



# NORTH CAROLINA BUDGET & TAX HIGHLIGHTS





THE CIVITAS INSTITUTE PUBLIC POLICY SERIES

# **NORTH CAROLINA BUDGET & TAX POLICY HIGHLIGHTS: 2018**



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# SECTION 1:



# TAXES

## North Carolina MAJOR TAX RATES

(effective for tax year 2017)

Personal Income	5.499%
Corporate Income	3%
State Sales and Use Tax	4.75%
State Plus Local	<p>67 Counties add 2% local sales tax for a total 6.75% rate</p> <p>29 Counties add 2.25% local sales tax for a total 7% rate</p> <p>2 Counties add 2.5% local sales tax for a total 7.25% rate</p> <p>2 Counties add 2.75% local sales tax for a total 7.5% rate</p>
State Gas Tax	35.1 cents per gallon – effective for 2018



## Significant Tax Changes Since 1985

Year Session Law

### SALES & USE TAX CHANGES

▼	Repeal of sales tax on food purchased with food stamps	1985	S.L. 1985-656
▲	Authorize local governments to raise sales tax an additional 0.5% with some restrictions on the use of the money; mostly designated for public school capital needs (estimated revenue \$198 million)	1986	S.L. 1986-906
▼	Exempt DOT from state and local sales tax	1986	S.L. 1986-982
▲	Repeal provision allowing merchants to retain 3% of retail sales tax collected	1987	S.L. 1987-622, 1987-813
▲	Enact new excise tax of 5¢ on each 30-dozen case of eggs sold for consumption	1987	S.L. 1987-1402
▲	Expand the Sales and Use Tax Act: the state may require out-of-state retailers to collect sales and use taxes on mail order sales to N.C. customers if the retailer has purposefully or systematically exploited the market in N.C. through solicitation by mail or advertising	1988	S.L. 1988-1096
▲	Increase sales tax rate from 3% to 4%	1991	S.L. 1991-689
▼	Reduce tax on soft drinks by 25%	1995	S.L. 1995-474
▼	Reduce state sales tax on food from 4% to 3% (effective January 1, 1997)	1996	S.L. 1996-13es2
▼	Phase out soft drink tax over 3 years	1996	S.L. 1996-13es2
▼	Reduce state sales tax on food from 3% to 2% (effective July 1, 1998)	1997	S.L. 1997-475
▲	E-911 fee established (80¢ per month)	1998	S.L. 1998-158
▼	Repeal 2% state sales tax on food	1998	S.L. 1998-212
▼	Sales tax/fee changes: exemptions or reductions (for new business registration, loan agencies, prescription drugs, medical equipment, local airports)	1999	S.L. 1999-438
▲	Sales tax/fee changes (increases for check cashing, pawnbrokers, used equipment, shoppers' guides)	1999	S.L. 1999-438
▲	Repeal sunset on 3% tax on white goods (counties receive 72% of this revenue)	2000	S.L. 2000-109
▲	Streamlined sales tax system (first step to creating remote collection system for Internet and catalog sales)	2000	S.L. 2000-120
▲	Increase state sales tax rate from 4.0% to 4.5% for October 16, 2001 to July 1, 2003	2001	S.L. 2001-424
▲	Impose 5% sales tax on satellite television service	2001	S.L. 2001-424
▼	Create sales tax holiday (loss of less than \$9 million state, \$6 million local)	2001	S.L. 2001-424
▲	Tax all telecommunications at 6.0% [S.L. 2001-430, as amended by S.L. 2001 424]; previous tax rate varied from 0.0% on interstate calls to 6.5% on intrastate calls	2001	S.L. 2001-424
▲	Impose 5% sales tax on satellite television service	2001	S.L. 2001-424

Significant Tax Changes Since 1985		Year	Session Law
<b>SALES &amp; USE TAX CHANGES</b> (cont.)			
◀▶	Authorize additional 1/2¢ local sales tax (effective July 1, 2003)	2001	S.L. 2001-424
▲	Accelerate the 1/2¢ local sales tax option	2002	S.L. 2002-123
▲	Maintain 4.5% state sales tax rate	2003	S.L. 2003-284
▲	Conform to streamline sales tax provision for soft drinks, prepared food, and modified software (net revenue increase)	2003	S.L. 2003-284
▼	Tax soft drinks in vending machines at 50% of general rate	2003	S.L. 2003-284
▼	Expand number and type of sales tax refunds & exemptions	2004	S.L. 2004-124
▲	Increase tax on telecommunications from 6% to 7%	2005	S.L. 2005-276
▲	Increase tax on home satellite television services from 5% to 7%	2005	S.L. 2005-276
▼	Exempt from sales tax, items ranging from horses to laundry machinery (previously 1% tax)	2005	S.L. 2005-276
▲	Maintain 4.5% state sales tax rate	2005	S.L. 2005-276
▲	Apply uniform sales tax to candy	2005	S.L. 2005-276
▲	Apply general sales tax rate (7%) to cable (was only a local tax, up to 5%)	2005	S.L. 2005-276
▲	Extend telecommunications tax to voicemail	2005	S.L. 2005-276
▲	Extend sales tax to satellite radio	2005	S.L. 2005-276
▼	A portion of the “temporary” sales tax is allowed to sunset. The state sales tax will drop by ¼ cent as of Dec. 1, 2006. (most local governments add another 2.5 cents)	2006	S.L. 2006-66
▼	Reduce the sales tax from 2.83 percent to 2.6 percent on electricity sold to manufacturers	2006	S.L. 2006-66
▲	Make permanent the remaining ¼ cent of the “temporary” sales tax rate	2007	S.L. 2007-323
▼	Expand the sales and use tax refund for certain aircraft manufacturers	2007	S.L. 2007-323
▼	Enact a sales tax holiday for energy efficient appliances for the first weekend in November	2008	S.L. 2008-107
▼	Grant an exemption for an “eligible internet data center” (Google) on sales taxes paid on electricity; total amount of exemption is estimated at \$2.25 million	2006	S.L. 2006-66
▲	Increase the statewide sales tax by a penny, from 4.75% to 5.75%. Is scheduled to expire on June 30, 2011	2009	S.L. 2009-451
▲	Extend sales tax to online click-through sales and digital products	2009	S.L. 2009-451
▲	Sales tax on manufactured homes raised 2.75% to the state rate of 4.75%	2013	S.L. 2013-316
▲	Repeal “back-to-school” sales tax holiday, and Energy Star appliance sales tax holiday	2013	S.L. 2013-316

## Significant Tax Changes Since 1985

Year Session Law

### SALES & USE TAX CHANGES (cont.)

▲	Repeal state franchise tax on electricity and sales of piped natural gas, those items now subject to general state sales tax rate	2013	S.L. 2013-316
▲	Privilege tax on admission to live entertainment, movies, and amusements replaced by the general sales tax rate	2013	S.L. 2013-316
▲	Service contracts and warranties on tangible goods added to the sales tax base	2013	S.L. 2013-316
▼	Exempt 50% of the sale price of a modular home from the sales tax	2014	S.L. 2014-100
▲	The sales tax base is broadened to include some services such as repair, maintenance and installation services to tangible property, such as autos	2015	S.L. 2015-241
▲	Expand sales tax base to include repair, maintenance and installation services to tangible property, like autos	2016	S.L. 2015-241

