

**The 1983-85 North Carolina Budget:  
Finding the Missing Pieces in the  
Fiscal Jigsaw Puzzle**

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A Report by the N.C. Center for Public Policy Research, Inc.



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A non-profit, non-partisan organization, the Center was formed in 1977 by a diverse group of private citizens "for the purpose of gathering, analyzing and disseminating information concerning North Carolina's institutions of government." It is guided by a self-electing Board of Directors, and has individual and corporate members across the state.

Center projects include the issuance of special reports on major policy questions; the publication of a quarterly magazine called *N.C. Insight*; the production of a symposium or seminar each year; and the regular participation of members of the staff and the Board in public affairs programs around the state. An attempt is made in the various projects undertaken by the Center to synthesize the integrity of scholarly research with the readability of good journalism. Each Center publication represents an effort to amplify conflicting views on the subject under study and to reach conclusions based on a sound rationalization of these competing ideas. Whenever possible, Center publications advance recommendations for changes in governmental policies and practices that would seem, based on our research, to hold promise for the improvement of government service to the people of North Carolina.

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# The 1983-85 North Carolina Budget: Finding the Missing Pieces in the Fiscal Jigsaw Puzzle

*edited by Ran Coble*

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N.C. Center for Public Policy Research, Inc.  
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## ***Acknowledgements***

The N.C. Center would like to express its gratitude to Richard Hedman, who drew the wonderful cartoons in the book. Mr. Hedman's work shows a rare blend of drawing skill, humor, and insight about the complicated subject of budgeting at the state level. He is presently working with the Department of City Planning in San Francisco.

These cartoons and others are reprinted from *Changing State Budgeting* by S. Kenneth Howard and are reprinted with Mr. Hedman's permission and that of the publisher, The Council of State Governments in Lexington, Kentucky. We are extremely grateful to Mr. Hedman and the Council of State Governments and recommend Dr. Howard's book to anyone who would like to learn more about state budgeting or who would like to enjoy more of the cartoons.

We also wish to thank the editors of the North Carolina newspapers whose coverage of the symposium is reprinted in Appendix F. Their permission to allow articles and editorials printed about the symposium was readily given and is gratefully acknowledged.

Finally, we want to thank John Eley, an intern with the North Carolina Center in 1983, who helped edit some of the text and provided additional research on many of the footnotes.

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## ***Biographical Information about the Speakers***

**DR. JACK BRIZIUS** is a public affairs consultant specializing in public finance, government reorganization and budgeting in the public sector. As a consultant for the National Governors' Association, he has served as budget adviser to newly-elected governors in Arkansas, Massachusetts, Minnesota and New Hampshire. Dr. Brizius is a former Director of the Center for Policy Research for the National Governors' Association, and was Deputy Director for the Bureau of the Budget for the state of Illinois. Dr. Brizius received his Ph.D. from the Woodrow Wilson School of Public and International Affairs, and a Masters in public Affairs and Urban Planning and B.A. from Princeton University.

**DR. S. KENNETH HOWARD** is the Executive Director of the Advisory Commission on Intergovernmental Relations in Washington, D.C. Dr. Howard was State Budget Officer under Gov. James Holshouser in North Carolina and is the former Budget and Planning Director for the state of Wisconsin. He was an Assistant Director for the Institute of Government in Chapel Hill and professor of political science at UNC-Chapel Hill. Dr. Howard has also served as president of the National Association of State Budget Officers and as an elected member of the Chapel Hill-Carrboro Board of Education. Ken Howard is the author of *Changing State Budgeting*, considered to be one of the foremost texts available on the subject. Dr. Howard earned a bachelor's degree at Northwestern University, and an M.P.A. and Ph.D. from Cornell University.

**RAN COBLE** has been the Executive Director of the North Carolina Center for Public Policy Research since June 1981. He served as legal counsel to the Secretary of Human Resources for four years and worked with the Appropriations Committee on Human Resources and Corrections during his tenure at the Fiscal Research Division of the North Carolina General Assembly. Mr. Coble is a graduate of Davidson College, holds a law degree from the University of North Carolina at Chapel Hill and a Masters in Public Policy from Duke University.

**RON AYCOCK** is the Executive Director and General Counsel for the North Carolina Association of County Commissioners and has led the organization since 1977. Mr. Aycock's professional experience includes work with the Council for Intergovernmental Relations, Region L Council of Governments, and the Central Regional Planning Commission. He currently serves on various committees of the National Association of Counties and as Secretary to the National Association of Executive Directors of State Associations of Counties. He received his law and bachelor's degrees from the University of North Carolina at Chapel Hill.

**S. LEIGH WILSON** is the Executive Director of the North Carolina League of Municipalities. He has served the League since 1946 and became Executive Director in 1969. Mr. Wilson has served on the boards of the National League of Cities, the National Association of Regional Councils, and as Chairman of the State League Directors Planning Group. He is currently a member of the Southern Growth Policies Board, the Advisory Board of the Institute for Transportation, the Governor's Law and Order Commission, and the Governor's Productivity Commission. He received a B.A. in political science from UNC-CH.

**DAVID CROTTS** is a fiscal analyst and specialist in economic forecasting and taxation with the Fiscal Research Division of the North Carolina General Assembly. His prior experience includes work with the Antitrust and Utilities Division of the N.C. Attorney General's Office. Mr. Crotts earned his undergraduate degree in Business Administration from East Carolina and holds a Masters of Economics from North Carolina State University.

**DR. ALFRED W. STUART** is Chairman of the Department of Earth Science and Geography at the University of North Carolina at Charlotte. He is the co-editor of the *North Carolina Atlas* and the *Charlotte-Mecklenburg Atlas*. Dr. Stuart is currently Chairman of the Charlotte Chamber of Commerce Research Action Council. His prior experience includes work as a city planner for Roanoke, Virginia. He also served on the Board of Directors for the N.C. Center for Public Policy Research. Dr. Stuart received his Ph.D. from Ohio State University, his masters from Emory University, and bachelor's degree from the University of South Carolina.

# ***Persons Who Attended the Symposium***

February 14, 1983

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Knudsen, Betty Ann — Board Member and Wake County Commissioner  
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Wiser, Betty — Board Member and former President, N.C. League of Women Voters

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Adams, Rep. Al (D-Wake)  
Stewart, Carl — former two term Speaker of the N.C. House of Representatives (1977-80)  
Tennille, Rep. Margaret (D-Forsyth)  
Tison, Senator Ben (D-Mecklenburg)  
Ward, Senator Marvin (D-Forsyth)

## **Media Representatives**

Alston, Chuck — Greensboro Daily News  
Betts, Jack — Editorial Dept., Greensboro Daily News  
Claiborne, Jack — Associate Editor, Charlotte Observer  
Eslinger, John — Editor, Fayetteville Observer  
Guillory, Ferrel — Associate Editor, Raleigh News & Observer  
Hart, Pamela — WRAL Radio  
Haislip, Bryan — Winston-Salem Sentinel  
Hatch, Dick — UNC-TV  
Johnson, Sherry — Raleigh News and Observer  
O'Connor, Paul — N.C. Association of Afternoon Newspapers  
Oliver, Tom — Durham Morning Herald  
Rhyne, Mary Anne — Associated Press  
Riviere, Pat — Fayetteville Observer  
Weaver, Beverly — WQDR Radio  
Whitaker, Bill — WBTV News, Charlotte  
Whiteley, Michael — Raleigh Times

## **State Government Agency People**

Ashcraft, Charlotte — Fiscal Research Division, N.C. General Assembly  
Bartholomew, J. E. — Dept. of Transportation  
Baskett, Eugene — Dept. of Transportation  
Bernstein, Jim — Director of Rural Health Services, Dept. of Human Resources  
Blackburn, James — General Research Division, N.C. General Assembly  
Booth, John — Policy & Planning, Dept. of Administration  
Brooks, John — Commissioner of Labor  
Brown, Becky — Dept. of Labor  
Brown, Frank — Controllor, Dept. of Cultural Resources  
Condrey, Ronald — Division of Medical Assistance, Dept. of Human Resources  
Dusenbury, Pat — Southern Growth Policies Board  
Fuerst, Sarah — Legislative Drafting Division, N.C. General Assembly  
Garris, W. P. — Controllor, Dept. of Transportation  
Gunn, Lynn — Mental Health Study Commission  
Hallsey, James B. — Dept. of Natural Resources and Community Development  
Lichtner, Ann — Policy & Planning, Dept. of Administration  
Lichtner, Ray — Dept. of Crime Control & Public Safety  
Little, Lynn — State Budget Office, Office of the Governor  
Maddox, Rodney — Dept. of Labor  
Mallory, James — Parks and Recreation, Dept. of Natural Resources and Community Development  
Matula, Barbara — Director, Division of Medical Assistance, Dept. of Human Resources

McMillan, Angie — Asst. to the Director, Division of Mental Health, Mental Retardation and Substance Abuse Services, Dept. of Human Resources  
Middleton, David J. — Department of Labor  
Moulton, Sandy — Office of Legislation, Grants and Administrative Procedures, Dept. of Human Resources  
Myer, Claude — Director of Div. of Vocational Rehabilitation Services, Dept. of Human Resources  
Nunn, Eleanor — Wake County Social Services Board  
Riddle, Margaret — Policy & Planning, Dept. of Administration  
Smith, Darryl — Dept. of Labor  
Spivey, Connie — Wildlife Resources Commission, Dept. of Natural Resources and Community Development  
Swink, Alice Garland — Secretary's Office, Dept. of Natural Resources and Community Development  
Towe, Bill — State Economic Opportunity Office, Dept. of Natural Resources and Community Development  
Wight, James — Wake County Dept. of Social Services  
Woodall, Jim — Director, Division of Budget and Analysis, Dept. of Human Resources

## **Lobbyists and Interest Group Representatives**

Barham, Lee — N.C. Health Care Facilities Association  
Briggs, Alan — N.C. Academy of Trial Lawyers  
Davis, E. Lawrence — Attorney & former state senator; lobbyist for several businesses, social workers, & marriage & family therapists  
Fendley, Carey — Assn. for Retarded Citizens of N.C.  
Goodwin, Graham — N.C. State Employees' Association  
Higgins, Danny — Baptist State Convention  
Holman, Bill — N.C. Sierra Club & N.C. Conservation Council  
Julian, Dennis — National Federation of Independent Business  
Kirkpatrick, Lauren — Planned Parenthood of Greater Raleigh  
McBride, Virgil — RJR Industries  
Powell, Robert — N.C. Citizens for Business & Industry  
Reed, George — Baptist State Convention  
Roten, Margo — Legal Services of N.C.  
Runkle, John — Conservation Council of N.C.  
Saunders, Don — Legal Services of N.C.  
Scott, Christopher — N.C. AFL-CIO  
Silberman, Pam — Legal Services of N.C.  
Smith, Laura — Planned Parenthood of Winston-Salem  
Thompson, Sharon — ACLU & Planned Parenthood  
Vaughan, Don — Stedman Corporation  
Waldorf, Angela — N.C. Petroleum Council

## **University Professors**

Block, Dr. William — Dept. of Political Science, N.C. State University  
Frazier, Dr. Clyde — Dept. of Political Science, Meredith College  
Gray, Dr. & Mrs. Gibson — Pembroke State University  
Holaday, Lynn — Appalachian State University  
McClain, Jack — Public Administration, N.C. State University  
Vogt, Jack — Institute of Government, University of North Carolina at Chapel Hill  
White, Harvey — Public Administration, N.C. Central University

## **Interested Citizens**

Baron, Joan — President, Wake County League of Women Voters  
Bishop, Chris — County Commissioners Office  
Brownlee, Mack  
Bunting, Marcy — N.C. State University  
Chew, Lucinda — N.C. League of Women Voters  
Cole, Gene  
DeWitt, Thomas Paul — N.C. Congressional Club  
Dillard, Mary  
Doffett, Coleman

Evans, Sheena — N.C. State University  
Hopewell, Dwight  
Hornak, Ray — Epley Associates  
Jones, Garland H. — Wake County Manager's Office  
Kath, Barbara  
Kendall, Jane — National Society for Internships and Experiential  
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Lotz, Susan — N.C. State University  
Marshburn, Kathryn  
Massey, Lloyd — N.C. Grange  
McCullough, Julie — N.C. Center Intern  
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McLaughlin, Mike  
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Nader, Sheila — League of Women Voters  
Oliver, David — N.C. State University  
Parnell, Rachel — League of Women Voters

Phipps, Jimmy — N.C. State University  
Pierce, Pat  
Powers, Robert — N.C. State University  
Ramquist, Jan — N.C. League of Women Voters  
Randolph, Karl S. — N.C. State University  
Register, Dean — N.C. State University  
Reid, Karl S. — N.C. State University  
Rudd, William  
Rumsey, Peter  
Scott, C. Spencer  
Shaw, Carol  
Stevens, Richard — Assistant County Manager, Wake County  
Talton, John  
Wall, Jim — N.C. State University  
Walters, Reba — N.C. State University  
Williams, Ken  
Yarlbrough, Philip



# ***Part I***

**The Budget As Enacted  
by the General Assembly**

# Chapter One

## Budgetary Issues for the 1980s

by Ran Coble



### Why the Symposium's Analysis Is Relevant Beyond the 1983 Budget

Part II of this report provides a transcript of the symposium on the state budget held on February 14, 1983. The speakers at the symposium concentrated their analysis on the budget as proposed to the 1983 General Assembly by Governor James B. Hunt Jr. and the Advisory Budget Commission. In that sense, this report could be viewed as limited to one budget and further limited to the budget *as proposed*, rather than *as enacted*.

However, the speakers at the symposium discussed a plethora of budgetary issues. Some of the issues were dealt with in the budget enacted by the 1983 legislature, but many were not and thus are likely to remain with us. Issues like declining school enrollment, an increasing elderly population and its impact on the Medicaid budget, prison overcrowding, and a decaying infrastructure of buildings, roads, bridges, and schools are likely to be problems throughout the 1980s.

The following issues were raised as being the most important in the state's 1983-85 proposed budget *and* in future decision-making:

- the lack of significant funding for capital expenditures, repair, and maintenance;
- the lack of sufficient funds to draw down and match available federal highway monies;
- the failure to propose that money be set aside for a budget surplus or an ending credit balance;
- the need for additional revenue;
- declining school enrollments in the public schools and the decline in the state share of total public school funding;
- the growing elderly population in N.C. and its likely effects on the Medicaid budget;
- the trend of declining populations but increasing appropriations for most state human resources institutions—mental hospitals, mental retardation centers, youth services training schools, schools for the deaf, and the school for the blind;
- the presence of expansion budget items in a year clouded by a tight revenue picture and in a budget labeled by the Governor as “non-expansionary;”
- the lack of significant proposals in the budget to address prison overcrowding;

- the over-dependence on recruitment of the microelectronics industry as the major economic development policy initiative;

- whether to undertake new initiatives at the state level in providing housing for North Carolina's citizens;
- the policy of budgeting state employee positions as if every position were filled every day of the year; and
- the importance and difficulty of being accurate in forecasting revenues and the condition of the economy.

Some of these issues were dealt with by the 1983 General Assembly. For example, the legislature did exactly what Jack Brizius predicted (see p. 28), when it raised taxes, cut budgets in some areas, and prayed for an upturn in the economy—thereby addressing the need to supply state funds for capital improvements and draw down federal highway money. And, as if in answer to legislative prayers, the economy began to turn around, thereby “solving” the problems of a budget that assumed only a \$900,000 ending balance for FY 1982-83 (see p.35).

Other issues were addressed only in part, or were ignored or postponed. Some decisions, such as how to deal with the impact of increasing numbers of elderly persons eligible for Medicaid, will probably be delayed until the issue takes on the character of an immediate crisis rather than a distant “to-be-felt-someday” trend in the population. In any event, the purpose of this chapter—indeed of this report—is to describe what the state's fiscal jigsaw puzzle may look like in the 1980s and what pieces the legislature may have to supply or discard. It is the hope of the N.C. Center for Public Policy Research that policymakers will see the symposium not just as a one-day review of a budget document that is now partly out of date, but instead as a preview of budgetary issues facing North Carolina for years to come.

### A. Issues Raised at the Symposium That Were Addressed in the 1983 Budget Enacted by the General Assembly

#### 1. Lack of Funding for Capital Spending

The lack of any proposed funding for capital improvements was criticized by three of the speakers at the symposium. The state's system of government buildings, institutions, roads, bridges, and schools is wearing out, and to fail to allocate money for this purpose, as the January 1983 budget of the Governor and ABC proposed, would have been

“penny-wise and pound-foolish.”

The Department of Human Resources, for example, has 1100 buildings with roofs. If you assume a 20-year life for each roof, the state should plan to replace 55 roofs per year. Sound budgetary policy would require that some money be set aside in every budget for *replacement* of aging facilities. Sound budgetary policy would also dictate allocating some money for *maintenance* purposes in order to make the state's expenditures for roads and other parts of the infrastructure go farther.

The General Assembly addressed this problem by appropriating \$151.5 million in the General Fund for capital improvements during the biennium. Another \$4.8 million in capital funds was appropriated from the Highway Fund.<sup>1</sup> At their September 30, 1983 meeting, the Advisory Budget Commission (ABC) approved a 41-page list of capital spending projects, most of which were for roof repairs.

It may be time for the legislature to establish a policy of allocating a relatively fixed percentage of each annual budget for capital improvements. An article in *N.C. Insight* on capital spending<sup>2</sup> proposed a set-aside of two or three percent (which would be \$74-\$111 million in FY 83-84) of the General Fund for capital projects. This idea was received favorably by such legislative leaders as Senator Kenneth Royall (D-Durham) and Representative Al Adams (D-Wake). An alternative idea comes from Mark S. Ferber at the Council of State Governments' Symposium on Infrastructure, who recommended that states adopt “an annual capital outlay repair and replacement budget and a separate biennial new construction capital outlay budget”<sup>3</sup> and recommended that states budget according to these capital plans.

## 2. Salary Increase Money

The Governor proposed no salary increase for teachers and state employees in January but instead recommended the reinstatement of the merit salary increment and annual salary step programs. The General Assembly instead found the money for a 5% salary increase for state employees and teachers. (The merit salary increment and annual salary step programs remained frozen.) Another piece of the fiscal puzzle was thus supplied by the legislature.

## 3. State Match for Federal Highway Money

A third missing piece of the fiscal puzzle concerned the lack of sufficient funds in the proposed state budget to match federal highway money. At the time the Governor and Advisory Budget Commission prepared the recommended state budget, Congress was deliberating about an additional five-cents-per-gallon federal gasoline tax. In the proposal being considered by Congress, North Carolina was to receive an additional \$100 million above the level included in the recommended budget for a total allocation of \$264 million per year. Congress passed the five cents gas tax increase, and the General Assembly inserted a third missing piece of the fiscal puzzle by appropriating \$59.4 million to the state's Highway Fund and setting aside an additional reserve of \$19.4 million, all to match any available federal aid.<sup>4</sup>

The \$59.4 million was earmarked to match all anticipated federal funds available to North Carolina as a result of the Surface Transportation Act of 1982 and the five-cents-per-gallon federal gasoline tax increase. This appropriation considerably enhanced the state's federal highway apportionment from \$170 million in FY 1981-82 to \$275 million in FY 1983-84. These funds will be used for interstate construction and maintenance, bridge construction and replacement, and urban and secondary road systems.

The reserve of \$19.8 million was set aside by the legislature in hopes that the state would be able to draw down an additional \$56 million in federal funds. North Carolina legislators hoped to get this state's share plus any money not taken by other states that could not find the matching funds. It was a major disappointment, then, when Secretary of Transportation William Roberson announced at the September 30, 1983 Advisory Budget Commission meeting that North Carolina would get only \$4.4 million in additional federal funds (over and above the \$275 million discussed above). The money remaining in the reserve appropriated by the legislature is still available for matching purposes.

## 4. Spending Down the State's Credit Balance

When Jack Brizius spoke in February 1983, the Governor had submitted a budget that proposed an ending credit balance of virtually \$0 for both 1983-1984 and 1984-85.<sup>5</sup> Brizius pointed out that the state had spent more than it had taken in during the last few years and was saved only by the fact that the difference was made up by a \$150 million surplus left over from the 1970s that had gradually been depleted since FY 1980-81 (see p. 35). Here the problem was solved in part by a legislature which raised taxes and in part by an economy which turned around faster than expected.

The legislature created new revenues in two ways. First, it passed the Tax Adjustment Act of 1983,<sup>6</sup> a smorgasbord of tax increases, transfers, and new levies which brought in \$219.1 million in new revenues.<sup>7</sup> Second, the General Assembly also authorized counties to levy an extra half-cent in local sales taxes.<sup>8</sup> By February 1, 1984, 88 of the state's 100 counties had exercised that option.

An upswing in the economy also helped. Revenue collections picked up enough to allow the state to end the 1982-83 fiscal year with a General Fund balance of \$71.6 million, instead of the \$900,000 assumed in the budget originally submitted.

<sup>1</sup>Chapter 757 of the 1983 Session Laws (SB 22), section 3.1.

<sup>2</sup>Vance Sanders and Jack Betts, “The Budget Crunch and Capital Spending,” *N.C. Insight*, Vol. 4, No. 4 (December 1981), p. 24.

<sup>3</sup>Mark S. Ferber, “Financing the Infrastructure Crisis of the 1980s,” *State Government News* (July 1982), p. 22. Also see the April 1983 issue of *State Government News*.

<sup>4</sup>Chapter 761 of the 1983 Session Laws (SB 23), sections 3c and 8.

<sup>5</sup>*Summary of the Recommended State Budget, 1983-85 Biennium*, p. 20.

<sup>6</sup>Chapter 713 of the 1983 Session Laws (HB 278).

<sup>7</sup>For a review of budget balancing strategies in other states, see *State Policy Reports*, Vol. 1, No. 10 (May 27, 1983), pp. 25-30.

<sup>8</sup>Chapter 908 of the 1983 Session Laws (HB 426).

Still, the fortune of fall 1983 could not erase the memory of sweating it out in spring and summer as expenditures then were closing in on revenues. Brizius' warning in February had been followed by a similar caution in April from State Auditor Edward Renfrow. Renfrow said that falling cash reserves could endanger the state's bond rating. North Carolina has an AAA rating, the highest possible. An official with Morgan Guaranty Trust Company of New York reported that eight states have had their bond ratings reduced in the last two years.<sup>9</sup> To prevent this from happening in North Carolina, the state should consider Brizius' advice to adopt a policy of keeping about 5 percent of its revenues (about \$188 million in FY 83-84) in the bank at any time for unanticipated cash flow needs and unanticipated expenditures (see p. 26). Such a practice is also recommended by the National Association of State Budget Officers<sup>10</sup> and municipal bond houses like Prudential-Bache and Lehman Brothers Kuhn Loeb, Inc.

#### 5. Resources for Teaching Science and Math

Throughout 1981-1983, the N.C. Center for Public Policy Research undertook a campaign of education for policymakers and the public about its findings regarding teachers being assigned to teach subjects they were not *certified* to teach. Published in September 1981 and January 1983, the Center's reports found that over 37 percent of the instructors teaching math at some time during the school day did not possess a math certificate. Three out of every ten science teachers lacked proper certification.<sup>11</sup> The Center and the Department of Public Instruction also noted a shortage of qualified math and science graduates from teacher education programs.

The Governor, the State Board of Education, and the legislature addressed this problem. Governor Hunt's "State of the State" address on January 17, 1983 included a statement that "We should retrain teachers who are presently teaching math and science 'out of field' and prohibit this in future years." He asked for funds to both retrain and recruit math and science teachers.<sup>12</sup> On May 4th, the State Board of Education passed new rules restricting the situations in which teachers could teach out of their field of certification.<sup>13</sup> And, on July 15th, the ratified appropriations bill included \$2.1 million for a new science-math resource teacher for each of 100 counties.

School officials were not happy with the way the General Assembly addressed this issue, however, pointing out that there are 142 school districts but only 100 teachers added. Tyrrell County, with its 777 students got one new teacher while the Charlotte-Mecklenburg school system, with its 72,000 students, also got one new teacher. In Guilford County, that one teacher's time is divided between three school districts (Guilford County, Greensboro City, and High Point City), and in Robeson County between five school districts.

#### 6. Increased Enrollment in Universities and Community Colleges

At the February symposium, Ken Howard pointed out that the proposed budget did not deal with the fact that

enrollment was increasing both in the community college and university systems. He said this would have to be dealt with by the legislators, and they did deal with it. Taking a two-pronged approach, the General Assembly increased appropriations to accommodate enrollment growth, and the higher and secondary education systems were told to implement tuition increases. In the universities' case, the tuition increases are to total \$10 million a year.<sup>14</sup> In community colleges, tuition and fees will total about \$4 million a year due to a 25% increase.<sup>15</sup> State funds will no longer support recreation extension courses.

#### B. Issues Raised at the Symposium Which Were Partly Addressed in the 1983 Budget Enacted by the General Assembly

##### 1. Declining Populations In Human Services Institutions

New research released at the symposium by the Center staff showed a pattern of declining *populations* in 20 of 23 state institutions operated by the Department of Human Resources. At the same time, however, *appropriations* for 21 of these same 23 institutions have increased since 1970 (see p. 54). Saying that the legislature needed to take a look at these institutions, the Center questioned whether the state could continue to fund all of them and still retain its more recent commitments to fund community-based programs in mental health, youth services, and *Willie M.* programs for severely emotionally disturbed children.

The General Assembly addressed this issue in part by dealing sensitively and wisely with these patterns at McCain Hospital in Hoke County and at Dorothea Dix Hospital in Wake County. McCain was established in 1907 and was the last of four state-supported tuberculosis (TB) hospitals to be closed or converted. The General Assembly looked to the interests of the state as a whole over the natural objections of local legislators and voted to convert McCain to a badly-needed 300-bed hospital for prisoners. The legislature thus converted an out-of-date facility to a new and more useful purpose with a minimal loss of jobs.<sup>16</sup> The remaining TB patients are to be transferred to Cherry Hospital, a psychiatric facility in Goldsboro.

A similar situation was resolved in Wake County. Secretary of Human Resources Sarah T. Morrow proposed in November 1982 that Dorothea Dix Mental Hospital be closed and its patients transferred to the state's other three mental institutions. An uproar developed, with legislators concerned about lost jobs, local officials concerned about increased strain on local mental health programs if patients

<sup>9</sup>Patrick J. Hennigan, "States Face Competitive Bond Market," *State Government News* (January 1983), p. 5

<sup>10</sup>*Fiscal Survey of the States: 1981-82*, a joint publication of the National Governors' Association and the National Association of State Budget Officers (Washington, D.C.) p.4.

<sup>11</sup>James E. Woolford, et. al., *Teacher Certification: Out-of-Field Teaching in Grades 7-12 in N.C.*, N.C. Center for Public Policy Research (January 1983), pp. 10-14.

<sup>12</sup>*Summary of the Recommended State Budget, op. cit.*, p. 52.

<sup>13</sup>16 NCAC 2H .0203 and .0221.

<sup>14</sup>Chapter 761 of the 1983 Session Laws (SB 23), section 114.

<sup>15</sup>Chapter 761 of the 1983 Session Laws (SB 23), sections 96 and 98.

<sup>16</sup>Chapter 761 of the 1983 Session Laws (SB 23), sections 51-55.

**Table 1.1 Actual and Projected Percentage Change in Average Daily Membership (ADM) by Grade Level, for North Carolina**

Actual ADM 1976-77 to 1980-81 Grades K-12	Percentage Change Projected Changes in ADM by Grade Level					
	1980-81 to 1985-86				1980-81 to 1990-91	
	K-6	7-9	10-12	K-12	7-9	10-12
-5.0%	-7.5%	-0.4%	-8.2%	-5.9%	-10.6%	-16.7%

were released to the community, and neighborhood groups concerned about the proposed conversion of Dix to another prison facility, especially with Central Prison already in the same area. Secretary Morrow's reasons for her proposal were identical to trends offered at the symposium. She said Dix, which was originally designed for 2500 patients, now has 632 clients with a staff of 1289; the hospital's annual cost per patient is \$43,036, highest among the four mental hospitals.<sup>17</sup>

The General Assembly and Governor Hunt again came up with a solution that carefully balanced statewide interests against local concerns. The proposal to convert Dix to a prison facility housing 2000 inmates was scaled back to a plan to move 500 minimum security prisoners there, mitigating neighborhood concerns.<sup>18</sup> Raleigh city officials were invited to submit proposals for developing 1400 acres of Dix property, which would enhance the local tax base. Only one of four admissions wards will be closed, so the facility as a whole will remain open, thereby allaying local legislators' concerns about wholesale unemployment. And, the institutional funding cutbacks are not to be confined to Dix but instead are to be spread among all four state hospitals. All told, \$6.1 million will be cut from institutional care under the legislature's decree, and those funds will be shifted to community-based mental health programs.<sup>19</sup> According to Bryant A. Haskins, public information director for the Department of Human Resources, community-based mental health programs served approximately 110,763 North Carolinians last year, taking up \$26 million (8.3%) of the Division of Mental Health, Mental Retardation, and Substance Abuse Services' \$311 million budget. The four psychiatric hospitals by comparison, served 16,814 persons, but received about \$121 million (38.9%) of the division's budget. Overall, institutional care (for psychiatric hospitals, retardation centers, and alcoholic rehabilitation centers) accounted for \$243 million (78.1%) of the division's budget.

The efforts of the General Assembly in 1983 on this issue were encouraging and should be continued. Attention should next be directed to the mental retardation centers (perhaps in an arrangement similar to that of the mental hospitals where savings from partial closure of institutions could be diverted to community programs), the schools for the deaf, and especially the youth services training schools, particularly Stonewall Jackson School in Cabarrus County. Otherwise, the population and appropriations trends are unlikely to cooperate with North Carolina's stated priorities of community-based treatment and mainstreaming education for its handicapped citizens.

## 2. Declining School Enrollment and Decline in the State Share of Public School Funding

Since the 1976-77 school year, public school enrollment in North Carolina has been declining. Total statewide average daily membership (ADM) is projected to fall 5.9% between 1980-81 and 1985-86, with 88% of the 142 school units experiencing a decline. In an excellent article in *Popular Government* magazine, economist Charles D. Liner says that the "baby boom generation has produced a baby bust—and school officials and others must plan for a smaller generation of children."<sup>20</sup> He says future enrollment trends depend on changes in birth rates and in-migration but predicts enrollments will probably not rise much during the next two decades.

All of this is due to what Liner and others call "the pig in the python phenomenon." Just as that snake's prey creates a moving bulge as it passes through the reptile's digestive tract, the baby boom of 1945-56 generated a bulge that is moving through the age distribution of the population. The boom led to a huge school construction program in the late 1950s and 1960s and then inundated the colleges in the late 1960s. Eventually, it will increase the demand for health care services and programs for the elderly. However, a decline in births began in 1957, and enrollment declines could have been foretold as the baby boom began moving through the population. Liner's article includes the projections seen in Table 1.1 done by the N.C. Dept. of Public Instruction.<sup>21</sup>

The State Board of Education's top funding priority requested in 1983 was for the legislature to change the formula under which schools are funded to offset declining enrollment statewide, an \$8.7 million request. The legislature did not change the formula, but as part of an overall increase of \$15.2 million in the Dept. of Public Instruction's budget, it did provide \$7.7 million to offset declining enrollment. Again however, school officials were undecided on whether to be grateful for the money or angry at the strings attached to the funding.

Of the \$7.7 million, the General Assembly required that \$5 million be used to hire assistant principals, \$2.1 million be used to hire 100 new teachers to design innovative math,

<sup>17</sup>Telephone interview with Gary Fuquay, Accounting Office, Division of Mental Health, Mental Retardation, and Substance Abuse Services, Department of Human Resources.

<sup>18</sup>*The News and Observer* (Raleigh, N.C.) October 7, 1983, p. 20.

<sup>19</sup>Chapter 761 of the 1983 Session Laws (SB 23), section 28.

<sup>20</sup>Charles D. Liner, "Public School Enrollment Trends in North Carolina," *Popular Government* (Summer 1982), pp. 40-48.

<sup>21</sup>Liner, pp. 45 and 48.

science, and computer science programs, with the remaining \$600,000 for clerical and custodial personnel.<sup>22</sup> These mandates angered some superintendents like Jay Robinson, head of the Charlotte-Mecklenberg school system. "The truth of it is they (the General Assembly) don't trust us to do what's right and to do what's best for our schools. They're strangling our ability to do more with the dollar," he said in an interview with the *Charlotte Observer*.<sup>23</sup>

Regardless of what the legislature did in 1983, that pig has moved on to other parts of the python, and school officials and legislators are still left with the question of what to do in the face of declining enrollment. Since state funding for schools is tied to average daily membership, the legislature could allow school expenditures to go down as the ADM formula would dictate. Or, as was pointed out at the symposium, the legislature could hold the amount of funds constant and use the "extra" (over what the ADM formula would provide) to reduce class size, replace substandard school buildings, or add it to the pot needed to increase teacher pay.

This leads to a related issue raised at the symposium, the fact that the state and federal shares of total public school funding have declined while the local share has grown (see p. 58). In the 1973-74 school year, the state share of school funding was 68.8% of the total; in 1980-81, it had dropped to 63.9%. The federal share has dropped from a high of 15.2% in 1971-72 to 12.8% in 1980-81. Meanwhile, the local share has risen from 18% to 23.3% in that same period,<sup>24</sup> and local governments have a much less advantageous tax base to draw upon—the property tax.

Additional complaints have been lodged that public school funding should be a higher priority in the state budget and that public schools cannot compete with the clout of the university or community college systems in the legislature. The argument for putting a higher priority on public school funding is heightened by figures which show North Carolina only third in the Southeast in per pupil expenditures for elementary and secondary education (\$2,680 per pupil).<sup>25</sup> For the 1981-82 school year, the National Education Association reported that North Carolina ranked first in the Southeast and 9th nationally in faculty salaries at four-year universities (\$29,385), while the state was 35th in salaries for public school teachers (\$16,947).<sup>26</sup>

Though a 10-member Select Committee on Education (a legislative study group) discussed these questions, their recommendations were not enacted by the 1983 General Assembly. Thus, these two issues raised at the symposium stare at future legislative sessions like the double faces of the Roman god Janus: What will the state's educational needs be in the next decade? And who will pay for them?

### 3. *The Effect of Federal Budget Cuts on the State Budget*

In April 1982, the Center released a report documenting more than \$241 million in federal budget cuts to the state.<sup>27</sup> In those first two years of the Reagan administration's cutbacks, the General Assembly adopted a policy of "passing along the cuts." If the federal government cut a program

20%, then that was passed along through the state budget to local programs with the same 20% reduction. The question raised at the symposium was whether it is now time for the state to modify this policy and examine whether the federal cuts reflect the state's priorities. In some areas, the state may agree with the reductions and want to continue to pass them along or even deepen the cuts. In other areas, the state may want to consider offsetting federal cuts with state funds.

The 1983 General Assembly did exactly that in a few areas this past session. For example, state appropriations were increased for the Coastal Area Management Act (CAMA) program to offset large decreases in federal funds. An adjustment was made in the Aid to Families with Dependent Children (AFDC) program to provide a supplementary state payment to offset the possible loss of income coming from a retrospective accounting procedure enacted by Congress in 1982.<sup>28</sup> The federal pullback in housing programs was met by some state initiatives originating from the legislative Commission to Study Housing Programs (also see subsection 4 below).

The point of all this, in the views of those who spoke at the symposium, was to emphasize the importance of the effects of federal budget cuts on the state and to encourage the state to see if those new federal priorities are in line with the state's priorities for the 1980s. In areas like CETA (the Comprehensive Employment and Training Act), the program was just as unpopular at the state and local level as at the federal level.<sup>29</sup> In an area like CAMA, the state obviously felt the federal cuts hurt an important state effort to manage area growth. Thus, the legislature did address this issue in part, but a more systematic way of dealing with this re-examination of priorities needs to be found. The legislature could set up an interim study commission to examine programs hit by federal budget cuts and make recommendations to a future session on whether the state should deepen, offset with state funds, or leave unaltered those federal cutbacks.<sup>30</sup>

### 4. *The Need for an Increased State Role in Housing*

As mentioned above, housing programs were among those hardest hit by federal budget cuts. Research in a

<sup>22</sup>Chapter 761, section 91.

<sup>23</sup>*Charlotte Observer*, August 22, 1983, p. 1A.

<sup>24</sup>*Statistical Profile: North Carolina Public Schools*. N.C. State Board of Education, Controller's Office, Division of Statistical Services (May 1982), p. I-74.

<sup>25</sup>*The News and Observer* (Raleigh, N.C.), August 25, 1983, p. 23A.

<sup>26</sup>Susan Gewirtz, "Rankings of States, 1983," National Education Association research memo (June 1983), pp. 22 and 26.

<sup>27</sup>Jim Bryan, et. al., *Federal Budget Cuts in North Carolina—Part II*, N.C. Center for Public Policy Research (April 1982), p. 9.

<sup>28</sup>Chapter 761 of the 1983 Session Laws (SB 23), section 45.

<sup>29</sup>For a list of popular and unpopular programs with county commissioners, see Durward Gunnells and Patrice Roesler, "Coping with Cuts at the County Level," *N.C. Insight*, Vol. 4, No. 4 (December 1981), p. 32.

<sup>30</sup>An alternative and intriguing proposal was made by Institute of Government Director John Sanders in a speech to the N.C. Association of County Commissioners (August 14, 1982), when he advocated that the Governor appoint a special task force to examine the changing faces of federalism in the 1980s and the proper roles of the local, state, and federal levels of governments.

special issue of *N.C. Insight* magazine on housing showed that federal funding for new construction programs in *North Carolina* dropped 63%, and planning and technical assistance programs were cut 76%. All told, the state lost \$66.8 million in federal housing program funds that once went directly to localities.<sup>31</sup>

Added to this crisis of the moment is the more long term problem of the condition of the housing stock in North Carolina. One measure of substandard housing is the absence of complete plumbing, and on this score, the state is the seventh worst in the country. Another measure of substandard housing is overcrowding, and combining the absence of plumbing and overcrowding criteria, 8.7% of the total North Carolina housing stock was substandard in 1980.

Again, this is a problem which the 1983 legislature addressed in part. The General Assembly received a package of bills recommended by the Commission to Study Housing Programs in North Carolina, chaired by then-Representative Ruth E. Cook (D-Wake). The legislature passed several of those bills, creating a permanent N.C. Housing Commission,<sup>32</sup> providing \$2 million for a Homeownership Assistance Fund,<sup>33</sup> and passing legislation enabling the N.C. Housing Finance Agency to make loans to mortgage lenders.<sup>34</sup>

The budget *as proposed* did little to address the twin problems of federal housing program cuts and high rates of substandard housing. The budget *as enacted* did more. Nevertheless, housing is going to be an area that will remain on the state's agenda for years to come.

##### 5. *The Need to Retrain Workers*

Several speakers at the symposium mentioned that North Carolina's economy was changing. Al Stuart noted that a *World Watch Institute* study projected that automation may eliminate one-third of all U.S. textile jobs by 1990,<sup>35</sup> and North Carolina could expect to be heavily impacted if this occurs. Governor Hunt's "State of the State" address highlighted the same issue. In speaking to the legislature, he said, "I will ask you to strengthen skill training in our state. The primary responsibility of our community college system must be to teach people the skills they need to get good jobs, and we must see that this responsibility is being met. So I will ask you to provide new training equipment for the system and to increase its ability to train employees for new industries." The new industries he mentioned were microelectronics and biotechnology.

The legislature heard his call and appropriated several million dollars for "New Jobs and New Skills" programs. A large portion of the appropriation was earmarked for particular institutions — Halifax Community College (\$200,000 for 1983-84), Piedmont Technical College (\$56,000), Wake Technical College (\$1 million), Durham Technical College (\$200,000), Lenoir Community College (\$50,000), and Haywood Technical College (\$1.97 million).<sup>36</sup> It is no coincidence that these are the home-county institutions of several of the legislative leaders and Appropriations Committee Chairmen — Senator Kenneth Royall (D-Durham), Senator Harold Hardison (D-Lenoir), Senator

Elton Edwards (D-Guilford), and Representative Al Adams (D-Wake). The fact that the state's economy is in flux, however, means that this issue also is one which the legislature addressed in 1983, but must be re-addressed again and again in the 1980s.

##### 6. *Prison Overcrowding*

Jack Brizius noted that tougher criminal laws and a general crackdown on crime have led to higher rates of incarceration and prison overcrowding. Ken Howard called prison overcrowding a "time bomb." Ran Coble called it a lawsuit waiting for the right lawyer to happen upon it. Ron Aycock talked about its effect on county jail facilities. Thus, the speakers at the symposium spoke with one voice in highlighting prison overcrowding as a serious issue needing the state's attention.

The legislature had before them three indicators that this issue would be dogging them until addressed. Next door in Tennessee, U.S. District Court Judge L. Clure Morton had declared the state's prison system unconstitutionally cruel for packing inmates into facilities that provide poor food and inadequate health care. Under threat of losing control of the state's prison system to the federal courts, Governor Lamar Alexander and Tennessee legislators came up with a "Correction Plan for the 1980s" that promised wholesale inmate transfers, new regional prison work camps and putting able-bodied prisoners to work. An Emergency Powers Act was passed to permit Governor Alexander to free certain prisoners when inmate overcrowding reaches dangerously high levels.<sup>37</sup>

A second indicator of the seriousness of North Carolina's problem could be found in a quiet but effective look at "Recent Developments in North Carolina's Prison Population" by two Institute of Government writers.<sup>38</sup> They found that North Carolina's per capital incarceration rate is the third highest in the nation, exceeded only by South Carolina and Nevada. In addition, the state ranks fifth in total prison population. Citing a study by consultants to the U.S. Department of Justice, they noted a link between prison population and prison capacity (see Table 1.2). The consultants found that prison population and capacity are associated—"not because increased prison population caused growth in prison capacity. . . but because increased prison capacity caused growth in prison population." This research on a "which came first—the chicken or the egg" question caused the Institute authors to recommend declaring a moratorium on new prison construction. But,

<sup>31</sup>Priscilla Cobb, "Cutbacks in Federal Housing Programs," *N.C. Insight*, Vol. 5, No. 2 (August 1982), pp. 27-28.

<sup>32</sup>Chapter 778 of the 1983 Session Laws (HB 265).

<sup>33</sup>Chapter 923 of the 1983 Session Laws (SB 313), section 203.

<sup>34</sup>Chapter 148 of the 1983 Session Laws (HB 274).

<sup>35</sup>Colin Norman, "Microelectronics at Work: Productivity and Jobs in the World Economy," World Watch Paper #39, World Watch Institute, Washington, D.C. (October 1980), p. 49.

<sup>36</sup>Chapter 761, sections 2 and 100-104.

<sup>37</sup>*The News and Observer* (Raleigh, N.C.) October 9, 1983, p. 2D

<sup>38</sup>Stevens H. Clarke and William P. Pope, "Recent Developments in North Carolina's Prison Population," *Popular Government* (Summer 1982), pp. 1-7.

Table 1.2. N.C. Prison Capacity and Inmate Population, 1970-84

Year	Initial Max. Operating Capacity	Average Annual Population
1970	9,606	9,678
1971	9,606	9,899
1972	9,606	9,931
1973	10,066	10,792
1974	10,066	11,935
1975	10,216	12,582
1976	10,216*	13,124
1977	10,980	14,332
1978	12,271	14,189
1979	12,739	14,240
1980	13,732	15,150
1981	14,498	16,095
1982	14,810	16,845
March 1983	14,800**	17,400
Oct. 1983	15,752**	15,995

\*Capacity data before March 20, 1976, are somewhat less reliable than later data.

\*\*Includes Central Prison replacement, new units in Greene (Eastern Correctional Center) and Montgomery (Southern Correctional Center) counties, and additions at Rowan and North Carolina Correctional Centers for Women. In addition, the legislature has approved plans for conversion of Department of Human Resources facilities at McCain Hospital in Hoke County, and Dorothea Dix Hospital in Wake County to a prison hospital and minimum security facility, respectively.

Source: N.C. Department of Correction

they noted, this would only be a temporary solution. "It would be no substitute for a well-conceived policy regarding the future use of imprisonment." It would also be essential, they said, "to consider the costs of imprisonment and alternatives to it . . . ."39

Such consideration was provided by a third indicator, the Citizens Commission on Alternatives to Incarceration, chaired by N.C. Court of Appeals Judge Willis P. Whichard. The 20-member group was funded by the Z. Smith Reynolds and Mary Reynolds Babcock Foundations "to look at the problems of prison overcrowding and ways to use alternatives to incarceration for appropriate categories of offenders." Noting that it costs at least \$9,500 to imprison a single offender for one year, the Commission found that 76 percent of all admissions to the prison system in 1980 were for nonviolent offenses, and 55 percent of the stock population (those in prison on any given day) is comprised of nonviolent offenders.<sup>40</sup> And, North Carolina's crime rate ranks among the fifteen lowest in the country. These findings, said the Commission, argue for a new Community-Based Penalty Program for nonviolent offenders who are now usually sentenced to prison and for other measures to ameliorate the serious prison overcrowding problem.

On the other side stand the political realities for a governor considering a race for a U.S. Senate seat and legislators who face the electorate every two years—there are few votes in running prisons any better than absolutely necessary. As Dan Batey put it in a UPI story on Tennessee's problems, "The primary requirement set by the voting, campaign-contributing public is that offenders against society be locked up. How prisoners are treated is secondary." Nevertheless, Batey notes that there are two restraints on what he calls "a vengeful populace and opportunistic politicians."<sup>41</sup> A court system charged with enforcement of the Bill of Rights of the U.S. Constitution is one restraint. A core of humanitarian-minded citizens is the other.<sup>42</sup>

The General Assembly took positive steps in 1983 in walking between this political Scylla and Charybdis.<sup>43</sup> One of the Citizens Commission members, Representative Joe Hackney (D-Orange) sponsored ten bills to encourage the use of alternatives to prison. Only a few of the bills passed. The most significant was legislation that would accelerate the parole of certain prison inmates when the Secretary of Correction determines it is necessary for "effective prison management."<sup>44</sup> The original bill, however, would have required parole when the prison population reached 16,900, as it did in March 1983. Another ratified bill requires the Department of Correction to establish an intensive probation program for probationers who require close community supervision pursuant to a community penalty plan.<sup>45</sup> A third bill made offenders aged 21-24 eligible for sentencing as "committed youthful offenders," thereby making them eligible for parole at any time if they had not been convicted of a violent or Class A, B, C, D, E, F, or G felony.<sup>46</sup> Finally, the Secretary of Crime Control and Public Safety is now authorized to award grants for community penalties programs in each judicial district.<sup>47</sup> These new programs are to target offenders who face imminent and substantial imprisonment and would arrange for penalties other than prison according to detailed plans submitted to the sentencing judge.<sup>48</sup>

Still, these bills mostly keep a bad situation from getting worse. Though the gap between prison population and prison capacity has been narrowed, it remains to be seen whether the existing system meets constitutional muster, whether current trends hold up, and whether the new

<sup>39</sup>Clarke and Pope, p. 7.

<sup>40</sup>Report by the Citizens Commission on Alternatives to Incarceration, Durham, NC (Fall 1982), pp. 7-8.

<sup>41</sup>*The News and Observer* (Raleigh, N.C.), October 9, 1983, p. 2D.

<sup>42</sup>See also publications by the National Conference of State Legislatures: Linda Monroe, "Prison Litigation and the States," NCSL State Legislative Report (11/17/81), and Richard W. Foster, "New Roads to Justice: The Alternatives to Overcrowded Prisons," *State Legislatures* (Nov./Dec. 1981), pp. 6-17, as well as Elaine S. Knapp (ed.), "America's Prisons: No Vacancy," *State Government News* (July 1981), p. 408.

<sup>43</sup>The twin dangers faced by the Greek hero Odysseus in his journeys, Scylla being a rock and Charybdis being a whirlpool.

<sup>44</sup>Chapter 557 of the 1983 Session Laws (HB 832).

<sup>45</sup>Chapter 682 of the 1983 Session Laws (HB 833).

<sup>46</sup>Chapter 909 of the 1983 Session Laws (HB 830).

<sup>47</sup>Chapter 531 of the 1983 Session Laws (HB 838).



Driving-While-Impaired legislation causes the population to go back up. Thus, prison overcrowding remains on the agenda for a future governor, future legislative sessions, or a judge faced with a lawsuit blown eastward on winds of change from Tennessee.

### C. Issues Raised at the Symposium Which Were Not Addressed in the 1983 Budget Enacted by the General Assembly

#### 1. *Over-Dependence on Microelectronics as an Economic Development Tool*

Ken Howard characterized current state economic development policy as “putting all your chips on the chips.” He also raised the issue in exactly the right way, not attacking the effort to recruit microelectronics as wrongheaded, but questioning the state’s reliance on one economic panacea. “If four years ago, you had . . . raised the question ‘Is it sound economic development policy (to the tune of \$43 million) to sink it all in one institution and program,’ I don’t know that the answer would have been ‘yes.’”

The 1983 legislature continued this approach by acceding to Governor Hunt’s request for continued and increased support of the Microelectronics Center. The nature of the state’s commitment also changed—from one of *construction* of the Center to *operation* of the Center and purchase of major equipment for design and semiconductor research and a technology and communications system. During the biennium, \$17.3 million will be held in a reserve for use by Microelectronics Center.<sup>49</sup>

In making this commitment, the legislature ignored three warnings. First, it did exactly what Howard suggested might be wrong about the approach: it tried no other alternatives. For example, there is a growing body of research that suggests greater economic development benefits can be obtained by efforts to expand existing small businesses in the state.<sup>50</sup> Second, the N.C. Center for Public Policy Research has questioned whether the benefits of pursuing microelectronics firms will extend very far beyond the Research Triangle counties of Orange, Durham, and Wake.<sup>51</sup> Late in the session, a third warning surfaced when a major microelectronics firm (Microelectronics and Computer Technology Corporation) considered the state for a site but decided upon Austin, Texas instead because Texas offered more money and because of the superiority of the University of Texas programs in computer science education and research.

#### 2. *The Aging of North Carolina’s Population and Its Effect on the Medicaid Budget*

As Al Stuart summarized at the symposium, the elderly population is one of the fastest growing portions of the population. If present trends continue, he said, we can expect a 50 percent increase in the portion of our citizenry 65 or older by 1990. This has the biggest budgetary impact in the Medicaid program.

In testimony on September 28, 1983, at a field investigation by a Congressional subcommittee on human

resources, N.C. Secretary of Human Resources Sarah T. Morrow talked about the reasons why government should pay attention to this population trend. “The tradition of children caring for their aged parents is fading fast,” she said. “In 1970, 15.7 percent of our people 65 and over lived with a relative. In 1980, only 9.8 percent did. These people by and large have no one other than government to whom they can turn for help.” In federal fiscal year (FFY) 1980-81, 27% of the total Medicaid budget went toward long term care for the elderly; by FFY 1982-83, 39% was devoted to long term care.

The General Assembly “adjusted” (a euphemism for funding increases) the Medicaid budget by adding \$67.7 million in FY 83-84 for changes in caseload, declining federal participation rates, and inflationary increases. However, more than a task of fine tuning lies down the road. The reasons for this are based on the demographics of the population, on the nature of who gets Medical Assistance payments, and on statistics on health care costs in general.

First, the demographics tell us there will be an increasing number of elderly people becoming eligible for Medicaid. Second, costs within the Medicaid program are going up. For example, there are two types of Medicaid recipients, the “categorically needy” and the “medically needy” (see p. 55 for an explanation). In 1978, the average cost per *aged* medically needy and categorically needy recipient was \$1249; in 1982, it was \$2561. In 1978, the average cost per *aged* medically needy recipient was \$2478; in 1982, it was \$4418.<sup>52</sup> Third, though the general rate of inflation in 1982 was 3.9%, the inflation rate within the health care sector (particularly in hospitals and nursing homes, where Medicaid patients receive care) was 11%.

The General Assembly has re-established a Medical Cost Containment Commission to conduct an interim study report to the 1984 and 1985 sessions.<sup>53</sup> The bill establishing the commission includes a charge that “The Commission shall review North Carolina’s Medicaid program and the cost trends associated with that program.” The Commission should add to its inquiry an examination of the effect of the increased elderly population on the Medicaid program and the possible impact of GAAP (generally accepted accounting principles) accounting in the Medicaid program (see p. 50).

#### 3. *Hiding Expansion Items in the Continuation Budget*

There are usually three categories in a North Carolina budget—one for continuing services at current levels (the base or continuation budget), one for expanding services or adding new programs (the expansion budget), and one for construction and land purchases (the capital budget). In his

<sup>48</sup>See a summary of all ten bills provided in the *Weekly Summary*, No. 16, published by the Institute of Government (May 6, 1983).

<sup>49</sup>Chapter 761, section 2.

<sup>50</sup>See for example Derek Hansen, *Banking and Small Business*, Council of State Planning Agencies, Washington, D.C., Fall 1981.

<sup>51</sup>Michael I. Luger, “The Economic Hope of the Microelectronics Industry,” *N.C. Insight*, Vol. 4, No. 3 (September 1981), pp. 27-32.

<sup>52</sup>Telephone interview with Patsy Slaughter, Division of Medical Assistance, October 21, 1983.

<sup>53</sup>Chapter 875 of the 1983 Session Laws (SB 518).

Budget Message to the General Assembly, Governor Hunt said, "The only expansion in the recommended budget is the reinstatement of the merit salary increment and annual salary step programs" for state employees and teachers. Yet, the Center staff released a list of 22 items at the symposium which could be categorized as expansion items. The items totaled increases of \$159.2 million in FY 83-84 and \$292 million in FY 84-85 (see p. 51). And, it wasn't just the Center that noticed.

A leading Republican Senator, Cass Ballenger (R-Catawba) charged that the Democrats had slipped \$200 million worth of expanded services into the continuation budget category. "They're playing all kinds of games with it," he said. "The base budget this time looks like the expansion budget."<sup>54</sup> The Republicans were not the only ones complaining. A Democratic senator commented after the symposium, "I feel like we've had one put over on us."

The only way the General Assembly can prevent the executive branch from hiding expansion items in the continuation budget in future sessions is to protect themselves by passing an amendment to the Executive Budget Act that defines "continuation" items and "expansion" budgets and requires that they be submitted in separate documents, or at least be clearly labeled as such.<sup>55</sup>

#### 4. *Inserting Non-Budgetary "Special Provisions" into the Appropriations Bill*

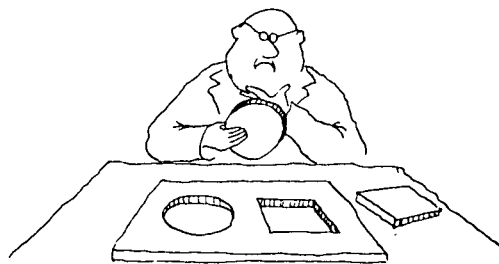
While the General Assembly needs to be protected from budgetary sleight-of-hand by the executive branch, the executive branch and the public need to be protected from the increased tendency of legislators to place substantive amendments to the General Statutes in "special provisions" in budget bills. Ron Aycock raised this issue at the symposium and cited two examples—where the legislature had authorized foreign trade zones and where it had exempted some stored tobacco from taxation, both as special provisions inserted amongst the regular provisions appropriating state funds.

Obviously, there are times when the legislature will need to do more than list the amounts of money appropriated to various departments in state government. Some funding decisions necessarily need some additional words of legislative intent or explanation. However, when statutory provisions unrelated to budgetary outlays are amended in the budget bill, two things happen to the detriment of the democratic process. The first was pointed out by Ron Aycock. Decisions are made unknowingly because they are hidden within a 190-page bill which few legislators or reporters read word-for-word. Second, because these provisions are placed within the budget bill, few legislators are willing to challenge the legislative leadership for fear of retribution by those who hold the purse strings over funds for all local projects.<sup>56</sup>

The prime example of a special provision exhibiting these two traits was the repeal of the Administrative Procedure Act (APA) in a bill making appropriations for various local projects in North Carolina. On page 16 of that 59-page bill, among its 267 sections, was one sentence

which read, "Effective July 1, 1985, Chapter 150A of the General Statutes [the APA] is repealed, with the exception of G.S. 150A-9 and G.S. 150A-11 through 17."<sup>57</sup> To his credit, the sponsor of this provision, Rep. William Watkins (D-Granville) called it to the attention of his colleagues on the House floor. Yet, what representative was going to challenge the provision when almost every Democrat had \$50,000 earmarked for his or her district in the same bill and Rep. Watkins was Chairman of the House Appropriations Committee on the Expansion Budget?

In all, there are approximately 37 special provisions in the 1983 budget bill which are non-budgetary and which amend other statutes. There are 20 more special provisions in another bill appropriating funds for various local projects. In these bills, you can find provisions for the creation of a Board of State Contract Appeals, a N.C. Farmworkers Council, a new retirement system for legislators, amendments to a bingo reform law, a change in the budgeting procedure for the university system, and a prohibition on the University of N.C. Board of Governors from restructuring the School of Public Health Nursing.<sup>58</sup> This process was questioned by several newspapers in the state<sup>59</sup> and needs attention from the rank and file of the legislature. The legislators should forbid the inclusion in appropriations measures of items unrelated to the budget which amend provisions in the General Statutes other than the Executive Budget Act. Such a prohibition could be enacted as an amendment to the Budget Act or as part of the House and Senate rules.



*"At best, man has definite limitations as a processor of data."*

<sup>54</sup>*Durham Morning Herald*, January 25, 1983.

<sup>55</sup>Such a definition of "expansion items" might include all new programs; expansion of existing services or programs; increases in caseload, clients, students or population served; and any inflationary increases beyond what is uniformly provided for in the budget.

<sup>56</sup>See also Jack Betts, "The Coming of Age of the N.C. General Assembly," *N.C. Insight*, Vol. 4, No. 4 (December 1981), p. 15.

<sup>57</sup>Chapter 923 of the 1983 Session Laws (SB 313), section 52.

<sup>58</sup>Chapter 923, sections 205 and 217, and Chapter 761 (SB 23), sections 113, 187-92, and 238-40.

<sup>59</sup>See, for example *The Durham Morning Herald*, July 24, 1983, p. 1A, and *The News & Observer*, July 26, 1983, p. 4A.

##### 5. *Not Recognizing Employee Turnover*

Last but not least in this litany of issues to be addressed in future budgets is the simple problem of not recognizing employee turnover. As Ken Howard pointed out (see p. 45), the state has a certain amount of built-in surplus because all employee positions are budgeted as if they were filled every day for all 12 months of the year. A more realistic budgeting

procedure would take this into account and either turn the lapsed salary funds back to the taxpayers, use it to meet state needs, or consciously earmark it as the 5 percent or so that is held as a credit balance for a rainy day, as recommended earlier in this chapter. This is a third way the budget process could be tightened up to benefit the governor, the legislature, and North Carolina's citizens.

