

spotlight

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N.C. HOUSE'S FY 2009 BUDGET

Smaller than the governor's, but not any better

KEY FACTS: • The North Carolina House passed a \$21.35 billion budget for fiscal year (FY) 2009, with \$21.18 billion for continuing operations, which would be increases of 3.3 percent and 3.7 percent, respectively, from FY2008.

- Teachers would receive an average 3.0 percent pay increase and state employees 2.75 percent. Those raises would total \$367 million.
- The House approved \$550 million in new debt without a vote of taxpayers and \$179 million in capital spending, nearly \$80 million more than the governor proposed.
- Traditional road construction funding would fall by \$65 million, but \$25 million redirected from the General Fund would help pay for toll roads.
- The House reduced the number of new employees from 830 recommended by Gov. Mike Easley to 329. Representatives also eliminated his suggested alcohol and cigarette tax increases.

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the N.C. House's proposed \$21.18 billion in state appropriations for operations (\$21.35 billion including capital) budget would spend too much money on unproven ideas, overspend one-time money for long-term expenses, and set up future legislatures for budgetary problems.

The budget is the most important policy document the legislature will pass, but the House gets nearly every policy wrong. It would commit government resources in the wrong places, with the wrong assumptions, and with no evaluation of the results.

The House would increase state spending on government operations by \$750 million, or 3.7 percent, from fiscal year 2008. This proposal includes \$550 million in debt without voter approval to pay for projects started the previous year. It also would add nearly \$180 million in appropriations to plan more new capital projects and fully pay for others. Fully \$50 million would be set aside to purchase open space, also known as unused land.

In contrast, while the \$25 million of the annual \$170 million Highway

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Table 1. The House Budget in Comparison with the Governor's Budget and Previous Budgets

	House Proposal	Governor Proposal	FY2008	Compared with		
				Governor	FY2008	FY2004
Public Education	7,807,807,664	7,808,500,480	7,714,429,569	0.0%	1.2%	29.4%
UNC System	2,632,814,488	2,687,705,776	2,626,271,017	-2.0%	0.2%	46.9%
Community Colleges	932,817,701	924,303,198	938,106,160	0.9%	-0.6%	41.1%
Total Education	11,373,439,853	11,420,509,454	11,278,806,746	-0.4%	0.8%	34.0%
Medicaid	3,189,685,136	3,239,662,429	2,920,359,272	-1.5%	9.2%	60.5%
Other HHS	1,743,784,433	1,758,733,758	1,710,742,125	-0.9%	1.9%	25.2%
Total HHS	4,933,469,569	4,998,396,187	4,631,101,397	-1.3%	6.5%	46.0%
Correction	1,227,375,051	1,227,614,477	1,214,065,645	0.0%	1.1%	30.5%
Other JPS	862,415,117	866,630,285	843,652,721	-0.5%	2.2%	41.9%
Total JPS	2,089,790,168	2,094,244,762	2,057,718,366	-0.2%	1.6%	35.0%
NER	572,136,172	511,613,638	654,161,013	11.8%	-12.5%	75.4%
General Govt	439,548,834	447,289,570	437,078,174	-1.7%	0.6%	34.5%
Debt Service	660,633,287	643,133,287	610,175,752	2.7%	8.3%	69.9%
Reserve for Contingent Appropriations						
Retirement System Payback			45,000,000			
Other Reserves	1,111,224,113	1,319,906,472	713,555,164	-15.8%	55.7%	174.1%
HEADLINE Operating Budget	21,180,241,996	21,435,093,370	20,427,596,612	-1.2%	3.7%	431.2%
Capital Improvements	169,899,737	96,998,826	230,741,100	75.2%	-26.4%	515.6%
TOTAL	21,350,141,733	21,532,092,196	20,658,337,712	-0.8%	3.3%	44.5%
New Debt (COPs)	549,600,000	553,204,000	694,148,465			

Trust Fund transfer to the General Fund would be redirected to provide gap funding for toll roads, total funding for roads would fall \$5 million (\$65 million in other Highway Trust Fund construction projects offset by roughly \$34 million in road maintenance and repairs).

