

## **SECTION II**

### **GENERAL FUND PROJECTED FUND BALANCE**

Senate Bill 23 (1993) established an Economic Forum to forecast state General Fund revenues for use by all state agencies, the Governor and the Legislature (NRS 353.226 - NRS 353-229). The Economic Forum must forecast revenues by December 1 of even-numbered years and revise the forecast by May 1 during the Legislative Session, if necessary. If either the Governor or the Legislature wants to appropriate more than what is available pursuant to the official forecast, a revenue enhancement proposal must be made. The Governor has not recommended any General Fund revenue enhancements for consideration by the 2005 Legislature. However, the Governor has recommended the transfer of \$7.6 million of existing General Fund revenues (Unclaimed Property) to the "Unclaimed Property Pledged Revenue Fund" in each year of the 2005-07 biennium. These funds are intended to support the issuance of \$100 million in bonds for support of "Millennium Scholarships".

Once the official forecast of state revenues has been completed, an estimate of the unappropriated General Fund balance (surplus) can be made. The following schedule displays the General Fund balance as estimated by the Budget Division for fiscal years 2004-05 through 2006-07. This balance is estimated to be achieved based on the General Fund revenue projections as provided by the Economic Forum on December 1, 2004, (increase of \$172.7 million for FY 2004-05 from the May 1, 2003, projections and the amount approved by the 2003 Legislature and subsequent special sessions) and reversions in FY 2004-05 totaling \$199.7 million as follows:

- From ongoing appropriations - \$37.3 million;
- From the Distributive School Account - \$137.0 million;
- From the Welfare Division - \$18.1 million; and,
- From the Interim Finance Committee - \$7.3 million.

Reversions for FY 2005-06 and FY 2006-07 are projected by the Budget Division to be \$55.3 million and \$88.4 million, respectively. The Budget Division advises these projections are predicated on 2 percent of the ongoing appropriations for FY 2005-06 and 3 percent for FY 2006-07.

The projected General Fund balance, before any legislative action, on June 30, 2005, is projected to be \$512.8 million. Pursuant to NRS 353.213, the recommended budget must provide for a reserve of not less than 5 percent or more than 10 percent of the total of all proposed ongoing appropriations from the state General Fund. Based on this statute, the ending fund balance for FY 2004-05 requires a minimum reserve of \$126.8 million (5 percent); this results in \$386 million available for appropriation in FY 2004-05 by the 2005 Legislature. Under the proposed budget, the balance would decrease from \$221.2 million on June 30, 2004, to \$151.9 million on June 30, 2007 (minimum 5 percent reserve would be \$147.2 million).

## **STABILIZATION FUND (NRS 353.288)**

In 1991, the Legislature created the Fund to Stabilize Operations of State Government (rainy day fund) to help stabilize the budget. The idea was to create a state trust fund which could be funded during good times and accessed in a fiscal emergency. The concept of the trust fund is relatively simple. When the state General Fund surplus reaches a certain threshold at the end of a fiscal year, a portion of the excess is to be held in trust to help the state through financial emergencies. The conditions under which monies held in trust can be expended are tightly defined in law (NRS 353.288) and require concurrence of both the Legislature and the Governor. The 2003 Legislature approved A.B. 259 which provided for the transfer of \$135 million from the rainy day fund to the state General Fund. Following this transfer, approximately \$1.3 million remained in the rainy day fund.

The statutory provisions governing the Fund to Stabilize the Operation of State Government were amended in the approval of S.B. 8 by the 20<sup>th</sup> Special Session. Effective in FY 2003-04, the threshold for transferring funds to the rainy day fund was reduced from 10 percent to 5 percent of all appropriations made from the state General Fund for the operation of all departments, institutions and agencies of State Government and for the funding of schools. This legislation also increased the maximum limit on the fund from 10 percent of annual General Fund appropriations to 15 percent of annual General Fund appropriations.

At the close of FY 2003-04, surplus General Funds exceeded the revised threshold of 5 percent and, pursuant to the law, the Controller transferred two-fifths (40 percent) of the excess to the rainy day fund. The actual transfer following the close of FY 2003-04 was \$70.6 million. The remaining three-fifths (60 percent) of the excess remained in the General Fund. Pursuant to section 185.9 of S.B. 8 as approved by the 20<sup>th</sup> Special Session, the Interim Finance Committee at their January 12, 2005, meeting, approved a \$50 million contingent appropriation to the rainy day fund. This contingent appropriation was approved based upon the revenue estimates provided by the Economic Forum at their meeting on December 1, 2004. Prior to actions by the 2005 Legislature, the balance of the rainy day fund is \$121.9 million; 4.8 percent of operating appropriations for FY 2004-05 (includes recommended supplemental appropriations of \$17 million for FY 2004-05).

The Executive Budget recommends \$71 million be allocated to the rainy day fund from the state General Fund over the 2005-07 biennium (\$3 million in FY 2005-06 and \$68 million in FY 2006-07). In addition, since the ending General Fund balance as projected in The Executive Budget exceeds 5 percent, statutory transfers to the rainy day fund are anticipated of approximately \$1.8 million in FY 2004-05 and \$3.1 million in both fiscal years 2005 -06 and 2006-07. The Executive Budget estimates the balance of the rainy day fund, at the close of FY 2006-07, to be \$201 million; this is approximately 6.8 percent of the recommended operating appropriations for FY 2006-07.

