

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 14, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2770** by Branch (Relating to the investment of a portion of the economic stabilization fund balance.), **As Engrossed**

Depending on the amounts and types of investments made by the Comptroller under provisions of the bill, as well as future financial market conditions, there could be an indeterminate revenue gain or loss to the Economic Stabilization Fund.

The bill would amend Subchapter C, Chapter 404, Government Code by adding Section 404.0241 relating to the investment of a certain portion of the Economic Stabilization Fund (ESF).

Under the provisions of this bill, the Comptroller would invest the balance of the ESF that exceeds an amount equal to 30 percent of the maximum authorized balance of the fund for the applicable state biennium as prescribed by Section 49-g(g), Article III, Texas Constitution, in accordance with requirements of Section 404.024(j) of the Government Code. The Comptroller's investment of that excess balance is not subject to any other limitation or other requirement provided by Section 404.024. The provisions of this bill would require the Comptroller periodically to adjust the investment portfolio of ESF to ensure that only the balance of the fund as specified by this bill would be invested in a manner that does not comply with all of the limitations and other requirements of Section 404.024.

This bill would require the Comptroller to conduct a study of the potential costs and benefits of investing, as provided by Section 404.0241, Government Code as added by this bill, or investing under alternative methods as the Comptroller might propose, a portion of the ESF in precious metals stored in this state. The bill outlines the scenarios the study would include. The Comptroller would report the findings and conclusions of the study to the Legislature not later than August 31, 2014.

Under provisions of this bill, the Comptroller would be required to invest money in certain assets other than those currently utilized. Since the exact manner of such a prudent investment (404.024(j)) is unknown, it is possible that balances so invested would not be in cash form in the state Treasury. Part of the ESF, the invested balance in assets with terms longer than those used today, would not be shown as a cash balance of the fund in the Comptroller's Annual Cash Report, the Biennial Revenue Estimate, or other reports that are presented on a cash basis. ESF resources, whether in cash or invested in other instruments, would continue to be available for appropriation through the appropriation process. As a note, placing balances from the fund into higher yielding

instruments does, by necessity, incur greater risk. Additionally, the use of assets with long terms will decrease the ease by which the funds may be accessed in case of need. The provisions of the bill would result in a loss of interest earnings on the cash balance estimated in 2014-15 Biennial Revenue Estimate, but this loss, if the affected balance were to be invested in higher yielding instruments, would be offset to an undetermined extent.

This bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2013.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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