

HOUSE'S BUDGET BUBBLE

Conference Last Chance for Fiscal Responsibility

Summary: Although state revenue estimates are growing at the rate of about \$100 million each month, the North Carolina House managed to pass a \$17.1 billion budget that requires even higher taxes than the Senate's bill. Spending would grow 7.5 percent. Despite this, some representatives claim that the budget is a model of fiscal responsibility because it ties recurring funds to recurring obligations. Fiscal responsibility does not require \$778 million in new taxes or \$376 million in transfers and new fees. "Reverse logrolling" in the conference is the last best hope for the General Assembly to become responsible.

Fiscal responsibility is one of those terms that people sometimes have difficulty defining. Taking on debt can be prudent if it is to fund an education or a house. Amassing \$30,000 in credit card debt, however, is clearly not responsible. Using one-time transfers to pay normal costs of government is clearly not responsible, but that does not make every budget responsible that matches recurring expenses and recurring funding.

In February, the General Assembly's Fiscal Research Division estimated excess revenues would total \$51 million for the fiscal year ending June 30.¹ The governor's budget later that month put this amount at \$143 million.² By the time the Senate completed its version of the budget, the estimate had reached \$428 million.³ The estimate in the June 14 report accompanying the House budget was \$527 million.⁴ In four months, the money available before taxes increased by more than \$470 million. The extension of the formerly temporary state sales tax adds \$413 million to the coffers.

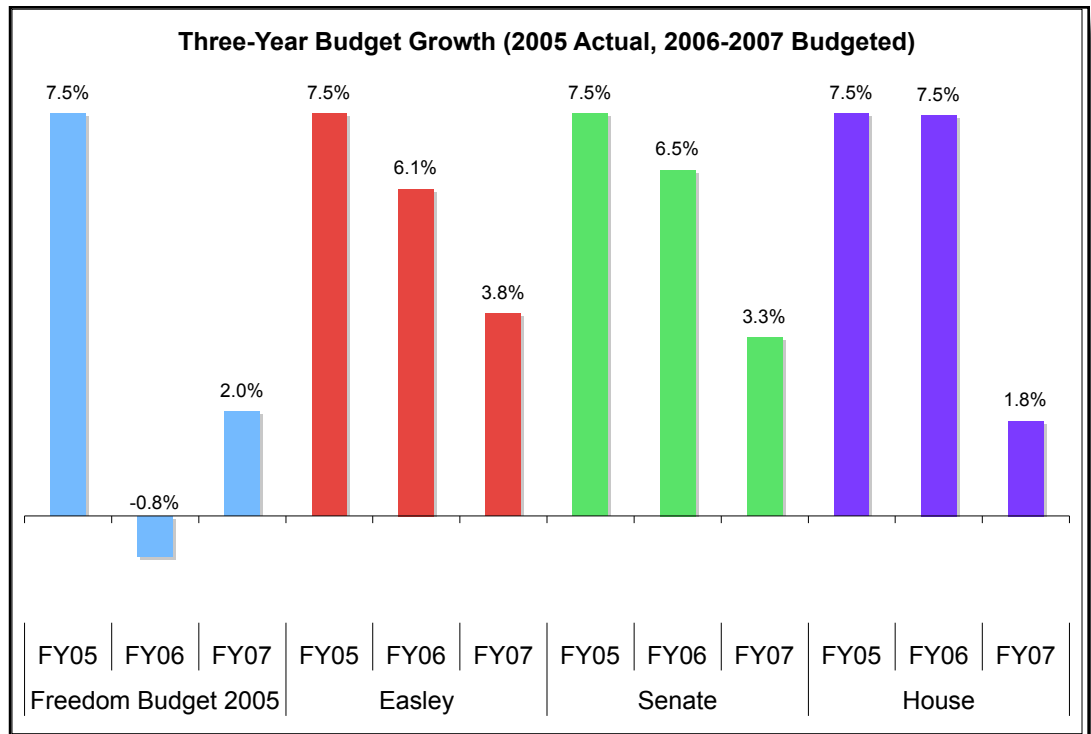
Rather than use the windfall as a way to finally end the emergency tax hikes or to narrow the structural budget gap, the House continued to expand spending (by \$155 compared to the Senate) and raise taxes \$718 million.

