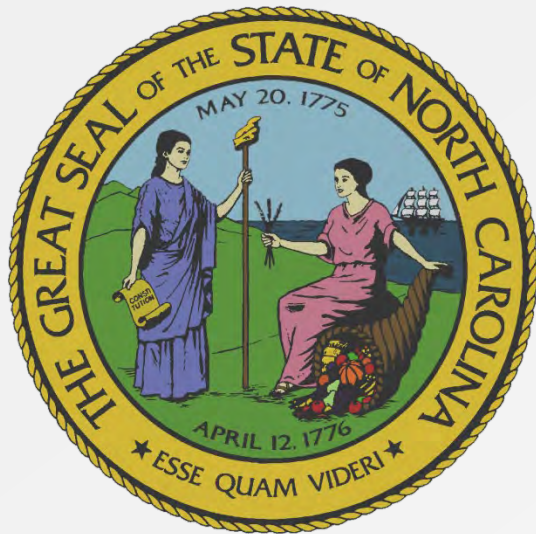




Office of State Budget and Management  
*Balancing Needs - Improving Government*



# FY 2009-11 Presentation of Governor Perdue's Recommended Budget

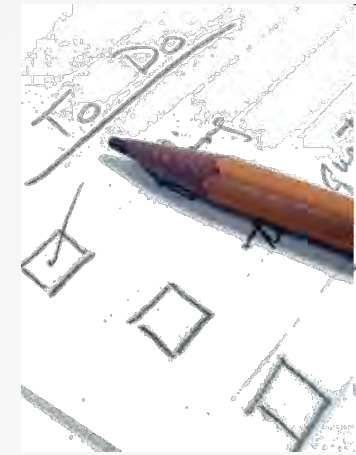
*Prepared by:*

*The Office of State Budget and Management*

*March 17, 2009*



- I. **Governor Perdue's Budget Priorities**
- II. Summary of FY 2009-11 Budget
- III. Recommendations by Subcommittee
- IV. Economic and Revenue Update
- V. Summary





# Governor Perdue's Budget Priorities

- Growing North Carolina's Economy
- Improving Public Education
- Keeping Higher Education Accessible and Affordable
- Protecting Our Most Vulnerable Citizens
- Keeping Our Communities Safe
- Making Government More Efficient and Accountable
- Fiscal Responsibility

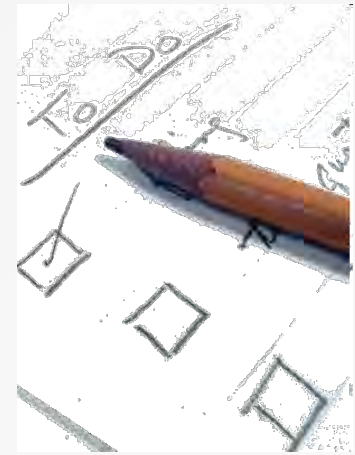


# Budget Themes

- Truth-in-budgeting (payroll / enhanced flexibility)
- Targeted reduction approach
  - One size does not fit all
- Focus on protecting & preserving core services



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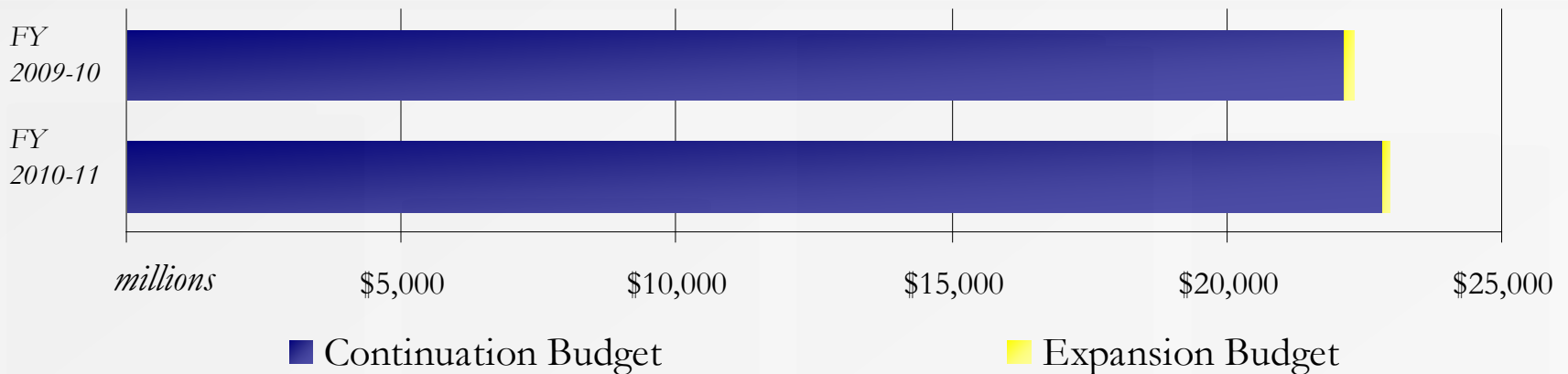




# FY 2009-11 Initial Appropriation Requirements

	<i>FY 2009-10</i>	<i>FY 2010-11</i>
Continuation Budget (Includes Education Enrollment, Medicaid, State Health Plan, Retirement System Contribution, and Teacher Salary Step Increase)	\$ 22,114	\$ 22,815
+ Expansion Budget	\$ 170	\$ 123
<b>Total</b>	<b>\$ 22,283</b>	<b>\$ 22,938</b>

*All figures in millions of dollars.*



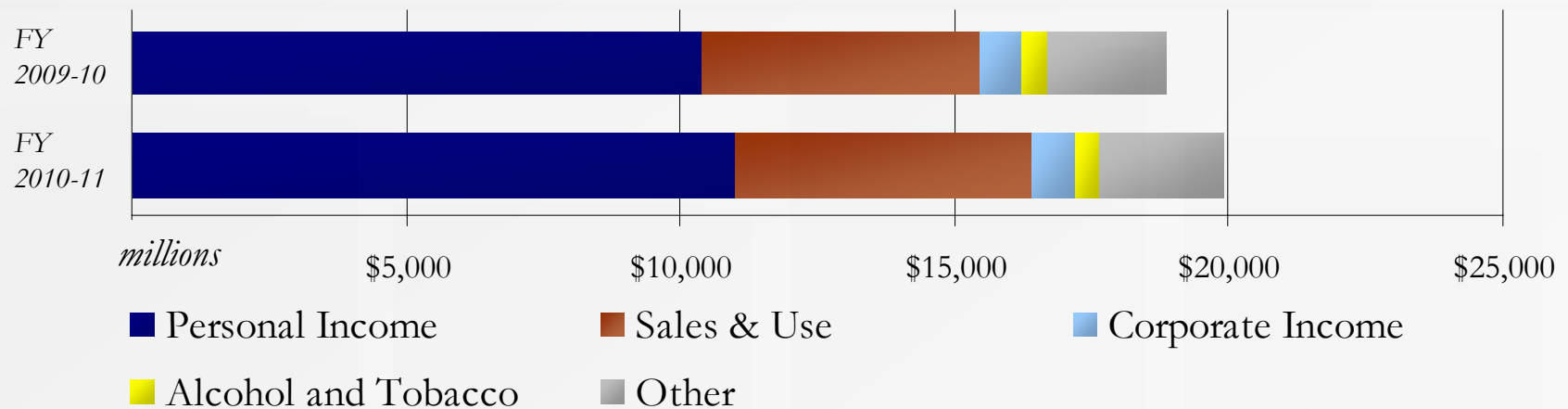




# Consensus Baseline Revenue Forecast

	<i>FY</i> <i>2009-10</i>	<i>Change from</i> <i>2008-09*</i>	<i>FY</i> <i>2010-11</i>	<i>Change from</i> <i>2008-09*</i>
Personal Income	\$ 10,385	-9%	\$ 10,962	-4%
Sales & Use	\$ 5,038	-6%	\$ 5,400	0%
Corporate Income	\$ 772	-35%	\$ 824	-31%
Alcohol and Tobacco	\$ 451	54%	\$ 451	54%
Other Taxes and Revenue Sources	\$ 2,215	-16%	\$ 2,267	-14%
<b>Total</b>	<b>\$ 18,862</b>	<b>-10%</b>	<b>\$ 19,904</b>	<b>-5%</b>

\* Change from Budgeted FY 2008-09 Revenue. All figures in millions of dollars.

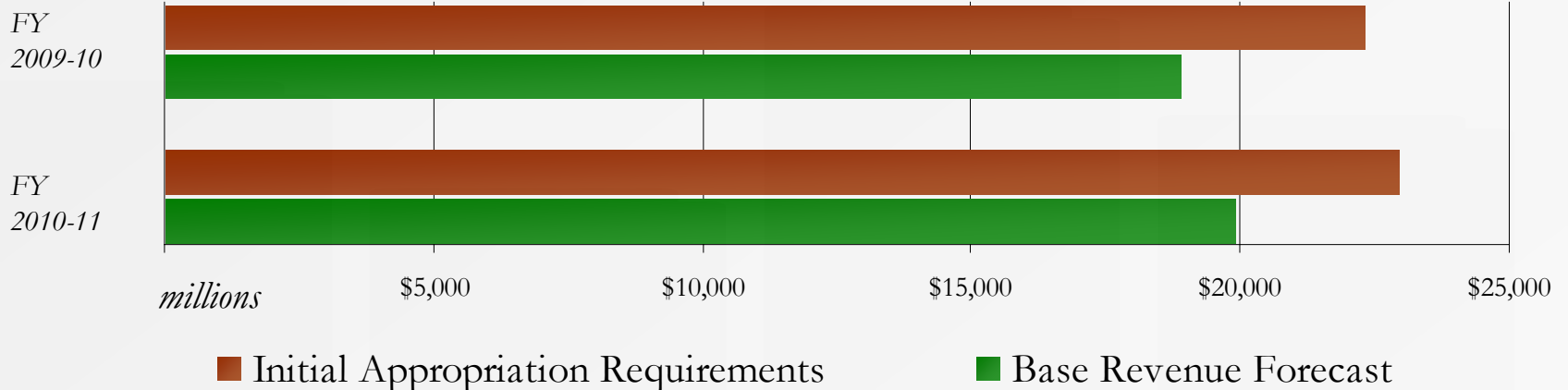




# Initial Requirements vs. Base Revenue

	<i>FY 2009-10</i>	<i>FY 2010-11</i>
Base Revenue Forecast	\$ 18,862	\$ 19,904
Initial Appropriation Requirements	\$ 22,283	\$ 22,938
<b>Balance</b>	<b>\$(3,422)</b>	<b>\$(3,034)</b>

