

City Legislative Update

N.C. Government Finance Officers Association

Wrightsville Beach, N.C.

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Agenda

- Where Are We?
- Budget & Tax Legislation
- Other Legislation of Interest
- Questions & Discussion



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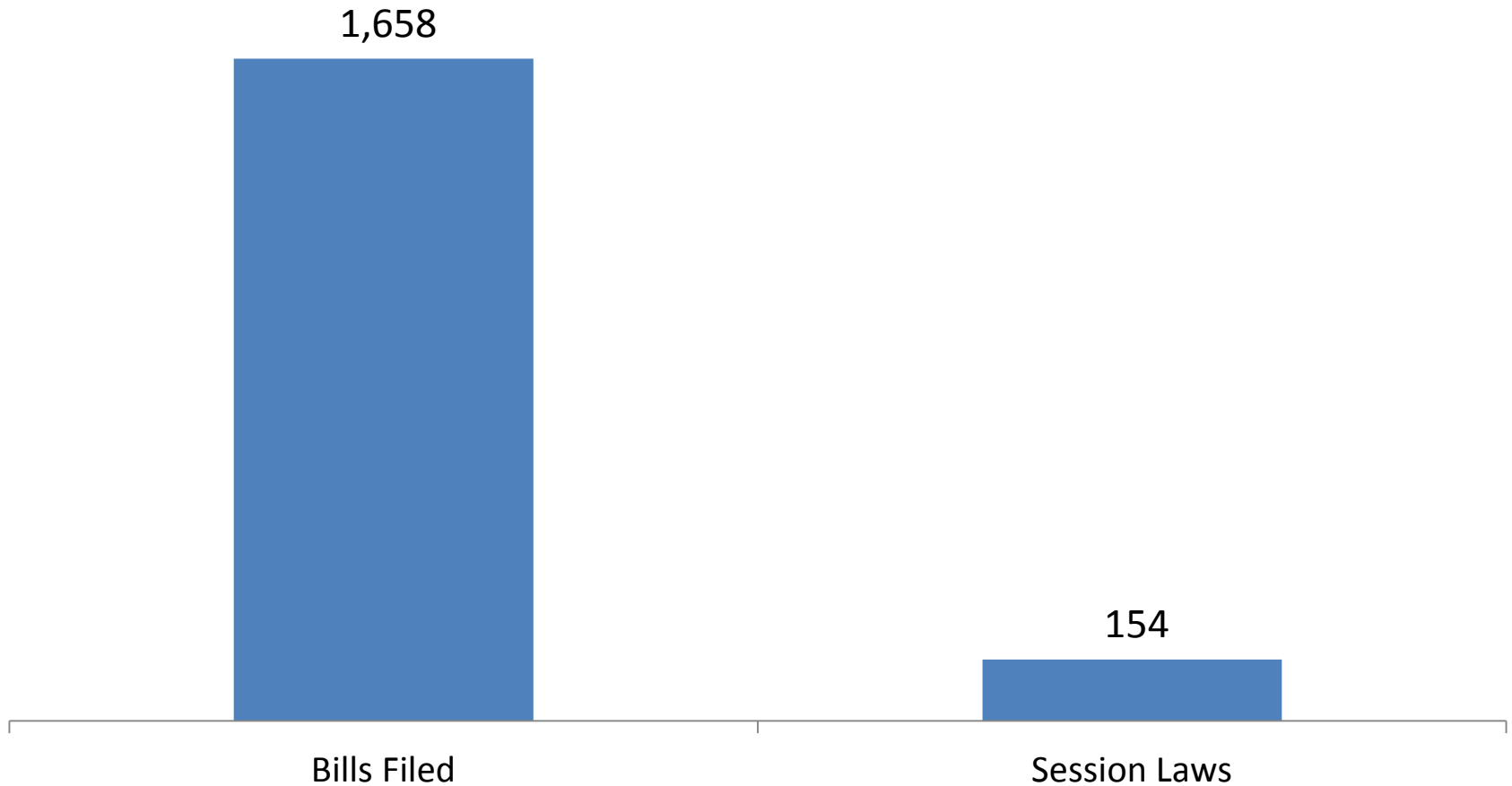
Where Are We?



2015 Session Key Dates

- Jan. 14: General Assembly convenes
- May 22: House passes budget (HB 97)
- June 18: Senate passes budget (HB 97)
- June 29/30: House/Senate pass Continuing Resolution (SB 534)
- July 2: General Assembly adjourns for 10-day break
- July 23: Senate to shut down committees

By The Numbers



By The Numbers: NCLM

- 356: Total bills monitored by the League
- 4: Critical bills
- 54: High priority bills
- 45: Monitored bills that have become law



Now What?

