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# FISCAL IMPACT REPORT

**BILL NUMBER:** Senate Bill 166

**SHORT TITLE:** Transfer From General Fund To Other Funds

**SPONSOR:** Stewart

**LAST ORIGINAL**  
**UPDATE:** \_\_\_\_\_ **DATE:** 02/09/26 **ANALYST:** Torres

### REVENUE\* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Earmark		\$0.0	Losses up to (\$346,970.0)	Losses up to (\$360,850.0)	Losses up to (\$375,280.0)	Recurring	General Fund – Operating Reserve
Earmark		\$0.0	Up to \$86,740.0	Up to \$90,210.0	Up to \$93,820.0	Recurring	Medicaid trust fund
Earmark		\$0.0	Up to \$86,740.0	Up to \$90,210.0	Up to \$93,820.0	Recurring	Behavioral health trust fund
Earmark		\$0.0	Up to \$86,740.0	Up to \$90,210.0	Up to \$93,820.0	Recurring	Community benefit fund
Earmark		\$0.0	Up to \$52,050.0	Up to \$54,130.0	Up to \$56,290.0	Recurring	Public education reform fund
Earmark		\$0.0	Up to \$24,290.0	Up to \$25,260.0	Up to \$26,270.0	Recurring	Rural health care delivery fund
Earmark		\$0.0	Up to \$10,410.0	Up to \$10,830.0	Up to \$11,260.0	Recurring	Kiki Saavadra senior dignity fund

Parentheses indicate revenue decreases.  
 \*Amounts reflect most recent analysis of this legislation.

## Sources of Information

LFC Files

Agency or Agencies Providing Analysis

## SUMMARY

### Synopsis of Senate Bill 166

Senate Bill 166 (SB166) creates a lower cap on the general fund operating reserve and authorizes additional transfers from the operating reserve to designated funds when year-end balances exceed specified 5 percent of spending (also called 5 percent of reserves). The bill establishes new conditions under which excess general fund revenues are automatically distributed to a set of policy-specific trust funds, provided that combined reserve balances exceed 25 percent of recurring appropriations. The funds receiving the proposed general fund revenue earmarks are:

- Medicaid trust fund (25 percent)
- Behavioral health trust fund (25 percent)
- Community benefit fund (25 percent)
- Public education reform fund (15 percent)
- Rural health care delivery fund (7 percent)
- Kiki Saavedra senior dignity fund (3 percent)

The effective date of the bill is July 1, 2026.

## FISCAL IMPLICATIONS

SB166 does not change tax rates but does directly alter revenue disbursements by materially affecting the disposition of year-end general fund balances. The diversion or “earmarks” of money represent a recurring loss to the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

By diverting monies otherwise belonging to the state’s operating reserve, SB166 has significant implications for the state’s fiscal structure and long-term solvency. Under current law, excess general fund revenues are first transferred to the general fund operating reserve, with additional transfers made to the government results and opportunity expendable trust (GRO) only when cash exceeds 8 percent of total spending. SB166 expands the circumstances under which revenues are diverted from the general fund operating reserve, creates a lower 5 percent cap on the total value of the fund, and disburses money into designated trust funds in lieu of spendable reserves.

Specifically, when the general fund operating reserve balance exceeds 5 percent of aggregate recurring appropriations for the previous fiscal year, and provided that the combined balances of the general fund operating reserve and the tax stabilization reserve exceed 25 percent of aggregate recurring appropriations, the bill directs the excess above 5 percent be transferred to six specified funds: the Medicaid trust fund, the behavioral health trust fund, the community benefit fund, the public education reform fund, the rural health care delivery fund, and the Kiki Saavedra senior dignity fund. These transfers reduce the amount of excess revenue that would otherwise remain available in the general fund or its operating reserve.

While these transfers may increase balances in the recipient trust funds and support future programmatic spending, they also reduce the state’s discretionary fiscal capacity. Over time, repeated diversion of surplus revenues could limit the Legislature’s flexibility to respond to economic downturns, revenue volatility, or emerging priorities without either drawing down reserves or enacting new revenue measures.

