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## THE HOUSE BUDGET: A Responsible Plan Forward

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### Executive Summary

- The North Carolina House of Representatives has passed a two-year budget that would increase state spending over the current year by \$1.44 billion, or 7.6 percent, in the first year. Spending would rise by another \$51.4 million, or 0.25 percent in the second year.
- The majority of the \$1.44 billion increase in FY 2007-2008 funds salary increases for all state employees, one-time fiscal relief for county Medicaid costs, expanded and new education programs, and capital improvements.
- The House budget includes funding for initiatives that support working families, such as additional funding for disadvantage students, affordable housing, child-care assistance and expanded health insurance coverage for children in low- to moderate-income families.
- The House's revenue plan creates a 5 percent refundable state Earned Income Tax Credit (EITC) that complements the federal program. The state EITC will improve tax fairness, and more than 825,000 North Carolina families - one-fifth of all taxpayers- will benefit
- The House and governor balance their budgets by extending what remains of the temporary sales and income tax increases first adopted in 2001, appropriating surplus revenues from the current fiscal year, and reinstating the transfer from the Highway Trust Fund to the General Fund. Since the governor released his budget in February, the projected surplus has increased to \$1.135 billion from \$825 million.
- As the budget moves to the North Carolina Senate, topics of debate likely will include the extension of the temporary taxes, Medicaid relief, infrastructure needs, debt financing, and state support for mental health services.

## Overview

The North Carolina House of Representative's budget for FY2007-2009 is a fiscally responsible plan that invests in working families. As the Governor proposed, the House will extend two temporary taxes to generate adequate revenues for current and future needs. The House also provides targeted tax relief for low- and moderate-income working families through a refundable state Earned Income Tax Credit set at five percent of the federal credit. The House's spending plan expands on the Governor's proposal by providing \$100 million in one-time Medicaid relief to counties and a greater raise in the average salary of state employees. Critical investments, including a long list of state and local infrastructure needs and increased funding for mental health services, however, largely went unaddressed or under-funded. If the State Senate chooses not to extend the two temporary taxes, there will be little room to maneuver without considering spending cuts or other revenue sources. This issue of BTC Reports analyzes the House's plan in detail, paying close attention to fiscal responsibility and the potential effects on low- and moderate-income North Carolinians.

FIGURE 1

### BIG PICTURE COMPARISON OF NC HOUSE AND GOVERNOR'S FY2007-2009 BUDGET

	GOVERNOR	HOUSE
<b>FY2007-2008</b>		
Previous Year's Authorized Budget	\$18,865,960,284	\$18,865,960,284
Recommended Continuation Budget	\$18,972,044,989	\$18,967,544,989
Recommended Expansion Budget	\$1,094,306,111	\$1,340,370,981
<b>Total Recommended General Fund Appropriations</b>	<b>\$20,066,351,100</b>	<b>\$20,307,915,970</b>
\$ Change from Previous Fiscal Year	\$1,200,390,816	\$1,441,955,686
% Change from Previous Fiscal Year	6.4%	7.6%
<b>FY2008-2009</b>		
Previous Year's Budget	\$20,066,351,100	\$20,307,915,970
Recommended Continuation Budget	\$19,497,087,728	\$19,492,587,728
Recommended Expansion Budget	\$940,492,574	\$866,718,905
<b>Total Recommended General Fund Appropriations</b>	<b>\$20,437,580,302</b>	<b>\$20,359,306,633</b>
\$ Change from Previous Fiscal Year	\$371,229,202	\$51,390,663
% Change from Previous Fiscal Year	1.9%	0.25%

## Revenue Plan

The House's FY2007-2009 revenue plan is fiscally responsible, providing adequate funds for sustaining prior spending commitments and additional funds for new programs and targeted tax reductions. The estimated revenue surplus for the current year has risen to \$1.135 billion, an increase of \$310 million from the Governor's budgeted forecast. Unexpected one-time corporate settlements, strong employment gains, and robust April income tax collections resulting largely from increased capital gains fueled state revenue growth.

