



STATE OF NORTH CAROLINA  
OFFICE OF STATE BUDGET AND MANAGEMENT



Employment First State for Individuals with Disabilities

ROY COOPER  
GOVERNOR

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TO: Chairs of the House of Representatives and Senate Appropriations and Finance Committees

FROM: Kristin Walker *Kristin Walker*

SUBJECT: Evaluation of the Savings Reserve Target Balance

In accordance with G.S. 143C-4-2.(f), 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 raising the Savings Reserve target to a balance of 11.8% of prior-year General Fund operating budget appropriations.**

The recommended Savings Reserve target is 0.6 percentage points higher than the 11.2% level in place last year. The increase is due partly to heightened revenue volatility in recent years and partly to minor changes in methodology. 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 Ed McLenaghan ([ed.mclenaghan@osbm.nc.gov](mailto:ed.mclenaghan@osbm.nc.gov)).