



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



Employment First State for Individuals with Disabilities

ROY COOPER
GOVERNOR

KRISTIN WALKER
STATE BUDGET DIRECTOR

January 30, 2024

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

FROM: Kristin Walker *Kristin Walker*
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 lowering the Savings Reserve target to a balance of 11.7% of prior-year General Fund operating budget appropriations.**

The recommended Savings Reserve target is 0.1 percentage points lower than the 11.8% level in place last year. The decrease is partly due to the addition of the most recent year's revenue collections data and partly due 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 rashmi.patwardhan@osbm.nc.gov.