



# INTRODUCTORY SECTION



# State of North Carolina

## Office of the State Controller

**NELS C. ROSELAND**  
**STATE CONTROLLER**

December 08, 2025

The Honorable Josh Stein, Governor  
Members of the North Carolina General Assembly  
Citizens of North Carolina

In compliance with G.S. 143B-426.40H, it is our pleasure to provide you with the State of North Carolina's 2025 Annual Comprehensive Financial Report (ACFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report, which is now termed Annual Comprehensive Financial Report (ACFR) with the implementation of GASB Statement 98, *The Annual Comprehensive Financial Report*, in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this ACFR has been prepared in accordance with GAAP.

North Carolina's State government management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with North Carolina's General Statutes, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. Turnpike Authority, and the N.C. State Lottery Fund. The MD&A can be found immediately following the independent auditor's report.

MAILING ADDRESS: 1410 Mail Service Center, Raleigh, North Carolina 27699-1410  
STREET ADDRESS: 3514 Bush Street, Raleigh, North Carolina 27609  
Phone (919) 707-0500 ~ <https://www.osc.nc.gov> ~~ An EEO/AA/AWD Employer

## Profile of the State of North Carolina

### *The Old North State, The Tar Heel State*

North Carolina became the 12<sup>th</sup> state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee, and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 11.2 million, making it the 9<sup>th</sup> most populated state in the nation. Ninety-four percent of the State's population lives in metropolitan areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian Mountain range on the western border. There are 80,384 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 85, and 95 crossing the State north to south. North Carolina's capital and central state government administration are located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

North Carolina consistently ranks among the top states for business, earning first place from *CNBC*, second from *Site Selection*, and fourth from *Chief Executive*. Notably, in 2025, North Carolina was also recognized by *Site Selection* as the second-place winner of the Prosperity Cup, an accolade awarded for excellence in attracting capital projects.

### *Government*

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...." All administrative departments, agencies, and offices of the State and their respective functions, powers, and duties shall be allocated by law among and within not more than 25 principal administrative departments.

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a partisan basis.

### *State Reporting Entity and Its Services*

The State of North Carolina entity as reported in the ACFR includes all fund types of the departments, agencies, boards, commissions, and authorities governed and legally controlled by the State's executive, legislative, and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, and the State Health Plan. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1, Summary of Significant Accounting Policies, of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including primary and secondary education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

## *Budgetary Control*

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project.

The legal level of budgetary control, meaning the level at which expenditures cannot legally exceed the appropriated amount, is exercised at the object level. This control is managed by the State's departments, agencies, commissions, boards, and universities. While these entities can make revisions to their budgets at the object level with the approval of the Office of State Budget and Management, they must not exceed the overall budget at the purpose level. For example, within a specific purpose budget, departments can allocate funds among various object categories, such as supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay.

The budget approved by the General Assembly serves as the legal expenditure authority. However, the Office of the State Budget and Management may authorize executive changes to the legal budget as permitted by law, resulting in the final budget presented in the required supplementary information.

## **Economic Condition**

### *Overview*

North Carolina's economic indicators in fiscal 2024-25 continued to improve compared to the previous fiscal year, leading to continued growth in the State's tax base. In general, North Carolina economic indicators grew faster than U.S. economic indicators. Nationwide, inflation grew by a fiscal year average of 2.6% year-over-year as measured by the Consumer Price Index for All Urban Consumers. The Federal Reserve enacted three federal funds rate reductions throughout the fiscal year, lowering the effective rate from 5.33% in July 2024 to 4.33% in June 2025. These rate reductions increase the availability of credit throughout the economy, increasing consumer and business spending relative to higher rates and promoting additional economic growth throughout the period, including for North Carolinians.

These changes helped to continue the national and State trend of low unemployment, which averaged 4.1% nationwide and 3.7% in North Carolina for fiscal 2024-25. Low unemployment put upward pressure on wages as firms continued to compete for available workers, leading to growth in the State's wage and salary base of 6% year over year and total State personal income growth of 6.8%, higher than the national average. Additionally, other than a short-lived decline in March and April, equities performed well over the fiscal year. The S&P 500 index rose from 5,475 to 6,205, over a 13% increase, over fiscal 2024-25. Growth in equities can increase income when capital gains are realized, for example from pre-tax retirement accounts such as 401(k) plans. Due in part to these factors, the State's personal income tax base expanded significantly. While the individual income tax rate was reduced by roughly 5.4% compared to the FY 2023-24 fiscal year average, total collections from individual income tax grew at 2.7% year over year.

