

spotlight

No. 455 – June 18, 2014

THE BEST OF BOTH BUDGETS

“Reverse logrolling” would help legislators produce a sound spending plan

KEY FACTS:

- **“Logrolling” is a budgeting technique whereby each chamber negotiates with the other for inclusion of specific line items in the final spending plan. This study reverses that practice by accepting the lower of the two chambers’ previously approved figures for each department or agency, as well as the higher of the two chambers’ previously approved fund transfers. This is referred to as “reverse logrolling.”**
- **Reverse logrolling applied to the current state budget would result in a General Fund budget of \$20.6 billion. This would create a \$667 million surplus, excluding any teacher pay raise.**
- **Reverse logrolling before the incorporation of a teacher pay increase would allow legislators more flexibility when discussing spending priorities. It would also allow enough to be set aside in savings and reserves to avoid any unforeseen shortfalls in the next fiscal year.**
- **The Senate proposed an average 11 percent teacher pay increase, while the House proposed an average 5 percent teacher pay increase. Both plans require a significant increase in spending, which is easily accomplished with the use of reverse logroll savings from other areas of the budget.**

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

Discussions of the FY 2014-15 state budget have focused on many areas within state government, but the two largest have been Medicaid and teacher compensation. These two drivers have given the Governor, Senate, and House different budget numbers from which to negotiate. The Governor and both legislative chambers have proposed their own teacher pay plans, spurring healthy debate regarding their methods of paying for the additional education spending. Despite these differences, each proposed budget has had to address a revenue shortfall due, in part, to lagging collections from last year’s tax reform changes. The House and Senate budgets have also had to account for a growing Medicaid shortfall, necessitating cuts to other agencies in order to meet the growing demands of the program.

With politically polarizing items driving the budget, the use of logrolling should be avoided. Traditional logrolling is a tactic by 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 that the first group supports. Unfortunately, this budgetary practice too often results in poor outcomes 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. Given revenue constraints, a larger final budget number this year will not allow any of the promised teacher salary increases to be enacted while fully funding Medicaid and putting aside enough in savings and reserves to avoid any unforeseen shortfalls in the next fiscal year.

An alternative approach, proposed in past John Locke Foundation publications, is called “reverse logrolling.” Rather than each chamber accepting programs or higher expenditures from the other, 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 2014-15 budget would greatly benefit taxpayers. Although many, including John Locke Foundation analysts, would continue to disagree with specific policy elements of the resulting plan, the process would produce a General Fund budget of approximately \$20.6 billion, leaving \$667 million in surplus, not including teacher pay increases proposed by each legislative chamber. If a reverse logroll were used for budgeting, then legislators would have an opportunity to modify aspects of their respective proposals to include increased teacher pay or assemble desirable components of both plans into one.

Both the Senate and House plans would require a significant increase in spending, which would be easily accomplished with the use of reverse logroll savings from other areas of the budget. This analysis shows that, even with a teacher pay increase and the Medicaid shortfall, the legislature would still have many options for crafting a budget that continues to make improvements to public education, reform Medicaid, create jobs, and lower unemployment. 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.

	FY 2014-15 Reverse Logroll
Total General Fund Availability	\$21,302,861,521
Less: GF Appropriations	\$20,635,794,238
<i>Surplus without Teacher Pay Increase</i>	<i>\$667,067,283</i>
Senate Teacher Pay Plan	\$468,727,000
<i>Surplus with Senate Teacher Pay Increase</i>	<i>\$198,340,283</i>
House Teacher Pay Plan	\$177,443,279
<i>Surplus with House Teacher Pay Increase</i>	<i>\$489,624,004</i>

*Teacher pay plans include both recurring and non-recurring funds

Sarah Curry is Director of Fiscal Policy Studies at the John Locke Foundation.

