

TRUTH OR CONSEQUENCES

Official Data Tell Real Story about NC Fiscal Woes

Summary: In recent months, public officials have made a range of statements in an attempt to explain persistent state and local budget woes. Many of these assertions do not square with the facts. A collection of graphs and tables shows clearly that North Carolina government is out of line with neighboring states in spending, employment, and taxes. Moreover, revenue growth outpaced personal income growth during the 1990s, while debt service costs are projected to triple over 10 years.

Whether state and local governments in North Carolina have budget deficits this year because they tax too little or spend too much may seem like a question that can only be answered philosophically. But one can, at least, gain insight about the issue by examining how nearby states with similar problems and populations address their fiscal needs.

Furthermore, any conclusion about tax and spending policies in North Carolina should be based on historical trends rather than just the experience of a year or two. The supposedly “huge” state tax cuts of the mid-1990s, for example, followed even larger increases in state income, sales, gasoline, and other taxes in the early 1990s, and were accompanied by rising property taxes in many cities and counties. That is one reason why the state and local tax burden in North Carolina projected for 2002 (10.1 percent of personal income) is actually higher than the burden 10 years before (9.6 percent).¹

The following set of graphs and tables examines these issues using the most recent data available from the State Office of Budget and Management, the Fiscal Research Division of the N.C. General Assembly, the U.S. Census Bureau, and other official sources. Here are the main points illustrated in these figures:

- The state budget did not shrink noticeably during the past year of budget “cuts.” General Fund expenditures will be about \$14 billion in FY 2001-02, virtually unchanged from FY 2000-01 and still up 79 percent from the FY 1991-92 budget.
- North Carolina ranks high in state and local spending among its regional peers, primarily due to large expenditures in Medicaid and the university system. It also ranks high in tax burden, primarily due to its personal and corporate income taxes.

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- North Carolina has more state and local employees per capita than any other state in the region and more than the national average. Public employee salaries in N.C., when adjusted for cost-of-living, are close to regional and national averages.
- General Fund revenues grew faster than personal income during the past decade, invalidating the argument that the tax system is too antiquated to keep up with economic growth. Because of North Carolina's excessive reliance on "progressive" income tax rates, its revenue collections will continue to gyrate more wildly than those in other states, as rising or falling incomes and capital gains realizations move taxpayers into different tax brackets.
- Debt service costs in North Carolina have exploded in recent years. By the 2002-03 fiscal year, annual debt service expenditures will approach \$400 million — representing a tripling of the cost over just 10 years.

