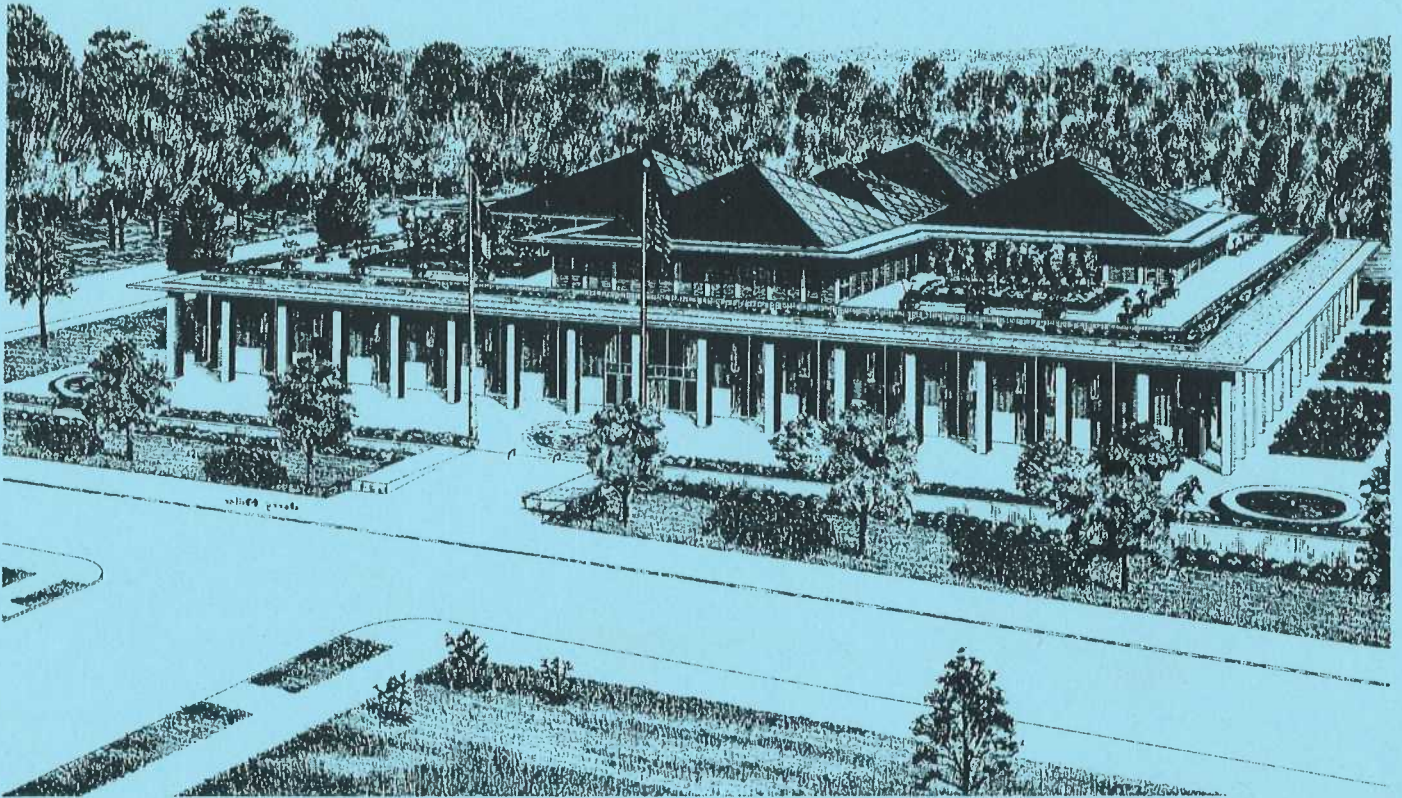


Denise Harjo



OVERVIEW:

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FISCAL AND BUDGETARY ACTIONS NORTH CAROLINA GENERAL ASSEMBLY

S.L. 2007-1473

2007 SESSION

PREPARED BY
THE FISCAL RESEARCH DIVISION
OF THE NORTH CAROLINA GENERAL ASSEMBLY

RALEIGH, NORTH CAROLINA

FOREWORD

**This is an unofficial document produced
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**For a comprehensive summary of the 2007
Budget Session please refer to
Highlights: Fiscal and Budgetary Actions
2007 Regular Session.**

**This document is provided as a summary of the fiscal
and budgetary actions enacted during the
2007 Legislative Session of the
North Carolina General Assembly.**

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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 Coordination

Marilyn Chism - House
Karen Hammonds-Blanks
- House
Evan Rodewald - Senate
Susan Morgan - Senate

Capital Budgeting/Planning

Jim Klingler

Information Technology

Karlynn O'Shaughnessy

Salaries and Benefits

Mark Trogon
Stanley Moore
Marshall Barnes

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 Treasurer

Doug Holbrook
Amna Cameron
Anna Niles

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Budget Reform Statement General Fund Availability

	FY 2007-2008	FY 2008-2009
1 Unappropriated Balance Remaining from Previous Year	0	269,504,098
2 Projected Reversions FY 2006-07	125,000,000	0
3 Projected Overcollections FY 2006-07	1,368,100,000	0
4 Less Earmarkings of Year End Fund Balance		0
5 Savings Reserve Account	(175,000,000)	0
6 Repairs and Renovations	(145,000,000)	0
7 Beginning Unreserved Fund Balance	1,173,100,000	269,504,098
8		
9 Revenues Based on Existing Tax Structure	18,643,100,000	19,670,200,000
10		
11 Non-tax Revenues		
12 Investment Income	212,000,000	222,200,000
13 Judicial Fees	172,500,000	176,600,000
14 Disproportionate Share	100,000,000	100,000,000
15 Insurance	60,200,000	62,800,000
16 Other Non-Tax Revenues	139,300,000	153,400,000
17 Highway Trust Fund/Use Tax Reimbursement Transfer	172,500,000	172,500,000
18 Highway Fund Transfer	18,190,000	17,610,000
19 Subtotal Non-tax Revenues	874,690,000	905,110,000
20		
21 Total General Fund Availability	20,690,890,000	20,844,814,098
22		
23 Adjustments to Availability: 2007 Session		
24 Maintain State Sales & Use Tax Rate at 4.25%	258,400,000	285,900,000
25 State Takeback of Local Sales Tax	0	184,200,000
26 State Hold Harmless for Counties	(19,300,000)	(3,700,000)
27 Corporate Tax Earmarking Adjustments	44,700,000	0
28 Earned Income Tax Credit	0	(48,300,000)
29 IRC Conformity	(56,900,000)	(49,100,000)
30 Health & Human Services/Health Service Regulation Fees	1,705,501	1,642,407
31 Secretary of State Corporate Annual Report Fees	563,016	563,016
32 Long-term Care Insurance Tax Credit	(7,000,000)	(7,200,000)
33 Adoption Tax Credit	(3,000,000)	(3,000,000)
34 Enhance 529 Plan Deduction (House Bill 1016)	(200,000)	(200,000)
35 Privilege Tax on Software Publishers	(2,800,000)	(4,000,000)
36 Research & Development Credit Enhancement	(400,000)	(800,000)
37 Modify Tax on Property Coverage Contracts	(1,500,000)	(3,100,000)
38 Reserve for Manufacturers' and Farmers Energy Tax Provisions	(10,000,000)	(20,000,000)
39 Non-profit Energy Tax Credit	(500,000)	(500,000)
40 Credit for Constructing Renewable Fuels Facilities	0	(2,300,000)
41 Reserve for Work Opportunity Tax Credit	(3,000,000)	(3,000,000)
42 Sales Tax Refund for Aircraft Part Mfgs.	(800,000)	(800,000)
43 Sales Tax Refund - Research Supplies	0	(2,600,000)
44 Adjust Sales Tax Holiday	0	(600,000)
45 Sales Tax Exemption for Bakery Thrift Store	(100,000)	(100,000)
46 Railroad Incentives	(200,000)	(300,000)
47 Firefighter/EMS Income Tax Deduction	(1,000,000)	(1,000,000)
48 Adjust Transfer from Insurance Regulatory Fund	330,274	56,274
49 Adjust Transfer from Treasurer's Office	110,758	98,758
50 Transfer from Closed Capital Account	3,506,143	0
51 Judicial Fees	35,586,118	38,821,220
52 Subtotal Adjustments to Availability: 2007 Session	238,201,810	360,681,675
53		
54 Revised General Fund Availability	20,929,091,810	21,205,495,773
55		
56 Less: Revised General Fund Appropriations	20,659,587,712	20,694,246,538
57 HB 1473 (2007 Appropriations Act), HB 265 (Establish High-Risk Pool), HB1517 (Voter-Owned Elections Pilot); Extra Session: HB 4 (Job Maintenance and Capital Development Fund)		
58		
59 Unappropriated Balance Remaining	269,504,098	511,249,235

Total Appropriations
By Subcommittee, Department, and Source of Funds
Fiscal Year 2007-08

Function	General Purpose Revenue ¹	Highway Trust/ Highway Fund	Other	Federal	Intra/Inter Agency Transfers	Total Requirements
Education:						
Department of Public Instruction (DPI)	\$ 7,714,429,569	\$ 33,285,956	\$ 3,064,422	\$ 1,450,022,677	\$ 308,300,366	\$ 9,509,102,990
Community Colleges	938,106,160	-	190,353,160	16,174,484	16,365,210	1,160,999,014
University System:						
UNC - GA	42,489,469	-	21,000	-	8,871,200	51,381,669
UNC - Institutional Programs	132,601,272	-	-	-	-	132,601,272
UNC - Related Education Programs	149,629,645	-	-	1,503,374	103,230,226	254,363,245
UNC - CH Academic Affairs	269,229,699	-	177,014,357	246,671	7,421,126	453,911,853
UNC - CH Health Affairs	188,883,060	-	40,548,883	-	8,006,714	237,438,657
UNC - CH Area Health Education	47,818,875	-	-	-	-	47,818,875
NCSU - Academic	349,253,626	-	164,479,808	200,000	22,619,990	536,553,424
NCSU - Agri. Research Svcs.	53,406,637	-	2,456,790	8,154,831	-	64,018,258
NCSU - Agri. Extension Svcs.	42,241,968	-	646,700	14,811,058	-	57,699,726
UNC - Greensboro	145,859,443	-	58,410,746	111,798	-	204,381,987
UNC - Charlotte	161,588,211	-	81,092,606	100,000	-	242,780,817
UNC - Asheville	33,648,196	-	13,353,044	10,400	109,524	47,121,164
UNC - Wilmington	94,683,871	-	45,527,847	71,575	-	140,283,293
ECU - Academic	200,929,741	-	98,659,172	145,900	-	299,734,813
ECU - Health Svcs.	48,700,539	-	1,720,500	-	-	50,421,039
NC A & T	91,017,204	-	52,279,100	58,714	-	143,355,018
Western Carolina	84,117,070	-	26,653,903	42,400	-	110,813,373
Appalachian State	121,866,775	-	51,923,512	86,783	75,618	173,952,688
UNC - Pembroke	53,241,514	-	15,010,510	42,968	-	68,294,992
Winston Salem State	66,379,070	-	15,989,072	25,195	-	82,393,337
Elizabeth City State	31,770,080	-	7,898,199	48,400	177,613	39,894,292
Fayetteville State	53,131,616	-	16,820,534	-	-	69,952,150
NC Central	76,599,430	-	30,623,533	108,431	1,600	107,332,994
NC School of Arts	24,650,862	-	9,688,278	14,550	334,033	34,687,723
NCSSM	16,859,174	-	796,151	-	42,000	17,697,325
UNC Hospitals	45,673,970	-	-	-	-	45,673,970
Subtotal UNC System	2,626,271,017	-	911,614,245	25,783,048	150,889,644	3,714,557,954
Subtotal Education	11,278,806,746	33,285,956	1,105,031,827	1,491,980,209	475,555,220	14,384,659,958
General Government:						
Administration	74,274,446	-	11,236,778	-	22,788,948	108,300,172
Office of Administrative Hearings	3,691,458	-	54,859	-	-	3,746,317
State Auditor	12,853,026	-	50	-	3,056,312	15,909,388
State Board of Elections	7,188,472	-	39,500	-	3,492,617	10,720,589
Office of State Controller	20,710,191	-	27,680	-	50,000	20,787,871
Cultural Resources	74,370,782	-	1,628,748	6,044,253	105,854	82,149,637
Cultural Resources - Roanoke Island	2,020,023	-	-	-	-	2,020,023
General Assembly	54,538,665	-	929,768	-	139,969	55,608,402
Governor's Office	6,262,319	-	224,739	-	206,366	6,693,424
State Budget and Management (OSBM)	5,870,735	-	500	-	213,169	6,084,404
OSBM - Special Appropriations	6,971,446	-	-	-	1,120,000	8,091,446
NC Housing Finance	18,608,417	-	-	-	-	18,608,417
Insurance	31,172,133	-	2,368,847	343,608	2,346,843	36,231,431
Insurance - Worker's Compensation Fund	4,500,000	-	-	-	-	4,500,000
Lieutenant Governor	914,122	-	-	-	-	914,122
Revenue	84,116,862	7,338,325	402,942	-	17,298,049	109,156,178
Secretary of State	11,476,990	-	468,431	-	-	11,945,421
State Treasurer	9,329,130	-	1,160,637	-	27,973,026	38,462,793
State Treasurer - Retirement / Benefits	9,458,957	-	-	-	-	9,458,957
Subtotal General Government	438,328,174	7,338,325	18,543,479	6,387,861	78,791,153	549,388,992
Health and Human Services:						
Central Administration	70,883,013	-	119,602	81,921,315	16,625,120	169,549,050
Aging	35,943,589	-	10,139,680	38,691,916	33,503	84,808,688
Child Development	306,744,018	-	806,000	324,216,101	738,000	632,504,119
Education Services	38,794,264	-	298,720	202,727	1,754,340	41,050,051
Public Health	192,495,942	-	74,716,977	413,772,854	34,780,177	715,765,950
Social Services	216,917,502	-	554,242,886	691,254,366	20,181,262	1,482,596,016
Medical Assistance	2,920,359,272	-	1,449,788,828	6,394,873,210	580,656,358	11,345,677,668
Child Health	59,391,155	-	-	167,414,409	-	226,805,564
Services for the Blind	11,287,540	-	1,640,395	16,396,938	483,946	29,808,819
Mental Health/DD/SAS	713,081,821	-	54,405,206	119,877,224	309,964,028	1,197,328,279
Health Service Regulation	20,148,484	-	4,667,889	27,786,539	717,555	53,320,467

BUDGETED POSITION SUMMARY

State of North Carolina Full-time Equivalent Position Counts by GAAP Fund Type (December 2006)

	General Fund (1)		Highway Fund		Enterprise Fund	Institutional Fund	Internal Service Fund	Special Fund	Trust Fund	Total by Sector
	Appropriated	Receipt	Appropriated	Receipt (2)						
Government Sector										
State Government										
UNC System(3)	34,157.80	1,725.00	-	-	5,833.11	15,767.12	-	-	-	57,483.03
Justice and Public Safety	30,117.50	236.20	2,270.00	76.00	-	-	402.00	349.50	-	33,451.20
Health & Human Services	8,943.20	9,539.13	10.00	-	8.00	-	9.00	677.99	26.00	19,213.32
Transportation	-	-	8,241.00	6,423.00	-	-	-	-	-	14,664.00
Natural & Economic Resources	3,973.17	1,339.45	-	145.00	633.00	-	-	2,839.85	178.45	9,108.92
General Government	4,255.75	731.51	6.00	94.00	1.00	-	645.75	356.09	1.00	6,091.10
Education (State Administration)	555.74	305.96	-	-	-	-	-	-	11.05	872.75
Sub-total	82,003.15	13,877.25	10,527.00	6,738.00	6,475.11	15,767.12	1,056.75	4,223.43	216.50	140,884.31
Local Education										
Public Schools(3)(4)	159,351.94	-	73.56	-	-	-	-	-	-	159,425.50
Community Colleges(3)	15,935.00	-	-	-	-	-	-	-	-	15,935.00
Sub-total	175,286.94	-	73.56	-	-	-	-	-	-	175,360.50
Total by GAAP Fund Type	257,290.09	13,877.25	10,600.56	6,738.00	6,475.11	15,767.12	1,056.75	4,223.43	216.50	316,244.81

Notes:

- 1) Salary Base includes 772 positions in Reserve budget codes.
- 2) Includes 5,840 work order positions funded out of construction and maintenance line-items in the Highway Fund Budget.
- 3) Includes FTE growth due to projected enrollment growth for the 2007-2008 fiscal year.
- 4) The total number contains some non-FTE counts that may slightly overstate the overall total position count.

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

**Summary of General Fund Appropriations
Fiscal Year 2007-2008
2007 Legislative Session**

	Adjusted Continuation Budget 2007-08	Legislative Adjustments			FTE Changes	Revised Appropriation 2007-08
		Recurring Adjustments	Nonrecurring Adjustments	Net Changes		
Natural And Economic Resources:						
Agriculture and Consumer Services	60,254,939	264,822	13,861,940	14,126,762	-1.00	74,381,701
Commerce	41,365,875	(1,116,931)	23,050,211	21,933,280	3.00	63,299,155
Commerce - State Aid	12,268,085	9,432,150	13,645,000	23,077,150		35,345,235
Environment and Natural Resources	189,617,004	1,229,627	14,307,531	15,537,158	-2.00	205,154,162
DENR - Clean Water Mgmt. Trust Fund	100,000,000	0	0	0		100,000,000
Labor	16,209,473	385,285	0	385,285	3.00	16,594,758
NC Biotechnology Center	12,583,395	3,000,000	0	3,000,000		15,583,395
Rural Economic Development Center	24,302,607	0	119,500,000	119,500,000		143,802,607
Total Natural and Economic Resources	456,601,378	13,194,953	184,364,682	197,559,635	3.00	654,161,013
General Government:						
Administration	65,923,562	3,350,567	5,167,600	8,518,167	12.00	74,441,729
Auditor	12,722,540	10,486	120,000	130,486		12,853,026
Cultural Resources	68,672,441	2,319,741	3,378,600	5,698,341	8.00	74,370,782
Cultural Resources - Roanoke Island	2,020,023	0	0	0		2,020,023
General Assembly	55,729,083	(1,190,418)	0	(1,190,418)		54,538,665
Governor	6,462,319	(200,000)	0	(200,000)		6,262,319
Housing Finance Agency	4,750,945	4,857,472	9,000,000	13,857,472	2.00	18,608,417
Insurance	30,841,859	56,274	274,000	330,274	4.00	31,172,133
Insurance - Worker's Compensation Fund	4,500,000	0	0	0		4,500,000
Lieutenant Governor	931,294	(17,172)	0	(17,172)	0.10	914,122
Office of Administrative Hearings	3,495,009	19,349	177,100	196,449		3,691,458
Revenue	87,619,246	(3,669,667)	0	(3,669,667)	-47.00	83,949,579
Secretary of State	10,600,417	56,958	819,615	876,573	1.00	11,476,990
State Board of Elections	5,861,461	81,922	1,245,089	1,327,011	3.00	7,188,472
State Budget and Management	5,930,060	(59,325)	0	(59,325)	-1.00	5,870,735
State Budget and Management -- Special	4,938,446	683,000	1,350,000	2,033,000		6,971,446
State Controller	20,646,483	57,708	6,000	63,708	2.00	20,710,191
Treasurer - Operations	9,218,372	98,758	12,000	110,758	3.00	9,329,130
Treasurer - Retirement / Benefits	9,165,457	293,500	0	293,500		9,458,957
Total General Government	410,029,017	6,749,153	21,550,004	28,299,157	-12.90	438,328,174

**Summary of General Fund Appropriations
Fiscal Year 2007-2008
2007 Legislative Session**

	Adjusted Continuation Budget 2007-08	Legislative Adjustments			FTE Changes	Revised Appropriation 2007-08
		Recurring Adjustments	Nonrecurring Adjustments	Net Changes		
Capital Improvements						
Water Resources Development Projects	0	0	20,000,000	20,000,000		20,000,000
Other Capital Improvements	0	0	210,741,100	210,741,100		210,741,100
Total Capital Improvements	0	0	230,741,100	230,741,100		230,741,100
Total General Fund Budget	18,967,544,989	894,192,674	797,850,049	1,692,042,723	510.87	20,659,587,712

**Summary of General Fund Appropriations
Fiscal Year 2008-2009
2007 Legislative Session**

	Adjusted	Legislative Adjustments			Revised	
	Continuation Budget 2008-09	Recurring Adjustments	Nonrecurring Adjustments	Net Changes	FTE Changes	Appropriation 2008-09
Natural And Economic Resources:						
Agriculture and Consumer Services	60,434,179	264,822	0	264,822	-1.00	60,699,001
Commerce	41,406,272	(1,116,931)	5,000,000	3,883,069	3.00	45,289,341
Commerce - State Aid	12,268,085	2,657,150	6,436,250	9,093,400		21,361,485
Environment and Natural Resources	191,595,711	1,219,952	0	1,219,952	-2.00	192,815,663
DENR - Clean Water Mgmt. Trust Fund	100,000,000	0	0	0		100,000,000
Labor	16,209,666	385,285	0	385,285	3.00	16,594,951
NC Biotechnology Center	12,583,395	3,000,000	0	3,000,000		15,583,395
Rural Economic Development Center	24,302,607	0	0	0		24,302,607
Total Natural and Economic Resources	458,799,915	6,410,278	11,436,250	17,846,528	3.00	476,646,443
General Government:						
Administration	66,457,866	4,668,951	0	4,668,951	12.00	71,126,817
Auditor	12,735,993	10,486	0	10,486		12,746,479
Cultural Resources	69,561,683	2,319,741	0	2,319,741	8.00	71,881,424
Cultural Resources - Roanoke Island	2,020,023	0	0	0		2,020,023
General Assembly	56,931,204	(1,190,418)	0	(1,190,418)		55,740,786
Governor	6,500,587	(200,000)	0	(200,000)		6,300,587
Housing Finance Agency	4,750,945	4,857,472	0	4,857,472	2.00	9,608,417
Insurance	30,880,430	56,274	0	56,274	4.00	30,936,704
Insurance - Worker's Compensation Fund	4,500,000	0	0	0		4,500,000
Lieutenant Governor	932,281	(17,172)	0	(17,172)	0.10	915,109
Office of Administrative Hearings	3,502,386	19,349	0	19,349		3,521,735
Revenue	87,711,626	(2,548,298)	0	(2,548,298)	-47.00	85,163,328
Secretary of State	10,686,083	56,958	0	56,958	1.00	10,743,041
State Board of Elections	5,874,026	84,172	3,668,670	3,752,842	3.00	9,626,868
State Budget and Management	5,936,765	(59,325)	0	(59,325)	-1.00	5,877,440
State Budget and Management -- Special	4,938,446	683,000	0	683,000		5,621,446
State Controller	20,669,990	57,708	0	57,708	2.00	20,727,698
Treasurer - Operations	9,227,432	98,758	0	98,758	3.00	9,326,190
Treasurer - Retirement / Benefits	9,165,457	293,500	0	293,500		9,458,957
Total General Government	412,983,223	9,191,156	3,668,670	12,859,826	-12.90	425,843,049

**Summary of General Fund Appropriations
Fiscal Year 2008-2009
2007 Legislative Session**

	Adjusted Continuation Budget 2008-09	Legislative Adjustments			Revised Appropriation 2008-09
		Recurring Adjustments	Nonrecurring Adjustments	Net Changes	FTE Changes
Capital Improvements					
Water Resources Development Projects	0	0	0	0	0
Other Capital Improvements	0	0	0	0	0
Total Capital Improvements	0	0	0	0	0
Total General Fund Budget	19,492,587,728	1,165,511,624	36,147,186	1,201,658,810	693.56

**ECONOMY AND
REVENUES**

ECONOMIC OUTLOOK AND GENERAL FUND REVENUES

2006-2007 Experience

For the fourth year in a row, the State experienced a major General Fund revenue surplus. The final results for last year are shown below:

<u>Actual Basis</u>	<u>(\$Mil.)</u>
Actual Revenue	\$19,460.0
Budgeted Revenue	<u>18,116.6</u>
Difference	\$ 1,343.4
Actual Growth Rate	8.9%
Budgeted Growth Rate	<u>1.4%</u>
Difference	<u>7.5%</u>
<u>"Economic" Basis*</u>	
Actual Growth Rate	9.0%
Budgeted Growth Rate	<u>3.2%</u>
Difference	<u>5.8%</u>

*Rate based on trends in the economy and financial markets.
Excludes impact of tax law changes and major one-time items.

The breakdown of the surplus by revenue schedule is shown on Page C-11. In absolute dollars the 2006-2007 amount was significantly larger than any year during the explosive period of the late 1990's. In addition, the surplus of 7.5% of the forecast base is much higher than even the stock market bubble peak of 5.6% in 1997-98. Some factors leading to the larger surge included more cautious revenue estimates during this cycle, the large amount of one-time revenue from unanticipated events, and the explosive nature of both the equity and real estate markets.

Nonrecurring Revenue Situation

As in the case of 2004-2005 and 2005-2006, a significant portion of the revenue surplus was due to one-time factors. Of the \$1.34 billion of extra revenue, \$286 million (21.3%) came from a corporate tax compliance initiative and were one-time non-recurring revenues. In addition, \$250 million of the remaining revenue surplus was not rolled into the 2007-2008 revenue base. Thus, \$536 million of the \$1.34 billion total revenue surplus, or 40%, was effectively counted as one-time receipts.

in early-2003. Since that time stock prices, as measured by the S & P 500, have risen by 82%.

The cash-flow effects of an improvement in securities prices is reflected primarily in the rise in quarterly estimated income tax payments and final payments that result from the capital gains on the sale of those assets. Recent data from the IRS indicates that 2005 capital gains on federal returns in North Carolina grew by 43.2%, following a 49.8% rise for 2004. The strength of tax payments associated with the 2006 tax year payments suggests another double-digit gain for that year.

In addition some of the improvement was due to the enhanced values for stock options. During the last decade this type of incentive has become an important type of compensation for technology companies.

(2) Gains on sale of real estate

The new kid on the block during this cycle has been the real estate market. In addition to its absolute size, the industry is important as a leading economic indicator and has a major indirect impact on retail sales.

The experience of this sector over the last few years has been very unique. For one thing the fall-off in activity during the 2001-2003 recession was modest by historical standards. Next the recovery phase was characterized by a bubble in many parts of the country, including resort areas in North Carolina.

The improvement in real estate activity came first in the single-family and condo market. Later, declining vacancy rates led to more demand in the commercial arena (offices, apartments, shopping centers, etc.).

The best measure of total real estate activity in North Carolina is real estate conveyance tax collections. This revenue source is comprised of both unit sales and prices. Our history only runs back to 1993 so it is impossible to compare the experience during the current cycle with prior recessions. However, the data in the table below serves to highlight the extraordinary nature of the last few years.

<u>Collection Quarter</u>	<u>Percent Increase*</u>
January-March 2004	10.5%
April-June 2004	13.4
July-September 2004	15.5
October-December 2004	14.3
January-March 2005	13.6
April-June 2005	18.7
July-September 2005	20.7

are tracking the surge in corporate profits.

(5) Interest and dividend payments

The rise in short-term rates from 1% to 5% during the last few years has caused a sharp rise in taxable interest income. In addition, favorable federal tax rates on dividends, coupled with record profits, has led to double-digit increases in dividends paid in recent years.

In addition to nonwithholding income tax payments under the personal income tax we need to keep in mind the importance of the corporate income tax to the revenue surplus for the last two years. While this revenue source amounts to only 6% of the base, it is highly volatile over the business cycle. For example, corporate payments rose by 23.3% for 2004-05, 39.5% in 2005-06, and 6.9% in 2006-07.

Much of the improvement had to do with lower interest rates and improved demand for products and services. Another key ingredient has been the relentless pursuit of improved operating efficiencies by employers, especially in the manufacturing arena.

Traditional Revenue Surplus Factors

The revenue sources just discussed amount to about one-fifth of the total revenue base. While relatively small in size, their year-to-year volatility can lead to a significant impact on overall revenue growth. At the other end of the spectrum are more stable revenue sources that relate directly to the economy. These categories are important due to their sheer magnitude.

(1) Withholding Tax Collections

The personal income tax amounts to 53% of the revenue base. Of this amount, about 80% comes from withholding payments remitted by employers. If we combine these two numbers it means that over 40% of the revenue base comes from this item.

For the first few years of the economic recovery, employment growth was weak by historical standards. However, since the early part of the 2005 calendar year, state withholding tax collections have grown at the rate of 8% per year, equivalent to 7% wage and salary growth, the time lag in quarterly unemployment insurance tax reports means that we are not able to separate out the impact of job growth, wage increases, and a longer workweek. Our best guess is that the job growth portion was around 2.5% and the combination of wage

National Economic Outlook

The housing market slump began to show significant signs of affecting the national economy in the second quarter of 2007 as economic growth slowed to 2.7 percent, which is below average economic growth over the last 30 years. Some slowdown was expected in the middle of a business cycle, but the impact of the sub-prime lending market meltdown further exacerbated the housing market slump and contributed to weakness in the financial sector.

Barring any unforeseen international events we think that a full-scale recession can be avoided. There are several risks that will need to be monitored as we move into 2008. One of the stronger facets of the nation's economy in the past year has been the increase in export demand. A growing global market coupled with falling exchange rates for the dollar have fueled growth in exports. Thus, exports have bolstered parts of the economy and helped soften the blow caused by housing and financial sector declines. Economic stagnation in global markets, however, could raise recession fears.

Likewise, as we experience the normal mid-cycle slowdown any disruptions to oil supplies raising energy prices significantly could further dampen prospects for economic growth and a quick rebound from the housing slump. Finally, if the sub-prime market failure spreads into other financial markets, including global financial markets, then both consumers and businesses could be hurt resulting in a possible deepening of the slowdown. While these risks exist, their occurrence is not anticipated. So while the economy is projected to slow, it is expected to be relatively mild for both the nation and North Carolina.

Though the risks to the economic outlook increased, a cautionary stance taken on the volatile portion of the 2007-08 revenue surplus means that the State is well-positioned for the slowdown that is starting to unfold.

North Carolina Economic Trends

The impact from the economic slowdown in North Carolina was still unrealized by the end of 2006. The state is typically more volatile with respect to economic cycles than the nation as a whole. However, by early 2007, it was evident the slowdown had begun nationally, yet the state's economy showed less of an effect than the national economy. The mild slowdown experienced by the state in 2006-07, may be due in part to North Carolina's relatively mild housing problems. For example, real estate conveyance tax receipts in North Carolina have been essentially flat compared to double-digit declines in many other states. It is projected 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.

North Carolina's impact from the housing slump has been different than many other states. There was negative year-over-year sales growth statewide in existing, single-family homes for the fourth quarter of 2006 and the second quarter of 2007, and

year ago. This year we think the approach is warranted as eventually the fallout from real estate will work its way into other sectors of the economy.

Wages and salaries are relatively stable in the short-run, though a modest change in their growth rate can affect overall revenues through their sheer magnitude. We expect this income source to grow by 5.6% in 2007 and 4.6% in 2008, compared to 6.2% in 2005 and 6.6% in 2006. (See Page C-13).

The other key variable in predicting income tax flows is net capital gains (gains minus losses) reported on income tax returns. During the last decade federal and state revenue forecasters around the country have spent more time analyzing this issue than any other item with no success. What is interesting is that capital gains can affect overall revenue growth even though this source of income amounts to a small share of the total income tax base. The reason has to do with volatility: down 48.3% in 2001 and up 49.8% in 2004 for example. For a particular fiscal year, the swings can be even greater due to the timing of tax payments by large taxpayers.

About half of the net gains each year come from the stock market with the remainder from bonds, investment real estate, and the sale of assets. The forecast used in the budget process is a composite of projections made by Economy.com, the Congressional Budget Office, and a handful of states with large research staffs.

The latest data from the IRS indicates that net capital gains grew by 43.2% for the 2005 tax year. The 2006 data will not be available until June 2008. Our current forecast assumes only a 2.2% increase for the 2006 tax year and decline of 6.7% in 2008. Part of the reason has to do with the cooling off of the booming real estate market. In addition, a review of the long-term history of capital gains indicates that after a couple of very strong years, the odds of a decline go up substantially.

The table on Page C-13 shows the history and forecast of the major items in the personal income tax base.

The next important revenue source is the sales and use tax. For the retail sales outlook, we think that slowing job growth, coupled with problems in real estate for another couple of years and high energy prices, will keep activity at a minimal level. A large part of the economy's projected sluggish growth is being attributed to the loss in household wealth caused by the housing market decline. Fewer home sales coupled with stagnant or even declining prices has led to a decline in retail activity related to the housing market. For example, sales related to home purchases and home construction such as furniture and appliances have started to decline.

Our baseline growth assumption for 2007-08 is 2.9%, a substantial decline from the 8-10% range in place since mid-2003. The factors leading to diminished prospects include higher interest rates, the increase in fuel prices, a worsening outlook for the housing market, and a credit crunch caused by the sub-prime lending upheaval.