### INCOME TAX CHANGES

▼	Tax credits to people with low and moderate incomes	1985	S.L. 1985-656
▲	Increase corporate income tax rate from 6% to 7%	1987	S.L. 1987-622, 1987-813
▲	Close loopholes that allow higher income taxpayers to claim the low-income tax credit	1988	S.L. 1988-1039
▼	Increases individual income tax exclusions for federal civil service retirement pay and military retirement pay from \$3,000 to \$4,000	1988	S.L. 1988-936
▲	Create North Carolina Enterprise Corporations. Income and franchise tax credits for 25% of the amount of an investment in such a corporation	1988	S.L. 1988-882
◀▶	Establish the North Carolina Candidates Financing Fund. Any taxpayer entitled to an income tax refund may contribute all or part of the refund to the Fund.	1988	S.L. 1988-1063
▲	Changes to the individual income tax status of retirement benefits	1989	S.L. 1989-792
▼	Tax savings of \$85 million due to a change in the state income tax statutes allowing S-Corps to be taxed as if they were partnerships	1989	S.L. 1989-728
◀▶	Tax Fairness Act: base the state individual income tax on a percentage of federal income tax liability	1989	S.L. 1989-728
▲	Increase corporate income tax from 7.00% to 7.75% and levy a scaled surtax from 4.00% in 1991 to 1.0% in 1994	1991	S.L. 1991-689
▲	Add a 7.75% personal income tax rate for income above \$100,000	1991	S.L. 1991-689
▼	Update state income tax conformity to 1990 federal tax changes	1991	S.L. 1991-922
▼	Increase income tax personal exemption from \$2,000 to \$2,250 for 1995 and to \$2,500 for 1996	1995	S.L. 1995-42
▼	Establish tax credit of \$60 for each dependant child	1995	S.L. 1995-42
▼	Reduce corporate income tax rate from 7.75% to 6.90% over 4 years	1996	S.L. 1996-13es2

## Significant Tax Changes Since 1985

Year

Session Law

### INCOME TAX CHANGES (cont.)

▼	Repeal income tax on retired government employees ( <i>Bailey</i> case)	1998	S.L. 1998-212
▼	Increase non-itemizer charity tax credit	1998	S.L. 1998-183
▼	Establish long-term care insurance credit	1998	S.L. 1998-212
▼	Increase limit for conservation tax credit	1998	S.L. 1998-212
▲	Impose 1% gross receipts tax on movie admissions	1998	S.L. 1998-95
▼	Child health insurance tax credit	1998	S.L. 1998-1es
◀▶	Pension tax withholding (no estimate of impact)	1999	S.L. 1999-414
▲	Create new 8.25% income tax bracket for highest income households (sunset after 2003 tax year)	2001	S.L. 2001-424
▼	Increase standard deduction for married filing jointly from \$5,000 to \$5,500 in tax year 2002 and to \$6,000 in 2003	2001	S.L. 2001-424
▲	Increase tax credit for children from \$60 to \$75 in tax year 2002 and to \$100 in 2003	2001	S.L. 2001-424
▲	Repeal children's health Insurance tax credit (effective tax year 2001)	2001	S.L. 2001-424
▲	Delay 2001 tax breaks: standard deduction/marriage penalty (increase in child tax credit)	2002	S.L. 2002-126
▲	Broaden definition of business income	2002	S.L. 2002-126
▲	Close loophole in LLC franchise tax	2002	S.L. 2002-126
▲	Maintain 8.25% income tax for top income tax bracket	2003	S.L. 2003-284
▲	Conform to federal definition of "child" for state child tax credit	2003	S.L. 2003-284
▼	Qualified business investment tax credit	2004	S.L. 2004-124
▼	Research and development tax credit	2004	S.L. 2004-124
▼	Extend sunset on low-income housing credit	2004	S.L. 2004-110
▼	Renewable fuel tax credits	2004	S.L. 2004-153
▲	Extend 8.25% individual income tax rate for 2 more years	2005	S.L. 2005-276
▼	The highest marginal income tax rate falls ¼ percentage point to 8 percent, effective taxable year beginning January 1, 2007	2006	S.L. 2006-66
▼	Establish a state level Earned Income Tax Credit (EITC) set at 3.5 percent of the federal credit	2007	S.L. 2007-323
▼	Increase the amount of the EITC to 5 percent of the federal amount	2008	S.L. 2008-107
▲	Create a tax "surcharge" on upper-level income earners. A two percent extra charge is levied against the tax liability of single filers earning over \$60,000 and married filers earning above \$100,000. The extra charge increases to 3 percent for single filers earning above \$150,000 and married filers earning above \$250,000. Is scheduled to expire at the beginning of the 2011 tax year	2009	S.L. 2009-451

## Significant Tax Changes Since 1985

Year Session Law

### INCOME TAX CHANGES (cont.)

▲	Create a 3 percent tax surcharge on corporate income. Is scheduled to expire at the beginning of the 2011 tax year	2009	S.L. 2009-451
▼	Tiered individual income tax structure with rates as high as 7.75% eliminated and replaced with a flat 5.8% tax rate for 2014, and 5.75% for 2015. A larger standard deduction of \$7,500 of income for Singles and \$15,000 for married filers is created, while eliminating some itemized deductions	2013	S.L. 2013-316
◀▶	Social Security income remains fully exempt from state income tax	2013	S.L. 2013-316
▼	Drops state personal income tax rate to 5.499 percent by 2017, down from the current 5.75 percent. The standard deduction will be increased slightly (for example from \$15,000 to \$15,500 to married filing jointly), and the tax credit for medical expenses is reinstated	2015	S.L. 2015-241
▼	Increased standard deduction by \$2,000 for married filers and \$1,000 for single filers	2016	S.L. 2016-94
▼	Reduce rate from 5.499% to 5.25%, effective 2019	2017	S.L. 2017-57
▼	Increase standard deduction from \$17,500 to \$20,000 for married filers, and \$8,750 to \$10,000 for single filers, to be effective in 2019	2017	S.L. 2017-57
◀▶	Change child tax credit to a standard deduction per child, based on income level. Deduction ranges from \$2,500 for lower-income earners to \$500 for upper earners; and filers with income above \$120k receive no deduction. Scheduled to take effect in 2019	2017	S.L. 2017-57

### BUSINESS-RELATED TAX CHANGES

▼	Lower employment security contribution (payroll tax) rate for employers from 2.70% to 2.25% of wages	1987	S.L. 1987-17
▼	New income tax credit for businesses that create jobs in "severely distressed" counties	1987	S.L. 1987-568
▼	Tax credits for certain business investments	1987	S.L. 1987-852
▼	Reduce unemployment tax for employers by 23%	1995	S.L. 1995-4
▼	Expand jobs tax credit; create new credits	1996	S.L. 1996-13es2
▼	Provide a tax credit up to \$250 per employee for small businesses that subsidize employee health insurance premiums	2006	S.L. 2006-66
▼	Offer tax credits of up to a maximum of \$500,000 for biodiesel providers	2006	S.L. 2006-66
▼	Provide \$2.3 million tax credit for constructing renewable fuels facilities	2007	S.L. 2007-323
▲	Close corporate tax loophole by implementing "combined reporting" method for business tax filing	2007	S.L. 2007-323
▼	Extend sunset for a number of targeted tax credits, including rehabilitation projects, interstate passenger air carrier, aviation fuel for motor sports events	2010	S.L. 2010-31

## Significant Tax Changes Since 1985

Year

Session Law

### BUSINESS-RELATED TAX CHANGES (cont.)

▼	Create a temporary credit for small businesses – equal to 25% of the companies' unemployment insurance tax liability.	2010	S.L. 2010-31
▼	Corporate income tax reduced to 6% (from 6.9%) in 2014 and 5% in 2015 (rate scheduled to fall to 4% in 2015 and 3% in 2016 if certain revenue targets met)	2013	S.L. 2013-316
▲	Eliminates the \$50,000 business income deduction	2013	S.L. 2013-316
▼	Changes corporate tax formula to a "single sales factor," estimated to save businesses on net tens of millions in taxes	2015	S.L. 2015-241
▼	Introduces a new tax credit for improvements to historic buildings, a previous credit program had expired in 2014	2015	S.L. 2015-241
▼	Corporate tax rate scheduled to be reduced from 3% to 2.5% in 2019	2017	S.L. 2017-57
▼	Simplification and reduction of the state franchise tax by replacing current tax with a flat \$200 assessment on the first \$1 million of the businesses' net worth; effective in 2019	2017	S.L. 2017-57
▼	Repeal of the sales tax on mill machinery, effective 2019	2017	S.L. 2017-57

