

North Carolina
Budget, Tax, and Economic

HIGHLIGHTS

2026



locke 

NORTH CAROLINA BUDGET, TAX, AND ECONOMIC HIGHLIGHTS: 2026

The John Locke Foundation

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EXECUTIVE SUMMARY

The purpose of the North Carolina Budget, Tax, and Economic Highlights guide is to equip the legislator, as well as the layman, with updated data to better understand state fiscal policy issues and economic trends in North Carolina.

Toward this end, this guide features four sections, highlighting taxes, the state budget, state debt and unfunded liabilities, and state economic data. This guide is chock full of useful data, informative historic trends, and answers important questions about North Carolina fiscal policy and economic trends.

At roughly \$33 billion per year, the stakes for the state's General Fund budget have never been higher. Adding in spending financed through various receipts, primarily federal funds, along with transportation spending, the true total state budget comes to around \$76 billion. All told, total state spending amounts to nearly \$6,800 per person, or just over \$27,000 per family of four.

As for taxes, North Carolina for decades had been a high-tax state in a low-tax region. Prior to the historic reforms in 2013, North Carolina imposed the highest top personal income tax rate in the Southeast, and among the top ten such rates in the nation. The 2013 tax cuts, followed by subsequent reductions, dropped our state's personal income tax rate to second lowest in the region – behind only Tennessee who has no personal income tax.

This book also highlights how state debt has changed over the years. After ballooning from \$2.8 billion in 2001 to \$6.5 billion in 2012, General Fund supported debt fell back down to \$2.48 billion by 2024. Conservative leadership wisely retired 62 percent of state debt in just 13 years.

Unfortunately, unfunded liabilities still remain a significant budgetary concern. The state employee pension fund faces a \$14.8 billion liability, while

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health benefits for state retirees have accumulated nearly \$24 billion in promised benefits.

Finally, North Carolina boasts the 11th largest state economy in the country, with a diverse workforce ranging from hog farmers to bio-science. Our economy has enjoyed strong growth since tax reforms and conservative fiscal policy became the norm in Raleigh a decade ago. Data from recent years are skewed due to the Covid-19 lockdowns, but North Carolina has recovered well

and positioned itself on sound fiscal footing – making it well equipped to respond to the devastation of Hurricane Helene.

North Carolina's budget, tax, and economic history is filled with twists and turns, but we have much to celebrate. The Tar Heel State is a leader in many ways. With constant, honest attention to our fiscal situation, we can continue to lead for years to come.

SECTION 1: TAXES

Table 1: North Carolina Major Tax Rates 2025

Personal Income	4.25%
Corporate Income	2.25%
State Sales and Use Tax	4.75%
State Plus Local	50 counties add 2% for a total 6.75% rate 46 counties add 2.25% for a total of 7% rate 2 counties add 2.5% for a total of 7.25% rate 2 counties add 2.75% for a total of 7.5% rate
State Gas Tax	40.3 cents per gallon

Table 2: Income Tax Rate Compared with Neighbors

	Top Marginal Tax Rate for 2012	Rank Among Neighbors	Rank Among Nation	Top Marginal Tax Rate for 2025	Rank Among Neighbors	Rank in Nation
NC	7.75%	5	43	4.25%	2	21
GA	6%	4	40	5.39%	3	31
SC	7%	3	39	6.20%	5	24
TN	0%	1	8	0.00%	1	1
VA	5.75%	2	37	5.75%	4	36

SOURCES: TAX FOUNDATION, ANNUAL STATE FACTS & FIGURES PUBLICATIONS

Q&A: HISTORIC TAX REFORMS OF 2013, AND BEYOND: WHAT WERE THEY AND WHAT WERE THE RESULTS?

In 2013, North Carolina passed historic reforms to its tax code. Many labeled the reforms as the largest tax cuts in state history, and national groups likewise recognized the significance of the changes.

Forbes referred to the legislation as "one of the most impressive tax reform packages in any state in years." Americans for Tax Reform declared that "North Carolina, with a 25 percent reduction in the top (income tax) rate, pretty much blew the other states away."

Why was tax reform needed in North Carolina?

North Carolina was once a growth champion of the national economy. Between 1981 and 1999, North Carolina's average personal income growth was the 4th fastest in the nation. After 2000, however, North Carolina's personal income growth premium, relative to the national average, significantly

slowed. Average personal income growth dropped to 26th fastest in the nation between 2000 and 2011.

North Carolina's tax policy had been an important contributing factor to the state's economic slowdown. Taxes in the Tar Heel state had never been optimal, but had worsened over time. For instance, North Carolina's tax burden was lower than the average state and local tax burden during the 1980s and 1990s when North Carolina's economic growth rate was substantially faster than the nation's. The reverse is true during the 2000s, when North Carolina's economy fell behind national and regional growth rates.

With a Depression-era tax code featuring some of the nation's highest tax penalties on work and investment, North Carolina's unemployment rate had been above the national average for 13 straight years, and among the five highest for the few years prior to reform.

Implementing the 2013, pro-growth tax reform helped reinvigorate North Carolina's economy once again. Sound economic theory, as well as empirical evidence, strongly suggests that state income taxes are the most harmful to state economic growth, and consumption-based taxes least harmful. State legislators were right to lower rates on the harmful income taxes.

How did the 2013 reform change North Carolina's state taxes?

The reform package included the largest tax cut in state history, reduced tax rates on all North Carolina families and workers, and made the Tar Heel State far more competitive for investment and job creation. The reforms immediately vaulted North Carolina's business tax climate ranking from 7th worst in the nation to 17th best, according to the Tax Foundation's Index. North Carolina subsequently climbed to 10th best by 2023,¹ and still rates 12th best as of 2025.²

By implementing a flat income tax, the reforms also simplified income taxes while eliminating some special tax breaks for select special interests.

Most importantly, however, was that the 2013 reforms were estimated to cut taxes on net by roughly \$700 million per year, with a projected net tax cut of roughly \$2.4 billion over the following five years.

The major provisions of the 2013 tax reform law included:

- ▶ Reducing the personal income tax rate from a progressive rate topping out at 7.75% to a flat rate of 5.75% by 2015.

- ▶ Increasing the standard deduction to \$7,500 of income for singles and \$15,000 for married filers.
- ▶ Eliminating the \$50,000 income deduction for small businesses effective in 2014.
- ▶ Keeping Social Security income fully exempt from income taxes.
- ▶ Allowing taxpayers to take the greater of the standard deduction or itemized deductions, with itemized deductions limited to unlimited charitable contributions plus mortgage interest deductions and property taxes capped at \$20,000.
- ▶ Repealing the state estate tax.
- ▶ Reducing the corporate income tax rate to 5% from 6.9% by 2015.
- ▶ Decreasing to 4 percent in 2016 and 3 percent in 2017 the corporate rate, if certain revenue targets are met.
- ▶ Keeping the state sales tax rate of 4.75% and local rate of 2% unchanged; preserving the combined rate of 6.75% for most counties.
- ▶ Adding service contracts on tangible goods to the sales tax base, along with most attractions (like movies, fairs) for which admission is charged to the sales tax base.
- ▶ Placing a cap of \$45 million on the sales tax refund nonprofit entities (including most large hospitals) can claim. This cap would not impact any nonprofit organizations at the time of the bill's passage.

CONTINUED TAX REFORMS

While historic in nature, the 2013 tax reform legislation wasn't the end of improvements to North Carolina's tax code. By 2025, the continued reforms have resulted in:

- ▶ A flat personal income tax rate of 4.75%, which is scheduled to reduce to 3.99% by 2026.
- ▶ Standard deductions for single filers of \$13,850 and \$27,700 for married filers.

- ▶ A corporate income tax rate of 2.5%, the lowest of any state that has such a tax in the nation, which is scheduled to be completely phased out by 2030.
- ▶ Holding the statewide sales tax rate at 4.75%.

What Were the Results of the Reforms?

