



DIFFERENT BUDGET PROPOSAL, BUT STILL THE WRONG PATH FOR NORTH CAROLINA:

House Budget Includes Tax Cuts for the Wealthy, While Shorting Investments in Vital Services

BY TAZRA MITCHELL, PUBLIC POLICY FELLOW

The North Carolina House of Representatives approved a two-year budget that falls far short of meeting the needs of children, working families and communities, and will hamper North Carolina's economy. In addition to service cuts, the House intends to raise taxes on 95 percent of taxpayers, on average, in order to afford large tax cuts for the wealthy and profitable corporations.¹ These tax cuts will cost \$528.6 million in lost revenue over the next two years, with the cost ballooning to \$651.1 million annually once the plan is fully implemented in the 2018 fiscal year.²

As the chart below shows, in the 2014 fiscal year, which begins July 1, the state would invest \$1.9 billion—or 8.6 percent—less than before revenues plummeted in 2008 due to the Great Recession, taking account of inflation.³ As such, it would continue to badly underinvest in vital public services that North Carolina residents and businesses rely on every day.

MEDIA CONTACT:

TAZRA MITCHELL

Public Policy Fellow
919/861-1451
tazra@ncjustice.org

Budget & Tax Center

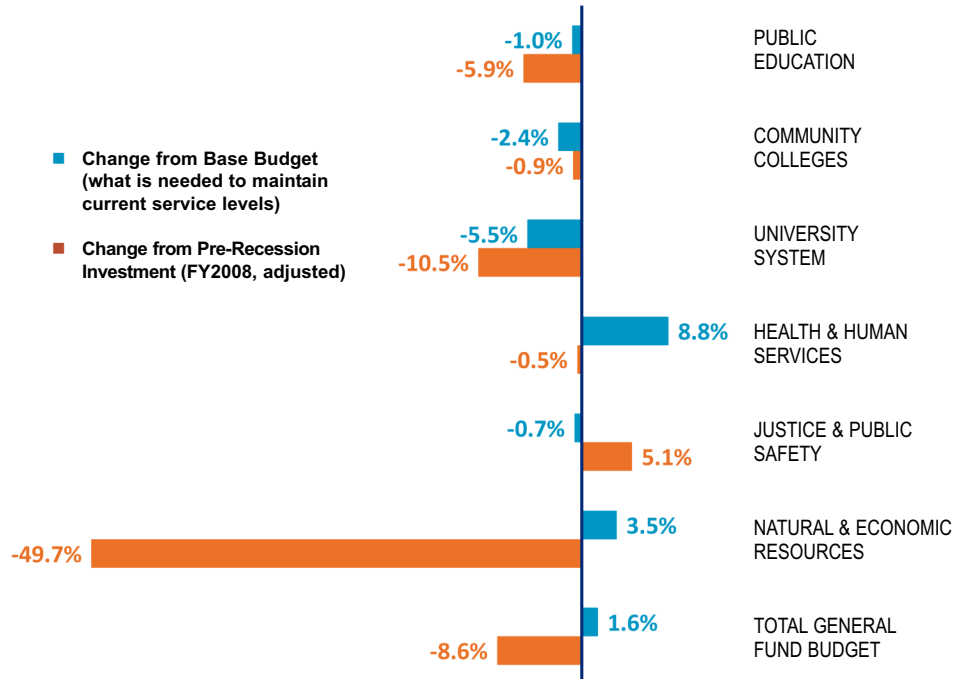
a project of the

north carolina
JUSTICE CENTER

P.O. Box 28068
Raleigh, NC
27611-8068

www.ncjustice.org

FIGURE 1: House budget for FY2014 would increase spending by 1.6 percent over the continuation budget but spending would drop by 8.6 percent compared to pre-recession levels



HOW IT COMPARES TO OTHER PROPOSALS

Overall, the House budget would spend \$12.2 million less than the Senate budget and \$29.1 million less than the governor's budget. However, in certain areas of the budget, such as the K-12 education system and health and human services, the House allocates more than the Senate and Governor do.

HOW DOES THE HOUSE PAY FOR ITS BUDGET?

The House budget is nearly \$20.5 billion, with most of the revenue coming from the state income tax, sales tax, and corporate income tax. Because the budget spends more than the revenue it brings in—and because leadership included a \$528.6 million tax break for the wealthy and profitable corporations—it depends on millions that are expected to be unspent during the current fiscal year, budget gimmicks, and increased fees. It raises \$203.6 million by diverting revenue set-aside for conservation, clean elections, economic development and other programs.

