

# NORTH CAROLINA BUDGET REPORT 2022



April 2022

# A budget that leaves NC worse off

NCGA chooses more tax cuts for the wealthy despite a once-in-a-generation opportunity

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**D**uring a time when hardship due to the ongoing COVID pandemic continues to bear down on North Carolinians across the state, and when historic federal COVID relief dollars mean that transformational policies are within reach, state policymakers continued to prioritize the interests of the wealthy few over the many, everyday North Carolinians for whom opportunity is out of reach due to the choices of leaders in Raleigh.

Many have and will continue to celebrate the small successes included in the 2021-2023 state budget. Primarily funded with one-time federal money, these small wins won't be sustained in future years and demonstrate a lack of commitment to a long-term vision for a state that can afford abundant opportunity.

By assigning our collective tax dollars to pay for what we need — schools, roads, parks, and people to run them all — budgets are moral documents that reflect the values of those crafting them.

This budget was ultimately supported by the majority of lawmakers in North Carolina after little to no opportunity for public input, negotiations behind closed doors, and the Republican leadership's goal to limit spending and deliver tax cuts to the top. The state budget passed by the North Carolina General Assembly and signed into law by Governor Cooper represents several notable milestones for the state, as well as the nation.

First, the legislature took a major step in **advancing business interests and politics well ahead of people**. The budget

makes permanent changes to the tax code — including elimination of the corporate income tax and reduction of the personal income tax rate — that will permanently reduce the revenue that the state has available to pay for what our state and communities need. These cuts are estimated to result in a 20 percent cut to revenue when fully implemented compared to today's revenue, ensuring that the state will not only fail to keep up with what people need but will also have to make cuts across areas currently funded by the budget in order to successfully balance spending with declining revenue.

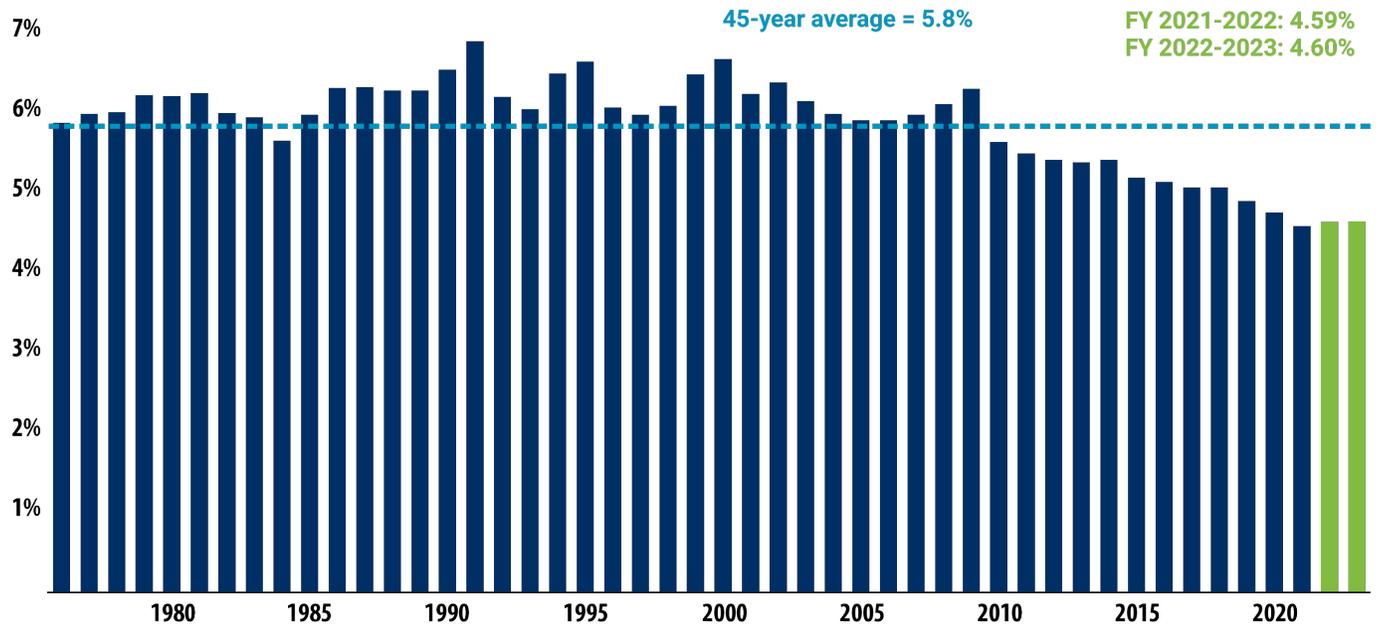
Second, the budget brings North Carolina to a **new low in terms of spending as a share the economy** (with the exception of the prior year, FY 2020-2021, when prior state spending commitments were maintained and no legislative budget was enacted<sup>1</sup>). The budget spends only slightly above the arbitrary spending limits that leaders in the House and Senate agreed to at the start of the budget process,<sup>2</sup> totaling \$25.9 billion for the first year of the budget and \$27.0 billion in the second year. These spending totals represent 4.59 percent of the state's

1 In 2019, the legislative budget was vetoed by the Governor. Following an unsuccessful veto override vote in the NC House of Representatives, the General Assembly, together with the Governor's signature, enacted more than a dozen mini budgets. See Pedersen, L. and Khachaturyan, S. 2020. No final budget, no accountability: Piecemeal budgeting neglects community priorities. <https://www.ncjustice.org/publications/no-final-budget-no-accountability/>

2 Speaker Tim Moore's office. 2021. News: General Assembly leaders announce agreement on state budget total. <http://speakermoore.com/news-general-assembly-leaders-announce-agreement-state-budget-total/>

## Figure 1: State spending represents a new low relative to the economy

NC General Fund spending as a share of the state's economy



Source: NC Budget & Tax Center analysis of S.L. 2021-180 and prior enacted budgets, U.S. Bureau of Economic Analysis

economy in the first year and 4.60 percent in the second year, \$7 billion short of the 45-year average spending as a share of the economy (represented by the dotted blue line in the chart). Together with tax cuts phased in over the next several years, austerity will result in an increasingly strained budget.

