

## A FINAL BUDGET ANALYSIS

### *Taxpayers & Localities Lose, Spending Lobbies Win*

---

Summary: After months of delay, the state legislature has enacted a revised FY 2002-03 budget that differs little from the plan originally proposed by Gov. Mike Easley in May. Lawmakers adopted nearly all the governor's \$543 million raid on local government reimbursements and highway funds, changing only what percentage will be made up with a sales tax increase. Taxpayers are the big losers — entering the second of what promises to be three straight years of huge tax hikes.

---

**D**espite the high-profile loss of Gov. Mike Easley's lottery proposal earlier in the month, most of what the governor proposed in his May budget revision made it into the final package of budget and revenue bills. For example, the governor had proposed withholding the entire \$333.4 million reimbursement to localities for taxes previously ended by the General Assembly. Under Easley's plan, virtually all of the revenue hit to localities would have been made up with a "local option" sales tax. The final deal allows the new half-cent sales tax to begin Dec. 1, thus generating an estimated \$188 million to cover about half of the local deficits. Local governments have already covered some of the remainder by raising their property taxes in FY 2002-03 by at least \$75 million, blaming the withheld revenues.

Similarly, the governor's original budget took \$210 million in recurring and one-time money from the state's Highway Fund and Highway Trust Fund. The final agreement takes virtually all of that amount — \$205 million.

The loss of an anticipated \$250 million in lottery tax revenues is the one glaring difference between the final agreement and the governor's plan, though the number was never a realistic projection. The final budget makes up for this "lost" revenue by estimating higher collections from existing taxes, hiking business taxes, and raising other fees. The net savings in the General Fund budget is virtually identical — \$433 million in the final budget vs. \$439 million in Easley's original proposal. And the tax increase, including the estimated proceeds of the new sales tax, will be approximately \$343 million in FY 2002-03, compared to the \$402 million proposed by the governor.

A clear contrast can be seen in the alternative budget proposed earlier this year by analysts at the John Locke Foundation. It identified \$1.66 billion in net General Fund

-more-

200 West Morgan St.  
Raleigh, NC 27601  
Voice: (919) 828-3876  
Fax: (919) 821-5117  
[www.johnlocke.org](http://www.johnlocke.org)

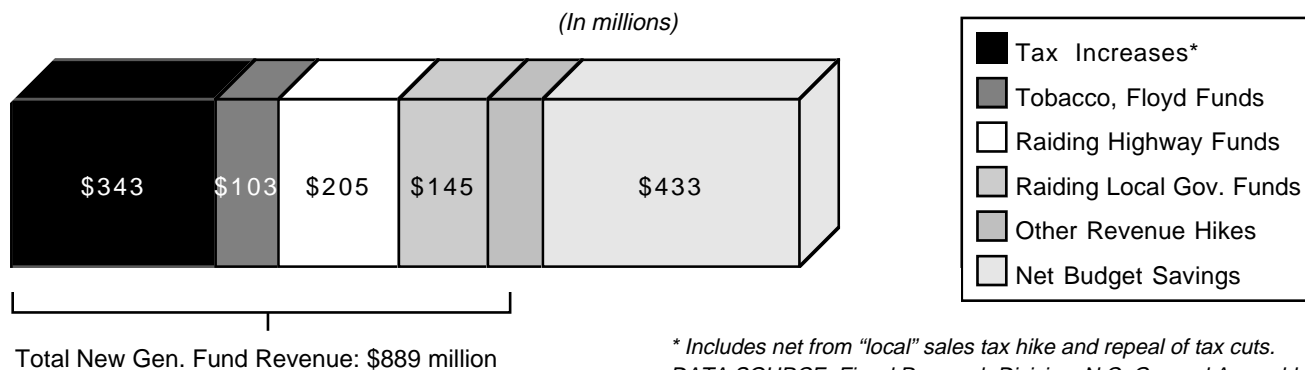
*The John Locke Foundation is a 501(c)(3) nonprofit, nonpartisan research institute dedicated to improving public policy debate in North Carolina. Viewpoints expressed by authors do not necessarily reflect those of the staff or board of the Locke Foundation.*

savings (including the budget savings proposed by Easley) and hundreds of millions of dollars in additional non-tax revenues such as proceeds from the national tobacco settlement and hurricane relief funds to eliminate the projected budget deficit and provide \$530 million in tax cuts to enhance opportunities for growth in North Carolina's stagnant economy.