Other changes in federal policy affected the State's economy in fiscal year 2024-25. The federal government imposed a series of tariffs, a type of import tax, in 2025. Per the Federal Reserve Bank of Richmond, the actual average effective tariff rate, which reflects the average tariff paid across all imports, rose from 2.3% in 2024 to 8.7% in May 2025. Accordingly, prices for durable goods (such as home appliances, electronics, and furniture) increased at a faster rate than other goods throughout 2025. Durable goods make up a significant share of the State's sales and use tax base, so higher prices can lead to higher collections if consumers continue to spend. Retail sales tax collections saw a large increase in early 2025 as consumers stocked up on durable goods due to anticipated tariffs, but this effect was short-lived. Still, the sales tax saw year-over-year growth due to growth in the tax base. North Carolina retail sales grew at

4.3%, faster than the national average of 3.5%, during FY 2024-25. Corporate profits grew nationwide as well, bolstering the State's corporate income tax collections for FY 2024-25. While the short-lived bear market in March and April reduced estimated payments for corporate income tax, the subsequent recovery increased collections by the end of the fiscal year.

Hurricane Helene disrupted the State's economy in fiscal year 2024-25, causing over 100 deaths and destroying billions of dollars in property in the western part of the State. The storm caused a brief but serious spike in unemployment claims, and counties that were most severely impacted saw reduced sales tax revenue relative to the rest of the State in the two months following the storm. However, Helene's impact on the State's tax base was short-lived. Initial unemployment claims return to their pre-storm levels after 7 weeks and income tax payments that were delayed by the storm were made later in the fiscal year. Local sales tax collections from the 25 initially declared disaster counties, where Helene's impact was most severe, recovered after two months and were on par with the State average for the rest of the fiscal year. While rebuilding after Helene will be a long-term endeavor, the storm did not cause lasting damage to the State's economy and tax base.

Following completion of the 2024-25 fiscal year, the Federal Reserve lowered the target federal funds rate two more times, with an effective rate of 3.87% as of November 2025, due to slower job gains and a desire to keep unemployment low and avoid a recession. Currently, forecasters such as Moody's Analytics do not anticipate a recession in fiscal year 2025-26, but rather a general slowing of economic growth. Moody's Analytics anticipates that lower rates, combined with other factors including tariffs and the impact of the One Big Beautiful Bill Act, will cause inflation to rise faster in fiscal year 2025-26 than it did in fiscal year 2024-25. This establishes the background for the projections of key economic indicators used to generate the forecast for the next fiscal year, fiscal year 2025-26.

North Carolina's real gross domestic product, which is adjusted for inflation, is expected to grow at 2.4%, compared to 2.9% last year, indicating a slower but continued general increase in the tax base due to population and productivity growth. Lower interest rates and tariffs contribute to higher inflation expectations for fiscal year 2025-26, with the Consumer Price Index for All Urban Consumers at over 3% year over year for September 2025. Higher inflation contributes to both income and retail sales growth, with State population increases relative to the rest of the country allowing North Carolina's growth to exceed the national average projections. While the income tax base is projected to grow, the May 2025 consensus revenue forecast expected net collections to decline due to an average reduction of the personal income tax rate of 5.8% in fiscal year 2025-26. Additionally, reductions to the corporate income tax rate contribute to lower forecasted corporate income tax collections in the consensus revenue forecast. Sales tax growth is projected to be higher than in fiscal year 2024-25 due to higher inflation and the impact of tariffs. On net, General Fund collections are expected to be roughly flat year-over-year due to this mix of slowing growth and policy factors.

