



HOUSE BILL 7: LRC/Strengthen Savings Reserve.

2017-2018 General Assembly

Committee: Senate Finance	Date: March 22, 2017
Introduced by: Reps. Dollar, McGrady, Arp, B. Richardson	Prepared by: Nicholas Giddings
Analysis of: Third Edition	Committee Counsel

OVERVIEW: *House Bill 7 would amend G.S. 143C-4-2 to (i) require the automatic transfer of a set amount of funds each fiscal year to the Savings Reserve and (ii) limit the uses for which funds in the Savings Reserve may be expended.*

[As introduced, this bill was identical to S14, as introduced by Sens. B. Jackson, Brown, Harrington, which is currently in Senate Appropriations/Base Budget.]

CURRENT LAW: G.S. 143C-4-2 currently provides that (i) the Controller shall reserve to the Savings Reserve one-fourth (1/4) of any unreserved fund balance remaining in the General Fund at the end of each fiscal year, (ii) the funds in the Savings Reserve may be expended only upon an appropriation by the General Assembly, and (iii) it is a goal of the General Assembly that the balance in the savings Reserve be equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.

BILL ANALYSIS: House Bill 7 does the following:

- **Section 1:**

- Requires the General Assembly to include in each Current Operations Appropriations Act a transfer to the Savings Reserve of fifteen percent (15%) of each fiscal year's estimated growth in State tax revenues that are deposited in the General Fund.
- Requires the Controller to transfer in each fiscal year to the Savings Reserve the estimated growth amount included in the Current Operations Appropriations Act.
- Upon calculation of the actual growth in State tax revenues that are deposited in the General Fund, requires the Controller to adjust the amount originally transferred to achieve an amount equal to fifteen percent (15%) of the actual growth.
- Requires the Office of State Budget and Management (OSBM) and the Fiscal Research Division (FRD) of the General Assembly to jointly develop and annually produce an evaluation of the of the adequacy of the Savings Reserve and estimate the target balance needed for the Savings Reserve to cover a decline in General Fund revenue. The fifteen percent (15%) of growth required to be transferred to the Savings Reserve may be reduced if it results in the Savings Reserve exceeding the target developed by OSBM and FRD.
- Allows an aggregate amount of funds in the Savings Reserve that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget

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appropriations to be used for specific purposes¹ upon a majority vote of the Senate and House of Representatives' members present and voting.

- Allows the following upon a two-thirds (2/3) vote of the Senate and House of Representatives' members present and voting:
 - An aggregate amount of funds in the Savings Reserve that exceeds seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations to be used for specific purposes.
 - Any amount for any purpose not limited by the seven and one-half percent (7.5%) restrictions.
- Clarifies this section does not apply to the Highway Fund or Highway Trust Fund.
- **Section 2:**
 - Requires the Governor's Recommended State Budget to include for each fiscal year of the biennium a transfer of fifteen percent (15%) of the estimated growth in State tax revenues that are deposited in the General Fund, unless the Savings Reserve is at or exceeds the target developed by OSBM and FRD.
- **Section 3:**
 - Provides that the savings resulting from the refinancing of general obligation bonds are only transferred to the Savings Reserve if, and to the extent that, the balance of the Savings Reserve is below the target set by OSBM and FRD.
 - Clarifies this section does not apply to the Highway Fund or Highway Trust Fund.
- **Section 4:**
 - Provides that the savings resulting from the refinancing of special indebtedness is only transferred to the Savings Reserve if, and to the extent that, the balance of the Savings Reserve is below the target set by OSBM and FRD.
 - Clarifies this section does not apply to the Highway Fund or Highway Trust Fund.
- **Sections 5 and 6:**
 - Conforming changes.
- **Section 7:**
 - Provides that, during the 2019 Regular Session of the General Assembly, it is the intent of the General Assembly to study whether the changes in the act have successfully accomplished the purpose of maintaining sufficient reserves to address costs incurred from unanticipated events and emergencies.
- **Section 8:**
 - Requires OSBM and FRD to start establishing the target required under G.S. 143C-4-2(f) when the act becomes law.

¹ There are four specific 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 General Fund operating budget appropriations, excluding departmental receipts, and projected revenue; (3) to pay costs imposed by a court or administrative order; and (4) to provide relief and assistance from the effects of an emergency, as that term is defined in G.S. 166A-19.3.

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EFFECTIVE DATE: Sections 8 and 9 of the act are effective when the act becomes law. The remainder of the act becomes effective October 1, 2017.

Luke Gillenwater, counsel to Senate Appropriations/Base Budget, substantially contributed to this summary.