

The North Carolina State Budget

Recommended Adjustments

2004-2005



Michael F. Easley
Governor

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2004-2005

Office of State Budget and Management
Office of the Governor
Raleigh, North Carolina

www.osbm.state.nc.us

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Preface

The North Carolina State Budget: Recommended Adjustments, 2004-2005 reflects the work of multiple people within the Office of State Budget and Management (OSBM), including budget administrators and analysts, economists, technical staff, and paraprofessionals. The OSBM team is listed below by administrative area.

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Introduction

The purpose of this document is to describe the Governor's recommended state budget adjustments for the second year of the 2003-05 biennium. These recommended changes are based on the certified budget for 2004-05 approved by the 2003 session of the General Assembly.

Recommendations for the General Fund, Highway Fund, and the Highway Trust Fund are included in the document, along with capital improvements, reserves, debt service, and other adjustments.

Items of change are described under one of three categories within a department/budget code or section: reductions, expansion, or technical/entitlement adjustments. "Reductions" denotes recommended decreases to budgets that support current operations, while "Expansion" denotes new programs, expansion of existing programs, and salary and benefit increases. "Technical/Entitlement Adjustments" is a category for describing other pertinent changes in school-age populations or Medicaid enrollments that necessitate a recommended change in the certified budget.

For each item of change that is described, there is a listing of the resulting fiscal change as well as the change in number of positions, when appropriate. Fiscal changes are categorized as "Requirements" or "Nonrecurring Requirements." They may also be categorized as "Receipts" or "Nonrecurring Receipts" to designate changes in departmental receipts. Always, "requirements" less "receipts" equals "appropriation."

A summary table for the revised recommended budget for 2004-05 is presented at the beginning of each department/budget code or section. In addition, there are summary tables for the items of change following each of the change types, i.e., reduction adjustments, expansion adjustments, and technical/entitlement adjustments. At the end of each department/budget code or section, there is a table that summarizes all recommended changes.

A summary of recommended adjustments by department/budget code for the entire state budget appears in Table 4, "Summary of the Governor's Recommended Changes to FY 2004-05 General Fund Budget," near the beginning of this publication.

Summary of the Revised State Budget for 2004-05

■ Overview of the Current Situation ■

North Carolina has received some great news recently as a result of our hard work. Our unemployment rate has fallen, and our net job growth is picking up. Therefore, through April 2004, revenues are ahead of forecast for the first time in several years. National observers have noted the state's conservative revenue forecast and aggressive confrontation of past budget problems as the primary reasons for its current stable position. Because of this discipline, North Carolina has been ranked among the top four states in the nation in fiscal management.

■ Summary of the 2004-05 Budget ■

The current stability, however, does not translate into a comprehensive solution of ongoing budget issues. The Governor's budget recommendations continue the principles that have gotten us to this position: budget discipline; investments in education, health, and public safety; and smart, targeted strategies to bring jobs and investment to our state. This budget holds spending increases below the Governor's cap on spending growth and contains no tax increases.

The Governor's recommended General Fund budget for FY 2004-05 is \$15,861.2 million, which represents a 5.5% increase over 2003-04 (excluding federal operating and capital funds).

Major Expansion Items

Jobs and Economic Development

Governor Easley proposes emergency 2003-04 appropriations to the One North Carolina Fund (\$20 million) and to the New and Expanding Industry Program (\$4.1 million). All funds in these programs have been committed, and there are immediate demands for the resources to bring jobs and investment to North Carolina.

The Governor's fiscal plan also provides over \$45 million in substantial tax relief to encourage job creation and investment. The Governor recommends an exemption from taxation of the first \$20,000 of corporate income by tax year 2005. This exemption will reduce revenues by \$32.9 million in 2004-05 and will eliminate the entire corporate income tax liability for a majority of corporations that currently pay the tax.

The Governor's plan will also reform the research and development (R & D) tax credit to allow all companies that perform R & D to take advantage of the credit and to target the benefit to North Carolina activity, especially for small companies, companies in rural areas, or companies cooperating with North Carolina universities. The Governor's plan also increases the cap on qualified business venture tax credits from \$6 to \$9 million in the 2004 tax year.

In addition, the Governor recommends conforming to federal tax changes to benefit military families and small businesses that are creating health savings accounts.

The Governor's budget also invests substantial resources in programs to support small and mid-sized businesses. Small Business Technology Development Centers (SBTDCs) will receive additional funds (\$1.6 million) to provide technical support and develop accelerator capacity. North Carolina State University's Manufacturing Extension Partnership, which has been devastated by federal budget cuts, will receive support for engineers to serve small and mid-sized manufacturers across the state. Community college worker training programs will receive increased funding with reduced restrictions in order to maximize benefits of the program (\$5.6 million). The Department of Commerce will expand its ServiCenter activities statewide and will include a Small Business Ombudsman. Businesses will improve their efficiency by having the ability to take advantage of a statewide express permitting program from the Department of Environment and Natural Resources, which has been piloted successfully in the Wilmington and Raleigh regions.

The budget also has new resources for emerging industries. The Biotechnology Center will receive an additional \$5 million to support operations across the state, invest in start-up companies, and carry out other recommendations of the recent biotechnology report. North Carolina State University and North Carolina Central University will receive operating money for their components of the Biotechnology Jobs Training Network. The Board of Science and Technology will begin work on plans regarding nanotechnology and homeland security clusters (\$0.3 million).

Education

Governor Easley's proposed budget for FY 2004-05 continues to make progress in education. The Governor's budget adjustments include full funding for public school Average Daily Membership increases (net \$19.4 million) as well as higher education enrollment increases, including the UNC system (\$64.7 million), private colleges and universities (\$2.6 million), and the community college system (\$20 million). In addition, funds are included to hire additional teachers to reduce class size in the third grade from one teacher per 22 students to one teacher per 18 pupils (\$50.5 million) and to support an additional 2,000 slots to prepare at-risk four-year-old children for success in school through the More at Four Program (\$9.1 million). The budget also provides funds for the annual step increase for public school teachers, plus an additional 0.5 percent (\$62.2 million), and for ABC bonuses earned in the 2003-04 school year (\$108 million).

Health and Human Services

The Governor's budget recommends additional funding for Health Choice (\$9.1 million), which will allow all eligible children to receive health care insurance. In addition, expansion funds are recommended for child care subsidies (\$12 million) that will prevent termination of services for children currently receiving service, additional monies for the Mental Health Trust Fund (\$5 million) to facilitate the progress toward mental health reform, and funds for the HIV AIDS Drug Assistance Program (\$4.2 million) to reduce the backlog of individuals qualifying for assistance. Finally, monies are provided to hire an additional 100 public school nurses (\$5 million) as well as to assist counties in finding permanent homes for children (\$5 million).

Courts and Public Safety

This budget provides funds to hire additional deputy clerk positions due to increased court system workload, to pay for court-ordered interpreter services, and to replace outdated trial court equipment (\$5.8 million). In addition, funds are provided to reduce the backlog of payments for private lawyers who represent indigent criminal defendants (\$13 million). Finally, additional funds are provided to

operate prisons coming on line (\$3.6 million), to support the Crime Victims' Compensation Program (\$1.2 million), to provide additional supervision and services to adjudicated juveniles (\$3.7 million), and to combat the illegal methamphetamine operations in North Carolina (\$0.7 million).

Employee Benefits

The Governor's budget provides over \$235 million in 2004-05 to support employee benefit programs. Specifically, it authorizes a 2.0 percent recurring pay increase, as well as an additional \$250 one-time compensation bonus, for state employees not included on the teacher salary schedule. In addition, this proposal recommends an additional 2.0 percent recurring increase for Community College System faculty and professional staff. The budget also provides \$15 million to repay funds withheld from the Retirement System in 2000-01 due to the budget crisis. Finally, the Governor's budget recommends a 2.0 percent cost-of-living adjustment for state government retirees.

Capital Improvements

The budget includes \$22.9 million to match federal and local funds for water resources development projects, \$15 million to support the development of the North Carolina Motor Sports Testing and Research Complex, \$4.7 million to construct electronic intrusion systems at several prison facilities, \$2.0 million to replace the crane rail system at the Port of Wilmington, \$3.5 million to match federal funds related to clean water projects, \$1.0 million to replace the Caldwell County armory, and \$0.3 million to expand the cemetery for veterans in Jacksonville.

Savings Reserve Account (Rainy Day Fund)

The Governor's budget also earmarks an additional \$105 million from General Fund availability in 2004-05 to the Savings Reserve Account (Rainy Day Fund), bringing the total to \$255 million.

Economic Outlook

■ Economic Outlook for the Nation for 2004-05 ■

Consumers have kept the economic expansion going by pushing the saving rate even lower. The Federal Reserve has encouraged the consumption binge with its low interest rates. As homeowners refinanced their mortgages, many of them withdrew equity. The spending financed by cashed-out equity showed up in consumption, but the cash did not count as income. The recent rise in mortgage rates has burst the refinancing bubble. The rise in payroll employment in March was, therefore, welcome news for an expansion at risk of fizzling out. Spending will continue to increase, but the growth will now be generated by rising incomes rather than onetime cash-outs or additional debt.

As the national economy starts to deliver favorable job news more consistently, the Federal Reserve will begin raising interest rates, and the longer-term rates will turn upwards in a more pronounced fashion. That means an environment where housing activity should moderate during 2004-05. Both single- and multifamily construction will pay for the boom years: the single-family market because too many renters have already become homeowners, and the multifamily market because vacancy rates are already at historical highs.

With the “bonus depreciation” provisions of the 2001 and 2003 tax bills set to expire at the end of 2004, an acceleration is expected in real spending on equipment and software in the fourth quarter, resulting in double-digit growth for 2004-05.

The growth in real federal government spending is expected to slow as congressional concerns about the federal deficit heighten. The budget crunch at the state and local government levels is easing. Operating budgets in the aggregate have returned to surplus. Tax and fee increases, together with the reappearance of capital gains and a gradual rise in wage and salary income, have sidestepped the need for more serious budget cuts. Going forward, growth of real purchases in the state and local sectors is expected to accelerate, as the rise in federal purchases slows.

■ Economic Outlook for North Carolina for 2004-05 ■

North Carolina’s economy is now on track to reestablish employment gains and overall economic growth in 2004-05. Nonfarm employment is forecast to rise by 1.7%, its best showing since 2000. The beleaguered manufacturing sector is one of the main reasons for the state economy’s recent malaise, and that will not change in 2004-05. Fortunately, the annual flood of manufacturing job losses will decrease from 6.3% and 5.5% in 2002-03 and 2003-04, respectively, to a slightly less painful 1.2% in 2004-05.

The services sectors, on the other hand, will continue strong recoveries, with professional and business services leading the way. Job growth in education and health and leisure services will be more modest, but still fairly strong. Trade, transportation, and utilities will be held back

by weakness in retail trade, but job gains will advance due to strength in transportation and warehousing. The construction and finance sectors will also contribute to an improved labor market in 2004-05.

A declining rate of unemployment bodes well for wage gains in 2004-05. The average nonfarm wage is forecast to grow by 4.0%. With employment and wages accelerating, total personal income in North Carolina will expand by an estimated 5.5%. This figure remains unchanged from the estimate used to project economic growth for 2004-05 in the budget enacted in June 2003.

Table 1
Economic Conditions, National and North Carolina

	Annual Rate of Change ¹		
	2002-03 Actual	2003-04 Projected	2004-05 Projected
National			
Real Gross Domestic Product	2.4%	5.4%	3.7%
Real Personal Consumption	2.5	4.5	2.8
Nonfarm Employment	-0.4	0.5	2.1
Unemployment Rate	5.9	5.8	5.5
Inflation (CPI)	2.2	1.9	1.2
Federal Funds Rate (percent)	1.4	1.0	1.6
North Carolina			
Industrial Production	-1.8%	3.3%	5.2%
Nonfarm Employment	-1.1	0.1	1.7
Manufacturing Employment	-6.3	-5.5	-1.2
Nonmanufacturing Employment	0.5	1.2	2.3
Total Personal Income	2.3	3.9	5.5
Housing Starts (thousands)	80.0	88.3	91.3

1. Federal funds rate and housing starts are expressed as a percent and a total number, respectively, while all other measures are expressed as an annual rate of change.

General Fund

■ Revenue ■

Revenue Forecast under Current Law

As the North Carolina economy steadily improved, General Fund tax revenue growth outperformed the authorized forecast during 2003-04. Over the first half of the year, consumers remained in a spending mood, pushing sales and use tax collections ahead of budget expectations. The third fiscal quarter was marked by strong corporate income tax net collections. April is the most anticipated month for General Fund tax revenue as individuals submit their final income tax returns. In marked contrast to recent experience, April 2004 saw a noticeable upturn in individual income tax final payments, eclipsing the budget estimate by \$64 million. By year-end 2003-04, it is currently projected that total General Fund revenue (including nontax receipts and transfers from the Highway Fund and Highway Trust Fund) will exceed the authorized budget by \$198.3 million.

The current North Carolina economic forecast continues to validate the baseline revenue growth rate of 5.5% that was assumed in the authorized budget for 2004-05. Recognizing the improved revenue situation for 2003-04, revenue availability for 2004-05 is therefore adjusted upward by \$200.0 million. Table 2 shows the projected General Fund net collections, adjusted for the recommended tax reductions discussed below.

Recommended Revenue Adjustments for 2004-05

Corporate Income Tax Reduction

The Governor proposes exempting the first \$10,000 in taxable income for corporate income taxpayers for the 2004 tax year and the first \$20,000 in taxable income for corporate income taxpayers for the 2005 tax year. This exemption will entirely eliminate the corporate tax liability for approximately half of corporate income taxpayers and will reduce the effective tax rate by more than one percent for eighty percent of corporate income taxpayers.

(2004-05 Fiscal Effect: -\$32.9 million in corporate income tax)

Sales Tax Exemption for Major Facilities

The Governor recommends a refund for the state and local sales tax paid on building materials, building supplies, fixtures, and equipment that become part of the real property of an eligible facility. For a facility to become eligible, the Secretary of Commerce must certify that the owner of the facility will invest at least \$100 million in constructing the facility within the state and must be primarily engaged in one of the following industries:

- Aircraft manufacturing
- Motor vehicle manufacturing
- Defense manufacturing
- Semiconductor manufacturing

This exemption already applies to bioprocessing and pharmaceutical manufacturing facilities through legislation approved by the General Assembly in December 2003.

(2004-05 Fiscal Effect: -\$1.8 million in sales and use tax)

Research and Development Tax Credit Reform

The Governor recommends removing the state research and development credit from the Bill Lee Act and allowing taxpayers the option of using the existing credit system (incremental credit or alternative credit) or a new restructured credit. The new credit is a flat rate for qualified North Carolina research expenses, based on federal definitions of this term.

The structure for the new credit is as follows:

- Small business (annual gross receipts below \$1 million): 3%
- Research conducted in Tier 1, 2, or 3: 3%
- Other research costs: 1% for expenses up to \$50 million, 2% for expenses between \$50 million and \$200 million, and 3% for expenses above \$200 million
- Research payments to North Carolina universities: additional credit of 15%

The credit provisions are effective for the 2004 tax year, except for the research payments to the state's universities, which begin in 2005.

(2004-05 Fiscal Effect: -\$11.6 million in corporate income tax)

Internal Revenue Code Conformity

Each year, the General Assembly updates the reference date for the Internal Revenue Code to conform the state's definition of taxable income as closely as possible with the federal definition. Since last session, Congress has enacted the Military Family Tax Relief Act of 2003 and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The Governor recommends conforming with the federal definition to allow state tax relief for travel expenses of National Guard and military reserve members traveling more than 100 miles from home, from capital gains on the sale of a home by a member of the uniformed and foreign services, and for Health Savings Accounts to benefit small businesses. Relief from other provisions is included, but expected to be of low cost.

(2004-05 Fiscal Effect: -\$1.8 million in individual income tax)

Qualified Business Venture Tax Credit

The Governor recommends increasing the cap on qualified business venture tax credits from \$6 million annually to \$9 million annually beginning in the 2004 tax year. The cap currently limits the amount of relief provided to investors who provide capital to new business ventures. Increasing the cap helps reduce the effect of that limit.

(2005-06 Fiscal Effect: -\$3.0 million in individual income tax)

Table 2
General Fund Revenue, 2002-03 to 2004-05^a

	2002-03 Actual	2003-04 Projected	2004-05 Projected
Tax Revenue			
Inheritance	\$112,504,407	\$116,940,000	\$116,390,000
Licenses	44,721,244	43,930,000	44,570,000
Cigarette	41,998,713	42,770,000	41,080,000
Franchise	429,128,005	439,810,000	463,480,000
Income Tax			
Individual	7,088,526,873	7,463,460,000	8,086,350,000
Corporate	840,499,824	762,620,000	850,170,000
Subtotal Income Tax	<u>\$7,929,026,697</u>	<u>\$8,226,080,000</u>	<u>\$8,936,520,000</u>
Sales and Use	3,922,821,877	4,227,410,000	4,346,240,000
Beverage	170,896,552	182,780,000	188,170,000
Gift	19,304,091	16,330,000	18,230,000
Freight Car Lines	379,551	380,000	380,000
Insurance	408,873,355	418,360,000	452,470,000
Piped Natural Gas	36,853,402	40,320,000	41,310,000
Miscellaneous	722,893	720,000	720,000
Total Tax Revenue	13,117,230,784	13,755,830,000	14,649,560,000
Nontax Revenue			
Investment Income	105,079,415	78,130,000	86,020,000
Judicial Fees	124,733,850	132,960,000	136,730,000
Disproportionate Share Receipts	107,000,000	97,144,325	100,000,000
Insurance Department	47,077,910	53,670,000	53,840,000
Miscellaneous	215,325,076	506,010,000	261,517,607
Total Nontax Revenue	599,216,251	867,914,325	638,107,607
Transfers			
Highway Fund	15,360,000	16,379,000	16,166,400
Highway Trust Fund	377,400,000	252,422,125	242,586,830
Total Transfers	392,760,000	268,801,125	258,753,230
Total General Fund Revenue	<u>\$14,109,207,035</u>	<u>14,892,545,450</u>	<u>\$15,546,420,837</u>

a. Totals may differ from the sum of their parts due to rounding.

Table 3
Recommended Availability and Appropriations
2004-05

Description	2004-05 Recommended
Unappropriated Balance from FY 2003-04	\$ 145,664,254
Anticipated Reversions from FY 2003-04	100,000,000
Anticipated Overcollections from FY 2003-04	198,300,000
Emergency FY 2003-04 Appropriation	
One North Carolina Fund	(20,000,000)
New and Expanding Industry (NEIT) Program	(4,100,000)
Credit to Savings Reserve	(104,966,064)
Anticipated Beginning Unreserved Credit Balance	<u>314,898,190</u>
Recommended Budgeted Revenue	
Tax Revenue	14,649,560,000
Nontax Revenue	538,107,607
Highway Fund Transfer	16,166,400
Highway Trust Fund Transfer	242,586,830
Disproportionate Share Receipts	100,000,000
Total General Fund Revenue	<u>15,546,420,837</u>
Total Availability	15,861,319,027
Recommended Appropriations	
Original Certified Budget	15,505,328,288
Recommended Reductions	(348,014,308)
Recommended Expansion	703,947,696
Total Appropriations Recommended	<u>15,861,261,676</u>
Total Ending Balance	<u>\$ 57,352</u>

