The State Budget

One of the primary purposes of the legislature’s “short” sessions in even-numbered years is to enable the General Assembly to adjust the second year of the state’s biennial budget. In 1998, the budget adjustment process got off to a slow start and ultimately took more than five months to complete as the House and Senate took widely divergent positions with respect to the amount of revenue available, the extent to which “excess” revenues should be returned to taxpayers through tax cuts, and how the state should spend the remaining money available.

This chapter summarizes, in broad outline, the fiscal provisions of the 1998–99 state budget adopted by the General Assembly and other legislation affecting the development, enactment, and administration of the state budget. Information regarding appropriations for particular state departments and agencies and summaries of substantive legislation included in the 1998 Appropriations Act are included in other chapters of North Carolina Legislation.

The Budget Process

North Carolina’s state government operates on a fiscal year that runs from July 1 to June 30. During its “long” regular session in odd-numbered years, the General Assembly adopts a biennial state budget that makes appropriations for each of the next two state fiscal years. The General Assembly then returns for a “short” session in the following even-numbered year to make adjustments to the state’s budget for the second year of the biennium. Thus, North Carolina’s budgets for state fiscal year (SFY) 1997–98 and SFY 1998–99 were enacted during the General Assembly’s 1997 regular session (S.L. 1997-443), and the legislature’s 1998 “short” session focused on making adjustments to the previously enacted 1998–99 budget based on more current information about the amount of available state revenues and anticipated expenditures for 1998–99, and new requests for additional appropriations.

The first budgetary action taken by the General Assembly in 1998 occurred in May, during the legislature’s special session, when the General Assembly appropriated $15.6 million for SFY 1998–99 to pay the state’s share of the new health insurance program for uninsured children (Health Choice) enacted by S.L. 1998-1 (Ex. Sess.) (S 2).

Shortly thereafter, legislators were greeted with both good news and bad news as they returned to Raleigh to begin their “short” session. The good news was that, based on greater than
expected tax collections (driven by the continued healthy expansion of the state’s economy), budget officials estimated that approximately $1.4 billion in additional or unexpended state revenue was available for new spending or tax relief in 1998–99. The bad news, delivered by the state’s supreme court only days before the General Assembly reconvened, was that the state owed federal, state, and local government retirees approximately $1 billion in tax refunds or credits on government retirement benefits that the state had illegally taxed. Bailey v. State of North Carolina, 348 N.C. 130, 500 S.E.2d 54 (1998).

The Governor’s recommended changes to the 1998–99 state budget (submitted to the General Assembly before the supreme court’s May 8, 1998, decision in Bailey) proposed a total of $12.5 billion in General Fund appropriations for 1998–99, including $187.1 million in reductions to the 1998–99 state budget approved by the General Assembly in 1997, $176.8 in additional appropriations for capital improvements, and almost $1.2 billion in additional spending. The Governor’s recommendations for additional spending included funding for salary increases for teachers and state employees ($415.8 million); elementary and secondary education ($266 million); universities and community colleges ($103.7 million); expansion of the Smart Start program ($56.6 million) and other health and social services programs ($127.7 million); juvenile justice reform ($40 million); environment and natural resources ($41.1 million); the Industrial Development Fund ($32 million); year 2000 conversion ($27.3 million); and other government programs ($85 million). (A copy of the Governor’s 1998–99 budget recommendations is available on the Internet at http://www.osbm.state.nc.us/osbm/pubs.html.)

