



LEGISLATIVE BUDGET BOARD

Overview of the Economic Stabilization Fund

PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE

URSULA PARKS, LEGISLATIVE BUDGET BOARD

APRIL 19, 2016

ESF History

- Created by a constitutional amendment approved by voters in 1988.
- The constitution provides for deposits to and appropriations from the ESF. The primary source of revenue is severance tax-related transfers. With a two-thirds vote, the ESF may be appropriated at any time and for any purpose.
- FY 1990 – FY 2015:
 - Total deposits: \$19.1 billion
 - Total appropriations: \$10.6 billion
 - FY 2015 ending balance: \$8.5 billion
- Proposition 1 approved by voters in November 2014 modified the calculation of transfers to the ESF
- HB 903, 84(R), modified how certain balances of the ESF are invested.

Transfers to the ESF

Provision of Article III, Section 49-g	Subsection	Amount
Oil Tax Related	(d)	GR transfer equal to at least 37.5%, but no more than 75% of fiscal year collections in excess of 1987 collections.
Natural Gas Tax Related	(e)	GR transfer equal to at least 37.5%, but no more than 75% of fiscal year collections in excess of 1987 collections.
Unencumbered Balance	(b)	One half of any GR unencumbered balance at the end of a biennium
Appropriations to the Fund	(f)	Amount appropriated
Interest on Deposits	(i) and (j)	Interest earned on average daily balance (calculated as if no inter-fund borrowing from the ESF occurred)
Repayment of Inter-fund Borrowing	(j)	Amount borrowed
Recoupment of Excess Appropriation	(l)	Amount by which appropriations made under subsection (l) exceed the actual biennium-to-biennium decline in revenue.

Transfers to the ESF (\$ millions)

Fiscal Year	Oil Production Tax Related Transfer	Natural Gas Production Tax Related Transfer	Unencumbered Balance Transfer	Interest	Total Deposits
1990		18.5		0.8	19.3
1991		7.8		1.9	9.7
1992	118.0	18.4	20.2	6.8	163.4
1993				7.4	7.4
1994		31.0		3.0	34.0
1995				0.6	0.6
1996				0.4	0.4
1997				0.4	0.4
1998		47.5		2.3	49.8
1999		17.9		3.8	21.7
2000				4.7	4.7
2001		103.1		8.7	111.8
2002		685.8		21.6	707.4

Transfers to the ESF (\$ millions)

Fiscal Year	Oil Production Tax Related Transfer	Natural Gas Production Tax Related Transfer	Unencumbered Balance Transfer	Interest	Total Deposits
2003		83.6		19.4	103.0
2004		352.6		5.5	358.1
2005		594.5		17.3	611.8
2006	112.1	793.0		21.5	926.6
2007	247.3	1,304.5		65.8	1,617.6
2008	226.9	971.8	1,779.9	136.0	3,114.6
2009	678.3	1,563.7		128.8	2,370.8
2010	263.9	606.0		97.0	966.9
2011	357.2	94.3		67.0	518.5
2012	705.2	382.5		33.3	1,121.0
2013	1,177.9	701.1		29.6	1,908.6
2014	1,843.3	671.6		24.5	2,539.4
2015	1,252.7	487.4		31.4	1,771.5

Appropriations from the ESF

Circumstance	Subsection	Restriction	Vote Needed
Deficit in Current Biennium	(k)	<ul style="list-style-type: none"> -Not greater than the deficit -Regular Session: only for a purpose funded by a previous Legislature -Special Session: for a purpose funded by earlier session of same legislature -Only for the current biennium 	3/5 of Members Present
CPA estimates that revenue will decrease from current biennium to the next biennium	(l)	Not greater than revenue decrease/recoupment of over-appropriation	3/5 of Members Present
Any time, any purpose	(m)	None	2/3 of Members Present

