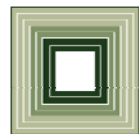


State Budget Growth and Its Drivers



February 10, 2009
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FISCAL RESEARCH DIVISION
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Calendar of Fiscal Research Briefings

- State Budget/Revenue Outlook – Tues., Feb. 3
- State Health Plan – Wed., Feb. 4
- **Budget Growth and Drivers – Tues., Feb. 10**
- Higher Education – Wed., Feb. 11
- Public Education – Tues., Feb. 17
- Medicaid – Wed., Feb. 18
- Corrections – Tues., Feb. 24
- Statewide Infrastructure – Wed., Feb. 25

State Budget Growth and Its Drivers

Presentation Overview

- Two ways of looking at the budget
- Budget growth since FY 2000-01
- Budget trends in areas that are large...
 - Education
 - Medicaid
- ...or fast-growing
 - Medicaid
 - Debt Service
 - Natural and Economic Resources (NER)

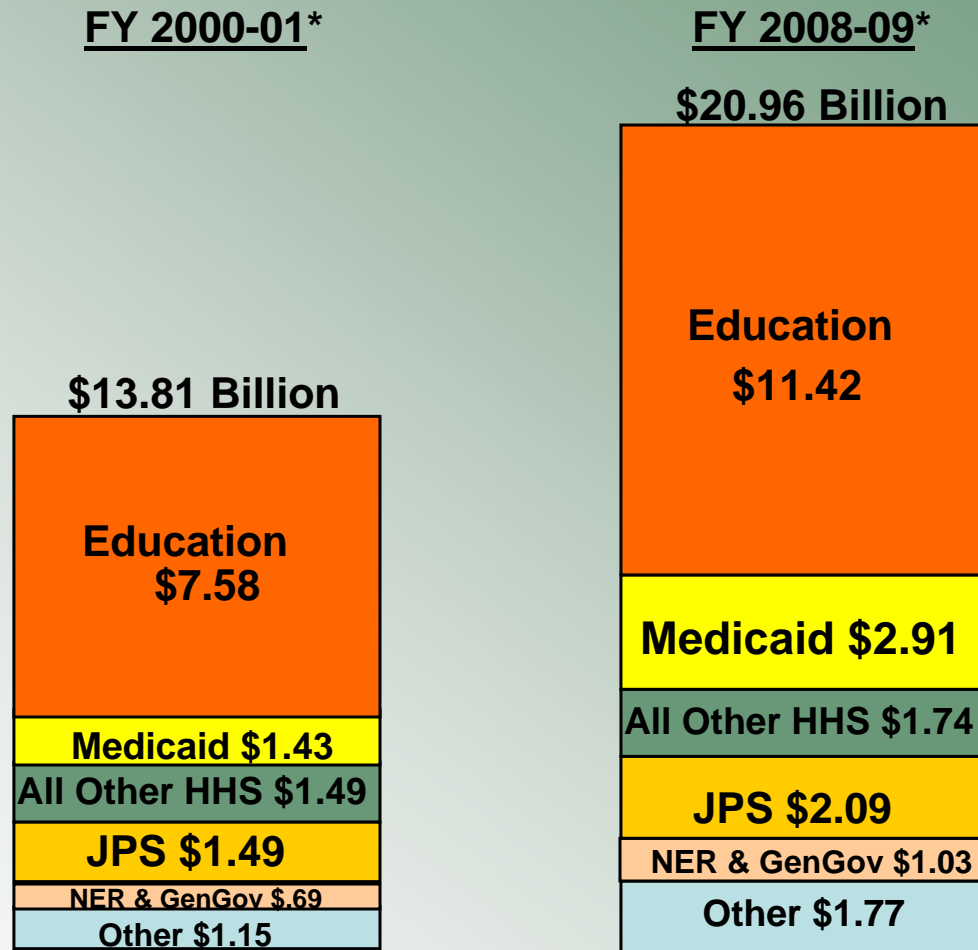
Two Ways of Looking at the Budget

State Appropriations by Subcommittee/Area FY 2008-2009 (Certified Budget)

	<u>General Fund Appropriations*</u>	<u>Total Appropriations All Funds</u>
Education	\$11,418,586,853	\$16,124,998,913
Health & Human Services	4,914,916,942	17,013,567,719
General Government	459,387,180	3,142,731,334
Justice & Public Safety	2,088,869,859	2,719,013,378
Natural & Economic Resources	573,259,846	5,452,507,568
Capital & Debt Service	772,215,349	960,467,868
Salaries, Benefits and Other Reserves	1,128,731,405	1,128,731,405
Transportation	<u>0</u>	<u>3,392,795,202</u>
Total	\$21,355,967,434	\$49,934,813,387

*Portion funded through general purpose revenue sources, excluding for example, federal aid.

