

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 14, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB855 by Capriglione (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 HB855, As Introduced: an impact of \$0 through the biennium ending August 31, 2019.

However there will be a net revenue gain of \$82,175,000 to the Economic Stabilization Fund through the biennium ending August 31, 2019.

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 Revenue (Loss) from Economic Stabilization Fund - Cash Balance 599	Probable Revenue Gain from Economic Stabilization Fund - TESTIF 599
2018	(\$20,188,000)	\$60,144,000
2019	(\$39,750,000)	\$81,969,000
2020	(\$57,380,000)	\$114,522,000
2021	(\$63,292,000)	\$129,346,000
2022	(\$69,813,128)	\$146,088,854

Fiscal Analysis

The bill would amend Subchapter C, Chapter 404, of the Government Code, regarding state treasury operations, state depositories and investment of state funds, to amend Section 404.0241, regarding investment of certain Economic Stabilization Fund (ESF) balances.

The bill would determine the ESF balance that may be invested under the prudent investor standard as the share of the ESF balance that exceeds 30 percent of the maximum authorized balance of the fund for the applicable state fiscal biennium as prescribed by Section 49-g(g), Article III, of the Texas Constitution. The investment of the excess balance would not be subject to any other limitation or requirement in Section 404.0241 of the Government Code. The Comptroller would adjust the ESF investment portfolio periodically to ensure that the only the balance of the fund that exceeds the threshold established by the bill is invested in accordance with prudent investor standard.

The bill would repeal Government Code Subsections 404.0241(c), regarding including fair market value of the ESF investment portfolio in calculating the fund's total value, and (d), regarding the expiration of Section 404.0241 of the Government Code.

The bill would take effect September 1, 2017.

Methodology

The Comptroller is currently authorized, through the Texas Treasury Safekeeping Trust Company, to invest ESF funds in accordance with the prudent investor standard.

The fiscal impact analysis was based on the 2018-19 *Biennial Revenue Estimate*. Additional amounts that would be invested in accordance with the prudent investor standard were based on the estimated maximum authorized balance of the ESF of \$16.9 billion in the 2018-19 biennium and \$16.7 billion in the 2020-21 biennium.

Placing balances from the fund into higher returning instruments would entail increased investment risk, 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 market 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 would have some negative impact on the state's cash flow. The available ESF cash balance in the state Treasury available for interfund borrowing for cash flow needs would be decreased.

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