



Office of State Budget and Management
Balancing Needs - Improving Government



FY 2010-11 Presentation of Governor Perdue's Recommended Budget

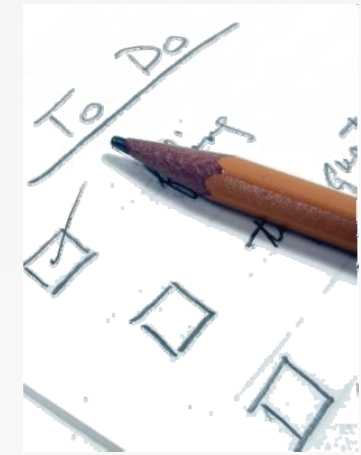
Prepared by:

The Office of State Budget and Management

April 21, 2010



- I. **Governor Perdue's Budget Priorities**
- II. Summary of FY 2010-11 Budget
- III. Recommendations by Subcommittee
- IV. Economic and Revenue Update
- V. Summary





Governor Perdue's Budget Priorities

- Jobs and Economic Recovery
- Career and College – Ready, Set, Go!
- Setting Government Straight
- Healthy Communities
- Safe Communities



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Budget Summary for FY 2010-11

Availability (dollars in millions)

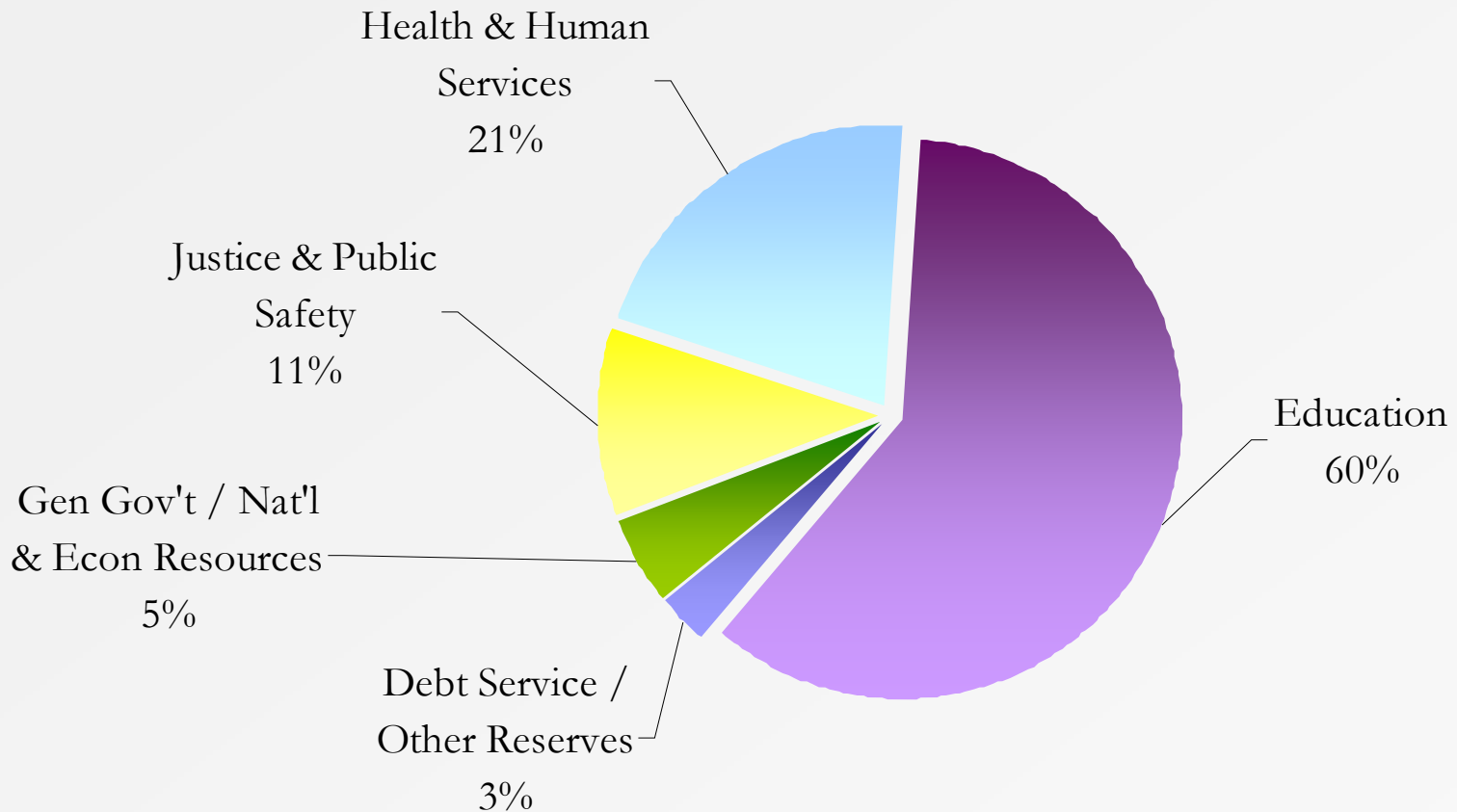
Unappropriated Balance	83
Base Revenues (Reduced by \$703 million)	18,936
Revenue Changes	163
Revenue Changes for Economic Development	(33)
Total Availability	19,149

Appropriations (dollars in millions)

Certified Budget	19,560
Agency Reductions	(957)
Federal Recovery Funds	(579)
Entitlements Rebase and Expansion	1,125
Total Appropriation	19,149

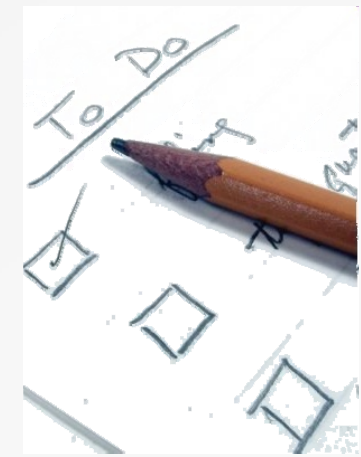


GF Budget Allocation by Subcommittee





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IV. Recommendations by Subcommittee

- A. **Education**
- B. Health and Human Services
- C. General Government/ Justice & Public Safety
- D. Natural and Economic Resources/Capital
- E. Transportation
- F. Statewide Reserves





Education: Budget Overview

	<i>Certified FY 2010-11²</i>	<i>Recommended FY 2010-11^{1, 2}</i>	<i>% Change</i>
Public Schools			
Requirements	\$10,575	\$10,413	-1.5%
Receipts	\$2,841	\$2,878	1.3%
Appropriations	\$7,734	\$7,535	-2.6%
UNC System			
Requirements	\$4,116	\$4,079	-0.9%
Receipts	\$1,316	\$1,291	-1.9%
Appropriations	\$2,800	\$2,788	-0.4%
Community Colleges			
Requirements	\$1,315	\$1,423	8.2%
Receipts	\$303	\$378	24.8%
Appropriations	\$1,012	\$1,045	3.2%

All figures in millions of dollars.

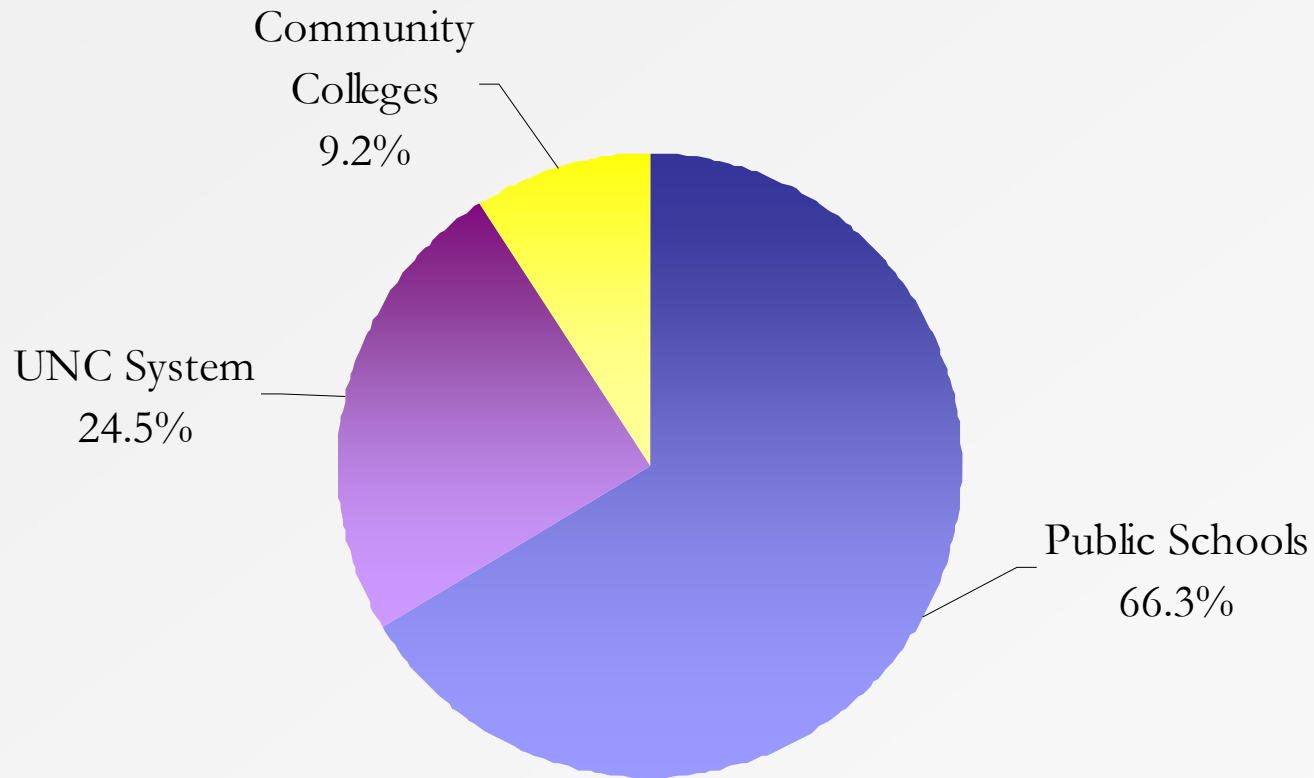
1. Includes Teachers' Salary Step Increase

