

State of North Carolina

Governor Michael F. Easley's Executive Budget Summary

For the 2003-05 Biennium

Prepared by
Office of State Budget and Management
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Budget Overview

Governor Easley's Budget Goals

The Governor's budget supports three major goals:

- Maintaining the state's historic commitment to education and making progress through investment in the early grades;
- Providing the foundation for long-term structural budget balance through substantial budget reductions and budget process reforms; and
- Improving the economy.

Governor Easley's Strategic Plan for Budget Development

The Governor's priorities, which guided budget development, included:

- Expanding education opportunities, especially for children;
- Protecting vital health and human services;
- Preserving and enhancing our environment;
- Making North Carolina's communities safer;
- Improving the economic well-being and quality of life for all North Carolinians;
- Developing a structurally sound, balanced budget, without any new taxes;
- Restraining the growth of state government; and
- Maintaining our conservative fiscal management practices, including replenishment of the Rainy Day Fund and investments in maintenance of state facilities.

The Current Budget Climate

Through the first seven months of the current fiscal year, North Carolina is in the enviable position of having its revenue collections exceed its projected forecast while expenditures were below forecasted levels. To minimize any unforeseen budget issues, the Office of State Budget and Management reduced allotments to state agencies early during the current fiscal year. National observers have noted the state's conservative revenue forecast and aggressive confrontation of the budget problem as the basis for its current stable position.

The current stability does not translate into a comprehensive solution of ongoing budget issues. The major challenges in preparing the FY 2003-05 budget stem from three primary sources: 1) the use by the General Assembly of approximately \$400 million in one time revenue and spending reductions to fund recurring operations in the FY 2002-03 legislatively approved budget, 2) scheduled tax reductions in state sales and income taxes that would reduce revenues, and 3) anticipated growth in spending due to increased enrollments at all levels of education, increased health care costs for the Medicaid program and the State Employee Health Plan, and increased debt service primarily to finance higher education facility construction.

There have been difficult decisions made and there will be reductions in most agencies' budgets. The quality and quantity of core services that will be delivered by the agencies will not be seriously affected. While it most certainly will be challenging, the State's agency heads have proven that they are capable managers and will continue to provide the highest level of services for our citizens in an efficient manner.

Major Budget and Policy Issues

The spending recommendations contained in the Governor's Biennium Budget are consistent with his commitment to education. The Governor's budget increases our investment in education while reducing the size of state government. By any measure, state government is smaller than it was when Governor Easley took office in 2001:

- Dollars are smaller. The Easley 2003-04 General Fund budget will total \$15 billion, approximately the same amount as the 2001-02 budget presented to him over two years ago.
- State agencies are smaller. A majority of state government agencies have had their budgets cut by double digit percentages since 2000-01.
- The State workforce is smaller. Outside of education, the number of state employees paid from the state's general fund has been reduced by over 2,000 since 2000-01.

Budget discipline must continue. Short term measures to stabilize the state's budgetary position and long-term reforms will ensure that the state has the ability to make progress even in bad economic times.

SHORT TERM DISCIPLINE.

Short term measures being utilized by the Governor in his budget development include:

1. Conservative revenue estimates.

North Carolina used the most conservative economic growth estimates in the nation last year. As a result, the state is one of a very few to have no FY 2002-03 budget shortfall.

The Governor's FY 2003-05 biennium budget uses economic growth estimates considerably below the "most likely" economic scenario provided by Global Insight (formerly DRI-WEFA), a nationally respected economic forecasting firm. Economic growth for FY 2003-04 is estimated at 3.5%, one of the lowest in the last two decades in North Carolina.

2. Substantial budget reductions.

The Governor's budget reduces spending from continuation budget levels by \$836 million in FY 2003-04 and \$931 million in FY 2004-05. These reductions are beyond the \$1 billion enacted in September 2002 by the General Assembly. Since Governor Easley took office, the Governor has recommended reductions in state spending totaling \$1.944 billion.

3. Restoring reserves and protecting capital.

The Governor's budget calls for \$100 million to be deposited into the State's Rainy Day Fund and \$50 million to be used for repairs and renovations of existing state facilities. The Rainy Day Fund had been depleted and repairs and renovations delayed for two years due to the budget situation.

LONG TERM DISCIPLINE.

The Governor also proposes long term measures to restore and promote structural budgetary soundness into North Carolina's budget process:

1. Cap on state spending linked to the economy.

In the last four years of the 1990's, state spending increased over eight percent per year. In the four years since, including FY 2003-04, state spending will increase by less than three percent per year.

This boom-and-bust cycle of budgeting cannot continue. Governor Easley proposes capping annual general fund spending growth at the ten-year average of personal income growth. A ten-year average gives a good picture of long-term trends, including economic booms and slowdowns.

Revenues above the personal income growth cap would be deposited into the Rainy Day Fund, which should have a balance over \$700 million as outlined in the Executive Budget Act. The cap for FY 2003-04 is approximately 5.9 %, and Governor Easley's budget falls below the cap by approximately \$165 million.

2. Preventive health care.

Health care costs are the fastest growing part of the state's budget. Governor Easley's budget will invest in prevention initiatives such as Carolina ACCESS, which will encourage preventive care instead of emergency room care, and in wellness plans for the state workforce.

3. Ongoing commitment to efficiency.

The Governor's Commission to Promote Government Efficiency and Savings on State Spending has issued a report with dozens of recommendations on how to make government more efficient. By mid-February, state agencies had reviewed the recommendations and were constructing plans (or offering alternatives) to implement the recommendations.

Private sector volunteers and state retirees have offered their time and talent in the pursuit of implementing efficiencies. It is expected that information technology, personnel, consolidation of administrative functions, and the elimination of programs and administrative processes that are not part of agency core missions will be top priorities for review.

Governor Easley believes that, in the long run, North Carolina cannot cut or tax its way out of a serious budget problem. It can only grow its way out. A healthy economy will lead to healthy state revenue coffers and to fewer people who need government assistance.

Summary of Budget Recommendations

In building the budget, the Governor first reviewed continuation budget proposals from state agencies. The FY 2003-05 continuation budget outlines the cost of providing the same level of service in future years as was provided in the current budget year, with the exception of items funded in the current year on a one-time basis. The FY 2003-04 continuation budget recommendations would increase spending by \$967 million. The primary sources of the increase include Medicaid (\$344 million), debt service (\$176 million), public education (\$144 million), and prisons (\$111 million). The gap between expected revenues and the proposed continuation budget recommendations for FY 2003-04 totals \$1.15 billion.

Governor Easley's budget closes this gap by making budget reductions of \$836 million to state agencies and freezing the tax structure for an additional two years. In addition, the Governor also recommends intercepting some payments from the national tobacco settlement and using unspent monies available at the end of the current fiscal year.

The final budget recommendation is \$15,032 million for FY 2003-04 and \$15,612 million for FY 2004-05. The original budget plans provided to Governor Easley when he assumed office in January 2001 were \$14,996 million for FY 2001-02 and \$15,681 million for FY 2002-03. Governor Easley's proposed budget for FY 2004-05 is less than the budget provided to him for FY 2002-03.

Expansion Budget Recommendations

The Governor proposes a modest expansion budget focused primarily on education and health initiatives. This recommendation provides full funding of enrollment increases for the UNC system (\$46.6 million), private colleges and universities (\$2.8 million), and the community college system (\$29.8 million) as well as additional financial aid for needy UNC students (\$10.3 million). In addition, the Governor recommends providing funds for additional teachers to reduce class size in the second grade and to support an additional 2,400 slots to prepare at-risk four year olds for success in school through the *More-at-Four* Program. The Governor's budget also provides funds for the annual step increase for public school teachers (\$48.1 million) and for ABC bonuses earned in the 2002-03 school year (\$101 million).

The Governor's budget recommends additional funding for Health Choice, which will allow all eligible children to receive health care insurance. In addition, expansion funds are recommended for the Mental Health Trust Fund to facilitate the progress toward mental health reform and the ACCESS program to promote less expensive, preventive care to Medicaid recipients. The Governor's budget also provides funds to promote public health initiatives statewide as well as additional child abuse and neglect investigation teams to help regulate child care providers.

The Governor's budget provides over \$200 million in FY 2003-04 to support employee benefit programs. Specifically, this proposal recommends a 1.6% pay increase for state employees not included on the teacher salary schedule, as well as an additional 0.5% pay increase for community college faculty and professional staff. In addition, the State Health Plan will receive funds to cover increased state employees' and retirees' related health care costs. The budget also begins repayment of the funds withheld from the Retirement System in 2000-01 due to the budget crisis. Finally, the Governor's budget recommends and supports a 1.5% cost-of-living adjustment for state government retirees.

Opportunities through Education

Under the Governor's leadership, the education opportunity for North Carolinians is significantly greater than it has been in the past. Enrollment at all levels of North Carolina's education system has increased by 75,000 since FY 2000-01. While state agency spending (excluding the federally mandated Medicaid program) has actually decreased by \$190 million since 2000-01, education investment from pre-kindergarten through the university is up by approximately \$412 million.

Governor Easley's *More-at-Four* initiative will serve 10,000 four year olds in FY 2003-04. During the past two years, the number of children in kindergarten and first grade public school classes has been reduced to a ratio of 1:18. Continuing this initiative, class size will be reduced in second and third grades over the next two years.

North Carolina's progress in its public schools has been recognized by many national leaders and several national publications. The Governor's FY 2003-05 biennium budget seeks to provide the support and leadership to continue this progress in significant ways.

North Carolina's Public Schools

North Carolina is a growing state, especially in its elementary and high school populations. The Governor's budget provides full funding for the anticipated growth of 1.5% in FY 2003-04 and 3.1% in FY 2004-05 in the average daily membership (ADM) of our schools.

Recognizing the importance of a good foundation for learning, this budget continues earlier initiatives to reduce class size in the early elementary grades, by extending class size reduction to the second grade to 1:18.

Academic progress is one objective measure of the impact of teachers on students' lives. The Governor's budget rewards excellence by recommending an increase in the total annual bonus a teacher can receive for student academic performance from \$1,500 to \$1,800.

