



BTC Brief

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TAX CUTS HURT EDUCATION FOR ALL:

Limit Support to Foundations of Economic Opportunity

BY CEDRIC D. JOHNSON, PUBLIC POLICY ANALYST

North Carolina's ability to make public investments crucial to promoting widespread prosperity and a growing economy will be sharply constrained for at least the next two years. As a result, ensuring high-quality learning and education opportunities for all North Carolina children and students remains a challenge.

The reason: the state tax cuts reflected in the budget under which the state must live through June of 2017. Those tax cuts will reduce available revenue for the biennium by \$841.8 million. These costly tax cuts come on top of costly tax cuts passed by state lawmakers in 2013. Those are resources the state will not have for public education, community economic development, the court system, and other vital services that helped promote broad economic gains for North Carolinians in the past.

Within four years the annual cost of the tax cuts balloons to over \$1 billion, as rate reductions for individual taxpayers and profitable corporations phase in to their full impact.

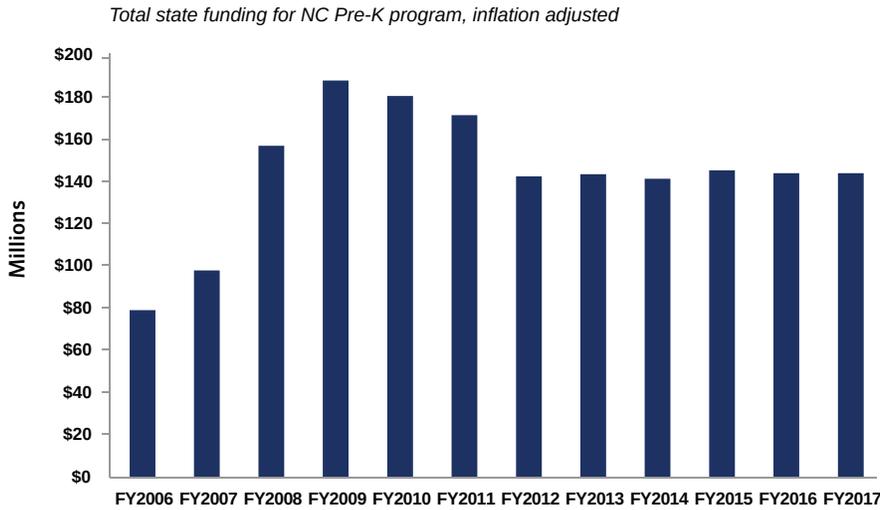
Public investments in a wide range of areas, including early childhood development and public schools, are the essential building blocks of long-term economic growth and shared prosperity. Yet at this critical point in the state's uneven and slow economic recovery, policymakers chose to deliver greater benefits to the wealthiest few rather than build a solid foundation that supports opportunity for many.

This BTC Brief is a companion to the BTC Report: Diminished Expectations and the Resulting Drag on North Carolina's Economy—A Summary of the Fiscal Year 2015-17 Budget.¹ This issue brief takes a close look at public investments in public education – from early childhood through college.

ERODING STATE SUPPORT CHALLENGES GOAL OF QUALITY EDUCATION FOR ALL

Ensuring that public schools have the resources they need is important so all North Carolina students can receive a quality education regardless of where they live. In the current school year, more than 1.5 million students are in public school classrooms across the state. Eroding state support for early childhood development and public schools in recent years has challenged schools as well as the ability to ensure that all North Carolina children gain the development and cognitive skills needed to begin their formal schooling years ready to learn. These challenges persist under the current two-year budget.

FIGURE 1: State funding for NC Pre-K program 15 percent below peak 2009 level



SOURCE: NC Treasurer's 2015 Audit of the NC Pre-Kindergarten Program, adjusted to account for one-time increases summarized by Fiscal Research Division in a February 2014 presentation; NCGA-approved FY 2015-17 budget.

provides \$144.2 million a year for NC Pre-K, of which \$78.3 million is from the lottery. Funding for Smart Start is \$147 million a year.

