



F R E E D O M B U D G E T

Freedom Budget 2005

Principled and Pragmatic

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MAY 2005

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Joseph Coletti
May 2005

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Executive Summary

Freedom Budget 2005 continues the tradition of JLF alternative budgets that revise the governor's Continuation and Expansion budgets. If an item is not included here, the author accepts the governor's proposal. This includes all pay raises for state employees and some tax changes. The specific recommendations detailed in this report are made as additions or subtractions from Gov. Easley's budget.

Among the \$1.1 billion in General Fund savings for FY 2005-06:

- Redirecting \$60 million in projected spending on non-teaching positions in public schools to fund teacher pay raises and class size reductions.
- Increasing in-state tuition at UNC campuses to cover 35 percent of costs, up from 21 percent. Combined with reductions in taxpayer funding for the UNC Hospitals and research overhead, the plan calls for immediate savings of \$172 million.
- Reforming the state Medicaid program to bring its costs in line with the Southeastern average within two years, saving \$151 million in FY 2005-06. Changes would be made in eligibility, coverage, and reimbursement policies.
- Converting the Smart Start program into a more targeted preschool program for at-risk children and a separate package of state income tax credits for preschool expenses, education, and child health insurance.
- Eliminating roughly \$170 million in subsidies for corporations in dozens of separate programs and credits, including a 72 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 two-year delay in issuing some bonds, these ideas would reduce debt service by \$108 million in FY 2005-06.
- Offsetting more than \$23 million in expenses for state-run enterprises and attractions such as museums by charging higher users fees and soliciting more private donations.
- Reducing administrative expenses throughout state government and merging related departments into a Department of Public Safety and a Division of Disability Services for combined savings of \$55 million.

Freedom Budget 2005 includes some areas with higher spending than in Gov. Easley's budget including:

- Restoring \$15 million in school construction funds.
- Boosting pay increases for state employees to 4 percent (\$168 million).

Highway Funds

Outside the General Fund, *FB05* recommends \$234 million in savings in the governor's FY2005-06 transportation budget, including elimination of subsidies for rail, reductions in paving of rural secondary roads, and an immediate end to funding for the Global TransPark. These savings are combined with \$233 million saved by ending the diversion of funds from the Highway Trust Fund to finance higher spending on road and bridge maintenance (\$207 million), urban loop construction (\$58 million), and other road construction (\$182 million).

Taxes

Freedom Budget 2005 includes a comprehensive tax reform proposal for North Carolina. This proposal would end income tax preferences and biases worth \$347 million in FY 2005-06, while saving \$1.1 billion in FY2006-07 taxes:

- Over two years, the plan would eliminate the current 7.75 percent and 7 percent income tax brackets, creating a flat marginal rate of 6 percent. This would save taxpayers \$765 million.

- The corporate income tax rate would fall from 6.9 percent to 6 percent, saving \$127 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 refundable tax credits for long-term care insurance worth \$6 million and child health insurance worth \$18 million.
- Finally, *Freedom Budget 2005* repeals the “temporary” income and sales tax increases of 2001 as scheduled. These moves would save taxpayers \$500 million in FY 2006-07.

Figure 1: 2005-07 General Fund Budgets At A Glance: Easley vs. *Freedom Budget 2005*

2005-07 General Fund Budgets: Easley vs <i>Freedom Budget 2005</i> .									
(\$ Million)									
Spending Category	Authorized 2004-05	Easley 2005-06	YoY % Change	Easley 2006-07	YoY % Change	FB05 2005-06	YoY % Change	FB05 2006-07	YoY % Change
Public Education	\$ 6,157.26	\$ 6,678.87	8.5%	\$ 6,775.85	1.5%	\$ 6,380.11	3.6%	\$ 6,438.86	0.9%
Community Colleges	691.81	763.67	10.4%	763.69	0.0%	707.12	2.2%	672.67	-4.9%
UNC System	1,878.81	2,111.36	12.4%	2,152.49	1.9%	1,904.95	1.4%	1,909.56	0.2%
Health & Human Serv.	3,788.54	4,088.21	7.9%	4,450.44	8.9%	3,656.15	-3.5%	3,885.53	6.3%
Agriculture	48.72	52.49	7.7%	52.29	-0.4%	34.86	-28.4%	34.76	-0.3%
Commerce	63.74	67.98	6.6%	66.57	-2.1%	17.79	-72.1%	16.45	-7.6%
Labor	13.64	14.99	9.9%	15.00	0.1%	13.24	-2.9%	13.25	0.1%
Environment/Nat. Res.	153.82	176.06	14.5%	176.33	0.2%	136.15	-11.5%	132.44	-2.7%
Correction	948.64	1,046.53	10.3%	1,061.82	1.5%	1,036.58	9.3%	1,051.70	1.5%
Crime Control/PS	32.05	35.71	11.4%	36.32	1.7%	20.30	-36.7%	20.86	2.7%
Courts/Judicial	400.26	444.28	11.0%	442.03	-0.5%	444.28	11.0%	442.03	-0.5%
Juvenile Justice	132.32	141.61	7.0%	142.16	0.4%	132.61	0.2%	133.16	0.4%
Justice	72.21	78.65	8.9%	79.62	1.2%	75.76	4.9%	76.69	1.2%
Transportation	11.17	12.03	7.6%	12.95	7.6%	6.01	-46.2%	0.00	-100.0%
Other Departments	408.78	419.26	2.6%	420.93	0.4%	544.82	33.3%	583.80	7.2%
Debt Service	427.03	486.80	14.0%	617.53	26.9%	415.90	-2.6%	434.83	4.6%
Other Items/Reserves	644.36	257.78		269.18		254.28		261.28	
Subtotal-Operating	15,873.17	16,876.25	6.3%	17,535.20	3.9%	15,780.92	-0.6%	16,107.88	2.1%
Capital/R&R	45.19	18.01		0.00		18.01		0.00	
Subtotal-GF Budget	\$ 15,918.36	\$ 16,894.27	6.1%	\$ 17,535.20	3.8%	\$ 15,798.94	-0.8%	\$ 16,107.88	2.0%

Introduction

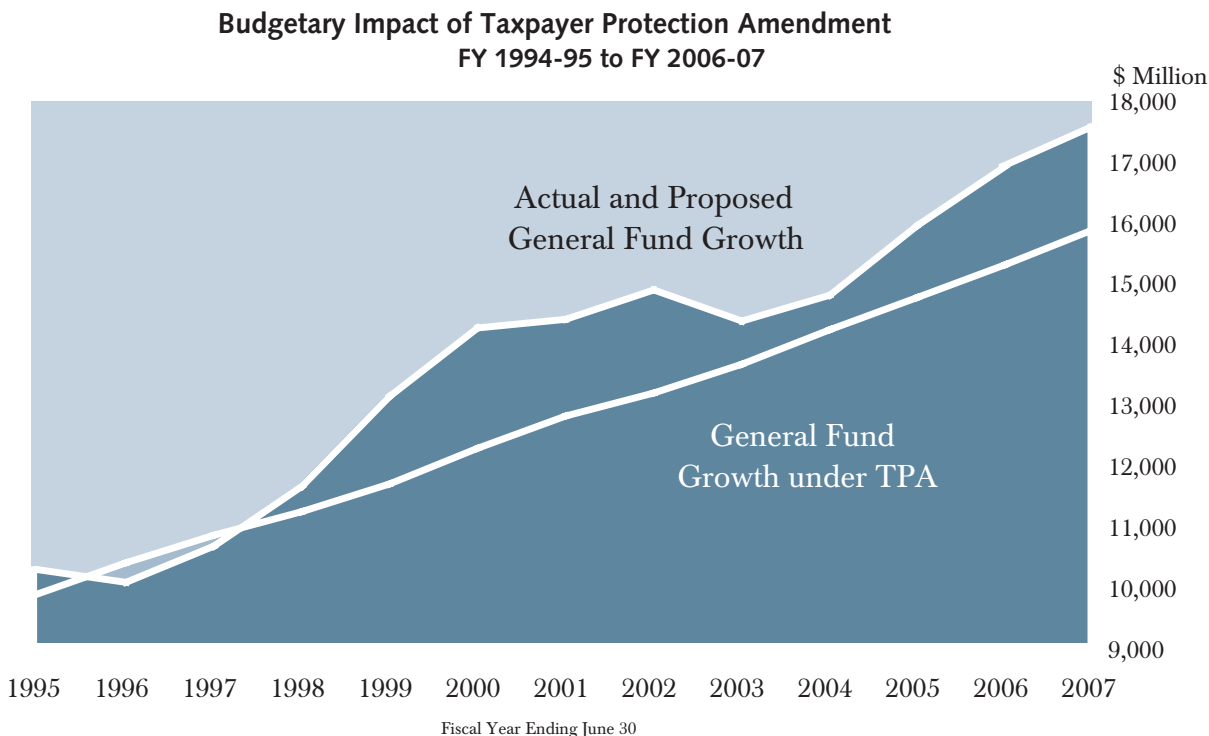
Billion-dollar deficits have become a tradition in North Carolina and are now a structural problem. Gov. Mike Easley acknowledges the profligacy of the late 1990s and has slowed spending growth from that heady era, but he has not reversed the expansions of Smart Start, Medicaid, and other programs enacted under the previous administration. He has instead added new programs and sought numerous ways to raise taxes on nearly every segment of the population, even as the federal government seeks to ease the tax burden on individuals.

