

Memorandum

To: County Managers, Finance Officers, Budget Directors
From: Rebecca Troutman, Intergovernmental Relations Director
Date: July 1, 2010
Subject: County Analysis of N.C. Adopted 2010-11 Budget

General Assembly uses \$63 million in county lottery fund growth and county lottery funds for classroom teachers and college scholarships; allocates remaining lottery dollars on per pupil basis and allows counties to spend on classroom teachers; fully restores mental health funding cuts; requires online travel companies to remit sales and occupancy taxes on the full retail room price; recommends minor cuts to county budgets

For the first time in seven years, the General Assembly adopted a budget before the end of the current fiscal year when the Senate and House both gave final approval to the 2010-11 state budget on June 30. Governor Beverly Perdue signed it into law two hours after its ratification. **S897**, "Appropriations Act of 2010," reduces the second year of the biennium's budget by \$600 million to just shy of \$19 billion. No new revenue sources other than court fee increases are included, and the spending plan relies on an anticipated \$519 million in enhanced federal Medicaid dollars yet to be enacted by Congress.

The General Assembly uses all of the projected growth in lottery sales for classroom teachers and scholarships, reducing the county's statutory 40 percent set aside of net lottery receipts for school construction to 25.8 percent. Based on higher lottery sales projections, the 40 percent with its growth would exceed \$176.5 million; the General Assembly reduces the county appropriation in school construction lottery funds to \$113.7 million. A special provision allows counties to authorize their local school administrative units to use all or part of the remaining county school construction lottery funds for classroom teachers (current statutory language limits these funds to school capital facility expenditures). LEAs must request use of the funds for classroom teachers, and if a county did allow lottery proceeds for classroom teachers, these funds could not supplant existing local current expense funding and would not count toward the charter school current expense allocation. The budget changes the county-by-county allocation to a straight per pupil basis. With 2009-10 lottery sales greatly exceeding appropriated levels, nearly \$32 million in excess 2009-10 lottery revenues will go to those counties with effective tax rates below the statewide average. Any excess lottery revenues for 2010-11 above appropriated levels will be distributed to counties for school capital needs on a per pupil basis. The NCACC has posted the county-by-county estimates online at www.ncacc.org/documents/2010-11lotteryproceeds.pdf.

By using county lottery funds, the General Assembly leaves K-12's management flexibility cut at the \$305 million already budgeted for 2010-11. A special provision effectuates the Senate's proposal to permit LEAs to furlough school employees with salaries in excess of \$32,000 for a maximum of two days to manage the flexibility reduction (Sec. 29.1). The provision prevents counties that have LEAs that implement furloughs from supplanting existing local current expense funds and requires the LEA to hold a public hearing to disclose school finances before implementing the furlough. No furloughs are authorized for state employees outside of university personnel. State agency cuts are largely through line item reductions and the elimination of vacant positions.

S897 fully restores the \$40 million in state-funded community mental health services and adds \$9 million in additional investments in local in-patient bed capacity. Community colleges will receive \$33 million in new equipment investments per COPS funding.

Budget conferees agreed with the Senate's proposal to require online travel companies such as Expedia.com and Hotel.com to collect and remit state and local sales and local occupancy taxes on the retail price of room rentals (Sec. 31.6).

To offset state revenue declines, the budget redirects for one year the grant program funds for the scrap tire and white goods reserves to the general fund (Sec. 2.2). Direct county allocations from the scrap tire and white goods taxes continue as statutorily required. Local beer and wine revenues are fully restored.

The budget contains a contingency plan should the \$519 million in enhanced federal Medicaid funding not be realized by Jan. 1, 2011 (Sec.2.3). By order of priority (first taken, last restored), the state budget director will use disaster relief funds, unclaimed lottery prize money and excess receipts realized in 2009-10, other funds' interest, and the remaining General Fund availability. Next in line would be a reduction in Medicaid provider rates, use of some of the \$150 million in rainy day reserves, a reduction in the state's retirement contribution (\$139 million), and last but not least, a 1 percent across-the-board cut to state agencies (\$177.5 million).