*All figures in millions of dollars.*



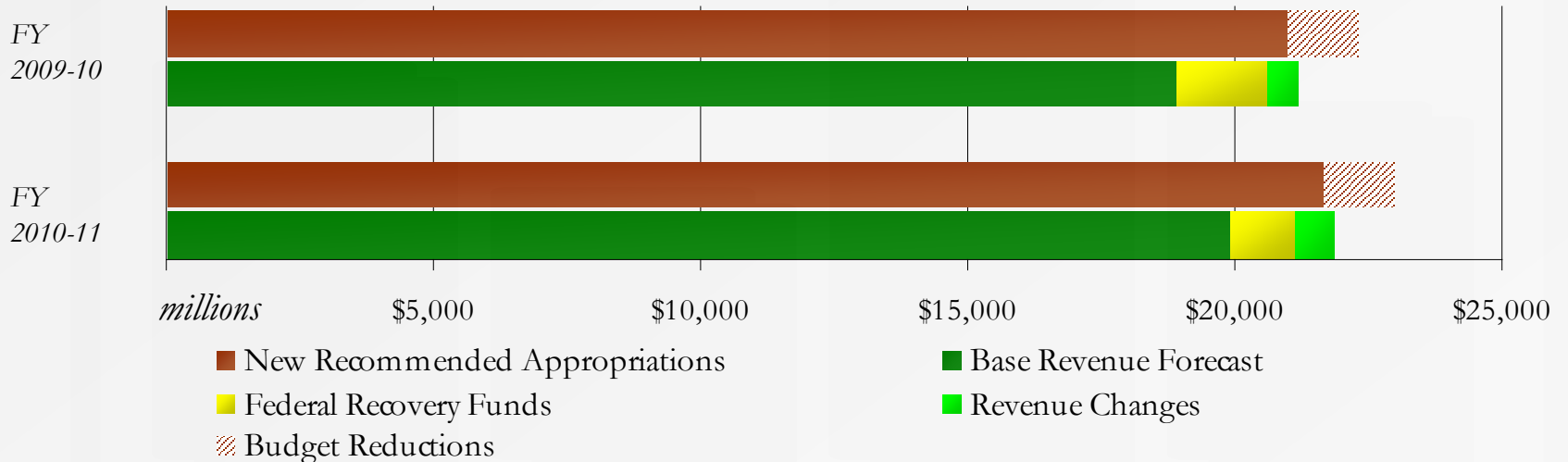




# FY 2009-11: Measures to Balance

	<i>FY 2009-10</i>	<i>FY 2010-11</i>
Budget Reductions	(-) \$ 1,302	(-) \$ 1,289
Federal Recovery Funds	\$ 1,714	\$ 1,211
Revenue Changes	\$ 580	\$ 707
<b>TOTAL Measures to Balance</b>	<b>\$3,596</b>	<b>\$3,207</b>

*All figures in millions of dollars.*

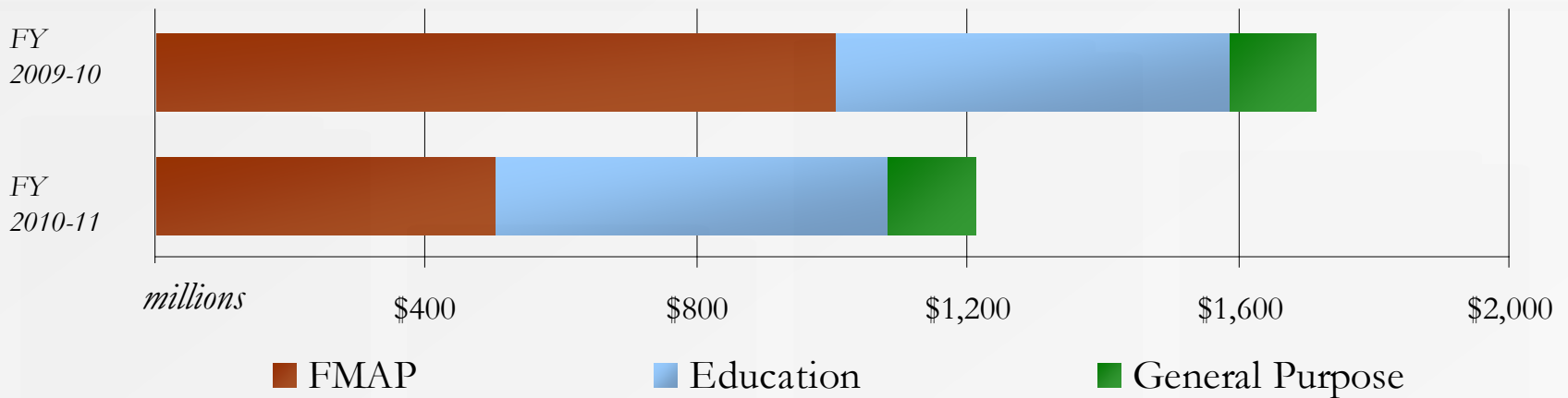




# Federal Recovery Funds

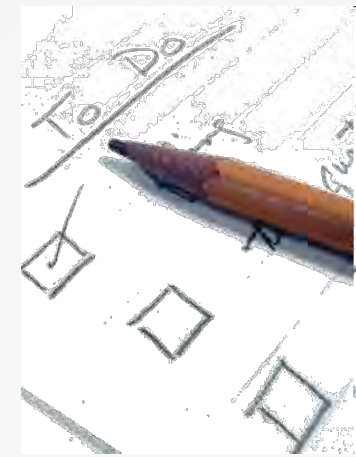
	<i>FY 2009-10</i>	<i>FY 2010-11</i>
Federal Medicaid Assistance Program (FMAP)	\$ 1,004	\$ 501
Fiscal Stabilization – Education	\$ 581	\$ 581
Fiscal Stabilization – General Purpose	\$ 129	\$ 129
	<b>\$ 1,714</b>	<b>\$ 1,211</b>

*All figures in millions of dollars.*





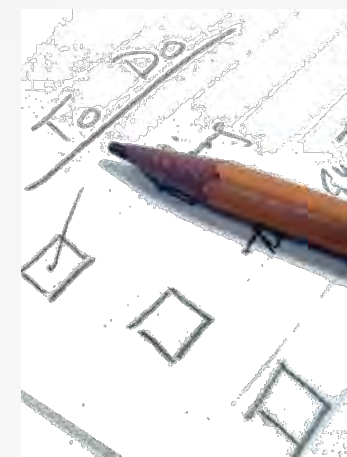
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## IV. Recommendations by Subcommittee

- A. **Education**
- B. Health and Human Services  
(HHS)
- C. General Government/  
Natural and Economic Resources/  
Justice and Public Safety  
(GG/NER/JPS)
- D. Infrastructure
- E. Transportation
- F. Statewide Reserves





# Education: Budget Overview

	<i>Revised FY 2008-09</i> <sup>1</sup>	<i>FY 2009-10</i> <sup>2</sup>	<i>% Change</i> <sup>3</sup>	<i>FY 2010-11</i> <sup>2</sup>	<i>% Change</i> <sup>3</sup>
<b>Public Schools</b>					
Requirements	\$11,108	\$11,226	1%	\$11,377	2%
Receipts	\$2,898	\$3,214	11%	\$3,213	11%
Appropriations	\$8,210	\$8,012	-2%	\$8,164	-0.6%
<b>UNC System</b>					
Requirements	\$4,019	\$4,159	4%	\$4,247	6%
Receipts	\$1,292	\$1,301	0.7%	\$1,318	2%
Appropriations	\$2,727	\$2,858	5%	\$2,929	7%
<b>Community Colleges</b>					
Requirements	\$1,203	\$1,293	8%	\$1,345	12%
Receipts	\$238	\$266	12%	\$277	17%
Appropriations	\$965	\$1,027	6%	\$1,068	11%

*All figures in millions of dollars.*

*1. Revised per Executive Order No. 6, 1/13/2009*

*2. Includes Teachers' Salary Step Increase*

*3. From FY 2008-09*



# Education: Enrollment Changes

	<i>FY</i> <i>2008-09</i>	<i>FY</i> <i>2009-10</i>	<i>%</i> <i>Change</i> <sup>1</sup>	<i>FY</i> <i>2010-11</i>	<i>%</i> <i>Change</i> <sup>2</sup>
Public Schools	1,476,566	1,464,914	-0.8%	1,478,795	1%
UNC	191,489	196,194	2%	200,862	2%
Community Colleges	201,625	214,144	6%	225,614	5%

*Figures are FTE/ADM.*

*1. From FY 2008-09*

*2. From FY 2009-10*



# Governor Perdue's Education Budget

- **Protects K-12**
  - Total public education spending (including federal recovery dollars) greater in FY 2009-10 than FY 2008-09
  - Enrollment is 0.8% lower
- Continues to **provide access to UNC system** for North Carolinians at reasonable and affordable cost
  - Fully funds enrollment growth and need-based financial aid
  - Does not recommend an increase in tuition
- Community college budget **focuses on strategic areas**
  - Ensure workforce development
  - Create jobs for the future
  - Does not increase tuition





# Education: Budget Reductions

- **Total Reductions:** **\$578 million**
- Public Education: \$318 million
- UNC System: \$196 million
- Community Colleges: \$64 million



# Major Reductions in Public Education

- Adjust DPI salaries and LEA benefits to 97%
  - More closely matches actual salary and benefit expenditures
- LEA flexibility reduction (\$144 mm/year)
  - Allocated based upon average daily membership
  - Shall not directly impact classroom services
  - LEAs strongly encouraged to use federal recovery funds to mitigate this reduction



# Major Reductions in Public Education (cont.)

- Reduce funding for textbooks (\$38 mm, NR)
  - Due to delay in middle and high school math textbook adoption
  - LEAs will continue to have funds available to purchase remaining textbooks
- Reduce appropriation for technology fund (\$4 mm/year, NR)
  - Federal recovery funds provide \$16 million to be used for educational technology
  - Governor also recommends appropriation of the \$18 million in fines held in escrow by the UNC System



# Major Reductions in Public Education (cont.)

- Adjust financing for school bus replacement (\$7.5 mm/year)
  - Replacement from 3 years to 4 years
  - Will not reduce number of buses scheduled for replacement over the biennium
- Eliminate Improving Student Accountability allotment (\$38 mm/year)
  - LEAs are encouraged to use DSSF and federal recovery funds to mitigate this reduction



# Major Reductions in the UNC System

- Adjust UNCGA salaries to 97% and UNC campus salaries to 98%
  - More closely matches actual salary expenditures
- Reduce UNC Hospital transfer due to their large fund balance (\$10 mm/year for 2 years )
- Reduce Legislative Tuition Grant budget (\$4 mm)
  - Consistent with reduction for the UNC campuses
  - State Contractual Scholarship Fund (need-based financial aid program for private colleges) is held harmless



# Major Reductions in the UNC System (cont.)

- UNC GA flexibility reduction of 5% (\$3 mm)
  - UNC System President and the UNC Board of Governors have flexibility to implement
- UNC campus flexibility reduction of 3.6% (\$97 mm)
  - Make reductions in areas based upon interests of each campus



# Major Reductions in NCCCS

- Adjust NCCCS Office salaries to 97% and college salaries to 98%
  - More closely matches actual salary expenditures
- Reduce/eliminate certain categorical allotments (\$4 mm)
- Reduce supplemental multi-campus funding (\$2 mm)
  - Colleges will continue to receive FTE funding for enrollment generated at these sites





## Major Reductions in NCCCS (cont.)

- Restructure continuing education fee rates (\$9 mm)
  - New sliding scale based upon length of each course
  - Will not reduce access to training for dislocated workers
- Community college flexibility reduction (\$21 mm)
  - Shall not directly impact retraining for displaced workers or course offerings to high school students



# Education: Budget Expansion Items

- **Total Expansion Items: \$67 million**
- Public Education: \$21 million
- UNC System: \$28 million
- Community Colleges: \$18 million



# Expansion Highlights: Public Education

- **Provide \$5 million** to:
  - Investigate and pilot **diagnostic assessments** in elementary grades
    - Ensure deficiencies in reading/math addressed before middle school
  - Replace standard course of study with a **21<sup>st</sup> century curriculum**
  - Develop a plan to **restructure the ABCs Accountability System**
  - Replace the current EOG and EOC tests with **assessments aligned with the new curriculum**
    - Using national assessments wherever possible



## Expansion Highlights: Public Education (cont.)

- Increase funding for the statewide program that provides **tailored and sustained support to struggling schools and districts** (\$3 mm)
- Continue **dropout prevention grant initiative** (\$7 mm)
  - Addresses truancy, academic failure, and school transition
- Full funding for **additional 12 Learn and Earn schools** scheduled to open in the 2009-10 school year



# Expansion Highlights: UNC System

- Full funding for **UNC Need-Based Financial Aid** (\$23 mm)
  - Continue the expansion to ensure that all eligible students receive a grant
  - Will hold recipients harmless from increases in the cost of education
- Support ECU Brody School of Medicine's ability to **provide care for indigent patients** (\$4 mm)



