

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 2012–13 biennium is \$12.1 billion.
- ◆ The CPA estimates that, absent any new ESF appropriations, the balance in ESF at the end of the 2012–13 biennium will be \$8.1 billion, \$4.0 billion less than the cap.
- ◆ The estimated ESF cap for the 2014–15 biennium is \$14.4 billion.
- ◆ The CPA estimates that, absent any new ESF appropriations, the balance in ESF at the end of the 2014–15 biennium will reach \$11.8 billion, \$2.6 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

Texas Constitution Article III, Section 49–g

The Economic Stabilization Fund (ESF), commonly called the “Rainy Day Fund,” was created by the passage of an amendment to the Texas Constitution in November 1988. The constitution spells out 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 below the cap through the end of the 2014–15 biennium.

CALCULATION OF THE ESF CAP

The ESF cap for the each biennium is based on the revenue collections in the previous biennium. For example, the ESF cap for the 2012–13 biennium is based on revenue collections in fiscal years 2010 and 2011. To calculate the cap for each biennium, the CPA starts with total net revenue deposited to the General Revenue Fund in each of fiscal year of the previous biennium. (This number includes federal funds deposited to the General Revenue Fund.) The CPA takes these numbers from Table 1 of the Annual Cash Reports (ACRs). The CPA adds revenue deposited to the Tobacco Settlement Fund, excluding accounting transfers. This number is found in the Fund Detail section of the ACRs. The CPA then deducts interest and investment income deposited to the General Revenue Fund which is shown in Table 1 of the ACRs. (Note that interest and investment income deposited to the General Revenue Fund was negative in fiscal year 2010 because the fund balance was negative for much of the year.) 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. Fig. 1 shows the ESF limit calculation for the 2012–13 biennium.

FIG. 1
CALCULATION OF THE ECONOMIC STABILIZATION CAP FOR THE 2012–13 BIENNIUM

	2010	2011	BIENNIUM
Total Net Revenue			
General Revenue Fund	\$57,180,257,842	\$63,102,493,396	\$120,282,751,238
Tobacco Settlement Account	<u>481,121,274</u>	<u>483,477,618</u>	<u>964,598,891</u>
	\$57,661,379,116	\$63,585,971,014	121,247,350,129
Less: Interest and Investment Income	<u>(34,439,852)</u>	<u>18,898,906</u>	<u>(15,540,946)</u>
Revenue Base	\$57,695,818,968	\$63,567,072,108	\$121,262,891,075
			10%
Economic Stabilization Limit for 2012–13 Biennium			\$ 12,126,289,108

SOURCE: Comptroller of Public Accounts.

In the January 2013 Biennial Revenue Estimate (BRE), the CPA estimates that, absent new ESF appropriations, the ESF will end fiscal year 2013 with a balance of \$8.1 billion. This is approximately \$4 billion less than the \$12.1 billion ESF cap.

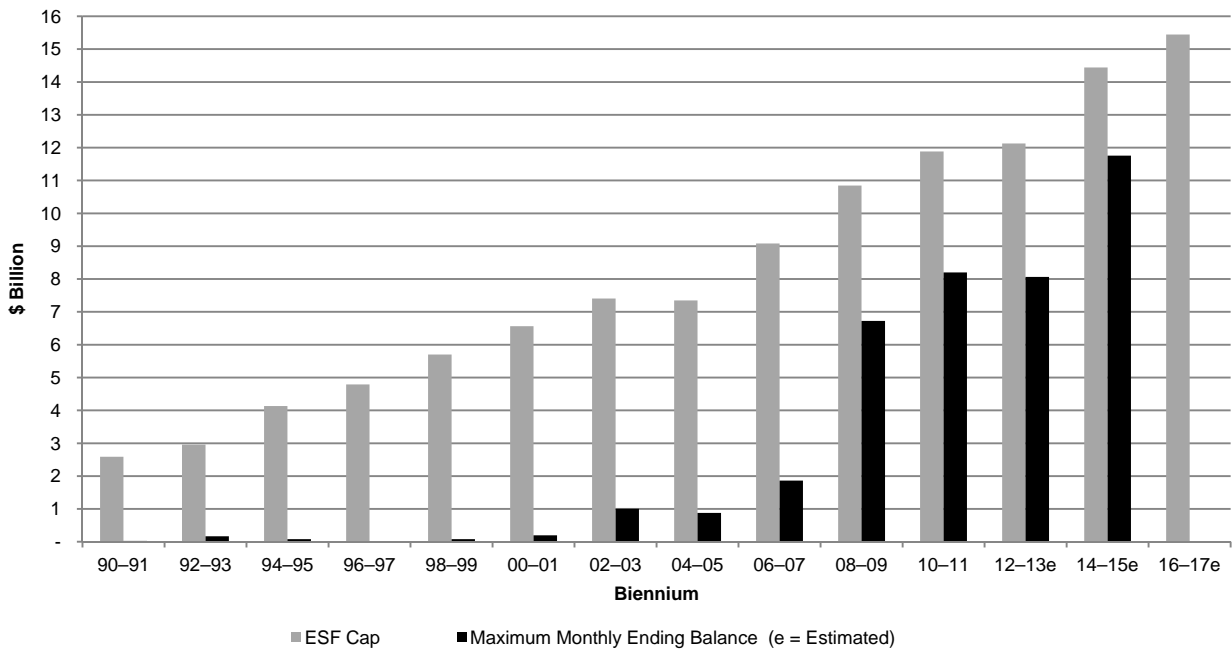
An estimated ESF cap for the 2014–15 biennium can be calculated based on actual fiscal year 2012 revenue collections and estimated revenue for fiscal years 2013 from the BRE. The estimated cap for the 2014–15 biennium is \$14.4 billion. The CPA estimates that the ESF balance will reach almost \$11.8 billion by August 31, 2015 with no new appropriations to or from the ESF. This is \$2.6 billion less than the estimated 2014–15 biennial cap.

An estimated cap for the 2016–17 biennium can be calculated using the BRE estimates for fiscal years 2014 and 2015. The estimated cap for the 2016–17 biennium is \$15.4 billion.

HISTORY OF THE ESF CAP AND BALANCES

Fig. 2 compares each ESF biennial cap to maximum ESF monthly ending balance in that biennium. The calculations for the 2012–13 and 2014–15 biennia assume no additional appropriations from the ESF. The cap calculations for the 2014–15 and 2016–17 biennia are based on the January 2013 BRE.

**FIG. 2
ECONOMIC STABILIZATION CAP COMPARED TO THE MAXIMUM MONTHLY ENDING BALANCE EACH BIENNIUM**



SOURCE: Comptroller of Public Accounts.

In terms of ending monthly balances as a percentage of the cap, the balance peaked at 69 percent of the cap in May of 2011. If there are no additional appropriations to or from the ESF, the CPA estimates that, in August 2015, the balance will reach 81.4 percent of the 2014–15 cap.

CONTACT

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