

spotlight

No. 291 – June 13, 2006

FREEDOM BUDGET 2006

Providing Relief to North Carolina's Counties and Taxpayers

S U M M A R Y : Economic growth has given the General Assembly \$2.4 billion more to spend. Higher sales and income taxes have contributed to this surplus. The Senate adds \$1.4 billion in new spending, and relies on nonrecurring revenues for \$400 million in new recurring obligations. Drawing on the John Locke Foundation's Freedom Budget 2005, this paper offers an alternative budget that would end the sales tax and income tax increases from 2001, eliminate Medicaid's burden on counties, and keep spending growth to 4.3 percent – all within the limit of population growth and inflation.

North Carolina's government has a \$2.4 billion surplus under current law, which means North Carolina's taxpayers have paid too much money for government services. The fiscal emergency is behind us. It is time for the General Assembly to repeal the sales tax and income tax increases first imposed as temporary measures in 2001.

Ending the half-cent sales tax on July 1, 2006, would remove \$524 million of non-recurring revenue from the amount available in fiscal year (FY) 2006-07. Rolling the 8.25 percent top income tax rate back to 7.75 percent as of January 1, 2007, would remove another \$57.2 million of non-recurring revenue.

Gov. Mike Easley's budget proposal included more than \$1.45 billion in new spending for FY2006-07 and \$230 million in tax relief.¹ The Senate budget (SB1741) contains more than \$1.42 billion in new spending for FY2006-07 and \$169.9 million in tax relief.²

This paper outlines a proposal that includes \$75 million in new spending and \$800 million in direct tax relief, plus a state takeover of the \$459 million counties are expected to pay for Medicaid during the fiscal year. The Medicaid spending, although new spending by the state, will remove the fastest growing item from county budgets and ease the pressure for new local taxes.

Even with the Medicaid spending, the proposal in this paper would save \$890 million from the Senate's \$18.82 billion budget. The proposal would spend \$17.9 billion, set aside \$548 million in the Saving Reserve and Repair and Renovation Reserve, end the \$250 million annual transfer from the Highway Trust Fund and retain a \$380 million unreserved balance.

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

The John Locke Foundation is a 501(c)(3) nonprofit, nonpartisan research institute dedicated to improving public policy debate in North Carolina. Viewpoints expressed by authors do not necessarily reflect those of the staff or board of the Locke Foundation.

The John Locke Foundation's Freedom Budget 2005³ lists more potential savings from the continuation budget, and there are many smaller savings available in the Senate proposal. For space considerations, this report does not include expansion line items with less than \$1 million in appropriations; their inclusion would yield at least \$8 million in additional saving.

Joseph Coletti is Fiscal Policy Analyst for the John Locke Foundation.

Notes:

1. "2006-2007 Recommended Budget Adjustments," Office of State Budget and Management, May 2006. http://www.osbm.state.nc.us/files/pdf_files/2006-2007_adjustments.pdf
2. "Senate Appropriations Committee Report on the Continuation, Expansion and Capital Budgets - May 23, 2006 - Revised May 25, 2006," North Carolina General Assembly, Fiscal Research Division. <http://www.ncleg.net/sessions/2005/budget/2006/budgetreport5-23.pdf>
3. Joseph Coletti, *Freedom Budget 2005: Principled and Pragmatic*, John Locke Foundation, May 2005. http://www.johnlocke.org/policy_reports/display_story.html?id=57

Figure 1: Comparing Budget Proposals from the Governor, Senate and John Locke Foundation

