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P.O. Box 28068
Raleigh, NC
27611-8068

EDITOR: Alexandra
Forter Sirota

919/861-1468

alexandra@ncjustice.org

www.ncjustice.org

THE GOVERNOR'S 2011-2013 BUDGET PROPOSAL: Despite sales tax extension, budget slashes public-sector jobs

BY BRENNA BURCH, *Policy Analyst*, and ALEXANDRA FORTER SIROTA, *Director*
with EDWIN MCLENAGHAN, *Policy Analyst*

Executive Summary

- Governor Beverly Perdue has proposed a \$19.9 billion general fund budget for fiscal year 2011-2012 and a \$20.4 billion budget for fiscal year 2012-2013. The governor's proposed budget, if enacted, would decrease total general fund spending (recurring and non-recurring) by \$67.8 million, or 0.3 percent, over the revised fiscal year 2010-2011 budget. When compared to the FY 2010-2011 revised general fund budget minus all federal assistance dollars – approximately \$1.4 billion to date – this budget increases year-over-year spending by \$944.3 million, or 5.0 percent.
- The governor closes the first-year \$2.4 billion budget gap by spending down a \$323.3 million general fund net credit balance; generating \$826.6 million by retaining \$0.75 of the one-cent temporary sales tax that is set to expire in the new biennium; raising \$112 million from other revenue sources; and cutting \$1.3 billion in spending from the general fund budget.
- The governor's revenue plan includes cutting the corporate tax rate from 6.9 percent to 4.9 percent; extending \$0.75 percent of the one-cent temporary sales tax through the biennium; extending the sunset on the unemployment insurance tax credit for small businesses for one year; and permanently repealing the corporate tax transfer to the Public School Building Construction Fund.
- A significant portion of the governor's \$1.3 billion spending reductions is attributable to major cuts to state agencies that could result in the elimination of up to 5,800 filled and unfilled positions from state government. Other significant spending reductions include management flexibility cuts and tuition hikes at NC community colleges (\$98.4 million) and UNC System schools (\$271.4 million); reductions to Medicaid spending and provider assessments (\$133.6 million); and a 3.8 percent cut to state public school funding, excepting teacher and teacher assistant salary funding, that would shift approximately \$316.4 million in state public school funding

Fig. 1 Governor's FY 2011-2013 Budget Overview

FY 10-11 Authorized Budget	\$	19,559,764,576
FY 10-11 Revised General Fund Budget (S.L. 2010-31)	\$	18,958,293,337
FY 10-11 Revised Budget + Federal Recovery Dollars*	\$	20,376,346,455
FY 10-11 Revised Budget + Federal Recovery + 3.5% cuts**	\$	19,970,328,358
FY 11-12		
Recommended Continuation Budget	\$	20,820,687,612
Recommended Expansion Budget	\$	424,224,385
Recommended Cuts to Budget	\$	(1,342,363,900)
Total FY 11-12 General Fund Appropriations	\$	19,902,548,097
% Change from Authorized FY10-11 Budget		1.8%
% Change from Revised FY10-11 Budget		5.0%
% Change from FY10-11 Revised + Federal Recovery		-2.3%
% Change from FY10-11 Revised + Federal Recovery + 3.5% cuts		-0.3%
FY 12-13		
Recommended Continuation Budget	\$	20,817,534,214
Recommended Cuts to Budget	\$	(1,545,483,587)
Recommended Expansion Budget	\$	1,106,766,634
Total FY 12-13 General Fund Appropriations	\$	20,378,817,261
% Change from FY 11-12		2.4%

*Includes \$337 million in FMAP extension funds received to date

** Reflects 3.5% clawback of current-year agency funds (\$406 million)

responsibilities to local governments.

More spending reductions include cost savings from consolidating 14 state agencies into eight and eliminating redundant services and positions.

Overview

This proposed state budget, released on February 15, 2011, defied the most pessimistic expectations of advocates by avoiding deep personnel cuts in education and health and human services and maintaining critical investments in public structures. In fact, several key recommendations of this budget deserve praise, particularly the governor's appropriate and fiscally sound use of one-time savings to re-establish the Mental Health Trust Fund (\$75 million) and replenish the Rainy Day Fund (\$150 million).