Like the Governor, the House recommends extending two tax provisions that were set to expire through 2009: 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 (current rate of 4.25 percent). Allowing the two taxes to expire as planned would cost \$300 million.

The House's revenue plan also calls for targeted tax reductions for working families and businesses in the amount of \$89.7 million in the first year and \$98.6 million in the second year. Most importantly, the House includes a state Earned Income Tax Credit (EITC). If enacted, North Carolina would become the 22nd state to extend the benefits of the federal program to the state level. Additional reductions include a long-term care insurance credit, adoption credit, work opportunity tax credit and a phase out on the sales tax for farmers and manufacturers' energy purchases (See Figure 3).

The House's budget places the required 25 percent of carry forward money, \$315 million, in the state's rainy day fund and \$145 million in the repairs and renovations reserve. The deposit into the rainy day fund brings the fund's total up to \$926 million.

The House's revenue plan would support General Fund spending of \$20.3 billion in FY 2007-2008. \$107 million is left unbudgeted for 2007-2008 and therefore would be available for use in FY 2008-2009.

**FIGURE 2**

**COMPARISON OF HOUSE AND GOVERNOR'S REVENUE AVAILABILITY**

	FY 2007-2008		FY 2008-2009	
	GOVERNOR	HOUSE	GOVERNOR	HOUSE
Beginning Credit Balance	\$0		\$118,823,900	\$107,989,902
Overcollections in FY 2006-07	\$825,100,000	\$1,135,200,000*		
Reversions from FY 2006-07	\$125,000,000	\$125,000,000		
<b>Total Carryforward</b>	<b>\$950,100,000</b>	<b>\$1,260,200,000</b>	<b>\$118,823,900</b>	<b>\$107,989,902</b>
Rainy Day Fund	(\$237,525,000)	(\$315,050,000)		
Repairs and Renovations Reserve	(\$100,000,000)	(\$145,000,000)		
<b>Less Expenditures from Carryforward</b>	<b>(\$337,525,000)</b>	<b>(\$460,050,000)</b>		
<b>FINAL CARRYFORWARD AMOUNT</b>	<b>\$612,575,000</b>	<b>\$800,150,000</b>	<b>\$118,823,900</b>	<b>\$107,989,902</b>
Base General Fund Revenue Forecast (Tax and Non-Tax)	\$19,361,600,000	\$19,403,590,000	\$20,359,400,000	\$20,441,510,000
Proposed Tax Reductions	(\$89,700,000)	(\$98,600,000)	(\$115,100,000)	(\$180,050,000)
Proposed Tax and Fee Enhancements	\$300,700,000	\$305,121,572	\$380,000,000	\$381,916,335
<b>TOTAL REVENUE AVAILABLE</b>	<b>\$20,185,175,000</b>	<b>\$20,410,261,572</b>	<b>\$20,743,123,900</b>	<b>\$20,751,366,237</b>

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

**Helping Low-Income Taxpayers: Enacting a 5% State Earned Income Tax Credit (EITC)**

The House budget includes a 5 percent refundable state EITC, starting in FY 2008-2009 that will offset the state and local tax liability of low- and moderate-income workers. The state EITC will extend the benefits of the federal program, the nation's largest and most effective work support program targeted at low- and moderate-income working families with children to the state level. Taxpayers who qualify for the federal EITC will be able to claim an amount equal to 5 percent of their federal credit amount on one

line added to North Carolina's state income tax form.

The 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 FY 2008-2009. The average family benefit will equal \$81 annually and the most a family could receive is \$236 per year.

