



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

ROY COOPER  
GOVERNOR

CHARLES PERUSSE  
STATE BUDGET DIRECTOR

July 19, 2017

**MEMORANDUM**

TO: Department Heads and Chief Fiscal Officers  
State Departments, Agencies and Institutions

FROM: Charles Perusse *Charles Perusse*  
State Budget Director

SUBJECT: Summary of General Provisions in the 2017 Appropriations Act, Senate Bill 257  
(Session Law 2017-57) as amended by House Bill 528

The General Assembly has enacted Senate Bill 257, the 2017 Appropriations Act (Session Law 2017-57). This Act contains appropriations and special provisions that affect all State agencies. House Bill 528 makes technical, clarifying and other modifications to Senate Bill 257. These bills may be downloaded from the General Assembly's website at (<http://www.ncleg.net>).

The purpose of this memorandum is to advise you of special provisions and monetary items that have statewide implications. It does not summarize agency specific provisions. It is also not intended to replace an agency's responsibility to review the legislation. The following topics are included: General Budget Provisions, Information Technology, Salaries and Benefits and Capital. Specific guidance, where needed, will be issued in forthcoming memoranda.

## GENERAL BUDGET PROVISIONS

### INTRODUCTION

#### SECTION 1.2

This section stipulates that the appropriations made in the Act are for the maximum amounts necessary to provide the services and accomplish the purposes described. This section further states that 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 law, the savings shall revert to the appropriate fund at the end of each fiscal year.

### OTHER RECEIPTS FROM PENDING GRANT AWARDS

#### SECTION 5.2

Notwithstanding G.S. 143C-6-4, State agencies may, with approval of the Director of the Budget, spend funds received from grants awarded subsequent to the enactment of this Act for grant awards that are for less than \$2.5 million, do not require State matching funds, and will not be used for a capital project.

State agencies may spend all other funds from grants awarded after the enactment of this Act only with approval of the Director of the Budget and after consultation with the Joint Legislative Commission on Governmental Operations. Agencies will send grant award information for all grants to OSBM using the following form:

[https://ncosbm.s3.amazonaws.com/s3fs-public/documents/files/grants\\_osbm\\_2017-18.xls](https://ncosbm.s3.amazonaws.com/s3fs-public/documents/files/grants_osbm_2017-18.xls)

OSBM will report or consult on agencies' behalf with the Joint Legislative Commission on Governmental Operations depending on the level of the grant award.

OSBM shall work with the recipient State agencies to budget grant awards according to the annual program needs and within the parameters of the respective granting entities. Depending on the nature of the award, additional State personnel may be employed on a time-limited basis.

No State agency may accept a grant not anticipated in this Act if acceptance of the grant would obligate the State to make future expenditures relating to the program receiving the grant or would otherwise result in a financial obligation as a consequence of accepting the grant funds.

### CONTINGENCY AND EMERGENCY FUND LIMITATION AND TRANSFER SECTION 6.1 AND L8, ITEM 10 IN JOINT CONFERENCE COMMITTEE REPORT

This section and the accompanying committee report item eliminates the \$5 million base budget for the Contingency and Emergency (C&E) Fund and transfers \$7 million in C&E cash balance to General Fund availability. This will leave a cash balance of \$1.8 million in the fund for the FY 2017-19 biennium.

**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 S.B. 257. 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 S.B. 257 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**

This section codifies language that has appeared in the Appropriations Act for several years:

**§ 143C-4-8. Use of funds appropriated to a reserve**

All funds appropriated into a reserve by a Current Operations Appropriations Act or other act of the General Assembly may be expended only for the purpose or purposes for which the reserve was established.

**CAP STATE-FUNDED PORTION OF NONPROFIT SALARIES**  
**SECTION 6.4**

This section requires that no more than one hundred twenty thousand dollars (\$120,000) in State funds, including any interest earnings accruing from those funds, may be used for the annual salary of any individual employee of a nonprofit organization.

**USE OF STATE FUNDS FOR EMPLOYMENT OF OUTSIDE COUNSEL**  
**SECTION 6.7**

Any questions regarding the payment of outside counsel expenses should be directed to your agency's General Counsel Office.

**REPORT ON USE OF LAPSED SALARY FUNDS**  
**SECTION 6.12**

This section requires the Office of State Budget and Management (OSBM), in conjunction with State agencies, as defined in G.S. 143C-1-1(d) (24), to report on the use of lapsed salary funds for FY 2016-17 and FY 2017-18. State agencies shall report to OSBM on the use of lapsed salary, including all of the following:

- (1) The total amount of accrued lapsed salary funds by funding source.
- (2) The total number of full-time equivalent positions comprising the lapsed salary funds.
- (3) The total expenditure of lapsed salaries by purpose.
- (4) The legal authorization to expend lapsed salary funds.

