



# BTC Reports

BUDGET & TAX CENTER

VOLUME 20 NUMBER 6 | September 2014

ENJOY READING THESE REPORTS?

Please consider *making a donation* to support the Budget & tax Center at [www.ncjustice.org](http://www.ncjustice.org)

## 2015 BUDGET UNDERMINES NORTH CAROLINA'S COMPETITIVENESS:

*It Is Unsustainable, Inadequate, and Hampered by the Costly 2013 Tax Plan*

BY TAZRA MITCHELL, CEDRIC JOHNSON, AND ALEXANDRA FORTER SIROTA

The 2015 state budget, passed by the NC General Assembly and signed by Governor McCrory, undermines North Carolina's competitive position in the 21st century global economy. Lawmakers failed to provide a high-quality education for all children, protect natural resources, support community-based economic development, or provide adequate health and human services to North Carolina residents. By neglecting to make such investments, state leaders are hampering the recovery of struggling communities and failing to build a foundation for an economy that works for all. These shortcomings in the budget are another reminder that the state cannot afford the growing cost of the 2013 tax plan, which drained resources for schools and other basic services to mainly benefit high-income households.

States across the country are beginning to reverse the worst cuts made during the Great Recession, when revenue plunged and lawmakers scrambled to balance state budgets. However, North Carolina continues to underfund education and other crucial public investments in order to pay for tax cuts that took effect this year. State investments are 6.6 percent below pre-recession levels even though North Carolina is in the fifth year of the official economic recovery. This is in great contrast to North Carolina's experience during the previous three economic recoveries. Spending did not dip after the 1981 and

MEDIA CONTACT:

TAZRA MITCHELL

919/861-1451

[tazra@ncjustice.org](mailto:tazra@ncjustice.org)

Budget & Tax Center

a project of the north carolina

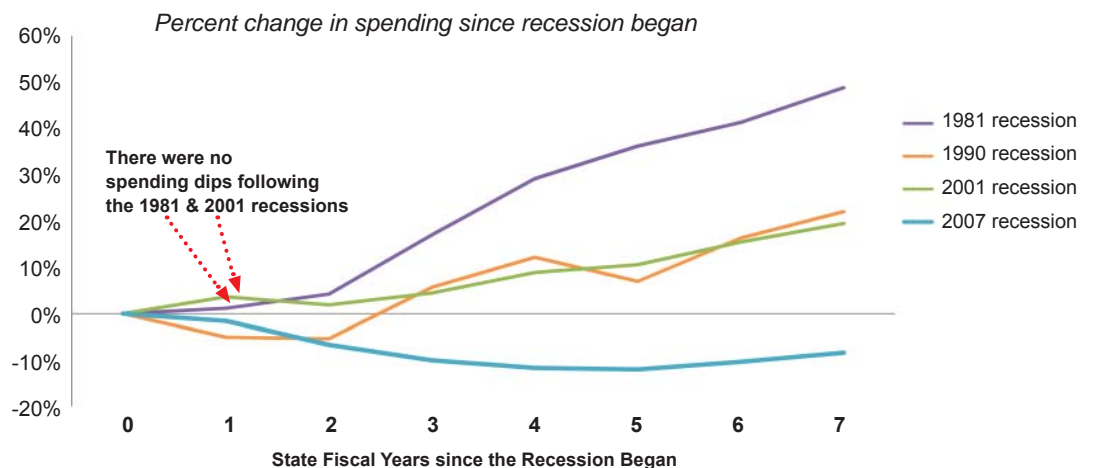
JUSTICE CENTER

P.O. Box 28068

Raleigh, NC 27611-8068

[www.ncjustice.org](http://www.ncjustice.org)

Figure 1: State Investments Slow to Bounce Back Relative to Past Recoveries



SOURCE: Spending levels reflect total General Fund spending. Office of State Budget and Management Post-Legislative Summaries and enacted FY2014 and FY2015 budgets; adjusted for inflation in FY2014 dollars.

2001 recoveries, and lawmakers restored investments to the levels that were in place when the 1990 recession hit within three years. The fiscal year (FY) 2015 budget—the seventh budget enacted since the Great Recession hit—has yet to bounce back and reach pre-recession spending levels (see Figure 1).

Now is the time to rebuild, but the new tax cuts already are costing the state much more than expected and will continue to reduce the revenue that is available for public investments next year and beyond. Furthermore, these tax cuts primarily benefit the richest taxpayers and profitable corporations and shift even more of the tax responsibility onto the shoulders of middle-class and low-income North Carolinians.

Legislative leaders and the governor failed to acknowledge the growing cost of the tax plan in their final budget for fiscal year 2015, likely because they knew that revenue losses put the state on a financially irresponsible and unsustainable path. Now, there are too few dollars available to meet the needs of children, families, and communities. And under the 2013 plan, more income tax cuts will take effect in 2015. State lawmakers need to face the reality that the state cannot afford further tax cuts and halt their implementation.

*This issue of BTC Reports provides an overview of the second year of the new two-year budget, focusing on how it would affect low- and moderate-income North Carolinians and the long-term financial health of the state.*

## How Do Lawmakers Pay for Their \$21.08 Billion Budget?

Before tackling the FY2015 budget, lawmakers had to deal with a \$452.6 million revenue shortfall for the previous fiscal year, which ended in June. To address the shortfall, lawmakers relied heavily on money that various agencies returned to the state from their 2014 budgets. These agency reversions came about after the governor ordered agencies to

**Figure 2: How Do Lawmakers Pay for Their Budget?**

	2015 Fiscal Year	2015 Fiscal Year (ITEP's Projections)
<b>Revenue Forecast</b>	<b>\$ 20,962,800,000</b>	<b>\$ 20,553,800,000</b>
<b>+ Net General Fund Credit Balance</b>	<b>\$ 267,369,627</b>	<b>\$ 267,369,627</b>
Money Unappropriated in FY2014	\$ 23,693,704	\$ 323,693,704
Revenue Shortfall from FY2014	\$ (452,600,000)	\$ (452,600,000)
Money State Agencies Returned to the State	\$ 396,275,923	\$ 396,275,923
Rainy Day Fund	\$ 0	\$ 0
Repairs and Renovations Reserve	\$ 0	\$ 0
<b>+ Recommended Revenue Changes</b>	<b>\$ (148,059,482)</b>	<b>\$ (148,059,482)</b>
Medicaid Contingency Reserve (the Rebase)	\$ (186,372,673)	\$ (186,372,673)
Fund Transfers and Diversions	\$ 29,853,191	\$ 29,853,191
Phaseout of Medicaid Hold Harmless Law	\$ 5,990,000	\$ 5,990,000
Increase ABC Permit Fees	\$ 9,600,000	\$ 9,600,000
Other tax changes	\$ (7,130,000)	\$ (7,130,000)
<b>Total Revenue Available</b>	<b>\$ 21,082,110,145</b>	<b>\$ 20,673,110,145</b>
<b>- Appropriation Requirement</b>	<b>\$ 21,082,110,145</b>	<b>\$ 21,082,110,145</b>
<b>REMAINING GENERAL FUND BALANCE</b>	<b>\$ 0</b>	<b>\$ (409,000,000)</b>

SOURCE: Authors' analysis of the FY2015 budget and Special Data Request to the Institute for Taxation and Economic Policy, May 2014.

curb spending in March and May.<sup>1</sup> Lawmakers also relied on other one-time dollars to close the 2014 shortfall.<sup>2</sup>

After addressing the FY2014 revenue shortfall, lawmakers were able to carry over nearly \$267.4 million in left-over agency funds to help balance the budget for FY2015. The final budget is built on the expectation of tax and non-tax revenues of nearly \$20.96 billion, which

is \$191 million short of what the state initially anticipated. The total takes account of the huge cost (\$438 million in FY2015) of the tax plan that lawmakers enacted last year—the benefits of which primarily flow to wealthy individuals and profitable corporations.<sup>3</sup> Because those revenues are not enough to cover spending needs, lawmakers had to come up with additional dollars (see Figure 2, page 2).

## HOW WE LOOKED AT THE NUMBERS

There are two primary ways to analyze the current budget and compare it to previous budgets. One method is to measure the budget against the dollars that were appropriated in last year's 2014 fiscal year budget. The other method measures the budget against the continuation budget, which reflects the amount of money needed in future years to maintain service levels that were in place at the beginning of the two-year budget cycle.<sup>8</sup> The governor's Office of State Budget and Management works with the various state departments and agencies to determine the continuation requirements.