**Economic Indicators**

|   | FY 2023-24<br>Actual | FY 2024-25<br>Actual | FY 2025-26<br>Projected | FY 2026-27<br>Projected |
|---|----------------------|----------------------|-------------------------|-------------------------|
| <b><u>United States Indicators</u></b>            |                      |                      |                         |                         |
| <b>Real Gross Domestic Product Growth</b>         | 3.2%                 | 2.3%                 | 1.9%                    | 1.6%                    |
| <b>Personal Income Growth</b>                     | 5.9%                 | 5.2%                 | 4.7%                    | 4.5%                    |
| <b>Corporate Profit Growth</b>                    | 6.7%                 | 4.6%                 | 7.3%                    | 1.1%                    |
| <b>Retail Sales Growth</b>                        | 2.2%                 | 3.5%                 | 3.7%                    | 3.5%                    |
| <b>Average Unemployment Rate</b>                  | 3.8%                 | 4.1%                 | 4.4%                    | 4.7%                    |
| <b>Average Consumer Price Index Growth</b>        | 3.3%                 | 2.6%                 | 3.2%                    | 3.3%                    |
| <b>Average 30-yr Fixed Mortgage Interest Rate</b> | 7.0%                 | 6.7%                 | 6.4%                    | 6.3%                    |
| <b><u>North Carolina Indicators</u></b>           |                      |                      |                         |                         |
| <b>Real Gross State Product Growth</b>            | 3.7%                 | 2.9%                 | 2.4%                    | 2.2%                    |
| <b>Personal Income Growth</b>                     | 6.9%                 | 6.8%                 | 5.3%                    | 5.2%                    |
| <b>Wages and Salaries Growth</b>                  | 6.2%                 | 6.0%                 | 5.2%                    | 4.6%                    |
| <b>Retail Sales Growth</b>                        | 3.9%                 | 4.3%                 | 5.0%                    | 4.3%                    |
| <b>Average Unemployment Rate</b>                  | 3.5%                 | 3.7%                 | 4.2%                    | 4.8%                    |
| <b>Nonfarm Employment Growth</b>                  | 1.3%                 | 0.0%                 | -0.4%                   | 0.0%                    |

Source: Moody's Analytics Data Buffet historical data and baseline forecast, October 2025

Note: Each indicator, except for the unemployment and mortgage interest rates, shows the fiscal year-over-year percent change in the average value of the indicator, comparing each fiscal year to the prior year. (e.g. the average US real gross domestic product measure for fiscal year 2024-25 was 2.3% higher than the average US real gross domestic product measure for fiscal year 2023-24).

The unemployment and mortgage interest rates show the average rate during the noted fiscal year. (e.g. the 30-yr fixed mortgage interest rate is expected to decline from 6.7% on average in fiscal year 2024-25 to 6.4% on average in fiscal year 2025-26, not grow at a rate of 6.4%).

*Economic condition prepared by Nick Clerkin, a legislative economist for the Fiscal Research Division of the North Carolina General Assembly.*

## Long-Term Financial Planning and Major Initiatives

### *North Carolina Pension Funds*

The North Carolina Retirement System administers four major retirement systems and several smaller systems and pension funds. The largest of the major retirement systems is the Teachers' and State Employees' Retirement System (TSERS).

Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department of State Treasurer through investment earnings. Effective July 1, 2021, the State established an employer contribution rate of 16.38% of compensation for TSERS. This rate is the rate recommended by the TSERS Board of Trustees using the Employer Contribution Rate Stabilization Policy (ECRSP).

The ECRSP was established in 2016 as a mechanism for the Board of Trustees to use for making recommendations to the General Assembly for employer contribution rates for TSERS. A new version of ECRSP was adopted in April 2021 extending the essential provisions of ECRSP and adding clarifications. This policy establishes a procedure for determining the employer contribution rates for TSERS that the TSERS Board of Trustees will recommend to the General Assembly for fiscal years ending through June 30, 2027.

With the ECRSP, the Board will recommend to the General Assembly an employer contribution rate that is no less than 0.35% of payroll greater than the appropriated contribution (ADC) rate from the prior fiscal year, within the following bounds: 1) contributions may not be less than the ADC rate prior to applying the ECRSP; and 2) the 0.35% increase may not cause contributions greater than the ADC determined using the assumptions adopted but using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

### *Retiree Health Benefits*

Legislation passed during the 2017 Legislative Session will close the Retiree Health Benefit Trust. Members hired on or after January 1, 2021, are not eligible to receive retiree medical benefits. Under this legislation, retirees must have earned contributory retirement service in a state retirement system prior to January 1, 2021, and must not have withdrawn from service, to be eligible for retiree medical benefits.

