

Spotlight

#470 — June 23, 2015

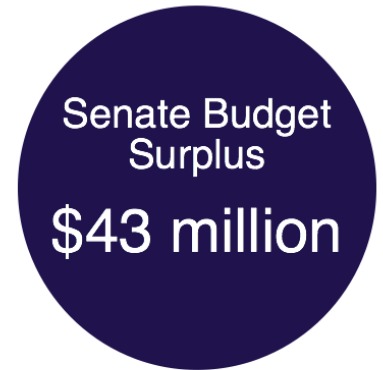
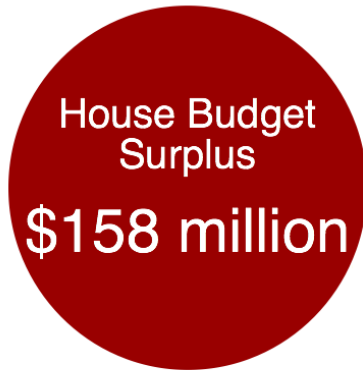
BEST FROM BOTH BUDGETS

Applying a "reverse logrolling" method to government spending and savings

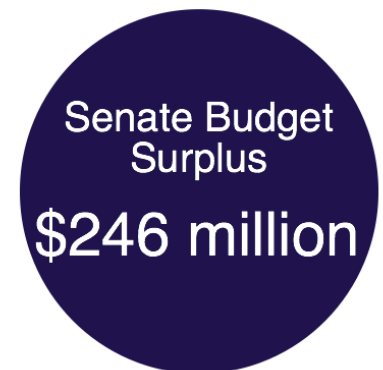
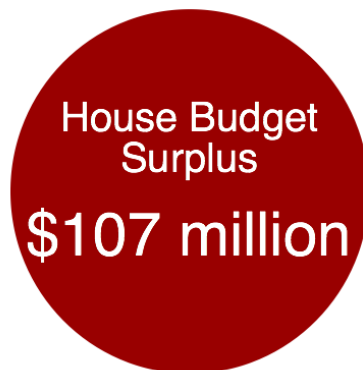
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FOUNDATION

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In 2015-16...



In 2016-17...



Leaving more money for...



When Governor McCrory released his 2015-17 biennial budget proposal in March 2015, NC General Assembly budget analysts projected a revenue shortfall of \$271 million. Shortly after the release of the Governor's budget recommendations, there was a remarkable change in the revenue picture – a true 'April surprise'. By the time House budget writers released their proposal in May, higher income tax payments and lower refunds from the 2014 tax year, as well as promising economic growth, prompted analysts to revise their General Fund revenue consensus forecast and project a surplus of \$400 million.

As one would expect, there were few similarities between the House and Senate budget proposals and even less agreement about what to do with the projected budget surplus. While legislative leaders continued to place a high priority on funding for education, transportation, public safety, and social welfare programs, Medicaid and economic development have become key drivers in each of the proposals put forth by the Governor, Senate and House. The House followed the Governor's lead by recommending that the state spend tens of millions of dollars for various economic development programs. The Senate addressed Medicaid reform and bolstered the state's rainy day fund. The conference committee assigned to reconcile these conflicting plans will have no easy task finding a compromise between the two.

For years, "logrolling" has been a tried-and-true tactic used by conferees in budget negotiations. Lawmakers, otherwise predisposed not to favor an expenditure or piece of legislation, agree to support it because fellow lawmakers agree to do the same for other items. Unfortunately, this budgetary practice too often results in poor outcomes for average citizens, as lower-

priority or so-called "pork-barrel" items are funded and mediocre legislation enacted. In North Carolina's appropriations process, logrolling typically results in a final budget agreement that spends more than previous versions. As such, the use of logrolling should be avoided.

An alternative approach, proposed in past John Locke Foundation publications, is called "reverse logrolling." Rather than each chamber accepting programs or higher expenditures from the other, legislators agree to use lower spending numbers for each departmental budget. After all, a majority in at least one chamber has already decided that the expenditure in question will satisfy the needs of the citizens and current budgetary constraints. This study reverses the logrolling practice by accepting the lower of the two chambers' previously approved figures for each department, as well as the higher of the two chambers' previously approved fund transfers.