8-Year Change in General Fund Operating Budget



*Adjusted for comparability to include Clean Water Management Trust Fund, and exclude Medicaid County Share.

8 Year Change in General Fund Operating Budget (\$ Billions)*

	2000-01 Budget	2008-09 Budget	Dollar Growth	Annual Growth**
Education	\$7.58	\$11.42	\$3.84	5.3%
Medicaid	1.43	2.91	1.48	9.3%
All Other HHS	1.49	1.74	0.25	2.0%
JPS	1.49	2.09	0.60	4.3%
NER	0.34	0.57	0.24	6.8%
Gen. Gov.	0.35	0.46	0.11	3.6%
Debt Service	0.24	0.64	0.40	13.1%
Reserves, Other	0.91	1.13	0.22	2.8%
Total	\$13.81	\$20.96	\$7.14	5.3%

Sources: FRD Overview of 2000 Session and 2008 Annotated Joint Conference Committee Report

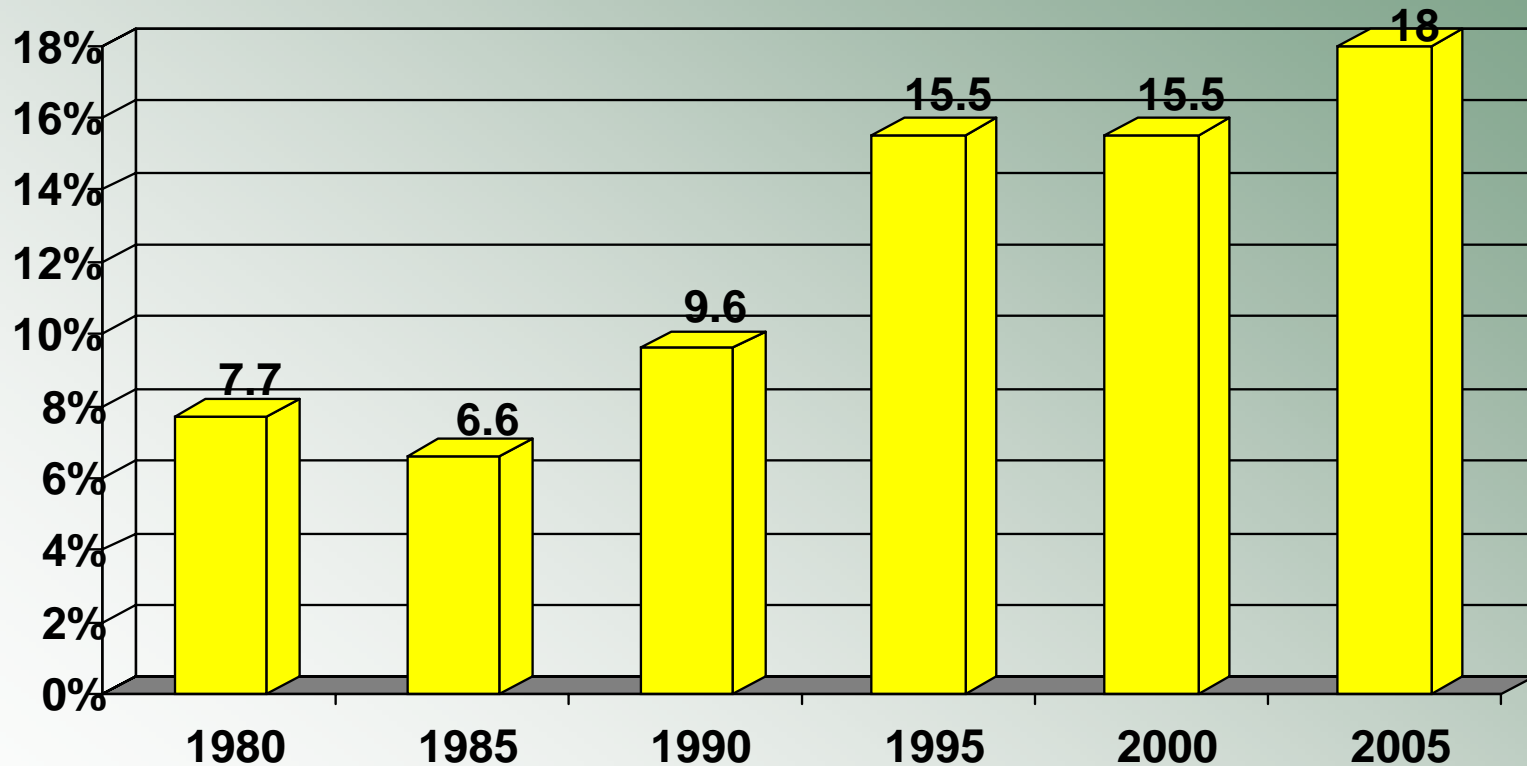
*Adjusted for comparability to include Clean Water Management Trust Fund in FY 2001 budget, and exclude \$270.8 million in Medicaid county share from FY 2009 Budget. Totals may not add due to rounding.

