

spotlight

No. 433 – April 17, 2012

BUDGET FOR GROWTH

JLF plan redirects funds, cuts taxes to create jobs

KEY FACTS: • For the last 30 years North Carolina has seen spending grow three times faster than population and inflation.

- Implementing a new tax system for North Carolina, JLF's consumption-based USA Tax of 6 percent would remove the personal, corporate, and inheritance taxes. Applying the free market spending priorities within JLF's alternative budget would save nearly \$500 million in the next budget year and more than \$1 billion over two years while dropping the sales tax to 4 percent and reducing the franchise tax 60 percent in fiscal year 2014-15.
- Removing state aid for special interests and non-government functions would save the state more than \$80 million and redirect that to the Savings and Reserves account.
- The bottom-line spending figure for JLF's 2013-14 General Fund budget plan is \$20.1 billion, \$490 million less than the governor's proposal. JLF would decrease General Fund spending by 0.2 percent, compared to McCrory's 2.2 percent increase. Total state spending would decrease in both plans.
- In the second year of the two-year budget plan, JLF's proposal would spend \$560 million less than McCrory's plan. General Fund spending is \$1.05 billion less in the Locke Foundation plan than in the McCrory plan over the course of the two-year budget cycle.
- This budget offers 19 specific policy recommendations in K-12 education, early childhood programs, public safety, Medicaid, transportation, and state employee benefits. Among them: eliminate class size mandates, revise NC Pre-K income eligibility criteria to target children with the greatest needs, re-establish drug courts, divert mentally ill individuals into community-based care rather than jails, cut Medicaid services not required by the federal government, and require state employees to pay a portion of their health care premiums.

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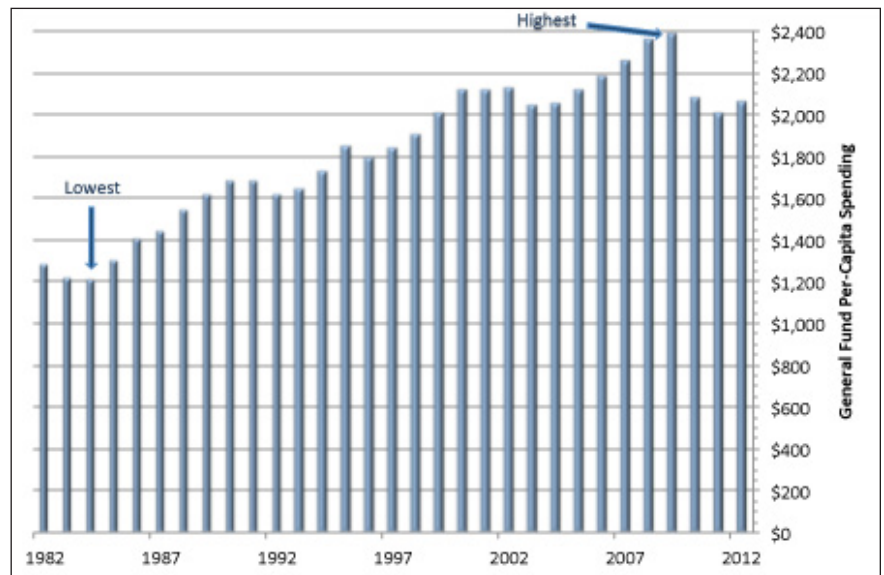
The convening of the 2013 session of the General Assembly was a momentous event in North Carolina's recent history. For the first time in over a century, Republicans had control of both houses in the legislature and the governor's office. This change in power came with great expectations of a more efficient and transparent state government.

The change in budgeting philosophy is apparent in Gov. Pat McCrory's recommended budget for the next biennium. Compared to FY 2012-13, the governor recommends increasing General Fund spending by 2 percent in 2013-14 and by 4 percent in 2014-15, or \$440.7 million and \$1,173.5 million. When looking at total state spending, which includes highways and federal spending, the budget decreases spending by 4 percent for FY 2013-14 and then returns to spending levels similar to FY 2012-13. Normally one would question why the governor is proposing an increase in spending when there are debts to be paid and unfunded liabilities that need additional attention. The increases in spending, however, are not seen in the departments, but rather in increases to reserves, debt payment, and capital improvements of almost 70 percent compared to 2012-13 levels.

The increase in reserves, along with other budget recommendations, should lead taxpayers to a sigh of relief, as the last 30 years, from 1982 through 2012, have seen spending grow three times faster than population and inflation in North Carolina. Per capita General Fund appropriations (using constant 2012 dollars) hit their peak in 2009 at \$2,377 from a low point in 1984 of \$1,207.

The John Locke Foundation is carrying on its tradition, started in 1995, of offering an alternative to the governor's budget recommendation. Our approach to this year's alternative budget is particularly mindful of the dismal economic climate in North Carolina. The state's unemployment rate is one of the highest in the nation, as the state's slow recovery from the Great Recession continues. This budget proposal represents our best efforts to apply simple, yet firm, principles of limited government, free enterprise, and fiscal conservatism in assessing and offering an alternative to the budget that Gov. McCrory has proposed.

Figure 1: North Carolina General Fund Per-Capita Spending, 1982-2012¹



Guiding Principles of Fiscal Responsibility

What the State Constitution Requires

The Constitution of North Carolina opens with a “Declaration of Rights” that establishes “essential principles of liberty and free government.” Article 1 begins by reiterating the opening phrase of the U.S. Declaration of Independence. But the N.C. Declaration adds an important clarifier. In addition to Thomas Jefferson’s original list (borrowed from John Locke) — the rights to “life, liberty and the pursuit of happiness” — North Carolina’s Constitution points out that all persons are “endowed by their creator with the right to the enjoyment of the fruits of their labor.” It is incumbent upon North Carolina officials, when formulating tax and budget policies, to see to it that this right is preserved. The state is obligated to perform its basic functions efficiently while leaving to the people as much of the “fruits of their labor” as possible to use for their own “enjoyment.”

Other provisions of the state constitution have served as guides in composing our proposal to reorient state budget policy. For example, Article 1, Section 34 states, “perpetuities and monopolies are contrary to the genius of a free state and shall not be allowed.” Programs that grant exclusive franchises or limit consumer choice to government-run service providers run afoul of this principle. In Article V, Section 2, the constitution requires that “the power of taxation shall be exercised in a just and equitable manner, for public purposes only . . .” This clause helped guide our tax-reform package, which eliminates special preferences for private interests, as well as the identification of programs that state taxes should not fund — i.e. those that are primarily local or private responsibilities.

Finally, we took note of Article 1, Sections 35 and 36. These provisions serve to establish a constitutional preference for limited government. “A frequent recurrence to fundamental principles is absolutely necessary to preserve the blessings of liberty,” the constitution states. “The enumeration of rights in this Article shall not be construed to impair or deny others retained by the people.” State government, in other words, is not empowered to do whatever it wants to do. Rather, it is constrained to perform its constitutional functions — to maintain law and order and to ensure the availability of true public goods — and otherwise to leave North Carolinians alone to pursue their own interests and solve their own problems without state encroachment.

The “R”s of Fiscal Responsibility in North Carolina

These constitutional provisions led us to construct the following set of criteria for evaluating state programs:

Reform Entitlement Programs

State programs to provide cash assistance, medical care, or other services to the disadvantaged exist to provide a basic “safety net.” Even philosophers of limited government such as John Locke have justified such programs as necessary to ensure order and protect public assets and spaces. But these programs must be carefully structured to minimize dependency and encourage personal responsibility. When the state pays nursing home bills for the parents of the middle class, subsidizes the day care of affluent families, and perpetuates social pathologies such as out-of-wedlock births, it strays far from its constitutional foundations.

Require More User Responsibility

It is inappropriate to require those who receive core state services, such as law enforcement or public education, to cover a significant share of the cost of those services. Under our state constitution, citizens are entitled to such services. But the programs or services of many other state agencies are not constitutional entitlements or responsibilities. If the state is to continue involvement in these enterprises, it should ask those who benefit to shoulder more of the responsibility of paying for them.

Redirect Spending to Higher-Priority Uses

Setting better priorities for existing tax revenues is a constitutional obligation. This category of savings includes the elimination of recently enacted increases in existing programs and preventing the creation of new ones. During a time of fiscal distress, in which policymakers find it difficult to fund obligations already in place, it makes little sense to incur new obligations. Another way to apply this principle is by sorting out which expenditures within a given department or agency are central to the core mission and which are not.

Revive Free Enterprise

For many years North Carolina has prided itself on leading the region and the nation in economic growth. This trend is no longer evident. The recent recession had a stronger impact on North Carolina than on many other states,

and jobless rates in North Carolina remain among the highest in the nation. Responding to these challenges, some policymakers have concluded that state government should take a more active role in attracting investment and guiding development through tax credits, cash subsidies, and other incentive programs. This is a serious mistake. There is scant empirical evidence to support the proposition that incentives create economic growth that would not otherwise have occurred. The available public policy research on state economic development does suggest that overall tax rates, especially the marginal rates on individual and corporate income, do have a measurable impact on state economic growth rates.

Restore Civil Society

Nonprofits and charities form a “third” or “independent” sector that delivers important services and benefits that neither governments nor profit-seeking businesses can deliver as effectively. The state should be careful not to supplant these institutions of civil society.

Reduce Biases in the Tax Code

Like most states, North Carolina has developed its state tax code in a piecemeal fashion rather than using a clear set of tax reform principles to build a coherent and efficient system. As a result, various special rates, exemptions, exclusions, deductions, and credits litter the code. JLF’s USA Tax proposal eliminates many of the biases and inefficiencies in our current tax system, while the spending reduction that we propose allows for reductions in both the sales tax and the franchise tax.

Overview

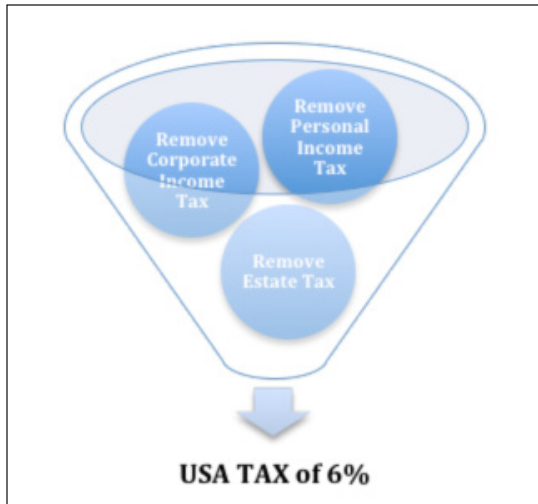
Our proposal calls for a reduction in spending and an increased contribution to the savings reserve account of more than \$400 million in 2013-14 and more than \$700 million in 2014-15.

The most significant of the differences between our budget and the McCrory proposal relates to the decision-making process. Like those of his predecessors, McCrory’s plan often funds or increases funding for programs that cater to specific interests. Our plan took some of these programs and operations, such as the Museum of History and the NC

| <i>Spending Category</i> | <i>2012-2013 Authorized</i> | <i>McCrory 2013-2014</i> | <i>Y to Y % Change</i> | <i>McCrory 2014-2015</i> | <i>Y to Y % Change</i> | <i>John Locke 2013-2014</i> | <i>Y to Y % Change</i> | <i>John Locke 2014-2015</i> | <i>Y to Y % Change</i> |
|--|---------------------------------|------------------------------|----------------------------|------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| Public Education | 7,844.6 | 7,899.8 | 0.7% | 8,119.8 | 2.8% | 7,871.1 | 0.3% | 8,091.1 | 2.8% |
| Community Colleges | 1,040.4 | 1,026.8 | -1.3% | 1,035.8 | 0.9% | 1,001.0 | -3.8% | 1,008.0 | 0.7% |
| UNC System | 2,663.6 | 2,520.6 | -5.4% | 2,556.6 | 1.4% | 2,520.6 | -5.4% | 2,556.6 | 1.4% |
| Health and Human Services | 4,700.7 | 4,758.9 | 1.2% | 4,964.3 | 4.3% | 4,559.8 | -3.0% | 4,756.1 | 4.3% |
| Judicial | 573.7 | 578.4 | 0.8% | 573.7 | -0.8% | 572.4 | -0.2% | 572.7 | 0.1% |
| Justice | 77.8 | 76.4 | -1.8% | 74.0 | -3.0% | 70.4 | -9.4% | 70.3 | -0.2% |
| Public Safety | 1,714.4 | 1,708.8 | -0.3% | 1,713.1 | 0.2% | 1,700.9 | -0.8% | 1,705.2 | 0.3% |
| Natural & Economic Resources | 270.5 | 264.5 | -2.2% | 250.3 | -5.4% | 215.1 | -20.5% | 209.6 | -2.5% |
| Commerce | 112.5 | 67.8 | -39.7% | 67.1 | -1.0% | 11.3 | -90.0% | 13.4 | 19.1% |
| General Government | 413.9 | 430.3 | 4.0% | 417.7 | -2.9% | 390.1 | -5.8% | 371.5 | -4.8% |
| Subtotal Operating Expenses | 19,412.1 | 19,332.4 | -0.4% | 19,772.4 | 2.3% | 18,912.7 | -2.6% | 19,354.4 | 2.3% |
| Reserves, Debt & Capital Improvements | 748.9 | 1,269.3 | 69.5% | 1,562.1 | 23.1% | 1,269.3 | 69.5% | 1,562.1 | 23.1% |
| Subtotal General Fund Budget | 20,161.0 | 20,601.7 | 2.2% | 21,334.5 | 3.6% | 20,181.9 | 0.1% | 20,916.6 | 3.6% |
| References: The Governor’s Recommended Budget, McCrory, March 2013, pgs 6-9, http://osbm.nc.gov/thebudget , JLF Alternative Budget 2013 | | | | | | | | | |

Maritime Museum, and reduced overall funding allowing those facilities to find savings in efficiency or increase user fees to cover lost state aid. Other programs were removed from the state budget completely, such as the Partnership for the Sounds, Biofuels of NC, the Rural Economic Development Center, and the High Point Furniture Market in the hope that state money can be spent on statewide operations instead of special interests in certain locations.