Incorporating new federal accountability standards into the existing bonus program, the Governor's budget also includes bonus funds combined with other funds for achieving adequate yearly progress based on federal standards (No Child Left Behind Act of 2001).

In an effort to manage the teacher shortage and the impact it has on the education of North Carolina's children, the Governor's budget continues to provide teachers with professional pay for professional services by including funding for salary step increases as planned.

Addressing concerns expressed by the courts and low wealth school systems, the Governor's budget provides funds for professional assistance to work with these systems to identify strategies that will improve their ability to provide sound educational opportunities.

Due to prior year budget constraints, school systems had been unable to replace school buses, and a shortage was developing. The Governor's budget recommends a lease-purchase arrangement which enables school systems to obtain over 60% of required buses they need at this time, rather than waiting until full purchase price funding is available.

Factoring ADM growth into the base enables school systems to purchase the necessary tools (texts, instructional supplies) for all students. In addition, the Governor's budget builds in inflationary increases to reflect the higher costs of purchasing such materials.

The reductions made at the state level involve non-instructional categories.

Local school systems will once again be given management flexibility to determine where best to make other reductions based on their knowledge of their administrative and non-instructional operating budgets and local needs. The State Board of Education will have a year to determine what permanent adjustments in the formula should be made.

The Community College System

The Community College System is comprised of 59 institutions, with facilities in 88 counties, and serves all of the state's 100 counties. The Community College System occupies a unique place in the educational continuum for North Carolina; it offers traditional academic post secondary courses that lead to associate degrees and/or bridge to four year degrees, and it offers technical training that supports the state's industry.

North Carolina continues to grow, and with the recent downturn in the economy, growth in the community colleges has been historic. The Governor's budget provides full funding for the anticipated growth of 5.74% in the number of full time equivalent students in all program areas.

In times of economic uncertainty, the role of the community college is critical, providing low-cost post secondary education that helps people who have lost jobs and need additional training for new jobs. To ensure full access to the educational offerings, full funding of need based financial aid will continue through the use of interest earnings from the Escheats Fund.

Despite challenging economic times, the Governor's budget recognizes the need to improve the pay for community college faculty and professional staff. The Governor's budget includes funding for salary increases both years, in addition to the increase they will receive as part of the proposed state employee pay increase.

The Governor's budget funds those summer programs that address high priority occupational needs of the state, including health sciences, early childhood education, and business technology. This will ensure these programs can be offered year-round and provide workers where North Carolina has the greatest need.

The reductions made at the state level involve non-instructional categories and optional programs only.

The Governor's budget provides local community colleges with management flexibility to determine where best to make reductions that do not directly affect the classroom. The State Board of Community Colleges will have a year to determine what permanent adjustments in the formula are required.

University of North Carolina System

The growth in the University of North Carolina System has been dramatic. The Governor's budget provides full funding for the anticipated growth of 4.05% in the number of full time equivalent students in all program areas.

The importance of continuing to provide access to qualified students, regardless of financial ability, is important in the development of our intellectual capital. To ensure students' full access to the educational offerings, full funding of need based financial aid for both current and projected new requirements is proposed through the use of interest earnings from the Escheats Fund and General Fund appropriations. This applies to all need-based financial aid for our state institutions and for the state financial aid given to North Carolina students in private colleges.

The Governor's budget achieves a balance between proposed reductions and expansions for the University System. The Governor's recommendations ensure the broadest possible access to the University while minimizing the direct effect on the classroom and other activities that are part of the University's core mission.

The Governor's budget provides \$46.6 million for enrollment growth and includes no tuition increases to help with savings. In addition, the Governor's budget recommends full funding for need based scholarships from a combination of Escheat funds and General Funds and increases the amount available by an additional \$10.3 million. The Governor's budget also provides some continuation growth for most of the items requested by the constituent institutions and the General Administration. This will provide funding for the periodic replacement of equipment needed to teach and vehicles needed in campus operations.

In 1999, the citizens of the State approved a bond referendum to provide funding for capital improvements for the University of North Carolina and the Community Colleges. These buildings are being completed and some funding has been included in this budget to pay for operating costs and related staff support for the University's new facilities, many of which are classroom, laboratory, and related types of facilities. Additional debt service for the university bond program for FY 2003-04 is \$35 million and \$75 million for FY 2004-05.

Individual campuses will once again be given the management flexibility to determine where best to make reductions that do not harm the classroom. An equivalent reduction in the amount allocated through the legislative tuition grant program for North Carolina students attending private colleges is also included.

To minimize the impact of reductions on regular instructional operations, savings were achieved by reducing the level of inflationary and replacement increases, and in the funds allocated to operate the new buildings.

Protecting Vital Health and Human Services

Governor Easley's budget clearly invests in the health and safety of children and continues the commitment to build a system of education in North Carolina that gives every child opportunity to succeed, regardless of geographic location or economic condition. The Governor's budget expands health care for vulnerable children and provides high quality pre-kindergarten opportunities for four-year old children who are at risk for school failure.

The Governor's budget increases the capacity of the *More-at-Four* pre-kindergarten program by \$8.6 million in FY 2003-04 to serve 10,000 children at risk for school failure who do not receive services in other programs.

It also expands the North Carolina Health Choice program by \$13 million in FY 2003-04 and \$19.1 million in FY 2004-05 to serve 105,000 children. Other recommendations identified in the Institute of Medicine report commissioned by Secretary Carmen Hooker Odom are included to ensure that health care services are provided to as many children as possible.

The Governor's budget expands the ACCESS program by \$1.4 million in FY 2003-04 and \$3.7 million in FY 2004-05 to ensure that children enrolled in N.C. Health Choice and all Medicaid recipients receive primary and preventive health care.

The numbers of child abuse/neglect teams who investigate complaints of the abuse or neglect of children enrolled in child day care facilities are increased in the Governor's budget by \$613,000 in FY 2003-04 and \$807,000 in FY 2004-05. This will protect children and further ensure that illegal child care providers are closed.

The Governor's budget recognizes the importance, even in difficult economic times, of preserving and protecting to the greatest extent possible the health and social services systems that serve vulnerable citizens throughout the state. In times of economic difficulty, the health care and social services systems are the safety net for an increasing number of people. This budget takes great care to minimize the impact of necessary reductions in state spending on vulnerable populations.

Medicaid projections for substantial increases have declined from expected FY 2002-03 levels. For the present, over half of the total reduction in the Department is gained by basing the need for additional appropriations to support Medicaid in the FY 2003-05 biennium on the most recent (February 2003) actual expenditures in the program and by adjusting the base population to more accurately reflect actual numbers being served in FY 2002-03. This adjustment has no adverse effect on Medicaid recipients and reflects projections made quarterly on the most recent expenditure information. The Governor's budget reflects further reductions in Medicaid that are expected as the Department continues to pursue cost containment measures in prescription drug coverage and efficient processing of claims.

Governor Easley has protected education to the greatest extent possible, while generating necessary reductions in state spending. Budget reductions are recommended in Smart Start local partnership funds that are consistent with budget adjustments in education overall.

The Governor's budget, though recommending a reduction in state support of the Area Mental Health Programs, places renewed emphasis on providing services to the most needy and investing in the future of the mental health system. Specifically, the Area Mental Health Programs are recommended for a \$20 million reduction in each year of the biennium. These programs have experienced a 65% increase, from \$192.7 million to \$318.2 million, in total Medicaid reimbursed services from FY 2000 to FY 2002. Another significant increase is included in the Medicaid projections for FY 2004. In addition, the Governor's budget recommends \$10 million in non-recurring funds for the Mental Health Trust Fund to continue community-based services initiatives.

Governor Easley's budget maximizes federal and other receipts to sustain vital public health programs such as child immunizations, Sickle Cell, pediatric care clinics, the State Center for Health Statistics and others.

Economic Development for Our Future

Governor Easley's budget improves the economic well being and quality of life for all North Carolinians. It includes strategies to stimulate the state's economy in the short term and maintain competitiveness in the long-term. These strategies include:

1. Improving infrastructure.

The Governor's budget provides resources to support the Moving Ahead! Transportation initiative, completion of the Wilmington port harbor deepening by the end of 2003, ongoing debt service on schedule for university and community college facilities, and new support for facility repairs and renovations.

Governor Easley will also support the immediate creation by the General Assembly of an Education Lottery Fund. This will take place outside the Governor's proposed budget. In the first year, a portion of the net proceeds from the Education Lottery would go to public school construction. These new monies, would increase employment substantially and provide relief from the property tax base.

Together, these capital investments will lead to over 100,000 jobs, many related to the construction of these items.

2. Keeping taxes low.

Unlike many of his colleagues in state capitals across the country, Governor Easley will not propose additional tax increases to balance his budget. He will, however, recommend that the planned tax cuts be delayed in order to help the state restore its budgetary position to positive. North Carolina currently ranks 37th in the nation in combined state-local tax burden as a percentage of income, according to the latest United States Census data.

3. Protecting crucial tools for economic development.

The Golden LEAF Foundation and the One North Carolina Fund are unique resources for the state's economic development. Golden LEAF has engaged in a biotechnology initiative to capitalize on North Carolina's position as a leader in that industry. The One North Carolina Fund gives the state the ability to provide efficient and transparent incentives at the margin to encourage new or expanded investment in our state. The Governor's budget protects these key initiatives.

Prudent Management of General Government and Natural and Economic Resources Agencies

Making state government more efficient and effective has been a top priority for the Governor throughout his Administration.

The Governor's FY 2003-05 Continuation Budget for the agencies in the General Government budget area is \$324 million for FY 2003-04 and \$328 million for FY 2004-05. These agencies operate the state's facilities, manage the state's personnel, and administer the financial and cultural resources activities. Recommended budget reductions for the FY 2003-05 biennium are in excess of \$17 million each year.

The Expansion Budget for General Government includes \$5 million for the required state match for the Help America Vote Act of 2002. These matching funds will bring \$84 million in federal funds to North Carolina. The State Board of Elections will use these funds to replace punch-card voting systems and lever voting machines, and to establish the Election Assistance Commission.

