Duke
NORTH CAROLINA
LEADERSHIP FORUM

2023 Report

Conversations on State Revenue

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Conversations on State Revenue

Introduction

The North Carolina Leadership Forum (NCLF) seeks to create constructive engagement between North Carolina government, business, and non-profit policy leaders across party lines, ideologies, professional experiences, and regional perspectives. A program of Duke University, NCLF has been bringing together cohorts of NC leaders since 2015.

The Challenge

Although North Carolinians have always had significant political differences, they have historically exhibited a practical, problem-solving mindset to politics. Today, however, the tenor of the times is highly partisan, and North Carolina, like many other states, finds itself sharply divided. Progressive and conservative leaders often depend on different media and social media outlets, operate with different facts and beliefs, do not often enough engage substantively with people with whom they disagree, and all too often assume the worst about the motives of others. For these reasons, our leaders are less willing and able to work together to create widely-embraced solutions and opportunities for our state and its people. Our aim is to help bridge this divide.

Our Approach

NCLF focuses on those who engage in state-level policymaking as leaders in government, business, nonprofits, and local communities. For each cohort, we provide an opportunity for these diverse leaders to:

- Build authentic relationships based on trust and understanding through frank, civil, and constructive discourse, and
- Significantly deepen understanding of a specific issue and the underlying values and concerns of others without diminishing one's own or another person's point of view.

The overarching goal of NCLF is to develop a critical mass of civic and political leaders who have the will, the skills, and the relationships to address challenging issues and to model constructive engagement across ideological divides.

Our Method

Over the course of several months, in a series of face-to-face multi-day meetings, we work to:

1. Increase participant understanding of their own and others' concerns and values that underlie their varying views about the issue;
2. Establish a shared understanding of the nature of important problems and the relevant facts;
3. More clearly articulate the benefits and inherent downsides of proposed ways to address concerns;
4. Identify points of agreement about proposed actions to address concerns;
5. Examine and seek to understand the values, perceptions and experiences that underlie the most polarized disagreements about the proposals;
6. Build authentic relationships among leaders of different political parties and ideological views, as well as across sectors, geography, and other demographics; and
7. Create a foundation for future constructive engagement among their fellow participants.

The Question Addressed

Each year, NCLF selects an important public policy topic for discussion based on several criteria. The topic must be important to a wide variety of people in North Carolina, it should be currently controversial and under discussion, and people of different perspectives or ideologies should have different views about the nature of the problem and its best solutions. The topic is typically intentionally broad, leaving it to the group to narrow the issue and set priorities for discussion, but it should not be so broad that it is impossible to consider the context of the issue or arrive at practical actions to address facets of the issue. An ideal topic presents tension between closely held values, involves many actors, and related solutions involve trade-offs.

The 2022 North Carolina Leadership Forum addressed the topic of state revenue, asking:

"What is the best way to pay for state and local government in North Carolina?"

The Leadership

NCLF is primarily led by a diverse Steering Committee made up of experienced leaders from around the state. This group spent significant time designing the format, focus, and pacing of the 2022 program. Members of the Steering Committee also facilitated program sessions during each participant gathering. Duke University provides expertise on the topic and student interns, as well as operational support, and helps to evaluate the impact of NCLF and communicate the impact of the program more broadly to the public.

The Participants

The 2022 NCLF Cohort consisted of 32 participants, in addition to the NCLF steering committee. Participants included members of the General Assembly, state and local officials, leaders of nonprofit and philanthropic organizations, and business leaders from across the political spectrum and from across North Carolina, including both the State Treasurer and NC Secretary of Revenue. Some of the participants are deeply engaged in budget policy, and some are more generally engaged in the development of public policy in North Carolina. All of them play a significant leadership role in their local community and most at the state level. The group was evenly divided between Democrats and Republicans, with a handful of participants identifying as unaffiliated.

For a complete list of the 2022 NCLF participants on Revenue, see Appendix A.

The 2022 NCLF Steering Committee members were:

John Hood, Co-chair
President, John William Pope Foundation

Leslie Winner, Co-chair
Former Executive Director, Z. Smith Reynolds Foundation; Former Member, NC Senate

Abdullah Antepli, Associate Professor of Public Policy and Interfaith Relations, Duke University

Tamara Barringer, Associate Justice, NC Supreme Court; Clinical Professor of Law and Ethics, UNC Kenan-Flagler Business School; Former Member, NC Senate

Anita Brown-Graham, Professor and Director of NC Impact, UNC School of Government

Maurice "Mo" Green, Executive Director, Z. Smith Reynolds Foundation

Charles B. Neely, Retired Partner, Williams Mullen; Former Member, NC House of Representatives

Ray Starling, General Counsel, NC Chamber of Commerce, President, NC Chamber Legal Institute

Debbie Goldstein, Executive Director, NC Leadership Forum

The Process

Overview

The group gathered for four day-and-a-half meetings between August 2022 and December 2022. The first was held at Duke University, and the second and third meetings were held, respectively, in Lumberton and Kings Mountain, North Carolina, with the final meeting in Durham. All meetings operated under the Chatham House Rule:

> When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

The program progressed as follows:

- Establish ground rules for constructive engagement.
- Learn who is in the room, and begin to build relationships and trust among members of the cohort.
- Identify the broad array of concerns related to North Carolina state revenue, and the core things that participants value related to our state revenue system.
- Develop a shared knowledge base by establishing basic facts and a greater understanding of where the complexities lie.
- Establish the overarching concerns related to the topic. Identify and discuss potential options to address each of these concerns, including benefits and downsides of each option.
- Determine the extent of agreement and disagreement about the proposed options and the levels of tolerance for their downsides.
- Identify the actions about which there is a consensus. For those actions that have substantial but not complete support, determine how they could be modified to broaden support. Dig deeper into the options that generated the greatest amount of disagreement to allow participants to articulate deeply held views, further understand others' view-points, and to practice skills in constructive engagement.

Relationship and Trust-Building as a Primary and Ongoing Goal

Opportunities for participants to build relationships with people of different perspectives were woven throughout the program. The first afternoon was devoted to a relationship-building exercise in which members of the cohort were asked to talk about a transformative event in their lives. Participants approached the exercise with vulnerability and open-mindedness and remained engaged with each other throughout the process, practicing active listening and creating a foundation for further relationship building.

Panel Discussions: From Theory to Practice in Pembroke and Kings Mountain

Cohort participants host the second and third meetings around the state to give each group of leaders exposure to regions they might otherwise not visit. The Thomas College of Business and Economics at UNC Pembroke hosted the second forum. Chancellor Cummings welcomed participants, highlighting how the University is addressing the region's health disparities through several new programs. Panelists Chris Ellington, President and CEO of UNC Health Southeastern, Channing Jones, Director of Economic Development, and Melissa Singler, President of Robeson County Community College, told participants about how collaborating and out-of-the-box thinking were meeting the needs of local employers for skilled workers.

The Kings Mountain program was hosted by the Albemarle Corporation, a company that specializes in lithium extraction and processing. NCLF participants learned that the site is a significant source of lithium in the US and saw some of the companies' proposed expansion plans. We were also fortunate to enjoy evening social time at the Earl Scruggs Center, where the museum's curator and Board members offered tours of the exhibits and local musicians played live music. Senator Ted Alexander, previous mayor of Shelby, spoke to the group, as well.

Other examples of opportunities for building trust among the participants included pairing "buddies" of differing ideologies to meet outside of sessions, creating diverse "homeroom" groups which were used at some point in each meeting, and assigning intentionally diverse groupings for small-group discussions, jigsaw sessions, and dyads. Each of these tools encouraged and enabled connections among individuals who may not otherwise have interacted in a meaningful way.

Session 1: Identifying Areas of Concern, Things Held Valuable, and Basic Facts

The discussion of state revenue policy began with identifying the range of concerns related to the topic, followed by a conversation about things held valuable in a revenue system. This session was an opportunity for participants to present as many perspectives as possible.

Former state budget director Dan Gerlach presented an overview of the state budget and his assessment of likely revenue projections for North Carolina and resulting needs. His presentation was based on research he conducted for the North Carolina Economic Development Association.[1]

During dinner between the two days, the group heard remarks from Duke University President Vincent Price and Frank Bruni, NY Times Columnist and faculty at the Duke Sanford School of Public Policy, who spoke from his

perspective about political polarization in the country and the experience of moving to North Carolina.

Session 2: Prioritizing Values, Defining Chief Concerns, and Beginning to Identify Solutions

At the second meeting, held at UNC Pembroke and in Lumberton, NC, NCLF presented additional background information on North Carolina revenue policy and how it compared to other states. The group then revisited the core values identified in Session 1, using live-polling software to determine relative priority of values for the group. The results of this polling are set out in the Values discussion below. The group continued the discussion of values using a line-exercise where participants arrayed themselves along a spectrum to show where they stood if two values are competing with each other.

The agenda then turned to narrowing down the list of concerns the group had articulated in the first session and selecting four on which to focus discussion for the remainder of the program. The group then broke into small groups to brainstorm actions to address the selected concerns and voted on which actions would benefit from further discussion.

Session 2 was unfortunately cut short by the threat of Hurricane Ian. Prior to the storm, participants had the opportunity to tour the places in Lumberton most impacted by Hurricanes Matthew (2016) and Florence (2018) and hear first-hand about the damage and ongoing recovery efforts from two city council members. A highlight of the tour was a stop at Exploration Station, a children's museum featuring hands-on exhibits and education activities run by Robeson County Partnership for Children in downtown Lumberton.

Session 3: Benefits and Trade-offs

The third meeting, held in Kings Mountain, NC, focused on specific actions to address the identified concerns. Participants discussed the benefits and inherent downsides of each policy option and then voted on their degree of support and extent of their ability to tolerate the downsides for each one. The resulting "polarity charts" show the degree of agreement and disagreement among the group and are included in the discussion section of this report.

Session 4: Understanding our Agreements and Disagreements

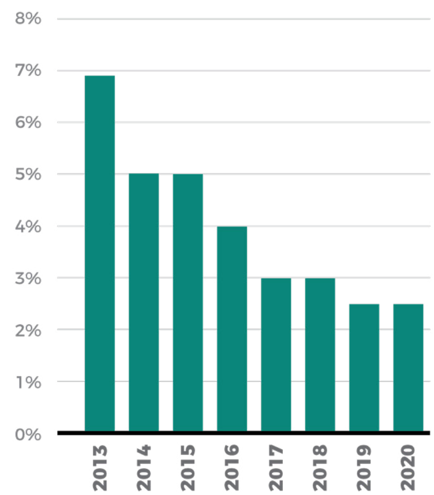
For the final meeting, hosted in Durham, the goals were to determine the policy areas with the highest levels of agreement and to dig deeper into the issues and ideas that produced the most polarized responses. To facilitate this process, the cohort used the polarity-chart results from the previous meeting, which provided a visual representation of the group's attitudes towards each policy option. In addition, before launching the discussion of areas with the greatest disagreement, NCLF moderators modeled how to respectfully convey the deeply emotional and personal perspective on the content of a topic while also clearly articulating a particular view. The resulting conversation allowed participants to go more in-depth, engaging with each other around deeply held values and difficult choices, and developing stronger understanding of each other's convictions. At the end of this meeting, time was reserved for participants to reflect on what they were taking away from the experience and feedback for NCLF.

Background: NC State Revenue

North Carolina's revenues are largely driven through four sources: state set personal income tax and corporate income tax, state and local sales tax, and locally set property taxes. In the last decade, the General Assembly has made significant changes to the state's tax code, in particular lowering and flattening the individual income tax rate and reducing (and soon eliminating) the corporate income tax.[2] In addition, the legislature has expanded the scope of the sales tax to include more previously untaxed services.

Personal Income Tax Rate In North Carolina

Corporate Income Tax Rate In North Carolina



NOTE: 2013 PERSONAL INCOME TAXES ARE SPLIT UP AS LOW, MIDDLE, AND HIGH FOR THAT YEAR

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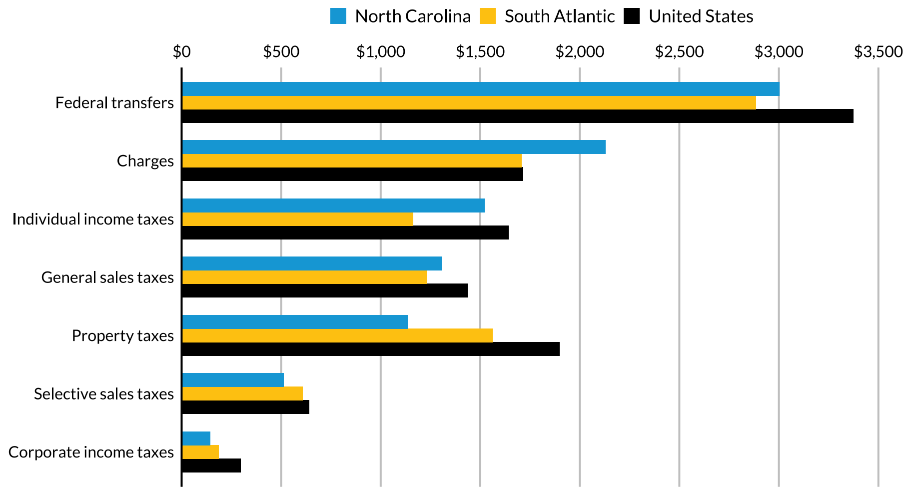
While many feared that during COVID-19, economic conditions would lead to a serious drop in government revenue, instead NC's economy fared quite well, and NC revenues exceeded expectations.[3] This was driven in part by federal aid, but was also due to the State's continued economic and population growth. In May 2022, roughly at the time of the cohort meeting, the North Carolina Fiscal Research Division and the Office of State Budget and Management were projecting revenue to increase by $6.2 billion for the 2021-2022 fiscal years, compared to the original certified budget projected revenue (set in June 2021).[4]

In recent years, North Carolina's income tax rates have been lower than the national average, but still exceed those of many neighboring Southern states. Its sales tax is similar, although closer to average neighboring states. North Carolina's property taxes are significantly lower than average compared to both the nation and its neighboring states. Its corporate tax rate is also significantly lower than both (and will ultimately be eliminated).

