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THE 2013-15 FISCAL YEAR FINAL BUDGET:

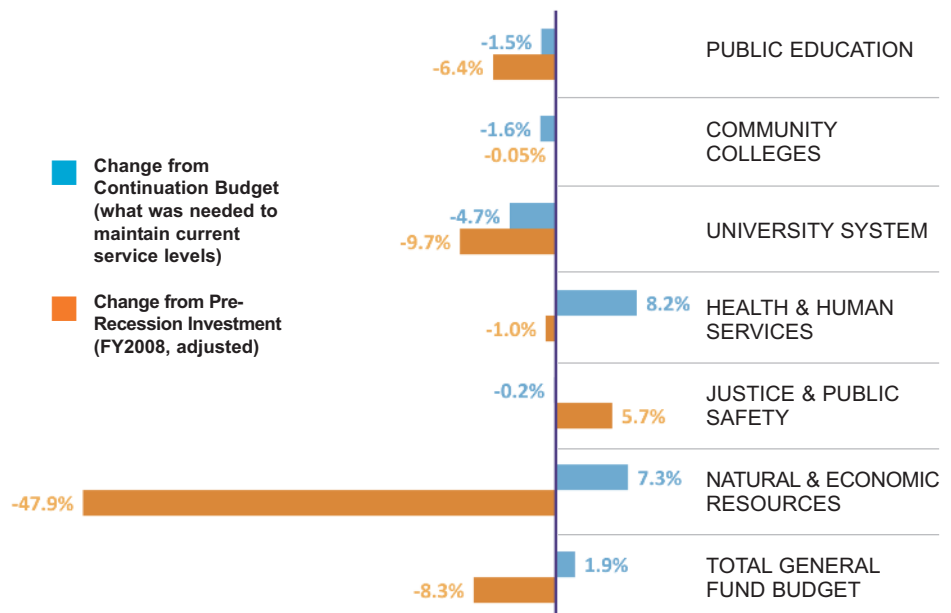
Putting North Carolina on a Path to Mediocrity

BY TAZRA MITCHELL, POLICY ANALYST

OVERVIEW

The two-year budget approved by the North Carolina General Assembly and signed by Governor McCrory falls far short of what was needed to meet the needs of children, working families and communities. As such, it will continue to hamper North Carolina's full recovery from the Great Recession. Instead of investing adequate resources in schools, health care, public safety and the other building blocks of a strong and enduring economy, state lawmakers chose to make room for tax cuts for the wealthy and profitable businesses that will cost \$683.8 million in lost revenue over the next two years, and \$2.8 billion over the next five years.¹

FIGURE 1: The final budget for FY2014 increases spending by 1.9% over the continuation budget, largely due to increased funding for Medicaid. Yet, spending is 8.3% below pre-recession levels.



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Previous cuts to investments in services since the start of the Great Recession, combined with a growing population, mean that North Carolina has fallen far behind where it should be economically, and the state could fail to maintain a competitive position among the states. Although the 2014 budget exceeds last year's in overall dollars, it still falls short of what was needed to maintain current service levels for several major areas, including public education and the UNC system. Total state spending as a share of North Carolina's economy is below the forty-year average and far below pre-recession levels (see Figure 1). Consequently, the budget fails to keep up with a growing population and changing needs, weakening a number of vital services that directly benefit families and the state's economy.

State lawmakers could have made better choices by pursuing true tax reform that would have strengthened revenues and allowed the tax system to grow with the economy. That would have put North Carolina on a stronger path to recovery. Instead, they chose to go in the opposite direction.

This issue of *BTC Reports* provides an overview of the first 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.

SUMMARY OF KEY POINTS

- State lawmakers approved a \$20.6 billion General Fund budget for the 2013-14 (2014) fiscal year and a \$21.0 billion budget for the 2014-15 (2015) fiscal year. While the 2014 fiscal year budget represents a 1.9-percent increase over the continuation budget (or what was needed to maintain current service levels), funding for four of the six major areas of spending falls short. It also spends 8.3 percent less than the last state budget approved before the onset of the Great Recession (2008 fiscal year) when adjusted for inflation.
 - Instead of investing adequate resources in public priorities like education and public safety, lawmakers enacted deep tax cuts for the wealthy and profitable businesses that will cost \$683.8 million in lost revenue over the next two years, and \$2.8 billion over the next five years.
 - To balance the budget, lawmakers relied on millions of dollars that were unspent during the previous fiscal year, budget gimmicks, and increased fees.
 - The budget fully funds the enrollment growth in K-12 schools but makes harmful cuts—such as reducing funding for teachers, which could increase the number of students in each classroom, and eliminating funding for 1 in 5 teacher assistants—that will make it harder for kids to learn. It also provides \$10 million for children to attend private and religious schools through a voucher program.
 - The budget increases funding for Medicaid to cover enrollment growth, higher drug prices and other cost increases, but cuts the number of doctor visits it will pay for to 10 from 22, increases co-payments, and lowers reimbursement rates for providers.
 - The budget cuts 2,400 at-risk students from pre-Kindergarten education. It uses lottery receipts to fund 2,500 additional slots for kids in the NC Pre-K program, down from the 4,900 additional slots that were temporarily funded last year.
 - Economic development investments will be shifted from low-income, distressed populations and communities and directed toward more broad-based efforts that appear focused on attracting more businesses to North Carolina.
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PAYING FOR THE 2014 FISCAL YEAR BUDGET

Policy makers continued to struggle with how to pay for essential public services while state revenues slowly recover from the economic downturn.

