

spotlight

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THE ‘LESS BAD BUDGET’ PRINCIPLE

With luck, the conference committee will discover fiscal responsibility

KEY FACTS: • The Senate fiscal year 2007-08 budget would have spent \$1.3 billion (7.1 percent) more on operations than the previous year, plus another \$1.2 billion in new debt.

- The Senate would have allowed the 8.0 percent personal income tax bracket and the extra quarter-cent sales tax to expire as current law requires.
- Although the bill would have called for the state to take on the counties’ share of Medicaid costs, it provided no funding to accomplish that.
- Budget conferees can take the less bad ideas from each budget and deliver a budget that is still not perfect, but better than the existing plans.

Republican and Democratic state senators joined together to pass their chamber’s budget proposal 41-0, but the N.C. House chose not to accept it. The Senate budget increased spending on operations by 7.1 percent from the previous year. The total budget was 6.2 percent higher due to lower capital spending, but if debt from certificates of participation (COPs) were included, the final increase would have been 8.3 percent.

The Republican delegation gave their approval based on three provisions. First, the temporary sales and income tax increases first enacted in 2001 would have sunset as scheduled. Second, this proposal was \$200 million smaller than the budget that passed the House. Third, the cap on the variable portion of the gas tax would have become permanent at 12.4 cents per gallon, leaving the total state gas tax at 30.15 cents per gallon. The budget also provided for the review of some nonprofit organizations that receive funding from the state and ways to address Medicaid fraud.

Bad Precedents

Even those voting for the budget, however, criticized the \$1.2 billion in new borrowing for university and correction facility construction projects with no vote by the public. Gov. Mike Easley and Treasurer Richard Moore also questioned this decision.

The budget included \$50,000 to educate individuals about the earned in-

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200 W. Morgan, #200
Raleigh, NC 27601
phone: 919-828-3876
fax: 919-821-5117
www.johnlocke.org

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Figure 1. FY 2007-08 Budget Proposals Compared with FY 2006-07 Approved Budget

	Fiscal Year 2007-08							
	Governor 2/22/2007	% Change vs 2006-07	House 5/11/2007	% Change vs 2006-07	Senate 5/30/2007	% Change vs 2006-07	Conference Least Bad Option	% Change vs 2006-07
Public Education	7,603,028,498	13.1%	7,618,008,906	13.4%	7,620,122,436	13.4%	7,567,120,059	12.6%
UNC System	2,634,710,710	17.1%	2,561,247,032	13.9%	2,630,008,619	16.9%	2,537,596,417	12.8%
Community Colleges	915,790,652	10.1%	926,981,160	11.5%	919,589,160	10.6%	909,081,160	9.3%
Total Education	11,153,529,860	13.8%	11,106,237,098	13.3%	11,169,720,215	14.0%	11,013,797,636	12.4%
Medicaid	2,882,941,451	9.1%	2,846,030,681	7.7%	2,793,185,861	5.7%	2,780,434,134	5.2%
Other HHS	1,709,125,955	7.6%	1,723,232,293	8.5%	1,694,170,923	6.7%	1,690,783,948	6.4%
Total HHS	4,592,067,406	8.5%	4,569,262,974	8.0%	4,487,356,784	6.0%	4,471,218,082	5.6%
Correction	1,217,154,018	12.3%	1,213,986,709	12.1%	1,213,715,078	12.0%	1,213,388,178	12.0%
Other JPS	830,598,469	13.0%	827,009,358	12.5%	856,943,470	16.6%	817,712,049	11.2%
Total JPS	2,047,752,487	12.6%	2,040,996,067	12.2%	2,070,658,548	13.9%	2,031,100,227	11.7%
NER	499,174,153	3.4%	536,987,421	11.3%	514,772,485	6.7%	498,721,364	3.3%
General Govt	428,162,854	9.2%	428,533,753	9.3%	425,985,093	8.6%	423,103,686	7.9%
Debt Service	621,409,384	8.8%	621,409,384	8.8%	621,409,384	8.8%	621,409,384	8.8%
Reserves	660,196,566	-51.6%	827,971,232	-39.3%	694,519,273	-49.0%	789,875,954	-42.1%
TOTAL Operating	20,002,292,710	7.2%	20,131,397,929	7.9%	19,984,421,782	7.1%	19,849,226,333	6.4%
Capital Improvements	63,883,409	-69.0%	170,873,741	-17.2%	54,806,000	-73.4%	91,351,000	-55.7%
TOTAL BUDGET	20,066,176,119	6.4%	20,302,271,670	7.6%	20,039,227,782	6.2%	19,940,577,333	5.7%
COPs	309,600,900		449,207,040		1,220,808,365		263,457,040	
Gen Obligation Bonds	1,388,180,800							
Total Debt	1,697,781,700	122.8%	449,207,040	-41.1%	1,220,808,365	60.2%	263,457,040	-65%

come tax credit (EITC) and how to file for it, although it did not create a state EITC. It also set a goal of having the state permanently take on the 15 percent of non-federal Medicaid spending, but dedicated no money to achieve that goal.

