Legislative Bulletin

100 Counties One State

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This Week at the General Assembly

Watch the latest episode of This Week at the General Assembly on the NCACC's **YouTube Channel**. The show is uploaded each Friday afternoon and features a recap of the week's news from the Legislature as well as interviews with key state lawmakers and Association lobbyists. The program is also broadcast on many PEG channels across the state.

COMPETING TAX REFORM PLANS ROLLED OUT

House and Senate Finance Committees rolled out differing visions of tax reform plans Thursday. **S394** (Lower Tax Rates for a Stronger N.C. Economy) and **S677** (Corporate Income Tax Reduction and Reform) were presented in the Senate and **H998** (Tax Simplification and Reduction Act) was discussed in the House. No word on "next steps" for when any of the three plans are to be brought for committee consideration and vote.

A draft of H998 was published several weeks ago on the General Assembly's main webpage and included a proposal to lower the local sales tax to 1.9 percent, from its current 2 percent. The proposed committee substitute offered Thursday keeps the local sales tax at 2 percent, but like all of the tax reform bills permanently repeals the county's corporate tax set aside for school construction, commonly known as the ADM Fund.

In essence, the county sales taxing authority remains intact under the new PCS to H998. Beginning July 1, 2014, H998 would extend the state and local sales tax base to several service categories whereby a tangible property is already sold and subject to sales tax, such as car repair. Excluding the impacts of the ADM Fund repeal, expansion of the sales tax base should net counties roughly $56 million in additional sales tax receipts for 2014-15, and $68 million by 2017-18.

H998 would create a flat personal income tax of 5.9 percent, would reduce the corporate income tax from 6.9 percent to 5.4 percent over five years, and would restructure the taxes on electricity and natural gas.

More radical changes would occur through enactment of either S394 or S677. S394 would expand the sales tax base to more services, convert 1 percent of the 2 percent local sales taxes on food to a state tax, repeal the beer and wine distribution to locals, and repeal the Medicaid hold harmless. It, too, would restructure taxes on electricity and natural gas, and provide 20 percent of the sales tax receipts on these utilities to counties.

The PCS to S394 as offered Thursday would preserve the local sales tax on food, preserve the Medicaid hold harmless to cover any actual losses to counties ($0 gain v. $500,000 gain now), eliminate the local government refund, eliminate the electricity sales tax distribution to counties and distribute to cities 10 percent of the county portion of the deed stamp tax. Expansion of services would include vending, newspapers, recreation and entertainment, and personal and real property services. Again, excluding the ADM fund loss, and given that the expansion of the sales tax base would occur in 2013-14, counties could expect a $52 million gain in 2013-14 and $124 million by 2016-17.

S394 would establish a flat personal income tax of 5.95 percent, reduce the state sales tax rate by .25 percent to 4.5 percent, and reduce the corporate tax rate to 5.95 percent. It would also repeal the state and local privilege license tax but offset these losses with an expanded franchise tax base.

Finally, Senate leadership's plan for wholesale tax reform is embodied in the PCS to S677, "NC Fair Tax Act." No financial analysis was available at the time of writing, but following is a synopsis of those components that may impact counties.

S677 would expand the sales tax base to a host of new services, including health care, animal care, travel, death care, transportation services, insurance premiums, business services, legal services, accounting, architectural and engineering, advertising, consulting, construction services on existing structures, and site preparation. It would exempt those services needed largely for business to business transactions and that are purchased with insurance proceeds. Food sales would be added once again to the state sales tax base.

S677 would repeal Article 42, the point of delivery half cent sales tax, effective Jan. 1, 2015, and would redistribute Article 39 (1 percent) and Article 40 (1/2 percent) by 60 percent point of delivery and 40 percent per capita. Local government sales tax refunds would be repealed, and non-profit sales tax refunds would be limited to $100,000 by 2016. The Medicaid Hold Harmless would be repealed, and the state would retain all of the .2 percent deed stamp tax.

A transitional hold harmless for counties is included, with the threshold being the tax allocations under the 1.5 percent sales taxes (60/40 distribution). Included in the calculation would be losses of the beer and wine taxes, the deed stamp tax, the local sales tax refund, the Medicaid hold harmless, the Art. 42 half-cent sales tax, and any loss attributable to the change in the sales tax distribution formula. The transitional hold harmless would step down in reimbursement, from 100 percent in 2014-15 and 2015-16 to 10 percent in 2024-25 with a sunset July 1, 2025.

A similar hold harmless provision would be set for cities; cities would be limited in their privilege license authority to $500 per license. The Revenue Laws Committee is directed to study the fiscal impacts with specific attention to the amount of additional revenue received by counties and cities as a result of the sales tax base expansion and the reasons for the remaining distributions of state tax revenues to local governments.

S677 would step down the personal income tax rate to 4.5 percent by 2016. The corporate tax would be reduced to 6 percent after 2015. The state sales tax rate would increase to 5 percent.