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## ***Part II***

The Budget As Proposed by the  
Governor to the General Assembly

## Chapter Two

# Introduction to the Symposium

by Ran Coble

Good afternoon. On behalf of the Board of Directors and staff of the N.C. Center for Public Policy Research, I'd like to welcome you to this symposium on the North Carolina State Budget. For those of you who are unfamiliar with the Center, we are a private, nonprofit, nonpartisan organization with a goal of conducting research for citizens and policymakers on how well their state government works. We try to combine good, solid research with readable English, and we publish that research in our quarterly magazine, *N.C. Insight*, or in separate research reports. For example, we have published reports on Teacher Certification and Out-of-Field Teaching in North Carolina and on the effects of Federal Budget Cuts in N.C. Our Board of Directors is a 34-member group of Democrats and Republicans, 17 women and 17 men, with blacks, whites, and Indians representing the east, west, and Piedmont. Our chairman, Thad Beyle, and four other board members—Hawk Johnson, Betty Ann Knudsen, Betty Chafin Rash, and Betty Wiser—are with us today. In addition to what the Center publishes, we also hold a symposium on a significant public policy issue each year, a symposium open to our two constituencies: the public and the people who have the power to make policy in North Carolina.

In the audience today are four different groups:

(1) legislators like Representatives Al Adams [D-Wake] and Margaret Tennille [D-Forsyth] and Senators Ben Tison [D-Mecklenburg] and Marvin Ward [D-Forsyth];

(2) executive branch officials like Commissioner of Labor John Brooks; Barbara Matula, the Director of the Division of Medical Assistance; and Claude Myer, the Director of the Division of Vocational Rehabilitation Services in the Department of Human Resources;

(3) media representatives from newspapers, radio, and television like Jack Betts of the Greensboro Daily News, Jack Claiborne of the Charlotte Observer, John Eslinger of the Fayetteville Observer, Ferrel Guillory of The Raleigh News and Observer, Richard Hatch of UNC-TV, and Mary Anne Rhyme of the Associated Press;

(4) representatives of the business community like Don Vaughan of Stedman Corporation and Virgil McBride of R.J. Reynolds Industries. Both of these corporations are also among our 14 corporate contributors.

Please forgive me for not recognizing many more of you by name but please know that we are very grateful for your

presence. We are going to cover a lot of ground this afternoon, so let me give you a preview of some themes to look for in these presentations.

The first theme is that the state budget is not just an account ledger full of line items and nine digit numbers with dollar signs. The budget is a policy document that speaks louder than words about what we as North Carolinians care about. The budget is not where our mouth is; it is where our money is. The first three speakers will explore that theme and then David Crotts will round it out by telling us where the state's money comes from and *how* you decide how much of it to expect to be available.

The second theme is that N.C. is not alone in having revenue problems right now. We may be alone in proposing no money for capital improvements and leaving no credit balance at the end of the biennium, but comparisons with other states are areas on which Jack Brizius and Ken Howard are uniquely qualified to speak.

The third theme is that what happens in Washington is felt in Raleigh . . . and in Lizard Lick. Hopefully, one of the Center's real contributions over the last year has been to show in detail the effect of federal budget cuts on the state—some good, some bad—and that research continues today. This is particularly true in two areas highlighted later—housing, and programs in the Dept. of Natural Resources and Community Development. The 1981 General Assembly adopted a policy—probably wise at the time—of passing along federal cuts to the local level. That is, if the federal government cut a program by 20 to 25 percent, then that cut was passed along at that same 20-25 percent level to local governments. Part of our message today is that it may be time to change that policy and for the state to decide on its own priorities—offsetting federal cutbacks in some areas and perhaps deepening them in others. The person who is uniquely qualified to help us make those connections between federal and state governments is Ken Howard. Ron Aycock and Leigh Wilson will then take us a step further and show us how the state budget affects local governments in North Carolina.

The fourth theme was a favorite one with Shakespeare—the difference between appearance and reality. It appears that the budget says there is only one expansion item this biennium. However, we will identify \$159 million in expenditures that in any other year might be

considered expansion items. In other words, what you see is not always what you get.

The fifth and final theme is that whatever the General Assembly and agencies do in Raleigh, there are broad trends working in the population that we best consider today before they cost us tomorrow. For example, school enrollment figures are on the decline, and this may be the single most important force driving the budgets of the public schools, community colleges, and universities. A second example: from 1970 to 1980, the elderly population of N.C. increased at the rate of 45%, while the number of persons 65 and over rose 28% nationally—this affects the state budget through the Medicaid program. Medicaid expenditures are sure to rise as that increase of elderly into the population distribution finds its way into N.C.'s hospitals and nursing homes. This part of the program may be the most important in the long run, and that is why we hope you'll be with us the full three hours to hear Al Stuart regarding what is happening in the population in N.C. and to think with us about how that affects the state budget.



*Efforts to make budgeting more analytical counter typical human behavior*

**Ran Coble:** There is biographical material in your handout on each of the speakers so I will avoid long introductions of each person. Suffice it to say that Jack Brizius has served as an adviser to newly-elected governors in four states—Massachusetts, Minnesota, New Hampshire and Arkansas. He has put together an \$11 billion budget in Illinois as Deputy Budget Director, and he is about to take apart a \$6 billion budget in North Carolina and put it back together again. Will you welcome Dr. Jack Brizius.

## *Chapter Three*

# The 1983-85 North Carolina Budget: Finding the Missing Pieces in the Fiscal Jigsaw Puzzle

*by Dr. Jack Brizius*

When Ran asked me to take on this assignment of analyzing the North Carolina budget, he told me he wanted me to do a critical analysis of the budget. By that, I gathered he meant not to criticize but to take a close look at the revenues and expenditures in the state. He also asked me to try to keep this from being boring, so I am going to begin with a little story about a former budget director who was also a critical analyst.

It seems he had been budget director in a state like this for about 15 years, and he had had it up to here. He had just gone through a budget much like this where he was having to cut the teachers' salaries, cut the poor and old people off of welfare, and close institutions, and he had just had it with life. So, he thought long and hard, walked out into the woods and came across a Trappist monastery.

And he thought, "This is what I'm going to do with my life. I've just had it with government management." He went in and met the abbot, and the abbot said, "Well, have you thought this through? You know that among our vows are not only chastity and poverty, but the vow of silence. Being a state official, are you sure you can really keep this vow of silence?"

The director said, "Oh, yes, I've already thought it over." The abbot replied, "Well, I'll tell you what. In your case, we'll make an exception. You can say two words every ten years." So he went into the monastery and lived a simple life. After ten years he came to confessional with the abbot. The abbot reminded him that he could say just two words. The budget director said, "Food terrible."

The abbot nodded and the budget director went on and put in another ten years. He came in again to the abbot who said, "Well, now, you may say your two words," to which he replied, "Bed hard." Ten more years went by. By then, he had logged 30 years in the monastery, quite a different life from directing the state budget process. He came once again to the abbot who said, "You may say your two words." The budget director looked at the abbot and said, "I quit."

And the abbot said, "That doesn't surprise me. All you have done since you've been here is bitch, bitch, bitch."

This afternoon we are not going to bitch about the North Carolina state budget, but we are going to try to take a close look at it. The first piece of news about the North Carolina budget relates to the economy and to the economic assumptions which drive all state budgets. This year, in the Governor's and Advisory Budget Commission's recommended

budget, the economists preparing revenue estimates and the basis for the budget have assumed that the nation will come out of the recession and have about a 3.5 or 3.6 percent relative G.N.P. growth. However, legislative analysts believe that the economy will have much less of a recovery than that, and in particular, both the executive and the legislative branches believe that North Carolina will substantially lag behind the recovery of the nation.

And at first glance, that surprised me. It probably surprised you, because what we have found in North Carolina—high patterns of growth—would suggest that perhaps this state would come out faster. But that is not to be the case, in the opinion of the economists, and I think that is an interesting phenomenon.

The patterns of industry in North Carolina are such that textiles, furniture-making, and other manufacturing industries have grown here rather rapidly. And, by the very success of your economic development activities of drawing industry from the older, northern smokestack states, you have built in, for the first time, a situation where North Carolina can be hit hard by a recession and may, in fact, lag behind the rest of the nation, in coming out.

As a result of these economic assumptions, you are facing this year and next some of your toughest budget years ever. That's the bad news. The good news is that you are far better off than many, many other states. Let me just read you a list that has been compiled by the National Association of State Budget Officers talking about this fiscal year, FY 1983, ending June 30, 1983. California, home of Silicon Valley, is anticipating a budget deficit this year of \$1.65 billion and next year a \$3 billion deficit. Colorado is \$28 million down. New Jersey is \$77 million in the hole. Pennsylvania: \$164 million. Wisconsin: \$266 million in deficit. Michigan is almost a billion dollars in deficit, and in the state of Ohio, where the entire economy has imploded, they are nearly \$600 million in deficit this year. And, mind you, the fiscal year is almost over.

So the bad news is that North Carolina is not recession proof, and the state budget is under strain. The good news is that you are not having to do as many of the horrible, ugly things that other states are having to do to cut your budget. The effect of the slow economic recovery, however, will be to force budget-makers to put together a budget that is truly a policy document. That is what I would like to focus on now: the policies inherent in this budget. At first glance this budget



looks like a simple thing: continuation of state programs and raises for teachers and state employees, but on closer examination, the budget—as proposed by the governor and Advisory Budget Commission—resembles not only a continuation approach but also what I would characterize as a jigsaw puzzle with missing pieces.

And, the missing pieces in this budget are the lack of policy in certain critical areas. Those are essentially as follows:

- There is no money budgeted for a state surplus or an ending credit balance.<sup>1</sup> For most states the National Association of State Budget Officers recommends that a state keep roughly 5 percent of its expenditures in the bank at any one time for unanticipated cash flow needs and unanticipated expenditures. That is one critical issue that I call to your attention.

- The second “missing piece” is not missing in the Governor’s budget, but may be missing in the legislature’s planning right now. That is, the salary increase for teachers and state employees.<sup>2</sup> It just happens that the latest legislative revenue estimate for fiscal year 1984 is about \$93 million less than the Governor had projected. The cost of the salary increase packages is about \$96 million, so if the legislature decides to make up that shortfall by failing to fund the proposed salary increase, that’s a missing piece of the puzzle.

- The third missing piece of the jigsaw puzzle, I would suggest, is the lack of sufficient funds to draw down the federal highway monies that resulted from the passage of the federal 5 percent gas tax. This is understandable, since the federal tax had not passed when the ABC and Governor finalized the budget, but it is a policy problem now facing the legislature.<sup>3</sup>

- The final missing piece of this puzzle is the lack of any proposed funding for capital improvements from the general fund.<sup>4</sup>

So, if we look at this budget in the sense that it’s a policy document with missing pieces in it, I think we can focus more carefully on the expenditure priorities in the 1983-85 North Carolina budget. Let’s take a look at these spending priorities.

Traditionally, North Carolina has been known as an education state, and expenditures for education are the high priorities for the state. Twenty-nine percent of all funding—state, federal and other—goes to the public schools.

A second area of growing concern has been the human services budget. The human services budget, for example, grew 15.8 percent last year and is anticipated to rise faster than General Fund spending in the Governor’s 1984 budget.

The third area of emphasis in terms of priorities is universities, which could also be categorized as education. Finally, you get to things like community colleges and prisons.

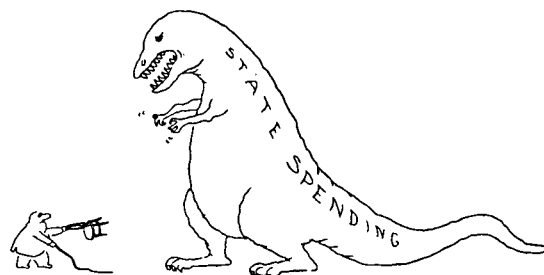
How have these expenditure trends been changing in the past few years? Well, in a nutshell, what has been happening in North Carolina, as in other states, is that the

forces in society that drive spending to a great degree have put a great deal of pressure on policymakers for trying to maintain an emphasis on education, because other areas of expenditures have been growing more rapidly. Those areas of rapidly growing expenditures are in the crime control and correction areas, as well as certain medical services to the elderly.

The rapid inflation of those costs has been skewing the relative spending priorities within state budgets all over the country. In North Carolina, too, valued services such as education keep revenue growth rather modest and keep expenditures even more restrained.

Although General Fund tax revenues have tended to grow rapidly in North Carolina—nearly 12 percent a year over the last eight years—in the coming year, the Governor and legislature believe that revenues will grow only between 8 and 10 percent. As a result of this phenomenon—the effect of recession on revenue growth—the budget is tight. But another phenomenon is also occurring, and that’s in the area of expenditures.

During the past two years, the state of North Carolina has been spending more than it has taken in during the year. When you spend more than you take in, you draw down your surplus or credit balance, as it’s called here. But in the year when the surplus is depleted and you have to budget



*“...they face very real handicaps in trying to control state spending.”*

<sup>1</sup>The ending credit balance proposed for FY 84 was only \$900,000 in a \$3.5 billion-a-year budget.

<sup>2</sup>The recommended budget did not include a salary increase for all teachers and state employees. It did include reinstatement of the merit salary increment and annual salary step programs. The 1983 General Assembly enacted a 5% salary increase in its appropriation bill, (SB 23, Chapter 761 of the 1983 Session Laws) at a total cost of \$129.9 million for each year of the biennium.

<sup>3</sup>The 1983 General Assembly did provide over \$79 million in state matching funds to draw down the available federal highway aid money for FY 84. The state match for the second year of the biennium is \$43.1 million.

<sup>4</sup>The 1983 Capital Improvement Appropriations Act, (1983 Session Laws, Chapter 757), provides over \$151.5 million from the General Fund for the 83-85 biennium for capital improvements. An additional \$4.78 million was appropriated for capital improvement projects from the Highway Fund. Among the authorized projects are:

(a) \$83.7 million for specified projects at UNC constituent institutions;

(b) \$60 million to the Office of State Budget & Management as a reserve fund for statewide repairs and renovations;

(c) \$1.99 million to construct Rollins Animal Diagnostic Lab in Raleigh;

(d) \$1.1 million as a reserve to match federal funds for water resources development; and

(e) \$836,000 for the Butner Fire Station.

expenditure increases, the state no longer can utilize the surplus to meet expenditure targets.

As a result of that, the budget this year projects that although revenue growth will be eight to ten percent, that expenditure increases will have to be less, around 5%. This,

then, puts a built-in expenditure restraint on the North Carolina budget. It makes it difficult to increase assistance to local governments, which has therefore been relegated to a smaller and smaller proportion of the total budget.

**TABLE 3.1. SPENDING AS A PERCENTAGE OF GENERAL FUND EXPENDITURES, AND OF TOTAL BUDGET, BY BUDGET FUNCTION FY 1982 — 1984**

General Fund Priority Areas	% Actual 1981-82	% Authorized 1982-83	% Recommended 1983-84	Adjusted % 1983-84	Recommended % Total* 1983-84
Public Schools	45.1	41.8	41.4	42.9	29.3
Universities	16.3	16.5	16.4	17.0	14.6
Human Resources	15.3	16.0	16.4	16.3	25.9
Community Colleges	5.7	5.7	5.7	5.9	3.8
Correction	4.6	4.7	4.9	4.9	3.0
General Government	3.7	3.8	3.8	3.8	2.7
Reserves, Debt Service, Trans.	1.9	2.7	5.2	2.6	3.7
Judicial	2.9	2.5	2.6	2.6	1.5
Public Safety/Regulation	1.1	1.6	1.2	1.2	2.5
Natural Resources & Community Development	1.1	1.1	1.1	1.1	2.9
Agriculture	.60	.63	.64	.65	.6
Cultural Resources	.63	.59	.58	.58	.4
General Assembly	.19	.31	.24	.24	.14
Transportation	.16	.14	.14	.14	8.7
Capital Improvements	.94	1.8	0	0	.07

\*Includes federal funds and other funds

Source: N.C. Center for Public Policy Research staff calculations

If you'll look at Table 3.1, you begin to see some interesting things happening here. North Carolina's expenditures as a percentage of the total budget in these critical service areas are depicted in their change from FY 1982 through FY 1984.

What we see is an interesting phenomenon. The percentage of the General Fund budget for public schools has actually been declining over the last few years. Universities have stayed about steady. Community colleges have stayed about steady, while other areas such as human resources have been increasing. I think that, in a nutshell, is what has been happening in this budget despite vigorous efforts to put a priority on public education. The social forces that the state has to contend with are pushing the priorities more and more away from public education and toward other areas.

One of the things to say about Table 1 is that it includes the distribution of funds in the salary increase package. If we assume that the salary increase package is still a missing piece of the budget puzzle, then the percentage of expenditures for public schools, universities and community colleges, where a large part of that salary increase money would go, would actually decrease even further.

Now what are some of the trends that are forcing us to

change priorities? First we have the recession-induced increase in welfare expenditures and expenditures to aid the poor and the old. We have a growing elderly population in this state. We have a necessary increase in the budget priority for community and economic development activities in order to try to diversify the economy so that it can once again become recession-proof. We also have a general crackdown on crime: tougher laws, harsher sentences, and therefore, higher rates of incarceration.

We have the need for more law enforcement officials as a result of these laws, and expenditures are going up there. We also have a relative decline in the demand—the immediate demand—for education services, because we have been seeing in the public schools that enrollment is going down. I think our demographer is going to talk a little bit later about long-term trends.

As a result of this, we are facing key policy choices within the expenditure categories. It comes down to a tradeoff between the whole variety of other services in the state versus education. We have a situation where enrollments are going down in public schools, but what do we do about that? Do we take that as an opportunity to reduce spending in the public schools and cap spending in

the universities, keeping that part of the budget down, or do we take it as another kind of opportunity—an opportunity to improve quality in education and expand programs, even though there are fewer students involved? I make no judgments about that, but I think that's what the people of North Carolina really have to be thinking about when they're looking at this budget.

How do we look at putting these missing pieces back together? What are some of the options?

Capital spending, for example, has averaged about \$50 million a year ranging from about \$4 million to \$99 million in the past ten years, so we have about a \$50 to \$100 million missing piece of the puzzle there, if you assume that one of the top priorities of the state is to maintain its physical infrastructure in order to help maintain its economy.

If the legislature does not fund the salary increase, we have a \$96 million missing piece of the puzzle for the salary increase for teachers and state employees, assuming that this is another top priority for the people of North Carolina. Intertwined with that salary increase is the issue of the quality of education, because if you go too long and don't pay your teachers, you're going to start losing them. This is already occurring to some degree in universities in other states.

You've got a \$53 million missing piece of this budget puzzle in the Highway Fund. That's \$53 million that North Carolina needs to raise somehow—unspecified in the Governor's budget—to draw down the federal highway money. It seems that the political imperative to create jobs and fix roads through those funds means that that piece will also have to be thrown in.

You also have a judgment call on the ending credit balance. How much money do you want to keep in the bank during the year or over the next two years for the orderly running of state government?

While other states may actually be in the red \$200 million to \$500 million, this state also has a shortfall if you ask whether it presently has the funds in the continuation budget which would continue the priorities in these four critical areas.

It's putting these pieces together that I think is a challenge to the legislature and the people. It adds up to well over \$200 million.

There are many ways to look at putting the pieces together. First, you can raise taxes—never a popular thing but one that many, many states are having to do. Ohio, Michigan, Minnesota, and New York all have raised taxes in the last year. In fact, in some form or another, counting gas tax increases, over 38 states actually raised their taxes last year.<sup>5</sup>

The second possibility, however, is to change funding priorities, to go deeply into a budget and surgically remove parts that you are not able to afford in order to afford your other top priorities. In that sense, it's clear that the Governor has made a clear choice not to do that.

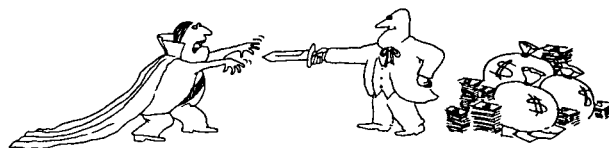
The third way is to close your eyes and cross your fingers and hope the economy comes back a lot faster than

anybody is predicting. The legislative revenue estimates that are showing a fairly grim picture are based on the Data Resources, Inc. (DRI) model of the national economy, which is about as wrong or as right as any of them, and it tracks very well with the national economy. But there are those in Washington and other places that think that the recovery will be a lot faster.

Thus, this third option is to wait and hope, but you can see from other states that waiting and hoping until you are well into a fiscal year is a very, very dangerous thing to do. And, one thing I've found in dealing with politicians, whether it's legislators or governors, is they really hate to do nasty things twice, or more than twice. If they have to do ugly things—cut programs, or raise taxes—they only want to do it once.

So I'd suggest that if we looked in the crystal ball here, there'd be a little of all of these three things done. There will be some expenditure-shifting within the General Fund and the Highway Fund to try to fill in the missing pieces of the puzzle. But that won't quite do it in my judgment. There will be some proposals (and there already have been some proposals) for increased taxes to provide funding for some of these missing pieces. There also will be a whole lot of hoping that the economy comes back and close monitoring of the revenues as the year goes on.

At some point, probably in May or June, the decisions will have to be made. And it's to inform that process that we're here.



*"Legislators tend to see themselves as guarding the public treasury against unwarranted assault by self-aggrandizing executive officials."*

<sup>5</sup>The General Assembly followed this trend by passing the "Tax Adjustment Act of 1983," (1983 Session Laws Chapter 713) which is expected to raise an additional \$219 million in revenues with the following adjustments:

- (a) Court costs fees increased;
- (b) Secretary of State fees increased;
- (c) Motor vehicle taxes and fees increased;
- (d) A new privilege tax on video games was imposed;
- (e) Alcoholic beverage fees and taxes increased;
- (f) Speedier payment of corporations' income taxes; and
- (g) Sales tax imposed on computer programs available for mass use.

In addition, the General Assembly also enacted a bill (Chapter 908 of the 1983 Session Laws) allowing counties the option of levying an additional 1/4% to the sales tax. The statewide sales tax is 3 percent on the dollar, and as of September 1, 1983, all 100 counties levied an additional 1 percent tax for a total 4 percent tax.

## Chapter Four

# The 1983-85 North Carolina Budget: Its Assumptions and Priorities

by Dr. Jack Brizius

*Editor's Note: Jack Brizius also submitted this written analysis of the state budget for inclusion into this report. Like his oral presentation, this analysis was conducted in February 1983.*

### INTRODUCTION

More than in most states, the budget process in North Carolina is a process of building consensus. Since the Governor's budget-making authority is shared with the Advisory Budget Commission, and since the Governor's constitutional powers are limited, the biennial budget submission must of necessity reflect a great deal of review by members of both the legislative and executive branches if it is to survive public debate and become enacted in a form resembling the initial proposal.

This year, as state officials attempt to budget for a biennium fraught with economic uncertainty, both fiscal and political prudence have suggested that the proposed 1983-85 state budget contain few initiatives and no surprises. The past two years have witnessed a recession that has sapped the state's economic resiliency and depleted its fiscal reserves, a recession that has left little or no room for new spending and has forced the state to defer expenditures such as salary increases for state employees and teachers.

In this atmosphere, the Governor and the Advisory Budget Commission have chosen to propose what they call a "continuation" budget — one with only enough funds to continue most current programs. In addition, the budget proposes to reinstate the program of merit and annual step increases for state employees and teachers. While the budget document projects no expansion of programs during the biennium, the Governor is careful to point out that it is the caution borne of economic uncertainty that has caused "many worthy requests to be delayed." Whether or not "delayed" will turn out to be "foregone" will be determined as the economic signals become more clear during the legislative session.

As a result, the 1983-85 North Carolina budget can only be described as a hold-the-line budget, a cautious response to a gloomy and uncertain economic future. If the state government seems to be treading water, it is because no state—even North Carolina—can expect to remain immune from the effects of the longest recession in post-war history. Although the state's economy resisted the early recessionary onslaught, it seems likely that North Carolina's industry will take longer to feel the effects of a recovery than some other types of businesses.

On the surface, then, it would seem that there is little to be debated about the cautious, hold-the-line budget that has been proposed. With the exception of proposals to fund salary increases for state employees and teachers, a "continuation" budget appears to be bland and uncontroversial. Yet, within any budget proposal, elements of significant policy choices for the state are revealed upon close analysis. More than any other single action, the budget and its attendant legislative appropriations process express the policy of a state government across the whole range of its functions.

The budget is thus both an expression of the state's priorities and the starting point for a complex political process which will culminate in a taxing and spending plan for the 1983-84 fiscal year. Yet, with the uncertainty of economic circumstances, even this budget will be revised repeatedly as the year progresses. In this sense, the North Carolina budget is no different from those in other states, for the process of state budgeting has changed dramatically in recent years. Continual change in the federal budget, combined with confusion in economic forecasting, have caused state budgeting to be nearly a continuous process, rather than something done every year or two. The North Carolina budget typifies this new fact of life for state policymakers in that it is tentative in its approach, both to forecasting revenues and to examining spending priorities.

This section of the North Carolina Center for Policy Research's report on the North Carolina 1983-85 budget will scrutinize the broad themes that are visible under the surface of the "continuation" budget. It will examine the economic assumptions on which the cautious budgetary approach is based, look at the way in which "continuation" is defined in major programs, and analyze policy implications of the major changes proposed even within the "continuation" context.

This section will consider the following topics concerning the 1983-85 North Carolina budget:

- The economic assumptions underlying the cautious approach to the budget;
- Revenue estimates and their limitations;
- An overview of the General Fund and Highway Fund expenditures and priorities;
- Selected issues within the major budget categories;
- An analysis of the policy implications of the "continuation" proposals; and
- An exploration of the possible solutions to budgetary dilemmas facing state policymakers.

## ECONOMIC ASSUMPTIONS UNDERLYING THE CAUTIOUS APPROACH

North Carolina budget officials are certainly not alone in expressing uncertainty about forecasting economic activity, either for the short-term or longer-range prospects.

Economic assumptions on which the Governor's budget proposals were based were derived primarily from October-November 1982 forecasts by the widely respected Data Resources Incorporated (DRI) econometric model of the economy. At that time, DRI was forecasting a modest recovery for calendar 1983 with a more robust recovery occurring in 1984. Based on these forecasts, North Carolina budget officials projected a rise in the Gross National Product of about 3.6 percent for the fiscal year 1983-84. This forecast also reflected the consensus among other national economic prognosticators at the time.

Also like other national forecasters, the North Carolina budget projections assume that the recent drop in inflation is here to stay. The budget assumes that the Consumer Price Index will rise by 5.3 percent in 1983-84, a rate that might prove too high given the recent actual decline in the CPI (3.9% for the 1982 calendar year). Interest rates are probably

even harder to forecast than the more gross indicators of economic activity; the North Carolina forecasters have chosen to assume that interest rates would remain about the same as they were when the forecasts were made in late 1982 — a prime rate of about 12 percent. Both of these forecasts track reasonably well with those of major economic forecasting organizations.

Because the North Carolina economy is expected to recover more slowly than the national economy, executive and legislative forecasters have based their economic assumptions for fiscal year 1983-84 (which runs from July 1, 1983 to June 30, 1984) primarily on national forecasts for calendar year 1983. The assumed 3-6 month lag in tax collections means that one can roughly compare the budget's forecasts for the fiscal year 1983-84 with national forecasts of economic activity quite easily.

Table 4.1 compares national economic forecasts reflected in the North Carolina budget (which were made late in 1982) with the most recent national forecasts of Data Resources, Chase Econometrics and Wharton Economic Forecasting Associates.

**TABLE 4.1. NATIONAL ECONOMIC ASSUMPTIONS, FY 1983-84  
NORTH CAROLINA AND OTHER ECONOMIC FORECASTS**  
(annual rates of change)

	N.C.*	DRI	Chase	Wharton
Real GNP	3.6%	1.7%	2.1%	2.4%
Industrial production	6.9	1.2	1.8	1.4
Unemployment rate	—	10.7	10.3	10.5
CPI	5.3	4.9	4.8	4.9
Prime rate	12.2	10.7	—	—

\*Based on fall 1982 forecasts

For state government as well as for the citizens of North Carolina, of course, national economic performance is less relevant than forecasts of the state economy itself. Like other states in the South and West, North Carolina appeared to be weathering the current recession well when it first began. But as the recession deepened, it also widened to affect regions of the country that had recently been thought of as "recession-proof." As the budget *Summary* notes, "The 1981-82 recession has dealt a severe blow to the North Carolina economy." The report notes that during calendar 1982, the state lost over 60,000 manufacturing jobs and that construction employment had declined nearly 25 percent from its peak in 1979.

Perhaps the best demonstration of both the lateness and severity of the recession's impact on North Carolina is reflected in unemployment rates. As late as mid-1981, the North Carolina unemployment rate stood at 5.7 percent, well below the national rate at the time of 7.4 percent. In late 1982, the North Carolina unemployment rate peaked above 10 percent and now stands at a formidable 9.0 percent.

Although budget officials expect that North Carolina will participate in the national recovery, they also believe

that the very economic mix that delayed the onset of the recession in North Carolina will prevent the state from rebounding as fast as the national economy. The forecasters do not expect manufacturing to pick up dramatically, nor should overall construction spending, since an expected increase in residential construction will likely be substantially offset by declines in commercial building. With recovery in the manufacturing and construction sectors expected to be weak, other employment growth will be restrained and the recovery as a whole in North Carolina is expected to lag until later in calendar 1983.

As a result of the slowness of the expected recovery, total non-farm employment in North Carolina is expected to grow only slightly in 1983, up 2.3 percent, while real personal income is forecast to grow by about 3.5 percent. Total personal income and retail sales — key driving forces behind state revenues — are expected to rise modestly in 1983-84, by 9.4 percent and 4.9 percent respectively.

Table 4.2 illustrates the State's forecast of economic activity in North Carolina, the forecast on which the budget is based.

**TABLE 4.2. ECONOMIC ASSUMPTIONS: NORTH CAROLINA 1983-85 BUDGET**

North Carolina	Actual	Projected	
	1981-1982	1982-83	1983-84
Employment			
Total Non-Farm	-0.7	-1.8	2.3
Manufacturing	-2.1	-4.0	2.4
Income			
Total Personal Income	8.2	5.6	9.4
Real Personal Income (1972 dollars)	1.0	0.2	3.5
Retail Sales (1972 dollars)	-3.8	1.5	4.9
Housing Starts	-23.7	12.7	6.9
Automobile Sales	-9.0	-6.6	18.8

Source: Summary of the Recommended State Budget, 1983-85 Biennium.

In reviewing economic assumptions for the budget, legislative fiscal analysts have had the benefit of more recent, if more pessimistic, national economic forecasts. In a mid-January presentation to the Joint Appropriations Committee, the legislative fiscal staff portrayed an even slower economic recovery both for the nation and North Carolina. Noting that recent economic forecasts have been revised downward, the legislative analysts recommended that economic assumptions be reduced, from 3.6 percent real growth in GNP to about 2.0 percent. The implications of this reduction would be to reduce anticipated revenue increases from the 8.8 percent projected in the budget submission to about 7.0 percent.

While legislative fiscal analysts were more pessimistic about the chances for a strong recovery in FY 1983-84, they did point to signs of an economic rebound that might significantly change the state's economic outlook. Nevertheless, they advised caution in projecting revenues and recommended that the legislature use a lower revenue estimate than the Governor's for budget deliberations until signs of the magnitude and duration of the potential recovery become more clear.

#### ESTIMATING STATE REVENUES: A CLOUDY CRYSTAL BALL

##### *The General Fund*

For the state budget, the caution or relative pessimism (depending on where you sit) of North Carolina's economic assumptions compared to an expected very modest national recovery translates itself into budgetary reality through the economy's impact on state revenues. With the exception of federal funds, revenues to fund the 1983-85 biennial budget will depend substantially on the performance of the economy. This is because General Fund and Highway Fund revenues, which constitute nearly 70 percent of the budget,

are all directly influenced by economic activity within the state. In particular, the state's two largest revenue sources—the income tax (\$1.73 billion for individuals and corporations in FY 1982) and the sales tax (\$777 million) are highly sensitive to economic fluctuations. In times of rapid inflation, the major tax sources within the General Fund will usually outperform the economy. In a slow-growth, low-inflation environment, these revenues will lag, which is what the state has been experiencing during the recent slowdown.

While changes in the major tax sources traditionally have followed closely the magnitude of economic cycles, many of the smaller revenue sources are less responsive to an economic recovery. Examples of these revenues are inheritance, cigarette, and alcoholic beverage taxes.

General Fund tax revenues have tended to grow rapidly in the past, at an average annual rate of 11.6 percent from FY 1976-1982. In FY 1982-83, revenue estimates had to be revised downward repeatedly during the year, and final FY 1983 revenue growth is expected to total less than 6 percent. As a result of this sobering experience and the anticipation of a slow recovery in North Carolina, the budget breaks with historical patterns and assumes that revenues will not grow as fast as economic activity. Taken together, General Fund revenues are projected by the Governor to grow 8.8 percent in FY 1983-84.

##### *Patterns of Revenue Growth*

Although in most years, deriving accurate revenue estimates from economic forecasts is difficult, the closer the period to be estimated, the more accurate the figures are likely to be. This year, however, state officials are unsure about the nearer period, FY 1983-84, and venture no estimate for the longer term at all. Since the major economic questions driving revenues revolve not around the likelihood of a recovery but around its timing, strength, and duration, the near term outlook is nearly as cloudy as a long-

term forecast usually is. Hence, the Governor and the Advisory Budget Commission have chosen to tread cautiously in revenue estimation for the biennium. Even the near-term revenue estimates are termed uncertain, with a risk seen of even weaker economic growth and slower-paced revenue growth. In addition, it seems likely that the legislature will consider a budget based on even more cautious revenue estimates. Experience with overly optimistic economic and revenue forecasts during the past two years has caused legislators to become justifiably conservative in projecting revenue increases.

With regard to the "out-year" estimate of revenues for FY 1984-85, the Governor's budget is not just cautious, it avoids the question entirely. Rather than present a revenue

estimate for 1984-85, the budget simply assumes that revenues will equal proposed expenditures, based on a continuation of current programs and salary increases for State employees and teachers. Perhaps correctly, but certainly showing extreme caution, the Governor's budget thus makes no predictions of economic activity or revenues for the second year of the biennium. As a result, the biennial budget becomes merely a construct, with little or no meaning in terms of either revenue forecasts or expenditure priorities for the second year of the biennium.

Table 4.3 presents the administration's estimates of revenues by major categories, together with percentage increases. Note that no estimates are made for FY 1984-85.

**TABLE 4.3. GENERAL FUND REVENUE ESTIMATES: 1981-82 — 1983-84**  
(\$ millions)

	1981-82 Actual	1982-83 Estimated	Percent Increase	1983-84 Recommended	Percent Increase
<b>Income Tax</b>					
Individual	\$1,449.37	\$1,565.70	8.03 %	\$1,732.02	10.62 %
Corporations	277.45	273.20	(1.53)%	296.49	8.52 %
Subtotal Tax	1,726.82	1,838.90	6.49 %	2,028.50	10.31 %
Inheritance Tax	43.48	44.80	3.04 %	45.13	.78 %
Licenses	16.61	13.07	(21.31)%	13.79	5.51 %
Cigarettes	18.28	17.98	(1.64)%	17.60	(2.11)%
Soft Drinks	21.88	22.35	2.15 %	22.93	2.60 %
Franchise	269.76	306.87	13.76 %	340.70	11.05 %
Sales & use	777.45	809.74	4.15 %	865.73	6.19 %
Beverage	99.64	102.31	2.68 %	105.24	2.86 %
Insurance	92.82	101.64	9.50 %	106.82	5.10 %
Other	10.97	6.68	(39.11)%	6.85	2.54 %
<b>Total Tax Revenue</b>	<b>3,077.71</b>	<b>3,264.34</b>	<b>6.06 %</b>	<b>3,553.36</b>	<b>8.85 %</b>
<b>Non-Tax Revenues</b>					
Investment Income	115.63	88.78	(23.22)%	101.65	14.50 %
Other	20.27	20.32	.25 %	22.85	12.45 %
<b>Total Non-Tax Revenue</b>	<b>151.83</b>	<b>125.10</b>	<b>(17.61)%</b>	<b>141.80</b>	<b>13.35 %</b>
<b>TOTAL GEN. FUND REVENUE</b>	<b>\$3,229.54</b>	<b>\$3,389.44</b>	<b>4.95 %</b>	<b>\$3,695.16</b>	<b>9.02 %</b>

Source: Summary of the Recommended State Budget, 1983-85 Biennium and N.C. Center staff calculations.

More recent estimates by legislative staff reveal slightly lower expectations for revenue growth, which is assumed to be about 7 percent during the first year of the biennium. Total General Fund revenues, including non-tax revenues, are expected to grow by about 9.0 percent to \$3.695 billion in the Governor's submission, but in the legislative staff's

estimation these revenues would grow by only 7.0 percent to \$3.602 billion in fiscal year 1983-84.

Table 4.4 presents a comparison of revenue estimates for the General Fund as presented in the Governor's budget and in recent testimony by the legislative staff.

**Table 4.4. GOVERNOR'S AND LEGISLATIVE FISCAL STAFF'S GENERAL FUND REVENUE ESTIMATES**  
(\$ millions)

	Tax	% Increase	Non-tax	% Increase	Total	% Increase
1981-82 Actual	\$3,077.7	8.1%	\$151.8	-	\$3,229.5	-
1982-83 Governor's	3,264.3	6.1%	125.1	(17.6)%	3,389.4	5.0%
1982-83 Legislative Staff	3,237.7	5.2%	124.5	(18.0)%	3,362.2	4.1%
1982-83 Gov. minus Legislature	26.6	-	.6	-	27.2	-
1983-84 Governor's	3,553.4	8.9%	141.8	13.3 %	3,695.2	9.0%
1983-84 Legislative Staff	3,464.3	7.0%	138.2	11.0 %	3,602.5	7.1%
1983-84 Gov. minus Legislature	89.1	-	3.6	-	92.7	-

Source: Summary of the Recommended State Budget, 1983-85 Biennium and N.C. Center staff calculations.

The implications of both the Governor's revenue estimates and the more recent estimates by legislative fiscal analysts are that the FY 1983-84 budget will have little or no room for expenditure growth.

The assumption of a relatively bleak economy and slow revenue growth is reflected in the fact that the Governor's budget submission and legislative reaction to it have been both restrained and tentative. The major actors in the budget process are cautious in projecting available resources and tentative in concluding that, even as the economy improves, there will be no room in the budget for spending in areas that traditionally have been important.

#### *The Highway Fund*

As in many other states, revenues from motor fuel taxes and other highway user fees have been declining in North Carolina since high fuel prices and mileage standards have brought greater fuel conservation. In 1981, the Governor and legislature faced the issue of declining highway revenues by proposing and enacting a major increase in motor fuel taxes, as well as raises in various motor vehicle fees.

Under the provisions of the compromise plan for highway funding worked out in 1981, the gasoline tax was raised 3 cents per gallon and other motor vehicle-related fees were increased. At the same time, 1½ cents of the increase were dedicated to the state secondary road system and a contract resurfacing program was begun. The resurfacing program, together with other changes in road funding, represented a change in emphasis from highway construction to road maintenance and repair.

With a gasoline tax of 12¼ cents per gallon, North Carolina still has seen its highway revenues fall short of the amounts needed to meet its needs. In FY 1982-83, the state will collect about \$380.8 million in motor fuel revenues, down about 2.1 percent from the year before. The budget anticipates that in 1983-84 and 1984-85 fuel consumption will continue to decline, but at rates of only 1.5 percent and 1.0 percent respectively.

Offsetting declines in motor fuel tax collections to some degree will be increases in the second largest contributor to the Highway Fund, motor vehicle registration and other license fees. In total, licenses and fees are expected to rise from about \$150.4 million in FY 1982-83 to \$155.6 million in FY 1983-84, an increase of about 3.5 percent. On the other hand, investment income generated through the Highway Fund is expected to drop, both because of falling interest rates and the fact that less funds will be available for investment.

As a result of these factors, total revenues flowing into the Highway Fund are expected to drop slightly, from \$550.4 million in FY 1982-83 to about \$547.9 million in FY 1983-84 and then creep back up a bit to \$548.4 million the following fiscal year.

This essentially level revenue picture for the Highway Fund during 1981-84 comes despite recent increases in motor fuel taxes which were designed to restore the fund to a sounder footing. Continued shortfalls in the Highway Fund may cause the state to forego several millions of dollars in federal highway funds, including those recently made available through the 5 cent increase in the federal gasoline tax. Table 4.5 depicts the expected trends in Highway Fund revenues.



**TABLE 4.5. HIGHWAY FUND REVENUE ESTIMATES,  
FY 1981-82 — 1984-85**  
(\$ millions)

	Actual 1981-82	Estimate 1982-83	Percent Increase	Estimate 1983-84	Percent Increase
<b>Motor Fuel Taxes</b>					
Gasoline 11¢	\$339.4	\$337.5		\$332.3	
Gasoline 1¢	32.8	32.0		31.6	
Gas Insp ¼¢	8.2	8.0		7.9	
Highway Use Tax	.4	.5		.5	
<b>Total Motor Fuel Taxes</b>	<b>380.8</b>	<b>378.1</b>	<b>-0.7%</b>	<b>372.3</b>	<b>-1.5%</b>
<b>Licenses &amp; Fees</b>					
Motor Vehicle Registrations	85.8	88.0		90.2	
Drivers Licenses	21.6	22.1		23.5	
Other	38.9	40.3		41.9	
<b>Total Licenses and Fees</b>	<b>146.3</b>	<b>150.4</b>	<b>2.8%</b>	<b>155.6</b>	<b>3.5%</b>
<b>Other State Revenue</b>	<b>5.4</b>	<b>5.1</b>	<b>-5.9%</b>	<b>5.0</b>	<b>-2.0%</b>
<b>Investment Income</b>	<b>22.3</b>	<b>16.8</b>	<b>-32.7%</b>	<b>15.0</b>	<b>-12.0%</b>
<b>TOTAL HIGHWAY FUND REVENUE</b>	<b>\$554.8</b>	<b>\$550.4</b>	<b>-0.8%</b>	<b>\$548.0</b>	<b>-0.4%</b>

Source: Summary of the Recommended State Budget, 1983-85 Biennium, and  
N.C. Center staff calculations.

### BUDGET OVERVIEW

#### *Spending Down the State Surplus*

One of the critical decisions that faces every governor in preparing a state spending plan is whether or not to budget a substantial state surplus, or "credit balance" as North Carolina officials prefer to call it. In most cases, states attempt to budget a modest surplus in order to handle unanticipated revenue shortfalls or necessary spending increases as well as to smooth cash flow problems.

The past two years have witnessed, however, a steady erosion of the state credit balance. In 1981, the state began the fiscal year with a credit balance of \$154.6 million, or about 4.7 percent of General Fund expenditures. As the recession deepened, the state began to spend more than it was taking in and therefore drew down the credit balance, so that the state began fiscal year 1982-83 with a balance of \$108.5 million. The Governor's budget notes that the recession-induced revenue shortfalls will require further draws on the balance, so that the General Fund will end this fiscal year with a balance of only \$900,000, essentially zero

in comparison with a \$3.5 billion a year expenditure budget.

Because the pattern of spending more than the state takes in essentially builds higher spending in the base of the budget which must be accommodated in FY 1983-84, the erosion of the surplus leaves very little room for expenditure increases over the current year levels. In addition, to rebuild the credit balance would further constrain spending. As a result, the Governor's budget allows for no ending balance (or surplus) in either of the fiscal years of the biennium.

In most previous years, reversions (unspent appropriations) have constituted a significant portion of the next year's beginning credit balance. The necessity to cut spending drastically in the current fiscal year, however, will mean that reversions must be used to balance the current year's budget and cannot be carried over into FY 1983-84. As a result, the state will begin the new fiscal year with the lowest beginning credit balance in modern history.

Table 4.6 presents the historical pattern of credit balances for North Carolina as well as the projected balances for the next two fiscal years.

**TABLE 4.6. ENDING CREDIT BALANCES, FY 1970—85**  
(includes Federal Revenue Sharing and anti-recession revenues)

Fiscal Year	Ending Balance, June 30 (\$ millions)
1969-70	\$118.89
1970-71	147.22
1971-72	144.88
1972-73	323.10
1973-74	180.53
1974-75	56.61
1975-76	68.47
1976-77	150.88
1977-78	184.95
1978-79	187.58
1979-80	284.97
1980-81	154.63
1981-82	108.55
1982-83	0.90
1983-84	0.00
1984-85	0.00

Source: Summary of the Recommended State Budget, 1983-85 Biennium.

#### *Expenditure Restraint*

The fact that the state has been spending more than it has taken in during the past two years also means that, to balance the budget during the next two fiscal years, expenditure growth must be less than revenue growth within the General Fund. Although the budget anticipates that General Fund *revenues* will grow nearly 9 percent, for example, *expenditures* from the General Fund will grow only 5.7 percent. Exclusive of the recommended pay raises, the expenditures for the continuation budget are expected to grow by only 4.9 percent, below the expected rate of inflation for government purchases, which the budget anticipates will be 6.5 percent.

The budget also reveals that cutbacks in continuing operations must occur in the current fiscal year in order for the FY 1983-84 budget to be in balance. Although General Fund appropriations were authorized at a level of \$3.623 billion in the current year, actual expenditures are expected to be \$3.497 billion, with reductions or reversions of unspent appropriations amounting to \$126 million. Even with these reductions, however, spending in the current fiscal year will rise by about 6.8 percent over the previous year, a substantially higher rate of growth than the budget allows for either of the years covered in the proposed budget.

In addition to holding down spending on operations, the proposed budget allows no room for state capital improvements funded through the General Fund. This is a significant step, for the historical pattern of capital spending in the state has included substantial General Fund amounts. During the past two years, General Fund capital spending has been substantial, amounting to \$30.9 million in FY

1981-82 and rising to \$65.8 million in the current fiscal year.

Although the step of eliminating General Fund capital improvement funds is not unprecedented, for many hard-pressed states have done the same, it does present some interesting dilemmas for legislators and others who value capital spending highly. Together with shortfalls in the Highway Fund, the lack of General Fund capital spending planned in the FY 1983-85 budget means that the total level of capital spending in North Carolina will decline markedly during the next two years.

On the surface at least, the lack of funds for capital improvements contrasts directly with the Governor's plan to reinstate merit and step salary increases for state employees and teachers. In fact, the elimination of General Fund capital spending provides about two thirds of the funds required to fund the salary increase package advocated in the Governor's budget.

Table 4.7 illustrates these trends in overall revenue and expenditure patterns for the General Fund.

#### THE MISSING PIECES OF THE PUZZLE

In looking at the overall patterns of expenditures and revenues during both the last two fiscal years and the *proposed* budget for 1983-85, several questions arise. First, the necessity for or wisdom of budgeting no fiscal surplus in either of the two budget years may be questioned. In effect, the Governor has had to choose between budgeting a surplus, which would require even slower expenditure growth or absolute cutbacks, and allowing the continuation budget to be funded but leaving no room for unanticipated

**TABLE 4.7. CONDITION OF THE GENERAL FUND**  
(\$ millions)

	Actual 1981-82	Estimated 1982-83	Percent Increase	Recommended 1983-84	Percent Increase
Beginning Credit Balance	\$ 154.6	\$ 108.5		\$ .9	
State Revenues:					
Tax	3,077.7	3,264.3	6.06%	3,553.4	8.8%
Non-Tax	151.8	125.1	-21.3 %	141.8	13.3%
Total Revenues	3,229.5	3,389.4	4.95%	3,695.2	9.0%
Total Available	3,384.1	3,497.9	3.4 %	3,696.1	5.7%
Expenditures:					
Continued Operations	3,244.7	3,431.2	5.7 %	3,600.1	4.9%
Capital Improvements	30.9	65.8	113.0 %	-	-
Sub-total	3,275.6	3,497.0	6.8 %	3,600.1	2.9%
Reinstate Merit Salary Increase Program	-	-	-	96.0	-
Total Expenditures	3,275.6	3,497.0	6.8 %	3,696.1	5.7%
Ending Credit Balance	\$ 108.5	\$ .9	-99.2%	-	-

Source: Summary of the Recommended State Budget, 1983-85 Biennium.

revenue shortfalls or expenditure increases. This is a serious policy choice both for the Governor and the legislature.

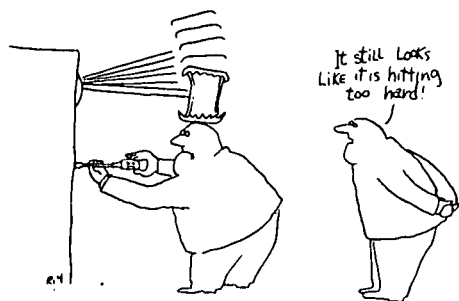
Second, on the surface at least, the budget's proposed restraint in expenditure growth in the non-salary increase categories may be difficult to realize if the budget is truly a "continuation" budget. Continuing inflationary pressures for government purchases, together with caseload and service utilization increases, might well drive the operations budgets of areas such as Human Resources, Correction and others above the amounts budgeted for "continuation" levels.

Third, eliminating capital expenditures entirely for two years puts the state in the position of neglecting capital needs during a time in which a rebound in construction activity is expected to be slow. Whether or not to fund capital projects will undoubtedly become a difficult question for the legislature as it faces the same hard choices as the ones confronted by the Governor. Since FY 1974-75, capital spending from the General Fund has ranged from a high of over \$99 million to a low of about \$4.8 million, and has averaged well over \$51 million per year. Eliminating capital spending from the General Fund must be viewed as a significant departure from previous years.

In addition to these factors, the current legislative estimates of General Fund revenues fall about \$93 million short of the Governor's earlier estimates. By happenstance, this shortfall for FY 1983-84 is very close to the amount requested by the Governor to fund the salary increase package. As a result, many in the legislature are speculating that the final approved budget will not have room for the salary increase recommended by the Governor and the Advisory Budget Commission.

In its general configuration, the 1983-85 North Carolina budget can be likened to a jigsaw puzzle with several interlocking pieces missing. Economic uncertainties and political realities have forced both the Governor and the legislature to confront a highly constrained fiscal situation with little or no room for maneuver, lacking additional taxes or other revenues. The missing pieces of the puzzle include:

- No funds available under legislative revenue assumptions for salary increases for state employees or teachers;
- No General Fund capital funds currently budgeted;
- No provision for allocating enough earmarked State highway-user funds to capture newly allocated federal highway funds;



*"--incrementalism tends to ask How shall we adjust what we are doing, rather than What should we be doing."*

- No provision for an adequate credit balance in the General Fund to prepare for budget contingencies;

Whether or not the legislature and Governor will be able to address this puzzle during the coming months without having to resort to raising new revenues depends primarily upon the validity of the conservative economic assumptions being used by both the executive and legislative branch. If the economy recovers faster than expected, funds to piece the puzzle together could be found. Even continuing to assume that the North Carolina economy lags the national recovery by 6 months, even a one percent greater national GNP growth rate would translate to more than a \$33 million gain in General Fund revenues, compared to current legislative estimates.

If the current forecasts hold, however, the state will either have to forego salary increases, capital spending and greater highway spending, cut the budget drastically in other areas, or seek new taxes. The choices posed by the lingering recession are not easy ones, and it will take a great deal of debate to resolve them.

## EXPENDITURE PRIORITIES

### *The General Fund*

Even in a "continuation" budget such as the one proposed by the Governor, state spending patterns reveal a great deal about the changing priorities of state government. Spending to address major issues such as elementary and secondary education, human services and higher education changes only glacially, yet even a "continuation" approach to budgeting can extend long-term trends in spending priorities. If education funding has been declining as a percentage of the state budget, for example, the "continuation" approach will exacerbate the decline.

By building inflation into a "continuation" budget as well, the budget will reflect the variation in the rising costs of providing government services. Since medical care costs generally rise far faster than the overall rate of inflation, for example, a "continuation" budget will be tilted toward larger and growing Medicaid expenditures. If caseload increases or increases in reimbursement for certain services are considered a part of the "continuation" measure, then these increases will crowd out other potential increases in a highly constrained budget such as the 1983-85 North

Carolina spending plan.

In analyzing the priorities expressed in the "continuation" budget, there are three major ways of assessing what is happening within the overall parameters of the budget itself.

First, we can look at trends in spending by major service category. By looking back a few years and forward for the two fiscal years projected in the budget, we can get an idea of where the state is headed in financing broad categories of services, and we can identify those areas where rapid percentage growth in expenditures have been changing priorities within the "continuation" approach.

Second, and perhaps more revealing, would be an examination of the relative spending priorities, not in terms of rates of change in expenditures but in terms of resources allocated to any service as a percentage of the entire budget. By looking at spending in this fashion, we can determine whether or not a particular area will receive greater or less emphasis within the state's budget next year than in the past.

Third, we can look at particularly large increases or decreases identified in specific program areas. Even within the "continuation" budget submission, for example, the Governor and Advisory Budget Commission have identified significant increases in spending for high priority items, without identifying these increases as expansion items.

### *Trends in Expenditure Increases*

Because data presented in the Governor's submission does not spell out in detail the spending cuts that will be accomplished this year, comparisons of actual expenditures for FY 1981-82 with authorized and recommended expenditures for the following two fiscal years will not yield a totally accurate picture of expenditure growth. Yet, if FY 1982-83 spending cuts are accomplished across-the-board, the comparison should still yield valid trend analysis.

Since FY 1980-81, expenditure growth in the General Fund has been markedly higher in priority areas such as human services, corrections, crime control and public safety, and economic development than in other areas. Over the past two years of coping with the effect of the recession, expenditure increases for elementary and secondary education, higher education and, to some degree for community colleges, have suffered relative to other priority areas. Whether or not the FY 1983-85 budget helps to modify these trends depends primarily on whether the salary increase package for teachers and state employees is funded.

In terms of budgetary growth, human resources programs in North Carolina have experienced significant increases in recent years. From FY 1981 to FY 1983, for example, spending for the Department of Human Resources increased by nearly ten percent, with a 15.8 percent increase attributable to the current fiscal year. Within the large department, expenditures for medical care have been driving the large increases in spending. Despite efforts to control costs in the Medicaid program, for example, from FY 1981 to FY 1983, Medicaid reimbursements to providers jumped by over 44.6 percent.

For the "continuation" budget covering FY 1984 and FY 1985, the Governor has projected that the major increases in program costs of the past will subside. For Human Resources, the proposed budget anticipates only a 3.2

percent growth in the 1983-84 fiscal year and an even smaller growth of 1.9 percent the following year if the proposed salary increase package is not included in the calculation. If funds for the salary increase package are included, the growth in Human Resources funding for the biennium is projected to remain low, only slightly higher than the average growth anticipated for General Fund expenditures as a whole. Including the salary increase, Human Resources spending would grow by 4.1 percent in FY 1983-84 and 3.2 percent in FY 1984-85. Nevertheless, over the two-year period from FY 1982 through FY 1984, Human Resources spending from the General Fund will have grown by nearly 20 percent without the salary increase package and by 20.6 percent if the salary increases are approved.

In the area of corrections, spending has been growing even more rapidly than in the human resources programs. From FY 1981 to FY 1983, spending for the Department of Correction increased by over 25 percent, reflecting attempts by the state to step up hiring of prison guards and relieve serious prison overcrowding. And, the pace of corrections spending has been accelerating, increasing from a 10.1 percent growth from FY 1981 to FY 1982 to a 13.7 percent increase from FY 1982 to the current fiscal year.

If the Governor's budget proposals are enacted, including the salary package, corrections expenditures would continue to rise faster than most other budget categories, increasing by 5.8 percent from FY 1983 to FY 1984 and by an additional 4.1 percent the following year. Without enactment of the salary package, these General Fund increases would be 4.3 percent and 2.0 percent respectively.

Similarly, the Department of Crime Control and Public Safety budget has been growing more rapidly than most other budget items and much more rapidly than inflation during the last two years. Over the period FY 1981 through FY 1983, General Fund expenditures for Crime Control and Public Safety will have grown about 24 percent. For the next two fiscal years, however, the budget projects a more modest growth of 5.0 percent and 2.5 percent respectively, if the salary increase package is taken into account. Without the salary increase recommended by the Governor, expenditures in the crime control category will only increase 4.0 percent in FY 1983-84.

Although relatively uncontrollable by the executive branch, judicial expenditures have been rising relatively slowly in recent years, but are expected to grow faster than most other budget categories in the future. With the salary increases, the Governor's budget recommends a 5.6 percent growth in judicial expenditures for FY 1984. If there are no funds for the salary package, judicial expenses would increase by about 3.6 percent.

Another expenditure category that is related both to human services and public safety is the special program for emotionally disturbed juveniles developed as a result of a consent decree entered in federal district court to settle an action known as the "Willie M." case. Under this program of treatment services and education, over \$10 million will be spent in FY 1982-83, growing to more than \$13 million in the first year of the biennium, over a 30 percent increase.

In other areas, such as community development and commerce, efforts by the state to combat both the lingering recession and the longer-term structural weaknesses in the

economy have led to extremely uneven growth in General Fund expenditures. For example, Department of Natural Resources and Community Development spending declined from FY 1981 to FY 1982 by about 3.0 percent, but then spurted in FY 1983 by over 11 percent.

Primarily as a result of ambitious plans for the North Carolina Microelectronics Center, spending for the Department of Commerce has been even more dramatic, growing 9.4 percent from FY 1981 to FY 1982, and increasing by a massive 108 percent this year, before settling back in FY 1984. If the Governor's recommendations are implemented, spending in this budget category will have risen by nearly 30 percent since FY 1982.

In contrast to fast growing areas of General Fund expenditures, several categories have lagged behind the average spending increases over the past several years. In particular, spending for such important functions as elementary and secondary education and higher education have failed to keep up with the growth of several other functions in the General Fund budget over the past few years. Spending for community colleges, which are perceived to have more direct impact on economic development—at least in the short run—has grown more rapidly, but has still not increased as fast as other areas of the budget.

General Fund spending for the public schools has been one of the slowest-growing expenditure categories in recent years. From FY 1981 to FY 1982, for example, General Fund spending for public schools grew by 6.7 percent and is expected to grow only 2.5 percent from FY 1982 during the current fiscal year. Without taking into consideration the salary increase package proposed by the Governor, public school funding would grow only about 1 percent from FY 1983 to FY 1984. Exclusive of teacher pay raises—which are of course extremely significant in education—a clear pattern of decelerating spending for public schools can be seen over the past two years, and this pattern will likely extend into the future.

For the university system, trends in General Fund spending have not been as bleak, but the absence of funds to cover pay raises for the past two years has depressed the rate of spending growth for the universities substantially. From FY 1981 to FY 1982, spending for the University of North Carolina system increased about 3.8 percent. Comparing authorized spending this fiscal year with actual spending in FY 1982, UNC spending would rise by a substantial 12.0 percent. Over the two year period, UNC spending grew at about 8 percent per year, higher than the overall operations budget but lower than several other areas of spending.