Conclusion

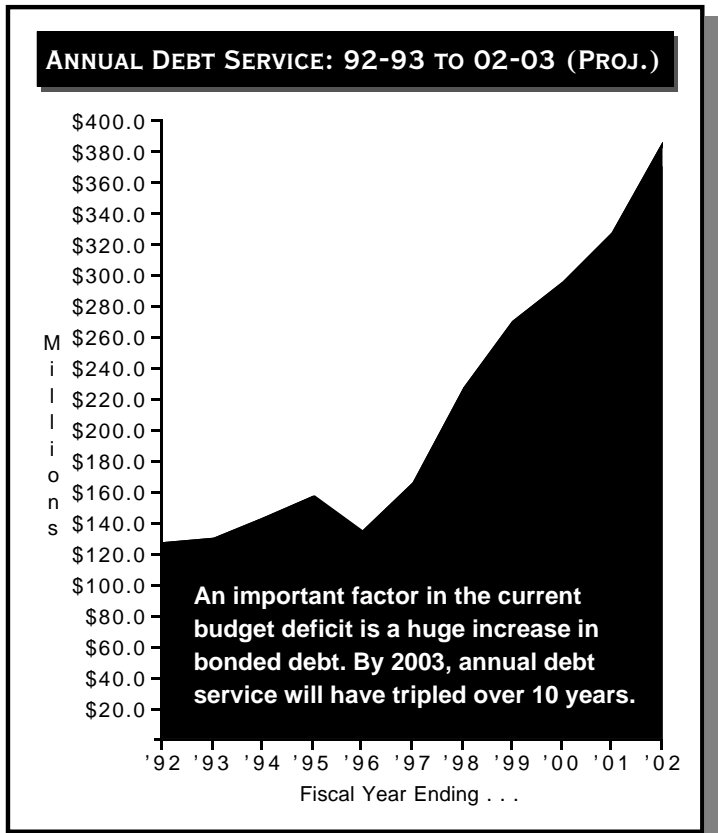
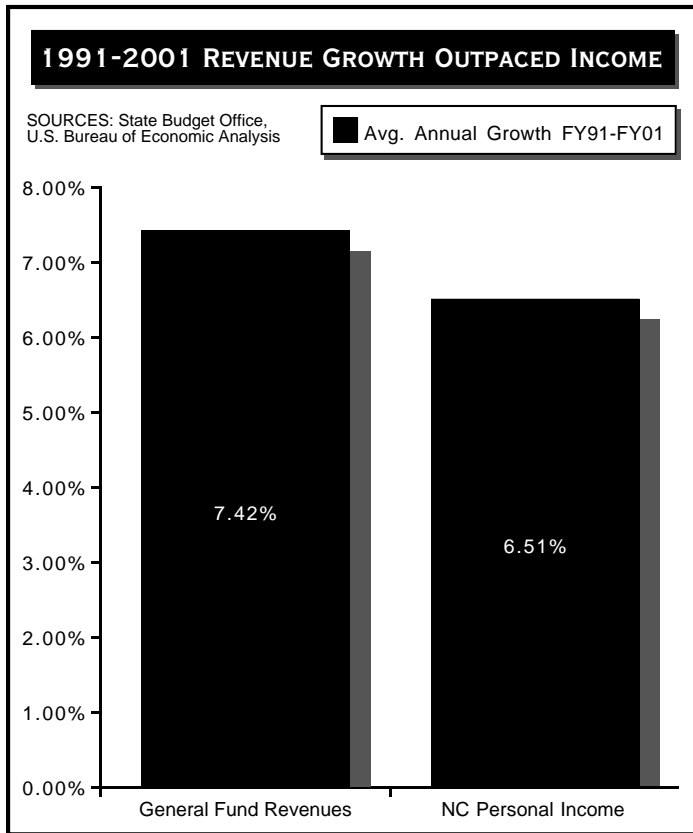
These facts, and those contained in other publications on North Carolina fiscal issues from the John Locke Foundation, are not simply ideological or philosophical propositions. They illustrate the extent to which state and local policymakers have made choices over the years that have generated the current budget deficits.

To get government spending and taxes back in line with what North Carolinians are willing to pay — and with the policies chosen by most of our regional competitors — public officials need to focus on growth areas such as Medicaid, higher education, public employment, and debt service. This would be much preferred over an across-the-board approach that takes no notice of important variations in where spending growth has occurred and how effective state and local programs are in achieving their stated aims.