The 2014 budget projects nearly \$20.5 billion in revenue this fiscal year, with 95 percent coming from the state income tax, sales tax, and corporate income tax, and the rest coming from non-tax sources and the Highway Fund. But the budget spends \$20.6 billion, leaving a shortfall of nearly \$165.2 million. This gap grows to \$336.2 million after taking account of the tax cuts for wealthy households and profitable corporations. To close the gap, the budget depends on millions of dollars that are expected to be unspent from the previous budget, budget gimmicks, and increased fees (see Figure 2).

Specifically, the budget uses \$277.8 million that lawmakers anticipate being returned by state agencies, a revenue surplus from this fiscal year, and various other sources to balance the budget. It also raises \$319.7 million by increasing fees and by scrounging up revenue from a wide variety of sources that are set-aside for public school buildings, clean elections, economic development and other programs.

The budget uses a portion of unspent dollars from the previous budget to rebuild the state's savings account and the reserve used to repair and renovate state-owned properties. In the end, there is an unspent General Fund balance of \$250.5 million.

FIGURE 2: How Did Lawmakers Pay for the Budget?

	FY2013-14	FY2014-15
BASELINE REVENUE FORECAST	\$20,465,600,000	\$21,387,800,000
+ Net General Fund Credit Balance	\$277,794,935	\$200,636,560
<i>Unappropriated Balance</i>	\$213,432,877	\$250,510,043
<i>Revenue Overcollections</i>	\$458,483,783	\$-
<i>Reversions</i>	\$225,000,000	\$-
<i>Overcollections due to MSA Disputed Payments</i>	\$71,516,217	\$-
<i>Net Supplemental Medicaid Funding</i>	\$(308,100,000)	\$-
<i>Rainy Day Fund</i>	\$(232,537,942)	\$(37,122,346)
<i>Repairs and Renovations Reserve</i>	\$(150,000,000)	\$(12,751,137)
+ Recommended Revenue Changes	\$137,882,753	\$(234,032,189)
<i>Tax Plan (net tax code changes) plus Estate Tax Repeal</i>	\$(171,000,000)	\$(512,800,000)
<i>Repeal Corporate Income Tax Earmark (Public School Construction)</i>	\$84,400,000	\$75,000,000
<i>Fund Transfers, Repeals, and Adjustments from Non-General Fund Sources</i>	\$234,932,753	\$204,867,811
<i>Increase Gross Premiums Tax for Volunteer Safety Workers</i>	\$(3,000,000)	\$(3,000,000)
<i>Repeal of Education Expenses Credit (HB 269)</i>	\$-	\$1,500,000
<i>Extend Local Government Hold Harmless</i>	\$(7,850,000)	\$-
<i>Increase Lobbyist Fees</i>	\$400,000	\$400,000
TOTAL REVENUE AVAILABLE	\$20,881,277,688	\$21,354,404,371
– Appropriation Requirement	\$20,630,767,645	\$20,998,801,208
REMAINING GENERAL FUND BALANCE	\$250,510,043	\$355,603,163

TAX PLAN RESULTS IN DEEP REVENUE LOSSES

Just before lawmakers passed the budget, they enacted tax cuts that primarily benefit the wealthy and profitable corporations while significantly reducing resources to pay for vital services. The tax plan reduces revenues by \$171.0 million in the 2014 fiscal year and \$512.8 million in the 2015 fiscal year, with the losses ballooning to more than \$700 million per year once it is fully implemented. The cost will total approximately \$2.8 billion over the next five years.

North Carolina's population will grow by about 100,000 people each year over the next few

years, meaning that the state will have more children to educate, more seniors to care for, and more citizens to serve and protect.² Such deep revenue losses will make it much more difficult for North Carolina to rebuild a strong economy and help children, families, and communities to thrive.

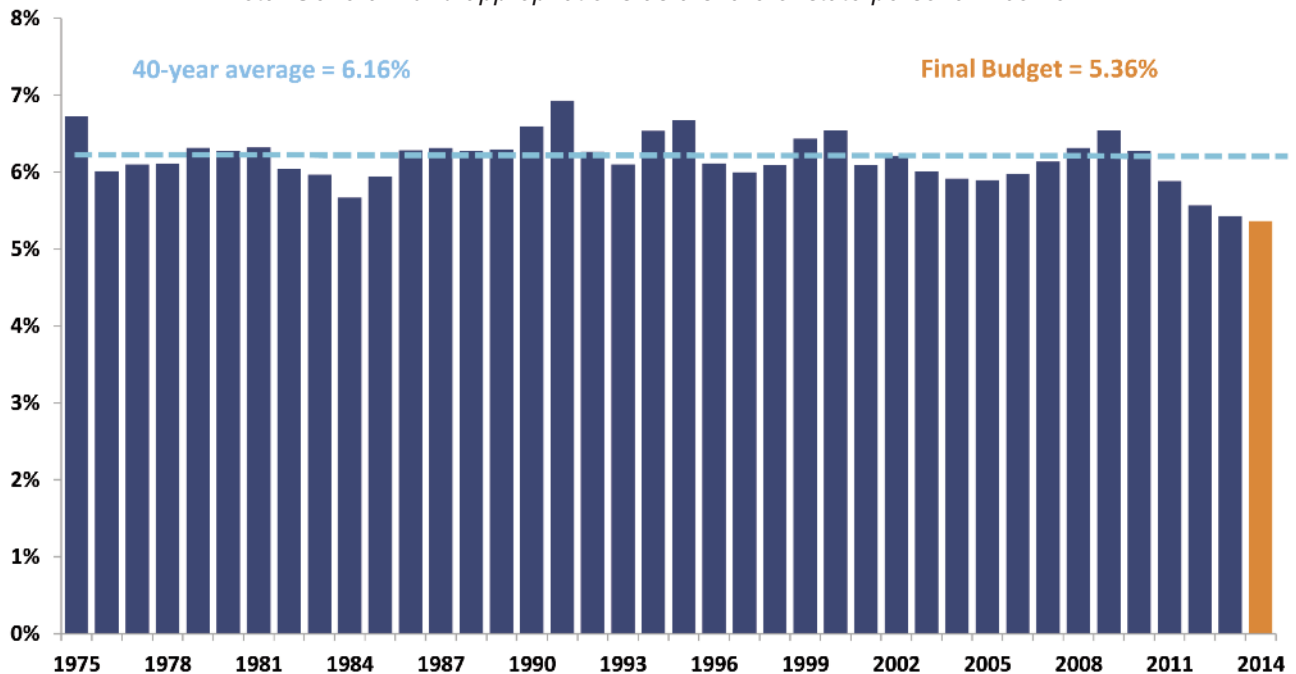
When combined with the loss of the state Earned Income Tax Credit for working families, this tax plan requires low- and middle-income families to pay more, on average, while the highest income taxpayers pay less.

