

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 25, 2015

TO: Honorable John Otto, Chair, House Committee on Appropriations

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB903 by Capriglione (relating to the investment of a percentage of the economic stabilization fund balance in excess of the sufficient balance.), **Committee Report 1st House, Substituted**

Depending on the percentage of funds invested pursuant to the bill, there could be a indeterminate change in investment earnings of the Economic Stabilization Fund. Because the percentage is not defined by the bill, the fiscal implications of the bill cannot be determined at this time.

The bill would amend Subchapter C, Chapter 404, of the Government Code, to add new Section 404.0241 relating to the investment of certain Economic Stabilization Fund (ESF) balances.

The bill would direct the Comptroller to invest a percentage of the ESF balance that exceeds the amount of the sufficient balance of the fund adopted under Section 316.092 of this code for the applicable state fiscal biennium in accordance with the investment standard described by Section 404.024(j) of this code (the prudent investment standard). The investment of that excess balance would not be subject to any other limitation or requirement in Section 404.0241 of this code. The Comptroller would adjust the ESF investment portfolio periodically to ensure that the balance of the fund is sufficient to meet the cash flow requirements of the fund.

The bill would authorize the Comptroller through the Texas Treasury Safekeeping Trust Company to invest ESF funds in accordance with the prudent investor standard.

Placing balances from the fund into higher returning instruments would entail increased investment risks, assuming circumstances could occur such that these investments would be sold at a loss if immediate access were required to meet temporary cash flow or emergency needs at a time when the fund value was below book value (the value of the initial investment). Thus, the portion of the balance invested in higher returning instruments should not be considered to be as liquid as assets held in the Treasury Pool. Potential realized losses or gains would depend on the level of risk taken to achieve higher returns.

The bill does not provide an exact percentage of the ESF balance above its sufficient balance that would be invested in accordance with the prudent investment standard; nor does it specify an allocation, in keeping with the standard, across risk and asset classes. Therefore the bill's fiscal impact cannot be determined.

The 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, 2015.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD