

CIVITAS INSTITUTE

LEGISLATIVE POLICY BRIEFING

2007 General Assembly

Outside the General Fund

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The General Fund Availability Statement of the House budget states that General Fund appropriations are \$20.3 billion. This sum is paid with revenues from taxes, fees, transfers from other funds, and other miscellaneous income sources. What the \$20.3 billion does not include, however, are the new positions and programs funded with receipts (federal funds, fees collected by agencies that do not go into the General Fund, tuition payments, etc.), not to mention the existing programs whose budgets have been shifted from the General Fund to other sources.

The House budget includes the following items funded from other revenue sources:

From the Escheat (Unclaimed Property) Fund:

- \$97 million each year for need-based financial aid programs for UNC (\$77 million); community colleges (\$14 million); and the Department of Veteran's Affairs (\$6 million).
- \$25 million in FY2007-08 and \$50 million in FY2008-09 for a new EARN Scholars program (funded entirely by the Escheat Fund).
- \$4.5 million each year for a new Child Welfare Post-Secondary scholarship program that provides college tuition and related expenses for foster children.

The Escheat Fund is the state's holding fund for unclaimed property; the money belongs to citizens who have not yet claimed property owed to them. The money is invested by the state treasurer, and the state is allowed to spend the interest earned on low-interest loans and aid for college. Some budget provisions allow the state to spend part of the principal of the Escheat Fund, as long as the balance does not fall below \$400 million. As of June 30, 2006, the fund balance was just over \$522 million.

Across State Agencies:

- 65 new positions, with salaries up to \$100,000, supported by receipts, such as federal funds and fees collected by agencies that do not go into the General Fund.

In Education:

- Nearly \$950,000 in UNC expenses are now to be paid with receipts and state lottery money rather than the General Fund.
- \$7.5 million in community college expenses are shifted from General Fund to receipts resulting from a tuition increase.

In Health & Human Services:

- \$9.5 million in expenses are shifted from General Fund to receipts, including \$4 million in Medicaid receipts.
- \$1.6 million for 17 positions that will be offset by fee increases going to the General Fund (this amount is included in the General Fund Availability Statement).

In Natural & Economic Resources:

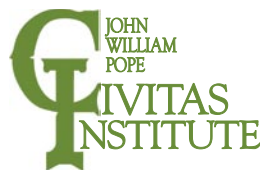
- \$3.5 million is shifted from General Fund expenses to receipts, primarily by moving \$3.2 million of the Aquarium Division's operating expenses to admission receipts from the state aquariums.
- \$1.8 million in revenue from fee increases will support 21 new positions and a \$200,000 reduction in General Fund appropriations.

In General Government:

- \$3.2 million in expenses and 66 positions are shifted from General Fund support to receipt support, primarily through receipts from the tax collection assistance fee.

Use of the Escheat Fund, federal grants, and agency fees allows the state to grow government without increasing the General Fund budget. Down the road, receipt-supported positions and programs may come back to haunt the General Assembly. For instance, federal grants commonly provide a few years of support to get a program started, but then expect the state to pick up the tab to continue the program. For this reason, the General Assembly tends to approve time-limited positions if the funding is from a grant with a limited duration. When the money runs out, however, this doesn't stop the agencies from requesting that the state step in. In the Justice and Public Safety section of the House budget, for example, legislators have authorized more than \$2 million to replace expiring federal funds: three Guardian ad Litem positions (\$210,656), two Department of Correction staff positions (\$155,680), law enforcement warehouse rental (\$136,175), and 20 positions for Flood Plain Mapping (\$1.7 million).

Overall, receipts and sources such as the Escheat Fund comprise approximately \$156 million in additional spending: \$30 million in new receipts from federal funds, tuition increases, and fee increases; and \$126 million from the Escheat Fund for higher education financial aid. This spending is in addition to the \$20.3 billion General Fund budget, the \$1.8 billion Highway Fund and \$1.1 billion Highway Trust Fund budgets, as well as continued spending authorized in previous years from federal and other receipt sources.



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