

Tax issue dogs legislators in efforts to adopt budget

By **BILL KRUEGER** and **STEPHEN HOAR**
Staff writers

Run though they might, legislators are being stalked these days by the beast called taxes.

Gov. James G. Martin and many members of the General Assembly have been trying to address North Carolina's fiscal mess — the state is facing a projected \$336 million shortfall in revenues for the fiscal year that begins July 1 — by putting together a budget that cuts spending and avoids raising taxes.

Yet Standard & Poor's Corp., the New York bond-rating firm, is breathing down the state's neck, threatening to lower its triple-A bond rating — the best available — if leaders do not come up with more permanent solutions to the budget problems.

To some legislators, that means a tax increase.

In a recent interview about the state's budget problems, Arthur J. Grisi, a senior vice president for Standard & Poor's, said, "One of the advantages is that North Carolina is a low-tax state, and therein lie some of the decisions."

That's true for some taxes, but not for others.

North Carolina ranks 40th among the states in the amount of property tax paid per \$1,000 of personal income, according to the latest figures compiled by the U.S. Census Bureau. The figures are for 1987-88. But property taxes are the prime source of revenue for local governments — no help to legislators looking for revenues for state government.

North Carolina ranks higher in the two taxes that bring in the lion's share of state revenues.

With sales taxes now at 5 percent, the state ranks 21st in sales and excise taxes per \$1,000 of income, according to the Census Bureau figures. And it ranks 8th in income tax.

The Census Bureau ranks North Carolina 11th in combined individual and corporate income taxes.

Senate Democratic leader Henson P. Barnes, D-Wayne, says such figures give him pause about raising sales or income taxes. He has argued in favor of putting off any tax increase until next year, after a blue-ribbon commission studies the state's tax structure and makes recommendations.

The rankings, though, illustrate a significant factor in North Carolina's tax structure. State government finances much that is funded by local governments in other

N.C. tax burden

	N.C. ranking among states	Taxation per \$1,000 of income	
		N.C.	U.S. average
Income tax	8th	\$40.96	\$29.75
Sales and excise taxes	21st	\$42.00	\$41.47
Property tax	40th	\$23.59	\$35.09

Source: U.S. Census Bureau

The News and Observer

Money: where to get it

Type of tax	Amount (in millions)
1-cent sales tax increase	\$529
8% income tax bracket on high-income taxpayers	51.8
Raise corporate income tax from 7% to 8%	110
1-cent-per-pack tax on cigarette manufacturing	180
2-cent-per-pack tax increase on cigarette sales	15
Double soft drink tax to 2 cents per can	28
Raise tax on beer from 5 cents per can to 6 cents	12
Eliminate cap on sales tax on machinery, farm equipment	120
Pollution taxes	54

Sources: Governor's Budget Office, Legislative Fiscal Research

The News and Observer

states, particularly in areas such as highways and education.

That has tended to keep the state's ranking for property taxes — the prime source of revenue for local governments — much lower

than its ranking against other states in terms of sales and income taxes.

"It's a myth that we're a

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Tax issue dogging legislators

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low-tax state on individuals," said Charles D. Liner, an economist with the Institute of Government at the University of North Carolina at Chapel Hill. "We're pretty low on businesses. Businesses get the benefits of lower property taxes."

David Crotts, a senior fiscal analyst for the General Assembly, says that North Carolina's status as a low-tax state has changed over the past 20 years, a period that has seen such traditionally high-tax states as California go through tax revolts.

"We're no longer a low-tax state," Mr. Crotts said. "We're in the middle."

"The gap between high-tax states and low-tax states has been reduced. While we were going up, the high-tax states were coming down."

Although "tax increase" is a dreaded phrase in an election year, some say it is the only alternative if the General Assembly is to maintain its scheduled commitment to initiatives such as the Basic Education Program.

A slew of tax proposals have been offered during this legislative session, ranging from raising the sales tax on cigarettes — now the nation's lowest at 2 cents per

pack — to taxing companies for the pollutants they discharge. Others would raise individual income taxes and the state sales tax.

If legislators decide that they need a lot of new revenue — more than \$100 million — there are two basic tax increases to be considered, the income and sales taxes.

The personal income tax generates about half the revenue for the state's General Fund, which pays for everything but highways and capital projects. Almost 30 percent of the General Fund comes from the sales tax and excise taxes. Two cents of every five cents brought in by the sales tax belongs to local governments, with the rest going to the state.

"A relatively small rise in the rate of those two brings in quite a bit of money," Mr. Liner said.

The tax increase that seems to enjoy the broadest appeal among legislators, in part because of the large amount of revenue it would generate, is an increase in the state sales tax. Mr. Martin has proposed raising it next year to a total of 6 percent, a move that would represent a doubling of total sales taxes since 1971.

As part of a package of possible tax increases, Rep. Alexander M. Hall, D-New Hanover, chairman of the House Finance Committee, has proposed adding an 8 percent tax bracket to the state's personal income tax schedule. The current maximum tax rate is 7 percent. The higher tax bracket would apply to married couples with more than \$100,000 in annual income and individuals with more than \$60,000 in annual income.

There is some talk in the General Assembly of a new tax in North Carolina that also could generate

significant revenues, but it involves going after a longtime sacred cow. It is a tax on cigarettes manufactured in North Carolina — one of four states with significant cigarette manufacturing operations. None of the other three — Virginia, Kentucky, and Georgia — has such a tax.

A 1-cent-per-pack tax on cigarettes manufactured in North Carolina would generate \$180 million a year. House Speaker Josephus L. Mavretic has argued that the vast majority of the cost for such a tax would be borne by out-of-state consumers.

There also has been talk — pushed mostly by Sen. Marshall A. Rauch, D-Gaston, chairman of the Senate Finance Committee — of raising the sales tax on cigarettes.

Other proposals that legislators have put forward this year would:

- Increase taxes on beer, wine and liquor.

- Reinstate the tax on manufacturers' inventories, which was phased out under legislation enacted in 1985. Reinstating it would raise \$190 million for local governments. The state now is reimbursing local governments for the loss in revenues.

- Impose a tax on each pound of pollution discharged into the air or water.

Even if a tax increase does not come this year, many legislators predict that one almost certainly will be necessary next year.

"Whatever we do not do in the short session is going to be magnified in the long session," Mr. Mavretic recently told a group of House Republicans. "The problem is real. It is not going to go away."

Martin fights for budget

Meeting is set with bond firm

By **STEVE RILEY**
and **VAN DENTON**

Staff writers

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Gov. James G. Martin said Friday that he would go to New York next week in an attempt to convince skeptical bond-rating officials that his budget-cutting and tax plan would maintain the state's fiscal integrity.

The plan, however, continued to run into trouble.

The House rejected Mr. Martin's tax proposal by a 4-1 margin in a straw vote held by Speaker Josephus L. Mavretic.

The governor, stung by comments from an official of Standard & Poor's Corp. that his budget proposal probably would not preserve the state's triple-A bond rating, will go to New York Monday with State Treasurer Harlan E. Boyles, C.C. Cameron, the state budget director, and Marvin K. Dorman Jr., Mr. Cameron's deputy.

Mr. Martin will meet with Arthur J. Grisi, a senior vice president of Standard & Poor's who made the comments Thursday in an interview with The News and Observer.

"I think it would be helpful for him to see the entire package rather than an abbreviated description of it," Mr. Martin said. "We want them to tell us what their thinking is."

The governor, in a speech Thursday to the General Assembly, proposed using a Senate-passed budget-cutting bill to balance the budget for the fiscal year that starts July 1, and waiting until next year to enact a 1-cent sales tax increase. He expected the action to satisfy Standard & Poor's, which has warned investors it may lower the state's bond rating because of revenue troubles.

On Friday, Mr. Grisi told The Associated Press that he was concerned about programs that face cuts, such as education, roads and prisons.

"The state is a changing state, from a rural state to more of an urban state," Mr. Grisi said. "In order to capitalize on continued growth, you can't just stop the implementation of certain programs. Similarly, one of the advantages is that North Carolina is a low tax state, and therein lie some of the decisions."

Mr. Mavretic said that the

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Mavretic tells budget panel to cut more

Move will probably hit schools

By STEVE RILEY

Staff writer

House Speaker Josephus L. Mavretic sent the Appropriations Committee back for another round of budget cuts Friday, ordering spending reductions that would almost certainly touch the state's education budget.

The speaker, in a meeting with leaders of the House's Finance and Appropriations committees, said that \$102 million in spending cuts approved so far weren't deep enough to persuade legislators to raise additional revenues.

"You are going to have to go

back and revisit the issue, because we simply do not have enough reductions to support the effort that the Finance chairman and his members are going to have to make to come up with \$150 million in new money," he said.

Mr. Mavretic, an Edgecombe County Democrat, earlier had directed the Appropriations Committee to make \$150 million in cuts — and asked the Finance Committee to look for \$150 million in new tax revenues. No action has been taken on any of several tax bills filed during the past two weeks.

After the meeting, House Appropriations Chairman David H. Diamont, D-Surry, said he would

meet with Bobby R. Etheridge, the state Superintendent of Public Instruction, to seek guidance on how to cut the education budget. On Thursday, the Appropriations Committee voted to cut only \$8 million from the \$3.4 billion public-school budget, supporting the full \$116 million in new funding scheduled for the Basic Education Program.

But Mr. Diamont said further action was likely. He suggested, for example, that the state could make payments for new teachers required by the Basic Education Program only to the poorest school districts, leaving larger and more affluent counties such as Wake temporarily out of the distribution of additional funds.

"They'd pick it up with local

funds," Mr. Diamont said.

The Basic Education Program is an eight-year effort to improve public schools, particularly in rural areas. When fully implemented, it would add about \$1 billion annually to the public school budget.

The latest round of budget activity came as legislators continued to wrestle with a projected \$336 million revenue shortfall for the fiscal year that starts July 1. Tax collections are growing, but have not kept up with projections that were used to determine funding to state agencies.

To cover the shortfall and add a handful of new programs that appear to have bipartisan appeal, legislators would need at least \$400 million in spending cuts or

annual tax revenues.

To fund any new building projects — including restoration of \$200 million in projects canceled by Gov. James G. Martin to cover this fiscal year's budget shortfall — legislators would need to come up with "one-time" money.

Those funds could come from bonds or from other sources, such as accelerating tax payments from companies that withhold income taxes from employees' paychecks and speeding payments from utilities that collect sales taxes.

The \$102 million in cuts already approved by the House Appropriations Committee have stirred a little reaction.

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Mavretic orders more cuts

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However, a group of department chairmen from the College of Arts and Sciences at the University of North Carolina at Chapel Hill registered their "dismay and concern" Friday over planned budget cuts of more than \$30 million in the 16-campus university system. A resolution signed by 38 faculty members was sent to UNC system President C.D. Spangler.

But the difficulty in seeking deeper budget cuts is illustrated by this: 84 percent of the General Fund budget — which excludes highway funding — is consumed by education and human resources programs.

Rep. Charlotte A. Gardner, R-Rowan, is co-chairman of the

Appropriations subcommittee that deals with human resources. She noted that the full Appropriations Committee already had rejected a cut in emergency funds to help the state's poorest residents make utility and rent payments.

"If we have to go back and meet, the ones we come back with will be even more distasteful," she said.

The state Senate has approached the budget shortfall a bit differently from the House. The Senate Appropriations Committee generally has approved deeper cuts in the budget — and signaled that if the education budget is cut, it would come out of new programs such as the Basic Education Program.

But talk of taxes has been scarce in the Senate, and most of it has come in private meetings of a small group of senators in the office of Sen. Henson P. Barnes, D-Wayne, the president pro tempore. One Senate source said the group was considering bonds as a way to pay for building projects.

Sen. Marc Basnight, D-Dare, said the talks were just informal chats about what the Senate could

do to fund as many education programs as it could without major tax increases.

"It will be pretty well impossible to do all of the BEP without a major tax increase," Mr. Basnight said.

He said senators were considering several options, including:

■ An increase in the tax on beer, which would raise \$12 million per penny.

■ Closing loopholes in state sales taxes. The senators could choose from a menu of items that aren't now taxed at the full 3 percent, including farm and manufacturing equipment. Closing all loopholes would bring in \$180 million a year.

■ Permanently eliminating up to 3,000 vacant positions in the budget, a move that could save as much as \$60 million. The impact could be less than the figure indicates, however, since unspent salary money already reverts to the treasury and is routinely spent the next year.

■ Early retirement for some state employees. That price tag is uncertain.

Mavretic seeks \$62 million in 'sin taxes'

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By **JOE DEW**

Staff writer

House Speaker Josephus L. Mavretic is trying to build support for a \$62 million tax package that would increase so-called "sin taxes" on beer, wine, liquor and cigarettes.

The speaker outlined the package Monday evening to about 30 people at a closed meeting arranged by the Greater Raleigh Chamber of Commerce. The audience included chamber members, local school officials, county leaders and representatives from other Wake communities.

