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Short Title: LRC/Strengthen Savings Reserve.

(Public)

Sponsors:

Referred to:

January 26, 2017

1 A BILL TO BE ENTITLED
2 AN ACT TO STRENGTHEN THE SAVINGS RESERVE, AS RECOMMENDED BY THE
3 LEGISLATIVE RESEARCH COMMISSION.

4 The General Assembly of North Carolina enacts:

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

6 "~~§ 143C-4-2. Savings Reserve Account and appropriation of General Fund unreserved~~
7 ~~fund balance.~~Reserve.

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

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

20 (1) To cover a decline in General Fund revenue from one fiscal year to another.

21 (2) To cover the difference between that fiscal year's General Fund operating
22 budget appropriations, excluding departmental receipts, and projected
23 revenue.

24 (3) To pay costs imposed by a court or administrative order.

25 (4) To provide relief and assistance from the effects of an emergency, as that
26 term is defined in G.S. 166A-19.3.

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

30 (1) To use for any of the purposes set forth in subdivisions (1) through (4) of
31 subsection (b) of this section in an aggregate amount that exceeds seven and
32 one-half percent (7.5%) of the prior fiscal year's General Fund operating
33 budget appropriations, excluding departmental receipts.

34 (2) For a purpose not set forth in subdivisions (1) through (4) of subsection (b)
35 of this section in any amount.



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

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

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

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

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

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

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

37 **"§ 143C-3-5. Budget recommendations and budget message.**

38 ...

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

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

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

4 ...

5 (3) A Current Operations Appropriations Act that makes appropriations for each
6 fiscal year of the upcoming biennium for the operating expenses of all State
7 agencies as contained in the Recommended State Budget, together with a
8 Capital Improvements Appropriations Act that authorizes any capital
9 improvements projects.

10 ...

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

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

18 **"§ 142-15.4. Savings from refinancing of general obligation bonds to be placed in the**
19 **Savings Reserve Account.**~~Reserve.~~

20 (a) Whenever general obligation bonds issued or incurred by the State are refinanced:

21 (1) The General Assembly shall not reduce the funds appropriated for servicing
22 the refinanced debt during the fiscal biennium in which the refinancing
23 occurs.

24 (2) The State Controller shall, in conjunction with the State Treasurer,
25 periodically transfer the savings resulting from the refinancing of the debt to
26 the Savings Reserve ~~Account~~ established pursuant to G.S. 143C-4-2 during
27 the fiscal biennium in which the refinancing occurs.

28 (3) The Director of the Budget shall, in the fiscal biennium immediately
29 following the refinancing, adjust the amount of debt service funded in the
30 base budget so that it aligns with actual debt service needs.

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

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

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

38 **"§ 142-96. Savings from refinancing of special indebtedness to be placed in the Savings**
39 **Reserve Account.**~~Reserve.~~

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

42 (1) The General Assembly shall not reduce the funds appropriated for servicing
43 the refinanced debt during the fiscal biennium in which the refinancing
44 occurs.

45 (2) The State Controller shall, in conjunction with the State Treasurer,
46 periodically transfer the savings resulting from the refinancing of the debt to
47 the Savings Reserve ~~Account~~ established pursuant to G.S. 143C-4-2 during
48 the fiscal biennium in which the refinancing occurs.

49 (3) The Director of the Budget shall, in the fiscal biennium immediately
50 following the refinancing, adjust the amount of debt service funded in the
51 base budget so that it aligns with actual debt service needs.

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

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

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

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

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

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

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

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

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