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# The North Carolina General Assembly: Historic Changes Mark the 2013 Session

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When North Carolina's House and Senate adjourned in July, they left Raleigh after making sweeping changes to established laws and policies in state government. This past session was especially important because Republican super-majorities in the House and Senate, together with a Republican governor, were the creators and shepherds of the significant legislation. It was the first time since Reconstruction that the House and Senate, along with the Governor's office, were all controlled by Republicans.

Among the 1,751 bills introduced this session were bills that reformed education, overhauled the state's taxes, addressed health care issues, reformed election laws, expanded gun owner rights, implemented a new transportation funding system, and elevated the importance of the military to the state's economy. This newsletter provides only the highlights of this active legislative session.

North Carolina became a topic of much discussion in the national arena as "Moral Monday" protestors flocked to the state government complex in downtown Raleigh in an attempt to persuade lawmakers to back off the changes.

Despite all of the intrigue, challenge, and change, the session ended on July 26 and brought to an end six months of legislators, staff, and lobbyists working on a wide range of issues. Below is a summary of legislation that we think is important or interesting to our clients. However, there are many bills and issues not mentioned here. If you would like additional information about a particular issue, please see the contact information at the end of this newsletter. All bills mentioned in this newsletter are available for viewing at <http://www.ncleg.net/>.

## **Budget**

The General Assembly approved a \$20.6 billion budget with major changes to education, health care, and economic development funding. The Senate approved the budget on a vote of 31 to 17 along party lines. The House passed the budget on a vote of 66 to 52, with 10 Republicans voting against the spending plan due in large part to education spending priorities and the amount of eugenics victim compensation approved. The Governor signed the budget into law. The Appropriations Act of 2013 spends 2.5 percent more than the last fiscal year with more than half of the spending going to education, especially K-12, the 58 community colleges, and the public university system.

Included within the budget are provisions ending teacher tenure by requiring the employment of teachers through contracts.

The budget also provides school vouchers for low-income students to pay for private schools.

Lawmakers provided nearly \$1 billion for Medicaid overruns and included a special provision allowing the Governor to develop a comprehensive plan for Medicaid reform over the next several months.

Other budget provisions include:

- \$230 million for the rainy day fund;
- Funding for 69 new state trooper positions;
- \$1 million for military Base Realignment and Closure;
- \$60 million for Job Development Investment Grants programs;
- \$14 million for the Job Maintenance and Capital Development Fund over the next two years;
- Capping the state gas tax at 35.7 cents per gallon;
- \$100 annual fee on plug-in cars; and,
- \$50 fee on hybrids that are not plug-in.

An unfortunate part of North Carolina's history was addressed when the budget allocated \$10 million for compensation of victims of the state-administered eugenics program that ended in 1974.

Opponents criticize the budget for the drastic changes to public education funding and the fear of losing quality teachers within the state. Proponents say this budget cuts taxes, spends responsibly, and upholds their commitment to accountability in state government.

### **Tax Reform**

After more than two decades without major reform to North Carolina's tax code, the General Assembly passed HB 998: Tax Simplification and Reduction Act.

Tax reform advocates have consistently cited high taxes and the transition of North Carolina's economy from an agriculture and manufacturing base to a more modern and diversified economy as the driving force behind their tax reform efforts. Specifically, tax reform advocates have argued that North Carolina's personal and corporate income tax rates, which currently are among the highest in the southeastern United States, stifle the state's economic development efforts. The highlights of the tax reform package are:

- Personal Income Tax: North Carolina will move from a three-tier personal income tax rate structure with a minimum rate of 6% and a maximum rate of 7.5% to a flat rate of 5.8% in 2014 and a flat rate of 5.75% in 2015. Additionally, a number of itemized deductions will be eliminated or capped, such as the \$20,000 cap imposed on the deduction for mortgage interest and property taxes. At the same time, the standard deduction will be raised.
- Corporate Income Tax: North Carolina's corporate income tax rate will drop from the current rate of 6.9% to a rate of 6% in 2014 and a rate of 5% in 2015, with additional decreases possible in future years if revenue targets are met.
- Sales Tax: The application of North Carolina's sales tax will be broadened to apply to a limited number of service transactions. Non-profits, including non-profit hospitals, will be able to continue receiving refunds of sales taxes they pay, but the refund will now be capped at a maximum of \$45 million.
- Estate Tax: North Carolina will no longer impose an estate tax. (The state ended its gift tax several years ago.)

### **Omnibus Regulatory Reform**

The House and Senate approved a measure that overhauls current State environmental regulations. HB 74: Regulatory Reform Act of 2013 is a 59-page bill that covers an array of provisions, including:

- Requiring carbon monoxide detectors in hotels;
- Allowing bed-and-breakfasts to serve more than just breakfast;
- Partially de-regulating landfills;

- Removing penalties on transporters of solid waste for leakage of a limited amount of waste; and,
- Allowing outdoor advertising companies to retain billboards in municipalities and to cut more foliage from around billboards located along highway ramps.

