

# spotlight

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## BUDGET PROGRESS AND REGRESS

*Better budget ideas from N.C. Senate, but a worse budget*

- KEY FACTS:**
- The North Carolina Senate approved \$21.2 billion in appropriations for operating expenses in fiscal year (FY) 2009, which would be a 3.9 percent increase from FY 2008, which ends June 30.
  - Senators would add \$135 million in capital spending and \$672 million in debt that would not face voter approval. Total appropriations would be 3.4 percent higher than in FY 2008.
  - Although the Senate budget is just \$15 million more than the House budget, it would set aside \$50 million less in the rainy day fund and increase the shortfall between recurring expenditures and revenues by 40 percent to \$175 million.
  - Good news in the Senate budget includes more realistic approaches to children's health insurance and statewide water conservation than those offered by Gov. Easley or the House, as well as yearly comparative evaluations through ninth grade of More at Four.
  - Pay raises in the Senate budget for teachers and state employees are comparable to those in the House budget.
  - The Senate would cut \$65 million from traditional road construction and redirect \$25 million from the General Fund to help pay for toll roads.
  - Pet projects would include an inflatable planetarium for Duplin County schools, a music hall in High Point named after John Coltrane, another alternative fuel center at N.C. State, and mandatory purchases of biodegradable bottles by state agencies.

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**t**he state Senate gets more policy right in its budget than the House did, but it gets more spending wrong. The Senate's \$21.4 billion budget is 3.4 percent larger than the budget in FY 2008. The \$21.2 billion operating budget is 3.9 percent larger.

Worse, the Senate's spending plan would widen the gap between recurring revenue and recurring expenditures to \$175 million, \$50 million more than in

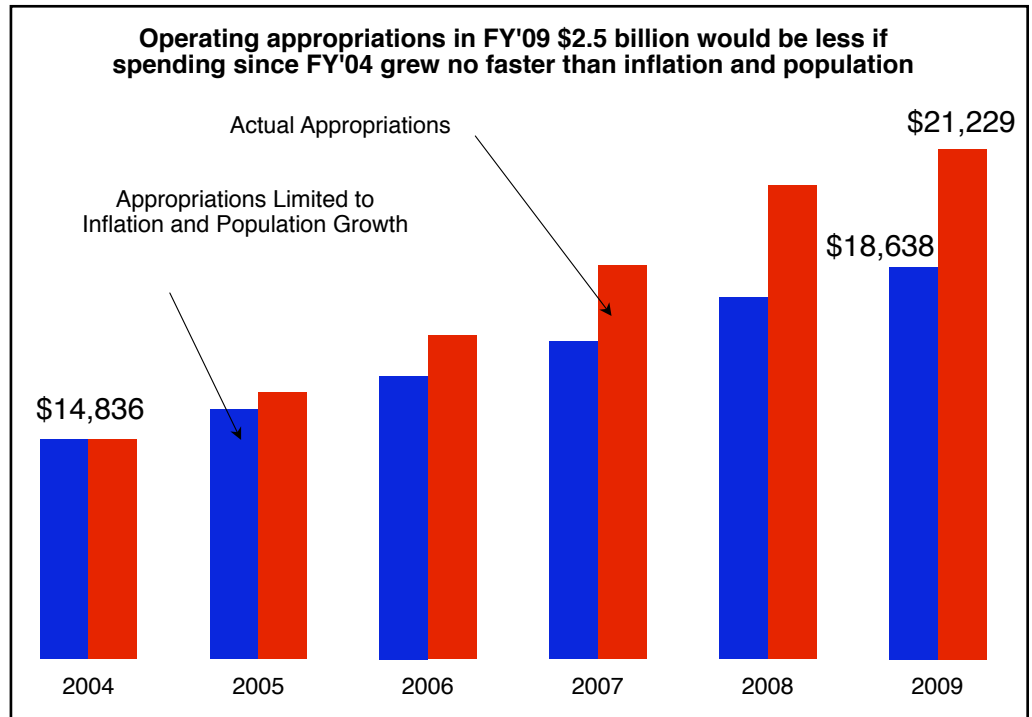
the House budget. At the same time, the Senate would set aside \$50 million less than the House in the Savings Reserve Account, the state's rainy day fund. These two actions combined would represent a \$100 million reversal in the state's future fiscal condition. Such foolishness is indicative of the entire budget.

