

Policy Report

May 18, 2015

AN ALTERNATIVE BUDGET

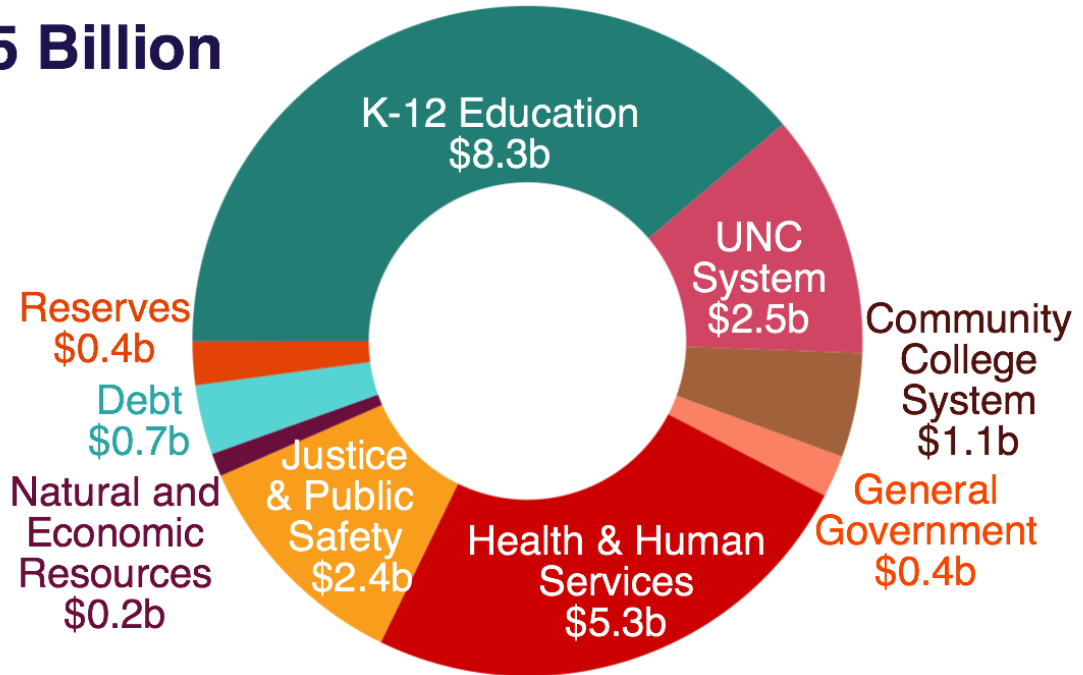
Response to the governor's proposed budget for the upcoming biennium



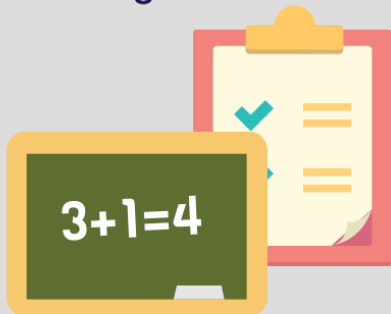
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Budget 2016

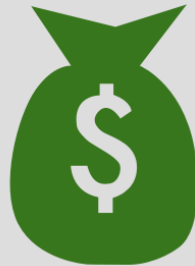
\$21.5 Billion



Increase local decision making for schools



Boost rainy day fund

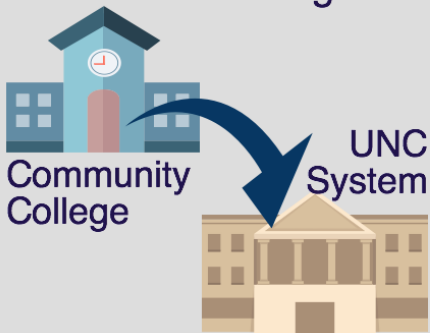


Tax credits for families

Eliminate redundant medical services



Expand the Guaranteed Admissions Program



End corporate welfare programs



Repeal Certificate of Need



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This report was authored by the John Locke Foundation research division, including Director of Fiscal Policy Studies Sarah Curry, Director of Education Studies Terry Stoops, and Health Care Policy Analyst Katherine Restrepo. They were assisted in their research by Catherine Konieczny.

The authors would like to thank John Hood, President of the John William Pope Foundation and Chairman of the JLF Board of Directors; Jenna Robinson, President of the Pope Center for Higher Education; and Angela Hight, Justice and Public Safety Policy Analyst at the John W. Pope Civitas Institute for contributing their expertise.

EXECUTIVE SUMMARY

The John Locke Foundation is continuing its tradition, started in 1995, of offering an alternative to the governor's budget recommendation.

Consistent with prior years, this JLF budget focuses on core government. This budget spends less in both years of the biennium than the governor's, and only increases spending by two-percent from the last fiscal year.

Even in a year when personal and corporate income taxes were cut, state tax revenue has grown significantly faster than budget officials and legislative staffers had predicted. Instead of spending this unanticipated revenue on special interests, this budget focuses on fiscal discipline and funds necessary government operations while saving for unforeseen expenses. Under our proposal, General Fund spending grows by \$567 million over the next two fiscal years, to \$22.1 billion in FY 2016-17. That's an annual average growth rate of 1.3 percent, far below inflation and population growth. We also propose adding \$620 million to the state's savings reserve over the biennium and \$520 million to the repairs and renovations reserve.

The most significant differences between our budget and the McCrory proposal involve the decision-making process. Each of this budget's recommendations is based on prioritizing core functions of government. In education we focus on raising the starting teacher pay to \$35,000 and also increase the funding for opportunity scholarships and grants for children with disabilities. Medicaid reform efforts are fully funded, and a much-needed Indigent Defense reform gives defendants more choice in their representation. This budget eliminates economic incentive grants or programs and stops picking winners and losers and competing with private sector investors.

This budget also incorporates additional tax relief for families, in the form of larger per-child tax credits, 529 education savings account deductions, and reinstated deductions for medical expenses, to go along with the cuts in corporate and payroll taxes already scheduled for the next two years. These changes are consistent with our long term tax reform goal of eliminating the tax system's bias against saving and investment.

State employees and retirees have had nominal pay raises in recent years, and retirees should receive a cost of living increase to keep pace with inflation. This budget funds a one-percent cost of living adjustment to all state employees, as well as retirees, in addition to fully funding the actuarial contributions to the state's pensions and state health plan.

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

GUIDING PRINCIPLES OF FISCAL RESPONSIBILITY

What the State Constitution Requires

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

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

Finally, we took note of Article 1, Sections 35 and 36. These provisions serve to establish a constitutional preference for limited government. “A frequent recurrence to fundamental principles is absolutely necessary to preserve the blessings of liberty,” the constitution states. “The enumeration of rights in this Article shall not be construed to impair or deny others retained by the people.” State government, in other words, is not empowered to do whatever it wants to do. Rather, it is constrained to perform its constitutional functions — to maintain law and order and to ensure the availability of true public goods — and otherwise

to leave North Carolinians alone to pursue their own interests and solve their own problems without state encroachment.

The “R”s of Fiscal Responsibility in North Carolina

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

Reform Entitlement Programs

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

Require More User Responsibility

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

Redirect Spending to Higher-Priority Uses

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

Revive Free Enterprise

For many years North Carolina has prided itself on leading the region and the nation in economic growth. This trend is no longer evident. Some policymakers have concluded that state government should take a more active role in attracting investment and guiding development through tax credits, cash subsidies, and other incentive programs. This is a serious mistake. There is scant empirical evidence to support the proposition that incentives create economic growth that would not otherwise have occurred. The available public policy research on state economic development does suggest that overall tax rates, especially the marginal rates on individual and corporate income, do have a measurable impact on state economic growth rates.

Restore Civil Society

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

Reduce Biases in the Tax Code

Like most states, North Carolina has developed its state tax code in a piecemeal fashion rather than using a clear set of tax reform principles to build a coherent and efficient system. As a result, various special rates, exemptions, exclusions, deductions, and credits litter the code.

JLF Budget Recommendation Overview			
	FY-15 Authorized	FY-16 Appropriation	FY-17 Appropriation
Education			
Public Education	\$8,162,334,228	\$8,342,566,060	\$8,424,145,695
University System	\$2,646,814,099	\$2,529,136,367	\$2,536,116,495
Community Colleges	\$1,049,046,867	\$1,083,161,936	\$1,106,938,062
General Government			
General Assembly	\$52,465,521	\$51,397,665	\$51,394,402
Governor's Office	\$7,564,687	\$7,027,007	\$7,027,007
State Budget and Management	\$9,261,922	\$7,687,290	\$7,537,290
NC Housing Finance	\$18,241,954	\$1,458,739	\$1,458,739
Lieutenant Governor	\$676,874	\$676,874	\$676,874
Secretary of State	\$11,676,506	\$11,726,506	\$11,726,506
State Auditor	\$11,733,689	\$12,449,244	\$12,449,244
State Treasurer	\$30,451,127	\$30,392,424	\$30,386,424
Insurance	\$38,296,364	\$38,296,364	\$38,296,364
Administration	\$66,062,950	\$59,606,218	\$57,954,475
State Controller	\$22,205,229	\$22,699,750	\$22,699,750
Revenue	\$80,350,057	\$79,558,052	\$79,596,203
Cultural Resources	\$64,059,258	\$101,310,704	\$97,396,304
Roanoke Island Commission	\$508,384	\$0	\$0
State Board of Elections	\$6,798,083	\$6,503,497	\$6,503,497
Office of Administrative Hearings	\$5,097,437	\$4,891,138	\$4,891,138
Health and Human Services			
Central Administration	\$92,787,838	\$100,018,327	\$123,705,073
Aging & Adult Services	\$42,945,788	\$42,845,788	\$42,845,788
Child Development & Early Education	\$217,554,119	\$234,612,307	\$235,311,997
Public Health	\$137,476,537	\$108,431,873	\$113,299,142
Social Services	\$185,013,243	\$180,508,263	\$184,688,053
Medicaid	\$3,688,375,003	\$3,795,972,753	\$3,988,691,366
Health Choice	\$41,938,590	\$47,307,387	\$48,014,850
Services for the Blind	\$8,107,457	\$8,101,025	\$8,101,025
Mental Health/DD/SAS	\$680,429,847	\$710,202,991	\$708,014,330
Health Services Regulation	\$16,022,641	\$16,722,641	\$16,722,641
Vocational Rehabilitation	\$37,766,806	\$37,752,132	\$37,752,132
Justice and Public Safety			
Judicial	\$467,766,129	\$474,710,450	\$478,357,482
Judicial - Indigent Defense	\$112,045,592	\$112,087,174	\$112,097,118
Justice	\$49,748,286	\$50,168,727	\$51,609,874
Public Safety	\$1,749,042,173	\$1,769,963,162	\$1,832,936,081

JLF Budget Recommendation Overview			
	FY-15 Authorized	FY-16 Appropriation	FY-17 Appropriation
Natural and Economic Resources			
Agriculture and Consumer Services	\$117,602,021	\$112,814,382	\$112,814,382
Labor	\$15,945,674	\$15,786,217	\$15,786,217
Environment and Natural Resources	\$159,855,367	\$87,919,431	\$87,412,431
Wildlife Resources Commission	\$11,317,641	\$13,090,990	\$13,090,990
Commerce	\$103,866,308	\$10,949,595	\$11,949,595
Subtotal Agency Budgets	\$20,219,252,296	\$20,320,316,706	\$20,720,395,036
Debt Service	\$719,974,837	\$721,591,217	\$719,974,837
Reserves and Adjustments	\$624,100,000	\$449,164,130	\$679,333,302
Capital	\$0	\$5,701,000	\$10,170,500
Total General Fund Appropriations	\$21,563,327,133	\$21,496,967,797	\$22,129,873,675

General Fund Availability FY-2016 and FY-2017		
	FY 2015-2016	FY 2016-2017
Unappropriated Balance	\$2,033,330	\$322,207,949
Anticipated Overcollections	\$400,000,000	\$0
Anticipated Reversions	\$270,000,000	\$0
Additional Reversions from Unappropriated Medicaid Risk Reserve	\$186,372,673	\$0
Beginning Unreserved Fund Balance	\$858,406,003	\$322,207,949
Transfer to Repair and Rennovations Reserve	-\$300,000,000	-\$220,000,000
Transfer to Savings Reserve Account	-\$400,000,000	-\$220,000,000
Total Reserve Allocation	-\$700,000,000	-\$440,000,000
Subtotal Credit Balance	\$158,406,003	-\$117,792,051
Base Revenue (May forecast)	\$21,965,100,000	\$22,576,200,000
Adjustments to Availability		
Remove Highway Transfer and redirect to Highway Fund	-\$215,900,000	-\$215,900,000
Repeal electronic cigarette tax	-\$5,000,000	-\$5,200,000
DOJ Tobacco Settlement	\$2,194,000	\$0
Repeal Sales & Use Economic Incentive Refunds	\$2,500,000	\$2,500,000
Repeal Major Recycling Facility tax credit	\$2,700,000	\$2,700,000
FICA Transfer	\$3,000,000	\$0
Expand Treasury Offset Program	\$9,453,499	\$17,016,299
Additional DSH Nontax Revenue	\$10,000,000	\$10,000,000
Credit for Children Increase	-\$89,545,500	-\$89,545,500
529 Education Savings Account deduction	-\$5,427,000	-\$5,427,000
Medical Expense Deduction	-\$37,900,000	-\$37,900,000
Standard & Poor's Settlement	\$19,400,000	\$0
Subtotal Adjustments to Availability	-\$304,525,001	-\$321,756,201
Total General Fund Availability	\$21,818,981,002	\$22,136,651,748
Less General Fund Appropriations	\$21,496,967,797	\$22,129,873,675
Appropriated Balance Remaining	\$322,013,205	\$6,583,329

K-12 EDUCATION

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
Increase Beginning Teacher Pay to \$35k	n/a	41,846,123	41,846,124
Teachers and Administrators on State Salary Schedule	n/a	68,366,167	64,871,243
Teacher Assistants	368,300,000	304,260,372	304,260,372
Enrollment Growth	n/a	70,000,000	140,000,000
Department of Public Instruction	41,334,576	35,134,390	35,134,390
Local Decision Making			
<i>LEA Block Grant</i>	n/a	7,866,596,189	7,866,596,189
<i>Calendar Flexibility</i>	n/a	tbd	tbd
Parental Choice			
<i>Opportunity Scholarships</i>	10,840,000	36,500,000	36,500,000
<i>Scholarship Grants for Children with Disabilities</i>	3,978,166	7,000,000	7,000,000
NC School of Science and Mathematics	n/a	2,112,781	2,112,781
UNC School of the Arts	n/a	14,366,079	14,366,079

Teacher pay

The governor’s budget would direct a massive amount of taxpayer money to school-based employees. This includes raising beginning teacher pay to \$35,000 per year, moving all teachers to the next tier on the state salary schedule, and retaining the one-time bonus granted to experienced teachers last year. These three line items alone would send over \$111 million to teachers each year for the next two years. State agency teachers and school-based administrators would also receive salary increases.

The North Carolina Education Endowment Fund would receive a \$15 million boost from this budget. The fund, which was the brainchild of Lt. Governor Dan Forest, was set up last year to serve as a permanent source of funds for a teacher performance pay plan. This is a long-overdue investment in a system that rewards the state’s best teachers. But it is not enough.

The governor’s budget used \$64.9 million to fund the movement of eligible teachers to the next tier on the North Carolina Public School Salary Schedule. Yet, there is little empirical evidence that experience- and credential-based state salary schedules are an efficient and effective way to pay teachers.¹ As such, this

¹ For North Carolina perspectives on the salary schedule, see Jacob Vigdor, “Scrap the Sacrosanct Salary Schedule,” *Education Next*, Vol. 8, No. 4, Fall 2008,

budget redirects \$64.9 million to reward and retain high performing teachers.

Teacher assistants

In 2014, the NC General Assembly passed a budget that required the North Carolina Lottery Commission to use approximately 19 percent of lottery revenue for teacher assistant positions. The 2015-2017 biennial budget will be the first to require this.

During the current school year, North Carolina public school districts employed approximately 22,500 teacher assistants. State funding accounted for nearly 15,400 of that total. Initial projections indicate that lottery receipts will fall short of supplying the necessary dollars to fund all state-funded positions. To address this shortfall, Governor McCrory’s budget set aside over \$64 million in recurring dollars to fund teacher assistant positions that, according to projections in lottery revenue, will not be supported with lottery receipts. This budget does not agree with that decision and does not appropriate additional funds for teacher assistants.

educationnext.org/scrap-the-sacrosanct-salary-schedule. Magan Bell, Danny Heller, Sarah Shah, Lucas Westmaas, “Strategies for Compensating North Carolina’s Teachers” Sanford School of Public Policy, Duke University, Presented to the North Carolina State Board of Education on May 2, 2013, research.sanford.duke.edu/students/Spring2013-1es.pdf.

As a principle of sound budgeting, the General Fund should not be used to compensate for projected shortfalls in lottery receipts. The volatility of lottery revenue means it will never be a reliable source of funding. This was acknowledged by the backers of the original lottery law, who insisted that its purpose was to supplement, not supplant, funding for public schools.

Anecdotally, many public school teachers say that their assistants are invaluable companions in the classroom. But the state legislature has a responsibility to allocate scarce resources to maximize productivity and minimize inefficiency. The available research suggests that teacher assistants do not raise student achievement in a measurable and meaningful way.²

Enrollment growth

The single largest increase in the K-12 budget is the allocation to fund projected student enrollment growth for both years of the biennium. The governor's budget has recommended \$100 million for the first year, and over \$207 million for the second year of the biennium. This budget believes these are overestimates of the cost of enrollment. In February, the General Assembly's Fiscal Research Division estimated that K-12 enrollment growth would require an additional \$70 million next year and \$140 million the following year.³

This budget believes that the General Assembly's Fiscal Research Division estimate is the more realistic figure and appropriates an additional \$70 million next year and \$140 million the following year. In the event that enrollment growth exceeds their estimates, funds from reserves should be used to make up the difference. This budget redirects millions into the state's reserve accounts, so ample funds will be available if this occurs.

