

KEYS TO SUSTAINABLE BUDGETS

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North Carolina has reduced tax rates in four of the last six years while building its savings to the highest level in history. We present seven traditions, institutions, and processes that can help any state have similar success.

FIRM COMMITMENT TO REIN IN SPENDING

1

State appropriations per person have grown slower than inflation over the past eight years. Courts, constitutional amendments, and political considerations increase the difficulty, but a committed legislature or governor, or both together, can overcome most obstacles.

STRICT BALANCED BUDGET REQUIREMENT

2

The North Carolina Constitution directs the governor to reduce spending during the fiscal year to keep the budget in balance. Only the legislature can approve making more money available, and borrowing is not an option.

CONSERVATIVE REVENUE FORECAST

3

Rosy revenue projections may contribute to overly aggressive tax cuts or spending. North Carolina's conservative consensus forecasts have yielded revenue surpluses of 2 percent in recent years. Tax cuts phased in only after actual revenue collections exceeded targets.

SINGLE BUDGET COMMITTEE AND BILL

4

A single committee can set broad targets that subcommittees must budget within. Legislators faced with a single budget document can understand the whole spending picture and rank priorities across functions better than if they face multiple bills from multiple committees on multiple days.

5

**BASELINE
BUDGETING**

North Carolina bases spending each year on the dollars spent the previous year instead of the services provided, which means any increase actually appears as an increase, even if it is less than advocates preferred. This means every decision about money can better reflect policymakers' priorities.

6

**AUTOMATIC
BUDGET
CONTINUATION**

If no budget is in place when the fiscal year starts, spending will largely continue at the same level as in the previous year. Such a small change removes leverage from proponents of major budget changes. The best alternative to a negotiated agreement is no longer a government shutdown, but a continuation of the status quo.

7

DEBT LIMITS

State government in North Carolina cannot borrow money for operating expenses. Most new debt must be approved by the people in a ballot referendum. When less money is required to cover past expenses, the state has more resources available to meet today's spending priorities, to save, or to return to the people as tax cuts.

RESULTS:

Through good times and bad, and over multiple business cycles, restrained state spending coupled with sound tax reform delivers faster

economic and personal income growth. North Carolina has cut tax rates on sales, personal income, and corporate income since 2011, saving taxpayers up to

\$15 billion. Lawmakers now need to prepare for an uncertain fiscal outlook. Fortunately, they have the tools to do it if they do not lose their commitment.



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The John Locke Foundation envisions a North Carolina of responsible citizens, strong families, and successful communities committed to individual liberty and limited, constitutional government.

JLF'S MISSION

The John Locke Foundation employs research, journalism, and outreach programs to transform government through competition, innovation, personal freedom, and personal responsibility. JLF seeks a better balance between the public sector and private institutions of family, faith, community, and enterprise.

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