Finally, the budget includes **unprecedented transfers of funds to reserve accounts, sidelining billions while needs today go unmet.**

Not included in the budget totals are these General Fund reserves, namely the State Capital and Infrastructure Fund (SCIF), and the Savings Reserve (better known as the “Rainy Day” fund), which are funded well above requirements as set out in state law. Established in 2017, the SCIF was created to fund new capital improvement projects, such as repairs and renovations, to the state’s infrastructure. The Rainy Day Fund, in contrast, is something all states have in some form and are meant to be used to meet emergency



The reality is, North Carolina will be worse off as a result of this budget.

## Figure 2: NCGA makes unprecedented transfers of funds to reserve accounts

Reserve Fund	FY 21-22	FY 22-23	Total transferred over the biennium
Transfers to Savings Reserve	\$2,011,724,287	\$1,134,006,722	\$3,145,731,009
Transfer to State Capital and Infrastructure Fund (SCIF)	\$3,649,334,999	\$2,385,000,000	\$6,034,334,999

Source: NC Budget & Tax Center Analysis of S.L. 2021-180

needs, including revenue declines. By the end of the biennium, the SCIF will grow by \$6 billion while the savings reserve will see an additional \$3.1 billion added to the Fiscal Year 2020-2021 balance of \$1.1 billion.

The reality is, North Carolina will be worse off as a result of this budget. It demonstrates that the General Assembly’s leadership did not learn from the lessons of the past two years of the COVID-19 pandemic — that investing in our state means investing in people, their health, education, communities, and livelihoods.

## Tax cuts block NC from meeting current and future needs

The biggest lasting consequences for the state's finances were the series of tax changes that would be phased in through 2028 (See Figure 3).

### Figure 3: Tax Changes in Final Budget

Tax changes can sometimes be difficult to assess for who benefits and what they mean. In the final budget bill, there were a number of tax changes that have different implications for who pays and what public dollars are available to address community priorities and fund public institutions. Here is a breakdown of the tax policies that aims to give you more context for the impact on public dollars available once the tax changes are fully in effect.

Tax Change	Who Benefits	Impact on public dollars available*
The personal income tax rate is reduced from 5.25% to 3.99% over 6 years.	The already flat rate gives those with high incomes the greatest tax cut, and lowering the rate does very little for those with lower incomes.	REDUCES (-\$3.4 billion)
Increase to the standard deduction (for example from \$21,500 to \$25,500 for tax returns that are filed Married Filing Jointly)	While the vast majority of North Carolinians take the standard deduction rather than itemize, this change would send 59 percent of the tax reduction to those with average incomes of \$178,000 who are in the richest 40 percent of the income distribution.	REDUCES (-\$525.5 million)
Increases the child deduction by \$500 and expands eligibility for the deduction to more families	This primarily benefits taxpayers with young children who itemize their deductions at tax time. Just 21 percent of North Carolinians receive this tax break, and the average value is \$38 per year.	REDUCES (-\$46.8 million)
Exempts most military retirement income from taxation effective January 1, 2021.	A small number of North Carolinians who receive military retirement income and have served for the required 20 years or more in the state.	REDUCES (-\$50 million)
Eliminates the corporate income tax over 6 years beginning in 2025.	Corporations with profits apportioned based on their sales in the state pay income tax to North Carolina. This is primarily a benefit to out-of-state corporations.	REDUCES (-\$912 million)
The franchise tax base calculation is changed and, for some taxpayers, reduces the amount of franchise tax due by eliminating the two tax bases calculated using property values.	Businesses with significant property in the state would receive the greatest benefit from this change.	REDUCES (-\$173.3 million)
<b>For the remaining tax changes included in the final budget, there was not detailed estimates of the fiscal impact for the state, but we do have information on who will benefit.</b>		
Permanent 7.5% federal medical expense deduction threshold.	North Carolinians who itemize and have significant medical expenses would see the greatest benefit from this higher threshold.	REDUCES

\* Once tax changes are fully in effect

Note: The estimated impact of personal income tax changes reflects the interaction of effects between these tax policy changes. For example, the fiscal impact of the personal income tax rate reduction reflects that change together with the increases in the standard deduction and child deduction. just the impact of the standard deduction change includes the rate reduction. The estimates are also when the tax changes are fully phased in or from the last year for which a fiscal note is available.

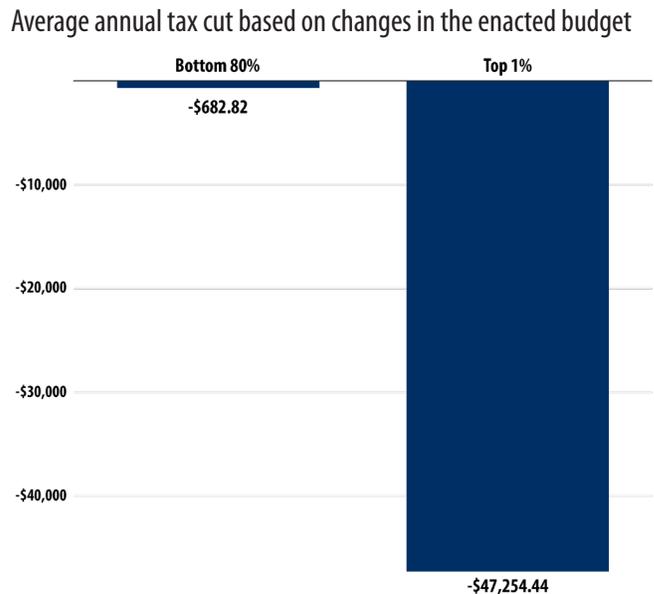
Tax Change	Who Benefits	Impact on public dollars available*
Deduction for expenses using funds from forgiven Pandemic Protection Program (PPP) loans and from similar pandemic-related loan and grant programs.	Businesses receiving PPP loans were those that were impacted by the pandemic and often had pre-existing relationships with lenders.	REDUCES
Allows pass-through entities to elect to pay state income taxes at the entity level, and thereby not be subject to the federal state and local tax (SALT) cap of \$10,000.	Participating pass-through businesses, such as partnerships and S corporations, which receive a federal tax cut.	REDUCES
Subjects all cigar sales, whether sold online or in-person, to the existing rate of excise tax.	Businesses that sell cigars will be impacted by this tax change and a portion of the tax increase will likely be passed on to consumers	RAISES
Reenacts the Mill Rehabilitation/Railroad Tax Credit and expands the Historic Rehabilitation Tax Credit to include historic schools.	Businesses or other entities that re-develop historic buildings will benefit from this tax credit.	REDUCES
Limits the gross premiums tax on surety bonds for bail bonds to the amount remitted by the surety bondsman to the bond insurer.	Bail bond companies will benefit from this limit on gross premium tax.	REDUCES
Creates a separate North Carolina Net Operating Loss (NOL) calculation to more closely align to the calculation of North Carolina taxable income for individual income tax purposes.	Businesses that file as LLCs with losses in North Carolina will be able to carry those forward in the same way that C corporations do and regardless of operating losses in other states.	NO ESTIMATE AVAILABLE