A reverse logroll for the 2015-17 biennium budget would greatly benefit taxpayers. Although some would continue to disagree with specific policy elements of the resulting plan, if applied to the current state budget, reverse logrolling would result in a General Fund budget of \$21.5 billion in the first year and \$21.4 in the second, leaving surpluses of approximately \$383 million in the first year and \$639 million in the second year. This allows lawmakers more flexibility if they choose to further reduce taxes, increase the per-child tax credit, or simply leave the remaining money as a credit balance, providing extra savings on top of the rainy-day fund deposit. If budget conferees use the reverse logroll method and leave their chambers' pride at the door, then everyone will benefit from the large surplus -- taxpayers and state government alike.

Constructing a "Reverse Logroll" from House & Senate Budgets

	House Budget 2015-16	Senate Budget 2015-16	Reverse Logroll	House Budget 2016-17	Senate Budget 2016-17	Reverse Logrolling
Education						
Community Colleges	1,087,671,150	1,051,528,672	1,051,528,672	1,086,801,912	1,050,528,672	1,050,528,672
Public Instruction	8,624,998,796	8,282,418,560	8,282,418,560	8,700,370,220	8,382,532,357	8,382,532,357
The University System	2,786,478,423	2,715,040,926	2,715,040,926	2,776,682,229	2,739,150,553	2,739,150,553
Total Education	12,499,148,369	12,048,988,158	12,048,988,158	12,563,854,361	12,172,211,582	12,172,211,582
Health and Human Services						
Central Management and Support	141,722,868	116,500,781	116,500,781	128,220,376	130,139,186	128,220,376
Aging and Adult Services	43,815,337	42,845,788	42,845,788	43,815,337	42,845,788	42,845,788
Blind, Deaf/Hard of Hearing Services	8,173,207	8,098,207	8,098,207	8,173,207	8,098,207	8,098,207
Child Development, Early Education	224,537,700	233,900,693	224,537,700	229,784,413	237,476,515	229,784,413
Health Service Regulation	16,105,247	15,462,135	15,462,135	16,110,674	14,902,628	14,902,628
Medicaid	3,773,402,778	3,761,598,331	3,761,598,331	3,936,096,888	3,910,621,818	3,910,621,818
Mental Health, Developmental Disability, & Substance Abuse Svcs.	710,264,283	519,096,709	519,096,709	703,387,508	502,439,890	502,439,890
NC Health Choice	14,397,579	13,373,219	13,373,219	2,105,042	1,590,592	1,590,592
Public Health	138,718,720	137,337,977	137,337,977	143,579,928	139,261,609	139,261,609
Social Services	182,258,263	181,783,263	181,783,263	184,708,263	184,883,263	184,708,263
Vocational Rehabilitation	37,752,132	37,752,132	37,752,132	37,752,132	37,752,132	37,752,132
Total Health & Human Services	5,291,148,114	5,067,749,235	5,058,386,242	5,433,733,768	5,210,011,628	5,200,225,716
Justice and Public Safety						
Public Safety	1,854,334,987	1,828,196,520	1,828,196,520	1,867,792,745	1,840,640,544	1,840,640,544
Judicial	502,303,019	480,029,282	480,029,282	501,289,873	479,474,050	479,474,050
Judicial - Indigent Defense	118,103,415	115,738,069	115,738,069	118,077,045	115,748,013	115,748,013
Justice	53,772,016	52,295,684	52,295,684	53,794,233	51,405,759	51,405,759
Total Justice and Public Safety	2,528,513,437	2,476,259,555	2,476,259,555	2,540,953,896	2,487,268,366	2,487,268,366
Natural and Economic Resources						
Agriculture and Consumer Services	118,002,713	112,339,862	112,339,862	114,997,785	114,625,261	114,625,261
Commerce	70,536,118	58,030,891	58,030,891	72,241,619	57,512,842	57,512,842
Commerce - State Aid	21,412,620	3,405,472	3,405,472	20,862,620	1,155,472	1,155,472
Environment and Natural Resources	205,092,763	111,377,775	111,377,775	178,041,069	100,246,626	100,246,626
Labor	16,032,378	15,472,917	15,472,917	16,020,142	15,472,917	15,472,917
Wildlife Resources Commission	10,499,561	10,501,493	10,499,561	10,490,876	10,426,493	10,426,493
Total Natural & Economic Resources	441,576,153	311,128,410	311,126,478	412,654,111	299,439,611	299,439,611