**Table 4
Summary of Governor's Recommended Changes to FY 2004-05 General Fund Budget**

Budget Code	Function	FY 2004-05 Authorized Appropriation	Reductions			Agency Expansion			Net Change	FY 2004-05 Recommended Appropriation	Net Position Change
			Recurring	Nonrecurring	Appropriation Supported Positions	Recurring	Nonrecurring	Appropriation Supported Positions			
Education:											
13510	Public Education	\$ 6,034,995,183	\$ (39,300,659)	\$ (31,625,500)	-	\$ 76,148,418	\$ 108,462,500	2.50	\$ 113,684,759	\$ 6,148,679,942	2.50
16800	Community Colleges	660,199,222	(13,131,457)	-	-	25,666,137	7,500,000	-	20,034,680	680,233,902	-
160xx	University System	1,822,426,657	(28,476,229)	(5,734,555)	-	76,906,256	4,450,000	-	47,145,472	1,869,572,129	-
	Total Education	8,517,621,062	(80,908,345)	(37,360,055)	-	178,720,811	120,412,500	2.50	180,864,911	8,698,485,973	2.50
General Government:											
14100	Administration	52,583,907	(537,770)	-	-	1,496,100	755,000	7.00	1,713,330	54,297,237	7.00
18210	Office of Administrative Hearings	2,411,797	(24,874)	-	-	-	-	-	(24,874)	2,386,923	-
13300	State Auditor	10,293,801	(228,057)	-	(4.00)	-	-	-	(228,057)	10,065,744	(4.00)
18025	State Board of Elections	4,915,939	(49,506)	-	-	-	-	-	(49,506)	4,866,433	-
14160	Office of State Controller	9,719,451	(99,429)	-	-	-	-	-	(99,429)	9,620,022	-
14800	Cultural Resources	54,088,598	(421,973)	-	(2.00)	2,312,096	500,000	15.00	2,390,123	56,478,721	13.00
14802	Cultural Resources - Roanoke Island	1,636,559	(32,731)	-	-	-	-	-	(32,731)	1,603,828	-
11000	General Assembly	44,971,305	-	(921,318)	-	141,739	-	-	(779,579)	44,191,726	-
13000	Governor's Office	4,826,503	(99,037)	-	-	68,086	-	-	(30,951)	4,795,552	-
13005	State Budget and Management (OSBM)	4,216,110	(84,322)	-	(1.00)	234,138	13,520	2.00	163,336	4,379,446	1.00
13085	OSBM - Special Appropriations	3,130,000	-	-	-	-	-	-	-	3,130,000	-
13010	NC Housing Finance	4,750,945	-	-	-	-	-	-	-	4,750,945	-
13900	Insurance	23,187,587	(238,302)	-	-	-	-	-	(238,302)	22,949,285	-
13901	Insurance - Worker's Comp. Fund	2,600,000	-	-	-	-	-	-	-	2,600,000	-
13100	Lieutenant Governor	601,722	-	-	-	29,661	-	1.00	29,661	631,383	1.00
14700	Revenue	75,174,094	-	(1,503,088)	-	500,000	-	-	(1,003,088)	74,171,006	-
18300	Rules Review Commission	310,454	(3,185)	-	-	-	-	-	(3,185)	307,269	-
13200	Secretary of State	7,756,198	(110,389)	-	(1.00)	-	-	-	(110,389)	7,645,809	(1.00)
13410	State Treasurer	7,577,784	(155,196)	-	-	483,940	-	5.00	328,744	7,906,528	5.00
13412	State Treasurer - Retirement / Benefits	7,481,179	-	-	-	-	-	-	-	7,481,179	-
	Total General Government	322,233,933	(2,084,771)	(2,424,406)	(8.00)	5,265,760	1,268,520	30.00	2,025,103	324,259,036	22.00
Health and Human Services:											
14410	Central Administration	80,968,433	(225,000)	-	-	8,041,037	6,016,165	3.00	13,832,202	94,800,635	3.00
14411	Aging	27,685,838	-	-	-	-	-	-	-	27,685,838	-
14420	Child Development	259,210,693	-	-	-	12,000,000	-	-	12,000,000	271,210,693	-
14424	Education Services	31,670,076	(257,138)	-	(5.00)	-	-	-	(257,138)	31,412,938	(5.00)
14430	Public Health	123,448,895	(1,200,000)	-	-	9,671,361	150,000	7.50	8,621,361	132,070,256	7.50
14440	Social Services	189,029,268	(7,667,106)	-	-	5,205,158	1,500,000	1.00	(961,948)	188,067,320	1.00
14445	Medical Assistance	2,449,169,963	(88,609,970)	-	-	-	-	-	(88,609,970)	2,360,559,993	-
14446	Child Health	55,432,822	-	-	-	9,052,824	-	-	9,052,824	64,485,646	-
14450	Services for the Blind	9,387,008	-	-	-	-	-	-	-	9,387,008	-
14460	Mental Health/DD/SAS	580,423,098	(199,273)	-	-	-	-	-	(199,273)	580,223,825	-
14470	Facility Services	12,256,792	-	-	-	-	-	-	-	12,256,792	-
14480	Vocational Rehabilitation	40,834,858	(479,294)	-	(12.00)	-	-	-	(479,294)	40,355,564	(12.00)
	Total Health and Human Services	3,859,517,744	(98,637,781)	-	(17.00)	43,970,380	7,666,165	11.50	(47,001,236)	3,812,516,508	(5.50)
Justice and Public Safety:											
14500	Correction	959,947,282	(3,749,236)	(13,239,260)	-	2,239,002	1,389,461	163.00	(13,360,033)	946,587,249	163.00
14900	Crime Control & Public Safety	28,139,010	(212,076)	-	-	1,796,022	280,000	12.00	1,863,946	30,002,956	12.00
12000	Judicial	311,499,694	-	-	-	2,474,491	3,300,000	52.00	5,774,491	317,274,185	52.00
12001	Judicial - Indigent Defense	71,019,451	-	-	-	5,000,000	8,000,000	-	13,000,000	84,019,451	-
13600	Justice	71,459,312	(743,649)	-	-	806,484	-	21.00	62,835	71,522,147	21.00
14060	Juvenile Justice	130,585,498	-	-	-	3,600,000	112,011	64.00	3,712,011	134,297,509	64.00
	Total Justice and Public Safety	1,572,650,247	(4,704,961)	(13,239,260)	-	15,915,999	13,081,472	312.00	11,053,250	1,583,703,497	312.00

**Table 4
Summary of Governor's Recommended Changes to FY 2004-05 General Fund Budget**

Budget Code	Function	FY 2004-05 Authorized Appropriation	Reductions			Agency Expansion			Net Change	FY 2004-05 Recommended Appropriation	Net Position Change
			Recurring	Nonrecurring	Appropriation Supported Positions	Recurring	Nonrecurring	Appropriation Supported Positions			
	Natural and Economic Resources:										
13700	Agriculture & Consumer Services	48,616,369	(750,000)	-	(5.00)	725,000	-	4.00	(25,000)	48,591,369	(1.00)
14600	Commerce	34,336,301	(339,516)	-	(1.00)	398,016	1,258,800	9.00	1,317,300	35,653,601	8.00
14601	Commerce - State Aid	21,764,087	-	-	-	5,000,000	-	-	5,000,000	26,764,087	-
14300	Environment and Natural Resources	152,798,010	(2,909,246)	-	(21.00)	350,000	1,028,161	31.00	(1,531,085)	151,266,925	10.00
14301	Clean Water Management Trust	62,000,000	-	-	-	-	-	-	-	62,000,000	-
13800	Labor	13,274,104	(265,482)	-	(3.00)	-	-	-	(265,482)	13,008,622	(3.00)
	Total Natural & Economic Resources	332,788,871	(4,264,244)	-	(30.00)	6,473,016	2,286,961	44.00	4,495,733	337,284,604	14.00
14222	Transportation	11,402,800	(228,056)	-	-	-	-	-	(228,056)	11,174,744	-
	Net Agency	14,616,214,657	(190,828,158)	(53,023,721)	(55)	250,345,966	144,715,618	400.00	151,209,705	14,767,424,362	345.00
19600	Capital Improvements	-	-	-	-	-	47,610,680	-	47,610,680	47,610,680	-
	Debt Service:										
19420	General Debt Service	503,682,683	(26,648,480)	(57,000,000)	-	-	-	-	(83,648,480)	420,034,203	-
19425	Federal Reimbursement	1,155,948	-	-	-	460,432	-	-	460,432	1,616,380	-
	Total Debt Service	504,838,631	(26,648,480)	(57,000,000)	-	460,432	-	-	(83,188,048)	421,650,583	-
	Reserves and Adjustments:										
19001	Contingency and Emergency Reserve	5,000,000	-	-	-	-	-	-	-	5,000,000	-
19003	Compensation Increase Reserve	45,550,000	(900,000)	-	-	173,300,000	47,950,000	-	220,350,000	265,900,000	-
19004	Salary Adjustment Reserve	4,500,000	-	-	-	-	-	-	-	4,500,000	-
19039	Reserve - HIPPA Implementation	-	-	-	-	-	-	-	-	-	-
19049	Mental Health/DD/SAS Trust Fund Reserve	-	-	-	-	-	8,500,000	-	8,500,000	8,500,000	-
19043	Health Plan Reserve	118,225,000	(900,000)	-	-	-	-	-	(900,000)	117,325,000	-
19047	Retirement Rate Adjustment (Retiree Hlth Benefit)	33,000,000	(6,900,000)	-	-	-	-	-	(6,900,000)	26,100,000	-
19047	Retirement Rate Adjustment Reserve	154,200,000	-	-	-	16,065,000	-	-	16,065,000	170,265,000	-
19008	Retirement Payback Reserve	-	-	-	-	-	15,000,000	-	15,000,000	15,000,000	-
19047	Retirement Rate Adjustment (Retiree Hlth. Benefit)	36,800,000	-	-	-	-	-	-	-	36,800,000	-
190xx	Senate Bill 100 Compliance	-	(11,813,949)	-	-	-	-	-	(11,813,949)	(11,813,949)	-
19010	DOA-State Surplus Real Property System Reserve	-	-	-	-	-	-	-	-	-	-
19047	Retirement Rate Adjustment Reserve (Death Benefit/Disability/Court)	(13,000,000)	-	-	-	-	-	-	-	(13,000,000)	-
	Total Reserves and Adjustments	384,275,000	(20,513,949)	-	-	189,365,000	71,450,000	-	240,301,051	624,576,051	-
	Total	\$ 15,505,328,288	\$ (237,990,587)	\$(110,023,721)	(55.00)	\$ 440,171,398	\$ 263,776,298	400.00	\$ 355,933,388	\$ 15,861,261,676	345.00

■ **Appropriations by Department/Budget Code** ■

Education

Public Education (13510)

Summary of Recommended Changes: Public education receives the largest state appropriation. Governor Easley's recommended public education budget for 2004-05 provides full funding for the anticipated 2.0% growth in average daily membership (ADM) while addressing the need to increase educational opportunity for all students. Budgeted ADM in 2004-05 is 1,369,062 compared to budgeted ADM of 1,342,806 in 2003-04.

Recognizing the importance of a good foundation for learning, this budget continues the Governor's initiative to reduce class size in the early elementary grades, by reducing class size in the third grade from 1:22 to 1:18. Full funding of the \$152.6 million debt payment for the \$1.8 billion Public School Building Bond Act of 1996 is also a part of this overall budget. In an effort to continue to recognize the impact of teachers on student academic progress, salary step increases, a 0.5% increase in the salary schedule, and full funding of ABC incentive awards are recommended.

To address the important need of the state's emerging and existing industries for high quality employees and the need to reduce the state's dropout rate, this budget funds a state match to the Gates Foundation monies to improve career-oriented high schools. Addressing needs of particularly challenged school systems, the Governor's budget provides funds to high priority LEAs for targeted professional development and other assistance and a locally developed program to improve their ability to provide sound educational opportunities.

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$6,997,354,633	\$7,142,845,244	2.1 %
Receipts	<u>962,359,450</u>	<u>994,165,302</u>	3.3 %
Appropriation	<u>\$6,034,995,183</u>	<u>\$6,148,679,942</u>	1.9 %
Positions	440.700	443.200	0.6 %

Appropriation Items -- Recommended Adjustments

Technical Adjustments

2004-05

1. Average Daily Membership Adjustment

Positions, textbooks, instructional equipment, and supplies allocated to the public schools are budgeted on the basis of average daily membership (ADM) of students in the classroom. Budgeted ADM was 1,342,806 for 2003-04 and 1,358,932 for 2004-05. The revised budgeted ADM for 2004-05 is 1,369,062, which is a 10,130 net increase. Budgeted ADM for 2004-05 is based on the higher of the 2003-04 actual ADM or 2004-05 projected ADM by local school system. Receipts from the Highway Fund to be transferred to the Department of Public Instruction for the Driver Education

program are adjusted by \$180,352 due to a projected increase in ADM in the ninth grade.

Requirements	\$31,585,297
Receipts	\$180,352
	<hr/>
Appropriation	\$31,404,945

2. Average Annual Salary Adjustment

An adjustment is recommended to revise budgeted average annual salaries including principals and assistant principals using actual 2003-04 sixth pay period salaries as the base. This adjustment is made annually after reviewing budgeted salary projections for all certified personnel. Typically, because of turnover in these positions, the actual salaries are lower than what is budgeted, and a reduction is made accordingly. This adjustment does not reduce any salary paid to certified personnel.

Appropriation	(\$11,969,091)
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Total Recommended Technical Adjustments

Recurring

Requirements	\$19,616,206
Receipts	180,352
	<hr/>
Appropriation	\$19,435,854
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Reductions

2004-05

State Public School Fund

1. School Bus Replacement Schedule

A revision to the school bus replacement schedule is recommended for 2004-05. Funding for school bus replacement has been adjusted to purchase 600 buses in the 2004-05 fiscal year and to reduce \$6.3 million of unutilized funds. This recommendation also provides funds to make payments for school bus lease purchases made during 2002-03 and 2003-04. The 2004-05 budget for school bus purchases will be \$37,239,912 after this adjustment.

Appropriation	(\$10,512,901)
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2. Inflationary Increase for Textbooks

It is recommended that the budgeted inflationary rate for the cost of textbooks be set at three percent (3%). Based upon a Department of Public Instruction cost assessment, exceptional children textbooks are not included in this adjustment. The 2004-05 budget for textbooks will be \$81,126,220 after this adjustment and the ADM adjustment.

Appropriation (\$1,547,040)

3. Inflationary Increase for Instructional Supplies and Equipment

It is recommended that the 2004-05 inflation rate for the cost of classroom supplies, materials, and equipment be set at two percent (2%). The budget for instructional supplies, materials, and equipment for 2004-05 will be \$65,569,689 after this adjustment and the ADM adjustment.

Appropriation (\$1,273,228)

4. Transportation Adjustment

The transportation allotment provides funding to Local Education Agencies (LEAs) for mechanics, garage operations, fuel costs, parts, bus drivers' salaries and benefits and other costs for school bus operations. The 2003 legislative session reduced transportation \$5 million on a nonrecurring basis. This recommendation continues that reduction on a recurring basis. The 2004-05 transportation budget will be \$261,490,070 after this adjustment.

Appropriation (\$5,000,000)

5. One-Time Capital Fund Adjustment

The 1987 Session of the General Assembly established the Public School Building Capital Fund (PSBCF) to assist county governments in meeting their public school building capital needs. As of March 31, 2004, counties and LEAs had existing PSBCF balances totaling \$80.4 million. It is recommended that for the 2004-05 fiscal year, one-half of the corporate tax revenues normally deposited into this fund be deposited as a receipt in the State Public School Fund to offset the cost of public school operations. The six staff members in the Department of Public Instruction shall continue to be supported by these funds.

Requirements - Nonrecurring -

Receipts - Nonrecurring \$31,625,500

Appropriation - Nonrecurring (\$31,625,500)

6. Unutilized Discretionary Teacher Positions

Included in the budget are 95 discretionary teacher positions, which are used for small schools (hospital schools, geographically isolated schools, and schools with less than 100 ADM), and teachers on-loan. Currently, there are 10.7 unutilized discretionary teacher positions that are available for requests from small schools. This recommendation would eliminate 5 of those unutilized positions.

Appropriation (\$228,775)

7. Instructional On-Loan Positions

This recommendation would reduce 4 instructional support on-loan

positions that are provided to the North Carolina School of Science and Mathematics (NCSSM). NCSSM has enrollment growth funding available to provide these positions if NCSSM chooses.

	Appropriation	(\$203,844)
8. CLP Budget Adjustment		
Only one school is currently identified as continually low-performing (CLP) and it would be funded on the basis of the legislated provision. The funding for continually low performing schools would be reduced to the actual amount generated by the formula in the authorizing special provision (class size of 1:17 for grades 4-8, class size of 1:20 for grades 9-12 plus 10 days of extended teacher contracts) for a total 2004-05 budget of \$602,975.		
	Appropriation	(\$1,413,819)
9. Textbook Freight		
It is recommended that the cost of textbook freight be funded by the textbook warehouse receipts rather than appropriation.		
	Appropriation	(\$217,837)
10. Assistant Principal Intern Stipend		
The 2003 legislature directed that beginning in the 2004-05 fiscal year, the assistant principal intern stipend shall not exceed the difference between the beginning salary of an assistant principal and any fellowship funds received by the intern as a full-time student, including awards of the Principal Fellows Program. Unallotted principal positions are used to pay for these intern stipends. Of the 144 interns in 2003-04, 90 are Principal Fellows receiving a \$20,000 fellowship. Therefore, \$1.8 million can be reduced from the 2004-05 budget.		
	Appropriation	(\$1,800,000)
11. Update Census Poverty Statistics for Use in Allotment		
Due to a 16,636 decrease in the estimated number of school-aged children in poverty as reported by the 2000 Census, the at-risk student services allotment is recommended for reduction to reflect the most recent poverty statistics.		
	Appropriation	(\$5,638,273)
12. Adjust Student Accountability Allotment		
Funds in the Improving Student Accountability categorical allotment are based on anticipated needs to ensure that additional resources are allotted to students scoring at Level I and Level II on End-of-Grade (EOG) tests. Due to the reduction in the number of grade 3 through 8 students that scored at Level I and II on the EOG tests, the full amount of the funds that were budgeted were not allocated to LEAs in 2003-04 and therefore can be permanently reduced in the 2004-05 budget.		
	Appropriation	(\$11,294,221)

Department of Public Instruction
1. Department of Public Instruction Reduction

A reduction is recommended for the Department of Public Instruction's budget in the amount of \$170,721. This includes reductions in the Education Management, Financial and Business Services, Curriculum and School Reform Services, Leadership Development and Special

Services, and Accountability and Technology Services budget purposes. The department shall have the flexibility to identify the source of the reduction.

	Appropriation	(\$170,721)
<hr/>		
Total Recommended Reductions		
Recurring		
Requirements		(\$39,300,659)
Receipts		-
		<hr/>
Appropriation		(\$39,300,659)
Number of Positions		-
Nonrecurring		
Requirements		-
Receipts		31,625,500
		<hr/>
Appropriation		(\$31,625,500)
Number of Positions		-

Expansion

2004-05

State Public School Fund

1. School-Based Incentive Awards Under the ABCs Program

The ABCs initiative directs that each year a school must assure that students receive a year's worth of education for a year of instruction. According to G.S.115C-105.36, incentive awards will be given when a school either meets or exceeds the projected levels of improvement in student performance. Incentive awards in schools that achieve higher than expected improvement may be up to \$1,500 for each teacher and certified personnel and \$500 for each teacher assistant. Incentive awards in schools that meet the expected improvements may be up to \$750 for each teacher and certified personnel and \$375 for each teacher assistant. Based on the 6-year average expenditures since 1998-99, nonrecurring funds in the amount of \$108 million are recommended for awards earned in the 2003-04 school year and awarded in fall 2004.

Appropriation - Nonrecurring \$108,000,000

2. Third Grade Class Size Reduction

In an effort to improve student performance, funds in the amount of \$50.5 million for 1,103 teachers are recommended to achieve an average class size of 18 students in every third grade classroom in 2004-05.

Appropriation \$50,467,765

3. High Priority LEAs

Funds are recommended for high priority LEAs, which have high numbers of students not achieving grade level proficiency and which

may also have high numbers of children in poverty, high teacher turnover rates, and/or be located in a low wealth county. These funds shall be used to implement a plan jointly developed by each high priority LEA and the LEA Assistance Program team based upon the needs of the students not achieving grade level proficiency.

Professional development programs for teachers and principals in these LEAs are included in the University of North Carolina's budget recommendation.

Appropriation **\$4,500,000**

4. Teacher and Administrator Compensation

Funds are recommended in the compensation reserve for employees paid on the teacher salary schedule or the principal and assistant principal salary schedule in schools operated by a local board of education, the Department of Health and Human Services, the Department of Correction, the Department of Juvenile Justice and Delinquency Prevention, and the North Carolina School of Science and Mathematics. These funds will provide for movement on the salary schedule based on years of experience plus increase the salary schedule base by 0.5%. Employees at the top of their respective salary schedules, who do not receive a step increase, shall be paid a one-time bonus.

Department of Public Instruction

1. Learn and Earn - Gates Foundation Match for High Schools and Workforce Development

An appropriation is recommended to match a \$10 million commitment from the Gates Foundation, an initiative to reform high schools and better prepare students for the workforce and college. Funds would be available for 5 pilot projects in which an LEA, a community college or university, and engaged employers work together to ensure that the high school and college curricula are operating seamlessly and are meeting the needs of the participating employer(s). The program will be housed in the Department of Public Instruction and managed by an administrator with support from an educational consultant and a part-time clerical position. Each participating LEA will receive 2 positions to organize the local program and to work with students, area employers, and the colleges. Each participating college will receive 1 position to coordinate the college portion of the program. In addition, planning grant funds are provided for 10 additional sites to prepare for participation in this program in the 2005-06 school year.

Appropriation **\$1,744,799**

Appropriation - Nonrecurring **\$462,500**

Number of Positions **2.500**

Total Recommended Expansion

Recurring

Requirements	\$56,712,564
Receipts	-
	<hr/>
Appropriation	\$56,712,564
Number of Positions	2.500

Nonrecurring

Requirements	\$108,462,500
Receipts	-
	<hr/>
Appropriation	\$108,462,500
Number of Positions	-

**Total Recommended Adjustments for
Public Education
2004-05**

Recurring

Requirements	\$37,028,111
Receipts	180,352
	<hr/>
Appropriation	\$36,847,759
Number of Positions	2.500

Nonrecurring

Requirements	\$108,462,500
Receipts	31,625,500
	<hr/>
Appropriation	\$76,837,000
Number of Positions	-

Community Colleges (16800)

Summary of Recommended Changes: The North Carolina Community College System plays an integral role in providing educational, occupational training, and economic development services to communities across North Carolina. These budget recommendations create operating efficiencies, make adjustments to accurately reflect expenditures, provide additional resources to address enrollment growth, promote statewide economic development, and provide salary increases to college faculty and professional staff.

During the 2003 session, the Governor committed to working with the Community Colleges to help raise faculty and professional staff salaries to the regional average. As part of that commitment, the Governor recommends that \$12,800,000 be spent to provide an additional 2% salary increase for the faculty and professional staff at the local colleges over and above the 2% and the \$250 one-time bonus recommended for all state employees.

In addition, the 2000 Higher Education Bonds provided resources to allow for a major expansion of facilities on community college campuses. For the 2004-05 fiscal year, the state will pay approximately \$45,400,000 in debt service, from the General Fund, to support these capital expansions and improvements.

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$856,962,973	\$886,515,252	3.4 %
Receipts	<u>196,763,751</u>	<u>206,281,350</u>	4.8 %
Appropriation	<u>\$660,199,222</u>	<u>\$680,233,902</u>	3.0 %
Positions	175.500	175.500	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

System Office

1. System Office Reduction

A reduction in the system office appropriation, exclusive of the College Information System (CIS) and financial aid, is recommended. The Department shall have the flexibility to identify the source(s) of the reduction.

Appropriation (\$55,612)

Colleges - State Aid

1. Overrealized Receipts

It is recommended that the budget for tuition and fees be increased to reflect the actual amount realized from the 2003-04 tuition increase. The tuition increase was budgeted to yield \$3.2 million but should actually generate \$4.6 million. This calculation is based on an in-state rate of \$35.50 per credit hour, up \$1.25 from the 2002-03 rate of \$34.25 and an out-of-state rate of \$197.00 per credit hour, up \$6.25 from the 2002-03 rate of \$190.75. The Community Colleges budget 3,323,942 for in-state student credit hours. These hours, multiplied by the in-state tuition increase of \$1.25 results in \$4,154,928. The number of student credit hours budgeted for out-of-state students is 71,512. These hours, multiplied by the \$6.25 out-of-state increase, results in \$446,953. The total additional receipts generated for the in-state and out-of-state increase yields \$4,601,881, for a total of \$1,401,881 more than was budgeted. In addition, it is recommended that one-half, or \$1,500,000, of the overrealized receipts taken during the 2003 session be used on a recurring basis.