Source: Special Data Request to the Institute on Taxation and Economic Policy, 2021; NC Fiscal Research Division, 2021, Legislative Session Budget and Fiscal Policy Highlights, accessed at: [https://sites.ncleg.gov/frd/wp-content/uploads/sites/7/2022/01/NCGA\\_2021\\_Legislative\\_Session\\_Budget\\_and\\_Fiscal\\_Policy\\_Highlights\\_2022\\_01\\_20\\_Final.pdf](https://sites.ncleg.gov/frd/wp-content/uploads/sites/7/2022/01/NCGA_2021_Legislative_Session_Budget_and_Fiscal_Policy_Highlights_2022_01_20_Final.pdf), and NC Fiscal Research Division, 2021, Fiscal Note for House Bill 83, accessed here: <https://www.ncleg.gov/Sessions/2021/FiscalNotes/House/PDF/HFN0083v3.pdf>

The continued focus on reducing the state’s income tax rates and, thus, overall collections from this source of revenue makes it harder for the state to ensure that funding for our communities and the public institutions that serve us all is not a heavier load for North Carolinians with middle- and low-incomes. Because the state already adopted a flat income tax rate and eliminated a graduated income tax rate where higher incomes are taxed at higher rates, changes that reduce the rate deliver the greatest benefit to the richest North Carolinians who are experiencing the greatest income growth under today’s economic rules.

The income tax cuts inclusive of the rate cuts and changes to the standard deduction in the final budget will mean that the average tax cut since 2013 for the richest 1 percent will now total \$47,000 annually, while those in the bottom 80 percent of the income distribution receive an average tax cut of just \$683. The reason for this outcome is that reducing the income tax rate and using deductions to reduce tax contributions

**Figure 4: Top 1% will continue to receive greatest tax cuts when latest changes go into effect**



Source: NC Budget & Tax Center special data request to Institute on Taxation and Economic Policy, January 2022

disproportionately benefit those with higher incomes who are getting richer. A far better way to design tax cuts would be to focus on the heavier tax load carried by low- and middle-income North Carolinians as a share of their income and adopt a state Earned Income Tax Credit that ensures the total taxes paid are recognized.

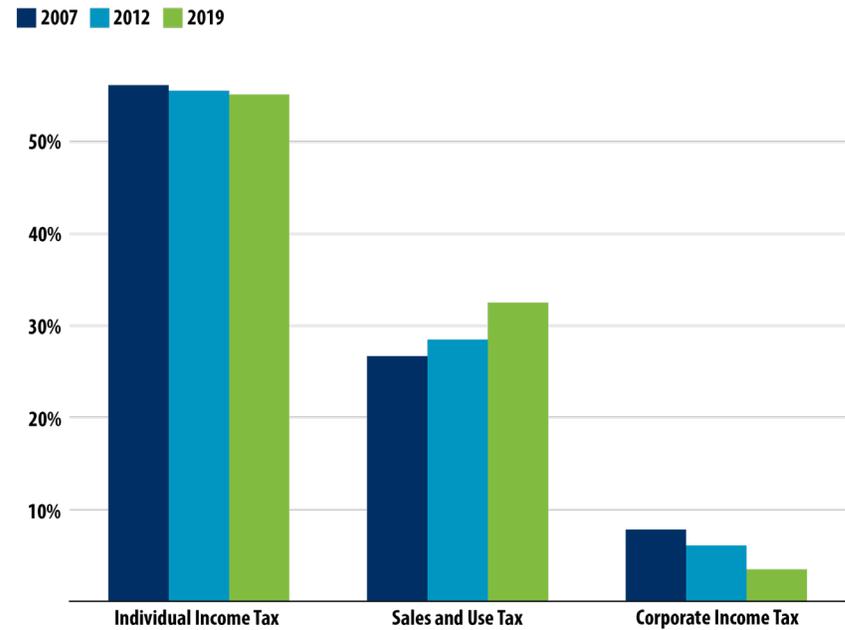
Reducing state income taxes collected from primarily the richest North Carolinians and eliminating it entirely for primarily out-of-state corporations also sets up a series of future decisions that will require balancing future budgets. When the state does not have sufficient revenue collections to meet the cost of delivering public services, the result can be damaging budget cuts, shifts in the tax load carried by the majority of North Carolinians, or shifts in responsibility for public services to local governments, as well as some combination of these actions.

Either way, claims of reduced income taxes benefiting most North Carolinians have not materialized. The pandemic made clear that many of the public institutions meant to protect people and communities from harm were weakened by years of underinvestment — cuts to public health infrastructure and infectious disease planning required significant efforts to reach people with the information and care to reduce the spread of COVID-19, and the lack of state investment in economic supports for households deepened income losses. Pre-pandemic, the income tax cuts had not accelerated the recovery of jobs relative to other states nor addressed persistent inequities in the location and quality of jobs available to North Carolinians.

Revenue collections will not only decline as a result of the recent tax changes, but will continue the shifts that began in 2013. While income taxes remain the primary source of public dollars available to the state, the steep decline in corporate income tax collections in particular is shifting the state's overall reliance on sales and use taxes. Sales and use taxes ask more from everyday North Carolinians as a share of their income than from millionaires who have received the greatest share of the benefit from tax cuts since 2013.

## Figure 5: Income tax reductions in North Carolina means bigger share of funding coming from sales tax

NC revenue by source over time



Note: Individual income, corporate income, and sales and use tax make up roughly 90 percent of total revenue. These numbers don't add to 100 percent because other revenue sources contribute to available funds for the state.