# Expansion Highlights: NCCCS

- **JobsNOW**
  - **65 additional health faculty** targeted in areas with high shortage and waiting list of students (\$5 mm)
  - **20 grants to colleges** for programs serving areas of major need in technical fields (\$3 mm)
    - Transportation, engineering, industrial, military, construction, and green technology
  - **JobSupport** (\$3 mm in federal recovery funds)
    - Meets child care, tuition, and transportation needs of displaced workers while they pursue retraining



# Expansion Highlights: NCCCS (cont.)

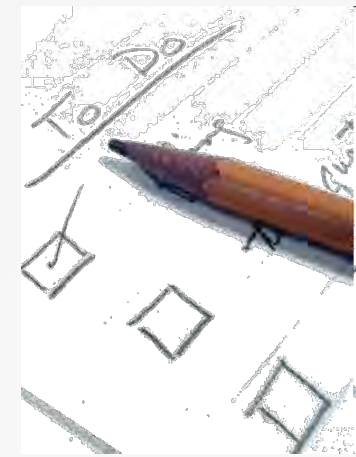
- **Address equipment and technology needs** (\$5 mm, R)
  - Reduce program waiting lists
  - Meet training needs
- **Enrollment growth reserve** (\$3 mm)
  - Assists colleges experiencing enrollment growth  $> 5\%$





## IV. Recommendations by Subcommittee

- A. Education
- B. Health and Human Services (HHS)**
- C. General Government/  
Natural and Economic Resources/  
Justice and Public Safety  
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# HHS: Budget Overview

	<i>Revised FY</i> <i>2008-09</i> <sup>1</sup>	<i>FY</i> <i>2009-10</i>	<i>%</i> <i>Change</i> <sup>2</sup>	<i>FY</i> <i>2010-11</i>	<i>%</i> <i>Change</i> <sup>2</sup>
<b>Health and Human Services</b>					
Requirements	\$16,860	\$17,848	6%	\$18,537	10%
Receipts	\$12,097	\$12,563	4%	\$12,988	7%
Appropriation	\$4,763	\$5,285	11%	\$5,549	17%

*All figures in millions of dollars.*

*1. Revised per Executive Order No. 6, 1/13/2009*

*2. From FY 2008-09*





## HHS Budget Drivers (before reductions/expansion)

- **Medicaid Forecast :**

\$497 million FY 2009-10

\$750 million FY 2010-11

\$1,247 million FYs 2009-11

- **MH/DD/SA** - \$62 million continuation budget increase

- Operating reserve for Cherry Hospital
- Truth-in-budgeting increases





# Major Reductions in HHS

## Total General Fund Reductions:

- \$274 million in FY 09-10
- Medicaid reductions - \$147 mm (54%)
  - Freeze provider inflationary rate reductions (\$101 mm)
  - Reduce prescription drug (\$20 mm)
  - Modify personal care services (\$14 mm)
- MH/DD/SA reductions -\$33 mm (12%)
  - Close two 25 bed adult units Cherry/Broughton (\$6 mm)
  - Close Wright and Whitaker Schools (\$3 mm)
  - Remove IT reserve for Cherry/CRH (\$21 mm)



# Major Reductions in HHS (cont.)

## Total General Fund Reductions:

- \$274 million in FY 09-10
- Child Development reductions - \$29 mm (10%)
  - Replace state w/federal for child care subsidy (\$13 mm)
  - Reduce Smart Start on nonrecurring basis (\$9 mm)
  - Replace state funds with federal for TEACH (\$4 mm)
- Social Services reductions - \$24 mm (9%)
  - Eliminate state funds for Work First Cash assistance (\$7 mm)
  - Offset state funds with federal recovery funds (\$11 mm)
  - Reduce REACH scholarship funds (\$3 mm, NR &R)
- Truth-in-budgeting reform - \$23 mm (8% of total)



# HHS: Budget Expansion Items

## Total General Fund Expansion Items:

- \$22 million in FY 09-10
- **Increase access to health care** to children of working families & the uninsured
  - Expand SCHIP to 8,000 children (\$4 mm)
  - Provide recurring funds for Health Net (\$1 mm)
- **Support older adults & caregiver families**
  - Expand Home and Community Care Block Grant (\$1 mm)
  - Provide recurring funds for Project CARE (\$0.5 mm)



# HHS: Budget Expansion Items

## Total General Fund Expansion Items:

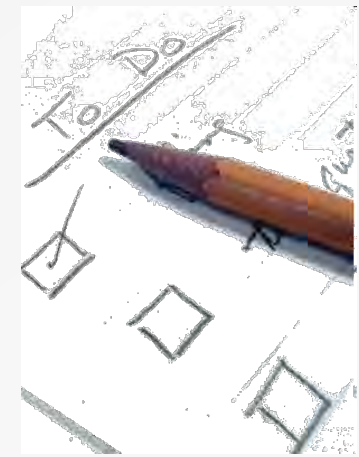
- \$22 million in FY 09-10
- **Improve institutional and community-based resources** that provide services to the mentally ill
  - Crisis services-local inpatient bed capacity (\$12 mm)
  - Training and workforce development (\$0.3 mm)
  - Truth-in-budgeting adjustments (\$30 mm)
  - Dorothea Dix Overflow Unit (\$3 mm)
- **Other critical items** (Receipt-supported)
  - Medicaid Management Information System (\$11 mm in prior year earned revenue)
  - Federal recovery funds for child care subsidy (\$54 mm)





## IV. Recommendations by Subcommittee

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# GG/NER/JPS: Budget Overview

	FY 2008-09 <sup>1</sup>	FY 2009-10	% Change <sup>2</sup>	FY 2010- 11	% Change <sup>2</sup>
<b>General Government (GG)</b>					
Requirements	\$576	\$563	-2%	\$566	-2%
Receipts	\$128	\$125	-2%	\$125	-2%
Appropriation	\$448	\$438	-2%	\$440	-2%
<b>Natural and Economic Resources (NER)</b>					
Requirements	\$753	\$689	-9%	\$670	-11%
Receipts	\$214	\$220	3%	\$215	0.3%
Appropriation	\$539	\$469	-13%	\$456	-15%
<b>Justice and Public Safety (JPS)</b>					
Requirements	\$2,312	\$2,437	5%	\$2,433	5%
Receipts	\$211	\$235	11%	\$210	-0.5%
Appropriation	\$2,100	\$2,202	5%	\$2,223	6%

*All figures in millions of dollars.*

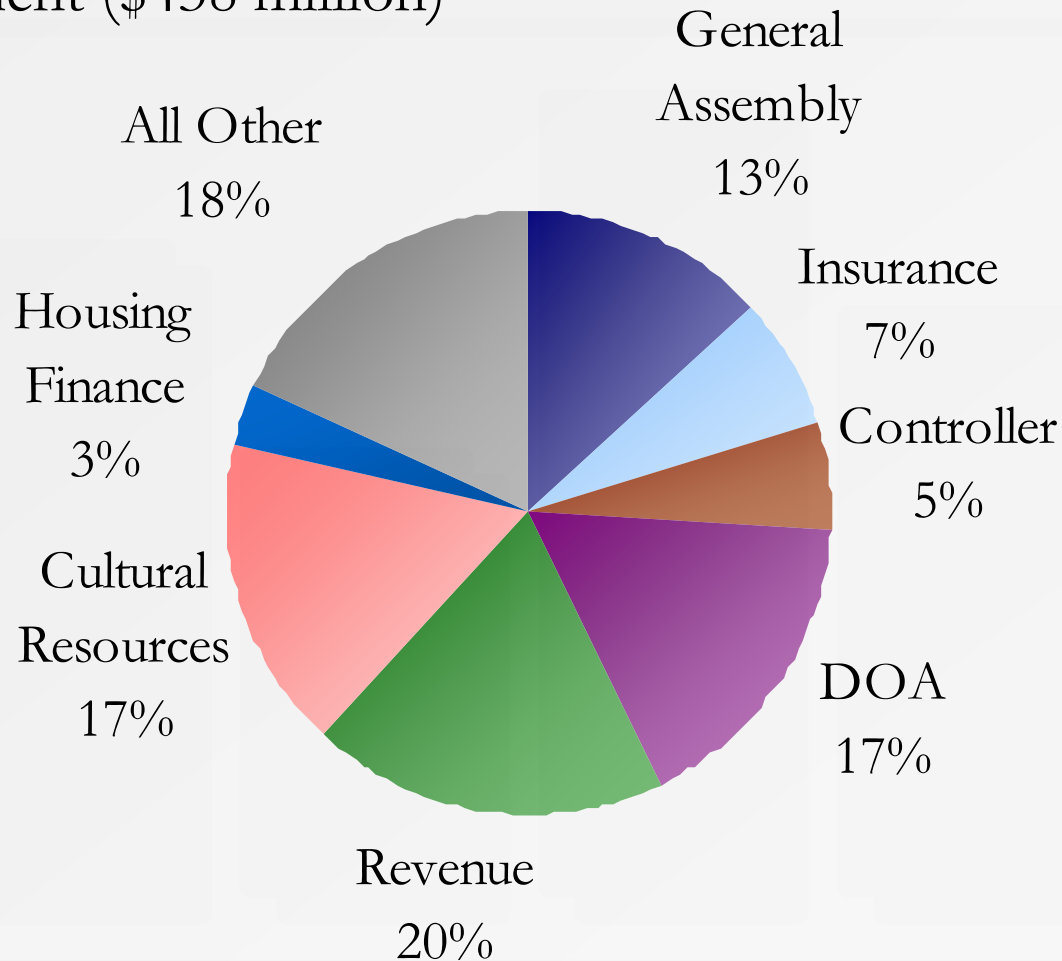
1. Revised per Executive Order No. 6, 1/13/2009

2. From FY 2008-09



# Allocation for General Government

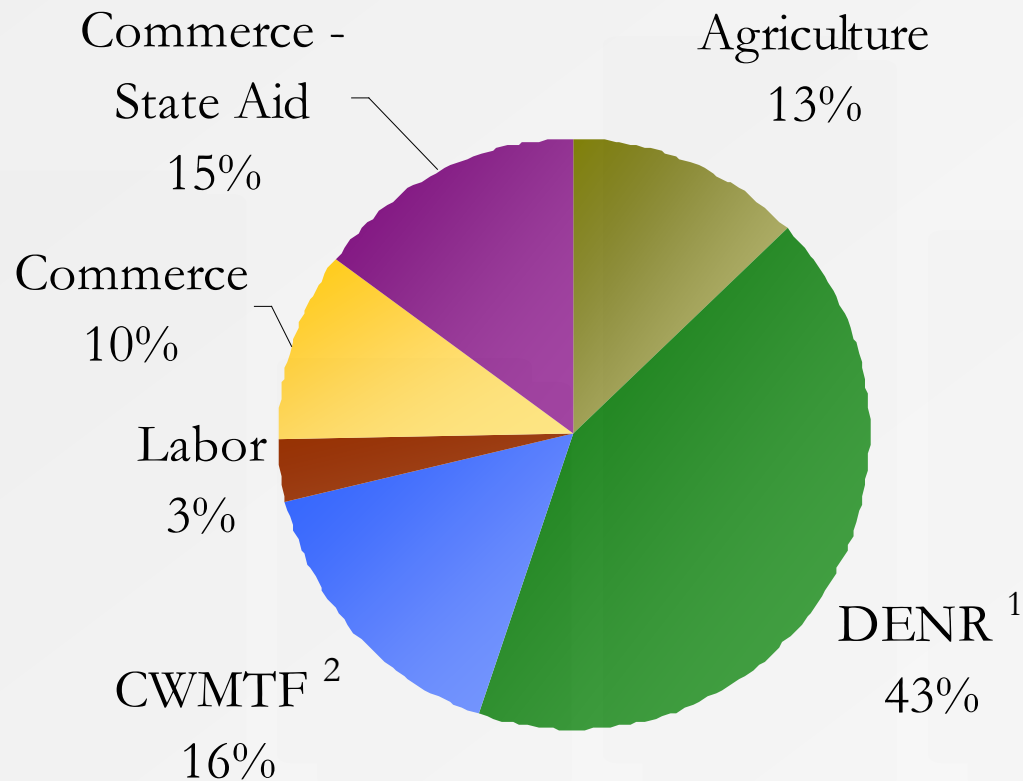
- Allocation of FY 2009-10 Appropriation for General Government (\$438 million)





