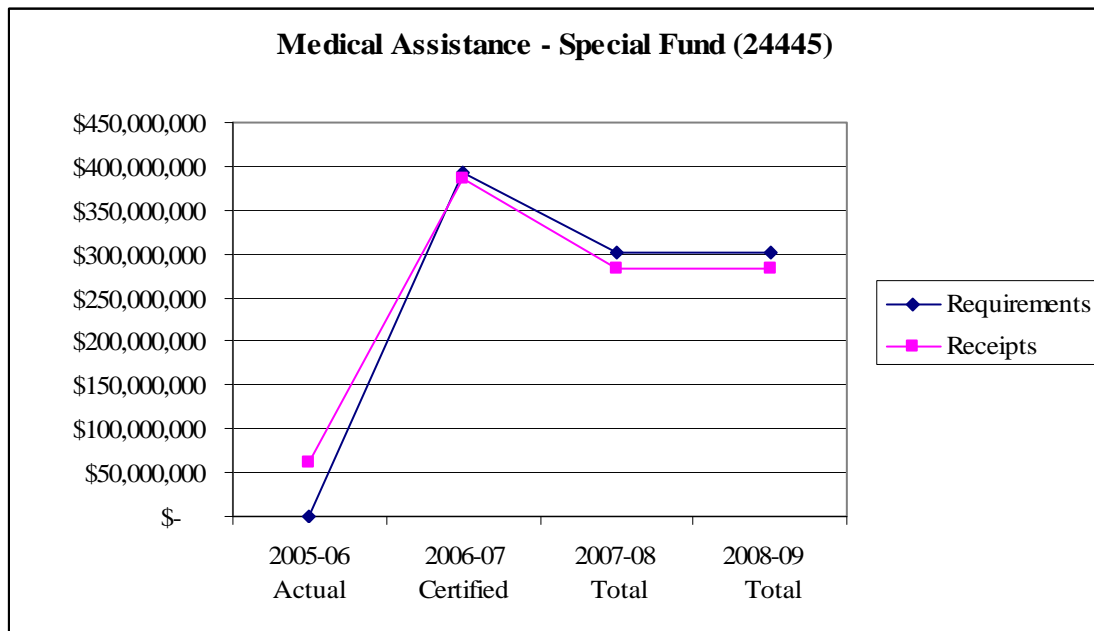
The Division of Medical Assistance is administratively responsible for the Medicaid Special Fund. However, this fund does not appear as part of the operating budget for the Division of Medical Assistance.

Medical Assistance – Special Fund (24445)

Balance: \$62,812,024
(as of June 30, 2007)

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 that are received 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.



SOURCE: Office of State Budget and Management (OSBM), Recommended Operating Budget 2007-2009

In the 2007 Appropriations Act (S.L. 2007-323, Sec. 10.40), the General Assembly appropriated \$43 million from the Medicaid Special Fund to the Department of Health and Human Services for Medicaid programs, and to fund the settlement of the DSH payment audit issues between DHHS and the federal government related to fiscal years 1997-2002. These audit issues centered on the method North Carolina drew down federal funds.

Division of Medical Assistance**SIGNIFICANT LEGISLATIVE BUDGET ACTIONS****Provider Inflationary Increases**

The Division was directed to reduce the amount paid in overall provider inflationary increases by \$35,441,213 in FY 2007-08 and \$37,707,413 in FY 2008-09. The reduction leaves approximately \$20 million available for provider inflationary increases in both years. 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.

NC Kids' Care

The Division received \$368,000 in FY 2007-08 to conduct a report on the most cost-effective manner to implement an expansion of health care coverage to children between 200% and 300% of the federal poverty level. An additional \$7 million in funding for FY 2008-09 is provided to implement the recommendations of the report.

(S.L. 2007-323, Section 10.48)

Medicaid Special Fund Replacement Funding

The Division received an additional \$10 million in both years of the biennium to reduce the need for transfers of funds from the Medicaid Special Fund to make enhanced payments for nonstate, private hospitals. The appropriation will allow the Division to draw down further federal funds for supplemental payments.

Medicaid County Share Relief

The Division received an additional \$86,200,000 in FY 2007-08 and \$271,200,000 in FY 2008-09 to reduce the county share of Medicaid from 15% of the nonfederal share to 11.25% of the nonfederal share effective October 1, 2007, and 7.5% of the nonfederal share effective July 1, 2008. For more information see the Special Topics section.

(S.L. 2007-323, Section 31.16)

**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 10.36 MEDICAID**

Section 10.36 establishes eligibility requirements for Medicaid, establishes the services provided to recipients, and establishes the allowable payment levels for providers under the Medicaid Program. The following changes were made to the Medicaid provision:

- Phases out the county share of Medicaid;
- Effective October 1, 2007, authorizes Medicaid coverage for independent foster care adolescents ages 18, 19, and 20;
- Effective October 1, 2007, requires prior authorization for all personal care services;
- Requires continuous review of medication utilization prescribed for Medicaid recipients for the treatment of mental illness and implementation of clinical edits that target inefficient, ineffective, or potentially harmful prescribing patterns for individuals who are age 18 or younger and who are prescribed three or more psychotropic medications; and

Division of Medical Assistance

- Clarifies that policies for the payment of Medicare crossover claims can be disregarded when application of policies will adversely affect patient care.

Section 10.39A SKILLED NURSING FACILITY REIMBURSEMENT RATE

Section 10.39A directs the Division of Medical Assistance to rebase the rates for the case-mix reimbursement system for skilled nursing facilities based on the following schedule:

- Effective January 1, 2008, one-half of the rate rebasing shall be implemented using 2005 audited cost data;
- Effective October 1, 2008, the remaining half of the rate rebasing shall be implemented using 2006 audited cost data. If 2006 audited cost data are not available on October 1, 2008, then the remaining half of the rate rebasing shall be implemented using 2005 audited cost data.

The provision requires that funding for inflationary increases for skilled nursing facilities for the 2007-2008 and 2008-2009 fiscal years include the rebasing of rates for the case-mix reimbursement system.

The provision also requires the provider assessment to be increased by \$2.00 over the biennium with a \$1.00 increase effective January 1, 2008, and an additional \$1.00 effective January 1, 2009. The revenue from the increased provider assessment will be used to reduce State appropriations needed to rebase the rates.

Section 10.40 MEDICAID SPECIAL FUND TRANSFER

Section 10.40 appropriates \$43 million in FY 2007-08 and FY 2008-09 from the Medical Special Fund pursuant to G.S. 143C-9-1 to ensure that these funds shall not be used to reduce the General Fund revenue to the Medicaid Program.

The provision also allows DHHS to use Medicaid Special Funds to settle issues between DHHS and the federal government during FY 1996-97 through FY 2001-02 and to use funds toward Disproportionate Share Hospital payments.

Section 10.40F PILOT PROGRAM/MEDICAID DUAL ELIGIBLES SPECIAL NEEDS PLAN

Section 10.40F directs DHHS to evaluate and establish a pilot program in at least two regions of the State to offer nursing facility certifiable, dual-eligible Medicaid recipients services through a Special Needs Plan (SNP) that will work with the Community Care of North Carolina Program (CCNC). The provision requires a report by May 1, 2008.

Section 10.45 FAMILIES PAY PART OF THE COST OF SERVICES UNDER THE CAP-MR/DD PROGRAM AND THE CAP-CHILDREN'S PROGRAM BASED ON FAMILY INCOME

Section 10.45 directs DHHS to develop, subject to approval by the Centers for Medicare and Medicaid Services, a schedule of cost-sharing requirements for families of children with incomes above the Medicaid allowable limit to share in costs of their child's Medicaid expenses under the CAP-MR/DD Program and the CAP-C Program. Any savings realized shall be used to fund additional CAP-MR/DD and CAP-C slots. DHHS will report by March 1, 2009.

Division of Medical Assistance

Section 10.46 CONTINUE EFFORTS TO EXPAND COMMUNITY CARE OF NORTH CAROLINA AND IMPROVE QUALITY OF CARE FOR AGED, BLIND, AND DISABLED MEDICAID RECIPIENTS

Section 10.46 directs the Department of Health and Human Services to continue its efforts to expand the Community Care of North Carolina (CCNC) care management model to Medicare and Medicaid dually eligible persons who have chronic health care conditions and long-term health care needs. CCNC will focus on aged, blind, and disabled persons, and will manage their access and utilization of personal care services, private duty nursing, home health, durable medical equipment, ancillary professional services, specialty care, residential services, including nursing facilities, home infusion therapy, pharmacy, and other services.

Section 10.48 NC KIDS' CARE

Section 10.48 requires the Department of Health and Human Services to report on the most cost-effective method for developing and implementing a program of comprehensive health care benefits within available funding for children from birth through age 18 in families with incomes between 200% and 300% of the federal poverty level. The Department is to determine whether the most cost-effective use of State funds is to apply for a Medicaid waiver or seek an expansion of the NC Health Choice program. Key components of the expansion include:

- Eligibility and benefits are not an entitlement, are only for legal residents of North Carolina, and are subject to the availability of State and federal funds and State and federal requirements;
- Children enrolled in this program must be ineligible for Medicaid or any other government sponsored health care program;
- The benefits of this program are not to exceed those of NC Health Choice; and
- The program will establish cost-sharing measures such as co-payments, deductibles, and monthly premiums.

The General Assembly appropriated \$7 million for implementation of the expansion, known as NC Kids' Care, in FY 2008-09. At least 12,000 children are expected to receive coverage.

Section 31.16 STATE ASSUME MEDICAID RESPONSIBILITIES

This section requires the State to assume the counties' share of the Medicaid Assistance program costs and Medicaid Part D clawback payments, excluding administrative costs. The change in funding responsibility occurs over a three-year period as follows:

- October 1, 2007 – State assumes 25% of the counties' share,
- July 1, 2008 – State assumes 50% of counties' share, and
- July 1, 2009 – State assumes 100% of counties' share.

Division of Medical Assistance

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

The table below summarizes the Division of Medical Assistance's service expenditures by program for FY 2005-06.

North Carolina Medicaid Fiscal Year 2005-06 Program Services Expenditures (Division of Medical Assistance Only)				
Type of Service	Total Expenditures	Percent of Service Dollars	Users of Services*	Cost Per User
Inpatient Hospital	1,024,293,989	12.7%	357,069	2,869
Outpatient Hospital	599,306,708	7.5%	786,702	780
Mental Hospital <21 & >65	39,432,017	0.5%	2,400	16,430
Physician	817,055,723	10.2%	1,512,914	537
Clinics	603,205,761	7.5%	493,594	1,222
Nursing Facilities	1,086,831,460	13.5%	43,117	25,207
Intermediate Care Facilities for Mental Retardation (ICF-MR)	415,064,521	5.2%	4,413	100,185
Dental	217,965,881	2.7%	481,207	453
Prescription Drugs	1,385,039,301	17.2%	1,108,467	1,250
Home Health	218,569,334	2.7%	247,574	883
Personal Care Services	313,198,284	3.9%	54,019	5,798
Adult Care Homes – Personal Care Services	153,094,077	1.9%	29,504	5,189
All Other Services	1,166,871,315	14.5%	1,193,752	977
Total Services	\$8,039,928,372	100%		

**Users of Services* is a duplicated count. Recipients using one or more services are counted in each service category. SOURCE: DHHS, DMA, Annual Report State Fiscal Year 2006

Disproportionate Share Hospital (DSH) Payments and Enhanced Payments Estimated payments to hospitals for FY 2006-2007: \$587,789,211

Federal Medicaid law allows state Medicaid agencies to make lump sum or increased rate payments to hospitals that serve a disproportionate share of Medicaid and other low-income persons through the Disproportionate Share Hospital Program.

The State Medicaid agency has broad authority to determine:

- Which hospitals qualify for disproportionate share payments, and
- How the payments will be computed.

Division of Medical Assistance

Centers for Medicare and Medicaid Services (CMS) sets state-specific annual upper limits on the aggregate DSH payments states can make statewide for all DSH hospitals and Institutions for Mental Disease (IMDs). States may also provide enhanced payments to hospitals.

ADDITIONAL LEGISLATION

S.L. 2007-442 (HB 1537) MEDICAID HARDSHIP/ESTATE RECOVERY/DATA SHARE

The Medicaid Hardship/Estate Recovery/Data Share act does the following:

- Amends G.S. 108A-70.5 to define estate recovery as recovering from estates of recipients of medical assistance for an equitable amount of the State and federal shares of the costs paid on behalf of the recipient;
- Grants authority to DHHS to adopt rules to waive in whole or in part recovery when the recovery would be inequitable because it would work an undue hardship or because it would not be cost effective; and
- Requires county departments of social services (DSS), prior to the imposition of a period of ineligibility for long-term care services because of an asset transfer (penalty period), to notify the individual of his or her right to request a waiver of the penalty period because it will cause an undue hardship.

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

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 people with (or at risk of) mental illness, developmental disabilities, and substance abuse problems with necessary prevention, intervention, treatment, and services.

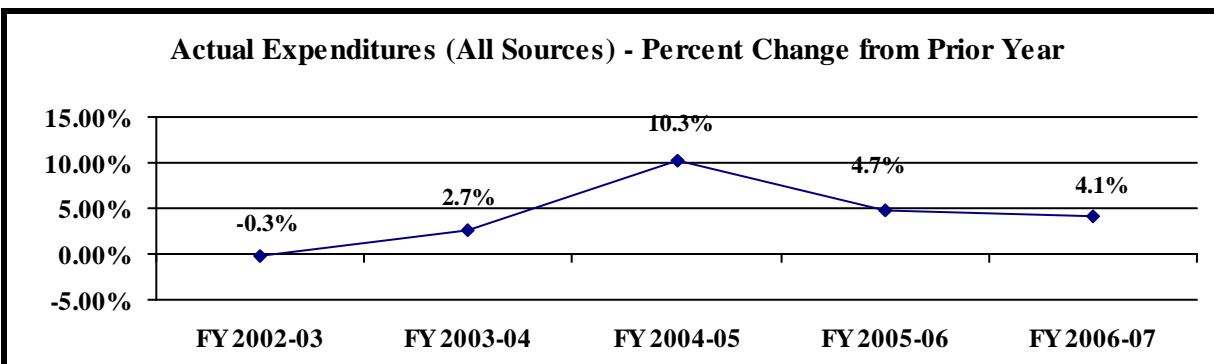
	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	1,311,200,118	1,364,580,070	1,197,328,279	1,210,827,959
Revenue	699,556,370	692,871,015	484,246,458	489,188,236
Net Appropriations	\$611,643,748	\$671,709,055	\$713,081,821	\$721,639,723
Positions (FTE)	11,591.11	11,653.12	11,756.12	11,714.33

Budget Overview:

The budget for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services totals \$1.2 billion for FY 2007-08 and FY 2008-09. The FY 2007-08 budget represents a 12% decrease from FY 2006-07 actual expenditures. However, the FY 2007-08 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 2006-07 include the following items, not included in the FY 2007-08 budget:

- \$144.4 million in Disproportionate Share Hospital (DSH) funds earned by State institutions,
- \$12.2 million in Mental Health Trust Fund funds budgeted as a reserve in the Office of State Budget and Management and transferred and expended in the DMHDDSAS budget, and
- \$15.6 million in prior year earned revenue.

Net General Fund appropriations in the FY 2007-08 budget represent a 6% increase over FY 2006-07 actual appropriations and make up 60% of the overall budget. Sources of receipts for DMHDDSAS include Medicaid and federal block grants. The average annual percent change in expenditures is 4.14% from FY 2002-03 to FY 2006-07.



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)	Certified FY 2007-08	Certified FY 2008-09
State Administration	31,574,099	31,220,442
Community Services	510,327,974	520,134,912
Mental Health Services	118,834,747	121,140,848
Developmental Disabilities Services	150,796,748	150,796,748
Substance Abuse Services	85,856,641	85,856,641
Nondisability Specific Services & Local Administration	154,839,838	162,340,675
State-Operated Services	627,176,452	632,329,817
Psychiatric Hospitals*	284,808,895	280,217,989
Developmental Centers	219,836,693	220,584,039
Alcohol and Drug Abuse Treatment Centers (ADATC)*	21,760,133	26,575,075
Neuro-Medical Centers (Psychiatric & Dev. Disabilities)	95,014,869	99,214,728
Residential Programs for Children	5,755,862	5,737,986
Regional Maintenance Programs	14,339,227	14,039,427
Reserves & Transfers	13,910,527	13,103,361
TOTAL	\$1,197,328,279	\$1,210,827,959
Revenue	(484,246,458)	(489,188,236)
NET GENERAL FUND APPROPRIATIONS	\$713,081,821	\$721,639,723

*Note: Funding for the R.J. Blackley ADATC is located in the budget for the John Umstead Psychiatric Hospital and is not included in the total funding for ADATCs.

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

Total Agency Appropriations by Fund	Certified FY 2007-08	Certified FY 2008-09
DMHDDSAS (14460 – General Fund)	1,197,328,279	1,210,827,959
DMHDDSAS (24460 – Special Fund)	117,248	117,248
DHHS – Town of Butner (54465 – Enterprise Fund)	1,984,618	1,984,618
DHHS – John Umstead – Butner Area Central Services (74465 – Service Fund)	775,695	775,695
TOTAL	\$1,200,205,840	\$1,213,705,520

*Note: 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: \$18,927,555
(as of June 30, 2007)**

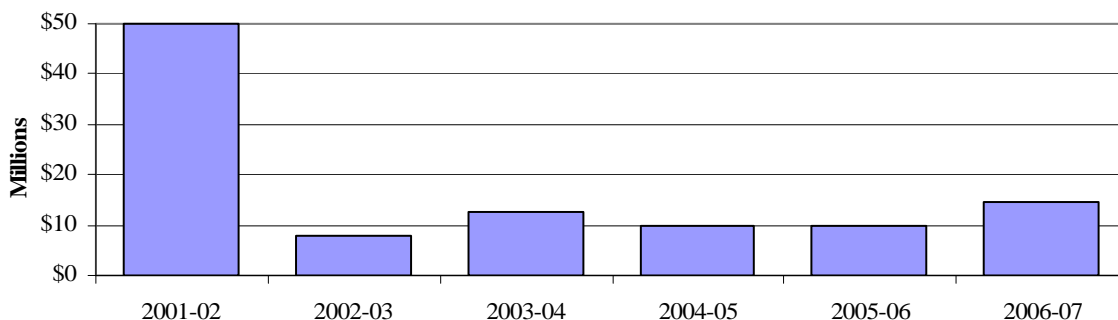
The Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs (Trust Fund) was established in 2001 by the General Assembly. The Trust Fund, originally established in G.S. 143-15D (as a part of the Executive Budget Act), directed that the fund be used solely to meet the mental health, developmental disabilities, and substance abuse (MH/DD/SA) services needs of the State. S.L. 2006-203 (HB 914) recodified the Trust Fund in G.S. 143C-9-2 as part of the new State Budget Act. S.L. 2007-323 amended G.S. 143C-9-2 to direct that the Trust Fund be used solely to increase community-based services that meet the MH/DD/SA services needs of the State and amended the allowed uses of Trust Fund monies. Funds are derived from direct appropriations by the General Assembly, as well as savings from downsizing of State institutions.

As amended, monies in the Trust Fund shall be allocated to area programs to 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.

The chart below shows General Fund appropriations to the Trust Fund since 2001. The Trust Fund did not receive an additional appropriation in the 2007 Session of the General Assembly.

History of Appropriations to the Trust Fund from FY 2001-02 to FY 2006-07¹



¹During FY 2001-02, the Governor withdrew \$37.5 million from the Fund in response to the budget shortfall.

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

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Realignment of Services Funds

A total of \$27,778,638 in FY 2007-08 and \$25,785,584 in FY 2008-09 in MH/DD/SA services funding was realigned to other, more specific purposes. In FY 2006-07, \$47.7 million in budgeted services funding was unexpended. This budget item realigns 58% of that amount in FY 2007-08 and 54% of that amount in FY 2008-09. These funds will be used as follows:

1. Mental Health Services – A total of \$15,028,638 in FY 2007-08 and \$15,035,584 in FY 2008-09 realigned from mental health services funds (of a total of \$19.8 million unexpended) was appropriated as shown in the table below. In addition to this funding, \$338,145 nonrecurring was appropriated for Mental Health for Returning Veterans.

	FY 2007-08	FY 2008-09
Crisis Services	13,737,856	13,737,856
Supported Employment	1,250,000	1,250,000
Mental Health for Returning Veterans	40,782	47,728
Total	\$15,028,638	\$15,035,584

2. Developmental Disabilities Services – A total of \$7,750,000 in FY 2007-08 and \$5,750,000 in FY 2008-09 realigned from developmental disability services funds (of a total of \$13.8 million unexpended) was appropriated as shown in the table below.

	FY 2007-08	FY 2008-09
CAP-MR/DD	4,500,000	4,500,000
Supported Employment	1,250,000	1,250,000
Early Intervention for Autism	2,000,000	0
Total	\$7,750,000	\$5,750,000

3. Substance Abuse Services – A total of \$5,000,000 in each year realigned from substance abuse services funds (of a total of \$10.7 million unexpended) was appropriated for regionally purchased, locally hosted substance abuse programs. In addition to this funding, \$1 million (recurring) in each year was appropriated for this item.

	FY 2007-08	FY 2008-09
Regionally-Purchased, Locally-Hosted Substance Abuse Programs	5,000,000	5,000,000
Total	\$5,000,000	\$5,000,000

(S.L. 2007-323, Sections 10.49(a), 10.49(m), and 10.49(n))

Closure of Dorothea Dix and John Umstead Hospitals, Transfer of Forensic Unit Beds to Broughton Hospital, and Opening of Central Regional Hospital

The budget reflects the transfer of funds from the budgets of Dorothea Dix Hospital, John Umstead Hospital, R.J. Blackley ADATC, and the Whitaker School to the budgets of Broughton Hospital (50 forensic unit beds) and the new Central Regional Hospital. There is a net reduction of \$4,389,234 in State appropriations to the hospitals in FY 2008-09 and a reduction of 116.79 FTE positions. Section 10.49(t) of S.L. 2007-323 permits the closure of Dix and Umstead hospitals provided that certain conditions are met, and Section 10.53 of S.L. 2007-323 allows the

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

Department flexibility in scheduling the transfer of positions among the hospitals relating to the closures during FY 2007-08.

(S.L. 2007-323, Sections 10.49(t) and 10.53)

Local Administration for MH/DD/SA

An additional \$500,000 in FY 2007-08 and \$4,889,234 in FY 2008-09 was appropriated for the LME Administrative Cost Model. In FY 2008-09, \$4,389,234 comes from savings from the hospital reorganizations and closures. Additionally, the Department is required to fully fund the State's contribution to the LME system administration.

(S.L. 2007-323, Section 10.49(ff))

Treatment Alternatives for Safer Communities (TASC)

An additional \$2 million for the FY 2007-09 biennium was appropriated for TASC to be distributed to LMEs to increase the number of program case managers and to increase substance abuse services available for adult drug offenders.

(S.L. 2007-323, Section 10.49(e1))

Treatment Court Programs

An additional \$2 million for the FY 2007-09 biennium was appropriated for services for existing pre- and post-plea mental health courts, DWI courts, and adult and family drug treatment courts for adult offenders.

(S.L. 2007-323, Section 10.49(e2))

Housing for People with Disabilities

The General Assembly appropriated \$3.5 million in FY 2007-08 and \$4.5 million in FY 2008-09 for operating cost subsidies for independent- and supportive-living apartments for individuals with disabilities. Additionally, \$7.5 million in FY 2007-08 was appropriated to the North Carolina Housing Trust Fund of the North Carolina Housing Finance Agency to finance additional apartments for the same population.

(S.L. 2007-323, Sections 10.49(g), 10.49(h1), and 10.49(h2))

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 6.20 CLARIFY THE TERMS AND CONDITIONS OF EMPLOYMENT OF THE DIRECTOR OF A LOCAL MANAGEMENT ENTITY

Section 6.20 amends G.S. 122C-121 in the following ways:

- Clarifies that a director of an LME must be an individual and may not be a corporation, partnership, limited liability company, or any other business association;
- Directs the board of an LME to establish the director's salary under Article 3 of Chapter 126 of the General Statutes;
- Allows a board to request an adjustment to the salary ranges under G.S. 126-9(b), but does not allow the board to request a salary adjustment more than 10% above the normal allowable salary range as determined by the State Personnel Commission; and
- Limits the benefits of a director to those benefits also provided to permanent employees of the area program.

Division of Mental Health, Developmental Disabilities, and Substance Abuse Services**Section 10.49 BUILD COMMUNITY INFRASTRUCTURE FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES**

Section 10.49 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 10.49.

Section 10.49(a) directs that funds for regionally funded, locally hosted substance abuse services are allocated for the purpose of developing and enhancing the American Society of Addiction Medicine (ASAM) continuum of care model at the community level. It also sets aside funds for residential substance abuse programs with a vocational component.

Section 10.49(b) amends G.S. 122C-147.1 to allow each area program to determine whether to receive crisis services funds and substance abuse services funds on a purchase-for-service or grant basis.

Sections 10.49(g), 10.49(h1), and 10.49(h2) guide the funding for independent- and supportive-living apartments for individuals with disabilities and require reports on these initiatives.

Section 10.49(i) amends G.S. 122C-115.4(b)(5) to more clearly define the care coordination function of LMEs to include activities such as developing a care plan for individual clients, ensuring linkages to primary care providers, easing transitions from one service to another, and developing discharge plans for consumers leaving State facilities.

Section 10.49(m) directs the \$13.7 million in crisis funding to LMEs to implement the crisis plans developed under Section 10.26 of S.L. 2006-66. DHHS is to consider the closure of State institutions in its allocations to LMEs and may use \$250,000 of crisis funds to extend the contract with the crisis services consultant.

Sections 10.49(s1 – s5) direct the use of the hospital utilization pilot funds:

- Section 10.49(s1) directs the use of hospital utilization pilot funds for 18-month pilot programs to reduce State psychiatric hospital use. Of funds appropriated, \$250,000 is to be set aside for DMHDDSAS and the remainder shall be distributed to the pilot LMEs. DMHDDSAS is to develop a plan for expanded pilots in FY 2008-09.
- Section 10.49(s2) directs that up to three LMEs in the same catchment area and at least one LME in a different catchment area be selected by DMHDDSAS for the pilot.
- Section 10.49(s3) lists the parameters of the pilot.
- Section 10.49(s4) directs DMHDDSAS to use pilot programs to develop a proposal for subsequent pilots. It requires two interim reports by October 15, 2007, and February 1, 2008, and a final report by February 1, 2009.
- Section 10.49(s5) directs that the budget of State psychiatric hospitals not be reduced by pilot programs in FY 2007-08, but allows budget changes in subsequent years.

Section 10.49(t) allows the closure of Dorothea Dix and John Umstead Hospitals provided that certain conditions are met, including the presentation of the plan for closure to all members of the General Assembly, notwithstanding G.S. 122C-112.1(a)(30) and G.S. 122C-181, statutes concerned with facility closure requirements. Additionally, it prevents the Secretary from closing a State facility if there are not adequate replacement services available.

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

Sections 10.49(v) and 10.49(w1) direct the use of the Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs (Trust Fund).

- Section 10.49(v) requires that funds previously allocated to area programs but that remain in the Trust Fund be dispersed to the area programs for community-based services by October 1, 2007. Funds not expended by June 30, 2009, shall revert to the Trust Fund. Funds previously allocated for other purposes in the FY 2006-07 Trust Fund plan shall be disbursed for those other purposes.
- Section 10.49(w1) amends G.S. 143C-9-2 to reflect a community-based approach, to remove two permitted uses of the Trust Fund, and to require annual reports to the Fiscal Research Division regarding Trust Fund expenditures.

Section 10.49(y) directs DHHS to add two LMEs to single stream funding, in addition to the five already receiving single-stream funding. It also directs DHHS to develop clear standards to qualify for single-stream funding and requires the Department to give such funding to any LME that meets the standards. The standards shall be developed and implemented by October 1, 2007.

Section 10.49(bb) directs that funds appropriated in this Act for mental health services and supported employment be distributed such that each LME receives a percentage of the funds equal to that LME's percentage of the State's population below the poverty level (also known as the poverty formula). It further directs that funds allocated in FY 2006-07 for mental health, substance abuse, and crisis services continue to be allocated on the poverty formula.

Section 10.49(ee) directs DHHS to review expenditures for community support services to avoid overexpenditure and to revise management policies in order to meet twelve enumerated objectives. It directs DHHS to:

- Report on the implementation of the list of appropriate community support services by November 1, 2007;
- Report on the implementation of the subsection by March 1, 2008; and
- Adopt statewide standardized authorization procedures and processes for Medicaid utilization review by January 1, 2008.

This section further directs that before July 1, 2008, up to six LMEs who meet the standards described above may contract with an outside vendor to perform those services. Finally, it directs DHHS to consult with the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities, and Substance Abuse Services (LOC) prior to reviewing, extending, or entering into a contract with an outside vendor for utilization review.

Section 10.49(ff) directs LMEs to report annually to DMHDDSAS on all expenditures from county funds and to collect income information on recipients of services. Additionally, it directs DHHS to use funds available to fully fund the State's contribution to LME system administration.

Section 10.49(jj) states that in allocating funds to LMEs, DHHS shall ensure that LMEs do not receive less in services dollars than the LME spent in FY 2006-07.

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

Section 10.53A INSTITUTE OF MEDICINE TASK FORCE/STUDY OF SUBSTANCE ABUSE SERVICES IN NORTH CAROLINA

Section 10.53A directs the use of funding appropriated for the Institute of Medicine and further directs that the substance abuse services study be conducted with these funds.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Mental Health Block Grant

FY 2007-08 Budget: \$11,176,923

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. Services provided must be those described in the State's Mental Health Block Grant Plan in accordance with P.L. 102-321 and may include:

- Outpatient treatment,
- Day treatment,
- Psychosocial rehabilitation, and
- Emergency and residential services.

The funds may also be used for evaluation, planning, administration, and educational activities related to providing services under the Plan.

Of the funds available, \$100,000 will be spent on State administration of the grant, \$5.7 million on mental health services for severe and persistently mentally ill adults, \$3.9 million on child mental health services, and \$1.5 million on the Comprehensive Treatment Services Program (also for children). The chart below compares funding from FY 2004-05 through FY 2007-08.

Mental Health Block Grant Funding History

Funded Activities	Actual FY 2004-05	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08
Community-based services for adults	6,191,474	7,399,657	7,996,966	5,654,932
Community-based services for children	2,394,310	2,209,053	1,524,084	3,921,991
Comprehensive Treatment Service Program	2,025,000	2,477,062	1,500,000	1,500,000
DMHDDSAS Administration	46,871	56,794	47,328	100,000
Total	\$10,657,655	\$12,142,566	\$11,068,378	\$11,176,923

(S.L. 2007-323, Section 10.55)

Substance Abuse Prevention and Treatment Block Grant

FY 2007-08 Budget: \$46,181,984

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, \$44.8 million on substance abuse services through DMHDDSAS, and \$931,335 by the Division of Public

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

Health (DPH) on risk reduction projects, aid to counties, and maternal health projects. The chart below compares funding for this block grant from FY 2004-05 through FY 2007-08.

Substance Abuse Prevention and Treatment Block Grant Funding History

Funded Activities	Actual FY 2004-05	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08
DMHDDSAS				
Alcohol and drug abuse services (State and community-based)	13,559,694	22,590,687	10,351,678	20,287,390
Services for pregnant women and women with dependent children	7,873,525	6,995,454	7,687,437	8,069,524
Services to IV drug abusers and others at risk of HIV	4,045,941	3,726,046	3,591,293	4,816,378
Child substance abuse prevention	6,487,180	6,272,601	6,408,824	5,835,701
Services to children and adolescents	3,904,187	542,951	8,582,253	4,940,500
Juvenile services - Family Focus	368,445	406,577	413,683	851,156
DMHDDSAS Administration	219,908	385,760	357,120	500,000
DPH				
HIV/STD risk reduction projects	409,905	383,677	353,865	633,980
HIV/STD prevention by county health departments	92,017	212,937	201,735	209,576
Maternal and Child Health Hotline	35,921	34,721	37,509	37,779
Total	\$36,996,723	\$41,551,411	\$37,985,397	\$46,181,984

(S.L. 2007-323, Section 10.55)

Mental Health Reform¹

Background

Prior to 2001, North Carolina's public system for delivering mental health, developmental disabilities, and substance abuse services consisted primarily of State institutions, county departments, and quasi-governmental area mental health programs.

During the 1990s, the State and local system experienced several serious issues including financial instability of several local area programs and significant increases in demand for services for populations not previously given funding priority. Concurrently, State-run psychiatric hospitals experienced significant growth in acute admissions for substance abuse while the private sector was eliminating beds. State hospitals also struggled with the ongoing threat of losing federal funding due to inadequate staffing and record-keeping violations. At the same time, the United States Supreme Court, in *Olmstead v. L.C.*, held that states have an obligation to provide community-based treatment for persons with mental disabilities when certain conditions are met. The General Assembly reacted by commissioning a series of studies and moving forward toward system reform.

¹ Kory Goldsmith and Andrea Russo, *Info Brief: System Reform for Mental Health, Developmental Disabilities and Substance Abuse Services* (Raleigh, NC: Research Division of the North Carolina General Assembly, October 2006).

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

From 2000 to the present, the State's mental health system has experienced many aspects of reform. During the 2000 Legislative Session, the General Assembly (NCGA) established the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities, and Substance Abuse Services (LOC) to make recommendations on reforming the system. In 2001, the LOC proposed House Bill 381 (S.L. 2001-437), a sweeping systemwide reform for the State. In January 2001, the NCGA passed the bill, known as "Mental Health Reform," emphasizing consumer-driven, community-based services and requiring State and local governments to provide certain core services to all individuals. It also required the development of enhanced services to target persons with the most severe disabilities and shifted the role of local public mental health agencies from that of direct service providers to one of managing and coordinating services delivered by private providers.

Chronology of Legislative Action

- 2000, Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities, and Substance Abuse Services was established.
- 2001, NCGA passed S.L. 2001-437 (H.B. 381), Mental Health Reform, making significant State and local governance and accountability changes.
- 2001, NCGA appropriates \$50 million to provide start-up funds for community treatment alternatives for individuals in State institutions and to construct, repair, and renovate State facilities.
- 2001, NCGA passed S.L. 2001-424 (S.B. 1005), which establishes the Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs in G.S. 143-15D. (This was later recodified as 143C-9-2).

Implementation Milestones

Since 2001, many changes have been implemented statewide. The key milestones include:

- Creation of Local Management Entities (LMEs), local public agencies accountable to the State and counties;
- Reduction in numbers of LMEs from 40 to 25;
- Creation of a State and local Consumer and Family Advisory Committees (CFAC) to advise on all aspects of State and local operations;
- Divestiture by LMEs of most services via contractual relationships with private providers;
- Implementation of evidence-based best practices; and
- Reduction in reliance on institutions for long-term needs.

Future Issues

- While the resident population in State psychiatric hospitals has decreased, acute admissions have been increasing;²
- Variations in the quality and access to community-based services still exist;
- The role of the LME continues to evolve; and
- Access to substance abuse services has decreased since reform was implemented.³

² Kory Goldsmith and Andrea Russo-Poole, *Legislative Briefing: Mental Health Issues* (Raleigh, NC: Presented February 2007),

www.ncleg.net/fiscalresearch/topics_of_interest/topics_pdfs/mental_health_briefing_feb_7_2007.pdf.

³ Alice Lin, *The Implementation of Local Management Entities in North Carolina* (August 2007, Final Draft for Discussion).

Division of Mental Health, Developmental Disabilities, and Substance Abuse Services**ADDITIONAL LEGISLATION****S.L. 2007-410 (HB 628) UNIFORM GRADUATED CO-PAYMT – MH/DD/SA SVCS.**

The act amends G.S. 122C-146 and G.S. 122C-112.1(a) to require the Secretary of the Department of Health and Human Services (DHHS) to adopt rules for implementing a graduated co-payment schedule to be used by local management entity (LME) and contractual provider agencies. The act also directs the Secretary to identify all services that are funded by or through DHHS's budget that do not have income-based criteria for eligibility, and to develop and submit to the General Assembly by November 1, 2007 a proposal for implementing this type of criteria for the identified programs. Fiscal notes were completed on versions of this bill; however there is no estimate available on the fiscal impact of the bill because the new co-payment schedule has not yet been determined.

S.L. 2007-504 (HB 627) EXTEND PILOT/CLARIFY LME FUNCTIONS/LME ADMIN.

(As amended by S.L. 2007-484 (SB 613) 2007 Technical Corrections Act)

This act makes a number of changes to the laws related to State and local public agencies that manage mental health, developmental disabilities, and substance abuse services (LMEs), including amending:

- S.L. 2003-178, as amended by S.L. 2006-66, Section 10.27, to extend the "First Commitment Pilot Program" to an additional five LMEs for three more years (for a total of 10 LMEs). This program allows certain master's-level professionals to conduct initial examinations to determine whether individuals are a threat to themselves or others.
- G.S. 122C-115.4 to clarify that LME administrative functions may only be implemented by an LME unless the LME contracts with a third party.
- G.S. 122C-115(a1) to hold harmless for one year an LME that falls below the catchment area requirements (six counties or a population of at least 200,000) due to a loss of counties participating in the LME.
- G.S. 122C-118.1(a) and (b) to allow an LME with eight or more counties to have a governing board of up to 30 members and to prohibit an individual who contracts with an LME for the delivery of services from being a board member during the term of the contract.
- G.S. 122C-115.2(a) and (b) to require the Secretary of the Department of Health and Human Services (DHHS) to develop a model LME business plan.
- G.S. 122C-114 to authorize the Commission for Mental Health, Developmental Disabilities, and Substance Abuse Services (Commission) to adopt rules related to the uniform portal process, the monitoring and endorsement of providers, and the provision of technical assistance by LMEs to providers.
- G.S. 122C-141 to require that any waiver issued by the Secretary allowing an LME to provide services shall be for at least one year, unless the LME requests a shorter waiver.

The act also directs the Joint Legislative Oversight Committee for Mental Health, Developmental Disabilities, and Substance Abuse Services to study whether the rule-making authority for the Secretary and the Commission for Mental Health, Developmental Disabilities, and Substance Abuse Services should be modified to eliminate any duplication, conflict, or lack of clarity.

Division of Mental Health, Developmental Disabilities, and Substance Abuse Services**S.L. 2007-177 (HB 625) AMEND MH/DD/SA STATUTES/RENAME FACILITIES**

The act reorganizes G.S. 121C-181(a) to rename the State facilities that the Secretary of Health and Human Services has jurisdiction over, such that Central Regional Hospital will be added under Psychiatric Hospitals, and both Dorothea Dix Hospital and John Umstead Hospital will be removed when Dorothea Dix Hospital is closed and is no longer serving psychiatric patients.

Division of Public Health

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

Agency Description:

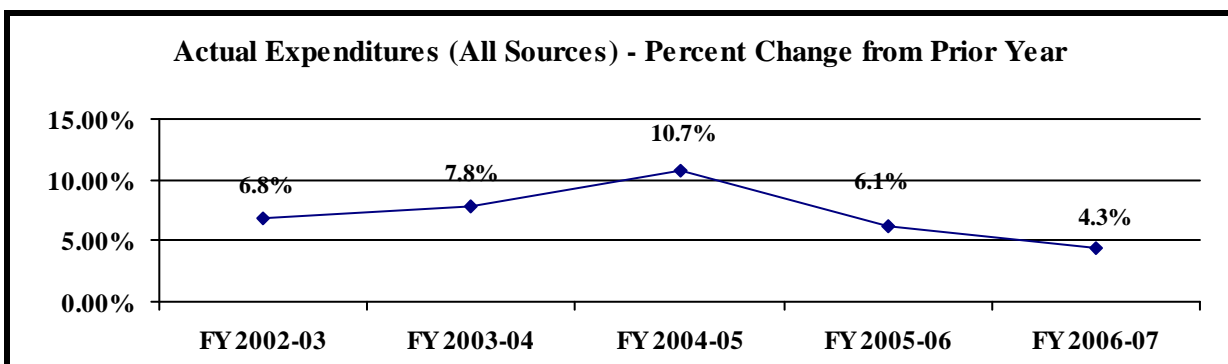
The Division of Public Health (DPH) provides and manages preventive services, education, training, and epidemic outbreak services to local communities and health care professionals. The Division is involved in a wide range of activities, including cancer control, diabetes, asthma, heart disease, early 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	645,961,599	673,884,984	715,765,950	706,467,937
Revenue	500,350,904	513,265,466	523,270,008	524,305,227
Net Appropriations	\$145,610,695	\$160,619,518	\$192,495,942	\$182,162,710
Positions (FTE)	1,902.00	2,044.96	2,051.97	2,051.97

Budget Overview:

The biennial budget for the Division of Public Health is \$715.8 million for FY 2007-08 and \$706.5 million for FY 2008-09. The changes in funding from FY 2006-07 to FY 2007-08 and FY 2008-09 is due to several nonrecurring appropriations, including \$8.3 million for antivirals for pandemic flu prevention and treatment. The Division spends 78% of its budget on local public health services. The \$523.3 million in receipts represents 73.1% of the Division's budget. Of this amount, approximately 64% are from federal program and block grants, and the Women, Infant, and Children food program. Fees and philanthropic grants represent 15% of receipts, and Medicaid and health insurance represent the remaining 21%.

During the past five fiscal years the average increase in actual expenditures in the Division of Public Health's budget has been 7.17%. 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 total General Fund operating budget by program.

Division of Public Health (14430 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration, Local, and Community Support	21,095,211	20,332,057
Division Offices	6,134,113	6,139,778
Office of the Chief Nurse	1,519,396	1,524,671
Minority Health	3,948,056	3,448,060
Local Health Services	9,493,646	9,219,548
Women's and Children's Health	518,319,893	518,620,242
Women's Health	58,585,222	58,285,824
Early Intervention Program	78,298,226	78,340,500
Child Health	37,807,042	38,300,771
Nutrition Services	315,094,809	315,103,826
Immunization	28,534,594	28,589,321
Chronic Disease and Injury Prevention	33,758,816	32,157,585
Chronic Disease Prevention	29,392,146	28,790,331
Highway Safety Scientific Service	2,734,397	2,734,396
Healthy Carolinians	1,632,273	632,858
Epidemiology	128,919,969	122,001,970
HIV/STD Prevention and Care	60,514,103	60,512,160
Public Health Laboratory Services	17,161,932	17,265,970
Bioterrorism Grants	35,234,057	28,116,609
Communicable Diseases	6,875,663	6,967,572
Occupational and Environmental Epidemiology	4,336,400	4,339,332
Office of the Chief Medical Examiner	4,797,814	4,800,327
Oral Health	6,174,170	5,852,629
Vital Records	2,630,093	2,632,662
State Center for Health Statistics	4,832,994	4,835,988
Federal Indirect Cost Reserve	34,804	34,804
TOTAL	\$ 715,765,950	\$706,467,937
Revenue	(523,270,008)	(524,305,227)
NET GENERAL FUND APPROPRIATIONS	\$192,495,942	\$182,162,710

OTHER FUNDS

No relevant information to report.

Division of Public Health

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Pandemic Influenza Planning

The Division of Public Health received \$8.3 million for FY 2007-08 and \$1.1 million for FY 2008-09 for the purchase of 634,458 treatment courses of antivirals to be used in the event of a pandemic influenza. The federal government will pay for 25% of the cost of purchasing the antivirals. Additionally, \$50,400 was appropriated for climate-controlled storage for these antivirals and those purchased in FY 2006-07.

HIV Prevention - Counseling and Testing

The Division of Public Health received \$2 million in each year of the biennium for HIV prevention to be used in the following areas:

- Funding to local public health departments, historically black colleges and universities, and other community organizations for HIV counseling, testing, and early medical interventions;
- Funding to implement three community-based harm reduction programs as part of a comprehensive Hepatitis C and HIV disease prevention program; and
- Funding to support peer-to-peer counseling efforts.

Community Focused Eliminating Health Disparities Initiative

The Community Focused Eliminating Health Disparities Initiative (CFEHDI) received an additional \$500,000 in FY 2007-08, bringing the total funding for the initiative to \$2.5 million in FY 2007-08 and \$2 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. 2007-323, Sec. 10.22)

Breast and Cervical Cancer Control Program

The Division of Public Health received an additional \$2 million in each year of the biennium for screening and diagnostic services for breast and cervical cancer through the NC Breast and Cervical Cancer Control Program. The increase in resources allows North Carolina to screen an additional 6,000 women this year.

School Nurses

The Division of Public Health received an additional \$2.7 million in FY 2007-08 and \$3.3 million in FY 2008-09 for the school nurse initiative. The funds will provide for 54 new school nurses in FY 2007-08 and 66 new school nurses in FY 2008-09. All funds are to be used to supplement (not supplant) other State, local, and federal funds.

(S.L. 2007-323, Sec. 10.23)

Public Health Funds to Aid Counties

The Division of Public Health received an additional \$2 million for the FY 2007-09 biennium to improve the delivery of the 10 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.

(S.L. 2007-323, Sec. 10.24)

Division of Public Health

Justus-Warren Task Force Recommendations

The Division of Public Health received \$900,000 in FY 2007-08 and \$540,000 in FY 2008-09 to fund recommendations of the Justus-Warren Task Force. These recommendations include:

- Increasing hospital participation in the NC Collaborative Stroke Registry;
- implementing a quality improvement program to reduce the disproportionate burden of stroke in the state;
- Increasing public awareness campaign;
- Surveying the gaps and needs in the prevention and treatment of stroke; and
- Training emergency department staff to better manage and treat stroke victims in concert with first responders.

The Justus-Warren Task Force Stroke Advisory Council will utilize the balance of the funding to support its operations.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 10.21 EARLY INTERVENTION SERVICES REPORT

Section 10.21 directs the Division of Public Health to report by March 1, 2008 on the Early Intervention program. It further states that in order to reduce State funds appropriated for the Child Development Service Agencies (CDSAs) and increase receipts collected, a portion of the funding for CDSAs has been designated as nonrecurring. The provision directs the Division to collect additional Medicaid and other third-party reimbursements from clients and their families in order to reduce the reliance of the Early Intervention Services Program on State appropriations.

Section 10.22 COMMUNITY-FOCUSED ELIMINATING HEALTH DISPARITIES INITIATIVE

Section 10.22 directs the distribution of funds (see Significant Legislative Budget Actions) for the Community-Focused Eliminating Health Disparities Initiative (CFEHDI) and also directs DHHS to evaluate the efforts of the program during the past three years. The Department is directed to submit a report by March 1, 2008, addressing the following:

- Grant allocations by community programs and local health departments;
- Amount of funding by program or local health department;
- Minority populations served by grant recipients; and
- Activities planned and implemented to fulfill the goals of the CFEHDI program.

Additionally, the report is to determine whether or not grantees have fulfilled the goals of the program and make an assessment of the impact grantee activities have had on health disparities among minority populations.

Section 10.25 HEALTH PROMOTION AND DISEASE PREVENTION INVENTORY AND PLAN

This section directs the Department of Health and Human Services to create an inventory of all health promotion and disease prevention activities and adopt a plan to combine the resources for

Division of Public Health

health promotion and disease prevention activities into a single funding stream allocation to be distributed to local health departments for the ten essential public health services.

The Department is further directed to develop a formula to distribute the single funding stream, taking into account the following factors:

- Rate of infant mortality;
- Rate of adolescent pregnancy;
- Rate of cancer, heart disease, and diabetes;
- Number of persons without health insurance;
- Median income;
- Percent of county population enrolled in Medicaid; and
- Percent of the population that is minority.

This report is due on February 1, 2008.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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Maternal and Child Health Block Grant FY 2007-08 Budget: \$17,991,398

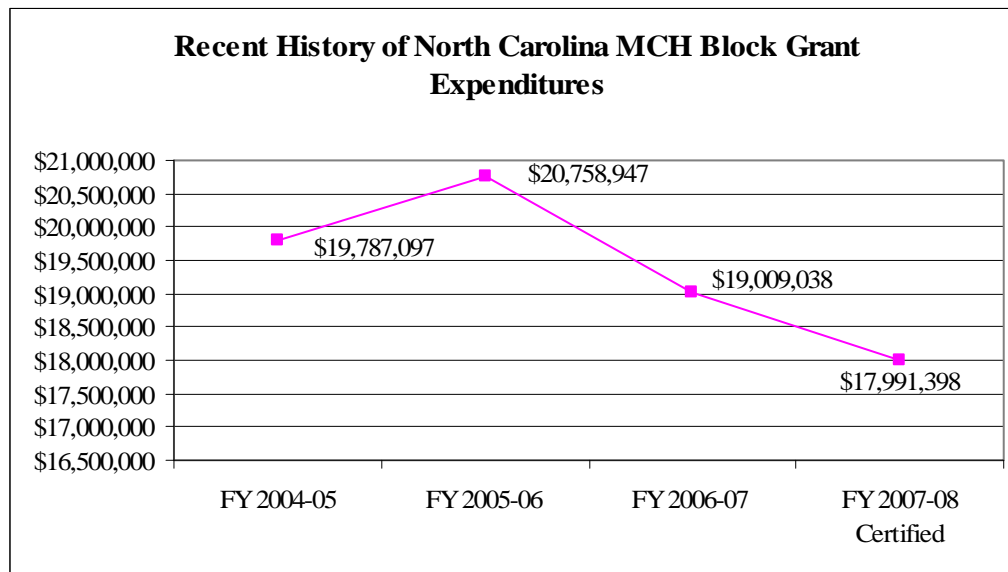
Title V of the federal Social Security Act sets forth the Maternal and Child Health Block Grant program (MCH). For FY 2007-08 the General Assembly appropriated \$17,991,398 in MCH block grant funds.

The Division of Public Health (DPH) administers the MCH block grant 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. Program services funded by DPH include:

- Children's Health Services,
- Maternal Health,
- Family Planning,
- Oral Health,
- Teenage Pregnancy Prevention,
- State Center for Health Statistics,
- Technical Assistance and Training to Local Health Departments,
- Injury and Violence Prevention,
- Health Disparities, and
- Immunization.

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The following chart shows the history of the Maternal and Child Health Block Grant over the past four fiscal years since FY 2004-05.



(S.L. 2007-323, Sec. 10.55)

Preventive Health and Health Services (PHHS) Block Grant FY 2007-08 Budget \$3,070,841 (S.L. 2007-323, Sec. 10.55)

In October 1992, Public Law 102-531 established the PHHS block grant. States are required to submit a state health plan with selected health outcome objectives, descriptions of the health problems, identified target and disparate populations, and activities to be addressed. The PHHS block grant is a primary source of flexible funding that provides states the latitude to fund clinical services, preventive screening, laboratory support, outbreak control, workforce training, public education, data surveillance, and program evaluation targeting such health problems as cardiovascular disease, cancer, diabetes, emergency medical services, injury and violence prevention, infectious disease, environmental health, community fluoridation, and sex offenses. A strong emphasis is placed on adolescents, communities with little or poor health care services, and disadvantaged populations.

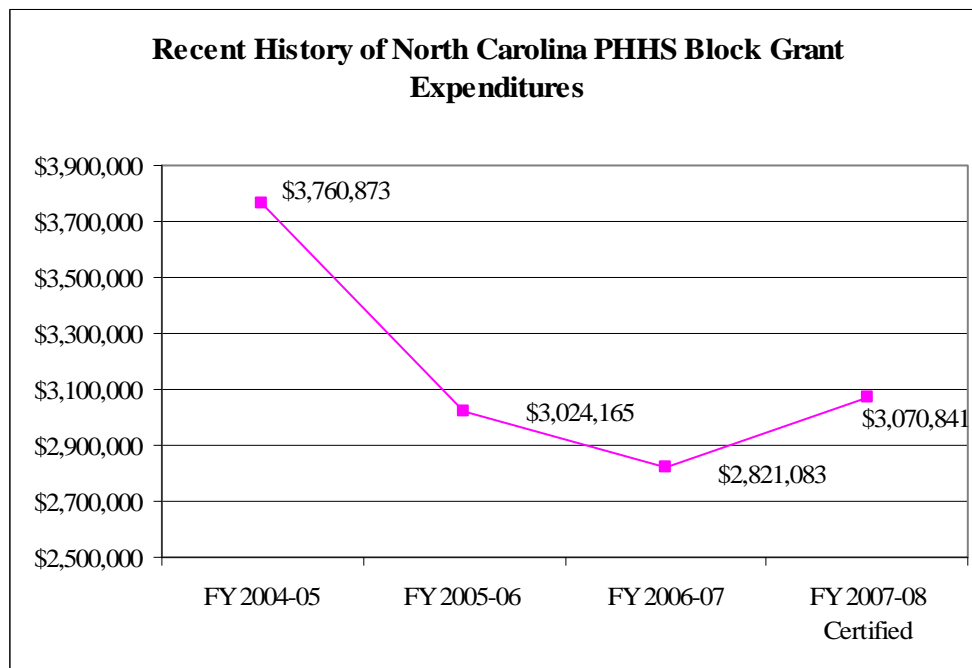
For FY 2007-08 the General Assembly appropriated \$3,070,841 in PHHS block grant funds. Funds are used to maintain and strengthen the Division of Public Health's planning, promotion, and coordination of health promotion and disease prevention. Specifically, the block grant supports:

- NC Statewide Health Promotion — 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;
- Women's Health — Osteoporosis programs that educate professionals and the public about prevention, screening, diagnosis, and treatment;
- Oral Health — Community initiatives that screen elementary school-age children for dental care and monitor fluoride levels in communities;

Division of Public Health

- HIV/STD Prevention and Community Planning; and
- Emergency Medical Services — Services to rape victims through community rape crisis centers.

The following table shows expenditure and appropriation data for the PHHS Block Grant during the past four fiscal years since FY 2004-05.



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:

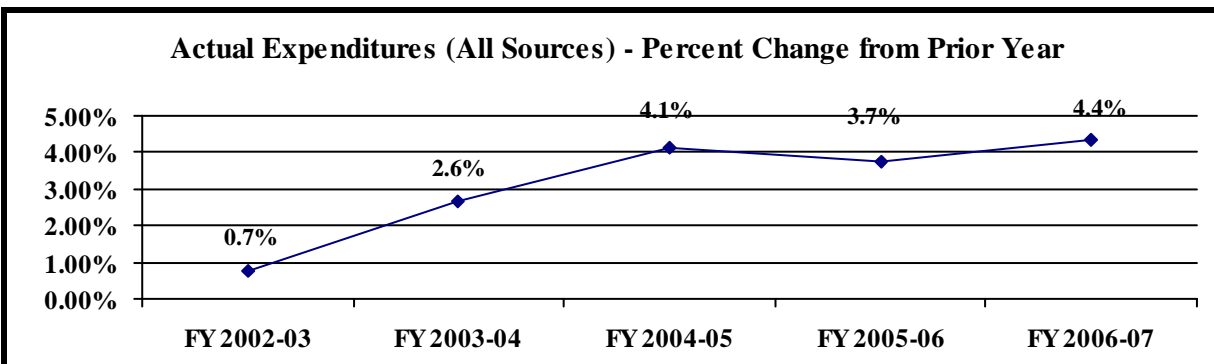
The Division of Social Services (DSS) supervises North Carolina's federally mandated, county-administered social services system. The federal government authorizes national programs and a majority of the funding, while the 100 local county departments of social services deliver the services and benefits, 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	1,434,827,773	1,497,274,405	1,482,596,016	1,487,090,178
Revenue	1,250,607,804	1,294,276,044	1,265,678,514	1,265,863,140
Net Appropriations	\$184,219,969	\$202,998,361	\$216,917,502	\$221,227,038
Positions (FTE)	767.00	766.00	772.00	772.00

Budget Overview:

The budget for the Division of Social Services is \$1.48 billion in FY 2007-08 and \$1.49 billion in FY 2008-09. The FY 2007-08 budget is 1% less than FY 2006-07 actual expenditures. Overall 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 3.1% between FY 2002-03 and FY 2006-07, primarily 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. Net General Fund appropriations account for 15% of the Division's budget and the remaining 85% 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)	Certified FY 2007-08	Certified FY 2008-09
Administration and Program Support	421,277,279	421,852,275
State Administration	19,871,670	19,924,038
Energy Assistance and Food Stamp Program Management	15,729,723	14,730,754
Child Welfare Services Program Management	48,585,103	50,096,200
County Government Administration and Program Support	337,090,783	337,101,283
Services and Assistance	1,013,904,998	1,017,760,878
County Services	531,185,986	531,185,986
State/County Special Assistance Program*	151,818,466	153,068,466
Work First Family Assistance	111,387,916	111,387,916
Foster Care Assistance	88,707,120	90,761,172
Adoption Assistance	77,976,772	78,527,673
Energy Assistance	30,220,625	30,220,625
Refugee Assistance	3,423,674	3,424,601
Contracted Services	19,184,439	19,184,439
Child Support Enforcement	45,236,819	45,300,732
Reserves, Transfers, and Prior Year Earned Revenue	2,176,920	2,176,293
TOTAL	\$1,482,596,016	\$1,487,090,178
Revenue	(1,265,678,514)	(1,265,863,140)
NET GENERAL FUND APPROPRIATIONS	\$216,917,502	\$221,227,038

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

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

State/County Special Assistance Rate Adjustment

A total of \$1.9 million in FY 2007-08 and \$2.5 million in FY 2008-09 was appropriated to provide an increase to the State/County Special Assistance monthly rate for recipients who reside in adult care homes from \$1,148 to \$1,173 per month, effective October 1, 2007. State/County

Division of Social Services

Special Assistance for Adults provides a cash supplement to help low-income individuals residing in adult care homes pay for their care.

(S.L. 2007-323, Section 10.13)

Child Welfare Post-Secondary Support Program

A total of \$2,003,600 in FY 2007-08 and \$3,718,250 in FY 2008-09 was appropriated from State appropriations to the Child Welfare Post-Secondary Support Scholarship Program to fund scholarship awards for foster youth aging out of the foster care system and special needs children adopted from foster care. An additional \$2,003,600 in FY 2007-08 and \$3,718,250 in FY 2008-09 was appropriated from the Escheat Fund to the Child Welfare Post-Secondary Support Scholarship Program to fund the scholarship awards.

Another \$400,000 in FY 2007-08 and \$500,000 in FY 2008-09 were appropriated to contract with an entity to administer the program and provide support services to the scholarship recipients.

An additional \$50,000 in each year of the biennium was appropriated out for the NC State Education Assistance Authority to administer Child Welfare Post-Secondary Support Scholarship Program's scholarship funds.

