

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 21, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2658 by Howard (relating to establishing the State of Texas Wealth Fund; making an appropriation.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2658, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2019.

Appropriations:

Fiscal Year	Appropriation out of <i>Economic Stabilization Fund</i> 599
2018	\$2,000,000,000
2019	\$0

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>Economic Stabilization</i> <i>Fund</i> 599	Probable Revenue (Loss) from <i>Economic Stabilization</i> <i>Fund</i> 599	Probable Savings from <i>State of Texas Wealth</i> <i>Fund</i>	Probable Revenue Gain from <i>State of Texas Wealth</i> <i>Fund</i>
2018	(\$2,000,000,000)	(\$44,872,000)	\$2,000,000,000	\$55,904,000
2019	\$0	(\$46,325,000)	\$0	\$135,035,000
2020	\$0	(\$48,950,000)	\$0	\$137,482,000
2021	\$0	(\$48,564,000)	\$0	\$137,557,000
2022	\$0	(\$51,200,000)	\$0	\$137,560,000

Fiscal Analysis

The bill would amend Chapter 403 of the Government Code, regarding the Comptroller of Public Accounts, to add new Section 403.1085 relating to establishing the State of Texas Wealth Fund and making an appropriation.

The State of Texas Wealth Fund (STWF) would be a special fund in the state treasury outside the General Revenue Fund to be administered by the Comptroller. The fund would consist of all money transferred or credited to the fund at the direction of the Legislature or by other law, and any gifts, grants, or donations made for this purpose.

The Comptroller would invest assets of the fund taking into account the purpose for which the fund is established, and subject to restrictions the Comptroller considers appropriate but notwithstanding the limitations specified by Section 404.024 (state treasury operations and authorized investments). All interest and other earnings on the fund's principal and accumulated earnings would be credited to the fund.

Except as provided by this bill, money in the fund would be appropriated only to: (1) pay costs of deferred maintenance of state infrastructure; (2) make payments of the principal and interest on general obligation bonds of this state; (3) pay the costs of a capital project for this state in lieu of financing using bonds or other long-term obligations; and (4) to fund pension liabilities. An appropriation to pay the costs of a capital project would be made only after the Legislative Budget Board finds this funding method would achieve significant cost savings compared to long-term obligations, and communicates that finding in writing to the Lieutenant Governor, Speaker of the House, and standing committees with jurisdiction over appropriations.

The bill would appropriate \$2 billion from the Economic Stabilization Fund (ESF) to the Comptroller for the purpose of transferring money to the credit of STWF.

This bill would take effect September 1, 2017. The section of the bill that would make an appropriation from the ESF would also be effective September 1, 2017, but only if this bill was approved by two-thirds of the members present in each house of the Legislature.

Methodology

The bill would reduce the balance of the ESF by \$2 billion in fiscal 2018 and would increase the balance of STWF by a like amount. In addition, the transfer would result in reduced interest and investment earnings on the ESF cash balance in each year.

Projected investment income for STWF represents estimates of change in fair value without adjusting for any additional fees, as they are not allowed under the bill's provisions, and are based on an asset allocation with a median return expectation of 6.47 percent on average over a 10 year investment horizon. There is a 5 percent probability that returns could be as low as negative 10.35 percent or as high as positive 22.18 percent in a given year. The annualized downside/upside range of returns at the 5 percent probability level narrows over 10-years to positive 0.95 percent and positive 11.45 percent respectively.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either in, 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.

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