

— *Advance Draft* —

# THE FREEDOM BUDGET

*Nine "R"s for North Carolina Fiscal Responsibility*

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<b>Executive Summary</b>	<b>2</b>
<b>Introduction</b>	<b>3</b>
<b>Part 1: Principles of Fiscal Responsibility</b>	<b>6</b>
<b>Part 2: <i>The Freedom Budget At A Glance</i></b>	<b>10</b>
<b>Conclusion</b>	<b>12</b>
<b>Appendix: Line-Item Recommendations</b>	<b>14</b>
<b>About the Authors</b>	<b>24</b>

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# The Freedom Budget

## *Nine “R”s for North Carolina Fiscal Responsibility*

**N**orth Carolina faces significant fiscal and economic challenges over the next two years. But it need not resort to higher taxes, a state-run lottery, higher debt, or gimmickry to balance its budget. Nor does North Carolina need to skimp on crucial needs such as education and highways. By setting firm priorities within state government, eliminating unnecessary or duplicative programs, and charging users of some services a reasonable price, state leaders can generate sufficient savings to invest in the future needs of the state.

North Carolinians are not undertaxed. While a series of reductions in income, sales, and other taxes from 1995 to 1998 saved taxpayers more than \$1.4 billion, this tax relief followed even larger tax increases in 1990 and 1992 and more than \$1 billion in new taxes in 2001 and 2002. The tax burden in North Carolina is significantly higher today than it was in 1990, with its income tax rates among the highest in the nation. Lawmakers would have to cut taxes more than \$1 billion annually just to reduce North Carolina’s tax burden to the regional average.

North Carolina was particularly hard hit by the recent recession, and its recovery in most sectors has been sluggish. Now is the time to cut taxes, not raise them. Higher marginal income tax rates, in particular, depress entrepreneurship, discourage job creation, and hamper the state’s economic development.

North Carolina’s real fiscal problem is a lack of productivity in state government, not a short-run money crunch. The state’s General Fund operating budget grew by an annual average of 7.3 percent from 1993 to 2001 — far faster than the 6.3 percent annual growth of personal income. Taxpayers are not receiving benefits commensurate with the escalating amounts their state government is taking from them.

The *Freedom Budget* presents an alternative state budget for the next two fiscal years. In brief, the plan:

- Identifies General Fund savings worth \$1.3 billion in FY 2003-04 and nearly \$1.7 billion in FY 2004-05. Major areas of savings include redirecting some public school and university spending, reforming the Medicaid program, merging some departments and divisions, and slicing corporate subsidies.
- Spends some of the savings to offer at-risk children a private-school scholarship and to restore school construction funds eliminated in the governor’s budget, while devoting \$62 million more than Easley’s budget does to pay raises for state employees, particularly in the community college system.
- Puts forward a comprehensive tax-reform package that would end \$369 million in tax biases and loopholes but more than offsets it with income and sales tax cuts worth \$950 million.
- Develops a new strategy for promoting statewide economic growth by increasing annual road maintenance by \$179 million, boosting major highway construction by \$229 million, and adopting a flat 6 percent tax rate on individual and corporate income to create new jobs and assist struggling families.

Under the alternative budget, General Fund spending would shrink by about 1 percent over the next two years — a modest amount and a budgetary change far below the combined rate of inflation and population growth that a proposed Taxpayer Protection Act would allow. By comparison, the governor’s budget increases spending by 9 percent over the next two years.

In last year’s Agenda 2002 poll, the overwhelming majority of North Carolina voters rejected the idea that their taxes had been cut too much during the 1990s, and most favored state spending limits, additional tax relief, and other recommendations contained in the *Freedom Budget*.

# Introduction

## *Putting North Carolina's Latest Budget Problems in Perspective*

**F**or the third time in a row, the North Carolina General Assembly has begun a legislative session in Raleigh facing a projected budget deficit in the coming fiscal year of more than \$1 billion. The reason for this is clear. In neither of the previous two years have lawmakers or Gov. Mike Easley chosen to address budget deficits primarily by making significant, permanent reductions in the size and scope of state government. They have not chosen to place the state on a firm path of fiscal responsibility. Instead, they have relied on one-time revenue boosts, on tax hikes, and on nips and tucks around some state programs that really deserved dramatic downsizing or elimination.

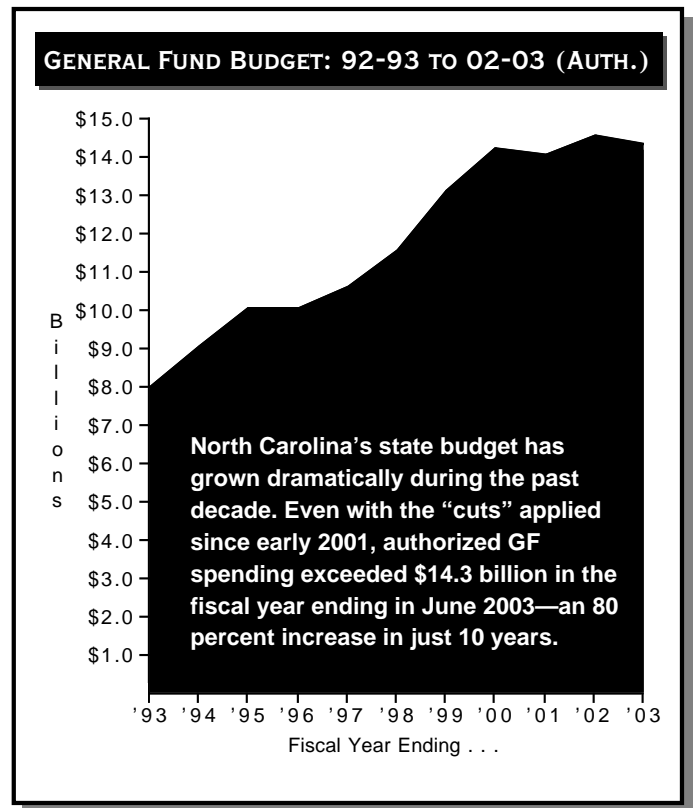
North Carolina's budget problems did not develop overnight. They are the result of shortsighted decisions by governors and lawmakers. In essence, new long-term commitments were made by recklessly expanding Medicaid and starting new programs such as Smart Start. This was done during a time when it was clear that revenue growth was extraordinarily high — pumped up by capital-gains realizations and the like — and could not reasonably be counted on in future years. In other words, our state made long-term spending promises with what was clearly short-term money.

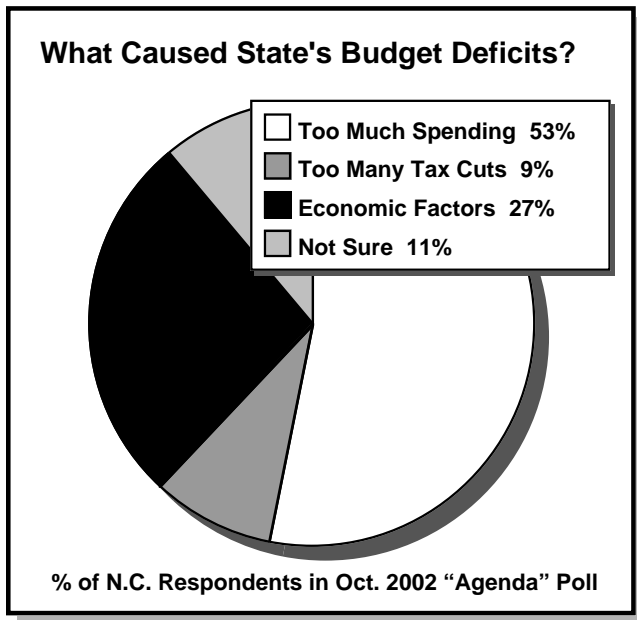
### *Looking Back Over a Decade of Fiscal Recklessness*

For two decades, budget growth has far outpaced inflation, population, and personal income growth. During the 1990s, while personal income in the state grew by a respectable 6.3 percent annual rate, the state budget grew by an average of 7.3 percent. By comparison, the federal budget under President Bill Clinton and a mostly Republican Congress grew at an annual rate of 3.2 percent. The 10-year growth trend was 80 percent in state General Fund spending — even after the “draconian cuts” of the 2001 and 2002 sessions.

If the North Carolina budget had expanded only enough to keep up with rising prices and population, the rate of growth would have been nearly halved, and General Fund authorizations for FY 2002-03 would have been \$2.7 billion lower than they are. Even allowing for growth in education enrollments and Medicaid eligibles, spending would have grown by only 52 percent, saving more than \$2.2 billion.

Furthermore, in spite of the fact that North Carolina lawmakers enacted tax cuts in 1995, 1996, and 1997, the tax burden is higher than it was 10 years ago due to tax increases in the early 1990s, 2001, and 2002. The real problem is that for every dollar that the tax cuts of the 1990s saved the taxpayers, the state increased spending by \$3. Now, having more than erased the tax-cutting trend of the 1990s, the General Assembly has left North Carolina with





a tax burden that as a share of personal income is among the highest in the region, and with marginal tax rates on individual and corporate income that are among the highest in the United States. This is not a recipe for dynamic economic growth or prudent spending restraint.

### *Courage Needed to Address Problems*

If the new General Assembly intends to reestablish fiscal responsibility to North Carolina's state budget then there are several major areas that will need serious reexamination. Unfortunately, these are also areas that will take a great deal of political courage to confront — courage that has seemed to be in short supply in recent years.

- Medicaid — North Carolina spends far more than comparable states on this program, offering a basic benefits package that has greater coverage than the typical private plan. As the nearby table shows, General Fund

authorizations for Medicaid grew by a staggering 224 percent over the past decade, to nearly \$2.2 billion. In spite of this there is no evidence that lower-income North Carolinians are significantly healthier or receive better care than their counterparts in other states.

- Education — Again, North Carolina spends more on education than most comparable states do — particularly at the college and university level — without measurable results to show for it. State leaders need to reconsider their allocation of education dollars. This should include a serious reevaluation of Smart Start and other preschool programs, as well as the state's policy of holding community college and university tuition so low that relatively wealthy students benefit at the expense of less-educated taxpayers and are taking too long to graduate, if they ever do.

- Public employees — North Carolina has the most state and local employees per capita in the Southeast and exceeds the national average, with real salaries close to regional norms. The best way to pay our valuable state employees more, and improve our retention of them, is to reduce the number of state employees elsewhere in government.

