

spotlight

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THE BEST SOLUTION FROM BOTH BUDGETS

“Reverse Logrolling” shows the best option for government spending and tax reform

KEY FACTS: • **“Logrolling”** is a budgeting technique whereby spending items favored by one legislative chamber are added during conference budget negotiations. This study reverses that practice by accepting the lower of the two chambers’ previously approved figures for each department, as well as the higher of the two chambers’ previously approved fund transfers. This is referred to as **“Reverse Logrolling.”**

- The Reverse Logrolling applied to the current state budget would result in a General Fund budget of \$20.6 billion in the first year and \$20.8 in the second, leaving surpluses of approximately \$590 million in the first year and \$940 million in the second year without tax reform adjustments.

- Reverse Logrolling before the incorporation of tax reform allows legislators more flexibility when discussing state revenue and the intensity of tax cuts available.

- As House and Senate leaders negotiate a final budget package for FY2013-15, the two driving forces are the ever-growing Medicaid shortfall and tax reform proposals.

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discussions of the FY 2013-14 biennial state budget have focused on many drivers; the two largest are the Medicaid shortfall and tax reform. These two drivers have given the governor, Senate, and House different budget numbers from which to negotiate. Each legislative chamber has proposed its own tax reform plan, which has adjusted available spending to the departments in each proposed budget. All proposed budgets have had to deal with a growing Medicaid shortfall, necessitating cuts to other agencies in order to meet the growing demand of Medicaid. When the Governor released his budget proposal, the shortfall was around \$123 million. By the time the Senate and House had proposed their versions of the budget, the shortfall had reached more than \$300 million. At the publication of this study, the total figure has continued to climb and is expected to reach \$330 million.

With politically polarizing items driving the budget, the use of logrolling should be avoided. Traditional logrolling is a tried-and-true tactic in the legislative process in which lawmakers otherwise predisposed not to favor an expenditure or piece of legislation agree to support it because fellow lawmakers agree to do the same for other items. Unfortunately, this budgetary practice too often results in a poor outcome for average citizens, as lower-priority or so-called “pork-barrel” items are funded and mediocre legislation enacted. In North Carolina’s appropriations process, logrolling typically results in a final budget agreement that spends more than previous versions.

The increased demand from Medicaid and the promise of tax reform do not allow traditional logrolling to occur, because a larger final budget spending number will not allow any of the promised tax cuts to be enacted while fully funding Medicaid. An alternative approach, proposed in past John Locke Foundation publications, is called “reverse logrolling.” Rather than one chamber accepting programs or higher expenditures from another, with the expectation of the same, legislators should accept the lower spending numbers for each departmental budget. After all, a majority in at least one chamber has already decided that the expenditure in question will satisfy the needs of the citizens and current budgetary constraints.

A reverse logroll for the 2013-15 budgets would greatly benefit taxpayers. Although many (including John Locke Foundation analysts) would continue to disagree with elements of the resulting plan, it would produce a General Fund budget of \$20.6 billion in the first year and \$20.8 in the second year of the biennium, leaving approximately \$594 million in surplus in the first year and more than \$940 million in the second year without tax reform adjustments.

| | FY2013-14 Reverse Logroll | FY2014-15 Reverse Logroll |
|--|--------------------------------------|--------------------------------------|
| Total General Fund Availability | \$21,245,419,837 | \$21,741,561,899 |
| Less: GF Authorization | 20,651,158,436 | 20,800,806,520 |
| Surplus without tax package | \$594,261,401 | \$940,755,379 |
| | | |
| <i>Senate Tax Reform Package</i> | <i>(173,800,000)</i> | <i>(510,200,000)</i> |
| Surplus with Senate Tax Package | \$420,461,401 | \$430,555,379 |
| | | |
| <i>House Tax Reform Package*</i> | <i>(7,400,000)</i> | <i>(357,900,000)</i> |
| Surplus with House Tax Package | \$586,861,401 | \$582,855,379 |
| *House tax plan includes tax cuts from bills H998, H341, H101, and H269. | | |

Taking into consideration the proposed tax reform packages from each legislative chamber, there are different outcomes and possibly the opportunity to change details within the plans if a reverse logroll is used for budget spending. The result from the Senate tax plan would yield \$851 million in surplus over two years, while the House plan would generate over \$1.1 billion. This shows that, even with significant tax reform changes and the large Medicaid shortfall, the legislature still has many options. If budget conferees use the reverse logroll method and leave their chambers’ pride at the door, then everyone will benefit from the large surplus -- taxpayers and state government alike.

