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## Raising the Bar in the Budget Debate:

North Carolina should rebuild for the future, not cut back

BY ALEXANDRA FORTER SIROTA, CEDRIC JOHNSON and TAZRA MITCHELL

The Legislature's upcoming budget debate is an opportunity to change the state's direction and ensure a stronger recovery from the Great Recession. To do so, policymakers must make the critical investments needed to alleviate the economic struggles of North Carolina families, create pathways to the middle class, and strengthen communities across the state.

A pay increase for teachers is just one issue that policymakers must address when they return to Raleigh this spring. A host of other public services are starved of resources too, which threatens to erode their quality, efficiency and effectiveness – particularly as North Carolina needs to position itself to compete for good-paying jobs and deliver a high quality of life to its residents.

Legislators can make the 2014 session a success by measurably increasing investments in the classroom, public health, environmental protections, and the courts. This will require adequate revenue, which means lawmakers must revisit the huge tax cuts they passed in 2013. At the very least, lawmakers should halt scheduled reductions to the personal and corporate income tax rates that are set to take effect in 2015 and not pursue additional tax cuts.

### Creating a Stronger Future for North Carolina

To strengthen the state's economic recovery and long-term prospects for growth, North Carolinians need a chance to reach their full potential and attain greater economic security. But the things that promote a strong middle class— quality schools, affordable health care, a sound transportation system, affordable housing and growing safe, healthy neighborhoods—are increasingly scarce. The state budget plays a critical role in building these foundations of opportunity and promoting a strong economy in communities throughout North Carolina.

The good news is that North Carolina knows how to invest in public structures that promote economic opportunity across the state and build a strong middle class. Past investments in roads, schools, public universities and research and development paved the way for an economy that, in previous decades, outpaced many other Southern states. Policymakers should return to these strategies, along

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with other ones that meet the needs of a modern economy, in the upcoming legislative session. Among the investments and changes they can make are:

***Provide high-quality education to each child from birth to post-secondary***

Early Learning & K-12 Education

- Fully fund pre-K for at-risk 4-year-olds
- Increase teacher pay for all teachers and establish a plan to fund increases that reach the national average
- Restore funding for:
  - Textbook dollars to ensure students can learn with up-to-date instructional materials
  - Teacher assistant positions that were eliminated for the 2013 school year
  - Limited English Proficiency (LEP) programs, which ensure second language learners have access to the tools to learn
  - Teaching Fellows program, which recruits and places trained teachers in North Carolina classrooms
  - School bus replacement

UNC System

- Increase funding for need-based financial aid
- Stop cuts that force the university to increase tuition and erode the quality of higher education in the state

***Protect public health and healthy living***

- Fully fund Medicaid without cuts to services and increased co-pays
- Eliminate the waiting list for child care subsidies that benefit low-income families
- Fully fund the Home and Community Care Block Grant—which faces stagnant funding amidst growing waiting lists—so that older, low-income adults who aren't eligible for Medicaid can stay in their homes
- Restore funding to comprehensive youth tobacco use prevention programs

***Invest in infrastructure and build communities of opportunity***

- Reinvest in public transit. And, adjust the Strategic Mobility Formula to allow transit projects to compete equally with roads at all three levels of funding (state, regional, and local) because transit projects not only enhance transportation choices but also provide benefits to the entire state.
- Restore funding to the state's Affordable Housing Trust Fund and maintain the state's loan program for affordable housing development
- Encourage the location of healthy food stores in low- and middle income-communities through state-funded programs
- Reinvest in minority economic development programs and community development finance institutions

***Protect our air, water and natural resources***

- Fund inspections of water quality through better technology to collect the data and ensure field inspectors are supported with state appropriations and not fees alone

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- Fund monitoring of surrounding air and water quality statewide to protect public health
- Ensure that environmental data, permits, and compliance reports are integrated and easily available to the public by funding the necessary information technology
- Protect North Carolina's natural heritage by providing funds for land conservation, farmland preservation, and wildlife protection
- Lead a transition to a sustainable energy economy through the state's purchasing power by purchasing more power from renewable sources like wind and solar and buying electric cars and trucks for its motor fleet

***Support workers and re-employment***

- Reinvest in workforce development by providing state funds for re-employment services at NC Works Career Centers
- Support community college efforts to align workforce training with economic development through the Basic Skills Plus and Back to Work programs and investments in the NC Biotech Center and other industry initiatives

