



NC Justice Center
*Opportunity
 and prosperity for all*

BTC Brief

▶ NC BUDGET & TAX CENTER

March 2011

LEGISLATIVE BUDGET TARGETS: Cutting to the heart of state and local jobs and services

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

Author:
 Brenna Burch
 919/856-2176
brenna@ncjustice.org

North Carolina
 Justice Center
 P.O. Box 28068
 Raleigh, NC
 27611-8068

www.ncjustice.org

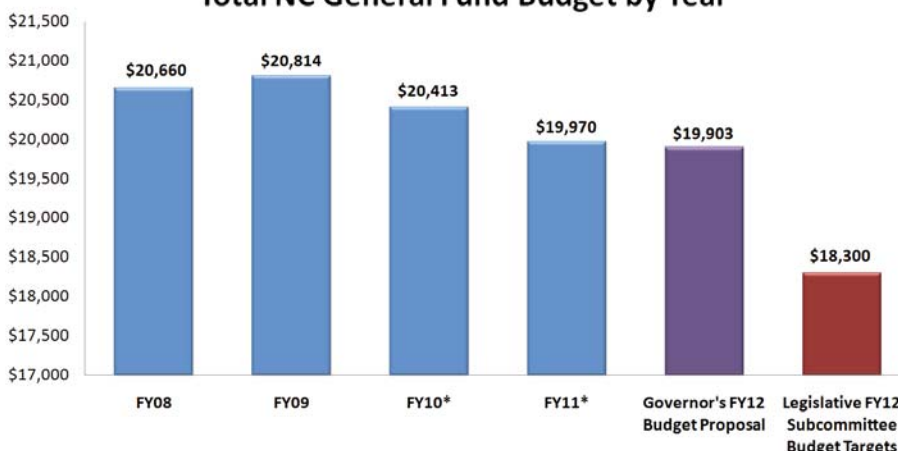
KEY FINDINGS:

- The leadership in the NC General Assembly has given each legislative joint appropriations subcommittee a spending target to aim for as its members create budget proposals for each department of state government. These targets are based on a \$18.3 billion total budget—\$1.6 billion less than the governor’s budget proposal—and would require drastic budget cuts in all areas, from schools to health care to services for those who are elderly and disabled.
- An \$18.3 billion budget would be an 8.4 percent reduction over the current year budget, making it the largest year-over-year percent reduction in total state spending in the last 30 years.
- Such extensive state spending cuts, along with accompanying reductions in local spending, would eliminate thousands of jobs and undermine North Carolina’s nascent economic recovery.

AS PART OF THE PROCESS OF CREATING a new two-year budget for North Carolina, leaders in the General Assembly developed budget targets for each legislative joint appropriations committee. They based those targets on an \$18.3 billion total budget for fiscal year (FY) 2012-13—an amount that is significantly lower than General Fund spending minus all federal recovery dollars in either FY10-11 or FY11-12.

The legislature’s budget targets would drive state spending as a share of state personal income to its lowest level since at least 1972.¹ An \$18.3 billion budget would be an 8.4 percent reduction over the current year budget, making it the largest year-over-year percent reduction in total state spending in the last 30 years.²

Total NC General Fund Budget by Year



* FY10 and FY11 totals included federal recovery dollars provided under ARRA

The impact to state programs and services of such large budget cuts would be unprecedented in modern North Carolina history.

Legislative spending targets reject governor’s balanced approach to shortfall

A look at North Carolina state budgets of the last four years shows General Fund spending fell substantially over the course of the Great Recession. Federal stimulus funds provided under the American Recovery and Reinvestment Act in FY09-10 and FY10-11, as well as a temporary tax package , softened the impact of what would have been drastic spending cuts in those years. However, that federal assistance is now gone, and the state will lose almost a billion dollars with the expiration of the temporary tax package. Without additional revenue, these revenue changes will leave lawmakers with a \$3.3 billion budget dilemma for the upcoming biennium.

Governor Beverly Perdue’s budget proposal took a balanced approach to the budget shortfall by generating more than \$800 million in revenue over the biennium via the continuation of \$0.75 of the one-cent temporary sales tax and more than \$1.3 billion in cuts and other reductions.³ However, the

spending targets for the appropriations subcommittees indicate that legislative leaders intend to pursue a cuts-only approach to the FY11-13 budget.

