

SUBJECT: Directing federal money currently sent to general revenue to a new fund

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 21 ayes — Otto, Sylvester Turner, Ashby, Bell, G. Bonnen, Capriglione, Giddings, Gonzales, Howard, Hughes, Koop, Longoria, Miles, R. Miller, Muñoz, Price, Raney, J. Rodriguez, Sheffield, VanDeaver, Walle

0 nays

6 absent — Burkett, S. Davis, Dukes, Márquez, McClendon, Phelan

WITNESSES: *March 18 hearing:*  
For — Dale Craymer, Texas Taxpayers and Research Association

On — Ursula Parks, Legislative Budget Board; (*Registered, but did not testify:* Rob Coleman, Tom Currah, Comptroller of Public Accounts; Kevin Kavanaugh, Legislative Budget Board)

*March 19 hearing:*  
For — Dale Craymer, Texas Taxpayers and Research Association

On — Ursula Parks, Legislative Budget Board

BACKGROUND: In 1995, the 74th Legislature enacted HB 3050 by Junell, which consolidated certain funds into general revenue. Among those were two welfare-related funds that had received most of the federal money that Texas received. As a result, federal funds that previously were excluded from general revenue now are included.

Art. 3, sec. 49-g of the Texas Constitution, ratified by voters in 1988, created the Economic Stabilization Fund. The fund, also known as the rainy day fund, is capped at 10 percent of general revenue funds deposited during the previous biennium, excluding investment income, interest income, and amounts in general revenue borrowed from special funds.

**DIGEST:** HB 8 would amend Government Code, ch. 403 to prohibit the comptroller from depositing federal money received by the state into the general revenue fund and would allow the comptroller to create a special fund to receive federal money and its associated earnings or interest.

The bill also would require the comptroller to ensure that federal money received by the state was used for the purposes for which it was received.

This bill would take effect September 1, 2015.

**SUPPORTERS SAY:** HB 8 would improve transparency in the budgeting process and make clearer the amount of money available to be appropriated by the Legislature. It is misleading to label federal money as “general revenue” because those funds are appropriated by the federal government for a specific purpose and are not actually free to be reallocated by the state.

The bill also would restore the original intent of the cap on the Economic Stabilization Fund (ESF). The fund is capped at 10 percent of general revenue from the previous biennium, but the definition of general revenue has broadened since the creation of the ESF in 1988. At that time, most federal money was deposited into individual funds and less than one-tenth of 1 percent was deposited into general revenue. Since the 1995 consolidation, federal money has grown to comprise more than 30 percent of general revenue, creating an unintentional and artificial inflation in the ESF’s cap.

The projected cap of \$16.7 billion in the 2018-19 biennium is excessive. The largest withdrawal from the ESF in a single biennium was only about one-third of the current balance of \$11.1 billion. By excluding federal money from general revenue, this bill would reduce the projected cap to \$11.8 billion, freeing up any funds in excess of that amount for the Legislature to use for budget priorities.

Besides improving transparency in state budgeting, if enacted in conjunction with HJR 8 by Otto (also on today's calendar), this bill could result in a meaningful reduction of state debt. HJR 8 would dedicate funds

in excess of the constitutional cap on the ESF for the early retirement of state debt. By lowering the cap, HB 8 could make more funds available for this purpose.

Even if HJR 8 did not receive voter approval, additional revenue made available by reducing the ESF cap would not necessarily go to additional state spending. For example, it could be used to buy down property taxes or be appropriated by the Legislature to pay down debt early. HB 8 still would be a positive move for transparency and give the Legislature the opportunity of doing something productive with money that likely never would be used if deposited into the ESF.

**OPPONENTS  
SAY:**

HB 8 would reduce the amount of money that could be held in the ESF, an important fiscal safety net for the state. Even if the original intent was that the cap be based on a calculation that excluded federal money, the Legislature should be careful to maintain an adequate level of savings to cover any future budget shortfalls.

**OTHER  
OPPONENTS  
SAY:**

HB 8 could be improved by linking it to voter approval of HJR 8 or another constitutional amendment dedicating the money above the ESF cap to a particular purpose. This would prevent automatic retention of those funds in general revenue where they could be used for additional spending in the event they were not constitutionally dedicated.

**NOTES:**

The Legislative Budget Board's fiscal note states that the bill would have a positive impact on general revenue related funds of \$420,990,934 through the biennium ending August 31, 2017.

The fiscal note also indicates that health and human services agencies would need to reconfigure their internal accounting system, though a cost could not be estimated.