



Strengthening Texas' Rainy Day Fund

Testimony before the Senate Finance Committee on the Economic Stabilization Fund

by the Honorable Talmadge Heflin

Chair Nelson and Members of the Committee:

My name is Talmadge Heflin, and I am the director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free market think tank based here in Austin. Thank you for the [opportunity](#) to speak today on ways to strengthen the Economic Stabilization Fund (ESF) by lowering the constitutional limit and returning funds above the limit to taxpayers.

The ESF, considered the state's "rainy day fund," was created with passage of a constitutional amendment in [1988](#) that established a fund "to be used to offset unforeseen shortfalls in revenue."

The fund has grown substantially since then. Comptroller Hegar projects the fund's balance should reach [\\$11.2 billion](#) at the end of FY 2019. This amount falls below the constitutional limit of 10 percent of biennial general revenue (GR)-related funds equal to \$16.9 billion, which is around 20 percent on an annual basis. The fund's increase in recent years to the [largest](#) amount nationwide comes from Texas' impressive growth, namely in oil and gas activity that primarily funds the account.

The [Texas Constitution](#) requires use of the ESF be approved by a three-fifths vote in each legislative chamber to close a revenue gap and a two-thirds vote in each chamber for other reasons. Over time, the ESF balance has funded various expenditures, including \$1 billion in the 2018-19 budget. Because ESF funds are taxpayer dollars and dwindling them could risk the state's credit rating, legislators should use caution when spending them. In addition, using ESF money for ongoing expenditures delays difficult decisions about the use of GR funds, while depleting funds available for covering revenue shortfalls.

Even with the terrific support offered by families, community organizations, and private charities, recovery efforts after Hurricane Harvey, like rebuilding schools and roads, likely need taxpayer support. The ESF's balance would be well-spent on bridging the gap while cutting spending where possible. This is a reason for not spending the ESF on things outside of its intended purpose along with passing a conservative budget every session. We recommend tracking recovery spending separately for budget transparency. If this is done, the Foundation will be able to exclude necessary Harvey spending from our [Conservative Texas Budget](#) calculations.

Based on our [research](#), we recommend strengthening the ESF to better benefit taxpayers by:

- Constraining use "at any time and for any purpose" by increasing the number of votes required in each chamber from the current two-thirds of members present to four-fifths of all members.
- Changing the Constitution to reduce the maximum limit to 7 percent of biennial GR-related spending (equal to 14 percent of annual spending) which would [cover](#) the state's historically worst revenue shortfalls.
- Providing tax relief with funds above the limit.

Thank you for your time, and I look forward to answering questions.



The Honorable Talmadge Heflin is the director of the Texas Public Policy Foundation's Center for Fiscal Policy. Prior to joining the Foundation, Heflin served the people of Harris County as a state representative for 11 terms. Well-regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and the Appropriations committees. In the 78th Session, Heflin served as chairman of the House Committee on Appropriations. He navigated a \$10 billion state budget shortfall through targeted spending cuts that allowed Texans to avoid a tax increase.

