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P.O. Box 28068
Raleigh, NC
27611-8068

EDITOR: Elaine Mejia
919/856-2176
elaine@ncjustice.org
www.ncjustice.org

THE SENATE'S PROPOSED BUDGET: Overall Spending Target Mirrors Governor's But Spending Priorities Differ

BY MEG GRAY WIEHE AND ELAINE MEJIA – WITH STEPHEN JACKSON AND JOHN QUINTERNO

Executive Summary

- The North Carolina Senate has adopted its proposed state budget for fiscal years 2009-10 (FY09-10) and 2010-11. The Senate proposes a general fund budget of \$20 billion in year one and \$21.2 billion year two. The FY09-10 budget is a decrease of \$1.3 billion, or 6.1%, compared to the originally adopted budget for FY 08-09 (before mid-year budget cuts).
- The total general fund spending of the Senate's proposal is nearly identical to Governor Perdue's budget. However, the Senate's budget looks smaller because it accounts for increased federal Medicaid funds differently than the governor's. The Senate uses the money to offset state spending but rather than counting it as a revenue source, which the governor's budget does. When this discrepancy is taken into account, the Senate's FY09- 10 budget spends \$20.9 billion, only \$12 million less than the governor's. **(Figure 1)**
- The Senate budget recommends reductions in every major budget category. Compared to the governor's proposal, the Senate is considerably more generous to the University System and considerably less generous to public schools and Health and Human Services. In addition, the Senate's budget does not include the governor's proposal to suspend longevity payments to eligible state employees.
- Perhaps the most sweeping proposed policy change is the potential elimination of the More at Four preschool program for at-risk four-year olds. The Senate plan would convert More at Four to a child-care subsidy program, reduce funding overall and replace a substantial portion of the current state funding with non-recurring federal dollars.
- The Senate's plan relies on an additional \$500 million in tax adjustments that will be made through a separate piece of legislation. Senate leadership has not disclosed the details of those tax proposals.
- The Senate's plan would issue an additional \$306.6 million in new state debt over the next four fiscal years -- which, according to the state treasurer, would leave no room for additional debt for the next five years without jeopardizing the state's good credit rating.

Overview

The NC Senate needed only three weeks after the release of the governor's proposed budget to craft and adopt a plan of its own. The Senate's proposed general fund budget for fiscal year 2009-10 (FY09-10) would decrease appropriations by \$1.3 billion, or 6.1%, compared to the originally adopted budget for FY08-09 (before mid-year budget cuts). For the most part, the Senate's proposed budget decreases spending slightly across the board rather than making substantial reductions to specific programs. Notable exceptions include their plans to reduce spending by increasing public-school class sizes, and to make significant structural changes to the More at Four preschool program. This issue of BTC Reports analyzes the Senate's budget proposal in detail with a special focus on the impacts of proposed changes on working families and the long-term fiscal outlook of the state.

How Does the Senate Pay for Its Budget?

The FY09-10 Senate budget initially calls for \$22.6 billion in spending- \$22 billion to maintain current services and around \$600 million to expand services. However, the consensus baseline revenue forecast for FY09-10 is only \$18.8 billion, leaving the Senate with a \$3.8 billion shortfall. Given the state's constitutional requirement to have a balanced budget, the Senate plan closes the budget shortfall with a combination of new revenues, federal economic recovery funds, and spending reductions. (Figure 2)

The Senate plans to use new revenues to close \$555 million of its FY09-10 shortfall, or 15% of the gap. This amount is similar to Governor Perdue's revenue proposal, but unlike the governor, the Senate does not specify how it intends to raise the revenue. According to Senate leaders, they will prepare and vote on their revenue plan by the end of April, after state tax returns are in and a better revenue picture is available.

