

2013 Legislative Session Fiscal Summary

OSC Fiscal Officers Conference
December 12, 2013

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FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Presentation Overview

- **Tax Simplification and Reduction Act**
 - Estate Tax
 - Motor Fuels Tax
 - Personal & Corporate Income Tax
 - Sales Tax
- FY 2013-15 Revenues
- FY 2013-15 Expenditures
- Budget Drivers: Education and Medicaid
- Government Reorganizations & Closures
- Budget Policy Changes
- Unemployment Insurance Changes
- Resources & Questions



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Tax Simplification and Reduction Act

House Bill 998, S.L. 2013-316

Repeal Estate Tax

- Estate tax exemption was scheduled to revert to \$1,000,000 for 2013
- ATRA (American Taxpayer Relief Act of 2012) set exemption at \$5,000,000 indexed for inflation (\$5.25M for 2013)
- General Assembly enacted legislation to repeal the tax
- North Carolina is now one of 31 states with no estate tax

Temporary Cap on Motor Fuel Tax Rate

- Caps tax rate at 37.5 cents per gallon
- Effective October 1, 2013, through June 30, 2015

Personal & Corporate Income Taxes

- Personal Income Taxes (PIT)
- Corporate Income Taxes (CIT)
- No less than 40 tax exemptions, deductions, credits, and refunds eliminated or allowed to sunset
 - Broadens the tax base
 - Simplifies the tax code
 - Eases compliance and administration
- All changes effective for the 2014 taxable year – April 15, 2015 returns

PIT & CIT Rate Reductions

- Flat Personal Income Tax Rate
 - 5.8% in 2014
 - 5.75% in 2015 and thereafter
- Corporate Income Tax Rate Reduction
 - 6% in 2014
 - 5% in 2015
 - Possible rate reductions in 2016 and 2017



- Triggers
 - FY 2014-15 GF Revenues \geq \$20.2 billion
 - FY 2015-16 GF Revenues \geq \$20.975 billion

PIT & CIT Tax Preferences Retained

Personal Income Tax

- Deduction for all social security income
- Deduction for “Bailey” retirement income
- Child credit
 - Enhanced
 - \$125 per child if AGI < \$40,000 (*new*)
 - \$100 per child if AGI < \$100,000 (*current law*)
- Standard deduction increased from \$6,000 to \$15,000 (MJF)

Corporate Income Tax

- Credit for research and development (2016)
- Credit for investing in a major recycling facility (no change from current law)

PIT Credits

Items that will Expire

- Credit for premiums paid on long-term care insurance
- Earned income tax credit
- Credit for adoption related expenses

Items that were Repealed

- Personal exemptions
 - \$2,000 per taxpayer and each dependent
 - \$2,500 if AGI < \$100k
- Credits
 - Child care expenses
 - Education expenses
 - Non-itemizer charitable contributions
 - Others
- Deductions
 - Retirement income
 - Severance wages
 - \$50,000 business deduction
 - Others

PIT Itemized Deductions

Retained and Modified

- Home mortgage + property taxes paid on real estate allowed on federal return
 - Capped at \$20,000
- Charitable contributions allowed on federal return

Eliminated

- Medical expense deduction
- Unreimbursed employee expenses
- Miscellaneous deductions
- Personal property taxes

CIT Credits

Tax Credits that will Expire

- Ports charges
- Recycling oyster shells
- Renewable fuels
- Work opportunity
- Interactive digital media
- Article 3J
- Qualified business venture
- Film (2015)
- Renewable energy (2016)
- Historic & mill rehab (2015)
- Low income housing (2015)
- Railroad intermodal (2038)

Tax Credits Repealed

- Construction of dwelling units for handicapped
- Real property donations
- Conservation tillage equipment
- Gleaned crops
- Construction of poultry composting facility

Sales Tax

- Rate changes
- Additions to the sales tax base
- Elimination of exemptions
- Sales tax refunds
- Various effective dates

Sales Tax Rate Changes

- **Manufactured homes**
 - Currently 2% with \$300 cap
 - State rate of 4.75%, effective January 1, 2014



