



Update

On Thursday the House passed their budget update by a vote of 203-12, with 30 Democrats joining all Republicans in supporting the measure. The plan includes pay raises for teachers and state employees, cost of living increases for retirees, middle-class tax cuts and no controversial changes to the tax code that have been debated in recent years. With a \$330 million surplus in hand, the House crafted a budget light on policy and heavy on measures that will be easy to tout as the fall election season looms. The question, as it always is when it comes to crafting the State budget, is how much will the other chamber's plan differ, and how long will it take to iron out those differences? With the memory of last year's protracted budget battle fresh in everyone's mind, the signs this year point to a much less contentious process. As we've reported, the two chambers agreed early on a spending target (\$22.225 billion, lower than the Governor's \$22.8 billion proposal) and the House budget plan conforms to that figure. The Senate budget is expected to do the same, and the Appropriations Chairs are expected to announce subcommittee meetings next week to begin the process and anticipate that it will be completed by Memorial Day. That would allow an entire month for House and Senate budget writers to negotiate a compromise version before the fiscal year ends on June 30. Budget Chairs from each chamber met on Thursday after session to continue discussions, lending hope to the thought that a final version may be sent to the Governor before the end of June, making the prospect of adjournment in time for the July 4 holiday a little more realistic, if only just a little more.

Tax Changes

The driving force behind many of the tax code changes enacted in recent years (and many more that were debated but eventually not enacted) is Sen. Bob Rucho of Mecklenburg County, a Finance Committee co-Chair. When Sen. Rucho announced he would not be seeking reelection in 2016, there was some speculation that he would use his final session to try and push for a sweeping overhaul of the tax code, including some controversial changes he has advocated for in the past --



NORTH CAROLINA COLLEGE OF EMERGENCY PHYSICIANS



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FOR MORE INFORMATION:

Colleen Kochanek
NCCEP Legislative Counsel
P.O. Box 12946
Raleigh, NC 27605
919.747.9988

colleen@kochaneklawgroup.com
www.kochaneklawgroup.com

broadening of the sales tax base to include legal and other services as well as goods including groceries and prescription drugs, eliminating the mortgage interest deduction on income taxes, etc. Despite an oft-stated desire to see North Carolina eliminate taxes on corporate earnings and capital gains entirely while continuing to reduce personal income tax rates, Sen. Rucho’s priority this session seems to be a relatively modest change by comparison – increasing the “zero-tax bracket,” also known as the standard deduction, by \$2000. This change would mean the first \$17,500 of personal income would not be taxed, a change that would mostly benefit lower and middle-class families (as higher earners generally itemize their deductions rather than taking the standard deduction). The House included this change in their budget plan, to be phased in over 4 years. Sen. Rucho presented an updated version of his plan in Senate Finance this week, which would phase the increase in over two years rather than immediately, as his original proposal would have done. If the Senate budget includes the two-year version of the plan it would mean \$70 million fewer dollars available, which the Senior budget Chair Sen. Harry Brown called “manageable.” As differences between House and Senate budgets go this one is relatively minor, though the Senate may have additional changes in store that prove harder to resolve with their House counterparts. Time will tell, though given the pace of the process thus far, we likely won’t have to wait long.

BILL UPDATES

SENATE BILL 818, Increase the Zero Tax Bracket, was amended in the Senate Finance Committee to increase the standard deduction amounts over two years. The bill would change the standard deduction amount that a taxpayer may deduct from adjusted gross income in calculating North Carolina taxable income as follows:

Filing Status	Amount	
	For taxable years beginning on or after January 1, 2016	For taxable years beginning on or after January 1, 2017
Married, filing jointly/surviving spouse	\$16,500	\$17,500
Head of Household	\$13,200	\$14,000
Single	\$8,250	\$8,750
Married, filing separately	\$8,250	\$8,750

The bill also was amended to provide that the Department of Revenue is not required to adjust the withholding tables applicable for the 2016 taxable year. **The bill as amended was approved by the Senate Finance Committee and will next be considered by the full Senate.**

SENATE BILL 838, Medicaid Transformation Modifications, was amended in the Senate Health Care Committee to:

- update and replace *DHHS through the Division of Health Benefits* with *DHHS* to reflect that DHHS only is responsible for the planning and implementation of the Medicaid transformation;
- add additional services that will not be covered by the capitated PHP contracts to include:
 - services provided through the Program of All-Inclusive Care for the Elderly;
 - audiology, speech therapy, occupational therapy, physical therapy, nursing, and psychological services prescribed in an Individualized Education Program (IEP)