2. Amounts for Public Schools and UNC adjusted for State Fiscal Stabilization Fund



Allocation for Education

- Allocation of FY 2010-11 GF Appropriation for Education (\$11.4 billion)





Education: Enrollment Changes

	<i>FY</i> <i>2009-10</i>	<i>FY</i> <i>2010- 11</i>	<i>%</i> <i>Change</i>
Public Schools	1,464,914	1,475,668	0.7%
UNC	193,433	198,359	2.5%
Community Colleges	213,472	247,590	16.0%

Figures are FTE/ADM.



Governor Perdue's Education Budget

- **Protect K-3 classrooms** and provide **diagnostics** to address areas of need for individual students
- Continues to **provide access to UNC system** for North Carolinians at reasonable and affordable cost
 - Fully funds enrollment growth and need-based financial aid
- Community college budget focuses on **meeting workforce and educational needs**
 - Fully funds enrollment growth and need-based financial aid
 - Ensure workforce development



Education: Budget Reductions

- **Total Reductions:** \$419 million¹
- Public Education: \$279 million¹
- UNC System: \$105 million
- Community Colleges: \$35 million¹

1. Does not include State Fiscal Stabilization Fund or Technical Adjustments



Major Reductions in Public Education

- Adjust budgeted teacher salary to match actual salary and benefit expenditures (\$45 million)
- LEA flexibility adjustment (\$135 million)
 - Protects class size, teachers, and teacher assistants in grades K-3
 - LEAs shall maximize federal funds; including American Recovery and Reinvestment Act, Title I, IDEA, Title II, new Jobs Legislation being debated in Congress; and also use attrition to mitigate this reduction
- Reduce Central Office appropriation by 5% (\$5.4 million)
- Reduce Assistant Principal appropriation to provide one 10 month position for every 863 students (\$8.9 million)



Major Reductions in Public Education (cont.)

- Maintain low wealth appropriation at the 2009-10 level (\$10 million)
- Delay 2010-11 school bus replacement for one year (\$12 million, NR)
- Reduce Department of Public Instruction budget and 36 positions (\$10 million)



Major Reductions in the UNC System

- UNC GA flexibility reduction of 2.4% (\$1 million) plus targeted reductions totaling \$900 K for an overall 4.5% reduction
- UNC campus flexibility reduction of 3.9% (\$99 million)
 - Make reductions in areas based upon interests of each campus
- Reduce UNC Hospital transfer by 3.9% (\$1.7 million)
- Reduce Legislative Tuition Grant rate by 3.9% (\$1.2 million)



Major Reductions in NCCCS

- Reduce the System Office by 7 positions and specified operating adjustments totaling 4.5% (\$1.2 million)
- Community college flexibility reduction of 3.5% (\$33 million)
- Eliminate remaining appropriation for Fayetteville Technical Community College Botanical Laboratory, the only horticulture program in NCCCS supported by a special appropriation (\$264 K)
- Merge Hickory Metro Higher Education Center under ASU's higher education center in Hickory (\$264.8 K)



Education: Budget Expansion Items

- **Total Expansion Items: \$303 million^{1,2}**
- Public Education: \$118 million¹
- UNC System: \$ 91 million²
- Community Colleges: \$ 94 million²

1. *Includes Teachers' Salary Step Increase*

2. *Does not include State Fiscal Stabilization Fund or Technical Adjustments*



Expansion Highlights: Public Education

- **Career and College – Ready, Set, Go!**
 - Invest **\$19 million and \$21 million, NR** to:
 - Provide **diagnostics** in elementary grades K-3 and 5
 - Gives immediate student-specific feedback
 - Ensure deficiencies in reading/math addressed before middle school
 - Provide **diagnostics and intervention** in grades 8 and 11
 - Ensure students graduate career and college ready
 - **Implement** the North Carolina Virtual Public Schools funding formula (\$11 million) and serve an estimated 25% enrollment increase
 - **Provide a salary step** for teachers (\$55 million, plus \$6 million, NR)



Expansion Highlights: UNC System

- **Career and College – Ready, Set, Go!**
 - Full funding for **UNC Need-Based Financial Aid** (\$35 million)
 - Ensure that all eligible students receive a grant
 - Will hold recipients harmless from increases in the cost of education
 - Restore \$35 million reduction enacted in 2009 and implement UNC BOG approved tuition rates to **enable UNC campuses to retain tuition for high priority needs**



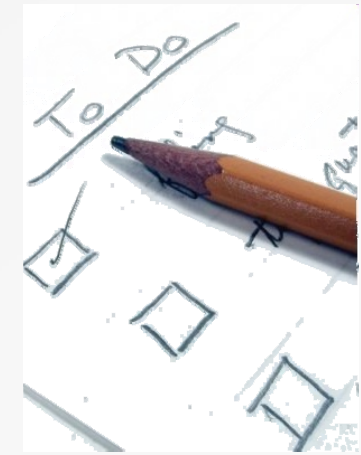
Expansion Highlights: NCCCS

- **Career and College – Ready, Set, Go!**
 - Full funding for 34,000 additional students, an **unprecedented 16% enrollment increase** (\$85 million)
 - Expand **need-based financial aid by 46%** (\$6.5 million)
 - Ensure that all eligible students receive a grant
 - Will hold needy students harmless from increases in the cost of education
 - Support equipment and technology needs (\$2.5 million)



IV. Recommendations by Subcommittee

- A. Education
- B. Health and Human Services**
- C. General Government/ Justice & Public Safety
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HHS: Budget Overview

	<i>Certified FY</i> <i>2010-11</i>	<i>Recommended FY</i> <i>2010-11</i>	<i>%</i> <i>Change</i>
Health and Human Services			
Requirements	\$16,318	\$17,129	5.0%
Receipts	\$11,997	\$13,194	10.0%
Appropriations	\$4,321	\$3,935	(8.9%)

All figures in millions of dollars.



