

## 8. Where Are We Going?

**N**orth Carolina, like nearly every other state, is in a major fiscal crunch: State operating costs are outrunning state revenues by a substantial margin and will continue to do so for the next several years. This crisis cannot be avoided or waited out. Why? And, more importantly, what can the governor and the General Assembly do to respond?

The state—ours or any other—has service obligations to its people. The cost of providing these services grows with (1) added numbers of

residents, both those born in the state and those who come here to live; (2) program improvements—better services provided to more people in response to rising public expectations of their government; (3) inflation; (4) the transfer of responsibilities by the federal government to state governments without corresponding financial aid; and (5) other largely uncontrollable factors, such as the federal “No Child Left Behind Act” of 2002 and the far-reaching decision of our own state supreme court in the *Leandro* case, which

mandates substantial investment in low-wealth school districts.

Public finance is a matter of supply and demand.

### **DEMAND CONTINUES TO GO UP**

The reasons for the growing money needs of the state include these:

- Our population in 2000 was 8 million. By 2010 it will be almost 9.5 million. We expect to gain roughly 45,000 to 50,000 extra residents

## NC POPULATION MAP BY COUNTY 2001

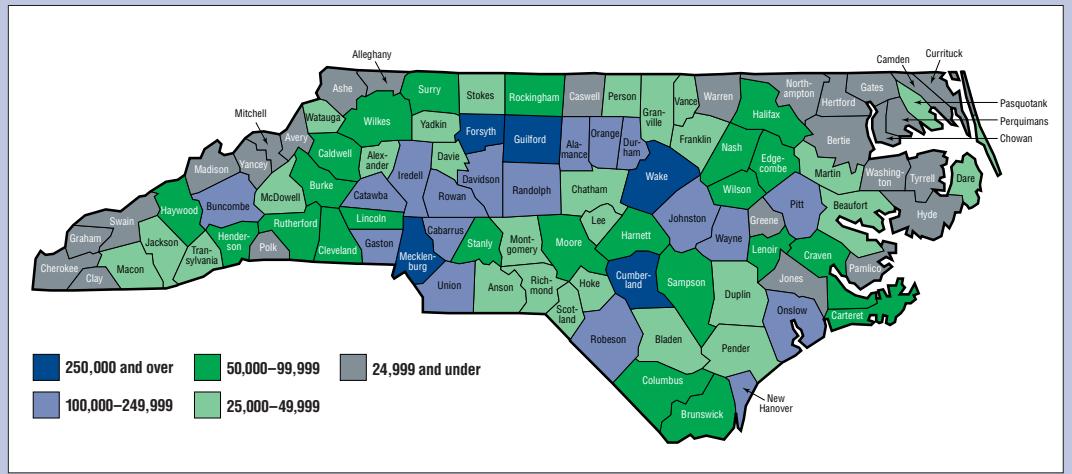