This report compares the current 2015 fiscal year budget to the continuation budget, which provides a better basis for comparison because it accounts for the changing costs required to deliver the same level of services approved by the previous General Assembly. For example, the continuation budget reflects estimates for school enrollment growth, debt service, and mandated rate increases for certain programs such as Social Security. The authors of this report modified the original continuation budget to reflect the smaller-than-projected increase in student enrollment in public schools, community colleges, and the UNC System, as well as the smaller-than-projected increase in base salaries for K-12 personnel.<sup>9</sup>

In breaking from the norm, state lawmakers included funding for pay raises for teachers and state employees in the respective agency sections of the 2015 fiscal year budget rather than in the salaries and reserves section of the budget, which is the usual practice. To avoid artificially inflating spending levels for core areas of the budget and to follow precedent, which allows for funding comparisons over time, the authors of this report place the pay raises in the salaries and reserves section of the budget.

State lawmakers also came up with \$45.4 million by diverting money from several special funds, raising fees on restaurants' alcohol permits, and tapping Medicaid savings. After making minor tax changes and setting money aside for a backup fund for Medicaid, in the end, state lawmakers spent every dollar available, leaving the state without much of a financial cushion if it faces any unanticipated expenses in the coming year.

The non-partisan Institute for Taxation and Economic Policy (ITEP) estimates that the revenue loss from the 2013 tax plan is higher than the estimate lawmakers used when crafting this year's budget. The tax cuts could cost North Carolina an additional \$600 million in FY2015—more than triple the state's estimate of \$191 million, according to ITEP.<sup>4</sup> A shortfall of \$409 million would throw the budget into disarray. North Carolina's state constitution requires a balanced budget, so lawmakers would be forced to deal with the shortfall before the end of the fiscal year by implementing damaging cuts to state services or by using substantial amounts of one-time money, such as the state's Rainy Day Fund.

Currently, there is \$651.6 million in the Rainy Day Fund, the state's savings account.<sup>5</sup> Lawmakers chose not to add money to the Rainy Day Fund or the Repairs and Renovations Reserve (which pays for small-scale construction projects on state-owned facilities) in the final budget. While savings accounts are an essential feature of a

sustainable budget process, putting no additional dollars into these accounts this year is appropriate because many vital public services are operating at funding levels well below what they were before the Great Recession. Funding for those agencies should be restored before adding money to the savings accounts.

## THE GROWING COST OF THE TAX PLAN

Although state revenues had not yet fully recovered from the Great Recession, lawmakers overhauled North Carolina's tax code last year in a way that significantly reduced state revenue. The 2013 tax plan also shifted tax responsibility away from the wealthiest taxpayers and profitable corporations and onto ordinary North Carolinians. The tax plan is phased in over three years, so its deep revenue losses will grow and accumulate over time, bringing harm to families and communities across the state.

The tax plan is in its first year of implementation and already is costing far more than expected. Days before Governor McCrory signed the budget into law, news broke that the cost of individual income tax cuts will rise to \$1 billion by 2016 and will total more than \$5 billion over the next five years. Fiscal Research Division, the state agency that estimates the cost of the tax plan, based those amounts on new Internal Revenue Service data on the incomes and taxes North Carolinians paid through the personal income tax in 2012.

Last fiscal year, the tax plan contributed to a nearly \$500 million shortfall. Fiscal Research Division estimated that in FY2015, the plan would cost \$512.8 million—but it is already costing \$191 million more than that. By the end of the fiscal year, the revenue shortfall could reach as high as \$600 million—for a total cost of the tax plan of more than \$1.1 billion—according to the Institute on Taxation and Economic Policy's estimates using up-to-date taxpayer data (see Figure 3).

Yet, lawmakers ignored this information, building their budget on Fiscal Research Division's original estimates (versus the new estimates) and failing to account for the growing cost of the tax plan in future years. Rather than acknowledging that the tax plan is putting North Carolina on an unsustainable path, they proceeded to cut vital public programs. If ITEP's projections are correct, much deeper cuts will be necessary before the fiscal year is over.

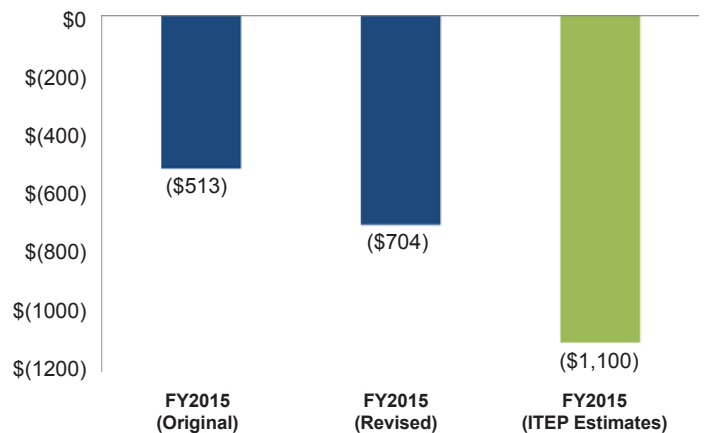
Raising adequate revenue is essential to meeting the state's mandate to balance its budget. If another revenue shortfall exists by the end of the year, lawmakers will likely turn to agencies to plug the gap.

That is what Governor McCrory did to balance the 2014 budget in light of a \$452.6 million shortfall. He ordered state agencies to curb spending and return money totaling \$396.3 million. These are dollars that fund public investments, and ordering their return required cutting services that are important to families and the state's economy. For example, funding was cut to North Carolina State University's cooperative extension program that helps develop responsible youth and maintain viable communities.<sup>6</sup>

Lawmakers should stop the income tax cuts that are scheduled to go into effect in January 2015. This will save the state approximately \$100 million in the current fiscal year and \$300 million in the 2015 calendar year. This revenue would go a long way toward reversing the most damaging cuts lawmakers enacted in the

**FIGURE 3: 2013 Tax Plan's Cost is Growing Higher than Expected**

*Higher-end Estimate Suggests North Carolina's Budget Will Not Be Balanced at End of Fiscal Year*



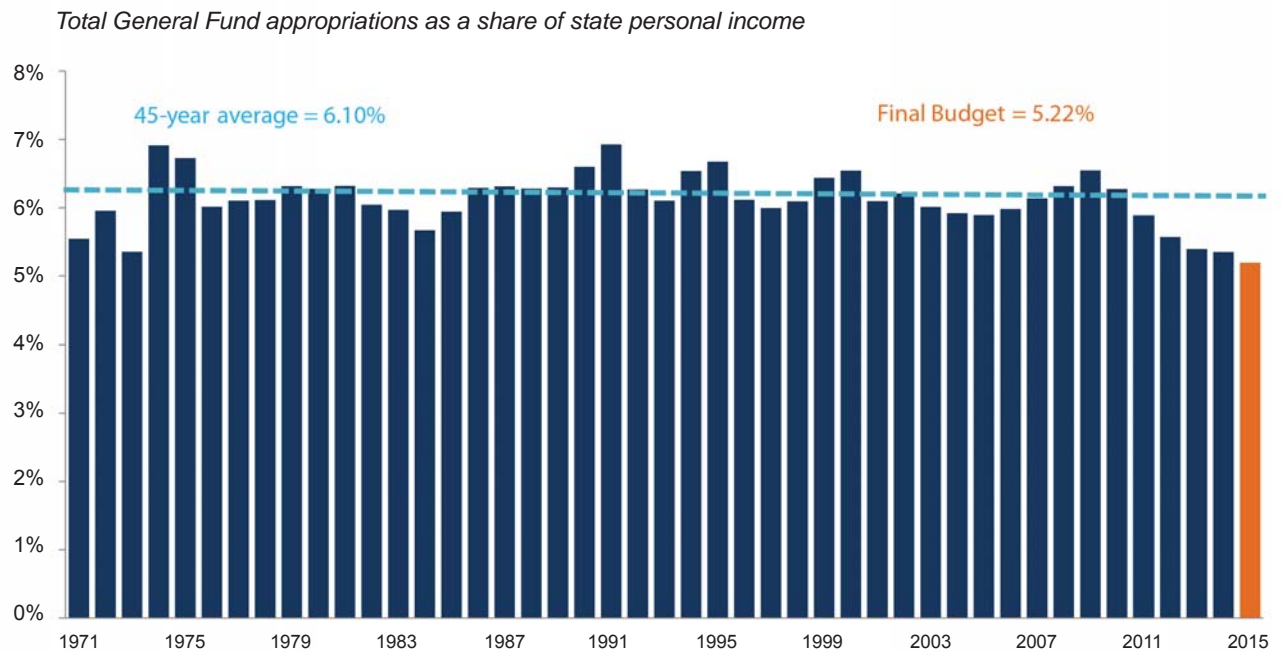
SOURCE: Fiscal Research Division's Fiscal Note for the Tax Plan (House Bill 998) and Revised Consensus Forecast, and Special Data Request to the Institute for Taxation and Economic Policy, May 2014.

aftermath of the Great Recession. That would be a short-term fix, however. A long-term fix requires, in part, restoring the former income tax structure—under which taxes rose along with income and those who could afford to pay more did—so that revenues are more stable and high enough to meet the needs of North Carolinians for good schools, sound roads, and safe and healthy communities.