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Constructing a "Reverse Logroll" from House & Senate Budgets

| | Senate Budget 2013-14 | House Budget 2013-14 | Reverse Logroll | Senate Budget 2014-15 | House Budget 2014-15 | Reverse Logroll |
|--|----------------------------------|---------------------------------|----------------------------|----------------------------------|---------------------------------|----------------------------|
| Education | | | | | | |
| Community Colleges | 1,026,315,467 | 1,012,637,467 | 1,012,637,467 | 1,014,315,467 | 1,009,089,167 | 1,009,089,167 |
| Public Instruction | 7,849,691,842 | 7,905,610,301 | 7,849,691,842 | 8,032,588,328 | 8,044,189,900 | 8,032,588,328 |
| The University System | 2,613,364,593 | 2,560,018,594 | 2,560,018,594 | 2,627,869,160 | 2,586,827,274 | 2,586,827,274 |
| Total Education | 11,489,371,902 | 11,478,266,362 | 11,422,347,903 | 11,674,772,955 | 11,640,106,341 | 11,628,504,769 |
| Health and Human Services | | | | | | |
| Central Management and Support | 65,069,146 | 76,923,179 | 65,069,146 | 62,655,211 | 66,509,244 | 62,655,211 |
| Aging and Adult Services | 54,142,341 | 54,142,341 | 54,142,341 | 54,342,341 | 54,342,341 | 54,342,341 |
| Blind, Deaf/Hard of Hearing Services | 8,178,618 | 8,178,618 | 8,178,618 | 8,178,618 | 8,178,618 | 8,178,618 |
| Child Development, Early Education | 255,039,269 | 255,163,458 | 255,039,269 | 255,039,269 | 255,039,269 | 255,039,269 |
| Health Service Regulation | 15,822,840 | 16,461,992 | 15,822,840 | 15,818,506 | 16,461,992 | 15,818,506 |
| Medicaid | 3,484,745,754 | 3,480,934,464 | 3,480,934,464 | 3,655,086,552 | 3,686,420,040 | 3,655,086,552 |
| Mental Health, Developmental Disability, & Substance Abuse Svcs. | 675,738,286 | 704,649,959 | 675,738,286 | 678,592,084 | 710,154,345 | 678,592,084 |
| NC Health Choice | 67,177,341 | 68,146,401 | 67,177,341 | 56,281,405 | 57,830,737 | 56,281,405 |
| Public Health | 147,178,997 | 142,616,502 | 142,616,502 | 144,980,498 | 140,616,502 | 140,616,502 |
| Social Services | 172,455,677 | 174,595,707 | 172,455,677 | 172,519,249 | 174,897,036 | 172,519,249 |
| Vocational Rehabilitation | 38,773,169 | 38,773,169 | 38,773,169 | 38,773,169 | 38,773,169 | 38,773,169 |
