

March 17, 2005

H 719. 2005 GOVERNOR'S BUDGET. TO MAKE BASE BUDGET APPROPRIATIONS FOR CURRENT OPERATIONS OF STATE DEPARTMENTS, INSTITUTIONS, AND AGENCIES, AND FOR OTHER PURPOSES.

Current Operations And Expansion/General Fund

State Agency or Division	FY 2005-2006 Recommended Appropriation	FY 2006-2007 Recommended Appropriation
HEALTH AND HUMAN SERVICES:		
Central Administration	\$123,810,590	\$144,843,195
Aging	29,495,139	29,495,139
Child Development Smart Start	269,650,017	274,356,799
Education Services	33,948,521	34,402,399
Public Health	135,626,235	137,135,186
Social Services	182,906,471	185,999,363
Medical Assistance	2,588,648,711	2,903,942,267
Child Health	64,848,231	75,649,571
Services for the Blind	9,843,201	9,962,624
Mental Health/DD/SAS	592,325,908	594,706,127
Facility Services	15,346,599	17,805,557
Vocational Rehabilitation	<u>41,755,526</u>	<u>42,142,193</u>
Total Health & Human Services	4,088,205,149	4,450,440,420
NATURAL AND ECONOMIC RESOURCES:		
Agriculture & Consumer Services	52,485,984	52,289,119
Commerce	39,868,347	39,961,470
Commerce – State Aid to Non-State Entities	28,108,087	26,608,087
Environment and Natural Resources	176,058,236	176,325,626
Clean Water Management Trust Fund	62,000,000	62,000,000
Labor	<u>14,985,864</u>	<u>15,001,236</u>
Total Natural and Economic Resources	373,506,518	372,185,538
JUSTICE AND PUBLIC SAFETY:		
Correction	1,046,529,365	1,061,819,216
Crime Control & Public Safety	35,708,632	36,319,945
Judicial	347,593,618	350,343,618
Judicial – Indigent Defense	96,688,190	91,688,190
Justice	78,654,233	79,622,983
Juvenile Justice	<u>141,608,605</u>	<u>142,158,605</u>
Total Justice and Public Safety	1,746,782,643	1,761,952,557
GENERAL GOVERNMENT:		
Administration	60,890,252	61,974,972
State Auditor	10,850,737	10,840,918
Cultural Resources	62,298,020	60,790,750
Cultural Resources – Roanoke Island	1,783,374	1,783,374
General Assembly	42,984,588	46,085,432
Governor's Office	5,574,590	5,844,528
Insurance	27,954,217	28,020,521
Insurance – Workers' Compensation Fund	2,500,000	4,500,000
Lieutenant Governor	703,501	703,501
Office of Administrative Hearings	2,986,210	2,977,712

Revenue	80,068,410	79,751,761
NC Housing Finance	4,750,945	4,750,945
Secretary of State	8,568,943	8,549,857
State Board of Elections	5,042,543	5,069,307
State Budget and Management (OSBM)	5,001,371	5,025,931
OSBM – Special Appropriations	8,874,000	5,774,000
Office of State Controller	10,024,033	10,044,510
State Treasurer	8,273,726	8,295,843
State Treasurer – Retirement/Benefits	<u>8,146,179</u>	<u>8,146,179</u>
Total General Government	357,275,639	358,930,041

TRANSPORTATION	12,027,377	12,945,066
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EDUCATION:

Public Schools	6,678,869,493	6,775,854,813
Community Colleges	763,669,812	763,692,920
University System	1,834,688,356	1,862,188,968
UNC – Hospital	39,627,760	39,627,760
UNC – GA Passthrough	<u>237,019,549</u>	<u>250,669,281</u>
Total Education	9,553,874,970	9,692,033,742

TOTAL BUDGET	14,337,165,849	14,742,690,470
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DEBT SERVICE:

General Debt Service	485,185,962	615,917,453
Federal Reimbursement	<u>1,616,380</u>	<u>1,616,380</u>
Total Debt Service	486,802,342	617,533,833

RESERVES & ADJUSTMENTS:

Contingency and Emergency Reserve	5,000,000	5,000,000
Compensation Increase Reserve	181,200,000	173,200,000
Salary Adjustment Reserve	9,000,000	9,000,000
Retirement System COLA	13,810,800	13,810,800
Retirement System – Death Benefit/Disability	20,769,300	20,769,300
Information Technology Initiatives	2,000,000	2,000,000
Health Plan Reserve	80,000,000	100,000,000
Job Development Investment Grants	8,000,000	12,400,000
Information Technology Efficiencies	(3,000,000)	(3,000,000)
Management Flexibility Reduction for Agencies	<u>(64,000,000)</u>	<u>(64,000,000)</u>
Total Reserves & Adjustments	257,780,100	269,180,100

CAPITAL:

Capital Improvements	<u>18,013,000</u>	-
Total Capital	18,013,000	-

TOTAL GENERAL FUND BUDGET	<u>\$16,894,267,738</u>	<u>\$17,535,201,297</u>
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CURRENT OPERATIONS/HIGHWAY FUND

Current Operations – Highway Fund

DOT

	<u>2005-2006</u> <u>Recommended</u>	<u>2006-2007</u> <u>Recommended</u>
General Administration	\$ 82,604,119	\$ 83,455,914
Highway Division Administration	30,621,612	30,632,164
State Match for Federal Aid-Planning and Research	4,280,000	4,280,000

Construction Program:		
State Secondary System	93,370,000	95,980,000
State Urban System	14,000,000	14,000,000
Discretionary Funds	15,000,000	15,000,000
Spot Safety Improvements	9,100,000	9,100,000
Access and Public Services Roads	<u>2,000,000</u>	<u>2,000,000</u>
Total Construction Program	133,470,000	136,080,000
Maintenance Program		
Primary System	124,750,498	124,750,498
Secondary System	214,243,652	214,243,652
Urban System	40,079,682	40,079,682
Contract Resurfacing	157,208,316	157,208,316
General Maintenance Reserve	<u>153,398,161</u>	<u>129,440,063</u>
Total Maintenance Program	689,680,309	665,722,211
Ferry Operations	20,264,811	20,264,811
State Aid to Municipalities	93,370,000	95,980,000
State Aid to Railroads	17,781,153	20,299,903
State Aid for Public Transportation	89,866,447	89,866,447
Asphalt Plant Cleanup	425,000	425,000
Governor's Highway Safety Program	293,118	293,118
Division of Motor Vehicles	<u>96,047,914</u>	<u>95,468,137</u>
Total Department of Transportation	\$ 1,258,704,483	\$ 1,242,767,705
APPROPRIATIONS TO OTHER STATE AGENCIES:		
Agriculture	4,115,930	4,234,921
Revenue	4,873,784	4,877,766
State Treasurer – Sales Tax	16,166,400	16,166,400
Public Instruction – Driver Education	32,604,129	32,800,569
CCPS – Highway Patrol	184,495,510	188,275,171
DENR – LUST Trust Fund	6,010,286	6,337,313
DHHS – Chemical Test	546,826	547,503
Global TransPark	<u>1,600,000</u>	<u>1,600,000</u>
Total – Other State Agencies	250,412,865	254,839,643
RESERVES AND TRANSFERS:		
Salary Adjustment	650,000	650,000
Minority Contractor Development	150,000	150,000
State Fire Protection Grant	150,000	150,000
Stormwater Discharge Permit	500,000	500,000
Reserve for Visitors' Centers	375,000	375,000
State Infrastructure Bank	-	750,000
Reserve for Legislative Increase	7,600,000	7,600,000
Reserve for Retirement Adjustment	1,709,900	1,709,900
Reserve for Health Insurance Adjustment	4,000,000	5,500,000
Reserve for File Server Consolidation	1,000,000	1,000,000
State Employee Reserve	842,658	842,658
Employer's Contribution-Retiree	354,094	354,094
Employer's Contribution-Death Benefit	<u>(589,000)</u>	<u>(589,000)</u>
Total Reserves and Transfers	16,742,652	18,992,652
Total Current Operations	1,525,860,000	1,516,600,000