**Using compound annual growth rate.

Medicaid

- FY 2008-09 Budget: \$11.2 billion (\$3.2 billion from State, including County Share).
- Annual compound growth rate since FY 2001 is 9.3%.
- Many factors drive Medicaid growth:
 - Cost inflation for goods and services; Medical Care CPI increased 4.2% annually from 2001 to 2008.
 - New treatments and technologies
 - New applications for old treatments and technologies
 - Changes in benefits or eligibility
 - Changes in Federal Medical Assistance Participation (FMAP)
 - Federal mandates
 - Enrollment changes from population increases, demographic shifting and changing economy

Medicaid Recipients as a Percentage of North Carolina Population



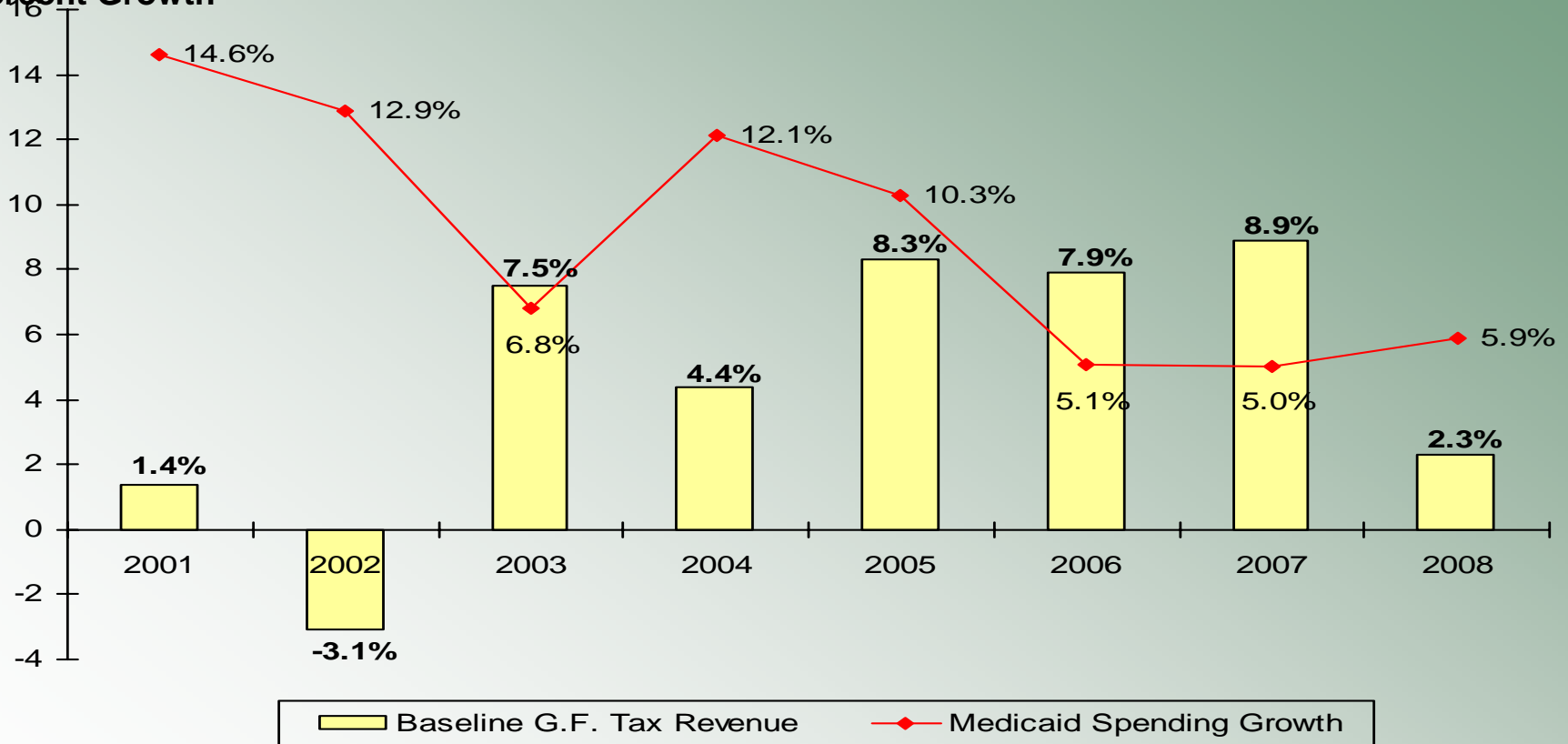
Medicaid (Continued)