Source: NC Budget & Tax Center analysis of state revenue data

The income tax cuts in this final budget will reduce revenue by \$8 billion when fully in effect.<sup>3</sup> These tax changes made it immediately impossible for state policymakers to make faster progress on building a more stable, affordable early childhood education system statewide, addressing the funding requirements of the Leandro plan to ensure every child has access to a sound, basic education, and addressing the backlog of infrastructure projects, including the development of affordable housing. Federal relief funds masked this reality by allowing policymakers to make one-time commitments to programmatic rather than systemic investments that would lay the foundation for a stronger recovery. Without these federal funds coming in to meet priorities in the future, the state will fall even further behind when the full impact of the income tax reductions go into effect.

A conservative estimate of the gap between available revenue and required expenditures that future policymakers will face when the tax cuts are in full effect in FY 2029-2030 is \$10 billion.<sup>4</sup> This figure takes into account the state's constitutional requirement to fund a

3 Sirota, Alexandra, December 2021. [Three numbers that illustrate the folly of North Carolina's latest austerity budget | The Pulse \(ncpolicywatch.org\)](#)

4 [Three numbers that illustrate the folly of North Carolina's latest austerity budget | The Pulse \(ncpolicywatch.org\)](#)

## What could \$8 billion do today?

Even under the tax code in place today that has held tax collections artificially low, North Carolina could make greater progress on a range of priorities that would strengthen the resiliency of people and communities. \$8 billion could provide funding for every working family earning low incomes to access child-care assistance and address the need for housing assistance and rental housing development in rapidly growing, high-cost housing areas of the state, as well as ensure every North Carolina graduate can access a post-secondary education that is free as far as practicable as the constitution lays out.



sound, basic education and the need to keep up current service levels in the face of rising costs and a growing population. The actual number will likely be even higher as estimates and understanding of what is required to protect people's health and well-being will continue to evolve in the next decade.

Policymakers have locked North Carolina into a decade of delayed investment and limited the flexibility of future lawmakers to meet community priorities by scheduling rate reductions regardless of the context that the state may be facing.

### What made it into the budget and what didn't

What ultimately made it into the state budget includes a combination of missed opportunities, areas where more should have been done, and harmful provisions. By no means a comprehensive look at the contents, this section summarizes some key decisions reflected in North Carolina's biennial state budget.

#### Great progress

##### *Extension of Postpartum Medicaid*

Separate from the issue of Medicaid expansion, the General Assembly opted to implement the option to extend pregnancy-related Medicaid coverage beyond

the current 60 days postpartum coverage limited to pregnancy-related care to instead provide full Medicaid coverage for 12 months. This important change, made possible through an option for states created in the American Rescue Plan, is likely to improve maternal health, and in particular, begin to address racial disparities in maternal health that too often result in Black women dying at more than twice the rate of white women from pregnancy-related causes.<sup>5</sup>



#### Too little where more is needed

##### *Short-term funds for early education*

Spending on early childhood education in the enacted budget was primarily done by allocating one-time child-care specific funds from the American Rescue Plan Act, with the exception of \$20 million in recurring state funding for Smart Start. This was a missed opportunity to supplement federal dollars with meaningful state spending to improve child-care access and educator pay at a time when the lack of stable child care is a significant barrier to parents', and especially mothers', ability to work.



5 Artiga, S., Pham, O., Orgera, K., and Ranji, U. 2020. Racial disparities in maternal and infant health: an overview. <https://www.kff.org/racial-equity-and-health-policy/issue-brief/racial-disparities-maternal-infant-health-overview/>

### **Short-term funds for environment-related spending**

Environment-related spending in the state budget is primarily in the form of one-time funding for projects that needed at least multi-year, if not long-term, funding, as well as earmarks for specific projects.

In addition, much of the funding comes from federal COVID-19 relief funding, despite dedicated federal infrastructure funding coming to North Carolina in addition to ample opportunity for state funds toward these important priorities.



The budget includes \$2 million for re-entry support into the workforce and \$2 million to support those battling substance-use disorders to enter and remain in the workforce — both funded with one-time federal COVID-19 relief dollars, rather than long-term state funding commitments that adequately respond to the needs of proven re-entry programs.

### **Inadequate housing investments during a housing affordability crisis**

The enacted budget provided critical housing resources, including \$170 million for the Workforce Housing Loan Program, \$15 million for the Transitions to Community Living Initiative in each year of the biennium, and \$15 million over the biennium for the NC Housing Trust Fund. However, many of these funds are one-time in nature where long-term investment is required to meet ongoing needs, while other areas are funded with federal COVID relief funds or other federal funding streams.



### **Weakened election infrastructure**



As part of the state budget, the General Assembly included a provision that will restrict state election officials' ability to settle election lawsuits, instead allowing leaders of the General Assembly to intervene. This deeply concerning provision undermines our democracy and places additional power in

the hands of partisan legislative leaders on election-related matters. In addition, the NCGA allocated \$5 million in one-time funds for mobile programs to assist individuals who will need photo identification. This decision is viewed as an attempt to mitigate the harms of ID requirements, rather than remove the requirements that disproportionately harm Black and women voters altogether.

### **Limited re-entry supports for North Carolinians leaving prison**

The state budget includes only limited state spending for local re-entry programs that does not fulfill our needed commitments to programs that work to provide the support returning people need to avoid recidivating, all the while disinvesting in state and local re-entry infrastructure and programs.



## **NC Budget: Harmful omissions**

### **No Medicaid expansion**

The General Assembly has again decided to forego the federal option to provide health insurance coverage made possible through the Affordable Care Act, a decision which leaves hundreds of thousands of North Carolinians with no affordable option for coverage. While past estimates of the impact of Medicaid expansion on the state budget, including our own<sup>6</sup>, have demonstrated that the expansion of eligibility would result in savings to the state budget, the federal government implemented an additional incentive for states holding out on Medicaid expansion. In the American Rescue Plan, the state would receive an additional federal match for providing Medicaid services, resulting in an estimated \$1.7 billion over two years<sup>7</sup> and an estimated 600,000 who would be newly eligible to receive Medicaid.<sup>8</sup> Instead



