

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2017

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HOUSE BILL 651
PROPOSED COMMITTEE SUBSTITUTE H651-PCS40638-MR-2

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

(Public)

Sponsors:

Referred to:

April 11, 2017

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-4-9. 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 (3) Funds transferred under G.S. 142-15.4, 142-96, and 143C-4-2.

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

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



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- 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)** G.S. 142-15.4, as amended by S.L. 2017-5, is amended by adding
46 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-4-9,
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)** G.S. 142-96, as amended by S.L. 2017-5, is amended by adding a
12 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-4-9,
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)** G.S. 143C-4-2, as amended by S.L. 2017-5, is amended by adding
27 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 3.** This act becomes effective October 1, 2017.