- **Modular homes**
 - Currently 2.5%
 - State rate of 4.75%, effective January 1, 2014
 - No local tax

Sales Tax Base Expansion

- **Amusements**
 - January 1, 2014
 - Attractions for which admission charged
- **Exemptions**
 - School events
 - Nonprofit events (2)
 - Agricultural fairs
 - Youth sporting events
 - State attractions
- **Service contracts**
 - January 1, 2014
 - Agreement by which seller agrees to maintain or repair tangible personal property
 - Various exemptions

Sales Tax Exemptions

Repeal January 1, 2014

- Nutritional supplements sold by chiropractors
- Meals sold in higher educational facilities
- Newspapers

Repeal July 1, 2014

- Bakery thrift store
- Sales tax holiday for school
- Sales tax holiday for certain energy star products

Other Sales Tax Changes

- **Exemptions for farmers**
 - Annual gross income requirement from farming activity of \$10,000
 - Effective July 1, 2014
- **Tax refunds for nonprofits**
 - Cap at \$45 million State and local
(~ \$666 million of purchases)
 - Effective July 1, 2014
- **Tax refunds for local governments**
 - No change
- **Sunset Extensions**
 - Passenger air carriers & motorsports
 - Two years, until January 1, 2016

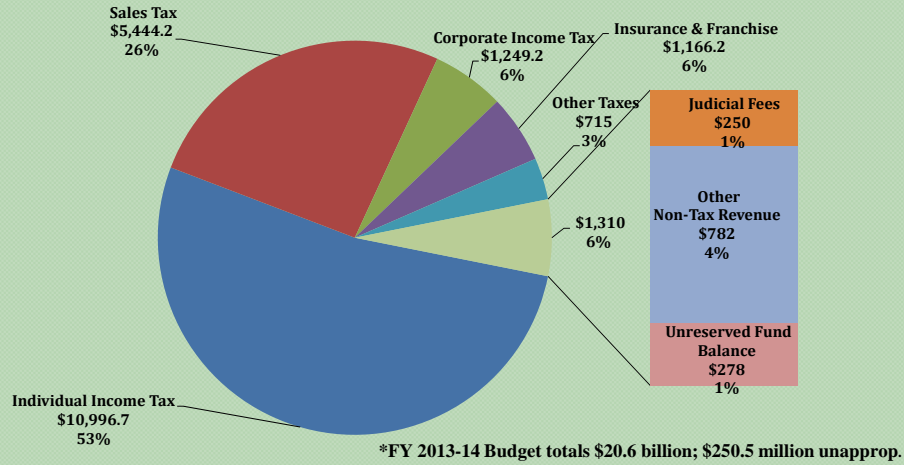
Overall Fiscal Impact

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Projected Revenue	20,465.6	21,387.8	22,307.5	23,266.7	24,267.2
Total Tax Reform Changes	(119.0)	(455.8)	(655.1)	(634.5)	(661.8)
Repeal Estate Tax	(52.0)	(57.0)	(60.0)	(63.0)	(66.0)
Total Tax Reform	(171.0)	(512.8)	(715.1)	(697.5)	(727.8)
School Capital Building Fund	84.4	75.0	70.5	74.0	78.0
Net Changes	(86.6)	(437.8)	(644.6)	(623.5)	(649.8)
Revised Revenue	20,379.0	20,950.0	21,662.9	22,643.2	23,617.3

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FY 2013-14 Revenues: \$20.88 billion



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FY 2013-15 Biennium

Budgetarily, the 2013 General Assembly focused on

- Tax code changes
- Structural issues
 - Funding Medicaid to fix FY 2012-13 shortfall and avoid future shortfalls
 - Funding Repairs & Renovations
 - Increasing Savings Reserve Account
 - Strengthening the General Fund/eliminating earmarks
- Realigning divisions and departments

Spending for the 2013-15 Biennium

FY 2013-14 General Fund Appropriations: \$20.63 billion

- 1.9% higher than the FY 2013-14 Continuation Budget
- 2.1% higher than the FY 2012-13 Actual Budget

