

spotlight

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TRENDS IN NORTH CAROLINA STATE SPENDING

Total state spending has grown after both inflation and per capita adjustments

KEY FACTS: • Regardless of whether it is measured in nominal, per capita, or inflation-adjusted terms, state spending is increasing.

- North Carolina's total state budget peaked in 2012, reaching more than \$51 billion or \$5,348 per capita.

- General Fund spending has decreased since 2009, but total state spending has increased. The shift of spending outside of the General Fund has created a lack of transparency in the state budget process.

- Federal spending continues to be a major part of North Carolina's total budget spending, totaling 45 percent of total expenditures in 2012.

- Health and Human Services is the largest state agency expenditure in North Carolina's budget and has grown over 260 percent since 1980.

- During the Easley administration, Health and Human Services became the largest expenditure in total state government. Since 2005, the HHS budget has been consistently higher than education appropriations.

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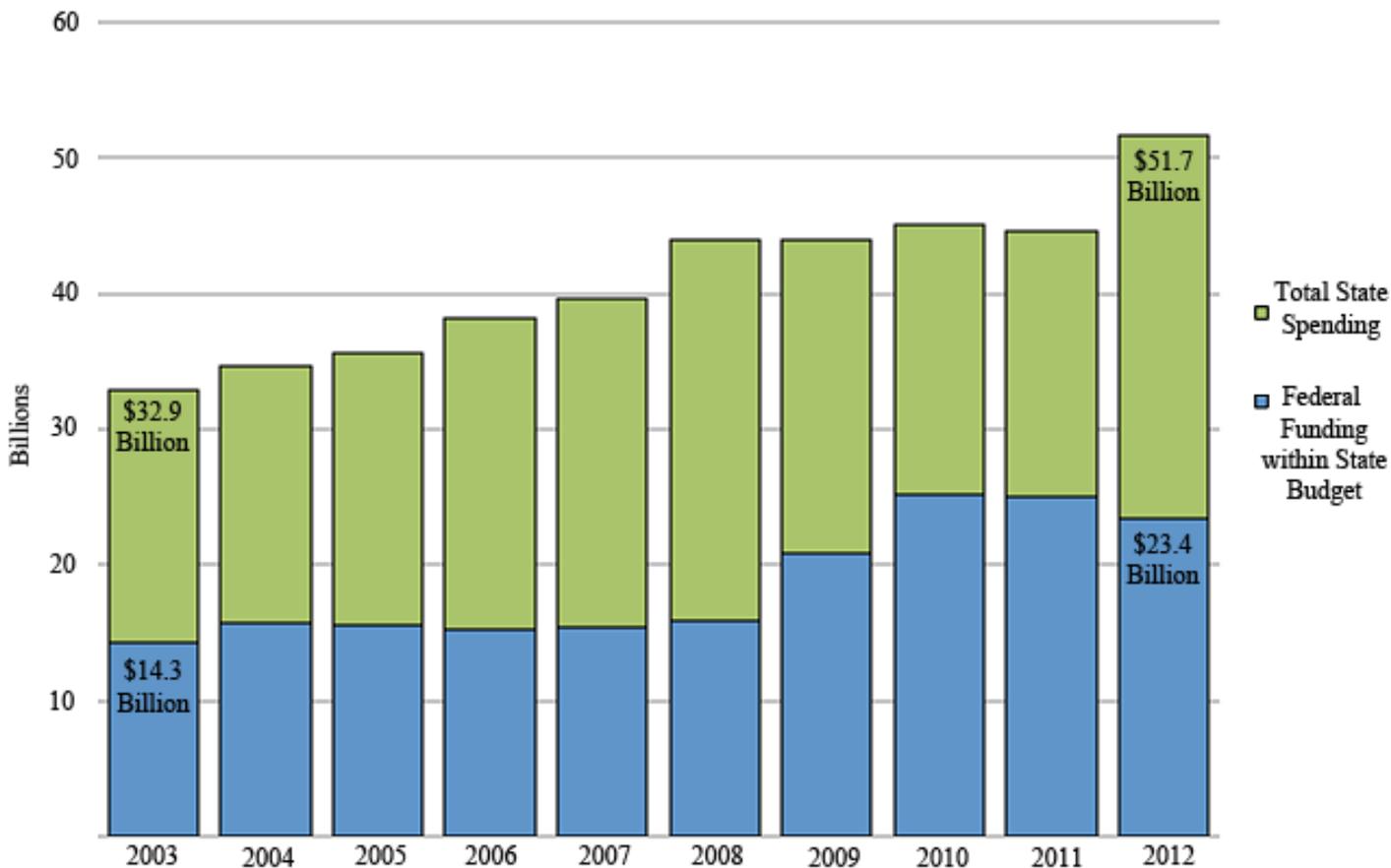
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every year, citizens, pundits, and elected officials in our state engage in spirited debates about North Carolina’s government spending. One side of the aisle argues that spending continues to increase at an undesirable rate and, as a result, the state legislature needs to cut back on government spending and use taxpayer dollars more efficiently. The other side of the aisle claims that the state needs to increase taxes and spending to provide “essential” services and “investments” for the state’s citizens. Regardless of political platforms and campaign speeches, one thing is clear: North Carolina’s budget expenditures have increased significantly over the last 30 years. In particular, there have been rapid increases in state spending across all categories in the last ten years — a dangerous precedent when one considers that the financial stability of state and federal governments are not at their strongest.