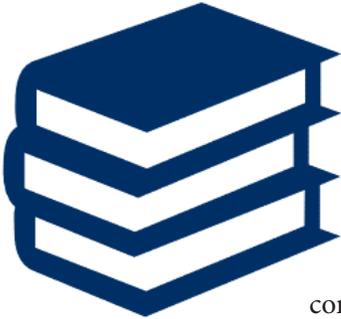
6 Khachaturyan, S. 2019. Financing health care for North Carolinians in the coverage gap. <https://www.ncjustice.org/publications/financing-health-care-for-north-carolinians-in-the-coverage-gap/>

7 Richard, D. 2022. Presentation to the North Carolina General Assembly's Joint Legislative Oversight Committee on Access to Healthcare and Medicaid Expansion entitled, "Current Medicaid Eligibility and Financing." [https://www.ncleg.gov/documentsites/committees/BCCI-6770/Meetings/2022.03.01/Item%203a%20-%20Medicaid%20Expansion%20101\\_NC-DHHS\\_3-1-2022.pdf](https://www.ncleg.gov/documentsites/committees/BCCI-6770/Meetings/2022.03.01/Item%203a%20-%20Medicaid%20Expansion%20101_NC-DHHS_3-1-2022.pdf)

8 Urban Institute. 2018. The Implications of Medicaid Expansion in the Remaining States: 2018 Update. [https://www.urban.org/sites/default/files/publication/98467/the\\_implications\\_of\\_medicaid\\_expansion\\_2001838\\_2.pdf](https://www.urban.org/sites/default/files/publication/98467/the_implications_of_medicaid_expansion_2001838_2.pdf)

of implementing expansion, a provision in the budget created a Joint Legislative Committee to study access to health care and Medicaid expansion.

**Failure to fund a sound, basic education**



Since at least the 1997 North Carolina Supreme Court decision in *Leandro v. State of North Carolina*, the state has been tied up in ongoing litigation about how it has underfunded public education for decades, violating North Carolina’s constitutional obligation to

provide a sound, basic education to all students. A remedial plan and accompanying court order, signed in June 2021, ordering the state to implement the plan in full, lays out in detail the amounts and areas where state spending must be made through Fiscal Year 2028.<sup>9</sup> These court-ordered spending requirements were identified as critical areas, and therefore represent the

minimum requirements. And yet, analysis by the North Carolina Justice Center shows that the enacted state budget funds just 53 percent of the requirements in the first year of the budget (2021-2022) and only 43 percent in the second year (2022-2023).<sup>10</sup>

**Foregoing opportunities to help low-income taxpayers**

There were a number of tax changes that would have addressed the upside-down nature of the tax code and provided more equitable treatment of taxpayers that were not included in the final budget or passed separately. Two notable tax policies missing were to ensure the deductibility of Unemployment Insurance income from state tax in line with the federal exclusion of \$10,000 and to provide working families earning low wages with a refundable tax credit that would ensure that they keep more of what they earn to meet basic needs.



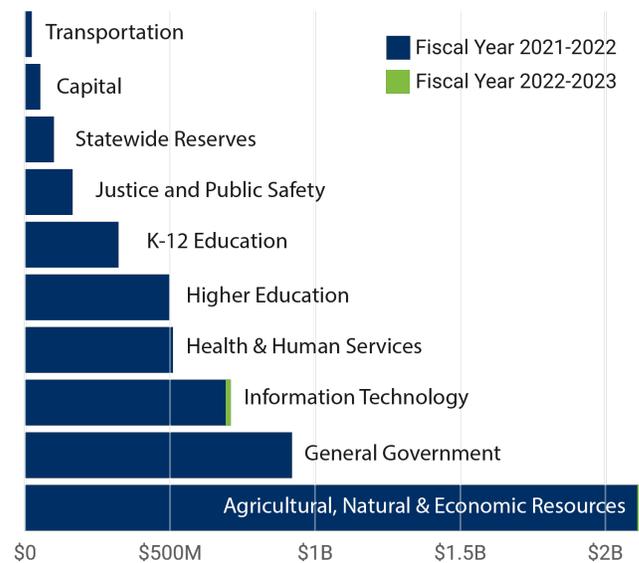
**Allocations of funds from the federal American Rescue Plan**

In addition to appropriating the state’s General Fund dollars, which are generated through the state’s tax code, the General Assembly included decisions about where to allocate nearly all of the state’s flexible COVID-19 relief dollars in the biennial state budget. As part of the American Rescue Plan Act, passed by Congress in March 2021 and signed into law by the President, state and local governments received Fiscal Recovery Funds meant to address the public health and economic harms of brought on by the COVID-19 pandemic. North Carolina’s state share of the funds is \$5.4 billion , with federal guidance requiring that decisions on where to allocate the funds must be made by December 31, 2024, and that funds must be spent by December 31, 2026.

Analysis of the more than 175 line-item allocations made by budget area show that the greatest portion of the funds went to the Agriculture, National and Economic Resources sectors, which received more than \$2 billion, or nearly half of the state’s total allocation received

**Figure 6: NC General Assembly allocations of flexible COVID-relief funding**

State Fiscal Recovery Fund appropriations by budget area



Source: NC Budget & Tax Center analysis of S.L. 2021-80

9 Leandro v. State of North Carolina Comprehensive Remedial Plan Implementation Cost Tables (2021-2028). [https://everychildnc.org/wp-content/uploads/2021/03/Appendix\\_Leandro-Implementation-Cost-Tables-Fiscal-Year-2021-2028\\_03152021\\_final.pdf](https://everychildnc.org/wp-content/uploads/2021/03/Appendix_Leandro-Implementation-Cost-Tables-Fiscal-Year-2021-2028_03152021_final.pdf)

10 Nordstrom, K. 2021. New education budget fails to address students’ basic needs. <https://pulse.ncpolicywatch.org/2021/11/17/new-education-budget-fails-to-address-students-basic-needs>

from the federal government. Additional budget areas receiving funding include General Government with over \$900 million and Information Technology with nearly \$700 million allocated.

Additional analysis of the funding allocations into five categories shows that spending in infrastructure is by far the largest investment at \$2.9 billion, followed by aid to individuals, which includes premium bonuses for state employees, totaling nearly \$890 million; business stabilization allocations of over \$760 million; funding for public institutions at \$700 million; and workforce supports of \$185 million.