Under the Governor's FY 1984 budget proposals, even this moderate growth in higher education expenditures would be slowed, with a 1.3 percent growth in spending budgeted exclusive of the salary increase package. Including the proposed salary increase package, spending under the Governor's proposal would increase by 4.8 percent in FY 1984.

Table 4.8 illustrates the trends in general fund spending by major budget category. Because of uncertainty concerning the ability of the legislature to fund the salary increase package proposed in the Governor's budget, percentage increases for FY 1984 are calculated both with and without the salary increase.

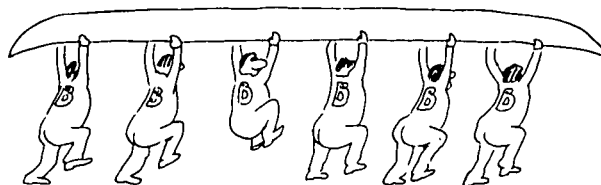
**TABLE 4.8. GROWTH IN GENERAL FUND APPROPRIATIONS FOR CURRENT OPERATIONS, FY 1981-82 — 1983-84**  
(\$ millions)

	Actual 1981-82	Recommended 1983-84	Percent Increase	Adjusted* 1983-84	Percent Increase
Public Schools	\$1,477.04	\$1,528.80	3.5%	\$1,584.99	7.3%
University of North Carolina	534.14	606.31	13.5%	627.30	17.4%
Human Resources	501.93	599.71	19.5%	605.12	20.6%
Community Colleges	185.81	210.35	13.2%	216.71	16.6%
Correction	151.19	179.26	18.6%	181.79	20.2%
Judicial	88.51	94.80	7.1%	96.60	9.1%
Natural Resources & Community Development	35.89	41.04	14.3%	41.50	15.6%
Administration	31.83	36.30	14.0%	36.62	15.0%
Justice	24.69	27.27	10.4%	27.54	11.5%
Cultural Resources	20.48	21.45	4.7%	21.65	5.7%
Agriculture	19.69	23.76	20.7%	24.09	22.3%
Commerce	18.49	24.00	29.8%	24.15	30.6%
Crime Control & Public Safety	8.71	10.79	23.9%	10.90	25.1%
Labor	3.78	4.77	26.2%	4.83	27.8%
Other	80.85	87.11	7.7%	96.55	19.4%
Sub-total Operations	3,183.04	3,504.69	10.1%	3,600.33	13.1%
Revenues, Debt Service, etc.	61.72	95.40	54.6%	95.39	54.6%
Total Continuation Budget	\$3,244.76	\$3,600.08	11.0%	\$3,695.73	13.9%

\*Salary increase amounts distributed among budget categories.

Source: Summary of the Recommended State Budget, 1983-85 Biennium and N.C. Center staff calculations.

For a direct comparison of year-to-year proposed increases in the Governor's budget proposal, Table 4.9 assumes that the salary increase package is funded and distributes the costs of the salary package among budget categories before calculating percentage changes from the current fiscal year to the fiscal years covered in the biennial budget.



*"Participation means a lot more than consent."*

### ***The Share of the Budget: Relative Priorities***

A second way of judging the priorities reflected in the 1983-84 budget is to compare the shares of the General Fund resources required to fund each major budget function. In contrast to short-term changes in expenditure trends, this comparison will tend to move more slowly and will illustrate how well each category of state aid or services is able to maintain its relative priority position among state policymakers.

In analyzing a comparison of relative priorities within the General Fund budget, many of the trends described in the short-term expenditure analysis are reinforced. For example, as a percentage of General Fund expenditures:

- Spending for public schools declines from 45.1 percent in FY 1981-82 to 42.9 percent with the salary increase and 41.4 percent without salary increases for teachers in FY 1983-84.

- Spending for human resources rises from 15.3 percent of the General Fund budget to 16.2 percent even if the salary increase is not budgeted. If the salary increase is included in the calculation, human resources spending would

constitute 16.4 percent of General Fund spending in FY 1983-84.

- Corrections spending will take up an increasing percentage of the General Fund budget, growing from about 4.6 percent of the budget in FY 1981-82 to nearly 5.0 percent in FY 1983-84.

- The relative positions of universities and community colleges in spending priorities depends a great deal on whether or not the proposed salary increase package is funded. If the package is funded, university spending will have grown from 16.3 percent of the General Fund budget in FY 1981-82 to 17.0 percent in FY 1983-84. If the salary increase is not granted, however, university spending as a percentage of General Fund expenditures will rise only slightly, to about 16.4 percent that year. For community colleges, spending including the salary package would amount to 5.9 percent of the General Fund budget. Without the salary package, spending would be about 5.7 percent in FY 1983-84, no increase from the community colleges' 5.7 percent share in FY 1981-82.

**TABLE 4.9. GROWTH IN GENERAL FUND APPROPRIATIONS FOR CURRENT OPERATIONS,  
INCLUDING PROPOSED MERIT SALARY AMOUNTS, FY 1982-83 — 1984-85**  
(\$ millions)

Department	Authorized 1982-83	Adjusted Recommended 1983-84	Percent Increase	Adjusted Recommended 1984-85	Percent Increase
Administration	\$ 34.71	\$ 36.62	5.5 %	\$ 37.86	3.4 %
Agriculture	22.91	24.09	5.1 %	24.53	1.8 %
Auditor	8.40	8.75	4.2 %	8.85	1.2 %
Board of Elections	.23	.23	0.7 %	.23	0.5 %
Commerce	38.50	24.15	(37.3)%	27.26	12.8 %
Community Colleges	205.56	216.71	5.4 %	223.69	3.2 %
Correction	171.88	181.79	5.8 %	189.24	4.1 %
Crime Control & Public Safety	10.38	10.90	5.0 %	11.17	2.5 %
Cultural Resources	21.39	21.65	1.2 %	21.99	1.6 %
General Assembly	11.13	8.95	(19.6)%	11.09	23.9 %
Governor's Office	8.11	6.85	(15.6)%	6.94	1.3 %
Human Resources	581.36	605.12	4.1 %	624.88	3.2 %
Insurance	4.42	4.54	2.7 %	4.65	2.4 %
Judicial	91.50	96.60	5.6 %	100.13	3.7 %
Justice	26.44	27.54	4.1 %	27.98	1.6 %
Labor	4.74	4.83	1.9 %	4.93	2.1 %
Lieutenant Governor	.32	.32	1.1 %	.32	0.3 %
NRCDC	40.03	41.50	3.7 %	41.63	0.3 %
Public Schools	1,514.27	1,584.99	4.7 %	1,650.50	4.1 %
Revenue	28.82	30.00	4.1 %	31.10	3.7 %
Secretary of State	.93	1.09	17.2 %	1.04	(4.2)%
Transportation	5.06	5.06	0	5.06	0
Treasurer	30.85	30.76	(0.3)%	30.76	0
U.N.C.	598.33	627.30	4.8 %	657.53	4.8 %
Sub-total Operations	3,460.26	3,600.33	4.05%	3,743.38	3.97%
Reserves, Debt Service	97.53	95.39		96.52	
Total for Continuation Budget Operations	\$3,557.79	\$3,695.73	3.9 %	\$3,839.90	3.9 %

Source: N.C. Center staff calculations.

• Areas of little or no growth in priority as measured by relative percentages of General Fund expenditures include natural resources, cultural resources, the judiciary and various regulatory functions.

Table 4.10 depicts recent trends in relative budget priorities reflected in the percentage of General Fund expenditures allocated to major budget functions. It also illustrates how those priorities are affected by the inclusion of federal and other funds in the comparison.

*Factors Affecting Resource Allocations*

There are good reasons why expenditure growth over the last two years and into FY 1983-84 would be high in areas such as human resources, corrections, public safety and economic development. Among the factors driving the budget toward a reallocation of spending are:

- Recession-induced increases in people's reliance on welfare and other human resources programs;
- The tendency for uncontrolled health care costs to rise much faster than the general rate of inflation;
- A growing elderly population, many of whom require

special services, and in some instances, state-supported institutional care;

• Increased emphasis on economic and community development spending in order to attempt to combat the recession and develop a more recession-proof economy for the future;

• Tougher laws and a general crackdown on crime, which have led to higher rates of incarceration and prison overcrowding;

• The need for more law enforcement officials and judicial employees to handle larger caseloads; and

• A relative decline in the demand for education resulting from declining enrollments in public schools and the maturing of expansion programs in higher education institutions.

North Carolina has long been known as an "education" state, boasting one of the most extensive and sophisticated state university systems in the nation, a high degree of state aid to elementary and secondary education and an extensive community college system.

Although recent budget difficulties have not resulted in a massive change in priorities from education to other areas, tight budgets for the past several years have strained the

**TABLE 4.10. SPENDING AS A PERCENTAGE OF GENERAL FUND EXPENDITURES & OF TOTAL BUDGET, BY BUDGET FUNCTION, FY 1982-1984**

General Fund Priority Areas	% Actual 1981-82	% Authorized 1982-83	% Recommended 1983-84	Adjusted % Recommended 1983-84	% Total* 1983-84
Public Schools	45.1	41.8	41.4	42.9	29.3
Universities	16.3	16.5	16.4	17.0	14.6
Human Resources	15.3	16.0	16.4	16.3	25.9
Community Colleges	5.7	5.7	5.7	5.9	3.8
Correction	4.6	4.7	4.9	4.9	3.0
General Government	3.7	3.8	3.8	3.8	2.7
Reserves, Debt Service, Trans.	1.9	2.7	5.2	2.6	3.7
Judicial	2.9	2.5	2.6	2.6	1.5
Public Safety/Regulation	1.1	1.6	1.2	1.2	2.5
Natural Resources & Community Development	1.1	1.1	1.1	1.1	2.9
Agriculture	.60	.63	.64	.65	.6
Cultural Resources	.63	.59	.58	.58	.4
General Assembly	.19	.31	.24	.24	.14
Transportation	.16	.14	.14	.14	8.7
Capital Improvements	.94	1.8	0	0	.07

\*Includes federal funds and other funds

Source: N.C. Center staff calculations.

ability of the Governor and legislature to meet commitments to put the highest priority on education within the state spending plan.

As a result, expenditure trends for education reveal that, on the whole, spending for education functions has kept up with or exceeded growth in the General Fund operations budget, but education spending has not led the way in major spending increases within the General Fund. In particular, state spending for public schools has lagged in recent years, in part because of enrollment declines and the need for fewer teachers.

In fact, the State Board of Education projects that average daily membership (ADM) in the state's elementary and secondary schools will decline by over 11,300 in the next school year and will continue to decrease by over 8,000 students the following year. As a result, the budget projects that 350 fewer school teachers will be required during the fiscal 1983-84 budget year, and that 255 fewer teachers will be needed the following year. In part, savings from enrollment declines have been budgeted to increase education quality. Textbook replacement programs and proposals for special incentives for math and science teachers are examples in the Governor's budget request.

In the university system, moderate growth in expenditures during the current fiscal year and future years is necessary to complete the expansion of programs at several campuses, and the budget projects adding 64 and 61 new positions in higher education during the next two years. Offsetting this growth in personnel at the higher education institutions is a projected decline of 63 positions within the community college system during the fiscal year 1983-84.

On the whole, then, recent state budgets as well as the one proposed by the Governor have tried to maintain education as a priority. Yet, tight state budgets combined

with other high priorities in human services and criminal justice, have squeezed the state's ability to enrich public education programs in recent years.

#### *The Highway Funding Problem*

In North Carolina, as in most states, transportation funding programs are usually analyzed separately from other priorities, since they are almost entirely funded from a separate, dedicated Highway Fund. In recent years, this Fund has been declining as a result of energy conservation efforts as well as the depressant effects of the recession on trucking and other travel. Only the passage of a 3-cents-per-gallon motor fuel tax in 1981 restored the Highway Fund to its pre-1976 levels. Even with the increased tax, however, highway revenues are expected to be flat or slightly down over the next few years.

The major question posed in the transportation section of this budget is how the state plans to find enough state funds to match available federal funds for highway repair and construction. On this subject, the Governor and the Advisory Budget Commission have been exceedingly vague, proposing only that the legislature address the problem "either by providing additional resources to the Highway Fund or transferring other funds within the recommended budget." The budget office and legislative staff confirm that state funds amounting to approximately \$57 million a year would be required to match about \$246 million in federal funds not originally budgeted in the Governor's submission.

The implication of the Governor's statement is that the legislature could, if it wishes, find enough funds within the current highway program to be reallocated to match federal funds available through the recently enacted 5 cent federal gas tax. Yet, to do so would apparently violate agreements reached in the legislature when the state gasoline tax



increase was passed: that additional funds be used for reconstruction and repair of state roads, the completion of state secondary road paving, and a new emphasis on maintenance of existing state highways.

Other possible ways to achieve the full matching of available federal funds include:

- An additional tax increase, an unlikely event so soon after the gasoline tax debate of 1981;

- A bond issue, which would have to be voted by the people in a special election and which would only postpone the need for a stream of revenue to match federal funds; and

- Transfer of funds generated by sales levies on motor vehicles and accessories which now flow into the General Fund. To accomplish this under the law, however, compensating revenues would have to be found to replenish the General Fund.

In looking at all these options, none are particularly appealing for either the Governor or the legislature. Yet failing to draw federal highway funds into the state when the state's own capital spending plans are drastically reduced seems unthinkable. The resolution of the highway funding dilemma will become a major challenge for the legislature as it attempts to piece together the final FY 1983-85 budget.

#### *Spending Initiatives in a "Continuation" Budget*

Despite the characterization of the FY 1983-85 document as purely a "continuation" budget, the Governor and the Advisory Budget Commission have chosen to recommend some significant changes in individual programs. These changes reflect both decreases in required funds and increases in programs to continue current policies. For example, the budget assumes a reduction of over \$13.7 million in funds needed to support elementary and secondary education due to a decline in enrollment and in average annual salary of teachers.

On the other hand, the budget anticipates that adjustments to the Medicaid budget to reflect changes in caseload and increases in payments for services will result in a "continuation" increase in costs of nearly \$68 million, shared by counties and the federal government as well as the state. Interestingly, the Medicaid budget also includes funds to raise the rate paid for rest home or domiciliary care, which calls into question the definition of "continuation" for this

budget, since rate increases have traditionally been considered "expansion" items.

Highlighted in more detail in the budget summary, the most significant of these "continuation" changes appear to be:

- Support for the North Carolina Microelectronics Center at a cost of \$17.3 million for FY 1983-84;

- Increased support for job-training and related education programs within the community college system, both through increases in equipment funds and industry training funds. In FY 1983-84, the budget proposes increases of \$3.7 million for equipment and \$1.2 million for industry training;

- The provision of funding for a special program to encourage training of science and math teachers, as well as to provide an incentive for them to remain within the public school system. For a total of \$1.8 million additional spending in FY 1983-84, the budget proposes programs providing \$1000 grants for teachers to upgrade their education through college courses, a summer institute for 1,500 teachers, eight two-year projects to improve science and math education programs, and a major program to employ science and math teachers for an additional six weeks per year to improve instruction of those subjects;

- Reinstatement of two important programs to assist the public schools: the textbook adoption program at a cost of \$11.2 million and the school bus replacement program at a cost of \$13.3 million in FY 1983-84; and

- An adjustment to the Special Assistance welfare program funded by the state and the counties at a cost of approximately \$3.8 million in FY 1983-84.

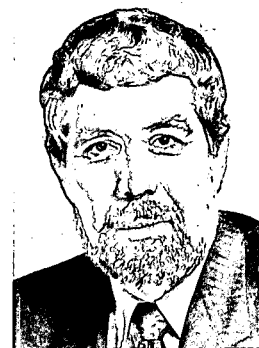
In addition to these program changes identified in the budget, the concept of "continuation" includes such items as longevity pay increases, increases in the costs of food, drugs and clothing at state institutions, utility and telephone cost increases, and a variety of other cost-of-living increases applicable to state operations.

These program initiatives within the budget illustrate the state's ability to shift some priorities and continue other high priority programs even within the fiscal straitjacket that has been imposed by the delayed effects of the recession. Despite these initiatives, however, the major questions of capital spending, the salary increase package, and highway funding remain the missing pieces of the puzzle in the FY 1983-85 North Carolina budget.

## Chapter Five

# North Carolina's Fiscal Practices, Short-Range Issues in the Budget, and Long-Range Issues That are Not Addressed by the Budget

by Dr. S. Kenneth Howard



**Ran Coble:** Ken Howard was budget officer for the state of North Carolina in the mid-70's. He then went to Wisconsin where he was budget officer there and is now Executive Director of the Advisory Commission on Intergovernmental Relations.

From that vantage point, he can observe the relations between the federal government and the state government, and what effects the budgets of the states are having on local governments. He is also the author of one of the foremost texts on budgeting. Please welcome Ken Howard.

**Ken Howard:** Thank you, Ran. It's a pleasure to be here.

Let me take just a moment to tell you what A.C.I.R. is about. The Advisory Commission on Intergovernmental Relations—of which I am now the Executive Director—is the only statutorily established body in the country for discussing intergovernmental issues that includes both the legislative and the executive branches from all three levels of government—national, state and local—and both major political parties. It includes three cabinet level officers, three members of the U.S. Senate, three members of the U.S. House, four governors, three state legislators, four mayors, three elected county officials, and three people appointed as private citizens. All are appointed by the President, except the members of the House and Senate, and by law the appointments must be bipartisan.

The Commission can look into anything it wants to, but it is strictly advisory. You can ignore it. While a lot of very potent political people are still on the Commission or have passed through it, the Commission as a body is strictly a research and advisory agency on any problem that seems pertinent in intergovernmental relations.

You may be interested in knowing four problems to which the Commission is now turning its attention. One is in problems in financing capital asset maintenance and acquisition, popularly known as the infrastructure problem. Like Ran, I prefer English, so I have asked that we try to avoid using "infrastructure" as a word, but we are talking about the problems of financing that activity.

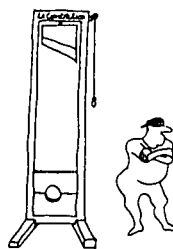
Second, we're looking at "tax overlapping," which simply means looking at the issues associated with having 25 states raise their gasoline taxes over 12 months followed by the U.S. Congress raising the gasoline tax to balance the federal budget.

The third one has to do with state-local relations. This

is one we haven't spelled out. We're going to look at the general area and see if there are some areas we want to examine in terms of block grant implementation and other similar problems.

The fourth area has to do with the role of political parties—an area in which the Commission has never worked before. It takes us off on a new direction. The logic for this choice stems from a feeling that our political institutions lack discipline, particularly at the national level. One reason there is a lack of discipline in the U.S. Congress is their part of the system has broken apart. So we want to go back and take a look at that and see if we can talk about it looking from the state level up. Those are the general areas in which we will be inquiring over the next 12 to 18 months.

Now, let me turn to my assignment here. I would like to talk about three things: One, basic fiscal practices of the state of North Carolina that affect its budget; second, some of the issues that are in the budget; and third, some issues that are not in the budget but are implied or looming.



*State constitutions contain some very strong statements about not letting operating expenditures exceed current revenues and surpluses.*

### BASIC FISCAL PRACTICES THAT AFFECT THE STATE BUDGET

Let me begin with the basic fiscal practices. If you'd look at my book on state budgeting, you'd find a chapter in there which talks about why nobody ever writes about revenue estimating, and I wrote that before I'd been a budget director. Now I'm prepared to write a chapter on why I will still never write about revenue estimating. It's not just because it's difficult to predict what the economy will do. I can guarantee you one thing about your current revenue estimates: they're wrong. That's the name of the game.

No matter what you're going to do, your revenue estimates are going to be wrong because you're not going to get them on the button. Not when you're trying to get down to nine or ten significant numbers. There's no way you

**TABLE 5.1. LIMITATIONS ON STATE DEFICITS: CONSTITUTIONAL AND STATUTORY**

State or other jurisdiction	Constitutional debt restrictions		Balanced budget appropriations		Execution		Prohibitory provisions: at least one is
	Debt limit	Exceed limit by popular vote	Budget must balance expenditure with revenue	Legis. approp. must balance expenditure with revenue	Reduce expenditure if revenue short fall	Must tax to cover deficit	
Alabama	\$300,000	...	...	...	...	...	C
Alaska	V	...	C(a)	...	...	...	C
Arizona	\$350,000	...	...	...	...	...	C
Arkansas	V	...	...	...	S(b)	...	S
California	\$300,000	(c)	C	...	...	...	C
Colorado	\$100,000	...	...	C	C	...	C
Connecticut	...	...	S(d)	S	S(e)	...	S
Delaware	1.5 x state general fund revenue	...	...	S	...	...	C
Florida	...	...	...	C	S	...	C
Georgia	(f)	...	...	C	...	...	C
Hawaii	(g)	...	S	S	S	...	S
Idaho	\$2,000,000	*	...	C	...	...	C
Illinois	(h)	(h)	C	C	...	...	C
Indiana	(i)	...	...	...	...	...	C
Iowa	\$250,000	...	...	...	...	...	C
Kansas	\$1,000,000	*	...	...	S	...	S
Kentucky	\$500,000	*	S	...	S	...	C
Louisiana	...	...	...	C	S(j)	...	C
Maine	\$2,000,000	*	S	...	...	...	C
Maryland	...	...	C	C	...	...	C
Massachusetts	...	...	C	...	...	...	...
Michigan	...	...	C	...	C	...	C
Minnesota	P	...	...	...	S	...	C
Mississippi	1.5 x revenue of any one of 4 preceding years	...	S	S	S	...	C
Missouri	\$1,000,000	*	...	...	C(j)	...	C
Montana	...	...	...	C	...	...	C
Nebraska	\$100,000	...	...	...	...	...	C
Nevada	1% of assessed valuation of the state	...	S	C.S(k)	...	C	C
New Hampshire	...	...	S	...	S(j)	...	...
New Jersey	1% of approp.	*	...	C	...	...	C
New Mexico	\$200,000	*(1)	...	...	...	...	C
New York	...	...	C	...	...	...	...
North Carolina	...	...	C	...	C	...	C
North Dakota	(m)	...	S	...	S	...	...
Ohio	\$750,000	(n)	...	...	S	...	C
Oklahoma	...	...	...	C(o)	C	...	C
Oregon	\$50,000 + AV[P]	...	...	C	S	C	C
Pennsylvania	(p)	*	C	C	...	...	C
Rhode Island	\$50,000	*	...	...	S	...	C
South Carolina	(q)	...	...	C,R	S	C	C
South Dakota	\$100,000	...	S	...	S	...	C
Tennessee	...	...	C	C	C	...	C
Texas	\$200,000	...	...	...	...	...	C
Utah	AV	...	S	C	S	C	C
Vermont	...	...	...	...	...	...	...
Virginia	T(r), T[P,V]	...	S	...	S	...	C
Washington	(s)	*	S(d)	...	S	...	S
West Virginia	No debt allowed	...	...	C	S	...	C
Wisconsin	AV,P(t)	...	C	...	...	...	...
Wyoming	AV,T	...	...	...	...	...	...
Dist. of Colum.	...	...	...	C(u)	...	...	...
Guam	AV	...	S	...	S	...	C
Puerto Rico	...	...	...	C	...	...	...

Key:  
 AV—Percentage of property value  
 C—Constitution  
 P—Specified purposes only  
 R—Rule of house  
 S—Statute  
 T—Percentage of taxes  
 V—Popular vote required for any debt  
 (a) Implicit—governor shall submit bills for budget and revenue recommendations.  
 (b) Responsibility of each agency.  
 (c) Specified circumstances.  
 (d) Recommendation can include increased debt.  
 (e) Permissive if projected deficit is under 3 percent; mandatory if over 3 percent of original budget.  
 (f) Total not to exceed 15 percent of the total revenue receipts in the preceding fiscal year.  
 (g) Not to exceed 18.5 percent of general fund revenue average of state in the three preceding fiscal years.  
 (h) Three-fifths vote of total membership of each house, or vote of majority of voters at general election required to issue new debt.  
 (i) No debt except to meet casual deficits in the revenue payment of interest and defense.  
 A deficit budget or appropriation is not considered a casual deficit.

(j) Permissive, not mandatory.  
 (k) Statute covers supplemental appropriations only.  
 (l) In no case over 1% of assessed valuation.  
 (m) Limit on basis of value of state property.  
 (n) General debt limit has been exceeded by constitutional amendments authorizing debt for capital improvements.  
 (o) Constitution limits appropriation ceiling to five-year average revenue increase.  
 (p) Debt may be incurred without electoral approval for capital budget if debt will not cause all net debt to exceed one and three-fourths times the average of annual tax revenues in previous five fiscal years.  
 (q) In any fiscal year the maximum annual debt service on general obligation bonds may not exceed 7 percent of the general revenues for the fiscal year next preceding.  
 (r) Limit for casual deficits is 30 percent of 1.15 x previous year's income and sales tax collections and must be paid off in 12 months.  
 (s) Percentage of revenues.  
 (t) \$100,000 limit on casual deficits.  
 (u) District charter.

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would be that accurate under any circumstances. The important fact is that the whole budget process is driven by the revenue estimates. It's driven in all of the states, in particular this one, where you cannot have a deficit (see Table 5.1). You're driven by the determination; the revenue estimates set the parameters for everything that follows.

The question then becomes what is the political environment in which revenue estimating is done, and should that be a political process? Well, you don't really have a choice. Yes, it should be a political process and it's going to be. That is the nature of the beast. I think that North Carolina has observed the political-professional balance well, and I don't think you should go around beating your heads in remorse that you have not.

By and large, the process that has evolved is one in which the professionals initially make their judgments. And now you get into such things as estimating the time of turnaround in the economy, the amplitude of those turnarounds, the speed of those turnarounds, the duration of those turnarounds—a whole set of questions you've got to make some guesses on. We don't need to go into the techniques at this point.

The point is that you've got to make some guesses and some assumptions. The pros can tell you, as you have a debate now essentially between Paul Zipin [Executive Office of State Budget and Management] on one side and Dave Crofts [Legislative Fiscal Research Division] on the other, saying here are some potential revenues—one set made in November, one set made in January. That time also makes a big difference. The latest data helps, especially the shorter the time frame you're trying to estimate.

But the point to all this is that they have laid out, if you will, the sort of general responsible professional parameters. Could you then (a legislator or a governor or an adviser) say "Look, can we find another \$5 million to do 'X' or 'Y' or 'Z'?" I could not as a responsible budget director ever say to a governor, "No, you can't!" Because the revenue estimates just aren't that accurate to begin with. You can play with those revenues just a bit and still be responsible professionally and I would say politically. So the key question that needs to be debated politically is what assumptions do you want to die by?

You know you're going to be wrong. With which set of assumptions do you want to go down in flames defending because you guessed them? That's your choice. It's not a win-lose proposition at all. It's all lose. At least it certainly has been in recent years. As a matter of fact, I've never considered revenue estimating to be a winning proposition. It seems to me it is up to the elected political leadership to determine what assumptions they are going to accept as reasonable projections of what is going to happen. I don't mean that they have to debate the G.N.P. or the percentages of this or that, or the monetary cash rate that is going to flow around, the so-called "M" numbers and so on. Forget all that.

Look, "Are we going to have a rapid recovery or aren't we?", or "My God, I think this is going to happen." The

political leadership must give some sense of the kind of assumptions that they want to make about what is going to happen in this state's economy, what they're picking up from the people around the state, in the business community and elsewhere, then they decide to live by those assumptions and let them set the pattern.

The question has got to be what are those assumptions going to be that are going to drive this process? Once those assumptions are made, the rest of this process is going to follow like night follows day. There is not much room in my opinion to do some other things.

I appreciate the missing pieces of the puzzle that Jack alluded to, and they are true. If you look at the whole size of this package, they're tinkering with the margins at best. Once you've set the revenue estimates, you've decided whether you've got a big problem or a little problem or no problem.

The second major part of the fiscal process, I want to talk about is the credit balance, the same matter Jack talked about, but in a slightly different way. I want to talk about a couple of fiscal practices of the state, one of which is continued in this budget.

One, the fiscal assumptions of this year, this fiscal year that we're now in, let's say that we'll end up with a zero credit balance—fine. Probably a pretty safe assumption and a



*In budget execution, no gubernatorial control is more critical than the allotment procedure.*

pretty valid one. There is also an assumption that at the end of the first year of the next biennium there will also be a zero credit balance, and at the end of the third year in the scenario a zero credit balance again. Well, now that's not true. There are a couple of practices in this state that guarantee that up to a point there will be a credit balance.

Let me talk about one or two of those. Although one is a technicality, it's a very important one for all of you because it produces a whole lot of money. It's called "not recognizing employee turnover." When the budget is put together in this state, all positions in the state are budgeted as if they were filled for all 12 months—every day. Well, you know that isn't true, but the budget does not reflect that. There is no discount taken in budget preparation for turnover or for anything else of that sort, such as the matching employee benefit costs, which are a pretty good match by the way, percentage-wise. We're not talking small bucks on that one, either.

You end up with a situation in which you know that at the end of each fiscal year there is going to be currently in this state somewhere between \$70 million and \$75 million of built-in lapses, of a built-in credit balance, because of the

way you are budgeting your salary lines.

I want to illustrate this issue by going back a little to the darkest moment I have ever had as a budget director. It was here in January 1975, and it was a period in which the Advisory Budget Commission had heard my arguments about why it didn't make sense not to recognize the credit balance from the first year of the biennium into the second year of the biennium. The ABC said, "We're not going to budget that way, fellow." The Governor [James Holshouser] said, "You really believe that that will happen?" And I said, "Like night follows day, that's going to happen. It's just built into the process. We will have a credit balance. "How much?" We gave him a figure.

He said "Isn't that interesting; that's just about the amount we'd need to take off the sales tax on food. I will propose the removal of the sales tax on food." And so, in late December, 1974, we laid the plans to take the sales tax off food. But on January 11, 1975, I had to walk into Governor Holshouser's office and say, "The economy has done some very peculiar things, unemployment having jumped from 7 to, I think, 11 percent in six weeks. We can't afford that." That's the only reason we didn't start, or try to start, to bring the issue out at that point; the economy turned against us. Otherwise there would have been a proposal on the table to finance the loss of the sales tax on food in 1975, and it was going to be financed by virtue of the \$70 million to \$75 million that was recurring. Get that process recognized. It's a lot of money.

What is happening now? The interesting point right now is that with this state facing a shortfall of somewhere between \$120 million and \$150 million this year, obviously that \$75 million is saving the state from severe problems. You can afford to budget to a zero credit balance. You've made some other changes. Looks like you can come in with zero. You'll make it.

Let's say it does. In 1975, the fact that the Advisory Budget Commission refused to budget that money, led us not to try to do it. But the fact that they hadn't budgeted that \$75 million meant we also had that cushion in the spring of 1975 to absorb the loss of those suddenly declining revenues.

So it's built in as a cushion. It's quietly there, and the state needs to decide how long it wants to carry that kind of money in that form. In a recessionary period, it looks like a godsend.

Now the practice with it over the years has been that we'll take whatever ends up in the credit balance and plow it into capital appropriations the following year. That essentially is where your capital budget comes from. Essentially, if you've got a balance one year, you plow it into capital resources the next year.

And if you look at this state's spending in the capital area, it bobs up and down, up and down—completely a product, if you will, of all of the other economic and fiscal policies of the state. It is completely a residual item. Whatever else is left after everything else happens, we'll plow into capital.

Another major consideration also deals with capital.

The state hasn't floated a bond issue for general state capital improvements at the state level, I think, for a fairly long period of time. Now, one of the reasons is that the so-called "two-thirds constitutional rule" doesn't provide anything right now, because Clean Water Bonds are eating up all the availability created by paying off bonds now due.

Furthermore, the legislature and the Governor are not too anxious to send a bond issue to a vote of the people. They don't think it'll come back with a positive recommendation. But by and large, the decision on what you do with the credit balance question relates directly to whether or not you want to go and find some other means of financing capital asset improvements over the years.

At this point, the state is not able on legislative initiative or gubernatorial initiative to go to bonding, and therefore your options for capital are either pay-as-you-go or use the credit balance in the bank.



## ISSUES IN THE BUDGET

Let me talk now about my second major area, namely, the issues that are in the budget. I come to a slightly different conclusion than Jack Brizius perhaps. Recently, the state has constrained its spending in a number of ways; you refused the salary increase to public employees two years ago—you've gone through about as much as you want to of the "We'll get the fat out of government" line, and "We will cut back on this and that, and we will squeeze programs for all they're worth."

What you have now is a generally satisfying political compromise that says, "We've got our sense of values about in proportion to the way we want them. We're putting about as much into the zoo in relation to the problems of mentally retarded kids as we think we should." I've been a party to a battle over which of those two should take precedence.

Generally, the budget says across all of these conflicting values at this point, "We've pretty well worked out what we want to do. We've got a pretty status-quo situation in terms of the political balance. Don't upset it unless it's terribly

Article V, Section 3(1) of the N. C. Constitution says "[t]he General Assembly shall have no power to contract debts . . . unless approved by a majority of the qualified voters of the State who vote thereon, except for the following purposes:

. . . (f) for any other lawful purpose, to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the next preceding biennium."

important.” That is the message that comes through. So what are the issues, then, that are here in a budget that, by and large, doesn’t want to upset very much except on an across-the-board basis? It’s a budget which does not want to open a whole lot of political controversy, having been through a number just to get to this kind of stable situation.

One obvious issue is the question of the merit increments for employees. I want to speak now as a person who cares very much about this state, although I’m no longer a resident. A couple of things strike me about the strength of North Carolina government which should not be underestimated. One is that it is unbelievably clean, free of corruption.

Your last major corruption, interestingly enough, was by the private sector—collusion on bids. Nobody in the public sector got nailed for having their hand in the till, for particularly being involved in some of the crasser forms of corruption.<sup>2</sup> By and large, in comparison to some other states, North Carolina doesn’t have any corruption at all.

It hasn’t even had a good scandal in 70 or 80 years, by some other standards. Some of what we had as a scandal in the mid-1950’s is small change elsewhere. How do you keep this level of integrity and honesty? Part of it is clearly ingrained in the people as a people, all across the society and the state, not just the people in government.

But part of it is the people in government. Part of it is the morale and the integrity of the people who stay and work in government. So it seems to me that one of the things that ought to be communicated to the employees generally in government—particularly if you’re concerned about its strength and the talents of the people who work for this state government, and there are some amazingly talented ones across it—is to say, “Look, we care enough to give you some kind of a reasonable salary, given inflation and other considerations.”

I’m not going to get into a struggle as to what that number ought to be, but employees already paid their dues by getting no increase recently, an experience that some state employees in other states have never gone through. I think when we’ve had a period in which political leadership takes advantage of the career employees by blaming on them almost every problem in American society and saying that government is the problem, and that the people who work for government are the problem, it behooves us to communicate that we really care about state government.

I was intrigued by the way the President’s message on federal salaries has been capsuled in Washington. He said, “I’m terribly sorry, but we aren’t going to pass on any salary increases to the civil employees and the military, and I’m very sorry about the military.” That doesn’t do much for morale in a post-Watergate environment in which people are feeling like they’ve been picked on as the major source of our problems, and not rightly so.

I suggest that this personnel issue about salaries is a big fiscal thicket, but I think if you look at the history of what public employees have put up with recently, both in this state and elsewhere, it ought to be treated with some care.

I also notice on personnel that an easy way to solve your fiscal problems would be to take Mark Lynch [Secretary of Revenue] at his word when he pointed out that the Revenue Department could use the 54 additional employees who are in the budget, because for every dollar spent over there, you get an \$8.00 return in higher revenues. Obviously, all you need to do, then, is to add 750 employees to the Department of Revenue, and you will generate \$120 million.

The second major issue, one Jack talked about and I don’t want to spend a lot of time on, is the gas tax question of where are you going to find the money to match available federal aid.

This is what I’ve called “the Fram Oil Filter Policy: pay me now or pay me later.” Essentially, the federal legislation says you don’t have to come up with that money right now. If you don’t want to come up with matching money right now, you can delay it, and they’ll just take it out of future grants to your state.

In essence you don’t have to come up with it at all. You can decide which way you want to do it. I am intrigued by the Governor’s apparent willingness, or signals he sent out, that maybe you could use the alcoholic beverage tax as a substitute for the sales tax on automobile parts, and send the auto parts collections over to the transportation fund.<sup>3</sup>

That returns to the old solution in part, that when you’ve got a fiscal problem, you go to the four “B’s” of taxation: beer, bets, butts, and booze. This proposal follows in that tradition, go hit the booze—well, tax-wise. You may otherwise, too, but in any case, go after the booze and see if you can get it to generate enough money to help with transportation.

A third area that is in the budget, or is an issue in the budget, concerns community colleges and university enrollment increases. This issue is not discussed in the budget, but it is an issue. The immediate response of the heads of those two agencies was that enrollments weren’t dealt with in the budget.

They’re absolutely correct; it hasn’t been in ways that they would like. The sub rosa question is, presuming that the decision is made, and I think by and large it would appear to me to be made—it [funds for increased enrollment] is not one of the top priorities right now. What does that mean? I

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<sup>2</sup>In the spring of 1983, several public officials were indicted as a result of an FBI investigation into Columbus County corruption, dubbed “COLCOR.” Lieutenant-Governor James C. Green and state senator R.C. Soles (D-Columbus) were acquitted, while state representative C. Ronald Taylor, (D-Bladen) was convicted. Also, state senator Harold A. Baker (R-Wilkes) was convicted on the charge of buying a stolen truck in a separate unrelated action.

<sup>3</sup>The Tax Adjustment Act of 1983 provides that \$25,800,000 (approximately 15% of the sales and use taxes to be collected on motor vehicle items and accessories) shall be transferred from the General Fund to the Highway Fund on a quarterly basis. For FY 81, the estimated revenue for taxes on these items was \$59,000,000, all of which was to be transferred. In FY 83, the estimated revenue for taxes on these items is \$172,000,000, of which \$25,800,000 (15%) is to be transferred to the Highway Fund. See 1983 Session Laws chapter 713; 1981 Session Laws, chapter 690, s.7. (G.S. 105-164.44A).

think it means fairly clearly that there are going to be some tuition increases around the corner, depending on how you project your enrollment increases.

I'm not going to venture comments on whether that's good or bad. In any case, the question of tuition, I think, is going to come up in both the community colleges and the university, depending on how much that enrollment pressure really amounts to.

A fourth area: There is little interest here in picking up the federal cuts. This is true all across the country. Most states are not going great guns to replace the federal cuts. There is some of that going on, but there is not a great deal. There are a couple of deceptive things about the rhetoric around this that we ought to spend a moment on.

One of the reasons that a lot of the states didn't replace the federal cuts last year was because individual programs had substantial carryover funds. There were ways to maneuver money around that prevented the cuts from being felt in the magnitude that just looking at the budget would project.

There were other monies, and they could be carried over. This year that option has been exhausted. The joint resolution that set the appropriation level for most of government (there are a couple that are appropriation bills, but most government spending was set by a joint resolution<sup>4</sup>) included numbers in many specific programs that are higher than the ones for this fiscal year. In other words, when the U.S. Congress has gotten through listening to the executive branch's proposals, they haven't been buying.

Not only have they not been buying, they have not been holding them at the same level. They have been increasing them. So a lot of the talk about budget cuts—depending on the program that you're looking at—is in fact not even there, because Congress is not buying. Congress is not buying the cuts.<sup>5</sup>

They have overturned one veto based on this, and it's fairly apparent that, for the most part, Congress is not interested in the kind of social cuts that the President has recommended, and I see nothing in the current debate or the last election that would suggest a major turnaround on that in terms of Congress's attitude toward any further domestic cuts of any great variety.

The last current issue in the budget is, who ought to review private college funding? That one came back to me like a bad dream, having gone through some wars over "We shouldn't be reviewing this number. Well, maybe we should; then we'll cut the hell out of it," et cetera, et cetera.

Clearly, the question of state support for private colleges, and the fact that that level of support helps keep students out of subsidized slots in the university system, means that some money spent on the private colleges probably bears pretty good returns to the taxpayer overall, contrasted with what subsidizing the state schools might cost.

On the other hand, I think you should be aware that if the Governor's and ABC's proposal is bought, you are

strengthening the hands of the private colleges to lobby for money in the future. It's fairly clear to me that this one is a strengthening issue for the future in terms of the lobbying and leverage that private schools have vis-à-vis the legislature.

You can decide yourself whether that's desirable or not, but it is clearly stated as the direction to go, to strengthen the competitive hands of the private schools.<sup>6</sup>

## ISSUES NOT IN THE BUDGET

Let me close with some comments briefly on some somewhat longer-range issues. The first one, on which there is nothing in the budget, is prison overcrowding. I've picked here a particular interest of mine.

I learned one of the traditions of North Carolina is that the Advisory Budget Commission goes around and tours state facilities. I had the benefit of going on a number of those tours. When I went to Wisconsin, where there was no such tradition, my first summer up there, I spent about six weeks on the road touring state institutions. I was told in Wisconsin that the Central Prison of Wisconsin, a place called Waupan, was the pits. So I prepared to go to Waupan, and I was the first budget director to ever visit inside the walls of Waupan.

I walked through that place and was told this is the worst thing Wisconsin's got in its prison system, a fact I later established to be correct. What shocked me was that there were no more than two prisons in this state that were as good. No more than two prisons in this state could match the worst Wisconsin had to offer.

In prison overcrowding, all you've got to do is look at the numbers. The number of prisoners in this state is three

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<sup>4</sup>Of the 13 appropriations bills that are normally required to run the federal government, only 7 passed for Fiscal Year 1983. Spending levels for such major departments as Energy, Labor, Health and Human Services, Education, Justice, and Commerce were set by U.S. House Joint Resolution 631, enacted as Public Law 97-377.

<sup>5</sup>Editor's Note: The N.C. Center for Public Policy Research has conducted extensive research on these same questions at the state level and agrees that the presence of carryover funds, particularly in mental health programs, helped mitigate the effect of federal budget cuts on North Carolina in the first year of the Reagan Administration's initiatives. Our research also supports the author's argument that cuts proposed by the President were not enacted by Congress to a significant degree in education in general and in certain arts programs. However, in other areas like housing, welfare, and water and sewer grants, the effect of federal cutbacks on the state was devastating. For documentation of a net loss of \$241 million in federal funds to North Carolina, see the Center's report *Federal Budget Cuts in North Carolina—Part II* (April 1982) and *N.C. Insight*, Volume 5, No. 2 (pp. 27-28) and Volume 5, No. 4 (pp. 32-36).

<sup>6</sup>State aid to private colleges authorized in the 83-85 budget comes in two forms.

1) Any private institution which has North Carolina students will receive up to \$200 per full-time equivalent N.C. undergraduate student. Such funds will be placed in a separate account for scholarships to needy N.C. students during the fiscal year.

2) Each full-time North Carolina undergraduate attending a private institution in N.C. shall receive \$650 per academic year. These grants are administered by the Education Assistance Authority which has the power to ensure eligibility. The State Auditor may examine any institution receiving these funds on behalf of N.C. students.



*"At all times agencies strive to move rapidly and joyfully if certain events, such as natural disasters or prison riots, afford a sudden upsurge in public awareness and concern that can be parlayed into expansion of programs and services."*

times that of Wisconsin with a population that is roughly comparable, slightly larger in North Carolina, but not that much.<sup>7</sup> The number of single cells—we can go through the whole litany, but we don't need to bother. I'm not going to make the case for prison overcrowding.

I would suggest it's a time bomb. The time bomb is just sitting there and ticking. I became more aware of it when the Governor of Wisconsin looked at me and said, "The one thing I don't want in my administration is a prison riot. Is that clear?" It was very clear. In the opinion of that governor, at least, the issues of what happens to our prisons and what damage they may do socially to the rest of us and politically to a governor were very crucial. I had not thought prisons were anywhere near the top of his agenda of sensitivities, and it turned out to be **the** issue. So I urge you to take a look at what this budget does **not** say about prison overcrowding and whether or not the state can afford not to look at that issue with some care.

An issue on which I was stunned and stand aghast was economic development. I've capsuled this, "Putting All Your Chips on the Chips."

If four years ago, you had raised the question: "Is it sound economic development policy, to the tune of \$43 million, to sink it all in one institution and program?", I don't know that the answer would have been yes. Forty-three million dollars is a staggering number. As I remember, it would have been one-and-a-half times the last entire capital budget when I left here — all of the money that was put into capital — one-and-a-half times that.

So the only question I raise is, that is big bucks. It kind of takes my breath away. The state is committed. I notice there's a little language in there that says something about "operations." I don't know whether that means you're going to operate the thing as well as set up this program or what the future of that may be, but it now has the word "operations" attached to it out at the microelectronics site.

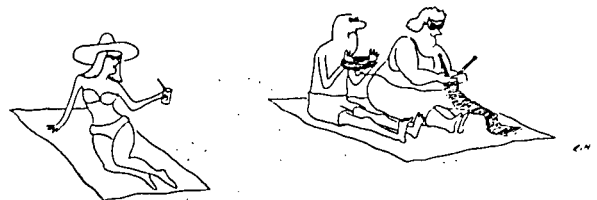
It may be the best bet. It may pay the richest dividends you've ever seen, but for a \$43 million economic development program, I would suggest there might have been some other options. It does strike me as an awful lot in one basket.<sup>8</sup>

A third future issue which may not be much of an issue, although it's out there, I call "The Birth Control of Community Colleges and Technical Institutes." I'm always flabbergasted at how we have a community college at almost every crossroads and gas station in this state. I went to Wisconsin, where they had 15, in contrast to 58 — a more literate population, a more highly-skilled, trained population — all the rest of it for a community college set-up. Fifty-eight schools is a lot, and one of the problems is that as you get them, politically they're almost irresistible, because of the way the local politics work on the individual members of the legislature in the legislative halls.

I have struggled with community colleges over the years. I believe I'm a great proponent and believer in them, but I don't think that their proliferation is necessarily good public policy, and I would just urge and hope that in the future you would not add any. There are none added in here, but there have been at least two, I believe, added since I left in four years, so there is a growth curve on them.

Finally, I'm fascinated by one other item in a document that says "There's no additional money, and we're struggling and struggling." At the end of a list of additional items in the budget summary, you come down to item 20, which says "Adjustment to the Medicaid Budget," the total of which over the two years is \$205.5 million. That's on the same size line as, oh, something in here for a measly \$1.8 million.

So for the same size line you get \$205 million. The reason I raise this is twofold: one, to point out there is a lot of new money in here, and it's buried in some things like the cost of the Medicaid program, which are extremely high. Medicaid is now the equivalent of all the university system in cost. They're quite comparable.<sup>9</sup>



*"...the real cost of doing one thing is not being able to do another..."*

<sup>7</sup>The 1980 Census listed North Carolina as having a population of 5,882,000 people, with Wisconsin having a population of 4,706,000 people.

<sup>8</sup>During the 1981-83 biennium, \$25.6 million in state funds went to the Microelectronics Center of North Carolina (MCNC) (Chapter 859 of the 1981 Session Laws). The 1983-84 appropriation for MCNC is \$17.3 million (Chapter 761 of the 1983 Session Laws). Thus, the total in state funds provided to the Microelectronics Center from FY 81-85 is \$42.9 million.

<sup>9</sup>The total General Fund *appropriation* recommended for 1983-84 for the University of North Carolina system is \$606,309,610. The total *requirements* recommended for the Medical Assistance program are \$685,623,266 (federal funds included). However, the net appropriation for the Medicaid program is \$187,015,483.



Again, I have no quarrel with that. We have the same problem in Wisconsin. I think I'm very sympathetic to the problem. The cost curves here probably look pretty realistic, but the point is, it's sitting there.

The second issue, however, is the longer range one, which is how do you account for your Medicaid costs? I'm going to go to a technical question right now, but it may come around to really hit you in about three years.

Currently, this state, Wisconsin, and most other states pay for their Medicaid bills as they process them — not when the service is provided by the provider, the doctor or the hospital — and then billed. In other words, when you've got a bill from "X" doctor, you finally recognize it when you get around to paying it out, the so-called "cash system."

In fact, in the new standards for accounting that are being promulgated across the country and are coming, the so-called "GAAP Accounting" for those of you who are into this — "Generally Accepted Accounting Principles" — they expect you to go through an accounting process called "accruing" your expenses. Let's forget about that. What it means is that you're supposed to recognize that you have that expense when the doctor renders the service, not when you've got the bill and process the bill. You had an obligation back when the service was rendered, which may be like a month in advance of when you process the bill — a month to six weeks.

Just think of the effect of suddenly having to find the equivalent of a month to six weeks of Medicaid expenses accumulated into one budget year for the purpose of holding your bond ratings. That's what's at stake, and you may be forced into the trade-off of seeing your beloved Triple-A bond rating go down, or coming up with — I don't know what that number will be — six weeks of Medicaid bills. It's enough to blow your socks off, I'm sure, when you think about what it is you want to do in the future. It's looming out there along with some other similar examples of those costs. It is Medicaid, I would suggest, that will be most difficult for you to handle.

Let me close. This has been a fairly harsh sounding

statement, and I don't want you to believe that I'm not optimistic about this state, because I am, and I've enjoyed it very much. I'm delighted to be back here.

**Ran Coble:** Are there questions from the audience?

**Mr. James Hallsey** (Dept. of Natural Resources and Community Development): Mr. Howard, with respect to the question of capital improvements, what is the trend in other states with regard to foundations or non-profit corporations picking up some of the funding for public capital improvements?

**Dr. Howard:** Are you talking specifically about the use of the accelerated depreciation schedule and the Safe Harbor leasing arrangement?

**Mr. Hallsey:** Not specifically that as much as the involvement of non-profit citizen groups — in state park programs, for example.

**Dr. Howard:** We can spend a lot of time trying to define what's capital and what's not capital. There are a lot of areas where you are trying to get citizen support for providing benches, picnic tables, and facilities, but very little, it seems to me, going into the actual purchase or construction of park facilities. There may be some, but not a lot. I think you can get some by volunteerism, but if you are asking me is there a real big thrust at the state level across the country to get what I consider to be capital monies for office buildings, university buildings, and anything like the directions you are talking about as new ventures, no, I don't see any such movement.

Now, there are a couple of local governments who have sold their art museums and so on to local businesses for the purposes of getting the depreciation under Safe-Harbor leasing. Baltimore's art museum, I believe, is now owned by . . . who knows? It's a private firm. Some of the New York railroads have been selling . . . the Port Authority has been selling some of its cars to private businesses who are taking the depreciation and the Port Authority is renting them back. There has been a little bit of that kind of thing going on, but I would not call it a movement that affects capital budgeting problems.

## Chapter Six

# Key Budget Issues in Major Departments In State Government

by Ran Coble

At this point in the program, I'm going to review with you some of the findings of the N.C. Center staff, since with Jack Brizius and Ken Howard, we took a look at some of the key budget issues in the major departments in state government. On the way to that department-by-department examination, we found some items that seem to belie the statement made on the 1st page of the *Summary of the Recommended State Budget for the 1983-85 Biennium*. The document says, "The Governor and Advisory Budget Commission are recommending at this time a State budget which includes the continuation budget and only 1 expansion item, the reinstatement of the merit salary increment and annual salary step for state employees and teachers."

However, if you'll look at Table 6.1, you'll see a list of "Expansion Items in the 1983-85 Budget." And, looking down our list, you'll find not only the merit salary program but examples of:

(a) new programs: a Special Intelligence Unit in the Dept. of Revenue;

(b) expansion of existing programs: The state's role in the Microelectronics Center has been expanded from one of **constructing** the Center to **operation** and purchase of equipment; and

(c) payment increases: There are proposals for a 5% increase in payments to rest homes, and for increases for changes in caseloads in both the Medicaid program and in legal counsel for indigent defendants.

Now, that list is not meant to be critical of the programs that are listed there. Many of those expansions are worthwhile programs. The list is provided to illustrate one of our major themes today: that the budget is a political document as well as a policy document. And, if you maintain that there is only 1 expansion item, you shift legislators' and media attention to the merit salary increment (which is politically popular) and away from other items.

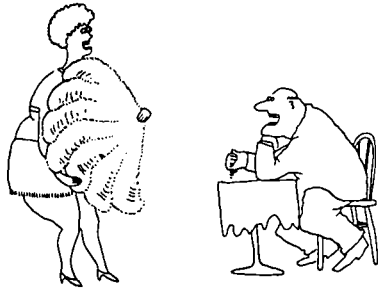
**TABLE 6.1. EXPANSION ITEMS IN THE 1983-85 PROPOSED BUDGET IDENTIFIED BY THE N.C. CENTER FOR PUBLIC POLICY RESEARCH**

	<u>1983-84</u>	<u>1984-85</u>		<u>1983-84</u>	<u>1984-85</u>
1. Merit salary increment and annual salary step programs reinstatement .....	\$ 95,974,471	\$207,138,792	11. HUD Group Homes: final phase of start-up of 2 homes (Intermediate Care Facilities for the Mentally Retarded) .....	1,648,315	652,000
2. Medicaid: adjustment for changes in caseload, federal participation, and inflationary increases .....	15,618,000*	32,538,000*	12. Community Colleges: training employees for new and expanding industry .....	1,249,440	1,249,440
3. School buses: replacement of 1/2 of fleet .....	13,352,365	13,520,365	13. Coastal Zone Management & Dredge & Fill Laws: increases to offset federal budget cuts ..	524,867	879,215
4. Elementary textbook adoption schedule .....	11,205,445	11,620,694	14. Revenue: 22 new staff positions to improve tax collections ...	500,000	1,000,000
5. Microelectronics Center: for operation of facilities currently under construction and for purchase of communications equipment linking 5 universities ..	4,114,000	6,904,000	15. Prison population: increases in projected population .....	451,424	1,537,677
6. Community colleges: additional instructional equipment funds ..	3,680,268	3,680,268	16. Western N.C. Tomorrow and Northeastern N.C. Tomorrow: area development grants ...	350,000	400,000
7. "Willie M" program: increase in reserve for treatment and education of emotionally disturbed youth with violent tendencies .....	3,140,601	2,988,396	17. Waste Management: science & technology .....	300,000	300,000
8. State/County Special Assistance Program: increase in payments for persons in rest homes ...	2,670,203	3,101,652	18. Public School Testing Program: add writing component .....	300,000	300,000
9. Legal Counsel for Indigents increases .....	1,804,359	1,804,359	19. Revenue: 7 new positions for a Special Intelligence Unit ...	210,000	215,000
10. Math and science education: improvements in training of teachers and instruction of students in math & science ..	1,800,000	1,800,000	20. Grants to fire districts .....	200,000	200,000
			21. Beach Access Program for purchase of land .....	100,000	100,000
			22. Rendezvous Mountain Small State Forest: funds for staff to open forest .....	38,999	39,057
			Totals .....	<u>\$159,232,757</u>	<u>\$291,968,915</u>

\*This figure is the amount of increase in state net appropriations. The increases in the total Medicaid program (federal, state, & local shares) are \$67,766,716 for FY 83-84 and \$137,868,579 for FY 84-85.

Allow me to quote a voice from the 18th century, Bishop Butler, who once said, "Men first raise a dust, and then complain they cannot see."

With that in mind, try not to be intimidated by Table 6.2,



*... agencies survive and can play the budgeting game in such a way that their programs and performance are effectively concealed from central scrutiny."*

because it illustrates a chicken that has come home to roost. What that table, labeled "Funding for Capital Improvements in North Carolina by Source of Funds," shows you is that over a 17-year period, the *sources* of funds for capital improvements are drying up. That is, federal revenue sharing money to the states is gone. The Highway Fund is depleted. And, the table shows you that *capital improvements as a percentage of the state budget* have declined from a high of 17.4% in 1973-74 and an average of 9.3% to a low of 5.6% in 1981-82. Finally, we look in this budget and see it tells us that there is no money *proposed* for capital improvements in 1983-84.

Let me give you one illustration of how that is bad budget policy. The Department of Human Resources has 1,100 buildings with roofs. If you assume a 20-year life for each roof, the state should plan for 55 new roofs per year. There is no money proposed in this area for the biennium. As

**Table 6.2 FUNDING FOR CAPITAL IMPROVEMENTS**

Biennial Budgets.

	1965-66	1967-68	1969-70	1971-72	1973-74
<b>A. State Appropriated Funds for Capital Improvements</b>					
1. Federal Revenue Sharing	—	—	—	—	\$105,200
2. General Fund	\$ 41,639,578	\$112,356,788	\$ 75,588,603	\$ 64,891,192	86,622
3. Highway Fund (non-roads)	3,192,800	4,344,600	1,080,000	4,097,293	4,044
4. Wildlife Fund	341,254	901,127	140,000	805,986	243
5. Federal Funds	3,782,160	19,048,597	11,628,579	1,398,770	3,720
6. Self Liquidating	34,074,000	36,023,000	16,731,000	24,000,000	41,589
7. Other	—	—	—	—	733
8. Highway Fund — Road Construction <sup>1</sup>					
a. State construction and maintenance	97,000,000	100,000,000	168,000,000	185,000,000	220,000
b. State Matching Funds Matched with Federal Aid	34,006,864	30,797,332	35,307,645	67,460,595	38,785
<b>Total Appropriations for Capital Improvements</b>	214,036,656	303,471,444	308,475,827	347,653,836	500,939
Total Authorized State Budget <sup>2</sup>	2,217,400,000	2,746,600,000	3,589,000,000	4,455,400,000	2,877,900
<b>Total Appropriations for Capital Improvements As Percentage of Total Authorized State Budget</b>	9.7%	11.0%	8.6%	7.8%	17.4%
<b>B. Other Capital Improvements Funded by Federal Aid &amp; Bond Issues</b>					
1. Road Construction Funds <sup>1</sup>					
a. Federal Aid	—	60,823,831	74,772,211	110,661,742	96,904
b. Road Bonds	—	—	—	—	—
2. Statewide Bond Issues <sup>3</sup>	60,000,000 <sup>4</sup>	40,000,000 <sup>4</sup>	—	45,995,000 <sup>6</sup>	—
	17,970,000 <sup>5</sup>	—	—	—	45,000
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
<b>Total Bonds Sold</b>	77,970,000	40,000,000	-0-	45,995,000	45,000
<b>Total Bonds Sold as Percentage of Total Authorized State Budget</b>	3.5%	1.5%	0%	1.0%	1.6%

FOOTNOTES:

<sup>1</sup>Source: Fiscal Section, Dept. of Transportation.  
<sup>2</sup>Summary of the Recommended State Budget, 1981-83, p. 75.  
<sup>3</sup>Source: Annual Report for FY Ending 6/30/80, Dept. of State Auditor. Amounts are for end of fiscal year. No figures appear for 1981-82 because fiscal year had not ended. Amounts are for bonds *issued*, not *authorized*.  
<sup>4</sup>Issued under \$100 million Public School Facilities Bond of 1963.