Reporters were barred from the meeting. About 75 minutes after chamber officials closed the doors, Mr. Mavretic emerged on his way to another appointment and said the discussion had focused on the state's budget problems, primarily an estimated shortfall of \$336 million for the fiscal year that begins July 1.

"I went through the drill of what we're going to come up with in the House Finance Committee," Mr. Mavretic said in an interview. "It will be a package of about \$62 million, \$63 million" in tax increases.

Mr. Mavretic, an Edgecombe County Democrat, said the package would feature increases in

"sin taxes" but he offered few additional details. He said he thought those at the meeting would support such increases.

"We talked about the need for a modest tax increase of \$62 million, \$63 million this year to not only balance the budget but to make sure that next year we don't have to do anything more than a one-cent sales tax" increase, he said. "The sense of it in there is that those chambers are supportive of a modest tax increase this year . . . in the 'sin taxes' — beer, wine, whiskey, perhaps soft drinks and cigarettes — simply to balance the budget in the proper way this time and then their support would be for a one-cent sales tax next time."

The proposed tax increases would fall in line with the speaker's original suggestion that the budget should be balanced through a combination of budget cuts and tax increases, but the amount is less than the \$150 million in new revenues he originally had recommended.

The House Appropriations Committee has recommended \$106 million in budget cuts, but is considering further reductions that could reach \$350 million.

If the House adopts a \$62 million tax-increase package and \$350 million in spending cuts, the ratio of reductions to tax increases

would be more than 5-to-1, a point that supporters hope will help sell the package to legislators.

The speaker's focus on "sin taxes" came out of a meeting late Friday afternoon involving Mr. Mavretic and other House leaders, including Majority Leader Dennis A. Wicker, D-Lee; Minority Leader Johnathan L. Rhyne Jr., R-Lincoln; Appropriations Chairman David H. Diamont, D-Surry; and Finance Chairman Alexander M. Hall, D-New Hanover.

During that meeting, Mr. Mavretic asked Mr. Wicker and Mr. Rhyne to take the tax idea to Democrats and Republicans and see if they could find enough support for it to pass.

It was unclear Monday if the package had widespread support, and many House members still were unaware of the proposal.

"I haven't talked to but a few people," Mr. Rhyne said in an interview. "What we have been interested in is getting spending in line. It appears that Democrats have come over to that position. If we can do the vast majority of balancing the budget by reducing spending and management flexibility, I've always said we would have an open mind."

Mr. Mavretic said he thought people across the state would be willing to support "modest" tax

increases if they were convinced they were the proper way to balance the budget and keep state programs intact.

"It is very consistent all over the state — the calls, the letters, the personal visits — what people are saying is, 'We know you need a little bit of money this year and we know you're going to have to come back for a pretty sizable amount next time and we're willing to support it because we don't want to see vital programs cut,'" the speaker said.

Meanwhile, Mr. Diamont recommended to leaders of the House Appropriations Committee that the way to make deeper cuts in the budget would be to give top officials in state departments and agencies the authority to make the reductions themselves.

In a proposal similar to the "management flexibility" plan recommended by Gov. James G. Martin, Mr. Diamont said the heads of state departments and agencies should be allowed to make another 1.3 percent cut, or \$96 million, in their appropriations from the state's General Fund.

But Mr. Diamont said the House budget should contain guidelines for making those reductions. That approach would enable the House to avoid part of the Senate reductions reached through a continued state hiring freeze.

Martin says bond firm backs budget

By **BILL KRUEGER**
Staff writer

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6-26-90

North Carolina should be able to preserve its lofty bond rating without raising taxes for the coming fiscal year, but the General Assembly still must demonstrate its commitment to long-term initiatives such as the Basic Education Program.

That was the message that Gov. James G. Martin and state Treasurer Harlan E. Boyles said they received Monday when they went to New York to

■ When S&P talks, investors listen, page 5A.

■ Mavretic seeks increase in 'sin taxes,' page 1B.

meet with officials of Standard & Poor's Corp., which has warned investors it may lower the state's triple-A bond rating because of revenue troubles.

"What they have said to us . . . is that North Carolina retains for now our triple-A credit rating, but the 'CreditWatch' provision remains in force," Mr. Martin told legislative leaders Monday evening during a meeting at the Executive Mansion. "They have a high degree of comfort that we are on the right track."

The governor said that the bond-rating officials were largely satisfied with a budget plan approved by the state Senate that makes cuts in education and other programs — and avoids tax increases — to cover an estimated \$336 million revenue shortfall for

Bond firm endorses budget

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the fiscal year that begins July 1.

But Mr. Martin said Standard & Poor's officials still wanted to see some sign of a long-term commitment to major initiatives such as the Basic Education Program. He and Mr. Boyles said the bond-rating officials had indicated the General Assembly could accomplish that by adopting a so-called "fiscal note" to the budget that spells out the financial obligations the state faces in coming years for existing programs.

Such a note would not specify how those obligations would be met — for example, through tax increases — but would merely acknowledge the extent of the financial obligation. The note also would not be binding on future sessions of the General Assembly.

"They said they would like to

see that," Mr. Martin said. "It would show publicly what we have to face in later years."

Mr. Boyles said the Standard & Poor's officials also made it clear that they would frown on significant cutbacks in existing programs in future years. That, he said, almost certainly means the General Assembly will have to approve a significant tax increase next year.

"By deduction, you know that a major portion of that void will have to be filled by taxes," Mr. Boyles said in an interview.

The governor also said he was dropping his support for a non-binding resolution urging the 1991 General Assembly to enact a tax increase to assure funding for those programs. Mr. Martin had proposed the measure last week when he also endorsed the Senate budget plan.

The trip by Mr. Martin and Mr. Boyles was prompted by questions about the Senate budget plan raised last week by an official with Standard & Poor's. The governor said he went to clarify the budget plan for officials of the bond-rating firm.

Arthur J. Grisi, a senior vice

president of Standard & Poor's, said he felt better about the situation in North Carolina after meeting with the governor and the state treasurer.

"We said to the governor that we think they've made considerable progress," Mr. Grisi said by telephone. "But we still think they have some distance to go."

He said the Senate budget plan "makes sense from a triple-A credit level," but he still would like to see some sign that the General Assembly is not going to back off its obligations in later years.

"Our concern is that once that final package is enacted, to see if there is permanency to those solutions," he said.

Reaction from legislative leaders — who have been in the unusual position of working on the state budget with bond-rating officials looking over their shoulders — was mixed.

Senate leaders were clearly buoyed by what they saw as a strong show of support for the budget plan they passed.

"The Senate is very pleased that the bond-rating service is looking with pleasure at what we've done," said Senate Demo-

cratic Leader Henson P. Barnes, D-Wayne. "I hope the House will look at it equally with favor so that we can go to conference and get out of here."

But House leaders, who have criticized several parts of the Senate plan, including the cuts it would make in promised spending for the Basic Education Program, were less enthusiastic.

House Appropriations Chairman David H. Diamont, D-Surry, said House members were not willing to accept the Senate plan simply because it had gotten the nod from Standard & Poor's.

"We've tried to get away from putting together budgets in closed meetings here in Raleigh, much less in New York," Mr. Diamont told reporters after the meeting at the Executive Mansion.

Mr. Martin said that while the bond-rating officials spoke favorably of the Senate plan for the coming fiscal year, they still had concerns about a portion of the plan. He said they raised questions about a provision using a one-time revenue windfall to help fund a school construction program — a provision that House budget leaders have criticized.

House Democrats grope for agreement on budget, taxes

6-27-90 WFD.

By **STEVE RILEY**
and **VAN DENTON**

Staff writers

House Democrats thrashed about Tuesday, searching in vain for agreement on how to put more money into education and human services than the amounts provided in a Senate-passed budget.

A \$63 million package of "sin taxes," including an increase in the tax on cigarettes, proposed by House Speaker Josephus L. Mavretic appeared to be in trouble.

Meanwhile, some Democrats were trying to assemble an alternative budget plan that might include lower pay raises for state employees with salaries of more than \$50,000 a year.

A caucus of House Democrats droned on for more than two hours. When it broke up, it was clear no consensus existed on how to handle a projected \$336 million revenue shortfall for the fiscal year that starts July 1.

"Well, we ain't done nothing," Rep. R. Samuel Hunt III, D-Alamance, remarked as he left the meeting. "But we're thinking about it real seriously."

Mr. Mavretic, an Edgecombe County Democrat, had hoped to get a hearing on his tax plan in the Finance Committee today. But a lack of Republican support, along with indecision among Democrats, appeared likely to slow consideration of the proposal.

The speaker's plan would:

■ Increase the sales tax on cigarettes by two cents a pack, a move that would generate \$12.4 million in new revenues. The increase would raise the state's tax on cigarettes, now the lowest in the nation, to four cents a pack.

■ Raise the excise tax on beer by three cents a can, from five cents to eight cents. The increase in the tax, which has not been raised since 1969, would generate \$32.9 million.

■ Increase the tax on unfortified and fortified wines by five cents per liter, which would generate \$1.3 million.

■ Raise the tax on liquor by 3

'There's a strong consensus that . . .

House Democrats are willing to provide adequate funding for education and human resources. The specifics of how we do that . . . are narrower than before.'

— Rep. Dennis A. Wicker,
House majority leader

percent, from 28 percent of the sales price to 31 percent. The increase would generate \$6.3 million.

■ Change the sales tax on soft drinks to one cent per each 16 ounces rather than the current tax of one cent per container. The change would generate \$9 million.

Mr. Mavretic, after meeting with House Minority Leader Johnathan L. Rhyne Jr., R-Lincoln, early Tuesday evening, left the Legislative Building without comment. Mr. Rhyne said that Republicans had offered little support for the speaker's package.

"The consensus appears that we're close enough to balance the budget without a tax increase," Mr. Rhyne said.

House Majority Leader Dennis A. Wicker, D-Lee, said Democrats would continue to look for a way to alter the Senate budget plan.

"I don't think that the tax package is ready for in the morning," Mr. Wicker said, referring to the speaker's proposal. "There's a strong consensus that the Senate plan is not fiscally responsible and sound, that House Democrats are willing to provide adequate funding for education and human resources. The specifics of how we do that . . . are narrower than before."

The Senate budget would address the projected shortfall without raising taxes. It would impose

Democrats Abandon Tax-Increase Plans

By Ken Otterbourg
JOURNAL RALEIGH BUREAU

6-29-90

RALEIGH

After weeks of stop-and-go political traffic, House Democrats abandoned their goal to push for a tax increase and will instead look for deeper spending cuts to balance the state's budget.

Following a long closed-door caucus, House Speaker Josephus L. Mavretic, D-Edgecombe, said that "the majority leader couldn't put together a package acceptable to a majority of that caucus."

A disappointed Mavretic said that "fiscal McCarthyism" made a tax increase impossible, because legislators were afraid to back a tax increase in an election year.

The political considerations were amplified by tough no-tax commercials now being run by Lt. Gov. James C. Gardner.

The defeat of a tax package was a blow to the House

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TAX PLANS

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Democratic leaders, who have been surprisingly united in their support of higher taxes to pay for increased school spending.

Mavretic, House Majority Leader

Dennis A. Wicker, D-Lee, and House Appropriations Chairman David H. Diamont, D-Surry, all backed higher taxes. The proposals included various combinations of a half-penny sales-tax increase

and higher taxes on beer and wine, machinery, boats and aircraft.

But House Democrats favoring more taxes are an isolated group.

House Republicans, a powerful swing vote in the volatile House, don't want a tax increase.

And Democrats and Republicans

in the Senate also don't want to raise taxes this year.

An exasperated Diamont asked other members of the appropriations committee: "Can't we just leave town and refuse to make any cuts? . . . I'd about rather leave town before I accept the Senate plan."

Having finished work on its budget June 18, the Senate had begun pressuring the House this week to adopt that plan as its own.

The Senate plan pulls the state's General Fund out of its \$336 million shortfall for the coming fiscal year by forcing across-the-board spending cuts and using one-time windfalls and a variety of complex accounting measures and transfers. At \$7.5 billion, the General Fund is the largest component of the \$12 billion in state spending.

The budget problems forced Standard & Poor's Corp. to place North Carolina's bonds on a credit watch, the first step before a possible downgrading.

The Senate package seeks steep cuts in the Basic Education Program, an eight-year plan to help improve public schools, particularly in poorer, rural communities. Senators want

to spend only \$30 million of \$116 million in new money for the Basic Education Program, but the House was considering spending \$90 million for the program.

Wicker said, "We're going to have to whack education."

House leaders have sharply criticized other portions of the Senate plan. They object to the Senate taking \$46 million in permanent funding away from public-school construction, forcing the Department of Human Resources to operate federally mandated programs without providing the money, and transferring the driver-education program from the General Fund to the Highway Fund.

But Diamont and Mavretic acknowledged that without taxes, the House might have to swallow its pride and go along with the Senate on these budget maneuvers.

