



Governor's budget recommends reducing lottery proceeds for school construction by 25%

When combing through summary budget documents, we noted with dismay that the governor's budget recommended a decrease in the statutory set-aside of lottery funds for school construction as part of his \$20 billion budget proposal. Current law dictates that 40 percent of Education Lottery Fund receipts go to school capital needs. The governor's budget proposes lowering the amount to 30 percent, while increasing the allocation to the state's early education initiatives. If the budget estimate of \$1.5 billion for lottery sales is realized next fiscal year, counties would lose \$44 million with more losses in future years, despite facing \$10 billion in school capital needs over the next five years. The proposal would require General Assembly action to implement a change in the existing allocation.

Also of concern to counties is the budget recommendation to levy a statewide \$2 per ton landfill tipping fee to support assessment and remediation of abandoned landfills and hazardous waste sites. This would be in addition to any fee levied by counties to support landfill operation and availability.

Governor Easley's budget did not offer up any concrete plans for county Medicaid relief. In response to the first question at his budget press conference, the governor reiterated his charge to the State and Local Fiscal Study Commission to bring forth a county Medicaid relief plan next month. Failure to reach consensus on such a plan would prompt the governor's office to release its own county Medicaid relief proposal.

The governor's budget contains a number of recommended tax changes, including retaining the quarter cent sales tax and the upper income personal tax bracket set to expire July 1, providing \$300 million in additional revenue. The budget does not include an earned income tax credit program but instead proposes eliminating or lowering state income taxes for 1.2 million individuals and families making \$25,000 or less.

All told, the \$20 billion general fund budget would increase state spending by 7.2 percent or \$1 billion, excluding capital expenditures. Some of this increase is being fueled by over-collections in revenues this year exceeding \$825 million, along with baseline revenue growth at 2.2 percent for next year. Over-collections come from personal income taxes largely driven by non-wage income such as capital gains, which are up 6.2 percent over last year and \$291 million above the estimate, and corporate income taxes, which are 15.2 percent above last year. More modest gains are anticipated in personal income taxes next year, while corporate taxes are expected to decrease. Statewide sales taxes are expected to slow to 2 percent next year, tracking the slowing housing market.

Teachers would receive salary increases averaging five percent, with a step increase plus a flat \$1,240, to bring their salaries above the national average by 2008-09. School administrators would receive an average 4.44 percent increase. State employees and university faculty would get 2.5 percent, with an additional 2.5 percent going to full-time community college faculty and professional staff. In all, state salary enhancements would consume more than \$394 million from the general fund. State retirees would receive a 2 percent COLA, requiring a \$27.2 million appropriation. State employer contributions for employee and retiree health costs would cost \$258 million over the biennium, with the state facing a 12.3 percent increase in health premiums.

New funding initiatives focus on higher education and increased court and public safety funding. A \$1.4 billion bond referendum would be offered to voters in November 2007. Proceeds would build UNC facilities, additional prison capacity, state buildings, and \$250 million in water and sewer improvements. The following highlights those expansion items of interest to counties.

Education

Much of the governor's new funding is directed at his education initiatives and increased enrollment in public schools, community colleges and universities. Of particular interest are plans to increase the educational attainment of North

Carolina by expanding the Learn and Earn High School/Community College initiative and providing a \$4,000 college tuition grant to 25,000 students (families earning less than 200 percent federal poverty guidelines) to complete a four-year degree without incurring debt (\$50 million in 2007-08 and \$100 million in 2008-09). Easley's budget projects 26,265 new K-12 students next year and provides additional funding for disadvantaged students to be distributed in all school districts.

Public School Expansion	2007-08
• Fully fund enrollment increase of 26,265 additional students or 1.83% increase in enrollment	• In continuation
• Fully fund ABC teacher bonuses at current incentive levels	• \$70 million nr
• Fund 188 school resource officers for middle schools without SRO—all middle schools would have at least 1 SRO (NCACC legislative goal)	• \$4.5 million
• Increase disadvantaged student supplemental funding to \$50.8 million	• \$18.9 million
• Double literacy coaches in 100 additional middle schools (200 total)	• \$5.7 million
• Learn and Earn high school initiative to 55 high schools; 20 planning grants	• \$6 million • \$1.5 million nr
• Implement Learn and Earn online tuition, fees, technology for 12,000 community college classes & 8,000 UNC classes by high school students	• \$12.8 million
• Enhance school connectivity funding with priority to Learn & Earn	• \$12 million
• Add 10,000 More at Four slots & increase \$400 per slot funding; 28,653 total slots if approved; funded via lottery	• \$55.9 million • \$3.4 million nr
• NR funds for renovation & modular units for additional space	

*nr = non-recurring

Community College Expansion	2007-08
• Fully fund enrollment growth (NCACC goal for enhanced funding)	• In continuation per special provision in 2006-07 budget
• Set aside enrollment growth reserve for high growth campuses	• \$2 million nr
• Increase data connectivity & fund connectivity consultant	• \$3.8 million • \$500k nr
• Increase funding for equipment needs	• \$5 million
• Increase faculty credentials and development opportunities	• \$3 million

Human Services

Medicaid costs continue to rise with a total cost of \$9.7 billion in 2007-08, with county costs at \$517 million and state costs at \$3 billion. Medicaid projections top \$10.5 billion in 2008-09. The governor's budget creates a new healthcare plan for the working poor by expanding Medicaid to cover 11,800 children whose family incomes are between 200 percent and 300 percent of federal poverty standards. Some money is set aside to increase mental health community services and increase oversight and monitoring of LMEs and providers.