Under unwritten legislative tradition, the two legislative chambers take turns with respect to initial development of the state budget. During the 1997–99 biennium, the Senate was responsible for taking the lead in writing and passing a budget bill. It soon became clear, however, that the Senate would not be able to develop its own budget proposal or pass an appropriations bill for the House’s consideration—and that the General Assembly therefore would not be able to enact legislation adjusting the 1998–99 state budget—before the beginning of the 1998–99 state fiscal year on July 1, 1998. State government, however, did not face the prospect of a complete shutdown as a result of the legislature’s failure to adopt a revised 1998–99 budget because the 1997 Appropriations Act, S.L. 1997-443, already authorized more than $11.5 billion in appropriations for the continued operations of state government during 1998–99. [The General Assembly did enact legislation [S.L. 1998-9 (S 1193)] before the end of SFY 1997–98 making a $40.3 million emergency appropriation from the General Fund, departmental receipts, and previously authorized appropriations to cover the 1997–99 costs of converting the state’s computer systems to resolve the “year 2000 problem.”]

Nonetheless, given the legislature’s failure to enact legislation revising the 1998–99 state budget before the beginning of the new fiscal year and the very real probability that it would be some time before the legislature adopted an appropriations act for 1998–99, the General Assembly passed temporary legislation [S.L. 1998-23 (S 620)] on June 30, 1998, that:

- directed the Governor to allocate state funds for expenditure by state departments and agencies for current operations as provided in the 1998–99 budget adopted by S.L. 1997-443;
- implemented the 1998–99 budget reductions contained in the Governor’s recommended budget changes;
- prohibited the filling of vacant positions subject to proposed base budget cuts and requiring that state employees in positions subjected to proposed base budget cuts or in positions funded with nonrecurring funds for 1997–98 be given termination notices;
- continued the 1997–98 salary schedules for teachers and state employees;
- appropriated $55 million from the 1997–98 General Fund balance for the purchase of school buses, incentive payments for 1997–98 under the ABCs of Public Education program, longevity payments to teachers for 1997–98, and school technology;
- appropriated $42.3 million to cover the cost of increased enrollments in public schools, community colleges, and universities in 1998–99; and
The following day, July 1, 1998, the Senate passed its 1998 budget bill (S 1366) after adopting only two amendments offered on the floor and tabling, with relatively little opportunity for debate, a handful of amendments offered by Republican Senators. The Senate’s proposed budget

- was based on $121.5 million in unappropriated revenues from 1997–98, $100 million in reverted appropriations from 1997–98, $766.9 million in additional revenues for the 1997–99 biennium, $120.4 million in Medicaid DSH funds, and a $170 million transfer from the Highway Trust Fund;
- transferred $21.6 million to the state’s “rainy day” reserve, $145 million to the repairs and renovations account, and $53 million to the clean water management reserve;
- provided $400 million for refunds to federal, state, and local government retirees under the settlement of the Bailey case, an additional $164.1 million in tax relief for government retirees, and $53.9 million for repeal of the state food tax, effective November 1, 1998;
- included $247.9 million in budget reductions;
- appropriated $135.3 million for capital improvement projects; and
- appropriated an additional $1 billion for new or expanded government programs and services, including most of the additional spending recommended by the Governor.

After receiving the Senate’s proposed budget, the House Appropriations Committee adopted a committee substitute for Senate Bill 1366, which was brought to the floor on July 22, 1998. In contrast to the proceedings in the Senate, debate of the budget bill on the House floor was relatively open-ended. The House considered a total of thirty-six amendments offered on the floor and adopted twenty-two of them, including a number offered by the Democrat minority. The proposed budget passed by the House

- assumed about the same amount of additional revenue for 1997–99 as projected by the Senate;
- provided $23 million less in funding for the clean water management reserve than the Senate’s proposed budget;
- provided $165.8 million more in tax relief than the Senate’s proposed budget;
- appropriated $8.4 million more than the Senate for capital improvements;
- proposed an additional $19.3 million in budget reductions for 1998–99; and
- proposed $121 million less in new spending than the Senate ($908 million in the House budget compared to $1 billion in the Senate budget).

Although the bottom lines of the Senate and House budget proposals were within about $132.4 million of each other (total General Fund appropriations for 1998–99 of about $12.46 billion in the Senate budget and $12.33 billion in the House budget), differences between the House and Senate budgets with respect to tax relief, spending priorities (for example, $21 million less in spending for environmental programs and provision of partial funding for Smart Start and juvenile justice reform in the House budget), designation of capital improvement projects, and welfare reform and other substantive legislation were significant.