Constructing a "Reverse Logroll" from House & Senate Budgets						
	House Budget 2015-16	Senate Budget 2015-16	Reverse Logroll	House Budget 2016-17	Senate Budget 2016-17	Reverse Logrolling
General Government						
Administration	61,129,481	60,353,742	60,353,742	59,849,655	58,381,592	58,381,592
Auditor	11,779,660	11,739,374	11,739,374	11,769,811	11,891,894	11,769,811
Cultural Resources	77,725,808	134,129,484	77,725,808	66,066,919	140,169,029	66,066,919
Cultural Resources - Roanoke Island	517,384	517,384	517,384	517,384	517,384	517,384
General Assembly	53,869,370	53,019,670	53,019,670	53,841,575	53,019,670	53,019,670
Governor's Office	5,660,905	5,580,229	5,580,229	5,657,222	5,580,229	5,580,229
Governor, Special Projects	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Housing Finance Agency	29,118,739	9,118,739	9,118,739	29,118,739	9,818,739	9,818,739
Insurance	38,999,265	38,381,581	38,381,581	38,974,189	38,381,581	38,381,581
Lieutenant Governor	691,788	676,874	676,874	691,249	676,874	676,874
Military and Veterans Affairs	7,368,298	9,525,132	7,368,298	7,312,298	7,815,123	7,312,298
Office of Administrative Hearings	5,229,808	5,117,214	5,117,214	5,226,437	5,117,214	5,117,214
Revenue	81,046,874	79,810,071	79,810,071	81,032,764	79,952,920	79,952,920
Secretary of State	11,968,959	11,713,470	11,713,470	11,960,475	11,713,470	11,713,470
State Board of Elections	6,616,136	6,603,243	6,603,243	6,612,129	6,503,243	6,503,243
State Budget & Management	7,828,228	7,242,104	7,242,104	7,822,468	7,242,104	7,242,104
State Budget & Management, Special	2,000,000	1,550,000	1,550,000	2,000,000	1,500,000	1,500,000
State Controller	23,037,383	22,700,620	22,700,620	23,025,245	22,700,620	22,700,620
Treasurer - Operations	9,655,372	11,045,175	9,655,372	9,651,435	10,699,175	9,651,435
Fire Rescue, National Guard Pensions & LDD Benefits	21,691,299	20,664,274	20,664,274	21,691,299	20,664,274	20,664,274
Total General Government	457,934,757	491,488,380	431,538,067	444,821,293	494,345,135	418,570,377
Subtotal Agency Budgets	21,218,320,830	20,395,613,738	20,326,298,500	21,396,017,429	20,663,276,322	20,577,715,652
Debt Service	714,776,023	714,776,023	714,776,023	739,403,095	678,465,595	678,465,595
Statewide Reserves	173,753,012	164,779,832	164,779,832	265,970,564	163,340,663	163,340,663
Total Capital Improvements	48,507,000	174,895,100	48,507,000	5,087,500	5,087,500	5,087,500
Film and Entertainment Grant Fund	40,000,000	10,000,000	10,000,000	0	10,000,000	0
Repairs and Renovations*	200,000,000	155,110,900	200,000,000	0	0	0
Total GF Appropriations	22,395,356,865	21,615,175,593	21,464,361,355	22,406,478,588	21,520,170,080	21,424,609,410