GENERAL FUND REVENUE COMPARISON (\$ MILLION)
2006-07 FISCAL YEAR

	2006-07	2006-07		2005-06
TAX REVENUE:	Target	Actual	Diff.	Actual
PERSONAL INCOME TAX:				
WITHHOLDING	\$8,556.3	\$8,860.7	\$304.4	\$8,224.9
ESTIMATED TAXES	1,212.3	1,412.7	\$200.4	1,270.9
FINAL PAYMENTS	1,626.9	1,970.3	\$343.4	1,565.5
REFUNDS	(1,674.4)	(1,641.1)	\$33.3	(1,580.9)
EARMARKINGS	(85.8)	(94.7)	(\$9.0)	(80.2)
SUBTOTAL-PERSONAL INCOME	\$9,635.4	\$10,507.9	\$872.5	\$9,450.6
SALES & USE:				
GROSS COLLECTIONS-STATE AND LOCAL	8,305.9	8,444.3	\$138.4	8,090.6
REFUNDS TO LOCAL UNITS, NONPROFITS	(\$539.8)	(\$499.5)	\$40.3	(\$563.1)
DISTRIBUTION TO LOCAL GOVERNMENT	(2,594.7)	(2,736.2)	(\$141.5)	(2,501.3)
LOCAL REIMBURSEMENT HOLD-HARMLESS	(14.1)	(14.1)	\$0.0	(20.4)
LOCAL TAX SHARING	(44.0)	(43.3)	\$0.6	(53.9)
PUBLIC SCHOOL FUND EARMARK	(35.8)	(45.7)	(\$9.9)	0.0
OTHER EARMARKING	(56.9)	(109.9)	(\$53.0)	-58.0
SUBTOTAL-SALES & USE	\$5,034.0	\$4,995.6	(\$38.5)	4893.9
CORPORATE INCOME				
GROSS COLLECTIONS	\$1,358.5	\$1,750.1	\$391.6	\$1,440.4
REFUNDS	(\$156.3)	(\$184.4)	(\$28.1)	(\$138.0)
SCHOOL FACILITIES EARMARKING	(\$131.7)	(\$110.6)	\$21.1	(\$98.2)
SUBTOTAL-CORPORATE INCOME	1,070.5	1,455.1	\$384.5	1,204.2
FRANCHISE:				
NET COLLECTIONS PRIOR TO EARMARKING	\$610.7	\$672.1	\$61.4	\$616.1
LOCAL TAX SHARING	(\$105.5)	(\$140.7)	(\$35.2)	(\$139.1)
SUBTOTAL-FRANCHISE	\$505.2	\$531.4	\$26.2	477.0
INSURANCE:				
GROSS COLLECTIONS	556.8	530.8	(\$26.1)	477.8
REFUNDS	(\$18.4)	(\$16.3)	\$2.1	(\$9.5)
EARMARKING	(37.5)	(39.0)	(\$1.5)	(\$36.5)
SUBTOTAL-INSURANCE	\$500.9	\$475.5	(\$25.4)	\$431.7
ALCOHOLIC BEVERAGES				
NET COLLECTIONS PRIOR TO EARMARKING	241.4	244.7	\$3.3	231.1
LOCAL TAX SHARING	(32.3)	(31.6)	\$0.7	(30.2)
SUBTOTAL-BEVERAGE TAX	209.1	212.6	\$3.5	200.9
INHERITANCE	139.2	161.6	\$22.4	133.5
PRIVILEGE LICENSE	46.0	46.3	\$0.2	45.6
MACHINERY	31.2	36.6	\$5.4	12.0
TOBACCO PRODUCTS	238.2	241.2	\$3.0	171.7
PIPED GAS:				
NET COLLECTIONS PRIOR TO EARMARKING	\$53.5	\$61.7	\$8.2	\$58.1
LOCAL TAX SHARING	(1.3)	(21.5)	(\$20.3)	-\$24.6
SUBTOTAL-PIPED GAS	\$52.2	\$36.1	(\$16.1)	33.5
GIFT	18.0	15.6	(\$2.4)	16.3
OTHER	0.0	0.3	\$0.3	0.3
TOTAL-TAX REVENUE	17,480.0	18,712.1	1,232.1	17,071.0
NONTAX REVENUE				
INVESTMENT INCOME	\$124.4	\$202.5	\$78.1	119.1
JUDICIAL FEES	164.0	167.6	\$3.6	158.0
DISPROPORTIONATE SHARE	100.0	100.0	\$0.0	\$100.0
INSURANCE DEPT.	\$53.2	\$60.3	\$7.1	53.9
OTHER	168.1	162.4	(\$5.7)	\$169.1
TOTAL-NONTAX REVENUE	609.7	692.8	\$83.1	\$600.2
TOTAL-TAX AND NONTAX REVENUE	\$18,089.7	\$19,404.9	1,315.2	17,671.2

HIGHWAY TRANSFERS

HIGHWAY TRUST FUND	\$57.5	\$57.5	0.0	252.6
HIGHWAY FUND	0.0	0.0	0.0	0.0
TOTAL-HIGHWAY TRANSFERS	57.6	57.6	\$0.0	\$252.6
TOTAL-GENERAL FUND REVENUE	\$18,147.3	\$19,462.5	1,315.2	17,923.9

Federal Income Tax Return Data for North Carolina Taxpayers (\$Billion)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (e)	2007 (e)	2008 (e)
Wages & Salaries	69.20	73.00	77.46	82.76	87.50	94.08	100.85	107.19	114.20	116.70	117.13	120.14	127.36	134.48	142.87	150.15	158.49
% Change	7.1%	5.5%	6.1%	6.8%	5.7%	7.5%	7.2%	6.3%	6.5%	2.2%	0.4%	2.6%	6.0%	5.6%	6.24%	5.1%	5.6%
Interest	3.08	2.53	2.43	3.05	3.30	3.52	3.69	3.62	4.19	4.13	2.93	2.51	2.73	3.88	4.11	4.35	4.44
% Change	-22.8%	-17.9%	-4.0%	25.5%	8.2%	6.7%	4.8%	-1.9%	15.7%	-1.4%	-29.1%	-14.3%	8.8%	42.1%	8.15%	6.0%	9.1%
Dividends	1.58	1.72	1.79	2.07	2.29	2.62	2.61	2.95	3.21	2.66	2.43	2.70	3.31	3.89	4.27	4.57	5.00
% Change	2.6%	8.9%	4.1%	15.6%	10.6%	14.4%	-0.4%	13.0%	8.8%	-17.1%	-8.6%	11.1%	22.6%	17.5%	11.07%	7.0%	9.6%
Business Income	3.53	3.69	3.87	3.98	4.30	4.44	4.75	4.89	4.83	4.83	4.81	5.01	5.58	6.10	6.38	6.56	6.92
% Change	9.6%	4.5%	4.9%	2.8%	8.0%	3.3%	7.0%	2.9%	-1.2%	0.0%	-0.4%	4.2%	11.4%	9.3%	4.76%	5.50%	6.78%
Capital Gains	2.38	2.73	2.91	3.41	5.11	7.06	8.45	9.38	10.24	5.29	4.47	5.36	8.03	11.50	12.48	12.75	11.90
% Change	18.4%	14.7%	6.6%	17.2%	49.9%	38.2%	19.7%	11.0%	9.2%	-48.3%	-15.5%	19.9%	49.8%	43.2%	8.5%	2.2%	-6.7%
IRA Distributions	0.64	0.65	0.80	0.91	1.13	1.37	1.90	2.27	2.67	2.61	2.44	2.54	2.89	3.30	3.14	3.14	3.14
% Change	28.0%	1.6%	23.1%	13.8%	24.2%	21.2%	38.7%	19.5%	17.6%	-2.2%	-6.5%	4.0%	13.9%	14.2%	-5.0%	0.0%	0.0%
Unemployment Benefits	0.48	0.42	0.30	0.31	0.30	0.25	0.25	0.31	0.41	0.77	1.22	1.27	0.26	0.73	0.30	0.33	0.33
% Change	9.1%	-12.5%	-28.6%	3.3%	-3.2%	-16.7%	0.0%	24.0%	32.3%	87.8%	58.4%	4.1%	-79.5%	180.8%	-58.9%	9.1%	1.9%
Pensions	4.38	4.63	5.03	5.52	6.05	6.69	7.40	8.10	8.69	9.15	9.63	10.16	10.94	11.73	12.67	13.68	14.78
% Change	6.6%	5.7%	8.6%	9.7%	9.6%	10.6%	10.6%	9.5%	7.3%	5.3%	5.2%	5.5%	7.7%	7.2%	8.0%	8.0%	8.0%
Partnership	1.79	2.13	2.63	2.89	3.38	3.87	4.05	4.60	4.56	4.88	4.10	4.30	5.54	6.39	6.82	7.26	7.65
% Change	23.4%	19.0%	23.5%	9.9%	17.0%	14.5%	4.7%	13.5%	-0.7%	6.9%	-16.0%	4.9%	28.9%	15.2%	6.8%	6.4%	5.5%
Statutory Adjustment	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.5	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
% Change	2.5%	3.7%	7.1%	5.6%	6.3%	7.9%	10.1%	8.3%	8.5%	6.4%	6.7%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Gross Income	86.25	90.66	96.32	103.95	112.35	122.81	132.75	142.01	151.59	149.52	147.56	152.29	164.94	180.30	191.32	201.08	210.96
% Change	6.4%	5.1%	6.2%	7.9%	8.1%	9.3%	8.1%	7.0%	6.8%	-1.4%	-1.3%	3.2%	8.3%	9.3%	6.1%	5.1%	4.9%

Source: Statistics of Income Division, Internal Revenue Service

(e) Estimated by Fiscal Research Division

HISTORICAL AND PROJECTED GENERAL FUND REVENUE COLLECTIONS (\$MILL.)

	Actual 99-00	Actual 00-01	Actual 01-02	Actual 02-03	Actual 03-04	Actual 04-05	Actual 05-06	Actual 06-07	Estimated 07-08
Tax Revenue:									
Personal Income	\$7,077.1	\$7,386.6	\$7,127.2	\$7,081.6	\$7,509.9	\$8,409.3	\$9,400.2	\$10,508.0	\$10,895.1
Sales & Use	3,354.9	3,435.6	3,705.7	3,894.5	4,222.2	4,477.1	4,893.9	4,995.6	5,049.4
Corporate Income	901.1	476.2	451.8	840.5	777.0	1,193.6	1,204.2	1,451.4	1,095.1
Franchise	301.4	572.0	436.9	417.7	445.3	498.8	477.0	531.4	549.0
Insurance	273.4	305.7	340.8	408.9	423.4	431.7	431.7	475.5	481.9
Tobacco Products	43.7	42.0	41.5	42.0	43.7	43.0	171.7	241.2	238.9
Alcoholic Beverage	166.4	172.8	174.7	170.9	182.4	189.3	200.9	212.6	219.7
Inheritance	163.3	123.2	104.8	112.5	128.5	135.2	133.4	161.7	171.8
Privilege License	43.8	3.0	26.6	44.7	41.6	45.0	45.6	46.3	48.3
Mill Machinery	0.0	0.0	0.0	0.0	0.0	0.0	12.0	36.7	36.5
Gift	25.1	20.3	13.4	19.3	16.6	18.9	16.3	15.6	16.7
Piped Natural Gas	27.7	37.2	40.9	36.9	39.0	35.1	33.5	36.1	37.0
Soft Drink	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.1	1.2	1.3	1.1	1.1	0.8	0.8	0.0	0.0
Total-Tax Revenue	\$12,380.3	\$12,575.7	\$12,465.6	\$13,070.6	\$13,830.7	\$15,477.6	\$17,021.2	\$18,712.1	18,839.5
% Change: Actual	3.5%	1.6%	-0.9%	4.9%	5.8%	11.9%	10.0%	9.9%	0.7%
% Change: Baseline*	3.9%	4.6%	-6.2%	0.3%	5.7%	8.7%	12.1%	9.0%	3.8%
Nontax Revenue:									
Investment Income	208.3	168.2	132.6	105.1	78.3	71.5	119.1	202.5	212.1
Judicial Fees	101.5	109.3	110.4	124.7	139.0	141.8	159.1	167.6	208.1
Disproportionate Share	105.0	109.1	110.4	107.0	97.1	111.1	100.0	100.0	100.0
Other	103.4	93.7	131.4	215.3	471.2	214.7	167.0	162.4	145.1
Insurance Dept.	42.2	43.6	46.4	47.1	51.2	51.2	54.0	57.8	60.3
Total-Nontax Revenue	560.3	523.9	531.3	599.2	836.9	590.0	599.2	690.3	725.6
Total: Tax & Nontax Revenue	\$12,940.6	\$13,099.7	\$12,996.9	\$13,669.8	\$14,667.6	\$16,067.7	\$17,620.4	\$19,402.4	\$19,565.1
% Change: Actual	3.1%	1.2%	-0.8%	5.2%	7.3%	9.5%	9.7%	10.1%	0.8%
% Change: Baseline*	4.0%	4.6%	-6.3%	0.3%	5.8%	7.6%	12.4%	3.3%	4.0%
Transfers:									
Highway Trust Fund	\$170.0	\$170.0	\$171.7	\$377.4	\$252.4	\$242.6	\$252.6	\$57.5	\$172.5
Highway Fund	13.6	13.8	14.5	15.3	16.4	16.2	0.0	0.0	18.2
Total-Transfers	\$183.6	\$183.8	\$186.2	\$392.7	\$268.8	\$258.8	\$252.6	\$57.5	\$57.5
Total-General Fund Revenue	\$13,124.2	\$13,283.5	\$13,183.1	\$14,062.5	\$14,936.4	\$16,326.5	\$17,873.0	\$19,459.9	\$19,622.6
% Change: Actual	3.1%	1.2%	-0.8%	6.7%	6.2%	10.8%	9.5%	8.9%	0.8%
% Change: Baseline*	3.9%	4.6%	-6.2%	0.3%	5.7%	8.7%	12.3%	3.2%	4.0%

*Actual collections, adjusted for tax law changes, tax processing/refund delays, and other special factors. Due to changes in the estimates for some of these adjustment factors, the baseline growth numbers for prior years may differ from the numbers published in prior year editions of this publication.

EDUCATION

Public Education

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$7,466,321,736		\$7,579,725,190	
Legislative Changes				
A. Reductions to Continuation Budget				
1 Partnership for Excellence	(\$37,500)	R	(\$37,500)	R
Eliminates pass-through appropriation to Partnership for Excellence (formerly "Total Quality Education"), a private non-profit provider of professional development services. Local Education Agencies (LEAs) may use State funds to contract for these services.				
2 Replacement School Buses	(\$4,500,000)	NR		
Reduces the number of buses replaced in 2007-08 by approximately 170. The remaining \$53.9 million budgeted in 2007-08 for this purpose will support replacement of 658 buses.				
3 High Priority Elementary Schools	(\$520,067)	R	(\$520,067)	R
Eliminates special supplementary funding for the two remaining (of thirty-seven original) High Priority elementary schools identified per Section 29.1 of S.L. 2001-424. Funding will be reprogrammed to support ongoing State initiatives to address low-performing schools. The State Board may use funds from the ADM Contingency Reserve to assist the remaining two schools should they decide to continue operating as High Priority elementary schools. (S.L. 2007-323, Section 7.34)				
4 Teacher Assistants	(\$5,459,534)	R	(\$5,459,534)	R
Reduces State allotment for teacher assistants.				
B. Expansion - Technical Adjustments				
5 Teaching Fellows	\$650,000	R	\$1,300,000	R
Provides funding required to annualize cost of the 100 additional scholarships funded two years ago. (H.B. 1177/H.B. 1389/S.B. 921)				

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
13 Learn & Earn Online	\$6,500,000	R	\$10,100,000	R
Provides funding to support the delivery of online college credit courses that will be made available to high school students. The non-recurring funds are appropriated to a reserve, and will not revert if they are unused in FY 2007-08. (S.L. 2007-323, Section 7.27)	\$5,000,000	NR		
14 School Connectivity	\$12,000,000	R	\$12,000,000	R
Provides funding to support partial implementation of a new plan for State-funded and supported IT infrastructure in the LEAs. Part of effort to increase schools' abilities to use up-to-date instructional technology. (S.L. 2007-323, Section 7.28; H.B. 174/S.B. 135)				
15 Instructional Supplies/Materials	\$2,833,994	R	\$2,833,994	R
Provides additional funds to LEAs for purchase of instructional supplies and materials. Increases funding factor by \$1.94 (4%) per ADM, bringing factor to \$50.44 per ADM.				
16 Academically & Intellectually Gifted	\$1,750,000	R	\$1,750,000	R
Increases funds allotted to LEAs to support programming for students identified as academically and intellectually gifted. Increases funding factor by \$29.93 per ADM (for 4% of ADM), bringing the factor to \$1,042.53 per student. (S.L. 2007-323, Section 7.11; H.B. 699)				
17 Children with Disabilities	\$5,000,000	R	\$5,000,000	R
Increases funds allotted to LEAs to support special education and related services for students with identified disabilities. Increases funding factor by \$42.01 student in funded headcount (171,617), bringing the factor to \$3,199.57 per student. (S.L. 2007-323, Section 7.10; H.B. 137)				
18 Small County Supplemental Funding	\$2,100,000	R	\$2,100,000	R
Provides additional \$1,315,297 to be distributed evenly between each of the 27 LEAs projected to receive funding through this allotment in FY 2007-08 and FY 2008-09 (\$48,715 per LEA). Provides an additional \$784,703 to county LEAs that have less than 1,300 ADM and have experienced a decline in ADM since FY 2001-02. This additional money is to be used to reduce the student-to-teacher ratio in grades K-5 by 1, in grades 6-8 by 2, and in grades 9-12 by 3. (S.L. 2007-323, Section 7.7; H.B. 1035/S.B. 1441)				
19 Literacy Coaches	\$5,704,400	R	\$5,704,400	R
Provides funds to support 100 school-based literacy coaches to be placed in 100 schools that contain an eighth grade. Coaches will provide research-based teaching practices and job-embedded professional development to assist teachers in the development of specialized curricula. (S.L. 2007-323, Section 7.23; H.B. 1450)				

24 School Technology Pilot

Provides funds to be used along with a grant from the Golden LEAF Foundation and private sector funds to establish eight pilot high schools that will incorporate technology in the classroom by providing computers for all teachers and students in the pilot schools. Non-State funds will be used to purchase student and teacher portable computers. State funds will be used to fund a program evaluation, improve network connectivity at each of the pilot sites, assist with professional development for teachers and principals, provide technical support staff, and purchase any additional software, hardware, or other equipment necessary to support the program. Any unused funds at the end of FY 2007-08 will not revert. (S.L. 2007-323, Section 7.39; H.B. 643/S.B. 739)

\$3,000,000 NR

25 Low Wealth Counties Supplemental Funding

Provides one-time funding to LEAs that experienced decreases in Low Wealth Counties Supplemental Funding in FY 2007-08. This money will restore 75% of each LEA's decrease in Low Wealth Counties Supplemental Funding. (S.L. 2007-323, Section 7.6)

\$5,445,081 NR

26 More at Four

This appropriation expands the More at Four program by 10,000 slots in FY 2007-08 and increases the per slot amount by \$400. This will result in 28,653 total available More at Four slots at a per slot amount of \$4,450. This appropriation will also support operating and start-up costs associated with new slots. (S.L. 2007-323, Section 7.24)

\$56,000,000 R \$56,000,000 R

D. Expansion - Department of Public Instruction

27 DPI Consolidated Assistance Program

Provides funding to support the effort to budget assistance program components rather than funding them each year out of reversions. DPI shall budget all components of the Consolidated Assistance Program beginning in FY 2008-09.

\$150,000 R \$150,000 R

28 DPI Legacy Computer System Upgrades

Provides funding to complete technical upgrades required by ITS's review of DPI computing systems (per SB 991). These non-recurring appropriations support the 2nd and 3rd phases of a 3-year phased implementation (\$2 million per year; total of \$6 million, including NR funds in FY 2006-07).

\$2,000,000 NR \$2,000,000 NR

29 DPI Testing Positions

Funds three new positions in the DPI Accountability Services Division.

\$234,600 R \$234,600 R
3.00 3.00

35 Receipt-Supported Positions

Creates the following permanent receipt supported positions in the Department of Public Instruction:

A. Comprehensive Exceptional Children Accountability System (CECAS) - Federal IDEA VI-B Handicapped Funds

4 Training Consultants - \$318,462
1 Training Coordinator - \$89,947
1 Quality Analyst - \$99,130
1 Office Assistant - \$40,155

Positions will maintain and support LEA usage of CECAS, the management system for personal education plans and identification of children with disabilities. Converts contracted position to permanent State positions.

B. Safe Schools - Federal 21st Century Community Learning Centers

Education Consultant - \$75,024

Consultant will provide technical assistance to schools and LEAs on middle and high school counseling issues, and provide technical assistance and monitor the 190 centers providing after-school programs to at-risk students. Converts a contract position to a permanent State position.

C. Child Nutrition - Federal Child Nutrition Funds

2 School Meals Program Consultants - \$152,444

Consultants will assist local education agencies in ensuring that all compliance requirements for federal child nutrition programs are met and that the State's nutritional standards are implemented. Consultants will coordinate the implementation and oversight of the US Department of Agriculture's Seamless Summer Food Service program, Summer Milk program, Fruit and Vegetable program, USDA Best Practice program, and the Healthier US program.

D. DPI Communications and Information - Receipts from Use of Services

2 IT Technical Support Analysts - \$95,431
1 Operations & Systems Technician - \$38,291

Analyst positions will assist DPI with website maintenance and development. Technician will finish jobs in the department's printing and duplicating centers. Converts contracted positions to permanent State positions.

E. Children with Special Needs - Federal IDEA VI-B Handicapped Funds

3 Education Program Administrators - \$257,943
One administrator will be responsible for charter school

Public Education

Attorney III - \$102,881

Attorney will be placed in the Tort Claims Section of the Department of Justice and will manage claims associated with the DPI's workers' compensation cases.

E. Expansion - Pass-Throughs

<p>36 Communities in Schools</p> <p>Provides additional funds to private non-profit organization that assists with the establishment and development of local student support programs designed to prevent academic failure and dropout. The funding shall be granted to local programs as "seed money" for both new and established programs. In addition, the General Assembly recommends that CIS use up to \$300,000 from its cash reserves for additional grants to local programs.</p> <p>Section 5.2 of S.L. 2007-345 amended this item. Funds now shall be used to assist with the establishment and development of local student support programs designed to prevent academic failure and dropouts. Communities in Schools of North Carolina, Inc., may provide these funds to local programs as "seed money" for both new and established programs and may use funds from its cash reserves for additional grants to local programs. (H.B. 521/S.B. 504)</p>	<p>\$500,000 R</p> <p>\$550,000 NR</p>	<p>\$500,000 R</p>
<p>37 Teacher Academy</p> <p>Provides funds to the Teacher Academy to provide specialized training of literacy coaches. Funds shall be used to provide both ongoing training to coaches employed in FY 2006-07 and initial training to coaches employed for the first time in FY 2007-08. (H.B. 1450)</p>	<p>\$2,000,000 R</p>	<p>\$2,000,000 R</p>
<p>38 Teach for America</p> <p>Provides additional pass-through funds to support this private non-profit organization's efforts to recruit teachers to hard to staff schools in North Carolina.</p>	<p>\$200,000 NR</p>	
<p>39 Science Competitions</p> <p>Provides \$100,000 in additional funding for Science Olympiad. Also provides \$100,000 to the North Carolina Science, Mathematics and Technology Education Center, Inc. to support the establishment of new interscholastic science competitions. (H.B. 436/S.B. 763)</p>	<p>\$200,000 R</p>	<p>\$200,000 R</p>

46 PTA Parental Involvement Initiative

Provides funds to the North Carolina Congress of Parents and Teachers, Incorporated, a nonprofit organization, to implement the PTA Parental Involvement Initiative. (H.B. 1855, S.B. 861)

\$262,500 NR

47 ExplorNet

Provides additional funds to the Centers for Quality Teaching and Learning, a program that promotes effective use of information technology in public schools, run by ExplorNet, a private non-profit organization. (H.B. 1069)

\$125,000 NR

Total Legislative Changes

\$118,741,752	R	\$126,560,095	R
\$129,366,081	NR	\$2,030,000	NR

Total Position Changes

8.00	8.00
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Revised Budget

\$7,714,429,569	\$7,708,315,285
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Section: 7.5

Title: **Bonus for Certified Personnel at the Top of Their Salary Schedules**

Summary Provides one-time lump sum bonus of 2% to school-based administrators at the top of their respective pay schedules.

Section: 7.6

Title: **Use of Supplemental Funding in Low-Wealth Counties**

Summary Continues the formula for determining eligibility for and distribution of funds appropriated in 2007-08 and 2008-09 for supplemental funding for public schools in low-wealth counties.

Section: 7.7

Title: **Small School System Supplemental Funding**

Summary Describes the formula for determining eligibility for and distribution of funds appropriated in FY 2007-08 and FY 2008-09 for supplemental funding for public schools in small counties (as determined by ADM). Adjusts phase-out provision for counties that become ineligible because of increased tax base so that these counties continue to receive funding for seven years after being determined ineligible.

Section: 7.8

Title: **Disadvantaged Student Supplemental Funding**

Summary Describes the formula to be used for distributing all funds in the DSSF allotment. Allots the dollar equivalent of a teaching position (including benefits) based on the eligible DSSF population as defined by the State Board and the difference between an allotment ratio of 1:21 and a lower proposed ratio (depending on an LEA's wealth, per the Low Wealth formula). Holds the original 16 pilot LEAs harmless; these LEAs may not receive less than their FY 2006-07 allotment. Additionally, holds harmless for one year any LEA whose DSSF funding decreases as a result of increased wealth.

Section: 7.9

Title: **Students with Limited English Proficiency**

Summary Directs the State Board of Education to develop guidelines for identifying and providing services to students with limited proficiency in the English language. Allocates funds to LEAs based upon average daily membership of LEP students, to a maximum of 10.6% of ADM.

Section: 7.10

Title: **Children with Disabilities**

Summary Provides funds for children with disabilities on the basis of \$3,199.57 per child for a maximum of 171,617 children for the 2007-08 school year. This funding factor reflects expansion funding.

Section: 7.11

Title: **Funds for Academically Gifted Children**

Summary Provides funds for academically and intellectually gifted children on the basis of \$1,042.53 per child for a maximum of 58,740 children (4% of ADM) for the 2007-08 school year. This funding factor reflects expansion funding.

Section: 7.19

Title: **Learn and Earn High Schools**

Summary Directs that funds may be spent for various costs of Learn and Earn high school students attending institutions of higher education. Authorizes the State Board of Education to use up to \$850,000 to establish additional Learn and Earn high schools that become certified as operational.

Section: 7.20

Title: **North Carolina Virtual Public School (NCVPS)**

Summary Directs that the NCVPS shall report to the State Board of Education and shall maintain an office at DPI. Directs that all e-learning opportunities offered by State-funded programs be consolidated under the NCVPS. Directs the State Board of Education to implement a new allotment formula, effective in FY 2008-09, for funding e-learning. Allows the State Board of Education to convert the 22 three-month positions that were authorized for NCVPS in S.L. 2006-66 to five full-time positions, if the Board determines that it is appropriate to do so.

Section: 7.21

Title: **Small Restructured High Schools**

Summary Requires the State Board of Education to report to the Office of State Budget and Management, the Joint Legislative Education Oversight Committee, and the Fiscal Research Division by January 15 of each year with an accounting of how funds spent on small specialty high schools are impacting student achievement and recommendations for improvement of the program.

Section: 7.22

Title: **NC Wise Positions**

Summary Authorizes the State Board of Education to create a maximum of 10 positions and incur expenditures necessary to maintain and administer the NC WISE system within the Department of Public Instruction.

Section: 7.23

Title: **21st Century Literacy Coaches**

Summary Directs the State Board of Education and NC Teacher Academy to develop a site selection process for placing 100 new literacy coaches. Provides guidelines for the process. Subsection (b) 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

Title: **More at Four Program and Office of School Readiness**

Summary Describes features of the More at Four program, requires DPI to implement a plan to expand the program, and outlines reporting requirements. Subsection (d) expands program eligibility criteria 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.

Section: 7.32

Title: **Dropout Prevention Grants**

Summary Establishes the Committee on Dropout Prevention (the Committee) and Joint Legislative Commission on Dropout Prevention and High School Graduation (the Commission). Outlines criteria for eligibility of grant awards (up to \$150,000) to local administrative units, schools, local agencies, or nonprofit organizations. The Committee is charged with awarding grants, while the Commission will oversee appropriated funds and study issues related to dropout prevention.

Section: 7.34

Title: **High Priority Schools**

Summary Permits the SBE to develop a policy for the two-year phase-out of the special supplementary funding provided to the two remaining high priority elementary schools. Allows the SBE to use up to \$500,000 to support the ongoing evaluation of the DSSF initiative.

Section: 7.35

Title: **Distance Education**

Summary Allows the SBE to use monies from the State Public School Fund in the 2007-08 school year only to pay for an increased number of registration fees for Distance Education courses.

Section: 7.36

Title: **Child Nutrition**

Summary Extends the date by which all elementary schools shall 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.

Section: 7.39

Title: **Funds for School Technology Pilot**

Summary Appropriates funds to be used with a \$3 million grant from the Golden LEAF Foundation and other private sector funds to establish a school technology pilot program in eight high schools. Directs the SBE to report to several entities by March 15, 2009 on the results of the pilot, and allocates up to \$100,000 for an independent research evaluation of the pilot program. Unused funds from the program will not revert.

Section: 7.40

Title: **ADM Conformity**

Summary Repeals Section 8 of S.L. 2007-145 (2007 Continuing Budget Authority). This section had appropriated funds to DPI to account for growth in ADM.

55 Affiliate Institutions- Efficiency Reduction

(\$2,873,935) R (\$2,873,935) R

Implements the reductions recommended by the President's Advisory Committee on Efficiency and Effectiveness (PACE) for UNC Affiliate institutions. The reductions are as follows:

-11.00

-11.00

Information Technology

\$90,000 - Eliminate the Multimedia Educational Resource for Learning and Online Teaching (MERLOT) project and professional development support for the Teaching & Learning with Technology Conference.

\$90,000 - Eliminate the Collaborative Procurement Director position in the Coordinated Technology Management program.

\$223,136 - Eliminate UNC Distance Education support operation.

\$550,000 - Reduce NC Research and Education Network (NCREN) equipment refresh funding.

Higher Education Student Aid Programs

\$83,065 - Eliminate one applications programmer position.

\$821,358 - Fund SEAA operations from state and federal receipts.

\$38,089 - Eliminate SPA Program Director.

Center for School Leadership Development

\$85,000 - Eliminate one Director position by consolidating teacher recruitment programs.

\$25,000 - Relocate the NC Model Teacher Consortium into the CSLD facility.

\$146,931 - Eliminate the Education Law North Carolina publication operation.

\$135,628 - Consolidate CSLD program support into a central service operating unit.

\$125,000 - Transfer State funded conferencing direct support activities to conference receipts to consistently match revenues with associated expenses.

\$100,000 - Reduce Hunt Institute administrative costs through program consolidation along with implementing in-house research.

UNC Center for Public Television

\$150,000 - Realize savings from operational audit.

\$89,952 - Eliminate seasonal in-house manufacturing interface services by obtaining service in equipment acquisitions.

Other UNC Program Reductions

\$85,170 - Leverage operational capacities between Education Pathways and SEAA.

\$35,606 - Reduce personnel costs by consolidating the Higher Education Facility Commission with the Institutional Research and Analysis Division.

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
63 Private College Enrollment Growth	\$2,372,250	R	\$2,372,250	R
Increases the appropriation for the Legislative Tuition Grant and the State Contractual Scholarship Fund for a 3% increase in the number of NC residents attending the State's private colleges. In FY 2007-08, the number of students is projected to increase from 33,493 to 34,498.				
64 Elizabeth City State University Pharmacy Space	\$43,000	NR	\$43,000	NR
Funds the leases of six modular units that house the Pharmacy Program until a permanent facility is constructed.				
65 UNC-Pembroke Modular Building Leases	\$83,843	R	\$88,035	R
Funds the leases of two facilities that house offices of faculty that were hired due to campus growth and one facility for a new Entrepreneur Center in the School of Business.				
C. Expansion				
66 Need-Based Financial Aid				
Funds the inflationary cost of room, board, books and supplies, and the scheduled increase in tuition and fees for the 41,143 students that receive UNC need-based grants (\$22 million). Also funds the 5,421 income eligible students that typically go unfunded each year because their applications are filed after the aid has been dispersed in the spring (\$13.6 million). The \$35.6 million in increased cost is funded from the Escheat Fund each year. (S.L. 2007-323, Section 9.3)				
67 UNC Online	\$2,000,000	R	\$2,000,000	R
Funds the continued development of UNC Online, a virtual online education center with related support and technology infrastructure that will provide one-stop access to and delivery of UNC online degree and certificate programs.				
	\$2,200,000	NR		
68 Information Technology Initiatives	\$640,000	R	\$640,000	R
Funds the creation of a secondary data center (hot site) for disaster recovery operations. Also funds a shared hardware platform and regional (multi-campus) hosted enterprise systems and services solution center.				
69 AHEC Residencies	\$570,791	R	\$570,791	R
Increases funding of the AHEC program that trains family physicians and other primary care doctors to address ongoing chronic shortages in the most underserved parts of the state. Also funds development of clinical training sites for students in pharmacy, medicine, nursing, allied health, and mental health, and supports development of programs to improve quality of care.				

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
77 NC Research Campus at Kannapolis	\$8,500,000	R	\$8,500,000	R
Provides operating funds for UNC programs located at the North Carolina Research Campus in Kannapolis. Of the recurring funds, \$4.2 million is for leases and \$4.3 million is for new faculty positions. The nonrecurring funds are to be used for faculty startup (\$4 million) and for equipment (\$4 million). (S.B. 1050/H.B. 1375)	\$8,000,000	NR		
78 North Carolina Engineering Technology Center at Hickory	\$600,000	R	\$600,000	R
Provides operating funds for the North Carolina Engineering Technology Center in Hickory. (H.B. 1104)				
79 Gateway Technology Center	\$177,000	R	\$177,000	R
Provides funding to the Gateway Technology Center located on the campus of North Carolina Wesleyan College for a) operating funds for the Center which offers online courses from East Carolina University and NC State University (\$150,000) and b) support for the summer math and engineering camps for school children (\$27,000).				
80 State Contractual Scholarship Fund Increase	\$3,220,000	R	\$3,220,000	R
Increases the State Contractual Scholarship Fund from \$1,250 per Full Time Equivalent (FTE) North Carolina student in the state's private colleges to \$1,350 per FTE student. These funds are for financially needy students. (S.B. 1056/H.B. 1222)				
81 Legislative Tuition Grant Increase	\$1,600,000	R	\$1,600,000	R
Increases the Legislative Tuition Grant from \$1,900 to \$1,950 per North Carolina resident student in the state's private colleges. (S.B. 1487/H.B. 1261)				
82 Legislative Tuition Grant for Part-Time Students	\$1,500,000	R	\$1,500,000	R
Expands the Legislative Tuition Grant to include part-time North Carolina resident students who take a minimum of nine credit hours per semester. (S.L. 2007-323, Section 9.13)				
83 NC LIVE for Private Colleges	\$90,000	NR		
Funds a portion of the costs charged to private colleges for their participation in NC LIVE (North Carolina Libraries for Virtual Education), the state's electronic library that provides access to magazine articles, national and local newspapers, business and professional journals, reference sources and research material.				
84 Religious College Grant	\$29,700	R	\$29,700	R
Increases the Religious College Grant from \$1,800 to \$1,950 per North Carolina resident student attending Roanoke Bible College and Southeastern College.				

93 Special Focus Institutions

Provides additional funding to UNC-Asheville (\$500,000), to the North Carolina School of the Arts (\$500,000), and to the North Carolina School of Science and Math (\$100,000) for nonrecurring needs. The missions and limited sizes of these institutions make it difficult for them to generate sufficient funds from the student credit hour enrollment funding model and other sources to provide the services students need. (S.B. 1235/H.B. 1014, H.B. 1886, S.B. 455)

\$1,100,000 NR

94 Fire Protection for UNC-Pembroke

Provides a grant-in-aid to the Pembroke Rural Volunteer Fire Department, Inc. to purchase a 100-foot aerial fire truck and equipment to ensure adequate fire protection services to the University of North Carolina at Pembroke. (H.B. 157, H.B. 301)

\$750,000 NR

95 North Carolina Specialty Crops Program

Provides operating support to the North Carolina Specialty Crops Program, a statewide partnership of the College of Agriculture and Life Sciences at North Carolina State University and the Marketing Division of the North Carolina Department of Agriculture and Consumer Services. (S.B. 75/H.B. 850)

\$300,000 NR

96 EARN Scholars

Funds the proposed EARN (Education Access Rewards North Carolina) Scholars program. This program will be funded with \$27.6 million from the General Fund in FY 2007-08 and \$60 million from the General Fund and \$40 million from the Escheat Fund in FY 2008-09. (S.L. 2007-323, Section 9.7)

\$27,605,210 R \$60,000,000 R

97 Veterinary Medicine Clinical Teaching and Research Fund

Provides funds to the NC State University College of Veterinary Medicine to establish a Veterinary Medicine Clinical Teaching and Research Fund. This fund will allow advanced diagnostic and treatment options for animals where a) owner financing of such options are limited, b) significant instructional value exists, or c) the diagnostic and treatment options have the potential of adding significantly to core knowledge in the relevant clinical area. (H.B. 1397)

\$200,000 NR

98 Shellfish Restoration Funds

Funds a shellfish restoration project conducted by the UNC-Chapel Hill Institute of Marine Sciences in Morehead City. The project will attempt to 1) restore the North Carolina bay scallop, 2) conduct a pilot project to protect oyster sanctuaries from cownose ray and skate predation, and 3) evaluate and combat the damage done by the cownose rays and skates to seagrass nursery habitat. The UNC-Chapel Hill Institute of Marine Sciences shall work in conjunction with the Department of Environment and Natural Resources to facilitate this initiative. (H.B. 1877)

\$300,000 NR

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
<p>105 UNC/NCCCS 2+2 Joint E-Learning Initiative Provides recurring funds for the UNC/NCCCS 2+2 Joint E-Learning Initiative that was established in 2005 with nonrecurring funds. In FY 2007-09 biennium, these funds will be used to develop a method to track student progress and articulation among and across campuses and to develop technology to support online courses and 2+2 programs.</p>	\$1,000,000	R	\$1,000,000	R
<p>106 Academic Summer Bridge and Retention Pilot Programs Funds Academic Summer Bridge and Retention Pilot Programs at the seven Focused Growth institutions (ECSU, FSU, NC A&T, NCCU, UNCP, WCU, and WSSU) to target first generation college students or students requiring additional college preparation. Students will attend a four to five week residential summer session before their freshman year to study English and math. Students attending these sessions will earn 6 hours of credit toward their degree.</p>	\$1,193,000	R	\$1,193,000	R
<p>107 Graduate Student Recruitment and Retention Funds new tuition waivers aimed at recruiting and retaining top tier graduate students in science and technology. (S.B. 453 for WSSU only)</p>	\$2,000,000	R	\$2,000,000	R
<p>108 Biomanufacturing Research Institute & Technology Enterprise (BRITE) Provides additional operating funds for the Biomanufacturing Research Institute & Technology Enterprise (BRITE) initiative at NCCU.</p>	\$1,000,000	R	\$1,000,000	R
<p>109 Competitiveness Fund Creates a research competitiveness fund to support strategic investments in emerging areas of importance to the economic competitiveness of the state. The awards would emphasize interdisciplinary research to encourage the involvement of multiple UNC campuses. The fund would be focused on such areas as: Nanosciences, Marine Sciences, Natural Products, Environmental Sciences, Information Technology, Biomanufacturing, Port Logistics, Marine Aerodynamics, Pharmacogenomics, Biomedical Sciences, Advanced Materials Sciences and Biotechnology.</p>	\$3,000,000	NR		
<p>110 University Cancer Research Fund Provides General Fund support to the President of the University of North Carolina for distribution to UNC Hospitals for cancer research. The following funds are also appropriated to the University Cancer Research Fund: 1)\$8 million from the Tobacco Trust Fund each year and 2) \$11.4 million in FY 2007-08 and \$16.5 million in FY 2008-09 from an increase in the tax on tobacco products other than cigarettes. The total available in the University Cancer Research Fund is \$25 million in FY 2007-08 and \$40 million in FY 2008-09. A total of \$50 million will be available in FY 2009-10 and annually thereafter. (S.L. 2007-323, Section 6.23)</p>	\$5,600,000	R	\$15,500,000	R

116 Center for Bioenergy Technologies

Provides funds to expand initiatives at North Carolina State University for research and development of bioenergy technologies. Three components of the Center for Bioenergy Technologies would be (i) new technologies for efficient and clean use of traditional energy sources; (ii) alternative, environmentally safe, and renewable energy sources; and (iii) research of energy technologies and the impacts on the environment and North Carolina's rural economy. The Southeastern Energy Field Laboratory (Duplin Co.) would be the focal point of the production and bioprocessing of various agricultural substrates into biofuels. It also would serve as a demonstration facility by being operated using alternative energy sources including bioenergy, wind, thermal, or solar. (S.B. 557/H.B. 861)

\$1,500,000 NR

117 John B. McLendon Leadership Awards

Establishes the John B. McLendon Scholarship Fund to award two leadership scholarships each year to two student athletes at each of North Carolina's ten Historically Black Colleges and Universities. The \$1,250 awards are paid from the interest of the Fund beginning in FY 08-09.(S.L. 2007-323, Section 9.18)

\$500,000 NR

118 Hugh Morton Collection

Provides funds to the North Carolina Collection in the Louis Round Wilson Library at UNC-Chapel Hill to process and preserve the collection of photographic prints and negatives donated by Hugh Morton.

