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THE SENATE BUDGET: FEATURING TAX CUTS... Brought to You by Lower Savings and More Debt

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Executive Summary

- The North Carolina Senate's version of the 2007-2009 budget spends less on working families, leaves many needs unaddressed, and is less fiscally responsible than the House and governor's plans. The Senate's FY07-08 budget is just above \$20 billion and is \$263 million less than the House's spending plan.
- The Senate plan includes no funding for targeted tax reductions for working families, the Kids Care affordable health insurance for children, or grants for high-school dropout prevention. It also provides inadequate funding for the education of disadvantaged students and does nothing to help counties with Medicaid costs.
- Unlike the House and governor's plans, the Senate allows two tax provisions--- the top 8 percent income tax rate and an additional 0.25 percent of the state portion of the sales tax--- to expire on July 1, 2007 at a cost of approximately \$300 million in lost recurring revenue for FY 2007-2008.
- The Senate budget is out of balance, spending more than \$291 million of one-time money to pay for ongoing expenses.
- The Senate spends only \$12 million less on ongoing expenses than the House. The majority of the \$263 million spending difference between the two chambers can be explained by their treatment of one-time money. Unlike the Senate, the House uses one-time money to provide \$100 million to help counties with Medicaid costs, invests \$116 million more on capital improvement projects, and fully repays the state pension system at a cost of \$45 million.
- The Senate budget saves less than the House by placing only \$150 million of the projected \$1.2 billion revenue surplus into the Rainy Day Fund, freeing up \$165 million more one-time money than the House to spend in FY 2007-2008.
- The Senate plan saves less, relies more on debt, and allows tough decisions to be put off to the (near) future.

FIGURE 1

SENATE BUDGET OUT OF BALANCE, FY 2007-2008

	HOUSE	SENATE
Recurring Revenues	\$19,609,841,572	\$19,353,731,012
Recurring Expenses	\$19,657,342,611	\$19,644,959,083
Balance	\$(47,501,039)	\$(291,228,071)

Overview

The final phase of the North Carolina budget process began last week when the Senate passed its version of the 2007-2009 spending plan. House members rejected the Senate's changes to their budget, so now conference committees appointed by both chambers will begin working to sort out the many differences in priorities between the two chambers and the governor.

In lieu of saving for and investing in the future, the Senate cuts taxes and leaves an unexplainable amount of unappropriated money at the end of both years. Unlike the House and Governor, the Senate chose not to extend two temporary taxes resulting in an over-reliance of one-time money (\$291 million) to pay for ongoing expenses in their spending plan. The Senate invests less to educate disadvantaged students, to insure children, and to build affordable housing and does not include any targeted tax reductions for low- and moderate-income working families. The plan has also raised criticism for the \$1.2 billion in debt it proposes the state take on in the form of certificates of participation to primarily finance university construction while ignoring other critical infrastructure needs. Providing help to counties to pay for Medicaid costs was also left unaddressed in the Senate plan.

The Senate's claim that they spend less than the House because it allows the two tax provisions to expire is misleading at best. The Senate budget plays a shell game with numbers that gives the illusion of fiscal responsibility, but in the end the plan saves less, spends roughly the same on ongoing expenses, relies more on debt, and allows tough decisions to be put off to the (near) future.

