



# Orientation to the State Budget

*Presentation to 2016 OSC Financial Conference  
December 13, 2016*



**Pam Kilpatrick**  
Assistant State Budget Officer  
Office of State Budget and Management

1



# Orientation to the State Budget

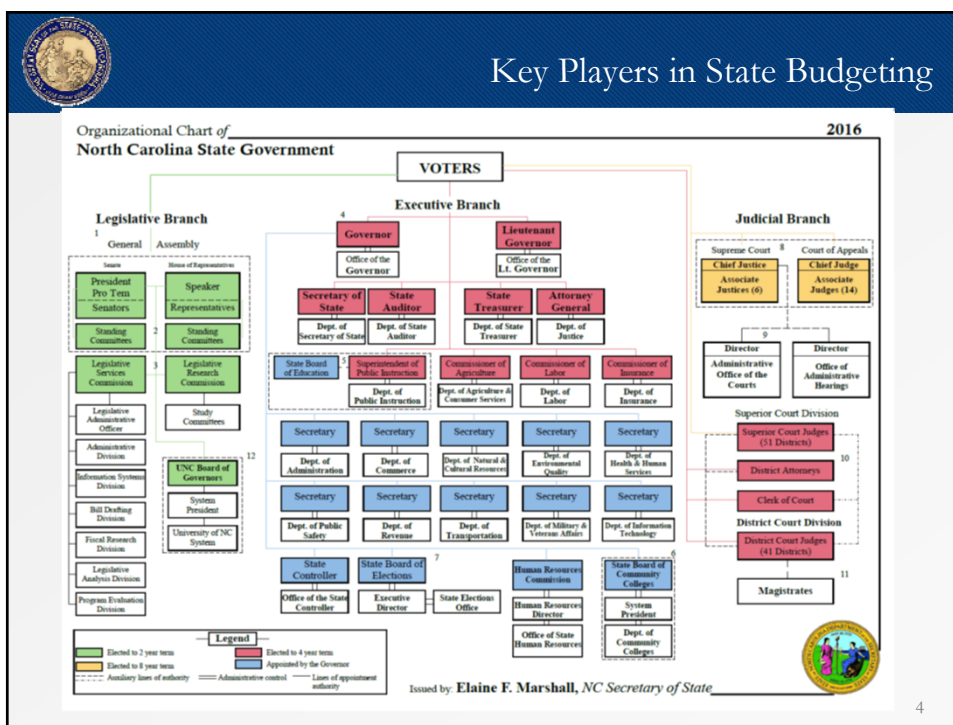
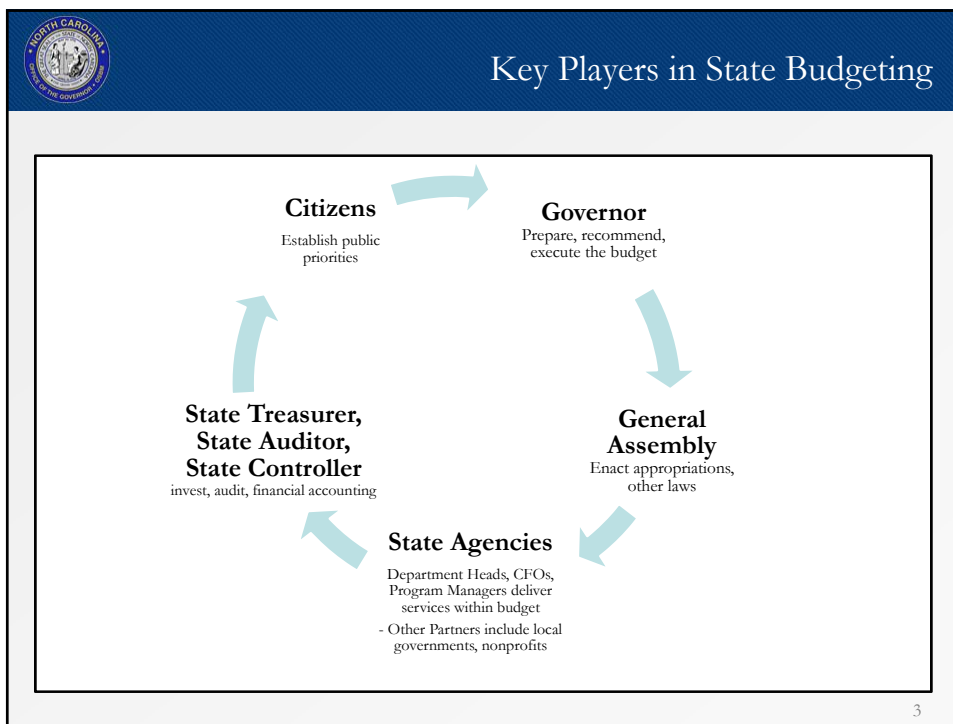
## Topics