\$150,000 NR

Total Legislative Changes

\$62,304,105	R	\$76,406,791	R
\$38,901,841	NR	\$1,216,199	NR

Total Position Changes

31.50	25.50
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Revised Budget

\$2,626,271,017	\$2,656,447,099
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Section: 9.5

Title: **Board of Governors' Dental Scholarships**

Summary Codifies language passed in 2005 that requires recipients of dental scholarship loans to repay the aid by practicing dentistry in the state for four years within seven years after graduation.

Section: 9.6

Title: **Graduate Nurse Scholarship Loans For Full-Time Nursing Faculty in the NC Community College System**

Summary 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.

Section: 9.7

Title: **Establish the Education Access Rewards North Carolina Scholars Fund (EARN)**

Summary Establishes the Education Access Rewards North Carolina Scholars Fund (EARN) to award 2-year grants of up to \$4,000 per year to students whose family income is up to 200% of the federal poverty level (\$41,300 for family of four). The EARN scholarship will begin in Fall 2008. The scholarship is funded from the General Fund and the Escheat Fund.

Section: 9.8

Title: **Management Flexibility to Reorganize Budget Code 16012**

Summary Mandates UNC to reorganize budget code 16012 so that the scholarship programs included in this code may be easily recognized.

Section: 9.9

Title: **Future Teachers of NC Scholarship Loan Program**

Summary Increases the number of scholarship loans issued annually from 100 to 150. This amends the statute to conform to the action taken in the 2006 budget.

Section: 9.10

Title: **Principals' Executive Program**

Summary Mandates 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 with certain designated elements.

Section: 9.11

Title: **Repeal North Carolina Progress Board**

Summary Repeals this board that ended operations in December 2006.

Section: 9.12

Title: **Revert Motorsports Capital Account**

Summary Reverts funding from completed project for use in other UNC initiatives.

Community Colleges

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$892,934,482		\$893,151,875	
Legislative Changes				
A. Enrollment and Tuition				
119 Fully Fund Enrollment Growth	\$3,315,117	R	\$3,315,117	R
<p>Provides funds to fully fund enrollment growth. Community college enrollment has increased by 2,296 FTE, from 193,027 to 195,323, an increase of 1.2%. This enrollment growth requires a total appropriation of \$8.8 million. The continuation budget included \$5.5 million for this purpose. However, the data needed to accurately calculate enrollment growth requirements were not available at the time the continuation budget was developed. This appropriation provides the remaining \$3.3 million needed.</p>				
120 Increase Tuition by 6.3%	(\$7,500,000)	R	(\$7,500,000)	R
<p>Increases community college tuition by 6.3%. In-state tuition will increase from \$39.50 to \$42.00 per credit hour up to 16 hours; full-time resident students will pay \$672 per semester or \$1,344 per year. Out-of-state tuition will increase from \$219.50 to \$233.30 per credit hour up to 16 hours. These additional tuition receipts will remain with the NC Community College System to fund expansion items, increasing total spending by an additional \$7.5 million.</p>				
121 Enrollment Growth Reserve	\$2,000,000	NR		
<p>Provides funds for an Enrollment Growth Reserve to assist colleges that experience high growth in the fall semester. Funds shall be distributed to colleges that realize an increase greater than 5% over the previous fall semester.</p>				
B. Formula Enhancement				
122 Allied Health	\$5,600,000	R	\$5,600,000	R
<p>Provides additional funds to support allied health programs. Funds may be used for allied health equipment and supplies, or to supplement the salaries of allied health faculty. Funds shall be distributed on the basis of Allied Health FTE. (H.B. 80/S.B. 1061, H.B. 876/S.B. 128)</p>				

<p>129 Multi-Campus Center Funds Provides additional funds to support multi-campus centers (MCCs), satellite campuses that provide students services and at least one degree program. One additional MCC - Ashe County MCC of Wilkes Community College - was approved by the State Board of Community Colleges in FY 2006-07, bringing the total number of MCCs to 24.</p>	<p>\$100,000 R</p>	<p>\$100,000 R</p>
<p>130 NC Military Business Center Provides funds for the continued operation of the NC Military Business Center (NCMBC), a program run by Fayetteville Tech in conjunction with Craven CC, Coastal Carolina CC, and Wayne CC. The NCMBC fosters statewide business development originating from the five military bases in the State. Funds are also used to sustain MatchForce.org, the State's website for matching NC businesses with federal contracting opportunities. (H.B. 1515)</p>	<p>\$1,250,000 R</p>	<p>\$1,250,000 R</p>
<p>131 NC REAL Provides funds for NC REAL (NC Rural Entrepreneurship through Active Learning). This program was formerly supported by the Worker Training Trust Fund. (H.B. 1516)</p>	<p>\$250,000 NR</p>	
<p>132 Motorsports Consortium Funds Provides funds for curriculum development activities of the North Carolina Motorsports Consortium, which is established to help create a highly trained workforce to support the State's motorsports industry. (H.B. 1351/S.B. 1536)</p>	<p>\$500,000 NR</p>	
<p>133 Hosiery Technology Center Provides funds to establish a research and development center for the seamless manufacturing industry. The center shall operate under the Hosiery Technology Center at Catawba Valley Community College and Randolph Community College. These funds shall be used to enhance diversification in hosiery manufacturing operations where seamless production is compatible with hosiery manufacturing. (H.B. 1105)</p>	<p>\$100,000 NR</p>	
<p>134 Male Minority Mentoring Provides funds to expand the Male Minority Mentoring program to 15 additional community colleges. (H.B. 884)</p>	<p>\$475,000 NR</p>	
<p>135 NC Center for Viticulture and Enology Provides funds for the NC Center for Viticulture and Enology located at Surry Community College. Funds may be used for equipment, staff, and building operations. An additional \$500,000 has been appropriated in the Department of Commerce budget for viticulture promotion, providing a total of \$1 million for the advancement of the viticulture industry in the State. (H.B. 1490, H.B. 1648/S.B. 458)</p>	<p>\$500,000 NR</p>	

Special Provisions

2007 Session: HB 1473

Department: Community Colleges

Section: 8.1

Title: Use of Funds for the College Information System Project

Summary Provides that College Information System (CIS) funds do not revert and requires the State Board to report quarterly to the Joint Legislative Education Oversight Committee on the implementation of the CIS project. Also authorizes the establishment of up to 10 positions using CIS funds to transfer the maintenance and administration of the CIS project from the vendor to the System Office. These personnel shall be located in community colleges across the State.

Section: 8.2

Title: Carryforward of Equipment Funds for Community Colleges

Summary Allows the State Board to carryforward up to \$10 million for equipment.

Section: 8.3

Title: Instructional Resource Allocation Formula

Summary Directs the State Board to develop a new funding formula for library books and instructional resources. The current formula is complex and obsolete.

Section: 8.4

Title: Report on NCCCS Distance Learning and Online Capabilities

Summary Directs the Community Colleges System Office to report to the Joint Legislative Education Oversight Committee, Fiscal Research Division, and Office of State Budget and Management on its efforts regarding distance learning opportunities. The report shall account for how funds for improved bandwidth are expended, report a five-year history of the number of distance learning courses offered and the number of students taking those courses, summarize evaluations of distance learning courses, and report on efforts to collaborate with UNC and DPI on distance learning.

Section: 8.5

Title: Community College Faculty Salary Plan

Summary Boilerplate language that establishes 1) a minimum faculty salary scale based on education level and 2) an incentive scale, which provides additional budget flexibility to colleges with higher faculty salaries. Minimum faculty salaries for FY 2007-08 were increased by 5% over FY 2006-07 levels, consistent with the legislative increase provided to all faculty. (H.B. 81/S.B. 246)

**HEALTH
&
HUMAN SERVICES**

Health and Human Services

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$4,532,083,971		\$4,820,403,092	
Legislative Changes				
(1.0) Office of the Secretary				
1 Department-Wide Reduction Reserve				
Reduces funding from the line items in the following budget categories: purchased services (2000), supplies (3000), property, plant, and equipment (4000), and other expenses (5000).	(\$1,775,000)	NR		
2 Controller's Office Reduction				
Eliminates funding for the continuation budget increase in the Controller's Office for the Financial Audit Consulting Fees line item.	(\$549,641)	R	(\$549,641)	R
3 Information Resource Management Reduction				
Reduces funding for inflationary increases for the Communications and Data processing line item in the Division of Information Resource Management.	(\$1,500,000)	R	(\$3,000,000)	R
4 Automation Reserve Fund Reduction				
Reduces funding for the Automation Reserve Fund.	(\$1,000,000)	R	(\$1,000,000)	R
5 Office of Policy and Planning				
Eliminates recurring funding for the Office of Policy and Planning and provides nonrecurring fund for the program in FY 2007-08. This program is subject to continuation review.	(\$414,536)	R	(\$414,536)	R
	\$414,536	NR		-5.00
6 Prior Year Earned Revenue - Department-Wide				
Requires prior year earned revenue to be budgeted throughout the department and reduces State appropriations.	(\$3,385,000)	NR		
7 Unbudgeted Non-Federal Receipts - Department-Wide				
Requires unbudgeted non-federal receipts to be budgeted throughout the department and reduces State appropriations.	(\$4,105,142)	NR		
8 Medicaid Management Information System (MMIS)				
Provides funding to support the Office of Medicaid Management Information Services and to replace the Medicaid Management Information System.	\$3,855,142	NR		

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
18 CARELINE	\$361,261	R	\$481,681	R
Provide funding for ten new positions to increase staffing for the CARELINE from an eight to five, five days a week program to a twenty-four hour, seven days a week program. The new positions include eight Information and Referral Specialists and two Administrative Officer Is.	\$12,330	NR		
	10.00		10.00	
19 Housing and Homelessness Positions	\$248,341	R	\$248,341	R
Provides funding to convert three time-limited, grant supported positions to permanent, full-time staff funded through the General Fund. The positions include one community development specialist and two human services planners. These positions support departmental housing and homelessness initiatives.	3.00		3.00	
20 Institute of Medicine Studies	\$300,000	R	\$300,000	R
Provides funding for the Institute of Medicine to hire staff to undertake additional studies annually at the request of the North Carolina General Assembly, including a specific study on substance abuse services. Also provides funding to support a rapid-response capacity to analyze secondary data sources on health or provide other health-related data to the North Carolina General Assembly and to State and local government agencies. (S.B. 713, H.B. 1339; S.L. 2007-323, Sec. 10.53A)				
(2.0) Division of Aging and Adult Services				
21 Pilot for Adult Care Home Quality Improvement	\$264,000	NR	\$264,000	NR
Provides funding to support the Quality Improvement Pilot Initiative, a collaboration between the adult care home industry and the State. The pilot will include up to 100 adult care homes in four counties.				
22 Area Agencies on Aging	\$300,000	R	\$300,000	R
Provides funding for the seventeen Area Agencies on Aging for services and planning activities, including funding for professional and administrative services to benefit senior citizens. Also provides funding to support and coordinate aging services and activities throughout the State. (S.B. 754/H.B. 732)				
23 Senior Center General Purpose Fund	\$200,000	NR		
Provides funding for the Senior Center General Purpose Fund to provide additional funding for senior centers. (S.B. 53/H.B. 195)				
24 Home and Community Care Block Grant	\$536,000	R	\$536,000	R
Provides funding for the Home and Community Care Block Grant Program. (S.B. 59/H.B. 98)				

33 Equipment Reduction				
Eliminates funding for the continuation budget increase for equipment in FY 2007-08.	(\$151,255)	NR		
34 Textbooks Reduction	(\$73,243)	R	(\$77,466)	R
Eliminates funding for the continuation budget increase for textbooks.				
35 Student Life Services at GMS	\$68,288	R	\$91,051	R
Provides funding to add three student life services staff at the Governor Morehead School for the Blind.	3.00		3.00	
36 Resource Officers at Schools for the Deaf	\$82,000	R	\$82,000	R
Provides funding to contract for school resource officers at the Eastern NC School for the Deaf and the NC School for the Deaf in Morganton.				
37 Behavior Support at Schools for the Deaf and Blind	\$106,712	R	\$142,283	R
Provides funding to add two behavior programming technicians at the Eastern NC School for the Deaf and at the Governor Morehead School for the Blind to support the North Carolina Positive Behavior Support Program.	4.00		4.00	
38 Beginnings, Inc.	\$229,151	R	\$229,151	R
Provides funding for family support services for children who are deaf or hard of hearing. (S.B. 130/H.B. 348)				
(5.0) Division of Public Health				
39 Under-Budgeted Receipts - State Public Health Laboratory	(\$4,000,000)	R	(\$4,000,000)	R
Increases budgeted receipts from Medicaid for the State Public Health Laboratory to reflect actual collections and reduce State appropriations.				
40 Utilities Inflationary Increase Reduction	(\$25,000)	R	(\$25,000)	R
Reduces funding for the continuation budget increase for the utilities line item in the Division of Public Health.				
41 Dental Health Services	(\$125,000)	R	(\$125,000)	R
Eliminates funding for a portion of the Drugs and Pharmaceutical Supplies line item in Dental Health Services Program and appropriates nonrecurring funding for FY 2007-08. This line item is subject to continuation review.	\$125,000	NR		
42 Child Developmental Service Agencies	(\$4,000,000)	R	(\$4,000,000)	R
Reduces a portion of the funding for the Child Developmental Service Agencies and appropriates nonrecurring funding for each year. The Child Developmental Service Agencies are directed to increase receipts from Medicaid and insurance to offset the nonrecurring appropriations. This program is subject to continuation review. (S.L. 2007-323, Sec.10.21)	\$4,000,000	NR	\$3,000,000	NR

48 Health Disparities Initiative

Provides funding for grants-in-aid awarded through the Community-Focused Eliminating Health Disparities Initiative (CFEHDI). (S.B. 983, H.B. 2046; S.L. 2007-323, Sec. 10.22)

\$500,000 NR

49 Special Population Dentistry

Provides funding for a mobile dental provider to deliver services to the frail elderly and persons with disabilities in unserved areas. (S.B. 52/H.B. 201)

\$200,000 NR

50 Healthy Carolinians

Provides funding for local health departments to establish and maintain necessary infrastructure to reduce rates of diabetes, cancer, heart disease, obesity, injury, and infant mortality. (S.B.26/H.B. 25)

\$1,000,000 NR

51 Women's Health Services

Provides funding for family planning services to uninsured women who are not eligible for Medicaid. (S.B. 401/H.B. 362)

\$200,000 R \$200,000 R

52 Monitoring of Birth Defects

Provides funding for the surveillance and collection of clinical data on birth defects, and linking the data to vital statistics, newborn metabolic screening, and children's health services. Also provides funding for three new positions for the birth defects monitoring registry. Those positions are two Social Research Assistant IIs and one Social Research Associate. (S.B. 520/H.B.1022)

\$200,000 R \$200,000 R
3.00 3.00

53 Aid to Local Health Departments

Provides funding to local health departments, based on need and current health data, for the ten essential services of public health. (H.B. 125; S.L. 2007-323, Sec. 10.24)

\$2,000,000 R \$2,000,000 R

54 Health Care Provider Training

Provides funding for development, training, and communications initiatives among hospitals and emergency medical services for stroke victims. (S.B. 42/H.B. 50)

\$150,000 R \$150,000 R

55 Stroke Public Awareness

Provides funding for a stroke public awareness campaign, a survey of gaps and needs in the prevention and treatment of stroke, and the continuation of the Justus-Warren Heart Disease and Stroke Task Force. (S.B. 42/H.B. 50)

\$360,000 NR

56 NC Collaborative Stroke Registry

Provides funding for the State match to existing federal funds for the NC Collaborative Stroke Registry to increase hospital participation in the registry. (S.B. 42/H.B. 50)

\$390,000 R \$390,000 R

67 Receipt-Supported Position - Division of Public Health

Creates one new position in the Division of Public Health to coordinate the Centers for Disease Control-funded, hospital-based, public health epidemiologist positions in the 11 largest hospital systems in the state.

Public Health Nurse Consultant II - \$84,207

This position is 100 percent receipt-supported through a grant from the federal Centers for Disease Control.

68 Receipt-Supported Position - Division of Public Health

Creates one new position in the Division of Public Health to plan, organize, implement, and administer the Diabetes Education Umbrella project.

Public Health Nurse Consultant II - \$80,345

This position is 100 percent receipt-supported through a grant with the federal Centers for Disease Control.

69 Receipt-Supported Position - Division of Public Health

Creates one new position in the Division of Public Health to provide leadership and direct the clinical activities of the Family Planning and Reproductive Health Unit.

Public Health Nurse Consultant II - \$81,911

This position is 100 percent receipt-supported through the federal Family Planning Block Grant.

70 Receipt-Supported Position - Division of Public Health

Creates one new position in the Division of Public Health to provide expert statewide training and technical assistance to tobacco-use prevention and treatment programs, with an emphasis on health care providers.

Public Health Nurse Consultant II - \$58,506

This position is 100 percent receipt-supported through the federal CDC Tobacco Prevention and Control Program.

71 Receipt-Supported Position - Division of Public Health

Creates one new position in the Division of Public Health to support activities to expand the identification, recruitment, enrollment, and training of health care providers to participate in the vaccine program to serve adolescents.

Public Health Consultant I - \$57,418

This position is 100 percent receipt-supported through a federal Centers for Disease Control grant.

76 Child Welfare Post-Secondary Support Program

\$2,003,600 R \$3,718,250 R

Provides funding to implement a new program to meet the post-secondary educational needs of foster youth aging out of the foster care system and special needs children adopted from foster care after age 12. The program will provide tuition, fees, room and board, and books to these children that attend public institutions of higher education in this State. (S.L. 2007-323, Sec. 10.34)

Provides \$1,553,600 in FY 2007-08 and \$3,168,250 in FY 2008-09 from the Escheat Fund and \$1,553,600 in FY 2007-08 and \$3,168,250 in FY 2008-09 from the General Fund for the scholarship awards.

Provides \$400,000 in FY 2007-08 and \$500,000 in FY 2008-09 from the General Fund for the Division of Social Services to contract with an entity to administer the program and to provide support services to scholarship participants.

Provides \$50,000 in FY 2007-08 and FY 2008-09 from the General Fund to the NC State Education Assistance Authority to administer the program's scholarship funds.

77 Hearings and Appeals Program

\$88,993 R \$118,657 R

Provides funding to add a hearing officer supervisor and two hearing officers in the DHHS Office of Hearings and Appeals.

\$6,607 NR
3.00 3.00

78 Child Welfare Oversight

\$121,160 R \$161,547 R

Provides funding to support three Social Services Program Consultant positions to strengthen oversight of Child Welfare Services.

\$11,261 NR
3.00 3.00

79 Food Banks

Provides funding to be equally distributed to the regional network of food banks in North Carolina. (S.B. 306/H.B. 524)

\$1,000,000 NR

80 Child Advocacy Centers

Provides funding for grants-in-aid to each certified child advocacy center. (H.B. 214)

\$250,000 NR

(7.0) Division of Medical Assistance

81 FY 2007-08 Provider Inflationary Increases

(\$35,441,213) R (\$37,707,413) R

Reduces funding for FY 2007-08 Medicaid provider inflationary increases. The reduction applies to all Medicaid private and public providers with the following exceptions: federally qualified health clinics, rural health centers, school-based and school-linked health centers, state institutions, pharmacy, outpatient hospital, and the noninflationary components of the case-mix reimbursement system for nursing facilities.

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
90 Expand Medicaid Coverage for Foster Care Adolescents	\$216,466	R	\$645,841	R
Provides funding to expand Medicaid coverage to foster care adolescents ages 18, 19, and 20 under the Federal Foster Care Independence Act.				
91 County Medicaid Share	\$86,200,000	R	\$271,200,000	R
Provides funding to reduce the county share of Medicaid from 15 percent of the nonfederal share to 11.25 percent of the nonfederal share effective October 1, 2007 and 7.5 percent of the nonfederal share effective July 1, 2008. (S.B. 213/H.B. 57; S.L. 2007-323, Sec. 31.16)				
92 NC Kids' Care	\$368,000	R	\$7,000,000	R
Provides funding for a report on the most cost effective manner to implement an expansion of health care coverage to children between 200 percent and 300 percent of the federal poverty level. Provides funding in SFY 2008-09 for the implementation of the report, effective July 1, 2008. (S.L. 2007-323, Sec. 10.48)				
(8.0) NC Health Choice				
93 Health Choice	\$7,507,992	R	\$7,507,992	R
Provides funding for NC Health Choice. The funds allow enrollment to increase at a rate of 6 percent annually. (S.L. 2007-323, Sec. 10.47)				
(9.0) Divisions of Services for the Blind and Services for the Deaf and Hard of Hearing				
94 Independent Living Program	\$482,121	R	\$642,827	R
Provides funding to the Division of Services for the Blind to add three additional counselors to serve consumers and one technology instructor to train consumers in the use of assistive technology and devices.				
	4.00		4.00	
95 Vocational Rehabilitation Program	\$200,000	R	\$200,000	R
Provides funding to the Division of Services for the Blind to increase the eligibility level for vocational rehabilitation to 125 percent of the federal poverty level from a fixed tiered amount. (S.L. 2007-323, Sec. 10.5)				
96 Medical Eye Care Program	\$200,000	R	\$200,000	R
Provides funding to the Division of Services for the Blind to increase the eligibility level to 125 percent of the federal poverty level from a fixed tiered amount. (S.L. 2007-323, Sec. 10.5)				
97 Accessible Electronic Information for Blind and Disabled Persons	\$75,000	NR		
Provides funding to continue accessible electronic information services for blind and disabled persons. (S.B. 199)				

102 Realignment of Mental Health Services Funds

(\$15,028,638) R (\$15,035,584) R

Realigns existing funding for mental health services. Of the \$15,028,638 in FY 2007-08 and \$15,035,584 in FY 2008-09 reduced in this item, funding will be realigned as follows:

+ \$13,737,856 in both years for crisis services,

+ \$1,250,000 in both years for supported employment, and

+ \$40,782 in FY 2007-08 and \$47,728 in FY 2008-09 for mental health services for returning veterans.

103 Crisis Services for MH/DD/SA

\$13,737,856 R \$13,737,856 R

Provides funding for crisis services to be distributed to LMEs to continue to fund LMEs' crisis services plans completed in 2007. Funding for this item comes from realigned mental health services funding. (S.B. 1266/H.B. 691; S.L. 2007-323, Sec. 10.49(m))

104 Supported Employment for MH/DD/SA

\$2,500,000 R \$2,500,000 R

Provides funding for long-term supported employment for individuals with mental illness, developmental disabilities, and/or substance abuse addictions. The funds shall be distributed to LMEs such that each LME receives a percentage of the total allocation that is equal to that LME's percentage of the State's total population below the poverty level. Funding for this item comes from realigned mental health services funding (\$1.25 million) and realigned developmental disability services funding (\$1.25 million). (S.B. 1266/H.B. 691; S.L. 2007-323, Sec. 10.49(bb))

105 Hospital Utilization Pilots for MH/DD/SA

\$2,500,000 R \$5,000,000 R

Provides funding for psychiatric hospital utilization pilots. (S.B. 1266/H.B. 691; S.L. 2007-323, Sec. 10.49(s1) - 10.49(s5))

106 Mental Health Services for Returning Vets

\$35,797 R \$47,728 R

Provides funding for one mental health program manager position to lead the Division's response to the mental health service needs of veterans and their families. Also provides funding for expansion of the NC Health Information Portal, education and social marketing to veterans and their families, and statewide training to providers regarding the mental health and substance abuse needs of this population. Of the funds in this item, \$40,782 in FY 2007-08 and \$47,728 in FY 2008-09 come from realigned mental health services funding.

\$343,130 NR 1.00 1.00

(Note: S.L. 2007-345, 2007 Budget Technical Corrections Act, clarified that the funds appropriated for this item were for one position in both FY 2007-08 and FY 2008-09.)

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
111 Regionally-Purchased, Locally- Hosted Substance Abuse Programs	\$6,000,000	R	\$6,000,000	R
Provides funding for regionally-purchased, locally-hosted substance abuse programs, including \$5 million from realigned substance abuse services funding. (S.B. 1266/H.B. 691; S.L. 2007-323, Sec. 10.49(a))				
112 Delay Julian F. Keith ADATC Opening	(\$3,753,806)	NR		
Reduces state appropriations for the Julian F. Keith Alcohol and Drug Abuse Treatment Center (ADATC) based on delaying the opening of the new detoxification beds from May 2008 to FY 2008-09.				
113 Closure of Dorothea Dix Hospital	(\$31,773,078)	R	(\$52,290,268)	R
Reduces the budget for Dorothea Dix Hospital to account for its anticipated closure in late Fall 2007. In addition to the reduced state appropriation, an additional \$10,357,840 in FY 2007-08 and \$17,990,270 in FY 2008-09 in receipts will be reduced.				
			-1104.38	
114 Closure of John Umstead Hospital	(\$35,347,782)	R	(\$60,677,194)	R
Reduces the budget of John Umstead Hospital in anticipation of its closure in late Fall 2007 and the transfer of Whitaker School and R.J. Blackley Alcohol and Drug Abuse Treatment Center (ADATC) at that time. In addition to the reduced state appropriation, an additional \$10,131,962 in FY 2007-08 and \$17,312,369 in FY 2008-09 in receipts will be reduced.				
			-1260.18	
115 Opening of Central Regional Hospital	\$62,402,431	R	\$102,828,228	R
Provides funding for the operation of the Central Regional Hospital, scheduled to open in late Fall 2007. In addition to the state appropriation, an additional \$20,489,802 in FY 2007-08 and \$33,857,431 in FY 2008-09 in receipts will be transferred for the operation of this hospital.				
			2144.77	
116 Forensic Unit Beds to Broughton Hospital	\$4,718,429	R	\$5,750,000	R
Provides funding for the transfer of half of the Forensic Unit from Dorothea Dix Hospital to Broughton Hospital.				
			103.00	
117 Local Administration for MH/DD/SA	\$500,000	R	\$4,889,234	R
Provides funding for the local management entity (LME) Administrative Cost Model. \$4,389,234 of the funding in FY 2008-09 is from the savings generated by the opening of Central Regional Hospital and the closure of Dorothea Dix and John Umstead Hospitals. (S.B. 1266/H.B. 691)				
118 Treatment Alternatives for Safer Communities (TASC)	\$2,000,000	R	\$2,000,000	R
Provides funding for local management entities to increase the number of TASC case managers and substance abuse services for adult drug offenders. (S.B. 1266/H.B. 691, S.B. 687/H.B. 900)				

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
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125 NC Special Care Center Staff	\$121,988	R	\$724,065	R
Provides funding to increase staffing ratios to meet the treatment and safety needs of clients and staff. The additional positions will increase the staffing ratio from 1.5 staff per patient to 2.9 staff per patient in FY 2008-09.	25.00		100.00	
126 Consumer Advocacy Nonprofit	\$60,000	NR		
Provides funding to the North Carolina Council of Community Programs, Inc. (NCCCP). These funds shall be allocated by NCCCP for start up costs relating to the establishment of a statewide consumer support and networking organization. The purpose of the organization is to promote the role of consumers of mental health, developmental disabilities, and substance abuse services in contributing to the design, function, and oversight of the Mental Health, Developmental Disabilities, and Substance Abuse Services System. (H.B. 1888)				
127 CFAC Training	\$100,000	NR		
Provides funds for Consumer and Family Advisory Council Training (CFAC). (H.B. 1314)				
(11.0) Division of Health Service Regulation				
128 Under-Budgeted Receipts	(\$500,000)	R	(\$500,000)	R
Increases budgeted receipts from licensure fees to reflect actual collections and reduce State appropriations.				
129 Certificate of Need (CON) Program	\$852,687	R	\$852,687	R
Provides funding for nine 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: four Project Analysts, two Team Leaders, two Planning Analysts, and one Office Assistant. The funding for these positions will be offset by increased fees that will be deposited in the General Fund as non-tax revenue. (S.L. 2007-323, Sec. 30.4)	\$28,418	NR		
	9.00		9.00	
130 Construction Program	\$789,720	R	\$789,720	R
Provides funding for eight new positions for the Construction program to provide a more timely review of construction plans for health care and local confinement facilities: one Facility Architect II, two Facility Architectural Supervisor Is, two Building Systems Engineer IIIs, one Building System Engineer II, one Building System Engineer I, and one Processing Assistant IV. The funding for these positions will be offset by increased fees that will be deposited in the General Fund as non-tax revenue. (S.L. 2007-323, Sec. 30.5)	\$34,676	NR		
	8.00		8.00	

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
137 Assistive Technology	\$305,956	R	\$305,956	R
Provides funding for three assistive technology positions to decrease the waiting period for clients to receive services and funding for equipment for consumers for demonstration, training, and education purposes.	\$36,316	NR		
	3.00		3.00	
138 Independent Living Rehabilitation Program	\$500,000	R	\$500,000	R
Provides funding to increase the eligibility level to 125 percent of the federal poverty level from a fixed tiered amount. (S.L. 2007-323, Sec. 10.5)				
<hr/>				
Total Legislative Changes	\$65,117,974	R	\$264,893,872	R
	\$33,899,452	NR	\$14,903,389	NR
Total Position Changes	124.00		77.21	
Revised Budget	\$4,631,101,397		\$5,100,200,353	

Section: 10.6

Title: **Community Health Center Changes**

Summary Allocates to the Office of Rural Health and Community Care \$2 million recurring in FY2007-08 and FY 2008-09 and \$5 million non-recurring in FY 2007-08, of the funds appropriated for Community Health Grants, for community health center grants to federally qualified health centers, State-designated rural health centers, free clinics, public health departments, school-based health centers, and other nonprofit organizations that provide primary and preventive services to the uninsured or medically indigent patients. Grant recipients are to provide the Office a report on the number of uninsured and medically indigent served with the funds.

Requires the Office to submit a report on the Community Health Centers program, including recommendations for funds to support the expansion of the program upon the convening of the General Assembly in May 2008.

Section: 10.7

Title: **Funds to Assist Rural Hospitals**

Summary Directs the Office of Rural Health and Community Care to use \$2 million in FY 2007-08 for small rural hospitals in need of assistance with hospital operations and infrastructure maintenance. The funds may be used for capital and operational needs and pilot demonstration programs that address the long-term survivability of rural hospitals. The Office is to report on its use of these funds no later than March 1, 2008.

Section: 10.8

Title: **Transfer SHIIP Funds to Department of Insurance**

Summary Transfers \$250,000 of the funds appropriated to the Department for the NCRx program to the Seniors' Health Insurance Information Program (SHIIP) to provide additional resources for community outreach efforts assisting seniors enrolling in the NCRx Program and Medicare Part D prescription drug benefit.

Section: 10.9

Title: **Collaboration Among Departments of Administration, Health and Human Services, Juvenile Justice and Delinquency Prevention, and Public Instruction on School-Based Child and Family Team Initiative**

Summary Establishes a school-based program to identify and coordinate appropriate community services and supports for children at-risk. Requires services for children to be integrated at both the State and local levels and establishes the North Carolina Child and Family Leadership Council at the state level, and the School-Based Child and Family Team Initiative at the local level to implement the program. Also establishes a requirement for a single plan and team to support and assist each child at-risk.

Section: 10.15

Title: Child Care Subsidy Rates

Summary Directs that eligibility for child care subsidy shall remain at 75 percent of the State median income and families are required to participate in the cost by paying 8 percent, 9 percent, or 10 percent of their gross family income based upon their family size.

Sets provisions of payment rates for child care providers in counties that do not have at least 50 children in a rate category. Directs that a market rate shall be set for each rate category in each county and should be representative of fees charged to parents within that county. Directs that a statewide rate and regional rates shall be calculated for each rate category.

Requires that child care services funded with Work First Block Grant funds should comply with all subsidized child care program regulations and policies. Sets eligibility criteria for noncitizen families in the State legally and illegally.

Section: 10.16

Title: Child Care Allocation Formula

Summary Directs DHHS to allocate child care subsidy funds to counties based on the number of children in each county under age 11 in families with all parents working who earn less than 75 percent of the State median income. In addition, directs DHHS to allocate up to \$12 million in block grant and State funds outside of the formula system to prevent termination of children from the subsidy program.

Section: 10.17

Title: Child Care Funds Matching Requirement

Summary Directs that no matching funds may be required by local governments receiving the initial allocation of child care funds. Reallocated funds that exceed \$25,000, beyond a local purchasing agency's initial allocation, require a 15 percent match.

Section: 10.18

Title: Child Care Revolving Loan

Summary Allows the DHHS to fund a Child Care Revolving Loan program.

Section: 10.18A

Title: Child Care Market Rate Adjustments

Summary Adjusts child care market rates according to the 2007 Child Care Market Rate Survey. Child care centers in Region 1 counties will receive 20 percent of their recommended adjustments. Child care centers in Region 2-5 counties will receive 30 percent of their recommended rate adjustments. Child care homes will receive 10 percent of their recommended rate adjustments.

Section: 10.22(a)

Title: **Community-Focused Eliminating Health Disparities Initiative**

Summary Directs the use of funds for the Community Focused Eliminating Health Disparities Initiative (CFEHDI). Specifically directs that the \$500,000 non-recurring appropriation for FY 2007-08 shall be used to address large gaps in health status among African-Americans, as well as disparities among other minority populations in the state.

Also directs DHHS to award these grants in honor of the memory of the following recently deceased member Bernard Allen, John Hall, Robert Holloman, Howard Hunter, Jeanne Lucas, and William Martin.

Directs DHHS to conduct an evaluation of the CFEHDI grantees' performance in fulfilling the goals, impacting the community, and addressing and mitigating the health disparities identified in the Racial and Ethnic Health Disparities in North Carolina Report Card 2006. Directs DHHS to submit a report not later than March 1, 2008.

Section: 10.22A

Title: **Funds from Health and Wellness Trust Fund for North Carolina Tobacco Quitline**

Summary Allows the Health and Wellness Trust Fund to allocate up to \$300,000 to the Division of Public Health for the operation of the North Carolina Tobacco Quitline to maximize funding for the State Alliance Project underwritten by the American Legacy Foundation.

Section: 10.23

Title: **Funds for School Nurses**

Summary Directs the use of additional funds appropriated to DPH for the school nurse initiative. The funds will be distributed according to a needs-based formula and are to supplement and not supplant current funding. In addition, communities are to maintain their current level of effort.

Section: 10.24

Title: **Public Health Funds to Aid Counties**

Summary Directs the use of \$2 million in recurring funds appropriated to DPH for counties to improve the delivery of the ten essential public health services.

Section: 10.25

Title: **Health Promotion and Disease Prevention Inventory and Plan**

Summary Directs DHHS/DPI to inventory all health promotion and disease prevention activities, including funding and staffing, in order to reduce costs and eliminate duplication of effort. The inventory shall include, at a minimum, State and local activities.

DHHS shall adopt a plan to combine the resources for its health promotion and disease prevention activities into a single funding stream to be distributed to local health departments for the ten essential public health services. DHHS is to develop a formula by which to distribute this single funding stream that takes into account the following factors: rate of infant mortality; rate of adolescent pregnancy; rates of cancer, heart disease and diabetes; number of persons without health insurance; median income; percent of county population enrolled in Medicaid; and percent of population that is minority.

DPH shall submit reports on the inventory and plan not later than February 1, 2008.

Section: 10.34

Title: **Child Welfare Postsecondary Support Program/Use of Escheat Fund**

Summary Creates a new scholarship program for children who age out of foster care and children with special needs adopted after age 12. General Fund and Escheat Fund appropriations will provide full scholarships to these students attending public institutions of higher learning in NC.

Section: 10.35

Title: **TANF Benefit Implementation**

Summary Approves the TANF State Plan for FY 2007-2009 and identifies electing counties.

Section: 10.35A

Title: **Clarify Review and Submission Process for TANF State Plan**

Summary Clarifies the review and submission process for the TANF State plan as follows:

- DHHS will consult with local governments and private sector organizations regarding the plan design and allow 45 days to receive comments;
- DHHS will submit State Plan to House and Senate Health and Human Services Appropriations Committees after the consultation is completed; and
- DHHS will change the date of submission of the TANF State plan from May 15 of each even numbered year to May 15 of each odd-numbered year.