- and performed by schools or individuals contracted with Local Education Agencies;
 - services provided pursuant to a contract with Children's Developmental Services Agencies; and
 - services for Medicaid program applicants during the three-month retroactive eligibility period. Services provided during a prospective, 12-month continuous enrollment period would be covered by the capitated contracts;
- amend the provisions regarding populations covered by PHPs to add five new classes of individuals that are not covered:
 - qualified aliens subject to the 5-year bar for means-tested public assistance who qualify for emergency services under 8 U.S.C. § 1611;
 - undocumented aliens who qualify for emergency services under 8 U.S.C. § 1611;
 - medically needy Medicaid recipients;
 - members of federally-recognized tribes (who would have the option to enroll voluntarily in PHPs); and
 - presumptively eligible recipients, during the period of presumptive eligibility. Presumptively eligible recipients who submit a full Medicaid application and are determined eligible for the Medicaid program would be covered by capitated contracts during the prospective, 12-month continuous enrollment period after they have been determined eligible;
- allow up to 12 (instead of 10) contracts between the Division of Health Benefits and PLEs for coverage of regions;
- add State Veterans Homes to the list of those designated as essential providers;
- require DHHS to remain the Medicaid single State–agency and to be responsible for implementing the required Medicaid transformation and to administer and operate all functions, powers, duties, obligations, and services related to the transformed Medicaid and NC Health Choice programs;
- allow the Secretary of DHHS to appoint a Director of the Division of Health Benefits prior to the effective date of G.S. 143B-216.85;
- provide that, upon the elimination of the Division of Medical Assistance, the Division of Health Benefits will be vested with all functions, powers, duties, obligations, and services previously vested in the Division of Medical Assistance;
- provide that DHHS will continue to administer and operate the Medicaid and NC Health Choice programs through the Division of Medical Assistance until the Division of Medical Assistance is eliminated at which time all functions, powers, duties, obligations, and services vested in the Division of Medical Assistance are vested in the Division of Health Benefits; and
- add new provisions regarding the cooling-off period for certain Department employees to define a former employee as a person who, for any period within the preceding six months, was employed as an employee or contract employee of DHHS and personally participated in any of the following: (1) the award of a contract to the vendor; (2) an audit, decision, investigation, or other action affecting the vendor; or (3) regulatory or licensing decisions that applied to the vendor.

The bill as amended was approved by the Senate Health Care Committee and the full Senate. The bill will next be assigned to a House committee for consideration.

HOUSE BUDGET

Highlights of the House budget include:

- An average 4.1% salary increase for teachers, mostly benefiting those with between 5-19 years experience. Some new and veteran teachers would receive smaller increases but would receive \$1000 bonuses. These increases, combined with salary increases passed last year (which mostly benefitted new teachers) would raise average teacher pay to nearly \$50,000 per year.
- A 2% raise along with a \$500 bonus for state employees.
- A 1.6% cost-of-living increase for retired state employees.
- \$300 million into the State Reserve Fund (commonly referred to as the “rainy day fund”), bringing the balance to a record \$1.4 billion.
- K-12 enrollment growth for public schools fully funded.
- \$9.4 million in the NC Digital Learning Plan for new digital classroom resources and professional development for students and educators.
- \$ 5.8 million increase in the Special Needs Scholarship for special needs children and families.
- Provides \$30,000,000 to establish a reserve fund for recommendations from the Governor’s Task Force on Mental Health. The funds will be released from the reserve fund after the Task Force recommendations are finalized and approved by the Joint Legislative Oversight Committee on Health and Human Services.
- \$200,000 nonrecurring funds for NC MedAssist Program – provides funds for pharmacy program that provides access to prescription medications, patient support, advocacy and related services to indigent and uninsured North Carolina residents. Revised net appropriation is \$2.7 million.
- \$7,700,000 in recurring funds to support the establishment of a residency program at Cape Fear Valley Hospital. This appropriation replaces an anticipated loss of Medicaid revenue as a result of the hospital’s future reclassification as a rural hospital by the Centers for Medicare and Medicaid Services.
- \$1,250,000 in nonrecurring funds to integrate new data sources (such as patient level HEDIS quality measures); automate reporting and analytic capabilities; integrate a tool to construct and analyze claims as clinical episodes of care to fit into reform and help the State move to value-based purchasing arrangements.
- \$1,918,824 in nonrecurring funds to continue the State’s investment in its data analytics capabilities.
- Provides additional \$167,083 in recurring funds and \$8,432,917 in nonrecurring funds for additional resources to implement the Child Welfare Federal Program Improvement Plan in response to the recent Child and Family Services Review (CSFR).
- Provides \$600,000 in nonrecurring funds to establish a pilot program to increase access to Food and Nutrition Services benefits for individuals who are dually eligible for Medicare and Medicaid
- Provides \$691,965 in recurring funds to enhance the state capacity to ensure a competent and well-trained county-based child welfare workforce by increasing the availability of localized, mobile training tailored to specific needs.
- Provides \$59,150 in recurring funds for 3 additional positions to ensure timely review of child fatalities.
- Provides \$1,500,000 in recurring funds to expand Angels Watch to additional counties. Angels Watch is a foster care program for children who are age 0-6.

