

CHANGING COURSE V

An Updated Alternative Budget for North Carolina

Summary: With news of a worsening state budget and a weakened state economy, Locke Foundation analysts have updated last year's alternative budget with new projected savings and tax changes for FY 2002-03. The resulting *Changing Course V* budget would eliminate the deficit, repeal last year's hikes in sales and income taxes, stimulate the economy through additional tax relief and highway investment, and protect high-priority items such as public safety and classroom teachers.

200 West Morgan St.
Raleigh, NC 27601
Voice: (919) 828-3876
Fax: (919) 821-5117
www.johnlocke.org

As noted in a previous Spotlight ("Truth or Consequences," No. 214, April 17, 2002), North Carolina's fiscal problems did not develop overnight. They are the result of years of poor decisions by state policymakers who failed to recognize the long-term fiscal consequences of their actions. For much of the past two decades, state spending growth has far outpaced the growth of inflation and the state's population.

It has also exceeded growth in personal income, which means that North Carolina's tax burden today is significantly higher than it was 10 years ago — despite the allegations of some that today's budget deficits are the result of insufficient revenue growth.

While excessive spending exists across state government, there are two areas of particular concern. In both higher education and Medicaid, North Carolina spends far more tax dollars than do comparable states, and yet there is no evidence that North Carolinians are healthier or better-educated.

Furthermore, North Carolina has more public employees than any other state in the Southeast and more than the national average. Public employee salaries in North Carolina, when adjusted for cost-of-living, are close to regional and national norms. Any serious attempt to balance the state budget and reduce our excessive tax burden will require significant reduction in state-funded positions and personnel.

Finally, a major problem has been state leaders' propensity to take on ever-higher burdens of debt. The cost of servicing the debt will approach \$400 million next year — representing a tripling of the cost over just 10 years. At this time of fiscal distress, political promises made to fund new debt without tax hikes cannot be kept.

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Changing Course V At A Glance

Armed with these facts, a set of principles for rightsizing government (explained in detail in last year's Policy Report, *Changing Course IV*), and updated projections from Gov. Mike Easley's budget office and the Fiscal Research Division of the General Assembly, we have crafted a new alternative budget for the 2002-03 fiscal year. Here are the outlines:

- We propose a General Fund budget of about \$13.7 billion in FY 2002-03, down somewhat from the \$14 billion the state expects to spend in the current fiscal year (2001-02). The General Fund budget authorized by Easley and the General Assembly last year is about \$14.9 billion (after adjusting for projected changes in Medicaid needs). Adding to this authorized budget the expansion items for 2002-03 being considered by the state legislature, the potential budget deficit would be \$1.8 billion under a scenario of 1 percent growth in state revenue and about \$2 billion if revenue growth is zero.
- We assume revenue growth of 1 percent. We also propose changes in state revenues — including a net tax cut of \$530 million and a redirection of Golden LEAF Foundation and Hurricane Floyd relief funds — to yield available General Fund revenues of \$13.76 billion. The *Changing Course V* budget thus projects a \$90 million surplus for FY 2002-03.
- The *Changing Course V* budget would repeal last year's increases in sales taxes (\$398.7 million), income taxes (\$108.9 million), and liquor taxes (\$24.7 million). It would also cut state personal and corporate taxes to conform with changes in the federal tax code, saving taxpayers an estimated \$258 million. Finally, it would offer about \$106 million in additional tax cuts for families with children. At the same time, we identify hundreds of millions of dollars in unjustified tax loopholes and incentives to eliminate, thus yielding a net tax cut of \$530 million in FY 2002-03.
- The *Changing Course V* budget identifies \$1.6 billion in General Fund savings in both the base budget and the expansion budget approved last year. The budget also proposes \$403.7 million in new spending, primarily associated with enrollment increases and public employee bonuses. The net savings, \$1.2 billion, is added to additional non-tax revenues such as proceeds from the national tobacco settlement and unspent hurricane relief funds to eliminate the projected budget deficit.
- The *Changing Course V* budget would spend \$8 billion on education at all levels, or 2 percent less than the revised authorization for FY 2001-02; \$3.4 billion on health and human services, virtually unchanged from FY 2001-02; and \$2.3 billion for all other items, an 8.5 percent decline from the previous year.