### DEATH-RELATED TAX CHANGES

▲	Repeal certain inheritance tax exemptions	1991	S.L. 1991-454
▼	Repeal state inheritance tax; retain estate tax	1998	S.L. 1998-212
▲	Conform to Internal Revenue Code changes (pensions and education, estate tax credit, accelerated depreciation)	2002	S.L. 2002-126
▲	Extend sunset on partial conformity to federal estate tax	2003	S.L. 2003-284
▲	Conform estate tax to federal sunset	2005	S.L. 2005-144
▼	Temporarily allow the state's estate tax to lapse	2010	S.L. 2010-31
▼	Repeals the state estate tax (aka the death tax) for deaths after January 1st 2013	2013	S.L. 2013-316

### MOTOR FUEL TAX CHANGES

▲	Gas tax increase 2¢ per gallon plus 3% sales tax on the wholesale price; raise Powell Bill distribution from 13/8¢ to 13/4¢	1986	S.L. 1986-982
▲	Increase the per gallon credit for motor carriers' purchases of fuels from 12¢ to 14¢ per gallon	1987	S.L. 1987-315
▲	Highway Fund: motor fuel tax increased by 1/2¢ to be divided equally between the Commercial Leaking Petroleum Underground Storage Tank Fund and the Groundwater Protection Loan Fund (1/4¢ increase schedule to expire January 1, 1995 and other 1/4¢ set to expire January 1, 1999)	1991	S.L. 1991-538
▲	Remove \$1,500 cap on highway use tax for most noncommercial vehicles; money goes to General Fund (gain less than \$3 million)	2001	S.L. 2001-424

## Significant Tax Changes Since 1985

Year Session Law

### MOTOR FUEL TAX CHANGES (cont.)

▼	Cap the variable wholesale component of the motor fuels tax so that the total state gas tax cannot exceed 29.9 cents per gallon until June 30, 2009	2007	S.L. 2007-323
▲	S.L. 2009-108 changes the state gas tax ceiling into a floor. The state gas tax can now no longer drop below 29.9 cents per gallon	2009	S.L. 2009-451
▲	Sets the previously adjustable state gas tax at a rate of 35 cents per gallon for Jan. 1 2016 – June 30, 2016, then 34 cents for the following six months. Low gas prices mean that without this law, gas prices would have dropped significantly lower than these set rates. After 2017, gas prices will increase annually by a rate tied to inflation and population growth	2015	S.L. 2015-2

### "SIN" TAX CHANGES

▲	Increase excise tax on liquor from 22.5% to 28.0%	1987	S.L. 1987-832
▲	Increase some liquor surcharges and ABC permit fees	1991	S.L. 1991-689
▲	Increase cigarette tax from 2¢ per pack to 5¢ and levies a 2.0% of wholesale price on other tobacco products	1991	S.L. 1991-689
▲	Taxes on spirituous liquor (net gain): → Impose 6% state sales tax on spirituous liquor (December 1, 2001) → Reduce excise tax on spirituous liquor from 28% to 25% (February 1, 2002)	2001	S.L. 2001-424
▲	Reduce alcohol and tobacco tax discount for wholesalers (Budget Bill eliminates 4% tax discount)	2004	S.L. 2004-124
▲	In return, S.L. 2004-84 reinstates the discount at 2%	2004	S.L. 2004-84
▲	Increase tax on liquor from 6% to 7% (no local share by law)	2005	S.L. 2005-276
▲	Tobacco tax rate changes (increase from 5¢ to 30¢ per pack through June 30, 2006 and increase to 35¢ per pack July 1, 2006)	2005	S.L. 2005-276
▲	Increase tax on beer, wine and liquor	2009	S.L. 2009-451
▲	Increase tax on cigarettes and tobacco products	2009	S.L. 2009-451
▲	Creates a new tax on e-cigarettes and vapor products at the rate of 5 cents per milliliter of the liquid used in such products	2014	S.L. 2014-3

### OTHER TAX CHANGES

▼	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

## Significant Tax Changes Since 1985

Year

Session Law

### OTHER TAX CHANGES (cont.)

▲	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
▲	<p>Taxes on HMOs:</p> <p>→ New tax on HMOs of 1.1% in 2003 and 1.0% in later years; exempts HMOs from corporate income and franchise taxes</p> <p>→ 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</p>	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



A temporary tax, as opposed to what might be called a “permanent” tax, is supposed to be just that – “temporary.” In reality, though, temporary taxes rarely come off the books. Here in North Carolina, two temporary taxes that were first passed in 2001 remained in effect until 2008, with a portion of one of the taxes becoming permanent.

In response to a projected budget shortfall of \$791 million – caused by the 2001 recession and exacerbated by the state’s refusal to prepare for such an eventual economic downturn – the FY2001-02 budget (S.L. 2001-424) mandated a “temporary” sales tax increase of ½ cent that raised the state sales tax rate from 4.0 percent to 4.5 percent.

By law, the tax was to remain in effect from October 16, 2001, to July 1, 2003. Combined with the local sales tax rate of 2 percent, total sales taxes paid by North Carolina consumers reached 6.5 percent (Mecklenburg County levied an additional 0.5 cent in 1998, which is still in place). The budget also included a provision that permitted local entities to permanently raise their own sales tax rate by ½ cent beginning July 1, 2003 (this date was subsequently pushed forward to December 1, 2002).

Along with raising the state and local sales tax by one cent, the FY2001-02 budget also created a new “temporary” income tax bracket of 8.25 percent on annual earnings in excess of \$100,000 or \$200,000, depending on the manner of filing. The tax bracket increase of 0.50 percentage points (from 7.75 percent to 8.25 percent) was to remain in effect for “taxable years beginning on or after January 1, 2001, and expire for taxable years beginning on or after January 1, 2004.”

The so-called temporary taxes proved difficult for lawmakers to part with. More than once, legislators broke their promises to allow these taxes to expire. In 2003 and 2005, legislators voted to extend the temporary taxes. Only in 2006 – just prior to the November elections – did the General Assembly finally allow half (¼ cent) of the temporary sales tax increase to expire. In 2007, legislators permitted the temporary income tax increase to sunset, but then made the other half of the temporary sales tax increase permanent.

Following is a timeline summarizing the life of the 2001 “temporary” taxes:

**2001** As part of the FY2001-02 budget, the General Assembly passes both “temporary” taxes. The state sales tax will increase by ½ cent – from 4.0 to 4.5 percent – on October 16, 2001, and is scheduled by law to expire on July 1, 2003. Moreover, the budget contains a local option ½ cent sales tax increase that will go into effect when the statewide temporary sales tax ends. The top marginal income tax rate is increased from 7.75 percent to 8.25 percent, effective January 1, 2001 (so that it applies to

the 2001 tax year) and is scheduled to sunset on January 1, 2004.

**2002** S.L. 2002-123 accelerates the implementation of the ½ cent local option sales tax rate forward to December 1, 2002 (up from July 1, 2003). No expiration date is included in the bill. The law increases the total sales tax rate in North Carolina to 7 percent (except for Mecklenburg County, which adds yet another ½ cent to the sales tax).

