



NCACC SENATE 2016-2017 PROPOSED STATE BUDGET SUMMARY
June 19, 2015

The N.C. Senate passed its budget for the 2016-2017 fiscal biennium on June 18. This version of the state's budget spends less than the House, putting more funds in reserve accounts. It also includes extensive policy modifications such as Medicaid Reform and tax changes that heavily affect counties.

The Senate continued the legislature's practice of appropriating \$100 million from the Education Lottery proceeds for school construction. An additional \$100,000 from the lottery funds a study of school construction needs in 50 low-wealth counties. The bill also increases the lottery's advertising budget from one percent of annual revenues to one and a half percent.

Legislators put half a billion dollars in the Savings Reserve Account (Rainy Day Fund) and \$155 million in the Repairs and Renovations Account to maintain state buildings. State employees do not get an across-the-board pay raise, but the Senate sets aside \$34 million in a reserve fund to provide salary adjustments for state positions where pay is below market value. It also gave teachers an average raise of four percent, focusing higher raises on starting teacher pay.

The Senate follows the Governor's request in creating new departments of Military and Veterans Affairs, and Information Technology. The state budget will now enter a negotiation phase between the House and Senate to come to agreement on vast differences. The entire Senate budget is available at the General Assembly's Web site.

Finance Changes

The Senate placed language comprising its finance plan, originally in a stand-alone bill, and placed it in the budget bill. It makes a number of wide-ranging changes to the state's tax code and economic incentive programs. Specifically, it adjusts the state's economic development incentives model, restructures how local sales taxes are distributed to counties, expands the sales tax base, dramatically reduces the amount of sales tax refunds that nonprofits can receive, and provides additional sales tax authority to most counties.

Most significant to counties is the change in the sales tax authority and distribution. The bill shifts the distribution of local sales taxes (Articles 39, 40 and 42) from 25% per capita/75% point of delivery to 80% per capita/20% point of delivery by Oct. 1, 2019. The legislation also grants counties the authority to levy two quarter-cent sales taxes that can be used for education, transportation or any general public use. A referendum is required for either sales tax, and a county may only levy one quarter-cent sales tax at a time. The local sales tax rate is capped at 2.5%, except for Durham and Orange counties, which are already at 2.75%. They are capped at 2.75%.

The bill expands the sales tax base to include more services, including veterinary services, pet grooming, advertising, and the services associated with the repair and maintenance of goods (such as cars and appliances). It also phases down the amount of sales tax refunds a nonprofit can receive from \$35 million to \$1 million over five years. This would generate additional sales tax revenues for the state and local governments, but negatively impact nonprofits. These combined changes are estimated to increase local sales tax revenues by \$49.7 million in 2015-16, and rise to \$162.4 million by 2019-20.

In terms of economic development, the legislation makes several modifications to the JDIG program, including extending its sunset to Jan. 1, 2018, creating a new Major Market Community for Wake, Mecklenburg and Durham counties, and requiring local government participation in development Tier 3. It also changes the match requirements for grants awarded from the Utility Fund to less prosperous areas.

Department of Health and Human Services

The Senate's proposed appropriations for the Dept. of Health and Human Services spends \$80,668,634 less in the first fiscal year or about 1.6% less than the FY 2014-15 budget.

The Senate's budget for the Dept. of Health and Human Services makes targeted increases in funding for some initiatives, and makes reductions in certain areas to help address Medicaid costs and transfer money to reserves. The special provisions contain significant policy changes including a Medicaid reform plan that would transition to a capitated model managed outside DHHS by a new Health Benefits Authority over two years. The Senate's proposal also phases out the state's Certificate of Public Advantage and Certificate of Need policies by 2019, increases autopsy and Medical Examiner fees for counties, transfers some funding for LME/MCOs to cash balances, and increases rates paid to Medicaid

providers. Anticipated growth in Medicaid (Medicaid rebase) is funded at \$311.7 million in year one and \$489 million in year two.

Increases autopsy fees paid by counties to \$2,800 and increases Medical Examiner fees to \$250. A corresponding special provision requires the Chief Medical Examiner to have at least two MEs in each county and clarifies training requirements for county MEs. Also, provides \$100,000 recurring in each year for county ME training.

Reduces funding to LME/MCO's by \$185,604,653 nonrecurring in each year. A corresponding special provision bases the reduction to each LME/MCO on the percentage of its single stream funding and directs them to fulfill service obligations with cash balances.

Transfers the state's Alcohol and Drug Abuse Treatment Center (ADATC) services from all existing centers to LME/MCOs and appropriates \$37 million to the LME/MCOs.

Provides \$4,927,500 nonrecurring for additional three-way psychiatric beds, adding 25 more community hospital beds. Also provides \$268,000 recurring and \$350,000 nonrecurring across both years to develop a mental health crisis bed registry.

