



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT

PAT MCCRORY
GOVERNOR

ANDREW T. HEATH
STATE BUDGET DIRECTOR

August 4, 2016

MEMORANDUM

TO: Department Heads and Chief Fiscal Officers

FROM: Andrew Heath
State Budget Director

A handwritten signature in blue ink, appearing to read "A. Heath".

SUBJECT: Summary of General Provisions in the 2016 Appropriations Act, House Bill 1030 (Session Law 2016-94) as amended by House Bill 805 (Session Law 2016-123)

The General Assembly enacted House Bill 1030, the 2016 Appropriations Act (Session Law 2016-94). This act contains appropriations and special provisions that affect all State agencies. House Bill 805 (Session Law 2016-123) makes technical, clarifying and other modifications to House Bill 1030. 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 the general and statewide special provisions. Many provisions in the 2015 Appropriations Act are still in effect for 2016-17. Please see the 2015 memo on this subject for detail.

General Provisions in House Bill 1030 (Session Law 2016-94) and House Bill 805 (Session Law 2016-123), and Statewide Reserves and Other Funds included in The Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets dated June 27, 2016.

The following topics are included: General Budget Provisions, Grants and Fees, Budget Management, Alignment and Reporting, Information Technology and Budget Alignment, Salaries and Benefits, Statewide Reserves, and Capital.

Section numbers and titles, as well as item and page numbers in the Joint Conference Committee Report, are provided to assist you in reviewing the budget bill. 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

GENERAL BUDGET PROVISIONS

Introduction

Section 1.1

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 House Bill 1030, the savings shall revert to the appropriate fund at the end of each fiscal year as provided in G.S.143C-1-2(b).

General Fund Availability Statement

Section 2.2(c-d)

These subsections transfer \$474M to the Savings Reserve Account and transfer \$3M from the General Assembly Special Fund to support General Fund appropriations.

Budget Stability and Continuity

Section 6.3

Establishes limited statutory authority for the Director of the Budget to continue to allocate funds for state government operations if a fiscal year begins for which no appropriations act providing for current operations of State government during that fiscal year has become law. Lays out specific guidelines and limitations.

GRANTS & FEES

Establishing or Increasing Fees Pursuant to this Act

Section 6.1

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 House Bill 1030. 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 House Bill 1030 if the adoption of a rule would otherwise be required under Article 2A of Chapter 150B of the General Statutes.

BUDGET MANAGEMENT, ALIGNMENT, AND REPORTING

Section 6.25 of S.L. 2015-241 (Align Agency Budgets to Actual Expenditures) is Applicable to Both Fiscal Years

Section 6.4

Continues the elimination of positions that have been vacant for more than 12 months (as of April 30, 2016) and the realignment of funds to recurring obligations that have been funded with nonrecurring sources in prior years.

Agencies are reminded that this section became law on August 1, 2016 and therefore agencies should not continue to fill positions subject to this provision. A subsequent OSBM memo will provide additional guidance on implementing this Section.

INFORMATION TECHNOLOGY & BUDGET ALIGNMENTS

Establish General Fund Budget

Section 7.3

Directs that OSBM establish a General Fund budget in Budget Code 14660 for the Department of Information Technology's (DIT) operating budget, and a reserve in that budget code for the transfer of IT Reserve appropriations. Subsection (b) requires that the General fund budget for DIT.

Use of Cash Balance for IT Rate Credits

Section 7.5

This section directs that DIT use funds available to subsidize agency information technology bills for FY 2016-17. Each agency that is to receive a credit, and the amount of that credit, is outlined in the section.

Information Technology Spending Transparency

Section 7.6

This section requires that all agencies participating in DIT consolidation realign information technology budgets and expenditures within existing programs and divisions in a manner that provides transparency for information technology, program, and division budgets. Changes shall be included in the 2017-2019 biennial budget, and OSBM shall submit information on the realignment in conjunction with the Governor's proposed budget for the 2017-2019 fiscal biennium. Information shall include:

- (1) The line-item budgeted requirements for each State agency's information technology expenditures.
- (2) Actual information technology expenditures for each State agency.
- (3) The sources of funds transferred from other line items to cover information technology expenditures in excess of budgeted requirements.

