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THE GOVERNOR'S PROPOSED 2010-11 BUDGET: A reasonable, though painful, approach to the growing budget gap

BY ELAINE MEJIA, PROJECT DIRECTOR AND MEG GRAY WIEHE, POLICY ANALYST

- On April 20, Governor Perdue released her proposed recommended adjustments to the fiscal year (FY) 2010-11 budget. The governor faced a new state budget shortfall for FY 2010-11 of approximately \$1.2 billion — \$703 million due to a downward revision of the revenue forecast and \$564 million due to increased costs to maintain state services at current levels. This is on top of the \$4.6 billion shortfall previously addressed.
- The governor's proposed budget would address the new shortfall by reducing net appropriations by \$396 million, increasing revenue availability by \$213 million, and relying on \$578 million in additional federal recovery assistance through an increase in federal Medicaid funds.
- The proposed adjusted budget represents a reduction of \$410 million, or 2 percent, to the certified General Fund budget already in place for FY 2010-11, which begins on July 1. When federal recovery assistance is accounted for, the spending in the proposal is \$168 million, or 0.8 percent, more than in the certified budget.
- The governor's proposed spending reductions are a combination of savings from increased efficiency in state government, discretionary cuts that local school districts and state agency heads would have to make, and outright cuts to certain programs that would result in fewer services. (See **Figure 3** for a summary of proposed spending cuts.)
- The governor's proposed budget also includes an additional \$1.1 billion in so-called expansion spending, more than half of which will cover enrollment growth in Medicaid and higher education, boost the state's rainy day fund, and increase investments in the state's retirement system. It includes funding for a few new initiatives, including \$40 million for handheld electronic testing devices that help teachers gauge student progress and \$15 million for a fund to provide grants to small businesses that add jobs and hire workers who have been unemployed for more than two months. (See **Figure 4** for a summary of proposed expansion items.)
- The budget now heads to the state Senate. Legislative staff's estimates show a larger budget hole than what the governor worked with,

including \$85 million in lost estate tax revenue due to federal changes to the tax code and an additional \$160 million to fully fund the state retirement system. These additions bring the new adjusted budget shortfall for FY 2010-11 to \$1.4 billion, nearly \$300 million larger than the governor's projected gap.

- NC Budget & Tax Center estimates show that the net effect of the recession on the scope of state services is approximately 10 percent, meaning that even when accounting for additional federal assistance the state budget is now 10 percent smaller than it would need to be to bring services back to pre-recession levels.

Overview

Governor Beverly Perdue's proposed budget reflects the impact that the deep and prolonged recession is having on the state government's ability to fulfill its basic responsibilities. Even when including additional federal assistance, state government will be approximately 10 percent smaller than it would need to be to return to pre-recession service levels.

The recession continues to put pressure on state government by driving down revenues and driving up costs, thus forcing budget writers to make tough choices. The governor's budget proposal scales back programs and services that people and communities depend on and increases fees like community college tuition and community service fees paid by probationers. The proposal would provide additional funding to a few areas, such as maintaining open enrollment in the state's health insurance program for children and providing a salary step increase for teachers. For the most part, however, state government continues to ratchet back its overall scope of work.

This report from the NC Budget & Tax Center (BTC) examines the governor's budget, paying close attention to its potential impacts on low-income North Carolinians and its long-term fiscal implications for state government.

FIGURE 1

GOVERNOR'S RECOMMENDED ADJUSTMENTS TO FY10-11 GENERAL FUND BUDGET		
FY10-11 General Fund Appropriations Only		
FY10-11 Original Continuation Budget	\$22,554,891,906	
FY10-11 Certified General Fund Budget	\$19,559,764,576	
FY10-11 Governor's Recommended Adjusted General Fund Budget	\$19,149,445,560	
Change from FY10-11 Certified General Fund Budget	\$(410,319,016)	-2.1%
Change from FY10-11 Continuation Budget	\$(3,405,446,346)	-15.1%
FY10-11 General Fund Appropriations + Federal Recovery Assistance		
FY10-11 Original Continuation Budget	\$22,554,891,906	
FY10-11 Certified General Fund Budget + Federal Recovery Dollars	\$20,597,354,925	
FY10-11 Governor's Recommended Adjusted General Fund Budget + Federal Recovery Dollars	\$20,765,455,743	
Change from FY10-11 Certified General Fund Budget	\$168,100,818	0.8%
Change from FY10-11 Continuation Budget	\$(1,789,436,163)	-7.9%