HHS: Budget Context

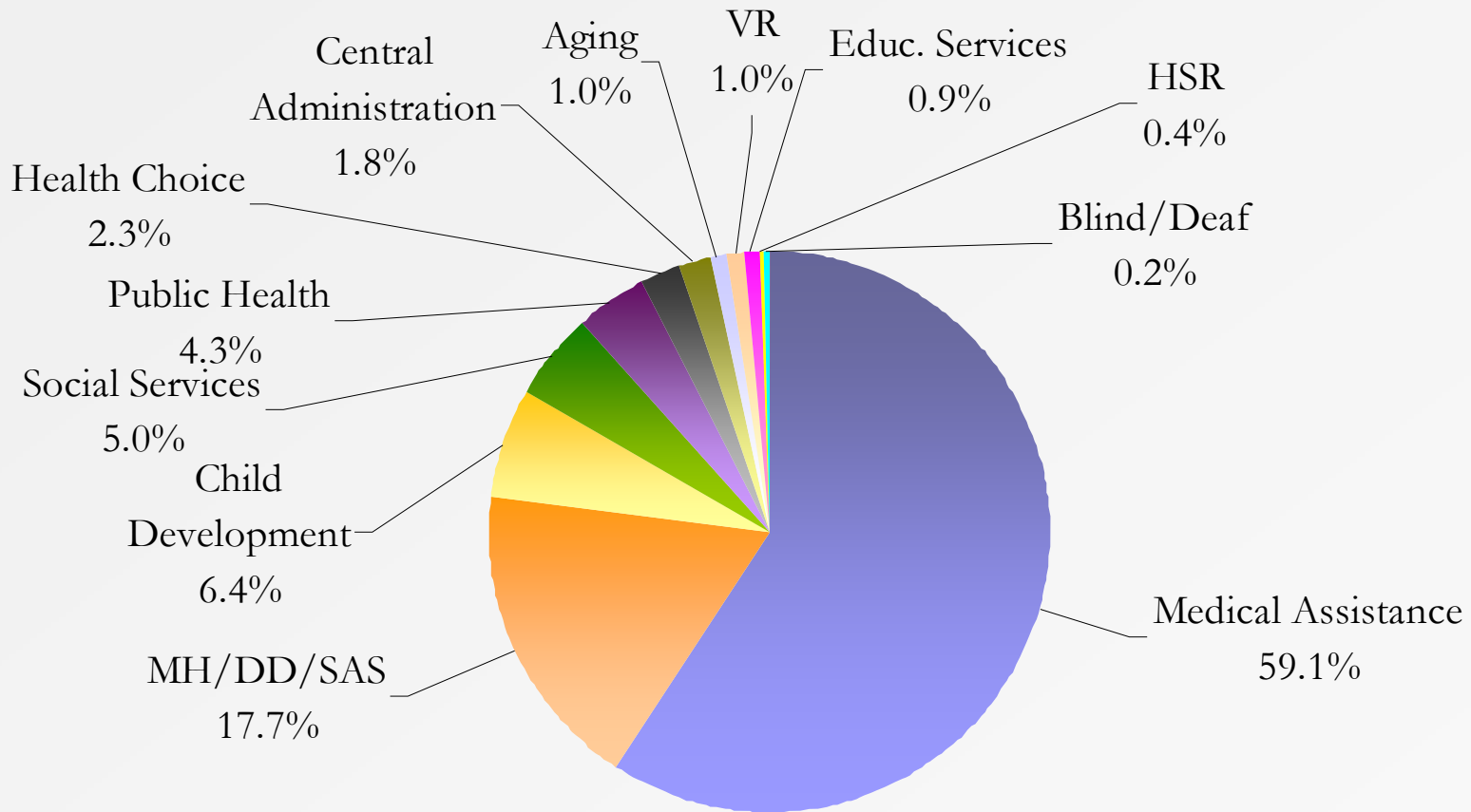
Summary of GF DHHS Adjustments (dollars in millions)

Medicaid Rebase & Savings from Federal Participation	\$(147)
DHHS Reductions	(307)
DHHS Expansion	68
Net Change GF Appropriation	\$(386)



Allocation for Health and Human Services

- Allocation of FY 2010-11 GF Appropriation for HHS (\$ 3.9 billion)





- **Governor's Priorities for HHS Budget:**
 - **Control cost in the Medicaid Program** through improved care management, program management and policy changes while preserving critical services
 - **Eliminate fraud, waste and abuse** in the Medicaid and child care subsidy programs through various initiatives, including the use of innovative technology
 - **Provide services to vulnerable populations** by targeting scarce expansion resources to support them
 - Invest in **Mental Health Services**



HHS: Medicaid Adjustments

Medicaid Rebase and Federal Participation (dollars in millions)

Rebase state impact	\$431
FMAP 6 month extension savings	(499)
Medicare Part D Clawback savings	(79)
General Fund Savings	\$(147)

- **Assumptions**

- 5.6% growth in eligibles
- No provider inflationary rate increases



Major Reductions in HHS

Total General Fund Reductions: \$307 million

- **Controlling Medicaid Costs and Eliminating Fraud, Waste and Abuse**
 - Managed care initiatives
 - Achieve savings through CCNC activities (\$45 million)
 - Expand capitated behavioral health program (\$1.6 million)
 - Reduce fraud, abuse & waste through program integrity initiatives (\$36 million)
 - Implement independent assessments for high cost services (\$21 million)
 - Manage off-label use of mental health drugs and collect supplemental rebates (\$9.5 million)
 - Modify community support team services (\$41 million)
 - Reform Personal Care Services (\$59.8 million)
 - Improve accuracy of payments and efficiency of administration in the Subsidy Program through innovative technology (\$9.3 million)



Major Reductions in HHS (cont.)

- **Other significant adjustments**
 - Create a Childhood Immunization Account through assessments (\$6.4 million)
 - Reduce Community Health Grants (\$1 million)
 - Eliminate CCNC Grant funds (\$0.4 million)
 - Reduce Smart Start non subsidy services (\$7.7 million)
 - Child Support Enforcement state savings (\$1.3 million)
 - Offset state funds with federal recovery funds (\$1.5 million, NR)
 - Budget receipts to support nursing home licensure and certification (\$1.7 million, NR)



HHS: Budget Expansion Items

Total General Fund Expansion Items: \$68 million

- **Increase access to health care** to children of working families and the uninsured by expanding SCHIP to serve 8,096 additional children (\$8.5 million)
- **Support older adults & caregiver families** by expanding Project CARE to serve 500 additional families (\$1 million)
- **Fund the AIDS Drug Assistance Program** to serve those currently enrolled and reopen to people at 125% of FPL (11.2 million plus \$3 million, NR)
- **Implement a Medicaid Assisted Living waiver** for individuals residing in adult care homes (\$9 million)



HHS: Budget Expansion Items (cont'd)

- **Improve community-based resources** that provide services to the mentally ill
 - Crisis services-local inpatient bed capacity (\$12 million)
 - Restore \$40 million non-recurring reduction in community service funding by providing state funds and use \$17 million in federal funds to generate state funds for mental health (\$23 million, NR)
- **Other adjustments**
 - Provide a grant in aid to Special Olympics (\$100 K)
 - Mental Health training and workforce development (\$500 K)



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GG/JPS: Budget Overview

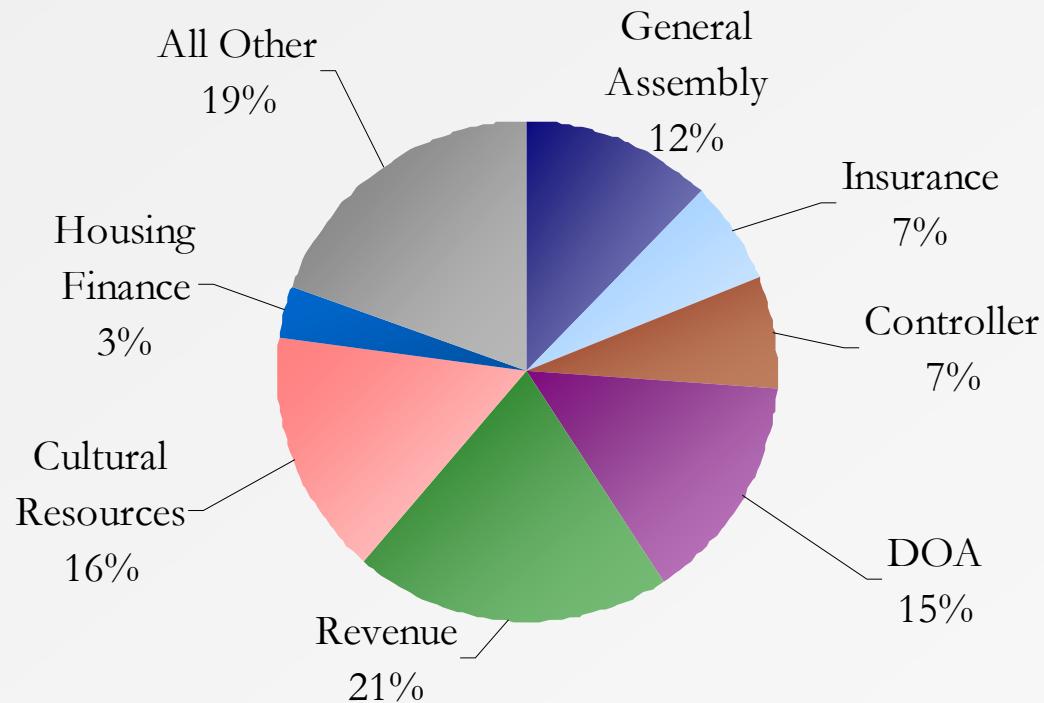
	<i>Certified FY</i> 2010-11	<i>Recommended FY</i> 2010-11	<i>%</i> <i>Change</i>
General Government (GG)			
Requirements	\$566	\$570	0.7%
Receipts	\$126	\$129	2.4%
Appropriations	\$440	\$441	0.2%
Justice and Public Safety (JPS)			
Requirements	\$2,407	\$2,357	-2.1%
Receipts	\$227	\$239	5.3%
Appropriations	\$2,180	\$2,118	-2.8%

All figures in millions of dollars.