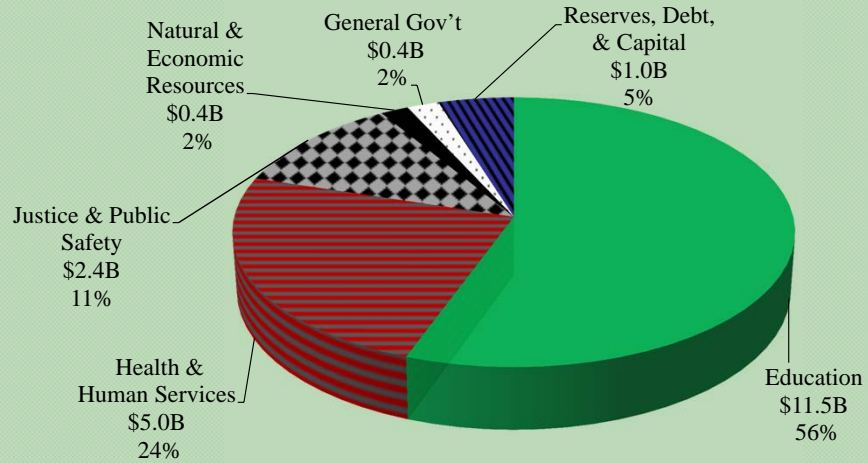
FY 2014-15 General Fund Appropriations: \$21 billion

- 1.7% growth over the FY 2013-14 Enacted Budget

Most areas were basically flat.

- DHHS had an increase compared to authorized budget but flat compared to actuals.

FY 2013-14 Enacted General Fund Budget*



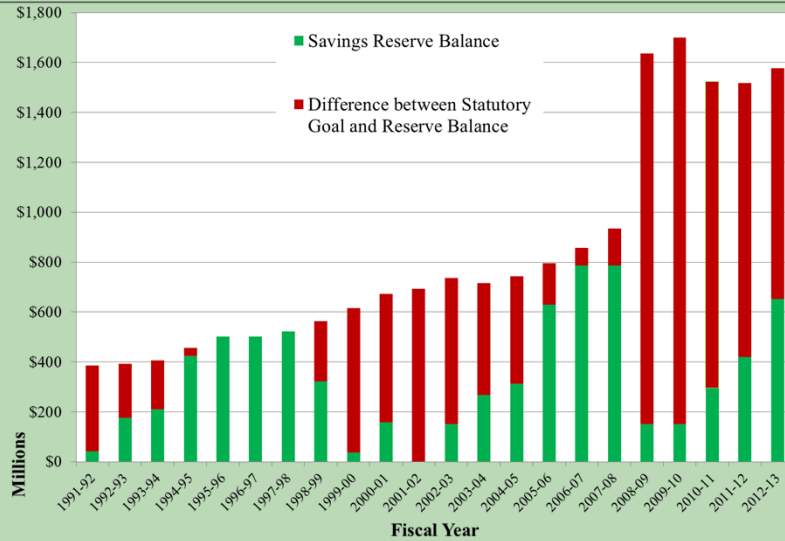
*Does not include Reserve distributions such as increases for retirement, State Health Plan, and the like.