Capital Improvements	-	-
Total Highway Fund Appropriation	<u>\$1,525,860,000</u>	<u>\$1,516,600,000</u>
HIGHWAY TRUST FUND		
Highway Trust Fund	<u>2005-2006</u>	<u>2006-2007</u>
	<u>Recommended</u>	<u>Recommended</u>
DEPARTMENT OF TRANSPORTATION		
Maximum Allowance for Administration	\$40,648,220	\$41,565,540
Construction Allocation:		
Intrastate System	474,037,474	494,349,510
Urban Loop System	191,681,013	199,894,353
Secondary Roads	87,027,588	90,088,794
Transfer to Highway Fund	-	-
State Aid to Municipalities	49,737,588	51,868,794
Transfer to the General Fund (Required by GS 105-187.9)	233,058,117	222,563,009
TOTAL HIGHWAY TRUST FUND	<u>\$ 1,076,190,000</u>	<u>\$ 1,100,330,000</u>

GENERAL FUND AVAILABILITY STATEMENT

The General Fund availability used in developing the 2005-2007 budget is shown below:

<u>Description</u>	FY	2005-2006
Recommended	FY 2006-2007	
	Recommended	
	<u>(In Millions)</u>	<u>(In Millions)</u>
Beginning Availability:		
Credit Balance FY 2004-2005 (Reversions & Over-Collections)	222.0	-
Credit to Savings Reserve Account	(38.2)	-
Credit Community Colleges Equipment	(10.0)	-
Credit Information Technology Infrastructure	(20.0)	-
Credit Retirement System Payback	(5.0)	-
Credit One NC Fund	(5.0)	-
Beginning Unreserved Credit Balance	<u>143.8</u>	-
Revenue:		
Tax:		
Income (Individual & Corporate)	9,473.9	10,005.9
Sales and Use	4,809.7	5,040.6
Other Tax	<u>1,655.1</u>	<u>1,828.4</u>
Total Tax	15,938.6	16,874.9
Nontax	562.6	581.1
Transfers	249.2	238.7
Total Revenue	16,750.5	17,694.8
Total Availability	16,894.3	17,694.8

Notwithstanding G.S. 143-16.4(a2), of the funds credited to the Tobacco Trust Account from the Master Settlement Agreement pursuant to Section 6(2) of S.L. 1999-2 during the 2005-2006 and 2006-2007 fiscal years, the sum of thirty-seven million dollars (\$37,000,000) annually shall be transferred from the Department of Agriculture and Consumer Services, Budget Code 23703 (Tobacco Trust Fund) to the State Controller to be deposited in Nontax Budget Code 19978 (Intra State Transfers) to support General Fund appropriations for the 2005-2006 and 2006-2007 fiscal years.

Notwithstanding the allocations outlined in G.S. 143-15.2 and G.S. 143-15.3, the sum of thirty-eight million one hundred ninety-four thousand seven hundred sixty-two dollars (\$38,194,762) shall be reserved to the Savings Reserve Account from the beginning credit balance on June 30, 2005.

Notwithstanding the allocations outlined in G.S. 143-15.2 and G.S. 143-15.3, the sum of ten million dollars (\$10,000,000) shall be transferred to the Department of Community Colleges from the credit balance on June 30, 2005, to address equipment needs systemwide.

Notwithstanding the allocations outlined in G.S. 143-15.2 and G.S. 143-15.3, the sum of twenty million dollars (\$20,000,000) shall be transferred to the Information Technology Fund from the credit balance on June 30, 2005, to implement recommendations outlined in the Business Infrastructure Study as well as to meet requirements for security, project management, State portal, electronic mail, legacy system, and other enterprise initiatives.

Notwithstanding the allocations outlined in G.S. 143-15.2 and G.S. 143-15.3, the sum of five million dollars (\$5,000,000) shall be transferred to the Department of State Treasurer from the credit balance on June 30, 2005, to continue repayment of funds withheld from the Retirement System in 2000-2001 due to the budget crisis.

Notwithstanding the allocations outlined in G.S. 143-15.2 and G.S. 143-15.3, the sum of five million dollars (\$5,000,000) shall be transferred to the Department of Commerce from the credit balance on June 30, 2005, to support the purposes of the One North Carolina Fund.

The sum to be transferred from the Highway Trust Fund to the General Fund for fiscal year 2005-2006 is two hundred thirty-three million fifty-eight thousand one hundred seventeen dollars (\$233,058,117) and for fiscal year 2006-2007 is two hundred twenty-two million five hundred sixty-three thousand nine dollars (\$222,563,009). These sums are in accordance with S.L. 2002-126.

General Provisions

Transportation services for trade shows. Authorizes the Dep't of Transportation (DOT) to use up to \$1.2 million in each year of biennium from public transportation funds for trade shows. DOT must report annually to Joint Legislative Comm'n on Government Operations (Gov Ops).

Contingency and Emergency Fund allocations. Provides that of funds appropriated to Contingency and Emergency Fund, up to \$2 million for 2005-06 may be used for Base Realignment and Closure Act (BRAC) purposes and up to \$500,000 in each year of biennium may be spent "for purposes other than those set out in GS 143-23(a1)(2)" or BRAC purposes.

State money recipients/conflict of interest policy. Requires each private nonprofit entity eligible for State funds to file a conflict of interest policy with the disbursing agency.

Budget flexibility for State agencies. Authorizes General Fund transfers for the 2005-07 biennium between personal service and nonpersonal service items, subject to approval by agency head and Office of State Budget and Management (OSBM), with reporting to Gov Ops.

Receipt-supported positions consultation requirement. Repeals GS 143-34.1(a1) requiring consultation with Gov Ops.

General Fund appropriations cap. Enacts new GS 143-2.1 to provide that the General Fund appropriations limit for each fiscal year shall be the previous fiscal year's General Fund appropriation for operating and capital increased by a percentage rate that equals the fiscal growth factor. "Fiscal growth factor" is the average of total State personal income change for each of the preceding ten state fiscal years. Enacts new GS 143-2.2 to provide that both the Governor, in proposing a budget, and the General Assembly, in enacting a budget, are bound by the limits imposed by new GS 143-2.1. Transfers, appropriations, or other deposits to the Savings Reserve Account and the Repairs and Renovations Reserve Account do not count toward the calculation of the limit.