The funding decisions made by the General Assembly to appropriate the federal COVID relief funds in these ways represents a missed opportunity to fund transformational change. For example, while the more than \$1 billion allocated for water and wastewater infrastructure represents critical funding for many communities with failing and near-failing water systems, particularly in Eastern North Carolina, there are many additional sources of funding that could have been used, including General Funds or incoming federal funding

dedicated to infrastructure. By dedicating such a large portion of the state’s flexible COVID relief funds for any specific purpose means the dollars can’t be directed elsewhere, and with the latest choices to continue cutting taxes that leaves fewer available dollars to pay for what North Carolina communities need.

While 99 percent of the State Fiscal Recovery Funds have been appropriated, there may be opportunities over the next several years — through December 31, 2024 — to redirect remaining funds to other purposes, as the General Assembly did with the Coronavirus Relief Fund dollars appropriated through the federal CARES Act in 2020. In addition, while funds must be appropriated by the above date and spent by December 31, 2026, there are implementation decisions, including how grant applications will be evaluated and processed, that may present opportunities for input and improvement to ensure the most equitable and community-driven distributions.

In addition to the State Fiscal Recovery Funds, the biennial state budget included appropriations of many other issue-specific federal funds, many of which are

**Figure 7: More than half of NC’s flexible COVID relief dollars allocated for infrastructure**

Below is a list of the largest appropriations of State Fiscal Recovery Funds — flexible funds from the federal American Rescue Plan — by the General Assembly in the 2021-2023 state budget.

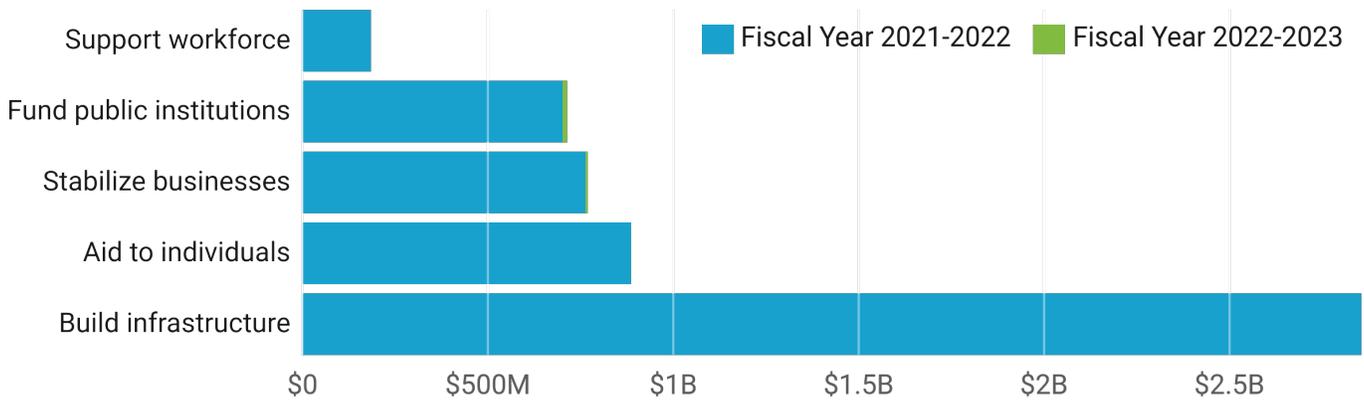
Funding item and description	Allocation*
<p><b>State Drinking Water/Wastewater Reserve Infrastructure</b> This fund predates COVID-19 but received an influx of COVID relief funds to provide additional grants to water and sewer utilities throughout the state. Approximately one-third of the funds will be available specifically for areas at-risk of becoming distressed, as defined by the State Water Infrastructure Authority.</p>	\$1.05 billion
<p><b>Business Recovery Grant Program</b> This newly created fund administered by the NC Department of Revenue will provide grants to eligible businesses in the state that suffered substantial economic damage during the pandemic.</p>	\$500 million
<p><b>Viable Utility Reserve</b> This fund predates COVID but received additional funding through the state budget’s ARP appropriations. The viable utility program provides funding for distressed water and wastewater systems in North Carolina, including through rehabilitation of existing infrastructure and extending utility services.</p>	\$450 million
<p><b>Completing Access to Broadband Program</b> These dollars will be granted to eligible counties to fund broadband infrastructure. The program is administered by the NC Department of Information of Information Technology. This program helps to fund projects in areas not served through the GREAT Grant, a separate grant program for funding broadband infrastructure in NC.</p>	\$400 million

\* Allocations are rounded to the nearest \$50 million.

Source: NC Budget & Tax Center Analysis of S.L. 2021-180

## Figure 8: NC General Assembly allocations of flexible COVID-relief funding

State Fiscal Recovery Fund appropriations by purpose



Source: NC Budget & Tax Center analysis of S.L. 2021-80

existing federal funding streams that were increased to provide pandemic relief as well as new funding streams created specifically to mitigate the harms created, and sometime worsened, during the pandemic. These funding streams include the Elementary and Secondary School Emergency Relief Fund, Child Care Development Fund, Statewide COVID-19 Vaccination Fund, the Coronavirus Capital Projects Fund, State Small Business Credit Initiative, several transportation-related funding streams, and more. These funding streams are appropriated by the General Assembly, which authorizes the relevant state agency to administer the funds within the federal guidelines.

## What the budget means for communities

### What the budget means for Black North Carolinians

No policy is race neutral, and the state budget is no exception. The 2021-2023 budget imposes disproportionate harm on Black communities in addition to other communities of color. Below is an overview of some of the key ways that the decisions reflected in the budget exacerbate, and at times alleviate, barriers to prosperity and opportunity for Black North Carolinians.

### PUBLIC EDUCATION

North Carolina's decades-long legal battle over

inadequate public education funding does not explicitly make mention of race; however, data demonstrate that students of color are more likely to live in families with low incomes and score below their peers on standardized tests. In addition, Black students are 58 percent more likely to be taught by a novice teacher compared to their white peers, are underrepresented in advanced and honors courses, and are far more likely to be suspended compared to their white classmates.<sup>11</sup>

Meeting the funding requirements set out in the Leandro plan would help to alleviate racial discrimination experienced by Black and other minority students. This would be done by increasing per-student state funding by 40 percent, which would provide support to train a more diverse teaching workforce, support school programming that would disproportionately benefit students of color, increase the number of school personnel providing mental health and other services, overhaul the discriminatory school performance grade system, expand the use of community schools, and more.