Reserves: FY 2013-14

Repairs & Renovations: \$150 million

Savings Reserve: \$232.5 million

Savings Reserve Balances & Statutory Goals



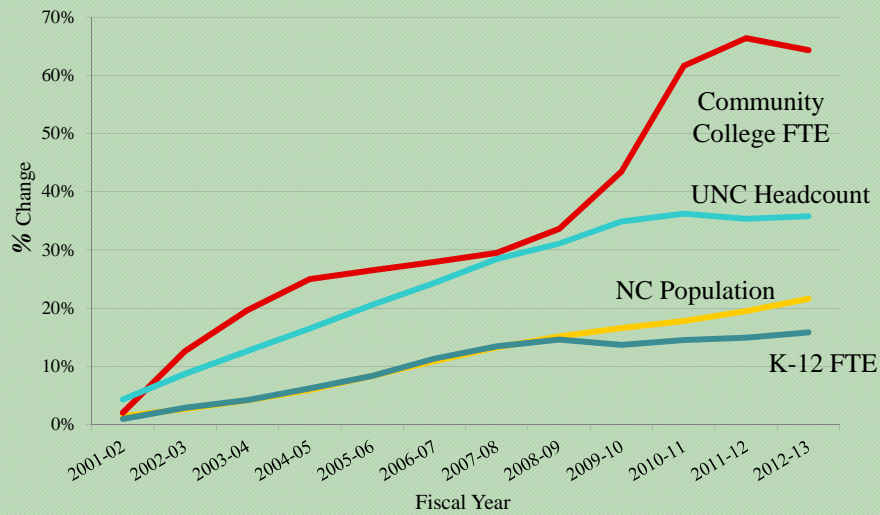
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2013-15 Budget Drivers: Medicaid and Education

- Education and Medicaid make up over 70 percent of net General Fund appropriations.
- Enrollment growth in these programs is largely outside the control of the General Assembly.
- Education is driven by strong enrollment growth in higher education and a tradition of higher education support more generous than most other states.
- Healthcare costs are growing more rapidly than CPI.

Education Enrollment Growth



Education: 2013 Session

Public Schools

- Phased out teacher tenure
- Created Opportunity Scholarships

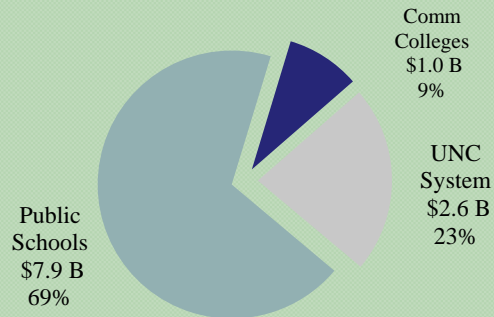
Comm Colleges

- Increased tuition
- Changed enrollment funding

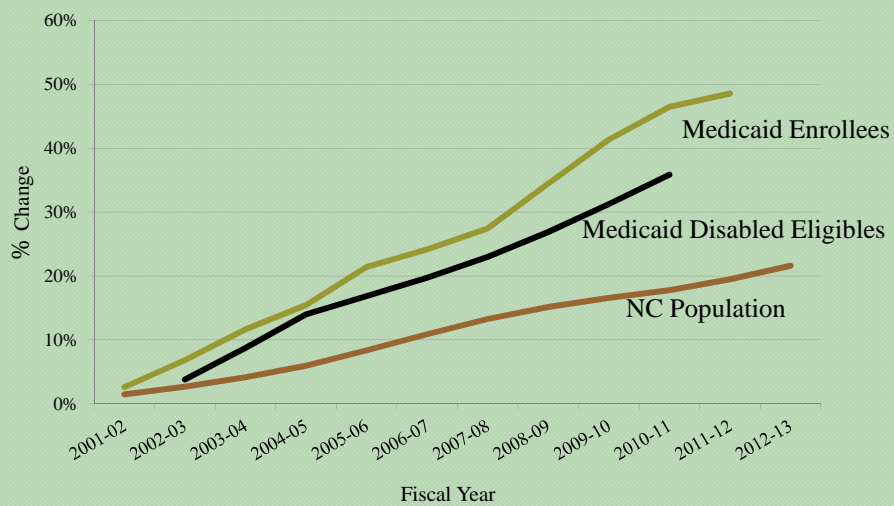
UNC System

- Increased nonresident tuition

Net General Fund Appropriation
FY 2013-14
\$11.5 Billion



Medicaid Enrollment Growth



Medicaid: 2013 Session

- FY 2012-13 Budget Gap
 - \$496 million in additional funding authorized
 - Spent \$416 million (13.4%) more than was originally appropriated

- FY 2013-14 Budget
 - \$539.6 million increase for structural shortfall, enrollment & utilization growth, Affordable Care Act costs
 - \$147.2 million in reductions taken to try to control costs
 - Net increase of \$392 million

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Reorganizations: 2013 Session

