

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2017

HOUSE BILL 7
RATIFIED BILL

AN ACT TO STRENGTHEN THE SAVINGS RESERVE, AS RECOMMENDED BY THE
LEGISLATIVE RESEARCH COMMISSION.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 143C-4-2 reads as rewritten:

"§ 143C-4-2. Savings Reserve Account and appropriation of General Fund unreserved fund balance. Reserve.

(a) ~~Creation and Source of Funds.~~ Creation. – The Savings Reserve Account is established as a reserve in the General Fund. ~~The Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.~~ Fund and is a component of the unappropriated General Fund balance.

(b) General Use of Funds. – ~~The Savings Reserve Account is a component of the unappropriated General Fund balance.~~ In each fiscal year, funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. expenditure in an aggregate amount that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations, excluding departmental receipts, upon appropriation by a majority vote of the membership of the Senate and House of Representatives present and voting for any of the following purposes:

- (1) To cover a decline in General Fund revenue from one fiscal year to another.
- (2) To cover the difference between that fiscal year's General Fund operating budget appropriations, excluding departmental receipts, and projected revenue.
- (3) To pay costs imposed by a court or administrative order.
- (4) To provide relief and assistance from the effects of an emergency, as that term is defined in G.S. 166A-19.3.

(b1) Extraordinary Use of Funds. – In each fiscal year, funds reserved to the Savings Reserve shall be available for expenditure upon a two-thirds vote of the membership of the Senate and House of Representatives present and voting for any of the following purposes:

- (1) To use for any of the purposes set forth in subdivisions (1) through (4) of subsection (b) of this section in an aggregate amount that exceeds seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations, excluding departmental receipts.
- (2) For a purpose not set forth in subdivisions (1) through (4) of subsection (b) of this section in any amount.

(c) ~~Goal for Savings Reserve Account Balance.~~ The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.



(d) Savings Reserve Requirement. – Each Current Operations Appropriations Act enacted by the General Assembly shall include a transfer to the Savings Reserve of fifteen percent (15%) of each fiscal year's estimated growth in State tax revenues that are deposited in the General Fund, except that if that transfer would cause the balance of the Reserve to exceed the recommended Savings Reserve balance developed pursuant to subsection (f) of this section then the amount transferred pursuant to this subsection shall be reduced accordingly.

(e) Actual Transfer of Funds to Savings Reserve. – Each fiscal year, the Office of State Controller shall transfer to the Savings Reserve the estimated growth amount required by subsection (d) of this section. Upon calculation of the actual growth in State tax revenues that are deposited in the General Fund, the Office of State Controller shall adjust the amount of the transfer to the Savings Reserve to achieve an amount equivalent to fifteen percent (15%) of the actual growth.

(f) Evaluation of Savings Reserve. – The Office of State Budget and Management and the Fiscal Research Division of the General Assembly shall jointly develop and annually produce an evaluation of the adequacy of the Savings Reserve based on the volatility of North Carolina's General Fund tax structure, which shall take into consideration relevant statistical and economic literature. After completing the evaluation, these entities may revise the methodology as needed to estimate the target for the Savings Reserve balance, which shall be calculated so as to be sufficient to cover two years of need for nine out of 10 scenarios involving a decline in General Fund revenue from one fiscal year to the next fiscal year. The recommended balance shall be expressed as a percentage of the prior year General Fund operating budget appropriations, excluding departmental receipts. The Office of State Budget and Management shall report this percentage to the Chairs of the House of Representatives and Senate Appropriations and Finance Committees no later than February 1 of each year.

(g) Additional Transfer of Funds by General Assembly Permissible. – Nothing in this section shall be construed to prohibit the General Assembly from directing the transfer of additional funds into the Savings Reserve.

(h) Applicability. – Nothing in this section shall be construed to apply to the Highway Fund or the Highway Trust Fund."

SECTION 2. G.S. 143C-3-5(b) reads as rewritten:

"§ 143C-3-5. Budget recommendations and budget message.

...
(b) Odd-Numbered Years. – In odd-numbered years the budget recommendations shall include the following components:

(1) A Recommended State Budget setting forth goals for improving the State with recommended expenditure requirements, funding sources, and performance information for each State government program and for each proposed capital improvement. The Recommended State Budget may be presented in a format chosen by the Director, except that the Recommended State Budget shall clearly distinguish program base budget requirements, program reductions, program eliminations, program expansions, and new programs, and shall explain all proposed capital improvements in the context of the Six-Year Capital Improvements Plan and as required by G.S. 143C-8-6.

(1a) The Governor's Recommended State Budget shall include a base budget, which shall be presented in the budget support document pursuant to subdivision (2) of this subsection.