FIGURE 1

OVERVIEW OF SENATE'S FY 2009-2011 BUDGET COMPARED TO GOVERNOR'S				
FY08-09 Authorized Budget	\$21,355,967,434			
FY08-09 Budget after mid-year cuts	\$20,385,000,000			
	Senate	Senate Adjusted*	Governor	Sen. Adjusted vs. Gov.
	FY 09-10	FY 09-10	FY 09-10	FY 09-10
Proposed Continuation Budget	\$22,075,170,781	\$22,075,170,781	\$22,113,897,166	\$(38,726,385)
Proposed Cuts to Budget	\$(2,614,235,252)	\$(1,693,860,102)	\$(1,302,313,973)	\$391,546,129
Proposed New Spending	\$587,837,488	\$587,837,488	\$169,533,021	\$418,304,467
Total FY09-10 Gen. Fund Appropriations	\$20,048,773,017	\$20,969,148,167	\$20,981,116,214	\$(11,968,047)
% Change from Authorized FY08-09 Budget	-6.1%	-1.81%	-1.76%	
% Change from Revised FY08-09 Budget	-1.6%	2.87%	2.92%	
	FY 10-11	FY 10-11	FY 10-11	FY 10-11
Proposed Continuation Budget	\$22,554,891,906	\$22,554,891,906	\$22,814,943,571	\$(260,051,665)
Proposed Cuts to Budget	\$(1,977,570,300)	\$(1,463,056,061)	\$(1,288,726,899)	\$174,329,162
Proposed New Spending	\$707,107,017	\$707,107,017	\$122,862,646	\$584,244,371
Total FY10-11 Gen. Fund Appropriations	\$21,284,428,623	\$21,798,942,862	\$21,649,079,318	\$149,863,544
% Change from FY09-10	6.2%	4.0%	3.2%	

1 FY09-10 Proposed Budget as Presented by Senate

2 Senate's FY09-10 Proposed Budget with same treatment of federal recovery FMAP increase as governor

FIGURE 2

HOW DOES THE SENATE PAY FOR ITS FY09-10 BUDGET COMPARED TO THE GOVERNOR?				
	SENATE	%	GOVERNOR	% of total
Baseline Revenue Forecast	\$18,861,500,000		\$18,860,934,764	
Initial Appropriation Requirements	\$22,663,008,269		\$22,283,430,187	
Proposed Continuation Budget	\$22,075,170,781		\$22,113,897,166	
Proposed New Spending	\$587,837,488		\$169,533,021	
Senate's Projected Shortfall	\$(3,801,508,269)		\$(3,422,495,423)	
+ Recommended Revenue Changes (Net)	\$555,155,690	15%	\$581,000,000	17%
+ Federal Recovery Funds	\$710,227,500	19%	\$1,713,904,975	50%
FMAP Assistance*	categorized as spending reduction		\$1,003,677,475	
Fiscal Stabilization- Education	\$580,966,000		\$580,966,000	
Fiscal Stabilization-General	\$129,261,500		\$129,261,500	
+ Net Fund Transfers , Adjustments, Disproportionate Share Reserve, and Distribution Suspensions	\$26,871,843	1%	\$-	
+ Spending Reductions	\$2,614,235,252	69%	\$1,302,313,973	38%
Reduction in Medicaid payments offset by federal recovery funds FMAP asst*	\$920,377,105	35%	categorized as fed recovery fund	
Additional Medicaid Savings	\$206,593,802		\$147,026,271	
Increase K-12 Class Size by 2	\$322,705,848		\$0	
Redirect Corporate Income Tax Marked for K-12 Capital Projects to Operating	\$60,500,000		\$0	
Establish Flexible Management Reserve**	\$183,129,444	7%	\$273,280,237	
Freeze Longevity Payments	\$0		\$173,000,000	
Senate- Eliminate Filled or Vacant Positions; Governor - Reduce agency salary budgets by using lapsed salaries	\$58,906,873	2%	\$231,972,195	
Supplant General Fund with Federal Recovery Funds	\$66,108,356		\$0	
Other	\$795,913,824	33%	\$477,035,270	
Total Available to Address Shortfall	\$3,906,490,285		\$3,597,218,948	
Unappropriated Balance Remaining	\$104,982,016		\$174,723,525	

The Senate took a different approach from the governor in how they handled the aid North Carolina will receive from the American Recovery and Reinvestment Act. As a result, the Senate's FY09-10 and FY10-11 budgets appear artificially lower than the governor's plans. In each year, both the governor and Senate used \$710.2 million from two fiscal stabilization funds intended for state fiscal relief – one dedicated to maintaining education spending at FY05-06 levels and one for general use.

