

STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR

BEVERLY EAVES PERDUE
GOVERNOR

December 15, 2012

The Honorable Patrick McCrory
Governor-Elect of the State of North Carolina

The Citizens and Families of North Carolina

Dear Governor-Elect McCrory and Fellow North Carolinians:

Pursuant to North Carolina General Statutes § 143C-3-5(g), I am submitting to you for your consideration my proposed biennial budget for fiscal years 2014 and 2015. This budget recommendation reflects a state that is showing positive signs of recovery from the worst economic climate since the Great Depression. Over the past four years, we took decisive action to head off severe financial crises that many other states have experienced. As the economy continues to move in a positive direction, we need to preserve and maintain our long history of fiscal discipline, but also need to continue our tradition of investing in North Carolina and its nearly ten million citizens.

My budget presents a balanced proposal that adjusts the continuation/base budget and allows for expansion in several key areas. These are priorities that have and should continue to receive priority consideration by you and the 2013 General Assembly. These priorities are explained below and details of how these funds are to be expended are attached for your review.

Education

A well educated workforce is core to North Carolina's economic growth and keeps our citizens competitive in a global economy. During the last four years, we have transformed education with a strategic focus on one single goal – ensure that every student graduates career or college ready. We need to continue to transform how we educate and assess our children from kindergarten through 12th grade, by increasing our expansion efforts in diagnostic assessment tools. Recurring funding is recommended in the amount of \$8 million for the high school component that builds on the K-3 diagnostics in the continuation budget. This includes funds for EXPLORE (8th grade), PLAN (10th grade), the ACT (11th grade), and WORKKEYS (12th grade Career and Technical Education). The results of these assessments provide specific data that can guide the use of individualized student instructional strategies in English, Writing, Math and Science to ensure students are career and college ready, which is fundamental to the Career & College Promise Initiative. EXPLORE, administered to 8th graders, is aligned to the Common Core and

assesses students' knowledge and skills to be successful in high school. PLAN is a diagnostic assessment that identifies areas of needed improvement and is a strong predictor of success on the ACT. The ACT is considered an accurate gauge of school achievement and career and college readiness. Results can also be used to identify students in need of assistance and to guide instruction to ensure adequate preparation for college and careers. WORKKEYS, administered to 12th graders who have completed a four-course CTE sequence, measures the acquisition of skills critical to job success. Full implementation of this initiative will lead to a decreased need for developmental courses in higher education.

I am also recommending \$2 million in 2013-14 and \$15.5 million in 2014-15 in recurring funds for Summer Reading camps. These camps will begin at the end of the 2013-14 school year for students not demonstrating reading proficiency on the 3rd grade reading End-of Grade (EOG) test, as required by the Excellent Public Schools Act.

Early Childhood Education

In August of 2012, the North Carolina Court of Appeals upheld an earlier ruling and mandated the State to provide pre-kindergarten for all “at risk” four-year-olds. Therefore, the State cannot establish any barriers that would deny an eligible child admission to an existing pre-kindergarten program in his or her county. Based on this ruling, I am proposing the continued expansion of pre-kindergarten slots in the amount of \$50 million. This will fund the addition of 9,175 new slots throughout North Carolina, which equates to \$500 per slot per month plus administrative cost.

In addition to slots for pre-kindergarten, I am recommending funds for the Smart Start program. I propose to invest \$15 million in the program to reach more children in communities across North Carolina and to further increase the capacity of the State’s early childhood education system. This partially restores funding for the Smart Start program, which the General Assembly reduced by \$37.6 million in Session Law 2011-145.

Jobs and Economic Recovery

Over the past four years, in conjunction with assisting and encouraging our existing businesses to expand, I have been committed to programs that attract businesses to invest and create jobs in North Carolina. We have been successful in our endeavors. In November, *Site Selection* magazine, once again, ranked North Carolina as the number one state in the nation with the best business climate. Also in 2012, both *Forbes* magazine and *CNBC* ranked North Carolina as the best state in the country in which to do business. In order to keep this momentum, I am recommending \$7 million in funding for the following programs that continue to foster job creation and economic development within our state.