- Clean Water Mgmt & Natural Heritage Trust Funds
 - Programs were merged; boards consolidated to 9 members
- Division of Water Infrastructure Authority
 - Disparate water and sewer programs merged under one new division
- Rural Economic Development Division
 - New division in Commerce to oversee former Commerce and Rural Economic Development Center programs

Closures & Funding Eliminations

- Justice and Public Safety Facilities
 - 5 Prisons and 3 Juvenile facilities closed
- Various non-profits' funding discontinued

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Budget Policy Changes: Earmarks

- Eliminated earmarks
 - Master Settlement Agreement funds
 - University Cancer Research
 - Golden LEAF
 - Real Estate Conveyance/Deed Stamp tax
 - Scrap Tire Disposal funds
 - White Goods funds

Result is an additional
\$154.3 million in recurring
funds going directly to the
General Fund

Budget Policy Changes: State Budget Act

- Added & modified definitions
 - Authorized budget
 - Availability
 - Continuation budget
 - Certified budget
- Clarified departmental receipts are to be spent first
- G.S. 143C-6-4 changes
 - Overexpenditures authorized on nonrecurring basis for one year only (with two exceptions)
 - Changed 3% threshold from “department’s certified budget” to “department’s total requirements for a fund”

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Unemployment Insurance Changes

- S.L. 2013-4
- Broad overhaul of existing system
 - Benefit reductions
 - State tax increase for some employers
- State and local governments now required to maintain 1% reserve account
- Unemployment Reserve of \$23.8 million in FY 2013-14 and \$13.6 million in FY 2014-15
 - OSBM to administer Reserve

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Where to Find Budget Information

A screenshot of the website www.ncleg.net/fiscalresearch. The browser's address bar is circled in red. A blue box highlights the URL. A red arrow points from the address bar to the 'Select Legislation and Reports' section, which is also circled in red. This section contains a list of links: 'Bill Text - Current Operations and Capital Improvements Appropriations Act of 2013, Senate Bill 402, Session Law 2013-360', 'Committee Report - The Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, for Senate Bill 402, 7/21/2013', and 'Budget Technical Corrections, House Bill 112, Session Law 2013-363'. Below this list is a link for 'History of budget legislation 2005-2013'. The page also features a 'Staff Directory' section with dropdown menus for 'STAFF BY SUBJECT AREA' and 'STAFF BY LAST NAME', a 'Contact Us' section with the division's address and phone number, and a 'Recent Publications and Presentations' section with various reports and charts.

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Mark Trogdon, Director

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- Budget Technical Corrections, House Bill 112, Session Law 2013-363

[History of budget legislation 2005-2013](#)

Contact Us

Recent Publications and Presentations

Fiscal Research Division
Legislative Office Building (LOB)
300 North Salisbury Street, Suite 619

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www.ncleg.net/fiscalresearch

Recent Publications and Presentations

Fiscal Research Division
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Directions

Parking Map, State Government Complex

For comments or questions about this website, please contact the webmaster.

Annual Budget Summaries (1984-2013): Summaries of fiscal and budgetary actions enacted during the respective session. Includes highlights, Overview, and Annotated Committee Reports.

2013 Annotated Conference Committee Report on the Continuation, Expansion, and Capital Budgets (Revised Nov. 6)

Quarterly General Fund Revenue Report First Quarter, October 2013

Where the Money Comes From and Goes FY 2013-14 Budget (General Fund)

2013 Overview of General Fund Appropriations

- Health and Human Services
- Natural and Economic Resources
- Justice and Public Safety
- Education
- Finance
- General Government
- Transportation
- Information Technology
- Salaries and Benefits

• Conference Budget Comparison Chart

• Full Time Employment Changes in Budget

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Questions?

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SELECTED STATE BUDGET ACT CHANGES IN S.L. 2013-360, SEC. 6.12 (G.S. 143C)

Definitions

Authorized Budget: The certified budget with changes authorized by the Director of the Budget through authority granted in G.S. 143C-6-4 or other statutes.