Although the state sales tax remains a disproportionate burden to low-income North Carolinians, the governor's decision to extend the current state sales tax at 5.5 percent

(down from 5.75 percent) through the biennium provides the boost in revenues needed to sustain key state services and avoid even deeper cuts in education and health and human

Fig. 2 How Does Perdue Pay for Her Budget?

	FY 11-12	% of total	FY 12-13	% of total
Baseline Revenue Forecast	\$ 18,822,630,000		\$ 19,884,080,000	
Initial Appropriation Requirements*	\$ 21,244,911,997		\$ 21,914,974,589	
<i>Recommended Base Budget</i>	\$ 20,820,687,612		\$ 20,817,534,214	
<i>Recommended Expansion Budget</i>	\$ 424,224,385		\$ 1,097,440,375	
Governor Perdue's Projected Shortfall	\$ (2,422,281,997)		\$ (2,030,894,589)	
+ Recommended Revenue Changes	\$ 756,600,000	31%	\$ 670,500,000	33%
+ NET General Fund Credit Balance**	\$ 323,318,097	13%	\$ -	
+ Spending Reductions	\$ 1,342,363,900	55%	\$ 1,536,157,328	76%
Total Available to Address Shortfall	\$ 2,422,281,997		\$ 2,206,657,328	
Remaining Balance	\$ -		\$ 175,762,739	

* Adjusted to reflect federal recovery & other non-recurring funds

** See Figure 3 for detail on the credit balance

Fig. 3 Current Year Savings Applied to Balance Governor Perdue's Budget

Sources of Current Year Savings	FY11-12
Actual year-end credit balance as of June 30, 2010	\$ 111,000,000
Reversions at June 30, 2011 (3.5% reduction holdback)	\$ 406,018,097
Revenue collections over 2010-2011 projections	\$ 156,300,000
Total Current Year Savings	\$ 673,318,097
Governor's Proposed Use of Savings (Pre-Budget)	FY11-12
Deposit to Rainy Day Fund	\$ 150,000,000
Deposit to 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	\$ 323,318,097

Carolina community colleges and all UNC System schools while simultaneously reducing state support for currently funded positions across all campuses. The budget also contains several significant reductions in funding for programs and subsidies that will negatively impact North Carolina's progress in workforce development.

services. The budget contains no proposals to alter the personal income tax and does not extend the current 2 percent surcharge on the state's wealthiest taxpayers.

However, the governor's budget is disappointing in that it proposes a corporate tax cut that is unlikely to spur significant job growth. It also relies heavily on the elimination of up to 5,800 state appropriation-supported positions – some vacant and some filled – as well as cuts in funding to local governments that could result in the elimination of as many as 4,400 non-teacher positions in North Carolina public schools.

While enrollment for all state post-secondary schools will remain open, the proposed budget would increase tuition at North

Fig. 4 Structural Budget Deficit Persists in Governor's Budget

	FY11-12	FY12-13
Recurring Money	\$ 19,579,230,000	\$ 20,554,580,000
Recurring Revenues	\$ 18,822,630,000	\$ 19,884,080,000
Revenue Changes (Net)	\$ 756,600,000	\$ 670,500,000
minus Recurring Expenses (Net)	\$ 19,917,594,585	\$ 21,544,832,909
Continuation Budget	\$ 20,820,687,612	\$ 20,817,534,214
Recurring Expansion	\$ 372,718,681	\$ 1,094,870,913
Recurring Reductions	\$ (1,275,811,708)	\$ (1,465,012,593)
Recurring Balance	\$ (338,364,585)	\$ (990,252,909)

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

Budget Balanced with No Room to Breathe

The governor's budget is in extremely tight balance, leaving no money unappropriated in the first year and only \$175 million in the second year. The budget uses \$338 million of one-time money to pay for ongoing spending requirements in year one, and \$990 million in the second year (see Figure 3). While this year's structural budget deficit is less severe than it was in FY 2009-10, the disappearance of non-recurring federal recovery funds from the budget has left lawmakers with an unusually large spending gap to bridge.