FIGURE 8.1

## NC PROJECTED RATE OF POPULATION CHANGE 2000-2030

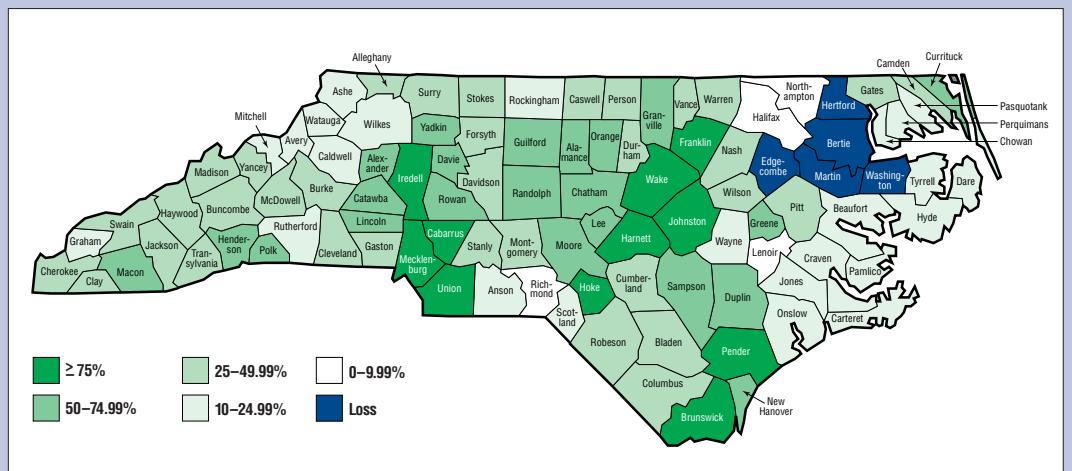


FIGURE 8.2

## NC PROJECTED CHANGE IN TOTAL POPULATION 2000-2030

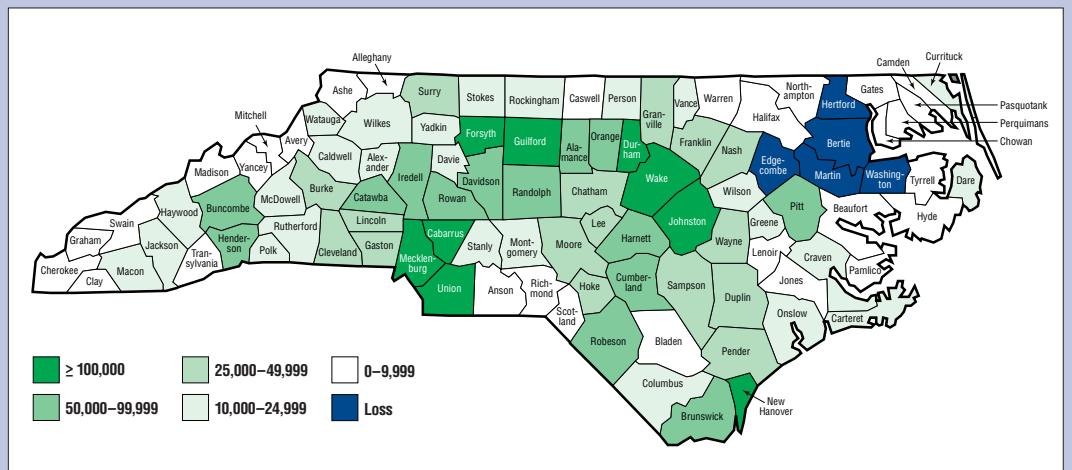


FIGURE 8.3

### TOP 10 COUNTIES WITH LARGEST PROJECTED POPULATION INCREASES

COUNTY	PROJECTED INCREASE 2000-2030	RATE OF INCREASE (%)	METRO AREA
Wake	706,254	112.5	RDU
Mecklenburg	622,284	89.5	Charlotte
Guilford	237,216	56.3	Triad
Johnston	146,284	119.9	RDU
Union	138,764	112.2	Charlotte
Forsyth	128,029	41.8	Triad
Cabarrus	115,577	88.2	Charlotte
Durham	105,259	47.1	RDU
New Hanover	103,904	64.8	Wilmington
Iredell	98,711	80.5	Charlotte
<b>TOTAL</b>	<b>2,402,282</b>	<b>81.9</b>	
<b>Rest of NC</b>	<b>1,995,836</b>	<b>39.0</b>	
<b>Total NC</b>	<b>4,398,110</b>	<b>54.6</b>	

### PROJECTED TOP 10 FASTEST GROWING COUNTIES

COUNTY	GROWTH RATE 2000-2030 (%)	AREA
Hoke	123.4	Suburban Fayetteville
Johnston	119.9	Suburban Raleigh
Wake	112.5	Raleigh
Union	112.5	Suburban Charlotte
Harnett	90.4	Suburban Fayetteville
Mecklenburg	89.5	Charlotte
Cabarrus	88.2	Suburban Charlotte
Iredell	80.5	Suburban Charlotte
Brunswick	78.7	Suburban Wilmington/beach
Franklin	75.0	Suburban Raleigh
<b>NC</b>	<b>54.6</b>	

FIGURE 8.4

SOURCES: US Census and NC State Demographer

each year through natural causes (births minus deaths) and another 95,000 to 100,000 extra residents each year through the net effect of people moving into and out of the state.