The House budget continues to raid the Highway Fund, the Highway Trust Fund, and others to pay obligations. The fugibility of money makes it impossible to be sure that these annual one-time transfers are truly being used for non-recurring costs. It is clear, however, that they are not going to improve North Carolina's roads as intended. Toll roads may be a good idea, but if tolls are going to supplant taxes or other fees, those fees should be cut, not reallocated.

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Incentives for specific companies, industries, and other groups proliferated in the Senate's budget. If anything, the House was more generous. Newspapers have noted some of these, such as \$1 million for the Johnston and Wales Culinary School and \$150,000 for the Southeastern North Carolina Agricultural Center Farmers Market. The Commerce Department gives \$7.5 million to the Northeast Regional Economic Partnership to fund a questionable Advanced Vehicle Research Center, \$5 million to the Minority Support Center to support two credit unions, and \$4 million for the Community Development Initiative.



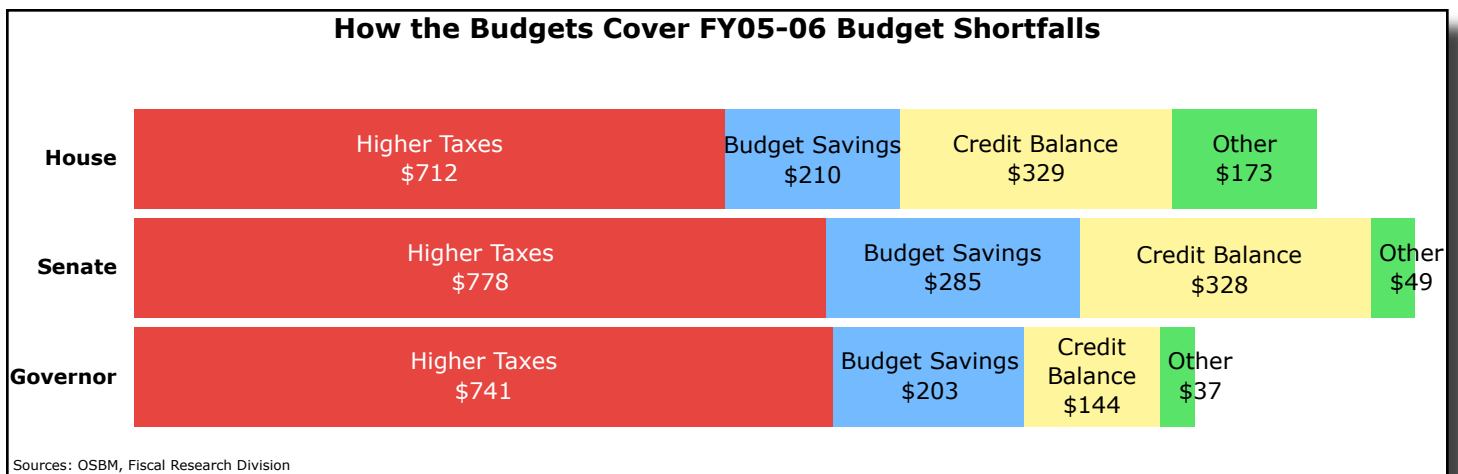
The House budget rescinds some first steps the Senate took to control Medicaid costs, adding back \$130 million. The lamented cuts in public education mean spending will increase 8.2 percent instead of the Senate-proposed 8.6 percent growth. Overall, the house increases spending 7.5 percent in fiscal year 2005-06. Revenues climb 8.4 percent from tax and fee increases and higher than expected tax returns this year.

Taking a top-level look at the Senate and House plans and combining the more restrained of them, a process we dubbed "reverse logrolling"⁵ would result in spending growth of 5.3 percent, which, although higher than combined population growth and inflation (3.5 percent), would be less than any of the plans from the governor (6.1), the Senate (6.5), or the House (7.5). The John Locke Foundation's alternative budget, Freedom Budget 2005, actually reduces spending 0.8 percent, which may be too much to expect at this point, but as Rep. Alma Adams has said, the General Assembly is "a magical place."