Compounding the problem is a disagreement in Gov. James G. Martin's administration on the correct course of action.

In a speech last week, Martin urged House members to adopt the Senate budget plan without major changes, but some of his cabinet

members are thinking differently. Thomas J. Harrelson, the secretary of transportation, doesn't want the \$28.5 million driver-training program transferred to his budget, and David T. Flaherty, the secretary of human resources, acknowledges that his agency can't find the money for the \$11.8 million in federally mandated programs.

Before yesterday's collapse of the tax package, the House was \$130.2 million away from producing a balanced budget.

Diamont began suggesting some maneuvers of his own. For example, he broached the idea of delaying \$20 million in bonuses promised to teachers who deliver better classroom performance. That money is supposed to be paid in this coming fiscal year, but Diamont said that it could be pushed into the year after that. The state is delaying this week's paychecks to state employees to get it through a cash crunch for this fiscal year, which ends Saturday.

House Minority Leader Jonathan L. Rhyne, R-Lincoln, said that his party favored much of the Senate plan but wanted to shift some more money to human-resource programs.



MAVRETIC

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House divided on budget

Democrats surveyed on increasing taxes

By **STEVE RILEY**
and **VAN DENTON**

Staff writers

Members of the state House, with the budget ball suddenly in their court, grappled Tuesday with the question of whether they could overcome an election-year aversion to raising taxes to avoid cuts in education spending.

House Democrats, meeting in a closed caucus, filled out an anonymous survey on whether they would support more education spending than approved in a Senate budget bill passed Monday. The survey also asked Democrats to indicate which — if any — taxes they would vote to increase and offered options from increased sales taxes to higher taxes on beer, wine, liquor and cigarettes.

The responses were still being tallied late Tuesday, but House Majority Leader Dennis A. Wicker, D-Lee, said the initial trend showed Democrats would not support significant tax increases without backing from Republicans. But he said the surveys showed a willingness among Democrats to support moderate tax increases for education spending.

"I think the good news is that House Democrats are willing to make some very hard decisions for education in the area of taxes," Mr. Wicker said, "but the trend seems to be high-tax items without bipartisan support are going to be tougher to come by."

Some surveys had not been returned, Mr. Wicker said, and he would not release details of responses to specific tax proposals until the tally was complete.

Earlier Tuesday, however, many House members said it would be difficult to muster support for tax increases in the face of deep internal divisions and with a no-tax-increase Senate budget looming as an easy answer.

"It's harder to do now than yesterday," Speaker Josephus L. Mavretic, D-Edgecombe, said Tuesday. He has urged House members to raise at least \$150 million in new revenues and cut spending by \$150 million. "The easy thing to do is nothing."

The Senate bill, passed over-

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House grapples with taxes

Continued from page 1A

whelmingly, would make 3 percent cuts in many agencies' budgets and deep reductions in promised increased spending for schools. The most significant cut would pare \$86 million from \$116 million in scheduled new spending for the Basic Education Program, an eight-year effort to improve public schools.

The state is struggling to cover an estimated \$336 million shortfall for the budget year that starts July 1. The shortfall was caused by revenue projections that overestimated the growth in state tax collections.

The Senate budget was the first major move in addressing the budget problems, and Senate leaders — openly gleeful about gaining the upper hand by passing their budget first — challenged the House on Tuesday to come up with something better.

"Faced with the fact that the Senate has passed a budget that doesn't raise taxes, it'll be tough for them to come up with anything else," said Senate Majority Leader I.T. "Ted" Kaplan, D-Forsyth. "I just don't think they will."

Mr. Kaplan's confidence was bolstered in part by the fractured internal politics of the House. With the 46 Republicans opposed to a tax increase, it's up to the 74 Democrats to push a bill — and some of those 74 are opposed to raising taxes, particularly in an election year. Additionally, the Democrats remain divided over a coup last year that installed Mr. Mavretic as speaker.

In the House Democratic caucus, Mr. Wicker took the unusual step of asking members to write down their tax priorities.

The survey first asked Democrats if they supported increased spending of \$190 million on education. If so, the Democrats were asked to indicate what taxes they would be willing to support and to rank them in order of priority.

Among the options were:

- A 1-cent increase in sales taxes, with a half-cent going to the state and a half-cent to local governments.

- A half-cent increase in the sales tax combined with elimination of \$234 million in funds that the state gives annually to cities and counties.

- A half-cent tax on each pack of cigarettes manufactured in North Carolina.

- Increases in taxes on beer, wine, and liquor.

- An increase in the 2-cents-per-pack tax on cigarettes.

- Higher sales taxes on luxury items.

- Closing loopholes in the state's sales tax laws.

- Raising personal income taxes for middle- and upper-income people.

Mr. Wicker said the survey would help determine if there was a consensus among House Democrats.

"Once we see the results, we will get a sense of what the true feeling of the caucus is on raising taxes and funding education," he said. "There is still a strong feeling among House Democrats not to make any more cuts in education spending."

One Wake County Democrat said he thought pressure was building for a tax increase. Rep. Daniel T. Blue Jr. of Raleigh said support for higher taxes from business groups, education officials and local chambers of commerce would force Republican Gov. James G. Martin and legislators to consider the issue.

"I think the governor will step forward and meet the challenge to lead and come up with a plan to adequately fund education in this state," Mr. Blue said.

Republicans didn't show any signs of budging from a no-tax-increase stance, although some Democrats were hoping the GOP would support some higher "sin taxes" on beer, wine and liquor. Mr. Mavretic appeared Tuesday before House Republicans to lay out a series of tax options.

The Republicans, who opened their caucus to the public, took no action. But they appeared determined to stick to their earlier opposition to tax increases.

"We have said we're certain not to support any new taxes unless a very thorough job is done reducing spending," Minority Leader Johnathan L. Rhyne Jr., R-Lincoln, said after the meeting.

In an attempt to start a dialogue involving the House, Senate and Mr. Martin, Mr. Wicker has attempted to organize a "budget summit" to talk out the state's money problems.

The governor is scheduled to speak Thursday afternoon about the budget to a joint session of the General Assembly, but Senate leaders said they weren't interested in more talks with the House until that chamber had passed a budget of its own.

"We're not talking about uniting the two Germanys here," said Sen. Henson P. Barnes, D-Wayne, the Senate president pro tempore. "We're trying to pass a budget. We don't need any more summits."

Mr. Martin, who has resisted any major tax increases, hasn't offered his opinion on the Senate budget. But administration officials said they were concerned about some "holes" left by the bill.

The Senate plan, for example, would rely on higher-than-expected revenues or spending cuts administered by the governor to make up for two proposed cuts that were restored to the budget: \$11.7 million for tax reimbursements to counties and cities by the state; and \$18.5 million in aid to local school districts for energy and maintenance costs.

House Appropriations Chairman David H. Diamont, D-Surry, said he was worried about those methods — and about elements in the bill that required the state Department of Human Resources to squeeze money from its budget to pay for \$13 million in programs mandated by state and federal law.

He said he answered the House Democrats' survey by indicating he would support higher "sin taxes," a change in the way corporate taxes are calculated and the closing of loopholes in the sales tax.

The buzz of budget activity came against the backdrop of a week-old statement from Standard & Poor's Corp., a New York bond-rating firm, that it had warned investors it might drop the state's triple-A bond rating. The company has indicated it would look unfavorably on a budget that backs away from "stepped-up initiatives in education, transportation and corrections."

Martin Asks For Tax Hike

Higher Sales Levy Would Be For '91

CHAR. OB 6-22-90

By GREG TREVOR
Raleigh Bureau

RALEIGH — Shocking N.C. legislators, Gov. Jim Martin on Thursday did what he said he wouldn't do this year — asked legislators to back a \$500 million sales-tax increase five months before the fall elections.

"It is likely that what I propose will contain some disappointment for everyone," Martin said in a rare appearance before a joint session of the House and Senate. "This is not easy medicine."

Under Martin's plan, legislators would pass a nonbinding "resolution of intent" this summer promising that next year, the legislature will adopt a 1-cent sales-tax increase.

The tax increase wouldn't take effect until July 1991.

As a result, the proposed tax increase wouldn't help eliminate the state's existing budget shortfalls — a \$550 million shortfall in the current budget and a projected \$336 million shortfall in the 1990-91 budget, which takes effect in nine days.

Martin said the sales-tax resolution could help preserve the state's prized AAA bond rating. Standard & Poor's Corp. has placed North Carolina on "CreditWatch," a warning that the state's bond rating is in danger of being lowered.

But Martin said he couldn't guarantee that the move would save the state's bond rating.

Legislators of both parties said they can't understand why Martin, a Republican, wants them to support a politically risky tax increase — that won't help the state's current budget problems — in an election year.

"It's still sort of a trick," said House Majority Leader Dennis Wicker, D-Lee.

"It's wild," said Senate Minority Leader Don Kincaid, R-Cald-

See MARTIN Page 8A

Martin Bid Puzzles Lawmakers

Continued From Page 1A

well. "I can't imagine any politician signing a promise that says, 'I'm not going to vote for a tax increase this year, but if you send me back to Raleigh, I'll raise your taxes next year.'"

But Sen. Jim Johnson, D-Cabarrus, said: "It was a hell of a speech. His own party's not going to back him, but the Democrats are."

During his 45-minute address, Martin said the sales tax would help balance the budget in future years. Some state economists already are projecting a \$400 million shortfall in the 1991-92 budget.

Martin also:

- Endorsed the Senate's budget-balancing plan. The plan, crafted mostly by Senate Democrats behind closed doors, would balance the state's 1990-91 budget without raising taxes. House Democratic leaders have blasted the plan because it would cut nearly \$170 million in money promised for local schools.

- Said he would have "no objection" to a "modest" tax increase to help balance the 1990-91 budget. Many House Democrats are seeking a tax

increase to preserve some education money in 1990-91.

- Said local school districts should have more flexibility in spending state money.

Unlike past appearances before joint legislative sessions, Martin wasn't interrupted a single time by applause.

Afterward, several Senate Democrats called Martin's speech "courageous."

Senate Appropriations Committee Chairman Ken Royall, D-Durham, said he's already gotten most Senate Democrats to co-sponsor the sales-tax resolution Martin proposed.

But House Democratic leaders, who want to raise taxes this year, weren't enthusiastic about Martin's plan.

Most Republican House and Senate members looked stricken after the speech.

"I gotta go take an Alka-Seltzer," said House Minority leader Johnathan Rhyne, R-Lincoln.

Martin's call for a sales-tax resolution "is politically unwise," said Rep. Trip Sizemore, R-Guilford. "I strenuously disagree and I think most Republicans do."

Republican Lt. Gov. Jim Gard-

ner, who opposes any tax increase, said Martin "has been put in a position by the Democratic-controlled legislature of trying to solve a fiscal problem he did not create."

Rep. George Robinson, R-Caldwell, was one of the few Republicans to support Martin's plan.

"I've determined the needs are there and we need to do it," Robinson said. "I'm not a tax-type person. But from what I can determine, the programs are worthwhile. I feel like it's what the people want."

Martin discussed his plan with about 40 GOP legislators behind closed doors Thursday morning. "We tried to put the fear of God in him. It didn't work," said one Republican legislator.

For months, Martin had predicted that the legislature would be forced to approve a major tax increase next year.

But Martin had said repeatedly that he wouldn't push for a major tax increase this year because he didn't think it would pass in an election year.

Staff writer John Drescher contributed to this article.

Mavretic Opened Up House Leadership

The writer, a Republican from the 43rd District, is a member of the N.C. House of Representatives.

Prior to Rep. Joe Mavretic being elected speaker of the N.C. House, a Republican had little, if any, chance of using his or her talent, knowledge and expertise as a committee chairman or of being heard on an issue.

Not only were Republicans limited, but also Democrats who were not in agreement with the prevailing special interests being promoted by the Democratic caucus on a particular issue. That is the reason some of the Democrats joined with the Republicans to attempt to open up the government of the N.C. House of Representatives.

Rep. Wicker is not correct when he says that there are some Democrats who have not been able to use their knowledge and expertise as committee



Brawley

chairmen (May 29, "Mavretic Is Opportunist, Not Savior").

Speaker Mavretic gave 27 chairmanships to people who voted *against* him. Rep. Wicker also doesn't say that for the first time there are other Democrats and Republicans who have been allowed to use their knowledge and expertise to open the legislative process.

Mavretic and those now in positions of leadership have tried to keep the form of government open so that everyone, even rebellious members of the General Assembly like Rep. Wicker who do not want to fit in with the current leadership, have a chance to be heard.

There will always be differences of opinion within the General Assembly and the political structures of North Carolina, and there will always be someone or some body of people that will surface as the leaders.

Under the leadership of Speaker Mavretic, I believe all legislators have had a fairer chance of demonstrating their leadership qualities. This openness is necessary because a majority of the Democratic caucus cannot decide

what is best for North Carolina — that would be 38 of 120 (hardly a majority).

