

## AGENDA ITEM

### 2. 2016-17 Budget Update ..... Andrea Poole

**Situation:** Adjustments to the 2015 Appropriations Act for the FY 2016-17 budget have been recommended by the Governor and are under consideration by the General Assembly.

**Background:** North Carolina operates on a biennial budget process. In odd numbered years, a two-year budget is enacted. In even numbered years, adjustments are made to the second year of the biennial budget.

The Governor released his recommended changes to the FY 2016-17 budget in April and May. The House approved its budget (House Bill 1030, 4<sup>th</sup> edition) on May 19<sup>th</sup>. The budget is now under consideration by the Senate.

**Assessment:** The Governor's budget addresses seven of the eight UNC budget priorities, and recommends a net increase of \$101 million (3.9%) in General Fund appropriations as well as an additional \$11 million from the Lottery Fund.

The House budget provides recurring salary increases, funds two additional UNC budget priorities, and would provide a net increase of \$131 million (5.1%) in General Fund appropriations.

**Action:** This item is for discussion only.

## 2016-17 Operating Budget Comparison

	UNC Budget Priorities	Governor's Budget	House Budget <i>HB 1030, 4th Edition</i>	Senate Budget <i>TBD</i>
<b>Certified Base Budget (excludes Aid to Private Institutions)</b>	<b>\$2,555,888,173</b>	<b>\$2,555,888,173</b>	<b>\$2,555,888,173</b>	<b>\$2,555,888,173</b>
<b>Retain Top Talent</b>				
Compensation Increases UNC: Reserve for Merit-Based Performance Compensation Gov: Average 3% NR bonus, capped at \$3,000; salary increases for NCSSM teachers and administrators. House: 2% increase and \$500 bonus for permanent employees (UNC flexibility for EHRA bonus), step increases for NCSSM teachers (Sections 36.11, 36.12, and 36.16).	<i>UNC requested equity with other state employees</i>	192,711 R  58,544,209 NR	55,738,921 R  17,715,515 NR	
Faculty Recruitment and Retention Fund	3,000,000	3,000,000	–	
<b>Education Attainment = Growing NC's Economy</b>				
Innovative Intervention Strategies to Improve Completion Rates	18,000,000	–	–	
Build Data-Centric Systems of Success and Accountability	3,000,000	\$1.3M R, \$1.7M NR from Lottery	–	
Leveraging Technology and Learning Innovations to Get Part-Way Students Home	3,000,000	\$0.7M R, \$2.3M NR from Lottery	700,000 R 2,300,000 NR	
STEM and Health Degrees Merit Scholarship Program	5,000,000	\$5M R from Lottery	–	
<b>Technical Adjustments</b>				
Enrollment Funding Adjustment (includes \$31M enrollment reserve) UNC and Gov: Fully fund enrollment House: Funds 94% of projected enrollment change	32,972,533	32,972,533	31,000,000	
Eliminate Private Fundraising Cap Gov: Deletes cap and adds reduction to existing 2016-17 management flexibility reduction (Section 11.5)	16,354,396	<i>see note</i>	–	
<b>Other UNC Items (not requested in UNC Priorities)</b>				
Math and Science Teacher Recruitment	–	2,000,000	–	
Increase State Retirement Contributions 2015-16 Rates: TSERS 15.32%, LEO 20.32%, ORP 12.85% Gov: TSERS 15.67%, LEO 20.67%; ORP 12.85% House: TSERS 16.55%, LEO 21.55%, ORP 13.03%	–	3,980,356	16,131,370	
State Health Plan House: Increases State's contribution by 3.43%	–	–	6,194,275	
Improve Transparency of Agency IT Expenses	–	36,300	–	

