

spotlight

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SENATE BUDGET GIMMICKS

Fiscal irresponsibility tour moves to House

KEY FACTS: • A bipartisan majority passed (30-16) a gimmick-laden budget that would increase spending by \$100 million over the current budget plan and \$900 million more than actual spending in fiscal year 2009.

• The budget relies on \$3 billion in one-time fixes, including \$1.6 billion in federal stimulus funds and more than \$1.2 billion in temporary tax hikes.

• The budget includes \$90 million in small tax breaks and cash incentives for selected companies.

• Pork projects for Research Triangle Institute and a company tied to former Gov. Jim Hunt are also included.

• In four bright-ish spots, the budget 1) consolidates the state's air fleet, 2) expands the scope of a successful mental health model, 3) introduces a different way to handle parole, and 4) includes a tax rate reduction for business pass-through income.

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Just a week after its session began, the Senate passed what on paper is a \$19 billion budget — however, when federal stimulus funds are counted, spending for fiscal year 2011 will reach \$20.5 billion. This simple fact contrasts markedly from Senators' rhetoric of restraint.

This spending is \$100 million more than the \$20.4 billion stimulus-enhanced spending plan passed in August 2009, and \$900 million more than the \$19.6 billion actually spent in fiscal year 2009.¹ Spending increases based on temporary infusions of federal funds are unsustainable.

Further weakening the state's fiscal condition is the Senate's continued reliance on \$1.25 billion in temporary sales and income tax increases due to expire before the next fiscal year. Unless there is significant economic and employment growth, state tax collections will not recover enough to fund everything in the budget on their own.

Lawmakers still have ample opportunity to cut fat in the budget. The Senate budget includes more than \$50 million in new spending and tax provisions that target specific companies or groups of companies. It also includes a \$15

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million project involving a company with close ties to former governor Jim Hunt² and another project earmarked for RTI International.³ These new spending items are in addition to existing corporate welfare programs with dubious claims of job creation.⁴

Some positive items did make it into the budget. Senators, taking the advice of the General Assembly's Program Evaluation Division, included provisions to sell some of the state's air fleet and consolidate most of the remainder in the Department of Transportation.⁵ The Senate also would expand a mental health program that saves money and provides better care; in addition to PBH, where it has been successfully used since April 1, 2005,⁶ it would be used at two other local-management entities. A special provision in the budget would ease the strain on North Carolina's overburdened parole system. There is also a good, though too limited, tax idea – reducing the individual income tax rate for small businesses to the same 6.9 percent rate paid by corporations.

The Senate also left out Gov. Perdue's Mobility Fund proposal, which would have grown to \$300 million over the next three years and raised fees on drivers to pay for more non-road projects such as light rail and ferry service.⁷ This fund would have also paid for road projects, but priority roads and bridges should first be targeted as better purposes for existing road money before adding new taxes and fees.

A few bright spots do not counter the general trend of gimmicks that do little to improve education or the state's job situation. Because it does not tackle the state's structural fiscal imbalance and pushes off hard decisions to the 2011 legislative session, the Senate leaves more policy uncertainty for businesses and individuals in its budget.

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End Notes

1. State of North Carolina Monthly Financial Report, June 30, 2009. Office of State Controller, August 31, 2009.
2. Student Diagnostic and Intervention Initiative. For more information, see David Bass, "Jim Hunt could have ties to \$15 million in technology funds," The Locker Room, May 20, 2010, <http://www.johnlocke.org/lockerroom/lockerroom.html?id=24614>.
3. Energy Research Grants page H-18 of Senate Budget Report, Item #82.
4. See executive summary (January 2009) and final report (July 2009) from the UNC Center for Competitive Economies to Joint Select Committee on Economic Development Incentives, <http://www.ncleg.net/gascripts/DocumentSites/browseDocSite.asp?nID=29>.
5. Various items in Senate Budget for Division of Forest Resources, Department of Commerce, and Department of Transportation.
6. For more information on this item, see Joseph Coletti, "Mental Health Reform: Steps Toward Improvement," John Locke Foundation *Policy Report*, October 2008, http://www.johnlocke.org/policy_reports/display_story.html?id=185. Capitaled Behavioral Health Pilot Programs page G-8 of Senate Budget Report, Item #46, which is budgeted to save \$1.56 billion.
7. Bruce Siceloff, "Senate shuns Perdue plea for road fund," *The News & Observer* (Raleigh), May 23, 2010