Unless tax revenues do significantly better than forecast or legislators do better staying on plan in the second year of this biennium than they have in previous budget cycles, taxes would have risen as early as July 2008 to meet the likely higher spending demands. Revenue in FY2008-09 was forecast to be 3.2 percent higher than appropriations for FY2007-08. Keeping spending in line with this would have required slower growth than all but four years since 1980, and every budget of Gov. Easley's second term.

What made the unanimous vote even more troubling was the lack of debate in the Senate's budget process. Committee meetings took place over Memorial Day weekend with no prior announcement. Other Democrats received copies of the budget minutes before their 9:00 A.M. caucus meeting on Tuesday, May 29. Republicans received their copies just before subcommittees were to meet at 11:00 A.M.

Salvaging Something

The conference committee can salvage the good ideas from both House and Senate budgets, slow spending growth, provide more money for roads, and leave the state better prepared for the next slowdown. Conference committee members can make a general practice of taking the lower proposal from the two budgets outside of three critical areas (county Medicaid, mental health, and the Highway Trust Fund). Such an effort would leave a number of questionable spending items such as the Green North Carolina Fund in place, but it would give the legislature a chance to demonstrate some fiscal responsibility. The nearby tables provide some highlights of what such a proposal could look like

Joseph Coletti is Fiscal Policy Analyst for the John Locke Foundation.

Figure 2. Availability and Appropriations in Senate Budget Proposal

	FY2007-08	FY2008-09
Expected tax and fee revenue	19,395,590,000	20,441,510,000
Unappropriated Balance	-	279,711,230
Reversions	125,000,000	-
Overcollections	1,135,200,000	-
Availability before legislative changes	20,655,790,000	20,721,221,230
Income tax reductions	(86,900,000)	(79,100,000)
Sales tax increase	-	-
Income tax increase	-	-
Other transfers and changes	45,041,012	41,435,775
Availability after tax changes	20,613,931,012	20,683,557,005
Savings Reserve Account	(150,000,000)	-
Repairs and Renovations Reserve	(145,000,000)	-
Net Availability	20,318,931,012	20,683,557,005
	FY2007-08	FY2008-09
Adjusted Continuation Budget	18,967,544,989	19,458,184,549
Recurring Adjustment	677,414,094	767,122,758
Nonrecurring Adjustments	339,454,699	22,041,564
Capital	54,806,000	0
Revised Appropriation	20,039,219,782	20,247,348,871

	FY2007-08	FY2008-09
Recurring Revenue before changes	19,395,590,000	20,441,510,000
Adjusted Continuation Budget	18,967,544,989	19,458,184,549
New Recurring Spending	677,414,094	767,122,758
Total Recurring Spending	19,644,959,083	20,225,307,307
Surplus/(Deficit) before revenue changes	(249,369,083)	216,202,693
	FY2007-08	FY2008-09
Expected Revenues	19,395,590,000	20,441,510,000
Previous Year Surplus	1,260,200,000	279,711,230
Other Availability Changes	(336,858,988)	(37,664,225)
Final Availability	20,318,931,012	20,683,557,005
Final Appropriation	20,039,219,782	20,247,348,871
Surplus/(Deficit) after revenue changes	279,711,230	436,208,134

Figure 3. Availability and Appropriations Possible in Conference

	FY2007-08	FY2008-09
Expected tax and fee revenue	19,395,590,000	20,441,510,000
Unappropriated Balance	-	34,327,715
Reversions	125,000,000	-
Overcollections	1,135,200,000	-
Availability before legislative changes	20,655,790,000	20,475,837,715
Income tax reductions	(63,900,000)	(79,100,000)
Sales tax increase	-	-
Income tax increase	-	-
Other transfers and changes	(134,503,108)	41,435,775
Availability after tax changes	20,457,386,892	20,438,173,490
Savings Reserve Account	(350,000,000)	(200,000,000)
Repairs and Renovations Reserve	(145,000,000)	(100,000,000)
Net Availability	19,962,386,892	20,138,173,490
	FY2007-08	FY2008-09
Adjusted Continuation Budget	18,967,544,989	19,458,184,549
Recurring Adjustment	433,293,242	482,959,327
Nonrecurring Adjustments	435,869,946	74,338,699
Capital	91,351,000	75,608,225
Revised Appropriation	19,928,059,177	20,091,090,800

	FY2007-08	FY2008-09
Recurring Revenue before changes	19,395,590,000	20,441,510,000
Adjusted Continuation Budget	18,967,544,989	19,458,184,549
New Recurring Spending	433,293,242	482,959,327
Total Recurring Spending	19,400,838,231	19,941,143,876
Surplus/(Deficit) before revenue changes	(5,248,231)	500,366,124
	FY2007-08	FY2008-09
Expected Revenues	19,395,590,000	20,441,510,000
Previous Year Surplus	1,260,200,000	34,327,715
Other Availability Changes	(693,403,108)	(337,664,225)
Final Availability	19,962,386,892	20,138,173,490
Final Appropriation	19,928,059,177	20,091,090,800
Surplus/(Deficit) after revenue changes	34,327,715	47,082,690