Identifying Low-Priority Spending and Revenue Items

Many of our recommended savings have been included, in one form or the other, in previous *Changing Course* budgets. Furthermore, many recommendations have already been heeded to some extent; by our count, 12 recommendations from our 2001 alternative budget were implemented in full and 40 recommendations were implemented in part. However, we have added several additional items to save money. Here is a description of the major areas of savings:

- Business Subsidies and Incentives. We propose \$255 million in savings in FY 2002-03 in this area, including the elimination of wasteful tax credits and unnecessary business assistance, marketing, and recruitment programs.
- User Responsibility Recommendations. We propose \$221 million in lower taxpayer outlays in dozens of state programs by requiring those who use non-entitlement public services to cover a larger share of the cost. These include tuition increases in the UNC and community college systems.
- Non-Teacher Education Expenses. We propose \$218 million in savings from reducing or eliminating items in the public schools, community colleges, and universities that do not fund classroom teachers or professors. These include reductions in administration, teacher assistants, and non-instructional activities.
- Medicaid and Health Care. We propose \$144.5 million in savings through adjustments in services, payment structures, and reimbursements to the state's major medical programs.
- Administrative Reorganization. We propose \$97 million in savings in this area, including the creation of two new departments to replace six existing ones and the merger of the Highway Patrol, the DMV Enforcement Branch, Alcohol Law Enforcement, and the State Bureau of Investigation to form a single statewide police force.
- Research and the Arts. We propose \$87 million in savings by eliminating most state support for arts organizations and by requiring research activities inside and outside the UNC system to pay more of their own way.
- Debt Service. We propose \$161 million in savings by suspending issuance of all state bonds and by privatizing state-owned transportation assets, using the proceeds to buy down existing bonded debt.

As usual, we welcome questions and comments from state policymakers and the general public about our recommendations. As the following detailed tables demonstrate, it is quite possible for the state to eliminate its budget deficit, repeal last year's counterproductive tax hikes, and adequately fund core functions of government. What is required is honesty, courage, and a clear set of priorities.

— John Hood, Don Carrington, and Roy Cordato

Recommended Savings in 2002-03 Base (Continuation) Budget*

John Locke Foundation-May 2002

GENERAL FUND

Public Education

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Non-Teaching Positions	Transfer 7.5% to Fund	(\$69,239,667) R	Set Better Priorities
	Teacher Positions, Salaries;		
	Convert to Block Grant		
Teacher Assistants	Transfer 35% to Fund Class	(\$116,572,404) R	Set Better Priorities
	Size Cuts, Salaries		
Lower Enrollment Growth	Redirect Savings as STARS	(\$71,442,758) R	Duplication
	Aid, ESAs Increase Private		
	Enrollment		
Education Management	Reduce GF Appropriation to	(\$602,248) R	Set Better Priorities
	Superintendents by 10%		
Teaching Fellows Admin.	End GF Appropriation	(\$378,508) R	Set Better Priorities
Schools Attuned Prog.	End GF Appropriation	(\$578,790) R	Set Better Priorities
NC Network	End GF Appropriation	(\$315,000) R	Set Better Priorities
Teacher Cadet Program	End GF Appropriation	(\$135,000) R	Set Better Priorities
Teaching Fellows	Withhold Increased Funds	(\$2,500,000) R	Set Better Priorities
Scholarships/Loans	Withhold Increased Funds	(\$750,000) R	Set Better Priorities
Central Administration	Reduce GF Approp. 30%	(\$1,806,745) R	Set Better Priorities
Subtotal-Public Education		(\$264,321,119) R	

Community Colleges

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Child Care Grants	End GF Appropriation	(\$2,000,000) R	Private Responsibility
Human Resource Dev.	Charge Fees to Cover Cost	(\$4,100,000) R	User Responsibility
New Industry Training	Charge Fees to Cover Cost	(\$6,028,541) R	User Responsibility
Public Radio	End GF Appropriation	(\$299,824) R	Private Responsibility
Small Business Centers	End GF Appropriation	(\$3,881,208) R	Private Responsibility
Focused Ind. Training	Charge Fees to Cover Cost	(\$1,962,032) R	User Responsibility
Special Tech Centers	Charge Fees to Cover Cost	(\$2,827,858) R	User Responsibility
Administration	Reduce GF Approp. 30%	(\$1,909,868) R	Set Better Priorities
Subtotal-Community Colleges		(\$23,009,331) R	

* Notes: The "FY 2002-03 Impact" column reflects the change being proposed in expenditures authorized by Gov. Mike Easley and the N.C. General Assembly in last year's budget bill. A number in parenthesis represents a savings to the state's General Fund, while a positive number indicates a cost to the General Fund.

An "R" denotes a "recurring" savings or expenditure. That is, they are projected to exist at at least the same level in future fiscal years. An "NR" denotes a "nonrecurring" savings or expenditure, which is treated as a one-time change in the budget.

The "Reason" column refers to explanations in last year's Changing Course Policy Report. Possible reasons for reducing or eliminating a General Fund item would include 1) the item duplicates another state agency or expenditure; 2) it should properly be the responsibility of a local government, a user, or a private organization; 3) it worsens dependency on state welfare or entitlement programs; 4) it reflects an intent to discriminate by race or advocate a political position; or 5) it reflects poor priorities at a time of fiscal restraint.

