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THE BUDGET

Last week the House rolled out portions of its plan to spend approximately \$66 billion over the next two years, with appropriations area committees unveiling their respective budget proposals. On Monday and Tuesday of this week the full House budget proposal was released and includes millions of dollars in cuts, including a reduction in vacant state employee positions. It also proposes raising tuition for students in the UNC System. The Republican-controlled House will need to reach an agreement with the Senate before a budget can be passed by the General Assembly and sent to our Democratic Gov. Josh Stein.

Rep. Donny Lambeth, House Appropriations Senior Chair and House Health Appropriations Chair, acknowledged the tough economic conditions, stating, “We are up against a really challenging time, economically.”

The House plan includes additional cuts and adjustments:

- the elimination of the Office for Historically Underutilized Businesses, which includes 12 full-time positions;
- a \$5.4 million reduction in vacant state employee jobs within the general government sector, which has a 20% vacancy rate;
- a \$500 million transfer from NC Innovation to the state Helene fund, a program helping UNC System researchers convert promising ideas into revenue-generating businesses;
- a temporary halt on new vehicle purchases by the state’s motor fleet managers; and
- a proposal to add a statue of the late Rev. Billy Graham to the State Capitol grounds, contingent on private funding.

The budget also includes provisions affecting the State Board of Elections, which would gain seven new exempt positions, allowing for political appointments. These positions raised concerns from Rep. Phil Rubin, who said, “a real risk to our elections” could emerge if these changes are implemented. His amendment to block the new positions failed, as did another amendment to prevent the board from hiring private attorneys.



NORTH CAROLINA COLLEGE OF EMERGENCY PHYSICIANS



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On health care, the House plan notably does not include funding for numerous valued projects, including the Healthy Opportunities Pilot Program (HOPs). It also terminates Medicaid coverage for weight management drugs starting October 2025, requires the Department of Health and Human Services to save \$10 million annually by eliminating vacant positions (though positions in certain divisions are exempt from cuts), and eliminates the Office of Health Equity within DHHS. During the Health Appropriations committee, Rep. Lambeth acknowledged that while the health provisions in the budget were far from perfect, the House had made significant efforts. He remarked, “Is this 100% perfect? Nope. We’ve got some work to do.” He continued, “Are there cuts in here that I don’t like? Absolutely – in other areas as well,” noting that it was “much better than the Senate budget.” Lambeth also discussed concerns regarding potential federal cuts to Medicaid, adding, “We are very concerned about Medicaid cuts at the federal level. We would have a fair amount of work to do to define what that work requirement means.” He emphasized, “We’ll have at some point an update on what that might mean to the state budget.”

See a short summary of the House Budget below.

CONFIRMATIONS

The Senate voted to confirm three nominations made by Gov. Stein this week, approving Regina Smith Adams to the Board of Review and Christopher J. Ayers as Executive Director of the Public Staff of the North Carolina Utilities Commission (NCUC). The Senate also voted to confirm Don van der Vaart to the Utilities Commission, a nomination made by Auditor Dave Boliek. The authority to appoint a member to the NCUC was given to the Auditor last December by the General Assembly, and while Stein has challenged the change in court, the appointment of van der Vaart was allowed to move forward.

HOUSE BUDGET

The North Carolina House of Representatives passed its proposed budget bill by a vote of 86 to 20 which was surprisingly bi-partisan and included more than half of the Democrats in the chamber. All Republicans voted in favor of the budget package and as a group spoke highly of the legislation that was put together to address a difficult fiscal year along with increased needs from many areas in the State. The House proposal would potentially slow down some of the tax rate reductions that were scheduled to go into effect to address the economic realities by making sure the State’s revenues meet certain thresholds before the tax cuts go into effect. A group that is closely tied to Sen. Berger released an article accusing House Republicans of a tax hike; which the House Republican caucus quickly discounted. The proposed budget includes an 8.7% raise for teachers over a two year period to make them the highest paid teachers in the region. A 2.5% raise for non-certified school personnel and state employees was also included and a 1% bonus in 2025-2026 and a 2% bonus in 2026-2027 for state retirees.

The House budget made substantial cuts to State employees by removing 20% of the unfilled positions in various agencies but also allows those agencies to use those funds. The House provision does not include funding for the new Children’s Hospital that was provided \$50 million in the Senate budget and they also are in conflict over additional funding for Hurricane Helene.

We expect the budget negotiations to be intense between the chambers and will see how new Speaker Hall, in his first battle with the Senate will fare. The House does have some friends on their side with Governor Stein stating that he prefers the House version as well as State Treasurer Briner who also praised the House version. Of course, the House version was also approved on a bi-partisan basis and we expect that House Democrats, who don't like all the budget provisions still see it as the better choice and more fiscally responsible.

The House proposed budget includes the following key health provisions:

- Funds for the Transitions to Community Living Initiative to ensure compliance with the 2012 US Department of Justice Settlement. Funds will provide housing, tenancy support, and wraparound mental health services
- Funds to support the Partnership and Technology Hub (PATH NC) child welfare information system statewide
- \$300,000 nonrecurring funds each year of the biennium to Free and Charitable Clinics
- \$2 million in recurring funds to Local Health Departments
- \$200,000 in recurring funds for the NC Statewide Telepsychiatry program
- Eliminates funding for vacant positions in all DHHS divisions except for the Division of Public Health, Division of Aging, and Division of State Operated Healthcare Facilities
- \$18 million in nonrecurring funds for electronic health record implementation
- \$60 million for fiscal year 2025-2026 in recurring funds and \$80 million in fiscal year 2026-2027 in recurring funds to support child care subsidy reimbursement rates
- \$25 million in fiscal year 2026-2027 in recurring funds to support the child care subsidy family co-pay
- 3% Medicaid rate increase for speech language pathologists and durable medical equipment
- \$15 million recurring reduction to single stream funding
- Provides funds for Medicaid rebase
- Includes breast cancer prevention imaging parity
- Includes Care First Prior Authorization reform
- Creates a study to centralize Medicaid eligibility determinations
- Continues Medicaid coverage for pregnant women for 12 months postpartum
- **Provides that no later than October 1, 2025, the Department of Health and Human Services must report to the Joint Legislative Oversight Committee on Health and Human Services and the Joint Legislative Oversight Committee on Medicaid on DHHS's efforts to address the issue of the inappropriate use of acute care hospital settings for the delivery of behavioral health services**
- Provides that the Foster Care Transitional Living Initiative Fund shall continue to fund and support transitional living services that demonstrate positive outcomes for youth, attract significant private sector funding, and lead to the development of evidence-based programs to serve the at-risk population
- Includes the modification of certified nurse midwife requirements regarding written plans for the emergent and nonemergent transfer of patients planning births outside of a hospital

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