

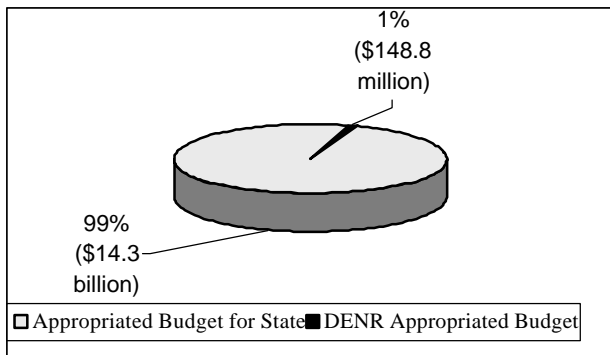
# 2003 Green Budget

How North Carolina's budget can protect clean water and clean air and conserve our natural resources

The Green Budget principles for 2003 are intended to provide the General Assembly and the Easley administration with options for funding those programs that protect the public health and natural resources of North Carolina. We recognize the state will once again face a difficult budget situation this year, but believe that the principles outlined below can guide the legislature's decision-making.

Despite the budget problems facing the state, it is within our long-term interest to make investments now in environmental programs. In FY 2002-2003 funding for the Department of Environment and Natural Resources (DENR) comprised a mere 1% percent of the state's budget (see Figure 1).

**Figure 1: Comparison of DENR Appropriation to total State Appropriations for FY '02-'03**



Without draining more resources from the general fund, the state can and should increase the funds spent on environmental programs. This can be done through adopting new and innovative policy solutions. The following principles provide options for some of these solutions. Investing in environmental protection can result in stronger economic performance, a healthier environment and a brighter future for all North Carolinians.

## Expand the use of Green Fees

Very simply, green fees adjust the prices of products and services to reflect their impact on citizens and public resources. Through imposing reasonable fees on certain products and services that damage the environment, the state can modify behavior to encourage citizens to protect the environment.

This is not a new concept. North Carolina has already enacted green fees that increase the cost of some environmentally harmful activities. For example:

- The state requires consumers to pay a small advance-recycling fee on all refrigerators, washers and other large appliances. This money is then distributed to the counties to fund recycling programs that keep the harmful pollutants in these appliances out of landfills.
- The state levies a sales tax on dry cleaning services and requires dry cleaning establishments to pay a license fee. A portion of the funds collected from the sales tax and license fees are used to clean up environmental contamination associated with dry cleaning practices.

Green fees accomplish several important goals. First and foremost, green fees provide incentives to prevent, minimize and reduce pollution and waste. Second, such fees help establish an economic model that more accurately reflects the real costs of products and activities. Green fees incorporate the environmental

**The Green Budget Principles are endorsed by:**

**Conservation Council of NC**

**NC Environmental Defense**

**NC Public Interest Research Group**

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costs to society into the production or activity, thus minimizing the costs that must be borne by taxpayers and government. In addition, green fees can spur new technology. Just recently, under the threat of advanced recycling fee legislation, Hewlett-Packard announced nationally that it would support legislation to require computer manufacturers to bear the cost of computer disposal. If enacted, this proposal would ultimately influence the very way computers are produced.

We ask the General Assembly to consider expanding the use of green fees by levying fees on goods and services that have negative environmental or health impacts.

Specific options include requiring fees on the extraction of minerals. Many states levy severance taxes on the extraction of minerals and North Carolina could raise millions of dollars per year by doing the same.

Other funding options include impact fees on new development in the 500-year flood plain that could serve as a potential source of revenue to fund stormwater programs, while at the same time discouraging inappropriate development. Also, a statewide “tipping fee” at all public and private solid waste facilities could generate substantial revenue. This type of surcharge exists in over a dozen states. The money from a statewide tipping fee could be used to fund DENR’s efforts to identify and control abandoned properties contaminated with hazardous substances, including the hundreds of orphan chemical sites and orphan landfills throughout the state.

### Promote Conservation Incentives

The state can also provide incentives to promote behavior that is protective of the environment and beneficial to public health. North Carolina already has some environmental tax incentives in place. For example:

- The state offers a tax credit equal to 35% of the purchase or lease cost of renewable energy systems, such as solar hot water heaters.
- In 2002, the General Assembly enacted legislation allowing farmers and other landowners to place their property into conservation easements without

paying tax penalties that would normally accompany such a transfer.

