

AN UNTIMELY BUDGET

House Moves Quickly to Undermine NC's Economy

Summary: Political observers may welcome the North Carolina House's uncharacteristic speed in devising its 2003-05 budget plan, but state taxpayers are unlikely to view its nearly \$860 million in extra taxes over the next two fiscal years as timely given the weakness of the state's economic recovery. By working harder to identify budget savings, lawmakers could have avoided the tax increase without adversely affecting teachers, prisons, or other core services of state government.

Reflecting the odd assumption that process should outweigh outcome, many North Carolina commentators and political observers are greeting the N.C. House passage of its 2003-05 budget plan by its announced deadline as a great success. In reality, it was at best a Pyrrhic victory that accepted virtually all of Gov. Mike Easley's major initiatives and proposals, including most of his tax-increase package, and left most state fiscal obligations unexamined and untouched.

North Carolina taxpayers are unlikely to welcome the effort as "timely." With an economic recovery weak by historical standards and failing to generate significant job growth outside of government itself, North Carolina is in need of significant tax relief rather than another two years of sales and income tax increases that will take another \$860 million from those who earned it. The state levies one of the highest income tax rates in the nation. And its sales tax, once low, is now above the regional average.

Some state lawmakers have defended the House plan as "responsible," citing the need to protect classroom teachers, prisons, Medicaid, and other key state services from significant cuts. But the evidence shows otherwise. Reimposing the 2001 tax increases serves primarily to allow the state budget to grow by 4.3 percent in FY 2003-04, or more than \$600 million. It allows for expanded state spending in a number of areas, including corporate subsidies and More At Four. As the tables on the following pages reveal, the House could have avoided the tax increases altogether by finding additional savings in the state budget without touching public schools, Medicaid, prisons, or other core state services. The savings listed on pages 3 and 4 add up to \$384 million in FY 2003-04 and \$489 million in FY 2004-05 — more than enough to offset the revenue loss from letting the 2001 tax increases expire as promised.

— John Hood, President

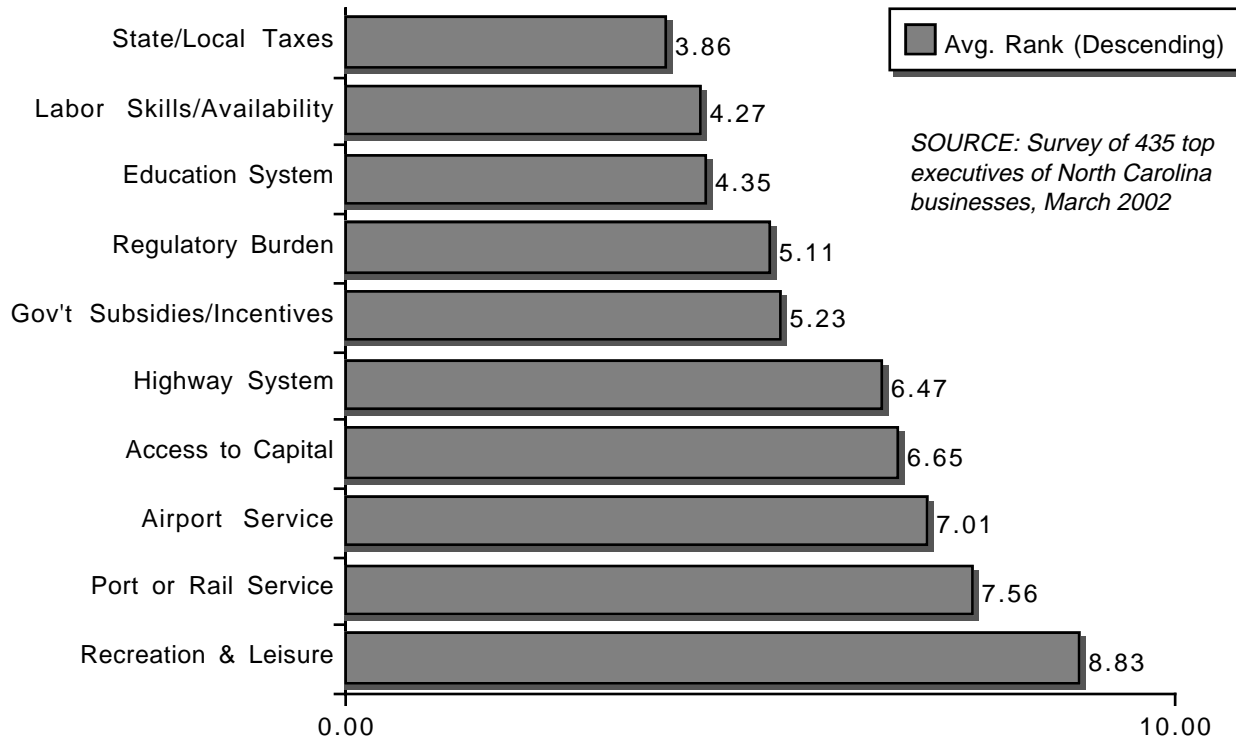
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2003-05 GF BUDGETS AT A GLANCE: EASLEY VS. HOUSE

