

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2017

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SENATE BILL 14*

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

Sponsors: Senators B. Jackson, Brown, Harrington (Primary Sponsors); Brock, Clark, Cook, Dunn, Horner, Newton, Rabin, Randleman, Tucker, and Wells.

Referred to: Rules and Operations of the Senate

January 30, 2017

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.



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

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

25 (f) General Assembly May Appropriate Additional Funds. — Nothing in this section shall
26 be construed to prohibit the General Assembly from depositing additional funds into the Savings
27 Reserve."

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

29 **"§ 143C-3-5. Budget recommendations and budget message.**

30 ...

31 (b) Odd-Numbered Years. — In odd-numbered years the budget recommendations shall
32 include the following components:

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

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

45 ...

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

51 ...

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

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

8 "**§ 142-15.4. Savings from refinancing of general obligation bonds to be placed in the**
9 **Savings Reserve Account.**~~Reserve.~~

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

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

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

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

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

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

24 "**§ 142-96. Savings from refinancing of special indebtedness to be placed in the Savings**
25 **Reserve Account.**~~Reserve.~~

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

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

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

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

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

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

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

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

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

1 fully restored by the end of the fiscal year in which the funds were transferred,
2 and interest shall be paid on all cash transferred to the General Fund pursuant to
3 this subdivision from interest-bearing accounts."

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

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