



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

PAT MCCRORY
GOVERNOR

ART POPE
STATE BUDGET DIRECTOR

August 25, 2014

MEMORANDUM

TO: Department Heads and Chief Fiscal Officers

FROM: Art Pope *Art Pope*
State Budget Director

SUBJECT: Summary of General Provisions in the Current Operations and Capital Improvements Appropriations Act of 2014, Senate Bill 744 (Session Law 2014-100)

The General Assembly enacted Senate Bill 744, the Appropriations Act of 2014 (Session Law 2014-100). This act contains appropriations and special provisions that affect all State agencies. Copies of these bills may be obtained from the Printed Bills area in the Legislative Building or downloaded and printed from the General Assembly's website (<http://www.ncleg.net>).

The purpose of this memorandum is to advise you of special provisions and monetary items of significance that have statewide implications. It does not summarize agency specific provisions. It is also not intended to replace an agency's responsibility for reviewing all general and statewide special provisions.

Whenever a State agency is required by law to report to the General Assembly or to any of its permanent committees, it shall transmit a copy of the report to the Office of State Budget and Management pursuant to G. S. 143C-2-1 (b).

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

Mailing address:
20320 Mail Service Center
Raleigh, NC 27699-0320

www.osbm.state.nc.us
919-807-4700 ** FAX: 919-733-0640
An EEO/AA Employer

Office location:
5200 Administration Building
116 West Jones Street

Introduction

Section 1.2

The appropriations made in this act are for maximum amounts necessary 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 these purposes and, except as allowed by the State Budget Act or Senate Bill 744, the savings shall revert to the appropriate fund at the end of each fiscal year as provided in G.S.143C-1-2(b).

Appropriate Encumbered Grant Funds That Are Returned To The State

Section 6.1

This section amends Section 5.1 of S.L. 2013-360 by adding the following:

SECTION 5.1.(f) Notwithstanding subsections (a) and (b) of this section, there is appropriated from the General Fund for the 2014-2015 fiscal year an amount equal to the amount of encumbered funds required to be spent in order to honor encumbrances of grant funds in accordance with G.S. 143C-6-23(f2).

Establishing or Increasing Fees Pursuant to this Act

Section 6.2

This section specifies that 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 or anticipated in Senate Bill 744. Notwithstanding G.S.150B-21.1A (a), an agency may adopt an emergency rule in accordance with G.S.150B-21.1A to establish or increase a fee as authorized by Senate Bill 744 if the adoption of a rule would otherwise be required under Article 2A of Chapter 150B of the General Statutes.

Expenditures of Funds in Reserves Limited

Section 6.3

All funds appropriated by Senate Bill 744 into reserves may be expended only for the purposes for which the reserves were established.

Make The Base Budget The Starting Point For State Agency Budgeting

Section 6.4.

G.S. 143C-1-1(d)(7a) is repealed.

G.S. 143C-1-1(d) is amended by adding a new subdivision that defines the Base Budget and replaces continuation budget with base budget in related statutes. These changes are effective July 1, 2014 and will be applied beginning with the Governor's Recommended State budget for the 2015-2017 fiscal biennium.

Statutory Changes Relating To The Handling of Grants To Non-State Entities

Section 6.5

G.S. 143C-6-23 adds the definition of encumbrance and provides required Grant terms and conditions which require the grantee or subgrantee to return grant funds and interest to the State.

Statutory Changes Related To The Disposition of Settlement Funds

Section 6.6.

G.S. 114-2.4A, Disposition of funds received by the State or a State agency from a settlement or other final order or judgment of the court, was added. This section becomes effective December 1, 2014, and applies to settlements entered into on or after that date and other final orders or judgments of the court entered on or after that date.

Pilot Program To Improve Budgeting Of The General Fund

Section 6.7.

The Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division will examine the current budgeting and accounting practices of the State to determine if improvements can be made to make the State Budget more transparent. This pilot program may include grant programs and special funds within the Department of Environment and Natural Resources, unexpended appropriations carried forward by the University of North Carolina and other programs as deemed suitable. The results of the review and pilot are due by October 1, 2015. Further guidance regarding the pilot program will be forthcoming.

Reporting on Agency Reorganizations and Movements of Positions

Section 6.10.

