

Ten Things to Know About the 2015 North Carolina Legislative Session

10.06.2015

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The North Carolina General Assembly has completed its 2015 session after being in Raleigh for over eight months. Legislators considered hundreds of bills, with most time being spent on the budget bill which guides state spending over the next two fiscal years. Here are some highlights from this year's session:

Taxes were lowered.

After making substantial changes to the state tax code in 2013 and 2014, legislators this year continued rewriting tax laws. The corporate income tax rate, which was 6.9% in 2013 and is now 5%, was reduced to 4% for 2016, with a possible reduction to 3% in 2017 based on state revenue collections. In addition, the formula used to calculate the income tax of corporations doing business in multiple states will move from the current three factor formula (payroll, property, sales) to a single sales factor. This change will be phased in over three years and is expected to benefit companies with large employment bases in North Carolina.

The personal income tax rate was reduced from the current rate of 5.75% to 5.499% in 2017. Legislators also expanded the state sales tax to cover repair, installation and maintenance of tangible personal property and certain motor vehicles.

Spending increased slightly.

General Fund appropriations for FY 2016 are about \$21.7 billion, which is an increase of 3% from FY 2015 appropriations. The FY 2016 amount is similar to the pre-recession appropriation of \$21.4 billion in FY 2009.

The three largest categories of General Fund spending are education (57%), which includes K-12, community colleges and UNC; Medicaid (17%); and public safety (11%), which includes corrections, juvenile justice and the Highway Patrol.

Funding for K-12 education and teachers was addressed.

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Legislators raised starting salaries for K-12 teachers from \$33,000 to \$35,000. Educators (and state employees) will receive a \$750 bonus.

They appropriated \$14 million over two years to increase broadband connectivity to K-12 schools and to enhance internal Wi-Fi networks within them, \$20 million annually to expand reading camps for first and second graders as part of the Read to Achieve initiative, and increased funding for textbooks and digital resources. In addition, funding for teacher assistants and driver's education was continued.

Action was taken on economic development and tax credits.

Legislators considered a number of economic development issues, including tax credits, funding and incentives. The decision on many of these matters hinged on the philosophy of the members. Some support them as a way to ensure that North Carolina is a national player in business recruitment and economic development. Others see them as unfair to existing taxpayers and inconsistent with the movement towards flattening and lowering tax rates while eliminating exceptions and "loopholes."

They provided funding for the Job Development Investment Grants (JDIG), appropriated \$30 million annually for the Film and Entertainment Grant program, and increased funding for the North Carolina Biotechnology Center. They also enacted a sales tax exemption for electricity and certain equipment purchases at qualifying data centers.

Two tax credits seen by many as spurring job creation—the renewable energy tax credit and the research and development tax credit—were not extended and will expire at the end of 2015. A credit to encourage historic preservation was restored after expiring earlier.

Transportation funding was increased.

At the urging of Governor Pat McCrory and many in the business community, legislators took a number of actions to increase transportation funding. They stopped the transfer of over \$200 million from the Highway Fund to the General Fund (where it had been used for non-transportation purposes), changed the motor fuel tax rate to produce a more stable source of revenue, and increased various DMV fees.

Voters will consider a statewide bond issue in March 2016.

At the urging of the Governor, legislators approved a \$2 billion bond package that will go before voters in March 2016. The statewide package focuses on infrastructure and includes \$980 million for UNC, \$350 million for community colleges, \$310 million for water and sewer infrastructure, \$75 million for state parks, and \$70 million for National Guard buildings.

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A bill to reform Medicaid was enacted.

One of the largest parts of the budget is the state share for Medicaid (17% in FY 2016). In order to bring more budget certainty to this program, legislators enacted a reform bill that will create a hybrid model in which commercial plans (typically insurance companies) and provider-led entities (hospitals and physician groups) will compete to run the program. There will be three statewide contracts and up to ten contracts in six regions. Once implemented, North Carolina's plan will resemble plans in a number of other states that shift financial risk to private sector entities. The move to full capitation—that is, when the commercial plans and provider-led entities bear the financial risk for Medicaid—will be 18 months after approval of the plan from federal authorities. This could be in 2017 or even 2018.

The state government organization chart was rearranged.

Governor McCrory recommended a number of actions to reorganize state government, and legislators approved them. They created a new Department of Information Technology, which will assume the functions of the current Office of Information Technology and have responsibility over information technology in Cabinet-level agencies, and a new Department of Military and Veterans Affairs. They also moved the natural resource divisions, including state parks, from the Department of Environment and Natural Resources to the newly renamed Department of Natural and Cultural Resources.

The 2016 primary elections were moved to March.

Primary elections have traditionally been held in May. Legislators took action to move the state's presidential primary to March, and along with it, primaries for statewide offices and all 170 legislative seats.

The next session will be in April 2016.

After a long 2015 session, legislators are scheduled to next return to Raleigh on April 25, 2016. In the interim, a number of them will be working on various oversight committees covering a variety of areas including education, health and human services, justice and public safety, and transportation.

For more information, contact a member of the Brooks Pierce government affairs team at 919.839.0300 or 336.373.8850.

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** Government Relations and Policy Advisors Elizabeth Biser and Chris McClure are not licensed to practice law, and they do not provide legal advice.*

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