

Ten Things to Know About the 2014 North Carolina Legislative Session

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The North Carolina General Assembly has completed its 2014 session. During this “short session,” Legislators focused primarily on adjusting the second year of the State budget enacted last year, but also considered a number of other important issues. Here are some highlights from this year’s session:

Spending edged up.

General fund appropriations for FY 2015 are about \$21.1 B, which is an increase of two percent from FY 2014 appropriations. The FY 2015 amount is below the pre-recession appropriation of \$21.4 B in FY 2009.

The rewrite of the State tax code continues.

Legislators made more changes to the State tax code, following a significant tax overhaul last year. For corporations, the deduction for those with net losses was changed from a “net economic loss” approach, in which losses are deducted from all sources including non-taxable income, to an approach similar to “net operating loss” under the federal rules where allowable deductions are compared to taxable income and net losses are carried forward. This makes the North Carolina treatment of operating losses consistent with the federal approach and most other states.

In response to complaints that local governments—especially cities—were imposing burdensome privilege taxes on businesses, Legislators repealed the authority to levy this tax effective July 1, 2015. This issue may be considered again next year given the loss of revenue for local governments. They also imposed a new tax on “vapor products,” which includes electronic cigarettes.

Another issue that was discussed this year and will likely be discussed in 2015 is the continuation of various economic incentives. Some support them as a way to ensure that North Carolina is a national player in business recruitment and economic development. Others see incentives as unfair to existing taxpayers and inconsistent with the movement towards flattening and lowering tax rates while eliminating exceptions and “loopholes.” Such incentives include the Job Development Investment Grants (JDIG), the tax credit for film production (which was converted this year to a grant program), and a proposed new Job Catalyst Fund.

Teacher salaries were raised and educational standards are being reexamined.

Legislators raised salaries for K-12 teachers by an average of 7 percent with a State funded starting base salary of \$33,000. Educators at community colleges and UNC will also get raises.

Legislators moved to replace the Common Core educational standards by creating the Academic Standards Review Commission, which will review existing standards and propose modifications to the State Board of Education. The Commission is scheduled to complete its work no later than the end of 2015.

Privatization of State economic development functions is proceeding.

Acting upon Governor Pat McCrory's recommendation, Legislators passed a bill to privatize many of the Department of Commerce's economic development functions. A new nonprofit corporation will take over these functions, be overseen by private sector members, and receive funding from both State and private sources. The bill also creates new "Prosperity Zones" to spur economic development collaboration in different regions of the State.

Coal ash pond regulation was strengthened and "fracking" was expedited.

Legislators enacted a law regulating the storage and cleanup of coal ash generated from electricity production in response to the recent Dan River spill. Among other provisions, the law creates a new commission to oversee compliance by electric utilities and requires the Department of Environment and Natural Resources to classify and prioritize current coal ash impoundments in North Carolina according to the associated risk for contamination.

The General Assembly also passed additional provisions to facilitate the exploration of natural gas using hydraulic fracturing (often called "fracking"), which could begin as early as 2015.

Laws affecting litigation and the courts were enacted.

Legislators made some changes affecting certain litigation. To discourage "patent trolls," they enacted a bill outlining the Attorney General's ability to pursue these parties and providing additional litigation options for the "targets" of these trolls. Members also clarified the jurisdiction of the Business Court and altered State law on holding company reorganizations. In addition, they clarified the length of time during which those impacted by groundwater contamination, such as those at Camp Lejeune, may seek remedy in State court.

Some significant changes were made in State government structure and more may be on the way.

The State Bureau of Investigation, which was formerly under the Department of Justice and the Attorney General, was moved to the Department of Public Safety, which reports to the Governor. More State government structural changes may be on the horizon since a government efficiency and reform group under the Governor's Budget Office is expected to make additional recommendations to the 2015 General Assembly.

A law to govern the use of “drones” was enacted.

The General Assembly passed legislation to regulate the use of unmanned aircraft (often referred to as “drones”). The legislation takes into account privacy concerns – for example, prohibiting the use of drones for surveillance without a person’s consent – while also addressing government use, and putting into place a licensing infrastructure similar to that required to operate a motor vehicle. The regulatory framework has mechanisms in place to ensure consistency with future federal actions on the subject.

Medicaid reform and some other health care issues will wait until 2015.

After discussing various ways to reform Medicaid, Legislators decided to wait until 2015 to overhaul this program. Both houses agreed that changes are necessary and considered differing managed care approaches, with the House and the Governor favoring a provider-led ACO model and the Senate favoring a competitive model where provider networks would compete with health insurance company managed care plans. Members had considered a special session on this topic in November but decided instead to consider it next year. In addition, bills related to chiropractor co-pays and health insurance coverage for autism and oral anticancer drugs were introduced, but not enacted, and may be considered in the 2015 session.

All 170 Legislative seats will be on the November ballot.

Although Republicans are favored to retain their majorities in both houses after the November election, Democrats have a goal of gaining enough seats to change the current veto proof majorities held by the Republicans.

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