\$2.5 million recurring in each year to local public health offices to improve birth outcomes. Eliminates the NC Health Net program and allocates half of the remaining funds to the Community Health Grants program increasing the grants by 42% to \$7.5 million.

Provides almost \$79 million recurring across the biennium to increase Medicaid provider rates paid to primary care physicians and obstetricians.

Sets the income eligibility rates for childcare subsidies, amends fee and co-payment policies, and provides that non-parent relative income is not subject to the calculation for childcare subsidies (NCACC legislative goal HH-12).

Continues funding for NCFAST and NTRACKS development, provides that NCFAST will not be used for child welfare case management, and appropriates an additional \$18.8 million in nonrecurring funds to purchase a new child welfare case management system. (NCACC legislative goal HH-12).

Does not transfer responsibility for nonemergency Medicaid transport to a third-party contractor (NCACC legislative goal HH-10).

Public Education

Proposed expenditures for Public Education (K-12) increase by \$120 million, or 1.5% over the 2014-15 authorized budget. The Community Colleges budget increases by \$2.5 million, or 0.2%. Affirming its

commitment to sustainable funding for teachers, the Senate uses only recurring general fund dollars, and no lottery dollars, to fund salaries for teachers and teacher assistants.

K-12

Funds revisions to tiers of the teachers' salary schedule; increases starting teacher pay from \$33,000 to \$35,000 a year; grants experience-based step increases for all teachers with less than 25 years' experience

Provides \$100 million in FY2015-16 and \$207 million in FY2016-17 to fully fund projected ADM (enrollment growth) of more than 35,000 additional students over the biennium

Adjusts low wealth supplemental allotment by \$10 million recurring to align funding availability with actual school district eligibility; funds the low-wealth allotment at \$205.5 million

Reduces funding for teacher assistant positions by \$57.5 million in FY 2015-16 and \$166 million recurring in FY2016-17; this reduction equates to more than 8500 teacher assistant positions

Provides \$273 million over the biennium to support 6,756 new teachers to reduce class size by 1 student per teacher in grades 1-3 in FY2015-16, and by 2 students per teacher in grades 1-3 and 1 student per teacher in kindergarten in FY2016-17

Appropriates \$29 million recurring for textbooks and digital resources

Provides \$2.5 million recurring for the ADM Contingency Reserve to offset potential startup operational costs for two virtual charter schools opening in FY2015-16

Authorizes local boards of education to adopt and implement a performance-based reduction in force policy with regard to teachers

Removes the \$65 cap on the amount a school board may charge students to participate in drivers' education courses and authorizes them to charge the actual cost of providing the course, which is approximately \$300

Codifies the *Leandro* decision and authorizes the State Board of Education to consolidate LEAs in contiguous counties to ensure that they have the size, expertise and resources necessary to provide students with the opportunity to receive a sound basic education

Amends the criteria and process for the State Board of Education to identify low performing schools and LEAs

Community Colleges

Reduces funds for enrollment growth by \$6.5 million based on a decline in enrollment

Allows Community College System to include curriculum courses contained in the Universal Education Articulation Agreement and taught at any time during the year to calculate enrollment, thus providing an additional \$2.9 million in FY2016-17

Establishes NC Works Career Coaches program which places community college-employed career coaches in high schools

Appropriates \$2 million recurring to offset a reduction in receipts by offering in-state tuition to qualifying nonresident veteran students; eliminates funding for Yellow Ribbon Program which leveraged federal dollars for the same purpose

Provides \$200,000 to the Community College System to study the feasibility of implementing a statewide driver education program delivered through the community colleges

Department of Commerce

Changes to the Department of Commerce budget include:

Increases the Jobs Maintenance and Capital Development Fund for payments for job retention to specific large employers/manufacturers by \$6.9 million in FY 2016 and \$8.5 million in 2017

Provides \$6.0 million over the biennium to the One NC Small Business Fund for small businesses that receive federal grants for technology.

Eliminates the Underserved & Limited Resource Communities Grant program.

Reduces \$390,000 of *recurring* funding for the Rural Economic Development Division grant programs but provides \$4.4 million of *nonrecurring* funds in FY 15-16 and FY 16-17.

Provides \$2.0 million in nonrecurring funds in the Main Street Solutions fund for reimbursable grants to local governments to assist planning agencies and small businesses who work to revitalize downtowns.

Department of Public Safety

The Department of Public Safety's projected expenditures increase by \$79,154,347, or 4.5% over the 2014-15 authorized budget.