We have adjusted both total availability and state tax revenue in a number of ways (see Appendix). For example, we propose ending the transfer of funds from the Highway and Highway Trust Funds to the General Fund. North Carolina's highways have gone too many years without the proper funding, particularly for maintenance. Our budget takes the governor's proposed \$218 million and \$215 million transfers for each fiscal year and redirects them to the Highway Trust Fund while shifting responsibility for the Highway Patrol back to the General Fund.



In addition to the changes mentioned above, we also call for a comprehensive overhaul of the state tax system, which introduces a new form of revenue generation for the state. Our plan is based on a consumption-based tax known as an Unlimited Savings Allowance, or USA, Tax. This tax proposal would replace the revenue from the personal, corporate income, and estate taxes with a USA tax of 6% while lowering the existing sales tax to 4.5 percent on a revenue-neutral basis. The growth effect of this proposal for North Carolina's real gross domestic product is estimated to be about \$4 billion in 2013 and approximately \$5.8 billion by 2017. This economic growth will produce an estimated 10,000 jobs in 2013 and nearly 14,000 by 2017. All of these estimates assume no changes in revenue to the state, and therefore no reductions in spending directly related to the tax change.³ Additional

savings from realigning priorities in General Fund spending allow for an additional half-percent cut in the sales tax, down to 4 percent, and a 60 percent reduction in the franchise tax for fiscal year 2014-15. Details of how the tax plan is incorporated and how savings would be generated can be found in Appendix B.

Policy Highlights

As previously noted, this budget proposal starts with a set of guiding principles. The focus is on directing scarce resources to areas where government has a role and where those revenues can be most effectively allocated. Our proposed spending and policy changes are attempts to make government more transparent and accountable to taxpayers.

K-12 Education

North Carolina's public schools enroll just under 1.5 million pupils in over 2,500 schools and have an overall budget just shy of \$12 billion in state, local, and federal funds. When legislators discuss spending, they typically focus on General Fund education expenditures, forgetting to mention that around 35 percent of the total education budget comes from federal and local dollars. North Carolina spent approximately \$8,500 per K-12 student in federal, state, and local operating funds in 2012. When average spending for buildings and other capital costs are included, the total cost of public education in the state exceeds \$9,000 per student.⁴

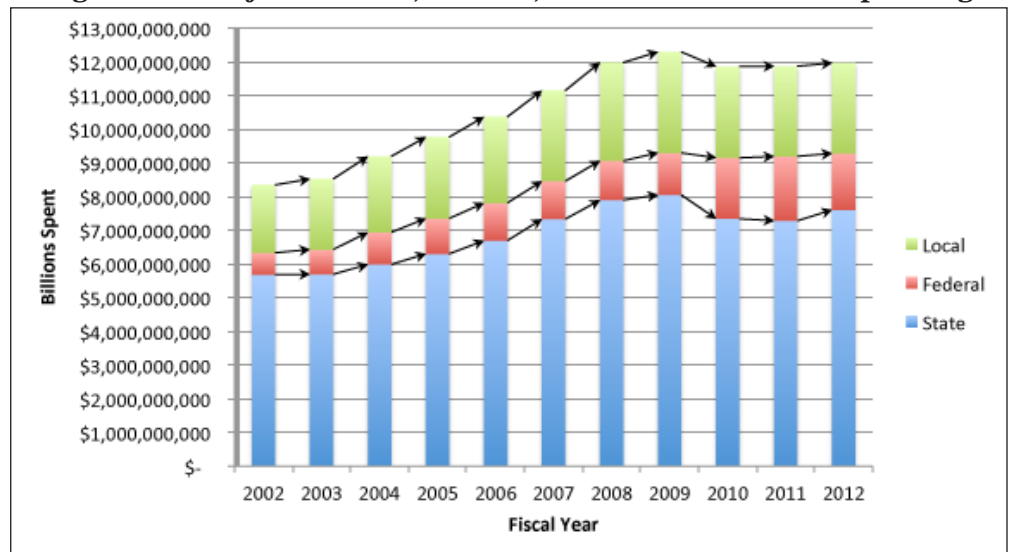
Recommendations:

- Change distribution allocation to school districts from complicated formulas to block grants or weighted student funding. This would allow districts to have the freedom to spend funds according to the unique needs

and circumstances of their communities.

- Eliminate class size mandates. School districts should have the authority to set class sizes according to needs and available resources.
- Recognize that there is no such thing as ‘free money’ from the federal government. Legislators should refuse to accept any federal grant that imposes an extraordinary burden on school administrators or interferes with the duties and responsibilities of classroom teachers.

Figure 2: Unadjusted State, Federal, and Local Education Spending



Child Care Subsidies, More at Four, and Smart Start

In 2012, the House Select Committee on Early Childhood Education Improvement met to discuss changes to North Carolina’s pre-kindergarten programs. One of their key recommendations was to change the income eligibility criteria for NC Pre-K. This budget supports that recommendation and expands upon it in an effort to use these allocated funds to the most significant effect.

Policy changes stem from a substantial body of empirical evidence that suggests that children in the most destitute circumstances benefit most from state-provided preschool education and services. As household incomes rise, the measurable benefits of pre-kindergarten programs for children decline.⁵ Changing NC Pre-K eligibility requirements to focus primarily on low-income children is a sound, research-based policy.⁶

Recommendations:

- Revise the income eligibility criteria to target children with the greatest needs. Using the free-lunch eligibility to 130 percent of the Federal Poverty Level, rather than state median income, as the income standard would allow consistency of eligibility criteria with other Pre-K programs, such as Head Start. This would lessen confusion and increase participation of children with the greatest needs.
- Raise the percentage of students who must meet the NC Pre-K income requirement from 80 percent, ideally to 100 percent. This would also provide more consistency among programs.
- If a carve-out does continue to be used for children who do not meet the income eligibility requirement, narrow the number of factors that may qualify a child for NC Pre-K. For example, the system may eliminate one or more of the following factors: identified/documentated disabilities, developmental delays, chronic health conditions, and non-English speaking family members. Risk factors that should remain include: homelessness or unstable housing; child history of foster care; history of abuse, neglect, or family violence; and active duty, injured, or killed military duty parent.

Public Safety and Prison Systems

On January 1, 2012, a new Department of Public Safety was created by the consolidation of three agencies: Department of Correction, Department of Crime Control and Public Safety, and Department of Juvenile Justice and Delinquency Prevention. Savings were incorporated into the Justice Reinvestment Act of 2011 through the elimination of administrative positions and the closing of deteriorated facilities; some more reforms should be made to save additional funds in the North Carolina prison system. The Right on Crime statement of principles, based on Texas’s effective model of reform, demands more cost-effective approaches that enhance public safety. The John Locke Foundation agrees with these principles, and we use them as our base for public safety recommendations.⁷

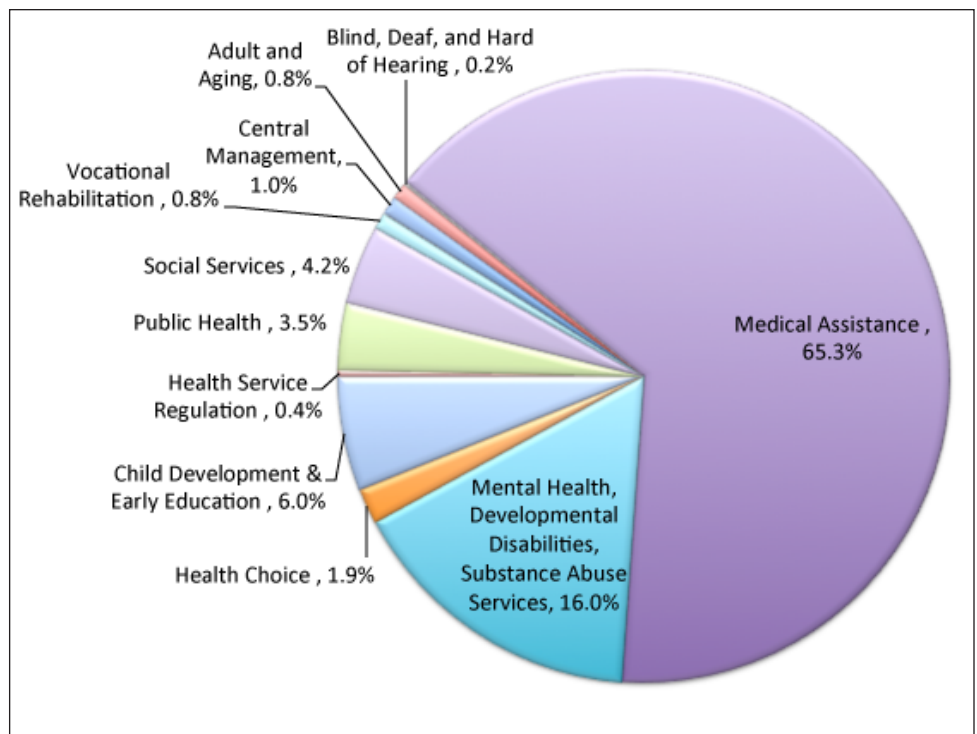
Long-term prison sentences need to be reserved for hardened criminals. This can be achieved through the incorporation of additional drug courts and mental illness diversion. These two structures are explicitly designed to identify people with drug/substance abuse or mental illness in the criminal justice system and put them in appropriate treatment centers. Offenders who are eligible for either of these programs are typically arrested for non-violent acts. With appropriate treatment, they can often return to society and become law abiding and productive citizens. Research has been done in each of these areas and shows that these systems of rehabilitation provide long-term benefits for state prison systems in both lower costs and better outcomes.

Since the first drug court was created in America in 1989, there have been eighteen rigorous cost/benefit studies that have found average cost savings of \$4,000 to \$12,000 per client.⁸ During the 2009-10 fiscal year, 21 adult and four juvenile drug treatment courts served 1,881 people;⁹ estimates show that it would have cost \$4.9 million to process those people in traditional courtrooms instead of the drug treatment courts.¹⁰ A person with mental illness will spend two to five times longer in jail, and average 15 months more in prison, than an offender without mental illness who is convicted of the same crime.¹¹ Reforms in these two areas have potential for long-term savings but less immediate impact.

Recommendations:

- Maintain North Carolina’s commitment to fighting crime while reserving prison for violent and repeat offenders.
- Divert mentally ill individuals into community-based care rather than jails, starting with crisis intervention teams and other pre-booking interventions.
- Re-establish drug courts and allow those with drug/substance abuse to receive necessary treatment.

Figure 3: FY2012-2013 Net Department of Social Services General Fund Appropriation¹²



Medicaid

North Carolina’s Medicaid system is funded with both federal and state monies. This health insurance program for low-income people covers children, elderly, blind, disabled, and others who are eligible to receive federal assistance.