NC Pre-K

NC Pre-K aims to enhance school readiness for eligible four-year-olds through high-quality educational experiences.² Eligibility criteria include family income being below a certain level and such factors as a developmental disability, a chronic health condition, or limited English proficiency. The \$144.2 million in state funding for the current budget year is a small decrease from the previous year.³ Some of the lack of state support for early childhood learning is made up with federal dollars. State

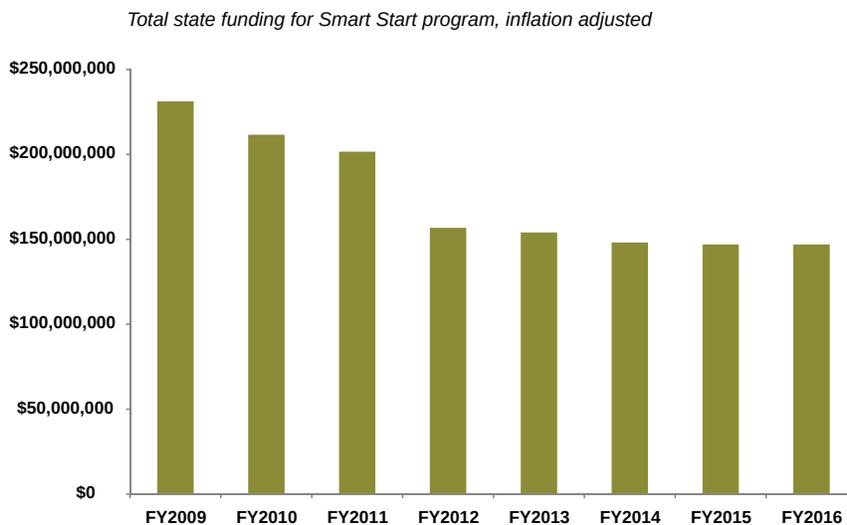
EARLY CHILDHOOD LEARNING

Quality education that starts before kindergarten is important to the healthy development of children, the wellbeing of families, and the economic prospects for North Carolina. State support for early childhood education comes largely through two programs: the NC Pre-Kindergarten Program (NC Pre-K) and Smart Start. NC Pre-K is funded through the state's General Fund plus money from state-sponsored lottery games. Smart Start is funded solely from the General Fund.

The two-year state budget that runs through June 2017

funding for NC Pre-K is 15 percent lower when adjusted for inflation than the 2009 budget year, when funding and the number of children served peaked (see Figure 1). This year, more than 6,400 fewer state-funded slots are available in NC Pre-K than in 2009 despite more than 7,200 children being on NC Pre-K wait lists last year.⁴

FIGURE 2: State funding for Smart Start program nearly 40 percent below 2009 level



SOURCE: NCGA-approved FY 2015-17 budget; NCGA Fiscal Research Division

IN FOCUS: 2016 Fiscal Year Budget

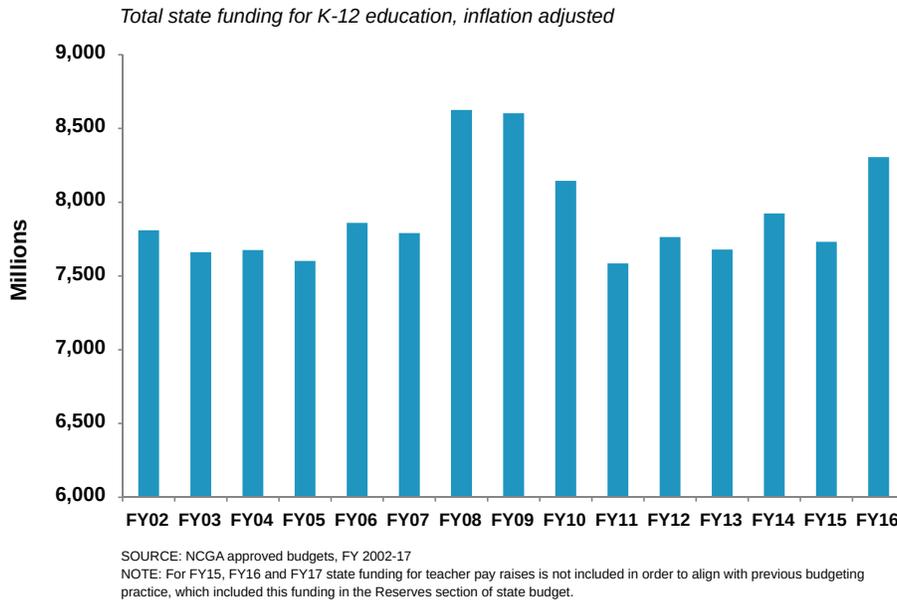
This year's state budget provides around \$1.4 million fewer dollars for NC Pre-K compared to the prior year.

