



2016-2017 FINAL STATE BUDGET SUMMARY

July 6, 2016

The NC General Assembly finalized the 2016-2017 state budget on the last day of the legislative session, also the first day of the new fiscal year. Counties will benefit from the inclusion of \$40 million in additional funds for behavioral health initiatives, including recommendations from the Governor’s Task Force on Mental Health and Substance Abuse. Strong advocacy work by NCACC and member counties, including a letter of support from the association board, contributed to these recurring and non-recurring funds being included in the final budget.

The budget contains noticeably more earmarks than in recent history, not surprising in an election year with several tight statewide races. State employees receive a 1.5 percent salary increase and a .5 percent bonus, and the legislature set aside \$28 million for one-time merit bonuses (including a \$12 million shift of funds from a market adjustment reserve fund). While state retirees received an increase, local government retirees did not. The Emergency Response and Disaster Relief Fund (rainy day fund) grew by \$10 million.

Finance Provisions

The NC General Assembly again made significant changes to the state’s tax and revenue structure. They increased the standard deduction for personal income tax across all filing statuses, and shifted the basis for determining what portion of a multi-state company’s income is taxable in North Carolina. The shift in corporate taxation, over time, will focus the decision more on where customers are located than where the good or service is produced, or where the company has facilities. The bill also gives retailers a “good faith” exception to compliance with taxing the services, and expands special sales tax treatment to recyclers, metal fabricators and ports.

The budget also makes the following finance changes that directly impact local revenues:

- Eliminates the \$17.6 million state contribution to the local sales tax distribution, which was a part of last year’s sales tax distribution compromise and was designed to hold all counties harmless for the first year of the new plan; rationale for repeal was that the expanded base brought in more revenue than anticipated
- Expands the types of retailers that must levy the recently enacted sales tax on repair, maintenance and installation services
- Repeals the sales tax on automotive service contracts and limits the tax on the repair and maintenance of airplanes and boats
- Extends by five years a narrowly drawn property tax exclusion related to damaged land previously used for commerce or industry donated to a nonprofit



Health and Human Services

The General Assembly's adjustments to the Health and Human Services budget increase funding for mental health programs, fund programs and block grants tied to child welfare services, and increase funds for NCFAST development and implementation including childcare, child services and Medicaid Eligibility Requirement components. The adjusted HHS budget is just more than \$5 billion. This is less than the enacted biennial budget because of the Medicaid rebase, which reflects a reduction of more than \$310 million due to less-than-forecasted enrollment, utilization and pricing of Medicaid.

- Provides \$10 million recurring and \$10 million non-recurring in reserves to implement recommendations from the Governor's Mental Health and Substance Abuse Task Force; Prior to spending these funds, DHHS must obtain approval from OSBM on an implementation plan and report the plan to the Joint Legislative Oversight Committee on HHS and the Fiscal Research Division
- Directs \$18 million from the sale of the Dorothea Dix property for new or converted behavioral health beds in rural areas with the highest need, with \$2 million from the sale going to competitive grants for two new crisis centers for children
- Appropriates \$500,000 for an opioid use disorder treatment pilot program
- Directs DHHS to develop a plan to improve efficiency and effectiveness of mental health services, and directs the General Assembly to create subcommittees on Behavioral Health Services within the two interim oversight committees on HHS and Medicaid
- Appropriates \$300,000 to create seven new positions in DHHS to help counties improve Medicaid timeliness through data analysis, guidance and performance standard development
- Implements recommendations from a [legislative report on Medicaid eligibility timeliness](#); including a process for temporary assumption of Medicaid processing by DHHS if a county fails to meet timeliness goals as part of a 12-18 month joint corrective action plan
- Funds almost \$8.6 million to implement the requirements from a federal Program Improvement Plan to bring the state into compliance with national child welfare standards; directs the funds to child welfare and child protective services programs to meet findings of a [2014-15 child protective services evaluation](#) of county performance, caseload sizes, administrative structure, adequacy of funding, social worker turnover, monitoring and oversight
- Directs more than \$3.4 million from block grants to state and county child welfare initiatives, training and program improvements; provides more than \$700,000 to create 15 new positions in DHHS to provide training and oversight to counties in the development of child welfare services improvement plans
- Increases Work First County Block Grants by \$2 million and Social Services Block Grants for counties by \$107,259, redirects TANF block grants for the Pre-K and Child Care Subsidy programs in lieu of appropriations and reduces LIEAP block grants for county DSS Administration by \$352,637



