

Fiscal Highlights

Why Do Restricted Fund Types Matter? - Clare Tobin Lence

Most state agencies receive revenue from multiple funding sources. These sources include "state funds" -- the General, Education, and Uniform School Funds -- which are discussed the most during the General Session appropriations process because they can be spent in a variety of ways, but sources also include "non-state funds." Non-state funds include federal funds, dedicated credits, and restricted funds. Restricted funds in particular often receive less legislative attention because their revenue streams and permissible expenditures are more limited. However, they make up an important part of the overall state budget and even comprise the entire budget for a few agencies.

Restricted fund accounts can be organized in different ways, depending on how they were created in statute. These account specifics can significantly impact the Legislature's authority over the account during the annual appropriations process. Restricted account types include:

1. Restricted accounts that require an annual legislative appropriation.
2. Restricted accounts that can be expended by agencies without an appropriation. These funds are known as "expendable special revenue funds." Agencies can access funds as needed, but expenditures must be consistent with statute.
3. Fiduciary funds that are overseen and managed by an agency but may also be appropriated to the agency for specific purposes.

Restricted accounts that require an appropriation (type 1 above) have three sub-types, which identify how unexpended funds are treated at the end of the fiscal year:

1. Funds lapse to the General Fund.
2. Funds lapse to the restricted account.
3. Funds carry forward in the agency's budget. Some funds that can be carried forward have "nonlapsing" authority in statute. Others are granted nonlapsing authority during the General Session for the current budget year, on a one-time basis.

Lastly, some accounts earn interest and some do not. Sometimes interest is deposited in the account; other times it is remitted to the General Fund.

Fund characteristics are set in statute when the account is created and then adhered to by the Division of Finance and the respective agency. The designated fund type should be consistent with the nature of account revenues and expenditures and associated agency responsibilities. However, the type can constrain the Legislature's opportunity for budgetary oversight.

In recent years, historically "off-budget" expendable special revenue funds have been brought "on-budget" by being shown in appropriations acts each year. Agencies still have full spending authority but provide estimates of fund revenues and expenditures to include in the acts. Including expendable special revenue funds in appropriations acts has not changed how those funds are administered, but it has increased transparency and legislative awareness of the funds.

In addition to awareness of accounts that do not require an appropriation, another challenge for legislators is awareness of the impact of proposed legislation that creates new or modifies existing accounts. Statute determines how accounts will operate and the extent of future legislative authority, and thus the specific fund type, from among the types identified above, is worth considering along with other aspects of a proposed policy.

For examples of the different fund types, drawn from agencies under the purview of the Business, Economic Development and Labor Appropriations Subcommittee, see [here](#).