






HOUSE BUDGET RECOMMENDATIONS

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EXECUTIVE SUMMARY:

-  The budget proposal from the NC House relies almost exclusively on spending cuts to reach an \$18.3 billion budget target—an 8.4 percent reduction over the current-year budget that represents the largest year-over-year reduction in total state spending in the last 30 years.
-  These proposed budget cuts would negatively affect public structures and services at a time when there is greater demand for them to help struggling families, support a growing and diverse population and build an economy that works for all.
-  North Carolina's policymakers do have choices available to them that could minimize the worst impacts of proposed budget cuts. Raising revenue through forward-looking reforms could provide the resources needed to support the state's public structures, promote economic recovery and address the state's fiscal challenges for the long term.

THE PROPOSED TWO-YEAR BUDGET from the NC House fails to take a balanced approach to the state's fiscal challenges, relying solely on cuts to public investments that will be particularly devastating to working families, elderly residents and businesses. These cuts, if enacted, would leave North Carolina's vital public structures—schools, public universities, hospitals, courts and more—dangerously underfunded.

SPENDING CUTS UNDERMINE STATE'S ABILITY TO MEET NORTH CAROLINIANS' NEEDS

Some weeks ago the Senate and House leadership signaled their intention to take a cuts-only approach to closing the state's revenue shortfall when they released a budget target of \$18.3 billion. This figure is \$1.6 billion less than the governor's proposed budget and reflects an 8.4 percent reduction over the current-year budget, making it the largest year-over-year reduction in total state spending in the last 30 years.¹

These budget cuts—on top of cuts already experienced throughout the Great Recession—would push North Carolina further behind in its efforts to recover and rebuild its economy.

Consider that, from 2007 to 2011:

- North Carolina's population of children under age five is projected to have grown by 7 percent; yet the House budget would cut the state's investment in early childhood education by 34 percent compared to pre-recession levels.
- North Carolina's Medicaid-eligible population is projected to have increased by 23 percent, but the House budget proposes an increase in state funding for Medicaid of just 2 percent over pre-recession levels.
- North Carolina's total population is projected to

have grown by nearly 7 percent, but the House budget proposes to cut funding for public health by 18 percent and crime control and public safety nearly by half.

These cuts would negatively affect every North Carolinian and every business in the state, and the impact will be felt for decades. Cuts in early childhood education will mean thousands of children will arrive at public schools less prepared for learning and will have lower lifetime earnings as a result. People without access to affordable health care will be more likely to require expensive emergency-room treatment and to develop chronic conditions. Courts will be overwhelmed and understaffed, and if North Carolina faces a public-health emergency, the system will be unable to respond.

RAISING REVENUE IS THE RESPONSIBLE APPROACH

Rather than address the root causes of North Carolina's current fiscal challenges—historically low revenue—North Carolina's policymakers claim cutting spending is the only option. This is simply not true.

The cause of the shortfall is the collapse in revenue driven by a weak economy and made worse by an outdated revenue system. North Carolina's policymakers can address the state's fiscal challenges by taking a balanced approach that includes targeted cuts and additional revenue, a move that would be broadly supported by the public according to recent polls. Taking such a balanced approach would not only ensure the state's investments in public structures continue but also could establish a more adequate and equitable revenue system that supports economic recovery and paves the way to a stronger economic future for the state.

For example, rather than cutting \$500 million from K-12 education and putting thousands of teachers and others out of work, state policymakers could apply the state sales tax to all consumer services and still reduce the state sales tax rate from 4.75 percent to 3.75 percent.

Rather than eliminating inflationary increases in payments to Medicaid providers, state policymakers could treat limited liability companies (LLCs) like other limited liability businesses and require that they pay the franchise tax. Rather than eliminating court-counselor positions, state policymakers could repeal the 2-percent discount for alcohol wholesalers and importers for filing and paying taxes on time.

The list goes on. There are more choices on the table than legislative leaders have tried to lead the people of North Carolina to believe.

The proposed House budget would result in the loss of thousands of jobs in both the public and private sectors. Families would receive less support in providing their children with health care and education; communities would see the investments in their infrastructure erode. House budget leaders are doing a disservice to North Carolinians with this proposal, which would reverse decades of progress and undermine opportunity for the people of this state for years to come.

¹ Burch, Brenna. March 2011. Legislative Budget Targets: Cutting to the heart of state and local jobs and services. BTC Brief: N.C. Budget and Tax Center, Raleigh, NC.