

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1993

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SENATE RESOLUTION 951

Sponsors: Senators Daniel, Plyler (Co-sponsors); Winner of Buncombe and Hunt.

Referred to: Rules and Operation of the Senate.

April 22, 1993

1 A SENATE RESOLUTION EXPRESSING THE INTENT OF THE SENATE TO
2 ENHANCE FURTHER THE LONG-TERM FISCAL STABILITY OF THE
3 STATE AND TO TAKE ADVANTAGE OF THE FAVORABLE INTEREST
4 RATE CLIMATE BY AUTHORIZING STATE GENERAL OBLIGATION
5 BONDS.

6 Whereas,

- 7 (1) During the last 60 years North Carolina has established a solid
8 reputation among the 50 states for resolving budget crises and
9 maintaining its fiscal integrity with long-term solutions;
- 10 (2) The State's fiscal reputation was first established during the 1920s and
11 1930s when the State was confronted with a decade of falling farm
12 prices followed by the Great Depression. The drop in farm crop
13 prices, coupled with the demand for better schools, roads, and other
14 services caused the property tax burden, as a percent of farm income,
15 to increase by 344%. In addition to raising tax rates, local units
16 increased their debt by over 300%. The result was that North
17 Carolina's State and local debt burden exceeded all states except New
18 York and was 4 1/2 times the United States average. When the
19 Depression hit, the burden of excessive debt led to a severe fiscal
20 crisis, causing 62 counties, 152 cities and towns, and approximately
21 200 special districts in the State to default on their bonds by 1933;
- 22 (3) During the 1920s and 1930s the General Assembly responded to the
23 fiscal crisis with bold reforms, including:
- 24 a. State takeover of the funding responsibility for public schools,
25 highways, and prisons;
- 26 b. The establishment of a modern State and local tax structure;

- 1 c. The creation of the Local Government Commission to oversee
2 local financial practices and to issue bonds for local units;
- 3 (4) The reforms enacted during the fiscal revolution of the 1930s have
4 served the State well as automatic revenue growth has provided budget
5 resources to meet the needs of a growing State without requiring the
6 periodic tax adjustments seen in other states;
- 7 (5) Since the enactment of the fiscal reforms, the State has weathered
8 numerous severe recessions through the use of conservative budget
9 mechanisms such as:
- 10 a. Conservative revenue estimates;
- 11 b. Budgeting salaries and related benefits at 100%, thereby
12 ensuring that 2-3% of the operating budget will be unspent due
13 to employee turnover;
- 14 c. Spending a portion of its budget availability on capital
15 improvements and other one-time items which can be deferred
16 or deleted in the event of a revenue shortfall or other
17 emergency;
- 18 (6) During the latter half of the 1980s the State's reputation began to
19 weaken, culminating in the most severe fiscal crisis since the 1930s.
20 One factor leading to the decline was the adoption in 1985 of a new
21 multiyear education improvement initiative, the Basic Education
22 Program, without a long-term funding plan that included budget cuts
23 and/or revenue enhancements. This led to use of the State's credit
24 balance, tax accelerations, and other one-time financing sources to
25 fund the expansion budget. Another factor was the lack of a
26 permanent rainy-day fund. Finally, the trigger event leading to the
27 severe 1990-91 recession, the Mideast Crisis, occurred after the budget
28 had been adopted;
- 29 (7) Balancing the budget required the use of extraordinary measures,
30 including:
- 31 a. Holding \$67 million of June 1991 income tax refunds until
32 July;
- 33 b. Delaying the payment of bills;
- 34 c. Borrowing a total of \$250 million from the Employment
35 Security Fund, at an interest cost to the General Fund of \$21.4
36 million, and advancing the \$170 million transfer from the
37 Highway Trust Fund at the beginning of the fiscal year;
- 38 d. Deleting \$270 million of capital improvement projects;
- 39 e. Cutting local tax aid monies by \$32 million;
- 40 f. Moving the pay date for teachers, State and university
41 employees, and community college employees to provide \$328
42 million in today's costs;
- 43 (8) During the 1991 legislative session the General Assembly faced a \$1.2
44 billion gap between continuation budget requirements and available

