

## SPENDING GROWTH SURGES

### *Senate Plan Has Largest Budget Hike in Years*

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Summary: The NC Senate is considering a General Fund budget that would increase spending more than either the governor or House proposes. The long-term trend shows the need for a tight spending cap. If it had been in place during the last half of the 1990s, the savings could have financed a big reduction of state debt or tax refunds. By 2004-05, the budget would have been \$2.3 billion lower — eliminating the need for sudden budget changes or the revenue from the 2001-03 tax hikes.

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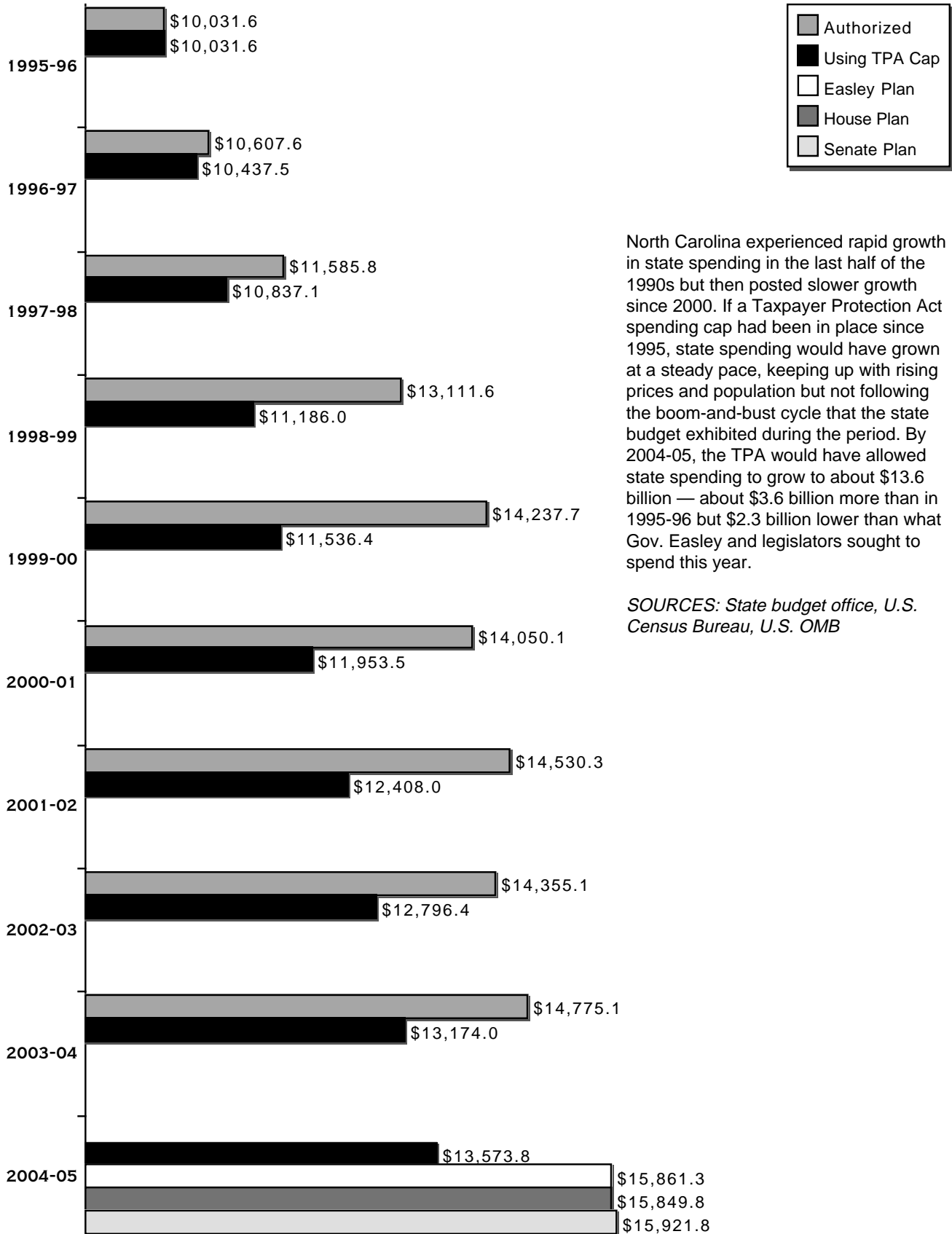
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**A**s the North Carolina Senate prepares to vote on its proposed 2004-05 budget plan, it is important to keep in mind that an accounting change included in the plan has the effect of masking the magnitude of the proposed increase. The versions already offered by Gov. Mike Easley and the House would budget \$108 million for 2004-05 to finance school bonuses under the ABCs program. The Senate, however, budgets the \$108 million not as an expenditure but as a reduction in the revenue availability for 2004-05, reflecting a retroactive expenditure for 2003-04. While senators argue that this fiscal obligation was accrued in 2003-04 and therefore should be budgeted for that year, North Carolina does not have an accrual budgeting system in place. Perhaps it should, but for now true comparisons are possible only if the item is treated as an expenditure this year, as it has usually been treated in the past. The Senate's real General Fund budget, in other words, is approximately \$15.923 billion, representing a \$1.147 billion, or 7.8 percent, increase over FY 2003-04. This would be the largest spending increase since the late 1990s, when North Carolina budgets grew rapidly and thus helped to set the stage for the deficits that ensued.

In 1995, a serious effort was made in the General Assembly to adopt some version of a Taxpayer Protection Act that would cap annual spending growth at a combination of inflation and population growth. If this effort had succeeded, revenues would have exceeded allowable spending by billions of dollars over the next four years, allowing lawmakers to pay down existing state debt, use cash rather than debt for future projects, or build up a larger budget reserve. Any of these actions would have significantly alleviated the budget-deficit problems that state leaders have had to address since 2000. This year, a TPA cap would limit General Fund spending to \$13.6 billion, an increase of about \$400 million or 3 percent. Sticking to this rule would dramatically reduce the use of one-time money to fund recurring expenses, and thus the likelihood that lawmakers will raise taxes again in 2005.

— John Hood, President

# GENERAL FUND BUDGETS, AUTHORIZED & PROPOSED, 1995-96 THROUGH 2004-05



North Carolina experienced rapid growth in state spending in the last half of the 1990s but then posted slower growth since 2000. If a Taxpayer Protection Act spending cap had been in place since 1995, state spending would have grown at a steady pace, keeping up with rising prices and population but not following the boom-and-bust cycle that the state budget exhibited during the period. By 2004-05, the TPA would have allowed state spending to grow to about \$13.6 billion — about \$3.6 billion more than in 1995-96 but \$2.3 billion lower than what Gov. Easley and legislators sought to spend this year.

SOURCES: State budget office, U.S. Census Bureau, U.S. OMB

Millions of Dollars