



SENATE BILL 3: 2014 Budget Mods./Pay Raises/Other Changes

2013-2014 General Assembly

Committee: House Appropriations
Introduced by: Sen. Apodaca
Analysis of: PCS to Second Edition
S3-CSLR-45

Date: June 25, 2014
Prepared by: Committee Staff

SUMMARY: *The proposed House committee substitute awards compensation increases to teachers, State employees, and retirees, modifies the base budget appropriations for current operations of State departments, institutions, and agencies, and makes changes for other purposes.*

BILL ANALYSIS:

Section 1.1(a) – Sets forth adjustments to General Fund revenue including estimated unreserved fund balance used to finance adjustments to the FY 2014-15 Budget.

Section 1.1(b) – Directs the State Controller to reserve \$8,255,496 for the Savings Reserve Account (would increase current balance to \$659,605,773) and \$8,255,496 to the Repairs and Renovations Reserve Account.

Section 1.1(c) – Directs the State Controller to transfer \$5,255,000 from the FICA (Federal Insurance Contribution Act Account) cash balance into General Fund availability.

Section 1.1(d) – Directs the Lottery Commission to transfer \$116.2 million in net lottery proceeds for FY 2014-15. The \$116.2 million is the projected revenue resulting from June 20, 2014 consensus forecast based on current advertising policy.

Section 1.1(e) – Revises forecast for FY 2014-15 to include \$57.4 million increase in revenue.

Section 1.1(f) – Appropriates available funding from additional revenues and reductions in other areas; makes statutory adjustment to Aid to Municipalities, with the remaining funds appropriated to the General Maintenance Reserve and contract resurfacing.

Section 1.1(g) – Revises forecast for FY 2014-15 to include \$57.0 million increase in revenue.

Section 1.1(h) – Appropriates available funding from additional revenues and reductions in other areas; and appropriates funds to the Strategic Transportation Investments to be deposited by statutory formula (40% statewide; 30% regional; 30% division).

Section 1.2 – Notwithstanding G.S. 143C-6-5 (that prohibits State agencies from expending funds for an item if the item was previously considered by either chamber but not enacted into law) to allow State agencies to expend funds contingent upon prior consultation with the Joint Legislative Commission on Governmental Operations.

Section 1.3(a) – Directs implementation of \$361,041,443 in General Fund budget reductions for 2014-15 FY; limits the filling of vacant positions for 2014-15FY; and makes applicable the limitations and directions for 2014-15 as stated in S.L. 2013-360, as amended.

Kory Goldsmith
Director



Legislative Drafting
(919) 733-6660

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Section 1.3(b) – Directs implementation of \$30,556,238 in Highway Fund budget reductions and \$11,000,000 in Highway Trust Fund budget reductions for the 2014-15 FY; and makes applicable the limitations and directions for 2014-15 as stated in S.L. 2013-360, as amended.

Section 1.4(a) – Appropriates funds to support General Fund salaries increases.

Section 1.4(b) – Appropriates funds from the General Fund to support a 1.44% cost of living adjustment for retirees. The amount appropriated includes the additional amount needed to fund the annual required contribution.

Section 1.5(a) – Appropriates funds to support Highway Fund salaries increases.

Section 1.5(b) – Appropriates funds from the Highway Fund to support a 1.44% cost of living adjustment for retirees. The amount appropriated includes the additional amount needed to fund the annual required contribution.

Section 1.6 – Establishes a contingency appropriation of \$1.8 million from the General Fund to DENR to support 25 positions and associated operating costs to address the oversight of coal combustion residuals if SB 729, or substantially similar legislation is not enacted.

Section 1.7 – Appropriates \$134 million to the Office of State Budget and Management to establish a Medicaid Risk Reserve to pay provider claims if the current FY 2014-15 Medicaid budget is not sufficient. Requires OSBM, in consultation with the Department of Health and Human Services and the State Controller, to certify that the funds are needed for that purpose. Unspent funds in the reserve will revert to General Fund unreserved fund balance on June 30, 2015.

Section 1.8 – Restores funding to average daily membership to reflect implementation of Opportunity Scholarships established under S.L. 2013-360.

Section 1.9 – Appropriates funds from the General Fund for education-based salary supplements for master's, advanced or doctoral degrees of certain personnel.

Section 1.10 – Funds financial aid for eligible military veterans and dependents by appropriating \$4,863,276 to the University of North Carolina Board of Governors to leverage federal Yellow Ribbon Program matching funds.

Section 1.11 – Funds financial aid for eligible military veterans and dependents by appropriating \$1,000,000 to the State Board of Community Colleges to leverage federal Yellow Ribbon Program matching funds.

Section 2.1 – Outlines the new teacher salary schedules, which provides, on average, a 5% increase for educators. Other than the salary schedules, the majority of this provision is boilerplate language related to supplements, longevity, salary administration, etc.