**2003** In the FY2003-04 budget, lawmakers renege on their promise to let the temporary taxes expire. The ½ cent statewide sales tax is extended for another two years – to July 1, 2005. The tax is renewed in spite of the ½ cent local option sales tax increase approved the previous year. Thus, the sales tax rate remains at 7 percent. Likewise, the expiration of the highest marginal income tax rate of 8.25 percent is extended for another two years, to January 1, 2006.

**2005** Lawmakers once again break faith with voters by renewing the temporary taxes. The FY 2005-06 budget extends the ½ cent statewide sales tax for another two years, with a new expiration date of July 1, 2007. Similarly, the sunset for the 8.25 percent income tax rate is pushed back to January 1, 2008.

**2006** The FY2006-07 budget includes a provision to accelerate the expiration of the “temporary” sales tax. The statewide sales tax is reduced by ¼ cent as of Dec. 1, 2006, lowering the overall sales tax on North Carolina consumers to 6.75 percent. No mention is made of the remaining ¼ cent “temporary” statewide sales tax rate, meaning it is still set to expire on July 1, 2007. The ½ cent local option sales tax increase from 2002, however, remains on the books. The “temporary” individual income tax rate of 8.25 is scheduled to fall to 8 percent for taxable year beginning Jan. 1, 2007, and then fully sunset taxable year beginning Jan. 1, 2008.

**2007** In spite of much debate, the FY2007-09 biennial budget does not reverse last budget’s promise regarding the “temporary” income tax rate, meaning it will finally sunset on January 1, 2008 – a full four years after originally promised. The remaining ¼ cent statewide sales tax is made permanent, leaving North Carolina with an overall sales tax rate of 6.75

percent – a 12.5 percent increase in the sales tax rate over the 2000 level.

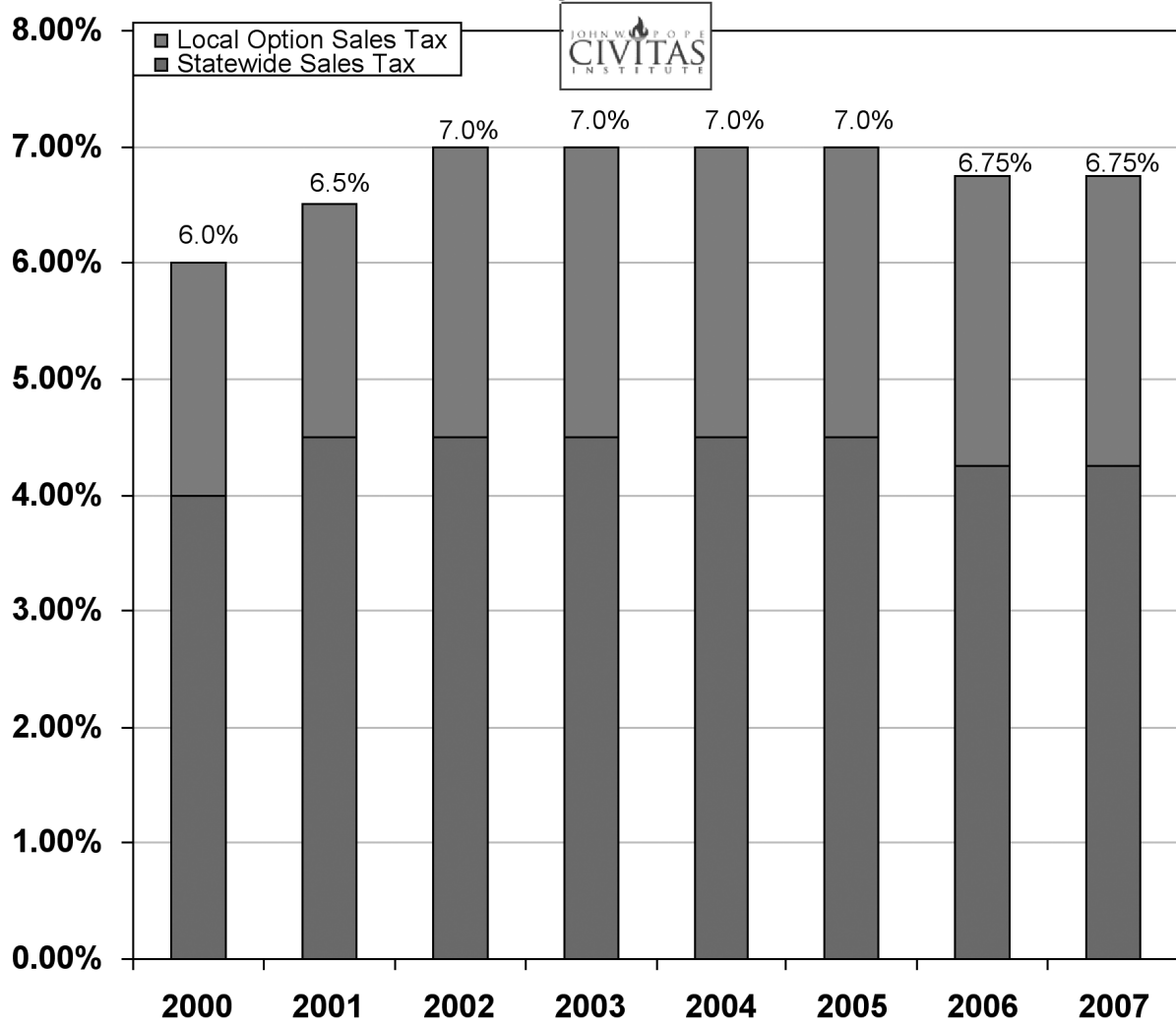
Using budgetary overview reports issued by the General Assembly, we estimate that the “temporary” sales and income taxes drained more than \$2 billion from North Carolina’s economy since their originally scheduled sunset date of 2003.

- Since the original sunset date of 2003, taxpayers have paid more than \$1.46 billion in extra taxes due to the “temporary” sales tax. Add to this another \$258.4 million projected for FY2007-08 and the total comes to \$1.72 billion in additional temporary sales taxes over four years.
- Taxpayers paid another \$312 million in additional income taxes thanks to the extension of the temporary income tax rate.
- In total, lawmakers taxed North Carolina citizens an extra \$2.03 billion by extending the temporary taxes beyond their originally approved sunset dates.

Meanwhile, lawmakers enjoyed a windfall of more than \$3.1 billion in total surpluses from FY2003-04 through FY2007-08. If we compare the surplus during this time to the estimated revenue of \$2.03 billion generated by extending the “temporary” taxes, it seems the additional taxes were used to finance much of the surplus spending that legislators engaged in once the economy recovered in 2003.

- Spending increased by 39 percent from FY2003-04 through FY2007-08.
- During the same period, the state collected more than \$3.1 billion in total surplus revenue.

## "Temporary" Sales Taxes



## Historic Tax Reforms of 2013: What Were They and What Were the Results?

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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 magazine 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 NC?

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 gain. 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 NC'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 vaulted North Carolina's business tax climate ranking from 7th worst in the nation to 17th best, according to the Tax Foundation's Index. (NC has since climbed to 11th best by 2018.)

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, projecting to net a tax cut of roughly \$2.4 billion over the next 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 percent to a flat rate of 5.75 percent 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 corporate income tax rate to 5 percent from 6.9 percent 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 percent and local rate of 2 percent unchanged; preserving the combined rate of 6.75 percent 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

### **What Were the Results of the Reforms?**

In the years following the 2013 tax reform, North Carolina's economic performance compared favorably to both its regional neighbors and national averages. For instance, in 2016, the latest year complete data was available as of this writing, North Carolina's median household income increased by 4.5 percent over the previous year. The growth rate was good for 4th highest in the nation, significantly exceeding the 2.4 percent national average.