Budget conferees compromised on the governor's request to return environmental health services, such as food, lodging and septic inspections, from DENR to DHHS's Division of Public Health by calling for a study on the merger of these services (Sec. 13.2). The budget rejects the governor's proposal to make the jail and detention inspections program receipts-supported, which would have charged counties a \$420 per facility plus a \$17.50 per bed fee, for a total statewide charge of \$417,533.

The budget includes no additional salary enhancements for teachers or state employees and rejects the governor's recommendation for four bonus vacation days for state employees. A special provision (Sec. 29.7) would allow local governments to supplement the salaries of non-elected judicial employees to "attract and retain the best qualified ... employees."

The revenue picture remains largely unchanged from April's revised consensus forecast between the General Assembly's Fiscal Research Division and the N.C. Office of State Budget and Management. Projected revenue growth contained in the second year of the biennium is lowered from 3.3 percent to 2.7 percent (historical growth averages nearly 6 percent). Baseline sales tax growth is reduced to a 1.5 percent increase, which is below the average growth rates but is a much welcome relief after two years of near double digit declines. The overall growth reduction, coupled with a lowered base going into the 2010-11 fiscal year, reduces revenue availability by roughly \$700 million.

The budget includes Governor Perdue's North Carolina Mobility Fund (Sec. 28.7), but does not recommend the fee increases to support transportation funding. It redirects remaining funds from the Turnpike Authority in 2010-11 to seed the fund, and like the governor, would gradually redirect the Highway Fund's transfer to the general fund. The Yadkin River Bridge would be the first project completed under the mobility fund concept.

Conferees accepted the House's proposal to create the Joint Broadband Task Force to investigate last mile broadband deployment and review the best way to address the lack of broadband access (Sec. 6.18). The NCACC would have a representative on the task force.

The following highlights those expansion and reduction items of interest to counties. Direct county impacts are set out in bold text.

Education

The budget largely eliminates the Senate's allotment cuts to public education, with a much-stated focus to preserve classroom funding, and \$10 million is made available to extend a diagnostic assessment pilot that would purchase hand-held devices for teachers to immediately provide student feedback on science and math skills. A special provision allows probationary teachers leaving via a reduction in force and rehired within three years to be given retirement credit for those three years (Sec. 7.14)

The budget fully funds the unprecedented 15 percent enrollment increase of more than 33,000 community college students, providing \$81 million in new state funds. The community college management flexibility reduction is increased by \$15 million. The budget accepts the governor's recommendations to increase community college tuition, albeit at a lower level of \$6.50 per credit hour, with a higher cost to out of state students. Universities would see a much lower reduction than that proposed by the House, with a \$70 million flexibility cut. Senate conferees also rejected the House's limit on university enrollment growth. The controversial in-state tuition monies for out-of-state scholarship athletes are eliminated, but other in-state tuition grants for out-of-state students receiving academic scholarships are retained.

Special provisions would require SBOE to consider LEA policies which contribute to increased segregation when approving disadvantaged student allotment spending (Sec. 7.23).

| Public School Reduction | Adopted |
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| <ul style="list-style-type: none"> Increase LEA flexibility adjustment | <ul style="list-style-type: none"> No additional increase; uses county lottery growth & some county lottery funds Allows furloughs for existing reduction |
| <ul style="list-style-type: none"> Reduce central office administration by 5% | <ul style="list-style-type: none"> (\$2.4 million): 2.2% reduction |
| <ul style="list-style-type: none"> Reduce assistant principal allotment from 1 to 800 adm to 1 to 863 | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Reduce instructional support personnel allotment by 2% | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Noninstructional | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> ADM & BRAC contingency reserve by 50% | <ul style="list-style-type: none"> (\$2.6 million) |
| <ul style="list-style-type: none"> Mentoring | <ul style="list-style-type: none"> (\$9.2 million) nr No funding for 2010-11 |
| <ul style="list-style-type: none"> Limited English proficiency | <ul style="list-style-type: none"> (\$4 million); 5% reduction |
| <ul style="list-style-type: none"> Exclude clerical and custodial personnel from at-risk allotment & budget actual SRO salary & benefits | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Eliminate disadvantaged student supplemental hold harmless in 16 original LEAs | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Maintain low wealth appropriation at 2009-10 level | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Eliminate small school reserve (does not impact small school allotment) | <ul style="list-style-type: none"> (\$2.4 million) |
| <ul style="list-style-type: none"> Reduce instructional supplies inflationary adjustment from 6 to 3% | <ul style="list-style-type: none"> (\$3.3 million); 3.5% reduction |
| <ul style="list-style-type: none"> Reduce child and family support teams to \$9.1 million | <ul style="list-style-type: none"> (\$2.5 million) |
| <ul style="list-style-type: none"> Eliminate supplementary breakfast for non-needy kindergarteners | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Delay 2010-11 school bus replacements for 1 year; maintain \$1 million for emergencies | <ul style="list-style-type: none"> (\$11.9 million nr) |