In order to make appropriate comparisons of North Carolina’s long-term government spending, the data needs to be adjusted for inflation and stated in terms of per capita expenditures. Adjusting for inflation provides an apples-to-apples measure of spending over time. The addition of population data allows researchers to adjust government spending to per person or “per capita” terms. Measuring spending at a per capita rate is needed because the population of the state is always changing, which has a direct effect on the demand for government services. Making these adjustments, it becomes apparent that state spending in North Carolina has increased significantly over the last 30 years. In fact, different data sets all show the same thing – spending in North Carolina is at record high levels.

Figure 1: Federal Funding within Total State Spending¹
(in 2012 Dollars)



Total State Budget

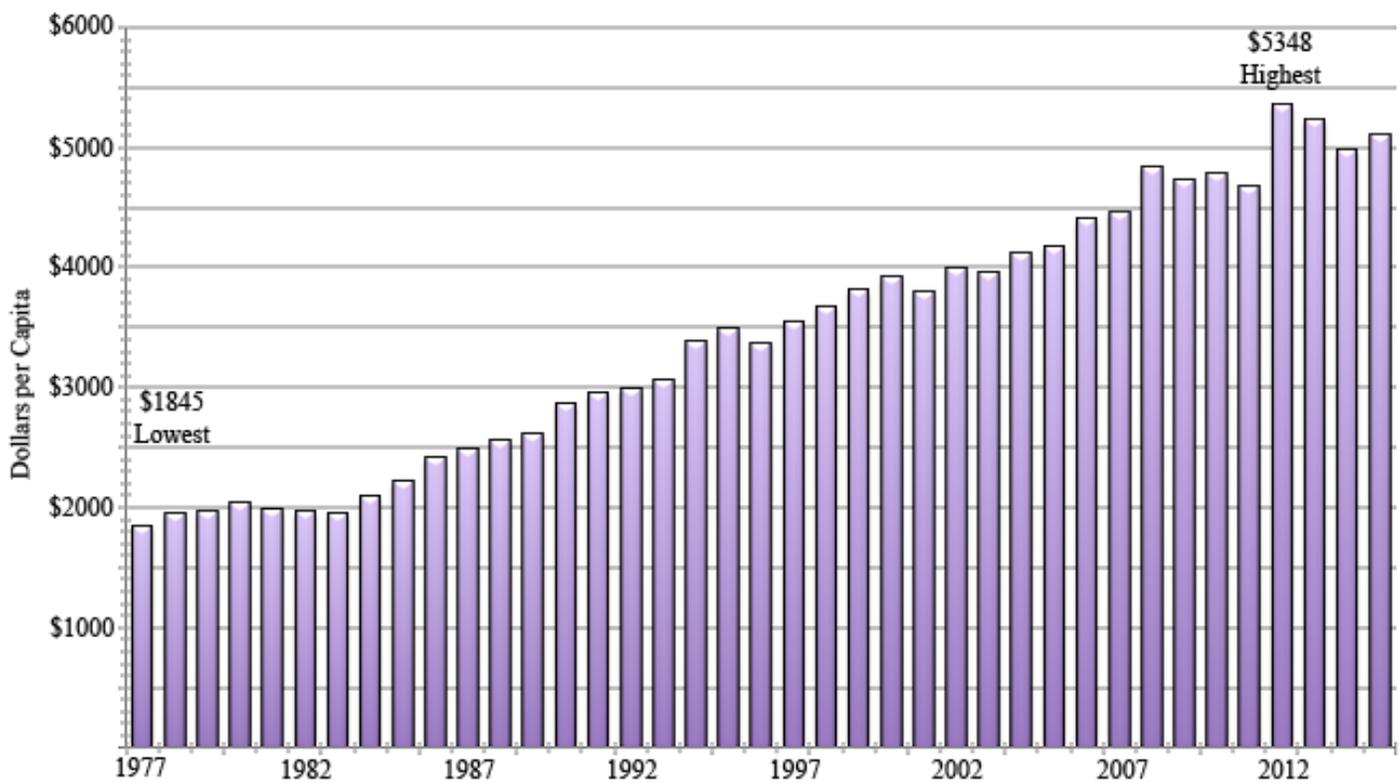
The total state budget encompasses all government expenditures in North Carolina each year. This includes the General Fund, federal funding, transportation, debt service, and many other expenditures. The total state budget amount is around \$51 billion, of which almost half is federal funding. North Carolina has received around 45 percent of its total budget from the federal government over the last ten years, with the exception of 2010 and 2011 when the American Recovery and Reinvestment Act (the so-called “stimulus”) helped to boost federal funding to an historic high 56% of the state’s total budget.²