Reports are due to the Joint Legislative Oversight Committees on Health and Human Services; Education; Justice and Public Safety; Transportation; Information Technology; General

Government; and Agriculture and Natural and Economic Resources and the Fiscal Research Division on October 1, 2017, January 31, 2018, May 1, 2018, and September 1, 2018.

*OSBM will provide additional guidance in a separate communication.*

## **NON-STATE ENTITIES/REPORT AND REVERSION REQUIREMENTS SECTION 6.13**

This section requires that any non-state entity receiving funds must report to OSBM by June 30, 2018, unless it is required to report on the use of funds under another provision of law. It further provides that expansion funds from the net General Fund appropriations or allocations in this act to a non-State entity shall not revert until June 30, 2019.

Most non-state entities are already subject to existing reporting requirements and would not need to provide supplemental reporting to OSBM. Please refer to Article 3 of Chapter 159 for requirements applicable to local governments and Article 31 of Chapter 115C for requirements applicable to public schools. All other non-state entities are most likely subject to G.S. 143C-6-23 and the associated rules in the North Carolina Administrative Code (09 NCAC 03M). Prior to disbursing any funds, agencies must have in place the necessary documentation and procedures to comply with the contracting, monitoring and reporting requirements specified in rule and statute.

*OSBM will provide additional guidance in a separate communication.*

## **INFORMATION TECHNOLOGY & BUDGET ALIGNMENTS**

### **GOVERNMENT DATA ANALYTICS CENTER/INFRASTRUCTURE AND OPERATIONS SECTION 37.1**

This section provides \$2 million in funding for the Government Data Analytics Center (GDAC) in both years of the biennium for contract additions that support infrastructure and operations improvements, including security upgrades to comply with State and federal requirements, and to provide enhanced and expanded GDAC user services, data storage, data integration, and system maintenance.

### **GOVERNMENT BUDGETS TRANSPARENCY/ACCOUNTABILITY/REPORTING SECTION 37.2**

This section instructs the State CIO, the State Controller, and OSBM to make a detailed written report to the chairs of the Joint Legislative Oversight Committee on IT and the Fiscal Research Division on the status of the State budget transparency Internet Web site by September 1, 2017. It also provides \$1 million of Information Technology Reserve Fund balance to fully implement the initiative. The Web site must be fully functional by January 1, 2018.

**DATA CENTER CONSOLIDATION  
SECTION 37.3**

This section directs that the consolidation of state data centers shall continue for the 2017-2019 fiscal biennium. The state may not close or consolidate the Western Data Center or the Eastern Data Center without express authorization by the General Assembly. State agencies shall continue to use the State infrastructure to host their projects, services, data, and applications unless granted an exception by the State CIO for any of the following:

- (1) Using an outside contractor would be more cost-effective for the State.
- (2) The Department of Information Technology (DIT) does not have the technical capabilities required to host the application.
- (3) Valid security requirements preclude the use of State infrastructure, and a vendor can provide a more secure environment.

By December 1, 2017, the State Chief Information Officer shall present a report on data center consolidations to the Joint Legislative Oversight Committee on IT and FRD.

**DEPARTMENT OF INFORMATION TECHNOLOGY TRANSFERS/COMPLETION BY  
JULY 1, 2018  
SECTION 37.4**

This section directs that IT consolidation will be completed by July 1, 2018 (except for noted exceptions G.S. 143B-1325) with the Secretary responsible for heading all information technology functions under the Department's purview. Additionally, the State CIO shall develop detailed plans for the phased transition of participating agencies under DIT, as well as plans for how it will support agencies that are not participating. The Community College System Office, the Department of Public Instruction, and the State Board of Elections will work with the State CIO to plan their transition to the Department by October 1, 2018.

**ENTERPRISE RESOURCE PLANNING  
SECTION 37.6**

This section provides that DIT shall collaborate with the OSBM and the State Controller to continue to develop a fully consolidated statewide ERP solution. The Act appropriates \$3 million to the Statewide Reserve for FY 2017-18 and \$10 million for FY 2018-19.

