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2

HOUSE BILL 7*
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Short Title: LRC/Strengthen Savings Reserve. (Public)

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

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 fund~~
7 ~~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 Reserve~~
10 ~~Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in~~
11 ~~the General Fund at the end of each fiscal year.~~Fund and is a component of the unappropriated
12 General Fund balance.

13 (b) General Use of Funds. — The Savings Reserve Account is a component of the
14 unappropriated General Fund balance. FundsIn 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, excluding
18 departmental receipts, upon appropriation by a majority vote of the membership of the Senate and
19 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 revenue.
23 (3) To pay costs imposed by a court or administrative order.
24 (4) To provide relief and assistance from the effects of an emergency, as that term
25 is defined in G.S. 166A-19.3.

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

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



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, and~~
4 ~~welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate~~
5 ~~and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%)~~
6 ~~of the prior year's General Fund operating budget.~~

7 (d) Savings Reserve Requirement. — Each Current Operations Appropriations Act enacted
8 by the General Assembly shall include a transfer to the Savings Reserve of fifteen percent (15%)
9 of each fiscal year's estimated growth in State tax revenues that are deposited in the General Fund,
10 except that if that transfer would cause the balance of the Reserve to exceed the recommended
11 Savings Reserve balance developed pursuant to subsection (e) of this section then the amount
12 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 are
16 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 the
20 Fiscal Research Division of the General Assembly shall jointly develop and annually produce an
21 evaluation of the adequacy of the Savings Reserve based on the volatility of North Carolina's
22 General Fund tax structure, which shall take into consideration relevant statistical and economic
23 literature. After completing the evaluation, these entities may revise the methodology as needed to
24 estimate the target for the Savings Reserve balance, which shall be calculated so as to be sufficient
25 to cover two years of need for nine out of 10 scenarios involving a decline in General Fund
26 revenue from one fiscal year to the next fiscal year. The recommended balance shall be expressed
27 as a percentage of the prior year General Fund operating budget appropriations, excluding
28 departmental receipts. The Office of State Budget and Management shall report this percentage to
29 the Chairs of the House of Representatives and Senate Appropriations and Finance Committees no
30 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 with
42 recommended expenditure requirements, funding sources, and performance
43 information for each State government program and for each proposed capital
44 improvement. The Recommended State Budget may be presented in a format
45 chosen by the Director, except that the Recommended State Budget shall
46 clearly distinguish program base budget requirements, program reductions,
47 program eliminations, program expansions, and new programs, and shall
48 explain all proposed capital improvements in the context of the Six-Year
49 Capital Improvements Plan and as required by G.S. 143C-8-6.

1 (1a) The Governor's Recommended State Budget shall include a base budget, which
2 shall be presented in the budget support document pursuant to subdivision (2)
3 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 tax
13 revenues that are deposited in the General Fund for each fiscal year of the
14 upcoming biennium. This subdivision applies only if, and to the extent that, the
15 balance of the Savings Reserve remains below the recommended Savings
16 Reserve balance developed pursuant to G.S. 143C-4-2(e)."

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 the
22 refinanced debt during the fiscal biennium in which the refinancing occurs.

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

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

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

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

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

37 "**§ 142-96. Savings from refinancing of special indebtedness to be placed in the Savings**
38 **Reserve Account.**~~Reserve.~~

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

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

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

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

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

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

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

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

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

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

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

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

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