- Debt burden — The cost of debt service has nearly tripled in just 10 years. Clearly, political promises made in 1998 and 2000 to fund new debt for water projects and college construction without tax hikes cannot be kept.

### *Budget Growth Hikes Tax Burden*

Rapid growth in spending set the state budget up for a fall. And fall it did. Starting in FY 2000-01, revenues began to fall short of projections. While some of the difference was indeed made up by budget restraint, Gov. Easley and the General Assembly have chosen to fund more than \$1 billion in deficits in FY 2001-02 and FY 2002-03 with tax increases on personal income, retail sales, corporations, consumers, and other areas.

North Carolinians are hardly undertaxed. In reality, our tax burden grew rather than shrank during the 1990s, given that \$1.4 billion in tax reductions in the mid-1990s was proceeded and followed by even larger tax increases. According to the Washington-based Tax Foundation, about 10.1 percent of average income in North Carolina was consumed by state and local taxes in 2002, up from 9.6 percent in 1992. Once among the nation's most lightly taxed states, North Carolina's tax burden is first time near the average average of 10.2 percent. We still have the highest average tax burden in the Southeast, according to data from the U.S. Census Bureau. We impose some of the highest marginal tax rates in the nation on individual and corporate income.

Of course, it is easier said than done to restrain annual budget growth. Because of factors such as school enrollment and Medicaid increases, a fiscally conservative budget must include not just slower growth across the board but the outright elimination of unnecessary, duplicative, or counterproductive programs. Advocates of fiscal restraint should be willing to offset fast-growing expenditures in public schools or human services with freezes or reductions in other areas.

The alternative state budget we recommend in this report lists 177 recommendations for savings in the base budget, 10 changes to Easley's 2001-2003 expansion budget, and 40 changes to the governor's revenue proposals. Recommended General Fund savings total \$1.3 billion in FY 2003-05 and nearly \$1.7 billion in FY 2004-05. These savings would finance a tax reform package phasing in \$518 million in growth-enhancing tax reductions as well as new spending in critical areas such as public employee salaries. Admittedly, the plan would require state leaders to set very different priorities. But it is feasible, realistic, and principled.

## GROWTH IN NC GENERAL FUND SPENDING IN PAST 10 YEARS

(AUTHORIZATION IN CURRENT DOLLARS)

State Department or Agency	FY 1992-93	FY 2002-03	Amount of Change	% Change
Public Schools	\$3,433,952,028	\$5,894,553,493	\$2,460,601,465	71.7%
Community Colleges	\$398,383,365	\$669,281,390	\$270,898,025	68.0%
UNC System	\$1,173,904,861	\$1,768,097,109	\$594,192,248	50.6%
<i>Total Education</i>	\$5,006,240,254	\$8,331,931,992	\$3,325,691,738	66.4%
Medicaid	\$675,014,762	\$2,189,813,795	\$1,514,799,033	224.4%
Social Services	\$169,503,805	\$180,580,506	\$11,076,701	6.5%
Mental Health/DD/Substance Abuse	\$226,813,200	\$573,361,612	\$346,548,412	152.8%
Child Develop. (inc. Smart Start)*	—	\$281,830,361	\$281,830,361	—
Child Health Insur. (Health Choice)	—	\$45,058,178	\$45,058,178	—
Other HHS programs*	\$281,823,929	\$325,784,197	\$43,960,268	15.6%
<i>Total Health &amp; Human Services</i>	\$1,401,944,328	\$3,596,428,649	\$2,194,484,321	156.5%
Correction	\$508,384,381	\$880,054,808	\$371,670,427	73.1%
Crime Control & Public Safety	\$26,648,835	\$27,780,188	\$1,131,353	4.2%
Judicial Department	\$224,023,518	\$371,923,070	\$147,899,552	66.0%
Attorney General	\$50,227,944	\$70,938,193	\$20,710,249	41.2%
Juvenile Justice*	\$48,788,632	\$128,984,633	\$80,196,001	164.4%
<i>Total Public Safety</i>	\$858,073,310	\$1,479,680,892	\$621,607,582	72.4%
Environment & Natural Resources	\$189,865,134	\$215,318,587	\$25,453,453	13.4%
Administration*	\$52,611,415	\$55,943,188	\$3,331,773	6.3%
Commerce	\$55,910,030	\$54,525,583	-\$1,384,447	-2.5%
Agriculture	\$39,916,693	\$50,445,582	\$10,528,889	26.4%
Cultural Resources	\$39,982,473	\$57,525,447	\$17,542,974	43.9%
General Assembly	\$21,546,954	\$36,899,614	\$15,352,660	71.3%
Governor's Office	\$9,427,485	\$13,173,191	\$3,745,706	39.7%
Revenue	\$53,053,677	\$75,571,304	\$22,517,627	42.4%
Debt Service	\$89,020,478	\$255,672,808	\$166,652,330	187.2%
All Other GF Spending	\$155,121,521	\$126,656,820	-\$28,464,701	-18.3%
<b>Total GF Authorization</b>	<b>\$7,972,713,752</b>	<b>\$14,349,773,657</b>	<b>\$6,377,059,905</b>	<b>80.0%</b>
<i>Compared to These Spending-Limit Options:</i>				
Allow only for inflation, population growth	\$7,972,713,752	\$11,637,205,063	\$3,664,491,311	46.0%
Also allow for Medicaid, edu. enrollment	\$7,972,713,752	\$12,088,211,506	\$4,115,497,754	51.6%

\* Includes items that have moved between agencies during the period. Sources: NC Office of State Budget, Planning, & Management; NCGA Fiscal Research Division; UNC General Administration; NC Board of Community Colleges; NC Department of Public Instruction.

# Principles of Fiscal Responsibility

## *Nine concepts for transforming North Carolina's budget and economy*

The *Freedom Budget* is a concise but broad-ranging examination of every function that state government attempts to perform in North Carolina. This is not an attempt to close billion-dollar budget gaps and finance hundreds of millions of dollars in tax cuts by “eliminating waste, fraud, and abuse” or “rooting out duplication.” These may be good ideas, but they will inevitably fall short of generating the savings needed to balance the budget and to invest significantly more dollars in our inadequate highway system. Our purpose was to apply a consistent set of principles to the task of setting North Carolina’s budget priorities. If policymakers follow our lead, they will need to be prepared to rethink some long-standing assumptions about what state government exists to do. They need look only to the state’s constitution for guidance as to how to proceed.

### *What the State Constitution Requires*

The Constitution of North Carolina opens with a “Declaration of Rights” that establishes “essential principles of liberty and free government.” Article 1 begins by reiterating the opening phrase of the U.S. Declaration of Independence. But the N.C. Declaration adds an important clarifier. In addition to Thomas Jefferson’s original list (borrowed from John Locke) — the rights to “life, liberty and the pursuit of happiness” — North Carolina’s constitution points out that all persons are “endowed by their creator with the right to the enjoyment of the fruits of their labor.” It is incumbent upon North Carolina officials, when formulating tax and budget policies, to see to it that this right is preserved. The state is obligated to perform its basic functions efficiently while leaving to the people as much of the “fruits of their labor” as possible to use for their own “enjoyment.”

Other provisions of the state constitution also informed our proposals to reorient state budget policy. For example, Article 1, Section 34 states that “perpetuities and monopolies are contrary to the genius of a free state and shall not be allowed.” Programs that grant exclusive franchises or limit consumer choice to government-run service providers run afoul of this principle. In Article V, Section 2, the constitution requires that “the power of taxation shall be exercised in a just and equitable manner, for public purposes only . . .” This clause helped guide our tax-reform package, which eliminates special preferences for private interests, as well as the identification of programs that state taxes should not fund — i.e. those that are primarily local or private responsibilities.

Finally, we took note of Article 1, Sections 35 and 36. These provisions serve to establish a constitutional preference for limited government. “A frequent recurrence to fundamental principles is absolutely necessary to preserve the blessings of liberty,” the constitution states. “The enumeration of rights in this Article shall not be construed to impair or deny others retained by the people.” State government, in other words, is not empowered to do whatever it wants to do. Rather, it is constrained to perform its constitutional functions — to maintain law and order and to ensure the availability of true public goods — and otherwise to leave North Carolinians alone to pursue their own interests and solve their own problems without state encroachment.

### *The Nine “R”s of Fiscal Responsibility in North Carolina*

These constitutional provisions led us to construct the following set of criteria for evaluating state programs:

- **Reform Entitlement Programs** — State programs to provide cash assistance, medical care, or other services to the disadvantaged exist to provide a basic “safety net.” Even philosophers of limited government such as John Locke have justified such programs as needed to ensure order and protect public assets and spaces. But these programs must be carefully structured to minimize dependency and encourage personal responsibility. When the state pays nursing home bills for the parents of the middle class, subsidizes the day cares of affluent families, and perpetuates social pathologies such as out-of-wedlock births, it strays far from its constitutional moorings.

Perhaps the single-biggest contributor to North Carolina's budgetary problems is rapid growth in the state's Medicaid program. With costs per Medicaid enrollee and per capita higher in North Carolina than in most states in the nation, there are obvious important reasons to scrutinize this program for potential economies. Gov. Easley's proposed budget for the 2003-05 biennium does a commendable job of identifying savings across a range of services and reimbursements, and the Freedom Budget naturally adopts them all.

Still, we believe that state policymakers should go further in restraining the growth of this program, and to find savings in other public assistance programs. For example, we do not believe that the Health Choice program, which provides free or nearly free health care to children in middle-income households, should be expanded as the governor recommends. And based on research conducted by the John Locke Foundation and others, we do not believe that the Smart Start program is a wise investment of taxpayer dollars. Instead, we recommend \$165 million in tax credits for families that invest their own money in preschool, education, and private health insurance for their children, with reduced income and consumer tax rates also offering these families relief and opportunity. In total, we recommend \$421 million in General Fund savings from Reforming Entitlement Programs.

- **Require More User Responsibility** — It is inappropriate to require those who receive core state services, such as law enforcement or public education, to cover a significant share of the cost of those services. Under our state constitution, citizens are entitled to such services. But for many other state agencies, their programs or services are not constitutional entitlements or responsibilities. If the state is to continue involvement in these enterprises, it would be appropriate to ask those who benefit to shoulder more of the responsibility of paying for them.

