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THE 2011-2013 FINAL BUDGET:

Neglecting a Balanced Approach, Budget Costs Jobs and Delays Economic Recovery

BY BRENNA BURCH, *Policy Analyst*, and EDWIN McLENAGHAN, *Policy Analyst*

Executive Summary

- The North Carolina General Assembly has proposed a \$19.7 billion General Fund budget for fiscal year 2011-2012 and a \$19.9 billion budget for fiscal year 2012-2013. When adjusted to reflect approximately \$220 million per year in accounting maneuvers, the final budget spends \$600 million less than the governor's budget proposal.
- The final budget increased the FY11-12 budget gap to \$2.5 billion by adding \$188 million in tax cuts for businesses and the wealthiest North Carolinians.
- The final budget is fundamentally unbalanced, using more than \$700 million in one-time money to pay for recurring expenses in the first year. The legislature closes the FY11-12 budget gap with \$1.7 billion in spending cuts; \$244.9 million in transfers from and diversions to non-General Fund accounts; \$63.9 million in fee increases; and an anticipated \$520 million General Fund net credit balance from current-year savings and reversions.
- In addition to allowing the temporary tax package to expire, at an annual cost in revenue of more than \$1.3 billion, the final budget includes tax cuts totaling \$189 million in the first year of the biennium and \$407 million in the second year. Part of the lost revenue from tax cuts is offset by diverting \$147 million in corporate tax revenue from the Public School Building Capital Fund to the General Fund over the biennium.
- Of its \$1.7 billion FY11-12 spending cuts, the legislature made 28 percent in the public education budget (\$459 million); 26 percent in health and human services (\$432 million); 20 percent in the UNC system (\$347 million); and 10 percent in justice and public safety (\$165 million).
- Economic impact analysis by the NC Budget and Tax Center shows that by FY12-13, the cumulative impact of the tax cuts and spending cuts in this budget will cost the state a net 29,782 jobs, \$1.2 billion in lower wages, and \$2.3 billion in lost industry output.

Overview

The North Carolina Senate passed its recommended biennial budget for fiscal years 2011-2013 on June 2nd. In a break from usual procedure, the House concurred with the Senate budget as passed and ratified the legislation just two days later. Governor Beverly Perdue vetoed the final budget, but the General Assembly voted to override the veto on June 15th.

Ultimately, the legislature approved a \$19.7 billion General Fund budget that actually spends only \$19.5 billion on functions previously included in the General Fund budget, a 2.1 percent decrease in aggregate spending from the governor's proposal. The governor's recommended budget included considerably higher funding for core state functions and services, financed in part by new revenue. In comparison, the final budget significantly reduces the state's investments in public structures that support continued and shared economic growth and community stability. In addition, the final budget uses unsustainable financing, funding recurring expenses with one-time money and reducing long-term revenue availability through tax cuts. The legislative budget also includes significant policy changes that will fundamentally alter, and in many cases weaken, the delivery of public services.

This issue of BTC Reports analyzes the legislature's budget in detail with a special focus on its potential effect on low- and moderate-income North Carolinians and the long-term fiscal health of the state.

Budget Availability and Balance

The final budget is in general agreement with the governor's budget on baseline revenue availability. However, there are several key differences in the final budget, including a consensus revenue forecast revised upward by \$180 million and higher end-of-year General Fund reversions based on Session Law 2011-15,¹ which directs the governor to find \$132 million in agency reversions in addition to her \$406 million current-year agency holdback. The governor signed this legislation into law on March 25 and has since directed all state agencies to restrict spending to payroll and operating costs through June of the current year in order to achieve this savings target.² The combination of these anticipated current-year savings and higher-than-expected revenue collections fully account for the difference between the governor's and the legislature's credit balance projections.

Accordingly, the current-year spending estimate in Figure 1 has been revised from previous BTC budget reports to reflect changes in estimated actual end-of-year state spending in

Fig 1: Budget Relies on High End-of-Year Credit Balance

Legislative Determination of Credit Balance		Governor's Determination of Credit Balance	
Sources of Current Year Savings	FY11-12	Sources of Current Year Savings	FY11-12
Year-end unreserved fund balance*	\$ 111,902,394	Year-end unreserved fund balance	\$ 111,000,000
Anticipated reversions for FY10-11	\$ 537,740,799	Anticipated reversions (3.5% reduction holdback)	\$ 406,018,097
Revenue collections over FY10-11 projections**	\$ 180,800,000	Revenue collections over FY10-11 projections	\$ 156,300,000
House, Total FY11-12 Credit Balance	\$ 830,443,193	Governor, Total FY11-12 Credit Balance	\$ 673,318,097
House's Proposed Use of Credit Balance	FY11-12	Governor's Proposed Use of Savings	FY11-12
Rainy Day Fund	\$ 185,000,000	Rainy Day Fund	\$ 150,000,000
Repairs & Renovations Reserve Account	\$ 125,000,000	Mental Health Trust Fund	\$ 75,000,000
		Equipment for Community Colleges	\$ 25,000,000
		Construction & Repairs Jobs	\$ 75,000,000
		Establish Consolidation and Efficiency Incentive Fund	\$ 25,000,000
NET General Fund Credit Balance	\$ 520,443,193	NET General Fund Credit Balance	\$ 323,318,097

* The legislative budget breaks out the \$125 million in Medicaid DSH receipts that must be repaid as an adjustment to unreserved credit balance. This chart rolls that action into the unreserved balance to reflect general agreement with the Governor on availability for this line item

*** Legislative budget reflects revised May consensus revenue forecast of \$24.5 million over earlier projections

Fig. 2: Final Budget Assumes vs. Governor's Budget

FY 10-11 Revised General Fund Budget (S.L. 2010-31)	\$	18,958,293,337		
FY10-11 Estimated Actual Spending, including S.L. 2011-15*	\$	19,838,605,656		
		Legislative	House	Governor
		FY 11-12	FY 11-12	FY 11-12
Proposed Budget	\$	20,820,687,612	\$ 20,820,687,612	\$ 20,820,687,612
Proposed Cuts to Budget	\$	1,685,846,686	\$ 2,110,802,550	\$ 1,342,363,900
Proposed Continuation/Expansion Spending	\$	327,990,725	\$ 394,241,729	\$ 424,224,385
Subtotal, Budget Adjustments	\$	19,462,831,651	\$ 19,104,126,791	N/A
Off-Budget to On-Budget Transfers*	\$	219,819,542	\$ 196,849,542	N/A
Total FY 11-12 General Fund Appropriations	\$	19,682,651,193	\$ 19,300,976,333	\$ 19,902,548,097
% Change from FY10-11 Revised General Fund Budget		3.8%	1.8%	5.0%
Actual Spending % Change from FY10-11 Estimated Actual Spending		-1.9%	-3.7%	N/A
Appropriations % Change from FY10-11 Estimated Actual Spending		-0.8%	-2.7%	0.3%

* S.L. 2011-15 directs the Governor to find \$132 million in current year savings above the 3.5% agency clawback

** Compares "Budget Adjustments" line to FY10-11 Estimated Actual Spending including S.L. 2011-15

*** Compares "FY11-12 General Fund Appropriations" to FY10-11 Estimated Actual Spending including S.L. 2011-15

Federal Recovery Funds and Year-to-Year Budget Comparisons

FOR THE LAST TWO YEARS, North Carolina has relied on roughly \$3 billion in federal assistance (as part of the American Recovery and Reinvestment Act of 2009) to pay for its core obligations: education, health, justice, public safety, and infrastructure. During that time, state appropriations were, in effect, supplanted by federal dollars: the federal government took on a greater responsibility for paying for state programs and services in order to alleviate financial pressure on the state in the depth of the Great Recession. With no more federal assistance available to support state expenditures in FY11-13, the state must re-assume greater financial responsibility for its core functions.