North Carolina’s state taxpayers pay about 34 percent¹³ of the state’s Medicaid costs, with federal taxpayers paying the remainder for the 1.6 million enrolled individuals. Medicaid has grown significantly over the last two

decades and now consumes 26 percent¹⁴ of North Carolina’s total spending. This figure will continue to grow due to the open-ended reimbursement of state spending through a federal match. North Carolina’s Medicaid program has one of the most expensive per enrollee costs in the Southeast, spending approximately 53 percent more than Georgia and 18 percent more than South Carolina.¹⁵ Due to the Obamacare timetable in 2014 and forced state compliance, North Carolina’s legislature took action by passing and signing into law Senate Bill 4. This bill prohibited the state from operating a state-run partnership exchange and it precluded the expansion of Medicaid coverage in North Carolina.

Recommendations:

- Cut unnecessary services currently offered but not federally required, and effectively utilize services offered via taxpayer dollars. Federal health care legislation maintenance-of-effort requirements mean the state cannot restrict eligibility, and reductions in payments to doctors will also face additional scrutiny from Washington.
- Enact changes to long-term care (nursing, adult, and home care) by encouraging private long-term care insurance and reducing the number of people and services eligible for Medicaid payments. This has been and currently is the largest portion of the Medicaid budget.
- Change the way the federal government provides Medicaid dollars to North Carolina by shifting from the current match program to a federal block grant. A block grant would allow the state to know exactly how much funding will be provided and remove the incentive to expand coverage.

Transportation

In 1989, the Highway Trust Fund was created partly by raising and transferring the sales tax on cars. In conjunction with this new fund, a transfer was established between the Highway Trust Fund and the General Fund to negate the lost tax revenue.¹⁷ In recent years the amount of transfer has declined, and Gov. McCrory’s budget proposal stops the transfer completely beginning in FY 2013-14. Our budget proposal stops the transfer from the Highway Trust Fund and also ends the transfer from the Highway Fund, allowing all motor taxes to be used on transportation costs.

In FY 2013-14, more than \$218 million will be transferred from the General Fund into the Highway Trust Fund for additional construction and maintenance of roads and bridges in North Carolina. Of this figure, \$196 million is funding for the Highway Patrol, which will be moved and now operate within the General Fund. The Highway Patrol offers many services that are not handled under the Department of Transportation. Highway funds should

| <i>State Only</i> | <i>1981-82</i> | <i>1991-92</i> | <i>2001-02</i> | <i>2011-12</i> | <i>Since '82</i> |
|---|----------------|----------------|----------------|----------------|------------------|
| Total Expenditures | \$1,995 | \$2,985 | \$4,011 | \$5,247 | +163% |
| General Fund Only | \$1,191 | \$1,717 | \$2,194 | \$2,006 | +68% |
| <i>State & Local</i> | <i>1981-82</i> | <i>1991-92</i> | <i>2001-02</i> | <i>2008-09</i> | <i>Since '82</i> |
| Total Expenditures | \$3,258 | \$4,672 | \$6,482 | \$7,181 | +120 |
| K-12 Education | \$884 | \$1,177 | \$1,397 | \$1,592 | +80 |
| Higher Education | \$478 | \$606 | \$749 | \$885 | +85 |
| Health & Welfare (mostly Medicaid) | \$687 | \$1,240 | \$2,000 | \$2,231 | +225 |
| Highways | \$232 | \$342 | \$439 | \$358 | +54 |
| Public Safety & Law | \$269 | \$414 | \$553 | \$619 | +130% |
| North Carolina expenditure data divided by population and adjusted for inflation using GDP deflator. Latest Census data available for state & local expenditure combined was for the 2008-09 fiscal year. | | | | | |

be spent solely on highways and transportation costs and not on services the Highway Patrol offers not related to transportation. In FY 2014-15 the amount transferred will be more than \$215 million.

Recommendations:

- Fully implement McCrory’s budget decision to stop the annual transfer of funds from the Highway Trust Fund to the General Fund. This amount has been shrinking in recent years, but has diverted much-needed funds from highway construction and maintenance.
- Stop the annual transfer of funds from the Highway Fund to the General Fund and move the Highway Patrol to the General Fund, as their responsibilities are not solely transportation related.
- Do not raise the already high gas tax. North Carolina’s excise gas tax is the highest of any state in the Southeast and the 8th highest in the nation.
- End the disproportionate funding of mass transit. Transportation funding should be based on the way people travel, not cities’ attempts to compel citizens to use public transportation or live in high-density communities.
- End state funding of rail systems in the Triangle and Triad, and repeal the half-cent local-option sales tax authorization for rail transit.

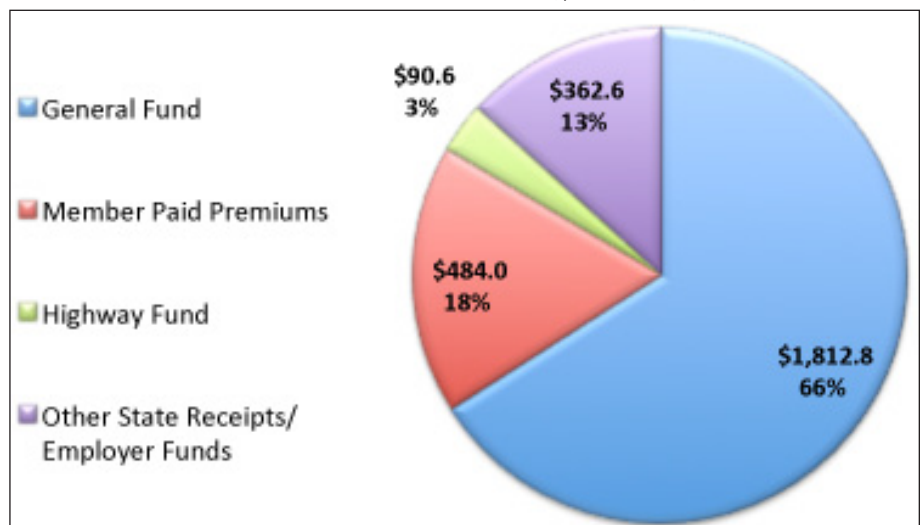
Employee Benefits (Pensions and Health Insurance)

Every year North Carolina issues \$4 billion in pension checks to more than 820,000 current and former public employees.¹⁸ Of this, 600,378 are eligible for or receiving the state’s retirees’ health care benefits.¹⁹ At the end of fiscal year 2010, these pension and health care funds had a combined total of \$35.39 billion in unfunded liabilities for future payments to public retirees. Not only is the state offering these services with unfunded dollars, but the State Health Care Benefits system was only 2.4 percent funded at the end of 2011.

With an aging workforce and accelerating number of retirements, the state’s obligations to these two funds continue to grow. The state faces lower investment rates of return, lower funding levels of liabilities, and rising healthcare costs. The number of retirees in the Teachers’ and State Employees’ Retirement System grew from 112,490 in 2002 to 171,786 in 2012, an increase of 59,296 retirees or 53 percent in the last ten years. While more are retiring from the public sector, the state has been expanding, hiring an additional 317,906 employees, a 7 percent increase during the same ten-year period.²¹

The Future of Retirement Study Commission recommended some changes to alleviate the state’s future debt burden. Thankfully some of these changes have been implemented and these systems decreased unfunded liabilities by approximately \$3.192 billion between 2010 and 2011. The state accomplished this by changing vesting periods, transitioning to a prescription drug benefit plan through an approved Employer Group Waiver Plan, and starting a longer-term investment strategy for excess funds.²²

Figure 4: FY 2011-2012 State Health Plan Premium Contributions (\$ Millions)²⁰



Recommendations:

- Give state employees an optional 401(k)-like defined contribution retirement plan, and change the existing defined benefit plan to be less generous. That would allow money that is set aside to accrue returns rather than making promises now without the money to match them.
- State employees should pay a portion of their health insurance premiums, and the state health plan should move to a defined contribution insurance plan with high deductibles and a health savings account (HSA).

Overall

The John Locke Foundation’s alternative budget saves more than \$800 million from projected spending, eliminates existing taxes, and through the USA Tax creates a new tax system for individuals and businesses. Furthermore, it ends targeted tax breaks for favored companies and industries and sets North Carolina state government on a fiscally sustainable path.

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Endnotes

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17. North Carolina General Statutes 105-164.44D - Reimbursement for sales tax exemption for purchases by the Department of Transportation. The amount of sales and use tax revenue that is not realized by the General Fund as the result of the sales and use tax exemption in G.S. 105-164.13 for purchases by the Department of Transportation shall be transferred from the Highway Fund to the General Fund in accordance with this section. This direct transfer is made in lieu of eliminating the Department of Transportation's sales and use tax exemption to alleviate the administrative and accounting burden that would be placed on the Department of Transportation by eliminating the exemption.
18. NC Treasurer, The North Carolina Pension System, Pension Fact Sheet, nctreasurer.com/ret/Active_Employees/PensionFactSheet.pdf.
19. The Financial State of North Carolina, Institute for Truth in Accounting, May 25, 2012, truthinaccounting.org/uploads/files/50%20State/2010_FSOS.pdf.
20. NC Treasurer "Annual Report to the People of North Carolina, fiscal year 2011-2012", page 85, "The General Assembly does not appropriate funds directly to the State Health Plan. Instead, it provides funds to state agencies, universities, community colleges, local school systems and the retirement system to pay an "employer contribution" or monthly premium on behalf of employees and retirees. As such, the State Health Plan is 100 percent receipt-supported, with premium receipts, including employer contributions and amounts paid by employees and retirees for their own and dependent coverage, representing approximately 97 percent of total revenues in fiscal year 2011-12. While the General Assembly does not appropriate funds directly to the State Health Plan, the State's General Fund is the primary source of funding for employer contributions."
21. State of North Carolina Comprehensive Annual Financial Report, June 30, 2012, page 16, ncosc.net/financial/12cafr/2012_Comprehensive_Annual_Financial_Report_bookmarks.pdf.
22. *Ibid.*, page 17.

Appendix A: John Locke Foundation FY 2013-2015 Budget Proposal

| | Starting Amount FY 2013-2014 | Changes | Final FY 2013-2014 | Percent Change | Starting Amount FY 2014-2015 | Changes | Final FY 2014-2015 | Percent Change |
|--|------------------------------|----------------------|-----------------------|----------------|------------------------------|----------------------|-----------------------|----------------|
| Education | | | | | | | | |
| Public Instruction | 7,984,924,757 | (113,075,211) | 7,871,849,546 | -1.42% | 8,111,097,830 | (75,273,056) | 8,035,824,774 | -0.93% |
| Community Colleges | 1,037,430,475 | (74,475,217) | 962,955,258 | -7.18% | 1,037,430,475 | (77,475,217) | 959,955,258 | -7.47% |
| The University System | 2,709,551,807 | (188,907,531) | 2,520,644,276 | -6.97% | 2,737,874,470 | (181,313,904) | 2,556,560,566 | -6.62% |
| Total Education | 11,731,907,039 | (376,457,959) | 11,355,449,080 | -3.21% | 11,886,402,775 | (334,062,177) | 11,552,340,598 | -2.81% |
| General Government | | | | | | | | |
| General Assembly | 52,845,390 | (1,033,493) | 51,811,897 | -1.96% | 52,845,390 | (991,204) | 51,854,186 | -1.88% |
| Office of the Governor | 5,539,743 | (419,693) | 5,120,050 | -7.58% | 5,541,825 | (419,693) | 5,122,132 | -7.57% |
| Office of State Budget and Management | 7,049,706 | (49,000) | 7,000,706 | -0.70% | 7,132,217 | (49,000) | 7,083,217 | -0.69% |
| North Carolina Housing Finance Authority | 9,408,417 | (9,408,417) | 0 | -100.00% | 9,408,417 | (9,408,417) | 0 | -100.00% |
| Office of the Lieutenant Governor | 444,047 | 144,534 | 588,581 | 32.55% | 444,047 | 140,534 | 584,581 | 31.65% |
| Department of Secretary of State | 11,845,185 | (303,354) | 11,541,831 | -2.56% | 11,845,185 | (303,354) | 11,541,831 | -2.56% |
| Office of the State Auditor | 11,013,547 | 0 | 11,013,547 | 0.00% | 11,013,547 | 0 | 11,013,547 | 0.00% |
| Department of State Treasurer | 30,030,132 | 1,286,800 | 31,316,932 | 4.29% | 30,030,132 | 175,215 | 30,205,347 | 0.58% |
| Department of Insurance | 41,078,247 | (1,244,978) | 39,833,269 | -3.03% | 41,087,867 | (1,244,978) | 39,842,889 | -3.03% |
| Department of Administration | 68,316,992 | (2,584,521) | 65,732,471 | -3.78% | 68,241,992 | (12,565,269) | 55,676,723 | -18.41% |
| Office of the State Controller | 29,279,290 | (153,320) | 29,125,970 | -0.52% | 29,279,290 | (153,320) | 29,125,970 | -0.52% |
| Department of Revenue | 80,031,575 | (828,619) | 79,202,956 | -1.04% | 80,031,575 | (848,279) | 79,183,296 | -1.06% |
| Department of Cultural Resources | 63,626,477 | (16,342,167) | 47,284,310 | -25.68% | 63,629,480 | (23,517,194) | 40,112,287 | -36.96% |
| Roanoke Island Commission | 1,058,757 | (1,058,757) | 0 | -100.00% | 1,058,757 | (1,058,757) | 0 | -100.00% |
| State Board of Elections | 5,213,445 | 293,124 | 5,506,569 | 5.62% | 5,213,445 | 293,124 | 5,506,569 | 5.62% |
| Office of Administrative Hearings | 4,335,464 | 286,350 | 4,621,814 | 6.60% | 4,350,431 | 54,931 | 4,405,362 | 1.26% |
| Total General Government | 421,116,414 | (31,415,511) | 389,700,903 | -7.46% | 421,153,597 | (49,895,661) | 371,257,936 | -11.85% |