Article 143C-6-12 of the General Statutes is amended by adding a new section requiring quarterly reporting on State agency reorganizations and movements of positions. The Office of State Budget and Management shall report quarterly to the Joint Legislative Commission on Governmental Operations and the appropriate Joint Legislative Oversight Committee on reorganizations of State agencies and movements of State agency positions. Further guidance regarding the reporting on agency reorganizations and movements of positions will be forthcoming.

Contingency and Emergency Fund

Section 6.12.

Section 6.1 of S.L. 2013-360, as amended by Section 1.4 of S.L. 2013-363, added the allowable expenditure of funds for litigation expenses incurred by State agencies in defense of the State during the 2014-2015 fiscal year, in an amount not to exceed seven hundred fifty thousand dollars (\$750,000), as approved by the Office of State Budget and Management.

Use of Cash Balances to Meet Temporary Cash Needs

Section 6.14.

G.S. 147-86.11(e) is amended by adding a new subdivision allowing the State Controller to use cash reserved in the Savings Reserve Account and other funds, including special funds, that is not needed temporarily to meet the cash flow needs of the General Fund, but only to the extent that this authority can be used without jeopardizing the ability of reserves or funds, including special funds, to meet their ongoing obligations. Any cash transferred from reserves or funds, including special funds, shall be fully restored by the end of the fiscal year in which the funds were transferred, and interest shall be paid on all cash transferred to the General Fund pursuant to this subdivision from interest-bearing accounts.

Information Technology Operations

Section 7.4.

Unless an exception is granted in writing from the State Chief Information Officer (SCIO), any new equipment purchased by State agencies to replace equipment currently housed in State agency data centers and any equipment purchased to provide new data center capabilities for State agencies shall be installed in the Office of Information Technology Services data centers. Prior to purchasing any new equipment, State agencies shall coordinate with the Office of the State Chief Information Officer (SCIO) and the Office of Information Technology Services (ITS) to ensure that ITS has the capability to support planned equipment purchases.

This section requires the SCIO to update a plan to restructure the State's IT operations for the most effective and efficient utilization of resources and capabilities. All State agencies, departments, and institutions, and The University of North Carolina are required to cooperate fully with the SCIO as the plan is updated.

Government Data Analytics Center (GDAC) /Business Intelligence

Section 7.6.

This section states that all State agency business intelligence (BI) requirements, including any planning and development efforts associated with creating BI capability, as well as any master data management efforts, shall be implemented through GDAC.

For the purposes of this section, "Business Intelligence" is defined as the process of collecting, organizing, sharing, and analyzing data through integrated data management, reporting, visualization, and advanced analytics to discover patterns and other useful information that will allow policymakers and State officials to make more informed decisions. The term also includes (i) broad master data management capabilities such as data integration, data quality and enrichment, data governance, and master data management to collect, reference, and categorize information from multiple sources and (ii) self-service query and reporting capabilities to provide timely, relevant, and actionable information to business users delivered through a variety of interfaces, devices, or applications based on their specific roles and responsibilities.

The State Chief Information Officer shall ensure that State agencies use GDAC for agency business intelligence requirements.

Information Technology Contracts

Section 7.7.

Section 7.7 of S.L. 2013-360 is amended by adding a new subsection that states the State Chief Information Officer (SCIO), the Office of State Human Resources, the Department of Computer Science at North Carolina State University, the Schools of Government and Law at the University of North Carolina at Chapel Hill, and in the discretion of the SCIO, schools and departments at other public and private institutions of higher learning in the State, shall work jointly to create a career path for State government information technology contracting professionals that includes defined qualifications, career progression, training opportunities, and appropriate compensation.

Vehicle Management

Section 7.11.

Section 7.16.(e) of S.L. 2013-360 is rewritten to state that until December 31, 2015, no State or local governmental entity or officer may procure or operate an unmanned aircraft system or disclose personal information about any person acquired through the operation of an unmanned aircraft system unless the State Chief Information Officer approves of an exception specifically granting disclosure, use, or purchase.

Use of Mobile Communications Devices

Section 7.12.

The State Chief Information Officer shall exercise general coordinating authority for all telecommunications and mobile electronic communications matters relating to the internal management and operation for all State agencies. In discharging that responsibility, the State

Chief Information Officer, in cooperation with affected State agency heads may monitor the use of mobile electronic communications devices within State agencies.