(S.L. 2007-323, Section 10.34)

<p style="text-align: center;">SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473</p>
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Section 10.34 CHILD WELFARE POST-SECONDARY SUPPORT PROGRAM/USE OF ESCHEAT FUND

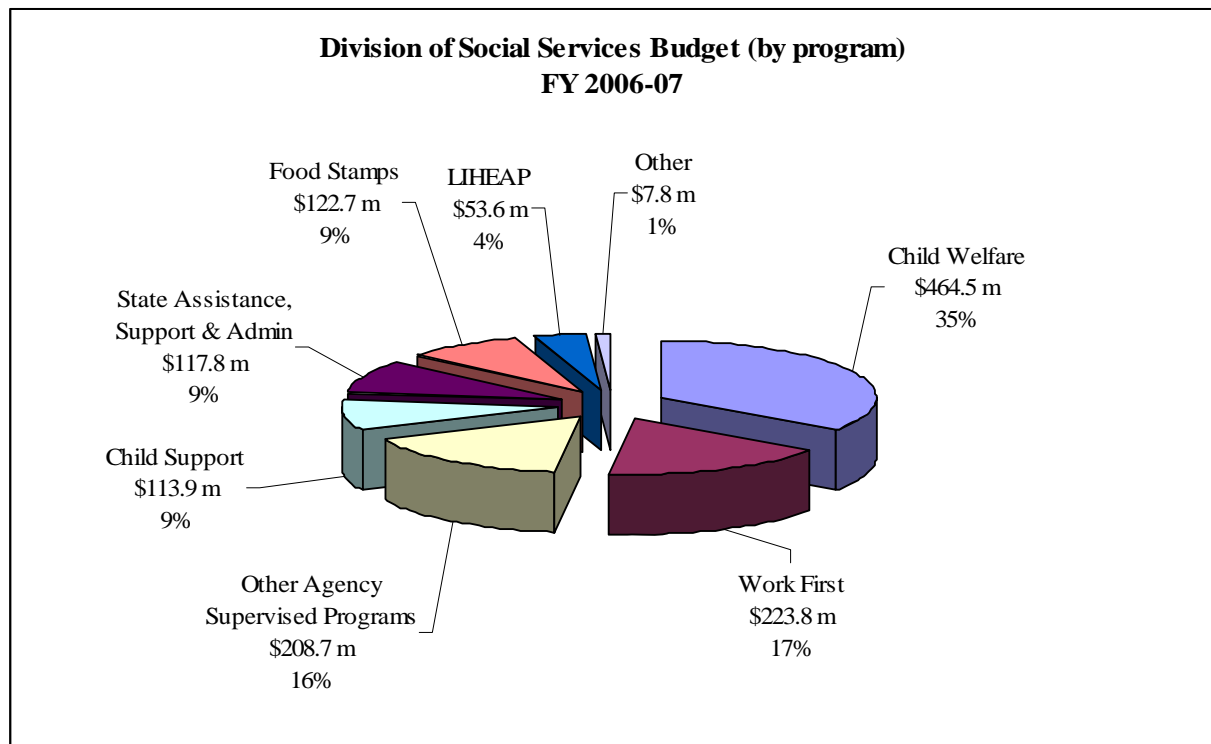
Section 10.34 creates a new scholarship program for children who age out of foster care and children with special needs adopted after age 12 attending public colleges and universities in North Carolina. This special provision also:

- Directs that scholarships be funded through the Escheat Fund and State appropriations;
- Directs the NC State Education Assistance Authority to administer the scholarship funds;
- Allows the Department to contract with a separate entity to develop and administer the program; and
- Directs that funds appropriated be used for students attending public colleges and universities in North Carolina.

Division of Social Services

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

The Division spends 35% of its budget on Child Welfare services, 17% on the Work First (WF) Family Assistance Program, and 16% on other agency-supervised programs. The chart below shows the composition of the DSS budget by program for FY 2006-07.



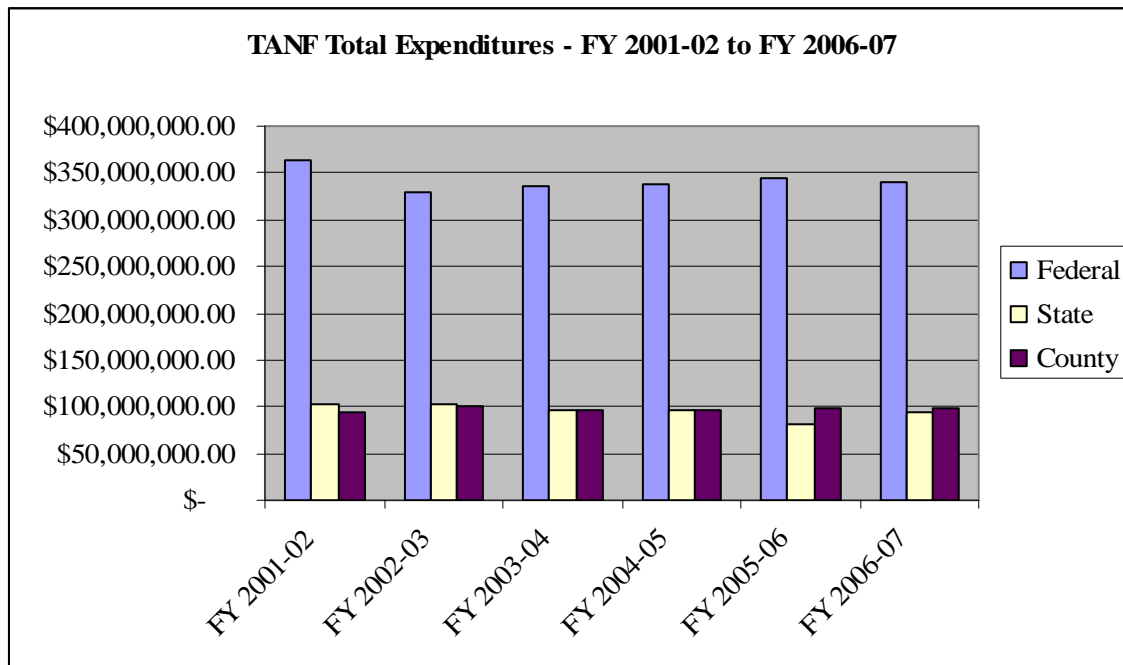
Temporary Assistance to Needy Families Block Grant FY 2007-08 Budget: \$362,309,239

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.

Division of Social Services

The chart below shows total TANF expenditures by federal, State, and county share for FY 2002-2007.



SOURCE: Division of Social Services

(S.L. 2007-323, Section 10.55)

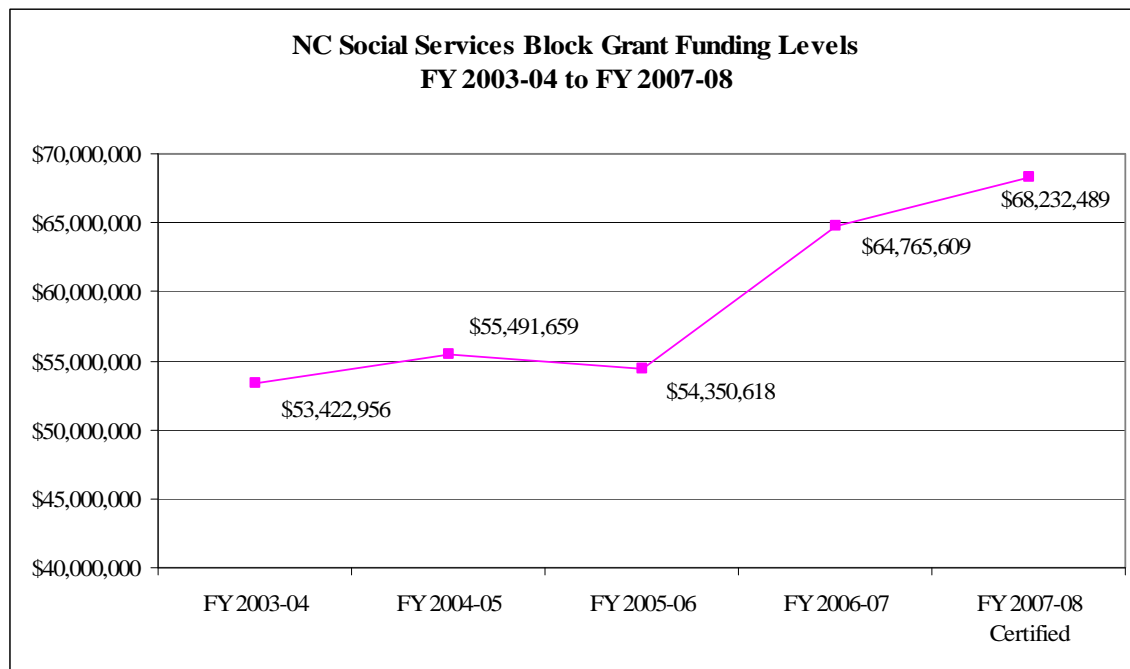
Social Services Block Grant

FY 2007-08 Budget: \$68,232,489

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; or 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.

Division of Social Services



SOURCE: Division of Social Services

The primary providers of these services are the 100 county departments of social services. Examples of services funded include:

- Adoption Services;
- Adult and Child Placement Services;
- Community Living Services;
- Adult and Child Day Care Services;
- Delinquency Prevention Services;
- Employment and Training Support Services;
- Family Planning and Problem Pregnancy Services;
- Family Preservation and Support Services;
- Foster Care Services;
- Health Support Services;
- Home Health and In-Home Aide Services;
- Housing and Home Improvement Services;
- Adult and Child Protective Services;
- Residential Treatment for the Emotionally Disturbed;
- Respite Care Services; and
- Youth Services.

(S.L. 2007-323, Section 10.55)

Division of Social Services**Low-Income Home Energy Assistance Program Block Grant
FY 2007-08 Budget: \$41,925,942**

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. 2007-323, Section 10.55)

ADDITIONAL LEGISLATION

No relevant information to report.

Division of Vocational Rehabilitation

G.S. 143.547 Duties and Responsibilities

Agency Description:

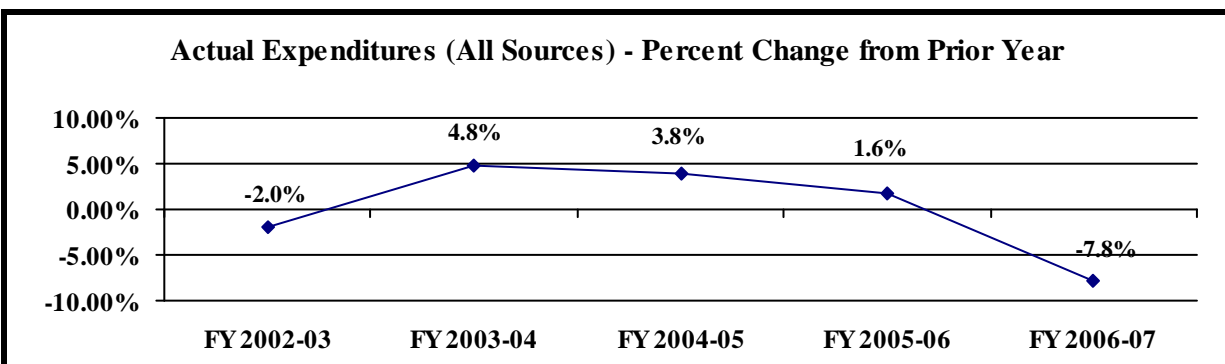
The Division of Vocational Rehabilitation Services is tasked with promoting the employment and independence of people with disabilities. Its role is to facilitate timely access to comprehensive rehabilitation services through the delivery of direct services and the provision of information about programs, 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	127,650,243	117,721,789	137,892,540	138,878,370
Revenue	85,576,129	74,948,609	92,837,743	93,360,005
Net Appropriations	\$42,074,114	\$42,773,180	\$45,054,797	\$45,518,365
Positions (FTE)	1,051.00	1,051.00	1,054.00	1,054.00

Budget Overview:

The biennial budget for the Division of Vocational Rehabilitation is \$137.9 million for FY 2007-08 and \$138.9 million for FY 2008-09. Expenditures increase 17.1% between FY 2006-07 and FY 2007-08, as a result of adjusting the eligibility threshold to 125% of the federal poverty level. Most of this increase will be paid for by federal receipts. 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 remained virtually flat, growing at an average rate of 0.10%. However, the Division's expenditures for FY 2007-08 are less than in FY 2002-03.



Division of Vocational Rehabilitation

BUDGET TABLES

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

Division of Vocational Rehabilitation (14480 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Management and Support Services	7,527,571	7,533,814
Counseling and Placement Services	43,466,217	43,515,092
Community Rehabilitation Facilities and Programs	2,808,236	2,811,064
Case Services	62,411,941	63,425,416
Client Assistance Project	312,901	313,189
Supported Employment Program	616,352	616,352
NC Assistive Technology Project	1,931,772	1,897,539
Independent Living Programs	18,323,939	18,434,293
Federal Indirect Cost Reserve	493,611	331,611
TOTAL	\$137,892,540	\$138,878,370
Revenue	(92,837,743)	(93,360,005)
NET GENERAL FUND APPROPRIATIONS	\$45,054,797	\$45,518,365

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	Certified FY 2007-08	Certified FY 2008-09
DVR (14480—General Fund)	137,892,540	138,878,370
Disability Determination Service (24481—Special Fund)	58,927,412	58,927,412
TOTAL	\$196,819,952	\$197,805,782

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.

Disability Determination (24481)

Balance: \$ 0
(as of June 30, 2007)

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

Division of Vocational Rehabilitation

(SSA). This service is provided to North Carolinians who apply for income support through the Social Security Disability Insurance and/or Supplemental Security Income.

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 2007-08, this Fund is \$89 million. It provides funding for 606 positions and is supported solely from federal receipts, along with funds transferred from the Division of Medical Assistance to cover Title XIX match requirements for Medicaid eligibility determinations.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Assistive Technology

The General Assembly appropriated \$342,272 in FY 2007-08 and \$305,956 in FY 2008-09 for assistive technology. These funds will be used to establish three additional assistive technology positions to address the waiting period for clients to receive services and equipment and to allow staff to demonstrate, train, and educate consumers about the equipment.

The goal of the assistive technology project is to increase independence and opportunities for persons with disabilities in school, home, work, and community activities through the use of assistive technology.

Independent Living Rehabilitation Program

The General Assembly appropriated \$500,000 in each year of the biennium for the Independent Living Program. The additional appropriation will allow an increase the eligibility to 125% of the federal poverty level from the current fixed tier amount.

The Independent Living Rehabilitation Program's goal is to prevent institutionalization and help to deinstitutionalize individuals wherever possible. When appropriate, the program offers long-term support including guidance, counseling, evaluation, housing, and other services.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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No relevant information to report.

Division of Vocational Rehabilitation

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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No relevant information to report.

ADDITIONAL LEGISLATION

No relevant information to report.

**APPROPRIATIONS
SUBCOMMITTEE ON
JUSTICE AND PUBLIC
SAFETY**

Appropriations Subcommittee on Justice and Public Safety

Subcommittee Summary:

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

Subcommittee Membership:

Rep. Alice Bordsen, Chair
Rep. Jimmy Love, Chair
Rep. Philip Frye
Rep. Melanie Goodwin
Rep. Pat Hurley
Rep. Carolyn Justus
Rep. Joe Kiser
Rep. Annie Mobley
Rep. Tim Moore
Rep. Karen Ray
Rep. Timothy Spear
Rep. Ronnie Sutton
Rep. Ray Warren

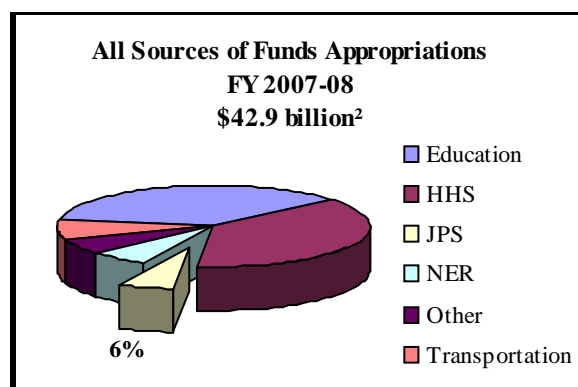
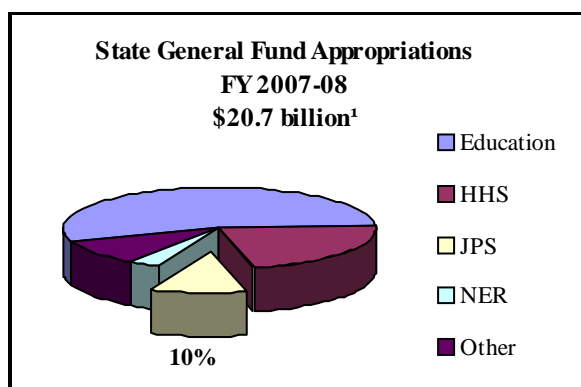
Sen. Eleanor Kinnard, Chair
Sen. John Snow, Chair
Sen. Tom Apodaca
Sen. Stan Bingham
Sen. Peter Brunstetter
Sen. Dan Clodfleter
Sen. Tony Rand

Staff:

Jim Mills, Team Leader
John Poteat
Jean Sandaire
Denise Thomas

Budget Comparison:

The combined budgets under the Appropriations Subcommittees on Justice and Public Safety total \$2.0 billion or 10% of net General Fund appropriations and 6% of all funding sources reported for FY 2007-08. The following charts illustrate the Justice and Public Safety 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 Correction

G.S. 143B-260 Department of Correction - creation

G.S. 143B-261 Department of Correction - duties

Agency Description:

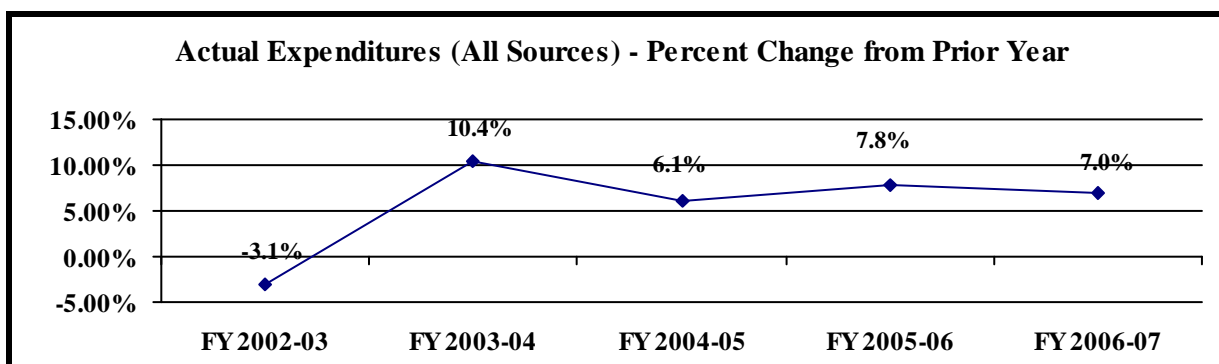
The Department of Correction (DOC) manages three primary programs: prisons, community corrections, and substance abuse treatment. A fourth major program, the Post Release Supervision and Parole Commission, is housed in the Department but operates independently. The Division of Prisons manages over 70 facilities whose functions include providing security, basic health services, and education and work programs for over 37,000 inmates. The Division of Community Corrections manages probation and parole services for over 117,000 offenders, including such special programs as sex offender monitoring. The Division of Alcohol and Chemical Dependency provides a continuum of treatment services ranging from 35-day outpatient programs to 12-month residential programs.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	1,119,765,756	1,197,827,113	1,243,873,156	1,256,420,592
Revenue	43,054,573	42,098,619	29,807,511	29,793,011
Net Appropriations	\$1,076,711,183	\$1,155,728,494	\$1,214,065,645	\$1,226,627,581
Positions (FTE)	20,437.50	20,611.50	21,066.50	21,223.00

Budget Overview:

The total budget for the Department of Correction is \$1,243,873,156 for FY 2007-08 and \$1,256,420,592 for FY 2008-09. The FY 2007-08 budget is an increase of 3.84% over the actual expenditures for FY 2006-07. Approximately 98% of DOC operations are funded by net General Fund appropriations; only 2% of the budget comes from receipts. The major 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 growth in total DOC expenditures is primarily due to operating costs for new prisons and salary-related items for over 21,000 employees. The average annual percentage change in the DOC budget from FY 2002-03 to FY 2006-07 is 5.6%.

Approximately 74% of the total DOC FY 2007-08 budget is for personnel costs (salaries and benefits). The Division of Prisons is the major budget driver in Correction - 82% of the total DOC FY 2007-08 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)	Certified FY 2007-08	Certified FY 2008-09
Departmental Management	51,208,138	50,842,813
Division of Alcohol and Chemical Dependency	16,839,950	16,759,710
Division of Prisons	1,009,431,105	1,013,831,978
Division of Community Corrections	148,234,414	139,308,388
Post-Release Supervision and Parole	1,372,058	1,373,633
Reserves (Prisons; Community Corrections)	16,153,208	33,672,152
Grievance Resolution Board	634,283	631,918
TOTAL	\$1,243,873,156	\$1,256,420,592
Revenues	(29,807,511)	(29,793,011)
NET GENERAL FUND APPROPRIATIONS	\$1,214,065,645	\$1,226,627,581

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	Certified FY 2007-08	Certified FY 2008-09
Department of Correction (14500-General Fund)	1,243,873,156	1,256,420,592
Correction Enterprise (74500-Internal Service Fund)	85,091,196	85,091,196
TOTAL	\$1,328,964,352	\$1,341,511,788

Note:

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

OTHER FUNDS

Correction Enterprise (Fund 74500) **Balance: \$17,218,393**
(as of June 30, 2007)

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. 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. Enterprise operates solely on receipts from its customers.

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

Department of Correction

FY 2006-07, Enterprise 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 a transfer of \$500,000 from the Enterprises Fund to the State General Fund each year and a yearly transfer of funds to the Victims Compensation Fund. The formula for allocating funds to the Victims Compensation Fund is established in G.S. 148.2. The amount of \$436,703 was transferred in FY 2006-07.

The chart below shows the budget for the Correction Enterprise Fund.

Correction Enterprise Fund

Budget Category	FY 2007-08	FY 2008-09
Total Requirements	\$85,091,196	\$85,091,196
Receipts	\$85,509,921	\$85,509,921
Change in Fund Balance	\$418,725	\$418,725

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Division of Prisons

Inmate Diagnostic Center at Neuse Correctional Center

Eleven positions were added at a recurring cost of \$454,456 to expand the misdemeanor processing center at Neuse Correctional Center. Misdemeanor admissions are projected to increase by over 140 monthly at the Neuse Center during FY 2007-08.

Domestic Violence Reserve

Recurring funding of \$125,786 was appropriated in FY 2007-08 to implement the provisions of Session Law 2007-190, Violate Order/Possess Deadly Weapon. This law makes it a Class H felony if a person knowingly violates a domestic violence protective order while in possession of a deadly weapon.

Tabor Correctional Center – New Prison

The Correction continuation budget included funding of \$10.9 million for FY 2007-08 and \$27.9 million for FY 2008-09 to operate 1,500 new beds at the facility under construction in Columbus County. The new facility will open in May 2008 as a 1,000-bed facility. An additional 500 beds will be added in FY 2008-09 by housing two inmates per cell in two wings of the prison.

Division of Administration

Central Engineering Expansion of Inmate Construction Program

Funding of \$776,248 recurring and \$210,435 nonrecurring was appropriated in FY 2007-08 to expand the inmate construction program. Over 500 inmates will eventually be assigned to work on various prison construction projects. The funding allows for the purchase of equipment and hiring of additional engineering staff to design and oversee these projects.

(S.L. 2007-323, Section 17.4)

Department of Correction

Central Administration Positions

DOC was authorized recurring funding of \$1,418,093 and nonrecurring funding of \$114,811 in FY 2007-08 to establish 27 new positions in various administrative programs, including fiscal, personnel, and training. Thirty-nine were requested. The intent was to allow DOC's administrative support staffing to partially keep pace with the growth in DOC positions and functions statewide.

Division of Community Corrections

Continuation Review of the Criminal Justice Partnership Program

The budget eliminates the recurring funding of \$9,153,134 in FY 2007-08 for the Criminal Justice Partnership Program and replaces it with nonrecurring funding. The restoration of FY 2008-09 recurring funds is subject to findings of the Continuation Review.

(S.L. 2007-323, Section 6.21)

Continuation Budget Increases for IT Services

The budget increases the continuation budget by \$1.6 million recurring to reflect actual FY 2005-06 spending for information technology services.

Continuation Budget Increases for Rent and Leases

The budget increases the continuation budget by \$1 million recurring for increase in rent and lease space for the Probation and Parole offices.

SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473

Section 6.21 CONTINUATION REVIEW OF CERTAIN FUNDS, PROGRAMS, AND DIVISIONS

This provision requires the Division of Community Corrections to provide a written report on the Criminal Justice Partnership program by February 1, 2008, to the House and Senate Appropriations Committees. The report's focus will be on program effectiveness and will include all of the information listed below:

- A description of the program, including information on services provided, the recipients of the services, and the resource requirements.
- Meaningful measures of program performance and whether the program is meeting these measures.
- The rationale for continuing, reducing, or eliminating funding.
- The consequences of discontinuing program funding.
- Recommendations for improving services.
- Recommendations for reducing costs.
- The identification of policy issues that should be brought to the attention of the General Assembly.

Section 17.1 MUTUAL AGREEMENT PAROLE PROGRAM (MAPP)

The MAPP program is a joint project of the Post Release Supervision and Parole Commission and the Division of Prisons. Low- to medium-risk inmates sentenced prior to Structured Sentencing are given the opportunity for parole if they complete all MAPP requirements, which might include completion of education programs and substance abuse treatment, as well as staying infraction-free during their participation. The provision requires an annual report (March

Department of Correction

1 each year) on inmate participation in MAPP, including number enrolled, terminated, and having successfully completed the program.

Section 17.2 INMATE ROAD SQUADS AND LITTER CREWS

This provision continues the requirement that the Department of Transportation (DOT) transfer \$11.3 million dollars annually to DOC to pay for the cost of inmate road squads and litter crews. The provision was revised in 2007 to require the Office of State Budget and Management to study, in consultation with DOC and DOT, whether the current transfer amount is adequate payment for the work performed.

Section 17.3 ALCOHOL AND CHEMICAL DEPENDENCY PROGRAM REPORT

DOC is required by G.S. 143B-262.3 to submit a report on the department's substance abuse treatment program on March 1 each year. The provision revises the statute to clarify that the report should include information on the number of inmates with substance abuse problems, the number treated, and the number who have fully utilized the programs. Statutory language is also added requiring annual evaluation of the DOC programs. The provision also adds nonstatutory language directing that the evaluation effort focus on long-term residential treatment programs-both DOC programs and contract vendors- in the 2007-09 biennium.

Section 17.4 INMATE CONSTRUCTION PROGRAM

Funding for the Inmate Construction Program was expanded for FY 2007-09. The provision requires DOC to report program information to various legislative committees by April 1, 2008, including the type of construction projects that use inmates, the number of inmates employed, and the savings from using inmate labor.

Section 17.11 PAROLE ELIGIBILITY REPORT

The Post Release Supervision and Parole Commission is directed to identify all inmates sentenced prior to Structured Sentencing who have served more time than they would have served under Structured Sentencing for a comparable crime. The Commission is required to reinstitute the parole review process for these offenders. This provision does not mandate release of any of these inmates. The Commission is required to report the results of its review to various legislative committees by April 1, 2008.

Section 17.14 REPORT ON ELECTRONIC MONITORING PROGRAM/GLOBAL POSITIONING SYSTEMS (GPS)

This provision requires an annual report on the DOC electronic monitoring program, including the Sex Offenders/GPS Monitoring program. The report shall include the number of sex offenders on active (24-hour monitoring) and passive monitoring, the number of violations by these offenders, the number of absconders, per-offender costs, and the size and nature of Probation Officer caseloads.

Section 17.15 CRIMINAL JUSTICE PARTNERSHIP

This provision adds new requirements to the program's annual report, including the number and cost of community and intermediate offenders and the results of a review by DOC Research and Planning of the best practices in community corrections.

Department of Correction

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Correction Program Facts

The following table compares DOC program information from 1995 to the most recent information available. The growth in the inmate prison population and the greater percentage of high-risk felons (Felony Class A through E) in the prison system are particularly worth noting.

Correction Facts

Category	1995	2006	% Increase
Inmate Population	29,485	37,725	27.9%
Community Supervision Population	117,100 (16,674 parolees)	117,099 (1,971 parolees)	0.0% (-88.2%)
Prison Admissions	23,181 (FY 1995/96)	27,257 (FY 2005/06)	17.6%
A through E Felons in Prison	36%	56%	83.9%
Inmates Aged 50 or Older	1,298 (4.4% of total)	3,476 (9.1% of total)	167.8%

Source: DOC Automated Query System and DOC Budget Reports as of 12/31/95 and 12/31/06.

DOC Program Costs

The Department of Correction calculates the cost of the prison system and community corrections programs at the end of each fiscal year. The cost figures include all program operating costs, as well as the cost of management and administrative overhead. The following chart shows the FY 2006-07 cost per program.

Cost of Department of Correction Programs: FY 2006-07

Program	Average Cost per Day	Average Annual Cost	Average Daily Population
1. Prisons*	\$71.52	\$26,105	37,693
2. Community/Intermediate Supervision**	\$2.09	\$762.85	109,760
3. Intensive Supervision**	\$16.53	\$6,0334	6,338
4. Electronic Monitoring**	\$ 7.52	\$2,745	1,153
5. Community Service Work Program**	\$.83	\$303	22,447
6. Criminal Justice Partnership Program (sentenced offenders)**	\$15.03	\$5,486	2,080

Source: Department of Correction, Office of the Controller, November 14, 2007 (Prisons) and November 20, 2007 (Community Corrections).

Department of Correction

Notes:

*The prison cost figure is the combined average daily cost of a prison bed for all custody levels – minimum, medium, and close (high security). The cost includes an overhead factor for prison and departmental management. The average cost of a prison bed has increased from \$22,093 in FY 2002-03 to \$26,105 in FY 2006-07, primarily due to the cost of operating more secure (close custody) prisons and inmate medical costs.

** The other program costs include an overhead factor for the Department of Correction and Community Corrections. The Community/Intermediate supervision cost figure increased 6% from the previous year and serves the lower level offenders. The Intensive Supervision cost figure increased 10% from last year and serves the most serious offenders. The Electronic Monitoring program cost decreased almost 3% last year and serves individuals on electronic house arrest. The Community Service Work program costs increased 20% from the previous year and serves a mix of supervised and unsupervised probationers who mainly work on restitution programs. The Criminal Justice Partnership program costs increased almost 10% from the previous year and serves mainly intermediate probationers in community-based programs.

Criminal Justice Partnership Program

In 1993, G.S. 143B-273 established the Criminal Justice Partnership Program (CJPP) to create additional community-based sentencing options to incarceration. The CJPP provides alternatives for intermediate offenders who have been convicted of a misdemeanor or felony or are serving a term of parole or post-release supervision after serving an active prison sentence.

Counties have latitude in providing Day Reporting Centers (DRC), Satellite Substance Abuse Centers, or Resource Centers. DRCs also serve as an intermediate sanction for probationers and are typically in larger counties and offer more comprehensive services than Resource Centers.

All three programs offer substance abuse treatment, education, and/or employment programs. The major goals for CJPP programs are to lower recidivism, lower substance abuse among offenders, and reduce the cost of incarceration.

In FY 2006-07, counties received \$8,865,634 in State General Fund appropriations to serve 2,080 sentenced offenders in 21 Day Reporting Centers, 44 Satellite Substance Abuse Centers, and 20 Resource Centers.

ADDITIONAL LEGISLATION

No relevant information to report.

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:

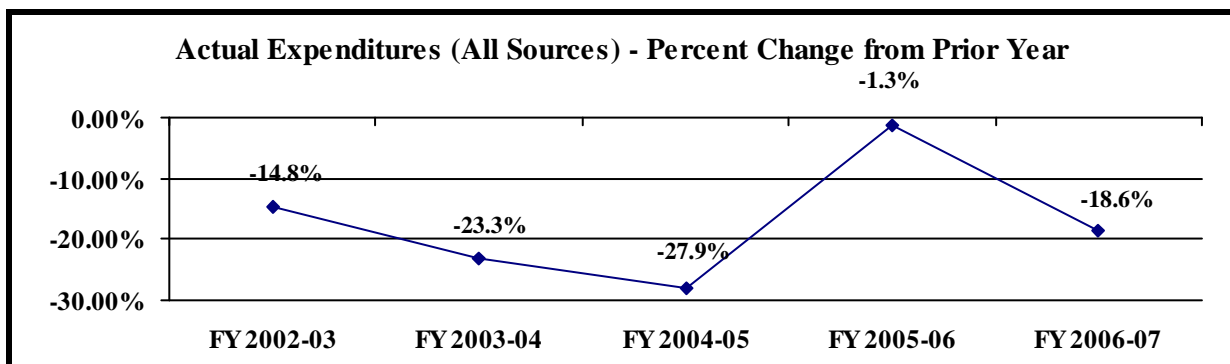
The Department of Crime Control and Public Safety (CCPS) administers programs that focus on reducing crime and enhancing public safety. Among the agency's nine divisions are the NC National Guard, State Highway Patrol, Alcohol Law Enforcement, Emergency Management, and the Governor's Crime Commission.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	208,453,577	169,594,019	120,602,366	109,893,289
Revenue	172,242,030	118,072,130	69,101,029	68,404,252
Net Appropriations	\$36,211,547	\$51,521,889	\$51,501,337	\$41,489,037
Positions (FTE)	484.50	500.50	520.75	515.75

Budget Overview:

The total budget for the Department of Crime Control and Public Safety is \$120,602,366 for FY 2007-08 and \$109,893,289 for FY 2008-09. The FY 2007-08 amount is 29% less than the total agency expenditures for FY 2006-07. The FY 2007-08 budget is funded with \$51.5 million in net General Fund appropriations (43%) and \$69.1 million in receipts (57%). The receipts consist of federal assistance/grant funds that support the North Carolina National Guard and Emergency Management Division. Also, the State Highway Patrol Division does not receive funding from the General Fund. This Division is funded by a transfer from the Highway Fund (approximately \$206 million annually).

The agency's spending has fluctuated by an average of -17.0% over the last five years due to variances in the year-to-year receipts. For example, the agency's overall 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 2007, these funds are almost spent, while no disaster events have occurred recently to create the need for new disaster relief appropriations.



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 by major program.

Department of Crime Control and Public Safety (14900 - General Fund)	Certified FY 2007-2008	Certified FY 2008-2009
Administration	4,241,693	4,114,429
National Guard	25,777,823	25,783,865
Civil Air Patrol	145,192	137,192
Butner Public Safety	3,385,273	3,387,503
Alcohol Law Enforcement	10,548,571	10,391,458
Emergency Management	41,317,586	38,361,565
Victim and Justice Service	12,375,585	10,413,846
Governor's Crime Commission	22,810,643	17,303,431
TOTAL	\$120,602,366	\$109,893,289
Revenue	(69,101,029)	(68,404,252)
NET GENERAL FUND APPROPRIATIONS	\$51,501,337	\$41,489,037

The following table provides a breakdown of the funds* administered by the Department of Crime Control and Public Safety, including the General Fund operating budget.

Total Appropriations by Fund	Certified FY 2007-2008	Certified FY 2008-2009
Department of Crime Control (14900 - General Fund)	120,602,366	109,893,289
US Department of Homeland Security (24964 - Special Grants)	60,818,010	60,818,010
State Highway Patrol (24960 - Highway Fund)	206,151,234	203,903,080
TOTAL	\$387,571,610	\$374,614,379

Note:

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

OTHER FUNDS

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

The Highway Fund (24960)

Balance: \$7,807,738
(as of June 30, 2007)

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 total funds

Department of Crime Control and Public Safety

transferred to the CCPS for the Highway Patrol Division (approximately \$206 million annually), 77% is used for personnel services (2,376 positions). The remaining amount is used for supplies, equipment and purchased services.

Other Special Grants (Fund 24964)

Balance: \$473.95
(as of June 30, 2007)

The Department receives U.S. Department of Homeland Security grant funds to support State and local programs that work to prevent and mitigate acts of terrorism. Of the funding received, 80% must be passed through, as required by federal regulations, to local governments who administer programs that meet the program's funding criteria. The other 20% is used for State agency programs and initiatives.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Geospatial and Technology (Flood Plain Mapping)

The FY 2007-08 budget appropriated \$1.7 million recurring for the conversion of 15 time-limited positions to General Fund positions. There is also \$2.4 million nonrecurring in the FY 2007-08 budget to pay for the contractual service cost to complete the statewide flood plain maps and start the maintenance of the program's older maps. There is also a special provision in the FY 2007-08 budget that directs the Department to study alternative funding sources for this program.

(S.L. 2007-323 Section 16.3)

Victims Compensation

This program provides financial assistance to innocent victims of crime committed in North Carolina. Over the last few years, this program has had more approved claims than funds to cover the cost of these claims, creating a backlog of unpaid claims. The General Assembly appropriated \$1.6 million in the FY 2007-08 budget to reduce the program's backlog of approved but unpaid claims.

Gang Intervention and Suppression

To address concerns about gang activity in the State, \$4.8 million nonrecurring was included in the FY 2007-08 budget for a gang prevention, intervention and suppression grant program to be administered by the Governor's Crime Commission. There is also a special provision in the FY 2007-08 budget that directs the Department to report on the use of these funds.

(S.L. 2007-323, Section 16.5)

Illegal Immigration Project

To help the State's sheriffs' offices with immigration enforcement problems, the FY 2007-08 budget appropriated \$750,000 nonrecurring to the Governor's Crime Commission for a grant to the North Carolina Sheriffs' Association. The Sheriffs' Association is developing a program to educate and assist sheriffs' offices that are interested in participating in a federally sponsored immigration enforcement (Immigration and Nationality Act - Section 287g) program.

National Guard Family Assistance Centers

The NC National Guard received \$420,000 recurring in the FY 2007-08 budget to establish three permanent Family Assistance Centers to inform National Guard/military members and their families about military benefits/programs and assist them with the enrollment process.

Department of Crime Control and Public Safety**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 16.2 NEW ALE NONSWORN JOB CLASSIFICATION**

The Office of State Personnel is directed to review a Fiscal Research study on ALE and pursuant to the findings of that study, develop for review a new nonsworn civilian job classification to supplement the work of ALE agents. This report is due to various legislative committees by February 1, 2008.

Section 16.3 ALTERNATIVE FUNDING SOURCE STUDY FOR LAW ENFORCEMENT SUPPORT SERVICES AND THE GEOSPATIAL AND TECHNOLOGY MANAGEMENT PROGRAM

The Law Enforcement Support Services and Geospatial and Technology programs received General Fund appropriations in the budget to cover costs that were previously paid for by other funds. In addition to the funds appropriated for these programs, this provision requires that the Department study alternative funding sources to support these programs in the future. This report is due to various legislative committees by March 1, 2008.

Section 16.5 USE OF GANG PREVENTION FUNDS

The General Assembly appropriated \$4.8 million (nonrecurring) to the Governor's Crime Commission for a street gang violence prevention and intervention grant program. Section 16.5 also directs the Department to report on the use of program funds to various legislative committees by April 15, 2008.

Section 16.6 REPORT ON THE EXPANSION OF THE ALCOHOL LAW ENFORCEMENT DIVISION'S AUTOMATED SYSTEMS

The FY 2007-08 budget includes \$160,000 nonrecurring for the ALE to expand eCitation to all ALE agents. This automation project will allow agents to submit citations to the court system electronically. This special provision requires that ALE report to various committees on the status of this project on February 1 and May 1, 2008.

Section 16.8 STUDY GANG ACTIVITY

This special provision directs the Governor's Crime Commission to study gang activity in the State. The study will assess gang activity in various communities and prisons, summarize significant intervention, suppression and prevention programs and provide recommendations on ways to use state and local resources to improve future gang prevention initiatives. A report is due to various legislative committees by March 15, 2008.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION**The Governor's Crime Commission**

The Governor's Crime Commission administers grant programs for local government and community agencies that develop programs related to crime prevention and the enhancement of public safety. Annually, the Crime Commission distributes approximately \$30 million in federal and State grants. This Division also conducts research on crime related issues and administers studies on policy matters.

Department of Crime Control and Public Safety

Differences in the Agency's Annual Expenditures

In reviewing the agency's historical budget trends, it is apparent that the agency's budget expenditures have varied significantly over the last five years. Several factors contribute to the differences in the agency's total annual expenditures.

First, the Emergency Management Division manages a significant amount of federal disaster prevention, mitigation and relief funding. The amount of funding received annually varies and is dependent upon federal budget appropriations, the frequency of federal disaster declarations for disasters that occur within the State and the availability of federal disaster relief funds to assist states coping with the impact of natural/man-made disasters.

Second, the Department receives grant funds from the U.S. Department of Homeland Security. However, the total amount received annually can fluctuate by several million dollars. Also, it can be assumed that these funds are available for the agency to spend, but in reality the Department serves mainly as a pass-through agency for federal funds going to local governments. Of the funds received, 80% is passed down to localities, as required by federal regulations, for emergency response equipment purchases and staff training. The other 20% is used for State agency programs and initiatives. The chart below shows the amount of Department of Homeland Security funding the Department has received over the last five years.

US Department of Homeland Security Funding to the State of North Carolina

Fiscal Year	Funding Amount* (millions)
2002-03	\$7.7
2003-04	\$50.7
2004-05	\$61.6
2005-06	\$44.3
2006-07	\$30.9
Total	\$195.2

*This amount reflects amounts received only by the NC Department of Crime Control and Public Safety and is not the total amount received by the State for all state agencies.

ADDITIONAL LEGISLATION

No relevant information to report.

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.

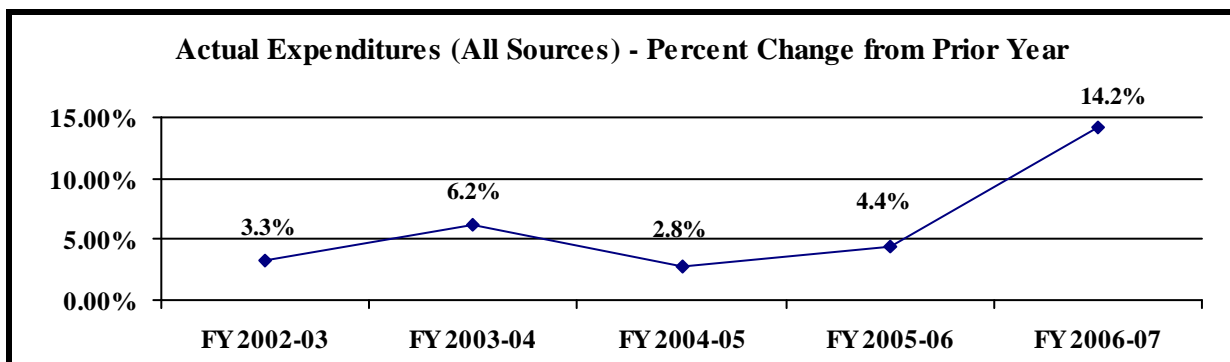
The State Bureau of Investigation (SBI) assists local law enforcement with a wide variety of investigations, including homicides, missing person cases, robberies, and property crimes.

The Training and Standards Division administers the mandatory certification program for law enforcement officials.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	102,791,185	117,422,257	121,726,342	118,699,734
Revenue	22,476,523	25,598,283	26,865,143	26,528,064
Net Appropriations	\$80,314,662	\$91,823,974	\$94,861,199	\$92,171,670
Positions (FTE)	1,257.25	1,273.25	1,329.75	1,329.75

Budget Overview:

The total budget for the Department of Justice is \$121,726,342 for FY 2007-08 and \$118,699,734 for FY 2008-09. The FY 2007-08 amount is 4% more than the total agency expenditures for FY 2006-07. The FY 2007-08 budget is funded with \$95 million in net General Fund appropriations (78%) and \$27 million in receipts (22%). The receipts consist of fees collected for permits and services rendered to State agencies and private groups. The budget also includes federal grants. The agency's budget has grown by an average of 6% 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.



Department of Justice

BUDGET TABLES

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

Department of Justice (13600 General Fund)	Certified FY 2007-2008	Certified FY 2008-2009
Administration	2,858,598	2,866,383
Legal Services	44,425,616	44,329,249
State Bureau of Investigation (SBI)	65,298,702	62,308,197
Criminal Justice Training and Standards	9,143,426	9,195,905
TOTAL	\$121,726,342	\$118,699,734
Revenue	(26,865,143)	(26,528,064)
NET GENERAL FUND APPROPRIATIONS	\$94,861,199	\$92,171,670

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

Total Agency Appropriations by Fund	Certified FY 2007-2008	Certified FY 2008-2009
Department of Justice (13600 - General Fund)	121,726,342	118,699,734
(23601 - Special Recurring Receipts)	2,571,559	2,571,559
TOTAL	\$124,297,901	\$121,271,293

Note:

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

OTHER FUNDS

Special Recurring Receipts (Fund 23601)	Balance: \$380,212 (as of June 30, 2007)
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The Special 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****Piedmont Triad Regional Crime Laboratory**

The FY 2007-08 budget included \$431,837 recurring and \$132,819 nonrecurring to establish a new SBI crime lab in the Piedmont area. Currently, the agency operates the Raleigh and Western crime laboratories. This laboratory should help the agency by redistributing laboratory case workload. The new lab will primarily provide latent evidence, drug chemistry, computer forensics and drug toxicology analysis.

New Staff Positions

The General Assembly appropriated \$1.5 million for new staff positions in the FY 2007-08 budget. These 28 positions were added to support new and existing agency programs and were distributed as follows:

- 12 nonsworn positions for the new SBI Piedmont lab
- 9 SBI agent and laboratory positions
- 5 positions to assist in Medicaid fraud recovery efforts
- 1 School Training Safety Coordinator position
- 1 Consumer Protection Specialist position

Statewide Automated Fingerprint System (SAFIS) Replacement

The Department is in the process of replacing equipment for SAFIS. The FY 2006-07 budget included \$1.9 million nonrecurring for equipment replacement for the State law enforcement facilities. The FY 2007-08 budget includes \$2.7 million nonrecurring to complete this project. This amount will be used to replace equipment for 121 local law enforcement agencies. There is also a special provision in the FY 2007-08 budget that directs the Department to report on the use of these funds.

(S.L. 2007-323 Section 15.1)

**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 15.1 STATEWIDE AUTOMATED FINGERPRINT IDENTIFICATION SYSTEM (SAFIS) REPLACEMENT**

This special provision directs the Department to submit two project status reports (February 1 and May 1, 2008) on the replacement of SAFIS equipment to various legislative committees.

Section 15.3 USE OF SEIZED AND FORFEITED PROPERTY TRANSFERRED TO STATE LAW ENFORCEMENT AGENCIES BY THE FEDERAL GOVERNMENT

This provision requires that the Departments of Justice, Correction, and Crime Control and Public Safety report on the intended use of federal seized and forfeited asset funds. It also places certain restrictions on the use of those funds. The reports shall be submitted to various legislative committees periodically.

Department of Justice

Section 15.7 HIRING OF SWORN STAFF POSITIONS FOR THE STATE BUREAU OF INVESTIGATION

This special provision requires that the SBI hire sworn personnel only under certain circumstances to fill vacant laboratory and program positions that were previously filled with sworn personnel. Sworn staff are to be hired only if they carry out work functions that are similar to SBI field agents, such as property searches, criminal investigations, and arrest activities.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

State Bureau of Investigation (SBI) Laboratories

Advancements in DNA testing, the emergence of computer forensics, and technological improvements in evidence-processing equipment have allowed the State Bureau of Investigation (SBI) to close cases that would have otherwise remained unsolved. The chart below provides a summary of the number and types of case submissions for each of the agency's laboratories.

SBI Crime Lab Submissions (2006)

	Total	
<u>Raleigh Crime Laboratory</u>	<u>Submissions</u>	<u>Percentage</u>
Drug Chemistry	24,898	53.8%
Toxicology	3,601	7.8%
Latent Evidence	2,148	4.6%
Documents	141	0.3%
Computer Forensics and Video	375	0.8%
Firearms and Tool Marks	2,256	4.9%
Molecular Genetics	3,053	6.6%
Trace Evidence	1,578	3.4%
Subtotal for Raleigh Lab	38,050	82.2%
<u>Asheville Western Regional Lab</u>		
Drug Chemistry	8,004	17.3%
Firearms and Tool Marks	N/A	
Latent Evidence	226	0.5%
Subtotal for Western Lab	8,230	17.8%
Total for Both Labs	46,280	100.0%

Source: NC Department of Justice

To more adequately manage its laboratory case workload, the Department requested additional funds for more laboratory space, technology, and personnel. The General Assembly appropriated \$8.2 million in the FY 2006-07 budget and \$1.8 million in the FY 2007-08 budget for additional personnel, laboratory space, and equipment. More specifically, the funding received was used to pay for:

SBI Raleigh Crime Lab Expansion - \$6.5 million
 Piedmont Triad Regional Crime Lab - \$564,656
 FY 2006-07 Staff Positions - \$1.7 million
 FY 2007-08 Staff Positions - \$1.2 million

Department of Justice

ADDITIONAL LEGISLATION

No relevant information to report.

Judicial Department

NC Constitution, Article IV, Judicial

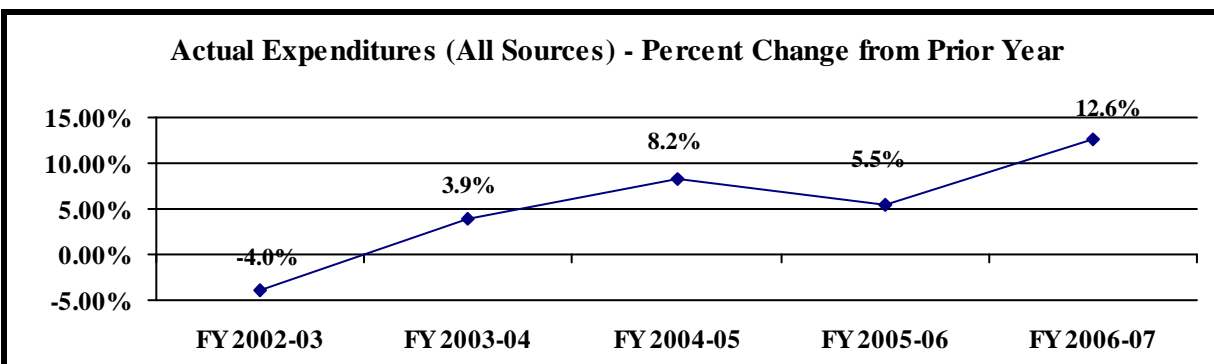
Agency Description:

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, program, 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	354,356,250	398,879,095	435,065,745	454,699,297
Revenue	2,383,283	3,917,379	2,317,880	2,309,380
Net Appropriations	\$351,972,967	\$394,961,716	\$432,747,865	\$452,389,917
Positions (FTE)	5,377.95	5,659.44	6,046.19	6,313.19

Budget Overview:

As shown above, the budget for the Judicial Department/Administrative Office of the Courts (AOC) is \$435,065,745 in FY 2007-08 and \$454,699,297 in FY 2008-09. Over 99% of AOC's cost is supported by net General Fund appropriations, with less than 1% supported by receipts, budgeted at \$2,317,880 in FY 2007-08 and \$2,309,380 in FY 2008-09. The FY 2007-08 budget provides expansion funding of about \$36 million, 9.1%, over AOC's expenditures in the prior fiscal year. The expansion funding is offset by an anticipated \$40 million in new and increased court fee revenues that will be collected and remitted to the General Fund. Major expansion items for the biennium include 654 new positions and funding for court system technology and equipment. The chart below provides the annual percentage increases in the AOC expenditures for each of the past five fiscal years with an average annual increase of 5.2%.



Judicial Department

BUDGET TABLES

The following table provides a breakdown of the Judicial Department – Administrative Office of the Courts total General Fund operating budget.

Judicial (12000-General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration	50,335,640	50,893,623
Appellate	12,557,346	12,618,327
Trial Court	260,841,401	263,502,046
Equipment and Other Reserves	33,197,754	48,978,420
District Attorney Offices	77,278,180	77,849,799
Sentencing and Policy Advisory Commission	855,424	857,082
TOTAL	\$435,065,745	\$454,699,297
Revenue	(2,317,880)	(2,309,380)
NET GENERAL FUND APPROPRIATIONS	\$432,747,865	\$452,389,917

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Program Expansion Positions

The budget provides \$20.8 million recurring in FY 2007-08 for 387 new positions, including prosecutors, clerks, magistrates, judges, technology, and other administrative staff. In FY 2008-09, \$37.5 million recurring is provided for a total of 654 new positions.

(S.L. 2007-323, Sections 14.13, 14.14, and 14.24)

Court Technology

The budget provides \$7,914,759 recurring and \$1,927,647 nonrecurring funds in FY 2007-08 to continue and expand AOC court technology initiatives. These initiatives include the discovery automation project, upgrading the court systems software and hardware infrastructure, and expanding the courts' capacity to accept electronic payments, etc.

Specialty Court and Programs

The budget provides expansion funding totaling \$2,860,863 recurring and \$173,786 nonrecurring over the biennium for specialty courts and programs, including family courts, drug treatment courts, and the Guardian ad Litem (GAL) program. Additionally, \$500,000 recurring is provided to increase the hourly rate paid to GAL contract attorneys from \$45 to \$65.

(S.L. 2007-323, Section 14.12)

Judicial Department**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 14.13 ADDITIONAL DISTRICT COURT JUDGES**

Section 14.13 revises G.S. 7A-133 to allocate the nine (9) new district court judge positions provided in the budget to Districts 5 (New Hanover, Pender), 10 (Wake), 11 (Johnston, Lee, Harnett), 12 (Cumberland), 18 (Guilford), 21 (Forsyth), and 26 (Mecklenburg).

Section 14.14 ADDITIONAL ASSISTANT DISTRICT ATTORNEYS

Section 14.14 directs AOC to report, upon the convening of the 2008 General Assembly, its recommendations for allocating the 28 new Assistant District Attorney (ADA) positions which become effective on July 1, 2008. The provision also directs AOC to allocate the 30 new ADA positions which became effective October 1, 2007 and report to the Joint Legislative Commission on Governmental Operations, the House and Senate JPS Appropriations Subcommittees, and the Fiscal Research Division no later than October 1, 2007.

Section 14.16 STATE FUNDS NOT TO BE USED FOR TELEPHONE SERVICE

Section 14.16 revises G.S. 7A-302 and directs that effective July 1, 2008, State funds will no longer be used to pay for the installation of court house telephone systems. Counties may use their facility fee remittances for this purpose.

Section 14.18 REPORT ON COURT SYSTEM PERFORMANCE MEASURES

Section 14.18 directs AOC to develop and implement uniform performance measurements and standards for the court system. An interim status report is due to the Joint Legislative Commission on Governmental Operations and the Chairs of the Senate and House Appropriation Committees by December 31, 2007, with the final report due by May 1, 2008.

Section 14.21 AUTHORIZE MILEAGE REIMBURSEMENT FOR APPELLATE JUDGES WHO RESIDE FIFTY MILES OR MORE FROM RALEIGH

G.S. 7A-10 is amended to authorize a weekly round-trip mileage reimbursement for justices and appellate judges whose permanent residences are more than 50 miles from Raleigh.

Section 14.24 ADD TWO SPECIAL SUPERIOR COURT JUDGES

Section 14.24 establishes two new special superior court judge positions effective January 1, 2008.

Section 14.25 DIVIDE SUPERIOR COURT, DISTRICT COURT, AND PROSECUTORIAL DISTRICTS 22 INTO DISTRICTS 22A AND 22B

Effective January 1, 2009, Superior Court, District Court and Prosecutorial Districts 22 will each divide into two districts: 22A (Alexander, Iredell) and 22B (Davidson, Davie). Funding was appropriated for 14 new judge, prosecutorial, clerical, and other positions to support the new districts.

Judicial Department

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Increased Funding for the Court System

General Fund spending on the courts has increased by 40% since FY 2002-03, going from around \$310 million to over \$430 million for FY 2007-08. In the 2006 and 2007 Sessions, the General Assembly appropriated significant expansion funding (\$54.3 million recurring and \$15.3 million nonrecurring) to provide staff, equipment, technology, and other resources in response to rising court caseload and public expectations:

- **Staffing and Workload.** During the interim between the 2006 and 2007 Sessions, AOC contracted with the National Center for State Courts to develop workload formulas for judges, magistrates, and clerks. The formulas were based upon actual tasks completed by each type of staff and estimates of the time needed to complete those tasks. Separately, the Conference of District Attorneys contracted with an independent consultant to develop prosecutorial staff workload formulas that used various demographic and workload variables. The legislators considered these formulas in the decision to appropriate nearly \$37.5 million for 654 new courtroom, clerical, information technology, and administrative support positions provided over the FY 2007-09 biennium. The Justice and Public Safety Appropriations Subcommittee will continue to work with AOC to improve the formulas and other workload data on which to base future funding decisions.
- **Technology.** Over \$19 million was appropriated in the 2006 and 2007 Sessions for court technology projects and equipment. Increasing automation and taking advantage of technological advances will enable AOC to better accommodate rising court caseloads and to improve and expedite the services available to citizens conducting business at county courthouses around the State. An additional \$10 million in expansion and continuation budget increases was provided over the same period for computer, telephone, and courtroom equipment purchases.
- **Special Courts and Programs.** The courts continue to identify ways to improve courtroom efficiency and better address the public's needs. According to AOC data, the cost of a criminal court trial ranges from \$2,800 to \$4,200 per day. Over the years, AOC has developed an array of programs and initiatives to provide alternatives for resolving cases outside of the court room or to dispose of complex cases in a more efficient and coordinated manner. Such programs and services include:
 - specialty courts targeting offenders in need of drug, alcohol, and substance abuse treatment
 - child custody mediation
 - domestic violence
 - business courts
 - interpreter services to serve the growing population of litigants who speak English as a second language.
 - mediation, arbitration, and other alternative dispute resolution programs

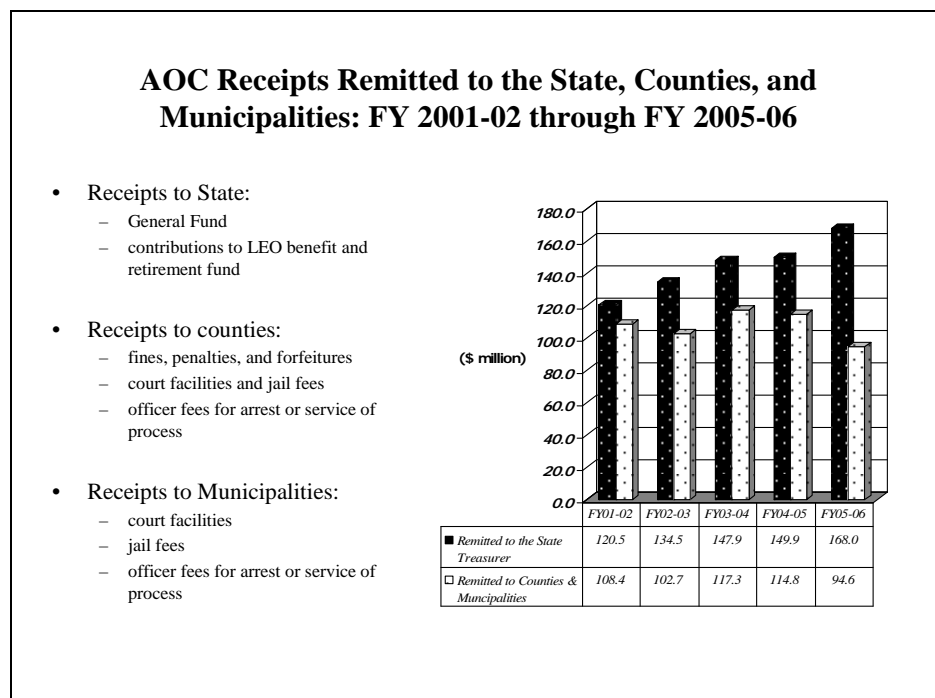
In support of AOC's efforts, the Legislature has appropriated State funds to replace the expiring federal grants which were used to start many of the special programs, particularly those created to

Judicial Department

target domestic violence, drug and alcohol abuse, and family custody matters. The FY 2007-09 budget provides \$2.4 million recurring in FY 2007-08 for 34 positions and \$2.8 million recurring in FY 2008-09 for 38 positions for family court; drug treatment court, and GAL programs. In addition, the AOC continuation budget includes an increase of \$730,000 recurring for interpreter services.