**Spending Plan  
Leaves Too Many  
Vital Public Services  
Operating at  
Diminished Levels**

The final \$21.08 billion budget increases total General Fund spending by \$653.1 million, or 3.2 percent, over what the Office of State Budget and Management determined North Carolina would need to maintain current levels of services.<sup>7</sup> Although this is a step in the right direction, most of the spending increase will go to Medicaid and pay raises for teachers and state employees, leaving little for other pressing needs in education, environmental protection, community economic development, and other vital programs. Overall state funding is still \$1.5 billion below FY2008 levels—the last budget in place prior to the economic downturn—when adjusted for inflation.

**FIGURE 4: State Spending is Shrinking as Part of the Economy, Final Budget Puts Spending Below 45-Year Average**



SOURCE: Authors' analysis of enacted budgets and the Bureau of Labor Statistics' State Personal Income, FY1971 – FY2015.

State investments in education, health care, infrastructure, and other priorities are essential for long-term economic growth. Yet, the 2015 fiscal year budget marks the sixth straight year that overall state spending is shrinking as a part of the economy—the only time that this has happened dating back to 1971 (see Figure 4). State budgets typically allow spending to grow as the economy grows. Doing so helps ensure that state investments keep up with North Carolina's growing population and changing needs—such as maintaining small class sizes as the student population increases, providing adequate medical care and residential services to the growing number of older adults, and making sure that community colleges can provide job training for unemployed workers seeking opportunity in a changing economy.

For the 2015 fiscal year, overall spending as a share of North Carolina's economy remains well below the state's 45-year average. As such, the budget is not keeping up with growing needs for a number of vital services that directly benefit North Carolina families and the state's economy. Now is the time for lawmakers to reverse course and reinvest in public education, hospitals, public safety, and job training programs that support widespread prosperity. However, if lawmakers continue on the course set by last year's passage of deep tax cuts for wealthy individuals and profitable corporations, there will not be enough revenue available to bolster these critical investments.

See the *Miscellaneous* section of this report for more details on the pay raises provided to teachers and state employees, page 17.

**Spending by Core Area  
of the Budget**

EDUCATION—\$7.7 BILLION

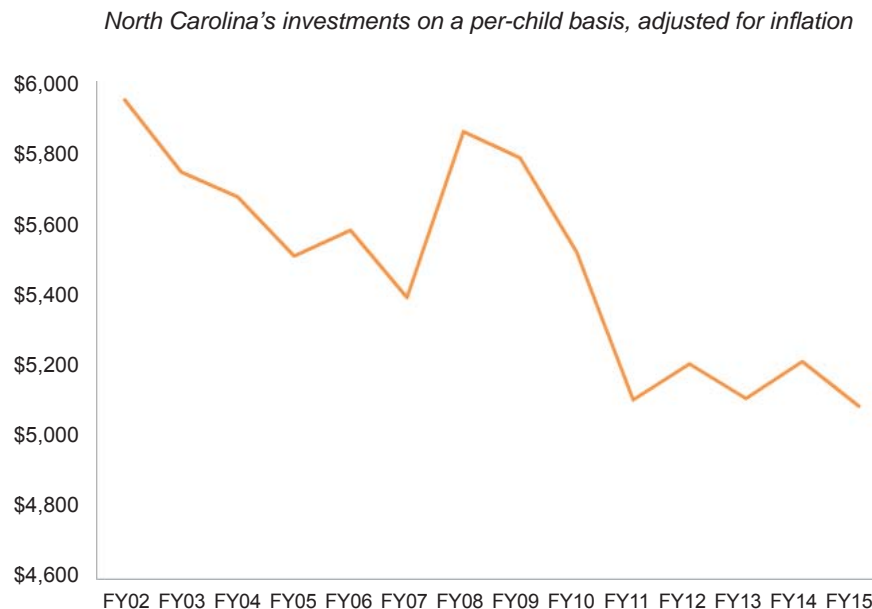
**Public Schools**

More than 1.5 million children are educated in public schools across North Carolina. Ensuring that all students get a high-quality education is important to building a competitive workforce and an engaged and informed citizenry.

The 2015 fiscal year budget spends \$7.7 billion for public schools, which falls \$277.2 million short of what is needed to maintain the same service levels in place for the 2012-13 school year. For the current school year, lawmakers invested less per student compared to the

2014 fiscal year budget, and per-student funding remains well below what it was in the 2008 fiscal year budget, which was in place prior to the Great Recession (see Figure 5). The number of students in North Carolina schools has continued to increase since 2008, yet the amount of funding per student—and, therefore, the resources available to educate each student—is on a downward trend.

**FIGURE 5: Lawmakers Failed to Make Up Lost Ground in Public Education**



SOURCE: Authors' analysis of enacted General Fund budgets; assumes pay raises are in Salaries & Reserves as explained in the breakout box on page 3 of this report; adjusted to FY2014 dollars.

**Classroom Teachers and Teacher Assistants**

With too few dollars available to meet the needs of students due to the 2013 tax plan, new spending initiatives—such as the pay raises for teachers and other school personnel—came at the expense of needed increases in investments in other areas. For example, lawmakers provided \$41.9 million to reduce kindergarten and first

grade class sizes, which they just increased last year. However, to cover that added cost, lawmakers diverted lottery dollars that were supposed to go to increase technology in public schools and provide need-based financial aid to students attending public universities. Now, North Carolina is using \$33.9 million more in lottery proceeds to pay the salaries of those classroom teachers—even though lottery dollars are an unreliable and regressive source of funding. If the state could afford last year's tax cuts, lawmakers would not be relying on more lottery dollars to cover fundamental education expenses.

Lawmakers also cut \$109 million from the budget for teacher assistants (TAs), who play a vital role in helping children learn.<sup>10</sup> The cut would have been far larger if lawmakers did not again use lottery dollars to replace a portion of General Fund spending for the TAs. This funding cut for TAs comes on top of the significant 20-percent funding cut lawmakers enacted last year. School districts will have to either cut the number of teacher assistants

## LAWMAKERS MAKE FULLY FUNDING STUDENT ENROLLMENT GROWTH OPTIONAL IN FUTURE BUDGETS

The 2015 fiscal year budget includes a provision that no longer includes enrollment adjustments for public schools as part of the baseline budget, also referred to as the continuation budget. Prior to this policy change the state's budgeting process took enrollment adjustments into account when determining how much state funding is required to maintain education service levels. Doing so more accurately reflected the actual level of state funding that should be invested in K-12 education.<sup>16</sup> This policy change means schools experiencing growth in student enrollment are no longer guaranteed to receive full state funding for the additional students when state lawmakers create a budget for the next school year.

Now, schools will have to wait until state lawmakers finalize a budget to know how much state funding they will receive to account for enrollment growth—which may be fully or partially funded. This creates budgeting challenges for local schools, which must now determine staffing levels (classroom teachers and teacher assistants), transportation costs, and other school-level costs without knowing how much state funding for enrollment will be provided. If state funding fails to fully account for enrollment growth, local schools will have to look for dollars in other places to fill their respective budget gaps. Otherwise, schools will have to absorb the impact of this funding cut by making tough choices—increasing classroom size, cutting student support services, or cutting back on local teacher pay supplements, for example—that can harm students' outcomes.

or fund them by not spending money on other education necessities.<sup>11</sup>

Lawmakers did not reinstate the Teaching Fellows Program, which searched for North Carolina's most talented high school graduates and provided them with scholarships to attend the state's public universities in exchange for a commitment to teach in a public school. Most of the money that went to that program is now being invested in Teach for America, which trains recent college graduates for five weeks and then puts them in some of the nation's highest-need schools.

Lawmakers restored the education-based salary supplements—after eliminating this boost last year—but only to certain teachers and instructional support personnel. The supplement is now limited to teachers and other personnel who received it prior to the 2014-15 school year; certified school nurses and instructional support personnel in positions that require a master's degree for licensure; and teachers and instructional support personnel who complete an advanced degree and completed at least one course prior to August 1, 2013.