In addition to the principled reasons to oppose higher spending and the excessive burden placed on citizens, **state programs often do not accomplish their objectives.** Until the state moves to true zero-based budgeting, specific programs should face sunsets. For example, government can be a social venture capitalist by funding alternative methods to reach goals through grants. Once the grants have run their course, the legislature would then have the ability to continue programs that show promise but have not yet attracted private funds.

A taxpayer protection amendment (TPA) or taxpayer's bill of rights would help rein in spending both before and after other reforms are enacted. The TPA limits the growth in government spending to the combined growth in population and inflation. If implemented in fiscal year (FY) 1994-95, the state would save over \$1.6 billion in FY2005-06. Until reforms produce savings, the amendment would limit growth. The TPA would then lock-in those savings by raising the hurdle to unrealistic spending commitments for future administrations.

At least as bad as programs that do not accomplish their objectives are those that start with the **wrong objectives.** The state pays for public school employees in non-educational positions to become teachers. It also pays for national board certification of teachers in addition to paying 12 percent more per year once they are certified. It is not clear whether these new teachers or newly certified teachers would have chosen differently without the subsidized training. In health care, Certificate of Need (CON) regulations limit the availability of new medical equipment

Figure 2: Budget Growth – FY 1994-95 to FY 2006-07



Sources: OSBM, State Demographics, Bureau of Labor Statistics, author's estimate

on the assumption that supply increases demand and raises prices. *FBO5* eliminates CON regulations to save over \$1.5 million a year in administrative costs to the state while potentially creating a more responsive market for medical care.

Then there are the programs with **muddled or contradictory objectives**. The state’s approach to preschool and day care is an example. Low-income parents receive a subsidy to send their children to

[G]overnment can be a social venture capitalist by funding alternative methods to reach goals through grants.

day care, with higher subsidies for higher-rated facilities. Many of these families also receive Smart

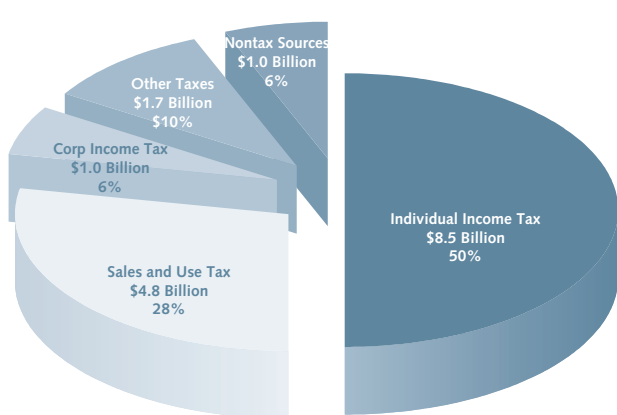
Start assistance, which is not limited by income, and some enter More at Four pre-kindergarten at no cost. *Freedom Budget 2005* proposes converting Smart Start funds to tax credits and capping the growth in More at Four and childcare subsidies at FY2004-05 levels.

Health care and education are the two industries with the greatest level of state involvement and, unsurprisingly, have the least information available for consumers to assess results. **Government focuses**

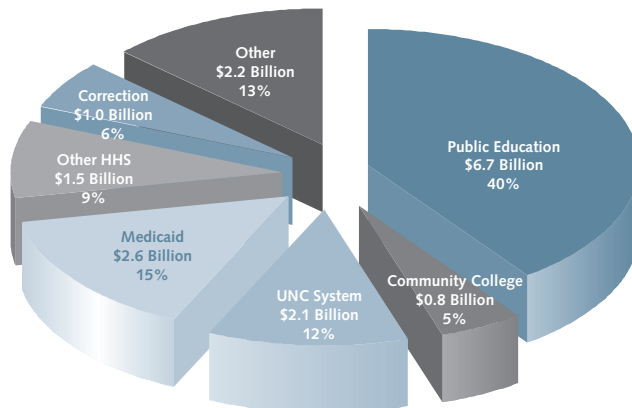
on inputs and short-term costs because that is what it measures and you cannot manage what you do not measure. Some lack of measurement is due to the activities government undertakes (public safety), but much of it is simple inertia. The state’s reliance on a computer system first installed in 1974 to handle payroll and personnel is another example of the budgetary bias toward cost avoidance over productivity enhancing cost control.

The alternative state budget we propose in this report lists 152 recommendations for savings in the base budget, 38 changes to Gov. Easley’s 2005-2007 expansion budget, and 30 changes to the governor’s revenue proposals. Recommended General Fund savings total over \$1.1 billion in FY 2005-06 and \$1.5 billion in FY 2006-07. These savings would finance a tax reform package phasing in \$1 billion in growth-enhancing tax reductions as well as new spending in critical areas such as public employee salaries—all while maintaining surpluses of \$118 million in FY 2005-06 and \$69.6 million in FY 2006-07 that can be directed to the Savings Reserve Account, (Rainy Day Fund). Admittedly, the plan would require state leaders to set very different priorities. But it is feasible, realistic, and principled.

Figure 3: General Fund Revenues and Expenditures: FY 2005-06 by Source



Source: Office of State Budget and Management



Source: Office of State Budget and Management

Principles that Work

Constitutional Authority

In the past this document has noted nine principles of fiscal responsibility derived from the North Carolina State Constitution. Article 1 of that document is a “Declaration of Rights,” foremost of which (Section 1) is the “self-evident [truth] that all persons...are endowed by their Creator with certain inalienable rights; that among these are life, liberty, *the enjoyment of the fruits of their own labor*, and the pursuit of happiness.” The fact that people have an inherent right to “the fruits of their own labor” implies that taxation should be kept as low as possible.

Section 34 holds, “Perpetuities and monopolies are contrary to the genius of a free state and shall not be allowed.” In case it was not clear from the language of Section 1, this can be interpreted to mean that programs should not grant exclusive franchises or limit consumer choice to government-run service

providers. This applies to ports and railroads, as much as public television, radio, or education.

Taxes are to be applied “in a just and equitable manner, for public purposes only” according to Article 5, Section 2. This principle supports eliminating tax credits under the William S. Lee Act and others. It also further guides policy to ensure that the funds spent by the government do not confer an advantage to a particular person or group.

Article 1, Sections 35 and 36 note, “A frequent recurrence to fundamental principles is absolutely necessary to preserve the blessings of liberty,” and, “The enumeration of rights in this Article shall not be construed to impair or deny others retained by the people.” These sections confirm the limited role

the state government should play in the daily lives of North Carolina’s people. As stated in the 2003 *Freedom Budget*, “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.”

Principled Guidelines

Freedom Budget 2005 recommendations fall into nine categories based on these sections of the state constitution, which we call the “*Nine R’s*.”

- **Reform entitlement programs (save \$387 million in FY2005-06)** – Government may have a legitimate role to provide assistance to the poor, but entitlements have metastasized into aid programs for the middle class, paying for nursing home stays and daycare for the parents and children of affluent individuals. *FB05* restores meaning to the “safety net” concept.
- **Redirect spending to higher priority issues (save \$310 million)** – Besides the general rules of budgets; North Carolina has an additional obligation under its constitution to prioritize spending. For example, *FB05* draws on research showing that teachers are the most valuable school employees. To improve student education, the state should shift spending from teacher assistants, assistant principals, and non-educational staff in public schools to classroom teachers. This budget also rescinds many recently proposed programs given the large structural deficit facing the state.
- **Redirect spending to higher priority issues (save \$250 million)** – There is no right, enumerated

Health care and education are the two industries with the greatest level of state involvement and have the least information on outcomes

or otherwise, for state residents to receive government-provided art museums, aquariums, or zoos. If anything, state funding of these institutions subsidizes quality of life for those who live nearby. As long as the state provides these services, it should seek to have more of the costs defrayed by users through admission fees, donations, and other revenues.