Adjust IT Budgets as Necessary Due to Transfer of Functions

Section 7.8

Due to the reorganizations of State functions in FY 2015-16, OSBM is authorized to adjust and realign information technology budgets in the Departments of Environmental Quality, Natural and Cultural Resources, Military and Veterans Affairs, and Administration. Adjustments shall with coordinated with the departments and the Fiscal Research Division of the General Assembly, and must be completed by December 1, 2016. Adjustments shall also be reflected in the base budget for 2017-2019. A report is due to legislative committees by January 15, 2017.

Enterprise Resource Planning Design and Implementation

Section 7.10

In coordination with the Office of the State Controller (OSC) and the Office of State Budget and Management (OSBM), the Department of Information Technology (DIT) shall conduct the planning and design of an enterprise resource planning system (ERP) for State agencies by utilizing business process reengineering to identify and organize processes and workflow in order to prioritize and link work activities to realize efficiencies and organize around outcomes. The ERP system shall address, at a minimum, core financial management, grants, assets and inventory, fleet management, and human resource management.

The Department of Information Technology shall submit a report to the Joint Legislative Oversight Committee on Information Technology on or before January 15, 2017 on the results from the business process reengineering efforts for State agencies. The report shall also include an implementation plan, cost estimate, and other factors. A request for proposal for a replacement system implementation shall be prepared for release no later than July 1, 2017.

SALARIES & BENEFITS

State Employee Salary Increases

Joint Conference Committee Report; HB 1030 Part XXXVI

The act appropriates funds for a 1.50% salary increase, effective July 1, 2016, for most State and State-funded employees, except most Judicial Branch employees. Members of Council of State and appointees whose salaries are set through the Appropriations Act also receive a 1.50% salary increase. Most Judicial Branch employees will receive a 4.5% salary increase. Funds are also provided for an experience-based

step increase for eligible assistant and deputy clerks, magistrates, State Highway Patrol Troopers, and school-based administrators. Additionally, the act appropriates more than \$16.9 million to continue implementation of custody-level pay for Correctional Officers and \$500,000 to be allocated to SBI and ALE agents at the discretion of the Director of the State Bureau of Investigation.

Most State and State-funded employees will receive a 0.50% nonrecurring, across-the-board bonus. The act also appropriates funds for a nonrecurring merit-based bonus for State and State-funded employees. The bonuses are not included as part of employees' annual salaries for retirement purposes.

These amounts are reflected in the Conference Report under the specific agencies' sections.

The Office of State Human Resources and the Office of State Budget and Management will provide additional guidance on the merit-based and 0.5% nonrecurring, across-the-board bonuses in a separate communication.

State-Funded Personnel/Merit-Based Bonuses Authorized

Section 36.1A

Provides that each "employing agency" will determine the eligibility policies and allocation of the merit-based bonus, including the following entities employing State-funded personnel:

- (1) The State Human Resources Commission, for executive branch departments with respect to both EHRA and SHRA employees, except University of North Carolina EHRA employees.
- (2) The Administrative Office of the Courts and the Commission on Indigent Defense Services, for the judicial branch.
- (3) The Legislative Services Commission, for the legislative branch.
- (4) The Board of Governors of The University of North Carolina, except as to its SHRA employees.
- (5) The State Board of Community Colleges, for the North Carolina Community College System.
- (6) Each local board of education, for school-based administrators, central office, and noncertified personnel. Educators are not eligible.

Requires each local board of education to provide to the Department of Public Instruction (DPI) the details of how these funds are distributed by district and school. All other employing agencies, and DPI, must report to the chairs of the Senate Appropriations/Base Budget Committee and the House of Representatives Committee on Appropriations and the Fiscal Research Division on the use of these funds by no later than February 1, 2017.

The Office of State Human Resources and the Office of State Budget and Management will provide additional guidance on the merit-based and 0.5% nonrecurring, across-the-board bonuses in a separate communication.

Community Colleges Personnel

Section 36.10(d)

Gives the State Board of Community Colleges flexibility in allocating salary increase and bonus funds for community college employees and requires the Board to report on the use of these funds to the 2017 General Assembly by March 1, 2017.

Amended by HB 805 to add Subsections 36.10(e) and (f)

Permits the Community Colleges System Office to use up to \$6,051,722 appropriated for restoration the management flexibility reduction to be used instead for compensation increases. States the intent of the General Assembly to provide additional recurring funds during the 2017-2018 fiscal year to the Community Colleges System Office for compensation increases.

State Agency Teachers

Section 36.12

Employees of schools operated by the Department of Health and Human Services, the Department of Public Safety, the State Board of Education, and employees of the School of Science and Mathematics of the University of North Carolina who are paid on the Teacher Salary Schedule shall be paid as authorized by Section 9.1 of the act.

SBI/ALE/Increases

Section 36.13

Requires the SBI Director to report to the Joint Legislative Oversight Committee on Justice and Public Safety and the Fiscal Research Division their plan to adjust the salaries of Alcohol Law Enforcement agents and State Bureau of Investigation officers.

Use of Funds Appropriated for Legislatively Mandated Salary Increases / Compensation Bonuses / Employee Benefits

Section 36.17

The appropriations set forth in the act include certain employee salary, bonus, and benefit adjustments at the agency level, instead of placing them in a statewide reserve. At the beginning of each agency's individual Conference report section, you will find reserves for salaries and benefits displaying each agency's appropriated Compensation, Bonus, and Retirement Contribution adjustments. The Director of the Budget may reallocate funds between agencies for legislatively mandated salary increases, compensation bonuses, and employee benefits for agencies that received insufficient funds.

Any recurring funds remaining in the compensation and benefits reserves shall be used to adjust the salaries of any positions that fall below the minimum of the new salary grade assigned to those positions during the realignment of salary grades pursuant to the Office of State Human Resources' Statewide Compensation System Project. (Note: The Joint Conference Committee Report, Page L 5, Item 5, eliminates \$12 million that was in the 2015-2017 Certified Budget for FY 2016-17 for this purpose.)

To meet the obligations of Section 36.17, agencies should certify their salary and benefit adjustments within the appropriate state reserve account listed below:

Certification Statewide NCAS Accounts:

- 537202 Reserve - Compensation Bonus
- 537204 Reserve - Legislative Increase Compensation Reserve (Regular LI)
- 537205 Reserve - Statutory Step Increase Reserve
- 537206 Reserve - State Retirement System Contributions
- 537208 Reserve – State Health Plan

By August 31, 2016, each agency should submit type-11 budget revisions for the distribution of the recurring and non-recurring Retirement and the recurring Legislative Increase out of agency reserves. Please submit separate budget revisions for each type of recurring and non-recurring distribution. As a reminder, the reserves only fund increases for positions funded in full or in part by appropriations. Agencies are responsible for also budgeting the appropriate requirements and receipts to cover any positions partially

or fully funded by agency or federal receipts. Please work with your OSBM analyst if you have any questions. For distributions out of the agency retirement reserve, please use the rate information in the *Salary-Related Contributions/Employer* section of the memorandum. Agencies should use their personnel system Legislative Increase reports (BEACON for most state agencies) to determine the correct distribution of the recurring Legislative Increase reserve.

Per Session Law 2016-94, any excess agency reserve funding will be moved to a statewide budget code for possible redistribution to other agencies per Section 36.17(b) and then for the realignment of salary grades pursuant to the OSHR's Statewide Compensation System Project per Section 36.17(a). By August 31, 2016 each agency with excess recurring or nonrecurring retirement and recurring Legislative Increase appropriations should submit a type-11 budget revision to send funding to the corresponding statewide budget codes:

- 19005 – Reserve for Minimum of Market (all recurring LI and Retirement Reserves)
- 19003 – Reserve for Compensation (all non-recurring Retirement Reserves)

When returning any excess funds to statewide reserves, please remember to do separate budget revisions for recurring and non-recurring funding. The recurring budget revision will be placed in Worksheet I during the budget development process.

Information concerning distribution of the non-recurring 0.5 percent bonus and the merit-based bonus will be sent on a separate communication from OSBM and the Office of State Human Resources (OSHR).

No later than March 1, 2017, OSBM must report to the Joint Legislative Commission on Governmental Operations on the expenditure of funds for legislatively mandated salary increases, compensation bonuses, and employee benefits.