UNC System

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Full-Time-Equiv. Status for Max. Student Funding	Require 15 Class Hours per Semester for FTE Status	(\$24,206,012) R	User Responsibility
Minority Presence Grants	End GF Appropriation	(\$1,652,750) R	Racial Discrimination
Native American Incentive	End GF Appropriation	(\$745,200) R	Racial Discrimination
Research Overhead	Recover 75% of Receipts to Offset State Appropriation	(\$66,717,821) R	User Responsibility
Center for Ergonomics	End GF Appropriation	(\$500,000) R	Set Better Priorities
MCNC Support	End GF Appropriation	(\$8,359,429) R	Private Responsibility
Christmas Tree Specialist	End GF Appropriation	(\$100,000) R	Private Responsibility
Blue Crab Research	End GF Appropriation	(\$500,000) R	Private Responsibility
Poultry Research	End GF Appropriation	(\$150,000) R	Private Responsibility
Inst for Intern'l Understanding	End GF Appropriation	(\$218,573) R	Set Better Priorities
Strategic Initiatives	End GF Appropriation	(\$3,000,000) R	Set Better Priorities
Pathways Initiative	End GF Appropriation	(\$1,000,000) R	Set Better Priorities
Manufacturing Extension	Charge Fees to Cover Cost	(\$900,000) R	User Responsibility
N.C. Arboretum	Return to pre-1999 Funding	(\$250,000) R	Set Better Priorities
World View Program	End GF Appropriation	(\$260,000) R	Set Better Priorities
Center for Alcohol Studies	Return to pre1999 Funding	(\$500,000) R	Set Better Priorities
Biotech Research Initiative	End GF Appropriation	(\$350,000) R	Set Better Priorities
UNC Hospitals	Reduce GF Appropriation 50%	(\$20,293,661) R	User Responsibility
Central Administration	Reduce GF Appropriation 30%	(\$7,397,363) R	Set Better Priorities
Subtotal-UNC System		(\$137,100,809) R	

Administration

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
N.C. Council for Women	End GF Appropriation	(\$581,013) R	Advocacy Group
Human Relations Commission	End GF Appropriation	(\$674,050) R	Advocacy Group
MLK Commission	End GF Appropriation	(\$74,882) R	Advocacy Group
Youth Involvement Office	End GF Appropriation	(\$839,342) R	Advocacy Group
Veteran Affairs-Administration	Cut GF Appropriation 50%	(\$4,262,537) R	Duplication
Gov. Council/Disabilities	End GF Appropriation	(\$531,594) R	Advocacy Group
Commission/Indian Affairs	End GF Appropriation	(\$369,453) R	Advocacy Group
Administration	Cut GF Appropriation 30%	(\$613,924) R	Set Better Priorities
Subtotal-Administration		(\$7,946,794) R	

Insurance

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Senior Health Insurance Info	End GF Appropriation	(\$104,000) R	Duplication
Subtotal-Insurance		(\$104,000) R	

State Controller

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Administration	Merge with OSBM, Revenue to Create Dept. of Finance	(\$2,424,278) R	Duplication
Subtotal-Controller		(\$2,424,278) R	

Revenue

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Administration/Policy	Merge with OSBM, Controller to Create Dept. of Finance	(\$2,502,853) R	Duplication
Subtotal-Revenue		(\$2,502,853) R	

Cultural Resources

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Historical Publications	Cover 25% of Cost with Increased Donations/Fees	(\$186,642) R	User Responsibility
State Historic Sites	Cover 15% of Cost with Increased Donations/Fees	(\$1,045,414) R	User Responsibility
Tryon Palace/Gardens	Cover 50% of Cost with Increased Donations/Fees	(\$374,657) R	User Responsibility
NC Maritime Museum	Cover 50% of Cost with Increased Donations/Fees	(\$530,078) R	User Responsibility
NC Museum of Art	Cover 50% of Cost with Increased Donations/Fees	(\$1,804,704) R	User Responsibility
NC Arts Council	End GF Appropriation	(\$6,186,647) R	Private Responsibility
NC Symphony	End GF Appropriation	(\$342,274) R	Private Responsibility
Grants-In-Aid to Arts	End GF Appropriation	(\$2,105,033) R	Private Responsibility
State Aid/Local Libraries	Reduce Fund 50%	(\$8,209,377) R	Local Responsibility
NC Museum of History	Cover 50% of Cost with Increased Donations/Fees	(\$2,271,819) R	User Responsibility
Roanoke Island Commission	End GF Appropriation	(\$1,830,463) R	Private Responsibility
Administration	Reduce GF Appropriation 30%	(\$1,249,060) R	Set Better Priorities
Subtotal-Cultural Resources		(\$26,136,167) R	