More important to the budget is for community college and in-state university students to pay a larger portion of the costs for their education. Current tuition policy distorts demand for public universities versus private universities, acts as a regressive subsidy, and distorts the incentive for students to obtain their degrees in four years. The narrow range in prices within the UNC system has also limited the appeal of lower-tier campuses, which has in turn spurred more spending under the “Focused Growth” strategy to use the excess capacity at those schools.

• **Revive free enterprise (save \$138 million)**

– European countries have learned from Ireland that low tax rates attract investment. Public policy research on economic development in states affirms this. North Carolina officials, however, still believe it is better to offer free land, tax breaks, and other incentives for individual companies or industries than to create a positive environment for *all* businesses with low tax rates, an educated workforce, and well-maintained infrastructure. For example, the \$5 million in proposed film incentives are designed to attract projects that have proven extremely fickle—moving to the state or country providing the greatest offset to costs. According to *Governing* magazine, there is no reason to believe that if incentives succeed in bringing a project to the state that the project will stay once larger incentives are available elsewhere.

• **Reshape the state-local government relationship (save \$118 million)** – North Carolina is one

of only two states with county responsibility for some Medicaid program costs. As a result, counties must devote a rapidly growing share of their budgets to Medicaid expenses and those that can least afford it face the greatest burden. *Freedom Budget 2005* recommends the state take back the county share by 2010, beginning in 2006-07. This will make funds available at the county level for local responsibilities such as libraries, public transportation, and airports, which receive less state funding in *FB05*. Although Medicaid is a much larger fiscal burden than the combined local responsibilities, the state is able to save money in both years of the current biennium.

• **Reorganize state government (save \$134 million)**

– A number of states have taken steps to make their government planning and operations more efficient. North Carolina has tried some experiments in this area, building on successes and wisely abandoning some efforts. The state only received a “C+” in the Government Performance Project report card, indicating the lack of progress in this area. North Carolina has a large public work force managed on a dated pay scale stored on similarly obsolete proprietary software and computers. The governor’s budget addresses these problems and *FB05* accepts those investments.

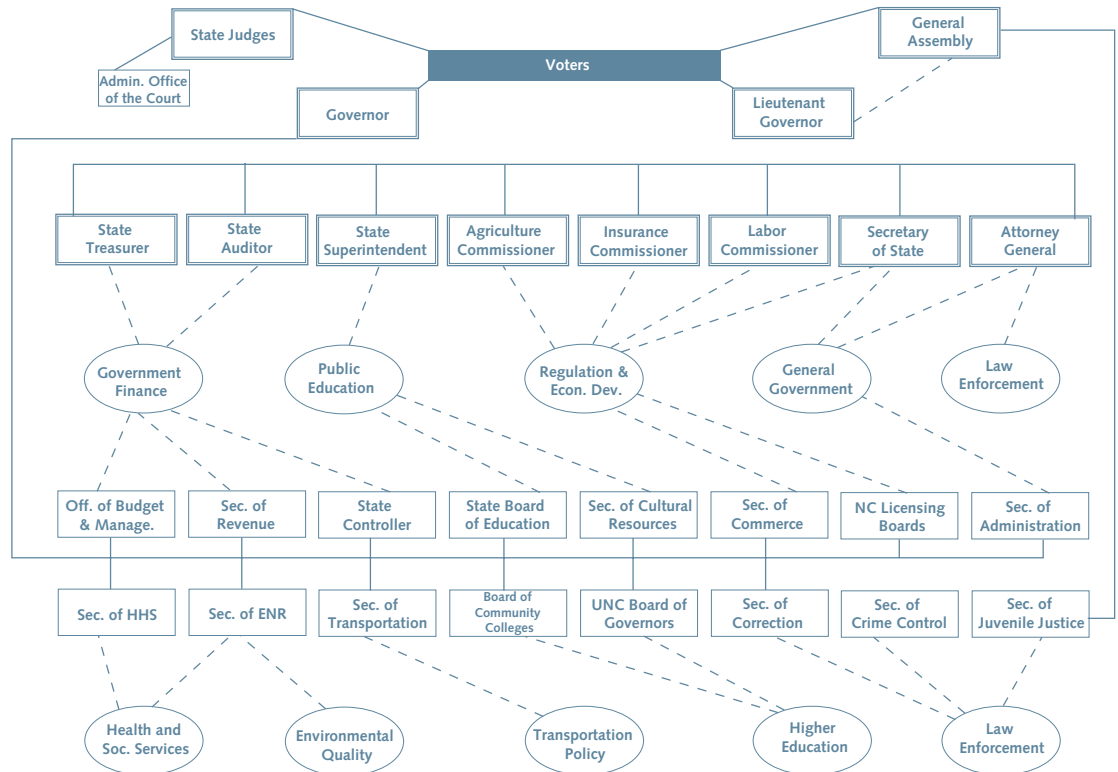
That people have an inherent right to “the fruits of their own labor” implies that taxation should be kept as low as possible.

The John Locke Foundation has illustrated the needless complexity of the executive branch’s organization chart. This budget once again recommends combining the Department of Revenue, State Controller and three other agencies in a single Department of Finance; rolling up Correction, Juvenile Justice, and Crime Control and Public

Safety in an overarching Department of Public Safety; and making other changes to clean up the spaghetti bowl of responsibility.

“all government...is instituted solely for the good of the whole,” which means policies designed to benefit a specific group or provide state support for group advocacy are improper. This principle also

Figure 4: Current North Carolina State Government – Major Agencies and Their Functions



- **Restore civil society (save \$32 million)** – Nonprofits provide many necessary services and meet a need as a third sector between the market and the government. When government steps in, it creates a false impression that the issue needs no private funds, crowding out charitable donations. Government support of a nonprofit also makes the organization less accountable and may undermine its original mission.
- **Remove advocacy, waste, and race-based programs (save \$26 million)** – Two sections of Article 1 further undergird this item. Section 2 states that

includes state funding of highly divisive practices. Section 19 bars “discrimination by the state because of race, color, religion, or national origin.” Whether the state calls the recipients of its money “historically underutilized businesses” or minority dentists, set asides violate this principle and should end.

- **Reduce biases in the tax code (\$176 million higher revenues)** – The tax code is riddled with subsidies to corporations for what the state sees as good behavior. Tax credits are provided for job creation, worker training, research and development, dry cleaning equipment, and more. While trying to

improve corporate behavior, taxes worsen individual behavior. Taxes and subsidies limit consumer choice in education and discourage personal responsibility for children's health and long-term care. Tax credits can reduce the financial penalties individuals face for making worthwhile investments. A January 2005 report by the John Locke Foundation made the case for reforming the entire tax system to remove targeted tax breaks and instead tax only consumed income rather than that which is saved or invested (including in education).

Principled Guidelines

These principles have appropriately remained consistent in JLF-prepared state budgets for the last decade. Where quick action is possible, items are provided in the detailed section of this report. Other items require federal approval or simply take longer to implement. Three examples follow.

Medicaid: Gov. Easley has proposed raising co-pays for Medicaid enrollees to the extent allowed under federal law. This report includes additional recommendations such as providing fewer optional services, which are among the broadest in the region, and lowering reimbursement rates, which are among the highest in the region, to bring the program in line with other states; restoring a tax credit for long-term care insurance to promote personal responsibility; eliminating a proposed cost-shifting expansion; and reverting program costs to the state from the counties, which have no control over policy. These steps will reduce the base and some of the growth in Medicaid expenditures, but the program needs more thorough reforms if it is not to threaten North Carolina's fiscal health as it has already done in Tennessee and Mississippi. South Carolina's and Florida's consumer-driven, market-oriented proposals are prime examples of what can be done to promote personal saving and healthcare improvements within Medicaid.

