

BUDGET & TAX CENTER FACT SHEET

November 2014

State investments in education, health care, infrastructure and other priorities are essential for economic opportunity and quality of life. Yet, North Carolina's 2015 state budget is unsustainable and inadequate. It undermines North Carolina's economic competitiveness by not meeting the needs of North Carolina families and communities. This will continue to be a problem until state leaders recognize the damage their 2013 tax plan is causing and take action to correct it.

In 2013, the NC General Assembly and Governor McCrory implemented more than \$2 billion in tax giveaways that primarily benefit wealthy individuals and profitable corporations. Now, it turns out the tax cuts are going to cost all of us much more. Fiscal Research Division, the state agency in charge of estimating how much tax changes will cost, now says the individual income tax giveaways will cost **more than \$5 billion over five years**. Those losses put the state on an unsustainable path, making it impossible to restore the deep budget cuts to education, economic development, and care for our older adults, children, and families experiencing financial hardship.

Because these cuts for the fiscal year 2015 budget come on top of a series of damaging cuts that were enacted in fiscal year 2014, North Carolinians are already dealing with the fallout of legislators' decisions. We need to talk about how these cuts are affecting our children, our schools, our neighbors, and our communities. Most importantly, when you hear state leaders claim that they made the right decisions for North Carolina, you must speak up.

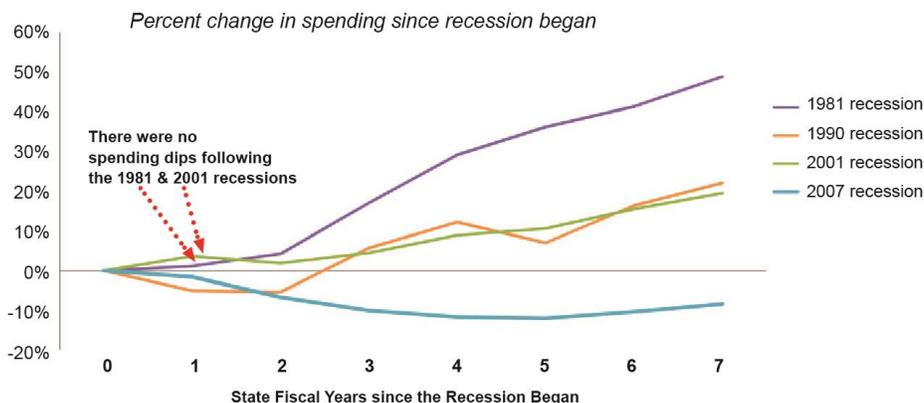
Talking Points and Supportive Facts

★ **Governor McCrory and the NC General Assembly made a choice to leave many vital public services operating at diminished levels.**

State spending is shrinking as a part of the economy. State budgets typically allow spending to grow as population grows and the economy changes. Yet today, investments are 6.6 percent below pre-recession levels even though North Carolina is in the fifth year of the official economic recovery. This trend makes it much more difficult for North Carolinians to fully experience the recovery. This pattern is in stark contrast to North Carolina's experience during the previous three economic recoveries when reinvestments were quicker to bounce back (see chart below).

Lawmakers didn't have to cut or underfund education, health care, and small-business development. They chose to do so. And they chose to put that money toward tax cuts that primarily benefit wealthy individuals and profitable corporations.

State Investments Slow to Bounce Back Relative to Past Recoveries



SOURCE: Spending levels reflect total General Fund spending. Office of State Budget and Management Post-Legislative Summaries and enacted FY2014 and FY2015 budgets; adjusted for inflation in FY2014 dollars.

★ **Inadequate education budgets over the past two years put the future of North Carolina at risk. We cannot afford to shortchange education investments.**

Early Education: Lawmakers failed to make early childhood education a priority, choosing to keep spending for programs like NC Pre-K and child care subsidies at woefully inadequate levels. Long waiting lists for both programs abound. They even made it harder for moderate-income families to qualify for child care support by tightening income eligibility guidelines, cutting off help for an estimated 12,000 children.

K-12 Education: The 2015 budget provides public schools with \$277 million less than what they would need to provide the same level of services as they did during the 2012-13 school year. More strikingly, it falls **\$700 million** short of the budget that was in place when the Great Recession hit.¹ With too few dollars available to meet the needs of students due to the 2013 tax plan, new spending initiatives—such as pay raises for teachers and other school personnel—came at the expense of needed increases in other area (i.e. textbooks).

Higher Education: Lawmakers increased tuition costs at community colleges by \$0.50 per credit hour. That brings the total tuition increase since the 2008-09 school year to a whopping 70 percent. They also didn't adequately fund student support services—like transportation and mentoring programs—that are proven to help students succeed. Plus, legislators made a \$76 million “flex” cut to the UNC System. Since the recession ended, state leaders have cut \$1.1 billion from North Carolina's public universities.

★ **Lawmakers' choices on Medicaid and community care undermine the well-being of communities and families.**

State lawmakers refused to expand access to Medicaid even though doing so would provide health coverage to about 500,000 uninsured North Carolinians and create approximately 25,000 new jobs by 2016.² The budget makes it harder for those who do have Medicaid to get health services by cutting how much the state pays providers for care to Medicaid patients. These cuts come on top of deep cuts in the previous year's budget, which could lead providers to refuse Medicaid patients. Hospitals in areas where much of the population is on Medicaid may also be forced to shut down. Also, lawmakers cut funding by nearly \$1 million for assistance to older adults who want to stay in their homes via the Home and Community Care Block Grant.

★ **State leaders have made it harder for families and communities to achieve economic security.**

In the 2014 and 2015 budgets, lawmakers eliminated all state funding for ten non-profit organizations that promote job and business development in communities of color and low-income communities. They gave tax cuts to big multi-state corporations while making it harder for small businesses—the kinds of businesses that provide opportunities in the state's most economically distressed areas—to get off the ground. Over the last two years lawmakers also cut more than \$1 million from the Housing Trust Fund, which funds affordable-housing projects and helps ensure that families can pay for housing expenses.

★ **Lawmakers must recognize that there are better choices available to put North Carolina on a stronger path.**

Now is the time for lawmakers to reverse course and reinvest in public education, community-based supports, public safety, and job training programs that support widespread prosperity. Lawmakers should reverse the 2013 tax plan and reinstate the progressive income tax structure. Not only will this restore some equity into the tax system but it will also allow the state to raise more adequate levels of revenues that can help grow a stronger economy for everyone.

The state budget plays a critical role in building the foundations of opportunity and promoting vibrant economies throughout North Carolina. By failing to invest in the building blocks of a stronger and more inclusive middle class, North Carolina is jeopardizing its success in the future and the well-being of families.

¹ Assumes pay increases are in the Salaries and Reserves section of the budget to follow precedent so that overtime comparisons can be made.

² NC Institute of Medicine. “Examining the Impact of the Patient Protection and Affordable Care Act in North Carolina: Medicaid Expansion Option Issue Brief.” January 2013.