Of the state dollars that were cut, \$16.8 million is replaced with the one-time use of federal dollars from Temporary Assistance for Needy Families (TANF) block grant funding.⁵

Smart Start

North Carolina's Smart Start program promotes school readiness for North Carolina children from birth to age 5 by advancing a high quality, comprehensive, accountable system of care and education. It is a public-private initiative operating through a network of nonprofit local partnerships led by The North Carolina Partnership for Children.⁶ Funding is from state and private sources.

FIGURE 3: State funding for public schools remains below spending level prior to Great Recession

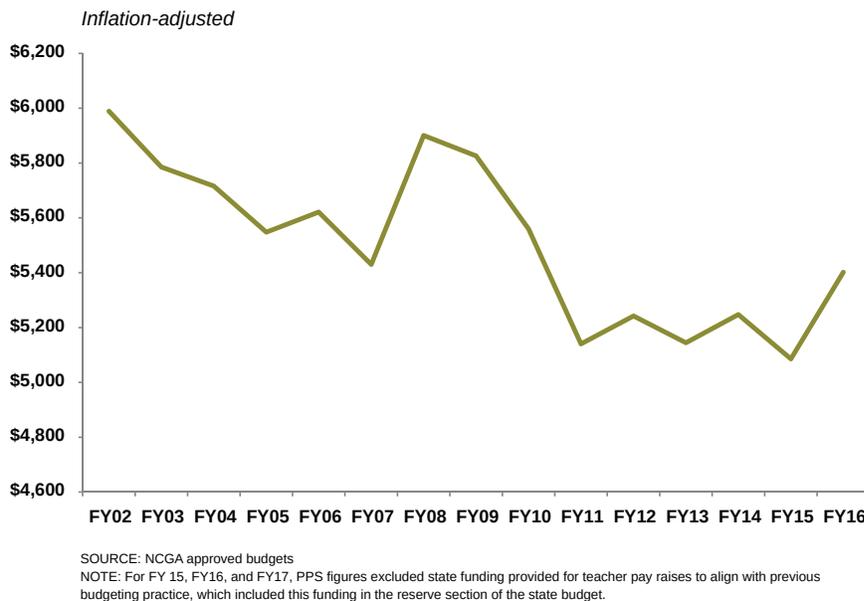


Similar to NC Pre-K, state support for Smart Start has declined in recent years. This year's level of state support is \$140 million, which is the same as last year and nearly 40 percent below 2009 when adjusted for inflation (see Figure 2).⁷ In addition to the state funding, \$7 million in federal Child Care Development Fund dollars are used to fund the Smart Start program this year.

K-12 PUBLIC EDUCATION

The \$8.3 billion in state spending for public schools for this year is 7.4 percent more than last year (see Figure 3).⁸ However, when state spending is examined on a per-pupil basis, support for public education remains well below its peak funding level prior to the recession when adjusted for inflation (see Figure 4). In other words, spending has neither made up for significant cuts made during the Great Recession nor kept up with growing enrollment. Today there are 76,000 more students in North Carolina public schools than in 2008, prior to the recession. As such, the current two-year budget illustrates how a year-to-year increase in support falls short of ensuring that public schools have what they need.

FIGURE 4: State spending per pupil remains below 2008 pre-recession spending level



IN FOCUS: 2016 Fiscal Year Budget

Overall, the current state budget provides a level of resources for public schools at slightly above last year’s levels. Because lawmakers shifted existing state dollars from one area to another, the actual increase in education support is less than what appears in the budget.

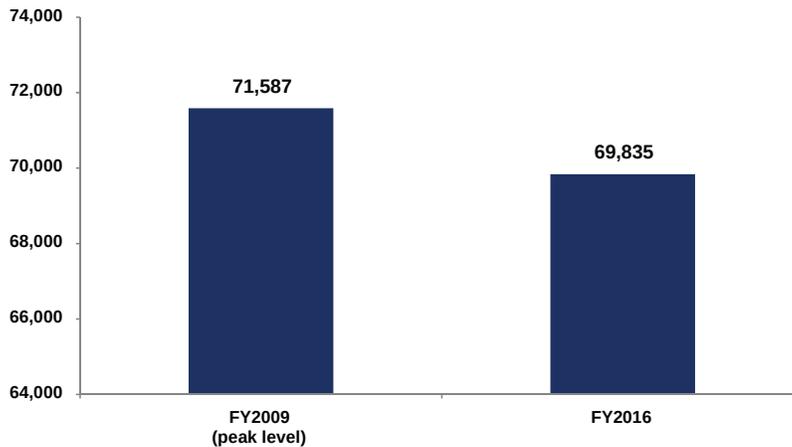
For example:

- While the state appears to spend an additional \$254.6 million on classroom teachers, this is not the case. Last year’s budget provided \$254.6 million in lottery dollars for classroom teachers; these lottery dollars are not included in this year’s budget. Accordingly, state dollars provided for classroom teachers in the current budget simply replaces the missing lottery dollars. As such, no net additional state funding is provided for classroom teachers. As a result, the number of state-funded teacher positions for the current school year remains *below* the 2009 peak level even though more students are in public schools (see Figure 5).
- What appears to be \$138.1 million in new General Fund appropriations for teacher assistants (TAs) is not the case. Along with state General Fund appropriations, last year’s budget provided \$113.3 million in lottery dollars for TAs; the current budget provides no lottery dollars for TAs. Accordingly, the net increase in state funding for TAs in the current

budget is \$8.8 million.⁹ Teacher assistants perform multiple duties in the classroom, working with students in need of academic help, allowing for one-on-one interaction between teachers and students, and helping teachers keep control in large classrooms. There are more than 7,100 fewer state-funded teacher assistant positions for the current school year than the 2009 peak funding level.¹⁰

FIGURE 5: Fewer state-funded teacher positions compared to 2009 despite more students in NC public schools

State-funded Elementary & Secondary Teacher Positions



SOURCE: NC Department of Instruction and NCGA approved FY 2015-17 budget.
 NOTE: FY 2015-17 budget provides additional state funding to account for enrollment growth. Additional TA positions related to this funding is not included in the chart.

BY THE NUMBERS

The current state budget includes \$411.8 million in additional state spending on K-12 education compared to the previous school year. However, the majority of what appears as new spending is not the case. Most of the additional funding, around 76 percent, covers enrollment growth and pay increases for teachers. Here is a breakdown of how the additional state funding is allocated:

- \$100.2 million for more teachers and instructional support to account for increased enrollment in public schools. In prior state budgets, state funding for enrollment growth was not presented as new spending, but rather funding needed to maintain current

levels of education services with more students in public schools (referred to as baseline funding). Following previous budget practice, this funding is not considered new spending.

- \$211 million for pay increases for teachers and other educators. Most of this money – \$123.6 million (58 percent) – goes to a one-time \$750 bonus payment in lieu of a permanent salary increase.¹¹ In prior state budgets, funding for teacher pay increases was included in the Reserves section of the state budget. Accordingly, including this funding in the public education section of the budget inaccurately inflates state funding for public schools when comparing to funding for public schools in previous years.
- The remaining \$100.5 million of additional state funding represents a 1.2 percent increase over last year. These dollars represents total net new spending in the current budget for public schools compared to last year. The money is for other areas of the K-12 education budget such as textbooks and digital resources, driver training programs, and the expansion of a summer reading camp.

OTHER BUDGET HIGHLIGHTS

Other important aspects of the state's K-12 education budget include:

- \$310.5 million in state funding for non-instructional support personnel is replaced by lottery receipts, resulting in significantly fewer lottery dollars going to the classroom compared to 2009.
- \$52.4 million in state funding provided for textbooks and digital resources is 57 percent below the peak 2010 spending level when adjusted for inflation. Lack of funding for textbooks has meant the continued use of outdated textbooks and in some cases no textbooks available to students at public schools.
- This school year \$24.1 million in one-time funding is provided to restore driver training programs; however, no state funding is allocated for the following school year.
- \$20 million in recurring state funding is provided to expand Read to Achieve Reading Camps, which serve third-grade students who are not reading at grade level by the end of the third grade. The summer reading camps are expanded to serve first and second graders who demonstrate reading comprehension below grade level.
- State funding for transportation is reduced by \$25 million, a 5 percent funding cut, and reflects a lower-than-projected cost for diesel fuel. Since 2011, substantial funding cuts have been made to state appropriations for transportation – e.g. school bus replacement.