Section: 10.36

Title: **Medicaid**

Summary Establishes eligibility requirements for Medicaid, and establishes the services provided to recipients and 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;
- 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, effective October 1, 2007;
- Requires continuous review of medication utilization prescribed for mentally ill Medicaid recipients. Also requires 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
- Clarifies that policies for the payment of Medicare crossover claims can be disregarded when the application of policies will adversely affect patient care.

(Note: S.L. 2007-345, 2007 Budget Technical Corrections Act, amends S.L. 2007-323, Sec. 10.36(d)(29) to include "major depressive disorder"; Sec. 10.36(d)(29)(b1) to change "certified clinical addictions specialists" to "licensed clinical addictions specialists"; and Sec. 10.36(d)(29)(c) to change "licensed clinical addictions specialists" to "certified clinical addictions specialists").

Section: 10.37

Title: **Medicaid Cost-Containment Activities**

Summary Authorizes DHHS to use Medicaid funds budgeted for program services to support administrative activities to help contain the cost of Medicaid by \$5 million each year of the biennium.

Section: 10.41

Title: **Implement Electronic Quality Prescription Management Program**

Summary Directs DHHS to implement an Electronic Quality Prescription Management program for prescription drugs using PDA technology through the Community Care of North Carolina (CCNC) program.

Section: 10.42

Title: **Effective Date of Changes to Medicaid Estate Recovery Plan**

Summary Amends Section 10.21C(c) of S.L. 2005-276 to change the effective date for the implementation of changes to the Medicaid Estate Recovery Plan from August 1, 2007 to July 1, 2008. If the implementation date conflicts with the effective date of a provision of H.B. 1537 pertaining to Medicaid Estate Recovery, enacted by the 2007 General Assembly, the effective date in H.B. 1537 shall apply. (S.L. 2007-442, H.B. 1537)

Section: 10.44

Title: **Extend Implementation of Community Alternatives Programs Reimbursement System**

Summary Directs that the Community Alternatives Programs reimbursement system be fully implemented not later than 12 months after the date on which the replacement MMIS becomes operational and stabilized.

Section: 10.45

Title: **Families Pay Part of the Cost of Services Under the CAP-MR/DD Program and the CAP-Children's Program Based on Family Income**

Summary Directs DHHS, subject to approval by CMS, to develop 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. Requires any savings realized to be used to fund additional CAP-MR/DD and CAP-C slots. Directs DHHS to report to Appropriations Committees and Fiscal Research Division by March 1, 2009.

Section: 10.46

Title: **Continue Efforts to Expand Community Care of North Carolina and Improve Care to Aged, Blind, and Disabled Medicaid Recipients**

Summary Directs DHHS to continue its efforts to expand the scope of the Community Care of North Carolina (CCNC) health care management model for persons who are eligible for both Medicare and Medicaid. Specifically direct CCNC to focus on these dually eligible individuals who are aged, blind, disabled, and CAP-DA populations and manage their access and utilization of personal care services, private duty nursing, home health, durable medical equipment, specialty care, skilled nursing facilities, and other services deemed target-worthy.

Directs DHHS to report on the status of the expansion and plans for statewide implementation to the General Assembly by March 1, 2008.

Section: 10.47

Title: **NC Health Choice Enrollment**

Summary Allows enrollment in the North Carolina Health Choice Program (NC Health Choice) to grow by up to six percent annually. Sets the benchmark for capping this growth at six percent, based on the month of highest Health Choice program enrollment in the previous fiscal year.

Section: 10.49(e1 and e2)

Title: **Increase Availability of Substance Abuse Treatment (cont.)**

Summary Directs LMEs to consult with Treatment Alternatives for Safer Communities (TASC) to improve offender access to substance abuse treatment. Directs that an additional \$300,000 continue to go to TASC in addition to funds appropriated in this act. Directs LMEs to consult with drug treatment courts to provide an array of drug treatment court services, including treatment, aftercare, and step-down services that meet the participant's level of need.

Section: 10.49(f)

Title: **Increase Availability of Substance Abuse Treatment (cont.)**

Summary Directs that LMEs, within available State and county resources, work with county public health departments and county sheriffs to provide medical assessments and medication for inmates in county jails who are suicidal, hallucinating, or delusional. Also directs LMEs, county public health departments, and county sheriffs to work together to develop instruments and protocols to deal with inmates with these problems. Directs DHHS to develop a statewide standardized screening instrument for offenders by January 1, 2008.

Section: 10.49(g)

Title: **Additional Housing Assistance**

Summary Requires that apartments constructed with funds appropriated for people with disabilities should be affordable at the Supplemental Security Income (SSI) level. Gives first priority for the subsidy to NC Housing Agency-financed apartments, second priority to other publicly subsidized apartments, and third priority to market-rate apartments. In awarding funds for financing, directs the NC Housing Finance Agency (NCHFA) to give preference to housing developments that have an LME as a lead agency.

Section: 10.49(h1)

Title: **Additional Housing Assistance (cont.)**

Summary Directs DHHS and NCHFA to develop a plan for housing people with MH/DD/SA disabilities. Directs DHHS to report an interim plan by March 1, 2008. Requires a final plan, including strategies to address gaps in the housing continuum and a report on the progress of the Housing 400 Initiative, to be submitted by March 1, 2009.

Section: 10.49(h2)

Title: **Additional Housing Assistance (cont.)**

Summary Allows DHHS to transfer funding for operating cost subsidies to NCHFA for same purposes. Requires a report on the aggregate of types of disabilities (without identifying specific individuals) housed in apartments for the disabled created under this initiative by May 1, 2008 and again by May 1, 2009, and allows up to \$150,000 of subsidy funds to be used for these administrative purposes.

Section: 10.49(i)

Title: **Additional Housing Assistance (cont.)**

Summary Directs DHHS to develop a definition of "Transitional Residential Treatment Program" for adults who have a pattern of difficult behaviors related to mental illness and which exceed the capabilities of traditional residential settings. Directs DHHS to report to the Legislative Oversight Committee (LOC) before implementation of the definition, and to report to the LOC on progress by March 1, 2008.

Section: 10.49(r)

Title: **Crisis and Acute Care Services (cont.)**

Summary Directs DHHS to develop a system of reporting aggregate information about visits to the emergency room by people in crisis due to mental health, developmental disabilities, or substance abuse to LMEs on a quarterly basis.

Section: 10.49(s1) - (s5)

Title: **Crisis and Acute Care Services (cont.)**

Summary Subsection (s1) directs the use of hospital utilization pilot funds for 18-month pilot programs to reduce State psychiatric hospital use. Requires that of funds appropriated, \$250,000 shall be set aside for the Division of Mental Health and the remainder shall be distributed to the pilot LMEs. Also directs the Division to develop a plan for expanded pilots in FY 2008-09.

Subsection (s2) directs that up to 3 LMEs in the same catchment area and at least one LME in a different catchment area be selected by the Division for the pilot and lists the Division's responsibilities for the pilot implementation.

Subsection (s3) lists the parameters of the pilot, and subsection (s4) directs the Division to use pilot programs to develop a proposal for subsequent pilots. Requires two interim reports by October 15, 2007 and February 1, 2008 and a final report by February 1, 2009.

Subsection (s5) directs that the budget of State psychiatric hospitals not be reduced by pilot programs in 2007-2008, but allows budget changes in subsequent years.

Section: 10.49(t)

Title: **Crisis and Acute Care Services (cont.)**

Summary Allows for 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. Prevents the Secretary from closing a State facility if there are not adequate replacement services available.

Section: 10.49(u)

Title: **Crisis and Acute Care Services (cont.)**

Summary Boilerplate provision for Olmstead compliance. Directs DHHS to develop transition plans for individuals in State psychiatric hospitals. Directs DHHS to submit reports to the Appropriations Committees, the LOC, and Fiscal Research on those plans on December 1, 2007 and May 1, 2008.

Section: 10.49(v)

Title: **Use of Mental Health Trust Funds**

Summary Directs that funds previously allocated to area programs but that remain in the Mental Health Trust Fund (MHTF) be dispersed to the area programs for community-based services by October 1, 2007. Requires that funds not expended by June 30, 2009 revert to the MHTF. Requires that funds previously allocated for other purposes in the 2006-2007 MHTF plan be disbursed for those other purposes.

Section: 10.49(bb)

Title: **Filling Services Gaps**

Summary Directs that funds appropriated in this act for mental health services and supported employment be distributed based on the "poverty formula". Further directs that funds allocated in 2006 for mental health, substance abuse, and crisis services continue to be allocated on the poverty formula.

Section: 10.49(cc)

Title: **Filling Services Gaps (cont.)**

Summary Reiterates that 122C-147.1(c) applies to Developmental Therapies. This statute states that funds that have been appropriated by the General Assembly for a more specific purpose than a broad age/disability category shall be converted to a broad age/disability category at the beginning of the second biennium following the appropriation, unless otherwise acted upon by the General Assembly.

Section: 10.49(dd)

Title: **Filling Services Gaps (cont.)**

Summary Directs DHHS to apply to Centers for Medicare and Medicaid Services (CMS) for additional waivers (in addition to the current CAP-MR/DD waiver) for persons with developmental disabilities. Requires that the new waivers create a tiered system of services. Requires a report to the LOC by March 1, 2008.

Section: 10.49(ee)

Title: **Filling Services Gaps (cont.)**

Summary Directs DHHS to review expenditures for community support services to avoid overexpenditure. Also directs DHHS to revise management policies in order to meet twelve enumerated objectives. Directs DHHS to report on the implementation of the list of appropriate community support services by November 1, 2007. Requires DHHS to report on the implementation and status of activities of this subsection not later than March 1, 2008.

Requires DHHS to adopt statewide standardized authorization procedures and processes for Medicaid utilization review by January 1, 2008. Requires up to six LMEs who meet those standards to contract with the outside vendor to perform those services before July 1, 2008. Requires DHHS to consult with the LOC prior to reviewing, extending or entering into a contract with an outside vendor for utilization review.

Section: 10.49(ff)

Title: **LME Administrative Funding**

Summary Explains the General Assembly's lack of information about county expenditures on MH/DD/SA services and the incomes of persons receiving services with both State and county funds. Directs LMEs to report annually to the Division on all expenditures from county funds and to collect income information on recipients of services. Also directs DHHS to use funds available in DHHS to fully fund the State's contribution to the LME system administration.

Section: 10.49(gg)

Title: **LME Administrative Funding (cont.)**

Summary States that it is the intent of the General Assembly that the LME system administration funding will be fully funded in future years through savings from hospital downsizing.

Section: 10.53A

Title: **Institute of Medicine Task Force/Study of Substance Abuse Services in North Carolina**

Summary Directs the use of funding appropriated to the Institute of Medicine. Further directs that a substance abuse services study be conducted with these funds. (S.B. 713, H.B. 1339)

Section: 10.54

Title: **Funds for Health Care Personnel Registry and for Rated Certificates for Adult Care Homes/Contingency**

Summary States that funds appropriated in this act for the Health Care Personnel Registry and the implementation of rated certificates for adult care homes are contingent upon the enactment of S.B. 56 by the 2007 General Assembly. (S.L. 2007-544, S.B. 56)

Section: 10.55

Title: **DHHS Block Grants**

Summary Appropriates federal block grant funding for the following DHHS Block Grants:

- Temporary Assistance for Needy Families Block Grant (TANF)
- Social Services Block Grant (SSBG)
- Low-Income Home Energy Assistance Program Block Grant (LIHEAP)
- Child Care and Development Fund Block Grant (CCDF)
- Mental Health Services Block Grant (MHSBG)
- Substance Abuse Prevention and Treatment Block Grant (SAPTBG)
- Maternal and Child Health Block Grant (MCHBG)
- Preventive Health Services Block Grant (PHSBG)
- Community Services Block Grant (CSBG)

Provides Legislative guidance to DHHS on how block grant appropriations are to be managed:

- Content of annual block grant plans;
- Changes in allocations;
- Changes in federal fund availability including increases and decreases; and
- Reporting on the positions supported with block grant funding.

Provides guidance for specific appropriations from the various block grants. (S.B. 40/H.B. 1275)

(Note: S.L. 2007-345, 2007 Budget Technical Corrections Act, amends S.L. 2007-323, Section 10.55(n) to correct the amount of money specified in the provision to make it consistent with the amount listed in 10.55(a)).

Section: 30.4

Title: **Certificate of Need Fee Increases to Meet Statutory Obligations**

Summary Increases the application fee for a certificate of need application. Requires that the increased revenue from the fee increase pay for the staff expansion in the Certificate of Need (CON) program.

Section: 30.5

Title: **Health Care Facility Construction Project Fee Increases to Meet Statutory Obligations**

Summary Increases 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. Requires that increased revenue from the fee increase pay for the staff expansion in the Construction Program.

**NATURAL
&
ECONOMIC RESOURCES**

Agriculture and Consumer Services

GENERAL FUND

Adjusted Continuation Budget	FY 07-08		FY 08-09	
	\$60,254,939		\$60,434,179	
Legislative Changes				
Department-Wide				
1 Vacant Positions	(\$123,178)	R	(\$123,178)	R
Eliminates three (3.0) positions that were vacant prior to March 31, 2006.	-3.00		-3.00	
Food and Drug Protection				
2 Food Regulatory Laboratory Equipment	\$200,000	R	\$200,000	R
Provides funding to purchase laboratory equipment to enhance the Department's ability to manage critical food safety and food security issues.				
Marketing				
3 Marketing Funds	\$250,000	NR		
Provides additional funding for agriculture marketing initiatives in the State, including programs to assist small, low-income North Carolina farmers who market their products directly to customers to enroll in the United States Department of Agriculture Food and Nutrition Service Food Stamp Program at the farmers markets. \$50,000 NR in FY 2007-08 shall be used for the promotion of agriculture festivals in small towns with populations less than 5,000. The amount per festival shall not exceed \$10,000. (H.B. 761)				
Meat and Poultry Inspection				
4 Cover Federal Funding Shortfall	\$269,000	NR		
Provides funding to cover the loss of federal funding from the USDA, Food Safety and Inspection Services.				
5 Replace Field Automation Information Laptop Computers	\$50,000	NR		
Provides additional funds to replace 52 laptop computers used in the Federal "FAIM" program for meat inspectors. These funds will be matched 50% by the federal government.				
Property and Construction				
6 Real Property Agent Position	\$65,000	R	\$65,000	R
Establishes one full-time position in the Property and Construction Division to respond to the increased caseload of capital projects, real property and engineering consulting programs.	1.00		1.00	

Special Provisions

2007 Session: HB 1473

Department: Agriculture and Consumer Services

Section: 11.1

Title: **Sale of Timber**

Summary By amending G.S. 143-64.05(a), the Department is exempted from the service charge assessed by the Department of Administration on surplus property when transferring or selling timber harvested from its own land. The Wildlife Resources Commission previously was the only entity that was exempt.

Section: 11.4

Title: **Study Structure and Management Practices of Agricultural Research Stations and Research Farms**

Summary The Program Evaluation Division of the General Assembly shall study the structure and management practices of the 18 agricultural research stations and research farms currently owned by either the Department or North Carolina State University, and currently managed by the Department. The study shall consider ways to achieve efficiency savings and whether it is desirable and feasible to consolidate or transfer these facilities to another State department. The Program Evaluation Division shall submit a report of their findings to the Appropriations Subcommittees on Natural and Economic Resources and to the Fiscal Research Division no later than May 1, 2008.

Special Provisions

2007 Session: HB 1473

Department: Labor

Section:

Title: **No special provisions**

Summary

20 Private Well Water Safety Program

Provides additional funding for incentive grants to counties as they adopt local programs to enforce statewide private well construction standards. New private well construction standards will go into effect July 1, 2008.

\$300,000 NR

21 Emergency Drinking Water Fund

Provides funds to notify private well users of contamination, to cover the costs of testing private wells for contamination, and to pay for alternative drinking water supplies. (S.L. 2007-323, Sec. 12.1; H.B. 1959, H.B. 2043)

\$615,000 NR

(2.0) Land Resources

22 Landslide Hazard Mapping Program

Provides funds to create a permanent Landslide Mapping/Geohazards Program within the North Carolina Geological Survey section. The existing three-year program was created through the Hurricane Recovery Act of 2005 and funding will expire in FY 2008-09. Funds will be used to fund shift three positions to General Fund support from special Hurricane Recovery Act funds. (H.B. 1406)

\$184,911 R \$184,911 R

3.00 3.00

Geologist II 2.0
Computer Consultant II 1.0

23 Sediment and Erosion Control

Increases fees charged for sediment and erosion control plan reviews. Current fees are \$50 per acre of disturbed land and will increase to \$65/acre. Increased fee revenue will be used to support seven new positions to allow for more timely inspections. (S.L. 2007-323, Sec. 30.1; H.B. 1868)

Environmental Specialist III 7.0

Total Receipts Required \$472,500
Total New Receipt Revenue \$472,500

24 Mining Compliance and Technical Assistance

Increases fees charged for mining permits. Increased fee revenue will be used to support five new positions to improve compliance monitoring and provide technical assistance to the mining industry. With the addition of these five new positions, the Department will place at least one mining specialist in each of the Department's seven regional offices. (S.L. 2007-323, Sec. 30.2)

Environmental Tech V 5.0

Total Receipts Required \$286,088
Total New Receipt Revenue \$286,088

(2.0) Water Quality

29 Water Quality Fees

(\$202,142) R (\$202,142) R

Increases existing water quality fees by 20%. New fee revenue will fund nine new positions and allow the Division to take a \$202,142 General Fund reduction. Three positions will work on the BasinWide Information Management System (BIMS), and three positions will provide technical assistance to professional wastewater treatment plant operators. Three positions will work to improve groundwater classifications and standards. (S.L. 2007-323, Sec. 30.3)

Business & Tech. Application Specialist	1.0
Business & Tech. Application Analyst	2.0
Wastewater Treatment Consultant	2.0
Environmental Engineer II	1.0
Industrial Hygiene Consultant	1.0
Environmental Chemist II	1.0
Environmental Specialist III	1.0

Total Receipts Required	\$795,803
Total New Receipt Revenue	\$997,945

30 Water Quality Monitoring on Ferry Vessels

Provides funds for the Ferrymon Program which evaluates water quality in the Pamlico Sound and its tributary rivers using equipment attached to three ferry vessels. (H.B. 1084)

\$300,000 NR

(2.0) Water Resources

31 River Basin Water Supply Planning

\$95,000 R \$95,000 R

Provides funding for one (1.0) new position and funding for resources needed to complete the modeling and data management for river basin water supply plans.

\$5,000 NR 1.00 1.00

32 Sustainable Management of Groundwater Resources

\$95,490 R \$95,490 R

Provides funds for one new position to provide technical assistance to groundwater users to find sustainable and cost effective groundwater sources. Also provides funds to improve the monitoring well network.

\$4,510 NR 1.00 1.00

Hydrogeologist I 1.0

(3.0) Aquariums

33 Continue Increased Operating Support

\$2,500,000 R \$2,500,000 R

Continues to provide increased General Fund support for operating expenses to replace admission receipts within the Division's budget. (H.B. 1800/S.B. 1044, H.B. 1768)

39 Poultry Waste Management

Provides funds to the Soil and Water Conservation Division to continue the funding for best management practices for poultry waste management and for new technologies, including the disposal of poultry mortalities. Priority shall be given to small producers who have a limited ability to pay for or finance an innovative poultry waste management system through private or cooperative credit at reasonable rates and terms. (H.B. 815)

\$250,000 NR

40 Community Conservation Assistance Program

Provides funds to the Division to implement the Community Conservation Assistance Program, including establishing one (1.0) Environmental Specialist III position. (H.B. 1172/S.B. 1177)

\$200,000 R
1.00

\$200,000 R
1.00

41 Swine Waste Technology Initiatives Legislation

If swine waste legislation is enacted, provides funding for the implementation of swine waste technology initiatives. (S.L. 2007-523)

\$2,000,000 NR

(4.0) Reserves and Transfers

42 Clean Water State Revolving Fund Match

Provides funds to meet the 20% State match requirement for drawing down the maximum available federal funds for the Wastewater Treatment Plant (Clean Water) State Revolving Fund.

\$3,863,277 NR

43 Drinking Water State Revolving Fund Match

Provides funds to meet the 20% State match requirement for drawing down the maximum available federal funds for the Drinking Water State Revolving Fund.

\$5,538,980 NR

44 Grassroots Science Program Funding

Provides increased funding to the Grassroots Science Program in order to hold all museums at the same allocation level as FY 2006-07, provides increased support and adds three new museums: Core Sound Waterfowl Museum (H.B. 869/S.B. 1404), Pisgah Astronomical Research Institute (H.B. 1034/S.B. 1275), and, Sylvan Heights Waterfowl Park and Eco-Center (H.B. 1891).

\$283,577 R
\$425,000 NR

\$283,577 R

(H.B. 1271/S.B. 1439, H.B. 396/S.B. 287, S.L. 2007-323, Sec. 12.5)

45 Land for Tomorrow and Waterfront Access

Authorizes the issuance of \$120 million in certificates of participation for the acquisition of State park lands, conservation areas, and land to promote waterfront access. The debt is to be serviced through revenues deposited into the Park and Recreation and Natural Heritage Trust Funds. (H.B. 990/S.B. 1522, S.B. 646)

Special Provisions

2007 Session: HB 1473

Department: Environment & Natural Resources

Section: 12.1

Title: **Commercial and Noncommercial Leaking Petroleum Underground Storage Tank Program Administrative Costs**

Summary Allows 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: 12.2

Title: **Bernard Allen Memorial Emergency Drinking Water Fund**

Summary Subsection (a) renames the "Emergency Drinking Water Fund" established in S.L. 2006-255, Sec. 5.2 (codified as G.S. 87-98) the "Bernard Allen Memorial Emergency Drinking Water Fund."

Subsection (b) expands the eligibility from private wells by adding "improved springs."

Subsection (c) sets an eligibility ceiling for the fund of 300% of federal poverty level. Establishes a funding preference for connecting to public water supplies or repairing contaminated wells over providing temporary water supplies.

Subsection (d) requires that annual reports be submitted to the Environmental Review Commission, the House and Senate Appropriations Subcommittee on NER, and the Fiscal Research Division by October 1 each year.

Section: 12.2A

Title: **Funds for Pending Civil Litigation Expenses**

Summary Directs the Department of Environment and Natural Resources to transfer \$1,000,000 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 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

Title: **New Lease Purchase/Installment Contracts for Forestry Equipment**

Summary Prior to entering in to any new lease purchase contracts for the purchase of forestry equipment, the Division of Forest Resources and the Department of Administration are required to provide a detailed list of the forestry equipment to be purchased to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division.

Section: 30.1

Title: **Erosion and Sedimentation Control Plan Fee Increase**

Summary Raises the erosion and sedimentation plan review fee from \$50 per acre to \$65 per acre. A corresponding money item provides for the creation of seven new receipt-supported inspector positions.

Section: 30.2

Title: **Mining Permit Application Fees**

Summary Increases mining permit fees and expands reporting requirement to require that annual reports be submitted to the Mining Commission and the Fiscal Research Division. A corresponding money item allows for the creation of five new receipt-supported positions.

Section: 30.3

Title: **Water Quality Permit Fees**

Summary Raises most fees in the Division of Water Quality by 20%. A corresponding money item allows for the creation of nine new receipt-supported positions.

Special Provisions

2007 Session: HB 1473

Department: DENR-Clean Water Management Trust Fund

Section:

Title: **No special provisions**

Summary

53 Blue Ridge National Heritage Funds

Provides funds for staffing, regional brand market initiatives, and visitor services technology for the new Blue Ridge Parkway Destination Center. (H.B. 1407)

\$450,000 NR

54 Film Commission Funds

Provides \$50,000 to each of the 6 regional film commissions for FY 07-08. (S.B. 1341/H.B. 1169)

\$300,000 NR

55 Viticulture Promotion

Provides funding to the NC Wine and Grape Growers Council to promote the viticulture industry in North Carolina. An additional \$500,000 has been appropriated in the Community College budget for the Surry Community College Viticulture Program, providing a total of \$1 million for the advancement of the viticulture industry in the State. (S.B. 1155/H.B. 1647)

\$500,000 NR

56 Motorsports Funds

Provides funds for marketing and promotion of the motorsports industry in the State.

\$100,000 NR

F. Executive Aircraft

57 Increase Aircraft Rates

Increases the rates charged for the use of the Department's aircraft as follows:

(\$100,000) R (\$100,000) R

Citation Jet

Business & Industry Rate: \$455/hour

Other State Officials: \$770/hour

Sikorsky Helicopter

Business & Industry Rate: \$715/hour

Other State Officials: \$770/hour

King Air

Business & Industry Rate: \$325/hour

Other State Officials: \$560/hour

This is the first rate increase in at least seven years. (S.L. 2007-323, Sec. 13.3)

58 Eliminate Continuation Budget Increase for New Aircraft

Eliminates new funding provided in the continuation budget for the purchase of new aircraft. The Division can use existing funds to pay off the remaining loans on two aircraft, and can delay the purchase of a replacement plane for the King Air. The replacement plane can be purchased with funds available in FY 2008-09.

(\$423,572) R (\$423,572) R

FY 07-08

FY 08-09

Total Legislative Changes	(\$1,116,931)	R	(\$1,116,931)	R
	\$23,050,211	NR	\$5,000,000	NR
Total Position Changes	3.00		3.00	
Revised Budget	\$63,299,155		\$45,289,341	

Section: 13.3

Title: **Executive Aircraft/Uses**

Summary Codifies (as G.S. 143B-437.011) the priority order for use of executive aircraft by State officials. States that economic development purposes take precedence over all other uses, followed by the Governor, the Council of State, then other State officials. Directs the Department to review the rates charged for executive aircraft flights annually and to adjust those rates for inflation if necessary. Directs the Department to 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.

Section: 13.3A

Title: **Wanchese Seafood Industrial Park/Oregon Inlet Funds**

Summary Boilerplate provision that prevents any unexpended or unencumbered funds appropriated to the Wanchese Seafood Industrial Park and the Oregon Inlet Project from reverting to the General Fund.

Section: 13.4

Title: **Employment Security Commission Funds**

Summary Subsection (a) allows the Employment Security Commission (ESC) to use funds from its Reserve Fund as collateral to secure federal funds and to use up to \$2.5 million for administrative costs associated with the collection of the ESC Reserve Fund surcharge. ESC recommended using the reserve fund for collateral and administrative costs in 2005 when the Courts determined that all fines and forfeitures must go to the public schools.

Subsection (b) appropriates \$7.3 million from the Reserve Fund to ESC for the following:

1. \$7 million for operation and support of the local offices;
2. \$200,000 for an interagency system to track former participants in State education and training programs; and,
3. \$100,000 for the Common Follow-Up Management Information System.

Subsection (c) appropriates \$2.5 million from the Reserve Fund to ESC to fund State initiatives not currently funded through federal grants. These funds will be used to pay one-time implementation costs for the following: BEACON, the new human resources/payroll/benefits system mandated by the State Controller; NCID, a new security-based identity management system mandated by ITS; and other network changes mandated by ITS.

Subsection (d) appropriates \$350,000 from the Reserve Fund to ESC to allow the Commission to continue to work with Connect, Inc., to provide dislocated workers with assistance in obtaining health care benefits, receiving vocational training, and securing employment. (H.B. 612)

2007 Session: HB 4

Department: Commerce

Section:

Title: Job Maintenance and Capital Development Fund

Summary 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 Tier One counties 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 in 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.

(S.L. 2007-552 Extra Session)

70 Kerr-Tar Economic Development Corporation Funds

Appropriates funds to the Kerr-Tar Regional Economic Development Corporation for the primary hub sites designed by the University of North Carolina at Chapel Hill to support economic development in Franklin, Granville, Vance, and Warren Counties. \$1.925 million of these funds shall be used only by the primary project sites. The remaining \$250,000 shall be used for a pilot project for affordable housing in Vance County. (H.B. 1224, H.B. 1275; S.L. 2007-323, Sec. 13.9)

\$2,175,000 NR

71 Coalition of Farm & Rural Families

Appropriates funds for the Coalition of Farm and Rural Families. (H.B. 1393, H.B. 1431)

\$300,000 NR

72 Land Loss Prevention

Provides additional funding for the purpose of continuing expansion of legal representation to financially distressed small farmers and to rural landowners in underserved tobacco dependent communities. (H.B. 656/S.B. 974, S.B. 813)

\$350,000 R \$350,000 R

73 NC Community Development Initiative (NCCDI)

Provides funding to NCCDI for the purpose of providing grants, loans, technical assistance, and administration dedicated statewide for community economic development projects. (H.B. 656/S.B. 974, S.B. 428)

\$3,000,000 R \$3,000,000 R

74 NC Association of Community Development Corporations (NCACDC)

Provides funding to the NCACDC for the purpose of strengthening the State's economy through community-based development activities, including enhancing the work of community development corporations in building prosperous communities. (H.B. 656/S.B. 974, S.B. 1342)

\$750,000 R \$750,000 R

75 NC Institute of Minority Economic Development (NCIMED)

Provides increased funding to NCIMED for technical assistance, training, loans, grants and administration in economic development projects and statewide initiatives. \$40,000 in each fiscal year shall be used for the creation of a minority entrepreneurial development program in collaboration with regional educational institutions. (H.B. 656/S.B. 974)

\$1,500,000 R \$1,500,000 R

76 NC Minority Support Center (NCMSC)

Provides increased funding to NCMSC for operating expenses, programs, technical assistance and financial support for products and services to credit unions. (H.B. 656/S.B. 974, S.B. 632)

\$3,000,000 R \$3,000,000 R

Special Provisions

2007 Session: HB 1473

Department: Commerce - State Aid

Section: 13.5

Title: North Carolina Center for Automotive Research/Funds Shall Not Revert

Summary Subsection (a) contains a nonrevert clause for funds appropriated to the NC Center for Automotive Research (NCCAR), formerly known as the Advanced Vehicle Research Center (AVRC).

Subsection (b) requires OSBM to determine that the Center has completed goals and projects consistent with the Center's business plan, including the following:

1. The Center has obtained legal title to the property on which NCCAR will be built;
2. The Center has determined and provided for the critical infrastructure needed to support the AVRC; and,
3. The Center has entered into a contract for the use and operation of a testing facility that will create new private sector jobs in Tier 1 and Tier 2 counties.

Subsection (c) restricts the release of funds by OSBM unless a board of directors consisting of no fewer than five members from five different organizations has been appointed for the Center.

The remainder of the provision requires the Center to report by December 31, 2007 and April 30, 2008 to the Governor, the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division the following: FY 2007-08 projects, objectives and accomplishments, and itemized expenditures by fund source. The April 30, 2008 report shall also contain planned projects and estimated expenditures. Also requires the Center to provide a copy of its annual audited financial statements within 30 days of issuance along with a copy of the Center's IRS Form 990. Finally, requires the Center to provide a report containing detailed budget information to OSBM in the same manner as State departments and agencies in preparation for biennium budget requests.

Section: 13.6

Title: Council of Government Funds

Summary Outlines the process for allocating funds to the Regional Councils of Government (COGs). Explains the procedure through which funds flow from the Department of Commerce to the COGs. Requires each COG to submit an annual report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division by January 15 of each fiscal year. Requires the Center to submit audited financial statements to the Fiscal Research Division within 30 days of issuance (S.B. 1288, H.B. 717).

Section: 13.11

Title: **Nonprofit Reporting Requirements**

Summary Requires the NC Institute for Minority Economic Development, Inc., Land Loss Prevention Project, North Carolina Minority Support Center, North Carolina Community Development Initiative, Inc., North Carolina Association of Community Development Corporations, Inc., Coalition of Farm and Rural Families, and Partnership for the Sounds, Inc. to report budgetary and program activities by January 15th of both FY 2007-08 and FY 2008-09 to the Joint Legislative Commission on Governmental Operations and to the Fiscal Research Division. Also requires these entities to submit a copy of the organization's annual audited financial statements within 30 days of issuance of the statement.

States that no funds shall be released to a nonprofit organization until the January 15, 2007 reporting requirement has been satisfied. Additionally, 4th quarter allotments shall not be released unless they have fulfilled their reporting requirements.

Section: 13.16

Title: **E-NC Authority Contracts/Reporting Requirements**

Summary Requires the e-NC Authority to report by September 30, 2007, and quarterly thereafter, to the Joint Legislative Commission on Governmental Operations on program development and the evaluation of program activities. States that the e-NC Authority may contract with other State entities and nonprofits to assist with the program development and the evaluation of program activities.

Section: 13.16A

Title: **E-NC Authority/Stagger Commission Members Terms**

Summary Amends G.S. 143B-437.46(d) to stagger the E-NC Authority Commission's membership terms, beginning on January 1, 2008. After the phasing in of the staggered terms, new appointments shall serve three year terms.

Section: 13.17

Title: **WOW E-Community Development Corporation Pilot Program Funds**

Summary Allocates \$290,000 of the funds appropriated to the e-NC Authority in FY 2007-08 to the WOW e-Community Development Corporation for the Windows of the World 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 Tier 1 counties, and establishing initiatives in indigent communities concerning digital literacy; and,
- * \$40,000 for operations of the Internet service provider.

States that no funds shall be released by the State until it is determined that WOW e-CDC is in compliance with all recommendations made by the State Auditor regarding fiscal management and internal controls. Requires the WOW e-CDC to file with the Department of Commerce a copy of its policy addressing conflicts of interest prior to any funding being allocated. Provides reporting requirements to be fulfilled by April 30, 2008 and mandates that they provide an annual audited financial statement within 30 days of its issuance and a copy of their IRS Form 990.

Special Provisions

2007 Session: HB 1473

Department: N.C. Biotechnology Center

Section: 13.10

Title: **Biotechnology Center**

Summary Requires the NC Biotechnology Center to report budgetary and program activities by January 15th of each year to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division. Also requires the NC Biotechnology Center to submit a copy of their annual audited financial statements within 30 days of issuance of the statement.

Requires the NC Biotechnology Center to provide a report containing detailed budget, personnel, and salary information to the Office of State Budget and Management and to the Fiscal Research Division in the same manner as State departments and agencies in preparation for biennium budget requests.

Special Provisions

2007 Session: HB 1473

Department: Rural Economic Development Center

Section: 13.12

Title: Rural Economic Development Center

Summary Allocates \$4,441,607 to the Rural Center's programs and administration for both years of the biennium. Highlights of the appropriation include:

- \$1,047,410 for community development corporation grants;
- \$195,000 for the Microenterprise Loan Program;
- \$983,000 for supplemental funding for local governments and non-profits; and,
- \$190,500 for the Agricultural Advancement Consortium.

Requires reports by January 15th of each year on program activities, objectives, accomplishments, itemized expenditures, and fund sources.

Section: 13.13

Title: Rural Economic Development Center/Infrastructure Program

Summary Allocates \$19,500,000 in both FY 2007-08 and FY 2008-09 as follows:

- * At least \$15 million for the North Carolina Infrastructure Program to provide grants to local governments to construct water and wastewater facilities and other necessary infrastructure needs for job creation;
- * To provide matching grants to local governments for the reuse of vacant building and properties; and
- * To provide economic development research and demonstration grants.

Allows up to 2% of the funds appropriated to be used for administrative expenses. Requires that the Rural Center submit a report no later than January 15th of each year about the progress of the program.

Section: 13.14A

Title: **Study Equine Industry in North Carolina**

Summary 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. Requires the Rural center to complete its work within 12 months and to report to the Chairs of the Joint Legislative Commission on Governmental Operations and the Appropriations Committees.

Section: 13.15

Title: **Opportunities Industrialization Center Funds**

Summary Allocates \$361,000 of the funds appropriated to the Rural Economic Development Center to be divided equally among the certified Opportunities Industrialization Centers for ongoing job training programs. Requires each center to report budgetary and program activities by January 15 of each fiscal year to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division.