Secretary of State

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Land Records Management	End GF Appropriation	(\$136,549) R	Local Responsibility
Administration	Reduce GF Appropriation 30%	(\$479,847) R	Set Better Priorities
Subtotal-Secretary Of State		(\$616,396) R	

Governor's Office

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Dues to Nat'l Associations	End GF Appropriation	(\$348,941) R	Advocacy Groups
Education Office	End GF Appropriation	(\$390,557) R	Duplication
Fire Protection Grants	Phase Out Appropriation	(\$3,080,000) R	Local Responsibility
Administration	Reduce GF Appropriation 30%	(\$1,029,074) R	Set Better Priorities
Subtotal-Governor		(\$4,848,572) R	

General Assembly

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Food Service	Charge Fees to Cover Cost	(\$615,010) R	User Responsibility
Subtotal-General Assembly		(\$615,010) R	

Health and Human Services

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Div. Facility Services	End CON Regulations	(\$1,307,208) R	Unnecessary
Medicaid Payments	Adjust Services, Eligibility, Reimbursement Rates	(\$125,520,504) R	Limit Entitlements
Disability Administration	Merge Divs Blind, Deaf, VR; Reduce Total Approp. 15%	(\$7,824,281) R	Duplication
Smart Start Program	Convert to Targeted Pre-K for At-Risk, Family Tax Relief	(\$220,066,442) R	Limit Entitlements
Senior Games	End GF Appropriation	(\$175,000) R	Private Responsibility
Elder Rights Program	End GF Appropriation	(\$442,309) R	Advocacy Group
TEACH Program	Convert to Targeted Pre-K for At-Risk, Family Tax Relief	(\$2,600,000) R	Set Better Priorities
Touching/Lives Program	Convert to Targeted Pre-K for At-Risk, Family Tax Relief	(\$300,000) R	Set Better Priorities
Alzheimer's Association	End GF Appropriation	(\$150,000) R	Private Responsibility
Aging Div. Administration	Merge Agencies, Cut 50%	(\$350,000) R	Duplication
Special Assistance	Roll Back 2001 Increases	(\$1,698,250) R	Limit Entitlements
Cued Speech Center	End GF Appropriation	(\$135,000) R	Set Better Priorities
Central Administration	Reduce GF Appropriation 30%	(\$13,694,958) R	Set Better Priorities
Subtotal-Health and Human Services		(\$374,263,952) R	

Correction

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Administration	Merge with CCPS, Juv. Just. to Form Dept. of Public Safety	(\$19,560,669) R	Duplication
Prison Enterprises	Increase Participation, Sales by 20%, Transfer to GF	(\$15,446,101) R	User Responsibility
Inmate Medical Costs	Reform Reimbursements, Services to Control Cost	(\$5,183,835) R	Set Better Priorities
Subtotal-Correction		(\$40,190,605) R	

Crime Control and Public Safety

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Civil Air Patrol	End GF Appropriation	(\$133,580) R	Private Responsibility
Butner Public Safety	End GF Appropriation	(\$2,698,891) R	Local Responsibility
Alcohol Law Enforcement	End GF Appropriation	(\$7,829,168) R	Local Responsibility
Gov's Crime Commission	End GF Appropriation	(\$1,369,030) R	Duplication
National Guard	Consolidate Guard Armories, Cut GF Appropriation 25%	(\$1,763,235) R	Duplication
Administration	Merge with Correction to Form Dept. of Public Safety	(\$2,718,469) R	Duplication
Subtotal-Crime Control		(\$16,512,373) R	

Department of Justice

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
State Bureau of Investigation	Merge with Highway Patrol in Dept. of Public Safety	(\$6,600,735) R	Duplication
Criminal Justice Training	Merge with Highway Patrol in Dept. of Public Safety	(\$1,264,760) R	Duplication
General Administration	Reduce GF Appropriation 30%	(\$723,056) R	Set Better Priorities
Subtotal-Justice		(\$8,588,551) R	

Juvenile Justice

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Administration	Merge with Correction to Form Dept. of Public Safety	(\$2,720,107) R	Duplication
Gov. 1-on-1 Program	End GF Appropriation	(\$1,781,176) R	Private Responsibility
Support Our Students	End GF Appropriation	(\$7,190,802) R	Private Responsibility
Center to Prevent Violence	End GF Appropriation	(\$513,110) R	Set Better Priorities
Subtotal-Juvenile Justice		(\$12,205,195) R	

Housing Finance Agency

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Housing Finance Funds	End GF Appropriation	(\$5,300,000) R	Private Responsibility
Subtotal-Housing Finance Agency		(\$5,300,000) R	

