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HOUSE PRINCIPAL CLERK

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HOUSE BILL DRH40371-MR-102 (03/08)

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

Sponsors: Representatives Dollar, Lambeth, McNeill, and Ross (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) Health Benefit Fund. – The Retiree Health Benefit Fund established under  
18 G.S. 135-7(f).

19 (3) Health Benefit Fund Actuarial Committee. – The Committee on Actuarial  
20 Valuation of Retired Employees' Health Benefits established under  
21 G.S. 135-48.12.

22 (4) Reserve. – The Unfunded Liability Solvency Reserve established under  
23 subsection (a) of this section.

24 (5) Retirement System. – The Teachers' and State Employees' Retirement  
25 System of North Carolina established under G.S. 135-2.

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

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

28 (2) Twenty-five percent (25%) of the unreserved fund balance of the current  
29 fiscal year, as defined in G.S. 143C-1-1(d), and not otherwise designated,  
30 shall be placed in the Reserve the next fiscal year.

31 (d) Transfer of Funds From the Reserve. – The transfer of funds from the Reserve shall  
32 meet all of the following requirements:

33 (1) The funds in the Reserve shall be used only for transfers to the (i) Health  
34 Benefit Fund or (ii) the Retirement System for the purpose of reducing the  
35 unfunded liabilities of those two funds.



- 1           (2)   Funds in the Reserve must be appropriated by the end of the next fiscal year  
2           after the funds entered the Reserve.
- 3           (3)   Transfers from the Reserve to the Health Benefit Fund and the Retirement  
4           System shall not supplant employer contributions otherwise designated for  
5           the Health Benefit Fund or Retirement System. Transfers shall be made from  
6           the Reserve only upon the following conditions:
- 7           a.     The portion of the State's employer contribution rate provided to the  
8           Health Benefit Fund is not less than the cost of the premiums for the  
9           retirees served by the Retiree Health Benefit Fund in the most recent  
10           plan year.
- 11           b.     The portion of the State's employer contribution rate provided to the  
12           Retirement System in effect at the time of the transfer is equal to or  
13           greater than the rate certified under G.S. 135-8 as necessary by the  
14           Board of Trustees of the Retirement System.
- 15           c.     Transfers from the Reserves shall not be used to pay the cost of  
16           benefit enhancements commencing after July 1, 2017.
- 17       (e)   Use of Funds in the Reserve. – On the first day of each fiscal year, the total balance  
18       of the Reserve as of the last day of the preceding fiscal year shall be used to appropriate an  
19       additional employer contribution to the Health Benefit Trust and the Retirement System. This  
20       additional employer contribution shall be calculated as follows:
- 21           (1)   The total balance in the Reserve as of the last day of the preceding fiscal  
22           year shall be divided between the Health Benefit Fund and the Retirement  
23           System according to each program's proportion of the State's total unfunded  
24           liability of both programs as reported in the most recent Comprehensive  
25           Annual Financial Report issued by the State Controller.
- 26           (2)   Each program's pro rata share of the total balance in the Reserve as of the  
27           last day of the preceding fiscal year shall be converted into a percentage of  
28           the General Fund payroll of covered members of the Health Benefit Fund  
29           and the Retirement System.
- 30           (3)   Each program's percentage of General Fund payroll of covered members, as  
31           calculated in subdivision (2) of this subsection, shall be set as an additional  
32           portion of the State's employer contribution rate budgeted for retirement and  
33           related benefits. The following shall also apply:
- 34           a.     The percentage of General Fund payroll of covered members  
35           allocated to the Health Benefit Fund shall be added to the portion of  
36           the State's employer contribution rate budgeted for hospital and  
37           medical benefits.
- 38           b.     The percentage of General Fund payroll of covered members  
39           allocated to the Retirement System shall be added to the State's  
40           employer contribution rate budgeted for the Retirement System.
- 41       (f)   Not Considered Debt Service Funds. – Any funds in the Reserve, as well as any  
42       funds from the Reserve used to establish additional contributions to the Health Benefit Fund or  
43       Retirement System, shall not be considered debt service funds for general long-term debt  
44       principal and interest."

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

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

- 1           (1) The General Assembly shall not reduce the funds appropriated for serving  
2 the refinanced debt during the fiscal biennium in which the refinancing  
3 occurs.
- 4           (2) The State Controller shall, in conjunction with the State Treasurer,  
5 periodically transfer the savings resulting from the refinancing of the debt to  
6 the Unfunded Liability Solvency Reserve, established under G.S. 143C-4-8,  
7 during the fiscal biennium in which the refinancing occurs.
- 8           (3) In the fiscal biennium immediately following the refinancing, the Director of  
9 the Budget shall adjust the amount of debt service funded in the base budget  
10 so that it aligns with the actual debt service needs."

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

13           "(d) If, and to the extent that, the balance of the Savings Reserve is at or above the  
14 recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f), whenever  
15 special indebtedness issued or incurred by the State is refinanced, the following shall 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.(c)** If House Bill 7, 2017 Regular Session, becomes law, then  
27 G.S. 143C-4-2 is amended by adding two new subsections to read:

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

34           (j) Unfunded Liability Solvency Reserve Partial Growth Transfer Requirement. – If,  
35 and to the extent that, the balance of the Savings Reserve is below the recommended Savings  
36 Reserve balance developed under subsection (f) of this section as of the last day of the fiscal  
37 year, prior to the transfer of fifteen percent (15%) of the succeeding fiscal year's estimated  
38 growth in State tax revenues that are deposited in the General Fund, then the following shall  
39 apply:

- 40           (1) If, upon transfer to the Savings Reserve funds in the amount of fifteen  
41 percent (15%) of estimated growth in State tax revenues deposited in the  
42 General Fund, the balance of the Savings Reserve is above the recommended  
43 Savings Reserve balance developed under subsection (f) of this section, then  
44 the Current Operations Appropriations Act shall include a transfer to the  
45 Unfunded Liability Solvency Reserve of an amount equal to the difference  
46 between the recommended balance of the Savings Reserve developed under  
47 subsection (f) of this section and the balance of the Savings Reserve upon  
48 transfer of fifteen percent (15%) of estimated growth in State tax revenues.
- 49           (2) If, upon transfer to the Savings Reserve funds in the amount of fifteen  
50 percent (15%) of estimated growth in State tax revenues deposited in the  
51 General Fund, the balance of Savings Reserves is at or below the

1 recommended Savings Reserve balance developed under subsection (f) of  
2 this section, then no such transfer described in subdivision (1) of this  
3 subsection shall occur."

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

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

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