- \$5 million for the One North Carolina Small Business Program to support small businesses in their efforts to obtain and leverage federal funding for opportunities that allow their businesses to explore technological possibilities and seek public/private partnerships to meet the growing technological challenges of our nation.
- \$1 million for the Main Street Solutions Program to provide grants to communities to support downtown economic development, historic preservation initiatives and other public/private

initiatives that support small businesses and job creation in many small to mid-sized small towns.

- \$1 million for the Broadband Connectivity Incentive Grant Program to provide incentives for private sector broadband service providers to provide connectivity to un-served areas throughout the state where in the past it has been economically infeasible for this expansion to occur. For North Carolina to continue to be a leader, every citizen should have access to broadband availability.

Justice Reinvestment

Over the past two years, my administration has worked with the North Carolina General Assembly to enact the Justice Reinvestment Act. Among the Act's provisions is the supervision of all felony offenders following their release from prison, which will ultimately increase the number of supervised offenders in the community by 15,000. The Act was codified by the General Assembly, but no funds were provided to enact the provisions as passed in law.

I am recommending \$13.5 million in 2013-14 and \$20 million in 2014-15 to further implement Justice Reinvestment by adding probation/parole officers in the community and providing the necessary post-release supervision and parole commission staff. This recommendation provides officers and front-line supervisors needed to supervise additional felons in the community, as well as to implement assessment-based supervision strategies in caseloads of 60:1, the statutorily-stated goal. The recommendation also establishes a "relief factor" for probation officers, to allow adequate staff to supervise offenders when positions are vacant due to extended medical leave, military leave or turnover. This will allow the Department of Public Safety to hire 246 positions in 2013-14 and 338 in 2014-15.

Post-Release Supervision and Parole Commission staff will address the requirement of post-release supervision for all felons leaving prison. This additional supervision is expected to increase the number of case reviews for staff and commissioners by 12,000 to 14,500 annually. The Commission sets supervision conditions, as well as revocation decisions regarding such offenders. This recommendation will provide additional case analysts and administrative support staff to handle the increasing workload.

Eugenics

As Governor of the first state in America to advocate compensation for sterilization victims, my budget includes funding to compensate people sterilized by the North Carolina Eugenics Board. It is my strong belief that victims, after being verified by the Justice for Victims of Sterilization Foundation, should be compensated. My budget includes \$10.2 million over the course of the biennium to compensate victims in the amount of \$50,000 each.

Aging and Adult Services

I continue my unwavering commitment to the North Carolina's seniors by investing in services that promote independence, quality of life and care by funding services such as in-home aide and meals through the Home and Community Care Block Grant Program (\$2 million); funding

counseling and respite for families with loved ones suffering from dementia and Alzheimer's through the nationally recognized Project C.A.R.E. (\$500,000); and funding local efforts to address concerns related to care afforded those in long-term care facilities through the Long Term Care Ombudsman Program (\$200,000). The population for North Carolinians that are age 65 or older is projected to grow by nearly one million people, an increase of 73%, over the next 20 years. This population is one that deserves continued attention.

I am recommending the restoration of \$39.7 million for the adult care and group home resident populations. The General Assembly funded this short term assistance plan in non-recurring dollars. These funds will be used to pay monthly stipends to adult care and group homes for residents who are no longer eligible to receive Medicaid-reimbursable personal care services.

Clean Water Management Trust Fund

The Clean Water Management Trust Fund (CWMTF) provides funds to protect and preserve the state's natural resources and to clean up pollution in state waters. The CWMTF helps finance projects that specifically address water pollution and focus on upgrading surface waters, eliminating pollution, and protecting, preserving, and conserving unpolluted surface waters, including enhancement or development of drinking water supplies. CWMTF funds can also be used to build a network of riparian buffers and greenways for environmental, educational, and recreational benefits and to preserve lands that could be used for water supply reservoirs. Many local governments across North Carolina rely on CWMTF funds for financing of local water and wastewater projects in efforts to address not only pollution but conservation issues as well.