Increasing Court Fee Revenue

Annually, the court system generates a significant amount of fee revenue for the General Fund and for counties and localities. Various sections of the General Statutes (G.S. 7A-304, G.S. 7A-305, G.S. 7A-306, G.S. 7A-307, etc.) specify the costs that are to be assessed for criminal and civil cases, special proceedings, process fees, etc. AOC collects the various court fees and remits them to the State Treasurer or local governments as set forth in the General Statutes. The State Treasurer deposits court fee remittances into the General Fund or into various law enforcement officer (LEO) retirement funds. In FY 2005-06, over 3.3 million cases were filed among the three court divisions, generating over \$260 million in court fees and other receipts for the General Fund and county/local governments. The chart below shows the amounts remitted to the State, counties, and municipalities for the five-year period from FY 2001 to FY 2006:



The expansion funding provided in the AOC budget for the FY 2007-2009 biennium was generated by court fee increases set forth in S.L. 2007-323, Sections 30.8, 30.10, and 30.11. Increases in various Superior and District General Court of Justice fees ranged from \$9 to \$14.

Judicial Department

New fees were established for failing to appear in court (\$100) and applying for limited driving privileges (\$100). The combination of new court fees and increases in some existing fees is projected to generate about \$40 million additional revenue annually. The additional court fee revenue will also provide about \$1 million more each year for legal aid services to low-income citizens around the state.

ADDITIONAL LEGISLATION

No relevant information to report.

Judicial - Office of Indigent Defense

General Statutes 7A-498.3 Responsibilities of Office of Indigent Defense Services

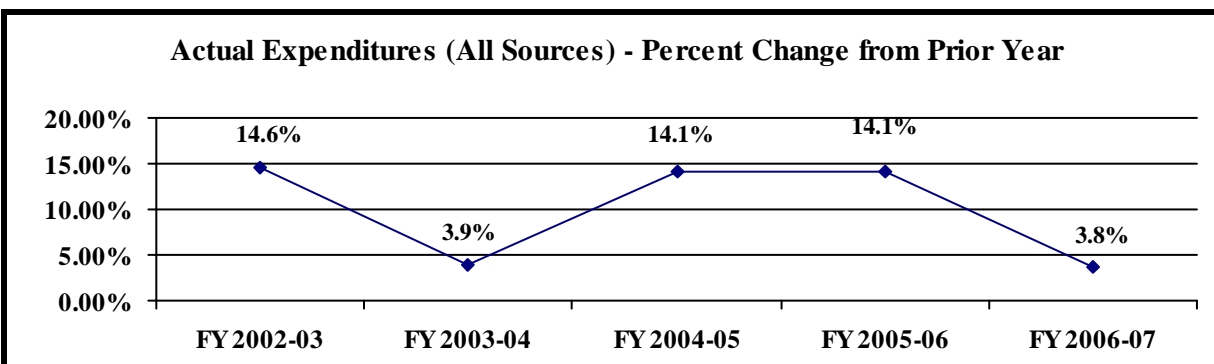
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	105,408,413	109,383,079	115,411,366	124,862,463
Revenue	10,615,308	11,850,458	8,871,115	8,871,115
Net Appropriations	\$94,793,105	\$97,532,621	\$106,540,251	\$115,991,348
Positions (FTE)	371.75	376.50	376.50	376.50

Budget Overview:

As shown above, the budget for OIDS is \$115,411,366 in FY 2007-08 and \$124,862,463 in FY 2008-09. In FY 2007-08, 92.3% of OIDS' cost is funded by net General Fund appropriation with 7.7% funded from receipts, budgeted at \$8,871,115 in both fiscal years. In FY 2008-09, the proportion of OIDS' expenditures supported by net General Fund appropriations remains relatively unchanged at 7.1%. The FY 2007-08 budget provides expansion funding of \$6 million, 5.5%, over OIDS' expenditures in the prior fiscal year. An additional \$9 million in expansion funding is provided in FY 2008-09. 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 10.1%.



Judicial – Office of Indigent Defense**BUDGET TABLES**

The following table provides a breakdown of the Judicial Department – Indigent Defense total General Fund operating budget by division.

Judicial Department-Indigent Defense (12001-General Fund)	Certified FY 2007-08	Certified FY 2008-09
Indigent Persons Attorney Fund	82,422,504	90,529,281
Public Defender Service	28,349,380	30,068,310
Indigent Defense Service (Admin)	1,863,051	1,688,441
Sentencing Services Program	2,776,431	2,576,431
TOTAL	\$115,411,366	\$124,862,463
Revenue	(8,871,115)	(8,871,115)
GENERAL FUND APPROPRIATIONS	\$106,540,251	\$115,991,348

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS**Indigent Persons Attorney Fund**

\$8,500,000 recurring is provided for an increase in the rate paid to private attorneys assigned in noncapital cases from \$65 to \$75 per hour. In addition, the continuation budget includes increases of \$4.8 million in FY 2007-08 and \$8.5 million in FY 2008-09 for payments to private attorneys assigned by the courts to represent indigent persons in non-capital cases. (S.L. 2007-323, Section 14.4(b))

Public Defender Offices

\$1,570,057 recurring is provided to establish new public defender offices in Fiscal Year 2008-09.

SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473

Section 14.4 OFFICE OF INDIGENT DEFENSE SERVICES EXPANSION/ ESTABLISHMENT OF ADDITIONAL PUBLIC DEFENDER OFFICES

Section 14.4 authorizes OIDS to use up to \$2.19 million from funds appropriated for the Indigent Persons Attorney Fund to create new positions in existing or new Public Defender offices across the State. Section 14.4(b) permits OIDS to establish additional public defender offices with the funds appropriated for this purpose in FY 2008-09. Sections 14.4(c) and 14.4(d) authorize OIDS to use funds appropriated to the Indigent Persons Attorney Fund to open new public defender offices in New Hanover County and in District 29B (Henderson, Transylvania, Polk).

Judicial – Office of Indigent Defense

Section 14.17 OFFICE OF INDIGENT DEFENSE SERVICES/ ELECTRONIC FEE SUBMISSION

Section 14.17 directs OIDS to develop a proposal for a statewide electronic system for the submission, processing, and payment of attorney fee applications and to include the proposal in the annual report due to the Chairs of the House and Senate Appropriations Committees and the Chairs of the House and Senate Appropriations Subcommittee on Justice and Public Safety by March 1, 2008.

Section 14.19 OFFICE OF INDIGENT DEFENSE SERVICES MAY COMPENSATE ATTORNEYS FOR CERTAIN FILINGS

Section 14.19 authorizes OIDS to pay the filing costs of indigent cases on appeal to the North Carolina and United States Supreme Courts.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Private Attorney Fee Payments

Legal representation is provided to indigent persons either by private attorneys assigned by the court (G.S. 7A-498.3(d)) or by attorneys who are employees of OIDS' Public Defender offices. There are Public Defender offices authorized to serve 16 judicial districts around the State (G.S. 7A-498.7(a)). In FY 2005-06, private assigned attorneys provided legal representation in 190,308 cases, 71%, while the Public Defender offices provided representation in 77,717 cases, 29%. In past sessions, the Justice and Public Safety Subcommittee has appropriated nonrecurring funds to address annual shortfalls in the "Indigent Persons Attorney Fund," the fund used to pay private attorneys. The unpaid, year-end obligations, as shown in the table below, were carried forward to be paid from the funds budgeted for the next fiscal year.

Unpaid Attorney Fee Applications Carried Forward into Next Fiscal Year					
FY 2001-02	FY 2002-03	FY2003-04	FY2004-05	FY 2005-06	FY 2006-07
\$7,406,919	\$8,703,686	\$11,730,204	\$8,971,970	\$4,036,967	-0-

The OIDS continuation budget request for the FY 2005-07 biennium included a \$13 million recurring increase to cover rising attorney fee costs. The Legislature appropriated an additional \$11 million recurring, \$2 million less than requested, for this purpose in the FY 2005-07 budgets. In 2006, OIDS implemented a new policy requiring that attorneys submit all fee applications no later than 12 months after disposition of each case. *On June 30, 2007, the Indigent Persons Attorney Fund had a small unobligated balance of \$150,000, and there were no unpaid obligations which had to be carried forward into FY 2007-08.* The FY 2007-09 biennial budget for the Indigent Persons Attorney Fund includes continuation increases of \$4.8 million in the first year and \$8.5 million in the second year. These amounts were requested by OIDS based upon its projected need of 5% annual growth in payments to private attorneys.

Electronic Fee Application Pilot

Section 14.16 of S.L. 2006-66, The Current Operations and Capital Improvements Appropriations Act of 2006, directed the State Auditor to analyze and make recommendations regarding the automation of OIDS' fee payment practices. The provision was included in the budget bill in response to publicized cases of overpayments and questionable payments to attorneys who were assigned by the courts to represent indigent persons. The State Auditor's March 2007 report concluded that OIDS' current procedures were not adequate to prevent duplicate payments,

Judicial – Office of Indigent Defense

overcharges, or unauthorized payments. The report included a recommendation that the current procedures be replaced with an electronic fee submission process. The FY 2007-08 budget includes \$175,000 nonrecurring to be used to develop and pilot a system for submitting and paying attorney fee applications electronically. OIDS will include in its annual legislative report, a proposal for implementing the system statewide.

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:

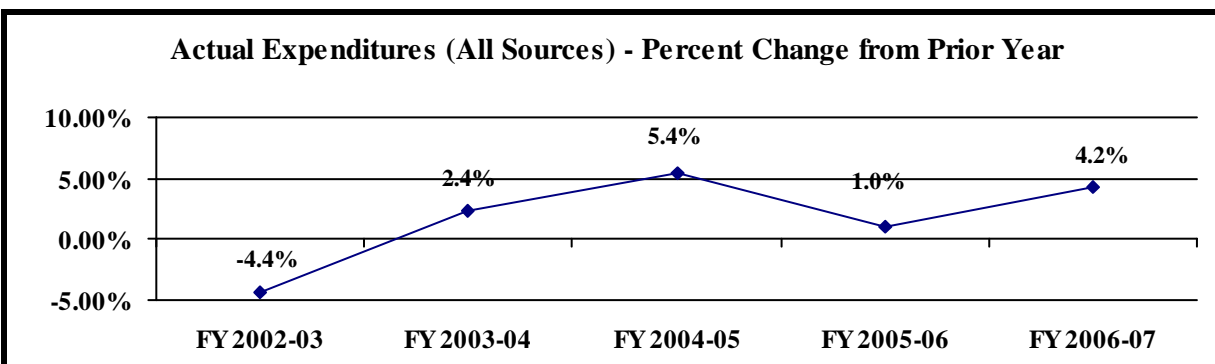
The Department of Juvenile Justice and Delinquency Prevention (DJJDP) is the cabinet agency responsible primarily for serving adjudicated juveniles and at-risk youth in a combination of increasing levels of restrictions from community-based programs through secure facilities. The sanctions given to a 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. The Office of Juvenile Justice was elevated to a new cabinet-level agency, the Department of Juvenile Justice and Delinquency Prevention, effective July 1, 2000.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	149,716,036	156,053,380	168,780,864	150,336,299
Revenue	10,430,333	13,177,764	10,778,795	10,780,195
Net Appropriations	\$139,285,703	\$142,875,616	\$158,002,069	\$139,556,104
Positions (FTE)	1,890.00	1,952.00	1,902.00	1,943.06

Budget Overview:

The budget for the Department of Juvenile Justice and Delinquency Prevention is \$168,780,864 for FY 2007-08 and \$150,336,299 for FY 2008-09. The FY 2007-08 budget is an increase of 8.2% from the actual expenditures for FY 2006-07, and the average annual percentage change in the DJJDP budget from FY 2002-03 to FY 2006-07 is 1.7%. Net General Fund appropriations account for 93.6% of the Department's budget. The major budget drivers for DJJDP are detention centers, youth development centers, and intervention and prevention programs. The operating cost of the State's nine juvenile detention centers is \$9.5 million (10.4% of the certified budget); the operating cost of the five youth development centers is \$53.8 million (34.5% of the certified budget), and the cost of providing intervention and prevention services is \$56.8 million (36% of the certified budget).



Department of Juvenile Justice and Delinquency Prevention

BUDGET TABLES

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

Department of Juvenile Justice and Delinquency Prevention (14060—General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administrative Services	8,073,536	8,084,236
Detention Services	16,382,710	16,430,065
Youth Development Centers (YDC)	54,457,687	58,557,560
Special Initiatives	23,584,053	23,589,340
Support Our Students	9,102,668	9,102,668
Center for the Prevention of School Violence	287,660	288,144
Intervention and Prevention Services	56,892,550	34,284,286
TOTAL	\$168,780,864	\$150,336,299
Revenue	(10,778,795)	(10,780,195)
NET GENERAL FUND APPROPRIATIONS	\$158,002,069	\$139,556,104

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Eliminate Funding for Vacant Positions

The budget reduces \$2,530,058 in recurring funding by eliminating funding for 75 positions that have been vacant for one year or longer. Sixty-nine of these positions are vacant YDC positions, 5 positions are vacant Detention Services positions, and 1 position is a vacant Intervention/Prevention position.

Continuation Review of the Juvenile Crime Prevention Council (JCPC) County Allocation

The budget eliminates recurring funding of \$22,652,860 in FY 2007-08 for the JCPC County Allocation and replaces it with nonrecurring funding. The restoration of FY 2008-09 recurring funds is subject to findings of the Continuation Review.

(S.L. 2007-323, Section 6.21)

Increase Daily Contract for Eckerd Wilderness Camps

The budget appropriates \$1,361,406 recurring to increase the daily contract rate for 346 beds to \$132.55 per day in FY 2007-08 and to \$134.94 per day in FY 2008-09, up from the current rate of \$121.77 per day. These increases will partially address the difference between the daily contract rate and Eckerd's current actual operating cost for the seven camps of \$141.01 per day.

Department of Juvenile Justice and Delinquency Prevention

YDC Budget Continuation Increases

The Department received over \$7.5 million recurring in continuation budget increases in FY 2007-08 and \$11.8 million in FY 2008-09 to staff and operate the five replacement Youth Development Centers under construction.

Delay Funding for YDCs

The budget delays nonrecurring funding of \$2,087,464 due to construction delays at three replacement Youth Development Centers. There is a two-month delay in construction at the Chatham and Edgecombe Youth Development Centers, and there is a reduction in continuation budget funding for a new Triad Youth Development Center because the original project site fell through and DJJDP is seeking another construction site. The Triad YDC is expected to open in April of 2009, and operating funds will be provided for the final quarter of FY 2008-09.

Provide Funding for Eckerd Pilot YDC Project

The budget provides \$534,000 in nonrecurring start-up funds and \$1,347,831 recurring funds for a 36-bed facility operated by Eckerd Youth Alternatives, Inc. The Eckerd Family Focus on Rehabilitative Treatment (EFFORT) will be carried out through a contract between DJJDP and Eckerd. EFFORT will provide 36 beds for DJJDP to assign committed youth and will offer a therapeutic treatment model similar to other DJJDP facilities. The proposed site for the project is two cottages located on the Samarkand Youth Development Facility in Eagle Springs, NC. The nonrecurring funds are provided to complete a repair and renovation project in the two cottages.

(S.L. 2007-323, Section 18.10)

Five New Youth Development Centers

The Capital section of the budget provides \$1,500,000 in nonrecurring funds to plan five new proposed Youth Development Centers. The estimated cost for the five facilities is \$37 million.

(S.L. 2007-323, Section 29.2)

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 6.21 CONTINUATION REVIEW OF CERTAIN FUNDS, PROGRAMS, AND DIVISIONS

This provision requires the Department to provide a written report by February 1, 2008, on the Juvenile Crime Prevention Councils (JCPC) to the House and Senate Appropriations Committees. The report's focus will be on program effectiveness and will include all of the information listed below:

- A description of the program, including information on services provided to the recipients of the services, and the resource requirements.
- Meaningful measures of program performance and whether the program is meeting these measures.
- The rationale for continuing, reducing, or eliminating funding.
- The consequences of discontinuing program funding.
- Recommendations for improving services.
- Recommendations for reducing costs.
- The identification of policy issues that should be brought to the attention of the General Assembly.

Department of Juvenile Justice and Delinquency Prevention

Section 18.2 JCPC GRANT REPORTING AND CERTIFICATION

Section 18.2 revises the annual report date for Juvenile Crime Prevention Council (JCPC) grants and codifies the annual effectiveness report and requirements. Also, the provision requires withholding of fourth-quarter payments for local JCPCs if the annual report is not submitted on time. The report is due to various legislative committees on April 1, 2008.

(S.L. 2007-323, Section 18.2)

Section 18.6 REPORT ON STAFFING MODEL AT YOUTH DEVELOPMENT CENTERS

Section 18.6 continues the quarterly reporting requirement on the implementation of a treatment staffing model at the two YDC pilot sites, including the latest results of the evaluation in the youth development centers and the progress in implementing the model at other YDCs. The provision adds new language capping the staffing of a 32-bed YDC at 66 staff, instead of the proposed 71 staff. The remaining YDCs will be capped at 2.1 staff per juvenile. The Department must report to various legislative committees on the proposed staffing at the new and existing YDCs by April 1, 2008.

(S.L. 2007-323, Section 18.6)

Section 18.7 REPORT ON YOUTH DEVELOPMENT CENTERS CAPITAL PROJECTS

Section 18.7 requires quarterly reports from Juvenile Justice on the progress of constructing the replacement YDCs, including project schedule and explanations of significant delays. The reports are due to various legislative committees.

(S.L. 2007-323, Section 18.7)

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Juvenile Facilities

Detention Centers and Youth Development Centers (YDC) are secure facilities, which require the most extensive staffing and are the most expensive per juvenile in the Juvenile Justice system (see table below). Detention Centers provide short-term, secure facilities for juveniles who are awaiting court, require a secure custody until another placement can be found, or who have been adjudicated delinquent and have been ordered by a court to serve time in a facility. In FY 2005-06, 8,361 juveniles were detained in the nine state facilities and four county detention facilities.

YDCs, formerly known as training schools, provide long-term education, treatment, and rehabilitative services to adjudicated youth who are committed to the Department as a dispositional sanction, typically for more serious or violent offenses. In FY 2005-06, 486 juveniles were committed to the State's five YDCs (four male facilities and one female facility) for an average stay of 377 days.

The cost of housing a juvenile in a YDC has risen 46.2% and the cost of housing a juvenile in a Detention Center has risen 31% since 2003 (see table below).

Cost to House a Juvenile in Secure Facilities

	FY 2002-03	FY 2006-07	% Increase
YDC Cost	\$65,465	\$95,720	46.2%
Detention Center Cost	\$48,444	\$63,478	31%

Source: DJJDP, based upon the per bed cost based upon the average daily population.

Department of Juvenile Justice and Delinquency Prevention

The major focus of the Department centers on providing secure facilities (Detention and YDCs), community-based prevention programs, and court supervision and referrals for juveniles. Below are the major divisions:

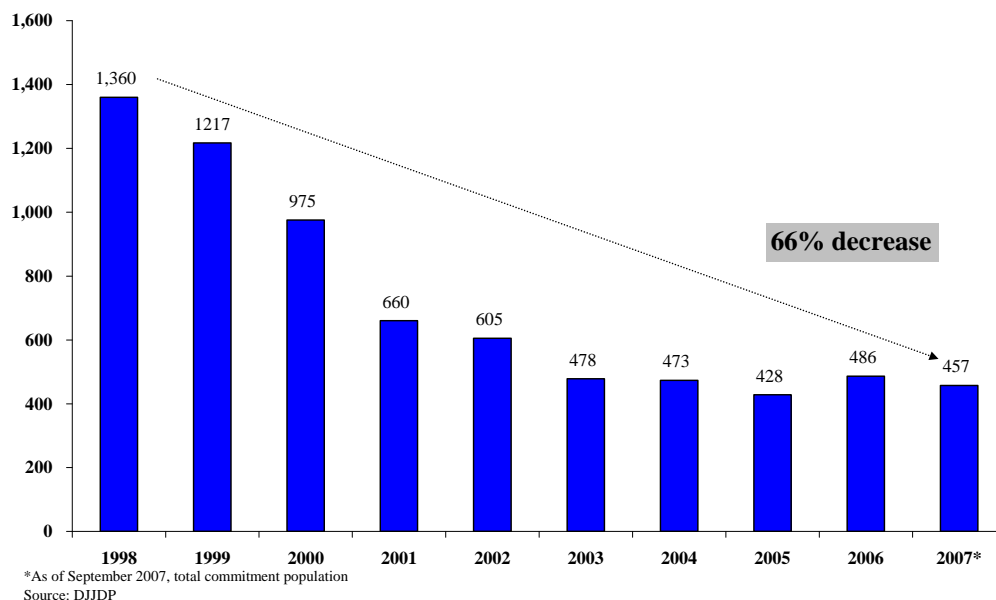
Division of Detention Services—This Division includes the nine state-owned detention centers and provides liaison services for the four county-operated detention centers in Durham, Forsyth, Guilford, and Mecklenburg counties. Detention Services' FY 2007-08 Budget is \$9.5 million, including \$6.9 million in revenue from the counties. The Division employs 14.2% (270) of the Department's 1,902 people. In FY 2005-06, 8,361 juveniles were admitted to detention facilities.

Division of Youth Development Centers—This Division administers the Youth Development Centers (YDCs), which, since the Juvenile Justice Reform Act of 1998 (S.L. 1998-2002), houses only serious or violent offenders, in addition to chronic offenders. The Act directs the Department to "close a State training school when its operation is no longer justified and to transfer State funds...to fund community-based programs." (See chart below.) Since 1998, the YDC population has declined 66%.

A 2003 State Auditor's report concluded that the age and condition of many YDCs increased security risks. Most YDCs are over 60 years old and in need of repair or replacement. In the 2003 Session, the General Assembly authorized the issuance of debt for the planning and design of replacement facilities and directed DJJDP to develop a plan to address the State Auditor's findings. The Department is constructing five new replacement facilities and has been appropriated planning and design funds for five additional facilities. The Department's long-term plan is to operate approximately 500 beds.

The budget is \$53.8 million for FY 2007-08, and is the second largest division, in terms of expenditures. The Division employs the most personnel in the Department (891 or 46.8% of the total).

Youth Development Center Commitments Declining



Department of Juvenile Justice and Delinquency Prevention

Division of Special Initiatives Services —This Division supports the management and coordination of six multipurpose juvenile homes in judicial districts that have high youth development center commitment rates and few other residential alternatives; administers seven Eckerd Wilderness camps and the Camp Woodson wilderness program; and provides funding to match volunteers with participants in the Governor's One-on-One mentoring program. This Division has the third largest spending in Juvenile Justice. Most of the Division's activities are conducted through contracts with the Methodist Group Home to operate the multipurpose homes and with the Eckerd Youth Alternatives to operate the wilderness camps. The Division's budget is 14.9% of the department's expenditures, and the budget is \$23.6 million for FY 2007-08.

Division of Intervention and Prevention Services —This Division supports statutorily mandated local Juvenile Crime Prevention Councils (G.S. 143B-543) in the planning and implementation of prevention and intervention programs aimed at providing a continuum of services for youth at risk of delinquency. It also provides intake and diversion services for juveniles alleged to be delinquent; court-ordered probation and protective supervision for adjudicated juveniles; and referrals for appropriate support services to juveniles and their families. The budget is \$56.5 million for FY 2007-08. This Division is the largest in the agency and spends 36% of the money. The Division employs 430 court counselors plus an additional 77 supervisory-level employees, who fielded 45,389 juvenile complaints during FY 2005-06.

ADDITIONAL LEGISLATION

No relevant information to report.

**APPROPRIATIONS
SUBCOMMITTEE ON
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 comprise the infrastructure for State government operations including collecting revenue; maintaining a banking operation budgeting, investing state funds; maintaining a financial accounting system; building construction and facilities maintenance; real property acquisition and management; maintaining a human resources and payroll system; administering the State's retirement systems; regulation of the insurance industry, business licensing, election administration, and preservation of 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. Bill Owens
Rep. Garland Pierce
Rep. Fred Steen
Rep. Russell Tucker
Rep. R. Tracy Walker
Rep. Roger West

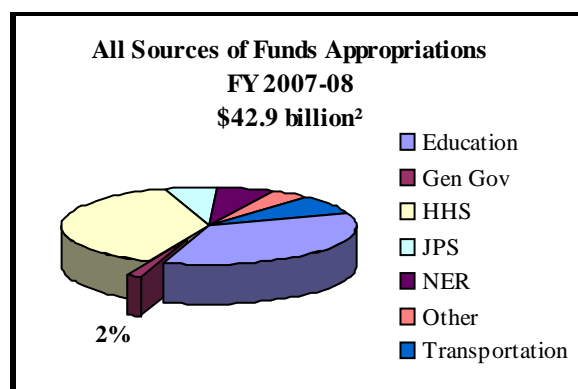
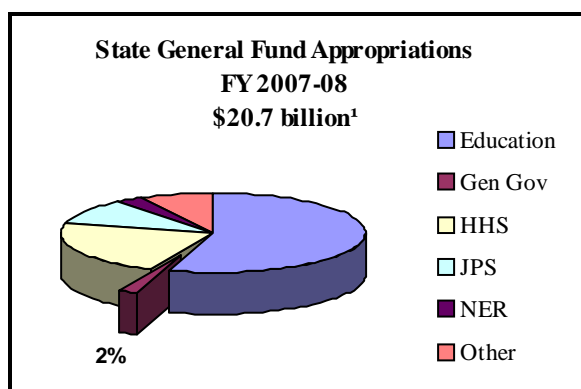
Sen. Janet Cowell, Chair
Sen. Katie Dorsett, Chair
Sen. Andrew Brock
Sen. Malcolm Graham
Sen. Neal Hunt
Sen. John H. Kerr III
Sen. Fred Smith

Staff:

Douglas Holbrook, Team Leader
Amna Cameron

Budget Comparison:

The combined budgets under the General Government Subcommittees total \$438 million or 2% of net General Fund appropriations. Of the \$42.9 billion in all funds reported for FY 2007-08, the total is \$795 million or 2%. 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:

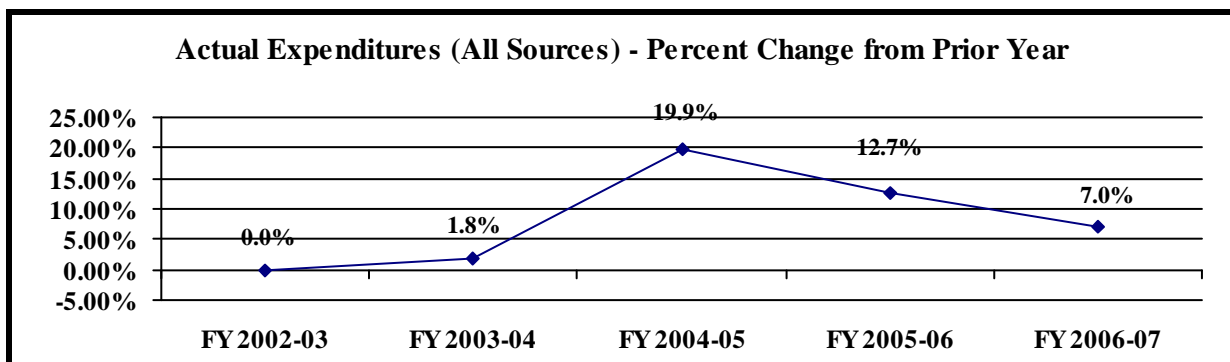
The Department of Administration acts as the business manager for North Carolina state government. The Department oversees government operations such as building construction, purchasing and contracting for goods and services, managing State vehicles, acquiring and disposing of real property, and operating auxiliary services such as courier mail delivery and the sale of State and federal surplus property. In addition, the Department 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, and it 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	97,147,547	103,906,161	108,300,172	105,283,224
Revenue	35,235,425	37,725,456	34,025,726	34,323,690
Net Appropriations	\$61,912,122	\$66,180,705	\$74,274,446	\$70,959,534
Positions (FTE)	709.30	734.38	746.10	746.10

Budget Overview:

The budget for the Department of Administration totals \$108.3 million in FY 2007-08 and \$105.3 million in FY 2008-09. 71.4% of the Department's budget is funded by net General Fund appropriations. The remaining 28.6% 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 Veterans Affairs division (\$6.4 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 8.3% annually. This change is due to programmatic expansions, increased federal receipts, and additional employees. The FY 2007-08 budget increased 4.4% compared to the prior fiscal year as a result of the authorization for 13 new positions and additional programmatic funds. FY 2004-05 experienced the largest percent change within the last five years, 19.9%, due to programmatic expansions for domestic violence and the Historically Underutilized Businesses division.



Department of Administration

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.

BUDGET TABLES		
Department of Administration (14100 - General Fund)	Certified FY 2007-08	Certified FY 2008-09
Office of State Personnel	740,610	740,610
Ethics Commission	8,700,928	8,694,444
Secretary's Office:		
Office of the Secretary	1,236,599	1,238,674
Fiscal Management	1,436,438	1,439,701
Human Resources/ MIS	1,955,602	1,928,292
Telecommunications	6,029,609	6,032,305
Veterans Affairs	26,919,124	27,306,903
Internal Services:		
Non-Public Education	331,045	331,045
Historically Underutilized Businesses	1,034,704	1,035,108
Council for Women	10,626,078	10,635,362
Human Relations Commission / MLK	736,363	746,732
Commission on Indian Affairs	524,935	375,594
Youth Involvement Office	924,212	924,536
State Capital Police	3,592,521	3,595,416
Government Operations:		
State Construction / State Building Commission	4,688,849	4,679,095
State Property	1,919,408	1,924,200
Facilities Management	25,144,571	25,173,072
State Energy	7,682,500	3,990,000
Purchasing and Contracts	3,974,430	3,979,907
Other:		
Transition Team / Governor's Inauguration	0	420,000
Pension – Surviving Spouses	12,000	12,000
Reserves and Transfers	90,328	90,328
TOTAL	\$108,300,172	\$105,283,224
Revenue	(34,025,726)	(34,323,690)
NET GENERAL FUND APPROPRIATIONS	\$74,274,446	\$70,959,534

Department of Administration

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

Total Appropriation by Fund	Certified FY 2007-08	Certified FY 2008-09
Department of Administration (14100 – General Fund)	108,300,172	105,283,224
Internal Service (74100)	60,123,805	60,137,128
Special Fund (24100)	10,927,179	10,927,179
TOTAL	\$179,351,156	\$176,347,531

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 an Internal Service Fund for divisions that provides goods or services to State agencies or other governments on a cost-reimbursement basis. The total requirements for this Fund are \$60,123,805 in FY 2007-08 and \$60,137,128 in FY 2008-09. The Department also maintains a Special Fund that 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. The fund totals \$10,927,179. Actual FY 2006-07 expenditures total \$60,841,004 for the Internal Fund and \$16,938,878 for the Special Fund.

Current Operations	Balance	Certified	Certified	
Internal Service (74100)	(as of June 30, 2007)	FY 2007-08	FY 2008-09	Positions
Motor Fleet	6,513,061	43,142,002	43,145,742	46.00
State Surplus Property	1,192,506	1,643,500	1,646,226	30.75
Mail Service Center	(885,852)	4,286,805	4,290,312	85.50
State Parking	0	1,615,294	1,618,418	13.75
Federal Surplus Property	650,979	660,224	660,449	9.25
Temporary Solutions Program	1,513,211	8,775,980	8,775,980	7.00
TOTAL - Internal Service	\$1,664,082	\$60,123,805	\$60,137,128	192.25
Special Fund (24100)				
OSP Programs/Flex	577,484	2,593,789	2,593,789	0
State Energy Office	321,640	3,966,263	3,966,263	0
FHA HUD	18,267	3,484,262	3,484,262	0
Other	746,691	882,865	882,865	0
TOTAL - Special Fund	\$9,013,905	\$10,927,179	\$10,927,179	0

Department of Administration

Motor Fleet

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 during the performance of official duties. The Division is fully supported by fees paid by State agencies for the use of vehicles. Agencies are charged on a per-mile basis that ranges from \$0.25 to \$0.42 depending on the type of vehicle used. To reduce the fleet's use of fossil fuels, the fleet includes 6078 alternative fuel and 125 hybrid vehicles.

State Parking

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

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

State Construction

The Division was appropriated \$318,287 recurring and \$16,000 nonrecurring in FY 2007-08 for four positions to establish an additional Design Review Team to assist with the approval of construction projects that were funded by the 2000 University Bond.

State Energy Office

The State Energy Office was fully supported by federal grants and from proceeds from a federal oil overcharge lawsuit until FY 2007-08. The funds from the lawsuit will be exhausted this fiscal year. The federal funds increased from \$787,000 in federal FY 2006-07 to \$1,053,000 for FY 2007-08. The State appropriated funds to maintain current operations and to focus the Office on achieving energy savings in State buildings. The Office received \$2,682,500 recurring and \$5,000,000 nonrecurring in FY 2007-08 and \$3,990,000 recurring in FY 2008-09.

The State funds support the Utility Savings Initiative and eight of the 16 staff positions. The federal funds continue to support approximately half of the Office's staffing and administrative costs. State funds also support three university energy programs.

(S.L. 2007-323, Section 19.3)

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 19.1 REDESIGNATION OF THE GOVERNOR'S ADVOCACY COUNCIL FOR PERSONS WITH DISABILITIES (GACPD)

By executive order, the Governor redesignated the operation and function of GACPD to a nonprofit entity, Carolina Legal Assistance, effective July 1, 2007. This provision removes GACPD citations from the General Statutes and designates the party responsible for these statutes.

Department of Administration

Section 19.2 SEXUAL ASSAULT/RAPE CRISIS CENTER FUNDING

This provision changes the formula for sexual assault/rape crisis centers in order to direct more funds to stand-alone programs. Programs are also required to meet newly established criteria in order to receive funds. Additional information on grants administered by the Council for Women is contained in the section "Select Programs and Other Budgetary Information".

Section 19.3 STATE ENERGY OFFICE

By November 1, 2007, the Energy Office is to establish criteria and guidelines to award and administer future grants. OSBM will conduct a staffing analysis by October 31, 2007 of the Energy Office to determine appropriate staffing levels and job classifications based on the shift in the mission of the Office to focus on energy efficiency in State buildings.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Office of State Personnel

The Office of State Personnel is an independent agency but is placed within the Department of Administration for budgetary purposes. The 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 Office's major effort currently is the development of a new personnel management system in concert with the Office of State Controller called Building Enterprise Access for North Carolina's Core Operations Needs (BEACON). This program will combine all personnel record keeping, payroll, and performance management functions into one package accessible to all State agencies.

Grants Awarded by the Council for Women/Domestic Violence Commission

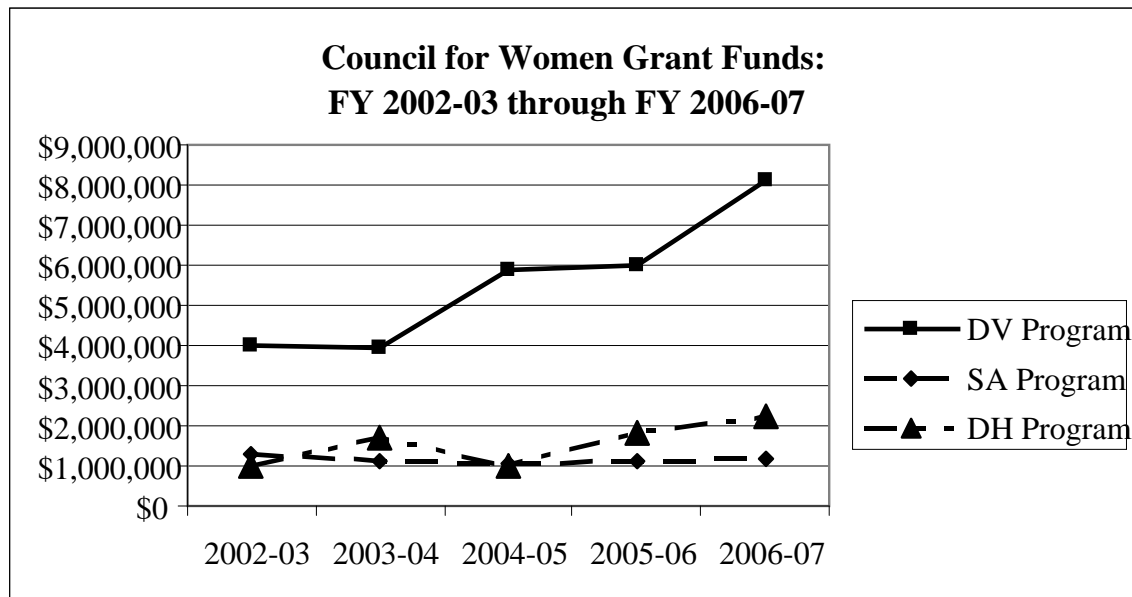
The Department of Administration's Council for Women/Domestic Violence Commission administers three grant programs for domestic violence, rape crisis, and displaced homemakers. The Office of the Governor issued a "Memorandum of Understanding" in August 2007 to shift the administration the funding for rape crisis and domestic violence grants this fiscal year to the Department of Crime Control and Public Safety. The Council for Women will continue to administer grant funds for displaced homemakers and the distribution of marriage license fees.

1. DOMESTIC VIOLENCE (G.S. 50B-9 Domestic Violence Center Fund)

Domestic violence grant funds are from State appropriations and from a portion of the marriage license fee. These grants are noncompetitive. Every county, with the exception of Guilford County and Gates County, has one domestic violence grantee. Guilford County and Gates County have two domestic violence grantees. 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 appropriations. The two Guilford County grantees receive an equal share of the appropriations. Therefore, 101 grantees each receive 0.98% of the total appropriation, and the two Gates County grantees receive 0.49% of the total appropriation.

The Council approved grants from State appropriations in the amount of \$6,755,906.16 in FY 2006-07, or \$49,339 per share, for domestic violence programs. This amount includes \$350,000 recurring in additional funds appropriated by the 2006 legislature. No additional funds were appropriated by the 2007 legislature. Centers received fees generated from marriage licenses in the amount of \$1,199,472 in FY 2006-07.

Department of Administration



2. SEXUAL ASSAULT/RAPE CRISIS

Sexual assault grant funds are appropriated annually by the State legislature. Grant funds are normally distributed equally to programs that offer these services. A special provision (S.L. 2007-323, Section 19.2) redistributes funding for the FY 2007-09 biennium. Stand-alone rape crisis and sexual assault providers and the NC Coalition Against Sexual Assault receive \$50,000. Dual service providers split the remaining funds and receive approximately \$21,000 each.

In FY 2006-07, these grants were awarded noncompetitively to 73 rape crisis programs throughout the State and the NC Coalition Against Sexual Assault. The 74 grantees receive an equal percentage of the sexual assault grants, totaling \$1,145,518 this fiscal year, or \$16,019 each. The 2006 legislature required the Department of Administration to conduct a study to determine the feasibility of combining domestic violence and rape crisis funds. The study determined that rape crisis services are minimized in some joint programs due to the overwhelming needs associated with providing services for domestic violence. The study recommended maintaining separate funding, increasing sexual assault funds, and establishing criteria for programs offering sexual assault. The 2007 General Assembly acted on each recommendation by maintaining separate funding streams, increasing funding by \$894,006 in FY 2007-08 and \$904,890 recurring in FY 2008-09, and establishing minimum criteria that must be met prior to receiving grant funds. In total, rape crisis funding increased to \$2,036,137 in FY 2007-08.

3. DISPLACED HOMEMAKERS (G.S. 143B-394.10 North Carolina Fund for Displaced Homemakers)

Displaced homemaker grant funds are appropriated from the General Fund and from a portion of the divorce filing fee. The grants are awarded on a competitive basis. The grants 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 \$451,495 from State appropriations and \$1,807,541 from divorce filing fees in grants for displaced homemakers in FY 2006-07. No additional funds were appropriated by the 2007 General Assembly.

Department of Administration

State Energy Office

The Energy Office, established in 1974, administers programs to achieve greater energy efficiency, encourages the use of renewable energy and alternative fuels through grant funding, and develops the State's energy policy. The 2007 General Assembly shifted the focus of the Energy Office from awarding grants to achieving energy efficiency in State-owned buildings. The Office maintains its staffing level of 16 employees and continues to perform all functions.

Prior to FY 2007-08, the Energy Office was not funded by State appropriations, but from federal receipts and other sources. Prior to this year, the majority of funding for the Office, approximately 86%, was Petroleum Violation Escrow funds (PVE). The federal government supplied the PVE funds from oil overcharge funds, which were generated from fines levied on oil companies that charged over the oil price cap from 1973-81. The PVE funds include five exhaustive accounts and one revolving loan account. Unobligated funds in the five accounts are expected to exhaust this fiscal year. The revolving loan program had a June 30, 2007 balance of \$2.7 million. Approximately 30% of administrative and operating costs and the majority of grants were supported by PVE funds. In FY 2006-07, Energy Office staff administered 75 grants that totaled \$11,089,922.

State Energy Office Funding

Source	Actual Revenues						Budgeted
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Net Appropriation	0	0	0	0	0	0	7,682,500
PVE	4,129,177	2,697,701	1,935,998	2,661,174	3,880,743	5,253,194	304,943
DOE Formula Grant ¹	758,498	1,143,219	1,831,466	1,409,555	1,518,254	576,228	1,275,507
DOE Special Funds	113,041	253,959	298,083	818,186	755,786	202,855	370,000
Private Grant	0	0	0	0	0	254,789	0
Other ²	20,589	7,988	48,046	24,285	36,066	659,570	0
TOTAL	\$5,021,306	\$4,102,867	\$4,113,593	\$4,913,200	\$6,190,850	\$6,946,636	\$9,632,950

Notes: ¹ Includes carryover funds

² Other consists of fees, interest, surplus sales

Source: Office of State Budget and Management

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, to educate covered employees and appointees, and to issue 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, the Board of Ethics has 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.

Department of Administration

Compared to FY 2005-06, the staff increased from three to nine and the budget increased from \$224,818 to \$740,610 in FY 2006-07. The 2007 General Assembly made no staffing or budgetary changes to the State Ethics Commission.

ADDITIONAL LEGISLATION

S.L. 2007-12 (HB 1012) REPEAL STATE PROPERTY COMMISSION

The General Assembly enacted House Bill 1012, which abolished the State Property Commission. The Commission, created in the 2004 budget, identified State-owned surplus or underused property to be disposed. The functions will be performed by the State Property Office, a division in DOA.

S.L. 2007-392 (SB 320) STATEWIDE CERTIFICATION OF HUBS

The General Assembly enacted Senate Bill 320 to establish a statewide certification process for historically underutilized businesses. The certification program applies to all State departments and agencies and to local governments.

Office of the State Auditor

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

Agency Description:

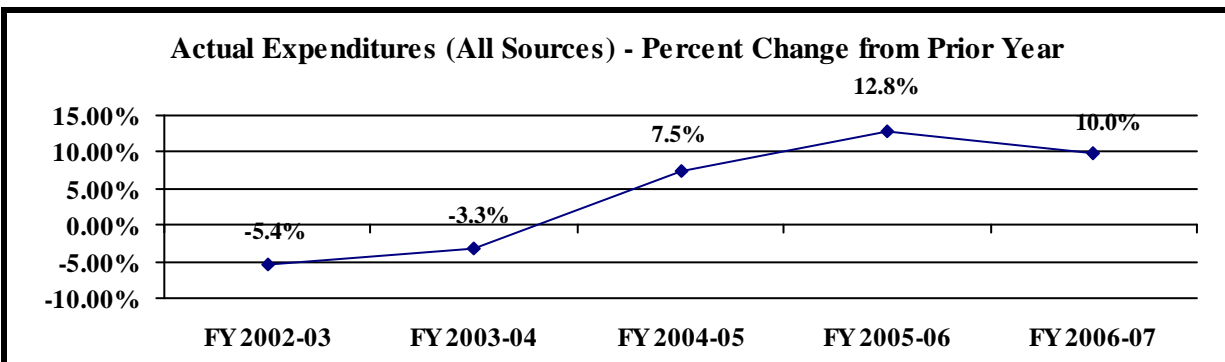
The Office of the State Auditor performs and coordinates audits of governmental organizations, programs, activities, and functions funded wholly or in part with State funds. The purpose of the audits is to examine an agency's financial records or evaluate a program's performance or to investigate fraud 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	15,014,305	16,508,636	15,909,388	15,803,310
Revenue	3,724,781	4,241,240	3,056,362	3,056,831
Net Appropriations	\$11,289,524	\$12,267,396	\$12,853,026	\$12,746,479
Positions (FTE)	192.00	192.00	192.00	192.00

Budget Overview:

The budget for the State Auditor is \$15.9 million in FY 2007-08 and \$15.8 million in FY 2008-09. Approximately 80% of the Auditor's budget is derived from net General Fund appropriations. Receipts are reimbursement for audits of certain State agencies. The FY 2007-08 budget decreased 3.6% over FY 2006-07 actual expenditures due to nonrecurring funding and reductions in the operating budget.

Over the last five years, total expenditures have increased by an average of 4.3% annually. 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 expects \$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)	Certified FY 2007-08	Certified FY 2008-09
Administration	724,167	724,228
Support Services	387,120	340,720
Field Audit	14,798,101	14,738,362
TOTAL	\$15,909,388	\$15,803,310
Revenue	(3,056,362)	(3,056,831)
NET GENERAL FUND APPROPRIATIONS	\$12,853,026	\$12,746,479

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Audits of Non-Governmental Organizations

The Office of the State Auditor created a new division in FY 2004-05 to focus on the oversight of state grants to non-governmental organizations (NGO). The Public Audit Interface Division enabled the State Auditor to restructure the audit process for NGOs, which increased the amount of training available, providing greater information on audits to the public on-line, and increased monitoring and oversight.

The General Assembly enacted significant changes to the NGO process for reporting the receipt and expenditure of State Funds. S.L. 2004-196 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. NGOs receiving \$25,000 to \$500,000 must submit a list of program activities and a schedule of receipts and expenditures, which increased the reporting threshold from \$15,000 - \$300,000. Prior to the

Office of the State Auditor

law change, NGOs receiving less than \$15,000 in State funds had no reporting requirement. The new law requires all NGOs receiving funds to, at minimum, file a compliance report. The statutory reference changed to G.S. 143-6.23 effective July 1, 2007.

In 2006, State agencies reported on \$606.0 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 33% of total grants. The number of noncompliant NGOs increased in the first year under the new reporting requirements. In 2006, 25.3% of NGOs, receiving 7.9% of total grant funds, were not in compliance compared to 14.7% of grantees in 2005 that were not in compliance. The noncompliant 2005 grantees received 5.8% of total grant funds.

ADDITIONAL LEGISLATION

No relevant information to report.

Department of Cultural Resources

G. S. 143-406 Organization and Duties

Agency Description:

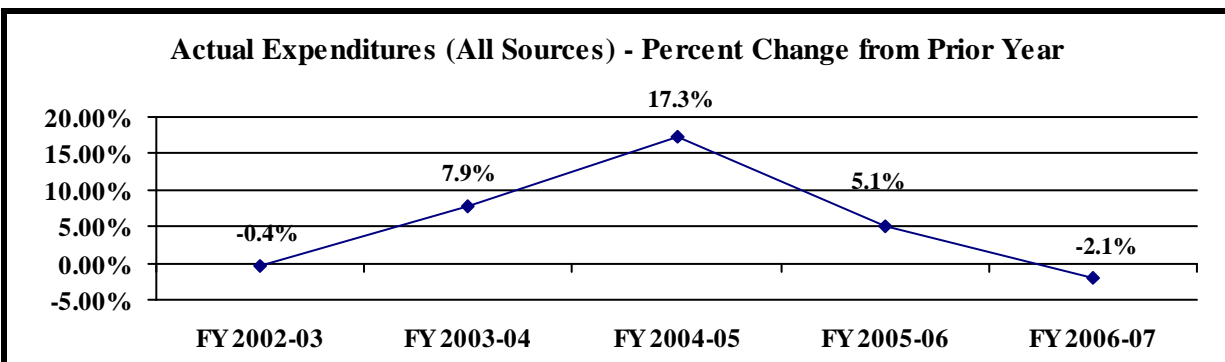
The Department of Cultural Resources houses divisions that oversee and support arts, history, and culture within North Carolina. The agency's largest divisions include the Museums of Art and History; the Arts Council, which provides grant funds to local arts organizations throughout the State; the State 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	81,794,792	80,074,412	82,149,637	79,664,614
Revenue	8,020,177	8,847,762	7,778,855	7,783,190
Net Appropriations	\$73,774,615	\$71,226,650	\$74,370,782	\$71,881,424
Positions (FTE)	729.23	748.16	770.16	785.16

Budget Overview:

The Department's budget for FY 2007-08 is \$82.1 million and \$79.7 million for FY 2008-09. The Department received over \$2 million in recurring expansion in the budget in 2007, in addition to \$3.0 million in non-recurring expansion. Aid to community arts programs was the main expansion item, with \$1.0 million each for the formula-based Grassroots Arts Program and the discretionary Basic Arts Grant Program. Most divisions of the Department generate receipts from admission fees or sale of materials, but the largest revenue source is a federal grant (\$4.7 million in FY 2006-07) distributed to the counties through the Aid to Public Libraries program.

The Department's budget saw a large increase in FY 2004-05 due to a one-time \$9.1 million reserve for grants. The Department's overall budget has grown by an average annual rate of 5.6% over the last five years.



Department of Cultural Resources

BUDGET TABLES

The following table displays the total General Fund operating budget of the Department of Cultural Resources, grouped between central administration, arts programs, and history programs.

Department of Cultural Resources (14800-General Fund)	Certified FY 2007-08	Certified FY 2008-09
Central Administration		
Secretary's Office	1,779,081	1,781,145
Administrative Services	1,796,094	1,796,665
Arts		
Statewide Programs and Grants	23,159,977	22,684,977
Arts Council	10,790,412	9,740,412
NC Symphony	2,801,824	2,261,824
Museum of Art	4,744,375	4,750,909
History		
Museum of History	7,131,438	7,076,302
Historic Sites	8,639,126	8,658,224
Other	21,207,310	20,914,156
TOTAL	\$82,243,669	\$79,758,646
Revenue	(7,872,887)	(7,877,222)
NET GENERAL FUND APPROPRIATIONS	\$74,370,782	\$71,881,424

OTHER FUNDS

Cultural Resources Enterprise Fund (54800) **Balance: \$28,377**
(as of June 30, 2007)

The Cultural Resources Enterprise Fund is the collection point for the sales desks at the historic sites throughout the State. At the sites, the sales desk or gift shop sells materials related to the mission of that site. These revenues, though collected into one fund, are dedicated to the sites where they are collected. They can be used to purchase materials, enhance exhibits, and present programs.

Actual receipts in FY 2005-06 were \$81,645. For FY 2007-08 and FY 2008-09, the budget reflects receipts of \$94,032.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

cArtwheels Funding

The General Assembly provided \$1 million on a one-time basis to a pilot initiative in the Department of Cultural Resources called cArtwheels. This pilot program provides opportunities for school-age children to experience opera, ballet, music, or theater performances in their own

Department of Cultural Resources

communities. The Arts Council will award the funds on a competitive basis to arts companies to provide the performances.

Graveyard of the Atlantic

The State acquired the Graveyard of the Atlantic Museum in 2007 through a transfer from a non-profit that had previously operated the Museum. In order to make the museum a fully operational State facility, the legislature appropriated \$300,000 for positions at the museum.

Aid to Public Libraries

The Department passes through over \$15.0 million annually to counties for operations of public libraries. This year, the General Assembly increased that appropriation by \$475,000 on a non-recurring basis. Counties are expected to match these State appropriations with a 25% Maintenance of Effort fund appropriation.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 21.1 GRASSROOTS ARTS PROGRAM FUNDING

This provision modified G.S. 143B-122, which establishes the funding formula for the Grassroots Arts Program in the North Carolina Arts Council. When the program was created in 1975, 100% of the funding was to be allocated to each county's Arts Council on a per capita basis. The legislature suspended the per capita funding in 1999 on a one-time basis and implemented an allocation formula which spread 20% of the funds to each county on an equal-share basis, and passed through the remaining 80% on a per capita basis. The agency incorrectly continued using this formula after FY 1999-00. Section 21.1 established this formula in statute and retroactively approved the previous years' allocations.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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Arts Council Basic Grants/Grassroots Arts Program Expansion

The NC Arts Council operates two large grant programs, the Basic Grants Program and the Grassroots Arts Program. Each received recurring expansion funding of \$1 million in FY 2007-08. The Basic Grants Program allocates money on a discretionary basis to arts organizations across the State that submit applications for specific projects. This program grew by 34% to its current funding level of \$3.19 million.

The Grassroots Arts Program is based on a formula that allocates 20% of its funding to each county on an equal share basis and allocates the remaining 80% on a per capita basis. This program grew by 57% to a recurring funding level of \$2.7 million.

ADDITIONAL LEGISLATION

No relevant information to report.

Cultural Resources-Roanoke Island Commission

G. S. 143-199 Establishment and Purpose

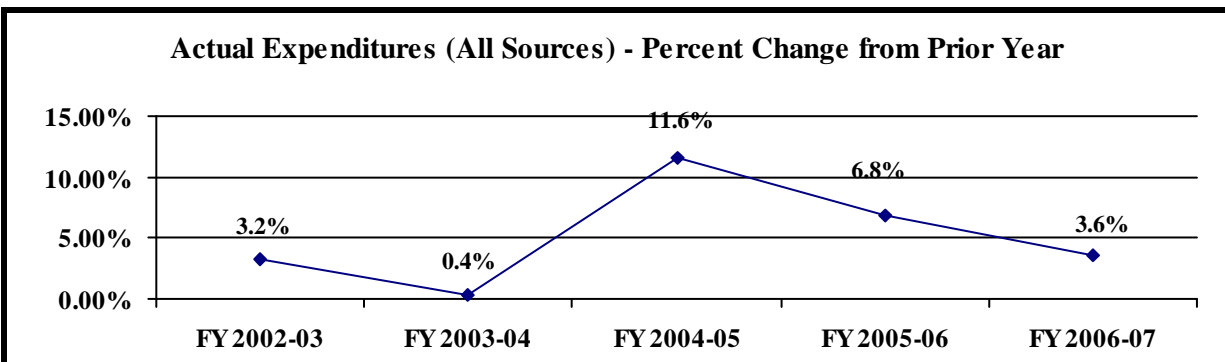
Agency Description:

The Roanoke Island Commission 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 Commission is budgeted under the Department of Cultural Resources, but is independent for operational purposes.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	1,954,666	2,025,159	2,020,023	2,020,023
Revenue	0	0	0	0
Net Appropriations	\$1,954,666	\$2,025,159	\$2,020,023	\$2,020,023
Positions (FTE)	43.00	48.00	47.00	47.00

Budget Overview:

The Roanoke Island Commission operates with a budget of \$2,020,023 for each year of the FY 2007-09 biennium, which reflects a minor change over the previous year. Net General Fund appropriations cover all of the agency's operating budget, but there is a special fund (24802) that is fully receipt-supported. The agency generates receipts from admission fees, merchandise sales, and gifts and grants, which are retained by the agency. The agency's budget has grown an average of 5% per year over the last five years.



Cultural Resources-Roanoke Island Commission

BUDGET TABLES

The following tables display a breakdown of the funds administered by the Roanoke Island Commission, including the General Fund operating budget.

Cultural Resources-Roanoke Island Commission (14802 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
	\$2,020,023	\$2,020,023
TOTAL	\$2,020,023	\$2,020,023
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$2,020,023	\$2,020,023

Total Appropriations by Fund*

Cultural Resources-Roanoke Island Commission (14802-General Fund)	\$2,020,023	\$2,020,023
Cultural Resources-Roanoke Island Commission (24802-Special Fund)	\$257,995	\$257,995
TOTAL	\$2,278,018	\$2,278,018

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

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

General Assembly

NC Constitution, Article II Establishment, Powers and Duties

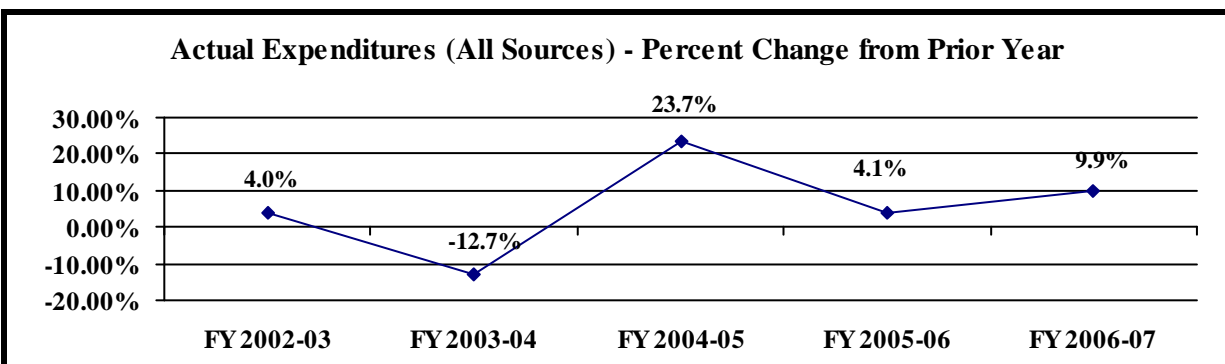
Agency Description:

The North Carolina General Assembly (NCGA), a citizen legislature, is made of two bodies or houses; the Senate, which has 50 members; and the House of Representatives, which consists of 120 members. Each legislator represents either a Senatorial District or a House District. 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 of North Carolina 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 ongoing staffing and support from six operating divisions providing bill drafting, legal assistance, fiscal analysis, general research and library services, administration of the legislature's budget, clerical assistance, computer services, proofreading, printing, supply, food service, and building maintenance and security.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	57,701,056	63,397,331	55,608,402	56,884,593
Revenue	13,486,446	13,304,213	1,069,737	1,143,807
Net Appropriations	\$44,214,610	\$50,093,118	\$54,538,665	\$55,740,786
Positions (FTE)	339.00	339.00	339.00	339.00

Budget Overview:

The General Assembly's budget is \$55.6 million for FY 2007-08 and \$56.9 million for FY 2008-09. 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 by 12% in FY 2007-08, but has had an average annual growth rate of 5.8% over a five-year period. The reduction in FY 2007-08 is mainly due to line item reductions to reserves and temporary employee salaries. These reductions totaled \$1.2 million. The General Assembly receives revenues each year from the food service operations in the Legislative Cafeteria and two snack bars; 98% of the budget is derived from net General Fund appropriations.



General Assembly

BUDGET TABLES

The following table presents the General Assembly's General Fund operating budget by division.

General Assembly (11000-General Fund)	Certified FY 2007-08	Certified FY 2008-09
Senate	9,931,175	10,901,111
House of Representatives	16,841,758	18,748,413
Administration	4,581,593	4,717,199
Operating Divisions	11,423,903	11,719,423
Other	12,829,973	10,798,447
TOTAL	\$55,608,402	\$56,884,593
Revenue	(1,069,737)	(1,143,807)
NET GENERAL FUND APPROPRIATIONS	\$54,538,665	\$55,740,786

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

ADDITIONAL LEGISLATION

S.L. 2007-78 (SB 1132) ESTABLISH PROGRAM EVALUATION DIVISION

The General Assembly passed SB 1132, which establishes a new administrative division within the legislative branch to conduct evaluations of State programs. This division was established and is fully staffed by November 2007. The division's work will be guided by the Joint Legislative Program Evaluation Oversight Commission made up of nine members from the Senate and nine members from the House of Representatives.

