

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2017**

**SESSION LAW 2018-30
HOUSE BILL 651**

AN ACT TO ESTABLISH THE UNFUNDED LIABILITY SOLVENCY RESERVE.

The General Assembly of North Carolina enacts:

SECTION 1. Article 4 of Chapter 143C of the General Statutes is amended by adding a new section to read:

"§ 143C-4-9. Unfunded Liability Solvency Reserve.

(a) Creation. – The Unfunded Liability Solvency Reserve is established as a reserve in the General Fund. The Unfunded Liability Solvency Reserve is an employee benefits trust as described under G.S. 143C-1-3(a).

(b) Definitions. – The following definitions apply in this section:

(1) Benefit enhancement. – Any change to the benefits provided under the Teachers' and State Employees' Retirement System of North Carolina established under G.S. 135-2 or to the Retiree Health Benefit Fund established under G.S. 135-7(f) that is estimated to increase the contributions or liabilities associated with either program, as indicated by an actuarial note provided under G.S. 120-114.

(2) Health Benefit Fund. – The Retiree Health Benefit Fund established under G.S. 135-7(f).

(3) Health Benefit Fund Actuarial Committee. – The Committee on Actuarial Valuation of Retired Employees' Health Benefits established under G.S. 135-48.12.

(4) Reserve. – The Unfunded Liability Solvency Reserve established under subsection (a) of this section.

(5) Retirement System. – The Teachers' and State Employees' Retirement System of North Carolina established under G.S. 135-2.

(c) Source of Funds. – The Reserve shall receive the following funds:

(1) Any amounts that shall be appropriated by the General Assembly.

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

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

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

(2) Funds in the Reserve must be appropriated by the end of the next fiscal year after the funds entered the Reserve.

(3) Transfers from the Reserve to the Health Benefit Fund and the Retirement System shall not supplant employer contributions otherwise designated for the Health Benefit Fund or Retirement System. Transfers shall be made from the Reserve only upon the following conditions:

a. The portion of the State's employer contribution rate provided to the Health Benefit Fund is not less than the cost of the premiums for the



retirees served by the Retiree Health Benefit Fund in the most recent plan year.

- b. The portion of the State's employer contribution rate provided to the Retirement System in effect at the time of the transfer is equal to or greater than the rate certified under G.S. 135-8 as necessary by the Board of Trustees of the Retirement System.
- c. Transfers from the Reserves shall not be used to pay the cost of benefit enhancements commencing after July 1, 2017.

(e) Use of Funds in the Reserve. – On the first day of each fiscal year, the total balance of the Reserve as of the last day of the preceding fiscal year shall be used to appropriate an additional employer contribution to the Health Benefit Trust and the Retirement System. This additional employer contribution shall be calculated as follows:

- (1) The total balance in the Reserve as of the last day of the preceding fiscal year shall be divided between the Health Benefit Fund and the Retirement System according to each program's proportion of the State's total unfunded liability of both programs as reported in the most recent Comprehensive Annual Financial Report issued by the State Controller.
- (2) Each program's pro rata share of the total balance in the Reserve as of the last day of the preceding fiscal year shall be converted into a percentage of the General Fund payroll of covered members of the Health Benefit Fund and the Retirement System.
- (3) Each program's percentage of General Fund payroll of covered members, as calculated in subdivision (2) of this subsection, shall be set as an additional portion of the State's employer contribution rate budgeted for retirement and related benefits. The following shall also apply:
 - a. The percentage of General Fund payroll of covered members allocated to the Health Benefit Fund shall be added to the portion of the State's employer contribution rate budgeted for hospital and medical benefits.
 - b. The percentage of General Fund payroll of covered members allocated to the Retirement System shall be added to the State's employer contribution rate budgeted for the Retirement System.

(f) Not Considered Debt Service Funds. – Any funds in the Reserve, as well as any funds from the Reserve used to establish additional contributions to the Health Benefit Fund or Retirement System, shall not be considered debt service funds for general long-term debt principal and interest."