The House budget has some things in common with the Senate plan and the governor's proposal. All include the repeal of the estate tax that benefits a few wealthy estates, cuts to teaching assistant positions, and a cut in economic development investments targeted at low-income, distressed populations and communities. And, all three budgets would fail to keep up with the rising cost of providing public services to a growing population.

This issue of BTC Briefs provides an overview of the House budget with a specific focus on how it would affect low- and moderate-income North Carolinians and the long-term financial health of the state.

FUNDING FALLS SHORT IN KEY AREAS

The House's \$20.6 billion budget would increase total General Fund spending by \$328.9 million, or 1.6 percent, in FY2014 and by \$737.6 million, or 3.6 percent, in FY2015 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—but, in historical context this is a flawed metric.

Cuts to investments in services over the past five years, combined with a growing population, mean that North Carolina has fallen far behind where it should be. Although this budget is a slight increase over the continuation budget, largely due to increased funding for Medicaid, spending would still be at a 42-year low as a share of North Carolina's economy and far below pre-recession levels. As such, the House budget would not keep up with needs of a growing population across a number of vital services that directly benefit North Carolina families and the state's economy.

Education: 11.5 Billion Budget

The House budget falls \$253.6 million short of what is needed to maintain current service levels for school kids and college students.

- **K-12: \$7.9 Billion Budget**

Spending for K-12 education would fall \$79.3 million short of what is needed to continue today's level of education services. It also would not make up for the deep cuts enacted during and after the economic downturn. The budget would:

- Spend \$11.8 million to fully fund the projected growth in student enrollment.
- Provide \$50 million for private school vouchers as part of the Opportunity Scholarship Act, a two-year pilot program. It would also provide nearly a half-million dollars to develop charter schools in rural areas.
- Cut \$24.6 million for teacher assistants. It's not clear how many positions would be eliminated.
- Phase out the salary incentive for teachers and school staff with advanced degrees unless her/his position requires an advanced degree—which is the case for school nurses and school counselors, for example.
- Provide \$1.5 million for advanced placement courses, which enable students to develop college-level academic skills in high school.
- Keep in place the \$376.1 million in discretionary cuts for local school districts, which require school districts to make difficult funding decisions and then send money back to the state.

- **Community Colleges: \$1 Billion Budget**

Spending for community colleges would fall \$24.8 million short of what is needed to continue today's level of education services. The budget would:

- Raise tuition by \$2.50 per credit hour and eliminate the tuition waiver for senior citizens.
- Change the enrollment funding formula that determines how each community college is funded, triggering a \$19.9 million cut in funding.

Budget & Tax Center

a project of the



P.O. Box 28068

Raleigh, NC

27611-8068

www.ncjustice.org

- Increase fees for continuing education courses by \$5.
- Implement new performance measures for community colleges, which will provide more funding for colleges that increase the percent of students who complete their degree or certificate.

● **Public University System: \$2.6 Billion Budget**

Spending for the public university system would fall \$149.5 million short of what is needed to continue today's level of education services. The budget would:

- Raise tuition for out-of-state residents by 6 percent to 12.3 percent, depending on the university.
- Require universities to cut \$191.7 million across all campuses.
- Divert some of the least competitive freshmen to attend community colleges for two years, before attending a University of North Carolina campus.
- Phase-out the tuition grant for science and math students.
- Increase need-based aid to both public and private college students.
- Provide \$15 billion to encourage more high school graduates, adult learners, and military veterans to pursue college degrees.

Health and Human Services: \$5 Billion Budget

The House budget would spend \$404.7 million above what is needed to maintain the services the department provides today. But because these funds are largely devoted to Medicaid, the House budget cuts other key health services. The budget would:

- Provide \$434 million to fully fund projected enrollment growth for Medicaid. However, it would cut the number of doctor visits covered to 10 from 22, raises co-pays, and lowers payments for doctors, hospitals, and other health care providers.
- Provide Pre-K to the same number of children. The budget would allocate lottery funding to temporarily add 5,000 slots in the NC Pre-K program, but these “extra” slots come just as 5,000 slots expire at the end of June, so the total number of slots would remain the same. It would also lower income eligibility and exclude students with disabilities or limited English proficient.
- Eliminate the Child Fatality Task Force, which is a long-running commission that pushes policies that would reduce child fatalities.
- Provide \$8 million in temporary funding to group home residents who are ineligible for help through Medicaid.

