

WRONG SET OF PRIORITIES

GA Set to Approve Tax Hike, 5.2% Budget Growth

Summary: State lawmakers will consider today a revised tax and spending plan for the 2001-03 biennium that promises to shove an already teetering economy, buffeted by layoffs and the prospect of war, into a full-blown and painful recession. Its massive tax hike will fuel a healthy increase in wasteful state spending and help to push the state's tax burden well above that of Massachusetts, California, and all the South-eastern states — and higher than the national average for the first time.

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After months of wrangling — and clear signs of economic deterioration throughout most of North Carolina — the North Carolina House and Senate have finally coalesced around a budget plan for the 2001-03 biennium that raises state spending by 5.2 percent next year, leaves most wasteful spending in the budget unscathed, and relies on a \$685 million (annualized) increase in sales, income, and business taxes that will significantly worsen the state's economic position.

North Carolina already has the highest state and local tax burden in the Southeast, but this new tax package, when combined with property tax hikes and other pending state and local tax changes, will push our average tax burden higher still, far exceeding that of many states with which we compete for high-tech industry, such as Massachusetts and California, and exceeding the national average for the first time in our history. The economic consequences of such a decision are not hard to fathom; it will worsen the state's weakening economy and make the current slowdown, exacerbated by the coming of war, longer and more serious than it otherwise would have been.

Supporters of the package claim that a tax increase was the only way to preserve crucial state investments in classroom teachers, class-size reduction, and other critical programs. But the facts do not support this assertion. In its *Changing Course* budget, the Locke Foundation identified hundreds of millions of dollars in savings — in non-classroom education positions, in research subsidies, in arts and pork-barrel spending, in corporate giveaways, in administrative duplication, and in the state's excessive Medicaid expenses — that would have yielded more than enough to fund the state's critical needs during this time of military and economic crisis.

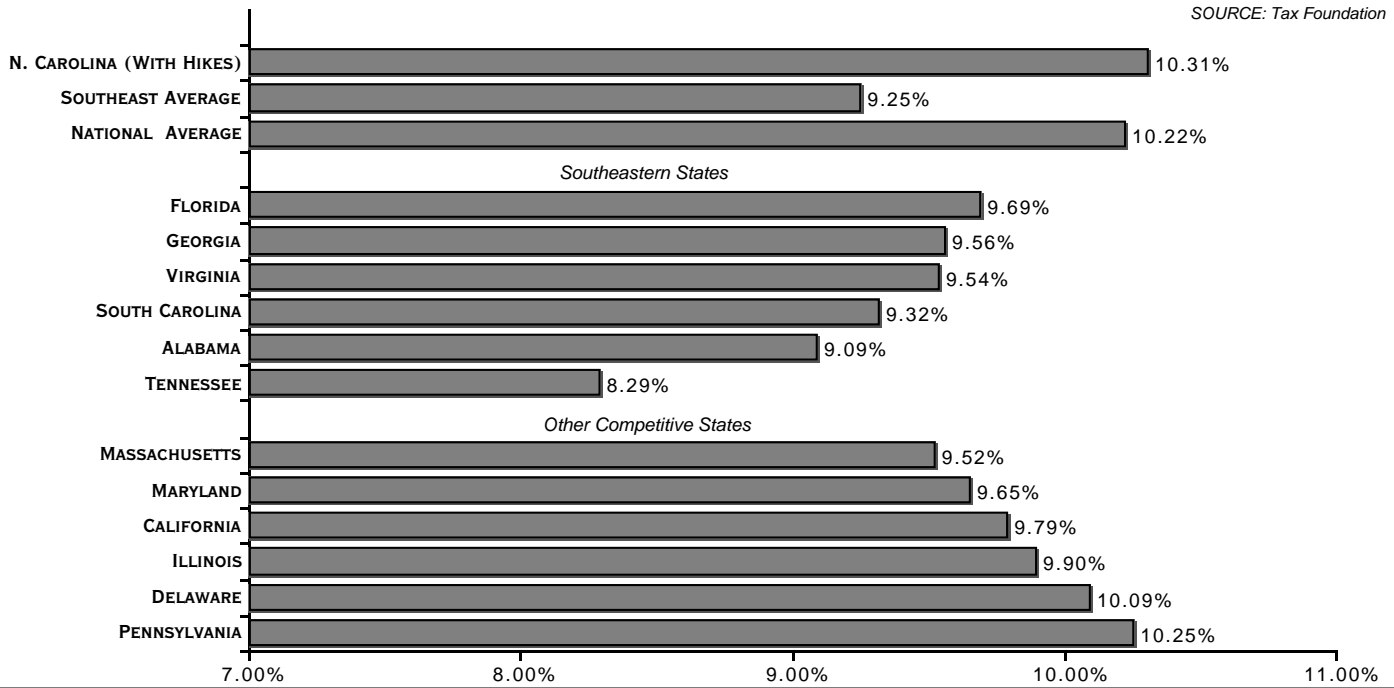
After the events of the past week, the nation's priorities have shifted to war and economic stimulus. But those of North Carolina's leaders have not.