From 2013 to 2016, North Carolina's per-capita income growth rate ranked 12th highest in the nation, while its state GDP also clocked in at 12th best during that time. Looking at job figures, North Carolina's drop in unemployment and underemployed figures was tied for the 5th best improvement.

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.

Moreover, the revenue shortfalls predicted by critics never materialized. Indeed, state government revenues far exceeded expectations. The last three budget years each saw budget surpluses exceeding \$400 million, enabling legislators to wisely build up the state's Rainy Day Fund to more than \$1.8 billion. Thanks to this fiscal prudence, North Carolina will be far better poised than most states to weather the next economic downturn.

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<sup>1</sup> Source: <https://www.carolinajournal.com/opinion-article/median-household-income-shoots-up/>

## SECTION 2:

# Budget

# THE STATE BUDGET



# q & a

## How Much Do We Spend and Where Does the Money Come From?

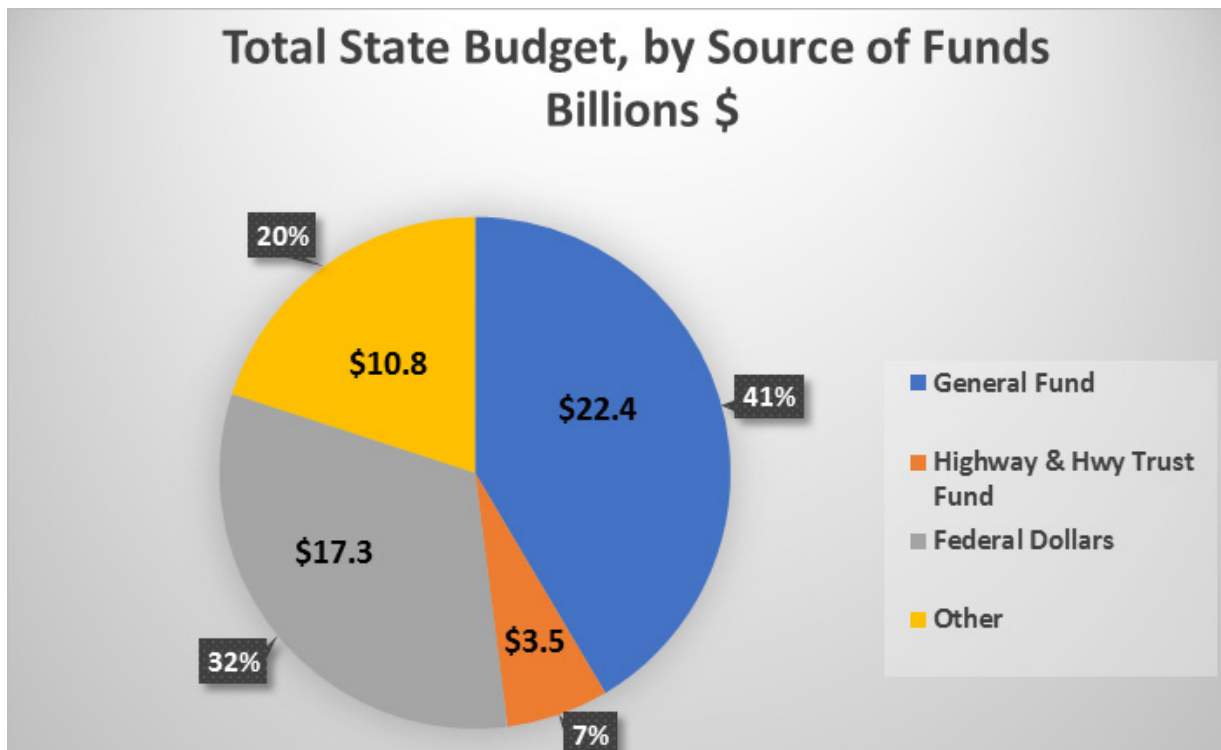
While the majority of discussion centers on the state's annual "General Fund" budget, there is far more to total state spending than that. Indeed, as of fiscal year 2016-17, the General Fund accounted for less than half of total state spending.

At \$22.4 billion in 2015-16, 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 2015-16 for just over \$3.5 billion in spending, with its revenues largely coming from the gas tax and vehicle and licensing fees.

A variety of "other" expenditures make up about \$10.8 billion, while another \$17.3 billion in spending comes from federal government dollars. The majority of federal funds go to subsidizing Medicaid and transportation spending.

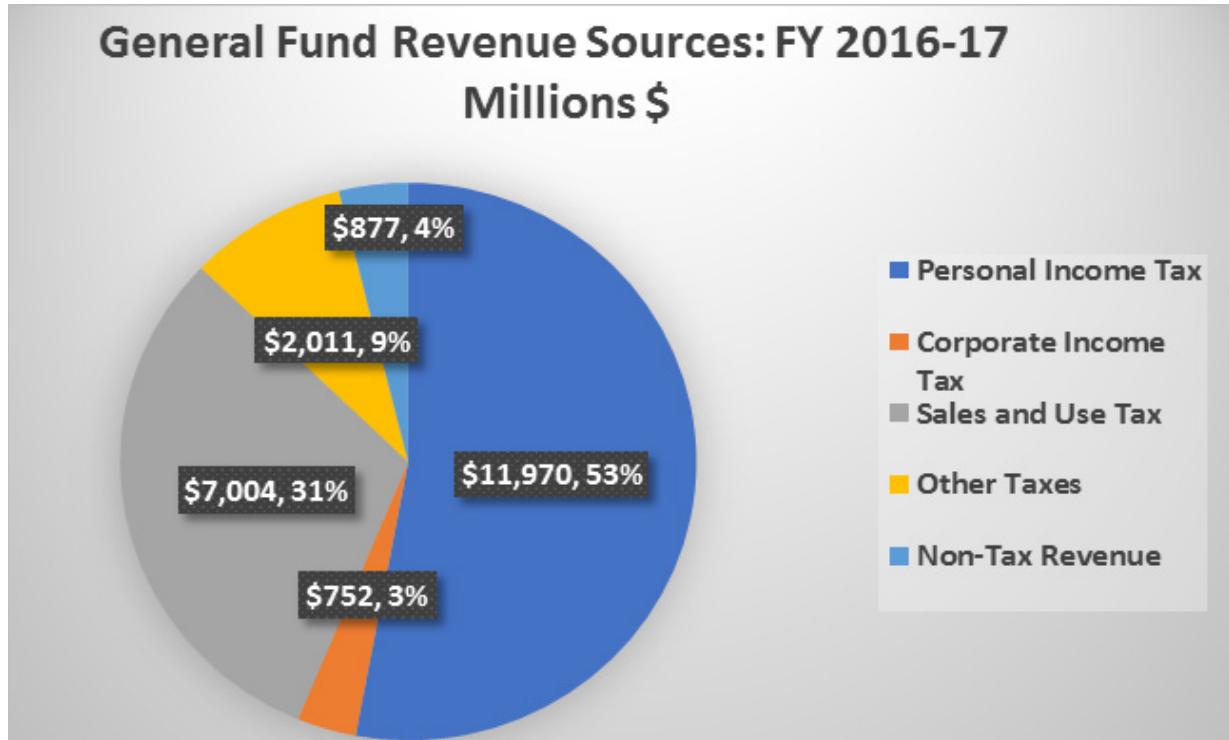
When all revenue sources are considered, the state of North Carolina now spends upward of \$54 billion annually.