Appropriates \$334K to replace SAFIS (Statewide Automated Fingerprint Identification System)

Funds 66 positions at Central Prison Mental Health Facility to open 72 additional beds and enable the unit to operate at full capacity

Establishes a mental health behavior treatment unit at Maury Correctional Facility and funds 29 diagnostic positions to enhance inmate mental health screening during intake

Provides \$22.5M recurring to the SMCP in response to a court order in Richmond County finding that court costs previously directed to the program should have been used to support public schools

Funds growth in the supervised offender population subject to electronic monitoring as a result of the Justice Reinvestment Act

Appropriates funds to the Broad Access for Community Treatment program to provide substance abuse treatment services for offenders at high risk for recidivism

Requires DPS to report to the General Assembly on the county inmates housed in state prisons pursuant to safekeeper orders; allows Sheriffs' Association to withhold funds owed to a county from the SMCP to offset delinquent safekeeper reimbursements owed by that county to DPS

Prohibits local law enforcement agencies from obtaining DNA analysis from a private laboratory that does not comply with CODIS (Combined DNA Index System)

Department of Transportation

The Senate's proposed appropriations for the Highway Trust Fund are \$155,836,860 more in the first fiscal year or about 13% greater than the FY 2014-15 budget. The Highway Fund includes \$76,744,542 or 3.9% more than the FY2014-15 budget.

The Senate's budget for the Dept. of Transportation provides for increases in DMV fees by 20-25 percent, eliminates transfers from motor fuel tax receipts, and sets aside additional funds for maintenance, bridge replacement and new construction projects.

Transitions existing perpetual License Plate Agency (LPA) contracts to eight year contracts with an optional two year renewal. This provision also increases the per-transaction cost counties pay to LPAs for participating in the Tag and Tax Together Program by three cents to \$1.30 in total.

The 44 full time positions created under the combined Tag and Tax Together Program are funded but expire June 30, 2017.

Appropriates \$181,803 recurring in each year to increase compensation rates and provide performance based incentives for LPA contractors under DMV's revised standard operating procedures.

Provisions in the Transportation and DENR budgets eliminate direct transfers from the motor fuel tax to environmental special funds such as dredging, and underground storage tank cleanup funds. These are backfilled with direct appropriations from the General Fund. Total transfers eliminated across all departments are more than \$200 million.

Department of Justice and the Judicial Branch

Expenditures for the Department of Justice are projected to increase by \$2.5 million, or 5.1% over the 2014-15 authorized budget. Appropriations for State court operations increase by \$12,263,153, or 2.6%.

Improves State Crime Lab efficiency by creating six new technician positions to assume non-scientific duties of forensic scientists, allowing them to focus on more complex evidence analysis

Appropriates \$750K in FY2015-16 for toxicology outsourcing by the State Crime Lab

Provides \$236K recurring to NC Justice Academy to develop curricula and provide appropriate use-of-force training for local law enforcement agencies

Increases operating funds for the State court system by \$3.3 million recurring

Provides \$567,236 to fund an electronic dismissal project within the State court system

Directs AOC to develop a strategic plan for designing and implementing its e-Courts Information Technology Initiative

Requires AOC, Indigent Defense Services and the Sheriffs' Association to study and determine whether savings can be realized by establishing an automated kiosk system in local confinement facilities to allow attorneys representing indigent clients to consult with them remotely

Provides \$19.6 million in recurring and one-time funding to support IT projects at AOC related to electronic court filing, citation processing and compliance

Department of Environment and Natural Resources

The Senate's proposed appropriations for the Dept. of Natural and Economic Resources spends \$48,477,592 less in the first fiscal year, or about 30% less than the FY 2014-15 budget.

The Senate's proposed appropriations for the Dept. of Cultural Resources spends \$69,070,226 more in the first fiscal year, or about 106% more than the FY 2014-15 budget.

The reduction in the Dept. of Environment and Natural Resources (DENR) and expansion in the Dept. Cultural Resources budgets are largely the result of transferring responsibility for museums, aquariums, the zoo and parks from DENR to the new Dept. of Natural and Cultural Resources. The Senate budget also expands funds for the Clean Water Management Trust Fund, appropriates additional resources for environmental buffers around military bases, and adds funds for dredging projects.

Provides an additional \$12,183,423 nonrecurring for shallow draft dredging and lake maintenance and \$1 million for a new deep draft dredging fund. A corresponding special provision establishes this new fund and gives DENR flexibility to waive local match requirements for dredging dollars in certain circumstances.

A special provision in the DENR section transitions landfill permits from 10-year permits with 5-year review periods to life-of-site permits. This section also increases fees for various landfill permits and directs a study of local government solid waste authorities.

Agriculture and Consumer Services

The Department of Agriculture and Consumer Services' recommended appropriations from the Senate decreases slightly by \$684,657 as compared to the FY 2014-2015.

Housing Finance Agency

Increases HFA budget by \$700,000 in the second year of the biennium to assist with development of low-income housing across the state.