Justice and Public Safety: \$2.4 Billion Budget

The House budget would spend \$17.8 million less than what is needed to maintain an efficient court system and safe communities. The budget would:

- Allocate nearly \$5 million for substance abuse treatment for offenders who are at high risk of recidivism but provide no funding for drug treatment courts.
- Close two detention centers, two youth centers, and four prisons—eliminating nearly 800 jobs for guards and administrators.
- Reduce state funding for the Prisoner Legal Services to reflect the declining prison population. This non-profit law firm provides legal services that help ensure prisoners have access to courts.
- Provide \$4.1 million for lawyers to represent defendants who cannot afford to pay a lawyer. These funds expire after one year.

Natural and Economic Resources: \$358.2 Million Budget

While it appears that the House budget would increase spending on natural and economic resources by \$12.2 million compared to what is needed to maintain current service levels, a portion of this bump in spending reflects budget gimmicks. The House would move non-General Fund dollars into this area of the General Fund budget, but this money is already dedicated to pay for environmental and agricultural services—it is not new funding. Also, because some services were shifted to a non-recurring basis last year, and are therefore not accounted for in the continuation budget, any new funding appears as an increase despite similar levels of service.

Budget & Tax Center

a project of the



P.O. Box 28068

Raleigh, NC

27611-8068

www.ncjustice.org

Key services that fall under Natural and Economic Resources would still get cut, on top of a nearly 50 percent spending cut since FY2008. The budget would:

- Prioritize traditional, growth-oriented economic development that is focused on industrial attraction. It would double the liability cap for the OneNC incentive program as well as provide additional dollars for the Jobs Maintenance and Capital development Fund.
- Cut the Commerce-State Aid budget by \$16.5 million, reducing critical assistance for community and economic development in the poorest regions of the state. Funding would be eliminated for several minority economic development entities, including the Institute of Minority Economic Development.
- Eliminate state funding for the Regional Economic Development Partnerships, long seen as national models for regional economic coordination.
- Sunset the Sustainable Communities Task Force at the end of FY2013. This task force provides grants to support regional sustainable development partnerships across multiple policy silos, including land use, housing, and transportation.
- Provide an additional \$3.4 million for the NC Rural Economic Development Center. It would also eliminate annual funding for the Biotech Center, although it would provide an equivalent amount in one-time funding for this biennium.
- Shift the Commerce Energy Office—the entity responsible for promoting the energy industry in the state—to the Department of Environmental and Natural Resources, raising regulatory concerns because this department regulates energy industries working in the state.

Miscellaneous Items of Interest

Outside of the major budget sections that are listed above, the House budget would also:

- Allocate five additional vacation days to state employees but no pay raise.
- Provide \$50,000 to each survivor of North Carolina's forced sterilization program.
- Eliminate the Displaced Homemaker Program, which provides important workforce development services to residents with barriers to self-sufficiency—such as a recently divorced or widowed low-income working parent. Funding would be re-directed to the Domestic Violence Center Fund.
- Cut \$3.5 million in funding for the Housing Trust Fund, which funds affordable-housing projects and helps ensure that families are able to pay for housing expenses and still pay for basic necessities.

Transportation (non-General Fund): \$3.2 Billion Budget

The House budget would spend \$341.5 million more than what is needed to maintain current levels of public transportation and road and highway maintenance. The budget would:

- Provide \$400,000 in additional funding for public transportation—the first increase after several years of cuts. However, it would eliminate state funds for bike and pedestrian projects.
- Allow the ferry system to raise revenue—such as selling advertisements on the ferries—in order to reduce ferry tolls.
- Transfer \$218.1 million from the Highway Fund to the General Fund to support the State Highway Patrol and other services.

CONCLUSION

House budget writers chose to prioritize tax cuts that primarily benefit the wealthiest over adequate investments in vital public services. Such tax cuts will make it much more difficult for North Carolina to rebuild the vital public services that are the foundations of a strong economy and enable children, families, and communities to thrive.

- 1 Special data request to the Institute on Taxation and Economic Policy. June 2013. See more details about the House tax plan in this NC Budget and Tax Center fact sheet: <http://www.ncjustice.org/?q=budget-and-tax/factsheet-key-concerns-house-bill-998>
- 2 The budget includes a place-holder provision for the House tax plan, or House Bill 998 (Third Edition), and repeals the estate tax. The figures in this brief reflect the net tax code changes of this tax plan—which would reduce the personal and corporate income taxes, lower the sales tax rate, and broaden the sales tax base—in addition to the repeal of the estate tax.
- 3 These figures reflect the comparison of the House's proposed \$20.6 billion FY2014 budget to the FY2008 inflation-adjusted enacted budget of \$22.5 billion (\$20.7 billion, unadjusted).

Budget & Tax Center

a project of the

 north carolina
JUSTICE CENTER

P.O. Box 28068

**Raleigh, NC
27611-8068**

www.ncjustice.org