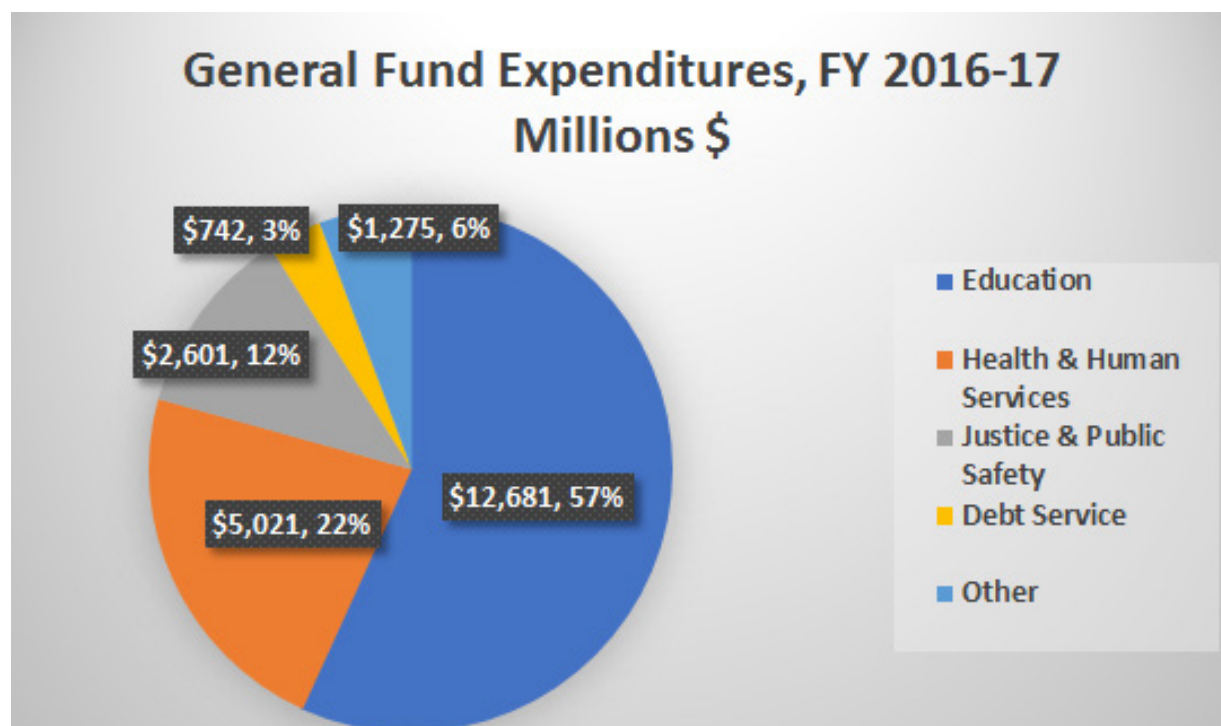
## General Fund

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.



From the above chart, you can see that more than half (53%) of General Fund revenue comes from the state personal income tax. Nearly one-third (31%) of revenue comes from the statewide sales and use tax, while the corporate income tax accounts for roughly 3% 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 Master Settlement Agreement funds (from the nationwide 1998 legal settlement between the states and the major tobacco manufacturers).

So, where does that money go? The chart below shows a breakdown of General Fund expenditures.



About 57 percent of the General Fund appropriations are dedicated to Education. The nearly \$12.7 billion of Education spending can be broken down into three categories: K-12 (\$8.7 billion), UNC System (\$2.9 billion) and Community College (\$1.1 billion).

It is important to note that state K-12 education spending is supplemented by local and federal dollars. Local governments kick in about another \$3 billion, with the feds supplying roughly \$1.5 billion in additional funds; bringing total spending on K-12 education over \$12.5 billion annually.

The second largest portion of the state budget goes to the state Health and Human Services department. Of the roughly \$5 billion devoted to HHS, about \$3.6 billion in state dollars goes to the state's growing Medicaid program. Similar to K-12 education, however, the state share of Medicaid expenses tells only part of the story. With the feds paying about 2/3 of the total costs, Washington sends more than \$8 billion annually to help pay for the program.

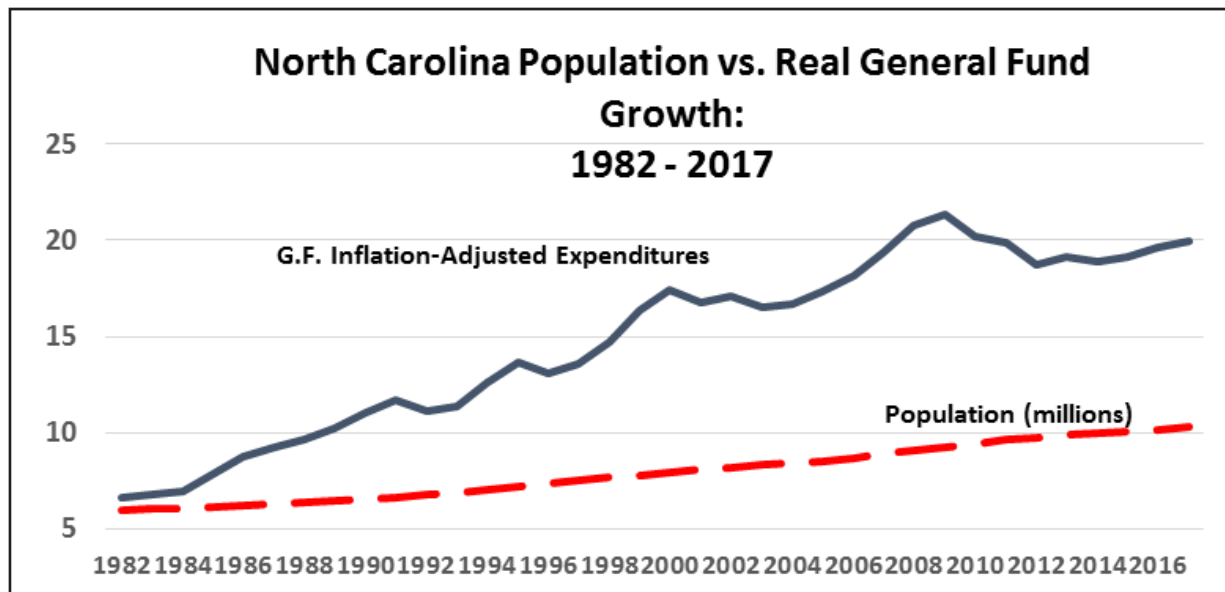
The growing debt service category (more on that later) now exceeds 3 percent of General Fund expenditures, now topping out at more than \$740 million.

"Other" expenditures include General Government, Agriculture and Natural and Economic Resources, and Statewide Reserves such as disaster relief funds, funds for the Job Development Investment Grant program (JDIG), and reserves for compensation bonuses planned for the year.

## Trends in the General Fund Budget: 1991-2017

(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



The chart[i] above shows the trend lines for the state's inflation-adjusted General Fund budget, compared to population growth, for the 35-year period ending in 2017.

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 73 percent. In short, inflation-adjusted spending has exploded at a rate nearly three times as fast as population since 1982.

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 \$821 more for every man, woman and child than it did in 1982 – not due to inflation but in real, inflation-adjusted terms. That comes to an increase of more than \$3,200 for every family of four. Sure, state spending leveled off a bit after the great recession, but there is no denying the massive increment of state government spending over the last three and a half decades.