Require voter approval for debt exceeding twenty-five million dollars. Amends GS 142-83 to state that one of three alternative conditions for capital facilities to be financed with special indebtedness is that the authorization is not above \$25 million in a fiscal year unless it is for public safety or public health or to enforce a court order.

Establish total debt cap. Enacts new GS 142-15.4 stating that the State's net tax-supported debt cannot exceed 3% of total personal income in any year.

Public Education

Teacher salary schedules. Provides for longevity payments of between 1.5% for 10-14 years of service and 4.5% for 25 or more years of service. Adopts salary schedule for teachers as follows: "A" teachers, \$2,545 per month to \$4,573 per month; NBPTS certified "A" teachers, \$3,120 per month to \$5,122 per month; "M" teachers, \$2,800 per month to \$5,031 per month; NBPTS certified "M" teachers, \$3,431 per month to \$5,634 per month. Provides salary supplement of \$126 per month for certified teachers based on six-year degree level and \$253 for certified teachers based on doctoral degree level. Specifies salary schedules for school psychologists, speech pathologists, school nurses, and instructional support personnel.

School-based administrator salary schedule. Adopts salary schedules for principals (\$3,715 to \$7,560 per month) and assistant principals (\$3,256 to \$5,294 per month) and classifies assistant principals and principals for salary purposes according to number of teachers supervised. Provides salary supplement of \$126 per month for principals and assistant principals based on six-year degree level and \$253 based on doctoral degree level.

Experience step increase for teachers and principals in public schools. Provides for one-time bonus of 1.58% for permanent certified personnel with at least 29 years of experience and employed on July 1, 2005, and paid on teacher salary schedule and 2% for permanent personnel paid at the top of the principal and assistant principal salary schedule.

Retired teachers returning to the classroom without loss of retirement benefits/option extended. Substantially identical to S 570, introduced 3/16/05, except also amends SL 2004-124, Section 31.18A.(g), to clarify that contributions made to Teachers' and State Employees' Retirement System on behalf of reemployed teacher may not be deducted from teacher's pay.

Central office salaries. Adopts salary schedule for school administrators (\$2,932 to \$7,394 per month) and superintendents (\$4,187 to \$9,931 per month) and provides for salary supplement of \$126 per month for six-year degree level and \$253 per month for doctoral degree. Provides that annual salary increase for all permanent full-time personnel paid from Central Office Allotment is 2%. Prohibits the State Board of Education (SBE) from allowing school districts to transfer State funds from other funding categories for administrator salaries.

Noncertified personnel salary. Provides for 2% salary increase.

Funds to implement the ABCs of Public Education. Requires that SBE use funds appropriated in act to provide incentive funding for schools that met or exceeded projected levels of improvement as follows: schools that achieve higher than expected improvements—\$1,500 for teachers and certified personnel and \$500 for each teacher assistant; schools that meet expected improvements—\$750 for teachers and certified personnel and \$375 for each teacher assistant.

Children with disabilities. Requires that SBE allocate \$2,838.39 per child for a maximum of 169,164 children for 2005-06 school year and that school districts receive funds for lesser of all children identified with disabilities or 12.5% of the 2005-06 allocated average daily membership of district.

Funds for academically gifted children. Requires that SBE allocate \$926.55 per child to a maximum of 4% of district's 2005-06 allocated average daily membership, capped at 55,895 children.

Discrepancies between anticipated and actual ADM. Authorizes SBE to use funds appropriated to State Aid for Public Schools if it does not have sufficient funds in ADM Contingency Reserve to make allotment adjustments required by NC Public Schools Allotment Policy Manual and establishes standards for reducing allotments for school districts with reduced student enrollment.

Local education agency flexibility. Requires that the SBE notify Local Education Agency (LEA) of budget reduction amounts within 14 days of act becoming law and that LEAs report to Dep't of Public Instruction (DPI) on discretionary budget reductions that have been identified

within 30 days of that date. Requires that SBE report this information to the Office of State Budget and Management (OSBM) and Fiscal Research by December 31, 2005. Urges districts not to make reductions that directly affect classroom services or services for at risk or special needs students and that districts explain any reductions in the allotment categories.

LEA Assistance Program. Requires that assistance to LEA provided by DPI be consolidated into the LEA Assistance Program (LEAAP), to provide assistance to the State's low-performing LEAs and assist schools in meeting subgroup progress under the No Child Left Behind Act of 2001. Requires that \$6.5 million be transferred from certain existing DPI appropriations to the LEAAP. Requires that SBE develop criteria for LEA Assistance Teams as outlined in act. Requires that SBE submit report to OSBM, Fiscal Research, and the Joint Legislative Education Oversight Committee on the criteria, budget, and new organizational structure of the LEAAP by August 1, 2005, for 2005-06 academic year and by August 31 of each subsequent year.

Disadvantaged student supplemental funding. Requires that of the funds appropriated from the General Fund to State Aid to Local School Administrative Units, \$22.5 million must be used to address the capacity needs of LEAs to meet the needs of disadvantaged students and requires that for 2005-06 these funds will continue the nonrecurring funding provided in 2004-05 and that for 2006-07 these funds will be allocated under a new SBE formula. Requires that SBE use funds to evaluate LEA strategies implemented and assess their impact on student performance and report results to General Assembly by February 15, 2006, and by January 15 of subsequent years. Requires that funds be used only to provide instructional or support positions and intensive remediation, and to purchase diagnostic software and progress monitoring tools.

Use of funds in at-risk and improving student accountability allotments. Requires that funds be used only to provide instructional or support positions and intensive remediation, and to purchase diagnostic software and progress monitoring tools and provides that LEAs must submit a report to SBE by October 31 of each year on fund expenditures in order to remain eligible for funds. Requires that SBE report information annually by October 31 to the General Assembly.

At-risk student services/alternative schools. Allows SBE to use \$200,000 of Alternative Schools/At Risk Student allotment to implement alternative learning duties under GS 115C-12.

Supplemental funding in low-wealth counties. Specifies procedures for allocating supplemental funding for public schools in low-wealth counties and requirements regarding use of supplemental funding. Counties in which county wealth, as percentage of state average wealth, is less than 100% are eligible to receive supplemental funding. Funding per average daily membership generally will be difference between state average current expense per student and current expense per student that county could provide given county's wealth and average effort to fund public schools. Includes provisions relating to maintenance of fiscal effort and nonsupplanting of funding. Requires that SBE report to Joint Legislative Education Oversight Committee prior to May 1, 2006, if it determines that counties have supplanted funds.

Small school system supplemental funding. Specifies allocation formula and procedures for supplemental funding for county school units with average daily memberships of fewer than 3,175 students (and certain units with average daily memberships of between 3,175 and 4,000 students).

