**Fiscal discipline**

- NO NEW TAXES
- Triple A bond rating from all three major ratings agencies
- Budget grows more slowly than inflation and population
- Balanced budget, consistent with state constitution
More than $3 billion annually to maintain the retirement system and health plan for state employees

- 76% of new spending ($741 million) devoted to education and Medicaid

Medicaid
- $3.8 billion or 18% in year one
- $4 billion or greater than 18% in year two
Fiscal discipline

- Reduced spending
- Sought efficiencies
- Based on consensus revenue estimate
- If we have more revenue, we can revisit

Prudent and conservative
• Will collect more than $43.7 billion during the next two years
• Must be effective, efficient, accountable
• Spend where it matters most
FY 2015-16 General Fund Appropriations = $21.5 billion

- Education is 70% K-12, 22% university system, and 8% community colleges
- Health & Human Services is more than 2/3 Medicaid
- Justice & Public Safety is 73% Public Safety (law enforcement & corrections), 25% Judicial, and 2% Justice
- General Government and Natural & Economic Resources combine to comprise nearly 4% of all appropriations
Increasing teacher pay

• Fulfill our pledge to raise the starting salary for public school teachers to $35,000

• This budget proposes MORE THAN HALF A BILLION DOLLARS in new funding for k-12 education
Other targeted salary increases

• **Corrections officers**
  – 10,000 officers
  – Reflects relative danger of prisons
  – Last increased in the mid-1980s

• **State Highway Patrol troopers**
  – Five percent step increase for eligible troopers

• **Longevity pay**
  – Continues for nearly 40,000 state employees

• **$82 million salary exception fund**
  – To attract and retain in high-demand fields
• Targeted, long-term investments
• Vital to competitiveness
• Pay for assets that will last for 50 years as they are used
• Historically low interest rates
• Will not jeopardize our credit ratings
• 1.8 million people or 18% of our state population supported by Medicaid
  – $7.8 billion over two years

• Mental health
• Pre-K
• Other key social services
Grows more slowly than inflation and population
Remaining well below the statutory cap

Recommended Appropriations to Grow Slower than Population & Inflation
Year-Over-Year Growth in Projected CPI-U Plus Population and Recommended General Fund Appropriations

Sources: OSBM (recommended appropriations) and Congressional Budget Office (projected growth in CPI-U)
Strengthening and enhancing reserves in excess of $650 million

One of only ten states with a Triple A bond rating from all three major rating agencies

Allocates an additional $47 million to the Rainy Day Fund
Forecast reflects modest growth of **2.9%**

**General Fund Revenue: Recent History & Forecast**

Billions of Current-Year Dollars

- **May 2014 Revised Consensus**
- **Feb 2015 Consensus Forecast**
- **Actual Revenues**

- FY 2011: $19.2B, +1.8%
- FY 2012: $19.5B
- FY 2013: $20.5B
- FY 2014: $20.2B
- FY 2015: $21.2B

Revenue Collections: FY 2014-15
Forecast for FY 2015-17 Anticipates Moderate Growth

- Consensus General Fund Revenue Forecast with the Fiscal Research Division
- FY 2015-16 Base Growth: 3.9%
- FY 2016-17 Base Growth: 4.1%
Investing in competitiveness

Invests over $115 million in job creation and competitiveness

Supporting Main Street North Carolina

- Historic Preservation Tax Credit
  - $12.2 million
- Film grant program
  - $20 million

Extend Job Preservation Tax Credits

- Renewable Energy Credit
  - $7 million
  - Non-solar only
- Data centers
  - $7 million
- Research and development
  - $58 million
- Motorsports
  - $1.2 million
- Aviation fuel
  - $7.5 million
Continuing significant commitment to K-12 funding
Investing in education: Pre-K-12

**TEACHER PAY**
- $223 million
- Increases teacher base pay to $35,000
- Increases on salary schedule

**ENROLLMENT GROWTH**
- $207 million
- Fully funds enrollment growth → 1,400 new teachers

**TEACHING ASSISTANTS**
- $128 million
- Retains nearly 2,000 teaching assistants

**REWARDING HIGHLY-EFFECTIVE TEACHERS**
- $15 million
- North Carolina Education Endowment Fund

**INSTRUCTIONAL RESOURCES**
- $70 million
- Classroom resources including textbooks, instructional supplies and equipment