Senate leaders provided little time to analyze the budget before bringing it to the floor, then cut off debate on the floor after just an hour "and before a single Republican was allowed to comment on the merits of the more than 200-page budget."<sup>1</sup>

Like the House, the Senate would commit government resources in the wrong places, with the wrong assumptions, and no measures of program effectiveness to guide its spending. The Juvenile Crime Prevention Council (JCPC) passed a continuation review, but the budget still has a provision to determine whether it is feasible to measure the effectiveness of programs that receive JCPC grants. That feasibility study, however, is a small step to making state spending more accountable. Another step is a Senate-authorized annual review of More at Four, but that is in the future, and the Senate this year would add another \$43 to the program's budget.

Copying the House again, the Senate would take \$25 million from the annual \$170 million Highway Trust Fund trans-

**Figure 1. A Taxpayer Bill of Rights Analysis of the Senate budget**



**Table 1. N.C. Senate's Proposed Certificates of Participation**

Project	Amount
Museum of Art Expansion (\$40 million in FY2008)	\$5,100,000
Administrative Office of the Courts - System Office Building Acquisition	\$34,000,000
NC Women's Prison Healthcare Facility	\$45,200,000
Scotland Co. Prison Minimum Security Addition	\$13,000,000
Bertie Co. Medium Security Addition	\$19,000,000
Tabor Prison, Minimum Security Addition	\$13,000,000
Lanesboro Prison, Medium Security Addition	\$19,000,000
NC Ports Improvements	\$7,000,000
Department of Agriculture and Consumer Services Improvements	\$11,800,000
ECU Dental School	\$69,000,000
ECU Family Medicine and Geriatric Center	\$36,800,000
Elizabeth City State School of Education	\$18,000,000
NC A&T General Classroom	\$20,500,000
NC A&T Horse Barns	\$2,400,000
NCSA Central Storage Facility	\$11,100,000
NCSA Film School Production Design Facility	\$12,900,000
NC State Centennial Campus Library	\$109,100,000
UNC CH Dental School	\$69,000,000
UNC Charlotte Energy Production Infrastructure Center (EPIC)	\$57,200,000
UNC Greensboro Academic Classroom and Office Building	\$42,700,000
Winston Salem State Student Activity Center	\$9,800,000
Center for Design Innovation (\$10 million in FY2008)	\$1,500,000
UNC System - Dormitory Fire Sprinklers	\$10,000,000
UNC System - Land Acquisition	\$35,000,000
<b>TOTAL new debt</b>	<b>\$672,100,000</b>