Instead, policymakers approved a budget that funds just 53 percent of the Leandro Plan in the first year of the budget, and 43 percent in the second year.<sup>12</sup> A recent national analysis on state school finances places North Carolina among the bottom four nationally for spending as a percentage of the state's economic capacity as well as the adequacy of per-pupil spending, particularly for the highest poverty districts.<sup>13</sup> Clearly, more can be done by

11 Every Child NC. 2021. How does the Leandro Plan benefit students experiencing racial discrimination? <https://everychildnc.org/racial-discrimination/>

12 Nordstrom, K. 2021. New education budget fails to address students' basic needs. <https://pulse.ncpolicywatch.org/2021/11/17/new-education-budget-fails-to-address-students-basic-needs/>

13 Baker, B., Di Carlo, M., Reist, K., & Weber, M. 2021. State school finance profile: North Carolina, 2018-2019 school year. [https://www.schoolfinancedata.org/wp-content/uploads/2021/11/profiles19\\_NC.pdf](https://www.schoolfinancedata.org/wp-content/uploads/2021/11/profiles19_NC.pdf)

the state to prioritize funding for educating our state's children.

## HEALTH CARE

The NC General Assembly's decision to not expand Medicaid harms all North Carolinians because we're all affected when community members lack access to basic supports. However, the burden of being insured is not distributed proportionally by race. While Black North Carolinians make up 22 percent of North Carolina's

of women, and their families, in particular. Below are a few ways the budget hinders, and helps, the ability of women to thrive.

## CHILD CARE

Despite decades of progress enabling greater participation in the workforce, structural barriers for women persist, and North Carolina's latest biennial budget does little to mitigate barriers for women in the state.



**By making the choice to not expand Medicaid, lawmakers are choosing to put politics ahead of the basic needs of people in the state.**

population,<sup>14</sup> they represent 29 percent of those who would become eligible for Medicaid if North Carolina expanded the program.<sup>15</sup> By making the choice to not expand Medicaid, lawmakers are choosing to put politics ahead of the basic needs of people in the state.

Lawmakers did, however, choose to take the federal option made available through the American Rescue Plan to expand full Medicaid coverage to postpartum women for 12 months post-birth. This decision provides a sweeping expansion of coverage as compared to North Carolina's prior policy providing just 60 days of coverage limited to pregnancy-related services aside from those with incomes below 43 percent of the federal poverty level. With stark racial disparities in maternal and infant health outcomes in North Carolina and nationally,<sup>16</sup> this policy decision is likely to reduce disparities by ensuring health insurance coverage during the critical first year.

### ***What the budget means for North Carolina women***

The state budget affects the lives of every North Carolinian; however, there many ways it impacts the lives

Labor market participation data demonstrate that, since the early days of the COVID-19 pandemic, women were more likely to leave the workforce to provide child care in the face of closures and remote learning.<sup>17</sup> Notwithstanding the unique circumstances of the public health crisis, North Carolina's child-care system falls well short of the funding it needs to ensure that quality child care is accessible to more children in working families. An estimated 226,000 children under 6 are eligible for child care subsidies, but only about 38,000 — fewer than 1 in 5 — receive assistance because available child care subsidy slots are limited by inadequate funding.<sup>18</sup> In addition, families can find themselves in a child-care desert, where few child-care providers are available in their community, or where providers don't serve children who receive subsidies due to low reimbursement rates that do not cover the full cost of providing high-quality care.

The enacted budget primarily relies on federal funds from the American Rescue Plan (ARP) to invest in child care, including \$503 million in flexible Child Care Development Fund dollars and \$806 million in

14 United States Census Bureau. 2021. Quick Facts: North Carolina. <https://www.census.gov/quickfacts/NC>

15 Kaiser Family Foundation. N.d. Who could Medicaid reach with expansion in North Carolina? <https://files.kff.org/attachment/fact-sheet-medicaid-expansion-NC>

16 Artiga, S., Pham, O., Orgera, K., & Ranji, U. 2020. Racial disparities in maternal and infant health: an overview. <https://www.kff.org/racial-equity-and-health-policy/issue-brief/racial-disparities-maternal-infant-health-overview/>

17 For example, Harris, L. 2021. Women's jobs disproportionately impacted by child care during COVID-19. <https://www.ncjustice.org/publications/womens-jobs-disproportionately-impacted-by-child-care-during-covid-19/> and Bauer, L. 2021. Mothers are being left behind in the economic recovery from COVID-19. <https://www.hamiltonproject.org/blog/mothers-are-being-left-behind-in-the-economic-recovery-from-covid-19>

18 Harris, L. 2021. NC needs to invest in child care assistance if we want to get people back to work. <https://pulse.ncpolicywatch.org/2021/05/14/nc-needs-to-invest-in-child-care-assistance-if-we-want-to-get-people-back-to-work>

Child Care Stabilization Grants.<sup>19</sup> While the short-term injection of federal funds is critical for COVID-19 recovery, the state needs to provide recurring General Fund revenue to meet long-term child care needs, including expanding subsidies, raising reimbursement rates, and providing funds to increase early childhood educator compensation so that providers can recruit and retain skilled teachers.<sup>20</sup>

## HEALTH CARE

The biennial budget includes a critical provision that extends postpartum Medicaid coverage from 60 days to 12 months post birth. This option for states was made possible by the federal American Rescue Plan in order to mitigate maternal morbidity and mortality, as well as racial disparities in maternal health.<sup>21</sup> Critically, the change requires that states who opt in provide full Medicaid coverage for the 12 month period, rather than providing only pregnancy-related coverage for those with incomes above roughly 43 percent of the Federal Poverty Level, which is what North Carolina provided up until this change.<sup>22</sup>

While the extension of postpartum coverage is critical, North Carolina lawmakers once again failed to take up Medicaid expansion, a commonsense expansion of health care to include nearly all low-income people and an option that has been on the table for states since 2014 through the Affordable Care Act. North Carolina remains one of only twelve states, which are mostly located in the South, that have opted not to adopt this option. An additional 600,000 North Carolinians are estimated to directly benefit from Medicaid expansion were the state to enact the change.<sup>23</sup> The American

Rescue Plan included incentives for states that have not yet expanded to do so, and North Carolina would receive an estimated \$1.7 billion over two years in additional federal funding.<sup>24</sup> Instead, the General Assembly opted to create a study committee.

