

RAINY DAY FUND REACHES ITS CAP • WHAT HAPPENS NEXT?

A constitutional amendment, approved by voters in 1988, established the state's Economic Stabilization Fund (ESF or Rainy Day Fund) to help keep the state fiscally sound during uncertain times. It's primarily

funded by oil and natural gas taxes (also known as severance taxes), a volatile revenue stream that had been particularly affected by the oil price plunge and economic recession of the 1980s.

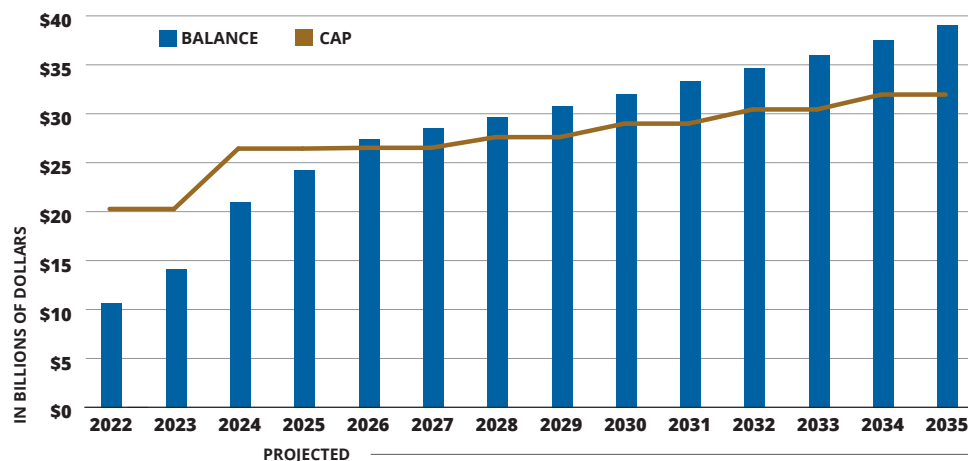
Additionally, lawmakers set a cap — a threshold that limits future contributions into the fund. The fund had never come close to reaching that cap until recent times.

THE ESF'S CONSTITUTIONAL CAP IS A FLUCTUATING NUMBER:

No more than 10 percent of the amount of revenue deposited into the General Revenue Fund during the previous biennium.

**GOING FORWARD,
IT'S ESTIMATED THAT THE FUND COULD
REMAIN ABOVE THIS THRESHOLD.**

ESF ENDING BALANCE AND CAP, FISCAL 2022-2035



NOTE: FOR 2027 AND BEYOND, THE FUND IS PROJECTED TO GROW DUE TO INVESTMENT INCOME ON THE INVESTED PORTION OF THE FUND, RATHER THAN ADDITIONAL DEPOSITS.

THE ESF HASN'T ALWAYS BEEN SO WELL-FUNDED. No transfers resulting from oil production were made from 1993 through 2005. Starting in 2006, the shale boom, a result of hydraulic fracturing ("fracking") technology, led to unexpected and extraordinary growth in oil and gas production and therefore tax collections that helped fund the ESF. The economic rebound following the pandemic along with spikes in inflation and energy prices led to further jumps in the fund's balance.

116% — INCREASE IN OIL AND GAS TAX COLLECTIONS FROM 2021 TO 2022

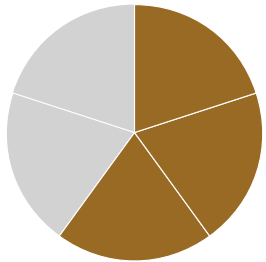
HALF OF
ANY UNENCUMBERED
AND UNOBLIGATED
GENERAL REVENUE REMAINING
AT THE END OF A BIENNIUM
ALSO GETS TRANSFERRED
INTO THE ESF.

Three of these transfers have occurred in the fund's lifetime — the most recent in 2024.

RAINY DAY FUND REACHES ITS CAP • WHAT HAPPENS NEXT?

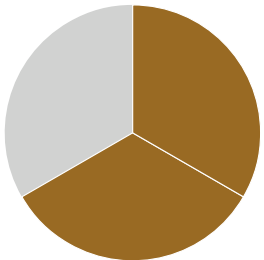
LEGISLATORS CAN USE ESF MONEY WITH A SUPERMAJORITY VOTE IN ANY OF THREE CIRCUMSTANCES.

WITH THREE-FIFTHS APPROVAL:



- **A BUDGET DEFICIT DURING A BIENNIUM.**
- **A PROJECTED REVENUE SHORTFALL IN AN ENSUING BIENNIUM.**

WITH TWO-THIRDS APPROVAL:



- **ANY OTHER PURPOSE THE LEGISLATURE CHOOSES AT ANY TIME.**

FOR EXAMPLE:

- In **2011**, the Legislature plugged a hole in the state budget.
- In **2014**, the fund was used to establish the State Water Implementation Fund for Texas (SWIFT fund), helping to secure ongoing funding for water infrastructure projects.
- In **2019**, \$1.78 billion was distributed across 11 state agencies in response to Hurricane Harvey.
- In **2023**, voters passed a constitutional amendment creating ongoing funding for the Texas University Fund, by appropriating the ESF's yearly interest, dividends and investment revenue up to \$100 million and adjusted for inflation of no more than 2 percent.

ABOUT \$17.7 BILLION HAS BEEN APPROPRIATED SINCE THE FUND'S INCEPTION.

LARGE STATE RAINY DAY FUNDS AREN'T UNHEARD OF.

As of 2024, research by Pew Charitable Trusts estimated Texas could fund 65.8 days of government operations with its Rainy Day Fund, the 14th highest state by this measure. Wyoming, at the top, could fund an estimated 254.9 days.

Various changes have been made to the ESF over time, including redirecting a portion of the revenues earmarked for the ESF to the State Highway Fund, setting a minimum or sufficient balance and investing a portion of the fund in longer term investments to maintain its purchasing power.

Sources: Texas Comptroller of Public Accounts; Legislative Budget Board; Texas Taxpayers and Research Association; The Pew Charitable Trusts