Conferees were appointed by the Senate (July 28) and House (July 29) to resolve the differences between the House and Senate with respect to the 1998–99 budget bill but failed to meet together publicly for the next two months. Instead, the two chambers exchanged a series of proposals and counterproposals regarding repeal of the inheritance tax, welfare reform, and other issues in controversy, none of which proved sufficiently acceptable to the other chamber to start face-to-face negotiations.

Because there were only a few differences between the House and Senate budget bills with respect to salary increases for teachers and state employees and increased retirement benefits for state and local government retirees, and because progress toward enactment of the state budget seemed stalemated, Senate and House leaders finally agreed, in late September, to enact separate legislation increasing salaries for teachers and state employees, increasing retirement benefits for state and local government retirees, and appropriating funds for these purposes. The legislature acted quickly on this legislation [S.L. 1998-153 (S 879)], which passed both chambers on
In September 23 and was approved by the Governor on September 28, 1998. [The General Assembly also enacted separate legislation in late September appropriating $550,000 to pay the attorney fees of voters who successfully challenged North Carolina’s congressional redistricting plan in federal court, and transferring $400 million from additional 1997–98 revenues to pay for tax refunds and credits to federal, state, and local government retirees pursuant to the settlement agreement in the Bailey case. S.L. 1998-164 (S 1262).]

The following day, legislation was introduced in the Senate (Senate committee substitute for H 900) to appropriate state funds to match several federal grants that would have been lost if the state did not appropriate matching funds by October 1, 1998. This legislation, and the resulting dispute between the House and Senate with respect to whether the state should accept federal Welfare-to-Work funds, led to an all-day, three-way negotiation session among the Governor and legislative leaders on September 30, 1998. The agreement reached by the Governor and legislators late that evening not only resolved the differences between the House and Senate with respect to House Bill 900 (which was enacted as S.L. 1998-166 and signed by the Governor only minutes before the midnight deadline), but also resolved a number of disagreements between the House and Senate with respect to tax relief, welfare reform, and other issues, clearing the way for face-to-face budget negotiations between the House and Senate conferees.

The House and Senate budget conferees finally reached a compromise agreement on the 1998–99 appropriations bill on October 26, 1998. Both chambers adopted the conference committee substitute for Senate Bill 1366 on October 27 and 28, and the bill was approved by Governor James B. Hunt as S.L. 1998-212 on October 30, 1998—four months after the beginning of the 1998–99 fiscal year and more than twenty-four weeks after the “short” legislative session convened.

The general fiscal, appropriations, and budget provisions of the Current Operations Appropriations and Capital Improvements Appropriations Act of 1998, S.L. 1998-212 (S 1366), are discussed in the following sections of this chapter. Substantive legislation included in the 1998 Appropriations Act is discussed in other chapters of North Carolina Legislation.

The 1998–99 State Budget

North Carolina’s state budget is supported by four major sources of funding: (1) the General Fund; (2) the Highway Fund and the Highway Trust Fund; (3) grants and other funding provided to the state by the federal government; and (4) departmental receipts (such as tuition payments to state universities). Appropriations from the General Fund (approximately $12.5 billion for 1998–99) support about 58 percent of the total state budget; federal funding pays for about 25 percent of spending by the state government; the remaining 17 percent is supported by the highway funds and departmental receipts. See Chart 2-1.

