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# BTC Brief

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## STATE INVESTMENTS IN PUBLIC SERVICES DECLINING EVEN AS DEMAND GROWS: State funding for education, health, and public safety remain historically low

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

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### KEY FINDINGS:

- By any reasonable measure, state spending on education, health and human services, public safety, and other general government services is historically low.
- State funding for core General Fund services including education, health, and public safety is projected to reach a 40-year low – as a share of North Carolina residents' incomes – over the next two years.
- Per capita state funding for core services, adjusted for a measure of inflation specific to state and local government expenditures, will reach a 25-year low in the second year of the two-year budget.
- In the coming decade and beyond, an aging population, rising health care costs, and a growing gap between workers' skills and the demands of the job market are going to put enormous pressure on state funding for core services.

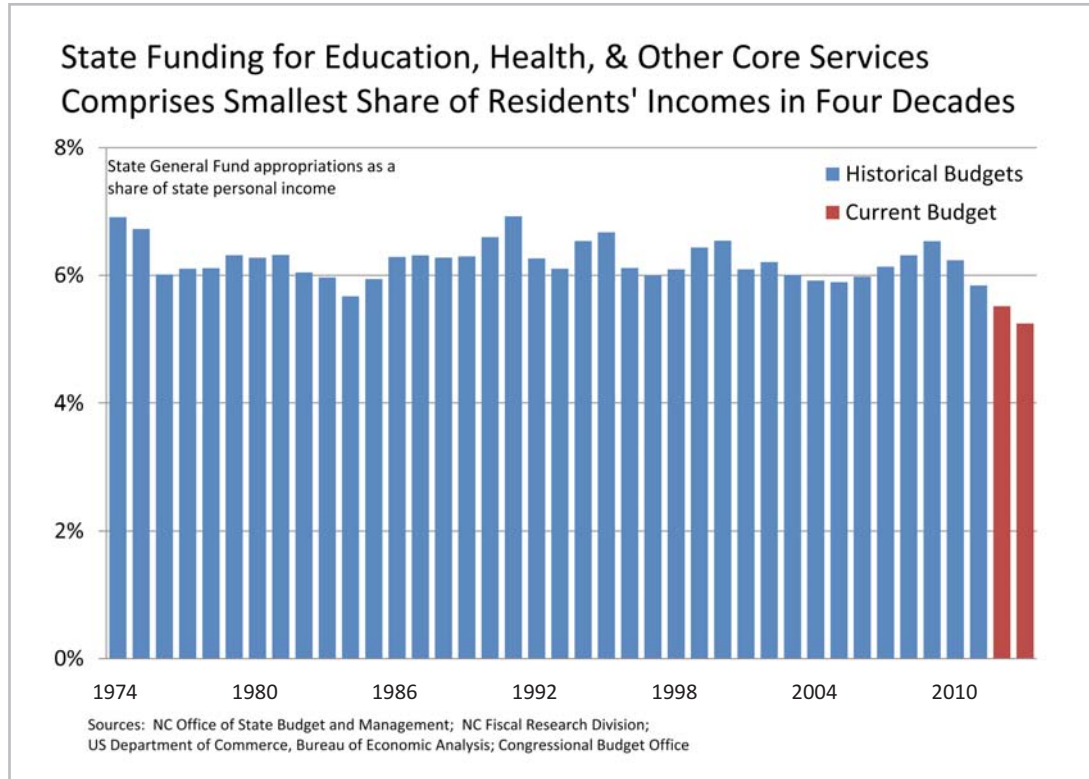
### State Funding for Core Services, as a Share of State Residents' Incomes, Has Fallen After Decades of Stability

What has distinguished North Carolina from many of its southern neighbors over the past half-century has been a robust and relatively consistent commitment to public investments in education, health, and safe communities.

For nearly four decades, state funding for core General Fund services like public schools, community colleges, universities, mental and physical health, and public safety typically hovered between 6 and 6.5 percent of the combined total of all North Carolina residents' annual incomes (see Figure 1). This stability persisted for decades despite major changes in the state's economy as well as changes in the mix of programs, services, and investments funded through state revenues.

