The Legislative Budget Process

New Member Orientation
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Overview

- Key Legal Foundations
- Biennial Budget
- Procedural Formalities
- Six Basic Procedural Steps
- Appropriations Committee Structure
- Budget Components
- Constructing an Appropriations Act
- Questions & Discussion
Key Legal Foundations
Key Legal Foundations

State Constitution

• Governor’s Budget Submission
  State Constitution requires the Governor to prepare and recommend a budget to the General Assembly [Article III, Section 5(3)]

• General Assembly’s Authority “Power of the Purse”
  “No money shall be drawn from the State Treasury but in consequence of appropriations made by law...” [Article V, Section 7(1)]
Key Legal Foundations

State Budget Act (Chapter 143C)

• Link between the NC General Statutes and the State Constitution

• Building on the provisions of the State’s Constitution, the State Budget Act provides the statutory framework for preparing, enacting and administering the State’s budget [see G.S.143C-1-1(c)]
§ 143C-1-2. Appropriations: constitutional requirement; reversions.

(a) Appropriation Required to Withdraw State Funds From the State Treasury. - In accordance with Section 7 of Article V of the North Carolina Constitution, no money shall be drawn from the State treasury but in consequence of appropriations made by law. A law enacted by the General Assembly that authorizes the expenditure of money from the State treasury is an appropriation; however, an enactment by the General Assembly that authorizes, specifies, or otherwise provides that funds may be used for a particular purpose is not an appropriation. [emphasis added]
Biennial Budget

State Budget Act (Chapter 143C, Article 4)

- **Long Session**
  - Begins in odd numbered years
  - Enacted budget covers both fiscal years of the Biennium

- **Short Session**
  - Begins in even numbered years
  - Adjustments to 2\textsuperscript{nd} fiscal year of Biennial Budget
Procedural Formalities
Procedural Formalities

Bills Introduced

- Each Chambers’ Appropriations Chairs are required, by statute, to introduce a bill for the Governor’s Recommended Current Operations Appropriations Act and Capital Improvements Appropriations Act (§143C-5-1)

- First Chamber initiating legislative budget process typically introduces its own version of a Current Operations/Capital Improvement Appropriations Act
Procedural Formalities

Begin Process

- Joint Resolution of General Assembly invites Governor to present a Recommended Budget to a joint session of both chambers (§143C-3-5(a))

- House and Senate chambers alternate beginning budget process by biennium (House is first in 2015 Session)
Procedural Formalities

Basis for Act

• First Chamber’s bill is normally the legislative vehicle used to enact an Appropriations Act

• There is no requirement for the General Assembly to wait for the Governor’s Recommended Budget to begin its legislative budget development process

• However, the detailed financial information underpinning a new State budget is in the Governor’s “base” budget submission
Six Basic Procedural Steps
Six Basic Procedural Steps

**Step 1:** Governor Presents Balanced Budget Recommendations [State Constitution Article III, Section 5(3)]

**Step 2:** First Chamber originates, prepares and passes proposed budget legislation for consideration by the Second Chamber receiving the bill
Six Basic Procedural Steps

**Step 3:** Second Chamber may choose to do either of the following:

Concur in the First Chamber’s budget bill and vote to enact the proposed legislation

*or, the more common practice is...*

For the Second Chamber to create a substitute budget bill proposal and send it back to the first chamber
Six Basic Procedural Steps

**Step 4:** Typically First Chamber fails to concur on Second Chamber’s substitute proposal & a Conference Committee is appointed to resolve differences between each Chamber’s proposed budget legislation.

**Step 5:** Conferees from each Chamber resolve differences and a Conference Report is adopted by each Chamber to enact and ratify an Appropriations Act.
Six Basic Procedural Steps

Step 6: The ratified Act is sent to the Governor for signature after which it becomes law

*Exception: The Governor can veto the Appropriations Act and set into motion a veto override scenario
Appropriations Committees
Appropriations Committees

Full Appropriations

- House and Senate Chambers each operate “Full” Appropriations Committees

- Full Appropriation Committees are divided into subcommittees organized around functional areas of State government

- Chairs are appointed for each chamber’s Full Appropriation Committees (Full Chairs) and for each subcommittee (Subcommittee Chairs)
Appropriations Committees

Full Chairs’ Role

- Full Chairs lead Appropriations Committee
- Develop “big picture” approach
  - Evaluate budget policy considerations
  - Assess “Revenue Availability”
  - Evaluate spending priorities
  - Set Subcommittee spending targets
  - Provide subcommittees with guidance
  - Focus on issues of state-wide significance that cut across subcommittee lines
Appropriations Committees

Interaction with the Finance Committee

- House and Senate each operate their own respective Finance Committees.

- Finance Committees consider all legislative measures that in any way affect State revenues (e.g., fees, taxes, assessments) or debt issuances.