Since 2014, North Carolina has had a flat income tax, meaning all income above the standard-deduction amount is taxed at the same marginal rate, regardless of how much income a household receives. Other states have graduated income taxes, meaning the marginal rate increases as household

North Carolina's State and Local Per Capita Revenue, Fiscal Year 2021

Compared with national and regional averages



Source: US Census, Fiscal Year 2021.

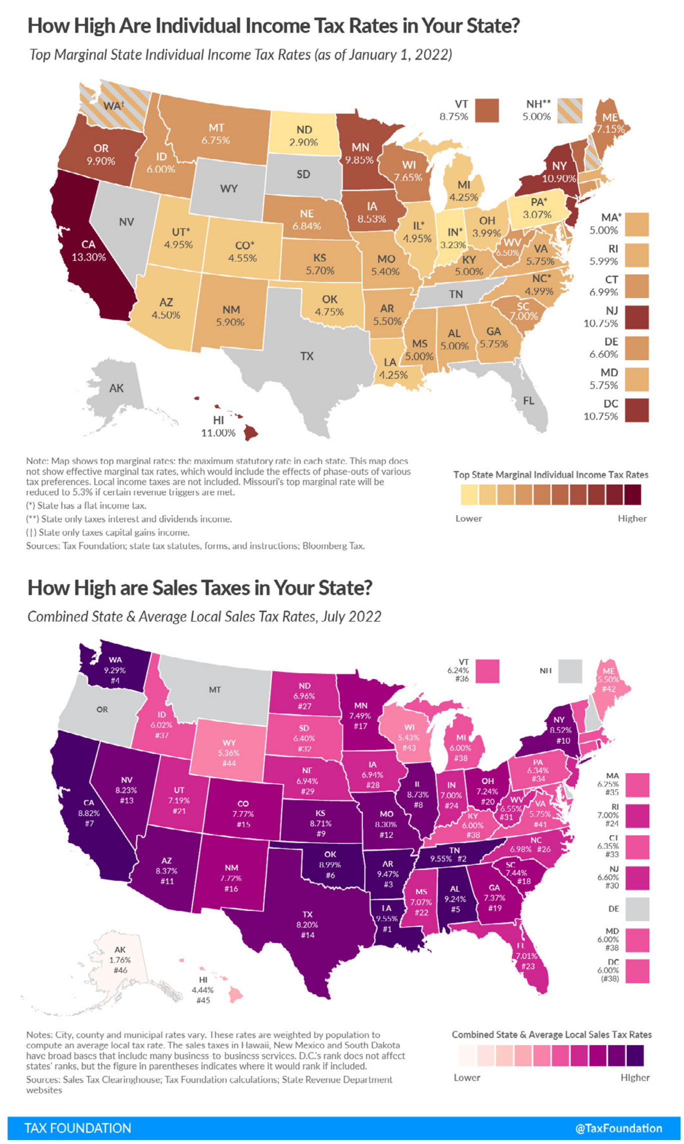
Note: Census's definition of the South Atlantic region includes the District of Columbia, Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia.

URBAN INSTITUTE

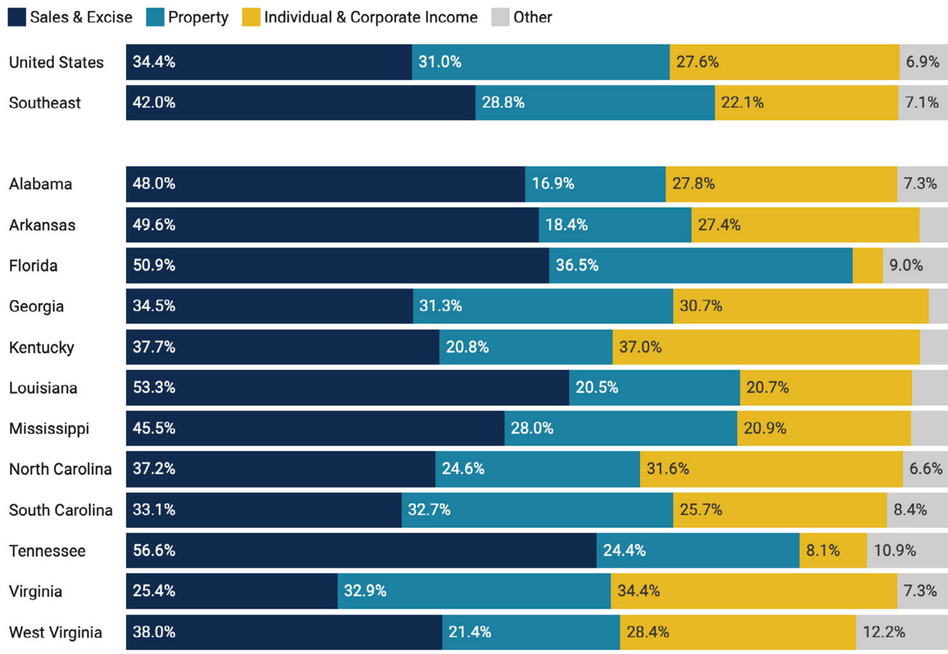
income increases. Before 2013, North Carolina levied taxes using three marginal rates—6%, 7%, and 7.75%—based on household income. In 2013, the legislature enacted a flat tax rate of 5.8%, which has since declined and under current law will reach 3.99% by 2027. In addition, the standard deduction has been increased from $6,000 to $21,500 per couple filing jointly (as of 2022, and is set to increase in subsequent years), meaning income below that amount is not subject to income tax.

North Carolina has a state sales tax rate of 4.75% which goes to the state. Counties may charge up to an additional 2.75% on top of this base rate. Local sales tax is split into different sales tax levies—some local sales tax revenues can be used for general purposes, while others are restricted to purposes such as school facilities or transportation.

By comparison, several other southern states—Kentucky, Alabama, Mississippi, Louisiana, Virginia, Georgia, and Arkansas—have top marginal state income tax rates between 4.25% (LA) and 5.75% (GA). Tennessee and Florida have no income tax at all. In some cases, these states use a higher sales tax to make up the revenue—while the combined maximum state and local sales tax in NC is 6.98%, it is 9.55% in TN and LA, and around 7-7.44% in FL, GA and SC. Another way to look at this is that 51% of Florida's revenue comes from the sales tax and 57% of Tennessee's, while only 37% of North Carolina's revenue comes from



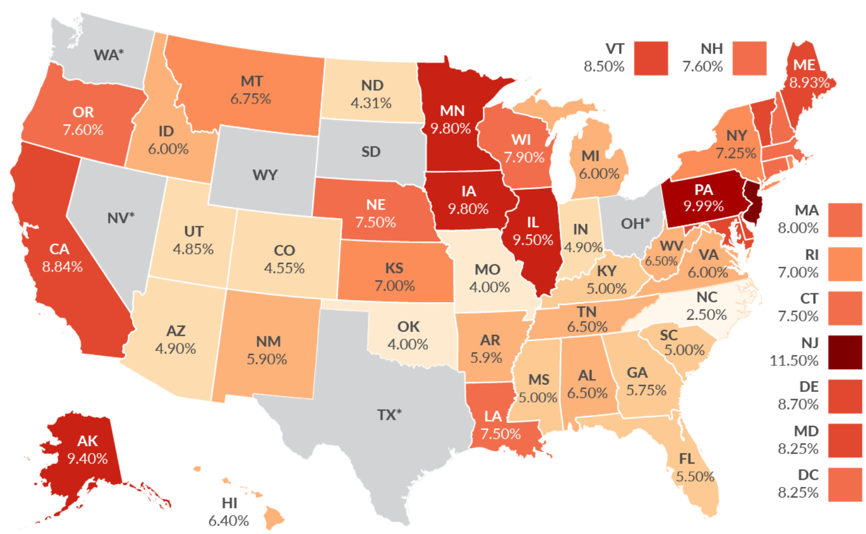
Share of State and Local Tax Revenue by Category in 2019



Source: ITEP analysis of the U.S. Census Bureau's Annual Survey of State and Local Finances, FY 2019. • Created with Datawrapper

How High are Corporate Income Tax Rates in Your State?

Top Marginal Corporate Income Tax Rates as of January 1, 2023



Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

*Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware and Oregon have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level.

Connecticut charges a 10% surtax on a business's tax liability if it has gross proceeds of $100 million or more, or if it files as part of a combined unitary group. This surtax was recently extended and is scheduled to expire on January 1, 2023.

Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. In New Jersey, the rates indicated apply to a corporation's entire net income rather than just income over the threshold. A temporary and retroactive surcharge is in effect from 2020 to 2023, bringing the rate to 11.5% for businesses with income over $1 million.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

Top State Marginal Corporate Income Tax Rates as of July 1, 2022

Lower Higher

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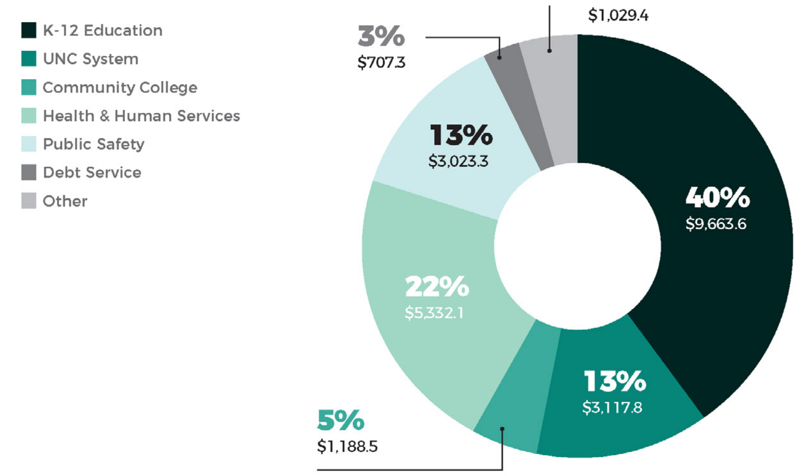
Of note, of the states that have a corporate income tax. North Carolina now has the lowest rate in the country. In 2013, NC taxed corporate income at a rate of 6.9%, but has since reduced the rate. It is scheduled to be phased out completely by 2030. Historically, corporate income taxes have been a smaller proportion of the overall state revenue base compared to taxes on individual income, property, or sales tax.

The majority of state revenue goes to K-12 education and health and human services, with a significant portion also going to higher education and public safety. Local governments supplement several of these areas using property tax revenue and additional sales tax. The state pays for about two-thirds of K-12 education, with another 10% coming from federal funds and the remainder from county government support. Property taxes account for about three-quarters of local revenue, with the remainder coming from sales tax. Local jurisdictions set property tax rates and conduct assessments and collections, overseen by the State Department of Revenue. The average county property tax rate is about .82% of property value, although many homeowners may pay additional fees or municipal taxes.Local sales tax is split into five different sales tax levies. All 100 counties have adopted a "local option" sales tax of 2%, with some counties adopting an additional .25% to .75%.

Where Does the Money Go?

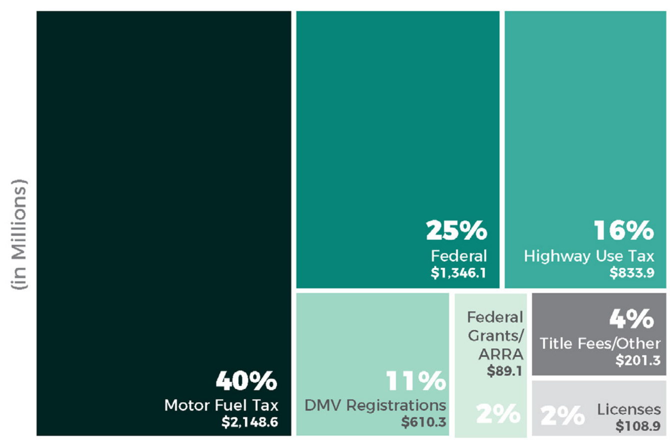
FY 2019-20 general fund expenditures (in millions)



NOTE: "OTHER" INCLUDES GEN. GOV. ECON. DEVELOPMENT, ENVIRONMENT & NAT RES. AND AGRICULTURE

SOURCES: OFFICE OF THE STATE CONTROLLER

Sources of Transportation Funding, FY2019-20 ($5.3 Billion)



SOURCE: NC DEPARTMENT OF TRANSPORTATION

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North Carolina is also unusual in that the state pays for a large proportion of state roads. Transportation funding is complex and made up of a combination of user fees, taxes (particularly a tax on gas consumption and vehicle sales), and federal funding. One major concern today is that income from the gas tax has stayed flat over time, even as demand increases. Policymakers are concerned that new sources of revenue are needed to support transportation demands, particularly if NC continues to centralize paying for such a large share of roads and fuel efficiency and electric vehicle usage increase.

In general, North Carolina is viewed as a leader among states on debt management, with all of the state's debt ratios below the median of North Carolina's peer group (all thirteen states with AAA ratings). While the state has a target calculation of debt service set at 4% of revenues, its actual ratio of debt service to revenues is projected to peak at 2.4% in FY22. One concern is that the state's transportation debt service is expected to increase dramatically, violating a state cap beginning FY2026.

Values, Concerns, Actions, Benefits and Downsides

Over the course of their four meetings, members of the NCLF cohort engaged in substantive conversations informed primarily by their own considerable experience, and supplemented by background material from NCLF. The goals were to prioritize the critical concerns about North Carolina revenue, to consider a range of possible actions that addressed those concerns, to identify the level of agreement on those actions, and where there was disagreement, to better understand the values and experiences that informed the opposing views.

