



**STATE OF NORTH CAROLINA  
OFFICE OF STATE BUDGET AND MANAGEMENT**

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August 8, 2007

**MEMORANDUM**

TO: Department Heads and Chief Fiscal Officers

FROM: David McCoy *David McCoy*

SUBJECT: Summary of General Provisions and Statewide Reserves in House Bill 1473 (Budget Bill)

The 2007 General Assembly enacted House Bill 1473 (Session Law 2007-323) which contains general provisions and statewide reserves affecting all State agencies. It may also contain items that specifically impact your department's budget. Copies of House Bill 1473 can be obtained in the Legislative Building or downloaded and printed from the General Assembly's website (<http://www.ncga.state.nc.us>). The purpose of this memorandum is to advise you of special provisions and money items that have statewide implications. The information is summarized in two parts:

Part I: General Provisions in House Bill 1473; and

Part II: Statewide Reserves Included in The Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets dated July 27, 2007.

Section references as well as item and page numbers in the Joint Conference Committee Report are provided to assist you in reviewing the items in the Budget Bill.

## **Part I: General Provisions in House Bill 1473**

### **Introduction**

#### **Section 1.1**

The appropriations made in House Bill 1473 represent the maximum funding available to provide the services and accomplish the purposes described in the budget. Savings shall be effected where the total amounts appropriated are not required to perform these services and accomplish the purposes outlined in House Bill 1473. Except as allowed by the State Budget Act or this Act, savings shall revert to the appropriate fund at the end of each fiscal year.

### **Appropriation of Cash Balances and Receipts**

#### **Section 6.1**

Expenditures of cash balances, federal funds, departmental receipts, grants, and gifts from the various General Fund, Special Revenue Fund, Enterprise Fund, Internal Service Fund and Trust and Agency Fund budget codes are appropriated and authorized for the FY 2007-09 biennium as follows:

1. For all budget codes in "State of North Carolina, Recommended Continuation Budget 2007-09, Volumes 1 through 6," cash balances and receipts are appropriated up to the amounts specified in Volumes 1 through 6, as adjusted by the General Assembly.
2. For all budget codes that are not listed in "State of North Carolina, Recommended Continuation Budget 2007-09, Volumes 1 through 6," cash balances and receipts are appropriated up to the level of actual expenditures for the 2006-07, unless otherwise provided by law.
3. Receipts that are required to be used to pay debt service requirements for outstanding bond issues and certificates of participation are appropriated up to the amounts authorized for fiscal years 2007-08 and 2008-09.
4. Cash balances and receipts of funds that meet the definition issued by the Governmental Accounting Standards Board of a trust or agency fund are appropriated for and in the amounts required to meet the legal requirements of the trust agreement for fiscal years 2007-08 and 2008-09.

All these cash balances, federal funds, departmental receipts, grants, and gifts shall be expended and reported in accordance with the State Budget Act, except as otherwise provided by law and this section.

Receipts collected in a fiscal year in excess of the amounts authorized by this section shall remain unexpended and unencumbered. However, with approval from OSBM, the receipts can be budgeted on a nonrecurring basis. If the receipts are recurring, subsequent use of these funds require presentation to and approval of the General Assembly.

In addition to the consultation and reporting requirements set out in G.S. §143C-6-4, the Office of State Budget and Management (OSBM) shall report to the Joint Legislative Commission on Governmental Operations and to the Fiscal Research Division (FRD) within 30 days after the end of each quarter on any overrealized receipts approved for expenditure under this section.

When an agency makes a request that requires notification by OSBM to the General Assembly, the agency's request must outline the source of the receipt, the amount overrealized, and the rationale for expenditure.

### **Budget Realignment Section 6.4**

Notwithstanding G.S. §143C-6-4, OSBM, in consultation with the Office of State Controller (OSC) and FRD, may adjust the enacted budget by making transfers among purposes or programs for the sole purpose of correctly aligning positions and operating costs with the appropriate purposes or programs as defined in G.S. §143C-1-1(d)(23). OSBM shall change the certified budget to reflect these adjustments only after reporting to the Joint Legislative Commission on Governmental Operations and FRD. Under no circumstances shall total General Fund expenditures for a department exceed the amount appropriated from the General Fund to the department for the fiscal year.