**JUSTICE
&
PUBLIC SAFETY**

Judicial

GENERAL FUND

	FY 07-08	FY 08-09
Adjusted Continuation Budget	\$407,836,051	\$413,500,354

Legislative Changes

System Wide

1 Divide Judicial District 22

\$647,755	R
\$74,706	NR
14.00	

Effective January 1, 2009, the current Superior Court, District Court, and Prosecutorial Judicial Districts 22 will be divided into District 22A, Alexander and Iredell Counties, and District 22B, Davie and Davidson Counties. Funding is provided for the following new positions, effective January 1, 2009, needed to support the new judicial districts:

Position Title/# Positions

New Superior Court District:

Trial Court Coordinator--1
 Superior Court Judge --1
 Court Reporter --1
 Deputy Clerk --1

New Prosecutorial District:

District Attorney--1
 District Attorney Admin. Asst. II --1
 Asst District Attorney --2
 DA Investigator --1

New District Court:

District Court Judge -- 2
 Judicial Assistant --1
 Deputy Clerk --2

In addition, funds are provided to upgrade an existing Superior Court Judge position to Senior Resident Superior Court Judge and an existing District Court Judge position to Chief District Court Judge. (S.L. 2007-323, Sec.14.25; S.L. 2007-345, Sec. 8; H.B.490; H.B.1473

Administration

2 Technology Initiatives

\$7,914,759	R	\$7,919,361	R
\$1,927,647	NR		
78.00		78.00	

Funding is provided to continue technology modernization and infrastructure projects currently under development. The non-recurring funds will be transferred to the Court Information Technology Fund and will not revert pursuant to G.S. 7A-343.2

District Attorney Offices

9 New Prosecutors and Support Staff

\$3,939,523	R	\$10,281,769	R
\$242,841	NR	\$238,884	NR
77.00		152.00	

Funding is provided for new Victim Witness/Legal Assistant (VWLA), Assistant District Attorney (ADA), and District Attorney (DA) Investigator positions. The effective date of the positions are as follows:

Effective Position	# Pos	Date
Victim Witness Legal Asst	40	10/01/07
Assistant District Attorney	30	10/01/07
DA Investigator	7	10/01/07
Victim Witness Legal Asst	40	07/01/08
Assistant District Attorney	28	07/01/08
DA Investigator	7	07/01/08

With the exception of the 28 ADA positions effective on July 1, 2008, all of the positions will be allocated by the Administrative Office of the Courts. The 28 ADA positions which become effective on July 1, 2008 shall be allocated by the General Assembly in the 2008 Session. (S.L. 2007-345, Sec. 14.14)

10 Receipt-Supported Positions - Guilford

The Guilford County DA's Office may establish eight (8) time-limited positions using funds provided by Guilford County:

- 1.0 Mental Health Court Coordinator II
- 1.0 Mental Health Court Case Coordinator
- 6.0 Pretrial Screener I

11 Receipt-Supported Position - Forsyth County

The Forsyth County DA's Office may establish one time-limited Gang Intervention & Resource Specialist position using federal grant funds from the Governor's Crime Commission.

12 Continuation Review-DA Conference Funds

(\$401,289)	R	(\$401,289)	R
\$401,289	NR		
		-5.00	

Funding is provided for the District Attorneys Conference for FY 2007-08 only. Restoration of FY 2008-09 funds is subject to findings of the Continuation Review. (S.L.2007-323, Sec. 6.21)

Equipment and Other Reserves

13 Equipment for New Courthouse

\$4,300	R	\$4,300	R
\$125,500	NR		

Governor's Recommendation: funding is provided for a telephone system for the new Rockingham County courthouse scheduled to be completed in FY 2007-08.

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
16 New District Court Judge Positions	\$428,316	R	\$1,034,565	R
Funding is provided for nine (9) new district court judge positions. Six (6) positions become effective January 1, 2008 with the remaining three (3) positions to become effective on January 15, 2009. The positions shall be allocated as recommended by AOC below:	\$56,604	NR	\$29,040	NR
	6.00		9.00	
FY 2007-08 (6.0)				
Dist 26 Mecklenburg				
Dist 10 Wake				
Dist 11 Johnston, Lee, Harnett				
Dist 18 Guilford				
Dist 12 Cumberland				
Dist 21 Forsyth				
(S.L. 2007-323, Sec.14.13; S.B.782; S.B.578/H.B.614)				
17 New District Court Judicial Support Staff	\$206,073	R	\$562,813	R
Funding is provided for nine (9) District Court Judicial Assistant I positions effective January 1, 2008 plus seven (7) additional positions effective January 15, 2009. (S.L. 2007-323, Sec. 14.13; S.B. 578/H.B. 614)	\$30,222	NR	\$24,080	NR
	9.00		16.00	
18 Family Court Expansion	\$521,528	R	\$521,528	R
Funding is provided for 8 new positions and associated operating expenses to expand family court into two (2) new districts to be selected by the Administrative Office of the Courts. (H.B.80)	\$46,728	NR		
	8.00		8.00	
19 Guardian ad Litem (GAL) Program Staff	\$1,101,010	R	\$1,102,775	R
Funding is provided to replace expiring federal grant funds used to support 3 GAL program positions and to establish 12 new positions, including two (2) Regional Administrators and ten (10) Program Supervisors.	\$48,272	NR		
	15.00		15.00	
20 GAL Contract Attorney Rate Adjustment	\$500,000	R	\$500,000	R
Funds are provided to increase the contract rate paid to private GAL attorneys who represent children in hearings before the court. The contract adjustment will increase the GAL attorneys' rate from \$45 to \$65, the rate currently paid to court-appointed parent attorneys.				
21 Drug Treatment Court Positions	\$833,769	R	\$1,236,560	R
Funding is provided to replace expiring federal and county grant funds used to support 13.75 positions in Drug Treatment Courts in 9 districts. Funds will be needed for 10.75 of these positions on July 1, 2007. Federal funds for the remaining 3 positions will expire on June 30, 2008. In addition, funds are provided for one AOC drug treatment court administrative position and for on-going management information system costs. (S.L. 2007-323, Sec. 14.12; S.B. 348/H.B.468)	\$52,701	NR	\$26,085	NR
	10.75		14.75	

Special Provisions

2007 Session: HB 1473

Department: Judicial

Section: 14.4

Title: **OIDS Expansion Funds/Establishment of Additional Public Defender Offices**

Summary Authorizes OIDS to 1) use up to \$2,192,350 in FY07-08 and up to \$2,082,510 in FY08-09 from the PAC fund to expand existing or establish new Public Defender offices; 2) use \$1,570,057 in FY08-09 to open additional Public Defender offices, and 3) establish Public Defender offices in Districts 5 - New Hanover County and 29B.

Section: 14.1

Title: **Transfer of Equipment and Supply Funds**

Summary Gives AOC authority to transfer funds from the central Equipment and Supply Reserve to individual programs as necessary.

Section: 14.2

Title: **Grant Funds**

Summary Authorizes AOC to use up to \$1,500,000 in available funds to meet federal grant match requirements.

Section: 14.3

Title: **North Carolina State Bar Funds**

Summary Authorizes the NC State Bar to use up to \$501,500 to contract with the Center for Death Penalty Litigation for training, consultation, brief banking, and other services. The Bar shall report to the legislature no later than February 1, 2008 on the use of these funds.

Section: 14.7

Title: **Report on Business Courts**

Summary Directs AOC to report annually on the activities and costs of the three business courts operating in Guilford, Wake, and Mecklenburg Counties.

Section: 14.8

Title: **Collection of Worthless Check Funds**

Summary Authorizes AOC to use the unexpended, year-end balance in the Worthless Check fund, which is a receipt-supported program, to purchase or repair office and computer equipment.

Section: 14.9

Title: **Dispute Resolution Fees**

Summary Allows the Dispute Resolution Commission to retain unexpended funds remaining in its account at year-end.

Section: 14.24

Title: **Add Two Special Superior Court Judges**

Summary Establishes two special superior court judge positions effective January 1, 2008.

Section: 14.25

Title: **Divide Superior Court, District Court, and Prosecutorial Districts 22 Into Districts 22A and 22B**

Summary Effective January 1, 2009, Superior Court, District Court, and Prosecutorial Districts 22 will be split into two (2) districts: 22A (Alexander, Iredell) and 22B (Davidson, Davie).

Special Provisions

2007 Session: HB 714

Department: Judicial

Section: 8

Title:

Summary Amends Section 14.25 of S.L. 2007-323 by specifying the allocation of assistant district attorneys to implement the District 22 split.

Section: 9

Title:

Summary S. L. 2007-323 funded an increase in pay for emergency judges from \$300 to \$400 dollars a day. Section 9 of S.L. 2007-345 changes G.S. 7A-52(b) to reflect the increase in emergency judges pay.

Special Provisions

2007 Session: HB 1473

Department: Judicial - Indigent Defense

Section: 14.5

Title: Office of Indigent Defense Services Report

Summary Directs OIDS to report on the use of indigent persons' attorney fund, including corrective actions taken to address the State Auditor findings and recommendations. Report is due on March 1st of each year.

Section: 14.6

Title: Indigent Defense Services/State Match for Grants

Summary Authorizes OIDS to use up to \$50,000 in available funds to meet federal grant match requirements.

Section: 14.17

Title: Office of Indigent Defense Services/Electronic Fee Submission

Summary Directs OIDS to develop a proposal for a statewide electronic fee submission system and include the proposal in the annual report. Authorizes AOC to conduct a pilot project in multiple counties for electronic filing, management, and processing of civil cases and special proceedings.

Section: 14.19

Title: The Office of Indigent Defense Services May Compensate Attorneys for Certain Filings

Summary Authorize OIDS to pay the filing costs of cases before the North Carolina and United States Supreme Courts.

Overview: 2007 Session Fiscal and Budgetary Actions

	FY 07-08		FY 08-09	
37 Computer Crimes Unit Positions	\$161,070	R	\$161,070	R
Funding to establish 2 sworn agents to investigate child exploitation and sexual predator cases.(H.B.120)	\$76,056	NR		
	2.00		2.00	
38 Sex Offender Technology Support	\$210,368	R	\$210,368	R
Governor's recommendation: Funding for a staff position and operating funds to support the operation of the sex offender registry. (H.B.120)	\$6,856	NR		
	1.00		1.00	
39 SBI Equipment Replacement Reduction				
Reduction in the Governor's continuation request for SBI equipment replacement.	(\$690,514)	NR		
40 Convicted Offender DNA Processing Resources	\$279,957	R	\$279,957	R
Funding for 3 Information Processing Technicians to receive, analyze and upload DNA samples into the SBI CODIS database. This appropriation also includes operating funds. (H.B.148)	\$132,819	NR		
	3.00		3.00	
41 Piedmont Triad Regional Crime Laboratory	\$431,837	R	\$1,168,623	R
Funding for the establishment of the Piedmont Triad Regional Crime Laboratory. Scheduled to be open in April of 2008, this lab will provide drug chemistry, fingerprint analysis, latent evidence analysis, computer forensics, and drug toxicology services to the Triad region. This lab will be staffed with the 12 non-sworn staff positions. (H.B.385/S.B.288)	\$156,074	NR		
	12.00		12.00	
Staff Positions (Effective April 2008):				
Chemists--3				
Computer Forensic Analysts--2				
Forensic Toxicologists--2				
Latent Examiners--2				
Office Assistants--2				
Evidence Technician--1				
Training and Standards				
42 School Training Safety Coordinator Position	\$67,503	R	\$67,503	R
Funding for a staff position to develop and administer uniform school safety and gang prevention programs for school resource officers.	\$20,606	NR		
	1.00		1.00	
Total Legislative Changes	\$431,122	R	\$1,167,908	R
	(\$156,316)	NR		
Total Position Changes				
	28.00		28.00	
Revised Budget	\$94,861,199		\$92,171,670	

Juvenile Justice & Delinquency Prevention

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$159,464,742		\$163,791,473	
Legislative Changes				
Department-Wide				
43 Eliminate funding for vacant positions	(\$2,530,058)	R	(\$2,530,058)	R
Eliminate funding for 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.	-75.00		-75.00	
Detention Services				
44 State Share In-County Detention	(\$260,202)	R	(\$260,202)	R
Reduce the increase in the state share for in-county detention and fund the actual 2005-06 amount. This will not reduce the payments to counties for the state share of detention centers.				
Intervention/Prevention				
45 Continuation Review-JCPC County Allocation	(\$22,652,860)	R	(\$22,652,860)	R
Funding is provided for the JCPC county allocation for FY 2007-08 only. Restoration of FY 2008-09 funds is subject to findings of the Continuation Review (S.L. 2007-323, Sec. 6.21 (b)).	\$22,652,860	NR		
Special Initiatives				
46 Eckerd Wilderness Camp Contract	\$1,361,406	R	\$1,663,239	R
Funds are provided to increase the daily contract rate for 346 beds to \$132.55 per day in 2007-08 and to \$134.94 per day in 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.				
47 Eliminate funding for CIS	(\$181,588)	R	(\$181,588)	R
Eliminate JJDP funding for the state administrative office of Communities in Schools. CIS continues to receive General Fund support from the Department of Public Instruction.				
48 Macon County Multipurpose Group Home	\$300,000	NR		
Provide start-up funds, including contractual services, to reopen the Macon County Multipurpose Group Home.				

Special Provisions

2007 Session: HB 1473

Department: Juvenile Justice & Delinquency Prevention

Section: 18.1

Title: **Support Our Students Administrative Cost Limits**

Summary Revises provision that increases amount of SOS funds that can be used for administrative costs to \$500,000, up from \$450,000.

Section: 18.2

Title: **JCPC Grant Reporting & Certification**

Summary Revises the annual report date to April 1 for Juvenile Crime Prevention Council (JCPC) grants and codifies the annual effectiveness report and requirements. Also, requires withholding of fourth quarter payment for local JCPCs if the report is not submitted on time. The reports are due to the Appropriations Committees and to the Oversight Committee.

Section: 18.3

Title: **Reports on Certain Programs**

Summary Revises the annual reporting requirement for the non-profit agencies which receive pass-through funding from the Department: Project Challenge and Juvenile Assessment Center. The CIS requirement was removed because funding was deleted from the JJDP budget. The reports are due April 1 to the JPS Appropriations Subcommittees.

Section: 18.4

Title: **Annual Evaluation of Community Programs**

Summary Continues annual reporting for DJJDP programs: Eckerd; S.O.S.; Governor's One-on-One; Camp Woodson; Multipurpose Group Homes; and Teen Courts. The reports are due March 1 to the Appropriations Committees, the JPS Appropriations Subcommittees, and to the Oversight Committee.

Section: 18.5

Title: **State Funds May be Used as Federal Matching Funds**

Summary Continues provision for the upcoming fiscal year, allows the state DJJDP appropriation to count as the state match for federal juvenile justice block grants funds awarded to county and local governments

Section: 18.6

Title: **Report on Staffing Model at Youth Development Centers**

Summary Requires quarterly reports to the JPS Appropriations Subcommittees and to the Oversight Committee from Juvenile Justice on the development of a treatment staffing model in the youth development centers. Adds new language capping staffing at the new and existing YDCs and requires a April 1, 2008 report on whether the staffing levels should be changed.

Correction

GENERAL FUND

	FY 07-08	FY 08-09
Adjusted Continuation Budget	\$1,214,815,488	\$1,235,981,287

Legislative Changes

Alcohol and Chemical Dependency Program

55 Inmate Drug and Alcohol Addiction Treatment

Increases the capacity for treating drug and alcohol addiction by providing 10 additional contract beds to house male inmates who are being provided intensive treatment for drug and alcohol abuse and addiction. These funds shall be used solely to house and treat these inmates and to maximize the treatment facility's capability to provide intensive treatment to chemically dependent male inmates. (HB 468 & SB 348)

\$239,805	NR
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Community Corrections

56 Increase funding for Women at Risk

Increase funding for the Women at Risk program, a community-based treatment program serving females offenders and their families (S.L. 2007-323, Section 17.13).

\$70,000	NR
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57 Increase funding for Summit House

Increase the funding for Summit House, a community-based residential alternative to incarceration for mothers and pregnant women convicted of non-violent crimes (S.L. 2007-323, Section 17.13).

\$100,000	NR
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58 Eliminate CJPP Inflationary Increase

Eliminate the Criminal Justice Partnership Program inflationary increase. State budget instructions do not permit an inflationary increase for this program.

(\$372,357)	R	(\$372,357)	R
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59 Continuation Review-CJPP

Funding is provided for the Criminal Justice Partnership Program for FY 2007-08 only. Restoration of FY 2008-09 funds is subject to findings of the Continuation Review (S.L. 2007-323, Sec. 6.21 (c) .

(\$9,153,134)	R	(\$9,153,134)	R
\$9,153,134	NR		

Prisons

<p>67 Neuse Correctional Center</p> <p>Authorizes DOC to convert 77 regular population beds to 77 misdemeanor processing beds. Neuse is the only diagnostic center for adult misdemeanants. Admissions are anticipated to increase by over 140 a month in 2007 and 2008. The new staffing is to add various diagnostic staff, increase custody supervision in a dormitory for inmates being processed and increase correctional transportation officers.</p>	<p>\$454,456 R</p> <p>\$32,192 NR</p> <p>11.00</p>	<p>\$454,456 R</p> <p>11.00</p>
<p>68 Prison Case Manager</p> <p>The DOC Recommended Continuation Budget included three new positions. The positions are reduced from three to two.</p>	<p>(\$34,079) R</p> <p>-1.00</p>	<p>(\$34,079) R</p> <p>-1.00</p>
<p>69 Reduce Jail Misdemeanant Payments</p> <p>Counties are paid \$18 a day by DOC for housing offenders sentenced to 30 to 90 days in county jails. The Governor recommended an increase of approximately \$900,000 over projected expenditures for FY 06/07. The increase is reduced by \$450,000 the first year and \$225,000 in 08/09. (S.L. 2007-323, Sec. 17.6)</p>	<p>(\$225,000) R</p> <p>(\$225,000) NR</p>	<p>(\$225,000) R</p>
<p>70 Swannanoa Female Prison</p> <p>DJJDP transferred a portion of the Swannanoa property to DOC to establish a 166 bed female minimum custody prison. The project has been delayed, allowing for a one time reduction by hiring positions at later dates than originally budgeted (S.L. 2007-323, Sec. 18.11)</p>	<p>(\$624,053) NR</p>	
<p>71 Tabor Correctional Center</p> <p>Tabor is the last of the six 1,000 bed prisons authorized by the General Assembly. The prison is scheduled to open May 2008 and receive inmates September 2008. This one-time reduction is achieved by sliding the schedule for positions due to be established in Nov 07 and Dec. 07 by one month</p>	<p>(\$296,000) NR</p>	
<p>72 Domestic Violence Reserve</p> <p>Establishes a reserve to implement the provisions of SL 2007-190, Violate Order/Possess Deadly Weapon Felony.</p>	<p>\$125,876 R</p> <p>\$21,500 NR</p>	<p>\$125,876 R</p>
<p>73 Our Children's Place Administration</p> <p>Funding for contractual services to be used for a position that will operate as an assistant to the Executive Director of Our Children's Place, a program for female inmates (S.L. 2007-323, Sec. 17.13).</p>	<p>\$46,000 R</p> <p>\$4,000 NR</p>	<p>\$46,000 R</p>

Special Provisions

2007 Session: HB 1473

Department: Correction

Section: 17.1

Title: Mutual Agreement Parole Program

Summary MAPP is a program for selected pre-Structured Sentencing inmates. These inmates are still subject to parole. Participants must complete all MAPP program requirements, such as education and treatment, to be considered for parole. This provision requires an annual report (March 1 each year) on inmate participation--number enrolled, terminated and successfully completing program.

Section: 17.2

Title: Inmate Road Squads and Litter Crews

Summary Continues requirement that DOT transfer \$11.3 million dollars 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 transfer amount is adequate for the work performed.

Section: 17.3

Title: Alcohol and Chemical Dependency Program Report

Summary Continues statutory requirement for an annual report (March 1) on the DOC substance abuse treatment program. The statute is revised to clarify that the report should include information on the number of inmates with substance abuse problems, the number treated, and whether programs are fully utilized. Statutory language is also added requiring annual evaluation of the DOC programs. Session Law was added in 2007 to this provision directing that the evaluation effort focus on DOC and contract long-term residential programs in the 2007-09 biennium.

Section: 17.4

Title: Inmate Construction Program

Summary Funding for the Inmate Construction Program was expanded for 2007-09. The provision requires DOC to report by April 1, 2008 on the program, including the type of projects, the number of inmates employed, and the savings from using inmate labor.

Section: 17.5

Title: Federal Grant Reporting

Summary Continues provision requiring all JPS agencies to report May 1 each year on the number and type of grants received. Reports are to highlight any grant funded programs for which the Departments will be seeking state funding when grants expire.

Section: 17.13

Title: **Report on Nonprofit Programs**

Summary Continues annual reporting requirement for three non-profits that receive pass-through funds from DOC to serve female offenders (Harriet's House, Summit House, and Women at Risk), and adds a section on the planning, design, and construction for Our Children's Place. The reports are due February 1 to the JPS Appropriations Subcommittees and to the Oversight Committee.

Section: 17.14

Title: **Report on Electronic Monitoring/GPS**

Summary Requires a March 1 report to the Appropriations Committees, the JPS Appropriations Subcommittees, and the Oversight Committee on the Sex Offenders/GPS Monitoring program, including numbers of active and passive offenders, PO caseloads, violations and absconders, and per-offender costs.

Section: 17.15

Title: **Criminal Justice Partnership**

Summary Revives annual reporting requirements, and adds new language reporting requirements regarding the number and cost of community and intermediate offenders, and a review by Research and Planning of community corrections best practices. The report is due March 1 to Appropriations Committees, the JPS Appropriations Subcommittees, and to the Oversight Committee.

Section: 17.16

Title: **Report on Probation and Parole Caseloads**

Summary Continues report on the current caseloads, including analysis of optimal caseloads, paraprofessional supervising low-risk offenders, and any reclassifications and their fiscal impact. The report is due March 1 to the JPS Appropriations Subcommittees and to the Oversight Committee.

Section: 17.17

Title: **Community Service Work Program**

Summary Continues February 1 reporting requirements to the JPS Appropriations Subcommittees on the Community Service Work program.

Governor's Crime Commission

80 Illegal Immigration Project

Funding for a Governor's Crime Commission grant to the North Carolina Sheriff's Association. This grant will be used for technical assistance and training associated with immigration enforcement. (H.B.1950)

\$750,000 NR

81 Gang Intervention and Suppression

Funding for grants to local government and community agencies for gang prevention, intervention and suppression initiatives. (H.B.274/S.B.1358)

\$4,760,195 NR

National Guard

82 National Guard Family Assistance Centers

Funding to establish 3 National Guard Family Assistance Centers to provide benefit and planning services to families of deployed National Guard members. (S.B.96)

\$420,000 R \$420,000 R

Victims Compensation Services

83 Victims Compensation

Funding to reduce the program's backlog of approved but unpaid claims. The expansion will increase federal VOCA receipts, since VOCA provides a 60% match to appropriated state funds.

\$298,896 R \$383,647 R
\$1,309,486 NR

Total Legislative Changes

\$2,452,423 R \$2,181,966 R
\$9,765,856 NR

Total Position Changes

21.00 16.00

Revised Budget

\$51,501,337 \$41,489,037

**GENERAL
GOVERNMENT**

Administration

GENERAL FUND

	FY 07-08	FY 08-09
Adjusted Continuation Budget	\$65,923,562	\$66,457,866

Legislative Changes

1411 State Construction

1 Design Review Team Addition

	\$318,287	R		\$318,287	R
	\$16,000	NR			
	4.00			4.00	

Funds are provided for four new positions to establish an additional Design Review Team. The positions include three Building Systems Engineer II positions (\$63,000 each) and one Facility Architect II position (\$63,000). A new team will accelerate the review process and allow construction to begin more quickly.

Recurring	FY2007-08	FY2008-09
531211 Salaries	\$252,000	\$252,000
531511 Social Security	\$ 19,278	\$ 19,278
531521 Retirement	\$ 17,993	\$ 17,993
531561 Medical Insurance	\$ 15,416	\$ 15,416
533110 General Office Supplies	\$ 2,400	\$ 2,400
5327XX Travel Expense	\$ 1,200	\$ 1,200
532811 Telephone Service	\$ 2,400	\$ 2,400
532840 Postage	\$ 800	\$ 800
532850 Reproduction	\$ 800	\$ 800
532332 Repairs & Maintenance	\$ 800	\$ 800
532821 Computer/Data Processing	\$ 3,200	\$ 3,200
534521 Office Equipment	\$ 8,000	\$ 1,000
534534 Equip-Computers	\$ 10,000	\$ 1,000
Total Recurring	\$334,287	\$318,287

1421 Facilities Management

2 Reduce Operating Budget

	(\$996,859)	R		(\$996,859)	R
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Eliminates the continuation budget increase for utilities.

1731 Council for Women/DV Commission

3 Rape Crisis/Sexual Assault

	\$894,006	R		\$904,890	R
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Provides increased funding for rape crisis and sexual assault services. (SB 1230, HB 992)

4 Abolish Position

	(\$38,741)	R		(\$38,741)	R
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Abolishes vacant Human Services Coord II position (Pos. No. 4116-0000-0014-300).

	-1.00			-1.00	
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State Energy Office

10 Energy Office Funding

\$2,682,500	R	\$3,990,000	R
\$5,000,000	NR		

The following funding is provided for the State Energy Office:

1. \$ 700,000 recurring to transfer 8 positions from receipt to appropriation support and for administrative and operating expenses associated with these eight positions.
2. \$600,000 recurring in grants to support the Utility Savings Initiative.
3. \$1,382,500 in FY 2007-08 and \$2,690,000 recurring in FY 2008-09 to support the operations of 3 university energy programs: The NC A&T University Center for Energy Research and Technology; the NC State University Solar Center; and the Appalachian State University Energy Center.
4. \$5,000,000 nonrecurring in FY 2007-08 for an energy efficiency reserve.

The 8 positions transferred from receipt to appropriation support include:

Energy Division Director	\$ 86,699
Energy Conser Repr II	\$ 51,348
Building Systems Eng II	\$ 55,687
Energy Conser Repr II	\$ 51,986
Energy Conser Repr II	\$ 51,115
Energy Conser Repr II	\$ 48,939
Building Systems Eng I	\$ 56,603
Information Proc Tech	\$ 34,803

(SB 939, HB 839)

Total Legislative Changes	\$3,350,567	R	\$4,668,951	R
	\$5,167,600	NR		
Total Position Changes	12.00		12.00	
Revised Budget	\$74,441,729		\$71,126,817	

Auditor

GENERAL FUND

	FY 07-08	FY 08-09
Adjusted Continuation Budget	\$12,722,540	\$12,735,993

Legislative Changes

1210 Field Audit

11 Database for Non-Governmental Organizations (NGOs)

Funding is provided to implement a real-time data base to house grant compliance and reporting information for NGOs receiving state funds. \$80,000 NR

Recurring	FY2007-08
532199 Professional Services	\$ 36,000
532942 Training	\$ 6,400
534711 Subscription Services	\$ 16,000
532199 Project Management Serv	\$ 12,000
532140 Hosting at ITS	\$ 9,600
Total Recurring	\$ 80,000

12 Data Mining/Business Intelligence

Funding is provided for operating support to train staff to ensure critical systems are in place regarding business intelligence and analysis as state government moves to the shared IT infrastructure and for assisting ITS in developing data warehousing and shared data services for state government. \$40,000 NR

Recurring	FY2007-08
532942 Training	\$ 40,000

13 Microsoft Enterprise Agreement

Funding is provided for a Microsoft (MS) enterprise agreement to include all MS operating systems, office applications, and servers to improve security, mitigate risks of aging technology, and improve operations inherent in server technologies. These funds are to be placed in a reserve account. \$60,486 R \$60,486 R

Recurring	FY2007-08	FY2008-09
534711 Other Computer Software	\$ 60,486	\$ 60,486

14 Eliminate Equipment Replacement Schedule

Eliminates an increase from the continuation budget to put the Auditor's Office on a replacement schedule for computer equipment. (\$50,000) R (\$50,000) R

Special Provisions

2007 Session: HB 1473

Department: Auditor

Section:

Title: (No Special Provisions Reported)

Summary

Arts Council

21 cArtwheels Funding

Appropriates funds to extend the arts components of the Cultural Sharing and Caring pilot program. The program will provide exposure to professional performing arts for students in the public schools. These funds are appropriated to the Arts Council, and will be awarded based on an application process to emphasize geographic distribution, diversity, and variety of programs, such as dance, opera, music, and theater.

\$1,000,000 NR

22 Expand Arts Council Basic Grants

Provides additional recurring funds for the competitive Basic Grants Program in the Arts Council to be awarded through the formal application process. (HB 567)

\$1,000,000 R \$1,000,000 R

23 Expand Grassroots Arts Program

Increases funding for the Grassroots Arts Program in the Arts Council.

\$1,000,000 R \$1,000,000 R

24 Opera Company of North Carolina

Appropriates \$25,000 to the Opera Company of North Carolina for operational support. (HB 908)

\$25,000 NR

25 Horn in the West Operational Support

Appropriates \$25,000 to the Southern Appalachian Historical Association, Inc., for operational support for the outdoor drama Horn in the West. (HB 330)

\$25,000 NR

Museum of History

26 Graveyard of the Atlantic

Provides \$300,000 recurring to make the Graveyard of the Atlantic Museum a state-operated facility as part of the History Museum Division. (SB 799, HB 800)

\$300,000 R \$300,000 R
6.00 6.00

NC Symphony

27 Symphony Operating Funds

Provides \$540,000 NR to the Symphony for operating support.

\$540,000 NR

Reserves

28 Reduce Reserves-Exhibits

Eliminates a \$200,000 reserve for new exhibits within the Department of Cultural Resources.

(\$200,000) R (\$200,000) R

Special Provisions

2007 Session: HB 1473

Department: Cultural Resources

Section: 21.3

Title: Grant-in-Aid for the Jewish Heritage Foundation

Summary Directs the Department of Cultural Resources to use \$250,000 of funds available to assist the Jewish Heritage Foundation to produce a documentary about the Jewish experience in North Carolina. (SB 825, HB 677)

Section: 21.1

Title: Grassroots Arts Program Funding

Summary Changes the funding formula for the Grassroots Arts Program in the Arts Council. Since its inception, the program was funded on a per capita basis. In 1999-2000, the General Assembly authorized a one-time change in the formula to expend 20% of the funds on an equal-share basis, and the remaining 80% per capita. This provision makes that change permanent.

The Department had inadvertently continued using the 20/80 formula in the ensuing years, even though the 1999 provision had expired. This section also validates the past expenditures.

Special Provisions

2007 Session: HB 714

Department: Cultural Resources

Section: 10

Title: Aid to Public Libraries

Summary Clarifies language in a money item in the 2007 budget to affirm that the \$475,000 NR allocated to the Department of Cultural Resources for Aid to Public Libraries is to be added to the base amount to which the standard allocation formula applies.

Special Provisions

2007 Session: HB 1473

Department: Cultural Resources - Roanoke Island Commission

Section:

Title: (No Special Provisions Reported)

Summary

Special Provisions

2007 Session: HB 1473

Department: General Assembly

Section:

Title: (No Special Provisions Reported)

Summary

Special Provisions

2007 Session: HB 1473

Department: Governor

Section:

Title: (No Special Provisions Reported)

Summary

39 Housing Assistance for Persons with Disabilities

Provides funding to the North Carolina Housing Trust Fund for the financing of additional independent- and supportive-living apartments for people with disabilities. The apartments shall be affordable to those with incomes at the Supplemental Security Income (SSI) level. A description of this item is also located in the Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services Section of this report. (SB 594)

\$7,500,000 NR

Total Legislative Changes

\$4,857,472 R **\$4,857,472** R

\$9,000,000 NR

Total Position Changes

2.00

2.00

Revised Budget

\$18,608,417

\$9,608,417

Insurance

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$30,841,859		\$30,880,430	
Legislative Changes				
Department wide				
40 Reduce Operating Line Items 1%	(\$308,419)	R	(\$308,419)	R
Reduces various operating line items to produce a cut of 1% of the Department of Insurance's budget.				
High-Risk Pool				
41 Establish High-Risk Health Insurance Pool	\$250,000	NR		
Appropriates \$250,000 NR to the Department of Insurance for expenses related to the creation of the high-risk health insurance pool. The fund will be sustained by a combination of funding mechanisms including member premiums, growth in the gross premiums tax, and a surcharge on the State Health Plan. (HB 265)				
State Fire Marshal				
42 Staff Expansion	\$364,693	R	\$364,693	R
Funds four receipt-supported positions for State Building Construction Code Review, Inspection, and Enforcement to achieve targeted review times, implement new services and provide training activities for owner agencies and designers. Recommendations for these positions were included in the Legislative Study Commission on State Construction Inspections' report. (SB 93)				
	\$24,000	NR		
	4.00		4.00	
Total Legislative Changes	\$56,274	R	\$56,274	R
	\$274,000	NR		
Total Position Changes	4.00		4.00	
Revised Budget	\$31,172,133		\$30,936,704	

Insurance - Volunteer Safety Workers' Compensation Fund

GENERAL FUND

	FY 07-08	FY 08-09
Adjusted Continuation Budget	\$4,500,000	\$4,500,000
<hr/>		
Legislative Changes		
43 NO CHANGES ENACTED		
<hr/>		
Total Legislative Changes		
Total Position Changes		
Revised Budget	\$4,500,000	\$4,500,000

Lieutenant Governor

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$931,294		\$932,281	
Legislative Changes				
44 Additional Office Assistant Hours	\$4,019	R	\$4,019	R
Funds an increase in the work hours for the Office Assistant position from 16 hours to 20 hours per week.	0.10		0.10	
45 Operating Budget Increase	\$2,791	R	\$2,791	R
Funds an increase to the operating budget, including membership dues and subscriptions, for the Office of the Lieutenant Governor.				
46 Reduce Continuation Increase	(\$23,982)	R	(\$23,982)	R
Reduces an increase built into the continuation budget for data processing costs.				
Total Legislative Changes	(\$17,172)	R	(\$17,172)	R
Total Position Changes	0.10		0.10	
Revised Budget	\$914,122		\$915,109	

Office of Administrative Hearings

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$3,495,009		\$3,502,386	
Legislative Changes				
Civil Rights				
47 Eliminate Civil Rights Investigator Position	(\$46,697)	R	(\$46,697)	R
Eliminates an Investigator position in the Civil Rights Division that has been vacant since May, 2006.	-1.00		-1.00	
Hearings				
48 Administrative Hearings Assistant	\$48,546	R	\$48,546	R
Establishes a Hearings Assistant position to provide administrative and clerical support to the two new Administrative Law Judge positions created in the 2006 budget.	\$2,100	NR		
	1.00		1.00	
49 Automated Case Tracking System Replacement	\$17,500	R	\$17,500	R
Funds the replacement the Automated Case Tracking System. A new tracking system will improve key business functions for the Office of Administrative Hearings and improve both public interaction and departmental accountability.	\$175,000	NR		
Total Legislative Changes	\$19,349	R	\$19,349	R
	\$177,100	NR		
Total Position Changes	0.00		0.00	
Revised Budget	\$3,691,458		\$3,521,735	

Revenue

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$87,619,246		\$87,711,626	
Legislative Changes				
Collections and Examinations				
50 Budget Project Collect Fees	(\$1,750,000)	R	(\$1,750,000)	R
Budgets \$1.75 million in Project Collect collection assistance fees and moves 45 positions in the Collections and Examinations Division from General Fund to receipt-support.	-45.00		-45.00	
Department-wide				
51 Reduce Line Items 2%	(\$1,752,384)	R	(\$631,015)	R
Takes a 2% reduction in several line items related to temporary employees.				
Hearings				
52 Move Administrative Hearings Officer to DOA	(\$167,283)	R	(\$167,283)	R
Reduces the appropriation to the Department of Revenue for two positions, the Administrative Hearings Officer position and its associated administrative assistant. These funds will be transferred to the Department of Administration to house this function. Repealed in the technical corrections bill.	-2.00		-2.00	
Total Legislative Changes	(\$3,669,667)	R	(\$2,548,298)	R
Total Position Changes	-47.00		-47.00	
Revised Budget	\$83,949,579		\$85,163,328	

Secretary of State

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$10,600,417		\$10,686,083	
Legislative Changes				
1210 Corporations				
53 Redaction of Personal Information				
Funds are provided to redact identifying information from Business Entity database images.	\$812,500	NR		
1230 Securities Registration				
54 Staff Expansion				
Funding is provided to establish a Securities Examiner I position (\$37,066) to serve as a field auditor for broker-dealer firms and investment advisor firms to ensure compliance with the NC Investment Advisor Act and Securities Act.	\$56,958	R	\$56,958	R
	\$7,115	NR		
	1.00		1.00	
Recurring	FY2007-08		FY2008-09	
531211 Salaries	\$ 37,066		\$ 37,066	
531511 Social Security	\$ 2,836		\$ 2,836	
531521 Retirement	\$ 2,647		\$ 2,647	
531561 Medical Insurance	\$ 3,854		\$ 3,854	
532714 Transportation-In State	\$ 4,235		\$ 4,235	
532721 Lodging-In State	\$ 1,630		\$ 1,630	
532724 Meals-In State	\$ 1,040		\$ 1,040	
532811 Telephone Services	\$ 260		\$ 260	
532814 Cellular Phone Services	\$ 790		\$ 790	
532840 Postage Freight Delivery	\$ 200		\$ 200	
532850 Print, Bind, Duplicate	\$ 300		\$ 300	
532930 Registration Fees	\$ 200		\$ 200	
533110 General Office Supplies	\$ 315		\$ 315	
533900 Other Materials/Supplies	\$ 185		\$ 185	
534511 Office Furniture	\$ 3,850		\$ 0	
534521 Office Equipment	\$ 100		\$ 0	
534528 Voice Comm Equipment	\$ 165		\$ 0	
534534 Personal Computer/Print	\$ 3,000		\$ 0	
534630 Library & Learning Res	\$ 220		\$ 220	
535830 Membership Dues/Subscri	\$ 1,180		\$ 1,180	
Total Recurring	\$ 64,073		\$ 56,958	
Total Legislative Changes	\$56,958	R	\$56,958	R
	\$819,615	NR		
Total Position Changes	1.00		1.00	
Revised Budget	\$11,476,990		\$10,743,041	