Requirements	-
Receipts	\$2,901,881
Appropriation	(\$2,901,881)

2. Community Service Block Grant Adjustment

It is recommended that the Community Service Block Grant be adjusted to the 2002-03 actual expenditure level. During 2002-03, the Community Service Block Grant was budgeted at \$1,329,663 but spent only \$1,185,114. This grant provides funding for free and hobby courses.

Appropriation	(\$144,549)
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3. Public Radio Station at Isothermal Community College

It is recommended that the recurring funding of \$134,921 for the public radio station at Isothermal Community College be eliminated. During the 2003 Session, the General Assembly appropriated \$200,000 in nonrecurring funds for the radio stations at Gaston, Craven, and Isothermal in addition to the \$134,921 in recurring funds appropriated to Isothermal during the 2002 Session.

Appropriation	(\$134,921)
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4. Child Care Grant Adjustment

It is recommended that the child care grant be adjusted to the actual 2002-03 expenditure level. The grant was budgeted at \$2,000,000 but the actual expenditures were only \$1,923,016, a difference of \$76,984. This grant funds child care services for student parents enrolled at a community college.

Appropriation	(\$76,984)
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5. Management Flexibility Reserve in the Administrative Allotment Formula

It is recommended that the administrative formula allotment be reduced by \$5,574,318 in a manner to be determined by the State Board of Community Colleges. During the 2003 Session, the General Assembly reduced the operating costs portion of the enrollment allotment for each full time equivalent (FTE) student over 750 at each college from \$1,093 to

\$1,075.50. In addition, a 3% flexibility reduction was also taken from the administrative formula. The administrative allotment supports non-faculty administrative positions and functions.

Appropriation (\$5,574,318)

6. Management Flexibility Reserve

It is recommended that a flexibility reserve of \$4,243,192 be created to give the State Board of Community Colleges the discretion to identify specific reduction items in the system budget. The State Board of Community Colleges shall distribute the discretionary reduction based on FTE or another method that accounts for the unique needs of specific colleges. The State Board will submit a summary report to the Office of State Budget and Management and the Fiscal Research Division of the General Assembly on all reductions to meet this flexibility reserve by December 31, 2004. The colleges are urged to make reductions where appropriate without directly impacting classroom services or "high-needs" areas of the state. Colleges will report to the State Board the anticipated impacts of any reductions to the classroom or "high-needs" areas of the state.

Appropriation (\$4,243,192)

Total Recommended Reductions

Recurring

Requirements	(\$10,229,576)
Receipts	2,901,881
<hr/>	
Appropriation	(\$13,131,457)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
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Appropriation	-
Number of Positions	-

Expansion

2004-05

1. Enrollment Growth

The Governor recommends full funding for enrollment growth. The 2004-05 projection from the State Board of Community Colleges indicates an increase of 6,910 full-time equivalent (FTE) students above the 2003-04 budgeted amount of 180,695. The 2004-05 budgeted enrollment will be 187,605 FTE, a 3.82% increase over 2003-04. Curriculum enrollment is projected to increase by 6,874 FTE or 4.84%; Continuing Education

enrollment is projected to decrease by 17 FTE or -.08%; Basic Skills enrollment is projected to increase by 53 FTE or .30%.

Requirements	\$26,681,855
Receipts	\$6,615,718
Appropriation	\$20,066,137

2. Customized Industry Training

The Governor recommends providing \$5,600,000 in funding for Focused Industrial Training (FIT) and New and Expanding Industry Training (NEIT). The Focused Industrial Training program provides worker training for incumbent workers in manufacturing. In its 23 years, an average of over 11,000 workers a year received FIT training. The New and Expanding Industries Training program provides customized training to businesses expanding in or relocating to North Carolina if they generate at least 12 new jobs. To achieve greater flexibility to meet the full range of business needs, the Governor further recommends combining the Focused Industrial Training and New and Expanding Industry Training programs into one Customized Industry Training program, as recommended by the State Board of Community Colleges.

Appropriation	\$5,600,000
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3. Faculty and Professional Staff Salaries

The Governor recommends providing \$12,800,000 for a 2% salary increase for the State Board of Community Colleges to distribute to full-time community college faculty and professional staff. This is in addition to the statewide salary increase of 2% that is being recommended and a \$250 one-time bonus. The actual appropriation is located in the statewide reserve section of this document. These funds shall not be transferred by the State Board or used for any other budget purpose by the community colleges.

4. Equipment

The Governor recommends providing \$7,500,000 to help address the equipment needs in the community colleges such as the replacement of old equipment and the purchase of new technologies.

Appropriation - Nonrecurring	\$7,500,000
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5. New and Expanding Industries Training Emergency Appropriation in 2003-04

The Governor recommends providing \$4,100,000 to the New and Expanding Industries Training program for outstanding obligations for fiscal year 2003-04. These obligations came as a result of responding to the increased need for worker training due to the downturn in the state's economy. These funds will come from the unappropriated funds remaining at the end of 2003-04. These funds shall not revert at the end of fiscal year 2003-04 and shall remain available until expended.

Total Recommended Expansion

Recurring

Requirements	\$32,281,855
Receipts	6,615,718
	<hr/>
Appropriation	\$25,666,137
Number of Positions	-

Nonrecurring

Requirements	\$7,500,000
Receipts	-
	<hr/>
Appropriation	\$7,500,000
Number of Positions	-

**Total Recommended Adjustments for
Community Colleges
2004-05**

Recurring

Requirements	\$22,052,279
Receipts	9,517,599
	<hr/>
Appropriation	\$12,534,680
Number of Positions	-

Nonrecurring

Requirements	\$7,500,000
Receipts	-
	<hr/>
Appropriation	\$7,500,000
Number of Positions	-

The University of North Carolina (160xx)

Summary of Recommended Changes: The University of North Carolina is a public, multi-campus university dedicated to the service of North Carolina and its people. It encompasses the 16 diverse constituent institutions and other educational, research, and public service organizations, including doctoral research universities, comprehensive master's universities, baccalaureate universities, and a school of the arts. The University also has the affiliated North Carolina School of Science and Mathematics, a residential high school for advanced students. Also in the University system are the University Hospitals which encompass a teaching hospital and a major patient referral center for the state. Each shares in the overall mission of the university to discover, create, transmit, and apply knowledge to address the needs of individuals and society. In the fulfillment of this mission, the university seeks an efficient use of available resources to ensure the highest quality in its service to the citizens of the state.

The 2004 budget for the University recommends full funding for enrollment growth, financial aid to ensure access, state support for matching funds for distinguished professor endowments, and economic development initiatives on campuses which provide support for small business development. The budget also encourages campuses to use their management flexibility to efficiently manage their available resources.

In 2000, the citizens approved the Higher Education Bonds, a \$2.5 billion bond issue to enable the University system to build new buildings and provide money for major renovation and infrastructure capital projects not supported by auxiliary funds. As of March 1, 2004, 87% of the bond projects are complete or underway. Not shown in the following budget detail, but part of the base budget, is \$126.4 million in General Fund appropriations that pays the debt service for the University in this bond issue.

In an effort to continue to recognize the impact of faculty and staff on student academic progress and continued excellence of the University, the Governor also recommends that there be a 2% salary increase and a \$250 one-time bonus for the faculty and staff.

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$2,565,993,116	\$2,649,166,937	3.2 %
Receipts	<u>743,566,459</u>	<u>779,594,808</u>	4.8 %
Appropriation	<u>\$1,822,426,657</u>	<u>\$1,869,572,129</u>	2.6 %
Positions	29,892.820	29,892.820	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Management Flexibility Reduction for UNC Campuses

In an effort to facilitate efficiencies at the constituent institutions of the

University of North Carolina, a reduction in the operating budgets for fiscal year 2004-05 is recommended for most campuses. The 1990 Session of the General Assembly established Special Responsibility Constituent Institutions (SRCIs) and granted budget flexibility to constituent institutions with this status. Therefore, SRCIs have the authority to make the necessary budgetary adjustments to accommodate the reduction required by each campus. It is suggested that campuses utilize the vacant SPA and non-faculty EPA positions to achieve the reductions. It is recommended that the following campus budgets be reduced by 1.70%: UNC-Academic, UNC-Health Affairs, NCSU-Academic, NCSU-Agri. Research Service, NCSU-Agri. Extension Service, UNCG, UNCC, UNCA, UNCW, ECU-Academic, ECU-Health Affairs, NCA&T, WCU, ASU, UNCP, WSSU, ECSU, FSU, NCCU, NCSA. The 1.70% reduction also applies to the Legislative Tuition Grant Program of the Aid to Private Colleges.

Appropriation **(\$26,877,675)**

2. Management Flexibility Reduction for Certain Non-Campus Budgets

Utilizing management flexibility as described above, it is recommended that the following UNC budgets be reduced by 0.85%: UNC-General Administration, UNC-AHEC, and the North Carolina School of Science and Mathematics. The reduction excludes the NC Model Teacher Education Consortium, NC Education Research Council, NC Teach, NC Teacher Academy, Principal Executive program, Principal Fellows program and the Mathematics and Science Education Network.

Appropriation **(\$754,174)**

3. UNC-GA Institutional Programs Reduction

It is recommended that selected reserves within UNC Institutional Programs be reduced by 0.85%. The financial aid and loan programs are not to be reduced.

Appropriation **(\$70,101)**

4. Management Flexibility Reduction for UNC Hospitals

It is recommended that the funds appropriated to the UNC Hospitals budget be reduced by 2%.

Appropriation **(\$774,279)**

5. 2004-05 Building Reserves Adjustments for Campuses

As a result of adjustments to schedules in constructing or renovating facilities at constituent institutions of the University system, changes are recommended for funds which had been appropriated for 2004-05 for building reserves. Some campuses have buildings whose scheduled completion is later than the original date for which building reserves were approved. The budgets for the monthly operating costs are being reduced according to the later anticipated activation. The one-time start up costs are not affected. Where buildings will open earlier, approval will be granted to transfer funds on a nonrecurring basis among reserves to accommodate the additional cost, subject to availability within the institution's 2004-05 projects.

Appropriation - Nonrecurring **(\$5,734,555)**

Total Recommended Reductions

Recurring

Requirements	(\$28,476,229)
Receipts	-
<hr/>	
Appropriation	(\$28,476,229)
Number of Positions	-

Nonrecurring

Requirements	(\$5,734,555)
Receipts	-
<hr/>	
Appropriation	(\$5,734,555)
Number of Positions	-

Expansion

2004-05

1. Enrollment Growth for UNC Campuses

It is recommended that full funding be provided for the UNC Board of Governors' enrollment growth request. Enrollment growth projections from the Board of Governors indicate an increase in enrollment for 2004-05 over the current budgeted 158,106 full-time equivalent (FTE) students. Based upon the Board's estimate, enrollment in the University is projected to increase by 7,458 FTE or 4.5% to 165,564 FTE in 2004-05. This represents an increase of 196,562 or 4.5% in student credit hours (SCHs) from 4,208,343 in 2003-04 to 4,404,905 in 2004-05.

Requirements	\$78,675,574
Receipts	\$14,684,349
<hr/>	
Appropriation	\$63,991,225

2. NCSSM Enrollment Growth

It is recommended that the North Carolina School of Science and Mathematics receive \$700,000 for enrollment growth for 35 students.

Appropriation	\$700,000
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3. Legislative Tuition Grants for Private Colleges

The Legislative Tuition Grant Program (LTG) is the tuition assistance component of the Financial Aid for Private Colleges Program. The LTG is awarded by the institution to undergraduate full-time equivalent North Carolinians. Regular term enrollment projections from the NC Association of Independent Colleges and Universities indicate an increase in enrollment for 2004-05 over the current budgeted full-time equivalent (FTE) students. Enrollment increased 1,300 FTE in 2003-04 and, based upon their estimate, enrollment is projected to increase by 1,445 FTE, or 3%, for 2004-05. The recommended increase is to support the Legislative

Tuition Grant component of the Financial Aid for Private Colleges Program.		Appropriation	\$2,600,000
4. State Contractual Scholarship Fund for Private Colleges			
<p>The State Contractual Scholarship Fund (SCSF) is the need-based financial aid component of the Financial Aid to Private Colleges Program. The SCSF is awarded by the institution to needy undergraduate full-time equivalent North Carolinians. The NC Association of Independent Colleges and Universities indicate that North Carolina undergraduate resident students will increase by 1,445 FTE in 2004-05. The recommended increase is to support this SCSF component of the Financial Aid for Private Colleges Program.</p>			
		Appropriation	\$1,600,000
5. Need Based Financial Aid			
<p>In 1997-98 a Task Force on Student Financial Aid estimated the amount of unmet need for UNC resident students, and recommended funding for a new UNC Grant Program to help students with financial need. Since 1999-2000, funds have been appropriated to meet the need. In 2003-04, a permanent shift was made to fund a portion, \$10.25 million, with Escheats Funds. The financial aid program requires that eligibility requirements for the new grants require a "self-help" expectation of at least \$4,500 per student and that federal Pell grants and tax credits be used first to meet students' needs. The Governor recommends that the 2004-05 expansion for Need-Based Student Financial Aid Plan be fully funded from Escheats Fund, as requested by the Board of Governors.</p>			
		Requirements	\$21,344,000
		Receipts	\$21,344,000
		Appropriation	-
6. State Matching Fund for Distinguished Professor Endowment			
<p>The Distinguished Professor Endowment trust fund was established in 1985 by the General Assembly to provide each constituent institution the opportunity to receive and match challenge grants to create endowments for selected distinguished professors to occupy chairs within the University. Funds provided by the state are matched with private donations on a one-to-two ratio. The 2003 General Assembly amended G.S. 116-41 (S.L. 2003-293) and changed ratios of funds provided by the state and private donations. Funds provided by the state are matched with private donations on a one-to-two ratio for constituent institutions other than focused growth institutions and special needs institutions. Funds provided by the state are matched with private donations on a one-to-one basis for focused growth institutions (ECSU, FSU, NCA&T, NCCU, UNC-P, WCU, WSSU) and special needs institutions (NCSA, UNC-A). It is recommended that \$6 million in recurring funds requested by the Board of Governors be funded.</p>			
		Appropriation	\$6,000,000
7. Small Business Technology Development Centers			
<p>The Small Business and Technology Development Center (SBTDC) was established by The University of North Carolina in 1984. The SBTDC is the University's largest interinstitutional program and one of its largest</p>			

public service programs. The SBTDC functions as a business and technology extension service, providing business counseling, management education, applied research, publications, and resource materials for the state's small to medium-sized businesses. It is recommended that recurring funds be provided for the Small Business Technology Development Centers, and that one-time support for accelerator initiatives be provided.

Appropriation \$900,000

Appropriation - Nonrecurring \$700,000

8. Salary Increases for Faculty and Staff

The Governor recommends funding in the compensation reserve for salary increases for employees of The University of North Carolina and the North Carolina School of Science and Mathematics, including those supported by state funds and who are either exempt from the State Personnel Act (EPA) or subject to the act (SPA) effective July 1, 2004. For all EPA teaching and nonteaching faculty, funds are recommended for an increase of 2% in 2004-05 according to rules adopted by the UNC Board of Governors and a \$250 bonus. For all SPA employees, funds are recommended to provide a 2% increase in 2004-05 and a one-time \$250 bonus. For North Carolina School of Science and Mathematics teachers, these funds will provide for movement on the salary schedule based on years of experience plus increase the salary schedule base by 0.5%. Employees at the top of their respective salary schedules, who do not receive a step increase, shall be paid a one-time bonus.

9. Building Reserve Adjustment

It is recommended that an adjustment in the amount of \$115,031 be made for the Film Archives at the North Carolina School of the Arts which opened before the original date for which the building reserve was approved, which resulted in a deficiency of funds to operate the building. This appropriation is the amount needed after NCSA's building reserve monies from projects that are starting later than scheduled have been applied toward the Film Archives.

Appropriation \$115,031

10. Schools Attuned Program

For North Carolina initiatives of the Schools Attuned Program at the University of North Carolina at Chapel Hill, a non-recurring appropriation is recommended.

Appropriation - Nonrecurring \$500,000

11. Professional Development Programs for Teachers and Principals

A nonrecurring appropriation is recommended to provide custom-designed professional development and technical assistance as part of the Assistance Program to High Priority LEA's included in the budget for the Public Schools. This appropriation is for the Center for School Leadership's Principal Effectiveness Program (PEP) in the amount of \$500,000, the North Carolina Teacher Academy (NCTA) in the amount of \$2,000,000, and the North Carolina Center for the Advancement of Teaching (NCCAT) in the amount of \$250,000.

Appropriation - Nonrecurring \$2,750,000

12. Manufacturing Extension Partnership

A \$500,000 appropriation for the Manufacturing Extension Partnership housed in the Industrial Extension Service at North Carolina State University is recommended. Funds will be used for engineers and related expenses to provide assistance for small to medium-sized manufacturers across the state and replace lost federal funds.

Appropriation - Nonrecurring \$500,000

13. Biomanufacturing Training Education Center

An appropriation for startup operating expenses and curriculum development for the Biomanufacturing Training Education Center at North Carolina State University is recommended.

Appropriation \$500,000

14. Bioprocessing Research Institute and Technology Enterprise

An appropriation for startup operating expenses and staffing for the Bioprocessing Research Institute and Technology Enterprise at North Carolina Central University is recommended.

Appropriation \$500,000

Total Recommended Expansion

Recurring

Requirements	\$112,934,605
Receipts	36,028,349
	\$76,906,256
Appropriation	\$76,906,256
Number of Positions	-

Nonrecurring

Requirements	\$4,450,000
Receipts	-
	\$4,450,000
Appropriation	\$4,450,000
Number of Positions	-

**Total Recommended Adjustments for
The University of North Carolina
2004-05**

Recurring

Requirements	\$84,458,376
Receipts	36,028,349
	\$48,430,027
Appropriation	\$48,430,027
Number of Positions	-

Nonrecurring

Requirements	(\$1,284,555)
Receipts	-
	(\$1,284,555)
Appropriation	(\$1,284,555)
Number of Positions	-

■ **Appropriations by Department/Budget Code** ■

General Government

Department of Administration (14100)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$68,097,067	\$72,689,195	6.7 %
Receipts	<u>15,513,160</u>	<u>18,391,958</u>	18.6 %
Appropriation	<u>\$52,583,907</u>	<u>\$54,297,237</u>	3.3 %
Positions	692.591	699.591	1.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Department Wide

1. Operating Budget

It is recommended that the department make reductions in nonsalary budget line items.

Appropriation (\$537,770)

Total Recommended Reductions

Recurring

Requirements (\$537,770)

Receipts -

Appropriation (\$537,770)

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

Expansion

2004-05

Council for Women and Domestic Violence

1. Additional Funding

Additional funds are recommended to support domestic violence programs throughout the state.

Appropriation \$300,000

Secretary's Office - Historically Underutilized Businesses (HUB) Office

1. HUB/MWBE (Minority, Women, and Disabled Business Enterprise) Certification Program

Funding is recommended for statewide implementation of the HUB/MWBE Certification Program, which provides certification accepted by state agencies and local governments. Two additional positions are requested to support this program. The HUB Office also needs additional staff in its Compliance Section as a result of SB 914, which increased the number of reporting agencies from 230 to over 600.

Appropriation \$200,000
Number of Positions 4.000

Division of Veterans Affairs

1. New Nursing Home for Veterans

Start-up funds are recommended for the operation of a 90-bed state veterans' nursing home in Salisbury, which opened in 2004.

Appropriation - Nonrecurring \$500,000

Office of State Construction

1. Mold Remediation Services

Funding is recommended to establish one Engineer III position and to provide \$55,000 (nonrecurring) to hire a consultant to develop best practice construction guidelines in preventing mold in state-owned facilities.

Appropriation \$96,100
Appropriation - Nonrecurring \$55,000
Number of Positions 1.000

Commission on Indian Affairs

1. North Carolina Economic Development Initiative/Strategic Plan

Funding is recommended for the North Carolina Economic Development Initiative. The goal of the initiative is to develop an infrastructure for securing public and private funding for economic development in Indian communities in the state. The funding of this project will be an essential part of supporting the Governor's goal of creating jobs and economic growth in North Carolina, especially in Indian communities. Additional funding is also recommended to support the development of a 2005-2010 strategic plan.

Appropriation	\$300,000
Number of Positions	2.000

Agency for Public Telecommunications

1. Increase Receipts

An increase in receipts is recommended to reflect the increased number of media purchases and the increase in telecommunication services provided to state agencies.

Requirements	\$2,878,798
Receipts	\$2,878,798
Appropriation	-

Polk Building

1. Reserve for Rent and Moving Costs Related to Polk Building Sale

The Polk Building in Charlotte is expected to be sold in the coming fiscal year. Funding is recommended to provide rent for state agencies that must be relocated once the facility is sold. Also, funds for nonrecurring moving expenses are recommended.

Appropriation	\$600,000
Appropriation - Nonrecurring	\$200,000

Total Recommended Expansion

Recurring

Requirements	\$4,374,898
Receipts	2,878,798
Appropriation	\$1,496,100
Number of Positions	7.000

Nonrecurring

Requirements	\$755,000
Receipts	-
<hr/>	
Appropriation	\$755,000
Number of Positions	-

**Total Recommended Adjustments for
Department of Administration
2004-05**

Recurring

Requirements	\$3,837,128
Receipts	2,878,798
<hr/>	
Appropriation	\$958,330
Number of Positions	7.000

Nonrecurring

Requirements	\$755,000
Receipts	-
<hr/>	
Appropriation	\$755,000
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Office of Administrative Hearings
2004-05**

Recurring

Requirements	(\$24,874)
Receipts	-
	<hr/>
Appropriation	(\$24,874)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Office of Administrative Hearings (18210)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$2,531,811	\$2,506,937	(1.0)%
Receipts	<u>120,014</u>	<u>120,014</u>	0.0 %
Appropriation	<u>\$2,411,797</u>	<u>\$2,386,923</u>	(1.0)%
Positions	37.000	37.000	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Administration

1. Operating Budget

It is recommended that the operating budgets for contractual services, maintenance agreements, rent and leases, travel, communication and data processing, and general administrative supplies be reduced.

