



BTC Brief

BUDGET & TAX CENTER

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Four Fast Facts about the Governor’s Budget:

Governor Cooper proposes a budget within the confines of the current tax code

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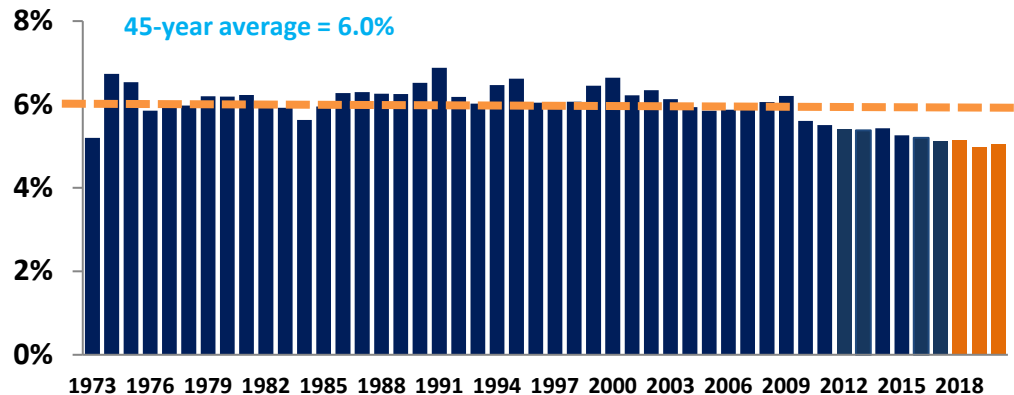
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Governor Cooper released a proposed budget for the next two years but long-term structural challenges in funding services and programs will continue to plague North Carolina due to tax cuts that have primarily benefited the wealthy and big corporations.

Indeed, Governor Cooper’s boldest investments in education and health are made possible through bond financing, tapping heretofore untapped federal funding streams and enacting provider assessments to meet the state match for Medicaid expansion. The Governor’s budget makes no changes to the state tax code which is upside-down and inadequate to keep up with the priorities for building a thriving North Carolina.

In many areas, priorities identified in communities and by North Carolinians will continue to go unmet. This budget proposal makes clear the damage of cutting taxes for the wealthy and profitable corporations to our communities. So while promising investments are identified in the Governor’s proposal (see Breakout Box), there is a continued need for state policymakers to identify sustainable revenue sources to support the needs of a growing state.

State spending as a share of the economy will continue below the 45-year average.



The proposed next two-year budget holds spending at the historically and arbitrarily low levels as a share of the economy. The first fiscal year of the two-year budget would invest at 5.04 percent of state personal income while the second fiscal year

appropriates state dollars at 4.98 percent of state personal income. A base level of public programs and services can support the growth and health of an economy, support family and community well-being and ensure children have a path to greater opportunity. Arbitrarily low levels of spending as a share of the economy that don't reflect community needs undermine that role for public investments.

The Governor uses the existing base-line revenues with the slight over-collections projected along with one-time money to pay for his budget.

HOW DOES THE GOVERNOR PAY FOR HIS BUDGET?	FY2020	FY2021
<i>Unappropriated Balance Over Collection of Revenues FY 2018-29</i>	\$ 645,592,679	\$ 74,925,982
<i>Reversions (estimated)</i>	\$ 150,800,000	
	\$ 275,000,000	
Transfers		
<i>to Savings Reserves (above statutory requirement)</i>	\$ (119,607,840)	
<i>to Capital Improvements Projects Reserve</i>	\$ (200,000,000)	
<i>to Repairs and Renovations Reserve</i>	\$ (50,000,000)	
<i>to Retiree Healthcare Reserve</i>	\$ (50,000,000)	
<i>to Information Technology Reserve</i>	\$ (75,000,000)	\$ -
<i>to State Emergency Response and Disaster Relief Fund</i>	\$ (10,000,000)	\$ -
Beginning Unreserved Fund Balance	\$ 566,784,839	\$ 74,925,982
Revenues Based on Existing Tax Structure	\$ 24,814,100,000	\$ 25,801,400,000
<i>Remove Sunset on Historic Preservation Credit</i>	\$ (500,000)	\$ (9,000,000)
<i>Prepaid Health Plans Insurance Tax Revenues</i>	\$ 13,200,000	\$ 201,500,000
<i>Prepaid Health Plans Insurance Tax Revenues from Medicaid Expansion</i>	\$ 3,300,000	\$ 74,900,000
<i>Transfer to Savings Reserve (per G.S. 143C-4-2)</i>	\$ (106,000,000)	\$ (185,800,000)
<i>Transfer to Golden LEAF Treasurer and Insurance Nontax Transfers</i>	\$ (5,000,000)	\$ (5,000,000)
	\$ 2,127,367	\$ 3,014,005
Total Budget Availability	\$ 25,288,012,206	\$ 25,955,939,987
— Appropriation Requirement	\$ 25,213,086,224	\$ 25,955,939,987
REMAINING GENERAL FUND BALANCE	\$ 74,925,982	\$ -

As opposed to the approach the Governor embraced last year with a proposal to stop scheduled income tax rate reductions, Governor Cooper's budget relies this time on unappropriated