I am recommending \$10.750 million for each fiscal year of the biennium. The General Assembly provided this amount in a nonrecurring fashion during their 2012 session. Therefore, if funds are not appropriated by the General Assembly for the 2013-15 biennium, there will be no continued funding for the CWMTF.

Industrial Commission

I am recommending recurring funding in the amount of \$1.5 million for the North Carolina Industrial Commission to identify noncompliant businesses and ensure that employers obtain and maintain the required workers' compensation coverage for their employees.

Salaries and Benefits

I value a strong state workforce. Recruitment and retention must continue to be major priority in order to provide effective services to our taxpayers. Therefore, my budget includes funds to provide a 1% salary increase for State-funded teachers and public school system employees, community college employees, university system employees, and State agency employees, effective July 1, 2013.

I also recommend a 1% cost-of-living adjustment be provided to retirees of the Teachers' and State Employees' Retirement System and to retirees of the Consolidated Judicial Retirement System, effective July 1, 2013.

My budget includes funds to increase the State's contribution to the Teachers' and State Employees' Retirement System and to the Consolidated Judicial Retirement System for the 2013-15 biennium, as recommended by the System's actuary.

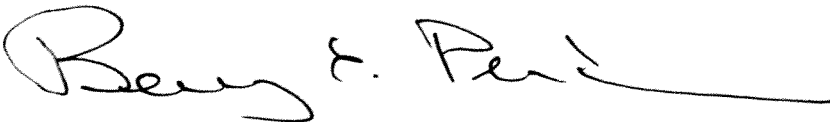
Additionally, my budget includes funds to cover required State Health Plan premium increases of 1.9% in each year of the 2013-15 biennium, assuming no other changes in benefits or premiums.

North Carolina is a national leader in fiscal management. Over the past four years, we have taken difficult actions that have allowed us to continue this tradition. Because of strong leadership and disciplined decisions, North Carolina continues to be one of only eight states to hold the coveted Triple-A credit rating from all three major bond rating agencies. Well into the second quarter of the current fiscal year (FY 2013), revenues are meeting projections. These projections are expected to exceed expectations by fiscal year end. Added to this availability is an un-appropriated fund balance from fiscal year-end 2012 of \$213 million. Office of State Budget and Management economists have developed a conservative forecast of 3.3 % growth for fiscal year 2014, which is below the long-term trend average of 3.9% growth. These dollars are invested in the development of the base/continuation budget, including enrollment for our educational entities and the annual rebasing of Medicaid as well as the aforementioned expansion priorities. When controlling for restored, non-recurring reductions taken by the General Assembly within the continuation budget as well as the expansion items I have outlined, this budget grows at approximately the same level as the proposed revenue growth.

Attached with my letter, I have provided a detailed availability statement for the General Fund, Highway Fund and Highway Trust Fund for both fiscal years of the biennium. A detailed spreadsheet of the expansion priorities outlined in this letter is also included. Finally, I have instructed the Office of State Budget and Management to provide to you copies of the continuation/base budget documents for you and your teams to review.

As you are aware, our fiscal philosophy and continued willingness to invest in the key areas of education and in improving the overall economy continues to be the envy of many other states. I urge you to review my proposed expansion priorities as we continue to move North Carolina forward. My final budget provides a clear path to do this through these key investments in education, protecting public safety, job creation, and our state employee workforce. In the future, I stand ready to work with you to address these priorities to invest in our future. It truly has been a pleasure serving the citizens of North Carolina. I wish you best success as you begin your term as North Carolina's 74th governor.

Sincerely,

A handwritten signature in black ink, appearing to read "Bev Perdue", with a long horizontal flourish extending to the right.

Bev Perdue
Governor