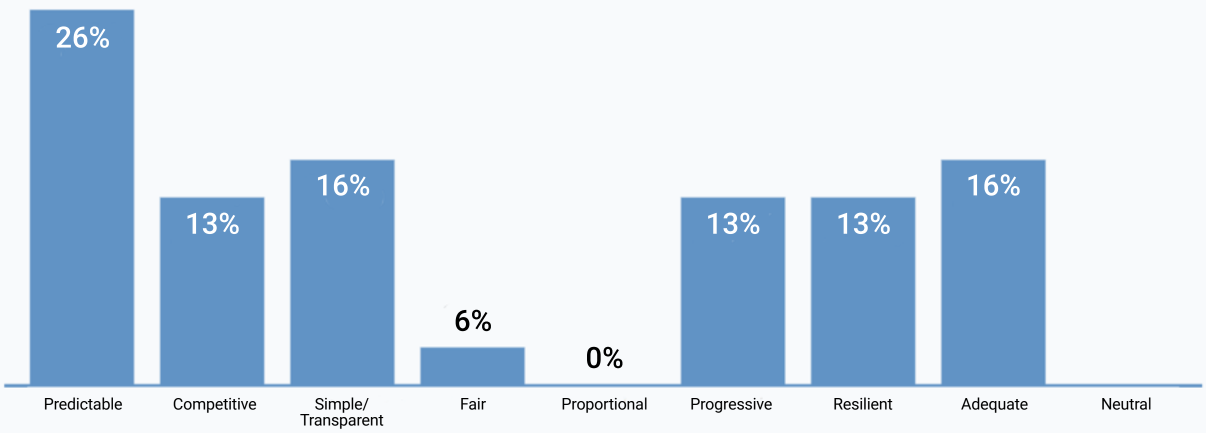
What the Group Values

The forum explored the values participants held as foundational when considering state revenue in the context of budget policy. Although not all members held all of these values, the group put forth the following list of things they value when it comes to North Carolina revenue policy:

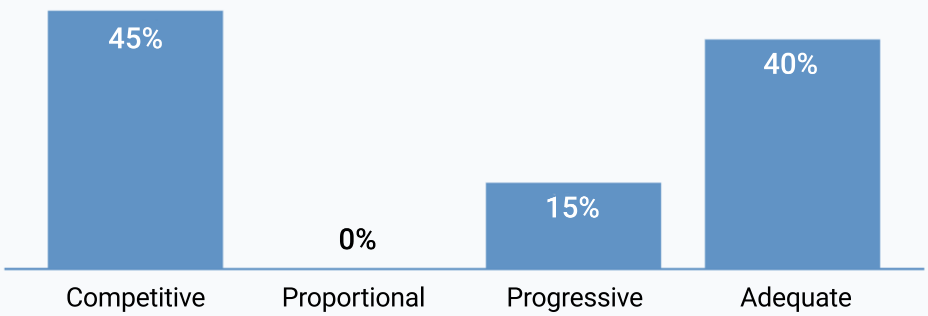
- NC taxes should be *competitive* compared to other states
- NC tax revenue should be *adequate* to pay for NC needs
- NC taxes should be *progressive*
- NC taxes should be *fair*
- NC taxes should be *proportional*
- NC taxes should be *predictable*
- NC tax revenue should be *resilient* (i.e. in different economic cycles)
- NC taxes should be *simple/transparent*
- NC taxes should be *neutral* (do not incent/disincent certain behavior)

In our second session, NCLF asked the participants to express top priorities from the full list of values developed by the group. We used instant polling to ask forced-choice questions, requiring participants to choose between potentially competing values. This prioritization showed that the group overall prioritized predictability, adequacy, simplicity/transparency, competitiveness, progressivity, and resilience in different economic cycles over other important values, with some tension when forced to choose among those values. Overall, competitiveness, adequacy, and progressivity dominated values priorities.

Please select the two values clusters you consider the MOST important



Please select the MOST important value from the following four



Following this activity, members of the cohort were asked to take a position along a line on two competing values. This exercise allows participants to see visually that their peers may take a different position than expected on some topics, and to see that peers may stand along a continuum of positions, rather than only at an extreme on a position. Once participants are arrayed on the line, we ask individuals to share why they are standing where they are, allowing people to both articulate their point of view and build understanding of others' views on core topics.

Competitive vs Adequate

Discussion of these two competing values centered on the participants' array of views on two priorities. One group felt strongly that North Carolina's taxation policy needs to be competitive compared to other states, which they believe would lead to economic investment and therefore adequate revenue. The other group believed that North Carolina needs to have adequate funding for basic services, especially education, or it would not be able to compete to attract businesses and residents. One point of key difference identified was that participants disagreed about how to define basic services, which could include schools, healthcare, and more, or simply public safety and basic infrastructure. One person arguing for "adequate revenue" as the priority argued that "North Carolina is already the #1 state for business, now we have to focus on adequacy." Another participant argued that competing with other states to attract investment should not sacrifice "taking care of folks." Participants favoring competitiveness noted that North Carolina had only recently lowered corporate and income taxes to be in line with neighboring states, and cited ways in which other states still used lower taxes to attract more economic investment. Finally, participants observed that if North Carolina attracts more businesses and residents, they will place more demands on the state—increasing the need for more services. If corporate and income taxes are low in this scenario, the state could find itself without the resources to support increased demand.

NC Taxes Should Be Progressive vs NC Should Not Have Progressive Taxes

Participants were sharply divided about whether they valued having a progressive tax code in North Carolina, meaning an income tax system in which people with higher income pay a higher proportion of their income in taxes. Those valuing a progressive tax code made three main points around responsibility, community, and resources. Expressing that those who have higher income can afford to pay a higher proportion of their income, one participant said, "It is common sense to me that if I make more, I pay more." Another expressed the same idea saying, "My faith tradition teaches me that to whom much is given, much is expected." Another focused on collective responsibility, saying "It is more about the good of the community, not the individual."

One participant who does not value progressive tax rates asserted that North Carolina's current flat income tax is more progressive than it appears at first glance, because when NC lowered the income tax, it also raised the standard deduction to $25,500 per couple filing jointly. The deduction operates to exclude a larger proportion of the income of lower-income taxpayers. Others prioritized the values simplicity and/or limited government over progressivity One person stated, "Because I value simplicity and transparency, I think having a progressive tax code is less important. It makes things more complicated and difficult to comply with." Another said, "As someone who believes in limited government, the goal is to return more money back to the individual because they will spend it better than the government will."

Concerns Overview

The members of the cohort generated an extensive list of concerns related to state revenue. See Appendix B for a complete list of concerns. Participants ultimately chose to focus on four concerns. The remainder of this report describes the deliberation of the forum with respect to the possible ways to address these four areas of concern:

1. *North Carolina taxes should be more progressive*
2. *North Carolina revenue is not adequate to cover transportation, education and other state needs*
3. *Counties rely too heavily on property tax*
4. *North Carolina should use debt more*

It is important to note that not all Forum members agreed that each of these concerns should be addressed with policy actions. Rather, among all of the concerns shared, these concerns merited substantial enough attention from a majority of the group to be prioritized for further discussion. In addition, even those who raised particular concerns did not necessarily support pursuing specific actions to address them when faced with the trade-offs in doing so.

Discussion of Actions to Address Concerns

Participants developed actions to address the four main concerns (adequacy of revenue, progressivity of the revenue system, reliance on property tax, and use of debt). Participants then selected which proposed actions they would most like to discuss further and explored the benefits and drawbacks of about five options per concern.

After their discussion, participants were asked to vote on polarity charts to determine the level of agreement in the cohort for particular proposals (see discussion below for examples of polarity charts for some options). Participants placed two "votes" on a polarity chart for that option. For the first vote, a participant indicated his or her level of benefit of the option by placing a sticker above the x axis, on the spectrum of "agree" to "don't agree," while also taking into account the intensity of that viewpoint. The second vote shows the extent to which someone can tolerate the downsides of an option and also the intensity of that opinion. Taken in aggregate, these votes provided a visual representation for the level of agreement on particular options.

North Carolina taxes should be more progressive

A progressive tax system is defined as one that takes a larger percentage of income from higher income groups and a lower percentage from lower income groups. Currently, North Carolina's tax system consists of a combination of income, property, and sales taxes. Recent changes to the tax code, in particular the income tax, made North Carolina's tax system less progressive. In 2013, the income tax was changed from a three-bracket graduated rate to a flat income tax rate. The state income tax decreased from 5.25% to 4.99% in 2022 and is set to decrease until it reaches 3.99% in 2026. In addition to the flat income tax rate, corporate income tax is being phased out completely. Since income taxes represent a large portion of North Carolina's revenue, sales taxes had to be broadened to make up for the lost revenue. Sales taxes disproportionately impact lower income groups because they spend a higher proportion of their income on taxable purchases, thus making North Carolina's tax system less progressive.

Not all participants shared this concern, but everyone was tasked with discussing ways to make the tax system more progressive. Proposed actions focused on different taxes that could be altered to address the issue of progressivity. The proposals varied regarding whether the action was focused on high-income earners or low-income earners.

The group narrowed their proposals to 4 potential actions:

1. Charge 6% income tax on income earned above $500,000.
2. Offer an earned-income tax credit for working low-income earners.
3. Remove sales tax on broadly consumed necessities.
4. Offer property tax exemption for long-term homeowners over 65 who earn less than 200% of the Area Median Income (AMI).

NC Revenue System Is Not Progressive Enough

Areas of Broad Agreement:

- None

Areas of Varying Degrees of Support:

- Offer earned income tax credit for working low-income earners
- Remove sales tax on broadly consumed necessities
- Offer property tax exemption for long-term homeowners over 65 who earn less than 200% AMI

Area of Strongest Disagreement:

- Charge 6% income tax on income earned above $500,000 or top 5% income

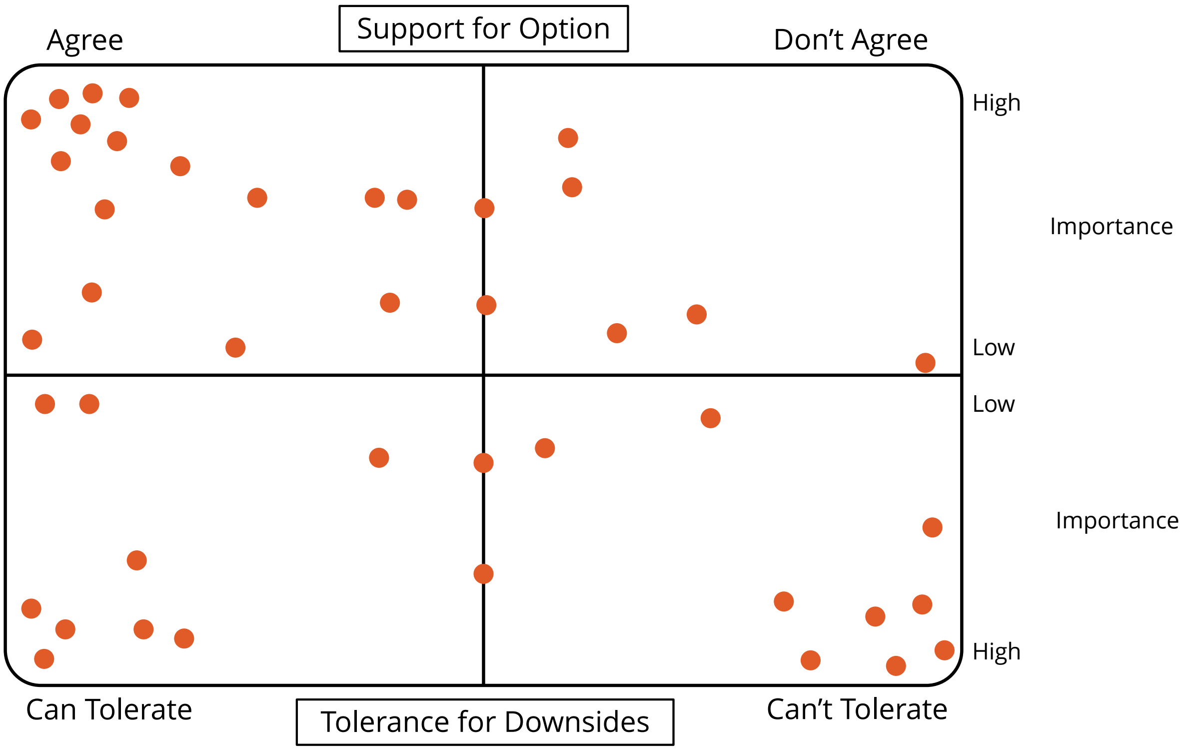
Sales Tax

A little over half of the group supported eliminating the sales tax on necessities, and several participants were in the middle.

Supporters of the proposal asserted that sales tax is the most regressive tax and that eliminating the tax on necessities would directly reduce its regressivity. The change would also draw in more shoppers from surrounding areas that do have sales tax on their necessities.

Those who opposed it were highly intolerant of the downsides of this proposal. Much of the opposition stemmed from the concern that "necessity" cannot be defined. The main points of contention were how policymakers could determine what items would be considered necessary and how specific the law would need to be i.e., naming specific items, brands, etc. Further, the law would be in constant flux because what is a necessity could change. A participant offered the example that in modern society some people consider a phone to be a necessity, but in previous decades this would not have been the case.

