

Quick Facts: Tuition Revenue

- Each 1% increase in resident student tuition generates \$2,564,000
- Each 1% increase in nonresident student tuition generates \$2,462,000
- North Carolina ranks 32nd in resident (in-state) tuition for flagship campuses (NC: \$3,856; national average: \$4,675)
- North Carolina ranks 18th in nonresident (out-of-state) tuition for flagship campuses (NC: \$15,140; national average: \$13,250) [A “flagship” campus is one with large numbers of doctoral programs, i.e., UNC-Chapel Hill and NC State.]

Quick Facts: Aid to Students Attending Private Colleges in North Carolina

- There are two state-funded programs that assist students attending private colleges:
 - Legislative Tuition Grant (LTG): \$1,800 per full-time NC resident attending private college
 - State Contractual Scholarship Fund (SCSF): \$1,100 per FTE NC undergraduate student for need-based aid (FTE or “full-time equivalent” is a special term in higher education used to count actual full-time students. Two half-time students taking half a normal course load equals one full-time equivalent student.)
- The General Fund appropriation for FY2002–03 for the Tuition Grant program is \$47.8 million for approximately 32,160 students. For the Contractual Scholarship Fund, it is \$33.3 million for approximately 30,000 FTE students.

Quick Facts: Portion of Academic Costs Paid by Resident and Nonresident Students at UNC 2002–03

- The General Fund state appropriation for each full-time equivalent (FTE) resident student, on average, is \$9,501 (excludes medical, nursing, and dental school students)
- The General Fund state appropriation for each FTE nonresident student, on average, is \$421 (excludes medical, nursing, and dental school students)
- The percent of academic costs paid by resident students is, on average, 19% (excludes medical, nursing, and dental school students)
- The percent of academic costs paid by nonresident students is, on average, 96% (excludes medical, nursing, and dental school students)

4. Where Does the Money Go?

Before we step off into this patch of fiscal kudzu, we’ll need to set out some key “signposts” about where the money goes. We’re going to first show you the total state budget—all state general funds, federal funds, highway funds, and other income for the state called “non-tax revenue” (like fines, fees, tuition, licenses—other than automobile licenses—and interest income on investments and deposits).

Notice this: General Fund budget amounts are set apart from Highway Fund budget amounts. Federal funds are yet a third fund classification and non-tax revenue is a fourth. This is how the total state budget is set out by source of funds.

Notice another thing: This is the total state budget for FY 2001–2002, covering the period from July 1, 2001, to June 30, 2002. The percentages of general, federal, and highway fund might change slightly—but not markedly.

Now, let’s recap. The total state budget is \$26.3 billion, of which

- \$14.4 billion (55%) comes from the General Fund;
- \$7.7 billion (29%) is funded with federal funds;
- \$2.4 billion (9%) comes from non-tax revenues (other funds); and
- \$1.9 billion (7%) comes from the Highway Fund.

THE GENERAL FUND

In this guide to the budget, we are focusing on the General Fund, because it’s 55% of the total state budget, because it comes mostly from taxes you pay to the state of North Carolina, and because it contains the most options for discretionary spending. That includes income taxes, sales taxes, and excise taxes (cigarettes, liquor, and beer). For businesses, it includes franchise taxes, corporate income taxes, and others. Notice this: *None* of your property taxes go to the state. All property taxes pay for county and city government services.

THE HIGHWAY FUND

Highway Fund money comes from each gallon of gas you buy; from titles and fees for your car, drivers licenses and tags; and sales taxes on automobile products. Some Highway Fund

money is transferred to the General Fund for special uses, but the bulk of it stays with the Department of Transportation to be matched with federal funds for highway construction and maintenance. Additionally, there is a separate Highway Trust Fund that receives a portion of Highway Fund income for specially designated roads and highways.

FEDERAL FUNDS

The best way to think about federal funds is that they supplement and sometimes “match” state funds to offset the total cost of a program. Some federal funds are used for specific grants for specific purposes within a state agency, while others—like funds for the North Carolina Employment Security Commission—pay for the operation in its entirety.

By far the most substantial application of federal funds is to offset costs of North Carolina’s Medicaid program. Medicaid consumes \$4.411 billion (57%) of the total \$7.676 billion in federal aid applied to General Fund costs.

Now that you have a general orientation to the different funds, amounts, and percentages that make up the state budget, let’s wade into the fiscal kudzu patch a bit further!

WHAT DO THESE MONIES PAY FOR?