THE 2014 FISCAL YEAR SPENDING PLAN: Funding Falls Short in Key Areas

The \$20.6 billion budget increases total General Fund spending by \$387.1 million, or 1.9 percent, in the 2014 fiscal year, and by \$569.8 million, or 2.8 percent, in the 2015 fiscal year over what the Office of State Budget and Management has determined the state will need to continue today's level of services—or the “continuation budget.” However, spending as a share of the state economy will remain below the forty-year average (see Figure 3) and far below pre-recession levels.

FIGURE 3: State Spending as a Share of the Economy is Below the 40-Year Average

Total General Fund appropriations as a share of state personal income



**Education:
\$11.5 Billion Budget**

Education is the ticket to good jobs and prosperity—especially for low- and moderate-income students—and North Carolina’s economic progress depends on a well-educated population. Investment in a high-quality education pipeline—from kindergarten to high school to college—must remain a top priority. The current budget, however, falls \$259.6 million, or 2.2 percent, short of what was needed to maintain current service levels for school children and college students.

**K-12: \$7.9 BILLION
BUDGET**

Spending for K-12 education falls \$117 million, or 1.5 percent, short of what was needed, continuing a pattern of inadequate investments in our schools and children since the Great Recession. While the current budget includes some improvements—such as funding college-level courses for high schoolers—it is far from adequate and does not make up for cuts in prior years.

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 last year in the 2013 budget. The other method measures the budget against the “continuation budget,” which reflects the amount of money needed over the next year to maintain current service levels in our schools, police departments and other amenities that North Carolinians rely on every day. The Governor’s Office of State Budget and Management works with the various departments and agencies to determine the continuation requirements.

This report compares the current 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 school enrollment growth, debt service, and mandated rate increases for certain programs, such as Social Security.

The budget provides \$10.7 million to fully fund the projected growth in student enrollment. It also saves schools \$376.1 million by eliminating a requirement that local school districts identify and implement a cut to their share of state funding every year. But that savings is offset by other cuts that will affect students.

The budget increases the teacher-to-student ratios that are used to determine total funding for classroom teachers. Higher ratios reduce total funding for classroom teachers by \$286.4 million, meaning local school districts will have to cut teacher positions or find other funding sources. The Department of Public Instruction estimates that this could result in 5,200 fewer teachers.³ The budget also cuts 21 percent of funding for teachers assistants—who play a vital role in helping children learn—which equates to approximately 3,800 positions. Again, local school districts will have to either cut the number of teacher assistants or fund them with other sources.

The budget cuts instructional support personnel and instructional supplies—such as preparatory materials—by \$23.9 million. Funding for textbooks is only 25 percent of what the Department of Public Instruction determined is needed and, again, local school systems will have to dig deeper to make up for the shortfall.⁴

The budget includes \$7 million to create a school safety program in elementary and middle schools that trains and employs security officers. It also gives local sheriff’s permission to establish a volunteer school officer program, with the requirement that volunteers have a law enforcement or military background and undergo additional training on the cognitive development of children. However, research shows that the presence of

security officers on school campuses accelerates the school-to-prison pipeline, disproportionately affecting children of color.⁵

**TEACHER
DEVELOPMENT AND
PERFORMANCE
MEASURES**

While the quality of a student’s education is clearly linked to the training and other professional development opportunities for teachers, the budget reduces funding meant to improve the quality of teachers in the classroom. It cuts \$3.2 million from the National Board Certification Loan Program, which provides \$2,500 loans to teachers pursuing certification to improve performance and achievement. The budget also phases out the salary incentive for teachers and school staff who earn advanced degrees unless a position requires an advanced degree—which is the case for school nurses and school

PRIVATIZATION OF PUBLIC EDUCATION

In the 2015 fiscal year, the budget includes \$10 million for school vouchers. The program will provide students up to \$4,200 per year in taxpayer funding to pay for tuition and expenses at private or religious school. It is limited to families earning up to 133 percent of the income threshold for the national school lunch program—or \$57,945 for a family of four. But tuition and fees at high-quality private schools are likely to far exceed the maximum \$4,200 voucher, leaving many low-income families with a tuition balance they will be unable to afford.

Proponents of vouchers claim they will help boost student achievement. However, public school

students are regularly outperforming voucher recipients in the school districts that have been using vouchers the longest. Several studies show that in Milwaukee, which has the nation's oldest voucher program, students who received the vouchers scored significantly lower on proficiency tests than students in public schools.⁶

Private schools are not held to the same teaching or accountability standards as public schools. They do not have to open their doors to all children, provide transportation or offer free or reduced-price lunch, limiting equal opportunities for all students.

counselors, for example. And recurring funding for the NC Center for the Advancement of Teaching—an intensive professional development program—is replaced with one-time funding, pending further review.