Finally, the biennial budget appropriates over \$15 million in funds for clinics that claim to provide crisis pregnancy services but are known to provide medically inaccurate, biased information and are not medical facilities.<sup>25</sup> These funds are greater than the \$3 million appropriated over the biennium to the Nurse-Family Partnership Program, an evidence-based best practice in the field of maternal and child health, as well as other critical programs and services that are evidence-based.<sup>26</sup>

## ECONOMIC SUPPORTS

State policymakers have once again failed to enact a state Earned Income Tax Credit (EITC), which was allowed to expire in 2013. A refundable credit of 20 percent of the federal credit could improve the lives of approximately 900,000 North Carolinians with low wages and would cost the state an estimated \$462 million each year<sup>27</sup> — a fraction of the cost of the most recently enacted tax cuts. The EITC is associated with improved maternal and infant health, enhanced nutrition, physical and mental health, and community well-being and would go far in addressing North Carolina's poverty-related public health crisis.<sup>28</sup>

### *What the budget means for North Carolina workers*

The backbone of the state's economy, North Carolina workers have once again largely been forgotten in the latest biennial budget enacted by the General Assembly

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- 24 Richard, D. 2022. Presentation to the North Carolina General Assembly's Joint Legislative Oversight Committee on Access to Healthcare and Medicaid Expansion entitled, "Current Medicaid Eligibility and Financing." [https://www.ncleg.gov/documentsites/committees/BCCI-6770/Meetings/2022.03.01/Item%203a%20-%20Medicaid%20Expansion%20101\\_NC-DHHS\\_3-1-2022.pdf](https://www.ncleg.gov/documentsites/committees/BCCI-6770/Meetings/2022.03.01/Item%203a%20-%20Medicaid%20Expansion%20101_NC-DHHS_3-1-2022.pdf)
- 25 For example, Borrero, S., Frietsche, S., & Dehlendorf, C. 2019. Crisis pregnancy centers: Faith centers operating in bad faith. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6318184/> and American Public Health Association. 2011. Policy statement: Regulating disclosure of services and sponsorship of crisis pregnancy centers. <https://www.apha.org/policies-and-advocacy/public-health-policy-statements/policy-database/2014/07/22/08/33/regulating-disclosure-of-services-and-sponsorship-of-crisis-pregnancy-centers>
- 26 Association of Maternal & Child Health Programs. 2021. Sharing best practices in maternal and child health: Nurse-Family Partnership. <https://amchp.org/wp-content/uploads/2021/05/Nurse-Family-Partnership.pdf>
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and Governor. Below are just some of the ways the budget falls short for our state's public employees as well as workers more broadly.

### STATE EMPLOYEES

The General Assembly allocated nearly \$700 million of its flexible state funding from the federal American Rescue Plan to provide small, one-time bonuses to all state employees. For workers, this amounted to up to \$1,500, plus a 5 percent raise over the biennium. Teachers received an average salary increase of 2.5 percent in each year of the biennium in addition to a \$1,000 bonus from the federal Emergency and Secondary School Emergency Relief Fund. Most other public school personnel, including non-certified staff (such as custodians, teaching assistants, and bus drivers) received the greater of a 2.5 percent raise or an increase to \$15 per hour in the state budget.<sup>29</sup>

While overdue, particularly given the unprecedented challenges posed by COVID, one-time bonuses with federal pandemic relief funds don't make up for long-term state commitments that are needed. In addition, the raises are not enough to keep up with woefully small increases in the past,<sup>30</sup> nor are they enough to keep up with inflation, which has increased nearly 8 percent over the past year.<sup>31</sup>

### NORTH CAROLINA WORKERS

While the state's overall minimum wage was not raised in the budget, some state employees saw a minimum wage increase. State-funded local employees of public schools and community colleges now receive a guaranteed \$13 per hour minimum wage in the first year of the budget, increasing to \$15 per hour in the second year.<sup>32</sup>

Through the budget technical corrections bill, state policymakers approved an increase in the hourly wages for direct care workers providing home and community-based services through Medicaid and the Children's Health Insurance Program to \$15 per hour.<sup>33</sup> This change is being implemented through a raise in the reimbursement rate to these specific providers, who are employed privately.

These wage increases reflect a willingness on the part of North Carolina lawmakers to acknowledge the paltry wages of some employees, but are not yet in a position to provide an increase that could provide for the more than 28,000 workers in the state receiving the minimum wage, or the 52,000 earning below the already low standard as of 2016 data.<sup>34</sup>

## What's next for North Carolina

Simply put, North Carolina — its workers, families, and children — will be worse off as a result of this budget. The choices to disinvest in communities and cut taxes for corporations and the wealthiest in the state does not move us forward, as the past decade has demonstrated.

In order to create a more equitable and more resilient future, our policymakers must put to rest their current zero-sum strategy — where prosperity for some can only come at the expense of others. These ideas do not help us move forward and, in fact, hold us back from the vision we collectively want for our state.

The good news is that the choice to put people first will always be available, and the sooner we decide to put people's needs first, the better off our state will be.

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31 U.S. Bureau of Labor Statistics. 2022. Economic News Release: Consumer Price Index Summary. <https://www.bls.gov/news.release/cpi.nr0.htm>

32 North Carolina Fiscal Research Division. 2022. NCGA 2021 Legislative Session Budget and Fiscal Policy Highlights. [https://sites.ncleg.gov/frd/wp-content/uploads/sites/7/2022/01/NCGA\\_2021\\_Legislative\\_Session\\_Budget\\_and\\_Fiscal\\_Policy\\_Highlights\\_2022\\_01\\_20\\_Final.pdf](https://sites.ncleg.gov/frd/wp-content/uploads/sites/7/2022/01/NCGA_2021_Legislative_Session_Budget_and_Fiscal_Policy_Highlights_2022_01_20_Final.pdf)

33 N.C. General Assembly. Session Law 2022-6. Reg. Sess. 2021-2022 (2022). <https://www.ncleg.gov/BillLookUp/2021/H243>

34 U.S. Bureau of Labor Statistics. 2017. Minimum wage workers in North Carolina — 2016. [https://www.bls.gov/regions/southeast/news-release/minimumwageworkers\\_north-carolina.htm](https://www.bls.gov/regions/southeast/news-release/minimumwageworkers_north-carolina.htm)