FIGURE 2

BIG PICTURE COMPARISON OF SENATE, HOUSE AND GOVERNOR'S 2007-2009 BUDGET

	GOVERNOR	HOUSE	SENATE
FY2007			
Previous Year's Authorized Budget	\$18,865,960,284	\$18,865,960,284	\$18,865,960,284
Recommended Continuation Budget	\$18,972,044,989	\$18,967,544,989	\$18,967,544,989
Recommended Expansion Budget	\$1,094,306,111	\$1,334,726,681	\$1,071,674,793
Total Recommended General Fund Appropriations	\$20,066,351,100	\$20,302,271,670	\$20,039,219,782
\$ Change from Previous Fiscal Year	\$1,200,390,816	\$1,436,311,386	\$1,173,259,498
% Change from Previous Fiscal Year	6.4%	7.6%	6.2%
FY2007-2008			
Previous Year's Budget	\$20,066,351,100	\$20,302,271,670	\$20,039,219,782
Recommended Continuation Budget	\$19,497,087,728	\$19,492,587,728	\$19,458,184,549
Recommended Expansion Budget	\$940,492,574	\$866,718,905	\$789,164,322
Total Recommended General Fund Appropriations	\$20,437,580,302	\$20,359,306,633	\$20,247,348,871
\$ Change from Previous Fiscal Year	\$371,229,202	\$57,034,963	\$208,129,089
% Change from Previous Fiscal Year	1.9%	0.28%	1.04%

Revenue Plan

The Senate's budget plan is less fiscally responsible than the House and governor's versions. It does not extend two tax provisions---the 8 percent income tax rate on married taxable income above \$200,000 per year and an additional 0.25 percent of the state portion of the sales tax---at a cost of approximately \$300 million in lost recurring revenue for FY2007-2008. Without the two taxes, the Senate budget spends \$291 million more than it has available in expected ongoing revenue.

FIGURE 3

	FY 2007-2008		
	GOVERNOR	HOUSE	SENATE
Beginning Credit Balance			
Overcollections in FY 2006-07	\$825,100,000	\$1,135,200,000	\$1,135,200,000
Reversions from FY 2006-07	\$125,000,000	\$125,000,000	\$125,000,000
Total Carryforward	\$950,100,000	\$1,260,200,000	\$1,260,200,000
Rainy Day Fund	(\$237,525,000)	(\$315,050,000)	(\$150,000,000)
Repairs and Renovations Reserve	(\$100,000,000)	(\$145,000,000)	(\$145,000,000)
Less Expenditures from Carryforward	(\$337,525,000)	(\$460,050,000)	(\$295,000,000)
FINAL CARRYFORWARD AMOUNT	\$612,575,000	\$800,150,000	\$965,200,000
Base General Fund Revenue Forecast (Tax and Non-Tax)	\$19,361,600,000	\$19,403,590,000	\$19,395,590,000
Proposed Tax Reductions	(\$89,700,000)	(\$98,600,000)	(\$86,900,000)
Proposed Tax and Fee Enhancements	\$300,700,000	\$305,121,572	\$45,041,012
TOTAL REVENUE AVAILABLE	\$20,185,175,000	\$20,410,261,572	\$20,318,931,012

* Fiscal Research released new 2006-2007 overcollections estimates in early May

	FY 2008-2009		
	GOVERNOR	HOUSE	SENATE
Beginning Credit Balance	\$118,823,900	\$107,989,902	\$279,711,230
Overcollections in FY 2006-07			
Reversions from FY 2006-07			
Total Carryforward	\$118,823,900	\$107,989,902	\$279,711,230
Rainy Day Fund			
Repairs and Renovations Reserve			
Less Expenditures from Carryforward	(\$337,525,000)	(\$460,050,000)	(\$295,000,000)
FINAL CARRYFORWARD AMOUNT	\$118,823,900	\$107,989,902	\$279,711,230
Base General Fund Revenue Forecast (Tax and Non-Tax)	\$20,359,400,000	\$20,441,510,000	\$20,441,510,000
Proposed Tax Reductions	(\$115,100,000)	\$(180,050,000)	\$(79,100,000)
Proposed Tax and Fee Enhancements	\$380,000,000	\$381,916,335	\$41,435,775
TOTAL REVENUE AVAILABLE	\$20,743,123,900	\$20,751,366,237	\$20,683,557,005

Use of One-Time Money to Pay for Ongoing Expenses

The Senate also puts less of the projected \$1.2 billion surplus into the Rainy Day Fund, ignoring the mandate that requires 25 percent of revenue surpluses to go to the fund. By putting only \$150 million (compared to \$315 million in the House plan) into the fund, the Senate carries forward \$965 million in one-time money to spend in FY 2007-2009. The net result of the Senate's tax and fee changes is a loss of \$41 million, leaving the Senate with \$20.3 billion in available revenue for the first year, or just \$91 million less than the House.