The Governor's Balancing Act

As state lawmakers crafted the two-year state budget last year, they faced a budget gap for FY 2010-11 of \$4.6 billion, and they addressed it by cutting spending (\$1.9 billion net reduction), increasing taxes (\$1.3 billion), relying on additional federal assistance (\$1 billion), and additional adjustments to availability. Unfortunately, that gap has grown by an additional \$1.2 billion, partly because revenues are running behind projections and partly because spending pressures are growing faster than anticipated, particularly for Medicaid and higher education. The governor proposes addressing this new additional gap by

FIGURE 2

HOW LARGE WAS THE BUDGET GAP AND HOW WAS IT FILLED?	
FY10-11 General Fund Appropriations Only	
FY10-11 Certified Budget	\$19,559,764,576
+ Budget Pressures	
Medicaid growth	\$430,564,713
Retirement plan contribution	\$20,000,000
Higher Education Enrollment growth	\$90,678,446
Restoration of Continuation Review Programs	\$22,958,496
Total Budget Pressures	\$564,201,655
= New Recommended Total GF Appropriations	\$20,123,966,231
- Revised Baseline Forecast (\$702 million less than budgeted)	\$18,936,039,016
New FY10-11 Budget Gap	\$(1,187,927,215)
HOW DID THE GOVERNOR CLOSE THE \$1.2 BILLION GAP?	
FY10-11 General Fund Appropriations Only	
+ Adjustments to Availability	\$213,406,544
Unappropriated balance from FY09-10	\$83,171,017
Department of Revenue Settlement Initiative	\$110,000,000
New Fees	\$14,445,560
Special Fund Transfers	\$3,789,967
Hospital Payments	\$35,000,000
Changes for Jobs and Economic Development	\$(33,000,000)
+ Additional Federal Recovery Assistance (used to reduced GF appropriations)	\$578,419,834
FMAP extension for Medicaid	\$499,000,000
FMAP funds for Part D Clawback	\$79,419,834
+ Net Spending Reductions	\$396,100,837
Spending Cuts	\$956,791,078
Expansion items other than budget pressures	\$(560,690,241)
Total Available to Close Gap	\$1,187,927,215

Proposed Changes to Revenues

reducing net appropriations by \$396 million, increasing revenue availability by \$213 million, and relying on \$578 million in additional federal funding for Medicaid. (See **Figure 1** for an overview of the governor's recommended adjustments to the FY 2010-11 budget, and see **Figure 2** for an overview of the new budget gap and strategies used to fill it.)

The governor's recommended budget makes only minor changes to the revenue plan for FY 2010-11. In addition to the revenue changes enacted last year that will remain in place, such as the additional \$1.3 billion in temporary taxes, the governor's proposed budget includes \$110 million in additional tax revenues that the Department of Revenue expects to generate through increased tax compliance efforts. The proposed budget would also reduce the transfer from the Highway Trust Fund to the General Fund by \$22 million to help start a proposed "Mobility Fund" for high-priority transportation projects.

The governor also proposed a few small, targeted tax reductions, including a \$250-per-job tax credit for small businesses that provide health insurance to their employees and additional tax relief to small businesses to help them with business equipment purchases. Finally, the governor proposes increasing certain fees, particularly those required for justice and public safety programs, such as probation fees and community service fees.

FIGURE 3

SIGNIFICANT SPENDING CUTS IN THE GOVERNOR'S RECOMMENDED FY10-11 BUDGET	
K-12 Cuts	\$(315,631,390)
Reduction to Local School Districts (on top of \$305 million cut in place)	\$(135,000,000)
Supplant K-12 Appropriations with projected increased Lottery Funds	\$(36,638,646)
Average Teacher Salary Adjustment	\$(44,950,676)
Other K-12	\$(99,042,068)
Community College Cuts	\$(81,961,162)
Community College Tuition Increase	\$(32,440,740)
Community College Management Flexibility Reductions	\$(33,268,064)
Other Community College	\$(16,252,358)
University Cuts	\$(105,175,409)
UNC System Management Flexibility Reductions	\$(98,969,117)
Other University	\$(6,206,292)
Medicaid Cuts	\$(255,228,178)
Savings from Community Care of NC Initiatives	\$(45,000,000)
Reform In-Home Personal Care Services	\$(59,805,207)
All Other Medicaid Changes	\$(150,422,971)
Other Health and Human Services	\$(51,730,263)
All Other Cuts	\$(147,064,676)
General Government	\$(17,822,372)
Justice and Public Safety	\$(83,078,665)
Natural and Economic Resources	\$(21,518,254)
Reserves, Adjustments and Debt Service	\$(24,645,385)
TOTAL SPENDING CUTS	\$(956,791,078)

