

# The Capital Report

*April 22, 2016*

## **Governor's 2016 Budget Recommendations: HHS/K-12**

North Carolina Budget Director Andrew Heath presented Gov. Pat McCrory's 2016-2017 budget recommendations.

Increasing the average teacher pay to \$50,000 and funding recommendations made by the Governor's Task Force on Mental Health and Substance Abuse issues were the centerpieces of McCrory's budget recommendations.

State House and Senate budget writers will meet in the coming weeks to consider the governor's recommendations, as well as make budget adjustments for the state fiscal year ending on June 30.

The 2016 "short session" began on Monday. State lawmakers meet during the short session to tweak the budget, consider legislation that has passed at least one chamber during the previous year, and consider legislation proposed by interim committees.

Gov. Pat McCrory's proposed budget caps total spending at \$22.3 billion. This represents a spending increase of 2.8 percent, which is below last year's increase of 3.1 percent and below the rate of population plus inflation.

According to the governor's budget document:

“Even though we are showing spending restraint, our proposed budget invests dollars where they matter most by spending on key priorities that have the biggest impact on North Carolinians and their families.

Our budget builds on our commitment to strengthen education, enhance public safety, improve the health of our citizens, build new roads that connect our communities, all while reforming government to make it more accountable and efficient.”

In addition, State Budget Director Heath said the governor's budget was:

- Balanced and consistent with state constitution.
- Maintained structural integrity, meaning no non-recurring dollars spent on recurring expenses.
- Included no new taxes or fee increases.
- Grew more slowly than inflation and population.
- Enabled the state to maintain its AAA bond rating from all three major ratings agencies.

On the revenue side, the state currently has a \$237 million surplus, resulting from higher personal income tax collections, even though state leaders cut personal income tax rates. New people entering the market place and higher wages were contributing factors.

State lawmakers repeatedly questioned Budget Director Heath about the “fairness” of recommending a 5 percent increase for teachers without recommending the same for other state employees and the details on how the \$50,000 average pay amount for teachers could be achieved, given the varying rates of local government supplements.

Below are the highlights of the governor's recommendations in the areas of Health and Human Services and K-12 Education.

Line-item details can be found in subsequent sections of this report.

A document of the Governor's full budget recommendations can be found [here](#).

### Health and Human Services

The governor proposes a 1.7 percent decrease in Health and Human Services (HHS) spending.

The Medicaid rebase is driving this policy decision. Medicaid enrollment and service utilization has decreased, resulting in a suggested \$319 million reduction in HHS Appropriations.

Other recommendations to the state's HHS budget include:

- Invests \$30 million to implement the recommendations of the Governor's Task Force on Mental Health and Substance Use. This includes: Transitional housing, case management, mental health first aid training, child crisis centers and tools to combat addiction
- Adds \$4 million to expand Medicaid and state services to older adults, including those with Alzheimer's disease and their caregivers.
- Expands Medicaid services for people with developmental disabilities, adding \$2.5 million for community services. This includes funding for 250 new Medicaid Innovations Waiver slots
- Invests \$8.6 million to implement improvements in the state's child protection system and \$4 million in lottery proceeds to expand NC Pre K.

### K-12 Education

The centerpiece of Gov. Pat McCrory's recommended education budget proposal is increasing the average teacher pay in North Carolina to \$50,000 a year.

Other education budget recommendations include:

- Providing more than \$426 million in new funding for teacher compensation. This includes providing: an average 5 percent salary

increase to boost the average teacher salary to \$50,000; an average 3.5 percent bonus; and \$6 million for differentiated pay.

- Spending \$2 million to recruit new teachers, including 300 scholarships for a new program to recruit science and math teachers.
- Allocating \$6 million to serve an additional 300 students.
- Providing \$29 million to provide digital content and professional development and connecting all classrooms to WiFi by 2018.
- Investing in classroom resources by providing \$10 million for classroom supplies and equipment.

### ***Health and Human Services Budget Line Items***

Gov. Pat McCrory recommends spending a total of \$5 billion to fund the state's Health and Human Services (HHS) programs and services. This represents 23 percent of the state's general fund.

Below are HHS budget line items in the governor's recommended budget:

#### Division of Central Management and Support

*Enhance Data Analytics and Performance - Client Services Data Warehouse Requirements* -- Continues the State's investment in its data analytics capabilities. The Client Services Data Warehouse is a department-wide client data system that provides extensive data reporting for business users, including the department, federal government, General Assembly, and GDAC. An aging system, which was acquired in FY 2009-10, demands of the business users, and incorporating sizable systems, e.g., Health Information System (HIS) and NC FAST, challenges the current configuration. Replacing the current hardware will move the Department toward an enterprise solution with enhanced performance and technical support. The total 2016-17 budget will be \$4.5 million.