**PRE-K**
- Ensures access to NC Pre-K for more than 26,800 at-risk four-year-olds
<table>
<thead>
<tr>
<th>Brody School of Medicine at ECU</th>
<th>Enrollment Growth</th>
<th>Limit Subsidy to Private Fundraising</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $16 million</td>
<td>• $129.6 million</td>
<td>• Saves $18 million each year</td>
</tr>
<tr>
<td>• Stabilizes medical education</td>
<td>• Fully funds</td>
<td>• No more than $1 million in</td>
</tr>
<tr>
<td>and maintains community</td>
<td>projected</td>
<td>state funds on private</td>
</tr>
<tr>
<td>preceptorships</td>
<td>enrollment growth</td>
<td>fundraising efforts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In-state Tuition for Veterans</th>
<th>Community College Year-round Classes</th>
<th>Community College Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $11.3 million</td>
<td>• Accelerates the North Carolina</td>
<td>• $10 million</td>
</tr>
<tr>
<td>• Supports those who defend our</td>
<td>talent pipeline by funding classes</td>
<td>• Critical upgrade to the</td>
</tr>
<tr>
<td>freedom by offering in-state</td>
<td>year-round, including in the summer</td>
<td>central data system used by all</td>
</tr>
<tr>
<td>tuition to qualifying</td>
<td>, just like North Carolina</td>
<td>58 community colleges</td>
</tr>
<tr>
<td>non-resident veterans</td>
<td>businesses</td>
<td>• $5 million for STEM</td>
</tr>
<tr>
<td></td>
<td></td>
<td>equipment</td>
</tr>
</tbody>
</table>
VENTURE MULTIPLIER FUND

$30 million
Invests in early stage commercial ventures, along with private sector dollars

NORTH CAROLINA RALLYING INVESTORS AND SKILLED ENTREPRENEURS (NC RISE)

$5 million
Leverages existing entrepreneurial talent and recruits world-class investors and skilled entrepreneurs

UNIVERSITY INNOVATION COMMERCIALIZATION INVESTMENT

$7.5 million
Invests in selecting and developing university technologies to make them attractive to investors
North Carolina spends a greater percentage of tax revenues on higher education than any other state.

State Appropriation for Higher Education: % of State Taxes

<table>
<thead>
<tr>
<th>State</th>
<th>2011-12</th>
<th>National Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 states</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>North Carolina</td>
<td>17.5</td>
<td>1</td>
</tr>
<tr>
<td>Alabama</td>
<td>17.3</td>
<td>2</td>
</tr>
<tr>
<td>Georgia</td>
<td>16.5</td>
<td>3</td>
</tr>
<tr>
<td>New Mexico</td>
<td>16.0</td>
<td>4</td>
</tr>
</tbody>
</table>

(Source: SREB)
General Fund Expenditures per Student:
10 Most Populous States, VA and SC

Sources: NASBO State Expenditure Report, Almanac of Higher Education 2014, Pope Center for Higher Education
Dedicates **$4.8 billion** to lay the foundation for our 25-year transportation vision, which focuses on connecting small towns and economic centers across the state.

<table>
<thead>
<tr>
<th>Critical infrastructure</th>
<th>Road Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increase of $135 million</td>
<td>• Increase of $51 million</td>
</tr>
<tr>
<td>• Strategic investments in critical infrastructure</td>
<td>• Road preservation and improvements projects</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Improvements</th>
<th>Congestion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increase of $36 million</td>
<td>• Increase of $10 million</td>
</tr>
<tr>
<td>• Capital repairs and renovations under the Capital Improvement Plan</td>
<td>• Eases congestion, particularly in rural and small urban communities</td>
</tr>
</tbody>
</table>
North Carolina Government Efficiency and Reform (NC GEAR)

- More than $14 million of savings in year one
- More than $57 million of savings in year two of the biennium,
- Savings over ten years conservatively estimated at more than $615 million IN PRESENT VALUE

