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BTC Brief

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August 2011

STATE BUDGET WILL COST THE GREATER CHARLOTTE REGION 8,000 JOBS: “Right-sizing” state government downsizes region’s economy

*Timely,
accessible,
and credible
analysis of
state and local
budget and tax
issues*

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KEY FINDINGS:

- The Greater Charlotte Region will lose \$1.28 in spending cuts for every \$1 it gains from tax cuts in the new biennial state budget.
- Taken together, the tax and spending decisions in the state budget will cost the Greater Charlotte Region 7,979 jobs and \$387 million in lost labor income by FY2012-13 – and 45% of the jobs lost come from the private sector.
- The budget is a bad trade-off for Charlotte, killing 2.5 jobs from spending cuts for every job gained from tax cuts.

Background

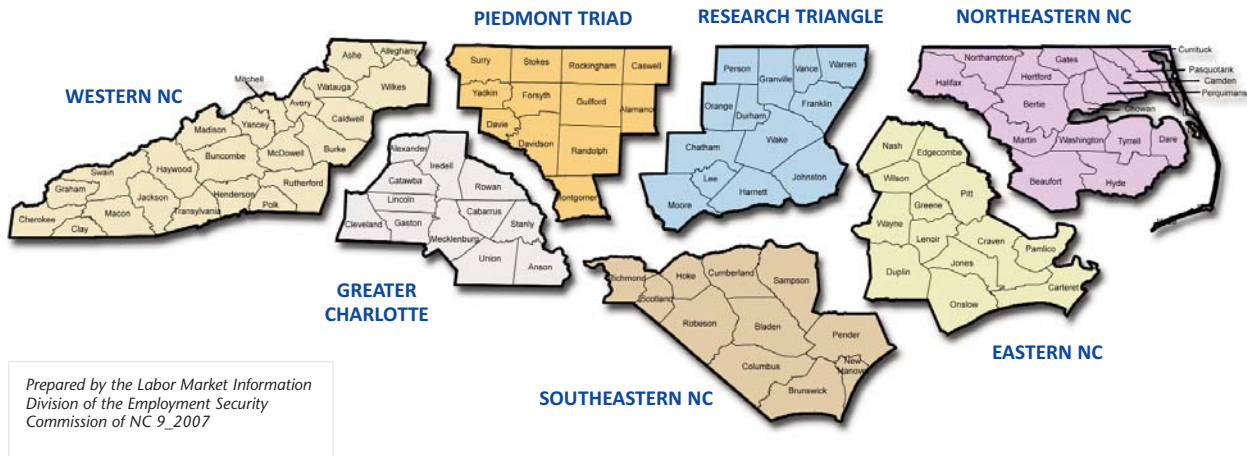
On June 15, 2011, the North Carolina General Assembly enacted a biennial state budget for FY2011-13, overriding a veto by Governor Beverly Perdue. As reported by previous BTC analyses, this budget included \$4.6 billion in spending cuts over the biennium to core public investments like education, healthcare, and public safety. Despite facing an estimated \$2.6 billion revenue shortfall in FY2011-12, the budget also contained an additional \$3.1 billion in total revenue reductions over the biennium, including the expiration of a temporary 1-cent sales tax, the expiration of temporary personal and corporate income surtaxes, and a permanent reduction in business income taxes, by exempting the first \$50,000 in business income.

This *BTC Brief* uses industry-standard economic impact methods to estimate the effects of the biennial budget’s tax and spending changes on the state’s economy. Given that spending by the state government, businesses, and

METHODS

Using industry-standard economic impact analysis, this brief assesses the effects of the biennial budget’s spending and tax changes as distributed across each region for each fiscal year. In doing so, the spending side and the tax side are analyzed separately and then taken together to find the net effect on each region. This analysis was conducted using IMPLAN 3.0, an industry-standard input-output economic impact modeling software, coupled with the software’s proprietary 2009 data for the North Carolina economy. While limitations to this model exist, in terms of its ability to assess the actual behavior of households or businesses as a result of changes in policy, given its use during the 2011 budget debate and its reputation as an industry standard, the findings present a reasonable assessment of employment and economic impact. For a complete description of the modeling techniques and assumptions used in this brief, please see the Technical Appendix available at the BTC website:
<http://www.ncjustice.org/?q=node/26>.

FIGURE 1: NC's Seven Economic Development Regions



households in the Greater Charlotte Region is different than in other regions in North Carolina, this report specifically analyzes the local economic impacts of these budget policies on the Greater Charlotte Region of the state.

North Carolina’s legislative leaders claimed the cuts to state spending would “right-size” government and boost economic growth. However, this “whole-budget” analysis finds that the negative consequences of the spending cuts far outweigh any positive effects of the tax-cut package in terms of lost jobs and lower labor income, demonstrating that “right-sizing” government will actually result in downsizing Greater Charlotte’s economy.