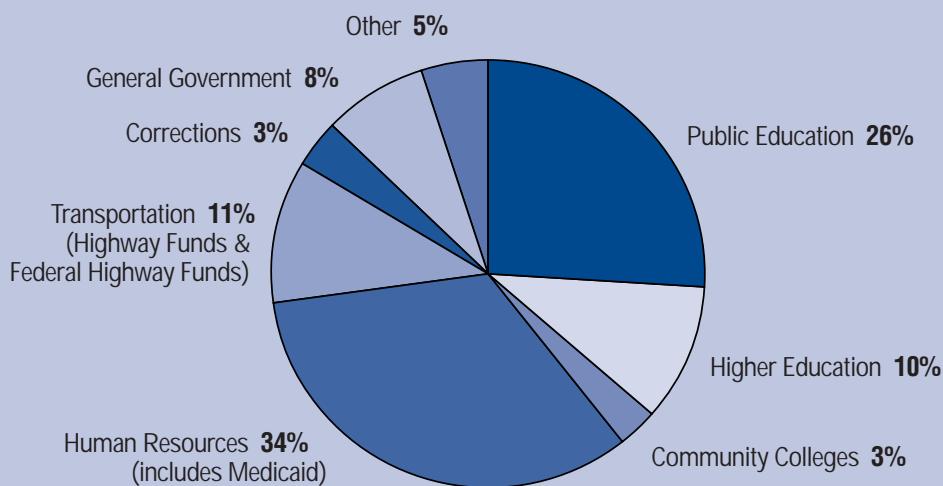
Think about all the state government programs services, and agencies you know about:

- roads
- bridges
- prisons
- public schools
- community colleges
- state universities
- courts
- hospitals at Chapel Hill
- mental health center in your town or county
- State Bureau of Investigation (SBI)
- state parks
- highway patrol
- aquariums
- Medicaid
- elevator inspections
- ferris wheel inspections
- beach access paths
- North Carolina Zoo

Figure 4.1 shows distribution of all funds by general categories. Note a similar graphic, Figure 6.5, on page 22 shows total state budget for a different year, 2000–01.

The overall distribution of percentages has changed little. Figure 4.2 shows uses of all funds that are considered Highway Funds.

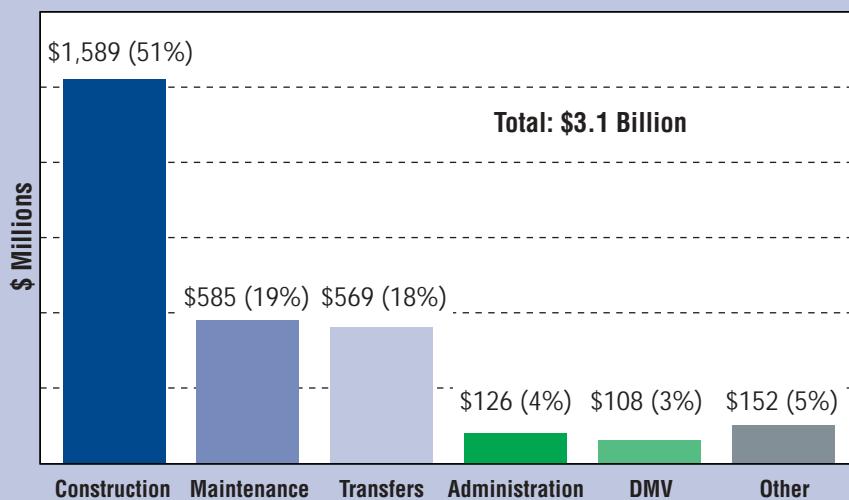
**2001–2002 TOTAL STATE BUDGET
(GENERAL FUND, HIGHWAY FUND, AND FEDERAL FUNDS RECEIPTS)**



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.1

**2002–2003 HIGHWAY (TRANSPORTATION) FUNDING
(STATE/FEDERAL/RECEIPTS)**



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.2

- North Carolina Symphony
- North Carolina School of Science and Mathematics
- North Carolina School of the Arts

The General Fund covers all these services, plus hundreds more, with two exceptions. Roads and bridges, the first two items on the list, are built and maintained with Highway Fund money.

THE BIGGEST DEPARTMENT STORE

One way to get a better fix on the state’s budget is to think about the biggest department store you’ve ever seen. Now, imagine you’ve been to every department in that store, several times, to see what is available to you. After you’ve been there several times, you become familiar, not only with what’s available, but where it is—which department sells what and at what cost.