The state EITC is a refundable credit, so it not only offsets income taxes owed, but, for many of the lowest-earning taxpayers, it would also help to offset the disproportionately negative impact of other state and local taxes, particularly the sales tax. The average low-income worker (bottom 20 percent of the income distribution) pays more than five times of her income in sales tax than the average wealthiest worker (top one percent). According to data provided by the Institute on Taxation and Economic Policy, North Carolina's lowest-paid workers pay 10.9 percent of their income to state and local taxes while the wealthiest taxpayers pay only 6.3 percent. The refundable state EITC will enhance the fairness of the state and local tax system and ensure that paying taxes does not push low- and moderate-income working families away from self-sufficiency.

Additionally, the refundable state EITC is adjusted for family size and inflation. The federal EITC amount is based on a filer's adjusted gross income (AGI), filing status and number of dependents. The maximum credit amounts and income eligibility parameters are adjusted annually for inflation. Because a state EITC would be tied to the federal EITC, it automatically adjusts for dependents and inflation. The size of the EITC increases for each dollar earned up to a certain amount, holds at the maximum credit until an additional amount of earnings is realized, and phases out gradually at higher income levels. A state EITC would reach families earning up to a maximum of \$37,000 for single and head of household filers with two dependents and \$39,000 for married couples with two dependents.

### ***Extension of Two Tax Provisions***

Like the Governor, the House recognized the importance of building a fiscally responsible and sustainable revenue plan that will not leave the next legislature and governor strapped for cash. To this end, the House continues the 8 percent rate on the upper income tax bracket and additional 0.25 percent of the state portion of the sales tax. This is a fiscally responsible move that will help to provide adequate revenues to sustain spending in future years, especially since revenue growth is expected to decline. Extending the two tax provisions will generate approximately \$300 million in FY 2007-2008 (\$258 from the sales tax and \$40.8 from the income tax) and \$380 million (\$286 million from the sales tax and \$94 million from the income tax) in FY 2008-2009.

The regressive impact of 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 increases 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 under this plan. The 5 percent refundable state EITC will more than offset this increase on working families and is a targeted way to deliver meaningful relief.