Students with limited English proficiency. Requires that SBE develop guidelines for identifying and providing services to students with limited English language proficiency and allocate funds to districts based upon average daily membership of such students, to a maximum of 10.6% of average daily membership. Further requires that DPI assess students with limited English proficiency every three years to determine proficiency levels.

Expenditure of funds to improve student accountability. Requires that funds appropriated for 2005-06 for Student Accountability Standards be allocated to LEAs to assist students in grades 3-8 to perform at or above grade level in reading and mathematics on State end-of-grade tests. Provides that funds will not revert and will remain available for expenditure until August 31 of the subsequent fiscal year.

Learn and Earn. Requires that funds appropriated for the Learn and Earn high school workforce development program be used to identify students who are not prepared to attend a college program and to assist students in earning an associate degree or two years of college credit by the year after their senior year in high school by establishing new high schools that

incorporate community college and high school curricula. Requires that SBE annually evaluate program and report results to the General Assembly by September 15 of each year.

Small specialty high schools pilot program. Provides funding for 11 small specialty high schools within existing schools in order to improve graduation rates and improve student performance. Requires that SBE evaluate program and report results to General Assembly by November 15, 2006.

Teaching Fellows Program for science and mathematics. Amends GS 115C-363.23A to require that program be used to provide 50 2-year scholarship loans of \$6,500 per year to NC college juniors and seniors who intend to be licensed in middle school or high school mathematics or science and requires that Teaching Fellow Comm'n forgive loan if within seven years of graduation recipient teaches for three years or for two consecutive years at a NC public school. Makes conforming changes.

Transfer Prospective Teacher Scholarship Loan and Teacher Assistant Scholarship Loan to the NC State Education Assistance Authority. As title indicates.

Visiting international faculty. Requires that the SBE convert teaching positions for dollars for Visiting International Faculty Program teachers for fiscal biennium on the basis of the allotted average teacher salary and benefits.

Funds for teacher recruitment initiatives. Authorizes SBE to use \$200,000 of funds appropriated for State Aid to Local School Administrative Units for fiscal biennium to obtain advice on teacher recruitment from NBPTS-certified teachers or those who have received special recognition.

Charter school advisory committee/charter school evaluation. Authorizes SBE to spend up to \$50,000 a year from State Aid to Local School Administrative Units for fiscal biennium to continue support of a charter school advisory committee and to evaluate charter schools.

Replacement school buses funds. Authorizes the SBE to transfer up to \$55,106,092 for 2005-06 and \$57,388,367 for 2006-07 to LEAs for replacement school buses under GS 115C-249(c) and (d). Exempts term contract for the purchase or lease-purchase of buses from payment of electronic procurement transaction fee.

Litigation reserve funds. Authorizes SBE to expend \$500,000 for 2005-06 and \$500,000 for 2006-07 from unexpended salary funds for litigation expenses.

Funds for the testing and implementation of the new student information system. Provides that funds appropriated for Uniform Education Reporting System do not revert at the end of 2005-06 and 2006-07 and remain available until expended.

Expenditures for driving education certificates. Authorizes SBE to use funds appropriated for drivers' education for fiscal biennium for driving eligibility certificates.

Public school building capital fund. Amends GS 115C-546.1(b) to require that Secretary of Revenue deposit \$3.75 million quarterly into the State Public School Fund.

Standards review of MSA programs. Requires that the SBE, working with the UNC Board of Governors (BOG), review standards for Masters in School administration programs to ensure that teacher retention is emphasized.

Evaluation of school principals. Requires that SBE ensure that school principals are evaluated annually and revise administrator evaluation standards to include standards for teacher retention and support and school climate.

Planning time for teachers. Requires that SBE report on best practices from NC schools for providing a minimum of five hours a week for planning and professional development, with a special emphasis on elementary school calendars, and submit report to the NC Education Cabinet by December 31, 2005.

Community Colleges

Use of funds for the College Information System Project. Provides that funds appropriated for project do not revert at the end of 2004-05 and requires that Community College System Office (NCCCS) report quarterly to Joint Legislative Education Oversight Committee on Project implementation.

Carryforward for equipment. Authorizes NCCCS to carry forward up to \$10 million of operating funds held in reserve that were not reverted in 2004-05 to be reallocated to its Equipment Reserve Fund, funds to be distributed in accordance with GS 115D-31.

Salaries of community college faculty and professional staff. Requires that appropriated funds be used to increase faculty and professional staff salaries by an average of 2%.

Focused Industrial Training and New and Expanding Industry Training combined into Customized Industry Training. As title indicates. Establishes criteria for selecting businesses for training programs and requires that State Board of Community Colleges report annually to General Assembly and Governor's Economic Development Board on use of Program funds.

Nonreversion of Customized Industry Training Program funds. Requires that Program funds not revert at end of 2004-05 and that amount available not exceed \$10 million.

Reauthorization of House Bill 275 – Employment Security Commission funds. Extends the sunset from January 1, 2006, to January 1, 2011, on GS 96-6.1, which levies a tax of 20% of each employer's unemployment insurance tax (identical to H 609). The tax is called a "training and reemployment contribution" because it is intended that the proceeds will be used for enhanced reemployment services and worker training programs. Requires that 66% of tax proceeds be used for Equipment Funds and 34% be used for Customized Industry Training and that funds not revert.

Transfer of the North Carolina Center for Applied Textile Technology to Gaston College. As title indicates. Requires that State Board of Community Colleges adopt rules to implement act and that funds allocated to Center be transferred to Gaston Community College. Requires that Board report on status to Joint Legislative Education Oversight Committee and OSBM by September 1, 2006. Makes conforming changes.

State Board of Community Colleges management flexibility. Requires that within 30 days of act becoming law Board notify each college of budget reductions and that each college report to Board on identified discretionary budget reductions within 60 days of act becoming law. Further requires that this information be provided to OSBM and Fiscal Research no later than December 31, 2005. Urges colleges to avoid making reductions that would directly affect classroom services or high-need areas and requires that Board identify changes to allotment categories that would make reductions permanent.

Universities

UNC flexibility guidelines. Requires that the Chancellor of each institution and the President of UNC report to the UNC Board of Governors (BOG) on reductions in General Fund budget codes required to meet reductions in reserve amounts for that institution or entity. Requires that BOG summarize this information in a report to OSBM and Fiscal Research by December 31, 2005.

UNC-NCCCS Joint Initiative for Teacher Education and Recruitment. Requires that funds appropriated to Initiative be used to establish eight positions, which will assist in increasing the number of certified teachers in NC Public Schools. Sets forth specific tasks to be accomplished by staff and requires that Initiative results be reported annually and that report include certain performance outcomes by region. Also requires that results be reported to several education boards, the Education Cabinet, the Joint Legislative Education Oversight Committee, and OSBM by September 1, 2006.

UNC-NCCCS 2+2 E-Learning Initiative. Requires that funds appropriated to UNC and NCCCS be used to fund further development of online courses for 2+2 programs.