Because of the federal assistance, state appropriations in FY09-10 and FY10-11 were significantly lower than what was actually required – and spent – to maintain basic minimum operations, and this must be taken into consideration when comparing the FY11-13 budget to previous years. While individual line items in the final FY11-12 budget look significantly higher than the FY10-11 appropriation for the same item, it is often because federal funds made up the actual difference in total spending on that item.

the Natural and Economic Resources (NER) budget: the final budget repeals a \$22.5 million sales tax set-aside for the Wildlife Resources Commission, moves that money to the General Fund, and then appropriates only \$18 million to the commission, which amounts to a 20-percent cut. Although the transfers include real budget cuts, the account shift lessens the apparent depth of cuts in the Justice and Public Safety and NER budget summary lines.⁴

Details on these and other transfers are provided in Figure 3 and Figure 5 of this report. This budget reduces actual state spending by 1.8 percent from estimated FY10-11 spending, although total appropriations only reflect a 0.8 percent reduction from the current year due to the accounting maneuvers outlined above.

accordance with the governor's current directive to state agencies.

The final budget's \$1.7 billion in spending cuts appear to be, but are not actually, reduced by two major off-budget transfers. The budget moves \$196 million in off-budget³ Highway Fund dollars to the General Fund to account for the Highway Patrol within the Crime Control and Public Safety budget. A similar accounting shift is made within

Structural Balance Analysis

The final budget is structurally out of balance, relying on more than \$700 million in non-recurring funds to achieve annual – rather than structural – balance in the first year of the biennium. The second budget year is even more severely structurally unbalanced due to full implementation of the budget’s \$408 million tax-cut package. The absence of a large General Fund credit balance in FY12-13 as well as fewer overall one-time fund transfers and diversions is responsible for a significant share of the budget gap in FY12-13.

The Revenue Plan

The most significant part of the legislative revenue plan is what the General Assembly chose not to include: an extension of any part of the two-year temporary tax package passed as part of the 2009-11 biennial budget.

If extended for two more years, the full temporary tax package—which consisted of a 1-cent increase in the state sales tax, a 2-percent to 3-percent income tax

surcharge on high-income households, and a 3-percent surcharge on corporate income taxes—would have increased annual state revenues by an estimated \$1.3 billion, enough to offset the vast majority of spending cuts included in the final budget. Governor Perdue’s plan to extend three-quarters of the 1-cent sales tax increase would have raised more than \$800 million in each year of the biennium.

Other significant tax changes include the business-income tax exemption, the suspension of the corporate tax earmark for the Public School Building Capital Fund, and changes to the state estate tax to conform to federal changes.

BUSINESS-INCOME TAX EXEMPTION

The legislative revenue plan includes a two-year provision allowing business owners to exempt the first \$50,000 in “pass-through” income from their state income taxes, so long as the business owner is actively engaged in running the business. For individual business owners with at least \$50,000 in eligible business income, the value of the exemption would range from \$3,000 to \$3,875. The exemption would apply to the 2012 and 2013 calendar years and, when fully implemented, cost the state more than \$300 million in revenue each year.

The legislative leadership has billed this business exemption as their signature “job creation” measure, but like Governor Perdue’s proposed corporate income tax cut, this exemption is both costly and highly unlikely to create jobs. Receiving a tax cut adds little incentive for businesses to hire: businesses will hire new workers only when they expect additional demand for their products and services and when they have access to the capital necessary to invest in hiring.⁵ And because every dollar of tax cuts must be paid for with cuts to vital public investments in education, health, public safety, and clean air and water, the proposed business tax cut is likely to result in net job losses.

Fig. 3: Final Budget Structurally Unbalanced

	FY11-12	FY12-13
Recurring Money	\$ 18,697,845,715	\$ 19,540,195,715
Recurring Revenues	\$ 18,822,630,000	\$ 19,884,080,000
Revenue Changes (Net)	\$ (124,784,285)	\$ (343,884,285)
<i>Tax Cuts</i>	\$ (188,700,000)	\$ (407,800,000)
<i>Fee Increases</i>	\$ 63,915,715	\$ 63,915,715
minus Recurring Expenses (Net)	\$ 19,548,512,261	\$ 20,086,566,926
Continuation Budget	\$ 20,820,687,612	\$ 20,817,534,214
Recurring Continuation/Expansion*	\$ 288,488,565	\$ 819,006,206
<i>Off-Budget to On-Budget Transfers</i>	\$ 219,819,542	\$ 212,129,049
<i>All other recurring expenses</i>	\$ 68,669,023	\$ 606,877,157
Recurring Reductions	\$ (1,560,663,916)	\$ (1,549,973,494)
Recurring Balance	\$ (850,666,546)	\$ (546,371,211)
Non-Recurring Money	\$ 773,965,951	\$ 172,022,496
<i>General Fund Credit Balance</i>	\$ 520,443,193	\$ -
<i>Fund Transfers / Diversions</i>	\$ 218,522,758	\$ 137,022,496
<i>Accounts Receivable and DSH revenues</i>	\$ 35,000,000	\$ 35,000,000
minus Non-Recurring Expenses	\$ (66,300,824)	\$ (162,392,375)
<i>Non-Recurring Continuation/Expansion</i>	\$ 175,615,323	\$ 53,776,758
<i>Non-Recurring Reductions</i>	\$ (241,916,147)	\$ (216,169,133)
Non-Recurring Balance	\$ 707,665,127	\$ 9,630,121

**CONFORMING TO
FEDERAL ESTATE TAX
CHANGES**

Part of the December 2010 tax compromise between President Obama and Republican Congressional leadership included a two-year provision raising the federal estate tax exemption to \$10 million per estate (\$5 million for never-married decedents). If the estate-tax portion of the Bush tax cuts had expired at the end of 2010, the estate tax would have returned to 2001 exemption levels of \$1 million per estate.