Services for which the Freedom Budget recommends additional user responsibility — either through fees, earnings, or philanthropic donations — include state museums, historic sites, parks, and the accommodation of prison inmates. But the biggest single item of savings in this area is to authorize significant increases in tuition in the state's community college and university systems. The JLF-affiliated Pope Center for Higher Education Policy has published numerous studies over the years that reveal North Carolina tuitions to be very low by national standards, and deleterious to the sound management of higher education institutions. In the 2003-04 fiscal year, tuition and fees in the UNC system are projected to cover less than one-fifth of the cost of educating in-state students. The national average is about one-third.

Low tuition has several drawbacks. First, because most households do not send children to UNC schools and the households that do have average incomes far higher than the average income of taxpayers, low tuition creates a "Reverse Robin Hood" effect in taking earnings from those of modest means in order to subsidize the education of the relatively affluent. Second, low tuition in both the UNC and community college systems reduce the disincentive to take light course loads and to drop classes in mid term. The result is that the number of students graduating on time is shockingly low. Third, low tuition in government-run colleges and universities put private institutions at an unfair competitive disadvantage, thus leading to fewer choices for students and to uneconomical use of existing campus facilities and resources (as private colleges are undersubscribed and public colleges are demanding more taxpayer money for construction to keep up with artificially inflated demand).

It should be kept in mind that the state constitution does require lawmakers to extend the benefits of the UNC system to the people of the state "as free of expense as is practicable." Although this provision does not set a specific standard, it would likely prohibit lawmakers from imposing most of the cost on students. The *Freedom Budget* proposes merely that over the next two years, tuition should rise to the point where students are, on average, paying for 30 percent of the cost — with a 35 percent target for students at UNC-Chapel Hill and N.C. State, 30 percent at the system's regional universities, and 20 percent at historically black and Indian colleges. Overall, we recommend \$469 million in General Fund savings from Requiring More User Responsibility.

- **Redirect Spending to Higher-Priority Uses** — Setting better priorities with existing tax revenues is a constitutional obligation. This category of savings includes the elimination of recently enacted increases in existing programs or creation of new ones. During a time of fiscal distress, in which policymakers find it difficult to fund obligations already in place, it makes little sense to incur new ones. Another way to apply this principle is by sorting out which expenditures within a given department or agency are central to the core mission and which

are not. A key application in the Freedom Budget is to redirect public education funds now spent on non-teaching personnel and teacher assistants to fund teaching positions across the state. The same research that policymakers have cited in their efforts to reduce North Carolina's class sizes also shows that teacher assistants, for example, do not add measurable value to the educational process. Overall, we recommend \$574 million in General Fund savings from Redirecting Spending to Higher-Priority Uses.

- **Reorganize State Government** — Even assuming that current fiscal obligations could continue into the next two years, there remain different ways of organizing the departments that carry them out. North Carolina's state government structure is relatively more costly than those of its neighbors. Public employees per capita in North Carolina exceed the rate found in most other states. And the state's organizational chart is convoluted; North Carolina has some two dozen major state departments compared to half that many in the Commonwealth of Virginia. One application of this principle is a proposal in the Freedom Budget to merge the state budget office, the State Controller's Office, and the Department of Revenue into a single Department of Finance. Similarly, we recommend that the departments of Correction, Juvenile Justice, and Crime Control and Public Safety be merged into a single Department of Public Safety. Other redundancies and merger opportunities are also addressed. We recommend \$54 million in General Fund savings from Reorganizing State Government.

- **Revive Free Enterprise** — North Carolina has prided itself on leading the region and the nation in economic growth over the past two decades. This trend is no longer evident. The recent recession had a stronger impact on North Carolina than on most other states, and jobless rates in North Carolina remain among the highest in the nation. Responding to these challenges, some policymakers have concluded that state government should take a more active role in attracting investment and guiding development through tax credits, cash subsidies, and other incentive programs. This is a serious mistake. There is scant empirical evidence for the proposition that incentives create economic growth in a jurisdiction that would not otherwise have occurred. The available public policy research on state economic development does suggest that overall tax rates, especially the marginal rates on individual and corporate income, do have a measurable impact on state economic growth rates. By eliminating \$120 million in incentive programs, marketing subsidies, and other encroachments on free enterprise, we are able to include a dramatic reduction in marginal income tax rates, down to 6 percent on individual and corporate income by FY 2004-05. These low rates would improve economic competitiveness across the board, for all sizes and kinds of businesses, far more successfully than any incentive program can accomplish.

- **Restore Civil Society** — Nonprofits and charities form a "third" or "independent" sector that delivers important services and benefits that neither governments nor profit-seeking businesses can deliver as effectively. The state should be careful not to supplant these institutions of civil society. The Freedom Budget identifies about \$26 million in General Fund savings by Restoring Civil Society.

- **Remove Advocacy, Waste, and Race-Based Programs** — Section 19 of the constitution's Declaration of Rights states in part that no person shall "be subjected to discrimination by the state because of race, color, religion, or national origin." Laws and programs that invoke racial or ethnic discrimination violate this basic principle of moral government. All such programs should be ended immediately. Similarly, state funds should not be used to subsidize groups that advocate policies or ideas before government bodies. Taxpayers should not be forced to pay for the propagation of ideas with which they may strongly disagree. As Article 1, Section 2 of the state constitution puts it, government "is instituted solely for the good of the whole," not for special interests who use taxpayer money to advance their agendas. The Freedom Budget contains \$6 million in savings in this area.

- **Reshape the State-Local Government Relationship** — In the wake of Gov. Easley's seizure of local tax reimbursements to help finance state budget deficits, many localities are pressing for a redefinition of the relationship between state government and local governments in North Carolina. While some of these ideas are worth pursuing — once the current fiscal crisis is averted, for example, we favor the state assuming all of the financial responsibility for Medicaid expenses now shouldered by counties — there remain some state expenditures that are purely local in nature and should be controlled and funded accordingly. Examples would include libraries and airports in the General Fund and public transportation systems in the Highway Fund. Overall, we recommend \$28 million in General Fund savings in this area.



- **Reduce Biases in the Tax Code** — Like most states, North Carolina has developed its state tax code in a piecemeal fashion rather than using tax reform principles to build a coherent and efficient system. As a result, a variety of special rates, exemptions, exclusions, deductions, and credits litter the code. In the corporate tax code alone, special tax credits for job creation, research and development, machinery, worker training, and other expenditures total about one-fifth of all corporate income taxes the state collects. Another problem is the income tax code's bias against savings and investment, including the investment that families make in their children through private education and health care spending. The Freedom Budget includes \$369 million in higher revenues from the elimination of tax biases, though it recommends an even higher \$950 million in tax cuts.

### *Short-Term and Long-Term Savings*

Once we identified the programs that failed to meet at least one of the criteria listed above, we sorted them into two groups: 1) programs or items that could realistically be altered or eliminated in the short term, and 2) programs or items where savings could be realized only in the long term or with federal permission. The former group constitutes the *Freedom Budget* plan described in the remainder of this report.

Among those long-term savings recommendations are:

- **Redesigning Medicaid** — Because Medicaid recipients pay little to nothing out-of-pocket, they have few incentives to economize in their health care consumption. Furthermore, the scope of Medicaid has grown far beyond its original intended coverage of the poor and now includes non-poor children, pregnant women and elderly residents of nursing homes whose backgrounds and family finances place them firmly in the middle class. In addition Medicaid in North Carolina now provides more generous coverage than most health insurance plans provided by private sector employers.

Starting this year, we suggest that the state reform the program first by scaling back benefits to only those required by the federal government and introducing more economy in the provision of prescription drugs and the reimbursement of medical services rendered. In the long run we recommend replacing direct payments to health care providers with contracting out, vouchers, and medical savings accounts. This would give participants greater choice and promote efficiency through market competition, saving money for both the state and consumers of health care generally. Also, in order to get Medicaid out of the business of paying for nursing home care, our tax code should be reformed to encourage private savings and insurance for long term care.

- **Restructuring State Employment and Retiree Benefits Programs** — In the private sector employers are moving away from defined benefits pension plans and replacing them with defined contribution plans (like a 401-k). With the latter, employees retain ownership and control of their own money. Making similar changes at the state level would save administrative costs and improve both employee welfare and management flexibility. On health benefits, rapid growth in the state employee health plan is a major contributing factor to current budget problems. Easley's budget sets aside \$72 million in FY 2003-04 and \$96 million in FY 2004-05 to cover expected increases in the plan. While few options exist in the short-run to alleviate the fiscal pressure caused by the plan, policymakers should begin to examine long-run strategies to reform benefits. For example, the state should consider increasing the alternatives available to state employees, including a medical savings account (MSA) plan. Such a plan would cover an employee's family for catastrophic health care costs through insurance while paying for routine expenses out of the funds held in the employee's MSA. This plan offers hope not only of giving patients more power and choice but also of reducing state health plan costs.

- **Expanding the Use of Privatization** — Over time, we believe that state government should be required to introduce competitive contracting and other privatization strategies to virtually all programs. In the short term we propose only one major sale of state assets, North Carolina's ports and railroads. But in the future the state should examine its entire inventory of properties and operations to find assets best converted to private ownership. Obvious assets to consider would include recreational facilities, office buildings, vacant land, and the entire Alcoholic Beverage Control system (the sale proceeds of which would go primarily to localities). If deemed necessary, privatization and asset sales can be made subject to public covenants and contractual restrictions to continue the desired public purpose while the state and ultimately the taxpayers benefit from the savings.

# The Freedom Budget At A Glance

## *Controlling Spending and Expanding Opportunity Through Tax Relief*

**A**s was the case with previous JLF alternative budgets, the *Freedom Budget* should be understood as a revision to the Continuation and Expansion budgets proposed by Gov. Mike Easley earlier this year. In other words, unless otherwise indicated, we accept all recommendations for savings and expansion detailed in the governor's budget, including salary increases for teachers and other state employees. Our recommendations should be treated as subtractions or additions to the Easley budget for the 2003-05 biennium.