- Key Players in State Budgeting
- Legal Framework
- Key Concepts and Terminology
- Executive Budget Development
- The Enacted State Budget – General Funds
- Execution / Administration of the State Budget

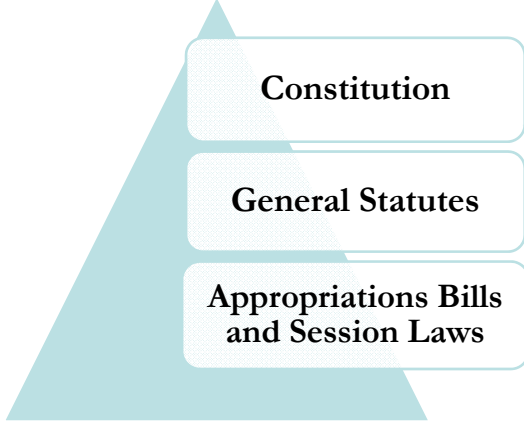
## Objective

Share information about the state budget to create better processes and a better product to support state programs and services to the citizens of North Carolina


2



 Legal Framework



5

 Legal Framework

**Constitutional**

**Article I – Separation of Powers**

**Article III – Executive Power / Duties of the Governor**

- The Governor shall **prepare and recommend** to the General Assembly a comprehensive budget of the anticipated revenue and proposed expenditures of the State for the ensuing fiscal period.
- The Governor **must present a balanced budget**
- The Governor **administers the budget** once it is enacted by the General Assembly
- The constitution requires the Governor to take steps necessary to **maintain a balanced budget at all times**

**Article V – Finance**

No money shall be drawn from the State Treasury but in consequence of an appropriation made by law, and an accurate account of receipts and expenditures shall be published annually.

6



## Legal Framework

### Statutory

#### G.S. 143 B – Executive organization

The Governor and department heads may reorganize for efficient, effective delivery of services; reporting requirements

#### G.S. 143C – The State Budget Act

Applies to all state agencies, applies to all funds (state, federal, other). Makes provision for preparation and execution of the state budget

### Appropriations Bills / Session Laws

#### Biennial Session Law; “Short Session” Session Law; Other Bills

Session law has effect for the period of the enactment, except where General Statute is modified or clear intent to continue


### Other Authorities and Guidance

Federal laws, rules, directives. State budget policies.



## Key Concepts and Terminology

- All funds deposited in the State Treasury are state funds (*this includes federal funds and other receipts*)
- Funds must be appropriated to be withdrawn from the Treasury, expended (*this includes federal funds and other receipts*)
- Appropriations are maximum and conditional
- Receipts offset appropriations; over-realized agency receipts shall reduce the allotment of state general funds
- Unencumbered, unexpended balances at June 30 of each fiscal year revert to the Treasury



## Key Concepts and Terminology

### Type of Budgets


**Recommended Budget** – Prepared by the Governor, recommended to the General Assembly.

**Enacted Budget** – The act(s) of appropriation by the General Assembly, including continuing resolutions.

**Certified budget (BD 307)** – enacted by the General Assembly, reconciled by OSBM and issued to state agencies as the legal authorization to “transact.”

