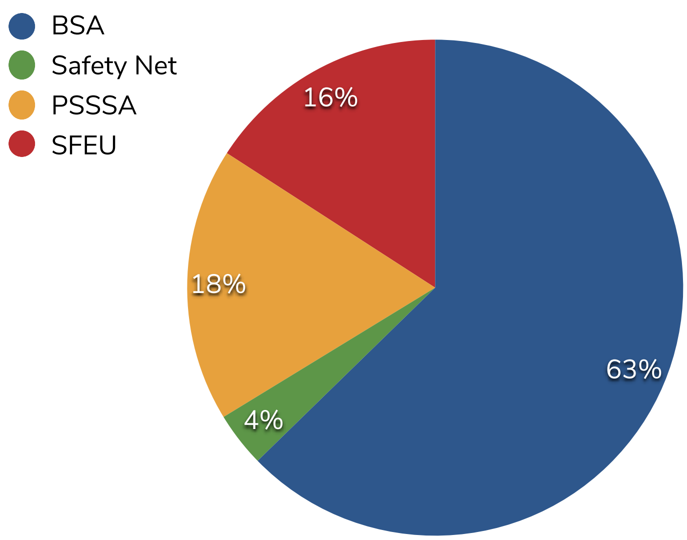
CALIFORNIA BUDGET BASICS

Budget Reserves

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. The legislature is limited in when it can access these funds, and generally only can if the Governor declares a state of emergency, as happened at the onset of the COVID-19 pandemic.

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. Under the enacted budget, the SFEU balance would be $4 billion at the end of 2021-22.

Total Reserve Account Amounts at End of 2021-22 Under Final Budget = $25.2 billion



Data from the California Department of Finance

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. The Public School System Stabilization Account is a reserve account for K-14 education funding that was also created by Prop. 2 in 2014.

WHAT'S IN THE 2021-22 MAY REVISION & FINAL BUDGET

In 2020-21, the state made the first withdrawal from the Budget Stabilization Account (BSA) since it was established by Proposition 2 in 2014 due to the economic impacts of the COVID-19 pandemic and recession. It also marked the first withdrawals from both the Safety Net Reserve and the Public School System Stabilization Account. Due to a strong economic rebound and General Fund tax receipts, the state must make a $3.4 billion deposit into the fund in 2021-22.

Stronger revenues also resulted in an increase in the PSSSA balance—from $1.9 billion at the end of 2020-21 to $4.5 billion at the end of 2021-22. At the end of 2021-22, the balance of the Safety Net Reserve would be $900 million, up from $450 million at the end of 2020-21. Lastly, the SFEU balance went from $25.1 billion at the end of 2020-21 to $4 billion at the end of 2021-22 under the final 2021-22 budget. Multiple rounds of federal stimulus and higher revenues led to a greater balance at the end of 2020-21, and the state plans to allocate approximately $20 billion to various programs in 2021-22.

The final budget also pays back all $12.5 billion of education-related payments that were deferred in 2020 due to the pandemic—$11 billion for K-12 education and $1.5 billion for community colleges. The Governor's May Revision proposed only paying back a portion of these deferrals.

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
    - First withdrawal of $7.8 billion from the BSA occurred in 2020-21, which was approximately half of the total BSA balance, leaving the remainder available for future years
- **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 2019-20 budget, which anticipated an SFEU balance of $1.6 billion—however, when revenues fell short of expectations and costs increased as a result of the pandemic and recession, the revised balance was later scored at -$1.7 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 share of Californians who were low-income grew from 12.2% to 16.6%, putting pressure on the state's safety net
    - The three large safety net programs (Medi-Cal, CalWORKs, and SSI/SSP) registered $1.9 billion in cuts annually from 2008 to 2012, representing 15% of all cuts in state General Fund spending during that time, and state revenues did not return to pre-recession levels until 2015
    - Federal funds prevented even larger cuts to safety net programs during the last recession, and those funds will be equally important in preventing large cuts during this recession
- **PSSSA:** When capital gains-related tax revenue exceeds 8% of General Fund revenues, then a portion of that excess revenue is transferred to this account under the provisions of Proposition 98
    - Funds are withdrawn from the account when state support for K-14 education exceeds the total allocation of General Fund revenues, allocated property taxes, and other available resources
    - Reductions in Prop. 98 funding for K-14 education equaled about 25% of spending cuts in a given year during the Great Recession

**Data from the 2021-22 May Revision & final budget, LAO, PPIC, and California Budget & Policy Center unless otherwise specified.*