### ***Classroom, Instructional, and Other Supports***

Lawmakers underfunded and made cuts to various areas of the public school budget that contribute to students' learning. They provided no additional funding for instructional supplies and equipment, meaning state funding is nearly 50 percent lower than it was before the Great Recession.<sup>12</sup> The budget includes a tiny funding increase for textbooks—about 60 cents per student. The \$24.3 million in total state funding for textbooks is well below the \$120 million (adjusted for inflation) the state spent in fiscal year 2010.<sup>13</sup> This means schools

will continue to rely on outdated textbooks and some students will go without textbooks.<sup>14</sup>

Lawmakers cut \$9.3 million from services for students at risk of failing or dropping out, making it more difficult for vulnerable populations to receive targeted assistance and graduate on time. Local schools use this funding to identify students likely to drop out and provide them with special alternative instructional programs, summer school instruction, remediation, early intervention, and other supports.<sup>15</sup> Furthermore, lawmakers cut \$4.6 million from transportation, which supports the salaries of bus drivers and maintenance of school buses so that children can get to school and back home safely. Lawmakers lengthened the amount of time school buses must be in use before being replaced, saving the state \$3.4 million. Lawmakers also cut funding for the Department of Public Instruction, which implements the state's public school laws and the State Board of Education's policies and procedures, by 10 percent.

**COMMUNITY COLLEGES—\$1 BILLION**

The community college system plays an increasingly important role in the state’s economy by ensuring that North Carolina has the well-trained workforce necessary to attract high-wage and high-growth industries to the state. Yet, the state’s investment in community colleges remains below pre-recession levels, with the system underfunded by nearly \$6.7 million.

Lawmakers’ failure to invest enough in job training and education in communities across the state means less access to economic opportunity for North Carolinians, particularly adult workers seeking training and low-income students seeking an affordable and quality post-secondary education.

However, state lawmakers did take a step forward by providing new funding to campuses for health care and other technical education programs that require expensive technology and equipment. This has the potential to enhance the state’s return on investment by ensuring that North Carolina has the well-trained workers that high-demand, high-wage industries need.

**Figure 6: Lawmakers Raised Tuition at Community Colleges Every Single Year since the 2010 Fiscal Year**

Fiscal Year	Tuition Increase for In-State Students	\$ Per Credit Hour
2014-15	\$0.50 per credit hour	\$72.00
2013-14	\$2.50 per credit hour	\$71.50
2012-13	\$2.50 per credit hour	\$69.00
2011-12	\$10.00 per credit hour	\$66.50
2010-11	\$6.50 per credit hour	\$56.50
2009-10	\$8.00 per credit hour	\$50.00
2008-09		\$42.00

SOURCE: Authors’ analysis of enacted budgets, FY2009-FY2015.

Enrollment is down at the state’s community colleges, so lawmakers reduced funding for enrollment growth by \$17.2 million. However, given an earlier surge in enrollment during and just after the recession, the colleges still have 8,690 more students than they did before the recession.<sup>17</sup> A larger student population places pressure on facilities, faculty, and the already limited supports for students who face economic and other barriers to completing their educations.

Given the growing demand for workers with some degree of post-secondary education, providing more students with skills training and other higher education would boost North Carolina’s economy and workers’

earnings.<sup>18</sup> Yet, the continued underinvestment in community colleges has meant that for many students, a community college education is not an affordable option.

Lawmakers again increased community college tuition for in-state students this year by \$0.50 per credit hour, bringing the total annual tuition cost for a full-time student to \$1,728. This is equivalent to 7.2 percent of the annual income of a family of four that lives in poverty. Since the economic recovery began in 2009, policymakers have increased in-state community college tuition by \$30 per credit hour, an increase of more than 70 percent (see Figure 6).

Lawmakers cut programs that provide training to adult workers. For example, they eliminated funding for the Back to Work program, which gave jobless workers training opportunities and other key supports to prepare them for emerging industries. Policymakers did not expand pilot programs, such as the Basic Skills Plus program, that channeled low-skilled workers into training programs and prepared them to secure the credentials necessary for good-paying jobs.

Policymakers also did not fund the newly reformed performance-based funding pool, which seeks to incentivize innovation at community colleges by providing additional funding when colleges achieve certain targets, such as the amount of time it takes students to complete



their program of study. Nor did policymakers provide resources to various student support services—child care subsidies, transportation, mentoring programs—that have been proven to keep students in training and education programs longer.

### UNC SYSTEM—\$2.6 BILLION

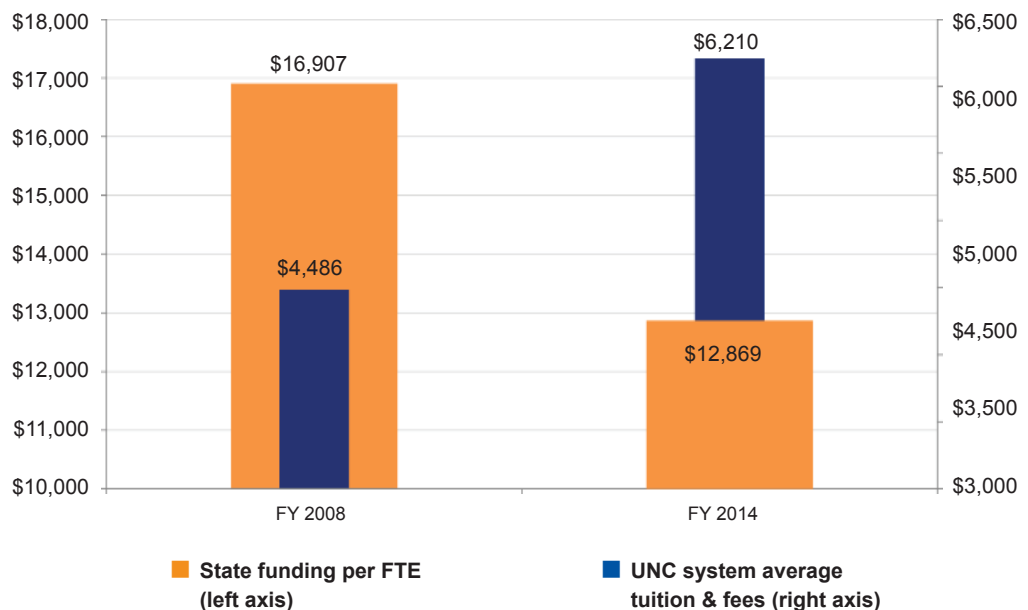
Lawmakers continued to undermine one of North Carolina’s crown jewels by making further cuts to the University of North Carolina *system*, dropping state funding to 9.4 percent less than pre-recession levels. North Carolina’s public universities have long been nationally recognized for their academic excellence, as well as their support for economic development in communities across the state. Through education, research, and product development, the UNC System provides a strong foundation for improving the economic well-being and supporting the civic life of North Carolinians and their communities. But North Carolina is one of just four states that made additional cuts to higher education this year, while other states began to reverse cuts made during and after the recession.<sup>19</sup>

The final budget requires the UNC Board of Governors to cut funding by 3.3 percent, or \$76 million, at its campuses through flexibility management cuts. Since the recession ended, lawmakers have ordered the Board of Governors to cut \$1.1 billion through this mechanism, nearly equivalent to the operating budget of the entire community college system. The result has been larger class sizes, fewer student support services, higher tuition, loss of faculty to other universities, and the erosion of investment in research and facilities.

The final budget includes a modest \$3 million for “game-changing research” to support investments in faculty, research and product development in areas such as advanced manufacturing and marine and coastal sciences. While this is certainly an important recognition of the role that the universities within the UNC System play in research and

**FIGURE 7: UNC System Turns to Tuition and Fee Hikes Amidst Decline in State Support**

*Based on full-time equivalent enrollment and inflation-adjusted*



SOURCE: NCGA approved budget (FY 2007-08 and FY 2013-14) and UNC system statistical abstract

development in the state, it is unclear whether this investment, alongside cuts in other areas, can truly support meaningful research and product development.

Perhaps most significant to the UNC System moving forward is a change to the enrollment funding formula for general institutional support, such as the Chancellor's office, human resources, and other administration offices. Beginning in the mid-2000s, the formula provided a buffer to campuses to help smooth out funding cuts resulting from dips in enrollment; campuses only had to absorb half of the cut determined from the formula. This policy was known as the negative adjustment factor, born out of the idea that institutions need to operate at a basic level regardless of the total number of students. Lawmakers eliminated this adjustment, saving the state \$5.3 million but catching the university system off guard.