Governor McCrory is considering a veto of the Regulatory Reform Act. In a press conference, the Governor expressed concerns with the provisions of the Act related to billboards and regulations on landfills. Governor McCrory, the former mayor of Charlotte, expressed concern that the changes to billboard regulations would take away the ability of municipalities and counties to make their own decisions on billboards including, if they choose, keeping billboards off their roadways.

## **Health Care**

The General Assembly approved approximately \$1 billion over the next two years to cover the growth of Medicaid. It approved an additional \$163 million for the growth associated with the federal Affordable Care Act. It also imposed additional oversight over health care programs in light of the implementation of federal health care reforms. For instance, there will be a formalized legislative Medicaid reform process in which the General Assembly must approve any state health plan amendments or state-requested waivers to Medicaid.

Early in the session, lawmakers passed a bill that prohibited the state from accepting federal Medicaid funding that would have made health care benefits available to more citizens. They also chose not to set up a state health exchange program to implement the Affordable Care Act. Governor McCrory supported these measures because the new federal funding and federal programs come with increased costs for the state in later years. The majority of legislators believed that these costs would put the state budget in an even worse position and would conflict with their efforts to improve the state's economy.

## **Election Law Changes**

HB 589: VIVA/Election Reform was passed by the General Assembly and signed into law by Governor McCrory. It establishes a new voter identification system that requires voters to present certain acceptable forms of ID: driver's license, non-operator ID card, tribal ID card, military ID card, or passport. Any North Carolina citizen who does not have a valid government-issued ID will be able to obtain one at no cost through the Division of Motor Vehicles. The law does not take full effect until 2016, with gradual implementation beginning in 2014.

The bill made other changes to election laws including:

- Eliminating pre-registration for 16 and 17 year olds;
- Eliminating straight-ticket voting;
- Establishing consistent days and hours of operation among polling sites statewide;
- Increasing the maximum campaign contribution allowed per election from \$4,000 to \$5,000;
- Repealing the requirement that campaign ad disclosures must appear in or on the ad itself; and,
- Repealing the publicly-funded election program for appellate court judges.

## **Gun Rights Laws**

Session Law 2013-369 that expands the places concealed carry permit-holders can carry their firearms was signed into law by Governor McCrory. A concealed carry permit holder can now carry a firearm into restaurants and bars that serve alcohol as long as the permit holder is not consuming alcohol. However, restaurant and bar owners may forbid guns in their establishments. The law also allows permit holders to keep guns in locked compartments inside vehicles while on the property of a public university, community college, school, or state government parking lot. In addition, it speeds up the requirement for court clerks to

report disqualifying mental health findings to the National Instant Criminal Background Check System.

## **Transportation Reform**

The General Assembly approved the bulk of Governor McCrory's and the North Carolina Department of Transportation's proposal to replace and update the state's transportation formula. The Strategic Mobility Formula replaces the state's Equity Formula, which was created in 1989, and establishes a new way to fund and prioritize new transportation projects. Under this new formula, projects are broken down into three levels. The statewide level will receive 40 percent of available funding, the regional level will receive 30 percent of available funding, and the division level also will receive 30 percent of available funding over the next ten years. The current ten-year plan includes 175 projects and creates 175,000 jobs. Once the Strategic Mobility Formula is fully implemented by July 1, 2015, it is projected to fund at least 260 projects and create more than 240,000 jobs over the next 10 years.

## **Military**

Although governors and legislators have long appreciated the military's \$25 billion annual economic impact on the state, the General Assembly focused unusually energetic attention on the military this year. For the first time, the General Assembly adopted legislative findings in HB: 433 that recognized the state's "vested economic interest in preserving, maintaining, and sustaining land uses that are compatible with military activities...." In a related bill, the General Assembly established new regulations that will help ensure that tall structures, including massive wind turbines, do not interfere with the state's unique training ranges for fighter jets and helicopters. Additionally, the state budget set aside \$1 million to help North Carolina prepare for possible base realignment that might include loss of, as well as possible growth of, the military's presence in North Carolina.

## **Community and Homeowners Associations**

An update on the status of legislation that is important to community and homeowners associations is available on the Ward and Smith, P.A. website here: [NC Community Associations Legislative Update](#).

Key legislation included changes to the common access rights, association articles of incorporation, and voluntary pre-litigation procedures.

## **Our Government Relations Professionals are Ready to Assist You**

For more information on how the 2013 session of the General Assembly may impact you, please contact:

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