In brief, our proposal identifies \$1.3 billion in General Fund savings for FY 2003-04 and nearly \$1.7 billion in FY 2004-05. Some of the major areas of savings in the first year include:

- Redirecting \$171 million in projected spending on non-teaching positions in public schools to fund teacher pay raises and class size reductions.
- Increasing tuition at UNC campuses to cover about 30 percent of the cost. Combined with reductions in taxpayer funding for the UNC Hospitals and the redirection of overhead receipts from research grants received by campuses, the plan calls for immediate savings of \$237 million.
- Reforming the state Medicaid program to bring its costs in line with the Southeastern average within four years, saving \$89 million in FY 2003-04. Changes would include eliminating optional services, renegotiating reimbursements, and introducing incentives for patients to consume care efficiently.
- Converting the Smart Start program into a more targeted preschool program for at-risk children and a package of state income tax credits for preschool expenses, education, and child health insurance. General Fund savings would be nearly \$193 million.
- Eliminating \$120 million in subsidies for corporations in dozens of separate programs and credits, including an 80 percent reduction in General Fund support for the Commerce Department.
- Selling the North Carolina Railroad and state-owned ports at Wilmington and Morehead City, using the proceeds to reduce debt. Together with a recommended two-year delay in issuing some bonds, these ideas would reduce debt service by \$137 million in FY 2001-02.
- Offsetting about \$23 million in expenses for state-run enterprises and attractions such as museums by charging higher users fees and soliciting more private donations.
- Administrative savings of \$54 million from such ideas as downsizing administrative expenses throughout state government, merging three related departments into a single Department of Public Safety and creating a unified Division of Disability Services within HHS.

In addition to these and other savings, the plan does propose increasing spending in some areas, such as doubling the supplemental pay raise for community college personnel (\$30 million), creating a private-school scholarship program for low-income children (\$57 million), restoring school construction funds the governor's budget cuts (\$64 million) and boosting the cost-of-living increase for state employees to 2 percent (\$32 million).

Outside the General Fund, the *Freedom Budget* recommends \$153 million in savings in the governor's transportation budget, including the elimination of subsidies for rail, reductions in paving of rural secondary roads, and an immediate end to funding for the Global TransPark. These savings were combined with \$252 million saved

## 2003-05 GF Budgets At A Glance: Easley vs. *Freedom Budget*

(In Millions)

Spending Category	Authorized 2002-03	Easley 2003-04	% Change	Easley 2004-05	% Change	Freedom Bdg 2003-04	% Change	Freedom Bdg 2004-05	% Change
Public Education	\$5,946.5	\$6,085.2	2.3%	\$6,105.0	0.3%	\$5,916.9	-0.5%	\$5,939.3	0.4%
Community Colleges	\$669.3	\$683.6	2.1%	\$686.6	0.4%	\$659.5	-1.5%	\$620.4	-5.9%
UNC System	\$1,768.1	\$1,810.1	2.4%	\$1,845.1	1.9%	\$1,573.5	-11.0%	\$1,494.1	-5.0%
Health & Human Serv.	\$3,596.4	\$3,663.8	1.9%	\$3,997.7	9.1%	\$3,335.5	-7.3%	\$3,570.8	7.1%
Agriculture	\$50.4	\$48.8	-3.3%	\$48.8	0.1%	\$32.0	-36.5%	\$32.1	0.3%
Commerce	\$44.2	\$53.2	20.2%	\$52.3	-1.7%	\$8.9	-79.8%	\$14.5	62.5%
Labor	\$14.2	\$13.3	-6.4%	\$13.3	0.0%	\$11.6	-18.3%	\$11.6	0.0%
Environment/Nat. Res.	\$215.3	\$212.8	-1.2%	\$217.6	2.2%	\$190.2	-11.7%	\$186.8	-1.8%
Correction	\$880.1	\$940.7	6.9%	\$945.9	0.6%	\$914.1	3.9%	\$918.2	0.4%
Crime Control/PS	\$27.8	\$28.1	1.1%	\$27.2	-3.3%	\$13.2	-52.5%	\$12.2	-7.6%
Courts/Judicial	\$373.9	\$376.4	0.7%	\$381.6	1.4%	\$374.2	0.1%	\$379.4	1.4%
Juvenile Justice	\$129.0	\$131.3	1.8%	\$134.4	2.4%	\$121.3	-6.0%	\$124.9	3.0%
Justice	\$70.9	\$70.7	-0.4%	\$71.7	1.4%	\$65.4	-7.8%	\$66.4	1.5%
Transportation	\$10.9	\$11.4	4.8%	\$11.5	0.3%	\$5.7	-47.6%	\$0.0	-100%
Other Departments	\$275.2	\$340.3	23.6%	\$333.6	-2.0%	\$330.7	20.2%	\$293.2	-11.3%
Debt Service	\$255.7	\$388.9	52.1%	\$475.6	22.3%	\$251.9	-1.5%	\$234.5	-6.9%
Other Items/Reserves	-\$9.3	\$144.5		\$264.5		\$176.1		\$296.9	
Subtotal-Operating	\$14,318.6	\$15,003.0	4.8%	\$15,612.3	4.1%	\$13,980.8	-2.4%	\$14,195.2	1.5%
Capital/R&R	\$31.2	\$29.4		\$0.0		\$29.4		\$0.0	
Subtotal-GF Budget	\$14,349.8	\$15,032.4	4.8%	\$15,612.3	3.9%	\$14,010.2	-2.4%	\$14,195.2	1.3%

by ending the diversion of funds from Highway Trust Fund to finance higher spending on road and bridge maintenance (\$179 million), urban loop construction (\$51 million), and other road construction (\$164 million).

The *Freedom Budget* includes a comprehensive tax reform proposal for North Carolina. We identified income tax preferences and biases with a projected fiscal impact of \$369 million in FY 2004-05. But eliminating these “loop-holes” without any corresponding change in tax rates would constitute a dramatic and costly tax increase. Instead, we are recommending the following package of tax cuts, totaling \$950 million by FY 2004-05:

- Over two years, the plan would eliminate the current 7.75 percent and 7 percent income tax brackets, generating a flat marginal rate of 6 percent. This would save taxpayers \$633 million.
- The corporate income tax rate would fall from 6.9 percent to 6 percent, saving \$119 million.
- Families would get a refundable Smart Start tax credit of \$200 per preschool child, saving \$114 million. They could also deduct the first \$1,500 of education spending or saving, worth \$33 million.
- The plan would reinstate a refundable tax credit for child health insurance, saving \$18 million.
- Tax provisions in 2001 that forced companies to pay withholding taxes more frequently and imposed higher taxes on spirited liquors would be repealed, saving nearly \$32 million.

Finally, the *Freedom Budget* would also allow the scheduled repeal of “temporary” increases in income and sales taxes. Gov. Easley had proposed “extending” these items for at least two more years, thus imposing more than \$460.7 million in higher taxes in 2003-04 and nearly \$600 million in 2004-05. We believe that the promise to keep the hikes “temporary” should be honored, and that the state’s economy can ill afford these costly taxes.

# Conclusion

## *It's Time to Cut North Carolina Taxes, Not Continue to Raise Them*

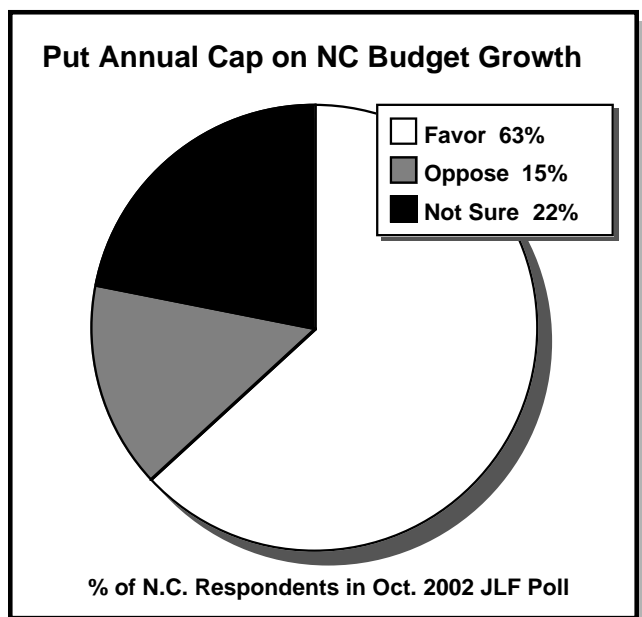
The public policy debate in North Carolina is suffering from a lack of perspective. Dominated as it is by those who shout the loudest outside Raleigh's Legislative Building — or pull the most strings inside it — the current debate about the state's budget priorities has been skewed against the interest of average taxpayers. Legislators, the Easley administration, interest groups, and editorialists have succeeded in framing the debate as one of how to take additional resources out of the private sector to fund government growth.

As the state's economy slows, in some counties to a halt, these political insiders are actively seeking to hobble entrepreneurship and economic development through higher taxes. And some business groups, supposedly representing the interests of large taxpaying institutions, seem more intent on protecting their own subsidy programs rather than on restraining state spending and cutting marginal tax rates.

According to a recent Tax Foundation study, North Carolina remains one of the highest-taxed states in the Southeast. About 10.1 percent of our personal income is consumed by state and local taxes (federal taxes take another 23 percent). By comparison, states such as Virginia and Florida impose lower taxes while delivering similar or in some cases better-quality services. This relative lack of return on the massive investment of North Carolina taxpayers is the real fiscal problem our state faces — not a short-term money crunch.

Reducing our tax burden to the regional average of about 9.6 percent of income would mean cutting taxes by more than \$1 billion. Even the alternative budget plan we present in *The Freedom Budget* will take the state only part of the way to this worthwhile destination. Our goal should be to make North Carolina the most attractive place to live, work, and invest. We can and should improve our core state services — law enforcement, education, and transportation — while reducing the current, onerous tax burden.

