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## State Politics

# Texas' rainy day fund overflows — and divides legislators

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Austin Bureau

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AUSTIN — Texas is so awash in money, with so much of it politically untouchable, that even some conservative Republicans want to stop salting away so much in savings.

This week, a House committee advanced proposals that would end a further buildup of the rainy day fund in eight years, if not sooner. The money would instead be used to pay off bonds early.

But it's unclear that the Senate will agree. In early budget plans, senators want to put less money into public schools than House members — and more into infrastructure.

“A big savings account is really important,” Sen. Van Taylor, R-Plano, said Friday. The staunchly conservative freshman is aiming to assemble a coalition of road contractors, retired teachers and fiscal hawks who want to protect the fund for generations to come.

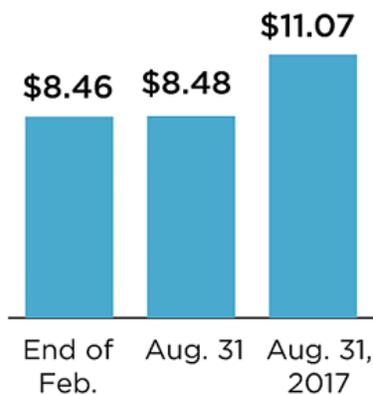
In many ways, the clash over rainy day money mirrors other fiscal wrangles that divide the Texas GOP — such as whether to exceed or change a state spending limit and how to cut taxes, given competing demands from homeowners and businesses.

But the ferocity of rainy day talk bowls over some who have followed the fund from its low-profile birth after Texas' recession of the mid-1980s to the headline-grabbing haggles of recent sessions.

“It’s become a surprisingly emotional issue in the political debate,” said Dale Craymer, a former legislative aide who helped House leaders draft the 1987 constitutional amendment that created the fund. “The last two sessions, the rainy day fund has taken on this sacred nature that was never really intended. It was intended as a management tool.”

## Texas rainy day fund

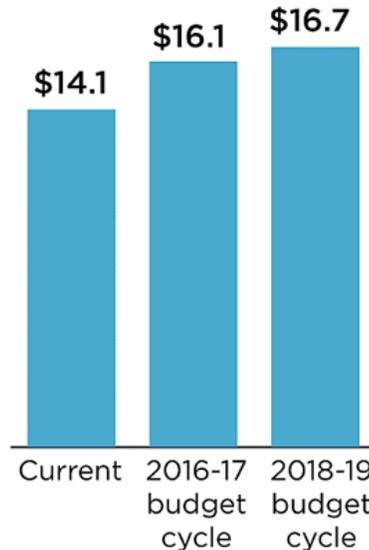
BALANCES *(in billions)*



NOTE: Balances for future dates are projections.

SOURCES: Texas comptroller of public accounts; Legislative Budget Board; *Dallas Morning News* research

CAP ON THE FUND



NOTE: The current cap is 10 percent of this two-year cycle’s budget (using a certain measurement that omits about \$60 billion of spending). Future caps are projections.

Troy Oxford/Staff Artist

### Funding source

The fund gets its money mainly from oil and gas severance taxes — a big chunk of any collected above amounts paid in 1987.

For nearly two decades, there was never more than \$300 million in the fund. Budget writers often tapped it, without much ado. Since Republicans cemented their control of the Legislature in 2003, though, a revival of oil and gas exploration has been filling the fund rapidly.

The fund’s evolution tracked changes in conservative Republicans’ priorities during former Gov. Rick Perry’s tenure. He was pleased when lawmakers drew down \$100 million in 2005, to launch his pet Emerging Technology Fund. But after that, he joined tea party activists and fiscal hawks to fiercely resist huge withdrawals.

So the pot grew bigger than Craymer and his colleagues ever envisioned.

As of Feb. 28, the fund had nearly \$8.5 billion. Comptroller Glenn Hegar says it will hit \$11.1 billion by the end of the next two-year budget cycle. And that's even after nearly \$4 billion was taken in the past 18 months to pay for voter-approved water projects and roads.