This section repeals Section 7.18 of S.L. 2013-360 and G.S. 120-236.

State Portal

Section 7.13.

Section 7.22 of S.L. 2013-360, as amended by S.L. 2013-363, reads as rewritten:

The State Chief Information Officer (SCIO) shall develop a plan to implement an electronic portal that makes obtaining information, conducting online transactions, and communicating with State agencies more convenient for members of the public. The portal shall be developed using resources determined by the SCIO. The SCIO shall report to the Joint Legislative Oversight Committee on Information Technology on the details of the plan prior to implementation. The plan shall contain all of the following:

- (1) A detailed description for development and implementation of the portal, to include a list of anticipated applications to be implemented during the State fiscal years of 2013-2017.
- (2) A description of how the portal will be implemented, including the use of outside vendors, detailed information on vendor participation, and potential costs.
- (3) Detailed information on the anticipated total cost of ownership of the portal and any applications proposed for implementation during the State fiscal years of 2013-2017, including the amount of any payments to be made to any vendors supporting the project for each application and the portal as a whole.
- (4) A funding model that limits the costs to the State.
 - (4a) Costs to State agencies for the portal as a whole and for each service.
 - (4b) Costs to access services for citizens of the State.
- (5) If outsourced, a detailed, fully executable plan to return portal operations to the State, with associated costs.
- (6) A provision requiring that any fees to support the operation of the portal must be authorized by the State Chief Information Officer and reported to the Joint Legislative Oversight Committee on Information Technology.

Geographic Information System (GIS) Data/Consolidation/Feasibility of Selling Data

Section 7.16.

The State Chief Information Officer (SCIO) shall:

- (1) Document Geographic Information System capabilities existing in State agencies, including, but not limited to, the Office of the SCIO, the Department of Public Safety, the Department of Transportation, and the Department of Agriculture and Consumer Services, in consultation with the Center for Geographic Information and Analysis.
- (2) Develop recommendations for consolidating GIS functions within State government.

The SCIO shall determine if there are potential markets for State GIS data. To accomplish this requirement, the SCIO shall identify any issues associated with the sale of State GIS data and, if feasible, develop a plan for selling that data.

Information Technology Services/Employees Exempted from Certain Provisions of State Human Resources Act

Section 7.17.

This section outlines that employees of the Office of the State Chief Information Officer, the Office of Information Technology Services (ITS), and employees in all agencies, departments,

and institutions with similar classifications as ITS employees, who voluntarily relinquish annual longevity payments, relinquish any claim to longevity pay, voluntarily relinquish any claim to career status or eligibility for career status as approved by the State Chief Information Officer and the Director of the Office of State Human Resources (OSHR), are exempt from the classification and compensation rules established by the State Human Resources Commission. The State Chief Information Officer and Director of the Office of State Human Resources (OSHR) will provide additional guidance.

Budget and Reporting Information Technology Expenditures

Section 7.18.

This section requires the Office of the State Chief Information Officer to complete implementation of a Budget and Reporting Information Technology Expenditures (BRITE) tool. By December 15, 2014, the State Chief Information Officer shall report to the Joint Legislative Oversight Committee on Information Technology and the Fiscal Research Division on the implementation of the BRITE tool within the Office of Information Technology Services and the potential for expansion of the BRITE tool to other State agencies.

Staffing Analysis of State Agency Business Functions and Redeployment of Resources from HR/Payroll Management

Section 24.3.

Section 6.7 of S.L. 2007-323 is repealed.

Use of Funds Appropriated for Legislatively Mandated Salary Increases

Section 35.8.

The Office of State Budget and Management shall ensure that those funds are used only for legislatively mandated salary increases. If the Director of the Budget determines that funds appropriated to a State Agency for legislatively mandated salary increases exceed the amount required by that agency for that purpose, the Director may reallocate those funds to other State agencies that received insufficient funds for these salary increases.

Agencies should submit copies of their BEACON Legislative Increase Salary Report to OSBM by September 2, 2014. Non-BEACON agencies should submit a report detailing the Legislative Increases for the agency or institution. The Office of State Budget and Management will notify each agency of the approved allocation by September 12, 2014. Agencies should prepare and submit a Type 11 budget revision to OSBM by September 26, 2014.