## 2016-17 Operating Budget Comparison

	UNC Budget Priorities	Governor's Budget	House Budget <i>HB 1030, 4th Edition</i>	Senate Budget <i>TBD</i>
Brody School of Medicine Shift to Recurring Funding	–	8,000,000 R (8,000,000) NR	–	
NC Scholarship for Teacher Advancement and Retention			2,000,000	
Expand HBCU Internship Program	–	183,000	183,000 NR	
<b>Reductions</b>				
Eliminate Enrollment Growth Performance Funding	–	–	(1,000,000)	
UNC Core Shift to Nonrecurring Funding (UNC-CH)	–	–	(1,000,000) R 1,000,000 NR	
<b>Total Operating Increases</b>	<b>81,326,929</b>	<b>108,909,109</b>	<b>132,963,081</b>	<b>–</b>
<b>Total Operating Decreases</b>	<b>–</b>	<b>(8,000,000)</b>	<b>(2,000,000)</b>	<b>–</b>
<b>Total Recurring Operating Changes</b>	<b>81,326,929</b>	<b>50,364,900</b>	<b>109,764,566</b>	<b>–</b>
<b>Total Nonrecurring Operating Changes</b>	<b>–</b>	<b>50,544,209</b>	<b>21,198,515</b>	<b>–</b>
<b>Total Recommended UNC Budget Changes</b>	<b>81,326,929</b>	<b>100,909,109</b>	<b>130,963,081</b>	<b>–</b>
<b>Total Recommended UNC Budget</b>	<b>2,637,215,102</b>	<b>2,656,797,282</b>	<b>2,686,851,254</b>	<b>2,555,888,173</b>
<b>Total Percent Change</b>	<b>3.2%</b>	<b>3.9%</b>	<b>5.1%</b>	<b>0.0%</b>
<b>Aid to Private Institutions</b>				
<b>Base Budget</b>	127,419,754	127,419,754	127,419,754	127,419,754
Eliminate Western Governors Challenge Grant	–	–	(2,000,000) NR	
Principal Preparation	–	–	7,500,000	
Increase Funding for K-12 Special Education Scholarships	–	\$5.8M R from Lottery	5,800,000	
<b>Total Aid to Private Institutions</b>	<b>127,419,754</b>	<b>127,419,754</b>	<b>138,719,754</b>	<b>127,419,754</b>

# UNC-Related Provisions

## 2016-17 House Budget (HB 1030, 4th Edition)

Section	Title	Description
<b>UNC Section</b>		
11.1	Expands Internships and Career Based Opportunities for Students Attending Historically Black Colleges and Universities	Amends Section 11.12(b) of the 2015 Appropriations Act to specify that the process of selecting participating institutions for the HBCU internship program should take place in FY 2016-17. Also increases the minimum number of internships from 60 to 95 students.
11.2	Modify NC Guaranteed Admission Program (NCGAP)	Amends Section 11.7 of the 2015 Appropriations Act to delay the start date of the NC GAP program by one year, require an evaluation of programs already in place designed to improve completion rates, and consider potential overlap with NC GAP. Requires report of findings by January 1, 2017 to Ed Oversight, FRD, and OSBM.
11.3	UNC Part-Way Home Strategy/Report	Requires the President to report to the Joint Legislative Education Oversight Committee annually beginning September 1, 2017 on the expenditure of State funds used to recruit, retain, and graduate part-way home students and other nontraditional students. The report shall include line-item expenditures, descriptions of program activities and accomplishments, and data on outcome measures used to assess program effectiveness.
11A.1	NC Scholarship for Teacher Advancement and Retention (NCSTAR)	Creates the NC Scholarship for Teacher Advancement and Retention (NCSTAR) as Part 3 of Article 23 of Chapter 116 of the General Statutes. Includes establishing a commission, program, and fund for a scholarship loan program to be administered by UNCGA to recruit, prepare, and support North Carolina residents to become public school teachers in hard-to-staff areas. Requires annual report to the Joint Legislative Education Oversight Commission beginning January 1, 2017 on loans awarded, placement rates, and school outcomes.
11A.2	Modifications to the Special Education Scholarship Grant Program for Children with Disabilities	Amends G.S. 115C-112 to make modifications to the Special Education Scholarship Grant Program for Children with Disabilities, a K-12 scholarship program operated by the State Education Assistance Authority.
11A.3	Modifications to the Opportunity Scholarship Program	Amends G.S. 115C-562 to make modifications to the Opportunity Scholarship Program, a K-12 scholarship program operated by the State Education Assistance Authority.
11A.4	Transforming Principal Preparation/Clarify RFP Grants	Amends Section 11.9 of the 2015 Appropriations Act to allow the nonprofit corporation to issue additional RFPs for grant applicants as deemed necessary, subject to available funds.