**Suspension of Corporate Income Tax Earmark
for Public School Building Capital Fund**

THE FINAL BUDGET INCLUDES a provision to extend, from two years to four years, the suspension of the corporate income tax earmark to the Public School Building Capital Fund (PSBCF). Suspending this earmark of 7.25 percent of annual corporate income tax revenues will result in an estimated \$147 million in additional revenue in the General Fund over the duration of the biennium.

Since fiscal year 2006-07, 40 percent of the net lottery revenues for education have been earmarked for the PSBCF, and since the subsequent fiscal year, the lottery allocation for the PSBCF has exceeded even the largest corporate income tax earmark by a substantial margin. Governor Perdue's recommended budget included a provision that would have permanently repealed the corporate tax earmark.

North Carolina has consistently tied its estate tax to the specifications of the federal estate tax but was set to return to 2001 specifications for tax year 2011 absent any action by the General Assembly. The governor's budget proposal did not include any provisions conforming North Carolina's estate tax to the higher federal exemption level for 2011 and 2012, but the final budget does, at a cost in revenue of \$57 million in the first year of the biennium and \$72 million in the second year. As of 2009, when the estate tax applied to estates worth greater than \$7 million (\$3.5 million for never-married decedents), only 407 estates in North Carolina, representing estates valued in the highest 0.5 percent of all estates, paid any estate tax. Under the higher exemption, an even lower percentage of North Carolina estates will owe any federal or state estate tax.

Fig. 4: Final Budget Raises Fees and One-Time Money

Fee Increases	FY11-12	FY12-13
Increase in Judicial Fees (General Fund portion only)	\$ 61,765,715	\$ 61,765,715
Increase Investment Company Notice Filing Fee	\$ 1,600,000	\$ 1,600,000
Increase Parking Fees for Visitors	\$ 550,000	\$ 550,000
Subtotal, Fee Increases	\$ 63,915,715	\$ 63,915,715

Fund Transfers and Diversions	FY11-12	FY12-13
Suspend Corporate Tax Earmark for Public School Building Construction Fund	\$ 72,110,000	\$ 74,750,000
Take balance of Health & Wellness Trust Fund to DHHS	\$ 32,904,411	\$ -
Diversion of Golden LEAF Funds	\$ 17,563,760	\$ 17,563,760
Divert all other Tobacco Master Settlement Agreement funds	\$ 24,668,720	\$ 25,580,772
Transfer additional money from Highway Trust Fund	\$ 35,223,642	\$ -
Transfer from NC Flex FICA Funds	\$ 1,000,000	\$ -
Proceeds from sale of undisclosed State assets	\$ 15,000,000	\$ 25,000,000
Transfer from E-Commerce Reserve Fund	\$ 4,483,526	\$ -
Divert Funds from Parks & Recreation Trust Fund	\$ 8,435,000	\$ -
Divert Funds from Recreational/Natural Heritage Trust Fund	\$ 8,000,000	\$ -
Transfer from Commerce - Enterprise Fund	\$ 500,000	\$ -
Transfer from Mercury Prevention Pollution Fund	\$ 250,000	\$ -
Divert Funds from Scrap Tire Disposal Account	\$ 2,268,989	\$ -
Divert Funds from White Goods Management Account	\$ 1,951,465	\$ -
Adjust transfer from Treasurer's Office	\$ (3,881,172)	\$ (3,916,453)
Adjust transfer from Insurance Regulatory Fund	\$ (742,348)	\$ (742,348)
Loss of revenue from Town of Butner	\$ (1,213,235)	\$ (1,213,235)
Subtotal, Fund Transfers and Diversions	\$ 218,522,758	\$ 137,022,496
Total, Fees and Fund Transfers	\$ 282,438,473	\$ 200,938,211

The Spending Plan

The legislature pursued a cuts-only approach to close the \$2.5 billion shortfall in the first year of the biennial budget. Although the final budget appropriates \$19.7 billion in FY11-12, authorized state spending will be slightly less than \$19.5 billion because the budget accounts for major off-budget items, like the Highway Patrol, in the General Fund. In total, the biennial budget actually spends \$440 million less on items that were included in the General Fund budget in previous years.

This budget cuts the Health and Human Services budget by \$905 million over the biennium. Of that amount, 85 percent (\$763 million) is cut from the Medicaid program alone. While this action will directly impact the availability of non-mandatory health-care services, such as adult dental care, the final budget abdicates all responsibility for making these unpopular and costly changes by cutting the Medicaid budget far below projected requirements and then directing the Department of Health and Human services (DHHS) to make sweeping policy and programmatic changes outside the legislative process in order to meet their

Fig. 5: How Does the Legislature Pay for its Budget Compared to the Governor?

	LEGISLATURE	%	GOVERNOR	%
Baseline Revenue Forecast	\$ 18,822,630,000		\$ 18,822,630,000	
Initial Appropriation Requirements	\$ 21,148,678,337		\$ 21,244,911,997	
Recommended Base Budget	\$ 20,820,687,612		\$ 20,820,687,612	
Recommended Continuation/Expansion Budget*	\$ 327,990,725		\$ 424,224,385	
Projected Budget Shortfall or Surplus	\$ (2,326,048,337)		\$ (2,422,281,997)	
+ Revenue Changes (Net)	\$ (148,700,000)		\$ 756,600,000	
Business Tax Cuts	\$ (131,600,000)		N/A	
Expiring Estate Tax	\$ (57,100,000)		N/A	
Dept. of Revenue Accounts Receivable	\$ 25,000,000		N/A	
Disproportionate Share	\$ 15,000,000		N/A	
Subtotal, Budget Shortfall + Revenue Changes	\$ (2,474,748,337)		\$ (1,665,681,997)	
+ Fund Transfers and Deposit Diversions**	\$ 218,522,758	8.8%	N/A	N/A
+ Fee Increases	\$ 63,915,715	2.6%	N/A	N/A
+ Net General Fund Credit Balance	\$ 520,443,193	21.0%	\$ 323,318,097	19.4%
+ Spending Cuts	\$ 1,685,846,686	68.1%	\$ 1,342,363,900	80.6%
Public Education	\$ 459,051,894	27.2%	\$ 357,061,035	26.6%
Community Colleges	\$ 117,475,214	7.0%	\$ 98,432,804	7.3%
UNC System	\$ 347,117,332	20.6%	\$ 271,373,332	20.2%
Health & Human Services	\$ 432,612,696	25.7%	\$ 212,521,551	15.8%
Justice & Public Safety***	\$ 165,211,269	9.8%	\$ 94,605,575	7.0%
Natural & Economic Resources****	\$ 99,794,036	5.9%	\$ 53,081,318	4.0%
General Government	\$ 47,636,250	2.8%	\$ 34,445,791	2.6%
Debt Service and Other Adjustments (Net)	\$ 16,947,995	1.0%	\$ 211,823,877	15.8%
Total Available to Address Shortfall	\$ 2,488,728,352		\$ 1,665,681,997	
Unappropriated Balance Remaining	\$ 13,980,015		\$ -	
+ Off-Budget to On-Budget Transfers	\$ 219,819,542	8.9%	N/A	N/A
Highway Fund Transfer to General Fund for Highway Patrol	\$ 196,849,542	89.6%	N/A	N/A
Repeal Wildlife Resources Commission Sales Tax Earmark	\$ 22,970,000	10.4%	N/A	N/A

* Fig. 6 shows detail of the legislative budget's continuation and expansion spending items.