Appropriations from the ESF

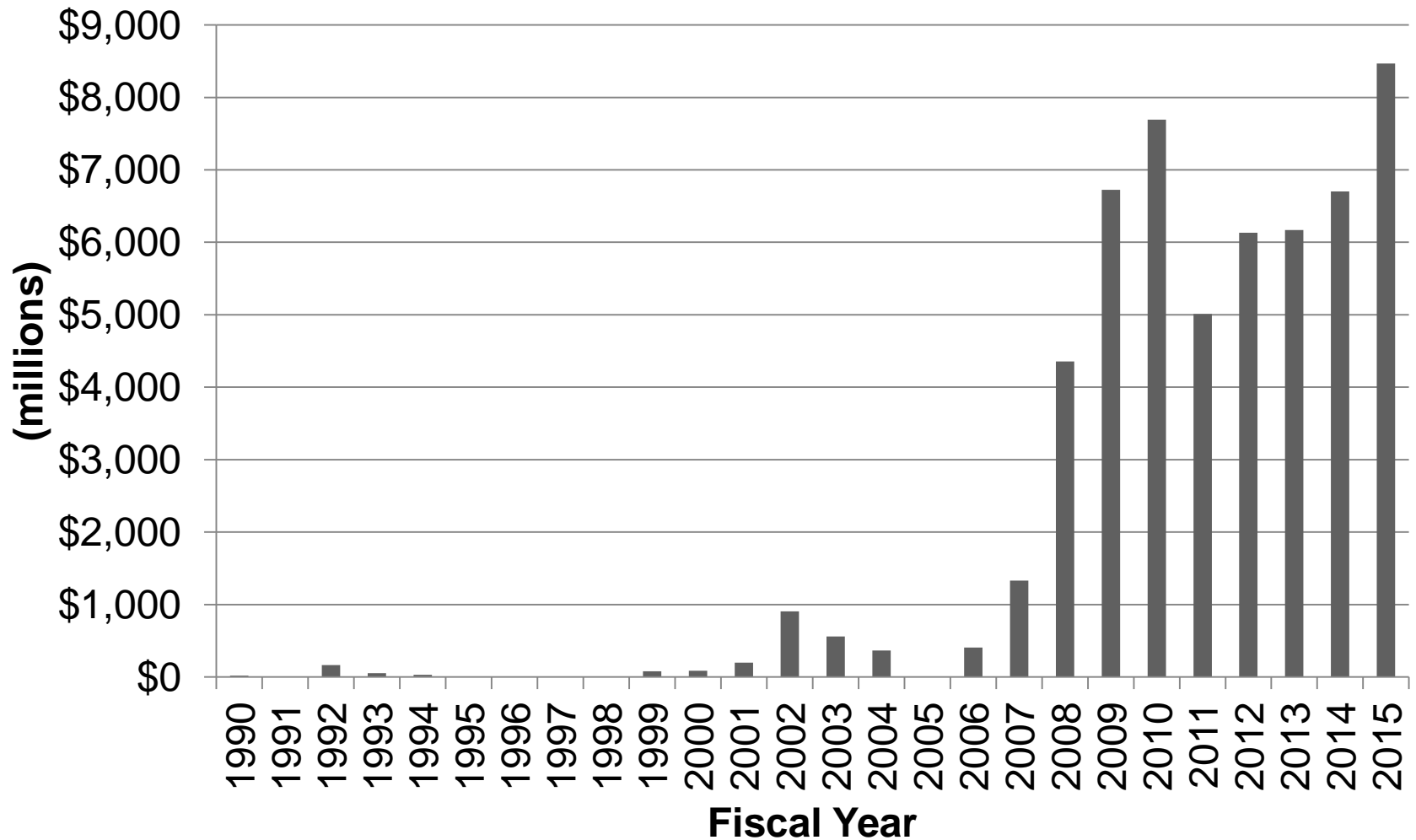
Legislation	Appropriation (millions)	Estimated ESF Available	Appropriation as % Of Available Revenue
SB 11, 71 st Legislature, 6 th Called Session, 1990	\$29.0	\$29.0	100%
SB 171, 73 rd Legislature, Regular Session, 1993	\$125.8	\$197.8	100%
SB 532, 73 rd Legislature, Regular Session, 1993	\$72.0		
HB 7, 78 th Legislature, Regular Session, 2003	\$1,260.5	\$1,297.6	97%
HB 10, 79 th Legislature, Regular Session, 2005	\$2,030.1	\$2,013.2	101%*
HB 275, 82 nd Legislature, Regular Session, 2011	\$3,198.7	\$9,405.3	34%
HB 1025, 83 rd Legislature, Regular Session, 2013	\$3,936.2	\$11,756.4	33%
TOTAL	\$10,652.3		

* A portion of the HB 10 appropriation was contingent on transfers to the ESF exceeding estimate.

