



NC Spirits Association

Legislative Report
June 29, 2025

Despite expectations for resolution, the North Carolina General Assembly ended the week in gridlock, adjourning without a finalized state budget or clear path forward. While lawmakers reached agreement on a substantial \$700 million Hurricane Helene relief package, other key negotiations—on tax cuts, state employee raises, education funding, and Medicaid adjustments—remained unresolved. Instead of a comprehensive budget, lawmakers leave Raleigh with continued reliance on a stopgap spending plan. Multiple “mini-budgets” failed to gain traction, and Senate and House leaders could not even agree on an adjournment resolution, underscoring the deep divide between chambers.

Much of the legislative action this week was dominated by polarizing cultural debates and power shifts. Controversial bills advancing or passing included bans on diversity, equity and inclusion (DEI) programs, new immigration enforcement requirements, restrictions on gender identity recognition, a school cell phone policy mandate, and expanded gun permissions on private school campuses. A bipartisan foster care reform bill and the final passage of a Charlotte transit referendum bill marked rare moments of cross-party agreement. Meanwhile, tensions flared within the Republican party in both chambers over a failed push to ban inshore shrimp trawling, as protests from commercial fishermen drew significant media attention and internal friction.

Outside the General Assembly, headlines were shaped by JetZero’s incentive negotiations, ongoing Wolfspeed bankruptcy proceedings, education policy changes, and litigation over transparency at Central Piedmont Community College. The week also brought the rollout of DMV modernization efforts, the launch of a Southern public university accreditor including the UNC System, and renewed attention to climate impacts amid record energy use and ongoing Helene recovery efforts. Lawmakers are now expected to return in late July, with major budget and policy questions still hanging in the balance.

The legislature adjourned on Thursday, June 26. The House and Senate will return next week but are not expected to vote on legislation. Although things could change, the House is expected to reconvene on Monday, July 14 and the Senate is expected to reconvene on Tuesday, July 29 for voting sessions.

BILL STATUS UPDATES

House Bill 125, Continuing Budget Operations, was reported favorable on the committee substitute in the Senate Appropriations/Base Budget Committee, amended in the Senate 3 times and passed the full Senate 39-6. It was sent to the House and referred to the House Rules Committee. The bill failed on concurrence by the full House and a Conference Committee was appointed by the House.

The Senate committee substitute to House Bill 125 serves as a wide-ranging supplemental appropriations and policy bill, making targeted financial adjustments for the 2025–2027

biennium across multiple sectors, including savings, disaster recovery, education, healthcare, natural resources, public safety, and infrastructure.

In Part I, the bill directs the transfer of \$1.14 billion to the Savings Reserve and reduces recurring appropriations to the Future Building Reserves by \$42.2 million per year.

Part II focuses on disaster relief funding. It transfers \$40 million to the State Match Fund for FEMA disaster recovery assistance and allocates \$20 million to Robeson County for waterway restoration work related to Tropical Storm Debby and Potential Tropical Cyclone #8. Any unspent funds will revert to the Savings Reserve by mid-2027.

Part III delivers significant education funding. It provides approximately \$75 million per year to the Community College System and over \$104 million per year to K-12 public schools for average salary and enrollment adjustments. The UNC system receives nearly \$56 million per year for enrollment growth, NC Promise tuition subsidies, and facility maintenance. Additional targeted appropriations support Wilson Community College's biologics center, tuition grants for graduates of specialty high schools, charter school review operations, and rural medical residency programs. Lottery and Escheat Fund adjustments are made across scholarship and school facility programs. Some funds are reallocated or extended for future use, including rollover provisions for campus repair funds and wartime veteran scholarships.

Part IV makes major healthcare investments. Over \$640 million per year is appropriated for Medicaid enrollment and cost increases, including the new Children and Families Specialty Plan. Adjustments are made to how insurance tax revenue offsets Medicaid costs, resulting in a \$22.2 million annual reduction in appropriated General Fund support. The bill also funds the Transitions to Community Living Initiative, new managed care contracts, child welfare IT modernization (PATH NC), and behavioral health initiatives. Single Stream Funding is offset with opioid settlement dollars. Pharmacy reimbursement rates in Medicaid are extended through 2031. The Healthy Opportunities Pilots receive an additional \$30 million, and a statewide supply of 8mg intranasal naloxone is funded.

