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SENATE BUDGET IS WRONG PATH FOR NORTH CAROLINA: Plan Includes Tax Cuts for the Wealthy, Shorts Investments in Vital Services

BY TAZRA MITCHELL, PUBLIC POLICY FELLOW

The two-year budget approved by the North Carolina Senate falls far short of what is needed to meet the needs of children, working families and communities, and 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, the Senate chose to leave room for tax cuts for the wealthy and profitable businesses that will cost \$770.2 million in lost revenue over the next two years, and an additional \$229.8 million in the third year, according to a preliminary analysis.¹

As the chart below shows, in the 2014 fiscal year, which begins July 1, the state would spend \$1.9 billion — or 8.5 percent—less than the last state budget approved before the onset of the Great Recession, taking account of inflation.² As such, it would continue to badly underfund vital public services that North Carolina residents and businesses rely on every day.

This issue of *BTC Brief* provides an overview of the Senate budget with a specific focus on

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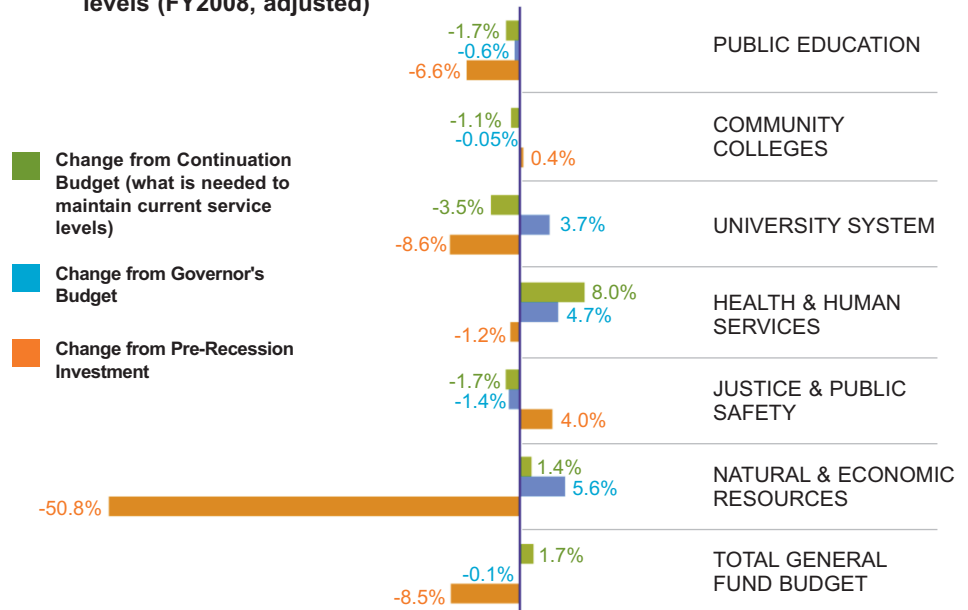
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FIGURE 1: Senate budget for FY2014 would increase spending by 1.7% over the continuation budget, but spending would drop by .1% and 8.5%, respectively, compared to the Governor's proposal and pre-recession levels (FY2008, adjusted)



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 Senate's \$20.6 billion budget would increase total General Fund spending by \$341.1 million, or 1.7 percent, in FY2014 and by \$526.1 million, or 2.6 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. Although that 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. As such, the Senate budget would not keep up with growing needs across a number of vital services that directly benefit North Carolina families and the state's economy.

EDUCATION: \$11.5 BILLION BUDGET

The Senate budget falls \$242.5 million short of what is needed to maintain current service levels for school kids and college students.

■ *K-12: \$7.8 Billion Budget*

Spending for K-12 education would fall \$135.2 million short of what is needed. 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.
- Swap the \$376 million in discretionary cuts for local school districts with cuts to funding for classroom teachers, instructional support personnel, and instructional supplies.
- Phase out the salary incentive for teachers with master's degrees.
- Cut \$6 million for Limited English Proficiency students.
- Cut funding for 4,500 Teacher Assistants.
- Provide \$18.6 million to implement the Excellent Public Schools Act, which is a policy that would phase-out teacher tenure and change the way students and schools are evaluated. It would also provide \$5.1 million to Teach for America, which is a non-profit that recruits recent college graduates and professionals to teach for at least two years in urban and rural communities.

■ *Community Colleges: \$1 Billion Budget*

Spending for community colleges would fall \$11.1 million short of what is needed. The budget would:

- Change the funding formula, triggering a \$19.8 million cut in funding for community colleges.
- Increase tuition by \$2.50 per credit hour.

HOW DOES THE SENATE PAY FOR ITS BUDGET?

The Senate budget is built on the expectation of continuation tax and non-tax revenues of nearly \$20.5 billion, with the bulk coming primarily from the state income tax, sales tax, and corporate income tax. Because the budget spends more than what comes in—and because leadership was intent on including a \$770.2 million tax break for the wealthy and profitable corporations—the budget raises additional dollars.

To address this shortfall, the budget carries over millions that are expected to be unspent at the end of June and also uses budget gimmicks and increase fees. It raises \$175.8 million by diverting revenue from a wide variety of special funds that, among others, are set-aside for conservation, clean elections, and economic development.