Growth in Medicaid will remain a challenge for policy makers in the future:

- 8% annual growth projected nationally from FY 2008 to FY 2018 (Congressional Budget Office).
- Share of national GDP to grow from 1.4% in 2006 to 2.0% in 2017. (North Carolina in the Connected Age, Mike Walden)
- As Medicaid share of spending increases, spending for other programs will be pressured.
- Growing Medicaid program means growing budgetary complications during recessions, when Medicaid expenditures rise.

Comparison of Growth in Tax Revenue and Growth in Medicaid

Percent Growth



Public Schools

- At \$7.8 billion, Public Schools are 37% of General Fund, the single largest program.
- The Public School budget is largely a function of enrollment, salaries, and class sizes.
- **Enrollment growth** roughly tracks population – about 2% annually: State must enroll all eligible students.
- **Teacher salaries** – raises a major priority over the past 15 years

Cumulative Increases

	FY 1993 to FY 2008
Teacher Salaries	76.7%
State Employee Salaries	45.2%
CPI	42.9%

Source: Highlights of Education Budget, February 2008, DPI

- **Class sizes** – have been constant or decreasing since 1985.

Higher Education Enrollment

- Education enrollment growth has been highest in the U.N.C. system, followed by community colleges.

<u>Enrollment</u>	<u>Growth 2003-2008</u>
U.N.C. (headcount growth)	17.6%
Community Colleges	15.0%
Public Schools	10.2%

- N.C. higher education enrollment growth from FY 2002 to FY 2007 was 5th highest in U.S (Source: State Higher Education Executive Officers).
- Contributing to enrollment growth at universities is:
 - strong growth in UNC Online and other forms of distance education
 - growth in graduate programs
 - UNC system policy of accepting all qualified applicants

Higher Education Spending

North Carolina spends more on higher education than do most states.

- N.C. ranks 5th in higher education appropriation per FTE; \$8,854 in N.C. vs. \$6,773 in U.S.
- N.C. ranks 4th in higher education support per capita; \$401 in N.C. vs. \$277 in U.S.
- N.C. ranks 4th in higher education support per \$1,000 of personal income; \$11.92 in N.C. vs. \$7.19 in U.S.
- Tuition at U.N.C. universities is low relative to peer institutions.

Sources: State Higher Education Executive Officers, Fiscal Research Division

Higher Education Spending

The fastest growing portion of the education budget is the university system.

	<u>Certified G.F. Growth</u>		<u>% Growth</u>
	<u>FY 2000-01</u> <u>Budget</u>	<u>FY 2008-09</u> <u>Budget</u>	
Universities	1,698,172,730	2,683,257,614	58%
Community Colleges	608,822,295	933,282,701	53%
Public Schools	5,271,037,856	7,802,046,538	48%

The university system is also where the annual cost per student is highest.

	<u>FY 2008 State</u> <u>Cost/Student</u>
Universities:	\$12,897
Community Colleges:	\$4,903
Public Schools:	\$5,414

7-Year Growth in Positions, Salaries and Benefits* (General Fund Appropriations Only)

<u>Positions</u>	<u>State Agencies</u>	<u>Public School System</u>	<u>UNC System</u>	<u>Community College System</u>
FY 2000-01	46,889	138,617	28,531	13,045
FY 2007-08	48,798	162,280	34,106	16,480
Increase	4.1%	17.1%	19.5%	26.3%