### **Consultation Not Required Prior to Establishing or Increasing Fees Pursuant to the State Budget Act Section 6.5**

Notwithstanding G.S. §12-3.1, an agency is not required to consult with the Joint Legislative Commission on Governmental Operations prior to establishing or increasing a fee that is authorized in this Act.

### **Staffing Analysis of State Agency Business Functions and Redeployment of Resources from HR/Payroll Management Section 6.7**

Subsection (a) states that OSBM, in consultation with OSC and the Office of State Personnel (OSP), shall conduct follow-up analyses of State agency HR/Payroll staffing by January 1 of each year to assure the staffing levels remain appropriate.

Subsection (b) requires OSBM, in consultation with OSC, to conduct a staffing analysis of the business functions of state government to include, but not be limited to, agency fiscal offices, budget offices and procurement offices by April 30, 2008. This analysis will serve as a pre-implementation assessment of State agency business functions staffing prior to the implementation of the remaining components of the BEACON ERP System.

Subsection (c) authorizes OSBM to evaluate the impact of the BEACON Project on affected state agencies and develop a State Redeployment Plan. A new position may be created if a current or contracted position is eliminated. OSBM, in consultation with OSC, shall report to the Joint Legislative Commission on Governmental Operations within 30 days for each employee change and shall include a five-year fiscal impact analysis.

### **BEACON Data Integration**

#### **Section 6.8**

This section specifies that OSC, in cooperation with the State Chief Information Officer (SCIO), shall develop a Strategic Implementation Plan for the integration of databases and the sharing of information among State agencies and programs. The plan shall include the following:

1. Definition of requirements for achieving statewide data integration.
2. An implementation schedule to be reviewed and adjusted by the General Assembly based on funding availability.
3. Priorities for database integration, beginning with those that the BEACON Steering Committee believes maximize fund availability and realize early benefits.
4. Identification of current statewide and agency integration efforts and a long-term strategy for integrating those projects.
5. Detailed cost information for development and implementation, as well as five years of operating and maintenance costs.

OSC, with assistance from the SCIO, shall present the Strategic Implementation Plan to the 2008 Session of the General Assembly.

### **Office of Information Technology Services Review of State IT Budget Submissions**

#### **Section 6.12**

This section requires the SCIO to review each information technology project budget request from State agencies prior to final submission of those requests to the Governor to facilitate a coherent and cost-effective State strategy for information technology projects and systems. The SCIO's review shall:

1. Identify the purpose of the information technology project or system.
2. Identify whether the project or system would result in any duplication of effort across agencies.
3. Determine the completeness, timeliness and accessibility of the data developed and used by the system.
4. Estimate the cost and staffing requirements for the project or system.
5. Recommend appropriate organizational location of the system as well as hardware and software requirements.
6. Assess the potential benefits the investment would provide to the State.
7. Identify opportunities to leverage federal and local support.

8. Consider any other information pertinent to the utility, functionality, and cost-effectiveness of the project or system.

OSBM shall report to the General Assembly by February 1, 2008, on its efforts and outcomes related to the implementation of this section.

### **Geographic Information System (GIS) Study Section 6.13**

This section states that OSBM, in consultation with the Center for Geographic Analysis (CGIA), the SCIO, and the chair of the Geographic Information Coordinating Council, shall study the development and use of Geographic Information Systems (GIS) by State agencies. The study shall:

1. Identify the purpose of each system.
2. Review for any duplication of effort across agencies, including local governments and federal agencies.
3. Evaluate the completeness, timeliness and accessibility of the data developed and used by the systems.
4. Summarize the cost and staffing, the organization location and the hardware and software inventories associated with each system.
5. Assess the current and potential benefits that GIS systems provide.
6. Identify opportunities for the State to leverage federal and local support.