Availability: The total anticipated cash available within a fund for appropriation purposes, including unreserved fund balance and all revenue and receipts anticipated in a fiscal year

Continuation Budget: That part of the Recommended State Budget necessary to continue the same level of services in the next biennium as is provided in the current fiscal year including (i) mandated Social Security rate adjustments; (ii) annualization of programs and positions; (iii) enrollment adjustments for public schools and Medicaid; (iv) reductions to adjust for items funded with nonrecurring funds during the prior fiscal biennium; (v) increases to adjust for nonrecurring reductions during the prior fiscal biennium; and (vi) if deemed necessary by the Director, other adjustments such as inflation, building reserves, and equipment replacement.

Certified Budget: The budget as enacted by the General Assembly including adjustments made for (i) distributions to State agencies from statewide reserves appropriated by the General Assembly, (ii) distributions of reserves appropriated to a specific agency by the General Assembly, and (iii) organizational or budget changes ~~directed~~ mandated by the General Assembly ~~but left to the Director to carry out~~ Assembly.

Departmental Receipts

143C-6-1. Budget enacted by the General Assembly; certified budgets of State agencies.

...

(b) Departmental Receipts. – Departmental receipts collected to support a program or purpose shall be credited to the fund from which appropriations have been made to support that program or purpose. A State agency shall expend departmental receipts first, including receipts in excess of the amount of receipts budgeted in the certified budget for the program or purpose, and shall expend other funds appropriated for the purpose or program only to the extent that receipts are insufficient to meet the costs anticipated in the certified budget.

Except as authorized in G.S. 143C-6-4, excess departmental receipts shall not be used to increase expenditures for a purpose or program.

143C-6-4. Budget Adjustments Authorized.

(a) Findings. – The General Assembly recognizes that even the most thorough budget deliberations may be affected by unforeseeable ~~events. Under~~ events; therefore, under the limited circumstances set forth in this section, the Director ~~may~~ is authorized to adjust the enacted budget by making transfers among lines of expenditure, purposes, or programs or by increasing expenditures funded by departmental receipts. ~~Under no circumstances, however, shall total General Fund expenditures for a State department exceed the amount appropriated to that department from the General Fund for the fiscal year.~~

(b) ~~Adjustments to the Certified Budget.~~ Budget Adjustments. – Notwithstanding the provisions of G.S. 143C-6-1, a State agency may, with approval of the Director of the Budget, spend more than was ~~authorized~~ appropriated in the certified budget by adjusting the authorized budget for all of the following:

- (1) Line items within programs. – An object or line item within a purpose or program so long as the total amount expended for the purpose or program is no more than was authorized in the certified budget for the purpose or program.
- (2) Responses to extraordinary events. – A purpose or program if the overexpenditure of the purpose or program is:
 - a. Required by a court or Industrial Commission order;
 - b. Authorized under G.S. 166A-19.40(a) of the North Carolina Emergency Management Act; or
 - c. Required to call out the North Carolina National Guard.
- (3) Responses to unforeseen circumstances. – A purpose or program not subject to the provisions of subdivision (b)(2) of this ~~subsection, but only in accord with the following restrictions:~~ (i) the subsection, if each of the following conditions is satisfied:
 - a. The overexpenditure is required to continue the purpose or programs due to complications or changes in circumstances that could not have been foreseen when the budget for the fiscal period was ~~enacted, (ii) the~~ enacted.
 - b. The scope of the purpose or program is not ~~increased, (iii) the~~ increased.
 - c. The overexpenditure is authorized on a ~~nonrecurring basis, and (iv) under no circumstances shall the total requirements for a State department exceed the department's certified budget for the fiscal year by more than three percent (3%) without prior consultation with the Joint Legislative Commission on Governmental Operations~~ one-time nonrecurring basis for one year only, unless the overexpenditure is the result of (i) salary adjustments authorized by law or (ii) the establishment of time-limited positions funded with agency receipts.

(b1) If the overexpenditure would cause a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percent (3%), the Director shall consult with the Joint Legislative Commission on Governmental Operations prior to authorizing the overexpenditure.

(b2) Subsection (b) of this section shall not be construed to authorize budget adjustments that cause General Fund expenditures, excluding expenditures from General Fund receipts, to exceed General Fund appropriations for a department.