The Senate balances its budget by saving less and relying on one-time money to cover ongoing expenses.

Despite having less recurring revenue to work with, the Senate budgeted only \$12 million less than the House in recurring appropriations for ongoing expenses and spends \$291 million in one-time money to cover ongoing expenses in the first year.

The Senate budget also subjects more than 30 programs under Health and Human Services, Justice and Public Safety, and Natural and Economic Resources to continuation review, a new provision not included in the House and governor's spending plans. The Senate will require a written report from each program by February 1, 2008 that describes the program; evaluates program performance; makes the case for continuing, expanding or reducing funding; and suggests service improvements in order to provide funding for FY08-09. The FY07-08 non-recurring appropriations for these programs total \$74.1 million.

Given that most of these programs received recurring appropriations under the House and governor's budgets, the Senate's recurring appropriations total in FY07-08 is artificially low. If the \$74.1 million in non-recurring appropriations for these programs is added to the Senate's recurring appropriations total, they actually spend **\$62 million more** than the House on ongoing expenses and use **more than \$365 million** of one-time money to fund these expenses.

FIGURE 4

RECURRING AND NON-RECURRING REVENUE AND APPROPRIATIONS, FY 2007-2008		
	HOUSE	SENATE
Revenues Based on Existing Tax Structure(1) and Non-Tax Revenues	\$19,403,590,000	\$19,395,590,000
Net Tax and Fee Changes	\$206,251,572	(\$41,858,988)
Recurring Revenue	\$19,609,841,572	\$19,353,731,012
Adjusted Continuation Budget	\$18,967,544,989	\$18,967,544,989
New Recurring Appropriations	\$689,797,622	\$677,414,094
* Continuation Review Appropriations		\$74,134,693
Recurring Appropriations	\$19,657,342,611	\$19,719,093,776
Surplus/Deficit for Recurring Appropriations	\$(47,501,039)	\$(365,362,764)
Non-Recurring Revenue	\$800,150,000	\$965,200,000
** Non-Recurring Appropriations	\$644,929,059	\$320,126,006
Final Unappropriated Balance	\$107,719,902	\$279,711,230

* The Senate budget initiates a continuation review program for more than 30 programs. The non-recurring appropriations for these programs is \$74.1 m in FY07-08, but it is more valid to count these appropriations as recurring since they will continue into the following year if the review is passed

** The Non-Recurring Appropriations total for the Senate does not include the \$74.1 million in non-recurring for programs subject to continuation review.

Tax Changes

By not extending the two tax provisions, the Senate has less recurring revenue to work with and only puts off tax increases to the future. North Carolina's revenue system is outdated, inadequate, and unfair, and comprehensive reform is greatly needed, but until reform is realized, the state should not eliminate two tax provisions that provide substantial recurring revenue. This is especially true given that revenue growth is declining. Using one-time money to pay for the ongoing costs of state services will result in a budget gap in the near future. Extending the two tax provisions prepares North Carolina more for the future and ensures adequate revenues to sustain spending at current levels.

The regressive impact of extending the 0.25 percent sales tax on low- and moderate-income taxpayers is lessened by maintaining the top income tax rate at 8 percent. The combination of the two taxes would increase the percentage of income paid in state and local taxes by 0.1 percent, on average, for all taxpayers. Taxpayers in the bottom 20 percent (incomes under \$18,000) would pay an average of \$16 in additional sales taxes. Allowing the two tax provisions to expire would result in \$300 million in lost revenue in the first year.