Part V supports cultural and natural resources. It appropriates funds for Fort Fisher, the NC Transportation Museum, the NC Zoo's Asia complex, and expanded staffing at numerous parks and aquariums. New recurring and nonrecurring funds also support beach and inlet management planning, including a statutory rewrite and \$400,000 to update the plan. Environmental Management Commission staffing is expanded, and temporary wastewater rule changes are exempted from standard review. DACS receives new funding for avian flu monitoring and meat inspection. A significant economic development package for Guilford County provides over \$250 million across two years for site infrastructure supporting an airplane manufacturer committed to a \$4.5 billion investment and 14,000 jobs.

Part VI supports judicial and public safety operations. New funding increases indigent defense pay, provides VIPER network support, and creates administrative roles at SBI and Highway Patrol. A new School Safety Grants Program is established under the Center for Safer Schools, offering crisis response, mental health training, and equipment funding. Unused AI School Safety Pilot funds are reallocated to Alamance-Burlington Schools, and key deadlines and fund availability windows are extended. Funding is also provided for administrative staff and litigation support within various law enforcement and education oversight agencies.

Part VII addresses state operations, fire services, and elections. The Office of State Fire Marshal receives increased funding for operations, leasing costs, and administrative roles. The State Auditor is authorized to create the Division of Accountability, Value, and Efficiency (DAVE) to assess agency spending and staffing with AI tools. The State Board of Elections gains seven new exempt positions, permanent funding for three others, and permission to retain private legal

counsel. Appropriations are also made to the Military Affairs Commission and for repairs to the Fayetteville State Veterans Home.

Part VIII modernizes broadband policy, updating statutory definitions to align with federal IIA guidance. It broadens eligibility for pole replacement reimbursements to include areas affected by natural disasters.

Part IX governs employee compensation and benefits. It ensures scheduled raises and bonuses continue during any budget gap and sets new contribution rates for retirement and health benefits. Restrictions are placed on how agencies can use salary and benefit funds, and OSBM is tasked with oversight and reallocation of surpluses.

Part X allocates over \$1.75 billion from the State Capital and Infrastructure Fund for 64 specific construction, renovation, and infrastructure projects. UNC system repair funds are capped at \$15 million per project, with some exceptions, including for Poe Hall at NC State. ARPA funds are transferred to support capital spending.

Part XI funds DMV staff expansion, relocation of maintenance yards, and ferry maintenance. It also initiates a 10-year revenue forecast process and repeals outdated DOT certification statutes.

Part XII includes typical technical and severability clauses and clarifies that this act remains operative until a new budget is enacted.

Senate Floor Amendments to HB125

Amendment #1 revises broadband definitions. Instead of using terms as “amended by” federal guidance, the bill now defines "low-cost broadband service option," "reliable broadband service," "underserved," and "unserved" based on how those terms are interpreted under the federal Infrastructure Investment and Jobs Act (IIJA) by NTIA. This slightly narrows the scope by relying on current interpretation rather than future amendments.

Amendment #2 adds a new section authorizing the State Controller to use recovered audit funds for IT system maintenance, accounting training, financial reporting, debt collection, and e-commerce upgrades, subject to General Assembly appropriation. This provides more flexibility in using audit recovery proceeds to improve fiscal infrastructure.

Amendment #3 increases capital appropriations by \$200 million, raising the total in Section 10.1 from \$1.55 billion to \$1.75 billion. It doubles funding for the UNC repair and renovation (R&R21) project code from \$200 million to \$400 million and sets aside \$100 million exclusively for NC Central University. These funds cannot supplant existing or projected allocations and are exempt from the \$15 million per-project cap.