While the governor's budget relies heavily on spending cuts for balance, she includes several praiseworthy continuation items, particularly full funding for community college and UNC System enrollment as well as funding to keep the State Health Plan solvent and the Retirement System Reserve structurally sound.

The Revenue Plan

The baseline general fund revenue forecast assumes 4.6 percent growth in FY 2011-12 and 5.5 percent growth in FY 2012-13. The governor proposes extending part of the temporary sales tax, allowing her to avoid cutting an additional \$757 million from the 2011-12 budget and \$671 million from the 2012-13 budget. However, her budget would allow the temporary personal and corporate income tax surcharges to expire completely. Net revenue changes—

**CONTINUATION
OF PART OF THE
TEMPORARY
SALES TAX**

including a reduction of \$418 million in corporate income tax revenues over the course of the biennium—closed roughly one-third of Governor Perdue’s projected two-year shortfall of \$4.4 billion.

The governor’s budget relies on the extension of three-quarters of the one-cent temporary sales tax through the biennium, which would generate \$1.7 billion in general fund revenue – \$826.6 million in the first year and \$863.8 million in the second year. By including revenue in this proposal, the governor has taken a more balanced approach to eliminating the budget gap than a cuts-alone approach. However, relying almost exclusively on the sales tax to buoy up the budget, rather than the progressive personal income tax or the corporate tax, actually

Fig. 5 How Will a 0.75-Percentage Point Sales Tax Impact North Carolinians?

Average Impact as a % of Income and Average \$ (2007)

2007 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than \$16,000	\$16,000 – \$28,000	\$28,000 – \$46,000	\$46,000 – \$75,000	\$75,000 – \$159,000	\$159,000 – \$379,000	\$379,000 – Or More
Tax Change as % of Income	+0.5%	+0.4%	+0.3%	+0.2%	+0.2%	+0.1%	+0.1%
Average Tax Change	+54	+82	+117	+148	+198	+290	+866

SOURCE: Institute on Taxation and Economic Policy (ITEP), Microsimulation Tax Model - February 2011

worsens the upside-down nature of North Carolina’s revenue system, which already requires low-income families to pay a greater share of their incomes in state and local taxes than high-income households do.

CORPORATE TAX CUT

The governor’s budget proposes cutting the corporate tax rate from 6.9 percent to 4.9 percent, a short-sighted measure that will cost the state \$418 million over the biennium and is unlikely to spur significant job growth.

Cutting the corporate income tax rate—without a commensurate expansion of the corporate tax base through the enactment of mandatory combined reporting and the elimination of

corporate loopholes—primarily benefits out-of-state corporate shareholders and sharply accelerates the long-term trend of corporations paying an ever-smaller share of state taxes.¹ Furthermore, there is little credible evidence that either the corporate income tax cut or the proposed unemployment insurance tax credit for small businesses is likely to substantially boost job creation in the state.²

Fig. 6 Governor Perdue's Recommended Revenue Changes

Recommendation	FY11-12	FY12-13
Lower corporate tax rate from 6.9% to 4.9%	(\$115.0)	(\$303.0)
Continue state sales tax at 5.5% (0.25% rate reduction)	\$826.6	\$863.8
Repeal corporate tax transfer to PSBCF permanently	\$72.0	\$75.0
Unemployment insurance tax credit for small businesses	(\$65.0)	\$0.0
Accounts Receivable Program	\$25.0	\$25.0
Energy Efficiency Tax Credit	\$0.0	(\$3.3)
Disproportionate Share Receipts	\$15.0	\$15.0
Raise Cap on Qualified Business Venture Credit	(\$2.0)	(\$2.0)
Total Revenues	\$756.6	\$670.5

All figures in millions of dollars

**UNEMPLOYMENT
INSURANCE TAX
CREDIT FOR SMALL
BUSINESSES**

The Unemployment Insurance Tax Credit proposed by Governor Perdue will reduce available revenues by \$62 million. The credit would go to employers with gross receipts of less than \$2.5 million, and it would equal 50 percent of the unemployment insurance tax they pay. North Carolina, like many other states, is currently borrowing from the federal government to pay for unemployment insurance because the UI Trust Fund has been depleted through a combination of tax cuts to employers in the 1990s and significant demand for unemployment insurance during and after the Great Recession.