FIGURE 4**SUMMARY OF "EXPANSION" SPENDING IN THE GOVERNOR'S RECOMMENDED FY10-11 BUDGET**

Fund enrollment growth/budget pressures (Medicaid + higher education enrollment growth + retirement obligations)	\$541,243,159
Deposit to Rainy Day Fund	\$101,524,821
Teacher Step Increase/Pay back state employee furloughs	\$123,636,150
Restore Continuation Review Programs (Sentencing Services, Reentry Education, Young Offenders Forest Conservation)	\$22,958,496
Restore Community Mental Health Funds, AIDS Drug Assistance Program, Community Mental Health Beds, and Youth Development Facility	\$52,699,586
Financial Aid for Higher Education Students	\$41,344,751
Allow Universities to Retain Proceeds from Tuition Increase	\$34,776,301
Improve K-12 Student Diagnostics	\$40,367,963
Investments in Creating Jobs	\$53,252,861
Increase Enrollment in Children's Health Insurance	\$8,522,718
Other "Expansion"	\$104,565,090
Total	\$1,124,891,896

**Proposed
Changes to
Spending**

The governor's proposed 2010-11 General Fund budget would reduce General Fund appropriations compared to the certified budget already in place by \$410 million, or 2.1 percent. When additional federal assistance is accounted for the proposed budget would increase spending by \$168 million, or 0.8% percent. The following sections provide an overview of the major changes proposed in Education, Health and Human Services, Justice and Public Safety, and Transportation. (See Appendices 1 and 2 for a list of proposed appropriations for each area of state government with and without additional federal recovery funds.)

Education

The governor proposes an overall reduction to the General Fund budget for education of \$239 million, or 2.2 percent compared to the certified budget. The budget would cut funding for public schools by \$314.8 million (4.3 percent), but actually increase funding for community colleges by \$32 million (3.2 percent) and the university system by \$42.6 million (1.6 percent). The bulk of the spending reductions in education are in the form of flexibility, or discretionary, reductions, meaning that local school districts and system administrators at universities and community colleges would have the responsibility to decide where to make these reductions. These reductions are on top of \$420 million in discretionary reductions already in place in the previously adopted 2010-11 budget.

It is not yet clear what impact these reductions would have on the ability of these schools to serve their students. The president of the UNC system has said publicly that an additional 5 percent reduction to the university budget would mean reducing system-wide positions by 1,000, more than half of which are faculty positions. With some local school districts, including Charlotte-Mecklenburg, Durham County, and Wake County, already announcing position reductions, it seems likely that more jobs will be lost if this large, additional reduction is implemented.

Another noteworthy proposal is the diversion of lottery proceeds to pay for general public education expenses. In the past lottery proceeds were earmarked for certain activities,

namely class-size reductions, More At Four placements, and higher education scholarships. The governor's proposal, however, would use the anticipated increase in lottery funds (\$36.6 million) to offset reductions in General Fund appropriations to public schools.

The governor also proposes increasing tuition for the state's community colleges by an additional \$8 per credit hour, on top of the \$8 per credit hour increase made last year. To offset the impact of this increase she is also proposing to increase funding for need-based financial aid. Community college students were already struggling to pay for their education in 2008 before the recent tuition increases were enacted. That year, a report from the National Center for Public Policy and Higher Education gave North Carolina an "F" in the affordability of higher education, noting the substantial increase in costs since 2000. The governor's proposal to raise tuition once again will serve to further increase the financial burden for working families in North Carolina. For a poor North Carolina family, community college tuition will represent 34 percent of their income, up from an already high 22 percent in 2008. Low-income families will need to dedicate nearly one-fifth of their budget to post-secondary education costs. And unfortunately, the proposal to offset the tuition increase with greater need-based aid will not go far enough to improve affordability.