House Bill 192, Salary Adjustments and Budget Offsets, was reported favorable on the committee substitute in the House Appropriations Committee, reported favorable in the House Rules Committee, passed the full House 96-17, was sent to the Senate and referred to the Senate Rules Committee.

House Bill 192 serves as a comprehensive appropriations adjustment bill for the 2025–2027 fiscal biennium, with sweeping changes to public education funding, state employee compensation, agency spending, and benefit programs. The committee substitute retools previously enacted funding strategies and introduces new salary structures, reallocations, and reductions across numerous state functions.

Part I – Appropriations to Implement Compensation Adjustments

The bill appropriates approximately \$882 million from the General Fund and \$27.8 million from the Highway Fund for FY 2025–26 to implement compensation and benefit increases for public school employees and state personnel. Departmental receipts may be used to fulfill required increases across the 2025–27 biennium.

Part II – Budget Adjustments Across Education, Health, and Human Services

This section reallocates and adjusts funds from various sources:

- Education Lottery Fund, Escheat Fund, and Civil Penalty and Forfeiture Fund are reallocated to fund school transportation, capital needs, scholarships, and textbooks, while reducing appropriations for certain programs like Plasma Games and Beginnings.
- DPI receives over \$104 million annually for average salary changes and enrollment-based adjustments. The Classroom Materials Allotment is partially funded by Indian Gaming revenues, and the school meals program is amended to ensure free meals for reduced-price qualifiers.
- Substantial reductions are made to:
 - School transportation (\$160M–\$164M per year)
 - Nursing faculty salary adjustments
 - DHHS mental health funding, including three-way beds, single-stream funding, and the SA program
 - Community college and UNC programs, including Longleaf Commitment and graduate waivers
- Transfers from the Talc Settlement and TANF block grant offset several of these cuts. The Mental Health and Substance Use Task Force Reserve Fund is repealed, and its balance redirected.
- Vacant positions across state agencies must be eliminated to meet specified budget reductions.

Part III – Public School Compensation Reform

This section overhauls the teacher and administrator salary framework:

- The teacher salary schedule is revised downward compared to prior proposals, now ranging from \$4,800 to \$5,711 per month based on experience.
- The bill creates a consolidated teacher bonus program awarding:
 - Bonuses for student achievement in AP/IB/Cambridge courses
 - Industry certification attainment in CTE courses
 - EVAAS-based student growth scores in reading and math
- A teacher salary supplement formula is established for counties with limited tax base capacity (adjusted taxable value < \$63 billion), capped at \$5,000 per teacher.
- A new principal salary schedule is set based on school ADM and growth metrics, ranging from \$79,737 to \$119,604, and includes bonus awards up to \$15,000 for top-performing schools.
- Salaries for assistant principals, superintendents, central office staff, and noncertified school employees are increased, including a 2.5% base raise across categories, with some receiving market adjustments or degree-based supplements.

Part IV – State Employee and Judicial Compensation

This section authorizes a wide-ranging package of 2.5% raises for state employees and elected officials, plus revised pay scales for numerous roles:

- **State employees:** Eligible for step increases, bonuses, and performance-based raises during periods of continuing budget authority.
- **Labor Market Adjustment Reserve:** \$162M redirected from eliminated vacant positions to fund adjustments; capped at the greater of **\$15,000 or 15%** per employee.
- **Executive and judicial officials:** Salary schedules are updated across cabinet-level roles, judges, clerks, magistrates, and legislative staff.

- Correctional officers, State Highway Patrol, SBI/Alcohol Law Enforcement agents, and juvenile justice staff receive updated pay bands based on experience, reflecting recruitment and retention goals.
- A 1% cost-of-living adjustment is granted to retirees in TSERS, JRA, and LRS, funded with \$41 million in nonrecurring funds.

Part V – Operating Rules and Effective Dates

The bill provides that its provisions control until the full 2025–26 Current Operations Appropriations Act is enacted. The effective date of most provisions is July 1, 2025, unless otherwise stated.

House Bill 328, Regulate Hemp-Derived Consumables, was referred to the House Rules Committee.

