

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 16, 2019

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

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **SB1138** by Watson (relating to security instruments entered into by the Texas Treasury Safekeeping Trust Company.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1138, Committee Report 1st House, Substituted: a positive impact of \$1,320,000 through the biennium ending August 31, 2021.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	\$660,000
2021	\$660,000
2022	\$660,000
2023	\$660,000
2024	\$660,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from <i>General Revenue Fund</i> 1
2020	\$660,000
2021	\$660,000
2022	\$660,000
2023	\$660,000
2024	\$660,000

Fiscal Analysis

The bill would amend Section 404.103 of the Government Code relating to the management of certain state and local funds, investments, and obligations.

The bill would waive sovereign immunity by and on behalf of the Texas Treasury Safekeeping Trust Company's (TTSTC) securities instruments' agreements with financial institutions other than

the Federal Reserve and the Depository Trust Company. The limited waiver of immunity would apply only to assets in the reserve fund the Trust Company maintains pursuant to current law.

This change would allow TTSTC to enter into certain agreements such as tri-party repurchase agreements ("repo") for the Treasury Pool and for TexPool and TexPool Prime.

The 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, 2019.

Methodology

As a result of changes in law made by the Dodd-Frank Wall Street Reform and Consumer Protection Act, only one financial institution now acts as a clearing bank in connection with tri-party repurchase agreements. Based on federal requirements, that entity could demand indemnification (compensation of loss) from all parties engaged in the tri-party repurchase. However, under current law, TTSTC is not able to enter into such an agreement as it cannot indemnify other parties to the agreements. The bill would grant TTSTC a limited waiver of immunity. TTSTC considers agreements such as tri-party to be the most prudent manner of investing treasury pool cash in the second part of the business day.

TTSTC estimates that investments in tri-party "repo" would generate up to \$10 million in additional interest earnings for the State Treasury Pool. The average annual balance of the Treasury Pool in fiscal 2018 was \$30.7 billion, of which general revenue-related (GRR) funds, including general revenue dedicated accounts, were \$2 billion, or 6.6 percent. Applying that percentage to the additional interest earnings would give \$660,000 in additional GRR interest earnings.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: WP, KK, SD