The House would once again commit future legislatures to spend money they likely will not have, committing \$125 million more for ongoing expenses than is available in ongoing revenue streams.

Bad Bets

House lawmakers would provide \$43 million in new spending to projects such as the N.C. Research Campus, Biofuels Center, and biotechnology and nanotechnology projects that typically have not paid off. They would commit \$145 million in new appropriations to educational programs, such as dropout prevention grants and Smart Start, the effectiveness of which is still in doubt, and restore \$23 million in recurring funds to Juvenile Crime Prevention Council (JCPC), although they still would like the Judicial Department to see if it is even feasible to measure the effectiveness of programs that receive grants through the JCPC.

Table 2. N.C. House's Proposed Certificates of Participation

Project	Amount	Notes
Museum of Art Expansion	\$5,100,000	\$40MM already budgeted in FY'08
NC Women's Prison Healthcare Facility	\$45,200,000	
Scotland Co. Prison Minimum Security Addition	\$13,000,000	
Bertie Co. Medium Security Addition	\$19,000,000	
Tabor Prison, Minimum Security Addition	\$13,000,000	
DENR Green Square	\$107,000,000	\$2.5 MM from Dry Cleaning Solvent Fund for cleanup
ECU Dental School	\$62,000,000	
Elizabeth City State School of Education	\$18,000,000	
NC A&T General Classroom	\$20,500,000	
NC Central School of Nursing	\$24,500,000	
NC State Centennial Campus Library	\$109,100,000	
UNC CH Dental School	\$69,000,000	
UNC Greensboro	\$42,700,000	
Center for Design Innovation	\$1,500,000	\$10MM already budgeted in FY'08
TOTAL new debt	\$549,600,000	

The House would spend another \$10.4 million to expand Health Choice, the state's health insurance program for children. The result of such expansions has historically meant more families losing private health coverage to enroll in a program that provides less access to care.

Water conservation and infrastructure would get another \$60 million based on the proven false assumption that planners know better than price-driven consumers how best to use less water. Customers who conserved water in many cities would face the prospect of higher permanent water rates because their water supplier would not or could not raise prices temporarily when supply was low. The House budget would do nothing to make it easier for prices to reflect market conditions.

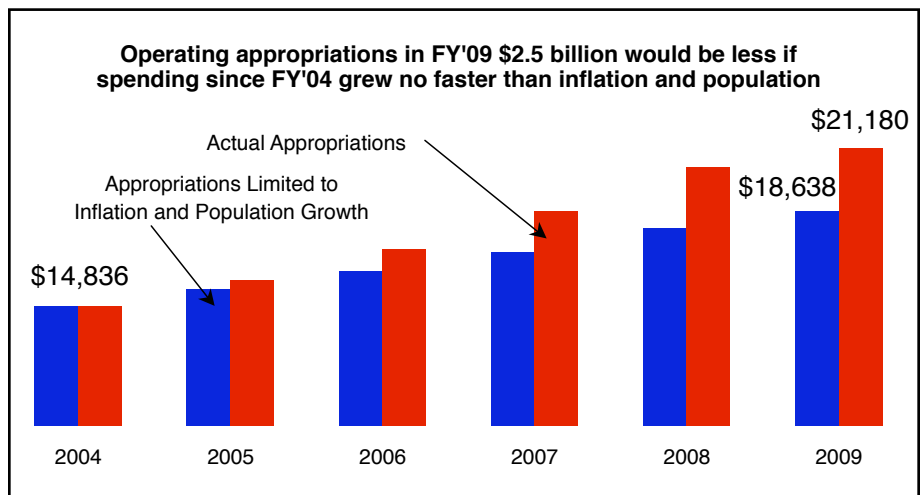
Good News

There are three main areas of good news in the House budget. First, legislators rejected Gov. Mike Easley's proposed tax increases on smokers and drinkers. Second, they rejected his plan to give public school teachers 7 percent pay raises to reach the national average salary unadjusted for cost of living. Third and most importantly, the Senate still might trim some spending items.