The related Health Choice program, North Carolina's health care program for low-income children, has pulled people from the private market, which suggests it does not address a market failure. Further, the planned expansion of Health Choice and Medicaid is designed to "draw down" more federal funds. Financial games of this sort take money from citizens twice, require significant additional state spending, and make it difficult for the state to argue legitimate need when the national budget shows large deficits.

Current tuition policy distorts demand for public universities...and the incentive for students to obtain their degrees in four years.

State Employee Benefits: The state retirement plan is generally considered a well-managed enterprise, but future retirement benefits are a large contingent cost for the state. Unlike private plans, there is no risk of the state not paying its obligation, but it still makes sense to convert to a defined contribution plan of some type. Health benefit costs are increasing for both the state and its employees. Those who can, opt out of family coverage. The state should consider more low cost insurance options to broaden its pool. Health Savings Accounts (HSAs) combined with catastrophic care insurance, high deductible policies, and other options for younger workers and their families can improve care while saving money for employees and all taxpayers.

Privatization: The state's ancient payroll system is a stunning case of how the state government short-changes itself when it tries to handle too many services in-house. Each agency has its own information technology staff, and many systems within agencies as well as across them cannot share information. Some agencies have their own printing shops, while others manage their own fleets of vehicles. Two approaches in concert can improve productivity and lower costs for the state. Illinois has combined IT, personnel, benefits, communications, property man-

agement, and procurement for all state agencies in the Department of Central Management Services. In addition to cross-departmental coordination, a central system would seek competitive bids on services and look for buildings and other assets to sell (with

covenants as necessary). North Carolina should also sell all assets and inventory of the Alcohol Beverage Control system, with proceeds optionally going to local governments.

Conclusion

Budgets reflect priorities, and neither Gov. Easley's budget nor this document is an exception. Where the governor includes \$741 million in higher taxes to provide \$1 billion for new or expanded programs, however, *Freedom Budget 2005* reduces taxes and spending below the levels of FY 2004-05.

North Carolina and other states manipulate their Medicaid payments to draw down extra dollars

The state can move toward lowering rates or eliminating the tax on capital gains and corporate income by eliminating special subsidies and tax breaks to businesses that are now part of the state's so-called economic development program.

from Washington, justifying it as "our fair share." These federal dollars also are not free for the state, they are more like the 90 percent discount on a \$30,000

country club membership—you still have to find \$3,000. When most states engage in the same scheme it means less money at both the federal and state level is available for taxpayers, other programs, or deficit reduction. Further, when state legislators

place a priority on setting aside over \$20 million in unconstitutional discretionary funds to reward their friends, they undermine public faith in government and the budget process.

The Tax Foundation shows that state and local taxes in North Carolina will take 10.0 percent of personal income in 2005, up slightly from 9.9 percent a decade earlier. Federal taxes, however, went from 20.0 percent of North Carolinians' personal income to 17.8 percent. At the same time, the average share of personal income going to state and local taxes in the region fell from 9.6 percent to 9.5 percent, leaving North Carolina at a greater disadvantage on this important contributor to economic growth.

In a sign that the half-cent sales tax that was originally a temporary measure is now permanent, Senior Policy Advisor for Fiscal Affairs Dan Gerlach said, "When we can bring it [the sales tax] down, we will." *Freedom Budget 2005* brings it and other taxes down while still finding room to run a surplus.

It's about priorities.

Appendix 1: Line-Item Recommendations

Recommended Savings 2005-07 Base (Continuation) Budget

GENERAL FUND

Public Education

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Non-Teaching Positions	Cut 7.5%; Convert to Block Grant	(\$59,987,335) R	(\$60,760,384) R	Redirect to Priorities
School Building Admin	Cut asst principal funds 2.5%	(\$25,849,903) R	(\$25,849,903) R	Redirect to Priorities
Teacher Assistants	Transfer 35% to Fund Teacher Salaries	(\$139,097,218) R	(\$143,398,976) R	Redirect to Priorities
Central Office Admin	Reduce GF Approp. 10%	(\$10,194,458) R	(\$10,230,458) R	Redirect to Priorities
Teaching Fellows	Roll Back 2002 Increase	(\$2,497,550) R	(\$2,497,550) R	Redirect to Priorities
Mentor Teachers	End GF Appropriation	(\$8,100,140) R	(\$8,100,140) 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 Certification	End GF Appropriation, Convert to performance pay	(\$3,274,500) R	(\$3,274,500) 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	(\$2,252,535) R	(\$2,252,535) R	Redirect to Priorities
Central DPI Administration	Reduce GF Approp. 5%	(\$47,495,897) R	(\$47,496,652) R	Reorganize Gov't
Subtotal-Public Edu.		(\$299,675,447) R	(\$304,787,010) R	

Community Colleges

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Child Care Grants	End GF Appropriation	(\$1,923,016) R	(\$1,923,016) R	User Responsibility
New Industry Training	Charge Fees to Cover Cost	(\$6,028,541) R	(\$6,028,541) R	Revive Enterprise
Public Radio	End GF Appropriation	(\$458,921) R	(\$458,921) R	Revive Enterprise
Small Business Centers	End GF Appropriation	(\$4,132,707) R	(\$4,132,707) R	Revive Enterprise
Composites Testing	Charge Fees to Cover Cost	(\$100,000) R	(\$100,000) R	Revive Enterprise
Focused Industry Training	Charge Fees to Cover Cost	(\$3,964,471) R	(\$3,964,471) R	Revive Enterprise
Special Tech Centers	Charge Fees to Cover Cost	(\$3,540,837) R	(\$3,540,837) R	Revive Enterprise
Administration	Reduce GF Approp. 10%	(\$1,932,237) R	(\$1,932,782) R	Reorganize Gov't
Subtotal-Comm. College		(\$22,080,730) R	(\$22,081,275) R	

UNC System

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Center for Public Television	End GF Appropriation	(\$11,435,383) R	(\$11,488,459) R	User Responsibility
Supercomputing/NCREN	End GF Appropriation	(\$7,240,139) R	(\$7,240,139) R	Revive Enterprise
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
SREB & Acad Common Mkt	End GF Appropriation	(\$1,248,247) R	(\$1,253,547) R	User Responsibility
Minority Medical & Dental Grants	End GF Appropriation	(\$108,875) R	(\$108,875) R	Advocacy and Waste
UNC Campus Scholarships	Eliminate minority grants	(\$2,397,950) R	(\$2,397,950) R	Advocacy and Waste
Ctr for School Leadership	End GF Appropriation	(\$15,726,376) R	(\$15,726,376) R	Advocacy and Waste
Pathways	End GF Appropriation	(\$1,000,000) R	(\$1,000,000) R	Advocacy and Waste
Prospective Teacher Scholars	End GF Appropriation	(\$590,580) R	(\$590,580) R	Advocacy and Waste
Teachers Scholarships	End GF Appropriation	(\$76,450) R	(\$76,450) R	Advocacy and Waste

APPENDIX 1

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
TA Scholarship Fund	End GF Appropriation	(\$964,174) R	(\$964,174) R	Advocacy and Waste
Native American School	End GF Appropriation	(\$190,706) R	(\$190,706) R	Advocacy and Waste
UNC College Scholars	End GF Appropriation	(\$2,371,253) R	(\$2,371,253) R	Redirect to Priorities
Focused Growth Spec.	End GF Appropriation	(\$859,239) R	(\$859,239) R	Redirect to Priorities
Focused Growth Sp Need	End GF Appropriation	(\$554,146) R	(\$554,146) R	Redirect to Priorities
Research Overhead	Recover 50% of Receipts to Offset State Approp.	(\$61,800,000) R	(\$62,800,000) R	User Responsibility
Strategic Initiative	End GF Appropriation	(\$4,000,000) R	(\$4,000,000) R	Redirect to Priorities
Major Research Initiative	End GF Appropriation	(\$1,066,648) R	(\$1,066,648) R	Redirect to Priorities
Teacher Prep Distributed Ed	End GF Appropriation	(\$1,896,291) R	(\$1,896,291) R	User Responsibility
European Study Center	End GF Appropriation	(\$136,794) R	(\$83,667) R	Redirect to Priorities
North Carolina Japan Center	End GF Appropriation	(\$150,000) R	(\$150,000) R	Redirect to Priorities
Biomufacturing Teaching & Education	End GF Appropriation	\$0 R	(\$2,360,897) R	Revive Enterprise
NCSU Welcome & Visitor Center	End GF Appropriation	(\$293,883) R	(\$237,340) R	Redirect to Priorities
Partners in Schools Res	End GF Appropriation	(\$361,456) R	(\$320,628) R	Redirect to Priorities
NC Arboretum	End GF Appropriation	(\$417,962) R	(\$498,722) R	Redirect to Priorities
Ocracoke Island Station & Marine Lab	End GF Appropriation	(\$225,919) R	(\$410,478) R	Redirect to Priorities
UNC Hospitals	Reduce GF Appropriation 50%	(\$19,813,880) R	(\$19,813,880) R	User Responsibility
Administration (Campus and System)	Reduce GF Appropriation 5%	(\$13,329,746) R	(\$13,325,114) R	Reorganize Gov't
Subtotal-UNC System		(\$172,109,819) R	(\$178,294,902) R	

