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The State Budget

This chapter summarizes, in broad outline, the fiscal provisions of the 2003–2005 state budget and legislation affecting the development, enactment, and administration of the state budget. More detailed information regarding budgetary actions that affect specific state departments and agencies is included in some of the following chapters.

The Budget Process

North Carolina's state government operates on a fiscal year that runs from July 1 to June 30. During regular sessions in odd-numbered years, the General Assembly adopts a state budget that makes appropriations for each of the following two fiscal years. The General Assembly returns for a short session in even-numbered years to make adjustments to the state budget for the second year of the biennium.

The biennial state budget process begins with the formulation of budget recommendations by the Governor, who, by virtue of the state constitution, is the director of the budget. At the beginning of the first regular session of the General Assembly in each odd-numbered year, the Governor presents to the legislature his budget recommendations for the next two fiscal years—including estimates of the amount of revenues available for appropriations; estimates of the appropriations needed to continue existing programs at their current levels; and recommended appropriations for expansion of existing programs, for new programs, and for capital improvements.

Although the House and Senate appropriations subcommittees usually meet jointly to review the Governor's budget proposals, the House and Senate develop their own respective versions of the state budget. In recent years, the House and Senate have alternated from year to year the responsibility for initially passing an appropriations bill for continuing operations, expansion, and capital improvements for state departments and agencies during the coming biennium. After the first chamber passes an appropriations bill, the second chamber revises the bill to reflect its own program priorities and policy considerations, and the differences between the two versions are resolved by conferees appointed by each chamber (or by a smaller group of appropriations chairs and the leadership of the two chambers). The conference committee report incorporating the

budget agreement between the House and Senate must then be adopted by both chambers and submitted to the Governor for approval.

In 2003 the House was responsible for taking the lead in preparing the budget. It passed an appropriations bill (H 397) on April 17, 2003. The Senate passed its version of H 397 on April 30, 2003. The House refused to concur with the Senate version, a conference committee was appointed, and the committee's proposed bill was ratified by both chambers and signed by the Governor on June 30, 2003. The approved bill is S.L. 2003-284.

One of the 2003 General Assembly's major accomplishments was the enactment of a state budget before the beginning of the fiscal year on July 1, and although it did it with no time to spare, at least it did it. This timely action on the budget is of considerable assistance to state agencies in planning their activities and to local governments and school administrative units in preparing their budgets—and it stands in marked contrast to action on the budget in 2001, when the appropriations bill was finally adopted on September 21, 2001, and in 2002, when the appropriations bill was adopted on September 20, 2002. Several factors contributed to the relatively early action on the budget by the 2003 General Assembly: the determination of the House Speakers to demonstrate that they could get the job done; the refusal of the House to pass a continuing budget resolution to allow state government to operate beyond June 30 without a ratified appropriations bill; concern by the leadership of the House and Senate and the Governor that temporary increases in the sales and income taxes needed to balance the budget would expire on July 1 if no action was taken; and a one-time infusion of \$510 million in federal funds to assist with Medicaid expenses.

The 2003–2004 Budget

Revenue

The fund from which most money is appropriated is the General Fund; smaller appropriations for specific purposes are made from the Highway Fund and the Highway Trust Fund. Total General Fund revenues for 2003–2004 were estimated at \$14.9 billion. The sources of this total were:

Beginning credit balance	244,159,298
Tax revenues	13,028,600,000
Nontax revenues	788,171,125
Adjustments	877,472,072

Four of the important elements in the adjustments category were tax related. First, the temporary increase in the sales tax from 4 percent to 4.5 percent, which was to expire July 1, 2003, was extended to July 1, 2005 (\$342 million). Second, the top rate for individual income taxes of 8.25 percent, which was to expire at the end of 2003, was extended through the 2005 tax year (\$37.5 million). Third, several amendments were made in the sales and use taxes to conform North Carolina tax provisions with the multistate Streamlined Sales and Use Tax Agreement, and these changes were predicted to generate an additional \$44 million. And fourth, increased tax collection efforts by the Department of Revenue were estimated to generate \$90.2 million. In addition to these tax measures, various fees were increased to generate a predicted \$5.7 million. Highway Fund revenue was set at \$1.3 billion and Highway Trust Fund revenue at \$1.1 billion (these amounts were authorized and certified by Section 27.4(a) of S.L. 2001-424, the 2001 Appropriations Act).