### Salaries and Benefits

36.11	Salary Increases UNC Employees	Effective for the 2016-17 fiscal year, the annual compensation of all full-time University of North Carolina SHRA and EHRA employees is increased by two percent (2%).
36.12	State Agency Teachers	Increases salaries for state agency teachers who are paid on the Teacher Salary Schedule, including the NC School of Science and Math, by the same amount authorized to other teachers by Section 9.1 of this act.
36.16	Employee Bonuses	Provides \$500 bonuses for the 2016-17 fiscal year payable during the month of October 2016. The funds available for the bonus authorized by this section shall be paid to the UNC EHRA employees in accordance with policies adopted by the Board of Governors of the University of North Carolina.
36.17	Use of Funds for Salary Increases	Designates that funds not used for salary increases or bonuses be used to adjust salaries of any positions that fall below the minimum of new salary grades, or reverted, unless otherwise provided by law.

# UNC-Related Provisions

## 2016-17 House Budget (HB 1030, 4th Edition)

Section	Title	Description
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### *Salaries and Benefits (continued)*

36.18	Study Special Bonus Leave / Incentives	Directs the Office of State budget and Management to study various voluntary leave programs to encourage employees to use or to cash in special bonus leave.
36.20	Salary-Related Contributions	Increases the employer contribution rates for the State's retirement programs as follows: TSERS from 15.32% to 16.55%, LEO from 20.32% to 21.55%, and UNC ORP from 12.85% to 13.03%. Also increases the State Health Plan contribution amounts.
36.23	Qualified Excess Benefit Arrangement	Eliminates the sunset on Qualified Excess Benefit Arrangement for members enrolled prior to 1/1/15.

### *Capital*

2.2	Repair and Renovation Appropriation	Appropriates \$164,023,000 for repairs and renovations for FY 2016-17. Per Section 31.5, the University system would receive 50% of this amount (\$82,011,500).
37.4	Repair and Renovations Changes	Appropriates 50% of the annual R&R allocation to the Board of Governors. Directs the BOG to consider all of and only the following: (1) The amount of each campus's deficiencies documented pursuant to the Facilities Condition Assessment Program (2) The availability of non-state resources and carryforward funds available for repair and renovations at each campus, which shall be negatively weighted in making allocation decisions.
37.5	Allow R&R Funds to be used for Building Demolition	Adds building demolition to the list of appropriate uses for repair and renovation money.
37.6	UNC Debt Affordability Study Modifications	Changes the reporting date for the annual debt affordability report from February 1 to April 1 of each year.
37.7	Enhance Oversight of Certain Capital Projects	Amends G.S. 146-25 to direct that the Department of Administration not enter into certain leases of real property for a period of more than 30 years unless specifically authorized to do so by the General Assembly. Exempts leases by a University endowment to the University from this section. Amends G.S. 146-27 to direct that the Department of Administration not enter into leases of real property for a period of more than 30 years or into any lease that would require state personnel or functions to be relocated and if the agency does not have sufficient funds to cover the relocation costs. Exempts leases for student housing projects, including ground leases to a University endowment for the purpose of facilitating the construction of student housing.

### *Other UNC-Related Sections*

5.1	Education Lottery Funds	Appropriates additional lottery revenue for FY 2016-17. Funding for UNC Need-Based Financial Aid (\$10.7M) and Education Lottery Scholarships (\$30.5M) remains the same.
7.5	Use of Cash Balance for IT Rate Credits	Directs the Dept. of Information Technology to use funds available as a credit to various agencies for fees and rates billed for 2016-17, including \$97,483 to the UNC system.
8.15	School Business System Modernization	Requires BOE to work with the Friday Institute at NCSU to develop a plan to modernize the systems used by DPI Financial and Business Services Division. Requires the Friday Institute to issue a request for information by January 1, 2017.

## UNC-Related Provisions 2016-17 House Budget (HB 1030, 4th Edition)

Section	Title	Description
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***Other UNC-Related Sections (continued)***

8.23	Digital Learning Plan Funds	Requires BOE to work with the Friday Institute at NCSU to continue the progress in implementing the Digital Learning Plan in North Carolina public schools.
14.7	Oyster Brood Stock Funding Modification	Directs Department of Environmental Quality funds for contracting with UNC Wilmington to develop oyster brood stock to provide seed for aquaculture to instead be transferred directly to UNCW.
27.1	Improve Budgeting Transparency	Directs the Office of State Budget and Management to study the feasibility of converting several funds of the Department of State Treasurer from receipt-supported to the General Fund, including the Escheat Fund, and report to the December 2016 meeting of the Joint Legislative Oversight Committee on General Government.