**FIGURE 3**

**HIGHLIGHTS OF HOUSE TAX PLANS**

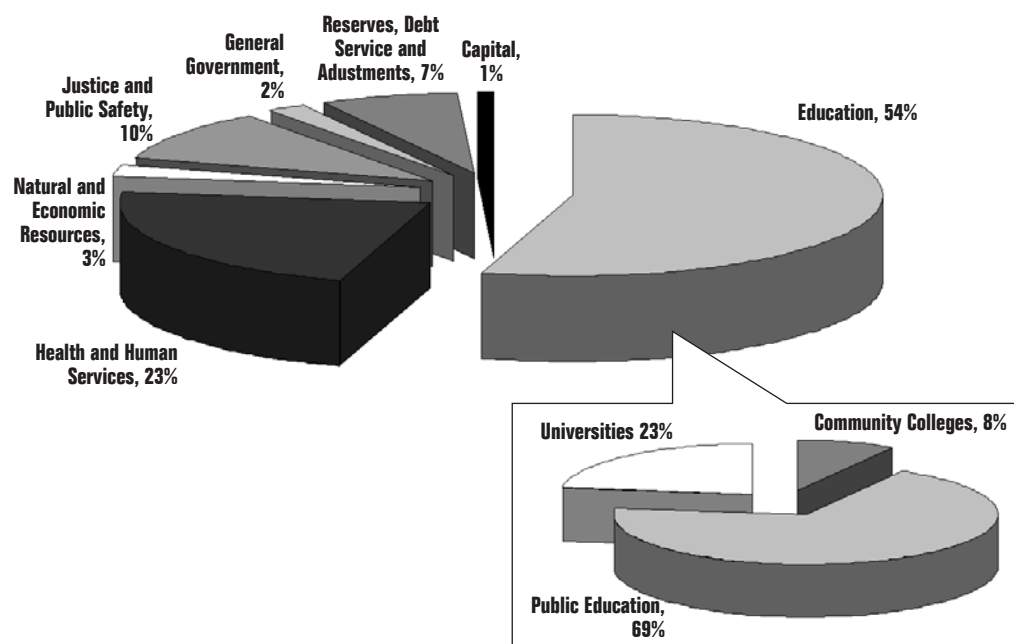
	DESCRIPTION	REVENUE IMPACT IN FY2008-2009
<b>Tax Breaks for Low-and Moderate Income Families</b> 5% Refundable State Earned Income Tax Credit	Establishes a new state refundable tax credit that piggybacks on the federal program to benefit low-and moderate-income working families.	\$(68,900,000)
<b>Additional Tax Breaks for Families</b> Long-Term Care Insurance Credit	Reenacts tax credit for premiums paid on long-term care insurance for taxpayers with adjusted gross income under threshold.	\$(7,200,000)
Adoption Credit	Creates a tax credit for qualified adoption related expenses that is equal to 50% of the taxpayer's federal adoption tax credit amount.	\$(3,000,000)
<b>Tax Breaks for Businesses</b> Working Opportunity Tax Credit	Extension of federal program that provides a credit to businesses for hiring disadvantaged workers.	\$(6,000,000)
Military Tax Relief	Provides a tax credit for small businesses to offset employment costs associated with active duty deployment of members of the reserves or National Guard.	\$(4,000,000)
Mfg and Farmer's Energy Tax Provisions	Provides a sales tax exemption on all energy purchases for qualifies manufacturers and farmers	\$(30,100,000)
<b>Additional Tax Adjustments</b> IRC Conformity	Includes extension of deduction for higher education expenses and qualified expenses of elementary and secondary teachers; and extension of enhanced small business expensing thresholds	\$(49,100,000)
<b>Extension of Temporary Taxes</b> 8% Top Personal Income Tax Marginal Rate	Maintains the top individual income tax bracket and rate at 8% until July 1, 2009.	\$286,300,000
1/4 cent on sales tax	Will keep the state sales tax rate at 4.25% until July 1, 2009.	\$93,700,000

**Spending Plan**

The House's budget increases General Fund spending by \$1.44 billion, or 7.6 percent in FY 2007-2008 and an additional \$51.5 million, or .25 percent in FY 2008-2009. The areas of the budget that receive the largest overall increases compared with the current fiscal year are the university system (13.9 percent), public education (13.4 percent), and health and human services (8 percent), excluding salary increases and capital projects in these areas. More than \$700 million of the new spending goes towards a 5 percent average salary increase for public school teachers and community college faculty, a 4.25 percent for all other state employees, and funding for the state health and retirement plans. Agency positions vacant for more than six months were cut to provide the additional \$103 million needed to increase the state-employee raise

FIGURE 4

**FY2007-2008 GENERAL FUND EXPENDITURES**



originally proposed at 2.5 percent to 4.25 percent. The governor also recommended a 5 percent average salary increase for public school teachers and community college faculty; however, other state employees would only receive a 2.5 percent increase under his plan.

Investments in education account for the majority of public spending in North Carolina. The House budget spends a total of \$11.1 billion in each year of the biennium on education programs - an amount equal to approximately 54 percent of total state General Fund spending in Fiscal Year 2007-2008.

**Public Education**

The House budget invests approximately \$7.6 billion in each year of the biennium in public education. Budget priorities include fully funding enrollment growth and providing teachers with an average raise of five percent. The budget also contains some \$218 million in expansion funding for FY 2007-2008. Key expansion items include the following:

- **Disadvantaged Student Supplemental Fund (\$20 million expansion)** - These funds are distributed to all 115 school districts based on their number of disadvantaged students, and districts must use the money to improve the academic performance of disadvantaged students. Though this raise is a welcome one that slightly exceeds the governor's proposed increase, funding still remains well below the level that many experts argue is needed to fully aid the estimated 300,000 disadvantaged students living in North Carolina.
- **Learn and Earn High School Programs (\$9.8 million total expansion)** - The House budget supports a variety of items related to the expansion of Gov. Easley's Learn and Earn Early College High School Initiative, though not at the level requested by the governor. Learn and Earn allows high school students to

**The University of  
North Carolina**

graduate with a high school diploma and either an associate's degree or two years worth of college credit. In FY 2007-2008, the House budget provides \$3.4 million to allow 12 additional schools to implement Learn and Earn programs and \$6.4 million to support the online learning component of the program. Additional funding for Learn and Earn also is included in the higher education portion of the budget.