Even in difficult budget times, the legislature should continue its practice of rewarding environmentally beneficial behavior through tax incentives. Last year, our state passed one of the strongest air quality initiatives in the nation by requiring the reduction of harmful pollutants from coal burning power plants. However, emissions from cars and trucks on the state’s roads and interstates continue to cause severe air quality problems in urban centers. The General Assembly could take a small step in addressing this problem by providing tax credits to individuals and businesses that purchase no-emission or low-emission vehicles.

The legislature should also expand the North Carolina Conservation Tax Credit Program to provide additional incentives for participation in the program. The tax credit under this program is one of the most effective incentives available to individuals and businesses interested in donating real property for conservation purposes. Increasing the credit for qualified donations to 50% of the fair market value of the property donated would maximize the incentive and increase the amount of land protected for conservation.

### Invest in Conservation Trust Funds

The General Assembly should continue appropriating significant funding for land conservation efforts, even during the current fiscal crisis. North Carolina is full of unique and wonderful places, from the Smoky Mountains to the Outer Banks. The mountains, beaches and state parks make the state an attractive place to live and vacation and are a significant draw for new businesses. Every year millions of people visit our state parks to camp, swim, view wildlife or simply enjoy the outdoors. However, our state’s open spaces, wildlife habitats and farmland are being developed at the sixth fastest rate in the nation.

In an effort to preserve forests, farmland and wetlands, the General Assembly has set up four trust funds to guarantee funding for preservation projects. Over the past 14 years, these funds -- the Clean Water Management Trust Fund, the Natural Heritage Trust Fund, the Parks and Recreation Trust Fund and the Farmland

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Preservation Trust Fund -- have provided protection for approximately 300,000 acres of land and waterways. However, in order to meet the goal set by the General Assembly of preserving a million acres of open space by 2009, the UNC Institute of Government has estimated that funding for open space must increase by more than \$125 million over the next seven years.

Two of the trust funds, the Clean Water Management Trust Fund (CWMTF) and the Farmland Preservation Trust Fund (FPTF), rely on general appropriations from the legislature. In this fiscal year, the CWMTF received \$66.5 million and in FY 2003-2004 CWMTF is authorized by statute to receive \$100 million. FPTF received \$200,000 in this fiscal year through a general appropriation. North Carolina has the potential to obtain over \$4 million in federal farmland protection money, but the state must increase funding for the FPTF to provide matching funds.

The Parks and Recreation Trust Fund and the Natural Heritage Trust Fund both receive a dedicated source of funding, although last year each fund was reduced to assist with the budget shortfall.

We ask that you continue to invest in these important trust funds, which are critical to preserving North Carolina's natural heritage. Specifically, the General Assembly should consider an increase to the deed stamp tax.

The deed stamp tax was last raised in 1991, in the midst of a state budget crisis. At the end of the budget crisis, when revenues were no longer needed for general appropriations, the revenue stream was dedicated to conservation funding in 1995. We urge you to consider a similar step now to preserve North Carolina's resources for the long term.

In addition, to better leverage available financial resources, the General Assembly should pass legislation authorizing the issuance of Certificates of Participation (COPs). COPs are financial instruments that are backed by the property being protected rather than the state's credit. For this reason, passage of COPs would allow the state to enhance its ability to increase land

conservation efforts without adversely impacting the state's bond rating.

### Ensure that Polluters Pay

North Carolina faces a dire budget situation that demands innovative solutions. Critical environmental monitoring and enforcement activities are now threatened by North Carolina's budget crisis. Every year, North Carolina spends millions of taxpayer dollars on programs and subsidies that harm our natural resources and threaten public health, while letting polluters off the hook. The legislature should adopt policies that take a significant step towards addressing this inequity by making polluters responsible for the costs of their pollution.

Industries typically pay from zero to thirty percent of the costs of environmental regulatory programs, including permitting, monitoring, inspections and compliance (see Figure 2). In FY 2002-2003, the percentage of DENR's budget generated by fees was only 13%, while appropriations from the state's general fund accounted for 58% of the department's budget, with the remainder coming from federal funds. We believe that regulated industries should bear the burden of supporting environmental

programs. Industry representatives often express concerns to legislative committees that they need permit applications reviewed and approved by DENR in a more timely manner. However, many industries are relieved of supporting the costs of these programs. For example, the Division of Waste Management lacks authority to levy permit application and inspection fees for landfills and transfer stations operated by private waste management companies, even though the processing of such applications comprises a significant share of the division's workload.