Allocation for General Government

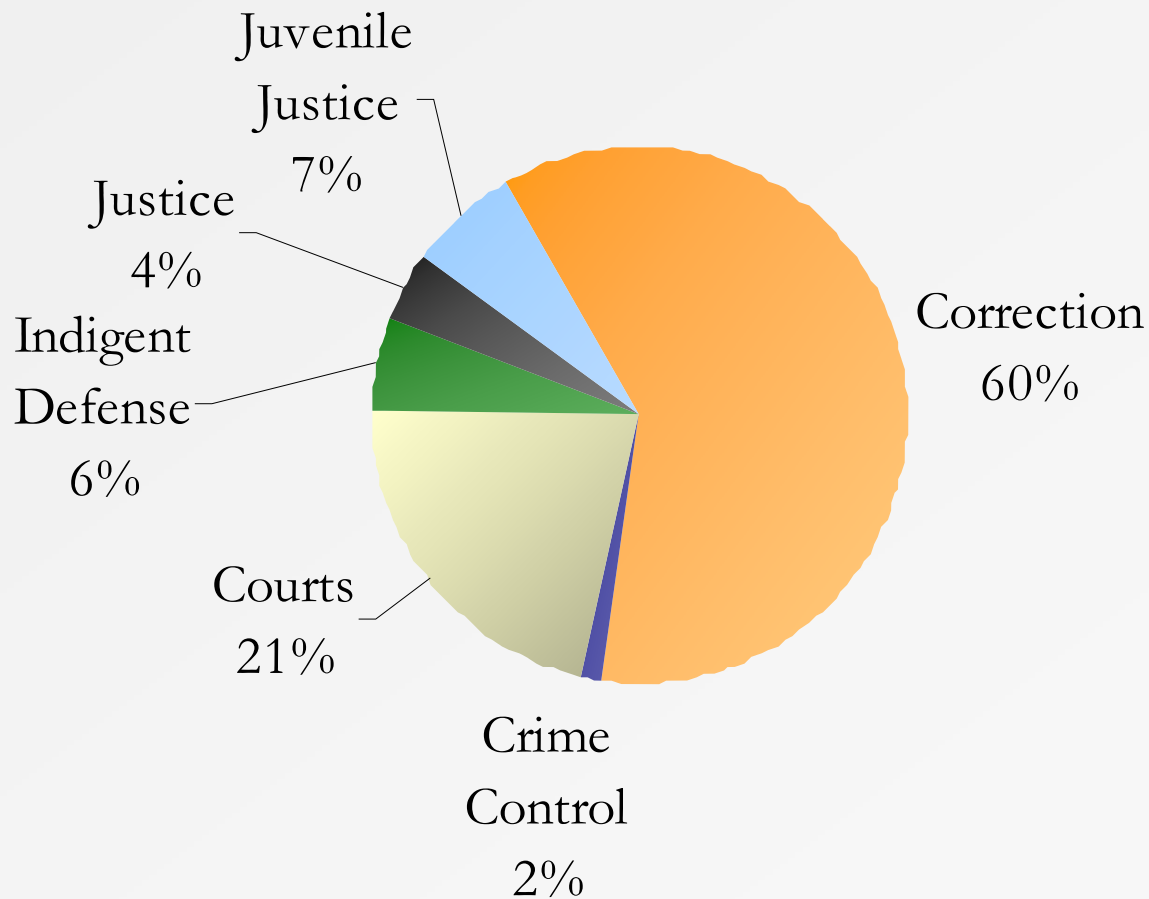
- Allocation of FY 2010-11 Appropriation for General Government (\$441 million)





Allocation for Justice and Public Safety

- Allocation of FY 2010-11 Appropriation for JPS (\$2.1 billion)





GG/JPS: Major Budget Reductions

- **Total Reductions:** \$101 million
 - Generally includes:
 - Reductions to operating accounts agency-wide
 - Position eliminations
 - Position reductions
 - Replace state funds with receipts
 - Consolidation and reassignment of workloads
 - Increase fees



Other Major Reductions for GG

- Reduce Reserves for Legislative Services Commission (\$648 K)
- Reduce the Volunteer Safety Workers' Compensation Fund (\$400 K, NR)
- Consolidate Youth Employment and Advocacy Functions within DOA and the Office of the Governor (\$200 K)
- Eliminate Call Recording Funds for the Taxpayer Assistance Call Center (\$700 K)



Other Major Reductions for JPS

- Eliminate the NC Legal Assistance Fund Program (\$375 K)
- Eliminate the Woodson Wilderness Camp (\$1 million)
- Reduce the Eckerd Wilderness Camp Program (\$7.6 million)
- Close the Macon County Multi-Purpose Home (\$600 K)
- Reduce Inmate Medical Costs (\$20 million)
- Reduce Criminal Justice Partnership Program (\$1 million, NR)



GG/JPS: Budget Expansion Items

- **Total Expansion: \$40 million**
 - **Setting Government Straight (\$997 K):**
 - **State Ethics Commission**
 - Provide resources for Online **Statement of Economic Interest (SEI) disclosure system** (\$134 K)
 - Provide resources for timely **investigations of complaints and prompt response** (\$190 K)
 - Provide resources to **monitor gift ban good government** (\$104 K)
 - Provide resources for **contractual services and online education program** (\$120 K)
 - **State Board of Elections**
 - Provide resources for the **development of campaign finance software** (\$450 K)



Expansion Highlights for GG/JPS (cont.)

– Supporting Our Military Members

- Sustain funding for military grants and military installations (\$750 K)

– Corporate Settlement Initiative (Resolution Initiative II)

- Target Corporations with outstanding tax liabilities, which is expected to generate \$110 million in 2010-11 (\$4 million)



Expansion Highlights for GG/JPS (cont.)

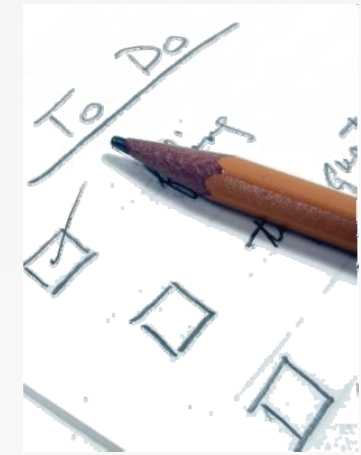
– Safe Communities

- **Enhance Supervision of Probationers/Parolees**
 - Improve **recruitment and retention of Probation and Parole Officers** (\$1.6 million)
 - Provide funding for **Criminal Justice Law Enforcement Automated Data Services (CJLEADS)** (\$9.5 million)
 - Provide state match funds to continue **Voice Interoperability Plan for Emergency Responders (VIPER)** (\$4.7 million)
 - Provide funding for **DNA forensic specialist and statewide training budget** (\$750 K)
- **Medicaid Fraud Criminal Investigation Team**
 - Provide funding to expand the Medicaid Fraud Criminal Investigation Team (\$756 K)



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NER: Budget Overview

	<i>Certified FY</i> 2010-11	<i>Recommended FY</i> 2010-11	<i>%</i> <i>Change</i>
Natural and Economic Resources¹			
Requirements	\$639	\$671.5	5.2%
Receipts	\$226	\$228.9	1.3%
Appropriations	\$413	\$443.2	7.3%

All figures in millions of dollars.

1. Includes:

Agriculture and Consumer Services

Labor

Environment and Natural Resources

Clean Water Management Trust Fund

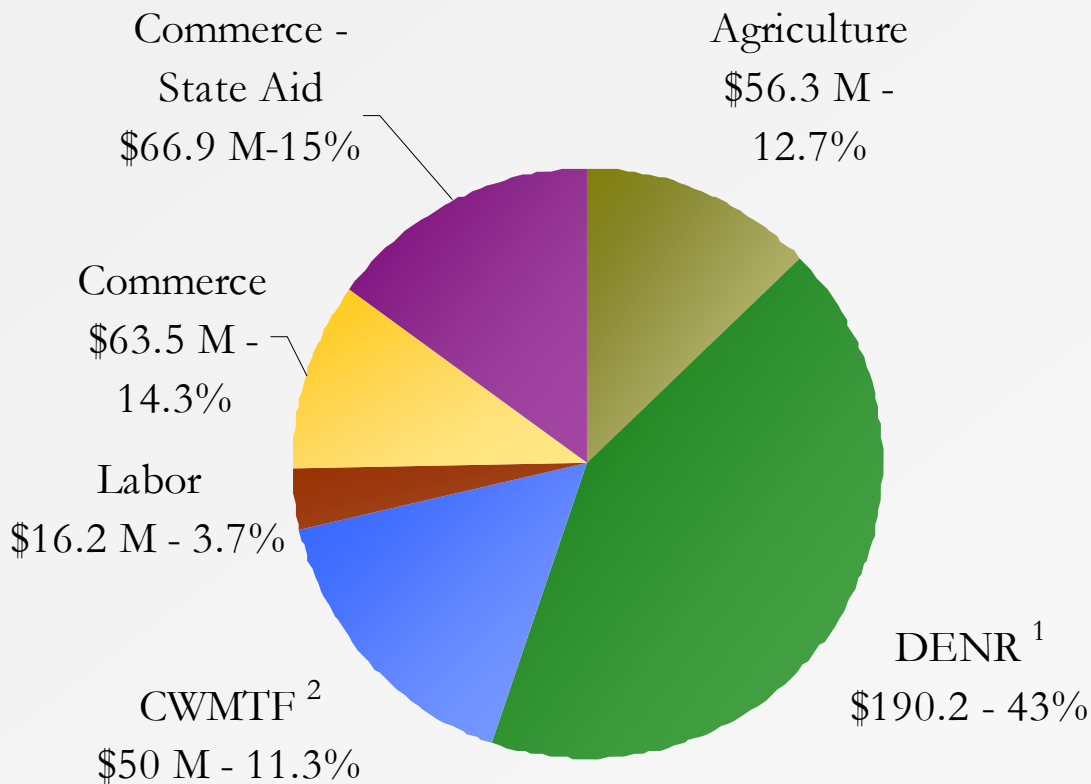
Commerce

Commerce - State Aid (Biotech, REDC)