Appropriations from the ESF

Purpose	Appropriation (millions)
Public Education	\$3,541.4
General Deficit Reduction	\$3,198.7
Economic Development <i>Includes \$2.0 billion for the State Water Implementation Fund</i>	\$2,395.0
Health & Human Services	\$1,126.8
Corrections	\$197.8
Disaster Relief	\$192.6
Judicial	\$0.04
TOTAL	\$10,652.3

ESF Ending FY Balance



ESF Estimates

- CPA released the Certification Revenue Estimate in October 2015, with estimated transfers and balances for the ESF.
- The transfer is dependent on the \$7 billion sufficient balance adopted for the 2016-17 biennium by the Joint Select Committee to Study the Balance of the ESF.

Estimated Transfer and Balance Amounts (millions)		
	FY 2016	FY 2017
Beginning Balance	\$8,468.9	\$9,679.3
Oil Production Tax Transfer	\$879.4	\$492.3
Natural Gas Production Tax Transfer	\$255.2	\$101.8
Interest Income	\$63.0	\$78.3
Change in Value of Invested Balance (HB 903)	\$15.0	\$47.2
Appropriation authority from prior years	(\$2.3)	(\$1.8)
Ending Balance	\$9,679.3	\$10,397.2

ESF Cap: Sufficient Fund Balance

Sufficient Fund Balance (SFB) established every biennium by select committee:

- 5 Representatives appointed by Speaker
- 5 Senators appointed by Lt. Governor
- SFB can be changed by majority vote of both Houses

2016-17 SFB = \$7 billion

GR transfer (based on Severance tax collections) to ESF and State Highway Fund are determined by relationship of ESF balance to SFB:

- If the ESF balance + estimated FY transfers < SFB, then:
 - 100% Severance transfer → ESF
- If the SFB < ESF balance + estimated FY transfers < SFB + 50% of estimated FY transfers, then:
 - Severance transfer to ESF = SFB – ESF balance
 - Remainder of Severance transfer → SHF
- If SFB + 50% of estimated FY transfers < ESF balance + estimated FY transfers, then:
 - 50% Severance transfer → ESF
 - 50% Severance transfer → SHF

ESF Cap: Maximum Fund Balance

ESF balance cannot exceed 10 percent of General Revenue deposits in the previous biennium, excluding interest and investment income (“ESF Cap”).

GR transfers to ESF are reduced or eliminated if they would cause ESF balance to exceed the ESF Cap.

- Corresponding increase in available GR

ESF Cap for 2016-17 biennium (based on 2014-15 GR deposits) = \$16.2 billion

- 2016-17 projected Ending ESF Balance = \$10.4 billion, or 64.2 percent of ESF Cap

Some Federal Funds deposited to GR Fund

- Not considered GR for purpose of appropriation process.
- 2016-17 ESF Cap excluding Federal Funds = \$11.4 billion
- Ending Balance = 91.1 percent of ESF excluding Fed Funds



Other States

- 46 states have some form of budget stabilization fund
- Caps
 - 40 states cap their stabilization fund at % of annual revenue or expenditure (typically 5 or 10%)
 - Texas cap is effectively 20% (biennial cap)
- Deposits
 - 9 states based on overall or individual revenue (Texas)
 - 3 states based on economic conditions
 - 21 states based on fiscal year end balances
 - 5 states based on difference between projected and actual revenue (forecast error)
 - 5 states have static deposit
 - 3 states deposit only by appropriation
- Withdrawals
 - 7 states require supermajority vote
 - 5 states have automatic withdrawals when revenue or economic indicators fall below threshold level

Overview of ESF

Full Report on LBB Website

[http://www.lbb.state.tx.us/Documents/Publications/GEER/Government Effectiveness and Efficiency Report 2015.pdf#Economic Stabilization Fund](http://www.lbb.state.tx.us/Documents/Publications/GEER/Government_Effectiveness_and_Efficiency_Report_2015.pdf#Economic_Stabilization_Fund)



LEGISLATIVE BUDGET BOARD

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