In the years following the 2013 tax reform, North Carolina's economic performance compared favorably to its regional neighbors and national averages. From the fourth quarter of 2013 until the end of 2019, North Carolina's Gross Domestic Product rose by 28%, better than the national average rate of 27%.³ This growth is from data observed until the end of 2019 because COVID-19 and ensuing shutdowns cratered the economy in 2020.

In May 2020, North Carolina experienced unemployment rates above the national average of 13.3% (this is a high average due to the pandemic and related shutdowns). However, just one month later, North Carolina's unemployment rate fell rapidly to 8.8%, compared to the 11.1% national average. That trend continued, as a year later, North Carolina's rate had fallen to 4.8% while the national average fell to only 5.8%. North Carolina was able to recover better than most states in part due to our competitive tax climate.

These tax cuts transformed North Carolina's business climate. At the time of the tax reforms, North Carolina was relegated to the 7th worst state business tax climate. Immediately after the 2013 reforms, that ranking shot up to 17th best,⁴ and now stands at 12th best.⁵

In the first five years following the tax reform, North Carolina's median household income grew by 29.5 percent (from 2013 to 2018), significantly outpacing the national average of 21.6 percent and the southeast region's average of 23.1 percent.⁶

"These tax cuts transformed North Carolina's business climate."

Compare such favorable economic news to North Carolina's sub-par economic performances of the decades preceding the tax reform, and the changes are striking. Granted, this is a relatively small sample size, but the inflection point in performance is noteworthy.

More recently, North Carolina's vastly improved tax climate enabled a more robust recovery from the COVID-19 shutdowns. Personal income growth in the first quarter of 2021 increased by 67.9 percent over Q4 2020 – higher than the

national growth average of 59.7 percent.⁷ North Carolina's growth has maintained its advantage. From Q4 2020 to Q2 2025 (latest data available as of this writing), North Carolina's per capita income grew by 32.3 percent, higher than the 28.5 percent national average and southeast average of 31.8 percent.⁸

Moreover, the revenue shortfalls predicted by critics never materialized. Indeed, state government revenues far exceeded expectations. The budget years following reform each saw budget surpluses exceeding \$400 million (aside from the Covid year), with three surpluses in the multiple billions of dollars.⁹ Such surpluses enabled legislators to wisely build up the state's Rainy Day Fund to an historic \$4.75 billion by August, 2024, the month before the devastation of Hurricane Helene hit western North Carolina. Thanks to fiscal prudence, the Tar Heel state was well prepared to provide fiscal relief to such a massive natural disaster.

Table 3: Significant Tax Changes Since 1985

	Significant Tax Changes Since 1985	Year	Session Law
↓	Partial repeal of the intangibles tax	1985	S.L. 1985-656
↓	Restructure insurance premiums tax system with a uniform rate; complete system repeal in 1988	1986	S.L. 1986-1031
↓	Repeal of local government property tax on household personal property	1986	S.L. 1986-982
↑	Raise insurance tax from 1.750% of gross premiums to 1.875% for 1991 and to 1.900% beginning with 1992	1991	S.L. 1991-689
↑	Establish a 6.5% charge against gross premiums tax liability (except HMOs and BCBS) for a special trust designed to eliminate General Fund support for Department of Insurance and allow a 20% credit against premium tax for Guaranty Fund assessments	1991	S.L. 1991-689
↓	Repeal intangibles tax and reimburse local governments	1995	S.L. 1995-41
↓	Exempt rental cars from property tax (impact local revenues)	2000	S.L. 2000-2

	Significant Tax Changes Since 1985	Year	Session Law
↑	Taxes on HMOs: → New tax on HMOs of 1.1% in 2003 and 1.0% in later years; exempts HMOs from corporate income and franchise taxes → Increase tax on medical service companies from 0.5% to 1.1% in 2003 and 1.0% in later years; these companies do not pay corporate or franchise tax	2001	S.L. 2001-424 (as amended by S.L. 2001-748)
↓	Allow five percent of the purchase price of a manufactured home community to be deducted from state and federal taxable income	2008	S.L. 2008-107
↑	Places a cap of \$45 million on the sales tax refund nonprofit entities (including most large hospitals) can claim. This cap would not impact any nonprofit organizations at the time of its passage	2013	S.L. 2013-316
↓	Expand and extend credits for rehabilitation of income-producing historic structures	2022	S.L. 2021-180
↓	Limit gross premiums tax on surety bonds	2022	S.L. 2021-180
↓	Property set apart for commercial burial services is exempt from taxation	2022	S.L. 2021-180
↓	Repeals privilege taxes for lawyers, accountants, physicians, engineers, real estate agents, and other professionals effective July 1, 2024	2023	S.L. 2023-134
↓	Increases the property tax exemption for low-income seniors and the disabled, to the greater of \$25,000 or 50% of the appraised value of the home	2024	S.L. 2024-1

SECTION 2: THE STATE BUDGET

Q&A: HOW MUCH DO WE SPEND AND WHERE DOES THE MONEY COME FROM?

While the majority of discussion centers on the state's annual "General Fund" budget, there is far more to total state spending than that. Indeed, as of FY 2024–25, the General Fund accounted for less than half of total state spending.

"As of FY 2024–25, the General Fund accounted for less than half of total state spending."

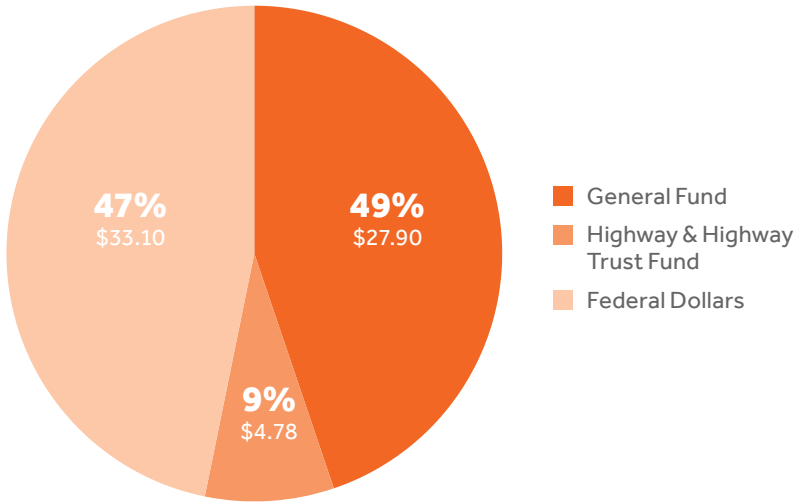
At \$31.7 billion in FY 2024–25¹⁰, the General Fund is typically supplied by revenue from a wide variety of taxes and fees, as well as money from court fees, disproportionate share receipts, investment earnings and bonds, and often transfers from various state funds.

Transportation funding for state-level projects comes from the Highway Trust Fund and the Highway Fund, which combined in FY 2024–25 for nearly \$6 billion in spending, with its revenues largely coming from the gas tax and vehicle licensing fees.¹¹

Another \$33.1 billion in spending comes from federal government dollars.¹² The majority of federal funds go to subsidizing Medicaid, education, and transportation spending.

When all revenue sources are considered, the state of North Carolina now spends nearly \$70 billion annually.¹³

Graph 1: Total State Budget by Source of Funds, FY 2024–25 (in Billions)



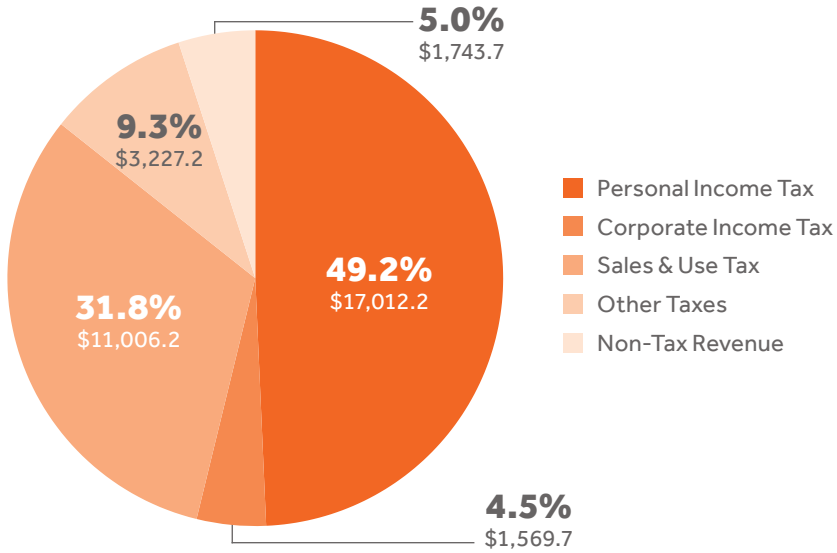
Total: \$70.78 Billion

SOURCES: GENERAL FUND, HIGHWAY FUND AND HIGHWAY TRUST FUND FROM JOINT CONFERENCE COMMITTEE REPORT, 2025 BUDGET. FEDERAL DOLLARS FROM NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS. 2025 STATE EXPENDITURE REPORT

GENERAL FUND

Because state legislators have the greatest control over the state General Fund, and it receives the greatest amount of debate and public scrutiny, the following information focuses exclusively on the General Fund.