Department of Public Instruction

This budget reduces the Department of Public Instruction's (DPI) budget by 15 percent from the FY-2015 appropriation amount.⁴ This will equate to a total of \$12.4 million reduction over the biennium and an

annual appropriation of \$35.1 million. In addition, it would allow the department to make reductions to the North Carolina Center for the Advancement of Teaching (NCCAT), which does not have an exclusive focus on improving education for special needs, low-income, and at-risk students.

Local decision-making

While state education officials should be allowed to make budgetary decisions according to the perceived needs of the department, there are a number of areas where reductions are possible. As a starting point, all positions not required by a federal grant should be reexamined. They should consider whether the function may be performed by school districts, contractors, vendors, or non-profit organizations. In addition, state education officials should also assess the costs and benefits of programs and initiatives, including the conference, travel, and technology expenditures associated with it. If there are no measurable outcomes, particularly as they relate to student performance, then there is no substantive reason to support it.

The NC General Assembly should also find ways to reduce or eliminate programmatic mandates imposed on NC DPI. In the past, NC DPI officials have rightly pointed out that complying with various state mandates typically requires adding personnel for monitoring and reporting purposes. A renewed emphasis on local decision-making should alleviate some of the unnecessary regulatory burden imposed on the agency by the legislature.

While the distribution of education funding is a responsibility of the state, school boards should have maximum flexibility to direct those funds in a way that best meets the needs of the district and community.

Obviously some entities place limitations on how states and districts can use grant funding. Federal funding, for example, must be used to subsidize child nutrition programs, improve schooling for low-income children, and enhance support for special needs students. At the other extreme, school districts have a great deal of flexibility in how they use local funding, although personnel and capital are the two most common expenditures of city and county appropriations.

As such, it is the use of state funds that is at issue. Given that two-thirds of public school funding comes

2 See John Hood and Terry Stoops, "Educational Freedom Works," *JLF Spotlight #454*, May 20, 2014, johnlocke.org/research/show/spotlights/305.

3 Barry Boardman and Karen Hammonds-Blanks, "2015 -17 Consensus Revenue Forecast and Budget Outlook," Fiscal Research Division February 12, 2015.

4 This includes fund codes: 1000, 1021, 1100, 1300, 1330, 1500, 1600, 1640, and 1660.

from state sources, the ability to direct state dollars is critical. In recent years, there has been progress in expanding local control of state education funds, thanks to legislation approved by the NC General Assembly that allows districts to move state funding in and out of certain allotment categories. It is time to take the next step and consolidate or eliminate allotment categories entirely.

Block Grant funding to Local Education Authorities (LEAs)

In this budget, we propose a weighted formula-based block grant system that begins with a per-student allotment for each child enrolled (or projected to be enrolled) in a North Carolina public school. Additional funds would be added to the base allotment to accommodate the various needs and circumstances of particular students. Low-income, special needs, limited English proficiency, career and technical education, academically and intellectually gifted, and other attributes would trigger additional appropriations. Lawmakers may even require the formula to include supplementary funds for rural districts or counties without a robust tax base. Regardless of the parameters of the final formula, the school board would then receive a block grant and would be free to use that grant to ensure that all children receive a sound, basic education.

The new funding system should be as close to revenue neutral as possible during the 2015-17 biennium. Over time, however, some districts may find that their state appropriations will increase or decrease, depending on the number and characteristics of students enrolled in the system.

Calendar Flexibility

In addition to a weighted formula-based block grant system, lawmakers should offer other types of flexibility to districts, such as the ability to establish their own calendars, including start and end dates for the school year. Currently, state statute limits the ability of school boards to set school start and end dates.

The various regions of our large state encounter very different weather patterns that often necessitate an earlier start to the school year or built-in snow days. Others may adjust their calendar for academic reasons. For example, a district may choose to create a high school calendar that corresponds to one established by a community college partner. Another district may

want to ensure that interim exams occur before, and not after, Christmas vacation. It may even be sensible for districts to have a calendar that accommodates the tourist season. Of course, the school board should solicit input from parents, businesses, and elected officials on this and any other decision that has a community-wide impact. There would be no fiscal impact to the state.

In fact, researchers have established that school calendar reform may save money, depending on the type of calendar chosen by the districts. A multi-track year-round calendar, for example, may save school districts and the state hundreds or thousands of dollars a year.⁵ It is also possible that school districts encounter added costs associated with cooling buildings in early August, although some of those costs may be offset by the fact that the school year would not be in session in late May or early June.

Teacher employment and compensation flexibility

School districts should also have teacher employment flexibility. This includes making the state salary schedule optional, substituting salary for benefits at the request of the employee, and maintaining a performance and incentive pay system that rewards our state's most indispensable teachers and administrators. While current federal law presents various impediments to expanding personnel flexibility, elected officials should continue to find ways to give school boards the power to expand the applicant pool and hire non-certified teachers and administrators.

Loosening hiring and certification regulations should yield cost savings by reducing the state licensure bureaucracy, which employs 11 specialists, 3 processing assistants, and a consultant. Conceptually, the expansion of the hiring pool should reduce the cost of filling vacant positions.⁶ According to an estimate generated by the Alliance for Excellent Education, turnover in North Carolina costs the state between \$29 and \$63 million a year.⁷ Unfortunately, it is not possible to estimate these

5 See, for example, Jennifer Graves, Steven McMullen, and Kathryn Rouse, "Multi-Track Year-Round Schooling as Cost Saving Reform: Not Just a Matter of Time," *Education Finance and Policy* 2013 8:3, 300-315

6 State Agency Directory, April 22, 2015, dpi.state.nc.us/nceddirectory

7 Mariana Haynes, "On The Path To Equity: Improving The Effectiveness Of Beginning Teachers," Alliance For Excellent Education, July 2014, all4ed.org/reports-factsheets/path-to-equity

savings. They would depend on the extent to which districts take advantage of this option, as well as costs avoided by reduced turnover.

Parental choice

Since 2011, North Carolina has made huge strides in providing families more educational options. The NC General Assembly lifted the 100-school cap on charter schools and loosened restrictions on student growth and grade expansion. Lawmakers approved two popular voucher programs, a \$6,000 voucher for special needs students (Scholarship Grants for Children with Disabilities) and a \$4,200 grant for low-income students (Opportunity Scholarship Program). Finally, they broadened the definition of home schooling, which permits parents to take advantage of instructional activities once prohibited by state law. It should come as no surprise that charter and home school populations have soared. A boost in private school enrollment will not be far behind.

Opportunity Scholarships

As of March 2015, the North Carolina Education Assistance Authority (NCEAA) had received 4,900 applications⁸ for the Opportunity Scholarship Program for the upcoming school year. Current funding accommodates around half of the applicant pool. This budget expands the Opportunity Scholarship Program by raising General Fund expenditures from \$10.8 million to \$36.5 million to ensure that eligible students who have applied for an Opportunity Scholarship would receive one.

Scholarship Grants for Children with Disabilities

To date, the NCEAA has awarded 630 special needs scholarships and has 200 additional scholarships under review. Governor McCrory's proposed budget

8 There is strong support for vouchers in North Carolina. A March 2015 poll commissioned by the Civitas Institute shows that an overwhelming majority of likely voters support the Opportunity Scholarship Program. Overall, 68 percent supported and 24 percent opposed this voucher program for low-income children. Support transcended political affiliation. Democrat respondents showed the strongest support with 75 percent in favor and 21 percent oppose to the program. Nearly 68 percent of Independents favored vouchers, while 25 percent opposed. Finally, 59 percent of Republicans supported and 29 percent opposed the program. John W. Pope Civitas Institute, "NC Voters Back Education Reforms," March 5, 2015, ncivitas.org/2015/nc-voters-back-education-reforms

increased state appropriations from \$4.3 million to \$6.1 million, and this budget supports this funding boost.

Additionally, this budget supports House Bill 133, which would, among procedural changes, increase the maximum scholarship size from \$3,000 per semester to \$4,000 per semester or \$8,000 per school year. This change would necessitate an additional \$900,000 in General Fund expenditures for FY 2016-17 at the current level of program funding.⁹ This budget supports House Bill 133 and allocates the total \$7 million per biennium for scholarships for children with special needs.

NC School of Science and Mathematics

See UNC Section for discussion. Total funding for the school, less operations, is transferred into the Public Education budget.

UNC School of the Arts – High School Program

See UNC Section for discussion. All funding for the high school program within UNC School of the Arts is transferred into the Public Education budget.

9 North Carolina General Assembly, Fiscal Research Division, "House Bill 133 Fiscal Note," HFN0133v1r1, ncga.state.nc.us/gascripts/BillLookUp/BillLookUp.pl?Session=2015&BillID=h133&submitButton=Go

UNC SYSTEM

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
UNC-TV	\$9,074,482	\$4,537,241	\$0
NC School of Science and Mathematics	\$19,726,181	\$2,647,639	\$2,647,639
Centers and Institutes	\$69,000,000	\$47,348,907	\$47,348,907
Brody School of Medicine	n/a	\$8,000,000	\$8,000,000
UNC School of the Arts	\$28,669,298	\$14,303,219	\$14,303,219
Appalachian State University	\$127,579,375	\$125,035,262	\$125,035,262
East Carolina University	\$210,189,056	\$201,295,076	\$201,295,076
Elizabeth City State University	\$30,759,228	\$24,059,668	\$24,059,668
Fayetteville State University	\$48,741,530	\$47,717,050	\$47,717,050
North Carolina A & T State University	\$90,898,021	\$81,313,741	\$81,313,741
North Carolina Central University	\$82,132,848	\$74,260,528	\$74,260,528
North Carolina State University	\$392,200,842	\$388,709,224	\$388,709,224
UNC Asheville	\$37,592,283	\$37,747,804	\$37,747,804
UNC Chapel Hill	\$252,003,091	\$249,846,257	\$249,846,257
UNC Charlotte	\$198,971,605	\$187,432,725	\$187,432,725
UNC Pembroke	\$53,177,844	\$50,387,484	\$50,387,484
Western Carolina University	\$85,805,817	\$85,749,988	\$85,749,988
Winston-Salem State University	\$64,371,410	\$59,615,512	\$59,615,512

UNC-TV

“Public broadcasting is a wonderful resource, providing quality programming that is cherished by many,” then-Governor of Virginia Bob McDonnell correctly noted. Nevertheless, he recommended eliminating state funding for public broadcasting. North Carolina should do the same.

McDonnell reasoned that:

there are thousands upon thousands of content providers operating in the free market. They compete with each other, and viewers and listeners have their choice as to what to tune in to. Simply put, it doesn't make sense to have some stations with the competitive advantage of being funded by taxpayer dollars. The decision to eliminate state funding of public broadcasting is driven by the fundamental need to reestablish the proper role of government, and budget accordingly.

Indeed, state-run television is not a core function of government, worthy of taking the hard-earned income of North Carolinians.

A number of other states agree. According to the Oklahoma Educational Television Authority, as of FY2012, 17 states do not provide state funding for public broadcasting. Consistent with the principles of free enterprise and limited government, this budget removes all \$9 million of state appropriations from UNC-TV and recommends that all UNC-TV assets, including bandwidth rights, be assigned to the nonprofit UNC-TV Foundation, giving UNC-TV a firm footing to continue operations without taxpayer funding.

NC School of Science and Mathematics

Since the North Carolina School of Science and Mathematics (NCSSM) opened in 1980, it has attracted some of the state's top high school students.¹⁰ At the residential high school in Durham, students take college-

¹⁰ North Carolina School of Science and Mathematics, about-history and mission, accessed February 11, 2015, ncssm.edu/about-ncssm/history-and-mission

level courses, and they have performed well on SAT tests and in national competitions and been admitted to some of the nation's most prestigious universities.

The N.C. Department of Public Instruction maintained oversight of the NCSSM until the legislature transferred the school to the UNC System in 1985.¹¹ We argue that the NCSSM is subject to Article 9, Section 5, of the North Carolina Constitution, which states, "*The State Board of Education shall supervise and administer the free public school system and the educational funds provided for its support.*" Therefore, the General Assembly and State Board of Education should reconstitute the school in one of two ways. One option is for the Department of Public Instruction to maintain oversight of the school, as they do residential schools for the blind and deaf. A second option is to convert the school into a charter school through a fast-track process. Regardless of the option selected, the legislature should ensure a seamless transition that provides minimal disruption to enrolled students.

The NCSSM spent \$2.3 million on facilities last fiscal year, but by law, charter schools do not receive funding earmarked for capital needs. To address this, the UNC System would continue to maintain existing facilities and lease them to the charter school for a fee negotiated by the two parties. Under our proposal, all state appropriations, which totaled \$19.7 million last fiscal year, would be cut from the UNC budget and operations transferred to the Department of Public Instruction. The amount needed to maintain plant facilities, however, would remain in the UNC System budget.

UNC School of the Arts

High School Program

The University of North Carolina School of the Arts (UNCSA), located in Winston-Salem, is highly unusual. A component of the University of North Carolina system, it was founded in 1965 as the first public conservatory in the United States. It is a high school and undergraduate institution, and it also grants graduate degrees. When UNCSA was created, there were few opportunities for North Carolinians wishing to pursue careers in the arts, but today there are many more opportunities available to students.¹²

¹¹ See Session Law 1985-757

¹² Max Borders, "The UNC School of the Arts: Should it be self-supporting?", PopeCenter Series on Higher Education, December 2009, popecenter.org/inquiry_papers/article.html?id=2266

We argue that UNCSA is also subject to Article 9, Section 5, of the North Carolina Constitution. As such, it would be necessary for UNCSA to transfer authority for the high school portion of the school to the State Board of Education. The General Assembly, in consultation with the State Board of Education, would either turn over management of the school to the Department of Public Instruction or grant a charter to the school through a fast-track process. The UNCSA would then be one of multiple charter schools¹³ across the state that offer education with a focus on the arts: ArtSpace Charter (Swannanoa), Arts Based School (Winston-Salem), Longleaf School of the Arts (Raleigh), Sandhills Theatre Arts Renaissance School (Vass), and Z.E.C.A. School of Arts and Technology (Jacksonville).

State law does not permit charter schools to set admissions criteria, such as a background or interest in the arts. To address worries about how these changes would affect the high admissions standards maintained by the school for decades, administrators would need to advise parents that the school expects their children to participate in a fine or performing arts track for the duration of their studies. Charter schools with arts-based curricula already have similar guidelines in place.

In addition to upholding the integrity of the North Carolina Constitution, this move would increase transparency and lower costs to the state. The FY14-15 budgeted amount for the entire school was \$28.7 million. Because this includes all levels of education, the only budget code (536898) that specifically encompasses high school costs amounted to \$2.1 million in the last fiscal year. Due to the nature of the school and the shared services across different education levels, more research would need to be done to assess potential budget savings. We assume that the figure is conservative and more savings would be achieved, but the exact amount is unclear without further information from UNCSA.

Facilities would continue to be owned and maintained through the UNC System and leased to the charter school for a fee negotiated by the two parties. Tuition would remain free for in-state students, and out-of-state students would pay tuition per Chapter 115C-366.1.a (1) of the North Carolina General Statutes.

¹³ Office of Charter Schools, Schools-148 Charter Schools listed alphabetically, website accessed, February 17, 2015, ncpublicschools.org/charterschools/schools/

Cost per Student

There are 912 college students attending the UNCSA at a cost of \$29,774 per student from state appropriations. Similar institutions that offer focused degree programs have a much lower per student cost. UNC-Chapel Hill spends \$17,685 per student in state appropriations, NC State spends \$14,232, and East Carolina spends \$10,620 per student.

UNCSA should receive per student state appropriations that are consistent with other institutions offering specific and niche programs. Aligning the school with UNC-Chapel Hill's \$18,000 per student would require a \$16.4 million appropriation, assuming the same number of students. This would result in a budget savings of \$12.3 million when compared to last fiscal year's appropriations.

Guaranteed Admission Program

Because of inconsistencies in data across campuses, the UNC System hasn't tracked graduation or retention rates for students in remedial education. One UNC system researcher in the Department of Policy Analysis and Accountability explained:

The more we looked at the data, the more we realized that it was a rather complicated issue. Campuses have had different definitions for remedial courses and one campus could have different definitions from one year to another. It's extremely hard to use or explain the data.

Not knowing whether North Carolina's programs are successful could prove expensive,¹⁴ thus the need for an alternative approach. We propose a system-wide replacement of remedial and developmental activities with the Guaranteed Admission Program (NC GAP) through the NC Community College System.

The goals of NC GAP are to encourage and assist more students to obtain baccalaureate degrees within a shorter time; to provide students with college educations at significantly lower costs for both the student and the

state; to help decrease the amount of debt resulting from loans that students may owe upon graduation; to provide students with interim degrees that may increase their job opportunities if they choose not to continue postsecondary education; and to provide easier access to academic counseling that will assist students in selecting coursework that reflects their educational and career goals and helps them succeed academically.

NC GAP should be designed as an alternative admission program for students who apply to a constituent institution and satisfy the admission criteria but have academic credentials that are not as competitive as other applicants. A student admitted to a constituent institution through NC GAP must agree to defer enrollment at the institution until he earns an associate degree from one of the state's community colleges. Counseling and assistance will be provided by the community college to any student in NC GAP to help him in selecting coursework that reflects his educational and career goals and that provides a smooth transition from the community college to the constituent institution. Once awarded an associate degree from the community college, the student is entitled to admission as a junior at the constituent institution. Each institution in the UNC System would be directed to establish NC GAP as part of its undergraduate admission program.

Remedial Courses and the Summer Bridge Program

In 2012-13, the annual unduplicated enrollment in remedial instruction was 3,819 students.¹⁵ Remedial courses are defined as "courses in reading, writing, or mathematics for college-level students lacking those skills necessary to perform college-level work at the level required by the institution."