Constructing a "Reverse Logroll" from House & Senate Budgets			
	Senate Budget 2014-15	House Budget 2014-15	Reverse Logroll
Education			
Community Colleges	1,038,638,136	1,042,250,461	1,038,638,136
Public Instruction	7,643,916,423	7,882,871,460	7,625,019,199
The University System	2,617,553,768	2,631,372,742	2,617,553,768
Total Education	11,300,108,327	11,556,494,663	11,281,211,103
Health and Human Services			
Central Management and Support	71,273,073	81,498,151	71,273,073
Aging and Adult Services	53,372,792	54,442,341	53,372,792
Blind, Deaf/Hard of Hearing Services	8,178,618	8,178,618	8,178,618
Child Development, Early Education	236,282,881	178,467,986	178,467,986
Health Service Regulation	16,123,479	16,123,479	16,123,479
Medicaid	3,804,308,059	3,669,166,279	3,669,166,279
Mental Health, Developmental Disability, & Substance Abuse Svcs.	675,153,834	690,938,950	675,153,834
NC Health Choice	41,933,972	41,997,933	41,933,972
Public Health	131,671,390	136,336,044	131,671,390
Social Services	188,947,789	190,099,941	188,947,789
Vocational Rehabilitation	38,197,833	38,197,833	38,197,833
Total Health & Human Services	5,265,443,720	5,105,447,555	5,072,487,045
Justice and Public Safety			
Public Safety	1,750,644,177	1,753,093,634	1,750,644,177
Judicial	459,929,240	461,549,584	459,929,240
Judicial - Indigent Defense	111,773,820	111,743,301	111,743,301
Justice	34,079,847	50,210,076	34,079,847
Total Justice and Public Safety	2,356,427,084	2,376,596,595	2,356,396,565
Natural and Economic Resources			
Agriculture and Consumer Services	116,330,919	116,024,363	116,024,363
Commerce	52,541,929	55,741,839	52,541,929
Commerce - State Aid	15,896,240	20,630,240	15,896,240
Environment and Natural Resources	166,989,626	159,620,093	159,620,093
Labor	16,649,138	16,735,896	16,649,138
Wildlife Resources Commission	14,354,606	13,466,068	13,466,068
Total Natural & Economic Resources	382,762,458	382,218,499	374,197,831
General Government			
Administration	65,023,754	55,973,988	55,973,988
Auditor	11,335,806	11,385,623	11,335,806
Cultural Resources	62,451,313	63,674,655	62,451,313
Cultural Resources - Roanoke Island	441,000	441,000	441,000
General Assembly	51,590,241	52,511,211	51,590,241
Governor	7,121,334	7,408,653	7,121,334
Housing Finance Agency	18,241,954	18,241,954	18,241,954
Insurance	37,604,496	37,747,138	37,604,496
Lieutenant Governor	669,460	672,058	669,460
Office of Administrative Hearings	5,051,651	5,069,608	5,051,651
Revenue	81,623,926	79,452,101	79,452,101

Constructing a "Reverse Logroll" from House & Senate Budgets			
	Senate Budget 2014-15	House Budget 2014-15	Reverse Logroll
Secretary of State	11,552,463	11,612,598	11,552,463
State Board of Elections	5,637,834	5,858,467	5,637,834
State Budget & Management	7,462,958	7,489,101	7,462,958
State Budget & Management, Special	1,695,000	1,500,000	1,500,000
State Controller	30,311,191	28,528,423	28,528,423
Treasurer - Operations	8,985,833	8,550,088	8,550,088
Treasurer - Retirement / Benefits	20,704,546	21,679,206	20,704,546
Total General Government	427,504,760	417,795,872	413,869,656
Subtotal Agency Budgets	19,732,246,349	19,838,553,184	19,498,162,200
Debt Service	717,096,743	717,946,743	717,096,743
Statewide Reserves	219,304,622	353,604,622	219,304,622
Total Capital Improvements	23,233,000	23,033,000	23,033,000
Savings Reserve*	42,989,870	89,098,836	89,098,836
Repairs and Rennovations*	42,989,870	89,098,837	89,098,837
Total GF Appropriations	20,777,860,454	21,111,335,222	20,635,794,238
Revenue Portion of "Reverse Logroll" from House & Senate Budgets			
General Fund Baseline	21,212,693,704	21,264,295,129	21,264,295,129
Transfer from Cash Balances from Dept of Ag and Consumer Services Special Funds	1,449,680	1,210,690	1,449,680
Transfer from Cash Balances from ABC Enterprise Fund	3,500,000		3,500,000
Transfer from Interest from DENR Special Funds	938,670	430,385	938,670
Diversion of Funds from DENR Inspection and Maintenance Control Special Fund	3,000,000	3,000,000	3,000,000
Diversion of Funds from DENR Water and Air Account Special Fund	1,000,000	750,000	1,000,000
Transfer of FICA Fund Cash Balance	5,255,000	5,255,000	5,255,000
Adjustmetn of Transfer from Insurance Regulatory Fund	(399,128)	(256,486)	(256,486)
Adjustment of Transfer from Treasurer's Office	1,959,528	1,523,783	1,959,528
Increase from ABC permit fees	9,600,000	9,600,000	9,600,000
Redirecton of Funds from Gross Premiums Tax on Property Coverage Contracts to GF	1,600,000	1,600,000	1,600,000
Four-year phaseout of Provision of Medicaid Hold Harmless Law Guaranteeing Counties \$500,000 Benefit	5,990,000	5,990,000	5,990,000
Phase-in Sales Tax on Piped Natural Gas		(2,150,000)	0
Reduce Sales Tax on Manufactured and Modular Homes		(6,100,000)	0
Transfer from E-Commerce Fund		2,130,000	2,130,000
Transfer from Blount Street Properties Fund		2,400,000	2,400,000
Total General Fund Availability	21,246,587,454	21,289,678,501	21,302,861,521
Less: GF Appropriations	20,777,860,454	21,111,335,222	20,635,794,238
Surplus without Teacher Pay Increases	468,727,000	178,343,279	667,067,283
Senate Teacher Pay Increase	(468,727,000)		468,727,000
Surplus with Senate Teacher Pay Increase	0		198,340,283
House Teacher Pay Increase		(178,343,279)	177,443,279
Surplus with House Teacher Pay Increase		0	489,624,004