#### *Invest in Rural Health Care - Graduate Medical Education (GME)*

*Requirements* – More than 70 of North Carolina's counties are designated health professionals' shortage areas (HPSA). Physician shortages in primary care, general surgery, and psychiatry services are a fundamental challenge to

access to care and the well-being of citizens. This proposal would provide funding for residency programs in rural and underserved areas of the state.

*Fund Federally-Required Next Phase of NC FAST Requirements* -- Continues the State's investment in technology that supports client services. The Affordable Care Act requires increased client self-service functionality, including secure inbox, document upload, renewals, and online appeals (Project 9). Additionally, to enhance project management, CMS has requested a dedicated Quality Assurance Manager and increased reporting. For these eligibility and enrollment system improvements, the Department will be able to finance these measures through the A87 Cost Waiver, with the state share supported by prior year earned revenue.

Division of Child Development and Early Education

*Serve More Four-Year-Olds Through NC Pre-K Requirements* -- Continues the Governor's commitment to high quality early childhood programs through NC Pre-K. This investment of additional lottery receipts will increase access for at-risk 4 year olds to high quality educational experiences. At an estimated \$5,000 per slot, the total \$148 million will enable more than 29,400 four-year-olds to participate in Pre-K, an increase of 15.6% compared to FY 2012- 13.

*Improve Quality of Child Care in NC* -- Continues North Carolina's investment in quality child care through additional resources for criminal background checks, enhanced training, and improved fraud prevention and detection. Federal CCFD Block Grants require that an increasing proportion of these funds be used towards quality initiatives and activities. Eligible quality activities, along with the requested positions would: expand criminal records verifications for child care staff by three FTEs, increase training for licensing staff and consumer education to the public with an additional two FTEs, provide enhanced oversight and the development of training opportunities and verifications for child care staff with one FTE and augment fraud prevention and detection efforts with the addition of four FTEs.

The budget for the CCFD block grant in 2016-2017 is \$187.81 million. The

increased focus on quality activities and initiatives benefit all NC children participating in regulated child care programs. The positions are 100% receipt supported.

*Support Children's Development Agencies* -- Maintains the investment in children and families by providing funds to support the Children's Development Services Agencies (CDSA). CDSAs serve children who have developmental disabilities between the ages of 0 and 3. The 16 regional agencies work with the Division of Medical Assistance to cost-settle services provided to Medicaid-eligible children, and a change in Medicaid cost settlement methodology will result in an estimated decrease of \$2.5 million in revenue for the CDSAs. Medicaid cost-settlement revenue comprises about 28% of the CDSAs' budgets. The budget for the CDSAs is \$67.6 million.

*Reduce Infant Mortality* -- Funds two new positions that support the work of the Maternal and Child Health (MCH) Block Grant in reducing infant mortality. The positions will make the programs more data-driven, outcome-focused, and accountable for the block grant dollars. One epidemiology position will develop and maintain data related to the health of women and children; and one program manager position will administer and evaluate a competitive block grant process for county health departments to increase access to prenatal care and improve birth outcomes. The state match will come from existing resources.

#### Division of Social Services

*Enhance Child Safety Through Child Fatality Reviews* -- Continues the significant investment to strengthen Child Welfare Services, consisting of Family Support and Preservation, Child Protective Services, Adoption and Foster Care. This is one of three investments in Child Welfare. GS 143B 150-20 requires the Division of Social Services to review the circumstances when a child dies under suspicious circumstances and when a county social service agency provided services to the deceased family within the 12 months preceding the death. The increase would provide for five positions and their associated operating costs to ensure more timely reviews and develop the system capacity to effectively utilize the results and implement these recommendations, often

requiring complex policy and best practices changes across agencies.

*Enhance Child Safety Through Strengthened Oversight Accountability of County Child Welfare Services* -- Continues the significant investment to strengthen Child Welfare Services, consisting of Family Support and Preservation, Child Protective Services, Adoption and Foster Care.

This is the second of three investments in Child Welfare and the additional investment will: 1) enhance the state capacity to ensure a competent and well-trained county-based child welfare workforce by increasing the availability of localized, mobile trainings tailored for specific training needs with seven positions, 2) provide technical assistance to counties in the development and implementation of their performance improvement plan, track and measure these improvements, quantify county outcomes and aggregate the data at a state level in order to ensure consistency in practices across counties with four new positions, and 3) improve the foster care licensing process, recruitment and retention of available and viable out of home placement options with those additional four positions.