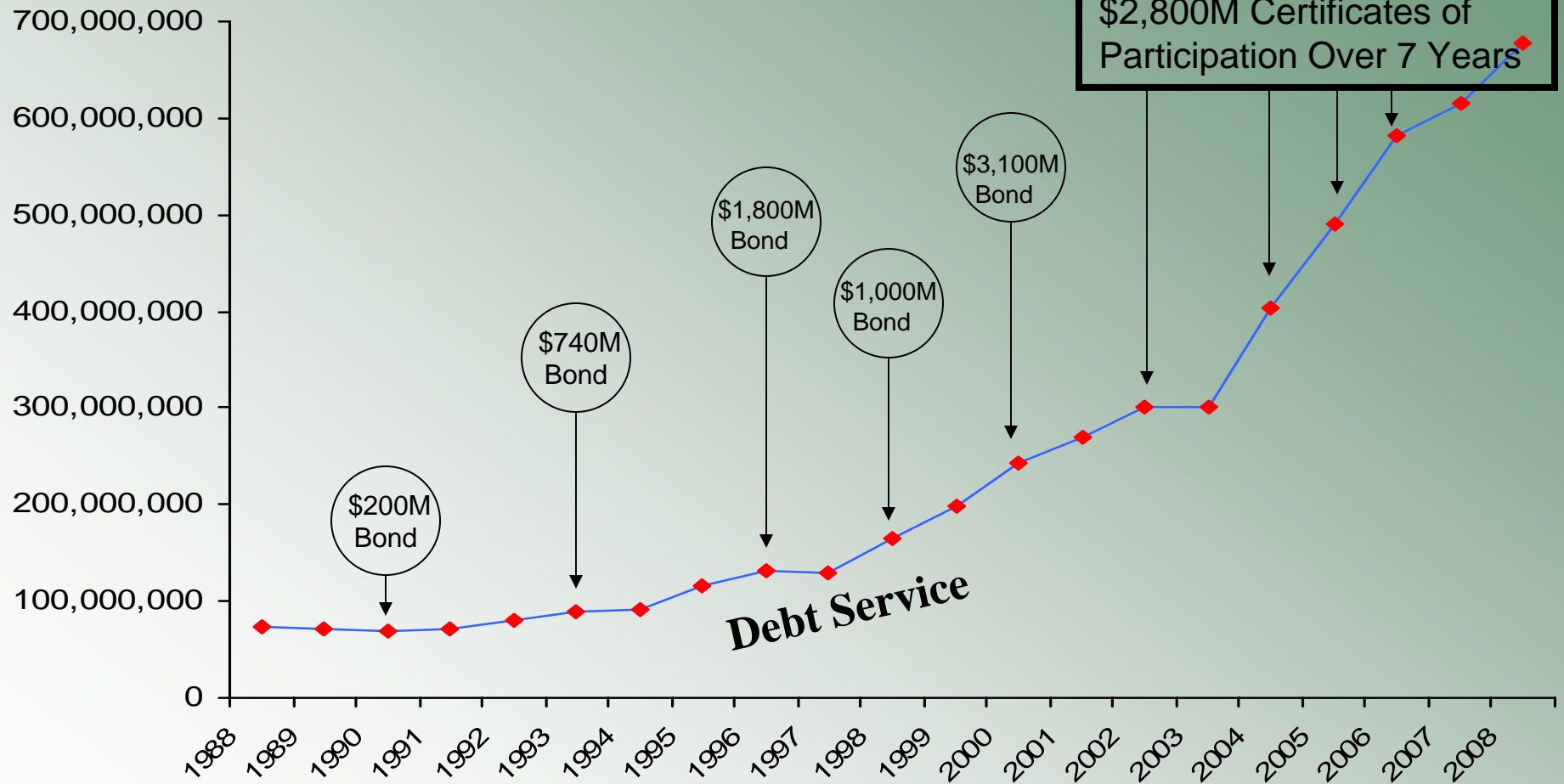
Salaries & Benefits*

FY 2000-01	1,881,499,955	4,899,673,880	1,607,042,814	616,368,365
FY 2007-08	2,351,916,104	6,742,280,626	2,456,707,920	941,882,309
Increase	24.9%	37.6%	52.9%	53.0%

*Excludes medical benefits.

Source: Fiscal Research Division, Salaries and Benefits Team.

Historical Debt Service (Authorized Budget, Not Adjusted for Inflation)



Source: Office of State Budget and Management, Fiscal Research Division.

Major Changes in NER Budget Over 8 Years

	FY 2001	FY 2009	\$ Increase
Rural Economic Development Center	5,967,338	78,059,581	72,152,243
Clean Water Management Trust Fund	30,000,000	100,000,000	70,000,000
N.C. Biotechnology Center	8,638,913	19,427,561	10,788,648
Commerce – State Aid	24,446,251	34,263,063	9,816,812
Subtotal:	69,952,502	231,750,205	162,757,703

Summary Points

- Growth in Medicaid from enrollment, inflation, utilization, new technologies and the economy will continue to pressure N.C. budgets for foreseeable future.
- Because education programs comprise most of the budget, some portion of future budget reductions will likely come from education.
- Public school enrollment is beyond control of State, but teacher salaries and class sizes are not.
- University system budget is growing faster than budgets for public schools or community colleges. Strong enrollment and higher salary increases, both of which are under State control, are responsible for this growth.
- Fastest-growing part of education budget, university system, is also the most expensive on an annual, per-student basis.