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Senate Passes State Budget Proposal

The Senate introduced and passed its [proposal](#) for the next two-year state budget this week, sending it on for House consideration just as each chamber leaves Raleigh for a ten-day spring break. While most senators cast a party-line vote on the measure, four Democrats voted with the Republican majority in favor, while one Republican voted against. The two-part budget would spend \$32.6 billion in FY 25-26 and \$33.3 billion in FY 26-27. It consists of a 661-page "[money report](#)" and a 440-page [bill](#).

[News coverage](#) of the budget focused on multiple key points, including additional income tax cuts proposed for coming years, raises for teachers and state employees, funding to build an NC Children's Hospital in Chapel Hill, and cuts to state agencies and positions within them.

House Republicans, who will now take their turn in writing their version of the budget, have previously voiced concerns over some of those funding decisions. And Governor Josh Stein, who would eventually consider whether or not to sign the bill, said in a statement Wednesday that the "Senate budget falls short...we need to do much more to compensate teachers, support community colleges, and protect public safety."

Typically, the budget proposals from each chamber differ significantly, setting up a protracted, behind-the-scenes negotiation lasting into the fall. Legislative observers predict a similar process this year, particularly as budget writers wait for Congress and the Trump administration to make decisions on further funding cuts that would impact the state budget.

Significantly for cities, the Senate budget bill removes \$633 million from the NC Department of Transportation budget and directs it primarily to western North Carolina Helene relief needs. The transportation cuts include proposed changes to the Powell Bill municipal road funding program, detailed elsewhere in this Bulletin. The budget also proposed over \$700 million for Helene relief and funding to restore the state Rainy Day Fund. It also directed funding to water infrastructure funds, including \$15 million to the Viable Utility Reserve and another \$110 million for PFAS-related upgrades.

The Senate budget also contained non-budgetary policy changes, including one that would eliminate or restrict the extra-territorial jurisdiction authority for cities across the state, detailed elsewhere in this Bulletin. It also proposed eliminating the NC Historically Underutilized Businesses Office.

House leaders will likely delay much of the development of their budget proposal until after the May 8 crossover deadline.

ACTION ALERT: Oppose HB 765 Local Gov. Development Regulation Omnibus

This week, the [House Housing and Development Committee](#) passed [HB 765 Local Gov. Development Regulations Omnibus](#), a sweeping measure poised to dismantle local land-use planning and regulations. HB 765 represents an unprecedented shift that strips municipalities of their ability to apply tailored regulatory standards, paving the way for unchecked development in some cases while imposing rigid statewide mandates in others.

Please contact your [House members](#) *NOW* and urge them to **OPPOSE HB 765.** If passed, this legislation would significantly restrict local communities' ability to shape their future, attract economic development, and maintain their unique quality of life.

When you contact your legislators, make it clear that HB 765 will:

- Create a patchwork of state mandates and ban common-sense local land-use practices leading to unregulated and incompatible development, undermining housing affordability, and damaging existing property values.
- Eliminate the decision-making powers granted to locally elected leaders by their voters, subjecting those officials to legal penalties during routine land-use planning decisions, and create unprecedented conflict-of-interest rules.
- Remove the ability of residents and local officials to pursue their unique visions for their communities, which are critical to attracting new residents and new businesses and maintaining their unique quality of life.
- Undermine meaningful public engagement and community involvement in shaping policies that address specific housing needs.

Now is the time to let your legislators know that the bill will harm cities and towns across North Carolina, as well as their residents. **Tell them to please oppose HB 765 Local Gov. Development Regulations Omnibus.**

Refer to [this document](#) for a more detailed look at the bill's provisions, which range from massive changes to conditional zoning to mandated minimum density requirements.

Housing and Development Committee Advances Major Land-Use Bill and Statewide ADU Mandate

Legislators on the [House Housing and Development Committee](#) met late Wednesday evening to debate and ultimately approve two significant measures: [HB 765 Local Gov. Development Regulations Omnibus](#) and [HB 627 Regulation of Accessory Dwelling Units](#). After a 2.5-hour delay, the committee convened for a shortened meeting, limiting both public comment and debate on all bills, including the sweeping 31-page, HB 765. Despite these constraints, NCLM Board members voiced strong opposition.