State government officials need to be wary of allowing such a large portion of the state’s expenditures to be dependent upon federal funding. As the federal government’s debt crisis continues, this money suffers from the same uncertainty that plagues all of Washington’s deficit spending.

Spending trends show that North Carolina is in a period of record high government expenditures in both per capita and percentage of personal income terms. Since 1980, inflation-adjusted state spending has grown more than 150 percent. The highest level of per capita spending (\$5,348) was in 2012.³ Because it is adjusted for inflation and measured per capita, Figure 2 gives the most accurate representation of the long-term growth in total state spending for North Carolina.

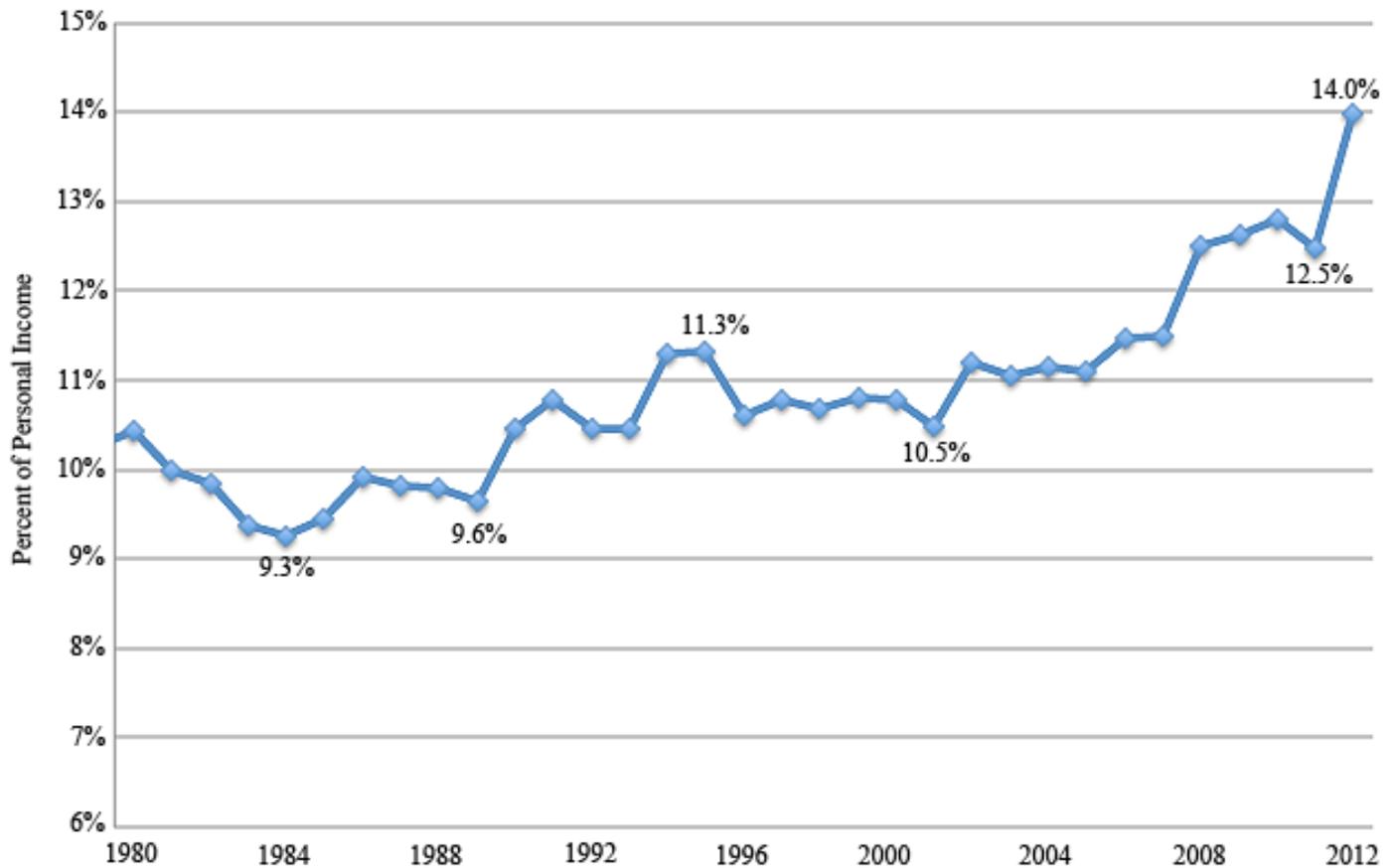
Another measure of government expenditure is the state’s spending as a share of personal income. In economic terms, personal income is the total amount of all income actually received by individuals or households during a specific period.