The new state budget, passed by the legislature despite Governor Perdue's veto, represents a major departure from recent historical precedent. Based on joint projections for state personal income growth by the Office of State Budget and Management and the General Assembly's Fiscal Research Division,<sup>1</sup> state funding for General Fund services – as a share of North Carolina residents' incomes – is projected to reach an unprecedented 40-year low over the next two years. During the second year of the biennium, state funding for these core services is projected to be more than 15 percent lower than the average of the prior four decades.<sup>2</sup>

FIGURE 1



The consequences of this reduced commitment to state public investments have already started to become clear: fewer teachers and teacher-assistants in the classroom,<sup>3</sup> longer waiting lists for child-care subsidies,<sup>4</sup> higher tuition and fewer classes for university and community college students,<sup>5</sup> and the potential elimination of vital health services for elderly, disabled, and indigent North Carolinians.<sup>6</sup>

### Per Capita Funding for Public Investments & Services Down Despite Increased Demand

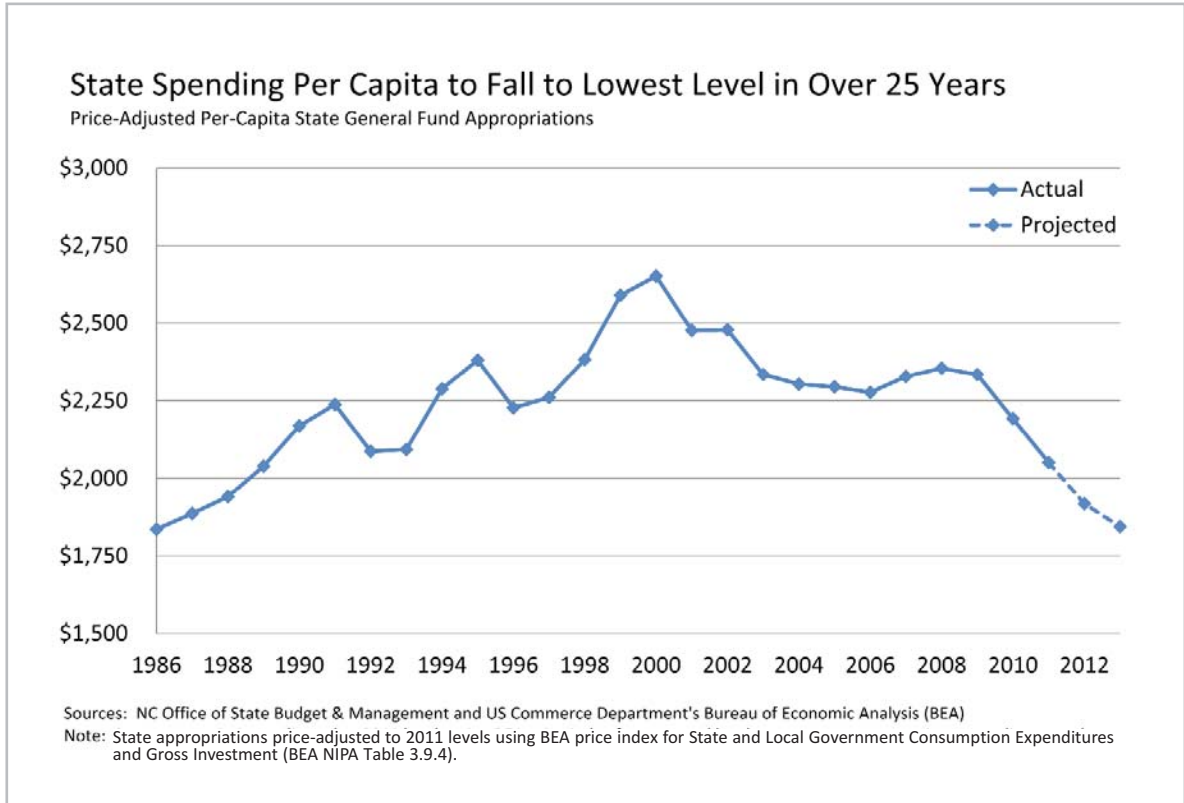
Not only is state funding for public investments and services historically low as a share of state residents' incomes, funding is also historically low per state resident. As shown in Figure 2, per capita state funding for core services, adjusted for a measure of inflation specific to state and local government expenditures,<sup>7</sup> will reach a 25-year low in the second year of the two-year budget.

Even this measure, however, dramatically understates the extent to which funding for core state services and investments has failed to keep pace with costs and demand.

First, even the state-and-local-government-specific measure of inflation does not include inflation in health-care costs,<sup>8</sup> leaving out a large and fast-growing core service. Over the past 25 years, health-care inflation has outpaced the rise in price of general government services and consumer expenditures by 1.5 and 1.65 times, respectively.<sup>9</sup> This rapid rise in health-care costs has put significant pressure on other core services, as state funding for Medicaid now comprises more than 15 percent of all state funding for core services. That significant cost pressure is not captured in the per capita measure of state funding for core services.

