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## Governor McCrory Ignores Need for Investments in Families, Communities:

*His budget proposal fails to roll back harmful cuts, lacks plan for broadly shared prosperity*

BY TAZRA MITCHELL, PUBLIC POLICY ANALYST

Governor Pat McCrory's budget proposal for the 2015-2017 biennium chooses fiscal austerity over reinvestment in public education, health, safety, and the other building blocks of a strong economy. This lack of investment—as North Carolina nears the sixth year of the economic recovery—impedes the state's ability to create broadly shared prosperity for all North Carolinians. Pursuing another two years of severe fiscal constraint is also in sharp contrast to past recoveries when state investments were far quicker to return to and exceed pre-recession levels.

Lawmakers chose an irresponsible path for North Carolina in 2013 when they enacted tax cuts that are draining revenues by upward of \$1 billion each year.<sup>1</sup> Fixing this ill-advised tax plan should be a priority, but with his budget proposal, the governor has endorsed a stay-the-course policy that will lead to the further erosion of the infrastructure and programs that support the state's economy.

### Austerity Stifles Growth and Is Contrary to Past Experience

North Carolina's economy is slowly growing but has yet to fully recover from the 2007 recession. The percentage of North Carolinians who are employed is still well below pre-recession levels, poverty and economic hardships persist at elevated levels, and middle-class incomes are lower today than when the recession hit.<sup>2</sup> Putting North Carolina on the road to full recovery requires moving away from the deep tax cuts that are keeping state investments low by historical standards as a part of the economy.<sup>3</sup> North Carolina needs sensible, forward-looking policies that allow the state to rebuild what was lost following the Great Recession to create a more inclusive economy.

But Governor McCrory is calling for just the opposite—austerity—by keeping the tax plan on the books and foregoing each year \$1 billion that could be reinvested in core services such as early learning, public education, and public health. Total state investments under his 2016 fiscal year budget proposal would be 6.1 percent below pre-recession levels, adjusting for inflation. This is in great contrast to our experience during the previous three economic recoveries. Spending did not dip after the 1981 and 2001 recoveries, and lawmakers restored investments to pre-recession levels just three years after the 1990 recession hit. The governor's 2016 fiscal year budget—which would be the eighth budget enacted since the recession hit—would fail to reach pre-recession spending levels (see Figure 1 on page 2).

Austerity is not an approach that most other states are adopting. Many states across the country are beginning to reverse the worst cuts made during the economic downturn.<sup>4</sup>

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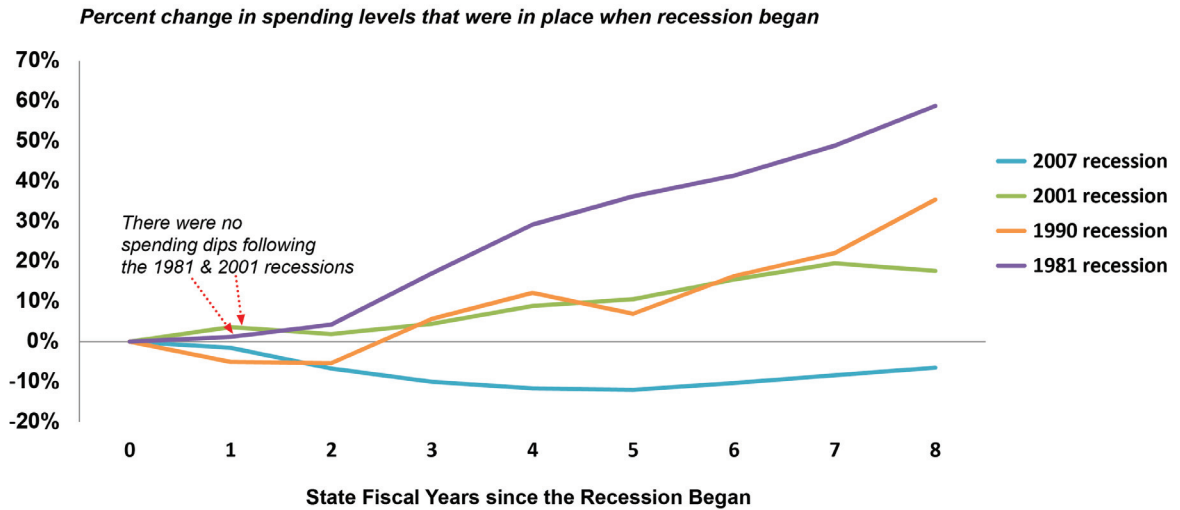
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**FIGURE 1: State Investments Slow to Bounce Back this Recovery, Would Continue under Governor’s FY2016 Budget**



NOTE: For the 2007 recession (blue line), year 8 reflects Governor’s FY2016 budget proposal

SOURCE: Spending levels reflect total General Fund spending. Office of State Budget and Management Post-Legislative Summaries, enacted FY2014 and FY2015 budgets, Governor McCrory’s proposed FY2016 budget; adjusted for inflation in FY2014 dollars.

## Austerity Delays Progress and Ability to Roll Back Harmful Budget Cuts

Governor McCrory’s budget proposal, in large part, holds the line on state investments at a time when it should be a priority to roll back harmful budget cuts enacted since the downturn. His budget for the 2016 fiscal year increases year-to-year spending by nearly \$439.8 million, or 2 percent, but the costs of enrollment growth in public schools, the UNC system, and the Medicaid/Health Choice programs are estimated to slightly exceed that year-to-year increase. That means every new dollar, on net, is dedicated to funding enrollment growth versus also replacing harmful cuts or pursuing new initiatives to position the state competitively.<sup>5</sup>

The governor’s proposed budget does little to restore funding for programs that boost economic mobility, grow a stronger economy, and improve overall well-being. For example, 8,000 fewer at-risk four-year olds would have access to pre-kindergarten under his budget compared to the peak in 2009.<sup>6</sup> State funding per student for textbooks and other classroom resources would increase but remain at only half of pre-recession levels.<sup>7</sup> He would also double down on tuition increases at our community colleges, raising the cost by \$4 per credit hour and putting the total tuition hike since 2009 at 81 percent. And the courts would receive just half of the funding improvement that is needed to efficiently deliver justice, according to North Carolina Supreme Court Chief Justice Mark Martin’s budget request.<sup>8</sup> More examples like these exist in other core areas of the budget, including public health, safety, and economic development.