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| • Transportation | • (\$10 million); 2.4% reduction |
| • More at 4 | • (\$30.6 million replaced by block grant; nr) |
| • Reduce DPI funding and personnel | • (\$4.1 million) |
| • Increase support of NC Virtual Public Schools (online course offerings) | • (\$5.6 million); converts to allotment |
| Public School Expansion | Adopted |
| • Implement math & science electronic diagnostics in K-3, 5 to immediately address student deficiencies | • \$10 million to extend pilot |
| • Diagnostic tools to include language skills in grades 8 & 11 | • No additional monies |
| • Fund dropout prevention grants | • \$2.5 million nr |
| • Textbooks – funding eliminated entirely in 2009-10 action | |

*nr = non-recurring

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| Community College Reduction | Adopted |
| • Increase community college tuition | • (\$30 million); \$6.5 per credit hour |
| • increase flexibility reduction | • (\$15 million) |
| Community College Expansion | Adopted |
| • Fully fund enrollment increase | • \$81 million |
| • Increase recurring funding for equipment & technology needs | • \$33 million per COPS |
| • Restore prisoner community re-entry education at state correctional institutions only | • \$21 million • Excludes jails |

Community college special provisions permit greater spending flexibility to manage state funding cuts (Sec. 8.2) and includes Senate language requiring a minimum of \$50 million statewide to support students' services (Sec. 8.5).

Human Services

Budget conferees accept the Governor's recommendation to restructure Medicaid personal care services in a manner similar to that taken with the much-maligned community support services – eliminate current service definitions and create a new service class to focus on patients with the highest acuity needs (Sec. 10.35 (3a&b)). The budget does allow the expansion of the LME 1915 b/c waiver to two LMEs, but precludes any LMEs from joining Piedmont Behavioral under its current waiver and requires the study of the waiver's impacts on the developmentally disabled population and on ICF/MR facilities (Sec. 10.24). DHHS must evaluate LMEs under the waiver and fee for service with regards to hospital emergency visits and patient stays (Sec. 10.7B). Enhanced mental health services funded through Medicaid would be subject to an independent assessment by an Independent Assessment Entity (Sec. 10.36).

With an anticipated increase of 5.6 percent in Medicaid eligibles, state Medicaid costs are expected to increase \$431 million above estimated and budgeted increases for 2010-11, even when holding provider rates constant. The budget relies on \$482 million in additional federal Medicaid dollars under consideration by Congress, and \$79 million in federal drug savings. Medicaid fraud investigations, copayment charges, pharmacy improvements, managed-care programs and limited service reductions would be used to curtail Medicaid spending.

The current state budget reduces state funding for childhood immunizations, ending North Carolina's long-time practice of universally funding childhood vaccines. The 2010-11 budget eliminates all state funding of immunizations covered under private insurance, and calls on doctors and health departments to

bill for immunizations (Sec. 10.29A). The General Assembly does set aside \$3 million to stockpile vaccines for local health departments to help with transition issues.

