

IMPACT OF FEDERAL FUNDS ON THE ECONOMIC STABILIZATION FUND CAP

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

The redirection of Federal Funds from special state funds into the General Revenue Fund, combined with an increase in Federal Funds, has caused the Economic Stabilization Fund (ESF) cap to increase at a faster rate than General Revenue Funds spending.

KEY FACTS

- ◆ The ESF cap for the 2016–17 biennium is \$16.2 billion, or 30.3 percent of fiscal year 2016 General Revenue Funds appropriations.
- ◆ In fiscal year 1990, Federal Funds accounted for 1.5 percent of deposits to the General Revenue Fund. By fiscal year 2015, this amount had increased to 30.3 percent of deposits to the General Revenue Fund.

BUDGETARY IMPACT

If Federal Funds had been excluded from the calculation of the ESF cap for the 2014–15 biennium, the ESF balance in November 2014 would have exceeded the cap. However, any revenue gains to the General Revenue Fund from suspending or reducing transfers to the ESF would have been reversed by provisions in the constitutional amendment approved by voters in November 2014 (Senate Joint Resolution 1, Eighty-third Legislature, Third Called Session, 2013).

STATUTORY REFERENCES

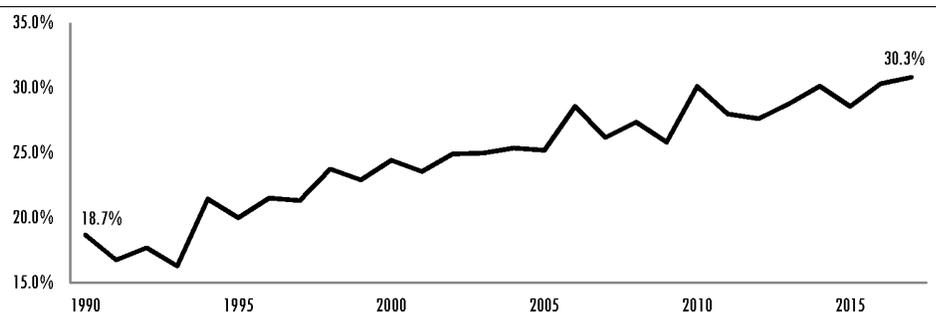
The Texas Constitution, Article III, Section 49-g

The Economic Stabilization Fund (ESF), commonly called the rainy day fund, was established when the Texas Constitution was amended in November 1988. The constitution specifies the revenue sources that are deposited to the fund and the requirements for making appropriations from the fund. Beginning in fiscal year 2015, whenever collections are sufficient and the balance of the fund is greater than a sufficient amount set by the Legislature, the ESF receives an amount of General Revenue Funds equal to 37.5 percent of the amount of oil production tax collections in excess of 1987 levels, and 37.5 percent of the amount of natural gas tax collections in excess of 1987 levels. The State Highway Fund (Other Funds) also receives an amount of General Revenue Funds equal to 37.5 percent of oil and gas revenue in excess of 1987 levels. If the fund balance is less than the sufficient balance, the ESF can receive up to 75.0 percent of these excess tax collections. The constitution caps the ESF balance to no more than 10.0 percent of the total amount deposited to the General Revenue Fund during the preceding biennium (excluding investment income, interest income, and amounts borrowed from special funds).

If the ESF were to reach or approach the cap of 10.0 percent of the total deposit to the General Revenue Fund, the Comptroller of Public Accounts (CPA) would reduce or eliminate transfers to the ESF to prevent the balance from exceeding the cap. If the balance reaches the cap, the CPA would also credit interest earned on the ESF balance to the General Revenue Fund.

The ESF cap is increasing at a faster rate than General Revenue Funds spending and has reached levels in excess of most other states' caps and many public policy groups' recommendations for stabilization fund balances or caps. **Figure 1** shows the ESF cap as a percentage of annual General Revenue Funds expenditures.

FIGURE 1
ECONOMIC STABILIZATION FUND CAP AS A PERCENTAGE OF ANNUAL GENERAL REVENUE FUNDS EXPENDITURES, FISCAL YEARS 1990 TO 2017



SOURCE: Legislative Budget Board.

The cap has grown relative to General Revenue Funds spending for two reasons: the deposit of certain Federal Funds directly into the General Revenue Fund, and an increase in Federal Funds. When the ESF was established, most Federal Funds were deposited into special funds outside of the General Revenue Fund. Federal Funds are not discretionary and cannot be repurposed by the Legislature. Fund consolidation, a process used to abolish most special funds

and revenue dedications after the 1992–93 biennium, transferred certain special funds into the General Revenue Fund. Since that consolidation, a greater amount and percentage of the Federal Funds received by the state have been deposited to the General Revenue Fund. In fiscal year 1990, Federal Funds accounted for 1.5 percent of deposits into the General Revenue Fund. In fiscal year 2015, Federal Funds accounted for 30.3 percent of those deposits. The amount of these deposits attributable to Federal Funds increased from \$207.5 million in fiscal year 1990 to \$25.3 billion in fiscal year 2015. If Federal Funds had not been deposited to the General Revenue Fund during the 2014–15 biennium, the ESF cap for the 2016–17 biennium would be \$11.4 billion rather than \$16.2 billion. This cap would represent 21.4 percent of General Revenue Fund appropriations for fiscal year 2016.

