

Awful numbers foretell Perdue's painful NC budget

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RALEIGH, N.C. — North Carolina's dire financial picture became clearer before Gov. Beverly Perdue planned to unveil a budget proposal this week that apparently recommends eliminating programs and threatens state jobs.

With the unemployment rate now close to 10 percent, Perdue last week secured the state's rainy-day reserve fund, bringing to \$1 billion the amount at her disposal to pay the state's bills this year.

Her budget office also suggested scenarios that call for cutting spending from \$1.3 billion to \$2 billion next year - from 10 percent to 15 percent at most agencies. Cuts for the public schools, higher education and health wouldn't be as deep.

Perdue's staff has repeatedly said these reductions are only placeholders, and there's federal stimulus money to ease the pain. But the new governor's references connecting this deep recession to the Great Depression during her statewide televised address has many worried about spending cuts unlike any time in recent state history.

"We are more nervous than we have ever been," said Debra Dihoff, executive director of the state chapter of the National Alliance on Mental Illness, a patient advocacy group. "It's really terribly scary."

It's starting to sink in with legislators, too.

When senators complained last week about State Health Plan changes that lobbyists for pharmacists said could result in job losses, the bill's sponsor suggested they file an amendment to appropriate \$90 million to avoid them. There were no takers.

"The budget problems are of an unprecedented nature and will require cuts to the budget that we've never seen or experienced before," said the sponsor, Senate Majority Leader Tony Rand, D-Cumberland.

Perdue provided few details about the bad news in her spending plan for next year during last week's State of the State address.

"We are confronted with challenges our state has not seen since the Great Depression," she said.

"With a \$3 billion-plus shortfall, we have to be upfront and make hard, painful decisions."

The new governor scheduled a speech to talk about her education initiatives Monday, the day before she'll release her proposed two-year budget. General Assembly leaders ultimately will create the final spending plan this summer, with input from fellow Democrat Perdue.

She's pledged to increase per-pupil spending in the public schools, and that likely will be completed with the help of federal stimulus money.

But it won't mean state funding for K-12 education will be shielded. The budget scenarios from her office would reduce overall public school budgets from 4.5 percent to 7.5 percent.

Angella Dunston, director of the N.C. Justice Center's Education and Law Project, which advocates for students at risk of failure in the public schools, said she's representing families that also are at financial risk.

"People are literally losing their homes," she said. "Because you're (now) talking about our children or your child ... it's another level of anxiety that has been added to that plate."

Perdue's budget-writers say they've been trying to target poorly performing programs to find cost savings by eliminating them. But Perdue suggested her net is wider.

"We will reduce and cut state government programs and services that many, including me, know have been effective but which, in these times, we simply cannot afford," she told lawmakers.

That statement may give credence to the warnings of University of North Carolina system president Erskine Bowles. He told Board of Governors members in a memo that a 7 percent systemwide budget reduction would lead to eliminating 1,600 positions, almost 1,000 of which are currently filled.

That compares with the state's budget crisis earlier this decade, when lawmakers and then-Gov. Mike Easley agreed to reduce overall state government employment by about 1,200 positions over two years.

Perdue hasn't said if she will propose tax increases that Dunston and others say could avoid the worst cuts. But Republicans argue there are hundreds of millions of dollars in relatively easy savings to find or additional revenues without tax increases.

Many of the state government spending cuts to answer this year's \$2.2 billion shortfall have been made through hiring freezes, limiting travel, reducing maintenance and delaying purchases.

"If it's done right, most people in the state of North Carolina will not notice that much in the way of cuts," said Senate Minority Leader Phil Berger, R-Rockingham.

House Speaker Joe Hackney, D-Orange, disagreed with Berger, saying the Republican hasn't looked at the spending situation closely: "It's going to affect every citizen in North Carolina."

During the State of the State address, Perdue again recalled Gov. O. Max Gardner, who served from 1929-33, as a role model during uncertain economic times, someone who saw the opportunity to overhaul state government.

But when Perdue releases her budget Tuesday, she may feel more connected to Gardner's successor, John Ehringhaus. He cut the cost of state government by nearly one-third at the height of the Great Depression.

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