<sup>5</sup>Issued under \$17.98 million Capital Improvements for State Institutions Bond of 1965.  
<sup>6</sup>Issued under \$45.99 million Capital Improvement Legislative Bond of 1971.  
<sup>7</sup>Issued under \$300 million Public School Facilities Bond of 1973.  
<sup>8</sup>Issued under \$2 million Zoo Bond of 1971.  
<sup>9</sup>Issued under \$150 million Clean Water Bond of 1971.

a theme in my remarks, I'll also adopt the voice of the TV commercial, "You can pay me now, or you can pay me later."

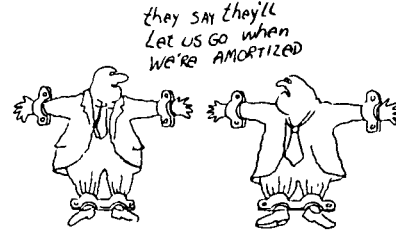
Let's turn now to the budget issues identified by Lacy Maddox and Jim Bryan, two of the fine researchers on the Center's staff who put this material together for you.

The key budget issue in the Department of Correction is obvious. We have an increasing prison population that is being jammed into facilities that weren't built to handle them. The prison population is projected to grow from 14,740 in 1979-80 to 18,700 in 1984-85. Yet, this budget proposes a modest \$451,000 expenditure to handle this increase: no new prisons, no alternatives to incarceration, and no rollovers of facilities like Dix Hospital to catch the spillover of prisoners. This is a lawsuit waiting for a lawyer to happen upon it. Let's look at the alternatives:

(1) We can build more prisons at an estimated cost of \$54,000 to \$72,000 per cell. Multiply that by the projected

1984-85 population and you'll get an expenditure of \$216 million. Judge Pou Bailey of Wake County recently said in a TV interview in Raleigh that the public is going to have to recognize that locking people up costs money.

(2) The second option is presented by the Citizens' Commission on Alternatives to Incarceration, who point out



*\*Commonly, fixed equipment in a new building is recognized as part of the capital costs of the structure\**

**ORTH CAROLINA BY SOURCE OF FUNDS, 1965-82**

**Annual Budgets**

1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
47,200,000	\$ 4,713,789	\$ 16,126,358	\$26,583,626	\$ 32,230,000	—	—	—
36,165,337	23,948,648	28,969,937	4,749,000	93,778,818	84,378,719	99,913,212	\$26,848,727
370,000	1,804,500	—	1,625,600	1,533,995	2,707,282	2,767,142	1,200,000
—	—	—	—	—	—	—	—
803,750	1,778,250	5,473,750	2,603,932	1,744,537	2,065,675	2,638,000	—
2,225,00	9,668,000	4,270,000	39,730,000	—	64,446,000	—	—
640,000	32,625	205,625	294,750	780,000	247,600	767,024	3,157,000 <sup>13</sup>
17,000,000	222,680,022	189,515,053	202,526,769	239,085,854	220,546,132	202,469,807	283,829,644
<u>46,993,248</u>	<u>35,750,287</u>	<u>62,740,266</u>	<u>53,770,401</u>	<u>42,729,448</u>	<u>52,622,297</u>	<u>12,777,486</u>	<u>12,714,934</u>
51,397,335	300,376,121	307,300,989	331,884,078	411,882,652	427,013,705	321,332,871	327,750,305
80,900,000	3,247,600,000	3,462,600,000	3,977,300,000	4,410,900,000	5,032,300,000	5,443,100,000	5,864,000,000
<b>11.4%</b>	<b>9.2%</b>	<b>8.9%</b>	<b>8.3%</b>	<b>9.3%</b>	<b>8.5%</b>	<b>5.9%</b>	<b>5.6%</b>
08,630,694	104,143,939	189,477,549	224,500,698	197,827,840	206,058,766	166,141,122	—
—	—	—	60,000,000	60,000,000	60,000,000	45,000,000	—
1,500,000 <sup>8</sup>	—	—	—	—	—	—	3
29,500,000 <sup>9</sup>	15,000,000 <sup>9</sup>	35,000,000 <sup>9</sup>	30,000,000 <sup>9</sup>	4,000,000 <sup>9</sup>	28,000,000 <sup>9</sup>	—	—
05,000,000 <sup>7</sup>	90,000,000 <sup>7</sup>	25,000,000 <sup>7</sup>	16,250,000 <sup>7</sup>	18,750,000 <sup>7</sup>	—	—	—
—	—	25,000,000 <sup>10</sup>	18,250,000 <sup>10</sup>	—	—	—	—
—	—	—	—	20,500,000 <sup>11</sup>	—	45,000,000 <sup>11</sup>	—
—	—	—	—	—	—	—	-0- <sup>12</sup>
<u>36,000,000</u>	<u>105,000,000</u>	<u>85,000,000</u>	<u>124,500,000</u>	<u>103,250,000</u>	<u>88,000,000</u>	<u>90,000,000</u>	
<b>4.4%</b>	<b>3.2%</b>	<b>2.5%</b>	<b>3.1%</b>	<b>2.3%</b>	<b>1.7%</b>	<b>1.7%</b>	

<sup>8</sup>Issued under \$43.27 million Capital Improvements for Higher Education Bond of 1975.

<sup>9</sup>Issued under \$230 million Clean Water Bond of 1977. (More bonds could be issued in the future.)

<sup>10</sup>No bonds have been approved by the voters at this writing under the \$300 million Clean Water Bonds approved by the General Assembly in 1981. Bond issues in notes 4-11 were first authorized by the legislature and then approved by the voters.

<sup>13</sup>Special appropriation bills approved in fall 1981 session.

This chart was designed and compiled by Vance Sanders and Ran Coble. Glenn Kiger and Cathy Garrett, Center interns, assisted with research and computations. See *N.C. Insight*, Vol. 4, No. 4 (December 1981), pp. 17-24.

that 76% of the inmates *admitted* in 1980 were for nonviolent crimes, and a large percentage of those were first offenders. Fifty-five percent of the *stock* population is comprised of nonviolent offenders. Thus the Commission questions whether we need to incarcerate that many people.

The budget's biggest sin is not that it makes the wrong choice: It is that it makes no choice.

Turning to the Department of Human Resources (DHR), you see a problem of a different order regarding state institutions.

There are 23 of DHR's institutions listed in the sidebar, and in most cases, you'll see a clear trend: Over the last decade, the **populations** in the mental hospitals, in the mental retardation centers, in the schools for the deaf and blind, and in the youth services training schools have been declining. Meanwhile, the **appropriations** for these same institutions have been on the incline.

Thus, the proposed Dix Hospital closing in Raleigh was the first of many situations where the population has

declined so far that you have to wonder whether the state is spending an inordinate amount of money keeping an institution open past its useful life. There will always be a legitimate concern by legislators over the people who *may* lose their jobs if an institution is closed suddenly. There will also always be a legitimate concern by county officials who don't want the institution's patients or clients dumped on the local budget's doorsteps.

Those are the two places the reaction is going to come from. At that point, you have to hope that the good of the state takes over. And I don't want to say that that necessarily means closing an institution. It may not. But I do say that those daily population lines are straight downward, and that we are going to have more situations where we have to decide whether to close an institution, or you are going to pay for a dual system of mental health care, training schools, schools for the deaf and blind, and mental hospitals. That is, you are going to pay for a community-based approach and you are going to pay for an institutional approach. I question

## DEPARTMENT OF HUMAN RESOURCES

### Key Policy Questions in the State Budget

- A. (1) Should the state fund:  
 4 mental hospitals  
 4 mental retardation centers  
 3 schools for the deaf  
 1 school for the blind  
 5 youth training schools  
 3 alcoholic rehabilitation centers  
 1 special care center, and  
 2 specialty hospitals  
 in light of the declining populations due to mainstreaming and community-based programs begun in the 1970s?
- (2) Should these services be provided in an institutional setting?

### Average Daily Population Statistics:

	69-70	74-75	81-82
<b>A. Mental hospitals</b>			
1. Broughton	2,126	1,492	835
2. Chery	1,870	996	718
3. Dix	2,261	1,214	636
4. Umstead	1,275	1,016	637
<b>B. Mental Retardation Centers</b>			
1. Caswell	1,814	1,419	1,010
2. Murdoch	1,504	1,248	898
3. O'Berry	893	724	541
4. Western Carolina	772	595	590
<b>C. Schools for the Deaf</b>		<b>75-76</b>	
1. Greensboro	—	187	170
2. Morganton	554	605	492
3. Wilson	250	378	457
<b>D. School for the Blind</b>	456	328	200
<b>E. Youth Services Training Schools</b>	<b>72-73</b>	<b>74-75</b>	<b>80-81</b>
1. Dillon	103	110	85
2. Dobbs	198	150	155
3. Jackson	237	240	144
4. Samarkand Manor	231	240	195
5. Swannanoa	263	270	143
<b>F. Alcoholic Rehabilitation Centers</b>	<b>69-70</b>	<b>74-75</b>	<b>81-82</b>
1. Black Mountain	61	107	82
2. Butner	63	62	59
3. Greenville	40	62	67
<b>G. Special Care Center in Wilson</b>			
<b>H. Specialty Hospital:</b>			
1. Lenox Baker Cerebral Palsy Hospital in Durham			

### History of Actual Expenditures:

	69-70	79-80	81-82	1983-84
<b>A. Mental hospitals</b>	\$ 6,810,911	\$14,844,439		\$22,551,676
1. Broughton	7,793,628	16,553,968		21,826,131
2. Chery	8,432,023	17,976,831		25,857,139
3. Dix	6,240,985	13,582,606		20,687,901
<b>Totals:</b>	<b>\$29,277,547</b>	<b>\$62,957,844</b>		<b>\$90,922,847</b>
<b>B. Mental Retardation Centers</b>	5,604,479	16,184,195		11,972,794
1. Caswell	6,104,754	12,471,015		17,531,883
2. Murdoch	4,167,442	2,796,169		2,610,380
3. O'Berry	3,925,840	4,652,289		3,020,194
<b>Totals:</b>	<b>\$19,802,515</b>	<b>\$36,103,668</b>		<b>\$35,135,251</b>
<b>C. Schools for the Deaf</b>	—	1,814,098		
1. Greensboro	1,841,238	4,965,322		
2. Morganton	836,662	2,940,146		
<b>Totals:</b>	<b>\$4,568,233</b>	<b>\$ 9,719,566</b>		<b>\$12,440,636</b>
<b>D. School for the Blind</b>		75-76		
	\$ 1,890,333	\$ 2,254,074		\$ 3,716,970
<b>E. Youth Services Training Schools</b>	<b>71-72</b>			
1. Dillon	\$ 616,277	\$ 1,690,167	\$ 2,001,777	
2. Dobbs	763,647	1,954,437	2,308,942	
3. Jackson	1,060,710	2,192,994	2,415,683	
4. Samarkand Manor	1,085,113	2,947,966	3,219,936	
5. Swannanoa	1,394,084	2,622,172	2,882,349	
<b>Totals:</b>	<b>\$ 4,919,831</b>	<b>\$11,407,736</b>	<b>\$12,828,687</b>	<b>\$13,650,285</b>
<b>F. Alcoholic Rehabilitation Centers</b>		75-76		
1. Black Mountain	\$ 616,945	\$ 2,219,107	\$ 2,535,621	
2. Butner	627,247	1,765,435	1,916,968	
3. Greenville	635,727	1,513,633	1,621,813	
<b>Totals:</b>	<b>\$ 1,879,919</b>	<b>\$ 4,362,279</b>	<b>\$ 5,498,175</b>	<b>\$ 6,074,402</b>
<b>G. Special Care Center in Wilson</b>			\$ 2,593,235	\$ 3,057,384
<b>H. Specialty Hospital:</b>			\$ 285,060	\$ 524,833
1. Lenox Baker Cerebral Palsy Hospital in Durham				

Source: DHR Division of Budget and Analysis and N.C. Center staff calculations.

whether the state can afford that in light of those two trends.

In case you don't believe that those two trends (of institutional population going down and appropriations going up) will continue, let's look at some institutions that have been closed in the past years and see why, because I think those trends are going to recur. Let's look at what the institutions that were closed over the last ten years tell us about the next ten years.\*

If you look at those institutions, you'll find three reasons for the closings:

(a) **Breakthroughs in medical science:** We learned to treat tuberculosis and lost the need for the three sanitoriums the state used to operate. The use of psychotropic drugs is one of the major reasons you see a decline in population in the mental hospitals because the drugs can be used in a community setting without locking people up.

(b) **Demographic changes** closed some institutions, the easiest example being the Confederate Women's Home in Fayetteville. One hundred and twenty years after the Civil

War, we closed the home. There were only nine residents left when that home closed in 1981.

(c) **Policy changes** probably closed some institutions. The decision to adopt community-based programs for juvenile offenders probably helped close one of the training schools. And, the policy change to keep status offenders out of the training schools probably closed another school.

We at the Center think each of these forces is still at work and that the legislature needs to take a look at these institutions. The Secretary of Human Resources, Sarah T. Morrow, wasn't out to "get Dix," but she was seeing in the mental hospital system what is true in many of the institutions in that Department — you can pay me now or you can pay me later.

If you'll look at the information on the Department of Natural Resources and Community Development (NRCD),

\*I am greatly indebted to Jim Johnson, senior fiscal analyst at the Fiscal Research Division of the N.C. General Assembly, for his thoughtful approach to this question.

## DEPARTMENT OF HUMAN RESOURCES

### Key Policy Question in State Budget

B. What should the state policy be with respect to the growth in beds in Intermediate Care Facilities for the Mentally Retarded (ICF/MR)?

Control over this growth could be implemented through the development of standards and criteria upon which denial of a request for a Certificate of Need could be based.

C. What should the state's plan be for maintenance of the department's buildings, electrical, and water and sewer systems?

D. What will be the state's response to increasing Medicaid expenditures over the next few years? The policy choices are:  
(1) To continue the level of service and pay the resulting cost increases; OR

### Important Facts

1. In the past, state money has gone to these facilities to build and certify new beds. Now state money goes to these facilities because the ICF/MR certified beds are for Medicaid recipients.

Uncontrolled growth in state and private ICF/MR certified beds could require a major commitment of future Medicaid funds.

Number of ICF/MR beds *	Average number of residents:
1979-80 — 1830	1615
1980-81 — 2276	1731
1981-82 — 2204	1829
1982-83 — 2440	2167
1983-84 — 2440	2215
1984-85 — 2440	2311

DHR has 1,100 buildings with roofs. If you assume a 20-year life for each roof, the state should plan for 55 new roofs per year. The upkeep and maintenance of all the DHR buildings are falling behind. To postpone what should be routine maintenance will cause later repairs to be more expensive.

The projected increase in 1983-84 and 1984-85 is primarily due to the increase in health care costs. The inflation rate in health care costs has greatly outpaced overall inflation.

There are two types of Medicaid recipients. The first is **categorically needy**—those who qualify for Medicaid because they qualify for AFDC. Since the AFDC population has decreased, the categorically needy population has probably decreased also.

The second type of Medicaid recipient is the **medically needy**. The elderly population is increasing and the potential population of medically needy is also.

Categorically needy Medicaid recipients normally receive less expensive services. Medically needy normally require much more expensive services. So, even if there is a decrease in the number of categorically needy which offsets the growth in the number of medically needy, overall costs would still increase.

North Carolina's elderly population, and therefore its potential medically needy population, is increasing at a greater rate than the elderly population nationwide.

#### Population over 65, percentage growth

	N.C.	Nationwide
1970-1980	45%	28%
1980-1990	42%	25%
1990-2000	23%	10%

In 1978 the cost per aged medically needy and categorically needy Medicaid recipient was \$1,249; in 1982 it was \$2,561.

### Proposed Budget Figures

Capital authorization in General Fund appropriations proposed  
1983-85 ..... \$0

	Medicaid Net Appropriations	Increase	
		Amount	Percentage
1981-82:	132,117,387	—	—
1982-83:	170,618,790	38,501,403	29.1
1983-84:	187,015,483	16,396,693	9.6
1984-85:	196,527,655	9,512,172	5.1

Inflation Rates  
1982 General inflation rate ..... 3.9%  
1982 Rate of inflation in health care costs ..... 11.0%

(2) To cut optional services and provide a lower overall standard of care and/or to require co-payments or deductibles with certain services.

you will see four examples of the effects of federal budget cuts on the state budget. The General Assembly adopted a conscious policy of passing along the cuts in the 1981 session. That is, if the federal government cut a program by 20-25%, that cut was passed along through the state budgeting process. Then in 1982, the General Assembly made a few attempts to offset federal budget cuts, notably by raising the standard of need in the AFDC program and by passing an authorization act for Clean Water Bonds. One of the points we want to make today is that NRCD is the only department that consciously chose to try to offset federal cuts with state increases, notably in the Coastal Area Management program. This new examination of state priorities in light of federal cuts is healthy, we think. In some areas, the state may want to continue to pass the cuts on. In others, the state may want to use its new flexibility and offset the cuts. The important thing here is the legislature has to

set up a process to handle this kind of question in more than an incremental fashion.

Two areas where this is particularly important come to mind. The first is in water and sewer construction grants. Federal cuts here really hurt municipal governments, and I'll leave it to Leigh Wilson to explore that a little more. The second area is housing. I'll borrow from some work by the Center in a previous issue of *N.C. Insight* (Vol. 5, No. 2) that followed up our report on **Federal Budget Cuts in North Carolina** (April 1982). That report concentrated on federal cuts that affected the *state* budget. We later discovered huge cuts in federal programs like housing that bypassed the state budget and went directly to the *local* governments. In housing, we found cuts of 63% in new construction funds in N.C. To its credit, the General Assembly set up a Housing Study Commission, chaired by Rep. Ruth Cook (D-Wake). That commission has now made its report, and I commend it to you. Their recommendations propose

## DEPARTMENT OF CORRECTION

### Key Policy Questions in the State Budget:

- A. The state faces a critical problem of prison overcrowding. Three are three policy choices:
  - 1. Build more prisons
  
- 2. Find alternatives to incarceration
  
- 3. Allow overcrowding to continue
  
- B. Whether the state will increase staff and administrative support to supervise projected increase in number of parolees and probationers

### Important Facts:

- 1. Recommended 83-85 budget includes funds for increased number of inmates. No appropriations recommended for new facilities.
- 2. Estimates for cost of one new prison cell range from \$54,000 to \$72,000 per cell.
- 3. Average daily prison population:
 

	Percentage Increase
Actual 79-80 — 14,740	
Actual 80-81 — 15,737	6.8%
Actual 81-82 — 16,319	3.7
Projected 82-83 — 17,500	7.2
Projected 83-84 — 17,900	2.3
Projected 84-85 — 18,700	4.5
- 4. Increased rate of imprisonment due to concern about crime and Fair Sentencing Act, not due to higher crime rate.
- 5. It costs \$9,500 to imprison one person for one year.
  - 1. 76% of inmates *admitted* in 1980 were for nonviolent crimes, and a large percentage of these persons were first offenders.
  - 2. 55% of the *stock population* is comprised of nonviolent offenders.

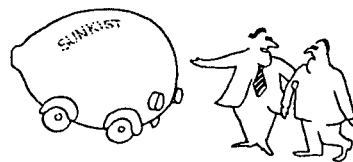
### Budget Amounts:

Recommended, 1983-84	.....	\$179,262,480
Actual, 1981-82	.....	\$151,194,957
	1983-84	1984-85
Increases for increased inmate population	\$451,424	\$1,537,677

- 1. Population of probationers and parolees is projected to increase
 

	Percentage Increase
82-83 — 48,623	
83-84 — 51,119	5.1
84-85 — 53,674	5.0
- 2. Average caseload for each probation and parole officer is higher than national average.
 

National average: 60 to 70	
North Carolina average caseload per officer:	
80-81 actual	— 100
81-82 actual	— 104
82-83 projected	— 108
83-84 projected	— 112
84-85 projected	— 116



*"It does little good to be the leading manufacturer of Edsels or Studebakers."*

Sources: Report of Citizens Commission on Alternatives to Incarceration; Office of Management and Productivity, Department of Correction

solutions to two problems. The state must make conscious choices to offset federal cuts — here, in housing. And, there is a longtime problem of North Carolina having one of the highest rates of substandard housing in the U.S. This budget does little about those problems. The Cook Commission recommendations do.

The Department of Public Instruction composes the biggest part of the budget. The main story in public education is what is happening in the population — enrollment is headed down for a 4-5 year period, then to go back up. In a system that is funded largely on the basis of ADM (average daily membership), that may drive down total expenditures and the number of teaching positions. It was a surprise to us to find that, in an “education state” with an “education governor,” the percentage of state expenditures in this area has remained fairly constant or declined over time.

Declining enrollments present two crises or two opportunities — one in the classroom and the other in the physical plant. Legislators could choose to view this as a



*“a clear definition of goals is necessary...”*

## DEPARTMENT OF NATURAL RESOURCES AND COMMUNITY DEVELOPMENT

### Key Policy Questions in the State Budget

A. Whether to adopt the recommended 1983-85 budget for Coastal Area Management Act (CAMA), Dredge & Fill Law, and Beach Access which calls for \$524,867 of new state money in 1983-84 and \$879,215 in 1984-85?

### Important Facts

- In 1981, the federal/state/local funding ratio was 82.2%/13.5%/4.3%.
- For 1983-84 with proposed federal budget cuts, the proposed funding ratio is 32.4%/64.9%/2.7%. For 1984-85, it is 0%/97.5%/2.5%.
- The total CAMA budget proposed for 1983-84 is 65% less than funding for 1981-82.
- The proposed 1983-84 budget recommends new state appropriations of \$524,867 and the 1984-85 budget recommends new state appropriations of \$879,215.

### Budget Figures

	Amount
1981-82	
federal	\$1.50 mil.
state	.25 mil.
local/receipts	.08 mil.
Total	\$1.83 mil.
1982-83	
federal	\$1.18 mil.
state	.25 mil.
local/receipts	.03 mil.
Total	\$1.46 mil.
1983-84	
federal	\$.38 mil.
state	.24 mil.
local/receipts	.03 mil.
new state money	.52 mil.
Total	\$1.17 mil.
1984-85	
federal	\$.00 mil.
state	.24 mil.
local/receipts	.03 mil.
new state money	.88 mil.
Total	\$1.15 mil.

B. Whether changes in federal funding formulas for wastewater treatment construction grants will have an impact on state and local governments?

- As of 10/1/83, the federal share of wastewater treatment construction grants will drop, while the state and local matching share will be required to increase.
- The recommended state budget includes no increase to offset cuts in federal funds.

	federal	state	local
1982-83	75%	12.5%	12.5%
1983-84	55%	22.5%	22.5%

C. Whether federal budget cuts and reallocations in job training programs are consistent with the state's own priorities in this area?

- The Job Training and Partnership Act (JTPA) replaces the Comprehensive Employment & Training Act (CETA). It reduces the federal allocation in basic training, but increases the federal allocation in Governor's special grants and in the dislocated worker program.

	federal	amount
1982-83		\$68.1 mil. (CETA)
1983-84		\$64.7 mil. (JTPA)
Total		
basic	1982-83	\$46.4 mil. (CETA)
training	1983-84	\$34.4 mil. (JTPA)
Governor's	1982-83	\$ 4.5 mil. (CETA)
special	1983-84	\$ 9.7 mil. (JTPA)
grants		
dislocated	1982-83	\$ .4 mil. (CETA)
worker	1983-84	\$ 3.9 mil. (JTPA)



time to review the applicability of the ADM formula or even to let the formula reduce school expenditures. Or, the opportunity is there to hold the number of teaching positions constant and use the declining enrollments to reduce class size.

The opportunity also exists to examine the physical plant needs in a situation that is more favorable than the one the Department of Correction is going through. It is much easier to examine facility needs now, before the baby boom takes full effect (also see pp. 12 and 73 for analysis of likely school enrollment trends).

The main budget issue in the Department of Transportation is whether the state is going to find the funds to match the federal funds available. I won't dwell on that beyond what others have said other than to say that if the

state gets the funds, we may need to begin to think about the relative priorities among construction projects, especially on whether to continue with our plans on *secondary* road construction, and construction versus maintenance priorities, particularly bridge maintenance.

The last issue we want to highlight is one that is not addressed by this budget and is N.C.'s version of the federal Social Security crisis. The net appropriation in 1982-83 for the health insurance program for retired government employees and teachers was \$22.2 million. The Treasurer's Office told us that this will be \$500,000 under actual requirements this year. The net appropriations recommended for each year of the coming biennium are likely to be \$2.5 million under what is needed. Again, you can pay me now, or you can pay me later.

## DEPARTMENT OF PUBLIC INSTRUCTION

### Key Policy Questions in the State Budget

A. What policies in public education should the state pursue in light of declining enrollment?

1) as to the classroom:

### Possible Policies

(a) reduce class size

(a) teaching positions would hold constant as opposed to the decline that would normally occur under the average daily membership formula.

(b) reduce number of teaching positions

(b) this would normally occur under the average daily membership formula

2) as to the physical plant:

(a) replace substandard buildings in existing schools

(a) could improve the physical structure of schools during the time enrollment is dropping

(b) build new schools

(b) risk possibility of underenrollment and underutilization of new schools

### Possible Vehicles for Implementing Policies (a) and (b)

1. Capital improvement appropriations (No capital improvements are said to exist in 1983-85 State Budget.)

2. Bond issue (All \$300 mil. in bonds have been sold under 1973 Public School Facilities Bond.)

3. Sales tax with a portion of the revenues earmarked for schools (Senate Bill 51: North Carolina Anti-Recession Public Works and Tax Equity Act of 1983 would earmark \$60.0 million for public school facilities.)

(c) close schools

(c) transfer teachers and pupils to remaining schools, which causes an increase in use of physical plant in remaining schools.

B. What policies should the state pursue in light of the fact that the state and federal shares of total public school funding have declined while the local share has grown?

1. In 1971-72, the state/federal/local percentages of total public school funding were 66.8%/15.2%/18.0%.

2. In 1980-81, the state/federal/local percentages had changed to 63.9%/12.8%/23.3%.

3. With the growing responsibility of paying a larger share to fund public education, local education agencies (LEAs) in areas lacking adequate tax bases cannot always raise their per pupil expenditures.

### Facts

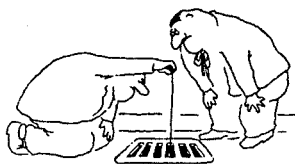
School Year	Average Daily Membership For Budgeting Purposes	Regular Classroom Teaching Positions
1976-77	1,200,922	41,446
1977-78	1,191,237	41,253
1978-79	1,173,078	40,875
1979-80	1,155,224	39,921
1980-81	1,135,618	39,314
1981-82	1,114,152	38,607
1982-83	1,099,018	37,976
1983-84	1,087,694	37,623
1984-85	1,079,570	37,368

### School Facility Needs (1980-81), as reported by Dept. of Public Instruction

Replace temporary facilities	\$ 125.1 mil.
Replace obsolete facilities	826.8 mil.
Renovate buildings suitable for long-range use	249.9 mil.
Provide facilities for exceptional children	72.2 mil.
Provide for accessibility for the handicapped	39.3 mil.
Renovate for energy conservation	106.2 mil.
Provide for community school-related projects	88.4 mil.
Provide facilities for administration, maintenance, transportation, storage	88.6 mil.
Other needs	224.7 mil.
<b>Total:</b>	<b>\$1,821.1 mil.</b>

### History of Pupil Expenditures % of total

school year	State	Federal	Local
1971-72	66.8	15.2	18.0
1972-73	66.4	14.2	19.4
1973-74	68.8	12.6	18.6
1974-75	67.5	13.3	19.2
1975-76	66.8	13.2	20.0
1976-77	66.4	13.2	20.4
1977-78	63.6	12.2	23.6
1978-79	63.3	13.1	24.2
1979-80	62.8	13.0	24.2
1980-81	63.9	12.8	23.3



*Legislators get caught spending inordinate amounts of time trying to save relatively trifling sums.*

Remember that the things we discussed here are posed as questions. We hope that by putting forward this initial research, we can start the public debate or carry any existing debate one step further. We hope that these three

presentations [by Brizius, Howard, and Coble] have helped you understand the assumptions and priorities in the proposed budget.

### DEPARTMENT OF TRANSPORTATION

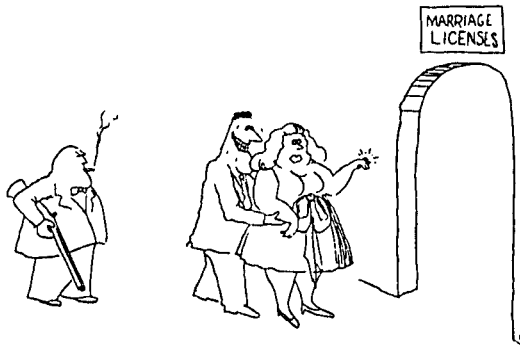
**Key Policy Question in the State Budget**

A. Whether state matching funds for federal aid highway construction funds can be raised?

**Important Facts**

1. The federal Transportation Assistance Act of 1982 will provide the state additional federal aid for highway construction, bridge replacement, and mass transit.
2. State funds needed to match the increased federal aid amount to more than 4 1/2 times what was budgeted in the recommended amounts for 1983-84.
3. It is projected that the remaining funds in the 1977 Highway Bond Fund can match federal aid for the current year, 1982-83. However, \$55.8 million in 1983-84 and \$62.6 million in 1984-85 in new state funds are needed to match the federal aid available.

Fiscal Year	Federal Aid	State Match	State Funds in Recommended Budget
1982-83	\$248.9 mil.	\$63.3 mil.	—
1983-84	\$274.3 mil.	\$70.3 mil.	\$14.8 mil.
1984-85	\$291.0 mil.	\$74.9 mil.	\$12.3 mil.



*"...The speed with which states adopt new ideas in a wide range of policy fields relates to both economic and political factors."*

### DEPARTMENT OF STATE TREASURER

**Key Policy Question in the State Budget:**

Should the state explore alternative methods of retirement benefits in the future?

**Important Facts:**

The net appropriation authorized for payment of health insurance for retired state government employees and teachers in 82-83 is \$22.2 million. The Treasurer's Office estimates that this will be \$500,000 under actual requirements for this fiscal year. The office also estimates that the 83-84 recommended net appropriation for these benefits (\$22.2 million) will be \$2.5 million under what is actually needed.

**Proposed Budget Figures:**

Net appropriation, each year 1982-85 — \$22,211,425.

## Chapter Seven

# How the State Budget Affects Counties In North Carolina

by Ron Aycock



**Ran Coble:** We're going to look now at how the state budget affects local governments in North Carolina.

I would like to introduce Ron Aycock. As you know, he is Executive Director and General Counsel for the North Carolina Association of County Commissioners. He has been with that organization since 1977. I think his leadership is very special. He is an outstanding spokesman for the counties, but I think he also has a wonderful perspective on what the good of the state is. Will you please welcome Ron Aycock.

**Ron Aycock:** Thank you, Ran. My advocacy for the County Commissioners' Association is from the county government perspective. I'd like to explain that some by making the distinction between myself and a lobbyist. Those of you in the General Assembly know that too often the term "lobbyist" has a bad connotation. I don't believe that it does. I think "lobbyist" has a good connotation, but just to be sure, I'll say that I'm not a lobbyist; I'm a public interest advocate, so long as you define the county interest as a public interest. So, I'm a public interest advocate, which is a county government interest advocate.

Ran has asked us to give you some thoughts and observations on the state budget as it affects the county budget. I think before I begin that I ought to put some things in perspective. The collective county budget—that revenue budget which the county commissioners have some control over—is now (for 1981-1982) approaching \$1,000,000,000. Property tax revenue is, obviously, the largest component of that, being a little over \$700 million of that total.

Sales tax is the next component in terms of size, being \$158 million. So, even though sales tax is important, its relative value, or relative weight, is very much less than the property tax. There's obviously some left out between the \$858 million and \$1 billion, the difference being what we can just lump as "other taxes"—intangibles taxes, etc.

So, county government is big business. It's big business in how county government relates to state government too. As you probably know, state government really effectively sets the county budget—for 1981-82, about 75 percent of the county budget. How does it do that? It does that because of the very nature of county government.

County government could be said to have a dual personality. For some purposes, it is an agency of state government. For other purposes, it is a municipal

corporation doing those things that municipal corporations do, that is, what the citizens want them to do. But, in those aspects of county government in which county government is an agency of state government, there is relatively little discretion on the part of elected county commissioners as to how to spend the money. They must raise the money, but the discretion in spending that money is very limited.

Two major examples of the county acting as an agency of state government are in schools and in the human resources programs.

In schools, counties spent a little over 50 percent of their total available county-generated revenue. Fifty percent for schools; it probably comes as a surprise to many of you, because you have heard—and if you are a newspaper reporter you have written—that we have a school system which is a state-supported public school system. It is a state-supported public school system if you can discount almost a half a billion dollars in county support. Four hundred ninety-four million dollars of the school budget is county-generated support. And you might say, well that is just county-generated support for construction. Not so. Three hundred eighty-three million of that 500 million dollars is for current operations in schools. So, very quickly, a state school system becomes a state-county school system, with county government providing about 25 percent of the money for current operations of the schools. That then makes up 50 percent of the county budget—schools.

Another 25 percent of the county budget is in human resources, 25.4% to be exact. Thus, when you add those together, 75 percent of the county budget is in areas with very little discretion on the part of the board of county commissioners.

This leaves 25 percent for all those things that the county does as a municipal corporation, as well as some of the things that it still does as a county agency. Provision of court space is within that 25 percent. Provision of jails is within that 25 percent.

What does that mean that the state budget does for, or to, or with county government? It means, to use a cliché that's been used in other areas, when the General Assembly sneezes, the counties catch a cold. Because all of the aspects of the county operating as an agency of state government are virtually controlled by the General Assembly.

Medicaid you have heard discussed. County

government pays a percentage of Medicaid, but has little or no discretion in what to tell social services directors to do in administering Medicaid. County government is participating in that rest home rate increase proposed in the budget document to the extent of \$1.13 million, a 5 percent increase in rest home rates. Thirty percent of that is for county government to pay.

*"State budgeting cannot be neatly dissected from the political environment and processes in which it is embedded."*



What's been happening over the last five years in these county-state programs? In 1977-78, the total amount of county-generated funds available for these state agency-type functions, schools and human services, was 66.5 percent. In five years, the percentage has increased to 75.9 percent of the county-available funds. So, at the same time that there may have been some failure to grow rapidly, as in the schools, or to grow rapidly, as in Medicaid, the growth for counties has been there whether there is a failure to grow rapidly or rapid growth for state government.

In addition to those direct-type effects on the county budget, state government activities are often having an indirect effect on the county government. These state activities still push or pull county government activities in that the policymaking is being made at the state level, instead of in the Wake County courthouse or the Camden County courthouse. An example is salaries. The state budget pushes and pulls. It applies both ways, since there are a goodly number of totally county-paid school teachers; when there is a state salary freeze, the effect of that for just plain equity reasons is a freeze on county-paid school teachers.



*"...state legislatures also have responsibility for general oversight"*

That often results indirectly in a freeze on other county employees' salaries because of the same effect. I see Jim Wight out there in the audience, the social services director here in Wake County. He competes for his employees in Wake County with the state, so there has to be some equity between local salaries and state salaries, particularly in areas with major concentrations of state employees. For the effect is there, that indirect effect, of the state salaries pushing or pulling the county salaries, whether you are in Wake County or in Camden County or in Macon County.

Another indirect effect—perhaps direct—is that the 1983 General Assembly has recently had instructions given to it by the leadership of the Appropriations Committee to attempt to cut recommended appropriations by three percent. In the case of education, for example, if there is a three percent

reduction in education funding from the state level, often the effect of that will be pressure on the county governments to make up that cut. If, for example, there is a cut in the state share of energy assistance for schools, that does not reduce the need for energy in local schools. And you'll find not a single county commissioner of the 494 who will let a school child be cold in the winter. So if the General Assembly were to take the option of cutting the three percent or a portion of the three percent from school energy costs, the effect will be to increase the county appropriation for that cost.

Another indirect effect: you have heard the previous speakers talk about the problems in prison overcrowding. There's a local component of that too. In order to fill up those prisons, they have to first be adjudicated and then placed in the prisons. That places a demand on county jails and county jail facilities, and it places a demand on court facilities. Society's desire for retribution results in, up and down the entire criminal justice system, increased expenditures for the whole system.

If you get tough on crime — and I'm not about to advocate not being tough on crime — you have to provide facilities both to adjudicate the criminals and to house them once they are adjudicated.

Moving back for a moment to schools. Ran made some mention of a decline in school population and the fact that school funding, state funding for schools, is basically, with some minor exceptions, a per-student funding arrangement. A result of that declining school population is a reduction in the pupil-generated funding at the county level which doesn't always translate into something that you can do without. For example, if Wake County just comes under that magic figure which entitles them to an assistant superintendent and comes under it by one person, the demand is still there, and Wake County government will probably fund that assistant superintendent. If there is a reduction in the total number of students in Camden County such that it results in a reduction of five teachers in the county, those teachers will not necessarily come evenly distributed from across the county. You will have a five-teacher reduction, but they will be spread across several classrooms, so that if you reduced the total number of students by 100, you may often have five and six students per classroom — not enough to reduce a total teacher, and the demand is on the county to make up the cost of that teacher.

Aside from the budgetary issues, let me pause for just a moment and move to something that disturbs me somewhat. Now, I move to the public policy side. In recent sessions of the General Assembly, there has been a shift toward putting non-budgetary issues in the main appropriations bill. Observers of the General Assembly know that once the General Assembly and the Appropriations Committee work on the budget bill for six months, members are almost threatened with expulsion from the Senate or expulsion from the House if they dare to change that appropriations bill. I'm making that awfully broad, and I don't mean to get that broad. But once a budget bill is put together, you don't change it. You don't amend the budget bill. And I can think

**TABLE 7.1. ANALYSIS OF 1983-85 PROPOSED STATE BUDGET  
BY THE NORTH CAROLINA ASSOCIATION OF COUNTY COMMISSIONERS**

**I. 1983-85 Proposed State Budget Adjustments with Positive Impacts  
(Additional Aid/Reduced Costs)**

Budget Item	Amount in 1983-84
a) Reimburse Counties for Medicaid Costs Related to Nursing Home/Rest Home Formula Change ..	\$7,400,000
b) Reductions in AFDC Program (Increased federal participation and reduced caseload) Reduced county share = .....	2,178,900
c) Additional School Energy Cost Appropriation: Additional Funds = .....	1,827,484
d) Annualize Cost of the "Willie M." Reserve .....	3,100,000

**II. 1983-85 Proposed Budget Adjustments with Negative Impacts**

The following items either represent additional direct costs for counties or will indirectly impact on the county budget.

Budget Item	Additional Costs
a) Inflationary Increase in Medicaid Costs: County Share .....	\$4,503,000
b) Increase in Rest Home Rates: Net Additional Cost for Counties (est.) ...	1,138,870
c) Additional Group Homes which will be eligible for Medicaid Funding in 1984-85 .....	-0- (no county cost in 1983-84)

Source: N.C. Association of County Commissioners

**III. Other Items of Interest and Continuations**

Budget Item	Amount in 1983-84
a) Health Aid to Counties (Net Appropriations) ...	\$3,623,662
b) Aid for Rural Fire Districts .....	200,000
c) Increase State Employee Travel Subsistence (from current \$35 in-state/\$42 out-of-state to \$45/\$52)	N/A
d) Unfreeze State Employee Merit Pay and Annual Increments. If counties opt to increase appropriations to school boards to fully fund cost of increments for locally paid certified school personnel, the cost for counties = .....	3,650,000
e) Aid to County Social Services Administration ...	4,204,751
f) AFDC Equalization Payment (reduced \$123,554 because of increased federal participation and decreased caseload) .....	2,680,219

**IV. Association Legislative Goals Not Funded in the Proposed Budget**

Association Goal	Needed to Fund
a) State assume total nonfederal share of Medicaid costs for Intermediate Care Facilities for the Mentally Retarded .....	\$6,500,000 (est.)
b) Additional state funds for Land Records Management Program .....	Not Specific (Program continued at 1982-83 level)
c) State funds to aid County Jail Facility Construction .....	Not Specific
d) State funding for all costs of Autopsies .....	Not Specific



*"how decisions are made affects what decisions are made."*

of at least two occasions in the last six years where non-budgetary issues have been placed in the budget bill without the benefit of long-lasting and thorough debate.

One example is legislation which authorized foreign trade zones. This is a major public policy issue in this state, and I recently read in the newspaper that this area, the Research Triangle area, is about to have a foreign trade zone authorized. The authority for the foreign trade zone legislation is a special provision in the appropriations bill. It may be and probably is a very appropriate piece of legislation, but it became a part of state policy as a special provision of the Appropriations Act.

Another example is that there was a property tax exemption for stored tobacco as a special provision of the Appropriation Act some years ago. Again, it may be very good policy, but it is a departure from the practice in the past in this state, which was that the appropriations bill was a bill which either appropriates funds or directs the use of state funds.

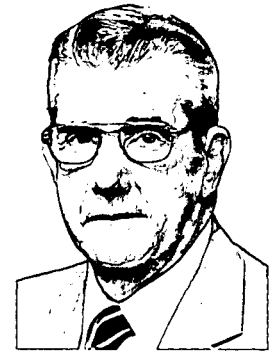
One more connection that counties have to state government (perhaps not through the appropriations bill but in raising the money), and one more reason why, when the General Assembly sneezes, counties catch a cold, is on the finance side. The major revenue base for county government, the property tax, is a tax base which is subject to regulation by the General Assembly. I mentioned one property tax exemption. There have been very few property tax exemptions in recent years, but this is another example of how the counties and the state government are tied together in finance-related legislation.

I guess I would end by suggesting that, unlike my friend from the city side of local government, we on the county side are very concerned because of the potential for shifting funding of jointly-funded state and county programs from state government to county governments in a time of economic stress. We would urge our friends in the General Assembly to avoid that and all those legislators here know that. It's those that didn't come that we are concerned about. When you make a public policy decision, is it a public policy decision to shift a cost to another level of government, or is it a decision to change a priority with the state funds? We think that without that acknowledgement, the policy-setting process of the state budget is not working as it should. It's so very easy to make a shift to someone else. If that shift occurs, it ought to occur with full, open and frank discussion. We would hope that it would occur very seldomly, because when a shift occurs, that shift normally goes down to the county government level.

## Chapter Eight

# How the State Budget Affects Municipalities In North Carolina

by S. Leigh Wilson



**Ran Coble:** We are about to introduce you to the city side of local government. We want to welcome Mr. Leigh Wilson, who is Executive Director of the League of Municipalities in North Carolina. He became Executive Director in 1969 and has been with the League since 1946. He has also served on the Board of the National League of Cities, so again, you are listening to a person who has a unique ability to see in North Carolina and outside it. Would you please welcome Leigh Wilson.

**Leigh Wilson:** Thank you. It's a pleasure to have this opportunity to meet with you this afternoon, particularly with these distinguished folks on this panel.

Following Ron's explanation of the role of county government and its relationship to the state and particularly to the General Assembly through its funding process, I think it might be well if I tried to draw the distinction between the role and the function of county government and that of municipal government in North Carolina.

Keep in mind that Mr. Aycock alluded to the fact that a major part of the county role and function is to deliver services at the local level which are statewide services, particularly in the fields of public education, public welfare, and the operation of the state court system. This county and others have to maintain certain facilities for the operation of the court system.

The distinction, of course, is that municipalities are not in that same direct delivery service arrangement as are the counties. Cities and towns as municipal corporations are created for the purpose of providing direct, more intensive type services to an urban area and its population. I think I have to draw the distinction again clearly, in hopes that it might help to identify some of the things that I would like to share with you. Many times I am amazed that friends and knowledgeable people come to me fussing about something in the school system.

Municipal government in North Carolina has absolutely nothing to do with the public schools, even though there are some tax districts which are called city school systems and taxes are levied for school purposes. That's a county operation, and in that particular case — one or two cases still left, I believe — the city is only the tax collector.

The other point of confusion is that there are some provisions under which city governing boards also appoint

certain people to the local school board. But if I can draw the distinction again, in public education, welfare, and social services, cities basically, under the general laws of this state, do not have any direct responsibility for their operation.

As a result, the impact of the state budget and the appropriations process on cities and towns in North Carolina is minimal. They are not concerned with the major appropriations in the state budget for public schools, or for welfare and some other social services.

So, the impact on cities and towns is minimal, and I hope to make that distinction. But let me point out that the field of transportation is probably where the impact is the greatest. The reason for that is that in North Carolina we have two systems of public roads. We have the state highway system which accounts for approximately 75,000 miles of state system highways. But there is also the municipal system which has almost 13,000 miles of municipal streets. So, we have two systems of highways.

If you will, look at the Department of Transportation's budget — the appropriations for that department. First of all, in the highway budget under the urban system as allocated, or as proposed by the 1983-85 budget for construction, there is a relatively small amount — only \$5.7 million for each year of the biennium for construction, and only \$15.1 million for maintenance of the urban system within the corporate limits of municipalities.

I might point out that one of the concerns for municipal officials is the level of maintenance and the possibility of the slowdown in the construction of the urban system. Therefore, we obviously support efforts in the General Assembly to match the federal funds that are available to keep this level of funding for this urban system in good shape.

I might point out also that unless the General Assembly appropriates approximately the 50 or 60 million dollar match this session the level of funding for the urban system by fiscal 1985-1986 is estimated to come to almost zero. It is essential that North Carolina have that additional funding for its highway system, and its impact is very important to the 465 active municipalities in this state.

In addition, in the Department of Transportation's budget for general public transportation, the Share-A-Ride program and the other programs administered by that department, there is a \$1.3 million appropriation. There is

\$3.5 million for airports in North Carolina and almost \$5 million for general transportation support to local government. These are obviously vital not only to the cities, but to the entire state for its economic development.

The other departmental budget, which is of minor significance but at the same time important, is the Department of Cultural Resources money for public libraries. This fund is available for both cities and counties but has a total of only \$4.7 million for local assistance to public libraries in the state, and a very small amount of \$126,000 for local arts councils.

That's about the extent of the impact on municipalities of the budget that you have summarized before you today. But the key ticket item is not in the budget as far as cities and towns in this state are concerned, because the major share of state revenues received by cities and towns is fixed by general law in the statutes and is not directly subject to the biennial appropriation process (unless the General Assembly also considers an amendment or a repeal of a separate statute fixing those amounts). This is why I wanted to try to draw the distinction again between the two units of local government, the county units and the city units.

For example, the intangibles property tax is always under attack, and I might say here that we would definitely support the continuation of that tax. Intangible property is also a means of wealth, and taxing it is fair. For cities and towns for 1981-1982, that tax amounted to \$14.5 million.

The municipal share of the beer and wine tax, which is shared three ways between the state, the counties, and the cities, was \$8.8 million.

The local option sales tax, which, as you know, is imposed in all 100 counties except Burke\*, for cities and towns in this state for 1981-82 amounted to \$67,477,000.

The utility franchise tax, which is levied by the state at 6 percent of the gross receipts on utility sales of utility companies in North Carolina: the state shared one-half with the cities and towns, or 3 percent of the 6 percent tax. In 1981-82 this represented \$64,364,000.

The revenue to help with the 13,000 miles of local streets is the municipal share of the gasoline tax, which in 1981-1982 amounted to \$31,350,000. I might explain that in the increase that the General Assembly was kind enough and foresighted enough to levy during the last session (to increase the state gasoline tax by three cents), cities were able to maintain their proportionate share of this tax revenue in October of 1982; the Powell Bill money or the share of the gasoline tax allocated to cities was up from \$31,350,000 to \$42,188,000.

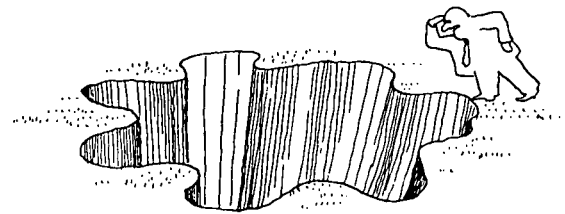
Again, all of those are not in the budget subject to the appropriations process unless the General Assembly decides to otherwise change the statutes. They amount to very close to \$200 million. Obviously those sources are extremely important and mean a great deal to the maintenance and the improvement of municipal government.

There are other sources of revenue which again are not in the budget but I think they are important, particularly to the cities. One program that I think has been the most

**TABLE 8.1. SELECTED ITEMS\* ON STATE AID TO LOCAL GOVERNMENT IN NORTH CAROLINA**

Budget Item	Net Appropriations Proposed in 83-84
Health Aid to Counties .....	\$ 4,840,234
Aid to County Administration: Social Services .....	4,204,751
Aid to Counties for Service for the Blind .....	12,000
State Aid to Public Libraries .....	4,789,462
Aid to Local Veterans Offices .....	96,000
Aid to Local Governments: NRCD .....	45,989,410
State Aid to Municipalities: Transportation .....	42,188,000
	<u>\$102,119,857</u>

\*For a more complete list, see *Summary of State Financial Assistance to Local Governments in North Carolina* (March 1981), prepared by the Office of State Budget and Management.



*"Despite a long history of grants-in-aid, precise determinations of their impact are still to be made."*

successful state and local cooperative program that this state has ever experienced is the Clean Water Bond program, but those funds are about to run out. And, if funds are not found from some source to provide for wastewater systems to help with the construction of those very expensive works, the construction of wastewater plants and the abatement of pollution of our streams are going to come to a screeching halt.

The present authority enacted by the General Assembly authorizes the Governor to call an election on \$300 million in Clean Water Bonds on November 8, 1983. Whether or not that will be forthcoming remains to be seen, but the point is that unless that program is continued in some form — either through a bond issue or other means — the construction of wastewater treatment plants and water systems will come to a screeching halt. The infrastructure, the economic development of this entire state, is keyed to this very important factor.

Another interesting feature of the changing intergovernmental scene is the allocation of block grant money within this state, that is, federal block grants to be

\*Burke County began imposing a local option sales tax in August 1983.

administered by the state of North Carolina. The first one that cities were directly connected with came about this past year in the Community Development Block Grant Program for Small Cities.

Approximately \$45 million is involved in that program, and the state has assumed the administration of these funds to counties and cities in the state. We believe that process has worked well. Basically, the same formula for distribution as was used by the federal government when the federal government had the program was used by the state, and we would certainly hope that the General Assembly would recognize it has worked well and would continue to use that same process and hopefully not disturb it, unless it can be proved that it's not providing a fair and equitable distribution of those federal funds through the state budget process.

Last year there were 90 cities and counties which received funds under that Community Development program, and the cities received 76 percent of that amount. I believe that program offers a model for other states to follow. We understand that in many instances where a state government has been offered the opportunity to administer a block grant program, the purpose of it, the targets for it, have been completely distorted. We would hope that in this state the legislature and the state administration would continue to maintain this program until it has proven not to be workable.

Another comment that does not relate to the budget as proposed, but to consideration of the funding program that has been so well outlined for you this afternoon. That is, the opinion of municipal officials, after considerable deliberation, is that in North Carolina, the General Assembly will not be able to maintain the level of services that it would like to in the continuation budget unless and until there's some additional revenue provided during this session of the General Assembly.

I would venture to say that if the General Assembly in their wisdom finds it necessary to raise some additional revenue in spite of the difficulties and the problems that presents, I believe they'd put the welfare of North Carolina above other considerations and find that necessary. If you subscribe to that same belief, then probably you would also subscribe to the fact that an increase in the sales tax may be the most desirable, likely, and fairest opportunity to provide additional revenue.

If that be true, then cities and towns of this state would hope that the General Assembly would consider a share of that one-cent increase in the sales tax to help cities and towns address their needs, particularly in the area of wastewater and water problems that this state faces and in general support areas that are essential for continuation of good municipal services.

If there are questions, I'll be glad to try to answer them.



# Questions to Local Government Officials From the Audience

**Ran Coble:** We will entertain questions from anybody in the audience to either of the local government experts. Any questions?

**Mr. Tom Oliver** (of the *Durham Morning Herald*): I have one. Since municipal water systems serve the city, why can't the cities provide their own water? Why is it incumbent upon the state to provide water for the city and wastewater treatment?

**Leigh Wilson:** A very simple answer is that there is just no revenue to do it. The present system that we have followed in this state for almost ten years is vital — and I think this is well to keep in mind — state funding for wastewater systems is a big ticket item.

First of all, the upgrading of these systems is mandated by the federal and state government. We don't have a choice as to whether we would like to upgrade that system or not. It's required under the Clean Water Act. It's a mandated cost, and the federal government for about the past ten years has provided 75 percent of that cost. State government, through the Clean Water Bonds, has been providing 12.5 percent, and local government from local funds the matching 12.5 percent to make the full 100 percent.

It is difficult to understand, but the fact is that there are just not sufficient resources available, particularly in the small towns in this state. (We have 250 towns under 1,000 population.) Many are mandated to provide these very expensive wastewater treatment plants. There is just not enough money available to fund those systems. If the federal government and the state government mandate and want the streams cleaned up, somebody is going to have to provide the money.

**Ran Coble:** Other questions from the audience?

**Mr. Robert Powell** (of the N.C. Citizens for Business and Industry): I have a question for Ron Aycock. We hear a great deal about the shortfall in revenues in North Carolina and other states in the nation. What is the general revenue picture for the county governments in terms of meeting your revenue projections and potential surpluses to begin your next fiscal year?

**Ron Aycock:** Surpluses first. For some years, counties have generally had about an 8 percent surplus, 8 percent of the budget. That, as Jack Vogt (of the Institute of Government) can tell you, has been working down. I'm not sure what that is now, but in general, just as the state is beginning to eat into its surplus so are the counties.

Revenue projections. The property tax is less responsive to the economy than is the sales tax, but just like North Carolina was a little slower than the rest of the nation in feeling the full effects of the slowdown, the property tax has also reached that slowdown, too. There has been very little construction activity, as you know, in the last year. So the property tax base has pretty much leveled out. Rate increases: the county-wide weighted average rate is about 75

cents now. That rate has moved up about five cents in the last four years. But we have reached the practical political limits — it's not the legal limit — but the practical political limit in raising those rates. So, much like the state, the county tax base is also very tight.

**Ran Coble:** Other questions? In the back, Mr. Brooks?

**Mr. John Brooks** (N.C. Commissioner of Labor): Mr. Wilson, most economists are suggesting that any increase in sales tax at this time would not be particularly the prescription that one would give for the depressed economy. That it is exactly the most repressive action that any government could take for economic recovery. That being the case, what would cities think about something on the order of a ten percent surcharge on the state income tax designated for cities?

**Leigh Wilson:** I think they would probably suggest, Commissioner, that that would be completely impossible. To touch the state income tax, I believe, is sort of like a sacred cow. I don't think that would be workable.

**Ran Coble:** A question here?

**Ms. Jan Ramquist** (of the N.C. League of Women Voters): Is there a mechanism where the municipal governments would tax producers of pollution at their source?

**Leigh Wilson:** The question was, could the municipal government tax the polluters or the pollution at their source? That is now being done. But you can't tax industry out of business. The cost of these facilities is so staggering. But there are surcharges now being levied. In fact, in order to be eligible for a federal grant, the municipality that uses a federal grant has to impose certain charges to industry and other users as part of the eligibility for their grant.

**Jan Ramquist:** Is it a flat fee or is it scaled according to the amount of pollution?



*the "pass-through" problem*

**Leigh Wilson:** Normally, it's a two-part surcharge. One is on volume and the other is on the amount of pollutants in the water. It's a two-pronged surcharge.

**Ran Coble:** Other questions?

**Robert Powell:** Back on the Clean Water program for the moment. Mr. Wilson, you said that it is funded by federal, state, and local government—75, 12.5, 12.5%. Is the federal funding available to support a clean water bond issue or even appropriation of state dollars?

**Leigh Wilson:** Let me see if I can illustrate the problem. At the present time, the Department of Natural Resources and Community Development has a priority listing of the most serious problems for wastewater pollution. There are 300 priority applications. Only nine can be funded this fiscal year with the federal money.

It's been reduced drastically. We could have, before this cut in federal funding from the Environmental Protection Agency, funded many more. But if the level of funding is to be maintained at 75 percent using the federal dollars, then only nine of 300 projects will be funded in this state during the next fiscal year.

**Ran Coble:** Any other questions?

**Tom Oliver:** Getting back exactly to that point. You said there were 300 applications but only nine will be funded, which was my initial question. Why look to the state? Why doesn't each community develop their own plan for self-sustaining systems? It seems that when the money goes to the state, there has been competition. Somebody else's money goes to pay for somebody else's system.

In other words, 291 are going to lose funds.

**Leigh Wilson:** There are just not enough resources at the local level. The state fortunately has recognized this as a statewide problem. And the people have seen fit twice to approve bond issues to match the federal funds to make the total resources available for this need.

There's not enough money locally to do what is needed to be done.

**Ran Coble:** Senator (Ben) Tison?

**Senator Ben Tison (D-Mecklenburg):** Mayor Knox indicated, I believe, if I recall the figures correctly, that in Charlotte something like 30 percent of the budget in Charlotte has been federal funds. But over the next few years they anticipate that percentage dropping down to the area of 10 percent, thus causing a tremendous squeeze on our situation down home.

Do you kind of see that as the situation statewide? Do the cities of this state really anticipate this squeeze from the federal level during the next few years?

**Leigh Wilson:** Yes, sir. There is no question about it. Local governments in North Carolina, the last figures indicate, that between 22 and 25 percent of the total revenue available at the local level from both federal and state sources, that is 22 percent of all budgets, is from federal and state sources.

There is no question that the decline in federal revenue will adversely change that picture, and there will have to be reliance on either or both state funding and local funding if

any continuing level of service is to be maintained.

This is not to say that there are not many economies that can be made and many are being made. But we are into this system and the adjustment to it, as you have indicated and the mayor has suggested, is going to be a very difficult adjustment period.

I might just point out that the President's budget is now before Congress. It continues three of the most important programs at the same level of funding basically as in the past. That's General Revenue Sharing, the Community Development Block Grant program, and funding for Clean Water Bond type programs.

**Ran Coble:** I think we had a question back here.

**Mr. Jack Vogt (of the Institute of Government):** Just a comment. I think the state can borrow at a lower cost, a lower interest rate, than many of the smaller cities and counties in North Carolina. So I think that is another reason why... (inaudible).

