# **Budget Reserves**

PRESENTED TO:

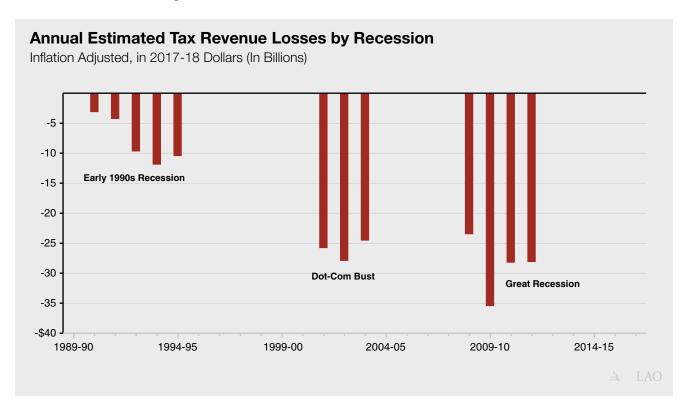
Assembly Budget Subcommittee No. 6 on Process, Oversight and Program Evaluation Hon. Philip Y. Ting, Chair



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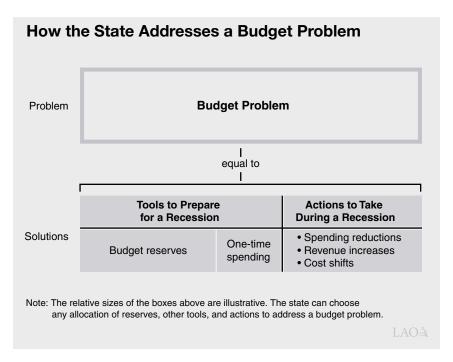
# **How Do Budget Problems Happen?**

- Budget Problems Most Commonly Occur as a Result of Recessions
- Recession Risk Heightened
- Budget Problems From Most Recessions Are Sizeable





# **How Does the State Address a Budget Problem?**



#### **Tools to Prepare**

- Deposit funds into reserves.
- Pay down debt.
- Plan for multiyear structural balance.
- Spend funds on a one-time, rather than ongoing, basis.

#### **Actions to Take During a Recession**

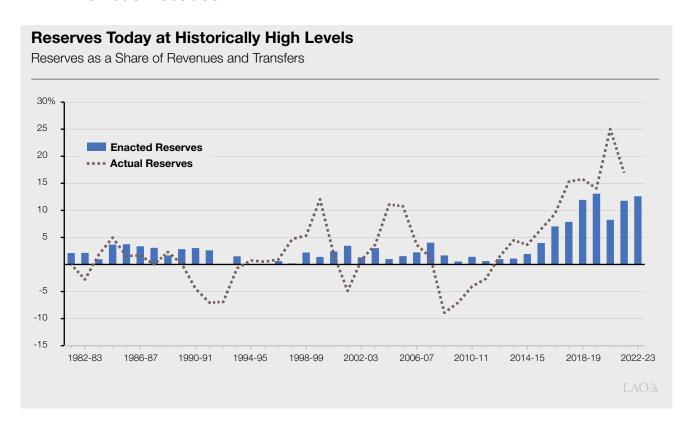
- Reduce spending.
- Increase revenues.
- Shift costs.



## **How Much Should the State Save in Reserves?**

The optimal size of the reserves is ultimately a legislative policy decision. That is because it involves a trade-off between current expenditures for the support of state programs and potential adverse consequences for these same programs if reserves do not adequately cover revenue losses (and possibly increased costs).

# **Recent Budgets Have Significantly More Reserves Than Previous Decades**

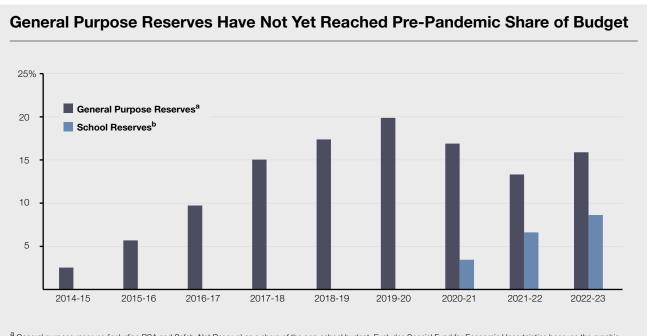




## **How Much Should the State Save in Reserves?**

(Continued)

**General Purpose Reserves Have Not Quite Reached Pre-Pandemic Share of Budget** 



<sup>&</sup>lt;sup>a</sup> General purpose reserves (including BSA and Safety Net Reserve) as a share of the non-school budget. Excludes Special Fund for Economic Uncertainties because the graphic shows actual, rather than enacted, levels. Actual SFEU balances vary widely depending on fluctuations in revenues.



<sup>&</sup>lt;sup>b</sup> Proposition 98 (school) reserves as a share of overall school budget.

### **Comments**

- Recession Risk Heightened.
- State Much Better Prepared for a Recession Now Compared to Situation Before Great Recession and Dot-Com Bust...
- ...However, Despite Historic Revenue Growth, Reserves Have Not Quite Reached Pre-Pandemic Shares of Budget.
- Optimal Level of Reserve Is Ultimately a Legislative Policy Decision.