*Enhance Child Safety Through Federal Improvement Plan Implementation* -- Continues the significant investment to strengthen Child Welfare Services, consisting of Family Support and Preservation, Child Protective Services, Adoption and Foster Care.

This is the third of three investments in Child Welfare. North Carolina is developing a two-year improvement plan to address the deficiencies identified in the Child and Family Review.

The additional resources will be used: 1) to provide approximately \$3.8 million funding targeted to developing a competent and well-trained child welfare workforce by establishing professional development opportunities and educational incentives to attract and retain individuals interested in pursuing employment in county government. Professional development opportunities will be available to augment skills of supervisors and other leadership, 2) the

additional funding of approximately \$6.7 million will increase the availability and expansion of evidenced based services to families in their own homes in order to reduce maltreatment and the likelihood of children entering care, and 3) establish state level capability with the three requested positions to analyze the identified specific programmatic areas not meeting desired outcomes and develop a targeted statewide approach to positively impact the safety and wellbeing of children.

*Technical Adjustment* - Adjusts the budget based upon projected enrollment. Adoption Services are designed to find permanent homes for children and provide support to the families who adopt them. This includes the monthly maintenance payments for eligible children until they reach the age of 21. It was initially projected that adoption would increase at a rate of 6% in FY 2016-17 and the more up-to-date projections are indicating the rate of growth will be less, resulting in a projected savings to the program. In 2012-13 the budget for Adoption Services was \$125.19 million. The budget for Adoption Services in 2016-17 is \$133.12 million and this technical adjustment would decrease the budget by \$1.33 million.

#### Division of Medical Assistance

*Medicaid Rebase* -- Adjusts Medicaid funding to continue the program at the current level of service. Each year, the Medicaid program is evaluated to estimate the funding required to continue services and benefits without changes to state policy, which is referred to as the Medicaid "forecast."

Factors taken into consideration in developing the forecast include changes in enrollment, anticipated costs per recipient, and utilization of services, as well as federal matching funds. The forecast is then compared to the Medicaid base budget to determine the Medicaid "rebase" for a particular state fiscal year.

The forecast and rebase estimates included in the Governor's Recommended Adjustments are based on forecasting and analysis by the Department of Health and Human Services using actual expenditures through February 29, 2016.

Total requirements for Medicaid in 2012-13 equaled \$13.4 billion. Total requirements in the Medicaid budget for 2016-17 equal \$14.3 billion.

*Reduce Backlog and Expand Medicaid Services for Individuals with Developmental Disabilities* -- Adds 250 slots under the NC Innovations 1915(c) Waiver for individuals who qualify for institutional level care due to intellectual or developmental disabilities, but can be served under a community alternatives program in their homes. There are currently 12,448 slots on the NC Innovations Waiver for individuals with intellectual or developmental disabilities. Additional slots will decrease the number of individuals waiting for Innovations Waiver funding. Funding assumes a January 1, 2017 effective date.

*Retain and Train Medicaid Workforce* -- Provides funding to retain and train critical Division of Medical Assistance (DMA) personnel during the transition to Medicaid managed care, with the goals of preventing interruptions in DMA operations and loss of critical personnel during the transition, and preparing the Division's high performers for new roles under managed care. Includes \$341,122 for a non-recurring 3.0% bonus.

*Invest in Medicaid Reform Requirements* – Increase funding for transfer to the Division of Health Benefits. The increase allows the division to continue its administrative efforts to transform the North Carolina Medicaid and Health Choice programs. State appropriations for the Division in 2015-16 totaled \$5 million. The budget for the Division's Medicaid reform and transformation for 2016-17 totals \$6 million in state appropriations.

#### Division of Mental Health

*Hire and Train New Broughton Hospital Staff* -- The construction of the new Broughton Hospital (Morganton) is anticipated to be completed in June 2017. To prepare for the transition to the new hospital, additional staff must be hired, trained on the more advanced technology systems (information, mechanical and electrical), and manage the transition of clients and staff.

*Implement Governor's Task Force for Mental Health and Substance Use*  
– Continues Governor McCrory's commitment to mental health and substance

use treatment and recovery. Executive Order Number 76 created the Governor's Task Force on Mental Health and Substance Use. The Task Force includes representation from each branch of government, county leadership, the provider community, and consumers. Three workgroups - Adults; Opioid Abuse and Heroin Resurgence; and Children, Youth, and Families - in a comprehensive manner, assessed issues surrounding access to mental health and substance use treatment and recovery services. The workgroups developed recommendations to combat the state's heroin and prescription drug use (\$9 million), support therapeutic courts and diversion from the justice system to treatment (\$5 million), case management (\$13 million), and emergency housing for those with mental illness transitioning out of emergency departments and correctional facilities (\$3 million).