State funds amounted to over \$1.3 million and there were additional private funds spent on the program. The funds UNC campuses use to support remedial instruction are not received as a special appropriation. State funds dedicated to remediation are taken from institution's instructional budgets.

¹⁴ The Alliance for Excellent Education (AEE) estimates the nation loses \$3.7 billion a year because students are not learning basic needed skills; this figure includes \$1.4 billion to provide remedial education to students who have recently completed high school and the almost \$2.3 billion that the economy loses because remedial students are more likely to drop out of college without a degree, thereby reducing their earning potential.

¹⁵ Joint Legislative Education Oversight Committee, Report satisfying S.L.2014-100, Section 11.5, nclg.net/documents/sites/committees/JLEOC/Reports%20Received/2015%20Reports%20Received/UNC%20Academic%20Summer%20Bridge%20Report.pdf

Enrollment in remedial courses, Fall 2012 and Spring 2013	
Appalachian State University	148 students
East Carolina University	639 students
Elizabeth City State University	440 students
NC A&T	673 students
NC Central University	544 students
UNC Charlotte	856 students
UNC Pembroke	170 students
Winston-Salem State University	349 students
UNC System Total	3,819 students

The shift of students from remedial courses to NCCCS through the Guaranteed Admission Program would create cost savings to the General Fund. The FY2014-15 per pupil expenditure (PPE) for these university students is \$13,480. Shifting these students to the NCCCS will produce a net savings of \$9,236 per student or over \$35 million to the General Fund.

The Guaranteed Admission Program would also replace the Summer Bridge Program currently funded on 5 UNC campuses.¹⁶

Summer Bridge enrollment, Summer 2014	
Elizabeth City State University	57 students
Fayetteville State University	76 students
NC A&T University	38 students
NC Central University	40 students
UNC Pembroke	37 students
UNC System Total	278 students

The removal of the Summer Bridge Program would create cost savings to the General Fund. The FY 2014-15 PPE for the 278 students participating in the summer bridge program is \$13,480. Transitioning these students to the NC Community College System program at a cost of \$4,244 per student would produce savings of \$9,236 per student, or \$2 million to the General Fund overall.

¹⁶ Fayetteville State does not have formal remedial courses, but it does have a “summer bridge program.” FSU’s CHEER (Creating Higher Expectations for Educational Readiness) program takes a “boot camp” approach to preparing students whose academic qualifications are weaker than the rest of the incoming freshmen. These students are accepted on a conditional basis only; they must complete the program to attend FSU for the fall semester. CHEER focuses on remedial English and math as well as social skills.

ECU’s Brody School of Medicine

This budget appropriates \$8 million in non-recurring funds each fiscal year for a total \$16 million appropriation over the biennium to ensure the school can maintain its accreditation for next year’s graduates. The appropriation is non-recurring because the school has a history of fiscal instability. Before taxpayers fill the gap again, there needs to be a reorganization of the school’s finances and operations.

In fiscal 2013, the school had operating losses of \$14.4 million and has lost tens of millions of dollars in each of the past several years.¹⁷ A performance analysis¹⁸ has already been performed and savings around \$10 million¹⁹ can be met if changes are implemented.

Centers and Institutes

In February 2015 the UNC Board of Governors’ established a working group²⁰ to review all 240 Centers and Institutes in operation across 16 campuses and General Administration. In FY 2013-14, centers and institutes received \$69 million from General Fund sources and an additional \$14 million of in-kind state support. During the same period, they collectively earned at least \$556 million from non-General Fund sources.

¹⁷ R.E. Smith Jr., “Accountability first at East Carolina University’s Brody School of Medicine”, April 20, 2015, The John William Pope Center for Higher Education, popecenter.org/commentaries/article.html?id=3175

¹⁸ Hunter Partners LLC, Performance Improvement Analysis of East Carolina Physicians, Fall 2013/Spring 2014, ecu.edu/cs-admin/news/upload/HunterReport12014.pdf

¹⁹ “...ECU physicians payroll appears to be funding approximate 177.6 FTE more than a reasonable benchmark would support...yearly cost of \$8.5 million.” “If ECU could get its physicians to code at or above the approximately benchmarked curves for evaluation and management a minimum of an incremental yearly amount of \$1.5M-\$3M could be generated.” “If ECU could manage its operating costs...for supplies, approximately \$1.1M could be saved yearly. If ECU could manage its operating costs...for building and occupancy costs, approximately \$360k could be saved yearly.”

²⁰ February 2015 Board Meeting, February 27, 2015, Centers and Institutes, “Report Board of Governors’ Working Group on Centers and Institutes”, Committee on educational planning, policies, and programs, February 26, 2015, northcarolina.edu/sites/default/files/documents/february_bog_meeting_centers_and_institutes.pdf

Students in UNC System Centers and Institutes			
Year	In-State Residencies	Total Graduates	Percent In-State
2004	36	79	46%
2005	25	66	38%
2006	33	66	50%
2007	26	58	45%
2008	25	70	36%
2009	30	61	49%
2010	31	66	47%
2011	24	68	35%
2012	27	71	38%
2013	31	76	41%
2014	28	80	35%
Total	316	761	42%

Session Law 2014-100, Appropriations Act of 2014, Section 11.1(a),²¹ directed the Board of Governors to reduce state funds for centers and institutes by \$15 million. While the law allows them to redirect these dollars to other areas, this budget cuts them entirely from the General Fund.

In addition to the 16 centers indicated by the board as needing action, we contend that there are another 28 centers and institutes that are not meeting the intended purpose of supporting the educational mission of the UNC System. Eliminating or reducing the state appropriation for these centers and institutes will result in a total \$6,651,093 reduction from the General Fund, based upon their FY13-14 appropriations.

21 SECTION 11.1. (a) Notwithstanding the provisions of G.S. 116-11 and G.S.116-30.2, the Board of Governors and the campuses of the constituent institutions shall consider reducing State funds for centers and institutes, speaker series, and other nonacademic activities by up to fifteen million dollars (\$15,000,000); if reductions are taken, then the Board of Governors may use those reductions to do either or both of the following: (1) Provide a State match of up to ten million dollars (\$10,000,000) for gifts from private sources for the Distinguished Professors Endowment Trust Fund. (2) Expend up to five million dollars (\$5,000,000) to implement provisions of The University of North Carolina Strategic Plan as set out in the report "Our Time, Our Future: The University of North Carolina Compact with North Carolina." These funds are in addition to the fifteen million dollars (\$15,000,000) that may be expended pursuant to subsection (h) of Section 11.13 of S.L. 2013-360.

1. *Institute for Health and Human Services (ASU) - \$444,584*

The center provides health promotion, but not care, at no cost to employees, including office optimization and CPR courses offered by other institutions. We recommend discontinuing this appropriation.

2. *Energy Center (ASU) - \$65,143*

Testing and community outreach conducted by the center does not directly serve degree students. Many functions can be delegated to other departments, or EPA funding could be used to sustain the center. We recommend discontinuing this appropriation.

3. *Center for Entrepreneurship (ASU) - \$39,346*

Specific programs offered by the center are already supported by private donations and sponsorships from alumni and others. We recommend the center become receipt supported.

4. *Institute for Outdoor Drama (ECU) - \$164,880*

This center seeks to "provide services to organizations who produce theatre in outdoor settings including historical dramas, Shakespeare festivals, religious dramas, and a rich variety of musicals and plays." It is non-degree in nature and feeds into a larger non-governmental organization. It does not provide direct instruction to students and does not serve a core function of government. We recommend discontinuing this appropriation.

5. *Pediatric Healthy Weight and Treatment Center (ECU) - \$15,380*

This center disseminates information published by other institutions and is not necessarily representative of the ECU School of Medicine. We recommend the center move to support by receipts from supporting institutions.

6. *NC Center for Sustainable Tourism (ECU) - \$445,747*

The NC Center for Sustainable Tourism receives more funding than other institutions serving similar numbers of students. Crossover with other departments for research gives this center access to additional funding sources making them capable of maintaining research despite a reduction in General Fund appropriations. We recommend reducing state appropriations for the center by \$100,000.

7. *NC Sea Grant College Program (NCSU) - \$1,092,125*

This program has 33 staff members but serves only eight degree seeking students. Degree programs that conduct similar research can be utilized. We recommend discontinuing this appropriation.

8. *Bioinformatics Research Center (NCSU) - \$58,156*

The center has no recent publications, only an announcement that they have received funding from the UNC Superfund Program, despite supporting five graduate programs. We recommend discontinuing this appropriation.

9. *Center for Family and Community Engagement (NCSU) - \$47,858*

The vast majority of funding for this center comes from grants for specific programs that work with various social work centers and institutes. State appropriations make up a small amount of overall funding. Because this institute appears to have productive programs, we recommend removing General Fund expenditures and shifting to grant funding.

10. *Center for Integrated Pest Management (NCSU) - \$152,016*

The primary role of this center is to support the work of the regional Southern Integrated Pest Management Center. It is an NCSU and NCA&T partnership that lacks a clear purpose and offers a weak justification for funds. Reduce state appropriation by \$52,016.

11. *Center for Turf Grass Environmental Research and Education (NCSU) - \$589,026*

The main function of this center is to maintain a website that offers information on turf grass management. There have been very few publications by the center since 2008. Reduce state appropriation by \$89,026.

12. *Furniture Manufacturing and Management Center (NCSU) - \$375,694*

While the program is degree supporting, its function is to serve private industry. "The goal of the FMMC is to assist furniture manufacturers in developing and maintaining the capability to respond quickly to market changes while producing products that are competitive worldwide in terms of price, styling,

and quality. The FMMC utilizes pooled funds to conduct industry/ university research, development, and technical assistance addressing problems of generic interest to furniture manufacturers." This mission is politicized and too narrowly focused on one industry. The center receives some funding from private institutions. Therefore, we recommend discontinuing this appropriation.

13. *Nonwovens Institute and Nonwovens Cooperative Research Center (NCSU) - \$269,428*

While supporting the textile program at NCSU, services provided to the private sector outweigh its educational mission. If the program is to continue, funding should be provided by textile businesses benefitting from the center's research. We recommend discontinuing this appropriation.

14. *NC Institute for Climate Studies (NCSU) - \$141,441*

This appears to be a center housing a number of other entities that publish and produce research. As such, there is no need to continue state appropriations for this umbrella organization. We recommend discontinuing this appropriation.

15. *William and Ida Friday Institute for Educational Innovation (NCSU) - \$1,365,874*

The center has a 10-person "leadership team" and 14 advisory board members, including CEOs and school leaders. The official mission of the center is to "conduct research, develop educational resources, provide professional development programs for educators, advocate to improve teaching and learning, and help inform policy-making." The NC Department of Public Instruction could continue to support some of the institute's activities by using pass-through grant funds. The center could continue its educational evaluation and connectivity initiatives, for example, so long as they are fully supported by public entities, private businesses, and nonprofit organizations. We recommend the institute become receipt supported.

16. *National Environmental Modeling Analysis Center (UNCA) - \$3,000*

The National Environmental Modeling Analysis Center supports a non-degree program and various community affairs projects. We recommend the center become receipt supported.

17. *Osher Lifelong Learning Institute (UNCA) - \$114,479*
- This center is not part of an official degree program. Its function is to recruit those between the ages of 25 and 50 who wish to return to college and finish a degree or those in retirement who wish to continue their educations. The institute is part of a much larger national private foundation, which could provide the remaining funding. We recommend discontinuing this appropriation.
18. *Biomedical Research Imaging Center (UNC) - \$20,607*
- The center is not itself part of a degree program but supports many other degree programs by providing access to technology. We recommend that the state fund the center using resources from those departments that receive services and implement fees for use of equipment.
19. *Bowles Center for Alcohol Studies (UNC) - \$88,617*
- Clinical work is done through NC Health Care's Alcohol and Substance Abuse Program, which is a partner but separate from the Bowles Center for Alcohol Studies. Funding is also provided through the National Institute on Alcohol Abuse and Alcoholism. We recommend the center be supported by receipts from associated institutions.
20. *Carolina Center for Competitive Economies (UNC) - \$56,911*
- This center is an extension of the Frank Hawkins Kenan Institute for Private Enterprise. We recommend the center be supported by receipts from associated institutions.
21. *Carolina Population Center (UNC) - \$472,327*
- The Majority of research funding for this center comes from project-specific grants. The center seek grants or private support for their activities. We recommend discontinuing this appropriation.
22. *Cecil G. Sheps Center for Health Services Research (UNC) - \$838,020*
- The Cecil G. Sheps Center has not spent state funds in an efficient and effective way. Despite their sizable appropriation, a staff of five, and a policy board of 17, only two students (one graduate and one undergraduate) are supported. We recommend discontinuing this appropriation.
23. *Center for Developmental Science (UNC) - \$25,597*
- The center receives most of its funding from the many grant foundations established to promote effective education. Their General Fund appropriation does not support substantive research and pales in comparison to the funding received from sponsors and project specific grants. We recommend the center become receipt supported.
24. *Center for Urban and Regional Studies (UNC) - \$175,508*
- This center is non-degree and appears to serve as an umbrella institution for other entities, including the Carolina Transportation Program, Program on Chinese Cities, and UNC Center for Community Capital. The divergent missions of these centers, and the distinctly foreign benefit of the Chinese program, do not justify state dollars. We recommend discontinuing this appropriation.
25. *Gene Therapy Center (UNC) - \$54,117*
- General Fund appropriations pay for speaking engagements for the Gene Therapy Center and are non-degree focused. Removing the funding for speaking engagements would not significantly diminish the work of the center. We recommend discontinuing this appropriation.
26. *Highway Safety Research Center (UNC) - \$400,462*
- The Highway Safety Research Center has no degree program, 51 staff members, and only 23 researching fellows. The HSRC has produced just four new studies in the past year. Most of the website's information is passed down from other journals and larger federal programs, rather than being original research produced by the center. We recommend discontinuing this appropriation.
27. *Injury Prevention Research Center (UNC) - \$24,688*
- The non-degree work of the Injury Prevention Research Center overlaps with the work of the federal CDC center of the same name. Boasting a staff of 46, there is a very large administrative structure. The national center could choose from asking the federal agency for an additional appropriation equivalent to the General Fund or reducing staff. We recommend discontinuing this appropriation.

28. *Mountain Heritage Center (WCU) - \$155,829*

Many of the center’s historic preservation functions are better fulfilled by the Appalachian Studies center at ASU. Degree work offered by the Mountain Heritage Center is in the form of student internships to support the museum, but the center provides no coursework as part of an official degree program. We recommend reducing funding by \$55,829.

Non-instructional staff levels

One of the most frequent complaints heard about state systems of higher education is that their non-instructional staff has grown at exponential rates. While some administrative and support staff are necessary to operate these large enterprises, there are many others employed by state universities that provide duplicative or superfluous services. More importantly, every dollar spent on non-instructional functions is a dollar that could otherwise have been used to supplement the pay of outstanding faculty, reduce class sizes, or keep tuition costs from rising.

Given those pressures for funds, we compared the ratios of students to non-instructional full time staff. The system-wide average was 8.25 students per non-instructional employee, but individual institutions’ ratios varied widely. In particular, NCSU and UNC-CH presented as outliers. While we recognize that there are added demands arising from their positions as world class research institutions, we believe that there is room for efficiency improvements and budget savings. While we have not suggested cuts in this budget, this is an area that the institutions themselves should consider immediately and that lawmakers should consider in the next budget cycle.

	FTE Students	FTE students per non-instructional staff	Average salaries for non-instructional staff
UNC-CH	29,213	3.3	\$58,364
NCSU	30,531	4.8	\$57,854
ECU	24,726	7.0	\$48,718
ASU	17,362	7.1	\$48,165
UNCA	3,312	7.4	\$44,492
ECSU	2,803	7.4	\$48,738
NC A&T	9,805	8.3	\$51,261
NCCU	7,983	9.1	\$49,638
WSSU	5,502	9.2	\$51,378
WCU	8,794	9.5	\$45,022
UNCG	16,174	9.8	\$52,461
FSU	5,297	9.8	\$44,856
UNCP	5,548	10.9	\$43,613
UNCC	22,807	11.0	\$51,882
UNCW	13,112	11.5	\$47,845

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
Guaranteed Admission Program	n/a	\$19,250,180	\$19,250,180
Instructor Salaries	n/a	\$30,000,000	\$59,000,000
STEM Equipment	n/a	\$10,000,000	\$0
Small Business Centers	\$6,172,773	\$3,086,387	\$0
Center for Emerging Manufacturing Solutions (CEMS)	\$864,678	\$432,339	\$432,339
Bionetwork	\$4,240,277	\$4,138,972	\$4,138,972
NC Works Customized Training	\$12,212,461	\$6,106,231	\$6,106,231
Fayetteville Botanical Lab	\$100,000	\$50,000	\$50,000
Military Business Center	\$1,140,603	\$1,080,603	\$1,080,603
Textile Center	\$661,719	\$330,860	\$330,860
Minority Male Mentoring	\$810,000	\$0	\$0

Guaranteed Admission Program

Legislation in 2013 created a study committee that directed the Joint Legislative Education Oversight Committee, in conjunction with the Board of Governors of The University of North Carolina and the State Board of Community Colleges, to study the feasibility of establishing an alternative undergraduate admission program to be known as the North Carolina Guaranteed Admission Program (NC GAP).²²

NC GAP is an alternative admission program for students who apply to a UNC System institution and satisfy baseline admission criteria but have academic credentials that are not as competitive as other students admitted to the institution. A student admitted to a constituent institution through NC GAP would agree to defer enrollment until he or she earned an associate degree from one of the state’s community colleges. Counseling and assistance would be provided by the community college to any student in NC GAP to help the student in selecting coursework that reflects his educational and career goals and that provides a smooth transition from the community college to the constituent institution. Once awarded the associate degree from the community college, an NC GAP student would be entitled to admission as a junior at the constituent institution. Each constituent institution of higher education would be directed to establish NC GAP as part of its undergraduate admission program.