(Preliminary, In Millions)

Spending Category	Authorized 2002-03	Easley 2003-04	% Change	Easley 2004-05	% Change	House Bdgt 2003-04	% Change	House Bdgt 2004-05	% Change
Public Education	\$5,946.5	\$5,999.0	0.9%	\$6,018.8	0.3%	\$6,017.7	1.2%	\$6,025.5	0.1%
Community Colleges	\$669.3	\$674.0	0.7%	\$673.8	-0.0%	\$659.1	-1.5%	\$662.2	0.5%
UNC System	\$1,768.1	\$1,796.5	1.6%	\$1,831.4	1.9%	\$1,761.4	-0.4%	\$1,796.3	2.0%
Health & Human Serv.	\$3,596.4	\$3,663.8	1.9%	\$3,997.7	9.1%	\$3,643.2	1.3%	\$3,942.8	8.2%
Agriculture	\$50.4	\$48.8	-3.3%	\$48.8	0.1%	\$49.2	-2.4%	\$49.2	0.0%
Commerce	\$44.2	\$53.2	20.2%	\$52.3	-1.7%	\$54.2	22.6%	\$54.5	0.4%
Labor	\$14.2	\$13.3	-6.4%	\$13.3	0.0%	\$13.3	-6.4%	\$13.3	0.1%
Environment/Nat. Res.	\$215.3	\$212.8	-1.2%	\$217.6	2.2%	\$171.3	-20.4%	\$178.1	3.9%
Correction	\$880.1	\$940.7	6.9%	\$945.9	0.6%	\$940.8	6.9%	\$960.2	2.1%
Crime Control/PS	\$27.8	\$28.1	1.1%	\$27.2	-3.3%	\$29.0	4.5%	\$28.1	-3.1%
Courts/Judicial	\$373.9	\$376.4	0.7%	\$381.6	1.4%	\$375.8	0.5%	\$381.1	1.4%
Juvenile Justice	\$129.0	\$131.3	1.8%	\$134.4	2.4%	\$130.3	1.0%	\$130.5	0.1%
Justice	\$70.9	\$70.7	-0.4%	\$71.7	1.4%	\$70.7	-0.4%	\$71.5	1.1%
Transportation	\$10.9	\$11.4	4.8%	\$11.5	0.3%	\$11.4	4.8%	\$11.5	-100%
Other Departments	\$275.2	\$317.4		\$316.8		\$335.2		\$336.1	
Debt Service	\$255.7	\$388.9	52.1%	\$475.6	22.3%	\$388.9	52.1%	\$475.6	22.3%
Other Items/Reserves	-\$9.3	\$276.9		\$394.0		\$289.0		\$419.2	
Subtotal-Operating	\$14,318.6	\$15,003.0	4.8%	\$15,612.3	4.1%	\$14,940.7	4.3%	\$15,535.6	4.0%
Capital/R&R	\$31.2	\$29.4		\$0.0		\$27.6		\$0.0	
Subtotal-GF Budget	\$14,349.8	\$15,032.4	4.8%	\$15,612.3	3.9%	\$14,968.3	4.3%	\$15,535.6	3.8%

WHICH FACTORS MOST REDUCE NC'S COMPETITIVENESS?



