

## 6. Where Have We Been?

**D**uring the last 30 years, North Carolina has undergone sweeping changes in its economy, its population, and the services offered by its governments.

### MAJOR ECONOMIC SHIFT

Agriculture, textiles, and tobacco production—once the foundation of a vibrant manufacturing and agricultural economy—have faded rapidly over the last three decades. Manufacturing jobs that once offered a route off the farm, or a way to augment a farming income, have moved rapidly to Mexico, South America, China, and other off-shore locations in the last 10 years in search of cheaper labor. The loss of those jobs has been a major factor in the state’s economic problems and in the state’s slow recovery from the recession. Manufacturing jobs that offered at least the hope of middle-class wages have been replaced with service jobs in tourism or retail that pay only minimum wage or slightly better and often do not offer 40 hours of work a week or benefits. High-tech jobs in computers, biotechnology, and other fields pay high wages, but also require far more education than the manufacturing jobs of the past.

### RAPIDLY GROWING POPULATION

The state has seen its population grow rapidly over the last 30 years with “transplants” who moved into the state for new high-tech jobs, retirees who chose North Carolina as a place to spend their golden years, young people attracted by the state’s universities who stayed to become entrepreneurs and drivers of a new technology economy, and many others from South America and Mexico.

While dealing with the influx of new residents, the state also has had to deal with the growing numbers of young “baby boomers” who created an increased demand for public school classrooms, universities, community colleges, and teachers and counselors to staff them.

### INCREASING DEMANDS FOR SERVICES

A policy that has existed since 1931 that the state would pay for most school operations and local governments would pay for school buildings was

severely eroded by the need for new schools. Poorer counties, unable to levy enough in local taxes to keep pace with school needs, sought help from the state.

The growing numbers of graduates from high schools increased the demand on the university system and community colleges as graduates sought training for new, better-paying jobs.

At the same time, workers left behind by the shifting economy faced difficult times. The

government helped with job training programs, increased Medicaid coverage (especially for children), and other programs to try to shore up the state’s stressed regions.

### STARK CONTRASTS

The contrast between North Carolina’s wealthy piedmont crescent and the regions outside it still exists and grows even starker as the economy continues to stall.

### CHANGES IN STATE BUDGET

North Carolina’s General Fund has remained virtually constant over the last 25 years as a percentage of the total state budget, while the federal share of the state budget has increased, and the percentage of total spending for the Highway Fund has declined. The General Fund accounted for 56% of the total state budget in 1974–75 and 57% of the 2001–2002 total budget. While the *percentage* was relatively unchanged, the *number* of actual dollars spent has increased dramatically due to inflation, population growth, increases in public school positions, and other departmental employees (especially correctional employees).

The graphs on page 21 show how budgets and program costs have changed over time. In part these changes are driven by the sheer size of the program. But it’s plain enough to see in Figure 7.1 on page 23 that if you have more pupils riding more buses more miles every day, year after year, you must have more of everything—from tires and batteries, to drivers, to the salary monies to pay them—not to mention more buses and more maintenance.

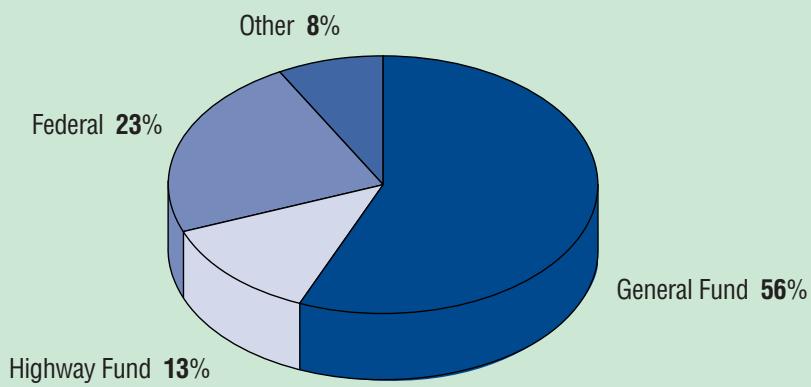
And Medicaid—especially when there is an economic downturn—is the only source of “insurance” for families who do not have jobs and cannot afford private-pay insurance plans. The same is true for older folks on fixed incomes.

The more people eligible for Medicaid, the more the state and local government costs rise. Simply speaking, a faltering economy drives up Medicaid costs. (See Figure 4.16, page 17.)

Over the years, the actual dollars North Carolina has spent on public education have continued to increase, but their *percentage* of the total state budget has *declined* as more dollars were directed to other areas, particularly human resources. In the 1980s, North Carolina increased the percentage of the state budget spent on public schools, universities and community colleges. It also increased the percentage spent on prisons, primarily because of prison construction ordered by federal courts to house increasing numbers of prisoners serving longer sentences.

During the 1990s increasing costs for health care, including Medicaid, led to a dramatic increase in spending for human resources, which grew to 36% of the total state budget. While total dollars spent on education continued to increase, the percentage of the total budget dedicated to education *declined*. Public schools, meanwhile, dropped from 30.2% of the total budget to 26%. Universities dropped from 14.5% of the total budget to 10%. Prison spending continued to increase, from 3.1% to 3.6%.

