

# spotlight

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## BUDGET CRISIS IS OPPORTUNITY

*Bigger budget for FY'11 shows need for policy reform*

**KEY FACTS:** • The final budget for fiscal year 2011 spends \$20.56 billion, \$153 million more than the budget for fiscal year 2010.

• General fund availability in fiscal year 2011 excluding federal funds is \$17 million less than was available in fiscal year 2010.

• Federal bailout funds for the state total \$1.6 billion, up from \$1.4 billion in fiscal year 2010.

• Congress may not pass an extension of more than \$500 million in bailout funds for the state.

• Contingency plans include breaking a 69-year tradition in the state of meeting the needed contribution to state employee pensions.

• Temporary taxes, one-time changes, and other federal funds add \$1.7 billion to the hole for fiscal year 2012.

• Funding pension and retiree health benefits will add as much as \$4 billion more to the pending shortfall.

• A \$7 billion shortfall in a \$20 billion General Fund requires fundamental reform of state government.

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**f**or the first time in years, North Carolina had a budget before the fiscal year began. The final bill had an advertised price of \$18.95 billion, \$56 million less than the last budget. When including federal bailout dollars, however, spending actually climbed \$153 million from last fiscal year to \$20.56 billion.

While spending continued to grow, the funding basis shrank. Excluding the federal bailout, general fund availability from taxes, fees, and \$62 million in transfers from other state sources was down \$17 million from last year, to \$18.94 billion.

Federal bailout money has allowed lawmakers to spend more than they reliably have available. Lawmakers have budgeted \$1.6 billion in bailout pay-

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ments, but up to \$562 million of that is still pending approval from Congress. If that fails to materialize, the General Assembly has specified \$519 million in transfers and cuts. Among those cuts would be \$139 million from the state employee pension plan, which would mark the first time in seventy years that the state failed to meet its funding obligation for pensions.

More than \$1 billion of tax collections are from a temporary surcharge in the corporate and personal income taxes and a temporary quarter-cent increase in the sales tax. One-time cuts, transfers from other areas of government, and other temporary federal funds add another \$700 million that will not be available for budget writers in 2011.

With or without the additional federal dollars, lawmakers have dug a \$3.3 billion hole for fiscal year 2012. Needed contributions to pension and health care obligations could add as much as \$4 billion to this figure.

Such numbers mean a structural deficit between 15 percent and 35 percent of state general fund appropriations – not something that can be filled by doing the same thing as always just with higher taxes, more cost-sharing, or lower spending. Gov. Bev Perdue and policymakers throughout state government need to look *now* at different ways to accomplish their goals, even if that means divesting the state from those activities.

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Figure 1.