...
(3) A Current Operations Appropriations Act that makes appropriations for each fiscal year of the upcoming biennium for the operating expenses of all State agencies as contained in the Recommended State Budget, together with a

Capital Improvements Appropriations Act that authorizes any capital improvements projects.

...

- (6) The Governor's Recommended State Budget shall include a transfer to the Savings Reserve of fifteen percent (15%) of the estimated growth in State tax revenues that are deposited in the General Fund for each fiscal year of the upcoming biennium. This subdivision applies only if, and to the extent that, the balance of the Savings Reserve remains below the recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f)."

SECTION 3. G.S. 142-15.4 reads as rewritten:

"§ 142-15.4. **Savings from refinancing of general obligation bonds to be placed in the Savings Reserve Account.**~~Reserve.~~

- (a) Whenever general obligation bonds issued or incurred by the State are refinanced:
- (1) The General Assembly shall not reduce the funds appropriated for servicing the refinanced debt during the fiscal biennium in which the refinancing occurs.
 - (2) The State Controller shall, in conjunction with the State Treasurer, periodically transfer the savings resulting from the refinancing of the debt to the Savings Reserve ~~Account~~ established pursuant to G.S. 143C-4-2 during the fiscal biennium in which the refinancing occurs.
 - (3) The Director of the Budget shall, in the fiscal biennium immediately following the refinancing, adjust the amount of debt service funded in the base budget so that it aligns with actual debt service needs.

(b) Subsection (a) of this section applies only if, and to the extent that, the balance of the Savings Reserve remains below the recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f).

(c) This section does not apply to general obligation bond indebtedness of the State serviced by the Highway Fund or Highway Trust Fund or other transportation-related debt financing arrangements."

SECTION 4. G.S. 142-96 reads as rewritten:

"§ 142-96. **Savings from refinancing of special indebtedness to be placed in the Savings Reserve Account.**~~Reserve.~~

(a) Whenever special indebtedness issued or incurred pursuant to this Article is refinanced:

- (1) The General Assembly shall not reduce the funds appropriated for servicing the refinanced debt during the fiscal biennium in which the refinancing occurs.
- (2) The State Controller shall, in conjunction with the State Treasurer, periodically transfer the savings resulting from the refinancing of the debt to the Savings Reserve ~~Account~~ established pursuant to G.S. 143C-4-2 during the fiscal biennium in which the refinancing occurs.
- (3) The Director of the Budget shall, in the fiscal biennium immediately following the refinancing, adjust the amount of debt service funded in the base budget so that it aligns with actual debt service needs.

(b) Subsection (a) of this section applies only if, and to the extent that, the balance of the Savings Reserve remains below the recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f).

(c) This section does not apply to special indebtedness of the State serviced by the Highway Fund or Highway Trust Fund or other transportation-related debt financing arrangements."

SECTION 5. G.S. 143C-5-4(b)(8) reads as rewritten:

"(8) Statutory transfers to reserves. – Notwithstanding G.S. 143C-4-2 and G.S. 143C-4-3, funds shall not be reserved to the Savings Reserve ~~Account~~ or the Repairs and Renovations Reserve ~~Account~~ and the State Controller shall not transfer funds from the unreserved fund balance to those ~~accounts~~ reserves on June 30 of the prior fiscal year."

SECTION 6. G.S. 147-86.11(e)(7) reads as rewritten:

"(7) The State Controller may use cash reserved to the Savings Reserve ~~Account~~ and cash from other funds, including special funds, that is not needed temporarily to meet the cash flow needs of the General Fund, but only to the extent that this authority can be used without jeopardizing the ability of reserves or funds, including special funds, to meet their ongoing obligations. Any cash transferred from reserves or funds, including special funds, shall be fully restored by the end of the fiscal year in which the funds were transferred, and interest shall be paid on all cash transferred to the General Fund pursuant to this subdivision from interest-bearing accounts."

SECTION 7. During the 2019 Regular Session of the General Assembly, it is the intent of the General Assembly to study whether the changes to the Savings Reserve enacted in this act have successfully accomplished its purpose of establishing and maintaining sufficient reserves to address unanticipated events and circumstances, such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies.

SECTION 8. The Office of State Budget and Management and the Fiscal Research Division shall commence development of the methodology for arriving at the consensus estimate required in G.S. 143C-4-2(f), as enacted by this act.

SECTION 9. Sections 8 and 9 of this act are effective when this act becomes law. The remainder of this act becomes effective October 1, 2017.

In the General Assembly read three times and ratified this the 3rd day of April, 2017.

s/ Norman Sanderson
Presiding Officer of the Senate

s/ Sarah Stevens
Speaker Pro Tempore of the House of Representatives

Roy Cooper
Governor

Approved _____m. this _____ day of _____, 2017