



# Radical Tax Cap Would Put North Carolina in a Permanent Bind

## OPPOSE SENATE BILL 817 WHICH THREATENS CHILDREN'S EDUCATION ACROSS NORTH CAROLINA

### BUDGET & TAX CENTER FACT SHEET

#### REASON #3

## Don't Threaten Our Children's Education and Our State's Future Economic Health

Amending the state constitution to set an arbitrary and low income tax rate would threaten North Carolina's ability to invest in a quality education for every child in the state. Even though we have 76,000 more students in our public schools than we did in 2008, state funding for public schools on a per student basis remains below its 2008 pre-recession level when adjusted for inflation.

#### **Current proposals to increase teacher pay will be for naught.**

State leaders say they would *like* to improve teacher compensation for North Carolina teachers. However, under this proposal, getting average pay for our teachers to the national average would be nearly impossible. For the 2015-16 school year, North Carolina lawmakers would have to boost support for teacher pay by nearly \$1 billion in order to reach the national average.

Costly income tax cuts in recent years have already reduced revenue by more than \$1.5 billion per year, and that number will grow to more than \$2 billion once all tax changes are fully implemented. Raising sales taxes to fill this gap would require a hike in the sales tax rate or broadening the sales tax base to include more goods and services. Alternately, policymakers would have to make huge cuts in other areas of the education budget in order to get to and stay at the national average in teacher pay.

North Carolina's most veteran teachers will likely continue to have their pay frozen, as state leaders show no desire to increase the maximum \$50,000 salary for teachers with at least 25 years of experience. Furthermore, current year budget proposals would limit cost of living adjustments for retired teachers – meaning the value of their fixed retirement income will erode over time.

#### **Education investments will be hard hit today and every school year into the future.**

Public schools face the persistent challenge of educating our students with inadequate resources. State funding for classroom supplies and instructional materials, textbooks, and school nurses, among other areas, remain well below pre-recession funding levels. Moreover, state funding for professional development, literacy coaches, and mentor teachers has been eliminated altogether. These are important education services that promote student success.

Costly income tax cuts pushed through by state leaders in recent years have led state leaders to rely more on lottery dollars to fund core areas of public schools: classroom teachers, teacher assistants and non-instructional support. These lottery dollars have been used to supplant General Fund support rather than supplement state funding. Rather than increasing funding for education – as the Lottery was originally sold – Lottery funds are increasingly being used to free up General Fund dollars for use for other budget priorities of state leaders. North Carolina's increasing reliance on Lottery funds pushes the load onto poor and low-income North Carolinians for the funding of our public schools.

#### **Georgia, where a lowered income tax cap has been in place since 2014, has already seen the challenge of making sure every child has access to a quality education.**

In 2014, Georgia changed its constitution and lowered the cap on its top income tax rate. So while Georgia lawmakers continue to work to eliminate an austerity cut to its K-12 schools that was as high as \$1.4 billion in 2010, the income tax cap has cut off a major tool in addressing classroom and student needs across the state.

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Georgia's local governments are increasingly responsible for restoring funding to public schools – even as they are experiencing growing health care and transportation costs as a result of state lawmakers shifting these responsibilities down to the local level. These [mounting fiscal pressures are making it difficult for districts to meet classroom needs while also raising teacher salaries](#) as the governor is encouraging them to do. The income tax cap now in place in Georgia limits the ability of current and future lawmakers to ensure that its public schools have adequate resources for the more than 1.7 million students in its public schools.

**Bond projects being pursued by local North Carolina governments for school construction and transportation could also be affected by a rating downgrade.** With an estimated [\\$8 billion worth of school construction projects needed](#) across the state, this is not the time to increase the cost of borrowing in North Carolina. As local governments look to issue bonds to fund school construction, this will directly reduce local funding available for education services provided inside the school building. Annual debt service payments for locally-issued bonds typically come from local General Fund budgets. Every dollar going to debt payments means that one less dollar is available for investments in education services that support student success. Increased borrowing costs will hit low-wealth counties particularly hard, given their already limited capacity to generate local revenue to support their schools.

[Huge disparities in local economic wealth exist across the state.](#) Wealthier counties have more taxable resources to generate revenue while counties with fewer taxable resources need to make greater taxing effort to support their schools. Consequently, as state support for public schools steadily erodes, disparities in the quality of education students receive will persist, depending largely on where a student lives in the state.