Appendix A: John Locke Foundation FY 2013-2015 Budget Proposal

| | Starting Amount FY 2013-2014 | Changes | Final FY 2013-2014 | Percent Change | Starting Amount FY 2014-2015 | Changes | Final FY 2014-2015 | Percent Change |
|---|------------------------------|---------------------|------------------------|----------------|------------------------------|---------------------|------------------------|----------------|
| Health and Human Services | | | | | | | | |
| Central Management and Support | 54,028,354 | (7,244,929) | 46,783,425 | -13.41% | 54,718,515 | (819,891) | 53,898,624 | -1.50% |
| Aging and Adult Services | 54,443,196 | (1,571,897) | 52,871,299 | -2.89% | 54,443,196 | (1,571,897) | 52,871,299 | -2.89% |
| Division of Child Development and Early Education | 259,254,083 | (157,033,467) | 102,220,616 | -60.57% | 259,254,083 | (157,033,467) | 102,220,616 | -60.57% |
| Division of Public Health | 156,784,502 | (16,000,000) | 140,784,502 | -10.21% | 156,784,502 | (16,000,000) | 140,784,502 | -10.21% |
| Division of Social Services | 170,629,904 | 2,153,528 | 172,783,432 | 1.26% | 170,629,904 | 2,153,528 | 172,783,432 | 1.26% |
| Division of Medical Assistance | 3,069,576,810 | 142,503,510 | 3,212,080,320 | 4.64% | 3,083,576,810 | 349,089,554 | 3,432,666,364 | 11.32% |
| NC Health Choice | 80,131,026 | (16,225,263) | 63,905,763 | -20.25% | 80,131,026 | (30,126,415) | 50,004,611 | -37.60% |
| Divisions of Services for the Blind, Deaf, and Hard of Hearing | 8,178,618 | 0 | 8,178,618 | 0.00% | 8,178,618 | 0 | 8,178,618 | 0.00% |
| Mental Health/Developmental Disabilities/Substance Abuse Services | 706,797,747 | 6,825,151 | 713,622,898 | 0.97% | 706,797,747 | (10,691,397) | 696,106,350 | -1.51% |
| Division of Health Services Regulation | 16,761,992 | (9,452,819) | 7,309,173 | -56.39% | 16,761,992 | (9,452,819) | 7,309,173 | -56.39% |
| Division of Vocational Rehabilitation | 39,284,143 | (10,000) | 39,274,143 | -0.03% | 39,284,143 | (10,000) | 39,274,143 | -0.03% |
| Total Health and Human Services | 4,615,870,375 | (56,056,186) | 4,559,814,189 | -1.21% | 4,630,560,536 | 125,537,196 | 4,756,097,732 | 2.71% |
| Justice and Public Safety | | | | | | | | |
| Judicial Branch | 458,416,996 | (418,110) | 457,998,886 | -0.09% | 458,416,996 | (178,771) | 458,238,225 | -0.04% |
| Judicial Branch - Indigent Defense | 114,505,898 | (76,789) | 114,429,109 | -0.07% | 114,505,898 | (18,900) | 114,486,998 | -0.02% |
| Department of Justice | 77,773,575 | (7,345,567) | 70,428,008 | -9.44% | 80,773,575 | (10,491,451) | 70,282,124 | -12.99% |
| Department of Public Safety | 1,722,061,784 | (21,161,188) | 1,700,900,596 | -1.23% | 1,732,859,184 | (27,611,858) | 1,705,247,326 | -1.59% |
| Total Justice and Public Safety | \$2,372,758,253 | (29,001,654) | \$2,343,756,599 | -1.22% | \$2,386,555,653 | (38,300,980) | \$2,348,254,673 | -1.60% |

Appendix A: John Locke Foundation FY 2013-2015 Budget Proposal

| | Starting Amount FY 2013-2014 | Changes | Final FY 2013-2014 | Percent Change | Starting Amount FY 2014-2015 | Changes | Final FY 2014-2015 | Percent Change |
|---|-------------------------------------|------------------------|---------------------------|-----------------------|-------------------------------------|------------------------|---------------------------|-----------------------|
| Natural and Economic Resources | | | | | | | | |
| Department of Agriculture and Consumer Services | 108,918,334 | (18,058,539) | 90,859,795 | -16.58% | 108,918,334 | (18,058,539) | 90,859,795 | -16.58% |
| Department of Labor | 16,196,339 | (1,347,871) | 14,848,468 | -8.32% | 16,196,339 | (1,347,871) | 14,848,468 | -8.32% |
| Department of Environment and Natural Resources | 109,140,591 | (17,685,334) | 91,455,257 | -16.20% | 109,220,682 | (23,225,185) | 85,995,497 | -21.26% |
| Wildlife Resources Commission | 18,476,588 | (589,609) | 17,886,979 | -3.19% | 18,476,588 | (589,609) | 17,886,979 | -3.19% |
| Department of Commerce | 93,184,256 | (81,900,185) | 11,284,071 | -87.89% | 95,424,256 | (81,982,212) | 13,442,044 | -85.91% |
| Total Natural and Economic Resources | 345,916,108 | (119,581,539) | 226,334,569 | -34.57% | 348,236,199 | (125,203,416) | 223,032,783 | -35.95% |
| Subtotal Agency Budgets | \$19,487,568,189 | \$(612,512,849) | \$18,875,055,340 | -3.14% | \$19,672,908,760 | \$(421,925,039) | \$19,250,983,722 | -2.14% |
| Reserves, Debt Service, Capital Improvements and Other Adjustments | 756,149,861 | 480,502,435 | 1,236,652,296 | 63.55% | 756,149,861 | 759,587,881 | 1,515,737,742 | 100.45% |
| TOTAL GENERAL FUND | \$20,243,718,050 | \$(132,010,414) | \$20,111,707,636 | -0.65% | \$20,429,058,621 | \$337,662,843 | \$20,766,721,464 | 1.65% |

Appendix B: General Fund Availability FY 2014 and FY 2015

| | FY 2013-2014 | FY 2014-2015 |
|--|-------------------------|-------------------------|
| Unreserved Credit Balance | 213,432,878 | 145,237,204 |
| Anticipated Over-collections and Reversions FY 12-13 | 227,600,000 | - |
| Savings Reserve Account | (200,000,000) | (145,237,204) |
| Medicaid Funding Required for FY 12-13 | (123,100,000) | - |
| Repairs and Renovations Reserve Account | (117,932,878) | - |
| Beginning Unreserved Fund Balance | \$0 | \$0 |
| Tax Revenue | | |
| Individual Income | 11,211,200,000 | 11,796,400,000 |
| Sales and Use | 5,491,000,000 | 5,735,100,000 |
| Corporate Income | 1,099,100,000 | 1,181,100,000 |
| Franchise | 677,900,000 | 687,500,000 |
| Insurance | 507,600,000 | 516,700,000 |
| Beverage | 317,400,000 | 329,100,000 |
| Inheritance | 52,000,000 | 57,000,000 |
| Licenses | 44,600,000 | 45,800,000 |
| Tobacco Products | 261,600,000 | 257,300,000 |
| Mill Machinery | 34,400,000 | 34,500,000 |
| Piped Natural Gas | 25,600,000 | 26,900,000 |
| Gift | - | - |
| Miscellaneous | 1,100,000 | 1,100,000 |
| Revenues Based on Existing Tax Structures | \$19,723,500,000 | \$20,668,500,000 |
| Non-Tax Revenue | | |
| Investment Income | 10,800,000 | 11,100,000 |
| Judicial Fees | 256,400,000 | 257,900,000 |
| Disproportionate Share | 110,000,000 | 109,000,000 |
| Insurance | 75,300,000 | 76,200,000 |
| Other Non-Tax Revenues/Miscellaneous | 390,500,000 | 385,300,000 |
| Highway/Highway Trust Fund Transfers | 218,100,000 | 215,900,000 |
| Total Non-Tax Revenue | \$1,061,100,000 | \$1,055,400,000 |
| Total General Fund Availability | \$20,784,600,000 | \$21,723,900,000 |

| | FY 2013-2014 | FY 2014-2015 |
|--|---------------------------|---------------------------|
| Adjustments to Availability | | |
| Unlimited Savings Allowance (USA Tax)* | 12,651,300,000 | 13,336,347,368 |
| Individual Income | (11,211,200,000) | (11,796,400,000) |
| Corporate Income | (1,099,100,000) | (1,181,100,000) |
| Inheritance | (52,000,000) | (57,000,000) |
| Reduce Sales and Use Tax from 4.75% to 4.0% | (867,000,000) | (905,542,105) |
| Reduce Franchise tax by 60% | - | (412,500,000) |
| Remove Highway Transfer and redirect to Highway Trust Fund | (218,100,000) | (215,900,000) |
| Repeal Public School Building Capital Fund Transfer | 75,000,000 | 75,000,000 |
| Retention of Golden LEAF Funds | 65,000,000 | 65,000,000 |
| Remove Special Treatment of Pension Benefits | 32,500,000 | 65,000,000 |
| Parks and Recreation Trust Fund | 27,500,000 | 27,500,000 |
| Master Settlement Agreement Funds | 25,000,000 | 25,000,000 |
| Repeal Sales Tax Holiday | 11,700,000 | 11,700,000 |
| Natural Heritage Trust Fund | 9,900,000 | 9,900,000 |
| Tax Severance Pay as Compensation | 6,750,000 | 13,500,000 |
| Repeal NC Public Campaign Fund | 4,125,171 | - |
| Solid Waste Trust Fund | 4,011,000 | 4,011,000 |
| Scrap Tire Disposal Account | 2,675,291 | 2,675,291 |
| Transfer from NC Flex FICA Funds | 2,000,000 | - |
| White Goods Management Account | 1,217,796 | 1,217,796 |
| Repeal NC Political Parties Financing Funds | 1,064,582 | - |
| Establish Tax-Me-More Fund for Voluntary Donations | 1,000 | 5,000 |
| Subtotal Adjustments to Availability | \$(527,655,160) | \$(931,585,650) |
| Revised General Fund Availability | \$20,256,944,840 | \$20,792,314,350 |
| Less: General Fund Appropriations | \$(20,111,707,636) | \$(20,766,721,464) |
| Appropriated Balance Remaining | \$145,237,204 | \$25,592,887 |

The USA Tax is the tax plan proposed by the John Locke Foundation. This proposal is a revenue neutral plan which includes the estimated revenue of personal income, corporate, and estate tax along with the .25% reduction in sales and use tax for first year revenue estimates in which the respective taxes will be eliminated along with any tax credits associated. Details of the JLF tax plan can be found in "First In Freedom", the foundation's most recent book.

