



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



Employment First State for Individuals with Disabilities

ROY COOPER
GOVERNOR

CHARLES PERUSSE
STATE BUDGET DIRECTOR

January 28, 2021

MEMORANDUM

TO: Chairs, NC House of Representatives Appropriations and Finance Committees
Chairs, NC Senate Appropriations and Finance Committees

FROM: Charles Perusse *Charles Perusse*
State Budget Director

SUBJECT: Evaluation of the Savings Reserve Target Balance

In accordance with Session Law 2017-5, the Office of State Budget and Management (OSBM) and the Fiscal Research Division of the General Assembly (FRD) have jointly developed a methodology to evaluate the adequacy of the Savings Reserve based on the historical volatility of North Carolina's General Fund tax structure. OSBM and FRD developed this methodology in consultation with national experts and in accordance with best practices indicated from the relevant economic literature.

To adequately cover two years of need for nine out of ten scenarios involving a year-over-year decline in net General Fund revenue, **OSBM and FRD recommend keeping the Savings Reserve target equal to a balance of 10.9% of prior-year General Fund operating budget appropriations.**

The recommended Savings Reserve target remains at the same level as the prior two years. The annual revenue data that forms the basis of the analysis has been adjusted for FY 2019-20 to account for the delay in payments from the final quarter of FY 2019-20 to the first quarter of FY 2020-21. The target may change in subsequent fiscal years due to incorporating additional years of revenue-volatility data and based on further review of and potential revisions to the current Savings Reserve target methodology.

If there are questions, you may email them to charles.perusse@osbm.nc.gov.