Figure 2: Total State Spending per Capita⁴
(in 2012 Dollars)



Total State Spending includes all expenditures by the State of North Carolina during a fiscal year. This includes, but is not limited to: education, health and human services, transportation, corrections, debt service, reserves, capital, federal grants, and all other government agency expenditures.

Figure 3: Total State Budget as a Percentage of Total Personal Income

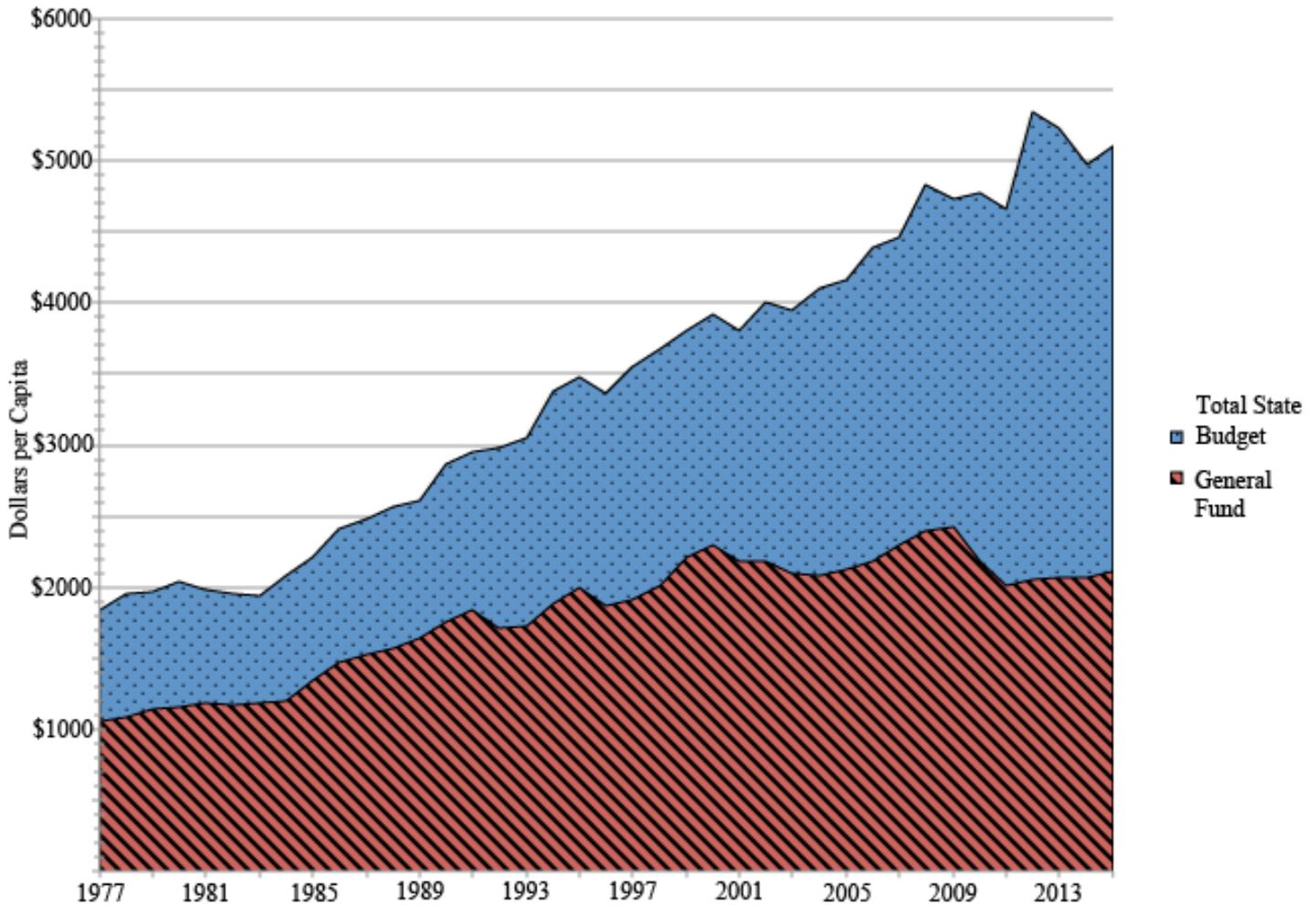


For state spending analyses, personal income levels tend to be good indicators of economic expansion and stagnation. Figure 3 depicts the total state budget as a percentage of North Carolina’s total personal income. During the booming economic times of the 1990s, the total state budget averaged 10.8 percent of total personal income. Since 2000, the state has weathered two nationwide recessions, with the most recent affecting personal income and employment the most. The first recession in 2001 saw little or no increase in the budget as a percentage of personal income from previous non-recession years. During The Great Recession, which began in 2007 and subsided in 2009, spending as a share of personal income increased less than 1 percent. As the state has rebounded from The Great Recession, total state budget as a percentage of personal income has risen sharply to an all time high of 14 percent in 2012. During both economic recessions and booms, North Carolina continued to keep state spending under control, relative to personal income. That is, until a few years ago.

Transparency

Government budgets have a reputation for being difficult for the typical citizen to understand, and North Carolina’s is no exception. For many, the persistent growth in state spending is not easily visible because there is an undue focus on the General Fund, particularly in the media. During budget debates in Raleigh, the media typically reports the final General Fund appropriations to various state agencies and uses 2009 as the benchmark. In 2009, the state reached its highest General Fund appropriation, an inflation-adjusted amount of \$22.5 billion.⁵ Since that time, however, the General Fund has been slowly decreasing. But total state expenditures have increased, with spending continuing to move outside the General Fund, as illustrated in Figure 4.