In recognition of the important role that historically black colleges and universities (HBCUs) play in educating North Carolinians from diverse backgrounds, the legislature took a small but important step by establishing a pilot program to provide students at those schools with internships at North Carolina-based companies. This program will provide important work experience for up to 60 students and aims to serve as a learning opportunity for the system as a whole.

Absent from the final budget is a significant effort to restore state funding cuts that have driven up tuition rates in recent years. State cuts to the UNC System have been accompanied by a nearly 40-percent increase in tuition and mandatory fees when adjusted for inflation from 2008 to 2014 (the latest data available on tuition and fees; see Figure 7). The steady increase in tuition and fees within the UNC System is a formidable barrier for many students and families who cannot afford the growing cost of a college education. Need-based financial aid for students in the UNC System has not increased, and lawmakers are relying on lottery dollars, unclaimed accounts, and other unclaimed property to help fund the aid, rather than with state appropriations.

Finally, after several years of massive budget cuts lawmakers are doing little to help ensure that universities within the UNC System are able to retain and recruit faculty who contribute to the overall quality of education as well as catalytic research and development on campuses. Lawmakers provided no further investment in the Faculty Retention and Recruitment Fund, and beyond the small expansion of funding for certain game-changing research, lawmakers provided no additional dollars to support the system's role in furthering local economic development. Failure to boost funding to retain and recruit high-quality faculty means North Carolina risks losing these individuals to other colleges and universities.

Overall, the final budget continues to shortchange the state's public university system, which makes it more difficult for universities to provide a first-class education while failing to ensure that the state is well-positioned to compete in a 21st century economy built around innovation and creativity.

---

## HEALTH AND HUMAN SERVICE—\$5.1 BILLION

The budget spends \$508.6 million, or 11 percent, above what was needed to maintain the services provided by the Department of Health and Human Services (DHHS). The additional overall funding marks the first time the health and human services budget has caught up with pre-recession spending. However, these funds are largely devoted to Medicaid and the child welfare system. Lawmakers made substantial cuts to other key health services such as adult care homes and hospitals.

This area of funding aims to ensure that the state's young citizens thrive early, older adults and vulnerable populations have access to quality and affordable health care and social services, and people with disabilities have the supports they need to fully engage as citizens and contribute to their communities.

### **Medicaid**

The second-largest area of spending in the state budget continues to be Medicaid, which provides health insurance and long-term care to more than 1.6 million people who are poor, disabled, or elderly. About 500,000 more North Carolinians would be able to get the health care they need if lawmakers were to reverse course and expand Medicaid, as allowed under the Affordable Care Act, with the federal government picking up 100 percent of the costs for the first three years and at least 90 percent of the costs in succeeding years.<sup>20</sup>

#### ***Lack of Medicaid Forecast Puts Medicaid Budget on Shaky Ground***

For several months during the budget process, Governor McCrory and the budget writers in the House and Senate could not agree on an estimate for the 2014 Medicaid shortfall—an unpaid bill from last fiscal year—or on what it would take to fully fund Medicaid going forward. Policymakers made different assumptions about important questions, such as the total backlog of provider claims, spending growth rates, and added costs for the 2015 fiscal year.<sup>21</sup> In the end, lawmakers agreed to arbitrarily meet in the middle on these assumptions and the overall shortfall estimate.

Lawmakers appropriated \$136.5 million to address last year’s Medicaid shortfall, but they did not make a direct appropriation to cover the anticipated added costs associated with Medicaid, known officially as the Medicaid rebase. The rebase is the latest calculation for what it takes to run the Medicaid program due to enrollment growth, changes in how services are used, drug price increases, and other factors. Even though lawmakers anticipated an uptick in Medicaid costs, they still chose to place \$186.4 million for the added costs in a savings reserve rather than providing a direct appropriation to fully cover those costs.

Previously, rebase funding was either built into the continuation budget or directly appropriated.<sup>22</sup> Now, the use of this funding requires the legislature to make a separate appropriation and only if a Medicaid shortfall arises. This means that lawmakers may have to come back to Raleigh for a special legislative session to tap those funds. If they fail to do that, the state will have to make cuts to vital programs and services to ensure that the budget is balanced by the end of the fiscal year.

#### ***Deep Cuts to Hospitals and Service Providers***

To offset the Medicaid cost increases, the budget cuts funding for hospitals. It includes a higher assessment rate that hospitals pay to the state to help draw down federal Medicaid dollars, establishes a statewide base rate for reimbursement to hospitals for inpatient services provided, and lowers the reimbursement rate paid to two hospitals.<sup>23</sup> The budget also cuts provider rates for fee-for-service providers by an additional 1 percent for Medicaid, with certain exceptions. These rate cuts could mean more providers will refuse to see Medicaid patients, making it harder for vulnerable families to get the health care they need. The drop in funding for providers could also mean more layoffs in communities that are still struggling to recover from the economic downturn.<sup>24</sup>

The budget also allows the Department of Health and Human Services to require some costs controls, such as prior authorization for mental health drugs, to produce millions of dollars in savings. These cuts will come on top of last year’s deep cuts that also lowered reimbursement rates for Medicaid providers, reduced the number of doctor visits the state pays for to 10 from 22, and increased patients’ co-payments.<sup>25</sup>

#### ***Harmful Cuts to the Special Assistance Program***

The budget makes fewer people eligible for the State-County Special Assistance Program, which helps low-income older adults and people with disabilities afford the costs of residential facilities. Lawmakers lowered the income cutoff to below 100 percent of the federal poverty level (\$11,490 for one person) from 125 percent of the federal poverty line (\$14,362 for one person). Yet, the federal poverty level fails to capture what it takes to

makes ends meet, let alone what it truly takes to be economically secure. These changes will not affect current participants in the program, many of whom live in group homes or adult care homes.<sup>26</sup> This change in income eligibility can only take effect if the federal government approves. Lawmakers also ended automatic Medicaid eligibility for people enrolled in this program.

### ***Other Health and Human Services***

Lawmakers cut funding by nearly \$1 million for assistance to older adults who want to stay in their homes. The Home and Community Care Block Grant provides in-home and community-based services to adults ages 65 and over and is not funded through Medicaid. The average participant is nearly 80 years old, and the services are well-targeted to those who are socially and economically needy, according to state officials.<sup>27</sup> Lawmakers made this cut even though the need for senior services far outstrips the resources available: roughly 16,000 older adults are on waiting lists for home-delivered meals, transportation to doctor appointments, and adult day care services funded by the block grant.<sup>28</sup> The demand for these vital services is likely to continue to grow as North Carolina's population ages.

Lawmakers failed to adequately fund other programs that have long waiting lists, including the state's two early childhood programs that help at-risk children (see breakout box). They also failed to restore a \$10 million cut from last year to the state's Children's Developmental Services Agencies and the directive to eliminate 160 jobs. These agencies provide services—such as physical and speech-language therapies—for children up to age three who have developmental delays. The budget allows DHHS to determine how to implement the cuts and layoffs, removing the previous directive to close up to four of the sixteen offices.

Other vulnerable children fared better in the budget. Lawmakers set aside an additional \$7.4 million to address a loss in federal funding and to reduce the number of children per caseworker for the Child Protective Services program. They also budgeted an additional \$4.5 million for in-home services that encourage family stability and \$750,000 to enhance state oversight of child welfare services in local county departments of social services.

Lawmakers provided nearly \$350,000 for administrative costs related to drug testing some applicants and participants in the Work First program—which helps extremely low-income families get on the path to self-sufficiency—as a precondition for cash assistance, skills training, or other aid. Yet, North Carolina's Work First program already screens for possible substance abuse.<sup>32</sup> Lawmakers approved the law last year without providing any funding to cover the costs; the law is now in the rule-making process at DHHS, which must happen before implementation can begin.

Lawmakers increased funding by \$2 million for temporary, short-term assistance to adult care and group homes for residents who are no longer eligible for Medicaid-supported personal care services, but for whom community placements have not yet been arranged. The budget directs DHHS to establish a detailed plan for a long-term solution for these individuals. The budget also provides an additional \$2.2 million for psychiatric outpatient clinics, 24-hour crisis clinics, and psychiatric urgent care units, which are alternatives to emergency rooms.

Lawmakers provided no funding for comprehensive youth tobacco use prevention programs, and they provided no additional funding for services for people who are blind or deaf and hard of hearing.