State Board of Elections

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$5,861,461		\$5,874,026	
Legislative Changes				
1100 Administration				
55 Reduce Operating Budget	(\$48,078)	R	(\$48,078)	R
Reduces the operating budget for LAN Support Services by \$48,078.				
56 Additional Office Space	\$75,000	R	\$77,250	R
Funding is recommended for additional office space to house the Administration Division.				
	\$27,750	NR		
1200 Campaign Reporting				
57 Time-Limited Audit Specialists	\$177,339	NR	\$88,670	NR
Funding is provided to maintain the three time-limited Audit Specialists authorized in the 2006 budget until December 31, 2008 in order to eliminate the auditing backlog of campaign finance reports.				
	3.00		3.00	
58 Web-based and Regional Training	\$55,000	R	\$55,000	R
Funding is provided for online training, regional seminars, and a learning management system to track data for committee treasurers. The training is required by G.S. 163-278.7(f).				
	\$40,000	NR		
Recurring	FY2007-08		FY2008-09	
532821 Computer/Data Processing	\$ 80,000		\$ 40,000	
532714 Transportation Ground-IS	\$ 10,000		\$ 10,000	
535900 Other Expenses	\$ 5,000		\$ 5,000	
Total Recurring	\$ 95,000		\$ 55,000	
1900 Reserves and Transfers				
59 Voter-Owned Elections Pilot	\$1,000,000	NR	\$3,580,000	NR
S.L. 2007-540 included a two-year nonrecurring appropriation to establish a pilot program for three Council of State races. Candidates have the option of financing their campaigns from a publicly supported fund.				
	0.00		0.00	
Total Legislative Changes	\$81,922	R	\$84,172	R
	\$1,245,089	NR	\$3,668,670	NR
Total Position Changes	3.00		3.00	
Revised Budget	\$7,188,472		\$9,626,868	

State Budget & Management

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$5,930,060		\$5,936,765	
Legislative Changes				
1310 Department wide				
60 Abolish Position	(\$59,325)	R	(\$59,325)	R
Abolishes vacant Business/Technical App Analyst position (Pos. No. 3004-0400-0000-584).	-1.00		-1.00	
Total Legislative Changes	(\$59,325)	R	(\$59,325)	R
Total Position Changes	-1.00		-1.00	
Revised Budget	\$5,870,735		\$5,877,440	

State Budget and Management - Special

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$4,938,446		\$4,938,446	
Legislative Changes				
1023 Fire Protection Grants				
61 Fire Protection Grants-in-Aid Supplement				
Funds are provided to increase the funding for the Fire Protection Grants-in-Aid program. Many new state-owned facilities have been constructed statewide. This funding will assist local fire districts that provide fire protection and other services to state-owned facilities.	\$300,000	NR		
1900 Reserves and Transfers				
62 Reserve for Military Morale, Recreation, Welfare				
Funds are provided to a Reserve for the Military Morale, Recreation, and Welfare Fund to be distributed to each military installation on a per capita basis.	\$1,000,000	NR		
63 Earned Income Tax Credit Outreach				
Provides funding to the EITC Carolinas Initiative at MDC, Inc., to support free tax preparation and outreach efforts associated with the earned income tax credit for low-income North Carolina taxpayers.	\$50,000	NR		
64 Internal Audit and Efficiency Review				
Provides funds for the establishment of an Internal Audit and Efficiency Review Program contingent upon the enactment of House Bill 1401 or similar legislation. (HB 1401)	\$683,000	R	\$683,000	R
Total Legislative Changes	\$683,000	R	\$683,000	R
	\$1,350,000	NR		
Total Position Changes				
Revised Budget	\$6,971,446		\$5,621,446	

State Controller

GENERAL FUND

	FY 07-08		FY 08-09	
Adjusted Continuation Budget	\$20,646,483		\$20,669,990	
Legislative Changes				
1000 Administration				
65 Internal Control Compliance	\$165,043	R	\$165,043	R
Funding is provided for one Advanced State Management Analyst (\$66,425) and one Standard State Management Analyst (\$60,620) in Risk Mitigation Services to perform internal control compliance reviews in accordance with statutory provisions. Funding will include operating support for professional education and specialized training. (HB 1551)	\$6,000	NR		
	2.00		2.00	
1000 Department wide				
66 Reduce Operating Budget	(\$107,335)	R	(\$107,335)	R
Reduces the following line items each fiscal year:				
Recurring	FY2007-08	FY2008-09		
532146 Mainframe Support Serv	(\$ 50,000)	(\$ 50,000)		
532718 Trans Oth-Out of State	(\$ 100)	(\$ 100)		
531821 Computer/Data Process	(\$ 55,735)	(\$ 55,735)		
534530 Other DP Equipment	(\$ 1,500)	(\$ 1,500)		
Total Recurring	(\$107,335)	(\$107,335)		
Total Legislative Changes	\$57,708	R	\$57,708	R
	\$6,000	NR		
Total Position Changes	2.00		2.00	
Revised Budget	\$20,710,191		\$20,727,698	

Treasurer

GENERAL FUND

	FY 07-08	FY 08-09
Adjusted Continuation Budget	\$9,218,372	\$9,227,432

Legislative Changes

1210 Investment Management

67 Reduce Operating Budget (\$63,000) R (\$63,000) R
 Reduces the operating budget for the following line items:

Recurring	FY2007-08	FY2008-09
532199 Misc Contract Services	\$ 10,200	\$ 10,200
5327XX Travel	\$ 25,000	\$ 25,000
532821 Computer/Data Process	\$ 2,000	\$ 2,000
532840 Postage	\$ 4,000	\$ 4,000
532920 Bonding	\$ 3,000	\$ 3,000
532942 Other Emp Educational	\$ 4,800	\$ 4,800
534530 Other DP Equipment	\$ 4,000	\$ 2,000
535830 Membership Dues	\$ 10,000	\$ 10,000
Total Recurring	\$ 63,000	\$ 63,000

68 Staff Expansion \$210,758 R \$210,758 R
 Funding is provided to establish three Investment Analyst positions (\$55,448 each) in the Investment Management Division for the Alternatives, Real Estate, and Public Equity fund asset classes.
 \$12,000 NR 3.00 3.00

Recurring	FY2007-08	FY2008-09
531211 Salaries	\$166,344	\$166,344
531511 Social Security	\$ 12,725	\$ 12,725
531521 Retirement	\$ 11,877	\$ 11,877
531561 Medical Insurance	\$ 11,562	\$ 11,562
532712 Trans Air-Out of State	\$ 4,425	\$ 4,425
532722 Lodging-Out of State	\$ 2,700	\$ 2,700
532725 Meals-Out of State	\$ 375	\$ 375
533110 Office Supplies	\$ 750	\$ 750
534511 Furniture	\$ 4,500	\$ 0
534521 Office Equipment	\$ 7,500	\$ 0
Total Recurring	\$222,758	\$210,758

1310 Local Government

69 Reduce Operating Budget (\$49,000) R (\$49,000) R
 Reduces the operating budget for the following line items:

Recurring	FY2007-08	FY2008-09
532840 Postage	\$ 7,000	\$ 7,000
532850 Print, Bind, Duplicate	\$ 35,000	\$ 35,000
532942 Other Emp Educational	\$ 7,000	\$ 7,000
Total Recurring	\$ 49,000	\$ 49,000

Special Provisions

2007 Session: HB 1473

Department: Treasurer

Section: 26.1

Title: Funds for Auditing State Employee Service Records; Reporting Requirements

Summary Requires the Treasurer to report on the use of lapsed salaries and on all contracts issued each quarter. The provision also directs \$1.2 million this fiscal year for auditing employee service records.

Special Provisions

2007 Session: HB 1473

Department: Treasurer - Retirement for Fire and Rescue

Section:

Title: (No Special Provisions Reported)

Summary

TRANSPORTATION

**GENERAL FUND,
HIGHWAY FUND**

&

**HIGHWAY TRUST FUND
APPROPRIATIONS**

Highway Fund

HIGHWAY FUND

	FY 07-08	FY 08-09
Recommended Budget	\$1,769,403,262	\$1,772,720,398

Legislative Changes

1 S.L. 2007-551, H.B. 1005

HB 1005 requires the Office of State Budget and Management to conduct a study to develop a statewide logistics plan to address long-term economic, mobility, and infrastructure needs. Of the funds appropriated to the Department of Transportation from the Highway Fund the Department may use up one million dollars to pay for this study.

2 S.L. 2007-503, H.B. 679

HB 679 requires that the transmission of safety inspections be automated with the information sent electronically from the stations to DMV. The cost to DMV to provide the appropriate communications equipment to the stations is \$1,800,000 per year and \$441,000 initially for DMV computer system enhancements. The cost will be paid from the Telecommunications Account.

Administration

3 Reduction to Administrative Budgets

Reduces funds for central administration within the Department of Transportation. (S.L. 2007-323, Sec. 27.18)	(\$11,749,430)	NR	(\$10,000,000)	NR
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4 Interstate 40 Resurfacing Project

Provides funds to pay for the Interstate 40 repairs in Durham County.	\$11,749,430	NR	\$10,000,000	NR
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5 Security Management

Provides funds for security management equipment for 31 DMV locations and integration of those locations into the DOT security management system.	\$235,262	R	\$235,262	R
	\$2,264,738	NR		

6 Upgrade Printing Services

Provides funds to upgrade and consolidate two separate printing service operations for DOT and DMV into a single printing contract.	\$1,500,000	R	\$1,500,000	R
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7 Printing and Production

Provides additional funds for printing the North Carolina state highway map and the coastal boating guide.	\$225,000	R	\$225,000	R
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Employee Benefits

17 State Health Plan

\$5,141,943 R \$5,734,876 R

Provides funding based on the recommendations of the Executive Administrator of the State Health Plan. The Executive Administrator's recommendations include funding the Plan's additional financial requirements for the biennium through increased premiums paid by employing agencies and plan members with dependent coverage, certain benefit reductions and enhancements, cost containment actions recommended by the Plan's staff, and elimination of the self-insured Indemnity plan effective July 1, 2008.

The funding appropriated supports, effective October 1, 2007, an 11.2% premium increase for the PPO programs to provide additional funding to continue non-contributory health benefit coverage for enrolled active and retired employees supported by the Highway Fund for the biennium. The funding appropriated also supports, effective October 1, 2007, an 11.4% premium increase for the Indemnity plan to provide additional funding to continue non-contributory health benefit coverage for enrolled active and retired employees supported by the Highway Fund during the 2007-2008 fiscal year.

18 State Funded Compensation Increase

\$20,453,968 R \$20,453,968 R

Increases funds to support a 4% annual salary increase for permanent employees whose salaries are supported by Highway Fund appropriations.

19 Retirement System Contribution

\$1,723,800 R \$1,723,800 R

Increases the State's contribution for FY07-09 to provide a 2.2% cost-of-living adjustment to retirees of the Teachers' and State Employees' Retirement System. This adjustment is funded in part with actuarial gains within the system.

Ferry Division

20 Maintenance Repair Costs

\$1,000,000 R \$1,000,000 R

Increases funds for repairs and service parts necessary to maintain the fleet of ferries and these funds shall be used to supplement on-going ferry operations.

21 Ferry Boats and Operations

\$3,550,000 NR \$3,550,000 NR

Increases funds to upgrade rescue boats and generators to meet new United States Coast Guard requirements. Funds will also be used for booster pumps for use in dredge operations, rail cars at the maintenance facility and to complete renovation projects.

Rail Division

31 Grants to Short-Line Railroads

Provides funds to continue the grant program supporting short-line railroad companies. The funds are used to rehabilitate and strengthen North Carolina's short-line infrastructure.

\$1,000,000 NR

32 Freight Rail Operations Streamlining

Provides funds to relocate or construct new tracks and rail interchange facilities to streamline freight traffic flows.

\$3,850,000 NR \$3,229,730 NR

Small Construction

33 Economic Development

Provides additional nonrecurring funds for economic development, spot safety, and transportation improvement projects. (S.L. 2007-323, Sec. 27.3)

\$14,000,000 NR

State Highway Patrol

34 Helicopter for Aviation Unit

Provides funds to replace an obsolete helicopter and establish a dedicated airborne unit that can perform search and rescue operations during disasters.

\$3,600,000 NR

35 VIPER Network Support

Creates additional positions to support the Voice Interoperability Plan for Emergency Responders (VIPER) system.

\$2,261,839 R \$2,261,839 R
24.00 24.00

36 Trooper Positions

Funds five additional trooper positions in each fiscal year of the biennium, for a total of 10 new trooper positions.

\$266,988 R \$547,326 R
\$229,870 NR \$229,870 NR
5.00 10.00

Statutory Adjustments

37 Leaking Underground Storage Tank Fund

Adjusts budget for the Leaking Underground Storage Tank Fund based on projections for the gasoline inspection fee in accordance with G.S. 119-18. Total budget for the Department of Revenue (tax collection), the Department of Agriculture (inspection) and the Leaking Underground Storage Tank Funds is \$15,100,000 in FY07-08 and \$15,110,000 in FY08-09.

\$300,000 R \$350,000 R

38 Secondary Maintenance

Increases funds for Secondary Maintenance Program and eliminates the designation of Urban Maintenance as required by HB747 in 2005 Session.

\$16,512,027 R \$16,512,027 R

39 Primary Maintenance

Increases funds for Primary Maintenance Program and eliminates the designation of Urban Maintenance as required by HB747 in the 2005 Session.

\$24,768,040 R \$24,768,040 R

Highway Trust Fund

HIGHWAY TRUST FUND

Recommended Budget	FY 07-08		FY 08-09	
	\$1,132,060,000		\$1,149,270,000	
Legislative Changes				
Highway Trust Fund				
48 Transfer to General Fund	\$0	R	\$75,774	R
Increases transfer to General Fund in FY 2008-09 consistent with new revenue estimates and statutory formula. Transfer is \$172,543,306 in FY 2007-08 and \$172,675,038 in FY 2008-09.				
49 Administration	\$4,422,080	R	\$4,212,900	R
Increases funds for administration to \$47,341,560 in FY 2007-08 and \$47,782,560 in FY 2008-09 consistent with new revenue estimates and statutory formula, as changed in HB1473.				
50 Intrastate System	(\$4,961,364)	R	(\$9,030,672)	R
Reduces funds for the Intrastate System to \$539,414,383 in FY 2007-08 and \$544,982,323 in FY 2008-09 consistent with new revenue estimates and statutory formula.				
51 Urban Loops	(\$2,006,169)	R	(\$3,651,629)	R
Reduces funds for the Urban Loops to \$218,116,712 in FY 2007-08 and \$220,368,154 in FY 2008-09 consistent with new revenue estimates and statutory formula.				
52 Aid to Municipalities	(\$520,563)	R	(\$947,529)	R
Reduces funds for Aid to Municipalities to \$56,597,151 in FY 2007-08 and \$57,181,357 in FY 2008-09 consistent with new revenue estimates and statutory formula.				
53 Secondary Road Construction	(\$713,984)	R	(\$1,148,844)	R
Reduces funds for Secondary Road construction to \$94,266,888 in FY 2007-08 and \$95,790,568 in FY 2008-09 consistent with new revenue estimates and statutory formula.				
Total Legislative Changes	(\$3,780,000)	R	(\$10,490,000)	R
Total Position Changes				
Revised Budget	\$1,128,280,000		\$1,138,780,000	

Section: 27.5

Title: **Small Construction and Contingency Funds**

Summary Allocates \$21,000,000 in each year of the biennium for small construction projects recommended by the member of the Board of Transportation representing the division in which the project is to be constructed. These funds shall be allocated equally among divisions in each year of the biennium.

Directs the Department of Transportation to spend \$15,000,000 in each year of the biennium to be used statewide for rural and small urban highway improvements and related transportation enhancements to public roads and public facilities, industrial access roads, and spot safety projects.

Directs the Department of Transportation to report on the use of the funds quarterly to the Joint Legislative Transportation Oversight Committee and the Fiscal Research Division.

Section: 27.6

Title: **Funds for Unsafe or Obsolete Field Facilities**

Summary Allows the Department of Transportation to use funds for major repair, renovation, or replacement of its field facilities that fail to meet safety standards or that are obsolete for current or future use. The Department must report its plan of expenditures to the Joint Legislative Transportation Oversight Committee and the Transportation Appropriations Committees.

Section: 27.7

Title: **Modify Global Transpark Debt**

Summary Provides additional time before the Global Transpark Authority is required to repay the Escheat Fund; the date for debt repayment is October 1, 2009.

Section: 27.9

Title: **Department of Transportation Productivity Pilot Programs**

Summary Provides authority for the Department of Transportation to continue with its current productivity pilot programs that provide incentive payments to employees based on quantifiable measures and production schedules. The Department is allowed to establish two additional pilot programs which include employee incentive payments. The Department shall report to the Joint Legislative Transportation Oversight Committee at least thirty days prior to implementation.

Section: 27.11

Title: **Division of Motor Vehicles License Plate Recall Program**

Summary Appropriates funds for a license plate recall program that includes recalling the oldest plates and establishing a program to recall plates annually. The Division of Motor Vehicles shall report on the program schedule and implementation of an ongoing program to the Joint Appropriations Subcommittee on Transportation and Fiscal Research Division by May 1, 2008.

Section: 27.19

Title: **VIPER Build Out Funds**

Summary Allows the State Highway Patrol to spend up to \$10 million of its funding for the construction of the Voice Interoperability Plan for Emergency Responders (VIPER) system. The State Highway Patrol shall report to the Joint Legislative Transportation Oversight Committee and Joint Corrections, Crime Control, and Juvenile Justice Oversight Committee by March 31, 2008 on expenditures and planned expenditures.

**RESERVES,
DEBT SERVICE
&
ADJUSTMENTS**

GENERAL PROVISIONS

Statewide Reserves

GENERAL FUND

Recommended Budget	FY 07-08	FY 08-09
	\$666,637,384	\$699,343,864

Legislative Changes

A. Employee Benefits

1 State Funded Compensation Increases

Provide funds to support salary increases for employees of State agencies, departments and universities, community college institutions, and public schools. (Sections 7.1-7.5, 8.5, 28.1-28.15 of Session Law 2007-323)

\$488,655,673	R	\$488,655,673	R
\$1,668,519	NR		

2 Public School Salary Increases

Certified Teaching, School Based Administrators and Non-certified Personnel in local Public Schools, State agency based Public Schools, and the NC School of Science and Mathematics.

Teachers and Instructional Support - Funds are provided to support an experience based step increase for teachers and instructional support personnel (average salary increase of 1.83%) and a flat annual increase in the base teacher salary schedule of \$1,240 for the 2007-09 biennium (total average increase of 5%). New Teachers and Instructional Support who are paid at step 0 of the experience based salary schedule will receive a \$250 sign on bonus payable if they are employed the full school year.

Principals and Assistant Principals - Funds are provided to support an experience based step increase for school board administrators (average salary increase of 1.67%) and a flat annual increase in the school based administrators salary schedule for the 2007-09 biennium (total average increase of 4.44%). School based administrators who are at the top of the experience based salary schedule will receive a 2% one-time lump sum bonus.

All other Public School Personnel - Provide funds to support a 4% annual salary increase.

3 Community College Salary Increases

Faculty and Professional Staff - Provide funds to support a 5% annual salary increase.

All other Community College Personnel - Provide funds to support a 4% salary increase.

12 Transfer Public Defenders to the Consolidated Judicial Retirement System

\$573,000

R

\$573,000

R

Provide funds to transfer public defenders, the appellate defender, the capital defender, and the juvenile defender to the Consolidated Judicial Retirement System effective July 1, 2007. Also transfers service as a public defender, appellate defender, capital defender, or juvenile defender from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. (Section 28.21B of Session Law 2007-323).

13 State Health Plan - Premium Increase & Eliminate Indemnity Plan

\$110,184,490

R

\$122,890,207

R

Provides funding based on the recommendations of the Executive Administrator of the State Health Plan. The Executive Administrator's recommendations include funding the Plan's additional financial requirements for the biennium through increased premiums paid by employing agencies and plan members with dependent coverage, certain benefit reductions and enhancements, cost containment actions recommended by the Plan's staff, and elimination of the self-insured Indemnity plan effective July 1, 2008.

The funding appropriated supports, effective October 1, 2007, an 11.2% premium increase for the PPO programs to provide additional funding to continue non-contributory health benefit coverage for enrolled active and retired employees supported by the General Fund for the biennium. The funding appropriated also supports, effective October 1, 2007, a 11.4% premium increase for the Indemnity plan to provide additional funding to continue non-contributory health benefit coverage for enrolled active and retired employees supported by the General Fund during the 2007-2008 fiscal year. (Sections 28.22 and 28.22A of Session Law 2007-323)

B. Debt Service

14 Debt Service

(\$11,233,632)

R

(\$7,863,147)

R

Provides for the revised estimate of needs based on later projections of authorized debt.

15 Adjustment to Debt Service Requirements

\$13,080,570

R

Provides for the additional cost associated with the 2007-08 capital improvement projects to be financed with Certificates of Participation.

C. Information Technology

16 BEACON - HR/Payroll System Replacement

\$20,000,000

NR

Provides funding to complete the new HR/Payroll System to meet the January 1, 2008, implementation date. Total requirements are \$22,964,346, of which \$2,964,346 can be supported from existing receipts received from the Highway Fund.

Special Provisions

2007 Session: HB 1473

Department: Statewide Reserves

Section: 2.2

Title: **General Fund Availability Statement**

Summary Sets out sources of revenue for the 2007-09 biennium in accordance with G.S. 143-15.1 (budget reform). A summary of significant sections follows:

2.2(a) Provides a detailed listing of estimated General Fund revenues and adjustments to availability.

2.2(b) Directs the State Controller to transfer \$145 million from the unreserved credit balance to the Repairs and Renovations Reserve Account.

2.2(c) States that funds transferred to the Repairs and Renovations Reserve Account are to be used consistently with the statute governing the Repairs and Renovations Reserve Account.

2.2(c1) Transfers \$175 million to the Savings Reserve Account.

2.2(d) and (e) Transfers \$172.5 million from the Highway Trust Fund to the General Fund in each year of the biennium.

2.2(f) Clarifies that \$100 million appropriation to the Clean Water Management Trust Fund is pursuant to G.S. 113A-253.1, and is not an addition to the statutory appropriation made in that section.

Section: 6.1

Title: **Appropriation of Cash Balances and Receipts**

Summary 6.1(a) Appropriates and sets out the authorized uses of cash balances and receipts in various budget codes for the 2007-09 biennium and requires such funds to be expended in accordance with the Executive Budget Act.

Specifically, funds accounted for in budget codes included in Volumes 1-6 of the Governor's Recommended Continuation Budget are appropriated up to the amounts specified in those documents, as adjusted by the General Assembly. Funds accounted for in budget codes not listed in Volumes 1-6 of the Governor's Recommended Continuation Budget are appropriated up to the amount of actual expenditures for the 2006-07 fiscal year, unless otherwise provided by law.

Also appropriates any receipts required to pay debt service requirements up to the actual amounts received in each year of the biennium. Further appropriates cash balance and receipts of bona fide trust and agency funds in amounts required to meet the legal obligations of the trust agreements.

6.1(b) Specifies the conditions under which overrealized receipts may be expended and appropriates those receipts up to the amount authorized by the Executive Budget Act. Requires the Office of State Budget and Management to report quarterly on any overrealized receipts approved for expenditure.

6.1(c) Appropriates funds from the Reserve for Reimbursements to Local Governments and Shared Tax Revenues in the amounts required by law.

CAPITAL

Capital

GENERAL FUND

FY 07-08

FY 08-09

A. Department of Administration

1 Deerfield Cottage Renovation

Provides capital funds for the comprehensive renovation of Deerfield Cottage. The building is currently part of John Umstead State Psychiatric Hospital. The facility will house a program for female inmates and their children through a proposed contract between a non-profit agency and the Department of Correction. The total project cost is \$3.5 million.

\$3,556,000	NR
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2 State Capital Visitors Center/Plaza/Underground Parking Facility

Provides capital planning funds for the proposed State Capital Visitors Center, public plaza and underground parking. The Department of Administration will work with the Department of Cultural Resources regarding the design of the Visitors Center. The project cost is \$28 million. (H.B.1336)

\$627,281	NR
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B. Department of Cultural Resources

3 NC Museum of History Chronology Exhibit Phase I

Provides capital funds for the construction of the NC Museum of History's Chronology Exhibit which will cover the State's history through the year 1900. The total project cost is \$6.3 million.

\$6,322,900	NR
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4 Horne Creek Farm Visitors Center

Provides capital funds for the construction of a Visitors Center at Horne Creek Farm. The State attraction does not currently have a visitors center. The total project cost is \$442,100.

\$442,100	NR
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C. Information Technology Services

5 Secondary Data Center Equipment

Provides equipment funds for completing the construction of the State's Secondary Data Center. The General Assembly authorized \$25 million in special indebtedness for the construction of the Data Center in FY 2006-07. The total project cost is \$33 million.

\$8,000,000	NR
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H. Department of Agriculture and Consumer Services

13 Western Agricultural Center Phase I

Provides capital funds for the construction of a 12,000 square foot Arts and Crafts Building at a project cost of \$3 million; and 40,000 square feet of space for a new Livestock Show area at a project cost of \$2 million. (H.B.504/S.B.912) \$5,000,000 NR

14 Eastern Agricultural Center

Provides capital funds for the construction of a horse barn at the Senator Bob Martin Eastern Agricultural Center. The total project cost is \$3 million. (H.B.1362/S.B.425) \$3,000,000 NR

15 Food and Drug Laboratory Chillers

Provides capital funds for the purchase and installation of two 250-ton chillers for Constable Laboratory. The total cost for this project is \$690,865. \$690,865 NR

I. Department of Commerce

16 NC Ports Improvements

Provides capital funds for the replacement of Berth 8 at the Port of Wilmington. The total project cost is \$51.6 million. Funding is also provided for berth structure improvements for a new transit shed at the Port of Morehead City. The total project cost is \$3.27 million. (H.B.467/S.B.252, S.L.2007-345, Section 14 amends this item to make eligible any capital projects at the Port of Morehead City.) \$7,500,000 NR

J. Dept. of Natural and Environmental Resources

17 Green Square Project

Provides capital funds for the planning, site development, and early construction of a 172,000 square foot office building for DENR; a 79,400 square foot expansion of the NC Museum of Natural Sciences, and 418 spaces of underground parking. The total cost for the project is \$118.25 million. The Friends of the Museum will offset \$15.5 million of the project cost for exhibit materials and equipment. The Friends of the Museum have also committed to raise \$27.5 million toward the cost of construction of the Museum expansion. \$25,000,000 NR

18 Division of Water Quality Modular Office

Provides capital funds for the construction of a 2,160 square foot modular office building for the DWQ Lab in Raleigh. The total project cost is \$252,200. \$252,200 NR

19 NC Zoo Horticulture Storage Facility

Provides capital funds for the construction of a 10,000 square foot steel storage shed to house the Zoo's horticulture operation. The total project cost is \$450,000. \$450,000 NR

27 NC Agricultural and Technical University General Classroom Building

Provides capital funds for the planning and site development of a general classroom and instructional building. The size of the facility will be up to 71,200 square feet and a project cost of \$26.8 million. The General Assembly appropriated \$1 million for this project in FY 2006-07.

\$5,300,000 NR

28 North Carolina Central University Nursing Building

Provides capital planning funds for the proposed School of Nursing building. The size of the facility will be up to 65,000 square feet with a project cost of \$24 million.

\$2,500,000 NR

29 NC School of Science of Mathematics - Discovery Center

Provides capital planning funds for the proposed multi-purpose Discovery Center building. The Center will provide classroom, lab, and assembly space, including a 200 bed student residence hall. The size of the facility will be up to 250,000 square feet with a project cost of \$70.4 million.

\$3,337,000 NR

30 NC State University - Centennial Campus Library

Provides capital funds for planning and utility-related construction of the James B. Hunt Library on Centennial Campus. The size of the facility will be up to 279,000 square feet with a project cost of \$114 million.

\$17,000,000 NR

31 UNC-Chapel Hill - School of Dentistry Addition

Provides capital funds for planning, site development, and early construction of the proposed addition to the School of Dentistry. The addition will be up to 216,414 square feet and a project cost of \$125 million. The project cost will be offset by \$26 million in receipts from the University. The General Assembly appropriated \$7 million in FY 2006-07 for the expansion of dental education in the University System. \$3 million of these capital planning funds were allocated to ECU for the School of Dentistry. (H.B.1239/H.B.1240)

\$25,000,000 NR

32 UNC-Chapel Hill Biomedical Research Imaging Center

Provides capital planning funds for the proposed Biomedical Research Imaging Center (BRIC). The size of the facility will be up to 275,000 square feet with a project cost of \$135 million.

\$8,000,000 NR

33 UNC-Charlotte Energy Production Infrastructure Center

Provides capital funds for the planning and site development of the Energy Production Infrastructure Center (EPIC). The size of the facility will be up to 200,000 square feet with a project cost of \$76.2 million. (S.B.596)

\$19,000,000 NR

40 Department of Cultural Resources Tryon Palace Education and Visitors Center

Authorizes the issuance of certificates of participation for the construction of an Education and Visitors Center at Tryon Palace. The Department plans to have the project completed in time for the 300th anniversary of New Bern. The size of the facility will be up to 45,000 square feet with a project cost of \$60.6 million. The General Assembly appropriated \$1.5 million for this project in FY 2006-07. The project cost will be offset with \$13.7 million in departmental receipts. The total debt authorized is \$35,000,000. (S.L.2007-323, Sec.29.13)

41 Appalachian State University - Education Building

Authorizes the issuance of certificates of participation for the construction of the College of Education building. The size of the facility will be up to 130,000 square feet with a project cost of \$35.8 million. The General Assembly appropriated \$1.82 million in FY 2006-07. Total debt authorized is \$34,000,000. (S.B.380, S.L.2007-323, Sec.29.13)

42 Fayetteville State University Science and Technology Complex

Authorizes the issuance of certificates of participation for the construction of a Science and Technology Complex at FSU. The size of the facility will be up to 75,000 square feet with a project cost of \$23.6 million. The General Assembly appropriated \$1 million for this project in FY 2006-07. Total debt authorized is \$22,587,000. (S.L.2007-323, Sec.29.13)

43 NC School of the Arts Library

Authorizes the issuance of certificates of participation for the construction of a campus library at NCSA. The size of the facility will be up to 97,000 square feet with a project cost of \$25.9 million. The General Assembly appropriated \$1 million for this project in FY 2006-07. Total debt authorized is \$24,920,000. (S.B.454, S.L.2007-323, Sec.29.13)

44 NC State University Companion Animal Hospital

Authorizes the issuance of certificates of participation for the construction of Randall B. Terry Companion Animal Hospital on the Centennial Biomedical Campus at NCSU. The size of the facility will be up to 115,000 square feet with a project cost of \$72 million. NCSU will offset \$34 million of the project cost with gifts and other available receipts. Total debt authorized is \$38,000,000. (H.B.471/S.B.797, S.L.2007-323, Sec.29.13)

50 Western Carolina University - Health and Gerontological Building

Authorizes the issuance of certificates of participation for the construction of the Health and Gerontological Building. The size of the facility will be up to 145,200 square feet with a project cost of \$46.2 million. The General Assembly appropriated \$2.4 million in FY 2006-07. Total debt authorized is \$41,605,000. \$2.2 million is appropriated from the General Fund for FY 2007-08. (S.L.2007-323, Sec.29.13)

\$2,200,000 NR

51 Winston Salem State University - Student Activities Center

Authorizes the issuance of certificates of participation for the construction of a Student Activities Center at WSSU. The size of the facility will be up to 90,000 square feet with a project cost of \$32.5 million. The General Assembly appropriated \$768,225 for this project in FY 2006-07. WSSU will offset \$12.9 million of the project cost through student fees. Total debt authorized is \$18,708,000. (S.B.457, S.L.2007-323, Sec.29.13)

52 Millennium Campus - Nanoscience and Nanoengineering Building

Authorizes the issuance of certificates of participation for the construction of the Joint Graduate School of Nanoscience and Nanoengineering Building at the Millennium Campus. The School will be jointly operated between NC A&T and UNCG. The size of the facility will be up to 95,000 square feet with a project cost of \$58 million. Total debt authorized is \$53,000,000. \$5 million is appropriated from the General Fund for FY 2007-08. (H.B.580/S.B.565, S.L.2007-323, Sec.29.13)

\$5,000,000 NR

53 Coastal Studies Institute

Authorizes the issuance of certificates of participation for the construction of facilities for the Coastal Studies Institute. The Institute will be jointly operated between ECU, ECSU, NCSU, UNC-CH, and UNCW. The cumulative size of the facilities will be up to 90,400 square feet with a project cost of \$32.5 million. Total debt authorized is \$32,500,000. (S.L.2007-323, Sec.29.13)

Total Appropriation to Capital

\$230,741,100 NR

Section: 29.3

Title: **Water Resources Development Projects**

Summary 23.2(a) allocates \$20 million for the following projects:

Wilmington Harbor Deepening - \$4,333,000
Manteo (Shallowbag) Bay - \$350,000
Wilmington Harbor Maintenance - \$2,000,000
Bogue Banks Shore Protection Study - \$125,000
B. Everett Jordan Lake Water Supply Storage - \$100,000
Princeville Flood Control - \$98,000
Aquatic Plant Control, Statewide and Lake Gaston - \$200,000
Belhaven Harbor Feasibility - \$120,000
John H. Kerr Dam & Reservoir - \$520,000
Currituck Sound Environmental Restoration Study - \$350,000
Neuse River Basin Study - \$554,000
surf City/North Topsail Beach Study - \$50,000
West Onslow Beach (Topsail Beach) Study - \$43,000
Dare County Beaches (Bodie Island) - \$500,000
North Carolina Beach and Inlet Management Plan - \$250,000
Dredging Contingency Fund - \$3,937,000
State - Local Projects - \$2,400,000
Black River Restoration - Pender County - \$100,000
Western N.C. Hurricane Damage Stream Restoration - \$1,200,000
Planning Assistance to Communities - \$75,000
Concord Stream Restoration - Cabarrus County - \$170,000
Southern Shores Canal Dredging Phase 2 - \$800,000
Ararat River Restoration - \$550,000
Town of Williamston Drainage Improvement - \$600,000
Little Sugar Creek Stream Restoration Phase 7 - \$575,000

29.3(b) Allows adjustment of the allocations among projects if actual costs vary from estimated costs. Provides for the use of available funds resulting from delayed projects. Requires reversion of funds that remain unexpended or unencumbered at the end of the 2008-09 fiscal year.

Allows the use of available funds for State-local projects; US Army Corps of Engineers feasibility studies; or to pay required State match for any additional federal water resource development funds that become available during the 2007-08 fiscal year.

29.3(c) Requires semi-annual reports on the use of funds.

Section: 29.4

Title: **Procedures for Disbursement of Capital Funds**

Summary Specifies that capital disbursement shall be made according to the purposes provided in the Current Operations and Capital Improvements Appropriations Act of 2007 and allotments must be approved by the Director of the Budget. Restrictions are placed on the expenditure of funds appropriated for fixed and moveable equipment.

The provision further limits projects to the funds appropriated in the act, including both direct and self-liquidating appropriations. Where funds are provided for planning, agencies are restricted to the scope defined in the cost estimate submitted to the Director of the Budget.

Section: 29.11A

Title: **Disposition of Proceeds from the Sale of Former Buncombe County Headquarters Parcel**

Summary Establishes that all proceeds from the pending sale of the former Buncombe County Forestry Headquarters stay with the Department of Environment and Natural Resources to defray the cost of constructing the new headquarters.

Section: 29.13

Title: **Special Indebtedness Projects**

Summary Authorizes the issuance of special indebtedness, in the form of certificates of participation, for various State capital improvements projects. Debt is authorized in phases over FY 2007-08, FY 2008-09, and FY 2009-10 according to the cash needs of each project. The projects are as follows:

29.13(a)(1) authorizes \$34 million for the Appalachian State University Education Building.

29.13(a)(2) authorizes \$22.6 million for the Fayetteville State University Science and Technology Complex.

29.13(a)(3) authorizes \$24.9 million for the NC School of the Arts Library.

29.13(a)(4) authorizes \$38 million of the Companion Animal Hospital at NC State University.

29.13(a)(5) authorizes \$34 million for the addition to Engineering Building III at NC State University.

29.13(a)(6) authorizes \$8.7 million for the renovation of Rhoades Hall at UNC-Asheville.

29.13(a)(7) authorizes \$119.6 million for the Genomics Science Building at UNC-Chapel Hill.

29.13(a)(8) authorizes \$19 million for the Nursing Building at UNC-Pembroke.