** Fig. 3 details fee increases and fund transfers and diversions in the legislative budget

*** Fig. 9 details cuts to JPS agency budgets. The JPS line item in this table does not include spending the \$196 million transfer from the Highway Fund for the Highway Patrol budget - see "+ Off-Budget to On-Budget Transfers"). As presented in the final budget, this item appears to increase total General Fund availability and spending by \$196 million, but in fact it only makes General Fund spending appear closer to the Governor's budget than it really is.

**** Cuts to Natural & Economic Resources shown here do not include \$18 million transferred for the Wildlife Resources Commission

Deposits to Rainy Day Fund Badly Timed

THE FINAL BUDGET PROPOSES a \$185 million deposit into the state’s Rainy Day Fund (Savings Reserve Account). While budgeted contributions to the Savings Reserve Account are an important goal for the General Assembly, current best practice suggests that now is not the time to make deposits. As the Center on Budget and Policy Priorities notes in a report on effective rainy day policies, “As a percentage of expenditures, the balance in a rainy day fund ought to be counter-cyclical, declining during recessionary periods and increasing during periods of economic growth.”⁶ This allows for the growth of rainy day funds during good economic times without overburdening state budgets that are already stressed due to recession-related revenue shortfalls.

North Carolina must balance the need to building savings with the vital importance of maintaining investments in education, health care and other public programs. Considering that these budget cuts not only hurt those who depend on these services but also put people out of work at a time of high unemployment, the wisdom of depositing \$185 million in the Rainy Day Fund at this time is questionable.

Fig. 6: Determination of Continuation & Expansion Spending

Pension Contributions	FY11-12	FY12-13
State Retirement System Contributions	\$ 248,100,000	\$ 336,000,000
Judicial Retirement System Contribution	\$ 6,800,000	\$ 7,800,000
Firemen & Rescue Squad Workers Pension Fund	\$ 4,318,042	\$ 5,366,928
National Guard Pension Fund	\$ -	\$ -
Subtotal, Pension Contributions	\$ 259,218,042	\$ 349,166,928
State Health Plan Contribution	\$ 7,119,541	\$ 102,151,104
Other Expansion Items		
Severance Expenditure Reserve	\$ 69,000,000	\$ -
Review of Compensation Plans (consultant)	\$ 2,000,000	\$ -
Continuation Review Reserve	\$ -	\$ 35,576,758
Job Development Investment Grants	\$ (12,000,000)	\$ -
Compensation Adjustment, Performance Pay Res.	\$ -	\$ 121,105,840
IT Fund Transfer	\$ (3,381,858)	\$ (1,681,858)
Automated Fraud Detection Development	\$ 1,000,000	\$ 7,000,000
Controller - Fraud Detection Development	\$ 500,000	\$ 500,000
Water Resources Development Projects	\$ 4,535,000	\$ -
Subtotal, Non-Recurring Items	\$ 61,653,142	\$ 162,500,740
Total, House Budget Continuation/Expansion	\$ 327,990,725	\$ 613,818,772

spending targets. The broader economic impacts of these cuts to Medicaid, particularly the loss of \$1.2 billion in federal matching funds for the North Carolina health-care sector, are discussed later in this report.

The two largest items that increase the budget gap are \$597 million in tax cuts and \$608 million in contributions to various pension funds.

Figure 6 details continuation and expansion spending in the final budget, which is different from the governor’s budget in that it does not include mandatory base adjustments to spending in the education and several other adjustments.

Jobs and Economic Impact

The NC Budget and Tax Center used industry-standard economic impact analysis to assess the effect of tax changes and spending cuts in the FY11-13 legislative budget on the North Carolina economy.^[i] This whole-budget analysis finds that on net, the budget will have a cumulative impact of 29,782 jobs lost, \$1.2 billion in lower wages, and \$2.3 billion in lost industry output. Once the cuts to spending on public structures are fully realized in FY12-13, the cumulative impact will rise to \$1.8 billion in lost labor income and \$3.9 billion in reduced industry output, resulting in a total loss of 44,576 jobs by the end of FY12-13. For further details related to the methods and modeling assumptions used in the report, please see the Technical Appendix on our website.

The legislative budget is particular damaging to North Carolina’s health-care sector. Because the federal government provides matching funds for Medicaid and the State Children’s Health Insurance Program (called Health Choice in North Carolina), the state’s health care system will lose out on \$1.2 billion in federal funds in addition to the \$763 million in state

cuts to these programs. These cuts will disproportionately impact private-sector doctor's offices, hospitals, nurses, and healthcare services, resulting in the loss of an estimated 10,438 jobs in the health industry, \$552 million in foregone wages, and \$1.1 billion in industry output.⁽ⁱⁱⁱ⁾ To put this in context, the entire North Carolina economy – all sectors, not just health care – gained only 10,716 jobs from April 2010 to May 2011. The economic impact of the final budget's Medicaid cuts alone would reverse an entire year's worth of job growth.

The legislative budget directly eliminates at least 2,203 state jobs and will result in far more public-sector job losses as state budget cuts force school districts and local governments to lay off workers. While there has been significant debate over exactly how many filled positions versus vacant positions eliminated in the budget, the most telling and overlooked detail of the budget in regards to public jobs is the magnitude of the severance reserve. Governor Perdue announced that her budget proposal would likely result in 10,000 public jobs cut, and it included a one-time \$30 million severance reserve to pay benefits associated with those layoffs. The legislative budget does not present a public-job-loss number, but it includes a severance reserve of \$69 million in FY11-12 – more than double the size of the governor's set-aside for the same purpose.

