

Labor Day, Halloween, or Maybe Christmas Budget?

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Lengthy Budget Debate Predicted

Senate Budget

The North Carolina Senate unveiled its two-year state spending plan in the Appropriations Subcommittees on the afternoon of June 15th. On June 16th, the Senate Appropriations, Finance and Pensions, and Retirement and Aging Committees each voted to approve the proposed budget after debating and approving several amendments. The full Senate approved its budget on second reading by a margin of 30-19 on June 17th and on third reading on June 18th by a margin of 32-15.

As Ward and Smith, P.A.'s government relations team predicted in our previous blog post, the Senate budget called for considerably less spending than the plan proposed by the House earlier this summer. Totaling \$21.47 billion, the Senate's spending plan called for nearly \$700 million less in spending than the \$22.2 billion budget approved by the House. Although the Senate's proposed spending amount came very close to the \$21.5 billion figure proposed by Governor McCrory in his budget, their priorities remain far apart in several key areas.

On June 23rd, House members unanimously voted not to concur with the Senate's changes to their budget proposal, setting the stage for appointment of budget conferees and the commencement of the budget conference process. Each chamber has yet to appoint their conferees, but we expect those announcements to come shortly. After that, we predict extensive behind the scenes budget negotiations.

With such drastic differences in not just spending amounts, but also in priorities, many expect this year's conference process to take longer than usual to produce the coveted final compromised budget. Key items of disagreement between the two chambers that will need to be resolved in the conference committee include:

- The best approach to Medicaid reform;
- Whether all teachers should receive pay raises or whether those raises instead should be targeted more for early career teachers;
- Which business incentives and tax credits are most effective at luring businesses to the state;
- Whether teacher assistant positions should be cut to pay for more teachers in an attempt to reduce classroom size;
- Whether to appropriate funds for extensive technology upgrades at the Administrative Offices of the Courts; and,
- Whether to endorse the extensive suite of tax reforms and controversial sales tax redistribution formula that the Senate included in its budget.

After announcing their plans to amend House Bill 117 to include extensive tax reforms and a formula to redistribute sales tax revenues in a press conference, Senate leadership elected also to include those

provisions in their budget before releasing it to the public on June 15th. To learn more about those proposals, you may read our previous discussion of them here or review the Senate budget legislation here, beginning on page 468.

Continuing Resolution

In years when a state budget agreement is not reached nor in place before the conclusion of the fiscal year on June 30th, the General Assembly must enact a continuing resolution to keep state government running. While it is important to give government leaders the guidance they need in their financial planning for the coming weeks, appropriations leaders from each chamber must be careful not to jeopardize their positions or prejudice full critical budget negotiations by what they include or exclude in the continuing resolution.

At the heart of the continuing resolution debate is the discussion over the resolution's expiration date. Lobbyists, non-appropriations legislators, and legislative staff will all be paying particularly close attention to that figure, as it will send a strong signal about the length of time that those in power expect this year's legislative session to last.

The expiration date adopted in the continuing resolution also will be indicative of legislators' thoughts on how difficult reaching a budget compromise will be, with a later expiration date signifying a sentiment that debate will be lengthy. Although both chambers adjourned for the weekend without a continuing resolution in place last week, a resolution will need to be in place before the new fiscal year begins on Wednesday, July 1st.

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