**Maintaining two working budgets: Certified and Authorized Budgets** – As reflected in the OSBM IBIS system and NCAS, these include budget adjustments authorized by the Director of the Budget. The certified budget, in this context, includes legislatively directed adjustments to the budget, and the authorized budget includes *all* approved adjustments.

9




## Key Concepts and Terminology

### Budget or Accounting?

- The Governor’s recommended budget and General Assembly’s enacted budget are statements of public priority. The enacted budget is law. The Governor can modify the budget only under certain circumstances.
  - The budgeting tool is IBIS.
- Accounting includes reporting of information using the Uniform Chart of Accounts, subject to GASB rules
  - Accounting tools include NCAS, Cash Management Control System and the Core Banking System.
  - Cost allocation is a means of distributing costs and recovering appropriate contributing funding, an accounting mechanism, not a budget driver
- BEACON – HR/Payroll System

10



## Budget Development


### Executive Budget Development

Governor's recommended state budget reflects policy priorities and changes in how funds are invested in services, infrastructure and reserves

### Requirements for budget in General Statute

- Recommended funding for all branches, agencies and departments
- Shall include two fiscal years beginning July 1 of each odd-numbered year and shall be balanced separately (annually).
- Clearly distinguish program continuation, reductions, eliminations, expansions and new programs

11



## Budget Development

### Requirements

- Budget support document with accounting detail in a specified format
- Capital improvements in context of the Six-Year Capital Improvements Plan required by G.S. 143C-8-6
- Accompanied by an appropriations act for the recommended budget and a budget message

Recommended budget typically includes (1) a base budget, (2) proposed expansions and reductions in funding, and (3) a capital budget

12




## Budget Development

### Base Budget vs. Continuation Budget

Base Budget (CURRENT)	Continuation Budget (FORMER)
<p>Part of the recommended budget that provides the baseline for the next biennium – allowable adjustments defined in GS 143C</p> <ul style="list-style-type: none"> <li>• Annualization costs of programs and positions</li> <li>• Adjustments made for items funded with nonrecurring funds (increase or decreases)</li> <li>• Adjustments to receipt projections made in accordance with G.S. 143C-3-5(b)(2)C.</li> <li>• Adjustments for rate increases to existing leases of real property</li> <li>• Adjustments to federal payroll tax changes</li> <li>• Reconciliation of intra/inter governmental transfers</li> </ul>	<p>Portion of the budget which maintains the existing level of services as authorized by the General Assembly – criteria for allowable adjustments was set by the Governor through budget instructions</p> <ul style="list-style-type: none"> <li>• Annualization costs of programs, positions</li> <li>• Adjustments made for items funded with nonrecurring funds (increase or decreases)</li> <li>• Adjustments to department and federal receipts to more realistic levels</li> <li>• Documented rate increases in rental contracts <i>including</i> space, copiers, equipment service and maintenance contracts</li> <li>• Adjustments required by law (social security, retirement, longevity and premium pay accounts)</li> <li>• Inflationary costs for necessary items (food, medicine, utilities, etc.)</li> <li>• Replacement of worn out or damaged equipment or motor vehicles</li> <li>• Adjustments to population or entitlement based programs (public schools, Medicaid, foster care, adoption and prisons)</li> <li>• Adjustments for operating costs for new facilities previously authorized by the legislature</li> </ul>

13



## Budget Development

### Executive Review of the Budget

- **Governor –**  
Establishes financial and policy priorities; executive direction, final decision-maker; presents the recommended budget; provides leadership throughout executive and legislative process
- **Role of the State Budget Office –**  
Prepare budget instructions; negotiate with departments; prepare consensus revenue forecast, balance the budget, assemble budget documents and appropriations bill; support the recommended budget before the General Assembly  
Provide other important resources such as management studies, statewide initiatives, demographics and state data  
Manage the Integrated Budget Information System (IBIS)