Graph 2: FY 2024–25 General Fund Revenue Sources (in Millions)

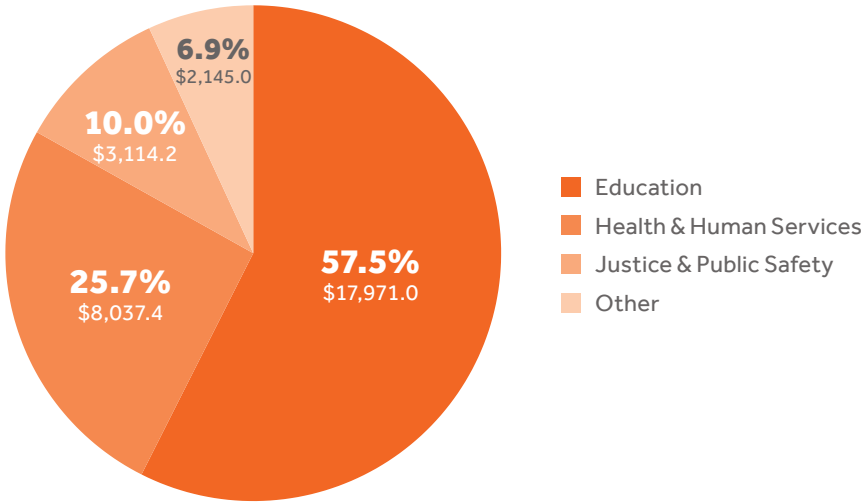


Total: \$34.56 Billion

SOURCE: NORTH CAROLINA OFFICE OF STATE CONTROLLER, JUNE 2025 GENERAL FUND MONTHLY REPORT

From the nearby chart, you can see that nearly half (49.2 percent) of General Fund revenue comes from the state personal income tax. Nearly one-third (31.8 percent) of revenue comes from the statewide sales and use tax, while the corporate income tax accounts for 4.5 percent of General Fund revenue. "Other" taxes include: insurance taxes, the franchise tax, taxes on tobacco and beverages, and the privilege license tax. The largest non-tax revenue sources include judicial fees and the Master Settlement Agreement funds (from the nationwide 1988 legal settlement between states and the major tobacco manufacturers). So, where does that money go? The chart that follows shows a breakdown of General Fund expenditures.

Graph 3: FY 2024–25 General Fund Expenditures (in Millions)



Total: \$31.27 Billion

SOURCE: NORTH CAROLINA OFFICE OF STATE CONTROLLER, JUNE 2025

Almost 60 percent of the General Fund appropriations are dedicated to education. The nearly \$18 billion of education spending in FY 2024–25 can be broken down into three categories: K-12 (\$11.8 billion), UNC System (\$4.6 billion), and Community Colleges (\$1.5 billion).¹⁴

It is important to note that state K-12 education spending is supplemented by local and federal dollars. Local governments kick in about another \$4.2 billion, with the feds supplying roughly \$3.1 billion in additional funds for the 2023–24 school year (latest data available); bringing total spending on K-12 education to approximately \$19.1 billion annually.¹⁵

The second largest portion of the state budget goes to the state Health and Human Services (HHS) department. Of the roughly \$8 billion in state funding devoted to HHS, about \$6.2 billion in state dollars goes to the state’s growing Medicaid program.¹⁶ Similar to K-12 education, however, the state share of Medicaid expenses tells only part of the story. With the federal government and provider taxes levied on hospitals paying about 80 percent of the total costs, nearly another \$26 billion is needed to help fund the program.¹⁷

“Other” expenditures include General Government, Agriculture and Natural and Economic Resources, and Economic Development.

It is essential to note that, as of the publication of this report, the General Assembly has not enacted a biennial budget for FY 2025–27, and the state is operating under FY 2024–25 spending levels for FY 2025–26.

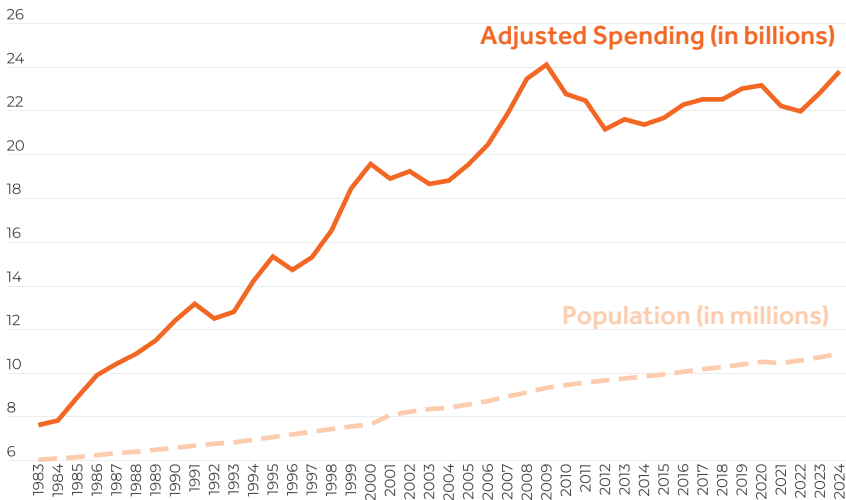
**Table 4: Trends in the General Fund Budget: 1991–2025
(In Millions)**

Fiscal Year	Public Schools	Community Colleges	Higher Education	Human Services	Other	Total
1990-91	3,329.2	387.6	1,143.2	1,098.2	1,291.4	7,249.6
1991-92	3,293.7	344.1	1,122.0	1,237.3	1,360.0	7,357.1
1992-93	3,435.6	398.7	1,170.9	1,410.3	1,466.4	7,881.9
1993-94	3,634.1	450.9	1,299.9	1,759.3	1,744.6	8,888.7
1994-95	4,083.0	455.7	1,296.6	1,948.6	1,931.7	9,715.5
1995-96	3,999.0	470.9	1,301.0	2,049.1	1,973.1	9,793.1
1996-97	4,301.6	501.8	1,385.6	2,189.8	2,071.5	10,450.4
1997-98	4,697.9	534.9	1,489.9	2,422.9	2,113.1	11,258.6
1998-99	5,068.6	587.5	1,628.9	2,663.6	2,378.4	12,327.0
1999-00	5,497.1	589.6	1,682.1	2,797.8	2,875.0	13,441.6
2000-01	5,792.3	644.0	1,802.1	2,954.1	2,592.7	13,785.1
2001-02	5,922.5	650.1	1,802.0	3,403.0	2,594.9	14,372.4
2002-03	5,933.0	667.3	1,769.9	3,591.7	2,362.0	14,323.9
2003-04	6,182.0	683.3	1,821.2	3,391.5	2,757.4	14,835.6
2004-05	6,519.0	751.1	1,959.2	3,812.0	2,831.7	15,873.2
2005-06	6,880.7	827.7	2,515.8	4,057.1	3,224.1	17,141.5
2006-07	7,403.3	935.7	2,444.5	4,283.0	3,593.1	18,659.6
2007-08	8,055.8	990.5	2,752.9	4,656.5	3,973.2	20,428.8
2008-09	8,365.9	1,016.7	2,895.3	4,965.6	3,992.4	21,226.9
2009-10	7,544.5	1,011.9	2,738.6	3,912.8	3,802.4	19,010.1
2010-11	7,283.1	1,050.9	2,682.3	4,055.0	3,876.5	18,947.8
2011-12	7,617.4	1,006.5	2,556.9	4,575.9	3,942.0	19,698.6
2012-13	7,844.6	1,040.4	2,663.6	5,009.0	3,928.4	20,486.0
2013-14	7,920.1	1,029.0	2,604.2	4,997.7	4,051.9	20,602.8
2014-15	8,171.1	1,050.1	2,649.1	5,153.9	4,044.6	21,068.6
2015-16	8,516.8	1,069.1	2,746.5	5,130.5	4,271.8	21,734.7
2016-17	8,733.4	1,096.0	2,852.3	5,020.9	4,738.8	22,441.4
2017-18	9,046.4	1,122.3	2,893.8	5,175.4	4,792.6	23,030.5
2018-19	9,546.1	1,185.5	3,027.6	5,356.5	4,807.6	23,923.3