- Provides \$3,400,000 in nonrecurring funds to the State Public Health Laboratory to partially offset increased newborn screening costs.
- Provides \$8,500,000 in nonrecurring funds to support the local health departments as they adjust to new Medicaid reimbursement rates
- Provides \$750,000 in recurring funds to develop infrastructure to detect, prevent, control and respond to the Zika virus
- Provides \$250,000 in nonrecurring funds for You Quit Two Quit (smoking cessation program)
- Provides \$1,940,274 in recurring funds for additional staff needed for the transition to the new Broughton Hospital facility, which is scheduled to open in June 2017
- Provides \$30,000,000 in nonrecurring funds to partially restore the 2015 reduction to the single stream funding allocated to the LME/MCOs. The revised appropriation for single stream funding is \$247.7
- Provides for reduction of \$310,524,345 in recurring and \$8,056,927 in Medicaid rebase (this number is based upon current enrollment and usage for Medicaid)
- Provides \$759,009 in recurring funds for the impact of Cape Fear Valley Hospital being reclassified as a rural hospital by the Center for Medicare and Medicaid Services
- The final report on Community Paramedicine Pilot Program is moved from November 1, 2016 to March 1, 2017
- The Department of Health and Human Services, Division of Social Services, shall establish an evidence-based pilot program to increase access to public benefits for seniors aged 65 and older who are enrolled in Medicare and Medicaid to (1) improve the health and independence of seniors and (2) reduce health costs. The Division of Social Services shall report to the Office of the Governor and the Joint Legislative Oversight Committee on Health and Human Services on its progress on the pilot program by February 1 following each year the pilot program is in place.
- The Division of Public Health shall create within the North Carolina AIDS Drug Assistance Program (ADAP) a health insurance premium assistance program that utilizes federal funds from Part B of the Ryan White HIV/AIDS Program and ADAP funds to provide eligible beneficiaries with premium and cost-sharing assistance for the purchase or maintenance of private health insurance coverage, including premiums, co-payments, and deductibles.
- Establishes the “Healthy Out-of-School Time (HOST) Recognition Program” to be administered by the Division of Public Health in collaboration with the North Carolina Center for After School Programs based in the Public School Forum.
- Discontinuation of Community-Focused Eliminating Health Disparities Initiative Grants and Repurposing of Funds to the Chronic Disease and Injury Section to establish and evidence-based Diabetes Prevention Program (DPP)
- Department of Health and Human Services shall oversee the administration of a three-year pilot program to be conducted by designated federally qualified health centers (FQHCs) to address NC’s growing opioid addiction and overdose crisis. The goal of the pilot program is to study the effectiveness of combining behavioral therapy with the utilization of a nonnarcotic, nonaddictive, extended-release, injectable formulation of opioid antagonist approved by the US Food and Drug Administration for the prevention of relapse to opioid dependence. By November 1, 2020 the Department shall conduct and submit to the Joint Legislative Oversight Committee on HHS a comprehensive evaluation of the effectiveness of this pilot program.
- Earmarks \$25,000,000 of the Dorothea Dix Hospital Property Fund to increase inpatient bed capacity for short-term care of individuals experiencing an acute mental health,

substance abuse, or developmental disability crisis. The money will pay for any renovation or building costs associated with converting existing acute care beds into licensed, short-term inpatient behavioral health beds designated for voluntarily and involuntarily committed patients in the rural hospitals selected to participate in the pilot program. The Department will conduct a three-year pilot program to assist rural hospitals in the conversion of existing, unused acute care beds into licensed, short-term inpatient behavioral health beds. At least once every six months, the Department shall conduct monitoring visits of the rural hospitals participating in the pilot program and shall also be responsible for investigating all complaints related to the pilot program. The Department shall report on the status of the pilot program at least once each year to the Joint Legislative Oversight Committee on HHS and the Fiscal Research Division. This section also earmarks \$2,000,000 to ensure that a comprehensive array of outpatient treatment and crisis prevention and intervention services are available and accessible to children, adolescents, and adults in every LME/MCO catchment area for the purpose of reducing the **emergency department** utilization rate for these types of crisis. The funds will be allocated to LME/MCOs to increase the number of facility-based crisis centers in catchment areas with the highest need, giving special priority to facility-based crisis centers for children and adolescents in high-need areas of the State.

- Division of Medical Assistance shall study the impact of covering, without cost-sharing, all of the adult preventive services recommended by the US Preventive Services Task Force (USPSTF) and Centers for Disease Control and Prevention's Advisory Committee on Immunization Practices (ACIP) in order to qualify for a 1% increase in the federal Medicaid assistance for preventative services. DHHS shall submit a report to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice by Nov. 1, 2016.

- Colleen Kochanek
NCCEP Legislative Counsel
P.O. Box 12946
Raleigh, NC 27605
919.747.9988
colleen@kochaneklawgroup.com
www.kochaneklawgroup.comⁱ

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