HISTORY OF THE ESF CAP AND BALANCES

Figure 2 shows the ESF cap compared to the maximum ESF balance during each biennium. The balance has never exceeded the November 2014 level of 72.4 percent of the cap. CPA estimates that the fund’s balance will reach 64.2 percent of the 2016–17 biennial cap in August 2017, assuming no additional appropriations are made to or from the ESF. If Federal Funds were not considered in calculating the cap, the balance would reach 91.1 percent of the 2016–17 biennial cap.

Figure 3 shows the maximum ESF balance in each biennium compared with what the biennial cap would have been if no Federal Funds had been deposited to the General Revenue Fund in the previous biennium. If Federal Funds had been excluded from the cap calculation, the ESF balance would have reached more than 95.0 percent of the cap during the 2010–11 and 2012–13 biennia. The maximum balance in fiscal year 2015—\$10.2 billion in November 2014—would have exceeded the cap by \$192.5 million.

However, if the cap’s calculation had not included Federal Funds, revenue that would have remained in the General Revenue Fund due to the suspension or reduction of the transfer to the ESF would have been reversed, due to the 2014 constitutional amendment. This amendment included a temporary provision that required CPA to reverse fiscal year 2015 transfers to the ESF made before the amendment’s effective date, and to allocate revenue to the ESF and State Highway Fund as if the amendment had been in effect.

USEFUL REFERENCES

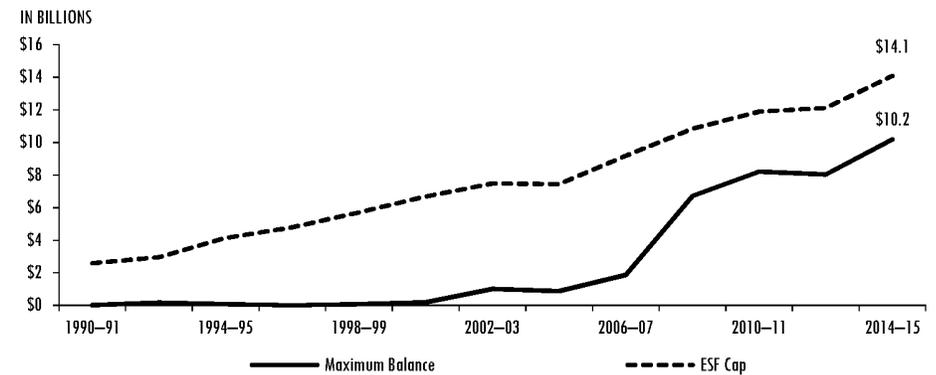
Legislative Budget Board publications: www.lbb.state.tx.us

- *Economic Stabilization Fund Cap: An Issue Brief from Legislative Budget Board Staff*, March 2016;
- *Texas State Government Effectiveness and Efficiency Report, Selected Issues and Recommendations*, Overview of the Economic Stabilization Fund, January 2015, pages 93–113; and
- Interactive Graphics: www.lbb.state.tx.us/InteractiveGraphics.aspx

CONTACT

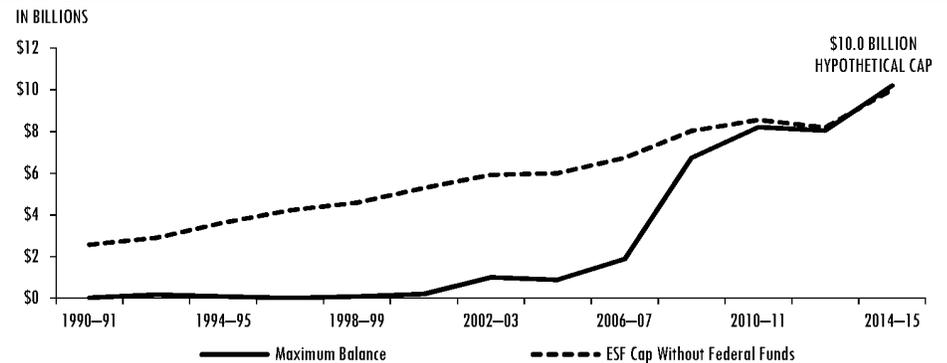
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**FIGURE 2
ECONOMIC STABILIZATION FUND (ESF) CAP COMPARED TO THE MAXIMUM BALANCE
DURING THE BIENNIUM, 1990–91 TO 2014–15 BIENNIA**



SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

**FIGURE 3
ECONOMIC STABILIZATION FUND (ESF) CAP WITHOUT FEDERAL FUNDS COMPARED TO THE
MAXIMUM BALANCE DURING THE BIENNIUM, 1990–91 TO 2014–15 BIENNIA**



SOURCES: Legislative Budget Board; Comptroller of Public Accounts.