Appropriations

From the revenues listed above, the General Assembly made the following current operations appropriations for 2003–2004:

General Fund	\$14,775,122,783
Highway Fund	1,352,784,674
Highway Trust Fund	1,010,039,000

The General Fund appropriation is of most interest by far, and when journalists and others write and speak about a 2003–2004 budget of \$14.8 billion, it is the General Fund to which they are referring (although, as can be seen, the total budget is considerably more than that). Of the General Fund appropriations, education and health and human services claim the lion’s share, as has been the case for many years. The appropriation for education—including primary and secondary schools, community colleges, and the university system—is \$8.48 billion, or 57 percent of the General Fund budget. The appropriation to the Department of Health and Human Services is \$3.4 billion, or 22 percent of the budget. Thus, these two services account for 79 percent of the General Fund appropriation.

Capital Appropriations

The General Assembly made the following appropriations from the General Fund for capital improvement projects in 2003–2004:

Repairs and Renovations Reserve Account	\$15,000,000
Department of Environment and Natural Resources	27,601,000

The Department of Environment and Natural Resources appropriation is to be expended on various water resources projects, the largest of which are the deepening of the Wilmington harbor, at a cost of \$6.8 million, and the maintenance of the Shallowbag Bay channel, at a cost of \$3.5 million.

Special Provisions

Many of the provisions of the 254-page appropriations act—and this has been true of appropriations acts for the last thirty years—have nothing to do with appropriating money. Rather, they make substantive changes in state law. In S.L. 2003-284, these special provisions dealt with, among other matters, an amendment to G. S. 130A-309.14 that requires state agencies to use products with recycled steel [section 6.10(a)]; new G.S. 143-64, which requires public schools and colleges to use competitive bidding when purchasing juice and bottled water [section 6.15(a)]; and new G.S. 90-85.21B, which defines the unlawful practice of pharmacy (section 10.8D). Additionally, three such provisions call for studies that may directly affect future appropriations bills. The first provision [section 6.2A(a)] directs the Office of State Management and Budget, in consultation with the State Controller, to review various budgetary practices of state agencies, including the proliferation of nonreverting funds and accounts; the designation of selected funds as “off-budget”; and the proper classification and management of funds as special funds, trust funds, internal service funds, or enterprise funds. The second provision [section 6.12(a)] creates a Joint Committee on Executive Budget Act Revisions consisting of four representatives and four senators. The committee is to consider any changes to the Executive Budget Act needed to modernize and improve the budget process and report its recommendations to the General Assembly by April 1, 2004. The third provision [section 29.12(a)] creates a twenty-member Highway Trust Fund Study Committee to study all aspects of the Highway Trust Fund and report its recommendations to the Joint Legislative Transportation Oversight Committee by November 1, 2004.

Budget Highlights

The following are some of the highlights of the 2003–2004 budget:

- Clean Water Management Trust Fund—\$62 million
- Savings Reserve Account—\$150 million
- More at Four program—\$43.1 million
- Decrease in student teacher ratio in second grade classes from 1:20 to 1:18
- 1.8 percent average salary increase for teachers
- \$550 one-time bonus for most state employees in lieu of a salary increase
- One-time annual leave bonus of ten days for most state employees
- 1.28 percent cost of living increase for retirees in the Teachers’ and State Employees’, Judicial, and Legislative retirement systems
- 0.5 percent increase in the state sales tax continued until July 1, 2005
- Increase in the individual income tax rate of 0.5 percent for certain higher income taxpayers continued until January 1, 2006
- Authorization of up to \$300 million for repair and renovation of state properties through the use of special indebtedness (limited obligation bonds, lease-purchase arrangements, certificates of participation)

Conference Committee Report

The budget act was accompanied by a conference committee report on the bill, formally designated “Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, dated June 28, 2003.” This is an important document because it specifies in detail how the appropriations made in the act are to be allocated and expended. Section 49.2(a) of S.L. 2003-284 provides that the conference committee report is to be used to construe the budget act, is to be considered part of the act, and is to be printed as part of the session laws.

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