A special provision would allow county managers who serve as members of their local management entities to continue service as long as their employment as county managers, with language stipulating that commissioners and managers continue at the pleasure of the initial appointing authority (Sec. 10.7). Another provision prevents DHHS from further reducing Johnston County’s LME administrative funding because of its catchment area population (Sec. 10.6A). The transition of state child support offices to the 28 counties would permit a transfer of equipment and furnishings free of charge to the counties (Sec. 10.46A). Conferees agreed with the House in rejecting the Senate’s plans to direct DHHS to develop a Dix hospital closure plan and close Dix by fiscal year’s end. DHHS can use over-realized receipts to expedite development of the NCFAST case management system (Sec. 10.16A).

County social services departments would continue to draw down a 5 percent allowance for administering child care subsidies (Sec. 10.5). The effective date for well testing is extended for two years, to October 2012 (Sec. 10.10A). DHHS is directed to study the effectiveness of the length of stay limitations on Level II, III and IV children (Sec. 10.35 (7) e.).

| Human Services Reduction | Adopted |
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| <ul style="list-style-type: none"> Implement childcare subsidy EBT payment system to reduce daycare fraud & administrative expenses; fiscal note recommends reducing county administration from 5 to 4% of subsidies but 5% only valid in 2009-10 | <ul style="list-style-type: none"> (\$6 million); sets admin at 5% of subsidy Replaces state child care subsidy (\$23.6 million) nr with TANF BG |
| <ul style="list-style-type: none"> Reduce Smart Start | <ul style="list-style-type: none"> (\$5 million) |
| <ul style="list-style-type: none"> Reduce state appropriations for immunizations | <ul style="list-style-type: none"> (\$15.9 million); eliminates all state approps for insured vaccines Provides \$3 million for stockpiling |
| <ul style="list-style-type: none"> Increase county participation in non-federal share of adult care home monitoring from a 40/10 to 25/25 | <ul style="list-style-type: none"> (\$525k cost to counties) |
| <ul style="list-style-type: none"> Eliminate child advocacy center funding | <ul style="list-style-type: none"> (\$375k) Replaces state funds with nr Social Services Block Grant |
| <ul style="list-style-type: none"> Shift permanency planning state match to counties (25% non-federal share) | <ul style="list-style-type: none"> (\$683k cost to counties) |
| <ul style="list-style-type: none"> Reduce block grant replacement funds & underspent adult care case funds to counties—continues 2009-10 in-year budget reduction reversion | <ul style="list-style-type: none"> (\$2.5 million funding reduction to counties) |
| <ul style="list-style-type: none"> Electing Counties | <ul style="list-style-type: none"> (\$2.4 million); replaces with TANF BG |
| <ul style="list-style-type: none"> Combine state county special assistance for the blind program with primary state county special assistance program & reduce state/county special assistance per 2009 rate reduction | <ul style="list-style-type: none"> (\$3.6 million) Similar cost reduction for counties |
| <ul style="list-style-type: none"> End school-based child & family teams pilot | <ul style="list-style-type: none"> No |
| <ul style="list-style-type: none"> Local health department accreditation | <ul style="list-style-type: none"> (\$325k) nr to complete pending |
| <ul style="list-style-type: none"> Make jails & detention inspections fee-supported | <ul style="list-style-type: none"> No |
| Medicaid Changes <ul style="list-style-type: none"> Rebase Medicaid to reflect higher eligibles; keep provider rates constant | <ul style="list-style-type: none"> \$430.6 million |