North Carolina's Natural and Economic Resource agencies include the departments of Agriculture, Labor, Commerce and Environment and Natural Resources. The FY 2003-05 Continuation Budget for Natural and Economic Resources is approximately \$380 million.

The Governor has recommended \$500,000 for start-up funding for Express Permitting in the Department of Environment and Natural Resources. Using this new approach, the department will continue to protect the environment but be able to expedite the issuance of permits and certification reviews for land disturbing activities.

In response to recent terror alerts, the Department of Agriculture and Consumer Service's budget includes funding to operate a newly constructed Biohazard Security Level III lab.

Public Safety for Our Citizens

The safety of North Carolina's citizens is of paramount importance. The principal state departments responsible for public safety include the Departments of Correction, Crime Control and Public Safety, Juvenile Justice and Delinquency Prevention, and Justice as well as the Judicial Branch including the Administrative Office of the Courts and the Office of Indigent Defense Services. These departments and agencies protect and serve our citizens by providing a variety of services including:

- Supervision and treatment of criminal offenders through incarceration, probation or parole;
- Preparedness and response to natural disasters;
- Prevention and intervention strategies to deal with juvenile crime;
- Statewide court system; and,
- Law enforcement services related to the investigation of criminal and civil activities, alcohol crimes, and traffic-related laws.

The Governor's recommended budget for the Justice and Public Safety agencies totals approximately \$1.55 billion for each year of the FY 2003-2005 biennium. Of the \$1.55 billion, the Department of Correction's recommended budget is \$941 million. The most significant increase is associated with the operational costs required by the opening of three new 1,000 bed prison facilities. The Governor's budget also recommends additional funding to support community and sex-offender beds for juveniles. The Governor's budget also provides additional funding for the Department of Justice to expand the DNA testing capability for rape kits at the State Bureau of Investigation's Crime Lab. Currently, there are over 20,000 untested rape kits at local law enforcement agencies across North Carolina. These funds will greatly reduce the backlog of untested kits and allow for quicker prosecution of these cases.

Protecting the Public's Purse

Prudent management of state agencies and resources implies conservative budgeting and fiscal management, good program management, and accountability for results. Prudent budgetary and fiscal management begins with a structurally sound budget; that is, a budget where growth in spending to maintain current services is consistent with the growth of taxes and other revenue sources. While addressing the revenue shortfalls of the last two years, Governor Easley has implemented a continuing budget process that will insure both fiscal and structural integrity that can be maintained under the scrutiny of the Legislature, the taxpayers, and the bond rating agencies.

Fiscal and budgetary accountability by themselves is not enough. Good government must be accompanied by accountability for state agency program management and government manager's accountability for program results. To this end, Governor Easley is focusing on results-oriented management in North Carolina State Government. The goals of this results orientation include: the reduction of waste and abuse, the elimination of unneeded bureaucracy, improved services to the taxpayer, and a leaner but more productive government. Results-oriented management starts with a clear sense of mission, the delegation of authority and responsibility, the replacement of regulations with incentives, the development of budgets based on outcomes (results), the search for creative solutions, and, finally, the measurement of success.

Government managers will concentrate on and be accountable for program results, measure those results, and, subsequently, report on those results. The Executive Management of North Carolina State Government is committed to concentrating on achieving results in a prudent and responsible way.

Summary of the State's Economic Condition

Last fiscal year, Governor Easley managed a budgetary shortfall that exceeded \$1.5 billion primarily due to lower revenue collections. All around the nation, the states are experiencing similar economic challenges. Fortunately, because of our conservative revenue estimates, North Carolina remains slightly ahead of its targeted consensus collection projections. Through the first seven months of the current fiscal year, North Carolina is in the enviable position of having its revenue collections exceed its projected forecast, while expenditures were below forecasted levels. For the remaining months of this fiscal year, barring a shock to the economy from some unforeseen event, it is believed that North Carolina's collections will remain slightly ahead of projections and the state will be able to end the fiscal year with a surplus. National observers have noted the state's conservative revenue forecast and aggressive confrontation of the budget problem as the basis for its current stable position.

The baseline forecast for North Carolina foresees the State improving in parallel with what will be occurring throughout the nation. Total non-farm employment will increase by an average of 0.8% in 2003, with the unemployment rate slowly receding to 5.7% by year's end. Mirroring most of the 1980s and 1990s, the services sector will be the engine of job creation in North Carolina, increasing by 2.7% in 2003.

The resumption of business equipment investment is a mixed blessing. New orders to North Carolina equipment manufacturers will begin to recover. However, the resultant gains in productivity blunt improvement in the state labor market condition. Productivity gains, along with a continued shift toward offshore sites, point toward a continued reduction of manufacturing jobs.

North Carolina's nominal personal income growth experienced an estimated 3.5% gain in 2002. In 2003, the rate for North Carolina is projected to accelerate to 4.3%. North Carolina will see continued economic improvement in FY 2004-05. Total non-farm employment growth jumps to 2.1% in 2004 and 1.9% in 2005. Although industrial output climbs at an average rate of 7.2% in 2004-05, the number of manufacturing jobs continues in a long-run downward trend, declining at a 0.5% average rate. The upturn in new jobs will be concentrated in services, particularly in the medical, educational, and travel-related sectors. State retail sales growth accelerates over the forecast period, averaging 4.5%, or about two percent above the rate of consumer price inflation. The North Carolina housing sector remains healthy, with new housing starts averaging 80,000 units annually during FY 2004-05.

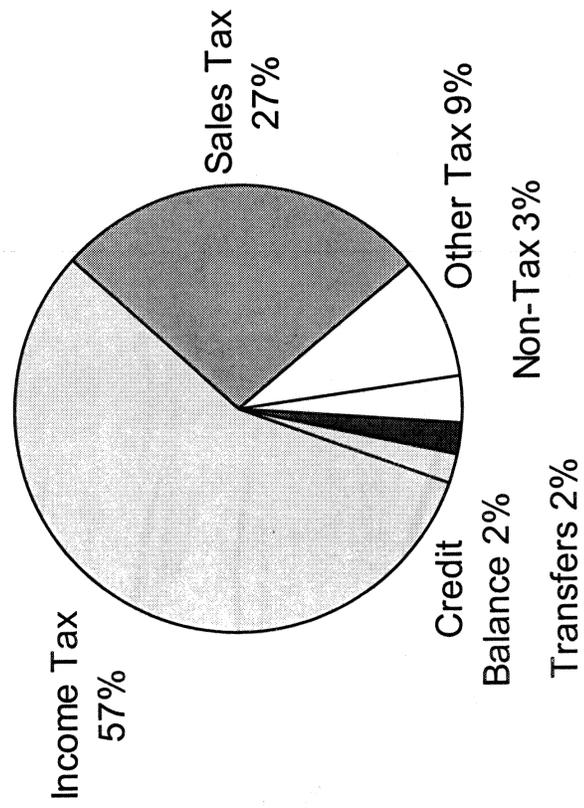
Conclusion

The Governor's budget is a responsible, conservative budget that promotes a "back to basics" approach to budgeting the state's revenues. It continues the Governor's commitment to education, health, the environment, economic development and our citizens' safety. Timely action on the Governor's recommendations by the General Assembly is essential to their success.

CHARTS
&
TABLES

Summary of Recommended General Fund Budget for FY 2003-04: Breakdown of Revenues and Appropriations by Area

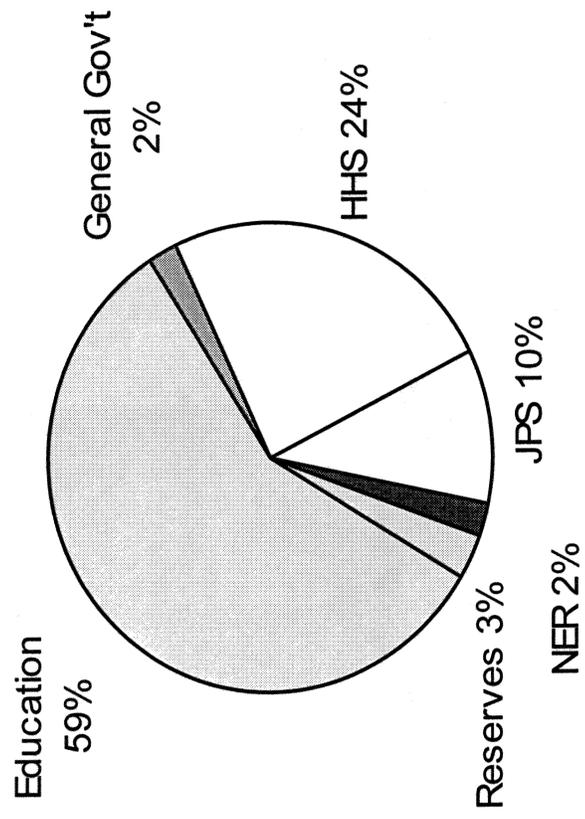
Where it Comes From ...



