

TAX-HIKE POLICY CONTINUES

Budget deal will perpetuate NC economic problems

Summary: A House-Senate compromise budget for the 2003-05 biennium will cost North Carolina taxpayers another half-billion dollars a year and do little to stem the government's long-term growth. General Fund spending will actually rise 3 percent in FY 2003-04 and 5 percent in FY 2004-05, with most of the increase over the next two fiscal years concentrated in health and human services, debt service, the UNC system, and subsidies to nonprofits. North Carolina deserves better.

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The North Carolina General Assembly is preparing June 30 for a final vote on a House-Senate compromise budget for the 2003-05 fiscal biennium. The proposal is preferable to previous budget plans in some respects — reflecting a decision, for example, not to include the Senate's original proposal of \$330 million a year in new excise taxes — but it still includes a package of tax increases that will cost North Carolina taxpayers \$551 million when fully implemented in FY 2004-05.

The bulk of the higher taxes consist of extending for two more years a “temporary” half-cent hike in the statewide sales-tax rate originally enacted in 2001 with a June 30, 2003 sunset. Together with other changes in the application of the rate, the sales-tax increases will cost consumers \$427 million in FY 2004-05. Another \$124 million stems from higher income taxes, while the compromise budget also obtains \$116 million in revenue from fee increases and diversions of tobacco settlement and other funds.

As the tables on the next page reveal, North Carolina's General Fund budget will actually grow by 3 percent in FY 2003-04 and 5 percent in FY 2004-05 — despite all the talk about state government being “cut to the bone.” Most of this increased spending is found in Medicaid and other Health and Human Services programs (\$263 million higher by FY 2004-05), the cost of servicing the state's bonded debt (\$133 million more in FY 2003-04 and \$249.1 million by FY 2004-05), and funding for the UNC system (\$54.3 million more by FY 2004-05). Together with economic development subsidies for nonprofits, including the Golden LEAF Foundation, these expenses alone add up to the entire amount of new taxes, fees, and fund diversions in the budget.

The plan brings a third-straight year of tax hikes, which are hampering North Carolina's economy and fueling ever-more government growth.

— John Hood, President

2003-05 GF BUDGETS AT A GLANCE: LEGISLATURE VS. JLF'S FREEDOM

(Preliminary, In Millions)

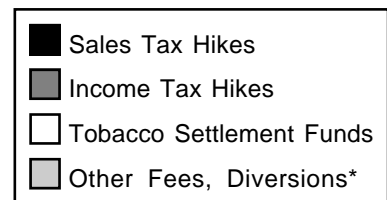
Spending Category	Authorized 2002-03	Legis Bdgt 2003-04	% Change	Legis Bdgt 2004-05	% Change	Freedom Bdgt 2003-04	% Change	Freedom Bdgt 2004-05	% Change
Public Education	\$5,894.6	\$6,035.1	2.4%	\$6,035.0	-0.0%	\$5,916.9	-0.5%	\$5,939.3	0.4%
Community Colleges	\$669.3	\$660.9	-1.2%	\$660.2	-0.1%	\$659.5	-1.5%	\$620.4	-5.9%
UNC System	\$1,768.1	\$1,792.1	1.4%	\$1,822.4	1.7%	\$1,573.5	-11.0%	\$1,494.1	-5.0%
Health & Human Serv.	\$3,596.4	\$3,379.8	-6.0%	\$3,859.5	14.2%	\$3,335.5	-7.3%	\$3,570.8	7.1%
Agriculture	\$50.4	\$48.5	-3.9%	\$48.6	0.2%	\$32.0	-36.5%	\$32.1	0.3%
Commerce	\$44.2	\$55.2	24.8%	\$56.1	1.6%	\$8.9	-79.8%	\$14.5	62.5%
Labor	\$14.2	\$13.3	-6.4%	\$13.3	0.1%	\$11.6	-18.3%	\$11.6	0.0%
Environment/Nat. Res.	\$215.3	\$209.2	-2.9%	\$214.8	2.7%	\$190.2	-11.7%	\$186.8	-1.8%
Correction	\$880.1	\$940.2	6.8%	\$959.9	2.1%	\$914.1	3.9%	\$918.2	0.4%
Crime Control/PS	\$27.8	\$28.7	3.5%	\$28.1	-2.1%	\$13.2	-52.5%	\$12.2	-7.6%
Courts/Judicial	\$373.9	\$377.6	1.0%	\$382.5	1.3%	\$374.2	0.1%	\$379.4	1.4%
Juvenile Justice	\$129.0	\$130.3	1.0%	\$130.6	0.2%	\$121.3	-6.0%	\$124.9	3.0%
Justice	\$70.9	\$71.0	0.1%	\$71.5	0.6%	\$65.4	-7.8%	\$66.4	1.5%
Transportation	\$10.9	\$11.4	4.8%	\$11.4	-0.2%	\$5.7	-47.6%	\$0.0	-100%
Other Departments	\$327.2	\$326.8	-0.1%	\$322.2	-1.4%	\$330.7	20.2%	\$293.2	-11.3%
Debt Service	\$255.7	\$388.9	52.1%	\$504.8	29.8%	\$251.9	-1.5%	\$234.5	-6.9%
Other Items/Reserves	-\$9.3	\$278.3		\$384.3		\$176.1		\$296.9	
Subtotal-Operating	\$14,318.6	\$14,747.5	3.0%	\$15,505.3	5.1%	\$13,980.8	-2.4%	\$14,195.2	1.5%
Capital/R&R	\$31.2	\$27.6		\$0.0		\$29.4		\$0.0	
Subtotal-GF Budget	\$14,349.8	\$14,775.1	3.0%	\$15,505.3	4.9%	\$14,010.2	-2.4%	\$14,195.2	1.3%

THE NEW TAXES, FEES, & FUND DIVERSIONS IN 2004-05. . .

(In millions)



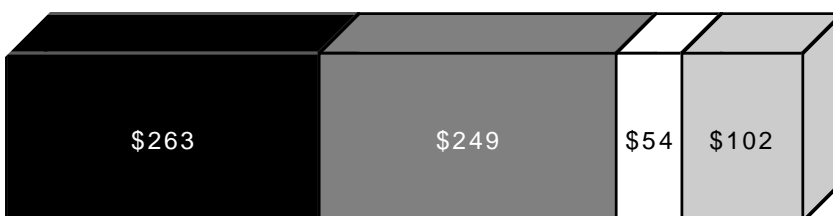
\$667 million



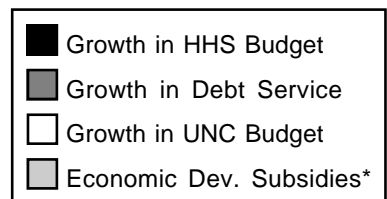
* Includes 911 and special funds
DATA SOURCE: Fiscal Research
Division, N.C. General Assembly

. . . AND WHAT THE NEW REVENUE WILL PAY FOR IN 2004-05

(In millions)



\$668 million



* Includes Golden LEAF and Non-
State Aid in Commerce Dept.
DATA SOURCE: Fiscal Research Div.