- Full Appropriations Chairs and Finance Committee Chairs have to work together to understand how committee decisions may affect revenue availability.
## Appropriations Committees

Subcommittees of Full Appropriations Committee

### Organized By Functional Areas of Government

<table>
<thead>
<tr>
<th>Health and Human Services</th>
<th>General Government</th>
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</thead>
<tbody>
<tr>
<td>Education</td>
<td>Transportation</td>
</tr>
<tr>
<td>Justice and Public Safety</td>
<td>Natural and Economic Resources</td>
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*The House has in prior years created an Appropriations Subcommittee on Information Technology*
Appropriations Committees

Subcommittee Chairs’ Role

• Lead Subcommittee review of agency continuation budget and programs within their topic area

• Foster subcommittee discussion of various policy issues and proposals related to their subcommittee

• Organize subcommittee recommendations concerning continuation budget, expansion budget and special provisions for the subcommittee’s topic area
Budget Components
Budget Components

Base Budget (New Change)

- Starting point of Governor’s Recommended Budget for a new biennium

- Reflects detailed expenditure and receipt information of the authorized budget with certain adjustments allowed by law

- May include increased expenditures for annualization requirements, increases/reductions for non-recurring costs, contractual rate increases for real property, adjustments to receipts, Federal payroll tax changes, etc
Budget Components

Expansion Budget

- Expand existing programs and/or start new programs
- Continue programs previously operated with non-state funds
- Provide salary & benefit increases
- Plan and construct capital projects
Budget Components

Committee Report

- Adopted by reference in each edition of the Appropriations Act
- Provides details about Legislative adjustments to the budget
- Report is not a legislative act
- Commonly called the “Money Report”
Budget Components

Appropriations Act (aka the “Budget Bill”)

- Legislative bill that sets forth revenue availability and appropriations for each agency
- Once enacted and signed by the Governor, the Act carries the force of law
- Includes “Special Provisions” which are written directives that generally provide guidance or directives on how appropriated funds are to be spent
Budget Components

Special Provisions

• Special Provisions provide guidance to the Director of the Budget (i.e., the Governor) on technical and policy expectations of the General Assembly

• Special Provisions are generally drafted as “Session Law”, but can incorporate statutory changes
Constructing an Appropriations Act
Subcommittees

- Subcommittees hold public meetings to hear fiscal staff presentations about various agency budgets, related issues and proposals within their topic area.

- State Agencies may make presentations or respond to questions raised through subcommittee member discussions.

- Educational and Budget Analysis presentations by fiscal staff are often presented to joint House & Senate subcommittees for a topic area.
Constructing an Appropriations Act

Subcommittees

• Subcommittees typically “split” from joint meetings once the chamber originating the budget bill begins to formulate specific budget decisions.

• As subcommittees make their budgetary decisions, the collective decisions are compiled into a Committee Report and an Appropriations Act.
Constructing an Appropriations Act

Full Committees

- These collective decisions are then debated before the Full Appropriations Committee

- Subcommittee recommendations can be amended in Full Committee
Constructing an Appropriations Act

Full Committees

• Full Appropriations Committee votes on recommendations and reports to the chamber floor a new bill and committee report to become a new edition of the proposed Act

• The proposed Act is then calendared for floor debate
Floor Debate

- Floor debate puts the proposed Act before the whole chamber
- Opportunity for members not on Appropriations Committee to debate the legislation
- Provides another opportunity for amendments to legislation to be offered
Constructing an Appropriations Act

Readings

- Proposed Act is “read” two times before being sent to other chamber (2nd Reading & 3rd Reading)

- 2nd & 3rd readings can occur on the same legislative day assuming no parliamentary or rule prohibitions

- If the act includes a tax provision per the State Constitution, then 2nd and 3rd readings must occur on separate legislative days [Section 23, Article II]
Constructing an Appropriations Act

The 2\textsuperscript{nd} Chamber

- Process typically repeats in a very similar manner in the other chamber.
- Assuming the second chamber rejects the first chamber’s proposed Appropriations Act, and sends back an alternative version.
- A conference process is required.
Constructing an Appropriations Act

Conference

• Each chamber appoints “conferees” to resolve differences in the House & Senate versions of the proposed Appropriations Act

• Conferees meet at the Subcommittee and Full Committee level

• Challenging process to coordinate and resolve differences
Constructing an Appropriations Act

Conference

- Agreements between the chambers are recorded in a Conference Report

- Conference Report is voted upon separately in each chamber by an up or down vote; vote in each chamber must be in the affirmative or the report fails
Constructing an Appropriations Act

Conference

- Conference Report cannot be amended

- Only way to change provisions of Conference Report is for it to be signed into law and amended with subsequent legislation

- Budget Technical Corrections
Questions & Discussion
Contact Us

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