***Ensure equal access to justice and the efficient operation of the courts***

- Fund defense services for poor people accused of crimes
- Restore state funding for drug treatment courts
- Increase funding for:
  - Civil legal services for low-income clients
  - Establishment of local reentry councils and to provide reentry services
  - Certified interpreters for Limited English Proficient parties

***Support economic security of children and families during tough times***

- Ensure the efficient delivery of supports to struggling families through investment in technology that delivers SNAP, Medicaid and other critical programs in a timely and streamlined manner

The state already has many services in place to support North Carolina's economy and families. Reducing investments in these services and strategies during tough times, and failing to bolster them during the recovery, only creates more hardship and delays a full recovery.

**How North Carolina Can Meet Its Needs**

As a result of tax cuts that primarily benefit the wealthy and profitable corporations, state policymakers have created a structural deficit in which revenues are likely to continue to fall short from what is needed to meet critical needs across budget areas.

The tax changes that policymakers enacted in 2013 will bring in less revenue each year than under the previous tax structure. Policymakers will have to address an additional \$445 million revenue shortfall in the current fiscal year when they return to Raleigh as well as an estimated \$140 million Medicaid shortfall. This will require deploying all the money unappropriated for this fiscal year as well as finding additional revenue sources to cover a budget gap of \$335 million (See Figure 1).

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**FIGURE 1. Current Fiscal Year Budget Shortfall Estimated at \$335 million**

<b>Consensus Revenue Forecast</b>	
<b>FY 2013-14</b>	
Total General Fund Availability	\$ 20,881,277,688
Revenue Shortfall	(445,400,000)
Medicaid Shortfall	(140,000,000)
<b>Revised General Fund Availability</b>	<b>\$ 20,295,877,688</b>
Original Appropriations	\$ 20,630,767,645
<b>Total Budget Gap</b>	<b>\$ (334,889,957)</b>

Source: Consensus Revenue Forecast from Fiscal Research and Office of State Budget and Management and Fiscal Estimates of Medicaid Shortfall.

In Fiscal Year 2014-15, the consensus revenue estimate already projects a \$191 million revenue shortfall. Estimates from the economic incidence model of the Institute on Taxation and Economic Policy (ITEP) suggest that the revenue shortfall could reach an additional \$600 million for next fiscal year due primarily to the higher cost from personal income tax changes. After accounting for a Medicaid shortfall that could be as high as \$192 million due to the rebase, state policymakers look to face a budget gap of around \$228 million next year according to the consensus revenue figures. When considering ITEP’s \$600 million revenue shortfall for next fiscal year, next year’s budget gap could reach \$637 million.

**FIGURE 2. State Policymakers Face a Sizeable Budget Shortfall Following Tax Plan**

	<b>Consensus Revenue Forecast</b>	<b>BTC's Revenue Estimates</b>
	<b>FY 2014-15</b>	<b>FY 2014-15</b>
Total General Fund Availability	\$ 21,354,404,371	\$ 21,354,404,371
Revenue Shortfall	(191,000,000)	(600,000,000)
Medicaid Shortfall	(192,000,000)	(192,000,000)
Adjusted Beginning Reserve Balance	(200,636,560)	(200,636,560)
<b>Revised General Fund Availability</b>	<b>\$ 20,770,767,811</b>	<b>\$ 20,361,767,811</b>
Original Appropriations	\$ 20,998,801,208	\$ 20,998,801,208
<b>Total Budget Gap</b>	<b>\$ (228,033,397)</b>	<b>\$ (637,033,397)</b>

Source: Final FY 2013-15 approved budget; Consensus revenue forecast (May 2014); and Special Data Request to the Institute on Taxation and Economic Policy (May 2014).

Stopping the scheduled income tax rate reductions from going into effect for 2015 would keep some of the revenue needed to bolster our schools, health care, public safety and other things that will strengthen North Carolina’s economy. Roughly \$300 million would be available if the corporate income tax rate remained at 6 percent and the personal income tax rate remained at its new flat rate of 5.8 percent.

This is clearly no longer sufficient to meet the priorities of the state and build stronger foundations for North Carolina’s long-term economic success. Lawmakers must revisit their tax plan to ensure that adequate revenue for critical public services is raised.

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