22 Session Law 2013-363, House Bill 112, Section 11.179(a-b)

NC GAP would provide benefits to all stakeholders. The program would encourage and assist more students to obtain a baccalaureate degree within a shorter time; provide students with a college education at significantly lower costs for both the student and the state; help decrease the amount of student loan debt by reducing the aggregate cost of attendance; award students an interim degree; and enable easier access to academic counseling.

To estimate a budget figure for the creation of this new program, we include the 278 students from the Summer Bridge programs, as well as the 3,819 students who were enrolled in remedial courses during the FY2012-13 school year.²³ This would redirect 4,097 students from the UNC System and place them in the Community College System Guaranteed Admission Program. The per pupil expenditure for the Community College System is \$4,244, so this would require increasing the General Fund appropriation to the Community College System by \$17,387,668.

Total savings to the General Fund through shifting students from the UNC System into the Guaranteed Admission Program is \$37,435,492, although funding for fixed costs may reduce this savings.

23 northcarolina.edu/sites/default/files/documents/remedial_activities_report_2012-2013.pdf

Instructor Salaries

Instructor salaries need to be increased in an effort to attract and retain quality professors who will prepare students for a four-year university or the workforce. Many community colleges have indicated difficulty recruiting qualified nursing, chemistry, and math faculty, for example. The increase in recurring funding would give community colleges flexibility to decide how to target the funds to meet their salary needs.

This budget allows the community college system to retain \$30 million in 2015-16 and \$59 million in 2016-17 in recurring funds as part of management flexibility cuts.²⁴ An investment of those funds in instructor salaries could improve average instructor salaries by 5 percent or more.

STEM Equipment

This budget supports the governor's recommended \$5 million in non-recurring funding for FY 16-17. The John Locke Foundation budget will increase the funding for STEM equipment with an additional non-recurring appropriation of \$10 million in FY 15-16. The Community College System has placed an emphasis on STEM programs for technicians and health care workers but is struggling to equip shops and labs with the necessary updated equipment.²⁵ This additional funding will help with those updates.

24 NC Community Colleges 2015-17 Budget Priorities, "NC Community College instructor and staff salaries rank among the lowest in the southeast – near the bottom in the SREB region. We cannot be the best when our instructors are paid among the worst. We aspire to rise to a salary ranking at the middle – a spot now occupied by Mississippi. Allow colleges to retain \$59 million in recurring funds now returned to the state as part of management flexibility cuts, and invest those funds in instructor and staff salaries which could improve average instructor salary by more than 5%."

25 NC Community Colleges 2015-17 Budget Priorities, "To prepare North Carolina's workforce, community colleges must have current technology and equipment. As we continue to close the skills gap, colleges are placing significant emphasis on STEM programs for technicians and health care workers that lead to well-paying new jobs, but are struggling to equip shops and labs with the necessary updated equipment. Appropriate \$10 million in nonrecurring funds for equipment to provide a significant infusion of funds to support new technology-based jobs."

Minority Male Mentoring

This budget recommends the state funding for this program be redirected into the Guaranteed Admission Program to serve a broader group of students. The Male Minority Mentoring Program had 1,547 students in fall 2012. One year later, only 67 percent returned.

The current program receives a large amount of funding from federal grants and other sources. The program is not focused on direct student contact for academic success. Rather, it provides information about postsecondary education and financing options. These services are duplicative among the many assistance programs available in the Community College System that receive federal funding in larger amounts. This budget moves the existing state appropriation to the Guaranteed Admission Program. If community college officials believe that the male minority mentoring program should continue, they should rely on federal grants and private donations to sustain it.

Small Business Centers

The Small Business Center Network, according to its website,²⁶ is "comprised of 58 Small Business Centers throughout North Carolina and supports the development of new businesses and the growth of existing businesses by being a community-based provider of training, counseling, and resource information." If the private sector is interested in the development of new businesses or the growth of existing businesses, then it will invest in the businesses themselves. If the business cannot survive without support from the Small Business Center Network, then the market is signaling that it is not a viable venture.

This budget recommends phasing out state funding for the Small Business Center Network and all 58 centers located across the state. We recommend reducing their funding by half for FY 15-16 and entirely for FY 16-17. This will give the centers time to obtain private funding if they wish to continue operations.

Center for Emerging Manufacturing Solutions

This center is located on the campus of Catawba Valley Community College, and its mission²⁷ "is to help US manufacturers increase sales, improve quality and improve efficiency to create or retain jobs." Their

26 ncsbc.net/DocumentMaster.aspx?doc=1002

27 manufacturingsolutionscenter.org/index.html

workforce training and recruitment efforts are a form of economic incentive, using state dollars to boost private sector profitability. We should focus on improving the quality of the workforce broadly, not subsidizing the workforce needs of a handful of specific industries. In the end, this is one of many examples of the state picking winners and losers through incentive programs.

This budget significantly reduces the center's funding to half of that received last fiscal year.

BioNetwork

This budget recommends that the BioNetwork receive the same appropriation provided for FY13-14.

NCWorks Customized Training

This budget recommends that the NCWorks Customized Training has its funding reduced to half of last fiscal year's.

The goal of this program, according to its website,²⁸ "is to foster and support three key aspects of your company's well-being: job growth, technology investment, and productivity enhancement." It directly competes with the private sector and is an unnecessary intervention in the market.

Fayetteville Botanical Lab

This budget reduces the current appropriation by half.

Military Business Center

The center currently has one vacant position²⁹ in its Fayetteville office. Because this center is headquartered in Fayetteville and has the support of the community college, this position can be eliminated with little reduction in services. We recommend reducing state appropriations by an amount equivalent to the cost of filling the vacancy. The salary and benefit costs are not known, so we estimate that the savings would be \$60,000.

Textile Technology Center

The current mission³⁰ of the center is "to develop a world-class workforce for the textile industry in North Carolina and to support the textile industry by identifying problems confronting the industry and assisting the industry in solving them, garnering support from the textile industry for the work of the center, and serving as a statewide center of excellence that serves all components of the textile industry."

Because the center houses needed continuing education and curriculum classes, the entire appropriation cannot be removed. Thus, we recommend reducing funding for operations that are not directly related to education for the textile industry in North Carolina. This budget reduces the state appropriations to the center by half, which is only \$174,455 less than the state appropriation in FY13-14. By reducing the state appropriation to a level near to previous appropriations, the state can ensure minimal disruption to the center. If they find its work to be indispensable, the remaining textile companies in the Gaston, Lincoln, and Cleveland county areas can pay for a portion of the research that the center provides.

28 nccommunitycolleges.edu/networks-customized-training

29 North Carolina Military Business Center, Organizational Fact Sheet, accessed March 2015, ncmbc.us/links/documents/NCMBCFactSheet_012.pdf

30 gaston.edu/textile-technology-center/kimbrell-campus/

GENERAL GOVERNMENT

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
The General Assembly	\$52,465,521	\$51,397,665	\$51,394,402
<i>Senate Chaplain</i>	<i>n/a</i>	\$0	\$0
<i>GA Police Department</i>	\$1,462,988	\$0	\$0
<i>Cable TV</i>	\$2,475	\$0	\$0
Office of the Governor	\$5,564,687	\$7,027,007	\$7,027,007
Office of State Budget and Management (OSBM)	\$9,261,922	\$7,687,290	\$7,537,290
<i>Economic Modeling</i>	<i>n/a</i>	\$100,000	\$100,000
<i>NC GEAR</i>	\$1,314,709	\$0	\$0
<i>NC Symphony</i>	\$1,500,000	\$0	\$0
<i>Rise NC</i>	<i>n/a</i>	\$0	\$0
<i>Innovation Commercialization Grant</i>	<i>n/a</i>	\$0	\$0
<i>Historic Properties</i>	<i>n/a</i>	\$0	\$0
North Carolina Housing Finance Agency	\$18,241,954	\$1,458,739	\$1,458,739
<i>Home Match program</i>	\$1,458,739	\$1,458,739	\$1,458,739
<i>Housing Trust Fund</i>	\$6,783,215	\$0	\$0
<i>Workforce Housing Loan Program</i>	\$10,000,000	\$0	\$0
Office of the State Auditor	\$11,790,407	\$12,449,244	\$12,449,244
<i>NC GEAR</i>	\$1,314,709	\$872,000	\$872,000
<i>NC GEAR Central Grants Administrator</i>	<i>n/a</i>	\$71,000	\$71,000
Department of Administration	\$66,062,950	\$59,606,218	\$57,954,475
<i>Commission on Indian Affairs</i>	\$330,198	\$297,198	\$297,198
<i>Office for Historically Underutilized Businesses</i>	\$521,910	\$0	\$0
<i>Veterans Affairs</i>	\$6,776,393	\$0	\$0
<i>Human Relations Commission</i>	\$545,407	\$272,704	\$272,704
<i>Martin Luther King Commission</i>	\$23,378	\$0	\$0
Department of Cultural Resources	\$64,059,258	\$101,310,704	\$97,396,304
<i>Tryon Palace</i>	\$2,697,697	\$1,572,697	\$1,572,697
<i>Historic Preservation</i>	\$1,019,259	\$749,092	\$749,092
<i>Arts Council</i>	\$7,266,116	\$0	\$0
<i>Museum of Art</i>	\$6,181,036	\$4,635,777	\$4,635,777
<i>Maritime Museum</i>	\$1,709,908	\$709,908	\$709,908
<i>Historic Sites</i>	\$7,148,127	\$6,433,314	\$6,433,314
<i>State Parks</i>	\$42,882,443	\$21,441,222	\$21,441,222
Cultural Resources - Roanoke Island Commission	\$508,384	\$0	\$0

General Assembly

Senate Chaplain

This budget removes the annual appropriation for the Senate Chaplain and converts the position into a volunteer one, similar to the ‘Nurse of the Day’ program. The House has not paid a chaplain since 2009. The Senate pays their chaplain \$217.54 per week during session.³¹ The legislative session has lasted an average of 26 weeks in odd years and 11 weeks in even years since 2009.³² The estimated savings to the budget is based on this average.

General Assembly Police

This budget transfers the General Assembly Police from General Government to the Capital Police Department in the Department of Public Safety. A single police jurisdiction would allow police to more effectively address security issues in all parts of the state government complex, including the capital grounds and the General Assembly. This transfer includes all General Assembly police staff, including one chief, 17 officers, a safety and standards officer, a telecommunicator, and a security guard.³³

Office of the Governor

Reduce Staff

According to the controller’s report of state government salaries, the Governor’s Office currently employs 68 full- and part-time staff.³⁴ (See Appendix 2) We recommend reducing staffing costs by 22.5%, but leave decisions about the precise cuts to the governor’s discretion. We believe there can be efficiency savings, particularly in areas where employees have similar roles.³⁵

This budget also transfers two positions currently housed in the Governor’s Office, the Military Advisor

and Assistant, to a proposed Division of Military and Veterans Affairs within the Department of Public Safety.

Advocacy Programs

This budget does not move advocacy programs into the Governor’s Office as recommended in the Governor’s budget. Under his plan, the Commission on Indian Affairs, Office for Historically Underutilized Businesses, NC Council for Women and Domestic Violence Commission, Sexual Assault Program, Domestic Violence Center, Youth Advocacy and Involvement Office, Human Relations Commission, Martin Luther King Commission, and Division of Non-Public Education would be transferred to a unified office attached to the Governor’s Office.³⁶

Many of these are non-partisan advocacy programs. Moving them into the Governor’s Office runs the risk of subjecting their work to the political whims of the office-holder. The Division of Non-Public Education, which oversees over 61,000 home schools and around 700 private schools throughout North Carolina, would be at the greatest risk.

Office of State Budget and Management

Economic Modeling Software Purchase

The Office of State Budget and Management (OSBM) needs additional resources to better analyze state and local economic impacts of policy proposals, assess economic development plans, and support data-driven distributions of funds and projects.³⁷ This budget does not appropriate funds for the purchase of software, but instead recommends hiring a qualified econometrician.

The cost of hiring a qualified econometrician would be far less than purchasing software that would require extensive staff training and maintenance. This budget allocates \$100,000 for that position, saving \$400,000 in the first year. Moreover, economic impact software is seldom sufficient for determining net costs and benefits of complex policy or tax proposals. Currently, OSBM

31 Email from General Assembly Financial Services

32 Calculation was based upon the number of weeks the General Assembly met where they held session. Weeks were rounded to the nearest whole week.

33 List of current staff is from the 2015 Telephone Directory for the General Assembly, page 31, ncleg.net/documentsites/legislativepublications/NCGA%20Telephone%20Directory.pdf

34 The Office of the Controller, NC State Employee Salaries, data as of March 2, 2015

35 22.5% is an approximate figure based on a 20% reduction in salary and 2.5% in associated employment costs. Actual amounts may vary slightly.

36 Joint Appropriations Committee for General Government, March 31, 2015, “Administration, Veterans, Advocacy, and Budget Office Recommendations”, slides 4-7, ncleg.net/documentsites/Committees/HouseAppropriationsGenGov/2015%20Session/03-31-15%20Meeting-Joint/NC%20GEAR%20slides_GenGov_2015-03-31.pdf

37 Email from OSBM states they have not selected the specific modeling software as of March 25, 2015.

does not have an economist on staff, a position that would be beneficial to other functions of the office.³⁸

NC GEAR

We agree that the continuation of the NC Government Efficiency And Reform (GEAR) effort would help ensure successful implementation of sound policy and operation of efficient state agencies. By creating a standing institution with permanent staff, NC GEAR will institutionalize a culture of efficiency, accountability, and responsiveness across state government.

This budget, however, does not recommend keeping NC GEAR in OSBM. Because they write the governor's budget, OSBM operations may be subject to partisanship, such as pressuring NC GEAR to concur with recommended appropriations that run counter to its mission. On the other hand, the mission of the NC Office of the Auditor is better aligned with the roles and responsibilities of NC GEAR.³⁹ With their expertise in conducting performance and financial audits, Auditor's Office staff would be a natural partner for NC GEAR. At the same time, the transfer would minimize the potential for undue influence from political appointees.

This budget also transfers NC GEAR's centralized grants administrator to the Auditor's Office. The grants administrator would assess how federal grants interact with North Carolina's ability to pursue reforms. That information would complement the work of the Auditor's Office, particularly their development of the annual statewide financial audit.

OSBM Special Appropriations⁴⁰

NC Symphony

This budget eliminates the appropriation for the NC Symphony challenge grant of \$1.5 million. For the last

³⁸ Based upon a search for employees with 'economist' in their title across state government, The Office of the Controller, NC State Employee Salaries, data as of March 2, 2015

³⁹ "We protect the interests of taxpayers and others who provide financial resources to the State of North Carolina. Specifically, we provide objective information to interested parties about whether state resources are properly accounted for, reported, and managed; as well as whether publically-funded programs are achieving desired results."

⁴⁰ This fund is used to collect and distribute special appropriations made to non-state entities as directed by the General Assembly. Funds in this account are allocated to specific non-state entities in accordance with Session Law and/or the Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets.

five years, the state has awarded \$1.5 million to the symphony if they meet a fundraising goal of \$8 million. In 2014, the North Carolina Symphony had a record-breaking year in ticket sales and fundraising, including a 13 percent increase in the number of donors. Last year, the symphony also received a \$2 million donation, the largest gift in its history. Although state appropriations made up 27 percent of the NC Symphony's total operating budget in FY 2014, overwhelming private support signals that a state appropriation is not necessary for continued operations.⁴¹

Innovation to Jobs

This budget removes the Rallying Investors and Skilled Entrepreneurs for NC (RISE NC) network, a government-run venture capital operation, and cuts the Blackstone Entrepreneurs Network, an entrepreneurial fellowship program.⁴² Neither are core functions of government and both are better left to the private sector.

University Innovation Commercialization Grant Program

This budget removes the University Innovation Commercialization Grant program. This incentive program does not support a degree program. Moreover, the creation of this program is at odds with the \$15 million cut to the UNC system centers and institutes recommended in this budget. The university system, like the Commerce Department, should refrain from passing tax dollars to private entities.

Downtown Raleigh Historic Properties

This budget removes this appropriation, because there is little justification for state taxpayers to subsidize the preservation of historic properties in Raleigh.⁴³ This is best funded privately, but if it is to receive any government money, that should come from the local level, the Raleigh City Council.

⁴¹ North Carolina Symphony, Report to the Community 2014, State of the Symphony, page 3, accessed March 20th, 2015, ncsymphony.org/mediacenter/flipbook/index.html

⁴² bennorthcarolina.com/

⁴³ John Locke Foundation, Spotlight no. 462, "Historic Preservation Tax Credits: Government should not intervene in the historic-property business on economic grounds", January 29, 2015, johnlocke.org/acrobat/spotlights/Spotlight462HistoricPreservationTaxCredits.pdf

Housing Finance Agency

HOME Match Program

This budget will pay for the 25 percent match required to receive funds allocated to it under the federal HOME program.⁴⁴ Nevertheless, this budget will direct state appropriations, rather than replicate the Governor's method of funding the program, the recent Standard and Poor's settlement.⁴⁵ This budget also does not support the governor's increase of \$1,541,261 for the second year of the biennium.

Housing Trust Fund

The Housing Trust Fund is North Carolina's state-funded and state-designed resource for financing affordable housing. It was started in 1987 using proceeds from a \$19.8 million legal settlement. Since then, it has been funded through annual appropriations totaling \$183 million. Last year, the state appropriated \$6.8 million for the Housing Trust Fund in recurring funds.

This budget recognizes the need for affordable housing in North Carolina, but the HOME Program (referenced above) created by Congress in 1990 has been able to provide North Carolina with a flexible funding source to meet the housing needs of low-income citizens. Due to the duplicative nature of this program and the presence of the HOME Program, this budget removes funding for the Housing Trust Fund indefinitely.

Workforce Housing Loan Program

This budget discontinues the Workforce Housing Loan Program. The loan program was created in FY 2014-15 to offset the sun-setting Housing Tax Credit legislation. Developers who construct or rehabilitate low-income housing projects already receive federal housing credits, so a state tax credit program for the same purpose is unnecessary.