# Allocation for Natural and Economic Resources

- Allocation of FY 2009-10 Appropriation for NER (\$469 million)

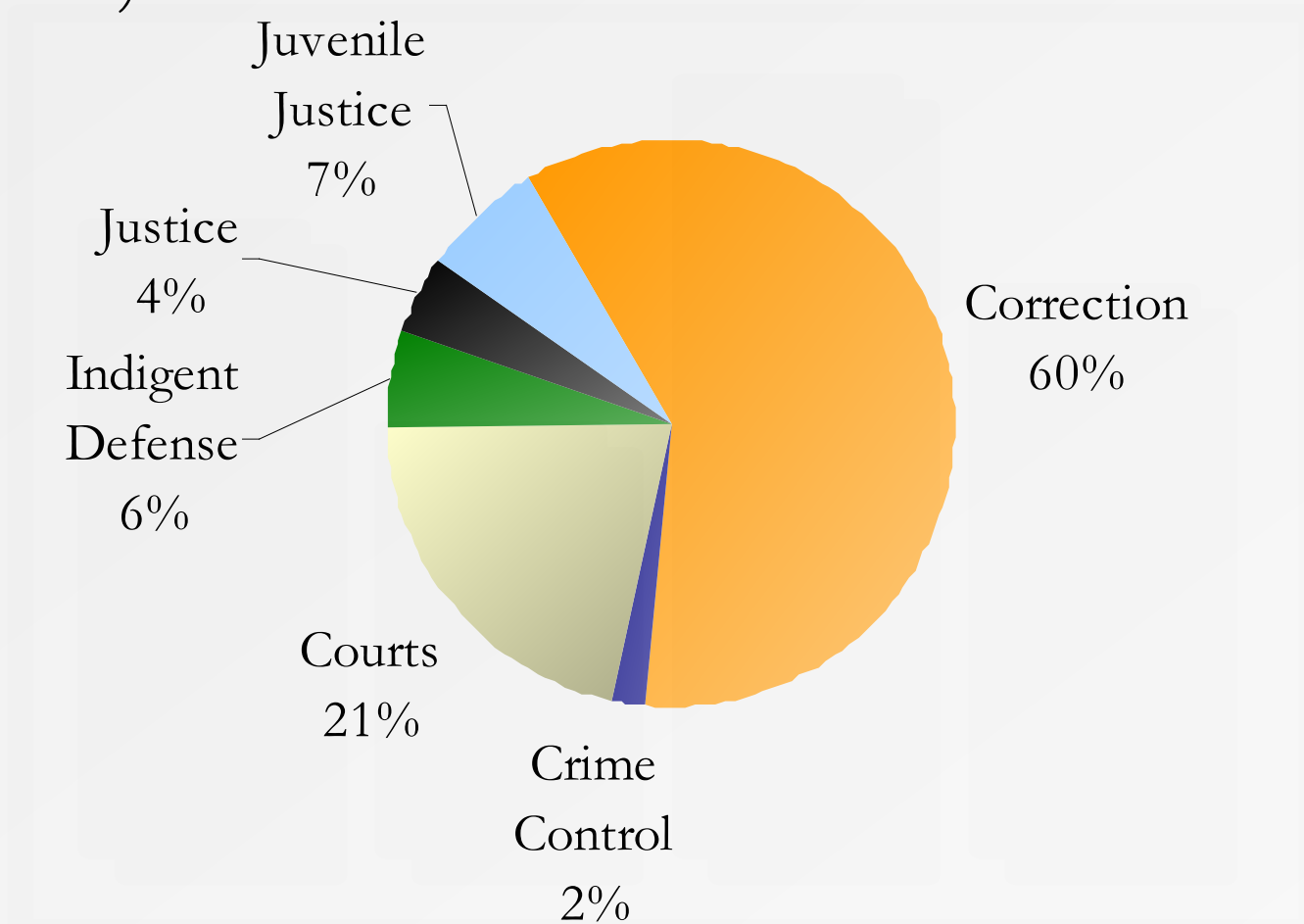


1. Department of Environment and Natural Resources
2. North Carolina Clean Water Management Trust Fund



# Allocation for Justice and Public Safety

- Allocation of FY 2009-10 Appropriation for JPS (\$2,202 million)





# GG/NER/JPS: Budget Reductions

- **Total Reductions:**

FY 2009-10 \$237 million

FY 2010-11 \$250 million

- **Generally includes:**

- Payroll reductions to more closely match actual expenditures
- Reductions to operating accounts agency-wide
- Position eliminations
- Fund-shifting various expenditures to receipt support
- Reductions to pass-throughs at 7%



# Other Reductions for General Government

- Reduction for the Volunteer Safety Workers' Compensation Fund (\$3 mm, NR)
- Elimination of the Investigation Unit and Criminal Justice Planning Program for the State Capitol Police (\$0.1 mm)
- Elimination of Grants Training Unit in the Office of the State Auditor (\$0.3 mm)





# Other Reductions for NER

- Reduction for the Clean Water Management Trust Fund (\$25 mm, NR)
- Elimination of the BRIDGE Young Offenders Forest Conservation Program (\$1 mm)
- Elimination of the Office of Environmental Education (\$0.4 mm)



# Other Reductions for JPS

- Elimination of the Sentencing Services Program (\$3 mm)
- Elimination of the Support Our Students Program (\$6 mm)
- Closure of Prison Facilities with High Operating Costs (\$24 mm)
  - McCain Correctional Hospital
  - Wilmington Residential Facility for Women
  - Umstead, Guilford, Gates, Haywood, and Union Correctional Centers



# GG/NER/JPS: Budget Expansion Items

- **Total Expansion:**

FY 2009-10 \$76 million

FY 2010-11 \$32 million

- Includes both state appropriation and funds to be allocated through the Federal Recovery and Reinvestment Act



# Expansion Highlights for GG

- **Sustain military morale** and welfare grants to military installations (\$1 mm)
- Begin planning efforts for the establishment of the **Justice for Sterilization Victims Foundation** (\$0.25 mm)
- Support recurring resources needed to stabilize the **HR/Payroll system** (\$2 mm over the biennium)



# Expansion Highlights for NER

- Transform the **Main Street Program** (\$3 mm/year)
  - Into a comprehensive economic development tool
  - Provides grants to communities to revitalize downtown areas
- Expand **economic development opportunities** (\$9 mm)
- **Promote our state** (\$2 mm)
  - A business and tourism destination
  - Better market our agriculture products throughout the US
- Maximize federal funding available for **water and sewer infrastructure improvements** (\$29 mm)



# Expansion Highlights for JPS

- **A comprehensive gang initiative** (\$15 mm in federal recovery funds)
  - Statewide Taskforce (\$0.2 mm/year)
  - Expand GangNet (\$2 mm)
  - Gang Prevention and Intervention Pilot Program (\$6 mm)
  - Evidence-based grants (\$5 mm)
  - Additional Juvenile Court Counselors (\$2 mm)



# Expansion Highlights for JPS (cont.)

- **Enhance supervision of probationers/parolees** (\$27 mm over the biennium, state and federal recovery funds)
  - Additional Officers, Supervisors, and Trainers (\$9 mm/\$11 mm)
  - improve recruitment and retention (\$2 mm/year)
  - New Intake Officers (\$1 mm)
  - Communications equipment (\$1 mm)





# Expansion Highlights for JPS (cont.)

- **Assist local law enforcement** (\$6 mm in federal recovery funds)
  - Grants to purchase VIPER (interoperable communications) equipment (\$5 mm)
  - Expedite methamphetamine and violent crime investigations (\$0.5 mm)
  - Supplemental grants for the COPS Hiring and Recovery Program (\$0.4 mm)



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# Infrastructure: Budget Overview

	<i>FY 2008-09</i>			<i>FY 2009-10</i>
	<i>Authorized</i>	<i>Certified-3/09</i>	<i>Difference</i>	<i>Recommended</i>
<b>Capital Improvements</b>				
Appropriations	\$ 129	\$ 23	\$ (106)	\$ 28
Repair & Renovation	\$ 70	\$ -	\$ (70)	\$ -
Special Indebtedness	\$ 751	\$ 696	\$ (55)	\$ -
General Obligation Bonds	\$ 107	\$ 107	\$ -	\$ -
	\$ 1,056	\$ 826	\$ (231)	\$ 28

*All figures in millions of dollars.*



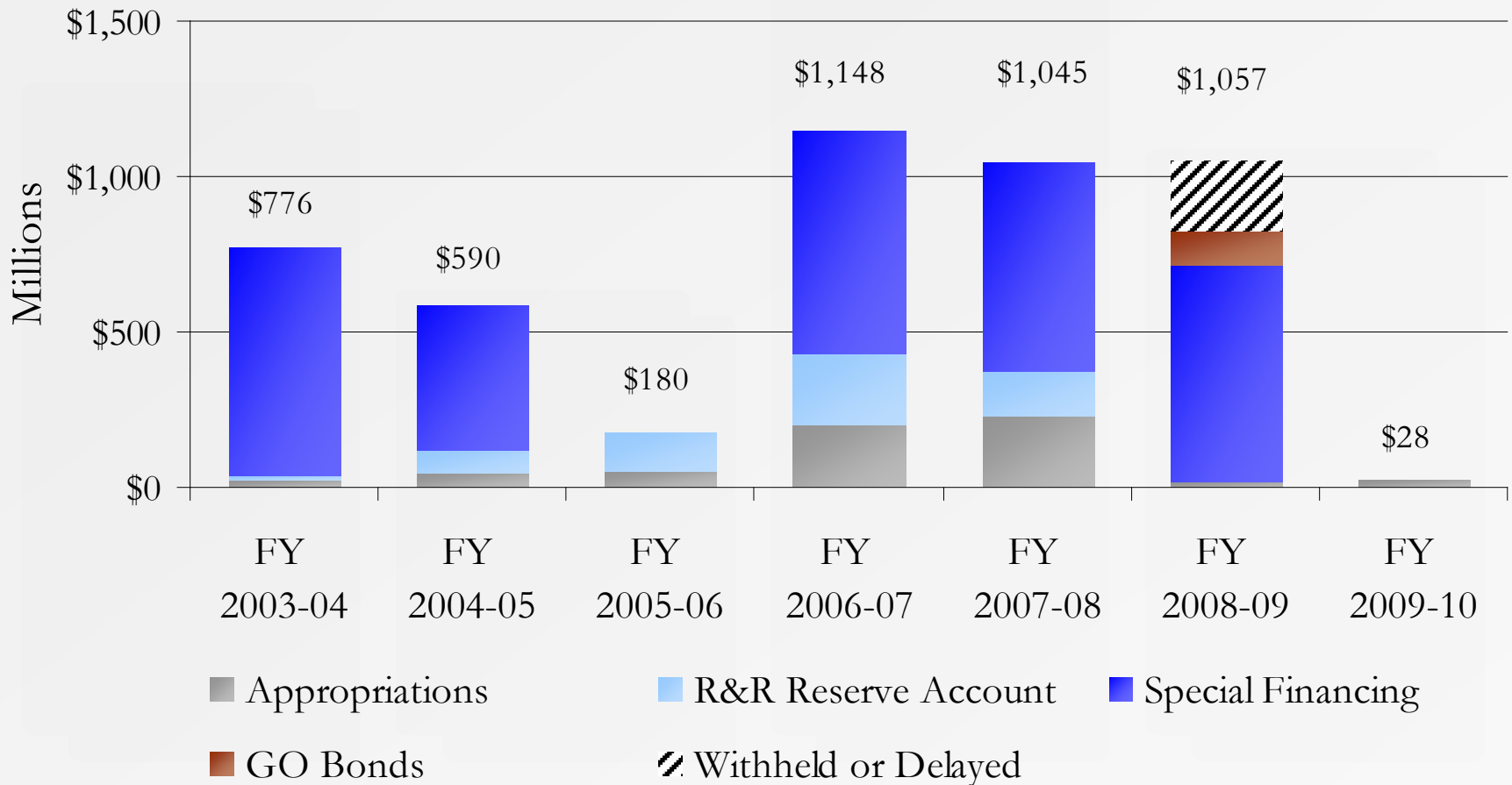
# Infrastructure: Budget Overview

- Limited Capital Financing Due to Recession
  - **\$28 Million** in Capital Appropriation
    - Water Resources Projects (\$17.6 State Match - \$83M Federal/Local Contribution)
    - Biomedical Research Imaging Center (\$10M)
  - **No Funding for Repairs and Renovations Reserve**
  - **No Debt Financing** for FY 2009-10



