

North Carolina Budget FY 2015 - 17



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Where Is Your Money Going?

TAXES

- Income



Lowers rate from 5.75% to 5.499% and increases standard deduction.

- Corporate



Lowers rate from 5% to 4%.

GOVERNMENT SPENDING

EDUCATION

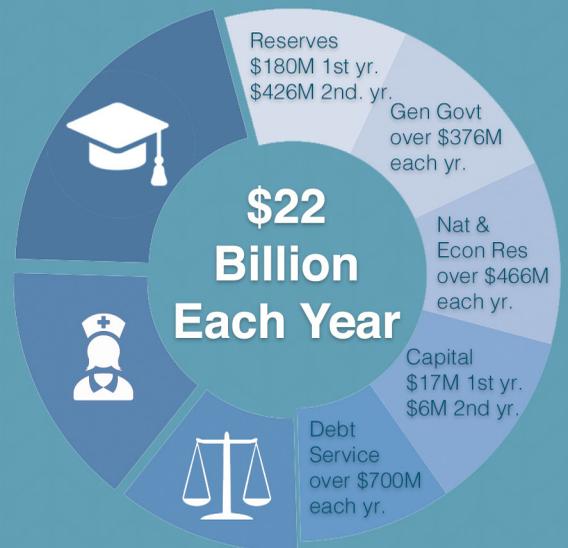
\$12.1+ Billion each year
Highlight: Teacher pay increase.

HEALTH CARE

\$5.1 Billion each year
Highlight: Set aside money for medicaid reform.

JUSTICE & PUBLIC SAFETY

\$2.5 Billion each year
Highlight: Increase in salaries for highway patrol & correctional officers.



Highlights



Teacher Pay

Early career teachers get \$2,000 increase. All others receive \$750 bonus.



Health Price Transparency

Health care facilities are required to post prices for surgeries and treatments.



Growth

Increases 3.1% from last year. Below the combined rate of population and inflation.



Renewable Energy

Allows the tax credit to sunset at the end of 2015.

This year, the North Carolina General Assembly drafted its two-year spending plan for the state. For fiscal year 2015-16, the General Fund budget will rise 3.1 percent to \$21.7 billion, below the combined rates of population growth and inflation. The following year, the budget will have an overall increase of less than one-percent, but changes are expected during next year's "short session" that will likely boost the overall amount spent on state government in FY 2016-17.