Rising costs have not been the only challenge to providing a consistent level of core public services with less funding: demand for state-funded services in education, health, and corrections has outpaced overall population growth and significantly increased pressure on sustaining core public investments and services. As shown in Figure 3, while North Carolina's population grew by less than 20 percent over the last decade, enrollment in public universities grew nearly twice as fast, and the state's Medicaid caseload

**FIGURE 2**



and enrollment in community colleges each grew more than three times faster than the state population.<sup>10</sup> And despite falling crime rates, the state's prison population also grew significantly faster than the overall population over the past decade.<sup>11</sup> Put together, these four fast-growing services comprise roughly two of every five state dollars spent on core public services in the current fiscal year.<sup>12</sup>

The combination of rising health-care costs and rapidly growing demand for state-funded core services means that, even if per capita state funding for core services had remained constant instead of declining in recent years, state funding for core services still would have fallen short of the level necessary to sustain the quality and availability of core public services and investments.

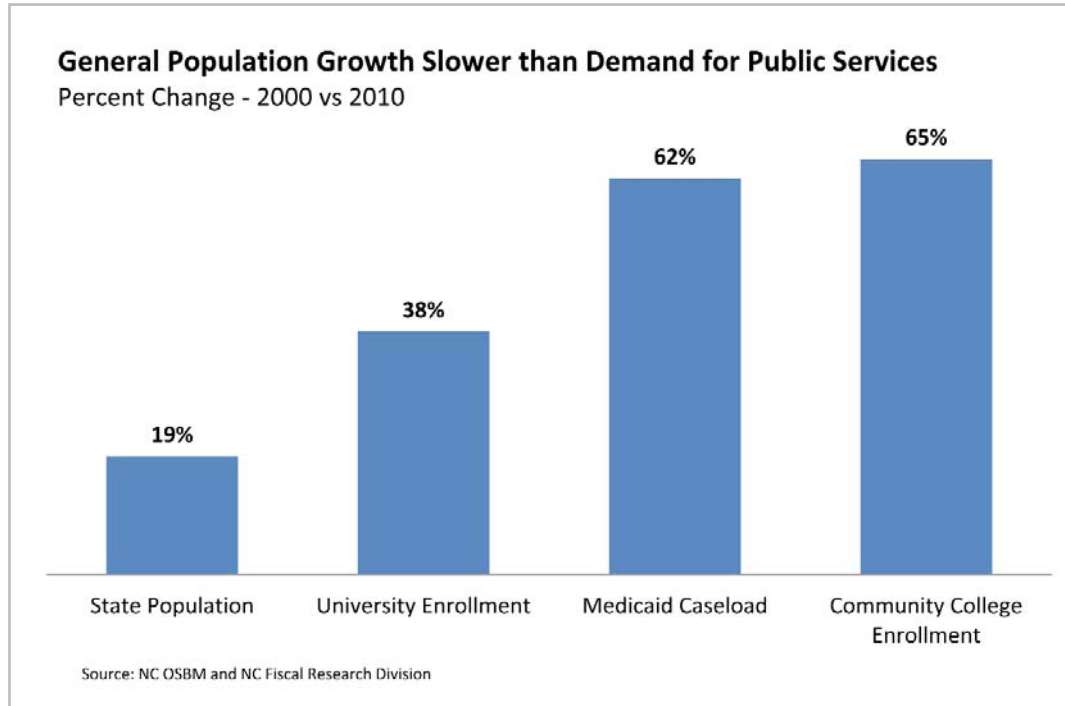
### Demographic and Economic Trends Will Require Greater Financial Commitment to Core Services in Years Ahead

In the coming decade and beyond, an aging population, rising health-care costs, and a growing gap between workers' skills and the demands of the job market are going to put enormous pressure on funding for core services.

Between now and 2030, North Carolina's elderly population is expected to grow 3.5 times faster than the state's under-65 population. Therefore, at the same time hundreds of thousands more residents become reliant on state-funded services for the elderly (including Medicaid), a smaller share of the state's population will be working and paying state income taxes. Health-care costs, too, are projected to continue rising faster than overall inflation, driving up future health-care expenditures even more than the aging of the population.<sup>13</sup>

Even as core services face substantial and growing pressure from an aging population and rising health-care costs, the state cannot afford to stand still on educational attainment and workforce development. North Carolina will need to roughly double the number of residents completing post-secondary degrees or credentials to meet the educational and skill demands of new jobs projected to be created in the state

**FIGURE 3**



in the years ahead.<sup>14</sup> Closing this growing skills gap – and keeping it closed – will require well-targeted interventions to improve educational attainment and workforce development from early childhood to adulthood.