FIGURE 5

SIGNIFICANT CHANGES TO THE EDUCATION BUDGET			
	FY10-11 Certified Budget Increase/Cut	FY10-11 Recommended Adjustment	Total FY10-11 Impact of Change
K-12			
Average Teacher Salary Adjustment		\$(44,950,676)	\$(44,950,676)
Average Daily Membership Adjustment (projections revised downward)	\$61,106,959	\$(4,980,046)	\$56,126,913
Lottery Receipts Adjustment (increase in lottery funds to offset appropriations)		\$(36,638,546)	\$(36,638,546)
Local Education Agency Flexibility Adjustment	\$(304,774,366)	\$(135,000,000)	\$(439,774,366)
Central Office Administration	\$(14,613,199)	\$(5,400,000)	\$(20,013,199)
Adjust Assistant Principal funding/assignment		\$(8,908,472)	\$(8,908,472)
At-risk allotment adjustment		\$(7,634,652)	\$(7,634,652)
DSSF reduction (eliminate extra per-student funding for original 16 LEAs)		\$(1,975,008)	\$(1,975,008)
Low Wealth Supplemental Funding (hold at 09-10 level)		\$(10,081,042)	\$(10,081,042)
School Bus Replacement (delays one year)		\$(11,900,000)	\$(11,900,000)
More at Four (4% reduction)	\$(5,000,000)	\$(3,240,466)	\$(8,240,466)
NC Virtual Public Schools investment		\$10,994,157	\$10,994,157
Student Diagnostics Investment (most for K-3 and Grade 5)		\$40,367,963	\$40,367,963
Dropout Prevention Grants	\$13,000,000	\$1,500,000	\$14,500,000
Teacher Salary Schedule Step Increase (not in K-12 budget)		\$61,136,150	\$61,136,150
Community Colleges			
Curriculum Tuition Increase (\$8 per credit) reduces GF appropriation	\$(30,522,884)	\$(32,440,740)	\$(62,963,624)
Restore Community Re-entry Education	\$(32,899,715)	\$19,810,787	\$(13,088,928)
Management Flexibility Reduction	\$(14,000,000)	\$(33,268,064)	\$(47,268,064)
Fully Fund Enrollment Growth	\$99,195,570	\$85,041,632	\$184,237,202
Expand Need Based Financial Aid		\$6,488,188	\$6,488,188
Equipment and Technology	\$12,000,000	\$2,500,000	\$14,500,000
Universities			
UNC Campus Management Flexibility reduction (average 3.9%)	\$(100,000,000)	\$(98,969,117)	\$(198,969,117)
Need Based Financial Aid investment	\$11,000,000	\$34,856,563	\$45,856,563
Enrollment growth	\$97,630,002	\$5,636,814	\$103,266,816
Eliminates tuition increase to offset GF/Campuses retain increase	\$(34,776,301)	\$34,776,301	\$-

Indeed, the proposed addition to these grants will essentially bring us back to the 2008 picture when community college costs were still unaffordable for many North Carolinians. (See **Figure 5** for a more detailed list of proposed changes to the Education budget.)

Health and Human Services

The Health and Human Services (HHS) area of the state budget has received the greatest amount of additional federal assistance, primarily in the form of a temporary increase in the share of Medicaid costs being picked up by the federal government. However, HHS has also experienced the deepest state-level funding reductions. The governor’s proposed budget includes an additional \$386 million in proposed spending reductions for HHS, on top of the \$1.5 billion in reductions in the previously adopted (certified) budget for FY 2010-11. Some of the governor’s proposed reductions are made by finding greater efficiencies in operations, such as implementing a new electronic verification and payment system for child care providers who accept state child-care subsidies and projected savings from increasing the