14



## Budget Development

### • Role of State Agencies

- Advocate for agency needs and priorities
- Prepare a budget proposal, adhere to budget instructions guidance
- Bring forward proposals to increase/decrease services, eliminate or establish programs, begin pilot programs – *this includes federal funds and other receipts*
- Identify changes needed in General Statutes or session law to carry out programs and services
- Provide information to the Governor as requested

15




## 2017-19 Biennial State Budget Development Timeline

- |                                  |   |
|----------------------------------|---|
| August 2016 –<br>October 2016    | <ul style="list-style-type: none"> <li>• Budget Instructions issued by OSBM. Agencies prepare budget requests for base, expansion, Capital Improvements, IT, and budget reduction options. Strategic Program Areas developed.</li> <li>• Meetings with agency leadership</li> </ul>                           |
| December 2016                    | <ul style="list-style-type: none"> <li>• Finalize 2017-19 Base Budget Recommendations and CI Plan</li> <li>• December 15 Gubernatorial Transition Budget</li> </ul>   |
| December through<br>January 2017 | <ul style="list-style-type: none"> <li>• OSBM works with Governor to prepare Recommended Budget and Six Year Capital Plan. State Treasurer issues Debt Affordability Study which determines availability for 2017-19. OSBM finalizes Consensus Revenue Forecast. Another round of agency meetings.</li> </ul> |
| January 2017                     | <ul style="list-style-type: none"> <li>• General Assembly Convenes</li> </ul>   |
| January/February<br>2017         | <ul style="list-style-type: none"> <li>• OSBM works with Governor to finalize Governor's 2017-19 Recommended Budget , CI Plan, Appropriations Bill and Budget Message</li> </ul>  |