The state’s budget is like that department store—with one important difference: Instead of a wide variety of manufactured goods, each department offers “services.” Here’s a list of a dozen services state government offers that you help to pay for through the state’s budget:

- education
- prevention
- protection
- prohibiting
- permitting
- informing
- testing
- demonstration
- helping
- healing
- curing
- investigating
- inspecting

We know you can think of many more. And just like any department store, some departments are much bigger than others and require more money, space, programs, and people to run them. When you look at Figure 4.3 you can see plainly that, as far as North Carolina’s budget is concerned, its biggest “business” is education—and

4. Where Does the Money Go? *continued*

2002–2003 GENERAL FUND EXPENDITURES

North Carolina's \$14 billion General Fund covers most of the operations of state government. Transportation expenses, such as highways, are not included in the General Fund. Education—public schools, universities, and community colleges—take 58% of the General Fund. Health and human services programs, including the state's share of Medicaid, take 25%. Justice and public safety agencies, including the entire court system, prisons, and state law enforcement agencies take 10.8%. Spending for all other state agencies included in the General Fund, such as the

governor's office; the legislature; the Departments of Agriculture, Commerce, and Revenue; the Council of State offices (e.g., the treasurer, auditor, secretary of state, attorney general, etc.); and environmental programs amount to about 6.7%. And some (0.08%) General Fund money is used for grants to state airports. So, when you budget for all education, all health and human services programs, and all courts, corrections, and law enforcement, you have budgeted for about 93.8% of all General Fund expenditures.



it has three major “products lines”(services):

- public schools
- community colleges
- universities

About 58 cents of every state General Fund budget dollar is allocated to education in one of the major “product” areas—schools, community colleges, or universities.

The next most costly area in which state government is involved is health and human services. This “product line” requires 25 cents of every General Fund dollar and covers a wide range of services that can be connected to the list you read earlier: educating, informing, demonstrating, helping, protecting, preventing, healing, curing, permitting, etc.

The largest program within the health and human services arena is Medicaid (slightly more than 15% of the total state budget), funded by money from all three ways you pay taxes: local, state, and federal. Federal money pays for the largest piece of Medicaid costs (66%); the state share is next at 27%; and the local government share is the smallest piece (about 7%).

Health and human services comprise 25% of the total General Fund budget. When federal funds are added to the mix, the percentage rises to 35% of the total state budget. To get a better feel of the various “products” in health services, see the charts and graphs on pages 16–17.

The next largest area of the state's budget is centered around courts, law enforcement, the state's “law firm” (the Office of the Attorney General), the Department of Juvenile Justice, the Department of Corrections (state prisons), and the Department of Crime Control and Public Safety. Together these departments and services comprise 10.3% of the General Fund budget. And, taken together, these services focus on public protection, law enforcement, judicial matters and the courts system, and incarceration of convicted law-breakers. The most common phrase used to group these departments and services into a single category is “justice and public safety.”

When these three categories of state “business”

continued on page 14

SOURCE: Fiscal Research Division, NC General Assembly

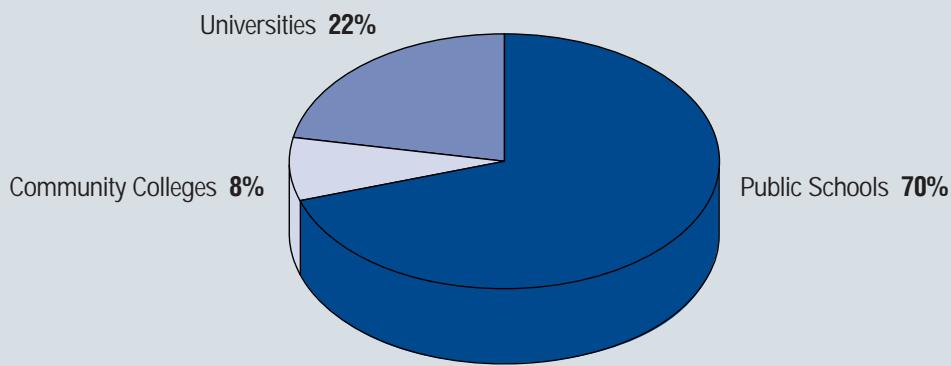
FIGURE 4.3

EDUCATION

North Carolina pays the lion's share of costs for public school operations, including the base salaries for virtually all teachers and administrators; the costs of buses and books; and a share of construction costs for local schools. As a result, public schools take a larger percentage of North

Carolina's budget than they do in most other states. Public schools accounted for 70% of education spending by the state in 2001–2002, while universities took 22% of education funding, and community colleges took 8%.