A third stream of funding is a temporary increase in the federal Medicaid assistance percentage (FMAP) reimbursement — the percentage of Medicaid expenses that the federal government reimburses to the state. This funding is also intended to help states address their budget shortfalls and mitigate budget cuts, so the governor included \$1

billion of this funding in her revenue availability, along with the other two funding streams. The Senate, however, used the increased FMAP reimbursement to reduce the medical assistance section of the Health and Human Services budget by \$920.3 million in FY09-10 and \$514.5 billion in FY10-11, so it shows up as a spending reduction. While it is acceptable for the Senate to use the additional federal funds to reduce spending in that specific area, doing so makes their budget appear artificially small and hides the fact that these expenses will be the responsibility of the state once again when the temporary funding ends. When the Senate budget is adjusted to account for this correction, their total FY09-10 appropriations are only \$12 million less than the governor's plan. (See "How the Senate Used American Recovery and Reinvestment Act Funds" section at the end of this document for additional information).

If the reduction to medical assistance is included, the Senate's spending reductions total \$2.6 billion from their FY09-10 budget as the final step to close their shortfall. However, the real amount of reductions is closer to \$1.7 billion, or about \$400 million more than the governor's plan. The Senate cuts more from their budget than the governor in order to pay for larger spending increases, most notably in the University System budget.

The Spending Plan

The Senate's budget proposes \$20.97 billion in spending for FY09-10 and \$21.79 billion in spending for FY10-11. The Senate's official budget documents list the proposed general fund appropriations for each year as \$20.05 billion and \$21.48 billion, nearly one billion less than the governor's budget, because the Senate fails to appropriately account for increased federal Medicaid dollars (see above section).

While the bottom-line spending levels are nearly identical, the Senate and the governor arrive at those numbers very differently. The Senate's budget makes deeper reductions to the continuation budget but then offsets most of those reductions with spending increases. The following sections provide highlights of the major proposed spending changes in the various budget categories:

Education

The Senate's proposes \$152 million less funding for education than the governor's budget. **Figure 3** shows that the Senate's proposed budget is more generous to the universities and, to a lesser extent, the community colleges but provides substantially less funding for public schools than the governor's budget. The following changes to the continuation budget are noteworthy:

State employee and teacher pay

The Senate budget does not include across-the-board pay raises for state employees or teachers. It does include the 1.8% standard step increase for teachers. The Senate budget, like the governor's plan, does not provide funding for the ABC bonuses for high-performing teachers and schools that are typically funded every year.

There are two noteworthy differences in the pay and benefits provisions of the Senate's budget compared to the governor's proposal. First, the Senate's budget would allow state agencies to furlough employees, with the approval of the state budget office, as one strategy for meeting their management flexibility reductions. The UNC system has sought the authority to furlough employees for several years. The second major difference is that the Senate budget does not include the governor's proposal to save \$173 million by suspending longevity pay for eligible state employees.

Public schools

The Senate budget proposal would provide \$318 million, or 4%, less for public schools than the governor’s proposed budget. The Senate’s budget recommends the following changes, among others, to the continuation budget:

- **Increase class size (\$322.7 million reduction)** – The Senate budget would add two more students to the average public school classroom, which would eliminate 6,200 teaching positions.
- **Cut slots and reimbursement rate for More at Four (\$86 million reduction)** – The Senate proposes cutting the per-child rate child-care centers and schools receive for offering More at Four classes, which prepare at-risk four-year olds for kindergarten. Since it is unlikely cutting reimbursement rates would entirely

cover the funding reduction, there would also be fewer slots available for this nationally recognized program. The Senate budget also seeks to turn More at Four into a child-care subsidy program, which

FIGURE 3

RECOMMENDED EDUCATION APPROPRIATIONS			
	SENATE	GOVERNOR	% Change from Gov.
Public Instruction	\$7,629,717,045	\$7,947,740,343	-4.0%
Community College	\$1,059,888,269	\$1,026,792,328	3.2%
Universities	\$2,991,037,716	\$2,858,318,256	4.6%
TOTAL	\$11,680,643,030	\$11,832,850,928	-1.3%

would mean children whose parents do not work or cannot afford to pay part of the child-care costs would no longer have access to the program.