**ESTABLISH ROTATIONAL DEVELOPMENT PROGRAM FOR STATE  
INFORMATION TECHNOLOGY  
SECTION 37.8**

This section directs DIT to develop a rotational development program (RDP) for its Statewide Information Technology Division and for IT procurement. The RDP shall coordinate with participating agencies, as defined in G.S. 143B-1320, to utilize existing agency staff on a quarterly basis to supplement Department resources and to expand opportunities for education and cross-functional training.

**RISK AND VULNERABILITY ASSESSMENT**  
**SECTION 37.9**

This section directs DIT to coordinate with each participating agency, as defined in G.S. 143B-1320, to conduct a risk and vulnerability assessment (RVA). The Department shall prepare a mitigation plan based upon the RVA conducted pursuant to this section and shall submit the RVA and the plan to the Joint Legislative Oversight Committee on Information Technology and FRD on or before February 1, 2018. Provides \$2 million of Information Technology Reserve Fund balance to conduct the RVA and mitigation plan.

**DIT ENCRYPTED DEVICE STUDY**  
**SECTION 37.10**

This section requires DIT to conduct a study on the use of encrypted mobile information storage devices that considers potential benefits, risks, and costs of implementing and utilizing encrypted mobile information storage devices, including any identifiable issues relating to interfacing or networking with existing State resources.

**NETWORK SEGMENTATION AND AUTOMATION**  
**SECTION 37.11**

This section specifies that DIT shall incorporate network segmentation and automation into its statewide cybersecurity policy and shall require participating agencies to adopt solutions and security controls that isolate and segment sensitive information.

**SALARIES & BENEFITS**

**STATE EMPLOYEE SALARY INCREASES**  
**JOINT CONFERENCE COMMITTEE REPORT; SB 257 PART XXXV**

The Act appropriates funds for a \$1,000 salary increase, effective July 1, 2017, for most State and State-funded employees, except Judicial Branch officials whose salaries are set in Sec. 35.4. (a) of this Act, teachers and school-based administrators whose salaries are set in Sec.8, and the Governor and members of the Council of State. The Act also authorizes an experience-based step increase for eligible assistant and deputy clerks, magistrates, and State Highway Patrol Troopers and creates a \$9.7 million nonrecurring Statewide Pay Plan Reserve to fill any shortfall necessary to fund these increases. Additionally, the Act appropriates \$18.4 million to continue implementation of custody-level pay for Correctional Officers, \$500,000 to be allocated to SBI and ALE agents at the discretion of the Director of the State Bureau of Investigation, and \$500,000 to increase Department of Labor Occupational Safety and Health staff salaries to a level that more accurately reflects the market rate.

These amounts are reflected in the Conference Report under the specific agencies' sections, except for the Statewide Pay Plan Reserve, described in more detail below.

**JUDICIAL BRANCH  
SECTION 35.4**

This section revises the law to provide that the salary of the Chief Administrative Law Judge shall be set in the Current Operations Appropriations Act (\$117,710 in this act). Additionally, this section provides that administrative law judges are now eligible for judicial longevity pay.

**COMMUNITY COLLEGES  
SECTION 35.8 AND PAGE F29, ITEMS 72-74 IN JOINT CONFERENCE COMMITTEE  
REPORT**

This section 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 2018 General Assembly by March 1, 2018. It also provides \$10 million in recurring funds for community college personnel salary adjustments and requires the Board to report also on the use of these funds by March 1, 2018.

**UNIVERSITY OF NORTH CAROLINA SYSTEM  
SECTION 35.9 AND PAGE F39, ITEM 93 IN JOINT CONFERENCE COMMITTEE  
REPORT**

Salaries of UNC SHRA employees are increased the same as most state employees as provided by Section 35.1. The UNC Board of Governors is given flexibility in allocating compensation increases for EHRA employees. The Board is required to report on the use of these funds to the General Assembly by March 1, 2018.

**STATE AGENCY TEACHERS  
SECTION 35.10**

This section specifies that 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 Sec. 8.1 of the act.

**ALL STATE SUPPORTED PERSONNEL  
SECTION 35.11**

Salaries funded partially from the General Fund or Highway Fund and partially from other sources shall be increased from the General Fund or Highway Fund appropriation only to the extent of the proportionate part of the salaries paid from the General Fund or Highway Fund.

The legislative salary increases provided in this act do not apply to persons separated from service due to resignation, dismissal, reduction in force, death, or retirement or whose last workday is prior to July 1, 2017. Payroll checks issued to employees after July 1 of each year that represent payment of services provided prior to July 1 of each year shall not be eligible for salary increases provided for in this act.