North Carolina’s total state budget for 1998–99 (including appropriations from the General Fund, the Highway Fund, the Highway Trust Fund, federal grants, and departmental receipts but excluding proceeds from the sales of general obligation bonds) is approximately $21.5 billion. Spending for education (public schools, community colleges, and universities) accounts for about 40 percent of the total state budget; health and human services programs (including Medicaid, public assistance, public health, mental health, and aging programs) account for about 30 percent of state spending; and about 10 percent of the total state budget is allocated for transportation (highways, motor vehicles, and public transit). See Chart 2-1.
The General Fund

The General Fund consists of state tax revenues (other than the motor fuels tax), nontax revenues (such as court fees and investment income from state funds), and the unreserved General Fund credit balance from the prior fiscal year. Appropriations from the General Fund support virtually all state government programs and services other than highway construction and maintenance.

1997–98 General Fund Credit Balance. The credit balance of the General Fund at the end of SFY 1997–98 (June 30, 1998) was about $729.2 million, consisting of $121.5 million in unappropriated funds, $94.7 million in unexpended (reverted) funds, and $533.5 million in unanticipated revenues, minus the $20.5 million emergency appropriation enacted by S.L. 1998-9.

Budget Reserves. S.L. 1998-164 (S 1262) allocated $400 million of the 1997–98 General Fund credit balance for payment of tax refunds and credits to federal, state, and local government retirees pursuant to the settlement agreement in the Bailey case. [The Bailey case is discussed in more detail in Chapter 22 (Senior Citizens) and Chapter 26 (State Taxation).]

The 1998 Appropriations Act, S.L. 1998-212 (S 1366), allocated an additional $21.6 million from the 1997–98 General Fund credit balance to the state’s “rainy day” reserve established under G.S. 143-15.3, increasing the balance of the “rainy day” reserve to approximately $522.6 million or 5 percent of General Fund appropriations for current operations in 1996–97 as required by state law.

The 1998 Appropriations Act also earmarked $47.4 million of the 1997–98 General Fund credit balance for the state’s Clean Water Management Trust Fund (G.S. 143-15.3B) and $145 million for the Reserve for Repairs and Renovations (G.S. 143-15.3A).

Unreserved Credit Balance, Revenues, and Available Funds. The revised 1998–99 state General Fund budget is based on a total of $12.52 billion in available funding, including an unreserved 1997–98 credit balance of $115.2 million and $256.3 in anticipated additional tax revenue. Details regarding the General Fund unreserved credit balance, anticipated revenues for 1998–99, tax relief, and available funds for 1998–99 are presented in Table 2-1.

Table 2-1. 1998–99 General Fund Balances, Reserves, Tax Relief, and Appropriations

<table>
<thead>
<tr>
<th>1997–98 General Fund Balance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unappropriated Revenues 1997–98</td>
<td>$121.5 million</td>
</tr>
<tr>
<td>Unexpended Appropriations 1997–98</td>
<td>$94.7 million</td>
</tr>
<tr>
<td>Unanticipated Revenue Collections 1997–98</td>
<td>$533.5 million</td>
</tr>
<tr>
<td>Emergency Appropriation (S.L. 1998-9)</td>
<td>($20.5) million</td>
</tr>
<tr>
<td>1997–98 Credit Balance</td>
<td>$729.2 million</td>
</tr>
</tbody>
</table>
Savings Reserve ($21.6) million
Clean Water Management Trust Fund ($47.4) million
Repairs and Renovations ($145.0) million
Bailey Case Refunds (S.L. 1998-164) ($400.0) million

Unreserved Credit Balance (June 30, 1998) $115.2 million

1998–99 General Fund Availability
Unreserved Credit Balance 1997–98 $115.2 million
Anticipated Tax and Nontax Revenues 1998–99 $12,276.4 million
Additional Nontax Revenues 1998–99 $23.8 million
Medicaid DSH Receipts $120.4 million
Highway Trust Fund Transfer $170.0 million
Highway Fund Transfer (Sales Tax) $13.4 million
Additional Tax Revenues 1998–99 $2.2 million
Bailey Case Tax Loss ($128.6) million
Refunds for Federal Retirees ($35.5) million
Tax Relief 1998–99 ($37.9) million