* The higher savings reserve and repair and renovation spending items were chosen to reflect a more conservative spending priority knowing the large surplus left after each of the teacher pay plans.

Public Education Detailed Reverse Logroll of Legislative Changes for FY 2014-15			
	Senate Budget 2014-15	House Budget 2014-15	Reverse Logroll
<i>Enacted Budget for FY 14-15</i>	8,046,101,622	8,046,101,622	8,046,101,622
Compensation Increase Reserve - Educators	468,727,000	178,343,279	N/A
Compensation Increase Reserve - School-based Administrators	5,952,042	10,158,319	5,952,042
Compensation Increase Reserve - Non-certified and Central Office Staff	32,635,439	65,270,879	32,635,439
Compensation Increase Reserve - Department of Public Instruction (DPI)	891,973	1,461,135	891,973
State Retirement System Contributions - School District Personnel	21,514,025	35,082,455	21,514,025
State Retirement System Contributions - DPI	183,857	299,811	183,857
Average Daily Membership (ADM)	(37,453,734)	(37,453,734)	(37,453,734)
Average Certified Personnel Salaries	(64,923,926)	(64,923,926)	(64,923,926)
Education Lottery Receipts	(56,298,342)	(160,904,386)	(56,298,342)
Excellent Public Schools Act	6,015,859	6,015,859	6,015,859
Classroom Teachers	(43,362,064)	(43,362,064)	(43,362,064)
Excellent Public Schools Act - Five Extra Days	(391,637)	(391,637)	(391,637)
Education-Based Salary Supplements Restoration	18,700,000	18,700,000	18,700,000
School Bus Replacement	(3,369,983)	(6,739,966)	(6,739,966)
Teacher Assistants	(233,182,240)	N/A	(233,182,240)
Central Office Administration	(4,795,567)	N/A	(4,795,567)
Transportation	(28,608,891)	N/A	(28,608,891)
Small County Supplemental Funding	3,581,140	3,581,140	3,581,140
Panic Alarms	(1,100,000)	(1,100,000)	(1,100,000)
DPI Flexible Reduction	(15,078,150)	(502,605)	(15,078,150)
Teaching Fellows	(3,095,000)	N/A	(3,095,000)
ADM Adjustment: Opportunity Scholarships	N/A	11,797,941	0
Exceptional Children Headcount	N/A	(5,327,241)	(5,327,241)
Cooperative and Innovative High Schools	N/A	1,864,014	0
Cooperative and Innovative High School Planning Grant	N/A	150,000	0
Textbooks	N/A	905,000	0
Merit Pay for Teachers	N/A	(10,200,000)	(10,200,000)
Career Pathways	N/A	9,777,150	0
Embedded Innovative Teaching Institute	N/A	150,000	0
Military Interstate Children's Compact Commission	N/A	11,694	0
Rural Charter School Development	N/A	300,000	0
Communities in Schools	N/A	2,000,000	0
Teacher Cadet	N/A	150,000	0
Total Public Education Legislative Changes, FY 2014-15	66,541,801	15,113,117	(421,082,423)
Less Teacher Pay Increases:	(468,727,000)	(178,343,279)	
Total Public Education Appropriation without Pay Increase	7,643,916,423	7,882,871,460	7,625,019,199

* The House plan to use \$160 million of lottery funding increased the amount of total receipts and expenditures in public education, despite a reduction in General Fund appropriations in that area. This is one of the reasons the public education portion of the reverse logroll was broken down to include each proposed legislative change rather than showing it only for the agency as a whole.