**Table 2. Senate Budget in Comparison with Those of the House, the Governor, and Previous Years**

	Lowest Common Budget	Senate Proposal	House Proposal	Governor Proposal	FY2008	Senate Compared to			
						House	Governor	FY2008	FY2004
Public Education	7,754,371,750	7,784,078,230	7,807,807,664	7,808,500,480	7,714,429,569	-0.3%	-0.3%	0.9%	29.0%
UNC System	2,636,659,552	2,701,379,115	2,632,814,488	2,687,705,776	2,626,271,017	2.6%	0.5%	2.9%	50.7%
Community Colleges	929,198,559	930,772,701	932,817,701	924,303,198	938,106,160	-0.2%	0.7%	-0.8%	40.8%
<b>Total Education</b>	<b>11,320,229,861</b>	<b>11,416,230,046</b>	<b>11,373,439,853</b>	<b>11,420,509,454</b>	<b>11,278,806,746</b>	<b>0.4%</b>	<b>0.0%</b>	<b>1.2%</b>	<b>34.5%</b>
Medicaid	3,166,785,088	3,203,492,722	3,189,685,136	3,239,662,429	2,920,359,272	0.4%	-1.1%	9.7%	61.2%
Other HHS	1,721,275,972	1,733,975,358	1,743,784,433	1,758,733,758	1,710,742,125	-0.6%	-1.4%	1.4%	24.5%
<b>Total HHS</b>	<b>4,888,061,060</b>	<b>4,937,468,080</b>	<b>4,933,469,569</b>	<b>4,998,396,187</b>	<b>4,631,101,397</b>	<b>0.1%</b>	<b>-1.2%</b>	<b>6.6%</b>	<b>46.1%</b>
Correction	1,226,132,360	1,226,759,669	1,227,375,051	1,227,614,477	1,214,065,645	-0.1%	-0.1%	1.0%	30.5%
Other JPS	858,329,028	862,107,021	862,415,117	866,630,285	843,652,721	0.0%	-0.5%	2.2%	41.9%
<b>Total JPS</b>	<b>2,084,461,388</b>	<b>2,088,866,690</b>	<b>2,089,790,168</b>	<b>2,094,244,762</b>	<b>2,057,718,366</b>	<b>0.0%</b>	<b>-0.3%</b>	<b>1.5%</b>	<b>34.9%</b>
NER	541,665,018	550,177,917	572,136,172	511,613,638	654,161,013	-3.8%	7.5%	-15.9%	68.7%
General Govt	436,535,650	467,335,680	439,548,834	447,289,570	437,078,174	6.3%	4.5%	6.9%	43.0%
Debt Service	660,633,287	643,133,287	660,633,287	643,133,287	610,175,752	-2.6%	0.0%	5.4%	65.4%
Reserve for Contingent Appropriations					45,000,000				
Retirement System Payback					713,555,164				
Other Reserves	1,093,524,113	1,126,231,168	1,111,224,113	1,319,906,472		1.4%	-14.7%	57.8%	177.8%
<b>Operating Budget</b>	<b>21,025,110,377</b>	<b>21,229,442,868</b>	<b>21,180,241,996</b>	<b>21,435,093,370</b>	<b>20,427,596,612</b>	<b>0.2%</b>	<b>-1.0%</b>	<b>3.9%</b>	<b>432.4%</b>
Capital Improvements	53,743,436	135,711,590	169,899,737	96,998,826	230,741,100	-20.1%	39.9%	-41.2%	391.7%
<b>TOTAL</b>	<b>21,078,853,813</b>	<b>21,365,154,458</b>	<b>21,350,141,733</b>	<b>21,532,092,196</b>	<b>20,658,337,712</b>	<b>0.1%</b>	<b>-0.8%</b>	<b>3.4%</b>	<b>44.6%</b>
New Debt (COPs)	<b>418,100,000</b>	<b>672,100,000</b>	<b>549,600,000</b>	<b>553,204,000</b>	<b>694,148,465</b>				

fer to the General Fund and redirect it to provide gap funding for toll roads. Again following the House, the Senate also would cut traditional road funding by \$30 million (\$65 million in other Highway Trust Fund construction projects offset by roughly \$34 million in road maintenance and repairs).

**Good non-policy**

Unlike the House, the Senate refrained from expanding Health Choice, the state’s health insurance program for children, by \$10.4 million. Reversing the enrollment growth of programs like Health Choice, which take people out of the private insurance market for a Potemkin health care program, would be ideal, but slowing that growth is better than feeding it. The Senate also refrained from committing \$50 million to purchase open space and adding \$60 million for water measures that would spend more to dictate water decisions instead of allowing consumers and suppliers to decide for themselves. The Senate budget would still do nothing to make it easier for prices to reflect market conditions.

**Setting Priorities**

Senators added a number of provisions that would increase spending for feel-good projects of questionable worth in what they claim is a tight budget, including \$15 million for a veterans park in Fayetteville, another \$1 million for Johnson and Wales University’s cooking school in Charlotte, more money for the furniture market and a John Coltrane music theater in High Point, and an inflatable planetarium described as a Portable Immersive Learning Environment (PILE for short) for Duplin County schools. These programs contribute to the Senate budget’s higher spending.