The leadership of the House should be made up of the 120 members of the House of Representatives. If some of the Democrats agree with some of the Republicans, then that should be the majority vote for all of North Carolina. These Democrats should not be squelched by the decisions made in the Democratic caucus.

When a caucus makes all of the decisions, you have the same situation that is being replaced in Russia by a more open form of government. In an open form of government we cannot blame others if we do not surface as leaders.

In developing a more open form of governing the House, we have our rough spots just like Russia. We will iron these out, and the system that has brought America to the greatness it enjoys will continue to keep it great. It is a system that allows each and every person an equal opportunity to be heard regardless of caucus decisions or party affiliation.

C. ROBERT BRAWLEY
Raleigh

Election Year Tax Increase?

June 10, '90

'90 Budget Plan Foresees '91 Hike

By GREG TREVOR

Raleigh Bureau

RALEIGH — When asked if legislators would raise taxes now or wait until after the fall election, House Appropriations Chairman David Diamont repeats the punch line from the old TV commercial:

"You can pay me now or pay me later."

For most legislators, a tax increase during an election year is no joke.

That's a big reason legislators in both parties are shying away from a tax increase to help balance the budget during this summer's short session. Instead, they're patching together spending cuts and one-time revenue windfalls.



Johnson

But they acknowledge the legislature will face a major tax increase during the 1991 session — to avoid a repeat of this year's budget crunch.

"In the halls, the statements are: 'We need to come forward with a realistic tax program,'" said Sen. Jim Johnson, D-Carrboro. "But in the same breath, they're saying: 'We can't do that. This is an election year.'"

"The Republican leadership has told

See LEGISLATORS Page 3B

Legislators' Tax Debate Keeps Eye On Elections

Continued From Page 1B

me that. The Democratic leadership has told me that," said Johnson, who switched parties last year.

"It's ducking the issue," said House Speaker Joe Mavretic, D-Edgecombe, who has pushed for a tax increase this session to help balance the budget.

"A few people who feel they have difficult races in the fall are reluctant to do what they know needs to be done now," said Mavretic, who is unopposed in his bid for reelection this fall.

Even Republican Gov. Jim Martin, who didn't seek a tax increase to help balance the budget this year, acknowledges that taxes probably will rise next year.

"In the 1991 session, we're going to have to address that," Martin said last week.

For a month, legislators have struggled to eliminate a projected \$336 million shortfall in the 1990-91 budget, which starts July 1.

This week, Senate Democrats will push their plan to balance the budget without raising taxes.

The package, which Senate Democrats crafted behind closed doors, would combine deep spending cuts with a revenue windfall by accelerating tax payments from utilities.

But Senate Appropriations Chairman Ken Royall, D-Durham and a key writer of the package, acknowledged last week: "It's a one-year solution. . . . There's no question we'll have to tax next year."

Since then, House and Senate Republicans have released their own budget-balancing plans.

The GOP plans differ in some ways from the Senate Democrats' package. But Republicans also would balance the budget with deep spending cuts rather than a tax increase.

Republican legislative leaders acknowledge that their budget-balancing plans are also short-term solutions.

Some key House Democrats have criticized those plans. They say the cuts would hurt vital state programs, particularly in education and human services.

"It's digging a deeper hole for the future," said Diamont, D-Surry.

Diamont, following instructions from Mavretic, is piecing together a budget-balancing package that would cut spending less severely, but would require at least \$100 million in new tax revenues.

Several legislators in both parties, concerned that the budget problems jeopardize North Carolina's prized AAA bond rating, have said they're willing to consider higher taxes on alcohol, cigarettes, soft drinks and other items. But no legislator has been able to build a consensus on raising taxes.

Key Senate Democrats have led opposition to a tax increase. Some say the legislature should wait until a study commission analysis.

In the House, Republicans will fight higher taxes.

"I don't think a single Republican will vote for taxes," said Rep. Robert Grady, R-Onslow. "We're waiting to see what the Democrats come up with."

Many House Democrats don't want to pursue new taxes without GOP support. They fear Republicans will use the issue against them in November.

"To continually say 'No taxes' is irresponsible," said House Majority Leader Dennis Wicker, D-Lee. "If we don't do enough this time, we'll have a bigger mess in '91."

Meanwhile, some state economists say the legislature will face an additional \$400 million shortfall in the 1991-92 budget when they return to Raleigh next year. Economists say the shortfall will result primarily from inadequate

tax revenues coupled with increased health and education costs.

"There's going to have to be a tax increase in the next session," said Senate Minority Leader Don Kincaid, R-Caldwell. "I tell you, sitting in the legislature in '91's going to be tough."

Staff writer John Drescher contributed to this article.

June 1, 1990

School cuts rejected

Tax proposals arise in House

By STEVE RILEY
Staff writer

In the House, the public education budget is safe — at least for now.

And tax legislation, which will be necessary to keep it that way, poured in Thursday.

The Appropriations Committee voted to accept only a token cut — \$8 million — in public education. The committee thus affirmed its support for the full \$116 million

■ Martin seeks compromise on veto, legislative terms, page 3B.

scheduled for the next installment of the Basic Education Program.

The move, if it holds up, could push the House toward a tax increase as legislators struggle to solve a projected \$336 million revenue shortfall for the fiscal year that starts July 1.

Rep. Alexander M. Hall, D-New Hanover, proposed a \$328 million package of income-tax increases, a cigarette-manufacturing tax and higher soft-drink taxes. Mr. Hall is chairman of the House Finance Committee.

Rep. Margaret M. "Peggy" Stamey, D-Wake, also filed a bill that would require cigarette manufacturers to pay a 2-cent-per-pack tax, which would produce about \$350 million a year.

Ms. Stamey said she had proposed her bill as a "vehicle" for discussion that would lead to new revenues to cope with the revenue shortfall in the 1990-91 budget.

"If we don't move on taxes now, somebody's going to be down here 10 to 15 years from now trying to put the university system back together, the community college system back together, our public schools back together," Ms. Stamey said. "We're going to have to find some more money."

The Senate has sent early signals that it would make 3 percent

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From Page One

School reductions rejected

Continued from page 1A

across-the-board budget cuts — including \$103 million in public education — but senators have insisted that they will search for ways to lighten the impact on the schools.

In addition to rejecting major

cuts to public schools, the House Appropriations Committee cut nothing Thursday from the community colleges, but did approve \$33 million in reductions and fee increases from the state university system's budget.

The committee voted 36-22 to make a token \$8 million cut to the \$3.4 billion public education budget, rejecting the pleas of some Republicans that deeper cuts were necessary. Some contended that Bobby R. Etheridge, the superintendent of public instruction, had failed to give specifics about how to make a responsible cut of 3 percent.

"He's told us he doesn't think anything needs to be done and we

don't want anything to be done, but something might have to be done," said House Minority Leader Johnathan L. Rhyne Jr., R-Lincoln.

The panel's vote, if upheld, would spare the Basic Education Program from reductions.

"I hope that happens," said Rep. Martin L. Nesbitt Jr., D-Buncombe. "That's a commitment we made to the people of this state."

Meanwhile, the governor's Budget Office said that May revenue collections had been "disappointing," indicating that the revenue shortfall — estimated at \$504 million for the fiscal year that ends June 30 — may grow.

Marvin K. Dorman Jr., deputy state budget officer, said unofficial figures showed that May tax collections would not reach the levels used to calculate the latest budget estimate. He declined to give a specific number, saying he had not analyzed the statistics and didn't know if some of the lost revenue might show up in June. Month-to-month fluctuations in tax collections are common.

Even a slight drop could be significant, however, since the budget must be balanced by June 30, and time is running out to make spending cuts in the current fiscal year. Gov. James G. Martin already has ordered a freeze on all vacant positions, cut \$349

million in spending and ordered state employees' June 29 paychecks delayed until July 2 to balance the budget.

While the Martin administration pondered the revenue picture, Ms. Stamey's bill, in particular, set lobbyists into motion. Roger Bone, who represents the Tobacco Institute, said her proposal, if enacted, could spur tobacco manufacturers to move their plants out of North Carolina.

"Look at the implication this sends to industry," Mr. Bone said. "We hope to make it a hard political choice."

Mr. Hall, who is not running for re-election this fall, proposed a measure that would also impose a

tax on cigarette manufacturers. His plan calls for a tax of a half-cent per pack, which would bring in \$67.5 million.

In addition, his tax proposals would create an 8 percent income-tax bracket for those with high incomes; increase the soft-drink tax; change the formula for computing corporate income taxes; require major utilities to make more frequent payments of sales taxes they collect; and require large employers to accelerate payments of income taxes withheld from workers' paychecks.

The Hall package would raise \$328 million in revenue next year, but \$186 million of that is in the form of one-time windfalls.

Bill To Raise Taxes Added To N.C. Budget Debate

By GREG TREVOR
Raleigh Bureau

RALEIGH — After trying to cut state spending for nearly a month, legislators turned their attention Thursday to a volatile election-year issue — raising taxes to help balance the budget.

House Finance Committee Chairman Alex Hall, D-New Hanover, introduced a bill to raise taxes on wealthy individuals, cigarette manufacturers and soft drinks. The bill would generate \$141 million to help cover a projected \$336 million shortfall in the state's 1990-91 budget, which begins July 1.

"We're going to probably need more than that," Hall warned.

Meanwhile, Senate Democrats discussed taxes and budget cuts behind closed doors for more than an hour Thursday afternoon.

During their caucus, several

Senate Democrats — including Senate President Pro Tem Henson Barnes, D-Wayne, and Senate Appropriations Committee Chairman Ken Royall, D-Durham — opposed raising taxes, said senators who attended the meeting.

But Senate Democrats didn't reach a consensus on taxes or budget cuts. They agreed to caucus again Monday.

"Everything is still on the table, including taxes," said one Senate Democrat.

State economists have projected more than \$800 million in budget shortfalls over two years — \$506 million in the current budget and \$336 million in the 1990-91 spending plan.

Efforts to solve the budget problem began even before the General Assembly convened on May 21.

Gov. Jim Martin said the state could cover the \$506 million

shortfall in the current budget by cutting operating expenses, delaying a state employee payday from June 29 to July 2, and postponing \$203 million in capital projects.

Martin also proposed a 5.2% across-the-board cut in 1990-91 spending to eliminate the \$336 million shortfall.

House and Senate leaders have tried to cut the budget by 3%, or at least \$220 million.

But so far, the House Appropriations Committee has cut only about \$100 million.

On Thursday, the committee voted to cut only \$8 million in support for local schools — about two-tenths of 1% of the budget.

In a special meeting with the House Finance Committee, House Appropriations Chairman David Diamont said his committee has made painful budget cuts. He said

deeper cuts would threaten money set aside to improve local schools.

"I wish you would share some of the pain," said Diamont, D-Surry.

Finance Committee members told Diamont to find more budget cuts before they'll consider raising taxes.

"I would like to see them balance the budget on cuts," said Hall, the finance chairman. He said his tax package would give legislators options if they don't want to balance the budget with spending cuts.

Hall's bill would generate \$327 million in revenue for 1990-91 — \$141 million to help cover the shortfall and \$186 million to pay for capital improvement projects and other nonrecurring expenses.

The bill includes:
● Increasing the income tax rate from 7% to 8% for individuals

earning at least \$60,000 and joint filers making at least \$100,000.

● Levying a ½-cent per-pack tax on cigarettes manufactured in the state. The bill also would repeal an existing 2-cent per pack tax on cigarettes sold in the state. The new tax would generate more revenue because it would cover cigarettes made in North Carolina but sold outside the state.

● Converting the soft-drink tax to 10 cents per gallon. The state currently charges a 1-cent tax per soft-drink container — whether it's a 12-ounce can or a three-liter

bottle. Lobbyists are already lining up against Hall's bill. But legislative leaders in both parties said parts of the measure have merit.

They also have suggested other possible revenue sources to help balance the budget, such as borrowing money through bonds to help cover capital improvement costs.

In the Senate, Royall said he hopes to announce a budget-balancing package on Monday that won't require a tax increase. He wouldn't reveal details.

Senate Budget Under Attack In House

By GREG TREVOR
Raleigh Bureau

RALEIGH — As Senate Democrats steamrolled their budget-balancing plan through two major committees Wednesday, House leaders vowed to shoot out the tires.

House leaders in both parties blasted the plan, which Senate Democrats said would eliminate a projected \$336 million budget shortfall without raising taxes.

House members objected to more than \$180 million in cuts to local governments and school districts. They accused the

■ A bill to encourage N.C. newspapers to use recycled newsprint clears its first hurdle. **Page 3C**

Senate of trying to balance the state budget on the backs of local government.

"I don't think it's fiscally responsible," said Rep. H.M. "Mickey" Michaux, D-Durham.

"The Senate plan's got some fatal flaws," said House Minority Leader John-

athan Rhyne, R-Lincoln. "If I were a city councilman, I'd be going berserk."

Lobbyists also protested.