## LAWMAKERS SHORTCHANGE EARLY CHILDHOOD PROGRAMS

**E**arly childhood programs, like the state’s Child Care Subsidy Program and NC Pre-K, build a pathway for more of North Carolina’s children to achieve economic security and middle class status as adults. Yet, lawmakers failed to make these programs and the at-risk children they serve a priority, choosing to keep spending for these programs at woefully inadequate levels. In fact, lawmakers ended direct state funding for these programs on a one-time basis; instead, the programs now rely on lottery funding and federal dollars.

Spending for child care subsidies, which help low-income workers afford safe, quality care for their children, remained flat. Lawmakers made it harder for moderate-income families to qualify for child care support, cutting off help for an estimated 12,000 children.<sup>29</sup> The budget tightens the income eligibility requirements for the child care subsidies, reserving them for the youngest children and those who live in families with the lowest incomes. Lawmakers reduced eligibility for the program to 200 percent of the federal poverty level (\$39,060 for a family of three) for children up to 5 years old from 75 percent of the state median income (\$42,201) for children of all ages. Lawmakers further reduced eligibility to 133 percent of the federal poverty level (\$25,975 for a family of three) for children 6 to 12 years old.

Lawmakers provided a one-time \$5 million increase for NC Pre-K, which provides pre-school services for children who otherwise would likely start school lacking important social and academic skills. But those dollars were geared primarily toward salary raises for Pre-K teachers—a cost that is

recurring, not one-time. Any money left over after salary raises will go toward additional Pre-K slots, but there are still fewer slots available today than there were before the Great Recession. As such, the new budget does little to nothing to address the more than 10,000 children who are on the waiting lists for NC Pre-K and child care subsidies.

Underfunding these programs is counterproductive because early childhood education has been proven to make kids more ready for school and produce substantial long-term educational and economic gains later in life.<sup>30</sup> NC Pre-K, in particular, helps meet the state’s goal of having all students reading at grade level by the end of the third grade. The strength and competitiveness of North Carolina’s economy depends on a competent, high-quality workforce, and these programs play a vital role in helping meet that demand.

For working parents, affordable, quality childcare is a necessity that is often out of reach. For the average family with two or more children, child care costs are the largest share of their monthly budget, surpassing housing.<sup>31</sup> Increasing state investments in childcare subsidies can help parents who earn low wages keep their jobs and better support their families. Yet, lawmakers also eliminated the sliding scale for co-payments, meaning that larger families with more expenses must pay the same as smaller families. Co-payments are also no longer pro-rated for part-time day care. These changes could put children at risk by forcing parents who cannot afford higher costs to choose between leaving their children in unsafe conditions or missing work and potentially losing a job.

## NATURAL AND ECONOMIC RESOURCES — \$402.1 MILLION

While it appears that the budget increases spending on natural and economic resources by \$53.8 million, or 15.5 percent, compared to what was needed to maintain existing service levels, a portion of this bump in spending reflects budget gimmicks. Last year, lawmakers moved non-General Fund dollars, generated by existing trust funds, into this area of the General Fund budget. But this money was already

dedicated to pay for environmental and infrastructure services such as water restoration and conservation projects, and thus is not new funding. The 2015 fiscal year budget follows this change.

### LAWMAKERS PROVIDE NO FUNDING TO THE SUPPORT CENTER

Lawmakers provided no state funding for the Support Center, which provides small-business lending in low- and moderate-income communities where major banks will not lend. Since 1990, the Support Center has provided capital, business services, and policy research to aid start-ups and existing businesses, with the vision of creating economic opportunity for all North Carolinians.<sup>35</sup> The center has created or retained 363 jobs across the state since 2010.<sup>36</sup>

The funding cut continues a disturbing trend. Last year, the budget eliminated state funding to nine other nonprofit organizations promoting job and business development in the state's economically distressed communities. This includes the Institute of Minority Economic Development and its Women's Business Center, which provide entrepreneurs with technical and financial assistance on business plans, loan applications, and branding strategies. Lawmakers also eliminated funding for the Association of Community Development Corporations, the Community Development Initiative, and the Indian Economic Development Initiative. All of these organizations worked to expand economic opportunity in minority and low-income communities, which is essential to fostering a stronger state economy.

Research shows that a child's shot at the American Dream depends on where they grow up.<sup>37</sup> Growing up poor in areas of concentrated disadvantage can undermine one's health and economic opportunities. North Carolina can build a more prosperous state only if lawmakers extend ladders of opportunities to all communities in the state. This requires making sure that communities have access to the tools they need to be innovative and entrepreneurial, and that they are equipped to develop strong business models that can build a more robust, inclusive middle class.

Lawmakers cut several key services, including investments in the Support Center, the Limited Resource Communities Grant program, and the Clean Water Management Trust Fund. Those cuts come on top of a nearly 44 percent overall spending cut for this area of the budget since the 2008 fiscal year. This section of the budget includes the Department of Commerce, the Department of Environment and Natural Resources, the Department of Labor, and the Department of Agriculture and Consumer Services.

#### **Commerce and Commerce State Aid**

The Department of Commerce manages the state's economic development and community development programs, including job training, business recruitment and incentive funds, and community development block grants. While funding was increased for this department, the combined effect of privatizing certain aspects of this public service and having fewer dollars than are needed is unlikely to catalyze the economic development needed at this critical time in the recovery. Important as well to the state's economic competitiveness is the fact that the funding increase does not target community-based job creation efforts. Rather, it focuses on business recruitment—a strategy that often leaves low-income, distressed populations and communities behind.

Lawmakers provided \$10 million for a new grant program designed to promote the film industry in North Carolina, replacing

the Film Tax Credit, which expired this year. One particularly problematic aspect of the new program is that it does not include accountability measures to hold companies to their promises of job creation in exchange for public funds. Lawmakers also proposed \$20 million

in funding for a new incentive program designed to provide additional funds for “closing” competitive firm location deals. This provision did not go into effect—and the money remained unspent—because the separate legislation authorizing the creation of the new fund did not become law. Creation of this program before the end of the year will require a special session of the General Assembly. However, North Carolina’s history with such incentive programs shows that these investments are not targeted to low-income communities.<sup>33</sup> For example, policymakers awarded more than triple the amount of incentive dollars to the wealthiest 20 counties compared to the 40 most distressed counties from 2007 to 2013.<sup>34</sup>

Lawmakers also cut \$1.3 million in recurring funding for the Limited Resource Communities Grant program, which was created last year to in-part replace the North Carolina Rural Economic Development Center. The Rural Center provided economic development support and other assistance to rural areas but lost all state funding last year. Lawmakers provided an additional \$500,000 in one-time dollars to partially offset this cut, and the budget includes an additional \$1.25 million to expand other grant programs within the Rural Economic Development Division. Lawmakers also eliminated state funding for the Industrial Commission—the agency responsible for enforcing worker compensation laws and claims—and instead required the commission to rely solely on fees to pay for its operations.

***Department of Natural and Environmental Resources***

The Department of Natural and Environmental Resources (DENR) plays a vital role in keeping North Carolina’s residents and communities healthy by administering regulatory programs designed to protect natural resources like clean air and safe drinking water. DENR is also responsible for making sure the state meets federal laws aimed at protecting the environment in which North Carolinians live, work, and play.

After years of steep DENR budget cuts, lawmakers have done little to repair the damage to programs that protect the state’s environment. While it appears that the 2015 budget spends \$47.8 million, or 44 percent, above what was needed to maintain the current service levels, that is not the case. The bulk of this funding reflects lawmakers’ decision last year to shift non-General Fund dollars and certain programs into the DENR General Fund budget, which does not represent new funding.<sup>38</sup>

Earlier this year, lawmakers enacted a law that clears the way for permits to be issued in North Carolina for hydraulic fracturing—commonly known as fracking—for natural gas. This process has contaminated drinking water in other states.<sup>39</sup> While some lawmakers’ call for nearly \$1 million to subsidize the fracking industry did not make it into the budget, the budget includes nearly \$177,000 in operating funds for department staff who are drafting rules for the fracking process. Beginning next summer, this staff will also process permit applications for the fracking industry.

Lawmakers allowed the department to earmark up to \$3 million in bonds to expand the Hammocks Beach Park State. This constitutes a small investment, but an earmark for a single project is a weak substitute for state investments in land conservation after years of damaging cuts. While lawmakers provided a one-time boost of \$500,000 to the Clean Water Management Trust Fund, the total appropriation for the fund is \$14.1 million, down from \$120 million in FY2011. Lawmakers also chipped away at that trust fund and the Parks and Recreation Trust Fund by diverting the interest earned by these funds to the General Fund, rather than allowing those dollars to be used specifically for environmental protection.