- **Public Schools Improving Student Accountability categorical fund (\$38 million)** – Like the governor, the Senate proposes eliminating this fund, which local school districts use to provide extra tutoring and materials for failing students. The governor justified the cut with increased funding provided through the federal recovery act for Title I and Individuals with Disabilities Education Act (IDEA). The Senate suggests other programs, including the Disadvantaged Student Supplemental Fund, support similar activities as this fund so it is not needed.
- **Discretionary reduction to local school districts (\$9million reduction)**– Local school districts will be responsible for making additional reductions after the budget is adopted. The governor proposed \$144 million of similar reductions.
- **Redirect local capital funds to operating expenses (\$60.5 million reduction)** – This controversial proposal would temporarily suspend the practice of putting a portion of state corporate income tax receipts in the school building capital fund, which distributes the money to school districts to help pay for school construction costs.

Community Colleges

The Senate’s budget proposal would provide \$30 million more funding for the community college system than the governor’s proposed budget. The senate’s budget recommends the following changes, among others, to the continuation budget:

- **Discretionary reduction (\$18 million reduction)** – The Senate proposes eliminating \$18.5 million of increases necessary to pay for the continuation budget.

- **Increase continuing education fees (\$9.4 million reduction)** – The Senate’s budget would replace \$9.4 million in general fund appropriations with anticipated receipts from increased fees paid by continuing education students.
- **Eliminate tuition waivers (\$6.1 reduction reduction)** – This provision would eliminate tuition waivers for senior citizens and prisoners.
- **Enrollment growth and enrollment reserve (\$10.3 million and \$3 million expansion)** – Community college enrollment is at an all-time high in North Carolina. The Senate budget fully funds the anticipated enrollment growth for FY09-10 and provides additional funding for campuses that exceed the anticipated growth.
- **Health care faculty (\$4.8 million expansion)** – This funding would allow for at least 65 additional nursing faculty positions to be distributed throughout the system based on current waiting lists for nursing programs.
- **Vocational and technical education (\$4.5 million expansion)** – These funds can be used for additional faculty, equipment or supplies for instruction in the areas of transportation, engineering, industrial, military, construction, and green technology.
- **Equipment and technology (\$10 million expansion)** – This funding would be used to purchase more modern equipment for training. The governor’s budget included a \$5 million expansion for this purpose.

Universities

The UNC system would receive \$132 million or 4.6% greater general fund appropriations under the Senate’s budget than the governor’s. The Senate makes deeper cuts to the continuation budget for the universities (\$106 million) but also provides significantly more expansion funding (\$71 million) than the governor’s plan so the net reduction to the universities’ budget is much smaller under the Senate’s plan. The following changes to the continuation budget are noteworthy:

- **Management flexibility reduction (\$70 million recurring; \$5 million nonrecurring reduction)** – The UNC Board of Governor’s and the UNC President would be required to find additional reductions of this amount. They are instructed to follow the 2009 budget reduction guidelines already in place for 2009.
- **Need-based aid (\$24 million expansion)** – This fully funds the anticipated growth in need-based aid associated with increasing enrollment and increasing tuition.
- **Library funding reductions (\$14 million)** – This provision removes the increases built into the continuation budget to adjust for inflation pressures on library-related purchases (textbooks and periodicals).
- **Distinguished professor’s program (\$6.8 million expansion)** – This funding will be used to create additional professorships at all 16 campuses. The C.D. Spangler Foundation would match the funding.
- **Campus safety initiatives (\$5 million expansion)** – These funds will be used to implement the safety recommendations of the task force established after Eve Carson’s death at UNC-Chapel Hill.