Appropriation (\$24,874)

Total Recommended Reductions

Recurring

Requirements	(\$24,874)
Receipts	-
Appropriation	<u>(\$24,874)</u>
Number of Positions	-

Office of the State Auditor (13300)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$12,590,427	\$12,362,370	(1.8)%
Receipts	<u>2,296,626</u>	<u>2,296,626</u>	0.0 %
Appropriation	<u>\$10,293,801</u>	<u>\$10,065,744</u>	(2.2)%
Positions	192.000	188.000	(2.1)%

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Field Audit Division

1. Field Audit Positions

It is recommended that two vacant Assistant State Auditor III positions, one filled Processing Assistant V position, and one filled Assistant State Auditor I position be eliminated.

Appropriation	(\$228,057)
Number of Positions	(4.000)

Total Recommended Reductions

Recurring

Requirements	(\$228,057)
Receipts	-
<hr/>	
Appropriation	(\$228,057)
Number of Positions	(4.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Office of the State Auditor
2004-05**

Recurring

Requirements	(\$228,057)
Receipts	-
	<hr/>
Appropriation	(\$228,057)
Number of Positions	(4.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

State Board of Elections (18025)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$4,955,439	\$4,905,933	(1.0)%
Receipts	<u>39,500</u>	<u>39,500</u>	0.0 %
Appropriation	<u>\$4,915,939</u>	<u>\$4,866,433</u>	(1.0)%
Positions	20.000	20.000	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Operating Budget

It is recommended that the State Board of Elections reduce its operating budget.

Appropriation (\$49,506)

Total Recommended Reductions

Recurring

Requirements	(\$49,506)
Receipts	-
Appropriation	<u>(\$49,506)</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
State Board of Elections
2004-05**

Recurring

Requirements	(\$49,506)
Receipts	-
	<hr/>
Appropriation	(\$49,506)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Office of the State Controller (14160)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$9,940,069	\$9,840,640	(1.0)%
Receipts	<u>220,618</u>	<u>220,618</u>	0.0 %
Appropriation	<u>\$9,719,451</u>	<u>\$9,620,022</u>	(1.0)%
Positions	86.750	86.750	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Administration

1. Computer/Data Processing

It is recommended that the budget for computer/data processing be reduced.

Appropriation (\$99,429)

Total Recommended Reductions

Recurring

Requirements	(\$99,429)
Receipts	-
Appropriation	<u>(\$99,429)</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Office of the State Controller
2004-05**

Recurring

Requirements	(\$99,429)
Receipts	-
	<hr/>
Appropriation	(\$99,429)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Department of Cultural Resources (14800)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$61,231,047	\$63,621,170	3.9 %
Receipts	<u>7,142,449</u>	<u>7,142,449</u>	0.0 %
Appropriation	<u>\$54,088,598</u>	<u>\$56,478,721</u>	4.4 %
Positions	704.645	717.645	1.8 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Operating Budget Reductions

1. **Office of Secretary**

A reduction is recommended for the historic, cultural, and arts organization grants.

Appropriation (\$25,598)

2. **Administrative Services**

A reduction for personal computers and printers is recommended.

Appropriation (\$23,413)

3. **Historic Resources**

A reduction is recommended to the program administration and support budget.

Appropriation (\$19,336)

4. **Historic Publications**

A budget reduction for personal computers, software, printing, and travel is recommended.

Appropriation (\$12,636)

5. **Archival and Records Management**

It is recommended that two vacant positions be abolished.

Appropriation (\$59,166)

Number of Positions (2.000)

6. **State Historic Sites**

A reduction is recommended in temporary wages and contractual services.

Appropriation (\$120,489)

7. Tryon Palace Historic Site		
A reduction in temporary wages is recommended.		
	Appropriation	(\$31,380)
8. Archives/Historic Preservation		
An operating budget reduction is recommended.		
	Appropriation	(\$14,375)
9. Office of State Archaeology		
A reduction in the operating budget is recommended.		
	Appropriation	(\$12,666)
10. Western Office - Historic Resources		
An operating budget reduction is recommended.		
	Appropriation	(\$5,518)
11. Museum of History		
An operating budget reduction is recommended.		
	Appropriation	(\$97,396)

Total Recommended Reductions

Recurring

Requirements		(\$421,973)
Receipts		-
		<hr/>
Appropriation		(\$421,973)
Number of Positions		(2.000)

Nonrecurring

Requirements		-
Receipts		-
		<hr/>
Appropriation		-
Number of Positions		-

Expansion 2004-05

Administration

1. **Information Technology**

Funding is recommended to expand the information systems operation for archiving documents and digital images. This funding will be used to establish an Applications Analyst Programmer I position, an Information Systems Director I position and a Computer Network Coordinator position.

Appropriation	\$364,088
Number of Positions	3.000

Archives and Records

1. **Digital Archives and Repository**

Funding is recommended to expand the local records and information technology programs to address the proliferation of state and local government public records, transfer records scheduled for preservation, film essential records for security, and expand online access to public records.

Appropriation	\$200,000
Number of Positions	5.000

Museum of Art

1. **Museum of Art**

Additional funding is recommended to support museum operations.

Appropriation	\$500,000
Appropriation - Nonrecurring	\$500,000

State Library

1. **Maintain NC LIVE Series**

Funding is recommended to support the continued operation of NC LIVE and enable the State Library to provide a systematic, ongoing training program for library staff statewide to assure they have the skills and knowledge to maintain their Internet infrastructure and assist library patrons in using the information resources provided through NC LIVE and other Internet resources.

Appropriation	\$526,712
Number of Positions	1.000

North Carolina Arts Council

1. **Restore Basic Grants Program and Operating Support**

Funding is recommended to continue the Basic Grants Program at the FY 2003-04 level and to provide sufficient operational support.

Appropriation	\$358,296
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Museum of History

1. Museum of the Albemarle

Funds are recommended to provide start-up and operating costs for the Museum of the Albemarle, which is scheduled to be completed in the 2004-05 fiscal year.

Appropriation \$363,000
Number of Positions 6.000

Total Recommended Expansion

Recurring

Requirements	\$2,312,096
Receipts	-
<hr style="width: 100%;"/>	
Appropriation	\$2,312,096
Number of Positions	15.000

Nonrecurring

Requirements	\$500,000
Receipts	-
<hr style="width: 100%;"/>	
Appropriation	\$500,000
Number of Positions	-

**Total Recommended Adjustments for
Department of Cultural Resources
2004-05**

Recurring

Requirements	\$1,890,123
Receipts	-
<hr style="width: 100%;"/>	
Appropriation	\$1,890,123
Number of Positions	13.000

Nonrecurring

Requirements	\$500,000
Receipts	-
<hr style="width: 100%;"/>	
Appropriation	\$500,000
Number of Positions	-

Roanoke Island Commission (14802)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$1,636,559	\$1,603,828	(2.0)%
Receipts	-	-	
Appropriation	<u>\$1,636,559</u>	<u>\$1,603,828</u>	(2.0)%
Positions	-	-	

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Operating Budget

A reduction in the commission's operating budget is recommended.

Appropriation (\$32,731)

Total Recommended Reductions

Recurring

Requirements	(\$32,731)
Receipts	-
Appropriation	<u>(\$32,731)</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Roanoke Island Commission
2004-05**

Recurring

Requirements	(\$32,731)
Receipts	-
	<hr/>
Appropriation	(\$32,731)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

General Assembly (11000)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$45,949,305	\$45,169,726	(1.7)%
Receipts	<u>978,000</u>	<u>978,000</u>	0.0 %
Appropriation	<u>\$44,971,305</u>	<u>\$44,191,726</u>	(1.7)%
Positions	243.000	243.000	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Reserves and Transfers

1. Agency Operating Reserve

It is recommended that the General Assembly's operating reserves be reduced.

Appropriation - Nonrecurring (\$921,318)

Total Recommended Reductions

Recurring

Requirements	-
Receipts	-

Appropriation	-
Number of Positions	-

Nonrecurring

Requirements	(\$921,318)
Receipts	-

Appropriation	(\$921,318)
Number of Positions	-

Expansion

2004-05

1. Council of State Government Dues

It is recommended that funding be provided to pay for Council of State Government dues.

Appropriation \$141,739

Total Recommended Expansion

Recurring

Requirements \$141,739

Receipts -

Appropriation \$141,739

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

**Total Recommended Adjustments for
General Assembly
2004-05**

Recurring

Requirements \$141,739

Receipts -

Appropriation \$141,739

Number of Positions -

Nonrecurring

Requirements (\$921,318)

Receipts -

Appropriation (\$921,318)

Number of Positions -

Office of the Governor (13000)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$5,065,781	\$12,534,830	147.4 %
Receipts	<u>239,278</u>	<u>7,739,278</u>	3,134.4 %
Appropriation	<u>\$4,826,503</u>	<u>\$4,795,552</u>	(0.6)%
Positions	62.217	62.217	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Operating Budget

A reduction is recommended to the Office of the Governor's operating budget.

Appropriation (\$99,037)

Total Recommended Reductions

Recurring

Requirements (\$99,037)

Receipts -

Appropriation (\$99,037)

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

Expansion	<u>2004-05</u>
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1. Association Dues

An increase is recommended for association dues.

Appropriation	\$68,086
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Information Technology Services

1. Enterprise Information Technology (EIT) Fund

It is recommended that \$7.5 million from the ITS cash balance on June 30, 2004 be transferred to a Special Enterprise IT Fund. In FY 2004-05, the EIT Fund would be used to begin implementing the recommendations outlined in the Business Infrastructure Study, remediation actions included in the Statewide Security Assessment report, and improvements to the State's legacy systems currently being studied by the State CIO. It is also recommended that future savings, which result from the implementation of recommendations in the Office of State Budget and Management's IT Report pursuant to Section 21.1 of HB 397, be transferred to the EIT Fund.

Requirements - Nonrecurring	\$7,500,000
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Receipts - Nonrecurring	\$7,500,000
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Appropriation - Nonrecurring	-
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Total Recommended Expansion

Recurring

Requirements	\$68,086
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Receipts	-
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Appropriation	\$68,086
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Number of Positions	-
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Nonrecurring

Requirements	\$7,500,000
Receipts	7,500,000
<hr/>	
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Office of the Governor
2004-05**

Recurring

Requirements	(\$30,951)
Receipts	-
<hr/>	
Appropriation	(\$30,951)
Number of Positions	-

Nonrecurring

Requirements	\$7,500,000
Receipts	7,500,000
<hr/>	
Appropriation	-
Number of Positions	-

Office of State Budget and Management (13005)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$4,216,610	\$4,379,946	3.9 %
Receipts	<u>500</u>	<u>500</u>	0.0 %
Appropriation	<u>\$4,216,110</u>	<u>\$4,379,446</u>	3.9 %
Positions	52.000	53.000	1.9 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Operating Budget and Vacant Position

It is recommended that the Office of State Budget and Management's operating budget be reduced, including the elimination of one vacant position.

Appropriation	(\$84,322)
Number of Positions	(1.000)

Total Recommended Reductions

Recurring

Requirements	(\$84,322)
Receipts	-
<hr/>	
Appropriation	(\$84,322)
Number of Positions	(1.000)

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

Expansion

2004-05

Information Technology Support

1. Applications Programmer II Position

The Core Business Systems Study authorized by the General Assembly and recently completed by Deloitte Consulting recommends that OSBM hire additional technical assistance. Therefore, it is recommended that an Applications Programmer II position be established.

Appropriation	\$82,825
Appropriation - Nonrecurring	\$1,760
Number of Positions	1.000

Operating Funds

1. Operating Budget Increases

Increased funding is recommended to address shortfalls in OSBM's operating budget.

Appropriation	\$79,447
Appropriation - Nonrecurring	\$10,000

Expenditure Forecasting Support

1. Economist III Position

Funding is recommended to establish a new Economist III position. This position will analyze and project state agency expenditures.

Appropriation	\$71,866
Appropriation - Nonrecurring	\$1,760
Number of Positions	1.000

Total Recommended Expansion

Recurring

Requirements	\$234,138
Receipts	-
	<hr/>
Appropriation	\$234,138
Number of Positions	2.000

Nonrecurring

Requirements	\$13,520
Receipts	-
<hr/>	
Appropriation	\$13,520
Number of Positions	-

**Total Recommended Adjustments for
Office of State Budget and Management
2004-05**

Recurring

Requirements	\$149,816
Receipts	-
<hr/>	
Appropriation	\$149,816
Number of Positions	1.000

Nonrecurring

Requirements	\$13,520
Receipts	-
<hr/>	
Appropriation	\$13,520
Number of Positions	-

OSBM - Reserve for Special Appropriation (13085)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$4,250,000	\$4,250,000	0.0 %
Receipts	<u>1,120,000</u>	<u>1,120,000</u>	0.0 %
Appropriation	<u>\$3,130,000</u>	<u>\$3,130,000</u>	0.0 %
Positions	-	-	

North Carolina Housing Finance Agency (13010)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$4,750,945	\$4,750,945	0.0 %
Receipts	-	-	
Appropriation	<u>\$4,750,945</u>	<u>\$4,750,945</u>	0.0 %
Positions	-	-	

Department of Insurance (13900)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$28,196,391	\$27,958,089	(0.8)%
Receipts	<u>5,008,804</u>	<u>5,008,804</u>	0.0 %
Appropriation	<u>\$23,187,587</u>	<u>\$22,949,285</u>	(1.0)%
Positions	381.270	381.270	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Department-Wide Reductions

1. Operating Budget Reductions

It is recommended that department-wide reductions occur in the equipment, travel, administrative expenses, communication/data processing, other services, intangible assets, general administrative supplies, repairs, and maintenance agreement budgets.

Appropriation (\$238,302)

Total Recommended Reductions

Recurring

Requirements	(\$238,302)
Receipts	-
Appropriation	<u>(\$238,302)</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of Insurance
2004-05**

Recurring

Requirements	(\$238,302)
Receipts	-
	<hr/>
Appropriation	(\$238,302)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Insurance - Volunteer Safety Workers' Compensation
Fund (13901)**

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$2,600,000	\$2,600,000	0.0 %
Receipts	-	-	
Appropriation	<u>\$2,600,000</u>	<u>\$2,600,000</u>	0.0 %
Positions	-	-	

Office of the Lieutenant Governor (13100)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$601,722	\$631,383	4.9 %
Receipts	-	-	
Appropriation	<u>\$601,722</u>	<u>\$631,383</u>	4.9 %
Positions	8.000	9.150	14.4 %

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

1. Base Realignment and Closure (BRAC)

Funding is recommended for a BRAC Processing Assistant III position. This position will provide administrative support for the state's efforts in protecting and expanding our military bases and military presence in North Carolina. Also, increased funding is recommended for the operating budget.

Appropriation	\$29,661
Number of Positions	1.150

Total Recommended Expansion

Recurring

Requirements	\$29,661
Receipts	-
Appropriation	<u>\$29,661</u>
Number of Positions	1.150

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Office of the Lieutenant Governor
2004-05**

Recurring

Requirements	\$29,661
Receipts	-
	<hr/>
Appropriation	\$29,661
Number of Positions	1.150

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Department of Revenue (14700)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$84,660,687	\$88,291,896	4.3 %
Receipts	<u>9,486,593</u>	<u>14,120,890</u>	48.9 %
Appropriation	<u>\$75,174,094</u>	<u>\$74,171,006</u>	(1.3)%
Positions	1,324.500	1,371.500	3.5 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Operating Budget Reductions

1. Fund Balance Transfer

A nonrecurring transfer to the General Fund is recommended from the fund balance of budget code 24704 - 20% Collection Assistance Fee.

Requirements	-
Receipts - Nonrecurring	\$1,503,088
Appropriation - Nonrecurring	(\$1,503,088)

Total Recommended Reductions

Recurring

Requirements	-
Receipts	-
Appropriation	-
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	1,503,088
	<hr/>
Appropriation	(\$1,503,088)
Number of Positions	-

Expansion

2004-05

1. Project Compliance

It is recommended that Project Compliance be fully funded from Project Collect tax receipts. Noncompliance with the state's tax laws is an increasing problem, and Project Compliance addresses efforts to curtail any further erosion of the state's tax base. This appropriation also contains support for outreach activities to increase tax compliance.

Requirements	\$3,131,209
Receipts	\$3,131,209
	<hr/>
Appropriation	-
Number of Positions	47,000

2. Replace Obsolete Equipment

Funding is recommended to replace mission-critical equipment on an industry-standard cycle of every three to four years.

Appropriation	\$500,000
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Total Recommended Expansion

Recurring

Requirements	\$3,631,209
Receipts	3,131,209
	<hr/>
Appropriation	\$500,000
Number of Positions	47,000

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of Revenue
2004-05**

Recurring

Requirements	\$3,631,209
Receipts	3,131,209
	<hr/>
Appropriation	\$500,000
Number of Positions	47.000

Nonrecurring

Requirements	-
Receipts	1,503,088
	<hr/>
Appropriation	(\$1,503,088)
Number of Positions	-

NC Rules Review Commission (18300)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$310,454	\$307,269	(1.0)%
Receipts	-	-	
Appropriation	<u>\$310,454</u>	<u>\$307,269</u>	(1.0)%
Positions	4.000	4.000	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Administration

1. Board Compensation, Transportation, and Subsistence Budget

It is recommended that board member compensation, transportation, and subsistence be reduced.

Appropriation (\$3,185)

Total Recommended Reductions

Recurring

Requirements	(\$3,185)
Receipts	-
Appropriation	<u>(\$3,185)</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
NC Rules Review Commission
2004-05**

Recurring

Requirements	(\$3,185)
Receipts	-
	<hr/>
Appropriation	(\$3,185)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Department of Secretary of State (13200)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$8,143,360	\$8,032,871	(1.4)%
Receipts	<u>387,162</u>	<u>387,062</u>	0.0 %
Appropriation	<u>\$7,756,198</u>	<u>\$7,645,809</u>	(1.4)%
Positions	168.750	167.750	(0.6)%

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Business License Information Office

1. Business License Information Office Budget

It is recommended that the budget for the Business License Information Office be eliminated, including abolishing the vacant director's position and eliminating the operating budget. Pursuant to Session Law 2003-284, Section 24.1, the Business License Information System Office is to be transferred to the North Carolina Community College System effective July 1, 2004.

Requirements	(\$110,489)
Receipts	(\$100)
Appropriation	(\$110,389)
Number of Positions	(1.000)

Total Recommended Reductions

Recurring

Requirements	(\$110,489)
Receipts	(100)
Appropriation	(\$110,389)
Number of Positions	(1.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of Secretary of State
2004-05**

Recurring

Requirements	(\$110,489)
Receipts	(100)
	<hr/>
Appropriation	(\$110,389)
Number of Positions	(1.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Department of State Treasurer (13410)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$26,282,048	\$35,410,468	34.7 %
Receipts	<u>18,704,264</u>	<u>27,503,940</u>	47.0 %
Appropriation	<u>\$7,577,784</u>	<u>\$7,906,528</u>	4.3 %
Positions	258.000	263.000	1.9 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Investment Management Division

1. Computer/Data Processing

It is recommended that the budget for computer/data processing be reduced.

Appropriation (\$25,866)

Financial Operations Division

1. Computer/Data Processing

It is recommended that the budget for computer/data processing be reduced.

Appropriation (\$77,598)

Local Government Operations Division

1. Computer/Data Processing

It is recommended that the budget for computer/data processing be reduced.

Appropriation (\$51,732)

Total Recommended Reductions

Recurring

Requirements	(\$155,196)
Receipts	-
<hr/>	
Appropriation	(\$155,196)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

Expansion

2004-05

Retirement Systems Division

1. Time-Limited Positions to Permanent Status

It is recommended that 24 time-limited positions be made permanent. Keeping the staff on a permanent basis will prevent a repeat of work backlogs. Four of the positions will be reclassified up and reassigned from current duties to fulfill other needs in the department, including death claims processing, document management, and internal auditing functions. In addition to salary and fringe benefits, the request includes \$4,250 in operating funds. Recurring requirements increase to \$838,965 in FY 2005-06.

Requirements	\$489,070
Receipts	\$489,070
<hr/>	
Appropriation	-

2. Information Technology Project for FY 2004-05

It is recommended that funding be provided to pay for the implementation phase (FY 2004-05 costs only) of the Retirement Systems Division's information technology project. The division is authorized to expend receipts up to \$8,794,546 to cover the FY 2004-05 expected expenses.

Requirements - Nonrecurring	\$8,794,546
Receipts - Nonrecurring	\$8,794,546
<hr/>	
Appropriation - Nonrecurring	-

Investment Management Division

1. Receipts Supported Positions Conversion

It is recommended that the funding sources for five positions established in FY 2003-04 be switched from receipt support to appropriation support. This action will provide consistency within the division's budget.

Requirements	-
Receipts	(\$483,940)
<hr/>	
Appropriation	\$483,940
Number of Positions	5.000

Total Recommended Expansion

Recurring

Requirements	\$489,070
Receipts	5,130
<hr/>	
Appropriation	\$483,940
Number of Positions	5.000

Nonrecurring

Requirements	\$8,794,546
Receipts	8,794,546
<hr/>	
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of State Treasurer
2004-05**

Recurring

Requirements	\$333,874
Receipts	5,130
<hr/>	
Appropriation	\$328,744
Number of Positions	5.000

Nonrecurring

Requirements	\$8,794,546
Receipts	8,794,546
<hr/>	
Appropriation	-
Number of Positions	-

**State Treasurer - Retirement for Fire and Rescue Squad Workers
 and Line of Duty Death Benefits (13412)**

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$7,481,179	\$7,481,179	0.0 %
Receipts	-	-	
Appropriation	<u>\$7,481,179</u>	<u>\$7,481,179</u>	0.0 %
Positions	-	-	

■ **Appropriations by Department/Budget Code** ■

Health and Human Services

Department of Health and Human Services (144xx)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$12,074,513,122	\$11,981,174,926	(0.8)%
Receipts	<u>8,214,995,378</u>	<u>8,168,658,418</u>	(0.6)%
Appropriation	<u>\$3,859,517,744</u>	<u>\$3,812,516,508</u>	(1.2)%
Positions	17,829.440	17,823.940	0.0 %

Total Recommended Entitlement Adjustments

Recurring

Requirements	(\$70,785,071)
Receipts	(8,548,985)
	<hr/>
Appropriation	(\$62,236,086)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Total Recommended Reductions

Recurring

Requirements	(\$100,563,435)
Receipts	(64,161,740)
	<hr/>
Appropriation	(\$36,401,695)
Number of Positions	(17.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Total Recommended Expansion

Recurring

Requirements	\$70,344,145
Receipts	26,373,765
	<hr/>
Appropriation	\$43,970,380
Number of Positions	11.500

Nonrecurring

Requirements	\$7,666,165
Receipts	-
	<hr/>
Appropriation	\$7,666,165
Number of Positions	-

**Total Recommended Adjustments for
 Department of Health and Human Services
 2004-05**

Recurring

Requirements (\$101,004,361)

Receipts (46,336,960)

Appropriation (\$54,667,401)

Number of Positions (5.500)

Nonrecurring

Requirements \$7,666,165

Receipts -

Appropriation \$7,666,165

Number of Positions -

Division of Central Management and Support (14410)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$131,164,549	\$144,996,751	10.5 %
Receipts	<u>50,196,116</u>	<u>50,196,116</u>	0.0 %
Appropriation	<u>\$80,968,433</u>	<u>\$94,800,635</u>	17.1 %
Positions	622.000	625.000	0.5 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. N.C. Child Advocacy Institute Grant-In-Aid

It is recommended that funding be eliminated for the North Carolina Child Advocacy Institute contract. The Institute compiles statistical data and conducts policy research and development concerning children and youth in North Carolina. This action will not affect direct services to children.