Revenue Portion of "Reverse Logroll" from House & Senate Budgets

	House Budget 2015-16	Senate Budget 2015-16	Reverse Logroll	House Budget 2016-17	Senate Budget 2016-17	Reverse Logrolling
General Fund Baseline	22,616,274,867	22,620,210,900	22,620,210,900	22,734,108,344	22,619,397,632	22,959,032,768
Additional Highway Fund Transfer*	3,700,000	0	-	3,700,000	0	-
Adjustment of Transfer from Insurance Regulatory Fund	0	85,217	85,217	0	85,217	85,217
Adjustment of Transfer from Treasurer's Office	(188,715)	375,262	375,262	(188,715)	369,262	369,262
Department of Justice Tobacco Settlement	2,194,000	2,194,000	2,194,000	0	0	0
End Highway Fund Transfer to General Fund*	0	(215,900,000)	(215,900,000)	0	(215,900,000)	(215,900,000)
Exempt Sales Tax for Nonprofit Agricultural Fairs*	(330,000)	0	(330,000)	(330,000)	0	(330,000)
Expand 1%/\$80 Rate for Mill Machinery*	(3,150,000)	0	(3,150,000)	(6,300,000)	0	(6,300,000)
Extend Renewable Energy Credit	0	0	0	(10,300,000)	0	0
Extend Sales Tax Preferences for Motorsports Parts and Fuel*	0	0	0	(1,900,000)	0	0
Historic Preservation Tax Credit	(8,000,000)	0	0	(8,000,000)	0	0
MSA Funds to Golden L.E.A.F.	0	(20,075,000)	0	0	(20,075,000)	0
Potential proceeds from sale of Dorthea Dix property	50,000,000	0	50,000,000	0	0	0
Realign Judicial Fees	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Renewable Energy Safe Harbor (S.L. 2015-11)	0	0	0	(36,700,000)	(36,700,000)	(36,700,000)
Reserve for Passenger Air Carriers Refund (H.B.117)	0	0	0	(5,500,000)	0	0
Restore Tax Deduction for Medical Expenses*	(54,000,000)	0	(54,000,000)	(52,400,000)	0	(52,400,000)
Sales Tax Exemption on Electricity for Qualifying Datacenters*	(3,000,000)	0	(3,000,000)	(4,000,000)	0	(4,000,000)
Savings Reserve*	-200,000,000	(500,000,000)	(500,000,000)	0	0	0
State Emergency Response Account*	-20,000,000	(10,000,000)	(20,000,000)	0	0	0
Tax Reductions*	0	(72,700,000)	(72,700,000)	0	(421,100,000)	(421,100,000)
Transfer from DPS Enterprise Resource Planning System IT Fund	0	9,000,000	9,000,000	0	0	0

Revenue Portion of "Reverse Logroll" from House & Senate Budgets						
	House Budget 2015-16	Senate Budget 2015-16	Reverse Logroll	House Budget 2016-17	Senate Budget 2016-17	Reverse Logrolling
Transfer from E-Commerce Fund	1,296,803	1,257,140	1,296,803	641,628	641,628	641,628
Transfer from Federal Insurance Contributions Act (FICA) Fund	4,296,802	4296802	4,296,802	641,628	0	641,628
Transfer from Statewide Automated Fingerprint Identification System Fund	0	333,557	333,557	0	0	0
Transfer from Statewide Misdemeanant Confinement Fund	2,898,779	0	2,898,779	0	0	0
Transfer Medicaid Contingency Reserve Funds	186,372,673	0	186,372,673	0	0	0
Transfer to Medicaid Reserve*	(50,000,000)	(185,604,653)	(185,604,653)	(125,000,000)	(185,604,653)	(185,604,653)
Total General Fund Availability	22,553,365,209	21,658,473,225	21,847,294,123	22,513,472,885	21,766,114,086	22,063,350,633
Less: GF Appropriations	22,395,356,865	21,615,175,593	21,464,361,355	22,406,478,588	21,520,170,080	21,424,609,410
<i>Surplus</i>	<i>158,008,344</i>	<i>43,297,632</i>	<i>382,932,768</i>	<i>106,994,297</i>	<i>245,944,006</i>	<i>638,741,223</i>