



Keep Arbitrary Tax & Spending Limits Out of North Carolina

Vote No on Senate Bill 607 which would create permanent cuts to schools, senior services and other programs that support a vibrant economy and quality of life

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A suite of severe changes to the state constitution laid out in Senate Bill 607 would undermine the foundations of the North Carolina economy and make our current challenges much worse. The bill changes the state constitution in three ways:

1. Limits spending on education, health, and other services through a rigid, arbitrary, and fundamentally flawed formula and requires a 2/3rd majority vote of legislators to override that formula
2. Caps the income tax at 5 percent, which significantly reduces the resources available to run our schools and maintain our priorities
3. Limits access to the state's rainy day fund - the Emergency Savings Reserve Fund - by requiring a 2/3rd majority vote of legislators

These restrictive fiscal policies would hurt not help the economy by hamstringing the ability of the state to invest in the building blocks of economic growth and prosperity. These amendments would harm the economy everyday, making it harder and harder to pay for schools and higher education, for example. By failing to make the investments needed to position the state to compete and innovate, the flawed spending limit and income tax cap will restrict our ability to grow new industries, capitalize on efficiencies in technology or the delivery of services and build the human capital necessary to grow. And limiting access to the rainy day fund in times of emergency leaves North Carolina without a fallback when the next recession hits.

NORTH CAROLINA'S ECONOMY AND THE QUALITY OF LIFE OF ALL NORTH CAROLINIANS WILL SUFFER BECAUSE:

Average families and businesses rely on the investments that these arbitrary and flawed limits would undercut, like schools, universities, roads and bridges, and other services. The arbitrary spending limit proposed in Senate Bill 607, for example, is modeled after a similar constitutional amendment in Colorado called TABOR. TABOR did so much damage in Colorado that voters chose to suspend it. It forced drastic cuts to Colorado's K-12 and higher education, and it became impossible for the state to keep pace with the rising cost of health care, forcing cuts to child immunization programs and prenatal health care. At the same time, it was clear that it was doing nothing to improve Colorado's business climate, economy, or quality of life. As a result, business leaders in Colorado were major proponents of suspending the law.

Under the formula, spending could only grow based on population and inflation, leaving no room for the state to respond to new or emerging needs. As a result, North Carolina would be unable to maintain, even in prosperous times, the same level of these services that businesses, communities, and families rely upon today. Here's why:

- The formula ignores the fact that certain parts of the state population are growing faster than others and the cost of certain services is growing faster than inflation. For example, growth in North Carolina's elderly population—a group that requires higher cost services such as health care—is outpacing overall population growth. Likewise, health care costs grow much faster than the rate of inflation.

- North Carolina will be forced to make large, annual cuts to services and to choose between funding important services, likely pitting health services for the elderly against money for schools.
- Such a proposal would indefinitely “lock in” the state’s current extraordinarily low Recession level of investment in key services, making it so that North Carolina can never replace the services that were cut since the Recession started.

The proposed cap on the income tax rate at 5 percent is well below the current level and will either undermine key investments or mean higher sales taxes and increased costs for taxpayers, or both. The income tax rate has already been lowered to a flat rate of 5.75 percent and further reductions will only reduce the availability of resources needed to support services people rely on every day, like schools and roads. Such a move will result in the loss of at least \$1.5 billion annually. In addition to undercutting kids:

- Limiting the income tax will hurt the state’s ability to create a more fair tax system. This is because the income tax is the single best tool for ensuring that lower income people aren’t paying a larger percent of their income in all state and local taxes than the wealthy.
- If less revenue is coming in from the income tax, lawmakers will likely turn to other revenue sources to make up the difference. As a result, the sales tax and property tax will likely be increased.
- States that have set in place these kinds of tax and budget restrictions often face higher borrowing costs as their bond ratings are downgraded.

Requiring a two-thirds majority vote to access the state’s Rainy Day Fund during natural disasters or economic downturns would hurt state lawmakers’ ability to respond to emergencies. This means that legislators will be more likely to raise sales taxes and fees or cut spending, which can deepen a recession.

These constitutional amendments undermine the ability of elected officials to represent the will of North Carolina voters. In reality, this bill doesn’t give lawmakers the power to do anything they can’t already do—like cutting taxes or cutting spending. What it does do is put budgeting—their primary job—on autopilot. Lawmakers are handing over their decision-making responsibilities to a flawed formula, an unnecessary tax cap, and a senseless restriction on the use of the state’s emergency reserve fund. This will result in cuts to services, whether the people of North Carolina want them or not. Once these proposals are etched into the state’s constitution, the course will be set and they’ll be nearly impossible to undo.

Senate Bill 607 harms our economy today and weakens our economic position tomorrow.

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