44 The North Carolina Housing Finance Agency administers the HOME Investment Partnerships Program for the state. Congress created this block grant program in 1990 to provide states and localities with a flexible funding source to meet their diverse housing needs. States receive 40 percent of total HOME funding, and localities receive 60 percent directly from the U.S. Department of Housing and Urban Development based on a formula determining need. North Carolina Housing Finance Agency, *Our Financing, HOME Investment Partnerships Program*, accessed April 2, 2015, nchfa.com/about/financingfrom.aspx#federalhome

45 This settlement compensates state for the misrating of mortgage-backed securities during the economic crisis.

Office of the Auditor

NC GEAR

This budget transfers the NC GEAR team, including a federal grants manager, from the Office of State Budget and Management to the Office of the State Auditor. (See NC GEAR under OSBM above.)

Department of Administration

Commission of Indian Affairs

During fiscal year 2013-14, the Commission of Indian Affairs spent over \$5.4 million, mostly from federal receipts.⁴⁶ This budget reduces the amount of state appropriations to the commission by 10 percent or \$33,000 from the level in the previous fiscal year. Beginning in FY 2011-12, there was a nearly \$70,000 increase in state appropriations for the commission. Our proposed funding cut will bring the commission back to prior funding levels. The budget cut should not imperil the operations of the commission. There are existing grants to pay for the Indian Talent Search and the Action Partnership Program.

Office for Historically Underutilized Businesses

This budget removes the \$522,910 appropriation for the Office of Historically Underutilized Businesses. There are numerous programs to aid minority and women-owned businesses. The best strategy for assisting these and all other small businesses, however, is to lower their taxes, repeal unnecessary regulations, and remove other barriers to entry.

Veterans Affairs

This budget moves the Veterans Affairs and the State Veterans Home Program from the Department of Administration to a new Division of Military and Veteran's Affairs within the Department of Public Safety.⁴⁷

Martin Luther King Commission

All North Carolinians should honor the legacy of Martin Luther King Jr. through service to others. But

46 Email from Gregory Richardson, Executive Director of the NC Commission of Indian Affairs

47 John Locke Foundation, Spotlight no. 465, "Two New Departments? A closer look at the state's IT and veterans programs and the governor's proposal for a new department for each", April 15, 2015, johnlocke.org/acrobat/spotlights/Spotlight465ITVets.pdf

doing so does not require a state-funded commission. For this reason, this budget recommends that the MLK Commission no longer receive a state appropriation. If stakeholders believe that the commission should continue its work, then private funds should be raised to support their grantmaking activities.⁴⁸

Human Relations Commission

This budget reduces the state appropriation to the Human Relations Commission by half. Nearly 90 percent of the total commissions budget is salaries and benefits paid to the commission's six full-time employees.⁴⁹ The commission receives no grants and engages in no income earning activities that offset state appropriations. It should fund at least part of its operations through private donations or sponsorships.⁵⁰ The majority of the commission's mission is performed at the local level through city and county community relations councils, and many of these people are volunteers. The commission needs to reduce staff to meet budget reductions.

48 According to its website, the MLK Commission never finalized the forms for the grant program in 2014 and have not done so for 2015. Text from the website states, "The 2014 Request for Proposal (RFP) for the MLK grant program has not been finalized. When the RFP is finalized, it will be posted on this site. Please note the 2014 MLK RFP may differ from the 2012-2013 RFP that is posted below." doa.nc.gov/hrc/grants.aspx

49 The Governor's Recommended Budget, Line Item Detail, 2015-17, Department of Administration-Human Relations Commission, page 863, osbm.nc.gov/files/pdf_files/2015-17_LineItem_GenGov.pdf

50 The purpose of the Human Relations Commission is to provide services and programs for improving relationships among all citizens of the State, ensuring equal opportunity in the areas of housing, public accommodations, education, justice, government services and employment. The Commission's target population includes all people whose civil rights and fair housing rights may have been violated or are perceived to have been violated. To execute these responsibilities, this division uses: 1) persuasion and legal action to enforce the State Fair Housing Act (N.C.G.S. Ch. 41A); 2) outreach presentations conducted throughout the state to increase awareness of the State and Federal Fair Housing Acts; 3) training about cultural diversity appreciation to governmental agencies, their staff, local Human Relations Commissions, Community-Based organizations and State agencies to promote understanding and respect; 4) identification of potentially disruptive issues that may result in conflicts; and 5) support and collaboration with local Human Relations Commissions throughout the State.

Department of Cultural Resources

Tryon Palace

This budget reduces state appropriations to Tryon Palace by \$1,125,000. Both the city of New Bern and Craven County have directed funding to Tryon Palace in recent years. Craven County spent over \$1 million on a new history center associated with the attraction. In addition, the city of New Bern appropriated \$125,000 to Tryon Palace last fiscal year.⁵¹ These government entities should assume a greater share of the financial responsibility for Tryon Palace, particularly because area citizens benefit from tax revenue generated by tourists who visit the site.

Historic Preservation

This budget reduces the full-time employee salary and benefits appropriation by 25 percent to remove the four full-time employees who supported the state's tax credit program. The office no longer needs to maintain current staffing levels because of the sunset of the state's historic preservation tax credit.

Arts Council

This budget, as in prior years, recommends that the Arts Council operate solely from donations and self-generated funds. While it is important for North Carolina to maintain a thriving arts community, promotion of the arts is not a core function of government and is best spearheaded by nonprofit organizations and other stakeholders. In recent years, other state governments have removed state funding for arts councils from their budgets. For example, Kansas eliminated such funding in 2011, providing a great example for all states of how to use taxpayer funds wisely.

Museum of Art

Consistent with prior JLF recommendations, this budget recommends that the NC Museum of Art reduce dependence on state revenue and charge sufficient admission to its permanent collection, as well as special exhibitions and programs, to compensate for the cut. Clearly, the NC Museum of Art is an important attraction, but funding for the arts is not a core function of government and should not be supported by general taxes on all North Carolinians.

51 Email from New Bern Finance Office, "The City appropriated \$125,00 to Tryon Palace during FY 13-14, no funds are appropriated for this Fiscal year (14-15)."

Maritime Museum

This budget recommends that the state reduce appropriations to the NC Maritime Museum. According to its website, the Museum offers free admission and has locations, Beaufort, Southport, and Hatteras. These are important local destinations and should be supported by admissions revenue, nonprofit organizations, and, if necessary, the respective local governments.

Historical Sites

This budget recommends that all of the state's 27 historical sites implement plans to generate more funding from user fees and private donations by FY 2016. At that time, state appropriations to historical sites would be reduced by 10 percent.

Roanoke Island Commission

Consistent with prior JLF recommendations, this budget recommends that the Roanoke Island Festival Park and Commission no longer receive a state appropriation. According to its website, the mission of the Roanoke Island Commission is to involve residents and visitors of all ages in a creative and stimulating exploration of Roanoke Island's historical, cultural and natural resources. This it is not a core function of state government and should be supported by user fees, nonprofit organizations, and, if necessary, county tax revenue.

HEALTH AND HUMAN SERVICES

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
Central Management and Support	\$92,787,838	\$107,866,668	\$123,705,073
<i>Services for the Uninsured</i>	\$151,783	\$0	\$0
<i>Invest in Community Mental Health Initiatives</i>	n/a	\$7,848,341	\$0
Public Health	\$137,476,537	\$108,431,873	\$113,299,142
<i>Breast & Cervical Cancer Control</i>	\$1,607,358	\$0	\$0
<i>Quitline</i>	\$1,200,000	\$0	\$0
<i>Health Disparities</i>	\$3,144,108	\$0	\$0
<i>Maternal and Infant Health</i>	\$9,306,203	\$0	\$0
<i>Children & Adult Health Prevention</i>	\$8,983,427	\$0	\$0
<i>Promotion</i>	\$1,010,181	\$0	\$0
Medicaid	\$3,688,375,003	\$3,795,972,753	\$3,988,691,366
Health Services Regulation	\$16,022,641	\$16,722,641	\$17,422,641
<i>Preparedness - Statewide Health Planning</i>	\$2,425,544	\$3,125,544	\$3,125,544

Health Services Regulation

Certificate of Need

Certificate of Need (CON) laws require that providers seek permission from the state Department of Health and Human Services to acquire, replace, or expand their existing facilities and equipment. North Carolina hosts one of the most restrictive CON programs in the country, regulating 25 different services.⁵²

It would be in the best interest of patients to repeal this outdated law. The program fails to effectively manage health care supply in a way that meets community needs. As a result, CON denies enhanced patient access to medical services that can be performed in lower cost settings. To assess the fiscal impact of CON reform, this budget accepts the fiscal note attached to House Bill 200, which concluded that exempting multi specialty ambulatory surgery centers from CON review would cost the state an additional \$700,000.⁵³ This number does not include any savings to the state that are likely to come about as a result of lower provider costs.

52 Jon Sanders, “Certified: The need to repeal CON”, John Locke Foundation, October 25, 2015, johnlocke.org/acrobat/spotlights/Spotlight445CON.pdf

53 ncleg.net/Sessions/2015/FiscalNotes/House/PDF/HFN0200v1n1.pdf

Division of Medical Assistance

Implement Medicaid Reform

North Carolina’s Medicaid program is in urgent need of reform. Patient health outcomes need to better match the value of every taxpayer dollar devoted to the program. North Carolina Medicaid patients, providers, and taxpayers suffer from the following flaws with the current system:

- Total Medicaid spending in North Carolina has grown almost 90 percent in the last decade, from less than \$8 billion annually just a decade ago to more than \$14 billion annually in 2012.⁵⁴
- Spending has grown twice as fast as state revenue.⁵⁵
- In 1998, 815,000 North Carolinians were enrolled in Medicaid. By 2012, 1.6 million were enrolled, nearly doubling over fifteen years.⁵⁶ To put this in perspective, the state’s total population grew by just 25 percent during the same period, meaning Medicaid enrollment has grown nearly four times as fast as the state population.⁵⁷

54 Fiscal Research Division, “Health and Human Services Subcommittee: FY 2012-13 budget highlights,” North Carolina General Assembly (2012).

55 Ibid.

56 Ibid.

57 Ibid.

- Between fiscal years 2009 and 2012, Medicaid spending exceeded the approved budget by a combined \$5.4 billion.⁵⁸ According to the latest DHHS financial audit, North Carolina’s Medicaid program remains \$350 million in the red.⁵⁹
- North Carolina’s \$14 billion program currently pulls down a 65 percent federal match, which is well above the national average.⁶⁰
- A quarter of primary care physicians no longer accept new Medicaid patients.
- North Carolina measures performance with the Healthcare Effectiveness Data and Information Set (HEDIS), a set of metrics used by more than 90 percent of health plans in the United States. North Carolina tracked 53 performance measures in its Medicaid program during 2010 and 2011. Unfortunately, about 55 percent of the tracked were worse in 2011 than they were in 2010.

In April 2013, the Department of Health and Human Services (DHHS) planned to address the above problems by contracting with multiple private managed care organizations (MCOs). In return, MCOs would take on full financial risk for the Medicaid program, leaving taxpayers off the hook for hemorrhaging cost overruns. Patients could then choose from among several plans that best meet their individual mental and physical health concerns. These plans would be paid a flat monthly rate for each enrolled individual, risk-adjusted for each individual’s health status.

Less than a year later, however, DHHS shifted its position and is now advocating a plan to restructure Medicaid under Accountable Care Organizations (ACOs). Through this approach, provider groups and health systems would partner to manage the cost and health outcomes of Medicaid patients under a defined spending target and be paid fee-for-service. Any cost savings or losses would be shared between providers and the state.

58 Ibid.

59 ncauditor.net/EPSWeb/Reports/Financial/FIN-2014-4410A.pdf

60 Katherine Restrepo, “The Mechanics of Medicaid: How Medicaid’s flawed financial design drives program costs”, John Locke Foundation, July 30, 2014, johnlocke.org/acrobat/spotlights/Spotlight458Medicaid.pdf

Governor McCrory’s budget recommends increasing Medicaid’s administrative staff by 22 full-time employees to support and monitor his Accountable Care Organization model for Medicaid reform. This budget supports the increased spending of \$1.16 million in administration, but does not limit Medicaid reform to the ACO model.

Infrastructural statewide Medicaid reform should encompass competing MCOs and provider-led ACOs. This has the potential to empower patients by granting them access to health plans tailored to their individual needs. It also holds promise to achieve better program budget predictability by proactively identifying needs for the most vulnerable patients.

State leaders should capitalize on model reforms that have been pursued by other states such as Florida, Louisiana, and Kansas. Florida is expected to save approximately \$1 billion annually when reforms are fully implemented statewide.⁶¹ Louisiana taxpayers saved approximately \$160 million during the first year of Bayou Health.⁶² And KanCare is expected to save more than \$1 billion during the first five years of implementation. It has already saved taxpayers an additional \$67 million above its initial savings target for the first year.⁶³

Ideally, the state should seek federal approval to convert Medicaid into a block grant program. Block grants give states more control over how program dollars are spent. Moreover, no reform can be complete unless some type of patient responsibility is enforced. This means that all people, regardless of income, need to have some ‘skin in the game’ when it comes to their personal healthcare.

61 Tarren Bragdon, “Florida’s Medicaid reform shows the way to improve health, increase satisfaction and control costs,” Heritage Foundation (2011), heritage.org/research/reports/2011/11/floridas-medicaid-reform-shows-the-way-to-improve-health-increase-satisfaction-and-control-costs

62 Bayou Health is estimated to have saved \$136 million in its first year through the 3.5 percent built-in savings. Bayou Health is estimated to save an additional \$24 million in its first fiscal year by carving in pharmacy benefits. See, e.g., Bruce D. Greenstein, “The Louisiana story: How to achieve a Medicaid cure without a federal waiver”, and “Making Medicaid Better: Lessons from Louisiana’s journey to managed care”, Louisiana Department of Health and Hospitals (2012).

63 Kansas Department of Health and Environment, “KanCare: Section 1115 demonstration application,” Kansas Department of Health and Environment (2012).

Member Cost-Sharing

It is altogether reasonable to ask welfare recipients or their families to contribute in a small way to the medical care they receive at taxpayer expense. With more than 1.8 million⁶⁴ citizens enrolled in Medicaid, a low monthly premium of \$10 would return more than \$220 million to the program annually.⁶⁵ Another option is to charge premiums on a sliding scale, where members with higher incomes would be charged a slightly higher premium than low-income members. Both of those options would require a federal waiver, or could be implemented via a plan amendment with incentives. The Deficit Reduction Act of 2005 gives states flexibility to make reforms to their Medicaid programs, including allowing states to charge premiums and require cost sharing (co-pays and deductibles) for certain enrollees. This may include weighting cost sharing based on unhealthy behaviors, such as smoking or obesity and excessive emergency room usage, to incentivize better health for Medicaid participants. Legislators should ensure that the state is requiring member cost-sharing to maximum allowable limits.

Premium Support

The state could also implement a universal, refundable tax credit to be distributed to healthier, able-bodied Medicaid patients. This premium support model, whereby resources could be derived from limiting employer sponsored health coverage tax exclusions, could cover the cost of private coverage premiums. With access to better quality care, these patients may gain an additional sense of empowerment by using their own health savings accounts, into which the government could initially deposit a defined contribution. Money is often spent more wisely when an individual has control over a defined sum that can be used to meet individual health needs.⁶⁶

64 North Carolina profile on Medicaid.gov, Monthly Medicaid and CHIP Enrollment Data, January 2015 state enrollment, accessed April 13, 2015, medicaid.gov/Medicaid-CHIP-Program-Information/By-State/north-carolina.html

65 Author's calculations based upon January 2015 Total Medicaid and CHIP enrollment of 1,835,638 people. A \$10 per month premium for 12 months equals \$120 per year per enrollee. Total enrollment was multiplied by \$120 and the total annual premium payments to the state would be \$220,276,560.

66 Katherine Restrepo, "The Mechanics of Medicaid: How Medicaid's flawed financial design drives program costs", John Locke Foundation, July 30, 2014, johnlocke.org/acrobat/spotlights/Spotlight458Medicaid.pdf

Enrollment Integrity

The state should pursue more robust efforts to ensure that Medicaid enrollees are eligible for coverage. Some enrollees are unlawfully covered, particularly after marital status changes. As of November 2013, Illinois auditors determined that half of the state's Medicaid enrollee cases reviewed were ineligible, with more than 210,000 of 419,000 case files revealing ineligibility. Other Medicaid fraud detection efforts, such as those used in other states, should be implemented to ensure the integrity and sustainability of the program for qualifying enrollees.

Central Management and Support

Services for the Uninsured

The federal State Health Access Plan (SHAP) that was used to develop a limited benefit health coverage plan emphasizing preventative, primary care, and chronic disease management ended August 31, 2013, and there are no other services currently budgeted in this fund. The Office of State Budget and Management has stated that this fund will be deactivated once the three full time employees can be reassigned.⁶⁷ This budget eliminates the state appropriation to this fund.

Public Health

The Patient Protection and Affordable Care Act (also known as Obamacare) requires individuals to purchase federally approved health plans that include an array of preventative services at no direct cost to the patient. Individuals earning an annual household income between 100-400 percent of the Federal Poverty Level (FPL) and who do not receive employer sponsored health insurance or qualify for Medicare or Medicaid may qualify for a subsidized health insurance plan sold on North Carolina's federal exchange. As a result, state and federal funding for existing public health programs that offer duplicative preventative services should be eliminated, consolidated, or reduced to cater to the needs of low-income individuals who neither qualify for Medicaid nor have access to a subsidized private plan in the individual market.