Section 2.2 – Outlines school-based administrator (SBAs) salary schedules. Other than salaries, the majority of this provision is boilerplate language related to supplements, longevity, salary administration, etc.

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Section 2.3 – Specifies that permanent, full-time Central Office staff shall receive a \$1,000 salary increase and contains boilerplate language related to longevity, supplements, etc.

Section 2.4 – Provides a \$1,000 salary increase to all permanent, full-time non-certified personnel.

Section 2.5 – Provides a 2% of salary bonus for teachers and SBAs at the top of the salary schedule who would not otherwise receive a salary increase.

Section 2.6 – Makes clarifying changes to teacher contracts by permitting teachers who signed contracts prior to June 30, 2014 to forego career status and keep the contract or waive the contract. This provision also clarifies that the salary increase related to the contract will be a \$500 increase each year.

Section 2.7 – Creates the Career Pathways Pilot Program and directs the State Board of Education (SBE) to establish the program for differentiated pay for teachers based on effectiveness and the assumption of additional roles; subsection (b) requires the SBE to issue an RFP by Sept. 15, 2014 to invite LEAs to participate. Plans must meet certain criteria to allow highly effective teachers to receive differentiated pay for assuming additional responsibilities. Supplements must be at least 10% of pay for those assuming advanced roles and 25% for those who lead a team of teachers. Subsection (c) indicates that the initial pilot shall include eight LEAs of varying sizes. The pilot program is to begin in FY 2015-16 and end in FY 2017-18. Per subsection (e), the pilot will expand if funds are available; and subsection (f) requires an evaluation of the pilot and the BE will examine pilot LEAs to develop a statewide recommended plan that other LEAs can opt to utilize. The State will provide up to \$25 per student to fund bonuses; LEAs will have to match the funds dollar-for-dollar and can use State funds to match these Career Pathways funds.

Section 3.1 – Sets the salaries of the Governor and Council of State; the new salaries are \$1,000 higher than FY 2013-14.

Section 3.2 – Sets the salaries of Certain Executive Branch Officials; the new salaries are \$1,000 higher than FY 2013-14.

Section 3.3 – Sets the salaries of the Judicial Branch; most salaries are increased by \$1,000. The step plans for Assistant and Deputy Clerks and Magistrates are restarted and a step is provided to all step-eligible employees. In addition, the salary schedule for Magistrates is increased to aid in recruitment of Magistrates.

Section 3.4 – Sets the salaries of Legislative Branch employees; the new salaries are \$1,000 higher than FY 2013-14. All non-elected employees are provided this increase.

Section 3.5 – Sets the salaries of Community College personnel; salaries are increased by \$1,000.

Section 3.6 – Sets the salaries of UNC system employees; the new salaries of SPA employees are increased by \$1,000. Except for educators paid on the teacher salary schedule at the NC School of Science and Math, UNC is provided flexibility in determining salary increases for EPA employees.

Section 3.7 – Amends Section 35.8 of S.L. 2013-360 to make that section, which restricted salary increases and froze step plans, apply to FY 2013-14 only.

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Section 3.8 – Is boilerplate language related to salary funding sources and persons eligible for the salary increase.

Section 3.9 – Is boilerplate language ensuring that the \$1,000 salary increase is provided to permanent, full-time EPA and SPA State employees and pro-rated for part-time employees. Subsection (b) addresses step-eligible employees to ensure step-eligible employees get one step and employees paid on a step plan but not eligible for a step get a \$1,000 salary increase.

Section 3.10 – Provides five days of expiring special annual leave.

Section 3.11 – Removes the 35 mile radius requirement for jobs provided to employees with more than 10 years in an SPA position who are removed from an EPA position after that position is redesignated from SPA to EPA.

Section 3.12 – Prohibits the Lottery Commission from expending funds for merit or performance-based salary increases for the 2014-15 fiscal year.

Section 3.13 – Sets the salary-related retirement contributions and health plan contributions for FY 2014-15.

Section 3.14 – Provides a 1.44% cost of living adjustment for retirees.

Section 3.15 – Authorizes the State Treasurer to borrow \$150,000 from the Qualified Excess Benefit Arrangement to fund start-up costs for the NC Public School Teachers' and Professional Educators' Investment Plan (a 403(b) plan). Borrowed funds have to be repaid at an interest rate set by the Board of Trustees once the Plan has an account balance of at least \$250,000.

Section 3.16 – Increases the minimum benefit from the National Guard Pension by \$5.

Section 3.17 – Allows the State Health Plan to create a basic insurance plan for non-permanent, temporary employees who must be provided health insurance under the Affordable Care Act.

Section 3.18 – Clarifying language that specifies that retirees who are rehired by a State agency are to be offered coverage as active employees not as retirees, similar to a provision in the budget since 2007

Section 3.19 – Sets the contribution rates for the Separate Insurance Benefit Plan for law enforcement officers.