FIGURE 6

SIGNIFICANT CHANGES TO THE HEALTH AND HUMAN SERVICES BUDGET			
	FY10-11 Certified Budget Increase/Cut	FY10-11 Recommended Adjustment	Total FY10-11 Impact of Change
Division of Aging and Adult Services			
Expand Project CARE (Caregiver Alternatives to Running on Empty)	\$500,000	\$1,000,000	\$1,500,000
Division of Child Development			
Implement Electronic Payment System for Child Subsidy		\$(9,277,519)	\$(9,277,519)
Reduction to Smart Start Funding (4%- holds child care subsidies harmless)	\$(16,330,000)	\$(7,732,319)	\$(24,062,319)
Division of Public Health			
Establish Childhood Immunization Account to pay for vaccinations		\$(6,400,000)	\$(6,400,000)
AIDS Drug Assistance Program (continues program and alleviates waiting list)	\$(3,074,119)	\$14,177,632	\$11,103,513
Division of Medical Assistance			
Medicaid funds to cover 5.6% growth in eligibles + increased use of services	\$273,267,994	\$430,564,713	\$703,832,707
Medicaid Fraud Initiative		\$(36,188,013)	\$(36,188,013)
Savings from Community Care of NC Initiatives	\$(78,397,889)	\$(45,000,000)	\$(123,397,889)
Manage Off-Label Use Prescription Drugs		\$(9,500,000)	\$(9,500,000)
Eliminate reimbursement of "Never Events"		\$(5,000,000)	\$(5,000,000)
Co-payment changes- Increase to a maximum \$3.40/\$6.80 ER visits	\$(3,717,908)	\$(4,530,404)	\$(8,248,312)
Pharmacy Program Improvements		\$(5,566,096)	\$(5,566,096)
Durable Medical Equipment Improvements	\$(4,211,174)	\$(1,859,430)	\$(6,070,604)
Implement Independent Assessments on High Cost Services (prior to service delivery assessment will be made to target reduction)		\$(21,000,000)	\$(21,000,000)
Changes to management of optional services		\$(4,342,370)	\$(4,342,370)
Reform In-Home Personal Care Services		\$(59,805,207)	\$(59,805,207)
Enhanced Mental Health Changes		\$(41,000,000)	\$(41,000,000)
Change Adult Dental Coverage to Emergency Only		\$(11,648,961)	\$(11,648,961)
Adult Home Care Funds		\$9,000,000	\$9,000,000
NC Health Choice (Children's Health Insurance)			
Expand Enrollment to allow an additional 8,096 children (total of 143,035 by 6/11)	\$21,942,732	\$8,522,718	\$30,465,450
Division of Mental Health/Developmental Disabilities/Substance Abuse			
Increase local in-patient bed capacity	\$12,000,000	\$12,000,000	\$24,000,000
Restore Community Service Funding (additional \$17m for restoration will come from TANF funds)	\$(40,000,000)	\$23,000,000	\$(17,000,000)

FIGURE 7

SIGNIFICANT CHANGES TO THE JUSTICE AND PUBLIC SAFETY BUDGET			
	FY10-11 Certified Budget Increase/Cut	FY10-11 Recommended Adjustment	Total FY10-11 Impact of Change
Department of Corrections			
Reduce Inmate Medical Costs		\$(20,500,000)	\$(20,500,000)
Reduce Criminal Justice Partnership Program		\$(1,100,000)	\$(1,100,000)
Increase Probation/Parole Supervision fees (from \$30 to \$40/month)		\$(5,353,794)	\$(5,353,794)
Probation/Parole Office pay grade increase for recruitment and retention		\$1,557,867	\$1,557,867
Establish a Management reserve		\$(15,000,000)	\$(15,000,000)
Judicial Branch			
Restore Sentencing Services program	\$(2,235,185)	\$2,235,185	\$-
Reduce Prisoner Legal Aid Services	\$(62,204)	\$(142,031)	\$(204,235)
Department of Juvenile Justice			
Reduce the Eckerd Wilderness Camp Program	\$(2,768,714)	\$(7,634,231)	\$(10,402,945)
Restore Samarkand Youth Development Facility	\$(3,521,954)	\$3,521,954	\$-
Department of Justice			
Eliminate the NC Legal Education Assistance Fund Program (NCLEAF)	\$(125,000)	\$(375,000)	\$(500,000)

Community Care approach to Medicaid. If these savings do not materialize as planned, the divisions will be forced to meet these budget reduction targets through other means that could adversely impact services.

Other reductions are in the form of outright cuts to services, such as elimination of non-emergency dental care services for Medicaid-eligible adults, reduced funding to the Smart Start early childhood program and a substantial reduction to personal care services that help low-income elderly and disabled residents remain in their homes and out of institutionalized settings. (See **Figure 6** for a more detailed list of the proposed changes to the HHS budget.)

Justice and Public Safety

The governor's proposed budget would reduce appropriations for Justice and Public Safety programs by 2 percent, on top of the nearly 10-percent reduction that was made in the previous year when the state decided to close several prisons and cut other costs. The budget restores funding for the Sentencing Services program that provides information to judges during sentencing and helps place non-violent offenders in community-based alternatives to prison when appropriate. Funding for this program was slated to be eliminated pending a programmatic evaluation. The proposed budget includes some reductions to programs designed to support juveniles, including reduced funding to the Eckerd Wilderness camp for juvenile offenders and a \$1.1 million nonrecurring reduction to the Juvenile Crime Prevention Councils, which distribute grants in local communities to support at-risk youth. (See **Figure 7** for a more detailed list of proposed changes to the Justice and Public Safety budget.)