SECTION 35.8.(c)

No later than October 1, 2014, the Office of State Budget and Management shall report to the Joint Legislative Commission on Governmental Operations on the expenditure of funds for legislatively mandated salary increases. This report shall include at least the following information for each State agency for the 2014-2015 fiscal year:

- (1) The total amount of funds that the agency received for legislatively mandated salary increases.
- (2) The total amount of funds transferred from the agency to other State agencies pursuant to subsection (b) of this section. This section of the report shall identify the amounts transferred to each recipient State agency.
- (3) The total amount of funds used by the agency for legislatively mandated salary increases.
- (4) The total amount of funds received by the agency for legislatively mandated salary increases that are anticipated to revert at the end of the fiscal year.

(5) Salary Increase for Most State Employees

Section 35.10.(a)

Except as otherwise specifically set forth in this act, the salaries in effect for the following employees on June 30, 2014, shall be increased by one thousand dollars (\$1,000). This applies to Permanent full-time State officials and persons whose salaries are set in accordance with the North Carolina Human Resources Act, exempt from the North Carolina Human Resources Act, Permanent part-time State employees and temporary and permanent hourly State employees, on a prorated and equitable basis subject to the availability of funds in the employing State agency, department, or institution and within regular State Budget Act procedures.

Section 35.10.(b)

Except as otherwise specifically provided, any employee who is paid on a step schedule who does not receive a step increase, shall receive the one thousand dollar (\$1,000) salary increase authorized by this act. However, any employee who does receive a step increase, shall not receive the one thousand dollar (\$1,000) salary increase authorized by this act. Further, such employees are not eligible to move more than one step on the applicable salary schedule.

Special Annual Leave Bonus

Section 35.10A.

Any person who is a full-time permanent employee of the State or a community college institution on September 1, 2014, and eligible to earn annual leave shall have a one-time additional five days of annual leave credited on September 1, 2014 with no expiration date.

Salary-Related Contributions/Employer

Sections 35.13(b)

The General Assembly adopted revised employer contribution rates for the various components of the Retirement System for the 2014-15 fiscal year. They are as follows:

	<u>FY 2014-15</u>
Teachers and State Employees	15.21%
Law Enforcement Officers	20.21%
University Employees Optional Retirement	12.74%
Community College Optional Retirement	12.74%
Consolidated Judicial Retirement	32.70%
Legislative Retirement	5.49%

Sections 35.13(c)

Effective July 1, 2014, the maximum annual employer contributions, payable monthly, by the State for each covered employee or retiree for the 2014-2015 fiscal year are as listed below.

	<u>FY 2014-15</u>
Medicare Eligible Employees and Retirees	\$4,179
Non-Medicare Eligible Employees and Retirees	\$5,378

S.L. 2014-100 reduced the Health Plan Reserve for 2014-15 fiscal year by \$22.0 million and reduced contributions to the Disability Income Plan to match the Annual Required Contribution (ARC) by \$3.2 million. The law also increased the State's contribution to TSERS by \$45.5 million (to fund the ARC, provide a 1.0% COLA to retirees, and reflect the ratification of HB

1195, S.L. 2014-88). Finally, S.L. 2014-100 increased the retiree medical rate from 5.40% to 5.49%.

To accomplish these changes, OSBM will notify all agencies of their new Health Plan Reserve and Retirement allocations. Total Health Plan allocations will be reduced to meet the appropriation reduction, while Retirement allocations will increase due to the higher retiree medical rate and the increased ARC. OSBM will notify agencies of the new allocations by September 12, 2014 and agencies must submit budget revisions to execute these changes by September 26, 2014.

Use of Funds Appropriated for State Retirement System Contribution Increases

Section 35.15.

The Office of State Budget and Management shall ensure that those funds are used only for State Retirement System contribution increases. If the Director of the Budget determines that funds appropriated to a State agency for increases exceed the amount required by that agency for that purpose, the Director may reallocate those funds to other State agencies that received insufficient funds for State Retirement System contribution increases.

Section 35.15.(c)

No later than October 1, 2014, the Office of State Budget and Management shall report to the Joint Legislative Commission on Governmental Operations on the expenditure of funds for State Retirement System contribution increases. This report shall include at least the following information for each State agency for the 2014-2015 fiscal year:

- (1) The total amount of funds that the agency received for State Retirement System contribution increases.
- (2) The total amount of funds transferred from the agency to other State agencies pursuant to subsection (b) of this section. This section of the report shall identify the amounts transferred to each recipient State agency.
- (3) The total amount of funds used by the agency for State Retirement System contribution increases.
- (4) The total amount of funds received by the agency for State Retirement System contribution increases that are anticipated to revert at the end of the fiscal year.

