

# spotlight

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## BUDGETING ON BORROWED TIME

*FY 2009 budget has excessive spending, no saving, and a lot more debt*

**KEY FACTS:** • The North Carolina General Assembly approved a \$21.4 billion budget for fiscal year (FY) 2009, up 3.4 percent from FY 2008, with \$21.2 billion in appropriations for operating expenses, up 4.0 percent.

• As usual, the final budget was prepared behind closed doors by the House Speaker and President Pro Tem of the Senate with minimal involvement from all but a dozen legislators of either party and little opportunity for the public or other legislators to review spending proposals before a final vote.

• New debt not subject to voter approval in the budget totals \$858 million, the highest amount in four years, including \$109 million for a new library at North Carolina State University and \$50 million for open space, none of which is subject to voter approval.

• In addition to making an ongoing commitment in the budget of \$15 million per year to corporate welfare through the Job Development Investment Grant (JDIG) program, the General Assembly added another \$10 million to JDIG after passing the budget.

• Legislators committed \$156 million more to ongoing programs than is available from ongoing revenue sources and put no new money in the Savings Reserve Account, the state's rainy day fund.

• Teachers get raises of 3.0 percent, although they already earn \$5,401 per year more than the national average, adjusted for cost of living and years of experience.<sup>1</sup> Other state employees get either a 2.75 percent raise or \$1,100, whichever is greater.

• Legislators reduced the \$172 million transfer from the Highway Trust Fund to the General Fund by \$25 million, which they dedicated to toll road project.

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**d**espite late notice that tax collections for fiscal 2008 would be \$63 million lower than forecast in April and that economic uncertainty would shave \$45 million from expected revenues in fiscal 2009, the final budget (HB 2436, S.L. 2008-107) spends more than either the House or Sen-

ate proposal and even surpasses Gov. Easley's request when including new debt. The \$21.4 billion budget represents a 3.4 percent spending increase. Spending on operations increases 4.0 percent to \$21.2 billion, including a supplemental appropriation of \$10 million for the Job Development Investment Grant (JDIG) fund to subsidize companies moving to North Carolina.

### Recurring Funding Shortfall

Democrats and House Republicans complimented themselves on the fiscal restraint that led to such a small spending increase, but they

have committed to \$156 million more in recurring spending than is available in recurring revenue. Despite the \$45 million reduction due to economic uncertainty, the return of \$25 million to the Highway Trust Fund, and nearly \$20 million in narrowly targeted tax reductions, revenue changes accounted for less than one-fourth of the change from a \$211 million surplus. Recurring appropriations climbed \$282 million.

While legislators highlight the raises for teachers (who already make \$5,401 more than the national average adjusted for cost of living and experience<sup>1</sup>) and state employees, they increased spending into the future on a number of less justified initiatives such as More at Four (\$30 million), Juvenile Crime Prevention Councils (\$32 million), JDIG subsidies for companies moving to North Carolina (\$15 million in the budget bill plus \$10 million in a separate appropriation), North Carolina Health Choice (\$9 million), the North Carolina Research Campus in Kannapolis (\$7 million),

### Recurring Appropriations and Revenues

	FY2008-09
Certified Recurring Revenue	\$ 20,869,500,000
Certified Recurring Appropriations	\$ 20,658,099,352
Surplus/(Deficit) in Certified Budget	\$ 211,400,648
Recurring Revenue Adjustments	\$ (85,135,536)
Recurring Appropriation Adjustments	\$ 282,495,217
Total changes in recurring balance	\$ (367,630,753)
Revised Recurring Revenues	\$ 20,784,364,464
Revised Recurring Appropriations	\$ 20,940,594,569
<b>Recurring revenue surplus/(shortfall)</b>	<b>\$ (156,230,105)</b>

### Approved FY2008-09 General Fund Budget in Comparison

	Appropriations	Conference Compared to		
		Senate	House	Governor
<i>Public Education</i>	7,802,046,538	0.2%	-0.1%	-0.1%
<i>UNC System</i>	2,683,257,614	-0.7%	1.9%	-0.2%
<i>Community Colleges</i>	933,282,701	0.3%	0.0%	1.0%
Education	11,418,586,853	0.0%	0.4%	0.0%
<i>Medicaid</i>	3,179,171,463	-0.8%	-0.3%	-1.9%
Health and Human Services	4,914,916,942	-0.5%	-0.4%	-1.7%
<i>Correction</i>	1,226,917,398	0.0%	0.0%	-0.1%
Justice and Public Safety	2,088,869,859	0.0%	0.0%	-0.3%
Natural and Economic Resources	583,259,846	6.0%	1.9%	14.0%
General Govt	459,387,180	-1.7%	4.5%	2.7%
Debt Service	643,133,287	0.0%	-2.6%	0.0%
Other	1,128,731,405	0.2%	1.6%	-14.5%
Total Operating Appropriations	21,236,885,372	0.0%	0.3%	-0.9%
Capital Improvements	129,082,062	-4.9%	-24.0%	33.1%
<b>TOTAL GENERAL FUND</b>	<b>21,365,967,434</b>	<b>0.0%</b>	<b>0.1%</b>	<b>-0.8%</b>
New Debt	857,500,000	27.6%	56.0%	55.0%
<b>GRAND TOTAL</b>	<b>22,223,467,434</b>	<b>0.8%</b>	<b>1.5%</b>	<b>0.6%</b>