Exempt Necessities from Sales Tax



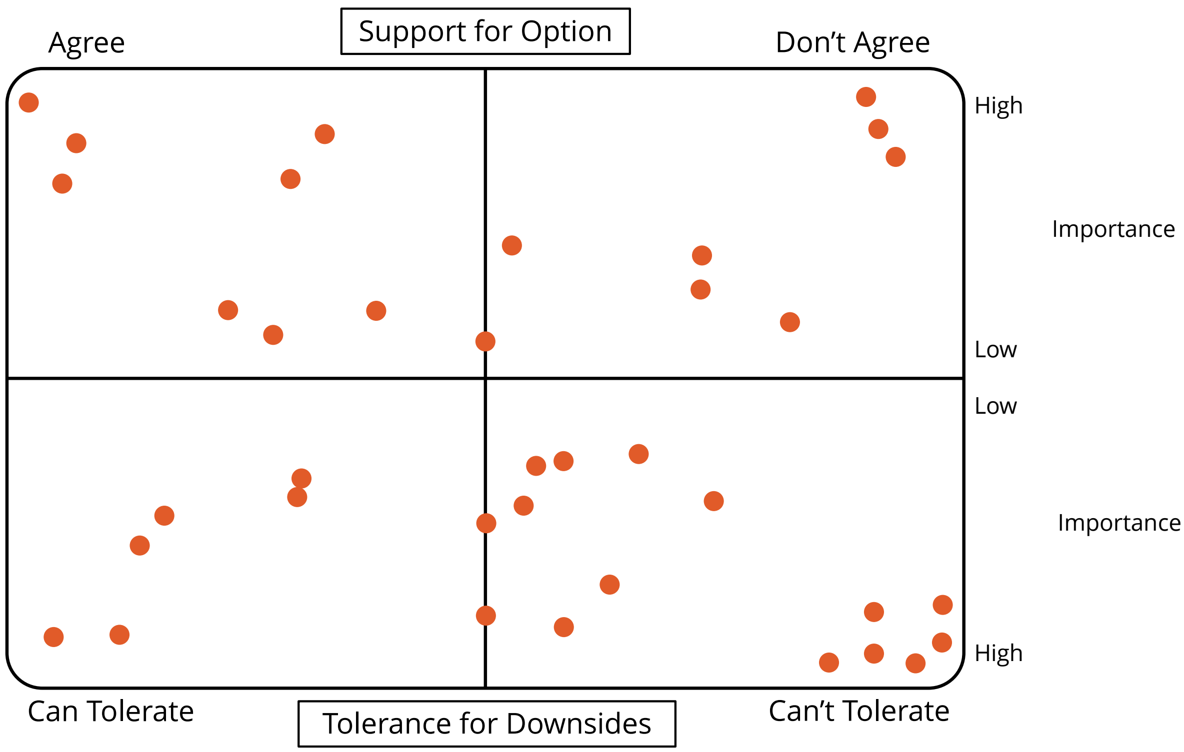
One participant raised an example of pending proposed legislation that would exempt women's menstrual products from state sales tax. North Carolina, like two dozen states, covers such products under the state sales tax, rather than exempting them like some other necessities. Prior to the discussion, some of the participants were not familiar with the issue or the proposed legislation, but upon learning about it, many were interested in learning more. There was greater agreement among participants about exempting these products than there was about eliminating the sales tax on necessities generally. The moment illustrated the value of in-depth engagement—policy leaders who would not normally talk with each other were able to hear each other's concerns and identify an action for potential collaboration.

Property Tax

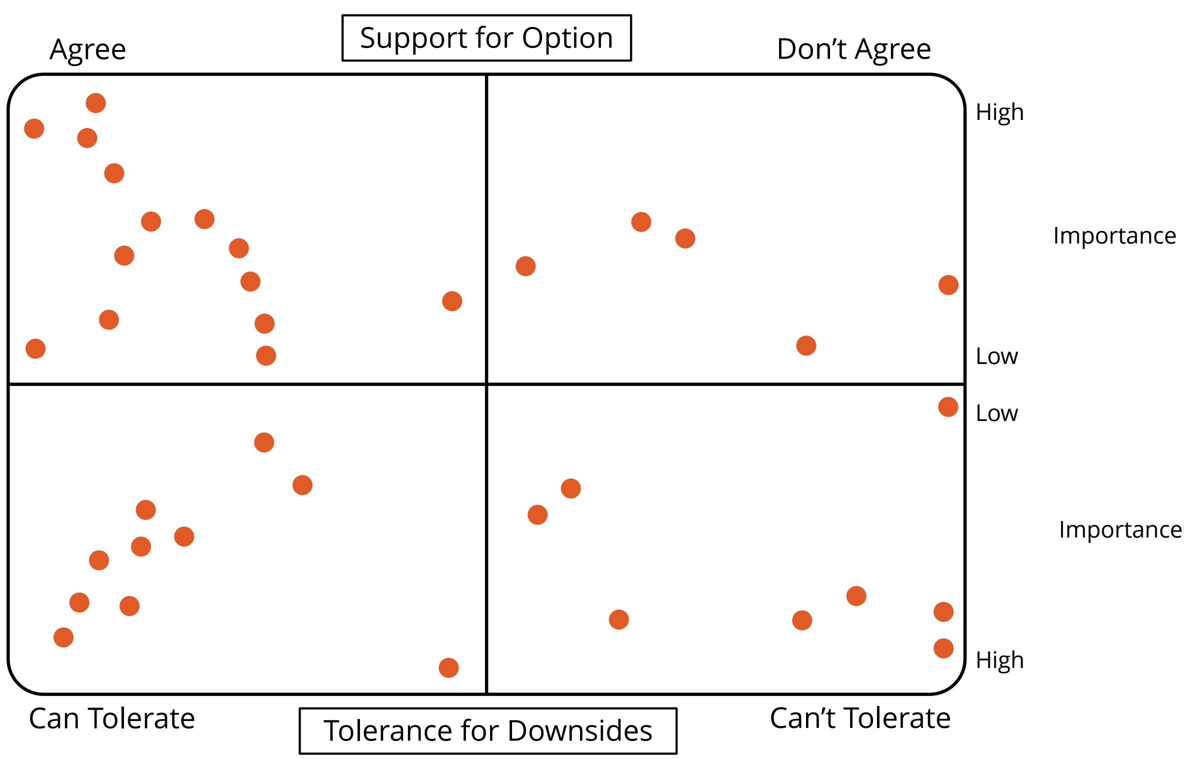
Regarding property tax, one proposal was an exemption for long-term homeowners over 65 who earn less than 200% of the area median income (AMI). Some participants strongly favored or opposed the proposal, many participants were in the middle.

The participants who supported this exemption said it would alleviate the negative effects of gentrification, such as long-term homeowners having to sell their homes because they can no longer afford them. There was significant concern about the impact of increased home values that raise property taxes on seniors who bought their home at a lower price and no longer earn income. While they are saving on housing payments, they often cannot afford rising property taxes and can be pushed out of their home, with limited options for alternative affordable housing.

Property Tax >65 and <200% AMI



Property Exemption Anyone < 50% AMI



Those opposed to the proposal were concerned about people taking improper advantage of this policy, and about the negative effects it could have on local governments if there was fraud. For instance, it would be unfair that property taxes would change depending on whose name is on the deed, and a risk that this option would lead people to game the system. Regarding issues for local governments, they rely heavily on property taxes, so the state government would have to somehow make up for this lost revenue. The policy also may disproportionately harm rural, aging counties that do not have an influx of younger new residents.

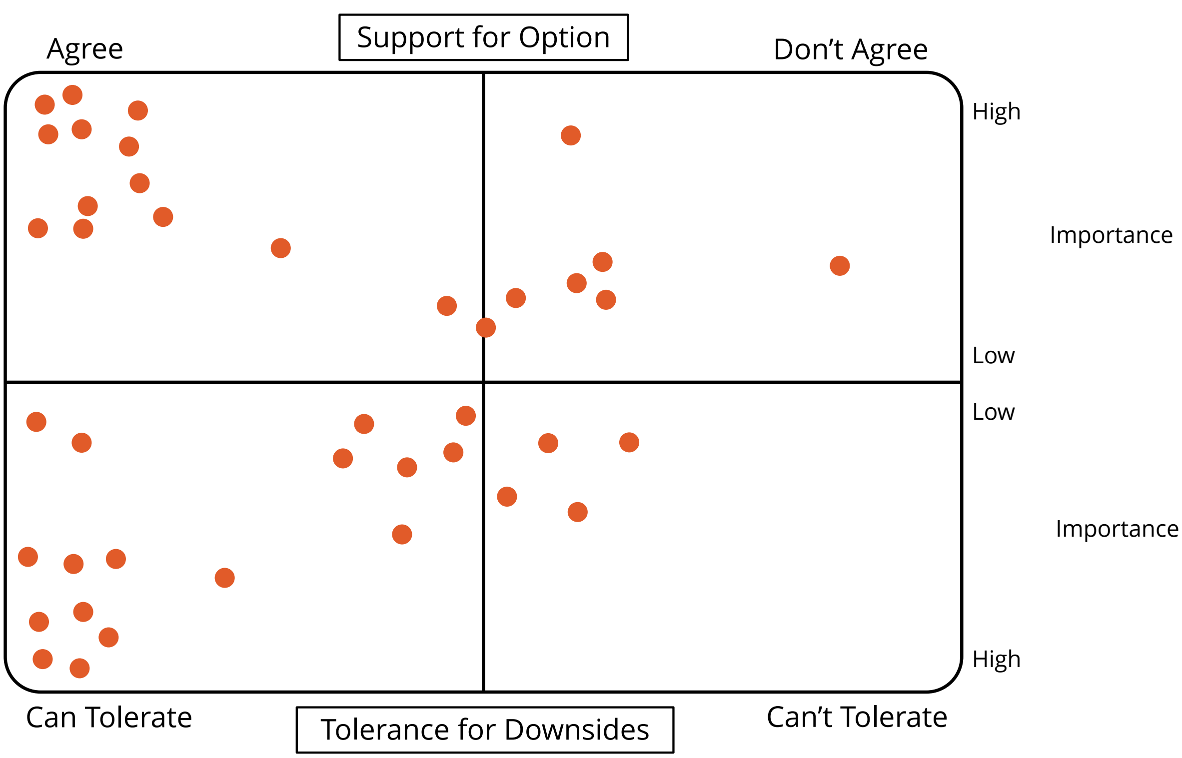
The group also considered another version of modifying the property tax for everyone below 50% of area median income. After a short discussion of the modified proposal, there was some increase in support, but there was not a consensus.

Income Tax

Two proposals dealt with altering the income tax. One proposed an earned income tax credit for lower-income earners, while the other proposed enacting an additional income tax bracket for high income taxpayers.

EITC: Restoring North Carolina's Earned Income Tax Credit (EITC) had a little more than half of the group's support. Arguments in favor of an earned income tax credit were that it encourages work and allows those who earn less to keep more of their income for supporting their families and possibly saving. Downsides of the EITC were individuals could misuse the policy through fraud or taking inappropriate advantage of it. However, members were split about whether fraud was a valid reason to not enact the EITC explaining that fraud could be an issue with any exemption or credit in the tax code.

Earned Income Tax Credit (EITC)



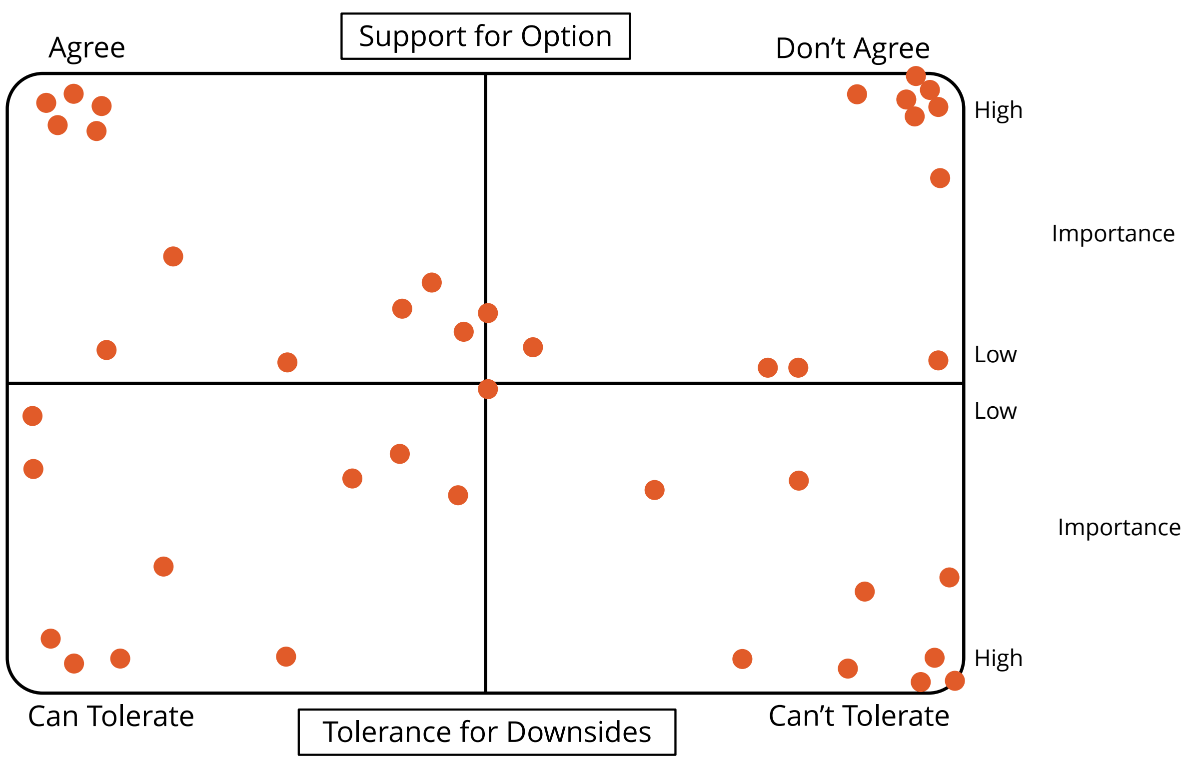
Some opponents also generally oppose complexity in the tax code through tax credits and other exemptions. Those that opposed it were not in strong opposition to the proposal. Most of the participants agreed that the EITC did not discourage work, which reduced opposition to the policy.