Revenues:

Income Tax	\$8,448.9
Sales Tax	\$4,095.8
Other Tax	\$1,314.7
Non-Tax	\$519.4
Transfers	\$328.8
Credit Balance	\$325.0
	<u>\$15,032.6</u>

...Where it Goes

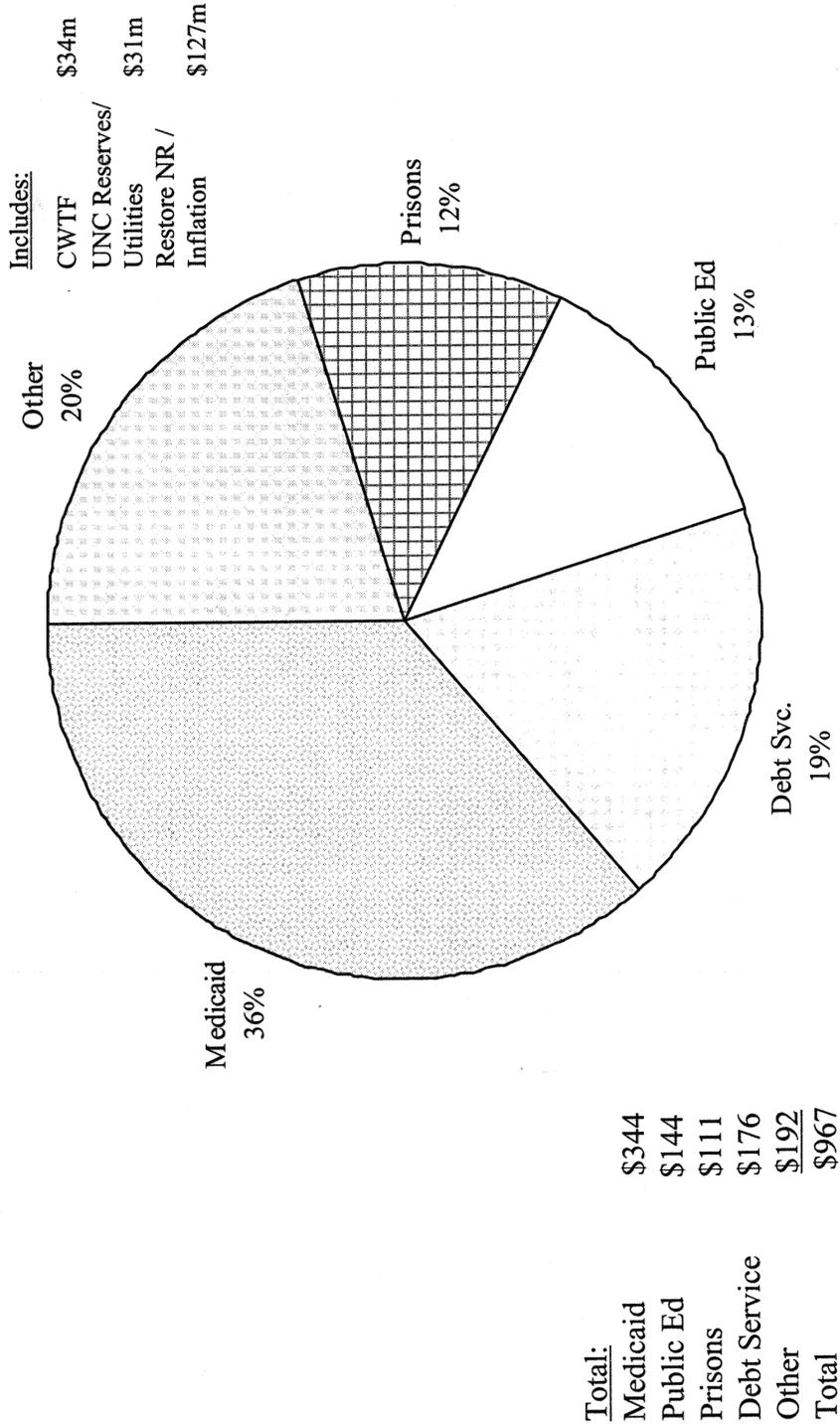


Appropriations:

Education	\$8,650.0
General Government	\$316.2
Health & Human Services	\$3,672.8
Justice & Public Safety	\$1,575.0
Natural & Economic Resources	\$337.0
Reserves	<u>\$451.8</u>
	<u>\$15,002.8</u>

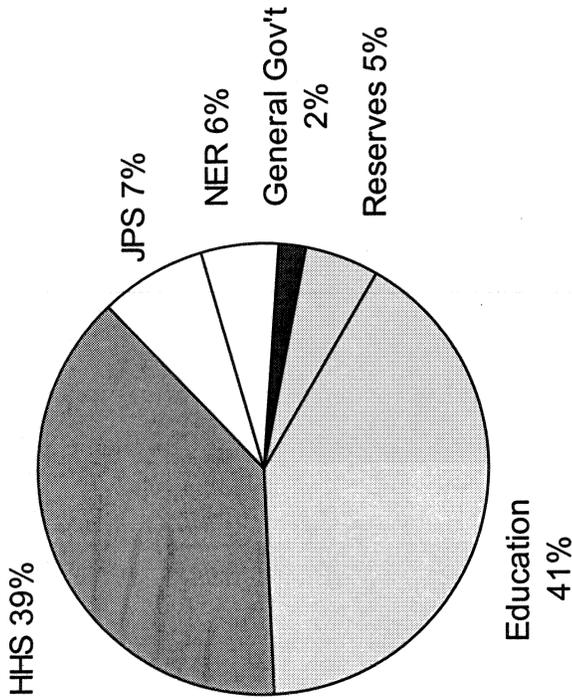
Recommended General Fund Budget for FY 2003-04

Summary of Continuation Budget Increases



Breakdown of Recommended Reductions and Expansion by Area for FY 2003-04

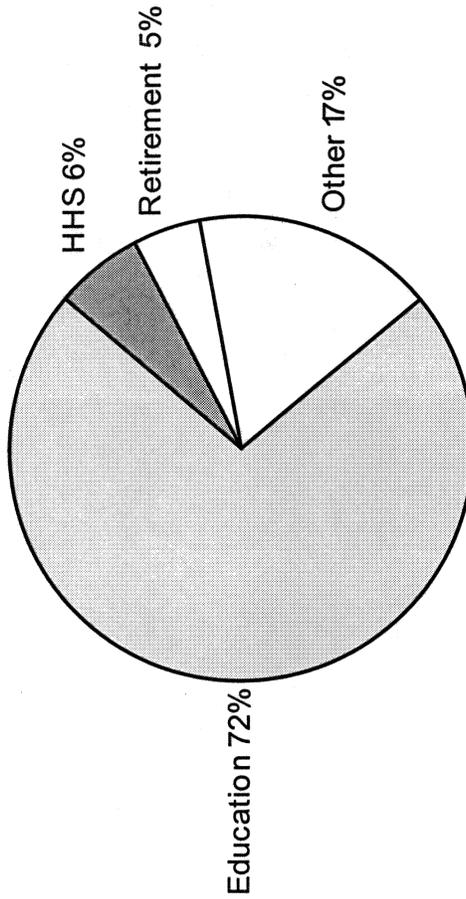
Reductions:



Reductions:

Education	\$341.4
Health & Human Services	\$325.9
Justice & Public Safety	\$61.6
Natural & Economic Resources	\$46.9
General Government	\$16.5
Reserves	\$43.7
	<hr/>
	\$836.0

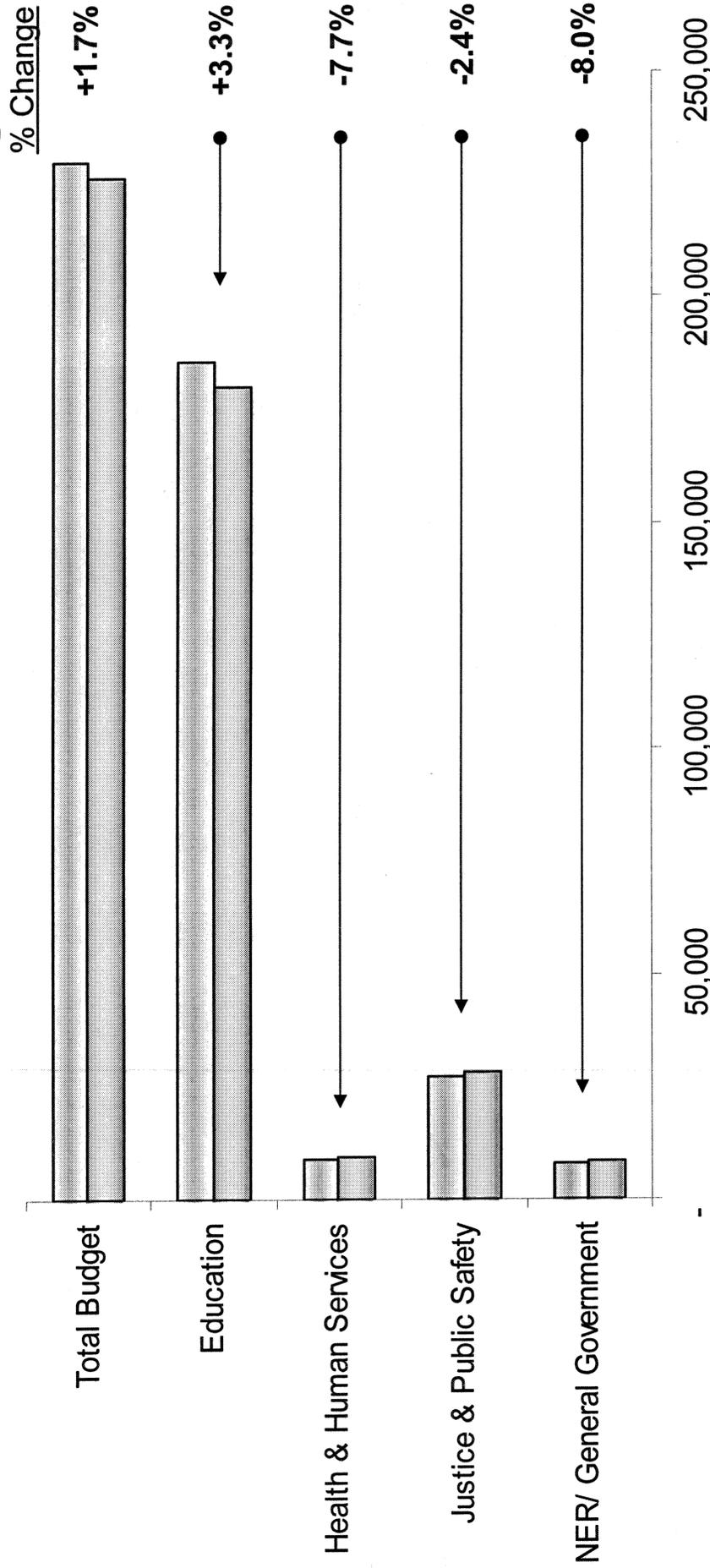
Expansion:



Expansion:

Education	\$396.3
Health & Human Services	\$32.7
Retirement System Payback	\$26
Other	\$91.3
	<hr/>
	\$546.3

