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Why Won't Governor Abbott Tap the Rainy Day Fund for Harvey Relief?

BY MEAGAN FLYNN

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People carry trash bags and coolers through Harvey floodwaters.

Photo by Brandon Navarro

In a letter to Governor Greg Abbott requesting that the state tap into its \$10 billion Rainy Day Fund, Mayor Sylvester Turner couldn't help stating the obvious: Hurricane Harvey, which pounded the Texas Coast for days, was the wettest storm in U.S. history. What better time to make use of a fund saved for rainy days?

"During Hurricane Harvey, 27 trillion gallons of rain fell in Texas," Turner wrote before signing off. "There hardly seems a more appropriate use of the nearly \$10 billion of taxpayer dollars in the fund than on recovery from this storm."

In fact, Turner said, if the state agreed to give Houston money from the fund – which is formally called the Texas Economic Stabilization Fund – then Turner would drop his property-tax hike proposal, slated to cost the average homeowner \$48 extra in property taxes next year.

"There hardly seems a more appropriate use of the nearly \$10 billion of taxpayer dollars in the fund than on recovery from this storm," Mayor Turner said.

But on Tuesday, Abbott responded with a resounding no. He said Houston already had plenty of assistance from FEMA and enough money to make repairs – it didn't need the Rainy Day Fund.

"The mayor seems to be using [Harvey] as hostage to raise taxes," he said during a press briefing.

Abbott said the Legislature can decide how to pay any outstanding Harvey relief bills with the Rainy Day Fund when lawmakers reconvene in 2019 – which Turner has said the city can't wait for.

Abbot's decision is one that has many scratching their heads – including fiscal conservatives traditionally opposed to touching the fund – about why Hurricane Harvey isn't a good enough reason for the state to make a withdrawal from the massive savings account, the largest in the country. After spending this year's legislative sessions fending off lawmakers' attempts to use the fund for legislative proposals, such as on education or retired teachers' health care, various conservative power players applauded the restraint of state GOP leaders, as they opposed use of the fund for quick budget fixes in favor of saving the account for real emergencies. As Michael Quinn Sullivan, president of the right-wing organization Empower Texans, wrote on September 1: "The catastrophic nature of Harvey shows just how prescient conservative lawmakers have been in protecting the fund from legislative looters."

Vance Ginn, director of the Center for Economic Prosperity and a senior economist at the Texas Public Policy Foundation, said that it's understandable that the governor would want to

proceed with caution until Harvey's impact is more concretely understood – but that a flooding event the size of Harvey would surely be an appropriate use of the fund.

"At this time," Ginn said, "there's less economic activity happening along the Gulf Coast as many businesses are closed down. People [who lost cars] don't have a way to get to work for a while. With the devastation Harvey caused, you're going to have less revenue coming into the state through sales tax. So since this is an unforeseen revenue shortfall, this is what the Rainy Day Fund was put in place to really be used for. We're not saying [the fund] needs to be used right away – maybe we need to figure out exactly how we should spend those dollars; we want to use the fund wisely. But if it's going to be used, this would be the time it was intended for."

The fund was created through a constitutional amendment in 1987 during a time of economic peaks and valleys in the oil industry. Dale Craymer, president of the Texas Taxpayers and Research Association, who assisted in drafting the Economic Stabilization Fund amendment in the '80s, said the idea was to infuse the fund while times were good and draw from it when the state was hard up. Natural disasters, he said, were certainly intended to count among the legitimate uses of the fund, though were not the specific purpose of it.

"It passed during a time when Texas, in a few short years, had experienced the very height of the oil and gas boom and the very depths of the oil and gas bust," he said. "Our economy had been subject to this massive 180-degree swing that was causing tremendous volatility with our state revenue. The fund, as it was originally designed, was intended to smooth over fluctuations. When times were bad, you had a little money in the bank to avoid raising taxes or avoid deep budget cuts."

Still, how lawmakers have used the fund has evolved over the years, Craymer said. In the beginning, lawmakers were going to the well far too often to use the fund for one-time fixes and the types of legislative proposals today's fiscal conservatives fiercely oppose tapping the fund for.

According to the Texas Comptroller's Office, the state has only used the Rainy Day Fund for disaster relief twice in its history: Once in 2003, to appropriate \$6.4 million in disaster relief to reimburse the Texas Department of Health and Human Services (the comptroller's office said it was unclear which disaster this was for, as Tropical Storm Allison was more than a year prior), and once after the Bastrop wildfire in 2013, when approximately \$186 million was taken out of the fund. Over the past 30 years, according to the comptroller, \$11.6 billion has been withdrawn for various purposes, most notably to address a budget shortfall following the Great Recession in 2011, when \$3.2 billion was withdrawn.

For the first time since 2013, lawmakers withdrew approximately \$990 million this past session, including money for state building repair projects and \$110 million for the governor's disaster relief fund. However, Craymer said the state's use of the fund has remained rather limited over the past several years – which is equally not what the framers of the constitutional amendment originally had in mind.

When it comes to a \$10 billion savings account, he said – projected to be \$11 billion by the end of the fiscal year – there's such a thing as being a little too cautious.

"In recent years, it probably hasn't been used enough," Craymer said. "If lawmakers back in 1987 realized there would be an \$11 billion balance in the fund – no one ever imagined it would grow to the level that it currently is. We've gotten to the point where, accruing \$11 billion, we can't lose sight of the fact that those are tax dollars we have taken out of the economy and set it aside, which means we've created a drag on the economy because we've collected more than \$11 billion in taxes than what we've used."

This has perhaps been the most frustrating part of Governor Abbott's response for many Houstonians, many of whom are equally disgruntled about Mayor Turner's proposal to raise property taxes in order to rake in an extra \$50 million. In a letter Abbott wrote back to Turner Wednesday, he made clear that he did not want to tap the fund until he had more specific numbers. "The Economic Stabilization Fund (the official name of the Rainy Day Fund) is a limited resource," Abbott wrote, "and so it is imperative we understand the statewide financial situation before draining the fund only to learn of more financial obligations."

Turner did give Abbott at least three specific examples of how Houston could use the Rainy Day Fund money in his letter Monday. For one, debris removal is projected to cost Houston \$25 million, since FEMA is picking up 90 percent of the projected \$250 debris removal tab. Turner has said structural damage to city buildings is now in the ballpark of \$175 million – but meanwhile, the city's flood insurance plan capped out at \$100 million. Extending the plan through April 2018, so that the city still has flood insurance should another tropical storm make landfall this year, will cost \$10 million. The city must also pay a \$15 million insurance deductible to recover on damages.

The mayor's spokesman, Alan Bernstein, said that if the state handed over the \$50 million to cover these insurance and debris removal costs, that would be all the city is asking for and there would be no need to raise taxes.

Fifty million dollars is less than half of a percent of the total fund.

Nevertheless, Ginn said if Texas remains opposed to tapping the Rainy Day Fund until 2019, there are other ways the state could assist municipalities along the coast. Namely, by

redirecting money from various state agencies to go toward Harvey recovery with approval from the Legislative Budget Board – then reimbursing those agencies in 2019.

A spokesman for the governor's office did not return a request for comment about whether the state is exploring this method as an option – or about how the governor is using the \$110 million in disaster relief funds he just received September 1.

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