

# North Carolina's First State Budget Since 2018 Delivers Great News for Businesses, Teachers, State Employees & Ward and Smith Clients

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**After months of wrangling over policy and money, Governor Roy Cooper (D) and the General Assembly's Republican leadership have agreed to implement North Carolina's first budget since 2018.**

On November 15, Republican leaders, who hold a firm majority in the House and Senate, released the budget proposal that they have been laboring over for most of this year. The excitement for this budget had been steadily building since spring when Republican lawmakers pledged to include Governor Cooper in advance negotiations for the first time since he took office.

Partisan impasse left North Carolina without an enacted budget each of the last three fiscal years, creating problems that became increasingly complex as the state experienced rapid population growth, was brought to its knees by a pandemic, and subsequently became inundated with federal relief funding. For these reasons, it was more critical than ever that state leaders enact a budget that reflects the needs of North Carolinians this year.

Recognizing these things, lawmakers and Executive Branch leaders shared a deep motivation to overcome the impasse in 2021 and reach a budget compromise. Although both chambers of the North Carolina General Assembly passed their own versions of a state budget this summer, House and Senate Appropriations Committee leaders have been working with the Governor on modifying those versions to include gubernatorial priorities for several months. Those negotiations – often referred to as trilateral – appeared to be progressing productively until October when the tone of all parties began to sour.

The week of November 8, lawmakers announced that they felt negotiations had ceased to be productive and that they would soon unveil their best and final budget offer. That offer, which was introduced as a conference report, included many, but not all, of the Governor's priorities. The proposal did not have the Governor's endorsement before lawmakers released it and scheduled it for its first votes. Interested parties across the state held their breath.

Further complicating the equation, the proposal contained language that would curtail some portions of the Governor's authority to make decisions for the state unilaterally during States of Emergency. Many feared that this provision would sink the entire deal. It was a gamble, but being four and a half months into the twelve-

month fiscal year already, lawmakers decided that they would push forward with the budget they had in hand.

To the delight of many, Governor Cooper announced in a press conference midday Tuesday that although he considers the conference budget he received imperfect, he plans to sign it because, in his opinion, the good provisions in it outweigh the bad. He pledged to "fight to fix its mistakes" after it is enacted and insinuated that some provisions may be challenged in the courts. The House and Senate held votes on the conference budget on November 16, 17, and 18, in each instance passing the legislation by large, bipartisan margins.

**Governor Cooper signed the budget into law yesterday afternoon, solidifying the state's first budget enactment in 41 months.**

The budget sets the net appropriation for FY 2021-22 at \$25.9 billion and establishes the net appropriation for FY 2022-23 at an unprecedented \$27 billion flat. The state has been largely operating on the \$23.9 billion FY 2018-19 budget for the last several years while annual attempts at new budgets repeatedly fizzled due to disagreements between lawmakers and Governor Cooper.

The Ward and Smith Government Relations team was pleased to achieve a variety of significant appropriations and policy goals for our clients in the state budget, including:

- \$4 million for the first phase of a new wastewater system for a municipal client
- \$215 million to construct a new medical school building
- Almost \$300 million in appropriations for initiatives to improve the state's resiliency to natural disasters and mass flood events
- \$100,000 for a new wayfinding sign system for a military community client as it hopes to help new residents and visitors find key locations
- \$1.37 million for the Tryon Palace living history museum complex improvements and operations
- Updating the Tryon Palace Commission's governing law to improve operations and funding streams
- \$400,000 for building improvements at a regional public school client
- Increased and sustained recurring funding for search and rescue grants to local fire departments
- A new \$103 million local government stormwater grant fund that several of our clients can benefit from
- Making military pensions exempt from the state income tax
- Supporting expansion of broadband in a way that protects electric cooperatives from unfair expenses
- \$1 million for the state's defense of military base closures or downsizing
- \$16 million for economic development opportunities at the Global TransPark, especially for new US Navy-related aerospace opportunities
- The exclusion of a provision from the House budget that would have limited local government tree ordinance authority

Ward and Smith's Government Relations Practice Group had successfully placed many of these items in budget proposals during prior years, but ultimately none of the provisions were ever enacted due to the multi-year budget stalemate. For our team and so many others, including legislators, advocacy groups, and state employees, this budget deal is an embodiment of years of hard work. **We are immensely thankful to the lawmakers who championed each of these issues with us, to the House and Senate Appropriations Committee leadership for including them in the budget for this fiscal year, and to Governor Cooper for signing the bill into law.**

In addition, the new budget generously bolsters state savings reserves, bringing that account balance to \$4.25 billion by the end of the current biennium, the highest it has ever been in state history. The conference budget also includes a 5% pay raise for most state employees and an average 5% pay raise for teachers over the course of the two-year biennium. It also gives one-time \$2,800 bonuses to the majority of North Carolina's

teachers and increases the minimum wage for all community college staff to \$15 per hour. Rounding out the salary and bonus package, the conference budget provides \$1,000-\$1,500 one-time bonuses for all state employees using federal funds.

The budget also includes a sweeping tax package that cuts taxes for individuals and businesses. While Governor Cooper disagreed with some of the business portions of the conference budget's tax policy, he committed to working with lawmakers to continue to discuss future tax changes. Most notably, the conference budget makes the following tax changes:

- Reduces the corporate income tax rate from 2.5% to 2.25% in 2025, 2% in 2026, 1% in 2028, and then to zero after 2029.
- Increases the child tax deduction by \$500 per child.
- Reduces North Carolina's personal income tax rate from 5.25% to 3.99% by 2027, starting with a reduction to 4.99% in 2022.
- Increases the state's zero-tax bracket to \$25,500.
- Modifies the formula for calculation of franchise tax payments, which will result in reduced tax liability for some businesses, particularly those with significant real estate and equipment assets in the state.

The pandemic showed us how important it is that North Carolinians of all ages have reliable internet access. The conference budget allocated \$1 billion in funding for broadband initiatives, including:

- \$72.9 million in nonrecurring federal dollars and \$277 million in nonrecurring Coronavirus Capital Projects Fund dollars in FY 21-22 for the NC GREAT Grant program. Funds will be used for competitive grants to providers to expand broadband availability in rural areas.
- \$400 million nonrecurring in FY 21-22 to the Completing Access to Broadband Fund to be used for broadband grants.
- \$90 million nonrecurring in FY 21-22 for targeted Stopgap Solutions grants addressing local infrastructure needs and connecting unserved and underserved households.
- \$15 million nonrecurring in FY 21-22 to improve broadband access for 25 of North Carolina's most rural community colleges.

We thank our clients for placing their trust in us to secure these state appropriations and we again extend our sincerest appreciation to House and Senate Appropriations Committee leaders who spent most of this year working toward this moment. We also extend our gratitude to Governor Cooper and the lawmakers from both sides of the aisle who supported the enactment of the conference budget either by their vote or their signature.

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