Office of the Governor

NC Constitution, Art. III Executive; G.S. 147-12 Powers and duties of Governor

Agency Description:

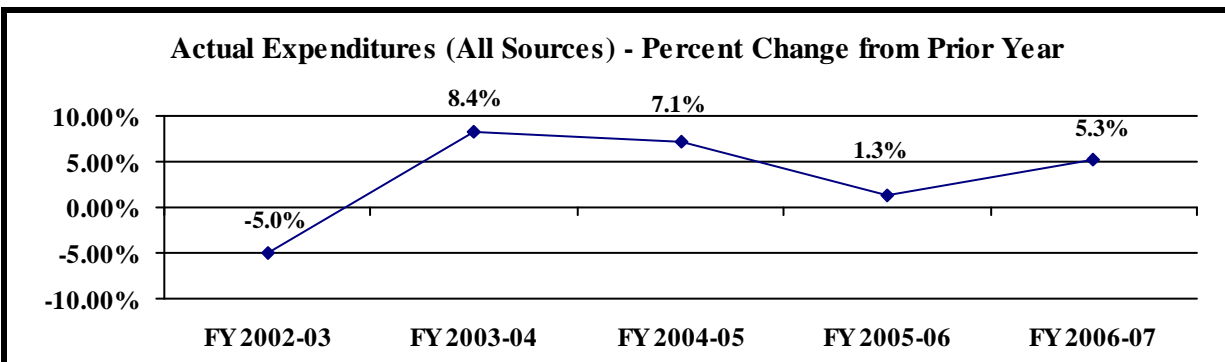
The Governor serves as the Chief Executive Officer and the Director of the State Budget. The Office of the Governor formulates and administers the policies of the executive branch of State government, manages a comprehensive budget for all State agencies, and executes the laws of the State of North Carolina.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	5,961,202	6,277,831	6,693,424	6,731,692
Revenue	307,241	470,691	431,105	431,105
Net Appropriations	\$5,653,961	\$5,807,140	\$6,262,319	\$6,300,587
Positions (FTE)	63.68	63.68	63.71	63.71

Budget Overview:

The budget for the Office of the Governor is \$6.7 million in FY 2007-08 and in FY 2008-09. The FY 2007-08 budget is 6.6% greater than the actual FY 2006-07 budget due to line-item increases in the continuation budget. 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 3.4% 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 displays the Office of the Governor's total General Fund operating budget by program.

Office of the Governor (13000-General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration	3,975,509	3,982,487
Dues to National Organizations	450,555	464,975
Intergovernmental Relations	495,278	495,278
Citizens' Affairs	268,822	269,255
Education	566,928	566,928
21 st Century Skills	255,342	255,342
Raleigh Executive Residence	664,886	681,323
Western Executive Residence	16,104	16,104
TOTAL	\$6,693,424	\$6,731,692
Revenue	(431,105)	(431,105)
NET GENERAL FUND APPROPRIATIONS	\$6,262,319	\$6,300,587

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Communities in Schools Pass-Through

The General Assembly eliminated a \$200,000 appropriation to the Office of the Governor for Communities in Schools, a nonprofit. The nonprofit received funds in three sections of the: General Government, Education, and Justice and Public Safety. In an effort to better coordinate funding to this nonprofit, the General Assembly limited funding to the Education section of the budget.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

Office of the Governor

ADDITIONAL LEGISLATION

No relevant information to report.

NC Housing Finance Agency

G. S. 122A Establishment and General Powers

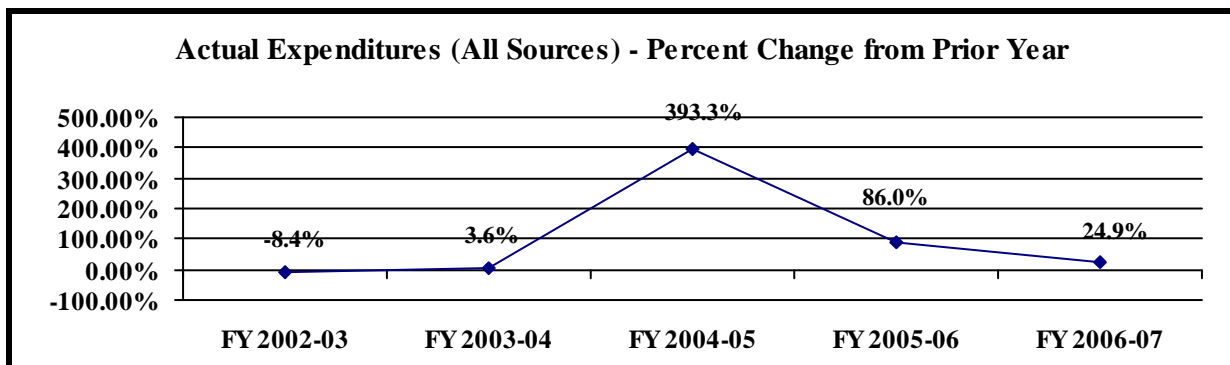
Agency Description:

The Housing Finance Agency assists North Carolinians with 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. The General Assembly also authorized and funded the Home Protection Pilot Program in 2004. This pilot program, which has been continued in subsequent years, provides loans to homeowners in high-unemployment counties who are at risk of losing their homes due to job loss.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	42,926,596	53,598,844	18,608,417	9,608,417
Revenue	32,475,651	31,410,399	0	0
Net Appropriations	\$10,450,945	\$22,188,445	\$18,608,417	\$9,608,417
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for the Housing Finance Agency for FY 2007-08 is \$18.6 million and for FY 2008-09 is \$9.6 million. This reflects a 65% decrease over 2006-07, but revenues from the agency's tax credit program are not certified until one year into the biennium, so over \$30.0 million in revenues and expenditures are not included in the newly certified budget. The agency's budget has grown by an annual average rate of 99.9% over five years. The agency collects a majority of its budget (75.5%) from revenues from federal sources and tax credit programs.



NC Housing Finance Agency

BUDGET TABLES

The following table provides program-level detail on the General Fund budget for the Housing Finance Agency.

	Certified FY 2007-08	Certified FY 2008-09
NC Housing Finance Agency (13010 – General Fund)		
Housing Trust Fund	8,000,000	8,000,000
Home Match Program	1,608,417	1,608,417
Apartment Housing Initiative	7,500,000	0
Home Protection Pilot	1,500,000	0
TOTAL	\$18,608,417	\$9,608,417
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$18,608,417	\$9,608,417

The following table provides a breakdown of the funds* administered by the Housing Finance Agency including General Fund budget.

	Certified FY 2007-08	Certified FY 2008-09
Total Appropriations by Fund		
NC Housing Finance Agency (13010-General Fund)	\$18,608,417	\$9,608,417
NC Housing Finance Agency (23010-Special Fund)	\$57,141,118	\$57,141,118
Total	\$75,749,535	\$66,749,535

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

Housing Trust Fund

The General Assembly increased the annual recurring appropriation to the Housing Trust Fund on a recurring basis from \$3 million to \$8 million. From FY 2004-05 to FY 2006-07, the General Assembly has provided nonrecurring appropriations to enhance the Housing Trust Fund. The \$5 million recurring increase will enable the agency to expand substantially its services to low and moderate income citizens substantially since the amount is dependable from year to year, rather than being based on potentially wide fluctuations of nonrecurring money.

NC Housing Finance Agency

Housing Assistance for Disabled Persons

The General Assembly appropriated \$7.5 million on a one-time basis to the Housing Finance Agency to finance apartment housing for disabled persons living independently in the community.

<p align="center">SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473</p>
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No relevant information to report.

<p align="center">SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION</p>
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Home Protection Pilot Program

The Home Protection Pilot Program, initially established in 2004, provides loans to homeowners at risk of losing their home due to layoffs, plant closures, and other economic shifts. The Housing Finance Agency makes short- and long-term loans to homeowners in economically distressed circumstances due to the economic environment in their county. The loans can equal up to 18 months of mortgage payments, including principal, interest, property taxes, and insurance. During this period, the homeowner will receive counseling and must work toward regaining employment by seeking jobs, attending retraining programs, or advancing education.

Since it is a pilot program, this initiative expires each year, and its appropriations are non-recurring. The program's initial authorization limited the services to counties with unemployment rates greater than 7% and appropriated \$1.5 million to provide loans. When reenacted this year in S.L. 2007-323, the pilot program received another \$1.5 million and was authorized to maintain its focus on those counties identified in 2004, but was allowed to use unexpended funds to expand the program.

The funding history for this program is in the table below.

FY 2004-05	\$1,725,000
FY 2005-06	\$700,000
FY 2006-07	\$1,500,000
FY 2007-08	\$1,500,000

<p align="center">ADDITIONAL LEGISLATION</p>

No relevant information to report.

Department of Insurance

NC Constitution, Article III, Section 7 Establishment
G.S. 143A-74 Powers and Duties

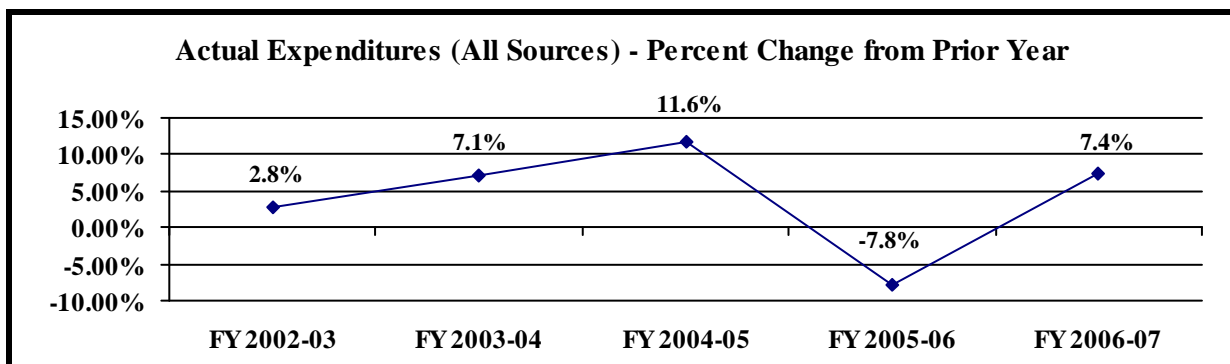
Agency Description:

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 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	33,140,506	35,583,162	36,231,431	35,746,002
Revenue	6,756,545	7,196,273	5,059,298	4,809,298
Net Appropriations	\$26,383,961	\$28,386,889	\$31,172,133	\$30,936,704
Positions (FTE)	402.70	404.70	408.70	408.70

Budget Overview:

The Department of Insurance's budget of \$36.0 million in FY 2007-08 and \$35.7 million in FY 2008-09. The FY 2007-08 budget represents a 2% increase over the previous year. Expenditures have grown by an average annual growth rate of 4.2% over five year. The Department's budget increased by 11.6% in FY 2004-05 due primarily to transferring the Building Code Book Sales Program from receipt-support to the General Fund. Net General Fund appropriations make up 86% of the Department's budget; the Department receives 13% 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.



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)	Certified FY 2007-08	Certified FY 2008-09
Administration	3,716,026	3,735,217
Company Services	8,711,525	8,721,362
Technical Services	6,505,800	6,261,416
Public Services	6,822,235	6,826,162
State Fire Marshal	9,740,845	9,716,845
Reserves and Transfers	735,000	485,000
TOTAL	\$36,231,431	\$35,746,002
Revenue	(5,059,298)	(4,809,298)
NET GENERAL FUND APPROPRIATIONS	\$31,172,133	\$30,396,704

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

Total Appropriations by Fund	Certified FY 2007-08	Certified FY 2008-09
Department of Insurance (13900-General Fund)	\$36,231,431	\$35,746,002
Department of Insurance (23900-Special Fund)	\$28,889,985	\$28,889,985
Department of Insurance (23901-Special Fund)	\$1,240,983	\$1,240,983
TOTAL	\$66,362,399	\$65,876,970

Note:

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

OTHER FUNDS

Insurance Regulatory Fund (23900) **Balance: \$25,114,876**
(as of June 30, 2007)

The Insurance Regulatory Fund is funded through insurance regulatory fees assessed on insurance companies and collected by the Department of Revenue. 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.

Department of Insurance

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

State Fire Marshal Staff Expansion

Four new positions were created for the State Fire Marshal's Office to review plans for State construction projects. The positions cost \$364,693. These positions are intended to reduce the turnaround time on plan review, which had been identified as a significant issue in the construction process by the Legislative Study Commission on State Construction Inspections in their January 2007 report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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No relevant information to report.

ADDITIONAL LEGISLATION

No relevant information to report.

Department of Insurance-Volunteer Safety Workers' Compensation

G.S. 58-87-10 Workers' Compensation Fund for the Benefit of Volunteer Safety Workers

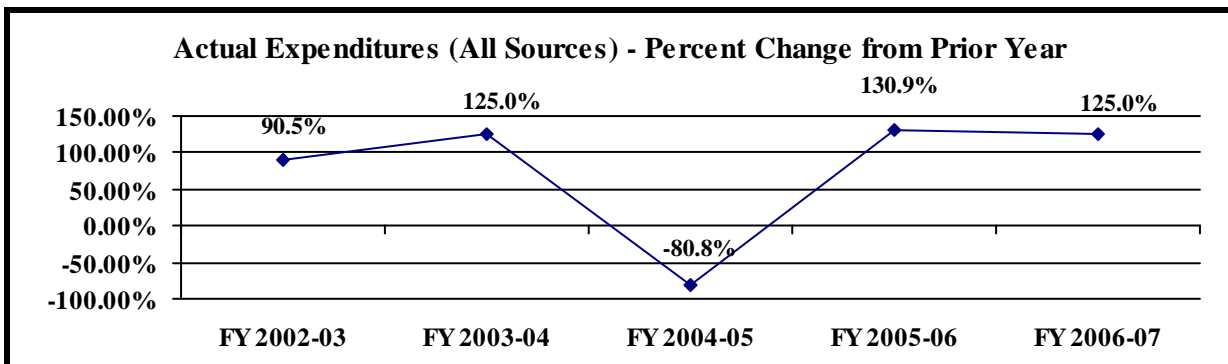
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	2,000,000	4,500,000	4,500,000	4,500,000
Revenue	0	0	0	0
Net Appropriations	\$2,000,000	\$4,500,000	\$4,500,000	\$4,500,000
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The Volunteer Safety Workers' Compensation Fund receives \$4.5 million for FY 2007-08 and FY 2008-09. This amount did not change from the previous fiscal year. When the Fund was 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. The appropriation has not been cut since FY 2005-06.



Office of Lieutenant Governor

NC Constitution Article III, Section 2 Established

NC Constitution, Art. III, Section 6 Duties of the Lieutenant Governor

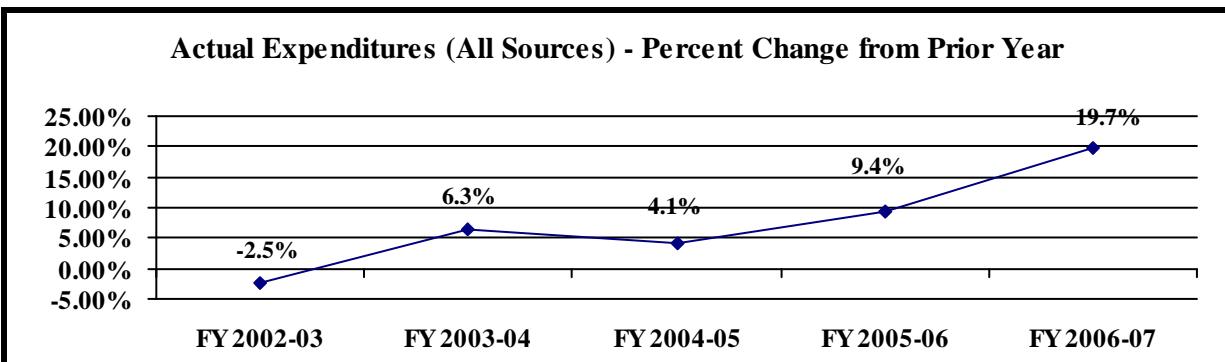
Agency Description:

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 Community College Board and the chairmanship of the Health and Wellness Trust Fund Board.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	752,469	900,680	914,122	915,109
Revenue	1,938	6,209	0	0
Net Appropriations	\$750,531	\$894,471	\$914,122	\$915,109
Positions (FTE)	10.90	11.90	12.00	12.00

Budget Overview:

The Lieutenant Governor's budget, the smallest in the General Government area, is \$914,122 for FY 2007-08 and \$915,109 for FY 2008-09. The certified budget grew by 19.7% over FY 2006-07, due mainly to the addition of a senior-level position within the office. The budget has grown 7.4% on average over a five-year period. The Office is almost entirely funded by the General Fund, with no projected revenues for FY 2007-08 and FY 2008-09.



Office of Lieutenant Governor**BUDGET TABLES**

The Lieutenant Governor's General Fund operating budget is displayed in this table.

Office of the Lieutenant Governor (13100 – General Fund)	Certified FY 2007-08 \$914,122	Certified FY 2008-09 \$914,122
TOTAL	\$914,122	\$914,122
Revenue	(0)	(0)
NET GENERAL FUND APPROPRIATIONS	\$914,122	\$914,122

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473

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

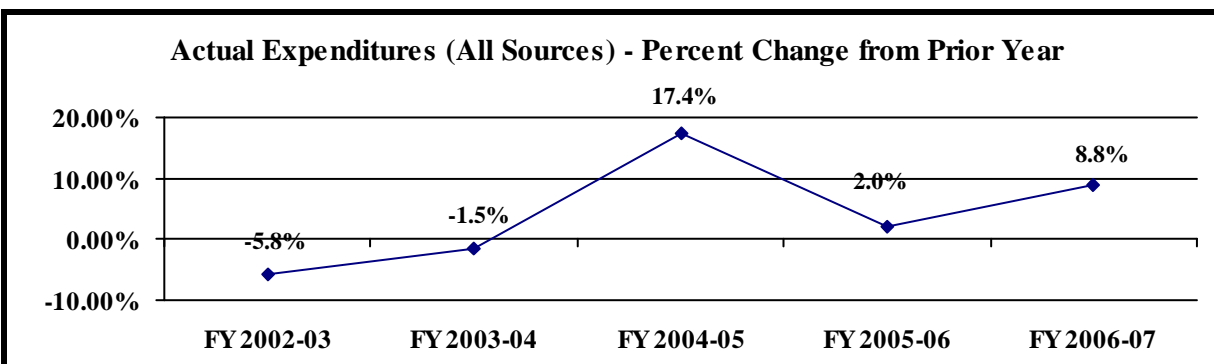
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	2,881,412	3,135,891	3,746,317	3,576,594
Revenue	60,969	58,775	54,859	54,859
Net Appropriations	\$2,820,443	\$3,077,116	\$3,691,458	\$3,521,735
Positions (FTE)	43.00	45.00	45.00	45.00

Budget Overview:

The budget for the Office of Administrative Hearings (OAH) is \$3,746,317 in FY 2007-08 and \$3,576,594 in FY 2008-09. The FY 2006-07 OAH budget increased 8.8% from the previous year due primarily to the legislative salary increase provided to most state employees during the 2006 Session. The OAH budget, primarily supported by net General Fund appropriations at approximately 98%, has grown 4.2% on average each year since FY 2002-03. 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 displays the General Fund operating budget for the Office of Administrative Hearings.

Office of Administrative Hearings (18210 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
	\$3,746,317	\$3,576,594
TOTAL	\$3,746,317	\$3,576,594
Revenue	(54,859)	(54,859)
NET GENERAL FUND APPROPRIATIONS	\$3,691,458	\$3,521,735

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Automated Case Tracking System Replacement

The General Assembly appropriated \$175,000 nonrecurring and \$17,500 recurring to replace the Office of Administrative Hearings' case management software. This application enables the Hearings Division to file and track cases and record dispositions. The current software application no longer provides needed functionality to keep up with the caseload of the division.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

ADDITIONAL LEGISLATION

S. L. 2007-491 (SB 242) REFORM TAX APPEALS

This law changes the process of appeals on decisions of the Department of Revenue. It provides for an optional administrative remedy at the Office of Administrative Hearings after the Department and taxpayer failed to reach a settlement. If the administrative route fails, the case can be appealed to Superior Court. The administrative route is optional, but could have a substantial impact on OAH caseload if a large volume of complex tax cases is appealed.

Department of Revenue

GS 143B-217 Creation

GS 143B-218 Duties

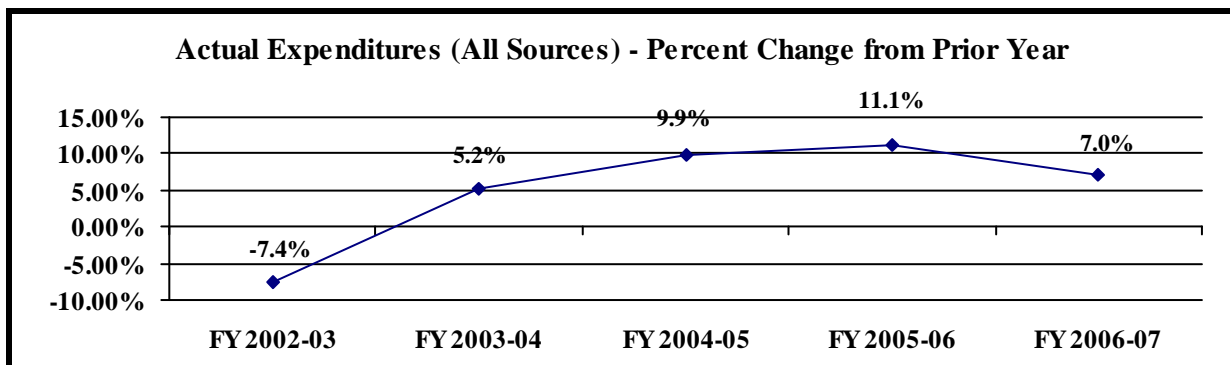
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	100,454,921	107,516,536	109,156,178	110,389,090
Revenue	19,129,986	25,328,568	25,039,316	25,058,479
Net Appropriations	\$81,324,935	\$82,187,968	\$84,116,862	\$85,330,611
Positions (FTE)	1,485.25	1,523.50	1,523.50	1,523.50

Budget Overview:

The Department's budget totals \$109 million for FY 2007-08, a 1.5% increase over FY 2006-07, and \$110 million for FY 2008-09. 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 23% of the total budget. Net General Fund appropriations of \$84.1 million make up 77% of the Department's budget. The Department's budget has increased over a five-year period by an annual average of 5.2%.



Department of Revenue

BUDGET TABLES

The following table shows the General Fund operating budget for the Department of Revenue by division.

Department of Revenue (14700 - General Fund)	Certified FY 2007-08	Certified FY 2008-09
Collection and Examination	28,557,429	28,841,967
Documents and Payment Processing	11,605,011	12,013,117
Information Technology	15,598,158	15,641,124
Administrative Services	8,228,691	8,232,580
Taxpayer Assistance	9,405,833	9,522,564
All other	35,760,056	36,137,738
TOTAL	\$109,155,178	\$110,389,090
Revenue	(25,039,316)	(25,058,479)
NET GENERAL FUND APPROPRIATIONS	\$84,116,862	\$85,330,611

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Project Collect Receipts

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 General Assembly transferred 39 State-appropriated positions to receipt support from the collection assistance fee. This position shift results in a \$1.75 million reduction in State appropriations to the Department. In S.L. 2007-323, 45 positions were transferred to Project Collect receipts, but this number was reduced to 39 in S.L. 2007-345, Section 14.2.

Move Administrative Hearings Officer to DOA

S. L. 2007-323 transferred two positions from the Revenue Department to the Department of Administration. The positions are associated with the Department's tax appeals hearing function. Senate Bill 242, S. L. 2007-491, subsequently made significant changes to the appeals process, and the position transfer was eliminated in the 2007 Budget Technical Corrections Act, S.L. 2007-345, Section 14.2.

Department of Revenue**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 24.1 WHITE GOODS DISPOSAL TAX PROGRAM**

This provision raises the amount of collections under the White Goods Disposal Tax that the Department is authorized to retain for costs of administering the program from \$225,000 to \$425,000.

Section 24.2 SCRAP TIRE DISPOSAL TAX PROGRAM

This provision raises the amount of collections under the Scrap Tire Disposal Tax that the Department is authorized to retain for costs of administering the program from \$225,000 to \$425,000.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

ADDITIONAL LEGISLATION**S. L. 2007-491 (SB 242) REFORM TAX APPEALS**

This new law makes sweeping changes to the process for appeals of decisions of the Department of Revenue. The law provides an option for the taxpayer to seek relief through the administrative law process at the Office of Administrative Hearings and then for a trial de novo in Superior Court. This new process is not expected to have a fiscal impact on the Revenue Department but could affect filings at the Office of Administrative Hearings and the Judicial Branch.

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:

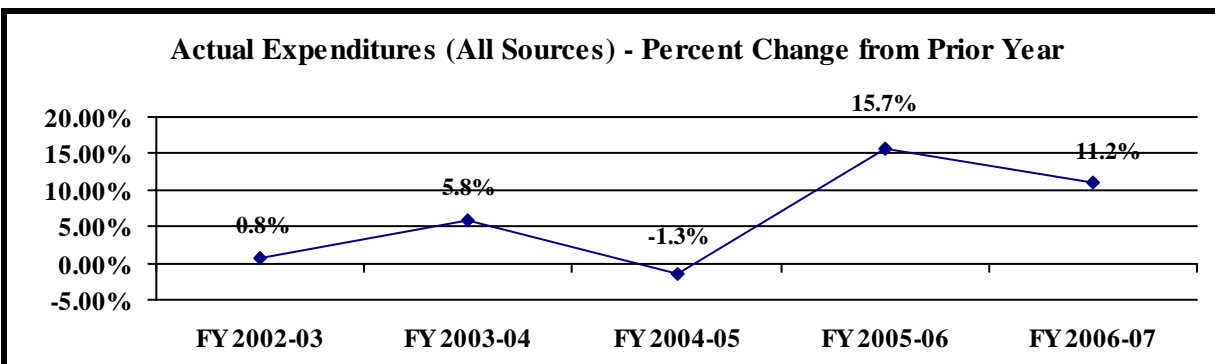
The Department of Secretary of State oversees and enforces many business and individual activities. These activities include business, Uniform Commercial Code, and trademark registries. The Department also regulates investment activity, lobbying, and notary publics. In addition, the Department maintains major State documents and publishes the State government's leading reference works, including the N.C. Manual and the Directory of State and County Officials.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	9,989,757	11,105,281	11,945,421	11,211,472
Revenue	940,050	1,532,556	468,431	468,431
Net Appropriations	\$9,049,707	\$9,572,725	\$11,476,990	\$10,743,041
Positions (FTE)	171.75	186.00	186.00	186.00

Budget Overview:

The budget for the Department of Secretary of State totals \$11.9 million in FY 2007-08 and \$11.2 million in FY 2008-09. 96.1% of the Department's FY 2007-08 budget is funded by net General Fund appropriations. The majority of the Department's revenues, totaling 3.9% of the budget, is generated by licensing charitable organizations and professional fundraisers and are used to fully support the Charitable Solicitation Licensing Section. Revenues are also generated from the sale of publications.

Over the last five years, total expenditures have increased by an average of 6.4% annually. Revenues have fluctuated in recent years due to the amount of carryforwards authorized and the elimination of subscriptions for data tapes listing corporate and Uniform Commercial Code data. The FY 2007-08 budget increased 7.6% compared to the prior fiscal year due to a nonrecurring appropriation to redact personal information from Internet filings and the addition of one full-time employee. 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)	Certified FY 2007-08	Certified FY 2008-09
General Administration	2,278,477	2,281,031
Publications	327,291	374,634
Lobbyist Registration	466,624	466,624
Corporations	3,228,594	2,417,726
Uniform Commercial Code	2,873,548	2,899,871
Securities	1,872,271	1,872,970
Notary Public	341,519	341,519
Land Records Management	150,291	150,291
Charitable Fund-Raising	406,806	406,806
TOTAL	\$11,945,421	\$11,211,472
Revenue	(468,431)	(468,431)
NET GENERAL FUND APPROPRIATIONS	\$11,476,990	\$10,743,041

OTHER FUNDS

Investor Protection Fund (63200-6102) **Balance: \$1,698,848**
(as of June 30, 2007)

The Investor Protection and Education Trust Fund, created in 1996, is authorized by G.S. 147-54.5. The proceeds of the Fund are to be used by the Secretary of State to provide investor protection and education to the public and to potential securities investors. The Fund is supported by settlements of securities investigations conducted by the Secretary of State.

In FY 2006-07, the fund had a starting balance of \$1,083,227. It received \$729,087 in settlements and expended \$113,466, primarily for contractual services.

Health Care Directive Registry (23200) **Balance: \$56,362**
(as of June 30, 2007)

Since 2002, the Department of 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 the legal documents to the Health Care Registry with a \$10 fee. The Secretary of State remits a registry card to the applicant. The registry is fully receipt supported. It is staffed by one part-time contractor who processes filings and maintains an online database of forms.

The registry has received over 8,000 filings. In FY 2006-07, the fund had a starting balance of \$43,005. It received \$24,605 in receipts and expended \$11,248 to support the registry.

Department of Secretary of State

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Redaction of Personal Information

The General Assembly provided \$812,500 nonrecurring in FY 2007-08 to redact personal identifying information from images in the Business Entity database. Images in the Uniform Commercial Code database were redacted in FY 2006-07.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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Lobbying Registration

(G.S. 120C-100 through G.S. 120C-800)

S.L. 2005-456 (SB 612) enacted substantial lobbying reforms that expand the scope of individuals and principals covered, restricts lobbyist activity and requires additional reporting, and requires each covered person to attend a lobbying education course every two years. The law also imposed greater fines and penalties. S.L. 2007-348 (HB 1111) clarifies whether the State Ethics Commission or the Secretary of State has responsibility for enforcing portions of the law. It also defines an indirect gift.

The Lobbyist Registration Division is responsible for maintaining a registry of all lobbyists, principals, solicitors, agency and board liaisons, and a registry of expense and gift reports. The Division includes 8 positions and has a total budget of \$466,624 in FY 2007-08. Prior to the implementation of the 2005 law change, the Division's budget totaled \$150,045.

ADDITIONAL LEGISLATION

No relevant information to report.

State Board of Elections

G.S. 163-22 Powers and duties of State Board of Elections

Agency Description:

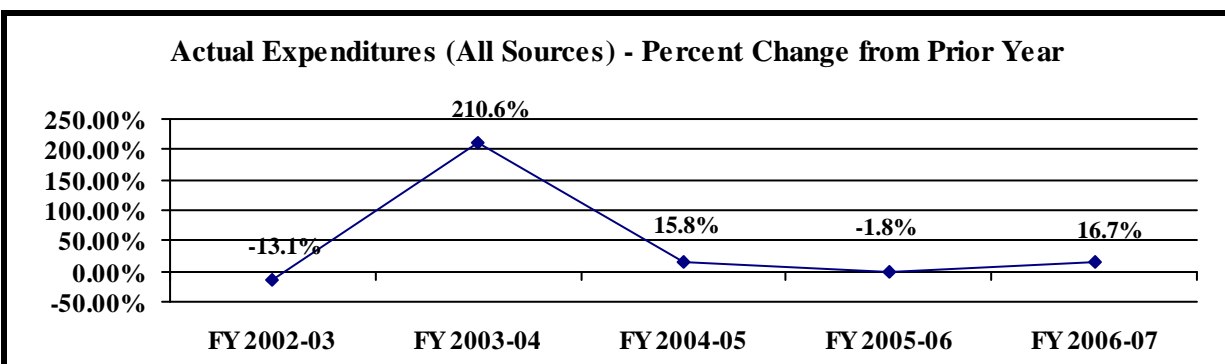
The State Board of Elections supervises the 100 county boards of elections and the municipal boards of elections in administering elections and related laws, certifying election results, voter outreach and registration, voting systems and support, absentee voting, education and training, and investigations, 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	11,835,723	13,815,894	10,720,589	13,158,985
Revenue	6,842,758	8,503,191	3,532,117	3,532,117
Net Appropriations	\$4,992,965	\$5,312,703	\$7,188,472	\$9,626,868
Positions (FTE)	50.00	62.00	62.00	62.00

Budget Overview:

The budget for the State Board of Elections is \$10.7 million in FY 2007-08 and \$13.2 million in FY 2008-09. 67.1% of the agency's budget is derived from net General Fund appropriations. Remaining funds include significant carryforwards 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 45.7% annually. A section on HAVA/MOE contains additional information that details the sharp increase in expenditures between FY 2002-03 and FY 2003-04. The 2007 General Assembly authorized the expenditure of over \$5 million from the HAVA/MOE funds in both years of the biennium, which reduces the amount of carryforwards and transfers. The expenditure of these funds resulted in the FY 2007-08 budget decreasing 30% compared to the actual FY 2006-07 budget.



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 HAVA.

Board of Elections (18025 - General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration	1,289,375	1,269,021
Campaign Reporting	1,467,917	1,343,846
Voter Registration and Voting Systems	3,505,711	3,508,532
Reserves and Transfers	1,000,000	3,580,000
Maintenance of Effort	3,457,586	3,457,586
TOTAL	\$10,720,589	\$13,158,985
Revenue	(3,532,117)	(3,532,117)
NET GENERAL FUND APPROPRIATIONS	\$7,188,472	\$9,646,868

OTHER FUNDS

HAVA Fund (28025)	Balance: \$29,754,973
Public Campaign Fund (68025)	Balance: \$3,085,495 (as of June 29, 2007)

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 Fund). Detailed information on the HAVA and Public Campaign funds appear in the section titled "Select Programs and Other Budgetary Information."

Political Parties (68026)	Balance: \$261,815 (as of June 29, 2007)
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The North Carolina Political Parties Financing Fund was established by G.S.105-159.1. The fund received \$519,509 in tax contributions in FY 2006-07. Proceeds from the Fund are distributed to political parties that are affiliated by at least 1% of the total number of registered voters and that receive at least 10% of the entire vote cast for Governor or for Presidential candidates during the last preceding general State election. Since tax year 2006, individual income tax filers may authorize \$3.00 (or \$6.00 if filing a joint return) of their personal income tax liability for the Fund. Prior to 2006, individual contributions were limited to \$1.00 (or \$2.00 if filing jointly).

State Board of Elections

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Campaign Finance

The Division received \$55,000 recurring and \$40,000 nonrecurring in FY 2007-08 for online training, regional seminars, and a learning management system to track data for campaign committee treasurers. The training and seminars are required by G.S. 163-278.7(f).

Voter-Owned Elections Pilot

S.L. 2007-540 (HB 1517) appropriated \$1.0 million in FY 2007-08 and \$3.58 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) the option of financing their campaign from a publicly supported fund.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 25.1 STATE BOARD OF ELECTIONS MOE AND HAVA FUND USE

The General Assembly directed the expenditure of \$2,177,500 in FY 2007-08 and \$1,177,500 in FY 2008-09 from the Maintenance of Effort Reserve and \$3,275,000 in FY 2007-08 and \$4,275,000 in FY 2008-09 from HAVA funds for election-related computer maintenance and upgrades, for Election Day personnel, and for early voting sites.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

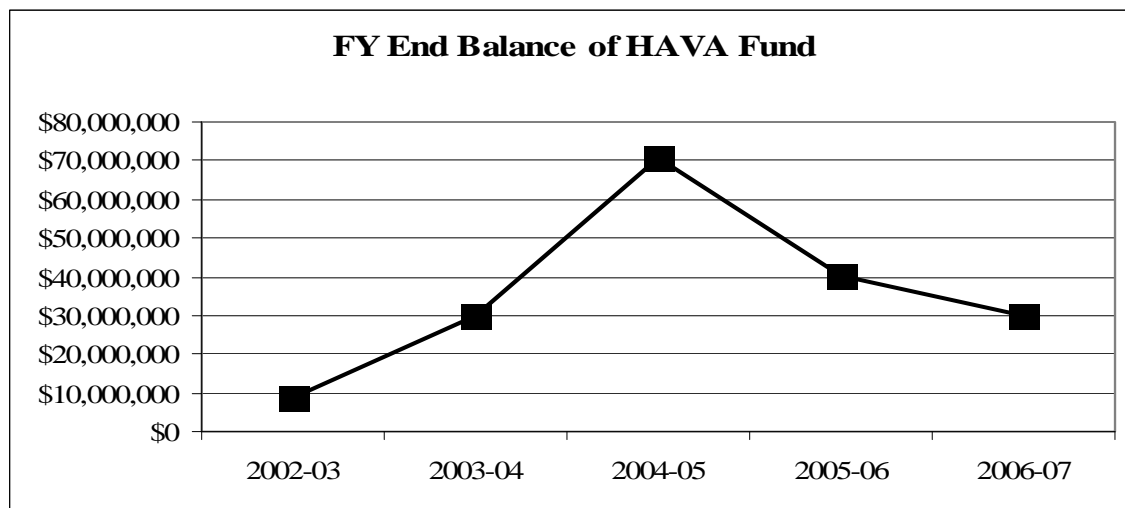
Help America Vote Act/ Maintenance of Effort (HAVA/MOE)

The federal Help America Vote Act (HAVA) of 2002, Public Law 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 the state maintain the level of expenditures that is not less than the level of such expenditures maintained by the state for the 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 on a recurring basis \$3,457,585 and \$1,922,215 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.

State Board of Elections



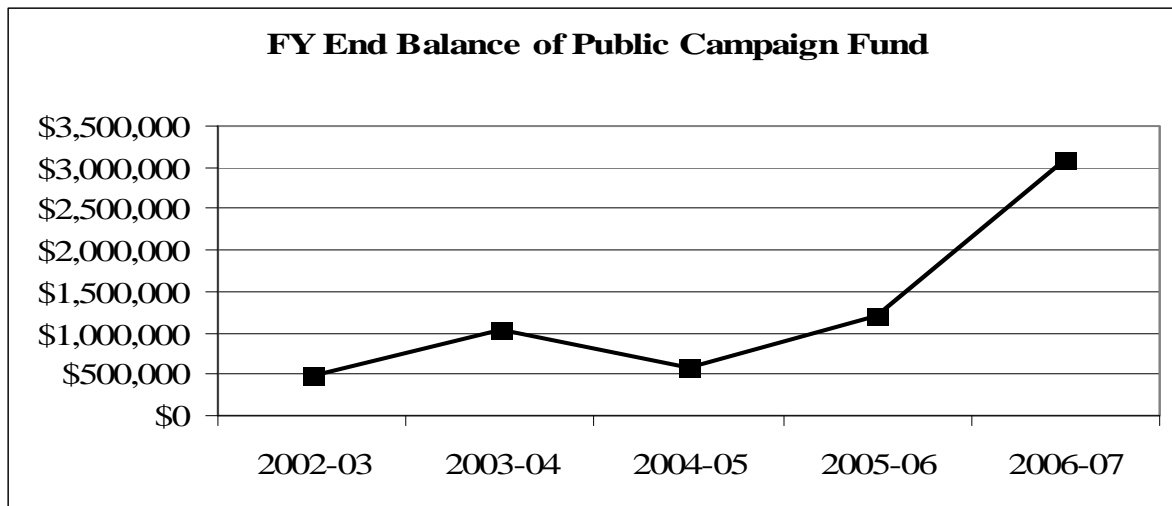
It was not the intent of the General Assembly to use any MOE funds for enhancement of existing personnel. The HAVA funds were expected to be exhausted by the end of FY 2005-06 and therefore not be spent on recurring items. The HAVA funds are currently expected to be available through FY 2009-10. The 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

(G.S. 105-159.2 Designation of tax to North Carolina Public Campaign Fund)

S.L. 2002-158 (SB 1054) established the NC Public Campaign Fund 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 a 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. In addition to these two sources, the balance of the NC Candidates Financing Fund was deposited into the account in FY 2002-03, which totaled \$563,244. The NC Candidates Financing 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.

State Board of Elections



To date, the fund has been used by 12 of the 16 judicial candidates in the 2004 election and eight of the 12 judicial candidates in the 2006 election. In FY 2006-07, the fund received \$1,565,474 from the \$3.00 tax contribution and \$1,305,423 from the \$50.00 surcharge paid by attorneys. The balance in the fund on June 30, 2007 was \$3,085,494.

ADDITIONAL LEGISLATION

S.L. 2007-253 (HB 91) REGISTRATION AND VOTING AT ONE-STOP SITES

The General Assembly authorized in-person registration and voting at one-stop voting sites. This legislation extends voter registration prior to an election from 19 days to three days before Election Day.

S.L. 2007-540 (HB 1517) VOTER-OWNED ELECTIONS PILOT

The General Assembly established a pilot program to provide candidates for State Auditor, Superintendent of Public Instruction, and Commissioner of Insurance the option of financing their campaigns from a publicly supported fund. To qualify, participating candidates must obtain qualifying contributions from at least 750 registered voters in this State, and these qualifying contributions must be equal to at least 25 times the amount of the filing fee for the office. Participating candidates must abide by strict fund-raising and spending limits.

Office of State Budget and Management

Agency Description:

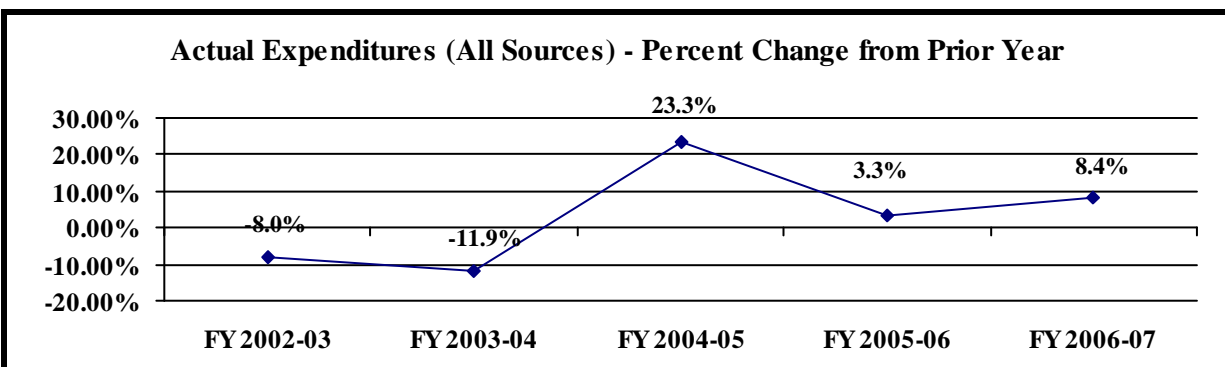
The Office of State Budget and Management (OSBM) provides fiscal advice to the Governor, formulates the recommended State budget, and manages the execution of the legislatively enacted budget. In addition, OSBM monitors and estimates revenues, produces population estimates and projections, and provides economic and demographic analyses.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	5,510,781	5,975,669	6,084,404	6,091,884
Revenue	646,710	505,929	213,669	214,444
Net Appropriations	\$4,864,071	\$5,469,740	\$5,870,735	\$5,877,440
Positions (FTE)	61.00	63.00	62.00	62.00

Budget Overview:

OSBM's budget is \$6.1 million in FY 2007-08 and in FY 2008-09. In FY 2007-08, OSBM received funds for a new Internal Auditing initiative. 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 3.0% annually. While the Office's budget typically increases by a small percentage each year, its budget increased 23.3% in FY 2004-05 and 8.4% in FY 2006-07. In FY 2004-05, the General Assembly appropriated \$1.0 million nonrecurring to the Military Morale, Recreation, and Welfare Fund (S.L. 2005-445). The reduction in later years is due to a budget transfer for the \$1 million to the Military Morale, Recreation, and Welfare Fund to the Reserves for Special Appropriations in FY 2005-06 and FY 2006-07.



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)	Certified FY 2007-08	Certified FY 2008-09
	\$6,084,404	\$6,091,884
TOTAL	\$6,084,404	\$6,091,884
Revenue	(213,669)	(214,444)
NET GENERAL FUND APPROPRIATIONS	\$5,870,735	\$5,877,440

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

ADDITIONAL LEGISLATION

S.L. 2007-424 (HB 1401) INTERNAL AUDIT AND EFFICIENCY REVIEW

This legislation creates a Council of Internal Auditing to oversee the State's internal auditing practices. OSBM will provide staff to the Council. The Council will develop guidelines for auditors and recommend the number of auditors necessary per agency. For smaller agencies, OSBM will host a shared pool of auditors to conduct routine oversight.

OSBM-Special Appropriations

G.S. 58-85A.1 Creation of Fund; allocation to local fire districts and political subdivisions of the State

Agency Description:

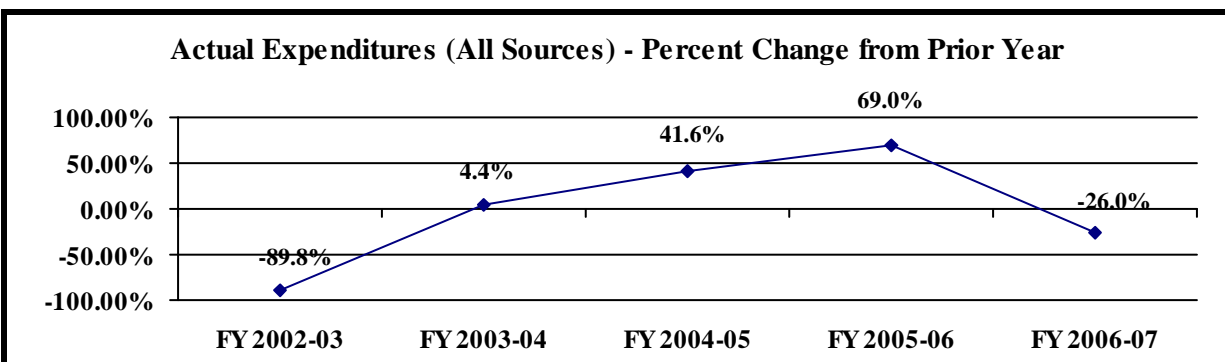
This budget is used to transfer State funds to local governments, to nonprofits, or to the federal government and to establish reserves for special funding to State agencies. The budget includes three types of transfers, including transfers for Special Appropriations, to the Fire Protection Grant Fund, and to Reserves/Transfers.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	10,270,795	7,597,971	8,091,446	6,741,446
Revenue	1,273,797	1,364,061	1,120,000	1,120,000
Net Appropriations	\$8,996,998	\$6,233,910	\$6,971,446	\$5,621,446
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for this fund is \$8.1 million in FY 2007-08 and \$6.7 million in FY 2008-09. The amount of expenditures varies by year based on the amount appropriated for special projects, for 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 receipts 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.

Over the last five years, total expenditures have decreased by an average of 0.2% annually. However, the FY 2001-02 budget included a \$36.0 million transfer to the State Health Plan. Excluding this transfer, total expenditures have increased by an average of 16.6% annually. The Fire Protection Grant Fund increased twice in the last five years. It increased \$800,000 in FY 2005-06, and it received a nonrecurring \$300,000 this fiscal year. The Fire Protection Grant Funds are distributed to local fire departments to offset the cost of providing fire protection to State-owned facilities within their districts. 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. 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)	Certified FY 2007-08	Certified FY 2008-09
Special Appropriations	1,108,446	1,058,446
Fire Protection Grant Fund	5,300,000	5,000,000
Reserves and Transfers	1,683,000	683,000
TOTAL	\$8,091,446	\$6,741,446
Revenue	(1,120,000)	(1,120,000)
NET GENERAL FUND APPROPRIATIONS	\$6,987,446	\$5,621,446

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Fire Protection Grants

The Fire Protection Grants are a Grant-in-Aid program for local fire districts that provide fire protection services to State-owned property. The fund received \$300,000 nonrecurring in FY 2007-08 for a total of \$5,300,000. (Additional information is included under "Select Programs and Other Budgetary Information.")

Military Morale, Recreation, and Welfare Fund

For the third year, \$1 million nonrecurring is distributed among each military installation on a per capita basis to the federal Morale, Recreation, and Welfare Fund.

(S.L. 2007-323, Section 23.1)

Internal Audit and Efficiency Review

The General Assembly provided the Office of State Budget and Management (OSBM) with \$683,000 recurring to establish an Internal Audit (IA) and Efficiency Review program to oversee internal auditors assigned to State agencies and create a pool of internal auditors to monitor smaller State agencies. (Additional information is included in the OSBM section under "Additional Legislation.")

(S.L. 2007-424 (HB 1401) Internal Audit and Efficiency Review)

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

OSBM-Special Appropriations**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 for providing fire protection to 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. The biennial appraisal is used to modify the amount of State Fire Protection Grants to local fire departments.

The base budget for the Fund is \$5 million. The program received \$300,000 nonrecurring in FY 2007-08 for a total of \$5,300,000, which includes \$1.12 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:

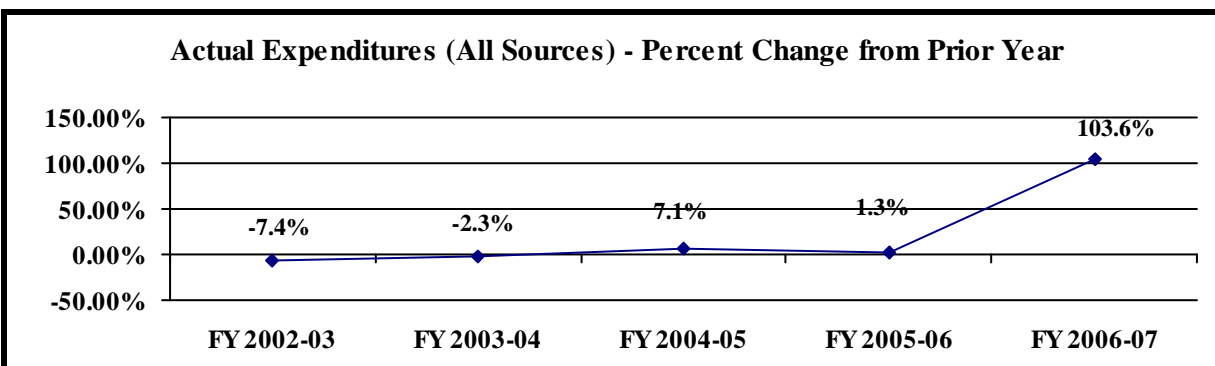
The Office of the State Controller provides financial management services to North Carolina State agencies, ensuring that State funds are spent, accounted for, and reported consistent with national accounting standards. The Office acts as the business office for the State of North Carolina, overseeing 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	10,141,371	20,645,895	20,787,871	20,805,378
Revenue	285,407	352,408	77,680	77,680
Net Appropriations	\$9,855,964	\$20,293,487	\$20,710,191	\$20,727,698
Positions (FTE)	88.75	140.50	142.50	142.50

Budget Overview:

The budget for the State Controller is \$20.8 million in both FY 2007-08 and 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 revenues between the last two fiscal years and the current fiscal year are due to carryforwards from the prior year's budget.

Over the last five years, total expenditures have increased by an average of 20.4% annually. The Controller's budget and staffing levels significantly increased from FY 2005-06 to FY 2006-07 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 0.6% increase over the actual FY 2006-07 budget.



Office of the State Controller

BUDGET TABLES

The following table displays the Office of the State Controller's total General Fund operating budget.

Office of the State Controller (14160 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
	\$20,787,871	\$20,805,378
TOTAL	\$20,787,871	\$20,805,378
Revenue	(77,680)	(77,680)
NET GENERAL FUND APPROPRIATIONS	\$20,710,191	\$20,727,698

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

A detailed summary of the Building Enterprise Access for North Carolina's Core Operations Needs (BEACON) project is found in the "Select Programs and Other Budgetary Information" section.

BEACON:

Phase I - HR/Payroll

The General Assembly provided \$20.0 million in FY 2007-08 to complete Phase 1 of the BEACON project.

Phase II - HR/Payroll Additional Modules

The General Assembly provided \$7.39 million in FY 2007-08 from Highway Fund receipts to implement the E-Recruitment and Learning Solutions/Training Management modules. The modules are anticipated to be functional by FY 2008-09.

Phase III - Financial Planning

The General Assembly provided \$1.5 million in FY 2007-08 from Highway Fund receipts to support the planning stage for additional budget preparation, budget reporting, cash management, and accounting systems modules.

Data Integration

The General Assembly provided \$5.0 million nonrecurring in both FY 2007-08 and FY 2008-09 to the State's IT Fund to develop a plan for statewide data integration under the direction of the BEACON Project Steering Committee.

(S.L. 2007-323, Section 6.8)

Office of the State Controller**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 6.8 BEACON DATA INTEGRATION**

The Office of the State Controller is to develop a Strategic Implementation Plan for the integration of databases and sharing of information among State agencies.

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 the HR/Payroll systems by combining three independent systems into one consolidated system. The project will streamline the HR and Payroll functions within State agencies and allow State employees to access and make changes to their HR information online.

Including the final installment of \$20.0 million nonrecurring appropriated by the General Assembly in FY 2007-08, the total cost for Phase I is \$73,866,904. The project was first funded in the 2005 budget as part of the State Business Infrastructure Project authorized by S.L. 2004-129. The project will impact over 84,000 State employees in 31 agencies. Agencies will be deployed to the new system in phases. The Department of Transportation and temporary workers will shift on December 15, 2007. Ten additional agencies (the Departments of Administration, Revenue, Correction; the Offices of the Governor, Lt. Governor, State Budget, State Controller, State Personnel, ITS; and the Board of Elections) will deploy on January 1, 2008. On April 1, 2008, an additional 22 agencies will shift to the new system.

Additional planned modules to the BEACON project include training, which will track employees' learning history, qualifications, and certificates, and events management, which will allow for course scheduling. In addition, an E-recruitment module will track job applicants and create a combined resource pool. These additional modules will complete the HR/Payroll portion of the BEACON project. The next phase will study the replacement of the State's financial systems. The 2007 budget includes \$7.3 million in funding to develop and implement the Training/Events Management and E-recruitment modules and \$1.5 million to plan for the replacement of the financial systems.

ADDITIONAL LEGISLATION**S.L. 2007-520 (HB 1551) STATE GOVERNMENT ACCOUNTABILITY / INTERNAL CONTROL ACT**

The General Assembly enacted House Bill 1551 to establish internal control standards for State government and to increase fiscal accountability within State agencies. The act directs the State Controller, in consultation with the State Auditor, to establish comprehensive standards, policies, and procedures to ensure strong systems of internal control within State agencies.

Department of State Treasurer

NC Constitution, Art. III, Section 7 Other elective officers

Agency Description:

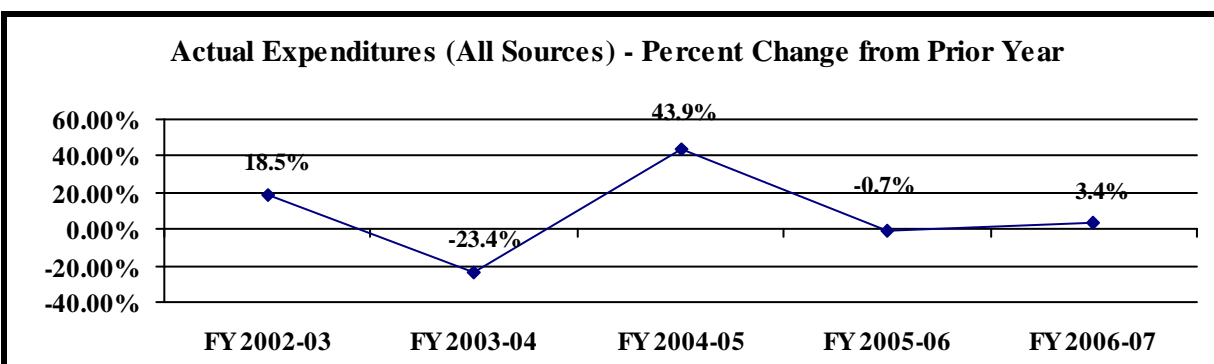
The Department of State Treasurer manages the State's investment and banking services for all State agencies and institutions and oversees the issuance and repayment of all State and local debt. The Department administers the Teachers' and State Employees' Retirement System, Local Government Employees' 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	40,818,187	42,217,085	38,462,793	38,446,395
Revenue	32,606,575	33,691,987	29,133,663	29,120,205
Net Appropriations	\$8,211,612	\$8,525,098	\$9,329,130	\$9,326,190
Positions (FTE)	342.00	350.87	348.00	348.00

Budget Overview:

The budget for the State Treasurer is \$38.5 million in FY 2007-08 and \$38.4 million in FY 2008-09. Approximately 76% of the Treasurer's budget is generated by State receipts with the remaining funds derived from net General Fund appropriations. The FY 2007-08 budget is 9.8% less than FY 2006-07 due to the online retirement database project nearing completion, 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 is the only division that is fully supported by the General Fund. 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 8.3% annually. Changes in the Department's budget from FY 2004-05 through FY 2006-07 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)	Certified FY 2007-08	Certified FY 2008-09
General Administration	1,343,823	1,344,587
Escheat Fund Administration	2,814,890	2,817,469
Information Services	6,205,835	6,209,332
Investment Management	3,308,795	3,301,317
Local Government Operations	3,934,733	3,938,177
Retirement Operations	16,433,649	16,411,960
Financial Operations	4,421,068	4,423,553
TOTAL	\$38,462,793	\$38,446,395
Revenue	(29,133,663)	(29,120,205)
NET GENERAL FUND APPROPRIATIONS	\$9,329,130	\$9,326,190

The following table provides a breakdown of funds* administered by the Department of State Treasurer, including the General Fund operating budget. The Department maintains a fund for General Debt Service and for Federal Debt Service for Falls Lake. The General Fund fully supports the debt service for Falls Lake and \$608,559,372 of the General Debt Service. The remaining debt service is funded through transfers from bond proceeds, the Health and Wellness Trust, the Tobacco Trust, Parks and Recreation Trust, and the Clean Water Trust funds.

Total Appropriation by Fund	Certified FY 2007-08	Certified FY 2008-09
Department of State Treasurer (14100 – General Fund)	38,462,793	38,446,395
Federal Debt Service (Falls Lake) (19425 – General Fund)	1,616,380	1,616,380
General Debt Service (19420 – General Fund)	656,512,228	659,016,905
TOTAL	\$696,591,401	\$699,079,680

Note:

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

OTHER FUNDS

Escheat Fund (63412) **Balance: \$686,260,019**
(as of June 30, 2007)

The 1979 General Assembly authorized the creation of the Escheat Fund for unclaimed property that has been escheated to the State for safekeeping since June 30, 1971 (G.S. 116B-5 Escheat Fund). The Department of State Treasurer maintains an online database to locate the owners of

Department of State Treasurer

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.

Principal and Interest Appropriated for Scholarships: FY 2002-03 through FY 2006-07

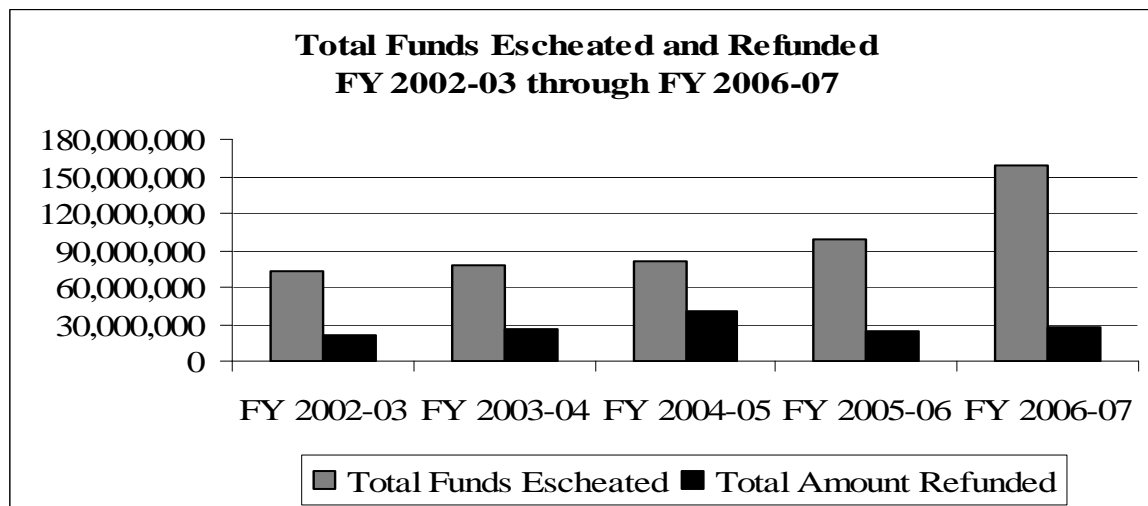
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Amount Due SEAA (Interest)	36,390,575	36,356,125	27,255,262	24,726,366	22,730,705
Principal Appropriated:					
UNC			16,394,115	39,992,754	42,911,650
Community Colleges		1,450,000	10,981,202	13,981,202	13,981,202
Veterans		3,728,324	3,903,324	4,297,544	5,568,222
Total Principal Transferred		5,178,324	31,278,641	58,271,500	62,461,074
TOTAL STUDENT AID	\$36,390,575	\$41,534,449	\$58,533,903	\$82,997,866	\$85,191,779

Source: Department of the State Treasurer

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. The chart details the Fund's revenues and expenditures, including the interest and principal awarded in student aid since FY 2001-02.