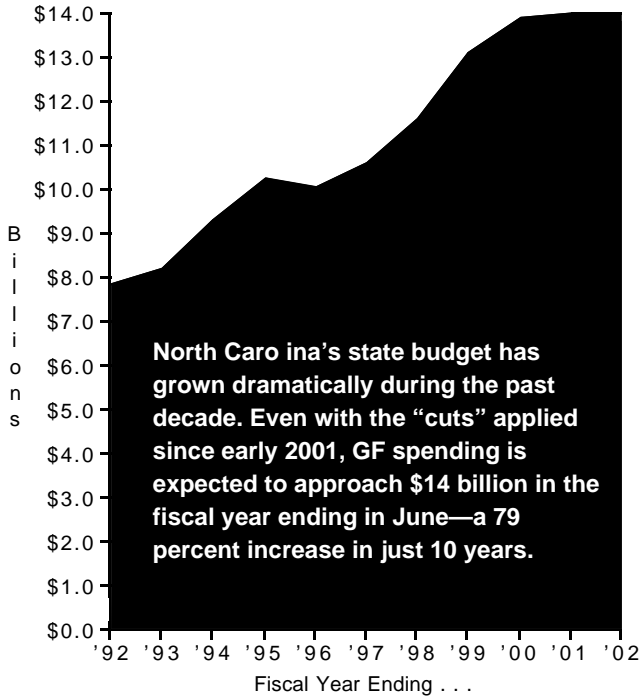
— John Hood, President

Notes

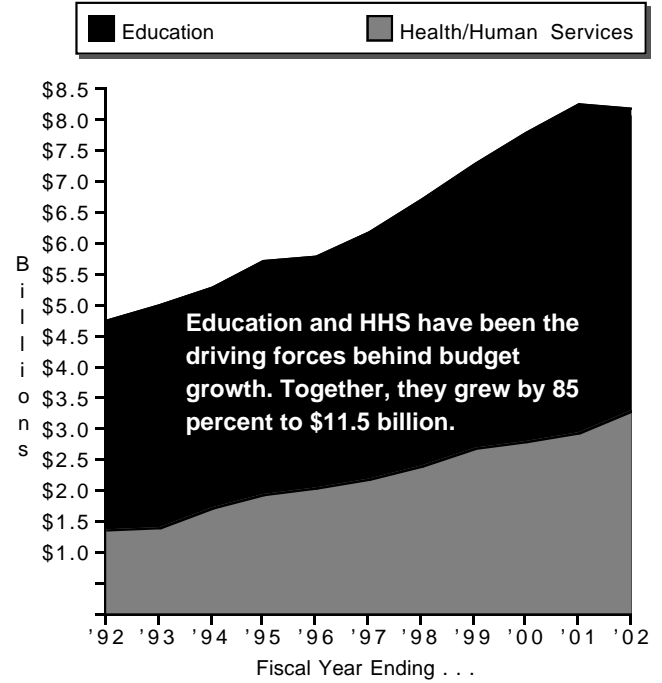
¹ J. Scott Moody and David Hoffman, "America Celebrates Tax Freedom Day," Special Report No. 112, The Tax Foundation, Washington, D.C., April 2002, www.taxfoundation.org.
² See, for example, John Hood, Don Carrington, & Roy Cordato, "Changing Course IV: An Alternative Budget for North Carolina," Policy Report, John Locke Foundation, May 2001.



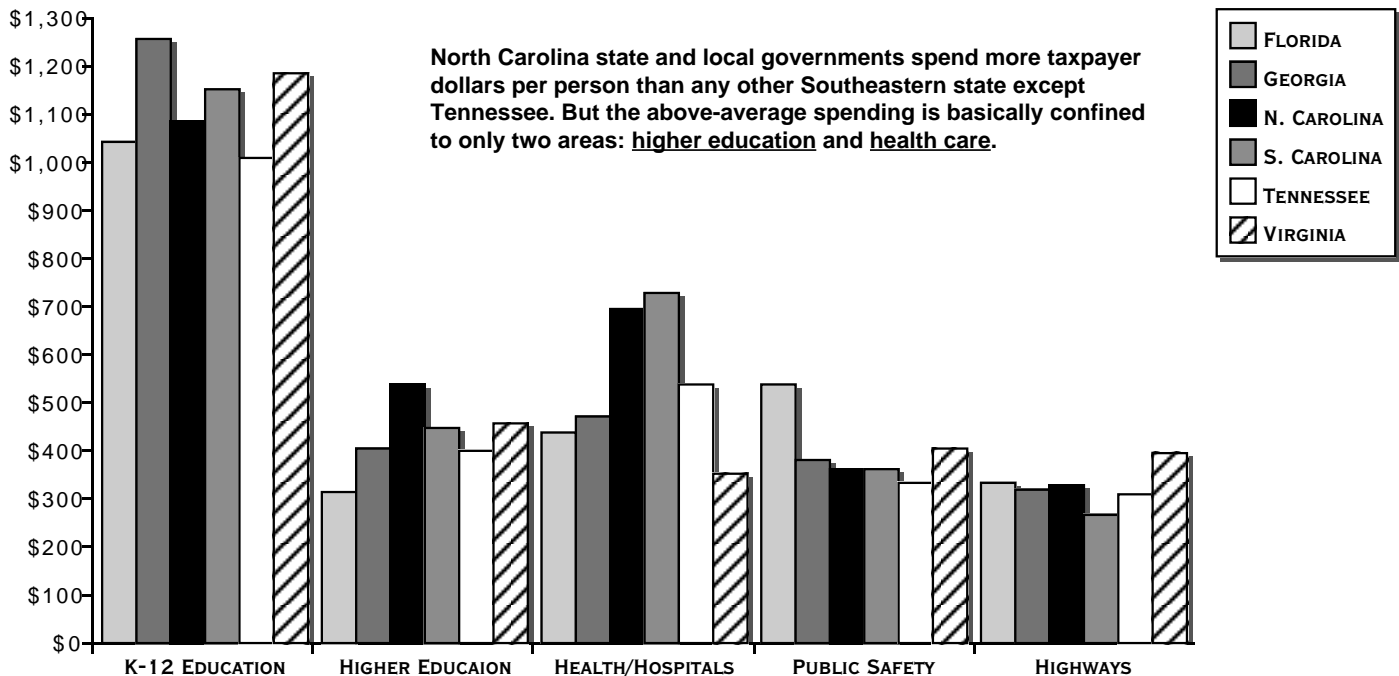
GENERAL FUND BUDGET: 91-92 TO 01-02 (REV.)