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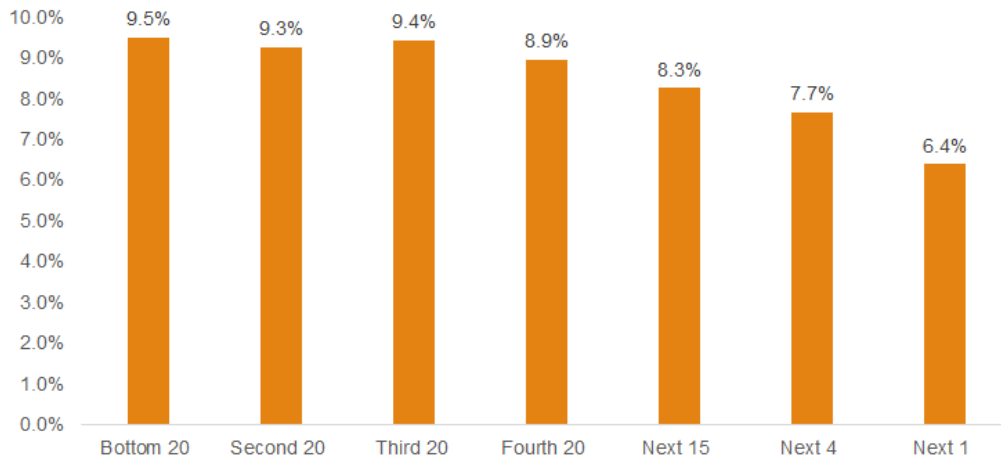
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balances, reversions and modest revenue collections above projections to fund current service levels and expand services in a narrow set of areas.

The Governor doesn't address the upside-down nature of the state tax code.

Total State and Local Taxes as Share of Income for Non-Elderly Taxpayers, 2019



Source: Special Data Request to the Institute on Taxation and Economic Policy, January 2019

The state's current tax code is upside down asking more from middle- and low-income taxpayers as a share of their income than from the wealthiest. The Governor's proposal provides no solution to this issue with our tax code.

It does, however, pursue bond financing which will be paid for ultimately by taxpayers and assessments on health care providers to meet much-needed investments in upgrading school buildings and supporting the health care of hundreds of thousands of North Carolinians.

The state's structural challenge of meeting community needs with an inadequate tax code remains with this proposal.

The Governor's proposal for Fiscal Year 2019-20 meets current service levels. In the second-year of the two-year budget, so-named "must-dos" in the [Governor's budget that reflect what is minimally required to continue to deliver current services to the state's growing number of students and people total \\$838.5 million but the increase in the budget year-over-year falls short by increasing overall spending by \\$742.8 million.](#)

Because the Governor's budget doesn't address the underlying inadequacy of the state tax code, it also does not address future projected structural deficits, the gap between revenue and maintaining the same level of services delivered now over time. The tax code is projected to fall short of needs [by more than \\$1 billion in Fiscal Years 2022 and beyond.](#)

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Public investments that strengthen NC communities from Governor Cooper's Proposal

There are a number of important public investments that make some progress towards addressing systemic issues in communities across the state and advancing greater commitment to ensuring every North Carolinian has the tools to thrive. These key public investments must be part of all legislative proposals going forward as they represent smart ways to promote opportunity.

Medicaid Expansion: The Governor's budget proposal expands Medicaid coverage up to 138 percent of the Federal Poverty Level and providing more than 500,000 North Carolinians with new health care coverage. Ninety percent of the cost of delivering Medicaid services to North Carolinians is covered by the federal government and the remaining 10 percent is covered through proposed changes to assessments on hospitals and pre-paid health plans. The Governor's proposal identifies cost savings in different areas of the budget from providing this affordable health care option.

NC Jobs Ready Fund: The Governor's budget proposal establishes critical state level funding for workforce development and skills training by reducing the size of the tax cut for employers through the unemployment insurance. The \$65 million available through these important contributions will support short-term credential attainment for workers in key growth industries, finish line grants to make post-secondary education more affordable and other workforce development investments that support connections to the workforce and advancement in careers.

Bond for School Construction and other Capital Needs: The Governor's budget proposal recommends placing on the ballot in November 2020 a General Obligation Bond measure in the amount of \$3.9 billion to partially address the backlog of capital needs in K-12 schools, water and sewer systems and cultural institutions.

Raise the Age: The proposal funds the legislation that would raise the age of juvenile jurisdiction for nonviolent crimes from 16 years of age to 18. Dollars will provide funding to hire juvenile court counselors, custody and security staff, transportation, and provide community-based services to young people. Funding is a critical component to ensure that young people are supported in the juvenile system.

Broadband: The Governor proposes funding last-mile projects for businesses, community anchor institutions and underserved households to ensure access and quality service to this critical tool in modern life. Notably his proposal additionally provides funding for access to technology and mobile hotspots to help students with homework through improved internet access.

Census 2020: The Governor provides critical state level funds to ensure an accurate count in the decennial Census, a key data source for a range of policy and programmatic decisions statewide. Concerns abound that underfunded outreach and administration could hurt the ability to collect accurate data.

Early Childhood: The Governor proposes funding the Smart Start infrastructure statewide, a critical support to expanding access and quality of early learning opportunities for the state's youngest children. The Governor proposes increasing the slots for NC Pre-K through lottery funds and recognizes the higher cost of delivering this service by adjusting the reimbursement and administration rates for the program.

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