The budget phases-out the Teaching Fellows Program (TFP), created to draw talented high school graduates to the teaching profession, and reinvests the majority of those dollars in the Teach for America (TFA) initiative. Yet, novice TFA teachers perform “significantly less well” in reading and math compared to novice credentialed teachers.⁷

The budget provides \$18.6 million to implement elements of the Excellent Public School Act, which includes various initiatives to help ensure that all students read at grade level by the end of the third grade. The Act prohibits students who fail the end-of-year reading test from being promoted to the fourth grade. The budget also phases-out tenure—due process rights that provide teachers a degree of job security. Instead, teachers will transition to contracts that range from one to four years, depending on the teacher's proficiency. For teachers who are awarded four-year contracts, the budget allocates \$10.2 million for a maximum \$500 merit-based pay raise in the 2015 school year.

Spending for community colleges falls \$16.1 million, or 1.6 percent, short of what was needed to continue today's level of education services. The Great Recession fueled unprecedented enrollment growth in North Carolina's community colleges. Although this spike has since tapered off, the colleges continue to play a critical role in the state's economic recovery by providing skills training and retraining for jobs that are in demand.

The budget changes the formula that determines how each community college is funded, triggering a \$19.9 million cut in funding each year.⁸ There is a one-time \$4 million appropriation in the 2014 fiscal year to offset this cut for the community colleges that are most affected by the formula change.

Tuition increases to \$71.50 per credit hour from \$69 per credit hour. This increase comes on top of previous increases, representing a 56.3 percent jump since the 2008 fiscal year when the Great Recession began.⁹ Adults ages 65 and older will now be charged tuition, and continuing education fees increases by \$5 per course. These rising costs are a barrier to many students' ability to afford college and be able to complete their educational programs, at a time when a skilled workforce is critical to the state's economic future.

COMMUNITY COLLEGES: \$1 BILLION BUDGET

The budget prioritizes investments in instructional equipment and technology, with a one-time \$10 million appropriation. It also provides \$4.8 million in one-time dollars for the NC Back-to-Work program, which helps people facing long-term unemployment get training and credentials for jobs in high-growth industries. The budget cuts \$100,000 from a biotechnology work-training program, known as BioNetwork. On the other hand, it gives an additional \$150,000 to support declining, less competitive industries through the Manufacturing Solutions Center and the Textile Technology Center.

LOTTERY FUNDS

The new budget allows lawmakers to decide each year how Education Lottery Funds are spent, eliminating longstanding legal requirements for the spending. When the lottery was first established, 50 percent of the estimated receipts each year were earmarked for class-size reduction in K-3 and for pre-kindergarten services for at-risk four-year olds, 40 percent was set aside for the school capital fund to help counties meet their school construction

needs, and 10 percent was dedicated to college scholarships for needy students. Lottery revenues will now go to a dedicated fund, with distributions to be determined annually.

In the 2014 fiscal year, the budget allocates \$11.9 million to local school districts for computerized learning materials, \$220.6 million for class-size reduction in K-3, \$75.5 million for the NC Pre-K

program that serves at-risk four-year olds, and \$100 million for school capital needs. A portion of the lottery money is used for higher education, including \$30.5 million for community college need-based scholarships, \$10.7 million for UNC Need-Based Financial Aid, and \$32.5 million for a reserve that will first be used in the 2016 fiscal year when UNC Need-Based Financial Aid is transitioned to a forward-funding model.

UNIVERSITY OF NORTH CAROLINA SYSTEM: \$2.6 BILLION BUDGET

Spending for the system falls \$126.5 million short, or 4.7 percent, of what was needed to continue today's level of education services. The University of North Carolina system is the oldest public university system in the country and serves as an anchor for learning and economic development in communities across the state. In recent years, the system has been particularly hard hit by budget cuts.

Earlier this year, the Board of Governors for the UNC system approved a strategic planning process that set new priorities for the next five years. The budget expects to save \$10 million as a result of this process and another \$15.8 million due to increased instructional efficiencies such as larger class sizes. It also orders the system's leadership to make \$65.8 million in cuts on its own.

College education is one of the biggest financial challenges facing North Carolina families due to successive tuition hikes across the UNC system. Tuition for in-state students is set to increase by 8.8 percent, on average, for the upcoming 2013-14 academic year.¹⁰ The Board of Governors also approved a tuition increase for out-of-state students. On top of this, the budget increases out-of-state tuition by between 6 and 12.3 percent, depending on the campus, in the 2014-15 academic year—a move that is expected to generate \$27.2 million. It is unclear what impact this will have on out-of-state enrollment and the diversity that it brings to the system's 16 campuses.

The budget completes the phase-out of the full, merit-based tuition grant for graduates of the North Carolina School of Science and Math—a residential program for some of the state's brightest high school students. Lawmakers decided to phase-out this grant in 2009.

The UNC Need-Based Financial Aid Program for moderate-income students is fully funded, and the Education Lottery Fund provides an additional \$10.7 million to this program. The budget begins the process of moving the financial aid program to a forward-funding model that will be fully implemented by the 2016 fiscal year. It appropriates \$58.6 million—from the General Fund and the Lottery Fund—over the next two years to a reserve to carry out this provision.¹¹ There is one-time funding worth \$4.5 million for the 2014 and 2015 fiscal years for the NC Need-Based Scholarship Program for students attending private colleges.