- Legislature reconvened on July 13
- Senate committees scheduled to shut down July 23
- Continuing resolution expires August 14
- No constitutional or statutory requirement for legislative adjournment



Budget & Tax Legislation



Budget: House Bill 97

- Significant difference between two chambers' budget proposals
 - House budget spends approximately \$22.2 billion; Senate budget approximately \$21.47 billion
- Senate budget includes more policy; key differences include:
 - Medicaid
 - Education/teacher assistants
 - And...

Sales Tax Reallocation

- Senate included plan to reallocate sales tax in its version of the budget
 - Previous versions in SB 369, SB 608, and HB 117
- Proposal would shift sales tax distributions among counties to being based primarily on population
- Framed as way to help struggling rural areas

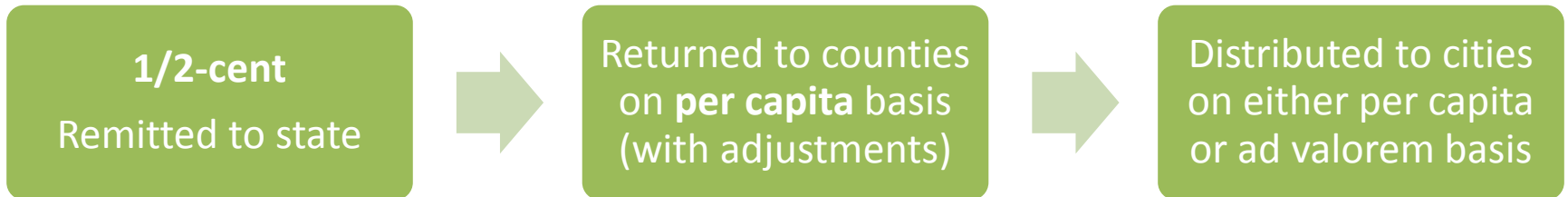


Local Sales Tax

Article 39



Article 40



Article 42



Sales Tax Reallocation

- Senate plan phases in over four years change to 80% per capita/20% ad valorem sales tax distribution
 - Expands sales tax base to certain services (repair/maintenance, veterinarians)
 - Phases in reduction of nonprofit sales tax refund cap
 - Allows most counties to levy by referendum additional 1/4-cent sales taxes
 - Revenue would not be shared with cities
- Sales tax base expansion would begin Oct. 1; allocation changes first take effect in FY16-17

Sales Tax Reallocation

- Current Senate proposal makes numerous improvements over original plan
 - Maintains local sales tax as a locally levied revenue
 - Maintains current formula for city hold harmless payment related to Medicaid swap
 - Allows counties to choose method for distributing sales taxes to cities



Sales Tax Reallocation

- Fiscal estimates show shift of revenue from urban/tourist counties to more rural areas
- Numbers from Fiscal Research intended as policy – not budgeting – document
 - Begin with FY13-14 actuals and use growth rate to project from there
 - Use 3.5% growth rate consistently across the state
 - Assume sales tax on services, nonprofit cap reduction added to total overall sales tax base

Sales Tax Reallocation

- House Finance Committee has held three hearings on Senate budget
- Sales tax reallocation plan criticized by many committee members
- City officials – including NCLM Board member – given opportunity to share their perspective



Senate Budget

- Other aspects of Senate finance plan
 - Provides state-level job incentive funding
 - Includes provisions to limit amount of incentives going to largest counties
 - Reduces personal and corporate income tax
 - Phases in single sales tax factor apportionment for businesses



Senate Budget

- Transportation changes
 - Allows municipalities to increase municipal vehicle fee up to \$30
 - \$5 for general purpose, \$5 for transit, and remaining money for streets maintenance
 - Appropriates \$147.5 million for Powell Bill next year and \$150 million in FY16-17
 - Eliminates statutory formula tying Powell Bill to gas tax and makes it a direct appropriation

Senate Budget

- Municipal Service Districts
 - Provision would allow 15% of registered voters in district to trigger vote to eliminate district
 - Districts generally created for the benefit of businesses
 - Non-resident property owners would not be part of vote to eliminate



Senate Budget

- Budgetary Transparency
 - State and all local governments required to have all receipts and expenditures online – and updated monthly – by April 1, 2016
 - LGC shall coordinate to present in consistent manner on LGC website



Senate Budget

- Retirement System Investment Assumption
 - Provision would set assumed rate of return for state & judicial retirement systems at 7.20% retroactively
 - Assumed return would be reduced by .05% annually indefinitely
 - State & local boards approved letter stating concerns with provision at July 16 meeting

House Budget

- Numerous provisions beneficial to cities
 - Revised historic tax credit program
 - \$40 million dollars for film grant program
 - DOT utility line relocation reforms
 - Increase in Clean Water Management Trust Fund & PARTF appropriations