Allocation for Natural and Economic Resources

Allocation of FY 2010-11 GF Appropriation for NER (\$443 M)



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



NER: Budget Reductions

NER Agencies	Recurring Reductions	FTEs	% Reduction
Department of Agriculture and Consumer Services	\$ (4,239,178)	(18.00)	-7.0%
Department of Labor	\$ (1,219,388)	(0.50)	-7.0%
Department of Environment and Natural Resources	\$ (13,766,901)	(60.52)	-7.2%
Clean Water Management Trust Fund	\$ 0	-	0%
Department of Commerce	\$ (2,292,787)	(9.75)	-5.6%
Commerce – Non-State Entities	\$ 0	-	0%
NER TOTAL	\$ (21,518,254)	(88.77)	-5.2%

- Generally includes:
 - Reductions to operating accounts agency-wide
 - Position eliminations
 - Fund-shifting various expenditures to receipts
 - Fee Increases
 - Management Flexibility Reserves



Notable Reductions for NER

- **Consolidate Environmental Health Programs in Division of Public Health, DHHS**
 - **DEH programs transferred to DPH (\$791 K)**
 - Environmental Health Services (childhood lead; food and lodging inspections; pool, tattoo and institution sanitation; dairy protection)
 - Public Health Pest Management (mosquito control; sleep products)
 - On-site Water Protection (On-site water program; private water supply; water treatment facility operators; certification board)
 - Shellfish Sanitation & Recreational Water Quality
 - Radiation Protection
 - **DEH programs moved internally within DENR (\$354 K)**
 - Public Water Supply Section remaining in DENR

Total savings from consolidation and other program reductions \$1.1 million



Notable Reductions for NER

- **Other Operational Efficiencies within DENR**
 - Merge Pollution Prevention and Environmental Asst with Customer Service (\$308 K)
 - Reduce Educational Forests from 7 to 6 (\$112 K)
 - Eliminate Well Drillers Program with Division of Water Quality (\$344 K)
 - Eliminate Asheville and Washington Water Quality Laboratories (\$112 K)
 - Eliminate Office of Conservation and Community Assistance (\$78 K)

Total Savings from Reorganization/Eliminations = \$955K



NER: Budget Expansion Items

Total FY 2010-11 Expansion:

Natural and Economic Resources	Recurring	Nonrecurring
Environment and Natural Resources	\$ 1,050,689	\$ 12,600,000
Commerce	\$ 200,000	\$ 20,650,000
Commerce - State Aid	\$ 2,600,000	\$ 10,100,000
NER TOTAL	\$ 3,850,689	\$ 48,850,000



Expansion Highlights for NER

Support for Small Businesses (\$10.2 million)

- Home Grown Jobs Initiative (\$3 million, NR)
- Main Street Solutions (\$2 million, NR)
- One N.C. Small Business Fund (\$1.5 million, NR)
- North Carolina Tourism Promotion (\$1 million, NR)
- N.C. Farm Innovation Fund (\$1 million, NR)
- N.C. Small Business Assistance Fund (\$1 million, NR)
- Energy Research and Green Jobs (\$500 K, NR)
- “InSource NC” (\$150 K, NR)



Expansion Highlights for NER

Keeping North Carolina Competitive (\$23.8 mil)

- One NC Fund (\$15 million, NR)
- Regional Economic Development Comm. (\$2.6 million)
- Biotechnology Center (\$3 million, NR)
- Biofuels Center (\$2 million, NR)
- Business Recruitment & NC Product Marketing Funds (\$1 million, NR)
- International Trade (\$200 K)



Expansion Highlights for NER

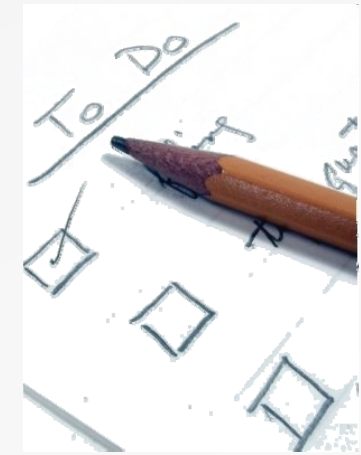
Infrastructure Development and Capital

- Drinking Water State Revolving Loan Fund (\$6.2 million, NR)
- Wastewater Treatment Plant State Revolving Loan Fund (\$7.3 million, NR)
- Water Resources Development Projects (\$11.2 million, NR)
- BRIDGE program in DENR (\$912 K)



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Transportation: Budget Overview

	<i>Certified FY</i> <i>2010-11</i>	<i>Recommended FY</i> <i>2010-11</i>	<i>%</i> <i>Change</i>
Transportation			
Requirements	\$3,759	\$3,892	3.5%
Receipts	\$1,098	\$1,098	0.0%
Appropriations	\$2,661	\$2,794	5.0%

All figures in millions of dollars.

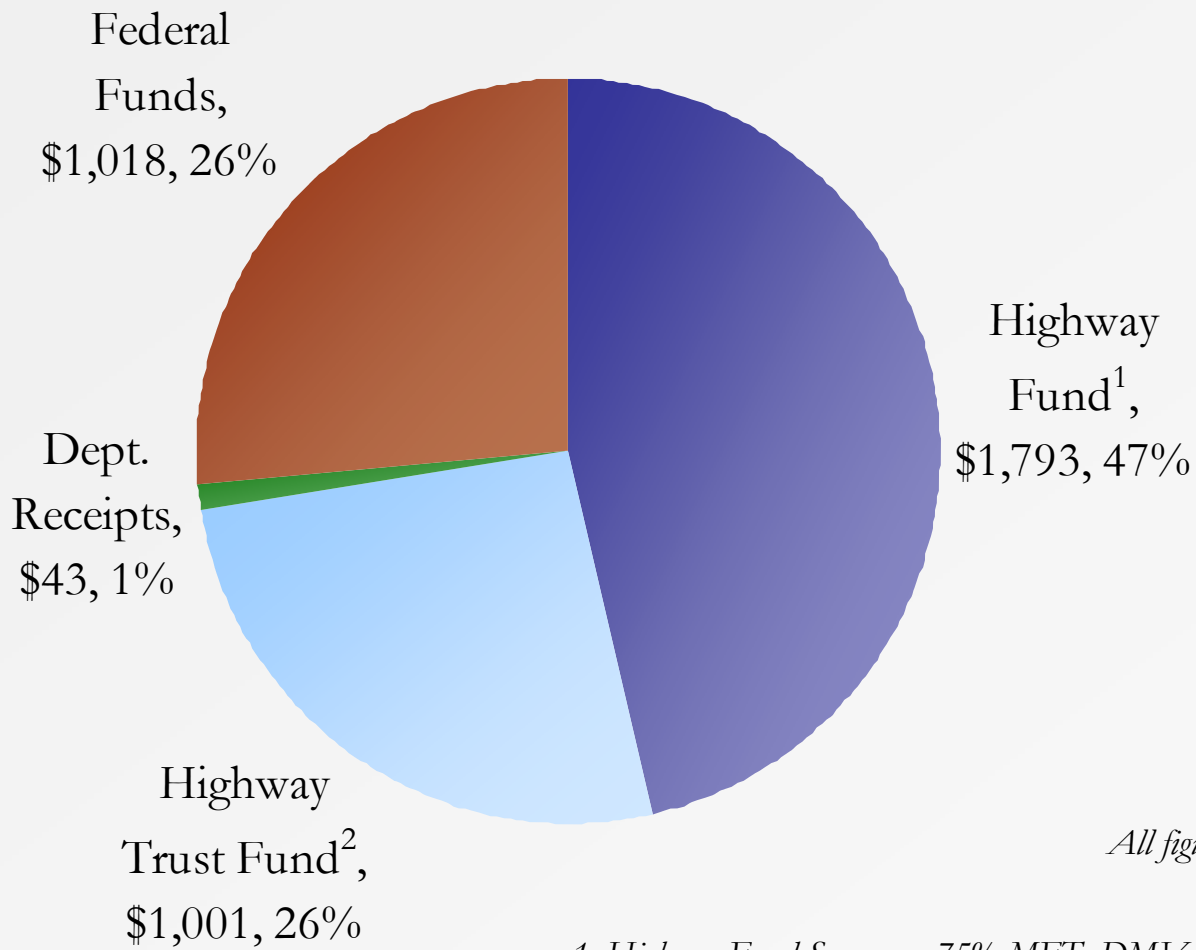


Transportation: Budget Context

- **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
- **\$3.8 billion is recommended** in support of North Carolina's Transportation Program for fiscal year 2010-11