Two-Thirds Bonds Act of 2014

Section 36.12. (d) Authorization of Bonds and Notes.

This section specifies the State Treasurer is authorized, by and with the consent of the Council of State, to issue and sell at one time or from time to time general obligation bonds of the State to be designated "State of North Carolina General Obligation Bonds," with any additional designations as may be determined, or notes of the State, in the aggregate principal amount of up to three hundred six million eight hundred ninety-eight thousand dollars (\$306,898,000), this amount being not in excess of two-thirds of the amount by which the State's outstanding indebtedness was reduced during the fiscal biennium that ended June 30, 2013, for the purpose of providing funds, with any other available funds, for the purposes authorized by this section.

Section 36.12. (f) Allocation of Proceeds.

The proceeds of bonds and notes shall be allocated and expended as provided in this subsection:

- (1) A maximum aggregate principal amount of fifteen million four hundred thousand dollars (\$15,400,000) to finance the capital facility costs of a Western Crime Lab.

- (2) A maximum aggregate principal amount of two hundred six million dollars (\$206,000,000) to finance the capital facility costs of projects previously authorized or subsequently to be authorized by the General Assembly to be financed pursuant to Article 9 of Chapter 142 of the General Statutes, but for which some or all of the amount of bonds authorized to be issued under that Article have not yet been issued. To the extent that bonds and notes are issued pursuant to this subdivision, there shall be a corresponding reduction in the amount of debt that has been authorized to be issued but has not been issued pursuant to Article 9 of Chapter 142 of the General Statutes.
- (3) A maximum aggregate principal amount of forty-two million three hundred twenty-five thousand dollars (\$42,325,000) to finance the capital facility costs of renovating the Albemarle Building.
- (4) A maximum aggregate principal amount of five million one hundred seventy-three thousand dollars (\$5,173,000) to finance the capital facility costs of a Department of Public Safety Samarkand Training Facility.
- (5) A maximum aggregate principal amount of two million dollars (\$2,000,000) to finance the capital facility costs of repairing the roof of the McGough Arena at the Western North Carolina Agricultural Center.
- (6) A maximum aggregate principal amount of three million dollars (\$3,000,000) to finance the capital facility costs of Hammocks Beach State Park land acquisition.
- (7) A maximum aggregate principal amount of three million dollars (\$3,000,000) to finance the capital facility costs of completing a cofferdam around the USS North Carolina Battleship.
- (8) A maximum aggregate principal amount of thirty million dollars (\$30,000,000) to finance the capital facility costs of repairs and renovations to State facilities, the proceeds of which shall be allocated to the Reserve for Repairs and Renovations and reallocated and expended pursuant to Section 36.5 of S.L. 2013-360.

Severance Expenditure Reserve (Budget Code 19042)

The General Assembly established in Session Law 2013-360 the Severance Expenditure Reserve for the purpose of funding 2013-14 and 2014-15 severance-related obligations to State employees subject to the State Human Resources Act, and employees exempt from the State Personnel Act, who are separated from service due to a reduction-in-force action. The severance expenditure reserve may be used only for General or Highway Fund (HF) positions to the extent the salary of the positions is funded from the General Fund or HF. Permitted expenses include (1) severance as authorized by G.S. 126-8.5 and (2) health premiums as authorized by G.S. 135-48.40(b)(8).

Agencies and universities shall provide calculations for the severance reserve per the template provided by OSBM to their OSBM budget analyst by September 2, 2014. Any agency that anticipates a significant reduction in force after this date shall notify OSBM in writing including the timing and estimated fiscal impact. OSBM will notify each agency of the appropriation amount to be distributed to their agency by September 30, 2014. Agencies shall submit to OSBM a Type 11 budget revision, Budget Code 19042, no later than October 17, 2014. If an affected employee is re-employed such that severance payments terminate, then all unused funds shall be returned to the reserve. Any unused funds will revert back to the reserve.

http://www.osbm.state.nc.us/files/forms/form2013-14_SeveranceReserve.xls