Adding A 6% Bracket for High Income Taxpayers: Participants' support and opposition for increasing the income tax on those who earn in the highest income bracket (participants discussed both the top 5% annual income bracket and those who earn above $500,000) was almost evenly split, with many people in the middle. Despite the division, most participants thought this policy seemed fair and that those experiencing the additional tax would not be greatly harmed.

Those who supported the proposal argued that taxing the top-earners is the easiest way to build progressivity into the system because it taxes the people that have the most income. Moreover, it addresses the issue at its core since income is growing fastest in the top 1%, and this high-income group pays the lowest share of their income in state and local taxes.

Downsides included the risk of high-income earners leaving the state. Those opposing the proposal also asserted that this could hamper North Carolina's growth because it could stop high-income earners and corporations from moving to the state. Additional downsides expressed were that this policy would not help poor people, and that it could disincentivize people from being successful.

6% Income Tax on Those Earning over $500K



North Carolina Revenue is Not Adequate to Cover Transportation, Education, and Other State Needs

The group considered five key proposals to address the adequacy of State revenue to meet the State's needs:

- Use $2B of 2022 surplus (unallocated funds) towards a revolving fund for school capital construction and renovation;
- Reinstate developer impact fees;
- Use more toll roads and lanes;
- Tax vehicle miles traveled (VMT) and lower gas tax; and
- Legalize marijuana and gambling to create new revenue sources.

Increase NC Revenue for Transportation, Schools, and Other Needs

Areas of Broad Agreement:

- Use $2B of 2022 surplus (unallocated funds) towards a revolving fund for school capital construction and renovation
- Reinstate developer impact fees

Areas of Varying Degrees of Support:

- Use more toll roads and lanes

Area of Strongest Disagreement:

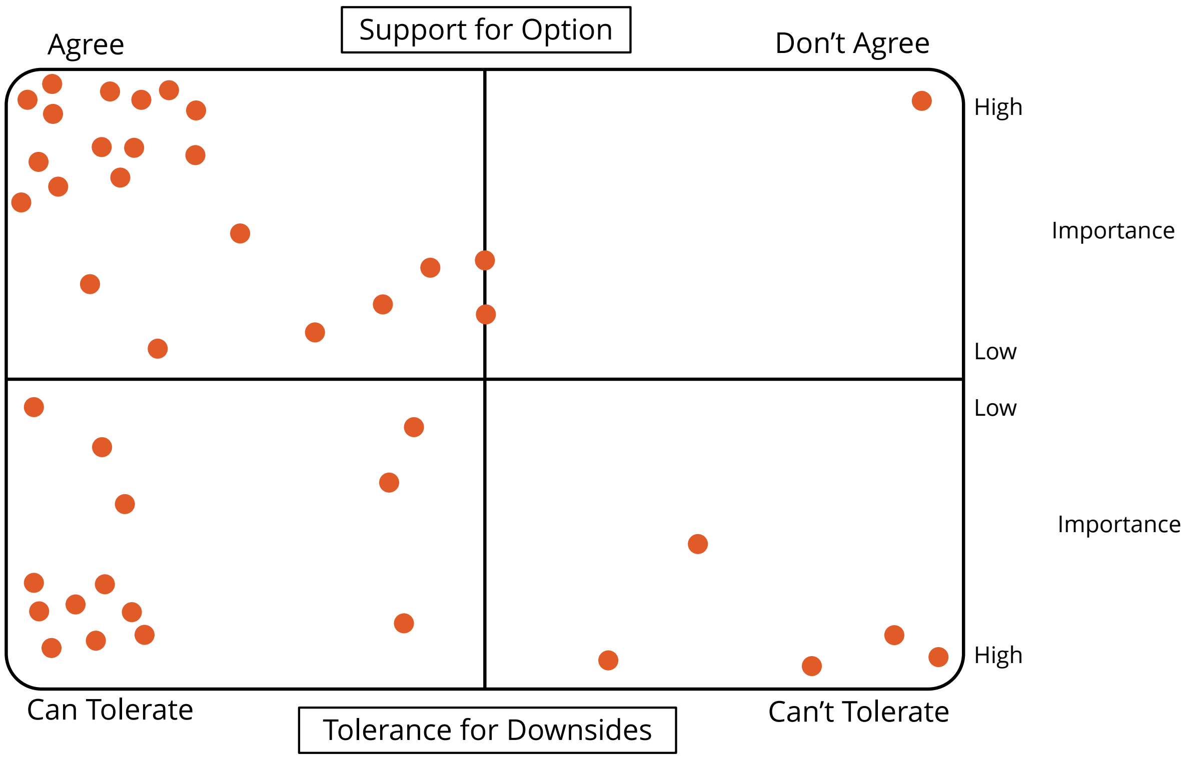
- Tax vehicle miles traveled and lower gas tax
- Legalize marijuana and gambling to create new revenue sources

Revolving School Capital Fund

Participants largely supported the use of putting $2 billion of the 2022 surplus, which are unallocated funds from the most recent fiscal year, towards a revolving school capital fund. They noted that this action would directly bring more money to school "capital," including school construction and renovations. This is an area of education that, when invested in, is greatly visible and positively impactful for students, teachers, and families. Participants also noted that this funding would only need to be allocated and would not need to be a recurring appropriation.

One key concern that did emerge is that it is complex for the legislature to determine which school districts should receive the greatest allotment of this funding, as there are currently a variety of educational capital needs across the state that would benefit greatly from increased state funding. Specifically, many NCLF participants felt that this administrative challenge would divide decision makers along rural and urban lines, as to which region they felt deserved a greater share of the funding. Regardless of these administrative concerns, the group largely favored putting the 2022 surplus towards a revolving school capital fund.

Revolving School Fund



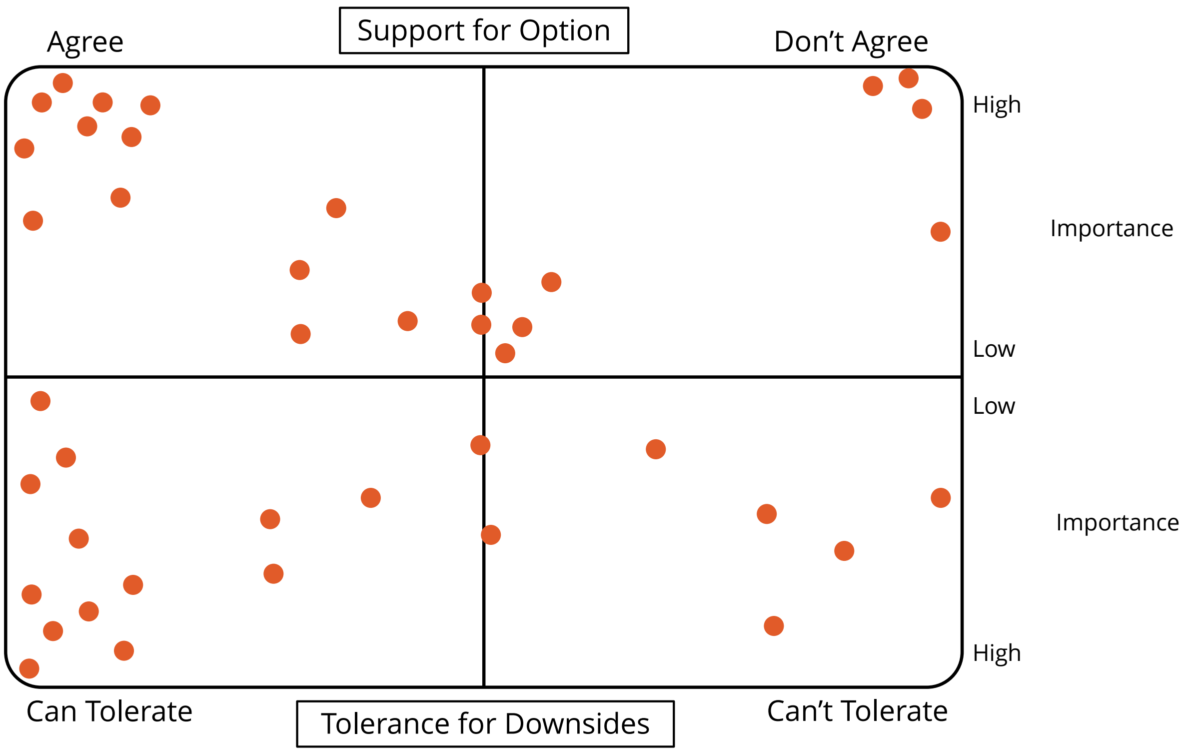
Reinstate Developer Impact Fees

Participants largely supported the use of reinstated developer impact fees (although participants did not vote on a polarity chart). They noted that this action would directly bring more money to support infrastructure, which is currently a barrier that is preventing economic growth in North Carolina's housing markets. Participants also noted that this proposal would alleviate the current pressure of utility rates to fund growth. One key concern that emerged is that this proposal could potentially discourage investment in North Carolina as we could appear less attractive than other states. Continuing along this line of thought, participants suggested that developers would raise their product prices in response to higher fees, thus leading to higher costs for consumers. Despite these concerns surrounding the proposal's impact, most of the group favored reinstating developer impact fees.

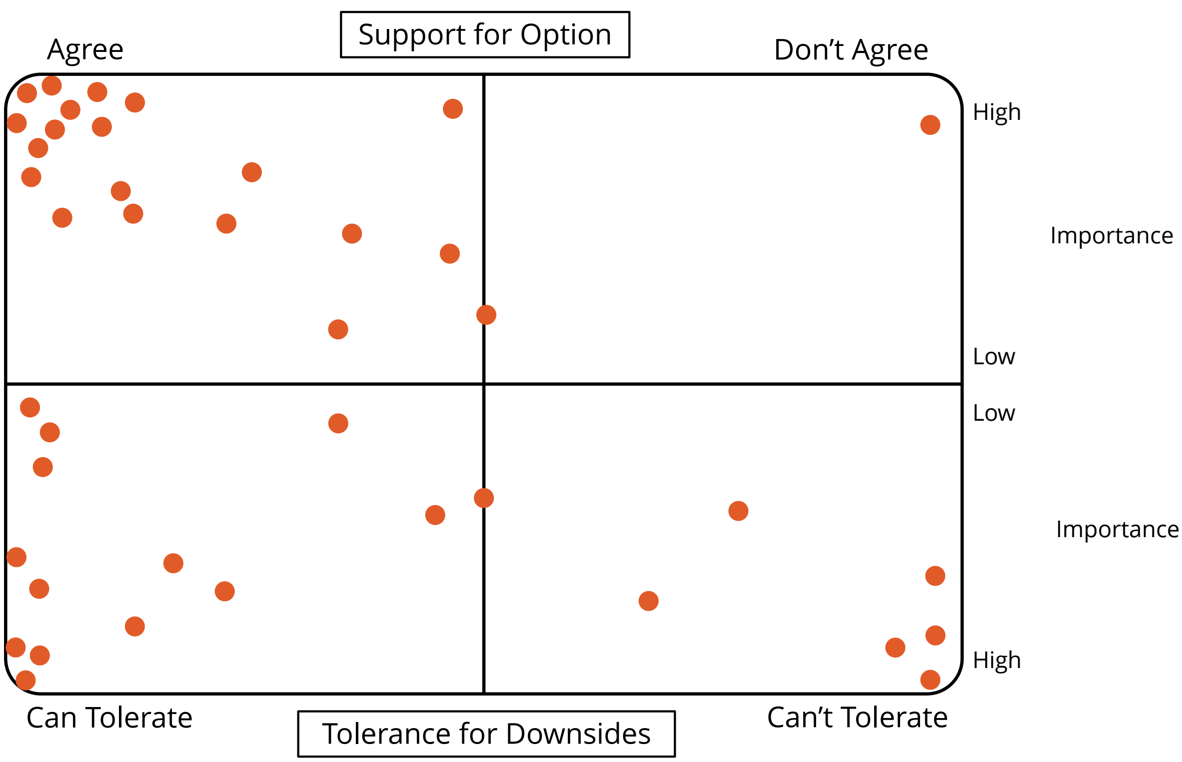
More Toll Roads

Participants mostly supported the proposal to increase the use of toll roads and lanes. Most of the group agreed that this proposal would raise funds to replace the depleting revenue from the gas tax, which has historically been one of the main funding sources to fix North Carolina's roads. They also stated that this proposal would impact the people who are using the roads, therefore North Carolinians would have the freedom of choice to opt in or out. As a downside, a portion of participants argued that this proposal could be regressive, because it adds a negative burden to road users who cannot afford to live close to their place of work. It could cause them to experience increased traffic and longer drive times due to their inability to pay toll fees. Several NCLF participants also noted that increasing toll roads is a proposal that has historically proven to be politically unpopular, and lawmakers could consider this as a downside.