Craymer, now head of the business-backed Texas Taxpayers and Research Association, called the idea that the fund could hit the ceiling set by the 1987 constitutional amendment "a problem we never thought we'd face."

The cap is now \$14.1 billion — 10 percent of a complicated calculation based on about 70 percent of the state budget.

The House's chief budget writer, Republican Rep. John Otto of Dayton, says that in 1995, lawmakers inadvertently skewed things. They passed a technical finance bill that shifted two of the state treasury's federal money accounts into Texas' big general-purpose revenue stash. It's the one against which the 10 percent limit is applied, and the federal money inflated it, he said.

Otto won the approval of the House Appropriations Committee, which he chairs, for a bill that would take federal money out of the general fund. For the next cycle, that would decrease the rainy day fund's ceiling to \$11.4 billion, from \$16.1 billion.

The committee also advanced Otto's related constitutional amendment. It would require that once the fund balance has hit its maximum, the comptroller would put any further energy-production tax money or interest earnings in a specially created fund for debt relief. Lawmakers still would have to appropriate that money to retire some of the state's \$43.5 billion in bonds.

Otto said oil and gas revenues are so volatile, they shouldn't be used to expand existing programs and services once the fund hits its ceiling.

"You certainly don't want to build your budget on that," he said.

### **Pension proposal**

Taylor, who moved from the House to the Senate this year, after resisting most proposed uses of rainy day dollars, has offered a different approach.

His constitutional amendment would take excess money, over the rainy day fund's ceiling, and wall it off for use in shoring up the Teacher Retirement System, Employees Retirement System and savings accounts parents can open for college tuition.

Taylor noted that under the transportation funding measures enacted two years ago, the rainy day fund has a floor of \$7 billion. If lawmakers take it below that, the road money dries up.

That creates an incentive to protect the fund. Taylor said he wants to give pensioners the same motive to oppose casual use of the savings account.

“If the [rainy day fund] were to become full, and money started to be used to make pension funds stronger, you would watch a new constituency, retired teachers, say, ‘Hey, don’t pull money out of the rainy day fund because if you do that, it has to fill back up again before you can use that money to make our pension fund sound,’” he said.

Rep. Donna Howard, D-Austin, said the state has big education, health care and infrastructure needs, which GOP lawmakers are shortchanging.

“I do not get how they can call this fiscally conservative to want to build up debt, spend more over longer periods [to retire bonds], while they’re leaving a bundle of money that’s stashed away in the rainy day fund mattress,” she said.

Otto’s plan, she said, at least “would spend some of the money.”

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**Jay**

2 days ago

I keep wondering where the outcry is from the pro-life community when non-abortion life issues arise? As with today's paper, there's always life impacting stories in the Statesman describing people in desperate need of help that's within the control of our state leaders to resolve. Programs for improved education, feeding the hungry, training the unskilled, or disabled rate among the worst in the nation. Often as in today's story about inaccessibility to health care, the issues are life threatening.

If we had a legislature that walked the talk about being pro-life and compassionate, they'd fund the programs so people can live a decent life. Instead we waste money giving tax money to billionaires Red McCombs and Jerry Jones. We ignore those who die early because we won't expand Medicaid health care. Our leaders have philosophical issues... Another example is continued cuts in Food Stamps. Know that 80% of people on food stamps can't work or are working can't get anything but low wage jobs. By federal law, able body persons without children are only eligible for food stamps for three months every three years. So what does our Texas Senate focus on? The Senate wants to ensure people work if they get food stamps. The headlines brings a smile to the Grover Norquist and TPPF crowd but the reality is, when folks aren't working, they almost always need major job training or counseling. There's no mention of spending some of our surplus to help that way.

Former Food Stamp Manager

Reply Share 3 replies

2 1

**Joseph Frato**

2 days ago

Because "Pro-Life" to most means only when the baby is in the womb. Once a child is born they could care less. Witness the repeated cutting of food stamps...82% which go to households with children. And they say NOTHING...hypocrites....

Reply Share 2 replies

1 1

**Jason**

1 day ago

Good thing poor kids get free breakfast and lunch at school. The parents only have to contend with dinner and the weekends.

