



**CITY MANAGER'S OFFICE  
M E M O R A N D U M**

May 23, 2014

**TO:** Ron Carlee, City Manager  
Ron Kimble, Deputy City Manager

**FROM:** Dana Fenton, Intergovernmental Relations Manager

**SUBJECT: Week 2 State Legislative Report**

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The second week of the 2013 Regular Session of the 2013 General Assembly moved very quickly with the House taking final action on the Omnibus Tax Law Changes (HB 1050) legislation and the Senate taking final action on the Energy Modernization Act (SB 786). The Senate leadership is poised to take action next week on the Omnibus Tax Law Changes (HB 1050), Regulatory Reform (SB 734), and the Governor's amendments to the State's two year budget (SB 842).

High priority issues the City is following include:

**Business Privilege License Tax:** The House passed and sent to the Senate the Omnibus Tax Law Changes (HB 1050 - Howard) bill, which includes the replacement source of revenue for the privilege license tax. Section 12 reforms the current privilege license tax by repealing and replacing it with a \$100 flat local business tax on all business locations effective July 1, 2015. The current privilege license tax system would remain in place until that time. State staff estimates the City would lose \$8.5 million in revenue in the first full year of implementation of this proposal in FY 2016.

The League of Municipalities continues to work with the House and Senate leadership on an alternative plan that would provide for tiered rates of \$100 and above for businesses based upon numbers of employees and an effective date of July 1, 2016. A system with tiered rates starting at \$100 would increase the amount of revenues compared to the flat tax. The League proposed two-year period for transitioning from the privilege license tax to the new local business tax would provide sufficient time for local governments, NC Department of Revenue, NC Secretary of State and local Register of Deeds to identify all the additional businesses that would be taxed under this proposal. In Charlotte alone, the number of businesses taxed would increase from the current 40,000 to over 80,000.

**Film Production Credit:** The McCrory Administration is proposing substantial reforms to the film production credit program. The reforms are part of the Governor’s Budget proposal (SB 842), which may be considered next week. The fiscal impacts of this proposal upon the State and local governments are not available at this time. There are four parts to the proposal.

- The first part would enact the new “Motion Picture Production Tax Credit” program. The program would be effective January 1, 2015, and be repealed for qualifying expenditures occurring on or after January 1, 2018. The reformed program provides for a credit against taxes paid by eligible production companies. All productions must have total qualifying expenditures in the State of at least \$1 million, as opposed to the current \$250,000. The maximum credit payout for a production would be \$6 million. A motion picture production is defined as “A feature-length film, video, television series defined as a season not to exceed 27 episodes, or a commercial for theatrical or television viewing or a television pilot”, and specifically excludes talk shows, sporting events, awards shows, long-form productions that primarily market a product or service, political advertising, and obscene productions.
- The second part implements the “Local Motion Picture Production Sales Tax Refund” program and would be effective on or after January 1, 2015. This program allows counties to pass resolutions authorizing the State to retain the portion of the local sales and use tax attributable to motion picture productions and makes these available for the “Motion Picture Production Tax Credit” program.
- The third part authorizes counties to pass resolutions allowing an exemption from room occupancy taxes for qualified motion picture productions. This would be effective on or after January 1, 2015.
- The fourth part implements the “Motion Picture Production/Postproduction Facility Tax Credit” program to encourage investment in permanent facilities. This part would be repealed for taxable years beginning on or after January 1, 2018.

HB 1142 (Hamilton) continues the existing film production credit program by repealing the January 1, 2015 sunset date. HB 1142 also raises the minimum threshold for qualifying expenses from \$250,000 to \$300,000 before a production is eligible for the credit. HB 1142 was referred to House Finance. The City supports continuation of the film production credit program.

Other issues the City is following include:

**Tree Removal, Replacement and Preservation:** HB 1191 (Dixon) is Agriculture and Forestry Awareness Commission requested omnibus legislation that would, among other things prohibit local governments from regulating the “removal, replacement, and preservation of trees on private property within its jurisdiction”. Considerable opposition to this proposal has been generated from all over the State. It is expected that the tree related provisions will be removed if and when the bill is heard in committee. HB 1191 was referred to House Agriculture. The City supports removal of this provision from HB 1191.

**Energy Modernization Act:** SB 786 (Rucho) is the Joint Legislative Commission on Energy Policy recommended bill that addresses a broad range of energy issues. The section that would impose an 8% cap on the growth of city property tax revenues from year to year was intended to address the potential for property in oil and gas exploration areas to increase substantially in value due to the presence of oil and gas. This section has been amended to have the issue sent to a study committee that will make recommendations to the 2015 General Assembly. SB 786 passed the Senate.

**Regulatory Reform:** SB 734 (Wade), which was introduced as the Environmental Review Commission recommended legislation to repeal the requirement for governing bodies to muster unanimous votes to enact certain environmental ordinances, was transformed into an omnibus style regulatory reform bill. The proposed repeal is in Section 1.2 of the omnibus bill. SB 734 was reported out of Senate Agriculture / Environment / Natural Resources, and will be on the floor of the Senate on Wednesday, May 28 for its final vote.

**Coal Ash:** SB 729 (Apodaca) is the Governor's Coal Ash Action Plan and was referred to Senate Agriculture / Environment / Natural Resources.

**Zoning / Design and Aesthetics Controls:** HB 150 (Dollar) is the design and aesthetics control legislation passed by the House in 2013 and which was to be debated in the Senate on Monday, May 19. However, debate was cancelled and HB 150 was re-referred back to the Senate Rules Committee for potential amendments. HB 150 would prohibit local governments from requiring certain building design elements (i.e. design standards) for one- and two-family dwellings. If HB 150 is enacted, Council would no longer be able to consider design standards when evaluating conditional zoning petitions. Oftentimes, incorporation of design standards into conditional zoning petitions enable neighboring property owners to support such petitions. Accordingly, the City opposes HB 150.