Total General Fund Availability 1998–99 $12,519.4 million

1998–99 General Fund Appropriations
1997 Appropriations Act (S.L. 1997-443) $11,532.0 million
Health Insurance Program for Children (S.L. 1998-1) $15.6 million
Salary and Retirement Increases (S.L. 1998-153) $342.1 million
Legal Fees for Congressional Redistricting (S.L. 1998-164) $0.6 million
Matching Funds for Federal Grants (S.L. 1998-166) $57.1 million
1998–99 Budget Reductions (S.L. 1998-212) ($220.9) million
Additional Appropriations for Current Operations (S.L. 1998-212) $618.2 million
Appropriations for Capital Improvements (S.L. 1998-212) $174.5 million

Total 1998–99 General Fund Appropriations $12,519.2 million

Remaining Unappropriated Balance
Total General Fund Availability 1998–99 $12,519.4 million
Total 1998–99 General Fund Appropriations ($12,519.2) million

Remaining Unappropriated Balance $0.2 million

1998–99 Appropriations from the General Fund. The 1998 sessions of the General Assembly increased the total amount of authorized appropriations from the General Fund for current operations and capital improvements for SFY 1998–99 by $987.2 million to $12.52 billion (an increase of $1.1 billion, or about 10 percent, over the amount of General Fund appropriations for 1997–98). This net $987.2 million increase in 1998–99 appropriations consisted of $265.3 million in budget reductions and $1.25 billion in new spending.

The 1998–99 budget reductions enacted by S.L. 1998-153 and S.L. 1998-212 included a $44.4 million reduction in the state’s contribution to the retirement systems for teachers and state employees, $73.4 million in reductions in the state Medicaid program, elimination of $20 million in additional funding for the state’s Work First Reserve, a $35.5 million adjustment based on recalculation of average teacher salaries, and the payment of $24.2 million for new school buses from 1997–98 reversions instead of the 1998–99 operating budget.

The $1.25 billion in new spending for 1998–99 authorized by the General Assembly includes $343.3 million in recurring spending for compensation increases for teachers (an average 6.5 percent salary increase) and state employees (a 3 percent increase and 1 percent bonus for most
state employees); $98 million for pay bonuses for teachers under the ABCs program; $10 million for supplemental funding for low-wealth schools; $28.5 million for technology in the state’s community college and university systems; $12.9 million for distance learning and off-campus courses in the UNC system; $8 million for support of graduate teaching and research assistants; $3 million for the monitoring of coastal river basins; $42.5 million in additional funding for the Smart Start program; $27 million to provide Medicaid coverage to all elderly and disabled persons with incomes under the federal poverty level; $38 million in matching funds for Medicaid services provided by area mental health authorities; $6 million to provide services to persons with developmental disabilities; $8 million in additional funding for the AIDS drug assistance program; $8 million in one-time funding for water and sewer projects in rural communities; funding for 149 additional deputy clerks of court and thirteen new district court judges; $17.5 million for juvenile justice reform; $112.5 million for capital improvements for The University of North Carolina (UNC), and $73.2 million for capital improvements for other state departments and agencies.

Additional and more detailed information regarding appropriations for particular state government agencies and programs is included in some of the following chapters of North Carolina Legislation.

The Impact of 1998 Spending Increases and Tax Relief on Future State Budgets. The revised 1998–99 state budget adopted by the General Assembly appropriates almost all of the funding that is available for SFY 1998–99, leaving an estimated General Fund balance of about $240,000 at the end of the fiscal year. (By comparison, the General Assembly left $200 million in unappropriated funds at the end of the 1995–97 biennial budget.) Legislators, therefore, will not have a significant amount in carryover funds when they begin developing the state budget for the 1999–2001 biennium.

