

# Summary of the State Budget

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## ■ Total Budget for FY 2005-06 ■

The Governor's recommended budget for FY 2005-06 totals \$32.7 billion. This amount includes funds to continue the current operations of state government (traditionally referred to as the "operating budget" for agencies) as well as monies for capital improvements and other nonrecurring items. The total budget is supported from the four primary revenue sources listed in Table 1.

Of total revenue, 51.8% originates from tax collections and other sources comprising the General Fund, 31.2% from federal funds, 7.4% from the Highway Fund components, and 9.6% from other receipts and charges. The budget includes funding to continue existing programs, to implement new programs recommended by the Governor, and to fund employee benefit changes for teachers and state employees. The General Fund budget is 5.5% above the estimated adjusted 2004-05 budget and is within the Governor's proposed spending cap which limits budget growth to the ten-year average of personal income growth.

For FY 2005-06, current operations make up 95.1% of the total state budget, while the remaining 4.9% is budgeted for capital improvements and other nonrecurring items.

**Table 1. Revenue for the 2005-06 Budget**

<b>Fund Type</b>	<b>Sources</b>	<b>Amount (Billions)</b>	<b>Percent of Total</b>
General	Tax collections Investment earnings Nontax revenues Bonds	\$ 16.9	51.8%
Federal	Allocations to North Carolina	10.2	31.2%
Highway	Motor fuel taxes Licenses and fees Investments Sales and use of motor vehicles	2.5	7.4%
Other	Tuition, fees, and other charges	3.1	9.6%
<b>Total Revenue</b>		<b>\$ 32.7</b>	<b>100.0%</b>

## ■ General Fund Revenue ■

The Governor's budget continues the current state sales tax rate at 4.5% and the current method of taxing estates to ensure sufficient revenue for education and health care. In addition, the proposal continues the use of some monies from the tobacco settlement. The budget also uses funds from overcollection of revenues and monies that are unexpended at the end of the 2004-05 fiscal year. The proposal includes changes to simplify and modernize the sales tax in order to comply with the Streamlined Sales Tax Agreement and to equalize rates on consumption. The budget also includes a 45 cent per pack increase in the cigarette tax over two years and a 18% increase in the tax on other tobacco products. Table 2 shows the total budgeted revenues by major category.

**Table 2. Revenue for the General Fund, 2005-06**

<b>Category</b>	<b>Amount (Millions)</b>
Tax revenues	
Individual income	\$ 8,499
Sales and use	4,810
Corporate income	975
All other	1,655
Subtotal tax revenues	<u>15,939</u>
Nontax revenues	
Judicial fees / disproportionate share	245
Investment income / insurance	130
Tobacco settlement	37
Highway fund / trust fund	249
All other	150
Subtotal nontax revenues	<u>811</u>
Other availability	
Beginning credit balance	222
Earmark to Savings Reserve	(38)
Earmark to One NC Fund	(5)
Earmark Community Colleges Equipment	(10)
Earmark to IT Fund	(20)
Earmark to Retirement Payback	(5)
Unreserved credit balance	<u>144</u>
<b>Total General Fund Revenue and Other Availability</b>	<b>\$ 16,894</b>

## ■ General Fund Expenditures ■

The Governor's total recommended budget for 2005-06 is \$16,894 million, which includes \$16,407 million for continuation budget services, \$690 million in expansion recommendations, and \$203 million in budget reductions. This proposal is 5.5% above the adjusted 2004-05 budget and is within the Governor's proposed spending cap which limits budget growth to the ten-year average of personal income growth. The distribution of these recommended expenditures is summarized in Table 3.

## **Major Expansion Items**

The majority of funding increases are for education, human services, and employee benefit programs.

### **Education**

The Governor's budget increases education funding by \$532 million (5.8%) over 2004-05 levels. Specifically, it provides full funding for enrollment increases in the public schools (\$135 million), UNC system (\$73.6 million), private colleges and universities (\$3.0 million), and the community college system (\$7.9 million). In addition, it recommends full funding for higher education financial aid as well as funding that may be lost due to Pell Grant rule changes (\$19 million). The proposal includes disadvantaged student supplemental funding (\$25 million) and low wealth funds (\$16.6 million) to enhance public school instructional programs and student achievement throughout the state. In FY 2006-07, \$58.5 million is recommended in order to fully fund the low-wealth formula for public schools. Funds are also provided to support at-risk children. These funds include an additional 3,200 slots for the More at Four Program (\$16.6 million), which prepares at-risk four-year-old children for success in school, as well as funds to better connect public schools with health, mental health, and social services programs (\$15 million). The budget also provides funds to expand the 21st Century High School Initiatives (\$5.9 million) and to pay for ABC bonuses earned in the 2004-05 school year (\$100 million).

