

[back to article](#)

StarNewsOnline.com

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# Perdue doesn't want to be hindered by budget

By GARY D. ROBERTSON Associated Press Writer  
Published: Monday, December 29, 2008 at 2:30 p.m.

Beverly Perdue will make history when she's sworn in as the state's first female governor. But once in office, she'll immediately face a problem that's become common for an incoming chief executive in North Carolina.

Perdue, a Democrat from New Bern, will begin her tenure with state government in a budget hole that some projections say could reach \$1.6 billion by the end of June. It's an ominous figure. It took her predecessor, outgoing Democratic Gov. Mike Easley, three years to get out from under a budget shortfall he inherited after taking office in 2001 that initially totaled \$850 million.

And the breadth of the nation's recession means no one knows for sure just how accurate the projections are. If the economy doesn't improve, the gap between the state's expected revenues and its growing list of expenses could near \$3 billion by the start of the next fiscal year in July.

"I will not let it consume every breath that I take for the next year - although it could if one would let it because it is fundamentally unbalanced and there are tremendous challenges there," Perdue, the lieutenant governor since 2001, said of the state's budget.

The effort to balance the state's roughly \$21 billion budget, and to write and pass a new two-year spending plan before the end of the fiscal year, will overshadow all else as Perdue and the Democratic-controlled Legislature begin their work Jan. 28 in Raleigh.

"The economic situation is going to dominate to an extent that we have not seen," said Senate Minority Leader Phil Berger, R-Rockingham.

Easley has tried to help out, cobbling together a \$1.2 billion savings plan during his final weeks in office that should keep lawmakers from having to scramble immediately for extra cash and cuts.

But significant cuts are likely coming, as legislators on both sides of the aisle have little appetite for boosting taxes in the middle of a recession that's already cost the

state tens of thousands of jobs. In 2001, lawmakers approved temporary tax increases to help fill the hole and it took years to remove them. A portion of the sales tax increase became permanent.

"I find no one interested in raising any direct revenue source," said Rep. Pryor Gibson, D-Anson, who served as a House Finance Committee co-chairman during the past two years. "Everybody knows we can't whittle the bottom 3 or 4 percent (of spending) and get this fixed. We're going to have turn some sacred cows into hamburger."

Republicans, again in the minority in both chambers of the Legislature, also sound unified that solving the state's budget woes will require cuts in spending.

"Our usual agenda is to try to hold spending down, but we may not have to struggle too hard on that," said House Minority Leader Paul Stam, R-Wake. "This is not the year to raise tax rates, and I know that was the way to solve the budget crisis in 2001."

Such steadfastness against boosting taxes worries social justice advocates who argue against across-the-board spending cuts by noting inflation adjusted per-capita state spending has actually declined since 1999. Instead, they seek a reformation of the state's tax structure to raise revenue from a broader swath of businesses and service providers.

"Cutting back on state spending will not be a matter of 'trimming the fat or excess' but rather a matter of making tough choices about the relative importance of state-funded services," Meg Gray Wiehe, an analyst at the liberal-leaning North Carolina Budget & Tax Center, wrote in a recent report.

Lawmakers will face calls for higher taxes and fees from a committee that spent a year studying how to close a \$65 billion gap in the state's transportation funding needs by 2030. The problems in the state's mental health and probation systems could demand costly action, and the state employee health insurance plan needs an immediate infusion of \$300 million to stay afloat.

Perdue insists she won't make the budget an excuse for failing to move forward with initiatives she pushed during her winning campaign. Her familiarity with lawmakers - she presided over the Senate during the last eight years and was in the Legislature for 14 years before that - should improve lines of communication that broke down at times with Easley.

"The first year that a new governor is in office, her policies will take precedence," said Ran Coble, executive director of the nonpartisan North Carolina Center for Public Policy Research.

But Perdue may have to take an incremental approach to reach her goals of offering free community college tuition and expanding subsidized health care for

children. Democratic leaders at the Legislature, meanwhile, said they can't let the budget troubles keep them from creating an environment that gets people back to work.

"This session should be about employment," said Senate leader Marc Basnight, D-Dare. "Jobs, jobs and more jobs."

North Carolina is better off fiscally than surrounding states, because it's less dependent on its historic manufacturing base of textiles and furniture than it once was. The nation's housing slump, meanwhile, hasn't been as deep. A federal stimulus package could help create jobs and extra revenues to help the state cover the budget hole. Perdue also plans some state stimulus proposals.

But the state is "beginning to head into a severe downturn, no question," House Speaker Joe Hackney, D-Orange.

Elsewhere in state government, four new faces - all Democrats - join the Council of State, which will have a female majority for the first time. Walter Dalton will be the new lieutenant governor and Wayne Goodwin becomes insurance commissioner, replacing the retiring Jim Long. Beth Wood defeated incumbent State Auditor Les Merritt, and Janet Cowell will become state treasurer, a position vacated by Richard Moore.

