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BTC Brief

▶ NC BUDGET & TAX CENTER

September 16, 2009

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

DOWN IN THE VALLEY: General Fund Appropriations Per Person Lowest in 13 Years

Key Findings:

- 1 - State General Fund appropriations for fiscal year 2009-2010 per person are down \$346 since their peak in fiscal year 2007-08.
- 2 - Appropriations are now at their lowest level in thirteen years (since fiscal year 1996-97) after adjusting for inflation and population changes.

Overview

Much of the discussion during the recent budget debate centered around the extent to which state government spending has risen over time – in particular, whether it had risen to such a point that it was significantly greater than in the past. If that were the case then presumably the state could weather a significant budget shortfall by scaling back spending and avoid raising taxes. A close look at inflation-adjusted General Fund appropriations (the primary portion of the state budget that is funded by income and sales taxes and pays for education, health and human services, justice and public safety, etc) over the past few decades, however, reveals that without the tax increases adopted this year, state appropriations per person would have dropped to \$1,919 in fiscal year 2009-10 (FY 2009-10), the lowest level since FY 1992-93. Merely scaling back the increase in spending of the past few years would not have been sufficient to cover the budget shortfall.

Get the Facts: A Look at General Fund Appropriations since FY 1996-97

As shown in **Figure 1**, the per capita General Fund appropriations level in FY 2009-10 is the lowest since FY 1996-97. The highest level of appropriations per capita during the most recent expansion period occurred in FY 2007-08, peaking at \$2,377. This figure shrank to \$2,320 in FY 2008-09 and fell to \$2,031 under the FY 2009-10 budget. This amount is fully \$346 less than the peak in FY 2007-08.

These figures exclude state fiscal assistance made possible by the American Recovery and Reinvestment Act (ARRA). When these funds are included, per person spending is still a considerable drop of \$197 per person from the peak year of FY 2007-08. While it is important to include ARRA fiscal relief funds when drawing conclusions about the impact of the revenue drop on state services, it is appropriate to remove these funds when discussing to what extent state taxpayers are supporting the General Fund.

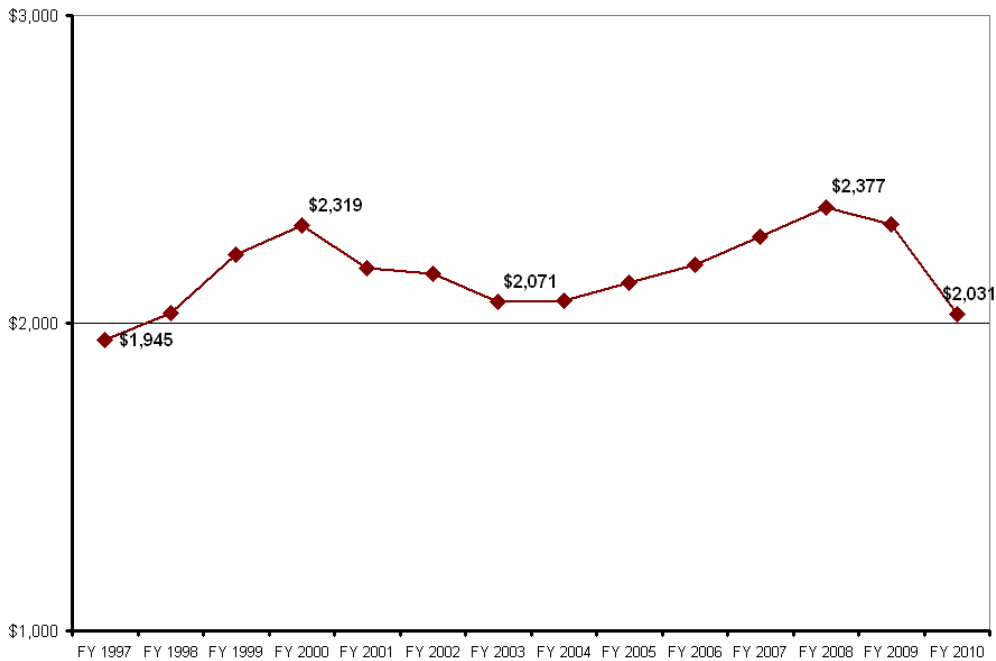
Another way to measure state budget growth and residents' ability to pay for government services is to look at General Fund appropriations as a share of the state's Total Personal Income (TPI) as

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FIGURE 1

INFLATION-ADJUSTED GENERAL FUND APPROPRIATIONS PER CAPITA, FY 1997 - FY 2010



SOURCES: North Carolina Office of State Budget and Management (OSBM) historical budget data (GF appropriation amounts), US Dept. of Labor Bureau of Labor Statistics Consumer Price Index (manual inflation adjustments), and NC OSBM population estimates.

measured by the U.S. Bureau of Economic Analysis. North Carolina's TPI was \$317.6 billion in 2008. In FY 2007-08, the originally-adopted General Fund Budget was \$21.3 billion, or 6.72% of the state's TPI. Even if TPI declined by 1 percent between 2008 and 2009 (official state forecasts ranged from no growth to a 1.1% increase), FY 2009-10 General Fund appropriations as a percentage of 2009 TPI would be 6.05%, lower than it has been in at least twenty years.

Conclusion

The \$4.6 billion state budget shortfall, or 22% of the state's General Fund, for FY 2009-10 forced Governor Perdue and the General Assembly to make difficult choices. A number of significant service cuts were enacted, such as deep cuts to mental health services and cuts to local school districts. Without the recently enacted tax increase, state General Fund appropriations would have fallen to their lowest level since FY 1992-93. Rather than allowing the quality of public services to retreat to such an extent, lawmakers opted to take a balanced approach, filling the budget gap with spending cuts, federal assistance and higher taxes. Even with this tax increase, however, state appropriations per person have fallen to their lowest level in thirteen years.