Spending proposals, final bill (SB987), and spending in FY 2010 budget (SB202)					
	Governor	Senate	House	Conference	FY2010
K-12	7,046,005,022	7,141,573,290	7,071,816,095	7,085,588,912	7,456,261,240
Stimulus	427,940,579	373,281,648	373,281,648	373,281,648	379,668,352
CC	1,044,750,084	1,063,212,637	1,049,049,622	1,055,135,961	999,833,122
UNC	2,699,230,184	2,666,462,116	2,564,550,670	2,666,935,206	2,706,834,335
Stimulus	89,543,717	144,202,648	144,202,648	144,202,648	137,815,944
<b>Total Education</b>	<b>11,307,469,586</b>	<b>11,388,732,339</b>	<b>11,202,900,683</b>	<b>11,325,144,375</b>	<b>11,680,412,993</b>
CMS	69,880,934	69,248,505	72,277,380	70,648,505	75,016,712
Aging	38,282,029	37,282,029	37,282,029	37,382,029	35,899,897
Blind & Deaf	8,035,667	8,016,819	7,941,819	8,016,819	8,731,883
Child	252,174,124	223,093,407	239,224,378	234,224,378	257,095,576
Ed Svcs	35,557,408	31,232,038	33,959,179	32,751,458	36,669,397
HSR	15,435,246	15,852,779	15,998,594	15,852,779	17,926,741
Medicaid	2,326,113,458	2,370,920,487	2,405,218,140	2,368,365,829	2,318,653,169
Stimulus	1,063,606,838	1,063,606,838	1,063,606,838	1,063,606,838	857,352,497
MH/DD/SAS	697,768,647	686,291,774	681,481,715	705,476,614	664,385,884
NC Health Choice	90,431,884	88,409,166	85,099,691	88,409,166	77,218,524
PH	167,292,360	154,423,605	154,895,605	156,582,212	161,566,120
Soc Svce	195,933,970	192,944,399	197,462,731	192,729,691	208,179,422
VR	37,704,173	37,917,701	39,214,460	39,479,191	42,006,280
Other Stimulus	6,035,849	6,035,849	6,035,849	6,035,849	9,600,924
<b>Total Health &amp; Human Services</b>	<b>5,004,252,587</b>	<b>4,985,275,396</b>	<b>5,039,698,408</b>	<b>5,019,561,358</b>	<b>4,770,303,026</b>
Correction	1,280,940,675	1,272,410,650	1,284,823,067	1,285,252,983	1,313,815,477
Stimulus	12,926,135	12,926,135	12,926,135	12,926,135	12,926,135
CCPS	32,899,963	32,402,789	32,612,371	32,062,371	32,566,547
Judicial	454,537,185	447,935,234	452,537,228	450,319,124	466,928,250
Judicial - ID	121,960,964	115,937,143	116,075,384	115,700,384	135,927,989
Justice	85,850,386	85,662,231	85,451,622	85,647,778	89,736,617
JJ	141,331,552	142,446,865	145,727,187	146,280,807	145,654,923
<b>Total Justice &amp; Public Safety</b>	<b>2,130,446,860</b>	<b>2,109,721,047</b>	<b>2,130,152,994</b>	<b>2,128,189,582</b>	<b>2,197,555,938</b>
Ag	56,320,430	58,620,859	61,385,951	60,380,533	63,034,434
Comm	63,472,422	74,867,796	60,166,168	63,185,854	45,028,421
Comm SA, NC Biotech, REDC	66,923,061	60,911,908	71,561,908	83,237,003	60,385,161
ENR	190,283,144	191,626,927	193,890,337	194,625,330	201,108,413
CWMT	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Labor	16,181,475	15,989,542	16,498,308	16,298,308	17,429,196
<b>Total Natural &amp; Econ Resources</b>	<b>443,180,532</b>	<b>452,017,032</b>	<b>453,502,672</b>	<b>467,727,028</b>	<b>436,985,625</b>
Gen Govt	441,151,870	433,734,701	436,738,215	438,509,400	440,876,661
Total Debt Service & Reserves	1,411,825,171	1,192,686,200	1,203,414,918	1,168,041,272	874,462,978
Operating	19,138,273,488	18,962,113,597	18,866,354,772	18,947,119,897	19,003,233,369
Total Stimulus	1,600,053,118	1,600,053,118	1,600,053,118	1,600,053,118	1,397,363,852
Operating Including Stimulus	20,738,326,606	20,562,166,715	20,466,407,890	20,547,173,015	20,400,597,221
Capital	11,172,072	27,563,778	9,130,000	11,173,440	4,875,000
<b>TOTAL</b>	<b>19,149,445,560</b>	<b>18,989,677,375</b>	<b>18,875,484,772</b>	<b>18,958,293,337</b>	<b>19,008,108,369</b>
<b>TOTAL - Including Stimulus</b>	<b>20,749,498,678</b>	<b>20,589,730,493</b>	<b>20,475,537,890</b>	<b>20,558,346,455</b>	<b>20,405,472,221</b>
HF	1,792,540,000	1,792,540,000	1,792,540,000	1,792,540,000	1,736,590,000
HTF	1,001,313,983	928,730,000	928,730,000	928,730,000	881,290,000
<b>Total Transportation</b>	<b>2,793,853,983</b>	<b>2,721,270,000</b>	<b>2,721,270,000</b>	<b>2,721,270,000</b>	<b>2,617,880,000</b>

Source: John Locke Foundation

Figure 2.

How the budget would replace Medicaid dollars	
Transfer from Disaster Relief Reserve Fund	30,000,000
Transfer of unclaimed lottery prize money and excess receipts	35,000,000
Use of interest from all other funds	50,000,000
Use of balance in General Fund Availability	23,469,157
Reduction of Medicaid Provider rates	26,618,975
Use of funds from the Savings Reserve Fund	37,307,714
Reduction in Retirement System contributions	139,000,000
One percent (1%) Management Flexibility Reduction	177,500,000
<b>Total unmet need January-June 2011</b>	<b>518,895,846</b>

Source: SB897 Section 2.3

Figure 3.

The budget uses a net \$3.4 billion in one-time money to get through the current fiscal year	
Total ARRA Federal Stimulus	1,600,053,118
Other one-time Federal aid	55,296,429
One-time sources (cuts, transfers, sales, etc.)	388,066,447
Temporary Taxes	1,263,900,000
<b>Total unmet need FY 2012</b>	<b>3,307,315,994</b>

Source: John Locke Foundation

Figure 4.

FEDERAL STIMULUS	SB202	SB879
Education Stabilization Fund - Noninstructional Support		
Personnel	-373,281,648	
UNC Education Stabilization Fund	-144,202,648	
Foster Care and Adoption Assistance	-1,452,537	-1,421,552
HHS - Early Intervention (Smart Start)	-2,700,000	
Blind/Deaf ARRA	-260,590	
Vocational Rehabilitation ARRA	-201,170	
Medicaid FMAP	-502,565,621	-481,621,383
ARRA Medicare Part D Clawback Savings		-79,419,834
Corrections ARRA	-12,926,135	
<b>TOTAL ARRA Funds</b>	<b>-1,037,590,349</b>	<b>-562,462,769</b>

Source: John Locke Foundation

Figure 5.