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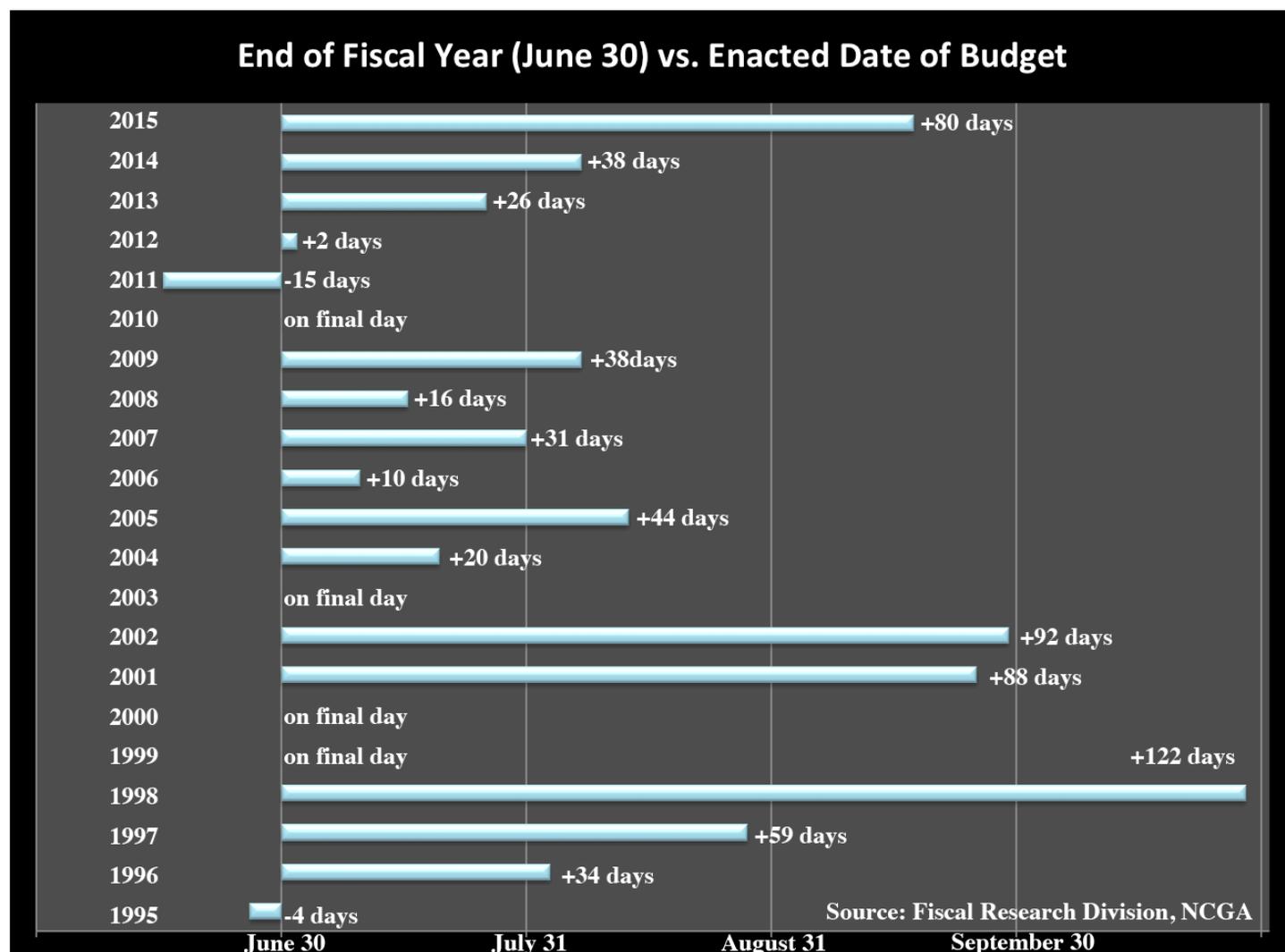
A Tardy Budget

The primary purpose of North Carolina's state budget is to direct taxpayer dollars to agencies and other government entities for items that 1) the state has a constitutional or statutory obligation to fund or 2) correspond to the policy priorities of the elected members of the N.C. General Assembly. To this end,

the General Assembly enacts a two-year or biennial budget every odd year. In even years, lawmakers may make adjustments to certain areas of the budget based on an updated revenue outlook and operational changes to state entities.

North Carolina operates on a fiscal year ending June 30. Thus, state government operations require a new spending plan by July 1 of every odd-numbered year. This year's budget agreement missed that deadline by two and a half months.

During the last fifty years, there have been only four budgets enacted in September or later, including this one. A series of continuing resolutions were passed to sustain state government operations until the legislature approved a final budget. While the length of the budget negotiations did not produce a shutdown of state government,



it did incur unanticipated costs to taxpayers. It also produced temporary uncertainty among state agencies, government contractors, and public schools, which had started the new school year in August.

Large Spending Areas

Every budget has items that are of particular interest to different segments of the public, but education spending and policy continued to attract most of the attention. As the largest general area of spending in state government, public education made up 57 percent of the total General Fund or more than \$12.1 billion each year of the biennium. Community colleges, the UNC System, and K-12 schools will receive funding increases in the next two years.

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For the current fiscal year, the elementary and secondary education budget exceeded \$8.5 billion, an increase of nearly \$412 million, or 5 percent, over last year's K-12 budget. A large part of that spending includes a \$2,000 per year increase in the salary for early-career teachers, raising the base pay of these greenhorns from \$33,000 to \$35,000 per year, and experienced-based advancement on the teacher salary schedule for all others. All teachers and state employees will receive a \$750 one-time bonus. Additional education items include full funding of teacher assistant positions and the addition of \$14 million for low-income families participating in the Opportunity Scholarship Program. At this point, there is a slight dip in the second year of the K-12 education budget, primarily due to funding for the one-time bonus. Nevertheless, it is widely expected that legislators will add an additional pay increase in the mid-term budget adjustment legislation. Any pay increase approved by the legislature next year will increase overall spending on K-12 education significantly.