- Our public schools have 1.29 million students this year. By 2011, they will enroll 1.39 million, an increase of 7%. All those students are constitutionally guaranteed a “sound basic education” at the state’s expense.
- Our 59 community colleges, which provide the minimum vocational and technical education our people increasingly need for profitable employment, enrolled approximately 169,000 students in 2002-03; by 2010-11, they will enroll over 237,000, representing a 27% increase.
- Our public universities, which prepare students for a wide range of professional responsibilities, have an enrollment of 177,000 this year. By 2010-11, that enrollment is likely to increase 19% to 218,000 students.
- The share of our population that is 65 or older will grow from 12% of the state’s population in 2002 to 15% in 2010-2020 and 18% in 2030. Older citizens are largely beyond their wage-earning years, and increasingly in need of health and other services that the state must help provide.
- Our job structure is changing with the continuing and long-term decline in employment in agriculture, textile manufacturing, apparel making, and furniture industries. This shift presents an urgent need to create new jobs and to train and retrain people to do them.
- Much of our population, especially of underemployed and unemployed people, tends to be distributed in areas of the state that are not magnets for industrial growth or other forms of economic development.
- Our transportation systems need better maintenance and improvement to serve both public demand and economic growth.
- The state has \$8,182,706,528 invested in buildings and other structures for which appropriated repair and renovation funds have been scanty in recent years. Leaking roofs and rusting plumbing do not disappear during tough economic times, and a delay in treating such problems only magnifies them.

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### POPULATION

As shown in Figure 8.5, North Carolina's population is expected to become increasingly gray over the next 25 years as the percentage of people over age 65 continues to grow and the percentage of young people declines. The percentage of the population expected to be over 65 in 2030 is 17.8, more than twice the older population in 1970. Children under age 18 will account for 24% of the state's population in 2030, compared to 36.7% in 1970 during the height of the baby boom. The changing nature of the state's population is virtually guaranteed to lead to changes in state government as citizens demand different services that meet their changing needs.

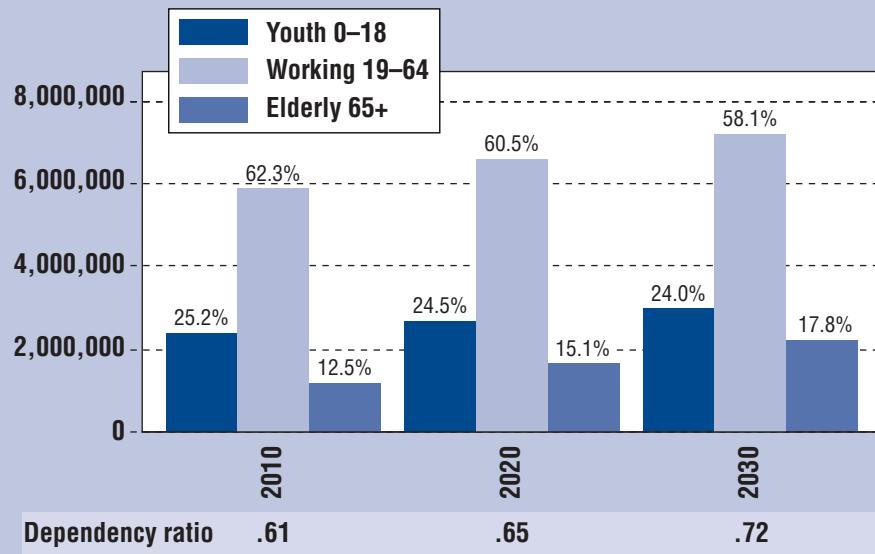
### SCHOOL-AGE POPULATION

Figure 8.6 demonstrates the potential impact on demand for increased funding in the public schools' budget, especially during the 2000–2030 period. At the same time, the growth in 18- to 24-year-olds puts relatively fewer people in colleges and the workforce.

### UNIVERSITY ENROLLMENTS SINCE 1991

Figure 8.7 shows there has been little over a 13% increase in student head count in the university system between 1991–2002. Yet population projections suggest larger increases in public school populations which, in turn, will place additional pressure on university enrollments.

PERCENTAGE OF POPULATION WORKING (AGES 19–64) 2010, 2020, 2030

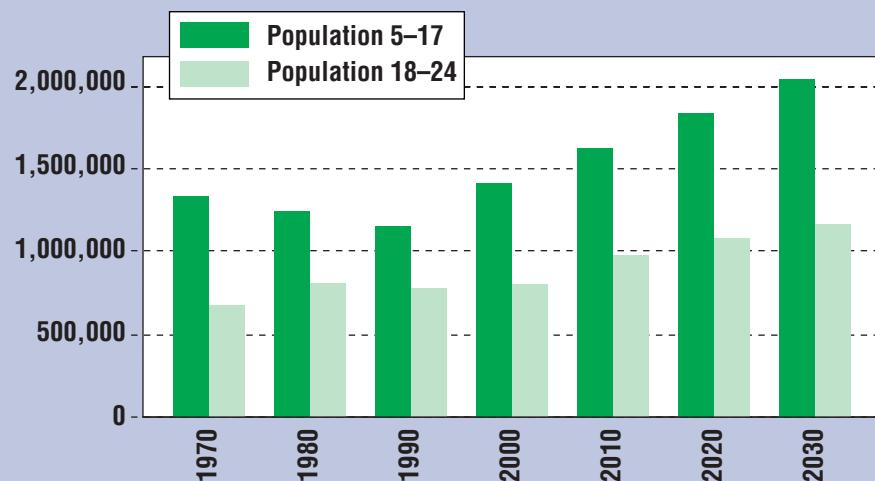


Dependency ratio = (number of elderly + number of youth) / working age population