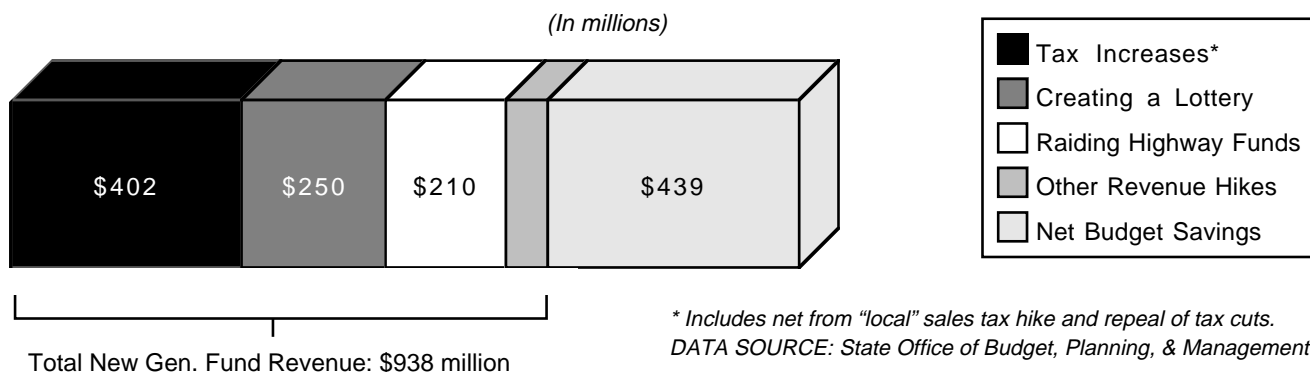
Unfortunately, the FY 2002-03 tax hike of \$343 million comes on top of a \$690 million increase in income, sales, and other taxes imposed by the state legislature last year. Furthermore, with at least \$800 million in recurring expenses funded in FY 2002-03 with one-time revenues, another sizable tax increase is likely in FY 2003-04. The new budget offers good news for spending lobbies, mixed news for local politicians, and nothing but bad news for taxpayers.

— John Hood, President

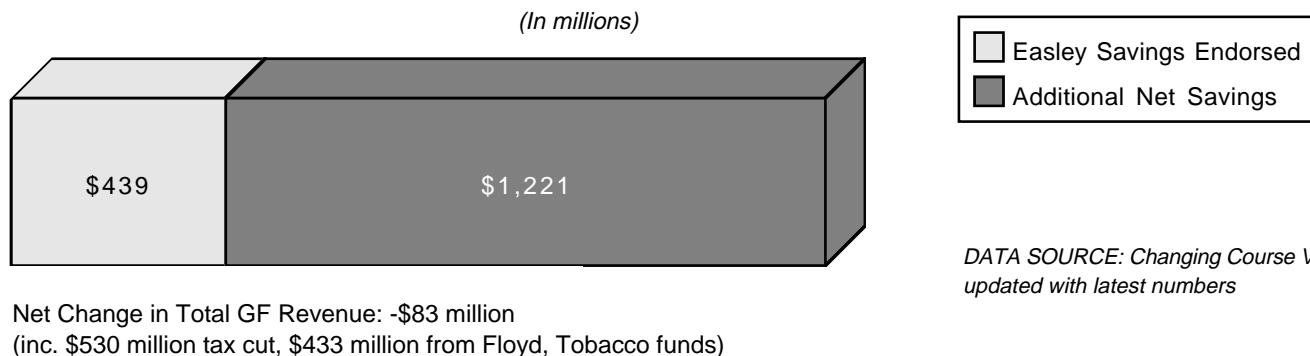
## HOW THE FINAL BUDGET DEAL CLOSES STATE DEFICIT . . .