**Ran Coble:** We've got time for one last question.

**Ms. Betty Chafin Rash (Public Affairs Consultant and former Mayor Pro-Tem of Charlotte):** At the risk of putting Ron and Leigh on the spot—and I think that there's going to be a great deal of discussion on this issue—have either of your staffs yet had an opportunity to assess the impact of Senator (Kenneth) Royall's (D-Durham) bill on local governments?\*

**Ron Aycock:** I think neither Leigh nor myself are ever concerned about being put on the spot. That sort of goes with the territory. Our staff has analyzed Senator Royall's bill. Our Association's policy board has taken no position on that. We will meet this week, in fact, and we will discuss sales tax. A concern we have with Senator Royall's bill is that the bill does not have an assurance of funding in the future for either the school component or for the clean water component.

Another concern that we have is that the problems are not the same in every county. You may have vast school needs in Forsyth County, but in Mecklenburg County, they have recently passed a bond issue to take care of the major school concerns.

So, our concern is that a more generalized, continuous long-term assistance would be more helpful. We are not saying that we won't end up saying we would like any help we can get. But now, more long-term and more generalized assistance, so that we can tailor the use of funds to the needs of each area.

**Betty Chafin Rash:** In other words, more flexibility?

**Leigh Wilson:** I might from the municipal side point out again, particularly in response to the reasons for the

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\*Senate Bill 51, the "N.C. Anti-Recession Public Works and Tax Equity Act of 1983," would have raised the state general sales tax from 3% to 4%, eliminated the sales tax on food, and raised the state sales tax on new motor vehicles. The \$230 million thus raised in revenue then would have been earmarked for water and sewer facilities, public school facilities, matching federal highway aid, university facilities, maintaining state government facilities, and vocational equipment in community colleges. Senate Bill 51 did not pass, but see the note on the following page.

state support of clean water, that both of these bills, both House Bill 50 and Senate Bill 51, recognize the Clean Water Bond problem.\*

Both have put aside or would suggest funds to continue the Clean Water Bond program, which from the municipal standpoint would address the cities' and towns' most critical need, without any question. So that has to be recognized and also has to be appreciated.

I think it's a major concern for the entire state. The League of Municipalities' position at this time is that we're not either opposing or supporting either of the bills, but are hoping that the General Assembly and the principal supporters of these two bills would consider some additional sharing for general revenue purposes to help with local needs.

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\*The bills referred to were, in part, incorporated into House Bill 426. As ratified, this bill (Chapter 908 of the 1983 Session Laws) allows counties the option of levying an additional 1/2% sales and use tax to be collected by the Secretary of Revenue and distributed among the taxing counties on a per capita basis. Taxing counties, and municipalities in those counties, must spend the extra funds according to the following schedule:

- Counties: funds to be spent on school capital outlays:
  - .40% during first five years, and
  - .30% during second five years;
- Municipalities: funds to be spent on water and sewer capital outlays:
  - .40% during the first five years, and
  - .30% during the second five years; and
- Municipality funds spent on housing projects:
  - Cities of over 75,000 population may spend up to 20% of additional funds on housing projects without a vote of the people.

## Chapter Nine

# The Process of Deriving Revenue Estimates

by David Crotts



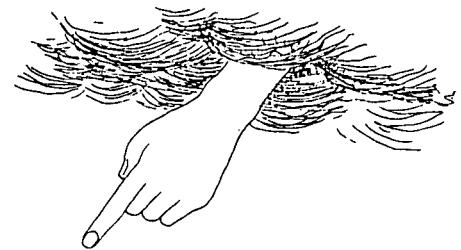
**Ran Coble:** Our next speaker is going to fill in that piece of the puzzle that Ken Howard said he was too intimidated to do. It is the question, "How do you do revenue estimates?" There are probably two things you ought to be listening for here. The first is basically the same point that Ken made earlier, of how important the revenue numbers are that you pick. That is, once you've got the amount of revenue that you have to spend, a lot of the budget process is downhill from there. So arriving at those magic numbers is an art. It's a little mixture of economics, eye of newt, and some other things. The second thing to listen for is a description of the *process* of deriving revenue estimates.

David Crotts comes to you uniquely qualified. He has worked in the Antitrust Division of the Attorney General's Office and is now with the Fiscal Research Division of the N.C. General Assembly. I asked him to do this as a personal favor, and it is a mark of his friendship and his competence in this area that he's with us today. Will you please welcome Mr. David Crotts?

**David Crotts:** Thank you, Ran, for the kind introduction. One of the things that is interesting about being at the end of the agenda today is that it will allow me the benefit of another scientific observation toward a theory that I've had for a number of years from previous seminars: whenever you speak near the end you have both an inherent advantage and disadvantage. The disadvantage is the fact that you will find out an hour into the seminar that you need to rewrite your speech because of what's been said earlier. The advantage is the fact that by being able to rewrite the speech, you can make interesting a subject that is difficult to present in an interesting fashion. So I'll try to do that this afternoon.

Starting in 1973 — at the urging of Ken Howard, who spoke earlier — the executive branch and the legislative branch in North Carolina came out of the dark ages in terms of the art of revenue-estimating. Prior to that time, the Revenue Department had provided estimates to both the Advisory Budget Commission and the legislature. The Department used a methodology which was very crude and had very conservative assumptions. The conservatism was due to the personalities of the individuals involved in making the estimates, the Department's philosophy, and, very importantly, the fact that we did not have annual budget sessions until 1974.

Thus, the person making the estimate was faced with a situation where, if the session ended in March, as it did at that time, your final estimates had to hold up for the next 27 months. Now with annual sessions, you're making a final forecast in June instead of March, and it only has to hold up for 12 months. The result of this situation was that the state had hefty surpluses at the beginning of each biennium, while substantial state needs were unmet or at least delayed.



*"Only when authoritative instructions are issued from above does policy-making play a central role in the preparation of estimates."*

Starting in 1973, the Budget Office hired as a consultant Data Resources, Inc., of Cambridge, Massachusetts. This is the largest economic consulting firm in the country. DRI uses a very large scale "Econometric Model" to forecast the national economy. That's short for a very sophisticated statistical analysis with hundreds of equations. In its work for the Budget Office, DRI ties the national economy to the state economy, and then the state economy to state tax revenues. The DRI approach is a very sophisticated model that involves hundreds of equations and goes into great detail in terms of forecasting numerous economic sectors on a quarterly basis. For example, a DRI forecast will provide a "solution" that gives values for both short-term and long-term interest rates, housing starts, car sales, and corporate profits.

The Fiscal Research Division has been involved in

revenue forecasting since its creation in 1972. At first, the procedure used by our division was to take our own national economic assumptions and, with the cooperation of the Budget Office, to run them through Data Resources' model.

Since 1976, we have been using our own data and analytical tools. I think the best way to describe our approach in Fiscal Research is an "eclectic" approach that is being used more and more by forecasters today. It's an eclectic approach in the sense that we don't depend on any one methodology, such as a large scale econometric model, but instead combine the results from a number of different techniques, most of which are less sophisticated than an econometric model.

We begin by looking at the forecast provided by Data Resources to the Budget Office. We look at the assumptions underlying that forecast as well as the bottom line tax revenues. Secondly, we look at national forecasts provided by leading banks across the country. We look in detail at tax collection history over previous business cycles. We spend a lot of time adjusting the data, since one of the big problems in economic forecasting is bad data. It seems as if the data is always either too old or does not measure what you want it to measure.

We try to make adjustments for that data so that we have some clean data going back for about ten or fifteen years. Finally, a somewhat unique approach is that we place a lot of emphasis on short-term leading indicators. We have our own set of indicators which include some of the ones used by the Bureau of Economic Analysis in Washington but many of our own. Some of the technical economic indicators we use include money supply growth, building permits, ratio of coincident indicators to lagging indicators, average workweeks, stock prices, and ratio of consumer spending to spending for business equipment. What we are trying to do by using the indicators is to get a handle on where the economy is going for the next few months. The forecasting track records have been so bad in recent years that we find it is sufficient to try to predict the magnitude just for the next six to nine months. The indicators help us do that, though they tell us nothing about the magnitude or duration of a change. In a sense, that is the problem that we're facing today in making revenue estimates for 1983-1984 and 1984-1985. We feel there will be a recovery, but we don't know how strong it will be or how long it will last.

The leading indicators suggest we are starting in a recovery or we're at least at a trough in the recession. Classical business cycle analysis and economic theory would suggest that you could take stimulative monetary policy and fiscal policy that's been carried out over the last six months and forecast a moderate recession in the next few months.

The problem with using the business cycle approach is that it does not fit the experience of the last four years, as we have had "roller-coaster" monetary policy (and thus interest rates) and a very volatile economy (two recessions and a steep, short-lived recovery).

In early 1980, it was difficult to get consumers to reduce their level of purchases to slow down the rate of inflation.

Now it's very difficult to get consumers and businesses to begin making purchases again, which is the thing that's needed to get the economy moving again.

The revenue-estimating process begins in September of even-numbered years when the Budget Office, using the Data Resources forecast, takes a first look at the possibilities. Throughout the fall, the Budget Office is looking at revised forecasts, based on later data becoming available. Usually the last look is in late November, at which time the ABC and Governor make their final decisions and send the recommended budget to the legislature.

Our staff tries to stay involved with the Advisory Budget Commission process all fall, and we try to exchange ideas and information with Budget Office economists. This consensus approach, or sharing of ideas, has been very helpful in the past, and in years such as 1977, 1978, 1979 and 1980, the legislature has pretty much taken the Governor's recommendations and used them as the legislative estimate.

In 1975-1976, and during the last three years, the great deal of uncertainty in the economy has led to a difference of opinion between the executive branch and the legislature in terms of economic outlook.

After the budget comes over in January, the legislative staff takes a quick look at it and gives the Appropriations Committees a tentative estimate. During the legislative session, we staff the Economy Committees and keep the members up to date with reports on the trend of the economy and with new tax collection data, so that by May or June, the Committees are in a position to make a final decision and report to the Appropriations Committees.

At this point, I'd like to make a few comments about where we are in forecasting in 1983, versus where we were eleven years ago.

First of all, we've had numerous and substantial changes in the definition of money. This is very important for our analysis, because we think monetary policy is the key policy lever driving the economy. With the new types of savings certificates, checking accounts, and money market accounts — all of which offer high interest rates without a sacrifice in liquidity — it's very difficult to determine how fast the money supply is growing or to make historical comparisons. For example, money supply growth according to Federal Reserve System data has been rapid since last fall in an attempt to stimulate the economy. However, we can't as of now account for definition changes versus real growth.

I mentioned earlier the change in consumer and business attitudes and their importance in moving the economy. The experience of the last three years, with a dramatic shift in attitudes, has generally made us much more cautious than in earlier recoveries.

We're also trying to make our forecast a little bit more short-run. It's interesting that in the budget process this year, the Governor and ABC did not even present an economic outlook statement and a revenue forecast for the second year of the biennium. Recognizing a great deal of uncertainty, we agree with that approach.

We're trying to use more of an aggregate approach and not worry too much about disaggregating the economy into consumer spending, business investment, housing starts, and auto sales. Also, we're tending to use annual data more than quarterly models. Those approaches seem to work better in the long run. Any forecaster can tell you about the beauty of "cancelling errors" and we feel that the disaggregated approach used in the more sophisticated approaches involves unnecessary time, expense, and complexity with no improvement in forecast accuracy.

In conclusion, I'd like to paraphrase a comment that Ken Howard made earlier by saying that if you're going to die by a forecast, you would be wise to exercise more caution today after the experience of the last four years.

### Questions from the Audience

**Mr. Lynn Holaday (of Appalachian State University):** I have read recently where the difference in your projection and the Executive Budget Office's projection is like 1.8 percent, the difference between 8.8 and 7 percent roughly, and yet they talk about a \$92 million shortfall. How do they come up with that figure?

**David Crotts:** Well, it's two figures rolled into one. First of all, there was a difference in our tentative budget estimate in response to the Governor's and ABC's recommendations. There is a difference in the current year. That difference is about \$27 million. The Governor is recommending, I think, about a 6.1 percent growth rate this year. We are suggesting to the legislature to start off with a 5.2 percent growth rate. That's about \$27 million. That lowers your base going into 1983-1984 and the growth rate we're suggesting for 1983-1984 is 7 percent. The Governor and ABC recommended 8.8; so that's about \$57 million to \$58 million which together add up to that \$92 million or \$93 million.

**Lynn Holaday:** That will be in the first year, right?

**David Crotts:** That will be in 1983-1984. The Governor and ABC did not make an official recommendation for 1984-1985 in terms of the economic outlook or tax revenue forecast, and we subscribe to that viewpoint.

## Chapter Ten

# Population Trends in North Carolina And Their Impact on the State Budget

by Dr. Alfred W. Stuart



**Ran Coble:** Dr. Al Stuart is the Chairman of the Department of Geography and Earth Science at UNC-Charlotte. He works with some interesting publications in that area — the Charlotte-Mecklenburg Atlas and The North Carolina Atlas.

He is a demographer and is going to help you take a look at what's going on in the population right now that's going to affect this budget and budgets to come. Of all the speakers that you've heard today, this speaker is probably going to be able to take the longest view and show you what is happening and going on now in the population, and what you're going to see ten years from now, and what will happen to the state budget in the meantime. Will you please welcome Dr. Al Stuart?

**Al Stuart:** My remarks are longer term in perspective, dealing with basic population and economic matters that are impacted by the budget and which impact the budget. I want to examine a few trends and then consider their budget implications.

As a geographer, I tend to think of areas in their broader regional settings. North Carolina has been very much a part of the sweeping changes that have occurred in the South over the last several decades.

One of the most obvious changes in the South has been widespread population growth. Not too many years ago, many of the South's counties lost population, especially in rural areas. Now virtually every county is growing, quite rapidly in some cases.

To me, the most interesting aspect of population change is migration, which represents people voting with their feet. Figure 10.1 shows net migration for the South for each decade back to 1900 for the white and black-components of the population. After decades of out-migration, the pattern began to change in the 1960's with more whites moving in than leaving, but hundreds of thousands of blacks were still leaving. This turnaround continued in the 1970-1980 period, with the region experiencing a net in-migration of over three million people. This included a small net in-migration for blacks for the first time in post-Civil War history. Most of this flow of new residents went into Florida and Texas, but all of the other states had net in-migration during the decade.

The importance of this reversal of a long standing trend is very significant simply in terms of total population. There

is more to the matter than that, however. Out-migrants, for example, have tended to be rural people going to the Northeast. They were poorly educated, had low incomes and were relatively underskilled. The people moving into the South, by contrast, tended to be urban in background, relatively well-educated, middle income and possessed important skills.

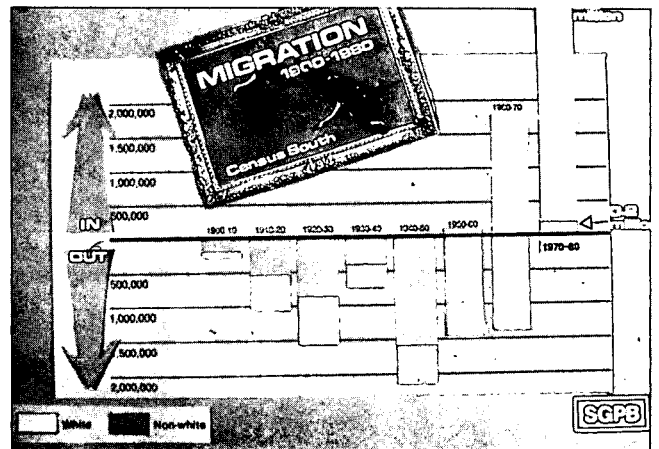


Figure 10.1: Net Migration for the South

Credit: Southern Growth Policies Board

Thus the turnaround in population trends also involved a restructuring of the population in terms of population characteristics and in geographic distribution within the region.

In North Carolina, about 77,000 more people moved out than moved in during the 1960-1970 period. Between 1970 and 1980, on the other hand, there was a net gain through migration of 361,000 people, a net turnaround of about 450,000.

Total population growth in North Carolina exceeded 800,000 people in the 1970's. The magnitude of this growth surprised quite a few of the experts. For example, the U.S. Department of Commerce in 1975 had four different projections of population for North Carolina for the year 1985. By 1980 the highest of these four projections had been exceeded, five years ahead of schedule. Early in the current year, the North Carolina population should have passed the six million mark for the first time.

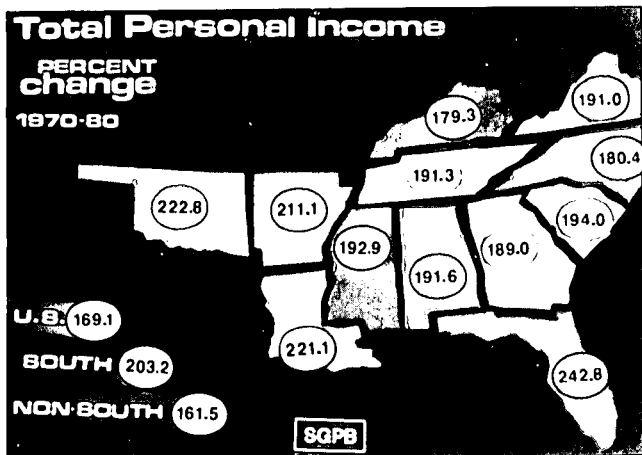


Figure 10.2: Growth in Personal Income

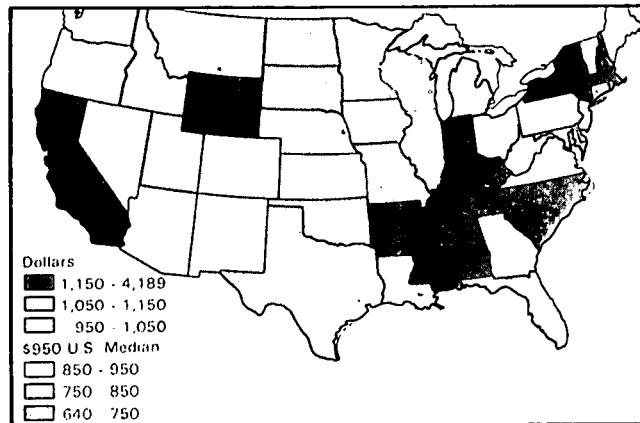


Figure 10.3: Per Capita State and Local Taxes, 1980

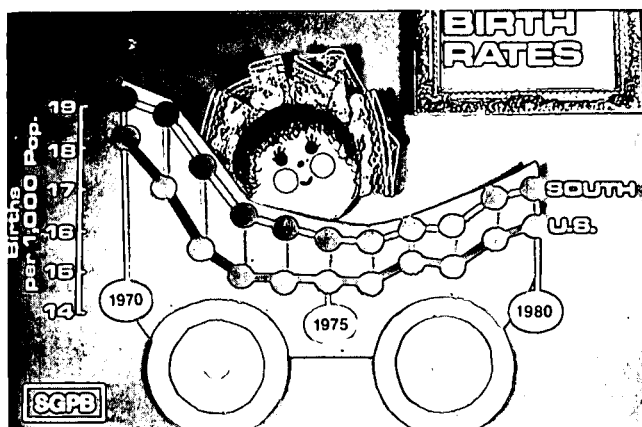


Figure 10.4: Birth Rates

Credit: Southern Growth Policies Board

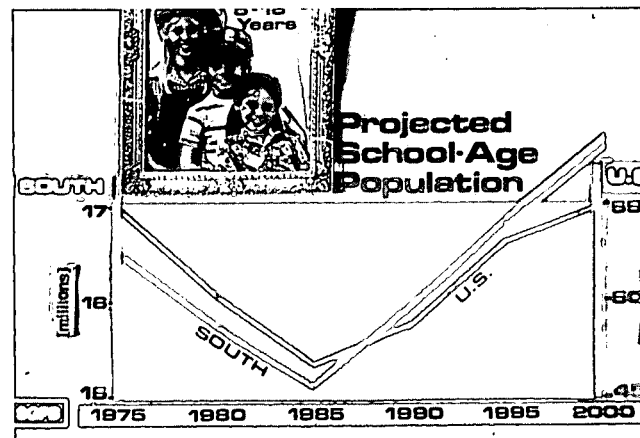


Figure 10.5: Projected School Age Population

Credit: Southern Growth Policies Board

An important statistic that is related to population is personal income. As shown in Figure 10.2, North Carolina had a 180 percent increase in total personal income between 1970 and 1980, compared to the U.S. rate of 169 percent. Per capita personal incomes in North Carolina represented 82 percent of the national average by 1980. This is higher than earlier years but the remaining lag is still a matter of concern of state government at this time. This explains a good bit of the present administration's preoccupation with economic development.

Personal incomes are a large part of the basis for tax revenues. Figure 10.3 shows that per capita state and local taxes in North Carolina are low by national standards. This is an often-cited attraction for new industry but it also is a constraint on providing more or better public services.

Some specific aspects of population are important, too. The older population is one of the fastest growing groups in the nation. In 1970, there were 412,000 persons aged 65 or older in North Carolina, representing 8.1 percent of the population. By 1980, they had increased in number to over 492,000, constituting 9 percent of the total. If present trends continue, that number should exceed 600,000 by 1990, a 50 percent increase since 1970.

Another group of critical importance is the school-age

population, the young people. Birth rates have, as everyone knows, decreased every year at least until the 1970's. Despite the previously mentioned in-migration trends, this caused the school-aged population to steadily decrease in number. Figure 10.4 shows, however, that this trend has reversed, and birth rates are now increasing. This portends at least a modest "baby boom." This turnaround occurred in the late 1970's and Figure 10.5 shows that, as a result, the steady decline in the school-age population will bottom out in the mid-1980's, and the number of school children will increase thereafter. This is a reliable projection since most of the people who will begin school in 1985 and for several years after that have already been born. The important implications of this will be considered later.

Another point to consider with population is its geographic distribution. Figure 10.6 identifies nine rather sprawling urban regions in North Carolina. They are more extensive than the metropolitan areas that are recognized by the U.S. Census. For example, Metropolina is a 12-county region that focuses on Charlotte. The Census defines the Charlotte-Gastonia Standard Metropolitan Statistical Area (SMSA) as including only three counties. Similarly, Raleigh-Durham is replaced by the more extensive Research Triangle Urban Region. This is a scale that is unfamiliar to most



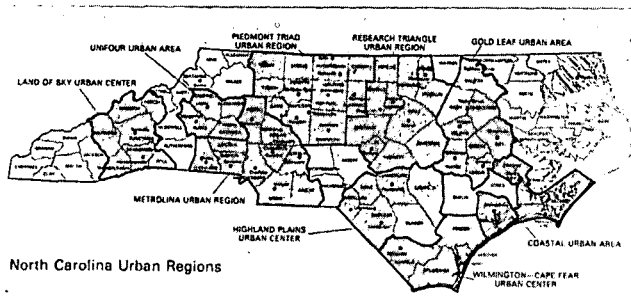


Figure 10.6: Geographic Distribution of Population

people but one which we feel comes closer to expressing the true measure of urban development in North Carolina. These regions, incidentally, are the subject of individual atlases being published at UNC-C under contract with the North Carolina Department of Commerce. They will be used as part of a metropolitan marketing program for recruiting high technology industry.

A great deal of North Carolina's recent growth focused on these dispersed urban regions. It can be helpful to look at the state this way rather than through more traditional urban-rural distinctions as measured by the U.S. Census. The three largest of these urban regions (Metrolina, Piedmont Triad and Research Triangle) contain 52 percent of the North Carolina population. The census, on the other hand, defines only 48 percent of the entire state's population as being urban (living in places of at least 2,500 population).

It is true that many people whose residences are in the outer portions of these urban regions live in rural-looking places, but in many instances they work in urban jobs and generally have a lifestyle that is not really rural, especially in the sense of rural farm lifestyles.

The recent bestselling book *Megatrends* lists decentralization as one of the fundamental trends in American society. Many Americans want to live in smaller towns or cities and in suburban-rural areas. This opportunity has existed in North Carolina for a century, to a greater extent probably than in any other place in the country. Figure 10.7 illustrates the distribution of population in the 12 counties of Metrolina as an example of the dispersion that characterizes especially the Piedmont part of the state.

Population trends have always been strongly related to economic patterns. Figure 10.8 shows the dramatic restructuring of employment that has occurred in the South since 1940. It was only as recently as 1958 that agriculture ceased being the region's leading employer. Since then, four different sectors—manufacturing, trade, services, and government have each come to have far more employees than farming. Figure 10.9 is a later version of this, showing changes in non-agricultural employment in the Metrolina region. As one would expect, the displacement of agriculture took place earlier in urban areas than it did elsewhere in the state. Manufacturing has long dominated the economy of most urban regions. Figure 10.9 shows, however, that this relative dominance of factories has begun to decline, even though the manufacturing total continued to increase its

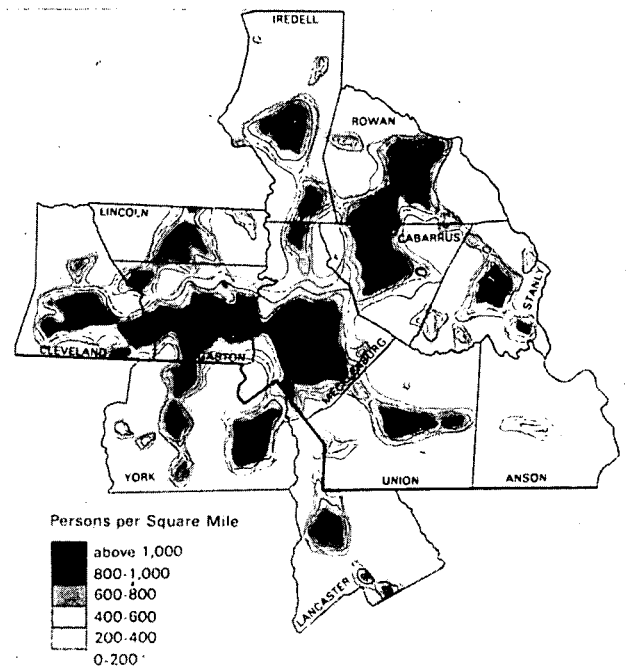


Figure 10.7: Population Density Pattern, 1980

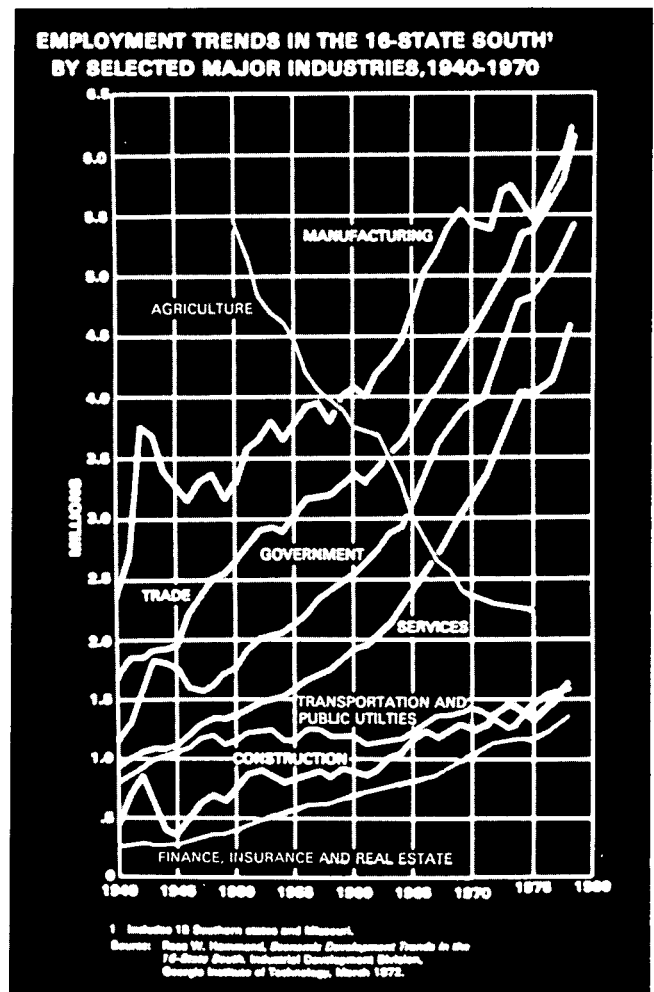


Figure 10.8: Employment Patterns in the South  
Credit: Southern Growth Policies Board

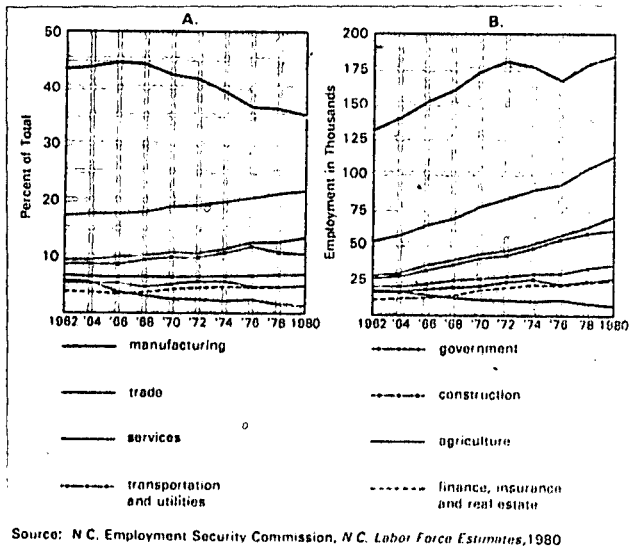


Figure 10.9: Metrolina Employment in Major Economic Sectors, 1962-1980

total after the mid-1970's recession. Offsetting the diminished share that was accounted for by factory employment was faster growth of the other sectors as the Metrolina economy became progressively more diversified. All of them represent employment areas that are heavily urban in locus.

This illustrates a set of patterns that are similar to those that occurred with the population. Both shared three interrelated aspects: (1) growth, (2) changed composition, and (3) geographic redistributions, becoming more urban. That population and economic changes were similar is no coincidence, of course.

A closer look at the location of employment locations is interesting. Figures 10.10 and 10.11 show the larger factories in the Piedmont Triad Urban region. Figure 10.10 is a map of the more traditional industry groups, such as furniture, textiles, apparel, and tobacco products. They are relatively dispersed throughout the region. Figure 10.11 illustrates a rather different pattern for factories in more recently added groups. They are much more focused on the core cities in the urban region. The frequently suburban locations of these plants make them accessible to workers who live in the outer reaches of the urban region, a relationship that will permit the continuation of the population dispersion that is so characteristic of this part of the state.

Another interesting trend emphasized in *Megatrends* is the shift from an industrial to an information processing economy. This is expressed in North Carolina in the great effort to bring more of the microelectronics industry to the state. That effort involves research offices and academic programs as well as manufacturing facilities. It is also expressed in the rise of the office towers in Charlotte, Raleigh, Winston-Salem, and other cities, and in the concurrent, rapidly increasing employment in white collar occupations. This shift toward white collar, information

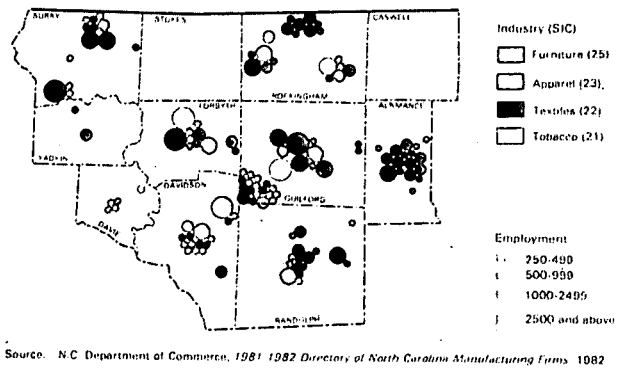


Figure 10.10: Distribution of Large Tobacco, Textile, Apparel and Furniture Plants, 1981

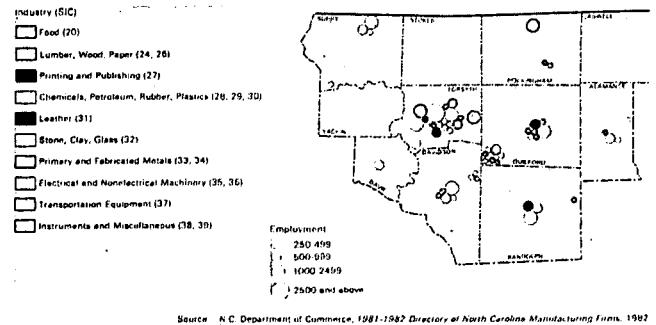


Figure 10.11: Distribution of Large Plants, Excluding Tobacco, Textiles, Apparel and Furniture

processing business represents a new stage in economic development, coming rapidly on the heels of the industrial revolution in the South. We've barely accommodated the shift from farming to manufacturing and now another restructuring is taking place.

These trends have implications for the budget, of course. Growth in population and business will provide enhanced revenues and incomes but also new demands for services. With respect to the growth of the older segment of the population, it imposes substantial new costs to the state. This is reflected in the proposed state budget in the large increase in the cost of the Medicaid program, for example. This is a particularly troublesome item because it is difficult to control, at least until we learn how to control the cost of medical care.

The younger portion of the population is also important to the budget. The proposed state budget includes increased expenditures for grades K through 3 for teacher aides, books, and other items. Looking beyond the upcoming biennium, however, it is apparent that we face some complex issues stemming from increasing school age population and in education in general. We heard earlier that the relative share of the budget going to education has decreased recently. Related to that are three possibilities: (1) high school dropout rates will be lowered, (2) the school age population will increase as projected, and (3) a higher proportion of high school graduates will go on to college, as called for by the shift toward high technology industry and the growth of

information processing jobs. Our very success in recruiting high technology industry such as microelectronics will place greater responsibilities on our education system, obligations that will be expensive to meet.

The changeover to a more urban society that is involved in many of the trends that I have discussed poses a more subtle issue. There is a strong rural mind-set that runs throughout this state. It has many charms and advantages, but such a perspective is not always appropriate in dealing with urban issues. This is most clear in the General Assembly. Growth and urbanization may offer the opportunity for a better life for many North Carolinians, but for some others these changes could be associated with a variety of social and emotional health problems. These problems may, in turn, place further demands on mental health, criminal justice, and other welfare programs.

And, transportation certainly will be impacted by urban focused growth. Some of the needs are familiar. The notion of the dispersed urban regions as dominant growth centers in the state carries with it the need to insure that these regions can function as organic entities. Ideally, people should be able to live on their small farms, work in a near-city factory and go into the city on occasion to purchase specialized goods and services. This arrangement requires a good intra-region transportation network. The idea of providing a Piedmont railroad as a mass transit system between Charlotte and Raleigh will help with this as well as enhance transportation between the major cities.\*

The shift toward high technology industry and information processing has already led to the recognition that in North Carolina, as in the nation as a whole, we have a major deficiency in science and math education. The proposed state budget contains \$1.8 million in new money that is designed to deal with this problem. That's a positive step but probably not nearly enough.

It goes deeper than the quality of science and math education. I have worked a good bit of my time with the business community in the Charlotte area, and one thing we hear from a lot of business leaders is their concern about the overall quality of education in this state. They complain about a lack of technically trained workers but also about the general level of trainability of an under-educated population.

A problem exists now but it will be exacerbated by future events. Perhaps the greatest of these will result from the application of microelectronics to the textile and other traditional, labor intensive industries. A recent *World Watch Institute* study projected that automation will eliminate one-third of all U.S. textile jobs by 1990. The industry is applying microelectronics technology to the production of textile materials in order to maintain its historic competitive advantages. In the process, thousands of workers who lack the basic skills to qualify for new high technology jobs will be turned loose. Many of them live in small towns and rural areas within the dispersed urban regions. They lack skills and are in the wrong place. The growth in service jobs will create opportunities for these people but many service jobs will be either in the central cities or in suburban

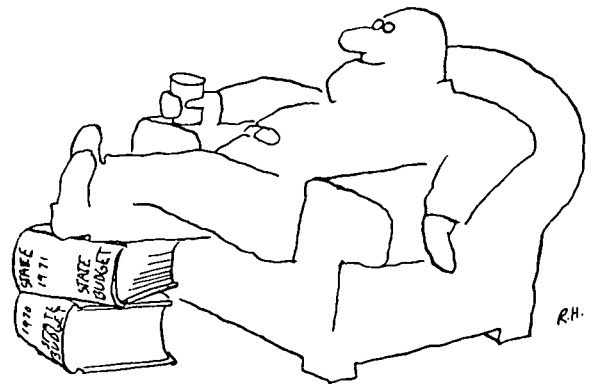
convenience stores. "Services jobs" sometimes is a euphemism for working at the 7-11. The wage rate in a textile mill is not high for a factory job, but it's usually far better than a minimum wage service job.

Retraining is one solution to this problem and there is \$4.9 million in new monies in the proposed budget for jobs retraining and related equipment. Again, that's a positive step, but probably insufficient for such a profound problem—one that has broad social and political implications, as well as economic. I suspect that ambitious state programs designed to ease the transition into new skills for textile and other labor intensive industry workers will arouse some defensiveness from these politically powerful businesses.

There are a couple of white elephants in this state. One of them is tobacco and another is the textile industry. I'm not here to pick a fight with them, but I think the automation of those industries and some others is difficult to deal with, since to raise the question seems to be taken as an attack on the industry, and that's not the question.

It's something that's happening and needs to be addressed—the sooner, the better. It seems that the initiatives in this budget are responses to problems rather than really new initiatives in a sense of having some control over it, such as problems like Medicaid that need to be dealt with, whether you want to or not.

Education still dominates the budget. It has experienced a relative decline in funding, yet it needs to remain a high priority across the South, as the region and North Carolina in particular continue to experience major population and economic change.



### *The Creative Use of Budgeting*

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\*For more on North Carolina railroads, see "North Carolina's Railroads: Which Track for the Future?", *N.C. Insight*, Volume 6, No. 1 (June 1983), p. 2, published by the N.C. Center for Public Policy Research.

I expect that a large part of the burden of helping the people of this state deal with population and economic change will continue to fall on the education system. State budgets will need to recognize this or the fruits of change may turn into sour apples.

**Ran Coble:** We hope you enjoyed the symposium today. We certainly enjoyed being with you. I would like to close the symposium the same way that Bill Moyers did on his recent television series. The series was called "Six Great Ideas", one of which was not a state budget.

He said something that I think reflects on your being here, and for that, we thank you. He was quoting Mortimer Adler and he said, "Everyone is called to a common human vocation—that of being a good citizen and a thoughtful human being."

Thank you for being with us today.

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## **Appendix A**

### **Excerpts from the 1983 Ratified Appropriations Bill for Current Operations**

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1983

RATIFIED BILL

CHAPTER 761

SENATE BILL 23

AN ACT TO MAKE APPROPRIATIONS FOR CURRENT OPERATIONS OF STATE DEPARTMENTS, INSTITUTIONS, AND AGENCIES, AND FOR OTHER PURPOSES.

The General Assembly of North Carolina enacts:

Section 1. The appropriations made herein are for maximum amounts necessary to provide the services and accomplish the purposes described in the budget. Savings shall be effected where the total amounts appropriated are not required to perform these services and accomplish these purposes and, except as allowed by the Executive Budget Act, or as hereinafter provided, the savings shall revert to the appropriate fund at the end of the biennium.

\*\*\*\*\*

An outline of the provisions of the act follows this section. The outline shows the heading "-----CONTENTS/INDEX-----" and it lists by general category the descriptive captions for the various sections and groups of sections that make up the act.

-----CONTENTS/INDEX-----

(This outline is designed for reference only, and it in no way limits, defines, or prescribes the scope or application of the text of the act.)

PART I.-----CURRENT OPERATIONS/GENERAL FUND

Sec. 2.

PART II.-----CURRENT OPERATIONS/HIGHWAY FUND

Sec. 3.

PART III.-----APPROPRIATION OF FEDERAL BLOCK GRANT FUNDS

Sec. 4.

PART IV.-----SPECIAL PROVISIONS/HIGHWAY FUND CURRENT OPERATIONS

-----HIGHWAY FUND/ALLOCATIONS BY TRANSPORTATION CONTROLLER

Sec. 5.

-----HIGHWAY/LIMITATIONS ON TRANSFERS

Sec. 6.

-----HIGHWAY FUNDS/ADJUSTMENTS TO REFLECT ACTUAL REVENUE

Sec. 7.

-----RESERVE TO MATCH ADDITIONAL FEDERAL FUNDS

Sec. 8.

-----CASH FLOW/HIGHWAY FUND APPROPRIATIONS

Sec. 9.

PART V.-----GENERAL PROVISIONS

-----SPECIAL FUNDS, FEDERAL FUNDS AND DEPARTMENTAL  
RECEIPTS/AUTHORIZATION FOR EXPENDITURES

Sec. 10.

-----INSURANCE AND FIDELITY BONDS

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-----BUDGET FORMAT

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-----OVERREALIZED AGENCY RECEIPTS

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-----SALARY ADJUSTMENT APPROPRIATIONS/AUTHORIZED TRANSFERS

Sec. 15.

-----SALARY-RELATED CONTRIBUTIONS/EMPLOYERS

Sec. 16.



-----SHIFT PREMIUM PAY

Sec. 17.

-----DEBT SERVICE/INTEREST PAYMENT

Sec. 18.

-----ITEMIZED STATEMENTS AND FORMS

Sec. 19.

-----SPECIAL STUDY ON FIRE SERVICE TRAINING PROGRAMS

Sec. 20.

-----LOCAL FIRE PROTECTION FOR STATE-OWNED PROPERTY

Sec. 21.

-----TRAVEL ALLOWANCES

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Sec. 23.

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-----AREA MENTAL HEALTH FUNDS

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-----DIX ADOLESCENT TREATMENT UNIT

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-----AID TO PLANNING REGIONS

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-----AGED AND FAMILY CARE/COUNTY AND STATE SHARE OF COSTS

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EMPLOYEES' RETIREMENT SYSTEM

PART I.-----CURRENT OPERATIONS/GENERAL FUND

Sec. 2. Effective July 1, 1983, appropriations from the General Fund of the State for the maintenance of the State departments, institutions, and agencies, and for other purposes as enumerated are made for the biennium ending June 30, 1985, according to the following schedule:

<u>Current Operations-General Fund</u>	<u>1983-84</u>	<u>1984-85</u>
----------------------------------------	----------------	----------------



General Assembly	\$ 8,356,469	\$ 11,245,627
Judicial Department	86,899,437	87,174,560
Indigent Person's Attorney Fee	14,106,078	12,931,431
Department of The Governor		
01. Office of The Governor	1,683,463	1,690,212
02. Office of Citizens Affairs	658,389	660,884
03. Office of State Budget and Management	3,411,136	3,135,647
04. Executive Residences	292,675	296,928
05. Medical Student Loans	997,704	997,704
06. Housing Finance Agency	1,000,000	1,000,000
Total Department of The Governor	8,043,367	7,781,375
Lieutenant Governor's Office	319,076	320,142
Department of Secretary of State	1,280,261	1,187,659
Department of State Auditor	8,487,886	8,644,150
Department of State Treasurer		
01. Operations	949,940	942,328
02. Law Enforcement Officers' Retirement-Local's Share	6,933,300	6,933,300
Total Department of State Treasurer	7,883,240	7,875,628
Department of Public Education		
01. Program Administration and Support	17,608,878	17,340,089
02. Fiscal Administration and Support	1,511,522,309	1,513,713,235
Total Department of Public Education	1,529,131,187	1,531,053,324
Department of Justice	27,162,930	27,102,751
Department of Agriculture	23,436,728	23,401,561
Department of Labor	4,631,278	4,641,794

Department of Insurance	4,404,955	4,423,737
Department of Administration	36,045,814	36,876,893
Department of Transportation		
01. Public Transportation	1,340,000	1,340,000
02. Aeronautics	3,516,571	3,516,571
03. Aid to Railroads	100,000	100,000
Total Department of Transportation	4,956,571	4,956,571
Department of Natural Resources and Community Development	40,489,613	40,781,073
Department of Human Resources		
01. Alcoholic Rehabilitation Center - Black Mountain	2,524,748	2,551,215
02. Alcoholic Rehabilitation Center - Butner	1,920,431	1,941,554
03. Alcoholic Rehabilitation Center - Greenville	1,620,807	1,640,337
04. N.C. Special Care Center	3,010,873	3,090,033
05. Black Mountain Center	62,509	101,396
06. DHR - Administration and Support Program	15,555,866	15,560,475
07. Schools for the Deaf	12,107,822	12,030,692
08. Governor Morehead School	3,561,629	3,589,865
09. Division of Health Services	52,727,887	54,350,042
10. Lenox Baker Hospital	519,014	534,019
11. Social Services	63,842,160	63,688,235
12. Medical Assistance	183,579,577	183,975,138
13. Social Services - State Aid to Non-State Agencies	3,610,750	3,352,790
14. Division of Services for the Blind	4,883,020	5,119,996
15. Division of Mental Health - Administration	6,196,609	6,218,163

16.	Division of Mental Health - Community Based Programs	79,149,790	78,222,925
17.	Wright School	1,016,560	1,021,592
18.	Dorothea Dix Hospital	23,569,067	23,858,481
19.	Broughton Hospital	21,010,196	21,347,620
20.	Cherry Hospital	20,548,531	20,805,180
21.	John Umstead Hospital	19,341,860	19,232,417
22.	Western Carolina Center	2,891,938	3,111,577
23.	O'Berry Center	2,585,626	2,857,407
24.	Murdoch Center	17,406,015	15,157,326
25.	Caswell Center	11,812,532	12,238,360
26.	Division of Facility Services	6,140,872	6,139,199
27.	Division of Vocational Rehabilitation Services	16,240,114	17,550,601
28.	Division of Youth Services	25,209,838	24,142,658
	Total Department of Human Resources	602,646,641	603,429,293
	Department of Correction	177,101,440	180,620,865
	Department of Commerce	18,448,199	18,524,404
	Reserve for Microelectronics Center of North Carolina	7,255,000	10,045,000
	Department of Revenue	29,587,097	30,164,632
	Department of Cultural Resources	24,249,997	24,288,050
	Department of Crime Control and Public Safety	11,367,413	10,280,231
	University of North Carolina - Board of Governors		
01.	General Administration	9,209,315	9,266,570
02.	University Operations - Lump Sum	29,579,472	29,579,472
03.	Related Educational Programs	28,549,178	28,370,122
04.	University of North Carolina		

at Chapel Hill

a.	Academic Affairs	76,673,329	77,938,238
b.	Division of Health Affairs	55,257,553	55,950,061
c.	Area Health Education Centers	20,300,195	20,305,128
05.	North Carolina State University at Raleigh		
a.	Academic Affairs	89,363,937	90,575,889
b.	Agricultural Research Service	21,116,978	21,123,752
c.	Agricultural Extension Service	16,355,158	16,365,256
06.	University of North Carolina at Greensboro	30,638,085	30,976,513
07.	University of North Carolina at Charlotte	25,646,010	25,907,291
08.	University of North Carolina at Asheville	6,093,125	6,156,591
09.	University of North Carolina at Wilmington	14,370,541	14,588,419
10.	East Carolina University	60,981,301	61,724,266
11.	North Carolina Agricultural and Technical State University	19,409,250	19,740,401
12.	Western Carolina University	19,038,492	19,484,767
13.	Appalachian State University	27,986,822	28,205,044
14.	Pembroke State University	6,984,880	7,022,145
15.	Winston-Salem State University	8,712,287	8,846,171
16.	Elizabeth City State University	6,694,069	6,775,401
17.	Fayetteville State University	8,288,837	8,340,643
18.	North Carolina Central University	16,617,942	16,933,753
19.	North Carolina School of the Arts	4,781,004	4,833,173
20.	North Carolina Memorial		

Hospital	21,107,045	21,336,236
Total University of North Carolina	623,754,805	630,345,302
Department of Community Colleges	220,607,992	226,126,908
State Board of Elections	230,365	231,440
Contingency and Emergency	1,125,000	1,125,000
Reserve for Salary Adjustments	500,000	500,000
Reserve for Electronic Data Processing Equipment	1,000,000	1,000,000
Reserve for Cost-of-Living Salary Increase	129,865,700	130,355,000
Reserve for Cost-of-Living Increase for Retirees	2,319,800	2,435,800
Reserve-Hospital-Medical Benefits, Retirees	19,528,000	19,528,000
Reserve for the McCain Prison Medical Center	4,400,000	4,400,000
Debt Service - Interest	37,825,500	40,209,750
Debt Service - Redemption	41,700,000	41,700,000
GRAND TOTAL CURRENT OPERATIONS-- GENERAL FUND	\$3,759,147,839	\$3,785,707,951

PART II.-----CURRENT OPERATIONS/HIGHWAY FUND

Sec. 3. Effective July 1, 1983, appropriations from the Highway Fund of the State for the maintenance and operation of the Department of Transportation, and for other purposes as enumerated, are made for the biennium ending June 30, 1985, according to the following schedule:

<u>Current Operations - Highway Fund</u>	<u>1983-84</u>	<u>1984-85</u>
Department of Transportation		
01. Administration	\$ 16,579,946	\$ 16,831,051
02. Highways		

a. Administration and Operations	18,418,215	18,460,221
b. State Construction		
(01) Primary Construction	6,700,000	1,500,000
(02) Secondary Construction	43,860,000	43,440,000
(03) Urban Construction	15,500,000	5,700,000
(04) Access and Public Service Roads	2,000,000	2,000,000
c. State Funds to Match Federal Highway Aid		
(01) Construction	59,453,659	35,588,249
(02) Reserve to Match Additional Federal Funds	19,800,000	6,800,000
(03) Planning Survey and Highway Planning Research	56,069	734,006
d. State Maintenance		
(01) Primary	59,234,591	59,264,085
(02) Secondary	109,002,091	109,057,391
(03) Urban	15,259,756	15,267,129
(04) Contract Resurfacing	78,571,762	78,571,762
e. Ferry Operations	10,114,459	10,114,459
f. State Aid to Municipalities	43,460,000	43,040,000
g. Employers' Contributions for Administration, Highway Operations Administration, Division of Motor Vehicles and Equipment Unit		
(01) Social Security	3,066,546	3,115,188
(02) Retirement	4,559,360	4,515,650
(03) Hospital/Medical Insurance	1,428,265	1,428,265

03.	Division of Motor Vehicles	32,375,511	34,350,870
04.	Governor's Highway Safety Program	247,180	282,871
05.	Salary Adjustments for Highway Fund Employees	200,000	200,000
06.	Debt Service	38,288,000	38,401,500
07.	Reserve for Hospital Medical Benefits for Retirees	1,873,000	1,873,000
08.	Reserve for Cost-of-Living Salary Increase	4,754,300	4,754,300
09.	Reserve to Correct Occupational Safety and Health	350,000	350,000
10.	Reserve for Increase in Retirement Allowances	236,100	248,000
Appropriations for Other State Agencies			
01.	Crime Control & Public Safety	49,250,756	49,750,482
	a. Reserve for Salary Adjustment for Certain Members of Highway Patrol	240,000	240,000
02.	Other Agencies		
	a. Department of Agriculture	1,744,034	1,741,158
	b. Department of Commerce	618,126	619,165
	c. Department of Revenue	1,085,342	1,087,547
	d. Department of Human Resources	246,291	246,604
	e. Department of Correction	1,750,000	1,750,000
	f. Department of Public Education-Driver Training Program	18,200,000	18,300,000
	Contingencies and Emergency Fund	100,000	100,000

GRAND TOTAL CURRENT OPERATIONS -  
HIGHWAY FUND \$ 658,623,359 \$ 609,722,953

PART III-----APPROPRIATION OF FEDERAL BLOCK GRANT FUNDS

Sec. 4. Effective July 1, 1983, appropriations from federal block grant funds are made for the fiscal year ending June 30, 1984, according to the following schedule:

Department of Human Resources

- 01. Division of Mental Health, Mental Retardation, and Substance Abuse Services - Alcohol and Drug Abuse and Mental Health Services Block Grant \$10,435,359
- 02. Division of Health Services
  - a. Maternal and Child Health Services Block Grant \$13,252,370
  - b. Preventive Health and Health Services Block Grant \$ 2,436,142
- 03. Division of Social Services
  - a. Social Services Block Grant \$67,790,887
  - b. Low Income Energy Assistance Block Grant \$35,500,000

Total Department of Human Resources \$129,414,758

Department of Natural Resources and  
Community Development

- 01. Community Services Block Grant \$8,114,419
- 02. Community Development Block Grant \$54,584,779

Total Department of Natural Resources and  
Community Development \$62,699,198

Department of Public Education



01. Education Consolidation and	
Improvement Act Chapter II	\$11,267,741
Total Federal Block Grants	\$203,381,697

PART IV.-----SPECIAL PROVISIONS/HIGHWAY FUND CURRENT OPERATIONS  
 -----HIGHWAY FUND/ALLOCATIONS BY TRANSPORTATION CONTROLLER

Sec. 5. (a) The Controller of the Department of Transportation shall allocate at the beginning of each fiscal year, from the various appropriations made to the Department of Transportation in Section 3 of this act under Titles 02.b. - State Construction, 02.c. - State Funds to Match Federal Highway Aid, 02.d. - State Maintenance, and 02.e. - Ferry Operations, sufficient funds to eliminate all overdrafts on State maintenance and construction projects, and such allocations may not be diverted to other purposes.

(b) This section is effective July 1, 1983.

-----HIGHWAY/LIMITATIONS ON TRANSFERS

Sec. 6. (a) Transfers may be made by authorization of the Governor as Director of the Budget from Section 3 of this act, Titles 02.b.(01) - State Construction/Primary Construction, 02.b.(03) - State Construction/Urban Construction, 02.b.(04) - State Construction/Access and Public Service Roads, 02.c. - State Funds to Match Federal Highway Aid, 02.d. - State Maintenance, and 02.e. - Ferry Operations; provided that the original appropriation from which the transfer is made shall not be reduced by more than ten percent (10%) without consultation with the Advisory Budget Commission and the approval of the Director of the Budget. Transfers from Section 3 of this act, Titles

02.b.(01) - State Construction/Primary Construction, 02.b.(03) - State Construction/Urban Construction, 02.b.(04) - State Construction/Access and Public Service Roads, 02.c. - State Funds to Match Federal Highway Aid, 02.d. - State Maintenance, and 02.e. - Ferry Operations, for the purpose of providing additional positions, shall be approved by the Director of the Budget.

(b) This section is effective July 1, 1983.

-----HIGHWAY FUNDS/ADJUSTMENTS TO REFLECT ACTUAL REVENUE

Sec. 7. Any unreserved credit balance in the Highway Fund on June 30 of each of the fiscal years shall support appropriations in the succeeding fiscal year. If all of the balance is not needed for these appropriations, the Director of the Budget may use the remaining excess to establish a reserve for access and public service roads, a reserve for unforeseen happenings or state of affairs requiring prompt action as provided for by G.S. 136-44.2, and other required reserves. If all of the remaining excess is not used to establish these reserves, the remainder shall be allocated to the State-funded maintenance or construction appropriations in the manner that the Board of Transportation deems appropriate.

-----RESERVE TO MATCH ADDITIONAL FEDERAL FUNDS

Sec. 8. (a) Of the funds appropriated to the Department of Transportation in Section 3 of this act, nineteen million eight hundred thousand dollars (\$19,800,000) for fiscal year 1983-84 shall be in a special Reserve to Match Additional Federal Funds. These funds may be allocated by the Director of the Budget, upon request from the board of transportation, if

Social Services. The maximum payment for foster care including room, board and personal needs allowance shall be one hundred sixty-five dollars (\$165.00) per month.

-----MEDICAID

Sec. 60. (1) Medicaid Reimbursement. Appropriations in Section 2 of this act for services provided in accordance with Title XIX of the Social Security Act (Medicaid) are for both the categorically needy and the medically needy. Funds appropriated for these services are to be expended in accordance with the following schedule of services and payment bases. All services and payments are subject to the language at the end of this subdivision.

Services and payment bases

- (a) Hospital - Inpatient - Payment for hospital inpatient services will be based on a prospective rate reimbursement plan as established by the Department of Human Resources. Administrative days for any period of hospitalization shall be limited to a maximum of three days.
- (b) Hospital - Outpatient - 80 percent (80%) of allowable costs.
- (c) Mental and Specialty Hospitals Skilled Nursing Facilities and Intermediate Care Facilities - As prescribed under the State Plan for Reimbursing Long-Term Care Facilities. Skilled nursing facility participation in the Medicare program is a condition of participation in the North Carolina

Medicaid skilled nursing facility program.

- (d) Intermediate Care Facilities for the Mentally Retarded - As prescribed under the State Plan for reimbursing intermediate care facilities for the mentally retarded.
- (e) Drugs - Drug cost as allowed by federal regulations plus three dollars and twenty-two cents (\$3.22) professional services fee per month excluding refills for same drug or generic equivalent during the same month. Reimbursement shall be available for up to six prescriptions per recipient, per month, including refills. (Payments for drugs are subject to the provisions of subdivision (8) of this section and to the provisions at the end of subdivision (1) of this section.)
- (f) Physicians, Chiropractors, Podiatrists, Optometrists, Dentists - Fee schedules as developed by the Department of Human Resources. (Payments for dental services are subject to the provisions of subdivision (7) of this section.)
- (g) Community Alternative Program, EPSDT Screens - Payment to be made in accordance with a rate schedule developed by the Department of Human Resources.
- (h) Home Health, Clinic Services, Mental Health Clinics - Payment will be made according to reimbursement plans developed by the Department of Human

Resources.

- (i) Medicare Buy-In - Social Security Administration premium.
- (j) Ambulance Services - 100 percent (100%) of allowable, reasonable, usual and customary charges.
- (k) Hearing Aids - Actual cost plus a dispensing fee.
- (l) Rural Health Clinic Services - Provider based - reasonable cost; nonprovider based - single cost reimbursement rate per clinic visit.
- (m) Family Planning - Negotiated rate for local health departments. For other providers - see specific services, i.e., hospitals, physicians, etc.
- (n) Independent Laboratory and X-Ray Services - 90 percent (90%) of allowable usual and customary charges.
- (o) Optical Supplies - 100 percent (100%) of reasonable wholesale cost of materials.
- (p) Ambulatory Surgical Centers - Negotiated rates, established by the Department of Human Resources.
- (q) Medicare Crossover Claims - Actual coinsurance or deductible or both.

Notwithstanding the schedule for services and payments bases in this section, increases in Medicaid rates for home health services, clinic services, ambulance services, EPSDT screens, hearing aid dispensing fees, rural health clinics, family planning, independent laboratory and x-ray services, ambulatory surgical centers, and mental health clinics shall be limited to

seven percent (7%). Increases in indirect costs, as defined in the State Plan for Reimbursing Long Term Care Facilities, shall be limited to three and four tenths percent (3.4%) per year for skilled nursing and intermediate care facilities. Physicians', Chiropractors', Podiatrists', Optometrists', and Dentists' fees shall not increase.

Reimbursement is available for up to 24 visits per recipient per year to any one or combination of the following: physicians, clinics, hospital outpatient, optometrists, chiropractors, and podiatrists. Prenatal services, EPSDT screens and emergency rooms are exempt from the visit limitations contained in this paragraph. Exceptions may be authorized by the Department of Human Resources where the life of the patient would be threatened without such additional care. Any person who is determined by the Department to be exempt from the 24-visit limitation shall also be exempt from the six-prescription limitation.