The Senate also does not provide targeted reductions for low- and moderate-income families. A refundable state Earned Income Tax Credit (EITC), included in the House plan, would do more in current and future years to help these families than allowing the 0.25 percent sales tax to expire. A refundable state EITC will help those who need it the most---working families. More than 825,000 North Carolina families (20 percent of all taxpayers) qualify for the federal EITC and also would benefit from a state EITC. The 5 percent refundable state EITC will cost \$68.9 million in FY08-09. The average family benefit will equal \$81 annually and the most a family could receive is \$236 per year.

Spending Plan

The Senate's budget increases General Fund spending by \$1.17 billion, or 6.2 percent, in FY07-08 and an additional \$208 million, or 1 percent, in FY08-09. The university system receives the largest overall increase compared to the current fiscal year (16.9 percent) and the Senate spends more than \$68 million more on universities than the House.

Like the House, the majority of the Senate's new spending (\$627 million) goes towards salary increases and funding for the state health and retirement plans. The Senate gave teachers, community college faculty, and university faculty a 5 percent average increase and 4 percent for all other state employees. The Senate also cut agency positions vacant for more than six months but allowed the university system to maintain their vacant positions, so the reduction was \$34 million compared to \$103 million in the House budget.

The real difference in spending between the Senate and House budgets is due to the treatment of one-time money. The House budget provides one-time appropriations to help counties with their Medicaid costs (\$100 million), \$179 million to finance capital improvement projects, and \$45 million to fully repay what was borrowed from state pensions system. The Senate budget does nothing for Medicaid, spends only \$55 million on capital improvements, and gives only \$10 million to the pension system.

FIGURE 5

FY2007-2008 EXPANSION BUDGET COMPARISON: SENATE VS. HOUSE			
	SENATE	HOUSE	DIFFERENCE
Public Education	153.8	151.5	Senate spends \$2.3 million more than House, however, has conflicting spending priorities
Universities	105	36.3	Senate spends \$68.7 million more than House
Community Colleges	26.6	34	House spends \$7.4 million more than Senate
HHS	-44.7	37.1	House spends almost \$82 million more than Senate
Justice and Public Safety	52.8	23.2	Senate spends \$29.6 million more than House, however, raises court fees to pay for expanded items
Nat and Ec Resource	58.1	80.5	House spends \$22.4 million more
General Government	15.9	18.5	House spends \$2.6 million more
Debt Service	0	0	
Reserves	649.3	782.7	House spends \$133.4 million more which includes \$100 million for county Medicaid assistance and \$45 million to fully repay the state pension system (the Senate only puts aside \$10 million towards the repayment)
Capital Improvements	54.8	170.9	House spends \$116 million more
TOTAL	1071.6	1334.7	The House expansion budget is \$263 million more than the Senate, however, the majority of the difference is in the one-time medicaid relief (\$100m), pension system repayment (\$45m vs. \$35m), and \$116m more for capital improvements

Education

Investments in education account for the majority of public spending in North Carolina. During FY07-09, the state Senate invests \$11.2 billion per year in North Carolina's primary and secondary schools, community colleges, and public universities. While the Senate spends slightly more on education than does the House, the two chambers differ markedly in their priorities. The Senate pays special attention to the University of North Carolina, overlooks the needs of the North Carolina Community College System, and under-invests in K-12 programs tailored to the academic needs of disadvantaged students.

- Public Education:** As does the House, the Senate budgets roughly \$7.6 billion in each year of the biennium for public education. This amount includes approximately \$100 million per year in expansion funding, and elsewhere in the budget, the Senate provides funds to raise teacher salaries by an average of 5 percent. The Senate's priorities, however, differ significantly from those of the House, especially when it comes to the academic needs of disadvantaged students. Compared to the House, the Senate provides half as much funding for the Disadvantaged Student Supplemental Fund (DSSF), authorizes no money for dropout prevention grants, freezes the current number of teacher assistants, and hires 50 percent fewer eighth-grade literacy coaches.

