



north carolina

# JUSTICE CENTER

July 14, 2021

To: North Carolina Representatives in the General Assembly

From: North Carolina Justice Center

Re: House Budget Proposal

As you craft and vote on the House budget, **the North Carolina Justice Center urges you to reject elimination of the corporate income tax or phase-downs of the personal income tax rate proposed by the Senate.** Instead, we hope that you will focus on allocating all available state and federal funding to transformative public investments that will help working families, strengthen the resiliency of every community and be the fuel our economy needs to grow sustainably and equitably out of this pandemic and into the future.

The Senate's proposal to prioritize tax cuts for corporations, out-of-state businesses and their shareholders, and the wealthy, while families across the state are burdened by the harsh effects of the pandemic, is a profoundly bad path for North Carolina to take.

It sets up future lawmakers to deal with significant fiscal cliffs to keep up with the responsibilities of a growing state and only deepens the backlog of unmet public investments that have kept our schools from compliance with the constitutional duty to provide a sound, basic education, our social services from boosting the well-being of families equitably and our transportation networks and other infrastructure from ensuring that people can get to work and businesses can get goods to market.

**The House has a pivotal role to play in the budget process by finding a fiscally responsible path that better meets the priorities of people and communities than the Senate.** Using state General Fund dollars for the underlying systemic and long-term needs in the state will allow federal temporary dollars to meet immediate needs and ensure that the state can sustain public institutions and services for the good of North Carolinians today and in the future.

There are too few child-care providers in North Carolina to deliver quality early education to our state's youngest children—[one in four children live in a child care desert in our state](#). Water in too many communities isn't safe to drink—[in at least 150 water systems toxic PFAS chemicals have been detected](#). Housing for too many is unaffordable with [a gap of 190,000 rental housing units for households that have extremely low income in the state](#). Meanwhile, North Carolina communities do not have the resources and infrastructure to offer opportunity to every entrepreneur or job to all who want to work. Economic mobility remains low; [just one-third of children in low income households climb into the middle or upper income groups across their lifetime bolstered by programs and services](#). Moreover, the efficient delivery of basic government services has been compromised with [public sector employment still down by nearly 50,000](#) from pre-COVID-19 levels.

For more information or to discuss the contents of this memo, please contact Alexandra Sirota, [alexandra@ncjustice.org](mailto:alexandra@ncjustice.org) or 919-861-1468

The recent [Household Pulse Survey from the U.S. Census Bureau](#) finds that hardship rates are high in North Carolina:

- 160,000 North Carolinians do not believe they can make their next mortgage or rent payments,
- 1.3 million North Carolinians have lost employment income in the last 4 weeks. Another 850,000 are expected to lose income in the next 4 weeks.
- 350,000 North Carolina households with children reported not having enough to eat in the last week.

**The North Carolina Justice Center stands ready to work with House members to pursue sound fiscal practices that put peoples' urgent needs first and recognize that without securing the well-being of people, our economy cannot be well.** In addition to rejecting the extreme tax cuts in the Senate budget proposal, we urge the House to pursue the following policies and investments in the proposal that gets put forward:

- **Pursue bottom-up tax cuts that recognize that everyone pays taxes, and that lower-income people pay a greater proportion of their income in sales and property taxes.**
  - **State Earned Income Tax Credit** — Reinstating the state EITC, which the NC General Assembly eliminated in 2013, would help address our state's upside-down tax code and give over 1 million working families and major boost. Decades of evidence show that the EITC keeps children out of poverty, has a lasting effect on their health and economic stability, and supports employment.
  - **Housing tax credit** — Providing people the opportunity to secure state level relief at tax time from the housing costs that are increasing in communities across the state will provide a long-term solution to the growing pressure on housing affordability for renters and homeowners.
  - **Extra Credit Grant program** — NCGA created this COVID-19 relief program in 2020 to grant \$335 to families that were eligible for the child tax credit. An improved version of this program would target lower-income families and ensure equitable access by funding outreach to families who did not file income taxes in recent years because their incomes were too low. The benefits of such outreach could also ensure the full benefit of expanded federal tax credits arrive to eligible families in the state.
- **Leverage federal incentives to bolster funding to North Carolina families and communities.**
  - **Medicaid expansion** — Senate leaders failed to address the lack of affordable health care access for more than 500,000 North Carolinians. While the Senate plan includes the expansion of full Medicaid benefits to women for 12 months postpartum — rather than the current 60 days of postpartum coverage of limited pregnancy Medicaid — this carve-out demonstrates a failure to recognize the link between pregnancy-related health and long-term health, as well as the need for all individuals and family members to be able to access care whenever they need it. This year, there is a net estimated \$1.2 billion that North Carolina would receive as an incentive to expand Medicaid over two years, made possible by the American Rescue Plan Act.