Appropriation (\$225,000)

Total Recommended Reductions

Recurring

Requirements (\$225,000)

Receipts -

Appropriation (\$225,000)

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

Expansion 2004-05

1. More at Four

This expansion request for the More at Four prekindergarten program is necessary to address unmet needs remaining after the first significant phase of the program. While continuing the FY 03-04 goal of serving the needs of at-risk four-year-olds, the demand for additional program slots has generated county waiting lists. An increase of 2,000 slots will meet the current demand for the target population. Based on the second year program evaluation report, More at Four resulted in significant gains in language literacy skills, pre-math skills and general knowledge, as compared to national norms. A decrease in problem social behaviors was also noted. The high demand for the program has increased the need for additional technical assistance, payment processing, monitoring and professional development. Three positions with the necessary high skill level and expertise are needed to support the demand for More at Four prekindergarten program services.

Appropriation	\$8,041,037
Appropriation - Nonrecurring	\$1,016,165
Number of Positions	3,000

2. MMIS Implementation

The Division of Information and Resource Management (DIRM) is responsible for the implementation and assessment of the Medicaid Management Information System (MMIS) rebid efforts. The contract with the state's current fiscal agent, Electronic Data Systems Corporation (EDS), will end June 30, 2005. During the implementation phase of the new contract, the Department must continue to operate and pay for the existing system. This non-recurring appropriation is to fund the cost of the dual operations.

Appropriation - Nonrecurring	\$5,000,000
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Total Recommended Expansion

Recurring

Requirements	\$8,041,037
Receipts	-
Appropriation	\$8,041,037
Number of Positions	3,000

Nonrecurring

Requirements	\$6,016,165
Receipts	-
Appropriation	\$6,016,165
Number of Positions	-

**Total Recommended Adjustments for
Division of Central Management and
Support
2004-05**

Recurring

Requirements	\$7,816,037
Receipts	-
	<hr/>
Appropriation	\$7,816,037
Number of Positions	3.000

Nonrecurring

Requirements	\$6,016,165
Receipts	-
	<hr/>
Appropriation	\$6,016,165
Number of Positions	-

Division of Aging and Adult Services (14411)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$68,673,275	\$68,673,275	0.0 %
Receipts	<u>40,987,437</u>	<u>40,987,437</u>	0.0 %
Appropriation	<u>\$27,685,838</u>	<u>\$27,685,838</u>	0.0 %
Positions	33.760	33.760	0.0 %

Division of Child Development (14420)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$534,677,018	\$546,677,018	2.2 %
Receipts	<u>275,466,325</u>	<u>275,466,325</u>	0.0 %
Appropriation	<u>\$259,210,693</u>	<u>\$271,210,693</u>	4.6 %
Positions	274.750	274.750	0.0 %

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

1. Subsidized Child Care Services

A total increase of \$22 million in subsidy availability is necessary for FY 2004-05. The recommended appropriation is supplemented by \$3,269,309 in Social Services Block Grant (SSBG) and \$6,730,691 in Temporary Assistance for Needy Families (TANF) Block Grant, totaling \$10 million, which brings the total necessary increase in subsidy availability to \$22 million over FY 2003-04. This combination of funding sources will not reduce the waiting list but will prevent services termination for those children currently receiving subsidy. State subsidy funds are required to match the Child Care Development Fund (CCDF) Block Grant, as well as to provide Maintenance of Effort (MOE) funding for the TANF and CCDF Block Grants. The Division of Child Development provided subsidized child care for over 10,000 children in 2003-04. There are currently over 24,000 children on the waiting list for services.

Appropriation \$12,000,000

Total Recommended Expansion

Recurring

Requirements	\$12,000,000
Receipts	-
Appropriation	<u>\$12,000,000</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Division of Child Development
2004-05**

Recurring

Requirements	\$12,000,000
Receipts	-
	<hr/>
Appropriation	\$12,000,000
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Office of Education Services (14424)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$33,652,702	\$33,395,564	(0.8)%
Receipts	<u>1,982,626</u>	<u>1,982,626</u>	0.0 %
Appropriation	<u>\$31,670,076</u>	<u>\$31,412,938</u>	(0.8)%
Positions	646.480	641.480	(0.8)%

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Western North Carolina School for the Deaf

This recommendation eliminates 2.0 vacant positions and adjusts operating expenses at the Western North Carolina School for the Deaf. The original allocation of positions at the school was based on 200 or more children to be served on campus. For the past five years the average number of students has been approximately 140. This action will not have an adverse affect on educational or residential services to students.

Appropriation (\$71,708)
Number of Positions (2.000)

2. Eastern North Carolina School for the Deaf

Positions at the Eastern North Carolina School for the Deaf were established to support a larger population of students than currently exists. This recommendation eliminates 2.0 vacant positions and some contracted support services.

Appropriation (\$69,498)
Number of Positions (2.000)

3. Governor Morehead School

This recommendation consists of a modest adjustment in salary reserve at the Governor Morehead School and elimination of 1.0 vacant support staff position.

Appropriation (\$76,770)
Number of Positions (1.000)

4. Governor Morehead Preschool Operating Budget

The recommended action at the Governor Morehead Preschool represents a small adjustment to contracted services.

Appropriation (\$29,162)

5. Central North Carolina School for the Deaf

The Central North Carolina School for the Deaf closed in June 2001. This recommended action decreases the minimal amount needed to cover maintenance expenses.

	Appropriation	(\$10,000)
<hr/>		
Total Recommended Reductions		
Recurring		
Requirements		(\$257,138)
Receipts		-
		<hr/>
Appropriation		(\$257,138)
Number of Positions		(5.000)
Nonrecurring		
Requirements		-
Receipts		-
		<hr/>
Appropriation		-
Number of Positions		-

**Total Recommended Adjustments for
Office of Education Services
2004-05**

Recurring	
Requirements	(\$257,138)
Receipts	-
	<hr/>
Appropriation	(\$257,138)
Number of Positions	(5.000)
Nonrecurring	
Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Division of Public Health (14430)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$515,702,833	\$524,324,194	1.7 %
Receipts	<u>392,253,938</u>	<u>392,253,938</u>	0.0 %
Appropriation	<u>\$123,448,895</u>	<u>\$132,070,256</u>	7.0 %
Positions	1,454.030	1,461.530	0.5 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Cancer Control Program

It is recommended that the budget for the Cancer Control Program be reduced by 50%. The program is 100% state supported and provides diagnostic and treatment services for citizens. It is anticipated that many clients will continue to be served. The uncompensated care in hospital based cancer centers can be included in Medicare and Medicaid reimbursement plans.

Appropriation (\$1,200,000)

Total Recommended Reductions

Recurring

Requirements (\$1,200,000)

Receipts -

Appropriation (\$1,200,000)

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

Expansion

2004-05

1. School Nurses

It is recommended that the state begin to increase the number of school nurse positions to move toward the national recommendation of 1:750 students. The plan is to phase in school nurses beginning with 100 positions in 2004-05. In addition to the funds appropriated, \$6,500,000 in start-up grants will be made available to local systems over a three year period from available federal block grant funds.

Appropriation \$5,000,000

2. HIV/AIDS Drug Assistance Program (ADAP)

The NC AIDS Drug Assistance Program (ADAP) has a waiting list due to lack of funds. It is estimated that 300 individuals will be on the list by June 2004. An estimated 750 additional people will apply and qualify for the ADAP program next year. Serving these people will not be possible without additional funds.

Appropriation \$4,200,000

3. Mold Remediation

This is a recommendation to create a unit within Public Health to address mold in state facilities. Four new positions are required, along with the space, supplies and equipment to support the unit.

Appropriation \$250,000

Appropriation - Nonrecurring \$150,000

Number of Positions 4.000

4. Public Health Response to Clandestine Methamphetamine Labs

In this new program, the Division of Public Health will be the lead agency in developing statewide guidelines for cleanup of methamphetamine labs and ensuring that counties follow these procedures. The program will provide technical assistance and support to counties to ensure contaminated buildings are safe for reoccupation.

Appropriation \$221,361

Number of Positions 3.500

Total Recommended Expansion

Recurring

Requirements \$9,671,361

Receipts -

Appropriation \$9,671,361

Number of Positions 7.500

Nonrecurring

Requirements	\$150,000
Receipts	-
<hr/>	
Appropriation	\$150,000
Number of Positions	-

**Total Recommended Adjustments for
Division of Public Health
2004-05**

Recurring

Requirements	\$8,471,361
Receipts	-
<hr/>	
Appropriation	\$8,471,361
Number of Positions	7.500

Nonrecurring

Requirements	\$150,000
Receipts	-
<hr/>	
Appropriation	\$150,000
Number of Positions	-

Division of Social Services (14440)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$1,289,532,424	\$1,283,520,652	(0.5)%
Receipts	<u>1,100,503,156</u>	<u>1,095,453,332</u>	(0.5)%
Appropriation	<u>\$189,029,268</u>	<u>\$188,067,320</u>	(0.5)%
Positions	748.000	749.000	0.1 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. State/County Special Assistance Program

The State/County Special Assistance for Adults program, an entitlement program funded solely with state and county appropriations, provides direct cash payments to eligible older and disabled adults to pay for care in adult care homes. The Department has worked with providers and the Centers for Medicare and Medicaid Services to identify resident personal care costs that qualify for coverage by Medicaid receipts effective July 1, 2003. This has resulted in a cost savings in state appropriations. It is recommended that state appropriations be adjusted to reflect the cost savings.

Requirements	(\$10,200,000)
Receipts	(\$5,100,000)
Appropriation	(\$5,100,000)

2. Work First Electing Counties

There are currently nine counties designated as electing counties for Work First Program purposes. This voluntary program grants counties the opportunity to establish their own eligibility criteria and benefit levels. Since state fiscal year 2000-01, the number of counties participating in this program has been reduced from 24 to a projected 11 in 2003-04 and nine in 2004-05. It is recommended that appropriations be adjusted to the level necessary to support projected 2004-05 participation.

Appropriation	(\$576,380)
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3. Work First Cash Assistance Payments

Work First Cash Assistance provides a monthly assistance check intended to help families meet the basic needs for food, shelter, etc. This recommended adjustment is based on current projections for FY 2004-05 that indicate a sufficient amount of federal cash assistance to meet statewide needs.

Appropriation (\$1,990,726)

Total Recommended Reductions

Recurring

Requirements (\$12,767,106)

Receipts (5,100,000)

Appropriation (\$7,667,106)

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

Expansion

2004-05

1. Aid to Counties for Child Protective Services

North Carolina's Multiple Response System (MRS) was initiated by the General Assembly through enactment of Session Law 2001-424. The MRS represents a concerted effort by the individual county departments of social services; the North Carolina Division of Social Services; and its partners, including the North Carolina Association of County Directors of Social Services, universities, private agencies and child advocates to reform children's services. The primary motivation for the MRS is to ensure safe, permanent homes for children while improving the lives of their families. The family-centered practice made possible by the Multiple Response System will help North Carolina better serve and protect children and their families. An appropriation of \$5 million is recommended to support this initiative.

Appropriation \$5,000,000

2. Methamphetamine Training

The Division of Social Services needs to develop statewide policies and procedures to effectively train all child welfare staff at county departments of social services in responding to reports of child abuse and neglect for children living at clandestine methamphetamine laboratories. To accomplish this project, the Division will need one Social Services Policy Consultant II to develop the statewide policy and provide consultation to all 100 county departments of social services. To implement the comprehensive training component, the Division will contract with a university partner to develop the curriculum and administer the statewide training on how to ensure the safety of children.

Requirements	\$255,334
Receipts	\$50,176
<hr/>	
Appropriation	\$205,158
Number of Positions	1.000

3. NC FAST (Families Accessing Services Through Technology)

NC FAST is an initiative to enhance automated systems in DHHS to make the family unit the focus of all service delivery. Comprehensive, accurate and timely information concerning the family needs is to be shared across program areas and counties. NC FAST can provide child welfare practitioners the accurate, timely, and complete statewide information they need to manage caseloads better and make decisions. The model includes streamlined assessment, eligibility, and work flow management tools to minimize future county staff labor costs and increase the staff time available to work with families on long-term self-sufficiency and stability.

Appropriation - Nonrecurring	\$1,500,000
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Total Recommended Expansion

Recurring

Requirements	\$5,255,334
Receipts	50,176
<hr/>	
Appropriation	\$5,205,158
Number of Positions	1.000

Nonrecurring

Requirements	\$1,500,000
Receipts	-
<hr/>	
Appropriation	\$1,500,000
Number of Positions	-

**Total Recommended Adjustments for
Division of Social Services
2004-05**

Recurring

Requirements	(\$7,511,772)
Receipts	(5,049,824)
	<hr/>
Appropriation	(\$2,461,948)
Number of Positions	1.000

Nonrecurring

Requirements	\$1,500,000
Receipts	-
	<hr/>
Appropriation	\$1,500,000
Number of Positions	-

Division of Medical Assistance (14445)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$8,134,689,833	\$7,978,469,138	(1.9)%
Receipts	<u>5,685,519,870</u>	<u>5,617,909,145</u>	(1.2)%
Appropriation	<u>\$2,449,169,963</u>	<u>\$2,360,559,993</u>	(3.6)%
Positions	344.000	344.000	0.0 %

Appropriation Items -- Recommended Adjustments

Entitlement Adjustments

2004-05

1. Medicaid Growth Rate

Adjust the annual Medicaid growth rate from 12.3% to 11.3%. An 11.3% rate of growth is more consistent with national trends in Medicaid and is more consistent with projected growth in private health care plans.

Requirements	(\$70,785,071)
Receipts	(\$48,785,071)
<hr/>	
Appropriation	(\$22,000,000)

2. Federal Participation Rate

The budget for 2004 assumed the state and county share of Medicaid costs would be 31.74% and 5.60% respectively. The actual share will be 31.08% (state) and 5.48% (county). This adjustment will result in \$40 million reduction in needed state appropriations.

Requirements	-
Receipts	\$40,236,086
<hr/>	
Appropriation	(\$40,236,086)

Total Recommended Entitlement Adjustments

Recurring

Requirements	(\$70,785,071)
Receipts	(8,548,985)
	<hr/>
Appropriation	(\$62,236,086)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Reductions

2004-05

1. Average Wholesale Price (AWP) Modification

DMA currently pays pharmacists AWP-10% for the ingredient portion of prescription drugs. This recommendation is to increase the AWP discount to 13%. This discount amount is consistent with many state Medicaid Programs. The change will be effective October 1, 2004.

Requirements	(\$27,647,310)
Receipts	(\$19,054,526)
	<hr/>
Appropriation	(\$8,592,784)

2. Dispensing Fee

Adjust dispensing fee for brand name drugs from \$4.00 to \$3.00 for pharmacies physically located in non-rural counties.

Requirements	(\$4,714,875)
Receipts	(\$3,429,000)
	<hr/>
Appropriation	(\$1,285,875)

3. Hospital Reimbursement

CMS announced a 15.4% increase (\$41,796,813 for a full year) to NC's Disproportionate Share Hospital (DSH) allotment. It is recommended to adjust reimbursement to hospitals by an amount equal to the increase in DSH payments. This recommendation proposes an effective date of January 1, 2005.

Requirements	(\$20,898,407)
Receipts	(\$14,403,182)
	<hr/>
Appropriation	(\$6,495,225)

4. Provider Reimbursement

Eliminate positive adjustments to provider reimbursement rates. The FY 2003-04 budget was developed anticipating rate freezes for most providers. In some cases rates were not frozen. This recommendation carries forward the rate freezes anticipated in the 2003-04 budget.

Requirements	(\$32,175,032)
Receipts	(\$22,175,032)
	<hr/>
Appropriation	(\$10,000,000)

Total Recommended Reductions

Recurring

Requirements	(\$85,435,624)
Receipts	(59,061,740)
	<hr/>
Appropriation	(\$26,373,884)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Division of Medical Assistance
2004-05**

Recurring

Requirements	(\$156,220,695)
Receipts	(67,610,725)
	<hr/>
Appropriation	(\$88,609,970)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

NC Health Choice (14446)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$210,596,419	\$245,972,832	16.8 %
Receipts	<u>155,163,597</u>	<u>181,487,186</u>	17.0 %
Appropriation	<u>\$55,432,822</u>	<u>\$64,485,646</u>	16.3 %
Positions	2.000	2.000	0.0 %

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

1. Fund Health Choice Enrollment Increase

The State expects to see continued growth in NC Health Choice for Children enrollment through FY 2005 at a rate of 1% per month. This recommendation anticipates a Per Member Per Month premium of \$168.14. This premium will help ensure that all eligible children are served.

Requirements	\$35,376,413
Receipts	\$26,323,589
Appropriation	\$9,052,824

Total Recommended Expansion

Recurring

Requirements	\$35,376,413
Receipts	26,323,589
Appropriation	\$9,052,824
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
NC Health Choice
2004-05**

Recurring

Requirements	\$35,376,413
Receipts	26,323,589

Appropriation	\$9,052,824
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Number of Positions	-
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Nonrecurring

Requirements	-
Receipts	-

Appropriation	-
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Number of Positions	-
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**Division of Services for the Blind, Deaf, and Hard of
Hearing (14450)****Total Appropriations and Positions**

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$25,289,515	\$25,289,515	0.0 %
Receipts	<u>15,902,507</u>	<u>15,902,507</u>	0.0 %
Appropriation	<u>\$9,387,008</u>	<u>\$9,387,008</u>	0.0 %
Positions	309.550	309.550	0.0 %

Division of Mental Health/Developmental Disabilities/Substance Abuse Services (14460)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$981,165,501	\$980,966,228	0.0 %
Receipts	<u>400,742,403</u>	<u>400,742,403</u>	0.0 %
Appropriation	<u>\$580,423,098</u>	<u>\$580,223,825</u>	0.0 %
Positions	11,962.360	11,962.360	0.0 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Mental Health Contracts

To minimize the impact on services to clients, the Governor recommends revising contracts that support training, advocacy, education and referral services. This reduction has no effect on Maintenance of Effort for federal funds.

Appropriation (\$199,273)

Total Recommended Reductions

Recurring

Requirements	(\$199,273)
Receipts	-
Appropriation	(\$199,273)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
 Division of Mental Health/Developmental
 Disabilities/Substance Abuse Services
 2004-05**

Recurring

Requirements	(\$199,273)
Receipts	-
	<hr/>
Appropriation	(\$199,273)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Division of Facility Services (14470)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$27,163,022	\$27,163,022	0.0 %
Receipts	<u>14,906,230</u>	<u>14,906,230</u>	0.0 %
Appropriation	<u>\$12,256,792</u>	<u>\$12,256,792</u>	0.0 %
Positions	392.500	392.500	0.0 %

Division of Vocational Rehabilitation (14480)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$122,206,031	\$121,726,737	(0.4)%
Receipts	<u>81,371,173</u>	<u>81,371,173</u>	0.0 %
Appropriation	<u>\$40,834,858</u>	<u>\$40,355,564</u>	(1.2)%
Positions	1,040.010	1,028.010	(1.2)%

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Administrative Efficiencies

As part of an ongoing study of staffing and service delivery systems, the division has identified administrative and support resources that could be eliminated without diminishing the current level of services provided to clients. The reduction includes four filled and nine vacant positions, which total 12 full-time equivalents (FTEs).

Appropriation	(\$479,294)
Number of Positions	(12.000)

Total Recommended Reductions

Recurring

Requirements	(\$479,294)
Receipts	-
<hr/>	
Appropriation	(\$479,294)
Number of Positions	(12.000)

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Division of Vocational Rehabilitation
2004-05**

Recurring

Requirements	(\$479,294)
Receipts	-
	<hr/>
Appropriation	(\$479,294)
Number of Positions	(12.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

■ **Appropriations by Department/Budget Code** ■

Justice and Public Safety

Department of Correction (14500)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$990,177,240	\$976,817,207	(1.3)%
Receipts	<u>30,229,958</u>	<u>30,229,958</u>	0.0 %
Appropriation	<u>\$959,947,282</u>	<u>\$946,587,249</u>	(1.4)%
Positions	19,308.500	19,471.500	0.8 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Department-Wide Adjustments

1. Management Flexibility Reserves

It is recommended that the department identify \$13,239,260 in nonrecurring salary and nonsalary line item reductions.

Appropriation - Nonrecurring (\$13,239,260)

Community Corrections

1. Probation/Parole Operating Budget

This recommended action will reduce the following accounts by the indicated amounts: Transportation - Ground - In State, Account 532714, by \$20,000; Lodging - In State, Account 532721, by \$10,000; Meals - In State, Account 532724, by \$10,000; General Office Supplies, Account 533110, by \$42,000; Office Equipment, Account 534521, by \$100,000; Computer Equipment, Account 534528, by \$140,000; and Custody Security Equipment, Account 534529, by \$18,000. No effect on services is anticipated.

Appropriation (\$300,000)

Custody and Security

1. Jail Misdemeanants

It is recommended that the budget for jail misdemeanants be adjusted to better reflect the actual cost of providing this service.