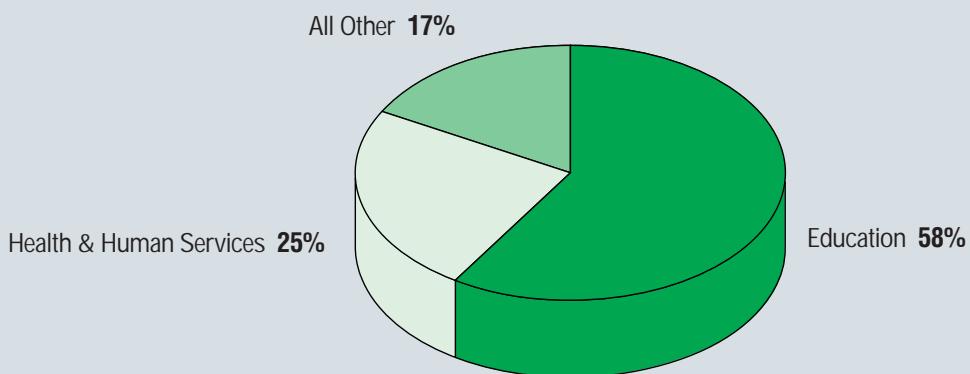
GENERAL FUND APPROPRIATIONS FOR EDUCATION FY 2001–2002



SOURCE: NC General Fund Operating Appropriations, FY 2001–2002

FIGURE 4.4

EDUCATION SHARE OF GENERAL FUND APPROPRIATIONS FY 2001–2002



SOURCE: NC General Fund Operating Appropriations, FY 2001–2002

FIGURE 4.5

Quick Facts: School Transportation

NEW SCHOOL BUSES IN NORTH CAROLINA

- The purchase of the first school bus is the responsibility of the local school district; thereafter, the bus is replaced by the state.
- Each year, the North Carolina General Assembly appropriates funds for the replacement of school buses. The Department of Public Instruction identifies buses, statewide, that are designated for replacement.
- Under current policy, buses are eligible for replacement at 200,000 miles.
- Buses older than 1994 models are eligible at 165,000 miles. No bus will run longer than 20 years, regardless of the mileage.

SCHOOL BUSES AND ACTIVITY BUSES

- Once a school bus is replaced, it becomes a "spare bus," to be used by the school district when a bus is in the shop for maintenance.
- Spare buses are, in turn, sold as surplus property. A list of school buses available for sale can be found at www.ncbussafety.org.
- Transportation to extracurricular activities (such as athletics) that are not part of the instructional program may not be provided on school buses. Most schools use locally owned and operated activity buses for such purposes.
- For 2003–2004 the Durham Public Schools bus fleet will be powered by bio-diesel, a blend of 80% diesel, 20% renewable organic material (e.g. vegetable oils).
- Eight Charlotte-Mecklenburg school buses are powered by Compressed Natural Gas.
- The rest of the school bus fleet uses diesel fuel. The state's school bus fleet consumes over 22 million gallons of fuel each year. (For more school bus transportation facts, see page 23.)

4. Where Does the Money Go? *continued*

continued from page 12

are added together they comprise 93.8% of the total General Fund budget. The remaining 6.4% is dispersed throughout many important—even critical—but less expensive departments such as:

- Office of the Governor
- Office of the Lt. Governor
- General Assembly
- Office of the State Treasurer
- Office of the State Auditor
- Office of the State Controller
- Commissioners of Agriculture, Insurance, and Labor
- Department of Environment and Natural Resources
- Department of Commerce
- Department of Cultural Resources
- Department of Administration
- State Board of Elections

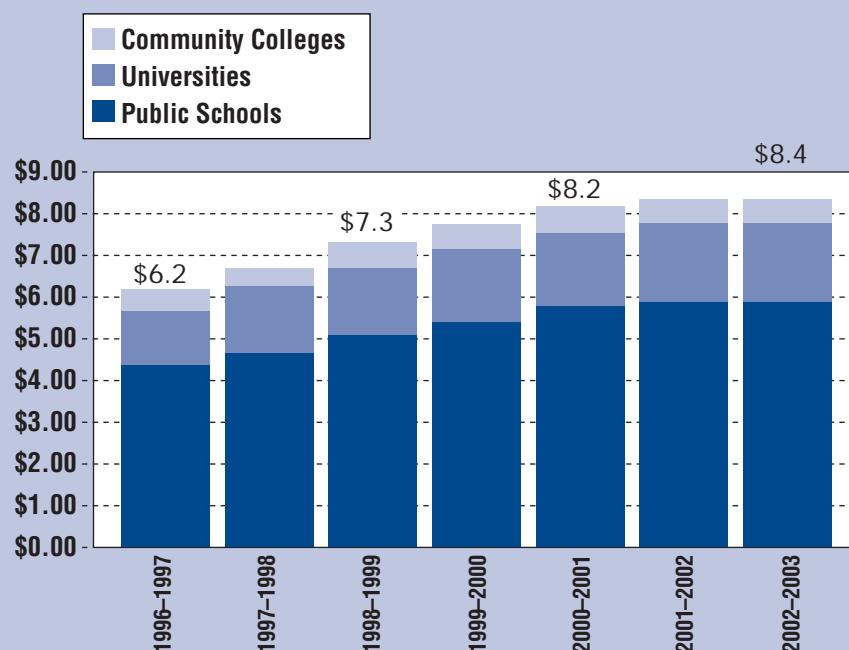
To recap, the General Fund makes up about 55% of the state budget. It is funded almost entirely by you, primarily in the form of income taxes, sales taxes, excise taxes and various business taxes. The vast majority of that money is used to support three important areas: education (58%), health and human services (25%), and justice and public safety (10.8%). The balance of funds available (6.2%) must cover all programs in the area of general government (14 departments, including the governor’s office and the General Assembly; the state controller; and the insurance, treasurer and auditor’s offices) and more departments that deal with programs for the environment, air and water quality, economic development, agriculture, labor, and so forth.

