



**STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR**

PAT McCrory
GOVERNOR

MEMORANDUM

TO: Council of State, Cabinet Secretaries, and Agency Heads
FROM: Governor Pat McCrory
DATE: March 27, 2014
SUBJECT: 2013-14 Budget Management Initiatives

I am writing to provide guidance concerning budget management for the remainder of the 2013-14 fiscal year.

The enacted budget for the 2013-2014 fiscal year included an additional \$213.5 million for the State Savings Reserve Account and an unappropriated General Fund balance of \$323.7 million. Furthermore, even as we are in the middle of the "tax refund" season, the NC Department of Revenue is paying our citizens their tax refunds on a timely basis, and the overall state Unreserved Fund Balance is \$770.7 million as of March 26, 2014, 76% higher than the March 26, 2013 Unreserved Fund Balance of \$436.1 million.

Because overall North Carolina is in a sound financial position, 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 needs to exercise restraint for the remainder of the fiscal year.

The North Carolina Department of Health and Human Services has been monitoring and examining state Medicaid expenditures for this fiscal year to date, and projected expenditures through June 30, 2014. On June 4, 2013, the Office of State Budget and Management recommended an increase in funding for the Medicaid budget for 2013-14 that was not included in the enacted budget. Furthermore, the Medicaid program has not realized all of the savings from the reductions included in the enacted budget and due to continuing changes in the implementation of the Affordable Care Act, its impact on state's Medicaid budget cannot be determined. Regretfully, the state is once again facing state expenditures for Medicaid greater than the authorized state General Fund budget in the range of \$120 to \$140 million.

The Office of State Budget and Management also continues to evaluate revenue collections. While revenue collections through the end of February, 2014 are modestly ahead of the previous year, there is revenue uncertainty for the remainder of the fiscal year.

As the unappropriated General Fund balance cannot be utilized for the projected Medicaid shortfall without enactment of a supplemental budget bill, rather than waiting for the short session of the General Assembly to convene in May, and due to the uncertainty as to state expenditures and revenue for the balance of the fiscal year, I have directed the Office of State Budget and Management to immediately implement the following measures in accordance with N.C. Gen. Stat. Sec. §143C-6-2:

April allotments will be authorized at the average monthly use of state General Fund appropriations from the period July 2013 – February 2014 or 95% of a 1/12th calculation of adjusted total General Fund appropriations, whichever is lower, excluding entitlements and the Public School Fund. Furthermore, OSBM may make adjustments for normal fluctuations in the timing of receipts or for extraordinary cases where this creates undue hardships on programs or services. In this manner, (1) allotments will more closely reflect actual monthly use of state appropriations and lessen the burden to the General Fund and (2) should Medicaid expenditures be greater than anticipated or final total General fund revenues be under realized, this early measure to limit allotments to monthly usage now will lessen the impact of spending reductions and forced reversions in the remaining months of the fiscal year.

Spending is limited to what is necessary to achieve mission critical services benefiting the taxpayers of North Carolina. Each agency, department or institution should 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 funded by the statewide Salary Adjustment Fund or 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. To be clear, the increases already approved for the Salary Adjustment Fund will continue.
2. Limit purchases for goods and services to the minimum amounts and inventories required. Non-essential purchases should be canceled.
3. Reduce administrative spending (such as travel and administrative personnel costs), evaluate all contract (for profit, non-profit and those with universities and other state agencies) and other allocations.

Receipts that wholly or partially support agency operations must be collected timely, such that the General Fund is not bearing this cost. Monthly revenue clearing accounts for revenues “due to” the General Fund and prior year earned revenues in the ensuing fiscal year, which reflect a timing differential between when receipts are earned and when they are collected, should be minimal.

The Office of State Budget and Management is available to provide guidance and assistance to you and your staff and respond to any questions about this memorandum. We will closely monitor revenues and expenditures through April and revisit guidance to agencies for May and June allotments. By taking prudent action now, the state can fulfill its duty to our citizens and avoid taking more severe action in the closing weeks of this fiscal year.



Pat McCrory
Governor of the State of North Carolina

cc: Art Pope, State Budget Director