Appropriation (\$2,000,000)

2. Division of Prisons Custody and Security Budget Line Items

This recommend action will reduce the following line item budgets by the indicated amounts: Transportation - Ground - In State, Account 532414, by \$25,000; Meals - In State, Account 532724, by \$25,000; Telephone Service, Account 532811, by \$100,000; Other Administrative Supplies, Account 533190, by \$25,000; Carpentry and Hardware Supplies, Account 533240, by \$50,000; and Voice Communications Equipment, Account 534528, by \$275,000.

Appropriation (\$950,000)

Departmental Management

1. Department Management Operating Budget Line Items

The following changes are recommended in these accounts: Administrative Services, Account 532170, reduce by \$86,000, Motor Vehicle Insurance, Account 532912, reduce by \$35,000, Maintenance Agreement, Account 532430, reduce by \$71,100; and Data Processing Supplies, Account 533120, reduce by \$37,000.

Appropriation (\$229,100)

2. Central Engineering Budget Line Items

It is recommended that adjustments be made to the budgets for these accounts: Structure-Electrical Contracts, Account 534432, reduce by \$25000; Maintenance Carpentry and Hardware Supplies, Account 533240, reduce by \$5,000; Electricity, Account 532210, reduce by \$10,000; and Heating/Gas, Account 532220, reduce by \$5,000.

Appropriation (\$45,000)

Division of Alcohol and Chemical Dependency Prevention

1. Reduce Various Operating Budget Line Items

It is recommended that the division reduce the number of leased vehicles from the Department of Administration, based on actual usage. This recommended action will reduce Account 532521 by \$30,000. Other recommendations include reducing these two accounts: Contractual Employees, Account 531321, by \$60,000 and Hospital Provided Medical Services, Account 532131, by \$25,000.

Appropriation (\$115,000)

Food, Clothing, and Inmate Personal Items

1. MIS Contractual Position Conversion

It is recommended that one existing contractual Management Information Services position (Account 532140) be converted to a full-time position.

Appropriation (\$55,000)

Number of Positions 1.000

Post Release Supervision/Parole Commission

1. Parole Commission

It is recommended that the Parole Commission eliminate one vacant position (#60223).

Appropriation	(\$55,136)
Number of Positions	(1.000)

Total Recommended Reductions

Recurring

Requirements	(\$3,749,236)
Receipts	-
<hr/>	
Appropriation	(\$3,749,236)
Number of Positions	-

Nonrecurring

Requirements	(\$13,239,260)
Receipts	-
<hr/>	
Appropriation	(\$13,239,260)
Number of Positions	-

Expansion

2004-05

Custody and Security

1. Maury Correctional Institution

It is recommended that operating funds be provided for a new 1,000 bed facility to be completed November 2005 and occupied April 2006.

Appropriation	\$579,280
Appropriation - Nonrecurring	\$502,400
Number of Positions	106.000

2. Bertie Correctional Institution

It is recommended that operating funds be provided for a new 1,000 bed facility to be completed February 2006 and occupied July 2006.

Appropriation	\$63,388
Appropriation - Nonrecurring	\$447,400
Number of Positions	9.000

3. Warren Correctional Institution

It is recommended that operating funds be provided for a new 168 cell addition to the Warren Correctional Institution to be completed July 2004 and occupied August 2004.

Appropriation \$1,596,334
Appropriation - Nonrecurring \$439,661
Number of Positions 48.000

Total Recommended Expansion

Recurring

Requirements	\$2,239,002
Receipts	-
<hr/>	
Appropriation	\$2,239,002
Number of Positions	163.000

Nonrecurring

Requirements	\$1,389,461
Receipts	-
<hr/>	
Appropriation	\$1,389,461
Number of Positions	-

**Total Recommended Adjustments for
Department of Correction
2004-05**

Recurring

Requirements	(\$1,510,234)
Receipts	-
<hr/>	
Appropriation	(\$1,510,234)
Number of Positions	163.000

Nonrecurring

Requirements	(\$11,849,799)
Receipts	-
<hr/>	
Appropriation	(\$11,849,799)
Number of Positions	-

Department of Crime Control and Public Safety (14900)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$45,648,252	\$47,540,128	4.1 %
Receipts	<u>17,509,242</u>	<u>17,537,172</u>	0.2 %
Appropriation	<u>\$28,139,010</u>	<u>\$30,002,956</u>	6.6 %
Positions	517.000	529.000	2.3 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Alcohol Law Enforcement (ALE)

1. Equipment Budget

It is recommended that the equipment budget be reduced.

Appropriation (\$77,037)

Butner Public Safety

1. Equipment Budget

This recommendation reduces the budget for Equipment (Autos, Trucks, Buses), Account 534541, by \$26,977.

Appropriation (\$26,977)

Emergency Management

1. Reduce Various Budget Line Items

This recommendation reduces the operating budgets for the accounts that follow by the indicated amounts: Travel, Account 5327XX, by \$6,253; Printing, Account 532850, by \$4,900; Other Employee Educational Expenses, Account 532942, by \$1,950; Scientific Supplies, Account 533710, by \$7,000; Equipment, Account 5345XX, by \$39,955; Library and Learning Resources, Account 534630, by \$4,500; Computer Software, Account 534711, by \$4,500; and Dues and Subscriptions, Account 535830, by \$1,000.

Appropriation (\$70,058)

Governor's Crime Commission (GCC)

1. Convert One Position to Receipt Support

It is recommended that the funding for one position be converted to receipt support.

Requirements	-
Receipts	\$27,930
Appropriation	(\$27,930)

Boxing Commission

1. Reduce Various Operating Budget Line Items

This recommendation reduces the line item budgets for SPA-Regular Salaries-Appropriated, Account 531211, by \$2,732; Fringe Benefits, Accounts 5315XX, by \$302; Transportation Air - Out of State, Account 532712, by \$200; and Transportation Ground - In State, Account 522714, by \$800.

Appropriation	(\$4,034)
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Law Enforcement Support Services

1. Reduce Various Operating Budget Line Items

This recommendation will reduce the line item budgets for Purchased Services, Account 5325XX, by \$3,020 and Supplies, Account 5331XX, by \$3,020.

Appropriation	(\$6,040)
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Total Recommended Reductions

Recurring

Requirements	(\$184,146)
Receipts	27,930
Appropriation	(\$212,076)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
Appropriation	-
Number of Positions	-

Expansion

2004-05

Butner Public Safety

1. Funding for New Fire Truck for Butner Public Safety

This action will replace the current tanker truck, which is a 1968 Studebaker Vietnam-era military surplus truck, with a new pumper/tanker truck in order to help Butner maintain the "5/9" rating it has with the North Carolina Department of Insurance.

Appropriation - Nonrecurring **\$280,000**

Emergency Management

1. Create Permanent Recovery Staff

It is recommended that a permanent cadre be established of recovery program staff with institutional knowledge of existing practices and procedures.

Appropriation **\$251,577**
Number of Positions **6.000**

Criminal Justice Information Network

1. CJIN Mobile Data Network and Voice Operability Plan for Emergency Responders 24 Hours per Day

The Criminal Justice Information Network Mobile Data Network (CJIN-MDN) and Voice Interoperability Plan for Emergency Responders (VIPER) 800 MHz voice systems provide interoperability public safety communications to local, state, and federal public safety agencies in North Carolina and must be operational and problem free 24 hours a day, seven days a week. It is recommended that six Network Technician positions (Grade 69) be established to ensure continuous problem-free operation of these systems.

Appropriation **\$344,445**
Number of Positions **6.000**

Victim and Justice Services

1. Increase Funding for Victim Compensation

Over the past several years, increasing claims for victim compensation funds and eligible rates of reimbursement have put a strain on the funds to meet increasing demands. It is recommended that \$1.2 million in expansion funding be provided to address the needs of the Victim Compensation Program.

Appropriation **\$1,200,000**

Total Recommended Expansion

Recurring

Requirements	\$1,796,022
Receipts	-
<hr/>	
Appropriation	\$1,796,022
Number of Positions	12.000

Nonrecurring

Requirements	\$280,000
Receipts	-
<hr/>	
Appropriation	\$280,000
Number of Positions	-

**Total Recommended Adjustments for
Department of Crime Control and Public
Safety
2004-05**

Recurring

Requirements	\$1,611,876
Receipts	27,930
<hr/>	
Appropriation	\$1,583,946
Number of Positions	12.000

Nonrecurring

Requirements	\$280,000
Receipts	-
<hr/>	
Appropriation	\$280,000
Number of Positions	-

Judicial Branch (12000)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$312,996,375	\$318,770,866	1.8 %
Receipts	<u>1,496,681</u>	<u>1,496,681</u>	0.0 %
Appropriation	<u>\$311,499,694</u>	<u>\$317,274,185</u>	1.9 %
Positions	5,168.405	5,220.405	1.0 %

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

Superior and District Courts

1. Constitutionally Mandated Court Interpreters

It is recommended that full funding be appropriated for contracted court interpreters at current levels. In addition, funding is also recommended for the creation of two full-time staff interpreters on a pilot program alternative basis.

Appropriation	\$79,022
Appropriation - Nonrecurring	\$1,700,000
Number of Positions	2.000

Equipment and Supply

1. Telephone Systems for New Courthouses

It is recommended that funds be provided for telephone systems for new courthouses scheduled to open in Haywood and Union Counties in FY 2004-05. This action will meet the statutory requirement (G.S. 7A-300) that the Judicial Branch equip new courthouses with telephones.

Appropriation - Nonrecurring	\$294,000
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2. Equipment Replacement and Upgrade

This recommendation will replace outdated analog tape recording machines in the District Court with updated digital recording systems, which will ensure that all trial-court record requirements are met. Funding is also recommended to pilot the use of real-time court reporting technology in the trial of capital cases in the Superior Court. The balance of the funds recommended will be used to replace

some 1,042 old personal computer systems throughout the court system. These computers are now too old to use antivirus software.

Appropriation	\$600,000
Appropriation - Nonrecurring	\$1,202,969

Offices - Clerks of Superior Court

1. New Deputy Clerks

This recommendation will add 50 new deputy clerk positions.

Appropriation	\$1,645,469
Appropriation - Nonrecurring	\$103,031
Number of Positions	50.000

Guardian Ad Litem Program

1. Guardian Ad Litem Attorney Fees

It is recommended that funding be provided for additional Guardian Ad Litem (GAL) attorney fees. Currently, GAL attorneys, who represent abused and neglected children in court proceedings, receive compensation at an average of \$36.44 per hour. This action will bring the average hourly rate up to \$50.00 per hour, which is still well below the market rate for indigent defense counsel.

Appropriation	\$150,000
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Total Recommended Expansion

Recurring

Requirements	\$2,474,491
Receipts	-
<hr/>	
Appropriation	\$2,474,491
Number of Positions	52.000

Nonrecurring

Requirements	\$3,300,000
Receipts	-
<hr/>	
Appropriation	\$3,300,000
Number of Positions	-

**Total Recommended Adjustments for
Judicial Branch
2004-05**

Recurring

Requirements	\$2,474,491
Receipts	-

Appropriation	\$2,474,491
Number of Positions	52.000

Nonrecurring

Requirements	\$3,300,000
Receipts	-

Appropriation	\$3,300,000
Number of Positions	-

Judicial Branch - Indigent Defense (12001)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$79,178,791	\$92,178,791	16.4 %
Receipts	<u>8,159,340</u>	<u>8,159,340</u>	0.0 %
Appropriation	<u>\$71,019,451</u>	<u>\$84,019,451</u>	18.3 %
Positions	284.000	284.000	0.0 %

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

Attorney Fund for Indigent Persons

1. Increase Funding for Legal Representation of Indigent Defendants

This action will eliminate an \$8 million projected shortfall in indigent defense requirements, and further, it will provide sufficient new funding to restore FY 2004-05 funding to adequate levels.

Appropriation	\$5,000,000
Appropriation - Nonrecurring	\$8,000,000

Total Recommended Expansion

Recurring

Requirements	\$5,000,000
Receipts	-
<hr/>	
Appropriation	\$5,000,000
Number of Positions	-

Nonrecurring

Requirements	\$8,000,000
Receipts	-
<hr/>	
Appropriation	\$8,000,000
Number of Positions	-

**Total Recommended Adjustments for
Judicial Branch - Indigent Defense
2004-05**

Recurring

Requirements	\$5,000,000
Receipts	-

Appropriation	\$5,000,000
Number of Positions	-

Nonrecurring

Requirements	\$8,000,000
Receipts	-

Appropriation	\$8,000,000
Number of Positions	-

Department of Justice (13600)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$88,137,772	\$88,858,724	0.8 %
Receipts	<u>16,678,460</u>	<u>17,336,577</u>	3.9 %
Appropriation	<u>\$71,459,312</u>	<u>\$71,522,147</u>	0.1 %
Positions	1,212.496	1,233.496	1.7 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Department-Wide Adjustments

1. Management Flexibility Reserve

It is recommended that the department identify \$333,333 in nonrecurring salary and nonsalary line item reductions.

Appropriation (\$333,333)

Law Enforcement - SBI

1. SBI Vehicle Refinancing

This recommendation reduces the line item budget for the purchase of Equipment (Autos, Trucks, Buses), Account 534541. The SBI will enter into a third party contract to purchase vehicles and equipment. The existing equipment budget will be reduced by \$410,316. Vehicles will be replaced every three years. The current SBI budget for the purchase of automobiles is \$1,041,518.

Appropriation (\$410,316)

Total Recommended Reductions

Recurring

Requirements (\$743,649)

Receipts -

Appropriation (\$743,649)

Number of Positions -

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

Expansion

2004-05

Law Enforcement - SBI

1. SBI Methamphetamine Response Team

A total of 14 SBI positions are recommended to combat the illegal methamphetamine lab operations in North Carolina.

Appropriation	\$700,000
Number of Positions	14.000

State Bureau of Investigation Laboratory

1. Eliminate Backlog of Untested Rape Kits

This recommendation provides funding for the second year of the plan to eliminate the backlog of untested rape kits. It provides funding for six Geneticists, one Evidence Technician, and related travel, equipment, and supply funding. The positions are effective April 1, 2005.

Requirements	\$764,601
Receipts	\$658,117
<hr/>	
Appropriation	\$106,484
Number of Positions	7.000

Total Recommended Expansion

Recurring

Requirements	\$1,464,601
Receipts	658,117
<hr/>	
Appropriation	\$806,484
Number of Positions	21.000

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of Justice
2004-05**

Recurring

Requirements	\$720,952
Receipts	658,117
	<hr/>
Appropriation	\$62,835
Number of Positions	21.000

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Department of Juvenile Justice and Delinquency Prevention (14060)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$140,961,399	\$144,673,410	2.6 %
Receipts	<u>10,375,901</u>	<u>10,375,901</u>	0.0 %
Appropriation	<u>\$130,585,498</u>	<u>\$134,297,509</u>	2.8 %
Positions	1,867.750	1,931.750	3.4 %

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

Administrative Services - MIS

1. MIS Staffing Needs for NC-JOIN

This recommendation provides five positions and some computer equipment to further enable the department in establishing an automated statewide juvenile information system, the North Carolina Juvenile Online Information Network (NC-JOIN). This system manages the business processes of department staff charged with monitoring and managing the flow of juveniles through the state juvenile justice system.

Appropriation	\$188,039
Appropriation - Nonrecurring	\$112,011
Number of Positions	5.000

Special Initiatives

1. Additional Funding for Multipurpose Group Homes

Since 1994, the Department of Juvenile Justice and Delinquency Prevention has operated six multipurpose juvenile homes through contractual services with the Methodist Home for Children. Over that ten-year period, there has been no increase in the appropriation for the operation of these homes, and the Methodist Home for Children has had to absorb the additional cost. This recommendation will provide funding to offset the increases in operating expenses.

Appropriation	\$153,328
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Youth Development Centers

1. Operating Budget Related to the Audit and the Youth Development Center Building Program

It is recommended that funding be provided for four new Staff Development Specialist positions and 18 positions that will begin the transition into the enhanced treatment-oriented philosophy in the Youth Development facilities.

Appropriation \$979,780
Number of Positions 22,000

2. Replace Federal Grant Funds for HEART and BEST Programs

This recommendation seeks funding to replace federal Residential Substance Abuse Treatment (RSAT) grant funds that were unexpectedly eliminated by Congress late last year, effective June 30, 2004. The funding is needed to continue the HEART and BEST programs at Samarkand Youth Development Center.

Appropriation \$1,616,391
Number of Positions 37,000

Intervention/Prevention Services

1. Additional Funding for Juvenile Crime Prevention Councils

This recommendation provides funds to increase the availability of diversion and disposition resources proven to be effective in reducing juvenile recidivism. Those youth who might have previously been committed to Youth Development facilities at an annualized bed cost of \$62,000 are now being treated in community diversion and disposition resources.

Appropriation \$662,462

Total Recommended Expansion

Recurring

Requirements	\$3,600,000
Receipts	-
<hr/>	
Appropriation	\$3,600,000
Number of Positions	64,000

Nonrecurring

Requirements	\$112,011
Receipts	-
<hr/>	
Appropriation	\$112,011
Number of Positions	-

**Total Recommended Adjustments for
 Department of Juvenile Justice and
 Delinquency Prevention
 2004-05**

Recurring

Requirements	\$3,600,000
Receipts	-
	<hr/>
Appropriation	\$3,600,000
Number of Positions	64.000

Nonrecurring

Requirements	\$112,011
Receipts	-
	<hr/>
Appropriation	\$112,011
Number of Positions	-

■ **Appropriations by Department/Budget Code** ■

Natural and Economic Resources

Department of Agriculture and Consumer Services (13700)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$70,465,697	\$70,042,948	(0.6)%
Receipts	<u>21,849,328</u>	<u>21,451,579</u>	(1.8)%
Appropriation	<u>\$48,616,369</u>	<u>\$48,591,369</u>	(0.1)%
Positions	1,170.750	1,169.750	(0.1)%

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

General Administration

1. Deputy Commissioner Position

The elimination of a vacant Deputy Secretary/Commissioner position is recommended (position # 3710-1-11-0011-020, annual salary \$85,457).

Appropriation	(\$100,357)
Number of Positions	(1.000)

2. Program Assistant Position

It is recommended that a Program Assistant position (3710-1011-0011-040, \$29,923) be eliminated. This position will become vacant on August 1, 2004 and the annualized reduction will be \$37,371.

Appropriation	(\$34,256)
Number of Positions	(1.000)

3. Department-wide Travel

A reduction is recommended in the budgeted funds for travel across the entire department.

Appropriation	(\$75,000)
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Aquaculture and Natural Resources

1. Aquaculture Reorganization

This recommendation will reorganize the Aquaculture Division to achieve some operating cost savings. The division has a total of three permanent positions. The director will retire on July 1, 2004 and the position will be reallocated to General Administration to help with environmental issues.

The other two positions will be moved to other divisions, possibly Marketing and/or Research Stations.

Appropriation **(\$10,000)**

Food and Drug Protection

1. Pesticide Disposal

A fund shift for part of the Pesticide Disposal Program to the Pesticide Environmental Trust Fund is recommended. Also, one filled position is recommended for elimination.

Appropriation **(\$100,000)**

Number of Positions **(1.000)**

2. Pesticide Formulation Lab

The continuation of part of the non-recurring cuts in the operating budget of the Pesticide Formulation Lab is recommended.

Appropriation **(\$25,000)**

Food Distribution

1. Fund Shift Position

It is recommended that the funding for a Processing Assistant IV position be changed to federal funds (position #3775-1210-0037-310, annual salary \$27,704).

Appropriation **(\$34,854)**

Number of Positions **(1.000)**

Marketing

1. Marketing

A reduction is recommended in various expenditure line items in the division.

Appropriation **(\$57,000)**

Research Stations and State Farms

1. Research Station Dairy Farms

Reductions are recommended in the Research Station Dairy Farms based on the study conducted in April, 2004. The recommendations of the study will revamp the Research Station Dairy Farms program.

Appropriation **(\$266,282)**

Meat and Poultry

1. Operating Budget

This recommendation will reduce the operating expenditures that are underutilized.

Appropriation **(\$20,000)**

Budget and Finance

1. Fund Shift Position

This recommendation will fund shift a Payroll Clerk IV position to Indirect Cost Receipts (position # 3714-1012-0012-320, annual salary \$21,000).

Receipts	\$27,251
Number of Positions	(1.000)

Total Recommended Reductions

Recurring

Requirements	(\$722,749)
Receipts	27,251
<hr/>	
Appropriation	(\$750,000)
Number of Positions	(5.000)

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

Expansion

2004-05

Research Stations and State Farms

1. Underrealized Receipts - Research Stations

The Research Station farms have undergone a transition from production farming to research farming. Under production, all items were marketable as revenue enhancements, but that is not the situation with research farming. These receipts have been underrealized for at least the last five years. Field research does not allow for many of its items to be marketed. For this reason farmers cannot afford to do research. It is essential for the department's budget to be amended to correctly budget receipts at a level that can be realized. The replacement of these underrealized receipts with appropriation is recommended.

Requirements	-
Receipts	(\$425,000)
<hr/>	
Appropriation	\$425,000

Veterinary Services

1. Veterinary Division Program Support

An increase in funding is recommended to address multifaceted needs arising from increased responsibilities and unfunded mandates from the

United States Department of Agriculture. Funds are also needed to address the challenges arising from foreign animal diseases such as Bovine Spongiform Encephalopathy (BSE), Avian Influenza, and Exotic Newcastle. Additional staff is required to effectively serve the large swine and poultry industries in North Carolina for diagnostic testing. Positions are also needed to address the lack of compliance with the animal identification program and the improper disposal of dead animals.

Appropriation	\$300,000
Number of Positions	4.000

Total Recommended Expansion

Recurring

Requirements	\$300,000
Receipts	(425,000)
	<hr/>
Appropriation	\$725,000
Number of Positions	4.000

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of Agriculture and Consumer
Services
2004-05**

Recurring

Requirements	(\$422,749)
Receipts	(397,749)
	<hr/>
Appropriation	(\$25,000)
Number of Positions	(1.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Department of Commerce (14600)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$84,644,912	\$86,071,258	1.7 %
Receipts	<u>50,308,611</u>	<u>50,417,657</u>	0.2 %
Appropriation	<u>\$34,336,301</u>	<u>\$35,653,601</u>	3.8 %
Positions	412.270	420.270	1.9 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Industrial Commission

1. Overrealized Receipts

It is recommended that overrealized receipts for the Industrial Commission be budgeted to offset the state appropriation of the same amount.