Reply Share 1 reply

0 1

**Mama B**

13 hours ago

What's your point, Jason? Poor is poor. In this state you have to be very poor to qualify or anything. What don't you get about that?

Reply Share

0 0

**Jeffrey Binnig**

3 days ago

Give it back to the single parents that have been extorted by family court and to the wrongfully convicted.

Reply Share

2 2



**Chase Chick**

3 days ago

Gee I don't know. How bout friggin giving it back to us? If you don't need it, we do!

Reply Share 2 replies

2 1



**Ken Duble**

3 days ago

Maintaining a healthy reserve fund is generally a good idea. If you cut taxes when times are good, it means you'll have to raise them back when times are bad, and that's the worst time to raise them. Traditional economic theory says you raise taxes when times are good so you can afford to cut them when times are bad, because that's when people need the money the most and the economy most needs the spending.

Reply Share 1 reply

1 0



**Jason**

1 day ago

So you're advocating giving it back to the oil and gas companies?

Reply Share

0 1



**BobBarker477**

3 days ago

Dallas needs to spend \$900 million (it doesn't have) to fix its rotten streets

<http://cityhallblog.dallasnews.com/2015/03/dallas-says-it-has-patched-4000-potholes-in-recent-days-but-there-are-plenty-left.html/>

Reply Share

3 5



**Mama B**

3 days ago

Schools and roads. These should be the priorities. We're tolled enough already and our kids deserve the best education possible.

Reply Share 1 reply

3 1



**Joseph Frato**

2 days ago

What moron would give this a thumbs down? You can't fix stupid...

Reply Share

1 0



**Eric Foster**

3 days ago

Why not skip several steps and deposit the excess funds directly into the campaign accounts of our legislators?

Reply Share

5 2



**Jesse Gonzalez**

3 days ago

There were a lot of cuts to education last time. Those funds should be restored. Our kids are the future of Texas.

Reply Share

7 3



**Uncle Frank**

3 days ago

Either use the funds to improve the dismal rankings of the State of Texas in the education and health categories or just return the money to the taxpayers. Fine, if the voters, of which Texas has the lowest percent of voting-age population that votes, want the state to wallow in the bottom of the rankings but we shouldn't allow taxpayers funds to accrue in a 'rainy day fund' that doesn't know what day it rains.

Reply Share 6 replies 10 10



**Rich74**

3 days ago

My ISD has superior ratings in all areas, be it sports or physics.

Reply Share 2 replies 5 10



**Bullfrog**

3 days ago

Mine, too. Top-notch schools here, nationally ranked.

The best schools are where the parents care the most not where the state throws the most money.

Reply Share 1 reply 4 6



**krobijake**

3 days ago

The best schools are generally where parents earn the most money

Reply Share 7 0



**Jim Baxa**

3 days ago

Texas is ranked either #2 or #3 in education (depending on the metric).

Reply Share 1 reply 0 2



**Ken Duble**

3 days ago

You're speaking strictly of states in the Southwest.

Reply Share 0 0



**Ken Duble**

3 days ago

Keeping a healthy rainy day fund improves the state's bond rating. Cutting taxes too much could actually cause the state to pay more interest on its debt because its bond rating would decline.

Reply Share 1 0



**BearGoona**

3 days ago

What about cut taxes?

Reply Share 4 replies 6 4



**Rich74**

3 days ago

For the oil and gas industry. After all, they supplied the money.

Reply Share 3 replies 4 9



**Mama B**

3 days ago

They made a lot of money, too.

Reply Share 6 1



**enerjazz**

3 days ago

And they have shredded many rural roads during the fracking boom too.

Reply Share

4 0



**Ken Duble**

3 days ago

One normally cuts taxes for a sector when revenues are rising. Right now, oil and gas revenues are in decline.

Reply Share

0 0

**Mistah Kurtz**

3 days ago

How about using some of it to restore the huge cuts to the Teacher Retirement System interest? Teachers at all levels are forced to contribute, and the state recently cut the interest by half.

Reply Share 1 reply

9 7



**Ken Duble**

3 days ago

This seems likely to happen.