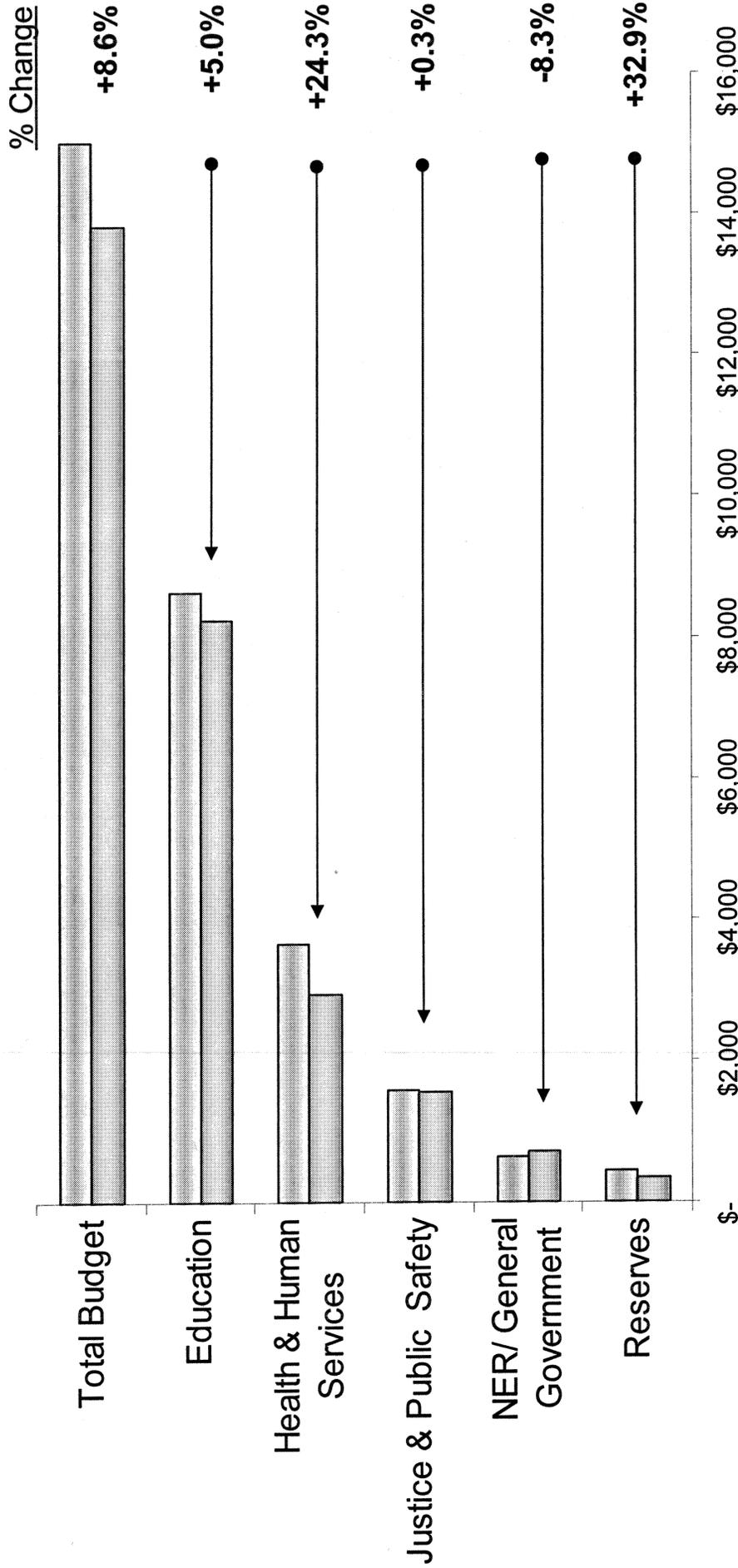
Changes in General Fund Supported Positions FY 2000-01 vs. Recommended FY 2003-04 Budget



	NER/ General Government	Justice & Public Safety	Health & Human Services	Education	Total Budget
03-04	7,811	27,567	8,902	186,003	230,283
00-01	8,487	28,247	9,649	180,079	226,462

(Position Counts)

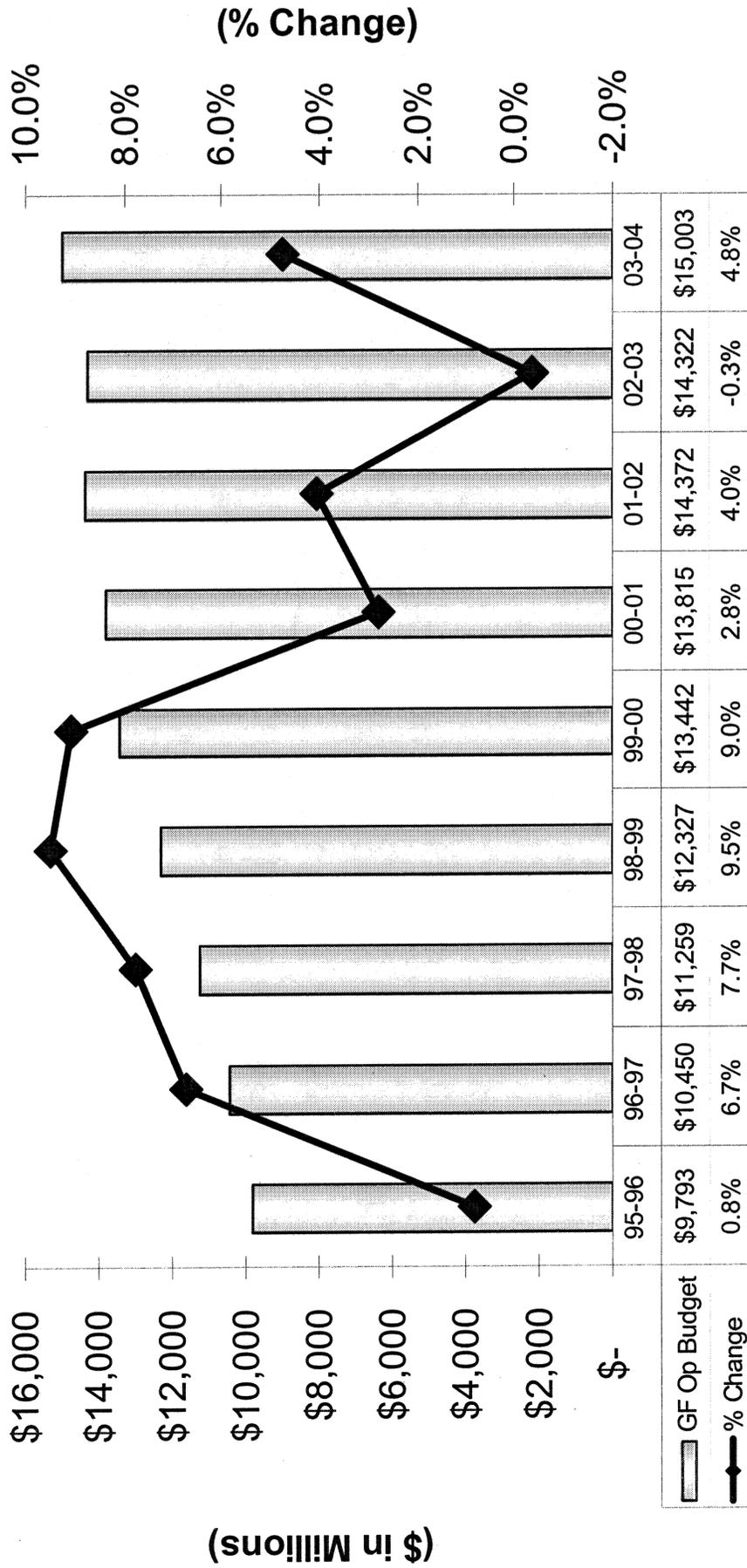
General Fund Operating Budget FY 2000-01 vs. Recommended FY 2003-04 Budget



	Reserves	NER/ General Government	Justice & Public Safety	Health & Human Services	Education	Total Budget
03-04	\$452	\$653	\$1,575	\$3,673	\$8,650	\$15,003
00-01	\$340	\$712	\$1,571	\$2,954	\$8,238	\$13,815

(\$ in Millions)

General Fund Operating Budget Changes FY 1995-96 Through FY 2003-04



Notes: Average annual increase from FY95-96 through FY00-01 was \$804m or approximately 7.2%; the average increase for FY00-01 to FY03-04 is \$396m or 2.9%.

North Carolina Office of State Budget and Management
Summary of Governor Easley's FY 2003-05 Biennial Budget

Line #	Description	FY 2003-04	FY 2004-05
1			
2	<u>Budget Availability</u>		
3	Easley Executive Order #22	100.0	
4	Credit Balance FY 2002-03 (Overcollections and Reversions)	375.0	
5	Credit to Savings Reserve Account (Rainy Day Fund)	(100.0)	
6	Credit to Repairs and Renovations Reserve Account	(50.0)	
7	Unreserved Credit Balance	325.0	
8			
9	Base Revenue Forecast	14,186.9	14,990.0
10	(economic growth percentages)	3.5%	5.5%
11			
12	<u>Freeze Existing Tax Structure:</u>		
13	Maintain State Sales Tax at Current Rate	346.5	388.2
14	Maintain Top Income Tax Bracket	37.5	84.4
15	Repeal Local Government Hold Harmless	23.0	19.0
16	Freeze 2001 Tax Breaks	53.7	101.1
17	Subtotal	460.7	592.7
18			
19	<u>Additional Availability Recommendations:</u>		
20	Tobacco Trust Fund	40.0	40.0
21	Health & Wellness Trust Fund	20.0	20.0
22	Unreserved Credit Balance	325.0	
23	Subtotal	385.0	60.0
24			
25	Total Budget Availability	15,032.6	15,642.7
26			
27	<u>Summary of Expenditures</u>		
28			
29	Continuation Budget Recommendations	15,322.0	16,008.3
30			
31	Recommended Budget Reductions	(835.9)	(931.0)
32			
33	Education Expansion Items:		
34	UNC Enrollment	46.6	46.6
35	UNC Need-Based Financial Aid	10.3	10.3
36	Community Colleges Enrollment	29.8	29.8
37	Private Colleges Enrollment	2.8	2.8
38	ABC Bonuses	101.0	
39	Teacher's Annual Step Increase	48.1	42.0