Fiscal Year	Public Schools	Community Colleges	Higher Education	Human Services	Other	Total
2019-20	9,754.7	1,212.3	3,119.9	5,486.1	4,760.0	24,406.8
2020-21	9,987.4	1,229.6	3,152.7	5,719.9	4,397.9	24,487.5
2021-22	10,602.8	1,316.2	3,528.2	5,769.6	4,704.6	25,921.4
2022-23	11,278.6	1,357.6	3,842.6	6,552.5	4,870.9	27,902.2
2023-24	11,564.6	1,474.2	4,265.1	7,325.9	5,077.3	29,707.1
2024-25	11,952.3	1,582.1	4,646.6	8,147.5	5,386.9	31,715.4

SOURCE: ANNUAL BUDGET CONFERENCE REPORTS FROM RESPECTIVE YEARS

Graph 4: 1983–2024 General Fund vs Population



SOURCE: GENERAL FUND APPROPRIATIONS FOR FYE 1979 THROUGH 2007 FROM THE 2006 POST-LEGISLATIVE SUMMARY PRODUCED BY FISCAL RESEARCH, SUBSEQUENT APPROPRIATION NUMBERS TAKEN FROM EACH YEAR'S BUDGET BILL, POPULATION ESTIMATES RETRIEVED FROM THE U.S. CENSUS BUREAU VIA THE FEDERAL RESERVE BANK OF ST. LOUIS, AND GDP DEFLATOR LEVELS TAKEN FROM THE FEDERAL RESERVE BANK OF ST. LOUIS

The nearby chart shows the trend lines for the state's inflation-adjusted General Fund budget, compared to population growth, for the 41-year period ending in 2024.

As you can see, even after adjusting for inflation, North Carolina's state budget is now three times as large as it was in the early 1980s. But isn't that just a reflection of a rapidly growing state? No. Compare that growth rate to the state's population growth rate during that time of 82 percent. In short,

inflation-adjusted spending has exploded at a rate more than *two and a half times* as fast as the population since 1983.

As a result, North Carolina's spending per person — even after adjusting for inflation — has *ballooned by more than 70 percent*. Put differently, North Carolina's state budget now spends \$920 more for every man, woman, and child than it did in 1983 — not due to inflation, but in real, inflation-adjusted terms. That comes to an *increase* of \$3,680 for every family of four.

Sure, state spending leveled off a bit after the Great Recession of 2008–09, and the COVID-19 lockdowns caused a one-year dip in revenue, but there is no denying the massive increment of state government spending over the last three and a half decades.

Table 5: Legislative Salary Increases 1974-2026

Legislative Salary Increases 1974-2026		
Year	State Employees	Teachers
1973-74	5% + (5% for those under 2.75/hour)	5% + (employment extended 187 to 200 days = 7% salary increase and 1 step added to schedule)
1974-75	7.5%	7.5%
1975-76	0	0
1976-77	4% + \$300 (average 7.2%)	4% + \$300 (average 6.8%)
1977-78	6.5%	6.5%
1978-79	6%	6%
1979-80	5% + (\$200 one-time bonus payment)	5% + (\$200 one-time bonus payment)
1980-81	10%	10% + (Salary schedule changed = 2% to 10% added top each step of salary range)
1981-82	5% (effective 1-1-82)	5% (effective 1-1-82)
1982-83 a	0	0
1983-84 a	5%	5%
1984-85 a	10%	10% + 4.8% salary classification adjustment
1985-86 b	5% + 1 step increase (9.6%)	1-step increase (4.8%) second year-teachers; 2-step increase (9.6%) third or more year teachers
1986-87	\$75/month (average 6%)	6.50%
1987-88	5%	5%
1988-89	4.50%	4.50%

Legislative Salary Increases 1974-2026		
Year	State Employees	Teachers
1989-90	4% + 2% merit funds	6.65% average
1990-91	4% + 2% merit funds	6.15% average
1991-92	0	0
1992-93	\$522.00	2% average
1993-94	2% + 1% one-time bonus payment	3% average
1994-95	4% + 1% one-time bonus payment	5% - 1-3 years 7% - 4-29 years
1995-96	2%	2%
1996-97	2.5% COLA + 2% career growth	5.50%
1997-98 c	2% COLA + 2% career growth	4% - 9%
1998-99	1% COLA + 2% career growth + 1% one-time bonus	4% - 9%
1999-00	1% COLA + 2% career growth + \$125 compensation bonus	4% - 11%
2000-01	2.2% COLA + 2% career growth + \$500 compensation bonus	2.5% - 13.8%
2001-02	\$625.00	1% - 6.92% (2.9% average)
2002-03	0	0% - 5.85% (1.8% average)
2003-04	0	
2004-05	Greater of a \$1,000 or 2.5% across-the-board increase	1.41% - 5.9% (2.5% average)
2005-06	Greater of a \$850 or 2% across-the-board increase	1.77% - 6.27% (2.2% average)
2006-07	5.5% across-the-board increase	6.45% - 14.05% (8.2% average)
2007-08	4% across-the-board increase	4.05% - 9.53% (5% average)
2008-09	Greater of \$1,100 or 2.74% across-the-board increase	2.39% - 6.63% (3% average)
2009-10	0	0
2010-11	0	0
2011-12	0	0
2012-13 d	1.2% across-the-board increase	1.2% across-the-board increase
2013-14	0	0

Legislative Salary Increases 1974-2026		
Year	State Employees	Teachers
2014-15 e	\$1,000 for State employees \$500 for central office and noncertified public school employees	0.5% - 18.5% (7% average)
2015-16 f	-0- + \$750 compensation bonus	0 - 9.6% (3.8% average)
2016-17 g	1.5% increase + 0.5% compensation bonus	0% - 13.1% (4.7%) average
2017-18 h	\$1,000 across-the-board increases	0.6% - 6.9% (3.3% average)
2018-19 i	Greater of 2% salary increase or increase to \$31,200 salary for State agency employees	0% - 14.8% (6.5% average)
2019-20	2.5% for State agency employees	0% - 2.9% (1.2% average)
2020-21	2.5% for State agency employees	0% - 2.9% (1.2% average)
2021-22	2.5% for State agency employees	1.3% increase in each step, 2.5% increase average overall plus bonuses.
2022-23	2.5% for State agency employees	1.3% increase in each step, 2.5% increase average overall plus bonuses.
2023-24	4% for State agency employees	3.6% - 10.8% over the biennium (4% average in FY 2022–23)
2024-25	3% for State agency employees	3.6% - 10.8% over the biennium (3% average in FY 2023–24)
2025-26	0% No budget enacted; no salary increases	0% No budget enacted; no salary increases
<p>"a": Salary increment program frozen "b": Conditional upon continuous employment for one year "c": Most teachers received between 4%-9%. Teachers receiving National Board of Professional Teaching Standards (NB-PTS) certification were eligible for larger increases. "d": The UNC Board of Governors was given flexibility in the use of compensation increase funds for EPA employees. The State Board of Community Colleges was given flexibility in the use of compensation increase funds for local community college employees.</p>		

"e": State agency and local community college employees received a \$1,000 salary increase. UNC employees who are subject to the Human Resources Act (SHRA) also received a \$1,000 increase. The UNC Board of Governors was given \$5 million to provide increases to UNC employees who are exempt from the Human Resources Act (EHRA). Noncertified and central office local public school employees received a \$500 salary increase."