1 revenues. Unlike legislatures in many other states, the North Carolina
2 General Assembly fixed the problem on a permanent basis. The final
3 package included approximately \$600 million of budget cuts and about
4 the same amount of new revenues. In addition the package included a
5 comprehensive budget reform plan, including:

- 6 a. A permanent rainy-day fund;
- 7 b. Consensus revenue estimates;
- 8 c. A long-term fiscal note requirement of five years on the
9 operating budget and 20 years on new State buildings;
- 10 d. A prohibition against using one-time monies to fund recurring
11 items;
- 12 e. A limitation on State spending growth;
- 13 f. The requirement that a permanent funding mechanism be
14 established for financing repairs, renovation, and maintenance
15 of State buildings;
- 16 g. The creation of a special commission to identify trends that will
17 affect the State fiscal outlook;

18 (9) The actions of the 1991 General Assembly have been very successful
19 in putting the State's finances on firmer footing and have reestablished
20 North Carolina as a leader in its ability to address fiscal problems.
21 North Carolina is one of only four states maintaining a Triple A credit
22 rating with all three major bond rating agencies and one of the few
23 states on the eastern seaboard with revenue estimates on target in
24 1991-92;

25 (10) The job of restoring North Carolina's fiscal integrity is not finished.
26 The 1991 budget package included language, expressed currently in
27 the Executive Budget Act (G.S. 143-15.3(b)), that the pay date for
28 teachers, State employees, university employees, and community
29 college employees be restored as soon as funds are available.
30 Restoration of the pay date would:

- 31 a. Eliminate a year-end liability on the State's financial statements,
32 thereby bringing us into closer conformity with Generally
33 Accepted Accounting Practices (GAAP) and continuing to
34 ensure a balanced budget as required by the North Carolina
35 Constitution;
- 36 b. Restore a budget mechanism that could be used to maintain a
37 balanced budget during an unanticipated budget shortfall in the
38 future;
- 39 c. Eliminate the need for interfund borrowing to meet cash-flow
40 needs;
- 41 d. Prevent the use of 'one-time' monies for new spending
42 programs;

- 1 (11) The North Carolina General Assembly is aware that, clearly, there are
2 vital needs of the citizens of the State that should be addressed as part
3 of a long-term fiscal plan that:
- 4 a. Completes the action begun in 1991 to restore fiscal integrity;
 - 5 b. Identifies high priority needs, determines the extent to which
6 existing public and/or private resources can meet those needs,
7 develops a structured plan to meet those needs (including the
8 furnishing of comprehensive performance and budget data), and
9 incorporates program and fiscal accountability measures;
 - 10 c. Identifies permanent funding sources to finance the State's
11 portion of any new or expanded programs to meet those needs;
 - 12 d. Provides for the current high degree of uncertainty due to
13 potential federal budget and health care reform actions, the
14 pending \$140 million federal retiree lawsuit on retroactive
15 refunds, and the estimated \$2 billion impact on the State's
16 economy from a proposed \$2.00 per pack increase in the federal
17 tobacco tax;
 - 18 e. Keeps the growth in the overall size of the General Fund
19 operating budget in line with citizens' income;
 - 20 f. Incorporates the performance budget recommendations of the
21 Government Performance Audit Committee;
- 22 (12) State and local bond interest rates are the lowest in 15 years;
- 23 (13) The prudence displayed by the General Assembly in using pay-as-you-go
24 financing for capital projects during the last decade provides an
25 opportunity for the State to take advantage of very favorable interest
26 rates to finance with bond financing the backlog of capital and
27 infrastructure needs of a fast-growing State;
- 28 (14) The State's General Fund debt service burden has declined 50% from
29 2.2% of General Fund revenue in 1982-83 to 1.1% for 1993-94. In
30 addition, the General Fund and Highway Fund annual debt service
31 requirements will decline \$90 million by the year 2000;
- 32 (15) In recent years, the authorization of a reasonable amount of State
33 bonds has been recommended by:
- 34 a. The Economic Futures Commission;
 - 35 b. The Government Performance Audit Committee (GPAC); and
 - 36 c. The State Treasurer.
- 37 In addition, the comments of the bond rating agencies in affirming the
38 State's Triple A credit rating indicate that the rating agencies expect
39 the State to take advantage of its declining debt burden and to use bond
40 financing to meet its capital needs;
- 41 (16) The Board of Governors of The University of North Carolina recently
42 reported \$703 million of capital project needs in its 1993-95 capital
43 budget request;