OSBM shall make recommendations on the governance, organization and staffing of GIS services as well as a strategy for consolidating State GIS initiatives. The report is due to the General Assembly by April 30, 2008.

### **E-Commerce Long-Range Strategy Report Section 6.14**

This section authorizes OSC to complete a report that identifies potential efficiencies in State government through the use of electronic commerce for both the disbursement and collection of funds. The report shall include:

1. Input from the entire State government user base, including State agencies, universities, community colleges, local education agencies, and other units that may be disbursing or collecting State funds.
2. Specific recommendations that would expand electronic commerce activity in State government. These recommendations should include a cost-benefit analysis and long-term personnel and operating costs.
3. Proposed legislation to ensure compliance with merchant card industry policies and standards for operations and security.
4. Proposed legislation to address inconsistencies in existing statutes.

The final report is due to the General Assembly by April 30, 2008.

**Elimination of Vacant Positions**  
**Section 6.17**

The General Assembly established a reserve in OSBM to reflect savings created by eliminating vacant positions effective July 1, 2007. OSBM shall eliminate vacant positions across State government to generate annual savings of \$10,038,466 for each year of the 2007-2009 fiscal biennium, by transferring salary and benefits-related funding appropriated for State government positions. This section does not apply to the University of North Carolina, Community College System, or to local school administrative units.

[See item number 21 on page 11 of this memorandum for accompanying money item]

**Study of Lapsed Salary Use**  
**Section 6.18**

OSBM shall conduct an analysis of lapsed salary use by all State agencies. The analysis shall include a five-year history of lapsed salaries, their uses, and instances where spending of lapsed salaries was specifically authorized by legislative action. The report shall also include recommendations for methods to reduce the use of lapsed salary.

OSBM shall report its findings to the Joint Legislative Commission on Governmental Operations by April 30, 2008.

**Study of the Workers' Compensation Program in State Agencies**  
**Section 23.3**

OSBM, in consultation with OSP and OSC, shall study the Workers' Compensation Program in State agencies. The study shall:

1. Determine if the third-party administration of the program continues to be the most effective mode of administration.
2. Determine if the current method of funding is still most effective method.
3. Determine whether excess coverage policies are needed.
4. Identify any other operational inefficiencies that may exist.

OSBM shall submit a final report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division by March 1, 2008.

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## Salary Provisions for Public School Employees and State Employees

### **Public School Employees**

Section 7.1: Teacher Salary Schedules

Section 7.2: School-Based Administrator Salary Schedule

Section 7.3: Central Office Salaries

Section 7.4: Noncertified Personnel Salary

Section 7.5: Bonus for Certified Personnel at the Top of Their Salary Schedules

### **State Employees**

Section 28.1: Governor and Council of State

Section 28.2: Nonelected Department Heads (Cabinet Secretaries)

Section 28.3: Certain Executive Branch Officials

Section 28.4: Judicial Branch Officials

Section 28.5: Clerks of Superior Court

Section 28.6: Assistant and Deputy Clerks of Court

Section 28.7: Magistrates

Section 28.8: General Assembly Principal Clerks

Section 28.9: Sergeant-at-Arms and Reading Clerks

Section 28.10: Legislative Employees

Section 28.11: Community College Personnel

Section 28.12: University of North Carolina System/EPA Compensation

Section 28.13: State Agency Teachers

Section 28.14: Most State Employees

[See item number 1 on page 9 of this memorandum for the accompanying money item]

### **All State-Supported Personnel/Salary Increases**

#### **Section 28.15**

This section specifies that salary increases provided in this Act are effective July 1, 2007, and do not apply to persons separated from State service due to resignation, dismissal, reduction in force, death, or retirement, or whose last workday is prior to July 1, 2007. Pursuant to G.S. §143C-6-6, increases for employee salaries partially funded from the General Fund or Highway Fund shall be increased by that source in the same proportion as the base salary. Permanent full-time employees who work a nine, ten, or eleven-month work year schedule shall receive the increase provided by this Act.