29.13(a)(9) authorizes \$34.5 million for the Teaching Laboratory at UNC-Wilmington

29.13(a)(10) authorizes \$41.6 million for the Health and Genotological Building at Western Carolina University.

29.13(a)(11) authorizes \$18.7 million for the Student Activities Center at Winston-Salem State University.

29.13(a)(12) authorizes \$53 million for the Nanoscience and Nanoengineering Building at the Millenium Campus in Greensboro.

29.13(a)(13) authorizes \$32.5 million for the Coastal Studies Institute in Manteo.

29.13(a)(14) authorizes \$19.8 million for an addition to Scotland Correctional Institution.

29.13(a)(15) authorizes \$13.2 million for an addition to Alexander Correctional Institution.

29.13(a)(16) authorizes \$35 million for the Education and Visitors Center at Tryon Palace Historic Site and Gardens.

Capital Improvement Authorizations

Fiscal Year		Direct Appropriation	Repairs and Renovations	Federal Revenue Sharing	Legislative Bonds	Grand Total
1989-90		150,092,738 A	0	0	0	150,092,738
1990-91		106,400,195 B	0	0	75,000,000	181,400,195
1991-92		0	0	0	45,000,000	45,000,000
1992-93		95,205,570	0	0	0	95,205,570
1993-94		135,371,704	57,000,000	0	0	192,371,704
1994-95		189,391,450	60,000,000	0	0	249,391,450
1995-96		113,522,500	125,000,000	0	0	238,522,500
1996-97		196,786,567 C	130,000,000	0	0	326,786,567
1997-98		197,252,975 D	135,000,000	0	0	332,252,975
1998-99		222,199,500 E	145,000,000	0	0	367,199,500
1999-00	F	77,059,168	90,000,000 G	0	0	167,059,168
2000-01	H	14,974,172	60,500,000 I	0	0	75,474,172
2001-02	J	32,936,000	0 K	0	17,500,000 L	50,436,000
2002-03		31,158,000	0	0	50,000,000 M	81,158,000
2003-04		27,601,000	15,000,000	0	651,590,000 N	694,191,000
2004-05	O	45,192,000 P	76,797,361 P		558,000,000 Q	679,989,361
2005-06		54,960,000	125,000,000			179,960,000
2006-07		206,343,300	222,229,189		185,868,700 RS	614,441,189
2007-08		230,741,100	145,000,000		451,558,250 RT	827,299,350
2008-09					371,530,900 RT	371,530,900
2009-10					339,358,875 RT	339,358,875

Notes:

- A Reflects reduction of \$95,171,855 made by Governor due to economic downturn
- B Reflects reduction of \$100,897,000 made by Governor due to economic downturn
- C Includes \$39,519,567 earmarked from credit balance
- D Includes \$39,260,955 earmarked from credit balance and \$5m for South Mtn gameland acquisition
- E Direct appropriation of \$185,699,500, transfer of \$6,500,000 from the Reserve for Juvenile Justice, and \$30m earmarked for Aquariums from year-end reversions
- F Does not reflect the transfer of \$147 million in prior year capital appropriations to the Hurricane Floyd Disaster Reserve
- G Original authorization was \$150,000,000; \$60,000,000 was transferred to Hurricane Floyd Disaster Reserve
- H Does not reflect the reversion of \$21.2 million in prior year capital appropriations to offset the revenue/budgetary shortfall
- I Original authorization was \$100,000,000; \$39,500,000 was used to offset revenue/budgetary shortfall
- J Does not reflect the reversion of \$4.4 million in prior year capital appropriations to offset the revenue/budgetary shortfall
- K Original appropriation of \$125 million was used by Governor to offset revenue/budgetary shortfall
S.L. 2000-143 authorized special indebtedness in the amount of \$17.5 million to construct offices and education centers for the Wildlife Resources Commission.
- L
- M S.L. 2001-84 authorized the State to enter into guaranteed energy savings contracts to repair and renovate State facilities for the purpose of reducing utilities consumption by State agencies. The State may contract for an aggregate maximum principal of \$50 million at any one time.
- N S.L. 2003-284 authorized special indebtedness in the amounts of \$300 million for Repairs & Renovations, \$234.5 million (est.) to lease purchase 3 new prisons, \$6.78 million for planning and design costs associated with constructing youth development centers, and \$310,000 for a structural pest training center. S.L. 2003-314 authorized special indebtedness in the amount of \$110 million for a new psychiatric hospital.
- O Does not reflect authorization for the Director of Budget to use up to \$4.5 million in unspent and unencumbered funds from completed capital projects for the expansion of the crime laboratory of the State Bureau of Investigation in Raleigh.
- P The 2004 Budget Bill appropriated \$43.19 million for capital projects and transferred \$78.79 million to the R&R account from the unreserved credit balance. SB 3 transferred \$2 million from the R&R account to a capital project for the NC Motorsports Testing and Research Complex.
- Q S.L. 2004-179 authorized special indebtedness in the amounts of \$388 million for the construction of health, research, and education facilities in the UNC System, \$35 million to construct five youth development centers, and \$135 million for land acquisitions related to the State Parks System, land conservation, and water conservation.
- R S.L. 2006-66 authorized special indebtedness in the amounts of \$40 million to expand the NC Art Museum, \$101 million for a State Public Health Lab, \$328.3 million to construct two new psychiatric hospitals and complete the hospital under construction, \$132.2 million for a prison hospital and mental health center, \$24,841,300 for a secondary data center, and \$45,827,400 for a classroom building at UNC-Charlotte. The debt authorization is phased over four years.
- S Section 1 of S.L. 2006-231 revises S.L. 2004-179 to increase the special indebtedness authorization for the construction of five youth development centers. The authorization was increased from \$35 million to \$42 million.
- T S.L. 2007-323 authorized special indebtedness in the amounts of \$481.1 million for various UNC System projects, \$120 million for the Land for Tomorrow and Waterfront Access initiatives, \$33 million for prison additions, and \$35 million for Tryon Palace. The debt authorization is phased over three years.

North Carolina Annual Debt Service
(Principal and Interest)

Fiscal Year	General Fund	Highway Fund	Special Revenue Funds	Total Debt Service	Total Per Capita	G.F. Debt Service as a % of G.F. Revenue
1980-81	62,173,700	30,329,757		92,503,457	15.53	2.1%
1981-82	65,062,550	30,062,040		95,124,590	15.81	2.0%
1982-83	75,020,500	38,772,567		113,793,067	18.73	2.2%
1983-84	79,525,500	38,288,000		117,813,500	19.11	2.0%
1984-85	76,077,250	38,401,500		114,478,750	18.30	1.7%
1985-86	75,781,250	38,445,500		114,226,750	18.06	1.5%
1986-87	64,506,250	8,984,917		73,491,167	11.47	1.2%
1987-88	73,929,627	32,453,812		106,383,439	16.41	1.3%
1988-89	71,636,370	37,295,105		108,931,475	16.58	1.2%
1989-90	69,083,445	38,491,163		107,574,608	16.15	1.0%
1990-91	71,259,383	37,392,600		108,651,983	16.02	1.0%
1991-92	79,683,770	38,227,230		117,911,000	17.10	1.0%
1992-93	89,020,478	38,018,250		127,038,728	18.04	1.1%
1993-94	86,368,214	37,359,875		123,728,089	17.22	0.9%
1994-95	113,399,264	27,631,295		141,030,559	19.21	1.1%
1995-96	124,742,353	25,133,780		149,876,133	19.99	1.2%
1996-97	127,038,338	4,978,215		132,016,553	17.24	1.2%
1997-98	165,973,573	5,841,462		171,815,035	22.00	1.4%
1998-99	192,350,072	28,357,925		220,707,997	27.76	1.5%
1999-00	238,355,819	27,607,550		265,963,369	32.92	1.8%
2000-01	254,819,455	26,857,175		281,676,630	34.87	1.9%
2001-02	302,612,023	26,106,800		328,718,823	40.10	2.3%
2002-03	304,506,218	25,356,425		329,862,643	39.68	2.2%
2003-04	390,389,698	32,568,237		422,957,935	50.26	2.6%
2004-05	476,124,775	70,057,016		546,181,791	64.02	2.9%
2005-06	561,598,242	93,449,000	3,958,191	659,005,433	75.99	3.1%
2006-07	592,409,501	91,198,625	5,633,380	689,241,506	77.79	3.3%
<u>Projected as of October 2007</u>						
2007-08	645,505,681	88,128,250	12,707,448	746,341,379	82.55	3.3%
2008-09	681,312,831	85,460,500	32,376,292	799,149,623	86.85	3.8%
2009-10	716,923,740	82,731,000	40,687,999	840,342,739	89.89	3.6%

Note: Debt service requirements are updated annually by the Department of State Treasurer. Historical debt service amounts are updated to reflect the most current information available. Population estimates from State Data Center. Revenue estimates provided by Fiscal Research.

**INFORMATION
TECHNOLOGY
SERVICES**

Information Technology Services

INTERNAL SERVICE FUND

FY 07-08	FY 08-09
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Legislative Changes

A. Information Technology Operations

<p>1 State Chief Information Officer (SCIO) Office Provides funding to support the operations of the State CIO's office.</p>	<p>\$1,090,104 R</p>	<p>\$1,090,104 R</p>
<p>2 Statewide Procurement-Legal Provides funding for three attorneys, two assigned to the Department of Justice and one assigned to ITS.</p>	<p>\$369,650 R</p>	<p>\$369,650 R</p>
<p>3 ISO/Security Initiatives Provides funding to continue support for statewide security initiatives.</p>	<p>\$2,103,121 R</p>	<p>\$2,103,121 R</p>
<p>4 Information Technology Asset Management Provides funding to support the implementation of a statewide asset management system by the Office of Information Technology Services.</p>	<p>\$451,634 R \$1,626,000 NR</p>	<p>\$451,634 R \$1,626,000 NR</p>
<p>5 Enterprise Project Management Office Continues operation of office responsible for overseeing the development and implementation of IT systems within State agencies.</p>	<p>\$1,502,793 R</p>	<p>\$1,502,793 R</p>
<p>6 Enterprise Technology Strategies Office Provides statewide engineering and architecture support.</p>	<p>\$1,009,533 R</p>	<p>\$1,009,533 R</p>
<p>7 Start-up Funding: Enterprise Services Provide funding to support the implementation of new enterprise-wide applications to support State agency operations.</p>	<p>\$1,300,000 NR</p>	

B. Information Technology Projects

<p>8 Portfolio Management Continues operation of Project Portfolio Management System to track agency IT projects.</p>	<p>\$420,946 R</p>	<p>\$420,946 R</p>
<p>9 Legacy Applications Provides funding to continue the oversight of legacy applications.</p>	<p>\$589,428 R</p>	<p>\$589,428 R</p>

Special Provisions

2007 Session: HB 1473

Department: Information Technology Services

Section: 5.3

Title: **Information Technology Fund Availability and Appropriation**

Summary The funding sources and uses for the Information Technology Fund are specified.

Section: 6.8

Title: **BEACON Data Integration**

Summary 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

Title: **Use of Collection Assistance Fee**

Summary The Department of Revenue is allowed to use up to fifteen million dollars (\$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

Title: **Office of Information Technology Services Budget Review**

Summary The Office of Information Technology Services is required to submit its budget in time for inclusion in the Governor's budget recommendations.

Section: 6.12

Title: **Office of Information Technology Services Review of State IT Budget**

Summary The State Chief Information Officer is required to review information technology projects to ensure that agencies are not developing duplicate capabilities.

Section: 6.13

Title: **Geographic Information System (GIS) Study**

Summary 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

Title: **E-Commerce Long Range Strategy Report**

Summary 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.

SALARIES & BENEFITS

<p>SALARY CHANGES FOR EMPLOYEES SUPPORTED BY THE STATE</p>

A. SALARY INCREASES

General Salary Increase: The General Assembly enacted the following General Fund and Highway Fund appropriations to provide salary increases effective July 1, 2007, for employees paid from State funds:

	2007-2008
General Fund (Recurring)	\$499,667,978
General Fund (Non recurring)	1,668,519
Highway Fund (Recurring)	20,453,968
Highway Fund (Non recurring)	<u>0</u>
TOTAL	\$521,790,465

B. SPECIFIED SALARY INCREASES

GOVERNOR

- (1) The General Assembly increased the annual salary of the Governor by 4.0% to an annual rate of \$135,854, effective July 1, 2007.

COUNCIL OF STATE

- (2) The General Assembly increased the annual salary of members of the Council of State by 4.0% to an annual rate of \$119,901, effective July 1, 2007.

Council of State	2007-2008
Lieutenant Governor	\$119,901
Attorney General	119,901
Secretary of State	119,901
State Treasurer	119,901
State Auditor	119,901
Superintendent of Public Instruction	119,901
Commissioner of Agriculture and Consumer Services	119,901
Commissioner of Insurance	119,901
Commissioner of Labor	119,901

GOVERNOR'S CABINET

- (3) The General Assembly increased the annual salary of members of the Governor's Cabinet by 4.0% to an annual rate of \$117,142, effective July 1, 2007.

Judge, Superior Court	121,053
Chief Judge, District Court	109,923
Judge, District Court	106,445
District Attorney	116,112
Administrative Officer of the Courts	123,346
Assistant Administrative Officer of the Courts	112,665
Public Defender	116,112

Clerks of Court	2007-2008
Less than 100,000 County Population	\$80,196
100,000 to 149,999 County Population	89,993
150,000 to 249,999 County Population	99,792
250,000 and above County Population	109,593

(6) The General Assembly authorized an across-the-board annual salary increase of 4.0% in the average salaries of Assistant District Attorneys and Assistant Public Defenders effective July 1, 2007. The General Assembly authorized District Attorneys and Public Defenders (with the approval of the Administrative Officer of the Courts) to set the average salaries of Assistant District Attorneys or Assistant Public Defenders within their judicial districts such that the average salary does not exceed \$69,047 or the minimum salary fall below \$36,082.

(7) The General Assembly authorized an across-the-board annual salary increase of 4.0%, effective July 1, 2007, for Assistant and Deputy Clerks of Court in addition to the step increases associated with their respective pay plans.

	2007-2008
Assistant Clerks and Head Bookkeeper	
Minimum	\$31,122
Maximum	53,301
Deputy Clerks	
Minimum	\$26,788
Maximum	41,456

MAGISTRATES

(8) The General Assembly authorized an across-the-board annual salary increase of 4.0% effective July 1, 2007, for Magistrates.

	2007-2008
Entry Rate	\$31,533
Step 1	34,425
Step 2	37,571
Step 3	41,006
Step 4	44,768
Step 5	49,007
Step 6	53,760

Magistrates who were serving on June 30, 1994, but whose salaries were below the Entry Rate as of that date, will continue to move up the salary schedule according to the following schedule:

D. STATE-FUNDED LOCAL PUBLIC SCHOOL EMPLOYEES

Central Office Personnel (Superintendents, Assistant Superintendents, Associate Superintendents, Supervisors, Directors, Coordinators, and Finance Officers)

The General Assembly authorized an across-the-board annual salary increase of 4.0% effective July 1, 2007 for Central Office Personnel employed by the Public Schools. Please see Table 1 in this section for the current central office personnel salary schedules.

TABLE 1

The following monthly salary ranges apply to public school assistant superintendents, associate superintendents, directors/coordinators, supervisors and finance officers for the 2007-2008 fiscal year, beginning July 1, 2007:

	Salary Ranges	
School Administrator I	\$3,217	- \$6,041
School Administrator II	\$3,414	- \$6,407
School Administrator III	\$3,624	- \$6,797
School Administrator IV	\$3,770	- \$7,068
School Administrator V	\$3,922	- \$7,354
School Administrator VI	\$4,161	\$7,799
School Administrator VII	\$4,328	\$8,113

The following monthly salary ranges apply to public school superintendents for the 2007-2008 fiscal year, beginning July 1, 2007:

	Salary Ranges	
Superintendent I (Up to 2,500 ADM)	\$4,594	- \$8,606
Superintendent II (2,501 - 5,000 ADM)	\$4,877	- \$9,126
Superintendent III (5,001 - 10,000 ADM)	\$5,174	- \$9,682
Superintendent IV (10,001 - 25,000 ADM)	\$5,491	- \$10,270
Superintendent V (Over 25,000 ADM)	\$5,828	- \$10,896

Non-certified Public School Employees

The General Assembly authorized an across-the-board annual salary increase of 4.0% effective July 1, 2007 for non-certified personnel employed by the Public Schools.

An appropriation of \$1,150,240 provided funding for additional salary increases for teacher assistants to increase salaries to the minimum salary of a salary grade 56. Teacher assistant positions were upgraded some years ago from a salary grade 54 to a 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 salary equal to or greater than the minimum salary of salary grade 56 did not receive an additional increase.

Principals and Assistant Principals

The General Assembly appropriated funds for the 2007-2008 fiscal year to provide annual salary increases ranging from 4.06% to 7.96% (average of 4.44%) for Public School principals and assistant

TABLE 2

FY 2007-08

Principal and Assistant Principal Salary Schedules

Base Salary Schedule. No ABC or Safe School Incentives

Yrs of Exp	Classification								
	1	1	2	3	4	5	6	7	8
	Assistant Principal	Principal I (0-10)	Principal II (11-21)	Principal III (22-32)	Principal IV (33-43)	Principal V (44-54)	Principal VI (55-65)	Principal VII (66-100)	Principal VIII (101+)
0-4	\$3,730	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5	\$3,878	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	\$4,022	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7	\$4,137	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8	\$4,190	\$4,190	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	\$4,245	\$4,245	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	\$4,301	\$4,301	\$4,355	N/A	N/A	N/A	N/A	N/A	N/A
11	\$4,355	\$4,355	\$4,412	N/A	N/A	N/A	N/A	N/A	N/A
12	\$4,412	\$4,412	\$4,468	\$4,528	N/A	N/A	N/A	N/A	N/A
13	\$4,468	\$4,468	\$4,528	\$4,587	\$4,648	N/A	N/A	N/A	N/A
14	\$4,528	\$4,528	\$4,587	\$4,648	\$4,710	\$4,775	N/A	N/A	N/A
15	\$4,587	\$4,587	\$4,648	\$4,710	\$4,775	\$4,840	N/A	N/A	N/A
16	\$4,648	\$4,648	\$4,710	\$4,775	\$4,840	\$4,904	\$4,973	N/A	N/A
17	\$4,710	\$4,710	\$4,775	\$4,840	\$4,904	\$4,973	\$5,041	\$5,185	N/A
18	\$4,775	\$4,775	\$4,840	\$4,904	\$4,973	\$5,041	\$5,114	\$5,257	\$5,331
19	\$4,840	\$4,840	\$4,904	\$4,973	\$5,041	\$5,114	\$5,185	\$5,331	\$5,407
20	\$4,904	\$4,904	\$4,973	\$5,041	\$5,114	\$5,185	\$5,257	\$5,407	\$5,485
21	\$4,973	\$4,973	\$5,041	\$5,114	\$5,185	\$5,257	\$5,331	\$5,485	\$5,564
22	\$5,041	\$5,041	\$5,114	\$5,185	\$5,257	\$5,331	\$5,407	\$5,564	\$5,675
23	\$5,114	\$5,114	\$5,185	\$5,257	\$5,331	\$5,407	\$5,485	\$5,675	\$5,789
24	\$5,185	\$5,185	\$5,257	\$5,331	\$5,407	\$5,485	\$5,564	\$5,789	\$5,905
25	\$5,257	\$5,257	\$5,331	\$5,407	\$5,485	\$5,564	\$5,675	\$5,905	\$6,023
26	\$5,331	\$5,331	\$5,407	\$5,485	\$5,564	\$5,675	\$5,789	\$6,023	\$6,143
27	\$5,407	\$5,407	\$5,485	\$5,564	\$5,675	\$5,789	\$5,905	\$6,143	\$6,266
28	\$5,485	\$5,485	\$5,564	\$5,675	\$5,789	\$5,905	\$6,023	\$6,266	\$6,391
29	\$5,564	\$5,564	\$5,675	\$5,789	\$5,905	\$6,023	\$6,143	\$6,391	\$6,519
30	\$5,675	\$5,675	\$5,789	\$5,905	\$6,023	\$6,143	\$6,266	\$6,519	\$6,649
31	\$5,789	\$5,789	\$5,905	\$6,023	\$6,143	\$6,266	\$6,391	\$6,649	\$6,782
32	N/A	\$5,905	\$6,023	\$6,143	\$6,266	\$6,391	\$6,519	\$6,782	\$6,918
33	N/A	N/A	\$6,143	\$6,266	\$6,391	\$6,519	\$6,649	\$6,918	\$7,056
34	N/A	N/A	\$6,266	\$6,391	\$6,519	\$6,649	\$6,782	\$7,056	\$7,197
35	N/A	N/A	N/A	\$6,519	\$6,649	\$6,782	\$6,918	\$7,197	\$7,341
36	N/A	N/A	N/A	\$6,649	\$6,782	\$6,918	\$7,056	\$7,341	\$7,488
37	N/A	N/A	N/A	N/A	\$6,918	\$7,056	\$7,197	\$7,488	\$7,638
38	N/A	N/A	N/A	N/A	N/A	\$7,197	\$7,341	\$7,638	\$7,791
39	N/A	N/A	N/A	N/A	N/A	N/A	\$7,488	\$7,791	\$7,947
40	N/A	N/A	N/A	N/A	N/A	N/A	\$7,638	\$7,947	\$8,106
41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$8,106	\$8,268

SALARY AND BENEFIT CHANGES FOR STATE AND LOCAL PERSONNEL

A. SALARY RELATED CHANGES

- (1) **Additional Step to the Public School Teacher Salary Schedules:** Section 7.1(b) of Session Law 2007-323 (Appropriations Act) added a 31+ step to the Public School teacher salary schedules. Previously, the salary schedules ended at step 30+. The 31+ step is 2% higher than the 30th step.
- (2) **\$250 Sign-on Bonus for New Teachers and Instructional Support:** Section 7.1(i) of Session Law 2007-323 (Appropriations Act) provides a one-time, lump sum sign-on bonus of \$250.00 for teachers and instructional support paid on Step 0 of the Teacher salary schedule. This lump sum bonus is payable upon completion of the school year and increases the starting salary of a teacher to \$30,000.
- (3) **Additional Salary Increase for Teacher Assistants:** The Joint Conference Committee Report on the Continuation, Expansion, and Capital Budgets provides funding in the amount of \$1,150,240 to increase salaries of teacher assistants to the minimum salary of salary grade 56. Teacher assistant positions were upgraded some years ago from a salary grade 54 to a 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 salary equal to or greater than the minimum salary of salary grade 56 did not receive an additional increase.
- (4) **Additional Salary Increase for Judges:** Section 28.4.(a) of Session Law 2007-323 (Appropriations Act) provides an additional 1% salary increase for judges providing a total salary increase for judges of 5%.
- (5) **Additional Step Added to the Judicial Longevity Schedule:** Section 28.18A of Session Law 2007-323 (Appropriations Act) adds a "25 or more years" step at 24% 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 the 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.

B. OTHER CHANGES

- (1) **Career Banding Continuation:** Section 28.18B of Session Law 2007-323 (Appropriations Act) authorizes the State Personnel Commission, the Office of State Personnel, State agencies as to their defined critical occupational groups,

RETIREMENT AND PENSION CHANGES FOR STATE AND LOCAL PERSONNEL

A. CURRENTLY EMPLOYED EMPLOYEES

- (1) **Retirement Contributions:** The 2007 Session of the General Assembly in Section 28.19 of Session Law 2007-323 (Appropriations Act) set the contribution rates for the various retirement systems for the 2007-08 fiscal year and the 2008-09 fiscal year. The contribution rate for 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 2007 General Assembly also made a contribution of \$45 million to the Teachers' and State Employees' Retirement System to continue the "payback" for the State contributions that had been escrowed by the Governor in 2001 to help balance the budget. This final payment of the contribution repays the System for the contributions not made and only the interest remains unpaid.

- (2) **Firemen and Rescue Squad Worker's Pension Fund:** The 2007 Session of the General Assembly in Section 28.21 of Session Law 2007-323 (Appropriations Act) 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 increase applies to current pensioners and to those entitled to receive a pension in the future at age 55 with 20 years of service.
- (3) **North Carolina National Guard Pension Fund:** The 2007 Session of the General Assembly in Section 28.21A of Session Law 2007-323 (Appropriations Act) 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 increased from \$160 to \$190 per month. This was done at a cost of \$2,384,025 annually.
- (4) **Transfer of Public Defenders:** The 2007 Session of the General Assembly in Section 28.21B of Session Law 2007-323 (Appropriations Act) allowed for the transfer of all public defenders, the appellate defender, the capital defender and the juvenile defender, who are serving on July 1, 2007, from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. Also, all creditable service as a public defender prior to July 1, 2007 will be transferred from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System. Those who become public defenders after July 1, 2007 will also be members of the Consolidated Judicial Retirement System.

no remaining amortization period, the employer may amortize the cost over a period not to exceed 10 years.

(10) **Retirement Systems Technical Corrections:** The 2007 Session of the General Assembly in Session Law 2007-431 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 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 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 have ended.

(11) **Charter Schools Participating in the Retirement System:** The 2007 General Assembly in Session Law 2007-464 allowed the board of directors of Orange Charter School, an existing charter school, to elect to become a participating employer in the

- (2) **Cost-of-Living Adjustment in Retirement Allowances for Retired Judges, District Attorneys, and Superior Court Clerks:** Effective July 1, 2007, in Section 28.20 of Session Law 2007-323 (Appropriations Act), 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, and before June 30, 2006, 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 \$0.7 million annually from the General Fund.

- (3) **Cost-of-Living Adjustment in Retirement Allowances for Retired Legislators:** Effective July 1, 2007, in Section 28.20 of Session Law 2007-323 (Appropriations Act), 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.
- (4) **Extend the Sunset that allows Retired Teachers To Return To Teach With No Earnings Restrictions:** The 2007 Session of the General Assembly enacted legislation in Session Law 2007-326, which extends the law until October 1, 2009, that removes 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 on 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 is to pay 11.7% of the teachers' salary to the Retirement System to fund the cost. Future retirees, who retired 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.
- (5) **Open Enrollment Period for Retiree Contributory Death Benefit:** The 2007 Session of the General Assembly in Session Law 2007-388 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 Local Governmental Employees' Retirement System, who has not elected to enroll in the Retirees' Contributory Death Benefit Plan when first eligible, can do so from February 1, 2008, through May 31, 2008. However, the rates

EMPLOYEE HEALTH BENEFIT COVERAGE SUPPORTED BY THE STATE

A. Health Benefit Plan for Employees, Retired Employees, and their Eligible Dependents

The State operates a self-funded health benefit plan comprised of an Indemnity plan and a Preferred Provider Option (PPO). The Teachers' and State Employees' Comprehensive Major Medical Plan administers health benefit coverage for active employees of State agencies and departments, universities, local public schools, and local community college institutions. Eligible retired employees formerly employed by these entities are also eligible for 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. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the State Retirement Systems' for retired employees, and (3) by employees and retirees who elect dependent coverage. As of November 2007 the Plan's enrollment totaled approximately 644,000 members.

For the fiscal year ending June 30, 2007, the Plan started its operations with a beginning cash balance of \$245.999 million. Receipts for the year were \$1.971 billion from premium collections, \$39.726 million from Medicare Part D subsidies, and \$12.248 million from investment earnings for a total of \$2.023 billion in receipt income for the year. Disbursements from the Plan were \$1.999 billion in claim payments and \$113.434 million in administration and claims processing expenses for a total of \$2.112 billion for the 2006-2007 fiscal year. The Plan's net operating loss totaled \$89.293 million for the same fiscal year. Thus, the Plan's available beginning cash balance for the subsequent fiscal year beginning July 1, 2007 is \$156.705 million.

B. Plan's Financial Condition

The Plan was not expected to be able to finance its operations for the 2007-2009 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. According to available information from the Executive Administrator of the Plan, the Plan's self-insured Indemnity program and Preferred Provider Options (PPO) required over \$547 million in additional financial support to remain solvent and maintain minimum claim stabilization reserves for the 2007-2009 biennium.

C. Changes in State Health Plan Financing, Benefits, and Other Purposes

Net additional financial support needed for the Plan could have come from additional premium income, additional sources of income, a reduction in payments to health care providers, a reduction in benefits provided to plan or from a combination of these avenues. Summarized in the table below and subsequent categorical descriptions are the legislative actions taken by the 2007 General Assembly, as incorporated in Sections 28.22, 28.22A, and 28.23 of Session Law 2007-323 (Appropriations Act), and the expected actions of the Plan's Executive Administrator to provide the required additional financial support to fund the Plan for the 2007-2009 biennium:

1. An increase in the outpatient prescription drug co-payment for plan members enrolled in the Indemnity plan and the PPO programs; for each 34-day supply of preferred brand outpatient prescription drug the co-payment increased from \$25 to \$30;
2. An increase in the Indemnity plan's maximum plan member 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. An increase in the Indemnity plan's out-of-pocket expenditures for plan members by increasing the office visit co-payment from \$15 to \$25 per visit.

No benefit reductions to non-drug related medical benefits were made for the PPO programs by the General Assembly.

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 were projected to be \$19.1 million for the 2007-2009 biennium.

1. Require the Plan to provide benefit coverage for mental illness and substance abuse treatments under the PPO programs on a parity basis with benefits provided for physical illnesses.
2. Require the Plan to remove limits on the number of annual visits for necessary physical therapy, occupational therapy, and speech therapy a plan member may require. The removal of this limitation expires June 30, 2009.

No benefit enhancements were made for the Indemnity plan by the General Assembly.

Eliminate Indemnity Plan as a Plan Member Option

Upon the recommendation of the Plan's Executive Administrator, the General Assembly eliminated the Indemnity plan as a benefit option for plan members beginning July 1, 2008. The Executive Administrator's projected savings from eliminating the Indemnity plan is \$75.8 million in the 2008-2009 fiscal year.

Executive Administrator's Actions to Further Reduce Funding Requirements

The Plan's Executive Administrator promised to reduce outpatient prescription drug costs for the biennium through ongoing negotiations with the Plan's Pharmacy Benefit Manager to increase discounts off of average wholesale price, creation of a specialty pharmacy network, increased discounts for generic drugs, and lower administrative costs. The projected savings are expected to be \$56.0 million over the biennium (\$26.0 million in the 2007-2008 fiscal year and \$30 million in the 2008-2009 fiscal year).

and Lake Lure, and the counties of Beaufort, Bladen, Washington, and Rutherford participate as local government based employing units under the Plan.

Session Law 2007-464 provides 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.

Session Law 2007-532 generally establishes a high-risk pool to offer insured health benefit coverage to eligible citizens of the State who presumably otherwise cannot secure affordable coverage by other means. The enacted legislation authorizes the Pool to charge the Plan a financial assessment based on the yearly 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 to the high-risk pool is to be used towards the operations of the pool.

Session Law 2007-133 requires the Plan to waive during a declared state of emergency or proclaimed disaster by the Governor, practices that restrict a covered person under a benefit plan from refilling a prescription prior to when normally 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 enacted 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 re-filled within in a period 29 or days or less from the declaration of an emergency or disaster.

D. Changes in Plan Administration

As authorized by the General Assembly in Section 28.22A of Session Law 2007-323 (Appropriations Act), effective July 1, 2008 the formal name of the Plan will change to the “State Health Plan for Teachers and State Employees” from the “Teachers’ and State Employees’ Comprehensive Major Medical Plan.”

V. Retiree Health Benefit Premium Financing

The General Assembly requires employing state agencies and departments, universities, local public schools, and local community college institutions to pay a percent based payroll contribution surcharge to the Retirement Systems Division of the Department of State Treasurer. These funds are deposited by the State Treasurer to a trust fund entitled the Retiree Health Benefit Fund. Contributions to the Fund are then used to support payment of health benefit premiums charged by the Teachers’ and State Employees’ Comprehensive Major Medical Plan for providing health benefit coverage to current retired employees and state employees expected to retire in the future.

with investment returns would be available to pay future benefit costs as they come due. If the State chooses not to pre-fund these future costs, then the expense accrues as an unfunded liability.

The sum of these normal and unfunded liability costs would require annual outlays for retired employee health benefit coverage to increase from the current pay-as-you-go amount of \$476.8 million per year to nearly \$1.7 billion per year on an actuarial and accrual accounting basis (as of December 31, 2005).

The General Assembly took a neutral position during the 2007 Session with regard to possible funding and benefit changes for retired employee health benefits until further study can be done with respect to how to best address this liability over future years. If these projected expenses are fully funded, there may be an immediate negative impact to the State's other budget priorities. If not funded, then the current unfunded liability will continue to grow possibly adversely affecting bond rating agencies' views of the State's creditworthiness over time.

Establish Committee on Actuarial Valuation of Retired Employees' Health Benefits

The General Assembly enacted Session Law 2007-467 to establish 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.

**ACROSS-THE-BOARD SALARY COST
FOR EACH 1% INCREASE (MILLIONS)**

YEAR	GENERAL FUND	HIGHWAY FUND
1971-72	8.40	\$1.17
1972-73	8.43	1.17
1973-74	10.13	1.35
1974-75	12.27	1.51
1975-76	No Increase Granted	
1976-77	13.91	1.73
1977-78	15.79	1.84
1978-79	17.44	2.01
1979-80	18.86	2.13
1980-81	21.29	2.26
1981-82	25.14 ^a	2.51 ^a
1982-83	No Increase Granted	
1983-84	25.97	2.57
1984-85	27.60	2.70
1985-86	32.10	2.50
1986-87	36.45	2.66
1987-88	40.84 ^b	2.72
1988-89	45.40	2.93
1989-90	47.75	2.93
1990-91	55.90	3.35
1991-92	No Increase Granted	
1992-93	54.11	3.39
1993-94	55.75	3.48
1994-95	58.28	3.64
1995-96	63.56	3.96
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 ^c	4.19
2003-04	91.35 ^d	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

- ^a Figure reflects annual cost, even though the increase was not effective until January 1, 1982.
- ^b Figure does not reflect adjustment to offset anticipated savings from the tax sheltering of employee Health Benefits from Social Security tax.
- ^c No across-the-board salary increases were funded by the General Assembly for employees in the 2002-03 fiscal year except for the salary step increases funded for teachers and school-based administrators.
- ^d No across-the-board salary increases were funded by the General Assembly for employees in the 2003-2004 fiscal year 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.

LEGISLATIVE INCREASES (Continued)

YEAR	STATE EMPLOYEES	TEACHERS
1990-91	4% + 2% merit funds	6.15% average
1991-92	-0-	-0-
1992-93	\$522	2% average
1993-94	2% + 1% one-time bonus payment	3% average
1994-95	4% + 1% one-time bonus payment	5% - 1-3 years 7% - 4-29 years
1995-96	2%	2%
1996-97	2.50% COLA + 2% career growth	5.50%
1997-98 ^c	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 a \$1,000 or 2.5% across-the-board increase	1.41% to 5.90% (2.5% average)
2005-06	Greater of a \$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)

^a Salary increment program frozen

^b Conditional upon continuous employment for one year

^c Most teachers received between 4%-9%. Teachers receiving National Board of Professional Teaching Standards (NBPTS) certification were eligible for larger increases.

REVENUE & FEE BILLS

Bills Affecting General Fund Revenues

S.L. 2007-323 (HB 1473) Appropriations Act (Finance Provisions Only)

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%, with the Secretary of Revenue remitting the additional tax to the University Cancer Research Fund ("Fund"), which is established by the act's provisions adding G.S. 116-29.1 to the General Statutes. 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. A wholesale or retail dealer of tobacco products other than cigarettes with an inventory of these products as of the effective date are required to file a report of the inventory within 20 days of the effective date with the Secretary and pay the additional tax on the inventory.

Fiscal Research estimates the following revenue increase related to the OTP tax increase:

FY 2007-08	\$11,400,000
FY 2008-09	\$16,500,000
FY 2009-10	\$17,000,000
FY 2010-11	\$17,500,000
FY 2011-12	\$18,100,000

Part 31, TAX LAW CHANGES

Section 31.1 IRC UPDATE

North Carolina's income tax law tracks many provisions of the Internal Revenue Code by reference to the Code as of a certain date. Under the North Carolina Constitution the State cannot automatically update the reference to the Code. Thus legislation is introduced each year to update the reference to the IRC. This section changes the Internal Revenue Code reference date to January 1, 2007. The language below describes the federal changes that will have a significant impact on State revenues.

•**Passive income of minors.** Special rules apply to the unearned income of a child who is under age 14. The "kiddie tax," is applied if the child has not reached the age of 14 by the close of the taxable year; the child's unearned income was more than \$1,700; and the child is required to file a return for the year. The tax applies regardless of whether the child may be claimed as a dependent on the parent's return. For children under age 14, unearned income is taxed at the parent's rate if the parent's rate is higher than the child's rate. The remainder of a child's taxable income is taxed at the child's rates, regardless of whether the tax applies to the child.