Of course, efforts to find efficiencies in public programs and target scarce public resources to the most cost-effective solutions must continue be an important part of providing adequate funding for core public services in the years to come. Yet for the state to thrive economically and meet its commitments to seniors and other vulnerable populations, policymakers will need to reverse course and strengthen the state’s financial commitment to vital public services and investments.

1 Barry Boardman, Fiscal Research Division, to North Carolina General Assembly, February 9, 2011, General Fund Revenue Update Correspondence.

2 Historical General Fund appropriations information from Appendix Table 9, “Authorized General Fund Appropriations.” Appropriations for 2010 and 2011 fiscal years adjusted for additional funds provided to North Carolina state government under the 2009 American Recovery and Reinvestment Act and supplemental aid to states. Historical state personal income data from the US Department of Commerce, Bureau of Economic Analysis. State personal income for fiscal years 2012 and 2013 based on consensus projections of NC Fiscal Research Division and the NC Office of State Budget and Management.

3 Edwin McLenaghan. “North Carolina’s Disappearing Educators,” September 14, 2011. NC Budget and Tax Center. Available at <http://www.ncjustice.org/?q=node/956>.

4 Beth Messersmith. “MomsRising: Fixing what they broke,” November 29, 2011. WRAL.com: Go Ask Mom. Available at <http://www.wral.com/lifestyles/goaskmom/blogpost/8901745/>

5 For example, see: Caitlin Bowling. “Larger classes, higher fees, fewer professors: what the WCU budget cuts really mean,” December 7, 2011. Smoky Mountain News. Available at <http://www.smokymountainnews.com/news/item/5739-larger-classes-higher-fees-fewer-professors-what-the-wcu-budget-cuts-really-mean>

6 Laura Leslie. “More on the missing Medicaid money,” December 7, 2011. WRAL News. Available at <http://www.wral.com/news/state/nccapitol/blogpost/10468623/>

7 Price Index for Government Consumption Expenditures and Gross Investment, State and local only: NIPA Table 3.9.4. US Department of Commerce, Bureau of Economic Analysis. Available at <http://www.bea.gov/national/nipaweb/Index.asp>.

8 Bruce E. Baker. “Price Indexes for State and Local Governments.” Presentation before the Rockefeller Institute of Government Forum, November 13, 2008. Available at [http://www.rockinst.org/pdf/government\\_finance/2008-11-13-price\\_indexes\\_for\\_state\\_and\\_local\\_governments.pdf](http://www.rockinst.org/pdf/government_finance/2008-11-13-price_indexes_for_state_and_local_governments.pdf)

9 See US Department of Labor, Bureau of Labor Statistics: Consumer Price Index, CPI-U, US City Average, All Items (consumer expenditures) and CPI-U, US City Average, Medical Care (health care inflation). Available at <http://www.bls.gov/cpi/>

10 Barry Boardman and Richard Bostic, Fiscal Research Division, NC General Assembly. “General Fund Revenue and Budget Outlook FY 2011-12,” December 15, 2010. Available at [http://www.ncleg.net/fiscalresearch/frd\\_reports/FRD\\_Reports\\_PDFs/Session%20Briefings/2009\\_02\\_03\\_Revenue\\_Budget\\_Outlook.pdf](http://www.ncleg.net/fiscalresearch/frd_reports/FRD_Reports_PDFs/Session%20Briefings/2009_02_03_Revenue_Budget_Outlook.pdf)

11 NC Department of Correction. “2009-2010 Annual Statistical Report.” Available at <http://randp.doc.state.nc.us/pubdocs/0007066.PDF>

12 General Assembly of North Carolina: Session 2011. “Current Operations and Capital Improvements Appropriations Act of 2011.” SL 2011-145. Available at [http://www.ncleg.net/fiscalresearch/Budget\\_Legislation/budget\\_legislation\\_pdfs/2011\\_Appropriations\\_Act.pdf](http://www.ncleg.net/fiscalresearch/Budget_Legislation/budget_legislation_pdfs/2011_Appropriations_Act.pdf)

13 Congressional Budget Office Director’s Blog. “Sources of growth in projected health care costs,” May 29, 2008. Available at <http://cboblog.cbo.gov/?p=110>

14 Alexandra Sirota. “Credentials Count Toward Completion Target,” August 16, 2011. NC Budget and Tax Center. Available at <http://www.ncjustice.org/?q=node/922>