— John Hood

HOW TAX HIKES WILL LIKELY AFFECT NC TAX BURDEN RANKING (ANNUALIZED 2001)

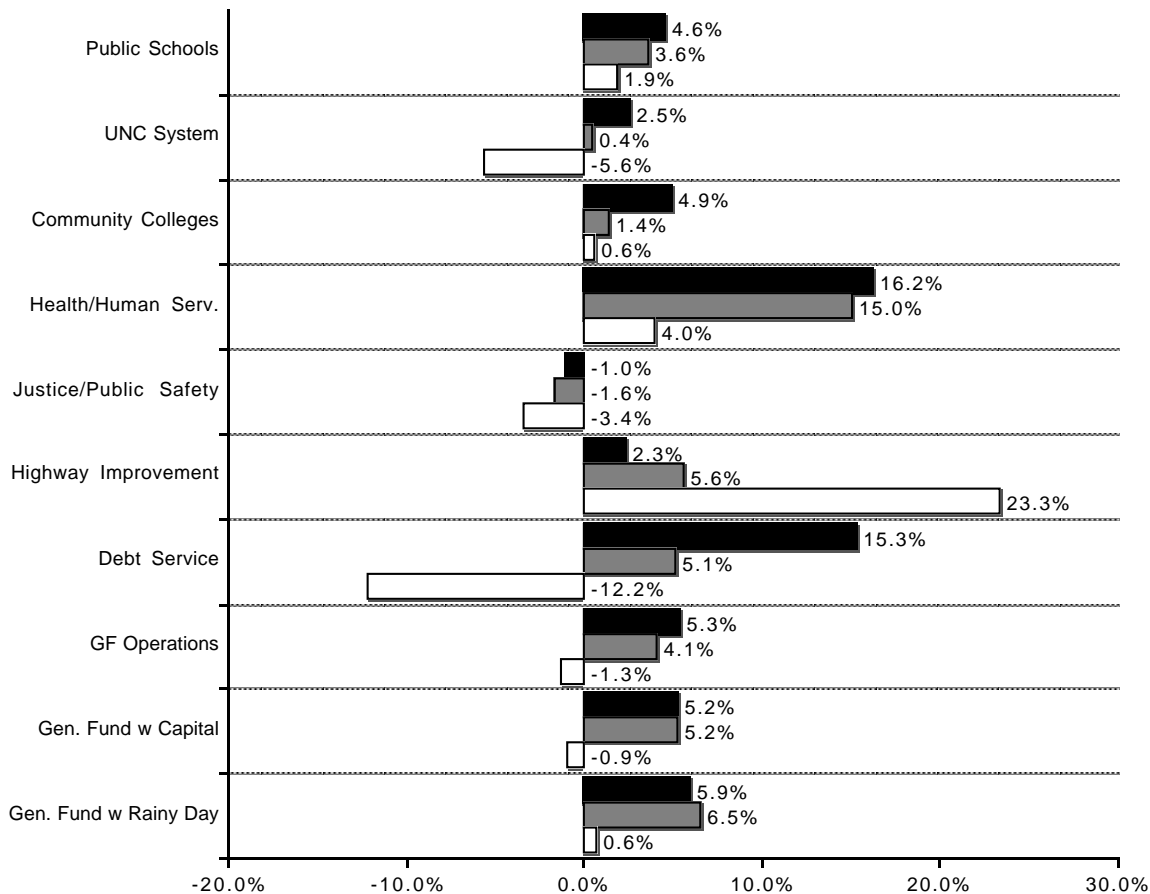
STATE/LOCAL TAXES AS % OF INCOME

SOURCE: Tax Foundation



ANNUAL GROWTH IN FINAL COMPROMISE & LOCKE BUDGETS - FY 2001-02

Original Easley
House/Senate
Locke Proposal



SOURCES: OSBPM, NCGA Fiscal Staff