General Fund Availability, Including Stimulus	
Unreserved Balance	3,972,262
Existing Taxes	18,199,339,016
Existing Fees	736,700,000
<b>Starting Availability</b>	<b>18,940,011,278</b>
IRC Conformity	-7,700,000
Loss of Estate Tax Revenues for FY 2010-11	-85,000,000
Unemployment Insurance Refundable Tax Credit	-34,100,000
Increase Sales Tax Prepayment Threshold	-7,000,000
Relieve Annual Report Compliance Burden on Small Businesses	-400,000
Fair Tax Penalties	0
Extend Sunsets on Various Tax Incentives	-3,500,000
Improve Tax and Debt Collection Process	3,000,000
Modernize Sales Tax on Accommodations	1,700,000
Modernize Admissions Tax and Restore Amenities Exclusion	-700,000
Reserve for Pending Finance Legislation	-9,800,000
Reduce Franchise Tax Burden on Construction Companies	-1,500,000
Department of Revenue Settlement Initiative	110,000,000
Increase Justice and Public Safety Fees	13,930,670
Transfers	62,820,546
Disproportionate Share Reserve	35,000,000
Transfer from the Health and Wellness Trust Fund	5,397,000
Transfer Aviation From Department of Commerce to Department of Transportation	-500,000
Wildlife Resources Commission Fund	3,000,000
Scrap Tire Disposal Account	2,500,000
White Goods Fund	1,200,000
Mercury Pollution Prevention Fund	2,250,000
NC State Fair	1,000,000
Bladen Lakes Special Fund	150,000
East Carolina MRI Lease and Equip Fund	1,000,000
Insurance Regulatory Fund	-2,176,454
Motorfleet Internal Services Fund	14,000,000
<b>Stimulus Funds</b>	<b>1,600,053,118</b>
<b>Total Availability</b>	<b>20,581,815,612</b>

Source: John Locke Foundation

Figure 6.

New corporate welfare programs total \$66.5 million	
Business Recruitment and Product Marketing	\$ 875,000
One NC Fund	12,500,000
One NC Small Business Fund	1,500,000
JMAC	6,500,000
Energy Research Grants	1,000,000
In-Source NC	150,000
Main Street Solutions	1,500,000
International Marketing	200,000
Tourism Marketing	1,000,000
Minority Support Center	750,000
Regional Economic Development Commissions	5,000,000
Biofuels Center	5,000,000
RTI International	500,000
Indian Economic Development Initiative	100,000
Institute for Regenerative Medicine	10,000,000
NC Biotechnology Center	5,000,000
Home Grown Jobs	3,125,000
Small Business Assistance Fund	1,000,000
Family Farm Opportunity and Innovation Fund	1,000,000
Pending Legislation	9,800,000
<b>Total Availability</b>	<b>\$66,500,000</b>

Source: John Locke Foundation

Figure 7.

<b>Obligatory list of bad and pointless spending</b>	
<b>Education</b>	
Prisoner Education	\$21,000,000
Student Diagnostic and Intervention Initiative	\$10,000,000
Institute for Regenerative Medicine	\$10,000,000
Distinguished Professor Endowment Fund	\$3,500,000
NC Research Campus at Kannapolis	\$1,000,000
Dropout Prevention Grant	\$290,683
subtotal	\$45,790,683
<b>Corporate Welfare</b>	
One NC Fund	\$12,500,000
Job Development Investment Grants (JDIG)	\$20,800,000
Jobs Maintenance and Capital Development Fund (JMAC)	
BFS/Goodyear Jobs	\$6,000,000
Domtar	\$500,000
Restore Small Business Center Funding	\$5,756,853
Regional Economic Development Commissions	\$5,000,000
NC Biotech Center Operating Funds	\$5,000,000
Home Grown Jobs	\$3,125,000
One NC Small Business Fund	\$1,500,000
Main Street Solutions	\$1,500,000
Small Business Assistance Fund	\$1,000,000
Business Recruitment and Product Marketing	\$875,000
subtotal	\$63,556,853
<b>Energy</b>	
Biofuels Center	\$5,000,000
Energy Production Infrastructure Center (EPIC)	\$3,000,000
Coastal Wave Energy Research	\$2,000,000
Energy Research Grants	\$1,000,000
subtotal	\$11,000,000
<b>Agriculture</b>	
Agriculture Development and Farmland Preservation Trust Fund	\$2,000,000
Family Farm Opportunity and Innovation Fund	\$1,000,000
Food Banks	\$1,000,000
Got to Be NC	\$250,000
subtotal	\$4,250,000
13 new positions for Federal Health Care Law	\$1,150,693
Research Triangle Institute	\$500,000
Sustainable Communities Task Force	\$250,000
NC Symphony	\$2,000,000
Tourism Marketing Funds	\$1,000,000
Expand Heritage Tourism	\$300,593
<b>Total Appropriations</b>	<b>\$129,798,822</b>