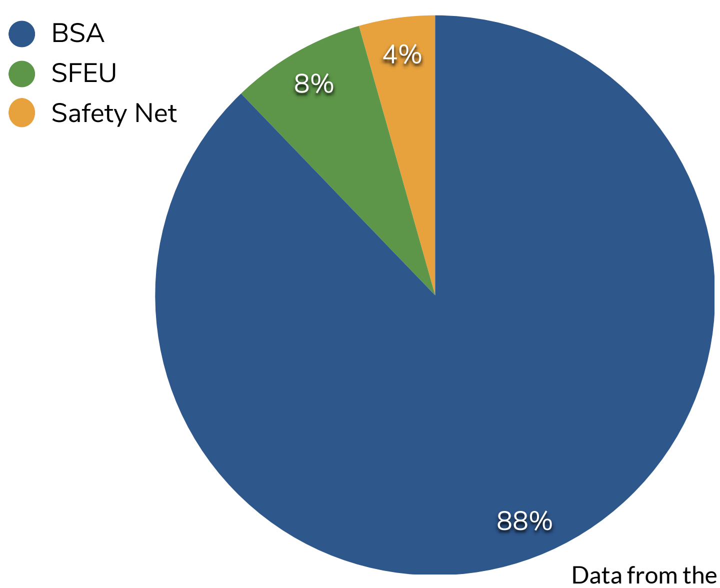
California in Context

RESERVES & RESILIENCY

California has three main reserve accounts: 1) the **Budget Stabilization Account (BSA, or Rainy Day Fund)**; 2) the **Special Fund for Economic Uncertainties (SFEU)**; and 3) the **Safety Net Reserve**. The largest is the BSA, which was created by Proposition 2 in 2014. A certain share of General Fund revenue (usually around 1.5%) must be added to the BSA each year until it reaches its constitutional maximum of 10% of total General Fund revenues (i.e. if revenues are $160 billion, the maximum would be $16 billion). Voluntary supplemental payments are not counted toward the maximum, which is why the 2020-21 balance of $18.5 billion is greater than 10% of General Fund revenue ($154.7 billion in 2020-21). The legislature is limited in when it can access these funds, and generally only can if the Governor declares a state of emergency (either budgetary due to a recession or due to a natural disaster or other emergency).

The SFEU, established in the early 1980s, is the state's general purpose reserve, and the balance in the account varies from year to year. The legislature has wide discretion to use the funds in the SFEU for any public purpose, and it functions more like a traditional savings account in which excess revenues are stored until they are allocated and spent. Because the California Constitution requires a balanced budget, the legislature cannot enact a budget that results in an SFEU balance than is less than zero, but once the budget is enacted, it will adjust upward or downward as actual revenues or expenditures differ from expectations throughout the year. The starting SFEU balance in 2020-21 is $5.8 billion—or the starting surplus of the California Budget Challenge.

Reserve Account Balances as of the end of 2020-21
Total Reserves: $21 billion under Status Quo



Data from the California Department of Finance

Lastly, the Safety Net Reserve was created in 2018-19 to fund future costs of Medi-Cal (the state's Medicaid system) and CalWORKs (the state's version of Temporary Assistance for Needy Families in which temporary cash assistance is given to low-income families to help them make ends meet) in the event of a recession. As of 2019-20, the balance of the Safety Net Reserve is $900 million.

CALIFORNIA BUDGET CHALLENGE

RESERVES KEY FACTS

- ✓ **BSA:** The state has made voluntary supplemental deposits in recent years, including an additional $3.5 billion in 2018-19, as the economy has been good and the state has had sizable surpluses to better protect against a future economic downturn
  - State had a multi-year budget deficit of $57 billion during the height of the Great Recession
- ✓ **SFEU:** While the state cannot enact a budget with an SFEU balance below zero, if revenues in the current year fall below expectations, the SFEU balance will automatically decline—sometimes falling below zero
  - The most recent example was the 2011-12 budget, which anticipated an SFEU balance of $543 million—however, when revenues fell short of expectations, the revised balance was later scored at -$2.2 billion
- ✓ **Safety Net Reserve:** The purpose of the Safety Net Reserve is to set aside funds that can be used to maintain benefits and services for CalWORKs and Medi-Cal participants during economic downturns when state revenues decline and need rises
  - During the Great Recession, the three large safety net programs registered $1.9 billion in cuts annually from 2008 to 2012, representing 15% of all cuts in state General Fund spending during that time

$165 million
unfunded pension liability

PROP 2 (2014)
most recent reserve policy update

NEW IN 2020-21: PENSIONS

Pensions are the state's largest source of unfunded liabilities, which has implications for the fiscal health of the state long-term, in addition to having enough reserves in the event of a recession. The state has two major pension systems—California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). The state's unfunded pension liability is approximately $165 billion.

The 2019-20 budget made an unprecedented $3 billion supplemental contribution to pay down the state's share of funded liabilities within CalPERS, and a $2.9 billion supplemental contribution to CalSTRS. These investments are estimated to result in savings of $7.2 billion and $7.4 billion over the next 30 years, respectively.

The **2020-21 budget proposes** accelerating paying down unfunded pension liabilities in CalPERS with an additional $235 million payment in 2020-21, rather than $200 million in 2021-22 and $35 million in 2022-23—essentially paying more down now when the state is in a surplus since the economic conditions are more uncertain in future years.

Data from the Governor's proposed budget, LAO, PPIC, and California Budget & Policy Center unless otherwise specified.