The figures represented in the Revenue Table above are dependent on the spending made by the Legislature in each fiscal year. For FY27, the December consensus revenue estimate was used along with the current spending as authorized in House Bill 2 as of the date of this publication. In FY28 and beyond, the maximum amounts were estimated using a 4 percent growth rate on spending. If spending is higher than that amount, the distributions to funds would be higher, and the loss to the general fund would also grow.

In addition, by distributing this pool of up to 3 percent of revenues across multiple trust funds according to fixed percentages, the bill may result in relatively small transfers to some funds in certain years, raising questions about administrative efficiency and the practical impact of those transfers relative to existing fund balances.

## SIGNIFICANT ISSUES

A central policy issue raised by SB166 is the tradeoff between targeted savings and earmarking versus overall fiscal flexibility. By statutorily directing excess revenues into specific trust funds, the bill prioritizes certain policy areas—such as Medicaid, behavioral health, environmental programs, education reform, rural health care, and senior services—over other potential uses of surplus funds. This approach can provide more predictable funding streams for these priorities.

At the same time, the bill increases the degree of automaticity in the budget process by reducing the share of surplus revenues subject to annual legislative deliberation. Once the statutory thresholds are met, transfers occur by operation of law rather than through the appropriations process. This reduces legislative discretion and limits the Legislature’s ability to rebalance priorities in response to changing conditions.

SB166 also accelerates transfers out of the general fund and reserves. This structure may result in reserves being simultaneously treated as both a buffer against downturns and a trigger for automatic spending or earmarking. In periods of high revenue growth, this could lead to rapid expansion of trust fund balances, while in periods of decline the state may face pressure to draw down reserves that were already previously diverted.

SB166 continues a statutory trend toward increasing the use of automatic transfers. While the policy objectives of the recipient funds may be well-founded, the proliferation of automated transfer mechanisms weakens the Legislature’s core appropriation authority. The power to appropriate annually based on available revenues, competing needs, and evolving priorities is the Legislature’s primary constitutional fiscal tool. Embedding increasingly rigid transfer formulas in statute reduces the share of state resources subject to annual deliberation and may materially constrain legislative flexibility in future years, particularly during economic downturns when revenues decline and competing demands intensify.

Automatic transfers also reduce fiscal transparency and complicate strategic budget planning. These mechanisms operate mechanically based on backward-looking metrics and do not account for emerging fiscal risks, revenue volatility, or known structural pressures in the upcoming fiscal year. As a result, surplus revenues may be redirected by formula even when forward-looking indicators suggest caution is warranted. The growing number of statutory transfer formulas, layered across multiple funds and thresholds, makes it increasingly difficult to track cumulative impacts, anticipate interactions among transfers, and assess their combined effect on long-term fiscal capacity.

The bill also has implications for the effective cap on the general fund operating reserve. SB166 reduces the statutory operating reserve cap, lowering the amount of cash in the general fund by triggering earlier and more frequent diversions of surplus revenues once reserve thresholds are met. The operating reserve functions as the Legislature’s practical “checking account” for managing appropriations, responding to emergencies, and smoothing revenue volatility.

Redirecting funds away from the general fund through mandatory transfers constrains, rather than enhances, fiscal capacity over time by reducing the amount of readily available, discretionary resources, even in periods of revenue growth. In a revenue downturn, this structure could leave the state entering a fiscal contraction with less cash on hand than would otherwise have been available absent the automated transfers.

Finally, SB166 runs counter to long-standing discussions among policymakers and fiscal staff about increasing flexibility in the use of reserves and reconsidering limitations imposed by the existing 8 percent operating reserve framework. In prior years, efforts have focused on restoring greater discretion to the Legislature over reserve spending, particularly to address state needs. By expanding mandatory transfers and lowering reserve caps, the bill moves in the opposite direction, locking in constraints that future Legislatures may find difficult to unwind. This approach may limit the state's ability to respond to changing fiscal conditions, even when aggregate revenues remain strong.

## **ADMINISTRATIVE IMPLICATIONS**

The Department of Finance and Administration (DFA) and the State Treasurer's Office would be responsible for implementing the revised transfer formulas, calculating thresholds, and executing transfers to the specified funds. While these tasks are consistent with existing responsibilities, the increasing complexity of automatic transfers has stressed resources at DFA and increases the risk of inadvertent consequences.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

May conflict with the intended reserve levels set in House Bill 2 by lowering the cash held in reserves.

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