Administration

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
N.C. Council for Women	End GF Appropriation	(\$574,939) R	(\$574,939) R	Advocacy and Waste
Human Relat. Comm.	End GF Appropriation	(\$634,508) R	(\$634,508) R	Advocacy and Waste
MLK Commission	End GF Appropriation	(\$69,055) R	(\$69,055) R	Advocacy and Waste
Gov. Council/Disabilities	End GF Appropriation	(\$486,237) R	(\$486,237) R	Advocacy and Waste
Commission/Indian Aff.	End GF Appropriation	(\$354,910) R	(\$354,910) R	Advocacy and Waste
Transition Team	End GF Appropriation	(\$120,000) R	(\$120,000) R	Advocacy and Waste
Governor's Inauguration	End GF Appropriation	(\$205,000) R	(\$205,000) R	Advocacy and Waste
Historically Underutilized Businesses (HUBSCO)	End GF Appropriation	(\$861,089) R	(\$861,089) R	Advocacy and Waste
Administration	Reduce GF Approp. 10%	(\$274,400) R	(\$274,400) R	Reorganize Gov't
Subtotal-Administration		(\$3,580,138) R	(\$3,580,138) R	

State Controller

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Administration	Merge with OSBM, Revenue to Create Dept. of Finance	(\$2,490,132) R	(\$2,491,743) R	Reorganize Gov't
Subtotal-Controller		(\$2,490,132) R	(\$2,491,743) R	

Revenue

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Administration	Merge with OSBM, Controller to Create Dept. of Finance	(\$524,426) R	(\$524,900) R	Reorganize Gov't
Subtotal-Revenue		(\$524,426) R	(\$524,900) R	

Cultural Resources

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Historical Publications	Cover 25% of Cost with Increased Donations/Fees	(\$153,596) R	(\$153,596) R	User Responsibility
State Historic Sites	Cover 25% of Cost with Increased Donations/Fees	(\$1,687,010) R	(\$1,599,347) R	User Responsibility
Tryon Palace/Gardens	Cover 50% of Cost with Increased Donations/Fees	(\$335,437) R	(\$329,819) R	User Responsibility
NC Maritime Museum	Cover 50% of Cost with Increased Donations/Fees	(\$520,243) R	(\$521,252) R	User Responsibility
NC Museum of Art	Cover 50% of Cost with Increased Donations/Fees	(\$1,989,486) R	(\$1,992,058) R	User Responsibility
NC Arts Council	End GF Appropriation	(\$6,617,333) R	(\$6,565,881) R	Restore Civil Society
NC Symphony	End GF Appropriation	(\$2,209,950) R	(\$2,210,692) R	Restore Civil Society
NC Museum of History	Cover 50% of Cost with Increased Donations/Fees	(\$2,807,679) R	(\$2,811,206) R	Restore Civil Society
Roanoke Island Comm	End GF Appropriation	(\$1,783,374) R	(\$1,783,374) R	User Responsibility
Grants-In-Aid to Arts	End GF Appropriation	(\$180,000) R	(\$180,000) R	State-Local Relations
County Libraries	Reduce Fund 50%	(\$7,388,005) R	(\$7,388,005) R	State-Local Relations
Quiz Bowl Grant	End GF Appropriation	(\$3,000) R	(\$3,000) R	User Responsibility
Administration	Reduce GF Approp. 10%	(\$295,407) R	(\$295,642) R	Reorganize Gov't
Subtotal-Cultural Res.		(\$25,970,519) R	(\$25,833,871) R	

Secretary of State

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Land Records Management	End GF Appropriation	(\$138,416) R	(\$138,971) R	State-Local Relations
Administration	Reduce GF Approp. 10%	(\$1,917,441) R	(\$1,921,724) R	Reorganize Gov't
Subtotal-Sec. Of State		(\$330,160) R	(\$331,143) R	

Governor's Office

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Dues to Nat'l Assoc.	End GF Appropriation	(\$410,668) R	(\$424,540) R	Advocacy and Waste
Education Office	End GF Appropriation	(\$353,196) R	(\$353,196) R	Reorganize Gov't
Administration	Reduce GF Approp. 10%	(\$384,329) R	(\$384,917) R	Reorganize Gov't
Subtotal-Governor		(\$1,148,193) R	(\$1,162,653) R	

General Assembly

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Food Service	Charge Fees to Cover Cost	(\$620,547) R	(\$624,127) R	User Responsibility
Subtotal-General Ass.		(\$620,547) R	(\$624,127) R	

Health and Human Services

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Div. Facility Services	End CON Regulations	(\$1,596,746) R	(\$1,596,746) R	Revive Enterprise
Medicaid Fees, Services	Adjustments to bring NC closer to regional norms (save 12%)	(\$151,002,715) R	(\$345,058,617) R	Restrain Entitlements
NC Health Choice	Return to FY02-03 levels	(\$37,979,197) R	(\$37,979,197) R	Restrain Entitlements
Disability Administration	Merge Divs Blind, Deaf, Vocational Rehabilitation	(\$2,894,046) R	(\$2,952,501) R	Reorganize Gov't
Smart Start	Convert to Targeted Pre-K for At-Risk, Tax Credits	(\$190,187,096) R	(\$190,187,096) R	Restrain Entitlements

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Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
TEACH Program	Convert to Targeted Pre-K for At-Risk, Tax Credits	(\$3,338,000) R	(\$3,338,000) R	Restrain Entitlements
Senior Games	End GF Appropriation	(\$175,000) R	(\$175,000) R	Restore Civil Society
Elder Rights Program	End GF Appropriation	(\$449,658) R	(\$449,658) R	Advocacy and Waste
Alzheimer's Association	End GF Appropriation	(\$150,000) R	(\$150,000) R	Restore Civil Society
Aging Div. Administration	Merge Agencies, Cut 50%	(\$333,130) R	(\$333,130) R	Reorganize Gov't
Special Assistance	Roll Back Planned Increases	(\$977,007) R	(\$1,332,626) R	Restrain Entitlements
Office of Rural Health	Reduce GF Approp. 25%	(\$1,567,010) R	(\$1,567,010) R	Redirect to Priorities
Abortion Fund	Eliminate	(\$50,000) R	(\$50,000) R	Restrain Entitlements
Office of Econ Opportunity	End GF Appropriation	(\$55,885) R	(\$55,885) R	Advocacy and Waste
NC Council Dev Disabilities	End GF Appropriation	(\$114,158) R	(\$114,349) R	Restore Civil Society
NC Special Olympics	End GF Appropriation	(\$100,000) R	(\$100,000) R	Restore Civil Society
Central Administration	Reduce GF Approp. 10%	(\$882,360) R	(\$882,801) R	Reorganize Gov't
Subtotal-HHS		(\$391,852,008) R	(\$586,322,616) R	

Correction

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Prison Enterprises	Increase Participation, Sales by 20%	(\$83,745) R	(\$83,745) R	User Responsibility
Prison Health Services	Reform Payments, Services to Freeze Cost at '04 Levels	(\$3,425,455) R	(\$3,631,953) R	Restrain Entitlements
Administration	Merge with CCPS, Juv. Just. To Form Dept. of Public Safety	(\$6,436,695) R	(\$6,405,490) R	Reorganize Gov't
Subtotal-Correction		(\$9,945,895) R	(\$10,121,188) R	