FIGURE 4

RECOMMENDED HEALTH AND HUMAN SERVICES APPROPRIATIONS			
	SENATE	GOVERNOR	% Change from Gov.
Central Mgmt and Support	\$57,334,182	\$50,378,890	13.8%
Aging Division	\$35,927,363	\$38,852,637	-7.5%
Blind and Deaf	\$11,354,295	\$11,410,072	-0.5%
Child Development	\$282,156,867	\$279,553,887	0.9%
Education Services	\$38,827,103	\$38,367,421	1.2%
Health Service Regulation	\$18,196,075	\$18,013,493	1.0%
Medical Asst- presented in Sen. budget	\$2,528,381,854	\$3,534,653,548	-28.5%
Medical Asst- same treatment as Gov.	\$3,448,758,959	\$3,534,653,548	-2.4%
Mental Health	\$784,669,194	\$802,183,113	-2.2%
NC Health Choice/Children's Health	\$82,928,252	\$72,878,252	13.8%
Public Health	\$182,067,661	\$184,376,922	-1.3%
Social Services	\$212,492,287	\$211,862,807	0.3%
Vocational Rehab	\$41,765,979	\$42,095,435	-0.8%
TOTAL - presented in Sen. Budget	\$4,276,101,112	\$5,284,626,477	-19.1%
Total - same treatment as Gov.	\$5,196,478,217	\$5,284,626,477	-1.7%

Health and Human Services

As shown in **Figure 4**, the Senate proposes deeper cuts to Health and Human Services (HHS) than the governor's budget proposed. However, after accounting for the difference in treatment of the increase federal Medicaid reimbursement, the Senate HHS budget is about 1.3% less than the governor's. Most notably, the Senate proposes significantly less funding for programs under the divisions of aging and mental health/development disabilities/substance abuse. The Senate's budget for HHS would be even smaller if the Senate's plan to transfer \$86 million of More-at-Four funding from the education budget to HHS is not included.

Many of the Senate's proposals are identical to the governor's including eliminating some slots at state mental hospitals in exchange for increasing the number of local placements available and proposals to save money in the Medicaid program by freezing provider reimbursement rates, bargaining for better prescription drug prices and implementing a false-claims act for Medicaid. In addition to these changes, the following provisions of the HHS budget are significant:

- **NC Health Choice (\$7 million increase by transfer from NC Kids Care and \$7 million recurring increase)** – The Senate's budget, like the governor's, provides funding to enroll an additional 15,583 children from low-income families in this health insurance program. It is not clear when, or if, funding will be restored to NC Kids Care, a planned program that would help middle-income families access health insurance.
- **Safety net health centers (\$6 million expansion)** – These funds will be awarded on a competitive basis to rural health centers, local health departments, free clinics and other local providers to offer health care to low-income and uninsured persons.

FIGURE 5

RECOMMENDED JUSTICE AND PUBLIC SAFETY APPROPRIATIONS			
	SENATE	GOVERNOR	% Change from Gov.
Judicial	\$470,467,471	\$471,127,933	-0.1%
Judicial- Indigent Defense	\$134,934,064	\$123,716,016	9.1%
Justice	\$92,102,712	\$94,287,671	-2.3%
Juvenile Justice	\$147,114,599	\$155,076,168	-5.1%
Corrections	\$1,292,633,348	\$1,316,791,882	-1.8%
Crime Control and Public Safety	\$31,338,935	\$41,127,049	-23.8%
TOTAL	\$2,168,591,129	\$2,202,126,719	-1.5%