Furthermore, much of the Senate's expansion funding is not true expansion funding. The single largest expansion new item contained in the Senate plan is \$37.5 million to reduce class sizes in grades K-3. This item, however, is supposed to be financed with the proceeds of the North Carolina Education Lottery. In essence, the Senate spends General Fund dollars to compensate for the lottery's unanticipated poor performance. This \$37.5 million "reverse supplantation" is equal to the combined reductions that, relative to the House,

the Senate makes to DSSF, dropout prevention grants, teacher assistants, literacy coaches, child nutrition, Learn and Earn, and foreign language instruction.

Figure 6 summarizes key differences between the education expansion budgets adopted by the House and Senate for FY07-08.

FIGURE 6

SELECTED EXPANSION ITEMS, PUBLIC EDUCATION, SENATE VS. HOUSE, FY 2007-08

ITEM	FUNDING	STATUS	FUNDING	STATUS	LESS
Class Size Reduction	\$37.5	Recurring	\$0.0	--	\$37.5
Focused Education Reform Pilot Program	\$4.4	Recurring	\$0.0	--	\$4.4
Low Wealth Counties Supplemental Funding	\$3.1	Non-Recurring	\$0.0	--	\$3.1
Small County Supplemental Funding	\$2.1	Recurring	\$1.0	Recurring	\$1.1
Learn and Earn Planning Grants	\$0.1	Non-Recurring	\$0.1	Non-Recurring	(\$0.0)
	\$2.5	Recurring	\$3.3	Recurring	(\$0.8)
Literacy Coaches	\$1.7	Recurring	\$2.9	Recurring	(\$1.2)
Child Nutrition Operating Funds	\$0.8	Non-Recurring	\$7.5	Non-Recurring	(\$6.7)
Drop Out Prevention Grants	\$0.0	--	\$7.0	Non-Recurring	(\$7.0)
Disadvantaged Student Supplemental Funding	\$10.0	Recurring	\$20.0	Recurring	(\$10.0)
Teacher Assistants	(\$10.9)	Recurring	\$0.0	--	(\$10.9)

- The University of North Carolina:** The Senate's budget is extremely generous to the 16-campus University of North Carolina system. As was the case in the House, the Senate invests approximately \$2.6 billion annually in the university system, excluding salaries and capital projects. Like the House, the Senate budget fully funds enrollment growth and need-based financial aid and takes money from the Escheat Fund to create the Education Access Rewards North Carolina Scholars (EARN) program championed by Gov. Mike Easley.

The Senate plan differs markedly from the House plan in at least three respects. First, the Senate does not include the two-year \$40.6 million reduction in middle management proposed by the UNC Office of the President and passed by the House. Instead, it budgets a two-year total of \$31.2 million in unspecified efficiency reductions. Second, the Senate provides nearly \$70 million for expansion items, mostly related to academic research and economic development, not included in the House budget. These projects include the creation of a cancer research fund (\$16 million in year two), an economic competitiveness fund (\$8 million annually), a Biofuels Center (\$5 million annually) and an Institute for Regenerative Medicine at Wake Forest University (\$4 million annually plus \$4 million in one-time money). Additionally, while the House approved a one-time expenditure of \$1 million, the Senate provides the North Carolina Research Center at Kannapolis with \$8.5 million annually and \$8 million in one-time money. Third, the Senate provides UNC with money in other parts of the budget. The Senate budget provides an average raise of 5 percent to UNC faculty and authorizes approximately \$1 billion in certificates of participation, a form of debt, for university construction projects.

Figure 7 summarizes key differences between the university expansion budgets adopted by the House and Senate for F07-08.