The Spending Plan

The governor's budget would maintain investments in critical public structures, protecting North Carolina's investments in education—including early intervention, public schools, community colleges and universities—and health and human services (HHS). By including revenue in the proposal, the governor made it possible to avoid draconian cuts to the public education and postsecondary education budgets that would have resulted in teacher assistant layoffs, increased class sizes, and possibly even higher tuition and fees at postsecondary institutions. She also proposes no reductions to Community Mental Health funding.

However, the governor's proposal would still make deep cuts to public-sector jobs throughout the state, eliminating as many as 5,800 positions at the state level and making cuts to the education budget that could result in as many as 4,400 job cuts at districts statewide.

STATE AND LOCAL JOB CUTS

The governor's budget calls for the elimination of up to 5,643 state appropriation-supported positions³ via attrition due to an employee retirement incentive program (892 state jobs) and management flexibility reductions (up to 4,751 state jobs). An additional 174 state appropriation-supported positions will be converted to receipt-supported⁴ positions in 2011-2013. The 10,000 jobs reported widely in news media is the rounded total of all potential state and local job cuts proposed in this budget.

The governor's budget does not provide detailed line-item estimates on the number of positions eliminated by all actions, and in many cases the management flexibility option leaves the depth and nature of position cuts to the discretion of agency heads. The budget

also calls for a non-recurring severance reserve appropriation of \$30 million in the first year for payments to state employees who are "reduced in force" (RIF) over the biennium.

While the governor's budget does not specifically eliminate any state-funded jobs of teachers, teacher assistants, or

health and human service providers, reductions to state funding of various line items in the public education and HHS budgets⁴ may necessitate more than 4,400 additional job cuts at the local level. Local governments and local educational authorities (LEAs) would have to either cut their budgets or, if they wish to continue staffing and operations at current levels, draw down savings accounts and identify local revenue options.

Fig. 7 Governor Proposes Deep Cuts to Appropriation-Supported State Positions

General Fund Category	Early Retirement Incentive #	Management Flexibility Reductions #	Conversion to Receipt Support #	Appropriation-Supported Position Cuts, All Sources
Education	617	3,222	6	3,845
Public Education	183	71	-	254
Community Colleges	132	1,251	6	1,389
UNC System	302	1,900	-	2,202
General Government	29	156	117	302
Health and Human Services	53	90	-	143
Justice and Public Safety	169	638	20	827
Natural and Economic Resources	24	409	30	463
Agency Consolidation Reductions	-	236	-	236
Total Cuts	892	4,751	174	5,817
Highway Fund-Supported Position Cuts				
Transportation	45	44	-	89

NOTE: Management Flexibility Reductions column includes both currently vacant and filled positions.

Throughout the budget, first-year savings realized from retirement elections and all other position cuts assume elimination of the position effective November 2011. Second-year amounts reflect a full 12-month savings attributable to position cuts.

PUBLIC SCHOOL JOBS

Under this budget, LEAs would lose state funding for central office, instructional support, school building administration, non-instructional support, and transportation in the range of \$316.4 million. The governor's budget estimates these reductions could result in the elimination of 4,410 jobs. These jobs are not shown on the chart above because they exist at the local level and are not directly state-funded. The Public Education section of this summary provides more detail on this and other proposed cuts to North Carolina's public schools.

PUBLIC EMPLOYEE BENEFITS

The governor's budget would require state employees to contribute \$21.50 per month to remain on their 80/20 health insurance plan, with Medicaid-eligible retirees paying a lower cost share of \$16.00 per month. Currently, state employees do not pay for health coverage for themselves, although they must pay premiums to cover family members under the State Health Plan. This measure is estimated to save \$89 million in 2011-2012 and \$138 million in 2012-2013.

