

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 7, 2015

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB116 by Taylor, Van (Relating to the investment of a portion of the economic stabilization fund balance.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB116, As Introduced: an impact of \$0 through the biennium ending August 31, 2017.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	\$0
2017	\$0
2018	\$0
2019	\$0
2020	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>Economic Stabilization Fund</i> 599	Probable Revenue Gain from <i>Economic Stabilization Fund</i> 599
2016	(\$23,660,000)	\$36,469,000
2017	(\$27,443,000)	\$54,704,000
2018	(\$27,718,000)	\$54,704,000
2019	(\$27,997,000)	\$54,704,000
2020	(\$45,304,000)	\$54,704,000

Fiscal Analysis

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 the balance of the money in the ESF that exceeds 30 percent of the maximum authorized balance of that fund for the applicable state fiscal biennium as prescribed by Section 49-g (g) Article III, Texas Constitution in accordance with the investment standard described by Section 404.024(j) of the Government 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. The Comptroller would adjust the ESF investment portfolio periodically to ensure that only the balance that exceeds 30 percent of the maximum authorized balance is invested in a manner that does not comply with all Section 404.024 limitations and requirements.

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.

Methodology

The bill would authorize the Comptroller through the Texas Treasury Safekeeping Trust Company to invest ESF funds in accordance with the prudent investor standard. ESF resources, whether in cash or invested in other instruments, would continue to be available for appropriation through the appropriation process. Based on estimates from the *2016-17 Biennial Revenue Estimate*, the maximum balance of the ESF prescribed by Section 49-g (g) Article III, Texas Constitution is predicted to be \$16.1 billion during the 2016-17 biennium. Therefore, the CPA would be authorized to invest ESF balances in excess of 30 percent of this amount, or \$4.8 billion, in accordance with the prudent investor standard.

Placing balances from the fund into higher returning instruments requires taking increased investment risks. Because these assets will be subject to mark-to-market price volatility, they could 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, they should not be considered to be as liquid as assets held in the Treasury Pool. Potential realized losses or gains will depend on the level of risk taken to achieve higher returns.

The bill's provisions would result in a reduction of interest earnings on cash balances estimated in *2016-17 Biennial Revenue Estimate* but this reduction, if the affected balance were to be invested in higher returning instruments, would be expected, on average, to be offset by earnings from higher return investments.

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