- Appropriates just more than \$1.3 million recurring for 260 additional children in the Child Care Subsidy program;-directs a study of how childcare subsidy rates are set while increasing the childcare subsidy market rate for certain facilities serving ages 3-5 in tier 1 and 2 counties
- Appropriates \$14.8 million to local health departments to offset reduced Medicaid reimbursement rates on the delivery of direct patient services
- As part of a temporary \$34 per patient increase in payments, appropriates \$3.75 million non-recurring for facilities that serve recipients of State-County Special Assistance funds; directs counties to fund 50% of the costs to cover these patients and sunsets the entire provision no later than June 30, 2017

Public Education

The House's budget spends \$12.7 billion on Education, representing 57% of the General Fund Budget.

K-12:

- Funds salary and experience-based step increases for teachers to provide an average salary increase of 4.7%; increases the expected average salary for teachers from all fund sources to more than \$50,150 in FY 2016-17
- Appropriates \$1 million recurring and \$100,000 non-recurring for a 3-year pilot program to develop a model compensation structure that would allow classroom teachers to take on advanced teaching roles
- Funds a Teacher Assistants Tuition Reimbursement program to provide tuition assistance grants of up to \$4,500 annually for 25 teacher assistants working in Anson, Franklin, Moore, Richmond, and Scotland Counties who are pursuing a college degree that will result in teacher licensure
- Appropriates an additional \$46.8 million to account for a net ADM increase of 5,875 students
- Continues the fixed appropriation of \$100 million in lottery proceeds for school capital needs
- Budgets \$57 million recurring in additional lottery receipts to fully support non-instructional support personnel, for a total of \$372 million recurring in lottery funds for this allotment
- Directs legislative staff to contract for an independent assessment of school construction needs and to determine which LEAs have the highest facility needs in relation to their capacity to raise revenue
- Modifies small school system funds eligibility to provide that an LEA shall not become ineligible if either of the following would otherwise have made the LEA ineligible: the higher of the first two months (1) total projected ADM for the current year or (2) total prior year ADM
- Extends use of the motor vehicle registration late fee as a dedicated revenue source for driver education beyond fiscal 2017-18



- Reduces the percentage of teachers at a particular charter school that must reside within North Carolina to 80%; changes criteria that are used in measuring virtual charter school's withdrawal rate
- Modifies the overall school performance grade scale for the next three fiscal years from a 10-point to a 15-point scale
- Changes the funded class size allotment ratio for grades K-3

Community Colleges:

- Provides \$25,000 non-recurring to create a continuing education program in community colleges for finance officers in local governments and public authorities
- Appropriates funds for 3 positions and related software licenses to administer the Connect NC Bond program within the Community College System Office; the Community College System will receive \$350 million through the Connect NC Bond for facility construction and renovation
- Provides that the Career- and College-Ready Graduates program, which introduces college developmental mathematics, reading and English curriculums in the high school senior year, shall be fully implemented in all high schools statewide beginning with the 2018-19 school year.

Justice and Public Safety

Department of Public Safety

- Repeals the statute that transfers 5% of the Statewide Misdemeanant Confinement Fund annually to the NC Sheriffs Association and directs only \$1 million to the Sheriffs Association for its administration of the program
- Requires DPS to report annually on the status of programs funded through the Treatment for Effective Community Supervision Program; the report must include information regarding recidivism reduction services, community intervention centers, transitional and temporary housing, local reentry councils, and intensive outpatient services
- Provides \$507,784 non-recurring for the construction and development of first-generation School Risk Management Plans for public schools in accordance with G.S.115C-105.49
- Appropriates \$8 million for the purchase of a new plane for the SBI Airwing
- Funds Operation Medicine Drop, an SBI program that organizes events for citizens to bring unused medications to a central location for safe disposal

Justice

- Funds equipment and utilities to operate the new Western Crime Lab in Edneyville, scheduled to be completed in February 2017



- Provides additional funds for equipment needs at State Crime Lab facilities in Raleigh and Greensboro
- Appropriates an additional \$2 million non-recurring for the State Crime Lab to outsource toxicology and DNA cases
- Directs the Justice Academy to develop an online training course on the use of social media and make it available to law enforcement officers in the state