COLLEGE PROMISE

The College Promise initiative proposed by the governor will combine funding streams from a number of existing sources—the Early College High Schools and the Learn and Earn Initiative, primarily—in order to guarantee qualified high-school juniors a two-year degree at no cost. Evidence suggests that early commitments to support students' post-secondary goals have significant potential to improve achievement and enrollment.⁶

SMALL BUSINESS LOAN SECURITIZATION

The governor proposes leveraging federal Department of Treasury funds to improve access to capital for small businesses. Access to capital is indeed critical to the growth of small businesses, and evidence increasingly points to the role that small and young businesses play in creating the majority of new jobs in the country.⁷

PUBLIC EDUCATION

(3.8 percent Reduction, with Teacher and Teacher Assistant Positions Held Harmless)

The governor's budget eliminates portions of current state allotments for the following public school budget items:

- Payment of workers' compensation claims (\$34.6 million)
- Payment of tort claims (\$4.4 million)
- 10 percent reduction to central office allotment (\$10.7 million)
- 5 percent reduction to instructional support allotment (\$23 million)
- 7.5 percent reduction to school building administration (\$24.6 million)
- 15 percent reduction to non-instructional support, such as clerical and custodial staff (\$59.6 million)
- Yellow school bus transportation (\$40.3 million)
- School bus replacement (\$56.9 million)

To maintain current funding and service levels, LEAs will need to increase local education spending by at least \$316.4 million to make up for these reductions in state support. Unlike the state, LEAs do not have the protection of a cap on workers' compensation and tort claims, and the amounts listed in the governor's budget for these items would likely be much greater if assumed by local governments.

In addition, the governor's budget proposal recommends continuing the elimination of school technology and staff development allotments (\$10 million and \$12.6 million,

COMMUNITY COLLEGES
(4.9 percent Reduction
and \$5.50 per-credit-hour
Tuition Hike)

respectively); reducing state spending on textbooks by 34.6 percent (\$40 million); and eliminating five state-supported nonprofit organizations (Kid's Voting; Dropout Prevention Grants; Science Olympiad; NC Science, Math and Technology Education Center; and Teacher Cadet) as well as reducing funding for Communities in Schools and Teach for America.

North Carolina community colleges are serving thousands more students today than they did just a few years ago. In fact, the increased enrollment since the Great Recession is equivalent to adding more than the NC State University campus to the community college system. While the governor's budget cut funding for the community college system by 4.9 percent, it does fully fund enrollment growth, which is an important first step to maintaining the system's traditional open-door policy. In addition, the governor recognized in her budget the role community colleges play in job training with a one-time \$25 million investment in equipment and state-of-the-art technology.

The 4.9 percent in cuts would be primarily delivered through a management flexibility reduction (\$32 million), the transfer of costs such as workers' compensation from the system to campuses (\$1.7 million) and changes to the formula by which funding for curriculum and continuing education programs is determined (\$24.9 million). The reductions in the community college system were projected to result in 13 positions lost. However, efficiencies and reduction of institutional support could result in up to an additional 220 positions cut at community colleges.

In addition to the cuts above, the governor's budget would eliminate a number of specialized centers and programs, including NC REAL, the Center for Manufacturing Solutions at Catawba Community College, and the Heavy Equipment Program at Wilson Community College, for a savings of \$3.8 million. In total, eight centers would be eliminated. These centers serve as specialized training grounds for the future workforce, and this type of connection between workforce development and economic development is critical to reinvigorating struggling regional economies. These cuts could have a significant detrimental impact on those regional economies in the state that suffered from the loss of textile and manufacturing jobs over the past two decades and are suffering again due to the Great Recession. A comprehensive approach to assessing the value of specialized centers is needed to understand whether these programs are meeting their goals.

