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Busting the Myth of Runaway Spending in North Carolina

KEY FINDING: *General fund appropriations per capita decreased by \$19, from \$2,323 to \$2,304, between FY99-00 and FY08-09 after adjusting for inflation.*

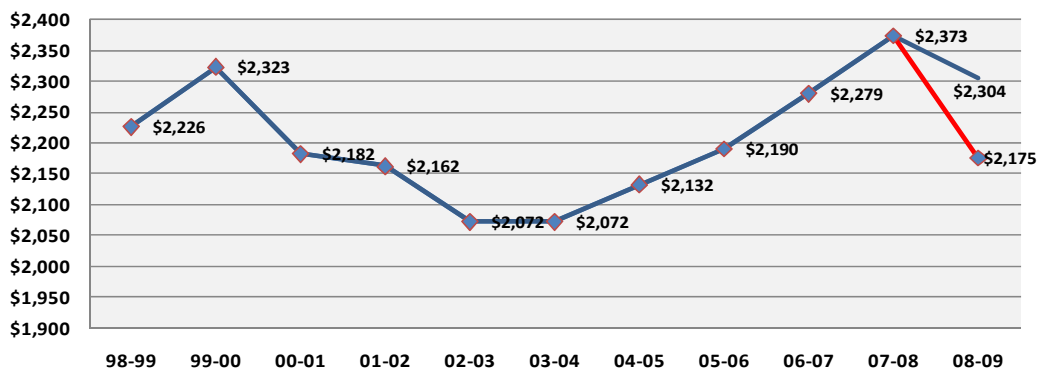
*Timely,
 accessible,
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 analysis of
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 budget and tax
 issues*

By Meg Gray Wiehe

North Carolina's population has grown by an estimated 1.3 million people, or 17% since 2000; however, state spending has not kept up with population growth over the past decade. While North Carolina's general fund appropriations increased almost annually in nominal terms between FY98-99 and FY08-09, the FY08-09 budget appropriated \$19 less per person than the FY99-00 budget, when adjusted for population and inflation. Moreover, North Carolina is spending less this fiscal year as a share of the state's total personal income than it was spending in FY99-00.

Increases in spending in recent years have often been characterized as new investments. However, as **Figure 1** illustrates, it was not until FY07-08 that the legislature restored general fund appropriations to pre-2001 recession levels.

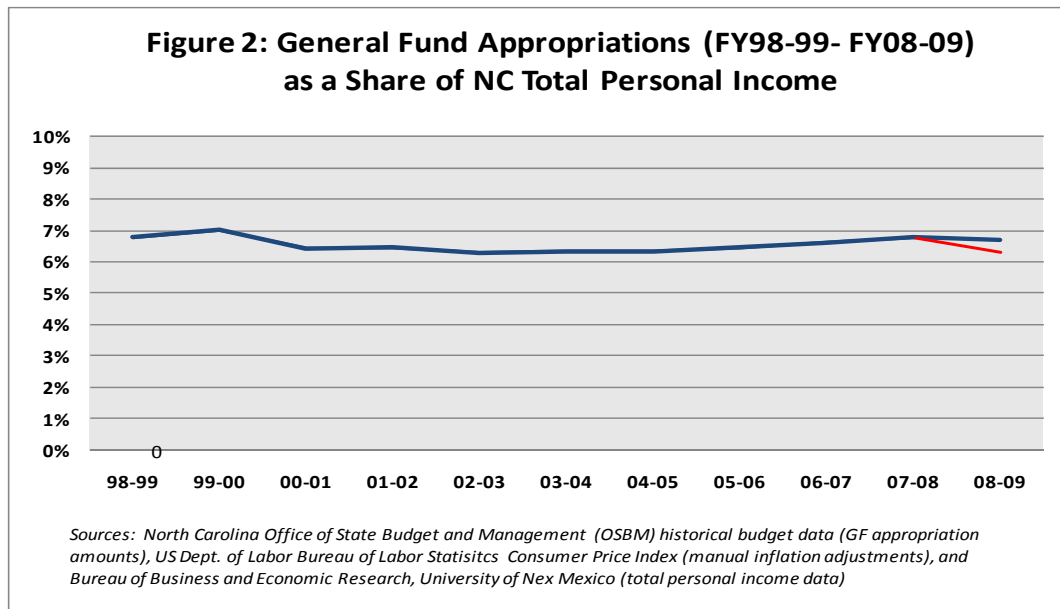
Figure 1: Real Per Capita NC General Fund Appropriations (FY98-99- FY08-09)



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.

Real per-capita appropriations dropped by \$250 per person, or 11%, between FY99-00 and FY03-04. Starting in FY04-05, per capita appropriations began to increase but leveled off in FY07-08. In FY08-09, per capita appropriations dropped by \$69 per person from the previous year and were \$19 less than a decade earlier. To address the current revenue shortfall, state lawmakers are looking to cut \$1.2 billion from the FY08-09 budget. The red line in Figure 1 represents the drop in per capita spending with the cuts included.

Another way to measure state budget growth is to look at the general fund as a share of the state's total personal income. As shown in **Figure 2**, general fund appropriations as a share of North Carolina's total personal income have decreased since FY99-00. In FY99-00, general fund appropriations represented 7% of the state's total personal income, and they declined to 6.7% in FY08-09. The red line shows the share when cuts to the FY08-09 are included.



North Carolina has not experienced dramatic growth in general fund appropriations over the past decade. Increases in recent years are better characterized as restoration of recession-era cuts rather than major new investments. As the population grows and costs rise, it is logical that the budget would grow in nominal terms to ensure a continued high standard of living and to meet the needs of the families and businesses. Looking at the budget in terms of per-capita spending and as a percentage of personal income reveal more about the state's investments than simply looking at dollar amounts. This data makes clear that cutting back on state spending will not be a matter of "trimming the fat or excess" but rather a matter of making tough choices about the relative importance of state-funded services.