Appendix C: Education

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|--|------------------------|------------------------|
| Public Schools - Starting Budget | | \$7,984,924,757 | \$8,111,097,830 |
| Executive & Administrative Functions | Reduce 10%; focus funds on classroom | (412,940) | (412,940) |
| Education Innovations | End GF Appropriation | (1,412,940) | (1,412,939) |
| Office of Early Learning | Reduce funding to 2012 levels | (423,681) | (423,681) |
| Educator Quality and Recruitment | End GF Appropriation, receipt funded only | (755,758) | (755,758) |
| Maintenance | Reduce 5% for efficiency savings | (512,943) | (512,943) |
| Local Administration | Reduce 10%; focus funds on classroom | (9,490,147) | (9,520,147) |
| Education Innovations | Reduce 5% for efficiency savings | (1,404,191) | (1,404,191) |
| Local Education Supplemental Benefits | Reduce 5% for efficiency savings | (11,609,444) | (11,609,444) |
| Transfers | Reduce 5% for efficiency savings | (1,425,326) | (1,425,326) |
| Beginnings for Parents Grant | End pass-through | (919,730) | (919,730) |
| Enrollment Growth | Average Daily Membership (ADM) Adjustment | 11,241,807 | 11,811,549 |
| Salary Adjustment | Technical Correction | (11,873,083) | (11,980,756) |
| Tarheel ChalleNge Academy | Program moved to Dept. Public Safety, removal will not count towards Education total | (767,719) | (767,719) |
| Textbooks | Restore previously removed funding | 58,250,000 | 76,500,000 |
| Instructional Supplies/Materials | Restore previously removed funding | 9,443,104 | 34,936,054 |
| Teacher Assistants | Reduce funding and refocus on K-1 | (117,123,733) | (117,123,733) |
| Limited English Proficiency | Budgeted amount is higher than usage, adjustment | (3,000,000) | (3,000,000) |
| School Technology Fund | One time funding with excess receipts in lieu of State Public School Fund | (25,950,674) | 0 |
| Small County Reserve | Remainder of balance from last FY budget appropriation | (1,555,885) | (1,555,885) |
| State Public School Fund | Reduce allocation | (5,025,426) | (6,553,965) |
| NCCAT - NC Center for Advancement of Teaching | Remove appropriations | (2,219,222) | (3,219,222) |
| Teaching Fellows Scholarship | Eliminate program phase out | (3,095,000) | (6,190,000) |
| Teaching Fellows Fund | Remove remaining available funds to close fund | (1,300,000) | 0 |
| EPSA - Excellent Public Schools Act | Remove GF appropriation, user responsibility | 0 | (28,000,000) |
| ACT - American College Testing Assessments | Full implementation of ACT tests in 8th and 10th grade | 7,500,000 | 7,500,000 |
| Net Change | | (113,075,211) | (75,273,056) |
| TOTAL APPROPRIATIONS | | \$7,871,849,546 | \$8,035,824,774 |

Appendix C: Education

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|---|------------------------|------------------------|
| Community Colleges - Starting Budget | | \$1,037,430,475 | \$1,037,430,475 |
| NC Back-To-Work Program | Eliminate special funding | (1,800,000) | (1,800,000) |
| Marine Technology Program at Cape Fear CC | End GF Appropriation | (669,805) | (669,805) |
| Virtual Learning Community Development Center | Eliminate special funding | (650,000) | (650,000) |
| Child Care Grants | End GF Appropriation | (1,838,215) | (1,838,215) |
| Textile Technology Center at Gaston College | End GF Appropriation | (353,954) | (353,954) |
| Minority Male Mentoring | Eliminate funding | (1,090,324) | (1,090,324) |
| Enrollment Growth | Implement new formula to calculate enrollment | (20,002,263) | (20,002,263) |
| Retirement Incentives | Full-Time Faculty only | (15,189,563) | (15,189,563) |
| Customized Training | Apply carryover from last FY, remove excess | (2,000,000) | 0 |
| Tuition | Tuition increase for resident and non-resident students | (6,157,474) | (6,157,474) |
| Senior Citizen Tuition | Charge same tuition for students, regardless of age | (970,000) | (970,000) |
| Continuing Education | Increase rates for courses by \$5 each | (664,509) | (664,509) |
| Administration - Clerical | Remove one clerical position at each college | (2,480,138) | (2,480,138) |
| BioNetwork Centers | Charge fees to cover cost | (597,000) | (597,000) |
| Data Connectivity | Main campuses only | (647,972) | (647,972) |
| Botanical Laboratory at Fayetteville Technical CC | End GF Appropriation | (264,000) | (264,000) |
| Advertising | End GF Appropriation | (100,000) | (100,000) |
| Technical Education Equipment and Infrastructure | Increase tuition, use distance learning | (14,000,000) | (14,000,000) |
| Performance-Based Funding | End GF Appropriation | (5,000,000) | (10,000,000) |
| Net Change | | (74,475,217) | (77,475,217) |
| TOTAL APPROPRIATIONS | | \$962,955,258 | \$959,955,258 |
| University System - Starting Budget | | \$2,709,551,807 | \$2,737,874,470 |
| Program Consolidation | Consolidate duplicate degree programs | 0 | (1,900,000) |
| Management | Eliminate middle management positions | (43,800,000) | (36,000,000) |
| Instruction | Improved transfer between UNC campuses, efficiency of teaching methods | (15,800,000) | (21,100,000) |
| Non-Resident Tuition | Increase tuition for non-residents by 12.3% and 6% depending on school | (54,100,000) | (54,100,000) |
| Administration | Operational efficiencies will save from previous expenditures | (10,000,000) | (15,000,000) |
| Addition to McNair Hall | Project cancelled and building reserve not needed | (150,185) | (150,185) |
| Management | Remove inefficiencies and create savings in operating budget | (66,900,000) | (79,800,000) |
| Non-Resident Scholarship Tuition | Apply same tuition rate for all non-residents, regardless of scholarship status | (8,580,000) | (8,775,000) |
| Need-Based Financial Aid | Shift portion from Escheats Fund to General Fund, not Lottery | (1,088,627) | 0 |
| Utility Budgets | Reduce utility budgets that exceeded actual expenditures | (8,088,719) | (8,088,719) |
| Strategic Directions Plan | Student resources to achieve bachelor's degree within UNC System | 19,600,000 | 43,600,000 |
| Net Change | | (188,907,531) | (181,313,904) |
| TOTAL APPROPRIATIONS | | \$2,520,644,276 | \$2,556,560,566 |

Appendix D: General Government

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|--|---|-------------------|-------------------|
| General Assembly - Starting Budget | | 52,845,390 | 52,845,390 |
| Committee Reserves | Reduce appropriation | (473,703) | 0 |
| Floater | Reduce employment costs and wages | (422,905) | (640,864) |
| Food Service | 10% price increase for legislative cafeteria and snack bars | (90,000) | (90,000) |
| Furniture | Reduce appropriation | 0 | (35,000) |
| Information Systems Division | Reduce appropriation | (46,885) | (40,080) |
| Operating Expenses | Reduce appropriation | 0 | (31,500) |
| Parking | Charge fees to cover cost | 0 | (30,000) |
| Session Subsistence | Reduce long-session by one week in mid-July | 0 | (123,760) |
| Net Change | | (1,033,493) | (991,204) |
| TOTAL APPROPRIATIONS | | 51,811,897 | 51,854,186 |
| Office of the Governor - Starting Budget | | 5,539,743 | 5,541,825 |
| Operating Expenses | Reduce appropriation | (369,693) | (369,693) |
| Membership Fees | End GF appropriation for advocacy organization | (50,000) | (50,000) |
| Net Change | | (419,693) | (419,693) |
| TOTAL APPROPRIATIONS | | 5,120,050 | 5,122,132 |
| State Budget and Management - Starting Budget | | 7,000,706 | 7,083,217 |
| Net Change | | 0 | 0 |
| TOTAL APPROPRIATIONS | | 7,000,706 | 7,083,217 |
| State Budget and Management, Special Appropriation - Starting Budget | | 49,000 | 49,000 |
| NC Humanities Council | End GF Appropriation, user responsibility | (49,000) | (49,000) |
| Net Change | | (49,000) | (49,000) |
| TOTAL APPROPRIATIONS | | 0 | 0 |
| Housing Finance Agency - Starting Budget | | 9,408,417 | 9,408,417 |
| North Carolina Housing Trust Fund | End GF Appropriation; restore civil society | (7,800,000) | (7,800,000) |
| HOME Program Match | | (1,608,417) | (1,608,417) |
| Net Change | | (9,408,417) | (9,408,417) |
| TOTAL APPROPRIATIONS | | 0 | 0 |
| Office of the Lieutenant Governor - Starting Budget | | 444,047 | 444,047 |
| Employees | Add communications director and constituent services/administrative assistant | 112,519 | 112,519 |
| Furniture | One-time appropriation | 4,000 | 0 |
| Operating Budget | Increase appropriation to fund additional activities by new employees | 28,015 | 28,015 |
| Net Change | | 144,534 | 140,534 |
| TOTAL APPROPRIATIONS | | 588,581 | 584,581 |

Appendix D: General Government

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|--|-------------------|-------------------|
| Department of Secretary of State - Starting Budget | | 11,845,185 | 11,845,185 |
| Operating Budget | Reduce GF appropriation for overall savings | (148,093) | (148,093) |
| Employees | Remove attorney position | (80,331) | (80,331) |
| Vacant Positions | Remove two positions vacant for over a year | (74,930) | (74,930) |
| Net Change | | (303,354) | (303,354) |
| TOTAL APPROPRIATIONS | | 11,541,831 | 11,541,831 |
| Office of the State Auditor - Starting Budget | | 11,013,547 | 11,013,547 |
| Net Change | | 0 | 0 |
| TOTAL APPROPRIATIONS | | 11,013,547 | 11,013,547 |
| Department of State Treasurer, Operations - Starting Budget | | 6,851,090 | 6,851,090 |
| Employees | Positions are receipt supported | (45,416) | (45,416) |
| Employees | Remove position vacant for three years | (38,221) | (38,221) |
| Banking Division | Information Technology allocation efficiency | (70,000) | (70,000) |
| Banking Division | Reduce usage of temporary services | (25,000) | (25,000) |
| Banking System | Upgrade software, hardware, licenses | 1,465,437 | 353,852 |
| Net Change | | 1,286,800 | 175,215 |
| TOTAL APPROPRIATIONS | | 8,137,890 | 7,026,305 |
| State Treasurer, Retirement for Fire & Rescue Squad Workers & Line of Duty Death Benefits - Starting Budget | | 23,179,042 | 23,179,042 |
| Net Change | | 0 | 0 |
| TOTAL APPROPRIATIONS | | 23,179,042 | 23,179,042 |
| Department of Insurance - Starting Budget | | 41,078,247 | 41,087,867 |
| Employees | Remove nine positions vacant for over a year | (560,589) | (560,589) |
| Contributions Amount | Reduce appropriation | (323,654) | (323,654) |
| Operating Expenses | Reduce appropriation | (360,735) | (360,735) |
| Net Change | | (1,244,978) | (1,244,978) |
| TOTAL APPROPRIATIONS | | 39,833,269 | 39,842,889 |