The governor's budget proposal includes a tuition increase of \$5.50 per credit hour for community students. If this increase is implemented, tuition at North Carolina's community colleges will have increased by 40 percent since the start of the Great Recession (2007-2008). This proposed increase would represent an additional barrier to low-income students. Failure to make post-secondary education accessible to these students now may result in a shortage of qualified workers needed to fuel the growth of North Carolina's economy in the future.

UNC SYSTEM
(6.0 percent Reduction
and Tuition Hike)

The UNC System received significant budget cuts of 9.5 percent in the governor's proposal. However, the budget would fully fund enrollment growth.

Management flexibility reductions (\$252 million) and the employee retirement incentive program (\$12.2 million) would be the largest reductions. The UNC system would lose approximately 1,900 positions.

The governor's budget would also eliminate funding for higher education locations in areas of the state without ready access to a UNC campus. These locations often serve as a bridge for students between the community college system and the UNC system, and their elimination could hamper those community-college students who hope to earn a bachelor's degree.

University students from low-income families would have to make greater financial contributions under the governor's proposed changes to the need-based financial aid

HEALTH AND HUMAN SERVICES

program. Her budget also includes changes to the eligibility threshold and standard award amounts for need-based aid. Increasing the financial burden for low-income families would make it harder for students to complete their degree programs. The governor's budget would also reduce state financial aid support for students at private institutions, which would help to protect the corpus of funds available for state institutions and their growing student body with financial needs.

Another important change to state funding would likely have implications for patients in the UNC Hospital system. Reduction of the UNC Hospital subsidy, which supports the hospital's charity care, saves \$11 million, but it is unclear what this will mean for the services provided to poor families. UNC Hospital serves a critical role in providing care to poor families, often treating patients from across the state because of the breadth and specialization of its medical care.⁸

The governor's budget shelters HHS from drastic personnel cuts, enabling government to fulfill its responsibility to care for its most vulnerable residents. Additionally, the budget proposes a significant one-time deposit of \$75 million into the Mental Health Trust Fund from the 2010-2011 general fund credit balance. The creation and funding of a Mental Health Trust Fund was a long-unfulfilled promise of the state's 2001 mental health reform, and this investment is an important first step on the road to fixing North Carolina's chronically underfunded mental health system.

However, state investments in health care for low-income families are nonetheless subject to several significant reductions. Commendably, the budget does not call for the elimination of any care provider positions in HHS, and enrollment for NC Health Choice, the state's insurance program for children of low-income families, would remain open under this proposal.

The HHS budget proposes reductions to the Medicaid and NC Health Choice budgets in the form of targeted rate adjustments (\$8.5 million), modified pharmacy services (\$15.9 million), and other changes to optional and mandatory services (\$16.5 million). However, these cuts would trigger the loss of federal match money for Medicaid. Therefore, there could be approximately \$114.6 million less in total Medicaid spending statewide.

Other HHS budget highlights include the following:

- Cuts Smart Start funding by 5 percent (\$9.4 million, recurring)
- Discontinues state subsidy for child care transportation services (\$1.0 million, recurring)
- Limits the child care subsidy for postsecondary students so that it will only be available to individuals pursuing studies in high-demand employment fields and reduces the maximum benefit from 24 months to 20 months (\$7.1 million, recurring)

While funding for state-administered initiatives as well as programs that depend on federal match or maintenance-of-effort funds remains relatively stable in this budget, funding for local and nonprofit HHS agencies is reduced. Cuts to local health funding include the following:

- Reduces state funding for local health departments to 2006-07 level (\$6.8 million, recurring)
- Reduces county services support from 5 percent to 3 percent of allocations for the subsidized child care program (\$6.1 million)
- Continues the elimination of state funding to local departments of social services through the biennium (\$5.5 million)

Cuts to nonprofit health organizations include:

- A \$2.3 million reduction in DHHS special appropriations and nonprofit funding

**GENERAL
GOVERNMENT**

- Elimination of funding for 10 new Community Health grants through the biennium (\$1.5 million). The cut only eliminates funding for future grants that would have been made in the 2011-2013 biennium; current grantee funding would continue uninterrupted.