Oak Ridge Councilmember and League Board member Ann Schneider challenged the bill's premise that local regulation is driving the housing crisis. "[This bill] will not improve housing affordability. Instead, the cost of land, building materials, labor, and interest rates will continue to be the primary drivers of housing costs," Schneider stated. Clayton Mayor and NCLM Second Vice President Jody McLeod highlighted the practical implications: "The bill provisions would squeeze the life out of our ability to use conditional zoning when attempting to allow for mixed-use development or multi-family homes in established neighborhoods. These are places where residents' opposition can be substantial without the accommodation allowed through conditional zoning."

Their remarks resonated with some committee members, including Representative Jay Adams (R-Catawba), who echoed the view that land-use decisions should remain in local hands. HB 765 passed the committee on a narrow voice vote and has been re-referred to the [House Rules Committee](#), likely signaling additional discussion by House leadership on this bill.

The committee also approved [HB 627 Regulation of Accessory Dwelling Units](#), which would require all North Carolina cities and towns to allow at least one accessory dwelling unit (ADU) on every lot zoned for residential use. The bill would limit local governments from imposing parking requirements or short-term rental prohibitions for ADUs. HB 627 would also override existing ADU ordinances to bring them in compliance with the new state mandates. The bill now heads to the [House Regulatory Reform Committee](#) for further consideration.

Legislators Target Municipal ETJ Authority in Senate Budget and New House Bill

Efforts to significantly curtail or eliminate municipal extra-territorial jurisdiction (ETJ) authority advanced in the General Assembly this week, with major proposals surfacing in both the Senate budget and new House legislation.

The Senate's [budget proposal](#) includes a sweeping rollback of municipal ETJ authority. [Section 5.11 on pages 23-31](#) would:

- Eliminate ETJ authority for municipalities in counties with fewer than 25,000 residents by October 2026
- End ETJ authority for municipalities in counties with fewer than 75,000 residents by October 2027
- Freeze all remaining ETJ boundaries statewide

In parallel, House legislators filed [HB 1009 Planning ETJ Prohibited](#) which would fully repeal ETJ authority for all municipalities across North Carolina. The bill provides a clean repeal, removing all statutory and local act provisions granting ETJ powers. HB 1009 has been referred to the [House State and Local Government Committee](#) and awaits further action.

Senate Budget Cuts Powell Bill Funds

As discussed in the earlier section, the Senate's [budget proposal](#) includes a significant reduction in funding for State Aid to Municipalities, also known as the Powell Bill program, and a major adjustment to the allocation formula. The budget proposal would reduce funding by \$50 million from \$185 million to \$135 million during each year of the 2025-2027 fiscal biennium. Further, the budget proposal would also eliminate funding for municipalities whose population is greater than 150,000 people.

Initial estimates of the dual impact of the proposed changes indicate that cities under the 150,000-population cap would likely receive a marginal increase in funding compared to last year. However, this remains highly concerning for all municipalities due to the likelihood that the funding amount and allocation would be unresolved in time to be reflected in municipal budgets that are being prepared across the state leading up to July 1, when the new fiscal year begins.

As the budget shifts to the House, NCLM staff will continue to advocate for restoring the funding for street maintenance under the Powell Bill program.

FEMA Denies State's Request for Additional Helene-Related Reimbursements

In a [letter](#) sent to Governor Josh Stein last week, the Federal Emergency Management Agency (FEMA) denied the state's request for a 180-day extension of a 100% cost match for eligible Helene-related recovery expenses. A 100% cost match was previously in place from October 2, 2024, until March 2, 2025, but has since expired, necessitating the current request for a new 180-day extension. Without any additional extension, reimbursements for covered expenses will be capped at 90%.

On Friday, Governor Josh Stein issued a [news release](#) including the following quote: "Today, I learned that FEMA refused our request to extend its 100% reimbursement period for another 180 days... I am extremely disappointed and urge the President to reconsider FEMA's bad decision, even for 90 days. Six months later, the people of western North Carolina are working hard to get back on their feet; they need FEMA to help them get the job done."

The Governor has appealed FEMA's decision.

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