Appendix D: General Government

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|--|--|-------------------|-------------------|
| Department of Administration - Starting Budget | | 68,316,992 | 68,241,992 |
| Commission on Indian Affairs | End GF appropriation; advocacy | (361,558) | (361,558) |
| Ethics Commission | Reduce appropriation 5% | (59,330) | (59,330) |
| Human Relations Commission | End GF appropriation; advocacy | (707,271) | (707,271) |
| NC Council for Women | End GF appropriation, fund through private sponsors and donations | (689,526) | (689,526) |
| Office of State Personnel | Keep Operating expenses at 2011 levels | (1,128,736) | (1,053,736) |
| Youth Advocacy and Involvement Office | End GF appropriation, shift some responsibilities | (526,252) | (526,252) |
| Displaced Homemakers | End GF appropriation, fund through private sponsors and donations | (292,390) | (292,390) |
| Facilities Maintenance | Outsource, save 15% | (4,333,903) | (4,333,903) |
| Historically Underutilized Businesses (HUBSCO) | End GF appropriation; advocacy | (636,366) | (636,366) |
| Martin Luther King Commission | End GF appropriation, function of civil society | (23,378) | (23,378) |
| Sexual Assault Program | End GF appropriation, fund through private sponsors and donations | (2,893,190) | (2,893,190) |
| State Construction Office | Streamline and outsource | (20,693) | (20,693) |
| Veterans Affairs | Realign and Reduce Scholarships | (500,000) | (500,000) |
| Veterans Aid to Counties | End GF appropriation; redundant program | (138,000) | (138,000) |
| Compensation | Victims of State's Eugenics Program | 10,000,000 | 0 |
| Employees | Move 9.85 State Construction FTEs from receipts to appropriations | 923,546 | 923,546 |
| Management | Add one FTE for management analysis | 94,720 | 94,720 |
| Office of Justice for Sterilization Victims | Continues operating expenses appropriation | 123,748 | 0 |
| Reserve | End GF appropriation for reserve no longer needed | (32,942) | (32,942) |
| Transfer | E-Commerce Fund monies transferred for operating of Purchase and Contract Division | (1,200,000) | (1,200,000) |
| Transfer | ITS consolidation of Veteran's Affairs' Field Offices | (183,000) | (115,000) |
| Net Change | | (2,584,521) | (12,565,269) |
| TOTAL APPROPRIATIONS | | 65,732,471 | 55,676,723 |
| Office of the State Controller - Starting Budget | | 29,279,290 | 29,279,290 |
| Employees | Remove vacant position | (78,320) | (78,320) |
| Operating Expenses | Reduce appropriation | (45,000) | (45,000) |
| Information Technology | Reduce appropriation | (30,000) | (30,000) |
| Net Change | | (153,320) | (153,320) |
| TOTAL APPROPRIATIONS | | 29,125,970 | 29,125,970 |
| Department of Revenue - Starting Budget | | 80,031,575 | 80,031,575 |
| Employees | Shift nine positions to receipt funded | (378,346) | (378,346) |
| Employees | Remove eighteen vacant positions | (1,098,925) | (1,098,925) |
| Employees | Add one FTE auditor in Sales and Use Tax Division | 102,513 | 95,483 |
| Employees | Add two FTE auditors in the Income Tax Division | 202,657 | 190,027 |
| Operating Expenses | Shift more to receipt funded | (55,440) | (55,440) |
| Security | Increase security coverage within revenue building | 398,922 | 398,922 |
| Net Change | | (828,619) | (848,279) |
| TOTAL APPROPRIATIONS | | 79,202,956 | 79,183,296 |

Appendix D: General Government

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|---|-------------------|-------------------|
| Department of Cultural Resources - Starting Budget | | 63,626,477 | 63,629,480 |
| Historic Sites | Close sites, change operating hours, cover 25% of cost with donations and/or fees | (1,816,539) | (1,816,539) |
| Brand Strategy | End GF appropriation | 0 | 0 |
| Museum of Art | Cover 25% of cost with increased donations and/or fees | (1,515,062) | (1,515,062) |
| NC Arts Council | End GF appropriation; restore civil society | (7,408,092) | (7,408,092) |
| NC Symphony | End GF appropriation; user responsibility | (2,047,580) | (2,047,580) |
| Tryon Palace | Cover 50% of cost with donations, fees, and sponsors | (1,077,598) | (1,077,598) |
| Archives and History | Remove funding for Confederate Cemetery | (2,500) | (2,500) |
| Historic Preservation | Transfer 10% to receipt funded | (95,346) | (95,346) |
| Historical Publications | Cover 15% of cost with increased donations and/or fees | (63,140) | (63,140) |
| Museum of History | Cover 15% of cost with increased donations and/or fees | (861,974) | (8,619,737) |
| NC Maritime Museum | Cover 15% of cost with increased donations and/or fees | (832,480) | (249,744) |
| State Capitol | Reduce funding 15% | (50,849) | (50,849) |
| Statewide Library Programs | Consolidate Administration, find efficiencies | (8,909) | (8,909) |
| Public Libraries | Reduce state aid by 4.8% | (657,517) | (657,517) |
| Technical Correction | Error in Archives and Records and Historic Preservation budget | 95,419 | 95,419 |
| Net Change | | (16,342,167) | (23,517,194) |
| TOTAL APPROPRIATIONS | | 47,284,310 | 40,112,287 |
| Roanoke Island Commission - Starting Budget | | 1,058,757 | 1,058,757 |
| Roanoke Island Commission | End GF appropriation; user responsibility | (858,757) | (858,757) |
| Roanoke Island Commission Arts fund | End GF appropriation; user responsibility | (200,000) | (200,000) |
| Net Change | | (1,058,757) | (1,058,757) |
| TOTAL APPROPRIATIONS | | 0 | 0 |
| State Board of Elections - Starting Budget | | 5,213,445 | 5,213,445 |
| Administration | Reduce appropriation 10% and find efficiencies | (97,748) | (97,748) |
| Help America Vote Act (HAVA) | IT upgrade and temporary employees to execute | 390,871 | 390,871 |
| Net Change | | 293,124 | 293,124 |
| TOTAL APPROPRIATIONS | | 5,506,569 | 5,506,569 |
| Office of Administrative Hearings - Starting Budget | | 4,335,464 | 4,350,431 |
| Employees | Remove one vacant position | (67,325) | (67,352) |
| Employees | Reduce contracts for temporary staffing | (15,493) | (15,493) |
| Information Technology | Update computer technology for Case Management System | 310,950 | 131,308 |
| Information Technology | Update the rules tracking system and website design | 58,218 | 6,468 |
| Net Change | | 286,350 | 54,931 |
| TOTAL APPROPRIATIONS | | 4,621,814 | 4,405,362 |

Appendix E: Health and Human Services

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|---|--------------------|--------------------|
| Central Management and Support - Starting Budget | | 54,028,354 | 54,718,515 |
| Community Health Grants | No new grants in FY2013-15 | (1,127,501) | (1,127,501) |
| Health Net Grants | End appropriation recurring item begun in 2007 | (4,800,000) | (4,800,000) |
| Migrant Workers Health Grants | Eliminate program | (551,650) | (551,650) |
| NC Council on Developmental Disabilities | End GF appropriation for advocacy | (138,053) | (138,053) |
| NC Farmworker Health | Keep program receipt funded as in 2011 | (2,732) | (2,732) |
| Physician Loan Repayment Program | Eliminate Program begun in 2006 | (2,500,000) | (2,500,000) |
| Rural Health programs | Reduce appropriations 25%, redirect to priorities | (1,286,651) | (1,286,651) |
| NC Care Line | Eliminate six administrative positions | (339,787) | (339,787) |
| NC FAST | Improve information technology system for federal exchange | 0 | 864,655 |
| Operating Efficiencies | Reduce appropriation | (332,830) | (332,830) |
| Public Services | Department of Justice settlement, reduce inappropriate institutionalization of the seriously mental ill | 3,834,275 | 9,394,658 |
| Net Change | | (7,244,929) | (819,891) |
| TOTAL APPROPRIATIONS | | 46,783,425 | 53,898,624 |
| Aging and Adult Services - Starting Budget | | 54,443,196 | 54,443,196 |
| Long-Term Care Ombudsman | Duplicate program, shift responsibilities to Department of Insurance where funding is sufficient | (694,347) | (694,347) |
| Special Assistance Administration | Duplicate program, Medicaid will cover responsibilities | (323,176) | (323,176) |
| Senior Games | End GF appropriation, encourage volunteer/private support | (53,519) | (53,519) |
| Management | Remove outsourcing seat management operations | (855) | (855) |
| Project C.A.R.E | End GF appropriation | (500,000) | (500,000) |
| NetChange | | (1,571,897) | (1,571,897) |
| TOTAL APPROPRIATIONS | | 52,871,299 | 52,871,299 |
| Division of Child Development & Early Education - Starting Budget | | 259,254,083 | 259,254,083 |
| Contracts | End pass-through | (8,109,877) | (8,109,877) |
| Smart Start | Eliminate ineffective, redundant program | (150,692,835) | (150,692,835) |
| Teacher Scholarship | End GF Appropriation | (3,800,000) | (3,800,000) |
| Administrative | Reduce appropriation | (2,624,189) | (2,624,189) |
| Block Grants | Shift from state funded positions to federal block grant funding | (900,000) | (900,000) |
| Management | Remove outsourcing seat management operations | (38,125) | (38,125) |
| NC Pre-K | Expand coverage to include 5,000 at-risk four-year-olds | 9,131,559 | 9,131,559 |
| Net Change | | (157,033,467) | (157,033,467) |
| TOTAL APPROPRIATIONS | | 102,220,616 | 102,220,616 |
| Division of Public Health - Starting Budget | | 156,784,502 | 156,784,502 |
| ADAP Drug Purchases | Remove excess appropriation | (8,000,000) | (8,000,000) |
| Early Intervention | Remove excess appropriation | (8,000,000) | (8,000,000) |
| Net Change | | (16,000,000) | (16,000,000) |
| TOTAL APPROPRIATIONS | | 140,784,502 | 140,784,502 |

Appendix E: Health and Human Services

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|--|--|----------------------|----------------------|
| Division of Social Services - Starting Budget | | 170,629,904 | 170,629,904 |
| Food Banks | Use private donations and shift to charity care | (1,000,000) | (1,000,000) |
| NC Reach | Continue program through private donations | 0 | 0 |
| Administration | Discontinue Child Welfare Multiple Response System Conference | (1,066,123) | (1,066,123) |
| County Child Welfare Services | County support for NC FAST | 4,826,346 | 4,826,346 |
| Management | Remove outsourcing seat management operations | (606,695) | (606,695) |
| Net Change | | 2,153,528 | 2,153,528 |
| TOTAL APPROPRIATIONS | | 172,783,432 | 172,783,432 |
| Division of Medical Assistance - Starting Budget | | 3,069,576,810 | 3,083,576,810 |
| Drug Management | Require prior authorization of mental health drugs | (5,422,990) | (11,258,127) |
| Health Homes | Remove enhanced matching funds | (3,757,682) | (3,757,682) |
| Hospital Assessment Retention | Change state retention from set amount to percentage of retention | (60,000,000) | (60,000,000) |
| Hospital Outpatient Services | Reduce hospital cost settlements from 80% of cost to 70% of cost | (25,693,412) | (35,559,682) |
| Medicaid Contracts | Calculate necessary growth from prior year | 11,000,000 | 11,000,000 |
| Medicaid Copayments | Increase copayments \$0.90 for most services | (3,308,100) | (4,962,150) |
| Medicaid Cost Settlements | Calculate necessary growth from prior year | 18,000,000 | 18,000,000 |
| Medicaid Rebase | Calculate necessary growth from prior year | 185,000,000 | 390,000,000 |
| MMIS | Reduce audits and claims during transition | 4,828,664 | 0 |
| Payment Rates | Differentiate payment rates for private duty nursing services | (1,142,970) | (2,372,805) |
| Transfer | Transfer children under 133% of poverty level from Health Choice to Medicaid | 23,000,000 | 48,000,000 |
| Net Change | | 142,503,510 | 349,089,554 |
| TOTAL APPROPRIATIONS | | 3,212,080,320 | 3,432,666,364 |
| NC Health Choice - Starting Budget | | 80,131,026 | 80,131,026 |
| Drug Management | Require prior authorization of mental health drugs | (277,405) | (572,563) |
| Hospital Outpatient Services | Reduce hospital cost settlements from 80% cost to 70% of cost | (547,858) | (753,852) |
| Technical Correction | Reduce appropriation to reflect actual expenditures | (2,800,000) | (2,800,000) |
| Transfer | Transfer children under 133% of poverty from Health Choice to Medicaid | (12,600,000) | (26,000,000) |
| Net Change | | (16,225,263) | (30,126,415) |
| TOTAL APPROPRIATIONS | | 63,905,763 | 50,004,611 |
| Divisions of Services for the Blind, Deaf, and Hard of Hearing - Starting Budget | | 8,178,618 | 8,178,618 |
| Net Change | | 0 | 0 |
| TOTAL APPROPRIATIONS | | 8,178,618 | 8,178,618 |

Appendix E: Health and Human Services

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|---|--------------------|--------------------|
| Mental Health/Developmental Disabilities/Substance Abuse Services - Starting Budget | | 706,797,747 | 706,797,747 |
| Adult Community Substance Abuse Program | Do not expand non-governmental contracts past 2012 levels | (337,891) | (337,891) |
| Child Community Substance Abuse Program | Shift all services to receipt funded | (79,388) | (79,388) |
| Traumatic Brain Injury Services | Repeal program begun in 2008 | (133,995) | (133,995) |
| Administrative | Change in calculation of budget through internal transitions | (15,228,245) | (15,228,245) |
| Broughton Hospital | Medical Equipment, furniture and IT infrastructure for new hospital | 23,020,934 | 5,088,122 |
| Gambling Fund | Reduce appropriation | (416,264) | 0 |
| Net Change | | 6,825,151 | (10,691,397) |
| TOTAL APPROPRIATIONS | | 713,622,898 | 696,106,350 |
| Division of Health Services Regulation - Starting Budget | | 16,761,992 | 16,761,992 |
| Adult Care Licensure and Certification | End state licensure, allow private accreditation | (4,342,785) | (4,342,785) |
| Health Care Licensure and Certification | End state licensure, allow private accreditation | (212,799) | (212,799) |
| Jails and Detention Licensure and Certification | End state licensure, allow private accreditation | (163,582) | (163,582) |
| Mental Health Licensure and Certification | End state licensure, allow private accreditation | (3,660,902) | (3,660,902) |
| Nursing Home Licensure and Certification | End state licensure, allow private accreditation | (1,072,751) | (1,072,751) |
| Net Change | | (9,452,819) | (9,452,819) |
| TOTAL APPROPRIATIONS | | 7,309,173 | 7,309,173 |
| Division of Vocational Rehabilitation - Starting Budget | | 39,284,143 | 39,284,143 |
| Administration | Reduce appropriation, find efficiencies | (10,000) | (10,000) |
| Net Change | | (10,000) | (10,000) |
| TOTAL APPROPRIATIONS | | 39,274,143 | 39,274,143 |