Human Services Expansion	2007-08
• Expand Medicaid to cover 11,800 children between 200% & 300% poverty	• \$4.7 million • \$820k county costs
• Expand Medicaid to cover 1,234 foster children 18-20 year olds	• \$216k
• Increase Health choice funding to cover projected shortfall	• \$7.5 million
• Increase child-care subsidy to serve 2,000 more children; total kids served = 100,600 (NCACC legislative goal)	• \$8.4 million
• Implement adult-care home quality improvement & increase facility complaint investigation capacity (NCACC legislative goal to improve investigations & services)	• \$264k • \$215k, most nr
• Purchase 844,000 treatment courses for pandemic influenza	• \$9.7 million nr
• Expand Child Welfare Oversight of county DSS CWS programs	• \$345k
• Increase community capacity for mental health community services & increase oversight of same	• \$3.5 million • \$588k, most nr
• Provide state funding for health information system development (NCACC legislative goal)	• \$5.1 million, most nr

• Increase recruitment of doctors and dentists in rural areas	• \$500k
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Justice and Public Safety

Justice and Public Safety Expansion	2007-08
• Continue statewide warrant repository (NCAWARE), Casewise and other court technology initiatives	• \$1.8 million • \$1.9 million nr
• Add 50 new deputy clerks of courts	• \$1.9 million • \$110k nr
• Add 3 new district court judges & 3 new support staff	• \$548k • \$38k nr
• Add 3 new magistrates	• \$129k • \$12k nr
• Add 3 new superior court judges	• \$266k • \$19k nr
• Establish new family court in additional District	• \$295k • \$25k nr
• Add 30 new assistant district attorneys & 18 new victim/legal assistants	• \$3.6 million • \$140k nr
• Add 4 new DNA processors	• \$373k • \$177k nr
• Add 5 new Medicaid fraud investigators	• \$85k
• Continue replacement of statewide automated fingerprint ID system	• \$2.7 million
• Continue implementation of VIPER—statewide 800 megahertz voice system	• \$2.3 million • \$9.1 million nr
• Appropriation through Highway Fund	
• Increase Juvenile Crime Prevention Council funding	• \$500k
• Add 10 new juvenile court counselors	• \$492k • \$21k nr
• Increase Hazmat response team equipment & operating	• \$373k
• Continue floodplain mapping project	• \$1.7 million • \$3.6 million nr

Natural and Economic Resources

The governor's budget proposes an assessment and remedial action program for 700 uncontrolled unlined landfills – known as orphan landfills - and 69 uncontrolled inactive hazardous waste sites, funded by a state \$2 per ton landfill tipping fee. Increased landfill permit fees will speed up landfill permit reviews and on-site enforcement. Increased fees for water and wastewater facilities will provide technical assistance. The proposal contains level funding for the Clean Water Management Trust Fund at \$100 million.

The One NC Fund — for economic development incentives — would receive \$15 million, and \$5 million is recommended for matching federal program funds for small business development.

Natural and Economic Resources Expansion	2007-08
• Levy \$2 per ton tipping fee to assess & correct unlined landfills & inactive hazardous waste sites	• \$22 million supported by fees
• Improve landfill permit review response time and on-site enforcement	• \$1.1 million supported by fees
• Continue private well water safety program's incentive grants to counties	• \$300k nr
• Expand state enforcement of sediment and erosion control and provide local government incentives to participate in program	• \$473k supported by fees
• Improve municipal wastewater compliance and review and update of water standards	• \$459k supported by fees
• Fund 20% state match for federal wastewater and drinking water grant match requirements	• \$8.1 million
• Increase Ag. Development & Farmland Preservation Trust	• \$6 million nr
• Provide recurring funding for One NC fund	• \$15 million nr
• Match federal small business innovation programs	• \$5 million nr

The governor's budget proposal recommends using the state's bonding capacity of \$1.6 billion over the next five years, of which \$250 million would be used for local water and wastewater improvements. Qualifying water systems would be those with drought issues, interconnection and regional linkage projects, and upgrades to maintain current service levels. Qualifying wastewater systems would be those under consent agreements, new connection moratoria, substandard collections, or systems with failing septic tanks. Most of the prison beds would be secured through additions and expansions at existing facilities. A \$173 million DHHS building would be located on the Dorothea Dix Campus, and \$100 million would be used to acquire state conservation lands.

General Government/Capital Expansion	2007-08
• Fund the NC Housing Trust Fund (NCACC goal)	• \$5 million nr
• Fund the home protection pilot program	• \$1.5 million nr
• Increase fire protection grants-in-aid	• \$500k
• Hire HR for local government programs	• \$55k
• Fund voting systems training, voting equipment maintenance and technical support and centralize ballot coding	• \$792k
• Fund special November election for bond referenda	• \$2.5 million nr
• Expand cultural sharing & caring program to bring cultural performances to schools and communities	• \$1.2 million
• Repay last installment to retirement system	• \$45 million nr
• Purchase state conservation lands	• \$100 million via COPS nr
• Bond funding for water & wastewater capital improvements	• \$250 million nr

The House drafts the first legislative response to the governor's proposal, although little action is expected before late April while budget writers await April income tax receipts. This gives us all ample time and opportunity to continue our push for county Medicaid relief.

For more detail, please see the [Governor's Budget Summary](#).