Those who doubt the importance of tax rates to economic growth should examine both economic theory and recent history. At the federal level, cuts in marginal income tax rates in 1962, 1981, and 1986 all led to rapid rates



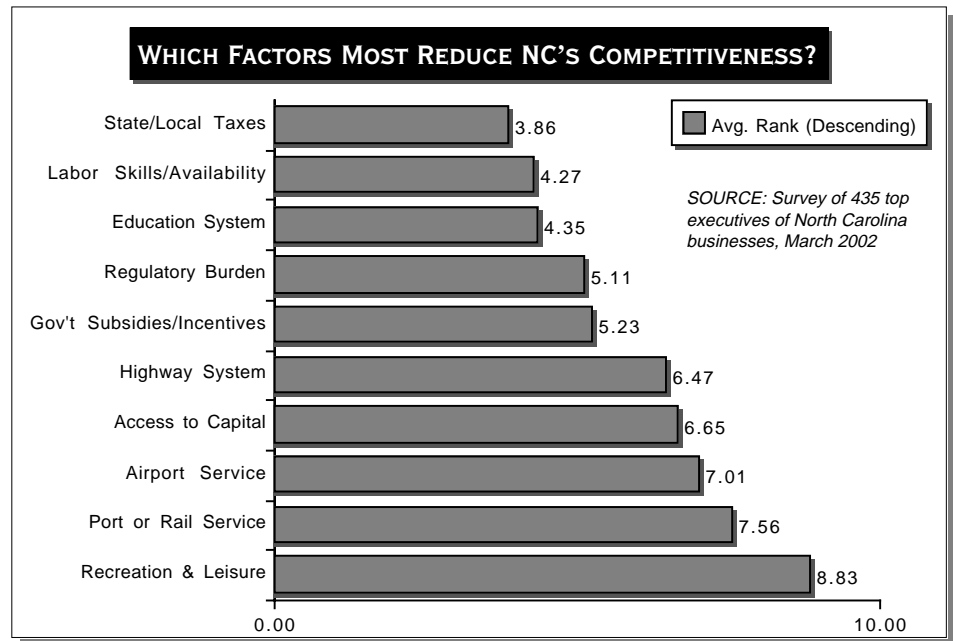
of job creation and income growth. Among states, a recent study by the Cato Institute found that those jurisdictions that cut taxes during the 1980s and 1990s grew faster than those that raised their tax rates. And recent academic research has proven that tax rates, along with the regulatory burden, the quality of education and roads, and the availability of productive labor top the list of factors that impact both corporate relocations and business creation.

Nor are tax rates unrelated to growth in the tax base. A 1996 study by Dr. Michael Walden of N.C. State University found that state tax burdens were significantly associated with job creation and personal income growth. Indeed, based on his analysis, we estimate that economic growth resulting from the tax cut package in *Freedom Budget* will offset at least a quarter of the projected revenue "loss" to the state.

While the governing class in Raleigh may believe that North Carolinians are undertaxed, their constituents

don't agree. In October 2002, the John Locke Foundation commissioned a poll of 500 likely North Carolina voters. One of the strongest findings from the survey was that most North Carolinians blamed "too much growth in government spending" for the state's fiscal deficits, with only 9 percent agreeing with much of the established opinion in Raleigh that "too many tax cuts" were responsible.

Other survey findings with particular relevance to the recommendations in the *Freedom Budget* include:



- About 63 percent of respondents favored a Taxpayer Protection Act that limited state spending growth to the combined rate of growth in population and inflation. Only 15 percent were opposed.
- Asked how the state's fiscal deficit should be closed, a majority (51 percent) of respondents said that budget savings alone was the right strategy, compared with 7 percent favoring tax hikes and 35 percent favoring a mix.
- Only 19 percent of respondents approved of Gov. Easley's decision to withhold local tax revenues from cities and counties to help balance the state budget, with 66 percent opposed.
- By a 54 percent to 33 percent margin, North Carolinians favored the idea of providing tax credits to preschool children rather than the current design of Smart Start, which give grants to providers.
- 77 percent of respondents favored tax relief for parents who purchase health insurance for themselves or their children. An even larger number, 79 percent, support tax deductions for parental spending or saving for their children's education.
- By a 56 percent to 37 percent margin, voters supported the idea (included in our alternative budget) of offering private-school scholarships to students trapped in low-achieving public schools.
- And by a 52 percent to 42 percent margin, voters preferred to spend all revenues from taxes on gasoline and car sales to highway improvement rather than maintaining the current practice of transferring hundreds of millions of dollars a year to non-highway purposes. In the *Freedom Budget*, we propose an end to such diversions and a \$400 million annual increase in high-priority road spending.

North Carolina is at a crossroads. Now struggling with a fourth-straight year of budget deficits, its leaders can continue to raise taxes, shift funds around, hide long-term fiscal obligations, and blame each other for the inevitable budgetary and political fallout. Or they can rediscover the state's fundamental principles of freedom and limited government, set firm priorities within state government, and unleash North Carolina's economic potential through tax reform and reduction.

The *Freedom Budget* offers a blueprint for those with the courage to choose the latter.

## Recommended Savings in Gov. Easley's 2003-05 Base (Continuation) Budget

### GENERAL FUND

#### Public Education

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Non-Teaching Positions	Transfer 7.5% for Teachers, Salaries; Make Block Grant	(\$49,791,694)	R	(\$50,770,118)	R	Redirect to Priorities
Teacher Assistants	Transfer 35% to Fund Class Size Cuts, Salaries	(\$121,501,761)	R	(\$125,044,462)	R	Redirect to Priorities
Lower Enrollment Growth	Redirect Savings as STARS Aid, ESAs impact enrollment	(\$71,442,758)	R	(\$71,442,758)	R	Redirect to Priorities
Central Office Administration	Reduce GF Approp. 10%	(\$9,550,757)	R	(\$9,550,857)	R	Redirect to Priorities
Teaching Fellows Admin.	End GF Appropriation	(\$340,657)	R	(\$340,657)	R	Redirect to Priorities
Teaching Fellows	Roll Back 2002 Increase	(\$2,497,550)	R	(\$2,497,550)	R	Redirect to Priorities
Schools Attuned Prog.	End GF Appropriation	(\$520,911)	R	(\$520,911)	R	Redirect to Priorities
NC Network	End GF Appropriation	(\$283,500)	R	(\$283,500)	R	Redirect to Priorities
Teacher Cadet Program	End GF Appropriation	(\$121,500)	R	(\$121,500)	R	Redirect to Priorities
Scholarships/Loans	Roll Back 2002 Increase	(\$1,635,689)	R	(\$1,635,689)	R	Redirect to Priorities
Central DPI Administration	Reduce GF Approp. 5%	(\$1,556,656)	R	(\$1,558,023)	R	Reorganize Gov't
Subtotal-Public Education		(\$259,243,433)	R	(\$263,766,025)	R	

#### Community Colleges

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Child Care Grants	End GF Appropriation	(\$2,000,000)	R	(\$2,000,000)	R	User Responsibility
Human Resource Dev.	Charge Fees to Cover Cost	(\$3,991,329)	R	(\$3,991,329)	R	Revive Enterprise
New Industry Training	Charge Fees to Cover Cost	(\$6,028,541)	R	(\$6,028,541)	R	Revive Enterprise
Public Radio	End GF Appropriation	(\$134,921)	R	(\$134,921)	R	Restore Civil Society
Small Business Centers	End GF Appropriation	(\$3,859,635)	R	(\$3,859,635)	R	Revive Enterprise
Focused Ind. Training	Charge Fees to Cover Cost	(\$1,962,032)	R	(\$1,962,032)	R	Revive Enterprise
Special Tech Centers	Charge Fees to Cover Cost	(\$2,943,788)	R	(\$2,943,788)	R	Revive Enterprise
Administration	Reduce GF Approp. 10%	(\$2,525,387)	R	(\$2,506,218)	R	Reorganize Gov't
Subtotal-Community Colleges		(\$23,445,633)	R	(\$23,426,464)	R	

#### State Controller

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Administration	Merge with OSBM, Revenue to Create Dept. of Finance	(\$2,423,616)	R	(\$2,429,863)	R	Reorganize Gov't
Subtotal-Controller		(\$2,423,616)	R	(\$2,429,863)	R	

#### Revenue

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Administration	Merge with OSBM, Controller to Create Dept. of Finance	(\$2,367,137)	R	(\$2,378,872)	R	Reorganize Gov't
Subtotal-Revenue		(\$2,367,137)	R	(\$2,378,872)	R	

*UNC System*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Full-Time-Equiv. Status for Student Funding	Require 15 Class Hours per Semester for FTE Status	(\$23,853,722)	R	(\$26,509,343)	R	User Responsibility
Minority Pres. Grants	End GF Appropriation	(\$1,652,750)	R	(\$1,652,750)	R	Advocacy and Waste
Nat. American Incentive Research Overhead	End GF Appropriation	(\$745,200)	R	(\$745,200)	R	Advocacy and Waste
	Recover 50% of Receipts to Offset State Approp.	(\$61,800,000)	R	(\$62,800,000)	R	User Responsibility
Cnt for Ergonomics	End GF Appropriation	(\$500,000)	R	(\$500,000)	R	Redirect to Priorities
MCNC Support	End GF Appropriation	(\$7,528,050)	R	(\$7,528,050)	R	User Responsibility
Christ. Tree Specialist	End GF Appropriation	(\$100,000)	R	(\$100,000)	R	Revive Enterprise
Blue Crab Research	End GF Appropriation	(\$500,000)	R	(\$500,000)	R	Revive Enterprise
Poultry Research	End GF Appropriation	(\$150,000)	R	(\$150,000)	R	Revive Enterprise
Inst for Intern'l Underst.	End GF Appropriation	(\$218,573)	R	(\$218,573)	R	Redirect to Priorities
Strategic Initiatives	End GF Appropriation	(\$3,000,000)	R	(\$3,000,000)	R	Redirect to Priorities
Pathways Initiative	End GF Appropriation	(\$1,000,000)	R	(\$1,000,000)	R	Redirect to Priorities
Manufacturing Extension	Charge Fees to Cover Cost	(\$900,000)	R	(\$900,000)	R	User Responsibility
N.C. Arboretum	Return to pre-1999 Funding	(\$250,000)	R	(\$250,000)	R	Redirect to Priorities
World View Program	End GF Appropriation	(\$260,000)	R	(\$260,000)	R	Redirect to Priorities
Cnt for Alcohol Studies	Return to pre1999 Funding	(\$500,000)	R	(\$500,000)	R	Redirect to Priorities
Biotech Funds	End GF Appropriation	(\$900,000)	R	(\$900,000)	R	Revive Enterprise
Education Cabinet	End GF Appropriation	(\$250,000)	R	(\$250,000)	R	Reorganize Gov't
Genomics Initiative	End GF Appropriation	(\$1,375,000)	R	(\$1,375,000)	R	Revive Enterprise
TA Scholarship Fund	End GF Appropriation	(\$1,000,000)	R	(\$1,000,000)	R	Redirect to Priorities
Progress Board	End GF Appropriation	(\$250,000)	R	(\$250,000)	R	Restore Civil Society
Turfgrass Research	End GF Appropriation	(\$600,000)	R	(\$600,000)	R	Revive Enterprise
Biotech Research Inst.	End GF Appropriation	(\$350,000)	R	(\$350,000)	R	Revive Enterprise
UNC Hospitals	Reduce GF Approp. 50%	(\$19,651,742)	R	(\$19,651,742)	R	User Responsibility
Central Administration	Reduce GF Approp. 10%	(\$2,359,090)	R	(\$2,360,663)	R	Reorganize Gov't
Subtotal-UNC System		(\$129,694,127)	R	(\$133,351,320)	R	