The federal change expands the rule to include all minors under the age 18 in the "kiddie tax." There is an exception for distributions from certain qualified disability trusts. The minor child tax does not apply to a child who is married and files a joint tax return.

This provision applies to tax years beginning after December 31, 2005.

•**Increased expensing for small businesses.** Prior to 2004 small businesses were eligible to expense up to \$25,000 of the cost of qualifying property placed in service for the taxable year in lieu of depreciating the cost over a number of years. Qualifying property is defined as

The bill conforms State tax law to the federal change providing that individuals 70 ½ or older can now distribute up to \$100,000 per taxable year from their IRAs to charitable institutions without recognizing the income. The distribution must be made directly to the charitable organization from the trustee. This distribution counts towards the required minimum distribution.

The provision is effective for distributions made after December 31, 2005 and before January 1, 2008.

•**Charitable contributions of clothing and household items.** The charitable deduction of noncash property is generally the property's fair market value. For contributed items used in a manner unrelated to the donee's exempt purpose, the deduction is generally the donor's basis in the item. For donations of clothing and household items with a value of less than the original basis, most taxpayers deduct the fair market value of the item.

The federal change provides that contributions of clothing or household goods are limited to items that are in "good" used conditions or better unless the deduction for a single item exceeds \$500 and the taxpayer includes a qualified appraisal.

This provision applies to contributions made after August 17, 2006.

•**Charitable deduction for contribution of food inventories.** A taxpayer's deduction for charitable contributions of inventory is generally limited to the lesser of the taxpayer's basis in the inventory (usually cost) or the fair market value of the inventory. For certain contributions of inventory, a C corporation may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half on the item's appreciation; or (2) two times basis. To be eligible for the enhanced deduction, the contributed property must generally be inventory of the corporation, contributed to a charitable organization described in section 501(c)(3) of the Code, and the donee must: (1) use the property consistent with the donee's exempt purpose only for the care of the ill, the needy, or infants; (2) not transfer the property in exchange for money, other property, or services; and (3) provide the taxpayer with a written statement attesting to the proper use of the property.

The new federal rules allow the enhanced deduction to any taxpayer engaged in a trade or business that makes a donation of food inventory. For taxpayers other than C corporations, the total deduction for contributions of food inventory may not exceed 10% of the taxpayer's income from all business entities from which a contribution of food inventory is made. The enhanced deduction is available only for food that qualifies as "apparently wholesome food," – food intended for human consumption that meets all quality and labeling standards imposed by federal, state, and local laws even though the food may not be readily marketable for any number of reasons.

This provision is effective for contributions made beginning January 1, 2006 and ending December 31, 2007.

•**Deduction for higher education expenses.** Under prior law, individuals were allowed a deduction for qualified tuition and related expenses for higher education paid by the individual during the taxable year. The maximum deduction is \$4,000 for an individual whose adjusted gross income for the taxable year does not exceed \$65,000 (\$130,000 in the case of a joint return), or \$42,000 for other individuals whose adjusted gross income does not exceed \$80,000 (\$160,000 in the case of a joint return). This deduction had a December 31, 2005 sunset for most taxpayers.

This provision extends the deduction to property placed in service beginning January 1, 2008 and ending December 31, 2008.

•**Contribution limits for Health Savings Accounts.** Under current law individuals with a high deductible health plan may establish health savings accounts ("HSA") for the payment of current and future medical costs. Contributions to HSAs made by or on behalf of an individual are deductible by the individual. The contributions are limited to the lesser of: (1) the annual deductible of the health plan; or (2) \$2,850 for individual coverage and \$5,650 for family coverage.

Under the new federal rules contributions are limited to \$2,850 for individual coverage and \$5,650 for family coverage. Thus, the limit tied to the annual deductible of the health plan is eliminated.

This provision is effective for taxable years beginning on or after January 1, 2007.

INTERNAL REVENUE CODE UPDATE						
ESTIMATED GENERAL FUND REVENUE IMPACT (\$MILL.)						
Provision	Recurring?	2007-08	2008-09	2009-10	2010-11	2011-12
Tax Increase Prevention and Reconciliation Act						
Extension of taxation of passive income minors	Yes	1.7	1.8	1.8	1.9	1.9
Increased expensing for small businesses	No	-35.8	-27.9	-8.5	11.4	25.7
Increased income limit for conversion of traditional IRA's to Roth IRA's	Yes	0.0	-1.3	-2.5	-21.9	?
Pension Protection Act 2006						
IRA inflation indexing	Yes	0.0	-0.4	-0.8	-0.9	-0.9
Health Insurance premiums for retired public safety officers	Yes	-2.0	-2.2	-2.5	-2.8	-3.1
Tax free IRA distributions to charities	No	-1.8	-0.8	-2	0.0	0.0
Charitable deductions for contribution of food inventories	No	-0.9	-0.7	0.0	0.0	0.0

FY 2010-11 \$312,600,000
FY 2011-12 \$326,700,000

Section 31.4 EARNED INCOME TAX CREDIT

Section 31.4 establishes a refundable State earned income tax credit. 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. Fiscal Research estimates that the earned income tax credit will reduce General Fund availability by \$48,300,000 in FY08-09.

The Internal Revenue Code provides an earned income tax credit for individuals who work and whose adjusted gross income does not exceed a specified amount. The credit is intended to offset some of the increases in living expenses and social security taxes and provide an incentive for low-income families to work instead of collect welfare. The amount of the credit may exceed the amount of tax owed by the taxpayer. If the credit allowed exceeds the amount of tax imposed, the excess is refundable to the taxpayer.

To be eligible for the credit, an individual must meet the following requirements:

- Have a valid social security number.
- Have earned income from employment or self-employment.
- Be a U.S. citizen, a resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return.
- Can not be a qualifying child of another person.
- Have a qualifying child OR meet the following requirements:
 - Age 25 but under age 65 at the end of the year.
 - Live in the U.S. for more than half the year.

The amount of the federal credit varies depending upon whether the taxpayer has children and the amount of earned income the taxpayer has. The credit is phased out as the taxpayer's earned income rises. To qualify for the credit in 2006, an individual's earned income may not exceed \$38,348 for an individual who is married filing jointly with two or more qualifying children. The maximum federal credit amount allowed in 2006 is \$4,536 for an individual with two or more qualifying children; for North Carolina, the maximum credit amount would be approximately \$159. The maximum federal credit amount in 2006 for an individual with no children is \$412; for North Carolina the maximum credit amount would be approximately \$14. The earned income amounts and the credit amounts are indexed to inflation.

In the 2005 tax year, more than 22 million individuals received \$41.4 billion in the federal earned income tax credit. However, the IRS estimates that 20 to 25% of people who qualify for the credit do not claim it. To better ensure taxpayers in North Carolina receive the benefits of the earned income tax credit, Section 24.3 of this act does two things:

- It requires the Department of Revenue to include information on the earned income tax credit in its printed booklets for the individual income tax return.
- It requests that software companies producing computer programs for tax calculation in North Carolina design the programs to automatically compute an individual's eligibility for the State and federal credit.

Fiscal Research estimates the following reduction in tax revenue from this tax credit:

FY 2007-08 \$0
FY 2008-09 \$(48,300,000)
FY 2009-10 \$(48,700,000)

FY 2010-11 \$(7,500,000)

FY 2011-12 \$(7,700,000)

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 federal adoption tax credit amount may be up to \$10,960 per eligible child for the 2006 taxable year. The amount of the credit is reduced based upon the taxpayer's modified adjusted gross income. For the 2006 taxable year, the tax credit phase-out ranges from \$164,410 to \$204,410. Both the credit amount and the income phase-out ranges are indexed to inflation. The credit may not exceed the amount of tax owed by the taxpayer; however, like the federal tax credit, the State tax credit could 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. The Governor included this provision in his budget recommendations. Fiscal Research estimates that the credit will reduce General Fund availability by \$3,000,000 in FY07-08 and in FY08-09.

To be eligible for the federal adoption tax credit, a taxpayer must adopt an eligible child and pay qualified adoption expenses. An eligible child is a child 17 years of age or younger or a child of any age who is a U.S. citizen or resident alien and who is physically or mentally incapable of caring for himself or herself. Qualified adoption expenses are calculated by adding up all the expenses directly related to the adoption that are reasonable and necessary for the adoption and subtracting any amounts reimbursed or paid for by an employer, government agency, or other organization. Taxpayers who adopt a special needs child may claim the full amount of the credit without regard to the actual expenses paid.

The year a taxpayer can claim the credit depends on when the adoption was finalized and whether the adopted child is a U.S. citizen, resident alien, or a foreign national. If the child is a U.S. citizen or a resident alien, the adoption credit may be claimed for expenses incurred before the adoption is final in the year after the expenses are incurred; it may be claimed in the same year for expenses incurred in the year the adoption is final; and it may be claimed in the year the expenses are incurred if they are incurred in the year after the adoption is final. For a child who is a foreign national, the credit may be claimed in the year the adoption becomes final, or in the year the expenses are incurred if they are incurred in the year after the adoption becomes final. The dollar limit for a particular year must be reduced by the amount of qualifying expenses taken into account in previous years for the same adoption effort.

Fiscal Research estimates the following reduction in tax revenue from this tax credit:

FY 2007-08 \$(3,000,000)

FY 2008-09 \$(3,000,000)

FY 2009-10 \$(3,000,000)

FY 2010-11 \$(3,000,000)

FY 2011-12 \$(3,000,000)

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 and (2) the purchase must be of equipment or an attachment or repair part for equipment that is capitalized by the company for tax

The Article 3F R&D credits are just now beginning to be utilized. There appears to have been scant usage of the university credits in 2006. Because there may be longer start up times with university R&D projects, it is possible that university related credits will increase significantly over the next several years. This could mean the impact of this bill may be underestimated given the 25 percent increase in university R&D expense credits.

Fiscal Research estimates the following revenue impact from this section:

FY 2007-08	\$(400,000)
FY 2008-09	\$(800,000)
FY 2009-10	\$(1,200,000)
FY 2010-11	\$(1,200,000)
FY 2011-12	\$(1,200,000)

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 carryforward 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 carryforward period of 10 years. A taxpayer may not claim both credits with respect to the same facility.

Section 31.9 of the act modifies 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 non-enhanced 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.

Fiscal Research estimates the following revenue impact from this section:

FY 2007-08	\$(0)
FY 2008-09	\$(2,300,000)
FY 2009-10	\$(4,800,000)
FY 2010-11	\$(6,800,000)
FY 2011-12	\$(6,800,000)

Section 31.10 EXPAND SALES TAX REFUND FOR CERTAIN AIRCRAFT MANUFACTURERS

This section of the act expands the sales and use tax refund for qualifying aircraft manufacturers. This section became effective July 1, 2007, and applies to purchases made on or after that date.

The owner of an aircraft manufacturing industrial facility is allowed an annual refund of sales and use taxes, including those indirectly incurred, paid on qualified building materials and supplies,

To offset the additional costs assumed by the State with respect to Medicaid, the State would make an adjustment to the amount distributed from corporate income tax receipts under the Public School Building Capital Fund and would gradually assume one-half cent of local sales and use tax. The State would adjust the ADM funding formula for the Public School Building Capital Fund for fiscal year 2007-2008 only. If the State assumes more Medicaid payments for FY 07-08 than the county would receive from ADM funding, the amount of the allocation from the Public School Building Capital Fund is reduced by 60%. If the State assumes less Medicaid payments for FY 07-08 than the county would receive from ADM funding, the amount of the allocation from the Fund is reduced by 60% of the county's Medicaid payments assumed by the State for FY 07-08. Effective October 1, 2008, the State would begin assuming the third one-half cent local sales and use tax. The act repeals the per capita portion (¼-cent) of the local third one-half cent sales tax, effective October 1, 2008. It increases the State sales tax rate by 0.25 percentage points, effective October 1, 2008. Effective October 1, 2009, the act repeals the remaining one-quarter cent of the third one-half-cent local sales tax rate and increases the State sales tax rate by 0.25 percentage points

Effective October 1, 2009, the act changes the allocation of the second one-half cent local sales tax from per capita to point of collection. Beginning July 1, 2009, 1½% of the 2% local tax would be allocated on a point of collection basis and ½% would be allocated on a per capita basis.

The act includes two separate hold harmless provisions. First, counties are required to hold cities harmless with respect to the reduction in local sales and use tax. Second, the State is required to make hold harmless payments to counties to ensure that each county benefits by at least \$500,000 as a result of the provisions of this section. In paying this hold harmless amount, the Secretary estimates the repealed sales tax amount, the Medicaid expenditures, and the adjusted ADM payments to determine an estimated hold harmless payment for a county for a fiscal year. The State sends 90% of the estimated hold harmless payment to the county with the March distribution of the local government sales and use taxes. The remainder would be sent no later than August 15th after the Secretary determines the difference between the county's repealed sales tax amount and its hold harmless threshold for the year.

In order to lessen the impact on local school administrative units, 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 or to implement an approved local school technology plan. 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.

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.

deduction for its rental expenses and been able to receive the amount it deducted as tax-free income in the form of a dividend received.

In a mortgage REIT, a financial institution forms a REIT and transfers to the captive REIT mortgages or mortgage-backed securities originated by the financial institution. The interest income that would have accrued to the financial institution now accrues to the REIT. The REIT takes the dividend paid deduction when it distributes its income.

The Department of Revenue is aggressively pursuing the closure of this tax avoidance strategy. The Secretary of Revenue has the statutory authority to require a corporate taxpayer to file a consolidated return if the Secretary finds that a separate return filed by the taxpayer does not disclose the true earning on its business carried on in this State. The Secretary also has the authority to determine the net income of a corporate taxpayer properly attributable to this State if the Secretary has reason to believe the taxpayer's report does not do so. In most instances, this method of addressing a corporation's attempt to use a captive REIT to shift income between entities and avoid State taxes is arduous and litigious.

Section 31.18 provides another method to prevent this tax avoidance strategy. Effective for taxable years beginning on or after January 1, 2007, a captive REIT is not allowed to take the dividend paid deduction under State law. Instead, the captive REIT is subject to tax on those dividends and the entity that received the dividend from a captive REIT is allowed a dividend received deduction so that the dividend is not taxed twice.

A 'captive REIT' is defined as a REIT whose shares or certificates of beneficial interest are not regularly traded on an established securities market and are owned or controlled, at any time during the last half of the tax year, by a person that is subject to tax under this Part and is not one of the following:

- A REIT.
- A listed Australian property trust. A listed Australian property trust is Australia's version of a U.S. publicly traded REIT.

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.

The Department of Revenue estimates this section will have no impact on revenues.

Section 31.19 ENHANCE 529 PLAN INCOME TAX DEDUCTION

Revises the tax deduction created in S.L. 2006-221 for contributions made into North Carolina's National College Savings Program. This proposed committee substitute to House Bill 1016 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 2011 sunset for the deduction.

Under current law, taxpayers who made contributions into North Carolina's National College Savings Program during calendar year 2006 were eligible to deduct part or all of those contributions. For tax year 2006 and beyond, single filers are eligible to deduct up to \$2,000 in contributions, and married joint filers are eligible to deduct up to \$4,000 in contributions from their taxable income.

The increase in the allowable deductions for contributions made into the program will result in a slight negative fiscal impact. However, House Bill 1016 does not remove income limitations set

into the WOTC and extended the WOTC program for a two-year period, through December 31, 2007. The current credit applies only to new employees hired on or after January 1, 2007, and before January 1, 2008. The new employee must belong to one of the following nine target groups:

- A member of a family that is receiving or recently received Temporary Assistance to Needy Families (TANF) for at least 18 consecutive months ending on the hiring date.
- A member of a family that is receiving or recently received TANF benefits for any 9-month period during the 18-month period ending on the hiring date.
- An 18 to 39 year old member of a family that is receiving or recently received food stamps.
- An 18 to 24 year old resident of one of the federally designated Empowerment Zones (EZ), Enterprise Communities (EC), or Renewal Communities (RC).
- A 16 to 17 year old EZ/EC/RC resident hired between May 1 and September 15 as a Summer Youth Employee.
- A veteran who is a member of a family that is receiving or recently received Food Stamps.
- A Vocational Rehabilitation Referral who completed or is completing rehabilitation services from a State certified agency, an Employment Network, or the U.S. Department of Veterans Affairs.
- An ex-felon who has been convicted of a felony and has a hiring date which is not more than one year after the last date on which he was so convicted or released from prison.
- A recipient of Supplemental Security Income benefits.

A new adult employee must work a minimum of 120 or 400 hours and individuals hired as Summer Youth employees must work at least 90 days, between May 1 and September 15, before an employer is eligible to claim the credit. The credit may be as much as \$2,400 for each new adult hire, \$1,200 for each new Summer Youth hire, and \$9,000 for each new long-term family assistance recipient hired over a two-year period. To claim the credit, an employer must seek and receive certification from the IRS that the new employee qualifies the employer for the tax credit.

Fiscal Research estimates the following revenue impact for this act:

FY 2007-08	\$(3,000,000)
FY 2008-09	\$(3,000,000)
FY 2009-10	\$(3,000,000)
FY 2010-11	\$(3,000,000)
FY 2011-12	\$(3,000,000)

Section 31.22 DATACENTER SALES TAX EXEMPTION

This section makes certain datacenter purchases of machinery and equipment exempt from NC Sales tax and subject to the 1% privilege tax. The maximum tax is \$80 per taxable article.

The estimates assume that North Carolina will attract three \$300 million datacenters for FY 2007-08, and another \$300 million datacenter in both FY 2008-09 and FY 2009-10. These estimates were derived from the NC Department of Commerce based on industry research. No projects would be certain to occur.

be subject to the sales & use tax. It was also assumed that the construction cost would be divided evenly between the two years to construct the facility. Under these assumptions, the revenue loss in FY2007-2008 would be an estimated \$200,000 and \$300,000 in FY2008-09. After the construction phase, the revenue loss from the exemptions and refund are expected to be below \$100,000 per fiscal year.

Fiscal Research estimates this change will have the following impact on General Fund revenues:

FY 2007-08	\$(200,000)
FY 2008-09	\$(300,000)
FY 2009-10	\$(900,000)
FY 2010-11	\$(2,000,000)
FY 2011-12	\$(2,000,000)

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, firefighters and rescue squad workers 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.

In order to calculate the fiscal impact of HB109, the potential number of eligible firefighters and rescue squad workers affected was determined. Data provided by the NC Fireman's Association, and the NC Association of Rescue and EMS workers was the basis of this determination. According to the respective associations, there are approximately 38,500 volunteer firefighters, and 19,500 volunteer rescue squad and EMS workers.

To calculate the reduction in income tax revenues collected, it was assumed all volunteer workers would be eligible for the tax deduction. An additional assumption, based on NC Employment Security Commission salary data for firefighters and EMS workers, as well as the average state annual salary for all employees, is that the deduction applies to the 7 percent income tax rate. Moreover, since the \$250 tax deduction applies to each eligible taxpayer regardless of filing status, no adjustments were made based on the possible filing status of these workers.

Finally, it was assumed that the growth in firefighters and rescue squad workers would be the same as the expected growth in the state's overall non-farm employment as estimated by Moody's economy.com.

Fiscal Research estimates this change will have the following impact on General Fund revenues:

FY 2007-08	\$(1,000,000)
FY 2008-09	\$(1,000,000)
FY 2009-10	\$(1,000,000)
FY 2010-11	\$(1,000,000)
FY 2011-12	\$(1,000,000)

Commercial Fishing

Section 4 of the act revises the sales tax exemption for items sold for use in commercial fishing to insert references to holders of a commercial fishing license, a commercial shellfish license, and the operator of a for-hire boat. The reference to the operator of a for-hire boat is an addition to the statute, but it reflects the administrative practice of including this group in the commercial fishing group.

Clarifying and Technical Changes

Section 1 of the act updates the reference to the Streamlined Sales Tax Agreement to include the latest amendments, and Section 5 clarifies that anyone who relies on the taxing jurisdiction database developed by the Department to determine the rate of sales tax applicable in a jurisdiction is not liable for any tax underpayments attributable to reliance on that database.

Effective Date: October 1, 2007

Fiscal Impact: Fiscal research estimates this bill will have a minimal effect on revenues.

S.L. 2007-309 (HB 463) Conservation Tax Credit Modifications

Summary: The act does four things:

1. It equalizes the cap for the conservation tax credit for corporations and pass-through entities at \$500,000.
2. It requires a taxpayer claiming the credit to support the claim's represented value of the real property donation.
3. It narrows the conservation purposes which qualify property for the credit.
4. It provides that a married couple filing jointly are entitled to the same tax credit cap as two unrelated individuals making an equivalent donation of property.

Dollar limitation for pass-through entities. – The act equalizes the cap for the conservation tax credit for corporations and pass-through entities at \$500,000 by increasing the existing dollar limitation for pass-through entities from \$250,000 to \$500,000. The higher dollar limitation for a pass-through entity will provide a greater incentive for the multiple owners of a pass-through entity to donate property. Each individual who is an owner of a pass-through entity is allowed a credit equal to the owner's allocated share of the credit to which the pass-through entity is eligible, subject to the individual credit cap of \$250,000. When an owner's share of the pass-through entity's credit is limited due to the \$250,000 individual credit cap, the pass-through entity and its owners may not reallocate the unused credit among the other owners.

The dollar limitation for the initial credit in 1983 was \$5,000 for all taxpayers. In 1997, the General Assembly created two different caps: \$100,000 for individuals and \$250,000 for corporations. In the case of a pass-through entity, the dollar limitation applied to each individual member of the pass-through entity rather than to the pass-through entity itself. In 2001, the Revenue Laws Study Committee proposed that North Carolina begin applying dollar amount limitations of most tax credits to pass-through entities as a whole rather than as to each individual member. The bill enacted by the General Assembly, S.L. 2001-335, excluded the conservation tax credit from the general rule found in G.S. 105-269.15 and preserved the historic treatment of pass-through entities taking the tax credit by applying the cap only to the individual members of the pass-through entity. This exception for the conservation tax credit was originally set to expire

Fiscal Impact: The addition of baler twine to the list of exempt items for farmers is likely to result in a very small annual revenue loss. However, the Department of Revenue does not have any data on which to base an estimate of the actual impact of this change.

S.L. 2007-345(HB 714) Budget Technical Changes

Summary: This act makes several technical and clarifying changes to revenue provisions contained in the Current Operations and Capital Improvements Appropriations Act of 2007.

Effective Date: Except as otherwise provided, this act became effective when signed into law by the Governor on August 6, 2007.

Fiscal Impact: None

S.L. 2007-461(HB 1259) Historic Rehabilitation Tax Credit

Summary: 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.

Effective Date: January 1, 2008

Fiscal Impact: Based on data provided by the Department of Revenue, allowing pass-through entities to divide the credit among its members at its discretion had no significant, measurable impact on the total credits allowed. Under general law, a pass through entity must divide a tax credit among its owners in proportion to their ownership interests. The special allocation rules of this provision have the potential to allow the pass-through entity to more fully utilize the credit. The Department of Revenue only began recording individual income taxpayer historic rehabilitation credits as a separate item beginning in 2003. Based on this limited data on the special provision, it was not possible to discern any noticeable increase in credits taken. Therefore, the fiscal impact appears to have been limited and insignificant.

S.L. 2007-515(HB 1595) Economic Development Modifications

Summary: This act does the following:

1. It clarifies in the Local Development Act a local government's authority to acquire, construct, convey, or lease buildings for industrial or commercial use.
2. It clarifies certain criteria for urban progress zones. It also expands the urban progress zones to address districts that have experienced massive layoffs.
3. It allows more than one agrarian growth zone in a county.
4. 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.
5. It clarifies the effective date for tax credits available under the new Article 3J, Tax Credits for Growing Businesses.

- Effective October 1, 2007, reduces the rate from 2.6% 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 0.8%.
- Effective July 1, 2010, repeals the tax.

The general rate of tax on sales of electricity is 3%. Sales of electricity to an aluminum smelting facility are taxed at the rate of 1%, but this rate expires for sales made on or after October 1, 2007. Last session, in S.L. 2006-66, the tax on sales of electricity to manufacturing industries and manufacturing plants was reduced from 2.83% to 2.6%, effective July 1, 2007. This bill repeals the reduction enacted last session and replaces it with the 1.8% rate provided in this section of the bill. This rate applies to manufacturers and farmers. The rate is reduced to 1.4% effective July 1, 2008, 0.8% July 1, 2009 and eliminated effective July 1, 2010.

According to the Department of Revenue, the amount of tax collected in this category for FY 2005-06 was approximately \$32.1 million. The amount of tax collected for FY 2006-07 is projected to be \$32.9 million. The impact of phasing out the tax for future years is estimated by applying projected percentage changes in sales of electricity to the current amount of tax collected and prorating the amount of tax to account for the rate reduction.

According to the U.S. Energy Information Administration (EIA), sales of electricity in the industrial sector are projected to increase by 0.7% in FY 07-08. Similar increases are projected for the following four years. The projected percentage increase is applied for each year to project the amount of tax that would be exempted. This amount is then prorated by the percentage of the rate reduction for each year of the phase-out to determine the amount of sales tax on electricity that would be exempted under the bill.

Section 11 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 based on a tiered rate structure. Rates are lower for those consumers who use a greater volume. The NC Public Utilities Commission reported that the excise tax on piped natural gas sold to large industrial customers generated approximately \$18.6 million during FY 2005-06. A small additional amount of tax revenue is related to consumption by farmers. Natural gas providers were unable to provide an estimate for farming consumption, however, the amount of piped gas excise tax collected from farmers is expected to be less than \$1 million annually. Projections for future years are based on EIA estimates for sales of natural gas. The projected amounts are then prorated to reflect a four-year phase-out.

Of the total amount of the piped gas tax collected, half of the tax attributable to activity within municipal boundaries is distributed to municipalities. The percentage of overall piped gas collections distributed to municipalities is approximately 40%. This analysis assumes that manufacturing facilities are located within municipal boundaries to a greater extent than other piped natural gas consumers and uses 45% as the portion distributed to municipalities.

Section 12 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 from 1% to 0.7%, effective July 1, 2007, from 0.7% to 0.5%, effective July 1, 2008, from 0.5% to 0.3%, effective July 1, 2009; the tax is repealed effective July 1, 2010.

The tax credit in Section 13 is effective for taxable years beginning on or after January 1, 2008.

Fiscal Impact: Fiscal Research estimates the following decrease in revenues to the state:

FY 2007-08	\$(10,000,000)
FY 2008-09	\$(20,000,000)
FY 2009-10	\$(30,000,000)
FY 2010-11	\$(45,000,000)
FY 2011-12	\$(44,700,000)

S.L. 2007-250(SB 238) Modify Tax on Property Coverage Contracts

Summary: Senate Bill 238 establishes a revenue neutral rate of 0.74% for the combined statewide tax established under HB1891. The bill also reduces the percentage of collections going to the General Fund to allow additional funding for the Volunteer Fire Department Fund. The distribution established under HB 1891 for the tax is: General Fund - 55%; Firemen's Relief Fund - 25%; and Volunteer Fire Department Fund - 20%. SB 238 reduces the General Fund allocation by 10% and increases the Volunteer Fire Department Fund allocation by 10%. This bill also establishes the Senate Bill 238 distribution method for the portion of the tax that is distributed for the Firemen's Relief Fund. The new distribution method provides for each county to receive the same amount it received in the previous fiscal year as a base distribution. The incremental change in the total allocation for the relief fund would be distributed to each county based on population and distributed to fire districts within each county based on property values. 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.

Effective Date: January 1, 2008

Fiscal Impact: The revenue neutral rate in the bill is derived by dividing annual collections by the taxable premiums. Information on calendar year premiums for 2005 was available from the Department of Insurance. The NC Department of Revenue provided tax collections for the period of April 2005 through March 2006, the time period for which collections most closely correspond to 2005 premiums. The rate resulting from this calculation is 0.74%.

To determine the amount of revenue loss to the General Fund related to the change in percentage allocations, fire and lightning tax collections were projected for the next five fiscal years based on the relationship between gross premiums collections and North Carolina personal income, for which projections are available from Moody's Economy.com. Both the current and proposed allocation percentages are applied to the projected fiscal year collections. The differences between the current and proposed allocations represent the annual loss and gain for the General Fund and

Volunteer Fire Department Fund, respectively. Because the effective date is January 1, 2008, the impact for FY 2007-08 is partial. The new allocations would apply to installments made in April and June, which represent approximately 52% of fiscal year collections. Therefore, the General Fund revenue loss for FY 2007-08 was calculated by applying the new percentage allocation to 52% of the fiscal year revenue and applying the current allocation to the remaining portion.

Fiscal Research estimates the following decrease in revenues to the General Fund:

farmland by insulating it from the rising property tax values caused by competing market pressure to develop farmland for commercial and residential purposes.

Effective Date: Section 7.1 of this act becomes effective July 1, 2007. Sections 1.1 through 1.9 of this act are effective for taxes imposed for taxable years beginning on or after July 1, 2008. Section 4.1 through 4.4 of this act becomes effective January 1, 2008. The remainder of this act is effective when it becomes law.

Fiscal Impact: Section 1 of the act does not impact State revenues. No estimate is available for the impact on local revenues, since there is no available data regarding the acreage or value of working waterfront property.

S.L. 2007-368(SB 1240) Sales Tax Exemption on Baked Goods

Summary: The Streamlined Sales Tax Agreement (Agreement) requires member States to treat terms defined under the Agreement consistently. For items that are not defined, a State may enact entity-based exemptions, notwithstanding that the items might be included in a broader product definition under the Agreement

Prepared food, a defined term under the Agreement, is taxed at the combined State and local sales tax rate in North Carolina irrespective of whether it is intended for home consumption. If a baked good meets the definition of a prepared food, it is subject to the combined rate; if not, it is exempt from State tax and subject only to the local sales tax on food.

This act 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, which 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.

Effective Date: October 1, 2007

Fiscal Impact: The Department of Revenue is aware of two retailers that would be affected by this change, although it is possible that there are other, smaller firms engaged in the same line of business. The Department does not believe the impact of this exemption would be significant. However, due to the small number of taxpayers involved, the Department cannot provide any information on the amounts of tax paid by these taxpayers without violating confidentiality. For this reason, an estimate of the cost of this exemption is not available.

S.L. 2007-524(SB 1272) Motor Fuel Tax Exemption for Bio diesel

Summary: 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 base period or 3.5¢ per gallon. The wholesale component of the motor fuels tax rate is capped at 12.4¢ per gallon for the period July 1, 2007, through June 30, 2009, for a total rate of 29.9¢ per gallon.

The following are exempted from the excise tax:

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The following are exempted from the excise tax:

- Motor fuel in transport, if the fuel is transported by a licensed distributor or licensed exporter and the supplier of the fuel collects a tax on the fuel at the rate of the motor fuel's destination state.
- Motor fuel sold to the State, the federal government, a county, or a municipality for use by the unit of government.
- Motor fuel sold to local boards of education, charter schools, and community colleges for use by the schools.
- Diesel, in the form of kerosene, when sold to an airport.

Section 1 of this act creates an additional exemption for biodiesel that is produced by an individual for use in a private passenger vehicle that is registered in the individual's name. For the purpose of this article, 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.

Section 2 of this act directs the Revenue Laws Study Committee and the Joint Legislative Transportation Oversight Committee to study the issue of providing adequate funding for transportation infrastructure development and improvement. The Committees shall make a report on this issue, including any recommendations or legislative proposals, to the 2008 Regular Session, 2007 General Assembly.

Effective Date: October 1, 2007

Fiscal Impact: The fiscal impact of this bill is negligible.

Bills Affecting Special Revenue Funds

S.L. 2007-426(HB 649) Increase Fees/Landscape Contractors

Summary: House Bill 649 would allow the North Carolina Landscape Contractor's Registration Board to increase certain fees as well as introduce a new fee.

- Raise the landscape contractor examination fee from \$50-\$75
- Raise the annual renewal fee from \$50-\$75
- Raise the late filing fee from \$10-\$25
- Raise the fee for duplicate certificates from \$1-\$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.

per year in subsequent years if this bill becomes law. The chart below shows estimated fee revenues resulting from House Bill 1492.

House Bill 1492, Schedule of Proposed Fees				
	Registration Fee		Number of AAs	Total Fees by Type
	Maximum	Actual		
Initial registration	\$150	\$100	40	\$4,000
Annual registration	\$150	\$100	10	\$1,000

The following chart shows projected fee revenues for the NC Medical Board based on the actual fee amounts shown above. The projection assumes 10 new AA's will come to work in North Carolina each year. The base registration and annual growth rate are based on 2006 discussions with representation for the NC Society of Anesthesiologists.

House Bill 1492, Projected Fee Revenues by Fiscal Year					
	2007-08	2008-09	2009-10	2010-11	2011-12
Initial registration	40	10	10	10	10
Annual registration	0	40	50	60	70
Total registrations	40	50	60	70	80
Total fee revenues	\$ 4,000	\$ 5,000	\$ 6,000	\$ 7,000	\$ 8,000

S.L. 2007-55 (SB 658) Amend Bank and Trust Company Assessments

Summary: Senate Bill 658 amends how bank and trust companies fees are assessed based on cumulative assets.

- 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.

Effective Date: May 23, 2007

Fiscal Effect: The Office of the Commissioner of Banks, together with the North Carolina Banking Commission, is responsible for the chartering and regulation of North Carolina's state banks and trust companies, as well as registration/licensing of various financial institutions operating in North Carolina.

The current and proposed fee structure is as follows:

Asset Class (millions)	Current Fee	Proposed Fee
First 50	\$ 6,000	\$ 10,000
50-250	\$12 per \$100,000	\$14 per \$100,000
250-500	\$9 per \$100,000	\$11 per \$100,000
1,000-10,000	\$5 per 100,000	\$4 per \$100,000
10,000+	\$3 per \$100,000	\$2 per \$100,000

The increase of \$5 for late registrations is anticipated by the board to have a negligible impact on revenues due to its magnitude.

This bill also changes the fees charged educational programs that provide training related to pre-licensing and pre-certification. The fee for course approval increases from \$40 to \$100. The fee for renewal increases from \$20 to \$50 per course for renewal in certain instances and decreases from \$300 to \$50 in other instances. The Board has redesigned this fee structure to treat both instances equally in a means that will result in a revenue neutral manner.

Therefore the only change in anticipated revenue results from the \$25 increase in the renewal fee resulting in a \$100,000 per year net gain. This figure is expected to decline in subsequent years due to the increased educational requirements but Fiscal Research has no means of determining the magnitude of this decrease.

Bills Affecting Local Government Revenue

S.L. 2007-477 (HB 63) School Capital Leases

Summary: House Bill 63 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.

Effective Date: Effective for taxes imposed for taxable years beginning July 1, 2007.

Fiscal Impact: Effective for taxes imposed for taxable years beginning July 1, 2007.

2007-153 (SB 1472) Revised Distribution of Scrap Tire Disposal Tax

Summary: Senate Bill 1472 changes the distribution formula of the net proceeds from the Scrap Tire Disposal Tax. The bill would increase the percentage of net tax proceeds distributed to the Solid Waste Management Trust Fund from 5% to 8%, decrease the percentage distributed to the Scrap Tire Disposal Account from 27% to 22%, and increase the percentage distributed among the counties on a per capita basis from 68% to 70%.

Effective Date: July 1, 2007

Fiscal Impact: Fiscal Research estimates the following net increase to counties:

FY 2007-08	\$220,000
FY 2008-09	\$300,000
FY 2009-10	\$310,000
FY 2010-11	\$330,000
FY 2011-12	\$340,000

S.L. 2007-497(HB 1499) Property Tax and PUV Changes and Studies

This act provides the following residential property tax relief:

to the DMV. Persons buying vehicles from someone other than a dealer may also obtain the limited plate upon submitting an application for title and payment of registration fees. 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. Any funds remaining in the Account after the system is in operation will be distributed to the local governments on a pro rata basis.

Makes technical and conforming changes to the combined motor vehicle registration renewal and property tax collection system.

Effective Date: This act becomes effective July 1, 2010, or when the Division of Motor Vehicles and the Department of Revenue certify that the integrated computer system for registration renewal and property tax collection for motor vehicles is in operation, whichever occurs first.

Fiscal Impact:

Description	Local Government Impact
IT and Computer System Modifications	\$794,000 costs for 2009-2010
Limited Registration Plates / Temporary Stickers	\$854,545 costs for 2009-2010 \$854,545 costs for 2010-2011 \$854,545 costs for 2011-2012
Mailing notice of limited plate expiration date / Notice to renew	\$1,860,429 costs for 2009-2010 \$1,860,429 costs for 2010-2011 \$1,860,429 costs for 2011-2012.
Local Plate Agency Fee for Collecting Payment	No estimate available at this time
Other Costs associated with implementation of S.L. 2005-294 and HB1688	No estimate available at this time
New Positions	No estimate available at this time

The above costs will be covered through the Combined Motor Vehicle and Registration Account that local governments pay into, held within the State Treasurer's Office. These funds will not be utilized until the North Carolina Association of County Commissioners approves DMV's plan of expenses and the General Assembly appropriates the funds. This Account currently has approximately \$6 million for the program.