Transportation

The only major change proposed to the state's transportation budget is the creation of a new Mobility Fund. This fund would be used for high-priority logistical projects including improvements to roads, bridges, ports or railways. The initial payment to the fund would be made by reducing the transfer from the Highway Trust Fund to the General Fund by \$22

FIGURE 8

BUDGET GAP FACING GENERAL ASSEMBLY \$256 MILLION LARGER THAN GOVERNOR'S GAP		
FY10-11 Certified Budget	\$19,559,764,576	
	Governor	General Assembly
+ Budget Pressures	\$564,201,655	\$735,000,000
Medicaid Shortfall	\$430,564,713	\$430,000,000
Enrollment Growth (Higher Education)	\$90,678,446	\$90,000,000
Potential Restoration of Continuation Reviews	\$22,958,496	\$35,000,000
Retirement System	\$20,000,000	\$180,000,000
= New Recommended Total GF Appropriations	\$20,123,966,231	\$20,294,764,576
FY10-11 Base Revenue Forecast	\$19,638,939,016	
	Governor	General Assembly
- Revenue Shortfall	\$(702,900,000)	\$(788,000,000)
FY10-11 Base Revenue Available	\$18,936,039,016	\$18,850,939,016
= FY10-11 Projected Budget Gap	\$(1,187,927,215)	\$(1,443,825,560)
Difference between Governor's Gap and Legislature's Gap = \$255.9 million		

Gap growing as budget heads to legislature

million and redirecting those funds to the new Mobility Fund. The fund would then be matched annually by an additional \$70 million in higher Department of Motor Vehicle fees, including revenues from a proposed 25-percent increase in passenger vehicle and light truck registration fees.

Since the governor released her budget, legislative analysts have announced projections that show the General Assembly is facing a larger budget gap than the governor projected. Legislative staff is predicting that the state will lose \$85 million in estate tax revenue because of the decision by Congress to allow the tax to expire on January 1, 2010. Prior to January 1, North Carolina levied a small estate tax only on those estates that owe federal tax.

In addition, legislative staff has stated that the state must allocate an additional \$180 million to the state employee retirement plan. The governor only allocated \$20 million in expansion funding for this purpose. Finally, the legislature's estimates assume that all of the programs under continuation review whose budgets are not currently included in the FY 2010-11 certified budget will have their funding restored next year.

The budget gap, therefore, now facing the General Assembly is \$1.44 billion, \$256 million larger than the gap projected by the governor in her budget. (See **Figure 8** for details.) It is still possible that the legislature's fiscal staff will revise tax revenue projections once again after they fully assess state income tax revenues following the April 15 tax filing deadline. Moreover, if the US Congress fails to extend additional federal recovery dollars to the state as accounted for in the budget, the gap will grow by an additional \$500 million.

Recession has reduced state government by 10 percent

With the latest revenue and budget numbers, it is possible to draw some conclusions about the real net impact the recession has had on the state’s ability to fulfill its responsibilities to provide educational opportunities, keep people healthy, keep communities safe and protect the environment. The BTC estimates that to restore services at pre-recession levels the state would need to spend approximately \$23.1 billion in FY 2010-11. The budget proposed by Governor Perdue, even when including all federal recovery assistance, is only \$20.7 billion. In other words, the total amount of funding for state services even with federal funds is fully 10 percent less than what would be required to restore the quality and quantity of state services to pre-recession levels. (See Figure 9 for an explanation.)