# Infrastructure: Capital Funds

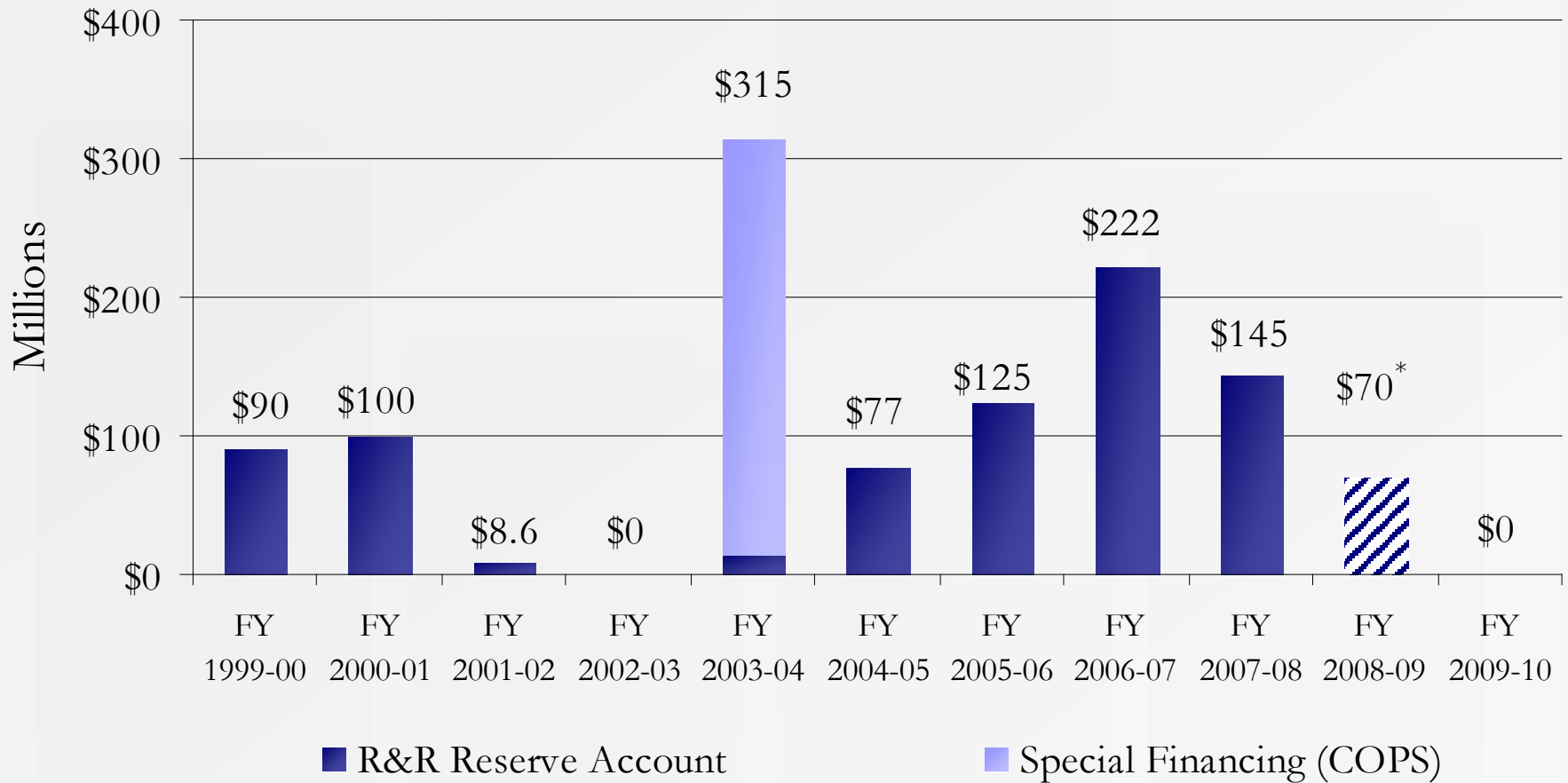
*Authorized/Proposed Capital Funds, FY 2003-04 to FY 2009-10*





# Infrastructure: Repair & Renovation Funding

*Repair & Renovation Funding, FY 1999-2000 to FY 2009-10*



\* \$70 million withheld in FY 2008-09.



# Infrastructure: Funding Plan

- Biomedical Research Imaging Center – Funding Plan
  - \$20.5 million previously funded (GF)
  - \$10 million 2009-10 GF Appropriation
  - \$229.5 million 2010-13 GO Bonds
    - Debt payments shared:
      - 70% General Fund
      - 15% UNC-Chapel Hill
      - 15% UNC-Hospitals





# Infrastructure: Debt Affordability

- Debt Affordability Study shows **limited capacity for new debt**

*Net Tax-Supported Debt Capacity Using 4.0% Target Ratio (millions)*

	<i>FY</i> <i>2008-09</i>	<i>FY</i> <i>2009-10</i>	<i>FY</i> <i>2010-11</i>	<i>FY</i> <i>2011-12</i>	<i>FY</i> <i>2012-13</i>
Total Additional Debt Capacity per Year	\$188	\$14	\$0.6	\$222	\$548
Debt Capacity Available Each and Every Year	\$50	\$50	\$50	\$50	\$50

Source: Debt Affordability Study, February 1, 2009



# Infrastructure: Debt Affordability

- Future Revenues are Uncertain
- Debt Reduces Future Budget Flexibility
- Budget Flexibility is Needed in Times of Budget Shortfalls
- Net Tax-Supported Debt Service for Existing Debt Authorizations:
  - \$695 million in 2009-10
  - \$753 million in 2010-11
  - Peaks in 2012 at \$787 million



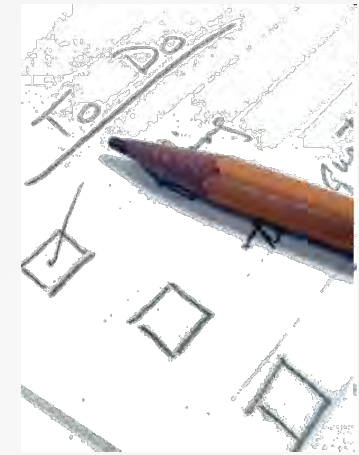
# Infrastructure: Economic Stimulus

- Debt authorized from 2005-2009 provides economic stimulus this year
  - \$2.8 billion authorized for capital projects
  - Many projects are under construction
  - \$400 million to be issued in April 2009
    - Will be spent within about 8 months
    - Additional bonds will be issued late fall
  - \$1.6 Billion still to be issued
- New Debt Authorizations
  - Lag time for economic impact
  - Planning Funds withheld in 2008-09 limit projects



## IV. Recommendations by Subcommittee

- A. Education
- B. Health and Human Services  
(HHS)
- C. Justice and Public Safety/  
Natural and Economic Resources/  
General Government  
(JPS/NER/GG)
- D. Infrastructure
- E. Transportation**
- F. Statewide Reserves





# Transportation: Budget Overview

	<i>Revised FY 2008-09</i> <sup>1</sup>	<i>FY 2009-10</i>	<i>% Change</i> <sup>2</sup>	<i>FY 2010-11</i>	<i>% Change</i> <sup>2</sup>
<b>Transportation</b>					
Requirements	\$3,607	\$3,592	-0.4%	\$3,604	-0.1%
Receipts	\$982	\$1,051	7%	\$1,062	8%
Appropriation	\$2,625	\$2,541	-3%	\$2,543	-3%

*All figures in millions of dollars.*

*1. Revised per Executive Order No. 6, 1/13/2009*

*2. From FY 2008-09*

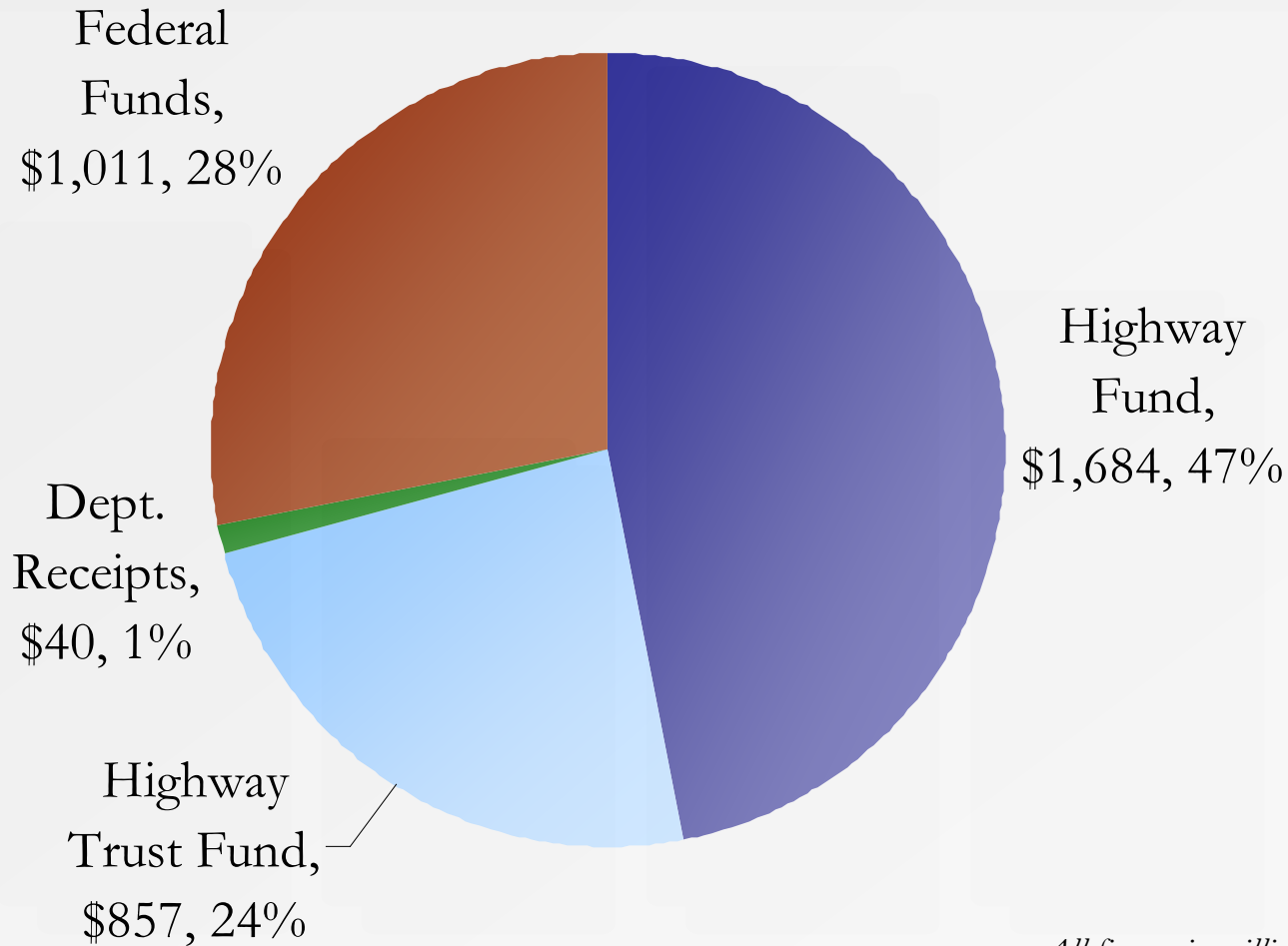


# Transportation: Budget Context

- **Investment in the state's infrastructure** is vital to economic growth
- Restoring and maintaining the state's transportation infrastructure and promoting multi-modal transportation initiatives are a key component
- **\$3.6 billion is recommended** in support of North Carolina's Transportation Program for each year of the biennium