Agriculture and Consumer Services

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Administrative Services	Cut GF Appropriation 50%	(\$2,092,767) R	Set Better Priorities
Aquaculture Develop.	End GF Appropriation	(\$383,298) R	Private Responsibility
Marketing Division	End GF Appropriation	(\$8,355,780) R	Private Responsibility
Agronomic Services	End GF Appropriation	(\$3,329,110) R	Private Responsibility
Comm. Feed/Pet Food	End GF Appropriation	(\$862,972) R	Private Responsibility
Comm. Fertilizer Analysis	End GF Appropriation	(\$769,864) R	Private Responsibility
Seed Testing	End GF Appropriation	(\$844,787) R	Private Responsibility
Plant Protection	End GF Appropriation	(\$3,331,556) R	Private Responsibility
Ag. Finance Authority	End GF Appropriation	(\$105,414) R	Private Responsibility
Raleigh Farmer's Market	End GF Appropriation	(\$40,343) R	Private Responsibility
Western NC Ag. Center	End GF Appropriation	(\$184,909) R	Private Responsibility
Subtotal-Agriculture and Consumer Services		(\$20,300,800) R	

Commerce

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Administrative Services	Cut GF Appropriation 67%	(\$1,054,092) R	Set Better Priorities
Executive Aircraft	Cut GF Appropriation 50%	(\$1,152,746) R	Set Better Priorities
Marketing/Custom Services	End GF Appropriation	(\$1,472,834) R	Private Responsibility
Business/Industry Dev.	End GF Appropriation	(\$4,217,663) R	Private Responsibility
International Trade Division	End GF Appropriation	(\$2,672,490) R	Private Responsibility
Tourism, Film, Sports	End GF Appropriation	(\$8,951,731) R	Private Responsibility
Board Science/Technology	End GF Appropriation	(\$371,302) R	Private Responsibility
Wanchese Industrial Park	End GF Appropriation	(\$431,421) R	Private Responsibility
Industrial Finance Center	End GF Appropriation	(\$2,432,586) R	Private Responsibility
Local Planning, Management	End GF Appropriation	(\$3,616,753) R	Local Responsibility
Committee for Workforce Preparedness	End GF Appropriation	(\$93,396) R	Private Responsibility
Biotechnology Center	End GF Appropriation	(\$6,370,468) R	Private Responsibility
Rural Economic Dev. Center	End GF Appropriation	(\$4,070,471) R	Private Responsibility
Aid to Non-State Entities	End GF Appropriation	(\$5,200,000) R	Private Responsibility
Regional Partnerships	End GF Appropriation	(\$6,425,000) R	Private Responsibility
Subtotal-Commerce		(\$42,107,953) R	

Labor

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Retaliatory Discrimination	End GF Appropriation	(\$571,397) R	Unnecessary
On Site Consultation	End GF Appropriation	(\$92,600) R	Private Responsibility
Private Personnel Services	End GF Appropriation	(\$153,422) R	Private Responsibility
Apprenticeship Training	End GF Appropriation	(\$935,268) R	Duplication
Administration	Reduce GF Approp. 30%	(\$630,011) R	Set Better Priorities
Subtotal-Labor		(\$2,382,698) R	

Environment and Natural Resources

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Environmental Educ.	End GF Appropriation	(\$585,538) R	Advocacy Group
Forestry	Cover 35% of Cost with Increased Donations/Fees	(\$3,664,418) R	User Responsibility
DFR Tree Improvement	End GF Appropriation	(\$489,781) R	Private Responsibility
State Parks	Cover 35% of Cost with Increased Donations/Fees	(\$3,745,570) R	User Responsibility
NC Zoo	Cover 50% of Cost with Increased Donations/Fees	(\$2,082,091) R	User Responsibility
NC Aquariums	Cover 50% of Cost with Increased Donations/Fees	(\$2,438,667) R	User Responsibility
Museum of Natural Science	Cover 50% of Cost with Increased Donations/Fees	(\$2,896,559) R	User Responsibility
Administration	Reduce GF Approp. 30%	(\$3,347,902) R	Set Better Priorities
Subtotal- Environment and Natural Resources		(\$19,250,526)	

Transportation

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Airport Grants	End GF Appropriation	(\$12,250,000) R	Local Responsibility
TransPark Support	End GF Appropriation	(\$2,236,443) R	Private Responsibility
Subtotal-Transportation		(\$14,486,443) R	