FIGURE 7

SELECTED EXPANSION ITEMS, UNIVERSITY OF NC, SENATE VS. HOUSE, FY 2007-08

ITEM	SENATE	STATUS	HOUSE	STATUS	LESS
Need-Based Financial Aid	\$27.6	Recurring	\$27.6	Recurring	\$0.0
UNC Enrollment Growth	\$6.0	Recurring	\$6.0	Recurring	\$0.0
UNC Law School Operating Deficit	\$2.0	Non-Recurring	\$0.0	--	2.0
Motorsports Account Closure	\$0.0	--	(\$3.5)	Non-Recurring	\$3.5
Soldier Institute for Regenerative Medicine	\$4.0	Recurring	\$0.0	--	\$4.0
	\$4.0	Non-Recurring	\$0.0	--	\$4.0
Biofuels Center of NC	\$5.0	Recurring	\$0.0	--	\$5.0
NC Research Center at Kannapolis	\$8.5	Non-Recurring	\$1.0	Non-Recurring	7.5
	\$8.0	Recurring	\$0.0	--	8.0
Competitiveness Fund	\$8.0	Recurring	\$0.0	--	8.0
Agriculture	\$9.2	Recurring	\$0.0	--	\$9.2
Middle Management Reduction	\$0.0	Recurring	(\$18.7)	Recurring	\$18.7
Efficiency	(\$10.0)	Recurring	\$0.0	--	(\$10.0)
EARN Scholars (from Escheat Fund)					
	\$50.0	--	\$25.0	--	\$25.0
Average Faculty Raises					
	5.0%	--	4.25%	--	--
Projects					
	\$1 billion	--	\$230 million	--	\$770 million

- The North Carolina Community College System:** As has happened throughout the budget process, the needs of North Carolina's 58 community colleges and their students were overlooked in the Senate. That chamber spends \$7.4 million less than the House in FY07-08 (\$919.6 million versus \$927 million), and virtually none of the Senate's spending addresses pressing system needs in meaningful ways. Like the House, the Senate fully funds enrollment growth, provides an average 5 percent pay increase to faculty members and raises tuition by 6.3 percent. Compared to the House, the Senate provides an additional \$3.6 million for allied health programs and \$2 million for enrollment growth reserves, but no added money for counseling staff. Also like the House, the Senate makes little real effort to address system-wide equipment and facility needs.

Health and Human Services

The Senate spends \$82 million less on health and human services than the House. The most significant absence from the Senate budget is the Kids Care health insurance program, which both the House and the governor fund fully. With a few exceptions, the Senate cut funding for Medicaid provider inflationary increases, saving \$56 million. The House funded 50 percent of the inflationary increases. The Senate also spends less on mental health, which is already severely underfunded in other versions of the budget.

The governor and House's Kids Care proposals call for sliding-scale premiums for children in families with incomes between 200% and 300% of the federal poverty level, which would allow their parents to buy an affordable plan. However, the Senate did not fund NC Kids Care at all in the first year of its budget, and there's no guarantee that the

minimal money they provide for a plan in the second year will ever be spent. Instead, the Senate proposed a "study" on expanding health coverage for children. Funding full coverage costs only \$4 million the first year and \$7 million the second year.

County Medicaid Relief

The Senate budget bill includes language that the chamber has the intent to address counties' growing need for help covering Medicaid costs; however, unlike the House, the Senate failed to directly address the issue in its budget. The House gave \$100 million in one-time money to counties. The Senate is likely searching for a permanent fix that will be offered either during the consensus process or as a separate bill.

General Government

As did the House, the Senate expands funding for the North Carolina Housing Finance Agency. All of the added funding goes to support two initiatives related to affordable housing, the Home Protection Pilot Project and the Housing Trust Fund. Both the House and Senate provide \$1.5 million in one-time money to support the Home Protection Pilot Project, which helps eligible laid-off workers avoid home foreclosures. Both legislative chambers also provide \$7.5 million to the Housing Trust Fund to finance the construction of housing for individuals with disabilities. The Senate, however, provides less in general support for the Housing Trust Fund---\$3.5 million annually versus \$5 million annually.