North Carolina Office of State Budget and Management

Summary of Governor Easley's FY 2003-05 Biennial Budget

Line #	Description	FY 2003-04	FY 2004-05
40	Class Size Reductions	25.3	25.3
41	More-at-Four Program	8.6	7.4
42	LEA Assistance Teams	0.5	
43	Subtotal	273.0	164.2
44			
45	Health and Human Services Expansion Items:		
46	CHIP Enrollment	13.1	19.1
47	Mental Health Trust Fund	10.0	
48	Easley Health Initiatives	5.0	5.0
49	Expand ACCESS Program	1.4	3.7
50	Child Abuse and Neglect Investigation Teams	0.6	0.8
51	Subtotal	30.1	28.6
52			
53	Other Expansion Items:		
54	DOJ -- Lab Analysis / Untested Rape Kits	0.2	0.3
55	DENR -- Express Permitting	0.5	
56	HIPAA Implementation	5.0	
57	Military Affairs / Indian Affairs	0.2	
58	Board of Elections (federal match \$)	4.7	0.5
59	Subtotal	10.6	0.8
60			
61	Salary / Benefits Items:		
62	State Health Plan	72.0	96.0
63	Retirement System Contribution	47.0	158.0
64	State Employees Compensation Increases (1.6%)	81.0	81.0
65	Community Colleges Faculty Salary	3.2	6.5
66	Subtotal	203.2	341.5
67			
68	Capital Expenditures: Water Resources Projects	29.4	
69			
70	Total Recommended Reductions	(835.9)	(931.0)
71			
72	Total Expansion Items	546.3	535.1
73			
74	Total Recommended Expenditures	15,032.4	15,612.4
75			
76	Balance (Availability minus Expenditures)	0.2	30.3
77			
78	Percent Change From FY 2002-03 and FY 2003-04	4.7%	3.9%

Recommended Changes to the FY 2003-2004 General Fund Budget

Line #	General Budget Code	Function	FY 2003-04		Reductions		Expansion		Net Change	FY 2003-04		Net Position Change
			Recommended Continuation Appropriation		Recurring	Nonrecurring	Position	Recurring		Nonrecurring	Position	
1		Health and Human Services:										
2	14410	Central Administration	\$ 99,449,713	\$ (23,265,880)	(1.00)	-	1,200,000	-	\$(14,665,880)	-	84,783,833	(1.00)
3	14411	Aging	28,585,838	(1,000,000)	-	-	-	-	(1,000,000)	-	27,585,838	-
4	14420	Child Development	267,002,174	(7,823,536)	-	-	613,529	-	(7,210,007)	15.00	259,792,167	15.00
5		Smart Start										
6	14424	Education Services	33,168,936	(1,302,074)	(9.23)	-	-	-	(1,302,074)	-	31,866,862	(9.23)
7	14430	Public Health	130,648,960	(2,906,673)	(3.25)	-	-	-	(2,906,673)	-	127,742,287	(3.25)
8	14440	Social Services	184,886,538	(6,731,604)	-	-	-	-	(6,731,604)	-	178,154,934	-
9	14445	Medical Assistance	2,538,978,314	(253,386,419)	-	-	1,423,761	-	(251,962,658)	-	2,287,015,656	-
10	14446	Child Health	37,317,907	-	-	-	13,050,123	-	13,050,123	-	50,368,030	-
11	14450	Services for the Blind	9,533,508	(180,838)	(4.00)	-	-	-	(180,838)	-	9,352,670	(4.00)
12	14460	Mental Health/DD/SAS	581,275,947	(23,651,964)	-	-	-	-	(23,651,964)	-	557,623,983	-
13	14470	Facility Services	14,442,802	(5,000,272)	-	-	-	-	(5,000,272)	-	9,442,530	-
14	14480	Vocational Rehabilitation	40,645,538	(603,214)	-	-	-	-	(603,214)	-	40,042,324	-
15		Total Health & Human Services	3,965,935,975	(325,852,474)	(17.48)	-	1,200,000	-	(302,165,061)	15.00	3,663,770,914	(2.48)
16		Natural and Economic Resources:										
17	13700	Agriculture & Consumer Services	51,041,728	(2,284,750)	(16.00)	-	-	-	(2,284,750)	-	48,756,978	(16.00)
18	14600	Commerce	35,569,253	(2,435,811)	-	-	-	-	(2,435,811)	-	33,133,442	-
19	14601	Commerce - State Aid to Nonstate Entities	20,906,730	(746,266)	-	-	-	-	(746,266)	-	20,062,464	-
20	14300	Environment and Natural Resources	153,070,901	(6,069,123)	(18.11)	-	500,000	-	(6,639,913)	8.00	146,430,988	(10.11)
21	14301	Clean Water Management Trust Fund	100,000,000	(33,618,140)	-	-	-	-	(33,618,140)	-	66,381,860	-
22	13010	NC Housing Finance	4,750,945	-	-	-	-	-	-	-	4,750,945	-
23	13000	Labor	13,936,595	(671,594)	(12.75)	-	-	-	(671,594)	-	13,265,001	(12.75)
24		Total Natural and Economic Resources	379,178,152	(45,825,684)	(46.86)	-	500,000	-	(46,396,474)	8.00	332,781,678	(38.86)
25		Justice and Public Safety:										
26	14500	Correction	985,276,327	(44,558,269)	(3.00)	-	-	-	(44,558,269)	-	940,718,058	(3.00)
27	14900	Crim Control & Public Safety	28,706,140	(617,367)	(1.00)	-	-	-	(617,367)	-	28,088,773	(1.00)
28	12000	Judicial	310,319,781	(3,603,124)	-	(3,400,000)	-	-	(7,003,124)	-	303,316,657	-
29	12001	Judicial - Indigent Defense	75,049,607	(2,001,000)	-	-	-	-	(2,001,000)	-	73,048,607	-
30	13600	Justice	73,508,002	(1,722,224)	(16.00)	-	35,058	-	(2,826,094)	6.00	70,681,908	(10.00)
31	14060	Juvenile Justice	135,679,902	(4,218,525)	-	(199,272)	-	-	(4,417,797)	-	131,262,105	-
32		Total Justice and Public Safety	1,608,539,759	(56,720,509)	(20.00)	(4,872,772)	35,058	-	(61,423,651)	6.00	1,547,116,108	(14.00)
33		General Government:										
34	14100	Administration	56,925,133	(6,177,915)	(18.00)	-	50,000	-	(6,127,915)	-	50,797,218	(18.00)
35	13300	State Auditor	10,847,686	(542,384)	(3.00)	-	-	-	(542,384)	-	10,305,302	(3.00)
36	14800	Cultural Resources	54,627,586	(1,576,628)	(17.55)	-	-	-	(1,576,628)	-	53,050,958	(17.55)
37	14802	Cultural Resources - Roanoke Island	1,720,952	(86,047)	-	-	-	-	(86,047)	-	1,634,905	-
38	11000	General Assembly	42,858,926	(1,297,463)	-	-	-	-	(1,297,463)	-	41,561,463	-
39	13000	Governor's Office	5,112,108	(255,605)	-	-	130,000	-	(125,605)	-	4,986,503	-
40	13900	Insurance	23,364,277	(1,393,214)	-	-	-	-	(1,393,214)	-	21,971,063	-
41	13901	Insurance - Worker's Compensation Fund	4,500,000	-	-	-	-	-	-	-	4,500,000	-
42	13100	Lieutenant Governor	633,293	(31,571)	-	-	-	-	(31,571)	-	601,722	-
43	18210	Office of Administrative Hearings	2,540,719	(127,036)	(2.00)	-	-	-	(127,036)	-	2,413,683	(2.00)
44	14700	Revenue	76,720,217	(3,183,394)	(12.00)	-	-	-	(3,183,394)	-	73,536,823	(12.00)
45	18300	Rules Review Commission	310,454	-	-	-	-	-	-	-	310,454	-
46	18300	Secretary of State	8,210,304	(369,515)	(2.00)	-	-	-	(369,515)	-	7,840,789	(2.00)
47	18025	State Board of Elections	3,123,646	(156,183)	-	-	4,184,776	-	4,519,130	-	7,642,776	-
48	13005	State Budget and Management (OSBM)	4,428,558	(221,428)	-	-	-	-	(221,428)	-	4,207,130	-
49	13085	OSBM - Special Appropriations	3,080,000	-	-	-	-	-	-	-	3,080,000	-
50	14160	Office of State Controller	10,046,077	(351,613)	-	-	-	-	(351,613)	-	9,694,464	-
51	13410	State Treasurer	8,063,520	(645,100)	(3.00)	-	-	-	(645,100)	-	7,418,420	(3.00)
52	13412	State Treasurer - Retirement / Benefits	7,131,179	-	-	-	-	-	-	-	7,131,179	-
53		Total General Government	324,244,865	(16,415,096)	(57.55)	(41,000)	4,364,776	-	(11,606,783)	-	312,644,082	(57.55)