Use of Escheat Fund for need-based financial aid programs. Appropriates from the Escheat Fund income: \$39,562,679 for 2005-06 and \$26,375,120 for 2006-07 to the BOG; \$8,235,901 for 2005-06 and \$8,235,901 for 2006-07 to State Board of Community Colleges; and \$2,806,438 for 2005-06 and \$1,678,667 for 2006-07 to Dep't of Administration, Div'n of Veterans Affairs. Requires that funds be allocated by the State Educational Assistance Authority for need-based financial aid in accordance with GS 116B-7. Requires that Authority perform administrative functions necessary to implement programs.

Aid to students attending private colleges procedures. Requires that up to \$1,100 per student enrolled at a private institution as of October 1, 2005, and October 1, 2006, be provided from funds appropriated for aid to private colleges. Further allocates \$1,800 for 2005-06 academic year and \$1,800 for 2006-07 academic year for each undergraduate student attending approved institutions defined in GS 116-22.

Board of Governors' medical scholarships. Requires that current BOG Medical Scholarship Program make scholarship loan awards of \$5,000 annually to students admitted after July 1, 2005, to schools of medicine at Duke, ECU, UNC, or Wake Forest. Requires that Board adopt certain standards for the award of those scholarship loans and that loans bear rate of 10% interest upon completion of program or termination of loan. Unused funds shall revert to General Fund at the end of fiscal year.

Board of Governors' dental scholarships. Provides same awards as described above (medical scholarships) for students admitted to UNC School of Dentistry.

University of North Carolina System/EPA salary increases. Provides average annual salary increase of 2.0% for all UNC employees and for employees of NC School of Science and Mathematics.

Enrollment growth funds. Requires that of funds appropriated to UNC for Enrollment Growth, UNC-OP must obtain plans from each campus as to how current enrollment in teacher education programs will be maintained and growth targets will be achieved. Requires that UNC-OP report on plans to OSBM and the Joint Legislative Education Oversight Committee no later than December 30, 2005, and submit progress report by March 31, 2006. Authorizes the Office of the President to reallocate up to 5% of the total enrollment growth funding of campuses that do not meet their goals.

Enrollment growth funding model. Requires that OSBM, UNC, and Fiscal Research jointly conduct a comprehensive review of enrollment funding model and develop an alternative to the current model. Requires that alternative model be used to prepare enrollment growth funding request for 2006 General Assembly session.

Study of distance education. Requires that OSBM study the distance education programs at the institutions in the UNC System and identify course program duplications and determine which campuses are best suited to offer a particular course or program of study. Requires that study be reported to the Joint Legislative Education Oversight Committee no later than April 30, 2006.

Information technology procurement. Authorizes UNC System institutions to participate in the aggregation of purchasing administered by the Office of State Technology Services. Requires that OSBM conduct a cost comparison of UNC System purchases to determine if further aggregation is cost-justified and complete report by December 31, 2005.

Department of Health and Human Services (DHHS)

Central Management

School-based child and family support teams. In implementing School-Based Child & Family Support Teams initiative, DHHS must manage LME Coordinators & Child & Family Team Facilitators funds in the most effective manner to serve at-risk students. Allows for transfer of funds between budget codes.

Reserve for information technology. Provides for non-reversion of certain funds budgeted for development and implementation of specific automated projects.

Senior care program administration. Allows DHHS to administer "Senior Care" prescription drug access program.

Medical Care Comm'n temporary rule-making authority extended. Allows Comm'n to adopt temporary rules until July 1, 2007.

Liability insurance. Allows DHHS, Dep't of Environment & Natural Resources, and Dep't of Correction to provide medical liability coverage up to a specified amount for certain employees. Includes limitations in coverage. Coverage not to require additional appropriations and does not apply to certain individuals providing contractual services.

DHHS payroll deduction for child care services. Adds new GS 143-3.3(m) allowing for payroll deductions for child care services.

More At Four Program. Directs that funds appropriated to DHHS for the More At Four Pre-K Program be used to implement a voluntary pre-K program for at-risk four-year-olds. Requires DHHS and the Dep't of Public Instruction to establish a More At Four Pre-K Task Force and provides for membership. Sets forth requirements for the More At Four pre-K Program for at-risk four-year-olds. Provides for a collaborative plan for expansion of the More At Four Program quality standards, to begin with five-star rated centers, with some requirements. Requires annual

progress reports on the More at Four Program and specifies report requirements. Requires the More At Four Program to establish income eligibility requirements.

More At Four transportation. Amends GS 115C-242(1) allowing for transportation of children enrolled in the State-funded More at Four Pre-K Program.

Office of Policy and Planning. Requires Secretary of DHHS to establish an Office of Policy & Planning from existing resources. Provides for reporting and Director's responsibilities and authority.

Non-Medicaid reimbursement changes. Requires reimbursement to providers of medical services under the various State programs, other than Medicaid, to be at rates no more than under the NC Medical Assistance Act. Notwithstanding this, allows DHHS to negotiate with non-Medicaid providers for rates as close as possible to Medicaid rates for certain purposes. Provides maximum net family annual income eligibility standards for services as well as eligibility levels for certain programs. Provides for State financial participation for certain program enrollees who become gainfully employed. Requires DHHS to contract at or as close as possible to Medicaid rates for medical services provided to residents of State facilities of the Dep't.

Division of Aging

Special assistance in-home program. Allows DHHS, with restrictions, to use certain existing funds to provide Special Assistance payments to eligible individuals in in-home living arrangements. Requires DHHS to implement Special Assistance eligibility policies and procedures, to make the at-home option available to all counties on a voluntary basis, and to the extent possible consider geographic balance in the dispersion of payments.

Senior center outreach. Requires funds appropriated to DHHS Div'n of Aging for senior center development for the 2005-07 biennium to be used in specified ways. Requires action by county comm'rs before funds are allocated for start-up funds for a new senior center. Provides a cap on State funding.

Division Of Child Development

Criminal history record checks. Authorizes Division of Child Development to use lapsed salary funds to support additional temporary positions to eliminate backlog of criminal history record checks.

Child care subsidy payments. Sets maximum gross annual income for initial eligibility for subsidized child care services and fees for families who are required to share costs. Establishes requirements for payments for the purchase of child care services. Provides payment rates for providers. Requires calculation of market rates. Sets out facility licensing requirements for participation in the program. Requires compliance for the use of Work First Block Grant funds. Provides for eligibility of non-citizen families.

Child care allocation formula. Provides for the allocation of funds and reallocation of unused funds.

Child care revolving loan. Provides that Child Care Revolving Loan Fund funds may be invested and used for certain purposes.

Division of Public Health

AIDS drug assistance program (ADAP). Allows for an increase in the eligibility of the ADAP Program.

Public health improvements. Allocates \$50,000 per year for fiscal years 2005-06 and 2006-07 to accredited local public health agencies for specified purposes.

Accreditation for local health departments. Requires DHHS to expand the accreditation process for local health departments to include additional counties. Establishes an Accreditation Board, provides for membership and reimbursement of expenses, and requires that Board evaluate the Dep't's accreditation process. \$50,000 of DHHS 2005-06 funds are allocated for administrative costs and activities of the Board. DHHS must contract with the Institute for Public Health, which will be responsible for the accreditation process.