Reinstate Impact Fees



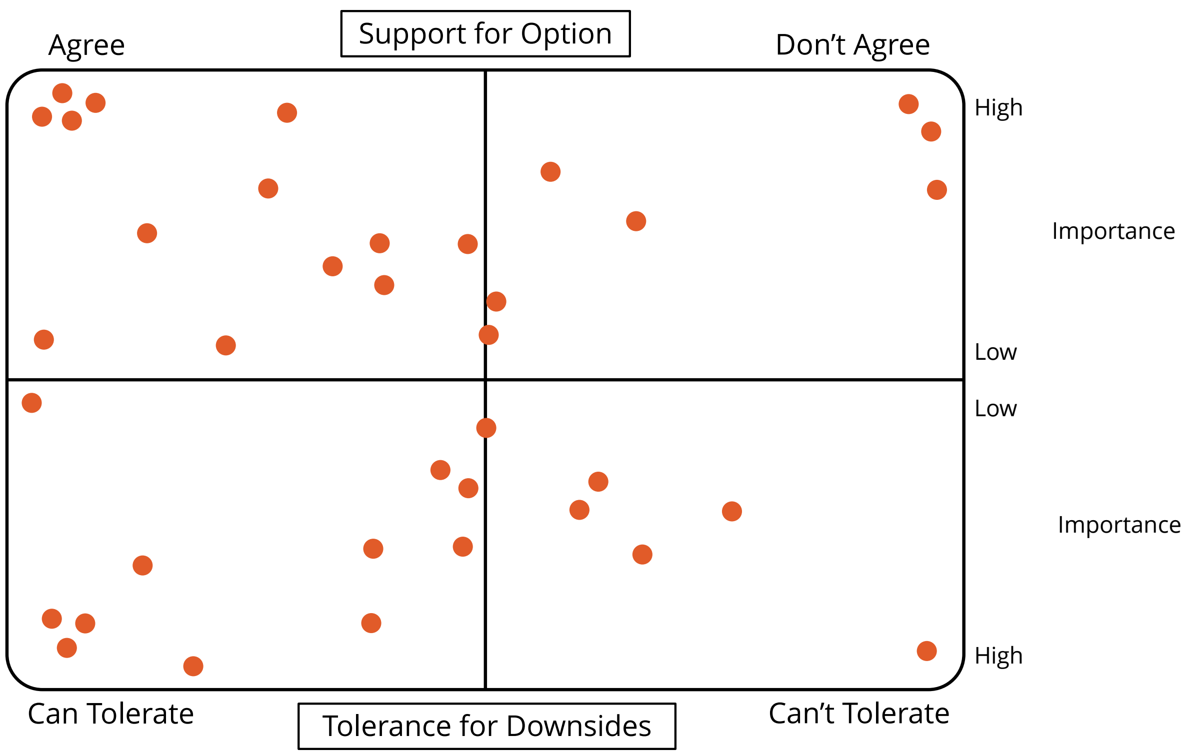
Use More Toll Roads



Tax Vehicle Miles Traveled and Lower Gas Tax

Participants were divided in their support of the proposal to institute tax vehicle miles traveled and lower the gas tax. Participants discussed that this solution would increase the current revenue stream the state is receiving from motorists. Most NCLF participants recognized its benefit of addressing the current loss of revenue North Carolina is experiencing due to the increase of electric, hybrid, and fuel-efficient vehicles. These vehicles tend to belong to higher income North Carolinians. Two downsides discussed were that not all of a vehicle's miles are driven within the state, and this could negatively impact those who travel more miles going to and from work. An additional downside was that the methods needed to institute this solution would be too invasive of people's privacy and that would spark widespread controversy across the state.

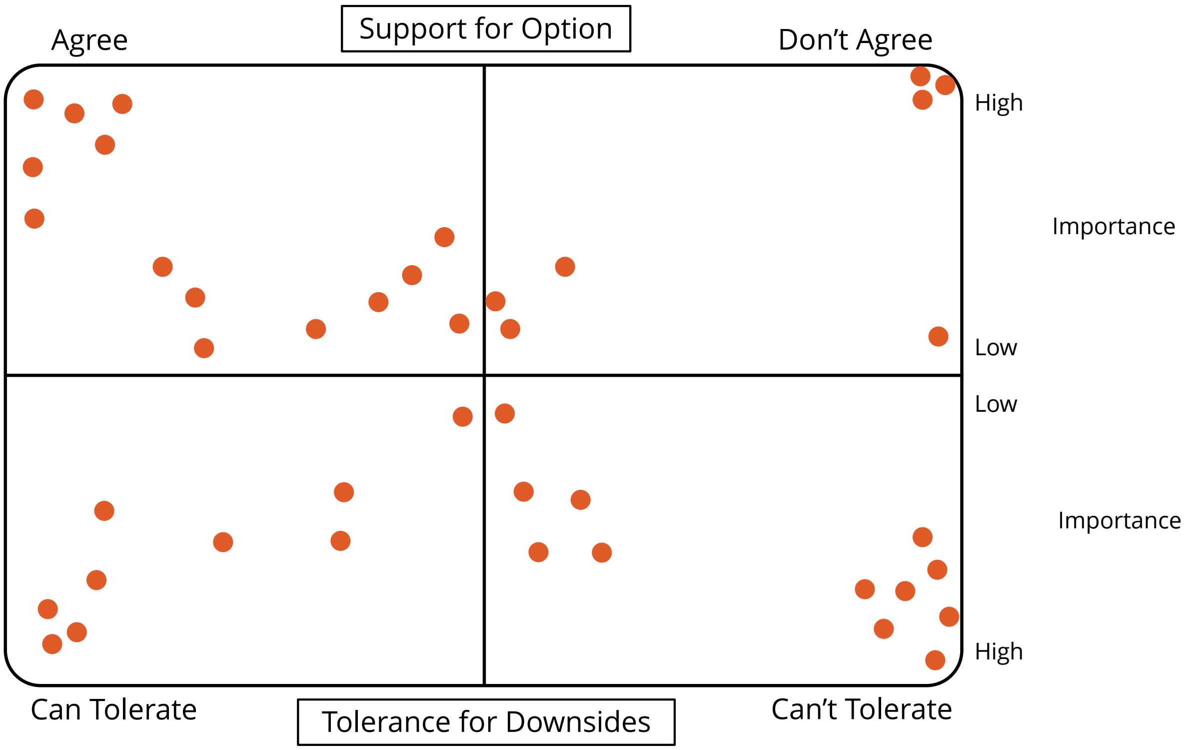
Institute VMT and Cut Gas Tax



Legalize Marijuana and Gambling

NCLF participants were highly divided about legalizing and taxing marijuana and gambling for the benefit of increased state revenue. During discussion, participants widely agreed that this proposal would boost state revenue and would fall in line with the current trend of legalization happening across the country. They also noted that earlier legalization would allow North Carolina to invest in economic infrastructures and workforce development to be successful in the growing industry and, in turn, lessen the burden of low-level drug offenses in North Carolina's criminal justice system. Regardless of the widely agreed upon benefits, a significant portion of participants did not ultimately support this proposal because of its downsides. Participants believed that legalization of marijuana in particular would encourage drug abuse and impact a larger portion of North Carolinians, and other participants

Legalize Marijuana and Gambling



shared concerns about the harms of increased gambling. Several NCLF participants also noted that they don't believe this proposal is realistic due to the intense oppositional lobbying that would occur from the industry profiting off current criminalization. For these reasons, legalizing and taxing marijuana and gambling had divided support despite the agreement among participants that it would generate significant revenue.

Counties Rely Too Heavily on Property Tax

As NCLF's revenue cohort discussed the concern that counties rely too heavily on property tax, the resulting proposals tackled a variety of approaches: having the state take on more funding obligations of state entities like schools and courts, having the state paying make payments to local governments for state-owned property that isn't subject to property tax, and giving localities the ability to levy new kinds of taxes on their own to meet localized financial needs.

In this context, the group considered three key proposals:

- State should **make payment in lieu of taxes** for state owned property, conservancies, and more.
- State should **fully fund obligations** for courts, education, and more.
- **Allow localities to levy** income or payroll tax.

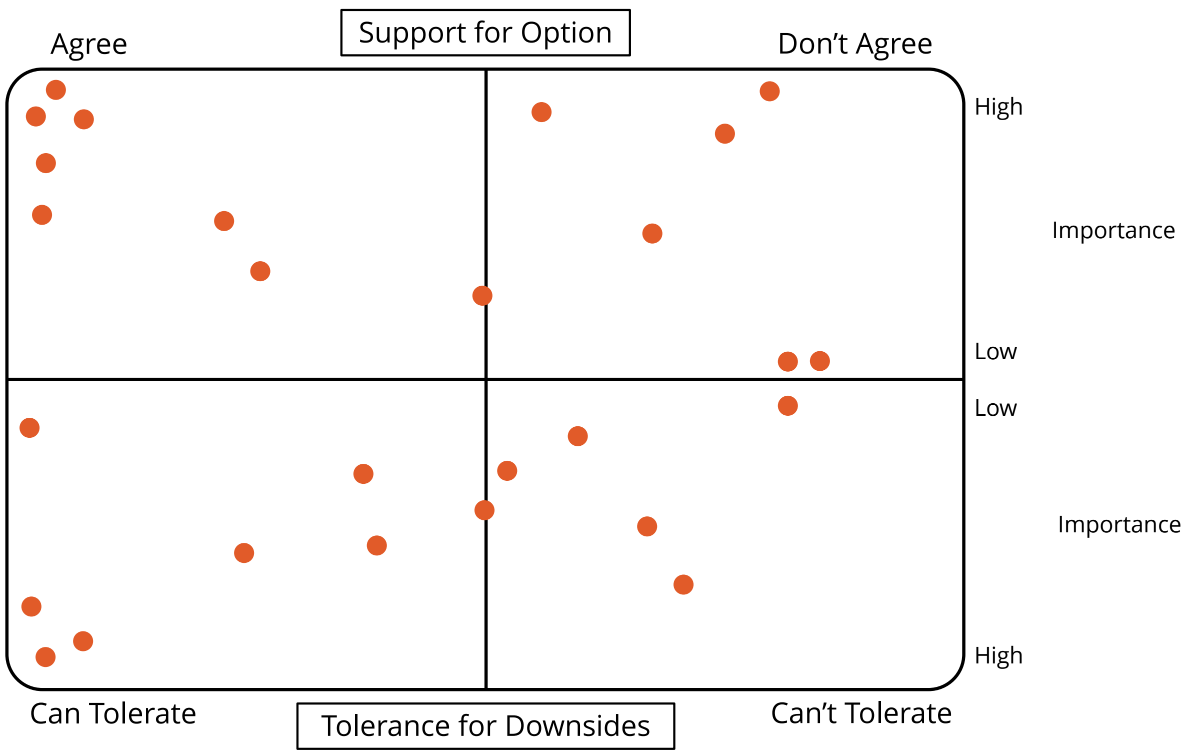
Overall, the cohort was largely divided on all the above proposals, in part because, notwithstanding the benefit of reducing reliance on property tax, a substantial portion of the cohort does not believe that the state should take any more funding responsibility away from localities. Thus, the polarity charts show division in support for all three proposals.

State Payment in Lieu of Taxes

This proposal would provide some form of payment to localities for state-owned property. Since state-owned property does not contribute to the property tax base and is also unavailable for sale for residential or commercial use, the payment would provide some form of financial support for local services dependent on county property taxes, including public safety and schools. For example, Wake County, which houses the state capital, contains much state-owned property and would benefit from this solution.

Examples were also given of several economically distressed counties in western North Carolina that have large tracts of land that are state or national parks. Several NCLF participants noted that although land used for parks is not available for sale and doesn't generate property taxes, it does bring in tourists to the area and generates sales tax revenue that way.

State Payment in Lieu of Taxes

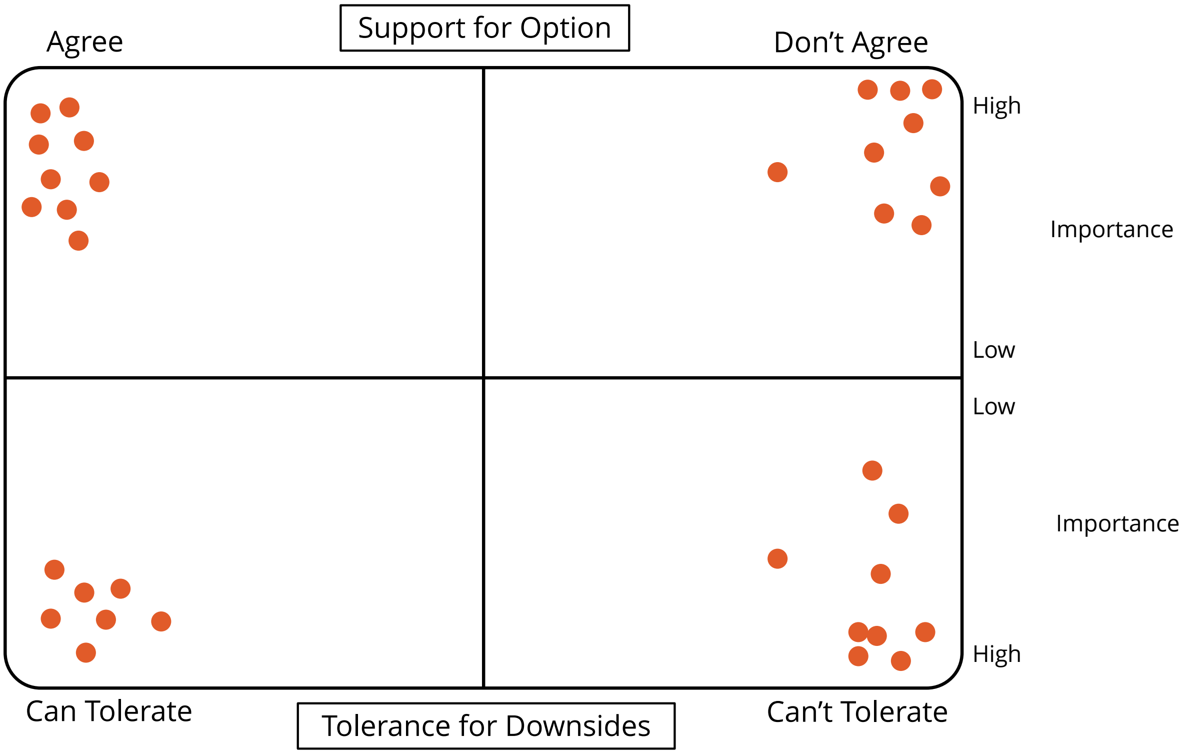


Allow Local Governments to Levy Income or Payroll Tax

Participants were about evenly divided on this proposal both on support for the benefits and tolerance for its downsides. NCLF participants interpreted the proposal to mean that localities could use this ability to levy payroll taxes. Several NCLF participants cited examples of this solution working effectively, like the relationship between D.C. and Northern Virginia.