Recommended Changes to the FY 2003-2004 General Fund Budget

Line #	General Budget Code	Function	FY 2003-04 Recommended Continuation Appropriation	Recurring	Nonrecurring	Position	Recurring	Nonrecurring	Position	Net Change	FY 2003-04 Recommended Appropriation	Net Position Change
57												
58	14222	Transportation	12,842,163	(1,412,638)	-	-	-	-	-	(1,412,638)	11,429,525	-
59												
60		Education:										
61	13510	Public Schools	6,086,682,250	(193,488,724)	(21,000,000)	(1,610,700)	25,303,294	101,500,000	571.00	(87,685,430)	5,998,996,820	(1,039,700)
62	16980	Community Colleges	671,476,663	(27,354,481)	-	-	29,833,844	-	472.00	2,479,363	673,956,026	472.00
63	160xx	University System	1,659,327,381	(82,013,772)	(13,889,896)	(247.00)	49,390,409	-	518.00	(46,513,259)	1,612,814,122	271.00
64	16095	UNC - Hospital	39,303,483	-	-	-	-	-	-	-	39,303,483	-
65	16011, 12	UNC - GA Passthrough	137,721,277	(3,618,186)	-	-	10,250,000	-	-	6,631,814	144,353,091	-
66		Total Education	8,594,511,054	(306,475,163)	(34,889,896)	(1,857.70)	114,777,547	101,500,000	1,561.00	(125,087,512)	8,469,423,542	(296,700)
67												
68		Net Agency Changes	14,885,251,968	(752,701,564)	(40,874,458)	(1,999.59)	137,890,069	107,599,834	1,590.00	(548,086,119)	14,337,165,849	(409,59)
69												
70		Debt Service:										
71	19420	General Debt Service	430,130,765	(42,344,845)	-	-	-	-	-	(42,344,845)	387,785,920	-
72	19425	Federal Reimbursement	1,155,948	-	-	-	-	-	-	-	1,155,948	-
73		Total Debt Service	431,286,713	(42,344,845)	-	-	-	-	-	(42,344,845)	388,941,868	-
74												
75		Reserves & Adjustments:										
76	19001	Contingency and Emergency Reserve	5,000,000	-	-	-	-	-	-	-	5,000,000	-
77	19003	Compensation Increase Reserve	-	-	-	-	126,250,000	6,100,000	-	132,350,000	132,350,000	-
78	19004	Salary Adjustment Reserve	500,000	-	-	-	-	-	-	-	500,000	-
79		Retirement System Reserve	-	-	-	-	21,000,000	26,000,000	-	47,000,000	47,000,000	-
80		Easley Health Initiative	-	-	-	-	5,000,000	5,000,000	-	5,000,000	5,000,000	-
81	19039	Reserve - HIPPA Implementation	-	-	-	-	-	5,000,000	-	5,000,000	5,000,000	-
82	19043	Health Plan Reserve	-	-	-	-	72,000,000	-	-	72,000,000	72,000,000	-
83	19049	Mental Health/DD/SAS Trust Fund Reserve	-	-	-	-	-	-	-	-	10,000,000	-
84		Total Reserves & Adjustments	5,500,000	-	-	-	224,250,000	47,100,000	-	271,350,000	276,850,000	-
85												
86		Capital:										
87		Capital Improvements	-	-	-	-	-	29,407,000	-	29,407,000	29,407,000	-
88		Total Capital	-	-	-	-	-	29,407,000	-	29,407,000	29,407,000	-
89												
90		Total General Fund Budget	\$ 15,322,038,681	\$ (795,046,409)	\$ (48,874,458)	(1,999.59)	\$ 362,140,069	\$ 184,106,834	1,590.00	\$ (289,673,964)	\$ 15,032,364,717	(409,59)

Recommended Changes to the FY 2004-2005 General Fund Budget												
Line #	General Budget Code	Function	FY 2004-05 Recommended Continuation Appropriation	Reductions			Expansion			FY 2004-05 Recommended Appropriation	Net Change	Net Position Change
				Recurring	Nonrecurring	Position	Recurring	Nonrecurring	Position			
1		Health and Human Services:										
2	14410	Central Administration	\$ 100,272,566	\$ (24,088,733)		(1.00)	\$ 7,400,000	\$ -	\$ (16,688,733)	\$ 83,583,833	(1.00)	
3	14411	Aging	28,585,838	(1,000,000)					(1,000,000)	27,585,838		
4	14420	Child Development	267,006,355	(7,827,717)			807,055		(7,020,662)	259,985,693	15.00	
5	"	Smart Start										
6	14424	Education Services	32,945,950	(1,215,874)		(9.23)			(1,215,874)	31,730,076	(9.23)	
7	14430	Public Health	132,441,289	(4,702,582)		(3.25)			(4,702,582)	127,738,707	(3.25)	
8	14440	Social Services	189,939,178	(6,732,050)					(6,732,050)	183,207,128		
9	14445	Medical Assistance	2,980,706,037	(377,784,097)			3,694,568		(374,089,529)	2,606,616,508		
10	14446	Child Health	37,317,907	-			19,108,373		19,108,373	56,426,280		
11	14450	Services for the Blind	9,617,846	(180,838)		(4.00)			(180,838)	9,437,008	(4.00)	
12	14460	Mental Health/DD/SAS	584,487,605	(23,373,407)					(23,373,407)	561,114,198		
13	14470	Facility Services	14,443,088	(5,000,558)					(5,000,558)	9,442,530		
14	14480	Vocational Rehabilitation	41,453,587	(618,729)					(618,729)	40,834,858		
15		Total Health & Human Services	4,419,217,246	(482,524,585)		(17.48)	31,009,996		(421,514,589)	3,997,702,657	(2.48)	
16												
17		Natural and Economic Resources:										
18	13700	Agriculture & Consumer Services	51,093,029	(2,297,945)		(16.00)			(2,297,945)	48,795,084	(16.00)	
19	14000	Commerce	34,639,574	(2,435,811)					(2,435,811)	32,203,763		
20	14601	Commerce - State Aid to Nonstate Entities	20,808,730	(746,266)					(746,266)	20,062,464		
21	14300	Environment and Natural Resources	157,263,823	(6,069,123)		(18.11)		8.00	(6,069,123)	151,194,700	(10.11)	
22	14301	Clean Water Management Trust Fund	100,000,000	(33,618,140)					(33,618,140)	66,381,860		
23	13010	NC Housing Finance	4,750,945	-					-	4,750,945		
24	13800	Labor	13,945,245	(674,223)		(12.75)			(674,223)	13,271,022	(12.75)	
25		Total Natural and Economic Resources	382,501,346	(45,841,508)		(46.86)	8.00		(45,841,508)	336,659,838	(38.86)	
26												
27		Justice and Public Safety:										
28	14500	Correction	991,226,311	(45,315,062)		(3.00)			(45,315,062)	945,911,249	(3.00)	
29	14900	Crime Control & Public Safety	28,785,824	(1,621,610)		(1.00)			(1,621,610)	27,164,214	(1.00)	
30	12000	Judicial	314,116,595	(3,603,124)					(3,603,124)	310,513,471		
31	12001	Judicial - Indigent Defense	73,116,571	(2,001,000)					(2,001,000)	71,115,571		
32	13600	Justice	73,574,376	(2,176,453)					(2,176,453)	71,397,923		
33	14060	Juvenile Justice	138,675,409	(4,266,279)		(16.00)	269,144		(4,266,279)	134,409,130	(10.00)	
34		Total Justice and Public Safety	1,619,495,086	(58,983,528)		(20.00)	269,144		(58,714,384)	1,560,780,702	(14.00)	
35												
36		General Government:										
37	14100	Administration	57,803,556	(6,177,954)		(18.00)			(6,177,954)	51,625,602	(18.00)	
38	13300	State Auditor	10,857,642	(542,384)		(3.00)			(542,384)	10,315,258	(3.00)	
39	14800	Cultural Resources	54,337,128	(1,565,329)		(17.55)			(1,565,329)	52,771,799	(17.55)	
40	14802	Cultural Resources - Roanoke Island	1,722,606	(86,047)					(86,047)	1,636,559		
41	11000	General Assembly	46,268,768	(1,297,463)					(1,297,463)	44,971,305		
42	13000	Governor's Office	5,112,933	(255,605)					(255,605)	4,857,328		
43	13900	Insurance	23,395,414	(1,393,214)					(1,393,214)	22,002,200		
44	13901	Insurance - Worker's Compensation Fund	4,500,000	-					-	4,500,000		
45	13100	Lieutenant Governor	633,293	(31,571)					(31,571)	601,722		
46	18210	Office of Administrative Hearings	2,542,833	(127,036)		(2.00)			(127,036)	2,415,797	(2.00)	
47	14700	Revenue	77,372,834	(3,836,011)		(12.00)			(3,836,011)	73,536,823	(12.00)	
48	18300	Rules Review Commission	310,454	-					-	310,454		
49	13200	Secretary of State	8,179,923	(369,515)		(2.00)			(369,515)	7,810,408	(2.00)	
50	18025	State Board of Elections	3,124,003	(156,183)			490,537		334,354	3,458,357		
51	13005	State Budget and Management (OSBM)	4,432,863	(221,428)					(221,428)	4,211,435		
52	13085	OSBM - Special Appropriations	3,080,000	-					-	3,080,000		
53	14160	Office of State Controller	10,071,064	(351,613)					(351,613)	9,719,451		
54	13410	State Treasurer	8,066,505	(645,100)		(3.00)			(645,100)	7,421,405	(3.00)	
55	13412	State Treasurer - Retirement / Benefits	7,131,179	-					-	7,131,179		
56		Total General Government	328,642,998	(17,056,453)		(57.55)	490,537		(16,565,916)	312,077,082	(57.55)	