# Transportation: Funding Sources, FY 2009-10

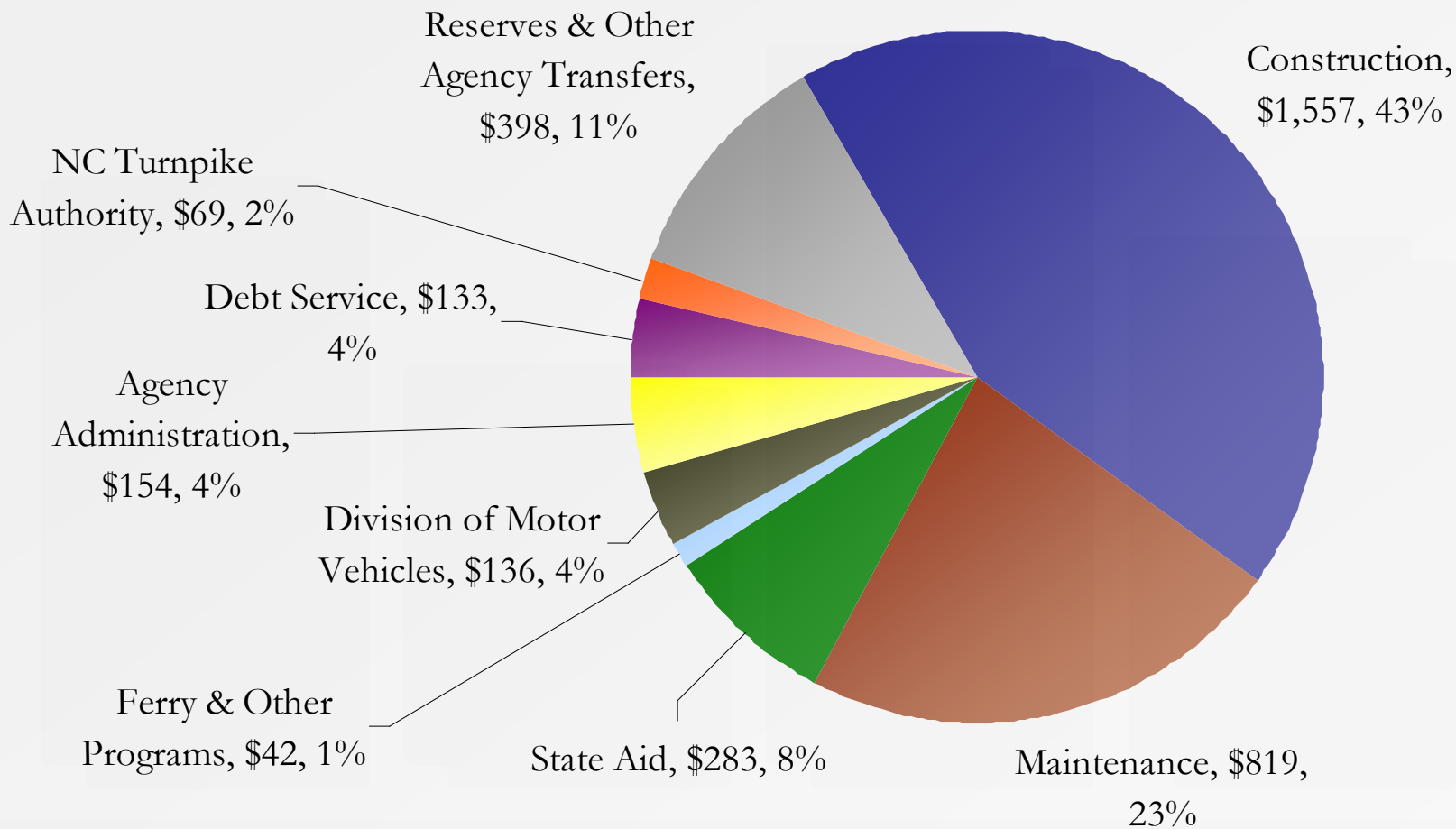


*All figures in millions of dollars.  
FY 2010-11 amounts are similar. See budget document for details.*





# Transportation: Appropriations, FY 2009-10



*All figures in millions of dollars.  
FY 2010-11 amounts are similar. See budget document for details.*



# Federal Economic Recovery Funds

- **Federal Recovery Funds**
  - \$735 million for highways and bridges
  - \$103 million in transit federal formula grants
- 50% of funds required to be obligated **within 120 days**
  - The other 50% required to be obligated within one year
- **70 shovel-ready projects** totaling \$466 million utilizing first half of highway & bridge funds identified
- Projects that will be funded from remaining funds for highways and bridges along with transit funds are currently being identified



# Budget Reductions: Highway Fund

- **Total Reductions:**

2009-10 - \$142 million

2010-11 - \$172 million

- Reduce **highway maintenance funds** by (\$78 mm, \$109 mm)
- Reduce **small construction funds** (\$2.6 mm/year of biennium)



## Budget Reductions: Highway Fund (cont.)

- Reduce **multi-modal transportation funds** (\$29 mm/year of biennium)
- Reduce **salary and operating funds** for department-wide administration (\$15 mm/year of the biennium)
  - 34 positions
- Reduce **transfers to other state agencies** supported with Highway Fund appropriations (\$11 mm)
- Reduce salary adjustment funds, longevity funds and budget health care premiums at actual costs (\$8 mm)



# Budget Reductions: Highway Trust Fund

- **Total Reductions:**

2009-10 - \$157 million

2010-11 - \$173 million

- Reduce funds for **intrastate system** (\$92 mm, \$101 mm)
- Reduce funds for **urban loops construction** (\$37 mm, \$41 mm)



## Budget Reductions: Highway Trust Fund (cont.)

- Reduce funds for **secondary roads construction** and **state aid to municipalities** (\$10 mm, \$11 mm)
- Reduce funds for **program administration** (\$8 mm/year of biennium)



# Expansion Items: Highway Fund

- **Total Expansion Items:**
  - 2009-10 - \$25 million
  - 2010-11 - \$32 million
- Adjust funds as statutorily required for LUST fund, state aid to municipalities and secondary roads construction (\$6 mm, \$8 mm)





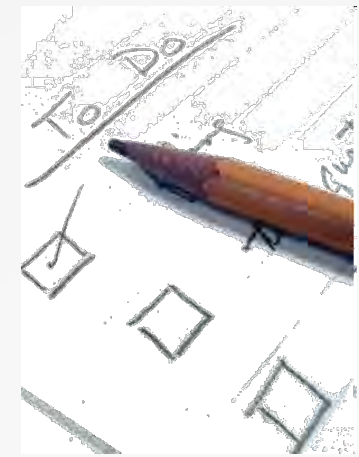
## Expansion Items: Highway Fund (cont.)

- Restore recurring appropriation for **Spot Safety Program** after successful continuation review (\$9 mm/year of the biennium)
- Receipt funds for completion of **combined registration and tax collection system** (\$5 mm, \$9 mm)
- **Increase employer share of contributions** to State Health Plan to support increase in premiums effective July 1st (\$5 mm, \$11 mm)
- Increase **retirement system contributions** (\$1 mm/year of the biennium)



## IV. Recommendations by Subcommittee

- A. Education
- B. Health and Human Services  
(HHS)
- C. Justice and Public Safety/  
Natural and Economic Resources/  
General Government  
(JPS/NER/GG)
- D. Infrastructure
- E. Transportation
- F. **Statewide Reserves**





# Statewide Reserves: Reductions

- **Total Reductions:**

FY 2009-10/FY 2010-11: \$213 mm, \$224 mm

- Freeze Longevity Payments for Two Years/Hold Retirement Calculation Harmless (\$173 mm, \$178 mm)
- Budget Health Care Premiums at Actual Costs (\$25 mm/year)
- Reduce Debt Service Appropriations (\$4 mm/year)
- Eliminate Salary Adjustment Fund monies (\$4.5 mm/year)
- Eliminate (75/100) Administrative Support positions to align NC with standard 10:1 ratio (\$3 mm, \$4 mm)
- Budget E-Procurement Receipts (\$0, \$10 mm)



# Statewide Reserves: Expansion Items

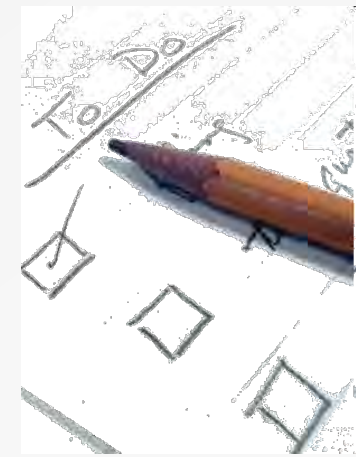
- **Total Expansion Items:**

FY 2009-10/FY 2010-11: (\$6 mm, \$3 mm)

- **Bonus Leave** for State Employees in lieu of longevity payments (\$0, \$0)
- **2010 Census** Local Promotion (\$0.75 mm, \$0)
- State Web Portal and **Accountability Sites** (\$0.5 mm, \$0.5 mm)
- Create **Budget and Performance Management** System (\$3 mm, \$0.5 mm)
- **Federal Economic Recovery** Management and Accountability (\$1 mm, \$1 mm)



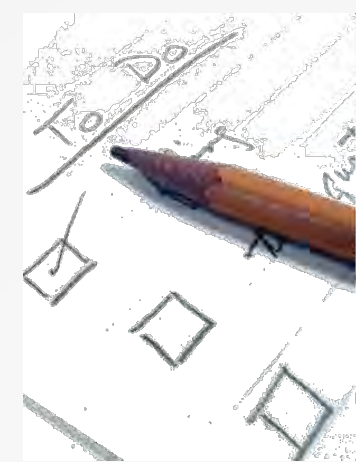
- I. Governor Perdue's Budget Priorities
- II. Summary of FY 2009-11 Budget
- III. Recommendations by Subcommittee
- IV. Economic and Revenue Update**
- V. Summary





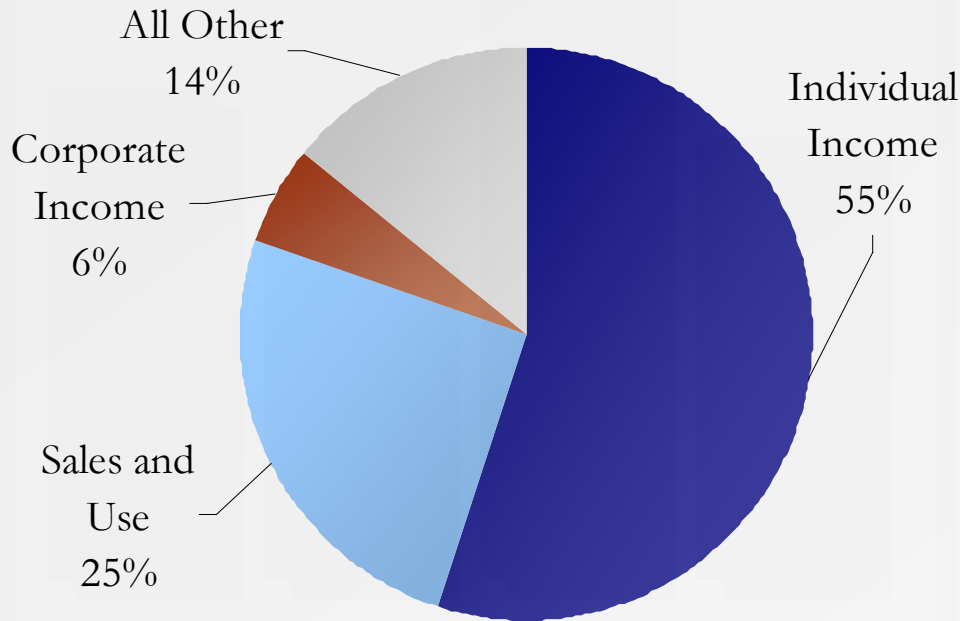
## IV. Economic and Revenue Update

- A. Background on Revenue and the Economy
- B. General Fund Revenue Outlook: 2009-2011
- C. Revenue Changes