These facts make for tough funding choices when funds are tight like they were in the 2003 legislative session. And as the population increases, driving up enrollments in all educational systems, tending to the “business” of education will become more costly. Similar pressures will occur with human services programs and with programs dealing in public prisons.

The figure below shows that, in total, education is 58.4% of the General Fund. The percentage has not fluctuated significantly over this period. In FY 2002–2003, the percentage of the General

Fund for each education agency is: public schools, 41.4%; community colleges, 4.7%; and universities, 12.4%.

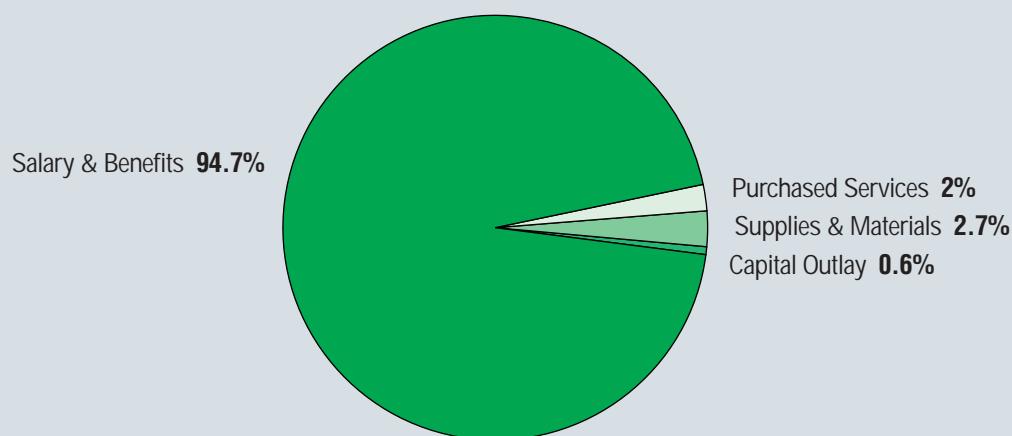
GENERAL FUND OPERATING APPROPRIATIONS FOR EDUCATION: 1996–1997 TO 2002–2003



SOURCE: State Data Center, Office of State Budget and Management

FIGURE 4.6

NC PUBLIC SCHOOL FUND: DISTRIBUTION OF EXPENDITURES BY TYPE, FY 2001–2002



SOURCE: NC Department of Public Instruction, Statewide Expenditures for State Public School Fund, FY 2001–2002

FIGURE 4.7

TEACHER SALARIES: COMPARISON OF NC AND US AVERAGES

	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02
North Carolina (% Increase)	\$30,411 -1.24%	\$31,167 2.49%	\$33,129 6.30%	\$36,098 8.96%	\$39,419 9.20%	\$41,496 5.27%	\$41,991 1.19%
US Average (% Increase)	\$37,685 2.20%	\$38,554 2.31%	\$39,454 2.33%	\$40,582 2.86%	\$41,820 3.05%	\$43,339 3.63%	\$44,499 2.68%
NC as % of US	80.7%	80.8%	84.0%	89.0%	94.3%	95.7%	94.4%
NC Rank Among States	43	43	38	29	24	20	21

SOURCE: National Education Association. "Rankings and Estimates of the States 2001 and Estimates of School Statistics 2002," August 2002

FIGURE 4.8

CAPITAL PROJECTS, DESIGN, AND CONSTRUCTION: COMMUNITY COLLEGES, UNIVERSITIES, AND OTHER STATE BUILDING PROJECTS—APRIL 1993