- 1 (17) The State Board of Community Colleges has recently requested \$311
2 million for buildings and \$105 million for equipment;
- 3 (18) The most recent survey of 10-year public school facility needs of local
4 school systems indicates \$5.6 billion of school building needs;
- 5 (19) The projected 20-year local water facility needs total \$1.9 billion and
6 wastewater facility needs total \$3.9 billion;
- 7 (20) The projected five-year needs for solid waste/landfill facilities are
8 conservatively estimated at \$250 million;
- 9 (21) The acceleration of construction activity under State bond financing
10 would provide a timely stimulus to the State's weak economic
11 recovery;
- 12 (22) The 1977 General Assembly, at the request of the Governor,
13 authorized \$530 million of State general obligation bonds. This
14 amount was equivalent to 2.4% of the \$22.1 billion of wage and salary
15 income of North Carolina residents. The same percentage applied to
16 the estimated 1993 wage and salary base of \$77.4 billion would equal
17 \$1.8 billion of bond capacity;
- 18 (23) Creating a maintenance reserve is essential in assuring the continued
19 availability of funds for the repair and renovation of State buildings
20 and has been recommended by the Real Property Study Commission
21 and the Government Performance Audit Committee;

22 Now, therefore, be it resolved by the Senate:

23 Section 1. It is the intent of the Senate to appropriate from the General Fund
24 to the Salary Reserve for State and University Employees the sum of one hundred
25 ninety million six hundred thousand dollars (\$190,600,000) for the 1993-94 fiscal year
26 to pay university and State employees paid from the General Fund on June 30, 1994,
27 instead of on July 1, 1994, for work done during June of 1994.

28 Sec. 2. It is the intent of the Senate to appropriate from the General Fund to
29 the Salary Reserve for Community College Employees the sum of twenty-four million
30 four hundred thousand dollars (\$24,400,000) for the 1993-94 fiscal year to pay
31 community college employees paid from the General Fund on June 30, 1994, instead of
32 on July 1, 1994, for work done during June of 1994.

33 Sec. 3. It is the intent of the Senate to appropriate from the General Fund to
34 the Salary Reserve for Teachers the sum of one hundred twelve million eight hundred
35 thousand dollars (\$112,800,000) for the 1993-94 fiscal year to pay public school
36 teachers paid from the General Fund on June 30, 1994, instead of on July 1, 1994, for
37 work done during June of 1994.

38 Sec. 4. It is the intent of the Senate to earmark the lesser of (i) one-fourth of
39 any credit balance remaining in the General Fund and (ii) one and one-half percent
40 (1.5%) of the current replacement value of all State buildings supported from the
41 General Fund, at the end of each fiscal year to a Repairs and Renovations Reserve
42 Account to be used only for repairs and renovations of State buildings supported from
43 the General Fund.

1 Sec. 5. It is the intent of the Senate to provide for the issuance of general
2 obligation bonds of the State, to be known as "North Carolina Public Facilities and
3 Infrastructure Bonds". It is the intent of the Senate that the proceeds of these bonds
4 shall be used to partially fund pressing capital needs of the State and of local
5 governments.

6 Sec. 6. It is the intent of the Senate that the issuance of North Carolina Public
7 Facilities and Infrastructure Bonds would be conditioned upon the favorable vote of a
8 majority of the qualified voters of the State who vote on the questions in an election to
9 be held in November 1993.

10 Sec. 7. This resolution is effective upon adoption.