The next largest expenditure in the state budget is Medicaid, which provides funding for health care services for disadvantaged populations. In this year's

budget, Medicaid accounts for 17 percent of the General Fund and nearly three quarters of North

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Carolina's Health and Human Services budget. While plans to reform Medicaid were not included in this budget, legislators set aside \$225 million over the next two years to begin the process of improving the state's Medicaid program.

The enforcement of price transparency was another significant health care item embedded in the budget. Lawmakers reinstated a transparency measure that will require the Department of Health and Human Services to post on its website the total charges and reimbursement data submitted by hospitals and ambulatory surgery centers for their most popular inpatient, surgical, and imaging services.

Transportation also received a massive injection of taxpayer money in this budget, an additional \$705 million over the biennium. Part of the reason for the increase was the elimination of the \$216 million transfer from the Highway Fund, thereby allowing highway money to be spent where it was intended and not sent to other areas of state government. The John Locke Foundation has long championed this reform. Additionally, State Highway Patrol salaries increased and the Division of Motor Vehicles will adjust their fees in an effort to generate additional funds for what is widely recognized as a core function of government – maintaining roads and bridges across the state.

While education, health care, and transportation are all critical state government functions, the state also needs adequate reserves to hedge any risk of another financial or natural disaster in the future. Thankfully, this budget authorizes a \$200 million deposit in the Savings Reserve Fund and a \$400 million deposit in the Repairs and Renovations fund. However, if the General Assembly approves a separate bill that would authorize a vote on a \$2 billion bond package and voters subsequently approve it, then \$250 million of the \$400 million earmarked for repairs and renovations

will be automatically transferred into the rainy day reserve. Depending on the outcome of the bond vote, the savings reserve fund has the potential to receive a total of \$450 million. While this may not completely offset a recession or natural disaster, it is a good start.

Tax Reform Continues

A continuation of the state’s 2013 tax reform is also included in this budget. Taxpayers will enjoy even more relief from burdensome taxation. This legislation lowered the personal income tax from 5.75 percent to 5.499 percent, which gives North Carolina a lower personal income tax rate than any of its neighbors. It also increases the standard deduction by \$500 for joint filers, \$400 for heads of households, and \$250 for single filers.

Filing Status	Former deduction	New deduction
Married, filing jointly/ surviving spouse	\$15,000	\$15,500
Head of Household	\$12,000	\$12,400
Single	\$7,500	\$7,750
Married, filing separately	\$7,500	\$7,750

The corporate income tax was lowered from 5 percent to 4 percent, but legislators made a key change to the calculation of the tax. Historically, North Carolina calculated its corporate income tax on a mix of property, payroll, and sales variables. Now the state will implement a single sales factor, which is used in 26 other states, including neighboring Virginia, Georgia, and South Carolina. Moreover, a new trigger was put in place that ties an additional one-percent reduction to the tax if the state collects a certain amount of tax revenue within a fiscal year.

Local government also saw a slight change in the tax code that may benefit many North Carolina communities. During the session there were attempts to alter the sales tax allocation formula. Alternatively, this

budget expands the sales tax base to include installation and repair services for businesses that already collect

This legislation lowered the personal income tax rate and increases the standard deduction.

sales tax. The new revenue from the expanded sales tax base is to only be spent on community colleges, public schools, and/or economic development. The local sales tax revenue will continue to be divided as it has in prior years, with 75 percent going to the county where the sales tax is charged and 25 percent based on the county’s population.

Other important tax changes were the reinstatement of the tax deduction for medical expenses and allowing the state’s renewable energy tax credit to sunset at the end of the 2015 calendar year.

Conclusion

As in previous years, large spending items in the budget such as Medicaid and K-12 education set the course for budget negotiations. When a budget has a small number of programs that consume a large share of total appropriations, other areas of the budget must fight for the scarce revenue that remains. Consequently, budget writers need to focus on the core, constitutionally mandated functions of government. This requires the ongoing use of fiscally responsible principles when making budget decisions that support these functions today and for future generations of North Carolinians.

In addition, the success or failure of any budget is dependent on how the money is spent. But barriers to accountability and transparency remain. Lawmakers need to establish reasonable and measurable goals for all government agencies and contractors that receive state funds. North Carolina taxpayers deserve to know whether their tax dollars are being used in productive ways.