- **Management flexibility reductions (\$22 million)** – This provision requires the secretary of HHS to find additional spending cuts on top of those that are specified in the budget. The governor’s budget also included this reduction.
- **Home and Community Care Block Grant (\$1 million increase in state funds and \$2.7 million reduction offset by federal recovery funds)** – The senate proposes a small increase in state funding for this program, which provides a range of in-home services that help older adults to remain in their homes and avoid costly stays in long-term care facilities. The Senate’s budget also reduces state funding by \$2.7 million and offsets this loss for one year by using federal recovery act dollars.
- **More at Four (transfer from DPI, replace state funds with nonrecurring federal, and reduce funding overall)** – The Senate’s budget proposes transferring the More at Four program from the Department of Public Instruction to HHS. The budget also replaces \$37 million of general fund appropriations with nonrecurring federal dollars. These funds are not sufficient to offset \$3 million of general fund reductions, resulting in fewer slots available in this program for at-risk four-year-olds. In order to qualify for temporary federal funding the Senate also proposes converting More at Four into a child-care subsidy program with similar eligibility and quality standards to the current program. It is unclear if implemented what impact the Senate’s proposals will have on this program.
- **Smart Start (\$15 million nonrecurring reduction)** – The Senate’s budget reduces funding by 7% for this statewide program that provides a wide range of services (health screenings, child-care subsidies and referrals, etc.) to help prepare children to succeed in public school.

Justice and Public Safety

The Senate’s proposed budgets for the agencies that fall into this category are detailed in **Figure 5**. The Senate proposes slightly less funding overall than the governor proposed. Like the governor, the Senate proposes closing some smaller prisons and recommends double-celling at some larger prisons to accommodate the additional prisoners. The following recommended changes to the continuation budget are noteworthy:

- **Support Our Students Program (eliminated)** – The Senate, like the governor, proposes eliminating funding for this program, which provides

positive after-school alternatives with adult supervision designed to reduce delinquency, adolescent pregnancy, and early experimentation with drugs and alcohol.

- **Center for the Prevention of School Violence (funding eliminated)** - This fund supports the Center for the Prevention of School Violence, a resource center and educational policy “think tank” for efforts dedicated to guiding North Carolina’s youth toward becoming productive members of their schools and communities. The center provides information and technical assistance to those who want to help young people positively develop in environments that are as safe as possible.
- **Samarkand and Dobbs Youth Development Centers (eliminated)** – The Senate’s budget proposes closing these two facilities.
- **Juvenile Crime Prevention Councils (\$6.6 million increase)** – The Senate proposes increasing the allocation to this statewide initiative that funds services for juveniles who are court involved. This increase was made to offset the funding cut to the Support Our Students Program.

General Government

The Senate’s budget proposals for the agencies that fall under this category are similar to the governor’s budget (see **Figure 6, page 10.**) One significant difference is that the Senate budget includes a \$1.5 million nonrecurring reduction to funding for the Voter-Owned Elections Fund. Funding for the Housing Trust Fund and the Home Protection Funds are continued at their FY09-10 levels.

Capital Improvements and Debt

The Senate budget includes three categories of capital spending. The first is the typical funding for projects related to water resources management, such as beach renourishment. These funds are matched with federal dollars. The second category is receipt-supported capital projects, which can be financed without tax dollars because receipts from the project (such as admission or access fees) typically fund the debt payments. Examples include a new pier and a new history museum exhibit.

The third and most controversial category of capital spending proposed in the Senate budget is so-called “two-thirds net debt general obligation bonds.” These bonds would be used to pay for the new Biomedical Research Imaging Center at UNC-Chapel Hill and for repairs and renovations to various state buildings. These are tax-backed obligations, but they do not require voter approval. The state constitution allows for new general obligation debt that is 2/3 or less of the amount of debt that was retired in the previous year. Once this debt is issued, a total of \$306.6 million over the next four fiscal years, the state will have no additional debt capacity without jeopardizing its credit rating, according to the state treasurer’s office.