### **Salary Adjustment Fund**

#### **Section 28.18**

This section states that any remaining appropriations in the General Fund and Highway Fund Reserves for Compensation Increases may be used to supplement the Salary Adjustment Fund. These monies shall be used for the following purposes:

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1. Salary range revisions, special minimum rate adjustments, grade to band transfers and geographic site differential adjustments to provide competitive salary rates for affected job classifications in response to changes in the labor market.
2. Reallocation of positions to higher-level classifications to compensate employees for more difficult duties at competitive salary rates.

The terms 'salary range revision' and 'reallocation' shall conform to the definition contained in the State Personnel Manual prior to November 1, 2005. Funding shall first be provided to the earliest actions approved on or before July 1, 2007, by the State Personnel Commission or the Office of State Personnel. Funds may not be used for in-range adjustments, career progression adjustments, or other adjustments defined by State personnel policy.

The Director of the Budget shall report to the Joint Legislative Commission on Governmental Operations prior to transferring funds to State agencies.

### **Career Banding/Continuation Section 28.18B**

This section states that the State Personnel Commission, OSP, State agencies and The University of North Carolina shall begin or continue the implementation of career banding. State agency implementation is limited to critical occupation groups, including nursing, engineering, library, fiscal and pharmacy positions. The University of North Carolina may continue or begin implementation on all employees subject to the State Personnel Act.

OSP shall consult with the Joint Legislative Commission on Governmental Operations prior to the State Personnel Commission's review and approval of career banding for major occupational groups.

### **Salary-Related Contributions/Employer Section 28.19**

The General Assembly adopted revised employer contribution rates for the various components of the Retirement System for the FY 2007-09 biennium. They are as follows:

	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Teachers and State Employees	7.83%	7.83%
Law Enforcement Officers	12.83%	12.83%
University Employees Optional Retirement	11.46%	11.46%
Community College Optional Retirement	11.46%	11.46%
Consolidated Judicial Retirement	17.31%	17.31%
Legislative Retirement	4.10%	4.10%

[See item number 10 on page 11 of this memorandum for the accompanying money item]



The General Assembly also revised the employer contribution to the North Carolina Teachers' and State Employees' Comprehensive Major Medical Indemnity Plan, the Preferred Provider Options Program, and other optional plans and programs. The revised annual rates are:

	<u>FY 2007-08</u>	<u>FY 2008-09</u>
<b>Indemnity Plan</b>		
Medicare Eligible Employees and Retirees	\$3,185	-
Non-Medicare Eligible Employees and Retirees	\$4,183	-
<b>Preferred Provider Options Program</b>		
Medicare Eligible Employees and Retirees	\$3,085	-
Non-Medicare Eligible Employees and Retirees	\$4,052	-
<b>Optional Plans and Programs</b>		
Medicare Eligible Employees and Retirees	-	\$3,165
Non-Medicare Eligible Employees and Retirees	-	\$4,157

The self-insured indemnity plan is eliminated effective July 1, 2008.

[See item number 13 on page 11 of this memorandum for the accompanying money item]

#### Capital Improvement Provisions

##### **Procedures for Disbursement of Capital Funds Section 29.4**

This section governs the expenditure of funds for capital improvements authorized by the 2007 General Assembly. Capital improvement appropriations shall be disbursed as provided for in this Act and may not be expended until an allotment has been approved by the Director of the Budget. State agencies must also receive approval from the Director of the Budget on all self-liquidating projects and shall report those projects to the Joint Legislative Commission on Governmental Operations at its next meeting.