The state budget plays a critical role in building foundations of opportunity and promoting vibrant economies in communities throughout North Carolina. But Governor McCrory’s budget proposal, overall, misses a critical opportunity to reinvest at a meaningful level so that all North Carolinians can thrive. Such shortcomings will continue to be a problem until state leaders recognize the damage that the 2013 tax plan is causing and take action to correct it.

## Deep Tax Cuts are Driving Austere Budget Policies

There is nothing inevitable about the “extremely tight” budget situation Governor McCrory spoke of the day he unveiled his proposal. The governor signed into law deep tax cuts in 2013 that are costing upward of \$1 billion each year, which is more than originally anticipated and roughly equivalent to the total state investments in the community college system.<sup>9</sup> The tax plan also shifted tax responsibility away from the wealthiest taxpayers and profitable corporations and onto ordinary North Carolinians.

Now, there are too few dollars available to meet the needs of children, families, and communities, despite a rebounding economy. Revenues are slowly growing as the economy improves, but year-to-year revenue growth is meager and below the historical average.<sup>10</sup> Genuine progress in restoring public investments in the things that promote a strong and inclusive middle class—quality schools, affordable healthcare, affordable housing, and safe, healthy neighborhoods—will be impossible until the governor and state legislators build a tax system that can adequately match the needs of a growing economy.

In order to put the state on a more responsible and sustainable path, lawmakers should reverse the tax cuts that went into effect in January 2015 and reevaluate the tax plan. Otherwise, all North Carolinians will continue to pay the price.

## Conclusion

The sixth year of the economic recovery should bring about reinvestment in the building blocks of a strong state economy, not retrenchment. It is time for the governor and state legislators to reset the fiscal debate—abandon austerity and raise the bar through smarter budget and tax policies. Failing to raise adequate revenues will leave the state’s economy on shaky ground and harm the quality of life of North Carolinians across the state.

1. Johnson, Cedric. “A Whole Lot of Numbers Converging on One Truth.” The Progressive Pulse. February 2015. Available here: <http://pulse.ncpolicywatch.org/2015/02/11/a-whole-lot-of-numbers-converging-on-one-truth/>
2. Author’s analysis of US Bureau of Labor Statistics data and the US Census Bureau’s 2013 American Community Survey.
3. For more information on historical trends, see: Mitchell, Tazra, Cedric Johnson, and Alexandra Sirota. “2015 Budget Undermines North Carolina’s Competitiveness.” NC Budget and Tax Center. September 2014. Available here: <http://www.ncjustice.org/?q=budget-and-tax/btc-reports-2015-budget-undermines-north-carolinas-competitiveness>
4. National Association of State Budget Officers. “The Fiscal Survey of the States: An Update of State Fiscal Conditions.” Fall 2014. Available here: <http://www.nasbo.org/sites/default/files/NASBO%20Fall%202014%20Fiscal%20Survey%20of%20States.pdf>
5. Non-enrollment expansion items in the proposal are made possible by cutting or allowing spending to expire for other vital programs that are already stripped bare from previous underinvestment. That’s like rearranging the deck chairs on a sinking ship. Some expansions are also made possible due to the governor’s decision to further rely on federal funds (which frees up state dollars), smart spending via efficiencies, and a drop in enrollment at community colleges. In some instances, what appears to be an increase reflects renewed funding that already exists today.
6. The governor’s budget proposal would fund 26,800 pre-kindergarten slots compared to the 34,876 slots that were available in the 2009 fiscal year. See: NC Office of State Treasurer’s 2012 Non-Governmental Audit Confirmation Report of the NC Pre-Kindergarten Program. Available here: <https://www.nctreasurer.com/slg/State%20Compliance%20Supplements/DHHS-50-2012.pdf>
7. Classroom resources include textbooks, classroom materials, instructional supplies, and equipment. Johnson, Cedric. “Deeper Look into Governor’s Proposed Budget Highlights Inadequate Support for Public Education.” The Progressive Pulse. March 2015. Available here: <http://pulse.ncpolicywatch.org/2015/03/12/deeper-look-into-governors-proposed-budget-highlights-inadequate-support-for-public-education/>
8. Lamb, Amanda and Mark Binker. “NC Chief Justice Asking for Additional \$30 million to Fund State Courts.” WRAL. March 3, 2015. Available here: <http://www.wral.com/nc-chief-justice-asking-for-additional-30m-to-fund-state-courts/14487602/>
9. Johnson, Cedric. “A Whole Lot of Numbers Converging on One Truth.” The Progressive Pulse. February 2015. Available here: <http://pulse.ncpolicywatch.org/2015/02/11/a-whole-lot-of-numbers-converging-on-one-truth/>
10. Sirota, Alexandra. “Prosperity Watch Issue 46, No. 3: Revenue Growth Is Not the Same Thing as a Surplus.” NC Budget and Tax Center. February 2015. Available here: <http://www.ncjustice.org/?q=budget-and-tax/prosperity-watch-issue-46-no-3-revenue-growth-not-same-thing-surplus>