PUBLIC EDUCATION

While the final budget restores more than \$505 million in funding for teacher assistants that had been eliminated in the House budget, this gain is greatly offset by \$322.5 million in additional flexibility cuts for local education agencies over the biennium. Over the past two years, state lawmakers have required local school districts to identify more than \$300 million in cuts to school personnel and expenses and refund the “savings” to the state. As a result, this

Fig. 7: Final Recommended Education Appropriations

	FINAL	HOUSE	GOVERNOR	% Change from House	% Change from Governor
Public Instruction	\$ 7,464,492,057	\$ 7,164,492,057	\$ 7,572,712,912	4.2%	-1.4%
Community Colleges	\$ 985,000,000	\$ 991,518,860	\$ 1,016,629,522	-0.7%	-3.1%
UNC System	\$ 2,540,375,132	\$ 2,440,375,132	\$ 2,657,835,835	4.1%	-4.4%
FY11-12 TOTAL	\$ 10,989,867,189	\$ 10,596,386,049	\$ 11,247,178,269	3.7%	-2.3%
Public Instruction	\$ 7,450,000,000	\$ 7,188,174,120	\$ 7,598,568,534	3.6%	-2.0%
Community Colleges	\$ 985,000,000	\$ 991,518,860	\$ 1,022,312,530	-0.7%	-3.6%
UNC System	\$ 2,551,672,698	\$ 2,439,731,176	\$ 2,670,455,384	4.6%	-4.4%
FY12-13 TOTAL	\$ 10,986,672,698	\$ 10,619,424,156	\$ 11,291,336,448	3.5%	-2.7%
BIENNIAL TOTAL	\$ 21,976,539,887	\$ 21,215,810,205	\$ 22,538,514,717	3.6%	-2.5%

latest round of state cuts to education funding pushes many of the hardest decisions regarding position cuts onto local officials.

The final budget's inclusion of \$124 million in funding for “new” teacher positions is more than cancelled out by the breadth and depth of all other cuts to various non-classroom-level funding allotments, including \$120 million in cuts to the allotment for non-instructional support personnel; \$60 million in cuts to school building administration funding across multiple line-items; \$78 million in cuts to school transportation funding including reductions to bus drivers, bus maintenance, and bus replacements; and \$53 million in eliminated funding for teacher professional development.

The combination of state cuts and declining local revenues has resulted in the elimination of more than 10,000 locally administered public-school positions to date. In addition, temporary federal support to school districts will soon expire, compounding budget pressure on local school districts as they attempt to retain quality school personnel. The cumulative effect of these funding losses and the final budget cuts are likely to seriously undermine the progress

Eliminating Support for Teacher Professional Development Will Slow Progress Toward Better Student Outcomes

THE FINAL BUDGET eliminates \$53 million in spending on teacher development and mentoring over the biennium. This move is particularly striking in light of public statements by legislative leaders stressing the importance of high-performing teachers as well as extensive debate over instituting merit-based pay for teachers. Biennial reductions to teacher professional-development support and services include the following:

- Eliminated funding for teacher mentoring support (\$18.4 million)
- Eliminated funding school staff development funds (\$25.2 million)
- Eliminated funding for Teacher Academy within the Department of Public Instruction (\$9.5 million)

In any sector of the economy, public or private, it is generally understood that eliminating investment in the development of key human capital is not a successful strategy for achieving better outcomes.

North Carolina's public schools have made over the past two decades.

The final budget cuts early childhood education programs in the same way as the House budget. Within the public education budget, North Carolina's nationally acclaimed More at Four program is cut by \$16 million annually and will receive \$16 million less in lottery funding each year, for total cuts of \$32 million per year.

The final budget also moves More at Four from the Department of Public Instruction's (DPI) Office of Early Learning to the Department of Health and Human Services (DHHS), where it will be consolidated with Smart Start within the Division of Child Development (DCD). More at Four currently serves 30,767 four-year-old children across North Carolina in 2,254 classrooms.⁷

COMMUNITY COLLEGES

The final budget cuts the NC Community College System by 11 percent from the continuation budget, even as high demand from unemployed and underemployed workers for the training and credentials these colleges provide continues.

These cuts will be primarily delivered through a management flexibility reduction (\$50.8 million); changes to the formula by which funding for curriculum and continuing-education programs is determined (\$22.6 million); cuts to institutional and academic support (\$8.5 million); and cuts to customized training programs (\$7.6 million). In contrast to the governor's proposal to eliminate a number of specialized centers and programs, the final budget reduces investment in these connectors to regional economies by 10 percent.

As in the House budget, the final budget nearly doubles the tuition increase proposed by the governor (\$5.50 per credit hour) to \$10 per credit hour, which may put post-secondary education out of reach for many low- and moderate-income students. The budget also cuts funding for critical student supports like the male minority mentoring program and institutional and academic support. All together, these cuts will undermine the system's goal of ensuring access and successful completion of the education and skills trainings that enable students to succeed in the labor market.

UNC SYSTEM

The UNC System received a cut of 12 percent in the final budget. Individual campuses are directed to cut \$347 million from their budgets in FY11-12 and \$335 million in FY12-13. As a result, individual campuses will be required to develop plans for implementing budget reductions, which could include reductions in course offerings, larger class sizes and fewer student-support and academic resources.

While the budget fully funds enrollment growth in the UNC system in 2011-2012, the funding level is held constant for the following fiscal year. The final budget did not authorize a

tuition increase for the UNC system, although individual campuses may raise tuition within their existing legislative authorization. The UNC Need-Based Financial Aid program received a cut of 22 percent in the final budget, which the system estimates will reduce the average award payment and will eliminate financial aid for more than 5,000 income-eligible students.

In addition, the legislative FY12-13 budget limits a student's ability to receive financial aid after nine semesters, a barrier that will significantly impact students who must work while they study and must spread their courses out over more than 4½ years. In fact, according to national statistics from 2009, a majority of students graduating college within six years took five or six years to graduate.⁸ In combination with cuts to course offerings and student supports, such changes to the availability of financial aid will make it harder for students to complete their degree programs at a critical time when the labor market is projected to require more workers with college education.

The final budget also sets aside more than \$80 million dollars in FY12-13 for need-based aid for students at private colleges and universities.

HEALTH & HUMAN SERVICES

The final budget will cut almost \$1 billion, or 9.5 percent, from the Health and Human Services (HHS) budget over the biennium. The Medicaid program and NC Health Choice, which provides health coverage for children from low-income families, both receive deep cuts. The budget for the Division of Central Management and Support—which directs operations, provides support for HHS agencies, and increases public awareness of HHS services—would be cut by 25 percent.