SELECTED GF SPENDING, 91-92 TO 01-02 (REV.)



COMPARING PER-PERSON STATE AND LOCAL SPENDING IN SIX SOUTHEASTERN STATES



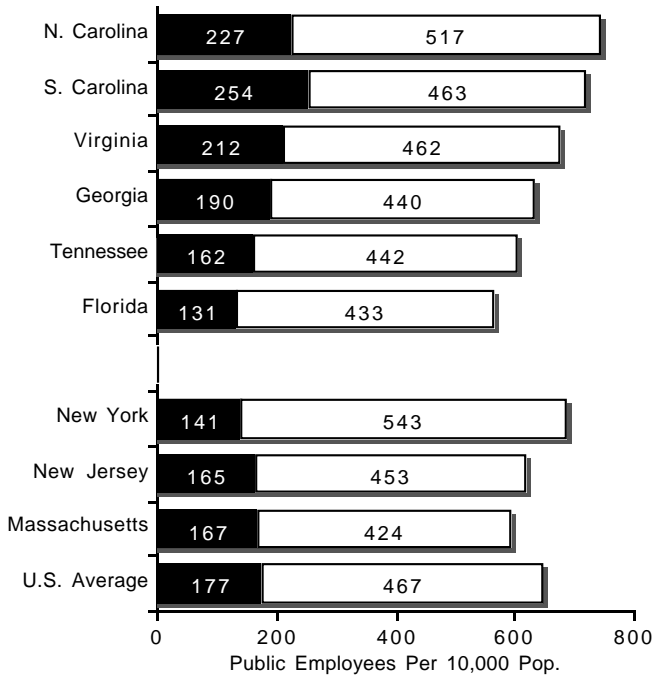
	K-12 EDUCATION	HIGHER EDUCATION	HEALTH/HOSPITALS	PUBLIC SAFETY	HIGHWAYS
FLORIDA	\$1,044	\$316	\$437	\$538	\$335
GEORGIA	\$1,258	\$403	\$471	\$379	\$318
N. CAROLINA	\$1,087	\$539	\$693	\$364	\$328
S. CAROLINA	\$1,152	\$447	\$727	\$364	\$266
TENNESSEE	\$1,009	\$402	\$539	\$332	\$308
VIRGINIA	\$1,188	\$457	\$354	\$404	\$394

NOTE: "Health/Hospitals" spending includes Medicaid, public employee health benefits, and public health; "Public Safety" includes police, fire, and corrections.
 SOURCE: U.S. Census Bureau, FY 1998-99 data (Includes spending from all fund sources)

NORTH CAROLINA HIGH IN PUBLIC EMPLOYEES . . .