As important as what is in the state budget for K-12 education is what is not included. Among items missing from 2015-17 budget:

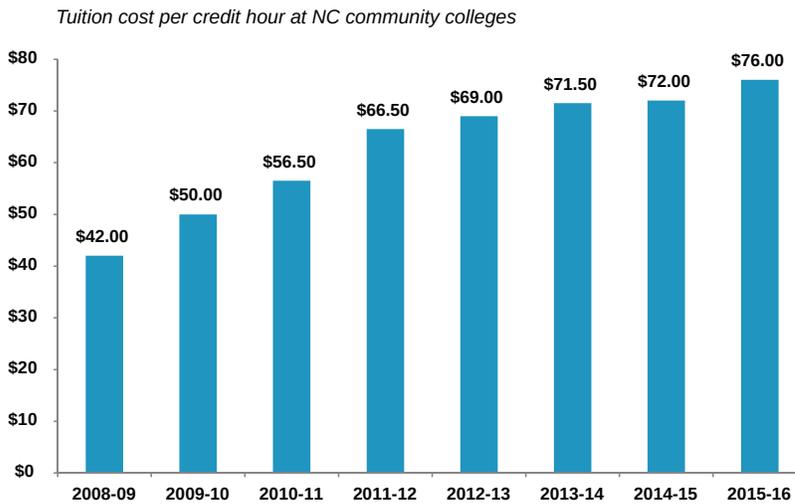
- No state funding for professional development for teachers or principals and other school leaders.
- No additional state funding to place more nurses in public schools and lower the student-nurse ratio.
- No additional state funding for classroom materials, instructional supplies, and equipment, meaning teachers are very likely to incur out-of-pocket expenses for such resources.¹² For the current school year, state funding for classroom materials and supplies is less than half of the 2009 peak level.

COMMUNITY COLLEGE SYSTEM

North Carolina’s Community College System consists of 58 institutions across the state that served more than 220,000 students during the 2014-15 academic year.¹³ The state’s community colleges play an important role in strengthening local economies, in part by building trained and skilled local workforces that can meet business needs in a dynamic 21st century economy.

The \$1.04 billion in annual state spending for community colleges in the two-year budget essentially maintains funding at the level of the previous budget.¹⁴ State funding for community colleges is 7.8

FIGURE 6: Tuition at NC community colleges has increased 81 percent since 2009



SOURCE: BTC Report: 2015 Budget Undermines North Carolina’s Competitiveness. NCGA-approved FY 2015-17 budget.

percent less for this year when adjusted for inflation than in the peak year of 2011. The reduction in state funding coincides with a decline in enrollment. Full-time equivalent (FTE) enrollment this year is around 15 percent below peak enrollment in 2011. As such, state funding per FTE is close to returning to its pre-recession level. This does not, however, mean community colleges are adequately funded. Rather, this reality highlights a failure to boost investments that enhance the flexibility and responsiveness of community colleges in providing training that helps attract and retain good-paying jobs.

IN FOCUS: 2016 Fiscal Year Budget

Beyond additional state funding for salary increases – most of which are a \$750 one-time bonus payment – the budget provides around \$330,000 in additional support over the previous year.¹⁵ Funding increases in particular areas of the budget for community colleges are offset by reductions in other areas of the budget.

State Funding Increases

- \$7.5 million for instructional equipment and technology.
- \$2 million to offset the out-of-state tuition cost for certain non-resident veterans that are granted resident status for tuition purposes.

State Funding Reductions

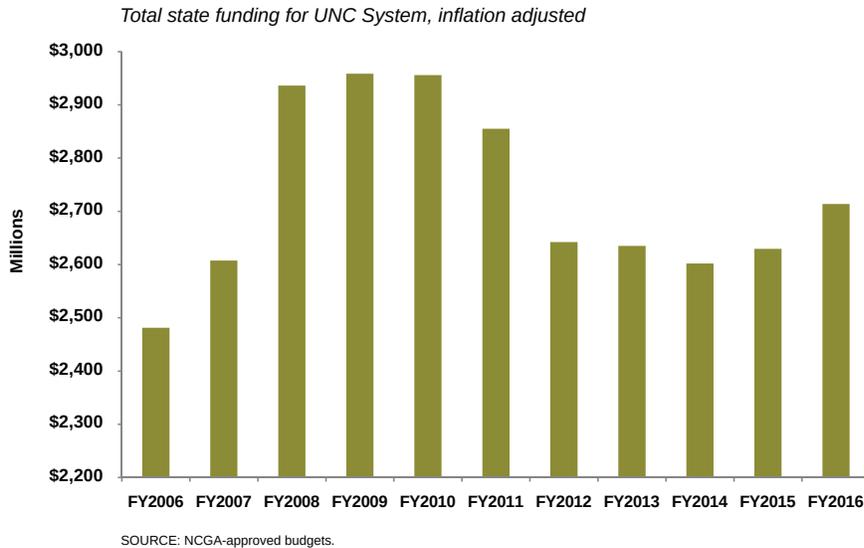
- \$6.5 million reduction to account for projected decrease in total enrollment.
- Increase in tuition by \$4 per credit hour beginning in Spring 2016 semester, resulting in \$8.1 million reduction in state support. Since 2009, tuition at community colleges has increased by 81 percent (see Figure 6).

