


STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR

PAT McCrory
GOVERNOR

March 8, 2013

MEMORANDUM

TO: Council of State, Cabinet Secretaries and Agency Heads

FROM: Governor Pat McCrory 

SUBJECT: Budget Management Initiatives

The North Carolina Department of Health and Human Services and Office of State Budget and Management have been carefully monitoring and examining the state Medicaid expenditures for this Fiscal Year to date, and projected expenditures for the remainder of this Fiscal Year ending June 30, 2013. Regretfully, the state is once again facing state expenditures for Medicaid greater than the authorized state General Fund budget. Our staff is now estimating that the state will over spend state funds by \$70 Million to \$130 Million in Medicaid.

In addition, as previously reported by State Auditor Beth Wood, the Division of Medical Assistance held \$132 Million due the Federal government in June of 2012, repaying it in July 2012. Because of this deferral and other liabilities that were not accounted for during the Perdue Administration, there was a shortfall at the beginning of this Fiscal Year.

This beginning General Fund short fall of \$132 Million, plus this year's spending \$70 to \$130 Million over budget, means that the state is facing a General Fund excess spending of \$200 to \$262 Million, that must be addressed.

The General Assembly prudently passed a budget for this Fiscal Year 2012-2013 that included an additional \$200 Million for the State Savings Reserve Account and an unappropriated balance of \$213 Million. In addition, as of this date the North Carolina Department of Revenue and Office of State Budget and Management estimate we will collect at least \$100 Million more than expected and savings by state agencies through the end of this year will be \$125 Million. With the funds set aside by the General Assembly, over-collections and expected savings, I am pleased to state that overall North Carolina is in a sound financial state, and I do not need to invoke my constitutional authority to order "necessary economies" under Article III, Section 5 (3) of the North Carolina Constitution.

However, the state still must deal with Medicaid spending of \$200 to \$262 Million higher than budgeted for the Fiscal Year that began July 1, 2012, and ends June 30, 2013.

I have directed the State Budget Director to take immediate steps to transfer other available state funds to the Division of Medical Assistance (Medicaid) to offset the spending increases. However, this in turns reduces the “beginning balance” for next year’s General Fund budget, and thus reduces the available funding for all state government agencies and programs.

For this reason, I am requesting the Council of State, and directing the Cabinet Secretaries and state agencies that report to the Governor, to implement the following measures:

1. Most salary increases, such as career banding and in-range adjustments, should be discontinued. Limit compensation increases to only those needed for promotions and reclassifications where there is clear documentation of increased responsibilities and the expectation that agency accountability and performance will be improved.
2. Limit purchases for goods and services to the minimum amounts and inventories required. Cancel unnecessary purchases.
3. Reduce administrative spending (such as travel and administrative personnel costs), evaluate all contracts (for profit, non-profit and those with universities) and other allocations.
4. Maximize and accelerate the collection of all revenues available and due to the agency (excluding any measures that defer to or create a future fiscal year liability).

It is my expectation that each department and agency will implement these measures with complete regard to protecting the care, safety and direct services to the people of North Carolina.

I am requesting that the Council Members, Departments, and State Agencies inform me, through my State Budget Director, in writing of cost containment measures implemented and the savings achieved. This will be an on-going effort with monthly reports of measures and savings achieved reported initially on April 1 and on the first of each month thereafter until the 2013 Fiscal Year is closed.

My staff is available as a resource to you as you develop your plan, and we look forward to working with you as we address this year’s issue and prepare a budget next year, that serves the people of North Carolina, and does not repeat mistakes of the past.

cc: Art Pope, State Budget Director