## Availability in Conference Budget

	<b>FY2008-09</b>
Revenues Based on Existing Tax Structure	19,903,800,000
Non-tax Revenues	965,700,000
<b>Expected tax and fee revenue</b>	<b>20,869,500,000</b>
Unappropriated Balance	270,504,098
Net Adjustment - S.L. 2007-540	(1,000,000)
Additional unappropriated balance	47,867,864
Reversions	170,000,000
Overcollections	88,700,000
<b>One-time adjustments</b>	<b>576,071,962</b>
<b>Adjustments for Economic Uncertainty</b>	<b>(45,000,000)</b>
Extend Sunset for Small Business Employee Health Benefits Tax Credit	(8,500,000)
Small Businesses Protection Act	(2,200,000)
Modify Estate Tax Law	(2,000,000)
State Sales Tax Exemption for Baked Goods Sold By Artisan Bakeries	(1,600,000)
Sales Tax Holiday for Certain Energy Star Rated Appliances	(1,400,000)
Extend Sunset for State Ports Tax Credit	(1,000,000)
Extend Credit for Research & Development	(1,000,000)
Reserve for Tax Relief	(700,000)
Exempt Disaster Assistance Debit Sales	(500,000)
Excise Tax on Machinery Refurbishers	(300,000)
Expand Film Industry Credit and Extend Sunset	(100,000)
Expand Renewable Energ Tax Credit	(100,000)
<b>Total Tax Changes</b>	<b>(19,400,000)</b>
Adjust Securities Filing Fee	1,993,500
Health Care Facility Construction Project Fee Service Regulation Fee Increase	822,028
Adjust Fee Receipts for Asbestos Hazard Management Program	71,615
<b>Total Fee Changes</b>	<b>2,887,143</b>
<b>Reduce Transfer to Highway Trust Fund</b>	<b>(25,000,000)</b>
Transfer from Disaster Relief Reserve (Western NC Disasters)	26,000,000
Transfer from Disproportionate Share Reserve	19,300,000
Transfer from Tobacco Trust Fund	5,000,000
Transfer from Health & Wellness Trust Fund	5,000,000
Transfer from NC Community College System Computer Information System (CIS)	4,500,000
Transfer from NC Rx Unexpended Balance	3,500,000
Transfer from Principal Fellows Trust Fund	1,000,000
Transfer from Focused Industrial Training Unexpended Balance	783,246
Adjust Transfer from Treasurer's Office	763,829
Adjust Transfer from Insurance Regulatory Fund	633,492
Transfer from Coaching Scholarship Fund	267,000
<b>Total One-Time Transfers</b>	<b>66,747,567</b>
<b>Savings Reserve Account</b>	<b>0</b>
<b>Repairs and Renovations Reserve</b>	<b>(69,839,238)</b>
<b>Net Availability</b>	<b>21,355,967,434</b>

and an oyster sanctuary (\$2 million). This list does not even include the pledged spending for 2009-2010, including \$172 million for the Biomedical Research Imaging Center. Nor does it include expected spending growth to fund programs at their current levels, enrollment growth throughout the education system, or technically nonrecurring items that occur each year such as ABC bonuses for teachers.

### **Nothing to Save Here**

In addition to the \$211 million surplus in recurring revenue, legislators also started the year with \$576 million in one-time money left over from fiscal 2008. Budget proposals from Gov. Easley and the state House would have set aside more than \$60 million of this surplus in the Savings Reserve Account, or rainy day fund. The final budget, however, provided no money for this purpose, even though it remains well below the five percent statutory threshold.

Soon after passing the budget, legislators considered taking \$100 million from the Savings Reserve Account to offset an unexpected \$250 million shortfall in the State Health Plan for teachers and state employees. Instead, they decided to wait and watch, but could return to Raleigh if the health plan's financial health deteriorates further.

### **Debt Without Voters**

Compounding the spendthrift operational budget, legislators approved \$858 million in new debt for capital projects. Significant among these debt-financed projects is the \$107 million Green Square Complex in downtown Raleigh, which will house a 172,000-square-foot office building for the Department of Environment and Natural Resources and a 79,000-square-foot addition to the Museum of Natural History. To pay for this project, legislators used "two-thirds bonds," a type of general obligation debt with no constitutional requirement for voter approval, for the first time since 1992.

The last time voters approved statewide debt was in 2000, when they approved \$3.1 billion for higher education projects. As recently as 2002 the state had no debt that had not been approved by voters, but by 2012 non-voter approved debt will be 44 percent of outstanding General Fund debt based on the latest budget.

### **Conclusion**

This year's budget was produced in a relatively open process for the General Assembly, but closed by any normal definition. After some debate in the House, minimal debate in the Senate, and no debate of the final bill, legislators from both parties approved a budget that will allow them to be reelected but leave them facing even more difficult choices when they return. This combination of higher spending, higher debt, and no new savings present a tough challenge and falls far short of traditional definitions of fiscal responsibility.

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### **End Note**

1. Terry Stoops, "Annual Report on Teacher Pay: N.C. teacher compensation is more than \$5,000 higher than the national average," John Locke Foundation *Spotlight* No. 340, January 24, 2008, [www.johnlocke.org/spotlights/display\\_story.html?id=190](http://www.johnlocke.org/spotlights/display_story.html?id=190).