Crime Control and Public Safety

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Civil Air Patrol	End GF Appropriation	(\$128,759) R	(\$129,212) R	Restore Civil Society
Butner Public Safety	End GF Appropriation	(\$3,062,111) R	(\$3,067,401) R	State-Local Relations
Alcohol Law Enforce.	End GF Appropriation	(\$8,670,646) R	(\$8,705,120) R	Reorganize Gov't
Gov's Crime Comm.	End GF Appropriation	(\$896,908) R	(\$897,619) R	Reorganize Gov't
National Guard	Consolidate Guard Armories, Cut GF Appropriation 25%	(\$2,563,394) R	(\$2,577,658) R	Reorganize Gov't
Administration	Merge to FormDept. of Public Safety-save 5%	(\$83,145) R	(\$83,225) R	Reorganize Gov't
Subtotal-Crime Control		(\$15,404,963) R	(\$15,460,235) R	

Department of Justice

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
SBI	Merge to FormDept. of Public Safety-save 5%	(\$2,229,286) R	(\$2,265,556) R	Reorganize Gov't
Criminal Justice Training	Merge to FormDept. of Public Safety-save 5%	(\$413,352) R	(\$412,091) R	Reorganize Gov't
General Administration	Reduce GF Approp. 10%	(\$251,021) R	(\$251,021) R	Reorganize Gov't
Subtotal-Justice		(\$2,893,658) R	(\$2,928,667) R	

Juvenile Justice

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
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	(\$6,227,183) R	(\$6,227,183) R	Restore Civil Society

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Ctr School Vlnce Administration	End GF Appropriation	(\$404,201) R	(\$405,499) R	Restore Civil Society
	Merge to FormDept. of Public Safety-save 10%	(\$717,617) R	(\$719,876) R	Reorganize Gov't
Subtotal-Juv Justice		(\$8,994,466) R	(\$8,998,023) R	

Housing Finance Agency

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Housing Finance Funds	End GF Appropriation	(\$4,750,945) R	(\$4,750,945) R	Restore Civil Society
Subtotal-Housing Fin.		(\$4,750,945) R	(\$4,750,945) R	

Agriculture

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Marketing and Aquaculture	End GF Appropriation	(\$6,214,861) R	(\$6,198,916) R	Revive Enterprise
Livestock Marketing	End GF Appropriation	(\$435,083) R	(\$432,238) R	User Responsibility
Agronomic Services	End GF Appropriation	(\$3,568,002) R	(\$3,573,161) R	User Responsibility
Comm. Feed/Pet Food	End GF Appropriation	(\$843,650) R	(\$738,209) R	User Responsibility
Comm. Fertilizer Analysis	End GF Appropriation	(\$632,720) R	(\$637,314) R	User Responsibility
Seed Testing	End GF Appropriation	(\$831,887) R	(\$812,020) R	User Responsibility
Plant Protection	End GF Appropriation	(\$2,968,785) R	(\$3,003,184) R	User Responsibility
Administrative Services	Cut GF Appropriation 50%	(\$2,134,012) R	(\$2,135,601) R	Reorganize Gov't
Subtotal-Agriculture		(\$17,629,000) R	(\$17,530,643) R	

Commerce

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Policy & Research Div	End GF Appropriation	(\$623,748) R	(\$624,588) R	Revive Enterprise
Exec Aircraft Operations	Cut GF Appropriation 50%	(\$1,421,526) R	(\$1,421,526) R	Reorganize Gov't
Marketing/Custom Serv.	End GF Appropriation	(\$461,386) R	(\$461,386) R	Revive Enterprise
Business/Industry Dev.	End GF Appropriation	(\$5,167,891) R	(\$5,170,254) R	Revive Enterprise
International Trade Div.	End GF Appropriation	(\$2,455,765) R	(\$2,455,765) R	Revive Enterprise
Tourism, Film, Sports	End GF Appropriation	(\$8,988,427) R	(\$8,989,360) R	Revive Enterprise
Board Science/Tech	End GF Appropriation	(\$287,487) R	(\$245,558) R	Revive Enterprise
Wanchese Indus. Park	End GF Appropriation	(\$442,131) R	(\$427,131) R	Revive Enterprise
Industrial Finance Ctr	End GF Appropriation	(\$724,417) R	(\$724,417) R	Revive Enterprise
Local Planning, Manage.	End GF Appropriation	(\$3,152,774) R	(\$3,147,593) R	State-Local Relations
Biotechnology Center	End GF Appropriation	(\$9,083,395) R	(\$9,083,395) R	Revive Enterprise
Rural Econ. Dev. Center	End GF Appropriation	(\$4,802,607) R	(\$4,802,607) R	Revive Enterprise
Aid to Non-State Entities	End GF Appropriation	(\$6,775,000) R	(\$6,775,000) R	Restore Civil Society
Regional EDCs	End GF Appropriation	(\$4,447,085) R	(\$4,447,085) R	Revive Enterprise
Administrative Services	Cut GF Appropriation 67%	(\$1,348,549) R	(\$1,348,549) R	Reorganize Gov't
Subtotal-Commerce		(\$50,182,188) R	(\$50,124,214) R	

Labor

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Retaliatory Discrim.	End GF Appropriation	(\$571,188) R	(\$572,757) R	Advocacy and Waste
On Site Consultation	End GF Appropriation	(\$116,821) R	(\$116,906) R	User Responsibility
Apprenticeship Train.	End GF Appropriation	(\$888,564) R	(\$889,178) R	Reorganize Gov't
Administration	Reduce GF Approp. 10%	(\$171,617) R	(\$171,736) R	Reorganize Gov't
Subtotal-Labor		(\$1,748,190) R	(\$1,750,577) R	

Environment and Natural Resources

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Environmental Educ.	End GF Appropriation	(\$522,889) R	(\$522,889) R	Advocacy and Waste
Wetlands Restoration	End GF Appropriation	(\$535,439) R	(\$535,439) R	Redirect to Priorities
Forestry	Cover 50% of Cost with Receipts & Fees	(\$12,082,298) R	(\$12,297,482) R	User Responsibility
DFR Tree Improvement	End GF Appropriation	(\$474,813) R	(\$474,813) R	User Responsibility
State Parks	Cover 35% of Cost with Increased Donations/Fees	(\$4,182,287) R	(\$4,294,386) R	User Responsibility
NC Zoo	Cover 50% of Cost with Increased Donations/Fees	(\$2,107,346) R	(\$2,519,507) R	User Responsibility
Aquariums	Cover 50% of Cost with Increased Donations/Fees	(\$346,061) R	(\$95,783) R	User Responsibility
Museum of Natural Science	Cover 50% of Cost with Increased Donations/Fees	(\$3,417,600) R	(\$6,910,029) R	User Responsibility
Clean Water Trust Fund	Reduce GF Approp. 10%	(\$15,500,000) R	(\$15,500,000) R	Redirect to Priorities
Administration	Reduce GF Approp. 10%	(\$738,276) R	(\$738,276) R	Reorganize Gov't
Subtotal- DENR		(\$39,907,007) R	(\$43,888,603) R	

Transportation

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Airport Grants	Phase out GF Appropriation	(\$6,013,689) R	(\$12,945,066) R	State-Local Relations
Subtotal-Transportation		(\$6,013,689) R	(\$12,945,066) R	

Debt Service

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Railroads	Privatize; Use Proceeds to Reduce State Debt	(\$40,000,000) R	(\$42,000,000) R	Revive Enterprise
State-Owned Ports	Privatize; Use Proceeds to Reduce State Debt	(\$7,600,000) R	(\$7,700,000) R	Revive Enterprise
State Bonded Debt	Suspend Bond Issuance	(\$23,300,000) R	(\$133,000,000) R	Redirect to Priorities
Subtotal-Capital Assets		(\$70,900,000) R	(\$182,700,000) R	

TOTAL - GENERAL FUND BASE

(\$1,086,952,119) (\$1,414,432,539)

HIGHWAY FUND

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Aeronautics	End HF Appropriation	(\$2,366,128) R	(\$2,366,128) R	State-Local Relations
Bicycle Program	End HF Appropriation	(\$566,413) R	(\$566,413) R	State-Local Relations
Public Transport. Admin.	End HF Appropriation	(\$419,651) R	(\$419,651) R	State-Local Relations
Public Transport Grants	Reduce HF Approp. 50%	(\$109,866,447) R	(\$109,866,447) R	State-Local Relations
Railroad Operations	End HF Appropriation	(\$21,234,453) R	(\$21,234,453) R	Revive Enterprise
Rail Program Admin.	End HF Appropriation	(\$617,374) R	(\$617,374) R	Redirect to Priorities
Ferry Division Admin.	Charge Fees to Users to Cover 50% Cost by 2nd Yr	(\$307,099) R	(\$614,198) R	User Responsibility
Ferry Operations	Charge Fees to Users to Cover 50% Cost by 2nd Yr	(\$5,066,203) R	(\$10,132,406) R	Redirect to Priorities
Construction-Secondary	Reduce HF Approp. 25%	(\$22,750,000) R	(\$22,750,000) R	User Responsibility
DMV-Driver's License	Consolid. Offices, Cut 10%	(\$4,044,283) R	(\$4,253,731) R	Reorganize Gov't
Central Administration	Reduce HF Approp. 25%	(\$28,306,433) R	(\$28,522,020) R	Reorganize Gov't
Subtotal-Highway Fund		(\$195,544,483) R	(\$201,342,820) R	