This would generate more tax revenue from people who travel into a county where they work from a county where they live. An income or payroll tax would pay for local services that support workers, such as roads and public safety. Several NCLF participants cited a potential downside that this could

Local Income/Payroll Tax



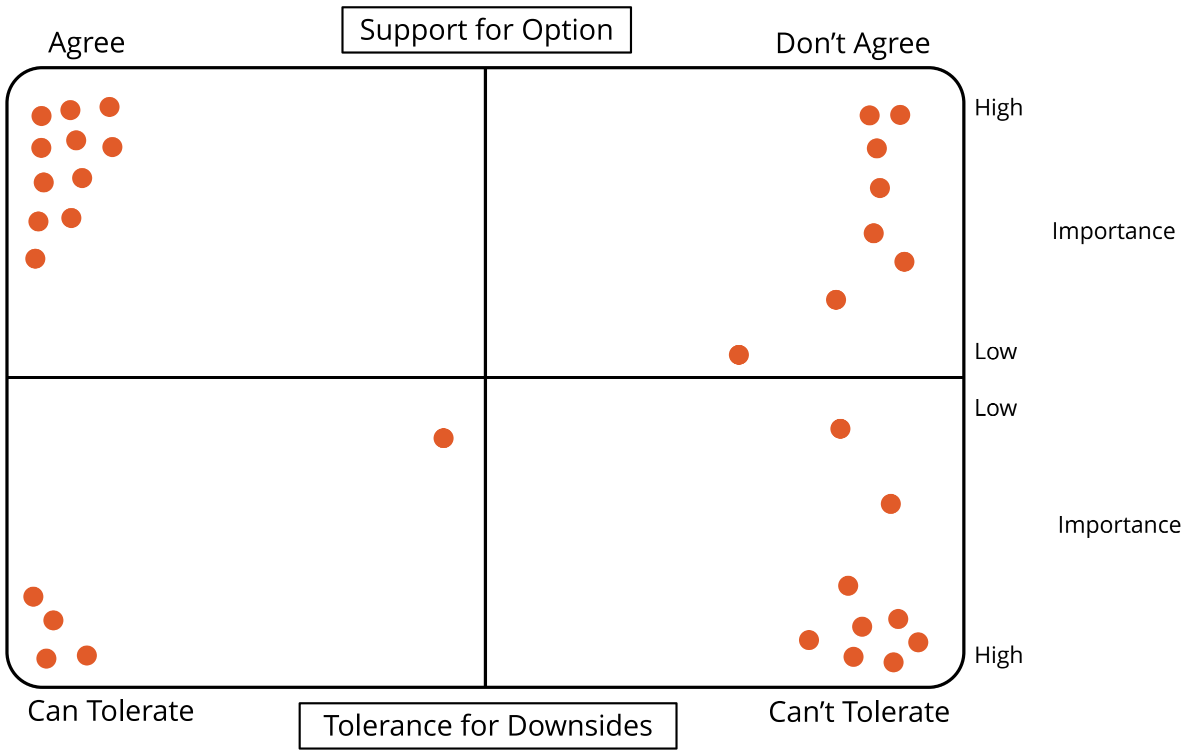
technically allow local governments such as school boards to levy taxes, which they believe could potentially cause negative outcomes. Others were concerned about the increased burden this kind of local tax could place on businesses and workers.

State Fully Fund Obligations

Participants were sharply divided on this proposal. It prompted a robust discussion on the role of the state in funding local services like the courts and education, which are mandated by the state but are a local responsibility to deliver. There was strong disagreement about the expectation that local government should shoulder responsibility for paying for education and other local services, and the ability of local governments to manage the cost for adequate services. There was further disagreement about what level of service is sufficient and whether localities should be similar or differences are acceptable (i.e. if localities with less income should have less well-resourced schools).

In thinking through potential solutions to this core difference, NCLF participants briefly discussed whether the General Assembly could facilitate a process to allow smaller local governments to enter into cooperative arrangements to fund and share basic services and resources like hospitals, fire stations, policies forces, and more. Many of these services are difficult for small, rural localities to support on their own, so this innovative solution is a promising possibility that NCLF participants thought were worthy of further discussion.

State Fully Fund Obligations



The State Has Historically Used Too Little Debt, or Has Not Used Debt Appropriately

North Carolina has one of the lowest debt per capita in the US, and historically, the state has used less debt than its debt capacity allows. In general, states use debt and revenue to finance capital projects. There are advantages and disadvantages to each method of funding. Using debt to fund a large, expensive project allows states to spread out the cost across generations of taxpayers. Determining how much debt a state can afford is a difficult task, and states approach this in different ways. Most states use data to create debt affordability studies to determine the debt capacity for their state. According to Pew Research, North Carolina is among leading states in producing substantial debt affordability studies that provide policymakers with a clear picture of the state's debt.

Change NC Use of Debt

Area of Broad Agreement:

- Allow more localities to cooperate and pool resources to issue debt together

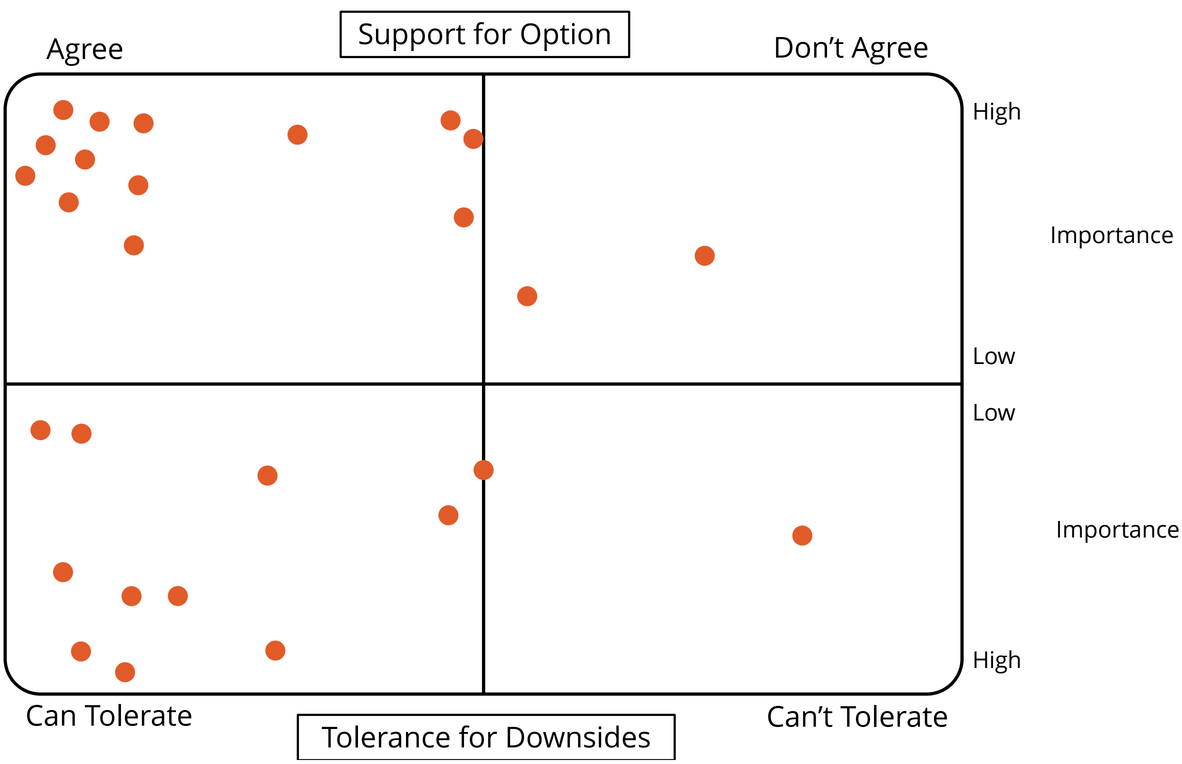
Area of Varying Degrees of Support:

- Change current criteria for debt affordability
- NC should fund its building construction and renovations with more debt instead of cash

Allow More Localities to Cooperate and Pool Resources to Issue Debt Together

This proposal had high levels of agreement and tolerance. Participants recognized the benefit that co-ops would help smaller, rural counties to provide more robust services to their residents. The downsides of this proposal included the potential failure of partnerships among counties. For example, counties working together may run into trouble finding a consensus and holding each other accountable. Some counties might become free riders on others. The majority of participants agreed and tolerated the downsides of the proposal. No participants strongly disagreed with the idea or found its downsides highly intolerable.

Allow Regional Co-Ops to Issue Debt

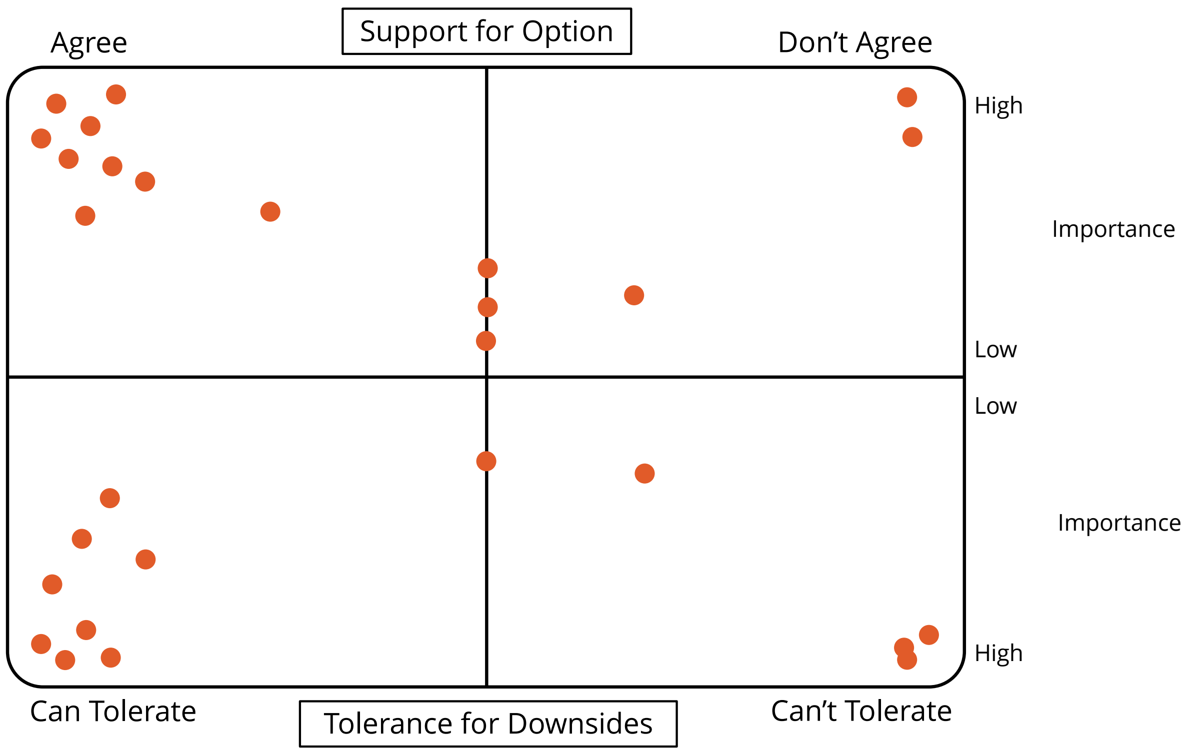


Change Current Criteria for Debt Affordability

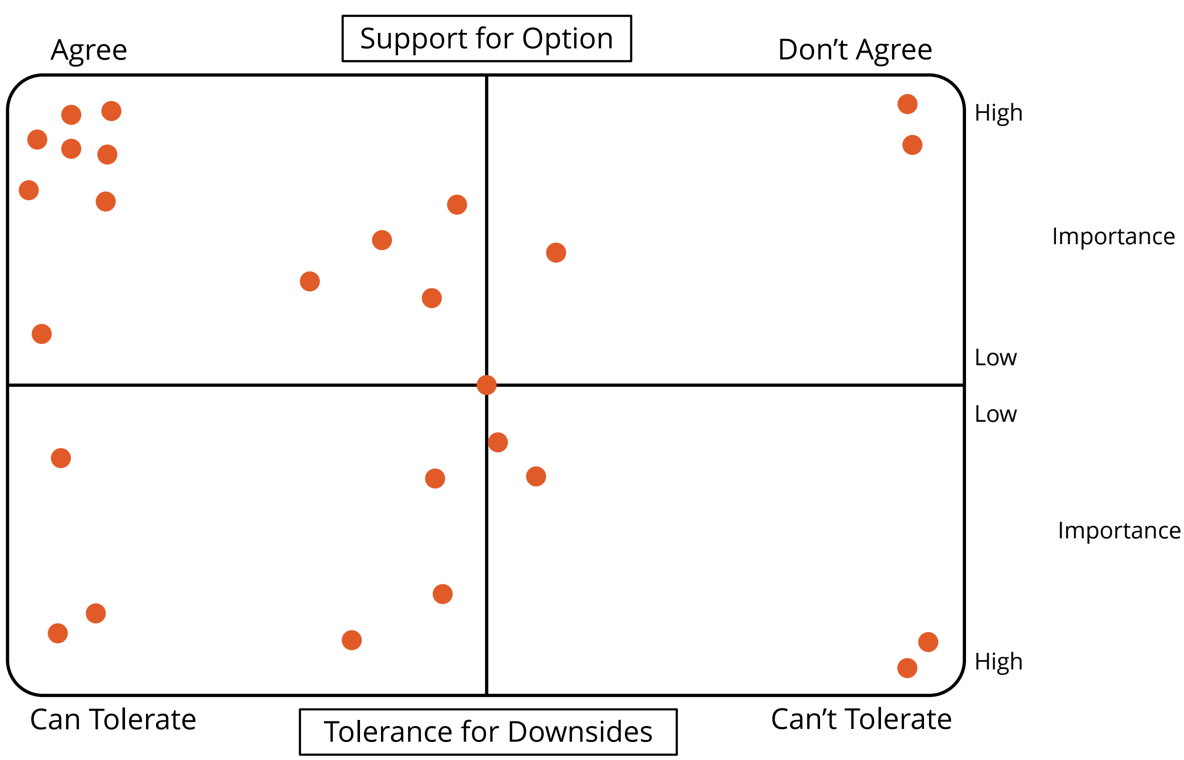
States use varying criteria to determine their capacity to afford debt. Of the 27 states that conduct debt affordability studies, most use debt service/revenue, total debt/state personal income, debt per capita, and debt/state GDP. North Carolina is one of only two states that separates out its transportation debt, allowing only transportation revenue to service transportation debt.