**STATEMENT OF PROJECTED UNAPPROPRIATED  
GENERAL FUND BALANCE - FISCAL YEARS 2005-07 - GOVERNOR RECOMMENDS**

<b>Unappropriated Balance July 1, 2004 <sup>a</sup></b>		<b>\$ 221,240,754</b>
Projected Revenues FY 2004-05 - Economic Forum December 1, 2004	\$ 2,637,249,565	
Deposit Estate Tax Revenue in General Fund - UCCSN	\$ 43,398,297	
Projected General Fund Reversions	<u>\$ 199,720,000</u>	
<b>Total Funds Available</b>		<b>\$ 3,101,608,616</b>
<b>Less Appropriations:</b>		
FY 2004-05 Operating Appropriations	\$ (2,531,791,544)	
Appropriations Transferred Between Fiscal Years	\$ (4,463,003)	
Contingent Appropriations Approved by January 12, 2005 IFC	\$ (50,350,000)	
Cost of the 21st Special Session	<u>\$ (250,000)</u>	
<b>Total FY 2004-05 Appropriations Before Legislative Action</b>		<b>\$ (2,586,854,547)</b>
Transfer to Disaster Relief Account		<u>\$ (2,000,000)</u>
<b>Total Estimated General Fund Balance July 1, 2005 <sup>a</sup></b>		<b>\$ 512,754,069</b>
<b>Statutory 5% Minimum Required Fund Balance (NRS 353.213)</b>		<b>\$ 126,812,727</b>
<sup>a</sup> Subject to reconciliation with the Controller's Annual Report. Does not include \$71,950,806 in the Stabilization Fund (Rainy Day Fund).		
<b><u>Estimated General Fund Balance Before Legislative Action</u></b>		
Projected Revenues FY 2005-06 - Economic Forum December 1, 2004	\$ 2,793,399,380	
Projected Reversions FY 2005-06	\$ 55,340,000	
Transfer to Disaster Relief Account	<u>\$ (2,000,000)</u>	
<b>Total Estimated Revenues &amp; Reversions FY 2005-06</b>		<b>\$ 2,846,739,380</b>
Projected Revenues FY 2006-07 - Economic Forum December 1, 2004	\$ 2,963,425,747	
Projected Reversions FY 2006-07	\$ 88,370,000	
Transfer to Disaster Relief Account	<u>\$ (2,000,000)</u>	
<b>Total Estimated Revenues &amp; Reversions FY 2006-07</b>		<b>\$ 3,049,795,747</b>
<b>Estimated Unappropriated Balance July 1, 2007 Before Legislative Action <sup>b</sup></b>		<b>\$ 6,409,289,196</b>
<sup>b</sup> Does not include \$121,950,806 in the Stabilization Fund (Rainy Day Fund).		
<b><u>Recommended General Fund Appropriations Before the 73rd Nevada Legislature</u></b>		
FY 2004-05 Restore Fund Balances	\$ (19,000,000)	
FY 2004-05 Supplemental Appropriations	\$ (17,024,938)	
FY 2004-05 One-Shot Appropriations	\$ (27,155,934)	
Tax Rebate	\$ (300,000,000)	
Estimated Cost of the 73rd Legislative Session	\$ (17,500,000)	
Transfer to Stabilization Fund <sup>c</sup>	<u>\$ (1,763,690)</u>	
<b>FY 2004-05 Recommended Appropriations/Transfer</b>		<b>\$ (382,444,562)</b>
FY 2005-06 Operating Appropriations	\$ (2,768,254,109)	
FY 2005-06 Appropriation to Stabilization Fund	\$ (3,000,000)	
FY 2005-06 Appropriation for Capital Improvement Projects	\$ (52,000,000)	
Transfer to the Unclaimed Property Pledged Revenue Fund	\$ (7,600,000)	
Transfer to Stabilization Fund <sup>c</sup>	<u>\$ (3,112,829)</u>	
<b>FY 2005-06 Recommended Appropriations/Transfer</b>		<b>\$ (2,833,966,938)</b>
FY 2006-07 Operating Appropriations	\$ (2,943,763,415)	
FY 2006-07 Appropriation to Stabilization Fund	\$ (68,000,000)	
Transfer to the Unclaimed Property Pledged Revenue Fund	\$ (7,600,000)	
Estimated Cost of the 74th Legislature	\$ (18,500,000)	
Transfer to Stabilization Fund <sup>c</sup>	<u>\$ (3,130,444)</u>	
<b>FY 2006-07 Recommended Appropriations/Transfer</b>		<b>\$ (3,040,993,859)</b>
<b>Estimated Unappropriated Balance July 1, 2007 <sup>d</sup></b>		<b>\$ 151,883,837</b>
<b>Statutory 5% Minimum Required Fund Balance (NRS 353.213)</b>		<b>\$ 147,188,171</b>
<sup>c</sup> NRS 353.288 requires 40% of ending fund balance in excess of 5% of operating appropriations be transferred to Stabilization Fund.		
<sup>d</sup> Does not include \$200,957,768 in the Stabilization Fund (Rainy Day Fund).		