BUDGET BEGINS JOURNEY THROUGH HOUSE

House appropriations subcommittees were active this week, reviewing the Senate's budget proposal in anticipation of crafting the House's response. Those subcommittees releasing spending targets generally proposed spending below Senate levels. A House budget calendar shows a three-week time frame for budget development and adoption, leaving only two weeks until fiscal year's end to hash out differences with the Senate in conference.

State government spending authority lapses June 30, so either an adopted budget or a continuing resolution must be in place to keep state government up and running. Counties are urged to contact their House members, particularly those in Appropriations leadership roles, asking that they not accept the Senate's proposal to strip out lottery statutory language that guarantees 40 percent of net lottery proceeds to school construction. Remind them that a step up in lottery appropriations above the recessionary $100 million is needed to offset pledged debt service and pending school capital needs. Finally, ask for their opposition to a cost-shift in the Senate's plan that would require counties to backfill any shortfalls in volunteer fire and rescue squad workers' compensation costs, setting a troubling precedent of having counties fund non-county employee benefit costs.

COURT FEES BILL MOVES FORWARD IN THE SENATE

A Proposed Committee Substitute (PCS) for **H343** (Courts/Procedure and Fee Amendments) was heard in the Senate Judiciary I Committee this week. The bill, sponsored by Rep. Rena Turner, codifies a special provision enacted in 2011 that exempts child support enforcement agencies from paying the $20 fee for motions and the $15 fee for alias and pluries summons and endorsements on an original summons when commencing or prosecuting a child support case. The PCS heard in committee this week revised the fee for motions to clarify that the fee is paid only upon the filing of a notice of hearing on a motion and is not paid where no notice of hearing is filed. The exemption for child support enforcement agencies remains unchanged. The PCS for H343 received a favorable report by unanimous vote of the Senate Judiciary I and has been re-referred to the Senate Finance Committee.

BILLS OF INTEREST

The Association maintains a **section on its website** to track bills of interest to county officials. For past editions of the Legislative Bulletin, visit the NCACC's Legislative Bulletin Blog at **www.ncacc.org/Blog.aspx?CID=3**.

Bill:	**H664**
Sponsors:	Hager (R112); Moffitt (R116); Brawley, W. (R103); Alexander, K. (D107)
Title:	CELL TOWER DEPLOYMENT ACT
Comments:	This bill makes many changes to city and county authority to regulate and oversee the placement and expansion of cell towers. The Association has worked with the bill sponsors and industry representatives to make the bill more palatable to counties. The bill passed the House on May 13. The Senate Commerce Committee revised the bill May 30 and forwarded it to the Senate Finance Committee.

Bill:	**H710**
Sponsor:	Hager (R112)
Title:	WATER UTILITY RECOVERY
Comments:	This bill allows a water or sewer public utility to adjust its rates to reflect changes in costs "based solely upon changes in the rates imposed by third-party suppliers of purchased water or sewer service." It also allows the Utility Commission to allow a water or sewer public utility "to recover through a system improvement charge the incremental depreciation expense and capital costs associated with the utility's reasonable and prudently incurred investment in eligible water and sewer system improvements." The legislation also defines what are the eligible

water and sewer system improvements. The bill has passed the House and passed the Senate Finance Committee on Wednesday.

Bill: **H788**
Sponsors: Catlin (R20); Hamilton (D18)
Title: WATER/SEWER AUTHORITY/RATE FLEXIBILITY
Comments: This bill authorizes a county water or sewer authority to determine "rates for water stored by the authority through programs to store and protect water resources in the region served by the authority. Schedules of rates, fees, and other charges may vary according to classes of service for programs to store and protect water resources." This would include "aquifer or surficial storage." It has passed the House and the Senate Finance Committee.

Bill: **S208**
Sponsors: Tucker (R35); Barringer (R17)
Title: EFFECTIVE OPERATION OF 1915(B)/(C) WAIVER
Scheduled: 06/03/2013 – House Calendar, 7:00 p.m., House Chamber
Comments: This bill has several provisions that impact counties. It requires that the DHHS Secretary must approve any county's decision to withdraw from an LME/MCO to join another one and sets forth criteria that must be met. It also creates a County Commissioner Advisory Board that consists of one commissioner from each county in the LME/MCO. The advisory board "shall meet on a regular basis, and its duties shall include serving as the chief advisory board to the area authority and to the director of the area authority on matters pertaining to the delivery of services for individuals with mental illness, intellectual or other developmental disabilities, and substance abuse disorders in the catchment area. The county commissioner advisory board serves in an advisory capacity only to the area authority, and its duties do not include authority over budgeting, personnel matters, governance, or policymaking of the area authority." The bill does not remove the limit of 21 board members for each LME/MCO, however. It also directs that any fund balance remaining when an area authority dissolves "shall be transferred to the area authority contracted to operate the 1915(b)/(c) Medicaid Waiver in the catchment area of the dissolved area authority." Previously, the fund balance was to be returned to the counties involved on a pro rata basis.

- **Johanna Reese, Government Relations Director**
- **David F. Thompson, Executive Director**