-Joseph Coletti, Fiscal Policy Analyst

NOTES:

¹ *Budget Overview, Historical Trends and Outlook for FY 2005-06*, NC General Assembly Fiscal Research Division, February 15, 2005
² *North Carolina State Budget 2005-2007, Summary of Recommendations*, Office of State Budget and Management, February 23, 2005
³ *Senate Appropriations/Base Budget Committee Report on the Continuation, Expansion and Capital Budgets [05/03/05] Revised 05/05/05 SB 622 4th Edition*, NC General Assembly Fiscal Research Division, May 5, 2005
⁴ *House Appropriations Committee Report on the Continuation, Expansion and Capital Budgets [06/15/05] Revised 06/16/05 as an Unofficial Report on the Continuation, Expansion and Capital Budgets Senate Bill 622 (7th Edition)*, NC General Assembly Fiscal Research Division, June 16, 2005



Sources: OSBM, Fiscal Research Division

Comparing the Budgets

Spending and Revenues in Millions, FY2005-06

Spending Category	YoY %		YoY %		YoY %		Freedom	YoY %	Reverse	YoY %
	Governor	Change	Senate	Change	House	Change	Budget	Change	Logroll	Change
Public Education	\$6,678.87	8.5%	\$6,686.83	8.6%	\$6,664.81	8.2%	\$6,380.11	3.6%	\$6,664.81	8.2%
Community Colleges	763.67	10.4%	792.78	14.6%	775.21	12.1%	707.12	2.2%	775.21	12.1%
UNC System	2,111.36	12.4%	2,072.42	10.3%	2,058.58	9.6%	1,904.95	1.4%	2,058.58	9.6%
Health & Human Serv.	4,088.21	7.9%	3,958.54	4.5%	4,081.03	7.7%	3,656.15	-3.5%	3,958.54	4.5%
Agriculture	52.49	7.7%	49.83	2.3%	51.02	4.7%	34.86	-28.4%	49.83	2.3%
Commerce	67.98	6.6%	55.63	-12.7%	78.74	23.5%	17.79	-72.1%	55.63	-12.7%
Labor	14.99	9.9%	14.15	3.8%	14.68	7.7%	13.24	-2.9%	14.15	3.8%
Environment/Nat. Res.	176.06	14.5%	171.19	11.3%	170.43	10.8%	136.15	-11.5%	170.43	10.8%
Correction	1,046.53	10.3%	1,023.19	7.9%	1,029.45	8.5%	1,036.58	9.3%	1,023.19	7.9%
Crime Control/PS	35.71	11.4%	33.51	4.5%	35.49	10.7%	20.30	-36.7%	33.51	4.5%
Courts/Judicial	444.28	11.0%	429.79	7.4%	436.17	9.0%	444.28	11.0%	429.79	7.4%
Juvenile Justice	141.61	7.0%	135.18	2.2%	141.01	6.6%	132.61	0.2%	135.18	2.2%
Justice	78.65	8.9%	76.56	6.0%	78.99	9.4%	75.76	4.9%	76.56	6.0%
Transportation	12.03	7.6%	0.00	-100.0%	0.00	-100.0%	6.01	-46.2%	0.00	-100.0%
Other Departments	419.26	2.6%	492.57	20.5%	359.71	-12.0%	544.82	33.3%	359.71	-12.0%
Debt Service	486.80	14.0%	491.16	15.0%	491.16	15.0%	415.90	-2.6%	491.16	15.0%
Other Items/Reserves	257.78		441.05		611.44		254.28		441.05	
Subtotal-Operating	16,876.25	6.3%	16,924.39	6.6%	17,077.93	7.6%	15,780.92	-0.6%	16,737.34	5.4%
Capital/R&R	18.01		26.11		34.32		18.01		26.11	
Total-GF Budget	\$16,894.27	6.1%	\$16,950.50	6.5%	\$17,112.25	7.5%	\$15,798.94	-0.8%	\$16,763.45	5.3%
Current Availability	\$15,972.30	0.3%	\$16,370.91	2.8%	\$16,372.60	2.9%	\$15,972.30	0.3%	\$16,372.60	2.9%
Tax and Fee Changes	922.00		827.32		886.04		(102.50)		390.85	
GF Availability	16,894.30	6.1%	17,198.22	8.0%	17,258.65	8.4%	15,869.80	-0.3%	16,763.45	5.3%
Unappropriated Balance	\$0.03		\$247.72		\$146.39		\$70.86		\$0.00	