FIGURE 9

BUDGET GAP FACING GENERAL ASSEMBLY \$256 MILLION LARGER THAN GOVERNOR'S GAP		
Compare FY10-11 Recommended Adjusted General Fund Budget to FY08-09 Appropriations (Budget in place at start of recession)		
FY08-09 General Fund Appropriations	\$21,355,967,434	
FY10-11 Recommended General Fund Appropriations	\$19,149,445,560	
<i>Change in State General Fund Appropriations</i>	<i>\$(2,206,521,874)</i>	<i>-10.3%</i>
FY10-11 Recommended General Fund Appropriations + Federal Recovery Dollars	\$20,765,455,743	
<i>Change in Total General Fund Spending</i>	<i>\$(590,511,691)</i>	<i>-2.8%</i>
Compare to FY10-11 Recommended Adjusted Budget to Updated FY10-11 Continuation Budget		
How much should the state be spending in FY10-11 to restore state services to what they were before the recession?		
UPDATED FY10-11 Continuation Budget	\$23,119,093,561	
<i>FY10-11 Recommended Continuation Budget</i>	<i>\$22,554,891,906</i>	
<i>+ Additional Budget Pressures/Adjustments to Continuation Budget</i>	<i>\$564,201,655</i>	
FY10-11 Recommended General Fund Appropriations	\$19,149,445,560	
<i>Change in State General Fund Appropriations</i>	<i>\$(3,969,648,001)</i>	<i>-17.2%</i>
FY10-11 Recommended General Fund Appropriations + Federal Recovery Dollars	\$20,765,455,743	
<i>Change in Total General Fund Spending</i>	<i>\$(2,353,637,818)</i>	<i>-10.2%</i>

Conclusion

Governor Beverly Perdue, faced with a challenging revenue and economic scenario, has put forward a responsible, though painful, first draft of an adjusted state budget for FY 2010-11. The General Assembly’s staff has already concluded that the budget gap is somewhat larger than the governor had projected, and it could grow more if the revenue projection is revised downward again and if Congress fails to pass pending legislation for additional federal recovery aid to states. The General Assembly must act quickly and carefully to review each proposal recommended by the governor. Can the suggested savings from improving efficiency realistically be achieved? How many public sector jobs will be eliminated and how many people will lose their jobs once all of these cuts, including the cuts that will be made at the discretion of administrators, have been enacted? Finally, how will the proposed changes impact the quality of North Carolina’s public structures, as well as the individuals and communities that have been the most

affected by the recession and its aftermath? Difficult times require difficult decisions, including painful spending cuts and ways to raise additional new revenue. First and foremost, this is no time for state government to shy away from the role it should play in stabilizing the economy and continuing to put North Carolina on a path to progress.

APPENDIX I

NET SPENDING CHANGES IN MAJOR CATEGORIES: FY10-11 Certified General Fund Budget Compared to FY10-11 Recommended Adjusted General Fund Budget

	FY10-11 Certified Budget	FY10-11 Adjusted GF Budget	\$ Change from Certified to Recommended	% Change
Education	\$11,029,853,009	\$10,789,985,290	\$(239,867,719)	-2.2%
Public Education	\$7,360,833,223	\$7,046,005,022	\$(314,828,201)	-4.3%
Community Colleges	\$1,012,467,778	\$1,044,750,084	\$32,282,306	3.2%
Universities	\$2,656,552,008	\$2,699,230,184	\$42,678,176	1.6%
General Government	\$439,641,878	\$441,151,870	\$1,509,992	0.3%
Health & Human Services	\$4,321,028,842	\$3,934,609,900	\$(386,418,942)	-8.9%
Central Mgmt & Support	\$74,172,339	\$69,880,934	\$(4,291,405)	-5.8%
Aging	\$37,282,029	\$38,282,029	\$1,000,000	2.7%
Blind and Deaf	\$8,649,731	\$8,035,667	\$(614,064)	-7.1%
Child Development	\$269,183,962	\$252,174,124	\$(17,009,838)	-6.3%
Education Services	\$36,844,718	\$35,557,408	\$(1,287,310)	-3.5%
Health Service Regulation	\$17,914,125	\$15,435,246	\$(2,478,879)	-13.8%
Medical Assistance	\$2,720,196,757	\$2,326,113,458	\$(394,083,299)	-14.5%
Mental Health	\$664,695,955	\$697,768,647	\$33,072,692	5.0%
NC Health Choice	\$81,964,241	\$90,431,884	\$8,467,643	10.3%
Public Health	\$160,515,329	\$167,292,360	\$6,777,031	4.2%
Social Services	\$208,589,483	\$195,933,970	\$(12,655,513)	-6.1%
Vocational Rehab	\$41,020,173	\$37,704,173	\$(3,316,000)	-8.1%
Justice and Public Safety	\$2,179,933,165	\$2,117,520,725	\$(62,412,440)	-2.9%
Judicial	\$463,753,479	\$454,537,185	\$(9,216,294)	-2.0%
Judicial- Indigent Defense	\$120,132,010	\$121,960,964	\$1,828,954	1.5%
Justice	\$88,652,538	\$85,850,386	\$(2,802,152)	-3.2%
Juv Justice & Delinq. Prevention	\$147,183,945	\$141,331,552	\$(5,852,393)	-4.0%
Corrections	\$1,326,492,230	\$1,280,940,675	\$(45,551,555)	-3.4%
Crime Control & Public Safety	\$33,718,963	\$32,899,963	\$(819,000)	-2.4%
Natural & Economic Resources	\$412,998,097	\$443,180,532	\$30,182,435	7.3%
Reserves & Adjustments	\$467,119,709	\$718,480,680	\$251,360,971	53.8%
Debt Service	\$709,189,876	\$693,344,491	\$(15,845,385)	-2.2%
Capital Improvements	\$-	\$11,172,072	\$11,172,072	
TOTAL	\$19,559,764,576	\$19,149,445,560	\$(410,319,016)	-2.1%

