

The State Budget: Provisions of Interest for Rural Areas

The final version of the two-year state budget will spend \$21.7 billion in the state fiscal year that began July 1. This final budget looks a bit different from its previous editions. As revenue-availability numbers were adjusted, the state's budget moved from the governor's initial proposal, to the House of Representatives' more generous version, to a reduced-spending plan passed by the Senate, before legislative leaders settled on the negotiated spending level that is provided in the final budget that Gov. Pat McCrory signed on September 18.

The budget contains funding and spending policy that will affect rural areas and rural residents. In addition to the big headlines reported about the budget, rural leaders may find the following items of interest.

Economic & Community Development Tools

- **Infrastructure Resources**

Funding is provided for the state match for the federal Clean Water State Revolving Fund and the federal Drinking Water State Revolving Fund.

Money is appropriated (\$17.4 million for the biennium) for water and sewer infrastructure grants for rural, economically distressed areas. (Of the \$7.4 million for the current fiscal year, \$5 million is set aside for an unspecified community.) These funds will be located in the Water Infrastructure Division in the re-named Department of Environmental Quality. The budget also changes the state policy for assigning priority for elements in grant applications (known as the common criteria) for these and other state water and sewer grant funds. (These criteria changes do not apply to loans from the state revolving funds.)

Subject to federal funds being available, the state will have \$15.7 million from the Community Development Block Grant to make economic development grants, and \$26.7 million for infrastructure grants. These grant programs are operated by the Department of Commerce and the Department of Environmental Quality, respectively.

The Rural Economic Development Division, which operates within Commerce, will receive an additional \$2.205 million in grant funding for FY '16 and an additional \$2,251,799 in grant funding for the following fiscal year, but it will lose funding for the Underserved and Limited Resource Communities Grants (a loss of \$1.25 million per year). Total grants funding for the Rural Economic Development Division in FY '16 is \$15.6 million and FY '17 is \$15.7 million.

Golden LEAF is slated to receive \$10 million from the Master Settlement Agreement Fund each year, providing new dollars to the foundation's programs.

The Department of Transportation's budget includes \$2 million each year for the Rural Capital Grant Program, which aids public transportation.

Some programs will move to different departments. The Clean Water Management Trust Fund, the Natural Heritage Program, and the Parks and Recreation Trust Fund will be transferred to the re-named Department of Natural and Cultural Resources.

The Clean Water Management Trust Fund will add \$5 million to its \$11.657 million base appropriation in the current fiscal year (with total funding of \$38.7 million over the two-year biennium). The funding total includes money set aside for providing buffers at military installations, in addition to \$1.5 million for a demonstration project to mitigate impaired waters.

The Natural Heritage Program (\$764,762) will again become a separate program (from the Clean Water Management Trust Fund), as it moves to the Department of Natural and Cultural Resources.

The Parks and Recreation Trust Fund will receive an additional \$190,900 in the current fiscal year and \$10.427 million in additional funding in FY '17, bringing the total funds available to \$37.2 million.

- **Community Revitalization**

The budget establishes new historic preservation tax credits. The Historic Rehabilitation Tax Credits Investment Program replaces a previous tax credit program that expired. The new credits are effective January 1, 2016 and the provisions will sunset at the start of 2020, with the certifications expiring in 2023.

Main Street Solutions in the Department of Commerce will receive \$2 million for the current fiscal year. Of that amount, \$1 million is earmarked for a specific (but unnamed) town and \$100,000 is to be provided to a specific community unit. There is a separate provision in the budget that will provide \$1.249 million for downtown revitalization efforts in 13 specific communities (12 are located in rural counties, and each community will receive a portion of the total appropriation).

- **Business Assistance Tools**

Although a separate economic development bill will establish specific policy directions and tax provisions, the budget does set out several aids for business assistance efforts.

The One NC Small Business Fund will receive \$2.5 million in FY '16 and \$3 million in FY '17 to provide early-stage technology grants to small businesses.