The governor proposes consolidation of the 14 existing state agencies into eight, with savings realized via elimination of positions in support services and/or middle management. Proposed changes include:

- Consolidating the Department of Administration and the offices of State Information Technology (ITS), State Personnel, and State Controller into a Department of Management and Administration, eliminating 21 positions
- Consolidating the departments of Correction, Crime Control and Public Safety, and Juvenile Justice and Delinquency Prevention into a Department of Public Safety, eliminating 60 positions
- Moving the Employment Security Commission to the Department of Commerce, eliminating 53 positions
- Centralizing the state's human resources function by transferring all cabinet HR and support positions to the Office of State Personnel, eliminating 92 positions
- Creating a centralized grants system, eliminating 10 positions in the budget's second year
- Eliminating eight positions from the Office of Information Technology Services, and moving various agency support services provided by ITS to receipt-support

In total, the agency consolidation would eliminate an estimated 236 positions statewide.

**JUSTICE AND PUBLIC
SAFETY**

Independent of other cuts that would be sustained as part of the agency consolidation process, the Department of Juvenile Justice and Delinquency Prevention is the target of deep cuts under this budget proposal, including the closure of the Woodson Wilderness Camp and Swannanoa Youth Development Center, both in Swannanoa, NC. As a result of these closures, 46 positions would be eliminated.

In addition, the budget would supplant \$3 million in Department of Corrections funding by shifting some inmate medical expenditures to Medicaid.

**NATURAL AND
ECONOMIC
RESOURCES**

To achieve a \$3.1 million savings and avoid the elimination of any full-time positions, the governor recommends closing most state parks for two days a week. In addition, the budget proposal:

- Outsources operations of five gift shops at the NC State Zoo (\$600,000)
- Closes seven research stations currently under the Department of Agriculture and Consumer Services, and transfers responsibility for the remaining 12 stations and farms to North Carolina State University. All positions associated with this transfer would be moved to the UNC System budget under this proposal.

TRANSPORTATION

The Department of Transportation would be subject to position cuts comparable to other general government agencies, despite the fact that it is not dependent on general fund appropriations. Indeed, fuel tax collections (the major revenue source for the Highway Fund) are projected to increase by 9.3 percent in FY 2011-12 and again by 4.7 percent in FY 2012-13. The funds impact the ability of the state to maintain roads, bridges and transportation networks. The revenue collections from the vehicle sales tax go to the Highway Trust Fund, which supports construction. In FY 2011-12, revenue collections are projected to increase by 9.4 percent and in FY 2012-13 by 4.7 percent. Of particular additional note in the transportation

budget is the \$3.8 million cut to public transportation that could impact the state's ability to continue to improve its infrastructure.

Key Questions

WHAT CUTS COULD HAVE BEEN AVOIDED IN THIS BUDGET IF THE GOVERNOR DIDN'T CUT THE CORPORATE TAX?

When fully implemented, the corporate tax cut will cost the state approximately \$300 million annually. If the governor had not proposed this tax cut, she would have had \$100 million in additional general fund money in the first year and \$300 million in the second year to apply to the budget gap, lessening the depth of other budget cuts.

For example, the governor estimates that her proposed cuts to the state's allotment for public school instructional support, non-instructional support, school building administration, and transportation will save the state \$147.4 million, but those cuts could cost as many as 4,410 jobs throughout the state. Simply by maintaining the current 6.9 percent corporate tax rate, the governor could afford to reduce those 2011-12 cuts by two-thirds, saving thousands of existing jobs.

WHAT DOES THIS BUDGET DO FOR JOB CREATION?