Requirements	-
Receipts	\$109,046
Appropriation	(\$109,046)

Industrial Financing

1. Operating Budget

It is recommended that the division take operating reductions in various operating line items such as travel, advertising, and registration fees that total \$12,924. It is also recommended that the transfer to the Industrial Development Fund be reduced by \$91,077.

Appropriation	(\$104,001)
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Management Information Services

1. Operating Budget

It is recommended that the travel line items and some of the IT equipment and data service line items be reduced.

Appropriation	(\$10,330)
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Science and Technology

1. Operating Budget

It is recommended that the contractual line item used to hire interns be reduced by \$2,527.

Appropriation (\$2,527)

Wanchese Seafood Industrial Park

1. Operating Budget

It is recommended that the appropriation transfer to the Wanchese Seafood Industrial Park be reduced by \$8,732.

Appropriation (\$8,732)

Executive Aircraft Operation

1. Operating Budget

It is recommended that the line item for rent and lease of facilities be reduced along with a reduction in the line item for gasoline.

Appropriation (\$52,328)

Policy, Research & Strategic Planning

1. Operating Budget

It is recommended that the division take a reduction in the line items for interns, temporary help, and miscellaneous contracts.

Appropriation (\$5,407)

Division of Community Assistance

1. Community Development Planner

It is recommended that one vacant Community Development Planner I position be abolished along with the corresponding fringe benefits.

Appropriation (\$47,145)

Number of Positions (1.000)

Total Recommended Reductions

Recurring

Requirements (\$230,470)

Receipts 109,046

Appropriation (\$339,516)

Number of Positions (1.000)

Nonrecurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

Expansion

2004-05

Industrial Recruiting

1. One North Carolina Fund

The One NC Fund was set up to keep North Carolina competitive with other states in attracting high-value, technologically competitive industries to the state. \$20,000,000 in 2003-04 appropriations will provide for industrial incentives for industries locating to our state.

Business ServiCenter

1. Operational Funding and Personnel

The Business ServiCenter is a pilot project that uses electronic media to contact businesses in North Carolina and to respond to their inquiries. This expansion will move the ServiCenter from a pilot project to a statewide operation and will also support a small business ombudsman position.

Appropriation	\$216,968
Appropriation - Nonrecurring	\$8,800
Number of Positions	4.000

Madison County Welcome Center

1. I-26 West Welcome Center Operational Funds

The I-26 West Welcome Center is a new facility, which is a key point of entry from Tennessee to North Carolina and a significant marketing location for western North Carolina tourism. Welcome Centers are built by the Department of Transportation, but the Division of Tourism in the Department of Commerce staffs and operates the centers. The center's current operation is being support by a one-time grant from the Appalachian Regional Commission. This expansion will provide funding for five positions and operating costs.

Appropriation	\$181,048
Number of Positions	5.000

2005 US Open

1. Marketing North Carolina at 105th US Open

The 2005 US Open at Pinehurst will be held June 13-19, 2005 and will present an excellent opportunity to market NC as a wonderful state to visit,

work and live. Funding is recommended to bring in and market the state to more than 100 key decision-makers from around the world. Executives from existing industry will explain why they chose NC and are planning to expand their facilities.

Appropriation - Nonrecurring **\$500,000**

NC Board of Science and Technology

1. Nanotechnology

The Board of Science and Technology will be provided funds to explore strategies to support the growing nanotechnology industry cluster in North Carolina.

Appropriation - Nonrecurring **\$100,000**

2. Homeland Security

Funds shall be used to explore strategies to advance research, provide business opportunities, and attract federal funds in areas such as bioinformatics, bioterrorism and information security.

Appropriation - Nonrecurring **\$200,000**

Division of Policy, Research and Strategic Planning

1. Economic Development Information System

Rapid economic restructuring and technological change are forcing the Department of Commerce to improve the quantity and quality of information provided while increasing the efficiency and responsiveness of services. In response to this demand, the department is proposing the development of the North Carolina Economic Development Information System (NC EDIS). This system will be a comprehensive and customizable automated system that will house the core national, state, regional, county, and municipal data necessary to monitor economic trends, identify target sectors and clusters, supply marketing profiles to clients, and provide maps and data to planners and workforce analysts.

Appropriation - Nonrecurring **\$450,000**

Total Recommended Expansion

Recurring

Requirements	\$398,016
Receipts	-
<hr/>	
Appropriation	\$398,016
Number of Positions	9,000

Nonrecurring

Requirements	\$1,258,800
Receipts	-
<hr/>	
Appropriation	\$1,258,800
Number of Positions	-

**Total Recommended Adjustments for
Department of Commerce
2004-05**

Recurring

Requirements	\$167,546
Receipts	109,046
	<hr/>
Appropriation	\$58,500
Number of Positions	8.000

Nonrecurring

Requirements	\$1,258,800
Receipts	-
	<hr/>
Appropriation	\$1,258,800
Number of Positions	-

Commerce - State Aid to Non-State Entities (14601)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$21,764,087	\$26,764,087	23.0 %
Receipts	-	-	
Appropriation	<u>\$21,764,087</u>	<u>\$26,764,087</u>	23.0 %
Positions	-	-	

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

1. North Carolina Biotechnology Center

This funding will help to spread the economic and societal benefits of biotechnology statewide, promote the creation and growth of biotechnology companies, strengthen K-12 math and science education by supporting curriculum development and resources to help prepare future biotechnology workers, and strengthen the ability of universities to conduct innovative research and transform new ideas into commercial opportunity.

Appropriation \$5,000,000

Total Recommended Expansion

Recurring

Requirements	\$5,000,000
Receipts	-
Appropriation	<u>\$5,000,000</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
Appropriation	<u>-</u>
Number of Positions	-

**Total Recommended Adjustments for
Commerce - State Aid to Non-State Entities
2004-05**

Recurring

Requirements	\$5,000,000
Receipts	-

Appropriation	\$5,000,000
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-

Appropriation	-
Number of Positions	-

Department of Environment and Natural Resources (14300)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$248,987,602	\$247,788,153	(0.5)%
Receipts	<u>96,189,592</u>	<u>96,521,228</u>	0.3 %
Appropriation	<u>\$152,798,010</u>	<u>\$151,266,925</u>	(1.0)%
Positions	3,227.836	3,237.836	0.3 %

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Administration

1. Administrative Positions

The elimination of two FTE positions and a .50 position in the Administrative Division is recommended.

Appropriation	(\$103,024)
Number of Positions	(2.500)

2. Regional Offices

It is recommended that one position in the Regional Office operation be eliminated.

Appropriation	(\$111,123)
Number of Positions	(1.000)

3. Wetlands Restoration

A reduction is recommended to the operating line for Rent/Lease of Buildings in the Wetlands Restoration program.

Appropriation	(\$7,689)
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4. Conservation and Community Affairs

It is recommended that various line items in the Conservation and Community Affairs program be reduced.

Appropriation	(\$20,521)
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Aquariums**1. Operating Budget**

A reduction is recommended in various operating line items within the Division of Aquariums.

Appropriation (\$148,566)

Forest Resources**1. Vacant Positions and Equipment**

The following reductions are recommended: elimination of 11 positions that have been vacant for six months or longer as of April 1, 2004 (salaries of \$379,614, including fringes); and a reduction in equipment (other principal payments) of \$317,492.

Appropriation (\$697,106)

Number of Positions (11.000)

Marine Fisheries**1. Research**

The elimination of a Marine Fisheries Technician II position is recommended. The employee currently in this position is on leave without pay.

Appropriation (\$31,765)

Number of Positions (1.000)

2. Enforcement

It is recommended that a vacant Marine Fisheries Enforcement Officer II be eliminated and reductions of \$113,661 from various operating line items.

Appropriation (\$151,854)

Number of Positions (1.000)

Museum of Natural Sciences**1. Operating Support**

A reduction is recommended in various operating line items of the Museum of Natural Sciences.

Appropriation (\$134,235)

North Carolina Zoological Park**1. Operating Budget**

Reductions are recommended in Tort Claims, Other Motorized Vehicles, and Other Principal Payments line items of the Zoo's operating budget.

Appropriation (\$173,693)

Office of Environmental Education**1. Operating Support**

It is recommended that various operating line items in the Office of Environmental Education be reduced.

Appropriation (\$16,882)

Parks and Recreation**1. Operating Support**

It is recommended that a reduction be made in various line items of the Division of Parks and Recreation.

Appropriation (\$335,916)

Soil and Water Conservation**1. Operating Budget**

A reduction is recommended in various operating line items within the division.

Appropriation (\$238,379)

Coastal Management**1. Operating Budget**

A reduction is recommended in various operating line items in the division's budget.

Appropriation (\$24,750)

Environmental Health**1. On-Site Waste Water**

The elimination of a vacant position in the On-Site Waste Water Program is recommended.

Appropriation (\$58,804)

Number of Positions (1.000)

2. Operating Budget

A reduction is recommended in various operating line items within the division.

Appropriation (\$72,502)

Land Resources**1. Operating Reductions**

A reduction is recommended in various operating line items and contract line items within the division.

Appropriation (\$85,356)

2. Sediment Education

A reduction is recommended in the Sediment Education Funds in the division's budget.

Appropriation (\$15,000)

Pollution Prevention and Environmental Assistance**1. Position and Equipment**

The elimination of a filled Office Assistant III position (\$26,848) is recommended and a reduction in the line item for the purchase of computer equipment by \$11,440.

Appropriation (\$38,288)

Number of Positions (1.000)

Waste Management**1. Positions**

The elimination of 2.5 positions in the division: vacant-Environmental Chemist II - \$35,067; fund shift-Environmental Program Manager II (.50) - \$38,370; vacant-Environmental Technician III - \$36,794 is recommended.

Appropriation (\$110,231)

Number of Positions (2.500)

2. Operating Support

A reduction is recommended in the operating budget line items for Rent/Lease of Motor Vehicles \$7,531; and Lodging, In-State \$1,325.

Appropriation (\$8,856)

Water Quality**1. Operating Budget**

Reductions are recommended in various operating line items (\$150,983) and in the Transfer to Regional Offices (\$20,000).

Appropriation (\$170,983)

Water Resources**1. USGS Cooperative Agreement**

A reduction is recommended in funds available for the cooperative agreement with USGS for monitors.

Appropriation (\$25,871)

Reserves and Special Funds**1. Grassroots Initiative**

A reduction is recommended in the Grassroots Initiative pass through funds.

Appropriation (\$84,053)

2. Water Quality Workgroup

It is recommended that the transfer to the Water Quality Workgroup be reduced.

Appropriation (\$2,700)

3. Wildlife Resources Commission

A reduction is recommended in the transfer to the Wildlife Resources Commission for support of enforcement salaries.

Appropriation (\$27,164)

4. Partnership for the Sounds

It is recommended that the transfer to the Partnership for the Sounds non-profit organization be reduced.

Appropriation (\$13,935)

Total Recommended Reductions

Recurring

Requirements (\$2,909,246)

Receipts -

Appropriation (\$2,909,246)

Number of Positions (21.000)

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

Expansion 2004-05

Administration

1. Express Permitting

This recommendation will expand the pilot program started in fiscal year 2003-04 in the Wilmington and Raleigh regional offices to DENR's five remaining regional offices in Washington, Fayetteville, Winston-Salem, Mooresville, and Asheville. The expedited services focus on storm water, non-discharge, 401 water quality certifications, erosion and

sedimentation control, and Coastal Area Management Act (CAMA) permits.

Requirements - Nonrecurring	\$1,326,543
Receipts - Nonrecurring	\$331,636

Appropriation - Nonrecurring	\$994,907
Number of Positions	21.000

Land Resources

1. Sediment Control

The Sedimentation Control Commission has reviewed the data regarding the number of projects, average number of projects per inspector, technical assistance effects, and local program efforts and has determined that a significant initiative is needed to meet the administration's commitment to improve the state's water quality.

Appropriation	\$200,000
Number of Positions	7.000

Water Resources

1. River Basin Water Supply

The outcome of this program of river basin water supply planning will be 50-year water supply plans for each of North Carolina's 17 major river basins. The plans will be updated on a five year schedule. River basin water supply plans will give local governments and other water users a reliable, quantitative framework within which they can plan to meet their future water needs.

Appropriation	\$150,000
Appropriation - Nonrecurring	\$33,254
Number of Positions	3.000

Total Recommended Expansion

Recurring

Requirements	\$350,000
Receipts	-
<hr/>	
Appropriation	\$350,000
Number of Positions	31.000

Nonrecurring

Requirements	\$1,359,797
Receipts	331,636
	<hr/>
Appropriation	\$1,028,161
Number of Positions	-

**Total Recommended Adjustments for
Department of Environment and Natural
Resources
2004-05**

Recurring

Requirements	(\$2,559,246)
Receipts	-
	<hr/>
Appropriation	(\$2,559,246)
Number of Positions	10.000

Nonrecurring

Requirements	\$1,359,797
Receipts	331,636
	<hr/>
Appropriation	\$1,028,161
Number of Positions	-

DENR - Clean Water Management Trust Fund (14301)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$62,000,000	\$62,000,000	0.0 %
Receipts	-	-	
Appropriation	<u>\$62,000,000</u>	<u>\$62,000,000</u>	0.0 %
Positions	-	-	

Department of Labor (13800)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$24,540,362	\$24,274,880	(1.1)%
Receipts	<u>11,266,258</u>	<u>11,266,258</u>	0.0 %
Appropriation	<u>\$13,274,104</u>	<u>\$13,008,622</u>	(2.0)%
Positions	420.500	417.500	(0.7)%

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

Department Wide

1. Vacant Positions

The Governor recommends the reduction of three vacant positions chosen by the Department of Labor. The reduction will include gross salary and the corresponding fringe benefits.

Appropriation (\$121,096)
Number of Positions (3.000)

2. Operating Budget

It is recommended that the operating budget within the department be reduced.

Appropriation (\$144,386)

Total Recommended Reductions

Recurring

Requirements	(\$265,482)
Receipts	-
Appropriation	(\$265,482)
Number of Positions	(3.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

**Total Recommended Adjustments for
Department of Labor
2004-05**

Recurring

Requirements	(\$265,482)
Receipts	-
	<hr/>
Appropriation	(\$265,482)
Number of Positions	(3.000)

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

■ **Appropriations by Department/Budget Code** ■

Transportation - General Fund

General Fund Budget Changes - Transportation (14222)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$11,402,800	\$11,174,744	(2.0)%
Receipts	-	-	
Appropriation	<u>\$11,402,800</u>	<u>\$11,174,744</u>	(2.0)%
Positions	-	-	

Appropriation Items -- Recommended Adjustments

Reductions

2004-05

1. Reduction in Airport Grants

A reduction in State Aid to Airports is recommended to effect a 2% cost savings in the General Fund.

Appropriation (\$228,056)

Total Recommended Reductions

Recurring

Requirements (\$228,056)

Receipts -

Appropriation (\$228,056)

Number of Positions -

Nonrecurring

Requirements -

Receipts -

Appropriation -

Number of Positions -

**Total Recommended Adjustments for
General Fund Budget Changes -
Transportation
2004-05**

Recurring

Requirements	(\$228,056)
Receipts	-
	<hr/>
Appropriation	(\$228,056)
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

■ **Appropriations by Department/Budget Code** ■

Transportation - Highway Fund

Highway Fund Budget Changes (84210)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$1,331,524,415	\$1,390,900,000	4.5 %
Receipts	-	-	
Appropriation	<u>\$1,331,524,415</u>	<u>\$1,390,900,000</u>	4.5 %
Positions	14,580.500	14,580.500	0.0 %

Appropriation Items -- Recommended Adjustments

Technical Adjustments

2004-05

1. Adjust Continuation Budget for Leaking Underground Storage Tank Fund (LUST)

It is recommended that the distribution to the Leaking Underground Storage Tank Fund be increased by \$90,000 based on an increase in revenue estimates for the gasoline inspection fee. This action is in accordance with G.S. 119-18(b).

Appropriation \$90,000

2. Adjust Continuation Budget for State Aid to Municipalities

It is recommended that the distribution to State Aid to Municipalities be increased by \$410,000 based on a projected increase in gasoline consumption for fiscal year 2004-05. This action is in accordance with G.S. 136.41.1.

Appropriation \$410,000

3. Adjust Continuation Budget for Secondary Roads Construction

It is recommended that the distribution to Secondary Roads Construction be increased by \$410,000 based on a projected increase in gasoline consumption for fiscal year 2004-05. This action is in accordance with G.S. 136-44.2A.

Appropriation \$410,000

4. Senate Bill 100

As a result of the adoption of Senate Bill 100, state agencies were allowed a sales and use tax exemption instead of a sales and use tax refund. In an effort to hold harmless the General Fund, a special provision is submitted to continue the annual transfer.

Appropriation -

Total Recommended Technical Adjustments

Recurring

Requirements	\$910,000
Receipts	-
	<hr/>
Appropriation	\$910,000
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
	<hr/>
Appropriation	-
Number of Positions	-

Expansion

2004-05

Highway Maintenance Reserve

1. Restore General Maintenance Reserve to Fiscal Year 2003-04 level

Funds are recommended to restore continuation funding to the Reserve for General Maintenance by replacing a portion of the nonrecurring funds appropriated in FY 2003-04 with recurring funds for FY 2004-05.

Appropriation \$9,062,928

2. Additional Funding for General Maintenance Reserve

An increase in continuation funding for the Reserve for General Maintenance is recommended and is to be allocated for specific individual system needs in an effort to preserve and improve the condition of the state's highway transportation system.

Appropriation \$7,000,000

Public Transportation

1. Regional New Starts and Capital Program

The Regional New Starts and Capital Program provides state matching funds for planning and construction costs of major regional fixed guideway projects. These projects include intracity light rail, intercity commuter rail, and busways. Additional funds are recommended to support planning and environmental impact studies for the City of Charlotte's four remaining transit corridors and for the planning costs of a third New Start regional project in the Triad.

Appropriation \$4,563,521

2. Urban and Regional Maintenance Program

The Urban and Regional Maintenance Program provides operating assistance to each of the state's 21 urban and fixed route systems. Funding for fiscal year 2003-04 for this program included nonrecurring funds. It is recommended that

continuation funding be provided to partially restore the program to fiscal year 2003-04 level.

Appropriation \$6,000,000

Division of Motor Vehicles

1. Driver License Queuing Systems

Queuing systems have been installed in 16 high volume driver license offices across the state. These systems have greatly reduced the time customers wait in line for service. Funds are recommended to provide for queuing systems at the following locations: South Wilmington, Shallotte, Greenville, South Fayetteville, Wilson, Smithfield, Rocky Mount, Cary, Graham, High Point, and North Winston-Salem.

Appropriation \$23,117

Appropriation - Nonrecurring \$378,902

2. Automated Testing Equipment

The Driver License Section has installed automated testing systems in 45 of its busiest offices. The systems have provided many benefits, especially in improving examiner productivity. It is recommended that funds be appropriated to provide automated testing systems at the following locations: Manteo, Washington, Shallotte, Roanoke Rapids, Clayton, Dunn, Garner, Fuquay-Varina, Aberdeen, Sanford, Siler City, Hillsborough, Albemarle, Lexington, Thomasville, Lincolnton, Mount Airy, Mount Holly, Statesville, Lenoir, Clyde, Kernersville, and Shelby.

Appropriation \$46,000

Appropriation - Nonrecurring \$770,902

3. Recall of Motor Vehicle License Plates

Currently there are approximately 7.8 million licensed vehicles operating on the highways of North Carolina. Many of these vehicles have license plates that have deteriorated and are in poor condition. Funds to recall 600,000 of these plates for replacement are recommended.

Appropriation - Nonrecurring \$1,186,200

Information Technology Division

1. Replacement of Aging Personal Computers

The Department of Transportation uses many personal computers within its many divisions. The Information Technology Section would like to begin to replace some of the older computers with new machines with extended warranties. It is recommended that funding be provided to replace 500 personal computers during fiscal year 2004-05 at a cost of \$1,500 each.

Appropriation \$750,000

General Services

1. Additional Funds for Postage

The General Services Division administers the mail room services for the Division of Motor Vehicles (DMV). This unit processes all driver license renewal notifications, vehicle registration renewals, and all other DMV related correspondence. The current appropriation for postage and freight for DMV services is inadequate to support the current level of expenditures; therefore, it

is recommended that funding be provided to partially address this annual shortfall.

Appropriation **\$231,538**

2. Additional Funds for Utility Expenses

The Division of General Services is responsible for facility maintenance. Utility expenses have increased approximately 10% in electric rates and 40% in heating fuel rates. The current budgeted amount is inadequate to support the current level of expenditures; therefore, it is recommended that funding be provided to align the utility budget with actual expenditures.

Appropriation **\$245,534**

Reserves and Transfers

1. Reserve for Global Transpark

Continued state funding is necessary for fiscal year 2004-05 for the Global Transpark as it transitions from a revenue base of primarily state funding to a private sector supported facility. Funding for fiscal year 2004-05 is recommended to maintain current services while the business plan is implemented.

Appropriation - Nonrecurring **\$1,600,000**

2. State Infrastructure Bank

The State Infrastructure Bank (SIB) is an investment fund that offers loans and other types of financial assistance to public entities for transportation facilities and projects that will help meet the state's transportation goals. Many small municipalities need funding for transportation projects outside the state transportation improvement plan. Borrowing from the SIB would allow local officials to advance the completion of local high priority transportation needs. It is recommended that Highway Fund appropriations be used as seed money for this program.

Appropriation **\$750,000**

3. Salary Adjustment Fund

During fiscal year 2003-04 several position classification studies were conducted, approved, and funded. In doing so, the department has depleted the current annual appropriation for salary adjustment funds. In order to continue to reward DOT employees who have received revisions in classifications, it is recommended that funding for the Salary Adjustment Fund be increased by \$250,000, bringing the total available to \$650,000.

Appropriation **\$250,000**

4. Reserve for Information Technology Initiatives

The Information Technology Division has a great need in the areas of providing client support, systems enhancements, maintenance, and monitoring of many large scale applications. In recent years, several mission-critical systems have been developed that now need enhancements if the department is to maintain its current level of services. Funding is recommended to be placed in a reserve to meet these information technology requirements and initiatives.