**Health and Human
Services:
\$5 Billion Budget**

The budget spends \$377.9 million, or 8.2 percent, above what was needed to maintain the services the Department of Health and Human Services provides today. But because these funds are largely devoted to Medicaid, there are substantial cuts to other key health services. Even with the additional funding, the budget falls short of pre-recession spending for health and human services by \$50.3 million (adjusted for inflation).

Health and human services 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 people with disabilities have the supports they need to 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 people who are poor, disabled, or elderly.

The budget provides \$434 million to fully fund projected Medicaid enrollment growth, changes in service consumption, drug price increases, changes in federal policies, and other cost increases beyond the state's control. It also provides \$49.7 million to cover enrollment growth tied to the federal Affordable Care Act (ACA). The law requires everyone to obtain health insurance or pay a fee, so enrollment in Medicaid is projected to increase as North Carolinians who are currently eligible but not enrolled sign up.

To offset the cost increases, the budget limits the number of doctor visits Medicaid will cover to 10 visits, down from 22, and increases co-payments for some services by 30 percent—to the allowable maximum of \$3.90.¹² It also lowers reimbursement rates for providers, meaning that more doctors may refuse to see Medicaid patients.

To comply with the ACA, the budget redirects funding from NC Health Choice to Medicaid to provide health care coverage for children living in households with incomes below 133 percent of the federal poverty level, or around \$31,300 for a family of four. There is additional funding to account for the broader range of benefits under the Medicaid program compared to NC Health Choice. An estimated 51,000 North Carolina children will be impacted.

The budget directs the Department of Health and Human Services to create a Medicaid Reform Advisory Group to propose a plan for significant changes to Medicaid. Governor McCrory has proposed privatizing Medicaid by having companies and managed care organizations bid to run the health care service.¹³

**OTHER HEALTH AND
HUMAN SERVICES
PROGRAMS**

There is no new funding for the Home and Community Care Block Grant to address the growing needs of a rapidly aging population, even though the need for senior services far outstrips the resources available. More than 15,000 older adults across the state are on waiting lists for home-delivered meals, transportation to get to doctor appointments, and adult day care services funded by the block grant.¹⁶

The budget provides \$4.6 million in temporary, short-term assistance to adult care and group homes for residents no longer eligible for Medicaid-supported personal care services, but for whom community placements have not yet been arranged. Advocates requested \$10 million to maintain current service and funding levels under the old eligibility standards. The shortfall may force some group homes to close, putting residents and their families in crisis.¹⁷

Up to four of the state's 16 Children's Developmental Services Agencies will close under the budget, with 160 jobs at the agencies no longer funded. These agencies provide services—such as physical and speech-language therapies—for families and their children, up to age three, who have developmental delays. The budget also cuts the AIDS Drug Assistance Program, which helps people living with HIV afford expensive, life-saving drugs, by \$8 million each year, which lawmakers expect will be replaced by

BUDGET FAILS TO FULLY REPLACE TEMPORARY FUNDING, LEAVES NC PRE-K WITH FEWER SLOTS

In October 2012, then-Governor Perdue allocated \$20 million for the expansion of the NC Pre-K program, which prepares at-risk 4-year olds for success in school. State officials projected that this temporary funding would provide an additional 4,900 children with an early education.¹⁴ The new budget uses lottery money to keep only 2,500 of those slots.

This cut in NC Pre-K is counterproductive since early childhood education has been proven to enhance school readiness and produce substantial long-term educational and economic gains.¹⁵ Not only does NC Pre-K build a pathway for more of North Carolina's children to achieve financial security and move into the middle class, it also helps meet the state's goal of having all students read 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 NC Pre-K plays a vital role in meeting that need.

an unspecified amount of federal funding. It is unclear whether the cut will lead to a waiting list for assistance. The budget cuts \$4.9 million cut from the three state-operated Adult and Drug Abuse Treatment Centers.

The budget provides \$1.5 million to support adoptions through private non-profits, \$1 million to connect children living in foster care with safe and permanent homes, and roughly \$1.3 million to support maternity clinics and maternity homes. There is \$1.8 million, plus a one-time \$250,000 appropriation, to expand the NC Child Treatment Program, which trains therapists to treat children and families facing serious psychological trauma or loss. The program also provides other services to families, such as providing caregivers with the support they need to help their children recover. The budget also creates 10 positions to conduct health and safety inspections of hospitals and abortion clinics.

Natural and Economic Resources: \$371.2 Million Budget

While it appears that the budget increases spending on natural and economic resources by \$25.3 million, or 7.3 percent, compared to what was needed to maintain current service levels, a portion of this bump in spending reflects budget gimmicks. The budget moves non-General Fund dollars into this area of the General Fund budget, but this money was already dedicated to pay for environmental and infrastructure services such as waster restoration and conservation projects—it is not new funding. Also, because of a change in the way some services are funded year to year, any new funding appears as an increase despite similar levels of service.

There are cuts to key services that fall under the Natural and Economic Resources budget, which come on top of a nearly 50 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.

The budget spends \$17.8 million, or 53.1 percent, above what was needed to maintain the current service levels provided by the Department of Commerce. The department manages the state's economic development and community development programs, including job training, business recruitment and incentive funds, and community development block grants. The budget falls short of what was needed for Commerce-State Aid—which provides funding to nonprofits that undertake various economic development activities not handled by the Department of Commerce—by \$38 million, or 64 percent, below what was needed to provide critical assistance for community and economic development efforts in the poorest regions of our state.