Lawmakers provided \$1 million in one-time dollars to support new water and sewer projects in Tier 1 and Tier 2 counties, which are those counties categorized as severely or moderately economically distressed (80 out of the state’s 100 counties). There is another \$1 million in one-time funds for the NC Biotechnology Center, but this is a \$3 million cut from last year’s budget and a \$4.25 million cut from the 2013 fiscal year.

### ***Other Agencies***

To offset salary increases for state officials, lawmakers ordered the Agriculture Department to cut 1.2 percent from its budget and the Labor Department to cut 3 percent. These departments will get to determine how to implement the cuts. Lawmakers also ordered a 16-percent cut to the Wildlife Resources Commission.

---

### **JUSTICE AND PUBLIC SAFETY—\$2.3 BILLION**

Justice and public safety (JPS) programs aim to build safe communities through maintaining law and order, providing positive opportunities for at-risk juveniles, and helping formerly incarcerated adults reintegrate into their communities and avoid recidivism.

The 2015 fiscal year budget falls short of what is needed for JPS initiatives by \$71 million. To offset the cost of modest pay raises for state employees, lawmakers failed to adequately support public investments that promote safe and vibrant communities.

### ***Department of Public Safety***

The budget spends \$28.1 million, or 1.6 percent, less than what was needed to maintain current service levels in the Department of Public Safety (DPS). Moreover, this spending level does not truly reflect the inadequacy of funding because lawmakers transferred the State Bureau of Investigation, along with \$31.1 million in funding, to DPS from the Department of Justice; this funding transfer does not represent new revenue for DPS. Beyond providing funding for pay raises and the transfer of SBI, lawmakers ordered DPS to cut \$6.3 million from its

## **BUDGET FAILS TO FULFILL INTENT OF JUSTICE REINVESTMENT ACT**

**T**he bi-partisan Justice Reinvestment Act (JRA) was designed to help manage the growth of the state's prison population by creating alternatives to incarceration and providing targeted programming and treatment.<sup>40</sup> Part of the savings from reducing the number of incarcerated offenders is supposed to be reinvested in efforts such as expanded post-release supervision, with the goal of helping reduce recidivism and increase public safety.

The 2015 fiscal year budget does not reinvest any of the \$10.5 million in savings generated from closing, consolidating, or converting

four correctional facilities. Furthermore, the budget does not reinvest any of the \$2.7 million in savings generated from shifting the responsibility for overseeing low-level offenders to county jails from state prisons. These savings could have been used to help fund drug treatment courts, which the governor included in his original 2013-15 fiscal year budget, and boost investment in initiatives that help ex-offenders transition into local communities, such as job training and education programs. Instead, state lawmakers faced a self-imposed revenue shortfall, driven by the costly tax plan passed in 2013, and used the savings to plug a budget gap.

budget. They also eliminated 35 trooper positions in the State Highway Patrol that had been vacant. Lawmakers saved a total of \$10.5 million by closing, consolidating, or converting four correctional facilities and saved another \$2.7 million by shifting the responsibility for overseeing low-level offenders—those with sentences between 91 and 180 days—to county jails from state prison. (See breakout box)



### ***Department of Justice***

The budget spends \$32 million, or 40.3 percent, less than what was needed to maintain service levels, largely as a result of transferring the State Bureau of Investigation and its \$31.1 million budget from the Department of Justice (DOJ) to the Department of Public Safety. Lawmakers ordered DOJ to cut \$1.5 million to offset the cost of pay raises. Lawmakers also cut 66 percent of state funding for backup toxicology testing by private companies, which threatens to create a backlog of tests and slow down the judicial process when the state’s labs are unable to fulfill toxicology requests in a timely manner.

### ***Legal Representation for People who Struggle to Make Ends Meet***

The budget spends \$3.6 million, or 3.2 percent, less than what was needed to maintain current service levels for the Office of Indigent Defense (OID), which provides legal representation for people unable to afford an attorney. The budget includes a department-wide state funding cut for OID. This funding cut reduces resources for support functions within the office and, as a result, the office’s capacity to assist clients.

### ***Judicial***

The budget spends \$6.1 million, or 1.3 percent, less than what was needed to maintain current service levels for the court system. Lawmakers imposed a \$2.9 million cut to the Administrative Office of the Courts, which provides statewide support services for the courts, including research and planning and technology services. Lawmakers also eliminated state funding for the Access to Civil Justice Grant program, which supports the representation of poor North Carolinians in civil cases (Legal Aid<sup>41</sup>). The cut will make it harder for people who are poor to have fair access to the courts.

---

## MISCELLANEOUS

### ***Pay Raises***

The fiscal year 2015 budget provides a pay raise for state employees and teachers for the first time in several years. Lawmakers provided a \$1,000 pay raise to permanent, full-time state employees. For teachers, lawmakers provided pay raises that range from a few hundred dollars up to thousands of dollars. Yet, the pay raise for other school personnel was far less generous, at \$500 for janitors and teacher assistants and \$1,000 for school administrators.

The budget includes a new six-step pay scale for teachers, replacing the previous 36-step pay scale. These “steps” are based on years of teaching experience and determine when a teacher is given an increase in pay. The budget states that the new pay schedule provides, on average, a 7-percent salary increase for all educators.<sup>42</sup> The new pay structure also provides additional pay increases, beyond base salary, for certain teachers based on level of education attainment and certain certifications.

The structure of the new pay schedule provides certain teachers with larger pay increases compared to other teachers. In particular, early-career teachers will receive much larger pay increases compared to more experienced teachers. The new pay schedule increases the starting pay for early-career teachers to at least \$33,000 from \$30,800 under the old pay schedule—a 7.1-percent increase. For more experienced educators—particularly, educators with 25 years of experience and more—salaries are less under the new pay scale compared to the old pay scale. Educators who earn less under the new pay schedule will keep their old salaries and receive a \$1,000 annual bonus, resulting in a pay increase that is much less than the average 7-percent pay increase highlighted in the budget. Teachers who have worked in North Carolina for 10 years or more receive longevity payment, which increase every five years. The new pay schedule does away with longevity payments.

The following examples illustrate how pay increases under the new pay schedule vary for the 2014-15 school year depending on a teacher's level of experience and credentials.

- ▶ Teacher with a **master's degree and five years** of teaching experience would have earned an annual salary of \$33,880 under the state's prior pay structure. Under the new pay structure, this teacher's annual salary is \$41,410—an 22.2 percent salary increase.
- ▶ Teacher with a **master's degree and 10 years** of teaching experience would have earned an annual salary of \$39,971 (including longevity pay) under the state's prior pay schedule compared to \$45,260 under the new pay structure—a 13.2 percent salary increase.
- ▶ Teacher with a **bachelor's degree and two years** of teaching experience would have earned an annual salary of \$30,800 under the state's prior pay structure. Under the new pay structure, this teacher's annual salary is \$33,000—a 7.1 percent salary increase.
- ▶ Teacher with a **master's degree and 14 years** of teaching experience would have earned an annual salary of \$43,696 (including longevity pay) under the state's prior pay schedule compared to \$45,260 under the new pay structure—a 3.6 percent salary increase.
- ▶ Teacher with a **bachelor's degree and 30 years** of teaching experience would have earned an annualized salary of \$51,581 (including longevity pay) under the state's prior pay schedule compared to \$50,000 under the new pay structure—a 3.1 percent salary decrease. The new pay schedule provides this teacher the higher old salary (\$51,581) and an annual \$1,000 bonus, which equates to a 1.9 percent pay increase.
- ▶ Teacher with a **master's degree and 30 years** of teaching experience would have earned an annualized salary of \$55,594 (including longevity pay) under the state's prior pay schedule compared to \$56,260 under the new pay structure—a 1.2 percent salary increase.

Overall, the new teacher pay structure provides a much higher percentage increase in pay to earlier career teachers at the expense of more experienced teachers.

In other words, the new pay schedule highlights that the 7-percent average salary increase for all educators touted by state lawmakers is not the reality of how the pay raises actually translate to teachers' paychecks. State lawmakers failed to comprehensively revamp the state's teacher pay so that all educators receive a long-awaited, meaningful pay increase.

### ***Affordable Housing***

Lawmakers cut \$140,000 from the Housing Trust Fund, which funds affordable-housing projects and helps ensure that families can pay for housing expenses and still pay for other necessities like food and clothing. The trust fund was cut by nearly \$900,000 last year. State lawmakers also turned the Low-Income Housing Tax Credit into a Workforce Housing Loan Program, capping total dollars available to \$10 million. Funding for the loan program is only provided for one year.