"f": Starting pay for educators was increased from \$3,300 per month to \$3,500 per month, a 6.1% raise for educators on steps 0-4. The step increase for educators changing tiers of the schedule provides an increase ranging from 6.5% to 9.6%.

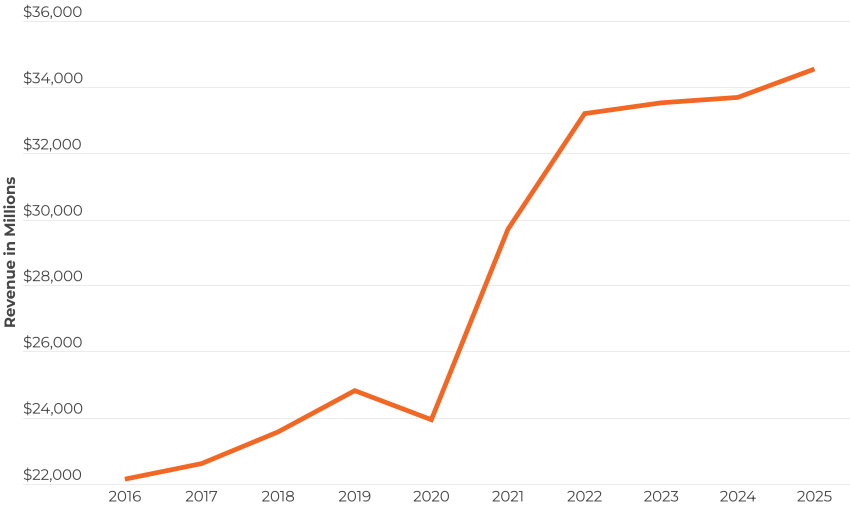
"g": The 0.5% compensation bonus is provided across-the-board to all State employees and State-funded local employees except teachers. The merit bonus will be distributed based on policies developed by each employing agency.

"h": The State Board of Community Colleges and, for EHRA employees, the UNC Board of Governors were given flexibility in the use of compensation increase funds. Judges and members of the Council of State did not receive the \$1,000 increase. The increase shown for teachers is the increase in State funding for a teacher who taught in FY 2016-17 and continues to teach in FY 2017-18, consistent with the prior years in the table. It does not include the \$385 bonus paid to veteran teachers or performance-related bonuses

SOURCE: 1973-2021: NORTH CAROLINA GENERAL ASSEMBLY'S FISCAL RESEARCH DIVISION, FISCAL FACTS PAGE ON WEBSITE; AVAILABLE ONLINE AT: [HTTPS://SITES.NCLEG.GOV/FRD/WP-CONTENT/UPLOADS/SITES/7/2021/01/HISTORICAL_LSI_2020.PDF](https://sites.ncleg.gov/FRD/wp-content/uploads/sites/7/2021/01/HISTORICAL_LSI_2020.PDF). SUBSEQUENT YEARS FROM RESPECTIVE BUDGET BILLS.

CORONAVIRUS IMPACTS ON NORTH CAROLINA'S ECONOMY

Graph 5: GF Revenue 2016–2025 Covid



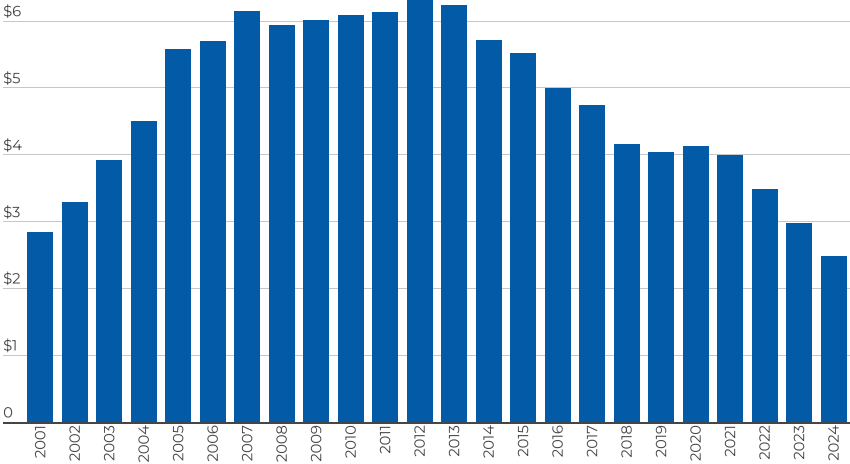
SOURCE: NORTH CAROLINA OFFICE OF STATE CONTROLLER, GENERAL FUND MONTHLY REPORTS

- ▶ Years of responsible budgeting and tax reform better prepared North Carolina's economy and state budget for the coronavirus pandemic and the ensuing shutdowns.
- ▶ The state's Savings Reserve contained over \$1 billion when Gov. Roy Cooper mandated lockdowns.
- ▶ State revenue dipped modestly in FY 2019–20 (see graph) due to Gov. Roy Cooper's lockdowns, before increasing nearly 40% by FY 2021–22. In FY 2024–25, state revenue exceeded \$34.5 billion.
- ▶ Before Hurricane Helene, the Savings Reserve held \$4.75 billion. As of October 31, 2025, the reserve was down to \$3.6 billion.¹⁸

**SECTION 3:
STATE DEBT
& UNFUNDED
LIABILITIES**

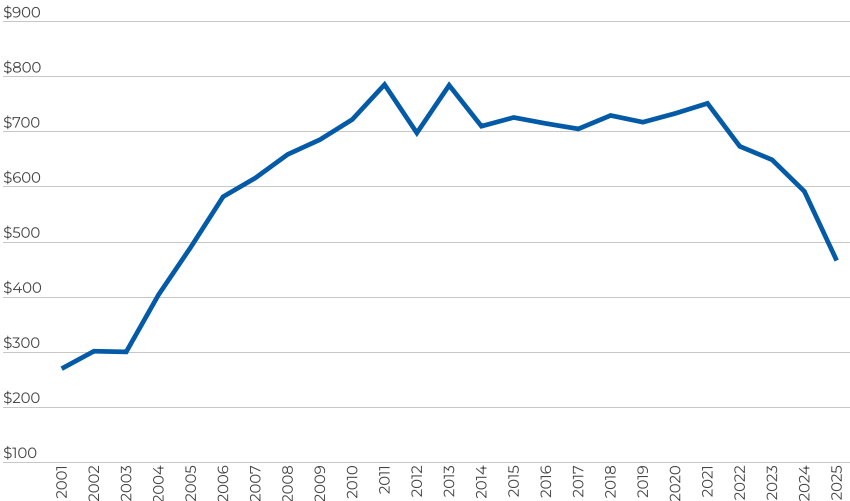
TRENDS IN TOTAL STATE DEBT

Graph 6: Outstanding Net Tax-Supported Debt: FY 2001–2024



SOURCE: NORTH CAROLINA STATE TREASURER'S OFFICE; ANNUAL DEBT AFFORDABILITY STUDY, YEARS 2025, 2022, 2020, 2019, 2014, 2009 AND 2006. AVAILABLE ONLINE AT: LATEST: [HTTPS://FILES.NC.GOV/NCTREASURER/DOCUMENTS/FILES/SLGFD/STATEDEBTDAAC/POLICIESREPORTS/DEBTAFFORDABILITYSTUDIES/DAAC_DEBTAFFORDABILITYSTUDY2021.PDF](https://files.nc.gov/NCTreasurer/Documents/Files/SLGFD/STATEDEBTDAAC/POLICIESREPORTS/DEBTAFFORDABILITYSTUDIES/DAAC_DEBTAFFORDABILITYSTUDY2021.PDF)