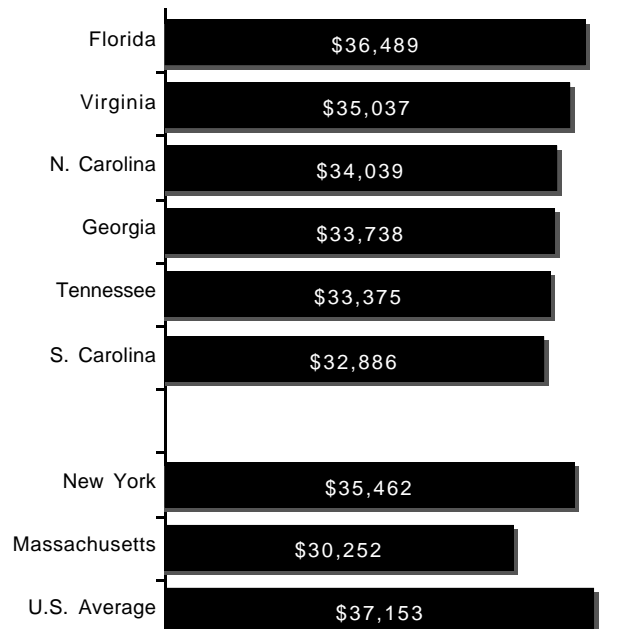
SOURCE: U.S. Census Bureau, 2001

■ State □ Local



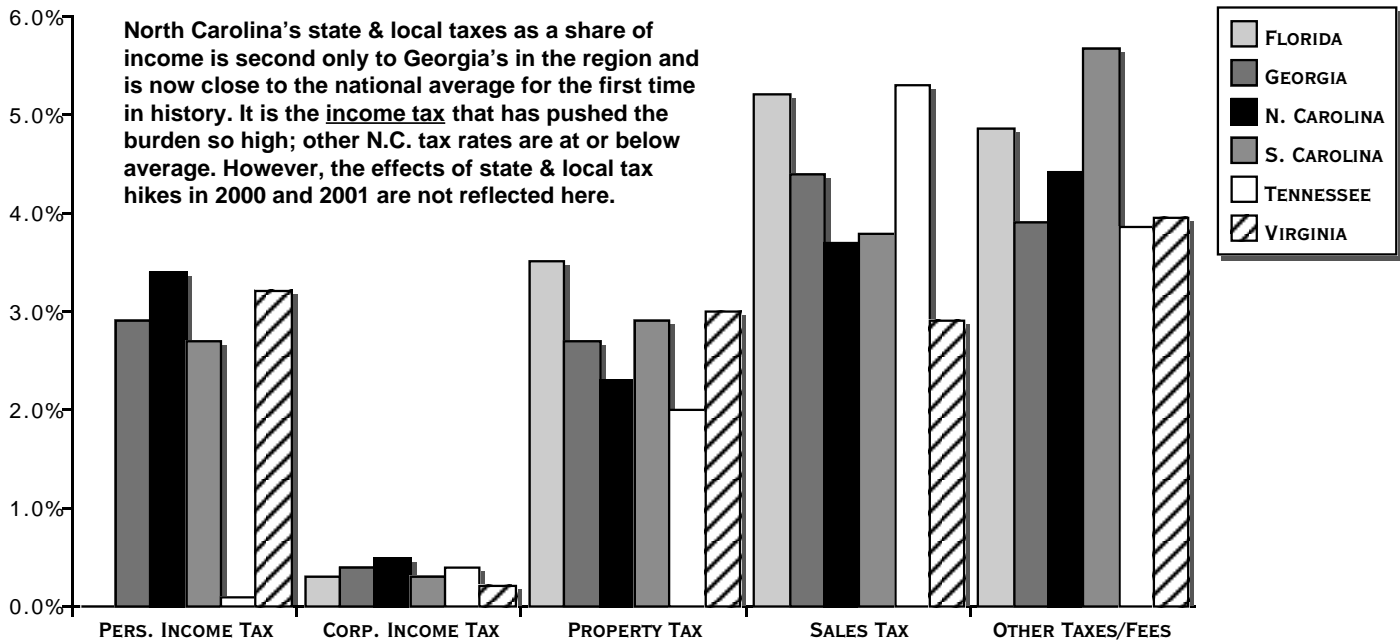
. . . BUT CLOSER TO AVERAGE IN REAL SALARIES

■ Average State and Local Salary (Adjusted for Cost of Living)



SOURCES: U.S. Census Bureau, 2000; and COL Index from JLF

COMPARING STATE AND LOCAL TAX BURDENS IN SIX SOUTHEASTERN STATES



	PERS. INCOME TAX	CORP. INCOME TAX	PROPERTY TAX	SALES TAX	OTHER TAXES/FEES
FLORIDA	0.0%	0.3%	3.5%	5.2%	4.9%
GEORGIA	2.9%	0.4%	2.7%	4.4%	3.9%
N. CAROLINA	3.4%	0.5%	2.3%	3.7%	4.4%
S. CAROLINA	2.7%	0.3%	2.9%	3.8%	5.7%
TENNESSEE	0.1%	0.4%	2.0%	5.3%	3.9%
VIRGINIA	3.2%	0.2%	3.0%	2.9%	4.0%

NOTE: "Other Taxes/Fees" include highway tolls, park admissions, tuition, parking fees, public hospital charges, etc.

SOURCE: U.S. Census Bureau, FY 1998-99 data.