Appropriation **\$4,420,191**

5. Legislative Salary Increase

Funding is recommended to provide for a 2% pay increase for all positions funded from Highway Fund appropriations.

Appropriation **\$7,600,000**

6. Cost-of-Living Allowance for Retirees

Funding is recommended to provide for a cost-of-living increase for retirees whose positions were funded from Highway Fund appropriations.

Appropriation \$806,400

7. Voice Interoperable Communications Plan for Emergency Responders (VIPER)

The North Carolina Highway Patrol has been tasked with implementing a statewide, voice trunked radio communication system for all emergency responders in North Carolina. The patrol has already experienced tremendous success with the implementation of the Criminal Justice Information Network (CJIN) statewide mobile data system and has clearly demonstrated its ability to manage a project of this magnitude. The lack of interoperable communications often exposes public safety officials and the public to undue risks, such as those experienced during hurricanes Fran and Floyd and also the West Pharmaceutical plant explosion. The Highway Patrol is seeking to expand VIPER coverage into other key areas of the state. It is recommended that this request be funded.

Appropriation \$188,242

Appropriation - Nonrecurring \$9,811,758

8. Increase Driver Education Funding

An increase in funds for the Department of Public Instruction's Driver Education Program is recommended based on an increase in ADM (Average Daily Membership) of students entering the ninth grade during fiscal year 2004-05.

Appropriation \$180,352

9. One Time Bonus

Funding is recommended to provide a \$250 one time bonus to be paid to all positions funded from Highway Fund appropriations.

Appropriation - Nonrecurring \$2,600,000

Total Recommended Expansion

Recurring

Requirements \$42,117,823

Receipts -

Appropriation \$42,117,823

Number of Positions -

Nonrecurring

Requirements \$16,347,762

Receipts -

Appropriation \$16,347,762

Number of Positions -

**Total Recommended Adjustments for
Highway Fund Budget Changes
2004-05**

Recurring

Requirements	\$43,027,823
Receipts	-

Appropriation	\$43,027,823
Number of Positions	-

Nonrecurring

Requirements	\$16,347,762
Receipts	-

Appropriation	\$16,347,762
Number of Positions	-

Highway Fund Revenue

The Highway Fund receives its support from three primary sources: (1) three-fourths of the motor fuel taxes collected by the Department of Revenue, 2) licenses and fees collected by the Division of Motor Vehicles, and (3) interest earned from investments of the fund cash balance by the State Treasurer.

Highway Fund revenue totaled \$1.260 billion in 2002-03, a decline of 2.9% over the preceding year. Motor fuel tax collections decreased by 4.4%, licenses and fees fell by 0.1%, while investment income rose by 9.3%. It is projected that Highway Fund revenue will total \$1.349 billion in 2003-04, an increase of 7.4%. Motor fuel taxes are projected to increase by 8.7% as a result of a stronger economy and higher motor fuel prices. Stronger growth will result in license and fee collections expanding by an anticipated 6%. Investment income is projected to decline by 47.9% as the average credit balance declines. Collections are projected to return to more normal growth rates in fiscal year 2004-05, with Highway Fund revenue projected to total \$1.391 billion, an expansion of 1.7%. Motor fuel tax revenue is projected to increase by 3.6% and licenses and fees by 3.1%. Investment income is expected to decline by 38.8%.

Table 5
Highway Fund Revenue, 2003-05

Source	2002-03 Actual	2003-04 Projected	2004-05 Projected
Motor Fuel Taxes			
Motor Fuel Tax	\$ 848,372,050	\$ 922,810,000	\$ 956,160,000
Gasoline Inspection Fee	13,450,770	13,750,000	14,070,000
Highway Use Registration Fee	123,500	160,000	160,000
Total Motor Fuel Taxes	\$ 861,946,320	\$ 936,720,000	\$ 970,390,000
% Change	-4.4%	8.7%	3.6%
Licenses and Fees			
Staggered Registration Plan	150,637,940	158,990,000	164,020,000
Driver Licenses	70,463,916	74,340,000	76,270,000
Truck Plates	61,839,112	66,790,000	69,130,000
International Registration Plan	45,039,507	48,640,000	50,250,000
Other Licenses and Fees	51,393,239	53,440,000	54,840,000
Total Licenses and Fees	\$ 379,373,714	\$ 402,200,000	\$ 414,510,000
% Change	-0.1%	6.0%	3.1%
Investment Income			
	18,810,896	9,800,000	6,000,000
% Change	9.3%	-47.9%	-38.8%
Total Highway Fund Revenue			
	\$ 1,260,130,930	\$ 1,348,720,000	\$ 1,390,900,000
% Change	-2.9%	7.4%	1.7%

Table 6
Condition of the Highway Fund
2004-05

	<u>2003-04</u> <u>Appropriated</u>	<u>2004-05</u> <u>Authorized</u>	<u>Net Changes</u> <u>Recommended</u>	<u>2004-05</u> <u>Recommended</u>
Availability				
Beginning Credit Balance				
Estimated Reversions	\$ -	\$ -	\$ -	\$ -
Overrealized Revenue	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
State Highway Fund Revenue	<u>1,352,784,674</u>	<u>1,375,848,337</u>	<u>15,051,663</u>	<u>1,390,900,000</u>
Total Availability	1,352,784,674	1,375,848,337	15,051,663	1,390,900,000
Expenditures and Commitments				
Expended and Reserved	<u>1,352,784,674</u>	<u>1,331,524,415</u>	<u>59,375,585</u>	<u>1,390,900,000</u>
Ending Credit Balance	<u>\$ -</u>	<u>\$ 44,323,922</u>	<u>\$ (44,323,922)</u>	<u>\$ -</u>

Table 7
Changes to the Highway Fund Budget
2004-05

	2004-05 Previously Authorized	Revision	2004-05 Recommended Appropriation
DOT-General Administration	\$ 72,898,916	\$ 1,227,072	\$ 74,125,988
Highway Division Administration	28,150,605	-	28,150,605
State Match for Federal Aid-Planning and Research	4,280,000	-	4,280,000
Construction Program			
State Secondary System	90,590,000	410,000	91,000,000
State Urban System	14,000,000	-	14,000,000
Discretionary Funds	10,000,000	-	10,000,000
Spot Safety Improvements	9,100,000	-	9,100,000
Access and Public Service Roads	2,000,000	-	2,000,000
Total Construction Program	\$ 125,690,000	\$ 410,000	\$ 126,100,000
Maintenance Program			
Primary System	120,553,156	-	120,553,156
Secondary System	206,386,339	-	206,386,339
Urban System	39,113,550	-	39,113,550
Contract Resurfacing	153,964,316	-	153,964,316
General Maintenance Reserve	53,418,793	16,071,328	69,490,121
Total Maintenance Program	\$ 573,436,154	\$ 16,071,328	\$ 589,507,482
Ferry Operations	19,677,283	-	19,677,283
State Aid to Municipalities	90,590,000	410,000	91,000,000
State Aid to Railroads	15,531,153	-	15,531,153
State Aid for Public Transportation	80,302,926	10,563,521	90,866,447
Asphalt Plant Cleanup	425,000	-	425,000
Governor's Highway Safety Program	293,118	-	293,118
Division of Motor Vehicles	102,896,913	2,405,121	105,302,034
Total Department of Transportation	\$ 1,114,172,068	\$ 31,087,042	\$ 1,145,259,110
Appropriations to Other State Agencies			
Agriculture	3,786,844	-	3,786,844
Revenue	4,226,491	-	4,226,491
State Treasurer - Sales Tax	16,166,400	-	16,166,400
Public Instruction - Driver Education	32,336,509	180,352	32,516,861
CCPS - Highway Patrol	136,526,134	10,000,000	146,526,134
DENR - LUST Trust Fund	5,966,665	90,000	6,056,665
DHHS - Chemical Test	528,304	-	528,304
Global Transpark	-	1,600,000	1,600,000
Total to Other State Agencies	\$ 199,537,347	\$ 11,870,352	\$ 211,407,699
Reserves and Transfers			
Legislative Salary Increase	-	7,600,000	7,600,000
Onetime Bonus	-	2,600,000	2,600,000
Salary Adjustment	400,000	250,000	650,000
Information Technology Systems Reserves	-	4,420,191	4,420,191
Minority Contractor Development	150,000	-	150,000
State Fire Protection Grant	150,000	-	150,000
Retiree Health Benefits	1,600,000	-	1,600,000
State Employee Health Plan	7,671,000	-	7,671,000
Stormwater Discharge Permit	500,000	-	500,000
Additional Funding for Visitor Centers	375,000	-	375,000
Retirement Systems Contributions	7,558,000	-	7,558,000
Cost-of-Living Increase for Retirees	-	798,000	798,000
Retirement Rate Reduction	(589,000)	-	(589,000)
State Infrastructure Bank	-	750,000	750,000
Total Reserves and Transfers	\$ 17,815,000	\$ 16,418,191	\$ 34,233,191
Total Current Operations	1,331,524,415	59,375,585	1,390,900,000
Capital Improvements	-	-	-
Total Highway Fund Appropriation	\$ 1,331,524,415	\$ 59,375,585	\$ 1,390,900,000

■ **Appropriations by Department/Budget Code** ■

Transportation - Highway Trust Fund

Highway Trust Fund Revenue

Established in 1989, the Highway Trust Fund receives support from four primary sources: (1) one-fourth of motor fuel tax collections, (2) highway use tax collections from the sales of motor vehicles in excess of the amount transferred to the General Fund, (3) most of the title fees and various registration fee collections, and (4) interest earned from investment of the Trust Fund cash balance by the State Treasurer.

Highway Trust Fund revenue in 2002-03, while totaling \$938.4 million, declined by 3.6%. Motor fuel tax collections declined by 4.5% and highway use tax by 0.5%, while title fees increased by 0.1%. As a result of decreased cash balances from a net reduction in outstanding bonds, investment income declined by 62.8%.

Highway Trust Fund revenue is projected to total \$995.6 million in 2003-04, expanding by 6.1%. The above normal growth is the result of an expanding economy and higher motor fuel prices. Motor fuel taxes are projected to increase by 8.7%, highway use taxes by 5.5%, and title fees by 5.6%. Finally, investment income is projected to decline by 12% as fewer bonds are issued.

In 2004-05 Highway Trust Fund revenue is projected to total \$1.037 billion, expanding by 3.9%. Motor fuel tax collections are projected to increase by 3.6%, highway use taxes by 5.2%, and title fees by 3.2%. Finally, investment income is projected to decline by 10.0%.

Table 8
Highway Trust Fund Revenue, 2003-05

Source	2002-03 Actual	2003-04 Projected	2004-05 Projected
Motor Fuel Taxes	\$ 283,055,951	\$ 307,573,000	\$ 318,688,000
Highway Use Taxes	552,758,580	583,160,000	613,484,000
Title Fees			
Certificates of Title	79,059,144	83,810,000	86,743,000
Miscellaneous Title Fees	11,800,787	12,256,000	12,584,000
Subtotal	\$ 926,674,462	\$ 986,799,000	\$ 1,031,499,000
% Change	-1.7%	6.5%	4.5%
State Treasurer's Investments	11,730,292	8,764,000	6,000,000
% Change	-62.8%	-12.0%	-10.0%
Total Revenue	\$ 938,404,754	\$ 995,563,000	\$ 1,037,499,000
% Change	-3.6%	6.1%	3.9%
Amount for Transfer to the General Fund¹	377,400,000	252,422,125	242,520,317
Balance Available	<u>\$ 561,004,754</u>	<u>\$ 743,140,875</u>	<u>\$ 794,978,683</u>

1. Transfer required by G.S. 105-187.9

Table 9
Condition of the Highway Trust Fund
2004-05

	<u>2003-04</u> <u>Appropriated</u>	<u>2004-05</u> <u>Authorized</u>	<u>Net Changes</u> <u>Recommended</u>	<u>2004-05</u> <u>Recommended</u>
Availability				
Beginning Credit Balance	\$ -	\$ -	\$ -	\$ -
Highway Trust Fund Revenue	<u>1,010,039,000</u>	<u>1,049,071,000</u>	<u>(11,572,000)</u>	<u>1,037,499,000</u>
Total Availability	1,010,039,000	1,049,071,000	(11,572,000)	1,037,499,000
Expenditures and Commitments				
Authorized Budget	757,616,875	806,484,170	(11,505,487)	794,978,683
Transfer to General Fund ¹	252,422,125	242,586,830	(66,513)	242,520,317
Total Expenditures and Commitments	<u>1,010,039,000</u>	<u>1,049,071,000</u>	<u>(11,572,000)</u>	<u>1,037,499,000</u>
Ending Credit Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

1. Transfer required by G.S. 105-187.9

Table 10
Changes to the Highway Trust Fund Budget
2004-05

	<u>2004-05</u> <u>Previously</u> <u>Authorized</u>	<u>Revision</u>	<u>2004-05</u> <u>Revised</u> <u>Appropriation</u>
Department of Transportation			
Maximum Allowance for Administration	\$ 39,636,698	\$ (439,735)	\$ 39,196,963
Construction Allocation			
Intrastate System	452,665,225	(7,488,716)	445,176,509
Urban Loop System	183,038,965	(3,028,125)	180,010,840
Secondary Roads	83,648,141	236,830	83,884,971
State Aid to Municipalities	47,495,141	(785,741)	46,709,400
Transfer to the General Fund ¹	<u>242,586,830</u>	<u>(66,513)</u>	<u>242,520,317</u>
Total Highway Trust Fund	<u>\$ 1,049,071,000</u>	<u>\$ (11,572,000)</u>	<u>\$ 1,037,499,000</u>

1. Transfer required by G.S. 105-187.9

■ **Appropriations by Department/Budget Code** ■

Capital Improvements

Capital Improvements - General Fund (19600)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$0	\$47,610,680	
Receipts	-	-	
Appropriation	<u>\$0</u>	<u>\$47,610,680</u>	
Positions	-	-	

Appropriation Items -- Recommended Adjustments

Expansion

2004-05

1. Water Resources Development Projects

It is recommended that an appropriation be made for the state share of civil works projects for navigation, flood control, drainage, and beach protection. The costs for these projects are shared by statutory formula with the federal government and/or local governments. Allocation of these funds will be made by the Department of Environment and Natural Resources in compliance with the state's Water Resources Plan.

Appropriation - Nonrecurring \$22,870,000

2. State Ports Crane Rail Replacement

It is recommended that funds be appropriated to replace crane rail sections at the Port of Wilmington to ensure safe operations.

Appropriation - Nonrecurring \$2,000,000

3. Caldwell County Armory Replacement

It is recommended that state funds be appropriated to match federal and local funds for a new armory in Caldwell County.

Appropriation - Nonrecurring \$975,000

4. DENR State Match Funds

It is recommended that funds be appropriated to provide the required 20% match for the Clean Water State Revolving Fund (SRF) and the federal Drinking Water State Revolving Fund (SRF). In addition, funds will be used as a 10% match to federal funds for the NC Superfund Cost Share Fund. The NC Superfund Cost Share Fund provides for the cleanup costs of National Priorities List sites. \$6,900,000 in the General Water Supply Revolving Loan Account will also be used to offset a portion of the match funds for the Drinking Water SRF and Clean Water SRF.

Appropriation - Nonrecurring \$1,776,680

5. Veterans Cemetery Expansion

It is recommended that funds be appropriated to support the expansion of the Veterans Cemetery in Jacksonville.

Appropriation - Nonrecurring **\$300,000**

6. Department of Correction Electronic Intrusion Systems

It is recommended that funding be appropriated for the installation of electronic intrusion systems at Odom & Caledonia Correctional Institutions and at Western Youth Institution. Beginning in the early 1990's, the Division of Prisons installed an electronic intrusion system at all of its new and expanded institutions. The Division has identified other older facilities that still operate with security guard towers. These guard towers are staffed 24 hours per day, 7 days per week. The staff costs for each tower is approximately \$160,000 per year. Replacing these costly towers with EIS, which includes modern electronic detection systems, fortified perimeter fence barriers and armed roving vehicle patrols, has proven to be not only more economical but also more effective than perimeter guard towers. The payback period for the capital cost for this group of three prisons is between four and five years.

- | | |
|---------------------------------------|-----------|
| 1. Odom Correctional Institution | 1,506,000 |
| 2. Caledonia Correctional Institution | 1,589,500 |
| 3. Western Youth Institution | 1,589,500 |

Appropriation - Nonrecurring **\$4,685,000**

7. North Carolina Motorsports Testing and Research Complex

It is recommended that an appropriation be provided to assist in funding the proposed North Carolina Motorsports Testing and Research Complex. This complex will be owned and operated in conjunction with UNC-Charlotte's automotive and motorsports engineering program. The complex will provide testing facilities and infrastructure, including a multi-purpose automobile test track as well as the necessary equipment and instrumentation to comprehensively meet the technical and growing needs of the motorsports industry.

Appropriation - Nonrecurring **\$15,000,000**

8. Memorial to Combat Wounded

It is recommended that funds be provided for ground preparation and landscaping for the memorial to the combat wounded.

Appropriation - Nonrecurring **\$4,000**

Total Recommended Expansion

Recurring

Requirements	-
Receipts	-
Appropriation	-
Number of Positions	-

Nonrecurring

Requirements	\$47,610,680
Receipts	-
<hr/>	
Appropriation	\$47,610,680
Number of Positions	-

**Total Recommended Adjustments for
Capital Improvements - General Fund
2004-05**

Recurring

Requirements	-
Receipts	-
<hr/>	
Appropriation	-
Number of Positions	-

Nonrecurring

Requirements	\$47,610,680
Receipts	-
<hr/>	
Appropriation	\$47,610,680
Number of Positions	-

■ **Appropriations by Department/Budget Code** ■

Reserves, Debt Service, and Other Adjustments

Reserves, Debt Service, and Other Adjustments - General Fund (190xx, 19420, 19425)

Total Appropriations and Positions

	2004-05 Certified	2004-05 Recommended	Percentage Change
Requirements	\$889,113,631	\$1,046,226,634	17.7 %
Receipts	-	-	
Appropriation	<u>\$889,113,631</u>	<u>\$1,046,226,634</u>	17.7 %
Positions	-	-	

Appropriation Items -- Recommended Adjustments

Technical Adjustments

2004-05

Debt Service

1. Debt Service Funds for Falls Lake

To comply with an agreement with the federal government, it is recommended that additional funds be provided to pay debt service for improvements at Falls Lake.

Appropriation \$460,432

Total Recommended Technical Adjustments

Recurring

Requirements	\$460,432
Receipts	-
Appropriation	<u>\$460,432</u>
Number of Positions	-

Nonrecurring

Requirements	-
Receipts	-
Appropriation	<u>-</u>
Number of Positions	-

Reductions

2004-05

1. Debt Service Requirements

It is recommended that funds for debt service on bonds be reduced due to revised cash flow requirements, lower than originally projected interest rates, and additional receipts.

Appropriation (\$26,648,480)

Appropriation - Nonrecurring (\$57,000,000)

2. Excess Funds in Statewide Reserves

It is recommended that funds in several statewide reserves be reduced to more accurately reflect actual requirements for FY 2004-05.

Compensation Increases: (\$900,000)

Health Plan: (\$900,000)

Retirement System: (\$6,900,000)

Appropriation (\$8,700,000)

3. Reserve for Senate Bill 100 Compliance

It is recommended that agency budgets be reduced to reflect savings created by the sales tax exemption, thereby complying with SB 100.

Appropriation (\$11,813,949)

Total Recommended Reductions

Recurring

Requirements (\$47,162,429)

Receipts -

Appropriation (\$47,162,429)

Number of Positions -

Nonrecurring

Requirements (\$57,000,000)

Receipts -

Appropriation (\$57,000,000)

Number of Positions -

Expansion

2004-05

Employee Benefits

1. State Funded Employee Compensation Increases

It is recommended that funds be appropriated to provide salary increases for all state-funded Public School System employees, Community College System employees, University of North Carolina System employees and state agency employees. Recommended increases for each group are listed below.

Public Schools

Teachers and Instructional Support	step, plus 0.5%
Principals and Assistant Principals	step, plus 0.5%
All Other Public School Employees	2%, plus \$250 one-time bonus

This proposal also recommends funds to support a one-time bonus for teachers and principals who are at the top of their respective schedule.

Community Colleges 2%, plus \$250 one-time bonus

This proposal also recommends \$12.8 million in recurring funds to support an additional 2% increase for Community College System faculty and professional staff.

University of North Carolina

SPA Employees	2%, plus \$250 one-time bonus
EPA Employees	2%, plus \$250 one-time bonus
School of Science and Math Faculty	step, plus 0.5%

State Agencies and Departments

SPA Employees	2%, plus \$250 one-time bonus
EPA Employees	2%, plus \$250 one-time bonus
State Agency Teachers	step, plus 0.5%

Finally, this proposal also includes funds to support an annual bonus of \$1,800 for state agency teachers certified and teaching in the fields of math, science, or special education in grades 6 through 12.

Appropriation \$173,300,000

Appropriation - Nonrecurring \$47,950,000

2. Retirement System Contributions

It is recommended that the employer contribution rate be increased by 0.21% in FY 2004-05 to provide a cost-of-living adjustment of 2% for retirees effective July 1, 2004. This recommendation also allocates \$15 million in FY 2004-05 to repay funds withheld from the system in FY 2000-01.

Appropriation \$16,065,000

Appropriation - Nonrecurring \$15,000,000

Other Reserves**1. Mental Health Trust Fund**

To continue Mental Health System Reform efforts, the Governor recommends funding to increase community mental health, developmental disability and substance abuse services; increase crisis detox beds at the division's alcohol

and drug treatment centers; and support training, technical assistance and other local management entities (LME) mergers and consolidations.

Appropriation - Nonrecurring \$8,500,000

Total Recommended Expansion

Recurring

Requirements \$189,365,000

Receipts -

Appropriation \$189,365,000

Number of Positions -

Nonrecurring

Requirements \$71,450,000

Receipts -

Appropriation \$71,450,000

Number of Positions -

**Total Recommended Adjustments for
Reserves, Debt Service, and Other
Adjustments - General Fund
2004-05**

Recurring

Requirements \$142,663,003

Receipts -

Appropriation \$142,663,003

Number of Positions -

Nonrecurring

Requirements \$14,450,000

Receipts -

Appropriation \$14,450,000

Number of Positions -