| Total Health & Human Services | 4,984,321,438 | 5,020,585,790 | 4,975,947,653 | 5,142,266,902 | 5,209,223,293 | 5,137,902,906 |
| Justice and Public Safety | | | | | | |
| Public Safety | 1,712,621,317 | 1,704,408,481 | 1,704,408,481 | 1,692,187,988 | 1,686,128,353 | 1,686,128,353 |
| Judicial | 456,876,742 | 457,653,356 | 456,876,742 | 455,376,742 | 457,153,356 | 455,376,742 |
| Judicial - Indigent Defense | 114,357,264 | 116,160,223 | 114,357,264 | 109,357,264 | 112,016,064 | 109,357,264 |
| Justice | 47,476,998 | 76,774,782 | 47,476,998 | 51,365,574 | 79,663,358 | 51,365,574 |
| Total Justice and Public Safety | 2,331,332,321 | 2,354,996,842 | 2,323,119,485 | 2,308,287,568 | 2,334,961,131 | 2,302,227,933 |
| Natural and Economic Resources | | | | | | |
| Agriculture and Consumer Services | 114,670,702 | 114,348,472 | 114,348,472 | 114,769,902 | 112,547,672 | 112,547,672 |
| Commerce | 42,661,856 | 39,979,793 | 39,979,793 | 45,692,759 | 41,316,766 | 41,316,766 |
| Commerce - State Aid | 9,505,810 | 43,192,758 | 9,505,810 | 9,255,810 | 43,018,126 | 9,255,810 |
| Environment and Natural Resources | 157,890,131 | 129,455,064 | 129,455,064 | 157,385,763 | 137,092,904 | 137,092,904 |
| Clean Water Management Trust Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Labor | 16,696,339 | 16,696,339 | 16,696,339 | 16,696,339 | 16,696,339 | 16,696,339 |
| Wildlife Resources Commission | 9,476,588 | 14,476,588 | 9,476,588 | 9,476,588 | 16,476,588 | 9,476,588 |
| Total Natural & Economic Resources | 350,901,426 | 358,149,014 | 319,462,066 | 353,277,161 | 367,148,395 | 326,386,079 |
| General Government | | | | | | |
| Administration | 67,117,185 | 57,278,879 | 57,278,879 | 66,571,237 | 60,815,588 | 60,815,588 |
| Auditor | 11,217,468 | 11,013,547 | 11,013,547 | 11,217,468 | 11,013,547 | 11,013,547 |
| Cultural Resources | 62,934,497 | 63,129,602 | 62,934,497 | 61,426,429 | 62,679,605 | 61,426,429 |
| Cultural Resources - Roanoke Island | 0 | 450,000 | 0 | 0 | 450,000 | 0 |
| General Assembly | 51,449,283 | 52,010,818 | 51,449,283 | 51,484,767 | 51,572,599 | 51,484,767 |
| Governor | 5,120,050 | 5,170,050 | 5,120,050 | 5,122,132 | 5,172,132 | 5,122,132 |
| Housing Finance Agency | 8,499,464 | 8,411,632 | 8,411,632 | 8,499,464 | 6,704,921 | 6,704,921 |