If conference committee members are serious about fiscal responsibility, they will take a long look at the items in contention between the House and Senate budgets. Just taking the lower amount between the two could save \$200 million in operations compared with the Senate budget and nearly \$300 million when including capital. It would also limit new debt for the state to \$418 million. There also remains the option to go home without revising the \$20.7 billion budget already approved in 2007 for the fiscal year.

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**End Notes**

1. Associated Press, “Senate tentatively approves \$21B state budget,” June 18, 2008, [www.wral.com/news/state/story/3061026](http://www.wral.com/news/state/story/3061026).

**Table 3. Availability in the Senate budget**

	<b>FY2008-09</b>
Revenues Based on Existing Tax Structure	19,903,800,000
Non-tax Revenues	965,700,000
<b>Expected tax and fee revenue</b>	<b>20,869,500,000</b>
Unappropriated Balance	270,504,098
Net Adjustment - S.L. 2007-540	(1,000,000)
Additional unappropriated balance	47,867,864
Reversions	150,000,000
Overcollections	151,500,000
<b>Availability before Legislative Changes</b>	<b>21,488,371,962</b>
Reserve for Tax Relief	(50,000,000)
Total Tax Changes	(50,000,000)
<b>Availability after tax changes</b>	<b>21,438,371,962</b>
Healthcare Facility CON fee	822,028
Securities filing fee	2,500,000
Total Fee Changes	3,322,028
<b>Availability after fee changes</b>	<b>21,441,693,990</b>
Reduce transfer from Highway Trust Fund	(25,000,000)
Disaster Relief Fund Transfer (Western NC hurricanes)	21,000,000
NC Rx Fund Unexpended Balance Transfer	3,500,000
Tobacco Trust Fund Transfer	5,000,000
Health & Wellness Trust Fund Transfer	5,000,000
Coaching Scholarship Loan Fund Transfer	267,000
Principal Fellows Trust Fund Transfer	1,000,000
NCCCS Computer Information System (CIS) Fund Transfer	4,500,000
Focused Industrial Training (FIT) Fund Transfer	783,246
Non-Tax-Disproportionate Share Account Transfer	19,300,000
Insurance Regulatory Fund Transfer Adjustment	633,492
Treasurer's Office Transfer Adjustment	763,829
Asbestos Hazard Removal Program Cap Transfer Adjustment	112,901
Net Transfers	36,860,468
<b>Availability after transfers</b>	<b>21,478,554,458</b>
Savings Reserve Account	(13,400,000)
Repairs and Renovations Reserve	(100,000,000)
<b>Net Availability</b>	<b>21,365,154,458</b>
<b>Adjusted Continuation Budget</b>	<b>20,694,246,538</b>
Recurring Adjustment	303,674,972
Nonrecurring Adjustments	231,521,358
Capital	135,711,590
<b>Revised Appropriation</b>	<b>21,365,154,458</b>
	<b>FY2008-09</b>
<b>Recurring Revenue before changes</b>	<b>20,869,500,000</b>
Adjusted Continuation Budget	20,694,246,538
New Recurring Spending	303,674,972
<b>Total Recurring Spending</b>	<b>20,997,921,510</b>
<b>Surplus/(Deficit) before revenue changes</b>	<b>(128,421,510)</b>
<b>Total Recurring Revenues</b>	<b>20,822,822,028</b>
<b>Total Recurring Spending</b>	<b>20,997,921,510</b>
<b>Structural deficit</b>	<b>(175,099,482)</b>
<b>Expected Revenues</b>	<b>20,869,500,000</b>
Previous Year Unreserved Balance	618,871,962
Other Availability Changes	(123,217,504)
<b>Final Availability</b>	<b>21,365,154,458</b>
<b>Final Appropriation</b>	<b>21,365,154,458</b>
<b>Surplus/(Deficit) after revenue changes</b>	<b>-</b>