

Instructions for Preparation of the 2021-23 Change Budget



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1. Executive Summary

Overview of the Budget Process

The State of North Carolina appropriates operating and capital funds on a biennial or two-year cycle. An approved budget includes annual amounts for each of the two fiscal years that make up the biennium. The General Assembly, convening in January 2021, will consider the Governor’s Recommended Budget as well as other changes presented for legislative review before passing a two-year budget to be certified by the Office of State Budget and Management (OSBM) in summer 2021. In accordance with the State Budget Act, the Governor’s Recommended Budget for the 2021-23 biennium will be prepared and presented to the General Assembly.

The process for preparing the 2021-23 biennial budget recommendations in a manner consistent with that prescribed in the State Budget Act is already underway. OSBM issued [Base Budget instructions](#) on September 28, 2020. OSBM budget development analysts will work with agencies on Change Budget requests. The remainder of this document will summarize the instructions for preparing the 2021-23 Change Budget.

Assembling Your Budget Development Team

For agencies, the process should include not only budget and financial staff but also program directors, policy staff, and other members of agency senior leadership. Agencies should plan to engage internally and with OSBM Budget Development and Governor’s policy staff in a collaborative effort to complete the tasks laid out in the accompanying budget instructions.

Timeliness and deadlines are critical to budget development

OSBM has established deadlines to ensure that OSBM and the Governor have adequate time to review information and finalize a Recommended Budget as required by the State Budget Act. Below are key dates and deliverables in the 2021-23 Change Budget development process. A complete timeline, including Base Budget dates, can be found on the [OSBM website](#).

2021-23 Change Budget Preparation Key Dates/Deadlines	
<u>Date</u>	<u>Action</u>
November 19, 2020	OSBM issues 2021-23 Change Budget Instructions
December 2, 2020	OSBM hosts Change Budget Instructions Training, 2-3pm, via Microsoft Teams
December 18, 2020	Agencies submit ABC Lists or Worksheet IIs and IIIs to OSBM
December 2020- January 2021	Agency head meetings with OSBM
January 20, 2021	Agencies using ABC Lists submit final Worksheet IIs and IIIs for selected items based on OSBM feedback
January 29, 2021	Agencies submit Special Provision Forms for budget-related changes requested for inclusion in the Governor’s Budget Bill

Major Policies and Requirements for the 2021-23 Change Budget

The change budget development process is an opportunity for proposing to:

- Modify or eliminate ineffective programs,
- Increase funding to better deliver existing services and meet operational needs, and

- Expand programs or services to address critical needs and functions of state government.

The Change Budget consists of all proposals for expansion or reduction from the Base Budget. This includes requests for meeting critical needs, expanding or creating programs, repurposing or cutting funding, and addressing issues that cannot be accommodated in the Base Budget realignment process. For the 2021-23 biennium, Change Budget proposals should focus on addressing the following priorities identified by Governor Cooper:

1. Positioning North Carolina to create new jobs and recover from pandemic economic losses;
2. Making North Carolina a top ten educated state;
3. Promoting healthier and safer communities; and
4. Ensuring an effective, accountable, well-run state government.

In addition to identifying critical needs based on these longer-term priorities, agencies are also asked to separately identify critical needs that are specific to the state's ongoing response to the COVID-19 pandemic.

Outlook for the 2021-23 Biennium

North Carolina, like all states, faces substantial uncertainty regarding revenue collections due to the COVID-19 pandemic. However, the state is relatively well prepared thanks to ample financial reserves and ongoing prudent fiscal management policies.

The most recent revenue consensus forecast from May encompassed expectations that employment, earnings, and consumer spending would remain far below 2019 levels through much of the summer. The economy recovered much faster than anticipated in May due in large part to federal fiscal stimulus measures, and state revenue collections have similarly exceeded expectations.

General Fund revenues finished FY 2019-20 approximately \$513 million higher than the May consensus forecast and have outpaced FY 2020-21 targets based on May consensus by about 17%. Preliminary General Fund tax revenues for the first four months of the fiscal year are also outperforming the prior year by approximately 6%, after adjusting for a revenue shift due to the delayed tax payment deadline.

Although economic growth and revenue collections have exceeded expectations thus far, rapidly rising rates of COVID-19 cases worldwide cast doubt on the durability of the recent economic recovery, especially in the absence of further federal stimulus. However, there is promising news regarding several COVID-19 vaccine candidates, and it appears likely that a large portion of the US adult population could be vaccinated by fall of 2021. Once an effective vaccine becomes more widely available, OSBM anticipates that the economy will enter a more robust phase of recovery and expansion for the remainder of the 2021-23 biennium.

Given this context, agencies should:

- Prioritize requests to focus on delivering critical services;
- Identify opportunities for efficiencies and savings to enable reallocation of resources to high priority needs; and,
- Ensure expansion requests have a clear link to the agency's strategic plan.