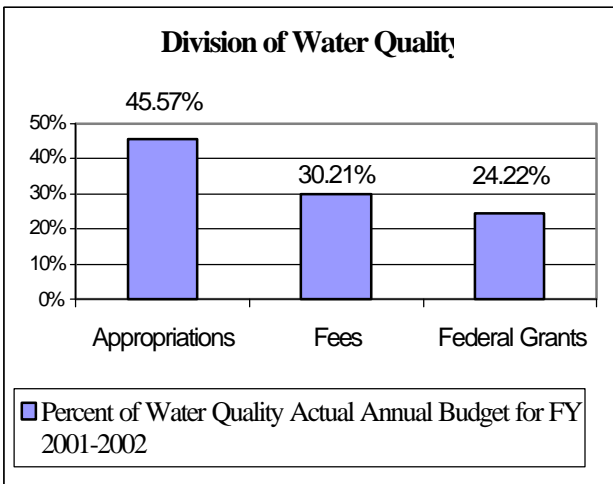
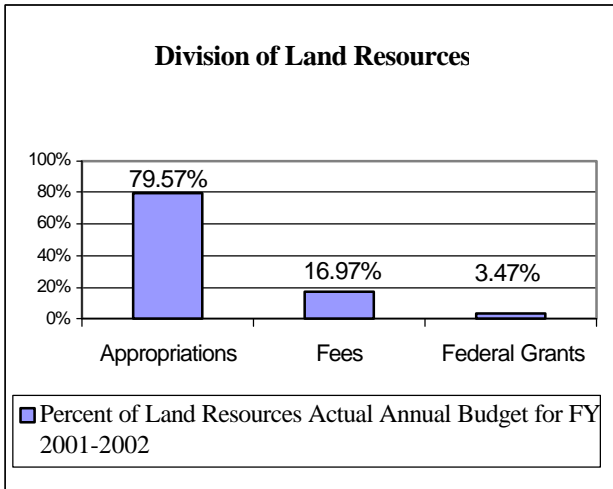
There are several precedents for self-funded programs. For example, other states require that their water pollution permit programs be self-funded. The federal Title V large air pollution permit program is also required under the Clean Air Act to be self-funded. One obvious benefit to ending the subsidy that permit hold-

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ers get from taxpayers is that there will be more resources in the general fund for other priorities.

**Figure 2: Funding for Divisions of Land Resources and Water Quality**



Without self-funded programs, the amount of resources available to DENR results in lower staff numbers, reduced training and restrictions on travel. Each of these factors combines to hinder the ability of DENR employees to fulfill their mission of protecting public health and preserving natural resources. For example, while sedimentation is the number one water quality problem in North Carolina streams and rivers, approximately thirty inspectors are responsible for monitoring over seven thousand sites. As a result, inspections are infrequent and violations often go unchecked. Unfortunately, overburdened staff is not a

problem unique to the Division of Land Resources. In the Division of Water Quality inspections are conducted an average of once a year for major dischargers and once every five years for minor dischargers. Lack of staff and shortage of resources is a problem that plagues almost every division within DENR.

To address this issue, we support the “polluter pays” principle and recommend that all environmental permit application fees and inspection fees be evaluated. Recent budget numbers indicate that DENR’s budget is becoming increasingly reliant on general appropriations rather than fees (see Figure 3).

**Figure 3: Comparison of DENR General Appropriations vs. Budget Generated by Fees**

	FY '02-'03	FY '01-'02
DENR Total Budget	\$251,954,874	\$281,724,159
DENR Appropriated Budget	\$147,095,507	\$158,873,814
DENR Fees Budgeted	\$34,704,088	\$47,119,474
Percent of Budget Generated by Fees	13.77%	16.73%
Percent of Budget funded by Appropriations	58.38%	56.39%

To reverse this trend and create additional revenue for the state we urge the General Assembly to increase fees so that regulated industries are paying a majority of the costs of environmental regulatory programs. We also recommend that a percentage of permit fees directly support enforcement programs within DENR.

**Conservation Council of NC** is a statewide advocacy and political organization dedicated to protecting, restoring, and enhancing NC’s environment.

**NC Environmental Defense** is a statewide advocacy organization linking science, economics, and law to create innovative, equitable, and cost-effective solutions to the state’s environmental problems.

**NC Public Interest Research Group** is a statewide public interest advocacy organization dedicated to protecting our environment, encouraging a fair, sustainable economy, and fostering responsive, democratic government.

For more information, please contact Conservation Council of NC at (919) 839-0006 or [ccnc@conservationcouncilnc.org](mailto:ccnc@conservationcouncilnc.org).