Participants discussed altering this transportation-debt policy. They also explored allowing the state to take on more debt generally. One benefit might be speeding up existing transportation projects or allowing more to begin. Downsides expressed were that taking on more debt could hurt the state's bond rating. Despite this concern, there remained significant agreement for changing the debt affordability criteria and tolerating its downsides.

Change Debt Affordability Criteria



Fund Buildings with Debt, Not Operating Funds



NC Should Fund Its Building Construction and Renovations With More Debt Instead of Cash

The main benefit expressed for this proposal is that borrowing money now to build long-lived assets requires those who benefit from the assets—including future generations of taxpayers—to contribute to paying for the costs. In opposition to this concern is that the people shouldering the debt burden may not be participants in deciding to take on the cost in the first place. A second concern is the higher cost that comes with debt finance vehicles. The result was that while several participants strongly supported this proposal, both the degree of support and the tolerance for the downsides were mixed.

What We Learned

What Participants Gained from and Valued about the Process

The primary goal of NCLF is to shape how our participants view themselves as leaders and how they engage with other leaders with whom they disagree. While much of this report is about the substance of the state revenue discussion, it is important to focus on the impact the program had on its participants. To help assess this, NCLF begins each cohort with a pre-program survey and concludes with a post-program survey. We also ask participants for feedback on the program at our final meeting and in some cases, follow up with participants to ask about how they have changed their behavior months after the program.

About 60% of NCLF cohort participants took our post-program survey, at the final program or via email.

- All respondents agreed with the statement that they “formed new or deepened relationships that they otherwise would not have formed,” with 82% strongly agreeing.
- 94% reported having conversations with someone in the cohort outside of the program whom they had not met previously.

Participants in the NCLF cohort also noted that both in terms of understanding the issue better and better understanding the views of others:

- 100% said they “better understand the values, opinions, or priorities concerning NC revenue held by people with different perspectives than mine.”
- 85.2% agreed that they learned more about the topic of NC revenue and ways to pay for state and local government
- 82.4% said that they “gained skills that will help me engage constructively with people of different views.”
- 70.5% that they “view some issues about NC revenue differently than they did before participating in NCLF.”

Participants shared ways they were planning to engage with more people with different perspectives, by meeting with newly elected representatives of the opposite party, attending a gathering of the opposite party that went well, hosting a bipartisan group of elected leaders quarterly, and by reaching out to NCLF alumni after the program.

Finally, the leaders talked about strategies they learned and appreciated through the NCLF program. One participant said “they realized that anecdotes can tell me the “why” behind a position, and I can connect a story to what they value.” Relatedly, someone said that “sharing more of the personal reason behind my belief was valuable to me. It will help me ask questions for what motivates people.” A third person said, “I realized my assumptions about people need to be questioned. If I take the time to listen to someone's story, I may find out something I didn't know. The program also helped me identify my own personal reasons why I believe something."

Coming out of the process, the leaders emphasized two things they would like to put into practice. First, they saw the value of creating intentional bipartisan small groups to build relationships and tackle issues before proposals to act move forward, valuing a slower process and more discussion. Second, they emphasized the luxury of building relationships and being present to engage with others before a crisis or conflict.

What the NCLF learned

NCLF continued to test new modalities for learning and emphasized small groups, personal stories, and a deliberate process as part of its sixth statewide cohort. We found that participants continue to value the small group and 1-1 interactions, and that they continue to gain a great deal from digging deeper into personal stories and values to explain and understand their own views as well as the views of others. Anecdotally, people continue to express the value to them of forming trust relationships with people they would not have otherwise known. We also learned that getting participants up and moving around refreshed the discussion and facilitated more relationship-building and personal engagement over the course of the program.

We found on the topic of state revenue, we had to encourage participants to reflect more deeply on the root of their views, but that this persistence paid off in enhancing the conversation by the end of the program.

Revenue and state budgeting can be highly technical, and NCLF learned that it is tricky to get people to articulate their values in this context. We also had to navigate challenges of finding expertise that was not viewed as partisan by one group or the other. This was made more complicated because some participants were very knowledgeable about state taxes and some were general policy leaders. Figuring out how to set a baseline of knowledge without bias was, therefore, a challenge. It took time to build trust with everyone in the room and retain their engagement, and trust could be easily lost if facilitators or presenters were seen as biased.

As with prior programs, we also concluded that NCLF could have more impact by repeatedly engaging alumni of our cohorts in additional programming, and 74% of respondents indicated interest in participating in alumni programming. This would enable NCLF to build a network of NC leaders committed to a constructive, respectful, cross-partisan policymaking environment.

Finally, participants expressed strong praise for the program, and on the post program survey, 100% said they would recommend that a friend or colleague who was invited to participate do so. In some cases, they have been interested in working with NCLF to replicate the program in their own region or on another topic area. This enthusiasm has reinforced for NCLF that there is a lack of fora in which leaders can engage deeply on issues, particularly with people who hold different ideological viewpoints or come from different sectors or areas of expertise. These arenas are very needed, and NCLF should continue to fulfill this need.

Conclusion

For our democracy to succeed, policy leaders must be able to work together to create broadly acceptable solutions to our state's greatest challenges. This year's group of NC leaders addressed important concerns related to revenue in NC. They found some solutions they agreed on, some that were negotiable, and some about which they had very significant disagreements. In the process, participants came to understand what values, experiences and perceptions lay under their disagreements, and they came to trust, respect, and perhaps even like each other.

Even in these politically fractious times, it is possible to bring together a widely diverse group of policy leaders and provide them the opportunity to gain the will, skills, and relationships that will enable them to constructively engage with each other in the future. NCLF has provided, and should continue to provide, this opportunity to North Carolina's leaders.

Acknowledgments

NCLF was founded at Duke's Sanford School of Public Policy and is now housed within the Office of the Provost at Duke University and is made possible by the generous support of the Duke Endowment, the John William Pope Foundation, the Z. Smith Reynolds Foundation, Bank of America, and the Hewlett Foundation. Special thanks to Senator Danny Britt and Mayor Scott Neisler and their staffs, who helped to host NCLF in their hometowns. Thank you to Morgan Robertson and Chloe Decker, Duke undergraduate students who provided invaluable support throughout the program and contributed writing to this report. Finally, thank you to Minda Brooks and Amber Rogers for their work on this program and to the NCLF steering committee for their continued leadership and facilitation of the Forum.

Appendix A | Participants

Kristin Baker, NC House

Marcus Bass, Executive Director, Advance Carolina and Deputy Director, NC Black Alliance

Scott Bolin, Entrepreneur and Co-Founder/CEO of NCS

John Bradford, NC House

Danny Britt, NC Senate

Mark Coggins, Director of Government Affairs, NC Chamber of Commerce

Lucy Edwards, President, NC School Boards Association

Dale Folwell, NC State Treasurer

Michael Garrett, NC Senate

Kasey Ginsberg, Vice President/Chief of Staff, Golden LEAF Foundation

Wesley Harris, NC House

Ralph Hise, NC Senate, Deputy President Pro Tempore

Jill Homan, President, Javelin 19 Investments

Tracey Johnson, Chair, Washington Cty Commissioners, President NC County Commissioners Association

Tony Lathrop, Attorney, Moore and Van Allen, Member of NC Board of Transportation

Brandon Lofton, NC House

Fernando Martinez, Inclusive Economies Project Director, United for a Fair Economy

Mark-Anthony Middleton, Mayor Pro Tem Durham & VP of National League of Cities and Municipalities

Scott Neisler, Mayor of Kings Mountain, President NC League of Municipalities

Paul Newton, NC Senate

Vicki Lee Parker-High, Executive Director, NC Business Council

Luis Pastor, CEO, Latino Community Credit Union

Ronald Penny, NC Secretary of Revenue

Mebane Rash, CEO, EdNC

Lee Roberts, Managing Partner, SharpVue Capital, Former NC Budget Director

Jenna Robinson, President, Martin Center

DeAndrea Salvador, NC Senate

Pamela Senegal, President, Piedmont Community College

Alexandra Sirota, Executive Director, NC Budget and Tax Center

Matt Stone, Executive Director, Clinton-Sampson County Chamber of Commerce

Mary Ann Wolf, President and CEO, NC Public School Forum

Appendix B | Full List of Revenue-Related Concerns, As Identified by Participants and Grouped by NCLF

Summary of Concerns Shared

- The current tax system does not allow Tier 1 and 2 counties to have enough revenue to meet their needs
- State and local governments rely on property tax too much
- The tax system is not progressive enough
- The current mix of taxes does not make North Carolina competitive for business or population growth
- The current tax system puts too much burden on people who are successful
- Tax incentives are overused and do not produce the desired results
- The current tax system is too complicated
- The current system is not adequate in the long term to meet the state's needs for road, schools and other essential services
- The state has historically used too little debt (or, we need to make better use of debt in a low-interest environment)

Detail (individual concerns + categories as grouped during meeting):

- **INFORMATION:** Do people know enough, understand it?
    - Public isn't informed about or doesn't understand NC's tax system
    - Lack of understanding about tax policies and preferences
    - Taxpayers aren't sure what they are getting for what they pay
    - On taxes, what people hear and what they see don't match up
    - Taxpayers aren't getting enough return on investment from taxes they pay
    - Public officials don't talk enough about the sales tax and how much it costs
    - Taxes fund things that some taxpayers don't like
- **LOCAL/STATE**
    - Property taxes surging in high-growth counties
    - Education opportunities for children differ a lot across counties
    - Medicaid expansion needed for rural hospitals / counties
    - Local governments don't have enough tax base to finance school construction or other local responsibilities
    - Should poor counties get a higher distribution of gas taxes
    - County funding of education inherently differs—which means that educational opportunity isn't equal
    - Average families in rural areas are squeezed by taxes, other costs
    - Rising property taxes & revaluation can fall very hard on specific neighborhoods and households
    - Allowed uses of occupancy taxes are too narrow
- **TAXATION OF BUSINESS AND ECONOMIC ACTIVITY**
    - Tax breaks for business don't really end up helping small business
    - Small v large; don't do what promised; what do they get
    - Companies get tax breaks but aren't required to create jobs
    - Income taxes should be phased out over time

    - Capital gains interferes with reinvestment / growth
    - Need more creative tax policies that benefit small businesses
    - NC tax system needs to be competitive with other states
    - Workers comp fees are costly; hurt business and are too confusing
    - Abolishing corporate taxes might generate broader social benefits
    - Franchise tax hits net worth instead of profit, hurts companies when they have bad years
    - Do tax incentives really create jobs and economic opportunities
    - State values business over people
    - State focuses more on recruiting new business than helping existing business thrive
- FAIRNESS
    - Tax system is inequitable / regressive
    - Everyone should pay at least a little in taxes
    - Tax system shouldn't subsidize "success" or economic privilege
    - Working families have a higher tax burden than more affluent families do
- ADEQUATE
    - NC tax system does not provide adequate funding for K-12 education
        - Teachers buying school supplies shows that tax system is inadequate
    - Distribution of education funding isn't equitable
    - Public employees are increasingly unable to afford living in communities they serve
- INFRASTRUCTURE
    - Electric vehicles will cut into tax revenues for highway needs
    - Are water/ sewer fees adequate to fund infrastructure?
    - Need more tax options to promote and sustain public transportation
    - State doesn't make enough use of debt to fund infrastructure
    - State uses too much debt to fund services
- OTHER
    - Gimmicky new revenue sources (e.g., Lottery) do not operate as advertised or generate promised revenue
    - Should religious organizations be tax-exempt?
    - State lottery is regressive
    - Funding for community colleges across the state is inequitable and hard to manage
    - NC is experiencing increases in homelessness
    - Nonprofits, sports operations owned by universities do not generate enough revenue in lieu of taxes
        - Are the tax preferences they receive proportionate to the benefits they receive
    - Coupling of state tax system to federal tax system can be difficult and controversial
    - State has gotten too reliant on federal funds

Endnotes

[1] Dan Gerlach, The Future of North Carolina Revenue State and Local Options for the Next Few Decades, NC Economic Development Association Foundation (2022), available at https://www.nceda.org/wp-content/uploads/2022/11/Future-of-NC-Revenue-Report-and-Executive-Summary.pdf.
[2] For a more detailed history, see Katherine Loughead, "North Carolina Reinforces Its Tax Reform Legacy", Tax Foundation (December 2021), available at https://taxfoundation.org/blog/north-carolina-tax-reform-2021/.
[3] See, e.g. https://www.ncsl.org/Portals/1/Documents/fiscal/Moodys_Analytics_2.2021_Stress-Testing_States_COVID-19-A_Year_Later.pdf; and https://www.bpr.org/news/2021-04-05/north-carolina-municipial-budgets-rebound-from-covid-19-slump-that-could-have-been-worse#stream/0.
[4] North Carolina General Fund Revenue Consensus Forecast: May 2022 Revision, available at https://sites.ncleg.gov/frd/wp-content/uploads/sites/7/2022/06/2022.05.09-Consensus-ReportWebFinalVersion.pdf.

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