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Legislative Report
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Senate Republican leaders announced Wednesday that they have agreed to remove policy proposals for handling sales taxes and revamping Medicaid from budget negotiations in an effort to speed a budget deal with the House. Senate President Pro Tem Phil Berger (R-Rockingham) said his chamber will pursue a separate economic development bill (discussed below) and a separate Medicaid overhaul bill. That means the two chambers will not have to reach agreement on job incentives, Medicaid changes or a plan to change how sales taxes are distributed among counties, before they can pass a budget. "We are at a point where the budget hasn't been adopted and we're trying to see what efforts can be made to move things forward," Berger said. "It is our hope and our expectation that by doing that, we remove what has been represented as an impediment to our moving forward with the budget. That will leave us with the question of how much to spend." The legislature is facing an August 14 deadline to pass a budget or approve another temporary budget if talks drag on. Berger said he hopes the final spending plan can be passed by that date. Representative Nelson Dollar (R-Wake), the senior House budget negotiator, was less confident Wednesday. "I think the enormity and complexity of issues that are still remaining in the budget would make that a very challenging goal," he said.

The House gave initial approval Wednesday to place a $2.85 billion bond issue before voters next March, to fund infrastructure projects such as university and school construction and $400 million toward transportation. An additional $1.3 billion in transportation projects would be funded through budget allocations without borrowing, under the House plan. The bill, House Bill 943, Connect NC Bond Act of 2015, passed the House Wednesday by a vote of 79 to 30, however 21 Republican representatives voted against the bill. The bill received its final approval in the House on Thursday by a vote of 76 to 29 and was sent to the Senate for consideration.

The Senate Finance Committee on Thursday approved legislation that would put on statewide ballots in March three proposed constitutional amendments to limit state spending and bolster savings. Senate Republicans said the amendments would give voters the chance to add protections against over-taxation and wasteful government spending to the North Carolina Constitution. One proposed constitutional amendment would limit annual state spending growth to increases in population and inflation, which would take effect in July 2017. The only way the General Assembly could exceed that spending threshold would be through two-thirds votes of the House and Senate. The second proposed constitutional amendment would create an emergency savings fund for financial emergencies or natural disasters. A two-thirds votes of the House and Senate would be required to dip into the fund, and the Governor would not be allowed to spend money from the fund without General Assembly authorization. A third constitutional amendment would cap the state tax on corporate and personal incomes at 5% beginning in 2020. The N.C. Constitution currently caps state income taxes at 10%, corporate taxes at 5%, and personal income taxes at 5.75%.

Senate Republican leaders rolled out what they said was a major compromise Thursday to address job incentives and a revised plan that would change how sales tax revenue is distributed among counties. The new Senate economic development bill, now separated from legislative budget talks, softens the impact of earlier proposals on the sales tax revenue plan, which had prompted objections from some urban and tourism counties that would lose substantial money. Under current law, the majority of sales tax revenue in each county stays where the sale occurred. Senate Majority Leader Harry Brown (R-Onslow) had called for distributing 80 percent of revenue based on population and 20 percent based on sale location. That plan was met with much opposition from the House and Governor McCrory. The Senate's new proposal would split revenue, with 50% staying in the county where the sale took place and 50% distributed based on county population. The change would take effect in 2016. A breakdown of the revenue impacts for each county, prepared by the legislature's nonpartisan research staff, shows about 80 counties would gain money and 20 counties would lose money, compared with revenue projections made under current law. This bill does not include new sales taxes on services such as veterinary visits, auto repair and pet grooming – as included in the original Senate proposal. It is unclear whether the House will agree to the Senate’s sales tax distribution proposal.

The Senate’s economic development/incentives package would increase the cap on the Job Development Investment Grant, or JDIG. The Senate is sticking to much of its original proposal, which also would require more of the money to go to poorer, typically rural, counties. The House version would raise the cap without imposing location restrictions. The latest Senate proposal would cap JDIG spending at $20 million per year, with an additional $5 million for the current year. The awards would be more generous in poorer counties and most generous for companies investing at least $750 million while creating at least 2,000 jobs. The Senate bill would add tax credits for jet fuel and technology data centers that the House has already approved.

The Secretary of the Department of Transportation and the Secretary of the Department of Health and Human Services both recently resigned from their State posts for other pursuits. Governor Pat McCrory moved quickly to appoint a new secretary for each department. Governor McCrory’s swift action to fill these vacancies was important because each of these State departments have important issues still pending before this year’s General Assembly.

The legislature adjourned on Thursday and will reconvene on Monday August 10.

***<u>Prepared By</u>*: David P. Ferrell, Esq. - NCAI Lobbyist**

VANDEVENTER BLACK LLP
434 Fayetteville Street, Suite 2000
Post Office Box 2599
Raleigh, North Carolina 27602-2599
Telephone: (919) 754-1171
Facsimile: (919) 754-1317
dferrell@vanblk.com
www.vanblk.com

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