The Escheat Fund awarded \$24.7 million in FY 2005-06 and \$22.7 million in FY 2006-07 in interest earnings to the SEAA. It returned \$24.0 million in FY 2005-06 and \$27.2 million in FY 2006-07 in unclaimed property to rightful owners.

The table that follows provides an illustration of the history of funds flowing in and out of the fund.



Department of State Treasurer

Retirement System Trust Funds

The State Treasurer administers the trust funds for the State's major governmental retirement systems. The balances of each trust fund, as of June 29, 2007, are shown below:

Teachers and State Employees (63423)	Balance: \$58,151,450,716
Judicial (63425)	Balance: \$ 453,818,371
Local Government (63426)	Balance: \$17,552,102,788
National Guard (63430)	Balance: \$ 76,010,621
Legislative (63431)	Balance: \$ 33,314,958
Registers of Deeds (63432)	Balance: \$ 32,222,513

The summaries that follow provide information on the actual funds received and paid during FY 2006-07:

Teachers' and State Employees' Retirement System

(established by G.S. 135-2, effective since July 1, 1941)

The Teachers' and State Employees' Fund received \$336,817,420 in employer contributions and \$772,588,146 in employee contributions and paid out \$2,798,974,871 in pensions in FY 2006-07.

Consolidated Judicial Retirement System

(established by G.S. 135-52, effective since January 1, 1974)

The Judicial Fund received \$8,038,776 in employer contributions and \$4,418,083 in employee contributions and paid out \$53,151,447 in pensions in FY 2006-07.

Local Governmental Employees' Retirement System

(established by G.S. 128-22 by S.L. 1939-390)

The Local Government Fund received \$240,816,890 in employer contributions and \$293,113,249 in employee contributions and paid out \$698,811,014 in pensions in FY 2006-07.

National Guard Retirement System

(established by G.S. 127A-40, effective since July 1, 1974)

The National Guard Fund received \$7,007,443 in contributions transferred from the Department of Crime Control and Public Safety and paid out \$13,727,458 in pensions in FY 2006-07.

Legislative Retirement System

(established by G.S. 120-4.9, effective since October 1, 1983)

The Legislative Fund received \$259,892 in employee contributions and paid out \$1,752,437 in pensions in FY 2006-07.

Registers of Deeds Supplemental Pension Fund

(established by G.S. 161-50, effective since October 1, 1987)

The Registers of Deeds Fund received \$3,178,476 in employer contributions and paid out \$792,734 in pensions in FY 2006-07.

Department of State Treasurer**Health and Wellness Trust Fund (23460)****Balance: \$ 66,226,223
(as of June 29, 2007)**

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 pays the debt service for certain State health-related facilities.

Funds are derived from payments made by NC tobacco companies as part of a 1999 final consent decree generally referred to as the Master Settlement Agreement (MSA). The Fund received a total of \$37.9 million in MSA revenue and expended \$18.6 million during FY 2006-07. Grants are administered and awarded by the HWTF Commission, which is an 18-member board that is administratively located within the Department of State Treasurer. The fund receives 25% of the State's tobacco settlement funds from the Tobacco MSA. From 2003-2005, a total of \$120,000,000 was diverted from the Fund to assist with the State's projected deficits.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS**Investment Management Division Staff Expansion**

The Investment Management Division received an additional \$210,756 recurring and \$12,000 nonrecurring in FY 2007-08, increasing the total budget of the division to \$3,308,795. The additional funding expands the number of full-time employees from 19 to 22 employees.

Audit of State Employee Retirement Service Records

The General Assembly eliminated the \$1,221,429 recurring included in the FY 2007-08 continuation budget that was authorized by the Office of State Budget and Management to audit State employee retirement service records. The General Assembly appropriated \$1.2 million nonrecurring in FY 2007-08. The funds are used to audit the service records of State employees to ensure the new online retirement database has the correct amount of State service for each employee.

(S.L. 2007-323, Section 26.1)

**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 26.1 FUNDS FOR AUDITING THE STATE EMPLOYEE SERVICE RECORDS;
REPORTING REQUIREMENTS**

Section 26.1(a) requires the Retirement Systems Division to report to the Joint Legislative Commission on Governmental Operations and to Fiscal Research on the number of State employee service records verified by April 30, 2008. Section 26.1(b) requires the Retirement Systems Division to report to the Joint Legislative Commission on Governmental Operations, the General Government Appropriations Chairs, and to Fiscal Research on the use of lapsed salaries and on all contracts on a quarterly basis.

Department of State Treasurer**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 Local Government Division (G.S. 105-501).

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 an integrated information technology system for the retirement plans. ORBIT allows members and retirees access to their retirement accounts. Including the appropriation for FY 2007-08, the General Assembly has authorized the use 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

ADDITIONAL LEGISLATION

No relevant information to report.

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:

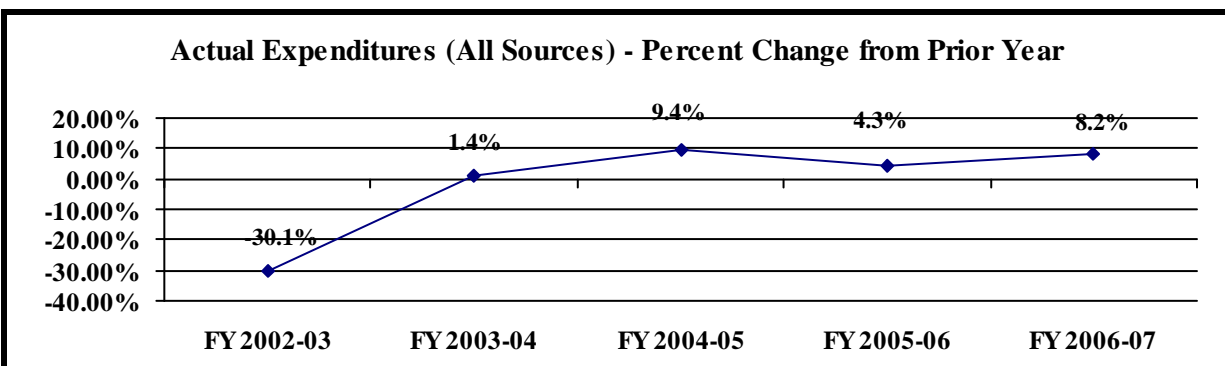
This budget code includes net General Fund appropriations to the Fire Pension Fund, the Rescue Squad Workers' Fund, and for death benefits for officers who died in the line of duty.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	8,251,457	8,930,457	9,458,957	9,458,957
Revenue	0	0	0	0
Net Appropriations	\$8,251,457	\$8,930,457	\$9,458,957	\$9,458,957
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for the retirement benefits is \$9.5 million in FY 2007-08 and 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 decreased by an average of 1.4% annually. The FY 2002-03 expenditures are 30.1%, or \$3.1 million, less than the FY 2001-02 actual expenditures due to the FY 2002-03 fund reduction, which was based on the fund's valuation report. The fund sustained the reduction without impacting the stability of the fund and continued to support a benefit enhancement. The FY 2003-04 budget included an increase for additional line-of-duty deaths. The FY 2004-05 budget increased monthly benefits by \$3. Each of the last 3 budgets have increased benefits by \$2/month.



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 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)	Certified FY 2007-08	Certified FY 2008-09
Contribution to Fire Pension	7,631,050	7,631,050
Contribution to Rescue Squad Workers	1,102,907	1,102,907
Line-of-Duty Death Benefits	725,000	725,000
TOTAL	\$9,458,957	\$9,458,957
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$9,458,957	\$9,458,957

OTHER FUNDS

Firemen's Pension (63434)	Balance: \$303,330,857
Rescue Squad Workers' Pension (63435)	Balance: \$35,933,480
	(as of June 29, 2007)

The Department of State Treasurer maintains the Firemen's and Rescue Squad Workers' Pension Fund, established by G.S. 58-86. The Fund accounts separately for firemen and for rescue squad workers benefits. In addition to the net General Fund appropriation, the Firemen's Pension Fund received \$2,557,555 in employee contributions and spent \$18,484,837 for pension claims in FY 2006-07. The Rescue Squad Worker's Pension Fund received \$225,518 in employee contributions and spent \$2,020,967 for pension claims in FY 2006-07.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS**Fire Pension Fund**

The monthly benefit for retired fire and rescue squad workers increased from \$165 to \$167 in FY 2007-08. The fund increased \$2.00 in FY 2006-07.

SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

Treasurer - Retirement for Fire and Rescue Squad Workers

ADDITIONAL LEGISLATION

No relevant information to report.

**APPROPRIATIONS
SUBCOMMITTEE ON
NATURAL AND ECONOMIC
RESOURCES**

Appropriations Subcommittee on Natural and Economic Resources

Subcommittee Summary:

The Natural and Economic Resources Subcommittees, consisting of 16 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

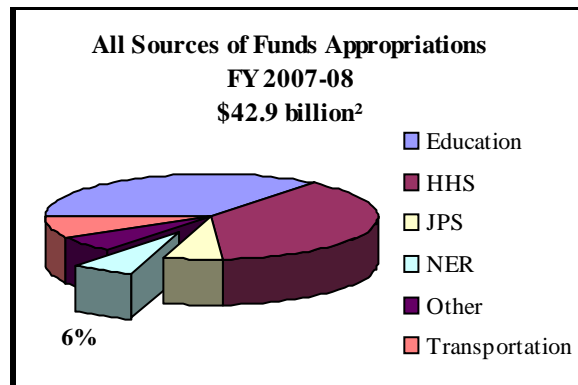
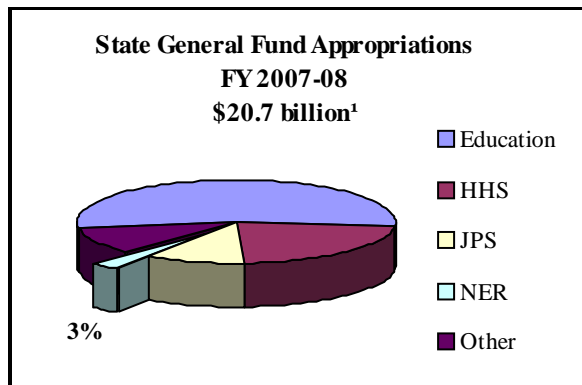
Sen. David Weinstein, Chair
Sen. Charlie Albertson
Sen. Harry Brown
Sen. Jim Jacumin
Sen. Ed Jones
Sen. Floyd McKissick Jr.

Staff:

Kristine Leggett, Team Leader
Joy Hicks
Kristin Walker

Budget Comparison:

The combined budgets under the Natural and Economic Resources Subcommittees total \$654 million or 3% of net General Fund appropriations and \$2.7 billion or 6% of the total \$43 billion appropriated from all sources for FY 2007-08. 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:

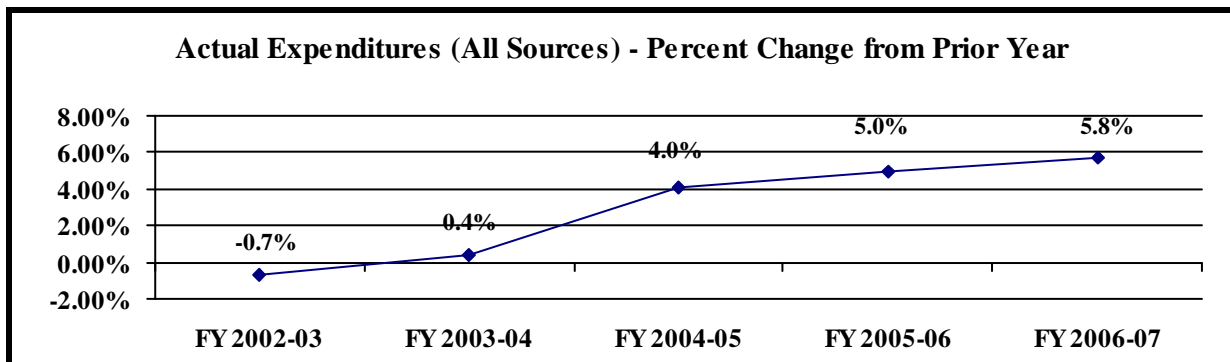
The NC Department of Agriculture and Consumer Services administers and enforces agriculture-related statutes covering traditional agriculture practices and regulatory services to ensure consumer protection. Duties of this department include conducting agronomic testing; ensuring animal health; inspecting 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	81,832,208	86,538,752	98,389,533	84,927,771
Revenue	30,187,951	32,404,803	24,007,832	24,228,770
Net Appropriations	\$51,644,257	\$54,133,949	\$74,381,701	\$60,699,001
Positions (FTE)	1,179.75	1,189.00	1,189.00	1,189.00

Budget Overview:

The total FY 2007-08 budget for the Department of Agriculture and Consumer Services (DACS) is \$98,389,533, and for FY 2008-09 it is \$84,927,771. For FY 2007-08, 76%, or approximately \$74.3 million, is from net General Fund appropriations. The remaining 24% is largely comprised of federal revenue.

In FY 2007-08 the DACS net General Fund appropriation increased 37.4% from the previous year due primarily to two appropriations: \$8 million to the Agricultural Development and Farmland Preservation Trust Fund and \$5 million to the Biofuels Center of North Carolina, a new nonprofit. As these appropriations and others are nonrecurring, the net General Fund appropriation for FY 2008-09 is \$13.7 million less than the FY 2007-08 net General Fund appropriation. Over the last five years, the average percentage change in actual expenditures was 2.89%. Budget increases have been driven primarily 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 (13700 - General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration		
Agricultural Statistics	1,713,886	1,644,597
Budget & Finance	3,421,184	3,432,259
General Administration	9,444,622	1,448,748
Human Resources Office	776,736	780,736
Property & Construction	523,509	523,731
Public Affairs	438,600	434,316
Consumer Protection		
Emergency Programs	1,648,966	1,663,095
Food & Drug Protection	8,811,681	9,051,229
Meat & Poultry Inspection	7,074,426	7,031,427
Standards	6,636,534	6,536,117
Structural Pest Control & Pesticides	5,060,905	5,075,023
Veterinary Services	11,052,845	10,752,712
Agricultural Services		
Agronomic Services	4,249,600	4,278,710
Food Distribution	3,348,477	3,363,015
Marketing	9,395,351	9,123,475
Plant Industry	6,410,096	6,415,494
Research Stations	17,547,934	12,538,906
Agriculture Finance and Rehabilitation Loan	834,181	834,181
TOTAL	\$98,389,533	\$84,927,771
Revenue	(24,007,832)	(24,228,770)
NET GENERAL FUND APPROPRIATIONS	\$74,381,701	\$60,699,001

Department of Agriculture and Consumer Services

The total agency budget for the Department includes General Fund appropriations and three enterprise funds.

Total Appropriations by Fund	Certified FY 2007-08	Certified FY 2008-09
DACS (13700 – General Fund)	98,389,533	84,927,771
Raleigh Farmers Market (53700 – Enterprise Fund)	1,294,206	1,294,206
Western NC Agricultural Ctr (53725 – Enterprise Fund)	1,982,283	1,982,283
North Carolina State Fair (53750 - Enterprise Fund)	12,554,407	12,556,517
TOTAL	\$114,220,429	\$100,760,777

OTHER FUNDS

The Department of Agriculture and Consumer Services has three enterprise funds. These enterprise funds are entirely comprised of fees generated at the facilities, which are then used for operation, management, and upkeep.

Raleigh Farmers Market (53700) **Balance: \$1,436,700**
(as of June 30, 2007)

The Raleigh Farmers Market, operating since 1961, generates approximately \$1.3 million in receipts 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 17.0 FTE positions. For FY 2006-07 receipts into the Fund totaled \$1.4 million; expenditures were \$1.3 million.

Western NC Agricultural Center/Mountain State Fair (53725) **Balance: \$2,296,840**
(as of June 30, 2007)

Located in Fletcher, the Western NC Agricultural Center hosts the annual Mountain State Fair. Collectively, the Center and the Fair generate a total of \$2 million in receipts and fund 13.0 FTE positions. The Western NC Agricultural Center generates approximately 36.2% of receipts 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 remaining 63.8% of the receipts from the annual 10-day fair. During the September 2007 Mountain State Fair, attendance totaled 187,819. For FY 2006-07 receipts into the Fund totaled \$2.4 million; expenditures were \$1.8 million.

North Carolina State Fair (53750) **Balance: \$4,127,031**
(as of June 30, 2007)

The NC State Fair (G.S. 106-503) properties are utilized year round as rental space but are most well known for the annual State Fair in October. The North Carolina State Fair facilities generate over \$12 million in revenues, with approximately \$9.4 million (75%) generated by the 10-day State Fair. These receipts fund 74.0 FTE positions who manage the operations, maintain the buildings and grounds, and provide security for the 344-acre property. For FY 2006-07 receipts

Department of Agriculture and Consumer Services

into the Fund totaled \$12.4 million; expenditures were \$11.5 million. The table below shows the total receipts accrued each fiscal year from FY 2002-03 to FY 2006-07 as well as the total attendance during the 10-day State Fair.

Year	Receipts	Attendance
FY 2002-03	\$ 9,439,577	696,977
FY 2003-04	\$ 12,884,481	833,955
FY 2004-05	\$ 12,853,090	836,319
FY 2005-06	\$ 13,037,336	795,930
FY 2006-07	\$ 12,355,761	785,956

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: \$6,314,974
(as of June 30, 2007)

The Tobacco Trust Fund (TTF) was created in S.L. 2000-147. Statutory authority for the Fund comes from G.S. 143-719. Funds are derived from payments made by NC tobacco companies as part of a 1999 final consent decree generally referred to as the Master Settlement Agreement (MSA). Administered by an 18-member commission, TTF provides assistance to tobacco producers, allotment holders, and persons involved in or displaced by tobacco-related businesses that were adversely affected by the MSA. 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 legislature has utilized this source of revenue for general availability and as a dedicated source of funds for ongoing debt service payments for capital projects.

The State Capital Facilities Act of 2004 (S.L. 2004-179) committed revenues from both TTF and the Health and Wellness Trust Fund for debt service payments on university capital projects indebtedness to be repaid over 20 years. 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, Sec. 6.23 (b)). The dedicated revenue requirements of the university debt service and Cancer Research Fund are estimated to total \$14.5 million in FY 2007-08, leaving TTF with an estimated \$17.9 million for grants and operating expenses.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Food and Drug Protection

The General Assembly appropriated \$200,000 recurring to purchase laboratory equipment to enhance the Department's ability to manage critical food safety and food security issues. In FY 2006-07 this Division expended approximately \$1.1 million on equipment.

Marketing Division

The General Assembly appropriated \$250,000 nonrecurring for agriculture marketing initiatives in the State. \$50,000 of the appropriation was designated for the promotion of agriculture festivals in small towns with populations of fewer than 5,000.

Department of Agriculture and Consumer Services

Meat and Poultry Inspection

The Meat and Poultry Inspection Division is run in conjunction with the USDA Food Safety and Inspection Services, which provides 50% of the funding. The General Assembly appropriated \$269,000 nonrecurring to cover an anticipated federal shortfall.

Agricultural Development and Farmland Preservation Trust Fund

The Agricultural Development and Farmland Preservation Trust Fund (ADFPTF) was re-established in 2005 to provide grants for conservation easements, agricultural easements, and sustainable or viable agricultural programs. In FY 2007-08, the General Assembly appropriated \$8 million nonrecurring to the Trust Fund.

Implement NC's Strategic Plan for Biofuels Leadership

S.L. 2006-206 directed that a Strategic Plan for Biofuels be created. One of the recommendations of the Plan was the creation of a biofuels center. In FY 2007-08, the General Assembly appropriated \$5 million for this purpose, creating the Biofuels Center of North Carolina. This new non-profit is to be located at the Department's Oxford Tobacco Research Station.

Capital

In FY 2007-08 the following items were funded in the Capital Improvements Budget:

Western Agricultural Center Phase I	\$5,000,000
Eastern Agricultural Center	\$3,000,000
Food and Drug Laboratory Chillers	\$690,865

<p align="center">SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473</p>
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Section 11.4 STUDY STRUCTURE AND MANAGEMENT PRACTICES OF AGRICULTURAL RESEARCH STATIONS AND RESEARCH FARMS

This provision requires the Program Evaluation Division of the General Assembly to study the structure and management practices of the 18 agricultural research stations and research farms currently owned by either the Department of Agriculture and Consumer Services (DACS) or North Carolina State University, and currently managed by the DACS. The results of the study will be reported to the General Assembly by May 1, 2008.

<p align="center">SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION</p>
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No relevant information to report.

<p align="center">ADDITIONAL LEGISLATION</p>

No relevant information to report.

Department of Commerce

G.S. 143B-431 Department of Commerce - functions

Agency Description:

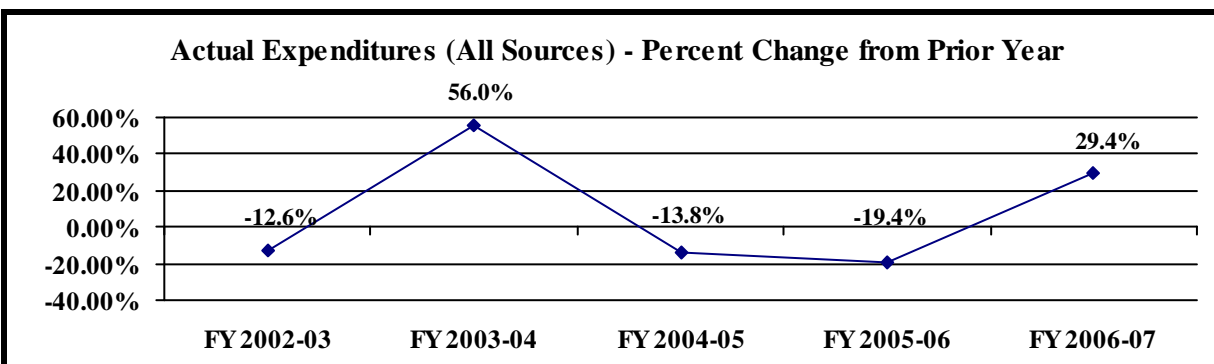
The Department of Commerce is the State's lead economic development agency, working with local, regional, national, and international companies. The Department serves existing business and industry, including providing international trade assistance; recruits new jobs and domestic and foreign investment; 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	105,337,293	136,267,494	115,719,285	97,713,036
Revenue	56,157,916	62,117,360	52,420,130	52,423,695
Net Appropriations	\$49,179,377	\$74,150,134	\$63,299,155	\$45,289,341
Positions (FTE)	447.27	455.57	458.57	458.57

Budget Overview:

The total budget for FY 2007-08 for the Department of Commerce is \$115,719,285, a 15% decrease from the prior year. This reduction is caused by a reduction in the amount budgeted for receipts and a \$10 million nonrecurring appropriation in FY 2006-07 for the Economic Development Reserve Fund. \$63 million (55%) of the total budget is from net General Fund appropriations. State and federal receipts, primarily Community Development Block Grant (CDBG) funds, comprise the remaining 45% or \$52 million. The total budget for FY 2008-09 is \$97,713,036.

The chart below shows the annual percentage change in Commerce's budget since FY 2002-03. Over the last five years, the average percentage change in actual expenditures was 7.9%. 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 by division.

Department of Commerce - General (14600 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administrative Services	3,011,726	3,015,901
Executive Aircraft Operations	3,136,048	3,148,990
Science and Technology	340,938	340,938
Management Information Systems Division	1,347,752	1,347,752
Policy and Research Division	1,446,513	1,156,513
Marketing and Customer Service	2,918,214	1,918,214
Business and Industry Development	5,414,053	5,417,921
International Trade Division	2,704,474	2,704,474
Tourism, Film, and Sports Development	13,546,432	11,448,245
Welcome Centers	1,807,005	1,808,019
Wanchese Seafood Industrial Park	756,476	757,710
Commerce Finance	20,509,100	5,849,352
Community Assistance	2,812,124	2,817,222
Community Development Block Grants	45,605,442	45,607,699
Industrial Commission Administration	10,362,988	10,374,086
TOTAL	\$115,719,285	\$97,713,036
Revenue	(52,420,130)	(52,423,695)
NET GENERAL FUND APPROPRIATIONS	\$63,299,155	\$45,289,341

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	Certified FY 2007-08	Certified FY 2008-09
Commerce (14600 – General Fund)	115,719,285	97,713,036
Commerce – State Aid (14601 – General Fund)	194,731,237	61,247,487
Commerce – Special Fund (24600 – Special Fund)	183,830,944	183,833,097
Commerce Enterprise Fund (54600 – Enterprise Fund)	34,973,487	35,276,267
TOTAL	\$529,254,953	\$378,069,887

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

Department of Commerce

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 (24600-2811)

Balance: \$8,648,669
(as of June 30, 2007)

Governed by G.S. 53, 54B, and 54C, the State Banking Commission charters and supervises State banks, 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.

In FY 2006-07, this Commission had receipts from various licensing, certification, inspection, and examination fees of \$19,306,735 and expenditures of \$10,658,066. The State Banking Commission has 102.0 FTE positions.

Alcoholic Beverage Control (ABC) Commission and Warehouse (24600-2881 and 24600-2882)

Balance: \$5,929,814
(as of June 30, 2007)

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 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 2006-07, the Commission and Warehouse had receipts of \$13,662,970 and expenditures of \$7,733,156, supporting 46.0 FTE positions.

Utilities Commission and Public Staff (24600-2211 and 24600-2221)

Balance: \$0
(as of June 30, 2007)

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 58 FTE positions. In FY 2006-07, this enterprise fund had receipts and expenditures of \$5,752,890.

The Utilities Commission Public Staff (G.S. 62-15) act as consumer advocates in representing the using and consuming public before the Utilities Commission in matters affecting the rates and service of regulated public utility companies. 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 2006-07, this enterprise fund had receipts and expenditures of \$7,265,114.

Department of Commerce

Employment Security Commission (ESC) (24650)

Balance: \$1,682,657
(as of June 30, 2007)

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 1,688 FTE positions at its headquarters in Raleigh and at 106 offices across the State. In FY 2006-07, ESC had receipts of \$247,323,585 and expenditures of \$247,003,123. The FY 2007-08 budget is \$246,658,700. Following is a breakdown of this budget by fund source:

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

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Executive Aircraft

The General Assembly reduced the State appropriation for Executive Aircraft by increasing the rates charged for use of the planes for the first time in over seven years. Savings generated by this measure are estimated to be \$100,000.

(S.L. 2007-323, Sec. 13.3)

Furniture Market Funds

The General Assembly appropriated \$1 million nonrecurring to the High Point International Home Furnishings Market Authority Corporation to promote the International Home Furnishings Market. This is in addition to the \$875,000 recurring appropriation for this purpose, bringing the total funds for the Furniture Market Authority to \$1.9 million for FY 2007-08. In FY 2006-07, the Authority received \$1.75 million.

NC Green Business Fund

The General Assembly appropriated \$1 million nonrecurring to create a new Green Business Fund. Please see the Significant Special Provisions section for more information on this Fund.

(S.L. 2007-323, Sec. 13.2)

One North Carolina Fund

The General Assembly provided the Department of Commerce with \$14 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. Section 13.1 of S.L. 2007-323 redirected \$650,000 to the Department of Environment and Natural Resources (DENR) for the development of a hazardous chemicals inventory database.

(S.L. 2007-323, Sec. 13.1)

Department of Commerce**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 13.1 ONE NORTH CAROLINA FUND**

This provision directs the use of funds appropriated to the One North Carolina Fund. Subsection (a) allows the Department of Commerce to use up to \$300,000 of the funds appropriated for the One North Carolina Fund for administration. Subsection (b) directs the Department to transfer \$650,000 of the funds appropriated to the Department of Environment and Natural Resources for the development of a Tier II hazardous chemicals inventory database. Subsection (c) allows the Department to use up to \$1 million of funds recovered from grant recipients that did not meet the requirements of the One NC grant agreement to supplement the Department's budget for statewide economic development marketing activities and development and maintenance of the Department's Web site.

Section 13.1A TEMPORARY EXPANSION OF JDIG CAP

G.S. 143B-437.52(c) caps the maximum grant liability for Job Development Investment Grants (JDIG) at \$15 million in any calendar year (except for 2006 when the cap was \$30 million). This provision overrides that statute and increases the maximum liability to \$25 million for calendar year 2007.

Section 13.2 NC GREEN BUSINESS FUND

This provision established the NC Green Business Fund and provides guidelines for its administration. Subsection (a) creates the NC 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. Grants will be focused on three priority areas:

1. To encourage the development of the biofuels industry;
2. To foster the development of the green building industry; and
3. To leverage investments in additional clean technology and renewable energy products and businesses.

Subsection (b) amends G.S. 147-68(d1), the State Treasurer's quarterly report to the General Assembly, by adding a requirement that the report include a listing of all investments made with certified green managers and companies and funds that support sustainable practices.

Subsection (c) exempts the Department of Commerce from rule making for the purposes of adopting guidelines for the Green Business Fund.

Subsection (d) allows the Department to use up to \$50,000 of the funds appropriated to the Green Business Fund for administration.

Section 13.3 EXECUTIVE AIRCRAFT/USES

This provision codifies (as G.S. 143B-437.011) the priority order for use of executive aircraft by State officials: economic development purposes take precedence over all other uses, followed by the Governor, the Council of State, then other State officials. It directs the Department to review the rates charged for executive aircraft flights annually and to adjust those rates for inflation if necessary. Finally, it requires that the Department charge the direct cost of operating the aircraft if they are used to attend athletic events or for any other purpose related to collegiate athletics.

Department of Commerce

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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No relevant information to report.

ADDITIONAL LEGISLATION

The General Assembly convened an Extra Session in September 2007 to debate the creation of a new economic development fund. The following bill (H.B. 4) was passed during that session.

S.L. 2007-552 (Extra Session) JOB MAINTENANCE AND CAPITAL DEVELOPMENT FUND

Section 1 of the bill creates G.S. 143B-437.11, the Job Maintenance and Capital Development Fund. This new economic development fund will provide grants to existing businesses in development tier one counties (as determined by G.S. 143B-437.08) that are making significant capital investments in the State and that employ and will continue to employ at least 2,000 people. Businesses must meet wage standard requirements and provide health insurance for employees in order to qualify. The Department of Commerce and the Economic Investment Committee will determine grant recipients, and grant agreements must have clawback provisions if certain performance criteria are not met. The Department is limited to no more than five agreements, the total aggregate cost of which may not exceed \$60 million. No single agreement may exceed an annual cost of \$4 million, and grant periods may not extend past ten years.

Section 2 of the bill appropriates \$5 million to the new Fund for FY 2008-09. Section 3 exempts the Department of Commerce from rule making for the purposes of developing criteria for and administration of the Fund. Finally, Section 4 directs the Joint Select Committee on Economic Development Incentives to compile a report that lists and quantifies all economic development incentives offered by the State.

Department of Commerce-State Aid

Agency Description:

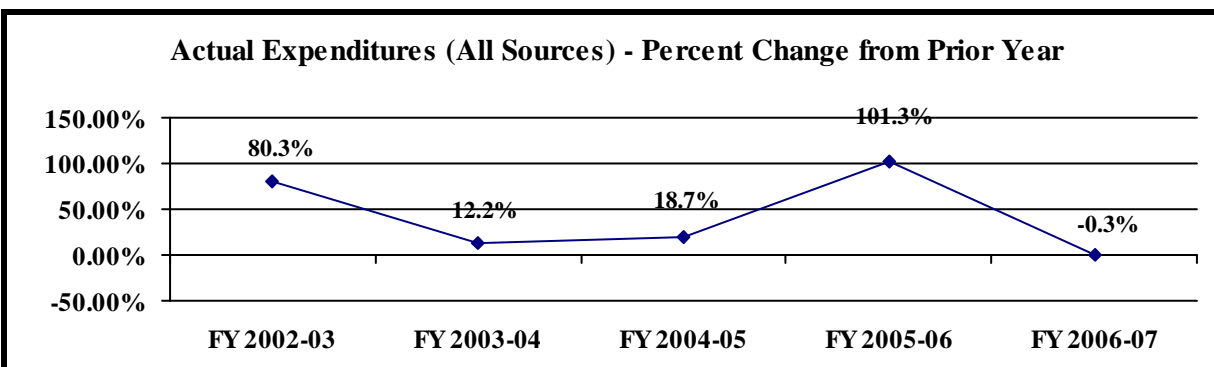
Commerce - State Aid is a pass-through budget used to direct appropriations to non-State entities. Several nonprofits receive recurring appropriations through this fund, including the seven regional economic development commissions, the 17 Councils of Government (COGs), the Institute for Minority Economic 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	26,511,797	26,435,222	35,345,235	21,361,485
Revenue	0	7,510,000	0	0
Net Appropriations	\$26,511,797	\$18,925,222	\$35,345,235	\$21,361,485
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The total budget for FY 2007-08 for Commerce - State Aid is \$35,345,235 and for FY 2008-09 is \$21,361,485. The FY 2007-08 budget reflects a 34% increase over the prior year. This increase is due primarily to increases in appropriations to all but two of the entities that receive recurring funds through State Aid. Since this is a pass-through budget used to administer grants to nonprofits, in general, 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 are an exceptional case. Those are carry-forward funds from an appropriation to the Regional Economic Development Commission in FY 2005-06.

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 42%. 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 Commerce - 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 operating budget by division.

	Certified FY 2007-08	Certified FY 2008-09
Commerce – State Aid (14601 – General Fund)		
Regional Economic Development Commissions	6,775,000	6,436,250
Council of Government (COG) Funds	1,002,150	832,150
NC Center for Automotive Research (NCCAR)	3,500,000	
Johnson & Wales University	2,000,000	
Defense and Security Technology Accelerator	1,500,000	
Kerr-Tar Economic Development Corporation Funds	2,175,000	
Coalition of Farm and Rural Families	300,000	
Land Loss Prevention	800,280	800,280
NC Community Development Initiative (NCCDI)	5,296,802	5,296,802
NC Assoc. of Community Development Corporations	1,109,360	1,109,360
NC Institute of Minority Economic Development	2,847,602	2,847,602
NC Minority Support Center	3,539,041	3,539,041
e-NC Authority	4,500,000	500,000
TOTAL	\$35,345,235	\$21,361,485
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$35,345,235	\$21,361,485

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Regional Economic Development Commissions

In the second year of the biennium (FY 2008-09), the General Assembly reduced funding and made this appropriation nonrecurring. No changes were made to the seven commissions' funding in FY 2007-08. Please see the Significant Special Provision section and the Select Program and Other Budgetary Information section for further discussion of Regional Economic Development Commission funding.

(S.L. 2007-323, Sec. 13.7)

Council of Government (COG) Funds

The General Assembly provides \$48,950 for each of the 17 Councils of Government. This year this recurring appropriation of \$832,150 was moved from the regular Commerce budget (14600) to Commerce – State Aid (14601) where other non-State entity funding is budgeted. In addition, the General Assembly appropriated an additional \$170,000 nonrecurring funds (\$10,000 each) for the COGs for FY 2007-08.

(S.L. 2007-323, Sec. 13.6)

Department of Commerce-State Aid

NC Center for Automotive Research (NCCAR)

The General Assembly appropriated \$3.5 million nonrecurring for NCCAR (formerly known as the Advanced Vehicle Research Center or AVRC) for the operation and development of the Center. Following is a history of General Fund appropriations to this entity:

FY 2004-05	200,000	S.L. 2004-124 (Committee Report)
FY 2005-06	7,500,000	S.L. 2005-276 (Committee Report)
FY 2006-07	3,750,000	S.L. 2006-66 (Committee Report)
FY 2007-08	3,500,000	S.L. 2007-323 (Committee Report)
Total	\$14,950,000	

(S.L. 2007-323, Sec. 13.5)

Johnson & Wales University (JWU)

The General Assembly appropriated \$2 million for this private university in Charlotte that specializes in the culinary and hospitality industries. The following table shows a history of appropriations to JWU:

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)
Total	\$5,000,000	

Defense and Security Technology Accelerator

The General Assembly provided \$1.5 million 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 second appropriation to this entity – they received \$2 million in FY 2005-06 through the Community College budget.

Kerr-Tar Economic Development Corporation Funds

The General Assembly appropriated \$1,925,000 for FY 2007-08 to Kerr-Tar to continue their work on development of the primary sites in the Kerr-Tar Hub, a regional technology center located in Vance, Granville, Warren, and Franklin counties. This is the second time this project has received funding – the General Assembly appropriated \$4 million nonrecurring in FY 2005-06. Kerr-Tar also received \$250,000 for FY 2007-08 for a pilot project for affordable housing in Vance County.

(S.L. 2007-323, Sec. 13.9)

Coalition of Farm & Rural Families

The General Assembly appropriated \$300,000 in FY 2007-08 for the Coalition of Farm & Rural Families. This nonprofit does not have a recurring appropriation and had last received a State appropriation in FY 2005-06.

(S.L. 2007-323, Sec. 13.11)

Land Loss Prevention

The General Assembly provided an additional \$350,000 recurring appropriation for the Land Loss Prevention Project to continue the expansion of legal representation of financially distressed

Department of Commerce-State Aid

small farmers and to rural landowners in underserved tobacco dependent communities. Affiliated with the North Carolina Central University School of Law, this nonprofit now has a recurring annual appropriation of \$800,280.

(S.L. 2007-323, Sec. 13.11)

NC Community Development Initiative (NCCDI)

The General Assembly provided an additional \$3 million recurring appropriation for NCCDI to assist community economic development projects with grants, loans, technical assistance, and administration throughout the State. With this additional support, NCCDI has a recurring annual appropriation of \$5,296,802.

(S.L. 2007-323, Sec. 13.11)

NC Association of Community Development Corporations (NCACDC)

The General Assembly provided an additional \$350,000 recurring appropriation for NCACDC for the purpose of strengthening the State's economy through community-based development activities. With this additional support, NCACDC has a recurring appropriation of \$1,109,360.

(S.L. 2007-323, Sec. 13.11)

NC Institute of Minority Economic Development (NCIMED)

The General Assembly provided an additional \$1.5 million recurring appropriation for NCIMED for technical assistance, training, loans, grants, and administration in economic development projects. \$40,000 in each fiscal year will be used in the creation of a minority entrepreneurial development program in collaboration with regional educational institutes. With this additional support, NCIMED has a recurring appropriation of \$2,847,602.

(S.L. 2007-323, Sec. 13.11)

NC Minority Support Center (NCMSC)

The General Assembly provided an additional \$3 million recurring appropriation for NCMSC for operating expenses, programs, technical assistance, and financial support for products and services to credit unions. With this additional support, NCMSC has a recurring appropriation of \$3,539,041.

(S.L. 2007-323, Sec. 13.11)

e-NC Authority

The General Assembly provided an additional \$4 million appropriation in FY 2007-08 to increase the availability of internet connectivity in underserved areas of the State, to provide additional funding for general operations, and to expand the funding for existing and new e-NC Business and Technology Telecenters. \$1 million of this appropriation was earmarked for the Public, Educational, and Governmental Access (PEG) Channel Fund, to be distributed as grants per G.S. 66-359. The e-NC Authority has a recurring appropriation of \$500,000.

(S.L. 2007-323, Sec. 13.16, Sec. 13.16A, and Sec. 13.17)

Department of Commerce-State Aid**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 13.7 REGIONAL ECONOMIC DEVELOPMENT COMMISSION ALLOCATIONS**

Section 13.7 of S.L. 2007-323 provides guidance for the administration of the Regional Economic Development Commission appropriation. Subsections (a) and (b) outline the three-step process for allocating the \$6.7 million appropriation to the seven Regional Economic Development Commissions.

First, each commission's allocation is calculated by taking the sum of the allocations to each county that is a member of that commission. County allocations are determined by dividing the county's development factor (as calculated by the Department of Commerce using the Tier calculation formula) by the sum of the development factors for eligible counties and multiplying the resulting percentage by the amount of the appropriation.

Next, the allocation for NC's Eastern Region is adjusted by subtracting the interest earnings from the 1993 \$7.5 million appropriation to what was then the Global TransPark Development Zone. For the current year, NC's Eastern Region reported \$330,750, which represents the total interest earnings in FY 2006-07 on the estimated balance of the \$7.5 million and the total interest earnings in FY 2006-07 on any loans made from the \$7.5 million. This calculation of interest earnings is a departure from previous practice and satisfies the concerns raised by the State Auditor's Office in its May 2006 Special Review of NC's Eastern Region.

Finally, the \$330,750 is redistributed among the seven commissions according to the same formula used to calculate the original allocations.

Subsection (c) restricts individual salaries paid from State funds to no more than \$120,000 per year. (This limitation applies to State funds only; there is no restriction on the use of other funds for this purpose.)

Subsection (d) requires the Department of Commerce to submit a report no later than September 1, 2007, on the implementation of G.S. 158-8.6, a statute enacted during the 2006 Session that required the Department to develop uniform standards for the commissions.

Subsection (e) encourages the commissions to seek funding from other sources.

Subsection (f) directs the Program Evaluation Division to study the structure and funding of the seven commissions and make recommendations concerning their funding, including whether or not State funding should be recurring. This report is due no later than May 1, 2008.

Subsection (g) amends G.S. 158-8.5, the commissions' annual reporting requirements, by adding a demonstration of the commission's efforts to obtain funds from local, private, and federal sources to the report, and by requiring that itemized expenditures be reported separately for each fund source.

Section 13.17 WOW E-COMMUNITY DEVELOPMENT CORPORATION PILOT PROGRAM FUNDS

This provision allocates \$290,000 of the funds appropriated to the e-NC Authority in FY 2007-08 to the WOW e-Community Development Corporation (WOW) for the Windows on the World

Department of Commerce-State Aid

Technology Center to implement a two-year pilot program. The \$290,000 shall be used as follows:

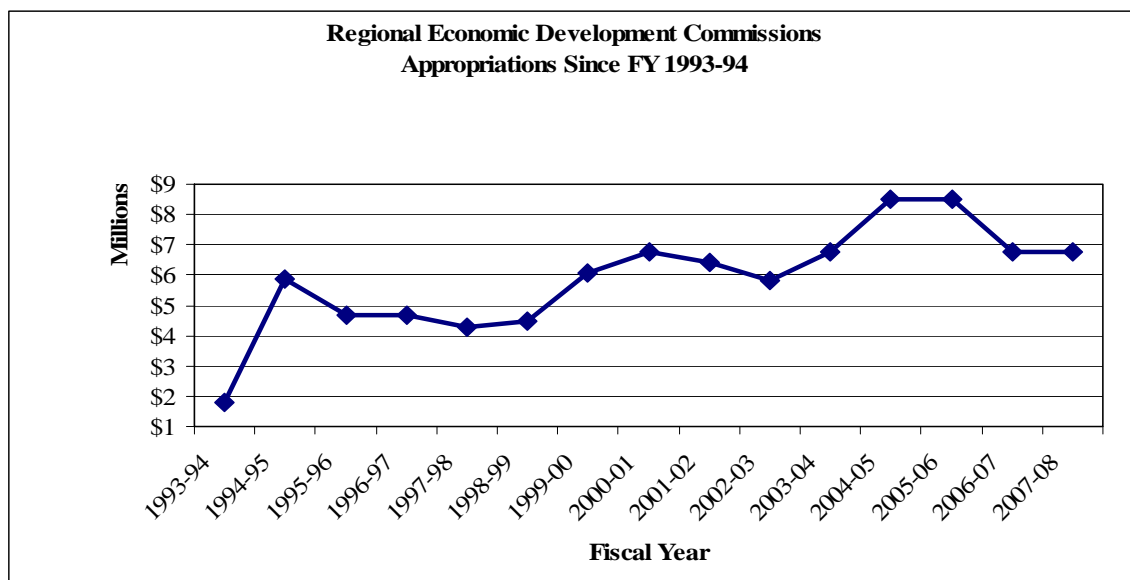
- \$150,000 for operating expenses of the Windows on the World Technology Center.
- \$100,000 for developing, maintaining, and hosting municipal Web sites, expanding public access points and digital literacy classes in the northeastern NC development tier one counties, and establishing digital literacy initiatives in indigent communities.
- \$40,000 for operations of the Internet service provider.

The provision states that no funds shall be released by the State until it is determined that WOW is in compliance with all recommendations made by the State Auditor regarding fiscal management and internal controls, and has filed a copy of its conflict of interest policy with the Department of Commerce. Standard reporting requirements are also included in the provision.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

Regional Economic Development Commissions

In FY 1993-94, the General Assembly directed the Department of Commerce to develop a "program for promoting the expansion of economic development efforts such that all counties in the State participate in and benefit from organized regional economic development activities [and to] encourage county participation in public/private partnerships for economic development through membership in regional economic development commissions" (S.L. 1993-769, Sec. 28.7). That year, three Regional Economic Development Commissions (commissions) were created in statute: NC's Southeast (G.S. 158-8.3), NC's Northeast (G.S. 158-8.2), and Advantage West (G.S. 158-8.1). Three commissions had already been created by private partners: the Charlotte Regional Partnership, the Piedmont Triad Partnership, and the Research Triangle Regional Partnership. They began receiving State funding in FY 1994-95. The seventh commission, originally called the Global Transpark but now named NC's Eastern Region, was created by the General Assembly in FY 1995-96 (G.S. 158-8.33). The following chart shows a history of State appropriations to the commissions since FY 1993-94.



Department of Commerce-State Aid

Regional Economic Development Commission allocations are determined based on a formula laid out by special provision each year in the budget bill. The formula uses each commission's member counties' enterprise (or development) factor (the number used to designate tier status) to determine their percentage of the total appropriation.

S.L. 2006-252 changed the way enterprise factors are calculated, swapping median family income for per capita family income and adding a new factor related to the property value per capita. As a result of this, significant changes in county tier designations occurred. These changes, along with an increase in the interest earnings amount redistributed from NC East's allocation, affect the Commission allocations. The table below compares the distribution of the appropriation in FY 2006-07 to FY 2007-08.

Commission	FY 2006-07 Allocations	FY 2007-08 Allocations	Change from FY 2006-07
Advantage West	1,674,910	1,548,491	(126,419)
Carolina's Partnership	686,618	722,887	36,269
Piedmont Triad	828,127	820,327	(7,800)
Research Triangle	691,623	690,524	(1,099)
Southeast	812,202	926,210	114,008
NC East	780,633	754,460	(26,173)
Northeast	1,300,888	1,312,101	11,214
Total	\$6,775,000	\$6,775,000	\$0

As illustrated above, the changes in enterprise calculations affect all seven commissions, most notably Advantage West, with a reduction of \$126,419, and Southeast, with an increase of \$114,008.

ADDITIONAL LEGISLATION

No relevant information to report.

NC Biotechnology Center

Agency Description:

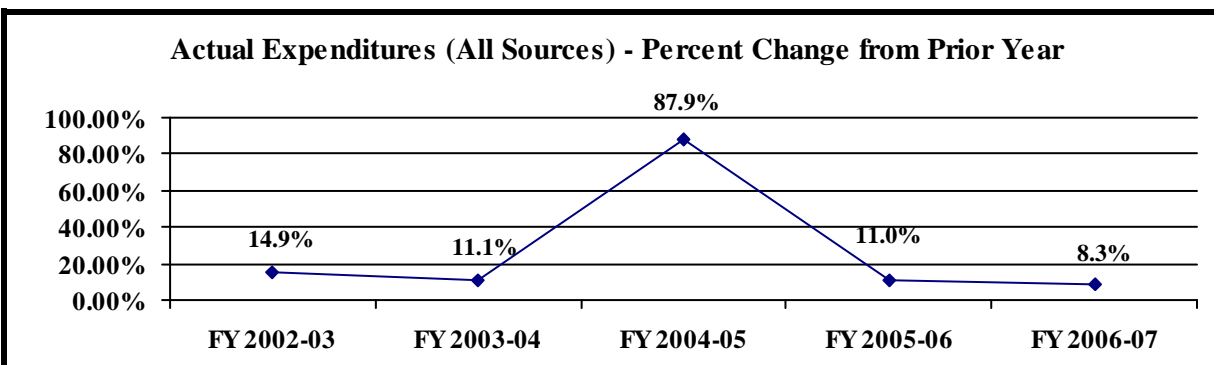
The NC Biotechnology Center is a private, nonprofit organization established to support biotechnology research, development, and commercialization in the State. The Center administers several grant and loan programs, hosts conferences, collaborates with the community colleges on a workforce training initiative, and works with local community leaders to strengthen biotechnology throughout the State.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	12,083,395	13,083,395	15,583,395	15,583,395
Revenue	16,926	0	0	0
Net Appropriations	\$12,066,469	\$13,083,395	\$15,583,395	\$15,583,395
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The budget for the Biotechnology Center is \$15,583,395 for both FY 2007-08 and FY 2008-09, reflecting a 19% increase over FY 2006-07. This increase is due to a \$3 million recurring appropriation for a new program at the Center called Regional Centers of Innovation. The State appropriates funds for the Center through the Commerce-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 2002-03, the average percentage change in actual expenditures was 34.7%. 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	Certified FY 2007-08	Certified FY 2008-09
	15,583,395	15,583,395
TOTAL	\$15,583,395	\$15,583,395
Revenue	0	0
NET GENERAL FUND APPROPRIATIONS	\$15,583,395	\$15,583,395

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS**Regional Centers of Innovation**

The General Assembly appropriated an additional \$3 million recurring to the NC Biotechnology Center to create three regional centers of innovation. The centers will be formed and operated by partnerships of local educational and research institutions, businesses, governments, and non-profits and will focus on research and technology transfer in biotechnology-related fields such as marine biotechnology, nano-biotechnology, natural biotechnology and integrative medicine, and biofuels. Funds will be used to support research necessary to make scientific discoveries useful in the creation of new products and services, to assist businesses with product development and initial production, regulatory approvals, marketing and distribution, and for administrative support of the centers. According to the Center, each of these new centers will eventually be self-supporting.

(S.L. 2007-323, Sec. 13.10)

SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

No relevant information to report.

ADDITIONAL LEGISLATION

No relevant information to report.

Rural Economic Development Center

Agency Description:

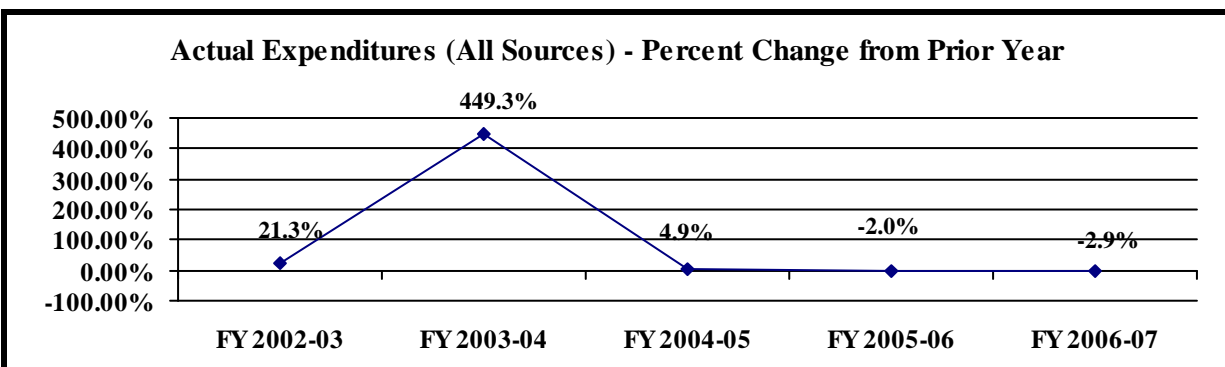
The Rural Economic Development Center is a private nonprofit which serves the State's 85 rural counties, with a special focus on individuals with low to moderate incomes and communities with limited resources.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	25,277,607	24,552,607	143,802,607	24,302,607
Revenue	0	0	0	0
Net Appropriations	\$25,277,607	\$24,552,607	\$143,802,607	\$24,302,607
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 2007-08 budget for the Rural Center is \$143,802,607, which represents a 485% increase from the previous year due primarily to two appropriations: \$100 million for water and wastewater grants and \$19 million to expand the Economic Infrastructure Fund and create the Rural Economic Transition Program. As these appropriations and others are nonrecurring, the budget for FY 2008-09 is \$24,302,607, or \$119.5 million less than the FY 2007-08 budget. Over the past five years, the average percentage change in expenditures is 94%, reflecting the increased net General Fund appropriation. The large percentage increase in FY 2003-04 is due to the General Assembly funding the North Carolina Economic Infrastructure Fund for the first time; this program 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	Certified FY 2007-08	Certified FY 2008-09
Administration	1,511,697	1,511,697
Research and Demonstration Grants	370,000	370,000
Institute for Rural Entrepreneurship	144,000	144,000
Community Development Grants	1,047,410	1,047,410
Microenterprise Loan Program	195,000	195,000
Supplemental Grant Program	983,000	983,000
Agricultural Advancement Consortium	690,500	190,500
NC Economic Infrastructure Fund	19,500,000	19,500,000
Local Government Water and Sewer Improvement Grants	100,000,000	0
Rural Economic Transition Program	19,000,000	0
Opportunities Industrialization Center Funds	361,000	361,000
TOTAL	\$143,802,607	\$24,302,607
Revenues	0	0
NET GENERAL FUND APPROPRIATIONS	\$143,802,607	\$24,302,607

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Expand Economic Infrastructure Fund

The General Assembly provided \$19 million nonrecurring additional funds to the Rural Center's Economic Infrastructure Fund to aid severely distressed rural areas through the Rural Economic Transition Program.

(S.L. 2007-323, Sec. 13.14)

Water and Wastewater Grants

The General Assembly appropriated \$100 million for FY 2007-08 to the Rural Center to provide grants to local governments to help address critical needs related to supplying drinking water and wastewater treatment.

(S.L. 2007-323, Sec. 13.13A)

Rural Economic Development Center

Equine Industry Study

The General Assembly provided \$500,000 nonrecurring to the Rural Center to study the equine industry and to develop a comprehensive plan to maximize economic opportunities.

(S.L. 2007-323, Sec. 13.14A)

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 13.12 RURAL ECONOMIC DEVELOPMENT CENTER

Section 13.12 allocates the \$4,441,607 appropriation to the Rural Center's programs and administrative responsibilities for both years of the biennium. Highlights of its program allocations are as follows:

- \$1,047,410 for community development corporation grants
- \$195,000 for the Microenterprise Loan Program
- \$983,000 for supplemental funding to provide matching requirements
- \$190,500 for the Agricultural Advancement Consortium.

The Rural Center is required to report to the General Assembly on the use of these funds by January 15th in each year of the biennium.

Section 13.13 RURAL ECONOMIC DEVELOPMENT CENTER/INFRASTRUCTURE PROGRAM

Section 13.13 allocates \$19.5 of the funds appropriated to the Rural Economic Development Center in both FY 2007-08 and FY 2008-09 to the North Carolina Economic Infrastructure Fund to provide matching grants to local governments as follows:

- At least \$15 million for grants to construct water and wastewater facilities and other necessary infrastructure needs for sites to generate private job-creating investments.
- To provide matching grants for the reuse of vacant building and properties, with priority given to towns and communities with populations of fewer than 5,000.
- To provide economic development research and demonstration grants.

Up to 2% of the \$19.5 million appropriation may be used for administration. The Rural Center is required to submit a report no later than January 15th of each year to the Joint Legislative Commission on Governmental Operations regarding the progress of this program.

Section 13.13A FUNDS FOR LOCAL GOVERNMENT WATER AND SEWER IMPROVEMENT GRANTS

Section 13.13A allocates \$100 million of the Rural Economic Development Center's FY 2007-08 appropriation to provide grants to local governments for wastewater and public water system-related projects. The Rural Center is prohibited from making loans from this allocation. The provision describes eligibility and maximum grant amounts for both planning grants (not to exceed \$40,000) and supplemental grants (not to exceed \$500,000, although some exceptions may be made). Eligible local governments must match grants on a dollar-for-dollar basis, although the Rural Center may require a match of less than 50% in certain instances.

Rural Economic Development Center

The Rural Center may use up to \$2 million for administration. Of the funds utilized for administrative costs, \$250,000 is to be used to fund the on-going work of the State Water Infrastructure Commission in FY 2007-08. 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, 2007.

Section 13.14 RURAL ECONOMIC DEVELOPMENT CENTER FUNDS

Section 13.14 allocates \$19 million of the funds appropriated to the Rural Center in FY 2007-08 to expand the NC Economic Infrastructure Fund with targeted priority to severely distressed rural areas, creating the Rural Economic Transition Program. Units of government and nonprofit organizations in rural areas are eligible for the grants, with priority given to applicants in development tier one areas. Applicants are not required to match grants from this program but are required to demonstrate the commitment of other funds to the project. Up to 20% of the allocation can be used for equity investments and loans through the Rural Venture Fund to private business ventures, with priority to businesses locating or expanding in development tier one areas. The Rural Center may use up to \$760,000 of this allocation for administration of this program. The Rural Center must report to the Joint Legislative Commission on Governmental Operations on a quarterly basis concerning this program beginning February 15, 2008.

Section 13.14A STUDY EQUINE INDUSTRY IN NORTH CAROLINA

Section 13.14A allocates \$500,000 of the appropriation to the Rural Economic Development Center in FY 2007-08 to the Agricultural Advancement Consortium to study the equine industry in North Carolina and to develop a comprehensive plan for maximizing the economic opportunities presented by the industry. A list of requirements to be included in the study is provided in the provision. The Consortium is required to report the results of the study to the General Assembly within 12 months.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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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:

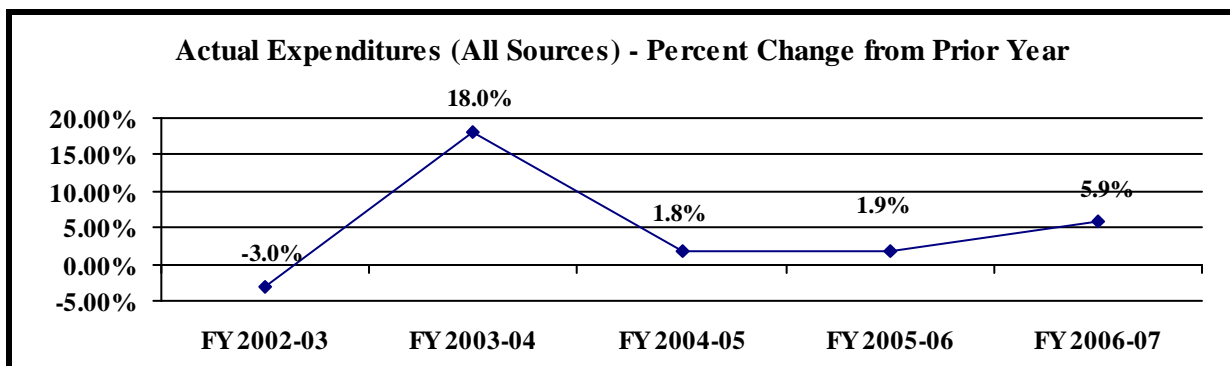
The NC Department of Environment and Natural Resources (DENR) preserves and protects North Carolina's environmental and natural resources; administers regulatory programs designed to protect air quality, water quality, and the public's health; and offers technical assistance to businesses, farmers, local governments, and the public. The Department is led by a secretary appointed by the Governor.