Capital Assets

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
State-Owned Ports	Privatize; Use Proceeds to Reduce State Debt	(\$7,600,000) R	Private Responsibility
North Carolina Railroad	Privatize; Use Proceeds to Reduce State Debt	(\$40,000,000) R	Private Responsibility
State Bonded Debt	Suspend Issuance of Bonds	(\$113,757,310) R	Set Better Priorities
Subtotal-Capital Assets		(\$161,357,310) R	

TOTAL SAVINGS IN GENERAL FUND BASE BUDGET (\$1,186,571,734) R

HIGHWAY FUND

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Aeronautics	End HF Appropriation	(\$1,988,486) R	Local Responsibility
Bicycle Program	End HF Appropriation	(\$306,712) R	Local Responsibility
Public Transport. Admin.	End HF Appropriation	(\$446,301) R	Local Responsibility
Rail Program Admin.	End HF Appropriation	(\$562,074) R	Private Responsibility
Ferry Division Admin.	Use Fees to Cover 50% Cost	(\$593,229) R	User Responsibility
Construction-Secondary	Reduce HF Appropriation 25%	(\$22,346,750) R	Set Better Priorities
Ferry Operations	Use Fees to Cover 50% Cost	(\$9,873,566) R	User Responsibility
Railroad Program	End HF Appropriation	(\$8,575,000) R	Private Responsibility
Public Transport Grants	Reduce HF Approp. 50%	(\$12,562,464) R	Local Responsibility
DMV-Enforcement	Merge with Highway Patrol, SBI in Dept. of Public Safety	(\$7,264,283) R	Duplication
DMV-Driver's License	Consolidate Offices, Cut 10%	(\$2,854,976) R	Duplication
TransPark-Reserve	End HF Appropriation	(\$614,660) R	Private Responsibility
Central Administration	Reduce HF Appropriation 25%	(\$1,134,094) R	Set Better Priorities
Subtotal-Highway Fund		(\$69,122,594) R	

HWY TRUST FUND

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Secondary Roads	Reduce HTF Approp. 50%	(\$43,648,206) R	Set Better Priorities
Subtotal-Hwy Trust Fund		(\$43,648,206) R	

FEE-BASED ITEMS

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Board of Barber Examiners	Convert to Voluntary Cert.	(\$492,053) R	Private Responsibility
Board of Cosmetology	Convert to Voluntary Cert.	(\$1,600,882) R	Private Responsibility
Board of Opticians	Convert to Voluntary Cert.	(\$162,099) R	Private Responsibility
Psychology Board	Convert to Voluntary Cert.	(\$518,407) R	Private Responsibility
Auctioneer License Board	Convert to Voluntary Cert.	(\$450,121) R	Private Responsibility
Board of Electrolysis Examiners	Convert to Voluntary Cert.	(\$18,499) R	Private Responsibility
Grape Growers Council	Convert to Voluntary Prog.	(\$175,000) R	Private Responsibility
Private Protective Services	Convert to Voluntary Cert.	(\$1,282,356) R	Private Responsibility
Sleep Products	Convert to Voluntary Cert.	(\$500,729) R	Private Responsibility
Subtotal-Fee Items		(\$5,200,146) R	

Recommended Changes to 2002-03 Expansion Budget Enacted in 2001

John Locke Foundation-May 2002 (*Denotes JLF Proposal for Increased Spending)

GENERAL FUND

Public Education

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
TA Scholarships	Eliminate GF Expansion	(\$1,000,000) R	Set Better Priorities
Character Education	Eliminate GF Expansion	(\$200,000) R	Set Better Priorities
*Class Size Reduction	Cut Kinder. Class Size to 15; Eliminate Reduction in 1st Grade Sizes	(\$9,114,377) R	Set Better Priorities
*STARS Scholarships	Offer \$3,200 Scholarships to Poorest 50% of Pupils in Low-Achieving Schools	\$57,341,073 R	Set Better Priorities
*Enrollment Increases	Adjust for 2002-03 Projection	\$30,000,000 R	Estimate
*ABC Bonuses	Adjust for 2002-03 Proj.	\$100,000,000 NR	Estimate
Low-Wealth/Small Systems	Eliminate GF Expansion	(\$6,000,000) R	Set Better Priorities
School Report Cards	Eliminate GF Expansion	(\$200,000) R	Set Better Priorities
NC WISE OWL	Eliminate GF Expansion	(\$628,000) R	Set Better Priorities
Student Accountability	Eliminate GF Expansion	(\$5,000,000) R	Set Better Priorities
Other Expansion Items	Convert Remaining Items to Nonrecurring Funds in 02-03	(\$12,162,001) R \$12,162,001 NR	Set Better Priorities
Subtotal-Public Education		\$53,036,695 R \$112,162,001 NR	

Community Colleges

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Tuition Increase	Raise by Average of 40%	(\$36,048,776) R	User Responsibility
*Enrollment Increases	Adjust for 2002-03 Projection	\$30,000,000 R	Estimate
Subtotal-Community Colleges		(\$6,048,776) R	