*Administration*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
N.C. Council for Women	End GF Appropriation	(\$554,999)	R	(\$555,001)	R	Advocacy and Waste
Human Relat. Comm.	End GF Appropriation	(\$633,405)	R	(\$633,406)	R	Advocacy and Waste
MLK Commission	End GF Appropriation	(\$69,534)	R	(\$69,534)	R	Advocacy and Waste
Gov. Council/Disabilities Commission/Indian Aff.	End GF Appropriation	(\$462,045)	R	(\$462,050)	R	Advocacy and Waste
Administration	End GF Appropriation	(\$339,267)	R	(\$339,268)	R	Advocacy and Waste
	Cut GF Approp. 10%	(\$330,815)	R	(\$330,819)	R	Reorganize Gov't
Subtotal-Administration		(\$2,390,065)	R	(\$2,390,078)	R	

*Insurance*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Senior Health Ins Info	End GF Appropriation	(\$104,000)	R	(\$104,000)	R	Restore Civil Society
Subtotal-Insurance		(\$104,000)	R	(\$104,000)	R	

*Cultural Resources*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Historical Publications	Cover 25% of Cost with Increased Donations/Fees	(\$158,330)	R	(\$158,330)	R	User Responsibility
State Historic Sites	Cover 25% of Cost with Increased Donations/Fees	(\$1,494,207)	R	(\$1,497,260)	R	User Responsibility
Tryon Palace/Gardens	Cover 50% of Cost with Increased Donations/Fees	(\$291,506)	R	(\$294,340)	R	User Responsibility
NC Maritime Museum	Cover 50% of Cost with Increased Donations/Fees	(\$493,729)	R	(\$494,380)	R	User Responsibility
NC Museum of Art	Cover 50% of Cost with Increased Donations/Fees	(\$1,678,843)	R	(\$1,679,962)	R	User Responsibility
NC Arts Council	End GF Appropriation	(\$5,085,549)	R	(\$5,088,292)	R	Restore Civil Society
NC Symphony	End GF Appropriation	(\$2,191,224)	R	(\$2,191,224)	R	Restore Civil Society
Grants-In-Aid to Arts	End GF Appropriation	(\$2,105,033)	R	(\$2,105,033)	R	Restore Civil Society
State Aid/Loc. Libraries	Reduce Fund 50%	(\$7,627,922)	R	(\$7,627,922)	R	State-Local Relations
NC Museum of History	Cover 50% of Cost with Increased Donations/Fees	(\$2,493,936)	R	(\$2,495,980)	R	User Responsibility
Roanoke Island Comm Administration	End GF Appropriation Reduce GF Approp. 10%	(\$1,634,905) (\$360,720)	R R	(\$1,636,559) (\$327,851)	R R	User Responsibility Reorganize Gov't
Subtotal-Cultural Resources		(\$25,615,902)	R	(\$25,597,131)	R	

*Secretary of State*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Land Records Manage. Administration	End GF Appropriation Reduce GF Approp. 10%	(\$132,519) (\$157,930)	R R	(\$132,519) (\$157,930)	R R	State-Local Relations Reorganize Gov't
Subtotal-Secretary Of State		(\$290,449)	R	(\$290,449)	R	

*Governor's Office*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Dues to Nat'l Associations	End GF Appropriation	(\$395,726)	R	(\$395,726)	R	Advocacy and Waste
Education Office	End GF Appropriation	(\$332,503)	R	(\$332,503)	R	Reorganize Gov't
Fire Protection Grants Administration	Phase Out Appropriation Reduce GF Approp. 10%	(\$1,540,000) (\$324,895)	R R	(\$3,080,000) (\$324,895)	R R	State-Local Relations Reorganize Gov't
Subtotal-Governor		(\$2,593,124)	R	(\$4,133,124)	R	

*Housing Finance Agency*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
House Finance Funds	End GF Appropriation	(\$4,750,945)	R	(\$4,750,945)	R	Restore Civil Society

*General Assembly*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Food Service	Charge Fees to Cover Cost	(\$614,180)	R	(\$593,769)	R	User Responsibility
Subtotal-General Assembly		(\$614,180)	R	(\$593,769)	R	



*Health and Human Services*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Div. Facility Services	End CON Regulations	(\$1,307,208)	R	(\$1,307,208)	R	Revive Enterprise
Medicaid Fees, Services	Adjustments to bring NC closer to regional norms	(\$89,074,234)	R	(\$183,099,393)	R	Restrain Entitlements
NC Health Choice	Roll back '02 expansion	(\$7,740,000)	R	(\$7,740,000)	R	Restrain Entitlements
Disability Administration	Merge Divs Blind, Deaf, Vocational Rehabilitation	(\$653,551)	R	(\$653,908)	R	Reorganize Gov't
Smart Start Program	Convert to Targeted Pre-K for At-Risk, Family Tax Relief	(\$192,668,622)	R	(\$192,670,713)	R	Restrain Entitlements
Senior Games	End GF Appropriation	(\$175,000)	R	(\$175,000)	R	Restore Civil Society
Elder Rights Program	End GF Appropriation	(\$437,710)	R	(\$437,710)	R	Advocacy and Waste
TEACH Program	Convert to Targeted Pre-K for At-Risk, Tax Credits	(\$3,050,000)	R	(\$3,050,000)	R	Restrain Entitlements
Alzheimer's Association	End GF Appropriation	(\$150,000)	R	(\$150,000)	R	Restore Civil Society
Aging Div. Administration	Merge Agencies, Cut 50%	(\$314,858)	R	(\$314,858)	R	Reorganize Gov't
Special Assistance	Roll Back Planned Increases	(\$657,488)	R	(\$1,634,238)	R	Restrain Entitlements
Office of Rural Health	Reduce GF Approp. 25%	(\$1,376,051)	R	(\$1,376,051)	R	Redirect to Priorities
Abortion Fund	Eliminate	(\$50,000)	R	(\$50,000)	R	Restrain Entitlements
Cued Speech Center	End GF Appropriation	(\$135,000)	R	(\$135,000)	R	Restore Civil Society
Central Administration	Reduce GF Approp. 10%	(\$7,615,383)	R	(\$7,618,383)	R	Reorganize Gov't
Subtotal-HHS		(\$305,405,105)	R	(\$400,412,461)	R	

*Correction*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Administration	Merge with CCPS, Juv. Just. To Form Dept. of Public Safety	(\$6,182,444)	R	(\$6,082,565)	R	Reorganize Gov't
Prison Enterprises	Increase Participation, Sales by 20%, Transfer to Gen. Fund	(\$15,695,947)	R	(\$15,695,947)	R	User Responsibility
Inmate Medical Costs	Reform Payments, Services to Freeze Cost at '02 Levels	(\$4,691,714)	R	(\$5,940,774)	R	Restrain Entitlements
Subtotal-Correction		(\$26,570,105)	R	(\$27,719,286)	R	

*Crime Control and Public Safety*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Civil Air Patrol	End GF Appropriation	(\$119,124)	R	(\$119,151)	R	Restore Civil Society
Butner Public Safety	End GF Appropriation	(\$2,694,004)	R	(\$2,697,707)	R	State-Local Relations
Alcohol Law Enforce.	End GF Appropriation	(\$7,665,367)	R	(\$7,733,158)	R	Reorganize Gov't
Gov's Crime Comm.	End GF Appropriation	(\$962,830)	R	(\$963,178)	R	Reorganize Gov't
National Guard	Consolidate Guard Armories, Cut GF Appropriation 25%	(\$2,213,478)	R	(\$2,213,930)	R	Reorganize Gov't
Administration	Merge with Correction to Form Dept. Public Safety	(\$1,225,919)	R	(\$1,230,159)	R	Reorganize Gov't
Subtotal-Crime Control		(\$14,880,722)	R	(\$14,957,283)	R	

*Juvenile Justice*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Administration	Merge with Correction to Form Dept. Public Safety	(\$1,403,144) R	(\$1,406,158) R	Reorganize Gov't
Gov. 1-on-1 Program	End GF Appropriation	(\$1,645,465) R	(\$1,645,465) R	Restore Civil Society
Support Our Students	End GF Appropriation	(\$6,206,575) R	(\$6,206,575) R	Restore Civil Society
Red Wolf Reserve	End GF Appropriation	(\$241,357) R	(\$241,357) R	Restore Civil Society
Cnt/Prevent Violence	End GF Appropriation	(\$513,110) R	(\$513,110) R	Redirect to Priorities
Subtotal-Juvenile Justice		(\$10,009,651) R	(\$9,529,951) R	

*Department of Justice*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
ASBI	Merge with Highway Patrol in Dept. of Public Safety	(\$4,228,477) R	(\$4,231,948) R	Reorganize Gov't
Criminal Justice Training	Merge with Highway Patrol in Dept. of Public Safety	(\$809,087) R	(\$809,474) R	Reorganize Gov't
General Administration	Reduce GF Approp. 10%	(\$237,483) R	(\$237,642) R	Reorganize Gov't
Subtotal-Department of Justice		(\$5,275,047) R	(\$5,279,064) R	

*Agriculture*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Administrative Services	Cut GF Appropriation 50%	(\$1,686,518) R	(\$1,679,137) R	Reorganize Gov't
Aquaculture Develop.	End GF Appropriation	(\$227,977) R	(\$228,177) R	Revive Enterprise
Marketing Division	End GF Appropriation	(\$5,597,395) R	(\$5,578,995) R	Revive Enterprise
Ag Policy Development	End GF Appropriation	(\$313,998) R	(\$313,499) R	Reorganize Gov't
Agronomic Services	End GF Appropriation	(\$3,284,106) R	(\$3,328,197) R	User Responsibility
Comm. Feed/Pet Food	End GF Appropriation	(\$854,797) R	(\$826,571) R	User Responsibility
Comm. Fertilizer Analysis	End GF Appropriation	(\$478,835) R	(\$481,465) R	User Responsibility
Seed Testing	End GF Appropriation	(\$760,612) R	(\$763,037) R	User Responsibility
Plant Protection	End GF Appropriation	(\$3,181,579) R	(\$3,132,796) R	User Responsibility
Ag. Finance Authority	End State Funding	(\$360,400) R	(\$360,400) R	Revive Enterprise
Subtotal-Agriculture		(\$16,746,217) R	(\$16,692,274) R	

