

# Understanding California's State Budget Reserves

	Established in the State Constitution		Established in State Law	
	Budget Stabilization Account (BSA)	Public School System Stabilization Account (PSSSA)	Safety Net Reserve	Special Fund for Economic Uncertainties (SFEU)
How much is in the reserve? (April 2020)	\$16.5 billion	\$377 million	\$900 million	Around \$100 million
Is the state required to make an <i>annual</i> deposit?	Yes	No However, a deposit is required under a restricted set of circumstances. <sup>1</sup>	No	No
Can a required deposit be reduced or suspended – and by who?	Yes A required deposit can be reduced or suspended if the Governor declares a budget emergency and the Legislature approves the reduction or suspension by a majority vote.	Yes A required deposit can be reduced or suspended if the Governor declares a budget emergency and the Legislature approves the reduction or suspension by a majority vote.	Not applicable	Not applicable
When can funds be withdrawn?	Funds may be withdrawn if the Governor declares a budget emergency and the Legislature passes a bill, by majority vote, to withdraw funds. <sup>2</sup>	Funds may be withdrawn if the Governor declares a budget emergency and the Legislature passes a bill, by majority vote, to withdraw funds. <sup>3</sup>	The Legislature may withdraw the funds at any time by majority vote.	The Legislature may withdraw the funds at any time by majority vote. <sup>4</sup>
Is there a limit on the amount of funds that can be withdrawn?	Yes The amount that can be withdrawn is 1) limited to the amount needed to address the budget emergency and 2) cannot exceed half of the funds in the BSA, unless funds had been withdrawn in the previous fiscal year.	No <sup>5</sup>	No	No
How can the funds be used by the state?	Funds may be used for any purpose.	Funds must be used to support K-12 schools and community colleges.	Funds are intended to maintain existing CalWORKs and Medi-Cal benefits and services during an economic downturn, but may be used for any purpose if the Legislature so chooses.	Funds may be used for any purpose.

Note: A "budget emergency" that's declared by the Governor is defined as either: 1) the existence of "conditions of disaster or of extreme peril to the safety of persons and property within the State, or parts thereof" as currently defined in Article XIII B, Section 3(c)(2) of the state Constitution; or 2) a determination by the Governor that there are insufficient resources to maintain General Fund expenditures at the highest level of spending in the three most recent fiscal years, adjusted for state population growth and the change in the cost of living. Article XIII B, Section 3(c)(2), defines "conditions of disaster or of extreme peril" as being "caused by such conditions as attack or probable or imminent attack by an enemy of the United States, fire, flood, drought, storm, civil disorder, earthquake, or volcanic eruption."

Sources: California Constitution, California Government Code, California Welfare and Institutions Code, Legislative Analyst's Office, and State Controller's Office



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## TABLE ENDNOTES

- <sup>1</sup> For example, these circumstances include requirements that deposits only occur when capital gains tax revenues exceed a specific level of total General Fund proceeds of taxes and when growth in the state's minimum funding guarantee for K-12 schools and community colleges is relatively strong.
- <sup>2</sup> The withdrawal rules governing the BSA may not apply to some of the funds in the BSA. Specifically, of the \$16.5 billion in the account, \$3.1 billion was either in the reserve before the current BSA rules took effect in 2014 or was added by the Legislature in recent years as an optional (non-mandatory) deposit. The Legislative Analyst's Office argues that the Legislature could appropriate this \$3.1 billion with a majority vote and without a declaration of a budget emergency by the Governor. In contrast, under this interpretation, the various withdrawal rules *would* apply to the remaining \$13.4 billion in the BSA. Separate and apart from this issue, funds *must* be withdrawn from the BSA – without the need for a declaration of a budget emergency – when updated revenue estimates indicate that a prior-year deposit was greater than required.
- <sup>3</sup> Funds *must* be withdrawn from the PSSSA – without the need for a declaration of a budget emergency – when the state's minimum funding guarantee for K-12 schools and community colleges is less than the prior year's funding level, adjusted for changes in student attendance and the cost of living, or when updated revenue estimates indicate that a prior-year deposit was greater than required.
- <sup>4</sup> Additionally, the Department of Finance may withdraw funds from the SFEU without legislative approval to cover the cost of state disaster response efforts upon an emergency proclamation by the Governor.
- <sup>5</sup> However, in any year when funds must be withdrawn from the PSSSA because the state's minimum funding guarantee for K-12 schools and community colleges is less than the prior year's funding level – adjusted for changes in student attendance and the cost of living – the required withdrawal is limited to the amount of that shortfall.