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- **Short-time compensation**—The costs of establishing and administering a short time compensation, including payments to beneficiaries are 100% reimbursed by the federal government. This program would allow employers to opt-in to participate and reduce hours rather than laying people off putting them in a better position when jobs are back on line to have a ready workforce.
- **Connected communities fund** -- North Carolina should seed a Connected Communities Fund that provides grassroots organizations, faith institutions and community-based groups like Volunteer Income Tax Assistance sites with the resources to inform and support families in accessing support and moving towards recovery. Such funding should be available to allow these trusted institutions to enroll families in the programs for which they are eligible including expanded tax credits, rental assistance and broadband subsidies so that North Carolina can maximize the federal funding available to North Carolina families and communities.
- **Drive available state dollars to investments that remove barriers to work and education rather than reductions in personal income tax rates.**
  - **Child care must be affordable and accessible.** The average cost of care for young children in North Carolina is \$9,650. The cost, paired with low levels of investment, make is increasingly difficult for families to afford early childhood education & care. An overwhelming majority of North Carolinian voters support increased investment, and our elected officials should as well. State dollars could make sure providers get reimbursed to deliver quality care in an equitable way and ensure families with low incomes can access child care assistance.
  - **People need supports to successful re-entry after involvement with the criminal justice system.** Supporting a coordinated system of re-entry services with the goal of successful reintegration of justice involved individuals back to their communities requires a greater investment to expand the current reach of Re-entry Councils to all 100 counties and provide direct support to individuals. A \$20 million investment would bolster this system and save dollars down the line.
  - **NC must meet the constitutional obligation to provide a sound, basic education to every child.** Funding the first two years of the Leandro Comprehensive Remedial Plan in the amount of \$1 billion is possible with state dollars. As explained by Judge David A. Lee, the Leandro Plan is “a comprehensive set of fiscal, programmatic, and strategic steps necessary to achieve the outcomes for students required by our State Constitution” which must be implemented expeditiously and in full.
  - **Businesses historically excluded from supports need capital and technical assistance.** The Senate has proposed spending \$1 billion in federal funds to help businesses with disruptions and costs incurred by COVID-19 via the JOBS Grant program, but this is reserved for those fortunate enough to secure prior recovery funds. State funds should be directed towards those most in need or historically marginalized, such as HUBs, and to the public institutions that can provide additional connections and technical assistance to these anchors of opportunity and employment in communities.
  - **Communities need an increased supply of affordable housing.** Funding the development of affordable housing by allocating at least \$200 million dollars to

the state's Housing Trust Fund would allow projects to move forward and ensure that in the near future housing is available in more communities.

- **People are the economy.** Protecting working people from the harms of job loss by building out affordable retraining options, supporting hazard pay and investing in workplace monitoring for health and safety standards is the high-road our state must take in getting people back to work.
- **Create a process for public input into the allocation of American Rescue Plan.** The House championed a model process in the early days of COVID-19, convening issue specific work groups and creating venues for public input and comments. As North Carolina transitions from response to recovery and hopefully soon greater resiliency, we urge the House to consider the allocation of American Rescue Plan State Fiscal Recovery dollars with more time and input.
  - **Create a public comment period for the allocation of these dollars.** Leaders have set arbitrary spending limits behind closed doors rather than reflecting and assessing the full scale and scope of hardship and solutions. Funds do not have to be allocated until 2024, meaning sufficient time for input (e.g., multiple weeks or months) will not delay this process. It will also lead to more equitable investments if done right.
  - **Conduct regional hearings to gather priorities from community.** The needs of our state are diverse and often vary by geography. Elected officials must consider these differences before final decisions are made.
  - **Analyze local allocations to ensure state dollars are equitably distributed and complementary to planned investments.** Being informed on what is, or is not, happening at the local level will establish a foundation for long-term structural change across North Carolina.

**Your leadership is essential to make clear that our economy cannot thrive when people continue to struggle.** North Carolina is at a pivotal point in the effort to respond and rebuild from this pandemic and a decade of under-investment.

**North Carolina can afford to make sure that the damage of COVID-19 doesn't linger for years or generations to come.** The budget put forward this year will make the difference.