##### **Expenditures of Funds from Reserve for Repairs and Renovations Section 29.5**

This section specifies the allocation of funds provided for repairs and renovations of State buildings. Specifically, for FY 2007-08, 46% of the funds shall be allocated to the Board of Governors of the University of North Carolina, and the remaining 54% shall be allocated to the Office of State Budget and Management for other statewide needs. Notwithstanding G.S. §143C-4-3, the Board of Governors may allocate funds for the repair and renovation of facilities not supported from the General Fund if sufficient funds are not available from other sources. The Board of Governors and OSBM

shall consult with the Joint Legislative Commission on Governmental Operations prior to the allocation or reallocation of funds.

Part II: Statewide Reserves Included in The Joint Conference Committee Report on the Continuation, Expansion and Capital Budget dated July 27, 2007

**Reserve for Compensation Increases (Budget Code 19003)  
Item Number 1, Page L1**

The General Assembly appropriated funds to provide salary increases to teachers and state employees. All employees outlined below who are in a State-funded position on July 1, 2007 shall receive the following increases:

1. Teachers and instructional support personnel increases include an experienced base step increase (average of 1.83%) and a flat increase of \$1,240 for a total average increase of 5%. A 31+ step was added to the public school teacher salary schedule. The School Based Administrators increase includes an experience based step increase (average of 1.67%) plus a flat annual increase of \$1,240 for a total average increase of 4.44%. School based administrators who are at the top of their schedule shall receive a one-time lump sum bonus equivalent to 2.0%. New teachers and instructional support paid at step 0 shall receive a \$250 bonus if they are employed the full school year. A department's actual allocation from the reserve is calculated by examining where each employee is located on their respective salary schedule. All other public school employees shall receive a recurring 4% increase.
2. State Agency and University System personnel subject to the State Personnel Act (SPA), University System staff who are non-faculty and not subject to the State Personnel Act (EPA) and State Agency personnel who are exempt from the State Personnel Act (EPA) -- recurring 4% increase.
3. University System faculty who are exempt from the State Personnel Act (EPA) -- recurring 5% increase.
4. Community College Faculty and Professional Staff -- recurring 5% increase.
5. All other Community College employees -- recurring 4% increase.
6. Teacher Assistants -- recurring increase to bring to minimum salary of grade 56.

Vacant positions may receive funds in order to raise their budgeted salaries to the new minimum (excludes special minimum rates). OSBM will notify each agency of the appropriation amount to be distributed to your agency by August 31, 2007. Agencies shall submit to OSBM a Type 11 budget revision, Budget Code 19003, no later than September 14, 2007.

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[See sections 7.1 through 7.5 and 28.1 through 28.14 listed on page 6 of this memorandum for the accompanying special provisions]

**Retirement System Contributions (Budget Code 19047)**  
**Item Number 10, Page L2**

The General Assembly revised the employer contribution rates to the various Retirement Systems for FY 2007-09. OSBM will notify each agency of the appropriation amount to be distributed to your agency by August 31, 2007. Agencies shall submit to OSBM a Type 11 budget revision, Budget Code 19047, no later than September 14, 2007.

[See section 28.19 on page 8 of this memorandum for the accompanying special provision]

**State Health Plan (Budget Code 19043)**  
**Item Number 13, Page L3**

The General Assembly provided funds to increase the employer contribution to the North Carolina Teachers' and State Employees' Comprehensive Major Medical Indemnity Plan and Preferred Provider Options Program effective October 1, 2007. OSBM will notify each agency of the appropriation amount to be distributed to your agency by August 31, 2007. Agencies shall submit to OSBM a Type 11 budget revision, Budget Code 19043, no later than September 14, 2007.

[See section 28.19 on page 9 of this memorandum for the accompanying special provision]

**Reserve for Eliminated Positions (Budget Code 19015)**  
**Item Number 21, Page L4**

The General Assembly established a reserve to reflect savings created by eliminating vacant positions in state agencies effective July 1, 2007. OSBM will notify each agency of the General Fund reduction amount that is to be submitted by August 15, 2007. Funds shall be submitted to OSBM by Type 11 budget revision, Budget Code 19015, no later than October 31, 2007.

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If you have any questions about the information outlined in this memorandum, please contact your OSBM budget analyst at (919) 807-4700.