Payment basis terms of allowable, usual, reasonable, and customary are definitive terms prescribed by federal regulations governing the Medicaid program. Any changes in services or basis of payment in the Medicaid program must be approved by the Director of the Budget with the advice of the Advisory Budget Commission.

(2) Allocation of Nonfederal Cost of Medicaid. The State shall pay eighty-five percent (85%) and the counties shall pay fifteen percent (15%) of the nonfederal costs of all applicable services listed in this section, except that the State shall pay sixty-

five percent (65%) and the counties shall pay thirty-five percent (35%) of the nonfederal costs of those Skilled Nursing Facilities and Intermediate Care Facilities services which are not owned by the State.

(3) Co-payment for Medicaid Services. The Department of Human Resources is authorized to establish co-payment up to the maximum permitted by federal law and regulation.

(4) Prepaid Health Care for Medicaid Recipients. The Department of Human Resources, Division of Medical Assistance, is authorized, subject to approval of a change in the State Medicaid Plan by the Director of the Budget with the advice of the Advisory Budget Commission, to purchase health care services on a prepaid basis.

(5) Medicaid and Aid to Families with Dependent Children Income Eligibility Standards. Maximum net family annual income eligibility standards for Medicaid, Aid to Families with Dependent Children and the Standard of Need for Aid to Families with Dependent Children shall be as follows:

<u>Family</u>	<u>Categorically Needy</u>		<u>Medically Needy</u>	
	<u>Standard</u>	<u>AFDC Payment</u>	<u>AA, AB, AD*</u>	
<u>Size</u>	<u>of Need</u>	<u>Level*</u>		
1	\$3,216	\$1,608	\$1,700	\$2,200
2	4,224	2,112	2,200	2,900
3	4,848	2,424	2,500	3,300
4	5,304	2,652	2,800	3,600
5	5,808	2,904	3,000	3,900
6	6,264	3,132	3,200	4,200
7	6,720	3,360	3,400	4,500

8                    6,984                    3,492                    3,600                    4,700

\*Aid to Families with Dependent Children (AFDC); Aid to the Aged (AA); Aid to the Blind (AB); and Aid to the Disabled (AD). The payment level for Aid to Families with Dependent Children shall be fifty percent (50%) of the standard of need.

These standards may be changed with the approval of the Director of the Budget with the advice of the Advisory Budget Commission.

(6) Spouse Responsibility. Notwithstanding the provisions of G.S. 108A-61, the Department of Human Resources, Division of Medical Assistance shall not deem the income or assets of the spouse of a person who is admitted as a long-term care patient in a certified public or private intermediate care or skilled nursing facility to be available to the institutionalized person.

(7) Dental Coverage Limits. Dental services will be provided on a restricted basis in accordance with regulations developed by the Department. Funds for dental services shall be disbursed only with prior approval by the Department of Human Resources, Division of Medical Assistance, as required by this subdivision. No prior approval shall be required for emergency services or routine services. Routine services are defined as examinations, x-rays, prophylaxis, nonsurgical tooth extractions, amalgam fillings, and fluoride treatments. Prior approval shall be required for all other services and for routine services performed more than two times during a consecutive 12-month period. The Department of Human Resources shall establish rules and regulations, as provided by the Administrative Procedures



Act, to implement this subdivision.

(8) Dispensing of Generic Drugs. Notwithstanding Part 1A of Article 4 of Chapter 90 of the General Statutes, under the Medical Assistance Program (Title XIX of the Social Security Act) a prescription order for a drug designated by a trade or brand name shall be considered to be an order for the drug by its established or generic name, except when the prescriber personally indicates, either orally or in his own handwriting on the prescription order, "dispense as written" or words of similar meaning.

As used in this subdivision "brand name" means the proprietary name the manufacturer places upon a drug product or on its container, label or wrapping at the time of packaging; and "established name" shall have the same meaning as assigned that term by the Federal Food, Drug and Cosmetic Act as amended, 21 U.S.C. 301 et seq.

(9) Exceptions to Service Limitations, Eligibility Requirements and Payments. Service limitations, eligibility requirements, and payments bases in this section may be waived by the Department of Human Resources, with the approval of the Director of the Budget, to allow the Department to carry out pilot programs for prepaid health plans or community based services programs in accordance with plans approved by the U. S. Department of Health and Human Services, or when the Department determines that such a waiver will result in a reduction in the total Medicaid costs for the recipient.

(10) Volume Purchase Plans and Single Source Procurement. The

Department of Human Resources, Division of Medical Assistance is authorized, subject to the approval of a change in the State Medicaid Plan, to contract for services, medical equipment, supplies and appliances by implementation of volume purchase plans, single source procurement or other similar processes in order to improve cost containment.

-----COUNTY MEDICAID RELIEF FUNDS

Sec. 61. (a) Of the funds appropriated to the Department of Human Resources, Division of Medical Assistance, for fiscal year 1983-84 the sum of seven million four hundred thousand dollars (\$7,400,000) shall be used to relieve those counties of the additional costs the counties incurred in fiscal year 1982-83 due to the difference between the 1977-78 and the 1982-83 State-county participation rates for domiciliary care facilities and non-State-owned skilled nursing and intermediate care facilities. These funds shall be distributed for actual cost incurred or on a pro rata basis in the proportion that an individual county's additional cost bears to the total additional cost to those counties which incurred additional costs in 1982-83.

(b) This section is effective July 1, 1983.

-----MEDICAID RESERVE

Sec. 62. (a) Using funds reverted to the General Fund at the end of the 1982-83 fiscal year by the Division of Medical Assistance, a Reserve Fund consisting of eight million dollars (\$8,000,000) is appropriated to the Department of Human Resources for the 1983-84 fiscal year. In addition, any receipts the State

may recover from the federal government as a result of meeting the federal target for growth in the Medicaid program, as specified in the Omnibus Budget Reconciliation Act of 1981, shall also be deposited in this Reserve Fund.

Of the monies contained in this reserve, one million dollars (\$1,000,000) in 1983-84 only shall be allocated to the Division of Social Services to provide additional aid to county departments of social services. These funds shall be used by county departments of social services to employ additional eligibility specialists so that the average amount of time necessary to process applications will be reduced. These funds shall be matched dollar for dollar by the counties.

The remaining monies contained in this Fund may be used only by the Division of Medical Assistance. The Division may use these monies only to provide medical services upon the disbursement of all other State appropriations to the Division of Medical Assistance.

(b) This section is effective July 1, 1983.

-----JUVENILE DETENTION FUNDS

Sec. 63. (a) Of the funds appropriated in Section 2 of this act to the Department of Human Resources for juvenile detention centers, the sum of fifty-seven thousand five hundred forty-two dollars (\$57,542) for fiscal year 1983-84 and the sum of thirty-six thousand six hundred forty dollars (\$36,640) for fiscal year 1984-85 shall be allocated for the purpose of creating a pilot project involving transportation to the Buncombe County Regional Detention Center.

units may expend local revenues, including ad valorem taxes, to meet this matching requirement.

(b) This section is effective July 1, 1983.

-----CERTIFICATE OF NEED PROVISION FOR NURSING HOME BEDS

Sec. 74. (a) Section 31 of Chapter 1127, Session Laws of 1981, as extended by Section 3 of Chapter 655, Session Laws of 1983, is amended by adding a new subsection to read:

"(g) This section shall expire June 30, 1985."

(b) This section shall become effective June 30, 1983.

-----DHR EMPLOYEES AS IN-KIND MATCH

Sec. 75. The Secretary of the Department of Human Resources may assign employees of the Department to serve as in-kind match for contracts with nonprofit corporations working to establish cost containment measures for statewide prepaid health contracts for medical services. This section expires July 1, 1985.

-----DHR SEWAGE FACILITY

Sec. 76. Effective June 30, 1983, unspent 1982-83 appropriations in the Department of Human Resources, not to exceed eight hundred thousand dollars (\$800,000), may be used in 1983-84 as a reserve to match federal funds for a capital improvement project to upgrade the Butner Sewage Treatment Facility.

PART VII.-----HUMAN RESOURCES/PUBLIC EDUCATION

-----FUNDS FOR MEMBERS OF THE CLASS IDENTIFIED IN WILLIE M., et al. vs. HUNT, et al.

Sec. 77. (a) Legislative Findings. The General Assembly finds:

- (1) That there is a need in North Carolina to provide appropriate treatment and education programs to children under the age of 18 who suffer from emotional, mental, or neurological handicaps accompanied by violent or assaultive behavior;
- (2) That children meeting these criteria have been identified as a class in the case of Willie M., et al. vs. Hunt, et al.; and
- (3) That these children have a need for a variety of services, in addition to those normally provided, that may include but are not limited to residential treatment programs, educational programs, and independent living arrangements.

(b) Funds for Department of Human Resources. It is the intent of the General Assembly that funds appropriated in Section 2 of this act to the Department of Human Resources for programs serving members of the Willie M. Class be expended only for programs serving members of the Willie M. Class identified in Willie M., et al. vs. Hunt, et al., including evaluations of potential class members. It is recognized that therapeutic or economic reasons may, at times, require certain of these programs to serve a mixed clientele of Willie M. class members and other clients. To the maximum extent possible, however, these funds shall be expended solely for the benefit of Willie M. class members.

(c) Funds for Department of Public Education. Funds appropriated to the Department of Public Education in Section 2 of this act for members of the Willie M. Class are to establish a supplemental reserve fund to serve only members of the class identified in Willie M., et al. vs. Hunt, et al. These funds shall be allocated by the State Board of Education to the local education agencies to serve those class members who were not included in the regular average daily membership and the census of children with special needs, and to provide the additional program costs which exceed the per pupil allocation from the State Public School Fund and other State and federal funds for children with special needs.

(d) The Department of Human Resources shall develop a prospective unit cost reimbursement system to be used to pay for services to Willie M. class members identified as a class in Willie M., et al. vs. Hunt, et al. This reimbursement system shall be submitted to the General Assembly for review by May 1, 1984, and implemented on July 1, 1984.

(e) Reporting Requirements. The Department of Human Resources and the Department of Public Education shall submit by April 1, 1984, a joint report to the Governor and the General Assembly on the progress achieved in serving members of the Willie M. Class. The report shall include the following unduplicated data for each county: (i) the number of children nominated for the Willie M. Class; (ii) the number of children actually identified as members of the class in each county; (iii) the number of children served as members of the class in each

county; (iv) the number of children that remains unserved; (v) the types and locations of treatment and education services provided to class members; (vi) the cost of services, by type, to members of the class; (vii) information on the impact of treatment and education services on members of the class.

(f) The Departments of Human Resources and Public Education shall provide periodic reports of expenditures on behalf of the Willie M. Class to the Joint Legislative Commission on Governmental Operations.

(g) In fulfilling the responsibilities vested in it by the Constitution of North Carolina, the General Assembly finds:

(1) That the responsible State agencies have made a bona fide good faith effort to comply fully with the requirements of the Court Orders in the case of Willie M., et al. vs. Hunt, et al., and that services and placements for Willie M. class members are very greatly improved.

(2) That the General Assembly is responsible for assessing all of the vital needs of the citizens of the State of North Carolina, for evaluating the extent of its economic resources and the prevailing economic climate, and for determining how best to meet the needs of all of its citizens within the resources available to the State.

(3) That the funds hereby appropriated will enable the development and implementation of placement and services for the class members in Willie M., et al.

vs. Hunt, et al. within a reasonable period of time considered within the context of the needs of the class members, the other needs of the State and the resources available to the State.

(4) That additional expenditures of funds for these purposes at this time would result in an accelerated expenditure of and an unreasonable waste of State funds inasmuch as such expenditures could not reasonably be expected to actually secure a higher degree of treatment or education for the class members than can be accomplished with the funds hereby appropriated.

(h) The General Assembly supports the efforts of the responsible officials and agencies of the State of North Carolina to meet the requirements of the Court Order in Willie M., et al. vs. Hunt, et al. However, in view of the findings in subsection (g) above, the General Assembly expressly directs that no State funds shall be expended on the placement and services of class members in Willie M., et al. vs. Hunt, et al., or for any other thing or purpose arising out of this litigation, now or at any time in the biennium, except for those funds appropriated in Section 2 of this act to the Departments of Human Resources and Public Education for program serving members of the Willie M. Class identified in Willie M. et al. vs. Hunt, et al., and for such funds as may be elsewhere appropriated by the General Assembly specifically for such purposes.

(i) This section is effective July 1, 1983.



which students are residents of North Carolina for the purposes of these programs. The Board shall also make any regulations as necessary to ensure that these funds are used directly for instruction in the medical programs of the schools and not for religious or other nonpublic purposes. The Board shall encourage the two schools to orient students towards personal health care in North Carolina giving special emphasis to family and community medicine.

-----AID TO PRIVATE COLLEGES/PROCEDURE

Sec. 108. Funds appropriated in this act to the Board of Governors of The University of North Carolina for aid to private colleges shall be disbursed in accordance with the provisions of G.S. 116-19, G.S. 116-21, and G.S. 116-22. These funds shall provide up to two hundred dollars (\$200.00) per full-time equivalent North Carolina undergraduate student enrolled at a private institution as of October 1 each year.

These funds shall be placed in a separate, identifiable account in each eligible institution's budget/chart of accounts. All funds in this account shall be provided as scholarship funds for needy North Carolina students during the fiscal year. Each student awarded a scholarship from this account shall be notified of the source of the funds and of the amount of the award. Funds not utilized under G.S. 116-19 shall be for the tuition grant program as defined in Section 109 of this act.

Sec. 109. In addition to any funds appropriated pursuant to G.S. 116-19 and in addition to all other financial assistance made available to private educational institutions

located within the State, or to students attending such institutions, there is granted to each full-time North Carolina undergraduate student attending an approved institution as defined in G.S. 116-22, the sum of seven hundred fifty dollars (\$750.00) per academic year which shall be distributed to the student as hereinafter provided.

The tuition grants provided for in this section shall be administered by the State Education Assistance Authority pursuant to rules and regulations promulgated by the State Education Assistance Authority not inconsistent with this act. The State Education Assistance Authority shall not approve any grant until it receives proper certification from an approved institution that the student applying for the grant is an eligible student. Upon receipt of the certification, the State Education Assistance Authority shall remit at such times as it shall prescribe the grant to the approved institution on behalf, and to the credit, of the student.

In the event a student on whose behalf a grant has been paid is not enrolled and carrying a minimum academic load as of the 10th classroom day following the beginning of the school term for which the grant was paid, the institution shall refund the full amount of the grant to the State Education Assistance Authority. Each approved institution shall be subject to examination by the State Auditor for the purpose of determining whether the institution has properly certified eligibility and enrollment of students and credited grants paid on the behalf of the students.

In the event there are not sufficient funds to provide each eligible student with a full grant, each eligible student shall receive a pro rata share of funds then available for the remainder of the academic year within the fiscal period covered by the current appropriation. Any remaining funds shall revert to the General Fund.

-----AID TO PRIVATE COLLEGES

Sec. 110. Expenditures made pursuant to Sections 108 and 109 of this act shall be used for secular educational purposes at nonprofit institutions of higher education only. Sections 108, 109 and 110 of this act are effective July 1, 1983.

-----INTEREST PROCEEDS ON SALE OF UNIVERSITY UTILITIES

Sec. 111. Section 41.2 of Chapter 859 of the 1981 Session Laws is amended by deleting subsection (c) and adding in lieu of a new subsection (c) to read:

"All investment income earned on and after July 1, 1975, on the proceeds from the sale and lease of real and personal property disposed of pursuant to this act shall be credited to the General Fund of the State."

-----NONRESIDENT TUITION SET BY BOARD OF GOVERNORS

Sec. 112. G.S. 116-144 is rewritten to read:

"§ 116-144. Higher tuition to be charged nonresidents.--The Board of Governors shall fix the tuition and required fees charged nonresidents of North Carolina who attend the institutions enumerated in G.S. 116-4 at rates higher than the rates charged residents of North Carolina and comparable to the rates charged nonresident students by comparable public

institutions nationwide, except that a person who serves as a graduate teaching assistant or graduate research assistant or in a similar instructional or research assignment and is at the same time enrolled as a graduate student in the same institution may, in the discretion of the Board of Governors, be charged a lower rate fixed by the Board, provided the rate is not lower than the North Carolina resident rate."

-----BOARD OF GOVERNORS/EXPENDITURES

Sec. 113. Effective July 1, 1983, G.S. 116-11(9) b. is rewritten to read:

"b. Funds for the continuing operation of each constituent institution shall be appropriated directly to the institution. Funds for salary increases for employees exempt from the State Personnel Act shall be appropriated to the board in a lump sum for allocation to the institutions. Funds for the third category in paragraph a. of this subdivision shall be appropriated to the Board in a lump sum. The Board shall allocate to the institutions any funds appropriated, said allocation to be made in accordance with the Board's schedule of priorities and in accordance with any specifications in the Budget Appropriation Act; provided, however, that when both the Board and the Director of the Budget (after the Director of the Budget consults with the Advisory Budget Commission) deem it to be in the best interest of the State, funds in the third category may be allocated, in whole or in part, for other items within the list of priorities or for items not included in the list. Provided, nothing herein shall be construed to allow the General Assembly, except as to Capital

Improvements, to refer to particular constituent institutions in any specifications as to priorities in the third category."

-----UNC TUITION INCREASE

Sec. 114. The appropriations in Section 2 of this act to the Board of Governors of The University of North Carolina and its constituent institutions anticipate actions by the Board of Governors to increase tuition at constituent institutions. The Board of Governors shall increase tuition so as to raise additional income of at least ten million dollars (\$10,000,000) for each year of the fiscal biennium.

The Board of Governors shall use thirteen million eight hundred twenty-one thousand six hundred forty-three dollars (\$13,821,643) of the funds appropriated to it in Section 2 of this act for items 2 through 4 of its "Schedule of Priorities-Operating."; it shall use the additional income from the tuition increase and funds appropriated to it in Section 2 for funding the remainder of the schedule of priorities in accordance with the provisions of G.S. 116-11(9)b. as amended by this act. The Board of Governors shall not use the funds appropriated to it in Section 2 of this act or the additional income from the tuition increase for item 1.

-----BOARD OF GOVERNORS - AGRICULTURE PROGRAMS

Sec. 115. (a) The new funds, totalling one million two hundred thousand dollars (\$1,200,000) in each year of the biennium, appropriated in Section 2 of this act to the Board of Governors, for North Carolina State University for Agricultural Programs, shall be expended as follows: (a) two hundred forty-

-----OIL RE-REFINING FACILITY

Sec. 172. The General Assembly urges the Department of Administration to sell the oil re-refining facility. The General Assembly finds that the State has initiated this innovative technology and should now turn it over to private enterprise.

-----COMMUTING POLICY

Sec. 173. G.S. 143-348(8)i.7a. is amended by rewriting the first sentence of the third paragraph to read:

"Every individual who uses a State-owned passenger motor vehicle, pick-up truck, or van to drive between his official work station and his home, shall reimburse the State for these trips at the current motor pool rate established by the Department of Administration."

Sec. 174. The last sentence of the third paragraph of G.S. 143-348(8)i.7a. is amended by deleting "every 60 days" and inserting in lieu thereof "every 90 days".

Sec. 174.1. (a) Section 61, Chapter 1282, Session Laws of 1981 (Regular Session, 1982) is amended by deleting "1982-83 fiscal year", and inserting in lieu thereof "1983-85 biennium".

(b) This section is effective July 1, 1983.

-----STATE-OWNED RENTAL HOUSING

Sec. 175. (a) The Department of Administration shall recommend a method for establishing statewide rental rates on the essential State-owned rental property that takes into consideration the age, construction, and condition of the housing unit; the fair market value of comparable privately owned housing units in the same locations as State-owned housing; and the

during previous Sessions. Members and their dependents enrolled when first eligible after the convening of each Session of the General Assembly will not be subject to any waiting periods for preexisting health conditions. Members of the 1983 Session of the General Assembly, not already enrolled, shall be eligible to enroll themselves and their dependents on or before October 1, 1983, without being subject to any waiting periods for preexisting health conditions."

PART XXIII.-----SPECIAL PROVISIONS/APPROPRIATIONS ACT

-----EXECUTIVE BUDGET ACT REFERENCE

Sec. 257. The provisions of the Executive Budget Act, Chapter 143, Article 1, of the General Statutes, are reenacted and shall remain in full force and effect and are incorporated in this act by reference.

-----EFFECT OF MOST LIMITATIONS AND DIRECTIONS IN TEXT/ ONLY -  
1983-85

Sec. 258. Except for statutory changes or other provisions that clearly indicate an intention to have effects beyond the 1983-85 biennium, the textual provisions of this act shall apply only to funds appropriated for, and activities occurring during, the 1983-85 biennium.

-----SEVERABILITY CLAUSE

Sec. 259. If any section or provision of this act is declared unconstitutional or invalid by the courts, it shall not affect the validity of the act as a whole or any part other than the part so declared to be unconstitutional or invalid.

-----EFFECTIVE DATE

Sec. 260. Except as otherwise provided herein, all sections of this act are effective upon ratification.

In the General Assembly read three times and ratified, this the 15th day of July, 1983.

\_\_\_\_\_  
JAMES C. GREEN

James C. Green  
President of the Senate

\_\_\_\_\_  
LISTON B. RAMSEY

Liston B. Ramsey  
Speaker of the House of Representatives



## **Appendix B**

### **The Capital Improvement Appropriations Act of 1983**

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 1983  
RATIFIED BILL

CHAPTER 757  
SENATE BILL 22

AN ACT TO MAKE APPROPRIATIONS TO PROVIDE CAPITAL IMPROVEMENTS FOR STATE DEPARTMENTS, INSTITUTIONS, AND AGENCIES.

The General Assembly of North Carolina enacts:

-----TITLE/PURPOSES

Section 1. This act shall be known as "The Capital Improvement Appropriations Act of 1983".

Sec. 2. The appropriations made by the 1983 General Assembly for capital improvements are for constructing or renovating State buildings, utilities, and other capital facilities, for acquiring sites for them where necessary, and for acquiring buildings and land for State government purposes.

-----PROCEDURES FOR DISBURSEMENTS

Sec. 3. The appropriations made by the 1983 General Assembly for capital improvements shall be disbursed for the purposes provided by this act. Expenditure of funds shall not be made by any State department, institution or agency, until an allotment has been approved by the Governor as Director of the Budget. The allotment shall be approved only after full compliance with the Executive Budget Act, Article I of Chapter 143 of the General Statutes. Prior to the award of construction contracts for projects to be financed in whole or in part with self-liquidating appropriations, the Director of the Budget with the advice of the Advisory Budget Commission shall approve the elements of the method of financing of those projects including the source of funds, interest rate, and liquidation period.

Where direct capital improvement appropriations are provided for the purpose of furnishing movable equipment for any project, those funds for equipment shall not be subject to transfer into construction accounts except as authorized by the Director of the Budget.

Capital improvement projects authorized by the 1983 General Assembly shall be completed, including fixed and movable equipment and furnishings, within the limits of the amounts of the direct or self-liquidating appropriations provided, except as otherwise provided in the act.

-----CAPITAL IMPROVEMENTS/GENERAL FUND

-----STATEWIDE GOVERNMENT COMPLEX MALL

Sec. 3.1. Appropriations are made from the General Fund for use by the State departments, institutions and agencies to provide for capital improvement projects according to the following schedule:

<u>Office of State Budget</u>	<u>1983-84</u>	<u>1984-85</u>
<u>and Management</u>		
01. Reserve for Repairs and Renovations	\$ 15,000,000	\$45,000,000
Department of Administration		
01. Renovations of Old Art Museum	1,000,000	

Department of Crime Control and Public Safety (Total)	1,063,184	-0-
01. Construction of Butner Fire Station	836,000	-0-
02. Construction of National Guard Armories		
a. Franklin Armory		
Macon County		
Total	785,019	
Local	103,901	
Federal	570,014	
Appropriation	111,104	
b. Armory at Jackson Training Center- Cabarrus County		
Total	884,900	
Local	105,145	
Federal	663,675	
Appropriation	116,080	
University of North Carolina (Total)	35,780,440	47,914,000
A. To comply with consent decree:		
1. Construction of Engineering School Classroom/Lab Facility-Agricultural and Technical State University	8,396,000	-0-
2. Acquisition and Renovation of Anderson Jr. High School Building/ Winston-Salem	2,964,000	-0-
3. Construction of Administrative Office Building-Elizabeth City	-0-	3,876,000
4. Construction of New Library- Fayetteville State		8,371,000
B. UNC-G Physical Education Facility	6,000,000	7,364,000
C. UNC-Chapel Hill-Computer Science Building Program Development, 1st year	750,000	8,500,000
D. Appalachian State-Land Purchase	900,000	-0-
E. UNC-Charlotte-Physical Science Bldg.	5,000,000	4,680,000
F. NCSU		
1. Williams Hall- Extension	4,000,000	3,523,000
2. Fletcher Research Station	305,000	-0-
3. Natural Resource Research Center Program Development	250,000	-0-
4. Upper Piedmont Research		

	Station-Reidsville	70,000	-0-
5.	Bull Testing Facility- relocate from Rocky Mount to Butner	145,440	-0-
G.	N.C. Memorial Hospital- Critical Care Center	7,000,000	11,600,000
Department of Natural Resources			
	(Total)	1,283,620	100,000
01.	Reserve for Water Resources Projects	1,100,000	-0-
02.	Reserve for Beach Access Projects	100,000	100,000
03.	Construction of Forest Resources Headquarters Building in Granville County	83,620	-0-
Department of Agriculture (Total)			
		4,197,000	195,000
01.	Addition to Rollins Animal Disease Diagnostic Lab in Raleigh	1,992,000	-0-
02.	Expansion and Improvements Raleigh Consumer Standards Lab	573,000	-0-
03.	Construction at Duke Homestead Museum	250,000	-0-
04.	Construction of Automated Forage Testing Lab at Constable Laboratory, Raleigh	437,000	-0-
05.	Construction, Hampton Mariner's Museum	400,000	-0-
06.	Construction of Regional Farmer's Market at Charlotte	195,000	195,000
07.	Improvements and Site preparation at Western North Carolina Farmer's Market	350,000	-0-
GRAND TOTAL - GENERAL FUND		\$58,324,244	\$93,209,000

Sec. 4. Funds in the Reserve for Repairs and Renovations appropriated to the Office of State Budget and Management in Section 3.1 of this act shall be allocated to State departments, institutions and agencies, including the Board of Governors of The University of North Carolina, with the approval of the Governor and the advice of the Advisory Budget Commission, except that four hundred fifty-two thousand four hundred dollars (\$452,400) of these funds shall be allocated for the State Government Complex Mall.

-----CAPITAL IMPROVEMENTS/HIGHWAY FUND

Sec. 5. Appropriations are made from the Highway Fund for use of the Department of Transportation to provide for capital improvement projects according to the following schedule:

<u>Division of Highways</u>	<u>1983-84</u>	<u>1984-85</u>
01. Maintenance Complex - Warrenton	\$ 150,000	\$ -
02. Security Fencing - Statewide Locations	150,000	150,000
03. Energy Saving Improvements -		

Statewide	-	108,359
04. Ferry Maintenance Facility -		
Manns Harbor	3,500,000	-
<u>Division of Motor Vehicles</u>		
01. Motor Vehicles/Highway Patrol Buildings:		
A. Chocowinity	\$ 431,600	\$ -
B. Kenansville/ Carteret County	-	286,115
GRAND TOTAL - HIGHWAY FUND	\$ 4,231,600	\$ 544,474

-----ENCUMBERED APPROPRIATIONS AND PROJECT RESERVE FUND

Sec. 6. When each capital improvement project appropriated by the 1983 General Assembly, other than those projects under The University of North Carolina Board of Governors, is placed under construction contract, direct appropriations shall be encumbered to include all costs for construction, design, investigation, administration, movable equipment and a reasonable contingency. Unencumbered direct appropriations remaining in the project budget shall be placed in a project reserve fund credited to the Department of Administration. This project reserve fund shall be used, at the discretion of the Director of the Budget, solely to allow for award of contracts where bids exceed appropriated funds, if those projects supplemented were designed within the physical scope intended by the applicable appropriation or any authorized change in it, and if, in the opinion of the Director of the Budget, all means to award contracts within the appropriation were reasonably attempted. Funds remaining in the General Fund Project Reserve and Federal Revenue Sharing Project reserve may be used for emergency repair and renovation projects at State facilities with the approval by the Director of the Budget. The project reserve fund shall not be used in connection with any projects under the Board of Governors of The University of North Carolina or the State Board of Community Colleges. At the discretion of the Director of the Budget any balances in the project reserve fund shall revert to the original source.

-----APPROPRIATION MODIFICATIONS

Sec. 7. The Director of the Budget, when it is considered in the best interest of the State to do so, and upon the request of the pertinent department, agency or institution, may authorize an increase or decrease in size and scope of a direct or self-liquidating capital appropriation. Changes to a project established under this act or by other acts of the 1983 General Assembly may come from gifts, federal or private grants, from excess patient receipts collected above those budgeted by the North Carolina Memorial Hospital, from special fund receipts, or, from the funds appropriated for capital improvements by the 1983 General Assembly to that department, agency or institution. The Director of the Budget is authorized to increase from the sources of funds referred to in this section the cost of a project established by the 1983 General Assembly, but solely to allow for award of contracts where bids exceed appropriated funds, and on condition that the projects supplemented were designed within the size and physical scope intended by the applicable appropriation or any authorized changes in it, and, in

the opinion of the Director of the Budget all means to award contracts within the appropriation were reasonably attempted.

-----GOVERNOR AND ADVISORY BUDGET COMMISSION/NEW PROJECT

Sec. 8. The Director of the Budget may with the advice of the Advisory Budget Commission, when it is considered in the best interest of the State to do so, and upon the request of a department, institution or agency, authorize the construction of a capital improvement project not specifically provided for or authorized by the General Assembly. Funds which become available by gifts, excess patient receipts collected above those budgeted by the North Carolina Memorial Hospital, federal or private grants, or receipts becoming a part of special funds by act of the General Assembly may be used for this purpose.

-----ADVANCE PLANNING OF CAPITAL IMPROVEMENT PROJECTS

Sec. 9. Funds which become available by gifts, excess patient receipts collected above those budgeted by the North Carolina Memorial Hospital, federal or private grants, or receipts becoming a part of special funds by act of the General Assembly may be utilized for advance planning through the working drawing phase of capital improvement projects upon approval of the Director of the Budget. The Director of the Budget may make allocations from the Advance Planning Revolving Fund for advance planning through the working drawing phase of capital improvement projects, except that this revolving fund shall not be utilized by the Board of Governors of The University of North Carolina or the State Board of Community Colleges.

Sec. 9.1. Notwithstanding the changes permitted in previous sections of this act, the appropriations in Section 3.1 of this act to the Department of Agriculture shall be expended only for those specific projects. Construction of those projects shall be commenced or self-liquidating indebtedness with respect to them shall be incurred within 12 months following the first day of the fiscal year in which the funds are available. If construction contracts on those projects have not been awarded or self-liquidating indebtedness has not been incurred within that period, the direct appropriation for those projects shall revert to the original source, and the self-liquidating appropriation shall lapse. This deadline with respect to both direct and self-liquidating appropriations may be extended up to an additional 12 months with the approval of the Director of the Budget, with the advice of the Advisory Budget Commission, when existing circumstances and conditions warrant such extension. The Tobacco History Corporation is to supplement by the sum of forty thousand dollars (\$40,000) monies to fund the design of the exhibits in the proposed addition to the Duke Homestead Museum.

-----APPROPRIATIONS LIMITS/REVERSION OR LAPSE

Sec. 10. Notwithstanding the changes permitted in previous sections of this act, the appropriations for capital improvements made by the 1983 General Assembly shall be expended only for specific projects set out by the 1983 General Assembly. Construction of all capital improvement projects enumerated by the 1983 General Assembly shall be commenced or self-liquidating indebtedness with respect to them shall be incurred within 12 months following the first day of the fiscal year in which the funds are available. If construction contracts on those projects

have not been awarded or self-liquidating indebtedness has not been incurred within that period, the direct appropriation for those projects shall revert to the original source, and the self-liquidating appropriation shall lapse; except that direct appropriations may be placed in the project reserve fund. This deadline with respect to both direct and self-liquidating appropriations may be extended up to an additional 12 months with the approval of the Director of the Budget, with the advice of the Advisory Budget Commission, when existing circumstances and conditions warrant such extension.

-----MUSEUM OF HISTORY RENOVATION

Sec. 11. The funds appropriated in Section 3.1 of this act for renovation of the old art museum building may be expended as matched on a two-to-one basis by the North Carolina Museum of History Associates.

-----UNC-CHAPEL HILL COMPUTER SCIENCE FUNDS/NCSU NATURAL RESOURCES CENTER

Sec. 12. As a principal component in the State's effort to attract high technology industry, the appropriations in Section 3.1 of this act to the Board of Governors of The University of North Carolina for capital improvements include seven hundred fifty thousand dollars (\$750,000) for the 1983-84 fiscal year for program development and eight million five hundred thousand dollars (\$8,500,000) for the 1984-85 fiscal year for construction of the computer science building at The University of North Carolina at Chapel Hill.

---BEACH ACCESS PROGRAM

Sec. 13. G.S. 113A-134.3 is amended by adding a new sentence at the end to read:

"All grants to local governments pursuant to this Article for land acquisitions shall be made on the condition that the local government agrees to transfer title to any real property acquired with the grant funds to the State if the local government uses the property for a purpose other than beach access."

Sec. . (a) The title of Article 7A of Chapter 113A of the General Statutes is amended to read: "Coastal and Estuarine Water Beach Access Program".

(b) The first sentence of G.S. 113A-134.1 is amended by adding after the words "Atlantic Ocean" the words "and the estuarine waters".

(c) The first sentence of G.S. 113A-134.1 is amended by adding after the words "the coastal" the words "and estuarine water".

(d) The second paragraph of G.S. 113A-134.1 is amended by deleting the words "ocean beaches" wherever they appear and substituting "ocean and estuarine beaches".

(e) G.S. 113A-134.2 is amended by deleting the words "Coastal Beach" and substituting "Coastal and Estuarine Water Beach".

(f) G.S. 113A-134.2 is amended by adding after the words "Atlantic Ocean" the words "and estuarine waters".

(g) G.S. 113A-134.2 is amended by adding a second paragraph to read:

"The Coastal Resources Commission and the Department of Natural Resources and Community Development shall use the definition of

'estuarine water' used under Article 7 of this Chapter to administer this program."

(h) The first sentence of G.S. 113A-134.3 is amended by adding after the word "ocean" the words "and estuarine water".

(i) The fourth sentence of G.S. 113A-134.3 is amended by adding after the word "coastal" the words "and estuarine water".

(j) The fifth sentence of G.S. 113A-134.3 is amended by adding after the word "coast" the words "and estuarine waters".

(k) The sixth sentence of G.S. 113A-134.3 is amended by adding after the word "coastal" the words "and estuarine water".

-----WATER RESOURCES PROJECTS

Sec. 14. Of the one million one hundred thousand dollars (\$1,100,000) appropriated for fiscal year 1983-84 in Section 3.1 of this act for a reserve for Water Resources Projects, up to one-third may be used for small watershed projects. Notwithstanding the provisions of G.S. 139-54, no funds appropriated herein shall be used for State participation in the costs of land rights acquisition for small watershed projects.

-----HIGHWAY PATROL STATION FUNDS

Sec. 15. The Department of Crime Control and Public Safety may use the unobligated funds appropriated by Chapter 1351 of the 1981 Session Laws (1982 Session) together with any other available funds to purchase and renovate an existing building to construct a highway patrol station in any highway patrol district headquarters that does not have a permanent station.

-----EFFECTIVE DATE

Sec. 16. This act is effective July 1, 1983.

In the General Assembly read three times and ratified, this the 14th day of July, 1983.

JAMES C. GREEN

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James C. Green  
President of the Senate

LISTON B. RAMSEY

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Liston B. Ramsey  
Speaker of the House of Representatives



## **Appendix C**

### **An Act to Authorize Counties to Levy One-Half Percent Sales and Use Tax**

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 1983  
RATIFIED BILL

CHAPTER 908  
HOUSE BILL 426

AN ACT TO AUTHORIZE COUNTIES TO LEVY ONE-HALF PERCENT SALES AND USE TAXES AND TO DESIGNATE HOW PART OF THE REVENUE FROM THESE TAXES SHALL BE USED, TO ALLOW CERTAIN CITIES TO SPEND SALES TAX REVENUE ON HOUSING, AND TO AUTHORIZE VARIOUS TRANSIENT OCCUPANCY TAXES.

The General Assembly of North Carolina enacts:

Part I. Local Sales and Use Taxes.

Section 1. Subchapter VIII of Chapter 105 of the General Statutes is amended by adding two new Articles to read:

"Article 40.

"Supplemental Local Government Sales and Use Taxes.

"§ 105-480. Short title.--This Article shall be known as the Supplemental Local Government Sales and Use Tax Act.

"§ 105-481. Purpose and intent.--It is the purpose of this Article to afford the counties and cities of this State an opportunity to obtain an added source of revenue with which to meet their growing financial needs, and to reduce their reliance on other revenues, such as the property tax, by providing all counties of the State that are subject to this Article with authority to levy one-half percent (1/2%) sales and use taxes.

"§ 105-482. Limitations.--This Article applies only to counties that levy one percent (1%) sales and use taxes under Article 39 of this Chapter or under Chapter 1096 of the 1967 Session Laws and do not levy one-half percent (1/2%) local sales and use taxes under Article 41 of this Chapter.

"§ 105-483. Levy and collection of additional taxes.--Any county subject to this Article may levy one-half percent (1/2%) local sales and use taxes in addition to any other State and local sales and use taxes levied pursuant to law. Except as provided in this Article, the adoption, levy, collection, distribution, administration, and repeal of these additional taxes shall be in accordance with Article 39 of this Chapter. In applying the provisions of Article 39 of this Chapter to this Article, references to 'this Article' mean Article 40 of Chapter 105. All taxes levied pursuant to this Article shall be collected by the Secretary and may not be collected by a taxing county. The exemption for building materials in G.S. 105-468.1 does not apply to taxes levied under this Article.

"§ 105-484. Form of ballot.--(a) The form of the question to be presented on a ballot for a special election concerning the additional taxes authorized by this Article shall be: 'FOR additional one-half percent (1/2%) local sales and use taxes' or 'AGAINST additional one-half percent (1/2%) local sales and use taxes.'

(b) The form of the question to be presented on a ballot for a special election concerning the repeal of any additional taxes levied pursuant to this Article shall be: 'FOR repeal of the additional one-half percent (1/2%) local sales and use taxes' or

'AGAINST repeal of the additional one-half percent (1/2%) local sales and use taxes.'

"§ 105-485. Retail collection bracket.--The following bracket applies to collections by retailers in a county that levies additional sales and use taxes under this Article:

- (1) No amount on sales of less than 10¢;
- (2) 1¢ on sales of 10¢ to 25¢;
- (3) 2¢ on sales of 26¢ to 53¢;
- (4) 3¢ on sales of 54¢ to 75¢;
- (5) 4¢ on sales of 76¢ to 95¢;
- (6) 5¢ on sales of 96¢ to \$1.22; and
- (7) Sales of over \$1.22 - straight four and one-half percent (4-1/2%) with major fractions governing.

"§ 105-486. Distribution and use of additional taxes.--The Secretary shall, on a quarterly basis, distribute the net proceeds of the additional one-half percent (1/2%) sales and use taxes levied under this Article to the taxing counties on a per capita basis according to the most recent annual population estimates certified to the Secretary by the State Budget Officer. The amount distributed to a taxing county shall then be divided among the county and its municipalities in accordance with the method by which the one percent (1%) sales and use taxes levied in that county pursuant to Article 39 of this Chapter or Chapter 1096 of the 1967 Session Laws are distributed. If any taxes levied under this Article by a county have not been collected in that county for a full quarter because of the levy or repeal of the taxes, the Secretary shall distribute a pro rata share to that county for that quarter based on the number of months the taxes were collected in that county during the quarter.

"§ 105-487. Use of additional tax revenue by counties and municipalities.--(a) Except as provided in subsection (c), forty percent (40%) of the revenue received by a county from additional one-half percent (1/2%) sales and use taxes levied under this Article during the first five fiscal years in which the additional taxes are in effect in the county and thirty percent (30%) of the revenue received by a county from these taxes in the second five fiscal years in which the taxes are in effect in the county may be used by the county only for public school capital outlay purposes or to retire any indebtedness incurred by the county for these purposes.

(b) Except as provided in subsection (c), forty percent (40%) of the revenue received by a municipality from additional one-half percent (1/2%) sales and use taxes levied under this Article during the first five fiscal years in which the additional taxes are in effect in the municipality and thirty percent (30%) of the revenue received by a municipality from these taxes in the second five fiscal years in which the taxes are in effect in the municipality may be used by the municipality only for water and sewage capital outlay purposes or to retire any indebtedness incurred by the municipality for these purposes.

(c) The Local Government Commission may, upon petition by a county or municipality, authorize a county or municipality to use part or all its tax revenue, otherwise required by subsection (a) or (b) to be used for public schools or water and sewage capital needs, for any lawful purpose. The petition shall be in the form

prescribed by the Local Government Commission and shall demonstrate that the county or municipality can provide for its public school or water and sewage capital needs without restricting the use of part or all of the designated amount of the additional one-half percent (1/2%) sales and use tax revenue for these purposes.

In making its decision, the Local Government Commission may consider information from sources other than the petition. The Commission shall issue a written decision on each petition stating the findings of the Commission concerning the public school or water and sewage capital needs of the petitioning county or municipality and the percentage of revenue otherwise restricted by subsection (a) or (b) that may be used by the petitioning county or municipality for any lawful purpose.

Decisions of the Commission allowing counties or municipalities to use a percentage of their tax revenue that would otherwise be restricted under subsection (a) or (b) for any lawful purpose are final and shall continue in effect until the restrictions imposed by those subsections expire. A county or municipality whose petition is denied, in whole or in part, by the Commission may subsequently submit a new petition to the Commission.

(d) For purposes of determining the number of fiscal years in which one-half percent (1/2%) sales and use taxes levied under this Article have been in effect in a county or municipality, these taxes are considered to be in effect only from the effective date of the levy of these taxes and are considered to be in effect for a full fiscal year during the first year in which these taxes were in effect, regardless of the number of months in that year in which the taxes were actually in effect.

(e) A county or municipality may expend part or all of the revenue restricted for public school or water and sewage capital needs pursuant to subsections (a) and (b) in the fiscal year in which the revenue is received, or the county or municipality may place part or all of this revenue in a capital reserve fund and shall specifically identify this revenue in accordance with Chapter 159 of the General Statutes.

"Article 41.

"Alternative Local Government Sales and Use Taxes.

"§ 105-488. Short title.--This Article shall be known as the 'Alternative Local Government Sales and Use Tax Act.'

"§ 105-489. Limitations.--This Article applies only to counties that do not levy one percent (1%) sales and use taxes under Article 39 of this Chapter or under Chapter 1096 of the 1967 Session Laws.

"§ 105-490. Levy and collection of taxes.--Any county subject to this Article may levy one-half percent (1/2%) local sales and use taxes pursuant to the procedures established in G.S. 105-465 and G.S. 105-466 for the levy of one percent (1%) sales and use taxes authorized by Article 39 of this Chapter. Except as provided in this Article, the provisions of Article 39 of this Chapter apply to any one-half percent (1/2%) local sales and use taxes levied under this Article. In applying the provisions of Article 39 of this Chapter to this Article, references to 'this Article' mean Article 41 of Chapter 105. All taxes levied pursuant to this Article shall be collected by the Secretary and

may not be collected by a taxing county. The exemption for building materials in G.S. 105-468.1 does not apply to taxes levied under this Article.

"§ 105-491. Form of ballot.--(a) The form of the question to be presented on a ballot for a special election concerning the taxes authorized by this Article shall be: 'FOR one-half percent (1/2%) local sales and use taxes' or 'AGAINST one-half percent (1/2%) local sales and use taxes.'

(b) The form of the question to be presented on a ballot for a special election concerning the repeal of any taxes levied pursuant to this Article shall be: 'FOR repeal of the one-half percent (1/2%) local sales and use taxes' or 'AGAINST repeal of the one-half percent (1/2%) local sales and use taxes.'

"§ 105-492. Retail collection bracket.--The following bracket applies to collections by retailers in a county that levies sales and use taxes under this Article:

- (1) No amount on sales of less than 10¢;
- (2) 1¢ on sales of 10¢ to 30¢;
- (3) 2¢ on sales of 31¢ to 65¢;
- (4) 3¢ on sales of 66¢ to 95¢;
- (5) 4¢ on sales of 96¢ to \$1.28; and
- (6) Sales of over \$1.28 - straight three and one-half percent (3-1/2%) with major fractions governing.

"§ 105-493. Distribution and use of taxes.--The Secretary shall, on a quarterly basis, distribute the net proceeds of any one-half percent (1/2%) sales and use taxes levied under this Article in accordance with G.S. 105-486. For purposes of the distribution under G.S. 105-486, a county that levies one-half percent (1/2%) sales and use taxes under this Article is considered a taxing county under that section. To make the distribution required by G.S. 105-486 and this section, the Secretary shall add the net proceeds of local sales and use taxes levied under Article 40 of this Chapter and under this Article, and shall then distribute this amount to the taxing counties on a per capita basis as provided in G.S. 105-486. The amount distributed to a county that levies one-half percent (1/2%) sales and use taxes under this Article shall be divided among the county and its municipalities on either a per capita or an ad valorem tax basis, as designated by the board of county commissioners in a resolution adopted pursuant to G.S. 105-472. If any taxes levied under this Article by a county have not been collected in that county for a full quarter because of the levy or repeal of the taxes, the Secretary shall distribute a pro rata share to that county for that quarter based on the number of months the taxes were collected in that county during the quarter.

"§ 105-494. Use of additional tax revenue by counties and municipalities.--Sales and use tax revenue received by a county or municipality from one-half percent (1/2%) sales and use taxes levied under this Article are subject to the restrictions imposed by G.S. 105-487 on revenue received by counties and municipalities from one-half percent (1/2%) sales and use taxes levied under that Article."

Sec. 2. G.S. 159-6 is amended by adding a new subsection to read:

"(e) In addition to any other fees authorized by this section, the Commission may charge and collect fees for services rendered and expenses incurred in reviewing and processing petitions of counties or cities concerning use of local sales and use tax revenue in accordance with G.S. 105-487(c)."

Part II. Repeal of Authority to Issue Clean Water Bonds.

Sec. 3. (a) Sections 4 and 5 of Chapter 993, Session Laws of 1981 are repealed, and no bonds may be issued under that act.

(b) Section 54 of Chapter 1282, Session Laws of 1981 (Regular Session 1982) is repealed.

Part III. Sales Tax Revenue for Housing.

Sec. 4. G.S. 160A-456(e) is rewritten to read:

"(e) A city council of a city with a population of at least seventy-five thousand may expend up to twenty percent (20%) of its annual sales and use tax revenue derived from one-half percent (1/2%) local sales and use taxes levied pursuant to Article 40 or 41 of Chapter 105 of the General Statutes for housing projects undertaken pursuant to Chapter 157 of the General Statutes, except that none of this revenue may be expended for rent subsidies. Otherwise, a city council of any city may not expend State or local tax revenue pursuant to this section for a purpose not expressly authorized by G.S. 160A-209 unless the issue is first submitted to a vote of the people as provided therein. The most recent annual estimates of population certified by the State Budget Officer shall be used to determine the population of a city under this subsection."

Part IV. Mecklenburg Occupancy Tax.

Sec. 5. It is the purpose and intent of this Part to provide Mecklenburg County the authority to levy a transient occupancy tax as hereinafter set forth.

Sec. 6. (a) Mecklenburg County is hereby authorized to impose and levy a tax not to exceed three percent (3%) of the gross receipts of any person, firm, corporation or association derived from the rental of any sleeping room or lodging furnished in any hotel, motel, or inn located in Mecklenburg County and subject to the three percent (3%) sales tax levied by the State of North Carolina. The tax shall not apply, however, to any room or rooms, lodging or accommodations supplied to the same person for a period of 90 continuous days or more. The tax shall also not apply to sleeping rooms or lodgings furnished by charitable, educational, benevolent or religious institutions or organizations not operated for profit.

(b) Before adopting or amending an ordinance imposing and levying such a tax, the board of commissioners shall hold a public hearing on the ordinance or amendment. The Board shall cause notice of the hearing to be published not less than 10 days nor more than 25 days before the date fixed for the hearing.

Sec. 7. (a) Such tax, if levied, shall be due and payable to the county in monthly installments on or before the 15th of the month next succeeding the month in which the tax accrues. Every person, firm, corporation or association liable for the tax imposed pursuant to this Part shall, on or before the 15th day of each month, prepare and render a return on a form prescribed by the county, a true and correct statement showing

the total gross receipts derived in the preceding month from rentals upon which the tax is levied. Collection of the tax, and liability therefor, shall begin and continue only on and after the first day of the calendar month set by the board of commissioners in the ordinance levying the tax.

(b) Any person, firm, corporation or association who fails or refuses to file the return required by this Part shall pay a penalty of ten dollars (\$10.00) for each day's omission.

(c) In case of failure or refusal to file the return or pay the tax for a period of 30 days after the time required for filing such return or for paying such tax, there shall be an additional tax, as a penalty, of five percent (5%) of the tax due, in addition to the penalty prescribed in subsection (b) hereof, with an additional tax of five percent (5%) for each additional month or fraction thereof until the occupancy tax is paid.

(d) Any person who willfully attempts in any manner to evade the occupancy tax, if levied on any person required to pay the occupancy tax; or to make a return and who willfully fails to pay such tax or make and file such return, shall, in addition to the penalties provided by law be guilty of a misdemeanor, and shall be punished by a fine not to exceed one thousand dollars (\$1,000) or by imprisonment not to exceed six months, or by both such fine and imprisonment.

Sec. 8. Mecklenburg County shall allocate the net proceeds collected as follows:

(a) Mecklenburg County shall retain from the gross proceeds of the tax collected an amount sufficient to pay its direct costs for administrative and collection expenses. "Net proceeds" shall mean gross proceeds less direct costs for administrative and collection expenses not to exceed three percent (3%).

(b) At least fifty percent (50%) of the first one million dollars (\$1,000,000) of net proceeds from the tax in a fiscal year, at least thirty-five percent (35%) of the second one million dollars (\$1,000,000) of net proceeds from the tax in a fiscal year, and at least twenty-five percent (25%) of the net proceeds in excess of two million dollars (\$2,000,000) from the tax in the fiscal year shall be allocated for activities and programs aiding and encouraging convention and visitor promotion. These amounts shall be transferred by Mecklenburg County to the City of Charlotte for allocation by the City of Charlotte for activities and programs aiding and encouraging convention and visitor promotion, and in so doing, the City of Charlotte shall be acting as agent for Mecklenburg County.

(c) The amount of net proceeds remaining after allocation of the sums for activities and programs aiding and encouraging convention and visitor promotion shall be allocated by Mecklenburg County among itself and each municipality in Mecklenburg County (presently Charlotte, Cornelius, Davidson, Huntersville, Matthews, Mint Hill and Pineville) using the following formula: the ratios of expenditures by the county and each municipality for acquiring, constructing, financing (including debt service), maintaining and operating convention centers, civic centers, performing arts centers, coliseums,

auditoriums, and museums (including off-street parking facilities for use in conjunction therewith) and for visitor-related programs and activities including, but not limited to, museums and other art or cultural programs, events, or festivals as such bears to total county and municipal expenditures for such purposes. Such ratios shall be computed annually on the basis of the prior fiscal years's expenditures. As to the municipalities, the maximum amount payable by Mecklenburg County to each municipality shall be the net proceeds collected from hotels, motels and inns located within the corporate limits of said municipality.

(d) The proceeds distributed and retained pursuant to subsection (c) may be expended by Mecklenburg County and the municipalities only for acquiring, constructing, financing (including debt service), maintaining and operating convention centers, civic centers, performing arts centers, coliseums, auditoriums, and museums (including off-street parking facilities for use in conjunction therewith) and for visitor-related programs and activities including, but not limited to, museums and other art or cultural programs, events, or festivals.

(e) Mecklenburg County shall distribute the amounts due each municipality by the 20th day of the month in which the tax is collected.

Sec. 9. Mecklenburg County and each municipality located within Mecklenburg County are hereby each individually authorized to contract with any person, agency, association or nonprofit corporation to undertake or carry out any of the activities and programs for which the tax proceeds levied by this act may be expended. Any contract entered into pursuant to this section shall contain provisions requiring an annual financial audit of any funds expended and a performance audit of contractual obligations.

#### Part V. Haywood Occupancy Tax.

Sec. 10. Levy of Tax. (a) The Haywood County Board of Commissioners may by resolution, after not less than 10 days' public notice and after a public hearing held pursuant thereto, levy a room occupancy and tourism development tax.

(b) Collection of the tax, and liability therefor, shall begin and continue only on and after the first day of a calendar month set by the Haywood County Board of Commissioners in the resolution levying the tax, which in no case may be earlier than the first day of the second succeeding calendar month after the date of adoption of the resolution.

Sec. 11. Occupancy Tax. The county room occupancy and tourism development tax that may be levied under this Part shall be two percent (2%) of the gross receipts derived from the rental of any room, lodging, or similar accommodation furnished by any hotel, motel, inn, tourist camp, or other similar place within the county now subject to the three percent (3%) sales tax imposed by the State under G.S. 105-164.4(3). This tax is in addition to any local sales tax. This tax does not apply to accommodations furnished by nonprofit charitable, educational, benevolent, or religious organizations.

Sec. 12. Administration of Tax. (a) Any tax levied under this Part is due and payable to the county in monthly



installments on or before the 15th day of the month following the month in which the tax accrues. Every person, firm, corporation, or association liable for the tax shall, on or before the 15th day of each month, prepare and render a return on a form prescribed by the county. The return shall state the total gross receipts derived in the preceding month from rentals upon which the tax is levied.

(b) Any person, firm, corporation, or association who fails or refuses to file the return required by this Part shall pay a penalty of ten dollars (\$10.00) for each day's omission.

(c) In case of failure or refusal to file the return or pay the tax for a period of 30 days after the time required for filing the return or for paying the tax, there shall be an additional tax, as a penalty, of five percent (5%) of the tax due in addition to the penalty prescribed in subsection (b), with an additional tax of five percent (5%) for each additional month or fraction thereof until the occupancy tax is paid.

(d) Any person who willfully attempts in any manner to evade the occupancy tax imposed by this Part or to make a return and who willfully fails to pay the tax or make and file a return shall, in addition to all other penalties provided by law, be guilty of a misdemeanor and shall be punished by a fine not to exceed one thousand dollars (\$1,000) or by imprisonment not to exceed six months, or both.

Sec. 13. Collection of Tax. Every operator of a business subject to the tax levied pursuant to this Part shall, on and after the effective date of the levy of the tax, collect the two percent (2%) room occupancy tax.

This tax shall be collected as part of the charge for the furnishing of any taxable accommodations. The tax shall be stated and charged separately from the sales records, and shall be paid by the purchaser to the operator of the business as trustee for and on account of Haywood County. It is the intent of this Part that the room occupancy tax levied by Haywood County shall be added to the sales price and that the tax shall be passed on to the purchaser instead of being borne by the operator of the business. The county shall design, print, and furnish to all appropriate businesses in the county the necessary forms for filing returns and instructions to ensure the full collection of the tax.

Sec. 14. Disposition of Taxes Collected. Haywood County shall remit the net proceeds of all revenues received from the room occupancy tax to the county Tourism Development Authority appointed pursuant to this Part. "Net proceeds" means gross proceeds less the cost to the county of administering and collecting the tax. The Authority may expend these funds only to further the development of travel, tourism, and conventions in the county through State, national, and international advertising and promotion.

Sec. 15. Appointments, Duties of Tourism Development Authority. (a) When the Haywood County Board of Commissioners adopts a resolution levying a room occupancy tax pursuant to this Part, it shall also adopt a resolution creating a County Tourism Development Authority composed of nine voting members appointed as follows:

(1) three tourist-oriented business members appointed by the Board of Directors of the Maggie Valley Chamber of Commerce;

(2) three tourist-oriented business members appointed by the Board of Directors of the Haywood County Chamber of Commerce; and

(3) three tourist-oriented business members at large appointed by the Haywood County Board of Commissioners.

Each Chamber's Board of Directors and the Board of County Commissioners shall designate one of its initial appointees to serve a one-year term, one to serve a two-year term, and one to serve a three-year term. Thereafter, all members shall serve three-year terms. Vacancies shall be filled by the appointing authority of the member who created the vacancy. Members appointed to fill vacancies shall serve the remainder of the unexpired term for which they are appointed to fill.

(b) The members of the Tourism Development Authority shall elect from its membership a chairman. The Authority shall meet at the call of the chairman and shall adopt rules of procedure to govern its meetings. The finance officer of Haywood County shall serve ex officio as accountant for the Authority.

(c) The Tourism Development Authority shall report quarterly and at the close of the fiscal year to the board of county commissioners on its receipts and disbursements for the preceding quarter and for the year in such detail as the Board may require.

Sec. 16. Repeal of Levy. (a) The board of county commissioners may by resolution repeal the levy of the room occupancy tax in Haywood County, but no repeal of taxes levied under this Part shall be effective until the end of the fiscal year in which the repeal resolution was adopted.

(b) No liability for any tax levied under this Part that attached prior to the date on which a levy is repealed is discharged as a result of the repeal, and no right to a refund of a tax that accrued prior to the effective date on which a levy is repealed may be denied as a result of the repeal.

#### Part VI. Buncombe Occupancy Tax.

Sec. 17. Levy of Tax. (a) The Board of Commissioners of Buncombe County may by resolution, after not less than 10 days' public notice and after a public hearing held pursuant thereto, levy a room occupancy and tourism development tax.

(b) Collection of the tax, and liability therefor, shall begin and continue only on and after the first day of a calendar month set by the board of county commissioners in the resolution levying the tax, which in no case may be earlier than the first day of the second succeeding calendar month after the date of adoption of the resolution.

Sec. 18. Occupancy Tax. The county room occupancy and tourism development tax that may be levied under this Part shall be two percent (2%) of the gross receipts derived from the rental of any room, lodging, or similar accommodation furnished by any hotel, motel, inn, tourist camp, or other similar place within the county now subject to the three percent (3%) sales tax imposed by the State under G.S. 105-164.4(3). This tax is in addition to any local sales tax. This tax does not apply to

gross receipts derived by the following entities from accommodations furnished by them:

- (1) religious organizations;
- (2) educational organization;
- (3) any business that offers to rent fewer than five units; and
- (4) summer camps.

