



Economic Stabilization Fund

By The Honorable Talmadge Heflin, Director, Center for Fiscal Policy
& James Quintero, Fiscal Policy Analyst

THE ISSUE

In 1988, Texas voters approved a constitutional amendment creating the Economic Stabilization Fund (ESF)—commonly referred to as the “Rainy Day” fund—to help the Legislature cope with revenue shortfalls by collecting excess money in boom times and saving it for leaner days.

The Fund draws its money from excess oil and natural gas tax revenues and half of any unencumbered balance left in the General Revenue Fund at the end of each biennium. The Texas Constitution defines “excess” as 75 percent of revenues that exceeded the amount collected the year before the passage of the ESF amendment in 1987.

Though Texas’ ESF was originally established to deal only with revenue shortages, the Fund’s cash balance remained low during its first decade because the Legislature chose to spend the money as soon as it became available, rather than saving it for later. In fact, it was not until FY 2002 and 2003 that the ESF’s balance approached anything of significance, about \$1 billion.

So how much money does the state have socked away today?

Headed into the 2011 legislative session, the Legislative Budget Board projects the Fund’s available balance, including the 2012-13 deposits, to be nearly \$9.6 billion—thanks in large part to the Legislature’s refusal to raid the Fund last session. But with a major multi-billion shortfall on the horizon, some of the Fund may be tapped.

One of the biggest challenges for conservatives, going into next session, will be safeguarding the Fund from lawmakers anxious to spend money on new programs or expand existing ones—especially when today’s uncertain economy calls for caution and fiscal restraint. Ideally, when the Legislature adjourns, the Fund’s balance should be at *least* 5 percent of the general revenue and general revenue-dedicated funds spent next session. Having a reserve balance at this level will help the state maintain its AAA bond rating and keep Texas prepared for whatever the future holds.

THE FACTS

- ★ Deposits into Texas’ Rainy Day Fund consist of half of any unencumbered General Revenue Fund balance at the end of each biennium and excess taxes on oil and natural gas production.
- ★ The Fund cannot exceed 10 percent of the General Revenue Fund total from the preceding biennium, excluding investment income, interest income, and amounts borrowed from special funds.
- ★ In general, Rainy Day funds can only be spent if a three-fifths vote of the members present approves the measure. Funds spent under this scenario may not exceed the amount of any unexpected deficit or revenue shortfall. However, with a two-thirds vote of the members present, any amount of Rainy Day funds may be spent for any purpose.
- ★ Texas’ Rainy Day Fund balance is expected to have \$9.6 billion in available funds for the 2012-13 biennium.

RECOMMENDATIONS

- ★ Maintain a Rainy Day Fund balance of at *least* 5 percent of the general revenue and general revenue-dedicated funds spent in the next budget.
- ★ Limit the use of the Rainy Day Fund either to emergency tax relief or one-time emergency spending items.
- ★ Return excess fees and tax revenue to those who paid them.

RESOURCES

Blueprint for an Effective Budget by The Honorable Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Feb. 2009) <http://www.texaspolicy.com/pdf/2009-02-budgetguidelines-handout.pdf>. ★