UNC SYSTEM

North Carolina’s public university system consists of 17 campuses across the state that serve more than 200,000 students.¹⁶ The \$2.74 billion in spending for the UNC System for this year is a 3.2 percent increase from the previous budget (see Figure 7).¹⁷ Compared to peak funding in the 2008 budget year, state support per student this year is down nearly 16 percent (see Figure 8). This is due in part to more than

12,000 additional students enrolling in public four-year universities during this period with no corresponding increase in state support.

FIGURE 7: State funding for UNC System remains below peak 2009 level



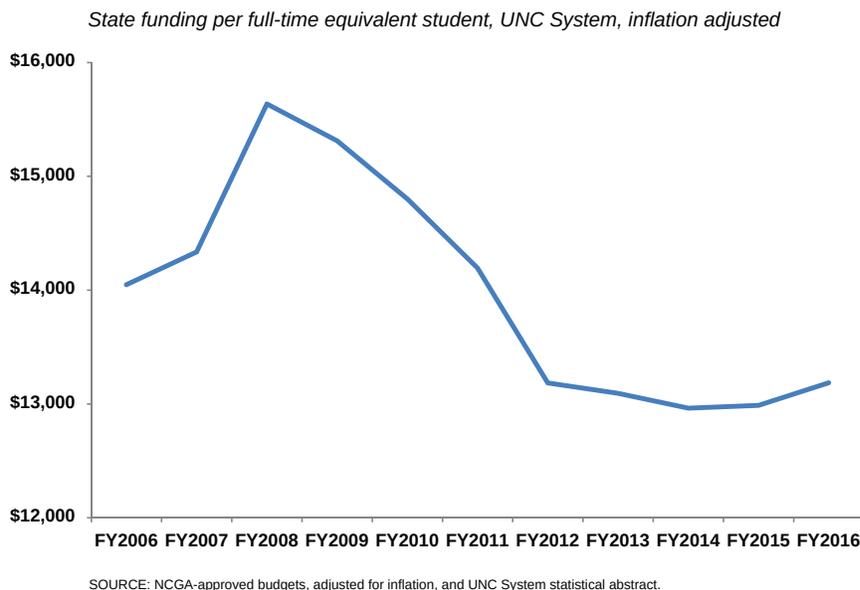
IN FOCUS: 2016 Fiscal Year Budget

Beyond additional state funding provided for pay increases — nearly all of which is a \$750 one-time bonus payment in lieu of permanent salary increases — the current budget includes \$84.4 million in net additional spending for instructional services related to enrollment growth and other specific initiatives.

State funding increases include:

- \$49 million for additional faculty positions, support staff, and instructional costs related to enrollment growth at public 4-year universities. In prior state budgets, state funding for enrollment growth was not presented as new spending, but rather funding needed to maintain current levels of education services with more students

FIGURE 8: State funding per student within UNC System nearly 16 percent below peak 2008 level



at public universities (referred to as baseline funding). Following previous budget practice, this funding is not considered new spending.

- \$9.3 million to offset the out-of-state tuition cost for certain non-resident veterans being granted resident status for tuition purposes.
- \$6.8 million for private school vouchers for K-12 education. This funding expands the Opportunity Scholarships program, passed by state lawmakers in 2013, which enables eligible children in kindergarten through 12th grade to attend private schools with the use of public dollars. Funding for these vouchers is provided through the State Education Assistance Authority – which also administers higher education financial aid – and thus is included in the UNC System’s budget rather than the budget for K-12 education.
- \$8 million to help stabilize finances of East Carolina University’s Brody School of Medicine.
- \$8 million to the Mountain Area Health Education Center, which serves a 16-county region in Western North Carolina. The Center provides healthcare services including family medicine, behavioral health, and dental health, trains future physicians, and specializes in continuing education programs.
- \$3 million provided to Elizabeth City State University to enhance technology related to enrollment and recruitment of students, campus access and safety, and human resource management.

