

# ECONOMIC STABILIZATION FUND CAP



AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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## OBJECTIVE

The Economic Stabilization Fund (ESF) cap limits the maximum balance in the ESF.

## KEY FACTS

- ◆ The ESF cap for the 2014–15 biennium was \$14.1 billion.
- ◆ The ESF balance at the end of the 2014–15 biennium was \$8.5 billion, \$5.6 billion less than the cap.
- ◆ The ESF cap for the 2016–17 biennium is \$16.2 billion.
- ◆ The CPA estimates that, absent any new ESF appropriations, the balance in ESF at the end of the 2016–17 biennium will reach \$10.4 billion, \$5.8 billion less than the estimated cap.

## BUDGETARY IMPACT

If the ESF balance reaches the constitutional cap, transfers to the ESF would be suspended, and interest earned on the ESF balance would be deposited to the General Revenue Fund. Transfers to the ESF and retention of interest in the ESF would resume in the first biennium in which the cap exceeds the ESF balance due to an increase in revenue collections or expenditures from the ESF.

## STATUTORY REFERENCES

The Texas Constitution, Article III, Section 49–g

The Economic Stabilization Fund (ESF), commonly called the Rainy Day Fund, was established by an amendment to the Texas Constitution in November 1988. The constitution specifies the revenue sources that are deposited to the fund and the requirements for making appropriations from the fund. The constitution also caps the ESF balance, as follows:

During each fiscal biennium, the amount in the economic stabilization fund may not exceed an amount equal to 10 percent of the total amount, excluding investment income, interest income, and amounts borrowed from special funds, deposited in general revenue during the preceding biennium.

If the ESF were to reach or approach the cap, the Comptroller of Public Accounts (CPA) would reduce or eliminate transfers to the ESF to prevent the balance from exceeding the limit. If the balance reaches the cap, the CPA would also credit interest earned on the ESF balance to the General Revenue Fund.

The ESF balance is expected to remain less than the cap through the end of the 2016–17 biennium.

## CALCULATION OF THE ESF CAP

The ESF cap for each biennium is based on the revenue collections in the previous biennium. For example, the ESF cap for the 2016–17 biennium is based on revenue collections in fiscal years 2014 and 2015. To calculate the cap for each biennium, the CPA starts with total net revenue deposited to the General Revenue Fund in each fiscal year of the previous biennium. (This amount includes Federal Funds deposited to the General Revenue Fund.) The CPA's calculation uses amounts shown in the Annual Cash Reports (ACR), in the Statement of Cash Position. The CPA adds revenue deposited to the Tobacco Settlement Fund, excluding accounting transfers. This amount is shown in the ACRs, Fund Detail. The CPA then deducts interest and investment income deposited to the General Revenue Fund, which is shown in the ACRs, Statement of Cash Position. The CPA adds the results for the two years together to produce revenue base for calculating the cap. Ten percent of the revenue base is The ESF limit for the following biennium. Figure 1 shows the ESF limit calculation for the 2016–17 biennium.

**FIGURE 1**  
**CALCULATION OF THE ECONOMIC STABILIZATION FUND CAP FOR THE 2016–17 BIENNIIUM**

	2014	2015	BIENNIIUM
Total Net Revenue			
General Revenue Fund	\$78,085,842,281	\$83,023,212,309	\$161,109,054,590
Tobacco Settlement Account	\$499,666,025	\$486,231,668	\$985,897,693
Less: Interest and Investment Income	(\$19,221,145)	(\$32,869,482)	(\$52,090,627)
Revenue Base	\$78,566,287,161	\$83,476,574,495	\$162,042,861,656
x 10%			
Economic Stabilization Fund Limit for 2016–17 Biennium			\$16,204,286,166

SOURCE: Comptroller of Public Accounts.