Transportation: Funding Sources, FY 2010-11



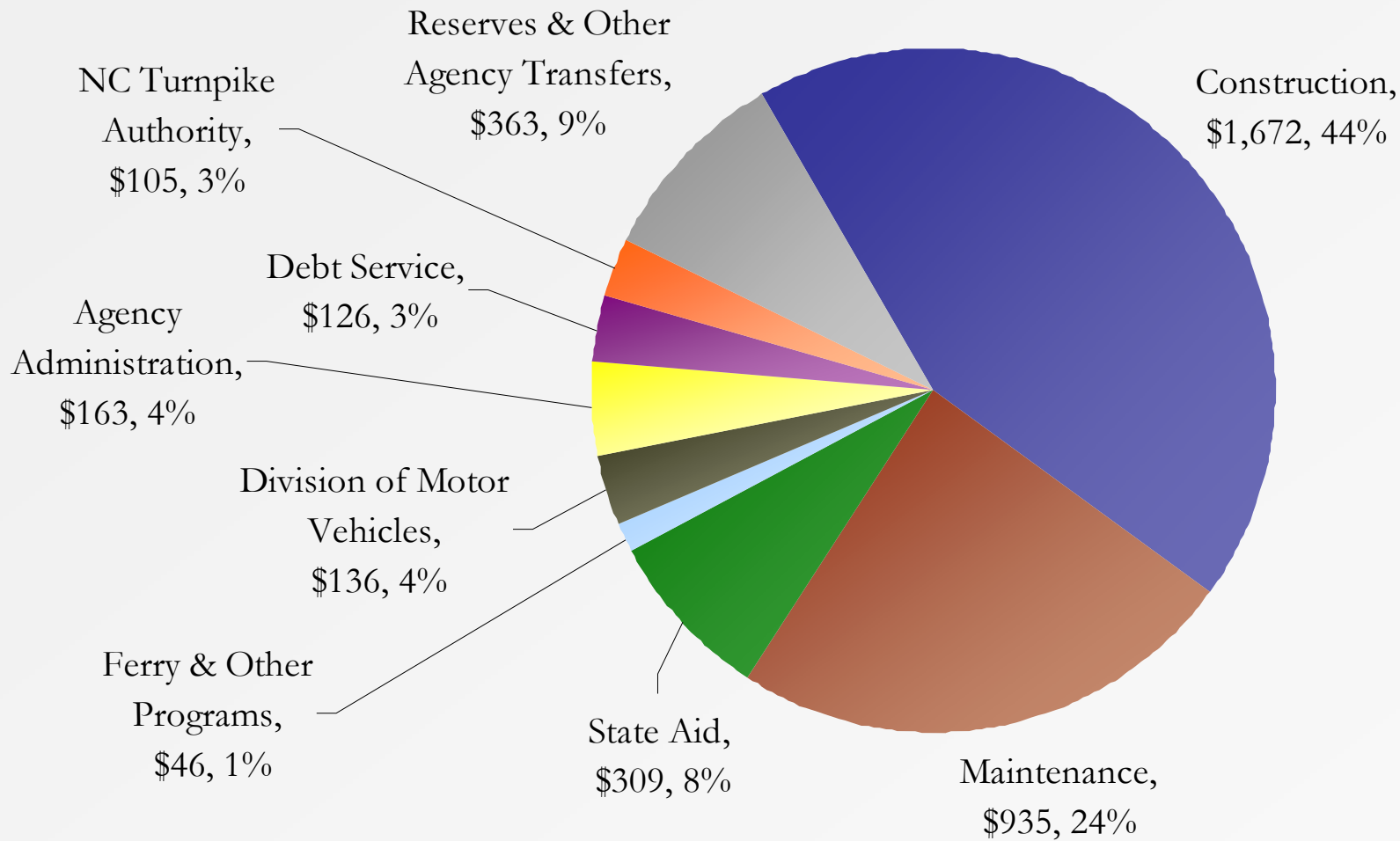
All figures in millions of dollars.

1. Highway Fund Sources – 75% MFT, DMV fees, Investment Earnings

2. Highway Trust Fund Sources – 25% MFT, HUT, Title fees, Investment Earnings



Transportation: Appropriations, FY 2010-11



All figures in millions of dollars.



Budget Reductions: Highway Trust Fund

- **Total Reductions: \$22.2 million**
 - **Transfer to the General Fund** (\$22 million)
 - **Secondary roads construction** (\$170 K)



Budget Reductions: Highway Fund

- **Total Reductions: \$5.8 million**
 - **Highway maintenance** funds (\$3.7 million)
 - **Driver Education Program** (\$1.3 million, NR)
 - **State aid to municipalities** (Powell Bill) funds as statutorily required (\$785 K)
 - **Leaking underground storage tank (LUST)** funds as statutorily required (\$40 K)



Expansion Items: Highway Trust Fund

- **Total Expansion Items:** \$102.5 million
 - Establish **NC Mobility Fund** (\$94.6 million)
 - Dedicated source of funds for projects of statewide significance that are linked to statewide economic goals
 - Relieves burden on regional transportation plans
 - Critical congestion bottlenecks will be addressed
 - Logistics capabilities will be improved
 - Not included in the equity formula
 - Funds available for all transportation modes
 - Required Statutory Adjustments (\$7.9 million):
 - **Intrastate System** - \$5 million
 - **Urban Loops** construction - \$ 2 million
 - **Aid to Municipalities** (Powell Bill) -\$524 K
 - **Program Administration** - \$371 K



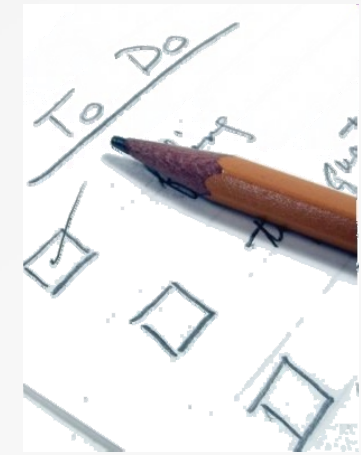
Expansion Items: Highway Fund

- **Total Expansion Items:** \$58.7 million
 - Funds for **secondary roads construction** as statutorily required (\$3.8 million)
 - Restore **ferry operations** funding to avoid disruption in current level of service (\$4.8 million)
 - Construction of the **Pembroke Northeast Bypass Connector** (\$4.3 million, NR)
 - Provide grants for **short line railroad** rehabilitation projects (\$2 million)
 - **Information technology** initiatives (\$2 million)
 - Restore **driver education** funds (\$33 million)



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Statewide Reserves: Reductions

- **Total Reductions:** \$18.0 million
 - Reduce debt service requirements (\$15.8 million)
 - Lower than anticipated interest rates
 - Job Development Investment Grant (JDIG) Program (\$6.6 million)
 - Based on updated payment schedule
 - Motor fleet rate adjustment (\$2 million)



Statewide Reserves: Expansion Items

- **Total Expansion Items: \$185 million**
 - **“Back to Work” Incentive Fund (\$15 million)**
 - State level incentive to complement federal HIRE Act tax benefit
 - NC small businesses can receive a cash rebate for hiring and retaining new workers who were previously unemployed
 - Businesses must be eligible for federal payroll tax deduction (IRS form 941)
 - Rebate limited to businesses with 25 or fewer employees
 - Qualified employee has not worked 40 hours during 60 days before hiring date
 - Must begin employment after July 1, 2010 and before December 31, 2010
 - Must work a minimum of 3 months before eligible (job claimed on form 941)
 - Business will apply for rebate through the Department of Revenue
 - Amount of rebate is \$1,000 per job; cap of \$6,000 per employer
 - Rebates are issued on first come, first serve basis



Statewide Reserves: Expansion Items Continued

- **Total Expansion Items: \$185 million**
 - **Teachers and state employees payback** (\$63 million, NR)
 - For funds withheld to balance the 2008-09 budget
 - **Teacher salary step** to stay competitive (\$55 million, plus \$6 million, NR)
 - Ensure teachers do not fall farther behind the national average
 - **Retirement system contribution** (\$20 million)
 - **Savings Reserve Account** (\$102 million, NR)
 - Increase balance from \$150 million to \$252 million or use as estate tax buffer.



