NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE
For Immediate Release: January 28, 1982

FUNDS FOR CAPITAL PROJECTS DRYING UP

Funds for capital projects like state buildings, roads, and maintenance are declining rapidly, says the N.C. Center for Public Policy Research. In an article published in its quarterly magazine, N.C. Insight, the research group reported that traditional sources of funds used for capital projects -- federal revenue sharing, the Highway Fund, and bond revenues -- are drying up. And, say authors Vance Sanders and Jack Betts, the percentage of the state budget devoted to such projects has declined from a peak of 17.4% in 1973-74 to 5.6% in 1981-82.

The article, entitled "The Budget Crunch and Capital Spending," examines trends from 1965 through 1981 in state funding for capital improvements. Such funding is spent on buildings at state mental institutions, higher education facilities, roads, and bridges, and includes recent controversial expenditures for horse show arenas and a microelectronics center. With the cooperation of the Office of State Budget and Management, the State Auditor, and the State Treasurer, the Center examined the four main sources of funding for capital projects as follows:

. Federal Revenue Sharing -- The general revenue sharing program begun by President Nixon pumped $500 million into North Carolina between 1972 and 1979. Half of that amount was used for capital projects. Congress cut out revenue sharing to state governments in 1980, so this source is no longer available.

. Highway Fund -- This has been the traditional source of money for state highways and bridges. The cost of building roads has risen sharply while revenues going into the Highway Fund have remained almost constant. In an effort to bail out the ailing Fund, the 1981 General Assembly approved a 3¢ hike in the gas tax, but both Gov. Hunt and legislators agree that it is not a permanent solution.

. General obligation bonds -- In the last 20 years, nearly $1 billion worth of bond issues have financed almost two of every five dollars spent on capital improvements in N.C. High interest rates and worries about endangering the state's high bond rating have caused a decline in the use of bonds for capital projects. Though the 1981 General Assembly approved the submission of a Clean Water Bond referendum to the voters, such bonds now constitute only 1.7% of the state budget.

In the article, Sanders and Betts discuss five possible solutions to the problem, including politically unpopular tax increases; new sources of revenue such as a severance tax on minerals; new bond issues; or diverting funds from other sources. The most likely solution, said persons interviewed for the article, was for the legislature to allocate a fixed percentage of the budget for capital projects.

Sanders is currently a law student at UNC-CH and a former intern for the N.C. Center, while Betts is Raleigh bureau chief of the Greensboro Daily News. The Center for Public Policy Research is an independent nonprofit group in Raleigh formed to study state government's policies and practices.

For more information, call Beth Briggs at (919) 832-2839.

P.O. BOX 430 336 FAYETTEVILLE STREET, ROOM 412 RALEIGH, N.C. 27602 (919) 832-2839