APPENDIX II

**NET SPENDING CHANGES IN MAJOR CATEGORIES: FY10-11 Certified General Fund Budget
+ Federal Recovery Funds Compared to FY10-11 Recommended Adjusted General Fund Budget
+ Federal Recovery Funds**

	FY10-11 Certified Budget	FY10-11 Adjusted GF Budget	\$ Change from Certified to Recommended	% Change
Education	\$11,547,337,305	\$11,307,469,586	\$(239,867,719)	-2.1%
Public Education	\$7,734,114,871	\$7,419,286,670	\$(314,828,201)	-4.1%
Community Colleges	\$1,012,467,778	\$1,044,750,084	\$32,282,306	3.2%
Universities	\$2,800,754,656	\$2,843,432,832	\$42,678,176	1.5%
General Government	\$439,641,878	\$441,151,870	\$1,509,992	0.3%
Health & Human Services	\$4,828,208,760	\$5,020,209,652	\$192,000,892	4.0%
Central Mgmt & Support	\$74,172,339	\$69,880,934	\$(4,291,405)	-5.8%
Aging	\$37,282,029	\$38,282,029	\$1,000,000	2.7%
Blind and Deaf	\$8,910,321	\$8,296,257	\$(614,064)	-6.9%
Child Development	\$269,183,962	\$252,174,124	\$(17,009,838)	-6.3%
Education Services	\$36,844,718	\$35,557,408	\$(1,287,310)	-3.5%
Health Service Regulation	\$17,914,125	\$15,435,246	\$(2,478,879)	-13.8%
Medical Assistance	\$3,222,762,378	\$3,407,098,913	\$184,336,535	5.7%
Mental Health	\$664,695,955	\$697,768,647	\$33,072,692	5.0%
NC Health Choice	\$81,964,241	\$90,431,884	\$8,467,643	10.3%
Public Health	\$163,215,329	\$169,992,360	\$6,777,031	4.2%
Social Services	\$210,042,020	\$197,386,507	\$(12,655,513)	-6.0%
Vocational Rehab	\$41,221,343	\$37,905,343	\$(3,316,000)	-8.0%
Justice & Public Safety	\$2,192,859,300	\$2,130,446,860	\$(62,412,440)	-2.8%
Judicial	\$463,753,479	\$454,537,185	\$(9,216,294)	-2.0%
Judicial- Indigent Defense	\$120,132,010	\$121,960,964	\$1,828,954	1.5%
Justice	\$88,652,538	\$85,850,386	\$(2,802,152)	-3.2%
Juv Justice & Delinq. Prevention	\$147,183,945	\$141,331,552	\$(5,852,393)	-4.0%
Corrections	\$1,339,418,365	\$1,293,866,810	\$(45,551,555)	-3.4%
Crime Control & Public Safety	\$33,718,963	\$32,899,963	\$(819,000)	-2.4%
Natural & Economic Resources	\$412,998,097	\$443,180,532	\$30,182,435	7.3%
Reserves & Adjustments	\$467,119,709	\$718,480,680	\$251,360,971	53.8%
Debt Service	\$709,189,876	\$693,344,491	\$(15,845,385)	-2.2%
Capital Improvements	\$-	\$11,172,072	\$11,172,072	
TOTAL	\$20,597,354,925	\$20,765,455,743	\$168,100,818	0.8%

BTC Reports