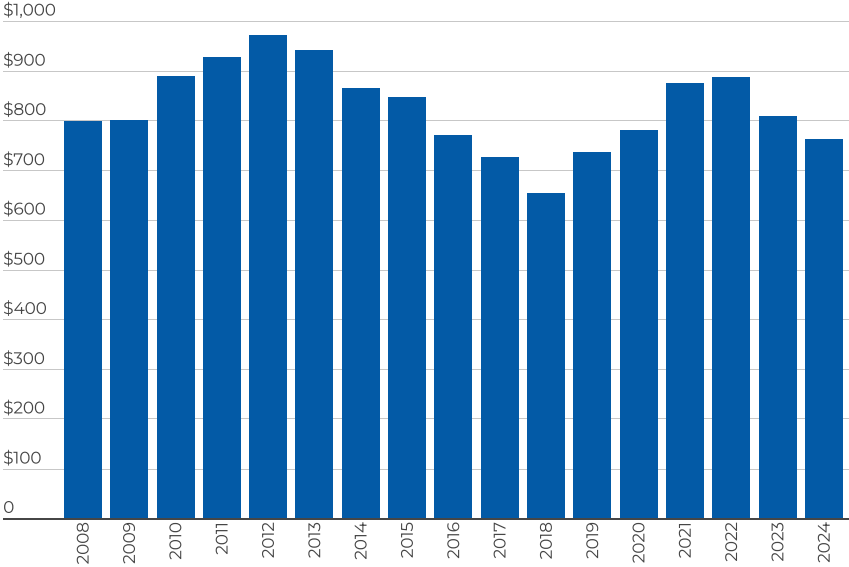
Graph 7: Annual Debt Service Payments: FY 2001–2025



SOURCE: NORTH CAROLINA OFFICE OF STATE BUDGET AND MANAGEMENT; 2019-20 GOVERNOR'S RECOMMENDED BUDGET, APPENDIX TABLE 4B. AVAILABLE ONLINE AT: [HTTPS://FILES.NC.GOV/NCOSBM/DOCUMENTS/FILES/REC2019-21_APPENDIXTABLES.PDF](https://files.nc.gov/NCOSBM/Documents/Files/REC2019-21_AppendixTables.PDF). ALSO ANNUAL BUDGET BILLS FOR SUBSEQUENT YEARS, NORTH CAROLINA GENERAL ASSEMBLY.

TOTAL DEBT PER CAPITA

Graph 8: State Debt Per Capita: FY 2008–2024



SOURCE: NORTH CAROLINA OFFICE OF STATE CONTROLLER: COMPREHENSIVE ANNUAL FINANCIAL REPORT, 2024. AVAILABLE ONLINE AT: [HTTPS://WWW.NCOSC.GOV/SITES/DEFAULT/FILES/2024-12/2024%20ANNUAL%20COMPREHENSIVE%20FINANCIAL%20REPORT%20-%202024-12-23.PDF#PAGE=372](https://www.ncosc.gov/sites/default/files/2024-12/2024%20ANNUAL%20COMPREHENSIVE%20FINANCIAL%20REPORT%20-%202024-12-23.PDF#PAGE=372)

Q&A: STATE UNFUNDED LIABILITIES: PENSION FUND AND RETIREE HEALTH BENEFITS

Most reports about North Carolina’s pension plan for state retirees discuss how it is in better condition than most other states. While this may be true, the pension plan faced \$14.8 billion in unfunded liabilities as of the end of fiscal year (FY) 2023–24.¹⁹ This liability is up more than \$4.4 billion from FY 2018–19 and more than \$13.6 billion since FY 2013–14. The new State Treasurer, continuing the approach of his predecessor, along with the Debt Affordability Advisory Committee that he chairs, has again recommended that the General Assembly obligate \$100 million to the Unfunded Liability Solvency Reserve. Although the same amount has been requested for years, only \$10 million was appropriated for FY 2023–24, and nothing was appropriated for FY 2024–25.²⁰

State retirees have a “defined benefit” pension plan, meaning they are promised a level of benefits once they retire until the end of their lives. Benefit payments are funded by state government contributions, active employee contributions, and earnings on the pension fund itself. Assumptions are made about the rate of returns on the pension fund — which currently is 6.5 percent, pared down from 7.25 percent in 2017.²¹ Using more realistic return estimates would reveal a more substantial pension liability. For instance, assuming a rate of return average of, say, 5 percent would produce an unfunded liability of more than \$30 billion.

North Carolina has the 9th largest public pension fund in the country, valued at more than \$134 billion.²²

"North Carolina has the 9th largest public pension fund in the country, valued at more than \$134 billion."

Annual taxpayer-funded state contributions to cover retiree pension benefit payments are now approximately \$3 billion — up from just \$681 million in 2011.²³

Likely more concerning than the state pension plan’s unfunded liability, however, is the significantly larger liability for health benefits for state retirees. The state of North Carolina pays 100 percent of the premiums for most retired state employees enrolled in the state health plan (some are asked to contribute small premiums, depending on the age at which they retire and level of coverage). This group includes former employees of state agencies, universities, local public schools, and local community colleges. Estimates place the state’s unfunded liability for these promised benefits at \$34 billion (reported as of June 30, 2024).²⁴ Employees hired on or after January 1, 2021, are no longer eligible for state health insurance in retirement.²⁵

North Carolina uses a pay-as-you-go method of funding health care premiums for retired state workers, meaning that each year the state allocates funds sufficient only to pay for the enrollment premiums and benefits of current retirees. To finance the retiree health premiums, each state agency is given General Fund dollars based on a percentage of total payroll for that agency during the fiscal year. For example, the pay contribution rate for FY 2005–06 was equal to 3.8 percent of budgeted payroll. Under this method, \$477 million was dedicated in FY 2005–06 toward funding state retiree health premiums. The pay contribution rate is adjusted annually to reflect the anticipated costs to cover current retirees only. By FY 2023–24, that rate

had grown to 7.14 percent, coming to nearly \$1.5 billion — more than triple the amount from FY 2005–06.²⁶

New reporting standards established in 2005 by the Governmental Accounting Standards Board (GASB) called for states to calculate and disclose the future costs — in today's dollars — of paying for enrollment premiums to future retirees. GASB is a private, nonprofit organization that sets standards for public agencies to meet Generally Accepted Accounting Principles (GAAP). States tend to comply with GASB standards, not because of any legal obligation, but because such unfunded liabilities are used by bond rating agencies to determine the credit risk of state bond obligations.

In 2006, the state of North Carolina hired Aon Consulting of Chicago to calculate, for the first time, the cost of the unfunded retiree health premiums benefits, accumulated as of December 31, 2005. The report estimated this unfunded liability at \$23.79 billion, which was 115 percent of the entire General Fund budget for FY 2007–08.

To better understand the burden this liability will place on the state budget, we can examine the “actuarially determined employer contribution” (ADEC) for the state of North Carolina. The ADEC is the amount required to finance the current year's obligations, plus an amount needed to set aside to cover future benefits being accumulated now. The state is not obligated to pay the entire ADEC each year, but failure to do so ensures the unfunded liability continues to grow. As of FY 2023–24, North Carolina's ADEC comes to \$2.65 billion, an amount sure to grow as the number of state employees continues to multiply.²⁷ While the state has attempted to reduce the shortfall by eliminating coverage for retirees who started on or after January 1, 2021, the \$34 billion shortfall is still hanging over the head of the state government. A major factor contributing to the size of the state's unfunded liability is the generous eligibility criteria established when fully financed retiree health premiums were first implemented in 1978.

**"North Carolina's
ADEC comes to
\$2.65 billion..."**

Only five years of service were required for a state employee to become eligible for fully subsidized health insurance premiums for the duration of their retirement. As stated above, in an effort to rein in the growth of unfunded retiree health benefit obligations, the General Assembly in 2017 included in the state budget a provision to eliminate health benefits for state workers hired on or after January 1, 2021. This measure will help to head off long-term liabilities in the future, but significant challenges still remain.