Although reduction options are not required, agencies are encouraged to look for opportunities to improve program delivery and agency operational efficiency. Expansion requests should include thorough and well-documented narrative explanations of the problem or opportunity addressed, details of the proposed solution, and expected outcomes and impacts. Expansion requests should also be clearly linked to agency strategic plans. OSBM budget development analysts will work with agencies to assist and advise in the preparation of budget requests to present and make recommendations to the Governor.

Increased Emphasis on Strategic Planning

OSBM is continuing efforts to integrate and utilize strategic planning information in the budget development process. Information from your agency's most recent plan will be used to review spending requests during the budget development process in conjunction with the Governor's Recommended Budget. Budget expansion requests must clearly support goals included in the agency's strategic plan to be considered in the Governor's 2021-23 Recommended Budget. Updated plans will not be required until May 2021, but if you have already made updates to your agency's plan you can share it with your budget development analyst at any time to ensure they have the most recent information when reviewing budget requests. Please see [Agency Strategic Planning Guidelines](#) for additional information.

Instructions

The following instructions and related job aids and attachments provide detailed guidelines for preparing change and capital improvement budget requests with accompanying deadlines for completing key steps. The [Budget Instructions section on the OSBM website](#) organizes documents by Base Budget, Change Budget, and Capital Budget. It also has buttons linking directly to job aids, attachments, and reference materials, along with a calendar detailing the key dates that items are due to OSBM.

Budget Kick-off on December 2nd

OSBM will host a virtual budget information and training session for agency staff on Wednesday, December 2, from 2-3 pm via Microsoft Teams. The kick-off will include a review of the 2021-23 Change Budget instructions, focused on the process and timeline, and an opportunity to address your questions. Key staff members involved in developing your agency's biennial Change Budget are encouraged to attend.

2. 2021-23 Change Budget Instructions

The Change Budget consists of all proposals for expansion or reduction from the Base Budget. This includes requests for meeting critical needs; expanding, creating or eliminating programs; and addressing issues that cannot be accommodated in the Base Budget realignment process. For the 2021-23 biennium, Change Budget proposals should focus on addressing the following priorities identified by Governor Cooper:

1. Positioning North Carolina to create new jobs and grow workers' paychecks;
2. Making North Carolina a top ten educated state;
3. Promoting healthier, safer, and more resilient communities; and
4. Ensuring an effective, accountable, well-run state government.

In addition to identifying critical needs based on these longer-term priorities, agencies are also asked to separately identify critical needs that are specific to the state's ongoing response to the COVID-19 pandemic. Given uncertainty of other federal funding sources that may become available for pandemic response, agencies are asked to identify these items separately from other ongoing agency needs and initiatives.

The 2021-23 budget development process incorporates the two process changes introduced in the FY 2020-21 budget instructions: 1) the Agency Budget Change (ABC) List and 2) the Worksheet II-EZ.

Agency Budget Change (ABC) List

Agencies are asked to first submit an Agency Budget Change (ABC) List—a tool to provide a summary list of potential change budget requests—before submitting any Worksheet IIs. Agencies will then work with OSBM to determine which requests are viable given budgetary and other constraints, develop the business case for requests using data and evidence wherever possible, and further refine and adjust requests based on feedback from decision makers. Agencies will submit selected requests as Worksheet IIs and IIIs taking that guidance into account.

The purpose of this process is to reduce agency workload by reducing the need for detailed Worksheet IIs for items not likely to move forward and to facilitate a collaborative process with OSBM to build the best possible business case for those items that will ultimately be included in the Governor's Recommended Budget. This process may not be beneficial for agencies with a limited number of requests, but those with a larger set of proposals are strongly encouraged to use the ABC List process.

Worksheet II-EZ

The Worksheet II-EZ is a shortened form that may be used for less complex requests, such as lease increases and internal service adjustments, and reduces justification requirements for these types of budget requests.

COVID-19 Pandemic Response

Requests specific to COVID-19 pandemic response should be submitted on the separate "COVID-19 Response" tab in the ABC List and clearly labelled in Worksheet IIs with a title that begins "COVID-19 Response – XXX." While these requests ultimately may need to be prioritized against other longer-term agency needs and initiatives, there is potential for additional federal funding that would allow the State

to meet these needs without diverting General Fund resources from other priorities. COVID-19 requests should be non-recurring.

Change Budget Requests

Change Budget requests should focus on delivering critical services, filling budget gaps and unmet needs, and addressing agency and administration strategic priorities. Although reduction options are not required, agencies are encouraged to look for opportunities to improve program delivery and agency operational efficiency.

Change Budget requests may include the following:

- Funding adjustments due to changes in enrollment or population served in public schools, community colleges, the University of North Carolina system, prisons, and North Carolina's Medicaid and Health Choice programs, State and County Special Assistance program, and Foster Care and Adoption Assistance program.
- Additional funding for new programs, expanding or improving existing programs, and fulfilling mandated functions.
- Departmental proposals to redirect funds from inefficient or ineffective programs.
- One-time major equipment purchases.
- Continued phase-in of new programs initiated in a previous biennium.
- Adjustments to address inflation and related cost increases.
- Information Technology projects.
- Operating Building Reserves.
- Funds to replace lost federal funds.
- Changes to compensation and benefits to attract and retain talent.
- Other increases, decreases, or adjustments.