- **Dropout Prevention Grants (\$7.0 million expansion)** - The House budget establishes a Commission on Dropout Prevention housed within the Department of Public Instruction and creates a competitive grant program. The grant program aims to support innovative local efforts to reduce the number of students dropping out of school. While this is a promising undertaking, some key questions will need to be addressed in the program's design phase. These questions include how the money will be used, how grants will be allocated and how outcomes will be measured and evaluated. This is a House initiative and was not part of the governor's budget.
- **Eighth-Grade Literacy Coaches (\$3.4 million expansion)** - The House provides funding to support the hiring of 60 literacy coaches that will help schools improve the literacy skills of students in the eighth grade. In contrast, the governor's budget proposed adding 100 coaches.

The House budget invests approximately \$2.6 billion in each year of the biennium in the university system, not including salary raises and capital spending. The House fully funds enrollment growth, need-based financial aid and provides university employees with a 4.25 percent raise. Furthermore, the House budget for FY 2007-2008 reflects \$22.9 million in savings that will result from system-wide efficiency measures, particularly a 10-percent reduction in the number of middle managers. The budget also contains \$32.8 million in expansion funding for FY 2007-2008. Key expansion items include the following:

- **Need-Based Financial Aid (\$27.6 million increase)** - The House provides additional funds to account for the higher cost of tuition and living expenses for students who receive need-based financial aid. Additional funding is provided to allow otherwise eligible students who are not receiving need-based aid to access assistance. The total cost of this change is \$35.6 million, with \$27.6 million coming from the General Fund and the remainder from the Escheat Fund.
- **EARN Scholars (\$75 million from the Escheat Fund)** - The House budget takes \$75 million from the Escheat Fund over the biennium to establish the Education Access Rewards North Carolina Scholars program. This initiative, first proposed by Gov. Easley, would provide scholarships worth \$4,000 to university and community college students with family incomes below 200 percent of the federal poverty level. The governor's budget had proposed \$150 million for the EARN scholarships. Because this money comes from the Escheat Fund, it has no impact on the General Fund.

**The North Carolina  
Community College  
System**

The House education budget largely overlooks the pressing needs of North Carolina's 58 community colleges and the students who study there. The House spends \$927 million in FY 2008 and \$895 million in FY 2009 on the state's two-year institutions. Outside of providing an average five percent raise for faculty members - faculty members who

currently rank among the nation's lowest paid - and funding enrollment growth, the House budget addresses few of the system's pressing needs in a meaningful way. For example, while the House adopted \$34 million in expansion funding for FY 2008, \$25 million of that amount is one-time money reserved for facility needs across the 58 colleges. Issues left unaddressed include financing high-cost instructional programs like those in the allied health fields, funding unmet equipment and capital needs and providing enhanced support services to enrolled students. Furthermore, the House budget raises community college tuition by 6.3 percent.