## . . . COMPARED TO EASLEY'S ORIGINAL PLAN . . .



## . . . AND AN ALTERNATIVE FROM THE LOCKE FOUNDATION



## COMPARING NET GENERAL FUND SAVINGS BY DEPARTMENT, THREE BUDGETS

<u>Department</u>	<u>Easley Proposal</u>	<u>Approved Budget</u>	<u>Locke Budget</u>
Community College	(1,373,209)	26,085,931	(30,431,316)
Public Education	394,396	(27,635,053)	(98,728,027)
University System	(49,694,839)	(30,223,721)	(274,452,335)
Administration	(6,272,837)	(5,620,309)	(14,219,631)
Auditor	(1,299,099)	(795,965)	(1,299,099)
Cultural Resources	(6,567,429)	(3,610,213)	(30,873,133)
Cultural Resources-Roanoke Island	(207,930)	(151,222)	(2,038,393)
General Assembly	(4,362,870)	(2,654,234)	(4,977,880)
Governor	(598,019)	(504,595)	(5,446,591)
Insurance	0	(1,882,104)	(104,000)
Insurance-Worker's Comp	(2,500,000)	(2,500,000)	(2,500,000)
Lieutenant Governor	(72,149)	(53,280)	(72,149)
Office of Administrative Hearings	(305,963)	(233,742)	(305,963)
Revenue	(1,720,000)	(2,384,400)	(4,222,853)
Rules Review Commission	(35,724)	(9,981)	(35,724)
Secretary of State	0	(345,281)	(616,396)
State Board of Elections	(95,514)	209,622	(95,514)
State Budget Office	(526,400)	(300,057)	(526,400)
State Budget Office-Special	0	100,000	0
State Controller	(1,034,877)	(1,101,040)	(3,459,155)
Treasurer-Operations	0	671,618	0
Treasurer-Retirement/Benefits	(4,200,000)	(5,248,601)	(4,200,000)
Health and Human Services	(88,522,246)	(47,651,469)	(475,736,198)
Correction	(63,339,576)	(50,910,108)	(103,530,181)
Crime Control	(260,074)	(713,318)	(16,772,447)
Judicial Department	(11,000,669)	(10,828,966)	(11,000,669)
Judicial Dept.-Indigent Defense	0	8,419,130	0
Justice	(3,265,275)	(2,847,391)	(11,853,826)
Juvenile Justice	(13,129,278)	(13,569,384)	(25,334,473)
Agriculture and Consumer Services	(5,266,229)	(4,822,458)	(25,967,029)
Commerce	(5,080,047)	(10,350,110)	(32,897,339)
Commerce-State Aid	(572,000)	5,085,000	(5,772,000)
DENR	(17,517,213)	(9,904,113)	(36,767,739)
DENR-Clean Water Trust Fund	(30,000,000)	(3,500,000)	(70,040,000)
Labor	(1,661,383)	(951,725)	(4,044,081)
Housing Finance Agency	(583,000)	(540,600)	(5,883,000)
Biotechnology Center	(939,751)	(627,047)	(7,310,219)
Rural Economic Develop. Center	(559,982)	(423,851)	(4,630,453)
Transportation	(1,473,492)	(2,490,841)	(15,959,935)
Debt Service	(37,105,542)	(97,750,000)	(198,462,852)
Statewide Reserve Adjustment	(117,584,058)	(161,391,091)	(168,886,248)
General Fund-Operations	(478,332,278)	(463,954,969)	(1,699,453,248)
Capital	39,078,000	31,158,000	39,078,000
Total General Fund Budget Savings	(439,254,278)	(432,796,969)	(1,660,375,248)
Resulting Authorized General Fund Budget	14,343,316,348	14,349,773,657	13,122,195,378

<u>Revenue Availability Comparison</u>	<u>Easley Proposal</u>	<u>Approved Budget</u>	<u>Locke Budget</u>
General Fund Baseline	13,405,000,000	13,460,750,000	13,405,000,000
Net Change in General Fund Taxes	68,900,000	155,070,000	(530,204,019)
Withholding of Local Tax Reimbursements	333,400,000	333,400,000	0
Tax Receipts from Proposed State Lottery	250,000,000	0	0
Tobacco Settlement Transfer	40,000,000	78,000,000	97,403,603
Hurricane Floyd Reserve	0	25,000,000	300,000,000
Other Cash Transfers	0	19,827,773	0
Fee Increases	26,112,896	38,180,000	26,112,896
Project Tax Collect	10,000,000	32,500,000	10,000,000
Offender Fee Increase	0	1,160,000	0
Tax Division Increase	0	885,884	0
Highway Fund, HTF Transfer (one-time)	130,000,000	125,000,000	0
Highway Trust Fund Transfer (recurring)	80,000,000	80,000,000	0
Total General Fund Availability	14,343,412,896	14,349,773,657	13,308,312,480