The Jobs Development Investment Grants program will receive \$57,816,215 in FY '16 and \$71,728,126 in FY '17. These numbers represent a decrease of \$5,229,142 in FY '16 and an increase of \$8,682,769 in FY '17. Additional provisions related to matching and other policy considerations are part of a separate economic development bill.

Funding for the One North Carolina program is \$6,995,976 for FY '16 and \$9,000,000 for FY '17. (The FY '16 amount represents a decrease of \$2,004,024.) Additional provisions and policy considerations that will affect the use of these dollars are part of a separate economic development bill.

The N.C. Biotechnology Center will add to its available funding with an additional \$5 million per year, bringing the total program availability to \$13.6 million per year. The budget includes categories for use of the funds, and directs the Biotechnology Center to give priority consideration to loans over grants.

The Film and Entertainment Grant program received an injection of \$30 million for each year, and its sunset was extended to July 1, 2020.

Tourism advertising lost funding from highway dollars, but gains \$1 million from appropriated funds in FY '16 and \$2 million in FY '17.

A new N.C. Venture Multiplier Fund will tap resources in the Escheat Fund (about \$40 million) to fund innovations and inventors that have potential commercial value.

The budget eliminates apprenticeship fees.

On the coast, the budget provides funding to support programs that aid shellfish and oyster fisheries. In FY '16, shellfish rehabilitation will receive \$300,000, and that amount doubles to \$600,000 in the second year of the bi-

ennium. Oyster sanctuaries will receive \$200,000 in FY '17, and oyster research and development will be boosted by \$450,000 in FY '16 and \$500,000 in FY '17.

- **Aid for Other Rural Partners**

The Agricultural Development and Farmland Preservation Trust Fund received \$1 million per year to acquire buffers around military bases, bringing the total annual funding to \$2,608,376.

Special provisions will permit the Department of Health and Human Services to expand the Rural Health Loan Repayment program to use state incentives for general surgeons practicing in Critical Access Hospitals. In addition, it will offer loan repayment program funds for providers using telemedicine to serve rural and underserved areas. The budget also changes the name of the Office of Rural Health and Community Care to the Office of Rural Health, and provides \$1 million per year for the Medical Scholars Program at the UNC medical school, to support students in primary care specialties who want to practice in rural areas.

The N.C. Housing Finance Agency will receive \$12.5 million in FY '16 and \$15 million in FY '17 to fund the Workforce Housing Loan Program, which will assist in the development of low-income housing units statewide.

A school connectivity initiative is to bring a school-level internal Wi-Fi network to all K-12 public school buildings, with the aid of \$2 million this year and \$12 million in FY'17. Total state funding for school connectivity will equal \$21.9 million this year and \$31.9 million in '17.

The Tobacco Trust Fund Program is receiving \$1.559 million from non-recurring money to increase the program to \$2.5 million in FY '16 and \$3 million in FY '17.

The Support Center was allocated \$2.5 million/year from non-recurring funds.

Tax policy changes

The budget:

- Raises fees. Among the fee increases are those for drivers' licenses, vehicle titles, vehicle registrations, food retailer inspections, and landfill permits.
- Reduces individual income taxes, increases the standard deduction, returns the medical and dental expense deduction, retains the mortgage and property tax deduction, and retains the full charitable contributions deduction (a previous version had combined and limited all deductions).
- Reduces the corporate income tax rate (which already was scheduled) and expands the tax base.
- Phases in a single sales factor apportionment designed to aid manufacturers.
- Makes some changes to the franchise tax base, primarily to focus on net worth.
- Expands the sales tax base to include repair, maintenance and installation services. (The new tax provisions do not apply to people who operate as a contractor or provide a service and do not sell something tangible: for example, the person who mows your yard.) The new sales tax provisions go into effect in March 2016 and are expected to generate \$159.5 million per year. On July 1, 2016, \$84.8 million of the new revenues will be distributed to 75 rural counties (and four urban counties) to use for economic development, public education and community colleges.

Additional tax provisions related to economic development are part of the broad economic development com-

promise bill (NC Competes — H 117).