The budget eliminates all state funding to the NC Rural Economic Development Center, which has traditionally played a key role in promoting job creation, infrastructure development, and small business development in the state's most distressed rural areas. The Center's functions will be folded into a new Division of Rural Economic Development within the Department of Commerce, but it will only get \$11.3 million in

COMMERCE AND COMMERCE STATE AID

the 2014 fiscal year, down from the Center's \$16.6 million allocation. Funding for the division jumps to \$13 million, plus an additional \$2.9 million in one-time dollars, in the 2015 fiscal year.

The budget allocates \$6.7 million in one-time support to the Job Maintenance and Capital Development Fund to fulfill past incentive agreements with Goodyear, Bridgestone, and Domtar. There is also \$2.3 million over the biennium for the development of a comprehensive branding strategy aimed at promoting North Carolina, and another \$1 million to promote tourism in the 2015 fiscal year.

The economic recovery has been far less favorable to rural areas than urban areas. Yet, the cuts in Commerce State Aid shift economic development investments away from low-income, distressed populations and communities and toward encouraging general economic growth through business recruitment—an approach that often leaves rural communities behind. A particularly hard blow is the elimination of funding for programs serving minority communities that have historically been excluded from much of the economic gains in the state, even though racial and economic inclusion helps foster a stronger state economy.

Over the biennium, the budget completely eliminates state funding to 10 nonprofits promoting economic development in the state's economically lagging and 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. It also includes the Association of Community Development Corporations, the Community Development Initiative, and the Indian Economic Development Initiative. At least one of these 10 nonprofits will close. The Biofuels Center, which coordinates the expansion of the state's rapidly growing biofuels industry, announced that it will shut down operations in October 2013. It remains to be seen if the other nonprofits will be able to continue without state funding.

Several other non-profits lose a portion of their state funding, including the Biotechnology Center, a state chartered nonprofit that has played a critical role over the past 35 years in developing the state's nationally acclaimed biotech and life sciences industry.

Research shows that a child's shot at the American Dream depends on where they grow up. Living in areas of concentrated disadvantage while being poor 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.

*DEPARTMENT OF
NATURAL AND
ENVIRONMENTAL
RESOURCES*

After two years of steep reductions, the budget spends \$44.9 million, or 41.4 percent, above what was needed to maintain the current service levels provided by the Department of Natural and Environmental Resources (DENR). However, the bulk of this funding comes from shifting non-General Fund dollars and certain programs into the DENR General Fund budget—it is not new funding.

For instance, the budget eliminates the Natural Heritage Trust Fund and folds its funding and mission into the Clean Water Management Trust Fund, which is then transferred to DENR. There is \$10.4 million for this trust fund to finance rural water infrastructure redevelopment projects and conservation projects—such as wastewater restoration and greenways—that address water pollution problems. The budget also sets aside \$4 million to create a new division called the Water Infrastructure Authority, which will develop a new water and sewer database, provide grants to local communities, and administer existing special funds. The budget provides \$4.9 million to match federal dollars for wastewater projects and \$1.2 million for safe drinking water projects.

The Parks and Recreation Trust Fund gets \$11 million to partially replace the deed stamp tax revenue that originally supported this trust fund but which the budget now directs to the General Fund.

*DEPARTMENT OF
AGRICULTURE AND
CONSUMER SERVICES*

The budget spends \$6.2 million, or 5.7 percent, above what was needed to maintain the current service levels provided by the Department of Agriculture. There is \$1.5 million to expand domestic and international marketing initiatives to support agricultural products grown in the state. The budget provides \$2 million to the Tobacco Trust Fund, which provides and manages grants to farmers and nonprofits to develop new agricultural products and innovative methods. However, the budget also calls for a \$1.6 million department-wide cut, the details of which will be decided by department officials.

**Justice and Public
Safety: \$2.4 Billion
Budget**

The budget spends \$4.1 million, or 0.2 percent, less than what was needed to maintain current service levels. While it spends 5.7 percent more than the pre-recession budget on justice and public safety, this growth can be attributed to state lawmakers' decision to transfer the State Highway Patrol from the transportation budget to this section of the General Fund budget in 2011.

Funding for justice and public safety programs aims to build safe communities through maintaining law and order and providing at-risk juveniles and adults with an opportunity to get their lives back on track and return to their communities.

*DEPARTMENT
OF PUBLIC SAFETY*

The budget spends \$5.2 million, or 0.3 percent, less than what was needed to maintain current service levels in the Department of Public Safety.

The budget closes four correctional facilities, one youth development center, and three youth and youth detention institutions, and converts one correctional facility to a minimum custody prison for a total cut of \$28.8 million. The closings and conversion will eliminate 825 jobs and results from a declining prison population due, in-part, to the state's Justice Reinvestment Act (JRA). The JRA, signed into law in 2011, is aimed at keeping ex-convicts from repeating offenses and returning to prison. The budget allocates \$6.2 million to fund 75 new probation officer positions, since more offenders are now on probation and parole.

A total of \$500,000 is provided for a new multipurpose group home that will provide youth services that may be needed following the closure of Buncombe Detention Center. The Division of Juvenile Justice receives \$1 million to expand educational and vocational programs for juvenile offenders. There is \$2 million in one-time funding for substance abuse treatment for offenders who are at high-risk for returning to prison.

The budget also provides \$2.5 million to fund 69 vacant State Highway Patrol trooper positions. There is also \$2.8 million, plus a one-time \$25 million appropriation, to upgrade and maintain communications for state and local emergency responders.

*DEPARTMENT OF
JUSTICE*

The budget spends nearly \$2 million, or 2.5 percent, above what was needed to maintain current service levels in the Department of Justice. Half of this increase is due to transferring non-General Fund dollars to this section of the General Fund budget to enhance education and training standards for sheriffs across the state. The budget makes a \$1.7 million department-wide cut, the details of which are left up to department officials. There is \$1.6 million to create 19 new toxicology positions in the Western Regional Crime Lab, which processes evidence for criminal investigations statewide but is facing a long backlog that delays investigations and often forces defendants to wait in jail until the results are complete. The budget also provides nearly \$1.1 million in one-time funding to pay for equipment to accompany the new positions in the crime lab.