67 NC Recommended Base Budget and fund purpose statements for 2015-17, Health and Human Services, Central Management and Support-Services for the Uninsured, page 115, "...this fund will be inactivated once FTEs can be realigned to the fund where the work is accomplished" osbm.nc.gov/files/pdf_files/2015-17_LineItem_HHS.pdf

The Affordable Care Act mandates that insurers cover the following women's preventative services:

- Well-woman visits
- Gestational diabetes screening that helps protect pregnant women from one of the most serious pregnancy-related diseases
- Domestic and interpersonal violence screening and counseling
- FDA-approved contraceptive methods, and contraceptive education and counseling
- Breastfeeding support, supplies, and counseling
- HPV DNA testing, for women 30 or older
- Sexually transmitted infections counseling for sexually active women
- HIV screening and counseling for sexually active women
- Mammograms and Colonoscopies (since Sept 2010)⁶⁸

Breast and Cervical Cancer Control

Since the passage of the Breast and Cervical Cancer Mortality Prevention Act of 1990, the Centers for Disease Control allocates funds to all 50 states to create their respective National Breast and Cervical Cancer Early Detection Programs.⁶⁹ Women who are uninsured or underinsured at or below 250 percent FPL and are ages 21 to 64 are eligible for cervical cancer screenings and breast cancer screenings.

This budget removes the state appropriation of \$1.6 million to the Breast and Cervical Cancer Control program. These services are available to the majority of North Carolina women either through our state's Medicaid program or through insurance obtained through the federal exchanges.

QuitlineNC

This budget removes the state appropriation of \$1.2 million to the Quitline tobacco cessation program. The program receives \$1.6 million from the Centers for Disease Control's Office on Smoking and Health. Should the N.C. General Assembly wish to continue funding the program, legislators could direct that the

68 obamacarefacts.com/obamacare-womens-health-services

69 Breast and Cervical Cancer Mortality Prevention Act of 1990 cdc.gov/cancer/nbccedp/about.htm

Golden LEAF Foundation assume the cost, given that smoking cessation was a component of the Tobacco Master Settlement Agreement.⁷⁰

Health Disparities

This budget removes the state appropriation of \$3.4 million for Health Disparities, which funds community agencies that seek to reduce barriers to health care access for minority groups. The governor's budget recommends that a portion of health disparities funding be refinanced with federal appropriations from the Preventative Health Block Grant.⁷¹

Maternal and Infant Health

This budget eliminates the state appropriation of \$8.9 million for Maternal and Infant Health programs. Prenatal and postnatal services for low-income women can be accessed through North Carolina's Medicaid program or subsidized private coverage on North Carolina's federal exchange.

Children and Adult Health Prevention

This budget eliminates the state appropriated amount of \$8.3 million for Children and Adult Health Prevention programs. Positive health outcomes for low-income children and adults could be best attained through North Carolina's Health Choice program, Medicaid, or preventative health services offered on subsidized private coverage plans sold on the state's federal health insurance exchange.

Public Health – Promotion

This budget removes the state appropriation of \$1 million for public health promotion programs that include the Physical Activity and Nutrition Program (PAN) and the Women's Health Education Program. Programs like PAN are primarily funded with federal grants. For example, the Affordable Care Act's Preventative Health Services Block Grant allocates \$4 million to North Carolina for FY 2105.⁷² The governor's budget refinances the PAN and Health Disparities initiatives by replacing state appropriations with these federal resources.

70 goldenleaf.org/about.html

71 cdc.gov/phhsblockgrant

72 cdc.gov/phhsblockgrant/allocation.htm

JUSTICE AND PUBLIC SAFETY

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
Judicial Branch	\$467,766,129	\$474,710,450	\$478,357,482
Indigent Defense	\$112,045,592	\$115,332,174	\$117,892,118
Department of Justice	\$49,748,286	\$50,168,272	\$51,609,874
Department of Public Safety	\$1,749,042,173	\$1,769,963,162	\$1,832,936,081
Capitol Police	\$2,958,933	\$4,421,921	\$4,421,921
Division of Military and Veterans Affairs	n/a	\$10,015,189	\$9,942,573

Judicial Branch

Indigent Defense

North Carolina's Office of Indigent Defense Services⁷³ has taken steps to control cost increases over the last decade.⁷⁴ Yet, in recent years the office has needed millions of dollars to settle payments to privately

⁷³ In August 2000, the General Assembly passed the Indigent Defense Services Act of 2000 ("IDS Act"), creating the Office of Indigent Defense Services ("IDS Office") and charging it with the responsibility of overseeing the provision of legal representation to indigent defendants and respondents who are entitled to counsel under North Carolina law. The IDS Office is housed in the Judicial Department and governed by a 13-member board, the Commission on Indigent Defense Services ("IDS Commission"). Effective July 1, 2001, the IDS Commission and IDS Office assumed responsibility for administering the State's indigent defense program.

⁷⁴ "Report of the Commission on Indigent Defense Services", submitted to the NC General Assembly pursuant to S.L. 2013-360, § 18A.1, February 1, 2015, "Since it was established in 2001, IDS has taken significant steps to control increases in the cost of indigent representation. The increase in overall IDS demand (spending and current-year obligations) since IDS was created has averaged 4.9%, which is significantly below the average annual increase (more than 11%) during the seven years prior to IDS' creation. Largely due to the dramatic reductions to the hourly rates paid to private assigned counsel ("PAC") in May 2011, overall IDS demand decreased by 8.9% in fiscal year 2011-12 and increased by 0.4% in fiscal year 2012-13. Indigent defense per disposition expenditures (for both public defender offices and PAC combined) declined over the first four years that IDS was in existence, increased modestly over the next four fiscal years, decreased in fiscal year 2009-10, increased modestly in fiscal year 2010-11, and decreased again in fiscal years 2011-12 and 2012-13. Overall, indigent defense expenditures per disposition during fiscal year 2012-13 were \$14.72 less than per disposition expenditures the year before IDS was established (fiscal year 2000-01) and \$13.93 less than per disposition expenditures during fiscal year 2011-12. While there have been modest increases in average per case costs for some case types over

assigned attorneys.⁷⁵ Last fiscal year, for example, indigent defense cost more than \$124 million, with the majority being spent on private attorneys. This budget reforms the state's indigent defense system and creates a voucher system,⁷⁶ a market based solution that will allow indigent defendants to select their own attorneys while simultaneously fixing the state's broken indigent defense system and saving the state money.

Indigent defense in North Carolina uses two methods of providing representation to needy individuals charged with crimes. First, the Office of Indigent Defense maintains a full-time office for indigent representation,

the past decade, the overall increases in demand on the fund are primarily due to an expanding indigent caseload."

⁷⁵ During fiscal year 2012-13, as a result of the depressed PAC hourly rates, IDS was able to chip away slightly at the continuing carry-forward debt and ended the fiscal year with \$7.9 million of unpaid fee awards. During fiscal year 2013-14, due in large part to a \$3.7 million non-recurring appropriation, IDS was able to decrease the continuing carry-forward debt even further and ended last fiscal year with \$3.2 million of unpaid fee awards. Current projections suggest that IDS will end this fiscal year with a slightly larger shortfall of approximately \$4 million, which would mean that IDS will again have to stop paying PAC and defense experts before the end of the fiscal year, continuing the problem of payment delays on top of the rate reductions. Despite slowed growth in the overall court system and some reduction in costs from the new contract system and the Class 3 misdemeanor changes that were enacted during the 2013 session, if IDS does not receive an increased appropriation over the upcoming biennium to eliminate the ongoing shortfall and to cover some modest growth in the system, IDS will be facing a potential deficit of \$6 million or more at the end of fiscal year 2015-16.

⁷⁶ Stephen Schulhofer and David Friedman, 'Reforming Indigent Defense: How free market principles can help to fix a broken system', CATO Policy Analysis, September 1, 2010, paper no. 666, cato.org/publications/policy-analysis/reforming-indigent-defense-how-free-market-principles-can-help-fix-broken-system

which is known as the public defender model. Second, the state or a county can contract with attorneys or law firms to handle indigent representation for a fixed fee, which is the contract defense model.

The two-model system is inefficient. North Carolina spent over \$3.5 million for staff and attorneys within the Indigent Defenses Office, with \$2 million of that going to the Capital Defenders Staff alone, despite the fact that the state had only eight capital cases last year. Of those eight cases, two used state-funded capital defenders and six employed private attorneys.⁷⁷ During the same year, more than 2,600 private attorneys were hired for indigent defense overall, constituting approximately 60 percent of the indigent caseload.⁷⁸ The current contract model is not sustainable, however. While the office issued 186,388 payments to private attorneys at a cost of \$63,568,044 last year, many contracted attorneys did not receive payment for services.⁷⁹

A voucher model would provide a practical and effective solution to the structural problems perpetuated by North Carolina's existing indigent defense system. Moving to a voucher system would allow the state to eliminate a number of attorney positions located in the Indigent Defense Office. Moreover, it would pay attorneys in a timely manner, eliminating the continuous shortfall in carry-forward payments.

In addition to fixing budgetary problems associated with the state's indigent defense

77 Interview with Angela Hight, Criminal Justice policy analyst for the NC Civitas Institute, February 20, 2015.

78 Report of the Commission on Indigent Defense Services", submitted to the NC General Assembly pursuant to S.L. 2013-360, § 18A.1, February 1, 2015, page 18, ncids.org/Reports%20&%20Data/Prior%20GA%20Reports/LegislatureReport2015.pdf

79 Report of the Commission on Indigent Defense Services", submitted to the NC General Assembly pursuant to S.L. 2013-360, § 18A.1, February 1, 2015, page 20, ncids.org/Reports%20&%20Data/Prior%20GA%20Reports/LegislatureReport2015.pdf

Indigent Defense Staffing Costs			
Position	Salary	Benefits	Total Salary
<i>Indigent Defense Staff</i>			
Executive Director	\$124,498	\$35,621	\$160,119
Asst. Director	\$97,690	\$29,415	\$127,105
Public Defender Administrator	\$79,006	\$25,090	\$104,096
Contract Administrator	\$54,000	\$19,301	\$73,301
Research Director	\$86,660	\$26,862	\$113,522
Research Associate	\$42,301	\$16,593	\$58,894
Chief Financial Officer	\$100,752	\$30,124	\$130,876
Attorney Fee Auditor	\$40,737	\$16,231	\$56,968
Office Manager	\$52,683	\$18,996	\$71,679
Administrative Assistant	\$41,694	\$16,452	\$58,146
Legal Associate	\$41,694	\$16,452	\$58,146
Forensic Resource Counsel	\$67,780	\$22,491	\$90,271
Trial Resource Counsel	\$91,080	\$27,885	\$118,965
Regional Defender	\$86,020	\$26,714	\$112,734
Regional Defender	\$82,000	\$25,783	\$107,783
Juvenile Public Defender	\$86,867	\$26,910	\$113,777
Sub-total:	\$1,175,462	\$380,919	\$1,556,381
<i>Capital Defender Staff</i>			
Capital Defender	\$102,737	\$30,584	\$133,321
Dep. Capital Defender	\$87,169	\$26,980	\$114,149
Capital Case Coordinator	\$40,498	\$16,175	\$56,673
Asst. Capital Defender	\$92,000	\$28,098	\$120,098
Asst. Capital Defender	\$82,000	\$25,783	\$107,783
Asst. Capital Defender	\$67,000	\$22,311	\$89,311
Asst. Capital Defender	\$110,437	\$32,366	\$142,803
Investigator	\$50,582	\$18,510	\$69,092
Investigator	\$55,568	\$19,664	\$75,232
Paralegal	\$40,000	\$16,060	\$56,060
Asst. Capital Defender	\$91,080	\$27,885	\$118,965
Asst. Capital Defender	\$82,106	\$25,808	\$107,914
Asst. Capital Defender	\$65,000	\$21,847	\$86,847
Asst. Capital Defender	\$91,080	\$27,885	\$118,965
Asst. Capital Defender	\$103,986	\$30,873	\$134,859
Investigator	\$45,743	\$17,390	\$63,133
Asst. Capital Defender	\$96,115	\$29,051	\$125,166
Asst. Capital Defender	\$99,601	\$29,858	\$129,459
Asst. Capital Defender	\$95,426	\$28,891	\$124,317
Investigator	\$40,450	\$16,164	\$56,614
Sub-total:	\$1,538,578	\$492,180	\$2,030,758
TOTAL	\$2,714,040	\$873,099	\$3,587,139

program, the voucher model would also resolve many of the problems that arise when defendants are not given the right to choose their own representation. There are few reliable mechanisms to ensure that attorneys for the indigent protect their clients' interests when those clash with the interests of the court system, the attorneys, and the agency that pays their fees. A West Virginia court explained,

*We have a high opinion of the dedication, generosity, and selflessness of this State's lawyers. But, at the same time, we conclude that it is unrealistic to expect all appointed counsel with office bills to pay and families to support to remain insulated from the economic reality of losing money each hour they work. It is counter-intuitive to expect that appointed counsel will be unaffected by the fact that after expending 50 hours on a case they are working for free. Inevitably, economic pressure must adversely affect the manner in which at least some cases are conducted.*⁸⁰

Allowing defendants to choose their own attorneys is not a new idea and has been implemented in other areas. For example, the Canadian province of Ontario has used such a model for some time, with considerable success.⁸¹

This proposal would eliminate the underutilized capital defender staff for a savings of over \$2 million but will retain most administrative positions in the office to administer the voucher program. Since the carry-forward payments to private counsel have continued to be a budget driver for indigent defense, the savings from the staff cuts will be used to make any delayed

80 *Jewell v. Maynard*, 383 S.E.2d 536, 544 (W.Va.1989).

81 The Ontario Legal Aid Plan differs from a simple hourly-rate voucher in several ways. It combines payment by time with lump-sum payments for certain activities. A higher payment is provided to more experienced lawyers. Defendants who are not sufficiently indigent to qualify are in some cases able to get a partial subsidy for their legal expenses. OLAP seems to be widely regarded as a success in terms of the quality of service, but it is hard to tell whether that reflects the organizational structure, the level of funding, or features of the legal environment in which it works. Compared to New York City's legal aid plan, the OLAP is less expensive per taxpayer but substantially more expensive per matter handled. Horne, at 62–66. A recent evaluation shows a high level of satisfaction with the Ontario program among both lawyers and clients. See Legal Aid Ontario, "Fact Sheet: Legal Aid at a Glance" (2009); Legal Aid Ontario, "LAO Common Measurements Tool" (2008), legalaid.on.ca/en/about/downloads/2008_cmt-overview.pdf.

payments to private attorneys for services already rendered. Any remaining savings can be used for additional vouchers. There is no budget impact from these actions, because the vouchers will use existing program funding. Budget savings can be expected in future years once the voucher program is underway and the program no longer has debt from unpaid contracts.

Department of Public Safety

State Capitol Police

This budget transfers the General Assembly Police from the General Assembly to the Capitol Police Department in the Department of Public Safety. This transfer includes all General Assembly police staff, including one chief, 17 officers, a safety and standards officer, a telecommunicator, and a security guard. This transfer will eliminate jurisdictional boundaries that once existed between the two departments. It will also allow the State Capitol Police to fulfill their mission of providing a safe and secure environment for public officials, state employees, and visitors within the North Carolina State Government Complex, and those at state-owned properties.

Division of Veterans Services

In 2011, the General Assembly passed a law aimed at improving the behavioral health of veterans and their families by directing state agencies to coordinate programs, services, research, and grant dollars.⁸² An effort to bring together agencies serving all veterans was not initiated until 2014, when Gov. McCrory created an interagency working group to increase collaboration and coordination among veteran programs across the state.⁸³

Based on the working group recommendations and subsequent work by NC GEAR, Gov. McCrory's 2015–17 Biennial Budget included the establishment of a new cabinet-level agency, the Department of Military

82 S.L. 2011-185/Senate Bill 597, Behavioral Health Services for Military. The agencies included were the Department of Crime Control and Public Safety (now the Department of Public Safety), the Department of Health and Human Services, the North Carolina Area Health Education Centers, and the University of North Carolina.

83 Executive Order 49-Governor's working group on veterans, service member and their families, April 17, 2014, Military and veterans affairs, governor.state.nc.us/newsroom/executive-order/20140417/executive-order-49-governor%E2%80%99s-working-group-veterans-service

and Veterans' Affairs.⁸⁴ But unlike other departments that house programs that serve a specific constituency, the proposed agency would not house all the state's programs for veterans due to the range and types of services provided by the programs.

There are eleven veteran-only programs, that is, programs that serve veterans and their families exclusively. Last year, these programs spent around \$54 million in state appropriations and served around 71,000 veterans. There are twelve veteran-targeted programs that serve veterans and non-veterans alike. These programs serve over 20,000 veterans and their families at a cost of \$103 million. Veteran-targeted programs do not reside in one area of state government, but are scattered across ten state entities, including the departments of Administration, Commerce, Health and Human Services, Public Instruction, Public Safety, and State Treasurer; the NC Community College System; the NC Housing Finance Agency; the University of North Carolina system; and the Wildlife Resources Commission. In FY 2013, North Carolina received \$7.3 billion in veteran related expenditures from the federal government.⁸⁵

This budget moves the Division of Veterans Affairs from the Department of Administration into the Department of Public Safety. The division will include the following programs identified by the governor: Veterans Affairs, State Veterans Home Program, Joint Land Use Study, and Base Relocation and Closure (BRAC) program. The Veterans Specialty Court Pilot Project will also be moved to the new division, because it is already located within the Department of Public Safety.

In addition to this transfer, a branch within the Division of Veterans Affairs would need to be established to track and improve services for veterans and their families. Of the 23 identified programs for veterans, few track outcomes. By implementing performance measures and compiling outcome data, the state can better determine the extent to which these programs improve the lives of our valued veterans and their families.

84 The Governor's Recommended Budget, Office of State Budget and Management, Office of the Governor, Raleigh, NC, March 2015, page 112, item 1, osbm.nc.gov/thebudget. NCGEAR, Report to the Joint Legislative Commission on Government Operations, March 5, 2015, page 27, ncgear.nc.gov/documents/NC%20GEAR%20Final%20Report.pdf

85 2014 North Carolina Division of Veterans Affairs Annual Report, NC4Vets, page 2, nc4vets.com

Animal Welfare

This budget does not transfer animal welfare functions from the Department of Agriculture to the Department of Public Safety as proposed in the governor's budget. Animal welfare is the work of veterinarians, not law enforcement. (For more information on this budget item, see Animal Welfare within the Department of Agriculture and Consumer Services.)