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- Reduce funding for minority male mentoring but require the program to serve more students who are at-risk of not completing their degrees.
- Implement new measures of performance for community colleges that will result in funding for colleges that improve completion of certificates and degrees.

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

Spending for the public university system would fall \$96.2 million short of what is needed. The budget would:

- Require university boards to cut \$47.9 million across all campuses.
- Provide need-based grants to 6,000 fewer students.
- Impose a tuition surcharge on students who take more than 110 percent of the credit hours necessary to complete their degree, which would hurt students who are struggling with academic coursework or balancing work and study.

HEALTH AND HUMAN SERVICES: \$5 BILLION BUDGET

The Senate budget would spend \$369.1 million above what is needed to maintain what the Department provides today. But because those funds are largely targeted to Medicaid, the Senate budget also cuts key services within and outside of healthcare. The budget would:

- Provide \$434 million to fully fund projected enrollment growth for Medicaid. Yet, it would cut the number of doctor visits covered for participants to 10 from 22, raise co-pays, and lower reimbursement rates for health care providers. It would also shift pregnant women who earn at least 133 percent of the federal poverty level from Medicaid to the private health insurance marketplace being set up under the Affordable Care Act. Currently, pregnant women who earn up to 185 percent of the poverty level qualify for Medicaid in North Carolina.
- Cut the NC Pre-K program by 2,500 slots in FY2014 and 5,000 in FY2015, and shift the funds to pay for child care subsidies. Elimination of these slots would be on top of the 5,000 slots that will expire in June.
- Close three state-run alcohol and drug abuse treatment centers, and shift some of the money to other community-based substance abuse treatment programs.

JUSTICE AND PUBLIC SAFETY: \$2.3 BILLION BUDGET

The Senate budget would spend \$41.4 million less than what is needed in areas key to maintaining an efficient court system and safe communities. The budget would:

- Close six prisons, two youth centers, and two detention centers—eliminating 869 jobs for guards and administrators.
- Include no funding for drug treatment courts.
- Eliminate 12 Special Superior Court Judges.
- Provide \$5 million for lawyers to represent indigent defendants to address a budget shortfall. As such, those funds expire after one year.

NATURAL AND ECONOMIC RESOURCES: \$350.9 MILLION BUDGET

While it appears that the Senate budget would increase spending on natural and economic resources by \$5 million compared to what is needed to maintain current service levels, the bump in spending reflects a budget gimmick, done by shifting off-budget trust funds to the General fund. The "additional" funding is money already dedicated to pay for economic development, agricultural services, and environmental regulations—and key services would still get cut, on top of a nearly 50 percent spending cut since FY2008. The budget would:

- Cut the Commerce-State Aid budget by \$50.2 million, slashing critical assistance for community and economic development in the poorest regions of the state, an 85 percent reduction. Funding would be eliminated for 13 nonprofits, including the Institute of Minority Economic Development.

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- Cut in half funding for rural economic development, despite higher funding for the Department of Commerce. It would eliminate funding for the NC Rural Economic Development Center but creates a new Division of Rural Economic Development that will oversee economic development in rural counties.
- Slash funding for the NC Biotech Center by 50 percent.

TRANSPORTATION (NON-GENERAL FUND): \$3.2 BILLION BUDGET

The Senate budget would spend \$344.9 million more than what is needed to maintain current levels of public transportation and road and highway maintenance. The budget would:

- Prevent public transit from competing for all funding in the new data-driven process known as the Strategic Mobility Formula. Public transit would only be able to compete with road projects for 30 percent of total spending even though an increasing share of residents relies on public transit.
- Cut funding for public transportation by 2 percent (on top of several years of cuts) and eliminate state funds for bike and pedestrian projects.
- Impose an annual \$100 fee on electric vehicles and a \$50 fee on hybrid electric vehicles.
- Transfer \$218.1 million from the Highway Fund to the General Fund to support the State Highway Patrol and other services.

CONCLUSION

Strengthening state investments in public priorities requires state policymakers to make the right balance of budget and tax policy choices. But by including their tax plan to the budget, the Senate chose to pull back prematurely before state revenues fully recovered and cut taxes for the wealthy and profitable businesses. Tax cuts will make it much more difficult for North Carolina to rebuild the vital public structures that are the foundations of a strong economy and enable children, families, and communities to thrive.

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- 1 The budget includes a place-holder provision for the Senate's tax plan. The author assumes that the tax plan in the budget is based on the tax plan announced by Senator Berger in early May 2013 and available at www.nctaxcut.com. This tax plan would reduce the personal and corporate income taxes, lower the sales tax rate, and broaden the sales tax base. It would also cut \$1 billion over three years. Preliminary analysis of the tax plan was conducted by the Institute for Taxation and Economic Policy and is based on data that is publicly available. The preliminary analysis is available at: <http://www.ncjustice.org/sites/default/files/BTC-%20Disparate%20Treatment%20in%20Tax%20Plans.pdf>
 - 2 These figures reflect the comparison of the Senate's proposed \$20.6 billion FY2013-14 budget to the FY2007-08 inflation-adjusted enacted budget of \$22.5 billion (\$20.7 billion, unadjusted).

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