INDIGENT DEFENSE

The budget spends nearly \$624,000, or 0.5 percent, above what was needed to maintain current service levels in the Office of Indigent Defense, which provides legal representation for people who can't afford an attorney. This includes a one-time \$3.8 million appropriation to increase funding for private counsel representing indigent clients. North Carolina courts have seen an increase in indigent cases since the beginning of the Great Recession. The budget reduces funding for Prisoner Legal Services, which helps

ensure prisoners have access to courts, by \$890,000 to reflect a declining prison population.

The budget reclassifies certain low-level offenses to Class 3 misdemeanors punishable by fines instead of jail time. Since only defendants charged with offenses punishable by jail time have a right to counsel, the changes will save the state \$2 million. However, these savings may come at a great expense for low-level offenders. They will face the collateral damage of having a conviction on their record despite having no right to counsel.¹⁸

JUDICIAL

The budget spends \$1.5 million, or 0.3 percent, below what was needed to maintain current service levels in the court system. A \$4 million cut to the Administrative Office of the Courts is partially offset by a \$1 million expansion to support 22 much-needed magistrate positions throughout the state and a \$1 million appropriation to support court interpreters, expert witnesses, and jury fees. The budget also sets aside \$500,000 for district attorneys to use toxicology services for DWI cases.

Transportation (Non-General Fund): \$3.2 Billion

The budget spends nearly \$339.1 million, or 12 percent, more than what was needed to maintain current levels of public transportation and road and highway maintenance. The state's transportation system helps form vital social and economic structures by connecting people to services, businesses, and other opportunities across North Carolina—especially those who are transit-dependent and living in rural areas where there has been little job growth since the economic downturn.

The transportation budget is supported by revenue from the Highway Fund and Highway Trust Fund, which are fed by the state's gas tax, highway use tax, and Division of Motor Vehicle fees. Despite growing transportation needs, lawmakers capped the state's gas tax at 37.5 cents per gallon in the 2014 fiscal year, reducing revenues for the state and municipalities by nearly \$2.5 million. While this revenue is a small share of the entire transportation budget, it is another example of lawmakers enacting short-sighted, quick fixes to the gas tax, rather than reforming it so it is able to better meet the state's needs.¹⁹ Quick fixes over the last decade have resulted in hundreds of millions of fewer dollars to fix the state's aging infrastructure, but the average motorist has only seen minimal savings at the pump.

The budget also diverts \$218.1 million from the Highway Fund to the General Fund to support the State Highway Patrol and for other purposes. The budget makes no transfers from the Highway Trust Fund over the next biennium.

HIGHWAY FUND

The budget increases spending in the Highway Fund by \$352.6 million, or 20.8 percent, above what was needed. The System Preservation Program receives an additional \$100.8 million to improve the state's nearly 5,500 structurally deficient and functionally obsolete bridges.²⁰ There is another \$52 million for general maintenance. The budget provides nearly \$18.1 million in one-time funds for capital improvement projects and repair and renovation projects.

There is a one-time \$15.5 million appropriation, on top of \$3.7 million in dedicated funding, to increase rail-road crossing safety improvements. After several years of cuts, the budget expands funding for the Public Transportation Division by \$200,000 to increase assistance for transit services at the High Point Furniture Market. However, the budget cuts funding for bike and pedestrian projects by nearly \$130,000.

The budget raises the cost of driver's education for high school students to \$55 from \$45, resulting in a \$1.7 million savings to the state. This program was free to students until 2011. It also imposes an annual \$100 fee on electric vehicles. The budget allows the ferry system to raise revenue—such as selling advertisements on the ferries—in order to reduce ferry tolls. For currently toll-free routes, local planning boards can request to levy a toll, but the Board of Transportation retains the authority to develop tolling guidelines for minimum and maximum rates.

HIGHWAY TRUST FUND

The budget decreases spending in the Highway Trust Fund by \$13.5 million, or 1.2 percent, below what was needed. A portion of the cut, however, is offset by increases in the Highway Fund budget. The budget eliminates separate appropriations for a range of construction projects—including the intrastate system, the Mobility Fund, secondary roads, urban loops, and funding for Turnpike Authority projects—and combines those dollars into one pot of money to carry out the new Strategic Prioritization Program. This new program requires projects to compete for funding but prohibits certain modes of transportation from competing equally. Public transit projects can only compete for 60 percent of total spending, leaving these projects at a disadvantage even though an increasing share of residents relies on public transit to get to work.

Miscellaneous

Beyond the major spending areas, the budget makes other noteworthy changes. Teachers and state employees receive five additional vacation days but no across-the-board pay raise. Average teacher pay in North Carolina is ranked 46th in the nation, down from 27th over the last six years.²¹

The budget provides \$10 million in one-time dollars to victims of North Carolina's forced sterilization program, which operated from 1929-1974. The payments will be distributed equally to victims, with the total payment depending on how many victims come forward. The budget also provides \$1 million to pay for the implementation of the new state law that requires North Carolinians to show a state-approved ID in order to vote. The state will spend nearly \$390,000 for the maintenance and improvement of its election system, which will allow it to tap \$4 million in federal funding through the Help America Vote Act.

The budget eliminates the Displaced Homemaker Program, which provided job training and other services to people with barriers to self-sufficiency—such as a recently divorced or widowed low-income working parent. The funding is re-directed to the Domestic Violence Center Fund. The budget also cuts nearly \$877,000 from for 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.

