



NC 2012 Legislative Session Budget Highlights

Fiscal Brief

October 2012

Executive Summary

The North Carolina General Assembly approves a two-year or biennial budget in odd-numbered calendar years and makes adjustments to the second year of the biennial budget in even-numbered years. Budget adjustments made in the 2012 legislative session focused primarily on Medicaid and public schools.

Prior to beginning work on the FY 2012-13 budget, budget writers first responded to a Medicaid funding shortfall for FY 2011-12. Session Law 2012-2 (Senate Bill 797) appropriated \$205.5 million and S.L. 2012-57 (House Bill 14) appropriated \$94 million, closing an estimated budget gap of \$300 million or 10 percent more than was appropriated during the 2011 Session. Of the total adjustments enacted, Medicaid received a net increase of \$194 million and, for the first time since 2008, state employees (including state-funded public school teachers) received compensation increases. In an effort to reduce budget cuts scheduled for Local Education Agencies (LEA), the Public Schools budget was increased by \$143.3 million, reducing the amount of the LEA reduction scheduled for FY 2012-13. An additional appropriation of \$27.0 million was made for the implementation of the Excellent Public Schools Act.

On June 21st, House Bill (HB) 950 was ratified, appropriating \$20.2 billion in General Fund spending for FY 2012-13. Governor Beverly Perdue vetoed the bill on June 29th. The General Assembly overrode the veto and House Bill 950 (S.L. 2012-142, Appropriations Act of 2012) became law on July 2, 2012.

FY 2012-13 Budget

The General Assembly enacted a \$20.2 billion budget for FY 2012-13, a 1.2 percent increase over the \$19.9 billion budget originally enacted for FY 2012-13 during the 2011 Session. (See Table 1.)

Table 1: Revised FY 2012-13 State Budget

Subcommittee/Area	FY 2012-13 (Enacted 2011)	FY 2012-13 (Enacted 2012)	% Change
Education	10,980,794,798	11,072,499,236	0.8%
Health & Human Services	4,455,162,933	4,683,868,314	5.1%
Justice & Public Safety	2,323,469,854	2,282,236,908	-1.8%
Natural & Economic Resources	360,985,691	373,772,147	3.5%
General Government	401,375,973	396,266,560	-1.3%
Statewide Reserves and Capital	1,415,660,126	1,374,219,319	-2.9%
TOTAL	\$19,937,449,375	\$20,182,862,484	1.2%

General Fund Availability

Baseline Revenues

Economists for the Office of State Budget and Management and the General Assembly's Fiscal Research Division provide an annual consensus forecast of state revenues. This year the forecast focused on adjustments to the FY 2012-13 revenue projection that was made in early 2011. On the positive side, the base for future year revenues was increased due to over-collections of \$232.5 million in FY 2011-12. However, on the negative side, the year-over-year revenue growth estimate was reduced from 4.6 percent to 4.2 percent due to changes in State and national economic forecasts since 2011. Sales tax, corporate income tax, and franchise tax collections are expected to be at or slightly below original projections. Also impacting revenues are tax law changes enacted in 2011 such as the \$50,000 net business income tax deduction totaling approximately \$335.6 million, estate tax change totaling \$72.2 million, and the tax credit for children with disabilities estimated at \$5.9 million. After accounting for all changes, the revenue forecast for FY 2012-13 grew only \$21.0 million from 2011 to 2012.

Adjustments to Revenue and Availability

The total General Fund Availability for FY 2012-13 was \$20.18 billion. Significant adjustments to availability were as follows:

- **Unreserved Fund Balance:** The State’s Unreserved Fund Balance (derived primarily from reversions and over-collections) was, prior to adjustments, an estimated \$479.2 million. After \$146.3 million in earmarkings and \$154.0 million in net supplemental Medicaid appropriations, the remaining Unreserved Fund Balance available for appropriation and used to balance the FY 2012-13 budget was \$180.3 million.