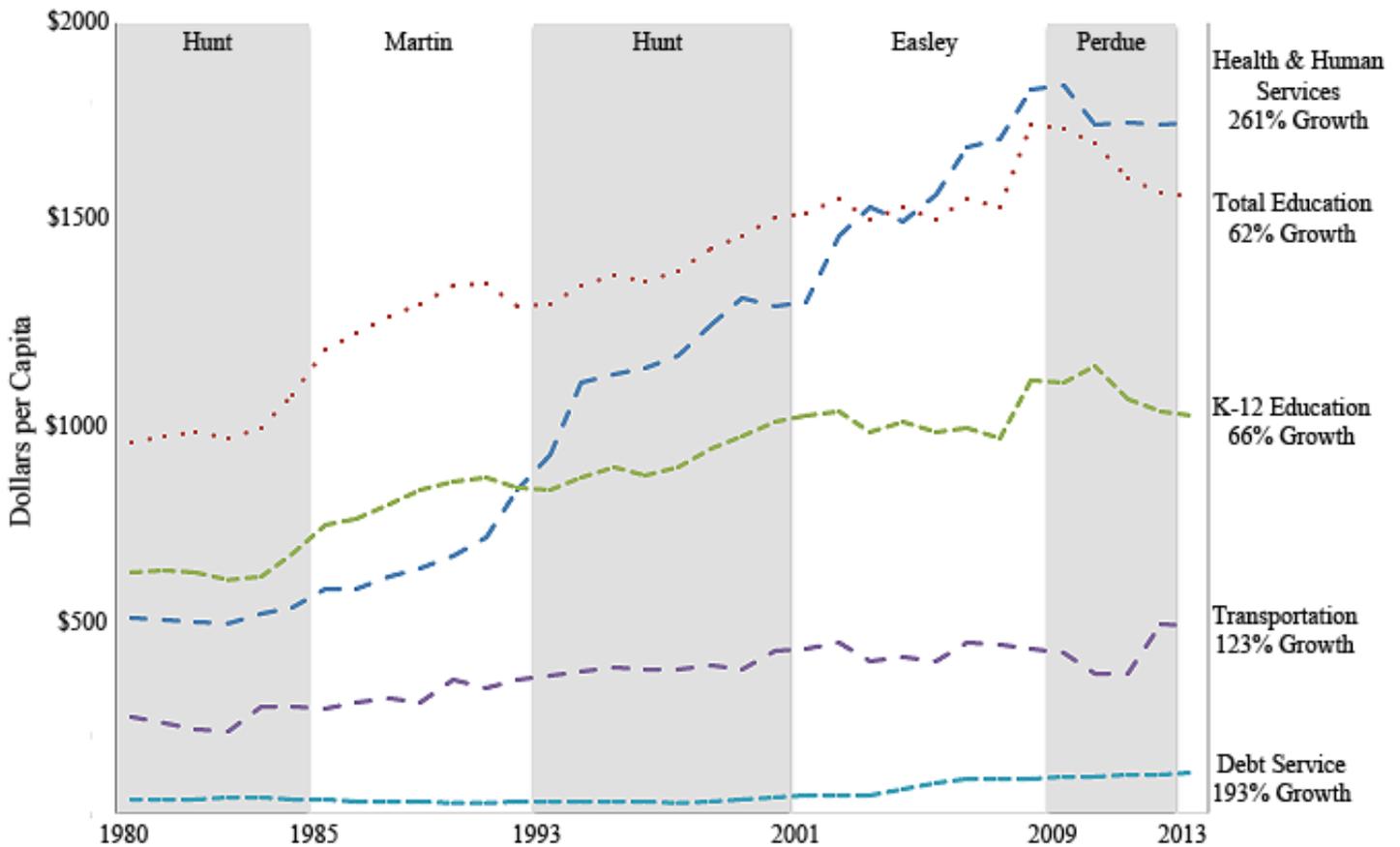
Figure 4: General Fund and Total State Spending per Capita⁶
(in 2012 Dollars)



State agency growth partially explains why the General Fund and the total state budget are growing at faster paces since 2000 when compared to prior decades. For many years, public education, including K-12 schools, the UNC system, and the community college system, was the largest expenditure in state government. In 2003, the Easley administration increased spending on Health and Human Services (HHS) and it eclipsed public education as the largest expenditure in the total state budget. Since 2005, the total HHS budget has been consistently higher than funds spent on public education. Many of the state’s welfare programs are primarily funded through HHS and, thus, receive a significant portion of funding from the federal government.

Non General Fund spending includes both transportation and the state’s debt service. The state legislature spent approximately \$4.5 billion on transportation-related expenditures in the most recent fiscal year, and transportation spending has grown by 123 percent since 1980. The state’s debt service was relatively stable until two surges in spending occurred, one in 1997 and another in 2003. Debt service spending increased 193 percent during this period. The lack of transparency for budget items such as transportation and debt service is one key reason why taxpayers and those they elect are unaware of the rapid rise in state spending over the last decade. To increase transparency and accountability, North Carolinians should refocus their attention on total budget expenditures, not just the General Fund.