### **Health and Human Services**

The House's budget for health and human services would increase by \$337 million, or 8 percent, compared to FY 2006-2007. The majority of the increase is to cover the cost of growth associated with the Medicaid program; however, the House saved \$37 million annually by not fully funding inflationary increases in Medicaid spending. The House proposed spending \$68 million on new or expanded programs. The following points outline how select HHS programs are affected by the House's plan:

- **NC Kids' Care (\$4.7 million increase)**- NC Kids' Care is a proposed new sliding-scale premium health insurance program for children in families who earn between 200 percent and 300 percent of the federal poverty level and would serve an estimated 12,000 children currently without health insurance. This increase matches the governor's request. Health advocates want the new program to be expanded to cover all of North Carolina's children by allowing families who earn above 300 percent of the federal poverty level to buy into the program at full cost. Since families would be paying the full cost of health insurance this expansion would cost no more than the current proposal that is limited to lower-income families. The out of pocket cost to pay for the full premium would be approximately \$160 per month, and would give all North Carolina families access to affordable health insurance for their children.
- **Child-Care Subsidies (\$8.4 million increase)**- This increase matches the governor's request and provides subsidies for an additional 2,000 children in low-income families bringing the total number of children served to 100,600. The plan still leaves at least 15,000 eligible children on the waiting list and does not include a rate adjustment for providers. Rates have not been adjusted since 1997.
- **Smart Start (\$1.1 million increase in first year and \$5.5 million increase in second year)**- The increase in Smart Start funding is still short from the \$44.7 million increase program advocates have requested, but is a boost over the governor's proposal which included no new funding for the program. The early childhood program, established in the 1990s, provides a variety of services to young children throughout the state, many of whom are also served by the governor's More at Four initiative.
- **Mental Health (\$19.2 million increase)**- The House includes \$19.2 million in new spending for mental health initiatives (\$26.7 million total including funding the construction of housing for individuals with disabilities discussed below). This amount falls far below the \$135 million in new spending the General Assembly's Mental Health Legislative Oversight Committee recommended earlier this year.



**County Medicaid Relief**

The House appropriated \$100 million from statewide reserves in FY 2007-2008 to provide all 100 counties some relief from their non-federal share of Medicaid expenditures. All 100 counties will share \$50 million allocated based on the percentage of each county's Medicaid expenditures relative to the statewide total. Counties with more than 25 percent of their population receiving Medicaid benefits will divide an additional \$40 million in targeted relief. The remaining \$10 million is targeted towards counties with a Medicaid population between 20 and 25 percent of their total population.

**General Government**

The House budget expands funding for the North Carolina Housing Finance Agency by \$13.8 million in FY 2008. All of the added funding goes to support two initiatives related to affordable housing:

- **North Carolina Housing Trust Fund (\$12.5 million increase)** - The Housing Trust Fund plays a vital role in creating affordable housing opportunities for individuals with low and moderate incomes. The House budget provides \$5 million in recurring funding for the trust fund, along with \$7.5 million in one-time money to finance the construction of housing for individuals with disabilities. While this is a substantial increase relative to the current \$3 million appropriation, advocates are seeking an annual appropriation of \$50 million.
- **Home Protection Pilot Project (\$1.5 million increase)** - This funding provides assistance to eligible laid-off workers who need assistance with mortgage payments while they seek new jobs.

**Capital Projects and Debt Financing**

Despite a growing list of infrastructure needs such as schools, roads, water and sewer, open space, and affordable housing, no general obligation bonds were included in the House plan. \$300,000 was budgeted for a statewide bond referendum, so the issue is likely to arise later in the budget process. The governor recommended \$1.41 billion in general obligation bonds spread out over five years for university projects, state government facilities, and prison expansion.

The House chose to issue \$450 million in debt using certificates of participation, which unlike general obligation bonds, do not require voter approval but will still have some affect on debt affordability. The proposal will add \$48 million in debt service to the FY 2008-2009 budget. The debt will be used for many of the same projects that the governor proposed funding with general obligation bonds. The House budget also appropriates \$171 million in capital improvements from the General Fund for a variety of state and local projects.

