

## BAD BUDGET HABITS RETURN

### *Senate Plan Would Repeat 1990s Spending Trend*

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**Summary:** Under the Senate's proposed budget, real spending in the state will grow as quickly over the three years through fiscal year 2007, 13.2 percent, as it did in the three years through FY 2001. The late 1990s benefited from rapid economic growth that allowed the state to cut taxes while spending more. Gov. Mike Easley raised taxes to cover expenses while slowing growth to 0.2 percent in real terms through FY2003-04. Since then, the higher taxes have paid for renewed spending growth. Medicaid spending has expanded more rapidly than education or correction and is accelerating. Growth is faster still outside this core.

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**G**ov. Mike Easley and others have acknowledged the late 1990s as an era of runaway spending. It is left to the state House to keep us from another. Under budgets proposed by both the governor and the state Senate, spending in constant, inflation-adjusted dollars would grow over three years at the same rate it did in the bubble years. With slower economic growth, however, the spending is joined by tax increases instead of tax cuts.

From fiscal year 1998 to 2001, the state government appropriations grew at an annual rate of 4.2 percent adjusted for inflation. The end of the tech bubble, recession, and after-effects of September 11 led Gov. Easley and the General Assembly to enact "temporary" tax hikes to pay for 0.2 percent growth in real government spending. Fiscal 2005, however, marked a return to higher spending. Annual real growth from 2005 through 2007 in the Senate budget proposal matches the 4.2 percent annual rate of the last boom. Even this growth depends on a modest 1.6 percent increase in real spending in 2007 to offset the 5.9 percent increase in real spending for 2005 and 5.1 percent in 2006.

North Carolina addressed the hangover from the 1990s in the first budgets of the Easley administration, but not the binge that caused it. Spending in FY2002-03 was \$50 million lower in current dollars than it had been the previous year. The General Fund budget went from \$13.8 billion in 2001 to \$14.7 billion in FY2003-04, a 7 percent increase over three years, totaling less than \$1 billion. The following year alone, FY2004-05, saw nominal growth of 7.6 percent, or \$1.1 billion.

Medicaid takes an increasingly larger share of the budget as its growth accelerates. From 1995 to 2001, Medicaid spending grew 61 percent and went to 11 percent of the budget from 10 percent. By 2007, Medicaid will consume 15 percent of the budget and

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200 W. Morgan St. #200  
Raleigh, NC 27601  
Voice: (919) 828-3876  
Fax: (919) 821-5117  
[www.johnlocke.org](http://www.johnlocke.org)

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**Fig. 1: Inflation-Adjusted General Fund Spending Growth (FY1998-FY2007)**

	\$ Change 1998-2001	% Change 1998-2001	Annual Growth	\$ Change 2001-2004	% Change 2001-2004	Annual Growth	\$ Change 2004-2007	% Change 2004-2007	Annual Growth
<b>Total Education</b>	1,036	13.2%	4.2%	-70	-0.8%	-0.3%	411	4.7%	1.5%
Public Schools	762	13.9%	4.4%	26	0.4%	0.1%	197	3.1%	1.0%
CommColl	70	11.2%	3.6%	-1	-0.2%	-0.1%	27	3.9%	1.3%
UNC	204	11.7%	3.8%	-95	-4.9%	-1.7%	187	10.1%	3.3%
<b>Medicaid</b>	289	21.3%	6.7%	381	23.2%	7.2%	495	24.5%	7.6%
<b>Correction</b>	-16	-1.7%	-0.6%	31	3.3%	1.1%	29	2.9%	1.0%
<b>All Other</b>	414	13.9%	4.4%	-244	-7.2%	-2.5%	1,037	32.8%	9.9%
<b>TOTAL</b>	1,723	13.1%	4.2%	98	0.7%	0.2%	1,972	13.2%	4.2%

will have grown 72 percent since 2001. Most of this growth took place with a Medicaid expansion in 2002. The expansion shifted costs from a state- and locally funded mental health care program to the federally assisted Medicaid program.

State spending on programs other than education, Medicaid, and corrections reached its nadir in 2003 at \$2.9 billion (\$3.0 billion in 2005 dollars), but has been rising rapidly since and will top \$4.3 billion (\$4.2 billion in 2005 dollars) in FY2006-07 — an increase of 48 percent in just four years, or 10.6 percent a year. This nearly doubles the 5.5 percent annual increase seen since FY2000-01.

Health insurance for state employees and retirees takes the brunt of the governor's blame for higher spending. In the governor's recommended budget, it is nearly 125 percent higher in 2006 than in 2005, but is only about 10 percent of growth that year outside Medicaid, education, and correction. Further, this spending was flat in FY2004-05 and will be again in FY2006-07. This means over 90 percent of growth in the fastest growing area of state government is in other areas.<sup>3</sup>

The choice before the General Assembly is not between higher taxes or cutting essential services. It is between spending \$1 billion on programs other than Medicaid, education, and corrections in FY2006-07 or setting priorities and reforming entitlements so the state can provide its core services better while keeping more money in the hands of its citizens.<sup>4</sup>

*-Joseph Coletti, Fiscal Policy Analyst*

NOTES:

<sup>1</sup> Author calculations based on data from Fiscal Research Division

<sup>2</sup> Senate Appropriations/Base Budget Committee, Report on the Continuation, Expansion and Capital Budgets, NC General Assembly Fiscal Research Division, <http://www.ncleg.net>

<sup>3</sup> North Carolina State Budget 2005-2007, Recommended Continuation Budget, Vol. 2 General Government, Office of State Budget and Management, <http://www.osbm.state.nc.us>

<sup>4</sup> Freedom Budget 2005: Principled and Pragmatic, Joseph Coletti, John Locke Foundation, May 2005, [http://www.johnlocke.org/policy\\_reports/display\\_story.html?id=57](http://www.johnlocke.org/policy_reports/display_story.html?id=57)

**Fig. 2: Share of General Fund (FY1998-FY2007)**

