

North Carolina: Lawmakers override Gov. Cooper's budget veto



David M. Kall | Thursday, June 29, 2017

Last week, Tar Heel state lawmakers approved their [budget agreement](#) for the next biennium, which starts on July 1, 2017. This week, Gov. Roy Cooper vetoed the agreement, and the legislature overrode that veto with a 76-43 vote.

When lawmakers put forth their budget, the [Times-News](#) called it a dare, quoting Senate leader Phil Berger's challenge to Gov. Cooper: "[I]f the things you've said and campaigned on are more than just empty promises, you will sign this budget." But the governor's judgment is that "the two-year spending plan is fiscally irresponsible and fails to provide enough for education and economic development... The more we learn about this budget, the worse it is...this budget lacks vision and unfairly picks winners and losers."

As the media has reported, the budget agreement calls for individual and corporate income tax cuts, largely to take effect next year, pay raises for teachers, state employees and retirees, an increase to the standard deduction, and reserves for Hurricane Matthew relief.

The North Carolina Justice Center sent a [letter](#) to Gov. Cooper that thanks him for his "leadership and vision," while also urging him to veto the budget because it puts the state on "dangerous fiscal footing." More specifically, the center points to numerous flaws it sees in the agreement, including the following:

- Failure to invest adequately in the state's "schools, the environment, courts, and well-being," which neglects underlying economic challenges, such as inequality and chronic underinvestment in certain

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communities, and will cause job losses.

- Failure to continue to invest in shared priorities, which hampers resilience in the face of natural disasters and economic downturns.
- Failure to compensate for the effects of tax cuts on low-income and poor residents.
- Failure to account for the lack of federal investment to meet unsatisfied needs from Hurricane Matthew's damage, as well as pre-K and neighborhood revitalization efforts.
- Failure to counteract the harm caused by the elimination of funding of Legal Aid.
- Failure to address the underfunded K-12 public schools and stop further cuts.

"There is a better way," implored the center in its letter: "reject the failed tax cut experiment that states across the country, including Maine and Kansas...have found seriously damages their competitiveness."

This spring, there was a lot of chatter about the budget. For example, in early May, [North Carolina Policy Watch](#) (NCPW) projected significant shortfalls if the Senate's plan to cut \$1 billion in taxes over the next two years were to come to fruition. Senators looked to expanding the standard deduction, reducing the individual income tax rate, from 5.499 percent to 5.35 percent, and reducing the corporate tax rate. The Senate president pro tempore justified the plan on the claim that the government was collecting more than it needs, and "some of that money should be returned to the taxpayers."

Gov. Cooper was not on board, [arguing](#) that the cuts would "punch a hole in the budget costing the state \$336 million in the second year and almost \$635 million four years out...This is money that could instead go to middle class tax cuts and education."

Also in May, the [Tax Foundation](#) commented on a projected \$581 million budget surplus, following those of \$447 million in fiscal 2015, and \$430 million in fiscal 2017. Prior to that, we [noted](#) that the surplus followed implementation of the 2013 tax reform package, the [Tax Simplification and Reduction Act](#).

The Tax Foundation approved of North Carolina's fiscal situation, a healthy consequence of "a mix of base broadening and responsible cuts, and the state's continued commitment to a competitive tax climate and fiscal prudence...continued economic growth paired with fiscal restraint." In response to the skepticism of some, the group contended, "the state's full coffers continue to prove naysayers wrong, and to demonstrate North Carolina's tax reform has a firm foundation."

On the other hand, in anticipation of the Senate's release of its plan containing more tax cuts, the North Carolina Justice Center [asserted](#) that lawmakers had squandered "the opportunity to do more to help everyone in North Carolina thrive...by proposing another round of ineffective tax cuts for the few."

When the budget agreement hit the governor's desk, the Tax Foundation again weighed in, this time [declaring](#) that "North Carolina's tax reform experience isn't comparable to Kansas." The analogy to the Sunflower State's circumstances is misleading because:

Kansas created a large tax planning opportunity with its now infamous pass-through business tax exemption. Since then, Kansas has continually struggled to balance its budget and faced numerous credit downgrades. North Carolina, on the other hand, lowered tax rates and expanded the income and sales tax bases, both tenets of good tax policy. Unlike Kansas, North Carolina has experienced three consecutive years of budget surpluses and implemented its tax cuts in a responsible manner. Debates over preferred North Carolina spending levels are fine, but the comparison with Kansas isn't supported

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by data.

Ultimately, according to the group, “tax reform requires tradeoffs to ensure both fiscal sustainability and economic growth. North Carolina struck that balance in 2013 and should be given credit for doing so.”



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Team member bio