**Hot Topics as the Budget Moves to the Senate**

With the noted exceptions, the House's revenue and spending plans are largely in line with the governor's recommendations. However, there are likely to be many areas of disagreement between the House and Senate as the budget moves forward, and there are still areas that need further attention. Key issues include the following:

- 1) **Revenue Plan-** If the Senate chooses not to extend the two temporary taxes, that chamber will have \$300 million less in revenues than the House and face the choice of making spending cuts or finding alternative revenue sources to bridge the difference.
- 2) **County Medicaid costs-** The House took the first step in providing some temporary

**FIGURE 5**

**SELECTED FY 2007 - 2008 EXPANSION AND REDUCTION DIFFERENCES**

Function	Description	Governor	House
Public Education	ABC Bonuses	\$70,000,000	\$70,000,000
	Disadvantaged Student Supplemental Funding	\$18,931,676	\$20,000,000
	Learn and Earn Initiative/Online Expansion	\$20,304,802	\$9,780,015
	Literacy Coaches	\$5,704,400	\$3,420,440
	Dropout Prevention Grants	\$-	\$7,000,000
	School Connectivity	\$12,000,000	\$12,000,000
	Children with Disabilities Child Nutrition Operating Funds	\$- \$-	\$5,000,000 \$7,500,000
Community Colleges	6.5% Tuition Increase	\$-	\$(7,500,000) <sup>1</sup>
	Equipment	\$5,000,000	\$10,000,000
	Data Connectivity	\$3,827,600	\$3,827,600
Universities	Middle Management Reductions	\$-	\$(18,660,121)
	Need Based Financial Aid	\$29,450,314	\$27,605,210
	Earn Scholars	\$50,000,000	\$25,000,000 <sup>2</sup>
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
	Child Care Subsidies	\$8,400,000	\$8,400,000
	Maintain NC Health Choice Enrollment	\$7,507,992	\$7,507,992
	County Share Medicaid Relief	\$-	\$100,000,000
	Medicaid Provider Inflationary Adjustments HIV Prevention	Fully Funded \$1,000,000	\$(26,959,339) <sup>3</sup> \$2,000,000
Housing	Housing Trust Fund	\$5,000,000	\$12,500,000 <sup>4</sup>
	Home Protection Pilot Fund	\$1,500,000	\$1,500,000
Employee Benefits	Salary Increase for State Employees	\$394,500,000	\$493,416,954 <sup>5</sup>
	Retirement System Contribution	\$27,200,000	\$29,600,000
	Retirement System Payback	\$45,000,000	\$45,000,000
	State Health Plan	\$111,300,000	\$133,978,000

1 Reduction. Money goes back into General Fund.

2 House funds from Escheats Fund and Governor funds from General Fund.

3 House only funded 50% of provider inflationary increase with some exceptions

4 House spent \$5m in recurring for general HTF and \$7.5m non-recurring for housing for people with disabilities

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

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 FY 2007-2008 to take over the entire county non-federal share of Medicaid expenditures. This would require either a substantial cut in spending or substantial increase in state revenues.

**3) 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.

**4) Mental Health funding-** The House budget improved upon the governor's recommendation for mental health services funding, however, the Senate will need to find at least \$109 million to reach the desired funding level.

**5) Lottery** - The House did not accept the governor's recommendation to redistribute lottery revenues by increasing the percentage to prizes and decreasing the percentage dedicated to education programs. The intent of the governor's plan was to use greater prize pay-out to encourage more people to play, thereby increasing revenues. The House's lottery appropriations for education programs is \$350 million, some \$88 million less than the governor's plan, and included more money than the governor for the school building capital fund and need-based scholarships. Debate on lottery revenue distributions is likely to continue.

## **Conclusion**

The North Carolina House of Representative's 2007-2009 budget is a positive step in the right direction for working families. Most noteworthy is the inclusion of 5 percent refundable state EITC that will improve tax fairness and benefit more than 825,000 taxpayers and their families. The House's budget also takes the financially responsible step of extending two temporary tax increases and prudently using a projected \$1.135 billion revenue surplus in order to support key investments. Yet the House left several key areas unaddressed, and the debate about how to respond now shifts to the state Senate.

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# **BTC Reports**

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