**SECTION 4:
NORTH
CAROLINA'S
ECONOMY**

SIZE OF NORTH CAROLINA'S ECONOMY

North Carolina has the 11th largest state economy.

Jobs and earnings continue to grow faster than national and neighboring states' averages as North Carolina was better positioned to recover from Covid lockdowns.

The North Carolina Economy

- ▶ In 2024, North Carolina real Gross Domestic Product (GDP) was \$839 billion and ranked 11th in the United States.²⁸
- ▶ According to the World Bank, as of 2024, North Carolina's GDP was larger than all but 20 foreign nations, just behind Switzerland but larger than Poland.²⁹
- ▶ According to the Bureau of Labor statistics, in May 2025, the size of North Carolina's total nonfarm work force was slightly over 5 million (5,094,200).³⁰

NORTH CAROLINA'S LABOR MARKET

- ▶ The Trade, Transportation & Utilities industry employed the highest share of working North Carolinians in 2024, with just over 22 percent, followed by Government at 15.5 percent.
- ▶ Nonfarm jobs in North Carolina continue to grow. From 2013 to 2024, North Carolina's economy added 912,400 jobs.
- ▶ After surging during the Covid lockdowns, North Carolina's unemployment rate fell back below pre-Covid lows. While it reached a high of 13.8 percent during Covid lockdowns, it was down to 4.0 percent as of June 2025.

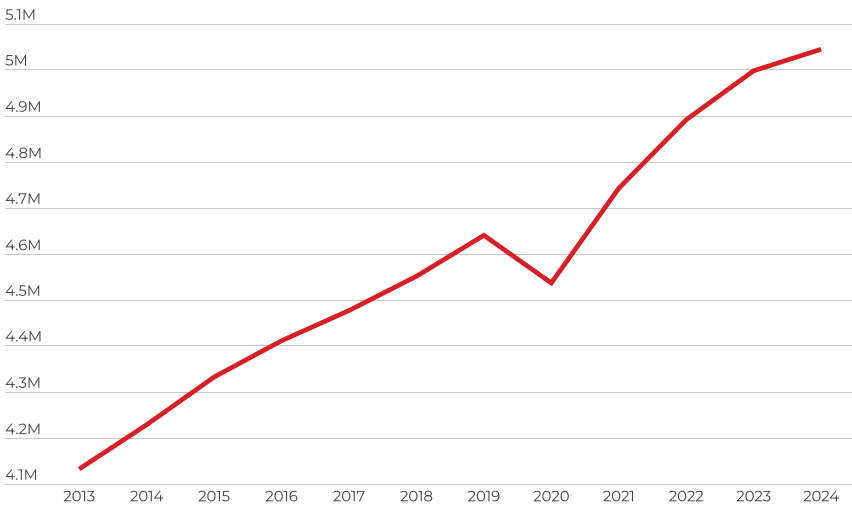
Table 6: Share of Employment by Industry 2024

Industry Title	Employment	% Share
Mining & Logging	5,700	0.1%
Construction	261,200	5.3%
Manufacturing	470,700	9.5%
Trade, Transportation & Utilities	931,600	18.7%
Information	86,000	1.7%

Industry Title	Employment	% Share
Financial Activities	304,800	6.1%
Professional & Business Services	744,100	15.0%
Private Education & Health Services	669,600	13.5%
Leisure & Hospitality	531,100	10.7%
Other Services	196,800	4.0%
Government	768,800	15.5%

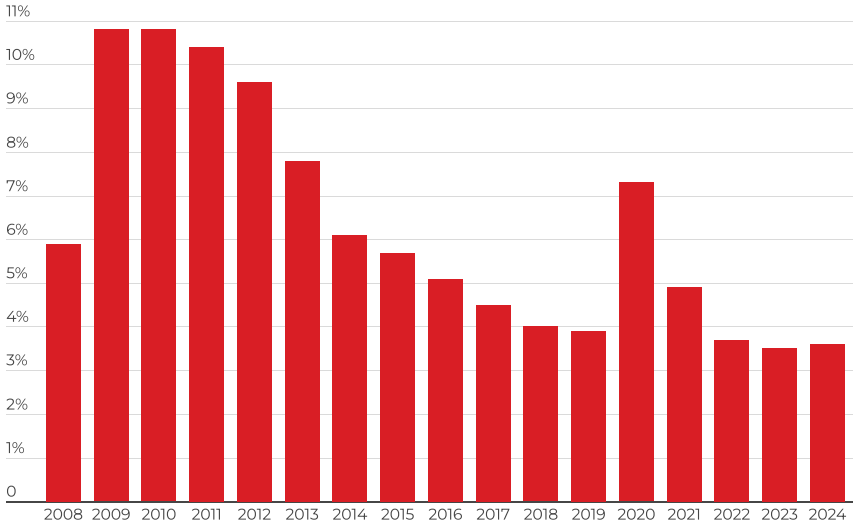
SOURCE: [HTTPS://D4.NCCOMMERCE.COM/CESSELECTION.ASPX](https://d4.nccommerce.com/cesselection.aspx)

Graph 9: Nonfarm Jobs Continue to Grow



SOURCE: [HTTPS://D4.NCCOMMERCE.COM/CESSELECTION.ASPX](https://d4.nccommerce.com/cesselection.aspx)

Graph 10: Unemployment Rate Trend 2008–2024



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS. ECONOMIC RESEARCH DIVISION. [HTTPS://FREDHELPSTLOUISFED.ORG](https://fredhelpstlouisfed.org)

STATE ECONOMIC TRENDS

- ▶ From 2018-2024, North Carolina’s per capita income grew at an average annual rate of 5.9 percent, coming in higher than the national average and highest among its neighbors.
- ▶ Also from 2018-2024, North Carolina’s GDP grew at an average annual rate of 2.95 percent, higher than the U.S. average and behind only Tennessee among its neighbors.
- ▶ North Carolina’s real GDP increased a total of 16.5 percent over the past five years, also higher than the national average and second only to Tennessee among its neighbors.

Table 7: NC and Neighbor States Change in Per Capita Income

	2018	2019	2020	2021	2022	2023	2024	Avg. Annual % Change
US	\$53,309	\$55,547	\$59,153	\$64,430	\$65,470	\$69,418	\$74,425	5.74%
GA	\$46,040	\$48,366	\$51,781	\$56,705	\$58,109	\$61,579	\$64,855	5.90%

	2018	2019	2020	2021	2022	2023	2024	Avg. Annual % Change
NC	\$46,626	\$48,535	\$51,469	\$56,184	\$56,589	\$59,691	\$62,393	5.00%
SC	\$46,452	\$48,889	\$51,928	\$56,970	\$58,292	\$62,039	\$64,908	5.76%
TN	\$43,804	\$46,149	\$48,772	\$52,828	\$53,618	\$57,180	\$59,995	5.40%
VA	\$56,133	\$58,368	\$61,474	\$66,838	\$68,985	\$73,681	\$77,093	5.45%

SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA); REAL PER CAPITA INCOME BY STATE

Table 8: NC and Neighbor States Annual GDP Change

	2019	2020	2021	2022	2023	2024	Avg. Annual % Change
US	2.58%	-2.16%	6.06%	2.51%	2.89%	2.80%	2.45%
GA	3.30%	-2.58%	6.33%	3.52%	1.88%	3.37%	2.64%
NC	2.05%	-0.61%	6.33%	2.22%	2.99%	3.74%	2.95%
SC	3.18%	-2.25%	5.18%	3.56%	3.06%	4.20%	2.82%
TN	2.16%	-0.63%	8.80%	3.55%	1.84%	2.41%	3.02%
VA	2.51%	-1.20%	5.79%	2.65%	2.95%	3.09%	2.63%

SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA), STATE ANNUAL GROSS DOMESTIC PRODUCT (GDP) SUMMARY

Table 9: NC and Neighbor States Real GDP 2019-2024 (millions \$)