"It puts us in a terrible position," said Ed Regan, assistant executive director of the N.C. Association of County Commissioners.

Senate Democratic leaders, who expected criticism from the House, predicted the Senate will approve the package largely intact.

"We've got to keep this package together as much as possible," said Senate

Majority Leader Ted Kaplan, D-Forsyth.

But some Senate Democrats said they don't like parts of the package.

"I ain't the only vote they're going to be short," said Sen. Jim Johnson, D-Cabarrus.

For nearly a month, legislators have been deadlocked on eliminating the shortfall in the 1990-91 budget, which starts July 1.

House leaders plan to balance the budget with spending cuts and tax increases.

The Senate package, which Democrats

hammered out behind closed doors Tuesday, would cut \$86 million school districts were expecting under the Basic Education Program — an eight-year plan to improve schools.

"I didn't realize it was going to be this bad. . . . It basically jeopardizes the entire program," said House Appropriations Committee Chairman David Diamont, D-Surry. "They may have killed the BEP forever."

Other proposed cuts include:
See SENATE Next Page

Senate Budget Plan Under Attack

Continued From Preceding Page

- \$23.4 million by slicing 10% of state reimbursements to city and county governments. Legislators began those reimbursements in 1985 after cutting the local property tax on business inventories and scaling back the intangibles tax on stocks, bonds and other holdings.

Local government lobbyists said the cuts would force most city and county governments to cut their budgets or raise property taxes.

- \$30 million by continuing a freeze on vacant state jobs for 1990-91. Last month, Gov. Jim Martin froze nearly 6,000 vacancies.

- \$22.5 million by delaying school bus purchases.

- \$18.5 million in reduced aid to school districts for energy and custodial costs.

- \$15.4 million by slicing the Career Development Program, a merit-pay pilot program in 16 school districts, including Alexander, Burke and Mecklenburg counties.

The Senate plan also includes nearly \$56 million from a windfall by accelerating tax payments from utility companies.

Several House members criticized the Senate plan for using the windfall to plug a hole in the budget. They said the plan would force legislators to approve a major tax increase in 1991.

"They're laundering their

What Cities, Counties May Lose

If the legislature cuts state tax reimbursements by 10%, city and county governments would lose:

Alexander County	\$72,000
Taylorsville.....	\$5,300
Anson County	\$73,300
Wadesboro.....	15,780
Burke County	\$180,000
Morganton.....	\$48,000
Valdese.....	\$24,300
Cabarrus County	\$296,800
Concord.....	\$123,800
Kannapolis.....	\$53,300
Caldwell County	\$185,800
Lenoir.....	\$97,100
Catawba County	\$276,800
Conover.....	\$41,900
Hickory.....	\$128,200
Newton.....	\$40,500
Cleveland County	\$221,000
Kings Mountain.....	\$13,700

Shelby.....	\$15,064
Gaston County	\$493,600
Belmont.....	\$15,100
Gastonia.....	\$114,600
Iredell County	\$201,100
Mooreville.....	\$29,100
Statesville.....	\$117,000
Lincoln County	\$132,000
Lincolnton.....	\$46,000
Mecklenburg	\$1,457,200
Charlotte.....	\$941,400
Rowan County	\$196,900
Salisbury.....	\$123,100
Stanly County	\$118,600
Albemarle.....	\$28,100
Union County	\$209,300
Monroe.....	\$60,600

Note: County figures are for 1990 and from the N.C. Association of County Commissioners. City figures are for 1989 and from the N.C. League of Municipalities.

money, just like the drug dealers do," Diamont said.

The Senate Finance Committee approved the tax changes in seven minutes on Wednesday afternoon.

The Senate Appropriations Committee approved the budget cuts and transfers in about an hour.

During an Appropriations Committee meeting earlier Wednesday, some Senate Democrats protested

the cuts in city and county reimbursements.

"You mean you just want us to make the cuts?" said Senate Appropriations Chairman Ken Royall, D-Durham. "Everybody has to share."

Senators expect parts of the budget-balancing package to reach the floor today.

"It's like going through a small town. If you don't slow down, you won't see it," Johnson said.

Tax Talk Swirls Around Capital

RALEIGH — The children's book "Dr. Seuss's ABC" gives this answer to the question, "T, T, t, t, What begins with T?":

"Ten tired turtles on a tittle-tuttle tree."

But we suspect if Mike Easley ever reads the book to his five-year-old son, who he mentioned in each of his recent debates with Harvey Gantt, he might read it like this:

"Taxes, taxes, taxes that might be raised by Harvey."

Even people who watched the two televised debates between the two Democratic candidates for U.S. Senate probably picked up on Easley trying mightily hard to draw a distinction between himself and Gantt on the tax question. Easley apparently wants voters to see him as the fellow who won't raise taxes, and Gantt as the guy who might. Gantt has complained somewhat about the tactic, though if you take what the candidates have said on the campaign trail at face value, it does appear that Gantt is the candidate more "open" to tax increases.

Of course, as Gantt has pointed out, being open is not the same thing as being committed. And even George Bush and his lips are saying he is open to tax increases without necessarily endorsing them.

Easley's emphasis of Gantt's stance on the tax issue, while still probably a plus for his chances, may not be as beneficial to him as one might think at first glance. They will help Easley convince the portion of the Democratic electorate most readily inclined to vote for him — more conservative whites — that there's a real reason to go to the polls: somebody else might just raise your taxes.

But they also may turn off the liberal activists who make up a good portion of the people likely to go the polls Tuesday. And, though Gantt has not handled Easley with kid gloves during the debates either, they may upset some Democrats who don't want even a whisper of disagreement between the candidates.

Of course, the deciding factor Tuesday may not be either candidate's stance on one particular issue. Instead, the key may just be organization. Even though Easley finished second the first time around, for example, low turnout Tuesday will probably mean that he could win with votes to spare if he can simply get the same people who voted for him May 8 to show up June 5. The same is true for Gantt.

It is hard to know from this vantage point who has done the better job of organizing counties, cities and precincts across the state. As we reported last week, Easley appears to have the clear edge in the mountains, an advantage that is likely to yield dividends Tuesday. But who is better organized statewide is an even more crucial question that won't be answered until the returns start coming in Tuesday night.

T.T.T....



**MARK
BARRETT**

Mike Easley isn't the only guy who has been talking about taxes lately.

House Appropriations Chairman David Diamont, D-Surry, told a teachers' rally the day the General Assembly's short session opened that the day would come when his committee would realize that it will be unable to fund all of the initiatives planned in education without a tax hike.

That day may have come Thursday.

The committee's sometimes heated two-hour discussion of the report of its subcommittee on education Thursday ended not with action to cut the 1990-91 education budget the 3 percent most other departments are being asked to absorb, but with calls for more revenue to meet the state's educational needs. Subcommittee members told the committee they could see no way to make a 3 percent cut without delaying either teachers' pay increases, the next phase of the Basic Education Plan, or the plan to help local school systems implement merit pay.

The full committee agreed, adopting the subcommittee's recommendation of only \$8 million in cuts — a .2 percent cut that is small enough to ensure that school spending in 1990-91 will be more than in 1989-90.

It will be difficult, if not impossible, to fund that budget without tax increases, legislators said. But some said they're ready to bite the bullet.

"I don't think we should be sitting up here voting to cut the Basic Education Plan. My constituents are for it," said Rep. Anne Barnes, D-Orange.

"I'm tired of the onus being put on us to balance the budget. We aren't the only committee in the General Assembly," said Rep. Mickey Michaux, D-Durham. "What is finance doing?"

And Rep. Liston Ramsey, D-Madison, suggested the education budget will give the Finance Committee, which deals with taxation bills, a target to shoot for: "They're not going to be raising taxes without knowing what's needed."

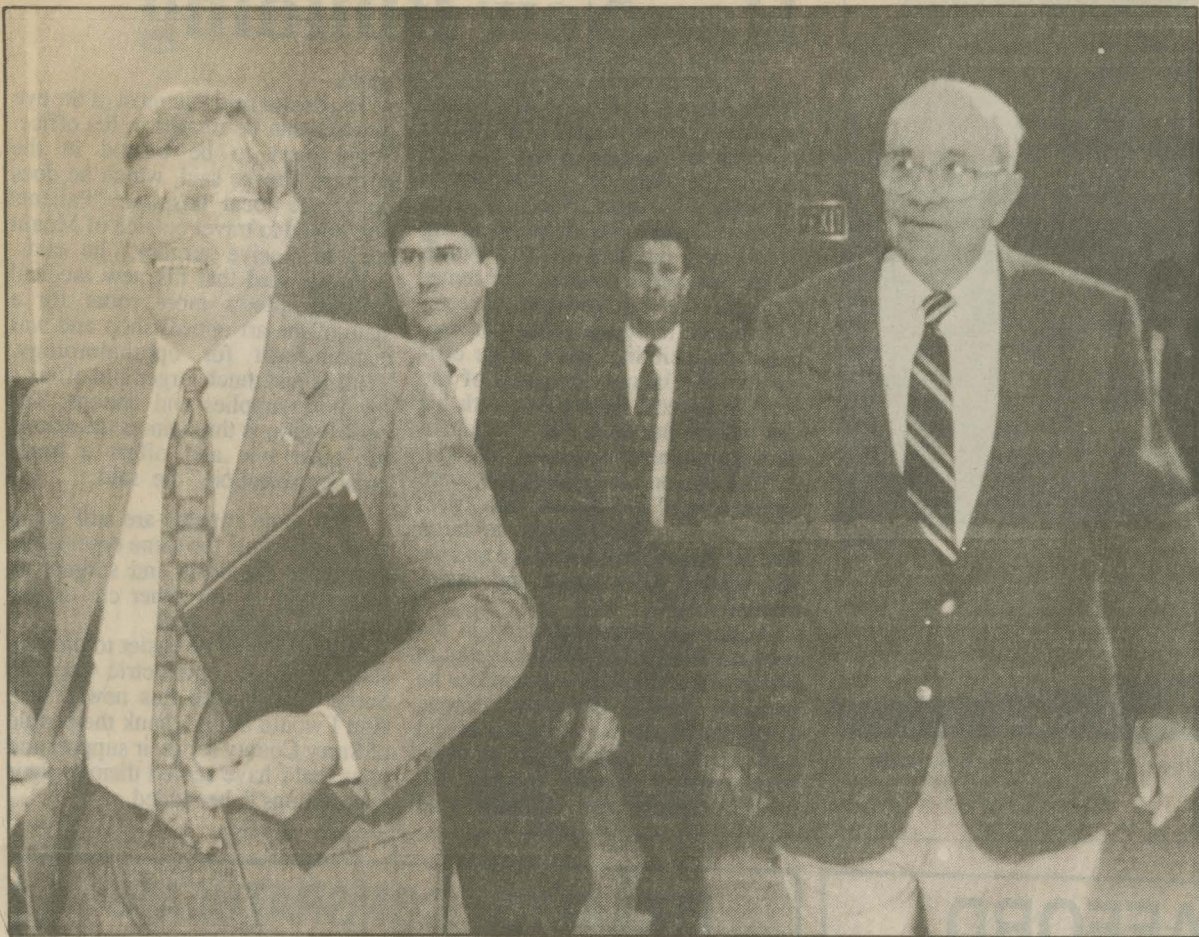
Indeed, Barnes and Finance Committee Chairman Alex Hall, D-New Hanover, are already floating tax-increase proposals, and House Speaker Joe Mavretic threw his support behind tax increases Friday.

It is too early to tell whether any of the proposals will sprout wings and fly. If committee debate Thursday is any indication, Republicans are not ready to go along. "Every part of state government is going to have to share in the burden" of cutting expenditures to balance the budget, including education, said, Rep. David Balmer, R-Mecklenberg.

Gov. Jim Martin has said he is not ready to push for higher taxes either, and Lt. Gov. Jim Gardner is preparing to hit the airwaves to criticize what he sees as the legislature's tax-and-spend ways.

Then there's Senate Appropriations Chairman Ken Royall, D-Durham. The man with the greatest sway over the budget in the chamber that was the more powerful in 1989 still appears to be opposing higher taxes. Keep an eye out for Royall's pet project, a state lottery.

STATE



The Associated Press

Gov. Jim Martin (left) is followed by Rep. Dennis Wicker, D-Lee (middle) and Sen. Kenneth Royal, D-Durham, as he enters the House chamber in Raleigh.

Republicans Quickly Back Away From Martin Proposal

RALEIGH (AP) — Gov. Jim Martin's call for a resolution now supporting a sales tax increase next year brought a quick, negative reaction from legislators who are members of his own party.

"I think it does us a disservice," House Minority Whip Trip Sizemore, R-Guilford, said immediately after Martin addressed a joint session of the General Assembly on Thursday. "The resolution is probably the worst alternative available. You're supporting a tax increase without supporting a tax increase."

"I think the resolution has no relevance," Sizemore said. "Standard & Poor's (a New York bonding agency that has expressed concerns about the state's financial health) knows a resolution is non-binding. Do you really think they're going to buy this? I don't know where this came from."

