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SENATE BILL DRS35283-MR-65A (03/08)

Short Title: State Pension/Ret. Health Ben. Fund Solvency.-AB (Public)

Sponsors: Senators B. Jackson and Bishop (Primary Sponsors).

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO ESTABLISH THE UNFUNDED LIABILITY SOLVENCY RESERVE.
3 The General Assembly of North Carolina enacts:

4 **SECTION 1.** Article 4 of Chapter 143C of the General Statutes is amended by
5 adding a new section to read:

6 **"§ 143C-4-8. Unfunded Liability Solvency Reserve.**

7 (a) Creation. – The Unfunded Liability Solvency Reserve is established as a reserve in
8 the General Fund. The Unfunded Liability Solvency Reserve is an employee benefits trust as
9 described under G.S. 143C-1-3(a).

10 (b) Definitions. – The following definitions apply in this section:

11 (1) Benefit enhancement. – Any change to the benefits provided under the
12 Teachers' and State Employees' Retirement System of North Carolina
13 established under G.S. 135-2 or to the Retiree Health Benefit fund
14 established under G.S. 135-7(f) that is estimated to increase the contributions
15 or liabilities associated with either program, as indicated by an actuarial note
16 provided under G.S. 120-114.

17 (2) DAAC revenues. – General Fund tax revenues, including individual income
18 tax, corporate income tax, sales and use tax, franchise tax, insurance tax,
19 beverage tax, tobacco products tax, other taxes, investment income, and
20 miscellaneous revenues, as calculated in the Debt Affordability Advisory
21 Committee study report issued pursuant to G.S. 142-101(e).

22 (3) Debt Affordability Advisory Committee or DAAC. – The Debt Affordability
23 Advisory Committee established under G.S. 142-101.

24 (4) Health Benefit Fund. – The Retiree Health Benefit Fund established under
25 G.S. 135-7(f).

26 (5) Health Benefit Fund Actuarial Committee. – The Committee on Actuarial
27 Valuation of Retired Employees' Health Benefits established under
28 G.S. 135-48.12.

29 (6) Reserve. – The Unfunded Liability Solvency Reserve established under
30 subsection (a) of this section.

31 (7) Retirement System. – The Teachers' and State Employees' Retirement
32 System of North Carolina established under G.S. 135-2.

33 (c) Source of Funds. – The Reserve shall receive the following funds:

34 (1) Any amounts that shall be appropriated by the General Assembly.

35 (2) Funds that shall be appropriated on the last day of each fiscal year according
36 to the following formula:



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- 1 a. If the General Fund tax-supported debt service is less than four
2 percent (4%) of the most recent DAAC Revenues, then an
3 appropriation shall be made equal to the difference between four
4 percent (4%) of DAAC Revenues and the actual General Fund
5 tax-supported debt service.
- 6 b. If the General Fund tax-supported debt service is greater than or
7 equal to four percent (4%) of the most recent DAAC Revenues, then
8 no appropriation shall be made for that fiscal year.
- 9 (3) Twenty-five percent (25%) of the unreserved fund balance of the current
10 fiscal year, as defined in G.S. 143C-1-1(d), and not otherwise designated,
11 shall be placed in the Reserve the next fiscal year.
- 12 (d) Transfer of Funds from the Reserve. – The transfer of funds from the Reserve shall
13 meet all of the following requirements:
- 14 (1) The funds in the Reserve shall be used only for transfers to the (i) Health
15 Benefit Fund or (ii) the Retirement System for the purpose of reducing the
16 unfunded liabilities of those two funds.
- 17 (2) Funds in the Reserve must be appropriated by the end of the next fiscal year
18 after the funds entered the Reserve.
- 19 (3) Transfers from the Reserve to the Health Benefit Fund and the Retirement
20 System shall not supplant employer contributions otherwise designated for
21 the Health Benefit Fund or Retirement System. Transfers shall be made from
22 the Reserve only upon the following conditions:
- 23 a. The portion of the State's employer contribution rate provided to the
24 Health Benefit Fund is not less than the cost of the premiums for the
25 retirees served by the Retiree Health Benefit Fund in the most recent
26 plan year.
- 27 b. The portion of the State's employer contribution rate provided to the
28 Retirement System in effect at the time of the transfer is equal to or
29 greater than the rate certified under G.S. 135-8 as necessary by the
30 Board of Trustees of the Retirement System.
- 31 c. Transfers from the Reserves shall not be used to pay the cost of
32 benefit enhancements commencing after July 1, 2017.
- 33 (e) Use of Funds in the Reserve. – On the first day of each fiscal year, the total balance
34 of the Reserve as of the last day of the preceding fiscal year shall be used to appropriate an
35 additional employer contribution to the Health Benefit Trust and the Retirement System. This
36 additional employer contribution shall be calculated as follows:
- 37 (1) The total balance in the Reserve as of the last day of the preceding fiscal
38 year shall be divided between the Health Benefit Fund and the Retirement
39 System according to each program's proportion of the State's total unfunded
40 liability of both programs as reported in the most recent Comprehensive
41 Annual Financial Report issued by the State Controller.
- 42 (2) Each program's pro rata share of the total balance in the Reserve as of the
43 last day of the preceding fiscal year shall be converted into a percentage of
44 the General Fund payroll of covered members of the Health Benefit Fund
45 and the Retirement System.
- 46 (3) Each program's percentage of General Fund payroll of covered members, as
47 calculated in subdivision (2) of this subsection, shall be set as an additional
48 portion of the State's employer contribution rate budgeted for retirement and
49 related benefits. The following shall also apply:
- 50 a. The percentage of General Fund payroll of covered members
51 allocated to the Health Benefit Fund shall be added to the portion of

1 the State's employer contribution rate budgeted for hospital and
2 medical benefits.