	Actual FY 2005-06	Actual FY 2006-07	Certified FY 2007-08	Certified FY 2008-09
Expenditures	277,974,789	294,332,197	329,770,815	317,161,761
Revenue	107,638,975	112,505,170	124,616,653	124,346,098
Net Appropriations	\$170,335,814	\$181,827,027	\$205,154,162	\$192,815,663
Positions (FTE)	3,325.27	3,371.29	3,392.79	3,411.79

Budget Overview:

DENR's FY 2007-08 budget is \$329,770,815, and the FY 2008-09 budget is \$317,161,761. The FY 2007-08 budget reflects a 12% increase from FY 2006-07. Sixty-two percent of DENR's budget is derived from net General Fund appropriations. Receipts comprise 38% and come primarily from federal grants, permits 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 4.9%. 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 DENR's total General Fund operating budget by division.

DENR (14300 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
Administration		
Administration/Regional Offices	17,272,841	17,309,009
Reserves/Transfers	16,659,948	6,832,691
Environmental		
Air Quality	3,791,371	3,291,371
Coastal Management	5,890,473	5,892,193
Environmental Health	25,331,616	24,207,923
Land Resources	7,272,331	7,252,701
Pollution Prevention & Environmental Assistance	1,970,521	1,694,526
Waste Management	20,467,489	20,466,005
Water Quality	48,171,024	47,127,726
Water Resources	3,915,451	3,859,389
Natural Resources		
Aquariums	10,636,158	10,584,932
Ecosystem Enhancement Program*	0	0
Environmental Education	576,359	576,359
Forest Resources	62,239,313	63,228,177
Marine Fisheries	21,119,061	20,969,742
Museum of Natural Sciences	7,756,941	7,766,209
Natural Resources Planning	2,802,405	2,702,981
Parks and Recreation	41,364,558	43,022,178
Soil and Water Conservation	15,583,436	13,334,256
Zoological Park	16,949,519	17,043,393
TOTAL	\$329,770,815	\$317,161,761
Revenue	(124,616,653)	(124,346,098)
NET GENERAL FUND APPROPRIATIONS	\$205,154,162	\$192,815,663

*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 eight funds* administered by DENR, including the General Fund operating budget.

Total Agency Appropriations by Fund	Certified FY 2007-08	Certified FY 2008-09
DENR (14300 – General Fund)	329,770,815	317,161,761
DENR-Special (24300 – Special Fund)	38,051,488	38,051,488
Air Quality (24301 – Special Fund)	10,607,061	10,607,061
Dry-Cleaning Solvent (24306 – Special Fund)	18,555,015	18,555,015
Forest Development (24307 – Special Fund)	3,218,693	3,218,693
Solid Waste Mgmt. Trust (64303 – Trust Fund)	7,686,898	7,686,898
Comm. LUST Cleanup (64305 – Trust Fund)	31,196,650	31,196,650
Noncomm. LUST Cleanup (64308 – Trust Fund)	13,095,000	13,095,000
TOTAL	\$452,181,620	\$439,572,566

***Note:**

*Total Appropriations by Fund as presented reflects only those budgets as certified by the Office of State Budget and Management. Please see the Other Funds section for a listing of other Funds in DENR.

OTHER FUNDS

DENR – Special (24300)

Balance: \$33,754,833
(as of June 30, 2007)

DENR's special fund contains 26 unique programs; highlights include air quality permit fees and federal funds, water quality permitting receipts, and aquariums admission receipts. The special fund was established administratively, and most individual programs are authorized in specific statutes. This special fund received a total of \$36,478,727 in receipts and expended \$29,325,075 in FY 2006-07.

**Commercial and Noncommercial LUST Cleanup Funds
(64305 & 64308)**

Balance: \$44,655,549
(as of June 30, 2007)

The Commercial and Noncommercial Leaking Underground Storage Tank (LUST) Funds are used to reimburse owners/operators of commercial and noncommercial leaking petroleum USTs for assessment and cleanup costs as well as third-party claims. Income into the Commercial Fund comes from 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. Funds into the Noncommercial Fund 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

Department of Environment and Natural Resources

the Noncommercial LUST Fund. The following chart provides a breakout of these funds for FY 2006-07.

Fund Code	Fund Name	FY 2006-07 Receipts	FY 2006-07 Disburse- ments	Fund Balance as of June 30, 2007
64305-6370	Leaking Petroleum Storage Tanks	27,564,837	10,097,821	31,214,205
64305-6372	Inactive Hazardous Sites Cleanup	771,945	738,175	1,135,395
64305-6373	Emergency Response Fund	20,641	166,296	357,338
64305-6374	Martin Scrap Recycling Fund	4,242	0	96,715
64305-6375	Superfund Cost Share Fund	318,841	402,098	6,721,479
64305-6376	Brownfields Superfund	49,649	34,399	196,658
64305-6378	Carolina Wood Preserving	0	0	87,912
64308-6371	Noncommercial Leaking Petro Storage	6,053,993	6,448,335	4,845,847
Totals:		\$34,784,148	\$17,887,124	\$44,655,549

Other Funds

In addition to DENR's General Fund operating budget, the agency is responsible for managing a total of 26 Funds, 19 of which are not included in the budget table provided under the Total Agency Appropriations by Fund table. Many of these Funds were established to manage resources related to the State's water and sewer grant and loan programs. Following is a list:

24302	DENR – Governor's Cup Trust
24303	DENR – Marine Fish Conservation
24304	DENR – Wetlands Trust Fund (Ecosystem Enhancement Program)
24308	DENR – Special
24309	DENR – Parks and Recreation Trust Fund
24310	DENR – Special
24321	DENR – Clean Water Bonds 1998
64300	DENR – Special Zoo
64301	DENR – Wastewater Operator Training
64302	DENR – Natural Heritage Trust Fund
64304	DENR – Clean Water Revolving Loan
64306	DENR – Wastewater Treatment Maintenance
64311	DENR – Water Pollution Revolving Loan
64312	DENR – Federal Bond Revolving Loan
64318	DENR – High Unit Cost Wastewater Grants 1998
64319	DENR – Clean Water State Revolving Fund (SRF) Federal Program
64320	DENR – Drinking Water SRF
64321	DENR – High Unit Cost Water System Grants 1998
64322	DENR – Drinking Water SRF – Bond Match

Department of Environment and Natural Resources

Parks and Recreation Trust Fund (24309)

Balance: \$61,078,706
(as of June 30, 2007)

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 2006-07, PARTF's total receipts were \$57.3 million, of which \$55.8 million was from the excise stamp tax. Total disbursements for this year totaled \$49 million. PARTF is required to allocate its funds per statute 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: \$25,098,732
(as of June 30, 2007)

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 2006-07 revenues were \$27.7 million and expenditures were \$28.9 million.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Water Protection and Supplies

The General Assembly made several appropriations totaling more than \$2 million to DENR to address water quality and water resource issues. These projects include:

Private Well Water Safety Program	\$300,000 NR
Emergency Drinking Water Fund	\$615,000 NR
Groundwater Remediation Program	\$160,835 R
Water Quality Monitoring on Ferries	\$300,000 NR
River Basin Water Supply Planning	\$95,000 R
Sustainable Management of Groundwater Resources	\$95,490 R
Conservation Reserve Enhancement Program	\$275,000 R
Community Conservation Assistance Program	\$200,000 R

(S.L. 2007-323, Sec. 12.2)

Department of Environment and Natural Resources

Fees and Receipt-Supported Positions

S.L. 2007-323 raises three groups of fees within DENR: mining permit fees; sedimentation and erosion control plan review fees; and nineteen permit fees within the Division of Water Quality. With the increased revenue, the Division of Land Resources will establish five new mining inspector positions and seven new sedimentation and erosion control positions. The Division of Water Quality will establish a total of nine new positions: three positions to work on the Basinwide Information Management System; three positions to provide technical assistance to wastewater treatment operators; and three positions to work on groundwater classifications and standards.

(S.L. 2007-323, Sec. 30.1, 30.2, 30.3)

Swine Waste Technology Initiatives

The Soil and Water Conservation Division received a \$2 million nonrecurring appropriation to implement swine technology initiatives upon the enactment of swine waste legislation. Swine waste legislation (S.L. 2007-523) became law on August 31, 2007, thus allowing the Department to expend these funds. More information on S.L. 2007-523 can be found in the Additional Legislation section below.

Land for Tomorrow and Waterfront Access

Section 29.14 of S.L. 2007-323 authorizes the issuance of \$120 million in certificates of participation (COPs), distributed in the maximum principal amounts as follows:

- **State Park Land Acquisition:** \$50 million to acquire land for the expansion of the State Parks System and Mountains to Sea Trail.
- **Natural Heritage Land Acquisition:** \$50 million to acquire land to conserve the ecological diversity of the State.
- **Waterfront Access and Marine Industry Fund:** \$20 million to acquire waterfront properties or develop facilities for the purposes of providing public and commercial waterfront access.

Debt will be serviced through revenue deposited into the Parks and Recreation (\$70 million) and Natural Heritage Trust Funds (\$50 million).

Capital Improvement Items

More information on the following capital improvement projects can be found in the Capital Section of the Conference Committee Report that accompanies S.L. 2007-323:

Green Square Project	\$25,000,000
Water Quality Modular Office	\$252,200
Zoo Horticulture Storage Facility	\$450,000
Zoo Plains Barns and Paddocks	\$3,006,000
Forest Resources Ashe County Headquarters	\$708,000
Forest Resources Buncombe County Headquarters	\$292,000
Water Resources Development Projects	\$20,000,000

Department of Environment and Natural Resources**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 12.1 COMMERCIAL AND NONCOMMERCIAL LEAKING PETROLEUM UNDERGROUND STORAGE TANK PROGRAM ADMINISTRATIVE COSTS**

This provision amends G.S. 143-215.94B and G.S. 143-215.94D to allow the Commercial and Noncommercial Leaking Underground Storage Tank (LUST) Funds to increase or decrease the amount of funds used for administrative costs based on the legislated increase or decrease for salaries and benefits enacted by the General Assembly.

Section 12.2A FUNDS FOR PENDING CIVIL LITIGATION EXPENSES

This provision supersedes G.S. 143-215.3A and directs the Department of Environment and Natural Resources to transfer \$1 million from the Water and Air Quality Account within the Division of Air Quality to a reserve in the Office of State Budget and Management. These funds shall be used by the Department of Justice for expenses related to the TVA lawsuit (North Carolina ex rel. Cooper v. Tennessee Valley Authority) or the Southeast Compact lawsuit (South Carolina v. North Carolina). Any unused funds as of June 30, 2008, will revert back to the Water and Air Quality Account.

Section 12.4 NEW LEASE PURCHASE/INSTALLMENT CONTRACTS FOR FORESTRY EQUIPMENT

Section 12.4 requires the Division of Forest Resources and the Department of Administration to provide a detailed list of equipment to be purchased to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division prior to entering in to any new lease purchase contracts.

Section 12.5 GRASSROOTS SCIENCE PROGRAM

This provision allocates \$3,906,340 in FY 2007-08 and \$3,481,340 in FY 2008-09 to 27 regional science museums. These allocations do not utilize the traditional funding formula but rather keep the distributions to the individual museums at the same level as FY 2006-07. In addition, three new museums are added to the formula (Core Sound Waterfowl Museum, Pisgah Astronomical Research Institute, and Sylvan Heights Waterfowl Park and Eco-Center). Two museums are provided with additional nonrecurring funding: \$300,000 for the Eastern Regional Science Center and \$125,000 for the Natural Science Center of Greensboro, Inc. This provision also clarifies the reporting requirements and documents that each museum is required to submit to DENR.

In addition, the provision requires Fiscal Research to study the funding formula used to calculate the allocations for members of the Grassroots Collaborative and to report its findings and recommendations by January 15, 2008, to the Appropriations Subcommittees on Natural and Economic Resources.

Section 12.8 RETAIN EARNINGS OF PARKS AND RECREATION TRUST FUND

This provision amends G.S. 113-44.15(a) to allow the Parks and Recreation Trust Fund to retain interest earnings generated by the Fund. Previously these interest earnings were credited to the General Fund.

Department of Environment and Natural Resources**SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION**

No relevant information to report.

ADDITIONAL LEGISLATION**S.L. 2007-345 (H.B. 714) BUDGET TECHNICAL CORRECTIONS ACT**

Section 6.1 clarifies that H.B. 1912 must be enacted prior to the allocation of \$500,000 for school bus diesel retrofits. The Committee Report erroneously refers to H.B. 1921.

S.L. 2007-107 (H.B. 36) HAZARDOUS MATERIALS TASK FORCE RECOMMENDATIONS

This legislation developed from the Governor's Hazardous Materials Task Force which was formed in fall 2006 after the fire at the EQ facility in Apex, NC. This legislation makes changes to hazardous waste management in North Carolina, including new requirements for hazardous waste facilities. A corresponding money item in the budget provides the Division of Waste Management with two new positions and \$125,000 in recurring funding. Section 13.1 of S.L. 2007-323 allocated \$650,000 of the One North Carolina Fund appropriation to DENR to pay for the hazardous chemical inventory database required by this legislation.

S.L. 2007-523 (S.B. 1465) SWINE FARM ENVIRONMENTAL PERFORMANCE STANDARDS

This legislation amends G.S. 143, Article 21 and makes the farm and animal waste management system performance standards that the General Assembly enacted in 1998 permanent, establishes a program to assist the conversion of traditional lagoons and sprayfield animal waste systems to innovative animal waste management systems, and establishes a pilot program for the purchase of electricity produced from methane on swine farms. S.L. 2007-323 provides \$2 million nonrecurring to DENR to implement a lagoon conversion program to provide grants to convert waste systems to newer technologies.

S.L. 2007-550 (S.B. 1492) SOLID WASTE MANAGEMENT ACT OF 2007

This legislation makes broad changes to the management of solid waste in North Carolina, including instituting a landfill permit fee, a solid waste disposal tax, and a computer equipment manufacturer registration fee. Landfill permit fees are expected to generate \$1.1 million annually and will be budgeted to the nonreverting Solid Waste Management Account. DENR will use these funds to establish 14 receipt-supported positions.

Department of Environment and Natural Resources

The solid waste disposal tax is established at \$2 per ton and is expected to generate approximately \$25 million annually. Those revenues will be distributed as follows:

Solid Waste Disposal Tax Revenue Distribution				
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Available Revenue	\$24,637,262	\$25,303,540	\$25,969,816	\$26,636,094
50% Inactive Hazardous Sites Cleanup Fund	12,318,631	12,651,770	12,984,908	13,318,047
7% Admin. Allowance	862,304	885,624	908,944	932,263
37.5% for Grants to Local Governments	9,238,973	9,488,828	9,738,681	9,988,535
12.5% Solid Waste Mgmt. Trust Fund	8,130,296	8,350,168	8,570,039	8,789,911
7% Admin. Allowance	569,121	584,512	599,903	615,294

The computer equipment manufacturer registration fee is established at \$10,000 for initial registration and \$1,000 annually thereafter. It is expected to generate approximately \$750,000 to \$800,000 in the first year and \$75,000 to \$80,000 annually thereafter. These funds will be credited to the Computer Equipment Management Account, a new, nonreverting account, and will support the registration process as well as a public education program on the laws governing recycling and reuse of computer equipment.

S.L. 2007-530 (S.B. 1362) AMEND DRY-CLEANING SOLVENT CLEANUP ACT

This legislation amends G.S. 143-215.104B - G.S. 143-215.104T, and G.S. 105-187.31. It changes the financial responsibility requirements for the Dry-Cleaning Solvent Cleanup program, charging a new \$1,000 application fee and simplifying the process for payment into the fund. The application fee is expected to generate \$42,000 in FY 2007-08 and \$54,000 in FY 2008-09. Due to the variable nature of the number of sites in the program and costs of cleanup at each individual site, exact revenue estimates are not available for the financial responsibility requirement changes. It is estimated that a revenue loss of approximately \$665,000 annually may result.

Clean Water Management Trust Fund

G.S. 113A-253 Clean Water Management Trust Fund

Agency Description:

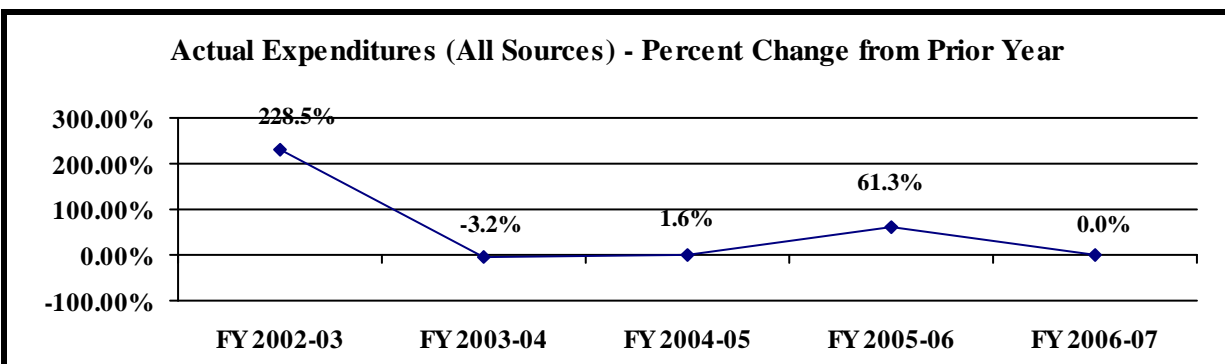
The Clean Water Management Trust Fund (CWMTF) is a nonregulatory agency which makes grants to local governments, nonprofits, and State agencies. A 21-member board of trustees reviews applications, allocates funds, and approves grants. CWMTF grants are used to preserve and/or restore riparian buffers, 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	Certified 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:

CWMTF's net General Fund appropriation is laid out in G.S. 113A-253.1 as \$100 million annually. The appropriation for FY 2007-08 and FY 2008-09 will be \$100 million for each fiscal year. There was no change in CWMTF's appropriation from FY 2006-07 to FY 2007-08. 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 58%. 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 CWMTF.

Clean Water Management Trust Fund (14301 – General Fund)	Certified FY 2007-08	Certified FY 2008-09
	100,000,000	100,000,000
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: \$205,042,991**
(as of June 30, 2007)

Net General Fund appropriations to CWMTF are transferred to a nonreverting special fund (24305). This special fund is 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 2006-07 the amount spent on administration was \$1,719,330, supporting 17.5 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 2006-07, CWMTF had a beginning fund balance of \$175 million. It received revenues of nearly \$111 million and disbursed \$81 million in grants, increasing the fund balance to \$205 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. In FY 2001-02, \$20.8 million of the \$40 million appropriation was withheld by the Governor due to budgetary shortfalls. For FY 2002-03, S.L. 2002-126 reduced the \$70 million appropriation by \$3.5 million for a total appropriation of \$66.5 million; the Governor withheld approximately 5% of this appropriation. S.L. 2003-284 reduced the \$100 million appropriation to \$62 million for FY 2003-04 and FY 2004-05. For FY 2003-04, a small percentage of this appropriation was withheld for disaster relief.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

Clean Water Management Trust Fund

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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No relevant information to report.

ADDITIONAL LEGISLATION

No relevant information to report.

Wildlife Resources Commission

G.S. 143-239 Statement of Purpose

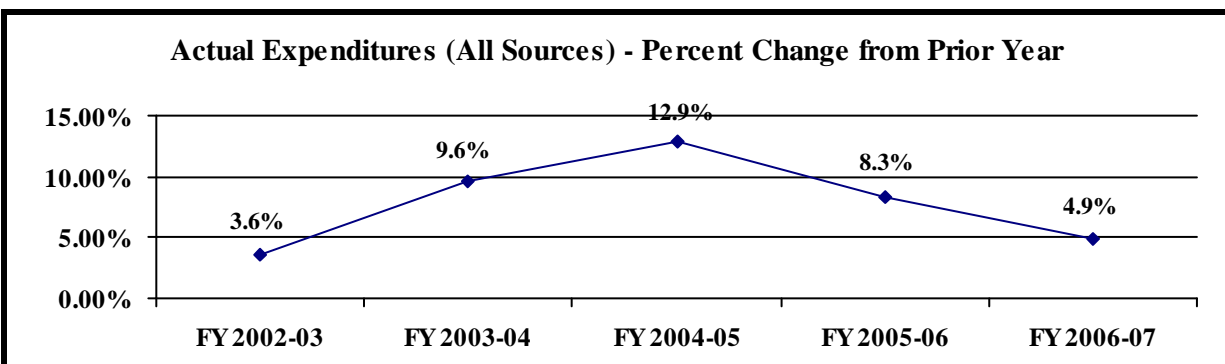
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Revenue	77,304,005	70,883,751	60,452,785	60,409,735
Expenditures	69,018,171	68,931,350	60,423,149	60,359,099
Fund Balance Change	\$8,285,834	\$1,952,401	\$29,636	\$50,636
Positions (FTE)	647.00	637.50	637.50	637.50

Budget Overview:

WRC is entirely receipt-supported and does not receive a General Fund appropriation. In FY 2007-08, WRC's budget is \$60,423,149, and for FY 2008-09, WRC's budget is \$60,359,099. The FY 2007-08 budget is a 12% decrease from the prior year due to a projected shortfall in receipts. Receipts primarily come from transfers from the State sales tax and 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 7.86%. 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.

	Certified FY 2007-08	Certified FY 2008-09
Wildlife Resources Commission (24350 – Special Fund)		
Administration	8,758,744	8,728,744
Enforcement	19,955,085	19,934,085
Education	4,535,327	4,535,327
Inland Fisheries	7,026,891	7,026,891
Management	11,291,373	11,273,873
Engineering Services	4,221,161	4,221,161
Wildlife Fund Receipts	3,410,338	3,414,788
TOTAL	\$59,198,919	\$59,134,869
Revenue	(59,198,919)	(59,134,869)
CHANGE IN FUND BALANCE	\$0	\$0

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 houses the majority of the operating expenses.

	Certified FY 2007-08	Certified FY 2008-09
Total Appropriations by Fund		
Wildlife Resources (24350 – Special Fund)	59,198,919	59,134,869
Wildlife Resources (24351 – Special Fund/Interest)	974,230	974,230
Wildlife Resources (24352 – Special /Noninterest)	250,000	250,000
TOTAL	\$60,423,149	\$60,359,099

Note:

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

OTHER FUNDS

Wildlife Endowment Fund (64350)	Balance: \$60,158,040 (as of June 30, 2007)
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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

Wildlife Resources Commission

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 be used to take the place of State appropriations or agency receipts placed in the Wildlife Resources Fund. FY 2006-07 receipts into the Endowment Fund totaled \$6.3 million; expenditures were \$6.1 million.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

No relevant information to report.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 12.5A BEAVER DAMAGE CONTROL PROGRAM FUNDS

This provision allocates \$349,000 in each year of the biennium from the Department of Environment and Natural Resources to the Wildlife Resources Commission for the beaver damage control program, also known as the Beaver Management Assistance Program (BMAP). A minimum federal match of \$25,000 in each year of the biennium is required.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION

WRC Special Funds (24351 and 24352)

The purpose of these two special Funds is to meet requirements from the General Assembly (S.L. 2204-124) 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.

Beaver Management Assistance Program (BMAP)

The Beaver Management Assistance Program (BMAP) was created in 1992 to assist public organizations and private landowners in managing problems caused by beaver damage. The Beaver Damage Control Advisory Board, established in G.S. 113-291.10, serves in an advisory capacity to assist the WRC with BMAP. BMAP's services are available for Department of Transportation (DOT) projects in all 100 counties and to private landowners, local governments, and other groups in the 43 counties that opt to participate in this program. In addition to the participating counties, who each pay \$4,000 annually, BMAP is funded in part by the DOT, the Department of Environment and Natural Resources, and the federal government. Additionally, through cost-sharing arrangements, individuals and organizations can receive services in non-participating counties.

Wildlife Resources Commission

The program is administered by the USDA Wildlife Services through a cooperative agreement with the WRC. According to the NC BMAP Annual Report, in federal fiscal year 2005-06, 70 counties were aided in a total of 605 DOT projects and 358 non-DOT cooperative service agreements. A total of 1,962 beaver dams were removed.

ADDITIONAL LEGISLATION

S.L. 2007-13 (S.B. 153) MATTAMUSKEET LODGE MAINTENANCE

S.L. 2007-13 amends Article 1 of Chapter 121 of the General Statutes to authorize the State to accept the Mattamuskeet Lodge from the federal government. The property shall be allocated to the Department of Cultural Resources for renovations. At the completion of renovations, the property shall be transferred to the Wildlife Resources Commission.

S.L. 2007-485 (S.B. 646) ENACT WASC RECOMMENDATIONS

S.L. 2007-485 enacted the recommendations of the Waterfront Access Study Committee (WASC), including providing property tax relief for working waterfront property and waiving permit fees for emergency Coastal Area Management Act permits. Additionally, WRC's vessel titling fees were increased from an annual \$10 fee to \$15 for one year or \$40 for three years. It is estimated that these new fees will generate an additional \$1.1 million for FY 2007-08 and \$2.2 million in FY 2008-09.

S.L. 2007-408 (S.B. 1303) MOUNTAIN HERITAGE TROUT WATERS PROGRAM

S.L. 2007-408 established a Mountain Heritage Trout Waters three-day fishing license and directed the WRC to adopt rules to establish and implement a Mountain Heritage Trout Waters Program.

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

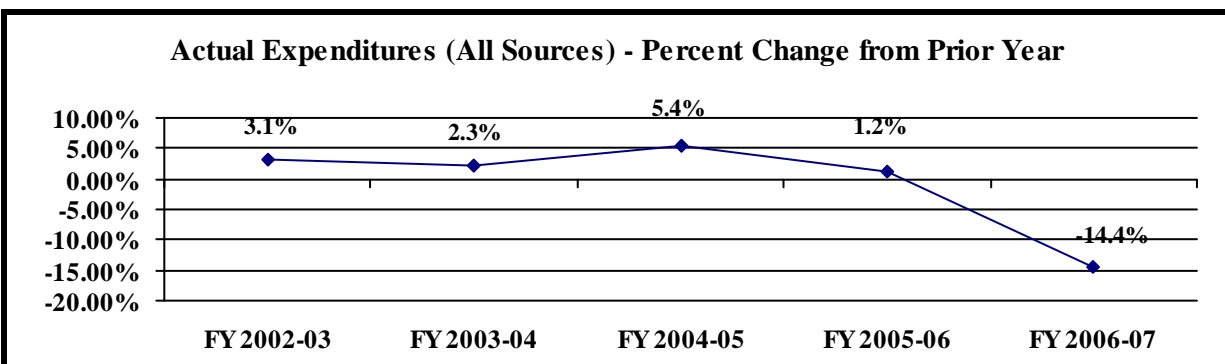
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	28,042,595	24,010,985	25,277,280	25,249,877
Revenue	13,517,722	8,109,908	8,682,522	8,654,926
Net Appropriations	\$14,524,873	\$15,901,077	\$16,594,758	\$16,594,951
Positions (FTE)	359.77	360.75	363.75	363.75

Budget Overview:

The total FY 2007-08 budget for the Department of Labor (DOL) is \$25,277,280, and for FY 2008-09 the budget is \$25,249,877. The FY 2007-08 budget reflects a 5.3% increase over its FY 2006-07 actual budget. Of the \$25,277,280 budget, 66% comes from net General Fund appropriations. The remaining 34% 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 relatively stable with a five-year average percentage change of -0.5%. 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.

	Certified FY 2007-08	Certified FY 2008-09
Labor (13800 – General Fund)		
Administration	4,760,185	4,760,185
Occupational Safety and Health	15,555,399	15,527,833
Standards & Inspections	4,961,696	4,961,859
TOTAL	\$25,277,280	\$25,249,877
Revenue	(8,682,522)	(8,654,926)
NET GENERAL FUND APPROPRIATIONS	\$16,594,758	\$16,594,951

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

	Certified FY 2007-08	Certified FY 2008-09
Total Appropriations by Fund		
Labor (13800 – General Fund)	25,277,280	25,249,877
Labor - Special (23800 – Special Fund)	4,993,133	4,993,616
TOTAL	\$30,270,413	\$30,243,493

OTHER FUNDS

Labor Special Fund (23800)

Balance: \$926,509
(as of June 30, 2007)

This fund supports the work of the Boiler Safety Bureau and the Elevator and Amusement Device Bureau within the Standards and Inspections Division; this fund also contains funding for the Individual Development Account program. The Boiler Safety and Elevator and Amusement Device Bureaus are entirely receipt supported and do not receive any General Fund appropriations. The receipts primarily come from fees paid by those whose elevator and amusement devices are being inspected. Prior to FY 2006-07, these programs were budgeted in the General Fund (13800); the decision to move them to a special fund was an administrative one based on their receipt-supported nature and the need to carry forward unexpended funds from one year to the next. For FY 2006-07, this fund had receipts of \$5,216,780 and expenditures of \$4,827,589. The certified budgets for these two bureaus and one program are as follows:

	Certified FY 2007-08	Certified FY 2008-09
Boiler Safety	\$1,917,552	\$1,917,552
Elevator and Amusement Device	\$2,965,581	\$2,966,064
Individual Development Account	\$110,000	\$110,000

This Fund supports 67.0 FTE positions, bringing DOL's total FTE position count to 430.75.

Department of Labor**SIGNIFICANT LEGISLATIVE BUDGET ACTIONS****Occupational Safety and Health**

The General Assembly appropriated \$324,748 recurring to the Occupational Safety and Health Division. Of these funds, \$200,000 is for general operating expenditures, and \$124,748 is for the establishment of two additional agricultural safety officers.

**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473**

No relevant information to report.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION**Agriculture Safety and Health**

The Agriculture Safety and Health (ASH) Bureau is located within the Occupational Safety and Health Division. ASH was created as part of the Migrant Housing Act of 1989. The Bureau is required by statute (G.S. 95-226) to inspect all registered migrant housing 45 days prior to occupancy. ASH also conducts outreach training in both English and Spanish.

The FY 2007-08 certified budget for this Bureau is \$627,519, which includes funding for two new safety officers, bringing the total number of FTE positions to 10.0. S.L. 2007-548 makes changes to this program, and additional information can be found in the Additional Legislation section below.

ADDITIONAL LEGISLATION**S.L. 2007-548 (SB 1466) MIGRANT HOUSING HEALTH/SAFETY**

S.L. 2007-548 amends the statute governing migrant housing inspections. Each migrant is now required to have a mattress with a clean cover. Additionally, migrant housing operators who receive a 100% rating for two consecutive years can conduct the preoccupancy inspection for the third year by themselves with the exception of having local health departments inspect for water quality and sanitation and proper disposal of sewage. This session law also amends G.S. 95-227 to require that DOL report each year by May 1 to the Chairs of the Senate and House Appropriations Committees on Natural and Economic Resources on various data related to the migrant housing inspection program.

**APPROPRIATIONS
SUBCOMMITTEE ON
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 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. Joe Boylan
 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

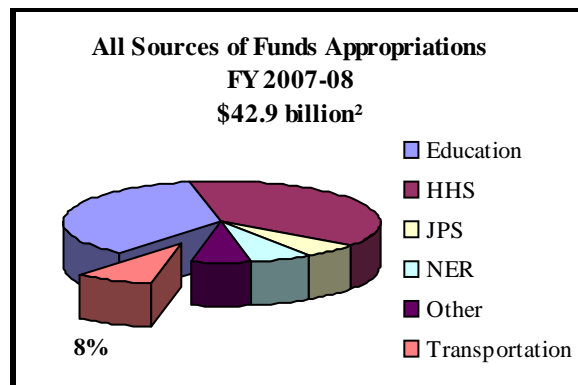
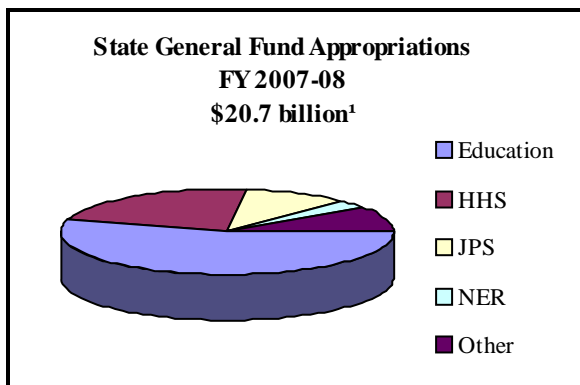
Sen. Clark Jenkins, Chair
 Sen. R.C. Soles, Jr.
 Sen. Philip Berger
 Sen. Don East
 Sen. David Hoyle
 Sen. Larry Shaw

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 all reported funding sources for FY 2007-08, a total of \$3.5 billion or 8% 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

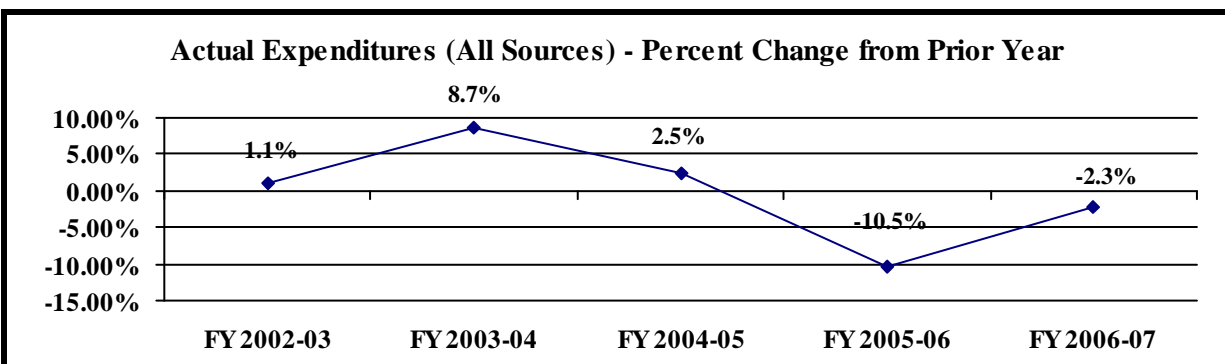
Agency Description:

The Department of Transportation establishes and maintains a statewide transportation system consisting of 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 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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	3,097,894,096	3,026,855,041	3,489,063,629	3,480,376,840
Revenue	1,035,312,670	869,060,656	942,685,116	942,686,251
Net Appropriations	\$2,062,581,426	\$2,157,794,385	\$2,546,378,513	\$2,537,690,589
Positions (FTE)	14,007.00	14,664.00	14,761.00	14,761.00

Budget Overview:

The budget for the Department of Transportation is \$3.49 billion for FY 2007-08 and \$3.48 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 general purpose revenue appropriations. The budget for FY 2007-08 is a 15% increase from the actual expenditures for FY 2006-07. The Department of Transportation has averaged a 0.1% decrease over the past five years in expenditures, primarily due to slow State revenue growth, decreased federal funds, and a 36% increase in Highway Fund transfers to other State agencies, primarily the State Highway Patrol.



Department of Transportation

BUDGET TABLES

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

Transportation (14222 Special Fund)	Certified FY2007-08	Certified FY2008-09
Highway Construction	1,790,495,414	1,788,534,140
Highway Maintenance	898,271,577	902,585,758
Powell Bill / Aid to Municipalities	149,643,186	150,255,306
Division of Motor Vehicles	123,594,242	120,499,978
Administration	168,441,525	168,100,745
Debt Service	88,128,250	85,460,500
Public Transportation	83,466,447	83,144,229
Ferry Operations	31,313,921	31,313,921
Airports Program	50,210,923	47,758,616
Rail Services	21,951,153	20,330,883
Facility Repairs	14,334,221	14,334,221
Reserves and Other	69,212,770	68,058,543
TOTAL	\$3,489,063,629	\$3,480,376,840
Revenues -	(942,685,116)	(942,686,251)
NET HIGHWAY FUND AND HIGHWAY TRUST FUND APPROPRIATIONS	\$2,546,378,513	\$2,537,690,589

OTHER FUNDS

No other relevant information.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Motor Fuels Tax Cap - The General Assembly continued the cap on the gas tax for the FY 2007-09 biennium. The continuation of the cap results in a projected loss of \$140 million over the biennium. The North Carolina motor fuels tax rate is 29.7 cents per gallon through December 31, 2008. The rate is adjusted every six months. The next adjustment will be made on January 1, 2008 to the capped rate of 29.9 cents per gallon. The tax consists of a flat rate of 17.5 cents per gallon plus a variable rate. The variable rate is 7% of the national weighted average wholesale price of gasoline and diesel for a six month base period. The floor for the variable rate is 3.5 cents per gallon (G.S. 105-449.80). The General Assembly has capped the variable rate at 12.4 cents per gallon for the period ending June 30, 2009. Consequently, the motor fuels tax rate will not exceed 29.9 cents per gallon for this period.

Department of Transportation**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 27.1 ONE-STOP SHOPS FOR DRIVERS LICENSES AND REGISTRATION PLATES**

The Division of Motor Vehicles is prohibited from opening One-Stop Shops until the General Assembly acts and appropriates funds for this purpose. In addition, DOT is required to develop a business plan that outlines the operations for a combined office of issuance of driver licenses and vehicle titling and registration with detailed costs and benefits. Currently most driver license offices are separate from the vehicle registration offices. Vehicle registration services are offered by Local Plate Agencies across the State and the colocation of these services operated by the DMV may impact these businesses and ultimately cost the State more money. The DMV is required to conduct a cost/benefit analysis of collocating these services and report to the General Assembly by March 15, 2008.

Section 27.7 MODIFY GLOBAL TRANSPARK DEBT

The Global Transpark Authority debt repayment to the Escheat Fund is extended from October 1, 2007, to October 1, 2009. The Global Transpark received a loan from the Escheat Fund of \$25 million to build and grow its mission in 1994 to be repaid. This special provision allows the GTP to delay its repayment until 2009.

Section 27.12 PHASE OUT TRANSFERS FROM THE HIGHWAY FUND AND THE HIGHWAY TRUST FUND TO THE GENERAL FUND AND OTHER STATE AGENCIES

This provision specifies the intent of the General Assembly to phase out funds transferred from the Highway Fund and Highway Trust Fund to the General Fund. It is intended that the phase-out begin July 1, 2009, at 50% of current funds transferred, and 50% of the remainder be discontinued on July 1, 2011. The transfers would end effective July 1, 2013.

Section 27.19 VIPER BUILD OUT FUNDS

The State Highway Patrol may use funds within its budget that would otherwise revert to continue construction of the VIPER system. VIPER did not receive an appropriation for construction this year; however, the General Assembly has enabled the construction to continue if the State Highway Patrol finds the funds within its budget.

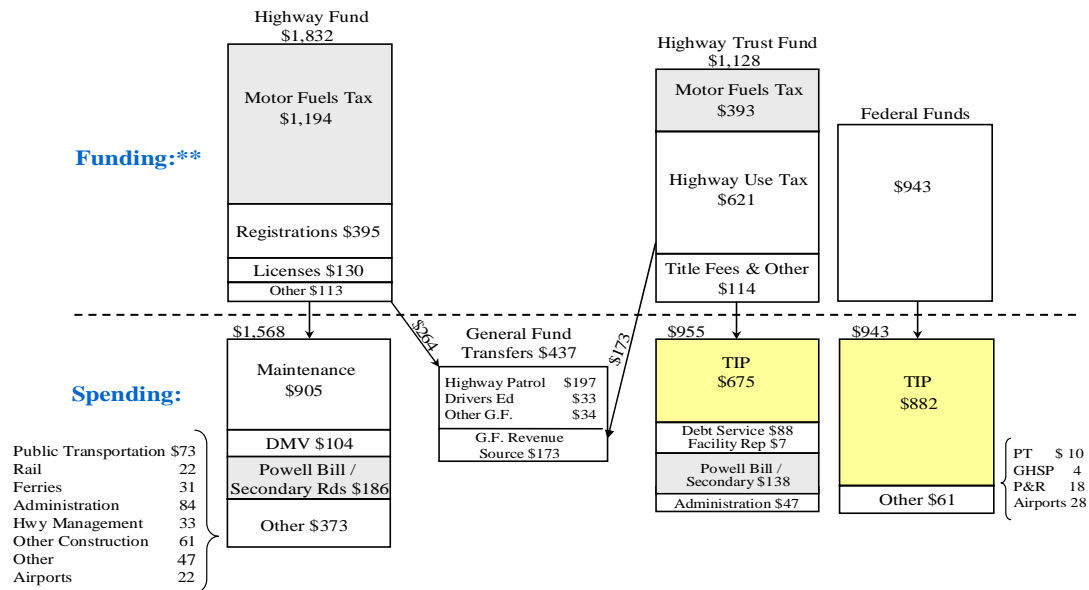
SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION**Highway Fund and Highway Trust Fund**

Chapter 2 of the 1921 Session Laws established the Highway Fund (HF). The Highway Fund provides funding for the maintenance of roads, Division of Motor Vehicles, and other transportation programs and services. The budget for the Department of Transportation is comprised of the Highway Fund and the Highway Trust Fund and federal funds. The motor fuels tax comprises the majority of revenues within the Highway Fund, and the Highway Use Tax comprises the majority of the revenues within the Highway Trust Fund. In addition, vehicle registrations and driver licenses are funding sources for the Highway Fund, and vehicle title fees and other Division of Motor Vehicle fees fund 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 Special Funds section).

Department of Transportation

The following chart depicts the flow and uses of funds from the Highway, Highway Trust Fund, and federal funds for FY 2007-08.

Highway Fund, Highway Trust Fund and Federal Funds 2007-08 (\$ in Millions)



**There is an additional \$24 million in receipts that is used within the Division of Motor Vehicles and within Central Administration.

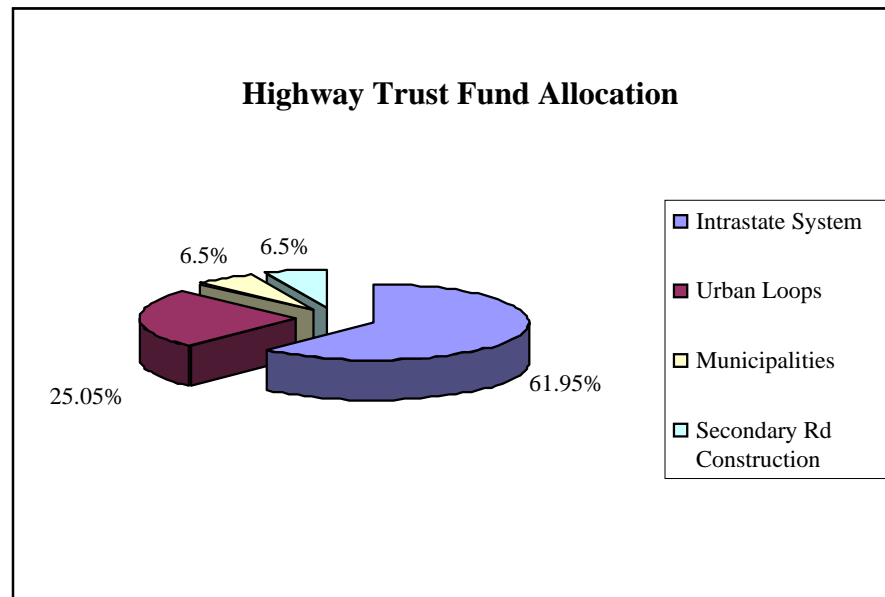
Chart abbreviations – DMV (Division of Motor Vehicles), Drivers Ed. (Drivers Education Program within the Department of Public Instruction's budget), Other G.F. (General Fund Agencies, see listing under Highway Fund Transfers section), TIP (Transportation Improvement Program), PT (Public Transportation), GHSP (Governor's Highway Safety Program), and R&P (Planning and Research).

Highway Trust Fund (HTF) – The HTF is budgeted at \$1.13 billion for FY2007-08 and \$1.14 billion for FY 2008-09. The General Assembly created the HTF in 1989 (G.S. 136-176). The purpose was for constructing particular highway and road projects, including the Intrastate System, urban loops, secondary roads, and also to provide supplemental funding to municipalities under the Powell Bill. 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 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. The Transportation Improvement Program is a 7-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 in a particular

Department of Transportation

way. Before funds are allocated, 4.2% of the total funds may be used for administration of the Trust Fund and to operate the North Carolina Turnpike Authority. (S.L. 2007-323 – House Bill 1473 increased the amount of funding in FY 2007-08 to be used for administration from 3.8% to 4.2%). The charts below show the HTF project allocation as prescribed in law.



Highway Trust Fund Certified Budget

Current Operations	FY 2007-08	FY 2008-09
Intrastate System	539,414,383	544,982,323
Urban Loops	218,116,712	220,368,154
Aid to Municipalities	56,597,151	57,181,357
Secondary Roads	94,266,888	95,790,568
Program Administration	47,341,560	47,782,560
Transfer to General Fund	172,543,306	172,675,038
Total Funds	\$1,128,280,000	\$1,138,780,000

Highway Trust Fund Transfers

G.S. 105-187.9(b) (1) requires that \$170 million be transferred annually from the HTF to the General Fund. In addition, \$2.4 million is transferred to the General Fund (this amount may change based on the percent change in Highway Use Tax collections). The General Assembly has the authority to pass budgets with transfers that are greater or less than the statutory amounts.

Highway Fund Transfers

The Highway Fund provides funding to specific other State agencies, including:

- Department of Crime Control and Public Safety for the State Highway Patrol operations,
- Department of Health and Human Services for the chemical test for alcohol program,
- Department of Public Instruction for driver education programs,
- Department of Revenue for tax collections and auditors,

Department of Transportation

- Department of Agriculture for gasoline inspectors; and,
- Department of Environment and Natural Resources for Leaking Underground Storage Tank Fund.

The table below shows the five-year history of transfers out of the HF to other state agencies.

<u>Fiscal Year</u>	<u>Transfers</u>
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

Grant Anticipation Revenue Vehicle Bonds (GARVEE)

In September 2007 North Carolina issued \$287,565,000 in Grant Anticipation Revenue Vehicle Bonds (GARVEE bonds). 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 will be used to accelerate construction on 39 Department of Transportation projects. The General Assembly authorized the issuance of GARVEE bonds in 2005 (S.L. 2005-403). The Department of Transportation expects that future bond sales will bring the total issued to \$900 million.

Secondary Roads Program

The Secondary Roads Program receives approximately \$170 million per year. 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 constructing program with the goal of paving all roads that carried 50 or more vehicles per day. The 2005 and 2006 Sessions of the General Assembly made significant changes including converting the program's focus to road improvements (Session Law 2006-258). (See also Session Law 2007-428 in Additional Legislation of this section).

ADDITIONAL LEGISLATION

Session Law 2007-428 (SB 1513) COUNTY FINANCING/POWELL BILL/ CITY ELECTION

The General Assembly enacted Senate Bill 1513, which gives county governments the authority to use their local funds for the construction and maintenance of roads. Previously, county governments had been prohibited from using local funds for road construction and maintenance since 1931 when the State government assumed responsibility for all county roads not on the State highway system.

Division of State Highway Patrol

G.S. 20-49 Police Authority of Division

G.S. 20-188 Duties of Highway Patrol

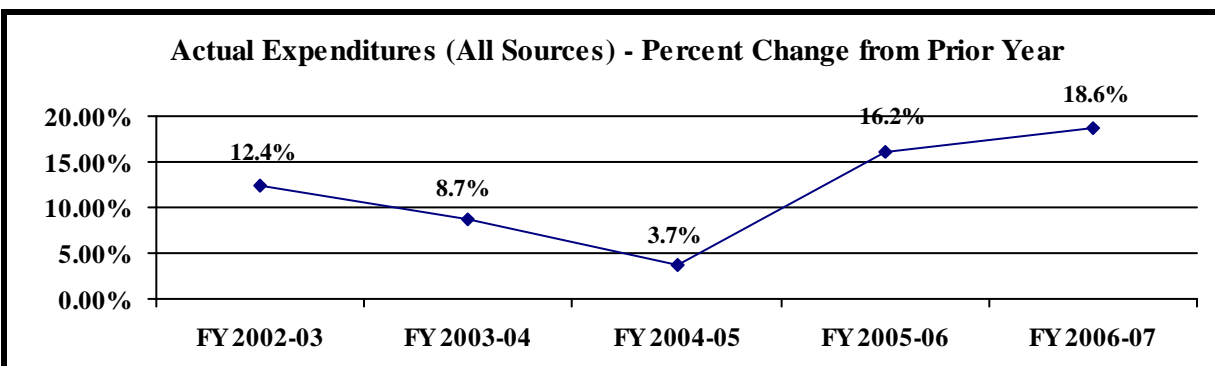
Agency Description:

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, enforcement of motor vehicle laws including commercial vehicle operations, and assisting the 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	Certified FY 2007-08	Certified FY 2008-09
Revenue	209,826,520	230,024,623	206,151,234	203,903,080
Expenditures	199,886,124	237,152,209	206,151,234	203,903,080
Fund Balance Change	\$9,940,396	(\$7,127,586)	\$0	\$0
Positions (FTE)	2,324.00	2,347.00	2,376.00	2,381.00

Budget Overview:

The SHP budget for FY 2007-08 is \$206.2 million and \$203.9 million for FY 2008-09. The FY 2007-08 budget represents a 13% decrease from the previous fiscal year's actual expenditures due to several nonrecurring items funded in FY 2006-07 such as \$10 million for Voice Interoperative Plan for Emergency Responders System (VIPER) and the discontinuation of one-time funding for start-up positions. The budget is supported by the Highway Fund and other receipts and does not receive a State General Fund appropriation. There has been a 12% 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 and the funding for VIPER.



Division of State Highway Patrol

BUDGET TABLES

The following table provides a high-level budget summary by major categories of operating expenditures:

CCPS – Highway Fund (24960-Special Fund)	Certified FY 2007-08	Certified FY 2008-09
State Highway Patrol – Operations	173,975,507	169,997,809
Motor Vehicle Enforcement	30,195,484	30,239,448
Reserves and Transfers	1,685,582	3,371,162
Health and Wellness Fair	32,124	\$32,124
Operation and Equipment Purchases	262,537	262,537
TOTAL	\$206,151,234	\$203,903,080
Revenues	(\$206,151,234)	(\$203,903,080)
NET GENERAL FUND APPROPRIATIONS	\$0	\$0

This agency is not funded through General Fund appropriations; the funding sources are Highway Fund and other receipts.

OTHER FUNDS

No relevant information to report.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

Trooper Positions

The General Assembly provided funds for the creation of ten additional trooper positions; there will be five new positions in FY 2007-08 and an additional five positions for FY 2008-09. There is a total of \$496,858 appropriated for FY 2007-08 and \$777,196 for FY 2008-09.

Helicopter for Aviation Unit

The General Assembly provided \$3.6 million for FY 2007-08 in nonrecurring funds to replace an obsolete helicopter and establish a dedicated airborne unit that can perform search and rescue operations during disasters.

VIPER Network Support

The General Assembly provided \$2,261,839 recurring funds to establish 24 additional positions to support the Voice Interoperability Plan for Emergency Responders (VIPER) system. There is a total of \$2,261,839 appropriated for FY 2007-08 and \$2,261,839 for FY 2008-09. See Select Programs and Other Budgetary Information.

Division of State Highway Patrol

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 27.12 PHASE OUT TRANSFERS FROM THE HIGHWAY FUND AND THE HIGHWAY TRUST FUND TO THE GENERAL FUND AND OTHER STATE AGENCIES

The General Assembly provided intent language to begin phasing out the transfers from Highway Fund to the State Highway Patrol program. The phaseout would begin by a 50% decrease on July 1, 2009. A further 50% reduction would take place on July 1, 2011, and the transfer would be eliminated on July 1, 2013. The State Highway Patrol program would become supported 100% by the General Fund.

Section 27.19 VIPER BUILD OUT FUNDS

The General Assembly has allowed the State Highway Patrol to use up to \$10 million to continue constructing the VIPER network across the State. These funds would come from the existing State Highway Patrol's budget with no additional funds appropriated for the VIPER construction. This special provision allows SHP to spend potential reversions to the State Department of Transportation. See additional information under Select Programs and Other Budgetary Information.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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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. The General Assembly has appropriated approximately \$18 million since 2005, and VIPER has received \$74.6 million through federal Homeland Security Grants. To date, there is a total investment of \$93 million. The Criminal Justice Information Network Governing Board reports that the project needs an additional \$106 million to fully complete the 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 annually, of which \$2.5 million has been appropriated from the Highway Fund for recurring maintenance costs of the VIPER system.

ADDITIONAL LEGISLATION

No relevant information to report.

STATEWIDE RESERVES: SALARIES, RETIREMENT, AND HEALTH BENEFITS

Statewide Reserves: Salaries, Retirement, and Health Benefits

Subcommittee 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 2007 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 Teachers' and State Employees' Comprehensive Major Medical Plan (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.

Subcommittee Membership:

Rep. Henry "Mickey" Michaux, Senior Chair
Rep. Alma Adams, Chair
Rep. Martha Alexander, Chair
Rep. James Crawford, Chair
Rep. Maggie Jeffus, Chair
Rep. Joe Tolson, Chair
Rep. Douglas Yongue

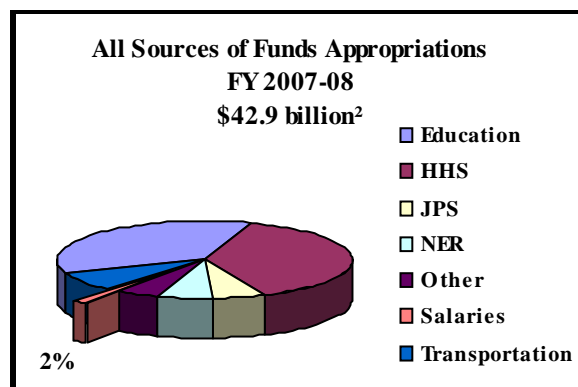
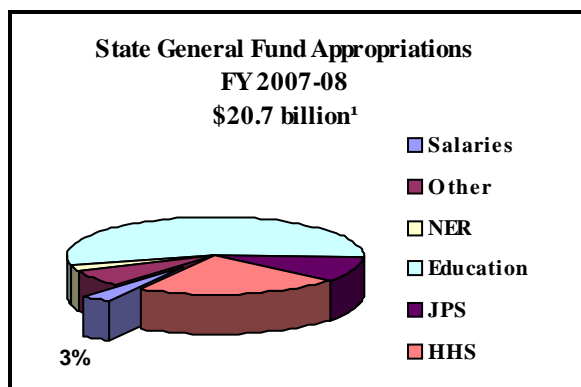
Sen. Linda Garrou, Chair
Sen. Walter Dalton, Chair
Sen. Kay Hagan, Chair

Staff:

Mark Trogon, Team Leader
Marshall Barnes
Stanley Moore

Budget Comparison:

The General Assembly appropriated an additional \$693.4 million from the General Fund and \$27.3 million from the Highway Fund for increases in salary, retirement, and health benefit coverage changes in FY 2007-08. This additional funding for FY 2007-08 represents 3.4% of net General Fund appropriations and 1.8% of all reported funding sources but does not represent all the salaries and benefits funding in agencies' budgets (estimated to be 75% to 80% of operating budget funds). The following charts illustrate the Salaries, Retirement, and Health Benefits total additional funding as compared to the totals by appropriations subcommittees:



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.

Statewide Reserves: Salaries

G.S. 126, Art. 1, State Personnel System Established

Administration:

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 billion for FY 2007-08. Total payroll exceeds \$13.7 billion including receipts of State agencies, universities, local public schools, and local community colleges.

The General Assembly appropriates funds to increase salaries to a reserve administered by the Office of State Budget and Management (OSBM). After enactment of the budget, OSBM with the assistance of the Office of State Personnel allocates these funds to State agencies, departments, universities, local public schools and local community colleges as directed by the appropriations act.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

General Salary Increase: The General Assembly appropriated the following to provide salary increases effective July 1, 2007, for employees paid from State funds:

State Appropriations	FY 2007-08	FY 2008-09
General Fund (Recurring)	499,667,978	499,667,978
General Fund (Nonrecurring)	1,668,519	-
Highway Fund (Recurring)	20,453,968	20,453,968
Highway Fund (Nonrecurring)	-	-
TOTAL	\$521,790,465	\$520,121,946

The General Assembly also authorized the Director of the Budget to increase receipts for any employing agency to provide sufficient funding to increase salaries of receipt-supported positions in accordance with S.L. 2007-323, Sec. 28.14. The appropriations specified above do not include the cost to provide salary increases to receipt-supported positions.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 7.1 TEACHER SALARY SCHEDULES

The General Assembly appropriated funds for FY 2007-08 to provide annual salary increases ranging from 4.1% to 9.5% (average of 5%) for public school teachers, effective July 1, 2007. The salary increase is based on teachers natural movement up the salary schedule due to years-of-experience credit and an increase of \$1,240 for each step on the "A" salary schedule (slightly larger increases to the "M" and "NBPTS" schedules). In addition, the General Assembly appropriated \$9,862,065 to add a 31st step to the teacher salary schedules.

Statewide Reserves: Salaries

The General Assembly also authorized a one-time sign-on bonus of \$250 for teachers and instructional support personnel paid on Step 0 of the teacher salary schedule. This sign-on bonus is payable upon completion of the school year and increases the starting salary of a teacher to \$30,000.

Section 7.2 SCHOOL-BASED ADMINISTRATOR SALARY SCHEDULE

The General Assembly appropriated funds for FY 2007-08 to provide annual salary increases ranging from 4.1% to 8% (average of 4.44%) for public school principals and assistant principals, effective July 1, 2007. The salary increase is based on employees natural movement up the salary schedule due to years-of-experience credit and a flat increase of \$1,240 for each step on the "A" teacher salary schedule (slightly larger increases to the Principals and Assistant Principals schedules).

Section 7.3 CENTRAL OFFICE SALARIES

The General Assembly authorized an across-the-board annual salary increase of 4% effective July 1, 2007, for Superintendents, Assistant Superintendents, Associate Superintendents, Supervisors, Directors, Coordinators, and Finance Officers employed by the public schools.

Section 7.4 NONCERTIFIED PERSONNEL SALARIES

The General Assembly authorized an across-the-board annual salary increase of 4% effective July 1, 2007, for noncertified personnel employed by the public schools, e.g., teacher assistants, food service personnel, etc.

An appropriation of \$1,150,240 provided funding for additional salary increases for teacher assistants to increase salaries to the minimum of salary grade 56 (\$18,210 annually for a full-time teacher assistant employed on a 10-month contract). Teacher assistant positions were upgraded some years ago from salary grade 54 to salary grade 56. No funding was provided at that time to increase the salaries of teacher assistants to the newer levels. Teacher assistants currently earning at least the minimum of salary grade 56 did not receive an additional increase.

Section 7.5 BONUS FOR CERTIFIED PERSONNEL AT THE TOP OF THEIR SALARY SCHEDULES

The General Assembly authorized, effective July 1, 2007, a one-time bonus equivalent to 2% for permanent personnel paid at the top of the principal and assistant principal salary schedule.

Sections 21.1 – 21.15 GENERAL SALARY INCREASES

STATE EMPLOYEES SUBJECT TO THE STATE PERSONNEL ACT – The General Assembly authorized an across-the-board annual salary increase of 4%, effective July 1, 2007, 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 of 4%, effective July 1, 2007, for employees whose salaries are not set in accordance with the State Personnel Act.

ADDITIONAL SALARY INCREASE FOR JUDGES – The General Assembly authorized an additional 1% salary increase for judges, providing a total salary increase of 5%.

Statewide Reserves: Salaries

UNIVERSITY EMPLOYEES EXEMPT FROM THE STATE PERSONNEL ACT – For employees of the University of North Carolina System whose salaries are not set in accordance with the State Personnel Act, the General Assembly authorized an annual salary increase of 5% for faculty and 4% for nonfaculty.

COMMUNITY COLLEGE INSTITUTIONAL PERSONNEL – The General Assembly authorized an annual salary increase of 5%, effective July 1, 2007, for all community college faculty and professional staff. The General Assembly also authorized an annual salary increase of 4%, effective July 1, 2007, for all other eligible community college institution personnel.