16

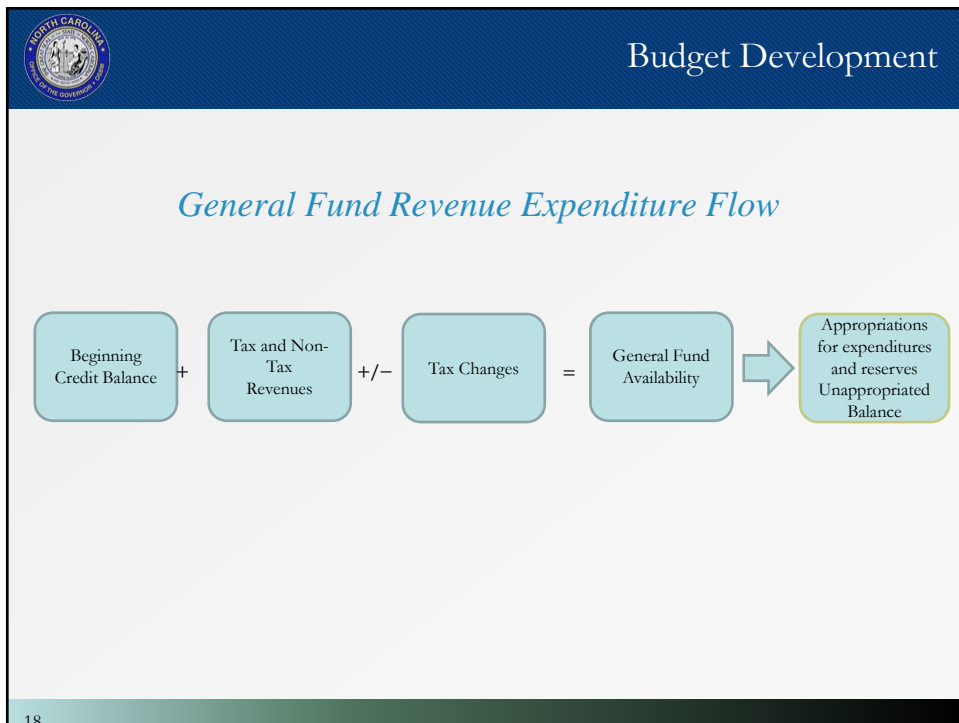





## 2 Year Budget Development Timeline

Activity	2017-19 Biennial Budget	2018-19 Annual Update (anticipated)
1. Budget instructions issued	August 2016	December 2017
2. Develop and submit agency requests	August-October 2016	January-March 2018
3. Prepare Governor's recommended budget	November-January/February 2017	March-April 2018
4. Release Governor's recommended budget	TBD 2017	May 2018
5. Legislative review and final state budget	March-June 2017	May-June 2018

17






## Budget Development

### Legislative Review and Enactment of the Budget

- Legislative committees and subcommittees  
Appropriations, finance, other substantive committees; reconcile appropriations and expenditures; enact the appropriations bill(s) and “money report”
- Staff to the legislature include the Fiscal Research Division and Bill Drafting
- Enactment of the budget, using the line item base budgets prepared and recommended by the Governor with adjustments as authorized by the General Assembly

OSBM certifies the enacted state budget

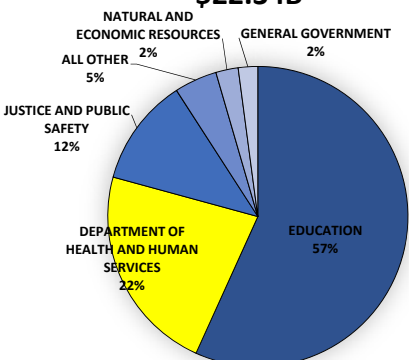
19



## Enacted General Fund State Budget 2016-17

### TOTAL STATE APPROPRIATIONS


#### \$22.34B



Category	Percentage
EDUCATION	57%
DEPARTMENT OF HEALTH AND HUMAN SERVICES	22%
JUSTICE AND PUBLIC SAFETY	12%
ALL OTHER	5%
NATURAL AND ECONOMIC RESOURCES	2%
GENERAL GOVERNMENT	2%

The total state budget including federal and other receipts, excluding the Highway Fund, is approximately \$50B. Presentation uses General Fund budget for illustration.


20



### Enacted General Fund State Budget 2016-17

Budget Code		2016-17 Budget
<b>Education Agencies</b>		
13510	Department of Public Education	\$8,733,375,580
16800	Department of Community Colleges	\$1,095,990,712
16010	General Administration	\$38,506,706
16011	University Institutional Programs	\$153,270,080
16012	Related Educational Programs	\$108,468,501
16015	Aid to Private Institutions	\$171,559,754
16020	University of North Carolina at Chapel Hill - Academic Affairs	\$253,765,861
16021	University of North Carolina at Chapel Hill - Health Affairs	\$190,779,905
16022	University of North Carolina at Chapel Hill - Area Health Education Centers	\$49,282,678
16030	North Carolina State University - Academic Affairs	\$392,449,291
16031	North Carolina State University - Agricultural Research	\$53,099,332
16032	North Carolina State University - Agricultural Extension	\$38,595,927
16040	University of North Carolina at Greensboro	\$143,459,427
16050	University of North Carolina at Charlotte	\$198,971,605
16055	University of North Carolina at Asheville	\$37,592,283
16060	University of North Carolina at Wilmington	\$101,473,413
16065	East Carolina University - Academic Affairs	\$210,739,558
16066	East Carolina University - Health Affairs	\$73,527,686
16070	North Carolina Agricultural and Technical State University	\$90,898,021
16075	Western Carolina University	\$85,805,817
16080	Appalachian State University	\$127,835,582
16082	University of North Carolina at Pembroke	\$53,867,105
16084	Winston-Salem State University	\$64,619,124
16086	Elizabeth City State University	\$33,759,228
16088	Fayetteville State University	\$48,741,530
16090	North Carolina Central University	\$82,132,848
16092	University of North Carolina School of the Arts	\$28,669,298
16094	North Carolina School of Science and Mathematics	\$20,417,561
Total Education		\$12,681,654,413