The governor's budget establishes as one of its major priorities the creation of jobs. This is a laudable goal and one that will require state investment. With the loss of jobs and continued growth of the workforce during the course of the Great Recession, North Carolina's jobs shortfall stood at 464,000 in December 2010. To reach pre-recession levels by 2015, North Carolina needs to create 14,000 jobs each month until then. In 2010, the state gained on net 10,400 for the entire year.⁹

Cuts to state positions would add further to the job-creation target and negatively impacting consumer spending. While the governor's budget includes a number of significant policy

proposals to create jobs, there is little evidence to support the use of corporate income tax cuts or unemployment insurance tax credits as job-creation strategies. The proposal to increase access to capital initiative holds some promise, as does the maintenance of critical investments in public structures that support a high quality of life, attract business and can spur entrepreneurial activity.¹⁰

Fig. 8 Eliminated Funding for Nonprofits	2011-2012	2012-2013
<i>Public Education</i>		
Kids' Voting	\$ (50,000)	\$ (50,000)
Dropout Prevention Grants	\$ (13,015,683)	\$ (13,015,683)
Science Olympiad	\$ (127,500)	\$ (127,500)
NC Science, Math, and Technology Education Center	\$ (100,000)	\$ (100,000)
Teacher Cadet	\$ (340,000)	\$ (340,000)
<i>Health & Human Services</i>		
Eliminate athlete mentoring grant to NC High School Athletic Association	\$ (369,435)	\$ (369,435)
Subtotal, Eliminated Funding	\$ (13,633,183)	\$ (13,633,183)

Reduced Funding for Nonprofits	2011-2012	2012-2013
<i>Public Education</i>		
Communities in Schools	\$ (144,675)	\$ (144,675)
Teach for America	\$ (90,000)	\$ (90,000)
<i>Health & Human Services</i>		
DHHS Special Appropriations and Private Nonprofit Funding	\$ (2,300,000)	\$ (2,300,000)
No new Community Health Grants in FY11-13	\$ (1,452,527)	\$ (1,452,527)
Subtotal, Reduced Funding	\$ (3,987,202)	\$ (3,987,202)
Total Nonprofit Funding Cuts	\$ (17,620,385)	\$ (17,620,385)

HOW WOULD THIS BUDGET PROPOSAL AFFECT NONPROFITS?

The budget recommends eliminating or reducing funding for several nonprofits and grant programs. These cuts can be found in the Public Education and the HHS budgets. Cuts to nonprofits account for \$17.6 million in recurring state funds under this proposal. However, questions about how many nonprofit employees will lose their jobs and how the loss of these education and health services will impact North Carolinians have not been addressed.

Conclusion

Governor Perdue's budget should serve as a solid starting point for budget negotiations. In particular, the governor's use of both spending reductions and the extension of part of the temporary tax package should guide North Carolina's legislators as they develop their own proposals. Indeed, these legislators have the opportunity to consider an even wider-range of policy tools, including the modernization of the revenue system to address the ongoing revenue problems that have persisted past the Great Recession.

- 1 Michael Mazerov. "Cutting State Corporate Income Taxes Unlikely to Create Many Jobs." September 14, 2010. Center on Budget and Policy Priorities. Available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3290>
- 2 *BTC Brief*
- 3 This figure includes an estimated 179 LEA employees projected to accept the retirement incentive for LEAs, which is identical to the incentive offered to all state, community college, and UNC system employees.
- 4 Position funding can come from many sources, but in the context of the governor's budget, positions that are converted to receipt-support would no longer be funded by appropriations (tax dollars), and instead be supported by other income generated by state agencies in the course of fulfilling their missions. In the North Carolina state budget, money from fees, licenses, tuition, the federal government, and other non-tax sources count can be shown as "receipts."
- 5 Detail on these reductions can be found in the Public Education and Health and Human Services sections of this summary.
- 6 William Elliott, Children's College Aspirations and Expectations: The Role of Children Development Accounts. Children and Youth Services Review, 2009, vol. 31, issue 2, pages 274-283
- 7 Kauffman Foundation
- 8 http://www.dailytarheel.com/index.php/article/2010/10/bleeding_out#comment10849
- 9 Economic Policy Institute, Job Watch, Dec. 2010.
- 10 Fisher, Ronald. 1997. The Effects of State and Local Public Services on Economic Development. New England Economic Review. March/April: 53-67

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North Carolina Justice Center
P.O. Box 28068 ■ Raleigh, NC 27611-8068
919/856-2176 ■ alexandra@ncjustice.org