Sec. 19. Administration of Tax. (a) Any tax levied under this Part is due and payable to the county in monthly installments on or before the 15th day of the month following the month in which the tax accrues. Every person, firm, corporation, or association liable for the tax shall, on or before the 15th day of each month, prepare and render a return on a form prescribed by the county. The return shall state the total gross receipts derived in the preceding month from rentals upon which the tax is levied.

(b) Any person, firm, corporation, or association who fails or refuses to file the return required by this Part shall pay a penalty of ten dollars (\$10.00) for each day's omission.

(c) In case of failure or refusal to file the return or pay the tax for a period of 30 days after the time required for filing the return or for paying the tax, there shall be an additional tax, as a penalty, of five percent (5%) of the tax due, in addition to the penalty prescribed in subsection (b), with an additional tax of five percent (5%) for each additional month or fraction thereof until the occupancy tax is paid.

(d) Any person who willfully attempts in any manner to evade the occupancy tax imposed by this Part or to make a return and who willfully fails to pay the tax or make and file a return shall, in addition to all other penalties provided by law, be guilty of a misdemeanor and shall be punished by a fine not to exceed one thousand dollars (\$1,000) or by imprisonment not to exceed six months, or both.

Sec. 20. Collection of Tax. Every operator of a business subject to the tax levied by this Part shall, on and after the effective date of the levy of the tax, collect the two percent (2%) room occupancy tax. This tax shall be collected as part of the charge for the furnishing of any taxable accommodations. The tax shall be stated and charged separately from the sales records, and shall be paid by the purchaser to the operator of the business as trustee for and on account of Buncombe County. The room occupancy tax levied pursuant to this Part shall be added to the sales price and shall be passed on to the purchaser instead of being borne by the operator of the business. The county shall design, print, and furnish to all appropriate businesses in Buncombe County the necessary forms for filing returns and instructions to ensure the full collection of the tax.

Sec. 21. Disposition of Taxes Collected. (a) Buncombe County shall remit the net proceeds of the occupancy tax to the county Tourism Development Authority in Buncombe County. "Net proceeds" means gross proceeds less the cost to the county of administering and collecting the tax.

(b) The Authority may expend any funds distributed to it pursuant to subsection (a) only to further the development of

travel, tourism, and conventions in the county through State, national, and international advertising and promotion. The Authority may not use more than ten percent (10%) of the funds distributed to it pursuant to subsection (a) for administrative expenses of the Authority.

Sec. 22. Appointment, Duties of Tourism Development Authority. (a) When the board of county commissioners adopts a resolution levying a room occupancy tax pursuant to this Part, it shall also adopt a resolution creating a county Tourism Development Authority, which shall be a public authority under the Local Government Budget and Fiscal Control Act and shall be composed of the following nine members:

- (1) a county commissioner appointed by the board of county commissioners, who shall serve as an ex officio, nonvoting member;
- (2) a member of the Asheville City Council appointed by the board of county commissioners, who shall serve as an ex officio, nonvoting member;
- (3) four owners or operators of hotels, motels, or other taxable tourist accommodations, two of which own or operate hotels, motels, or other accommodations with more than 100 rental units, one of whom shall be appointed by the Asheville City Council and one by the board of county commissioners; and two of which own or operate hotels, motels, or other accommodations with 100 or fewer rental units, one of whom shall be appointed by the Asheville City Council and one by the board of county commissioners;
- (4) three individuals involved in the tourist business who have demonstrated an interest in tourist development and do not own or operate hotels, motels, or other taxable tourist accommodations, appointed as follows: one by the Asheville City Council, one by the Asheville Area Chamber of Commerce, and one by the board of county commissioners.

All members of the Authority shall serve without compensation. Vacancies in the Authority shall be filled by the appointing authority of the member creating the vacancy. Members appointed to fill vacancies shall serve for the remainder of the unexpired term for which they are appointed to fill. Members shall serve three-year terms, except the initial members who shall serve the following terms:

- (1) members appointed pursuant to subdivisions (1) and (2) above shall serve one-year terms;
- (2) of the members appointed pursuant to subdivision (3) above, one appointee of the city council and the board of commissioners shall serve a two-year term and one appointee of the city council and the board of commissioners shall serve a three-year term, as designated by the city council and board of county commissioners;
- (3) of the three members appointed pursuant to subdivision (4) above, the appointee of the

Asheville City Council shall serve a one-year term, the appointee of the Asheville Area Chamber of Commerce shall serve a two-year term, and the appointee of the board of county commissioners shall serve a three-year term.

Members may serve no more than two consecutive terms. The members shall elect a chairman, who shall serve for a term of two years. The Authority shall meet at the call of the chairman and shall adopt rules of procedure to govern its meetings. The finance officer for Buncombe County shall be the ex officio finance officer of the Authority.

(b) The Tourism Development Authority may contract with any person, firm, or agency to advise and assist it in the promotion of travel, tourism, and conventions and may recommend to the board of county commissioners that county staff be employed for this advice and assistance. Any county staff employed under this Part shall be hired and supervised by the Tourism Development Authority, which shall pay the salaries and expenses of this staff.

(c) The Tourism Development Authority shall report quarterly and at the close of the fiscal year to the board of county commissioners on its receipts and expenditures for the preceding quarter and for the year in such detail as the board may require.

Sec. 23. Repeal of Levy. (a) The board of county commissioners may by resolution repeal the levy of the room occupancy tax in Buncombe County, but no repeal of taxes levied under this Part shall be effective until the end of the fiscal year in which the repeal resolution was adopted.

(b) No liability for any tax levied under this Part that attached prior to the date on which a levy is repealed shall be discharged as a result of the repeal, and no right to a refund of a tax that accrued prior to the effective date on which a levy is repealed shall be denied as a result of the repeal.

#### Part VII. Forsyth Occupancy Tax.

Sec. 24. Levy of Tax. (a) The Board of Commissioners of Forsyth County may by resolution, after not less than 10 days' public notice and after a public hearing held pursuant thereto, levy a room occupancy and tourism development tax.

(b) Collection of the tax, and liability therefor, shall begin and continue only on and after the first day of a calendar month set by the board of county commissioners in the resolution levying the tax, which in no case may be earlier than the first day of the second succeeding calendar month after the date of adoption of the resolution.

Sec. 25. Occupancy Tax. The county room occupancy and tourism development tax that may be levied under this Part shall be two percent (2%) of the gross receipts derived from the rental of any room, lodging, or similar accommodation furnished by any hotel, motel, inn, tourist camp, or other similar place within the county now subject to the three percent (3%) sales tax imposed by the State under G.S. 105-164.4(3). This tax is in addition to any local sales tax. This tax does not apply to gross receipts derived by the following entities from accommodations furnished by them:

- (1) religious organizations;
- (2) educational organizations;
- (3) any business that offers to rent fewer than five units; and
- (4) summer camps.

Sec. 26. Administration of Tax. (a) Any tax levied under this Part is due and payable to the county in monthly installments on or before the 15th day of the month following the month in which the tax accrues. Every person, firm, corporation, or association liable for the tax shall, on or before the 15th day of each month, prepare and render a return on a form prescribed by the county. The return shall state the total gross receipts derived in the preceding month from rentals upon which the tax is levied.

(b) Any person, firm, corporation, or association who fails or refuses to file the return required by this Part shall pay a penalty of ten dollars (\$10.00) for each day's omission.

(c) In case of failure or refusal to file the return or pay the tax for a period of 30 days after the time required for filing the return or for paying the tax, there shall be an additional tax, as a penalty, of five percent (5%) of the tax due, in addition to the penalty prescribed in subsection (b), with an additional tax of five percent (5%) for each additional month or fraction thereof until the occupancy tax is paid.

(d) Any person who willfully attempts in any manner to evade the occupancy tax imposed by this Part or to make a return and who willfully fails to pay the tax or make and file a return shall, in addition to all other penalties provided by law, be guilty of a misdemeanor and shall be punished by a fine not to exceed one thousand dollars (\$1,000) or by imprisonment not to exceed six months, or both.

Sec. 27. Collection of Tax. Every operator of a business subject to the tax levied by this Part shall, on and after the effective date of the levy of the tax, collect the two percent (2%) room occupancy tax. This tax shall be collected as part of the charge for the furnishing of any taxable accommodations. The tax shall be stated and charged separately from the sales records, and shall be paid by the purchaser to the operator of the business as trustee for and on account of Forsyth County. The room occupancy tax levied pursuant to this Part shall be added to the sales price and shall be passed onto the purchaser instead of being borne by the operator of the business. The county shall design, print, and furnish to all appropriate businesses in Forsyth County the necessary forms for filing returns and instructions to ensure the full collection of the tax.

Sec. 28. Disposition of Taxes Collected. (a) Forsyth County shall remit the net proceeds of the occupancy tax to the county Tourism Development Authority in Forsyth County. "Net proceeds" means gross proceeds less the cost to the county of administering and collecting the tax.

(b) The Authority may expend any funds distributed to it pursuant to subsection (a) only to further the development of travel, tourism, and conventions in the county through State, national, and international advertising and promotion. The

Authority may not use more than ten percent (10%) of the funds distributed to it pursuant to subsection (a) for administrative expenses of the Authority.

Sec. 29. Appointment, Duties of Tourism Development Authority. (a) When the board of county commissioners adopts a resolution levying a room occupancy tax pursuant to this Part, it shall also adopt a resolution creating a county Tourism Development Authority, which shall be a public authority under the Local Government Budget and Fiscal Control Act and shall be composed of the following nine members:

- (1) a county commissioner appointed by the board of county commissioners, who shall serve as an ex officio, nonvoting member;
- (2) a member of the Winston-Salem City Council appointed by the board of county commissioners, who shall serve as an ex officio, nonvoting member;
- (3) four owners or operators of hotels, motels, or other taxable tourist accommodations, two of which own or operate hotels, motels, or other accommodations with more than 100 rental units, one of whom shall be appointed by the Winston-Salem City Council and one by the board of county commissioners; and two of which own or operate hotels, motels, or other accommodations with 100 or fewer rental units, one of whom shall be appointed by the Winston-Salem City Council and one by the board of county commissioners;
- (4) three individuals involved in the tourist business who have demonstrated an interest in tourist development and do not own or operate hotels, motels, or other taxable tourist accommodations, appointed as follows: one by the Winston-Salem City Council, one by the Winston-Salem Area Chamber of Commerce, and one by the board of county commissioners.

All members of the Authority shall serve without compensation. Vacancies in the Authority shall be filled by the appointing authority of the member creating the vacancy. Members appointed to fill vacancies shall serve for the remainder of the unexpired term for which they are appointed to fill. Members shall serve three-year terms, except the initial members who shall serve the following terms:

- (1) members appointed pursuant to subdivisions (1) and (2) above shall serve one-year terms;
- (2) of the members appointed pursuant to subdivision (3) above, one appointee of the city council and the board of commissioners shall serve a two-year term and one appointee of the city council and the board of commissioners shall serve a three-year term, as designated by the city council and board of county commissioners;
- (3) of the three members appointed pursuant to subdivision (4) above, the appointee of the Winston-Salem City Council shall serve a one-year term, the appointee of the Winston-Salem Area

Chamber of Commerce shall serve a two-year term, and the appointee of the board of county commissioners shall serve a three-year term.

Members may serve no more than two consecutive terms. The members shall elect a chairman, who shall serve for a term of two years. The Authority shall meet at the call of the chairman and shall adopt rules of procedure to govern its meetings. The finance officer for Forsyth County shall be the ex officio finance officer of the Authority.

(b) The Tourism Development Authority may contract with any person, firm, or agency to advise and assist it in the promotion of travel, tourism, and conventions and may recommend to the board of county commissioners that county staff be employed for this advice and assistance. Any county staff employed under this Part shall be hired and supervised by the Tourism Development Authority, which shall pay the salaries and expenses of this staff.

(c) The Tourism Development Authority shall report quarterly and at the close of the fiscal year to the board of county commissioners on its receipts and expenditures for the preceding quarter and for the year in such detail as the board may require.

Sec. 30. Repeal of Levy. (a) The board of county commissioners may by resolution repeal the levy of the room occupancy tax in Forsyth County, but no repeal of taxes levied under this Part shall be effective until the end of the fiscal year in which the repeal resolution was adopted.

(b) No liability for any tax levied under this Part that attached prior to the date on which a levy is repealed shall be discharged as a result of the repeal, and no right to a refund of a tax that accrued prior to the effective date on which a levy is repealed shall be denied as a result of the repeal.

#### Part VIII. New Hanover Occupancy Tax.

Sec. 31. Levy of Tax. (a) The New Hanover County Board of Commissioners may by resolution, after not less than 10 days' public notice and after a public hearing held pursuant thereto, levy a room occupancy tax.

(b) Collection of the tax, and liability therefor, shall begin and continue only on and after the first day of a calendar month set by the New Hanover County Board of Commissioners in the resolution levying the tax, which in no case may be earlier than the first day of the second succeeding calendar month after the date of adoption of the resolution.

Sec. 32. Occupancy Tax. The county room occupancy tax that may be levied under this Part shall be two percent (2%) of the gross receipts derived from the rental of any room, lodging, or similar accommodation furnished by any hotel, motel, inn, tourist camp, or other similar place within the county that is subject to the three percent (3%) sales tax imposed by the State under G.S. 105-164.4(3). This tax is in addition to any local sales tax. This tax does not apply to accommodations furnished by nonprofit charitable, educational, benevolent, or religious organizations.

Sec. 33. Administration of Tax. (a) Any tax levied under this Part is due and payable to the county in monthly



installments on or before the 15th day of the month following the month in which the tax accrues. Every person, firm, corporation, or association liable for the tax shall, on or before the 15th day of each month, prepare and render a return on a form prescribed by the county. The return shall state the total gross receipts derived in the preceding month from rentals upon which the tax is levied.

(b) Any person, firm, corporation, or association who fails or refuses to file the return required by this Part shall pay a penalty of ten dollars (\$10.00) for each day's omission.

(c) In case of failure or refusal to file the return or pay the tax for a period of 30 days after the time required for filing the return or for paying the tax, there shall be an additional tax, as a penalty, of five percent (5%) of the tax due, in addition to the penalty prescribed in subsection (b), with an additional tax of five percent (5%) for each additional month or fraction thereof until the occupancy tax is paid.

(d) Any person who willfully attempts in any manner to evade the occupancy tax imposed by this Part or to make a return and who willfully fails to pay the tax or make and file a return shall, in addition to all other penalties provided by law, be guilty of a misdemeanor and shall be punished by a fine not to exceed one thousand dollars (\$1,000) or by imprisonment not to exceed six months, or both.

Sec. 34. Collection of Tax. Every operator of a business subject to the tax levied by this Part shall, on and after the effective date of the levy of the tax, collect the two percent (2%) room occupancy tax provided by this Part.

This tax shall be collected as part of the charge for the furnishing of any taxable accommodations. The tax shall be stated and charged separately from the sales records, and shall be paid by the purchaser to the operator of the business as trustee for and on account of New Hanover County. It is the intent of this Part that the room occupancy tax levied by New Hanover County shall be added to the sales price and that the tax shall be passed on to the purchaser instead of being borne by the operator of the business. The county shall design, print, and furnish to all appropriate businesses in the county the necessary forms for filing returns and instructions to ensure the full collection of the tax.

Sec. 35. Disposition of Taxes Collected. (a) New Hanover County shall, on a quarterly basis, distribute the net proceeds of the occupancy tax to the county and its municipalities in accordance with the method by which the one percent (1%) local sales and use taxes levied in the county pursuant to Article 39 of Chapter 105 of the General Statutes are distributed. "Net proceeds" means gross proceeds less the cost to the county of administering and collecting the tax.

(b) All revenue received by New Hanover County or its municipalities from the room occupancy tax shall be used as follows:

- (1) eighty percent (80%) of the revenue shall be used to control beach erosion; and
- (2) twenty percent (20%) of the revenue shall be used to promote travel and tourism, except that none of

this revenue may be used to plan, construct, operate, maintain, or in any way promote a civic center, convention center, public auditorium, or like facility.

The purposes for which revenue from the room occupancy tax may be used by the county and its municipalities may be changed only by resolution of the New Hanover Board of County Commissioners after being approved by a majority of the votes cast in an election held in New Hanover County on the question of how revenue from the room occupancy tax should be used. The ballot presented to the qualified voters of the county in an election concerning the use of revenue from the room occupancy tax shall state all the proposed uses of this revenue and the percentage of the revenue to be used for each purpose. Any change in use of revenue from the room occupancy tax made by the county commissioners after voter approval may likewise be changed only by resolution of the county commissioners after being approved by the voters in another election.

The question of how revenue from the room occupancy tax should be spent may be submitted to the qualified voters of the county only in a statewide general election. All elections under this section shall be conducted in accordance with the laws then governing elections in this State.

Sec. 36. Repeal of Levy. (a) The board of commissioners may by resolution repeal the levy of the room occupancy tax in new Hanover County, but no repeal of taxes levied under this Part shall be effective until the end of the fiscal year in which the repeal resolution was adopted.

(b) No liability for any tax levied under this Part that attached prior to the date on which a levy is repealed is discharged as a result of the repeal, and no right to a refund of a tax that accrued prior to the effective date on which a levy is repealed may be denied as a result of the repeal.

#### Part IX. City Occupancy Taxes.

Sec. 37. The governing body of a city may by resolution levy a tax on the gross receipts from the rental of accommodations within the corporate limits of the city, not to exceed three percent (3%). This tax applies to the rental of accommodations subject to sales tax under G.S. 105-164.4(3) and to the rental of all private residences and cottages, regardless whether the residence or cottage is rented for less than 15 days.

Sec. 38. The city tax collector shall collect and administer the occupancy tax levied by the governing body of the city pursuant to this Part. The governing body of the city may adopt rules as needed by the tax collector to implement this Part.

Sec. 39. Every owner of a business subject to the tax levied by this Part shall, on and after the first day of the calendar month set by the governing body in the resolution levying the tax, collect the occupancy tax provided by this Part. This tax shall be collected as part of the charge for the furnishing of any taxable accommodations. The tax shall be stated and charged separately from the sales records, and shall be paid by the purchaser to the owner of the business as trustee for and on account of the city. The occupancy tax levied under

this Part shall be added to the sales price and shall be passed on to the purchaser instead of being borne by the owner of the business. The city tax collector shall design, print, and furnish to all appropriate businesses in the city the necessary forms for filing returns and instructions to ensure the full collection of the tax. Every person liable for the tax imposed pursuant to this Part shall, on or before the 15th day of each month, prepare and submit a return on the prescribed form stating the total gross receipts derived during the preceding month from rentals upon which the tax is levied. The tax shall be due and payable to the tax collector on a monthly basis.

Any person who fails or refuses to file the return required by this Part shall pay a penalty of ten dollars (\$10.00) for each day's omission. In addition, any person who refuses to file the return or pay the tax for a period of 30 days after the time required for filing the return or for paying the tax shall pay a penalty of five percent (5%) of the tax due. An additional penalty of five percent (5%) shall be imposed for each additional month or fraction thereof in which the occupancy tax is not paid.

Any person who willfully attempts in any manner to evade the occupancy tax or who willfully fails to pay the tax or make and file the required return, shall, in addition to all other penalties provided by law, be guilty of a misdemeanor and be punishable by a fine not to exceed one thousand dollars (\$1,000), imprisonment not to exceed six months, or both.

Sec. 40. The tax collector shall remit the proceeds of this tax to the city on a monthly basis. The funds received by the city pursuant to this Part shall be allocated to a special fund and used only for tourism-related expenditures. As used in this act, the term "tourism-related expenditures" includes the following types of expenditures: criminal justice system, fire protection, public facilities and utilities, health facilities, solid waste and sewage treatment, and the control and repair of water front erosion. These funds may not be used for services normally provided by the city on behalf of its citizens unless these services promote tourism and enlarge its economic benefits by enhancing the ability of the city to attract and provide for tourists.

Sec. 41. The city tax collector may collect any unpaid taxes levied under this Part through the use of attachment and garnishment proceedings as provided in G.S. 105-368 for collection of property taxes. The city tax collector has the same enforcement powers concerning the tax imposed by this act as does the Secretary of Revenue in enforcing the State sales tax under G.S. 105-164.30.

Sec. 42. The governing body of a city may by resolution repeal the levy of the occupancy tax authorized by this Part. No liability for any tax levied under this Part that attached prior to the date on which a levy is repealed is discharged by the repeal, and no right to a refund of a tax that accrued prior to the effective date on which a levy is repealed shall be denied as a result of the repeal.

Sec. 43. The definitions set forth in G.S. 105-164.3 apply to this Part insofar as those definitions are not inconsistent with this Part.

Sec. 44. This Part applies only to the Town of Ocean Isle Beach, the Town of Topsail Beach, and Surf City.

Part X. Effective Dates.

Sec. 45. This act is effective upon ratification.

In the General Assembly read three times and ratified, this the 21st day of July, 1983.

JAMES C. GREEN

James C. Green  
President of the Senate

LISTON B. RAMSEY

Liston B. Ramsey  
Speaker of the House of Representatives

**Appendix D**  
**The Tax Adjustment Act of 1983**

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 1983  
RATIFIED BILL

CHAPTER 713  
HOUSE BILL 278

AN ACT TO ENACT THE TAX ADJUSTMENT ACT OF 1983.  
The General Assembly of North Carolina enacts:

Part I. Court Costs and Fees.

Section 1. Article 28 of General Statutes Chapter 7A is amended by adding a new section G.S. 7A-320 as follows:

"§ 7A-320. Costs are exclusive.--The costs set forth in this Article are complete and exclusive, and in lieu of any other costs and fees."

Sec. 2. G.S. 7A-304(a) (4) is amended by substituting the words and figures "twenty-three dollars (\$23.00)" for the words and figures "nineteen dollars (\$19.00)" and is further amended by substituting the words and figures "thirty dollars (\$30.00)" for the words and figures "twenty-eight dollars (\$28.00)".

Sec. 3. G.S. 7A-304(c) is amended by rewriting the first sentence as follows: "Witness fees, expenses for blood tests and comparisons incurred by G.S. 8-50.1(a), jail fees and cost of necessary trial transcripts shall be assessed as provided by law in addition to other costs set out in this section."

Sec. 4. G.S. 7A-305(a) (2) is amended by rewriting the first sentence as follows: "For support of the General Court of Justice, the sum of thirty-seven dollars (\$37.00) in the superior court, and the sum of twenty-two dollars (\$22.00) in the district court except that if the case is assigned to a magistrate the sum shall be ten dollars (\$10.00)."

Sec. 5. G.S. 7A-305 is amended by adding a new subsection (b1) as follows:

"(b1) When a defendant files an answer in an action filed as a small claim which requires the entire case to be withdrawn from a magistrate and transferred to the district court, the difference between the General Court of Justice fee and facilities fee applicable to the district court and the General Court of Justice fee and facilities fee applicable to cases heard by a magistrate shall be assessed. The defendant is responsible for paying the fee."

Sec. 6. G.S. 7A-305(d) is amended by deleting the words "The uniform costs set forth in this section are complete and exclusive, and in lieu of any and all other costs, fees, and commissions, except that the" and inserting in their place the word "The".

Sec. 7. G.S. 7A-306(a) (2) is amended by deleting the words and figures "thirteen dollars (\$13.00)" and inserting in their place the words and figures "twenty-two dollars (\$22.00)", and by rewriting the second sentence as follows: "In addition, in proceedings involving land, except boundary disputes, if the fair market value of the land involved is over one hundred dollars (\$100.00), there shall be an additional sum of thirty cents (30¢) per one hundred dollars (\$100.00) of value, or major

fraction thereof, not to exceed a maximum additional sum of two hundred dollars (\$200.00)."

Sec. 8. G.S. 7A-306(b) is amended by substituting the words and figures "twenty-two dollars (\$22.00)" for the words and figures "thirteen dollars (\$13.00)".

Sec. 9. G.S. 7A-306(c) is amended by deleting the words "The uniform costs set forth in this section are complete and exclusive, and in lieu of any and all other costs, fees, and commissions, except that the" and inserting in their place the word "The".

Sec. 10. G.S. 7A-307(a) as it appears in the 1981 Replacement Volume 1B of the General Statutes is amended by adding on line 2 between the comma and the word "the" "and in collections of personal property by affidavit,".

Sec. 11. G.S. 7A-307(a)(2) is amended by rewriting the first sentence as follows: "For support of the General Court of Justice, the sum of twenty-two dollars (\$22.00), plus an additional forty cents (40¢) per one hundred dollars (\$100.00), or major fraction thereof, of the gross estate."

Sec. 12. G.S. 7A-307(a)(2) is amended by deleting the sixth sentence.

Sec. 13. G.S. 7A-307(a)(2) is amended by substituting the words and figures "five dollars (\$5.00)" for the words and figures "one dollar (\$1.00)".

Sec. 14. G.S. 7A-307(a) is amended by adding a new subdivision (3) as follows: "(3) For probate of a will without qualification of a personal representative, the clerk shall assess a facilities fee as provided in subdivision (1) of this subsection and shall assess for support of the General Court of Justice, the sum of twelve dollars (\$12.00)."

Sec. 15. G.S. 7A-307(b) is amended by substituting the words and figures "twenty-two dollars (\$22.00)" for the words and figures "eight dollars (\$8.00)" and by substituting the words and figures "twenty-five dollars (\$25.00)" for the words and figures "ten dollars (\$10.00)".

Sec. 16. G.S. 7A-307(c) is amended by deleting the words "The uniform costs set forth in this section are complete and exclusive, and in lieu of any and all other costs, fees, and commissions, except that the" and inserting in their place the word "The".

Sec. 17. G.S. 7A-307 is amended by adding a new subsection (b1) as follows:

"(b1) The clerk shall assess the following miscellaneous fees:

- |                                                                       |         |
|-----------------------------------------------------------------------|---------|
| (1) Filing a will with no probate                                     |         |
| - first page                                                          | \$ 1.00 |
| - each additional page or fraction thereof                            | .25     |
| (2) Issuing letters testamentary, per letter over five letters issued | 1.00    |
| (3) Inventory of safe deposits of a decedent, per box, per day        | 15.00   |
| (4) Taking a deposition                                               | 5.00"   |

Sec. 18. G.S. 7A-308 is rewritten as follows:

"§ 7A-308. Miscellaneous fees and commissions.--(a) The following miscellaneous fees and commissions shall be collected

by the clerk of superior court and remitted to the State for the support of the General Court of Justice:

- |      |                                                                                                                                                                                                                                                                                                                                                                                     |          |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| (1)  | Foreclosure under power of sale in deed of trust or mortgage                                                                                                                                                                                                                                                                                                                        | \$ 25.00 |
|      | Plus an additional sum of thirty cents (30¢) per one hundred dollars (\$100.00), or major fraction thereof, of the final sale price shall be collected. In no case shall the additional sum exceed two hundred dollars (\$200.00).                                                                                                                                                  |          |
| (2)  | Proceeding supplemental to execution                                                                                                                                                                                                                                                                                                                                                | 20.00    |
| (3)  | Confession of judgment                                                                                                                                                                                                                                                                                                                                                              | 15.00    |
| (4)  | Taking a deposition                                                                                                                                                                                                                                                                                                                                                                 | 5.00     |
| (5)  | Execution                                                                                                                                                                                                                                                                                                                                                                           | 15.00    |
| (6)  | Notice of resumption of maiden name                                                                                                                                                                                                                                                                                                                                                 | 5.00     |
| (7)  | Taking an acknowledgment or administering an oath, or both, with or without seal, each certificate (except that oaths of office shall be administered to public officials without charge)                                                                                                                                                                                           | 1.00     |
| (8)  | Bond, taking justification or approving                                                                                                                                                                                                                                                                                                                                             | 5.00     |
| (9)  | Certificate, under seal                                                                                                                                                                                                                                                                                                                                                             | 2.00     |
| (10) | Exemplification of records                                                                                                                                                                                                                                                                                                                                                          | 5.00     |
| (11) | Recording or docketing (including indexing) any document, per page or fraction thereof                                                                                                                                                                                                                                                                                              | 4.00     |
| (12) | Preparation of copies                                                                                                                                                                                                                                                                                                                                                               |          |
|      | - first page                                                                                                                                                                                                                                                                                                                                                                        | 1.00     |
|      | - each additional page or fraction thereof                                                                                                                                                                                                                                                                                                                                          | .25      |
| (13) | Preparation of transcript of judgment                                                                                                                                                                                                                                                                                                                                               | 5.00     |
| (14) | Substitution of trustee in deed of trust                                                                                                                                                                                                                                                                                                                                            | 5.00     |
| (15) | Execution of passport application--the amount allowed by Federal Law                                                                                                                                                                                                                                                                                                                |          |
| (16) | On all funds placed with the clerk by virtue or color of his office, to be administered, invested, or administered in part and invested in part, a commission of five percent (5%), with a minimum fee of fifteen dollars (\$15.00) and a maximum fee of one thousand dollars (\$1,000). For purposes of assessing a commission, receipts are cumulative for the life of an account |          |
| (17) | Criminal record search except if search is requested by an agency of the State or any of its political subdivisions or by an agency of the United States or by a petitioner in a proceeding under Article 2 of General Statutes Chapter 20                                                                                                                                          | 5.00     |
| (18) | Filing the affirmations, acknowledgements, agreements and resulting orders entered into under the provisions of G.S. 110-132 and G.S. 110-133.                                                                                                                                                                                                                                      | 4.00     |



(b) The fees and commissions set forth in this section are not chargeable when the service is performed as a part of the regular disposition of any action or special proceeding or the administration of an estate. When a transaction involves more than one of the services set forth in this section, only the greater service fee shall be charged."

Sec. 19. G.S. 7A-309 is rewritten as follows:

"§ 7A-309. Magistrate's special fees.--The following special fees shall be collected by the magistrate and remitted to the clerk of superior court for the use of the State in support of the General Court of Justice:

- |                                                                                                                                                 |         |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| (1) Performing marriage ceremony                                                                                                                | \$10.00 |
| (2) Hearing petition for year's allowance to surviving spouse or child, issuing notices to commissioners, allotting the same, and making return | 4.00    |
| (3) Taking a deposition                                                                                                                         | 5.00    |
| (4) Proof of execution or acknowledgment of any instrument                                                                                      | 1.00    |
| (5) Performing any other statutory function not incident to a civil or criminal action                                                          | 1.00."  |

Sec. 20. G.S. 7A-314 is amended by adding a new subsection (f) to read as follows:

"(f) In a criminal case when a person who does not speak or understand the English language is an indigent defendant, a witness for an indigent defendant, or a witness for the State and the court appoints a language interpreter to assist that defendant or witness in the case, the reasonable fee for the interpreter's services, as set by the court, are payable from funds appropriated to the Administrative Office of the Courts."

Sec. 21. G.S. 28A-25-1(b) is amended by deleting the statutory reference "G.S. 7A-308(a) (11)" and by inserting in its place "G.S. 7A-307".

Part II. Secretary of State Fees and Taxes.

Sec. 22. G.S. 10-1 is amended by deleting the phrase "ten dollars (\$10.00)" and substituting the phrase "fifteen dollars (\$15.00)".

Sec. 23. G.S. 25-9-403(5) is amended by rewriting the first sentence to read:

"The uniform fee for filing and indexing and for stamping a copy furnished by the secured party to show the date and place of filing for an original financing statement or for a continuation statement is five dollars (\$5.00) for an approved statutory form statement as prescribed in G.S. 25-9-402 when printed on a standard-size form approved by the Secretary of State, and for all other statements, the fee is ten dollars (\$10.00)."

Sec. 24. G.S. 25-9-405(1) is amended by rewriting the last sentence to read:

"The uniform fee for filing, indexing, and furnishing filing data for a financing statement so indicating an assignment is five dollars (\$5.00) when submitted on a standard-size form approved by the Secretary of State, and for all other statements, the fee is ten dollars (\$10.00)."

Sec. 25. G.S. 25-9-405(2) is amended by rewriting the fifth sentence to read:

"The uniform fee for filing, indexing, and furnishing filing data about such a separate statement of assignment is five dollars (\$5.00) when submitted on a standard-size form approved by the Secretary of State, and for all other statements, the fee is ten dollars (\$10.00)."

Sec. 26. G.S. 25-9-406 is amended by rewriting the fifth sentence to read:

"The uniform fee for filing and noting such a statement of release is five dollars (\$5.00) when submitted on a standard-size form approved by the Secretary of State, and for all other statements, the fee is ten dollars (\$10.00)."

Sec. 27. G.S. 25-9-407(2) is amended by deleting the phrase "three dollars (\$3.00)" and substituting the phrase "five dollars (\$5.00)".

Sec. 28. G.S. 25-9-407(2) is further amended by adding a new sentence between the second and third sentences to read:

"Where the Uniform Commercial Code index has been automated, the filing officer shall issue a computer printout of the index entries for a particular debtor for a fee of five dollars (\$5.00)."

Sec. 29. G.S. 44-68.4(a)(1) and (2) are amended by deleting the phrase "two dollars (\$2.00)" in each subdivision and substituting the phrase "five dollars (\$5.00)".

Sec. 30. G.S. 44-68.4(a)(3) is amended by deleting the phrase "one dollar (\$1.00)" and substituting the phrase "five dollars (\$5.00)".

Sec. 31. G.S. 44-68.4(b) is rewritten to read:

"The fee for furnishing the certificate provided for in G.S. 44-68.3(d) in the office of the Secretary of State is five dollars (\$5.00). Where the federal tax lien index has been automated, the filing officer shall issue a computer printout of the index entries for a particular debtor for a fee of five dollars (\$5.00). The fee for furnishing copies provided for in G.S. 44-68.3(d) is one dollar (\$1.00) per page."

Sec. 32. G.S. 55-155(a)(1), (2), (3), (4), (5), (9), (10), (11), (12), (13), (14), (16), (17), (21), and (29) are each amended by deleting the phrase "\$5.00" and substituting the phrase "\$10.00".

Sec. 33. G.S. 55-155(a)(6) and (18) are each amended by deleting the phrase "\$3.00" and substituting the phrase "\$5.00".

Sec. 34. G.S. 55-155(a)(25) and (26) are each amended by deleting the phrase "\$2.00" and substituting the phrase "\$5.00".

Sec. 35. G.S. 55-155(a)(7) and (8) are each amended by deleting the phrase "\$1.00" and substituting the phrase "\$5.00".

Sec. 36. G.S. 55-156(a)(1), (2), (5), and (6) are each amended as follows:

(1) in each place where the phrase "\$.40" appears, that phrase is deleted and the phrase "\$.80" is substituted;

(2) in each place where the phrase "\$40.00" appears, that phrase is deleted and the phrase "\$80.00" is substituted; and

(3) in each place where the phrase "\$500.00" appears, that phrase is deleted and the phrase "\$1,000" is substituted.

Sec. 37. G.S. 55-155(a) (19) is repealed.

Sec. 38. G.S. 55-156(a) (3) and (4) are rewritten to read:

"(3) Articles of amendment which do not include an authorization to increase capital stock

\$15.00

(4) Articles of dissolution

20.00".

Sec. 39. G.S. 55A-77(a) (1), (2), (3), (4), (5), (6), (7), (11), (13), (16), and (17) are each amended by deleting the phrase "\$5.00" and substituting the phrase "\$10.00".

Sec. 40. G.S. 55A-77(a) (8) and (10) are each amended by deleting the phrase "\$3.00" and substituting the phrase "\$5.00".

Sec. 41. G.S. 55A-77(a) (9) is amended by deleting the phrase "\$1.00" and substituting "\$5.00".

Sec. 42. G.S. 55A-77(a) (12) is repealed.

Sec. 43. G.S. 55A-78(a) is amended by deleting the phrase "fifteen dollars (\$15.00)" and substituting the phrase "thirty dollars (\$30.00)".

Sec. 44. G.S. 55A-78(b) is amended by deleting the phrase "forty dollars (\$40.00)" and substituting the phrase "sixty-five dollars (\$65.00)".

Sec. 45. G.S. 78A-28(b) is rewritten to read:

"(b) Every person filing a registration statement shall pay a filing fee of one hundred dollars (\$100.00), plus a registration fee of one-tenth of one percent (1/10 of 1%) of the maximum aggregate offering price at which the registered securities are to be offered in this State, but the registration fee may not be less than twenty-five dollars (\$25.00) nor more than one thousand five hundred dollars (\$1,500). When a registration statement is withdrawn before the effective date or a pre-effective stop order is entered under G.S. 78A-29, the Administrator shall retain the filing fee. A registration statement relating to securities issued or to be issued by a mutual fund, open-end management company, or unit investment trust or relating to other redeemable securities, to be offered for a period in excess of one year, must be renewed annually by payment of a renewal fee of one hundred dollars (\$100.00) and by filing any documents or reports that the Administrator may by rule or order require."

Sec. 46. G.S. 78A-28(h) is amended by deleting from the first sentence the word "Every" and substituting the following:

"Except during the time a stop order is in effect under G.S. 78A-29, a registration statement relating to securities issued or to be issued by a mutual fund, open-end management company, or unit investment trust or relating to other redeemable securities, to be offered for a period in excess of one year, expires on December 31 of each year or some other date not more than one year from its effective date as the Administrator may by rule or order provide. Every other".

Sec. 47. G.S. 78A-28(j) is amended by rewriting the last sentence to read: "Every person filing such an amendment shall pay a registration fee calculated in the manner specified in subsection (b) and a filing fee of fifty dollars (\$50.00) with respect to the additional securities proposed to be offered."

Sec. 48. The first sentence of G.S. 78A-37(b) is rewritten to read: "Every applicant for initial or renewal registration shall pay a filing fee of one hundred fifty dollars (\$150.00) in the case of a dealer and twenty-five dollars (\$25.00) in the case of a salesman."

Sec. 49. The last sentence of G.S. 80-3 is amended by deleting the phrase "ten dollars (\$10.00)" and substituting the phrase "twenty-five dollars (\$25.00)".

Sec. 50. G.S. 120-47.3 is amended by deleting in each place it appears the phrase "fifty dollars (\$50.00)" and substituting the phrase "seventy-five dollars (\$75.00)".

Sec. 51. G.S. 120-47.2(a) is amended by adding the following new language at the end:

"If a corporation or partnership is employed or retained as a legislative counsel, and more than one partner, employee or officer of the corporation or partnership, shall act as a legislative agent on behalf of the client, then the additional individuals shall be separately listed on the registration under subsection (b), and a fee in the same amount as imposed by G.S. 120-47.3 shall be due for each such individual in excess of one."

Part III. Inspection Fee Increases.

Sec. 52. G.S. 95-105 is rewritten to read:

"§ 95-105. Elevator, escalator, dumbwaiter, and special equipment inspection fees.--The Department of Labor shall assess and collect the following inspection service fees for the installation and alteration of elevators, escalators, dumbwaiters that are not installed or altered in restaurants, and special equipment based on the cost of installation or alteration:

Cost of Installation or Alteration	Unit Fee
\$0 - \$ 10,000	\$ 80
10,001 - 30,000	120
30,001 - 50,000	170
50,001 - 80,000	215
80,001 - 100,000	235
Over 100,000	285.

An additional fee of seventy-five dollars (\$75.00) shall be assessed for each follow-up inspection of a new installation required subsequent to the original inspection.

The Department of Labor shall assess and collect a fee of ten dollars (\$10.00) for the periodic inspection of special equipment and shall assess and collect the following fees for the periodic inspection of elevators, escalators, and dumbwaiters:

Number of Building Floors	Unit Fee
1- 5 Floors	\$ 13
6-10 Floors	20
11-15 Floors	35
16- Floors and over	45."

Sec. 53. G.S. 95-106 is rewritten to read:

"§ 95-106. Amusement, aerial tramway, and inclined railroad inspection fees.--The Department of Labor shall assess and collect the following inspection service fees for annual inspections for each location within the State of amusement devices, aerial passenger tramways, and inclined railroads:

Type Inspection	Unit Fee
Amusement Devices	\$ 12

Gondolas, Chairlifts,  
and Inclined Railroads  
J- or T-Bars  
Rope Tows

137  
62  
31."

Part IV. Road Tax Registration Changes; Private Passenger  
Vehicle Registration Fee Increase.

Sec. 54. Part 7 of Article 3 of Chapter 20 of the  
General Statutes is amended by adding a new section immediately  
following G.S. 20-88 to read:

"§ 20-88A. Registration of certain vehicles for road tax.--  
Owners of passenger vehicles with seating capacity for more than  
twenty passengers, road tractors, tractor trucks, or trucks with  
more than two axles shall, in addition to all other registration  
fees imposed by this Article, pay a registration fee of ten  
dollars (\$10.00) to register for purposes of the road tax imposed  
by Article 36B of Chapter 105. This fee shall be paid to the  
Commissioner at the same time as the fees imposed by G.S. 20-87  
or G.S. 20-88 are paid. All vehicles licensed for more than  
thirty-two thousand pounds are presumed to have more than two  
axles. When registering a vehicle under this section, the owner  
of a vehicle that is leased to another shall report the name of  
the lessee to the Commissioner.

The Commissioner shall report all vehicles registered under  
this section to the Secretary of Revenue. No registration plate  
or registration renewal sticker shall be issued for a motor  
vehicle required to be registered under this section if the owner  
or lessee of that vehicle is not in compliance with Articles 36A  
or 36B of Chapter 105. The registration plate or registration  
renewal sticker issued for a motor vehicle under G.S. 20-87 or  
20-88 signifies registration in accordance with this section.  
The Commissioner may revoke the registration plate for a motor  
vehicle registered under this section whenever the owner or  
lessee of the vehicle fails to comply with Articles 36A or 36B of  
Chapter 105.

This section does not apply to vehicles owned by the United  
States, the State or its political subdivisions, special mobile  
equipment as defined in G.S. 20-4.01(44), and vehicles owned by  
nonprofit religious, educational, charitable, or benevolent  
organizations."

Sec. 55. G.S. 105-449.37 is rewritten to read:

"§ 105-449.37. Definitions; tax liability.--(a) As used in  
this Article unless the context clearly requires otherwise:

- (1) 'motor carrier' means every person, firm, or  
corporation who operates or causes to be operated  
on any highway in this State a passenger vehicle  
with seating capacity for more than 20 passengers,  
a road tractor, a tractor truck, or a truck with  
more than two axles. The term does not include the  
United States, the State or its political  
subdivisions, operators of special mobile equipment  
as defined in G.S. 20-4.01(44), or nonprofit  
religious, educational, charitable or benevolent  
organizations;
- (2) 'operations' means operations of all vehicles  
described in subdivision (1), whether loaded or

empty and whether or not operated for compensation;  
and

(3) 'Secretary' means the Secretary of Revenue.

(b) A motor carrier who operates on one or more days of a quarter is liable for the tax imposed by this Article for that quarter and is entitled to the credits allowed for that quarter."

Sec. 56. G.S. 105-449.47 is rewritten to read:

"§ 105-449.47. Registration of vehicles.--A motor carrier may not operate or cause to be operated in this State any vehicle listed in the definition of motor carrier unless the motor carrier has registered the vehicle for purposes of the tax imposed by this Article with the Commissioner of Motor Vehicles or the Secretary, as appropriate. All vehicles required to be registered under this section that are registered in this State under G.S. 20-87 or G.S. 20-88 shall be registered with the Commissioner of Motor Vehicles pursuant to G.S. 20-88A for the purposes of the tax imposed by this Article. All other vehicles required to be registered under this section shall be registered with the Secretary.

Upon application and payment of a fee of ten dollars (\$10.00), the Secretary shall issue a registration card and identification marker for a vehicle. The registration card shall be carried in the vehicle for which it was issued when the vehicle is in this State. The identification marker shall be clearly displayed at all times and shall be affixed to the vehicle for which it was issued in the place and manner designated by the Secretary. Every identification marker issued shall bear a number that corresponds to the number on the registration card issued for the same vehicle. Registration cards and identification markers required by this section shall be issued on a calendar year basis. The Secretary may renew registration cards and identification markers without issuing new cards and markers. All identification markers issued by the Secretary remain the property of the State."

Sec. 57. G.S. 105-449.48 is rewritten to read:

"§ 105-449.48. Fees paid to Highway Fund.--All fees collected under this Article shall be paid to the Highway Fund."

Sec. 58. The first sentence of G.S. 105-449.49 is amended by deleting the phrase "a registration card and identification marker" and inserting in lieu thereof the phrase "registering the vehicle in accordance with G.S. 105-449.47".

Sec. 59. The first sentence of G.S. 105-449.51 is rewritten to read:

"Any person who operates or causes to be operated on a highway in this State a motor vehicle that does not carry a registration card as required by this Article, does not properly display an identification marker as required by this Article, or is not registered in accordance with this Article is guilty of a misdemeanor and, upon conviction thereof, shall be fined no less than ten dollars (\$10.00) nor more than two hundred dollars (\$200.00)."

Sec. 60. The first sentence of the second paragraph of G.S. 105-449.52 is amended by deleting the phrase "a proper registration card and identification marker being applied for"

and inserting in lieu thereof the phrase "registering or making an application for registration in accordance with this Article".

Sec. 61. G.S. 20-87(5) is amended by deleting the figure "\$13.00" and inserting in lieu thereof the figure "\$17.00", and by deleting the figure "16.00" and inserting in lieu thereof the figure "20.00".

Part V. Income Taxes.

Sec. 62. Article 1 of Chapter 105 is amended by adding a new section immediately after G.S. 105-2 to read:

"§ 105-2.1. Internal Revenue Code definition.--As used in this Article, the term 'Code' means the Internal Revenue Code as enacted as of April 1, 1983, and includes any provisions enacted as of that date which become effective after that date."

Sec. 63. G.S. 105-3(5) is amended as follows:

(1) by deleting the phrase "section 401(a) of the United States Internal Revenue Code" and inserting in lieu thereof the phrase "26 U.S.C. §401(a)";

(2) by deleting the phrase "section 403(a) or 403(b) of such Code" and inserting in lieu thereof the phrase "26 U.S.C. §403(a) or §403(b)";

(3) by deleting the phrase "section 401(c) (1) of the United States Internal Revenue Code" and inserting in lieu thereof the phrase "26 U.S.C. §401(c) (1)"; and

(4) by deleting the phrase "section 404 of such Code" and inserting in lieu thereof the phrase "26 U.S.C. §404".

Sec. 64. G.S. 105-3(6) is amended as follows:

(1) by deleting the phrase "section 219 or 220 of the Internal Revenue Code of 1954 as amended" and inserting in lieu thereof the phrase "26 U.S.C. §219 or §220";

(2) by deleting the phrase "section 402(a) (5), 403(a) (4), 408(d) (3), or 409(b) (3) (C) of such Code" and inserting in lieu thereof the phrase "26 U.S.C. §§402(a) (5), 403(a) (4), 408(d) (3), or 409(b) (3) (C)"; and

(3) by deleting the phrase "section 219 or 220 of such Code" and inserting in lieu thereof the phrase "26 U.S.C. §219 or §220".

Sec. 65. The last sentence of G.S. 105-9.1 is rewritten to read:

"If the personal representative makes this election, the provisions of the Code pertaining to an optional valuation date apply."

Sec. 66. G.S. 105-114 is amended by inserting a new paragraph between the first and second paragraphs of that section to read:

"As used in this Article, the term 'Code' means the Internal Revenue Code as enacted as of April 1, 1983, and includes any provisions enacted as of that date which become effective after that date."

Sec. 67. The third paragraph of G.S. 105-125 and the third paragraph of G.S. 105-212 are each amended by deleting the phrase "the provisions of United States Code Annotated Title 26, section 851," and inserting in lieu thereof the phrase "section 851 of the Code"; and are further amended by deleting the phrase "United States Code Annotated Title 26, section 856," and inserting in lieu thereof the phrase "section 856 of the Code".

Sec. 68. G.S. 105-130.2 is amended by inserting a new subdivision (1) to read as follows and by renumbering the current subdivisions accordingly:

"(1) 'Code' means the Internal Revenue Code as enacted as of April 1, 1983, and includes any provisions enacted as of that date which become effective after that date."

Sec. 69. The first paragraph of G.S. 105-130.3 is amended by deleting the phrase "Internal Revenue Code in effect on January 1, 1981," and inserting in lieu thereof the word "Code".

Sec. 70. G.S. 105-130.5(a)(8), 105-130.5(b)(6), and 105-130.5(b)(12) are each amended by deleting the phrase "for federal income tax purposes" and inserting in lieu thereof the phrase "under the Code".

Sec. 71. G.S. 105-130.5(b)(11) is rewritten to read:

"(11) The amount by which a deduction for an ordinary and necessary business expense was required to be reduced under the Code for federal tax purposes or the amount of such a deduction that was not allowed under the Code because the corporation claimed a federal tax credit against its federal income tax liability for the income year in lieu of a deduction."

Sec. 72. G.S. 105-130.5(b)(14) is amended by inserting between the words "reduced" and "for" the phrase "under the Code"; and is further amended by deleting the words "federal law" and inserting in lieu thereof the words "the Code".

Sec. 73. G.S. 105-130.5(d) is amended by deleting the phrase "for federal income tax purposes under the provisions of section 337 of the Federal Internal Revenue Code of 1954, including amendments, if any" and inserting in lieu thereof the phrase "under section 337 of the Code".

Sec. 74. G.S. 105-130.12 is amended by deleting the phrase "the provisions of United States Code Annotated Title 26, §851," and inserting in lieu thereof the phrase "section 851 of the Code"; and is further amended by deleting the phrase "the provisions of United States Code Annotated Title 26, §856," and inserting in lieu thereof the phrase "section 856 of the Code".

Sec. 75. G.S. 105-135(15) is rewritten to read:

"(15) The word 'Code' means the Internal Revenue Code as enacted as of April 1, 1983, and includes any provisions enacted as of that date which become effective after that date."

Sec. 76. G.S. 105-141(b)(21) is amended by deleting the phrase "Internal Revenue Code of 1954 as amended" and inserting in lieu thereof the phrase "1976 Tax Reform Act".

Sec. 77. The third paragraph of G.S. 105-147(16) is amended by deleting the phrase "for purposes of the Internal Revenue Code of 1954, as amended, or regulations promulgated pursuant thereto" and inserting in lieu thereof the phrase "under the Code".

Sec. 78. G.S. 105-147(20) is amended as follows:

(1) by inserting between the word "Service" and the semicolon following that word, the phrase ", to the extent allowed under the Code"; and

(2) by changing the last semicolon in that subdivision to a period and deleting the remainder of the subdivision.

Sec. 79. G.S. 105-163.1(11) is rewritten to read:



"(11) 'Code' means the Internal Revenue Code as enacted as of April 1, 1983, and includes any provisions enacted as of that date which become effective after that date."

Sec. 80. G.S. 105-212 is amended by adding a new paragraph at the end of that section to read:

"As used in this section, the term 'Code' means the Internal Revenue Code as enacted as of April 1, 1983, and includes any provisions enacted as of that date which become effective after that date."

Sec. 81. The third paragraph of G.S. 105-228.5 is amended by deleting the phrase "United States Internal Revenue Code as now or hereafter amended" and inserting in lieu thereof the phrase "Code as defined in G.S. 105-135(15)".

Sec. 82. The statutes listed below are amended by deleting the following phrases:

- (1) "Internal Revenue Code";
- (2) "United States Internal Revenue Code";
- (3) "Federal Internal Revenue Code of 1954";
- (4) "federal Internal Revenue Code";
- (5) "1954 Internal Revenue Code";
- (6) "Internal Revenue Code of 1954 as amended";
- (7) "Internal Revenue Code of 1954, as amended";
- (8) "Internal Revenue Code of 1954, as amended,";
- (9) "Internal Revenue Code of 1954, or subsequent acts and amendments"; or
- (10) "Internal Revenue Code of 1954, or subsequent acts and amendments,"

each time they appear in the listed statutes and inserting in lieu thereof the word "Code":

- G.S. 105-3(6)
- G.S. 105-7
- G.S. 105-7.1
- G.S. 105-130.2(3)
- G.S. 105-130.5(a)(3)
- G.S. 105-130.5(a)(5)
- G.S. 105-130.5(a)(6)
- G.S. 105-130.5(a)(7)
- G.S. 105-130.5(b)(7)
- G.S. 105-130.5(b)(8)
- G.S. 105-130.5(b)(9)
- G.S. 105-130.5(b)(13)d.2.
- G.S. 105-130.5(b)(13)d.5.
- G.S. 105-130.5(e)
- G.S. 105-130.9(1)
- G.S. 105-130.13
- G.S. 105-130.15(b)(1)
- G.S. 105-135(5)
- G.S. 105-141(a)(20)
- G.S. 105-141(b)(9)a.
- G.S. 105-141(b)(10)
- G.S. 105-141(b)(11)
- G.S. 105-141(b)(17)
- G.S. 105-141(b)(19)
- G.S. 105-141(b)(22)
- G.S. 105-141(b)(23)

G. S. 105-141 (b) (26) d.  
 G. S. 105-141 (b) (27)  
 G. S. 105-141.2  
 G. S. 105-142 (b) (1)  
 G. S. 105-142 (d)  
 G. S. 105-142 (e)  
 G. S. 105-142 (f) (6)  
 G. S. 105-144 (b)  
 G. S. 105-144 (c) (3)  
 G. S. 105-144.1 (g)  
 G. S. 105-144.2 (d) (2) b.  
 G. S. 105-144.2 (i)  
 G. S. 105-145 (e)  
 G. S. 105-147 (1) c.  
 G. S. 105-147 (1) e.  
 G. S. 105-147 (7)  
 G. S. 105-147 (8)  
 G. S. 105-147 (12)  
 G. S. 105-147 (13) c.  
 G. S. 105-147 (20)  
 G. S. 105-161 (d) (4) a.  
 G. S. 105-161 (f) (1) c.  
 G. S. 105-163 (c)  
 G. S. 105-163.1 (6) e.1.  
 G. S. 105-163.1 (6) e.2.  
 G. S. 105-212

Sec. 83. G. S. 105-130.5(a) is amended by adding a new subdivision to read:

"(11) The amount by which the percentage depletion allowance allowed by Sections 613 and 613A of the Code for mines, oil and gas wells, and other natural deposits exceeds the cost depletion allowance for these items under the Code, except as otherwise provided herein. This subdivision does not apply to depletion deductions for clay, gravel, phosphate rock, lime, shells, stone, sand, feldspar, gemstones, mica, talc, lithium compounds, tungsten, coal, peat, olivine, pyrophyllite, and other solid minerals or rare earths extracted from the soil or waters of this State. Corporations required to apportion income to North Carolina shall first add to federal taxable income the amount of all percentage depletion in excess of cost depletion that was subtracted from the corporation's gross income in computing its federal income taxes and shall then subtract from the taxable income apportioned to North Carolina the amount by which the percentage depletion allowance allowed by Sections 613 and 613A of the Code for solid minerals or rare earths extracted from the soil or waters of this State exceeds the cost depletion allowance for these items."

Sec. 84. G. S. 105-147(12) is rewritten to read:

"(12) Except as provided in this subdivision, an allowance for depreciation and obsolescence of property and an allowance for depletion of mines, oil and gas wells, other natural deposits, and timber to the extent allowed under the Code. When the basis of property differs for State and federal purposes, this difference shall be taken into consideration in determining the

depreciation, obsolescence, or depletion allowed under this subdivision.

A taxpayer may deduct as depletion only the amount allowed as a cost depletion allowance for mines, oil and gas wells, and other natural deposits under the Code instead of the amount allowed as a percentage depletion allowance for these items under the Code. This paragraph does not apply to depletion deductions for clay, gravel, phosphate rock, lime, shells, stone, sand, feldspar, gemstones, mica, talc, lithium compounds, tungsten, coal, peat, olivine, pyrophyllite, and other solid minerals or rare earths extracted from the soil or waters of this State."

Sec. 85. G.S. 105-141(b)(28) is repealed.

Sec. 86. Article 4B of Chapter 105 is rewritten to read:

"Article 4B.

"Filing of Declarations of Estimated Income Tax and Installment Payments of Estimated Income Tax by Corporations.

"§ 105-163.25. Definitions.--As used in this Article, unless the context requires otherwise:

(1) 'Corporation' means a corporation that has a reasonably estimated tax liability of at least five thousand dollars (\$5,000). The term 'corporation' includes joint-stock companies or associations that meet these requirements.

(2) 'Estimated tax' means the amount of income tax the corporation estimates as the amount imposed by Article 4 for the taxable year. The appropriate percentage of estimated tax payable during the taxable year shall be determined by the following table:

<u>For Taxable Years Beginning On and After:</u>	<u>Percentages</u>
June 25, 1983, and before June 25, 1984	25%
June 25, 1984, and before June 25, 1985	50%
June 25, 1985, and before June 25, 1986	75%
June 25, 1986	100%

(3) 'Fiscal year' means an accounting period of 12 months ending on the last day of any month other than December.

(4) 'Secretary' means the Secretary of Revenue.

(5) 'Taxable year' means the calendar year or fiscal year used as a basis to determine net income under Article 4. If no fiscal year has been established, 'fiscal year' means the calendar year. In the case of a return made for a fractional part of the year under Article 4, or under rules prescribed by the Secretary, 'taxable year' means the period for which the return is made.

"§ 105-163.26. Declarations of estimated income tax required.--(a) Declaration Required. Every corporation subject to taxation under Article 4 shall submit a declaration of estimated tax to the Secretary. This declaration is due at the time established in G.S. 105-163.27, and payment of the estimated tax is due at the time and in the manner prescribed in that section.

(b) Content. In the declaration of estimated tax, the corporation shall state its estimated total net income from all sources for the taxable year, the proportion of its total net income allocable to this State, its estimated tax, and any other information required by the Secretary.

(c) Amendments to Declaration. Under rules prescribed by the Secretary, a corporation may amend a declaration of estimated tax.

"§ 105-163.27. Time for submitting declaration; time and method for paying estimated tax.--(a) Due Dates of Declarations. Declarations of estimated tax are due at the same time as the corporation's first installment payment. Installment payments are due as follows:

- (1) If, before the 1st day of the 4th month of the taxable year, the corporation's estimated tax equals or exceeds five thousand dollars (\$5,000), the corporation shall pay the estimated tax in four equal installments on or before the 15th day of the 4th, 6th, 9th and 12th months of the taxable year.
- (2) If, after the last day of the 3rd month and before the 1st day of the 6th month of the taxable year, the corporation's estimated tax equals or exceeds five thousand dollars (\$5,000), the corporation shall pay the estimated tax in three equal installments on or before the 15th day of the 6th, 9th and 12th months of the taxable year.
- (3) If, after the last day of the 5th month and before the 1st day of the 9th month of the taxable year, the corporation's estimated tax equals or exceeds five thousand dollars (\$5,000), the corporation shall pay the estimated tax in two equal installments on or before the 15th day of the 9th and 12th months.
- (4) If, after the last day of the 8th month and before the 1st day of the 12th month of the taxable year, the corporation's estimated tax equals or exceeds five thousand dollars (\$5,000), the corporation shall pay the estimated tax on or before the 15th day of the 12th month of the taxable year.