CONCLUSION

Despite the state's improving economic picture—which allows for growth in some areas of state investment—the budget does not provide the resources necessary to educate our children, support the health and wellbeing of our most vulnerable citizens, and extend ladders of opportunity to distressed communities. Lawmakers chose to enact deep tax cuts at the expense of broadly shared public investments that give all families a chance to prosper and ensure the health and well-being of all communities. Tax cuts will make it much more difficult for North Carolina to rebuild the vital public services that are the foundation of a strong economy and enable children, families, and communities to thrive.

- 1 These figures reflect the combined impact of the joint tax plan and repeal of the estate tax only. The Fiscal Note for House Bill 998 that included the tax plan is available at: http://www.wral.com/asset/news/state/nccapitol/2013/07/15/12665853/tax_proposal_revenue_impact.PDF
- 2 Office of State Budget and Management. "State Budget Responsibilities and Budget Overview." November 2012. Available at: http://www.osbm.state.nc.us/files/pdf_files/2012TransitionDeck.pdf
- 3 NC Department of Public Instruction. "Summary of Special Provisions-Senate Bill 402." May 2013. Available at: <http://www.ncpublicschools.org/docs/fbs/budget/summary-sb-402-2013.pdf>
- 4 Ibid. In the 2013 budget, lawmakers enacted a one-time cut to textbook funding. The NC Department of Public Instruction requested the cut to be restored in the continuation budget for the 2013-15 fiscal year, but the Office of State Budget and Management chose not to—meaning the one-time cut became permanent, eroding the baseline. DPI estimates that approximately \$100 million is needed in the 2014 fiscal year, but the new appropriation is only \$23.6 million.
- 5 Justice Policy Institute. "Education Under Arrest: The Case Against Police in Schools." November 2011. Available at: http://www.justicepolicy.org/uploads/justicepolicy/documents/educationunderarrest_fullreport.pdf
- 6 Ellinwood, Matthew. "Public Money for Private Schools: Vouchers and Neovouchers." NC Justice Center. April 2013. Available at: <http://www.ncjustice.org/?q=education/education-policy-perspectives-public-money-private-schools>
- 7 Heilig, Julian V. and Jez, Su J. "Teach for America: A Review of the Evidence." The Great Lakes Center for Education Research

- and Practice. June 2010. Available at: http://www.greatlakescenter.org/docs/Policy_Briefs/Heilig_TeachForAmerica.pdf
- 8 Instead of calculating the enrollment growth based on the higher of current year enrollment levels or a three-year average, the formula will now be based on a two-year average of enrollment.
 - 9 The tuition rate at community colleges was \$45.75 (adjusted for inflation) in the 2008 fiscal year. North Carolina Community College System. "Historical Curriculum Tuition Rates." Accessed July 31, 2013. Available at: http://www.nccommunitycolleges.edu/Business_Finance/docs/Resources/Tuition%20and%20Fees/Historical%20Curriculum%20Tuition%20Rate%20Summary.pdf
 - 10 Cochrane, Isabella. "Students protested after Board of Governors approved 8.8 Percent Tuition Increase." The Daily Tar Heel. February 2012. Available at: http://www.dailytarheel.com/article/2012/02/tuition_folo
 - 11 Over the biennium, \$6.9 million of funding is from the General Fund and \$51.7 million is from the Lottery Fund.
 - 12 The higher co-payments would not apply to emergency services, family planning services, pregnancy-related services, or preventive services for children, according to the budget proposal. Maximum nominal copayment amounts are set by the Centers for Medicare and Medicaid Services.
 - 13 To learn more about the Governor's plan to privatize Medicaid program, see: Hoban, Rose. "McCrorry proposes Medicaid Overhaul." NC Health News. April 2013. Available at: <http://www.northcarolinahealthnews.org/2013/04/04/mccrorry-proposes-medicaid-overhaul/>
 - 14 Special Data Request to the Fiscal Research Division of the North Carolina General Assembly. March 2013.
 - 15 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. Available at: <http://www.ncjustice.org/sites/default/files/BTC%20Brief%20-%20NC%20Pre-K--Reaching%20Poor%20Children.pdf>
 - 16 Goldsmith, Thomas. "Senate Plan to Boost Alzheimer's Program Could Affect Other Services for Aging Residents." The News and Observer. May 2013. Available at: <http://www.newsobserver.com/2013/05/31/2930454/senate-plan-to-boost-alzheimers.html>
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 - 19 To learn more about reforming the state's gas tax to smooth volatility, see: Mitchell, Tazra. "Staying in the Fast Lane: Gas Tax Cap Would Delay Needed Repairs and Weaken North Carolina's Transportation Budget." NC Budget and Tax Center. May 2012. Available at: <http://www.ncjustice.org/sites/default/files/BTC%20Brief%20-%20Gas%20Tax%20Cap%202012.pdf>
 - 20 NC Department of Transportation. "Bridge Statistics." July 2013. Available at: <http://www.ncdot.gov/download/projects/ncbridges/webstats.pdf>
 - 21 National Education Association. "Rankings and Estimates: Rankings of the States 2012 and Estimates of School Statistics 2013." December 2012. Available at: [http://www.nea.org/assets/img/content/NEA_Rankings_And_Estimates-2013_\(2\).pdf](http://www.nea.org/assets/img/content/NEA_Rankings_And_Estimates-2013_(2).pdf) and National Education Association. "Rankings and Estimates: Rankings of the States 2006 and Estimates of School Statistics 2007." December 2007. Available at: <http://www.nea.org/assets/docs/HE/07rankings.pdf>



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