	Projects in Design	Projects in Construction	Projects Overall	Projects in Design Value	Projects in Construction Value	Overall Value
Community College	49	20	69	\$79,626,571	\$27,516,876	\$107,143,447
University	230	89	319	\$539,265,799	\$333,715,481	\$872,981,280
State Bldg Commission	271	103	374	\$132,056,367	\$159,558,096	\$291,614,463
Total	550	212	762	\$750,948,737	\$520,790,453	\$1,271,739,190

SOURCE: Office of State Construction, NC Department of Administration

FIGURE 4.9

CAPITAL PROJECTS, DESIGN, AND CONSTRUCTION: COMMUNITY COLLEGES, UNIVERSITIES, AND OTHER STATE BUILDING PROJECTS—APRIL 2003

	Projects in Design	Projects in Construction	Projects Overall	Projects in Design Value	Construction Value	Overall Value
Community College	93	105	198	\$326,543,767	\$265,714,172	\$592,257,939
University	277	259	536	\$1,849,336,935	\$1,552,946,793	\$3,402,283,728
Other State Buildings	304	324	628	\$1,044,905,421	\$389,105,326	\$1,434,010,747
Total	674	688	1,362	\$3,220,786,123	\$2,207,766,291	\$5,428,552,414

SOURCE: Office of State Construction, NC Department of Administration

FIGURE 4.10

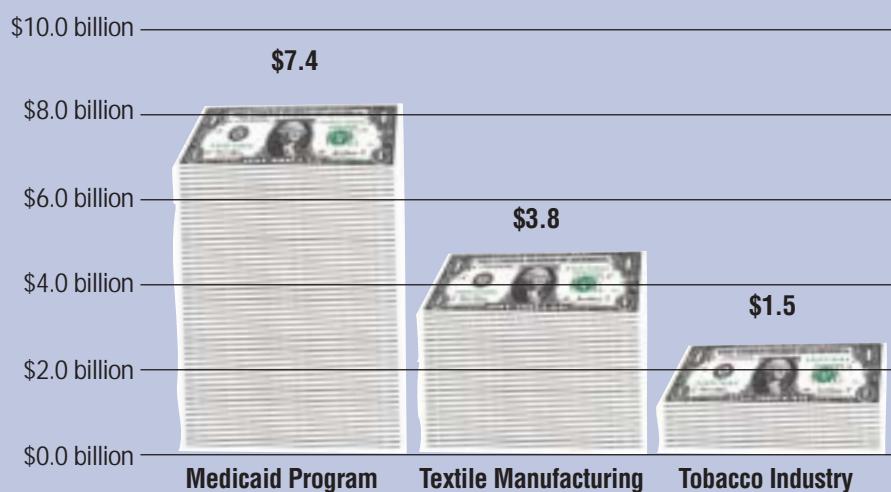
Quick Facts: Selected State-Owned Properties

- Number of state-owned buildings/structures: 12,214
- Current replacement value of these buildings according to the Department of Insurance: approximately \$11.7 billion
- These buildings range in size from a 9-sq.-ft. sentry post at Tryon Palace historic site, to the 451,000-sq.-ft. Brody Medical Science Building at the ECU School of Medicine
- The following is a list of properties that are unique in their function, history or type of construction:
 - Dean Smith Center at UNC-Chapel Hill; total height approximately 20 stories tall
 - SBI Crime Lab in Raleigh; contains high-tech investigative equipment
 - Dorton Arena at the State Fairgrounds in Raleigh; national historic monument
 - *Battleship North Carolina* in Wilmington; famous World War II vessel
 - *Elizabeth II* at Roanoke Island Festival Park; replica of a 16th century sailing vessel
 - State Capitol building in Raleigh; completed in 1840; national historic landmark
 - NC Aquariums located in Fort Fisher, Pine Knoll Shores, and Roanoke Island
 - Mortuary and Temple at Town Creek Indian Mound near Mt. Gilead; built circa 1400
 - Doghouse at Medoc Mountain State Park in Halifax County
 - Museum of Natural Sciences in Raleigh; state-of-the-art museum with the state's only escalator
 - Tryon Palace in New Bern; site of the original state capitol
 - Mount Mitchell Observation Tower, Mount Mitchell State Park; highest point east of the Mississippi River
 - Van der Veer House and Palmer-Marsh House in Historic Bath; built in 1740 and 1744

4. Where Does the Money Go? *continued*

Medicaid, a federal health insurance program for children and the poor, has contributed to North Carolina's budget problems over the last several years as economic declines put more people out of work and health costs soared. While the federal government pays about 66% of the costs of Medicaid, state and county governments are responsible for about 27% and 7% respectively. The costs of Medicaid have been increasing faster than any other section of the state budget over the last several years. The total cost of Medicaid is greater than the estimated economic effects of textile manufacturing and the tobacco industry combined. Medicaid spending in the state hit \$7.4 billion in 2002–2003, while textile manufacturing accounted for only \$3.8 billion and the tobacco industry for only \$1.5 billion. Most Medicaid recipients are children, but about 38% of Medicaid costs are consumed by only eight percent of those eligible for Medicaid, generally the elderly and disabled.

