

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 8, 2015

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB1927 by Seliger (Relating to the investment of a portion of the economic stabilization fund balance.), **As Introduced**

Depending on the amount and types of investments approved by the Legislative Budget Board there would be an indeterminate change in the Economic Stabilization Fund investment earning. Potential realized losses or gains would depend on the level of risk taken to achieve higher returns.

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

Under the bill's provisions, the Comptroller would (1) be allowed, with the approval of the Legislative Budget Board (LBB), to invest the ESF balance in an amount equal to 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 investor standard); (2) be required, with the approval of the LBB, to adjust the ESF investment portfolio periodically to ensure that only the balance of the fund that is allowed under this bill's provisions be invested in accordance with the prudent investor standard; (3) be required not later than February 1st of each year to submit to the LBB two investment plans for the ESF, including one submittal from an outside party; and (4) be required to provide LBB with information regarding the performance of the investments of ESF balances.

LBB, in consultation with the Comptroller, would be required, by January 1st of each year, to publish on the agency's website a report on the risk-adjusted performance of invested ESF balances in accordance with the prudent investor standard.

This bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2015.

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, as circumstances could arise 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, they 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's language is permissive in nature and LBB's approval on the amount of the ESF balance that would be invested in accordance with the prudent investor standard is unknown; in addition this bill doesn't specify an allocation, in keeping with the standard, across risk and asset classes. Therefore the bill's fiscal impact cannot be determined.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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