FAQs about the Economic Stabilization ("Rainy Day") Fund

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Related Categories: Rainy Day Fund

The Rainy Day Fund has been a topic of much discussion recently. In this post, you'll find answers to frequently asked questions about the Fund.

What was the original intent behind the creation of the Economic Stabilization Fund ("Rainy Day Fund")?

HJR 2, 70th R.S. 1987 proposed the creation of the Economic Stabilization ("Rainy Day") Fund. The constitutional amendment was approved by Texas voters on November 8, 1988. Prior to the election, both the House Research Center and the Texas Legislative Council prepared analyses with background and information about the intent of the amendment:

House Research Organization Constitutional Amendment Analysis: Amendment No. 2 (HJR 2) Economic Stabilization ("Rainy Day") Fund

Texas Legislative Council Analysis of Proposed Constitutional Amendments: Analysis of Amendment No. 2

How much money does the fund have in it now?

The net cash balance of the Economic Stabilization Fund is provided in the Texas Comptroller's Texas Annual Cash Report. It is listed as fund number 0599 Economic Stabilization Fund. In Fiscal Year 2010, 0599 Economic Stabilization Fund had a net cash balance of $7,692,582,232.16 on August 31, 2010.

The amount in the Economic Stabilization Fund is capped at 10 percent of the general revenue income during the previous biennium. There is no required balance. (Texas Constitution Art. 3, Sec. 49-g)

Has the Economic Stabilization Fund ever been tapped?

Yes, money has been appropriated from the Economic Stabilization Fund. The two most recent appropriations from the Fund were in 2003 during the 78th Legislature, and in 2005 during the 79th Legislature. The Interim Report of the Senate Finance Committee to the 79th Legislature includes detailed information on appropriations to and from the Fund as of the end of the 78th Legislature. In the 79th Legislature in 2005, HB 10, 79th R.S. appropriated money from the Fund for a number of purposes. The following summary is from page 15 of the House Research Organization's report *Writing the State Budget*:

"The supplemental appropriations bill enacted by the 79th Legislature in 2005, HB 10 by Pitts, appropriated approximately $1.1 billion from the Rainy Day Fund for fiscal 2005 and a further $872 million for fiscal 2006-07. This $1.9 billion, along with other funds, was used to finance appropriations in HB 10 for a number of budget areas, including Child Protective Services, Medicaid, CHIP, and public education."

Which bills have appropriated money from the Economic Stabilization Fund?

Since its creation, the following bills have appropriated money from the Economic Stabilization Fund:

SB 11, 71st 6th C.S. (1990)

SB 171, 73rd R.S. (1993)

SB 532, 73rd R.S. (1993)

HB 7, 78th R.S. (2003)

HB 10, 79th R.S. (2005)

A three-fifths vote in both chambers is required to appropriate money in the Fund (Texas Constitution Art. 3, Sec. 49-g).

What was the economic situation in Texas when the Economic Stabilization Fund was created?

In the mid-1980s, Texas experienced a severe economic crisis. In 1984, against a backdrop of declining tax revenues, the 68th Legislature, 2nd Called Session passed a major package of tax increases. Two reports by the House Research Organization provide information on these increases:

Special Legislative Report: the June 1984 Session: a Preview

Special Legislative Report: Key Issues of the June 1984 Special Session

The following session, the revenue continued to be lower than expected, causing problems for the State. The passage below comes from House Research Organization's Special Legislative Report: the August 1986 Special Session: a Preview

"In November 1985, the price of oil stood at $28 per barrel. By the beginning of this year, increased production by oil-producing countries, especially Saudi Arabia, started a steep price decline that turned into a freefall. In January, prices fell $5 in one week. By March, the price was $12 per barrel.... The state has reached the point that by December 1986 ... it may not have sufficient cash available to cover its warrants."

The Governor called the 69th 2nd Called Session and 69th 3rd Called Session to deal with the shortfall. By the end of the 3rd C.S., the Legislature had enacted both spending cuts and tax increases. The House Research Organization's Special Legislative Report: Wrap-up of the 1986 Special Sessions provides detailed descriptions of both the cuts and the tax increases. Budget problems continued, and the Legislature did not pass a General Appropriations Act during the 70th R.S. A budget was passed by the 70th 2nd C.S., along with a package of tax increases reported to total some $5.6 billion.

Where can I read about Rainy Day Funds in other states?

Here are a couple resources that provide a good overview:

Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day Funds or Other Funds (National Conference of State Legislatures)

Why and How States Should Strengthen Their Rainy Day Funds (Center on Budget and Policy Priorities).