State funding reductions include:

- Management flexibility reductions require the UNC System to identify \$17.9 million in spending reductions to programs, services, and operations across the 17 campuses. Management flexibility cuts since 2010 total nearly \$680 million for the UNC System.¹⁸
- Elimination of the Academic Summer Bridge Program, which prepares students making the transition from high school to college – \$1.2 million state funding cut.
- Elimination of state support for The Hunt Institute – an affiliate of UNC-Chapel Hill that works to bring together key stakeholders to facilitate critical dialogue and mobilize action on education issues – \$737,230 state funding cut.

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1. See Tazra Mitchell and Cedric D. Johnson, “Diminished Expectations and the Resulting Drag on North Carolina’s Economy—A Summary of the Fiscal Year 2015-17 Budget,” NC Budget and Tax Center Report, Raleigh, NC, October 2015. Available here: <http://www.ncjustice.org/?q=budget-and-tax/btc-reports-diminished-expectations-and-resulting-drag-ncs-economy-summary-2015-17>
2. For full eligibility criteria for NC Pre-K program for FY 2015-2016, see North Carolina Pre-Kindergarten Program (NC Pre-K) Requirement and Guidance manual at:
3. http://ncchildcare.dhhs.state.nc.us/PDF_forms/NCPre-K_Program_Requirements_Guidance.pdf
4. The revised FY2015 budget included an additional \$5.04 million in additional state funding to account for teachers raises and funding for additional slots.
5. Data request to NC General Assembly’s Fiscal Research Division. For fiscal year 2015, the waiting list for NC Pre-K was 7,260 based on reporting from all but two contracting agencies.
6. Policy Basics: An Introduction to TANF, Center on Budget and Policy Priorities, Washington, DC, updated June 2015.
7. <http://www.cbpp.org/research/policy-basics-an-introduction-to-tanf>
8. Official website for The Partnership for Children, Inc. can be assessed at <http://www.smartstart.org/>
9. NCGA Fiscal Research Division provided information regarding state funding and service levels for Smart Start program. FY2009 is the earliest year of data provided.
10. BTC excludes state funding provided for teacher pay raises in the approved FY 2015-17 public education budget to align with previous budgeting practice, which included this funding in the Reserve section of the state budget.
11. FY2015 budget provided a total of \$368.3 million in General Fund and lottery funding for TAs. For FY2016, total state funding of \$377.1 million for TAs. The current two-year budget provides additional General Fund dollars for teacher assistants to account for annual enrollment growth for grades K-3. Actual enrollment growth for grades K-3 is not available, which does not allow for determining the

- amount of additional state funding for TAs due to enrollment growth.
12. Total state-funded teacher assistant positions obtained from NC Department of Instruction. The fiscal year 2016 budget provides additional state funding to account for year-over-year enrollment growth.
 13. Prior to FY2015, previous state budgets included state funding for pay increases in the Reserves section of the state budget rather than the Public Education section.
 14. 2013 NSSEA Retail Market Awareness Study, released by the National School Supply and Equipment Association <http://www.prnewswire.com/news-releases/nssea-study-finds-teachers-spend-16-billion-of-their-own-money-on-educational-products-for-their-classrooms-213139551.html>
 15. <http://www.nccommunitycolleges.edu/business-intelligence/annual-statistical-reports>
 16. BTC excludes state funding provided for salary increases in the approved FY 2015-17 budget for community colleges to align with previous budgeting practice, which included this funding in the Reserve section of the state budget.
 17. For FY16 and FY17, state funding for pay raises is not included in order to align with previous budgeting practice, which included this funding in the Reserves section of state budget.
 18. UNC System, Fall Enrollment Reports, database <https://old.northcarolina.edu/ira/ir/analytics/fallenr.htm>
 19. BTC excludes state funding provided for pay raises in the approved FY 2015-17 public education budget to align with previous budgeting practice, which included this funding in the Reserve section of the state budget.
 20. UNC System provided information regarding total management flexibility cuts from 2009-10 to 2014-15, which total \$660 million.