The Budget and the Greater Charlotte Region

After adjusting for one-time inter-fund transfers and accounting mechanisms, Greater Charlotte will experience total real-spending cuts of \$425 million in FY2011-12 and \$554 million in FY2012-13, based on

FIGURE 2: Spending Cuts Experienced by the Greater Charlotte Region		
PROGRAM	FY2011-12	FY2012-13
State Education Spending, including K-12 & Higher Ed	\$-176,493,542	\$-176,993,529
All Other State Spending	-156,577,313	-202,431,130
Loss of Federal Matching Dollars (Medicaid & SCHIP)	-92,402,909	-174,683,966
Total Cuts	\$-425,473,764	\$-554,108,624

the region’s share of statewide employment in the industries affected by the budget’s program-specific cuts. In this analysis, every dollar in spending cuts represents a dollar taken out of the region’s economy. In contrast to this loss of money, Greater Charlotte will gain \$370 million in new economic

benefits from the tax cuts in FY2011-12 and \$431 million in FY2012-13. These tax benefits will accrue to households and businesses as additional income to be spent back into the economy for these specific years.

Unfortunately, the budget takes more money out of each region through spending cuts than it gives back to that region through tax cuts. Greater Charlotte is especially hard-hit, losing \$1.28 from spending cuts for every \$1 it gets back in tax cut benefits.

The Budget’s Economic Impact on the Greater Charlotte Region

As a result, the depth of the budget’s spending cuts in the Charlotte Region eliminates any economic gains generated by the tax cuts. As seen in Figure 3, the budget’s spending cuts will destroy more than 13,000 jobs in the region by 2013, 2.5 times the number of jobs created by the tax cuts, leading to a total loss of

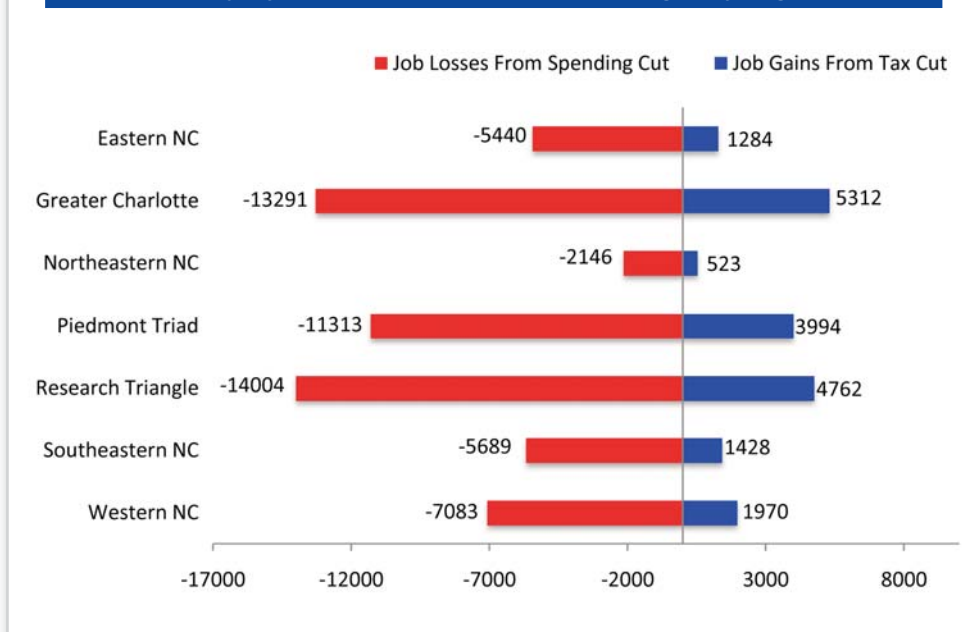
7,979 jobs and \$387 million in reduced labor income by 2013. At least 45 percent of these job losses will occur in the private sector, demonstrating the extent to which public-sector layoffs and spending cuts damage the private sector.

FIGURE 3: Whole-Budget Impacts on the Greater Charlotte Region’s Economy

IMPACT TYPE	TOTAL EFFECT	PERCENT PRIVATE SECTOR
Employment	-7,979	45%
Labor Income	\$387 million	45%

As seen in Figure 3, the state’s rural regions are hit especially hard in comparison with the state’s more urban regions like Charlotte—a lesson for the counties within the Greater Charlotte Region. Although the budget’s spending cuts destroy more jobs than are created through the tax package in every region across the state, this region fares better than the more rural regions of the state. Nonetheless, for every one job the budget’s tax cuts create in Greater Charlotte, it loses another 2.5 jobs from spending cuts.

FIGURE 4: Employment Effects of FY 2012-13 Budget By Region



Finally, it is worth noting that Greater Charlotte will lose 3,568 jobs through an unnecessary and shortsighted decision to cut North Carolina’s Medicaid and SCHIP programs, resulting in the loss of federal matching funds.

Conclusions

Based on this analysis, it is clear that the decision to “right-size” state government through deep spending cuts will only serve to downsize the Greater Charlotte economy. The budget’s

tax cut package is insufficient to balance out the jobs and labor income lost to misguided spending cuts. Despite Charlotte’s better performance compared to other regions, the greater damage inflicted on rural regions has ominous implications for the rural counties within the Charlotte region.

1 NC Budget & Tax Center. “The 2011-13 Final Budget - Neglecting a Balanced Approach, Budget Costs Jobs and Delays Economic Recovery.” June 2011. Available at <http://www.ncjustice.org/sites/default/files/BTC%20Reports%20-%202011-2013%20Final%20Budget.pdf> (page 6).