*Labor*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Retaliatory Discrimination	End GF Appropriation	(\$532,127) R	(\$532,127) R	Advocacy and Waste
On Site Consultation	End GF Appropriation	(\$92,244) R	(\$92,447) R	User Responsibility
Apprenticeship Training	End GF Appropriation	(\$880,342) R	(\$880,432) R	Reorganize Gov't
Administration	Reduce GF Approp. 10%	(\$182,747) R	(\$182,822) R	Reorganize Gov't
Subtotal-Labor		(\$1,687,460) R	(\$1,687,828) R	

*Transportation*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Airport Grants	Phase out GF Appropriation	(\$5,714,763) R	(\$11,460,101) R	State-Local Relations

*Commerce*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
One North Carolina Fund	Recover unspent funds	(\$6,035,000)	NR	\$0	NR	Revive Enterprise
Administrative Divisions	Cut GF Appropriation 67%	(\$1,946,436)	R	(\$1,949,418)	R	Reorganize Gov't
Executive Aircraft	Cut GF Appropriation 50%	(\$1,774,371)	R	(\$1,303,533)	R	Reorganize Gov't
Marketing/Custom Serv.	End GF Appropriation	(\$514,086)	R	(\$515,136)	R	Revive Enterprise
Business/Industry Dev.	End GF Appropriation	(\$4,614,873)	R	(\$4,619,260)	R	Revive Enterprise
International Trade Div.	End GF Appropriation	(\$2,451,017)	R	(\$2,435,115)	R	Revive Enterprise
Tourism, Film, Sports	End GF Appropriation	(\$7,940,260)	R	(\$7,942,859)	R	Revive Enterprise
Board Science/Tech	End GF Appropriation	(\$301,645)	R	(\$301,645)	R	Revive Enterprise
Wanchese Indus. Park	End GF Appropriation	(\$402,313)	R	(\$402,521)	R	Revive Enterprise
Industrial Finance Ctr	End GF Appropriation	(\$469,220)	R	(\$469,220)	R	Revive Enterprise
Local Planning, Manage.	End GF Appropriation	(\$3,293,071)	R	(\$3,296,392)	R	State-Local Relations
Biotechnology Center	End GF Appropriation	(\$5,883,395)	R	(\$5,883,395)	R	Revive Enterprise
Rural Econ. Dev. Center	End GF Appropriation	(\$4,425,677)	R	(\$4,425,677)	R	Revive Enterprise
Aid to Non-State Entities	End GF Appropriation	(\$4,224,731)	R	(\$4,224,731)	R	Restore Civil Society
Regional Partnerships	End GF Appropriation	(\$5,528,661)	R	(\$5,528,661)	R	Revive Enterprise
Subtotal-Commerce		(\$38,241,095)	R	(\$37,768,902)	R	
		(\$6,035,000)	NR	\$0	NR	

*Environment and Natural Resources*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Environmental Education	End GF Appropriation	(\$545,873)	R	(\$546,361)	R	Advocacy and Waste
Forestry	Cover 50% of Cost with Receipts & Fees	(\$3,658,464)	R	(\$11,002,892)	R	User Responsibility
DFR Tree Improvement	End GF Appropriation	(\$449,784)	R	(\$450,700)	R	User Responsibility
State Parks	Cover 35% of Cost with Increased Donations/Fees	(\$3,973,976)	R	(\$4,603,773)	R	User Responsibility
NC Zoo	Cover 50% of Cost with Increased Donations/Fees	(\$1,037,964)	R	(\$1,202,400)	R	User Responsibility
NC Aquariums	Cover 50% of Cost with Increased Donations/Fees	(\$2,082,572)	R	(\$2,103,064)	R	User Responsibility
Museum of Natural Science	Cover 50% of Cost with Increased Donations/Fees	(\$3,228,167)	R	(\$3,234,113)	R	User Responsibility
Clean Water Trust Fund	Reduce GF Approp. 10%	(\$6,638,186)	R	(\$6,638,186)	R	Redirect to Priorities
Administration	Reduce GF Approp. 10%	(\$1,002,714)	R	(\$1,003,882)	R	Reorganize Gov't
Subtotal- Environment and Natural Resources		(\$22,617,699)	R	(\$30,785,370)	R	

*Capital Assets*

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
State-Owned Ports	Privatize; Use Proceeds to Reduce State Debt	(\$7,600,000)	R	(\$7,700,000)	R	Revive Enterprise
North Carolina Railroad	Privatize; Use Proceeds to Reduce State Debt	(\$40,000,000)	R	(\$42,000,000)	R	Revive Enterprise
Unspent Floyd Relief	Reclaim to General Fund, Use to Reduce State Debt	(\$28,476,530)	R	(\$34,033,180)	R	Redirect to Priorities
State Bonded Debt	Suspend Bond Issuance	(\$60,924,215)	R	(\$157,448,737)	R	Redirect to Priorities
Subtotal-Capital Assets		(\$137,000,745)	R	(\$241,181,917)	R	

**TOTAL SAVINGS IN GEN. FUND BASE BUDGET****(\$1,043,716,220)****(\$1,260,686,476)**

## Recommended Savings in 2003-05 Base (Continuation) Budget

### HIGHWAY FUND

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Aeronautics	End HF Appropriation	(\$1,965,519)	R	(\$1,965,509)	R	State-Local Relations
Bicycle Program	End HF Appropriation	(\$308,153)	R	(\$308,153)	R	State-Local Relations
Public Transport. Admin.	End HF Appropriation	(\$438,142)	R	(\$438,142)	R	State-Local Relations
Rail Program Admin.	End HF Appropriation	(\$574,695)	R	(\$577,082)	R	Redirect to Priorities
Ferry Division Admin.	Charge Fees to Users to Cover 50% Cost by 2nd Yr	(\$293,545)	R	(\$587,105)	R	User Responsibility
Construction-Secondary	Reduce HF Approp. 25%	(\$22,532,500)	R	(\$23,140,000)	R	Redirect to Priorities
Ferry Operations	Charge Fees to Users to Cover 50% Cost by 2nd Yr	(\$4,919,321)	R	(\$9,838,642)	R	User Responsibility
Railroad Program	End HF Appropriation	(\$10,575,000)	R	(\$10,575,000)	R	Revive Enterprise
Public Transport Grants	Reduce HF Approp. 50%	(\$32,230,417)	R	(\$32,230,417)	R	State-Local Relations
DMV-Driver's License	Consolid. Offices, Cut 10%	(\$2,968,692)	R	(\$2,971,170)	R	Reorganize Gov't
TransPark Closeout	End Funding Immediately	(\$1,600,000)	NR	\$0	NR	Revive Enterprise
Central Administration	Reduce HF Approp. 25%	(\$1,171,703)	R	(\$1,172,394)	R	Reorganize Gov't
Subtotal-Highway Fund		(\$77,977,686)	R	(\$83,803,614)	R	
		(\$1,600,000)	NR	\$0	NR	

### HWY TRUST FUND

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Hwy Trust Fund Transfer	Eliminate Fund Diversion	(\$252,422,125)	R	(\$231,774,330)	R	Redirect to Priorities
Secondary Roads	Reduce HTF Approp. 50%	(\$39,668,611)	R	(\$41,991,052)	R	Redirect to Priorities
Subtotal-Highway Trust Fund		(\$292,090,736)	R	(\$273,765,382)	R	

### FEE-BASED ITEMS

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Board/Barber Examiners	Convert to Voluntary Certification	(\$451,312)	R	(\$451,312)	R	User Responsibility
Board of Cosmetology	Convert to Voluntary Certification	(\$1,672,011)	R	(\$1,672,011)	R	User Responsibility
Board of Opticians	Convert to Voluntary Certification	(\$168,367)	R	(\$168,467)	R	User Responsibility
Psychology Board	Convert to Voluntary Certification	(\$521,474)	R	(\$521,474)	R	User Responsibility
Auctioneer License Brd	Convert to Voluntary Certification	(\$462,934)	R	(\$464,742)	R	User Responsibility
Board/Electrolysis Exam	Convert to Voluntary Certification	(\$22,900)	R	(\$22,900)	R	User Responsibility
Grape Growers Council	Convert to Voluntary Program	(\$260,486)	R	(\$260,486)	R	User Responsibility
Sleep Products	Convert to Voluntary Certification	(\$509,226)	R	(\$509,226)	R	User Responsibility
Subtotal-Fee-Based Items		(\$4,068,710)	R	(\$4,070,618)	R	

## Recommended Changes to Governor's 2003-05 Expansion Budget

(\*Denotes JLF Proposal for Increased Spending)

### GENERAL FUND

#### Public Education

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Public School Capital Funds	Restore Redirected Funds	\$58,965,835 R	\$64,336,153 R	State-Local Relations
Class Size Reduction	Eliminate GF Expansion	(\$25,303,294) R	(\$25,303,294) R	Redirect to Priorities
*STARS Scholarships	Offer \$3,200 Scholarships to Poorest 50% of Pupils in Low-Achieving Schools	\$57,341,073 R	\$59,061,306 R	Redirect to Priorities
Subtotal-Public Education		\$91,003,614 R	\$98,094,165 R	

#### Community Colleges

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Tuition Increase	Raise to Cover 25% of System Cost by 2nd Year	(\$30,451,634) R	(\$72,662,178) R	User Responsibility
*Additional Pay Raises	Increase Supplemental Pay Raise for Full-Time to 1%	\$29,833,844 R	\$29,833,844 R	Redirect to Priorities
Subtotal-Community College		(\$617,790) R	(\$42,828,334) R	

#### UNC System

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
Tuition Increase	Raise to Cover Avg. 30% of In-State Cost by 2nd Year	(\$110,613,817) R	(\$221,227,633) R	User Responsibility
*Private Tuition Grant	Restore Proposed Cut	\$3,618,186 R	\$3,618,186 R	Redirect to Priorities
Subtotal-UNC		(\$106,995,631) R	(\$217,609,447) R	

#### Health and Human Services

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
N.C. Health Choice	Eliminate GF Expansion	(\$13,050,123) R	(\$19,108,373) R	Restrain Entitlements
More at Four	Eliminate GF Expansion	(\$7,400,000) R	(\$7,400,000) R	Restrain Entitlements
		(\$1,200,000) NR	\$0 NR	
Subtotal-HHS		(\$21,650,123) R	(\$26,508,373) R	
		(\$1,200,000) NR	\$0 NR	