Senate Bill 328, Age 21 Hemp-Derived Consumables, was reported favorable on the committee substitute in the House Alcoholic Beverage Control Committee, reported favorable on the committee substitute in the House Rules Committee, amended on the House floor, passed the full House, sent to the Senate and referred to the Senate Rules Committee.

Senate Bill 328 underwent two House committee substitutes and a floor amendment. The first committee substitute replaced the original bill and enacted new GS 14-313.1, making it a Class 2 misdemeanor to knowingly sell or deliver a hemp-derived consumable product to someone under age 21, or for a person under 21 to possess such a product. Sellers must verify age when they reasonably believe the purchaser is under 21. The definition of hemp-derived consumable product initially included finished goods intended for ingestion or inhalation containing any hemp-derived cannabinoid, excluding topicals and FDA-recognized safe seeds or seed-derived ingredients.

The second committee substitute revised the definition to clarify that the product must, at the time of sale to the ultimate consumer, contain no more than 0.3% delta-9 THC on a dry weight basis. The House floor amendment added a provision specifying that nothing in the statute authorizes the sale, delivery, or possession of any hemp product not otherwise permitted under state or federal law. The act becomes effective October 1, 2025, and applies to offenses committed on or after that date.

Senate Bill 429, 2025 Public Safety Act, was reported favorable on the committee substitute in the House Rules Committee, passed the full House, was concurred on by the Senate and will now go to the Governor.

The House committee substitute to Senate Bill 429 makes several structural and substantive changes to the third edition. It renumbers sections starting with Section 10 and removes several previous provisions, including: a proposed amendment to GS 15A-268 regarding biological evidence transfer; a change to GS 132-1.4 that would have excluded emergency calls by minors from public records; a proposed prohibition on possession of hemp-derived consumables by individuals under 21; and an increase in the minimum age to purchase certain tobacco products from 18 to 21.

The bill adds new Section 23, which authorizes—but does not require—law enforcement agencies with online crime reporting systems to allow individuals to report lost or stolen firearms online. These reports are not considered public records, and false reports are subject to penalties under GS 14-225. This section becomes effective October 1, 2025.

Section 24 permits the chief district judge and senior resident superior court judge to establish rules allowing manual signatures on certain non-criminal court orders executed outside of court. This authority expires two years after the act becomes law.

Section 25 imposes a temporary restriction on the use of IOLTA funds held by the NC State Bar, limiting their use to administrative costs only—prohibiting grant awards—from July 1, 2025, through June 30, 2026.

Senate Bill 595, Various Revenue Laws Changes, was reported favorable on the committee substitute in the House Finance Committee, reported favorable in the House Rules Committee, passed the full House and failed on concurrence in the Senate.

Senate Bill 595, as revised by the House committee substitute, is a comprehensive regulatory and tax reform bill containing key provisions in three major areas: tax policy, credit union modernization, and technical corrections.

Part VI makes a minor technical change to GS 105-274.1 concerning the prohibition on double taxation.

Part VIII creates a new state tax credit under GS 105-129.71 for rehabilitation expenditures made on an “eligible corporate campus.” Taxpayers who qualify for the federal rehabilitation credit under IRC § 47 and invest at least \$10 million in rehabilitating a historic corporate headquarters located on a 20-acre or larger site can receive a 40% state credit on qualifying expenditures. The expenditures must occur on or after January 1, 2026, and the credit cannot be claimed for tax years beginning before then. Phased projects placed into service in multiple years are eligible under special timing provisions.

Part XI is a major overhaul of North Carolina’s credit union statutes, modernizing and consolidating provisions from Articles 14A–14L into a broader framework extending through Article 15A. Key changes include:

- **Terminology and Governance Updates:** Defines new terms such as “Administrator” and “Division” for the Credit Union Division of the Department of Commerce. References throughout the statutes are updated accordingly.
- **Fee Authority and Penalties:** Allows the Administrator to charge or waive fees and impose civil penalties for violations, with proceeds directed to the Civil Penalty and Forfeiture Fund.
- **Reporting and Exam Requirements:** Increases flexibility for the Administrator in setting reporting schedules and penalties. Requires digital access for examinations and reduces reliance on paper recordkeeping.
- **Disciplinary and Emergency Powers:** Expands the Administrator’s enforcement tools, including removal or suspension of officers and authority to act during emergencies. Creates a formal administrative hearing and appeals process under Article 3A of the APA.
- **Expanded Investment Powers:** Updates investment limits, permits fintech-focused investments, and allows for funding of employee benefit plans outside of traditional caps if tied to the plan.
- **Membership Reforms:** Broadens eligibility to include low-income residents, underserved rural communities, and family members of those in a common bond group. Clarifies how businesses and entities may become members.
- **Governance Modernization:** Modernizes rules for member meetings, voting, and expulsion procedures. Removes rigid notice/hearing rules for expulsions and allows service limitations as alternatives.

- **Parity with Federal Credit Unions:** Grants state-chartered credit unions broader authority to engage in activities permitted for federally chartered credit unions unless disapproved by the Administrator within 45 days.
- **Suspension/Conservation Process:** Streamlines conservation actions and replaces prior hearing processes with the new appeals structure under GS 54-109.18A.

Effective Date: All changes take effect January 1, 2026.

Senate Bill 664, JMAC/ABC/Other Revisions, was reported favorable on the committee substitute in the House Rules Committee, amended on the House floor, passed the full House, concurred on in the Senate and will be sent to the Governor.

Senate Bill 664 underwent significant changes through the House committee substitute and a subsequent House amendment. The committee substitute originally added several new parts related to distillery operations, public contracts, utility relocations, and megasite infrastructure. However, the House amendment later removed many of those additions.

Key provisions that remain in the bill include:

- **Distillery Alternating Proprietorship (Part II, Section 2):** Distilleries operating under an alternating proprietorship may sell their own products at their permitted locations during legal hours and may contract with a host distillery to manage liquor sales. Each distillery must maintain its own records and remit taxes. Only the host distillery is required to hold a mixed beverage permit if selling another distillery's products in mixed beverage form.
- **Wine Delivery Packaging (Part II, Section 4):** Modifies packaging requirements for unfortified wine sold via vehicle delivery under certain alcohol permits. The new requirements ensure packaging complies with open container laws (GS 20-138.7), requiring containers to be sealed in the manufacturer's original packaging or transported in locked compartments or outside the passenger area. Effective October 1, 2025.
- **Utility Relocation Cost Threshold (Part IV, Section 6):** Increases the population threshold from 10,000 to 20,000 for when the NC Department of Transportation is responsible for nonbetterment costs related to relocating water and sewer lines. This change is retroactive to January 1, 2025.
- **Megasite Infrastructure (Part VI, Section 8):** Removes the word "public" from the description of infrastructure eligible for upgrades under the megasite readiness program in Section 11.11 of SL 2025-74, potentially expanding the scope of eligible infrastructure.

Provisions removed by the House amendment:

- Expansion of culinary permits to additional locations.
- New competitive bidding requirement for public contracts involving water or sewer system construction.
- State reimbursement mandate for utility relocations on federal interstate projects.
- City reimbursement requirements for telecom facility relocations in rights-of-way.
- Redefinition of "public service corporation" for regional sports, transportation, and transit authorities.

Senate Bill 710, DPS Agency Changes.-AB, was reported favorable on the committee substitute in the House Finance Committee, reported favorable in the House Rules Committee, passed the full House, concurred on in the Senate and sent to the Governor.

For more information about legislation described in the legislative reports, feel free to contact us at chorton@maynardnexsen.com, dferrell@maynardnexsen.com, criemer@maynardnexsen.com or at (919) 573-7421. Information is also available on the General Assembly's website: www.ncleg.gov.

Prepared By: David P. Ferrell, Clark Riemer and Chase Horton – NC Spirits Lobbyists

**MAYNARD NEXSEN PC
4141 Parklake Ave, Suite 200
Raleigh, North Carolina 27612
Telephone: (919) 573-7421
dferrell@maynardnexsen.com
www.maynardnexsen.com**