	<u>Governor</u>	<u>Senate</u>	<u>JLF</u>
Beginning Credit Balance	\$1,310,486,988	\$1,310,486,988	\$1,310,486,988
Recommended Budgeted Revenue	\$18,504,513,009	\$18,504,513,009	\$18,504,513,009
Total Availability Before Adjustments	\$19,814,999,997	\$19,814,999,997	\$19,814,999,997
Sales Tax	(\$196,500,000)	(\$118,000,000)	(\$524,000,000)
Income Tax		(\$28,600,000)	(\$57,200,000)
Cap Gas Tax Effective July 1, 2006	(\$23,550,300)	(\$23,300,000)	(\$23,300,000)
Reduce Highway Trust Fund Transfer	(\$195,176,407)	(\$195,176,407)	(\$252,663,009)
1/4-cent Sales Tax Refund from October 1, 2006			(\$196,500,000)
Emergency Appropriation for Department of Correction	(\$15,000,000)	(\$15,000,000)	(\$15,000,000)
Credits to Saving Reserve and Repair and Renovation Reserve	(\$524,000,000)	(\$548,871,747)	(\$548,871,747)
Other changes	(\$10,230,000)	(\$65,490,000)	\$113,713,927
Final Availability	\$18,850,543,290	\$18,820,561,843	\$18,311,179,168
Original Certified Budget	\$17,396,304,791	\$17,396,304,791	\$17,396,304,791
Adjustments*	\$1,454,238,499	\$1,424,257,052	\$75,038,736
County Share of Medicaid	\$0	\$0	\$459,063,381
Total Appropriations	\$18,850,543,290	\$18,820,561,843	\$17,930,406,908
Ending Unreserved Balance	\$0	\$0	\$380,772,260
Percent Increase from 2005-06	9.6%	9.4%	4.3%

Sales Tax

Governor - reduce by 1/4-cent on 10/1/06

Senate - reduce by 1/4-cent on 1/1/07

JLF - reduce by 1/2-cent on 7/1/06

Highway Trust Fund

Governor - reduce transfer

Senate - reduce transfer

JLF - eliminate transfer

*Details of JLF Adjustments in Figure 2

Income Tax

Governor - No Change

Senate - Reduce by 0.25% on 1/1/07

JLF - Reduce by 0.50% on 1/1/07

Other Changes

Governor - Adoption tax credit, targeted sales tax reduction

Senate - Reserve for Other Tax Reductions, Redirect Portions of Other Revenue Sources

JLF - Redirect Tobacco Master Settlement to General Fund

Figure 2: John Locke Foundation Alternative Spending Priorities

	<u>Total Saving</u>	<u>Expansion</u>	<u>Continuation</u>
Education			
Learn and Earn	\$13,013,174	\$9,765,748	\$3,247,426
Small Specialty High School	\$5,914,527	\$4,467,650	\$1,446,877
Disadvantage Students Supplemental Funding (DSSF)	\$49,197,440	\$26,697,440	\$22,500,000
Literacy Coaches and Training	\$6,667,400	\$6,667,400	\$0
School-based ABC Bonuses	\$90,000,000	\$90,000,000	\$0
National Board (NBPTS) Certification	\$3,274,500	\$0	\$3,274,500
Mentor Teachers	\$8,100,140	\$0	\$8,100,140
Increased Nursing Program Funds	\$2,050,000	\$2,050,000	\$0
Area Health Education Centers	\$2,300,000	\$2,300,000	\$0
Translational Medicine	\$2,500,000	\$2,500,000	\$0
Kannapolis Research Campus	\$9,445,000	\$9,445,000	\$0
Other Biotech (BRITE-NC Central, BTEC-NC State)	\$4,500,000	\$4,500,000	\$0
Institute of Medicine and Hunt Institute	\$1,000,000	\$1,000,000	\$0
2+2 E-Learning	\$1,000,000	\$1,000,000	\$0
NC Military Business Center	\$1,000,000	\$1,000,000	\$0
Family House @ UNC Hospitals	\$1,000,000	\$1,000,000	\$0
Teacher Scholarship Loan	\$1,000,000	\$1,000,000	\$0
Center for Public Television	\$11,488,459	\$0	\$11,488,459
Minority student set-aside funds	\$2,506,825	\$0	\$2,506,825
Center for School Leadership (MTEC, PEP, etc)	\$15,726,376	\$0	\$15,726,376
Redirect Research Overhead	\$62,800,000	\$0	\$62,800,000
Industry Training	\$14,198,556	\$0	\$14,198,556
7.5% Less Non-Teaching Position Funds	\$60,760,384	\$0	\$60,760,384
25% Less Assistant Principal Funds	\$25,849,903	\$0	\$25,849,903
Redirect 35% of Teaching Assistant Funds to Teachers	\$143,398,976	\$0	\$143,398,976
Faculty and Administration 5% pay raises	\$121,125,000	\$121,125,000	\$0
Education Total	\$659,816,660	\$284,518,238	\$375,298,422
Health and Human Services			
Early Intervention	\$7,103,147	\$7,103,147	\$0
School Nurse	\$4,500,000	\$4,500,000	\$0
Universal Vaccine	\$6,526,095	\$6,526,095	\$0
Health Disparities Initiative	\$2,000,000	\$2,000,000	\$0
Child Care Subsidy	\$27,000,000	\$20,000,000	\$7,000,000
Smart Start	\$204,187,096	\$14,000,000	\$190,187,096
T.E.A.C.H. Program	\$4,338,000	\$1,000,000	\$3,338,000
Medicaid expansion - Children to 200% of poverty	\$17,685,090	\$0	\$17,685,090
NC Health Choice 2005-06 expansion	\$13,613,590	\$0	\$13,613,590
HHS Total	\$286,953,018	\$55,129,242	\$200,525,096