Reply Share

0 0



**ST NY**

3 days ago

They could use it ti self-bank. If interest rates become unfavorable. They can underwrite their own bonds

Reply Share

7 0



**Jeff B.**

3 days ago

Paying down debt is always a good action plan. Especially now that the Fed is committed to increasing interest rates (and thus the cost of servicing said debt) which will impact the governmental use of debt.

Also, the State could look to Norway's use of its oil and gas tax revenue in their Sovereign Fund, which is essentially a really large national piggy bank for the future when the North Sea plays out.

Reply Share

7 0



**Tim Conway**

3 days ago

the rainyday fund is actually a surplus in revenue, so it should be returned to the people of texas as what bush did as president with the national surplus, A REBATE CHECK!

Reply Share 9 replies

7 10



**NickG**

3 days ago

If we continue to leave our borders open to everyone who wants to cross them, Tim, we're gonna need all the money we've got to support them.

Reply Share

10 12

**Mistah Kurtz**

3 days ago

There was no "national surplus" then. Where did you hear such a thing?

Reply Share 4 replies

9 5



**Tim Conway**

3 days ago

yes there was, did you not get your rebate check when GWB was president, I sure did, with a letter saying it was a rebate from the surplus of tax revenue.

Reply Share

1 2

 **Tim Conway** 3 days ago  
 you can google it, its worth a google  
 Reply Share 1 0

 **Tim Conway** 3 days ago  
 Bush signs stimulus bill; rebate checks expected in May  
 The package will pay \$600 to most individual taxpayers and \$1,200 to married taxpayers filing joint returns, so long as they are below income caps of \$75,000 for individuals and \$150,000 for couples. There is also a \$300 per child tax credit. Watch Bush sign stimulus bill into law »  
 The rebates will put about \$120 billion in the hands of individuals in the hope that they will spend it and boost a faltering U.S. economy.  
 Reply Share 0 2

 **Tim Conway** 3 days ago  
 From President to President, the Battle Over Taxes is an ... George W. Bush campaigned on giving some of that money back to the people. ... of America have been overcharged, and, on their behalf, I'm here asking for arefund.  
 Reply Share 0 2

 **Bruce McIntosh** 3 days ago  
 we had a surplus until Bush burned through it... HE never had a surplus... remember those deficits loved?  
 Reply Share 1 reply 5 7

 **NickG** 3 days ago  
 Bush came into office just after the "dot-com" bubble burst - just before WJC left office. The market was saturated with the tech bubble, and IPOs were failing right out of the gate. So Bush didn't exactly inherit an economic boom.  
 Reply Share 6 5

 **Ken Duble** 3 days ago  
 The U.S. never had a general fund surplus. It was all a gimmick. The problem is the U.S. government doesn't follow generally accepted accounting practices. Payroll taxes flow into trust funds for Social Security and Medicare, and these funds can't be co-mingled with general revenue. Yet, in an accounting practice banned in the private sector, the government is able to count these as assets against the shortfall in general revenues. It would be like GM using employee pension assets to offset corporate losses even though it can't legally touch the money.

In the rhetoric of the 2000 campaign. These moneys were referred to as the lock-box. There was a discussion to separate this lock box from general revenues. But politically, this would have opened the governing party up to charges that they had plunged the federal government back into deficits, when in reality, they would have simply begun using honest accounting. At the rate revenues were growing in the late 1990s, it appeared even the general fund would itself be in balance within a few years, so there was a political rationale to wait. Of course, then the recession and 9/11 happened, and talk about the lock-box died down.

Under trust fund rules, SS and Medicare savings can only be invested in AAA-rated government debt. As the government prints money, this debt is considered risk free. So, what was really happening was in early 2000s, the huge mass of baby boomers was meeting its peak period of earnings, yet they were still too young to retire. Since then, the initial wave of baby boomers has begun reaching retirement age, and the recession hit older workers hardest, thus causing many to

take early retirement.

As the general fund was and remains in deficit, every dime of the Bush tax cuts was borrowed from the SS and Medicare trust funds, and interest will be paid out of the general fund for every dollar of the Bush tax cuts and rebates.

Reply Share

2 0

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