[i] Sources for chart include: North Carolina Legislative Fiscal Research Division, annual Post-Legislative summaries; North Carolina Office of State Budget & Management for population data; and Federal Reserve Bank of St. Louis, Federal Reserve Economic data for price deflator (spending adjusted to 2009 dollars): <https://fred.stlouisfed.org>

## Legislative Salary Increases – State Teachers and Employees

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 <sup>a</sup>	0	0
1983-84 <sup>a</sup>	5%	5%
1984-85 <sup>a</sup>	10%	10% + 4.8% salary classification adjustment
1985-86 <sup>b</sup>	5% + 1 step increase (9.6%)	1-step increase (4.8%) second yearteachers; 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%
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	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 <sup>c</sup>	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	1% - 6.92% (2.9% average)
2002-03	0	0% - 5.85% (1.8% average)

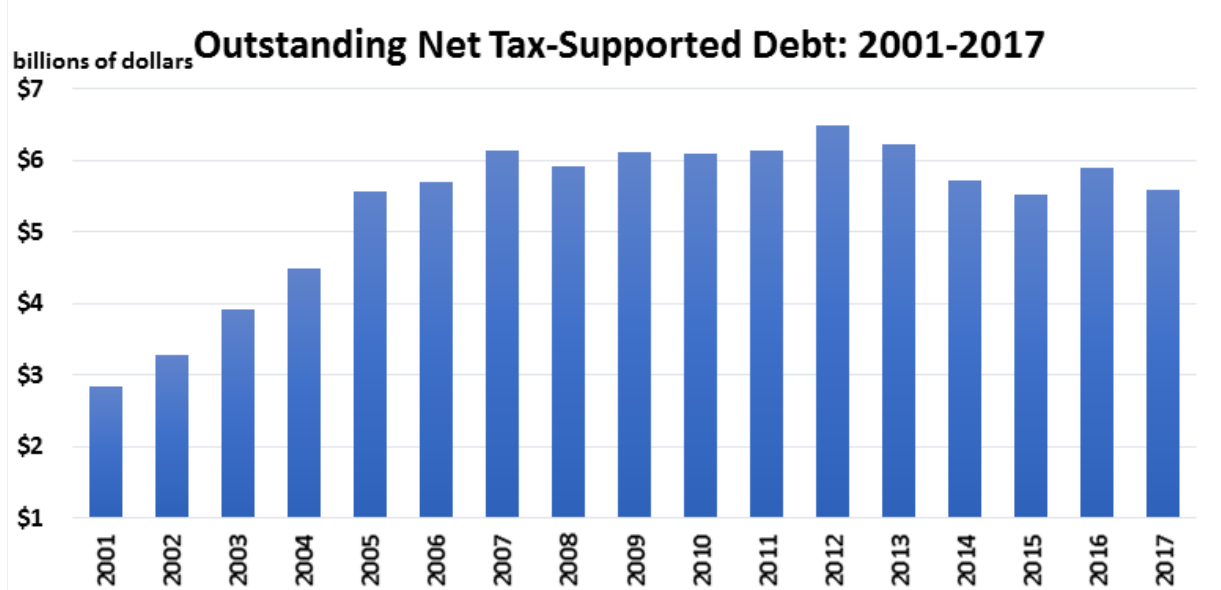
Year	State Employees	Teachers
2003-04	0	1.42% - 5.86% (1.8% average)
2004-05	Greater of a \$1,000 or 2.5% across-the-board increase	1.41% - 5.9% (2.5% average)
2005-06	Greater of a \$850 or 2% across-the-board increase	1.77% - 6.27% (2.2% average)
2006-07	5.5% across-the-board increase	6.45% - 14.05% (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 <sup>d</sup>	1.2% across-the-board increase	1.2% across-the-board increase
2013-14	0	0
2014-15 <sup>e</sup>	\$1,000 for State employees \$500 for central office and noncertified public school employees	0.5% - 18.5% (7% average)
2015-16 <sup>f</sup>	-0- + \$750 compensation bonus	0 - 9.6% (3.8% average)
2016-2017 <sup>g</sup>	1.5% increase + 0.5% compensation bonus	0% - 13.1% (4.7%) average
2017-2018 <sup>h</sup>	\$1,000 across-the-board increases	0.6% - 6.9% (3.3% average)
<sup>a</sup> Salary increment program frozen		
<sup>b</sup> Conditional upon continuous employment for one year		
<sup>c</sup> Most teachers received between 4%-9%. Teachers receiving National Board of Professional Teaching Standards (NBPTS) certification were eligible for larger increases.		
<sup>d</sup> 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.		
<sup>e</sup> 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.		
<sup>f</sup> 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%.		
<sup>g</sup> 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.		
<sup>h</sup> 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		