Figure 2: John Locke Foundation Alternative Spending Priorities (cont'd)

	<u>Total Saving</u>	<u>Expansion</u>	<u>Continuation</u>
Environment and Natural Resources			
Agriculture Marketing and subsidies	\$16,025,342	\$630,300	\$15,395,042
Private Well Water Testing	\$1,098,629	\$1,098,629	\$0
One North Carolina Small Business Fund	\$5,000,000	\$5,000,000	\$0
One North Carolina Fund	\$10,000,000	\$10,000,000	\$0
Furniture Market Advertising	\$1,750,000	\$1,750,000	\$0
Tourism, Film and Sports	\$9,088,427	\$100,000	\$8,988,427
NC Biotech Center	\$14,583,395	\$4,000,000	\$10,583,395
Rural Economic Development Center	\$24,552,607	\$0	\$24,552,607
ENR Total	\$82,098,400	\$22,578,929	\$59,519,471
General Government			
Department of Administration	\$3,305,738	\$0	\$3,305,738
Department of Cultural Resources	\$13,124,389	\$4,347,816	\$8,776,573
Housing Programs	\$17,750,000	\$17,750,000	\$0
General Government Total	\$34,180,127	\$22,097,816	\$12,082,311
Transportation			
Ferry Division	\$1,000,000	\$1,000,000	\$0
Public Transportation	\$9,400,000	\$9,400,000	\$0
Piedmont and Carolinian	\$1,198,750	\$1,198,750	\$0
Short Line Railroads	\$2,000,000	\$2,000,000	\$0
Small Construction - Econ Development	\$28,000,000	\$28,000,000	\$0
Transportation Total	\$41,598,750	\$41,598,750	\$0
Capital			
Hickory Nut Gorge Park Expansion	\$15,000,000	\$15,000,000	\$0
Water Resources Development Projects	\$20,000,000	\$20,000,000	\$0
Secondary Statewide Data Center	\$24,841,300	\$24,841,300	\$0
UNCW School of Nursing	\$27,000,000	\$27,000,000	\$0
NC State Engin Complex III	\$61,000,000	\$61,000,000	\$0
UNC-Charlotte Downtown	\$45,827,400	\$45,827,400	\$0
WCU School of Health	\$2,402,661	\$2,402,661	\$0
Center for Design Innovation	\$3,500,000	\$3,500,000	\$0
UNC-CH Genomics	\$35,000,000	\$35,000,000	\$0
UNC Hospitals	\$3,000,000	\$3,000,000	\$0
Dental Schools Planning	\$7,000,000	\$7,000,000	\$0
Capital Total	\$244,571,361	\$244,571,361	\$0
Subtotal Saving	\$1,349,218,316	\$670,494,336	\$647,425,300
Addition: County Share of Medicaid	\$459,063,381	\$0	\$459,063,381
Net Saving	\$890,154,935	\$670,494,336	\$188,361,919