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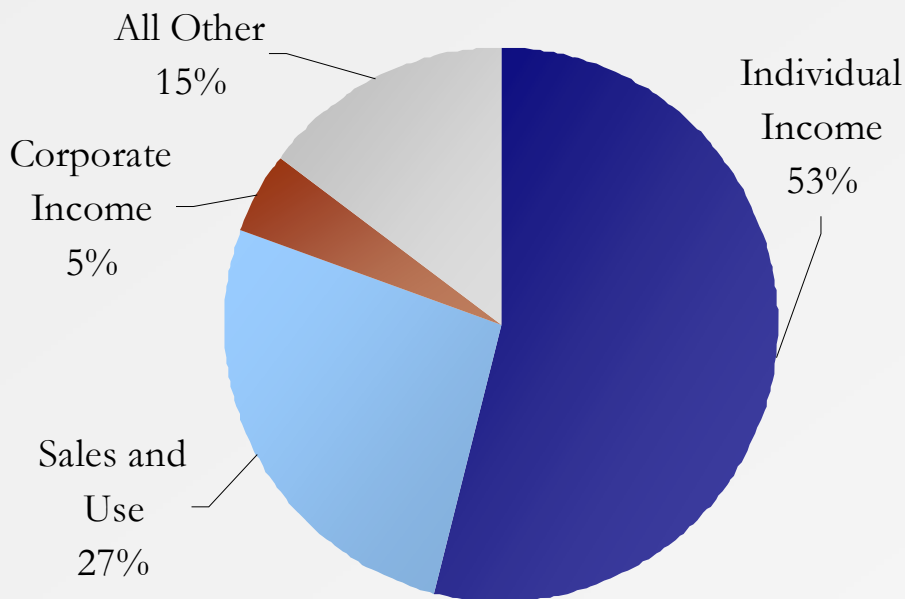
IV. Economic and Revenue Update

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





General Fund Revenue Components



FY 2008-09 General Fund Revenue: \$17.6 billion

<i>Tax/Source</i>	<i>\$ (billions)</i>	<i>% of GF</i>
Individual Income	\$9.5	53%
Sales & Use	\$4.7	27%
Corporate Income	\$0.8	5%
All Other Revenue	\$2.6	15%

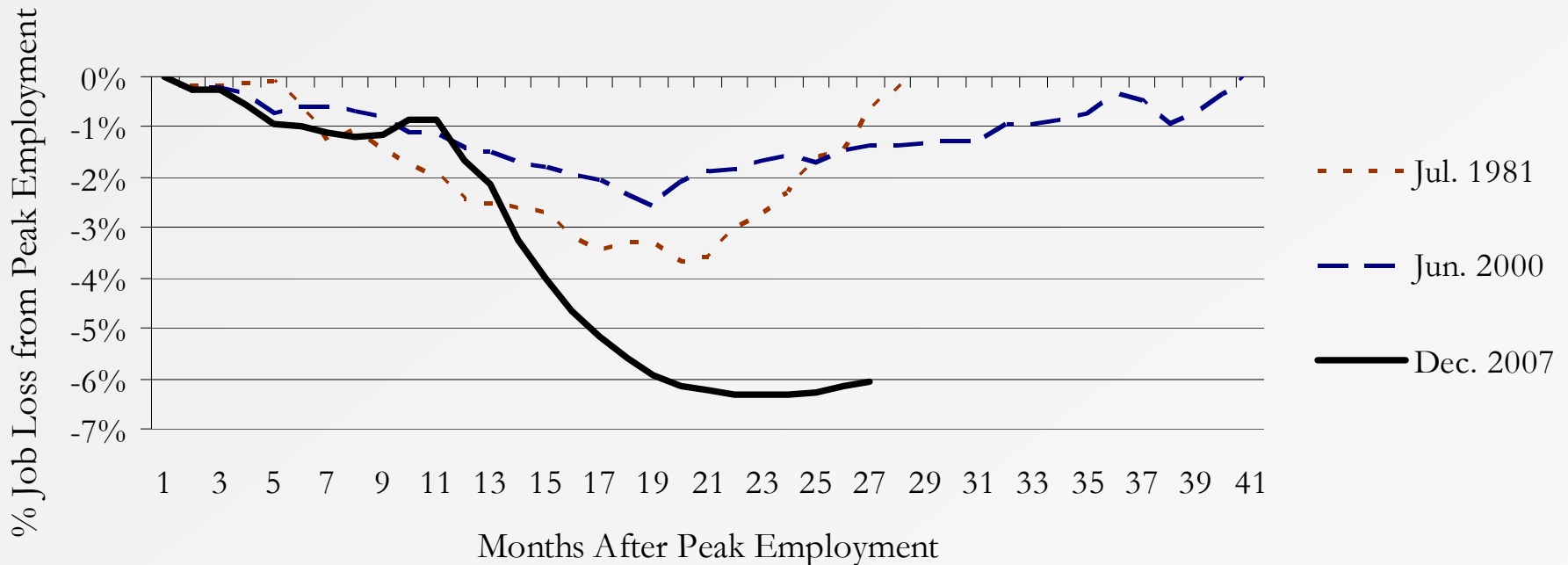
- NC's tax base compared to other states:
 - More Reliance on Individual Income Tax
 - Less Reliance on Sales and Use Tax



Current Recession in Perspective: Jobs

Current recession: lost 257,000 jobs as of Feb. 2010

84,000 jobs lost in 2000 recession



Source: NC Employment Security Commission



FY 2009-10 GF Revenue Update

\$56 million below budget through March

- **0.4% below expected revenue**
- Resolution Initiative collected \$422 million (\$272 million above budget expectations)
- Without the Resolution Initiative, total collections would be down \$330 million (about 2.6% below budget)
- Sales and Personal Income Tax collections are the main drivers of the budget shortfall

\$391 million shortfall expected in FY 2009-10

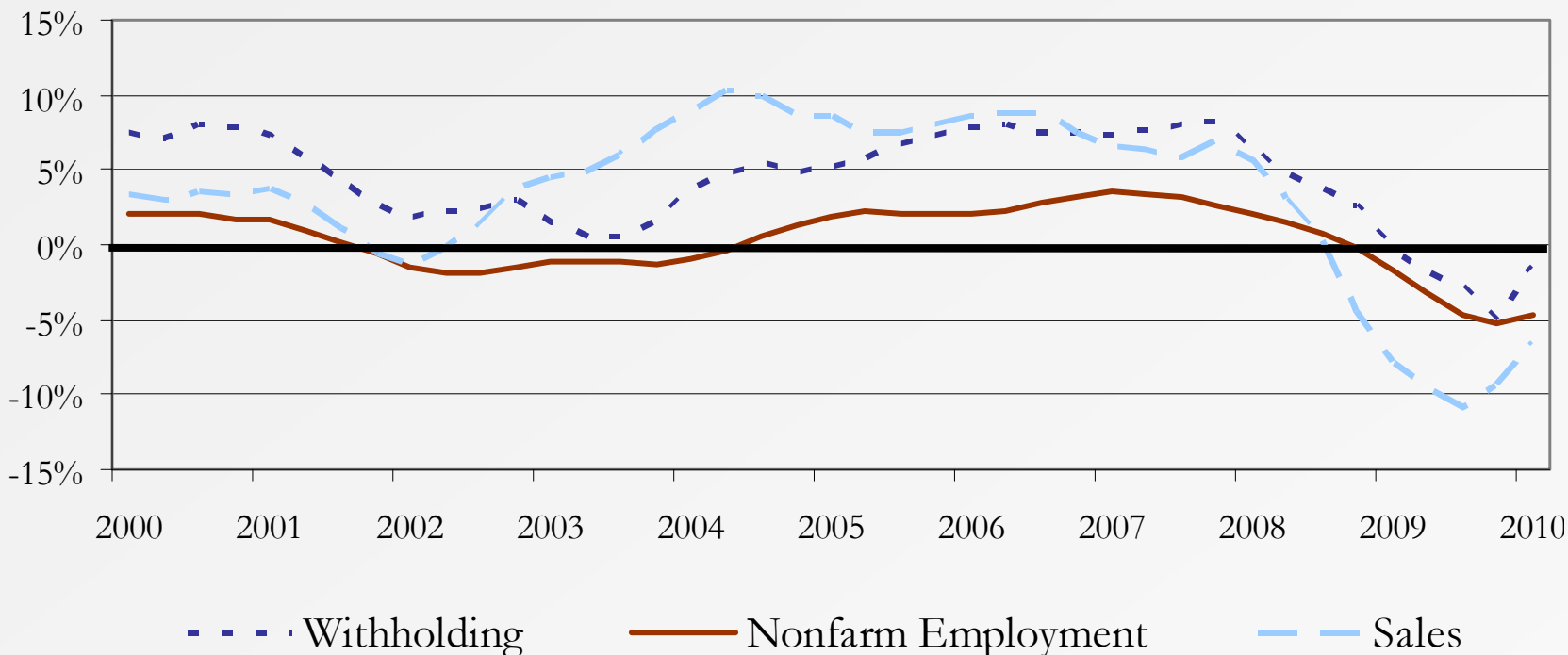
- \$18.5 billion vs. \$18.9 billion budgeted
- **2.1% below budgeted revenue**



Income Tax/Sales Tax Collections Turning Around?