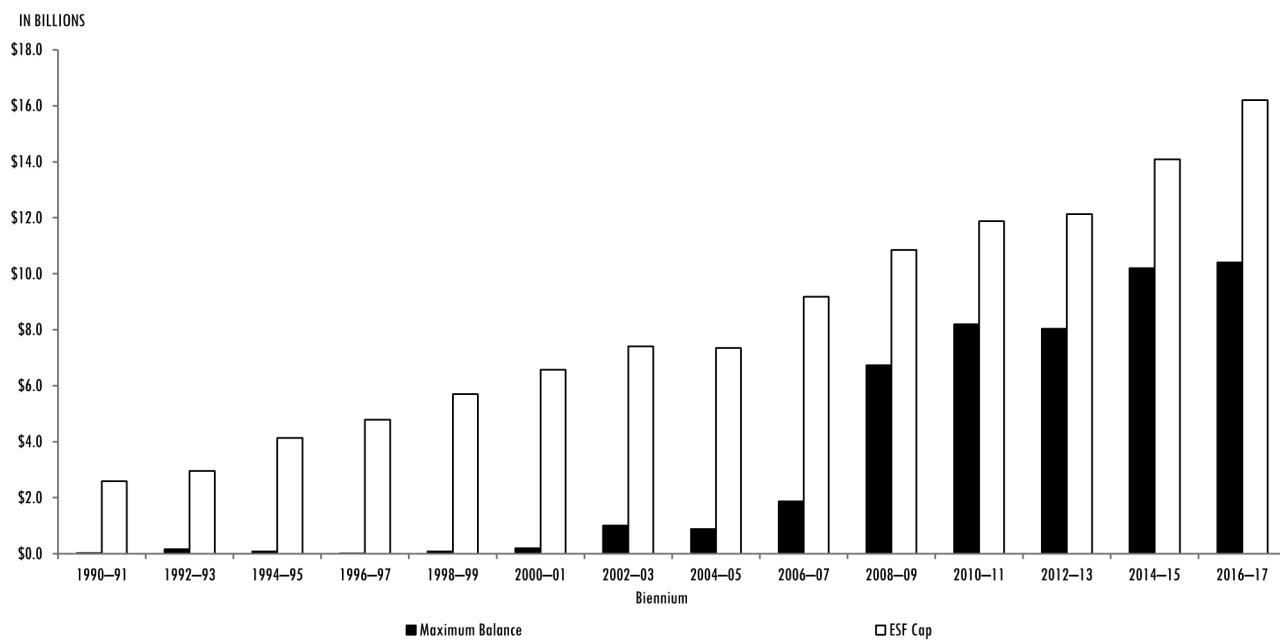
In the October 2015 Certification Revenue Estimate (CRE), the CPA estimates that, absent new ESF appropriations, the ESF will end fiscal year 2017 with a balance of \$10.4 billion. This balance is approximately \$5.8 billion less than the \$16.2 billion ESF cap.

An estimated cap for the 2018–19 biennium can be calculated using the CRE estimates for fiscal years 2016 and 2017. The estimated cap for the 2018–19 biennium is \$16.0 billion.

## HISTORY OF THE ESF CAP AND BALANCES

Figure 2 shows a comparison of each ESF biennial cap to the maximum ESF balance in that biennium. The calculation for the 2016–17 biennium maximum balance assumes no additional appropriations from the ESF. The maximum balance calculation for the 2016–17 biennium is based on the October 2015 CRE.

**FIGURE 2**  
**ECONOMIC STABILIZATION CAP COMPARED TO THE MAXIMUM MONTHLY ENDING BALANCE**  
**1990–91 TO 2016–17 BIENNIA**



NOTE: 2016–17 amounts are estimated.

SOURCE: Comptroller of Public Accounts.

In terms of balances as a percentage of the cap, the balance was 72.4 percent of the cap at the end of November 2014. If no additional appropriations are made to or from the ESF, the CPA estimates that, in August 2017, the balance will reach 64.2 percent of the 2016–17 biennial cap.

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