SOURCES: Office of State Budget and Management and US Bureau of the Census

FIGURE 8.5

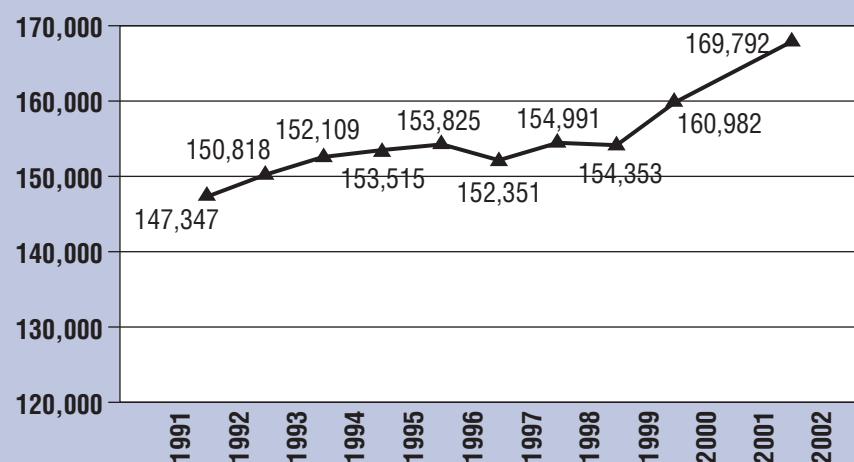
SCHOOL AGE POPULATION (AGES 5–17 & 18–24) 1970–2030



SOURCES: Office of State Budget and Management and US Bureau of the Census

FIGURE 8.6

UNIVERSITY HEAD COUNT SINCE 1991



SOURCE: Office of the President, UNC system

FIGURE 8.7

### Quick Facts: Public Education Budget Drivers

#### Average Daily Membership (ADM)

- Increased by 20,000 per year for the past 6 years
- Translates to \$100 million increase per year

#### Salaries and Benefits

- \$37 million for a 1% salary increase for teachers and instructional support personnel
- \$9 million for 1% increase for other personnel

## Quick Facts: Demographic Trends

- The population will much more than double its 1970 size of 5.1 million to become 12.4 million by 2030.
- The elderly population doubled between 1970 and 1990 and will almost triple its 1970 size by 2030 to reach 2.2 million.
- Age groups needing education (5–24) will steadily increase through 2030, exceeding its current number by over 40%.
- The working age population will shrink by around 4 percentage points (as a percent of the total population) between 2000 and 2030.
- The composition of the population extremes to be supported by the working age group will change dramatically. While increasing in absolute value, the young group will decrease by one or two percentage points as a fraction of the total population. At the same time, the elderly will increase by more than five percentage points as a fraction of the total population.

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### SUPPLY IS LIMITED

North Carolina's system of taxes has served it well for seven decades; yet there is an emerging question whether a system developed in the 1930s is adequate for a 21st century economy.

North Carolina continues to rely chiefly on:

- personal income tax, which produces 57.3% of the state's tax collections;
- general sales tax, which generates 29.8%;
- corporate income tax and franchise tax, which account for 6.9%; and
- other taxes, which produce 6.0% of total collections.

The state continues to rely on these forms of taxation because there are no others that could be levied which would yield comparable income to the state.

But some of the taxes as applied have not kept up with the changing economy. The general sales tax, for example, was considered modern and innovative in 1933 when North Carolina was the second state to adopt it. But it is levied almost entirely on merchandise sold, while 60% of today's purchases (in dollars) are not for goods, but services, for which sales taxes are not applied.

In addition, an increasing share of goods are purchased remotely, often across state lines and many such transactions escape taxes.

The nature of North Carolina's economy, together with indications that the state will continue to experience substantial population growth, mean we will likely face economic and budget challenges for years to come.

While North Carolina's budget crisis has ties to the national recession, it also has other causes that are unlikely to improve when the national economy rebounds. Losses caused by dramatic reductions in several traditional industries are likely to be permanent because those industries have fled and will not return.