Judicial

- Provides funds to the Administrative Office of the Courts to digitize mental health records to facilitate clerks' compliance with the requirement to transmit judicial determinations as to certain disqualifiers for firearms permitting to the National Instant Criminal Background Check System (NICS) within 48 hours
- Restores assistant district attorney positions in District 9A (Caswell and Person), District 15B (Orange and Chatham), and District 20B (Union), which were eliminated as part of AOC's voluntary reduction in force program in FY 2011- 12
- Provides one additional district court judge in Districts 19A (Cabarrus) and 27B (Cleveland)

Environmental Quality

- Expands the use of funds for aquatic weed control projects to projects outside of lakes
- Appropriates almost \$18.8 million non-recurring in additional funds for water and wastewater infrastructure grants; designates some Division of Water Infrastructure funds to specific projects in counties and cities across the state
- Delays Jordan and Falls lakes nutrient management rules until at least 2019 and 2022 respectively; directs the Environmental Management Commission to review nutrient management rules in the lakes; provides \$500,000 annually to UNC-Chapel Hill to study strategies in the lakes during delay of rules
- Moves up the sunset of the Mercury Switch Removal program from December 31, 2017 to June 30, 2017; some funds from this program flow to counties to help with mercury recycling and management programs
- Restores \$16.2 million in recurring funding from motor fuels tax for the Commercial Leaking Underground Petroleum Storage Tank Program
- Appropriates almost \$6.3 million to DEQ for the state share of federal Water Resources Development Projects; local funds matching the state and federal share will total \$5.4 million
- Directs DEQ to consolidate data and studies on storm damage reduction and beach nourishment projects; directs the tax offices in Brunswick, New Hanover, Pender, Onslow, Carteret, Hyde, Dare, and Currituck counties to provide information from their records on property located inside and outside these counties and outside of the state



Agriculture and Consumer Services

- Provides \$1 million to the Agriculture and Farmland Preservation fund for military buffers
- Reduces funding for the Animal Shelter Support Program by \$100,000
- Removes the requirement that a non-profit under contract with a county to operate a spay/neuter clinic contract with a local veterinarian; expands the definition of “low-income person” eligible for pet spay/neuter assistance to include those who qualify for various public assistance programs
- Adds a position in the department’s Animal Welfare Section to provide voluntary consultation to public and private animal shelters
- Transfers remaining balance of swine waste fund to Department’s marketing division and appropriates \$500,000 in nonrecurring funding for marketing of North Carolina agricultural products abroad
- Provides \$250,000 in nonrecurring funds to make fresh fruits and vegetables available in food-deserts across the state; retailers receiving the funds must accept Supplemental Nutrition Assistance Program and Special Supplemental Nutrition Program for Women, Infants and Children benefits

Commerce

- Allows the department to use \$1.25 million in deobligated CDBG funds for the State Broadband Plan and requires the department to report on its broadband initiatives and use of funds by February 1, 2017
- Provides \$250,000 each from the Rural Economic Development Division for broadband projects in Cumberland and Stokes counties
- Would (?) transfer almost \$4.5 million in deobligated CDBG funds to the Dept. of Environmental Quality for water and sewer projects for public schools

Transportation

- Limits ferry tolls to four routes and prohibits the Board of Transportation from tolling any other route
- Establishes a reserve account for capital improvements to the ferry system; appropriates \$4 million recurring and \$6 million non-recurring to the account
- Increases recurring funding by \$2 million to the Rural Operating Assistance Program for public transit
- Increases the threshold for which construction projects are subject to bidding requirements from \$2.5 million to \$5 million



- Shifts the formula for the unpaved secondary road program to allocate 50 percent of the funds by statewide prioritization and 50 percent evenly among the 14 highway divisions
- Repeals the \$500,000 cap on transit projects from last year's budget; limits total state funding of a light rail project to 10 percent of the total project cost
- Makes permanent 44 time-limited positions in the Tag and Tax program paid for by local government fees to administer the program
- Authorizes \$7.5 million non-recurring funds for dredging approaches to state ports

Miscellaneous

- Adds three types of cancers to the list of diseases for which a firefighter is presumed to have been killed for purposes of death benefits
- \$500,000 for the Dept. of Information Technology to create a cybersecurity apprenticeship program for disabled veterans in the state with a competitive process to select five applicants in year one, with the option to expand the program beyond the current fiscal year
- Provides funds to make the NC Building Code fully online and searchable