In addition, the impact in future years of spending increases and tax relief enacted during the 1998 legislative session, combined with the state’s obligation to pay another $399 million in 1999 under the Bailey settlement, may mean that, even if North Carolina’s economy remains healthy and continues to grow, most of the state’s additional revenue in coming years will be needed to pay for the tax relief and spending provisions enacted in 1998 and will not be available for new or expanded programs. About half of the $1.2 billion in new spending approved by the General Assembly is recurring funding that will become part of the state’s continuation budget in future years. And while most of the tax relief provisions enacted in 1998 had little or no impact on the state’s 1998–99 budget, the cost of these 1998 tax relief provisions will certainly be felt during the next biennium. For example, the General Assembly’s elimination of the final two cents of state sales tax on food becomes effective on May 1, 1999, and will result in a revenue loss of approximately $18.4 million in 1998–99 but will cost the state $184.5 million in 1999–2000. Repeal of the state’s inheritance tax is effective January 1, 1999, and will have little or no effect on the 1998–99 budget but will cost the state $52.5 million in 1999–2000. Legislation allowing nonitemizers to claim a tax credit for charitable contributions (S.L. 1998-183) is effective for tax years beginning on or after January 1, 1999, and will have no effect on the 1998–99 budget but will cost $7.6 million in 1999–2000. Tax credits for businesses under the Economic Opportunities Act, S.L. 1998-55, will cost only $2.2 million in 1998–99, and $1.3 million in 1999–2000, but will increase to $16.3 million in 2002–3. Altogether, the net effect of the 1998 tax changes enacted by the General Assembly will be about $35.6 million in 1998–99 but will increase to $289.6 million in 1999–2000 and to $410 million in 2002–03.

The Highway Fund and Highway Trust Fund

The Highway Fund is funded by the motor fuels tax and other revenues related to motor vehicles, and provides funding for most of the operations of the state Department of Transportation. The Highway Trust Fund is funded by a portion of the per-gallon motor fuels tax and other dedicated revenues, and funds the special program of highway construction authorized by the 1989 General Assembly.

Federal Block Grants
Section 5 of the 1998 Appropriations Act, S.L. 1998-212, appropriates a total of $696.3 million in federal block grant funds to the Department of Health and Human Services and other state departments and agencies for 1998–99. See Table 2-2. S.L. 1998-164 (S 1262) authorizes the Department of Commerce to draw down approximately $25 million from the federal Welfare-to-Work Block Grant if state matching funds can be identified from existing appropriations.

Table 2-2. 1998–99 Federal Block Grant Appropriations

<table>
<thead>
<tr>
<th>Block Grant Program</th>
<th>Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development Block Grant</td>
<td>$44,000,000</td>
</tr>
<tr>
<td>Community Services Block Grant</td>
<td>$12,859,274</td>
</tr>
<tr>
<td>Social Services Block Grant (SSBG)</td>
<td>$77,457,668</td>
</tr>
<tr>
<td>(includes transfers from TANF Block Grant; excludes transfers to Preventive Health Services Block Grant)</td>
<td></td>
</tr>
<tr>
<td>Low-Income Energy Assistance Block Grant</td>
<td>$18,460,000</td>
</tr>
<tr>
<td>Mental Health Services Block Grant</td>
<td>$6,238,341</td>
</tr>
<tr>
<td>Substance Abuse Prevention and Treatment Block Grant</td>
<td>$31,865,050</td>
</tr>
<tr>
<td>Child Care and Development Block Grant</td>
<td>$1,597,879</td>
</tr>
<tr>
<td>Child Care and Development Fund Block Grant (CCDFBG)</td>
<td>$186,537,867</td>
</tr>
<tr>
<td>(includes transfers from TANF Block Grant)</td>
<td></td>
</tr>
<tr>
<td>Temporary Assistance to Needy Families (TANF) Block Grant</td>
<td>$295,246,202</td>
</tr>
<tr>
<td>(excludes transfers to SSBG and CCDFBG)</td>
<td></td>
</tr>
<tr>
<td>Maternal and Child Health Block Grant</td>
<td>$16,529,945</td>
</tr>
<tr>
<td>Preventive Health Services Block Grant</td>
<td>$5,533,755</td>
</tr>
</tbody>
</table>