Section 28.18 SALARY ADJUSTMENT FUND

The General Assembly 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 provides funding to support agency and university requests to increase employee salaries due to range revisions, special minimum rates, grade to band transfers, geographic differentials, and reallocations.

Section 28.18A JUDICIAL BRANCH LONGEVITY

The General Assembly added a "25 or more years" step at 24% of salary to the judicial longevity schedule. This additional longevity step is 4.8% higher than the present 20-year step. The Joint Conference Committee Report on Continuation, Expansion, and Capital Budgets provides funding in the amount of \$566,643 for this additional longevity step. Judges, clerks of court, district attorneys, assistant district attorneys, public defenders, and assistant public defenders are paid longevity in accordance with the judicial longevity schedule.

Section 28.18B CAREER BANDING/CONTINUATION

The General Assembly authorized the State Personnel Commission, the Office of State Personnel, State agencies as to their defined critical occupational groups; limited to nursing, engineering, library, fiscal, and pharmacy positions; and the University of North Carolina as to its employees subject to the State Personnel Act to begin or continue the development and implementation of career banding, effective July 1, 2007. The Office of State Personnel is required to provide quarterly updates and prior to the State Personnel Commission's review and approval of career banding for major occupational groups with significant labor market changes, to consult with the Joint Legislative Commission on Governmental Operations. (S.L. 2006-66, Sec. 15A suspended the further implementation of the career banding classification system recommended by the Office of State Personnel pending further action by the General Assembly.)

ADDITIONAL LEGISLATION

S.L. 2007-286 (HB 1412) CLARIFY VETERANS' PREFERENCE WITH STATE DEPARTMENTS, AGENCIES, AND INSTITUTIONS

The General Assembly amended G.S. 128-15 and G.S. 126-82 to clarify that the veterans' employment preference applies to initial employment with the State and extends to other employment events including subsequent hirings, promotions, reassignments, and horizontal transfers.

Statewide Reserves: Salaries

S.L. 2007-195 (HB 847) CLARIFYING THAT EMPLOYEES OF THE NORTH CAROLINA COOPERATIVE EXTENSION SERVICE ARE EXEMPT FROM THE STATE PERSONNEL ACT

The General Assembly amended G.S. 126-5(c1) by creating a new subdivision that exempts employees of the North Carolina Cooperative Extension Service of North Carolina State University who are employed in county operations from the State Personnel Act (SPA). The General Assembly also amended G.S. 116-33.2 by authorizing the Board of Trustees of North Carolina State University to adopt personnel policies to govern employees of the North Carolina Cooperative Extension Service who are exempt from the SPA.

HISTORICAL SALARY STATISTICS

TEN-YEAR LEGISLATIVE INCREASE HISTORY

FISCAL YEAR	STATE EMPLOYEES	TEACHERS
1997-98 ¹	2% COLA + 2% career growth	4% - 9%
1998-99	1% COLA + 2% career growth + 1% one-time bonus	4% - 9%
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)

¹ Most teachers received between 4%-9%. Teachers receiving National Board of Professional Teaching Standards (NBPTS) certification were eligible for larger increases.

Statewide Reserves: Salaries

AVERAGE SALARY OF EMPLOYEES SUBJECT TO THE PERSONNEL ACT

FISCAL YEAR	AVERAGE SALARY ¹
1997-98	\$28,166
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

¹ The average salary figures show 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	91.05 ¹	4.19
2003-04	91.35 ²	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

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

Administration:

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, 2006, the System had 330,117 members and 140,292 retirees with an annual benefit of \$2.7 billion. The System had recognized assets of \$52.4 billion and was considered 106% funded as of December 31, 2006 (i.e., \$1.06 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, who administers the various retirement systems.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

The General Assembly appropriated the following to fund changes to various retirement benefits:

State Appropriations	FY 2007-08	FY 2008-09
General Fund for Cost-of-Living Increase (Recurring)	35,705,000	35,705,000
Highway Fund for Cost-of-Living Increase (Recurring)	1,723,800	1,723,800
General Fund for Retirement System Payback (Nonrecurring)	45,000,000	
General Fund for Firemen and Rescue Squad Workers' Pension	293,500	293,500
General Fund for Public Defenders	<u>573,000</u>	<u>573,000</u>
TOTAL	\$83,295,300	\$38,295,300

Budgeted receipts of employing agencies used to pay employer retirement system contributions for positions funded in this manner may be reallocated or increased to pay the additional employer contributions authorized by the General Assembly.

Statewide Reserves: Retirement**SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473****Section 28.19 SALARY-RELATED CONTRIBUTIONS/EMPLOYER**

The General Assembly set the employer contribution rates for the various State retirement systems for FY 2007-08 and FY 2008-09. The contribution rate for the largest retirement system, the Teachers' and State Employees' Retirement System, is 3.05% of payroll for retirement, 0.52% of payroll for the Disability Income Plan, 0.16% of payroll for the Death Benefit, and 4.1% of payroll for retiree health benefits.

The General Assembly also appropriated \$45 million to the Teachers' and State Employees' Retirement System to complete the payback of the State contributions escrowed by the Governor in 2001 to help balance the budget. This final payment repays the System for the contributions not made and only the interest remains unpaid.

Section 28.20 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, 2007, 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, 2006. In addition, beneficiaries who retired after July 1, 2006, but before June 30, 2007, were authorized to receive an increase in their retirement allowances on July 1, 2007, equal to a prorated amount of the 2.2% increase provided to those who retired on or before July 1, 2006. 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 FY 2006-07.

The increase in retirement allowances was funded partially with unencumbered actuarial gains in the Teachers' and State Employees' Retirement System as of December 31, 2005, and partially by an appropriation of \$35.7 million from the General Fund and \$1.7 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 \$67.5 million from the General Fund and \$3.2 million from the Highway Fund.

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, 2006. In addition, beneficiaries who retired after July 1, 2006, but before June 30, 2007, were authorized an increase in their retirement allowances on July 1, 2007, equal to a prorated amount of the 2.2% increase provided to those who retired on or before July 1, 2006. 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 2006-07. This increase in retirement allowances was funded with unencumbered actuarial gains in the Consolidated Judicial Retirement System as of December 31, 2005. The total cost of the cost-of-living adjustment was \$700,000 annually.

Statewide Reserves: Retirement

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, 2007, comparable to the same type of increases granted to retired beneficiaries of the Teachers' and State Employees' Retirement System. In addition, beneficiaries who retired after January 1, 2007, but before June 30, 2007, were authorized an increase in their retirement allowances on July 1, 2007, equal to a prorated amount of the 2.2% increase provided to those who retired on or before January 1, 2007. The increase was funded within the Legislative System at an annual cost of \$46,000.

Section 28.21 FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

The General Assembly enacted, effective July 1, 2007, an increase in the pension for members of the Firemen's and Rescue Squad Workers' Pension Fund from \$165 to \$167 per month at a cost of \$656,400 annually. This cost was funded in part by unencumbered actuarial gains of \$362,900 and in part by an appropriation of \$293,500. 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.

Section 28.21A ENHANCE BENEFITS PAYABLE THROUGH THE NATIONAL GUARD PENSION FUND

The General Assembly enacted, effective July 1, 2007, an increase in the pension for retirees of the North Carolina National Guard Pension Fund from \$80 to \$95 per month for the first 20 years of creditable service and from \$8.00 to \$9.50 per month for each additional year of creditable service with the maximum benefit increasing from \$160 to \$190 per month. This was funded from continuation budget resources at a cost of \$2,384,025 annually.

Section 28.21B INCLUDE PUBLIC DEFENDERS AS MEMBERS OF THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

The General Assembly authorized all public defenders, the appellate defender, the capital defender, and the juvenile defender, who are serving on July 1, 2007, be transferred from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. All creditable service as a public defender prior to July 1, 2007, will also be transferred from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. Persons who become public defenders after July 1, 2007, will participate in the Consolidated Judicial Retirement System. The General Assembly appropriated \$573,000 to fund this benefit change.

ADDITIONAL LEGISLATION

S.L. 2007-179 (SB 659) FORFEITURE OF RETIREMENT BENEFITS FOR CERTAIN FELONIES

The General Assembly enacted a new provision in the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Local Governmental Employees' Retirement System prohibiting the Boards of Trustees from paying retirement benefits (other than a return of employee contributions) to any member who is convicted of certain felonies while the person is serving as a member of the System if the offense is directly related to the service as a member. The bill also amends the law to require members who have not vested in the Legislative Retirement System at the time

Statewide Reserves: Retirement

the bill becomes law and are convicted of an offense to forfeit all benefits. Members who have vested at the time the bill becomes law and are convicted of an offense after that date are not entitled to creditable service accruing after the date the statute becomes law.

S.L. 2007-233 (HB 1414) RETIREMENT CREDIT FOR MILITARY SERVICE

The General Assembly provided that members of the armed forces, who return to service as a teacher or state employee within two years after being discharged, are to be credited with prior service in the Teachers' and State Employees' Retirement System for their service in the military for the maximum period they are entitled under federal law. The employee's salary during that period of service shall be the salary the employee would have received had he or she remained continuously employed, if the determination of that salary is reasonably certain. Prior to this change, the salaries were based on the salaries paid to employees immediately before entering the armed forces.

S.L. 2007-325 (HB 1415) SHORT-TERM DISABILITY BENEFITS FOR MILITARY SERVICE AND CHANGES TO THE LONG-TERM DISABILITY BENEFITS

In Section 1, the General Assembly took action to prohibit a member of the Teachers' and State Employees' Retirement System from being denied short-term disability benefits in the Disability Income Plan because of the member's absence for military service when meeting the requirements of the Uniformed Services Employment and Reemployment Act of 1994.

In Sections 2 and 3, the General Assembly repealed the new long-term definition of "disability" scheduled to go into effect on August 1, 2007. Therefore, the Plan's medical board will continue to certify that the member is mentally or physically incapacitated for the further performance of his or her duties, that such incapacity was incurred at the time of active employment, and that such incapacity is likely to be permanent. A significant change, however, was made to the duration of the long-term disability benefit. For members vesting on or after August 1, 2007, the member must be approved to receive Social Security disability benefits within three years of long-term disability benefits and if not, no further benefits will be paid to the member.

S.L. 2007-304 (HB 1025) PURCHASE OF LOCAL PROBATIONARY OR EMPLOYER-IMPOSED WAITING PERIOD

The General Assembly changed the existing law that allows members of the Local Governmental Employees' Retirement System to purchase credit for service rendered during a probationary or employer-imposed waiting period to provide guidelines for purchase by the member or the member's employer. The change allows an employer to amortize its portion of the full actuarial cost of the probationary employment over the employer's remaining amortization period. If there is no remaining amortization period, the employer may amortize the cost over a period not to exceed 10 years.

S.L. 2007-431 (HB 777) RETIREMENT SYSTEMS TECHNICAL CORRECTIONS

The General Assembly enacted the Technical Corrections Bill which makes clarifying changes in the retirement law. The changes are as follows:

- Amends the laws of the four State-administered retirement systems to extend the time in which a member of the system can file his or her application for retirement. Under current law, the member may designate a date, as of the first of the month, not less than

Statewide Reserves: Retirement

- one day nor more than 90 days from the filing of the application. This bill extends the time from 90 to 120 days.
- Amends the laws for the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System relating to the payment of accumulated contributions at the death of a retiree. This change states that the term "accumulated contributions" includes voluntary employee contributions from a law enforcement officer's 401(k) plan that have been transferred to the Retirement System.
 - Moves an existing statute to a different section of Chapter 135. The provision authorizes a member to purchase credit for service at the University of North Carolina during which the member participated in the Optional Retirement Program at full cost. The provision was previously in the section of the law relating to benefits. This moves the provision to the section relating to membership and service credit.
 - Amends the laws for the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System to make an exception to the cap on reemployment earnings. The amended law provides that a beneficiary's retirement allowance is not suspended when reemployment earnings exceed the cap amount in the month of December.
 - Amends the law providing for the purchase of creditable service in the Teachers' and State Employees' Retirement System for approved leaves of absence under the Workers' Compensation Act. The amended law will allow members in receipt of Workers' Compensation who later become long-term disability beneficiaries to purchase creditable service for the approved period even if the members do not return to service.
 - Amends the provisions of the Death Benefit Plan and the Survivor's Alternate Benefit for the Teachers' and State Employees' Retirement System to provide eligibility for beneficiaries who are also in receipt of Workers' Compensation during a period in which they would otherwise have been eligible for short-term disability benefits and who die within 181 days of their last date of service but before their short-term disability benefits would have ended.

S.L. 2007-464 (HB 1471) CHARTER SCHOOLS PARTICIPATING IN THE RETIREMENT SYSTEM

The General Assembly allowed the board of directors of Orange Charter School, an existing charter school, another opportunity to elect to become a participating employer in the Teachers' and State Employees' Retirement System. The School's board of directors must make the election to participate no later than 30 days after it becomes law.

S.L. 2007-384 (SB 580) TRANSFER OF FUNDS FROM THE 401(K) PLAN TO THE RETIREMENT SYSTEM

The General Assembly allowed State and local law enforcement officers to transfer the employer and employee contributions from the Supplemental Retirement Income Plan [401(k) Plan] to the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System at the time of retirement. The retirement system will convert the funds into a single life annuity which will be paid to the member for life and then to a beneficiary, if the member selected an option that leaves a benefit to a beneficiary.

Statewide Reserves: Retirement

S.L. 2007-378 (SB 914) CONVERT EXCESS PERSONAL LEAVE TO SICK LEAVE

The General Assembly allows any teacher to convert all personal leave over five days to sick leave as of June 30th of each year. At the time of retirement, a teacher may also convert accumulated personal leave to sick leave for creditable service towards retirement. In the past, teachers lost all accumulated personal leave in excess of five days on June 30th of each year.

S.L. 2007-245 (HB 676) REGISTER OF DEEDS' SUPPLEMENTAL BENEFITS

The General Assembly reduced the percentage share of fees collected by registers of deeds and remitted to the Department of State Treasurer from 4.5% to 1.5%. The legislation allows retiring registers of deeds to become eligible to receive a monthly pension from the Supplemental Fund in the month immediately following the effective date of retirement, rather than having to wait until the January following their retirement. The legislation also increases the maximum monthly pension payable to eligible registers of deeds from \$1,200 to \$1,500, not to exceed 75% of the latest salary including supplements. The change excludes any benefits from the Supplemental Retirement Plan [401(k) Plan] as a result of employer contributions from the calculation of the maximum benefit of 75% of salary.

S.L. 2007-326 (HB 956) EXTEND THE SUNSET THAT ALLOWS RETIRED TEACHERS TO RETURN TO TEACH WITH NO EARNINGS RESTRICTIONS

The General Assembly extended, until October 1, 2009, the law removing any restrictions on the amount of post-retirement earnings for any retiree of the Teachers' and State Employees' Retirement System who retired on or before October 1, 2007, and who is employed to teach in a permanent full-time or part-time capacity that exceeds fifty percent (50%) of the normal workweek in a public school. To qualify, a teacher must have been retired for six months and not have been employed in any capacity with a public school in the six months immediately preceding the return to teaching. Each local school administrative unit will pay 11.7% of the teacher's salary to the Retirement System to fund the cost. Future retirees, who retire after October 1, 2007, may return to teach with no earning restrictions only, if prior to retirement, they had attained (i) age 65 with 5 years of service, (ii) age 60 with 25 years of service, or (iii) 30 years of creditable service and meet the other requirements described above.

S.L. 2007-388 (SB 720) OPEN ENROLLMENT PERIOD FOR CONTRIBUTORY DEATH BENEFIT FOR RETIRED MEMBERS

The General Assembly allowed for an open enrollment period whereby any retiree of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, or the Local Governmental Employees' Retirement System who has not elected to enroll in the Contributory Death Benefit for Retired Members when first eligible can do so from February 1, 2008, through May 31, 2008. However, retired members who elect coverage during this open enrollment period will pay 11.1% higher premium rates.

S.L. 2007-496 (HB 779) INCREASE CONTRIBUTORY DEATH BENEFIT FOR RETIRED MEMBERS

The General Assembly increased the Contributory Death Benefit for Retired Members from \$9,000 to \$10,000 for retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and Local Governmental Employees' Retirement System that elect to pay for this coverage. Plan members who die on or after July 1, 2007, are covered under the higher amount.

Statewide Reserves: Health Benefits

G.S. 135, Art. 3, Other Teacher, Employee Benefits

G.S. 135-7(f), Retiree Health Benefit Fund

Administration:

State Health Plan: The State operates a self-funded health benefit plan comprised of an Indemnity plan and a Preferred Provider Option (PPO). The State Health Plan (Plan) administers health benefit coverage for active employees of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees 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. As of November 2007, enrollment in the Plan was approximately 644,000 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 expected to exceed \$2 billion in the FY 2007-08.

The General Assembly appropriates funds to increase annual employer contributions, for each employee and retiree covered under the Teachers' and State Employees' Comprehensive Major Medical Plan, 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 premiums to the State Health Plan Office, who administers the Teachers' and State Employees' Comprehensive Major Medical Plan.

SIGNIFICANT LEGISLATIVE BUDGET ACTIONS

The General Assembly appropriated the following to fund increased premium rates charged to employing agencies to provide health benefit coverage to eligible active and retired employees:

State Appropriations	FY 2007-08	FY 2008-09
General Fund	110,184,490	122,890,207
Highway Fund	<u>5,141,943</u>	<u>5,734,876</u>
TOTAL	\$115,326,433	\$128,625,083

Budgeted receipts of employing agencies used to pay employee health benefit coverage for positions funded in this manner may be reallocated or increased to pay the additional premium costs authorized by the General Assembly. The amount of additional receipts projected to be required is approximately \$48 million over the biennium.

Statewide Reserves: Health Benefits

SIGNIFICANT SPECIAL PROVISIONS
SESSION LAW 2007-323 HOUSE BILL 1473

Section 28.19 SALARY-RELATED CONTRIBUTIONS/ EMPLOYER

Effective October 1, 2007, the General Assembly increased premium rates paid by State agencies, universities, local public schools, and local community colleges to secure health benefit coverage for their eligible employees under the State Health Plan. The affected premium rates were increased at an annual rate of 11.2% for the PPO and 11.4% for the Indemnity plan. The increases are reflected in the various maximum employer contribution rates established by the provision. These employer contribution rates are equal to the annual premium rate required to be paid by employing agencies to secure health benefit coverage for their eligible employees. The annual maximum employer contribution rates for the 2007-09 bienniums are as follows:

<u>Employee/Retiree Status</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Indemnity plan		
Non-Medicare Eligible	\$4,183	Indemnity plan
Medicare Eligible	\$3,185	Eliminated
PPO		
Non-Medicare Eligible	\$4,052	\$4,157
Medicare Eligible	\$3,085	\$3,165

Effective July 1, 2007, the General Assembly also increased the percent payroll contribution surcharge rate paid by employing agencies to the Retiree Health Benefit Fund. The percentage rate was increased from 3.8% to 4.1% of an employing entity's payroll. The rate was increased in accord with the authorized premium increase enacted for the Plan. Funds collected from the surcharge are deposited to the Retiree Health Benefit Fund and used to pay premiums to the Plan for eligible retired employees to receive health benefit coverage. It is estimated that the 4.1% payroll contribution surcharge will generate approximately \$550 million for FY 2007-08.

Section 28.22 STATE HEALTH PLAN CHANGES EFFECTIVE FOR FISCAL YEAR 2007-2008

The following omnibus legislative changes were made with respect to the Plan:

- **Plan Benefit Reductions:** The General Assembly reduced the Plan's level of benefits to generate additional savings of \$79.6 million for the biennium. The specific benefit reductions enacted are listed below:
 - 1) Increased the preferred brand drug co-payment from \$25 to \$30 for each 34-day supply for plan members enrolled in the Indemnity plan and the PPO programs;
 - 2) Increased the Indemnity plan's maximum out-of-pocket annual deductible from \$350 to \$450 with an annual limit of \$1,350 per employee and child(ren) or employee and family contract; and
 - 3) Increased the Indemnity plan's out-of-pocket requirements for plan members by increasing the office visit co-payment from \$15 to \$25 per visit.
 No benefit reductions to nondrug-related medical benefits were made for the PPO programs by the General Assembly.

Statewide Reserves: Health Benefits

- **Plan Benefit Enhancements:** Benefit enhancements enacted by the 2007 Session of the General Assembly were made to the Plan's PPO program only. The additional costs of these enhancements are projected to be \$19.1 million for the 2007-09 biennium. The enhancements include providing benefit coverage for mental illness and substance abuse treatments under the PPO programs on a parity basis with benefits provided for physical illnesses and removal of the limits on the number of annual visits for necessary physical therapy, occupational therapy, and speech therapy. The benefit enhancement removing the limit on the number of annual visits for physical therapy, occupational therapy, and speech therapy expires June 30, 2009. No benefit enhancements were made for the Indemnity plan by the General Assembly.
- **Evaluate Options to Administer NC Health Choice Program:** The Executive Administrator of the Plan and the Department of Health and Human Services, Division of Medical Assistance, are required to discuss the administration of NC Health Choice in view of the elimination of the Indemnity plan effective July 1, 2008. These meetings must address all issues that may arise regarding the administration of NC Health Choice under the State Health Plan. The Executive Administrator and the Department shall report to the Committee on Employee Hospital and Medical Benefits not later than February 1, 2008, with recommendations on statutory or other changes necessary to ensure effective administration of NC Health Choice.
- **Revise Plan's Governing General Statutes:** The General Assembly's Committee on Employee Hospital and Medical Benefits is directed to convene one or more meetings to review current law as it applies to the Plan. The purpose of the review is to determine changes that need to be made to Article 3 of Chapter 135 of the General Statutes in order to transition health care coverage from the Indemnity plan to the PPO and all optional plans or programs offered under the PPO. Not later than May 1, 2008, the Committee shall report its recommendations to the 2007 General Assembly, Regular Session 2008.

Section 28.22A STATE HEALTH PLAN CHANGES EFFECTIVE BEGINNING WITH THE 2008-2009 FISCAL YEAR

The following omnibus legislative changes were made with respect to the Plan under this specific special provision:

- **Eliminate Indemnity plan:** The General Assembly eliminated the Indemnity plan as a benefit option for Plan members effective July 1, 2008.
- **Various Statutory Changes to Maintain Legislative Intent:** The General Assembly made various conforming changes to the statutes governing the Plan (Article 3 of Chapter 135) to eliminate the Indemnity plan benefit option effective July 1, 2008. The changes include the following:
 - 1) Maintain the exemption of the Plan's medical provider contracts from the public records statutes except under limited circumstances;
 - 2) Change the Plan's official name to the "State Health Plan for Teachers and State Employees"; and

Statewide Reserves: Health Benefits

- 3) State the General Assembly's intent that future health benefit plan options offered shall be comprehensive benefit plan options, including mental health and chemical dependency benefits on par with benefits for physical illnesses, and will include State-paid health benefit coverage for eligible employees and retired employees.
- **Plan Communications to Plan Members:** This provision directs the Plan's management to conduct presentations to employee and retired employee association groups for the purpose of communicating information about Plan benefits, limitations, out-of-pocket requirements, and other pertinent matters.
 - **Election of a Preferred Provider Option (PPO):** On July 1, 2008, if an employee, retired employee, and his or her respective dependents enrolled in the Indemnity plan fails to make an election to choose a PPO benefit coverage option prior to elimination of the Indemnity plan, then the General Assembly has directed the Plan's management to automatically enroll a nonelecting plan member in the Standard PPO Option or its equivalent.

Section 28.22B STATE HEALTH PLAN WELLNESS PILOT

The General Assembly requires the Plan to spend an amount up to \$200,000 to implement one or more wellness pilot programs for State employees and to report back by May 1, 2008, on the participation levels of employees and the health outcomes resulting from participation.

Section 28.23 RETIREE HEALTH BENEFIT FUND

This special provision authorizes Retiree Health Benefit Fund assets to be used for reasonable expenses to administer the Fund, including costs for required actuarial valuations of retired employee health benefits under other post-employment benefit accounting standards.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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The following table summarizes the actions taken by the General Assembly and the additional actions expected to be taken by the Plan's Executive Administrator during each fiscal year to keep the Plan financially sound for the biennium.

Statewide Reserves: Health Benefits

State Health Plan Summary of Financial Changes by the 2007 General Assembly			
	(\$ Million)		
	FY 2007-08	FY 2008-09	Biennium
(1) Additional Financial Support Required	234.5	312.7	547.2
(2) PPO Benefit Enhancements Effective July 1, 2007 Mental Health Parity, Substance Abuse Parity, Remove Therapy Caps on Physical Therapy, Speech Therapy, & Occupational Therapy	6.6	12.5	19.1
(3) State Employee Wellness Pilot	0.2	-	0.2
(4) Benefit Reductions Effective July 1, 2007			
Increase Annual Deductible from \$350 to \$450 (Indemnity)	(20.1)	(1.0)	(21.1)
Increase Office Visit Co-payment from \$15 to \$25 (Indemnity)	(15.6)	(3.5)	(19.1)
Increase Brand Drug Co-pay from \$25 to \$30 (Indemnity & PPO)	<u>(16.1)</u>	<u>(23.3)</u>	<u>(39.4)</u>
Total Reduction	(51.8)	(27.8)	(79.6)
(5) Eliminate Indemnity Plan July 1, 2008	-	(75.8)	(75.8)
(6) Executive Administrator's Actions			
Provider Contract Reductions	(26.0)	(30.0)	(56.0)
Premium increases for Dependent Coverage (Oct 2007) (Indemnity plan: 11.4% PPO: 11.2%)			
Paid by Employees and Retirees for Enrolled Spouses and Dependent Children			
Total Employee Funds	(30.3)	(33.8)	(64.1)
(7) Appropriations by the General Assembly			
Premium increases for Employing Agencies (Oct 2007) (Indemnity plan: 11.4% PPO: 11.2%)			
General Fund	(110.2)	(122.9)	(233.1)
Highway Fund	(5.1)	(5.7)	(10.8)
Other Employer Funds	<u>(22.7)</u>	<u>(25.4)</u>	<u>(48.1)</u>
Total Employer Funds	(\$138.0)	(\$154.0)	(\$292.0)
(8) Balance (Negative Number Indicates Adequate Funding)	(\$4.8)	\$3.8	(\$1.0)

Financial Changes to the Plan in the 2007 Session

At the convening of the 2007 Session of the General Assembly, the Plan was not expected to be able to finance its operations for the 2007-09 biennium. According to information from the Plan's Executive Administrator, the Plan's self-insured Indemnity plan and Preferred Provider Options (PPO) were expected to require over \$547 million in additional financial support to remain solvent and maintain minimum claim stabilization reserves for the 2007-09 biennium.

Plan's Financial Projection for the FY 2007-2008

Net of the financial changes reflected in the table above, the Plan is projected to be adequately funded for the 2007-09 biennium assuming current premium rates and benefit schedules. For the fiscal year beginning July 1, 2007, the Plan began its operations with a beginning cash balance of \$156.7 million. Receipts for the year are projected to be \$2.2 billion from premium collections, \$42 million from Medicare Part D subsidies, and \$8.6 million from investment earnings for a total of slightly over \$2.2 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.1 billion in claim payment expenses and

Statewide Reserves: Health Benefits

\$119.5 million in administration and claims processing expenses for projected total expenses of slightly over \$2.2 billion for FY 2007-08. The Plan's net operating income is projected to be approximately \$60 million for the fiscal year.

Of the Plan's projected \$2.2 billion in premium income, approximately 82% of this amount, or \$1.8 billion, is estimated to come from State agency, university, local public school, and local community college resources. These resources include General Fund appropriations, Highway Fund appropriations, and other receipt sources such as fees, federal grants, and local funds. The balance of total projected premium income (approximately \$400 million) is expected to be paid by active employees or retired employees to cover their eligible dependents.

Calendar Year 2005 Actuarial Valuation of Retiree Health Benefit Liabilities

The State's first formal actuarial valuation of retired employee health benefit coverage reported a \$23.8 billion unfunded liability as of December 31, 2005. This liability represents, 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 new 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 new 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.

ADDITIONAL LEGISLATION

S.L. 2007-405 (HB 508) STATE HEALTH PLAN/LOCAL GOV. PARTICP.

The General Assembly amended Section 31.26(j) of S.L. 2004-124 (2004 Appropriations Act), as further amended by Section 29.32 of S.L. 2005-276 (2005 Appropriations Act). The legislation permits the Towns of Biltmore Forest, Black Creek, Black Mountain, Blowing Rock, Ocean Isle Beach, Sunset Beach, and Tabor City, plus Mitchell County, to become an employing unit under the Plan for the purpose of providing health benefits to the County's employees, retired employees, and their eligible spouses and dependent children. Currently, the Towns of Forest City and Lake Lure, and the counties of Beaufort, Bladen, Washington, and Rutherford participate as local government-based employing units under the Plan.

S.L. 2007-464 (HB 1471) CHARTER SCHOOL BENEFITS ELECTION

The General Assembly provided the respective Boards of Directors of the Orange Charter School, the Bethany Community Middle School, and the Tiller School another opportunity to elect to become participating employers in the Plan during the 30 days after the act becomes law. Each named school is a public charter school. Under G.S. 135-40.3A, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

Statewide Reserves: Health Benefits

S.L. 2007-532 (HB 265) ESTABLISH HEALTH INSURANCE RISK POOL

The General Assembly established a high-risk pool to offer insured health benefit coverage to eligible citizens of the State who have not been able to secure affordable coverage by other means. Section 6 of the legislation authorizes the Pool to charge the Plan a financial assessment based on the annual number of lives included in certain enrollment classifications within the Plan. Specifically, the assessment is calculated by multiplying the yearly enrollment counts for active employee plan members and their eligible covered dependents times \$1.50 per member per year. The assessment fee calculation does not include enrollment counts for retired employee plan members or their covered dependents. The annual assessment paid by the Plan is to be used towards the operations of the Pool.

S.L. 2007-133 (HB 748) INSURERS/COVER RX IN EMERGENCIES – AB

The General Assembly requires that, during a declared state of emergency or proclaimed disaster by the Governor, the Plan waive practices that restrict a covered person from refilling a prescription prior to the refill date authorized by a plan. Prescription drugs are typically authorized on a "days'-supply" basis where the amount of medication is dispensed for a set number of days, typically a "30-day supply." "Refill too soon" policies utilized by health benefit plans restrict covered persons from refilling prescription medications until within a few days of the end of the current supply of a covered person's prescription. The legislation allows covered individuals in counties subject to a Governor's declaration or proclamation to refill a current prescription under their health benefit plan without limitation, if the prescription was originally filled or refilled within a period 29 days or less from the declaration of an emergency or disaster.

S.L. 2007-467 (HB 1529) ACTUARIAL VALUATION/RETIREE HEALTH BENEFITS

The General Assembly established a formal executive branch committee to provide oversight for securing an annual actuarial valuation of retired employee health benefits. The committee, entitled the Committee on Actuarial Valuation of Retired Employees' Health Benefits, will be responsible for ensuring that the State follows proper accounting standards for measuring and reporting retiree healthcare liabilities as adopted by the Governmental Accounting Standards Board (GASB). The membership of the Committee includes the State Budget Officer (Chair), the State Controller, the State Auditor, the State Treasurer, and the Executive Administrator of the Teachers' and State Employees' Comprehensive Major Medical Plan.

CAPITAL IMPROVEMENTS 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. Larry Womble, Chair
 Rep. Walter Church
 Rep. Robert Grady
 Rep. Cary Allred
 Rep. Marilyn Avila
 Rep. Pete Cunningham
 Rep. Leo Daughtry
 Rep. Hugh Holliman
 Rep. Ric Killian
 Rep. William Wainwright
 Rep. Thomas Wright

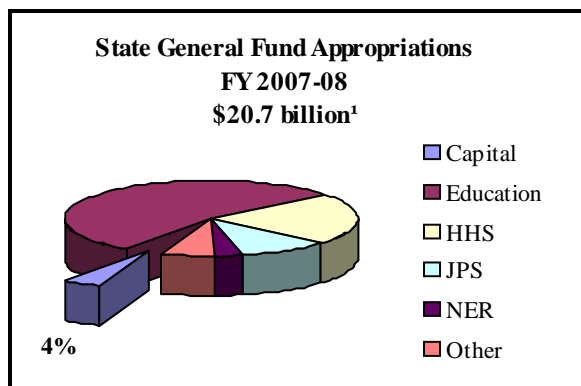
N/A

Staff:

Jim Klingler

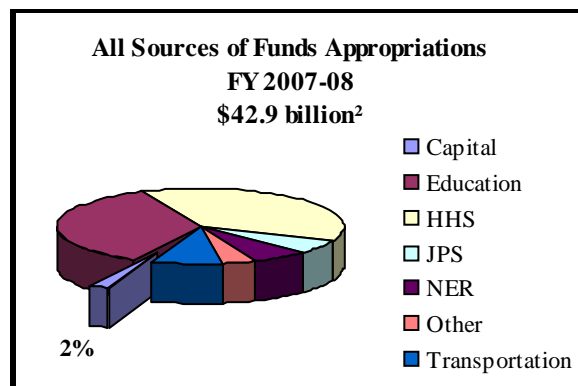
Budget Comparison:

The General Assembly appropriated \$840.9 million in FY 2007-08 and \$660.6 million in FY 2008-09 from the General Fund for capital improvements and debt service. This represents 4% of net General Fund appropriations and 2% of the total \$43 billion appropriated from all funds reported. The totals do not reflect the \$1.1 billion in repairs and renovations, debt authorizations, and self-liquidating projects for the university system. 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

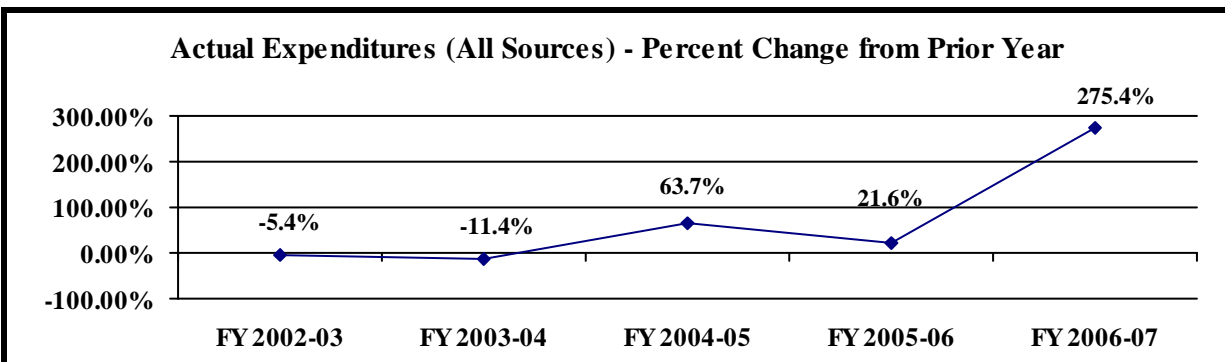
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	54,960,000	206,343,300	230,741,100	0
Revenue	0	0	0	0
Net Appropriations	\$54,960,000	\$206,343,300	\$230,741,100	\$0
Positions (FTE)	0.00	0.00	0.00	0.00

Budget Overview:

The Capital Improvements Budget for FY 2007-08 is \$230,741,100. The budget, funded solely from the General Fund, represents a \$24,397,800 increase (12%) over FY 2006-07. 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 2006-07 is 68.8%. As the State's revenue picture improved in recent years, the General Assembly appropriated more from the General Fund for capital improvements. From FY 2002-03 to FY 2005-06, 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)	Certified FY 2007-2008	Certified FY 2008-2009*
Department of Administration	4,183,281	
Department of Agriculture and Consumer Services	8,690,865	
Department of Correction	8,497,557	
Department of Crime Control and Public Safety	398,094	
Department of Cultural Resources	6,765,000	
Department of Environment and Natural Resources	49,708,200	
Office of Information Technology Services	8,000,000	
Department of Justice	1,974,103	
Department of Juvenile Justice and Delinquency Prevention	1,875,000	
Department of Commerce - NC Ports	7,500,000	
University of North Carolina System	133,149,000	
TOTAL	\$230,741,100	
Revenue	-	
NET GENERAL FUND APPROPRIATIONS	\$230,741,100	

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 2007-08 Capital Improvement Budget, the Appropriations Committees considered various sources, including the Governor's Recommended FY 2007-08 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.

The State's capital needs, as identified in the Governor's Recommendations and the UNC System Plans, totaled \$3 billion. Since the amount exceeded the Committees' estimated resources, the Committees relied on an approach to facilitate the selection of projects by considering the following:

1. Projects previously funded (construction or planning);
2. Projects ready to break ground over the next three fiscal years; and
3. Type of financing (General Fund appropriations and Certificates of Participation).

Capital Improvements Budget

The approach resulted in a capital budget of \$230.7 million in General Fund appropriations and an authorization of \$669.1 million in special indebtedness. A complete list of projects can be found in at the end of the section titled Capital Improvement Projects.

Capital Planning

Of the total funds appropriated, the General Assembly appropriated \$28.0 million from the General Fund for capital planning for projects that do not currently have construction funding. These planning funds are estimated to yield \$441.1 million in construction requests for FY 2008-09 and subsequent fiscal years.

Site Development

The General Assembly appropriated \$128.8 million from the General Fund for planning and site development for projects that are not fully funded. The current estimate to complete these partially constructed projects is \$446.7 million.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 2.2(b) CURRENT OPERATIONS AND EXPANSION/GENERAL FUND

This section directs the State Controller to transfer \$145,000,000 to the Repairs and Renovations Reserve Account, superseding G.S. 143-15.2 and G.S. 143-15.3A, statutory requirements for reserving and using funds for repairs and renovations.

Section 29.3 WATER RESOURCES DEVELOPMENT PROJECT FUNDS

Section 29.3 allocates the \$20 million of General Fund appropriations for water resources development projects. 23 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 \$2,475,000 reserved for additional but unspecified local projects and contingencies and \$3,937,000 for dredging contingency funds.

Section 29.5 REPAIRS AND RENOVATIONS RESERVE ALLOCATION

This section continues the General Assembly's policy for allocation of funds in the Repairs and Renovations Reserve Account, 57% to State agencies and 46% to universities. For FY 2007-08, \$78,300,000 will be allocated to State agencies and \$66,700,000 to the University of North Carolina (UNC) System.

The provision also: 1. directs OSBM and the UNC General Administration to study the General Assembly's policy for allocation of the reserve account; the State's process for identifying and assessing the condition of certain State-owned buildings; and the actual expenditure of repairs and renovations funds; 2. provides a \$3,921,100 allocation to the Palmer Memorial Institute State Historic Site; and 3. directs UNC to use the reserve account to install fire sprinkler systems in campus dormitories. Repairs and renovations are discussed further in the section titled Select Programs and Other Budgetary Information.

Capital Improvements Budget

Section 29.11 TRANSFER OF STATE PROPERTY TO WAYNE COUNTY

Section 29.11 transfers state land currently allocated to the Department of Juvenile Justice and Delinquency Prevention and the Department of Health and Human Services to Wayne County for the construction of a community agricultural center.

Section 29.11A DISPOSITION OF PROCEEDS FROM SALE OF FORMER BUNCOMBE COUNTY HEADQUARTERS PARCEL

The Department of Environment and Natural Resources, in the event of a sale of the former Buncombe County forestry headquarters and associated State land, is authorized to retain the proceeds and offset the cost of the construction of a new forestry headquarters in Buncombe County.

Section 29.13 SPECIAL INDEBTEDNESS PROJECTS

Section 29.13 provides the authorization for the State Treasurer, with the approval of the Council of State, to issue \$669,148,025 in special indebtedness for 16 capital projects. Debt is discussed in the section titled Select Programs and Other Budgetary Information, and the complete list of authorized projects can be found in the section titled Capital Improvements Projects.

Section 29.13 LAND FOR TOMORROW AND WATERFRONT ACCESS AND MARINE INDUSTRY FUND

Section 29.14 provides the authorization for issuance of \$100 million in special indebtedness for the acquisition of additional State parks lands and Mountains to Sea Trail land under G.S. 113-44.15 and natural heritage lands under G.S. 113-77.9.

The provision also authorizes the issuance of \$20 million in special indebtedness to be deposited in the newly created Waterfront Access and Marine Industry Fund (WAMI Fund). The WAMI Fund will acquire lands and fund capital projects that protect or increase access to water for the public and for commercial fishing.

Revenues collected through the Parks and Recreation Trust Fund (G.S. 113-44.15) will service the debt for \$70 million of the principal authorized in this provision. Revenue collected through the Natural Heritage Trust Fund (G.S. 113-77.9) will repay the remaining \$50 million in debt.

SELECT PROGRAMS AND OTHER BUDGETARY INFORMATION
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STATE DEBT POLICY AND PRACTICE

The State of North Carolina's policies and practices for meeting the needs of construction and maintenance of its government buildings and infrastructure provide a framework of clearly defined principles within the State's laws.

Capital Improvements Budget

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 debt, regardless of the type. 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 the 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.

State law, 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. 2007-394 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 generally 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.
- **Special Obligation Bonds** are backed by various agency revenues (G.S. 116D-26 authorizes the University of North Carolina System to issue special obligation debt) and are similar to revenue bonds in all other respects.
- **Special Indebtedness** is incurred by various means, including lease or installment purchases and Certificates of Participation (COPs). Backed by a pledge of appropriation, special indebtedness does not pledge the faith and credit of the State and does require voter approval.

Under Article V, Section 3 of the North Carolina Constitution, the General Assembly may authorize general obligation debt "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". None have been issued since 1992.

Capital Improvements Budget

DEBT MANAGEMENT

During the 2004 Session, the General Assembly enacted S.L. 2004-179, establishing the Debt Affordability Advisory Committee (DAAC). The 7-member Committee, as prescribed in Chapter 142, Article 10, produces an annual Debt Affordability Study each February, providing 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 2007-08 the following principles were considered:

- A target of 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 target of \$384 million in new debt for each of the next five years.

The General Assembly authorized a total of \$669.1 million for new or continuing capital projects, to be issued over the next three fiscal years. The following table reflects the S.L. 2007-323 authorizations as compared to the debt capacity target.

Debt Capacity for New Debt Authorizations (\$ millions)			
	FY 2007-08	FY 2008-09	FY 2009-10
Debt Capacity	384.0	384.0	384.0
S.L. 2007-323 Authorizations	(240.6)	(266.0)	(162.6)
Remaining Capacity	\$143.4	\$118.0	\$221.4

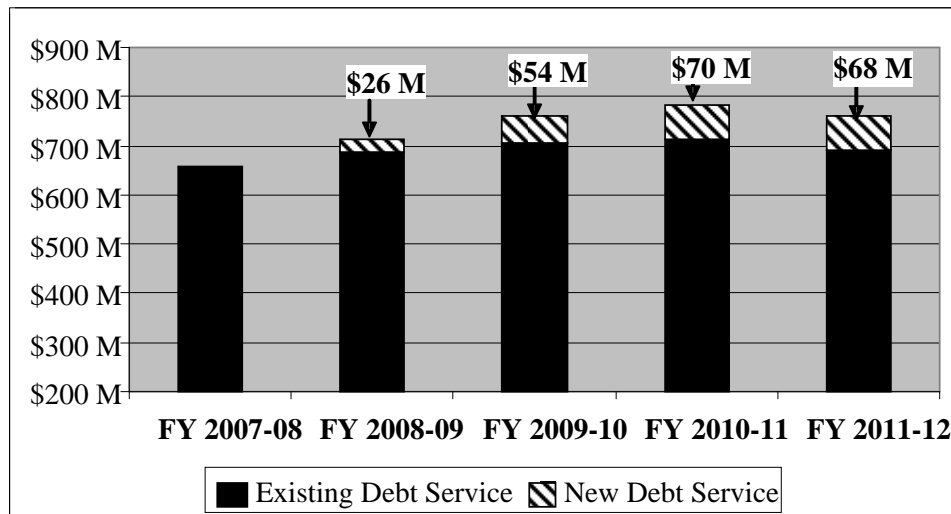
CURRENT DEBT OBLIGATIONS AND AUTHORIZATIONS

The State Treasurer has estimated the State's outstanding indebtedness at \$7.1 billion for FY 2007-08. This amount includes both General Fund indebtedness (\$6.1 billion) and Highway Fund indebtedness (\$593.9 million).

In addition to the State's outstanding debt, the General Assembly has authorized in addition \$1.6 billion in State debt, including the \$669.1 million authorized in S.L. 2007-323. This debt will be issued in future years. The chart that follows presents the State's estimated debt service projected through FY 2011-12.

Capital Improvements Budget

Estimated Debt Service FY 2007-08 through FY 2011-12



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 capital improvement projects, the General Assembly has established a statutory earmark of funds as a way to address ongoing maintenance needs.

FUNDING

The State's repairs and renovations are typically paid for by appropriations from the State General Fund, often based upon a statutory requirement designating funds from the State's year-end fund balance. Under the law in effect on June 30, 2007, G.S. 143-15.3A, the State Controller would have transferred approximately \$300 million, or 3% of the replacement value for all State buildings supported from the General Fund, to the Repairs and Renovations Reserve Account. However, through the 2007 Appropriations Act, S.L. 2007-323, Section 2.2(b), the General Assembly directed that \$145.0 million be transferred instead. The General Assembly also provided further direction through Section 29.5 (see the Significant Special Provisions Section).

Beginning with the fiscal year ending June 30, 2008, G.S.143C-15.3A directs the State Controller to transfer 25% of the General Fund's year-end unreserved fund balance to the Repairs and Renovation Reserve Account.

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. 2007-323, Section 29.5, directed 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 and the UNC System

Capital Improvements Budget

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.

ADDITIONAL LEGISLATION

S.L. 2007-345 (HB 714) BUDGET TECHNICAL CORRECTIONS ACT

S.L. 2007-345 included several revisions to the capital budget as set out in S.L. 2007-323.

- Section 13 corrects the security level for planning funds for two authorized prison additions
- Section 14 removes the project specification and dollar limit for capital improvements at the Port of Morehead City.
- Section 14.1 authorizes the NC Aquariums to use receipts for capital improvements.

S.L. 2007-394 (SB 1241) UNC NON-APPROPRIATED CAPITAL PROJECTS

Through S.L. 2007-394, 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 2007-08. These projects are in addition to the capital projects contained in the 2007 Budget Act (S.L. 2007-323) and are financed with debt that is to be repaid by sources other than tuition and General Fund appropriations. These sources include housing receipts, athletic fees, dining receipts, and other receipts.

S.L. 2007-394 authorized \$324,681,000 for 24 new projects and \$10,000,000 to supplement 3 previously authorized projects. The projects include student housing, athletic facilities, student dining, infrastructure, and grant-funded academic facilities.

These new projects will require General Fund operating support of \$180,622 in FY 2008-09 and recurring expenditures of \$2.5 million starting in FY 2009-10.

S.L. 2007-446 (HB 73) IMPROVE STATE CONSTRUCTION PROCESS

Through S.L. 2007-446, the General Assembly expects to shorten project delivery time and reduce the impact of inflation on State construction costs. G.S. 143-129 was amended to raise the threshold requiring a formally bid construction contract from \$300,000 to \$500,000. Also, G.S. 143-64.34 was revised to raise the requirement for State Building Commission designer selection from \$300,000 to \$500,000. G.S. 143-135.26 was revised to require the State Building Commission to develop a memorandum of agreement between the owner agencies and the review agencies to clarify expectations and responsibilities. G.S. 143-341 was amended to require a face-to-face meeting of the owner agency, all relevant review agencies, and the designer prior to letting the design contract.

Aside from statutory changes, S.L. 2007-446 requires the State Building Commission to examine the full range of design review processes, contracts, and agreements to increase accountability between project owners (the State agencies), the reviewing agencies (State Construction Office, the Department of Insurance, and others), the designers, and the contractors.

Capital Improvements Budget

Statutory changes affecting design and construction contracts are estimated to yield \$946,578 in capital cost savings. Other changes to the construction process could result in greater cost savings.

S.L. 2007-322 (HB749) UNC PRESIDENT'S ADV. COMM. RECOMMENDATIONS

S.L. 2007-322 makes several changes to the General Statutes that govern university construction projects. Revisions exempt certain repair projects from professional design; raise the floor for State Building Commission designer selection and formal construction bidding to \$500,000; increase force account limitations to \$200,000 per project; authorize UNC to enter into property leases with Department of Administration approval; and revise Joint Legislative Committee on Governmental Operations consultation requirements for UNC capital projects.

S.L. 2007-546 (SB 668) ENERGY CONSERVATION IN STATE BUILDINGS

S.L. 2007-546 provides that starting in October 2008:

- New major facility projects must reduce energy usage by 30% more than the American Society of Heating, Refrigeration, and Air Conditioning Engineers (ASHRAE) Standard 90.1-2004;
- Major renovations must achieve a 20% reduction in energy usage per Standard 90.1-2004;
- New construction projects must reduce indoor water use by 20% beyond the 2006 North Carolina Plumbing Code and outdoor water use by 50% beyond water usage by "conventional means."

By 2010, all State agencies will be required to reduce their energy consumption per gross square foot by 20% from a FY 2003-04 baseline, and that requirement increases to 30% in 2015.

If the State's six year capital improvement plan is implemented, then capital expenditures are estimated to increase between \$10.7 million and \$12.7 million per year of the plan. Within five years, the State is estimated to avoid \$3.7 million in recurring utility expenditures.

S.L. 2007-13 (SB 153) Mattamuskeet Lodge Maintenance

S.L. 2007-13 amends Article 1 of Chapter 121 of the General Statutes to authorize the State to accept the Mattamuskeet Lodge from the federal government. The property will be allocated to the Department of Cultural Resources for renovation. When renovation is completed, the lodge will be transferred to the Wildlife Resources Commission.

Capital Improvements Budget

CAPITAL IMPROVEMENT PROJECTS

S.L. 2007-323 Capital Improvement Projects – General Fund Appropriations		
Project	Appropriation	Purpose
Deerfield Cottage Renovation	3,556,000	Full Project
State Capital Visitors Center	627,281	Planning
NC Museum of History Chronology Exhibit	6,322,900	Full Project
Horne Creek Farm Visitors Center	442,100	Full Project
Secondary Data Center Equipment	8,000,000	Project Supplement
NC Correctional Institution for Women – Health Care Facility	5,000,000	Planning
Prison Addition Planning Reserve	3,497,557	Planning
Statewide Department Master Plan I	280,294	Planning
Camp Butner Land Buffers	117,800	Phase One of Five
Western Justice Academy Firing Range	1,974,103	Full Project
Dillon Youth Development Center Building	375,000	Full Project
Five New Youth Development Centers	1,500,000	Planning
Western Agricultural Center Phase One	5,000,000	Funds Two Buildings
Eastern Agricultural Center	3,000,000	Full Project
Food and Drug Laboratory Chillers	690,865	Full Project
NC Ports Capital Projects	7,500,000	General Fund Contribution
Green Square Office and Museum Project	25,000,000	Planning and Site Work
Division of Water Quality Modular Office	252,200	Full Project
NC Zoo Horticulture Storage Facility	450,000	Full Project
NC Zoo Plains Barns and Paddocks	3,006,000	Full Project
Ashe County Forestry Headquarters	708,000	Full Project
Buncombe County Forestry Headquarters	292,000	Full Project
Water Resources Development Projects	20,000,000	State Contribution
East Carolina University Dental School	25,000,000	Planning and Site Work
Elizabeth City State University (ECSU) Education Building	2,000,000	Planning
ECSU School of Aviation Complex	500,000	Planning
North Carolina A & T State University General Classroom Building	5,300,000	Planning and Site Work
NC Central University Nursing Building	2,500,000	Planning
NC State University Centennial Library	17,000,000	Planning and Site Work
UNC-Chapel Hill School of Dentistry	25,000,000	Planning and Site Work
UNC-Chapel Hill Biomedical Research Imaging Center	8,000,000	Planning

Capital Improvements Budget

Project	Appropriation	Purpose
UNC-Charlotte Energy Production Infrastructure Center	19,000,000	Planning and Site Work
UNC-Greensboro Education Building	2,500,000	Planning
Winston-Salem State University Science and General Office Building	3,312,000	Planning
Improvements to 4-H Camps	7,500,000	Full Project
UNC Reserve for Land Acquisition	5,000,000	Full Project
Total	\$230,741,100	

Capital Improvements Budget

S.L. 2007-323 Capital Improvement Projects – Special Indebtedness Authorizations (\$ millions)				
Project	FY 2007-08	FY 2008-09	FY 2009-10	Total Authorized
Tryon Palace Visitors Center	5.0	20.0	10.0	35.0
Scotland Correctional Institution Addition	5.0	14.8	-	19.8
Alexander Correctional Institution Addition	6.6	6.6	-	13.2
Appalachian State – Education Bldg.	3.0	31.0	-	34.0
Fayetteville State – Science and Tech. Bldg.	5.0	17.6	-	22.6
School of the Arts – Library	1.8	12.6	10.5	25.0
NC State – Companion Animal Hospital	28.5	9.5	-	38.0
NC State – Engineering Addition	8.5	17.0	8.5	34.0
UNC-Asheville – Rhoades Hall Rehab	8.7	-	-	8.7
UNC-Chapel Hill – Genomics Science	31.0	55.0	33.6	119.6
UNC-Pembroke – Nursing Bldg.	5.0	14.0	-	19.0
UNC-Wilmington – Teaching Lab	2.5	6.1	25.9	34.5
WCU – Health and Gerontological Bldg.	-	18.8	22.8	41.6
WSSU – Student Activity Center	2.0	3.0	13.7	18.7
Millennium Campus – Nanoscience Bldg.	-	25.0	28.0	53.0
Coastal Studies Institute	8.0	15.0	9.5	32.5
Land for Tomorrow and Waterfront Access	120.0	-	-	120.0
TOTALS	\$240.6	\$266.0	\$162.6	\$669.1

INFORMATION TECHNOLOGY SERVICES- STATEWIDE

Information Technology Services - Statewide

Subcommittee Summary:

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 many agencies, information technology budget requests are subjected to the broader jurisdiction of the full Appropriations Committees acting through their chairpersons. The State Budget Act requires that these requests be subjected to review and recommendation by the State Chief Information Officer (CIO) 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 \$200 million in FY 2007-08.

Additionally, the General Assembly has created a much smaller Special Fund entitled the Information Technology Fund from which it appropriates money for new projects of statewide significance, research and development, and the core management functions of ITS. For Fiscal Year 2007-08 those appropriations total \$18.9 million.

Information Technology Internal Service Fund

G.S. 147-33.83 Information Resources Centers and Services

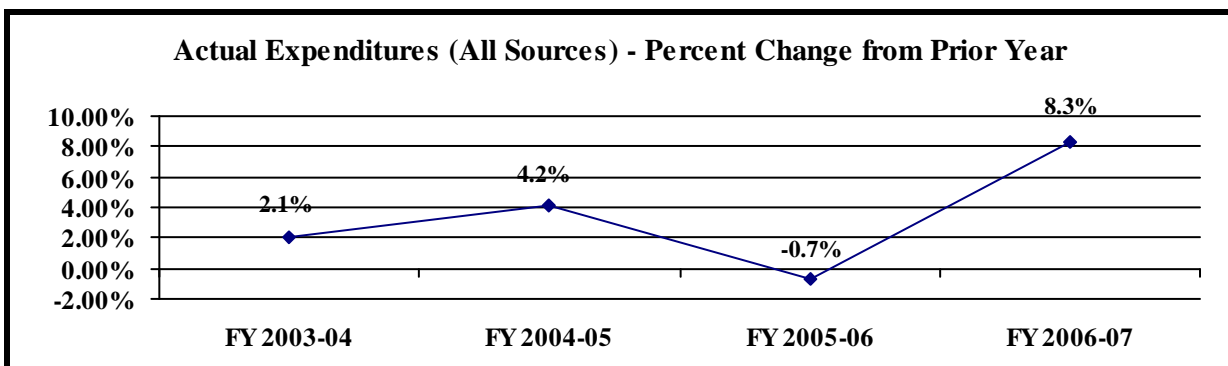
Agency Description:

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	Certified FY 2007-08	Certified FY 2008-09
Expenditures	141,745,143	153,470,753	203,508,903	203,508,903
Revenue	134,591,187	152,236,558	197,819,438	197,819,438
Fund Balance Change	\$7,153,956	\$1,234,195	\$5,689,465	\$5,689,465
Positions (FTE)	411.00	464.00	412.00	412.00

Budget Overview:

Over FY 2007-08, the budget for the Information Technology Internal Service Fund is projected to have requirements totaling \$203,508,903 and receipts totaling \$197,819,438. This amount is slightly less than 1% of the State appropriations and is an increase of 32% over actual expenditures the previous fiscal year and 52% 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.



Information Technology Services - Statewide

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.

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	\$8,152,835
Information Technology Projects	\$4,497,165	\$4,497,165
BEACON/Data Integration Funds	\$5,000,000	\$5,000,000
TOTAL	\$18,950,000	\$17,650,000

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 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.

The State CIO has established processes to accomplish each of these requirements. Each agency is required to submit an IT plan every two years, and its submissions are consolidated in a State plan. The State CIO 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 for IT is responsible for reviewing current information technology that impacts 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 developed by State CIO, information

Information Technology Services - Statewide

technology plans of executive agencies, and statewide technology initiatives developed by State CIO. 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.
- 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. A study of legacy information technology systems has been completed with

Information Technology Services - Statewide

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 the 2007 Regular Session, ITS was monitoring the status of 91 projects costing over \$500,000. The total cost to the State for these projects was estimated at \$820,046,818. 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 information for agencies and employees. It will include an updated human resource/payroll system, data storage, budget management, an accounting system, and tax and revenue capabilities. The HR/payroll initiative is the first phase.

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 \$10,000,000 has been appropriated to support the first two years 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.

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 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.

Health Information System (Department of Health and Human Services)

The Health Information System (HIS) is an automated means of capturing, monitoring, reporting, and billing services provided in local health departments, children's developmental services agencies (CDSA), and the State Lab. It will provide an interface with local health departments' own systems. It is scheduled to be completed by the end of State fiscal year 2007-08.

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 their 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.

Statewide Secondary Data Center (Office of Information Technology Services)

The Statewide Secondary Data Center, now renamed the Western Data Center, will provide two capabilities, disaster recovery and expansion of current data center capabilities. Located in Rutherford County, ITS feels it is far enough removed from Raleigh not to be impacted by the same disasters. The center is scheduled to become operational in 2008.

Information Technology Services - Statewide

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 includes augmenting consolidation with appropriate funding and organization to support and sustain the consolidation effort. The pilot program included the Governor's Office, the Lieutenant Governor's Office, the Office of State Personnel, the Office of State Budget and Management, and the Department of Administration. It has a revised total investment cost of \$1,691,442. Phase 2 will include the Department of Cultural Resources, the Office of the State Controller, the Department of Commerce, the Department of Juvenile Justice and Delinquency Prevention, and the Industrial Commission. It is currently projected to have a total investment cost of \$1,333,209.

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. The system is a phased solution to resolve interoperability issues. The first phase is an immediate, short-term solution that is referred to as the Tactical Solution, and the second is a long-term Strategic Solution. The Strategic Solution represents a continuation of equipment installations. The system will ultimately include 64 sites.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473
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Section 5.3 INFORMATION TECHNOLOGY FUND AVAILABILITY AND APPROPRIATION

Funding sources and uses for the Information Technology Fund are specified. Appropriations include \$9.5 million for IT operations, \$4.5 million for IT projects, and \$5 million for BEACON Data Integration.

Section 6.8 BEACON DATA INTEGRATION

The Office of the State Controller is to develop a Strategic Implementation Plan for the integration of databases and sharing of information among State agencies.

Section 6.9 USE OF COLLECTION ASSISTANCE FEE

The Department of Revenue is allowed to use up to \$15,000,000 to replace its computer system that records tax payments and determines when payments are overdue. The Department is also required to retain private counsel to review requests for proposals and to negotiate and review contracts associated with the system.