# General Fund Revenue Components



## FY 2007-08 General Fund Revenue: \$19.8 billion

<i>Tax/Source</i>	<i>\$ (billions)</i>	<i>% of GF</i>
Individual Income	\$10.9	55%
Sales & Use	\$5.0	25%
Corporate Income	\$1.1	6%
All Other Taxes	\$2.8	14%

- NC's tax base compared to other states:
  - More Reliance on Individual Income Tax
  - Less Reliance on Sales and Use Tax





# Current Recession in Perspective: Jobs

**Current recession: lost 186,000 jobs as of Jan. 2009**

84,000 jobs lost in 2001 recession



Source: NC Employment Security Commission

General Fund Revenue Update



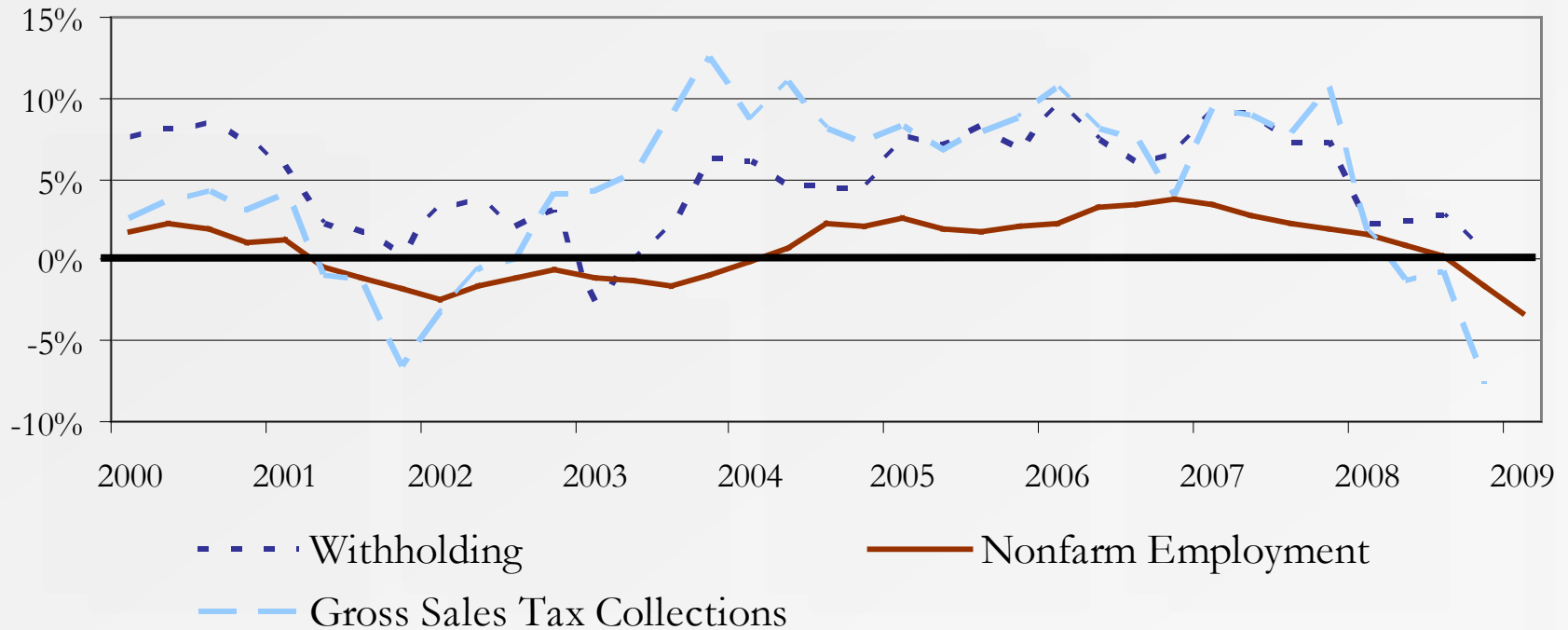
# FY 2008-09 GF Revenue Update

- \$1.18 billion below budget through February
  - **9.2% below expected revenue**
  - Recession has translated into large declines in most important revenue categories
- \$2.2 billion shortfall expected in FY 2008-09
  - \$18.7 billion vs. \$20.9 billion budgeted
  - **10.6% below budgeted revenue**; 5.9% decline compared to last year (would be largest decline in our records)



# Income Tax/Sales Tax Collections Slowing

**Withholding, gross sales tax collections, and employment declining**  
(year-over-year percent change)



Sources: OSBM Economic & Demographic Analysis, Global Insight

General Fund Revenue Update



# Economic Outlook: 2009-2011

- Key economic indicators suggest a sluggish FY 2009-10 with a rebound in FY 2010-11

*Year-over-year Growth In North Carolina (forecast):*

	<i>FY 2009-10</i>	<i>FY 2010-11</i>
Wages	1.1%	4.7%
Nonfarm Employment	-1.1%	1.8%
Profits	0.8%	7.2%
Retail Sales	0.5%	7.6%

Source: Global Insight

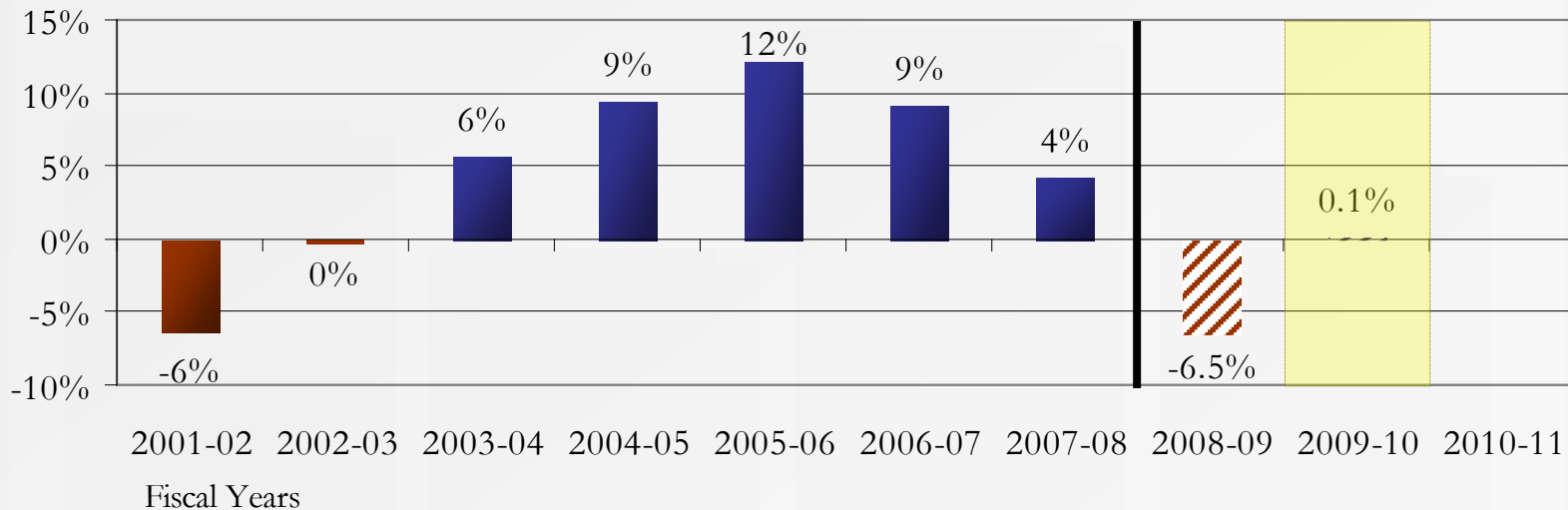


# Consensus Forecast for General Fund Revenue

## FY 2009-10

- Total: \$18.9 billion, **no growth (0.1%)**
- Slight economic recovery starts in 2010; revenue recovery delayed

*General Fund Revenue Growth (baseline year-over-year percent change)*



Source: OSBM and Fiscal Research Division Consensus Forecast



# FY 2009-10 Forecast by Revenue Source

## Individual Income Tax

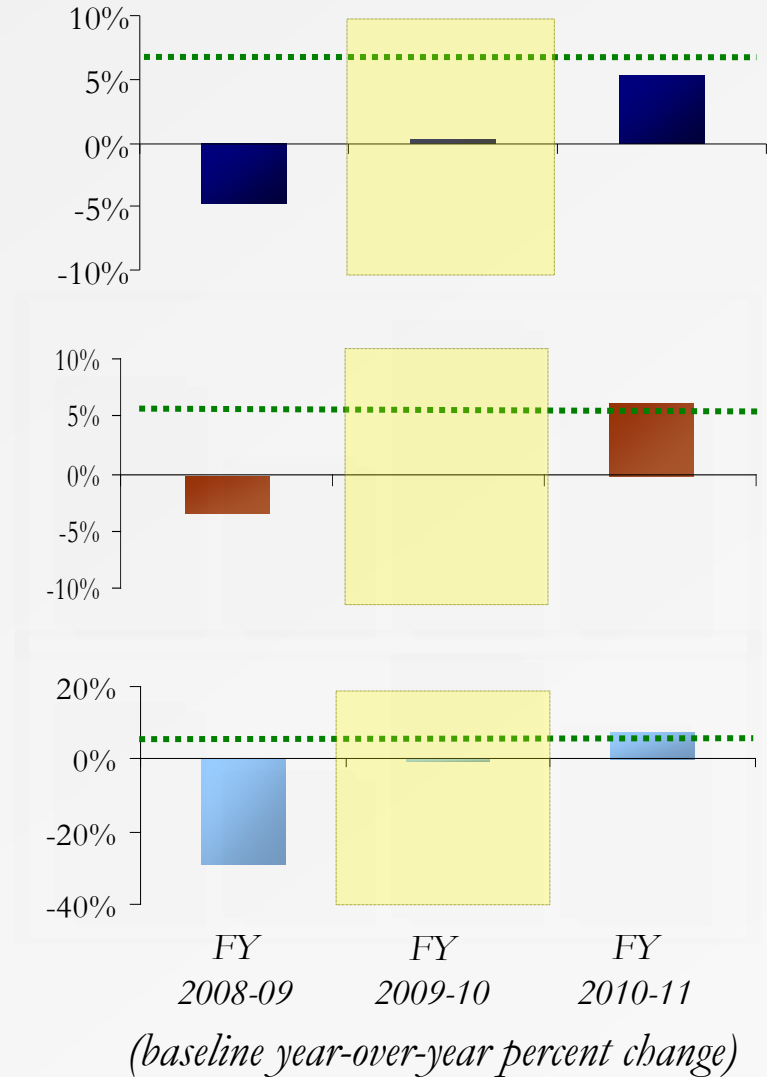
– 0.3% growth

## Sales Tax

– No growth (0.0%)