Withholding, sales tax collections, and employment showing signs of improvement

(year-over-year percent change)



Sources: OSBM Economic & Demographic Analysis, Global Insight



Economic Outlook: 2010-2011

- Key economic indicators suggest improvement in FY 2010-11

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

	<i>FY 2010-11</i>
Wages	4.2%
Nonfarm Employment	0.9%
Profits	7.8%
Retail Sales	6.2%

Source: Global Insight

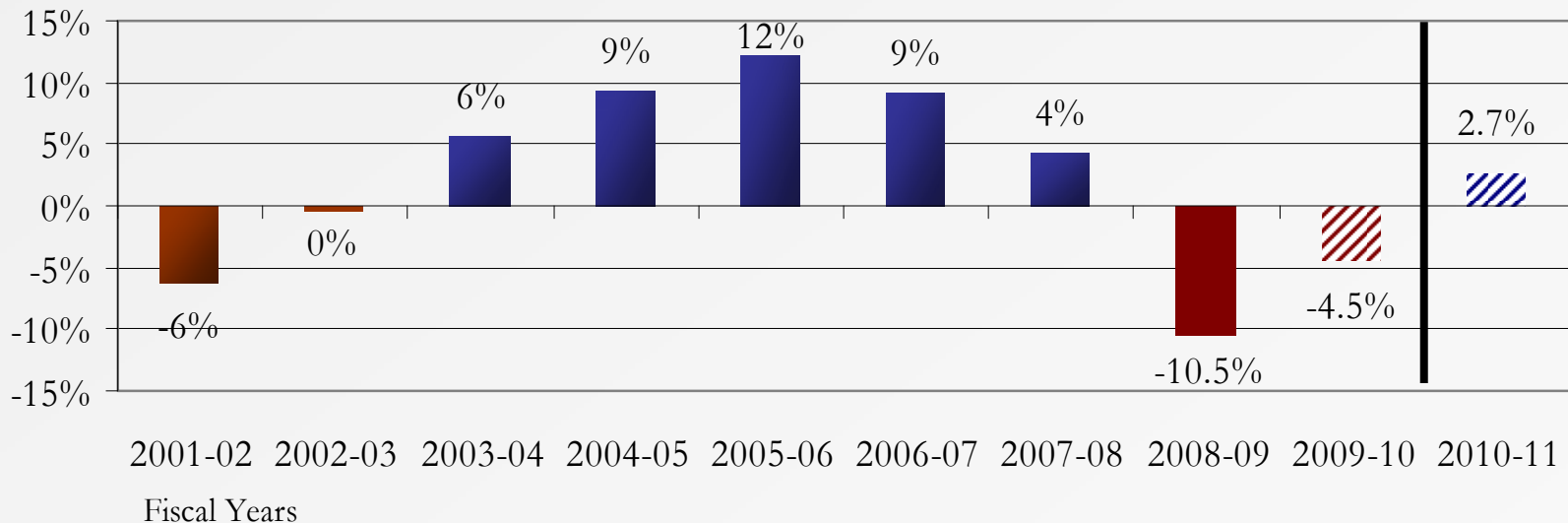


Consensus Forecast for General Fund Revenue

FY 2010-11

- Total: \$19.1 billion, **modest growth (2.7%)**
- Revenue forecast lowered \$703 million

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

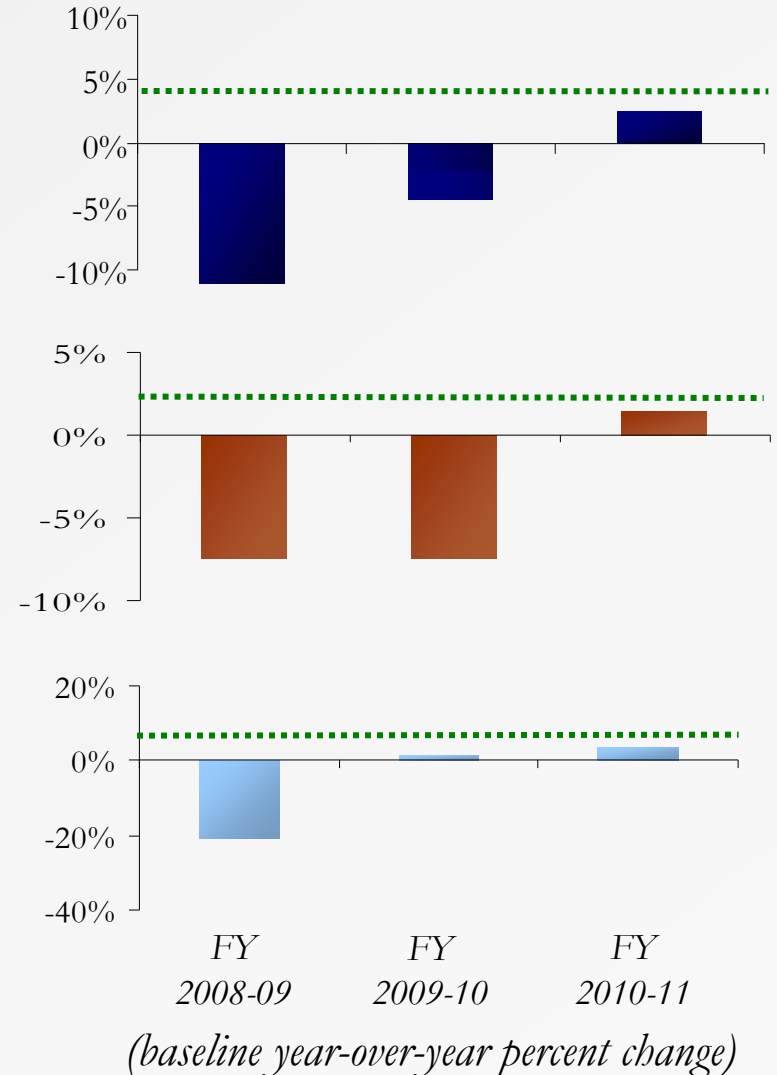
- 3.0% growth

Sales Tax

- 1.5% growth

Corporate Income Tax

- 3.6% growth





Revenue Changes: Overview

Projected General Fund Revenue Changes:

	<i>FY 2010-11</i>
Improved Enforcement	\$110
Disproportionate Share Receipts	\$35
Reduce Highway Trust Fund Transfer	\$(22)
Small Business Tax Relief	\$(16)
Other	\$23
Net Revenue Effect	\$130

All figures in millions of dollars.



Revenue Changes: Tax Relief

Governor's JobsNOW Small Business Tax Relief Package saves small businesses **\$16 million** in FY 2010-11

- **Small Business Start-Up Relief** (\$0)
 - Encourages investment in innovative small companies by allowing favorable capital gains treatment of founding interests
- **Small Business Health Insurance Credit** (\$5 million)
 - Renews \$250 per employee credit for small businesses that provide health insurance to their employees
- **Qualified Business Venture Tax Credit** (\$8 million)
 - Expands this credit by raising the cap from \$7.5 million to \$8.0 million to spur more investments in entrepreneurial businesses
- **Tax Break for Equipment Purchases** (\$3 million)
 - Allows businesses to write off investments in equipment earlier



- I. Governor Perdue's Budget Priorities
- II. Summary of FY 2010-11 Budget
- III. Economic and Revenue Update
- IV. Recommendations by Subcommittee
- V. Summary**





Budget Highlights

- **Making government more effective and efficient**
 - Recommends **another \$957 million in reductions** on top of the \$2 billion taken last year.
 - Eliminates or reduces more than 70 state programs that are **duplicative, costly, or nonessential**.
- **Living within our means**
 - Reduces original FY 2010-11 budget by \$410 million or 2.1%.
 - Spends **5.0% less per capita** than FY 2008-09.
 - Authorizes no additional indebtedness.
- **Investing and saving for the future**
 - Authorizes an additional **\$86 million for key small business and infrastructure investments** that will help create 35,000 jobs over the next three years.
 - Deposits **\$102 million in the Rainy Day Fund** to increase balance or use as estate tax buffer.



FY 2010-11 Presentation of Governor Perdue's Recommended Budget

Prepared by:

The Office of State Budget and Management

April 21, 2010