LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 22, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB8** by Otto (relating to the deposit of money received from the federal government and the authority of the comptroller concerning related funds and accounts.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB8, Committee Report 2nd House, Substituted: a positive impact of $420,990,934 through the biennium ending August 31, 2017. Combined with the removal of federal funds related GR-D balances from the General Revenue Fund, the bill would result in a $206,362,934 gain of funds available for certification pursuant to the Article III limit on appropriations.

The CPA has not indicated that there would be a gain to GR as a result of reducing the transfer from GR to the ESF. To the extent that the CPA does not provide for such a GR gain, combined with the removal of federal funds from General Revenue, there would be a **($331,495,000)** loss of funds available for certification pursuant to the Article III limit on appropriations.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	($58,040,000)
2017	$479,030,934
2018	$1,238,321,000
2019	$761,965,000
2020	$1,236,342,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Certification Gain/Loss from *20 General Revenue Dedicated Funds*	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Savings from *General Revenue Fund* 1	Probable Revenue (Loss) from *Economic Stabilization Fund* 599
2016	($214,628,000)	($58,040,000)	$0	$0
2017	$0	($58,827,000)	$537,857,934	$0
2018	$0	($59,748,000)	$1,298,069,000	($537,857,934)
2019	$0	($60,670,000)	$822,635,000	($1,298,069,000)
2020	$0	($61,727,000)	$1,298,069,000	($822,635,000)

Fiscal Year	Probable Revenue (Loss) from *Federal Funds deposited in GR*	Probable Revenue Gain from *New Special Federal Fund outside GR*
2016	($33,899,419,000)	$34,184,675,000
2017	($31,201,855,000)	$31,260,682,000
2018	($31,201,855,000)	$31,261,603,000
2019	($31,201,855,000)	$31,262,525,000
2020	($31,201,855,000)	$31,263,582,000

Fiscal Analysis

The bill would amend Subchapter B of Chapter 403 of the Government Code, regarding general powers and duties of the Comptroller.

The bill would add new Section 403.0125 to require Comptroller to account for and administer federal money separately from money in the General Revenue (GR) Fund in a manner that ensures federal money and earnings on federal money are used for the purposes for which federal money is received. The bill would allow the Comptroller to designate or create a fund or account in the treasury for the deposit of federal funds; merge, consolidate, or segregate funds or accounts deposited to the fund; or abolish a fund or an account in the GR Fund to which federal money has been deposited.

The bill would take effect September 1, 2015.

Methodology

The bill would have a number of state fiscal policy effects both on the certification process and on the Economic Stabilization Fund.

Under the bill's provisions, no federal monies including interest and other earnings could be deposited to GR, including to GR-Dedicated accounts. In the 2016-17 Biennial Revenue Estimate, ending balances for Federal General Revenue Dedicated Accounts, as well as revenue from earned credits (COBJ 3702) and Indirect Cost Recoveries (COBJ 3726) were included in General Revenue-related funds available for certification. Those resources would no longer be available for certification. Due to this elimination, for purposes of certifying the 2016-17 General Appropriations Act, the amount of funds available for general purpose spending would be reduced by $331,495,000, as shown in the first two columns of the All Funds table above. It is assumed that both the federal-related General Revenue Dedicated account balances and the revenue from

Earned Credits and Indirect Cost Recoveries would be deposited into a new Federal Funds account created outside of General Revenue and would still be available for appropriation by the Legislature.

As federal funds would not be deposited in GR, they no longer would be part of the Economic Stabilization Fund (ESF) cap calculation. The bill's provisions would not affect the ESF cap for the 2016-17 biennium since that calculation is based on data from the previous 2014-15 biennium when federal funds were deposited to GR. For the 2018-19 biennium, the ESF cap would decrease from an estimated $16.7 billion to an estimated $11.8 billion.

According to the 2016-17 Biennial Revenue Estimate, the ESF is projected to end fiscal year 2017 with a balance of $11.1 billion. Assuming no further ESF appropriations and no change in the ESF sufficient balance adopted under Government Code 316.092, the projected 2018 General Revenue transfer to the ESF (based on FY 2017 oil and natural gas production tax estimates from the BRE) would need to be reduced by $537.9 million to prevent the ESF from exceeding the projected 2018-19 cap of $11.8 billion. Since this amount would be set aside for transfer in FY 2017, the bill would generate a General Revenue savings in 2017 equal to the amount of the reduction, and a loss of revenue to the ESF in 2018, the year the transfer would be reduced. The CPA has not indicated that there would be a gain to General Revenue as a result of reducing the transfer from General revenue to the ESF; to the extent that the CPA does not provide for such a GR gain there would be a loss to certification for the purpose of the Article III limit on appropriations.

GR gains and ESF losses would continue in future years, as long as no further appropriations from the ESF or changes to the ESF sufficient balance were made. The CPA has not made projections of oil and natural gas beyond fiscal year 2017, however, for illustrative purposes, the table above displays these gains and losses beyond fiscal year 2017 assuming; (1) constant severance tax collections relative to FY 2017 projections, (2) no unencumbered balance transfer, (3) the ESF cap grows at the same rate in 2020-21 as it is projected to grow in 2018-19, and (4) interest earnings are ignored. Note: the GR gain from the set aside reduction is smaller in 2019 (and odd numbered years in general), because a portion of the 2020 transfer to the ESF would still be made in order to bring the ESF balance up to the new 2020-21 cap of $12.3 billion.

The bill requires the Comptroller to ensure federal money and earnings on federal money be used for the purposes for which federal money is received; this responsibility has historically been that of the recipient agency and other oversight agencies and would be a new responsibility for the CPA.

The bill would affect the size and timing of tax revenue anticipation notes.

This legislation would create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Technology

The HHS agencies indicated they would need to reconfigure their internal accounting system (Health and Human Services Accounting System) to establish a separate accounting of federal funds deposited outside of General Revenue; the agencies noted that any cost cannot be estimated at this time.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 529 Health and Human Services Commission, 530 Family and Protective Services, Department of, 537 State Health Services, Department of, 538 Assistive and Rehabilitative Services, Department of, 539 Aging and Disability Services, Department of, 601 Department of Transportation, 701 Central Education Agency

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