### *Unfunded Liability Solvency Reserve*

Session Law 2018-30 created the Unfunded Liability Solvency Reserve (Solvency Reserve) within the State's General Fund. The purpose is to accumulate funds during each fiscal year to be used in the following fiscal year to reduce the unfunded liabilities associated with TSERS and the Retiree Health Benefit Fund (RHBF). The Solvency Reserve will receive funds specifically designated by the General Assembly. To the extent the Savings Reserve has reached its statutory maximum, the Solvency Reserve will receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability. At the beginning of fiscal year 2024-25, the balance was zero. In accordance with General Statute 143C-4-10(c)(3)c, funds in the amount of \$294 thousand were transferred to the reserve from the Department of State Treasurer. Funds in the amount of \$294 thousand were transferred out of the reserve to the Health Benefit Fund and Retirement System during the fiscal year. At the end of fiscal year 2024-25, the balance of this reserve was zero.

### *Medicaid Expansion & Contingency Reserve*

Session Law 2023-7, in conjunction with Session Law 2023-134, expanded Medicaid coverage, making North Carolina the 40th state to do so. Medicaid Expansion became effective December 1, 2023. This will generate an expected \$1.6 billion in General Fund savings through fiscal year 2025-26 as a result of an enhanced federal match rate for Medicaid expenses. At the beginning of fiscal year 2024-25, the balance of the Medicaid Contingency Reserve was \$726.513 million. In accordance with Session Law 2024-55, the Office of State Controller was authorized to transfer \$250 million from the Unreserved Fund Balance to the Medicaid Contingency Reserve. At the end of fiscal year 2024-25, the balance of this reserve was \$976.513 million.

## Relevant Financial Policies

### *Savings Reserve*

Session Law 2017-5 amended General Statute 143C-4-2 creating the Savings Reserve in the General Fund. The Reserve is a component of the unappropriated General Fund balance. Funds in the Savings Reserve shall be available for expenditure in an aggregate amount that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations, excluding departmental receipts, upon appropriation by a majority vote of the membership of the Senate and the House of Representatives present and voting for the following purposes: 1) to cover a decline in General Fund tax revenue from one fiscal year to another, 2) to cover the difference between that fiscal year's General Fund operating budget appropriations, excluding receipts and projected revenue, 3) to pay costs imposed by a court or administrative order, or 4) to provide relief and assistance from the effects of an emergency. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies.

Each year the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly shall jointly determine the adequacy of the Savings Reserve, based on the volatility of the State's tax structure and determine a target for the Savings Reserve, so as to be sufficient to cover two years of need for nine out of ten scenarios involving a decline in General Fund revenue from one fiscal year to the next. In 2025, the Office of State Budget and Management, along with the Fiscal Research Division of the General Assembly, recommended a target of 11.9% of the prior fiscal year's General Fund operating budget appropriations. At June 30 2025, the Savings Reserve was \$3.62 billion, which represents 12.16% of the prior year's General Fund appropriation budget.

At the start of fiscal year 2024-25, the balance of the Savings Reserve Account was \$4.75 billion. Throughout the fiscal year, several session laws mandated transfers of funds from the Savings Reserve to other reserves, along with various budget revisions. Notably, the largest transfers were made under Session Laws 2024-51, 2024-53, and 2024-57, which allocated a total of \$1.104 billion to the Hurricane Helene Disaster Recovery Fund.

### *State Capital and Infrastructure Fund*

The 2017 General Assembly established the State Capital and Infrastructure Fund (SCIF), effective July 1, 2019. This replaces the Repairs and Renovations Reserve Account. The General Assembly recognized the need to establish and maintain a sufficient funding source to address the ongoing capital and infrastructure needs of the State. The Fund consists of a set appropriation by the General Assembly in G.S. 143C-4-3.1(b) of \$1.365 billion for fiscal year 2023, \$1.412 billion for fiscal year 2024, \$1.461 billion for fiscal year 2025, and \$1.12 billion for fiscal year 2026. The statutory appropriation will then grow by 3.5% a year after FY 2026. The Fund also receives all interest and investment earnings as well as any additional appropriations made by the General Assembly.

In accordance with Session Law 2024-55, the Office of State Controller was authorized to transfer \$2.161 billion from the Unreserved Fund Balance to the SCIF Reserve for the fiscal year. During the fiscal year 2025, all \$2.161 billion was transferred out of the reserve to support state agency and university capital projects, community college projects, grants in aid to local governments, and grants in aid to non-profits.

