

North Carolina: Governor's mid-biennium budget adjustment contains no new taxes or fees



David M. Kall | Monday, May 16, 2016

At the end of last month, Gov. Patrick McCrory released his **recommended budget adjustments** for fiscal year 2016-17, which caps total spending at \$22.3 billion, a 2.8 percent increase. The recommendation contains no tax or fee increases, but expands the total savings reserve account to \$1.4 billion, or nearly 7 percent of overall state spending, by adding \$300 million to the state's rainy day fund. This reserve has tripled since 2013, making it the largest in state history.

The governor's priorities are strengthening education, enhancing public safety, improving citizens' health, building new roads, and reforming government to make it more accountable and efficient.

In the letter accompanying his recommendations, Gov. McCrory cheered the economic opportunity and quality of life in the Tar Heel State, citing numerous contributing factors, including:

- North Carolina is now the ninth largest state with a population of more than 10 million, and growing at an average rate of 280 new people per day.
- Since 2013, positive economic environment has led to the creation of more than 275,000 private sector jobs.
- North Carolina is one of only nine states that enjoy a AAA bond rating from all three major rating agencies.
- Families and businesses have benefited from tax of \$4.4 billion.

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- North Carolina holds the 2nd ranking in the country for business climate and careers.

In a [preview](#), Gov. McCrory highlighted numerous details of his plan, such as:

Education

- Increasing average teacher pay to more than \$50,000 by providing an average 5 percent salary increase.
- Providing an average 3.5 percent bonus for teachers and principals, with a greater share going to veteran teachers. This will equate to a \$5,000 bonus for veteran teachers with more than 24 years of service.
- Establishing a scholarship program by investing \$2 million to attract 300 new, highly qualified math and science teachers to earn degrees and teach math and science in the state's public schools.
- Build on the commitment to position North Carolina as one of the first states in the nation to connect all classrooms to robust Wi-Fi by 2018, empowering schools to trade textbooks for tablets.
- Expanding funding by nearly \$6 million to provide scholarships for an additional 300 special needs students.

Public Safety

- Allocating \$21 million to increasing pay for state troopers, correctional officers, State Bureau of Investigation agents, alcohol law enforcement agents, assistant district attorneys, and assistant public defenders.
- Investing \$2.8 million for the development and maintenance of school safety plans, and the deployment of a statewide application for students to anonymously report threats at school.
- Connecting military veterans with jobs by establishing a new disabled veteran cyber security apprenticeship program with the Department of Information Technology.

Public Health

- Investing \$30 million to implement the recommendations of the Governor's Task Force on Mental Health and Substance Use, including transitional housing, case management, mental health first aid training, child crisis centers, tools to combat the heroin and opioid epidemic, as well as evidence-based specialty courts, including drug and veteran treatment courts.
- Providing \$3 million to expand Medicaid services for older adults, including those with Alzheimer's disease, by adding 320 new slots to the Community Alternatives Program for Disabled Adults.
- Increasing funding by \$1 million for family caregiver support services, including respite care for caregivers.
- Investing \$2.5 million to expand Medicaid services for people with developmental disabilities and children with autism. This investment supports an additional 250 Medicaid Innovations Waiver slots providing the needed services to help individuals with developmental disabilities live successful lives in the community.

Infrastructure

- Providing \$155 million for the Repairs and Renovations Account.
- Providing an additional \$27.5 million for highway maintenance activities to enhance safety and ease congestion.

North Carolina Governors mid biennium budget adjus

- Preserving environmental resources and promoting good stewardship by investing in vital water resource projects, including dredging, navigation, flood control, beach protection, and stream restoration. State investment in water resources projects will leverage more than \$25 million in federal funds.
- Building on the largest transportation investment in two decades by adding nearly \$30 million for new transportation projects in the state's current 10-year plan. Since 2013, North Carolina has increased investment in new roads by more than \$292 million, or 31 percent.

Business competitiveness and job growth

- Revitalizing North Carolina's small town main streets through matching grants for local governments.
- Implementing recommendations from the Governor's Food Manufacturing Task Force to promote and develop economic growth opportunities in the food manufacturing industry, and fosters the growth, development, and sustainability of family farms.
- Leveraging the state's university research advantage to attract venture capital, and a new generation of entrepreneurs, as well as help retain North Carolina's home-grown talent through the University Innovation Commercialization Grant Program.
- Establishing the Rallying Investors and Skilled Entrepreneurs program to develop and leverage existing entrepreneurial management talent and recruit world-class investors and skilled entrepreneurs.
- Providing an average 3 percent bonus for all state employees and school support staff.
- Providing an additional \$27 million to the Salary Adjustment Fund, for a total of \$40 million to help recruit and retain the best and brightest state employees

The \$54 billion budget total is allocated among these nine functional areas:

1. Health and Human Services: 36.19%, or \$19,765,628,534
2. Education: 34.17%, or \$18,658,491,786
3. Natural and Economic Resources: 8.84%, or \$4,830,150,659
4. Transportation: 8.14%, or \$4,444,833,555
5. Justice and Public Safety: 5.38%, or \$2,936,452,639
6. General Government: 5.18%, or \$2,828,589,471
7. Debt Service: 1.61%, or \$879,529,836
8. Reserves and Adjustments: 0.45%, or \$246,389,989
9. Capital Improvements: 0.04%, or \$21,614,200

Gov. McCrory applauded North Carolina's business tax climate, which was the basis of the state's jump from 44th to 15th on the Tax Foundation's "[2016 Business Tax Climate Index](#)." The group characterized this as "the most dramatic improvement in the Index's history," citing reductions in the corporate income tax from 6.9 percent to 6 percent, and again to 5 percent in 2015, subject to further cuts depending on the economy. Individuals also pay less now; the individual income tax, converted in 2014 from a graduated rate tax with a top marginal rate of 7.75 percent to a single-rate tax of 5.8 percent, was modestly cut again this year to 5.75 percent, with further reductions scheduled through 2017.

Said the governor, "[i]t is prudent to now pause, allow the ink to dry on these positive tax reforms, and revisit further reforms in the long session where such issues are more appropriately addressed."



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