UNC System

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Tuition Increase	Raise by Average of 40%	(\$138,411,885) R	User Responsibility
*Enrollment Increase	Adjust for 2002-03 Projection	\$60,000,000 R	Estimate
NCSA High School Acc	Eliminate GF Expansion	(\$1,069,802) R	User Responsibility
ECU Doctoral Status	Eliminate GF Expansion	(\$1,500,000) R	Set Better Priorities
UNC Distance Education	Eliminate GF Expansion	(\$2,000,000) R	Set Better Priorities
Biotech Funds	End GF Appropriation	(\$900,000) R	Private Responsibility
Education Cabinet	End GF Appropriation	(\$250,000) R	Duplication
Genomics Initiative	End GF Appropriation	(\$1,375,000) R	Private Responsibility
TA Scholarship Fund	End GF Appropriation	(\$1,000,000) R	Set Better Priorities
Progress Board	End GF Appropriation	(\$250,000) R	Private Responsibility
Turfgrass Research	End GF Appropriation	(\$600,000) R	Private Responsibility
Character Education	End GF Appropriation	(\$300,000) R	Set Better Priorities
Subtotal-UNC System		(\$87,656,687) R	

Health and Human Services

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
N.C. Health Choice	Eliminate GF Expansion	(\$12,500,000) R	Limit Entitlements
N.C. Child Advocacy In	End GF Appropriation	(\$250,000) R	Advocacy
Poe Center/Health Ed	Eliminate GF Expansion	(\$200,000) R	Set Better Priorities
Other Expansion Items	Convert Most Other Items to Nonrecurring Funds in 02-03	(\$24,169,621) R \$24,169,621 NR	Set Better Priorities
Subtotal-HHS		(\$37,119,621) R \$24,169,621 NR	

Agriculture and Consumer Services

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Gas/Nat. Gas Reserve	Eliminate GF Expansion	(\$100,000) R	Set Better Priorities
Laboratory Reserve	Eliminate GF Expansion	(\$150,000) R	Set Better Priorities
Gypsy Moth Prevent	Eliminate GF Expansion	(\$50,000) R	Private Responsibility
Turfgrass Promotion	Eliminate GF Expansion	(\$100,000) NR	Private Responsibility
Subtotal-Agriculture		(\$300,000) R (\$100,000) NR	

Commerce

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Additional Recruiters	Eliminate GF Expansion	(\$120,000) R	Private Responsibility
Tourism Positions	Eliminate GF Expansion	(\$180,000) R	Private Responsibility
Rural Economic Dev. Center	Eliminate GF Expansion	(\$1,020,278) R	Private Responsibility
Heritage Tourism	Eliminate GF Expansion	(\$30,000) R	Private Responsibility
Subtotal-Commerce		(\$1,350,278) R	

Environment and Natural Resources

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Clean Water Trust Fund	Eliminate GF Expansion	(\$40,000,000) R	Set Better Priorities
Museum of Natural History	Eliminate GF Expansion	(\$40,000) R	Set Better Priorities
Subtotal-DENR		(\$40,040,000) R	

Other Adjustments

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
State Retirement Plan	No Contribution in 02-03	(\$141,302,190) R	Set Better Priorities
State Employee Salaries	Authorize 1% Average Bonus	\$90,000,000 NR	Set Better Priorities
Subtotal-Other Adjustments		(\$141,302,190) R \$90,000,000 NR	

TOTAL-GENERAL FUND EXPANSION (\$260,780,857) R
\$226,231,622 NR

NET GENERAL FUND SAVINGS (\$1,221,120,969)