Since few truly discretionary programs and services escaped cuts throughout the last several rounds of both legislative and executive-ordered

operational cutbacks, many agencies will have to cut core programs, services and staff in order to meet these budget targets.

Drastic budget cuts could damage North Carolina’s economic recovery

Economists across the political spectrum have found that, during and after a recession, spending drives economic recovery. A joint letter from 100 prominent economists to New York Gov. David Patterson stated that both economic theory and history prove that “it is economically preferable to raise taxes on those with high incomes than to cut state expenditures.” The letter goes on to explain:

“[In] a recession, you want to raise (or not decrease) the level of total spending—by households, businesses and government—in the economy. That keeps people employed and buying things, and makes it more likely that businesses will want to invest to serve that consumer demand. Budget cuts reduce the level of total spending. Raising taxes on high income households also will reduce spending, but by much less than the amount of the tax increase since those with plenty of income typically spend only a fraction of their income.”⁴

Other prominent economists agree that spending at all levels is essential for economic recovery. In an April 17 speech, Christina Romer, a highly regarded scholar of economic downturns and chair of the President’s Council of Economic Advisers, said the economy still suffers from “a severe shortfall of

Legislative Targets Provide Sharp Contrast to Governor's Proposal

Absolute Dollars by Function, General Fund	FY 2011-2012 (in millions)		
	Base Budget	Governor's Recommended	Legislative Joint Subcommittee Targets
Education	\$ 11,914	\$ 11,247	\$ 10,484
Health & Human Services	\$ 4,928	\$ 4,715	\$ 4,336
Justice & Public Safety	\$ 2,297	\$ 2,207	\$ 2,067
Natural & Economic Resources	\$ 480	\$ 407	\$ 323
General Government	\$ 455	\$ 431	\$ 349
Reserves & Adjustments / Capital / Debt Service*	\$ 748	\$ 896	\$ 740
Total, All Functions	\$ 20,821	\$ 19,903	\$ 18,300

* Legislative spending levels for non-agency items estimated by subtracting sum of agency targets from announced \$18.3 billion total spending target. At this time, non-agency spending details have not been released.

aggregate demand,”⁵ citing recession-triggered budget-balancing actions by state and local governments as a major cause of this phenomenon.⁶

Cost shifts to local governments likely to impact children and low-income families

State agency budgets have endured three years of cuts reducing the capacity to meet demand in communities across the state. At the same time, many of the spending cuts proposed by both the governor and select legislative appropriations subcommittees would shift fiscal responsibility for those services to local governments. Deeper reductions to state funding for public schools – including funding for school bus replacement, school transportation, non-instructional school personnel, and school building maintenance – would force local governments to either identify new funding options for continuing services and retaining jobs or cut local jobs and educational programs.

Similarly, the governor’s budget proposes several reductions to the health and human services budget that would shift responsibility for costs to local governments, particularly to county departments of social services. While the individual financial situation of each local government would determine the case-by-case result of these cost shifts, neither the governor’s proposal nor the legislative spending targets bode well for low-income, disabled or elderly North Carolinians statewide.

A cuts-only approach would eliminate jobs, reduce services and delay full economic recovery

Over the next several weeks, legislative joint appropriations subcommittees will continue to release details on how they intend to achieve such historically low spending targets. A cuts-only approach will not only reduce investments in the state’s public structures but will eliminate jobs at a time when both are critical to the state’s full economic recovery.

-
- 1 BTC BRIEF: *Back to the Nixon Years: State spending in North Carolina could reach lowest level in 40 years* at <http://www.ncjustice.org/?q=node/605>.
 - 2 The source for historical state appropriations is the Historical Budget Data available on the website for the NC Office of Management and Budget: http://www.osbm.state.nc.us/new_content/historical_budget_data.pdf.
 - 3 For more detail on the Governor’s budget proposal, see *BTC Report: The Governor’s 2011-2013 budget proposal: Despite sales tax extension, budget slashes public-sector jobs* at <http://www.ncjustice.org/?q=node/734>.
 - 4 Letter available at http://www.fiscalpolicy.org/FPI_Release_EconomistsOnFiscalPolicy_December2008.pdf
 - 5 In the context of Romer’s remarks, “aggregate demand” means the sum of government spending, personal consumption expenditures, and business expenditures in the United States.
 - 6 “Back to a Better Normal: Unemployment and Growth in the Wake of the Great Recession,” Christina D. Romer, Princeton University: April 17, 2010.