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| <ul style="list-style-type: none"> • Offset state costs with proposed enhanced FMAP for final 6 months • Apply ARRA reductions in drug payments • Continue Medicaid fraud activities • Implement CCNC chronic care management programs for aged, blind, and disabled statewide, mental health, & pharmacy • Expand 1915 b/c waiver to LMEs • Eliminate hospital “never events” (preventable medical problems), expand payment of employer-provided coverage of Medicaid eligibles, implement pharmacy improvements, implement independent assessments of high-cost services, restructure durable medical equipment coverage, limit private duty nursing, limit some surgical procedures • Increase copayments, including county health depts. • Eliminate maternal outreach workers in county health departments • Restructure personal care services • Restructure of mental health services thru rate & use management | <ul style="list-style-type: none"> • (\$481.6 million) nr • (\$79.4 million) nr • (\$40 million) • (\$45 million) • (\$1.6 million) • (\$39.1 million) • (\$2.6 million) • (\$293k reduction to counties) • (\$50.7 million) • (\$41 million) |
| Human Services Expansion | Adopted |
| <ul style="list-style-type: none"> • Expand Project CARE, a respite program for caregivers | <ul style="list-style-type: none"> • \$100k |
| <ul style="list-style-type: none"> • Continue & expand AIDS drug assistance program, to cover current and wait-listed clients | <ul style="list-style-type: none"> • \$14.2 |
| <ul style="list-style-type: none"> • Authorize via waiver Medicaid personal care services in adult care homes | <ul style="list-style-type: none"> • Special provision for waiver |
| <ul style="list-style-type: none"> • Increase Health choice funding | <ul style="list-style-type: none"> • \$6.5 million |
| <ul style="list-style-type: none"> • School nurses | <ul style="list-style-type: none"> • \$500k |
| Mental Health Changes | |
| <ul style="list-style-type: none"> • Convert Whitaker School to psych residential treatment facility | <ul style="list-style-type: none"> • (\$1.9 million) |
| <ul style="list-style-type: none"> • Increase local in-patient bed capacity | <ul style="list-style-type: none"> • \$9 million |
| <ul style="list-style-type: none"> • Restore state community service funding | <ul style="list-style-type: none"> • \$40 million |

Justice and Public Safety

JPS expansion items continue development and deployment of the CJ-LEADS information system that links disparate criminal justice IT databases into a more comprehensive record of criminal suspects and convicted felons and expansion of the VIPER 800 megahertz interoperable communications system to provide better technology and management tools to enhance public safety.

A special provision would limit payment of inmate medical care to 70 percent of the amount charged to other patients (Sec. 19.2), and directs the Legislative Research Commission to study the inmate medical cost issue (Sec. 19.8). The Department of Correction is directed to develop a plan for establishing a pilot program to privatize probation services (Sec. 19.2) and may establish a two-year reentry program pilot for selected inmates via a community-based residential facility (Sec. 19.7). The budget also charges the Sentencing Commission to study reclassifying all Class 3 misdemeanors as either Class 2 or infractions (Sec. 19.5).

| Justice and Public Safety Reduction | Adopted |
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| <ul style="list-style-type: none"> • AoC management flexibility reduction | <ul style="list-style-type: none"> • (\$3.4 million) • (\$3.3 million) nr • (\$4.1 million); Eliminates vacant positions, reduces operating |
| <ul style="list-style-type: none"> • Reduce inmate medical costs by 10%, via payment schedules, better utilization, lower drug costs, maximization of Medicaid | <ul style="list-style-type: none"> • (\$20.5 million) • SP limits payment to 70% of customary medical fees |
| <ul style="list-style-type: none"> • DoC reduction | <ul style="list-style-type: none"> • (\$22 million) • Lowered prison population |
| <ul style="list-style-type: none"> • Juvenile Justice Management flexibility | <ul style="list-style-type: none"> • (\$2.7 million) |
| <ul style="list-style-type: none"> • Reduce CJPP funding—normal carry forward funds | <ul style="list-style-type: none"> • (\$1.1 million) nr |
| Justice and Public Safety Expansion | Adopted |
| <ul style="list-style-type: none"> • Reestablishes work crews | <ul style="list-style-type: none"> • \$1.6 million |
| <ul style="list-style-type: none"> • Restore sentencing services program | <ul style="list-style-type: none"> • \$2.2 million |
| <ul style="list-style-type: none"> • Continue development & deployment of CJ-Leads | <ul style="list-style-type: none"> • \$8.4 million • \$500k nr |
| <ul style="list-style-type: none"> • Restore Samarkand youth development facility | <ul style="list-style-type: none"> • \$3.5 million |

Natural and Economic Resources

The budget provides some tax incentives small businesses, most notably a 25 percent credit for unemployment insurance contributions. The One NC Fund – for economic development incentives – would receive \$12.5 million.

