



Economic Stabilization Fund



The Issue

With oil and gas production booming across the state, the Economic Stabilization Fund (ESF), broadly thought of as the state's "savings account," is expected to grow substantially by the 2015 Legislative Session.

Without using ESF dollars to pay for water and transportation projects, the Legislative Budget Board (LBB) estimated in April 2013 that the ESF would reach a monthly maximum ending balance of \$11.8 billion by the end of fiscal year 2015.

However, with passage of the November 2013 ballot proposition and the likely passage of the amendment in November 2014, plus added ESF spending during the legislative session, new estimates in the LBB's *Fiscal Size-Up 2014-15 Biennium* show that the fund may reach \$8.1 billion at the end of FY 2015.

Given what a critical one-time resource this is to the state, it is vital that lawmakers do not allow the ESF to grow government and instead use it for its intended purpose: emergencies.

Last Session, \$4 billion in ESF dollars were appropriated to fully fund education and Medicaid. Texans approved an amendment in November 2013 to take \$2 billion from the ESF to pay for water projects and will vote on an amendment in November 2014 to use another roughly \$1.4 billion to pay for transportation projects during the 2014-15 biennium.

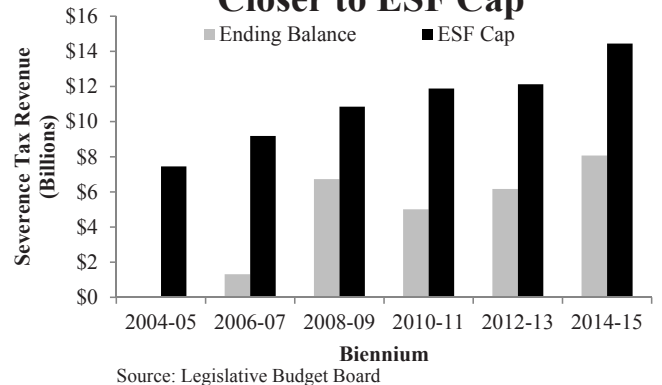
It is highly likely that oil and gas severance taxes will continue to flow into the ESF because of the substantial increase in oil and gas production. Though the Eagle Ford Shale play will continue to be a revenue source, there are vast reserves in the Cline Shale play on the eastern shelf of the Permian Basin that will likely contribute to more ESF funds.

It is critical that lawmakers understand that this is a one-time resource to the state. If this money is spent each session, the ESF will quickly dwindle and the state's credit rating will be at risk.

Using one-time funds to pay for ongoing expenditures only delays needed difficult decisions, while simultaneously depleting one-time funds that should be saved for future emergencies or tax relief.

Put differently, no reasonable person would advise a household who is spending more than their monthly income to tap their savings account 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?

Oil and Gas Revenue Reach Closer to ESF Cap



The Facts

- The ESF is expected to grow due to the substantial increase in oil and gas production across the state.
- If the fund reaches \$8.1 billion as projected, the ending balance would be near a record high.
- Using one-time funds 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 funds 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 2014-15 budget.
- Based on the 2014-15 Certification Revenue Estimate, the Comptroller estimates general-purpose revenue to be \$98.9 billion, which would amount to a minimum ESF balance of \$4.9 billion.

Resources

Fiscal Size-Up 2014-15 Biennium, Legislative Budget Board (Feb. 2014).

The 2014-15 Certification Revenue Estimate, Texas Comptroller (Jan. 2014).

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. 2012).