Mitigate Bonus Leave

Section 36.18

Provides that during FY 2016-2017, State agencies, departments, institutions, the North Carolina Community College System, and The University of North Carolina may offer State employees the opportunity to use or to cash in special bonus leave benefits that have accrued, but only if all of the following requirements are met:

- (1) Employee participation in the program must be voluntary.
- (2) Special leave that is liquidated for cash payment to an employee must be valued at the amount based on the employee's current annual salary rate.
- (3) Each agency shall collect and report demographic information on the employees who opt to use or cash-in special leave under the incentive program. By March 1, 2017, an interim report on the demographic information shall be submitted to the respective agency head or employing agency and to the Fiscal Research Division. The final report shall be submitted by September 1, 2017.

The Office of State Human Resources and the Office of State Budget and Management will provide additional guidance on the Mitigate Bonus Leave for the Executive Branch Agencies in a separate communication.

Delay Statewide Compensation System Project Implementation

Section 36.19A.(a)

OSHR shall not commence the implementation phase of the Statewide Compensation System Project (Project) prior to February 1, 2017. When the implementation phase commences, the Director of the Budget

may increase expenditures of receipts to the amount necessary to fund salary adjustments authorized by OSHR for receipt-supported positions that fall below the minimum of the new salary grade assigned to those positions during the realignment of salary grades pursuant to the Project.

Salary-Related Contributions/Employer

Section 36.20(a)

The General Assembly adopted revised employer contribution rates for the various components of the Retirement System for the 2016-17 fiscal year. They are as follows:

	<u>FY 2016-17</u>
Teachers and State Employees	16.12%
Law Enforcement Officers	21.12%
University Employees Optional Retirement	12.82%
Community College Optional Retirement	12.82%
Consolidated Judicial Retirement	35.06%
Legislative Retirement	23.82%

The revised rates include the cost of a one-time 1.6% cost-of-living supplement for retirees of the Teachers’ and State Employees’ Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System.

Recurring and Non-Recurring Rate Adjustments:

- State Employee Retirement System: non-recurring increase contribution rate is 0.48%; the recurring rate increase is 0.32%.
- Judicial Retirement System: non-recurring increase contribution rate is 0.93%; the recurring rate increase is 1.32%.
- Legislative Retirement System: non-recurring contribution rate is 1.17%; the recurring increase is 15.25%.

Effective July 1, 2015, the maximum annual employer contributions, payable monthly, by the State for each covered employee or retiree for the 2015-2017 fiscal biennium to the State Health Plan for Teachers and State Employees are as listed below.

	<u>FY 2015-17</u>
Medicare Eligible Employees and Retirees	\$4,251
Non-Medicare Eligible Employees and Retirees	\$5,471

Section 36.20(b)

Provides that if Director of the Budget reallocates the Reserve for Future Benefits Needs (as authorized in Section 36.24 of the act), then effective July 1, 2016, the maximum annual employer contributions, payable monthly, by the State for each covered employee or retiree for the 2016-2017 fiscal year to the State Health Plan for Teachers and State Employees would be as listed below.

	<u>Potential FY 2016-17</u>
Medicare Eligible Employees and Retirees	\$4,397
Non-Medicare Eligible Employees and Retirees	\$5,659

Additionally, if the Director of the Budget reallocates the Reserve for Future Benefits Needs (as authorized in Section 36.24 of the act), OSBM may increase the contribution rate for hospital and medical benefits from 5.60% to either 5.81%, effective July 1, 2016, or 6.02%, effective January 1, 2017, and adjust the other contribution rates accordingly.

EMERGENCY AND DISASTER FUNDING

State Emergency Response and Disaster Relief Fund

Joint Conference Committee Report, page L 5, Item 7; as amended by HB 805 (S.L. 2016-123)

Appropriates \$9.5 million for emergencies and disasters, to be spent as specified in G.S. 166A-19.42.

CAPITAL

Capital Appropriations

Sections 37.1 - 37.3

These sections outline funding for specific capital projects and related requirements.