Section 6.11 OFFICE OF INFORMATION TECHNOLOGY SERVICES BUDGET REVIEW

The Office of Information Technology Services is required to submit its budget in time for inclusion in the Governor's budget recommendations.

Information Technology Services - Statewide

Section 6.12 OFFICE OF INFORMATION TECHNOLOGY SERVICES REVIEW OF STATE IT BUDGET SUBMISSIONS

The State Chief Information Officer is required to review information technology projects to ensure that agencies are not developing duplicate capabilities.

Section 6.13 GEOGRAPHIC INFORMATION SYSTEM (GIS) STUDY

The Office of State Budget and Management is required to conduct a study to identify duplication of effort in the development of GIS by State agencies and to provide a recommended strategy for consolidating GIS initiatives.

Section 6.14 E-COMMERCE LONG RANGE STRATEGY REPORT

The Office of the State Controller (OSC) is required to evaluate opportunities for efficiencies in State government through the use of electronic commerce for the collection and disbursement of funds. The OSC is to submit specific proposals to the General Assembly.

ADDITIONAL LEGISLATION

S.L. 2007-155 (SB 878) ITS EMPLOYEE BACKGROUND INVESTIGATIONS

The Chief Information Officer may require background investigations of any Office of Information Technology Services employee or prospective employee. Agency information technology liaisons and personnel in the Office of the State Auditor, who are responsible for information technology security reviews, are also subject to a criminal background report.

S.L. 2007-189 (HB 584) ITS/EMPLOYEE BACKGROUND INVESTIGATIONS

This bill amends Senate Bill 991 (S.L. 2004-129) to allow the Chief Information Officer to require background checks of Office of Information Technology Services personnel, as well as criminal background reports for agency liaisons and Office of the State Auditor personnel who are responsible for information technology security reviews. Additionally, it reduces the size of the Information Technology Advisory Board from 12 to nine members.

S.L. 2007-281 (SB 879) ITS PROJECT MANAGEMENT

This bill amends Senate Bill 991 by changing information technology project standards to require one or more project manager for a project, instead of just one. The threshold at which the State Chief Information Officer must provide a project management assistant is increased from \$500,000 to \$1,000,000.

FINANCE COMMITTEE

Finance Committee

Subcommittee Summary:

The Finance Committees of the General Assembly consist of 68 members, 30 in the NC 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 and other local revenues requiring General Assembly authorization.

Subcommittee Membership:

Rep. Paul Luebke, Senior Chair
Rep. Pryor Gibson, Chair
Rep. William Wainwright, Chair
Rep. Jennifer Weiss, Chair
Rep. Curtis Blackwood
Rep. John Blust
Rep. Becky Carney
Rep. Tricia Ann Cotham
Rep. Pete Cunningham
Rep. Bill Daughtridge
Rep. Bill Faison
Rep. Jean Farmer-Butterfield
Rep. Dale Folwell
Rep. Larry Hall
Rep. Jim Harrell
Rep. Dewey Hill
Rep. Hugh Holliman
Rep. Julia Howard
Rep. Earl Jones
Rep. David Lewis
Rep. Daniel McComas
Rep. Bill McGee
Rep. Bill Owens
Rep. Deborah Ross
Rep. Mitchell Setzer
Rep. Paul Stam
Rep. Edgar Starnes
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ECONOMIC OUTLOOK FOR MAJOR REVENUE SOURCES

While the national economy was significantly impacted by the housing market slump during the last year, the North Carolina economy experienced only a mild slowdown during FY 2006-07. The State's housing bubble was limited to a few resort areas; therefore, the statewide impact from the housing slowdown has been far less severe than in many states. In addition, the State continued to experience strong population growth as well as employment growth, which may have dampened the impact from the national housing slump.

In the next year, North Carolina's economy is expected to expand at a faster pace than the nation. This should bode well for overall employment and help bolster income growth. Employment losses in the manufacturing industries will continue, but growth in the service and technology industries should continue to be a major stimulus to economic growth. There is little doubt that the State will experience an economic slowdown in the next couple of years, but it is expected to continue to perform better than the nation as a whole.

Fiscal Research projects that the biggest impact to the State's economy from the mid-cycle slowdown, plus the housing and financial sector slump, will occur in 2008. By the end of 2009, the economic and fiscal impacts are expected to dissipate with a return to near normal growth in the State.

General Fund Revenue Sources

The primary funding source for State government operations is the General Fund. The table on the opposite page, Historical and Projected Revenue Collections, provides historical data for the major General Fund revenue sources as well as budgeted revenue for FY 2007-08.

Personal Income Tax

The most important revenue source for the General Fund is the personal income tax. North Carolina income tax rates range from 6% to 7.75% (effective January 1, 2008) depending on income. This tax now amounts to 55% of total revenues. 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. Fiscal Research projects that this income source will experience steady growth of 5.6% for the 2007 tax year and 6.6% in 2008.

Another important source of taxable income is capital gains. Approximately half of this income source is derived from the stock market, with the remainder from 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 experience much slower growth for the 2007 tax year followed by a decline of 6.7% in 2008.

Sales and Use Tax

The second most important 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 activity at a minimal level. Sales tax collections are projected to increase 2.9% for FY 2007-08, a substantial decline from the 8-10% range experienced since mid-2003.

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Corporate Income Tax

The State levies a corporate income tax on the profits of C-corporations derived from business in the state. Multistate corporations are required to use a formula to apportion nationwide income to North Carolina. Fiscal Research projects a decline of 3.5% in corporate income tax collections based on the expected slowdown in product demand and the impact on profits from tighter lending and higher interest rates, rising wages, and higher energy costs. In addition, the forecast attempts to make an allowance for the volatile nature of the tax and the fact that the growth during the last two fiscal years has been so large.

Other General Fund Sources

Other General Fund revenues, including alcoholic beverage and tobacco tax collections, are included in the table below. Also included in the General Fund totals are nontax revenues, which include investment income, fees and federal government revenues, and transfers to the Highway Trust Fund and the Highway Fund.

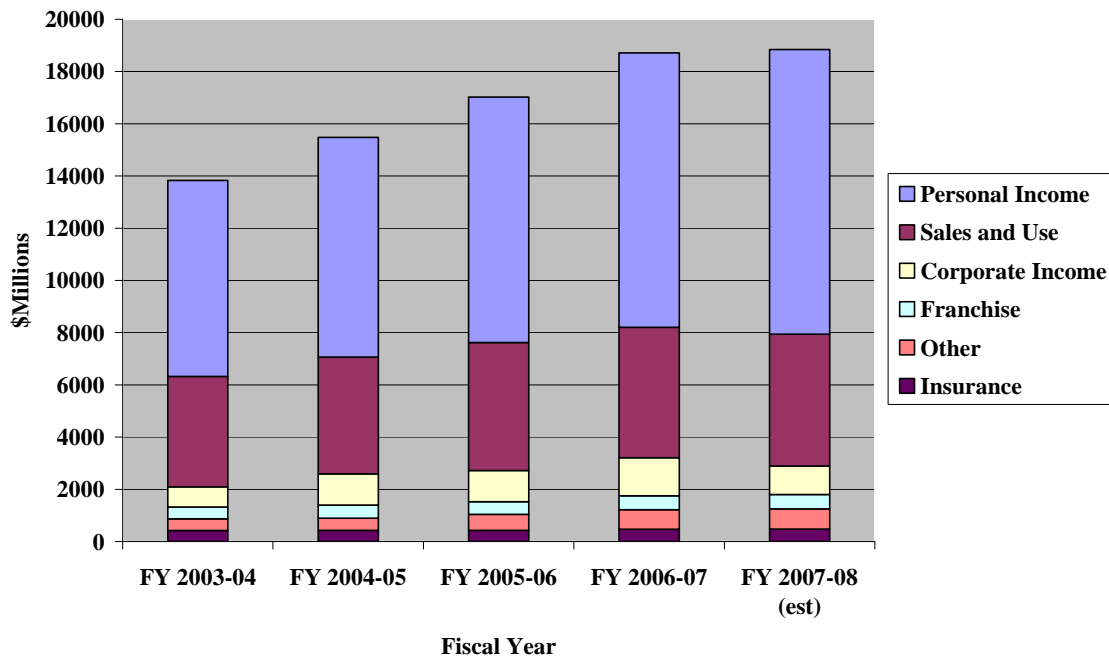
Historical and Projected General Fund Revenue Collections (\$ Millions)

	Actual FY 2003-04	Actual FY 2004-05	Actual FY 2005-06	Actual FY 2006-07	Estimated FY 2007-08
Tax Revenue:					
Personal Income	7,509.9	8,409.3	9,400.2	10,508.0	10,895.1
Sales and Use	4,222.2	4,477.1	4,893.9	4,995.6	5,049.4
Corporate Income	777.0	1,193.6	1,204.2	1,451.4	1,095.1
Franchise	445.3	498.8	477.0	531.4	549.0
Insurance	423.4	431.7	431.7	475.5	481.9
Tobacco Products	43.7	43.0	171.7	241.2	238.9
Alcoholic Beverage	182.4	189.3	200.9	212.6	219.7
Other	226.8	235.0	241.6	296.4	310.3
Total-Tax Revenue	\$13,830.7	\$15,477.6	\$17,021.2	\$18,712.1	18,839.5
Nontax Revenue	836.9	590.0	599.2	690.3	725.6
Transfers:					
Highway Trust Fund	252.4	242.6	252.6	57.5	172.5
Highway Fund	16.4	16.2	0.0	0.0	18.2
Total-General Fund Revenue	\$14,936.4	\$16,326.5	\$17,873.0	\$19,459.9	\$19,622.6

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The chart below shows the most recent five-year trend of historical and projected General Fund revenues by major categories.

Five-Year Trend in North Carolina General Fund Revenues by Major Source



2007 LEGISLATION AFFECTING STATE AND LOCAL GOVERNMENT REVENUES

This section summarizes legislation from the 2007 Session that significantly affects State and local government revenues. The summaries are divided into categories by fund. Each subsection includes a table that provides the five-year fiscal impact for each legislative action.

SIGNIFICANT SPECIAL PROVISIONS SESSION LAW 2007-323 HOUSE BILL 1473

Section 6.23 UNIVERSITY CANCER RESEARCH FUND

Section 6.23 of the act raises the excise tax levied on tobacco products other than cigarettes from 3% to 10%. The revenue from the additional tax will be remitted to the University Cancer Research Fund. The increase in the excise tax is effective October 1, 2007, and applies to products acquired on or after the effective date and to taxes paid on or after the effective date.

Part 31, TAX LAW CHANGES

Section 31.1 IRC UPDATE

North Carolina's income tax law tracks many provisions of the Internal Revenue Code (IRC) by reference as of a certain date. Under the North Carolina Constitution, Art. V, the State cannot automatically update the reference to the IRC. Thus legislation is introduced each year to update

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the reference. This section changes the IRC reference date to January 1, 2007. The table below includes the federal changes that will have a significant impact on State revenues.

Internal Revenue Code Update Estimated General Fund Revenue Impact (\$ Millions)

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Tax Increase Prevention and Reconciliation Act					
Extension of taxation of passive income minors	1.7	1.8	1.8	1.9	1.9
Increased expensing for small businesses	-35.8	-27.9	-8.5	11.4	25.7
Increased income limit for IRA conversions	0	-1.3	-2.5	-21.9	Unknown
Pension Protection Act 2006					
IRA inflation indexing	0	-0.4	-0.8	-0.9	-0.9
Health Insurance premiums for retired public safety officers	-2.0	-2.2	-2.5	-2.8	-3.1
Tax-free IRA distributions to charities	-1.8	-0.8	-0.2	0	0
Charitable deductions for contribution of food inventories	-0.9	-0.7	0	0	0
Tax Relief and Health Care Act of 2006					
Deduction for higher education tuition, etc.	-13.9	-14.4	0	0	0
Deductions for qualified expenses of K-12 teachers	-2.3	-1.3	0	0	Unknown
Depreciation for qualified leasehold improvements	-1.3	-1.5	-1.5	-1.4	Unknown
Deduction for the donation of computer technology	-0.2	0	0	0	0
Deduction for energy-efficient commercial buildings	0	0	0	0	0
Change in contribution limits for Health Savings Accounts	-0.4	-0.4	-0.4	-0.4	-0.4
Total Impact	\$-56.9	\$-49.1	\$-14.6	\$-14.1	\$23.2

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Section 31.2 MAINTAIN CURRENT SALES TAX RATE

Section 31.2 of this act maintains the current State sales tax rate at 4.25%. The change became effective when the Governor signed the act into law on July 31, 2007.

Section 31.4 EARNED INCOME TAX CREDIT

Section 31.4 establishes a refundable State earned-income tax credit for eligible taxpayers who work and whose adjusted gross income does not exceed a specific amount. The credit is equal to 3.5% of an individual's federal earned income tax credit. It becomes effective for taxable years beginning on or after January 1, 2008, and expires for taxable years beginning on or after January 1, 2013.

Section 31.5 REENACT LONG-TERM CARE CREDIT

Long-term care insurance is designed to protect individuals against the high costs of long-term care. The General Assembly enacted a long-term care insurance tax credit in 1998. It expired in 2004. Section 31.5 reenacts the individual income tax credit for premiums paid on long-term care insurance, effective for taxable years beginning on or after January 1, 2007. The credit expires for taxable years beginning on or after January 1, 2013.

Section 31.6 ADOPTION TAX CREDIT

This section creates an individual income tax credit for adoption-related expenses. The amount of the credit is equal to 50% of the taxpayer's federal adoption tax credit amount. The credit may not exceed the amount of tax owed by the taxpayer; however, like the federal tax credit, the State tax credit can be carried forward for five years. The credit is effective for taxable years beginning on or after January 1, 2007, and expires for taxable years beginning on or after January 1, 2013.

Section 31.7 PRIVILEGE TAX ON SOFTWARE PUBLISHERS' MACHINERY AND EQUIPMENT

This section of the act subjects certain purchases of machinery and equipment by software publishing companies to a privilege tax under Article 5F of Chapter 105 of the General Statutes, thereby exempting those purchases from sales tax. The amount of the privilege tax is 1% of the sales price of each article of machinery and equipment, limited to \$80 per article. In order for the privilege tax to be imposed, the following conditions must be met: (1) the purchase must be by a software publishing company in industry group 5112 of NAICS (North American Industry Classification System) and (2) the purchase must be of equipment or an attachment or repair part for equipment that is capitalized by the company for tax purposes under the Code, that is used by the company for research and development of tangible personal property, and that would be considered mill machinery under G.S. 105-187.51. This section becomes effective October 1, 2007, and applies to sales occurring on or after that date.

Section 31.8 ENHANCE TAX CREDIT FOR RESEARCH AND DEVELOPMENT EXPENDITURES

This section amends G.S. 105-129.55, expanding the existing tax credit for taxpayers by increasing the research and development tax credit percentage allowed for eligible research expenses. The changes are effective beginning with the 2007 tax year.

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Section 31.9 MODIFY TAX CREDIT FOR CONSTRUCTING RENEWABLE FUEL FACILITIES

In 2004, the General Assembly created a credit for constructing renewable fuel production facilities. The credit is equal to 25% of the costs of constructing the facility. The credit may be claimed against income tax or franchise tax, is limited to 50% of the amount of tax liability against which it is claimed, and has a carry-forward period of five years. That credit was set to sunset for taxable years beginning on or after January 1, 2008. In 2006, the General Assembly modified the credit by extending the sunset until 2011 and by creating an enhanced credit if the taxpayer invests at least \$400 million in three separate facilities over a five-year period. As with the existing credit, the enhanced credit cannot exceed 50% of the amount of tax liability. Unlike the existing credit, the enhanced credit is equal to 35% of the costs of constructing the facility and may be claimed only against the income tax with a carry-forward period of 10 years. A taxpayer may not claim both credits with respect to the same facility.

Section 31.9 of the act modifies G.S. 105-129.16D(b1) to change the enhanced credit in two ways. First, the credit may be claimed against income tax or franchise tax. Second, a taxpayer that claimed the enhanced tax credit and later fails to meet the requirements of the enhanced credit may take the nonenhanced credit for constructing renewable fuel production facilities. The taxpayer that forfeits the enhanced credit must pay the additional avoided taxes and interest on the avoided taxes from the original due date of the taxes. Taxpayers have 30 days after the date the taxpayer no longer qualifies for the enhanced credit to pay the additional taxes, otherwise the total amount is subject to the penalties provided in G.S. 105-236. The modifications to the tax credit become effective for taxable years beginning on or after January 1, 2007.

Section 31.10 EXPAND SALES TAX REFUND FOR CERTAIN AIRCRAFT MANUFACTURERS

Section 31.10 modifies G.S. 105-164.14(j)(3)b to expand the definition of aircraft manufacturing to include the manufacturing and assembling of specified aircraft parts, as well as the manufacturing or assembling of complete aircraft. Aircraft manufacturers may qualify for a refund of sales and use taxes paid on building materials and supplies, fixtures, and equipment that are installed in the construction of, and become part of, the real property of the aircraft manufacturing industrial facility. To qualify for the refund, the owner of an aircraft-manufacturing industrial facility must invest at least \$50 million in facility construction located in development Tier I areas or at least \$100 million for all other facilities.

Section 31.14 AMEND SALES TAX HOLIDAY

Section 31.14 amends G.S. 105-164.3 to change the sales tax holiday by providing that school instructional materials with a sales price of \$300 or less are exempt from sales tax during the first weekend of August. Under prior law, the term "school supplies" included school instructional materials. However, school supplies are subject to a \$100 cap. This section removes school instructional materials from the general category of school supplies and gives them a larger dollar cap.

Section 31.16 STATE ASSUME MEDICAID RESPONSIBILITIES

Section 31.16 provides that the State assume the counties' share of the nonfederal share of Medicaid costs over a three-year period, beginning October 1, 2007. To provide the financial resources to assume these costs, this section phases out a portion of the local sales tax and makes a corresponding increase in the State sales tax rate.

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The local option sales tax, currently 2.5%, was authorized by the General Assembly in four separate increments. Local governments were authorized to levy a 1% sales tax in 1971. This was followed by three additional ½% authorizations, the last of which occurred in 2001. This was the third ½% and is the portion that will be phased out by this section. Half of this tax is distributed to counties on a per capita basis, and half is distributed based on where the sales occur (point of collection).

Effective October 1, 2007, the State will assume 25% of the counties' share of the nonfederal share of Medicaid costs. To help offset the cost of this assumption, the Average Daily Membership (ADM) funding formula for the Public School Building Capital Fund is reduced for FY 2007-08 only. The act provides that a county must use a portion of the funds available to it, as a result of the assumption by the State of part of the county's Medicaid payments, for public school capital outlay purposes. The amount it must use for these purposes is the difference between what it would receive from the Fund, based on its ADM, and the adjusted amount it actually received.

Effective July 1, 2008, the State will assume 50% of the counties' share of the nonfederal share of Medicaid costs. To help offset the cost of this assumption, the act repeals the per capita portion (¼%) of the third local ½% sales tax, effective October 1, 2008. The State sales tax rate, currently 4.25%, is increased accordingly to 4.5%, effective October 1, 2008. The act provides that counties must hold the municipalities in the county harmless from repeal of this ¼% local tax. The Secretary of Revenue is directed to reduce each county's allocation of local sales tax revenue by the hold harmless amount and to redistribute that amount to the respective municipalities. It also provides a hold harmless provision for counties if a county's Medicaid service costs assumed by the State for a fiscal year do not equal or exceed the repealed sales tax amount for that fiscal year by \$500,000.

Effective July 1, 2009, the State will assume the entire nonfederal share of Medicaid costs. To help offset the cost of this assumption, the remaining ¼% of the third ½% local sales tax is repealed, effective October 1, 2009, and the State sales tax rate is correspondingly increased by ¼%, effective October 1, 2009. The allocation of the second ½% local sales tax is changed from per capita to point of collection.

Section 31.17 LOCAL OPTION TAXES

Section 31.17 of this act creates two new taxes, of which counties may choose one to levy if a majority of those voting in a referendum vote for the levy of the tax.

The first option is a land transfer tax on transfers of land within the county. The rate of tax may be up to .4% of the greater of the value of or consideration paid for the property, and the rate must be an increment of .1%. The land transfer tax is in addition to the excise stamp tax on conveyances of land, and land exempt from the stamp tax is also exempt from the land transfer tax. Administration of the tax is also analogous to administration of the stamp tax. The tax becomes effective on the first day of the month specified in the resolution but may not be earlier than the first day of the month that is two months after the resolution is adopted. Proceeds of the transfer tax may be used for any lawful purpose, and repeal or reduction of the tax may be by resolution, effective the first day of the month but not until the end of the fiscal year. Repeal or reduction does not affect a then-existing liability or right to a refund.

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As an alternative to the land transfer tax, Section 31.17 also authorizes a second option, a ¼% sales and use tax. The rate of tax is .25% of the sales price of the item, in addition to all other State and local sales and use taxes, except for purchases of food exempt from tax under G.S. 105-164.13B. The adoption, levy, collection, administration, and repeal of this sales and use tax are in accordance with the first 1% local sales and use tax (Article 39 of Chapter 105 of the General Statutes). The amount collected within the county goes solely to the county; no amount is allocated to the municipalities within the county.

Section 31.18 ALTERNATIVE FOR ADDRESSING A CORPORATION'S ATTEMPT TO AVOID STATE TAXES

Section 31.18 limits a corporation's ability to use captive real estate investment trusts (REITs) to avoid State taxes by disallowing the dividend paid deduction when a REIT is a captive REIT. 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. Two common types of captive REITs are rental REITs and mortgage REITs. This section is effective for taxable years beginning on or after January 1, 2007.

This section also directs the Department of Revenue to report to the Revenue Laws Study Committee by May 1, 2009, on the amount of corporate income tax revenue generated by closing the captive REIT loophole. Based upon this report, the Revenue Laws Study Committee must determine the revenue-neutral corporate income tax rate and include this information in its report to the 2010 Session of the 2009 General Assembly.

Section 31.19 ENHANCE 529 PLAN INCOME TAX DEDUCTION

Section 31.19 revises the tax deduction for contributions made into the Parental Savings Trust Fund created by the General Assembly during the 2006 Session. The act increases the allowable deduction from \$2,000 to \$2,500 for single filers and from \$4,000 to \$5,000 for married filers filing joint returns and removes the January 1, 2011, sunset for the deduction.

Section 31.20 SALES TAX REFUND – RESEARCH SUPPLIES

Section 31.20 allows a sales tax refund to a taxpayer who is engaged in analytical services within the State. To qualify for the refund, the taxpayer must also increase, in comparison to its FY 2006-07 State expenditures, the amount of sales and use tax paid by it in this State on tangible personal property consumed or transformed in analytical service activities. The amount of the refund is 50% of the increased amount of sales and use taxes.

Section 31.21 WORK OPPORTUNITY TAX CREDIT

Section 31.21 provides a State income tax credit to a taxpayer who is allowed a Work Opportunity Tax Credit (WOTC) under the Internal Revenue Code. The amount of the credit is equal to 6% of the amount of credit allowed under the Code. The credit may be claimed against the franchise tax or the income tax. The taxpayer must elect the tax against which a credit will be claimed when filing the return; the election is binding. The credit allowed may not exceed 50% of the tax against which it is claimed. Any unused portion of the credit may be carried forward for five years. The credit is effective for taxable years beginning on or after January 1, 2007. The federal credit expires December 31, 2007.

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Section 31.22 DATACENTER SALES TAX EXEMPTION

Section 31.22 reduces the tax paid on certain purchases of machinery and equipment located and used at eligible datacenters by exempting the purchases from the 6.75% sales tax and imposing a 1% privilege tax on the sales price, subject to an \$80 cap. An eligible datacenter is a facility that meets certain facility, investment, wage, and health insurance requirements. The machinery and equipment purchased must be located and used at the datacenter, capitalized for tax purposes under the Code, and used to provide datacenter services, or for the generation, transformation, transmission, distribution, or management of electricity. Forfeiture of the tax savings may occur if the conditions for the favorable tax treatment are not met.

Section 31.23 TAX INCENTIVE FOR RAILROAD INTERMODAL FACILITY

Section 31.23 provides tax incentives for the construction and operation of a railroad intermodal facility. The tax incentives are in the form of credits against franchise and income tax liability and exemptions and refunds from the sales and use tax. The tax credits are allowed to equal to 50% of all amounts payable by the taxpayer towards the cost of constructing the facility and have a 10-year carryforward.

Section 31.24 FIREFIGHTER/RESCUE SQUAD TAX DEDUCTION

This section allows for an income tax deduction for firefighters and rescue squad workers by establishing a deduction from NC taxable income of \$250. To be eligible for the deduction, a firefighter or rescue squad worker must be an unpaid member of a volunteer fire department or rescue squad and attend at least 36 hours of drills, training, and meetings during the taxable year.

Finance Committee**2007 Appropriations Act - General Fund Impact by Fiscal Year (\$ Millions)**

Section	Title	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
6.23	OTP/ Cancer Research Fund	11.4	16.5	17.0	17.5	18.10
31.1	IRC Update	-6.9	-49.1	-14.4	-14.1	23.2
31.2	Maintain Current Sales Tax Rate	258.4	285.9	299.2	312.6	326.7
31.4	EITC	0-	-48.3	-48.3	-48.3	-48.3
31.5	Long-Term Care Credit	-7.0	-7.2	-7.3	-7.5	-7.7
31.6	Adoption Credit	-3.0	-3.0	-3.0	-3.0	-3.0
31.7	Privilege Tax on Software Publishers	-2.8	-4.0	-4.0	-4.0	-4.1
31.8	Enhance Tax Credit for R&D	-0.4	-0.8	-1.2	-1.2	-1.2
31.9	Modify Credit for Renewable Fuel	0	-2.3	-4.8	-6.8	-6.8
31.10	Expand Credit - Airplane Manufacturers	-0.8	-0.8	-0.8	-0.8	-0.8
31.14	Amend Sales Tax Holiday	No Significant Impact				
31.16	State Assumes Medicaid	-60.8	-91.9	-146.7	-149.5	-184.1
31.18	REIT	No Significant Impact				
31.19	Enhance 529 Plan Deduction	-0.2	-0.2	-0.2	-0.2	-0.2
31.20	Sales Tax Refund: Research Supplies	0	-2.6	-5.4	-5.7	-6.0
31.21	Work Opportunity Tax Credit	-3.0	-3.0	-3.0	-3.0	-3.0
31.22	Datacenter Sales Tax Exemption	0	0	-5.2	-7.0	-8.7
31.23	Railroad Intermodal	-0.2	-0.3	-0.9	-2.0	-2.0
31.24	Firefighter/ Rescue Squad Tax Deduction	-10.5	-10.7	-10.8	-11.0	-11.2

Finance Committee**OTHER BILLS AFFECTING GENERAL FUND REVENUES****S.L. 2007-244 (HB 257) STREAMLINED SALES TAX CHANGES**

S.L. 2007-244 (HB 257) updates the reference to the Streamlined Sales Tax Agreement (SSTA) to include the latest amendments to the SSTA and defines "bundled transactions." The bill also modifies the definition of "sales price" to keep North Carolina in compliance with the national SSTA and recognizes for-hire boats as commercial fishing operations eligible for the sales tax exemption for items sold for use in commercial fishing.

S.L. 2007-309 (HB 463) CONSERVATION TAX CREDIT MODIFICATIONS

S.L. 2007-309 provides modifications to the conservation tax credit by amending G.S. 105-130.34 with the following changes:

- It equalizes the cap for the conservation tax credit for corporations and pass-through entities at \$500,000.
- It requires a taxpayer claiming the credit to support the claim's represented value of the real property donation.
- It narrows the conservation purposes which qualify property for the credit.
- It provides that a married couple filing jointly is entitled to the same tax credit cap as two unrelated individuals making an equivalent donation of property.
- Lastly, the act clarifies that the dollar limitation for a married couple filing jointly is \$500,000.

S.L. 2007-500 (HB 487) EXEMPTION FOR BALER TWINE FROM SALES TAX

This bill adds baler twine sold to farmers to the list of items exempt from sales and use tax. For example, this would allow a sales tax exemption on baler twine used on hay that farmers feed to their livestock.

S.L. 2007-461 (HB 1259) HISTORIC REHABILITATION TAX CREDIT

The bill removes the January 1, 2008, sunset on the provision allowing special allocation of the historic rehabilitation tax credit among the owners of a pass-through entity. The credit itself has no sunset.

S.L. 2007-515 (HB 1595) ECONOMIC DEVELOPMENT MODIFICATIONS

S.L. 2007-515 amends G.S. 158-7.1(b)(4) to make the following modifications:

- It clarifies in the Local Development Act a local government's authority to acquire, construct, convey, or lease buildings for industrial or commercial use.
- It clarifies certain criteria for urban progress zones. It also expands the urban progress zones to address districts that have experienced massive layoffs.
- It allows more than one agrarian growth zone in a county.
- It requires a final Bill Lee Act report by the Department of Commerce on June 1, 2007, which is consistent with the Act's repeal.
- It clarifies the effective date for tax credits available under the new Article 3J, Tax Credits for Growing Businesses.
- It provides for publication, monitoring, and reporting on economic development incentive clawbacks.
- It requires clawback provisions in local economic development agreements.

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S.L. 2007-422 (HB 1598) EXTEND QUALIFIED BUSINESS VENTURE TAX CREDIT

This bill extends the Qualified Business Venture (QBV) tax credit to December 31, 2010. The tax credit is set to sunset on January 1, 2008. The QBV tax credit provides a 25% credit against personal income tax for individual investments in qualifying small businesses. Credits are capped at \$50,000 per individual investor per year and at \$7 million per year for all investments statewide. To qualify for the credit, businesses must have less than \$5 million in revenues annually and be engaged primarily in manufacturing, processing, warehousing, wholesaling, or research and development.

S.L. 2007-145 (HB 2044) RESPECTIVE BUDGET PROVISIONS

This act provided continuing budget authorization from July 1, 2007, until August 1, 2007. Among other things, the act extended the sunset on the additional ¼% State sales tax rate for one month.

S.L. 2007-397 (SB 3) PROMOTE RENEWABLE ENERGY/BASELOAD GENERATION

This act phases out the tax on electricity, piped natural gas, and fuel used by manufacturers to operate their industries and by farmers in their farming operations, over a four-year period, beginning October 1, 2007.

Section 10. – This section phases out the current sales tax rate of 2.83% on sales of electricity to manufacturing industries and manufacturing plants for use in connection with their operation and to farmers to be used by them for farming purposes, as follows:

Effective October 1, 2007, reduces the rate from 2.83% to 1.8%.

Effective July 1, 2008, reduces the rate from 1.8% to 1.4%.

Effective July 1, 2009, reduces the rate from 1.4% to 0.85%.

Effective July 1, 2010, exempts these sales from tax.

Section 11. – This section phases out the tax imposed on piped natural gas received by a manufacturer for use in connection with the operation of the manufacturing facility and on piped natural gas received by a farmer to be used for any farming purpose, other than preparing food, heating dwellings, and other household purposes. The excise tax on piped natural gas is structured as a "declining block" that decreases as the amount of therms of piped gas consumed in a month increases. This section reduces the declining block rate for piped natural gas received by a manufacturer or farmer over a four-year period, beginning October 1, 2007. These end-users will be exempt from the tax, effective July 1, 2010.

Section 12. – This section phases out the privilege tax imposed on a manufacturing industry or plant that purchases fuel to operate the industry or plant by reducing the tax rate over a four-year period: from 1% to 0.7%, effective October 1, 2007; from 0.7% to 0.5%, effective July 1, 2008; from 0.5% to 0.3%, effective July 1, 2009; and from 0.3% to 0%, effective July 1, 2010.

S.L. 2007-250 (SB 238) MODIFY TAX ON PROPERTY COVERAGE CONTRACTS

This bill establishes a revenue neutral rate of 0.74% for the statewide tax on fire and lightning insurance premiums, which was combined from two separate taxes during the 2006 Session. The bill also reduces the portion of this tax that is distributed to the General Fund by 10% and increases the portion allocated to the Volunteer Fire Department Fund by 10%.

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The bill also modifies the distribution of money to the local firemen's relief grant funds to a method that does not require the tracking of premiums by fire district. Finally, the bill changes the criteria the Department of Insurance uses in providing grants to volunteer fire departments by increasing the maximum size of the grants to \$30,000; increasing the maximum population of eligible districts to 12,000; and increasing the maximum number of allowed paid firefighters on staff from three to six.

S.L. 2007-485 (SB 646) ENACT WASC RECOMMENDATIONS

This bill provides property tax relief to working waterfront property by classifying such property as a special class of property to be appraised, assessed, and taxed on the basis of its value in its present use, as opposed to its true value.

S.L. 2007-368 (SB 1240) SALES TAX EXEMPTION ON BAKED GOODS

This bill exempts bread, rolls, and buns that otherwise meet the definition of a prepared food from the State sales tax when sold at a bakery thrift store. A "bakery thrift store" is defined as a retail outlet of a bakery that sells at wholesale over 90% of the items it makes and sells at the retail outlet day-old bread, rolls, and buns returned to it by retailers that acquired those items from the bakery.

Finance Committee**General Fund – Impact by Fiscal Year (\$ Millions)**

Bill #	Title	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
H257	Streamlined Sales Tax Changes	Minimal Impact				
H463	Conservation Tax Credit Modifications	Insufficient Data				
H487	Exemption for Baler Twine from Sales Tax	Minimal Impact				
H1259	Historic Rehabilitation Tax Credit	Insufficient Data				
H1595	Economic Development Modifications	Minimal Impact				
H1598	Extend Qualified Business Venture Tax Credit	0	0	-7.0	-7.0	-7.0
H 2044	Respective Budget Provisions	20.0	0	0	0	0
S3	Energy Bill	-10.0	-20.0	-30.0	-45.0	-44.0
S238	Modify Tax on Property Coverage Contracts	-1.5	-3.1	-3.3	-3.5	-3.8
S540	Revenue Laws Technical Changes	Minimal Impact				
S646	Enact WASC Recommendations	Minimal Impact				
S1240	Sales Tax Exemption on Baked Goods	Insufficient Data				

Finance Committee

BILLS AFFECTING HIGHWAY FUND AND HIGHWAY TRUST FUND REVENUES

S.L. 2007-323 (HB 1473) APPROPRIATIONS ACT**Section 31.15 CAP THE VARIABLE COMPONENT OF THE MOTOR FUELS TAX RATE FOR TWO YEARS**

A motor fuel excise tax is imposed on all motor fuels sold, distributed, or used in the State. The rate of tax consists of a flat rate of 17.5¢ per gallon plus a variable wholesale component equal to the greater of 7% of the average wholesale price of motor fuel during a base six-month period or 3.5¢ per gallon. In 2006, the General Assembly capped the variable wholesale component of the motor fuels tax at 12.4¢ per gallon, the wholesale rate for the period of January 1, 2006, through January 30, 2006, for a total rate of 29.9¢ per gallon.

Section 31.15 of the act extends the existing cap for two years, capping the variable wholesale component of the motor fuels tax rate at 12.4¢ per gallon for the period July 1, 2007, through June 30, 2009, for a total rate of 29.9¢ per gallon. This section became effective when the Governor signed the act into law on July 31, 2007.

S.L. 2007-524 (SB 1272) MOTOR FUEL TAX EXEMPTION FOR BIODIESEL

S.L. 2007-524 (SB 1272) exempts biodiesel fuel from the excise tax on motor fuel if the fuel is produced by an individual for use in a private passenger vehicle that is registered in that individual's name. Biodiesel is defined as any fuel, or mixture of fuels, derived in whole, or in part, from agricultural products or animal fats or wastes from these products or fats.

Highway Fund and Highway Trust Fund Impact by Fiscal Year (\$ Millions)

Bill #	Title	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
H1473 (Section 31.15)	Cap Variable Component - Motor Fuels Tax	-85.8	-54.3	0	0	0
S1272	Motor Fuel Tax Exemption for Biodiesel	Minimal Impact				

Finance Committee**BILLS AFFECTING SPECIAL REVENUE FUNDS****S.L. 2007-426 (HB 649) INCREASE FEES/LANDSCAPE CONTRACTORS**

S.L. 2007-426 would allow the North Carolina Landscape Contractors Registration Board to:

- Raise the landscape contractor examination fee from \$50 to \$75
- Raise the annual renewal fee from \$50 to \$75
- Raise the late filing fee from \$10 to \$25
- Raise the fee for duplicate certificates from \$1 to \$5
- Create a fee for the issuance of an original parchment certificate not to exceed \$35

The application for examination fee was set at \$20 in 1975 and raised to \$50 in 1983. The renewal fee, late filing fee, and duplicate certificate fee have remained unchanged since 1975.

S.L. 2007-146 (HB 1492) ANESTHESIOLOGISTS ASSISTANTS LICENSURE

S.L. 2007-146 allows for the licensure of anesthesiologist assistants, establishes an initial and annual registration fee of \$150 for anesthesiologist assistants, and includes other regulatory provisions regarding anesthesiologist assistants. In addition, this bill reorganizes provisions in proposed new G.S. 90-18.5(c) and clarifies the number of anesthesiologist assistants and student anesthesiologist assistants an anesthesiologist may supervise.

S.L. 2007-55 (SB 658) AMEND BANK AND TRUST COMPANY ASSESSMENTS

S.L. 2007-55 amends how bank and trust company fees are assessed based on cumulative assets as follows:

- Increases flat fee on first \$50 million in assets from \$6,000 to \$10,000
- Increases rate on assets of \$50 - \$250 million from \$12 to \$14 per \$100,000
- Increases rate on assets of \$250 - \$500 million from \$9 to \$11 per \$100,000
- Decreases rate on assets of \$1- \$10 billion from \$5 to \$4 per \$100,000
- Decreases rate on assets over \$10 billion from \$3 to \$2 per \$100,000
- Increases annual amount paid by a state trust company from \$6,000 to \$10,000, plus \$1 per \$100,000 in assets.

S.L. 2007-506 (SB 1485) AMEND NC APPRAISERS ACT/FEES

Under previous law, real estate appraisers are designated as "certified general," "certified residential," and "licensed residential." This bill (1) amends G.S. 93E-1-12(c) to provide that after January 1, 2008, the NC Appraisal Board will no longer issue a license for a licensed residential real estate appraiser but will allow any individual holding that license on that date to maintain the license as long as it is properly renewed, (2) amends G.S. 93E-1-3 to limit performance of a comparative market analysis to a real estate broker (was real estate broker or salesman), (3) makes technical and conforming changes to G.S. Chapter 93E to remove the qualifying term "State" from preceding references to "certified and licensed real estate appraisers," (4) amends G.S. 93E-1-6 to make adjustments to qualifications for registration as a trainee and sets minimum requirements imposed by the Appraisal Foundation, (5) increases the number of instructional hours required for certification or licensing as a real estate appraiser, (6) requires applicants for registration, licensure, or certification to provide criminal record reports and to obtain the reports from reporting services designated by the Board, and (7) effective January 1, 2008, this bill additionally amends G.S. 93E-1-6 to specify new education requirements including course credit hours, course content, and competency standards, for applicants for registration, certification, or licensure as real estate appraisers.

Finance Committee

Special Revenue Funds - Impact by Fiscal Year

Bill #	Title	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
H649	Increase Fees Landscape Contractors	22,769	23,611	24,485	25,391	26,330
H1492	Anesthes- iologist Assistants Licensure	4,000	5,000	6,000	7,000	8,000
S658	Amend Bank and Trust Company Assessments	-791,078	0	0	0	0
S1485	Amend NC Appraisers Act/Fees	Insufficient Data				

BILLS AFFECTING LOCAL GOVERNMENT REVENUE

S.L. 2007-477 (HB 63) SCHOOL CAPITAL LEASES

This bill exempts school facilities subject to a capital lease from property tax. To qualify for the exemption, the property must be subject to a capital lease and be used as a public school facility.

2007-153 (SB 1472) REVISED DISTRIBUTION OF SCRAP TIRE DISPOSAL TAX

This bill changes the distribution formula of the net proceeds from the Scrap Tire Disposal Tax. The bill increases the percentage of net tax proceeds distributed to the Solid Waste Management Trust Fund from 5% to 8%, decreases the percentage distributed to the Scrap Tire Disposal Account from 27% to 22%, and increases the percentage distributed among the counties on a per capita basis from 68% to 70%.

S.L. 2007-497 (HB 1499) PROPERTY TAX AND PRESENT USE VALUE (PUV) CHANGES AND STUDIES

This act provides the following residential property tax relief:

- It increases the amount of the appraised value excluded from the property tax homestead exclusion from the greater of \$20,000 or 50% of the appraised value of the residence to the greater of \$25,000 or 50% of the appraised value of the residence.
- It increases the income eligibility limit of the property tax homestead exclusion to \$25,000 and clarifies the definition of "income" used to determine this limit.
- It creates a property tax homestead circuit breaker system that defers property taxes on certain owner-occupied homes. An owner who qualifies for both the property tax homestead exclusion and the property tax homestead circuit breaker may elect to take only one of these forms of property tax relief.
- The act provides present-use value property tax status to agricultural land that is used as an aquatic species farm.

Finance Committee

The act authorizes the Revenue Laws Study Committee to study the following issues:

- Whether to index the excluded appraised value limit in the property tax homestead exclusion and, if so, which index to use.
- Whether to extend present-use value benefit to property used for wildlife conservation.
- Ways to address the inability of landowners to pay escalating property taxes while continuing to use their property for farming or other nondevelopmental purposes.

S.L. 2007-471 (HB 1688) AMEND COMBINED MV REGISTRATION AND PT SYSTEM

This act makes the following changes to the combined motor vehicle registration and property tax collection system that was created in S.L. 2005-294:

- Creates a limited registration plate designed and issued by the Division of Motor Vehicles (DMV). A licensed motor vehicle dealer will be authorized to issue this limited plate to a purchaser of a motor vehicle after the dealer submits an application for title and registration fees to the DMV. The limited plate may allow a purchaser of a motor vehicle up to 90 days to pay property taxes on the vehicle.
- Exempts motor vehicles registered under the International Registration Plan from the combined motor vehicle registration renewal and property tax collection system.
- Provides that the interest generated by the funds in the Combined Motor Vehicle and Registration Account located in the Treasurer's Office shall be credited to the Account. These funds will not be transferred by the Office of State Budget and Management and appropriated by the General Assembly until the Department of Transportation and the North Carolina Association of County Commissioners reach agreement on a project plan for an integrated computer system.

Local Government Impact by Fiscal Year (\$ Millions)

Bill #	Title	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
H63	School Capital Leases	0	0	0	0	0
S1472	Distribution of Scrap Tire Disposal Tax (Counties)	0.2	0.3	0.3	0.3	0.3
H1499	Property Tax and PUV Changes Homestead Exclusion		-16.5	-17.6	-18.9	-20.1
	Senior Circuit Breaker			-7.8	-7.2	-6.8

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 58% of lottery sales during FY 2006-07. Ticket sales for "North Carolina PowerBall," a multi-state jackpot game, accounted for 32% of sales during the same period. Two daily numbers games, "Pick 3" and "Cash 5," made up the remaining 10% 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.

State Lottery Fund (54641-Enterprise Fund)	Certified
Expenditures	FY 2007-08
Lottery Prizes and Prize Tickets	499,835,045
Retailer Commission	70,000,000
Commission/Administration	50,307,168
Total	\$620,142,213
 Total Gross Sales & Other Receipts	 \$970,142,213
 Revenue	 970,142,213
Less Lottery Expenses	(620,142,213)
Net Revenue Available for Transfer to Education Lottery Fund	\$350,000,000

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 first appropriation of funds from the Education Lottery Fund was in FY 2006-07 (S.L. 2006-66, Section 6.15(b)). As the following table details, the \$425 million appropriation was 31.3% more than actual Lottery proceeds available for transfer to the Fund:

Education Programs	Certified FY 2006-07 Appropriations	Actual FY 2006-07 Transfer
Class Size Reduction	127.9 M	78.1 M
More at Four Prekindergarten	84.6 M	84.6 M
Public School Construction	170.0 M	130.2 M
Scholarships for Needy Students	42.5 M	30.7 M
Total	\$425.0 M	\$323.6M

North Carolina State Lottery

Actual net transfers were insufficient to fully fund the appropriated levels for these four programs. Funds were distributed on a 50%-40%-10% basis as called for by law, but at lower levels than were appropriated. As noted above, a total of 50% must be used for More at Four and Class Size Reduction. Rather than taking a prorata reduction to both of these programs, the Department of Public Instruction fully funded More at Four and allocated the remaining funds for Class Size Reduction. Additionally, while \$30.7 million was transferred to the North Carolina State Education Assistance Authority (UNC/SEAA) for college scholarships in FY 2006-07, no awards were made to students in that fiscal year. An additional \$2.0 million was available for transfer in FY 2006-07 but was not received by UNC/SEAA until the beginning of FY 2007-08.

LEGISLATIVE ACTION—2007 SESSION
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Many bills related to the Lottery were introduced in 2007. Most focused on the distribution of school construction funding. The only bill adopted was S.L. 2007-343, the Current Operations and Capital Improvements Appropriations Act. Section 5.2 of the 2007 Appropriations Act amended G.S. 18C, permitting the Lottery Commission to return more than half of annual revenue as prizes. By providing this additional flexibility, the General Assembly sought to make games more marketable to the public.

North Carolina State Lottery

FY 2006 -07 EDUCATION LOTTERY DISTRIBUTIONS BY LOCAL EDUCATION AUTHORITY (LEA)

LEA NAME	Class Size Reduction	More at Four	School Construction	Total Lottery Funding
Alamance	1,214,695	667,648	1,332,393	3,218,728
Alexander	316,501	156,716	347,154	826,055
Alleghany	85,307	215,265	93,365	399,652
Anson	218,830	495,368	489,953	1,275,583
Ashe	182,977	589,232	199,431	947,818
Avery	124,252	314,344	138,032	586,524
Beaufort	397,171	548,075	435,824	1,374,345
Bertie	156,705	225,844	376,985	762,120
Bladen	297,956	1,077,324	644,370	1,966,926
Brunswick	626,820	577,393	692,863	1,906,183
Buncombe	1,611,867	848,277	1,783,990	4,243,297
Burke	747,671	1,712,854	870,264	3,334,215
Cabarrus	1,678,320	1,159,860	3,335,394	6,172,604
Caldwell	701,309	307,260	782,978	1,817,117
Camden	102,306	157,173	223,730	484,796
Carteret	437,352	512,818	509,204	1,467,656
Caswell	169,068	271,530	199,311	639,909
Catawba	1,341,728	745,890	1,490,832	3,593,060
Chatham	421,898	234,600	880,872	1,534,370
Cherokee	192,250	320,339	224,654	776,904
Chowan	124,252	120,384	289,328	540,300
Clay	66,762	151,109	81,206	307,968
Cleveland	913,649	1,661,758	1,984,076	4,501,725
Columbus	556,968	1,085,692	1,129,678	2,759,206
Craven	842,251	481,868	891,392	2,214,843
Cumberland	2,816,980	3,871,594	6,088,185	12,814,945
Currituck	237,376	68,199	254,452	560,408
Dare	252,830	140,394	299,659	684,249
Davidson	1,455,162	1,188,712	1,574,144	4,220,276
Davie	361,318	568,506	394,228	1,322,966
Duplin	546,149	542,837	1,053,283	2,151,112
Durham Public	1,841,515	1,259,000	3,688,810	6,804,125
Edgecombe	401,807	818,700	883,541	2,113,748
Forsyth	2,863,651	1,762,839	5,898,476	10,533,877
Franklin	457,751	122,193	942,288	1,546,199

North Carolina State Lottery

LEA NAME	Class Size Reduction	More at Four	School Construction	Total Lottery Funding
Gaston	1,728,081	2,082,709	3,752,551	7,521,652
Gates	110,034	155,212	245,209	510,403
Graham	71,398	139,068	73,801	293,199
Granville	457,751	330,750	1,022,168	1,803,169
Greene	192,250	325,010	383,023	889,193
Guilford	3,719,810	4,161,600	8,124,742	16,101,552
Halifax	470,115	463,468	1,043,414	1,988,769
Harnett	1,071,899	748,368	2,130,598	3,987,477
Haywood	421,898	59,532	474,771	1,136,669
Henderson	753,853	473,876	784,904	2,009,677
Hertford	190,704	422,380	412,279	1,029,673
Hoke	470,114	530,346	850,335	1,852,679
Hyde	29,363	79,080	38,466	155,459
Iredell	1,425,799	911,874	1,568,785	3,920,894
Jackson	217,285	425,121	223,871	589,156
Johnston	1,709,536	1,188,050	3,358,034	6,265,270
Jones	74,489	291,133	156,274	528,153
Lee	533,786	691,742	1,079,871	2,295,737
Lenoir	504,114	636,876	1,150,809	2,304,543
Lincoln	639,183	700,622	733,435	2,098,428
Macon	246,648	259,738	264,083	822,731
Madison	141,251	68,904	158,678	371,209
Martin	231,194	259,980	502,144	983,318
McDowell	350,500	393,714	390,857	1,142,357
Mecklenburg	7,540,690	5,945,115	14,903,736	28,489,366
Mitchell	117,760	137,412	137,428	393,788
Montgomery	266,738	695,532	273,654	1,250,162
Moore	642,274	144,470	733,135	1,516,379
Nash-Rocky Mount	983,501	306,662	2,109,003	3,401,274
New Hanover	1,366,764	2,363,810	1,494,262	5,177,626
Northampton	159,795	356,632	359,918	872,873
Onslow	1,351,000	221,534	1,407,880	2,983,000
Orange	933,739	572,144	2,086,131	3,600,190
Pamlico	71,398	134,640	186,576	392,614
Pasquotank	359,772	314,088	376,229	1,044,881
Pender	411,080	399,396	459,120	1,271,200
Perquimans	97,670	142,560	109,799	350,029
Person	299,501	364,126	679,200	1,335,981

North Carolina State Lottery

LEA NAME	Class Size Reduction	More at Four	School Construction	Total Lottery Funding
Pitt	1,250,240	914,023	2,611,727	4,799,047
Polk	141,251	357,672	152,117	654,328
Randolph	1,341,728	852,555	1,417,573	3,606,741
Richmond	446,625	1,030,386	972,474	2,457,809
Robeson	1,406,945	2,150,073	2,817,809	6,370,014
Rockingham	775,488	732,226	1,690,571	3,203,899
Rowan-Salisbury	1,099,716	599,924	2,557,625	4,250,101
Rutherford	530,386	1,021,080	601,667	2,195,773
Sampson	657,728	704,432	1,319,388	2,691,536
Scotland	392,535	817,447	798,555	1,975,890
Stanly	474,751	814,752	1,119,344	2,429,655
Stokes	373,990	726,638	858,810	1,954,600
Surry	650,000	854,581	1,378,950	2,955,260
Swain	96,125	231,507	113,290	453,415
Transylvania	199,976	186,594	232,239	615,095
Tyrrell	33,999	71,546	72,331	183,910
Union	1,963,911	1,000,524	2,045,604	5,007,915
Vance	473,206	163,349	946,584	1,583,570
Wake	7,338,859	2,933,735	7,651,842	17,978,301
Warren	131,978	132,980	338,788	605,926
Washington	111,579	296,528	251,827	660,796
Watauga	226,558	304,133	272,209	811,187
Wayne	1,057,990	2,164,584	2,236,251	5,491,681
Wilkes	570,876	1,755,483	610,394	2,953,690
Wilson	707,181	512,350	1,464,634	2,683,375
Yadkin	347,409	409,421	727,498	1,495,957
Yancey	136,615	209,974	155,971	503,706
Total	78,063,786	74,827,365	130,159,590	\$283,657,716

Note 1: \$30,767,411 was transferred to UNC/SEAA for college scholarships in FY 2006-07. These funds have not yet been awarded. An additional \$1,984,357 was available for transfer but was not received by UNC/SEAA until FY 2007-08. As such, the total available for scholarships in FY 2006-07 was \$32,751,768.

Note 2: \$9,808,344 in More at Four funding was reserved for statewide programs. Including this amount and college scholarships funding, total FY 2006-07 Education Lottery transfers were \$325,610,853.

Sources: NC Department of Public Instruction and Office of State Budget and Management

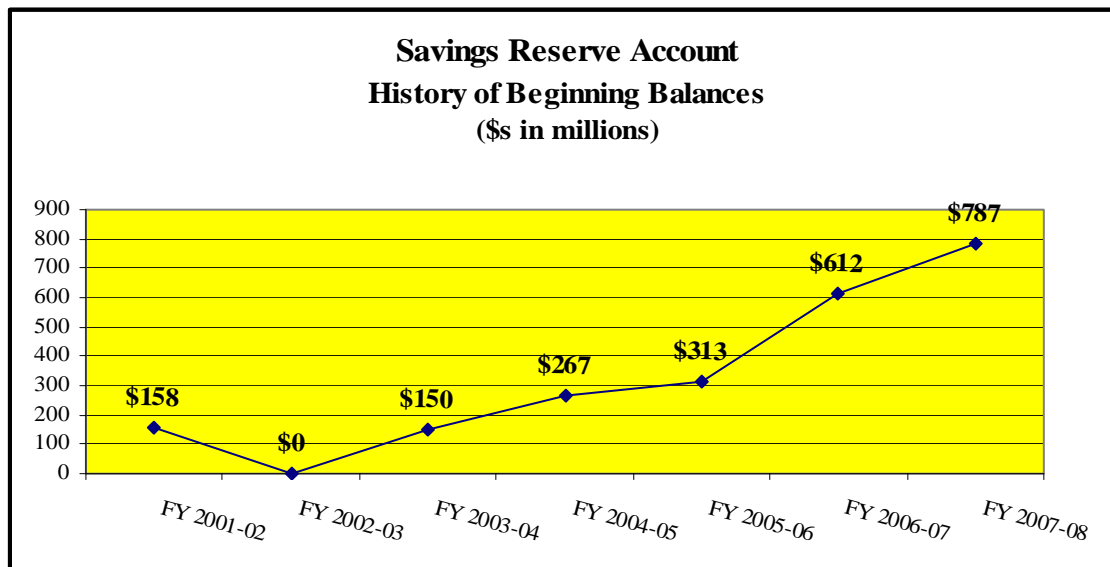
Savings Reserve Account

SAVINGS RESERVE ACCOUNT

State's Savings Reserve Reaches All Time High

During the 2007 Session, the Legislature directed an additional \$175 million to the State's Savings Reserve Account. The current balance, the largest since its inception in 1991, totals \$786.6 million.

Emerging from NC's 1991 budget crisis, were various budget reform policies including the establishment of the Savings Reserve Account. 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 table that follows provides information on beginning balances and adjustments to the Reserve since FY 2001-02.



As illustrated, the balance in the Account was less than \$200 million in FY 2001-02. Following a further decline in the State's fiscal situation, the balance in the Savings Reserve Account was completely depleted in FY 2002-03. However, subsequent legislative action to curtail spending coupled with improvement in the State's economy facilitated the Legislature's resumption to its commitment to build and maintain a healthy balance in the State's emergency reserves.

Section 143C-4-2(b) of the new State Budget Act that went into effect July 1, 2007, establishes a goal to accumulate and maintain a balance in the Savings Reserve of at least 8% of the previous year's operating budget. For the FY 2007-08, that goal is \$1.49 billion. With this latest action to reserve an additional \$175 million, the Savings Reserve balance has reached 54% of the goal.

The table that follows presents a history of legislative actions for the Savings Reserve Account.

Savings Reserve Account

Savings Reserve Account History G.S. 143-15.2

Fiscal Year	Earmarking or Appropriation	Total Savings Reserve	Authorized or Subsequent Adjustments	Ending Balance
1990-91	141,000,000	-	-141,000,000	0
1991-92	41,593,253	41,593,253	0	41,593,253
1992-93	134,332,565	175,925,818	0	175,925,818
1993-94	155,678,246	331,604,064	-121,000,000	210,604,064
1994-95	213,005,569	423,609,633	0	423,609,633
1995-96	77,342,029	500,951,662	0	500,951,662
1996-97	0	500,951,662	0	500,951,662
1997-98	21,568,899	522,520,561	0	522,520,561
1998-99	0	522,520,561	-200,000,000	322,520,561
1999-00	967,311	323,487,872	-285,965,824	37,522,048
2000-01	120,000,000	157,522,048	0	157,522,048
2001-02	90,000,000	247,522,048	-247,522,048	0
2002-03	150,000,000	150,000,000	0	150,000,000
2003-04	116,666,064	266,666,064	391,343	267,057,407
2004-05 ¹	199,125,000	466,182,407	-153,541,447	312,640,960
2005-06 ²	321,941,718	634,582,678	-5,790,087	628,792,591
2006-07 ³	-	628,792,591	-22,933,000	605,859,591
2006-07 ⁴	-	605,859,591	5,790,087	611,649,678
2006-07	175,000,000	786,649,678	-	786,649,678

NOTE:

¹ S.L.2005-1 (SB 7) Hurricane Recovery Act of 2005.

² Earmarking as per G.S. 143-15.3; subsequent adjustment 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) Motor Fuels Tax Ceiling

⁴ Technical correction by the Office of Budget and Management and Office of the State Controller

Medicaid State-County Share

BACKGROUND

Medicaid is a federal entitlement program that pays for medical assistance for qualified low-income families. It is a cooperative venture jointly supported by the federal and state governments, and is the largest source of funding for medical and health-related services for low-income people. North Carolina is one of three states that require counties to fund a share of all or most Medicaid services.

The 2007 General Assembly changed the State's Medicaid program by phasing out the counties' share of the cost of Medicaid services by July 1, 2009. Prior to the change, counties were responsible for 5% of the total cost (15% of the non-federal share) of Medicaid services. Total Medicaid services expenditures for FY 2007-08 are estimated to be \$11.5 billion. Counties would have been responsible for covering \$517 million (5% of the total) if the phase-out had not been implemented. Counties will continue to pay 100% of the nonfederal share for county Medicaid administration. In FY 2006, counties paid \$92.7 million for Medicaid administration.

Rising Medicaid costs over the last two decades were one of the major factors influencing the decision to provide fiscal relief to counties. Over the last 10 years, the counties' share has increased an average of 10.4% per year due to overall inflation as well as the General Assembly's decisions to expand eligibility. Consequently, counties were faced with the prospect of either continuing to raise their property tax rates or lowering their commitments to other programs, including K-12 funding.

LEGISLATION

Section 31.16 of S.L. 2007-323 requires that the State gradually assume the counties' share of Medicaid program costs beginning October 1, 2007. By July 1, 2009, counties will no longer be required to share in the cost of providing Medicaid services. Counties will continue pay for all of the administrative costs not covered by federal funds. The change in funding responsibility occurs over a three-year period as follows:

Schedule for Medicaid Funding Change

- **October 1, 2007** - State assumes 25% of the counties' share;
- **July 1, 2008** - State assumes 50% of counties' share; and
- **July 1, 2009** - State takes over 100% of counties' share.

The additional state cost of changing the funding formula is offset by shifting a portion of the local sales tax to the State. The legislation shifts revenues to the State according to the following schedule:

Schedule for Shifting Local Sales Tax to the State

- **October 1, 2008** - 50% of 1/2% sales tax is shifted to State;
- **October 1, 2009** - Remaining 50% is shifted to State.

Medicaid State-County Share

For FY 2007-08, the funds required to assume the counties' share is generated by reducing amounts county governments receive from an earmarking of the State corporate income tax for school facilities. The earmarking is currently allocated on the basis of average daily membership (ADM). Counties are required to use savings from reduced Medicaid spending to offset the reductions in school facilities funding.

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. The portion that is being assumed by the State is known as the Article 44 local option sales tax, which the Department of Revenue distributes to each taxing county and the municipalities in the county. The table below 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). This act changes 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.

COUNTIES AND MUNICIPALITIES HELD HARMLESS

The act 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.

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, 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.

Debt Service Funds: Accounts established for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Glossary

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.

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.

Glossary

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.

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)

Glossary

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.