Sizemore said Republican legislators tried to talk Martin out of the proposal in a meeting Thursday morning.

"Everything I've said to you we've already said to him," Sizemore said.

Rep. Joe Hege, R-Davidson, said the governor's resolution proposal appeared to undercut Republicans who have consistently resisted tax increase proposals this year.

"And he may have lost some veto votes over it," Hege said.

Martin has been pushing for veto power for the governor since he has been in office. A plan that would give him veto power has been sitting in the House since last August waiting for the 72 votes needed to pass it.

House Minority Leader Johnathan

Rhyne, R-Lincoln, said Martin and House Republicans are united in their opposition to tax increases this year.

Martin's proposal for a tax increase next year was "courageous," Rhyne said.

Senate Republicans held a closed caucus immediately after Martin's speech and rejected his proposal.

"We agreed to not support the governor," Senate Minority Leader Don Kincaid, R-Lenoir, said after the caucus. "We don't think we've been sold out, but we would have like to have been involved in the decision."

House and Senate Republicans have consistently rejected tax increases as a possible solution to the projected \$340 million shortfall next year. Kincaid said the Senate Republicans reaffirmed their desire to search for more budget cuts if funds are needed.

"We don't have any objection to some taxes, maybe on tobacco or alcohol," Kincaid said. "We'd even go along with a sales tax if it's needed, but it's not needed."

Martin endorsed a Senate budget plan that calls for no new taxes, but balances next year's budget by cutting the planned expansion of the Basic Education Plan. At the same time, he called for legislators to back a resolution this year that they intend to increase the state sales tax by one cent effective July 1, 1991.

House Democrats, who held out hope that Martin would give some tacit support for a small tax increase this year to restore education and human resource cuts, were nearly as critical of the proposal as Republicans.

"He pulled the rug out from

underneath us," said Rep. Dave Diamont, D-Surry, a teacher and chairman of the House Appropriations Committee. "It's going to be tough, very tough, to get a budget through now with any tax increase."

Diamont said some Democrats had hoped Martin would help them raise \$40 million to \$60 million in new taxes this year to keep education funding and funding for some human resources programs cut in the Senate proposal.

"I am a little disappointed he did not recommend a little tax increase for this year," Diamont said. "I feel the BEP has been dealt pretty much a death blow."

Diamont said voting for the resolution on the sales tax proposed by Martin would leave legislators with all the political negatives of voting for a tax increase, with none of the benefits for next year.

"It lets him off the hook, but it doesn't let legislators off the hook," Diamont said. "Why vote for the resolution and get all of the negative reaction in November?"

House Majority Leader Dennis Wicker, D-Lee, agreed the resolution with leave legislators with all the negatives of voting for a tax increase, but no benefits.

"It's sort of a trick on the public where you can say you didn't vote for a tax increase, you just voted for a resolution on taxes next year," Wicker said.

Wicker said he was disappointed that Martin did not support a small tax increase this year, but said he wanted to study the resolution before saying if he would vote for it.

'Help' on Issue From Legislator Draws Criticism

By Ian Hoffman
JOURNAL NORTHWEST BUREAU

June 22, 1970
WJ

Rep. Coy C. Privette of Cabarrus County, a Christian activist and former pastor, says he was just trying to help a fellow Republican discover the feelings of his Watauga County constituents.

Rep. W. Gene Wilson of Boone says that Privette's rousing of high-country Baptists in a petition against a state-lottery proposal amounted to meddling.

"I told him I didn't appreciate it one bit and that I didn't need friends like him up here," Wilson said.

In March, Privette asked Wilson what he thought about Senate Bill 4, which calls for a statewide referendum on a lottery.

Oblivious to Privette's mission, which was to do an informal head count to gauge support for the bill, Wilson said that he had received petitions from Ashe County with about 3,000 signatures in support of the bill.

What would happen, Privette asked, if Wilson got 6,000 signatures against the state-lottery bill?

"I thought it was just a general discussion," Wilson said. "I said it would be interesting, and it would be. And bingo!"

That week, about 200 churches, mostly Baptist, in Wilson's district — Watauga, Ashe, Alleghany, Surry and Stokes counties — received a letter from the Christian Action League of N.C. Inc., of which Privette is the executive director.

Wilson said that he doesn't see any harm in putting the lottery issue to a vote, but that he didn't want to alienate the parishes in his district.

He thinks that the letter did that. The letter read:

"Dear Friend:

"One of your N.C. House members, Rep. Gene Wilson, has received a petition with 3,000 signatures asking him to vote for (underlined) the gambling bill.

"He has said if he gets a petition with more than

PETITIONS

Continued From Page 11

3,000 signatures against it, he will vote NO!

"We need your help.

"Let's send some 6,000 signatures asking him to vote against any gambling legislation."

The letter gives Wilson's address in Raleigh, and enclosed is a model petition to be circulated in each church and Sunday School. "Make additional copies if you need to," the letter says.

The letter is signed by Joe S. Lenon, the league's volunteer president, with the following P.S.: "All that is necessary for evil to flourish is for good people to do nothing."

Wilson found out about the letter the next Sunday while sitting in his family pew at Greenway Baptist Church, where the pastor read it aloud. The petition was placed at the back of the sanctuary for people to sign on the way out, Wilson said.

The problem with the letter and the petition, Wilson said, is that they failed to mention that the bill would give voters a choice about a lottery.

Since then, Wilson's office has

been flooded with petitions sporting more than 2,200 signatures.

Privette said, "I'm just trying to help my brother out — and at the same time kill the lottery."

Along with the petitions have come a few letters, Wilson said.

"I've got some pretty mean. They say I'm a very poor representative, that they're going to be watching me very carefully, and so on."

At first, Wilson said, he cast about for a way to counter the Christian Action League mailing with one of his own, emphasizing that the bill only calls for a referendum on the lottery.

The problem is that his list of churches is nowhere near as extensive as that compiled by the Christian Action League.

Wilson hasn't been the only legislator whom Privette has "helped" in regard to the lottery bill, said Rep. Frank E. Rhodes, R-Forsyth, one of the bill's co-sponsors.

Rhodes said that the other legislators also resent Privette's contacts with their constituents.

"I think that's completely out of order and unethical," he said.

"Everyone's concerned with their own district except Coy Privette. And he thinks his district is the state of North Carolina."

See PETITIONS, Page 13

The **and Observer**

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DAVID H DIAMONT
P O BOX 784
PILOT MOUNTAIN NC 27041

Raleigh, N.C.

Friday, June 22, 1990

★★★

Martin backs Senate budget; bond firm balks

By **STEVE RILEY**
Staff writer

Gov. James G. Martin asked the General Assembly on Thursday to adopt a Senate-passed budget-cutting bill and to pledge support for a 1-cent sales tax increase that would take effect in 1991, a plan he said would preserve the state's triple-A bond rating.

But an official at Standard & Poor's Corp., the New York investment research and bond-rating firm, said late Thursday

that the company was looking for a permanent solution this year. He said it was likely the state's bond rating would be dropped if the legislature simply approved the Senate budget plan that Mr. Martin endorsed.

"We strongly believe that would disrupt the credit rating at a triple-A level," said Arthur J. Grisi, a senior vice president for S&P. "It sounds like they're pushing the problem off until next year. If it passes that way, Standard & Poor's would look strongly at a downgrade."

■ Panel to study Martin-backed veto package, page 1B.

Mr. Grisi said a formal resolution pledging a tax increase in 1991 — as requested by the governor — wouldn't help the state.

"The resolution wouldn't carry a lot of weight," he said. "You can't bind a future General Assembly."

Mr. Martin, in an address to a joint session of the House and Senate, proposed a two-pronged

strategy: He endorsed a Senate plan built around budget cuts for the fiscal year that starts July 1, and advocated a \$529 million tax increase beginning a year later.

In his speech, the governor, a second-term Republican, said he was "confident" his plan would result in the reaffirmation of the state's triple-A bond rating.

Informed of Mr. Grisi's later statement, the governor issued a short statement: "I think it would be highly irregular for Standard & Poor's to draw a conclusion without reading my proposal and

knowing exactly what it is."

Standard & Poor's earlier this month warned it might lower its triple-A rating — the highest possible — for bonds issued by the state unless the legislature came up with long-term solutions to a projected \$336 million revenue shortfall for the fiscal year that begins July 1. The Senate, which has been resisting tax increases, proceeded with proposals to cut spending and to avoid raising taxes this year.

Mr. Grisi's comments easily could jeopardize the Senate bud-

get — and the governor's reliance on it — because a drop in the bond rating could cost the state millions of dollars in interest payments on future bond issues. Financial institutions that make initial purchases of government bonds demand higher interest payments from issuing agencies with lower credit ratings.

But even without the news from Standard & Poor's, reaction to the governor's plan was mixed.

Many bewildered Republicans,

See MARTIN, page 12A

Martin seeks delay in tax hike

Continued from page 1A

stunned by the sales-tax proposal, were scurrying for political cover.

Republican Lt. Gov. James C. Gardner, who pledged in the 1988 campaign to support Mr. Martin's programs in the legislature, said he would not support the tax increase and would instead push for deeper budget cuts.

"I never said I was going to fight for every program he proposed," Mr. Gardner said.

In conversations Wednesday night and Thursday morning, Mr. Gardner tried to talk the governor out of proposing the sales tax increase. Other Republican legislators were caught by surprise Thursday morning when Mr. Martin, who wrote his speech himself, briefed them on his proposal.

"We don't accept the governor's proposal," said Senate Minority Leader Donald R. Kincaid, R-Caldwell. "We strongly feel there are more cuts to be made. The public simply can't afford any more taxes."

Mr. Kincaid said that in a caucus, 11 of 12 Republican senators had voted to oppose the sales tax increase. And in this election year, it's highly unlikely that it would pass without GOP support, because the tax issue then could be used by Republicans in campaigns against Democrats.

"It's very unlikely we would go out on a limb and be criticized by the people we were running against," said Sen. Marshall A. Rauch, D-Gaston, chairman of the Senate Finance Committee.

Most Senate Democrats were happy that Mr. Martin had embraced their budget plan, and nearly 30 of them co-signed a resolution endorsing a sales tax increase in 1991. That measure was introduced by Senate Appro-



Staff photo by Laura Dorton

Gov. James G. Martin speaks to a joint session of the legislature

priations Chairman Kenneth C. Royall Jr., D-Durham.

Many House Democrats, however, said they still hoped to avoid deep cuts in education funding made in the Senate budget, which passed Monday night. House Speaker Josephus L. Mavretic, D-Edgecombe, who has pushed for higher taxes this year, said Mr. Martin's proposal would put candidates in a difficult position.

"How would you like to be an incumbent member of the General Assembly seeking re-election this November having voted for a resolution to raise taxes next year?" he asked. "It's my personal opinion, if I was a challenger to that legislator, I would beat him over the head with that resolution every day, and I would win in the November election."

House Republicans weren't rushing to endorse the tax plan.

Minority Leader Johnathan L. Rhyne Jr., R-Lincoln, said the governor was "making a courageous effort to lead the state." But he stopped short of supporting the proposal.

"He's trying to take the bull by the horns," Mr. Rhyne said. "The problem is it's a big bull, a big,

angry bull."

In his speech, Mr. Martin urged House members to support the Senate plan, which would balance the budget through deep cuts.

The governor said that factions in the General Assembly had been advocating tax increases, and that others had advocated deeper cuts in next year's budget. But neither side can generate a majority, he said.

"While both positions are courageous, because there's a political risk both in cutting popular programs and in raising taxes, there is not yet a majority to go either way, and we're running out of time," Mr. Martin said. "It is very important that an amended budget be enacted by June 30, or soon thereafter."

"In order to help move this process along to conclusion, I have decided to throw my support behind the essential approach of the bill which has just passed the Senate."

The state could get by this year, Mr. Martin said, with the budget cuts prescribed in the Senate budget: 3 percent reductions in most agencies and about \$140 million from promised new spend-

ing for education. The reductions would chop \$86 million out of the scheduled \$116 million in increased spending for the Basic Education Program, an eight-year effort to improve the public schools.

Mr. Martin said the sales tax increase would be needed next year to cover increased spending for education, prison construction, health care and pay raises for state employees and teachers, providing a permanent solution to the budget crunch.

The governor said educators should thank the state for past spending increases, not criticize them during this year's tough times.

He cited a litany of statistics about increased spending, including one that the state has added \$1.2 billion to school spending in the past 10 years. And he criticized education officials for not producing better students.

"Isn't it time for somebody to say, 'Thank you?'" Mr. Martin asked. "And isn't it time for us to begin to expect better results?"

• • •

Bill Krueger contributed to this report.



The News and Observer

I advise and enjoin those who direct the paper in the tomorrows never to advocate any cause for personal profit or preferment. I would wish it always to be "the tocsin" and to devote itself to the policies of equality and justice to the underprivileged. If the paper should at any time be the voice of self-interest or become the spokesman of privilege or selfishness it would be untrue to its history. — JOSEPHUS DANIELS, Editor and Publisher 1894-1948.