Fig. 8: Final Health & Human Services Appropriations (Adjusted)

	FINAL	HOUSE	GOVERNOR	% Change from House	% Change from Governor
Central Management & Support	\$ 50,177,377	\$ 52,152,812	\$ 69,184,819	-3.8%	-27.5%
Aging Division	\$ 37,019,667	\$ 37,019,667	\$ 36,859,667	0.0%	0.4%
Child Development*	\$ 266,102,933	\$ 266,102,933	\$ 236,503,341	0.0%	12.5%
Public Health**	\$ 190,443,245	\$ 157,538,834	\$ 147,901,363	20.9%	28.8%
Social Services	\$ 186,183,068	\$ 185,077,068	\$ 188,616,402	0.6%	-1.3%
Medical Assistance	\$ 2,958,388,184	\$ 2,958,388,184	\$ 3,180,907,603	0.0%	-7.0%
NC Health Choice / Childrens Health	\$ 79,452,317	\$ 79,452,317	\$ 79,452,317	0.0%	0.0%
Services for the Blind	\$ 8,389,110	\$ 7,889,110	\$ 8,198,149	6.3%	2.3%
Mental Health / DD / SAS	\$ 665,712,232	\$ 665,342,797	\$ 714,335,617	0.1%	-6.8%
Health Service Regulation	\$ 16,133,031	\$ 16,133,031	\$ 16,133,031	0.0%	0.0%
Vocational Rehabilitation	\$ 37,125,788	\$ 37,125,788	\$ 37,125,788	0.0%	0.0%
FY11-12 TOTAL	\$ 4,495,126,952	\$ 4,462,222,541	\$ 4,715,218,097	0.7%	-4.7%
Central Management & Support	\$ 44,577,987	\$ 46,553,422	\$ 65,987,717	-4.2%	-32.4%
Aging Division	\$ 37,019,667	\$ 37,019,667	\$ 36,859,667	0.0%	0.4%
Child Development*	\$ 266,102,933	\$ 266,102,933	\$ 236,503,341	0.0%	12.5%
Public Health	\$ 157,538,834	\$ 157,538,834	\$ 147,901,363	0.0%	6.5%
Social Services	\$ 186,183,068	\$ 185,077,068	\$ 188,351,712	0.6%	-1.2%
Medical Assistance	\$ 2,907,276,302	\$ 2,907,276,302	\$ 3,399,767,507	0.0%	-14.5%
NC Health Choice / Childrens Health	\$ 83,717,865	\$ 83,717,865	\$ 85,947,512	0.0%	-2.6%
Services for the Blind	\$ 8,372,886	\$ 7,872,886	\$ 8,181,925	6.4%	2.3%
Mental Health / DD / SAS	\$ 710,712,232	\$ 710,342,797	\$ 714,335,617	0.1%	-0.5%
Health Service Regulation	\$ 16,133,031	\$ 16,133,031	\$ 16,133,031	0.0%	0.0%
Vocational Rehabilitation	\$ 37,528,128	\$ 37,528,128	\$ 37,528,128	0.0%	-9.0%
FY12-13 TOTAL	\$ 4,455,162,933	\$ 4,455,162,933	\$ 4,937,497,520	-9.8%	-9.6%
BIENNIAL TOTAL	\$ 8,950,289,885	\$ 8,917,385,474	\$ 9,652,715,617	-7.6%	-9.5%

*Increase in House appropriation to DCD reflects provisions shifting More at Four to DHHS. Existing DCD program Smart Start is subject to a recurring cut of 20 percent (\$37.5 million), and More at Four is subject to a \$16 million cut in General Fund support as well as a \$16 million reduction in lottery funding

** Includes one-time transfer of \$32 million fund balance of Health and Wellness Trust Fund to DPH (see Fig. 3)

MENTAL HEALTH

The final budget makes several significant cuts to Community Service Funds: a \$25 million cut in state funds directing local management entities (LMEs) to make up the loss from their unencumbered fund balances and a direct \$20 million cut (\$45 million, total). These cuts could reduce access to certain services not covered under Medicaid but provided by the state, including developmental therapy, various outpatient therapy services, psychiatric therapy, and the room-and-board portion of certain residential treatment facilities.

COMMUNITY ALTERNATIVES PROGRAM

Unlike the House budget, the final budget does not require individuals and families who participate in the Community Alternatives Program for Persons with Mental Retardation / Development Disabilities (CAP-MR/DD) and the Community Alternatives Program for Children (CAP/C) to pay a share of the costs for program services under certain circumstances.

MEDICAL ASSISTANCE

Out of all categories in the final budget, changes and cuts to the Division of Medical Assistance (DMA) budget may result in the most immediate and damaging economic impact to the state as a whole. While the exact depth and nature of service impacts resulting from cuts to the Medicaid budget is not easily quantifiable, health care advocates are rightfully

concerned that further cuts to reimbursement rates will cause some providers to stop taking patients with Medicaid, reducing patients’ access to care. New research published in the *New England Journal of Medicine* supports this concern; the study found that children with Medicaid are far more likely than those with private insurance to be turned away by medical specialists or be made to wait more than a month for an appointment, even for serious medical problems.⁹

The final budget uses an accounting trick to double-count a cut within the DMA budget,¹⁰ resulting in a \$63 million unspecified cut to the DMA budget in FY11-12 and another \$232 million in unspecified cuts in FY12-13. While this double-counting was briefly corrected in the first version of the Senate’s budget proposal, the correction was eliminated in the final budget. Taken together, this \$295 million in cuts will cost the state approximately \$513 million in federal matching funds that would otherwise have gone to North Carolina’s health-care sector over the biennium.

The budget also directs DMA to expand Community Care of North Carolina (CCNC), the state’s Medicaid managed-care program, and sets a target of \$90 million in savings through CCNC. Pursuant to the budget bill, DHHS will be required to monitor and report to the Joint Appropriations

Subcommittee on Health and Human Services on cost savings achieved by CCNC on a quarterly basis, and if savings fall short of projections, DHHS will be directed to cut provider reimbursements by up to 2 percent (on top of all other provider reimbursement cuts in the budget) and eliminate or reduce the level or duration of optional Medicaid services. Discussions with service providers and patient advocates reveal a general consensus that, while CCNC has successfully achieved significant cost savings in many instances, yielding such significant savings in a single year of implementation is unlikely.

Whether the \$90 million is saved through CCNC or through cuts to reimbursements and services, North Carolina would lose an additional \$157 million in federal matching funds each year, for a total of \$313 million in federal money lost over the biennium.

Who Hurts Most When Medicaid Optional Services are Eliminated?

MEDICAID “OPTIONAL” SERVICES are services beyond what the federal government requires states to provide as part of their Medicaid programs. Though called “optional,” many of these services – dental treatment, hospice care, artificial limbs, ambulance service, and group homes for people with mental disabilities, to name a few – are a necessary component of providing basic health care to thousands of low-income North Carolinians, particularly pregnant women and individuals with disabilities. Additionally, many optional services generate cost savings in the long run by treating individuals before their health deteriorates and requires more expensive care under mandatory Medicaid services.

The final budget also cuts state spending on NC Health Choice by \$13.6 million over the biennium. As with Medicaid, legislative leaders claim that cuts to NC Health Choice will not impact service levels because of savings derived from expanding CCNC. As discussed above, however, should savings not materialize as projected, DHHS would have to make changes to this program and others in order to meet these optimistic savings targets. Due to the availability of a higher federal match for all state funds expended on children's health insurance, each dollar not spent by the state results in the loss of approximately \$3 in federal funds.