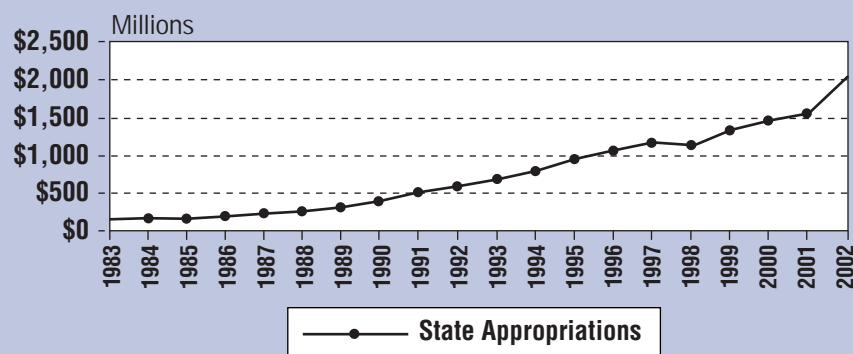
MEDICAID PROGRAM: ROLE IN STATE ECONOMY, FY 2002–2003



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.11

STATE APPROPRIATIONS TO MEDICAID



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.12

MEDICAID PROGRAM HISTORY OF TOTAL EXPENDITURES

Fiscal Year	Total Expenditures
1979–1980	\$410,053,625
1989–1990	\$1,427,672,567
1999–2000	\$5,789,133,085
2001–2002	\$7,366,129,429

SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.13

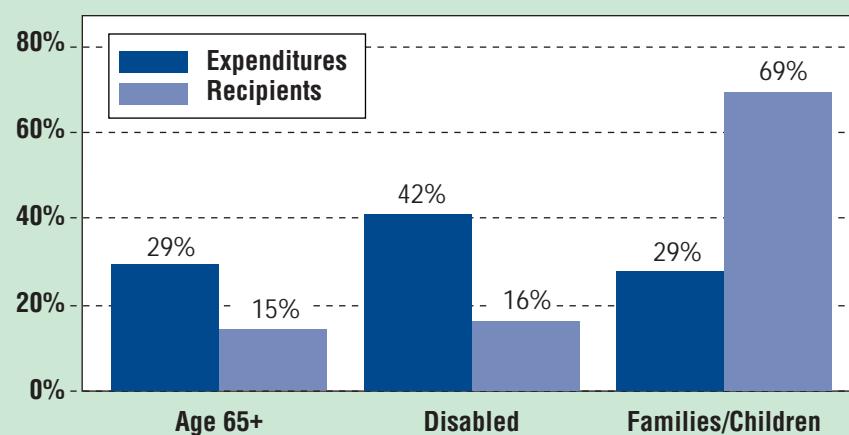
MEDICAID PROGRAM EXPENDITURES AND RECIPIENTS FY 2002

Eligibility Category	Number of Recipients	Expenditures	Annual Cost Per Recipient
Elderly	208,109	\$1,804,543,711	\$8,687
Aged	160,845	\$1,783,081,503	\$10,799
Disabled	223,225	\$2,590,740,655	\$10,645
Families & Children	954,340	\$1,753,986,603	\$1,639

SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.14

MEDICAID PROGRAM EXPENDITURES AND RECIPIENTS



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.15

Quick Facts: Selected Department of Transportation Construction Costs, 2003

Selected construction costs for different types of roads and interstates are estimated costs and do not include right-of-way or design costs.

Four-lane Interstate Highways

- Piedmont and coastal plain:
 - Rural = \$6.9 million per mile
 - Urban = \$19.2 million per mile
- Mountains:
 - Rural = \$26.5 million per mile
 - Urban = \$35–40 million per mile

Interstate Highway Interchanges

- Interstate to interstate = \$50–\$70 million each
- Interstate to secondary (diamond or 1/2 clover leaf) = \$4–7 million each
- Interstate to secondary (single point urban) = \$12–14 million each