*Mental Health Investments through the Dorothea Dix Trust Fund*

*Requirements* - Continues the commitment to enhancing the community mental health system. This request funds a series of initiatives to train people in our communities to identify symptoms of mental illness and to render assistance (\$2.5 million); fund 6 scholarships for individuals proficient in American Sign Language to serve those with mental illness and substance use issues (\$150,000); divert people with behavioral health issues from the justice system to treatment (\$3 million); build local inpatient bed capacity for children (\$2 million) and rural hospital bed construction and/or conversion (\$12 million); and, as informed by the Task Force on Mental Health and Substance Use, support the development of psychiatric advance directives (\$300,000) to communicate an individual's preferences regarding treatment, and support a veterans' outreach initiative to connect vets to housing (\$250,000).

***K-12 Education Budget Line Items***

The centerpiece of Gov. Pat McCrory's recommended education budget proposal is increasing the average teacher pay in North Carolina to \$50,000 a year.

Approximately, 80,000 teachers (85%) would receive a salary increase. The average teacher salary would be increased by \$2,313, bringing average teacher pay to \$50,244.

In addition, under the governor's proposal, an estimated 153,000 state-supported school employees would receive a bonus. Teachers and principals would receive a 3.5 percent bonus and other school employees would receive 3 percent.

The Office of State Budget and Management (OSBM) estimated that when considering health and retirement, total compensation will equal \$67,432. Holding all other states constant, North Carolina would rank 32nd in teacher pay under this plan (based on latest NEA data).

Highlights from the K-12 Education budget line items include:

*Fully Meet the Need for Student Enrollment in Charter and Traditional Schools* – Provides full funding for teacher and other instructional positions and supplies that are allocated to the schools per average daily membership (ADM). This funds an additional 155 teachers and 16 school administrators statewide. This will also increase funding for textbooks, testing, and other classroom-related services.

Projected ADM for FY 2016-17 is 1,543,518 which includes an increase of 11,437 ADM for charter schools and a decrease of 5,562 ADM for LEAs. Additionally, this item includes increases of \$1.4 million in lottery funds for non-instructional support positions and \$758,237 of Civil Penalty and Forfeiture funds for driver's education.

*Increase Average Teacher Salary to \$50,000 and Average Teacher Compensation to More Than \$66,000* – Implements a new salary schedule that provides salary increases for each year of advancement on the schedule for the first 20 years. Salary increases range from \$500 to \$5,000 annually. Approximately \$1.5 billion has been invested since 2013-14 to raise the average teacher salary to \$50,000 for the first time in the state's history. When considering health and retirement benefits provided by the state, the average annual teacher compensation will surpass \$66,000.

*Increase Salaries for Teachers* – Provides an additional \$68 million to teachers who will move to the next step on the new North Carolina Public School Salary Schedule in FY 2016-17. The net new dollars required for this investment total \$12.7 million due to offsetting retirements.

*Reward Teachers and Other Certified Personnel with One-Time Bonus* – Funds a \$5,000 bonus for veteran teachers with 25 years of experience or more, a \$1,100 bonus for all other teachers, and an average 3.5% bonus for other certified personnel (up to a maximum bonus of \$3,500 per employee). This bonus shall not be considered part of an employee's annual salary or base rate of pay for retirement purposes. In addition, \$6 million is included for a differentiated pay pilot for pioneering school districts to implement or sustain existing differentiated pay plans in 2016-17 that establish leadership roles for highly-effective teachers. A corresponding special provision will provide more detail.

*Lead the Nation in School Technology Requirements* - Appropriates \$29 million from lottery funds for the State Board of Education to implement the NC Digital Learning Plan. North Carolina leads the nation in networking infrastructure for schools. Building on this foundation, \$26.4 million will be used for schools to acquire digital content and instructional resources, \$1.5 million is allocated for professional learning to ensure all teachers and principals are prepared to meet the required digital teaching and learning standards, and \$1.1 million will be provided to the Friday Institute at NCSU to manage implementation of the NC Digital Learning Plan.

*Increase Funding for Classroom Supplies and Equipment* -- Provides \$10 million from lottery receipts for classroom supplies and equipment in public schools, increasing total funding by more than 20% from FY 2015-16.