POSSIBLE SAVINGS IN NON-CORE STATE PROGRAMS, 2003-05

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>		<u>FY 2004-05 Impact</u>	
<i>Community Colleges</i>					
Child Care Grants	End GF Appropriation	(\$2,000,000)	R	(\$2,000,000)	R
Human Resource Dev.	Charge Fees to Cover Cost	(\$3,991,329)	R	(\$3,991,329)	R
New Industry Training	Charge Fees to Cover Cost	(\$6,028,541)	R	(\$6,028,541)	R
Public Radio	End GF Appropriation	(\$134,921)	R	(\$134,921)	R
Small Business Centers	End GF Appropriation	(\$3,859,635)	R	(\$3,859,635)	R
Focused Ind. Training	Charge Fees to Cover Cost	(\$1,962,032)	R	(\$1,962,032)	R
Special Tech Centers	Charge Fees to Cover Cost	(\$2,943,788)	R	(\$2,943,788)	R
<i>UNC System</i>					
Research Overhead	Recover 50% of Receipts	(\$61,800,000)	R	(\$62,800,000)	R
Cnt for Ergonomics	End GF Appropriation	(\$500,000)	R	(\$500,000)	R
Christ. Tree Specialist	End GF Appropriation	(\$100,000)	R	(\$100,000)	R
Blue Crab Research	End GF Appropriation	(\$500,000)	R	(\$500,000)	R
Poultry Research	End GF Appropriation	(\$150,000)	R	(\$150,000)	R
Inst for Intern'l Underst.	End GF Appropriation	(\$218,573)	R	(\$218,573)	R
Strategic Initiatives	End GF Appropriation	(\$3,000,000)	R	(\$3,000,000)	R
Pathways Initiative	End GF Appropriation	(\$1,000,000)	R	(\$1,000,000)	R
Manufact. Extension	Charge Fees to Cover Cost	(\$900,000)	R	(\$900,000)	R
N.C. Arboretum	Return to pre-1999 Funding	(\$250,000)	R	(\$250,000)	R
World View Program	End GF Appropriation	(\$260,000)	R	(\$260,000)	R
Cnt for Alcohol Studies	Return to pre1999 Funding	(\$500,000)	R	(\$500,000)	R
Biotech Funds	End GF Appropriation	(\$900,000)	R	(\$900,000)	R
Genomics Initiative	End GF Appropriation	(\$1,375,000)	R	(\$1,375,000)	R
Progress Board	End GF Appropriation	(\$250,000)	R	(\$250,000)	R
Turfgrass Research	End GF Appropriation	(\$600,000)	R	(\$600,000)	R
Biotech Research Inst.	End GF Appropriation	(\$350,000)	R	(\$350,000)	R
<i>Administration</i>					
N.C. Council for Women	End GF Appropriation	(\$554,999)	R	(\$555,001)	R
Human Relat. Comm.	End GF Appropriation	(\$633,405)	R	(\$633,406)	R
MLK Commission	End GF Appropriation	(\$69,534)	R	(\$69,534)	R
Gov. Council/Disabilities	End GF Appropriation	(\$462,045)	R	(\$462,050)	R
Commission/Indian Aff.	End GF Appropriation	(\$339,267)	R	(\$339,268)	R
<i>Cultural Resources</i>					
State Historic Sites	Cover 25% of Cost with Increased Donations/Fees	(\$1,494,207)	R	(\$1,497,260)	R
Tryon Palace/Gardens	Cover 50% of Cost with Increased Donations/Fees	(\$291,506)	R	(\$294,340)	R
NC Maritime Museum	Cover 50% of Cost with Increased Donations/Fees	(\$493,729)	R	(\$494,380)	R
NC Museum of Art	Cover 50% of Cost with Increased Donations/Fees	(\$1,678,843)	R	(\$1,679,962)	R
NC Arts Council	End GF Appropriation	(\$5,085,549)	R	(\$5,088,292)	R
NC Symphony	End GF Appropriation	(\$2,191,224)	R	(\$2,191,224)	R
Grants-In-Aid to Arts	End GF Appropriation	(\$2,105,033)	R	(\$2,105,033)	R
NC Museum of History	Cover 50% of Cost with Increased Donations/Fees	(\$2,493,936)	R	(\$2,495,980)	R
Roanoke Island Comm.	End GF Appropriation	(\$1,634,905)	R	(\$1,636,559)	R