HWY TRUST FUND

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Secondary Roads	Reduce HTF Approp. 50%	(\$45,044,397) R	(\$45,044,397) R	Redirect to Priorities
Subtotal-Hwy Trust Fund		(\$45,044,397) R	(\$45,044,397) R	

FEE-BASED ITEMS

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Board/Barber Examiners	Convert to Voluntary Cert.	(\$462,260) R	(\$462,260) R	User Responsibility
Board of Cosmetic Arts	Convert to Voluntary Cert.	(\$1,699,045) R	(\$1,699,045) R	User Responsibility
Board of Opticians	Convert to Voluntary Cert.	(\$177,007) R	(\$177,007) R	User Responsibility
Psychology Board	Convert to Voluntary Cert.	(\$537,945) R	(\$537,945) R	User Responsibility
Auctioneer License Brd	Convert to Voluntary Cert.	(\$472,296) R	(\$475,544) R	User Responsibility
Board/Electrolysis Exam	Convert to Voluntary Cert.	(\$22,900) R	(\$22,900) R	User Responsibility
Grape Growers Council	Convert to Voluntary Prog.	(\$350,000) R	\$0 R	User Responsibility
Sleep Products	Convert to Voluntary Cert.	(\$517,539) R	(\$517,539) R	User Responsibility
Subtotal-Fee Items		(\$4,238,992) R	(\$3,892,240) R	

Recommended Changes to 2005-07 Expansion Budget

GENERAL FUND (Expansion)

Public Education

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Public School Cap Funds*	Restore Redirected Funds	\$15,000,000 R	\$15,000,000 R	State-Local Relations
Low-Wealth Formula	Cut GF Expansion 50%	(\$11,557,078) R	(\$40,969,345) R	Redirect to Priorities
Disadv Student Supp	Cut GF Expansion 50%	(\$15,750,000) NR	\$0 NR	Redirect to Priorities
New Disadv Formula	Cut GF Expansion 50%	\$0 R	(\$15,750,000) R	Redirect to Priorities
Support Teams	Cut GF Expansion 50%	(\$8,166,028) R	(\$9,367,534) R	Redirect to Priorities
Subtotal-Public Educ.		\$5,138,447 R	(\$18,043,439) R	
		(\$7,875,000) NR	\$0 NR	

Community Colleges

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Tuition Increase	Raise to Cover 25% of System Cost by 2nd Year	(\$34,469,041) R	(\$68,940,568) R	User Responsibility
Subtotal-Comm. College		(\$34,469,041) R	(\$68,940,568) R	

UNC System

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Tuition Increase	Raise to Cover Avg. 35% of In-State Cost by 2nd Year	(\$26,845,500) R	(\$57,750,000) R	User Responsibility
Prospective Teacher School Loan	Eliminate GF Expansion	(\$1,000,000) R	(\$1,000,000) R	Redirect to Priorities
UNC-NCCS Teacher Ed	Eliminate GF Expansion	(\$480,000) R	(\$640,000) R	Redirect to Priorities
UNC-NCCSS 2+2	Eliminate GF Expansion	(\$1,000,000) R	(\$1,000,000) R	Redirect to Priorities
CFNC Online Module	Eliminate GF Expansion	(\$25,000) R	(\$25,000) R	Redirect to Priorities
Biotech Initiatives	Eliminate GF Expansion	(\$2,500,000) R	(\$2,500,000) R	Redirect to Priorities
UNC TV Closed Captioning	Eliminate GF Expansion	(\$483,978) R	(\$629,307) R	Redirect to Priorities
NC Arboretum	Eliminate GF Expansion	(\$65,250) R	(\$87,000) R	Redirect to Priorities
FridayInstitute	Eliminate GF Expansion	(\$1,000,000) R	(\$1,000,000) R	Redirect to Priorities

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Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Small Business Tech Development Ctr	Eliminate GF Expansion	(\$900,000) R	\$0 R	Redirect to Priorities
Subtotal-UNC		(\$34,299,728) R	(\$64,631,307) R	
Health and Human Services				
Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
More at Four	Eliminate GF Expansion	(\$16,640,531) R	(\$29,103,657) R	Redirect to Priorities
School-Based Child/Family Support Teams	Eliminate GF Expansion	(\$3,879,671) R	(\$9,249,150) R	Redirect to Priorities
Child Care Subsidy	Eliminate GF Expansion	(\$2,300,000) R	(\$7,000,000) R	Redirect to Priorities
County Share of Medicaid*	End County Share by 2010	\$0 R	\$98,065,502 R	State-Local Relations
Medicaid children up to 200% FPL	Eliminate GF Expansion	(\$14,571,997) R	(\$17,685,090) R	Redirect to Priorities
NC Health Choice Eligibility	Eliminate GF Expansion	(\$2,812,250) R	(\$13,613,590) R	Redirect to Priorities
Subtotal-HHS		(\$40,204,449) R	\$21,414,015 R	
Other Adjustments				
Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Vol. Safety Workers Comp*	Restore Proposed Cut	\$2,000,000 NR	\$0 NR	Redirect to Priorities
Construction database HUBSCO	Eliminate GF Expansion	(\$60,000) R	(\$75,000) R	Redirect to Priorities
Construction database HUBSCO	Eliminate GF Expansion	(\$250,000) NR	\$0 NR	Redirect to Priorities
NC Arts-Grassroots Arts	Eliminate GF Expansion	(\$300,000) R	(\$300,000) R	Redirect to Priorities
Dir, Boards & Comm; NC Awards	Eliminate GF Expansion	(\$50,000) R	(\$50,000) R	Redirect to Priorities
Med Insurance for NC Symphony	Eliminate GF Expansion	(\$543,268) R	(\$543,268) R	Redirect to Priorities
Art Museum, Program Diversity & Security	Eliminate GF Expansion	(\$62,500) R	(\$62,500) R	Redirect to Priorities
Apprenticeship Program	Eliminate GF Expansion	(\$787,368) R	(\$787,368) R	Redirect to Priorities
Oyster Rehabilitation	Eliminate GF Expansion	(\$690,341) R	(\$842,121) R	Redirect to Priorities
Superfund State Match Funds	Eliminate GF Expansion	(\$1,000,000) R	(\$1,000,000) R	Redirect to Priorities
Film Incentives	Eliminate GF Expansion	(\$4,000,000) R	(\$4,000,000) R	Redirect to Priorities
Dep Dir/Chief Pol Analyst NC Board of S&T	Eliminate GF Expansion	(\$60,000) R	(\$80,000) R	Redirect to Priorities
NC EDIS Operational Support	Eliminate GF Expansion	(\$276,041) R	(\$297,898) R	Redirect to Priorities
NC Biotech Center	Eliminate GF Expansion	(\$3,000,000) R	(\$1,500,000) R	Redirect to Priorities
State Employee Salaries*	Increase by 4%	\$168,000,000 R	\$160,000,000 R	Redirect to Priorities
State Retiree Benefits*	Increase by 4%	\$13,810,800 R	\$13,810,000 R	Redirect to Priorities
Subtotal-Other Adjust.		\$170,981,282 R	\$164,271,845 R	
		\$1,750,000 NR	\$0 NR	
TOTAL-GF EXPANSION		\$53,420,131	\$19,909,072	
NET GF SAVINGS		(\$1,095,331,988)	(\$1,457,323,468)	