Recommended Changes to the FY 2004-2005 General Fund Budget												
Line #	General Budget Code	Function	FY 2004-05 Recommended Continuation Appropriation	Recurring	Reductions Nonrecurring	Position	Recurring	Expansion Nonrecurring	Position	Net Change	FY 2004-05 Recommended Appropriation	Net Position Change
57												
58	14222	Transportation	12,872,739	(1,412,638)	-	-	-	-	-	(1,412,638)	11,460,101	-
59												
60		Education:										
61	13510	Public Schools	6,211,172,835	(217,653,015)	-	(1,976.0)	25,303,294	-	571.00	(192,349,721)	6,018,823,114	(1,405.00)
62	16800	Community Colleges	671,285,977	(27,354,481)	-	-	29,833,844	-	472.00	2,479,363	673,765,340	472.00
63	160xx	University System	1,680,045,640	(82,013,772)	-	(247.00)	49,390,409	-	518.00	(32,623,365)	1,647,422,277	271.00
64	16095	UNC - Hospital	39,303,483	-	-	-	-	-	-	-	39,303,483	-
65	16011,12	UNC - GA Passthrough	138,064,062	(3,618,186)	-	-	10,250,000	-	-	6,631,814	144,695,876	-
66		Total Education	8,739,871,997	(330,639,454)	-	(2,223.00)	114,777,547	-	1,561.00	(215,861,907)	8,524,010,090	(662.00)
67												
68		Net Agency Changes	15,502,601,412	(906,458,166)	-	(2,364.89)	146,547,224	-	1,590.00	(759,910,942)	14,742,690,470	(774.89)
69												
70		Debt Service:										
71	19420	General Debt Service	498,993,307	(24,513,855)	-	-	-	-	-	(24,513,855)	474,479,452	-
72	19425	Federal Reimbursement	1,155,948	-	-	-	-	-	-	-	1,155,948	-
73		Total Debt Service	500,149,255	(24,513,855)	-	-	-	-	-	(24,513,855)	475,635,400	-
74												
75		Reserves & Adjustments:										
76	19001	Contingency and Emergency Reserve	5,000,000	-	-	-	-	-	-	-	5,000,000	-
77	19003	Compensation Increase Reserve	-	-	-	-	129,500,000	-	-	129,500,000	129,500,000	-
78	19004	Salary Adjustment Reserve	500,000	-	-	-	-	-	-	-	500,000	-
79		Retirement System Reserve	-	-	-	-	158,000,000	-	-	158,000,000	158,000,000	-
80		Easley Health Initiative Reserve	-	-	-	-	5,000,000	-	-	5,000,000	5,000,000	-
81	19039	Reserve - HIPPA Implementation	-	-	-	-	-	-	-	-	-	-
82	19043	Health Plan Reserve	-	-	-	-	96,000,000	-	-	96,000,000	96,000,000	-
83	19049	Mental Health/DD/SAS Trust Fund Reserve	-	-	-	-	-	-	-	-	-	-
84		Total Reserves & Adjustments	5,500,000	-	-	-	388,500,000	-	-	388,500,000	394,000,000	-
85												
86		Capital:										
87		Capital Improvements	-	-	-	-	-	-	-	-	-	-
88		Total Capital	-	-	-	-	-	-	-	-	-	-
89												
90		Total General Fund Budget	\$ 16,008,250,667	\$ (938,972,021)	\$ -	(2,364.89)	\$ 535,047,224	\$ -	1,590.00	\$ (395,921,297)	\$ 15,612,325,870	\$ (774.89)

Recommended Highway Fund Appropriations, 2003-05

	2003-04 Recommended	2004-05 Recommended
DOT-General Administration	\$ 72,625,987	\$ 72,648,211
Highway Division Administration	28,190,393	28,150,605
State Match for Federal Aid-Planning and Research	4,160,000	4,280,000
Construction Program:		
State Secondary System	89,600,000	90,590,000
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	\$ 124,700,000	\$ 125,690,000
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	152,638,316	153,745,716
General Maintenance Reserve	78,291,522	52,505,787
Total Maintenance Program	\$ 596,982,883	\$ 572,304,548
Ferry Operations	\$ 19,677,283	\$ 19,677,283
State Aid to Municipalities	89,600,000	90,590,000
State Aid to Railroads	15,090,919	15,531,153
State Aid for Public Transportation	79,905,266	114,325,772
Airports	-	-
Asphalt Plant Cleanup	425,000	425,000
Governor's Highway Safety Program	292,449	293,118
Division of Motor Vehicles	100,255,703	100,323,363
Total Department of Transportation	\$ 1,131,905,883	\$ 1,144,239,053
Appropriations to Other State Agencies:		
Agriculture	3,710,722	3,786,844
Revenue	4,222,813	4,226,491
State Treasurer-Sales Tax	16,379,000	16,910,000
Public Instruction-Driver Education	31,623,338	32,336,509
CCPS - Highway Patrol	137,378,475	137,676,134
DENR - LUST Trust Fund	5,626,465	6,016,665
DHHS - Chemical Test	528,304	528,304
Global Transpark	1,600,000	-
Total-Other State Agencies	\$ 201,069,117	\$ 201,480,947
Reserves and Transfers:		
Salary Adjustment	400,000	400,000
Legislative Salary Increase	5,600,000	5,600,000
Comprehensive Major Medical Plan	3,000,000	3,000,000
Restore Retirement Contribution	980,000	7,385,000
Minority Contractor Development	150,000	150,000
State Fire Protection Grant	150,000	150,000
Stormwater Discharge Permit	500,000	500,000
Reserve for Visitor's Centers	175,000	175,000
Total Reserves and Transfers	\$ 10,955,000	\$ 17,360,000
Total Current Operations	\$ 1,343,930,000	\$ 1,363,080,000
Capital Improvements	7,000,000	10,000,000
Total Highway Fund Appropriation	\$ 1,350,930,000	\$ 1,373,080,000

**Total North Carolina State Budget by Function
and Source of Funds
FY 2003-2004**

Function	General Fund	Highway Fund**	Other	Federal	Total
General Assembly	\$ 41,561,463	\$ -	\$ 928,000	\$ -	\$ 42,489,463
Judicial	376,365,264	-	8,009,953	-	384,375,217
General Government	312,401,633	4,222,813	25,111,756	45,678,431	387,414,633
Public Safety & Regulation	128,663,519	134,878,475	75,158,660	263,033,296	601,733,950
Correction	940,718,058	-	10,450,055	-	951,168,113
Juvenile Justice	131,262,105	-	9,907,952	1,074,716	142,244,773
Education:					
Public Education	5,998,996,820	31,822,636	3,231,819	913,941,236	6,947,992,511
Community Colleges	673,956,026	-	148,823,310	17,391,969	840,171,305
Universities	1,796,470,696	-	1,175,398,544	25,296,658	2,997,165,898
Subtotal Education	8,469,423,542	31,822,636	1,327,453,673	956,629,863	10,785,329,714
Transportation	11,429,525	1,910,003,926	6,703,890	866,112,666	2,794,250,007
Health and Human Svcs.	3,663,770,914	529,303	1,015,783,179	6,702,711,205	11,382,794,601
Environment and Natural Resources	146,430,988	-	32,018,952	41,761,483	220,211,423
Agriculture and Consumer Services	48,756,978	3,710,722	20,250,303	6,004,071	78,722,074
Clean Water Mgmt. Trust					
Debt Service	388,941,868	33,706,050	15,500,000	-	438,147,918
Reserves and Transfers #	276,850,000	-	-	-	276,850,000
Total Current Operations	14,936,575,857	2,118,873,925	2,547,276,373	8,883,005,731	28,485,731,886
Capital Improvement - App	29,407,000	7,000,000	-	-	36,407,000
Capital Improvement R&R	-	-	-	-	-
Savings Reserve	-	-	-	-	-
Clean Water Mgmt Trust	66,381,860	-	-	-	66,381,860
Total Appropriations	15,032,364,717	2,125,873,925	2,547,276,373	8,883,005,731	28,588,520,746
General Obligation Bonds	971,550,000	-	-	-	971,550,000
Grand Total	\$ 16,003,914,717	\$ 2,125,873,925	\$ 2,547,276,373	\$ 8,883,005,731	\$ 29,560,070,746

** Includes Highway Fund and Highway Trust Fund.

Includes appropriation for the state employee's compensation increases and the state health plan.

Note: Highway Fund appropriation excludes \$16.4 million transferred to the General Fund and \$252.4 million transferred from the Highway Trust Fund to the General Fund.

Budgeted Positions (FTE) Funded From General Fund Appropriations
FY 2000-01 vs. Recommended FY 2003-04 Budget

State Agencies & Departments	December 2000	December 2001	December 2002	Changes FY 03-04	Revised Total	% Change
Education						
Local Education -- (State Funded)						
Community College System	12,761	12,880	13,934	472	14,406	12.9%
Public Schools	138,617	139,503	142,876	(1,040)	141,836	2.3%
Subtotal Local Education	151,378	152,383	156,810	(568)	156,242	3.2%
UNC System	28,194	28,344	29,041	271	29,312	4.0%
Public Instruction (State Adm.)	346	327	301	-	301	-13.0%
Community Colleges (State Adm.)	161	158	148	-	148	-8.1%
Subtotal State Administration	507	485	449	-	449	-11.4%
Total Education	180,079	181,212	186,300	(297)	186,003	3.3%
Justice & Public Safety						
Administrative Office of the Court:	5,457	5,463	5,460	-	5,460	0.1%
Justice	1,124	1,110	1,088	(10)	1,078	-4.1%
Juvenile Justice & Delinq. Prev.	2,135	2,092	1,882	-	1,882	-11.9%
Correction	18,999	19,063	18,845	(3)	18,842	-0.8%
Crime Control and Public Safety	532	484	306	(1)	305	-42.7%
Justice & Public Safety	28,247	28,212	27,581	(14)	27,567	-2.4%
Health and Human Services	9,649	9,155	8,904	(2)	8,902	-7.7%
Natural & Economic Resources						
Agriculture & Consumer Services	1,125	1,090	960	(16)	944	-16.1%
Labor	354	307	266	(13)	253	-28.5%
Environment & Natural Resources	2,412	2,400	2,290	(10)	2,280	-5.5%
Commerce	388	381	360	-	360	-7.2%
Natural & Economic Resources	4,279	4,178	3,876	(39)	3,837	-10.3%
General Government						
General Assembly	420	438	447	-	447	6.4%
Governor	70	69	60	-	60	-14.3%
State Budget & Management	93	59	55	-	55	-40.9%
Office of the Lt. Governor	9	10	9	-	9	0.0%
Secretary of State	192	176	174	(2)	172	-10.4%
Office of the State Auditor	172	173	175	(3)	172	0.0%
State Treasurer	69	69	66	(3)	63	-8.7%
Insurance	347	349	365	-	365	5.2%

Budgeted Positions (FTE) Funded From General Fund Appropriations
FY 2000-01 vs. Recommended FY 2003-04 Budget

State Agencies & Departments	December 2000	December 2001	December 2002	Changes FY 03-04	Revised Total	% Change
Administration	759	729	665	(18)	647	-14.8%
Office of the State Controller	96	92	87	-	87	-9.4%
Revenue	1,183	1,210	1,189	(12)	1,177	-0.5%
Cultural Resources	730	721	677	(18)	659	-9.7%
State Board of Elections	20	20	20	-	20	0.0%
Office of Administrative Hearings	44	42	39	(2)	37	-15.9%
Rules Review Commission	4	4	4	-	4	0.0%
General Government	4,208	4,161	4,032	(58)	3,974	-5.6%
Grand Total	226,462	226,918	230,693	(410)	230,283	1.7%