Mr. Martin cops out

The bell rang, and Governor Martin came out slipping and sliding and showing a lot of fancy budgetary footwork to the General Assembly yesterday. But he packed no punch. Instead of supporting real solutions to the state's budget crisis — namely, fair tax increases — Mr. Martin opted for a maneuver that would allow legislators to campaign as defenders of a sound budget without having voted a tax hike. His was a wasted display of failed leadership.

The governor would have the General Assembly pass a resolution of intent to impose a one-cent increase in the sales tax at next year's session. There would be no immediate vote on whether to put the increase into effect. This action, he said, would allow the state to show Standard & Poor's Corp., the bond-rating firm, that it had a plan to regain a sound fiscal footing and therefore deserved to keep its valued triple-A bond rating.

Standard & Poor's officials, however, weren't impressed. If Mr. Martin's approach were adopted, they said following his speech, the top bond rating likely would be in jeopardy. And if the rating were dropped, that would cost the state an arm and a leg in higher interest payments. In turn, the Senate's plan to balance the coming fiscal year's revenue-starved budget with deep spending cuts and no new taxes would be thrown out of balance. Ironically, the Senate budget is part of Mr. Martin's promise to Standard & Poor's.

The bond-rating firm knows better than to base its rating on promises and predictions. North Carolina's school children used to believe promises, too — particularly the one made to them in 1983 with the Basic Education Program, an eight-year effort to improve the public schools. The BEP, cut by \$40 million already, was to receive an

additional \$116 million next year. Mr. Martin and the Senate would cut that by 75 percent — a solemn promise broken.

Beyond the damage of slowing down the BEP, the governor's phantom tax plan assumes members of the current legislature could commit their successors to a particular course of action. That's impossible, of course.

In addition, he scrupulously avoids endorsing taxes that might offend the wealthy or big corporate interests. For example, North Carolina's cigarette tax is the lowest in the nation, a long-neglected source of revenue. There is money to be raised by increasing taxes on beer and wine, on luxuries, on the income of the state's wealthiest citizens. A host of special-interest loopholes in the sales tax could be closed.

Mr. Martin is not alone in his hesitancy to target these areas, fair and sensible though they are. The Senate's slash-and-burn budget cutting reflects the same no-new-taxes expediency. Only in the state House have lawmakers ventured to discuss budget solutions that would go beyond inadequate patchwork.

By supporting meaningful tax hikes spread through several sources, the governor could have shored up North Carolina's credit rating and brought the legislature together in a bipartisan effort to keep the wolf from the door. Instead, he fed the wolf a school child and encouraged legislators to hide behind promises until the howling goes away.

Good Morning

Forget that line, "It's not the heat, it's the humidity." If the dawn of summer in Eastern North Carolina is typical, it's both.

Editorial



The News and Observer

I advise and enjoin those who direct the paper in the tomorrows never to advocate any cause for personal profit or preferment. I would wish it always to be "the tocsin" and to devote itself to the policies of equality and justice to the underprivileged. If the paper should at any time be the voice of self-interest or become the spokesman of privilege or selfishness it would be untrue to its history. — JOSEPHUS DANIELS, Editor and Publisher 1894-1948.

The Senate flunks flat

By a 43-6 vote whose lopsidedness is thoroughly depressing, the state Senate has approved a scurrilously craven-hearted budget plan. What that plan will do to next year's promised increment in the eight-year Basic Education Plan, unless the House brings the Senate to its senses, can't be described as surgery or even amputation. By cutting 75 percent from the scheduled spending jump of \$116 million, the Senate plan would in effect eviscerate the BEP's 1990-91 phase and leave it twitching bloody on the floor.

And all because 43 senators are too cowardly and childish to face the simple fact that improving North Carolina's schools — the one investment the state can't afford not to make — requires some increased taxes now to reap a future payoff in state jobs, prosperity and quality of life. The key test of maturity is the ability to forgo short-run gratification for the sake of bigger returns later. The Senate has flunked it flat.

The BEP's first fruits are visible. Since it began in 1984-85, estimated school drop-out rates have declined from 8-plus percent to 6.6 percent. Full results from a plan with a multiyear phase-in can't reasonably be expected until it's fully in effect.

But reason has never been plentiful in the Senate — preoccupied with dodging political bullets instead of biting them to seize the offensive against North Carolina's longtime stealthy foe, its mounting surplus of ignorance. And with this year's \$40 million cut, the BEP had already begun to suffer from lack of follow-through on the eight-year commitment the General Assembly made in 1983.

Wake County can take only small, cold comfort from the fact that its four senators provided two-thirds of the dissenting votes. As Sen. Joseph F. Johnson

Raleigh points out, the Senate proposal would deprive Wake of 32 of the 97 teachers it expects to receive under the BEP next year. If well-off Wake is hit that hard, what must the impact be on poor counties and their left-behind children?

Hope is not gone. It lies in the House, and also in a rising chorus of alarm from the realists among the state's business community. People like R. Marc Jordan, president of the Greater Raleigh Chamber of Commerce, realize that fallout from North Carolina's widely reported educational shortcomings is serious business for business. It draws a big black line through this state's name in the minds of executives looking for new locations with a good supply of literate, qualified workers and good schools for their own and their employees' children.

As Joe Johnson says, "When we start taking teachers out of the classroom that we have committed to put there, we pass the fat, we pass the muscle, we go to the bone and we suck out the marrow of what government is all about in this state."

It's appalling that only five of his 49 Senate colleagues could see that essential truth. The House must do better, and can. Yesterday the House Democratic caucus heard that \$190 million in new revenue would keep faith with the BEP and with the state's promise to reward innovative schools. That's a manageable sum, obtainable in any of several fair, relatively painless ways. North Carolina can put its money where its mouth is. All that's lacking is the will.

Good Morning

Mike Donald won \$110,000 in losing a playoff for the United States Open golf championship. So



Sierra Club Makes Endorsements For Hunt, Wilmoth & Diamont

The Blue Ridge Group of the Sierra Club of North Carolina has endorsed the re-election of State Representatives Dave Diamont, Judy Hunt and Wade Wilmoth in the 40th House District of Stokes, Surry, Alleghany, Ashe and Watauga counties.

The Blue Ridge Group evaluated the environmental records and environmental positions of Diamont, Hunt and Wilmoth before making its endorsements. During the 1987-88 General Assembly, Reps. Diamont, Hunt, and Wilmoth voted: 1. to require responsible parties to clean up their hazardous waste dumps; 2. to band the burial of radioactive waste in unlined trenches; 3. to ban phosphate pollution; and 4. to strengthen N.C.'s Sedimentation Pollution Control Act.

Reps. Diamont, Hunt and Wilmoth support repeal of the Southeast Radioactive Waste Compact thereby allowing North Carolina to deal with radioactive waste solely from North Carolina. They also support repeal of the Handcuff Amendments that prohibit North Carolina's air, water and hazardous wastes regulations from being better than those of the federal Environmental Protection Agency. Another issue the three Representatives support is a comprehensive solid waste management law that emphasizes pollution prevention, waste reduction, recycling and technical assistance to local governments.

Reps. Diamont, Hunt and Wilmoth have also strongly supported protection of the Mitchell River in Surry County and were instrumental in obtaining construction funds for the New River State Park in Ashe County.

The Blue Ridge Group of the Sierra Club covers most of the fortieth House District. The Sierra Club's Committee on Political Education is one of only two state conservation organizations that endorse candidates for state and local offices.

W-S Tues. June 26, 190

S&P's Confidence in N.C. Is Growing, Martin Says

By Ken Otterbourg
JOURNAL RALEIGH BUREAU

RALEIGH

After meeting yesterday with officials of Standard & Poor's Corp., Gov. James G. Martin said that the New York bond-rating company has growing confidence in North Carolina's efforts to produce a balanced budget for the fiscal year that will begin Monday.

"While they still have some reservations, they feel very comfortable that we're on the right track," said Martin, who briefed top

electd and appointed officials on his meeting with S&P.

Meanwhile, a package of modest but unspecified tax-increase proposals on beer, wine, soft drinks and cigarettes appeared to be starting a move through the House. The House wants to raise between \$40 million and \$80 million in revenues to combine with spending cuts.

Martin's meeting with Standard & Poor's was hastily arranged after the company appeared to take a dim view of Martin's budget

proposals, unveiled last Thursday. In his budget address then, Martin called on the House to adopt a budget close to the package already passed by the Senate. He also urged both chambers to pass a resolution stating their intent to pass a one-cent increase in the sales tax in the next session.

The Senate plan produces a balanced budget through one-time windfalls, across-the-board cuts, and changing the mechanism for paying for programs, such as public school construction. Though much of the legislative

grappling has dealt exclusively with the \$7.8 billion general fund, the entire state budget is \$12.6 billion.

North Carolina's concern with Standard & Poor's opinion of the state's budget has taken on special urgency since June 8, when the company placed about \$600 million of the state's bonds, now rated Triple-A, on what is called a credit watch, the first step before a possible downgrading.

See BUDGET, Page 19

BUDGET

Continued From Page 17

North Carolina is one of eight states with a Triple-A bond rating, the highest level. Losing that rating would be a blow to the state's pride and could force the state to pay millions of dollars in higher interest payments on future bond issues.

In a gesture of good will toward the Democratic-controlled Senate, Martin asked State Sen. Kenneth C. Royall Jr., D-Durham, not to introduce his sales-tax resolution unless

the names of the 31 co-sponsors, all Senate Democrats, were removed. Martin said that otherwise their support on the tax resolution, which garnered only disdain in the House, could be a political weapon in the fall elections.

Royall was glad to oblige. He said that he would keep the resolution "in my pocket."

The House is still considering a tax increase as part of its budget bill, which is moving slowly through the appropriations process. Rep. David H. Diamont, D-Surry, the House Appropriations chairman, told members of that committee they had to

find an additional \$96 million in cuts. But in a reversal of past policy, Diamont said that the legislators can now give the state agencies some flexibility in deciding how to reduce spending.

The additional budget cuts, about 1.3 percent of the General Fund, are needed because House Democrats, who still control that chamber, don't like the way the Senate balances its books through changing the way programs are paid for by moving them from permanent funding to paying for them with one-time sums that are left over at the end of the year.

ROBERT B. GLENN HIGH SCHOOL

1600 UNION CROSS ROAD
KERNERSVILLE, N.C. 27284

OFFICE OF THE PRINCIPAL

19 January 1990

Mr. David Diamont
East Surry High School
705 West Main Street
Pilot Mountain, NC 27041

Dear Mr. Diamont:

The Class of 1990 would like for you to consider its request to be the graduation speaker at the graduation exercises on Friday, June 8, 1990; at 7:00 p. m.

Please contact us at your earliest convenience.

Sincerely,

Libby Carpenter

Elizabeth M. Carpenter
Senior Class Advisor

Accepted



North Carolina General Assembly
 House of Representatives
 State Legislative Building
 Raleigh 27611

REP. DAVID H. DIAMONT
 40TH DISTRICT

HOME ADDRESS: P. O. Box 784
 PILOT MT., N. C. 27041
 TEL. 919-368-4591

OFFICE ADDRESS: LEGISLATIVE OFFICE BLDG.
 ROOM 635
 TEL. 919-733-5829

February 5, 1990

COMMITTEES:

APPROPRIATIONS COMMITTEE
 CHAIRMAN
 EDUCATION
 SUBCOMMITTEE ON ELEMENTARY AND SECONDARY
 EDUCATION

Ms. Elizabeth M. Carpenter, Senior Advisor
 Robert B. Glenn High School
 1600 Union Cross Road
 Kernersville, North Carolina 27284

Dear Ms. Carpenter:

Thank you for the invitation on behalf of the Class of 1990 to speak at their graduation exercises on June 8th. I am indeed flattered and would like to accept.

As a legislator, father, and high school teacher, I welcome any opportunity to communicate with young people in our State. Please convey my best wishes to the "Class" for a successful school year and I look forward to addressing them in June.

Sincerely,

David H. Diamont
 Representative

DHD:nwg

(Handwritten signature)

(Handwritten notes)

GRADUATION PROGRAM

Friday, June 8, 1990

THE AUDIENCE IS REQUESTED TO STAND DURING THE PROCESSIONAL AND RECESSIONAL AND TO HONOR EACH SENIOR WITH SILENCE DURING THE PRESENTATION OF DIPLOMAS.