Secondary Roads

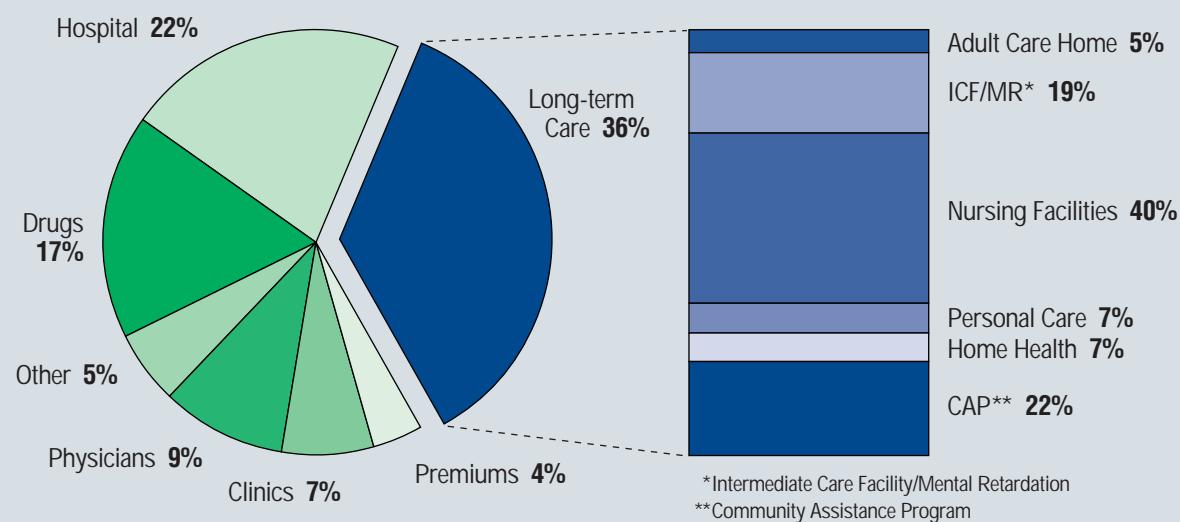
- Piedmont and coastal plain = \$200,000 per mile
- Mountains and foothills = \$318,000 per mile

SOURCE: NC Department of Transportation

MEDICAID PROGRAM: EXPENDITURES FOR SERVICES

Changes in expenditures for services since FY 1995:

- Long-term care expenditures continue to decline—40% to 36%
- In-home services are an increasing share of the long-term care expenditures—19% to 36%
- Hospital expenditures have also declined—27% to 22%
- Drug expenditures have doubled—8% to 17%



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.16

REVENUE GROWTH IN HIGHWAY FUND, HIGHWAY TRUST FUND, FEDERAL AID FOR TRANSPORTATION, AND GENERAL FUND

	Revenues (\$ Millions)		
	1991–92	2001–02	% Change
Highway Fund	\$944	\$1,298	+38%
Highway Trust Fund	537	974	+81%
Federal Aid (budgeted)	341	809	+137%
Total	\$1,822	\$3,081	+69%
General Fund	\$7,638	\$13,157	+72%

SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.17

DIFFERENCES BETWEEN HIGHWAY FUND AND HIGHWAY TRUST FUND (RULES OF THUMB)

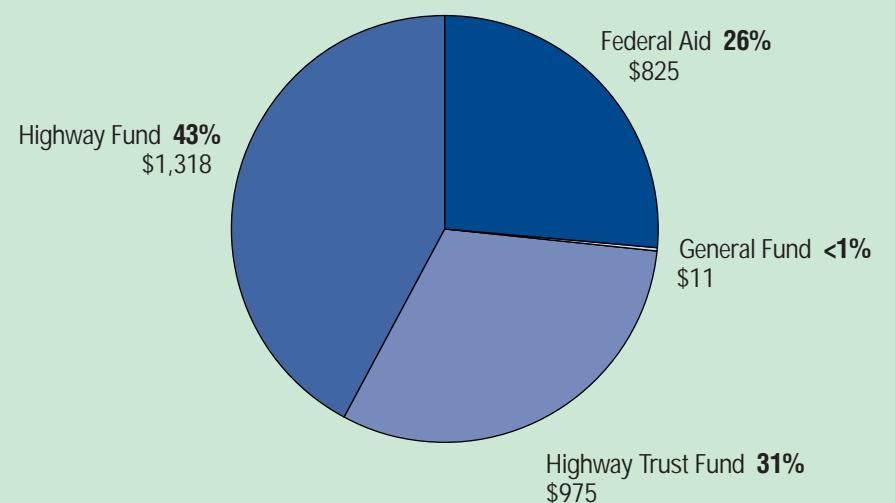
	Highway Fund	Highway Trust Fund
Major State Revenue Source	Motor Fuels Taxes 65%	Highway Use Tax 59%
Biggest Program	Maintenance 52%	Construction 95%
Primary Method of Allocation	Appropriation	Statutory Formulas

SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.18

2002–2003 TRANSPORTATION REVENUES (\$ MILLIONS)

Total: \$3.1 billion



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 4.19