Streamlining state government

- Manage cultural and natural resources together
- Improve integrity and timing of vital record registry
- Recover debts through the State Reciprocal Treasury Offset Program
- Rationalize state vehicles
- Reduce state employees workers’ compensation expense
- Leverage buying power for school districts
Reinforces North Carolina’s reputation as the most military-friendly state in the nation

**In-state tuition for veterans**
- $11.3 million
- In-state tuition for qualifying non-resident veterans

**Department of Military and Veterans Affairs**
- Protect our military mission
- Coordinate services for military communities, active duty personnel and veterans

**Veterans courts**
- Supports the development of additional veterans’ treatment courts
- Helping veterans return to a productive life instead of being locked up for minor offenses related to mental health issues or substance abuse

**Support veterans and fight crimes against children**
- $2 million
- Awarded to law enforcement agencies to hire staff to locate and rescue children in danger
- Priority will be given to veterans who have received special training from the Human Exploitation Rescue Operative (HERO) project

Supporting those who keep us safe
Recognizes the dedication of our law enforcement and corrections officers

**CORRECTIONS OFFICERS**
- $21 million
- Compensates and retains our corrections officers who confront the most violent people in our state every day

**HIGHWAY PATROL TROOPER STEP INCREASES**
- $3.7 million
- Funds the full five percent step increase for eligible State Troopers each year

**VEHICLES**
- $11 million
- Replaces aging law enforcement vehicles
- Improves safety
- Reduces maintenance costs

**CRIME LAB**
- $2 million
- Improves crime lab operations
- Reduces criminal case backlogs
Supporting those who keep us safe

COURT SYSTEM
- $16 million
- Addresses costs associated with jurors, witnesses, interpreters, expert witnesses for prosecutors, equipment maintenance, hardware and software

NORTH CAROLINA BUSINESS COURTS
- $1.2 million
- Expands existing North Carolina Business Courts, as recommended by the North Carolina Economic Development Board

INDIGENT DEFENSE
- $9 million
- Increases funds for private assigned counsel for indigent defendants
Invests nearly $24 million in new funding for mental health services in our prisons

**Behavior health treatment units**

- $17 million

- Establishes behavior health treatment units at eight high security prisons across the state

- New positions to improve mental health screening at intake centers

**Mental health beds**

- $6.7 million

- Opens another 72 inpatient mental health beds at the Central Prison Health Care Facility
Invests nearly **$82 million** in new funding for mental health and substance abuse services

<table>
<thead>
<tr>
<th>Community mental health services</th>
<th>State mental health facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $42 million</td>
<td>• $39.4 million</td>
</tr>
<tr>
<td>• Investments to cover mental health needs in our communities</td>
<td>• Start-up funding for the new Broughton Hospital</td>
</tr>
<tr>
<td>• Treating substance abuse in our communities</td>
<td>• Ensuring financial viability of state health facilities by acknowledging acuity and patient mix we serve</td>
</tr>
</tbody>
</table>
Provides more than **$10.8 billion** in Department of Health and Human Services funding to support the well-being of our most vulnerable citizens

### The Office of Chief Medical Examiner
- Increase of $5.3 million
- Improves services and replaces equipment for the Office of the Chief Medical Examiner

### Adoption and Foster Care
- Increase of $15 million
- Funding for foster care and adoption services
- Ensures all children needing support have access

### NC FAST and NC TRACKS
- Increase of $22.9 million
- Replaces legacy IT systems to more efficiently serve citizens and pay providers

### Medicaid
- $287 million in the first year and $461 million in the second
- Provides health coverage to more than 1.8 million low-income families

### Medicaid Reform
- Supports Healthy NC reform plan to put patients first and control costs for taxpayers
- Accountable Care Organization delivery model

### Medicaid Risk Reserve
- $175 million over two years
- Provides buffer against inevitable uncertainty in one of our biggest cost drivers
DHHS State Funding

Medical Assistance and Mental Health account for 86% of DHHS General Fund appropriations in the recommended budget.

- Medicaid and Health Choice: $3,843,280,140 (73%)
- Mental Health, Developmental Disabilities, Substance Abuse Services: $710,202,991 (13%)
- All Other Programs: $752,645,416 (14%)

2015-16 Recommended State General Fund Appropriation
Electronic version of Governor McCrory’s budget can be located at the Office of State Budget and Management website: osbm.nc.gov