Immunization program funding. Of funds appropriated for childhood immunization programs, \$1 million per year for fiscal years 2005-06 and 2006-07 may be used for specified

projects and activities also designed to increase immunization rates in NC. Limits use of funds for additional positions.

Division Of Social Services

Intensive family preservation services funding and performance enhancements. Requires the Intensive Family Preservation Services (IFPS) Program to provide intensive services to certain children and families, that the program be developed and implemented statewide and on a regional basis, and that standardized assessment criteria be used. DHHS must require any program or entity that receives IFPS funding to provide certain information and must establish performance-based funding protocol.

Funds for food banks. \$1 million of DHHS funds for fiscal 2005-06 must be allocated equally among the six Second Harvest North Carolina food banks.

Foster care and adoption assistance payments. Provides maximum rates for State participation in the foster care assistance and adoption assistance programs. Provides for use of excess funds for medical training in avoiding HIV transmission in the home. Provides maximum rates for State participation in HIV foster care and adoption assistance.

Special children adoption fund. \$100,000 of DHHS funds for 2005-06 must be used to support the Special Children Adoption Fund. Provides for the creation of guidelines for awarding and use of funds. Of total funds appropriated for the Special Children Adoption Fund each year, 20% is reserved for payment to participating private adoption agencies. Provides for reallocation of unspent funds. Requires Div'n of Social Services to monitor expenditures in the Special Children Adoption Fund and redistribute unspent funds.

Child support program/enhanced standards. Requires DHHS to implement and maintain performance standards for child support enforcement officers, to monitor offices, implement a reporting system, and publish an annual performance report.

Division Of Medical Assistance

Medicaid cost containment. Authorizes DHHS Div'n of Medical Assistance to implement certain cost-containment programs and to adopt temporary rules. Dep't may use not more than \$3 million in each year of the fiscal biennium in Medicaid funds budgeted for program services to support the cost of administrative activities to support cost-containment programs when cost-effectiveness and savings are demonstrated. Provides for the use of funds and for proposals for the expenditure of funds.

Pharmacy cost containment. Requires DHHS to devise and implement a pharmacy plan to achieve expenditure reductions included in the budget for the fiscal biennium and allows for the adoption of temporary rules.

Medicaid. Provides a schedule of services and payment bases for the expenditure of Medicaid funds. Services and payment bases may be changed with approval of the Director of Budget. Limits payment to Medicaid-enrolled providers that purchase a specified performance bond or with specified financial credentials. Allows for waiver of this requirement. Provides a 24-visit per recipient reimbursement limit, with exceptions allowed. Allocates the non-federal cost of Medicaid. Authorizes DHHS to establish co-payment. Sets maximum net family annual income eligibility standards for Medicaid and the Standard of Need for Work First Family Assistance. Sets payment level for Work First Family Assistance and provides for change in standards. Provides for ICF and ICF/MR Work Incentive Allowances, dispensing of generic drugs, waiver of service limitations, eligibility requirements, and payment bases, and updating of income limits. Requires DHHS to provide Medicaid coverage to all elderly, blind, and disabled people at certain income levels and to 19-, 20- and 21-year olds in accordance with federal rules and regulations. Provides a schedule for coverage for pregnant women and children. Provides that Medicaid enrollment of categorically needy families with children is continuous for one year without regard to changes in income or assets. Requires DHHS to report on expenditures for acute care and long-term care services and to revise the program's projected spending on a quarterly basis. Allows for incentives to counties that recover fraudulently spent Medicaid funds. Provides for the use of certain funds for information systems. Allows DHHS to adopt temporary rules for certain purposes. Requires DHHS to report on changes it anticipates making in the Medicaid program. Allows Medicaid coverage for family planning services to men and women of child-bearing age with family incomes

at a certain level. Allows the Dep't to apply federal transfer of assets policies, effective no earlier than October 1, 2001. Federal transfer of asset policies and attachment of liens to properties excluded as tenancy-in-common or as non-homesite property made "income producing" in accordance with this subsection shall become effective not earlier than November 1, 2002.

County Medicaid cost-share. Effective July 1, 2000, the county share of the cost of Medicaid services currently and previously provided by area mental health authorities is increased incrementally each fiscal year until it reaches 15% of the non-federal share by State fiscal year 2009-2010. Effective July 1, 2000, the county share of the cost of Medicaid Personal Care Services paid to adult care homes is decreased incrementally each fiscal year until the county share reaches 15% of non-federal share by State fiscal year 2009-2010.

Disposition of disproportionate share receipts. Provides for the disposition of disproportionate share receipts.

NC Health Choice. Provides that the amount appropriated to the NC Health Choice for Children Program may be increased through budget transfers.

Transfer eligible children under five from health choice to Medicaid. Amends GS 108A-70.21(a)(1) pertaining to eligibility of children and GS 108A-70.21(b) pertaining to benefits. Effective January 1, 2006.

Division of Mental Health

Physician services. With approval, DHHS may use appropriated funds for across-the-board salary increases and performance pay to offset similar increases in the costs of contracting with universities for the provision of certain services.

Private agency uniform cost finding requirement. Certain private agencies that provide services may be required to complete an agency-wide uniform cost finding. Funding may be suspended if cost finding is not completed.

DHHS policies and procedures in delivering community mental health, developmental disabilities, and substance abuse services. Requires DHHS Div'n of Mental Health, Developmental Disabilities, and Substance Abuse Services to, in cooperation with others, identify and eliminate barriers created by existing State and local policies and procedures in the delivery of community-based mental health, developmental disabilities, and substance abuse services. Requires DHHS to implement changes to facilitate specified activities. Provides for use of appropriated funds and disposition of excess funds.

Transition planning for state psychiatric hospitals. Sets forth guiding principles for the receipt of services and supports. Requires DHHS to conduct an analysis of patient needs and develop and implement a transition plan for patients in each hospital. State must ensure that each plan take into consideration certain factors.

Mental retardation center downsizing. Provides target goal for downsizing. Requires cost-containment and reduction strategies and management of client populations. Provides for use of savings in State appropriations. Requires DHHS to report on progress and sets reporting deadlines.

Department Of Commerce

One North Carolina fund. Authorizes Dep't to use up to \$300,000 of the funds appropriated to the One North Carolina Fund to cover its expenses in administering the fund and for other economic development incentive programs during the 2005-06 fiscal year.

Tourism promotion grants. Requires that appropriated funds be allocated to counties according to needs-based formula as specified in act.

Film incentive funds do not revert. Effective June 30, 2006, provides that unexpended and unencumbered funds do not revert.

Motorsports promotion. Transfers \$250,000 from UNC-Charlotte, NC Motorsports Testing and Research Complex project, to Division of Film, Tourism, and Sports for promotion of motorsports in NC.

Biotechnology center. Requires Center to recapture funds spent in support of successful research and development efforts in for-profit private sector; to provide funding for biotechnology,

biomedical, and related bioscience applications under its business and science technology programs; and to report on specified matters to Gov Ops, Fiscal Research Div'n, and OSBM.

