

June 2013

North Carolina has made severe cuts to funding for local school districts since the start of the recession. Both the Senate and House budget proposals fail to fund public education at levels that would allow the state to maintain its current service levels, let alone restore funding anywhere near pre-recession levels. Unlike abstract theories about whether tax cuts will create jobs, we know that further cuts to education will make it harder for the state to develop the skilled workforce needed to compete in today's global economy.

North Carolina has Cut Education Funding Deeply in Recent Years

North Carolina has recently made some of the deepest cuts to funding for local school districts of any state in the country. These cuts have serious consequences for educational quality, and for economic growth. The state cut per-pupil education aid for primary and secondary schools by 14 percent over the last five years, after adjusting for inflation. In dollar terms, only five states have cut funding more deeply over that time frame.¹ Since FY2008, state funding for public schools have been cut by more than \$1.3 billion.² Coincidentally, that is also the per year price tag of the Senate's recent tax plan once fully implemented, with benefits primarily going to the wealthiest taxpayers in the state.

Education Cuts are Deepened in Current House and Senate Budget Proposals

Spending in the House Budget for K-12 education would fall \$79.3 million short of what is needed to continue today's level of education services. The House budget would also siphon \$50 million of public education money to fund private school vouchers, cut \$24.6 million for teacher assistants, and phase out the salary incentive for teachers and school staff with advanced degrees unless the position requires an advanced degree. Spending in the Senate's Budget for K-12 education would fall \$135.2 million short of what is needed to maintain current service levels. Further, the Senate budget phases out salary incentives for teachers with Master's degrees, cuts \$6 million for Limited English Proficiency students and cuts funding for 4,500 Teacher Assistants. Both the Senate and House Budgets fall far short of what is needed to restore public education funding to pre-recession levels.

Education Cuts Have Real Implications for the State's Economic Future

The education funding reductions North Carolina has made in recent years hamper economic recovery as teacher layoffs mean less business for local stores and services. Businesses that contract with school districts see their bottom line jeopardized, potentially meaning private sector job cuts. Over the longer term, by undermining our public education system, these cuts make it less likely that North Carolina can develop the highly skilled workforce needed to compete in today's global economy or the independent and critical thinkers that can become job creators.

¹ Phil Oliff, Chris Mai, and Michael Leachman, "New School Year Brings More Cuts in Funding for Schools," September 4, 2012, Center on Budget and Policy Priorities.

² North Carolina Department of Public Instruction, Highlights of the NC Public School Budget, FY2008 – 2013, accessed at <http://www.ncpublicschools.org/fbs/resources/data/>

Tax Cuts that Primarily Benefit Millionaires could Freeze Education Funding at Low Levels

Given the importance of public education in securing North Carolina's place in a competitive global economy, boosting the state's lagging education aid should be an urgent priority for state policymakers. Unfortunately legislative leaders are pushing for tax cuts that would make it extremely difficult to strengthen North Carolina's investment in local schools.

The price tag of House tax cuts is estimated at \$505.9 million per year, and \$1.5 billion over the next five years.³ Further, more than a third of the total income tax cut goes to the top 1 percent of taxpayers with average incomes of \$940,000. Taxpayers with income less than \$169,000 under the House plan, will on average, see their taxes increase.⁴ The Senate tax plan's price tag is even more devastating to public education as well as other vital public investments that make our state strong. Three-quarters of the tax cuts provided in the Senate plan go to the wealthiest 5 percent,⁵ while delivering a \$1.3 billion blow to the state's revenue stream each year once fully implemented.⁶

Both plans prompt an important question that everyone should be asking: What does a billion dollars mean to public education? Public school appropriations accounts for about 37 percent of the General Fund. A billion dollars in lost revenue would likely affect our ability to invest in public education. Assuming that cuts to the state budget were made proportionate to each areas budget allocation, 37percent of \$1 billion is about \$370 million. Just as a point of comparison, when looking at the cost of items in the public education budget, \$370 million would keep:

- Current classroom size ratio/teacher allotments in K-12 in FY2014
- Education-based salary supplements in FY2015 AND
- 2,000 teacher assistants in classrooms across the state in FY2014.

Providing tax cuts that primarily benefit millionaires at the expense of public education and other vital services is a major step in the wrong direction. These radical tax proposals only hurt the state's ability to keep up with rising educational needs in the future. Ultimately, such policies threaten the state's economy because attracting good-paying jobs requires a large, well-educated and highly skilled workforce. Without adequate funding to invest in public schools, educators will find it increasingly difficult to provide a quality education to a growing and diverse population of students. North Carolina needs to change course. Instead of pursuing tax "reform" that would be little more than massive tax cuts for the wealthy while making everyone else pay the price, North Carolina should be stepping up investment in its currently underfunded education system, the state's most important economic asset.

³ NC Fiscal Research Division, Fiscal Note on House Bill 998 Third Edition, accessed at: <http://www.ncleg.net/Sessions/2013/FiscalNotes/House/PDF/HFN0998v3.pdf>

⁴ Special data request to the Institute on Taxation and Economic Policy. June, 2013.

⁵ Special data request to the Institute on Taxation and Economic Policy. June 12, 2013.

⁶ NC Fiscal Research Division, Fiscal Note on House Bill 998 Fourth Edition, accessed at: <http://www.ncga.state.nc.us/Sessions/2013/FiscalNotes/House/PDF/HFN0998v4.pdf>