Transportation Budget

The Senate’s proposed transportation budget is similar to the governor’s. Steep declines in revenues from the gas tax and the vehicle sales tax are putting severe constraints on the state’s transportation budget. Under the Senate’s plan the budget for road maintenance will decline 4% or \$35 million in FY09-10 and 17% or \$152 million in FY10-11. The budget for new highway construction would decline by 17% or \$292 million in FY09-10 and 10% or \$184 million in FY10-11. The Senate’s plan is slightly more generous to highway maintenance and less so to new construction

FIGURE 6

RECOMMENDED GENERAL GOVERNMENT APPROPRIATIONS			
	SENATE	GOVERNOR	% Change from Gov.
Administration	\$69,163,419	\$73,702,894	-6.2%
Auditor	\$13,224,512	\$13,224,512	0.0%
Cultural resources	\$70,522,789	\$72,819,260	-3.2%
Cultural Resources- Roanoke	\$1,961,296	\$1,955,050	0.3%
General Assembly	\$57,661,786	\$57,661,786	0.0%
Governor	\$6,113,531	\$6,113,531	0.0%
Housing Finance Agency	\$14,608,417	\$14,608,417	0.0%
Insurance	\$31,644,853	\$31,644,853	0.0%
Insurance- Workers comp fund	\$2,000,000	\$2,000,000	0.0%
Lt Gov	\$932,179	\$937,852	-0.6%
Office of Admin Hearings	\$3,967,455	\$3,967,455	0.0%
Revenue	\$84,920,596	\$84,920,596	0.0%
Sec of State	\$11,364,455	\$11,110,720	2.3%
State Board of Elections	\$4,683,822	\$6,183,822	-24.3%
State Budget and Mgmt	\$6,561,015	\$6,593,846	-0.5%
State Budget and Mgmt- Special	\$5,023,000	\$5,273,000	-4.7%
State Controller	\$23,361,150	\$23,611,155	-1.1%
Treasurer- Operations	\$17,272,124	\$10,370,644	66.5%
TOTAL	\$435,791,070	\$437,504,064	-0.4%

needs than the governor's proposals. The new construction budget decline will be more than offset by the \$735 million in federal recovery funds coming to the state in 2009 and 2010. Hence the net effect of the budget will be to significantly cut maintenance activities while maintaining new construction.

How the Senate Used American Recovery and Reinvestment Act Funds

The American Recovery and Reinvestment Act (ARRA), which President Obama signed into law in February, included aid to state and local governments. The legislation will provide North Carolina with an estimated \$6.1 billion over the current and next two fiscal years to help close the state's budget shortfall. More than half of that total (\$3.7 billion) is in the form of increased Medicaid funding and two State Fiscal Stabilization funds, one of which is to be used to maintain education spending. These funds are to be used to avert reductions in state spending.

The remaining money either flows to other funds (Highway Fund, unemployment insurance, etc.), local governments and school districts, or is intended to supplement spending on key programs that will help working families and stimulate the economy. The Senate estimates North Carolina will receive \$1.79 billion from the federal recovery act in FY09-10 in addition to the money from the three funding streams intended for state fiscal relief. Examples include \$839 million for transportation, \$338 million in targeted funds for school districts, and \$112 million for home weatherization.

In most cases, these funds do not impact the general fund; however, the Senate uses \$66 million in federal recovery funds to reduce general fund spending. Specifically, in contrast to the governor, they use \$37 million of the \$67 million marked for increased child-care subsidy funding to reduce their appropriation for the new child-care subsidy program. They also use the federal recovery funds to supplant spending on foster care and adoption assistance, aids to counties for public assistance programs, and an electronic records system for psychiatric hospitals.

Conclusion

The Senate's budget proposal is a relatively timid one in that it makes few significant changes to state policies. The spending proposal is more generous to the UNC system but considerably less generous to public schools, health and human services and juvenile justice programs. The other piece of the Senate's budget, its revenue plan, has not yet been released and therefore cannot be compared to the governor's proposals to increase tobacco and alcohol taxes. The budget debate now heads to the NC House of Representatives which will have to weigh the impacts of all of the proposals in the Senate's and governor's recommended budgets and may also have to deal with a revised revenue forecast after final income tax payments are tallied. Despite the quick nature of the Senate's budget process, the overall budget process still has a long way to go.

BTC *Reports*

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P.O. Box 28068 ■ Raleigh, NC 27611-8068
919/856-2176 ■ elaine@ncjustice.org