Regulatory fee for Utilities Commission. Sets rate for calculating public utility regulatory fee under GS 62-302(b)(2) at 0.12% of revenues earned for quarters beginning on or after July 1, 2005. Sets electric membership corporation regulatory fee under GS 62-302(b1) at \$200,000.

Employment Security Commission. Appropriates from Special Employment Security Administration Fund to Employment Security Comm'n \$300,000 for 2005-06 for operation of local offices, to develop and operate an interagency system to track former participants in State education and training programs, and to maintain compliance with the statutory requirement to use the Common Follow-Up Management Information System.

Department Of Environment And Natural Resources

State match for federal Safe Drinking Water Act funds. Authorizes Dep't to transfer up to \$1.5 million of funds available in General Water Supply Revolving Loan Account to match federal grant moneys under the Safe Drinking Water Act Amendments of 1996.

Clean Water Management Trust Fund. Provides that appropriation to Clean Water Management Trust Fund is \$62 million for each year of the fiscal biennium.

Department Of Insurance

Transfer from Insurance Regulatory Fund. Amends GS 58-6-25 to direct the Comm'r of Insurance to transfer quarterly from the Insurance Regulatory Fund to the General Fund to repay funds expended by the Dep't from the General Fund for purposes set out in section, plus accrued interest at rate determined by State Treasurer.

Department Of Administration

Nonpublic education. Transfers all personnel and equipment assigned to Div'n of Nonpublic Education for purpose of carrying out statutory provisions regarding nonpublic schools to Dep't of Public Instruction.

Veterans scholarships partially funded from Escheat Fund. Appropriates \$2,806,438 for 2005-06 and \$1,678,667 for 2006-07 from Escheat Fund to Dep't of Administration for veterans scholarships.

Fire protection grant fund. Amends GS 58-85A-1(c) to provide that it is intent of General Assembly to appropriate annually to State Fire Protection Fund at least \$4,080,000 from General Fund (now, \$3,080,000).

Administrative Office Of The Courts

Federal grant funds. Authorizes Judicial Dep't to use up to \$1.25 million to provide State match needed to receive federal grant funds.

Department Of Corrections

Federal grant matching funds. Authorizes Dep't of Corrections to use up to \$750,000 in each year of the biennium to provide State match needed to receive federal grant funds.

Medium custody road crew compensation. Transfers \$10 million for each year of biennium from Dep't of Transportation to Dep't of Corrections for actual costs of highway-related labor performed by medium-custody prisoners.

Limit use of operational funds. Directs that funds appropriated to Dep't for operational costs for additional facilities must be used for personnel and operating expenses set forth in the budget approved by the General Assembly in appropriations act. Funds may not be expended for new personnel positions until the new facilities are within 180 days of projected completion with certain specified exceptions.

Use of closed prison facilities. Requires Dep't to consult with county or municipality in which prison facility is closed, with elected State and local officials, and with State agencies about the possibility of converting prison to other use. Requires Dep't to give priority to converting unit to other criminal law use. Authorizes State to provide for transfer or lease to local governments, State agencies, or private firms wishing to convert unit to another use. Requires report to Joint Legislative Comm'n on Governmental Operations and Joint Legislative Corrections, Crime Control and Juvenile Justice Oversight Committee before any transfer or lease.

Shift pay for security staff. Authorizes Dep't to use available funds to pay security staff special supplemental weekend shift premium pay that exceeds standard weekend shift pay by up to 10%.

Inmate costs/food, health care, prescription drugs, inmate clothing, and laundry services. Authorizes Dep't to use available funds for food, health care, prescription drugs, clothing, and laundry services for inmates if cost of providing those services is anticipated to exceed the Department's budget for those items.

Computer/data processing services funds. Allows Dep't to use funds for expenses for computer/data processing services if expenditures exceed budgeted amount.

Energy committed to offenders/contract and report. Allows Dep't to continue contract with Energy Committed to Offenders, Inc., for purchase of prison beds for fiscal biennium.

Criminal Justice Partnership Program. Provides that grants to participating counties under State-County Criminal Justice Partnership Program are for the full fiscal year and that unobligated funds are returned to the State-County Criminal Justice Partnership Account at end of grant period for reallocation.

Salaries And Benefits

Governor and Council of State. Sets salary of Governor at \$122,731 and Council of State members at \$108,319.

Nonelected department head/salary increases. Sets salary of nonelected dep't heads at \$105,828.

Certain executive branch officials/salary increases. Chair, ABC-\$96,322; State Controller-\$134,802; Comm'r of Motor Vehicles-\$96,322; Comm'r of Banks-\$108,319; Chair, ESC-\$134,632; State Personnel Director-\$105,828; Chair, Parole Comm'n-\$87,954; Members, Parole Comm'n-\$81,202; Chair, Utilities Comm'n-\$120,632; Members, Utilities Comm'n-\$108,319; Executive Director, Agency for Public Telecommunications-\$81,202; General Manager, Ports Railway Comm'n-\$73,325; Director, Museum of Art-\$98,699; Executive Director, NCHFA-\$119,209; Executive Director, NCAFA-\$93,756; and Chief Information Officer-\$134,722.

Judicial branch officials/salary increase. Chief Justice, Supreme Court-\$122,732; Assoc. Justice-\$119,525; Chief Judge, Court of Appeals-\$116,536; Appeals Court Judge-\$114,544; Judge, Sr. Regular Resident Superior Court-\$111,432; Superior Court Judge-\$108,319; Chief Judge, District Court-\$98,360; District Court Judge-\$95,248; Administrative Officer of the Courts-\$111,432; and Asst. Administrative Officer of the Courts-\$101,783. Establishes minimum salary of Asst. District Attorney or Public Defender at \$32,163, effective July 1, 2005, and provides that average salaries of those positions shall not exceed \$62,377 in each district.

Clerk of superior court salary increases. Amends GS 7A-101(a) to establish annual salary of clerk of superior court in each county, based upon population of county, as follows: less than 100,000: \$72,450; 100,000 to 149,999: \$81,301; 150,000 to 249,999: \$90,154; 250,000 and above: \$99,007.

Assistant and deputy clerks of court/salary increases/eliminate deputy clerk hiring rate. Amends GS 7A-102(c1) to establish salary range of Asst. Clerk and Head Bookkeeper from \$27,478 to \$48,151, and of Deputy Clerks from \$23,385 to \$37,238 (lowers the minimum salaries).

Magistrates' salary increases. Amends GS 7A-171(a) to establish salary range for full-time magistrate judges of \$27,865 to \$48,566 (lowers entry rate salary) and a prorated amount for part-time magistrates. Further amends GS 7A-171.1(a1) to establish ranges for magistrates who were credited with less than five years of service as of June 30, 1994.

General Assembly principal clerks. Amends GS 120-37(c) to establish salary of principal clerk at \$91,513.

Sergeant-at-arms and reading clerks. Amends GS 120-37(b) to set salary of sergeant-at-arms and reading clerk at \$303 per week (now, \$311).

Legislative employees. Provides that salaries of nonelected General Assembly employees shall be increased by 2%.

