

Texas Public Policy Foundation

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014



Keep Saving for a Rainy Day

The Issue

With a challenging fiscal environment expected in 2013, the use or conservation of the Economic Stabilization Fund (ESF), broadly thought of as the state's "savings account," will likely prove to be a major flashpoint in lawmakers' upcoming budget deliberations—especially considering that the fund's balance is projected to reach a near all-time high of \$7.3 billion by the end of fiscal 2013.

Given what a critical one-time resource this is to the state, it is vital that lawmakers come down on the right side of this issue.

While it would be relatively easy for the Legislature to bridge the state's expected budget deficit with some or all of the ESF, this decision would ultimately leave the state worse off financially. That's because using one-time funds to pay for ongoing expenditures would only delay and compound the difficult decisions needed, while simultaneously depleting one-time monies that should be saved for future emergencies, like natural disasters, or tax relief.

Thought of in a slightly different way, no reasonable person would advise a household who is spending more than they make every month to tap their savings account in order to pay for a lifestyle beyond their means. If we wouldn't advise that for a family, then why would we collectively, as a state, advise that for our government?

The Facts

- The rainy day fund is expected to grow to \$7.3 billion by the end of fiscal 2013.
- If the fund reaches \$7.3 billion as projected, the ending balance would be the 2nd highest in the history of the ESF.
- Using one-time monies to pay for ongoing expenses is poor public policy.

Recommendations

- The ESF should only be spent on one-time emergency items or tax relief. The fund should not be spent to support ongoing expenses.
- At a minimum, even in the face of one-time emergencies, lawmakers should preserve an ESF balance equal to 5% of the general revenue and general revenue dedicated funds in the 2012-13 budget. This figure amounts to approximately \$4.4 billion.

Resources

Preserving Texas' Rainy Day Fund in These Uncertain Economic Times by Chuck DeVore, Texas Public Policy Foundation (Oct. 2012).

Real Texas Budget Solutions: 2013 and Beyond, Texans for a Conservative Budget (Mar. 2013).

Texas' 2012-13 Budget: The Good, the Bad, and the Ugly by Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Feb. 2012).



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