Justice and Public Safety

The Senate's budget addresses staffing and technology needs in the judicial system through increasing court fees. The updated fees are projected to increase revenues by approximately \$40 million. Some of the fees are small increases; for example, Superior court costs for criminal cases are increased from \$92.50 to \$102.50. Other fees are new or more costly, like the new commercial license violation reporting fee, which is \$100, or the 20-day failure fee (Traffic), which was doubled from \$50 to \$100. The Senate budget also directs the state treasurer to increase the amount of judicial fees that is designated for Legal Aid. Currently, a small percentage of several judicial fees (for example, \$1.05 of the \$79.00 Superior Court Fee) is distributed to the State Bar to fund legal aid services throughout the state. The Senate budget directs the state treasurer to increase this amount from \$1.05 to \$2.05, while the House budget directs an increase from \$1.05 to \$3.00.

The House budget includes funding for hiring 154 new positions, while the Senate budget provides funding for 678 new positions. The Senate's budget provides funding in the district attorney's office for 80 victim witness/legal assistants, 60 assistant district attorneys, and 15 district attorney investigator positions. In comparison, the House provides funding for 9 victim witness/legal assistants and 30 assistant district attorney positions. In the trial courts, the Senate provides funding for 300 new deputy clerk positions to help manage the Superior and District Court caseloads and also provides funding for additional support staff and judges. The House provides funding for 58 new deputy clerk positions and additional support staff and judges. The Senate budget also allocates \$1.5 million in recurring funds in FY08-09 to expand the number of public defender offices and attorney positions around the state.

Capital Projects and Debt Financing

The Senate budget proposes the state take on \$1.2 billion in debt, with most of it going to the university system. The state treasurer says North Carolina can only take on \$2 billion in debt. If half of that debt capacity goes to the universities, the state will be unable to meet basic, pressing needs that directly impact the quality of life for millions of North Carolinians---such as water and sewer system repairs, road construction and repair, and school construction.

Hot Topics for the Budget Consensus Process

In addition, the Senate suggests the state issue this debt through certificates of participation, which do not require a vote of the people and cost more in interest than general obligation bonds. According to the state treasurer, certificates of participation costs \$2 million more for each \$100 million borrowed than general obligation bonds. So, not only does the Senate's proposed debt come without voter approval, but it would also cost an estimated \$24 million more to finance.

The House only proposed \$450 million in certificates of participation, but it also financed \$171 million in capital projects with one-time General Fund money. The Senate only used \$55 million of one-time money for a handful of capital projects. The governor recommended \$200,000 in certificates of participation and \$1.41 billion in general obligation bonds spread out over five years for university projects, state government facilities, and prison expansion.

- 1) **Revenue Plan** - The Senate and House will need to agree on whether to extend the two temporary taxes and whether the revenue plan should include targeted tax reductions for working families, like a state EITC. They will likely have to come to consensus on the revenue plan before debating any spending priorities so the chambers will know how much revenue is available moving forward in the budget process.
- 2) **Priority Spending** - The House budget prioritized spending more on programs that benefit working families---including affordable health insurance for children, education programs for disadvantaged students, and affordable housing---while the Senate emphasized spending for university enhancements. The chambers will need to reach consensus on what programs to create, expand, cut, or leave the same.
- 3) **County Medicaid costs** - The House took the first step in providing some temporary relief to counties for their rapidly growing Medicaid costs. However, advocates desire a permanent solution. It would cost the state an estimated \$530 million in FY07-08 to take over the entire county non-federal share of Medicaid expenditures. This would require either a substantial cut in spending or a substantial increase in state revenues.
- 4) **Infrastructure needs** - The list of state and local infrastructure needs includes new schools, roads, water and sewer, open space, affordable housing, and state facilities such as university, community college, and office buildings. Pressure is mounting to issue a significant amount of debt through general obligation bonds to meet pressing needs.