Budget Comparison for Fiscal Years 2015-2017

	FY 2015-16	FY 2016-17
Education		
Public Instruction	8,516,769,297	8,419,444,621
Community Colleges	1,069,066,998	1,065,895,520
The University System	2,746,562,578	2,683,307,927
Total Education	12,332,398,873	12,168,648,068
Health and Human Services		
Central Management and Support	122,466,586	130,033,253
Aging and Adult Services	43,815,337	43,815,337
Blind & Deaf / Hard of Hearing Services	8,173,207	8,173,207
Child Development & Early Education	232,462,829	243,033,976
Health Service Regulation	16,105,247	16,110,674
Medical Assistance	3,736,574,943	3,916,237,272
Mental Health, Devel. Disab., & Subs. Abuse Svcs.	596,082,420	537,861,308
NC Health Choice	12,556,342	746,758
Public Health	141,377,220	148,298,428
Social Services	183,183,263	185,533,263
Vocational Rehabilitation	37,752,132	37,752,132
Total Health and Human Services	5,130,549,526	5,267,595,608
Natural and Economic Resources		
Agriculture and Consumer Services	116,314,975	116,955,773
Commerce	57,487,974	57,596,128
Commerce - State Aid	20,754,240	18,055,810
Cultural Resources	163,398,267	169,289,403
Cultural Resources - Roanoke Island	523,384	523,384
Environment and Natural Resources	81,306,602	82,429,609
Labor	15,995,359	15,822,235
Wildlife Resources Commission	10,153,623	10,023,496
Total Natural and Economic Resources	465,934,424	470,695,838

	FY 2015-16	FY 2016-17
Justice and Public Safety		
Public Safety	1,848,129,110	1,847,365,626
Judicial	484,931,217	484,126,321
Judicial - Indigent Defense	116,002,897	116,629,964
Justice	53,849,464	52,715,592
Total Justice and Public Safety	2,502,912,688	2,500,837,503
General Government		
Administration	61,340,912	58,664,485
Auditor	12,103,663	12,004,791
General Assembly	57,409,649	57,009,051
Governor's Office	7,822,109	7,566,174
Housing Finance Authority	21,618,739	25,660,000
Insurance	38,652,279	38,355,246
Lieutenant Governor	682,875	677,972
Military and Veterans Affairs	9,536,995	7,806,254
Office of Administrative Hearings	5,180,184	5,143,413
Revenue	81,059,539	80,457,679
Secretary of State	11,888,691	11,750,695
State Board of Elections	6,764,842	6,513,363
State Budget and Management (OSBM)	7,683,949	7,531,408
OSBM-Special Appropriations	14,781,688	2,000,000
Controller's Office	22,853,779	22,726,386
State Treasurer's Office	10,262,911	10,348,384
Treasurer - Retirement / Benefits	22,041,299	21,691,299
Total General Government	391,684,103	375,906,600
Subtotal Agency Budgets	20,823,479,614	20,783,683,617
Debt Service	714,776,023	703,465,595
Statewide Reserves	179,702,768	426,231,366
Total Capital Improvements	16,756,000	6,087,500
Total General Fund Budget	21,734,714,405	21,919,468,078

General Fund Budget Comparisons in Millions

Spending Category	FY 2015-16	FY 2016-17	Y to Y % Change	Y to Y \$ Change
Public Education	8,516.8	8,419.4	-1.14%	-97.3
Community Colleges	1,069.1	1,065.9	-0.30%	-3.2
UNC System	2,746.6	2,683.3	-2.30%	-63.3
Health & Human Svcs	5,130.5	5,267.6	2.67%	137.0
General Government	391.7	375.9	-4.03%	-15.8
Natural & Economic Resources	465.9	470.7	1.02%	4.8
Justice & Public Safety	2,502.9	2,500.8	-0.08%	-2.1
Total Operating Expenses	20,823.5	20,783.7	-0.19%	-39.8
Capital Improvements	16.8	6.1	-63.67%	-10.7
Debt Service	714.8	703.5	-1.58%	-11.3
Reserves	179.7	426.2	137.19%	246.5
General Fund Budget	21,734.7	21,919.5	0.85%	184.8
Highway Fund	1,947.8	1,989.6	2.15%	41.8
Highway Trust Fund	1,312.5	1,339.2	2.03%	26.7
<i>*Transportation funding is not included in the General Fund</i>				