(b) Payment of Estimated Tax When Declaration Amended. When a corporation submits an amended declaration after making one or more installment payments on its estimated tax, the amount of each remaining installment shall be the amount that would have been payable if the estimate in the amended declaration was the original estimate, increased or decreased as appropriate by the amount computed by dividing:

- (1) The absolute value of the difference between:
  - a. The amount paid and
  - b. The amount that would have been paid if the estimate in the amended declaration was the original estimate by
- (2) The number of remaining installments.

(c) Short Taxable Year. Payment of estimated tax for taxable years of less than 12 months shall be made in accordance with rules promulgated by the Secretary.

"§ 105-163.28. Penalty for underpayment.--(a) Except as provided in subsection (d), if the amount of estimated tax paid by a corporation during the taxable year is less than the amount of tax imposed upon the corporation under Article 4 for the taxable year, the corporation shall be assessed an additional tax

as a penalty in an amount determined by multiplying the amount of the underpayment as determined under subsection (b), for the period of the underpayment as determined under subsection (c), by the percentage established as the rate of interest on assessments under G.S. 105-241.1(i) that is in effect for the period of the underpayment.

(b) The amount of the underpayment shall be the difference between:

- (1) the amount of the installment the corporation would have been required to pay if the corporation's estimated tax equalled eighty percent (80%) of the tax imposed under Article 4 for the taxable year, assuming the same schedule of installments, or eighty percent (80%) of the tax imposed for the taxable year if the corporation made no installment payments; and
- (2) the amount, if any, of the corresponding installment timely paid by the corporation.

(c) The period of the underpayment shall run from the date the installment was required to be paid to the earlier of:

- (1) the 15th day of the 3rd month following the close of the taxable year, or
- (2) with respect to any portion of the underpayment, the date on which the portion is paid. An installment payment of estimated tax shall be considered a payment of any previous underpayment only to the extent the payment exceeds the amount of the installment determined under subdivision (1) of subsection (b) for that installment date.

(d) The penalty for underpayment shall not be imposed if the total amount of all payments of estimated tax made on or before the last date prescribed for the payment of the installments equals or exceeds the amount that would have been required to be paid on or before that date if the estimated tax was equal to the least of:

- (1) the tax shown on the return of the corporation for the preceding taxable year, if the corporation filed a return for the preceding taxable year and the preceding year was a taxable year of 12 months;
- (2) an amount equal to the tax computed at the rates applicable to the taxable year but otherwise on the basis of the facts shown on the return of the corporation for, and the law applicable to, the preceding taxable year; or
- (3) an amount equal to eighty percent (80%) of the tax for the taxable year computed by placing on an annualized basis the taxable income:
  - a. for the first three months of the taxable year, in the case of the installment required to be paid in the 4th month;
  - b. for the first three months or for the first five months of the taxable year, in the case of the installment required to be paid in the 6th month;

- c. for the first six months or for the first eight months of the taxable year, in the case of the installment required to be paid in the 9th month; and
- d. for the first nine months or for the first 11 months of the taxable year, in the case of the installment required to be paid in the 12th month of the taxable year.

(4) For purposes of this subdivision, the taxable income shall be placed on an annualized basis by multiplying by 12 the taxable income referred to in the preceding sentence, and dividing the resulting amount by the number of months in the taxable year (3, 5, 6, 8, 9, or 11 as the case may be) referred to in that sentence.

"§ 105-163.29. Filing of declarations and other returns.--The declarations, amended declarations, or any information returns required under the provisions of this Article from any corporation shall be signed by its president, vice-president, treasurer, assistant treasurer, secretary, or assistant secretary. If a receiver, trustee in bankruptcy, or assignee, by order of a court of competent jurisdiction or by operation of law or otherwise, has possession of or holds title to all or substantially all of the property or business of a corporation, whether or not the property or business is being operated, the receiver, trustee, or assignee shall make and sign the declarations, amended declarations, or any information returns for the corporation in the same manner and form as required of the corporation.

"§ 105-163.30. Overpayment refunded.--Any overpayment of estimated tax shall be credited to the taxpayer and applied to the tax imposed upon the taxpayer by Article 4. The Secretary shall not refund any overpayment before the corporation files its annual return. If, upon examining the annual return, the Secretary finds that the estimated tax paid by the corporation exceeds the amount of tax imposed upon the corporation under Article 4, the Secretary shall refund the amount of the overpayment in accordance with the provisions of Article 9.

"§ 105-163.31. Willful failure to pay estimated tax.--Any person required by this Article to pay any estimated tax who willfully fails to pay the estimated tax at the time or times required by law or rules shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be punishable by a fine not to exceed five hundred dollars (\$500.00) or by imprisonment not to exceed six months, or both."

#### Part VI. Sales and Use Taxes; Salvage Vehicle Changes.

Sec. 87. The first sentence of G.S. 105-164.3(15) is amended by inserting between the words "lease," and "or" the phrase "license to use or consume,".

Sec. 88. G.S. 105-164.3(20) is amended by adding the following at the end of the subdivision:

"The term includes all 'canned' or prewritten computer programs, either in the form of written procedures or in the form of storage media on which or in which the program is recorded,

held, or existing for general or repeated sale, lease, or license to use or consume. The term does not include the design, development, writing, translation, fabrication, lease, license to use or consume, or transfer for a consideration of title or possession of a custom computer program, other than a basic operational program, either in the form of written procedures or in the form of storage media on which or in which the program is recorded, or any required documentation or manuals designed to facilitate the use of the custom computer program.

As used in this subdivision:

- a. 'Basic operational program' or 'control program' means a computer program that is fundamental and necessary to the functioning of a computer. A basic operational program is that part of an operating system, including supervisors, monitors, executives, and control or master programs, which consists of the control program elements of that system. A control or master program, as opposed to a processing program, controls the operation of a computer by managing the allocation of all system resources, including the central processing unit, main storage, input/output devices, and processing programs. A processing program is used to develop and implement the specific applications the computer is to perform.
- b. 'Computer program' means the complete plan for the solution of a problem, such as the complete sequence of automatic data-processing equipment instructions necessary to solve a problem, and includes both systems and application programs and subdivisions, such as assemblers, compilers, routines, generators, and utility programs.
- c. 'Custom computer program' means a computer program prepared to the special order of the customer. Custom computer programs include one of the following elements:
  1. Preparation or selection of the programs for the customer's use requires an analysis of the customer's requirements by the vendor; or
  2. The program requires adaptation by the vendor to be used in a particular make and model of computer utilizing a specified output device.
- d. 'Storage media' means punched cards, tapes, disks, diskettes, or drums."

Sec. 89. G.S. 105-164.4(1) is amended as follows:

(1) by deleting the phrase "one hundred twenty dollars (\$120.00)" in the first paragraph of that subdivision and inserting in lieu thereof the phrase "three hundred dollars (\$300.00)"; and

(2) by deleting the third paragraph of that subdivision and inserting the following paragraphs in lieu thereof:

"Notwithstanding G.S. 105-164.3(16), the sales price of a motor vehicle is the gross sales price of the motor vehicle less any allowance given for a motor vehicle taken in trade as part of the consideration for the purchased motor vehicle.

The tax levied under this section applies to all retail sales of motor vehicles, regardless whether the seller is engaged in business as a retailer of motor vehicles and regardless whether a tax has previously been paid under this Article with respect to the vehicle. Purchasers of motor vehicles from sellers who are not retailers are liable for payment of the tax. These purchasers shall pay the tax to the Commissioner of Motor Vehicles when applying for a certificate of title, registration, or registration plate for the vehicle. The sales price of a motor vehicle purchased from a seller who is not a retailer is considered to be either the standard value for the year, make, and model of that vehicle as established in schedules of value adopted by the Secretary or the amount paid by the purchaser for that vehicle, whichever is greater, provided the seller does not take a motor vehicle in trade as part of the purchase price. If the seller takes a motor vehicle in trade as part of the purchase price, the sales price of the motor vehicle sold is considered to be the difference in the standard value of the sold vehicle and the traded-in vehicle or the net amount paid by the purchaser, whichever is greater.

Every retail dealer of motor vehicles who sells a motor vehicle shall, when applying for a transfer of title for that vehicle, certify to the Commissioner of Motor Vehicles that he has collected the sales tax due on the sale of that vehicle and will remit the tax to the Secretary, and shall report the following information to the Commissioner:

- (1) his name;
- (2) the name of the purchaser; and
- (3) the make and serial number of the vehicle sold.

The Commissioner of Motor Vehicles shall prepare forms to be used by retailers to make the certification and report required by this subsection. A retail dealer of motor vehicles who transfers a motor vehicle to another person by means other than a retail sale shall state on the certification form that no tax is due on the transfer of the motor vehicle because the transfer is not a retail sale.

No certificate of title, registration, or registration plate, shall be issued for any motor vehicle transferred pursuant to a retail sale unless the tax levied under this section is paid when application is made for transfer of title or the retailer who sold the vehicle makes the required certification and report when applying for transfer of title. The Commissioner of Motor Vehicles shall remit taxes collected by him under this subsection to the Secretary.

Persons who lease or rent motor vehicles shall collect and remit the tax imposed by this Article on the separate retail sale of a motor vehicle in addition to the tax imposed on the proceeds from the lease or rental of the motor vehicle."

Sec. 90. G.S. 105-164.6(3a) is amended as follows:

(1) by rewriting the first two sentences of that subdivision to read:

"Every person, firm, or corporation that purchases or acquires a motor vehicle shall pay a tax at the rate of two percent (2%) of the sales or purchase price of the vehicle, as determined in accordance with G.S. 105-164.4(1), not to exceed three hundred



dollars (\$300.00) per vehicle. This tax shall be paid to the Commissioner of Motor Vehicles when applying for a certificate of title or registration plate for the vehicle. A purchaser who furnishes to the Commissioner of Motor Vehicles a certificate from a retailer of motor vehicles engaged in business in this State stating that the purchaser has paid the tax levied on the vehicle by this Article to the retailer is relieved of liability for the tax.";

(2) by adding a new sentence at the end of the first paragraph to read: "The Commissioner of Motor Vehicles shall remit use taxes collected by him under this subdivision to the Secretary."; and

(3) by deleting the second paragraph of the subdivision and inserting the following paragraphs in lieu thereof:

"The tax levied under this section applies to all owners of motor vehicles, regardless whether the owner purchased or acquired the vehicle from a retailer of motor vehicles and regardless whether a tax has previously been paid under this Article with respect to the vehicle. The sales price of a motor vehicle acquired from a person who is not a retailer shall be determined in accordance with G.S. 105-164.4(1).

Persons who lease or rent motor vehicles shall collect and remit the tax imposed by this Article on the separate retail sale of a motor vehicle in addition to the tax imposed on the proceeds from the lease or rental of the motor vehicle."

Sec. 91. G.S. 105-164.13(16) is amended by inserting after the word "articles" the first time and the last time it appears in that subdivision the phrase "other than motor vehicles".

Sec. 92. G.S. 105-164.13(32) is amended by adding a new sentence at the end thereof to read:

"For sales made by a seller who is not a retailer, this exemption applies if the purchaser furnishes the Secretary an affidavit containing the information otherwise required from a retailer within 45 days of the date of the sale."

Sec. 93. G.S. 105-164.4(3) is rewritten to read:

"(3) Operators of hotels, motels, tourist homes, tourist camps, and similar type businesses and persons who rent private residences and cottages to transients are considered retailers under this Article. There is levied upon every such retailer a tax of three percent (3%) of the gross receipts derived from the rental of any room or rooms, lodgings, or accommodations furnished to transients for a consideration. This tax does not apply to any private residence or cottage that is rented for less than 15 days in a calendar year or to any room, lodging, or accommodation supplied to the same person for a period of 90 or more continuous days.

As used in this subdivision, the term 'persons who rent to transients' means (i) owners of private residences and cottages who rent to transients and (ii) rental agents, including 'real estate brokers' as defined in G.S. 93A-2, who rent private residences and cottages to transients on behalf of the owners. If a rental agent is liable for the tax imposed by this subdivision, the owner is not liable."

Sec. 94. G.S. 20-109.1 is amended as follows:

(1) by adding a new sentence at the end of subsection (d) to read:

"In addition to these criminal penalties, any person who violates this section is subject to a civil penalty of up to one hundred dollars (\$100.00), to be imposed in the discretion of the Commissioner."; and

(2) by adding a new subsection to read:

"(e) The Commissioner shall charge a fee of ten dollars (\$10.00) for issuing a title or forms as required by this section."

Sec. 95. G.S. 105-164.44A is rewritten to read:

"§ 105-164.44A. Tax on motor vehicle items transferred to Highway Fund.--Sales and use taxes collected on motor vehicle items and accessories shall be transferred from the General Fund to the Highway Fund as follows:

On a quarterly basis during the fiscal year ending June 30, 1984, the State Treasurer shall transfer from the General Fund to the Highway Fund the amount of twenty-five million eight hundred thousand dollars (\$25,800,000), which represents fifteen percent (15%) of the estimated 1983-84 fiscal year sales and use tax collections from motor vehicles, motor vehicle parts, supplies, and accessories, and other transportation items. The quarterly transfers required by this section shall be made during September, December, March, and June of the fiscal year."

Part VII. Certificate-of-Need Fees.

Sec. 96. G.S. 131-177 is amended as follows:

(1) by changing the period at the end of subdivision (9) to a semicolon and adding the word "and"; and

(2) by adding a new subdivision to read:

"(10) Establish and collect fees for submitting applications for certificates-of-need, which fees shall be based on the total cost of the project for which the applicant is applying. This fee may not exceed fifteen thousand dollars (\$15,000) and may not be less than four hundred dollars (\$400.00)."

Sec. 97. G.S. 131-180 is amended by adding a new subsection to read:

"(c) All fees established by the Department for submitting an application for a certificate-of-need are due when the application is submitted. These fees are not refundable, regardless whether a certificate-of-need is issued."

Part VIII. Video Game Privilege License Tax.

Sec. 98. G.S. 105-66(b) is rewritten to read:

"The tax imposed under this section does not apply to machines and other devices licensed under G.S. 105-64, 105-65, or 105-66.1."

Sec. 99. Article 2 of Chapter 105 is amended by adding a new section to read:

"§ 105-66.1. Electronic video games.--(a) Every person, firm, or corporation engaged in the business of owning or operating machines that play electronic video games when a coin or other thing of value is deposited in the machine shall obtain from the Secretary of Revenue a statewide license for each machine owned or operated and shall pay a tax of fifteen dollars (\$15.00) for each license. An application for a license shall include the serial number of the machine operated. The licensee shall attach

the license to the machine in a conspicuous place. No person may allow an unlicensed video game machine in a place of business occupied by that person. Licenses issued under this section are not transferable from one machine to another. The Secretary may seize any machine not licensed in accordance with this section and may hold the machine until it is duly licensed. All machines licensed under this section shall have a counter that records the number of games played or the amount of money deposited in the machine, or both.

(b) As used in this section, a person, firm, or corporation is 'engaged in the business of owning an electronic video game machine' if he owns the machine and locates it in his own place of business; and a person, firm, or corporation is 'engaged in the business of operating an electronic video game machine' if he locates, exhibits, displays, or permits to be exhibited or displayed an electronic video game machine in a place of business other than his own.

(c) Counties, cities, and towns may levy a tax, not to exceed five dollars (\$5.00) per machine, on the business taxed under this section."

Part IX. Alcoholic Beverage Fees and Taxes.

Sec. 100. G.S. 18B-804(b) is amended by adding a new subdivision to read:

"(6a) An additional bottle charge for local boards of one cent (1¢) on each bottle containing 50 milliliters or less and five cents (5¢) on each bottle containing more than 50 milliliters."

Sec. 101. G.S. 18B-804(b) (8) is amended by deleting the phrase "ten dollars (\$10.00)" and substituting the phrase "fifteen dollars (\$15.00)".

Sec. 102. G.S. 18B-805(b) (2) is amended by adding a new sentence to read: "In addition to the taxes levied under Chapter 105 of the General Statutes, the local board shall pay to the Department one third of the mixed beverages surcharge required by G.S. 18B-804(b) (8)."

Sec. 103. G.S. 18B-805(b) (3) is amended by deleting the phrase "ten percent (10%)" and substituting the phrase "six and two-thirds percent (6-2/3%)".

Sec. 104. G.S. 18B-805(c) (1) is amended by inserting between the citation "18B-804(b) (5)" and the comma the phrase "and the bottle charge provided for in G.S. 18B-804(b) (6a)".

Sec. 105. G.S. 18B-902(d) (10) is rewritten to read:

"(10) Mixed beverages permit - \$750.00."

Sec. 106. G.S. 18B-903(b) is amended by deleting the phrase "fifty percent (50%) of the original fee" and substituting the phrase "five hundred dollars (\$500.00)".

Sec. 107. G.S. 105-113.86(a) (2) is amended by deleting the last sentence of that subdivision.

Sec. 108. G.S. 105-113.86(p) is amended in the first sentence by deleting the phrase "subsection (a)" and substituting the phrase "subdivision (a) (1)".

Part X. Effective Dates.

Sec. 109. Part I of this act shall become effective August 1, 1983, and shall apply to all actions initiated on and after that date. Part II shall become effective August 1, 1983, except that Sections 50 and 51 do not apply during the entire 1983 Session to any person registered under Article 9A of Chapter 120 of the General Statutes for the 1983 Session who registered before ratification of this act. Part III is effective upon ratification. Sections 54-60 of Part IV shall become effective January 1, 1984; Section 61 of Part IV shall become effective September 1, 1983, and shall apply to registrations issued on or after that date. Sections 62-85 of Part V are effective for taxable years beginning on or after January 1, 1983; Section 86 of Part V applies to taxable years beginning on or after June 25, 1983. Sections 87-94 of Part VI shall become effective August 1, 1983; Section 95 of Part VI is effective upon ratification. Part VII of this act is effective upon ratification and applies to applications received or processed on or after that date. Applicants for a certificate-of-need whose application was submitted but not processed as of the effective date of this act shall remit the fee imposed by this act within 10 days of notification by the Secretary of Human Resources of the amount of the fee. Part VIII shall become effective July 1, 1984. Part IX shall become effective August 1, 1983, except that Sections 105 and 106 shall become effective May 1, 1984.

In the General Assembly read three times and ratified, this the 8th day of July, 1983.

JAMES C. GREEN

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James C. Green  
President of the Senate

LISTON B. RAMSEY

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Liston B. Ramsey  
Speaker of the House of Representatives

## **Appendix E**

### **A Response to the Symposium by the Office of Budget and Management**



STATE OF NORTH CAROLINA  
OFFICE OF STATE BUDGET AND MANAGEMENT

JAMES B. HUNT, JR., GOVERNOR  
AND DIRECTOR OF THE BUDGET

JOHN A. WILLIAMS, JR.  
EXECUTIVE ASSISTANT TO THE GOVERNOR  
AND STATE BUDGET OFFICER

February 21, 1983

Mr. Ran Coble  
Executive Director  
N. C. Center for Public Policy Research  
P. O. Box 430  
Raleigh, North Carolina 27602

Dear Mr. Coble:

I want to compliment the Center on conducting its symposium on the 1983-85 budget. I think the review of the budget in this manner is most helpful to the general public and we strongly support these types of reviews.

I regret to say however that I am disappointed and surprised by the lack of knowledge of the budget process and the current budget demonstrated at the symposium. Without such knowledge, interpretations are wrong and comments relating to these interpretations misleading.

Your list of "expansion items" in the 1983-85 proposed budget is only one example of the lack of knowledge and interpretation of the North Carolina budgeting process. Many of the items which the Center listed as expansion items have been in the past continuation items without any dispute. I must point out that the Executive Budget Act states that the Governor shall submit a budget which reflects "increases and decreases" over the prior year's authorized level. The Executive Budget Act does not require the Governor to distinguish which increase (or decrease) is a continuation or an expansion item. Such a distinction has in practice, not law, been left to the Governor's judgment.

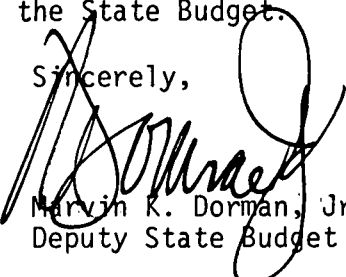
I read with interest the Center's policy questions and the alternatives relating to each. You will find that these and many other policy questions have in fact been spoken to in the proposed budget. I believe you will agree that an alternative to a policy question reflected in the proposed budget is not wrong just because it is different from one proposed by the Center. For

Mr. Ran Coble  
February 21, 1983  
Page 2

example, let's look at the policy question the Center raises in response to declining enrollments in public schools. The Center proposes as one alternative to reduce class size, with the result being to hold constant the number of teaching positions in the budget. This alternative is not a response to the State's educational needs in our public schools but rather is a response to a money and/or an employment policy question. This leads to another policy question: What formula (class size ratio) is used when public school enrollments begin to increase again?

Again, we support the Center's program of educating the public to important State matters. We do feel however that guest speakers should be knowledgeable and objective when speaking to the Governor's most important policy making document, the State Budget.

Sincerely,



Marvin K. Dorman, Jr.  
Deputy State Budget Officer

MKDjr/abf



NORTH CAROLINA CENTER FOR  
PUBLIC POLICY RESEARCH INC.

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March 4, 1983

Mr. Marvin K. Dorman, Jr.  
Deputy State Budget Officer  
Office of State Budget  
and Management  
Administration Building  
116 West Jones Street  
Raleigh, N. C. 27611

Dear Marvin:

I want to thank you for your letter on the N.C. Center for Public Policy Research's symposium on "The State Budget: Its Assumptions and Priorities." We agree with you that the budget is the Governor's most important policymaking document and hope the symposium contributed to the public debate about the budget.

I could tell from the wording in your letter, however, that you were unhappy with some of the things said at the symposium. Because of the great respect I have for you and John A. Williams, I want to respond to some of the points raised in your letter or by Mr. Williams in the press. Though we may still have some areas where we will just have to agree to disagree, I want you to know we try our best to serve the public honestly and responsibly--just as you do.

You stated that in such a symposium "the guest speakers should be knowledgeable and objective" when speaking on budget matters, and we agree. There were six guest speakers at the symposium. Since there has been no controversy that I know of surrounding the remarks of four of the speakers (Ron Aycok, Leigh Wilson, David Crotts, and Al Stuart), I'll speak to the knowledge and objectivity of Jack Brizius and Ken Howard.

Jack Brizius currently advises governors in five states on budget matters. He advises both Democratic and Republican governors. He has served as Deputy State Budget Officer in Illinois and thus has put together an \$11 billion budget there, just as you do in that same position here. You know Ken Howard, of course, having worked with him when he was North Carolina's budget officer. Ken is a registered Democrat who worked for a Republican governor and now serves as Executive Director for the Advisory Commission on Intergovernmental Relations, which has both Democrats and Republicans among its membership. Both men thus approached the N.C. budget with considerable budgetary expertise, in a nonpartisan manner, and with the ability to compare North Carolina's policies and practices with those of other states.



Mr. Marvin K. Dorman, Jr.  
Page 2  
March 4, 1983

The second criticism you had related to the list of expansion items done by the Center staff. You point out, quite rightly, that the Executive Budget Act does not require the Governor to distinguish which increases or decreases are "continuation" or "expansion" items. Though we may agree that a few of the 22 items listed might have been included in past continuation budgets, our purpose in developing such a list was to sharpen public discussion over what really should be considered "continuation" items or "expansion" items. In our opinion, items involving:

new positions (items 14 and 19);

new programs (items 10, 18, and 22);

rate increases (item 8);

increases in the funding levels of existing programs, beyond what would be required to continue them at the same level (items 12, 17, and 21); and

policy decisions that reflect a change in the state's role in funding a program (item 5)

may properly be considered "expansion" items.

To ask whether some budget proposals aren't "expansion" items instead of "continuation" items is not to say they should not be funded. Indeed, we think many of these proposals should receive favorable consideration by the General Assembly, such as the math and science education proposals and the use of new state funds to offset federal cutbacks in the Coastal Area Management Program. You and I would probably disagree over whether the shift to fund the operation--as opposed to the construction of the Microelectronics Center--is an expansion item, but hopefully it is healthy to the public and General Assembly to recognize this as a policy decision. All of the items in this list were reviewed with staff in the executive agencies prior to the symposium and most of the items were actually suggested to us by those staff persons.

The third point you raised had to do with the policy questions raised in the handouts, saying "an alternative to a policy question reflected in the proposed budget is not wrong just because it is different from the one proposed by the Center." I couldn't agree more. The handouts reflect exactly that: questions. As with the expansion items, our highlighting of certain parts of the budget does not necessarily mean we think the policy in the recommended budget is wrong; it just means that the budget reflects a policy choice. In fact, that was the purpose of the whole symposium: to help people realize what you and John A Williams already know--that the budget is not just an accounts ledger, but a policy document setting forth the state's priorities and economic assumptions.

The particular example you discussed in your letter--possible responses to declining school enrollments--you characterized as "a response to a money and/or employment question" and not a response to the State's educational needs. I

Mr. Marvin K. Dorman, Jr.

Page 3

March 4, 1983

would argue with you a bit here in that Governor Hunt himself has advocated decreasing class size as a way to improve public school teaching and student learning, so there is an educational issue here. And, another speaker at the symposium, Dr. Al Stuart of UNC-Charlotte, pointed out the fact that school enrollment is expected to begin to rise again after 1985.

Finally, John A. Williams' comments in the press seemed to evidence a concern about whether speakers at the symposium were accusing the Administration of engaging in deficit spending. Some of the problem may be caused by the fact that budget office representatives were not at the symposium and having to respond to news reports of what occurred. If you would like a copy of the transcript when it is published, we would be glad to provide it.

Nevertheless, I have just read the transcripts of the proceedings to make sure that no one made such an accusation. I found that the phrase "deficit spending" was used only once, and then only in the context of questioning whether the state should budget down to a \$900,000 credit balance over the next biennium. Jack Brizius likened the budget to a "jigsaw puzzle with missing pieces," but this was in the context of talking about some policy questions facing the General Assembly--where to find the federal highway match, whether the budget's proposals in the capital area were adequate, etc. Jack contrasted the N.C. proposals with those of other states, but he went out of his way to say that North Carolina's revenue problems were mild compared with other states. In words much like those attributed to John A. Williams, Brizius said "The good news is that you (in North Carolina) are far better off than many, many other states."

Marvin, I have replied at such length because of the great respect I have for you and your work. I also wanted to assure you that the symposium featured responsible speakers backed by responsible research. There are areas where the Center for Public Policy Research will agree with the Administration's budget proposals and areas where we will have to agree to disagree. But through all of that, I want you to know that we respect you, think highly of you, and hope to work with you in the future.

I'll close with the same words we used to close the symposium. Quoting Mortimer Adler on a recent public television series, Bill Moyers stated, "Everyone is called to a common human vocation--that of being a good citizen and a thoughtful human being." We hope the Center's symposium met both standards.

Best regards,



Ran Coble  
Executive Director

RC:ph

**Appendix F**  
**Coverage of the Symposium by State News Media**

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FEB 27 1983

Community is mystifying. A  
157-320

## North Carolina Today

# Dix Dispute

**R**ALEIGH — The political fight that erupted over the proposed closing of Dorothea Dix Hospital in Raleigh earlier this year may have been just the first of many such debates North Carolina will see in coming years. Because of "mainstreaming" educational programs and deinstitutionalized mental health care, many spaces in special state schools and hospitals are empty. It can't be very long before public officials begin questioning the need to keep all these facilities open.

At a budget seminar sponsored by the N.C. Center for Public Policy Research, Ran Coble, center director, raised the question last week. Can the state afford to keep all its institutions within the Department of Human Resources open when almost all of them have seen their average daily populations drop during the past decade?

With Dix, DHR proposed closing the hospital because modern drugs have made possible the treatment of most mental patients in local facilities. Those who could not have been treated in local facilities, DHR said, would have been transferred to other state institutions. Gov. Jim Hunt, after hearing an outcry from those who opposed the Dix closing, decided to keep it open but to share the facilities with the Department of Correction.

In his seminar presentation, Coble asked, "Should the state fund four mental hospitals, four

# Foreshadows Other Battles

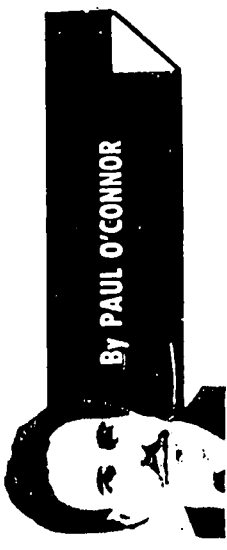
These are not inexpensive places to operate. The four mental hospitals are budgeted to receive almost \$91 million in the 1983-84 budget, Coble reports. The mental retardation centers are pencilled in for \$35 million. Are there significant savings to be had by closing some of these facilities and making better use of the space available in those left open?

Coble cites two roadblocks to those closings. Both were quite apparent in the fight over Dix.

**F**irst, if state institutions are closed, more people will be shifted into community programs. County officials can be expected to make a strong case against that added burden on their budgets. In the Dix case, much was made of the degree to which Wake County depends on that hospital. But, in the end, the state put Wake on notice to beef up its own programs.

Second, local legislators will work hard to protect the jobs of people who work in these facilities. In the Dix debate, the Wake County delegation went to bat for 1,300 voting state employees who would have either been transferred or who would have lost their jobs.

North Carolina is approaching the time when the Legislature will have to decide if the state can afford a dual system of community programs and state institutions which are not being operated to their best efficiency.



mental retardation centers, three schools for the deaf, one school for the blind, five youth training schools, three alcoholic rehabilitation centers, one special care center and two specialty hospitals in light of the declining populations due to mainstreaming and community based programs begun in the 1970s?..

Gene Douglas, state mental health director, answered that question during the Dix debate. He said the state stood a chance to save \$6 million this year by closing Dix. In the future, he saw the opportunity to close other state mental hospitals — we have four altogether — as the institutionalized population drops from the current level of 3,000 level to maybe only 500.

According to Coble's figures, other institutions have also seen dramatic decreases in population lately. The state's four mental retardation centers had a total population of nearly 5,000 in 1970. In 1982, that count is down to about 3,000. The population in the state's training schools has dropped from 1022 in 1973 to 722 in 1981.

## Budget Proposal Would Spend Money N.C. Doesn't Have

By JACK CLAIBORNE  
Observer-Association Editor

RALEIGH — North Carolina's official motto may be *esse quam videri* — "to be rather than to seem" — but that dictum is not reflected in the proposed state budget for spending \$6.2 billion in the next fiscal year and \$6.4 billion in 1984-85.

Dr. Jack Brizius, budget consultant to the National Governors' Association, says the proposed budget, prepared by Gov. Jim Hunt and the legislator-dominated Advisory Budget Commission, is "not a budget at all" but is more like a giant jigsaw puzzle with several critical pieces missing.

And, in dipping heavily into fund balances for the past couple of years, he said, the state — whose Constitution requires a balanced budget — has been

spending more than it has taken in. Brizius and other independent analysts presented such views at a symposium sponsored this week by the N.C. Center for Public Policy Research, a private, nonpartisan, nonprofit agency.

The analysts say that what you see in the proposed state budget is not necessarily what you might get. In several instances, they say, the budget calls for spending money the state doesn't have, and in others it fails to account for expenditures the state must make.

Brizius cites the budget's call for removing the freeze on salaries of state employees, teachers and professors, but the absence of \$95.5 million to cover the cost of lifting the freeze next year and of the \$207.1 million it will cost in 1984-85.

He also notes a lack of \$53 million the

### A News Analysis

state will need to match increased federal grants for highway improvements and the lack of \$50 million to \$100 million in capital improvements needed to maintain state buildings.

Finally, he says, the budget makes no provision for a surplus from which to meet contingencies or to tide the treasury over from one fiscal year to the next. On June 30, 1984, the state's bank balance might be zero, he says, though prudence would recommend a General Fund balance of about 5% (or \$185 million).

By dipping into its surplus in recent years, the state has built in spending that makes balancing this year's budget more

difficult, he says, and also has established a pattern that could soon create in North Carolina the kind of billion-dollar deficits that now confront states like California and Michigan.

He notes several policy contradictions within the budget, including heavy expenditures to attract high-technology industry at the same time that internal pressures are diverting money from education to public safety and prisons. Education's share of the General Fund has actually declined, he notes, asking: How will the state train workers for the computer industries it hopes to attract?

Another analyst, Dr. Kenneth Howard of the U.S. Advisory Commission on Intergovernmental Relations, cites a number of important policy issues hidden in the columns of budget figures. For in-

stance, in failing to address fiscal needs of the university system and the community colleges, the budget is probably creating pressures for a round of significant tuition increases, he says.

Also, in freeing the university system's board of governors from any oversight over state aid to private institutions, he says, the budget greatly strengthens the lobbying hand of private colleges and universities, which are requesting more state aid.

He notes, too, that the budget says nothing about prison overcrowding, yet projects a significant increase in prison

See BUDGET Page 14A

A related editorial is on Page 16A.

## Budget Plan: Missing Pieces

Continued from Page 1A

populations. Can the state afford not to confront that explosive issue? he asks.

Further, Howard noted rising expenditures — soon to total \$43 million — for the development and operation of a microelectronics center and asks whether the state really wants to "put all its chips on the chip."

Finally, he notes that the state's share of Medicaid costs is rising faster than revenues and inflation, and warned that within two to three years, those costs could endanger the state's AAA credit rating.

Other speakers — Including

Ran Coble, director of the Center for Public Policy Research; Ron Aycock, director of the N.C. Association of County Commissioners, and Leigh Wilson, director of the N.C. League of Municipalities — warn that the dynamics of state and federal funding formulas are forcing higher spending obligations on city and county governments without identifying alternative sources of local revenue.

Already, says Aycock, more than 75% of the \$979 million raised and spent by county governments in the state goes to support state programs.

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## Independent analysis vital

# Budget tells much about people, priorities

Increasingly, the N.C. Center for Public Policy Research has filled a void that long existed in this state. Until the center got started in the late 1970s, newspapers and the Institute of Government in Chapel Hill provided just about all of the analysis of state government and politics. North Carolina had a need for more public affairs research independent of the participants themselves.

The most recent example of the N.C. Center's attempting to fill that need came this week at a symposium on the state budget. The symposium set off a minor squabble with the governor's office.

Governor Hunt has emphasized that his proposed budget contains only "one expansion item" — lifting the salary freeze for state employees and teachers. But Ran Coble, the center's executive director, challenged the governor's assertion by pointing out that the budget contains items of expanded spending and by saying, "What you see is not always what you get."

That judgment was a bit harsh. Even if the budget document terms them "increases over 1982-83 in the continuation budget," anyone who reads beyond the rhetoric could readily see that there are more than 20 items of additional spending. Though not called "expansion" items, they were not hidden.

Still, it is important that someone outside the executive branch and outside the Legislature read beyond the rhetoric. Here are some of the insights that emerged from the center's effort to bring independent analysis to bear:

- Everyone knows that the North Carolina Constitution requires a balanced state budget, in which spending does not exceed revenue. It is not as widely recognized, however, that the Legislature appropriates money before it knows how much revenue will be collected. Thus, the Legislature enacts an appropriations bill that



balances spending with estimated revenue.

And, as former state budget officer S. Kenneth Howard pointed out, "No matter what your revenue estimates are, they're wrong." Differences in revenue estimates are at the heart of the current budget deliberations. The state budget office produced estimates based on economic calculations last November. The legislative Fiscal Research Division produced estimates based on January calculations. They are about \$96 million apart. The question now facing the governor and legislators is not so much whether the state has a "deficit" on paper but, as Howard said, "What assumptions do you want to die by?"

- The center has spotlighted a major lingering issue in the substantial decline in the state's spending on capital construction and maintenance. In 1973-74, capital improvements accounted for 17.4 percent of the total authorized state budget, but after a steady year-by-year erosion, that figure dropped to 5.6 percent in 1981-82.

Coble offered this illustration: The Department of Human Resources has 1,100 buildings with roofs. Assuming a 20-year life-span, he said, the state should repair 55 roofs a year. But there are no funds for such maintenance in the proposed budget. "To postpone what should be routine maintenance will cause later repairs to be more expensive," says a center analysis.

- The state budget, as Howard shrewdly observed, reflects the political fact that North Carolina has its priorities "pretty

well worked out." This is a budget, he said, "that doesn't want a lot of controversies."

Still, both Howard, who was budget director in the Holshouser administration and is now executive director of the U.S. Advisory Commission on Intergovernmental Relations, and Dr. Jack Brizius, a consultant who specializes in state budgets, cited some budget items that tell a lot about the state's people and their priorities.

For example, the percentage of state spending going to education has been declining. Mostly, said Brizius, that is because the growing elderly population and the public desire for a crackdown on crime have driven up expenditures for prisons and medical care.

If you want to see how federal budget cuts, inflation and poverty in the state can propel a budget, look at Medicaid, the program of health care financing for the poor. The budget anticipates a \$205 million increase in Medicaid spending in North Carolina in the next two years.

If you want to know how high a priority Governor Hunt places on recruiting high technology industry, look at spending for the Microelectronics Center — \$17.3 million recommended to add onto the \$25.6 million appropriated for 1981-83. That \$43 million total, said Howard, "is big bucks — it takes my breath away."

These are the kinds of issues a budget raises, and it is in the state's best interest to have them examined independently. The state has some tough choices to make and priorities to set — raise taxes? find alternatives to prison? curtail or eliminate some programs in order to pick up federal cutbacks? — and it would be a shame to have that obscured by a squabble over whether expanded spending was put in the continuation or expansion parts of the budget.

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FEB 18 1983

## N.C. Budget Process Is Called 'The Envy Of Every Governor'

RALEIGH (AP) — North Carolina's budgeting process — which received criticism at a symposium earlier this week — is "the envy of just about every governor in the nation," says state budget officer John Williams.

"There's not a state in the Southeast in as sound condition as we are in," Williams said Thursday. He said the state's 1983-84 budget will be balanced.

Criticism of the budget process came from several speakers at Monday's symposium by the N.C. Center for Public Policy Research, a private, nonprofit, nonpolitical organization that studies state government.

Jack Brizius, a budget consultant to the National Governors Association, characterized North Carolina's proposed budget as "not a budget at all, but is more like a giant jigsaw puzzle with several critical pieces missing."

Kenneth Howard, a former budget officer under Republican Gov. Jim Holshouser and now a member of the U.S. Advisory Commission on Intergovernmental Relations, said a number of important policy issues are hidden in the budget.

In all, seven persons participated as speakers at the symposium. Invited to the symposium were members of the governor's office, the General Assembly, journalists, lobbyists and legislative staff.

Williams's deputy budget director, Marvin Dorman, was invited to speak at the symposium but declined because of the press of work in his office, said Ran

Coble, director of the center and organizer of the symposium.

Williams disagreed with assertions made by speakers at the symposium, including a charge that North Carolina has spent its credit balance over the years.

Williams contends the state ended last fiscal year June 30 with a credit balance of \$108 million, more than Gov. Jim Hunt inherited in 1977. Ending this year with no credit balance is not a disgrace given the state of the economy, Williams said.

"The cost of state government is a level, continuing thing," Williams said. "The economy rises and falls, with peaks and valleys."

Williams also said the state has no credit balance as such, because any unspent money is turned over to the General Assembly at the end of the year and is built into the next year's budget.

Williams said Brizius was wrong when he stated at the symposium that Hunt had not accounted for money to lift the pay freeze for state employees and teachers.

"There is a budget item for lifting the freeze. That is the expansion budget. That is covered fully in the expected revenues," Williams said.

In answer to an assertion by Brizius that Hunt's budget doesn't include about \$50 million the state will need to qualify for federal highway funds made available by the 5 cents per gallon increase in gasoline taxes, Williams said the tax increase wasn't passed until after Hunt's budget went to print.

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## Tar Heel Talk

# Spending \$12.6 billion isn't easy

By JACK BETTS

Daily News Editorial Writer

RALEIGH — One of the more caustic wits among the Capitol Press Corps used to rate legislation according to what he called its MEGO factor.

MEGO stands for My Eyes Glaze Over. And a bill with a high MEGO rating meant that just as soon as you started reading through its arid legalisms and obscure references to the N.C. General Statutes, your eyes would glaze over and you wouldn't know what in the world the danged thing would do — or why.



Betts

State budgets have a high MEGO factor. In fact, if you've got insomnia, the very thing to help you sleep is to pick up the General Government section of the budget and try to read. Very soon, your eyes will glaze over and off you'll float to dreamland.

That's why it often takes folks like the people at the N.C. Center for Public Policy Research to take a hard look and find out what's in the budget — and what's not. This they have done, and they discovered some clever things about our \$12.6 billion biennial blockbuster.

The center, a non-profit, non-partisan research agency that examines questions of public policy in this state, put on a seminar the other day, and scads of people showed up — including a number of legislators who were just as anxious to find out what was in the budget as the reporters, editors, lobbyists and others who attended.

What they found out could fit under several loose labels. The first of these is **The Jigsaw Puzzle**. This observation, developed by Dr. Jack Brizius, budget

consultant to the National Governors Association, contends that the 1983-85 N.C. budget package is not so much a budget as it is "a giant jigsaw puzzle with several critical pieces missing."

Gov. Jim Hunt's budget office came up with the shape of the jigsaw puzzle, but apparently left it to legislators to discover the missing pieces — and to figure out their size and shape.

Among the missing pieces is how to pay for Hunt's proposed thawing of the freeze on state salaries. It's a matter of how to come up with the \$96 million next year and the \$207 million the following year to pay for it. That's a very big missing piece indeed.

Another missing piece is \$53 million the state needs to match increased federal contributions for highway improvements. Yet another is up to \$100 million for maintaining state buildings each year.

Another revelation about the budget can be described as **What You See Isn't What You Get**. Remember when Hunt told the legislature that this was the tightest, most austere budget ever? And that there was hardly any new, or expansion budget spending?

The fact is, there is at least \$451 million in expansion-budget spending over the next biennium, and not all of it is related to salaries, either. There's a little matter of \$26.8 million for school bus replacement and \$22.8 million for textbooks; \$3.6 million for indigent legal counsel; \$2.3 million for mentally retarded group homes; nearly \$6 million for emotionally disturbed "Willie M." patients; \$11 million for completion and operation of the microelectronics center.

Oh yes. And \$1.9 million for new employees in the state Department of Revenue to improve tax collections and sniff out cheating.

The state maintains that this really isn't an expenditure because the new tax

collectors will bring in a lot more money than it will cost to hire the collectors. If that's the case, one budget analyst wryly noted, why not hire about 750 new revenue agents and the state's money worries will be over.

So what you see in the state budget is not necessarily what you're going to get. But try not to think about that when you're filing your tax return for 1982. It'll just keep you from sleeping.

Finally, there is this question: **Is This Budget Really Balanced?** On paper, of course, it is, but everyone knows that the state budget is drawn up, debated and approved on the basis of revenue estimates. As former N.C. budget officer Ken Howard told the seminar, "No matter what your revenue estimates are, they're wrong."

Thus, sometimes the state has money left over, as it has in recent years, or it takes in less money than it needs. That's what may happen that year, and that is why there is such a fuss over money. And that is why the legislature has to do some tinkering with figures just about every year to make sure it doesn't spend money it doesn't have.

Usually, there's a built-in budget reserve of sorts, referred to as a credit balance. It ought to be at least 5 percent to serve as a sort of cushion against hard times. This year, the estimate is there will be less than a 1 percent credit balance, and next year, none at all. Zilch. Doesn't that mean, then, that the state will have spent more than it took in? Is that a balanced budget?

Yes, and yes. And it also means there won't be any beginning credit balance for 1984-85, either. But by January of 1985, Hunt will be out of office, and it will be somebody else's problem then. And there will be a new state budget to analyze — and probably a pretty high MEGO factor, too.



# The state budget: Maintaining austerity

## Between Hunt and the legislature discrepancies lie

By CHUCK ALSTON  
Raleigh bureau

RALEIGH — There is history in the raw January air.

The big brass doors swing open, and ap-  
pear, sweeps Gov. James Hunt toward the  
well of the legislative House chamber. The  
governor beams enthusiasm, but bad times  
dog his steps. A quarter-million constitu-  
ents lack jobs. Even winter, for so long un-  
seasonably warm, has turned decidedly  
grim.

"As we meet tonight, the cold winds of a  
national recession are blowing through  
nearly every home in North Carolina," Hunt  
tells this joint session of the N.C. General  
Assembly last month. It is his fourth and  
final State of the State address, his last bud-  
get. Cautious, yes, but Hunt still exudes  
characteristic optimism.

"We don't have to have more money to do  
what we need to do in North Carolina," Hunt  
says. This budget, he continues, "is  
based on a careful strategy of investing in  
education and economic growth, in more  
jobs and better schools."

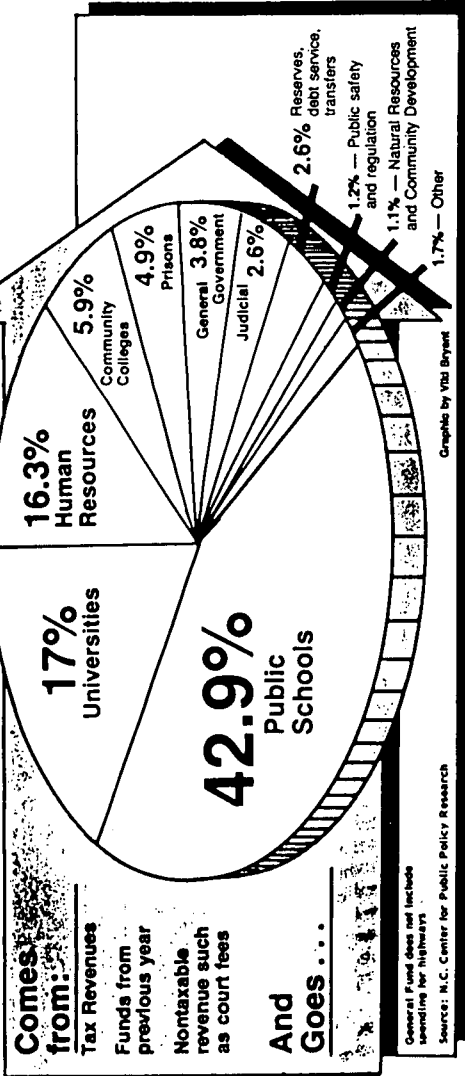
For the first North Carolina governor to  
succeed himself since Zeb Vance, the last  
budget precludes no dramatic exit. Rather, it  
is a struggle to maintain. It is, the governor  
says, "the most austere North Carolina has  
seen in a decade."

\*\*\*  
Twelve hours later, the budget belonged  
to the legislature.

"In one sense, the executive branch pun-  
ted," Jack Brizius concludes a month later.  
Brizius, a consultant to the National Gover-  
nor's Association and budget adviser to gov-  
ernors in Alaska, California, Massachusetts,  
Minnesota and New Hampshire, was one of

## N.C. General Fund

**Comes from:**  
Tax Revenues  
Funds from  
previous year  
Nontaxable  
revenue such  
as court fees  
**And Goes . . .**



several experts gathered last week by the  
locally based N.C. Center for Public Policy  
Research, a privately financed organization,  
to interpret the Hunt budget.

With Ken Howard, budget director under  
Gov. James Houshouser, and Ran Coble, the  
policy center's executive director, Brizius is  
picking this budget apart — piece by piece.

The good news, Brizius says, is that  
things could be worse. Consider California's  
\$1.6 billion deficit. North Carolina's budget  
is, by law, balanced. But the bad news is  
that, like a giant jigsaw puzzle with some of  
the pieces missing, the budget fails to ad-  
dress key issues.

But this group is meeting at the Wake  
County Courthouse, not the Capitol or Leg-  
islative Building, a significant difference.  
Removed from the politics (they didn't  
promise not to raise taxes), the distance al-  
lows nitpicking. It also offers perspective,  
and to them, the budget is at least as impor-  
tant for what it does not do as for what it  
does.

the freeze on state employees' salaries.  
Says Williams: "We deliberately went to  
the top of the scale in our revenue esti-  
mates." The reason, he says, is experience  
the administration gained this year, when  
revenues failed to meet projections and the  
governor ordered a 6 percent cut in agency  
budgets. "We believe, and the governor is  
real strong on this, that as a result of get-  
ting this kind of flexibility, we were able to  
deliver much better programs."

Ken Howard has faced similar situations,  
and of the revenue projections, he says,  
"They're wrong, no matter what you do. So  
it's a matter of 'what assumptions do you  
want to die by.'"

The situation is analogous to 2-plus-2, and  
having a range of 3 to 4.5 for the answer.  
And the issue begs the question of whose  
budget is it: the executive or legislative  
branch?

Optimistic revenue projections allow the  
administration to choose where the ax falls,  
should later cuts become necessary. Legis-  
lators want to keep the discretion.

So the Hunt administration, then, stakes  
the budget not only on what may be an opti-  
mistic view of the economy, but on a belief  
that it can manage the budget better than  
the legislature.

"Why not be more realistic to begin  
with?" asks Sen. Elton Edwards, D-Guil-  
ford, co-chairman of the Senate Base Bud-  
get Committee. "It's important that we call  
things what they are."

\*\*\*  
Consider this, says Ran Coble, "What you  
see is not always what you get."

The appearance of the Hunt budget — it  
identifies only expansion items — doesn't  
agree with reality, Coble argues. The ad-  
ministration cites the salary increase —  
\$85.9 million in 1983-84 and \$207.1 million in  
1984-85 — as the only expansion request.  
Coble, however, raked from the budget \$60  
million worth of new items in the first year  
alone, such as a writing test for public  
schools, grants to fire districts and the re-  
placement of one-twelfth of the school bus  
fleet.

In the legislature, budget leakers plan to  
(See Budget, C6)

the N.C. Microelectronics Center, modest  
new amounts for training equipment at com-  
munity colleges; and a program to train  
math and science teachers in secondary  
schools.

● Protecting the old, sick and young —  
essentially the maintenance of social ser-  
vices programs.

● A pay raise for state employees, whose  
salaries were frozen last year.

But the budget must live within its reve-  
nue, and 12 hours after Hunt's address, in  
the legislature's Joint Appropriations Com-  
mittee on the Base Budget, the adminis-  
tration's revenue projections were under fire.

By the administration's calculations, reve-  
nues will grow by about 8.8 percent next  
year, following a 6.1 percent increase this  
year. The legislature, however, sees more  
modest growth of 5.2 percent this year and  
7 percent next year.

Significantly, the discrepancy is worth  
\$92 million, close to the money needed to lift

# Budget

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From C1

call a rose a rose, examining each program from scratch. But the task is harder to accomplish than it is to describe. Sorting through each line item, in effect, justifying each program, is an enormous task.

What Coble is getting at is that, before looking at the numbers, study the budget's assumptions, priorities and definitions. And Brizius describes the key policy choice as "education versus everything else."

In the past decade, public schools, community colleges and universities have gradually lost ground, on a percentage basis, to other state functions. In their simplest terms, the figures ask the question: Is education less important than it was 10 years ago?

In short, you get only what you pay for, and never is it more apparent than in a recession. Moreover, what the governor did not say that January night is that with his budget, roofs may leak, overcrowded prisons will get more so and city sewer systems at capacity won't expand.

So barring a dramatic turnaround in the economy by spring, when the administration will revise its revenue estimates, the budget will leave much undone. The result is a series of questions about policy and politics.

Among them:

● The prison system. This year, the inmate population is expected to increase by another 1,500 to 18,500. The 85-unit system, designed to house 14,500 prisoners, is stretching at the seams.

"I would suggest it's a time bomb," Howard says.

Rae McNamara, director of the state's division of prisons, hasn't gone that far, but she recently told a House committee that the overcrowding makes rehabilitation practically impossible.

Two recently built prisons in Greene and Rockingham counties cost the state \$75 million. But, with other facilities closing, the system's capacity increased by only 450 beds.

The new budget sets a policy of building no new prisons. The alternatives: Find alternatives to prisons or allow the overcrowding to continue.

● Medicaid costs. The state's elderly population continues to increase faster than the national average. By 1992 the over-65 population is expected to increase another 42 percent. The result is that Medicaid costs continue to skyrocket, straining the state's resources. In the 1981-82 budget, the state spent \$132.1 million for Medicaid. By 1984-85, the cost is expected to reach \$196.5 million.

At issue is whether and how the state should work to hold down medical costs. For starters, the state has put a freeze on new nursing home beds to force more patients to receive care at home, and thus decrease costs. But the costs will nevertheless continue to rise.

● Capital improvements. Public schools alone have identified \$1.8 billion in construction or maintenance needs. Additionally, various state agencies identified \$142.6 million for repairs and renovations. The governor's budget recommends no money for capital improvements.

Will the roofs leak? In the Department of Human Resources, for example, there are 1,100 buildings. Assume a 20-year life for each roof, and logic says you replace 55 each year. Wait, and the repair costs grow.

That politics imposes tough choices on budget policy is illustrated by the recent decision not to close Dorothea Dix Hospital. At issue in part was the state's poli-

cy of promoting community-based mental health programs, which mean fewer patients go to institutions like Dix.

So the administration initially proposed closing most of Dix as one way to unlock funds for community-based programs. In the end, the political support for Dix was overwhelming, at least part of the reason Gov. Hunt shot down the plan.

Still, the question won't go away, and not only at Dix. If the state continues to promote community programs — whether in mental health, mental retardation, alcoholic rehabilitation, deaf and blind or juvenile delinquents — some state institutions must eventually be closed or put to other uses. Otherwise, says Coble, "You're going to pay for a dual system. I question whether the state can afford that."

...

"I've been here when we couldn't spend all the money," says Sen. Harold Hardison, D-Lenoir, chairman of the Senate Appropriations Committee. "But when money is scarce, you scrutinize your programs."

The Hunt administration will fight heavy cuts, but it won't make the case for a tax increase, Williams says. "We're not looking for alibis; we'll do the job with what we have."

And though legislators want 3 percent of the budget targeted for elimination, should the recession linger through the spring, there is support for raising taxes anyway.

Nevertheless, Edwards says: "Nobody is pretending we can meet all the needs in the state. It's a matter of how much. When times get better, we can always go back."

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Editorials

## Deficit Spending? *N.C. Budget Out Of Balance*

North Carolinians should ask that Monday's symposium on the state budget, sponsored by the private, nonprofit N.C. Center for Public Policy Research, become an annual event. It was an eye-opening session, even for some state legislators. And until the governor and legislative leaders reform the state's budget-making process, such programs may be the citizen's only hope for an arm's-length assessment of state spending plans.

The symposium focused on several budgetary problems that, while recognized by legislative leaders, have not been widely discussed or understood elsewhere. For example, the proposed budget lacks:

- \$95.5 million in 1983-84 and \$207.1 million in 1984-85 to pay for lifting the freeze on salaries for state employees, teachers and professors.
- \$53 million for matching increased federal money for highway construction.
- \$185 million for a recommended 5% fund balance for contingencies and to assure an adequate cash flow from one fiscal year to another.
- \$50 million to \$100 million for capital improvements that are needed to maintain current state facilities.
- \$500,000 to cover costs of health insurance for retired state employees and teachers for the rest of this fiscal year and \$2.5 million similar costs in the next fiscal year.

The budget is based on revenue projections that may be far too optimistic. Without new taxes or spending cuts, it will continue to deplete the state's fund balance, or surplus, which amounts to deficit spending. It violates the spirit, and may end up violating the letter, of North Carolina's constitutional mandate for a balanced budget.

Analysts pointed out that North Carolina's situation is not as dire as

those of states like California and Michigan, which face deficits of \$1 billion or more. But they warned that continued raids on the fund balance could put North Carolina in such shape in a year or two.

Many legislators are already worried over that and are looking for the least painful combination of spending cuts and tax increases that would produce a balanced budget.

But those were not the only revelations of the budget symposium. The independent analysts also indicated that state Medicaid costs were rising faster than inflation or tax revenues; that pressures to control crime and expand prisons threaten to divert resources from education and social services; that state and federal spending patterns threaten to increase the burden on city and county governments and local property taxes.

These trends don't get enough attention because the governor and legislative leaders are partners — through the appointed Advisory Budget Commission, which includes key legislators — in drawing up the budget, though the Constitution gives that authority to the governor alone. With both the executive and legislative branches having vested interests in minimizing challenges to the budget, decisions are often made without adequate public debate.

Perhaps the system, in blurring executive and legislative budget responsibilities, is as much to blame as the governor or any legislator. But, whatever the system's faults, Gov. Hunt and the legislature owe the people of North Carolina a budget that sets clear priorities and matches them to revenues. Otherwise, the legislature is left to enact spending cuts that may be more expedient than wise, and new taxes that may fail to address the state's most pressing needs.

# Stop raids

## *Surplus dipping has budget out of whack*

A balanced budget isn't always what it seems.  
When it's not, there's cause for alarm.  
Be alarmed.

Three weeks ago, columnist Paul O'Conner pointed out on this page that the state budget as proposed by Gov. Jim Hunt and the Advisory Budget Commission calls for spending money we don't have—we being the taxpayers of North Carolina. Remember that by its constitution, our state can't have deficit spending—the budget must be balanced.

But the state has been spending more than it has taken in, dipping heavily into fund balances for the past two years. It can't continue, lest the surplus kept in reserve for emergencies and other unbudgeted expenditures be wiped out, putting the state in a critical financial situation.

That was brought home poignantly this week by independent analysts of the private, nonpartisan N.C. Center for Public Policy Research. In a symposium, one analyst likened the proposed budget to "a giant jigsaw puzzle with several critical pieces missing."

Missing pieces? For example, the analysts (and some legislators) say that the budget calls for removing the freeze on salaries of state employees, teachers and professors, but the \$95.5 million to cover the cost of lifting the freeze next year and the \$207.1 million it would cost in 1984-85 aren't there.

Neither does the state have the \$53 million it will need to match increased federal grants for highway improvements, nor the \$50-100 million for capital improvements needed to maintain state buildings, the analysts say.

The budget also lacks \$185 million for a 5 percent fund balance for contingencies, generally recommended to assure adequate cash flow from one fiscal year to the next.

Raiding the fund balance and overspending revenues must stop lest North Carolina find itself in the sad shape of states like California, which, facing a \$1 billion deficit, may delay income tax refunds due its citizens this year.

The governor and General Assembly should get together and produce a budget with expenditures to match realistic expectations of revenues. That means setting priorities and either cutting spending or raising revenue through the tax structure.

On the tax side, two proposals merit legislative action — passing Se. George Marion's bill to raise the tax rate on alcoholic beverages and restructuring the income tax schedules, which now tax the rich at the same rate as people who make \$10,000 a year.



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