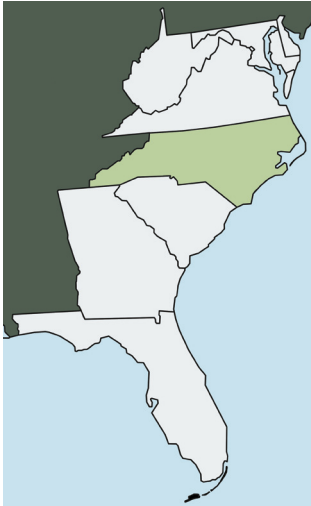


NORTH CAROLINA Budget Report Card



NORTH CAROLINA'S B AVERAGE in reserve funds for 2017 through 2019 was bolstered by two major policy improvements. The first was adoption in 2018 of a link between historical revenue volatility and the state's goals for its reserves, a best practice cited in the recent Volcker Alliance working paper, *Rainy Day Fund Strategies: A Call to Action*. The state now must deposit into the Savings Reserve Account 15 percent of each fiscal year's estimated growth in state tax revenues. Annual evaluations of North Carolina's revenue structure and economic volatility are used to adjust the account's cap. The state also established clear rules specifying when the reserve can be tapped.

North Carolina averaged a B in budget maneuvers, which tracks the use of one-time measures to achieve balance. The grade reflected the state's use of money from special funds, including transfers from the Department of Insurance to the general fund.

The state's lowest average was a C in legacy costs, which cover public worker pensions and other postemployment benefits (OPEB), principally health care. North Carolina regularly provides the annual actuarially determined contribution for pensions, which were about 89 percent funded in 2018, about 19 percentage points above the total for all states. But it does not make such contributions for OPEB. For example, in fiscal 2017, the state contributed only 35 percent of the \$2.73 billion that actuaries determined was needed to achieve full funding over time.

SOUTH ATLANTIC STATES SIDE BY SIDE: Three-Year Average Grades, 2017–19


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Delaware	A	A	C	B	B
Florida	A	B	C	B	B
Georgia	C	A	A	B	B
Maryland	A	C	B	C	B
North Carolina	A	B	C	B	B
South Carolina	A	A	D	B	C
Virginia	A	C	C	A	C
West Virginia	B	B	B	B	B
US AVERAGE	B	B	C	B	B


NOTE States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: The Balancing Act* at VolckerAlliance.org.


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BUDGET FORECASTING				
	2017	2018	2019	
	CATEGORY GRADE	A	A	A
	Consensus Revenue Forecasts	✓	✓	✓
	Multiyear Expenditure Forecasts	✓	✓	✓
	Multiyear Revenue Forecasts	✓	✓	✓
	Revenue Growth Projections	✓	✓	✓
3-YEAR AVERAGE		A	3-YEAR TREND —	

BUDGET MANEUVERS				
	2017	2018	2019	
	CATEGORY GRADE	A	B	B
	Deferring Recurring Expenditures	✓	✓	✓
	Revenue and Cost Shifting	✓	X	X
	Funding Recurring Expenditures with Debt	✓	✓	✓
	Using Asset Sales and Upfront Revenues	✓	✓	✓
3-YEAR AVERAGE		B	3-YEAR TREND ↘	

LEGACY COSTS				
	2017	2018	2019	
	CATEGORY GRADE	B	C	C
	Public Employee OPEB Funding	X	X	X
	Public Employee Pension Funding	✓	✓	✓
	Public Employee Pension Funded Ratio*	91%	89%	89%
3-YEAR AVERAGE		C	3-YEAR TREND ↘	

RESERVE FUNDS				
	2017	2018	2019	
	CATEGORY GRADE	C	A	A
	Positive Reserve or General Fund Balance	✓	✓	✓
	Reserve Funds Disbursement Policy	X	✓	✓
	Reserve Funds Replenishment Policy	✓	✓	✓
	Reserves Tied to Revenue Volatility	X	✓	✓
3-YEAR AVERAGE		B	3-YEAR TREND ↗	

TRANSPARENCY				
	2017	2018	2019	
	CATEGORY GRADE	B	B	B
	Consolidated Budget Website	✓	✓	✓
	Provides Debt Tables	✓	✓	✓
	Discloses Deferred Infrastructure Replacement Costs	X	X	X
	Discloses Tax Expenditures	✓	✓	✓
3-YEAR AVERAGE		B	3-YEAR TREND —	

KEY

✓	Followed best practice
X	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* SOURCE Bloomberg; 2018 data also used for 2019.

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