*Denotes JLF Proposal for Increased Spending

GENERAL FUND REVENUES

Adjusting Availability

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
ONE NC Fund	Revert to General Fund	\$5,000,000 NR	\$0 NR	Revive Enterprise
Motorsports Promotion	Revert to GF	\$250,000 NR	\$0 NR	Redirect to Priorities
Job Development Investment Grant (JDIG)	Eliminate GF Expansion	(\$3,500,000) R	(\$7,900,000) R	Revive Enterprise
Sales & Use Tax	Implement Legislated Repeal of Temporary Tax Hike	(\$413,400,000) R	(\$458,700,000) R	Revive Enterprise
Personal Income Tax	Implement Legislated Repeal of Temporary Tax Hike	(\$20,100,000) R	(\$24,600,000) R	Revive Enterprise
Streamline Tax	Exclude amusement priv tax	(\$22,500,000) R	(\$30,000,000) R	Revive Enterprise
Cigarette Tax	Reject rate increase	(\$171,400,000) R	(\$277,100,000) R	Revive Enterprise
Film Incentive	Reject incentive	(\$500,000) R	(\$500,000) R	
Hwy Trust Fund Transfer	Eliminate Fund Diversion	(\$233,058,117) NR	(\$222,563,009) NR	Redirect to Priorities
Tobacco Master Settlement	Redirect to Gen. Fund	\$111,997,105 R	\$113,713,927 R	Redirect to Priorities
Subtotal-Adjustments to Availability		(\$519,402,895) R	(\$685,086,073) R	
		(\$227,808,117) NR	(\$222,563,009) NR	

Tax Cuts/Reforms

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Individual Income Tax	Cut Top Rates to 6.75% from 1 Jan 06, to 6% from 1 Jan 07	(\$390,370,375) R	(\$764,583,206) R	Revive Enterprise
Corporate Income Tax	Cut 6.9% Rate to 6.5% from 1 Jan 06, to 6% from 1 Jan 07	(\$56,521,739) R	(\$127,173,913) R	Revive Enterprise
Withholding/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
Long Term Care Tax Credit	Restore Credit	(\$6,000,000) R	(\$6,000,000) 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

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
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		(\$277,219,678)	(\$700,775,103)	
Net Change in Availability (tax cuts, etc.)		(\$1,024,430,690)	(\$1,608,6424,185)	

HIGHWAY FUND/TRUST FUND

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Global Transpark	Eliminate HF Expansion	(\$1,600,000) R	(\$1,600,000) R	State-Local Relations
Airline Recruitment	Eliminate HF Expansion	(\$350,000) R	(\$350,000) R	State-Local Relations
Piedmont and Carolinian	Eliminate HF Expansion	(\$1,250,000) R	(\$2,768,750) R	State-Local Relations
Grants to Short Line Railroads	Eliminate HF Expansion	(\$1,000,000) R	(\$2,000,000) R	State-Local Relations
Hwy Trust Fund Transfer	Eliminate Fund Diversion	(\$222,563,009) R	(\$222,563,009) R	Redirect to Priorities
HF Construction*	Increase Investment 30%	\$40,041,000 R	\$40,824,000 R	Redirect to Priorities
HF Maintenance*	Increase Investment 30%	\$206,904,093 R	\$199,716,663 R	Redirect to Priorities
Urban Loop Construct.*	Increase Investment 30%	\$57,504,304 R	\$59,968,306 R	Redirect to Priorities
Intrastate Construction*	Increase Investment 30%	\$142,211,242 R	\$148,304,853 R	Redirect to Priorities
NET HF/TF EXPANSION		\$219,897,630	\$219,532,063	

FEE SAVINGS

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Board/Barber Examiners	Convert to Voluntary Cert.	\$444,949	\$444,949	User Responsibility
Board of Cosmetic Arts	Convert to Voluntary Cert.	\$1,688,087	\$1,688,087	User Responsibility
Board of Opticians	Convert to Voluntary Cert.	\$140,934	\$140,934	User Responsibility
Psychology Board	Convert to Voluntary Cert.	\$81,811	\$734,411	User Responsibility
Auctioneer License Brd	Convert to Voluntary Cert.	\$480,020	\$479,021	User Responsibility
Board/Electrolysis Exam	Convert to Voluntary Cert.	\$22,900	\$22,900	User Responsibility
Grape Growers Council	Convert to Voluntary Prog.	\$350,000	\$350,000	User Responsibility
Sleep Products	Convert to Voluntary Cert.	\$517,539	\$517,539	User Responsibility
Subtotal-Fee Savings		\$3,726,240	\$4,377,841	

ITEMS WITH NO GENERAL/FUND IMPACT

Budget Item	Recommendation	FY 2005-06 Impact	FY 2006-07 Impact	Reason
Employment & Training Admin.	End GF Appropriation	\$0 R	\$0 R	Revive Enterprise
Industrial Development Fund	End GF Appropriation	\$0 R	\$0 R	Revive Enterprise
Comm. on Workforce Dev.	End GF Appropriation	\$0 R	\$0 R	Revive Enterprise
Banking Institutions Admin.	Merge with Credit Union Supervision	\$0 R	\$0 R	Reorganize Gov't
Credit Union Supervision	Merge with Banking Admin	\$0 R	\$0 R	Reorganize Gov't
Cemetery Commission	End GF Appropriation	\$0 R	\$0 R	Restore Civil Society
ABC Commission	End GF Appropriation	\$0 R	\$0 R	Revive Enterprise
Rehab Loan Fund	End GF Appropriation	\$0 R	\$0 R	Revive Enterprise
Agric. Finance Admin.	Make Independent	\$0 R	\$0 R	Revive Enterprise
Raleigh Farmers Market	Make Independent	\$0 R	\$0 R	Revive Enterprise
Western NC Ag Fair	Make Independent	\$0 R	\$0 R	Revive Enterprise
North Carolina State Fair	Make Independent	\$0 R	\$0 R	Revive Enterprise

Appendix 2: Summary of Recommendations**Summary of Recommended Changes to 2005-07 Budget (\$ Million)**

GENERAL FUND	FY 2005-06	FY 2006-07
Total Proposed Savings	(\$1,294.1)	(\$1,744.2)
Adjustments, Spending	\$198.8	\$188.8
• Subtotal-Net Savings	(\$1,095.3)	(\$1,555.4)
Total Proposed Tax Cuts	(\$623.8)	(\$1,069.8)
Tax Reform Additions	\$346.5	\$369.0
• Subtotal-Net GF Impact	(\$277.2)	(\$700.8)
Easley's General Fund Budget		
Availability w Tax Hikes	\$16,894.3	\$17,694.8
Authorized GF Budget	\$16,894.3	\$17,565.2
Education	\$9,553.9	\$9,692.0
HHS	\$4,088.2	\$4,450.4
All Other Depts.	\$3,252.2	\$3,422.7
Projected Surplus	\$0.0	\$129.5
JLF Freedom Budget		
Revised Avail w Tax Cuts	\$15,869.8	\$16,128.2
Revised GF Budget	\$15,798.9	\$16,107.9
Education	\$8,980.9	\$9,021.1
HHS	\$3,656.1	\$3,885.5
All Other Depts.	\$3,161.9	\$3,201.3
Projected Surplus	\$70.9	\$20.4
HIGHWAY FUND/TRUST FUND		
Total HF/HTF Savings	\$467.4	\$475.7
New HF/HTF Spending	(\$446.7)	(\$448.8)
Change in Fund Balance	\$20.7	\$26.9

About the Author

Joseph Coletti is Fiscal Policy Analyst at the John Locke Foundation. He has served as editor of newsletters and briefing books on the Japanese economy and U.S.-Japan relations. Coletti led marketing research and forecasting projects with J.D. Power and Associates in Detroit and Tokyo. He also served as Director of Policy and Communications for the U.S. – Japan Business Council in Washington, D.C., before joining the Locke Foundation. Coletti received a bachelor's degree from the University of Michigan and a master's degree from the Johns Hopkins University Paul H. Nitze School of Advanced International Studies.

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The John Locke Foundation is a nonprofit, nonpartisan policy institute based in Raleigh. Its mission is to develop and promote solutions to the state's most critical challenges. The Locke Foundation seeks to transform state and local government through the principles of competition, innovation, personal freedom, and personal responsibility in order to strike a better balance between the public sector and private institutions of family, faith, community, and enterprise.

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*“To prejudge other men’s notions
before we have looked into them
is not to show their darkness
but to put out our own eyes.”*

JOHN LOCKE (1632–1704)

AUTHOR, TWO TREATISES OF GOVERNMENT AND
FUNDAMENTAL CONSTITUTIONS OF CAROLINA