NATURAL AND ECONOMIC RESOURCES

Item	Authorized	JLF Alternative Budget	
	FY-2015	FY-2016	FY-2017
Agriculture and Consumer Services	\$117,602,021	\$112,473,274	\$112,473,274
<i>Animal Welfare</i>	\$658,892	658,892	658,892
<i>Farmland Preservation</i>	\$2,126,222	0	0
Environment and Natural Resources	\$159,855,367	\$87,919,431	\$87,412,431
<i>State Parks System</i>	\$42,882,443	\$21,441,222	\$21,441,222
Commerce	\$103,866,308	\$10,949,595	\$11,949,595
<i>Agriculture Gas Expansion Fund</i>	\$3,500,000	\$0	\$0
<i>Biotechnology Center</i>	\$13,600,338	\$0	\$0
<i>Film and Entertainment Grant Fund</i>	\$10,000,000	\$0	\$0
<i>Grassroots Science Museums</i>	\$2,448,429	\$0	\$0
<i>High Point Furniture Market</i>	\$655,472	\$0	\$0
<i>Industrial Development Fund Utility</i>	\$3,750,000	\$0	\$0
<i>Job Development Investment Grants (JDIG)</i>	\$11,250,000	\$0	\$0
<i>One North Carolina Fund</i>	\$9,000,000	\$0	\$0
<i>One North Carolina Small Business Fund</i>	\$2,500,000	\$0	\$0
<i>Rural Economic Development Division</i>	\$16,329,744	\$ 2,933,444	\$2,933,444
<i>Rural Infrastructure Grants</i>	\$10,646,300	\$0	\$0
<i>Underserved & Limited Resource Communities Grant</i>	\$1,750,000	\$0	\$0
<i>Main Street Solutions</i>	\$1,000,000	\$0	\$0

The Natural and Economic Resources (NER) agencies administer a number of special funds that are not within the General Fund budget but contain receipts used to support programs or activities as directed by the General Assembly. These special funds contain revenues received from the federal government, program fees, General Fund appropriations, legal settlements, and other sources. As of fiscal year 2014, there were \$29.37 million appropriated from the NER special funds into various departments. While some of these programs might not be included under the NER agencies in official budget documents, the changes made to programs that are administered by each will be located under their respective departments.

Agriculture and Consumer Services

Animal Welfare

The 1977 North Carolina General Assembly enacted the Animal Welfare Act to ensure that animals, as items of commerce, are provided humane care and

treatment. The legislation regulated the transportation, sale, purchase, housing, care, handling, and treatment of animals by persons or organizations engaged in transporting, buying or selling them.⁸⁶

This budget does not support three proposed positions for oversight of breeders or an additional appropriation for spay and neuter clinics. It also does not transfer the Animal Welfare division out of the Department of Agriculture and into the Department of Public Safety, as proposed in the governor's budget.

Animal welfare should not be the work of law enforcement but rather the work of veterinarians and veterinary technicians.⁸⁷ Animal behavior, animal husbandry, and environmental factors that are detrimental to an animal's health are concerns that go beyond the core responsibilities of the Department of

⁸⁶ General Statute §19A-23, ncagr.gov/vet/aws/AnimalWelfareAct.htm

⁸⁷ This is the reason why the department currently has 29 veterinarians and 37 veterinary technicians on staff. NC State Controller, State employee data, accessed March 25, 2015.

Public Safety. Additionally, the state's animal shelters are operated and regulated by county government staff, leaving the state very little experience with animal control. The veterinary division within the Animal Welfare section is a key decision-maker in matters that concern the health and treatment of animals. Once veterinarians have made their determinations, animal control is then notified of any animal law violations, including cruelty, neglect, or abandonment. It is unreasonable to ask the law enforcement staff within Public Safety to perform such tasks with no veterinary training.

This budget also does not agree with the governor's budget and the NC GEAR report regarding pet breeder registration.⁸⁸ Most of the kittens and puppies born in the state are from 'backyard breeders' or pet owners who allow their pets to become pregnant.⁸⁹ Attempting to license every neighborhood family whose pet becomes pregnant will result in a very expensive and program with low levels of compliance. Legitimate breeders are already licensed by the state and are also required to have a kennel license, which requires periodic inspections by the Department of Agriculture.

Additionally, the American Kennel Club Association (AKC), the United Kennel Club Association (UKC), and the Continental Kennel Club Association (CKC) have guidelines by which legitimate breeders must abide if they want registration papers for their pure bred dogs. While these organizations require breeders to follow certain guidelines, none of them require genetic testing for allergies, orthopedic problems, eye problems, behavior problems, etc. So even the registration of legitimate breeders in the state does not ensure that a prospective pet owner is getting a healthy dog.

While spay and neuter clinics are of great importance to help control the population of dogs and cats, there

88 McCrory's recommended budget states, "This item also establishes three positions in FY 16-17 to provide oversight and enforcement of standards for breeders required to register their businesses", page 174, The NC GEAR report states, "The Animal Welfare Section of the Department of Agriculture and Consumer Services currently operates without a statewide registry of pet breeders. Standards currently lag behind those of USDA and neighboring states. Restructuring the Animal Welfare Section and requiring registration will ensure that pet breeding businesses operate humane, healthy facilities; protecting customers' safety and animal welfare", page 29.

89 Results from Gaston County's Animal Welfare Committee in 2002-2003.

is no need for the state to appropriate additional funds for these purposes. Many of these spay and neuter clinics are funded through grants and private donations. For example, the Gaston County spay/neuter clinic has sterilized over 20,000 animals at no expense to taxpayers. Pet owners on government assistance can get their pets sterilized for free or as little as \$5. Citizens not on government assistance also use these facilities and can have their pet sterilized at 50 to 75 percent off the retail fee at many veterinary offices.

The governor has recognized a problem that has been present for decades, but creating a new level of bureaucracy will only result in headaches for taxpayers with little public benefit. If the desire of the governor is to ensure animals are raised in healthy and humane conditions, the higher priority should be to increase efforts to enforce kennel laws and requirements already codified in state law. This budget does not move the animal welfare section and does not give any additional appropriations for breeder registration or spay and neuter clinics.

Farmland Preservation Trust Fund

This fund was created in 2005 to support the purchase of agricultural conservation easements; public and private enterprise programs to promote profitable and sustainable family farms; and conservation agreements targeted at the active production of food, fiber, and other agricultural products.⁹⁰ In 2014, the fund's appropriations were increased by \$1 million to leverage available federal funding to purchase development rights from farmland located adjacent to military bases in the state.

Since its creation, the fund has become a vehicle for drawing more federal funds, thereby increasing the state's reliance on the federal government. This budget stops the flow of money to the trust fund and dissolves the fund. The fund was created to benefit certain farmers and creates an unfair business climate among family farms in the state.

90 In March 2005, Agriculture Commissioner Steve Troxler delivered his "Agricultural Development and Farmland Preservation Strategy" to the General Assembly as a State priority. During 2005 legislative session, the General Assembly passed House Bill 607 establishing the Agricultural Development and Farmland Preservation Trust Fund.

State Parks				
State	2014 Attendance	User Fee Revenues	Fee System	Revenue Per Visitor
NC	15,600,000	\$7,848,509	Optional camp reservations, facility use fees and boat fees	\$0.50
AZ	2,250,000	\$11,900,000	Entrance fees, camping reservation, and facility use fees	\$5.29
CA	68,736,536	\$97,012,394	Entrance, parking and camping	\$1.41
CO	11,948,406	\$28,370,985	Entrance and camping	\$2.37

Department of Environment and Natural Resources

State Parks

Although the NC state park system has 34 parks, four recreation areas, and three natural areas, these state assets are not being leveraged to benefit state taxpayers as much as they should. There is no entrance fee to NC state parks. The system currently generates revenue only from camping and swimming fees, rental of shelters and other facilities, sale of food and retail items, operating contracts for marinas and restaurants, and fees for pier permits at the state lakes. The major problem with not charging admission is that out-of-state visitors benefit at the expense of the state’s taxpayers. In addition, North Carolinians that choose not to visit their state parks are forced to pay for the parks through their taxes.

This budget recommends using the National Parks System as a model, because each federally managed park has an entrance fee. The admission fee and additional costs for camp reservations, rentals, permits, etc., would go directly toward maintaining the park system that provides those services. The cost of maintenance would increase as more users enjoy the park, as the increased visitation would result in more cars, cleanup, and general maintenance. Under this model, a park that receives more visitors will generate more revenue to cover the associated maintenance costs.

There are other reasons to charge admission. North Carolina is home to two large National Park System sites, the Blue Ridge Parkway and Great Smokey Mountains National Park, which attract over 10 million visitors a year.⁹¹ These large national parks attract multi-day visitors to nearby state parks. Of the five states with the most-visited national parks, North Carolina, Tennessee, Arizona, California, and Colorado, only North Carolina

91 According to the National Parks Conservation Association the Blue Ridge Parkway had 13,941,749 recreational visits and Great Smokey Mountains had 10,099,276 in 2014.

and Tennessee have free admission for all their state parks.⁹²

North Carolina has an opportunity to fulfill its state parks’ mission not only to the citizens of North Carolina, but also to all visitors.⁹³ This budget recommends charging a nominal admission fee to state parks to cover operating expenses. According to the 2014 annual report, the operating expense per visitor to NC state parks was \$2.30. Starting in fiscal year 2015-16 this budget recommends the parks system charge an admission fee of \$3.00 per visitor, which will offset state appropriations by nearly \$50 million. One of the listed benefits of the transfer of state parks to the Department of Cultural Resources is increased promotion and marketing,⁹⁴ which should counter any reduction in visits to the parks as a result of the fee increase. If a \$3 fee proves successful, an attempt to raise the entrance fee to a mere \$5 should be evaluated, because it would cover more than the total cost of state parks and provide some extra funding for renovations or expansion.⁹⁵

92 Tennessee State “There is no access fee charged, although there may be fees associated with certain activities.”

93 The mission of the state parks system is to conserve and protect representative examples of the natural beauty, ecological features and recreational resources of statewide significance; to provide outdoor recreational opportunities in a safe and healthy environment; and to provide environmental education opportunities that promote stewardship of the state’s natural heritage.

94 Joint NER Appropriations Committee April 2, 2015, DENR to DCR Transfer: A reallocation of Resources, slide #5, “Promote all sites and museums for Tourism and Economic Development through more intentional marketing supported by coordination of marketing efforts across all entities for tourism and economic development”.

95 Total requirements of the State Parks System were \$46,880,886 in FY 2013/2014 and \$50,785,376 in FY 2015/2016. If every visitor paid a \$5 entrance fee, \$78 million would be generated.

Department of Commerce

Agriculture Gas Expansion Fund

If business owners wish to expand their operations, they should pay for those expansions with the earnings from their growing businesses or private loans. It is unfair that taxpayers should assume risks in an investment not of their own choosing. The Agriculture Gas Expansion Fund provides funding for commercial farmers to pay infrastructure costs for projects requiring new or expanded natural gas or propane gas service.⁹⁶ This budget stops all state appropriations and dissolves the fund. This will result in \$5 million in savings per biennium.

Biotechnology Center

Once a part of state government and now a non-profit, the Biotechnology Center was created in 1984 and is funded by the General Assembly at a cost of around \$12.5 million annually. The center's 40 employees and six locations across North Carolina do not conduct laboratory research but help universities and companies carry out research with grants and loans. While the center's laudable mission is to "provide long-term economic and societal benefits to North Carolina through support of biotechnology research, business, education and strategic policy statewide," the main function of the center is actually to provide loans to small companies that need to bridge funding gaps. The center also invests money into venture capital funds devoted to bioscience investment.⁹⁷

The work done by the center is not a core function of government. Providing gap financing is not the responsibility of taxpayers. Rather, it is another example of the state picking winners and losers.

This budget recommends that the Biotechnology Center no longer receive state appropriations. It directly competes with existing private market participants engaged in business development. If the private sector is interested in subsidizing a competitor through the continued existence of this program, then it will support this program through grants specifically for this purpose.

⁹⁶ The Agriculture Gas Expansion Fund was established under N.C. Gen. Stat. § 143B-437.020 to facilitate expanded gas products for agricultural needs.

⁹⁷ Information gathered from the North Carolina Biotechnology Center "About Us" website, accessed April 20, 2015.

Film and Entertainment Grant Fund

In 2014 the Labor and Economic Analysis Division (LEAD) of the North Carolina Department of Commerce found a net "negative budgetary impact" of the state's earlier program of film tax credits.⁹⁸ They found that the state sees a return of only 19.4 cents in revenue for every dollar spent, which is consistent with numerous studies of other state film incentives and grant programs.⁹⁹ Since 2009, many U.S. states have begun to pull back from film incentives and grants because they are net money losers. As film production companies pressure states for the highest bid, the competition is simply a budgetary race to the bottom. North Carolina's natural features, amenities, urban and rural locations, mountain vistas, shorelines, production infrastructure, and talent are strong attractions in their own right, supplemented now by lower sales, personal, and corporate tax rates.¹⁰⁰

This budget discontinues state appropriations and dissolves the film and entertainment grant fund resulting in \$10 million in savings per year.¹⁰¹

High Point Furniture Market

The High Point Furniture Market is an industry trade show held in High Point, North Carolina, every six months. While an important generator of economic activity for the city of High Point, the benefits are limited to the local area. This market is not a core function of state government, and should not be supported by general taxes on all North Carolina citizens.

Industrial Development Fund (including Utility Account)

The grant funds dispersed through this program are targeted at local governments in the state's most

⁹⁸ Presentation was given in March 2014, s3.amazonaws.com/site-docs/cj/film-impact.pdf.

⁹⁹ John Sanders, "Just 19 cents on the dollar?," JLF Newsletter, March 19, 2014, johnlocke.org/newsletters/research/2014-03-19-fbghtje3v8hs93a7eea4sjr707-regulation-update.html.

¹⁰⁰ Jon Sanders, "Why the North Carolina film industry will continue," JLF Newsletter, January 9, 2015, johnlocke.org/newsletters/research/2015-01-09-6mbbha5f2ve3t7q8cd770lmla4-regulation-update.html

¹⁰¹ Effective January 1, 2015, the Film and Entertainment Grant Fund provides awards to production companies that meet a minimum of qualifying expenses, including \$5 million for a film and \$250,000 for a television series episode or commercial. FY 2014-15 funding totals \$10 million.

economically distressed counties.¹⁰² The funds must be used for construction or improvements to public infrastructure, such as water and sewer.

This is another economic development program designed to pick winners and losers. This budget suggests repealing the program in its entirety, allowing funding to continue for existing contracts. This will save taxpayers \$7.5 million over the biennium.

*Grassroots Science Museums Collaborative*¹⁰³

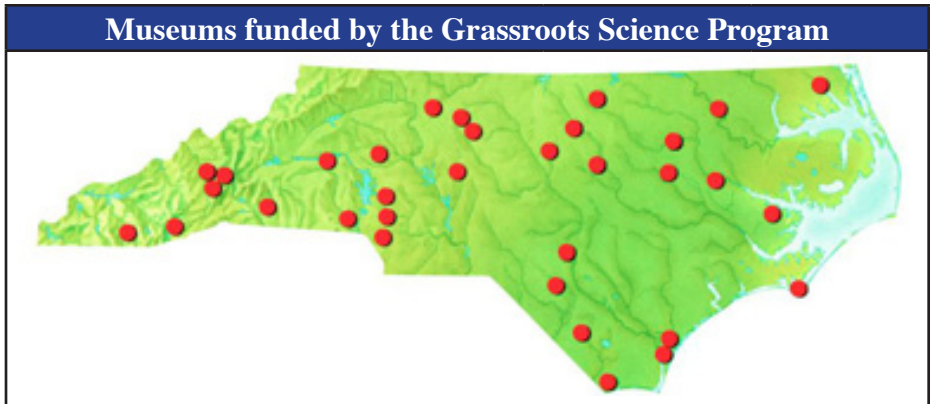
Generally assessed taxes for non-core services, such as the Grassroots Science Museums Cooperative, are ill-advised uses of tax dollars. Those who benefit from these museums should shoulder the responsibility of paying for them through the creation of membership programs, admission fees, or local level government subsidies. Clearly, these museums are important local entities, visited by some but not used by all. They are not a core function of state government and should not be supported by general taxes on all North Carolina citizens.

In FY-2015 the budget expanded the Grassroots Science Program to include three new museums: HandsOn! - A Child's Gallery in Hendersonville, Marbles Kids Museum in Raleigh, and Cowan Museum of History and Science in Kenansville.¹⁰⁴ This budget removes the appropriation to the Grassroots Science Program for an annual savings of approximately \$2.5 million.

102 SB402 consolidated funds in the previous Industrial Development and Industrial Development Utility Funds into this fund in 2013-14.