## SECTION 3:

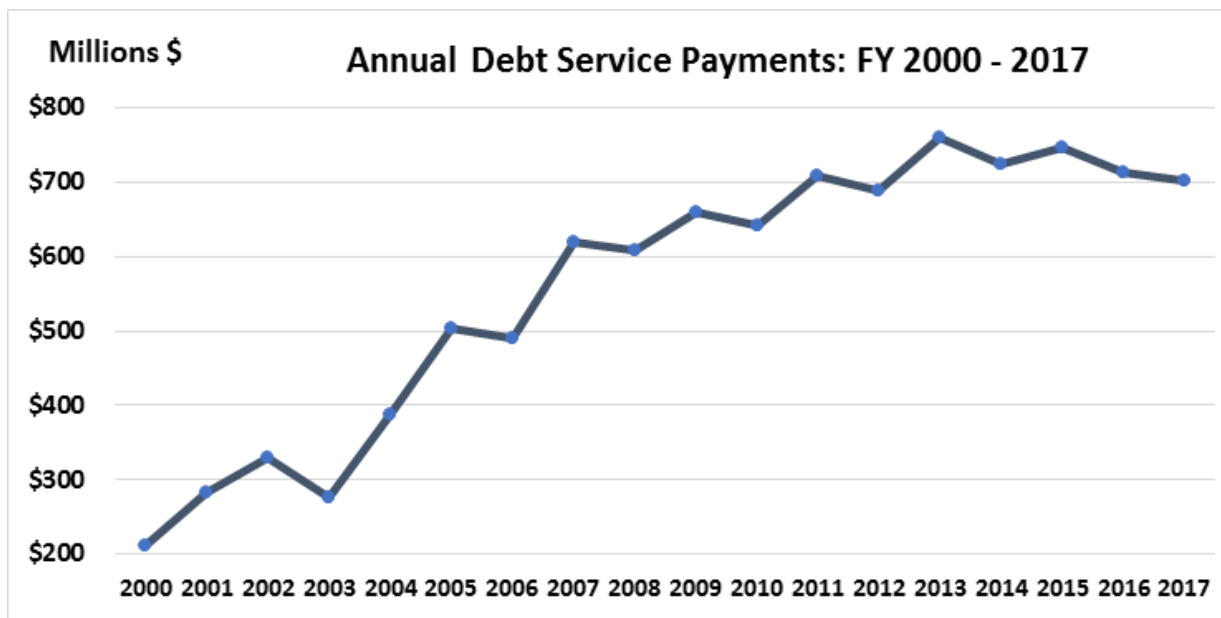


# STATE DEBT & UNFUNDED LIABILITIES

## Trends in Total State Debt



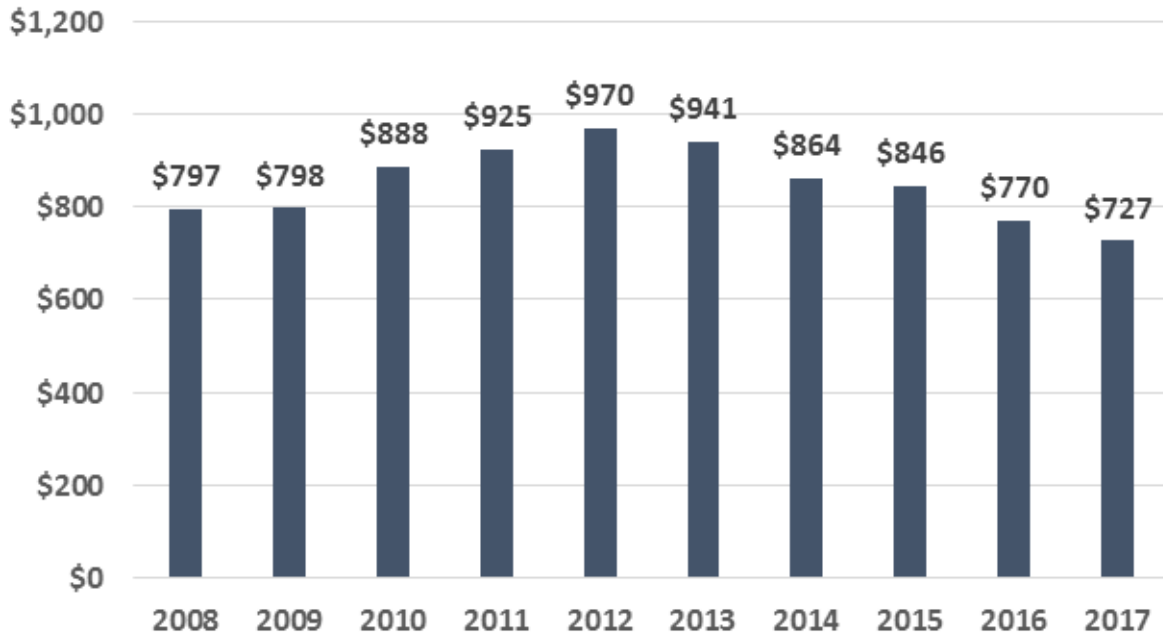
## Annual Debt Service Payments





## Total Debt Per Capita

### State Debt Per Capita: 2008 - 2017



## 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 faces at least a \$7.9 billion unfunded liability as of 2017. This liability is up from just \$1.2 billion in 2014.

State retirees have a "defined benefit" pension plan, meaning they are promised a level of benefits once they retire until the end of their life. 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 an overly optimistic 7.2 percent projected out over the next 30-year time horizon. Using more realistic return estimates would reveal a more substantial pension liability. For instance, assuming a rate of return average of 5.13 percent would produce an unfunded liability of more than \$29 billion.

Annual taxpayer-funded state contributions to cover retiree pension benefit payments now exceeds \$1.4 billion – up from just \$660 million in 2011.

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. Recent estimates place the state's unfunded liability for these payments at \$32.8 billion (reported as of June 30, 2017).

North Carolina uses a pay-as-you-go method of funding healthcare 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 FY2005-06 was equal to 3.8 percent of budgeted payroll. Under this method, \$477 million was dedicated in FY2005-06 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 2016-17, that rate had grown to 5.8 percent, coming to more than \$950 million – about double the amount from fiscal year 2006.

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 premium benefits, accumulated as of December 31, 2005. The report estimated this unfunded liability at \$23.79 billion, which was 113 percent of the entire General Fund budget for FY2007-08. By comparison, the state of Texas' liability was only 18 percent of its annual budget. As noted above, the most recent report pegs this liability at \$32.8 billion, meaning the liability has grown by more than \$9 billion, or 38 percent, in twelve years.

To better understand the burden this liability will place on the state budget, we can examine the "annual required contribution" (ARC) for the state of North Carolina. The ARC 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 ARC each year, but failure to do so ensures the unfunded liability continues to grow. As of 2017, North Carolina's ARC comes to \$2.7 billion annually, an amount sure to grow as the number of state employees continues to multiply. To date, the state has done virtually nothing to address the \$32.8 billion shortfall it is facing.

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. 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. 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 future retirees for state workers hired after Jan. 1, 2021. This measure will substantially head off long-term liabilities in the future, but significant challenges still remain in the meantime.

# Index and Sources for Charts & Graphs

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North Carolina Department of Revenue; available online at: <https://www.ncdor.gov/>

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Table created by Civitas Institute. Data Sources are annual budget documents for the relevant years, accessed through the General Assembly's website: <https://www.ncleg.net/>

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**"Temporary" Sales Tax Rates**

Created by Civitas Institute. 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

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North Carolina Office of State Budget & Management, Governor's Recommended Budget, 2017-19; available online at: [https://files.nc.gov/ncosbm/documents/files/BudgetBook\\_2017\\_web.pdf](https://files.nc.gov/ncosbm/documents/files/BudgetBook_2017_web.pdf)

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**General Fund Revenue Sources FY 2016 - 17**

North Carolina Office of State Controller, General Fund Monthly Reports, for June FY 2016-17; available online at: [https://files.nc.gov/ncosc/documents/files/GFMR/2017/June\\_2017\\_Gen\\_Fund\\_Monthly\\_Report.pdf](https://files.nc.gov/ncosc/documents/files/GFMR/2017/June_2017_Gen_Fund_Monthly_Report.pdf)

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**General Fund Expenditures FY 2016-17**

Ibid

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**Trends in General Fund Budget**

North Carolina Office of State Budget & Management Governor's Recommended Budget, FY 2017-19; available online at: [https://files.nc.gov/ncosbm/documents/files/BudgetBook\\_2017\\_web.pdf](https://files.nc.gov/ncosbm/documents/files/BudgetBook_2017_web.pdf)

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**North Carolina Population vs. Real General Fund Growth, 1982 – 2017**

Sources: General Fund appropriations for FY 1979 through 2007 from the 2006 Post-Legislative summary produced by the Fiscal Research Division of the General Assembly. Subsequent appropriation numbers from each respective year's budget bill. Population estimates are from the July that begins each fiscal year, and are from the Office of State Budget & Management demographics section; available at: <https://www.osbm.nc.gov/facts-figures/demographics>. GDP deflator levels taken from Federal Reserve Bank of St. Louis, Economic Research Division; <https://fred.stlouisfed.org>

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**Legislative Salary Increases - State Teachers and Employees**

Source: North Carolina General Assembly's Fiscal Research Division; Statistics and Data page on website: [https://www.ncleg.net/FiscalResearch/statistics\\_and\\_data/statistics\\_and\\_data\\_pdfs/salaries\\_benefits/2017-2018\\_Historical\\_LSI.pdf](https://www.ncleg.net/FiscalResearch/statistics_and_data/statistics_and_data_pdfs/salaries_benefits/2017-2018_Historical_LSI.pdf)

## Section 3: State Debt & Unfunded Liabilities

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**Trends in Total State Debt**

North Carolina Office of State Controller; Comprehensive Annual Financial Report; 2017. Available online at: [https://files.nc.gov/ncosc/CAFR/2017/2017%20Comprehensive%20Annual%20Financial%20Report\\_bookmarks.pdf?eVYFUAhgmYfGGt2komO\\_eHFj0WR1xI0X=](https://files.nc.gov/ncosc/CAFR/2017/2017%20Comprehensive%20Annual%20Financial%20Report_bookmarks.pdf?eVYFUAhgmYfGGt2komO_eHFj0WR1xI0X=)

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**Annual Debt Service  
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Data taken from state budget document for each respective year, accessed through the General Assembly's website: <https://www.ncleg.net/>

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**State Debt Per Capita  
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North Carolina Office of State Controller; Comprehensive Annual Financial Report; 2017. Available online at: [https://files.nc.gov/ncosc/CAFR/2017/2017%20Comprehensive%20Annual%20Financial%20Report\\_bookmarks.pdf?eVYFUAhgmYfGGt2komO\\_eHFj0WR1xI0X=](https://files.nc.gov/ncosc/CAFR/2017/2017%20Comprehensive%20Annual%20Financial%20Report_bookmarks.pdf?eVYFUAhgmYfGGt2komO_eHFj0WR1xI0X=)



## About the Civitas Institute

The Civitas Institute fights to remove barriers to freedom so that all North Carolinians can enjoy a better life.

How do we do this? We do this by exposing the truth about state government the mainstream media won't tell you; by holding elected officials accountable when they support liberal policies; and by persistently fighting to give voice to those who feel they're not being heard.

For more information, or to obtain additional copies of this guide, please contact:



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