

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.¹ This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.²



North Carolina: Tools for Sustainable State Budgeting

Long-term budget assessment:

Budget stress test:

Report: "Evaluation of the Savings Reserve Target Balance"³

Office: Office of State Budget and Management and the Fiscal Research Division of the General Assembly

Analyses

Under a 2017 law, fiscal analysts in the legislative and executive branches work together to produce an annual budget stress test, which studies how much tax collections have varied from year to year in order to estimate the likelihood of revenue declines of various magnitudes.⁴ Based on these estimates, by law the analysts recommend the balance needed in the rainy day fund to offset potential revenue declines.⁵

The Office of State Budget and Management (OSBM) typically includes five years of revenue and spending

projections in the governor's biennial budget proposal but does not explain the factors driving the numbers or why the state is expected to face future surpluses or deficits.⁶ (These projections were not included in the governor's budget proposal released in March 2023.⁷)

Policy impact

Although other states use stress tests to set targets for rainy day funds, North Carolina goes a step further: The state has designed rules to deposit money in its fund to help reach the target. By law, 15% of general fund revenue growth is directed each year to the rainy day fund until it achieves the target identified in the stress test.⁸

This approach has helped the state save more and use the savings effectively to address temporary challenges. Lawmakers used hundreds of millions of dollars from the fund to help the state recover from Hurricane Florence, which hit North Carolina in 2018.⁹ Even after those withdrawals, because of the deposit rules, the rainy day fund reached a new record level by the end of fiscal 2022.¹⁰

Next steps

The OSBM could add a long-term budget assessment to the governor's budget proposal, using the five-year revenue and spending projections as a starting point. The office already analyzes long-term demographic and economic trends, which should give budget analysts a head start on explaining how these factors are likely to affect revenue and spending.¹¹ Alternatively, policymakers could devise an approach in which legislative and executive staffers collaborate on a long-term budget assessment—mirroring the process the state uses for revenue estimates and the stress test.

The stress test focuses only on potential revenue losses and does not examine the increased spending demands that tend to accompany recessions. By analyzing spending, the state could produce more complete estimates of the size of reserves needed to prepare for stress scenarios.

Endnotes

- 1 The Pew Charitable Trusts, “Tools for Sustainable State Budgeting” (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, “States’ Use of Sustainable Budgeting Tools” (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 K. Walker, budget director, state of North Carolina, memorandum to chairs of the House and Senate Appropriations and Finance committees, Jan. 26, 2023, <https://www.osbm.nc.gov/ncga-report-savingsreservetargeteval-jan23/download?attachment>.
- 4 North Carolina Gen. Stat. § 143C-4-2, https://www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_143C/GS_143C-4-2.html; Walker, memorandum, Jan. 26, 2023.
- 5 North Carolina Gen. Stat. § 143C-4-2.
- 6 North Carolina Office of State Budget and Management, “Governor Roy Cooper’s Recommended Budget 2021-23” (2021), 23-24, <https://www.osbm.nc.gov/budgetbook2021-2023/download?attachment>.
- 7 North Carolina Office of State Budget and Management, “Governor Roy Cooper’s Recommended Budget 2023-25” (2023), <https://www.osbm.nc.gov/governors-budget-rec-fy2023-25/download?attachment>.
- 8 North Carolina Gen. Stat. § 143C-4-2.
- 9 C. Jarvis, “NC Leaders Announce How Much They’ll Spend on Hurricane Florence Recovery,” *The News & Observer*, Oct. 13, 2018, <https://www.newsobserver.com/news/politics-government/article220000650.html>.
- 10 The Pew Charitable Trusts, “Fiscal 50: State Trends and Analysis, Reserves and Balances,” updated March 16, 2023, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>.
- 11 North Carolina Office of State Budget and Management, “Recommended Budget 2021-23,” 25-30, 41-46.

For more information, please visit: pewtrusts.org/fiscaltools

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