- **Tax Changes:** Session Law 2012-36 (HB 1025) extended the Work Opportunity Tax Credit from January 1, 2012 to January 1, 2014 resulting in an \$800,000 reduction in revenue in FY 2012-13. Session Law 2012-74 (HB 1015) extended the period an interstate air passenger carrier may take to apply for a sales tax refund on aviation fuel, for a revenue loss of \$3.2 million and created a \$250 tax deduction for education supplies purchased by educators reducing state revenues by approximately \$1.8 million.

- **Cash Balances:** Cash from several special funds was transferred to General Fund Availability. The largest, \$45 million from the One NC Fund, was transferred because the Fund will now be managed based on cash flow needs rather than the total amount of grants awarded. Other cash balances transferred include \$14.0 million from the Information Technology Internal Service Fund, \$3.3 million from the Teaching Fellows Trust Fund and \$2.5 million from the E-Commerce Reserve.

- **Other Sources:** Based on FY 2011-12 actual collections, anticipated revenue from the sale of state assets was eliminated, reducing Availability by \$25 million. An additional \$9.6 million from the National Mortgage Settlement and \$6.75 million from the State’s portion of the tobacco Master Settlement Agreement intended for the Golden LEAF Foundation were included in General Fund Availability.

Other Adjustments

Transfers to the Savings Reserve and Repairs and Renovations Reserve Accounts reduced the

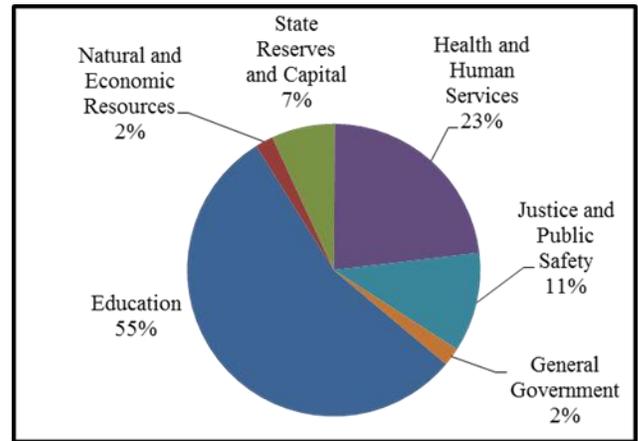
Unreserved Fund Balance, thus reducing the amount of Availability for FY 2012-13. While the State Budget Act (G.S. 143C-4-2;4-3) stipulates that these accounts are to each receive 25 percent of the Unreserved Fund Balance remaining in the General Fund at the end of each fiscal year, the General Assembly directed the State Controller to reserve \$123.2 million. Of that total, \$100 million was transferred to the Savings Reserve Account and \$23.2 million was transferred and appropriated to the Repairs and Renovations Reserve Account.

General Fund Appropriations

As in prior years, Education and Health and Human Services received the majority of State appropriations. (See Table 2 below.) These two budget areas also had the greatest changes in the 2012 legislative session. Fiscal briefs highlighting legislative budget actions in each subcommittee area can be found on the:

[Fiscal Research Division website.](#)

Table 2: State Appropriations by Subcommittee/Area



Education

The budgets under the purview of the Education Subcommittee consist of Public Schools, Community Colleges, and the University of North Carolina (UNC) system. While total funding changed very little, Public Schools saw the largest funding change, with \$143.3 million added to reduce the LEA Adjustment (a reduction in funding to each of the 115 Local Education Agencies (LEA) in the State) and \$27.0 million appropriated to implement the Excellent Public Schools Act, including the Read to Achieve Program and funding for adding five instructional days to the school calendar. In addition, \$4.7



million was appropriated to restore funding for one of the Schools for the Deaf and Blind and \$800,000 was appropriated to restore funding for the Governor's Schools. A total of \$85.7 million in savings from lower-than-projected average teacher salary and \$6.4 million in savings from 2,000 fewer students than projected aided the K-12 budget efforts.

A total of \$12.1 million in excess enrollment growth funds was re-appropriated to the Community College System, allowing the funds to be reprogrammed for other needs such as enhanced math instruction and multi-campus college funding. The Community Colleges also received \$5 million for NC Back-to-Work, a retraining program for the long-term unemployed.

Additional funding for the UNC system includes \$9.4 million in building reserves to operate new and renovated buildings, \$9.8 million to restore funding to UNC-TV after undergoing a continuation review, and \$18.6 million more for UNC need-based financial aid.

