

A PLACEHOLDER BUDGET

2002-03 Plan Relies on Immediate, Future Tax Hikes

Summary: The N.C. Senate is debating its proposed budget, which would reduce authorized FY 2002-03 spending by \$585 million. Most of the \$1.4 billion budget gap, however, would be closed with one-time revenues, including tax hikes and fund diversions, that will reportedly create a recurring deficit in FY 2003-04 approaching \$800 million. Some leaders propose closing that gap with tax hikes, too, meaning that the total annual tax burden will have grown \$1.4 billion from 2001 to 2003.

The Senate's proposed \$14.2 billion budget would be nearly 4 percent smaller than the \$14.8 billion budget for 2002-03 authorized last year. However, it would still likely increase spending somewhat from the adjusted FY 2001-02 budget. Moreover, large areas of potential savings in state government — such as research subsidies, duplication, non-teaching positions, pork-barrel items, and business subsidies — were substantially or totally ignored by the Senate in devising its budget adjustments. Indeed, the available savings in these areas alone far exceed the \$337.5 million in new General Fund taxes in the Senate budget, meaning that the plan would raise taxes not to protect core state services but to preserve these low-priority items.

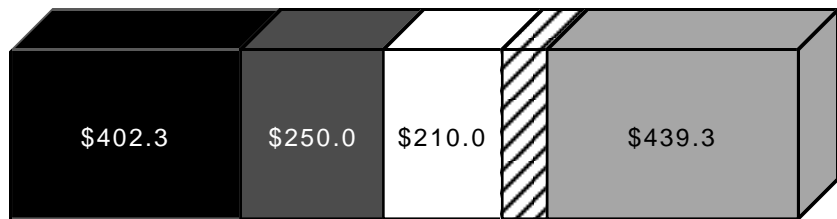
Perhaps most ominously, Senate leaders admit that their 2002-03 budget proposal uses one-time revenue options — such as imposing temporary tax hikes and tapping \$353.5 million in trust funds — to fund between \$750 million and \$800 million in recurring spending. That means that when the General Assembly convenes for its long session in January 2003, it would have to close yet another budget gap with spending cuts or tax increases. Some Senate leaders are already signalling their intent to raise taxes for the third year in a row to address the problem, waiting until 2003 to do so in order to avoid voter ire in the November 2002 elections.

This would be fiscally irresponsible. North Carolinians have a right to know in full how their state budget will be funded in the coming years. Moreover, if lawmakers hike taxes again in 2003 to close the deficit, this could come on top of \$630 million in higher taxes projected in 2003-04 from revenue bills already enacted or proposed. On an annual basis, North Carolina will have raised its state and local tax burden by more than \$1.4 billion in just three years — damaging the state's already weakened economy and hampering its future growth.

— John Hood, President

200 West Morgan St.
Raleigh, NC 27601
Voice: (919) 828-3876
Fax: (919) 821-5117
www.johnlocke.org

HOW EASLEY'S PLAN CLOSED STATE BUDGET GAP . . .

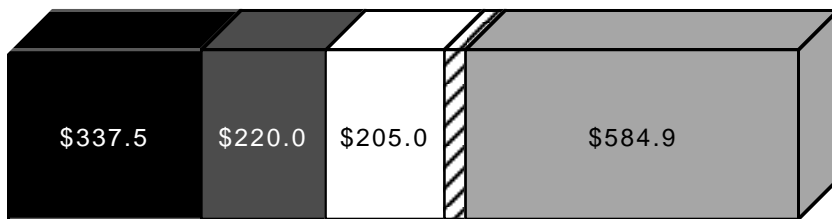


- Tax Increases*
- Creating a Lottery
- Raiding Highway Funds
- Other Revenue Hikes
- Net Budget Savings

Total New Gen. Fund Revenue: \$938.4 million

* Includes "local" sales tax hike and repeal of 2001 tax cuts.
 DATA SOURCE: Office of State Budget, Planning & Management

. . . HOW THE SENATE PLAN CLOSES STATE BUDGET GAP

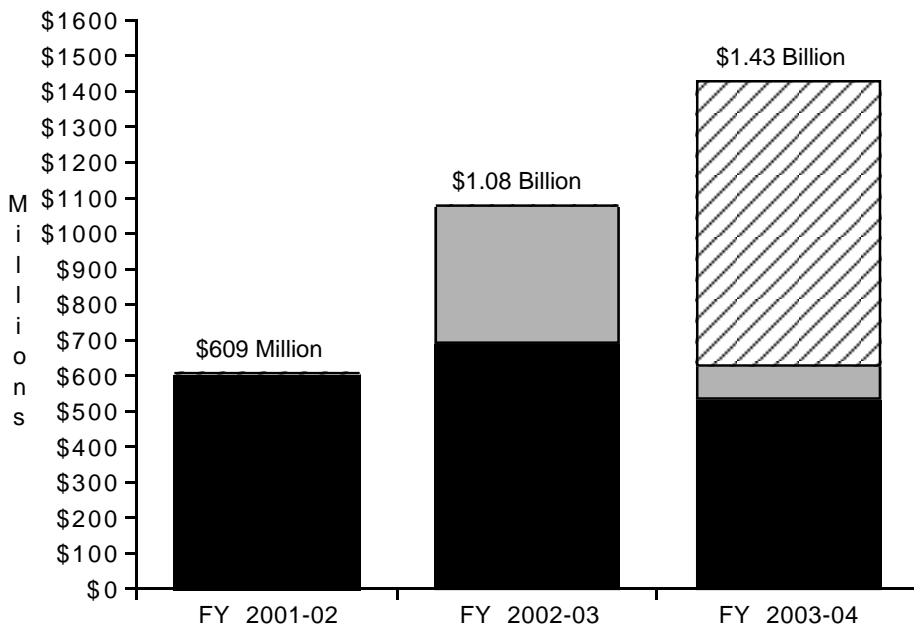


- Tax Increases*
- Tobacco, Floyd Funds
- Raiding Highway Funds
- Other Revenue Hikes
- Net Budget Savings

Total New GF Revenue: \$800 million

* Includes net from "local" sales tax hike and repeal of tax cuts.
 DATA SOURCE: Fiscal Research Division, N.C. General Assembly

ENACTED, PROPOSED, & POSSIBLE INCREASES IN STATE/LOCAL TAX BURDEN



- 2003-04 Unfunded Budget Hole
- 2002-03 Proposed Tax Hikes
- 2001-02 Enacted Tax Hikes

The Senate's 2002-03 budget plan would add another \$390 million in state & local taxes on top of the \$690 million hike in the tax burden imposed in 2001. Furthermore, because some \$800 million in recurring expenses in FY 2002-03 are funded with non-recurring revenue sources, another tax increase in 2003 to fill the gap is likely, according to Senate budget leaders.

SOURCES: State Budget Office, NCGA Fiscal Research Div., News & Observer (6/19/02)