



**STATE OF NORTH CAROLINA**  
**OFFICE OF STATE BUDGET AND MANAGEMENT**

ROY COOPER  
GOVERNOR

CHARLES PERUSSE  
STATE BUDGET DIRECTOR

January 26, 2018

**MEMORANDUM**

TO: Chairs of the House of Representatives and 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 a Savings Reserve target balance of 11.3% of prior-year General Fund operating budget appropriations.**

The recommended Savings Reserve 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.