

Compromise Budget Reached and Enacted

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In odd numbered years, the primary purpose of legislative long sessions is to produce a two-year budget for state government. Although lawmakers typically will introduce thousands of bills in addition to the state spending plan before session is adjourned for the year, the budget remains the hallmark piece of legislation to come out of a long session.

This hefty task always requires months of research, negotiation, and drafting, but this year's process required more time than usual. With a large surplus, lawmakers grappled with where to allocate the additional funds. Further lengthening the process were the significant differences in priorities between the House, Senate, and Governor, and several key policy proposals being injected into the budget debate. The result of these conditions was a \$21.7 billion final budget that came 80 days after the end of the previous fiscal year. While the Governor, Senate, and House each released their own budgets before the fiscal year's end, negotiating the contents of the compromise budget is what ultimately drew the budget debate into September.

Legislators were able to bridge the budget timing gap with multiple continuing resolutions that kept state government funded at the previous year's levels until a deal was reached. The last of the continuing resolutions expired on September 18th, a target date that lawmakers were able to meet when they voted on their final budget deal with a couple hours to spare. The 429-page compromise budget document and the 207-page money report that accompanied it were released the evening of September 14th. A joint House and Senate press conference that afternoon unveiled many of the major details of the compromise, including:

- A one-time \$750 bonus for all teachers and state employees
- A personal income tax cut from the current rate of 5.75% to 5.49% and an increase of the standard deduction
- A phase-in of a new single sales factor formula for calculating corporate income taxes
- Increased funding to the state's new film grant program and reinstatement of the recently expired historic preservation tax credit
- A \$225 million appropriation over the biennium to transform the state's current Medicaid program to a managed care system
- Maintained funding for teacher's assistants and starting teacher pay increased to \$35,000 per year
- Increases in many fees charged by the Department of Motor Vehicles
- Expansion of the sales tax base to include additional services, such as maintenance, installation, and repair services
- Creation of new state departments of Information Technology and Veterans' Affairs to be led by newly created cabinet positions
- Cost of living pension increases for state retirees weren't included
- Placed \$600 million into the state's "rainy day fund"

The Senate voted to approve the compromise spending plan on September 15th and 16th, while a House rule

that requires the budget be made available 72 hours before voting led the House to pass the measure on September 17th and 18th. Governor Pat McCrory wasted no time signing the budget into law, endorsing the document with his signature while traveling on Friday.

After legislators vote on Medicaid reform legislation, a bill containing a proposed \$2 billion infrastructure bond referendum, a regulatory reform bill, an incentives bill, and possibly a handful of technical correction packages, we expect they will adjourn for the year. Most expect those items to be disposed of by the end of this month or at latest, during the first week of October.

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