Community colleges personnel/salary increases. Provides salary increase of 2% for full-time instructional personnel.

University of North Carolina system/epa salary increases. Provides for salary increases of 2% for University employees and nonteaching employees of NC School of Science and Mathematics. Provides for 2% for teaching employees of School of Science and Mathematics to be allocated according to rules adopted by Board of Trustees of School. Transfers from Reserve for Experience Step Increase for Teachers to Board of Governors amount equal to average salary increase of 2% for teaching employees of School of Science and Mathematics to be allocated according to the rules adopted by the Board of Trustees of the School.

All state-supported personnel. Provides for 2% pay increase.

Temporary sales tax transfer for wildlife resources commission salaries. Requires that Sec'y of Revenue transfer sales and use taxes collected under Article 5 of GS Chapter 105 to fund the cost of salary increases for Wildlife Resources Comm'n employees.

Salary-related contributions/employer. Provides that employees whose salaries are paid from receipts shall be paid from same source as sources of employees' salary and specifies state's employer contributions.

Provide cost-of-living increases for retirees of the Teachers' and State Employees' Retirement System, the Judicial Retirement System, and the Legislative Retirement System. Amends GS 135-5, GS 135-65, GS 120-4.22A, and GS 128-27 to increase retirement allowance by 2%.

Salary adjustment fund. Allows up to \$5 million in Reserve for Compensation Increases to be used to supplement Salary Adjustment Fund.

Revenue Law Changes

Allocable share. Current GS 66-291 requires tobacco manufacturers that do not participate in the Master Settlement Agreement to pay annually into an escrow fund an amount based on the number of units the manufacturer sold in NC. Current GS 66-291(b)(2) provides that if in any year a nonparticipating manufacturer pays more into the escrow fund than NC's allocable share of the amount it would have paid as a participant to the Master Settlement Agreement, the manufacturer receives a refund of the excess. This provision changes the amount of the refund to the excess of the amount the nonparticipating manufacturer paid into the escrow fund on account of units sold in NC over the amount the manufacturer would have paid as a participant to the Master Settlement Agreement on account of units sold in NC. If the section or GS 66-291(b)(2), as amended, is held unconstitutional, GS 66-291(b)(2) is repealed. If, thereafter, the statute's provisions for interest on and return of escrow payments in general are held unconstitutional, then the section is repealed and GS 66-291(b)(2) is restored as though the section had never been enacted.

Maintain state sales tax rate to protect education. Repeals July 1, 2005, sunset on additional half-cent sales tax.

Adjust estate tax. Repeals July 1, 2005, sunset on State estate tax.

Phase down upper income tax rate to eight percent in 2006. Sets an 8% income tax rate for the 2006 tax year for taxpayers with taxable income above \$200,000 (married) or \$120,000 (single).

Eliminate upper income tax rate in 2007 tax year. Makes no change.

Comply with streamlined sales tax agreement. Provides that a rate equal to the combined State and predominant local sales tax rate applies to the following: (1) telecommunications (was, 6% State); (2) cable TV but minus any local tax (was, 0); and (3) satellite TV (was, 5%). Repeals special 1% rate and 1%/\$80 rates that apply to various items, machinery, and fuel.

Equalizing tax on entertainment industry. Sets entertainment tax rate equal to combined State and predominant local sales tax rate.

Broadening the sales tax base. Exempts candy from State and local sales tax.

Changing exemptions to comply with the streamlined sales tax including full exemptions of fuel used in farming and farm machinery from sales tax. Exempts from sales tax (1) horses, mules, semen for insemination of animals, and fuel (other than electricity) sold for farm purposes; (2) farm machinery, tobacco equipment, farm storage facilities, and farm containers; (3) film and video production equipment sold to a production company; and (4) funeral services. Repeals exemption for certain newspaper and magazine sales.

Increase tobacco tax for health care. Increases cigarette tax from 5 cents to 40 cents a pack from September 1, 2005, through June 30, 2006, and then to 50 cents a pack. Phases up the tobacco products tax proportionally.

Maintain one percent or eighty dollars on manufacturing machinery. Maintains equivalent tax rate on the following items currently subject to special sales tax of 1% with an \$80 cap: telephone service equipment, commercial laundry and dry-cleaning equipment, freezer locker plant machinery and wrapping supplies, commercial broadcasting equipment, major recycling facility equipment, interstate air courier equipment, commercial airline aircraft simulators for flight crew training, and manufacturing and commercial laundry fuel other than electricity.

Implement sales tax holiday changes. Amends sales tax holiday in GS 105-164.13C(a)(4) to include computer supplies as long as the sales price does not exceed \$250 per item.

Update IRC code reference. Conforms the definition of Internal Revenue Code to federal changes made since May 2004, with two exceptions: (1) does not conform to the qualified production activities deduction and (2) delays until January 1, 2005, conformity to any federal changes that would increase NC taxable income for the 2004 tax year.

General Capital Appropriations/Provisions

Capital appropriations/general fund

2005-2006 Department of Environment and Natural Resources

Water Resource Projects \$13,013,000

North Carolina Ports Authority \$5,000,000

TOTAL CAPITAL APPROPRIATION \$18,013,000

Procedures for disbursement of capital funds. Provides that expenditures for capital improvements may not be made until allotment has been approved by the Governor. Where capital improvement appropriations include the purpose of furnishing fixed and movable equipment, funds for equipment shall not be subject to transfer into construction accounts except as authorized by Director of the Budget.

Encumbered appropriations and project reserve funds. Requires appropriations to be encumbered when a capital improvement project appropriated by 2005 General Assembly, other than UNC projects, is placed under a construction contract. Unencumbered funds to be placed in project reserve fund.

Capital improvement projects/supplemental funding approval/reporting requirement. Requires Dep't receiving appropriations from Highway Fund to report quarterly to Director of the Budget on status of capital projects. Sets out requirements for supplementing Highway Fund capital improvement projects.

Project cost increase. Allows Director of Budget to increase cost of capital improvement project if in best interest of the State.

New project authorization. Allows Director of Budget to authorize capital improvement project not specifically authorized if project is to be funded by gifts, federal or private grants, special fund receipts, excess patient receipts, or self-liquidating indebtedness.

Advance planning of capital improvement projects. Authorizes the use of funds that become available by gifts, excess patient receipts above those budgeted, federal or private grants, receipts becoming part of special funds by act of the General Assembly or other funds available, may be used for advance planning through the working drawing phase of capital improvement projects with approval of Director of the Budget.

Appropriations limits/reversion or lapse. Provides that, unless otherwise specified, capital improvement funds may be expended only for specific projects set out in the budget. Provides that if construction contracts have not been awarded within 12 months following the first day of the fiscal year in which the funds are available, appropriation reverts to original source and self-liquidating appropriation lapses unless deadline is extended by Director of the Budget.

Except as otherwise provided, effective July 1, 2005.

Intro. by Crawford, Earle, Nye, Owens.

Ref. to Appropriations

GS 58, 90, 96, 105, 108A, 115C, 115D, 120, 128,
135, 142, 143, 143B, 147, 148, Approp