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\$2 billion shortfall possible for N.C.

The signature programs of the candidates for governor could have a tough time as legislators sweat the budget.

By Benjamin Niolet
ben.niolet@newsobserver.com
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Pat McCrory and Bev Perdue

RALEIGH The first crisis to face the next governor is already here.

Even as the inauguration parties wind down, the new governor will have to confront a sobering reality: The state budget will have a hole in it that could be as wide as \$2 billion.

That's 10 percent of the state's current \$21.4 billion budget.

The candidates are short on specifics in how they would deal with such a shortfall. But Democrat Beverly Perdue and Republican Pat McCrory say they would not favor raising taxes.

The economy has slowed, and tax revenue has started to dip. Forecasters say the extent of the problem won't be clear until next year. So far, the portents are bad, said state Rep. Jim Crawford, an Oxford Democrat.

Crawford has been writing budgets for 22 years. He said he's never seen it this bad, and said the next governor will have a tough enough time assembling a balanced budget without trying to push through signature programs.

"I love hearing all these people talking about all these programs they're going to put out there and how much they're going to spend on this, that and the other," Crawford said. "I wonder where it's all going to come from."

Perdue and McCrory said in interviews this week that they wouldn't wait until they are sworn in to tackle the problem. They both said they would convene expert panels to identify cuts and efficiencies in state government. They said they would prefer targeted cuts to across-the-board slashing. McCrory and Perdue agree on something else: New taxes would be a mistake.

"I don't believe that you can raise taxes in an economy with folks struggling the way they are," Perdue said.

Said McCrory, "The last thing I want to do is tax people who are losing their businesses right now. The economy is in a terrible downturn. Who are we going to tax?"

Libertarian candidate Mike Munger, chairman of the political science department at Duke University, said he would favor across-the-board cuts and that he wouldn't push for a tax increase, but that it may be necessary given the size of the shortfall.

The legislature has typically fallen back on a combination of spending cuts and tax increases. In 2001 lawmakers fought over how to cope with a shortfall that eventually swelled to \$850 million. After a long fight, lawmakers eventually approved budget cuts and tax increases.

The governor recommends a budget, but he or she needs the legislature to adopt it. Unlike the federal government, North Carolina's constitution requires the budget to be balanced.

Gov. Mike Easley, a Democrat, has already ordered state agencies to hold back 2 percent of their spending. Easley said he doesn't want the next governor to inherit a budget shortfall as he did.

Crawford said declining revenue tells only half the story. He said he believes tax revenue will be down a billion dollars or more. But the state will also see another billion in expenses such as bonuses promised for teachers whose students excel on the state's testing and accountability program, and the cost of more new students enrolling in the state's schools.

The costs for Medicaid, the government's health insurance program for the poor, is always more expensive than the year before.

Job cuts in state government may be necessary, Crawford said.

"The problem is those things feed on each other," Crawford said. "If you lay people off, you've got consumers who don't have any money. It's a bad situation."

Candidates would seek help

McCrory and Perdue would not provide specifics on cuts they would consider.

McCrory said that, if elected, he would convene experts from in and out of government to help him find a way to cut. McCrory, in his seventh term as Charlotte's mayor, said he hasn't studied the state's current budget.

"We're going to have to, at a minimum, decrease the increase in spending and most likely have some serious cuts in other areas," McCrory said. "I believe in prioritizing more strategic cuts and prioritizing where the needs are versus where we have to cut."

Some of McCrory's signature issues, such as government reform and offshore drilling for oil, would not require expensive programs. Others, such as efforts to combat gang activity, could cost.

Charlotte has an annual budget of roughly \$1.8 billion, and McCrory said that, after the terrorist attacks of Sept. 11, 2001, the city took a huge hit to its hotel and motel tax, a major source of revenue. McCrory said the city canceled some contracts, delayed capital projects and took other measures.

Perdue, in her second term as lieutenant governor, said that even before the inauguration in January she would assemble a panel to recommend budget reforms.

Since the primary, Perdue has pitched the idea of a budget reform commission. The commission would be modeled after a federal body that recommended how to close and realign military bases. She said the group could quickly devise ways to reduce spending.

She said the state has a rainy day fund of nearly \$850 million and she said she would use that money to keep her priorities intact.

"My goal would be to hold the classroom and teachers and kids as harmless as possible," she said. "After that, you have to be a realist and do what you have to do to make the budget balanced."

Some of Perdue's promises – such as a plan to offer free community college to certain high school graduates and a plan to expand health care coverage for children – would require new spending.

Perdue was one of the senate's chief budget writers in 1999 when Hurricane Floyd hit the state. Then-Gov. Jim Hunt called a special session to find money for hurricane relief. Perdue takes credit for finding cuts to pay for the \$836 million package.

"We did it without having to raise taxes a plug nickel," Perdue said.



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