Table 3. New Corporate Welfare in the House Budget

	Recurring	Nonrecurring
NC Research Campus at Kannapolis	\$4,000,000	
<i>via UNC</i>	\$3,000,000	
<i>via Community Colleges</i>	\$1,000,000	
Johnson and Wales University		\$1,000,000
Defense and Security Technology Accelerator		\$200,000
JDIG Reserve	\$17,700,000	\$5,000,000
One NC Fund	\$4,500,000	
One NC Small Business	\$5,000,000	
Green Business Fund	\$1,000,000	
Biofuels Center of North Carolina		\$5,000,000
TOTAL	\$32,200,000	\$11,200,000

Figure 1. A Taxpayer Bill of Rights Analysis of the House budget



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Table 4. Availability in the House budget

	FY2008-09
Revenues Based on Existing Tax Structure	19,903,800,000
Non-tax Revenues	965,700,000
Expected tax and fee revenue	20,869,500,000
Unappropriated Balance	270,504,098
Net Adjustment - S.L. 2007-540	(1,000,000)
Additional unappropriated balance	47,867,864
Reversions	150,000,000
Overcollections	151,500,000
Availability before Legislative Changes	21,488,371,962
Extend Sunset for State Ports Tax Credit	(1,000,000)
Extend Credit for Research and Development	(1,000,000)
American Red Cross Disaster Assistance Sales Tax Exemption	(500,000)
Water & Energy Efficient Appliances	(1,200,000)
Extend and Increase Small Business Employee Health Benefits	(10,100,000)
Increase EITC to 5%	(20,600,000)
Property tax Homestead Exemption for Military/Disabled Veterans	(8,600,000)
Reserve for Tax Relief	(7,000,000)
Total Tax Changes	(50,000,000)
Availability after tax changes	21,438,371,962
Healthcare Facility CON fee	822,028
Securities filing fee	1,993,500
Total Fee Changes	2,815,528
Availability after fee changes	21,441,187,490
Reduce transfer from Highway Trust Fund	(25,000,000)
Disaster Relief Fund Transfer	21,000,000
NC Rx Fund Transfer	3,500,000
Tobacco Trust Fund Transfer	5,000,000
Health & Wellness Trust Fund Transfer	5,000,000
Coaching Scholarship Loan Fund Transfer	267,000
Principal Fellows Trust Fund Transfer	1,000,000
NCCCS Computer Information System (CIS) Fund Transfer	4,500,000
Focused Industrial Training (FIT) Fund Transfer	783,246
Non-Tax-Disproportionate Share Account Transfer	19,300,000
Insurance Regulatory Fund Transfer	328,080
Net Transfers	35,678,326
Availability after transfers	21,476,865,816
Savings Reserve Account	(62,224,083)
Repairs and Renovations Reserve	(65,000,000)
Net Availability	21,349,641,733
Adjusted Continuation Budget	20,694,246,538
Recurring Adjustment	249,086,837
Nonrecurring Adjustments	236,408,621
Capital	169,899,737
Revised Appropriation	21,349,641,733
	FY2008-09
Recurring Revenue before changes	20,869,500,000
Adjusted Continuation Budget	20,694,246,538
New Recurring Spending	249,086,837
Total Recurring Spending	20,943,333,375
Surplus/(Deficit) before revenue changes	(73,833,375)
Total Recurring Revenues	20,822,315,528
Total Recurring Spending	20,943,333,375
Structural deficit	(121,017,847)
Expected Revenues	20,869,500,000
Previous Year Unreserved Balance	618,871,962
Other Availability Changes	(138,730,229)
Final Availability	21,349,641,733
Final Appropriation	21,349,641,733
Surplus/(Deficit) after revenue changes	-