## Corporate Income Tax

– 0.5% decline



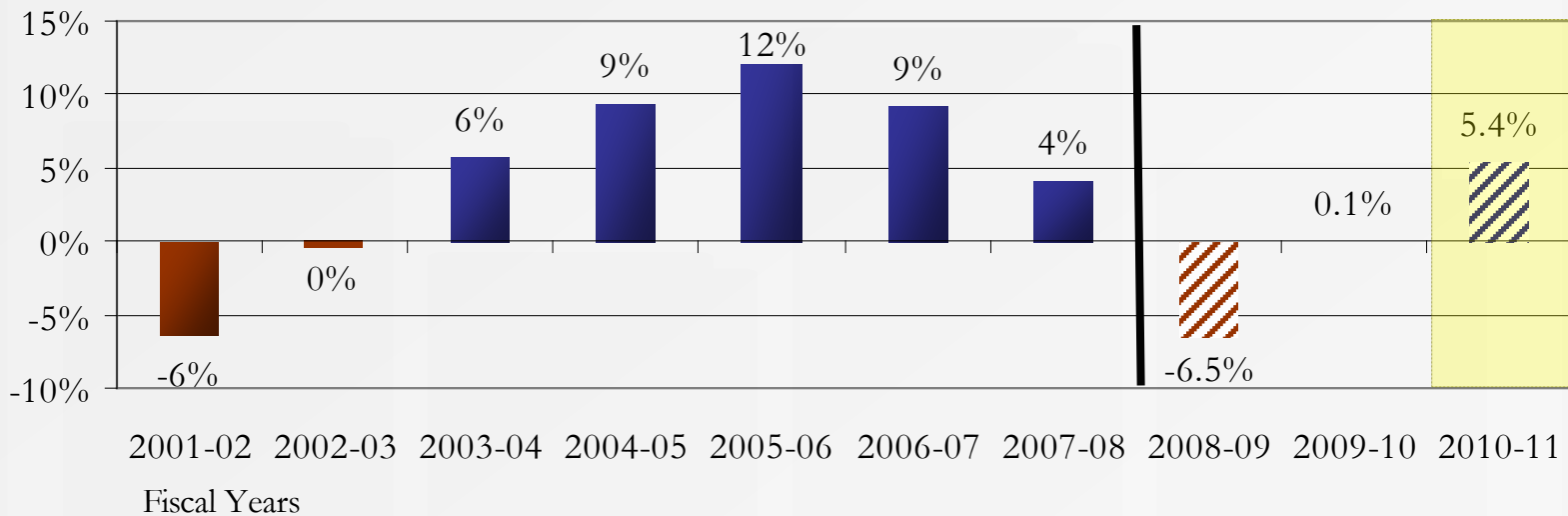


# Consensus Forecast for General Fund Revenue

## FY 2010-11

- Total: \$19.9 billion, **5.4% growth**
- Return to FY 2007-08 Total General Fund Revenue levels

*General Fund Revenue Growth (baseline year-over-year percent change)*



Source: OSBM and Fiscal Research Division Consensus Forecast





# FY 2010-11 Forecast by Revenue Source

## Individual Income Tax

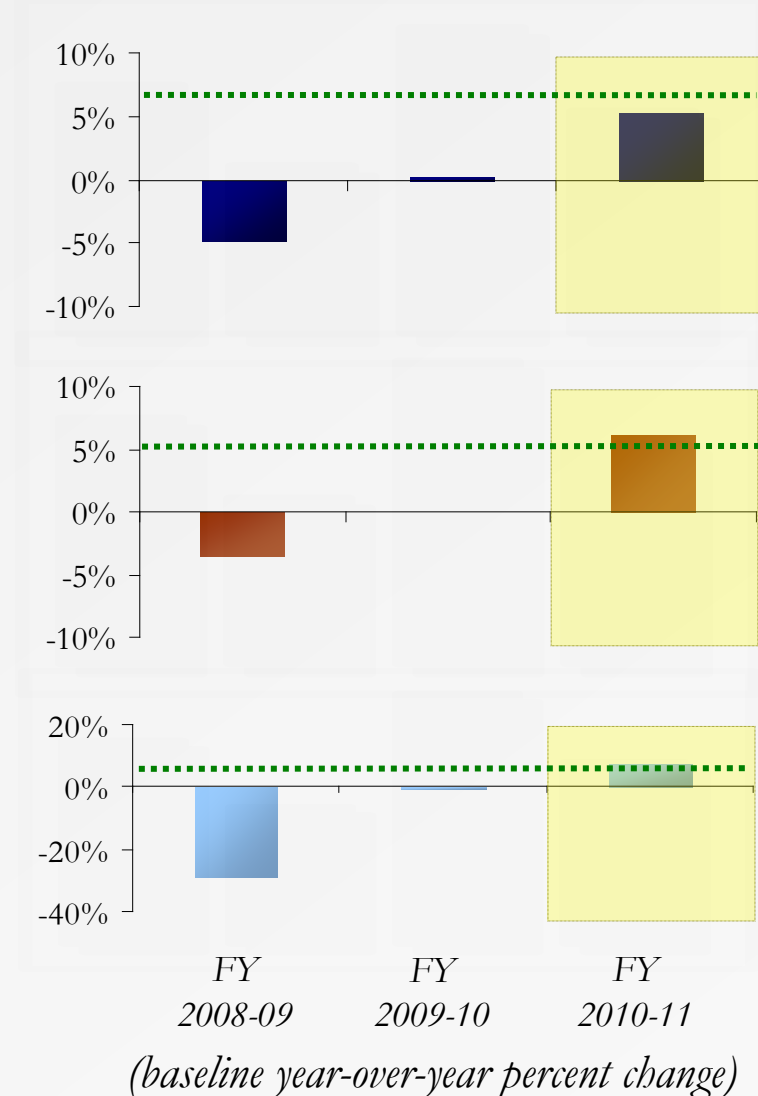
– 5.2% growth

## Sales Tax

– 6.2% growth

## Corporate Income Tax

– 7.4% growth





# Revenue Changes: Overview

## *Projected General Fund Revenue Changes*

	<i>FY 2009-10</i>	<i>FY 2010-11</i>
Tobacco Tax Changes	\$343	\$457
Alcohol Tax Changes	\$158	\$210
Improved Enforcement	\$50	\$75
Fees	\$27	\$31
Disproportionate Share Allocation	\$25	\$ -
Tax Relief	\$(22)	\$(65)
<b>Net Revenue Effect</b>	<b>\$580</b>	<b>\$707</b>

*All figures in millions of dollars.*



# Revenue Changes: Tobacco

- Cigarette Tax
  - NC has 7<sup>th</sup>-lowest cigarette tax rate
  - Increase rate \$1.00 to \$1.35 per pack
  - **Would be slightly above national average**
  - \$311 million in FY 2009-10
  - \$415 million in FY 2010-11
- Other Tobacco Products
  - Increase tax rate from 10% to 28%
  - **Similar to cigarette rate increase**
  - \$32 million in FY 2009-10
  - \$42 million in FY 2010-11



# Revenue Changes: Alcohol and License Fees

- Alcohol Tax
  - Implement 5% tax surcharge on all purchases
  - Rates on beer and wine **have not changed in 25 years**
  - Liquor tax rate was 28% until February 2002
  - \$158 million in FY 2009-10
  - \$210 million in FY 2010-11
- Fee Increase on Professionals
  - Increase annual license fee on professionals from \$50 to \$200
  - \$18 million in FY 2009-10 and FY 2010-11



# Revenue Changes: Tax Relief

## Governor's Tax Relief Package **saves taxpayers:**

- \$22 million in FY 2009-10
- \$65 million in FY 2010-11
- **Small Business Tax Relief** (\$12 mm, \$24 mm)
  - Profits of < \$100,000 can exempt first \$25,000 of net income from tax
  - Profits of \$100,000 to \$200,000 can exempt first \$15,000 of net income
- **Founder's Credit** (\$0)
  - Encourages investment in NC entrepreneurs, drivers of economic growth
  - Excludes initial stock investments ("founder's stock") in NC start-up companies from capital gains
- **WaterSense Tax Holiday** (\$0)
  - Promotes water conservation by NC citizens
  - Adds WaterSense devices to existing Energy Star tax holiday



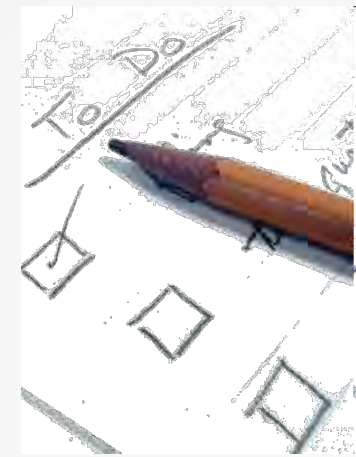
# Revenue Changes: Tax Relief (cont.)

## Governor's Tax Relief Package (cont.):

- **Expand Earned Income Tax Credit (EITC)** (\$0, \$21 mm)
  - Provide some relief for low- and moderate-income families
  - EITC increases from 5.0% to 6.5% of federal credit
- **Internal Revenue Code (IRC) Update** (\$10 mm, \$20 mm)
  - Makes bonus payments to combat veterans tax-free
  - Allows military death benefit contributions to retirement accounts
  - Extends deductions including tuition and schoolteacher expenses
  - Adds deduction for endangered species recovery expenses and extends deduction for conservation easements
- **Caregiver Tax Credit** (\$0, \$0.8 mm)
  - Offsets some costs of caring for an older family member
  - Credit for 10% of certain caregiving expenses, up to \$150



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# Summary: Governor Perdue's Budget Priorities

## 1. Growing North Carolina's Economy

- Key investments around infrastructure, assistance to small businesses and workforce development, including:
  - \$50 mm to maximize federal resources for water and sewer, navigation, flood control, drainage and beach protection projects
  - \$36 mm in tax relief for small businesses
  - Jobs Now initiative: community college programs focused on preparing students for the new 21<sup>st</sup> century careers.

## 2. Improving Public Education

- Year to year spending (including federal recovery monies) increases by \$118 million (1.1%)
- Per student funding increases from \$5,597 to \$5,736



# Governor Perdue's Budget Priorities (cont.)

## **3. Keeping Higher Education Accessible and Affordable**

- Fully funds enrollment for all students hoping to attend a community college or UNC system institution
- Does not recommend a tuition increase

## **4. Protecting Our Most Vulnerable Citizens**

- Limits reductions in direct services
- Does not displace persons currently served by Medicaid

## **5. Keeping Our Communities Safe**

- Invests an add'l \$12 mm per year in the probation system
- \$15 million in federal recovery funds for gang-related programs



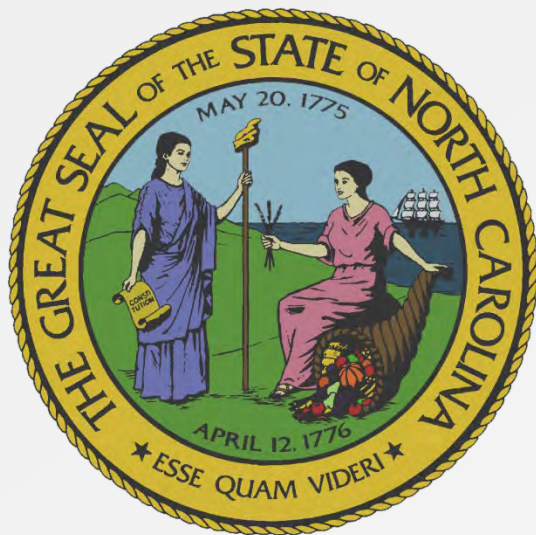
# Governor Perdue's Budget Priorities (cont.)

## 6. Making Government More Efficient and Accountable

- \$2.6 billion in savings throughout state government
- Recurring savings rather than one-time actions
- A targeted approach when identifying reductions
- Reduces or eliminates more than 20 duplicative, costly, inefficient or nonessential programs
- Transitions to a budgeting approach focusing on results

## 7. Fiscal Responsibility

- Per capita budget will decline by 3.2%
- Does not authorize any additional debt in 2009-10



# FY 2009-11 Presentation of Governor Perdue's Recommended Budget

*Prepared by:*

*The Office of State Budget and Management*

*March 17, 2009*