### **Human Services**

The budget recommends additional funding for Medicaid (\$215 million) and Health Choice (\$17.4 million), which will provide health insurance for all expected to sign up for the program, thereby avoiding waiting lists. In addition, expansion funds are recommended for child care subsidies (\$2.3 million) and information technology initiatives (\$5.0 million) to increase efficiency in providing health care services. The budget recommends additional monies for the Mental Health Trust Fund to facilitate progress toward mental health reform. The proposal also recommends funds for the Division of Facilities Services to enhance licensure and monitoring capacity (\$4.2 million), which will assist in protecting vulnerable people in facilities throughout North Carolina.

### **Other Programs**

The Governor's budget provides funds for economic development and biotechnology programs (\$13.7 million), monies to hire additional assistant district attorneys and victim assistants (\$4 million), juvenile justice programs (\$2 million), and funds to assist victims of crime (\$1 million). In addition, the proposal authorizes funds to match federal clean water, drinking water, and Superfund programs (\$6.3 million), as well as programs that support the goals of the One North Carolina Naturally Initiative (\$1 million), which include protecting and restoring sounds and ocean habitats.

### **Employee Benefits**

The budget provides \$296 million in 2005-06 to support employee benefit programs. Specifically, it recommends a 2.0% recurring compensation increase for all teacher salary schedule staff and other state employees (\$168 million), as well as an additional 2% increase for community college faculty and professional staff (\$13.2 million). In addition, the State Health Plan will receive funds to cover increased employee health care premiums (\$80 million). The Governor's budget recommends a 2.0% cost-of-living adjustment for state government retirees (\$13 million). Finally, this proposal earmarks \$5 million from the FY 2004-05 credit balance to continue repayment of funds withheld from the Retirement System in 2000-01 due to the budget crisis.

## Capital Improvements

The budget includes \$13.0 million in direct appropriations to match federal and local funds for water resources development projects, as well as \$5 million for equipment and infrastructure needs at the State Ports. In addition, the proposal recommends that \$25 million (\$20 million from 2004-05 credit balance and \$5 million from ITS receipts) be earmarked for statewide information technology projects. These funds will be used to upgrade the Human Resources/Payroll System and to meet requirements for security, project management, state portal, and other enterprise initiatives.

## Savings Reserve Account (Rainy Day Fund)

The Governor's budget recommendation earmarks \$38.2 million from the 2004-05 credit balance to replenish the Savings Reserve Account (Rainy Day Fund).

**Table 3. General Fund Expenditures, 2005-06**

Category	Amount (Billions)	Percent of Total
Education	\$ 9.76	57.8%
Public schools		
Community colleges		
Universities		
Health and human services	4.09	24.2%
Justice and public safety	1.76	10.4%
Prisons		
Court system		
Other public safety agencies		
General government	0.74	4.4%
Environment		
Infrastructure		
Regulatory agencies		
Debt service/reserves/capital	0.54	3.2%
Statewide reserves		
<b>Total General Fund Expenditures</b>	<b>\$ 16.89</b>	<b>100.0%</b>

## ■ Transportation Budget ■

The FY 2005-06 budget for the Department of Transportation totals \$3.5 billion. The budget is supported from the four primary sources of revenue found in Table 4. These funds are distributed to the Highway Fund and the Highway Trust Fund based on a formula. Appropriations to the Highway Fund total \$1.5 billion and represent 43% of the total budget, while Highway Trust Fund appropriations of \$1.1 billion comprise 31% of the total budget. The budgeted resources are allocated as shown in Table 5.

**Table 4. Revenue for the 2005-06 Transportation Budget**

<b>Source</b>	<b>Amount (Millions)</b>	<b>Percent of Total</b>
Motor fuel taxes	\$ 1,436	41%
Vehicle and driver taxes and fees	1,152	33%
Federal funds	890	25%
General Fund and other sources	31	1%
<b>Total Transportation Budget Revenue</b>	<b>\$ 3,509</b>	<b>100%</b>

**Table 5. Allocation of Transportation Funding for 2005-06**

<b>Category</b>	<b>Amount (Millions)</b>	<b>Percent of Total</b>
Highway construction	\$ 1,725	49%
Highway maintenance and municipal aid	978	28%
General Fund agencies	439	13%
DOT management and support	177	5%
Non-highway transportation	45	1%
Division of Motor Vehicles	109	3%
Reserves	36	1%
<b>Total Transportation Allocation</b>	<b>\$ 3,509</b>	<b>100%</b>