| Constructing a "Reverse Logroll" from House & Senate Budgets | | | | | | |
|---|----------------------------------|---------------------------------|----------------------------|----------------------------------|---------------------------------|----------------------------|
| | Senate Budget 2013-14 | House Budget 2013-14 | Reverse Logroll | Senate Budget 2014-15 | House Budget 2014-15 | Reverse Logroll |
| Insurance | 37,994,004 | 37,994,004 | 37,994,004 | 38,003,624 | 38,003,624 | 38,003,624 |
| Insurance - Worker's Comp Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Lieutenant Governor | 681,089 | 681,089 | 681,089 | 675,089 | 675,089 | 675,089 |
| Office of Administrative Hearings | 4,727,544 | 4,522,469 | 4,522,469 | 4,652,581 | 4,457,894 | 4,457,894 |
| Revenue | 85,336,745 | 80,235,417 | 80,235,417 | 85,317,085 | 80,222,072 | 80,222,072 |
| Secretary of State | 11,616,001 | 11,575,183 | 11,575,183 | 11,616,001 | 11,575,183 | 11,575,183 |
| State Board of Elections | 6,699,032 | 3,308,273 | 3,308,273 | 6,021,532 | 6,521,644 | 6,021,532 |
| State Budget & Management | 6,837,072 | 8,397,899 | 6,837,072 | 6,919,583 | 8,480,410 | 6,919,583 |
| State Budget & Management, Special | 1,800,000 | 3,000,000 | 1,800,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| State Controller | 28,160,691 | 28,710,691 | 28,160,691 | 28,160,691 | 28,710,691 | 28,160,691 |
| Treasurer - Operations | 8,137,890 | 8,137,890 | 8,137,890 | 7,026,305 | 7,026,305 | 7,026,305 |
| Treasurer - Retirement / Benefits | 23,179,042 | 23,179,042 | 23,179,042 | 23,179,042 | 23,179,042 | 23,179,042 |
| Total General Government | 421,507,057 | 407,206,485 | 402,639,018 | 417,393,030 | 408,760,346 | 404,308,399 |
| Subtotal Agency Budgets | 19,577,434,144 | 19,619,204,493 | 19,443,516,125 | 19,895,997,616 | 19,960,199,506 | 19,799,330,086 |
| Debt Service | 726,674,176 | 673,747,014 | 673,747,014 | 747,088,218 | 690,047,935 | 690,047,935 |
| Statewide Reserves | 262,883,228 | 251,677,414 | 251,677,414 | 303,178,499 | 505,919,499 | 303,178,499 |
| Total Capital Improvements | 17,142,000 | 27,897,000 | 17,142,000 | 8,250,000 | 10,423,000 | 8,250,000 |
| Savings Reserve | 165,075,883 | 200,000,000 | 165,075,883 | 74,244,692 | - | 0 |
| Repairs and Renovations | 100,000,000 | 200,000,000 | 100,000,000 | 25,502,274 | - | 0 |
| Total GF Appropriations | 20,849,209,431 | 20,972,525,921 | 20,651,158,436 | 21,054,261,299 | 21,166,589,940 | 20,800,806,520 |
| Revenue Portion of "Reverse Logroll" from House & Senate Budgets | | | | | | |
| General Fund Baseline | 21,000,143,626 | 21,028,143,626 | 21,028,143,626 | 21,494,160,611 | 21,530,897,273 | 21,530,897,273 |
| Tobacco Master Settlement Agreement (MSA) Funds | 137,500,000 | 46,889,357 | 137,500,000 | 137,500,000 | 22,250,000 | 137,500,000 |
| Golden L.E.A.F. transfer | 24,639,357 | 68,750,000 | 68,750,000 | - | 68,750,000 | 68,750,000 |
| Volunteer Safety Worker's Allocation | (3,000,000) | (3,000,000) | (3,000,000) | (3,000,000) | (3,000,000) | (3,000,000) |
| Other Cash Transfers | 7,826,211 | 726,211 | 7,826,211 | 4,714,626 | (385,374) | 4,714,626 |
| Increase Lobbyist Fees | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| Repeal Portion of Solid Waste Disposal Tax Earmark | 2,300,000 | - | 2,300,000 | 2,300,000 | 0 | 2,300,000 |
| Certificate of Need Exemption | (639,152) | - | 0 | (643,486) | 0 | 0 |
| Extend Local Govt Hold Harmless | - | (15,700,000) | 0 | 0 | 0 | 0 |
| Repeal NC Public Campaign Fund | 3,500,000 | - | 3,500,000 | 0 | 0 | 0 |
| Sales Tax Refund Application for Passenger Air Carriers | - | (3,186,000) | 0 | 0 | 0 | 0 |
| Total General Fund Availability | 21,172,670,042 | 21,123,023,194 | 21,245,419,837 | 21,635,431,751 | 21,618,911,899 | 21,741,561,899 |
| Less: GF Appropriations | 20,849,209,431 | 20,972,525,921 | 20,651,158,436 | 21,054,261,299 | 21,166,589,940 | 20,800,806,520 |
| Surplus without tax package | 323,460,611 | 150,497,273 | 594,261,401 | 581,170,452 | 452,321,959 | 940,755,379 |
| Senate Tax Reform Package | (173,800,000) | | (173,800,000) | (510,200,000) | | (510,200,000) |
| Surplus with Senate Tax Package | 149,660,611 | | 420,461,401 | 70,970,452 | | 430,555,379 |
| House Tax Reform Package | | (7,400,000) | (7,400,000) | | (357,900,000) | (357,900,000) |
| Surplus with House Tax Package | | 143,097,273 | 586,861,401 | | 94,421,959 | 582,855,379 |