CHILD DEVELOPMENT

Cuts to the Division of Child Development (DCD) in the final budget are nearly identical to those included in the House budget. Notable cuts and policy changes include the transfer of the nationally acclaimed More at Four pre-kindergarten program from the Department of Public Instruction into DCD (along with a 20-percent recurring cut), a 20-percent recurring cut to Smart Start, and a cut to child-care subsidy transportation funding.

As a final note to this overview of the Health and Human Services budget, the House has directed DHHS to reduce the funds the agency awards to nonprofit organizations by \$5 million. While this amount is relatively minor in the greater context of the HHS budget, it is unclear how these cuts will be distributed among the hundreds of nonprofit organizations that are sub-grantees of DHHS.

JUSTICE & PUBLIC SAFETY

The final budget cuts the Justice and Public Safety budget by \$323 million, or 7.1 percent, over the biennium, after accounting for the transfer of the Highway Patrol from the Highway Fund to the General Fund under the Crime Control and Public Safety budget. As in the House budget, the final budget consolidates the Division of Juvenile Justice and Delinquency Prevention, the Department of Corrections, and the Department of Crime Control and Public Safety into a new Department of Public Safety. In total, 849 jobs are cut from these three agencies over the biennium.

The final budget cuts funding for the Juvenile Justice system by more than 10 percent, or \$36 million, over the biennium, and cuts 279 positions. The plan closes two Youth Development

Fig. 9: Final Recommended Justice & Public Safety Appropriations (Adjusted)

	FINAL	HOUSE	GOVERNOR	% Change from House	% Change from Governor
Corrections	\$ 1,337,816,346	\$ 1,340,202,159	\$ 1,366,710,846	-0.2%	-2.11%
Crime Control & Public Safety*	\$ 28,409,253	\$ 25,779,469	\$ 32,327,610	10.2%	-12.1%
Judicial	\$ 438,920,048	\$ 439,752,763	\$ 461,053,029	-0.2%	-4.8%
Judicial - Indigent Defense	\$ 110,091,526	\$ 109,353,574	\$ 122,610,185	0.7%	-10.2%
Justice	\$ 80,704,013	\$ 81,817,912	\$ 83,907,465	-1.4%	-3.8%
Juvenile Justice	\$ 135,593,692	\$ 135,862,879	\$ 140,316,196	-0.2%	-3.4%
FY11-12 JPS APPROPRIATIONS	\$ 2,131,534,878	\$ 2,132,768,756	\$ 2,206,925,331	-0.1%	-3.4%
Corrections	\$ 1,348,410,793	\$ 1,350,623,300	\$ 1,373,058,448	-0.2%	-1.8%
Crime Control & Public Safety*	\$ 26,955,469	\$ 31,491,985	\$ 32,178,336	-14.4%	-16.2%
Judicial	\$ 435,141,107	\$ 439,752,763	\$ 458,309,107	-1.0%	-5.1%
Judicial - Indigent Defense	\$ 112,748,733	\$ 109,353,574	\$ 122,371,148	3.1%	-7.9%
Justice	\$ 80,864,138	\$ 81,817,912	\$ 83,046,671	-1.2%	-2.6%
Juvenile Justice	\$ 131,140,565	\$ 135,862,879	\$ 139,736,263	-3.5%	-6.2%
FY12-13 JPS APPROPRIATIONS	\$ 2,135,260,805	\$ 2,148,902,413	\$ 2,208,699,973	-0.6%	-3.3%
BIENNIAL TOTAL	\$ 4,266,795,683	\$ 4,281,671,169	\$ 4,415,625,304	-0.3%	-3.4%

* Amount shown does not include transfer of the Highway Patrol to the Crime Control & Public Safety budget in order to better compare the legislative proposals to the Governor's recommended appropriations and the base budget. The legislative budget transfers \$196 million from the Highway Fund to the General Fund on a recurring basis to support operations of the Highway Patrol, which would be spent in the Crime Control and Public Safety budget.

Centers, cuts detention beds, and consolidates districts while cutting 39 court counselors and 8 chief court counselors.

Several programs within the Administrative Office of the Courts budget are eliminated or placed on continuation review. State funding for all nonprofit mediation centers operated via the Dispute Resolution program is eliminated (\$1.1 million). The Drug Treatment Court is eliminated (\$2 million), and Family Court (\$2.9 million) is placed on continuation review. In addition, 389 jobs will be eliminated by FY12-13. While many of these positions are cut completely, others are shifted to receipt support and could continue should adequate funding for the positions materialize.

The final budget also cuts funding for the Office of Indigent Defense Services (IDS) by \$12.7 million from the continuation budget amount for FY11-12. In addition, a shortfall in current-year funding will leave an estimated \$13 million in unpaid fees to private attorneys who represented indigent clients on behalf of IDS. Those fees will carry over into the next biennium, creating long payment delays for private counsel. When combined with \$7.2 million in FY12-13 cuts, the underfunding of IDS in that year will be \$32.9 million. Currently, private assigned counsel average \$17 per hour in net income for providing indigent defense services, and the average operating expense for a one- to four-person law firm in North Carolina is \$58 per hour. Therefore, these small businesses lose money when they provide these services. Communities across the state are already feeling the impact of cuts to IDS; as of May 2011, almost 100 lawyers had crossed their names off a list of attorneys willing to represent indigent persons in court.¹¹

NATURAL & ECONOMIC RESOURCES

Legislative appropriations for Natural and Economic Resources—which includes Environment and Natural Resources, Agriculture and Consumer Services, Commerce, and Labor—are 16 percent below the recommended continuation budget in the next fiscal year and nearly 25 percent below the recommended continuation budget in the second fiscal year of the biennium.

The largest single cuts are to the state's Clean Water Management Trust Fund, which will see its typical appropriation of \$100 million reduced to \$11.3 million each year, and the Department of Environment and Natural Resources (DENR), which faces recurring reductions of 12 percent in FY11-12 and 22 percent in FY12-13. The budget transfers several DENR functions to other agencies, including Agriculture and Consumer Services, Health and Human Services, and Commerce. In addition, funding for the NC Rural Economic Development Center, which provides grants and programming to economic development projects in North Carolina's 85 rural counties, is cut by 10 percent in each year of the biennium.