**IMPLEMENT NEW CLASSIFICATION AND COMPENSATION SYSTEM  
SECTION 35.13**

This section requires the Office of State Human Resources (OSHR) to implement the new Classification and Compensation System and provides \$3.9 million in FY 2017-18 and \$7.8 million in FY 2018-19 to increase State employees' salaries to the minimum of their salary range under the new system.

**SALARY ADJUSTMENT FUND  
SECTION 35.14**

This section provides \$5 million in recurring funds to establish a Salary Adjustment Fund in order to provide competitive salary rates for the following purposes, as approved by the State Human Resources Commission or OSHR: reallocation of positions to higher level job classifications; in-range adjustments for job change, career progression adjustments for demonstrated competencies, salary range revisions, geographic site differential adjustments, in-range adjustments for labor market, in-range adjustments for equity issues, and any other adjustments related to an increase in job duties or responsibilities or labor market changes. It further provides that \$73,000 of the funds shall be distributed to the Office of the Lieutenant Governor for staff compensation increases. Additionally, it requires the Director of the Budget to report to the Joint Legislative Commission on Governmental Operations within 30 days of allocation of the Salary Adjustment Fund.

**USE OF FUNDS APPROPRIATED FOR LEGISLATIVELY MANDATED INCREASES  
SECTION 35.15**

Appropriations for certain employee salary and benefit adjustments are made at the agency level, instead of in a statewide reserve. At the beginning of each agency's section of the Committee Report, there are appropriated reserves to fund the Legislative Compensation Increase, Retirement Contribution, and State Health Plan adjustments. The Director of the Budget may reallocate these funds between agencies as needed to ensure that each agency receives sufficient funds. Any recurring funds remaining in the compensation and benefits reserves after this distribution shall be credited to the Pay Plan Reserve established in Sec. 35.17.

To meet the obligations of Sec. 35.15, 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

\*Bonus only applies to Veteran Teacher Bonuses and Math and Reading Performance Bonus Program.

By September 30, 2017, each agency should submit to OSBM type-11 budget revisions required to distribute the Legislative Increase, Retirement Contribution, and State Health Plan adjustments out of agency reserves and into the proper fund codes and NCAS expenditure accounts within your agency. Please submit separate budget revisions for each type of distribution listed above and make sure both years of the biennium are complete.

As a reminder, agency reserves only fund increases for positions funded in full or in part by net General Fund appropriations. Agencies are responsible for also budgeting the appropriate requirements and receipts to cover any positions partially or fully funded by 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* (Sec.35.19) of the memorandum. Agencies should use their personnel system Legislative Increase reports (HR/Payroll system for most state agencies) to determine the correct distribution out of the agency Legislative Compensation Increase Reserve.

By October 31, 2017, each agency with excess Legislative Increase, Retirement Contribution, and State Health Plan appropriations should submit a type-11 budget revision to send funding to the corresponding statewide budget code:

19003 – Reserve for Compensation

No later than March 1, 2018, OSBM must report to the Joint Legislative Commission on Governmental Operations on the expenditure of funds for legislatively mandated salary increases and employee benefits.

## **MITIGATE BONUS LEAVE SECTION 35.16**

This section provides that during the FY 2017-19 biennium, 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) By September 1, 2019, a report on the demographic information shall be submitted to the respective agency head or employing agency and to the Fiscal Research Division.

*OSHR and OSBM will provide additional guidance on mitigating bonus leave in a separate communication.*

## **ESTABLISH PAY PLAN RESERVE/FUNDS SECTION 35.17**

This section establishes a Pay Plan Reserve to fund, on an as-needed basis only: statutory and scheduled pay expenses authorized for State Highway Patrol members, assistant and deputy clerks, magistrates, teachers, and principals and assistant principals. The funds in the Pay Plan Reserve are available to agencies for employee salary and benefits expenses only if the amount of

funds appropriated for statutory or scheduled salaries and benefits expenses in any fiscal year would be insufficient to cover those expenses for eligible employees.

After January 1 of each fiscal year, an agency may request an allocation from the Pay Plan Reserve by submitting proof to OSBM that the agency has exhausted or is projected to exhaust funds appropriated for statutory or scheduled salary and benefit expenses. OSBM must certify the need for any allocation before disbursing funds from the reserve. OSBM must report to FRD on or before April 1 of each fiscal year on any disbursements made from the Reserve and regarding projected recurring appropriations necessary to fully fund positions eligible for funding in the next fiscal year.