3 b. The percentage of General Fund payroll of covered members
4 allocated to the Retirement System shall be added to the State's
5 employer contribution rate budgeted for the Retirement System.

6 (f) Not Considered Debt Service Funds. – Any funds in the Reserve, as well as any
7 funds from the Reserve used to establish additional contributions to the Health Benefit Fund or
8 Retirement System, shall not be considered debt service funds for general long-term debt
9 principal and interest."

10 **SECTION 2.(a)** If House Bill 7, 2017 Regular Session, becomes law, then
11 G.S. 142-15.4 is amended by adding a new subsection to read:

12 "(d) If, and to the extent that, the balance of the Savings Reserve is at or above the
13 recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f), whenever
14 general obligation bonds issued or incurred by the State are refinanced, the following shall
15 apply:

16 (1) The General Assembly shall not reduce the funds appropriated for serving
17 the refinanced debt during the fiscal biennium in which the refinancing
18 occurs.

19 (2) The State Controller shall, in conjunction with the State Treasurer,
20 periodically transfer the savings resulting from the refinancing of the debt to
21 the Unfunded Liability Solvency Reserve, established under G.S. 143C-4-8,
22 during the fiscal biennium in which the refinancing occurs.

23 (3) In the fiscal biennium immediately following the refinancing, the Director of
24 the Budget shall adjust the amount of debt service funded in the base budget
25 so that it aligns with the actual debt service needs."

26 **SECTION 2.(b)** If House Bill 7, 2017 Regular Session, becomes law, then
27 G.S. 142-96 is amended by adding a new subsection to read:

28 "(d) If, and to the extent that, the balance of the Savings Reserve is at or above the
29 recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f), whenever
30 special indebtedness issued or incurred by the State is refinanced, the following shall apply:

31 (1) The General Assembly shall not reduce the funds appropriated for serving
32 the refinanced debt during the fiscal biennium in which the refinancing
33 occurs.

34 (2) The State Controller shall, in conjunction with the State Treasurer,
35 periodically transfer the savings resulting from the refinancing of the debt to
36 the Unfunded Liability Solvency Reserve, established under G.S. 143C-4-8,
37 during the fiscal biennium in which the refinancing occurs.

38 (3) In the fiscal biennium immediately following the refinancing, the Director of
39 the Budget shall adjust the amount of debt service funded in the base budget
40 so that it aligns with the actual debt service needs."

41 **SECTION 2.(c)** If House Bill 7, 2017 Regular Session, becomes law, then
42 G.S. 143C-4-2 is amended by adding two new subsections to read:

43 "(i) Unfunded Liability Solvency Reserve Full-Growth Transfer Requirement. – If, and
44 to the extent that, the balance of the Savings Reserve is at or above the recommended Savings
45 Reserve balance developed under subsection (f) of this section as of the last day of the fiscal
46 year, the Current Operations Appropriations Act for the succeeding fiscal year shall include a
47 transfer to the Unfunded Liability Solvency Reserve of fifteen percent (15%) of the succeeding
48 fiscal year's estimated growth in State tax revenues that are deposited in the General Fund.

49 (j) Unfunded Liability Solvency Reserve Partial Growth Transfer Requirement. – If,
50 and to the extent that, the balance of the Savings Reserve is below the recommended Savings
51 Reserve balance developed under subsection (f) of this section as of the last day of the fiscal

1 year, prior to the transfer of fifteen percent (15%) of the succeeding fiscal year's estimated
2 growth in State tax revenues that are deposited in the General Fund, then the following shall
3 apply:

4 (1) If, upon transfer to the Savings Reserve funds in the amount of fifteen
5 percent (15%) of estimated growth in State tax revenues deposited in the
6 General Fund, the balance of the Savings Reserve is above the recommended
7 Savings Reserve balance developed under subsection (f) of this section, then
8 the Current Operations Appropriations Act shall include a transfer to the
9 Unfunded Liability Solvency Reserve of an amount equal to the difference
10 between the recommended balance of the Savings Reserve developed under
11 subsection (f) of this section and the balance of the Savings Reserve upon
12 transfer of fifteen percent (15%) of estimated growth in State tax revenues.

13 (2) If, upon transfer to the Savings Reserve funds in the amount of fifteen
14 percent (15%) of estimated growth in State tax revenues deposited in the
15 General Fund, the balance of Savings Reserves is at or below the
16 recommended Savings Reserve balance developed under subsection (f) of
17 this section, then no such transfer described in subdivision (1) of this
18 subsection shall occur."

19 **SECTION 2.(d)** If House Bill 7, 2017 Regular Session, becomes law, then
20 G.S. 143C-4-8(c), as enacted by Section 1 of this act, is amended by adding a new subdivision
21 to read:

22 "(4) Funds transferred under G.S. 142-15.5, 142-96, and 143C-4.2."

23 **SECTION 3.** This act becomes effective July 1, 2017.