The final budget unfortunately does not include a special provision from the House proposal that would have created an on-line, publicly accessible database on economic development subsidies to companies with the aim of tracking the outcomes of this spending. While this important step toward transparency in state economic development spending did not survive the budget process, similar provisions are included in other legislation of the 2011 session.¹²

GENERAL GOVERNMENT

The final budget cuts \$56 million from General Government agencies over the biennium and eliminates 419 state positions. The final budget also makes the following changes:

- Cuts \$20 million from the Cultural Resources budget over the biennium, eliminating 105 positions from General Fund support. While many of these positions are cut completely, others are shifted to receipt support and could continue should adequate funding for the positions materialize.
- Reduces the Performance Audit division within the Office of the State Auditor by half, cutting 4 jobs and transferring 5 positions to the legislative Program Evaluation Division
- Reduces funding for the Housing Trust Fund program and the Home Protection Program by \$8.4 million over the biennium

TRANSPORTATION

Unlike virtually every other area of the budget, both the Highway Fund and the Highway Trust Fund receive increased appropriations over the course of the next biennium compared to the recommended continuation budget. The Highway Fund will receive appropriations totaling \$2.05 billion in the upcoming fiscal year and \$2.13 billion in the second fiscal year of the biennium. The Highway Fund's appropriations will equal \$1.11 billion and \$1.09 billion in the next two fiscal years.

Although not expected to have a fiscal impact in the coming biennium, the final budget directs the Department of Transportation to eliminate 194 positions through privatization and outsourcing work in areas such as preliminary engineering and design as well as general services such as janitorial work.

The final budget also does the following:

- Cuts \$5.2 million for driver education at public schools and authorizes local districts to replace funding by assessing a fee to students of up to \$45
- Increases tolls at state ferries enough to raise \$2.0 million in FY11-12 and \$2.5 million in FY12-13, with both the Currituck-Knotts Island ferry and the Hatteras-Ocracoke ferry remaining toll-free
- Cuts \$5.8 million per year from state grants for public transportation

Conclusion

In passing this budget and overriding Governor Perdue's veto, legislative leaders have failed to address North Carolina's real fiscal challenges with a balanced approach that includes the revenue necessary to protect vital public investments. As a result, this budget will likely impede North Carolina's fragile recovery, placing additional pressure on local governments, communities, and families across the state.

The Great Recession caused revenues to plummet and the budget gap to widen. Now, more than three years after the recession began, North Carolina's policymakers in the General Assembly have ignored the advice of the nation's leading economists by choosing to cut back on investments and introducing more loopholes into the state tax code, neither of which will create jobs.

The long-term impacts of the final budget on the labor market are quite clear despite being difficult to quantify. Cutting investments in early childhood education, reducing funds for classrooms and instructional support in K-12 and making post-secondary education more costly will only serve to diminish the quality and competitiveness of the state's workforce. Reductions in the skill level of North Carolina's workforce, underfunding of environmental protection, and the diminished efficiency of the court system will have a negative impact on the state's business climate at a time when the need for jobs and private-sector growth is urgent.

Strong public structures are needed to support a strong economy. This budget weakens those public structures and, with them, North Carolina's prospects for a speedy and sustained economic recovery.

- 1 Senate Bill 109 / S.L. 2011-15, Spending Cuts for the Current Fiscal Year, available online at <http://www.ncga.state.nc.us/gascripts/billlookup/billlookup.pl?Session=2011&BillID=5109>
 - 2 Stancill, Jane. "State agencies told their spending is restricted in June," News & Observer: June 9, 2011. Available online at <http://www.newsobserver.com/2011/06/09/1261001/state-agencies-told-their-spending.html>
 - 3 An "off-budget" item is one that is funded and accounted for outside of the General Fund. In this context of this report, bringing an "off-budget" item "on-budget" means accounting for an existing budget item within the General Fund for the first time. Because budgets reflect year-to-year changes, this maneuver appears as an increase in General Fund spending, but it does not reflect an increase in overall state cash outlay.
 - 4 Burch, Brenna. "Accounting maneuvers obscure actual depth of cuts in legislative budget," June 14, 2011. Available online at <http://pulse.ncpolicywatch.org/2011/06/14/accounting-tricks-obscure-actual-depth-of-cuts-in-legislative-budget/>
 - 5 Michael Mazerov. "Cutting State Corporate Income Taxes is Unlikely to Create Many Jobs." Center on Budget and Policy Priorities. September 2010. Available at http://www.cbpp.org/cms/index.cfm?fa=view&id=3290#_ftnref25
 - 6 McNichol, Elizabeth and Boadi, Kwame. "Why and How States Should Strengthen Their Rainy Day Funds," Center on Budget and Policy Priorities, February 3, 2011. Available online at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3387>
- [i] Freyer, Allan. "Legislative budget would cost North Carolina 30,000 jobs, billions in economic output," June 13, 2011. Available online at

<http://www.ncjustice.org/?q=node/870> (See Appendix 1)

- (ii) BTC in-house economic impact analysis using 2009 IMPLAN data. (See Attachment 2)
- 7 DPI Office of Early Learning, "More at Four Pre-Kindergarten 2010-11 Facts and Figures." Available online at http://legislative.ncpublicschools.gov/resources-for-legislators/20110225more_at_four
- 8 <http://economix.blogs.nytimes.com/2011/05/20/the-rise-of-the-five-year-four-year-degree/>
- 9 Bigsai, Joanna, M.S.W., and Rhodes, Karin V., M.D. "Auditing Access to Specialty Care for Children with Public Insurance." *New England Journal of Medicine*, 2011: 364:2324-2333. June 16, 2011.
- 10 The Medicaid program is periodically subject to a "rebase," or reset, that adjusts the projected increased cost of the program in response to factors such as increases or decreases in Medicaid program enrollment; demographic changes in Medicaid participants; and a number of fiscal pressures beyond DMA's control, such as expanded required coverage for new medical procedures and pharmaceuticals and inflationary increases in the cost of providing medical care. Medicaid is not rebased every year, but program analysts within DHHS developed a recommended rebase amount for FY12-13 based on extensive data and analysis. The governor's budget fully funds the Medicaid rebase at \$252 million in FY12-13, but the legislature only funds \$109 million of the FY12-13 rebase – \$122 million less than required to meet the program's projected obligations. Since Medicaid is an entitlement program, this item is a budget cut, but the legislature also included a separate line item for a "Medicaid inflationary reduction" in the amount of \$63 million in FY11-12 and \$110 million in FY12-13.¹³ Discussions with DMA revealed that there is no separate inflationary increase budget – or "automatic increase" – for Medicaid provider reimbursements other than the rebase independent of the fact that certain providers are reimbursed on a different basis (fixed versus cost-component) than others. As a result, the legislative budget made an unspecified, \$232 million cut to the Medicaid program by double counting the elimination of inflationary increases for providers in FY12-13, and an unspecified \$63 million cut in FY11-12.
- 11 Bonner, Lynn. "Fewer lawyers for poor people," *News & Observer*, May 9, 2011. Available online at http://projects.newsobserver.com/under_the_dome/fewer_lawyers_for_poor_people#storylink=misearch
- 12 S.B. 658, "21st Century Tax Modernization Plan" (Clodfelter/Jenkins) includes this provision. Available at <http://ncleg.net/gascripts/BillLookUp/BillLookUp.pl?Session=2011&BillID=S658>

BTC *Reports*

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