Appendix F: Justice and Public Safety

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|--|--------------------|--------------------|
| Judicial Branch - Starting Budget | | 458,416,996 | 458,416,996 |
| Conferences | Eliminate Conference of District Attorneys and Clerk's Conference | (387,812) | (387,812) |
| Drug Treatment Courts | Replace previously stripped funding | 3,364,456 | 3,653,187 |
| Employees | Reduction in staff | (3,500,000) | (3,500,000) |
| Magistrates | Fund one additional magistrate in 16 counties to minimize after hours work | 776,496 | 727,104 |
| State Bar | Reduce appropriation, end earmark pass-through | (671,250) | (671,250) |
| Net Change | | (418,110) | (178,771) |
| TOTAL APPROPRIATIONS | | 457,998,886 | 458,238,225 |
| Judicial Branch, Indigent Defense - Starting Budget | | 114,505,898 | 114,505,898 |
| Employees | Remove 3.25 positions through partnership with School of Government | (258,634) | (258,634) |
| Information Technology | Modernize case management system | 413,045 | 470,934 |
| Prisoner Legal Services | Reduce appropriation to reflect actual expenditures | (231,200) | (231,200) |
| Net Change | | (76,789) | (18,900) |
| TOTAL APPROPRIATIONS | | 114,429,109 | 114,486,998 |
| Department of Justice - Starting Budget | | 77,773,575 | 80,773,575 |
| DNA Crime Lab equipment | One-time increase for replacement/modernization | 573,000 | 0 |
| Employees | Transfer attorneys and support staff to agencies served | (7,450,319) | (9,933,759) |
| Employees | Remove vacant positions | (947,698) | (947,698) |
| State Bureau of Investigation | Additional agents for cyber threats against children | 479,450 | 390,006 |
| Net Change | | (7,345,567) | (10,491,451) |
| TOTAL APPROPRIATIONS | | 70,428,008 | 70,282,124 |

Appendix F: Justice and Public Safety

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|--|----------------------|----------------------|
| Department of Public Safety - Starting Budget | | 1,722,061,784 | 1,732,859,184 |
| Governor's Crime Commission | End GF appropriation | (788,998) | (788,998) |
| Inmate Education | Reduce appropriation for temporary teachers and eliminate holiday work | (11,214) | (11,214) |
| Litter Crews | Shift remaining appropriations to receipt funded | (210,394) | (210,394) |
| Prison Dental Health | Reduce spending to 2012 levels, use medical shoos to shift expenditure | (414,268) | (414,268) |
| Administrative | Reduce appropriation | (579,244) | (579,244) |
| Bladen Correctional Center | Close prison and end GF appropriation | (1,969,779) | (2,499,168) |
| Contract Services | Reduce appropriation | (1,500,000) | 0 |
| Duplin Correctional Center | Close prison and end GF appropriation | (3,759,729) | (4,101,522) |
| Employees | Remove nine positions from auxiliary support | (772,853) | (772,853) |
| Employees | Remove two positions from the Secretary's Office | (292,866) | (292,886) |
| Employees | Remove vacant positions | (952,582) | (952,582) |
| First Responders | Increase staff to support Voice Interoperability Plan for Emergency Responders (VIPER) | 3,405,471 | 2,825,471 |
| Highway Patrol | Increase gasoline budget due to gas prices | 3,677,292 | 3,677,292 |
| Highway Patrol Communication Centers | Consolidate eight centers to five | (1,887,305) | (1,887,305) |
| Highway Patrol Warehouses | Consolidate warehouses for vehicles and equipment | (191,474) | (191,474) |
| Justice Reinvestment Act | 106 FTEs in 2014 and 217 FTEs in 2015 to reduce caseloads to 60 offenders per officer | 7,131,028 | 14,290,721 |
| Justice Reinvestment Act | Post-release supervision and parole of felons | 706,949 | 858,490 |
| Morrison Correctional Institution | Complete enhanced security technology | (24,202) | (404,911) |
| Operating Expenses | Reduce appropriation due to efficiencies found from consolidation FY2012 | (2,000,000) | (2,000,000) |
| Prison Health Services | Shift with Medicaid for treatment and perform on-site | (6,000,000) | (6,000,000) |
| Richmond Detention Center | End GF appropriation, close center | (407,074) | (407,074) |
| Robeson Correctional Center | Close prison and end GF appropriation | (3,625,960) | (3,955,592) |
| State Trooper Technology | Upgrade state trooper database | 626,000 | 626,000 |
| State Trooper Technology | Upgrade in-vehicle computer | 1,050,640 | 0 |
| Supplies | Reduce appropriation to actual expenditures | (36,000) | (36,000) |
| Tabor Correctional Institution | Remove operating expenses for dormitory construction delay | (529,424) | 0 |
| Wayne Correctional Institution | Close prison and end GF appropriation | (3,014,444) | (7,234,666) |
| Western Youth Institution | Close prison and end GF appropriation | (7,953,209) | (16,312,132) |
| Youth Community Program Funds | End earmark pass-through | (737,549) | (737,549) |
| Youth Development Center Operating expenses | Reduce operating budget to actual expenditures | (100,000) | (100,000) |
| Net Change | | (21,161,188) | (27,611,858) |
| TOTAL APPROPRIATIONS | | 1,700,900,596 | 1,705,247,326 |

Appendix G: Natural and Economic Resources

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|---|---------------------|---------------------|
| Department of Agriculture and Consumer Services - Starting Budget | | 108,918,334 | 108,918,334 |
| Agronomic Services | End GF appropriation | (3,231,810) | (3,231,810) |
| Commercial Feed/Pet Food | End GF appropriation | (645,381) | (645,381) |
| Commercial Fertilizer Analysis | End GF appropriation | (568,040) | (568,040) |
| Markets | End GF appropriation, user responsibility | (6,461,435) | (6,461,435) |
| Pesticide Control & Analysis | End GF appropriation | (250,172) | (250,172) |
| Plant Protection | End GF appropriation | (3,415,048) | (3,415,048) |
| Public Affairs | Reduce appropriation, 15 percent | (58,707) | (58,707) |
| Employees | Remove vacant positions | (1,427,946) | (1,427,946) |
| Management | Reduce appropriation, efficiency | (2,000,000) | (2,000,000) |
| Net Change | | (18,058,539) | (18,058,539) |
| TOTAL APPROPRIATIONS | | 90,859,795 | 90,859,795 |
| Department of Labor - Starting Budget | | 16,196,339 | 16,196,339 |
| Apprenticeship and Training | End GF Appropriation | (847,871) | (847,871) |
| Inspection Fees | Increase fees to reduce appropriation needed | (500,000) | (500,000) |
| Net Change | | (1,347,871) | (1,347,871) |
| TOTAL APPROPRIATIONS | | 14,848,468 | 14,848,468 |
| Department of Environment and Natural Resources - Starting Budget | | 109,140,591 | 109,220,682 |
| Aquariums | Reduce appropriation 25%, shift to more donations and user fees | (1,838,095) | (1,838,095) |
| Coastal Management | Shift all salaries to receipt supported | (824,629) | (824,629) |
| Museum of Natural Science | Reduce appropriation 25%, shift to more donations and user fees | (2,992,867) | (2,992,867) |
| NC Zoo | Reduce appropriation 25%, shift to more donations and user fees | (2,650,920) | (2,670,177) |
| Shellfish Sanitation | End GF appropriation | (1,821,965) | (1,821,965) |
| State Parks | Reduce appropriation 15%, shift to more donations and user fees | (3,689,115) | (3,683,565) |
| Employees | Move to receipt supported | (19,422) | (19,422) |
| Clean Water Fund Match | Require 20% match for federal fund match | 5,000,000 | 0 |
| Drinking Water Fund Match | Require 20% match for federal fund match | 1,255,720 | 0 |
| Employees | Remove vacant positions | (1,008,610) | (1,008,610) |
| Information Technology | Reduce appropriation, efficiency | (284,262) | (284,262) |
| Marine Fisheries | Reduce appropriation and remove one FTE | (364,788) | 364,788 |
| Operating Budget | Reduce appropriation, efficiency | (365,293) | (365,293) |
| Operating Budget | Remove community planner position | (95,331) | (95,331) |
| Storage Tank Program | Fund through GF, do not allow highway funds to transfer | 3,500,000 | 3,500,000 |
| Water Quality | End GF appropriation due to 2011 law change | (251,236) | (251,236) |
| Water Resources | Move 5.4 FTEs to receipt supported | (484,521) | (484,521) |
| Net Change | | (6,935,334) | (12,475,185) |
| TOTAL APPROPRIATIONS | | 102,205,257 | 96,745,497 |
| DENR, Clean Water Management Trust Fund - Starting Budget | | 0 | 0 |
| Clean Water Management Trust Fund | End GF appropriation, allow groups to operate on their own | (10,750,000) | (10,750,000) |
| Net Change | | (10,750,000) | (10,750,000) |
| TOTAL APPROPRIATIONS | | (10,750,000) | (10,750,000) |

Appendix G: Natural and Economic Resources

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|--|--|-------------------|-------------------|
| Wildlife Resources Commission - Starting Budget | | 18,476,588 | 18,476,588 |
| Employees | Remove vacant positions | (589,609) | (589,609) |
| Net Change | | (589,609) | (589,609) |
| TOTAL APPROPRIATIONS | | 17,886,979 | 17,886,979 |
| Department of Commerce - Starting Budget | | 33,469,442 | 33,469,442 |
| Broadband Incentive | End GF appropriation, budget and tax fairness | 0 | 0 |
| Canadian Strategic Trade Event | Fund entire event with private sponsors | 0 | 0 |
| Follow-Up System for Accountability | End GF appropriation, 2013 law removed funding | 0 | 0 |
| Industrial Commission | Reduce appropriation to 2012 funding levels | (348,996) | (348,996) |
| International Trade Division | End GF appropriation, close overseas offices | (2,453,896) | (2,453,896) |
| Job Maintenance and Capital Development Program (JMAC) | End GF appropriation, budget and tax fairness | 0 | 0 |
| Main Street Solutions | End GF appropriation, budget and tax fairness | 0 | 0 |
| One NC Small Business Program | End GF appropriation, budget and tax fairness | 0 | 0 |
| Strategic Economic Growth Plan | End GF appropriation, budget and tax fairness | 0 | 0 |
| Wanchese Seafood Industrial Park | End GF appropriation | (143,131) | (143,131) |
| Business/Industry Development | End GF appropriation | (1,168,382) | (1,168,382) |
| Industrial Finance Center | End GF appropriation | (439,976) | (439,976) |
| Marketing/Customer Service | End GF appropriation | (1,168,382) | (1,168,382) |
| Tourism, Film and Sports Development | End GF appropriation, budget and tax fairness | (9,490,286) | (9,490,286) |
| Welcome Centers | End GF appropriation | (1,916,795) | (1,916,795) |
| Community Assistance Program | Realign with actual expenditures and shift employee from full to temporary | (43,481) | (43,481) |
| Employees | Remove four positions | (408,758) | (408,758) |
| JDIG Utility Account Fund | Departmental cost shifting | (5,000,000) | (5,000,000) |
| Office of Information Technology Services (OITS) | Restore funding for position, increase appropriation | 75,000 | 75,000 |
| Operating Expenses | Shift activities to be receipt funded | (205,786) | (205,786) |
| Operating Expenses | Realign with actual expenditures | (395,674) | (395,674) |
| Net Change | | (23,108,543) | (23,108,543) |
| TOTAL APPROPRIATIONS | | 10,360,899 | 10,360,899 |