A special provision transfers the spay/neuter program from DHHS to Agriculture. Agriculture would establish rules for funds disbursement, and counties would have to publish what proof would be needed to establish client eligibility for assistance (Sec. 11.4). The Sustainable Communities Task Force will identify federal funding and technical assistance opportunities and develop a local government sustainable practices scoring system to direct grant funding awards (Sec. 13.5). NCSU, A&T and UNC-Charlotte are directed to design and construct a prototype generator to capture ocean wave energy.

| Natural and Economic Resources Reduction | Adopted |
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| <ul style="list-style-type: none"> • Divert scrap tire grant funds | <ul style="list-style-type: none"> • (\$2.5 million loss in grants) |
| <ul style="list-style-type: none"> • Divert white goods grants funds | <ul style="list-style-type: none"> • (\$1.2 million loss in grants) |
| <ul style="list-style-type: none"> • Close Rose Hill ag lab | <ul style="list-style-type: none"> • (\$467k) |
| <ul style="list-style-type: none"> • Reduce environmental health funding to county health departments from \$6,000 per county to \$4,000 | <ul style="list-style-type: none"> • (\$200k) |
| <ul style="list-style-type: none"> • Eliminate local government aid for starting erosion & sedimentation control | <ul style="list-style-type: none"> • (\$101k) |
| <ul style="list-style-type: none"> • Reduce Ag cost share | <ul style="list-style-type: none"> • (\$212K) • Reduce by 5% |
| <ul style="list-style-type: none"> • Reduce conservation reserve enhancement program by 50% | <ul style="list-style-type: none"> • (\$290k) |
| <ul style="list-style-type: none"> • Reduce mosquito pest management by 50% & tick management by 33% | <ul style="list-style-type: none"> • (\$100k) |
| <ul style="list-style-type: none"> • Eliminates well driller's program | <ul style="list-style-type: none"> • No |
| Natural and Economic Resources Expansion | Adopted |
| <ul style="list-style-type: none"> • Fund 20 percent state match for federal wastewater and drinking water grant match requirements | <ul style="list-style-type: none"> • \$12.6 million nr |

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| • Ag. Development and Farmland Preservation Trust | • \$2 million nr |
| • Create Sustainable Communities | • \$250k nr |
| • Creates Mercury recycling program | • No |
| • Restores BRIDGE funding | • \$991k |
| • Increase funding for economic development regions | • \$2.5 million • \$2.5 million nr |
| • Provide funding for One NC fund • Fund small business innovation • Fund main street business improvements • Continue job maintenance & capital development fund • Increase Rural Center's building reuse & restoration funding • Energy research • Institute for Regenerative Medicine • Biofuels Center • Biotech Center | • \$12.5 million nr • \$1.5 million nr • \$1.5million nr • \$6.5 million nr • \$3.1 million nr • \$1 million nr • \$10 million r • \$5 million • \$5 million |

| General Government/Reserves Reduction | Adopted |
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| • Reduces State aid to Libraries | • No |
| • Fund Dept of Revenue Property Tax Division by property tax receipts | • (\$1.5 million) |
| • Reduce JDIG program to accommodate payment schedule | • (\$6.6 million) nr |
| General Government/Reserves /Transportation Expansion | Adopted |
| • Provide HAVA matching funds | • \$107k nr |
| • Provide .5% payback for furlough salary reduction in 2008-09 | • No |
| • Provide teachers with a 1-step salary increase; 1.83% increase on avg. | • No |
| • Provide additional funding for increased retirement contribution | • No |
| • Increases VIPER funding | • \$4.7 million nr |

Special tax provisions accept the Revenue Laws Study Commission's recommendations to modify the statutory sales and occupancy tax language to require online travel companies to collect sales and occupancy taxes on the retail room price and remit it to hotelier for state and local payment (Sec. 31.6). Admissions and amusements fees (Sec. 31.7) are also modernized, in part by excluding counties from levying a privilege license fee for live performances (current authority is very limited with little financial impact expected). Expanded debt collection activities subject all state tax refunds, including any corporate amounts, to the debt setoff program. A change in small business sales tax remittance for retailers remitting less than \$15,000 (now \$10,000) will push sales tax payments one month forward (Sec. 31.3).

Next up will be the budget technical corrections bill, to finalize the appropriations process for 2010-11.