21



### Enacted General Fund State Budget 2016-17

<b>General Government Agencies</b>		
11000	General Assembly	\$64,877,146
13000	Governor's Office	\$5,673,422
13001	Office of the Governor - Special Projects	\$2,000,313
13005	Office of State Budget and Management	\$7,972,171
13010	Housing Finance Agency	\$30,660,000
13085	Office of State Budget and Management - Special	\$22,700,000
13050	Department of Military and Veteran Affairs	\$8,019,601
13100	Office of the Lieutenant Governor	\$703,609
13200	Department of Secretary of State	\$12,629,608
13300	Department of State Auditor	\$12,505,850
13410	Department of State Treasurer	\$10,667,392
13412	Department of State Treasurer-Retirement for Fire and Rescue Squad	\$26,889,281
13900	Department of Insurance	\$40,887,748
14100	Department of Administration	\$64,008,513
14160	Office of the State Controller	\$23,087,392
14660	Department of Information Technology	\$43,297,929
14700	Department of Revenue	\$82,348,830
18025	Board of Elections	\$6,630,375
18210	Office of Administrative Hearings	\$5,246,709
Total General Government		\$470,805,889


22



## Enacted General Fund State Budget 2016-17

<b><u>Natural and Economic Resources Agencies</u></b>		
13700	Department of Agriculture and Consumer Services	\$126,528,603
13800	Department of Labor	\$16,120,665
14300	Department of Environment and Natural Resources	\$102,196,685
14350	Wildlife Resources Commission	\$10,329,104
14600	Department of Commerce	\$77,851,539
14601	State Aid to Non-state Entities	\$18,705,810
14800	Department of Natural and Cultural Resources	\$184,073,527
14802	Roanoke Island Commission	\$523,384
	Total Natural and Economic Resources	\$536,329,317
<b><u>Department of Health and Human Services</u></b>		
14410	Administration and Support	\$138,976,022
14411	Division of Aging	\$44,624,658
14420	Division of Child Development	\$236,358,193
14430	Division of Health Services	\$167,936,654
14440	Division of Social Services	\$199,903,476
14445	Division of Medical Assistance	\$3,605,912,350
14446	N.C. Health Choice	\$1,097,589
14450	Division of Blind and Deaf/HHH	\$8,264,860
14460	Division of Mental Health/DD/SAS	\$563,035,124
14470	Division of Health Services Regulations	\$16,579,926
14480	Division of Vocational Rehabilitation	\$38,208,649
	Total Department of Health and Human Services	\$5,020,897,501


23



## Enacted General Fund State Budget 2016-17

<b><u>Justice and Public Safety Agencies</u></b>		
12000	Judicial Department	\$511,770,044
12001	Judicial Department - Indigent Defense	\$123,171,309
13600	Department of Justice	\$58,256,028
14550	Department of Public Safety	\$1,908,515,357
	Total Justice and Public Safety	\$2,601,712,738
<b><u>Statewide Reserves</u></b>		
19001	Contingency & Emergency	\$5,000,000
19003	Compensation Bonus Reserve	\$28,103,159
19004	GF-Reserve for Salary Adjustment	\$25,000,000
19005	GF-OSHR Minimum of Market Adjustment	\$0
19031	State Emergency Response and Disaster Relief	\$10,000,000
19013	Job Development Incentive Grants Reserve	\$61,728,126
19044	Information Technology Reserve Fund	\$0
19048	Workers' Compensation Reserve	\$21,500,543
19063	One North Carolina Fund	\$8,582,117
19064	Reserve for Future Benefits	\$70,132,669
19068	Reserve for Pending Legislation	\$1,200,000
19080	University of North Carolina System Enrollment Growth Reserve	\$0
19081	Public Schools Average Daily Membership (ADM)	\$0
19082	Film and Entertainment Grant Fund	\$30,000,000
	Total Statewide Reserves	\$261,246,614
<b><u>Debt Service</u></b>		
19420	Debt Service	\$703,102,238
19425	Debt Service - Federal	\$39,616,380
	Total Debt Services	\$742,718,618
	Total General Fund Appropriation	\$22,315,365,090