Appendix G: Natural and Economic Resources

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|--|---|---------------------|---------------------|
| Commerce, General State Aid - Starting Budget | | 59,714,814 | 61,954,814 |
| Biofuels Center of NC | End GF appropriation, set priorities | (2,063,035) | (2,063,035) |
| Grassroots Science Museum | End GF appropriation, fund with fees and donations/sponsors | (2,558,085) | (2,558,085) |
| Institute for Regenerative Medicine | End GF appropriation, budget and tax fairness | (7,649,897) | (7,649,897) |
| Johnson and Wales University | End GF appropriation, budget and tax fairness | (500,000) | (500,000) |
| NC Biotechnology Center | End GF appropriation, set priorities | (17,200,676) | (17,200,676) |
| NC Institute of Minority Economic Development | End GF appropriation, budget and tax fairness | (2,046,080) | (2,046,080) |
| NC Minority Support Center | End GF appropriation, budget and tax fairness | (2,543,021) | (2,543,021) |
| NC Rural Economic Development Center | End GF appropriation, set priorities | (16,619,194) | (16,619,194) |
| Partnership for the Sounds | End GF appropriation, budget and tax fairness | (391,408) | (391,408) |
| Research Triangle Institute International | End GF appropriation, budget and tax fairness | (500,000) | (500,000) |
| Ag in the Classroom | End GF appropriation, set priorities | (21,175) | (21,175) |
| FFA Foundation | End GF appropriation, set priorities | (35,855) | (35,855) |
| Grassroots Science Museum Governmental | End GF appropriation, set priorities | (214,958) | (214,958) |
| High Point Furniture Market | End GF appropriation, budget and tax fairness | (655,472) | (655,472) |
| Council of Governments | Reduce GF appropriation | (82,026) | (164,053) |
| Land Loss Prevention Project | End GF appropriation, budget and tax fairness | (575,050) | (575,050) |
| NC Association of Community Development Corporations | Repeal 2007 expansion, budget and tax fairness | (797,102) | (797,102) |
| NC Community Development Initiative | End GF appropriation, budget and tax fairness | (3,806,180) | (3,806,180) |
| NC Farm Bureau Foundation for Agriculture in the Classroom, Inc. | End GF appropriation, budget and tax fairness | (21,175) | (21,175) |
| NC Indian Economic Development Initiatives, Inc. | End GF appropriation, budget and tax fairness | (86,004) | (86,004) |
| North Carolina Agricultural Foundation, Inc. | End GF appropriation, budget and tax fairness | (35,855) | (35,855) |
| Regional Economic Development Commissions | End GF appropriation, budget and tax fairness | (389,394) | (389,394) |
| TOTAL APPROPRIATIONS | | (58,791,642) | (58,873,669) |
| Net Change | | 923,172 | 3,081,145 |

Appendix H: Reserves, Debt Service, Capital Improvements, and Other Adjustments

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|---|---|----------------------|----------------------|
| General Fund - Starting Budget | | 756,149,861 | 756,149,861 |
| Repair and Renovation Reserve | Reserve for state buildings and UNC system buildings | 32,067,122 | 150,000,000 |
| Information Technology Reserve | Reserve for critical IT infrastructure and security | 27,000,000 | 32,000,000 |
| Retirement System Contribution | Increase State's contribution to TSERS and consolidate Judicial Retirement System | 36,100,000 | 36,100,000 |
| Teachers and State Employees | Increase pay for teachers and state employees by 1% | 135,700,000 | 135,700,000 |
| Teachers and State Employees Retirees | Adjust cost-of-living for teacher and state employee retirees by 1% | 35,000,000 | 35,000,000 |
| State Health Plan | Increase yearly appropriation by estimated 4.7% premium each year | 45,000,000 | 136,200,000 |
| Severance Reserve | Severance payments to state employees during reduction in force | 7,500,000 | 0 |
| Savings Reserve Account | Additional amount will be to bring total over \$800 million | 0 | 69,174,764 |
| Salary Adjustment Reserve | Salary adjustments for state salaries not competitive in market place | 20,000,000 | 20,000,000 |
| Natural Heritage Trust Fund | Shift cost from outside GF, remove appropriation for grants and aid | 4,230,000 | 4,230,000 |
| Parks and Recreation Trust Fund | Shift cost from outside GF, remove appropriation for grants and aid | 15,500,000 | 15,500,000 |
| Solid Waste Trust Fund | Shift cost from outside GF, remove appropriation for grants and aid | 2,462,000 | 2,462,000 |
| Scrap Tire Program | Shift cost from outside GF, remove appropriation for grants and aid | 1,079,717 | 1,079,717 |
| Job Development and Investment Grants (JDIG) | Eliminate | 0 | 0 |
| One North Carolina Fund | Eliminate | 0 | 0 |
| Medicaid Risk Reserve | In response to having larger than expected Medicaid payments | 90,000,000 | 90,000,000 |
| Department of Justice Legal Positions Reserve | Transfer of positions and operations from Department to respective agencies | 7,450,319 | 9,933,759 |
| NC Government Efficiency and Reform Project (NC GEAR) | Efficiency project to transform government | 2,000,000 | 2,000,000 |
| Disaster Relief Reserve | Reserve for severe weather destruction | 10,000,000 | 10,000,000 |
| Debt Service Requirements | Additional debt payments based on cash flow | 9,413,277 | 10,207,641 |
| Net Change | | 480,502,435 | 759,587,881 |
| TOTAL APPROPRIATIONS | | 1,236,625,296 | 1,515,737,742 |

Appendix I: JLF Transportation Availability FY2014 and FY2015 (\$ in Millions)

| Highway Fund | | FY 2013-2014 | FY 2014-2015 | Highway Trust Fund | | FY 2013-2014 | FY 2014-2015 |
|--|--|---------------------|---------------------|--|--|---------------------|---------------------|
| Beginning Credit Balance: | | | | Beginning Credit Balance: | | | |
| Unappropriated Balance from FY 2012-13 | | 0 | | Unappropriated Balance from FY 2012-13 | | 0 | 0 |
| Anticipatd Reversions from FY 12-13 | | 0 | 0 | Anticipatd Reversions from FY 12-13 | | 0 | 0 |
| Anticipated Overcollections from FY2012-13 | | 0 | 0 | Anticipated Overcollections from FY2012-13 | | 0 | 0 |
| Anticipated Beginning Unreserved Credit Balance | | \$0 | \$0 | Anticipated Beginning Unreserved Credit Balance | | \$0 | \$0 |
| Tax Revenue | | | | Tax Revenue | | | |
| Motor Fuels | | 1,368.2 | 1,316.1 | Motor Fuels | | 456.1 | 438.7 |
| Gasoline Inspection | | 13.8 | 13.2 | Highway Use | | 550.2 | 565.3 |
| Highway Use | | 0.3 | 0.3 | Subtotal | | \$1,006.3 | \$1,004.0 |
| Subtotal | | \$1,382.3 | \$1,329.6 | | | | |
| Non-Tax Revenue | | | | Non-Tax Revenue | | | |
| Staggered Registration | | 194.6 | 197.6 | Certificate of Title Fees | | 83.7 | 85.3 |
| International Registration Plan | | 65.7 | 68.0 | Miscellaneous Title Fees | | 14.7 | 15.1 |
| Driver Licenses | | 122.5 | 123.8 | Investment Income | | 1.0 | 1.0 |
| Truck Licenses | | 131.6 | 132.4 | Redirect Highway Transfer from GF | | 218.1 | 215.9 |
| Other Licenses and Fees | | 36.5 | 37.0 | Subtotal | | \$317.5 | \$317.3 |
| Investment Income | | 4.0 | 4.0 | | | | |
| Subtotal | | \$554.9 | \$562.8 | | | | |
| Total Highway Fund Availability | | \$1,937.2 | \$1,824.4 | Highway Trust Fund Availability | | \$1,323.8 | \$1,321.3 |
| Recommended Appropriations: | | | | Recommended Appropriations: | | | |
| Original Certified Budget | | 1,696.2 | 1,692.3 | Original Certified Budget | | 1,118.6 | 1,152.0 |
| Recommended Reductions | | (77.6) | (78.0) | Recommended Reductions | | (300.6) | (302.2) |
| Recommended Expansion | | 318.6 | 278.1 | Recommended Expansion | | 505.8 | 471.5 |
| Total Appropriations Recommended | | \$1,937.2 | \$1,892.4 | Total Appropriations Recommended | | \$1,323.8 | \$1,321.3 |
| Total Ending Balance | | \$0.0 | \$0.0 | Total Ending Balance | | \$0.0 | \$0.0 |

Appendix J: Transportation

| Base Budget Item | Recommendation | FY 2013-2014 | FY 2014-2015 |
|--|--|----------------------|----------------------|
| Highway Fund - Starting Budget | | 1,696,197,124 | 1,692,322,459 |
| Maintenance | Implement Hartgen/Reason proposals in priority-setting, contracting | (69,500,000) | (69,500,000) |
| Planning and Administration | Implement Hartgen/Reason proposals in long-range planning, operations | 8,400,000 | 8,400,000 |
| Economic Development | Implement Hartgen/Reason proposal to fund growth-enhancing projects | 21,200,000 | 15,000,000 |
| Driver Education | Reduce appropriation, expecting less 9th grade ADM | (625,322) | (595,583) |
| Construction | Remove pass-through | (7,000,000) | (7,000,000) |
| High Point Furniture Market | End GF appropriation, fund with private sponsors | 0 | (500,000) |
| Division of Highways Employees | Remove vacant positions | (426,426) | (426,429) |
| Reserve for Maintenance | Restore nonrecurring funds and reallocate other funds to high priorities | 59,094,845 | 14,865,469 |
| System Preservation | Restore nonrecurring funds and reallocate other funds to high priorities | 102,000,000 | 102,000,000 |
| Contract Resurfacing | Restore nonrecurring funds and reallocate other funds to high priorities | 81,000,000 | 81,000,000 |
| Contingency Program | Reallocate funding from Small Urban Program | 2,000,000 | 2,000,000 |
| Commercial Driver License (CDL) Facility | Additional driver's license examiners | 247,590 | 231,190 |
| Vehicle Registration, Credit Card Payment Fees | Support through user fees, remove appropriation | 6,380,290 | 6,380,290 |
| Information Technology | Replace mainframe applications | 8,832,000 | 13,798,400 |
| Division of Motor Vehicles | Reallocate funding to add weekend office hours, improve service | 1,430,465 | 963,829 |
| Capital, Repair and Renovation | Repair Department-owned facilities | 18,055,500 | 19,937,700 |
| Ferry Vessels | Support through user fees, remove appropriation | 1,150,000 | - |
| Security | Contract security for seven DOT buildings | 303,896 | 303,896 |
| Appalachian Regional Commission | Fiscal Division | 278,099 | 278,099 |
| Employees | Increase salary for employees by 1% supported by Highway Fund | 3,801,845 | 3,801,845 |
| Retiree | Increase cost of living by 1% supported by Highway Fund | 1,000,000 | 1,000,000 |
| Retirement System | Increase to retirement system supported by Highway Fund | 1,200,000 | 1,200,000 |
| Health Plan | Covers employees supported by Highway Fund | 2,200,000 | 6,900,000 |
| TOTAL APPROPRIATIONS | | 241,022,782 | 200,038,706 |
| NET Change | | 1,937,219,906 | 1,892,361,165 |
| Highway Trust Fund - Starting Budget | | 1,118,600,000 | 1,152,000,000 |
| Transportation Improvement Program | Implement Hartgen/Reason proposal to defer low-priority projects | (200,000,000) | (200,000,000) |
| Transportation Improvement Program | Implement Hartgen/Reason proposal to build projects incrementally | (100,000,000) | (100,000,000) |
| Transportation Improvement Program | Implement Hartgen/Reason proposal to fund major projects separately | 100,000,000 | 100,000,000 |
| Interstate 95 | Implement Hartgen/Reason proposal to begin I-95 improvements | 150,000,000 | 150,000,000 |
| Construction | Implement Hartgen/Reason proposal to improve safety on rural roads | 100,000,000 | 100,000,000 |
| Construction | Speed up other high-priority interstate, intrastate projects | 155,800,000 | 121,500,000 |
| Program Administration | Reduce allocation to align with revenue | (619,200) | (2,236,800) |
| TOTAL APPROPRIATIONS | | 205,180,800 | 169,263,200 |
| NET Change | | 1,323,780,800 | 1,321,263,200 |