SECTION 2.(a) G.S. 142-15.4, as amended by S.L. 2017-5, is amended by adding a new subsection to read:

"(d) If, and to the extent that, the balance of the Savings Reserve is at or above the recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f), whenever general obligation bonds issued or incurred by the State are refinanced, the following shall apply:

- (1) The General Assembly shall not reduce the funds appropriated for serving the refinanced debt during the fiscal biennium in which the refinancing occurs.
- (2) The State Controller shall, in conjunction with the State Treasurer, periodically transfer the savings resulting from the refinancing of the debt to the Unfunded Liability Solvency Reserve, established under G.S. 143C-4-9, during the fiscal biennium in which the refinancing occurs.
- (3) In the fiscal biennium immediately following the refinancing, the Director of the Budget shall adjust the amount of debt service funded in the base budget so that it aligns with the actual debt service needs."

SECTION 2.(b) G.S. 142-96, as amended by S.L. 2017-5, is amended by adding a new subsection to read:

"(d) If, and to the extent that, the balance of the Savings Reserve is at or above the recommended Savings Reserve balance developed pursuant to G.S. 143C-4-2(f), whenever special indebtedness issued or incurred by the State is refinanced, the following shall apply:

- (1) The General Assembly shall not reduce the funds appropriated for serving the refinanced debt during the fiscal biennium in which the refinancing occurs.
- (2) The State Controller shall, in conjunction with the State Treasurer, periodically transfer the savings resulting from the refinancing of the debt to the Unfunded Liability Solvency Reserve, established under G.S. 143C-4-9, during the fiscal biennium in which the refinancing occurs.
- (3) In the fiscal biennium immediately following the refinancing, the Director of the Budget shall adjust the amount of debt service funded in the base budget so that it aligns with the actual debt service needs."

SECTION 2.(c) G.S. 143C-4-2, as amended by S.L. 2017-5, is amended by adding two new subsections to read:

"(i) Unfunded Liability Solvency Reserve Full-Growth Transfer Requirement. – If, and to the extent that, the balance of the Savings Reserve is at or above the recommended Savings Reserve balance developed under subsection (f) of this section as of the last day of the fiscal year, the Current Operations Appropriations Act for the succeeding fiscal year shall include a transfer to the Unfunded Liability Solvency Reserve of fifteen percent (15%) of the succeeding fiscal year's estimated growth in State tax revenues that are deposited in the General Fund.

(j) Unfunded Liability Solvency Reserve Partial Growth Transfer Requirement. – If, and to the extent that, the balance of the Savings Reserve is below the recommended Savings Reserve balance developed under subsection (f) of this section as of the last day of the fiscal year, prior to the transfer of fifteen percent (15%) of the succeeding fiscal year's estimated growth in State tax revenues that are deposited in the General Fund, then the following shall apply:

- (1) If, upon transfer to the Savings Reserve funds in the amount of fifteen percent (15%) of estimated growth in State tax revenues deposited in the General Fund, the balance of the Savings Reserve is above the recommended Savings Reserve balance developed under subsection (f) of this section, then the Current Operations Appropriations Act shall include a transfer to the Unfunded Liability Solvency Reserve of an amount equal to the difference between the recommended balance of the Savings Reserve developed under subsection (f) of this section and the balance of the Savings Reserve upon transfer of fifteen percent (15%) of estimated growth in State tax revenues.
- (2) If, upon transfer to the Savings Reserve funds in the amount of fifteen percent (15%) of estimated growth in State tax revenues deposited in the General Fund, the balance of Savings Reserves is at or below the recommended Savings Reserve balance developed under subsection (f) of this section, then no such transfer described in subdivision (1) of this subsection shall occur."

SECTION 3. This act becomes effective October 1, 2018.
In the General Assembly read three times and ratified this the 14th day of June, 2018.

s/ Philip E. Berger
President Pro Tempore of the Senate

s/ Tim Moore
Speaker of the House of Representatives

s/ Roy Cooper
Governor

Approved 9:16 a.m. this 22nd day of June, 2018