GENERAL FUND REVENUES

<u>Revenue Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Benefit</u>
Sales & Use Tax	Repeal 2001 Rate Hike	(\$398,700,000) R	Growth, Equity
Personal Income Tax	Repeal 2001 Rate Hike	(\$102,900,000) R	Growth, Equity
Spirited Liquor Tax	Repeal 2001 Rate Hike	(\$24,700,000) R	Growth, Equity
Withholding/Tax Collection Changes	Repeal 2001 Tax Hikes	(\$6,020,000) R	Growth, Equity
Federal Tax Changes	Conform to Fed. Changes in Depreciation, Charity	(\$258,000,000) R	Growth, Equity
Smart Start Tax Credits	\$100 Refundable Credit for Every Preschool Child	(\$62,463,700) R	Reduce Tax Bias Against Private Education Investment
Education Tax Relief	\$1,000 Deduction Per Child for Tuition or Edu. Savings	(\$24,231,420) R	Reduce Tax Bias Against Private Education Investment
Health Choice Tax Credit	Restore Refundable Credit for Child Health Premiums	(\$18,900,000) R	Reduce Tax Bias Against Private Health Insurance
Social Security Benefits	Tax 50% of Benefits	\$61,001,043 R	Neutrality
Pension Benefits	Remove Special Treatment	\$121,573,005 R	Neutrality
Sales Tax Holiday	Repeal 2001 Provision	\$8,400,000 R	Neutrality
Severance Pay	Tax as Compensation	\$7,415,953 R	Neutrality
Fuel Ethanol Distillery	Eliminate Credit	\$3,039,325 R	Neutrality
Qual. Business Credit	Eliminate Credit	\$7,294,380 R	Neutrality
Child Care Credit	Convert to Smart Start Credit	\$26,381,342 R	Neutrality
Bill Lee Act Credits	Eliminate Credits	\$45,412,836 R	Neutrality
Develop. Zone Credits	Eliminate Credits	\$4,000,000 R	Neutrality
Business Property	Eliminate Credit	\$13,873,408 R	Neutrality
Low-Income Housing	Eliminate Credit	\$1,626,394 R	Neutrality
Dry Cleaning Equipment	Eliminate Credit	\$650,558 R	Neutrality
Recycling Facility	Eliminate Credit	\$492,547 R	Neutrality
Recycling Transportation	Eliminate Credit	\$8,728,313 R	Neutrality
Historic Structures	Eliminate Credit	\$3,119,465 R	Neutrality
Cogeneration Plants	Eliminate Credit	\$410,456 R	Neutrality
Gleaned Crop	Eliminate Credit	\$4,515,014 R	Neutrality
State Port Usage	Eliminate Credit	\$2,955,282 R	Neutrality
Cigarette Export	Eliminate Credit	\$7,141,932 R	Neutrality
Out-Of-State Credit Card	Change Nexus Rules	\$37,679,848 R	Neutrality
Subtotal-Net Tax Reduction		(\$530,204,019) R	
<u>Revenue Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Unspent Floyd Relief	Reclaim to Gen. Fund	\$350,000,000 NR	Set Better Priorities
Golden LEAF Funds	Redirect to Gen. Fund	\$97,403,603 R	Set Better Priorities
Subtotal-Other GF Revenues		\$97,403,603 R \$350,000,000 NR	
NET CHANGE IN GF REVENUE, FY 2002-03		(\$432,800,416) R \$350,000,000 NR	

HIGHWAY FUND/TRUST FUND

<u>Budget Item</u>	<u>Recommendation</u>	<u>FY 2002-03 Impact</u>	<u>Reason</u>
Public Transportation	Eliminate HF Expansion	(\$10,000,000) R	Local Responsibility
CMAQ-Public Transport.	Eliminate HF Expansion	(\$13,713,913) R	Local Responsibility
Rail Program	Eliminate HF Expansion	(\$2,000,000) R	Private Responsibility
*Maintenance	Increase Investment 10%	\$57,160,929 R	Set Better Priorities
*Urban Loop Construct.	Increase Investment 10%	\$21,132,016 R	Set Better Priorities
*Intrastate Construction	Increase Investment 10%	\$48,798,340 R	Set Better Priorities
 NET HF/TF EXPANSION		 \$101,377,372 R	

Summary of Recommended Changes to 2002-03 Budget (Millions)

GENERAL FUND

	<u>FY 2002-03 Budget</u>
Total Proposed Savings	(\$1,624.8)
New Proposed Spending	\$403.7
• Subtotal-Net Change in Expenditures	(\$1,221.1)
 Total Proposed Tax Cuts	 (\$895.9)
Increased Revenues	\$813.1
• Subtotal-Net Change in Revenues	(\$82.8)

Authorized 02-03 Budget

GF Availability-1% Growth	\$13,842.6
Authorized GF Budget	\$14,890.7
Education	\$8,363.1
HHS	\$3,753.7
All Other Depts.	\$2,773.9
Projected Surplus (Deficit)	(\$1,048.1)
 Possible Additional Expansion	 \$725.0
Possible Projected Surplus (Deficit)	(\$1,773.1)

Changing Course 02-03 Budget

Revised GF Availability (after Tax Changes, Transfers)	\$13,759.8
Revised GF Budget	\$13,669.5
Education	\$8,010.2
HHS	\$3,366.5
All Other Depts.	\$2,292.9
Projected Surplus (Deficit)	\$90.3

HIGHWAY FUND/TRUST FUND

Total HF/HTF Savings	(\$138.5)
New HF/HTF Spending	\$127.1
Change in Fund Balance	\$11.4

FEE-BASED ITEMS

Program Eliminations	(\$5.2)
Savings in Lower Consumer Fees	\$5.2