103 Map available at nscience.org

104 Section 15.25A of Session Law 2013-360



	County	FY 2014-15
Aurora Fossil Museum	Beaufort	60,526
Cape Fear Museum	New Hanover	84,340
Carolina Raptor Center	Mecklenburg	76,365
Catawba Science Center	Catawba	93,328
Colburn Earth Science Museum	Buncombe	62,426
Core Sound Waterfowl Museum	Carteret	66,761
Cowan Museum of History and Science	Duplin	58,000
Discovery Place	Mecklenburg	254,746
Fascinate-U Children's Museum	Cumberland	65,792
Eastern Regional Science Center	Pitt	59,637
Granville County Museum (Harris Hall)	Granville	61,068
Greensboro Children's Museum	Guilford	79,322
Hands On! – A Child's Gallery	Henderson	58,000
Highlands Nature Center	Macon	62,887
Imagination Station	Wilson	65,349
Iredell Museums Inc.	Iredell	60,720
KidSenses	Rutherford	64,967
Marbles Kids Museum	Wake	58,000
Museum of Coastal Carolina	Brunswick	66,591
Museum of Life and Science	Durham	197,983
Greensboro Science Center	Guilford	115,410
North Carolina Estuarium	Beaufort	62,359
Pisgah Astronomical Research Institute	Transylvania	83,281
Port Discover	Pasquotank	60,248
Rocky Mount Children's Museum	Nash	67,464
Schiele Museum of Natural History	Gaston	107,868
SciWorks	Forsyth	84,336
Sylvan Heights Bird Park	Halifax	68,981
Wilmington Children's Museum	New Hanover	69,274
Western NC Nature Center	Buncombe	72,400
Total	30	2,448,429

Job Development Investment Grants, 2007-2014					
	Number of Awards	Minimum Required New Jobs	Minimum Required Retained Jobs	Actual Jobs Created	Actual Jobs Retained
Active	103	29,998	39,958	11,516	19,498
Terminated	32	10,293	15,438	2,135	8,996
Total	135	40,291	55,396	13,651	28,494

Job Development Investment Grants (JDIG)

The Job Development Investment Grant (JDIG) is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to 12 years to businesses that will newly locate or expand current activity in North Carolina.¹⁰⁵ Grants are based on job creation and their investment commitment to the facility within the state. In FY-2014, the state made over \$36 million in grant payments.¹⁰⁶ For FY-15, the state has budgeted \$11.25 million for grant payments, but that amount may change depending on the number of companies meeting their commitments. Including all grants awarded since 2007, the state has contributed \$2,438 per job created.¹⁰⁷

Both progressive and free-market policy organizations agree that this program is not a good use of state tax dollars. One study found that the program has a 60 percent failure rate.¹⁰⁸ The failure of government programs to generate sustained “economic development” is predictable and avoidable. North Carolina’s economy should not rely on unsuccessful state programs that breed more dependency. Instead, the state should support policies that allow citizens to retain more of their own money and invest and spend it as they choose. That is why this budget suggests repealing this program in its entirety. Existing contracts will be honored, but no new contracts will be made through JDIG.

One North Carolina Fund

The One North Carolina Fund was created in 1993 as the Governor’s Industrial Recruitment Competitiveness

105 §143B 437.50
 106 JDIG Special Revenue base budget NER fund detail by account, page 1949
 107 Economic Development Grant Report prepared by the North Carolina Department of Commerce Labor and Economic Analysis Division, October 1, 2014.
 108 Quote from JLF LockerRoom blog, “It isn’t a normal occurrence when the John Locke Foundation and the NC Justice Center agree on something...but regarding the state’s Job Development Investment Grant (JDIG) program we agree on a lot.”

Fund. Its main role is to provide matching grants to local governments to help recruit new and expanding businesses to create jobs. The state has spent \$1,582 per job for closed grants and \$1,823 per job for active grants.¹⁰⁹ This budget suggests repealing this program in its entirety, allowing funding to continue for existing contracts. This will save taxpayers \$18 million over the biennium.

One North Carolina Grants, 2007-2014			
	Number of Awards	Minimum Required New Jobs	Actual Jobs Created
Active	176	21,331	5,090
Closed, funds disbursed	87	8,162	8,020
Total	263	29,493	13,110

One North Carolina Small Business Fund

The objective of this economic development incentive program is to help small businesses in North Carolina obtain and leverage funding from the federal Small Business Innovative Research and Small Business Technology Transfer programs. This program targets businesses that develop and commercialize innovative technologies.

While the federal government chooses to spend its money through these programs, the state does not need to follow suit. If the private sector is interested in subsidizing this program, then it will support it through donations or grants specifically for this purpose. This budget recommends that the One North Carolina Small Business Fund no longer receive state funding, because it directly competes with the private sector and existing market participants engaged in the technology sector.

109 Grant payments are disbursed over a three-year period. There are currently 176 active grants where the entire payment has not been made to the business and the calculation details can be found in the State’s grant report.

If any existing contracts exist, state funding will honor them, but no new contracts will be agreed upon.

Rural Development Division

The release of an audit of the Rural Center in 2013 led to vocal criticism of those who managed the center and its funds.¹¹⁰ Lawmakers decided to close the Rural Center non-profit and move its programs for the 85 rural counties into the Department of Commerce under a new Rural Development Division.¹¹¹

Even after the changes and increased oversight, the program still falls short. It fails to provide communities what they really need to thrive: job creators. The failure of government programs to generate sustained “economic development” is nothing new. North Carolina needs a bold, transformational plan that includes lower taxes and a state government focused on improving delivery of core services, so that local communities can attract job creators and not be reduced to reliance on unsuccessful state programs that breed more dependency and bureaucracy.

Rural Infrastructure Grants

This budget recommends the elimination of the \$10.6 million spent on the grants program within the division.¹¹² Any existing contracts will be honored, but no new contracts will be created.

If political forces make it necessary for legislation to target incentives to rural or distressed areas of the state, lawmakers should consider creating enterprise zones. Kansas created a program where certain counties are

designated as rural opportunity zones, and those who establish residence and work in those areas are exempt from state personal income tax. This would allow the incentive for economic activity in rural areas to be equally distributed to all residents and taxpayers, instead of the government picking winners and losers in rural areas of the state.

Underserved and Limited Resource Communities Grant Program

Created in the 2013 state budget, the Underserved and Limited Resource Communities Grant Program issues grants to local governments and nonprofits for projects that benefit underserved populations and low-income communities across the state. During the last fiscal year, this program received \$1.25 million in recurring funds and \$500,000 in non-recurring funds.¹¹³ This budget sunsets the program and removes the appropriation and program from the division.

Main Street Solutions

The Main Street Solutions Program provides reimbursable matching grants to assist planning agencies and small businesses with efforts to revitalize downtown areas.¹¹⁴ This budget removes this appropriation and dissolves the fund. There is little justification for state taxpayers to subsidize the main streets in local jurisdictions. This is a function of local government and is best funded by city councils and county commissions.

110 Beth Wood, CPA, NC State Auditor, North Carolina Rural Economic Development Center Financial Related Audit, State grant management and sub-recipient monitoring, July 2013, <http://www.ncauditor.net/EPSSWeb/Reports/FiscalControl/FCA-2013-7901.pdf>

111 The Rural Economic Development Division (REDD) was created within the Department of Commerce to consolidate funding for economic development programs that predominately benefit rural counties and economically distressed areas in North Carolina. The new division administers existing programs, including the Industrial Development Fund - Utility Account and federal CDBG Economic Development funds. REDD also oversees an infrastructure and building reuse program, which is funded by a General Fund appropriation and modeled after a program previously administered by the Rural Economic Development Center.

112 Recommended Base Budget and Fund Purpose Statements, 2015-17, Natural and Economic Resources, page 1930, http://osbm.nc.gov/files/pdf_files/2015-17_LineItem_NER.pdf

113 Section 15.10B.(a) of Session Law 2014-100

114 § 143B-472.35 (a1 & a3)

RESERVES

Item	JLF Alternative Budget	
	FY-2016	FY-2017
1% Pay Increase for all Teachers and State Employees	\$135,700,000	\$135,700,000
1% Cost of Living Adjustment for Retirees	\$54,233,076	\$54,233,076
Actuarial Contribution to TSERS	\$33,500,000	\$0

Pay Increase for all Teachers and State Employees

This budget gives a one-percent pay increase for all teachers and state employees in North Carolina. This is in addition to any other pay increases found in this budget.

Cost of Living Adjustment for Retirees

This budget gives all retired North Carolina state employees a one-percent cost of living adjustment.

Enrollment increases for K-12

This budget chooses to fund enrollment increases through the K-12 budget, rather than from reserves.

Actuarial Contribution to TSERS

The governor removed this money from his budget. We are meeting the full actuarial contribution to TSERS.

APPENDIX 1: GOVERNOR'S PROPOSED BUDGET

Item	Gov.'s Proposed Budget	
	FY-2016	FY-2017
K-12 Education		
Increase Beginning Teacher Pay to \$35k	\$41,846,123	\$41,846,124
Teachers and Administrators on State Salary Schedule	\$68,366,167	\$64,871,243
Teacher Assistants	\$64,039,628	\$64,039,628
Enrollment Growth	\$100,000,000	\$100,000,000
Department of Public Instruction	\$37,055,286	\$37,055,286
Parental Choice		
<i>Opportunity Scholarships</i>	\$0	\$0
<i>Scholarship Grants for Children with Disabilities</i>	\$6,100,000	\$6,100,000
UNC System		
UNC-TV	\$9,074,482	\$9,074,482
NC School of Science and Mathematics	\$19,727,381	\$19,728,581
Brody School of Medicine	\$8,000,000	8,000,000
UNC School of the Arts	\$28,669,298	\$28,669,298
Appalachian State University	\$127,579,675	\$127,579,675
East Carolina University	\$210,407,112	\$210,407,112
Elizabeth City State University	\$30,759,228	\$30,759,228
Fayetteville State University	\$48,741,530	\$48,741,530
North Carolina A & T State University	\$90,898,021	\$90,898,021
North Carolina Central University	\$82,132,848	\$82,132,848
North Carolina State University	\$392,219,411	\$392,219,411
UNC Asheville	\$37,592,283	\$37,592,283
UNC-Chapel Hill	\$252,003,091	\$252,003,091
UNC Charlotte	\$198,971,605	\$198,971,605
UNC Pembroke	\$53,184,870	\$53,192,105
Western Carolina University	\$85,805,817	\$85,805,817
Winston-Salem State University	\$64,619,124	\$64,619,124
Community College System		
STEM Equipment	n/a	\$5,000,000
Small Business Centers	\$6,172,773	\$6,172,773
Center for Emerging Manufacturing Solutions (CEMS)	\$864,678	\$864,678
Bionetwork	\$4,240,277	\$4,240,277
NC Works Customized Training	\$12,512,461	\$12,512,461
Fayetteville Botanical Lab	\$100,000	\$100,000
Military Business Center	\$1,140,603	\$1,140,603
Textile Center	\$661,719	\$661,719
Minority Male Mentoring	\$810,000	\$810,000

Item	Gov.'s Proposed Budget	
	FY-2016	FY-2017
Health and Human Services		
Central Management and Support	100,170,110	123,856,856
Services for the Uninsured	151,783	151,783
Invest in Community Mental Health Initiatives	7,848,341	15,597,746
Public Health	132,633,150	137,500,419
Breast & Cervical Cancer Control	1,607,358	1,607,358
Quitline	1,200,000	1,200,000
Health Disparaties	3,144,108	3,144,108
Maternal and Infant Health	8,931,203	8,931,203
Children & Adult Health Prevention	8,308,427	8,308,427
Promotion	1,010,181	1,010,181
Medicaid	3,795,972,753	3,988,691,366
Health Services Regulation	16,022,641	16,022,641
General Government		
The General Assembly	\$52,865,521	\$52,865,521
Office of the Governor	\$18,757,437	\$18,757,437
<i>Advocacy Programs</i>	\$11,070,324	\$11,070,324
Office of State Budget and Management	\$9,030,290	\$8,480,290
<i>Economic Modeling</i>	\$500,000	\$100,000
<i>NC GEAR</i>	\$872,000	\$872,000
<i>NC GEAR Grants Management</i>	\$71,000	\$71,000
OSBM Reserve for Special Appropriations	\$6,750,000	\$9,000,000
<i>NC Symphony</i>	\$1,500,000	\$1,500,000
<i>Rise NC</i>	\$2,500,000	\$2,500,000
<i>Innovation Commercialization Grant</i>	\$2,500,000	\$5,000,000
<i>Historic Properties</i>	\$250,000	\$0
North Carolina Housing Finance Agency	\$20,660,000	\$20,118,739
<i>Home Match program</i>	\$3,000,000	\$3,000,000
<i>Housing Trust Fund</i>	\$8,660,000	\$8,660,000
<i>Workforce Housing Loan Program</i>	\$9,000,000	\$8,458,739
Department of Administration	\$49,386,885	\$47,735,142
<i>Commission on Indian Affairs</i>	\$302,850	\$302,850
<i>Office for Historically Underutilized Businesses</i>	\$521,910	\$521,910
<i>Veterans Affairs</i>	\$0	\$0
<i>Human Relations Commission</i>	\$545,407	\$545,407
<i>Martin Luther King Commission</i>	\$23,378	\$23,378
Department of Cultural Resources	\$134,673,330	\$130,758,930
<i>Tryon Palace</i>	\$2,931,058	\$2,931,058

Item	Gov.'s Proposed Budget	
	FY-2016	FY-2017
<i>Historic Preservation</i>	\$1,128,020	\$1,128,020
<i>Arts Council</i>	\$7,266,166	\$7,266,166
<i>Museum of Art</i>	\$6,695,142	\$6,695,142
<i>Maritime Museum</i>	\$1,709,908	\$1,709,908
<i>Historic Sites</i>	\$7,148,127	\$7,148,127
Cultural Resources - Roanoke Island Commission	\$1,008,384	\$1,008,384
Justice and Public Safety		
Judicial Branch	\$474,710,450	\$478,357,482
Indigent Defense	\$115,332,174	\$117,892,118
Department of Justice	\$50,168,727	\$51,609,874
Department of Public Safety	\$1,759,243,877	\$1,822,499,162
Capitol Police	\$4,726,888	\$4,726,888
Animal Welfare	\$658,892	\$658,892
Natural and Economic Resources		
Agriculture and Consumer Services	\$114,281,712	\$114,281,712
Animal Welfare	\$658,892	\$658,892
Farmland Preservation	\$2,126,222	\$2,126,222
Environment and Natural Resources	\$87,919,431	\$87,412,431
State Parks System	\$42,882,443	\$42,882,443
Commerce	\$80,835,395	\$82,835,395
Agriculture Gas Expansion Fund	\$3,500,000	\$3,500,000
Biotechnology Center	\$13,600,338	\$13,600,338
Film and Entertainment Grant Fund	\$10,000,000	\$10,000,000
Grassroots Science Museums	\$2,448,429	\$2,448,429
High Point Furniture Market	\$655,472	\$655,472
Industrial Development Fund Utility	\$3,750,000	\$3,750,000
Job Development Investment Grants (JDIG)	\$11,250,000	\$11,250,000
One North Carolina Fund	\$9,000,000	\$9,000,000
One North Carolina Small Business Fund	\$2,500,000	\$2,500,000
Rural Economic Development Division	\$16,329,744	\$16,329,744
<i>Rural Infrastructure Grants</i>	<i>\$10,646,300</i>	<i>\$10,646,300</i>
<i>Underserved & Limited Resource Communities Grant</i>	<i>\$1,750,000</i>	<i>\$1,750,000</i>
<i>Main Street Solutions</i>	<i>\$1,000,000</i>	<i>\$1,000,000</i>

APPENDIX 2: TOTAL CURRENT GOVERNOR'S OFFICE STAFF

Job Title	Total Count*	Average Salary
Administrative Assistant	7	\$45,436
Administrative Officer	2	\$36,933
Assistant Press Secretary	1	\$45,000
Central Regional Field Coordinator	1	\$42,500
Chief Legal Counsel	1	\$140,000
Chief of Staff	1	\$152,000
Chief of Staff for the First Lady	1	\$61,000
Communications Director	1	\$106,000
Deputy Chief of Staff	1	\$129,000
Deputy Executive Director	1	\$46,000
Deputy Legal Counsel	1	\$78,165
Deputy Legislative Counsel	1	\$127,000
Deputy Press Secretary	1	\$66,000
Director of Governor's Western Office	1	\$51,000
Director of Boards & Commissions	1	\$106,000
Director of Governor's Eastern Office	1	\$51,000
Director of Community and Citizen Services	2	\$83,500
Executive Director	1	\$71,000
Executive Director NCBCE	1	\$91,000
Food Service Director	1	\$77,912
Governor	1	\$142,265
Governor's Office Regional Director	1	\$35,000
Grants Compliance Manager	1	\$63,791
Lead Human Resources Specialist	1	\$70,000
Legislative Assistant	1	\$82,500
Legislative Liaison	1	\$141,000
Legislative Specialist	1	\$39,500
Office Assistant	1	\$36,000
Page Coordinator	1	\$41,000
Personal Secretary to the Governor	1	\$79,000
Policy Analyst	9	\$55,213
Press Assistant	1	\$35,000
Processing Assistant	3	\$48,337
Public Relations Officer	2	\$37,400
Receptionist	1	\$34,600
Senior Assistant/Government Affairs	1	\$76,000
Senior Policy Advisor to the Governor	1	\$51,000
Senior Residence Director	1	\$63,000
Special Advisor	3	\$117,333
Special Assistant	7	\$36,771
Special Assistant/Legal Counsel	1	\$39,500
Total	68	\$2,930,656.00

*The Governor's Recommended Budget for FY2015-2017 (pg. 54) states there are 56.201 FTE's for 2014-15 authorized. The author recognizes the difference between the numbers of FTE's, but for the purpose of budgeting, the N&O database is used to give a budget impact of dollars saved when reducing staff levels.

ABOUT THE JOHN LOCKE FOUNDATION

The John Locke Foundation was created in 1990 as an independent, nonprofit think tank that would work “for truth, for freedom, and for the future of North Carolina.” The Foundation is named for John Locke (1632-1704), an English philosopher whose writings inspired Thomas Jefferson and the other Founders. The John Locke Foundation is a 501(c)(3) research institute and is funded solely from voluntary contributions from individuals, corporations, and charitable foundations.

JLF’s Vision

The John Locke Foundation envisions a North Carolina of responsible citizens, strong families, and successful communities committed to individual liberty and limited, constitutional government.

JLF’s Mission

The John Locke Foundation employs research, journalism, and outreach programs to transform government through competition, innovation, personal freedom, and personal responsibility. JLF seeks a better balance between the public sector and private institutions of family, faith, community, and enterprise.