### *Justification & Expected Long-term benefits of Tax Abatements*

The Jobs Development Investment Grant (JDIG Program) is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to twelve years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year of the grant. In adopting the JDIG Program in the 2001-2002 Session, the General Assembly intended "to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State." The long-term benefits to the State of North Carolina generated by the fiscal year 2024-25 grant payments include 1) the creation of 23,905 jobs, 2) capital investment of \$7.07 billion, and 3) \$10.18 million contributed to the Utility Fund for infrastructure grants to rural counties



### *Hurricane Helene Disaster Recovery Fund*

The 2024 General Assembly approved the Disaster Recovery Act of 2024 in response to Hurricane Helene, which struck Western North Carolina in September 2024. The hurricane brought high winds, widespread heavy rainfall in excess of 30 inches in some areas, resulting in record flooding, and significant loss of human life across the region. At its peak, Hurricane Helene was a Category 4 storm with winds reaching 140 mph. With record-breaking rainfall that created 1,000-year flood events in several counties, it devastated the people, infrastructure, businesses, and schools of entire communities. Countless homes, buildings, roads, bridges, and properties were destroyed or damaged, and entire communities lost power, water, sewer, communication, and other essential services due to devastation. In addition, tornadoes were generated across the State as Hurricane Helene passed, causing significant damage in areas outside of the storm's immediate path. Hurricane Helene resulted in 103 confirmed fatalities. On September 28, 2024, 25 counties in North Carolina were declared a major disaster by the President of the United States under the Stafford Act, approving individual and public assistance for affected counties. The overall impact of damage from Helene is estimated to be \$59.6 billion.

As of June 30, 2025, the federal government and State of North Carolina had directed approximately \$7.6 billion, about 12.8% of the estimated impact of the storm, to aid western North Carolina communities in the aftermath of Hurricane Helene. As of June 30, 2025, the State has provided \$2.9 billion in funding, including roughly \$2 billion in new appropriations and \$508 million in reallocations of previously appropriated funds by the North Carolina General Assembly, and at least \$413.8 million in existing state operational resources redirected by state agencies toward response and recovery efforts. In addition, federal funding totaling \$1.61 billion has been disbursed, including \$1.1 billion in eligibility-based FEMA funding to individuals, businesses, local government, state agencies, and nonprofits. Another \$3.1 billion in federal funding has been awarded to the State of North Carolina but requires additional approval steps before being disbursed to the State.

### *Stabilization and Inflation Reserve*

The 2021 General Assembly established the Stabilization and Inflation Reserve in the General Fund. The purpose of the reserve is to make, only upon an act of appropriation by the General Assembly, funds available to be used for costs associated with inflation and other measures necessary to stabilize the State economy. In accordance with Session Law 2022-74, the Office of State Controller was authorized to transfer \$1 billion from the Unreserved Fund Balance to the Stabilization and Inflation Reserve for the fiscal year. During the fiscal year, no funds were transferred out of the reserve and thus, the balance at year-end was \$1 billion.

### *Debt Affordability Guidelines*

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is also required to recommend other debt management policies consistent with sound management of the State's debt. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity. The 2025 study indicated that over the ten-year planning horizon, the State's revenue projections show a positive growth trend not excessively impacted from earlier declines in economic activity or recent increases in interest rates. The study found that the State's General Fund has debt capacity of \$1.76 billion in each of the next ten years after incorporating the Committee's policy that directs continuing annual appropriations of \$100 million to the Unfunded Liability Solvency Reserve to begin addressing the unfunded pension and OPEB liabilities. The ratio of debt service to revenues was projected to peak at 1.4% in fiscal year 2025. This rate is below the 4% target.

The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt the State could prudently authorize and issue over the next ten years:

1. Net Tax-Supported Debt service after a continuing appropriation of \$100 million to the Solvency Fund as a percentage of General Tax Revenues should be targeted at no more than 4% and not to exceed 4.75%;
2. Net Tax-Supported Debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

North Carolina's debt is considered manageable at current levels when compared with its peer group composed of 13 other states rated "triple-A".

## Awards and Acknowledgements

### *Certificate of Achievement*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024. This was the 31<sup>st</sup> consecutive year (1994 to 2024) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

### *Acknowledgments*

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our gratitude to all the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 707-0500.

Respectfully submitted,



Nels C. Roseland  
State Controller

THIS PAGE INTENTIONALLY LEFT BLANK.

## CERTIFICATE OF ACHIEVEMENT

---



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**State of North Carolina**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2024

*Christopher P. Morrell*

Executive Director/CEO