*OSBM will provide additional guidance on the Pay Plan Reserve in a separate communication.*

**SPECIAL ANNUAL LEAVE BONUS  
SECTION 35.18A**

This section states that any full-time, permanent employee of the State, a community college, or a local board of education on July 1, 2017, who is eligible to earn annual leave shall receive an additional three days of annual leave credited on July 1, 2017. Part-time, permanent employees shall receive a pro rata amount of the three days. The leave shall remain available during the length of the employee's employment, notwithstanding any other limitation on the total number of days of annual leave that may be carried forward. The additional leave awarded under this section has no cash value and is not eligible for cash in. If not used prior to the time of separation or retirement, the bonus leave cannot be paid out and is lost.

*The Office of the State Controller will work with OSHR to develop another employee leave type (code) in HR/Payroll for this special leave and will communicate this information separately.*

**SALARY-RELATED CONTRIBUTIONS  
SECTION 35.19**

The General Assembly adopted revised employer contribution rates for the Retirement System for the 2017-19 fiscal biennium as follows:

	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Teachers and State Employees	17.13%	18.44%
Law Enforcement Officers	22.13%	23.44%
University Employees Optional Retirement	13.03%	13.25%
Community College Optional Retirement	13.03%	13.25%
Consolidated Judicial Retirement	37.10%	39.53%
Legislative Retirement	25.09%	26.31%

The revised rates include the cost of a recurring 1.0% cost-of-living adjustment for retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System.

Effective July 1, 2017, and July 1, 2018, respectively, the maximum annual employer contributions, payable monthly, by the State for each covered employee or retiree for FY 2017-18 and FY 2018-19 to the State Health Plan for Teachers and State Employees are outlined below.

	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Medicare Eligible Employees and Retirees	\$4,560	\$4,743
Non-Medicare Eligible Employees and Retirees	\$5,869	\$6,104

**ENHANCE THE BENEFITS OF PROBATION/PAROLE OFFICERS WHO ARE MEMBERS OF THE TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM  
SECTION 35.19B**

This section changes the definition of “Law Enforcement Officer” to include all probation/parole officers with respect to any service rendered on or after July 1, 2017. This section extends law enforcement retirement ages, death benefits, and special separation allowances to probation and parole officers effective July 1, 2017, and applies to persons retiring on or after that date.

**STUDY STATE EMPLOYEE TOTAL COMPENSATION AND BENEFITS/REDUCE LONG-TERM UNFUNDED HEALTH CARE POTENTIAL LIABILITIES  
SECTION 35.21. (A)**

This section establishes the State Employee Total Compensation and Benefits Committee to study the total compensation of State employees. Requires the Committee to submit a report with any findings and recommendations, including any suggested legislation, to the General Assembly by February 1, 2019.

Subsection (c) eliminates retiree medical benefits for new hires after January 2021.

**CAPITAL**

**REPAIRS AND RENOVATIONS RESERVE CHANGES  
SECTION 36.5**

This section specifies the allocation of \$125 million for FY 2017-18 in funds appropriated for repairs and renovations of State buildings pursuant to G.S. 143C-4-3. The allocation formula 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 OSBM for distribution to the various State agencies. Prior to making any allocations to UNC or OSBM, the legislature directed that \$24 million in specific projects be funded.

In making campus allocations of the funds allocated to the UNC System, 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. 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).

**REPORTING ON CAPITAL PROJECTS**  
**SECTION 36.7**

This provision requires a quarterly report to FRD and OSBM on the status of capital projects over \$100,000, beginning October 1. The report is required to be submitted to the Joint Legislative Commission on Governmental Operations semiannually. The Office of State Construction is required to report on both the status of the Facilities Condition and Assessment Program and the status of the Office workload semiannually to Joint Legislative Oversight Committee on Capital Improvements beginning October 1.

**PAY-AS-YOU-GO CAPITAL AND INFRASTRUCTURE FUND ESTABLISHED**  
**JULY 1, 2019**  
**SECTION 36.12**

This section establishes, effective July 1, 2019, the Capital and Infrastructure Fund in OSBM. The purpose of the fund is to fund debt service obligations, new capital projects at the University of North Carolina and State agencies, and repairs and renovations of existing State facilities. The Fund will consist of one-fourth of any unreserved fund balance, four percent (4%) of the net State General Fund tax revenues, additional funds appropriated for capital improvements by the General Assembly, and, interest earnings on the Fund. The funds are available only upon appropriation by the General Assembly.