---

## **CONCLUSION**

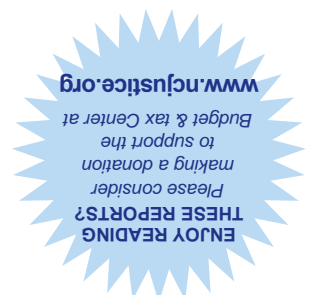
**T**o strengthen the state's economic recovery and long-term prospects for growth, North Carolinians need opportunities to reach their full potential and attain greater economic security. However, public investments that promote a strong and inclusive middle class—quality schools, affordable healthcare, a sound transportation system, affordable housing and safe, healthy neighborhoods—are increasingly scarce. The state budget plays a critical role in building these foundations of opportunity and promoting vibrant economies in communities throughout North Carolina.

North Carolina’s progress is hampered by the 2013 tax plan, which has drained the resources needed to put North Carolina on a path to success. In order to reverse the troubling direction the state is taking, lawmakers should stop further tax cuts that are scheduled to go into effect in January 2015 and reevaluate the tax plan.

- 1 Governor McCrory, Pat. 2013-14 Budget Management Initiatives. Office of State Budget and Management, March 27, 2014; and Pope, Art. 2013-2014 Budget Management Initiative. Office of State Budget and Management, May 1, 2014.
- 2 Other one-time dollars include money that was left “on the table” at the end of the 2014 fiscal year. This money mainly came from revenue over-collections that accrued under the old tax structure as well as agency money sent back to the state at the end of the previous 2013 fiscal year that ended in June 2013.
- 3 Johnson, Cedric. Final Tax Plan Falls Far Short of True Tax Reform. BTC Report. North Carolina Justice Center. August 2013.
- 4 Special data request to the Institute for Taxation and Economic Policy. May 2014.
- 5 Front page of the NC Office of the Controller’s website. Cash Watch for the Week Ending September 12, 2014.
- 6 NC State University. NC State News: Budget Reversion Brings Belt Tightening. April 10, 2014.
- 7 As noted in the breakout box on page 3, the authors modified the originally recommended base budget for FY2015 that was published last year to reflect the decline in student enrollment in all areas of education and the decline in projected base salaries for K-12 personnel.
- 8 For example, the continuation budget for the FY2013-15 biennium was based on service levels that were in place at the time, which was the 2012-13 fiscal year.
- 9 State funding for classroom teachers are based, in part, on the level of experience and credentials of teachers. When crafting a fiscal year budget, state lawmakers assume that K-12 classroom teachers personnel will consist of teachers with specific level of experience and credentials, and salaries are based on this assumption. This state funding is subsequently adjusted up or down once data becomes available regarding the actual experience level and credentials among classroom teacher personnel.
- 10 In 2013, lawmakers appropriated \$477.4 million for Teacher Assistants in the second year (2015 fiscal year) of the two-year 2013-15 fiscal year budget. NC Office of State Budget and Management. Form BD 307. Current Operations Appropriation. August 2013.
- 11 Parker, Brittany. Jackson School District Experiencing Crunch on the State’s Budget Cuts. The Macon County News, online article. August 21, 2014. <http://www.maconnews.com/news/education/7101-jackson-school-district-experiencing-crunch-of-the-states-budget-cuts>
- 12 Budget & Tax Center analysis of data provided by NC Department of Public Instruction and NCGA-approved budget FY 2015.
- 13 Budget & Tax Center analysis of data provided by NC Department of Public Instruction and NCGA-approved budget FY 2015.
- 14 Hui, T. Keung. NC Schools Deal With Fewer Dollars For Textbooks. News Observer (online article), December 2013. Last assessed article on August 28, 2014.
- 15 North Carolina Department of Public Instruction. Allotment Policy Manual. 2013-14. See page 29.
- 16 The provision that no longer includes enrollment adjustments for public schools in the continuation budget is included in the Appropriations Act of 2014 (Senate Bill 744), see Section 6.4 on Page 11. Prior to this policy change, state funding for enrollment adjustments was included in the continuation budget see Section 6.12(h) of Senate Bill 402 on Pages 16 and 17.
- 17 Special Data Request to NC Community College System, August 2014.
- 18 Sirota, Alexandra and Allan Freyer. Unlocking Pathways to the Middle Class: The Importance of Adequately Funding Workforce Development. BTC Report: NC Justice Center, Raleigh, NC. July 2014.
- 19 Mitchell, Michael, Vincent Palacios and Leachman, Michael. States are Still Funding Higher Education Below Pre-Recession Levels. Center on Budget and Policy Priorities: Washington, DC. March 2014.
- 20 NC Institute of Medicine. Issue Brief: Examining the Impact of the Patient Protection and Affordable Care Act in North Carolina. January 2013.
- 21 With respect to the varying Medicaid shortfall estimates, differences stemmed from a backlog of unpaid claims and an enrollment backlog due to technological failures with the NC FAST and NCTracks computer systems that evaluate and process this information.
- 22 Funding for the NC Health Choice program for low-income children is directly appropriated in the budget.
- 23 The two hospitals are UNC Hospitals and East Carolina University’s hospital, known as Vidant Health.
- 24 Craver, Richard. “State Budget Proposal Would Reduce Reimbursement Rates to Hospitals.” Winston Salem Journal. July 31, 2014. In this article Hugh Tilson, the NC Hospital Association’s Executive Vice President, said the state budget “will require hospitals to reprioritize spending mid-year, potentially eliminating even more services and jobs in our communities.”

- 25 Mitchell, Tazra. The 2013-2015 Final Budget - Putting North Carolina on a Path to Mediocrity. NC Budget and Tax Center. August 2013.
- 26 Hoban, Rose. Hospitals, Adult Care Homes Big Losers in Budget. NC Health News. August 2014.
- 27 NC Department of Health and Human Services. HCCBG Survey Results: Status of Home and Community Care Block Grant Services for Older Adults. June 2013.
- 28 Ibid.
- 29 Lehmert, Amanda. Child Care Subsidy Rules Changing under NC Budget. News & Record, Greensboro, NC. August 2014.
- 30 Warren, Louisa. "Reaching Poor Children: North Carolina's Pre-K Program and its 'At-Risk' Income Eligibility Standard." NC Budget and Tax Center. March 2012.
- 31 Sirota, Alexandra, Tazra Mitchell and Cedric Johnson. The North Carolina Living Income Standard 2014: Boom in Low-Wage Work Means Many North Carolinians Don't Make an Adequate Income. Budget and Tax Center Report: NC Justice Center, Raleigh, NC. June 2014.
- 32 Schoenbach, Sabine and Tazra Mitchell. Mandatory Drug Testing of Work First Applicants and Recipients would be Costly, Likely Illegal, and Ineffective at Identifying and Treating Drug Abuse. NC Justice Center. April 2013.
- 33 Freyer, Allan. Mismatching Money and Jobs: State Business Incentives Bypass Greatest Need. NC Budget and Tax Center. May 2014.
- 34 Ibid.
- 35 The Support Center's Website, About Us webpage. Accessed here: <http://thesupportcenter-nc.org/about>
- 36 The Support Center's Website, Impact webpage. Accessed here <http://thesupportcenter-nc.org/impact>
- 37 See "The Equality of Opportunity Project" website. Website last assessed on September 8, 2014. <http://www.equality-of-opportunity.org/>
- 38 Mitchell, Tazra. The 2013-2015 Final Budget - Putting North Carolina on a Path to Mediocrity. NC Budget and Tax Center. August 2013.
- 39 Johnson, Robert et al. Increased Stray Gas Abundance in a Subset of Drinking Water Wells near Marcellus Shale Gas Extraction. Proceedings of the National Academy of Sciences in the United States of America. July 2013, Volume 110, Number 28.
- 40 More information about the North Carolina Justice Reinvestment Act can be found via the NC Department of Public Safety's website. Webpage last assessed on August 28, 2014.
- 41 Legal Aid of North Carolina's website state's that the organization is a statewide, nonprofit law firm that provides free legal services in civil matters to low-income people in order to ensure equal access to justice and to remove barriers to economic opportunity. Last assessed website on August, 28, 2014.
- 42 New pay schedule for all educators assumes that local supplements remain the same, that there is no turnover, and there are no changes to educator educational attainment or certifications.

**BTC** Reports



919/856-2176 • alexandra@ncjustice.org  
P.O. Box 28068 • Raleigh, NC 27611-8068