	2019	2020	2021	2022	2023	2024	% Change
US	\$20,715,671	\$20,267,585	\$21,494,798	\$22,034,828	\$22,671,096	\$23,305,023	12.5%
GA	\$620,744.9	\$604,745.9	\$643,013.8	\$665,678.1	\$678,201.2	\$701,072.8	12.9%
NC	\$567,975.0	\$564,504.4	\$600,217.3	\$619,537.2	\$638,067.3	\$661,947.8	16.5%
SC	\$239,021.3	\$233,650.1	\$245,752.1	\$254,504.5	\$262,298.5	\$273,324.6	14.4%
TN	\$370,197.4	\$367,863.6	\$400,243.6	\$414,470.8	\$422,087.7	\$432,266.2	16.8%
VA	\$541,028.0	\$534,532.3	\$565,470.6	\$580,475.2	\$597,597.1	\$616,057.7	13.9%

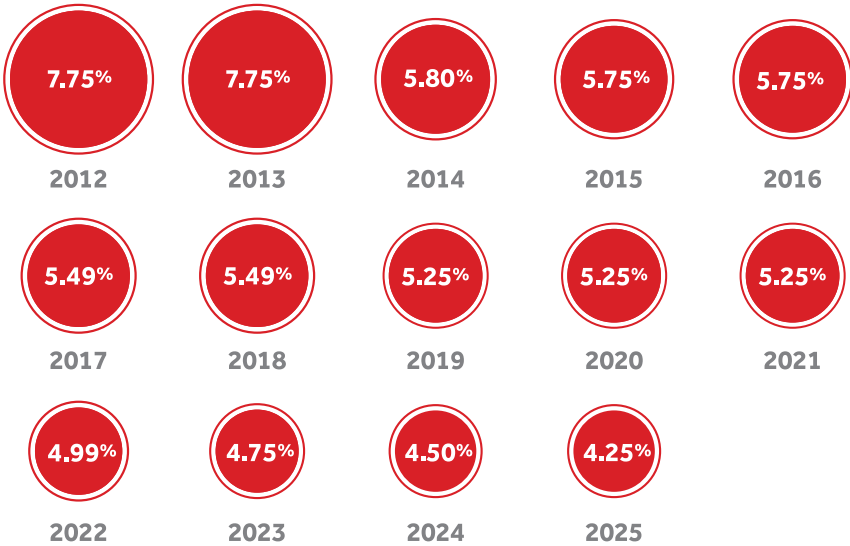
SOURCE: BUREAU OF ECONOMIC ANALYSIS - SAGDP1 STATE ANNUAL GROSS DOMESTIC PRODUCT (GDP) SUMMARY

NORTH CAROLINA'S BUSINESS CLIMATE

- ▶ Beginning with major reforms in 2013, steady tax cuts have dropped the state’s top income tax rate from 7.75 percent (highest in the southeast) to 4.25 percent (second lowest in southeast) in 2025.

- ▶ The corporate tax rate was formerly highest in the southeast, but now it is the lowest rate of any state that imposes such a tax (2.25 percent in 2025). The tax is scheduled to completely phase out by 2030.
- ▶ Conservative reforms over the past decade have resulted in North Carolina being recognized by CNBC as the nation's top state for business again in 2025 – the third time in the last four years³¹ – and a twelfth best business tax ranking.

Top Marginal Income Tax Rate for Individuals in North Carolina (2012-2025):



1st overall

North Carolina is rated first overall in CNBC's 2025 annual Top States for Business ranking.

12th overall

North Carolina is the 12th most competitive business tax climate by the Tax Foundation, up from 44th in 2012.

35th overall

North Carolina has the 35th lowest overall state tax burden as a share of income, according to WalletHub.

INDEX AND SOURCES FOR CHARTS & GRAPHS

Section 1: Taxes

- ▶ North Carolina Major Tax Rates: North Carolina Department of Revenue; available online at: <https://www.ncdor.gov>.
- ▶ Income Tax Rate Compared with Neighbors: Tax Foundation, annual State Facts & Figures publications, available online at: <https://taxfoundation.org/data/all/state/2025-state-tax-data/>.
- ▶ Significant Tax Changes Since 1985: Table created by the John Locke Foundation. Data Sources are annual budget documents for the relevant years, accessed through the General Assembly's website: <https://www.ncleg.net/>.

Section 2: The State Budget

- ▶ Total State Budget, by Source of Funds: General Fund amount from the Office of State Controller monthly General Fund report for June, 2025; Highway Fund and Highway Trust Fund from NCDOT website, "NC Funding Distribution" document; federal dollars from National Association of State Budget Officers. 2025 State Expenditure Report.
- ▶ General Fund Revenue Sources FY 2024-25: North Carolina Office of State Controller, June 2025 General Fund Monthly Report.
- ▶ Trends in the General Fund Budget, 1991 - 2025: North Carolina General Assembly, Annual Budget Conference Reports, from their respective years.
- ▶ North Carolina Population vs. Real General Fund Growth, 1983-2024: General Fund appropriations for FYE 1979 through 2007 from the

2006 Post-Legislative summary produced by Fiscal Research, subsequent appropriation numbers taken from each year's budget bill, population estimates retrieved from the U.S Census Bureau via the Federal Reserve Bank of St. Louis, and GDP deflator levels taken from the Federal Reserve Bank of St. Louis.

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- ▶ General Fund Revenue (Tax & Non-Tax), 2016-2025: Sources: North Carolina Office of State Controller, General Fund Monthly Reports.

Section 3: State Debt & Unfunded Liabilities

- ▶ Outstanding Net Tax-Supported Debt: 2001-2024: North Carolina State Treasurer's Office; Annual Debt Affordability Study, years 2025, 2022, 2020, 2019, 2014, 2009 and 2006. Available online at: <https://www.nctreasurer.com/slg/Pages/Debt-Affordability.aspx>.
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- ▶ State Debt Per Capita 2008-2024: North Carolina Office of State Controller: Comprehensive Annual Financial Report, 2024. Available online at: <https://www.ncosc.gov/sites/default/files/2024-12/2024%20Annual%20Comprehensive%20Financial%20Report%20-%202024-12-23.pdf#page=372>.

Section 4: North Carolina's Economy

- ▶ Table 6: Employment by Share of Industry: North Carolina Department of Commerce, Demand Driven Data Delivery, Current Employment Statistics. Available online at: <https://d4.nccommerce.com/CesSection.aspx>.
- ▶ Graph 9: Nonfarm Employment Trends: North Carolina Department of Commerce; Demand Driven Data Delivery, Current Employment Statistics. Available online at: <https://d4.nccommerce.com/CesSection.aspx>.

- ▶ Graph 10: Annual Unemployment Rate Trends, 2008-2024: St. Louis Fed, FRED Unemployment Rate in North Carolina. Available online at <https://fred.stlouisfed.org/series/NCURN>.
- ▶ Graph 11: NC and Neighbor States Change in Per Capita Income: Bureau of Economic Analysis; Real Per Capita Income By State. Available online at <https://apps.bea.gov/itable/>.
- ▶ Graph 12: NC and Neighbor States Annual GDP Change: Bureau of Economic Analysis; SAGDP1 State annual gross domestic product (GDP) summary. Available online at: <https://apps.bea.gov/itable>.
- ▶ Graph 13: NC and Neighbor States Real GDP: Bureau of Economic Analysis; SAGDP1 State annual gross domestic product (GDP) summary. Available online at: <https://apps.bea.gov/itable>.

ENDNOTES

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Our History

The John Locke Foundation was created in 1990 as an independent, nonprofit think tank that would work "for truth, for freedom, for the future of North Carolina." The Foundation is named for John Locke (1632–1704), an English philosopher whose writings inspired Thomas Jefferson and the other Founders. The John Locke Foundation is a 501(c)(3) research institute and is funded by thousands of individuals, foundations, and corporations. The Foundation does not accept government funds or contributions to influence its work or the outcomes of its research.

Our Vision

Locke envisions a North Carolina in which liberty and limited, constitutional government are the cornerstones of society so that individuals, families, and institutions can freely shape their own destinies.

Our Mission

Locke's mission is to be North Carolina's most influential force driving public policy so North Carolinians flourish in a free and prosperous society.

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