

Incentives, Bond, Medicaid, and Tax Legislation Move, While Anticipation Builds for Budget Agreement

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During the last two weeks, General Assembly onlookers saw significant developments on several of the top policy issues of the 2015 Long Session, with signs late last week of emerging progress towards a budget agreement. With the first budget continuing resolution expiring August 14th, House and Senate members crafted and enacted a second continuing resolution last week. That continuing resolution, which is set to expire on August 31st, will continue to fund state government at FY 2014-15 levels until a FY 2015-16 budget agreement is reached or its expiration, whichever comes first.

Despite the weeks of budgetary stalemate and probably in many ways because of them, legislators made strong efforts during the last two weeks to resolve several of the major policy issues that remain pending. Those issues include Medicaid reform, reform of the tax code, redistribution of local sales tax proceeds, an almost \$3 billion bond proposal, and business incentive reform. When combined, the collective significance of these policy overhauls would make a heavy lift for any legislature.

The first news of progress on the remaining major issues came when the House unveiled its own bond proposal on August 3rd. Prior to the House releasing its bond legislation, the General Assembly's response to Governor McCrory's proposed \$2.8 billion transportation and infrastructure bond has been consistently lukewarm and the subject gradually got lost in the shuffle over the course of the session. While the House seemed to at least be considering the concept of a voter referendum to borrow funds for the infrastructure needs, neither chamber had been overly enthusiastic about adding to the state's debt, particularly for transportation projects.

Like the Governor's plan, the House's bond package proposes \$2.8 billion in borrowing. The House proposed spending almost all of it – \$2.46 billion – on infrastructure needs and spending the remaining \$400 million toward transportation projects. Governor McCrory proposed spending the funds evenly between transportation and infrastructure uses. The House explained that they planned to appropriate additional funds for transportation projects in the budget using the state's existing money.

Both plans could face opposition in the Senate where members consistently have spoken out against incurring additional debt, but Senate Leader Berger has told the media that some members of his caucus had at least expressed an interest in a bond referendum. Senate members continue to reiterate an interest in paying for road projects using recurring General Fund dollars that can be raised by increasing Department of Motor Vehicles fees. After significant debate and multiple amendments, the House passed its bond legislation on Thursday August 6th, sending the measure to the Senate. Shortly thereafter, the Senate referred the bill to the Senate Ways and Means Committee, a rarely active committee that is widely regarded as a symbolic graveyard for legislation the chamber is not interested in pursuing.

On August 5th, the Senate initiated the second effort to move remaining policy issues along when President Pro Tem Berger announced in a press conference that his chamber would remove the controversial tax policy and Medicaid items from its budget. Earlier this summer, Senate leaders added these measures to their proposed budget in what many considered to be an effort to inject them into budget negotiations. This concession will mean that the two chambers will not need to resolve those hefty issues before being able to agree on a budget plan for the state.

In keeping with the that announcement, the Senate then unveiled a revised version of House Bill 117 that featured many of the tax and incentive policy items that the chamber had pledged to remove from budget talks. The Senate Finance Committee passed the legislation on August 6th, which at the time of passage included proposals to shift the state to the single sales factor method of apportionment, a change in the formula used to distribute sales tax proceeds to counties, jet fuel incentives, and data center business incentives.

The proposed sales tax redistribution policy, which would distribute half of sales tax proceeds to the county where the sale took place and the remaining half to counties based on population, received the bulk of the committee's debate. Several legislators representing counties that are forecasted to lose sales tax revenue under the plan – mostly urban counties and those with large tourism economies – predictably voiced opposition to the bill, while many committee members representing rural areas that stand to gain from the new plan spoke in support of it.

After the adoption of two amendments, the bill was approved by the full Senate last Monday and Tuesday. It now has been sent back to the House, its chamber of origination, for a concurrence vote that most expect to result in a vote not to concur.

The last and possibly biggest bastion of progress emerged late August 6th when Senate leadership unveiled what they referred to as a compromise Medicaid reform bill. If enacted, the legislation would privatize the state's Medicaid program using a combination of health care providers and commercial insurers. The bill also would end payments to the state's existing patient care coordination program called Community Care and also would create a new cabinet level Department of Medicaid. It still is unclear if the House considers this legislation the final step in the Medicaid reform discussion or if more compromise from the two chambers is needed to reach an agreement.

Following on the heels of the movement on the bond proposal, tax policies, and Medicaid during the first week in August, last week legislators turned their attention to the budget. By mid-week, both chambers had agreed to an updated continuing resolution and by week's end House and Senate leadership commented to the press that an agreement on at least the amount of spending for the 2015-16 fiscal year was very close.

Upon reaching an agreement on the amount of spending, House and Senate leadership were expected to spend the weekend in Raleigh negotiating details of the compromise spending plan. Senate members have said that they would consider up to a 2.7 percent spending increase over the current budget, while the House continues to call for a 5 percent increase in spending.

Cabinet Transitions

The recent announcement that Department of Health and Human Services Secretary Aldona Wos would be stepping down marked the second cabinet resignation in two weeks for Governor Pat McCrory. The announcement came barely one week after Department of Transportation Secretary Tony Tata announced his plans to leave the Governor's administration. McCrory selected former businessman Rick Brajer as Secretary Wos's replacement and Department of Transportation veteran Nick Tennyson as Secretary Tata's.

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