House Budget

- Transportation funding
 - House budget reduces gas tax in exchange for increases in DMV fees
 - Powell Bill funding still tied to gas tax in House budget
 - Drop to gas tax of 33 cents would likely lead to \$7.7 million Powell Bill reduction statewide in FY16-17



Other Legislation of Interest



Property Tax Exemption

- **HB 168 Exempt Builders' Inventory**
 - House version exempts from property tax any improvement made to residential property beginning with subdivision, for up to 3 years or time of sale
 - Senate version adds provision for commercial property, extending exemption to 5 years or until building permit issued
 - Intended to allow for construction of infrastructure
 - Projected to cost cities and counties up to \$65 million

Business Registration Fees

- **HB 739 Repeal Business License Fees**
 - Eliminates cities' authority under G.S 160A-194 (“Regulating and licensing businesses, trades, etc.”) to “charge a reasonable fee”
 - Passed House – not yet heard by Senate
- **HB 362 Cities/Business Registration**
 - Gives cities explicit authority for business registration programs with an associated fee of up to \$50
 - Not yet considered

Municipal Sales Tax

- HB 903 County Tax Flexibility/Municipal Rev Opts
 - Provides authority for cities to levy a $\frac{1}{4}$ -cent sales tax by resolution that applies only within their jurisdiction and is returned only to their jurisdiction
 - Also provides counties with additional $\frac{1}{4}$ -cent sales tax authority
 - Despite much discussion, has not yet advanced

Preaudit Modernization

- Appeared in multiple bills; now seems likely to move in HB 44 Local Government Regulatory Reform 2015
 - Requires preaudit signature only on contracts in writing
 - Exempts payroll from preaudit requirement
 - Also exempts electronic payments, under rules developed by Local Government Commission

Electronics Recycling

- Provision appears in HB 765 Regulatory Reform Act of 2015
 - Eliminates recycling fee paid by computer & television equipment manufacturers
 - Used by local governments to fund electronics recycling programs; law prohibiting electronics in landfills remains
 - Also in HB 765: plastic piping preference



County 911 Provision

- **HB 730 County Provide 911 Dispatch Services**
 - Prevents counties from charging cities for provision of 911 dispatch services if city requests it
 - Attempts to address issues where cities have been subject to increases in payment for 911 services despite city residents paying county property taxes to help fund the service
 - Passed House, but language now also in **HB 512 Amend/Clarify Back-UP PSAP Requirements**

Local Debt Referenda

- **HB 128 Referendum for Certain Local Debt**
 - Would require voter approval for most all forms of debt if called for by 5% of voters
 - Would have significantly delayed debt issuance process due to prolonged election cycle
 - Received rare unfavorable report from House Local Government Committee

Special Assessment Authority

- **SB 284 Infrastructure Assessments/Repeal Sunset**
 - Passed by both chambers and signed by Governor on June 29
 - Extends authority for local governments to issue special assessments for infrastructure when requested by property owners
- Already utilized for large Hillsborough project; other communities currently planning on utilizing

LGERS

- HB 616 Local Governmental Employees' Retire. COLA
 - Increases COLA amount from recommendation by LGERS Board, from 0.625% to 1%
 - Additional \$5.1 million cost would be absorbed by local government employers via increased employer participation rate, from 6.67% to 6.77%
 - Passed House; not yet considered by Senate

Local Governments/State Health Plan

- HB 154 Local Governments in State Health Plan
 - Now Session Law 2015-112
 - Allows any local governments with less than 1,000 employees to join State Health Plan
 - Caps total local enrollment at 10,000 employees; currently around 3,000 local employees in State Health Plan



Contingency Fee Audits

- **SB 682 Modify Sunset Re: Contingent Audits**
 - Makes permanent a 2012 ban on local governments' use of contingency fee audits
 - Ban had been scheduled to sunset on July 1
 - Passed both House and Senate unanimously and signed into law by Governor on June 24

Building Design Elements

- SB 25 Zoning/Design & Aesthetic Controls
 - Eliminates local governments' ability to regulate certain aspects of building design
 - League made attempts to incorporate compromise language into the law
 - Passed both chambers and signed into law by Governor on June 19



Protest Petitions

- HB 201 Zoning Changes/Citizen Input
 - Repeals protest petition process
 - Also changes rules for tallying board members' votes, eliminating “affirmative vote rule” for votes on zoning ordinance amendments/modifications
 - Passed both chambers and sent to Governor; he has indicated he will sign



Greensboro Redistricting

- Legislation to re-draw Greensboro city council districts originally passed Senate in SB 36 Greensboro City Council Changes
 - Never taken up by House
- Provisions inserted into HB 263 City Elections/Trinity and Greensboro
- Slightly modified bill passed Senate and House (after initially failing in House); as local bill, became law upon passage

Questions / Discussion

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