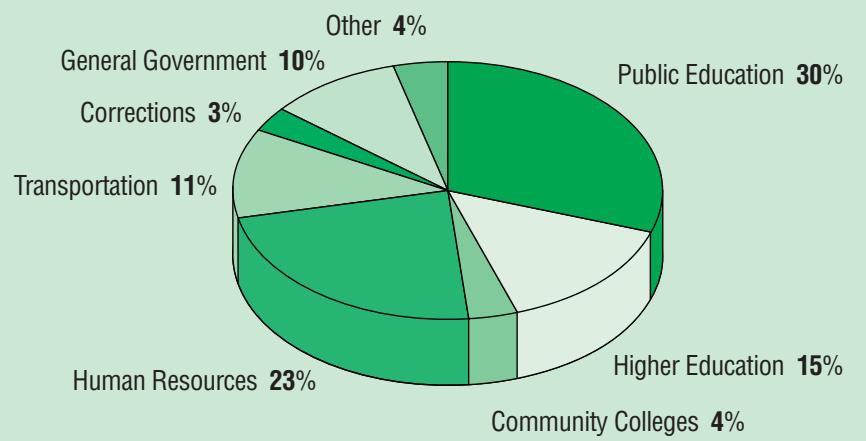
**TOTAL STATE BUDGET BY SOURCE, 1974–1975**



*SOURCE: Appendix Table 5, Post Legislative Budget Summary, 2002–2003, Office of State Budget and Management*

**FIGURE 6.1**

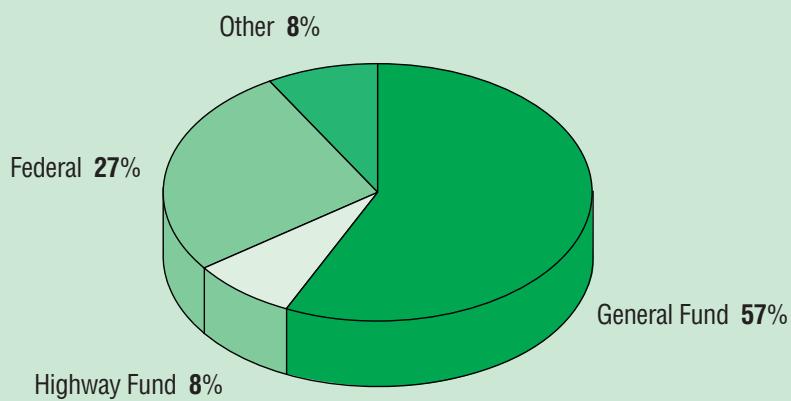
**TOTAL STATE BUDGET BY MAJOR PROGRAM AREA, 1987–1988**



*SOURCE: Office of State Budget and Management*

**FIGURE 6.2**

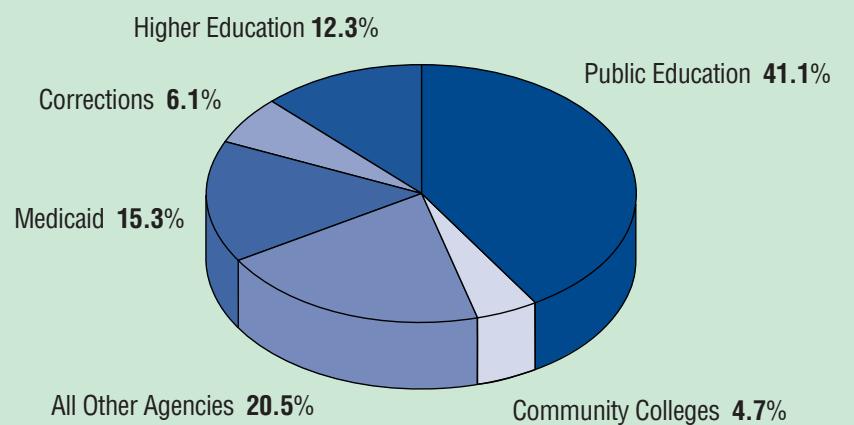
**TOTAL STATE BUDGET BY SOURCE, 2001–2002**



*SOURCE: Appendix Table 5, Post Legislative Budget Summary, 2002–2003, Office of State Budget and Management*

**FIGURE 6.3**

**GENERAL FUND EXPENDITURES BY MAJOR PROGRAM AREA, 2001–2002**



*SOURCE: Office of State Budget and Management*

**FIGURE 6.4**

## 6. Where Have We Been? *continued*

### 2000–2001 TOTAL STATE BUDGET

When funds from all sources (e.g. federal) are included in the total state budget, human resources comprises a larger percentage share, but education (all levels) still remains the state’s chief line of business at 38%.

**Human Resources\* 36%**

**Public Education 25%**

**Transportation 11%**

**Higher Education 10%**  
16 Public Universities



**General Government 7%**

- Administration
- Auditor
- Cultural Resources
- General Assembly
- Governor
- Housing Finance Agency
- Insurance
- Lieutenant Governor
- Revenue
- Secretary of State
- State Controller
- Treasurer—Operations

**Corrections 4%**

**Community Colleges 3%**

**Capital 3%**

**Debt Service 1%**

**Other 0.2%**

- Courts
- Environment
- Commerce
- Labor
- Attorney General
- Agriculture
- State Health Plan

SOURCE: Office of State Budget and Management

FIGURE 6.5

\*By 2000–2001 human resources expenditures began to increase as the economy worsened and more people became eligible for Medicaid programs. Total human resources spending increased to 36% of the total state budget from 33.5% in the 1990s.