- Revenue transfer changes that affect programs

Funds that have been transferred from transportation (including highway funds) to support other (non-transportation) agencies and programs, will no longer be available to a number of programs. The budget establishes a \$29.4 million reserve for FY '16 to reflect the elimination of the diversions from the following programs (with the amount they currently receive):

\$12.7 million — Commercial leaking underground storage tanks

\$7.3 million — Water and air quality

\$3.6 million — Air quality inspection and maintenance

\$0.7 million — Mercury pollution prevention

\$1.5 million — Rescue squad workers relief fund

\$1.3 million — Volunteer rescue/EMS fund

\$2.3 million — Wildlife Resources Commission

New Departments and other Major Changes

The budget creates two new departments:

- The Department of Military and Veterans Affairs
- The Department of Information Technology

The budget re-names and re-organizes two other departments:

- The Department of Environment and Natural Resources becomes the Department of Environmental Quality
- The Department of Cultural Resources gains programs from DENR and becomes the Department of Natural and Cultural Resources. The programs that move to the new department include: state parks, aquariums, the zoo, the N.C. Museum of Natural Sciences, the Clean Water Management Trust Fund and the Natural Heritage Program.

The two renamed departments are also being directed to study the possibility of transferring the Albemarle-Pamlico Estuary Partnership, Coastal Reserves Program, Office of Land and Water Stewardship, Environmental Education and Public Affairs, Marine Fisheries and the Wildlife Resources Commission.

Additional End of Session Items of Items of Interest – (Separate from the State Budget Bill)

H 117 – NC Competes (the economic development incentives bill)

The conference committee version of the NC Competes bill makes several changes to the Job Development Investment Grant program, including: creating a new category for “high-yield projects” (which require a business to invest at least \$500 million and create at least 1,750 jobs), extending the program through 2018, and increasing the cap on annual investments to \$20 million (\$35 million if it is a “high-yield project”).

The number of qualifying jobs increases for projects in Tier 3 counties, and local governments in those counties also are required to provide incentives in order to qualify for JDIG. (Twelve rural counties are currently classified as Tier 3.) In addition to JDIG, the bill addresses several economic development programs and tax policies.

The matching requirements for One NC funding will be based on economic tiers. The bill grants a sales tax exemption to qualifying data centers for electricity and certain business property (if the private owners or tenants

have invested at least \$75 million within five years of the initial investment).

The bill also makes a number of changes related to sales taxes. It adjusts the sales tax refund paid on aviation fuel, exempts sales tax for qualified aircraft and jet engines (as well as for service contracts on those), sets the sales tax rate and a cap on the tax for boats, aircraft and qualified jet engines, exempts motor vehicle service contracts from the new sales tax on repairs, maintenance, and installation (enacted in the budget bill), and clarifies the law concerning sales tax preferences for motorsports parts and fuel. In addition, the bill adds a new section to aid the Department of Revenue with tax compliance and prevention of tax fraud.

H 372 — Medicaid Transformation and Reorganization

The conference committee version of the Medicaid bill will move the state's \$14 billion Medicaid health insurance system from a fee-for-service model (where medical providers are paid for the individual services they provide) to a managed care system.

The bill will create two tiers of insurers. One tier will divide the state into regions where provider-led entities serve patients. The second tier will permit organizations to serve Medicaid patients across the state. The second tier will be open to three organizations, based on bids.

Two types of service providers are part of the new program: provider-led entities and commercial plans. Both would provide health care and services to patients. Provider-led entities will be created by groups of doctors and hospitals who come together to both administer Medicaid funds and to create a network of providers. Provider-led entities may bid for one of the three statewide tier slots, but they are also expected to provide the regional service tier. Commercial plans are expected to include national, for-profit managed care companies.

Three types of Medicaid patients will not be part of the new system — dental care patients (who will continue to be provided through a pay-for-service system), the poor and elderly adults who qualify for both Medicaid and Medicare (who will be overseen by the state), and mental health patients (who already are served through a managed care system for mental health services).

The changes included in the bill will not be in place for at least 18 months and will require federal approval.