Processional--"Pomp and Circumstance"	Sir Edward Elgar
Invocation	Dr. Randy Godwin <i>Glenn View Baptist Church</i>
Welcome	Travis Dean Boyles <i>Vice President, Class of 1990</i>
Valedictory Address	John Walter Linville <i>Class of 1990</i>
Introduction of Speaker	Steven Alan Whicker <i>President, Class of 1990</i>
* Address	David H. Diamont <i>North Carolina House of Representatives</i>
Presentation of Awards	N. Jane Suitt <i>Director of Guidance</i>
Readers	Elizabeth M. Carpenter Karen N. Whicker <i>Senior Class Sponsors</i>
Presentation of Diplomas	James W. Brandon <i>Principal</i> Carl L. Clarke <i>Former Principal</i> Penny L. Craver <i>Assistant Principal</i> Daniel N. Smothers <i>Assistant Principal</i>
Class Song --"Wind Beneath My Wings"	<i>Vocalists, Class of 1990</i>
Words and Music By	Richard Broome Erica Cope
Larry Henley and	Kenyetta Richmond Vickie Epps
Jeff Silbar	Donzwell Dykes Clinton Mack
	Jennifer Holland Jonathan Gore
	Tammy Clowers Deann Hardy
Benediction	Dr. Randy Godwin
Recessional--"Trumpet Voluntary"	Henry Purcell

Flower arrangements by *YOUNG'S FLORISTS*

JUNIOR MARSHALS

1989-1990

Matthew Wolfe Allen, Co-Chief
Sherry Layne Newsome, Co-Chief
Adriane Leigh Cromer
Vernetta Yvette DeVane
Kathy Jo Hedgecock
Dewayne Lamar Joyner
David Gwynn Kapp, Jr.

James Christopher Layton
Timothy Lewis Luper
Marlon Millner
Brian Jeremiah Sullivan
William Dean Vogt
Christopher Jerome Wilson
Vickie Anita Woolridge

SPEECH Thoughts

NBC News anchorman Tom Brokaw told Duke University graduates that they were "inseparable bound to the events of their time."

Mr. Brokaw said - his generation had been marked by the assassination of President John F. Kennedy.

"But your time is one of transition."

Mr. Brokaw cited last year's events at Beijing's Tiananmen Square as one example of the rapid pace of change. And referring to recent political turns in East Germany - "and who would have thought they broke through the [Berlin] Wall."

and challenged the graduates to use their education to advance mankind.

"It is the responsibility of all, especially the educated."

Several areas need attention in the United States. The first obstacle he said needed to be attacked was racism.

Public education is the place to make a stand.

"It is easier to make a buck. It's tougher to make a difference."

MERIDITH COLLEGE - Commencement speaker Allyson K. Duncan, a judge on the NC Court of Appeals

"In the four years the graduates were in school, vast political changes swept the world, including the dismantling of the Berlin Wall, the rise of democracy in Eastern Europe and the liberation of Nelson R. Mandela in South Africa, she said."

"- students will have to deal with many of its negative byproducts: environmental damage, growing drug addiction, resource shortages and overpopulation."

UNIVERSITY OF NC at Greensboro

- described North Carolina's public schools as a "great embarrassment" to the state

- It is difficult to imagine a situation where our schools could be worse than they are at present - John Hope Franklin, a professor emeritus of history at Duke University

- "It has been a source of great embarrassment for North Carolina to rank at or near the bottom of various yardsticks by which this nation's educational systems are measured."

SECOND - WILLINGNESS TO COMMUNICATE WITH OTHERS.

- COMMUNICATING YOUR THOUGHTS AND FEELINGS IN AN APPROPRIATE WAY CAN SOLVE SO MANY PROBLEMS
- HOW MANY FAMILY PROBLEMS WOULD HAVE BEEN SOLVED IF PARENTS AND TEEN-AGE CHILDREN WERE WILLING TO SIT DOWN AND TALK.
- WHETHER YOU ARE GOING INTO THE JOB MARKET OR ON TO COLLEGE - YOU WILL BE MORE SUCCESSFUL IF YOU ARE WILLING TO COMMUNICATE OPENLY WITH YOUR SUPERVISOR OR COLLEGE PROFESSOR.

We ARE NOT
 after class
 Misunderstood
 story of
 Ashley
 & explaining
 birth
 "who will
 him back
 together"

AND HAVE YOU STOPPED FOR A MOMENT TO THANK YOUR PARENTS FOR HELPING YOU REACH THIS SPECIAL MILESTONE - TAKE THE TIME TONIGHT BEFORE THE CLASS OF 1990 DEPARTS THIS CAMPUS FOREVER TO TELL THAT SPECIAL FRIEND OR CLASSMATE HOW MUCH THEY MEAN TO YOU!!

PEOPLE NEED TO BE WILLING TO COMMUNICATE - IT CAN SOLVE MANY POTENTIAL PROBLEMS (PERSONAL AND WORLDWIDE).

And
 C IA conclusion - congratulations to the class of 1990
 Glenn High School ~~Students~~
 and to your parents & friends for their support
 We adults look forward to your ~~helping~~ leadership
 improve our world
 in the future

SUNDAY, JUNE 10, 1990

1:00 pm	Registration <i>Get-to-Know Counselors</i> <i>Meet Fellow Delegates</i>	
5:30 pm	Dinner	Reynolda Hall Cafeteria
7:30 pm	Official Opening Ceremonies	Wait Chapel
<i>Presiding</i>	DORSEY DANIEL, Chairman Boys' State Committee	
	Advance of the Colors Pledge of Allegiance	
<i>Invocation</i>	REV. RONALD WILKINS East Grimes Avenue Baptist Chapel	
<i>Greetings</i>	CHARLES "CHUCK" BORMAN Adjutant American Legion Department of N. C.	
	J. FRANK RAY Commander American Legion Department of N. C.	
	MARTHA WOOD Mayor City of Winston-Salem	
	THOMAS K. HEARN, JR. President Wake Forest University	
<i>Remarks</i>	DON ARMSTRONG Governor 50th "Tarheel" Boys' State	
8:30 pm	Orientation	Wait Chapel
	REX "TIGER" TILLOTSON, Director 51st Annual Tarheel Boys' State Convention	
9:00 pm	City Meetings	Tribble Hall
11:30 pm	Lights Out	Dormitories

MONDAY, JUNE 11, 1990

7:00 am	Breakfast	Reynolda Hall Cafeteria
8:30 am	Flag Raising	Post Office Lawn
8:45 am	Religious Services	Wait Chapel
9:00 am	Politics in North Carolina LAWRENCE DAVIS Chairman North Carolina Democratic Party	
	N. C. Government: Legislative DAVID DIAMONT Chairman Appropriations Committee N. C. House of Representatives	
10:30 am	N. C. Government: Legislative & Executive THE HONORABLE JAMES E. GARDNER Lieutenant Governor State of North Carolina	
12 Noon	Lunch	Reynolda Hall Cafeteria
1:30 pm	Politics in North Carolina R. JACK HAWKE Chairman North Carolina Republican Party	Wait Chapel
	Afternoon Activities	
2:30 pm	Athletics	Gymnasium
2:30 pm	Moot Court	Law School Courtroom
2:30 pm	CPR Instruction	Tribble Hall
3:30 pm	Talent Show Org.	Tribble Hall
3:30 pm	Band	Scales Center
5:00 pm	Oratorical Contest Org.	DeTamble Auditorium
5:30 pm	Dinner	Reynolda Hall Cafeteria
7:00 pm	Retreat Flag Lowering Ceremony	Post Office Lawn
7:15 pm	County Party Conventions	Assigned Rooms
9:00 pm	State Party Conventions Federalists Nationalists	DeTamble Auditorium Brendle Hall
11:30 pm	Lights Out	Dormitories

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PILOT MOUNTAIN NC 27041

The News and Observer

Raleigh, N.C.

Saturday, June 9, 1990

★★★

State's high bond rating could be in jeopardy

By C.E. YANDLE
and VAN DENTON

Staff writers

North Carolina's prized triple-A bond rating is in danger of being lowered by one of the nation's top rating agencies because of the state's continuing budget woes.

Standard & Poor's Corp. on Friday placed the state's \$660 billion in triple-A general obligation bonds on "CreditWatch," a move designed to alert investors that the rating might be lowered.

"The fiscal imbalance is not a result of economic contraction, as

with other states in the Northeast or New England," a statement by New York-based Standard & Poor's said. "Rather, this Credit-Watch listing acknowledges the state's very strong economic base, focusing instead on its unwillingness to date to meet new fiscal and growth challenges."

The statement also said: "A key factor in North Carolina maintaining its triple-A rating will be the capacity of the state to develop long-term rather than one-time solutions for the budget imbalance.

"If the state's response to correct fiscal problems continues to

■ House Republicans propose deeper budget cuts, page 3B.

leave the financial position vulnerable to further decline, and stepped-up initiatives in education, transportation and corrections are jeopardized, a downgrade will occur."

The announcement by Standard & Poor's will focus even greater attention on efforts by legislators to balance the state budget. Senate Democratic leader Henson P. Barnes, D-Wayne, said the Senate might have to reconsider its no-

tax stance and raise the tax on alcoholic beverages.

The state faces a \$550 million revenue shortfall for the fiscal year that ends June 30 and an estimated \$336 million shortfall for the next fiscal year.

A lower bond rating for the state would be expected to carry these consequences:

■ Cost North Carolina and its taxpayers millions of dollars in interest payments and damage the state's financial prestige.

■ Damage the resale value of bonds for the thousands of investors who have purchased state general obligation bonds. Inves-

tors routinely buy and resell bonds. While a lower rating would not change the interest payable on the bonds, it probably would mean the bonds would be sold for less than their market value. The original buyers thus would have to take a loss on that difference in market value.

■ Harm state efforts to recruit new industries, which might fear that the state's shaky financial condition could lead to new taxes.

Standard & Poor's notified Gov. James G. Martin Jr. that it was putting the state on credit watch in a telephone call about 2 p.m. Friday, only four days after a

three-member team from the agency visited the state and met with the governor and other top state financial officers.

S&P and Moody's Investors Services Inc., also in New York, are the nation's two largest agencies that rate the creditworthiness of corporations, governments and agencies.

Moody's officials met in the state Thursday with government officials. "That tells me they're concerned as well," said State Treasurer Harlan E. Boyles. Moody's officials could not be

From Page One

N.C. bond rating in jeopardy

Continued from page 1A

reached for comment Friday.

Mr. Boyles said he was confident the state could retain its triple-A rating, although he acknowledged he was troubled by the credit watch status.

Financial institutions use the ratings as a gauge to determine what they will pay for bonds issued by the rated organizations. Bonds represent money loaned to an entity. They are, in effect, IOUs, with repayment due in 10 years to 20 years.

A triple-A rating is the highest offered and over the years has saved the state millions of dollars in interest payments.

If Standard & Poor's lowered the state's bond rating to its next level of AA+, financial institutions probably would charge one-quarter of a percentage point more a year in interest over the life of a bond.

That equates to \$3.5 million more in interest payments over the life of a \$100 million bond maturing in 20 years, based on a 6.75 percent interest rate, compared with 6.5 percent, the current average rate for triple-A bonds.

G. Lewis Nichols, president of the N.C. Municipal Council Inc., a rating agency in Raleigh, characterized S&P's announcement as a warning to state leaders.

"They're going to have to bite the bullet and come up with permanent solutions," he said. "A triple-A rating is a very prestigious thing. It means you're gold-plated. A reduction means there's a little bit of tarnish."

Budget plans by the governor and Democrats and Republicans in the House and Senate now focus on plugging budget holes with across-the-board spending cuts and with accelerated tax collections that generate one-time revenue windfalls.

Mr. Martin said in a written statement that he thought the budget woes could be permanently corrected.

But House Speaker Josephus L. Mavretic, D-Edgecombe, said the Standard & Poor's action should warn legislators that budget cuts and stopgap measures could erode the state's sound financial footing.

"If it had to happen, this is the best time," Mr. Mavretic said in an interview. "I think it sends a clear signal to the members of the Senate that smoke and mirrors is not the way to address the current funding shortfall."

Senate Democrats, who hold a 38-12 majority, are pushing through a budget plan that would

cut education spending — including the Basic Education Program, an eight-year effort to improve public schools — in the hope of putting off action on any tax increases until next year. The Democrats are proposing creation of a commission to study the state's tax structure.

Mr. Barnes, the Senate president pro tempore, said the Standard & Poor's action would prompt him to ask Senate Democrats to reconsider part of their budget plan — which includes a proposed \$73 million bond issue for construction projects. He said that rather than financing ongoing expenses with a one-time windfall from accelerated collection of sales taxes from utilities, legislators might levy an additional tax on liquor, beer and wine to pro-

vide a permanent revenue source.

Sen. Marshall A. Rauch, D-Gaston, chairman of the tax-writing Finance Committee, said legislators couldn't afford to take the rating agency's concerns lightly, and he repeated his call for raising the state's sales tax on cigarettes to the national average — a move that would provide \$125 million a year. "We must either cut expenses or raise taxes, which would be a permanent source of money to satisfy Standard & Poor's," he said.

In the House, Mr. Mavretic has sought a combination of \$150 million in budget cuts and \$150 million in new revenues as one solution to the budget crunch, but he has not specified what taxes should be raised to generate the new revenue.