

GENERAL ASSEMBLY OF NORTH CAROLINA
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HOUSE PRINCIPAL CLERK

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HOUSE BILL DRH30015-LRfza-21* (01/10)

Short Title: LRC/Strengthen Savings Reserve. (Public)

Sponsors: Representatives Dollar, McGrady, Arp, and B. Richardson (Primary Sponsors).

Referred to:

A BILL TO BE ENTITLED

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.~~ Funds 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 net appropriations operating budget, 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 base budget needs 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 net appropriations operating budget.
- (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



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1 ~~circumstances such as natural disasters, economic downturns, threats to public safety, health, and~~
2 ~~welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate~~
3 ~~and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%)~~
4 ~~of the prior year's General Fund operating budget.~~

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

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

23 (f) General Assembly May appropriate Additional Funds. – Nothing in this section shall
24 be construed to prohibit the General Assembly from depositing additional funds into the Savings
25 Reserve."

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

27 **"§ 143C-3-5. Budget recommendations and budget message.**

28 ...

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

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

40 (1a) The Governor's Recommended State Budget shall include a base budget, which
41 shall be presented in the budget support document pursuant to subdivision (2)
42 of this subsection.

43 ...

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

49 ...

50 (6) The Governor's Recommended State Budget shall include a transfer to the
51 Savings Reserve of fifteen percent (15%) of the estimated growth in State tax

1 revenues for each fiscal year of the upcoming biennium. This subdivision
2 applies only if, and to the extent that, the balance of the Savings Reserve
3 remains below the recommended Savings Reserve balance developed pursuant
4 to G.S. 143C-4-2(e)."

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

6 "**§ 142-15.4. Savings from refinancing of general obligation bonds to be placed in the**
7 **Savings Reserve Account.**~~Reserve.~~

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

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

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

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

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

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

22 "**§ 142-96. Savings from refinancing of special indebtedness to be placed in the Savings**
23 **Reserve Account.**~~Reserve.~~

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

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

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

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

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

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

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

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

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

1 and interest shall be paid on all cash transferred to the General Fund pursuant to
2 this subdivision from interest-bearing accounts."

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

8 **SECTION 8.** Sections 3 and 4 of this act become effective July 1, 2017. The
9 remainder of this act becomes effective October 1, 2017.