[Link to the Education Brief](#)

Health and Human Services

In the first days of the 2012 Session, an additional \$205.5 million was appropriated to the Department of Health and Human Services (DHHS) to cover a budget gap in the Medicaid budget. Senate Bill 797 (Session Law 2012-2) made the following funds available to close the gap:

- \$29.0 million in DHHS reversions
- \$105.0 million in reversions from other agencies
- \$20.0 million in revenue over-collections
- \$30.5 million in Repair and Renovation funds
- \$21.0 million in bonus funds from the Children's Health Insurance Program Reauthorization Act.

Nearing the close of the Session, budget writers were confronted with another Medicaid budget gap. In response, \$94.0 million, or almost all of the original 2011 appropriations for Repairs and Renovations, was redirected to the Medicaid budget to avoid disruptions in provider payments. In total for FY 2011-12, the Medicaid budget is estimated to have spent an additional \$300 million, 10 percent more

than was originally appropriated during the 2011 Session.

For the FY 2012-13 budget, the General Assembly appropriated an additional \$212.5 million to the Medicaid budget to address growth in eligible participants and consumption of services. Another \$55.9 million one-time appropriation was made to repay the federal government for overdrawn federal funds and to repay the federal portion of drug rebates. The Medicaid budget anticipates an additional \$63.5 million in savings from Community Care of North Carolina's health care management initiatives and approximately \$10.5 million in savings from pharmacy and fraud, waste and abuse improvements.

A new Transitions to Community Living Initiative was enacted to address housing and support issues for the State's mentally ill. A total of \$10.3 million was appropriated to facilitate a settlement with the federal Department of Justice regarding moving individuals with severe mental illness from adult care homes to community living arrangements. Additionally, a one-time appropriation of \$39.7 million was made to pay adult care and group homes for residents who are no longer eligible to receive Medicaid-reimbursable personal care services but for whom a community placement has not yet been arranged.

[Link to the Health and Human Services Brief](#)

Other Subcommittees

- In the Natural and Economic Resources area of the budget, the General Assembly restored \$12.6 million in funding to the Department of Environment and Natural Resources' Regional Office and \$4.9 million to the Noncommercial Leaking Underground Storage Tank Fund. The budget also includes \$4.5 million in funds from the Tennessee Valley Authority Settlement, and \$7.5 million to continue the State's grant commitments to three tire manufacturers.

[Link to the Natural and Economic Resources Brief](#)

- The Justice and Public Safety area includes the restoration of the Family Court Program that had undergone a Continuation Review in FY 2011-12.

[Link to the Justice and Public Safety Brief](#)



- The General Government area includes a \$1.5 million challenge grant for the NC Symphony, the restoration of \$500,000 to Tryon Palace, \$300,000 to the Transportation Museum, and \$750,000 in transition funds for the incoming Governor.

For additional information, please contact:

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[Link to the General Government Brief](#)

Transportation

Highway Fund and Highway Trust Fund revenue is projected to drop 4.7 percent in FY 2012-13, from \$3.2 billion to \$3.1 billion. The revenue decline can be attributed to a cap of 37.5 cents per gallon on the gas tax and a decline in gasoline consumption. Reductions were made in highway construction and maintenance to make up for the loss of revenue. Reserve funds were transferred to restore \$47.7 million to the Driver License Program, having undergone a Continuation Review during FY 2011-12, and \$25 million of the Regional New Starts and Capital grant program funds (eliminated in the budget) were directed to the light rail LYNX Blue Line Extension project in Charlotte.

[Link to the Transportation Brief](#)

Salaries and Benefits

The General Assembly provided teachers and state employees with a 1.2 percent pay increase, the first increase in four years. Community Colleges and UNC institutions were also given funding equal to a 1.2 percent pay increase, but the funds may be used to award compensation increases, offset management flexibility reductions, or employ personnel. Full-time state employees and teachers were also awarded five additional days of annual leave that must be used by June 30, 2013. A 1 percent cost-of-living increase was given to retirees in the State's retirement systems.

[Link to the Salaries and Benefits Brief](#)

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