#### Reserves

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>	<u>Reason</u>
IState Employee Salaries	Increase Avg. Raise to 2%	\$31,562,500 R	\$32,375,000 R	Redirect to Priorities

<b>TOTAL SAVINGS IN GEN. FUND EXPANSION BUDGET</b>	<b>(\$6,697,429) R</b>	<b>(\$156,476,990) R</b>
	<b>(\$1,200,000) NR</b>	<b>\$0 NR</b>
<b>NET SAVINGS IN GENERAL FUND AUTHORIZATION</b>	<b>(\$1,051,613,649)</b>	<b>(\$1,417,163,465)</b>

## GENERAL FUND REVENUES

*Adjusting Availability*

<u>Revenue Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Sales & Use Tax	Implement Legislated Repeal of Temporary Tax Hike	(\$346,500,000)	R	(\$388,200,000)	R	Revive Enterprise
Personal Income Tax	Implement Legislated Repeal of Temporary Tax Hikes	(\$91,200,000)	R	(\$185,500,000)	R	Revive Enterprise
Hwy Trust Fund Transfer	Eliminate Fund Diversion	(\$252,422,125)	R	(\$231,774,330)	R	Redirect to Priorities
Golden LEAF Funds	Redirect to General Fund	\$80,000,000	R	\$80,000,000	R	Redirect to Priorities
SUBTOTAL-ADJUSTMENTS TO AVAILABILITY		(\$610,122,125)	R	(\$725,474,330)	R	

*Tax Reductions/Reform Proposals*

<u>Revenue Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>		<u>Reason</u>
Individual Income Tax	Cut Top Rates to 6.75% 1st Year, to 6% by 2nd Year	(\$534,134,041)	R	(\$632,851,591)	R	Revive Enterprise
Corporate Income Tax	Cut 6.9% Rate to 6.5% 1st Year, to 6% by 2nd Year	(\$51,033,623)	R	(\$118,593,913)	R	Revive Enterprise
Spirited Liquor Tax	Repeal 2001 Rate Hike	(\$25,600,000)	R	(\$26,600,000)	R	Revive Enterprise
Withholding/Tax Collection Changes	Repeal 2001 Tax Hikes	(\$6,020,000)	R	(\$6,020,000)	R	Revive Enterprise
Smart Start Tax Credits	\$200 Refundable Credit for Every Preschool Child	(\$114,298,345)	R	(\$114,298,345)	R	Reduce Tax Bias in Educ. Investment
Education Tax Relief	\$1,500 Deduction Per Child for Tuition or Edu. Savings	(\$33,254,648)	R	(\$33,254,648)	R	Reduce Tax Bias in Educ. Investment
Health Choice Tax Credit	Restore Refundable Credit for Child Health Premiums	(\$17,291,953)	R	(\$18,439,036)	R	Reduce Tax Bias In Health Insurance
Pension Benefits	Remove Special Treatment	\$111,229,348	R	\$118,607,886	R	Reduce Tax Bias
Sales Tax Holiday	Repeal 2001 Provision	\$8,600,000	R	\$9,000,000	R	Reduce Tax Bias
Severance Pay	Tax as Compensation	\$6,596,601	R	\$7,235,081	R	Reduce Tax Bias
Fuel Ethanol Distillery	Eliminate Credit	\$4,562,771	R	\$4,712,509	R	Reduce Tax Bias
Qual. Business Credit	Eliminate Credit	\$10,950,651	R	\$11,310,021	R	Reduce Tax Bias
Child Care Credit	Convert to SS Tax Credit	\$24,136,769	R	\$25,737,911	R	Reduce Tax Bias
Bill Lee Act Credits	Eliminate Credits	\$68,175,788	R	\$70,413,129	R	Reduce Tax Bias
Develop. Zone Credits	Eliminate Credits	\$6,004,980	R	\$6,202,046	R	Reduce Tax Bias
Business Property	Eliminate Credit	\$20,827,383	R	\$21,510,880	R	Reduce Tax Bias
Low-Income Housing	Eliminate Credit	\$1,446,702	R	\$1,586,727	R	Reduce Tax Bias
Dry Cleaning Equipment	Eliminate Credit	\$595,207	R	\$634,691	R	Reduce Tax Bias
Recycling Facility	Eliminate Credit	\$492,547	R	\$492,547	R	Reduce Tax Bias
Recycling Transportation	Eliminate Credit	\$7,985,692	R	\$8,515,433	R	Reduce Tax Bias
Historic Structures	Eliminate Credit	\$2,854,055	R	\$3,043,382	R	Reduce Tax Bias
Cogeneration Plants	Eliminate Credit	\$410,456	R	\$410,456	R	Reduce Tax Bias
Gleaned Crop	Eliminate Credit	\$4,130,868	R	\$4,404,895	R	Reduce Tax Bias
State Port Usage	Eliminate Credit	\$4,436,602	R	\$4,582,199	R	Reduce Tax Bias
Cigarette Export	Eliminate Credit	\$6,534,283	R	\$6,967,743	R	Reduce Tax Bias
Out-Of-State Credit Card	Change Nexus Rules	\$56,566,679	R	\$63,626,510	R	Reduce Tax Bias

**Subtotal-Net Tax Reduction****(\$435,095,229) R****(\$581,063,488) R**

## HIGHWAY FUND/TRUST FUND EXPANSION BUDGET

Budget Item	Recommendation	FY 2003-04 Impact		FY 2004-05 Impact		Reason
Regional Rail Projects	Eliminate HF Expansion	(\$2,000,000)	R	(\$29,204,246)	R	State-Local Relations
CMAQ-Public Transport.	Eliminate HF Expansion	(\$13,713,913)	R	(\$13,713,913)	R	State-Local Relations
Urban/ Regional Transit	Eliminate HF Expansion	(\$9,359,432)	R	(\$6,357,092)	R	State-Local Relations
Urban Bus & Facility	Eliminate HF Expansion	(\$3,185,000)	R	(\$4,460,000)	R	State-Local Relations
Rail Capital & Safety	Eliminate HF Expansion	(\$2,730,919)	R	(\$2,856,153)	R	Revive Enterprise
Rail Infrastructure	Eliminate HF Expansion	(\$1,785,000)	R	(\$2,100,000)	R	Revive Enterprise
Bicycle Program	Eliminate HF Expansion	(\$200,000)	R	(\$200,000)	R	State-Local Relations
*HF Construction	Increase Investment 30%	\$37,410,000	R	\$37,707,000	R	Redirect to Priorities
*HF Maintenance	Increase Investment 30%	\$179,094,865	R	\$171,691,364	R	Redirect to Priorities
*Urban Loop Construction	Increase Investment 30%	\$51,026,609	R	\$55,297,802	R	Redirect to Priorities
*Intrastate Construction	Increase Investment 30%	\$126,191,555	R	\$136,754,444	R	Redirect to Priorities
NET HF/TF EXPANSION		\$360,748,766	R	\$342,559,206	R	

## Summary of Recommended Changes to Governor's 2003-05 Budget (in Millions)

## GENERAL FUND

	FY 2003-04 Budget	FY 2004-05 Budget
Total Proposed Savings	(\$1,312.9)	(\$1,686.4)
Adjustments and New Spending	\$871.4	\$994.7
• Subtotal-Net Savings	(\$441.5)	(\$691.7)
Total Proposed Tax Cuts	(\$781.6)	(\$950.1)
Tax Reform Additions to Availability	\$346.5	\$369.0
• Subtotal-Net General Fund Tax Cut	(\$435.1)	(\$581.1)
<u>Easley's General Fund Budget</u>		
General Fund Availability w Tax Hikes	\$15,032.6	\$15,642.7
Authorized General Fund Budget	\$15,032.4	\$15,612.3
Education	\$8,469.4	\$8,524.0
HHS	\$3,663.8	\$3,997.7
All Other Departments	\$2,899.2	\$3,090.6
Projected Surplus	\$0.2	\$30.3
<u>JLF's Freedom Budget</u>		
Revised General Fund Availability w Tax Cuts	\$13,987.4	\$14,336.1
Revised General Fund Budget	\$13,980.8	\$14,195.2
Education	\$8,040.4	\$7,941.1
HHS	\$3,335.5	\$3,570.8
All Other Departments	\$2,604.8	\$2,683.3
Projected Surplus	\$6.6	\$141.0

## HIGHWAY FUND/TRUST FUND

Total HF/HTF Savings	(\$404.6)	(\$416.5)
New HF/HTF Spending	\$393.7	\$401.5
Change in Fund Balance	\$10.9	\$15.0

- **John Hood** is president of the John Locke Foundation. He serves as editor and publisher of *Carolina Journal*, JLF's monthly newspaper, and oversees the research, publications, and administration of the organization. In addition to his duties at JLF, Hood is a syndicated columnist on state politics and public policy for 30 North Carolina newspapers. He is a regular radio commentator and a weekly panelist on "N.C. Spin," a discussion program on state issues broadcast on 12 television stations in Charlotte, the Triangle, the Triad, Wilmington, Asheville, Greenville, and elsewhere. His books include *The Heroic Enterprise: Business and the Common Good* (The Free Press, 1996) and *Investor Politics: The New Force That Will Transform American Business, Government, and Politics in the 21st Century* (Templeton Foundation Press, 2001).
- **Don Carrington** is vice president at the Locke Foundation and associate publisher of *Carolina Journal*, its monthly newspaper. He joined the Foundation in late 1994, having previously written articles for *Carolina Journal*. His duties include investigative reporting and research. He writes articles and newspaper columns for the Foundation and in 1995 co-authored the Locke Foundation first alternative budget proposal. Carrington's previous work experience has all been in North Carolina, including economic and employment research in state government, private-sector marketing and economic development, and political consulting.
- **Dr. Roy Cordato** is vice president for research and resident scholar at the Locke Foundation. From 1993 to 2000 he served as the Lundy Professor of Business Philosophy at Campbell University in Buies Creek, NC. From 1987 to 1993 he was Senior Economist at the Institute for Research on the Economics of Taxation (IRET) in Washington, DC. He has served on the full-time economics faculty at the University of Hartford and at Auburn University and as an adjunct faculty member at Johns Hopkins University. His publications include a 1992 book, *Welfare Economics and Externalities in an Open Ended Universe* (Kluwer Academic Publishers).

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