Repairs and Renovations Reserve Changes

Sections 2.2(a) and 37.4

This section specifies the allocation of \$81.4 million for 2016-17 in funds appropriated for repairs and renovations of State buildings pursuant to G.S. 143C-4-3. The allocation formula is modified from the 2015 Appropriation Act. The allocation for FY 2016-17 provides 50% of funds to the University of North Carolina Board of Governors (UNC) for distribution to the various campuses and 50% of funds to the Office of State Budget and Management (OSBM) for distribution to the various State agencies. The following projects are to receive funding prior to allocating funds to UNC and OSBM:

- State Library and Archives and History Building Renovations (\$600,000)
- North Carolina Zoo Renovations (\$4,500,000)
- North Carolina State Capital (\$923,000)
- Western North Carolina Agricultural Center (\$3,000,000)
- Odum Village Renovation at UNC-Chapel Hill (\$750,000)
- Western Farmers Market (\$3,000,000)
- Eastern Justice Academy Dormitory Renovations (\$900,000)
- Eastern School for the Deaf Renovations (\$250,000)

The Board of Governors shall only consider the documented deficiencies at each campus pursuant to the Facilities Condition and Assessment Program and negatively weight the availability of external funds at each campus, including General Funds carried forward from one year to the next, available for repair and renovations in making allocations to campuses. UNC shall include information about the manner in which this subsection was complied with in any report submitted pursuant to G.S. 143C-4-3(d).

OSBM and UNC shall consult with, or report, to the Joint Legislative Commission on Governmental Operations, as appropriate, in accordance with G.S. 143C-4-3(d).

Changes to Allowable Uses for Repairs and Renovations Reserve Funds:

Section 37.5

This sections amends G.S. 143C-4-3(b) to add building demolition and installation of new plumbing, electrical, and heating/ventilation/air conditioning systems as allowable uses of Repair and Renovation Reserve Funds.

UNC Debt Affordability Modifications:

Section 37.6

This section amends G.S. 116D-56(b) and (c) to change dates for submission of the UNC campus and UNC System Debt Affordability Study. The individual campus submission to the UNC Board of Governors is changed from November 1 to February 1 of each year. The UNC Board of Governors

submission to the Joint Legislative Commission on Governmental Operations, Office of State Budget and Management, and Department of State Treasurer is changed from February 1 to April 1 of each year.

Enhance Oversight of Certain Capital Projects

Section 37.7

This section amends both G.S. 146 with respect to leases and G.S. 143C with respect to the Six-Year Capital Plan. The Department of Administration, which enters into leases on behalf of State Agencies, is prohibited from entering into a lease, where the State is the lessor or lessee, exceeding 30-years in length unless specifically authorized to do so by the General Assembly. For leases in which the State is the lessor, the Department of Administration is required to provide documentation that State Agencies have sufficient operating funds for any required movement of State employees or State functions. Leases are prohibited in situations where State Agencies do not have sufficient funds available for the movement of State employees/functions in addition to the ongoing provision of those functions. The following items are exempted from these requirements:

- Utility easements
- Voice Interoperability Plan for Emergency Responders (VIPER) related leases
- UNC leases to an endowment related to student housing.

This section is amended by Sec. 10.2 of H.B. 805 to authorize the lease of the Office of State Human Resources Training Center and up to 200 associated parking spaces for a term greater than 30 years, but not to exceed 99 years. Any lease(s) associated with these facilities are exempt from the Umstead Act.

The Six Year Capital Plan, as required by G.S. 143C-8-5, is amended to require the cost, including personnel and operational, for the first five years of building operations. The Director of the Budget is required to certify that all capital project requests include this operating cost information, and identify a source of funds for to cover any increase in operating costs as a result of the project. Projects that result in no increased operating costs are required to provide the previous five years of operating cost associated with the facility. In addition to the Six Year Capital Plan due each biennium, the Office of State Budget and Management must provide a preliminary Capital Improvement Plan on October 1, 2016 to the General Assembly.

OSBM will be providing separate guidance to agencies on submissions for the Capital Improvement Plan.

Limit the Ability of State Agencies or State Entities to Enter into Debt of Debt-Like Arrangements Outside of the Purview of the General Assembly.

Section 37.8

This section prohibits State Agencies from entering into State-supported financing arrangements that would obligate the State in a debt, or debt-like arrangement for capital assets over \$5 million in value unless the General Assembly has enacted legislation approving the project to be financed and approved the use of a State-supported financing arrangement.

Authorization to Seek Non-General Fund Dollars for UNC-Pembroke Business School

Section 37.9

This section authorizes UNC-Pembroke to raise an additional \$13 million in non-General Funds to support \$23 million in Connect NC Bond Funds (General Obligation Bonds authorized in S.L. 2015-280). This authorization ends in on Dec. 31, 2017; however, any funds raised up to that date may be used for the project.

cc: OSBM