Conclusion

The Senate Budget is all around less responsible than the House or governor's versions. It provides less funding for programs that would benefit working families across the state. It is less fiscally responsible by relying on one-time money to pay for ongoing expenses, allowing the two temporary tax provisions to expire, and using less of the one-time to build the Rainy Day Fund, finance capital improvement projects, and payback the state pension system. It drives up the state's responsibility for paying off debt by issuing \$1.2 billion in certificates of participation to primarily finance university projects.

APPENDIX

2007-2008 Expansion and Reduction Differences (Governor, House and Senate)

Function	Description	Governor	House	Senate
Public Education	ABC Bonuses	\$70,000,000	\$70,000,000	\$70,000,000
	Disadvantaged Student Supplemental Funding	\$18,931,676	\$20,000,000	\$10,000,000
	Learn and Earn Initiative/Online Expansion	\$20,304,802	\$9,780,015	\$9,035,011
	Literacy Coaches	\$5,704,400	\$3,420,440	\$1,710,220
	Dropout Prevention Grants	\$-	\$7,000,000	-
	School Connectivity	\$12,000,000	\$12,000,000	\$7,000,000
	Children with Disabilities	\$-	\$5,000,000	\$5,000,000
	Child Nutrition Operating Funds	\$-	\$7,500,000	800,000
	Teacher Assistants			\$(10,919,068) ¹
Community Colleges	6.5% Tuition Increase	\$-	\$(7,500,000)	\$(7,500,000)
	Equipment	\$5,000,000	\$10,000,000	\$6,000,000
	Data Connectivity	\$3,827,600	\$3,827,600	\$3,827,600
Universities	Middle Management Reductions	\$-	\$(18,660,121)	-
	Need Based Financial Aid	\$29,450,314	\$27,605,210	\$27,605,210
	Earn Scholars	\$50,000,000	\$25,000,000	\$50,000,000 ²
Health and Human Services	NC Kids' Care (extend health insurance to 12,000 children)	\$4,716,875	\$4,716,875	-
	Smart Start	\$-	\$1,095,351	\$1,285,870
	Child Care Subsidies	\$8,400,000	\$8,400,000	\$8,400,000 ³
	Maintain NC Health Choice Enrollment	\$7,507,992	\$7,507,992	\$7,507,992
	County Share Medicaid Relief	\$-	\$100,000,000	-
	Medicaid Provider Inflationary Adjustments	Fully Funded	\$(26,959,339)	\$(55,751,178) ⁴
HIV Prevention	\$1,000,000	\$2,000,000	\$2,000,000	
Housing	Housing Trust Fund	\$5,000,000	\$12,500,000	\$11,000,000
	Home Protection Pilot Fund	\$1,500,000	\$1,500,000	\$1,500,000
Employee Benefits	Salary Increase for State Employees	\$394,500,000	\$493,416,954	\$496,685,523 ⁵
	Retirement System Contribution	\$27,200,000	\$29,600,000	\$29,600,000
	Retirement System Payback	\$45,000,000	\$45,000,000	\$10,000,000
	State Health Plan	\$111,300,000	\$133,978,000	\$120,118,352

- 1 Senate budget freezes funding for additional teacher assistants in 07-08 keeping appropriations at 06-07 level.
- 2 House and Senate fund from Escheats Fund, Governor from the General Fund.
- 3 Senate would provide for rate adjustments and an additional 339 slots. Governor and House use funding to remove 2,000 children from waiting list, but do not provide for rate adjustments.
- 4 House only funded 50% of provider inflationary increase with some exceptions. Senate did not fund any provider inflationary increases with some exceptions.
- 5 Governor's budget increase is an average 5% for teachers and community college faculty and 2.5% for all other state employees. House budget increase is an average 5% for teachers and community college faculty and 4.25% average for all other state employees. Senate budget increase is an average 5% for teachers, community college and university faculty and 4% average for all other state employees.

BTC *Reports*

North Carolina Justice Center

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