In addition to General Fund appropriation expansion requests, agencies should also submit expansion requests supported from 100 percent non-General Fund sources (federal funds or other receipts) or if an expansion item is supported from cash balances in non-reverting funds.

OSBM will evaluate Change Budget requests based on the strength of the business case and supporting data and evidence provided by the agency. Agencies should focus their efforts on ensuring the narrative components of the Worksheet II clearly and succinctly articulate the problem being addressed, the intended outcome, and the expected impact of the request. Requests for new or expanded programs or services must include evidence and research supporting the program's anticipated effect on desired outcomes. For certain requests, such as addressing inflation and related increases in operational costs, less detail on these components is required. However, it is imperative that agencies complete all components of the form and provide supporting data to present a compelling justification for the request where appropriate.

Information Technology projects must be included in the agency's IT plan (if required) in order to be considered for inclusion in the Governor's Recommended Budget. A copy of agency IT plans for the upcoming biennium must be submitted to OSBM upon completion. Additionally, IT requests should be submitted via a Worksheet II in IBIS and the [Enterprise Project Management Office's Touchdown System](#). IT requests must conform to the process and requirements found in the [IT Job Aid](#).

OSBM is continuing efforts to integrate and utilize strategic planning information in the budget development process. Strategic plan information will be used to review spending requests during the budget development process in conjunction with the Governor's Recommended Budget. Budget expansion requests must clearly support goals included in the agency's strategic plan to be considered in the Governor's 2021-23 Recommended Budget. Updated plans will not be required until May 2021, but if you have already made updates to your agency's plan you can share it with your budget development analyst at any time to ensure they have the most recent information when reviewing budget requests. Please see [Agency Strategic Planning Guidelines](#) for additional information.

OSBM will be conducting executive meetings with all agencies beginning in mid-December to facilitate biennial budget development. Agencies should be prepared to discuss their top budget priorities, including changes to investments in those priorities; associated goals and success measures; and estimated costs and proposals to pay for those priorities. In addition, please be prepared to discuss top structural budget needs and identified efficiencies to improve your agency. OSBM analysts will also be available for consultation and assistance throughout the process of developing Change Budget proposals.

All expansion and reduction proposals should be reflected in the ABC List or Worksheet IIs developed in IBIS and are due to OSBM on or before December 18, 2020. (Agencies opting to use the ABC List do not need to submit final Worksheet IIs in IBIS until January 20, 2021). Additional information on change budget requests and instructions for completing Worksheet IIs can be found in the [Job Aids](#) for Change Budget Expansion Requests, Change Budget Reduction Proposals, and Information Technology.

3. Capital Improvement Plan and Budget

Capital projects, such as land acquisitions, new construction, rehabilitation of existing facilities, and repairs and renovations, are submitted as part of the six-year Capital Improvement Plan and Capital Improvement Budget. The Capital Improvement Budget are items required for agencies to continue to operate and deliver current and new services in the next six years.

The Capital Improvement Plan consists of two components. The first is the statutorily required needs estimate of capital projects required by state agencies to operate and provide current and expected services over the next six years. The second component takes the six-year needs estimate and plans those projects out over a six-year schedule that may reasonably be completed by each agency, assuming funds are available.

Once both items are completed and analyzed, the State can assess the deficiency between the needs of the agencies, deliverable projects, and available funds. The State can then take steps to address deficiencies by exploring other alternatives, such as leased space.

Capital Budget Process

The Worksheet III process is used to develop the 2021-27 Capital Improvement Plan, with the first two years of the plan guiding the 2021-23 Governor's Recommended Capital Improvement Budget. Both the Capital Improvement Plan and the Capital Improvement Budget are submitted to the General Assembly with the Governor's Recommended Budget. One-time major equipment purchases must be requested in the operating change budget (for more information, reference the [Expansion Request Job Aid](#)).

As with Change Budget requests, the ABC List is the first step in the Capital Budget Process. The ABC List includes tabs for both new capital projects and repairs and renovation needs. The Capital Improvement (Worksheet III) form in IBIS is designed to assist OSBM with preparing the six-year Capital Improvement Plan in accordance with [G.S. 143C-8-5](#). Refer to the [New Capital Projects Job Aid](#), [Repairs and Renovations Job Aid](#), and the Worksheet III User Guides ([Capital](#)) and ([R&R](#)) for further assistance. OSBM will conduct meetings with each agency to gain a better understanding of capital requests.

All capital improvement requests should be reflected in the ABC List or Worksheet IIIs developed in IBIS and are due to OSBM on or before December 18, 2020. (Agencies opting to use the ABC List do not need to submit final Worksheet IIIs in IBIS until January 20, 2021).