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2003-04 Impact</u>	<u>FY 2004-05 Impact</u>
<i>Governor and General Assembly</i>			
Dues to Nat'l Associations	End GF Appropriation	(\$395,726) R	(\$395,726) R
Food Service	Charge Fees to Cover Cost	(\$614,180) R	(\$593,769) R
<i>Crime Control and Public Safety</i>			
Civil Air Patrol	End GF Appropriation	(\$119,124) R	(\$119,151) R
Butner Public Safety	End GF Appropriation	(\$2,694,004) R	(\$2,697,707) R
Alcohol Law Enforce.	End GF Appropriation	(\$7,665,367) R	(\$7,733,158) R
Gov's Crime Comm.	End GF Appropriation	(\$962,830) R	(\$963,178) R
National Guard	Consolidate Armories	(\$2,213,478) R	(\$2,213,930) R
<i>Agriculture</i>			
Aquaculture Develop.	End GF Appropriation	(\$227,977) R	(\$228,177) R
Marketing Division	End GF Appropriation	(\$5,597,395) R	(\$5,578,995) R
Ag Policy Development	End GF Appropriation	(\$313,998) R	(\$313,499) R
Agronomic Services	End GF Appropriation	(\$3,284,106) R	(\$3,328,197) R
Comm. Feed/Pet Food	End GF Appropriation	(\$854,797) R	(\$826,571) R
Comm. Fertilizer Analysis	End GF Appropriation	(\$478,835) R	(\$481,465) R
Seed Testing	End GF Appropriation	(\$760,612) R	(\$763,037) R
Plant Protection	End GF Appropriation	(\$3,181,579) R	(\$3,132,796) R
<i>Commerce</i>			
One North Carolina Fund	Recover unspent funds	(\$6,035,000) NR	\$0 NR
Administrative Divisions	Cut GF Appropriation 67%	(\$1,946,436) R	(\$1,949,418) R
Executive Aircraft	Cut GF Appropriation 50%	(\$1,774,371) R	(\$1,303,533) R
Marketing/Custom Services	End GF Appropriation	(\$514,086) R	(\$515,136) R
Business/Industry Dev.	End GF Appropriation	(\$4,614,873) R	(\$4,619,260) R
International Trade Div.	End GF Appropriation	(\$2,451,017) R	(\$2,435,115) R
Tourism, Film, Sports	End GF Appropriation	(\$7,940,260) R	(\$7,942,859) R
Board Science/Tech	End GF Appropriation	(\$301,645) R	(\$301,645) R
Wanchese Indus. Park	End GF Appropriation	(\$402,313) R	(\$402,521) R
Industrial Finance Ctr	End GF Appropriation	(\$469,220) R	(\$469,220) R
Local Planning, Manage.	End GF Appropriation	(\$3,293,071) R	(\$3,296,392) R
Biotechnology Center	End GF Appropriation	(\$5,883,395) R	(\$5,883,395) R
Rural Econ. Dev. Center	End GF Appropriation	(\$4,425,677) R	(\$4,425,677) R
Aid to Non-State Entities	End GF Appropriation	(\$4,224,731) R	(\$4,224,731) R
Regional Partnerships	End GF Appropriation	(\$5,528,661) R	(\$5,528,661) R
<i>Environment and Natural Resources</i>			
Environmental Education	End GF Appropriation	(\$545,873) R	(\$546,361) R
Forestry	Cover 50% of Cost with Fees	(\$3,658,464) R	(\$11,002,892) R
DFR Tree Improvement	End GF Appropriation	(\$449,784) R	(\$450,700) R
State Parks	Cover 35% of Cost with Fees	(\$3,973,976) R	(\$4,603,773) R
NC Zoo	Cover 50% of Cost with Fees	(\$1,037,964) R	(\$1,202,400) R
NC Aquariums	Cover 50% of Cost with Fees	(\$2,082,572) R	(\$2,103,064) R
Museum of Natural Science	Cover 50% of Cost with Fees	(\$3,228,167) R	(\$3,234,113) R
<i>Other Items</i>			
Unspent Floyd Relief	Reclaim to General Fund	(\$28,476,530) R	(\$34,033,180) R
State Bonded Debt	Suspend Bond Issuance	(\$60,924,215) R	(\$157,448,737) R
Golden LEAF Funds	Redirect to Gen. Fund	(\$80,000,000) R	(\$80,000,000) R
More at Four	Eliminate GF Expansion	(\$7,400,000) R	(\$7,400,000) R
TOTAL SAVINGS		(\$384,048,309)	(\$488,808,244)