Administration and Oversight of the State Budget

The Executive Budget Act

Tobacco Settlement Reserve Fund. S.L. 1998-191 (H 1248) amends the Executive Budget Act to create a new Tobacco Settlement Reserve Fund as a restricted reserve in the General Fund. G.S. 143-16.4. Unless prohibited by federal law, all federal funds provided to North Carolina, by block grant or otherwise, as part of federal legislation implementing a settlement between tobacco companies and the states and, unless otherwise encumbered or distributed under a settlement agreement or final order or judgment of a court, all funds paid to the state or a state agency pursuant to a settlement agreement or court order or judgment in litigation between tobacco companies and the states must be credited to the Tobacco Settlement Reserve Fund and may be expended only by specific appropriation by the General Assembly.

Public Settlement Reserve Fund. Section 18.7 of the 1998 Appropriations Act, S.L. 1998-212 (S 1366), amends the Executive Budget Act to create a new Public Settlement Reserve Fund as a restricted reserve in the General Fund. G.S. 143.16.5. Unless prohibited by a court order, all funds in excess of $75,000 paid to the state or a state agency pursuant to a settlement agreement
or final order or judgment in a court case entered on or after November 15, 1998, must be
deposited in the Public Settlement Reserve Fund and may be expended only by appropriation by
the General Assembly. The Attorney General must report to the Joint Legislative Commission on
Governmental Affairs, the chairs of the Senate and House Appropriations Committees, and the
General Assembly’s Fiscal Research Division on payments deposited in the Public Settlement
Reserve Fund. G.S. 114-2.5.

Appropriations for Construction or Renovation of State Buildings or Other Property.
S.L. 1998-45 (S 1093) requires the state Department of Administration to certify the broad
feasibility of certain state construction projects and amends the Executive Budget Act (G.S. 143-
6) to make this certification a prerequisite for the General Assembly’s appropriation of funding
(other than funds for advance planning) in the amount of $100,000 or more for construction or
renovation of any state building, utility, or property development (other than a railroad, highway,
or bridge structure).

Expenditure of Federal Funds. Section 7.2 of the 1998 Appropriations Act, S.L. 1998-212,
amends the provisions of the Executive Budget Act governing the expenditure of federal funds
received by the state. As amended, G.S. 143-16.1(a) requires the Governor, in making his budget
recommendations to the General Assembly, to show for each budgetary category the total amount
of anticipated federal funding and describe the purpose for which these federal funds will be
spent at the program level and to report all anticipated expenditures of federal funds by object, by
purpose, and by source of federal funding. Federal funds are defined as any financial assistance
provided to a state agency by the federal government, including, but not limited to, loans, grants,
subsidies, and reimbursements.

Other Legislation

Issuance of Revenue Bonds for Clean Water and Natural Gas Projects
S.L. 1998-132 (S 1354) authorized the issuance, subject to voter approval, of $800 million in
general obligation bonds for clean water projects and $200 million in bonds for natural gas
facilities. Issuance of these bonds was approved by the state’s voters at the general election on
November 3, 1998. Provisions governing use of the proceeds of these clean water and natural gas
bonds are discussed in Chapter 5 (Community Development and Housing), Chapter 10
(Environment and Natural Resources), and Chapter 27 (Utilities and Energy).

Civil Penalty and Forfeiture Fund
S.L. 1998-215 (S 882) amends numerous state laws to make clear the requirement that state
agencies deposit the clear proceeds of all civil penalties in the Civil Penalty and Forfeiture Fund
for use by North Carolina’s public schools as mandated by the North Carolina Constitution, the
North Carolina Supreme Court’s decision in Craven County Board of Education v. Boyles, 343
N.C. 87, 468 S.E.2d 50 (1996), and G.S. 115C-457.2. The Civil Penalty and Forfeiture Fund
receives about $3 million to $5 million per year from state agencies.

John L. Saxon