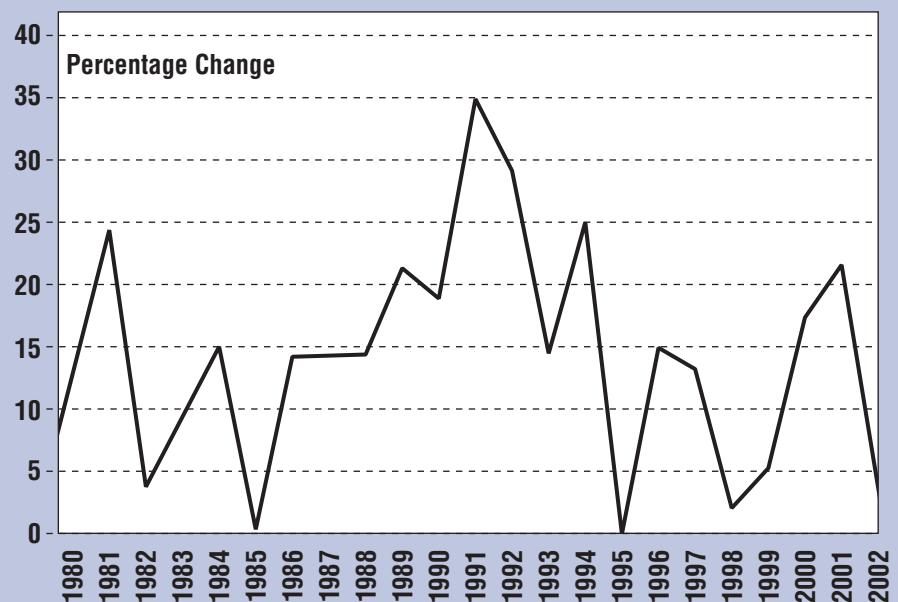
And we have continued to expand programs while simultaneously cutting taxes. The result has been to put the state, not in a fiscal hole, but a fiscal trench that may continue for some time.

### MEDICAID PROGRAM RATE OF GROWTH

During the past twenty years, the rate of growth for Medicaid expenditures has varied considerably—ranging from 0 to 35% (see Figure 8.8 below). Yet Figure 8.9 suggests that from 2005–2010 we can expect steady increases in

Medicaid expenditures. Higher rates of growth have occurred during years of economic distress or when major Medicaid expansions have been authorized. Lower rates of growth have occurred during years when the Medicaid population has been stable or declining.

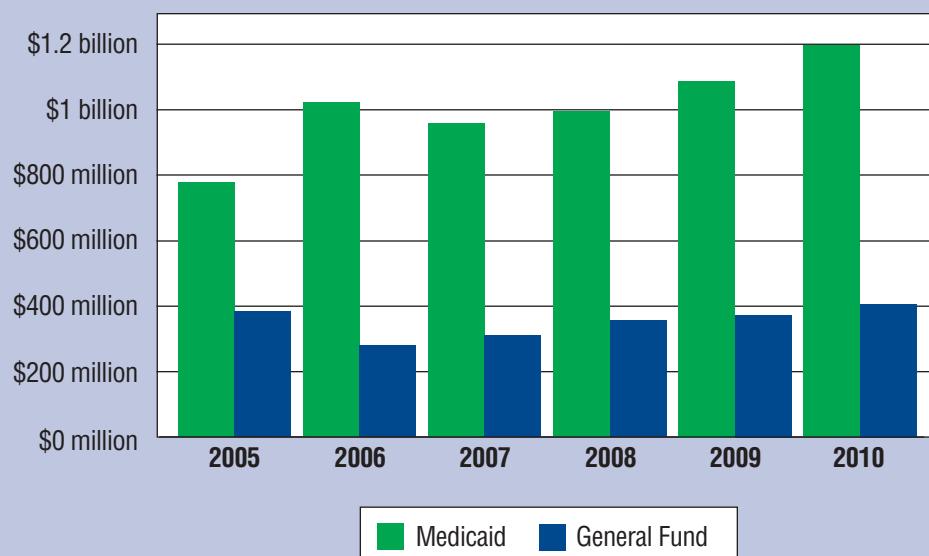
MEDICAID PROGRAM RATE OF GROWTH



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 8.8

COMPARISON OF ESTIMATED MEDICAID RATE OF GROWTH VS. ESTIMATED GENERAL FUND REVENUE RATE OF GROWTH



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 8.9