Section 4.1 – Allows the Department of Revenue to use available funds to continue the operations and maintenance of portions of the Tax Information Management System (TIMS) that have been implemented. It eliminates the use of public-private partnerships to fund the project. It also requires expert private counsel to negotiate and review contracts and mandates that the Department comply with all State IT project oversight requirements. The TIMS Oversight Committee is given more specific responsibilities, and quarterly General Assembly reporting requirements are added.

Section 4.1A – Allows educators who have completed a relevant course by July 1, 2013 to remain eligible for advanced degree supplements under the prior State Board policy. Allows new advanced degree supplements going forward for degrees in their field or subject area within their area of licensure. (Certain Education-based Salary Supplements)

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Section 4.1B – Fixes a technical issue with implementation dates; states that applications are not public records; provides SEAA slight flexibility with regards to verification requirements; prohibits private schools admitting Opportunity Scholarships' students from discriminating on the basis of race or national origin; clarifies that private schools have to provide the background check information to SEAA; eliminates mechanism reducing LEA allotments; provides SEAA a little more time to provide an annual report; makes conforming changes necessary for the 2014 award process due to the stay on the program; allows SEAA to verify fewer applications in FY 13-14; and clarifies that unused funds revert. (Opportunity Scholarships)

Section 4.1C – Changes the formula from 20% growth, 80% achievement to 80% growth, 20% achievement. Also makes 15-point scale permanent. (School Grades)

Section 4.1D – Allows the Community College System Office to use up to \$15,366,588 to create a fourth tier in enrollment funding formula; and requires the System Office to fund the fourth tier at a higher rate than the current highest tier and include healthcare and technical educational programs that train North Carolinians for jobs that have documented skills gaps and that pay higher wages.

Section 4.1E – Funds financial aid for eligible military veterans and dependents by appropriating \$1,000,000 to the State Board of Community Colleges and \$4,863,276 to the University of North Carolina Board of Governors to establish reserves that will leverage federal matching funds from the Yellow Ribbon Program, which offsets the cost of the gap for veterans between non-resident tuition rates and the Post -9/11 G.I. Bill benefits.

Section 4.2 – Repeals shared savings program from the 2013 budget and maintains 3% reduction for provider groups, except for skilled nursing.

Section 4.3 – Clarifies that Work First Family Assistance income eligibility and payment levels remain unchanged from the levels in FY 2013-14.

Section 4.4 – Allows funds from the Employment Security Reserve Fund to pay the interest payment on the State's unemployment insurance debt in FY 2014-15.

Section 4.5 – Corrects the operating budgets for the State Veteran's Homes in Black Mountain and Kinston, which will allow those Veterans Homes to operate at full capacity.

Section 4.6 – Appropriates and redirects \$3.46 million of the gasoline inspection tax to DENR for underground storage tank cleanup in FY 2014-15. Also, redirects the gasoline inspection tax on a permanent basis to support the leaking underground storage tank cleanup program in DENR in future years.

Section 4.7 – Repeals budget and budget technical correction provisions with an earlier effective date, as Section 6.1(g) of S.L. 2014-3 extends the effective date of Highway Use Tax adjustments to October 1, 2014.

Section 4.8 – Clarifies what the term "net General Fund tax collected for a fiscal year" means for purposes of the corporate income tax rate trigger in G.S. 105-130.3C, which is the amount of net revenue reported by the Department of Revenue's June Statement of Collection as "Total General Fund Revenue" for the 12-month period that ended the previous June 30, modified as follows:
Less any large one-time, nonrecurring revenue

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Adjusted by any changes in net collections resulting from suspension or termination of transfers out of the General Fund.

Section 4.9 – Transfers the remaining misdemeanants and all DWI offenders to the Statewide Misdemeanant Confinement Program (SMCP). All misdemeanants with sentences greater than 90 days will serve their sentences in county jails that have volunteered beds for the SMCP. The housing and care of the additional inmates will be paid for by the SMCP; Section 4.9 (h) authorizes the Division of Adult Correction to use funds available to open Commitment in Response to Violation centers for probation violators.

Section 4.10 – Repeals language requiring that the Department of Public Safety ensure that the kitchen facility at the Dobbs Youth Development Center is operational by October 1, 2013, and instead authorizes the Department to use \$1,774,000 of funds allocated to the Department for the 2013-2014 fiscal year from the Reserve for Repairs and Renovations to support construction, expansions, renovations, and repairs necessary to implement the Department's 2014 Juvenile Justice Facilities Strategic Plan.

Section 4.11 – Directs the Fiscal Research Division to issue a report on all legislative budget actions enacted during the 2014 Session and to provide that report to the Director of the Budget to facilitate certification of the FY 2014-15 budget.

EFFECTIVE DATE:

Section 5.1 – Most of the act is effective July 1, 2014.