Figure 5: Trends in State Agency Growth by Administration Since 1980⁷
(per Capita in 2012 Dollars)



Conclusion

Multiple measures of state spending have shown clear trends of spending growth. For much of the 1980s and into the early 1990s, spending was kept in check. Throughout the late 1990s and for much of the 2000s, however, North Carolina’s total budget has grown significantly, with spending peaking in 2012. To ensure economic growth, North Carolina must become less dependent on government spending. Total state spending, regardless of the source of the revenue, is a more complete measure of the extent to which state government diverts real resources — that is land, labor, and capital — away from the private sector, where all economic growth is generated. This is what economists call “crowding out,” and it leads to less economic growth and job creation. For this reason, our elected officials must begin the process of reducing the size of state government.

In addition, legislators and taxpayers alike need to seriously consider budgeting approaches that are designed to address spending growth. Some have argued for the implementation of a Taxpayer Bill of Rights to limit spending, while others have argued that the budget process should include different budgeting and accounting methods that would detail non General Fund spending. The specific course of action will not be agreed on overnight, but there are ample opportunities, particularly during the interim before the next legislative session, to begin reforming the budget process in a way that looks at the whole picture.

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End notes

1. Data for the total state budget came from The Governor's Recommended Budget, osbm.state.nc.us/files/pdf_files/2013-15_BudgetBook_web.pdf; federal data came from the Statewide Single Audit Reports, ncauditor.net/pub4/SingleAuditsList.aspx; used the St. Louis Federal Reserve's GDP deflator (2009=100), research.stlouisfed.org/fred2/series/GDPDEF.
2. Percentages were calculated using the Statewide Single Audit Reports from 2003 to the most recent. Each report sums the total expenditures of federal awards which were then adjusted for inflation using the St. Louis Federal Reserve's GDP deflator (2009=100). Percentages were taken from inflation adjusted total state budget figures and federal awards. ncauditor.net/EPSSWeb/Reports/Financial/FSA-2012-8730.pdf, research.stlouisfed.org/fred2/series/GDPDEF (third quarter)
3. The total state budget was taken from 1980 to present day and adjusted for inflation using the St. Louis Federal Reserve's GDP deflator (2009=100). The percentage difference from 1980 to 2015 was calculated using Governor Pat McCrory's Total Budget expenditures for FY2014 and FY2015 in his recommended budget totaling a percentage increase of 151.22%.
4. Data for the total state budget came from The Governor's Recommended Budget, osbm.state.nc.us/files/pdf_files/2013-15_BudgetBook_web.pdf and includes FY2014 and FY2015 figures for total state budget; used the St. Louis Federal Reserve's GDP deflator (2009=100), research.stlouisfed.org/fred2/series/GDPDEF; population adjustments were made using osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/demog/ncpopgr11.html for current years and for FY2014 and FY2015 osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/demog/countytotals_2010_2019.html was used.
5. For FY2009, General Fund expenditures were \$21,356 billion in nominal dollars; adjusted for inflation this figure is \$22,515 billion.
6. Data for the total state budget came from The Governor's Recommended Budget, osbm.state.nc.us/files/pdf_files/2013-15_BudgetBook_web.pdf and includes FY2014 and FY2015 figures for total state budget; General Fund figures came from osbm.state.nc.us/new_content/historical_budget_data.pdf Appendix Table 9: Authorized General Fund Appropriations 1968-69 to 2012-13, FY2014 and FY2015 data came from the governor's budget; used the St. Louis Federal Reserve's GDP deflator (2009=100), research.stlouisfed.org/fred2/series/GDPDEF; population adjustments were made using osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/demog/ncpopgr11.html for current years and for FY2014 and FY2015 osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/demog/countytotals_2010_2019.html was used.
7. Data for agency totals came from The Governor's Recommended Budget, osbm.state.nc.us/files/pdf_files/2013-15_BudgetBook_web.pdf Appendix Table 5: Trends in the Total State Budget, 1977-78 to 2014-15, chart only uses data up to FY2013; used the St. Louis Federal Reserve's GDP deflator (2009=100), research.stlouisfed.org/fred2/series/GDPDEF; population adjustments were made using osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/demog/ncpopgr11.html; simple percent difference calculations were used from 1980 data to 2013 for the total percentage growth for each category.