24



## Execution/Administration of the State Budget

### Execute legislatively enacted budget


*Budget certification; allotment of cash; modify the budget to address unforeseen/unanticipated circumstances; salary control and position management; survey and manage revenues and expenditure from a statewide perspective; balanced budget requirement*

### Framework for Execution

- Constitution
- GS 143C: State Budget Act
- GS 143B: Executive Organization Act of 1973
- Other relevant statutes
- State budget policy (OSBM Budget Policy <http://www.osbm.state.nc.us/>) and relevant federal rules and regulations

General statutes, appropriation bills and money reports are enacted by the General Assembly to establish biennial prioritization of resources and inform execution of the budget

25



## Execution/Administration of the State Budget

### Allotments

Governor has responsibility to ensure spending in the budget does not exceed revenues, and has partners in cash management controls

**Constitution**

- Governor ensures budget spending does not exceed revenues and Treasury balance for the fiscal period
- When necessary, must effect economies in state expenditures


**State Budget Act**

- Governor must employ methods to avoid deficit, each appropriation is maximum and conditional
- Governor makes an allotment for agency operating costs for the ensuing fiscal period

**Cash Management Act**

- State Controller, with the advice and assistance of the State Treasurer, the State Budget Officer, and the State Auditor, shall develop, implement and amend as necessary a uniform statewide plan to carry out the cash management policy for all State agencies.

26



## Execution/Administration of the State Budget

### Authority to Modify the Enacted Budget

Governor may change the budget due to unforeseen circumstances, changes limited (GS 143C-6-4)


**Line items within a program or purpose (4-digit fund)**

- Provided adjustment does not exceed certified budget in the 4-digit fund

**Spending more than was appropriated for a program or purpose (4-digit fund)**

- Required by court or industrial commission order; OR
- Authorized by the emergency management act; OR
- Responding to unanticipated events
  - Must be required to continue purpose of program due;
  - Must not increase scope of program; AND
- Non-recurring adjustment

27



## Execution/Administration of the State Budget


### “Budget Revisions”

Budget revisions are the electronic forms used to modify the budget. Certain modifications to the budget have been delegated by OSBM to state agencies, but approval by the Office of State Budget and Management is required for more meaningful adjustments to the budget.

The budget adjustment form is called “606”

- **11-Type Revisions OSBM Approval Required**  
Directed by the General Assembly, change the certified and authorized budgets
- **12-Type Revisions OSBM Approval Required**  
Administrative discretion, modify authorized budget only
- **14-Type Revisions Approval Delegated to State Agencies**  
Administrative discretion, delegated to agency

28




## Execution/Administration of the State Budget

### Other Execution/Administration Topics

- Salary Control and Position Management (OSBM Salary Control vs. BEACON)
- Lapsed Salary vs. Salary Reserve
- NCAS BD 701 Reports
- Encumbrances, rate of expenditure, budget and revenue availability
- Grants - new grants, continuing grants
- Authorization for new funds and budget codes
- Monthly, quarterly, and year-end close out
- Budget Policy – OSBM State Budget Manual, Agency internal policies

29



## Conclusion

### Questions, Comments, Discussion

Thank you for inviting the Office of State Budget and Management  
to be a part of the 2016 OSC Financial Conference

30