

MAY 7, 2025

Rethinking California's Reserve Policy (Panel 2)

PRESENTED TO:

Assembly Budget Subcommittee No. 7 on
Accountability and Oversight
Hon. Gregg Hart, Chair

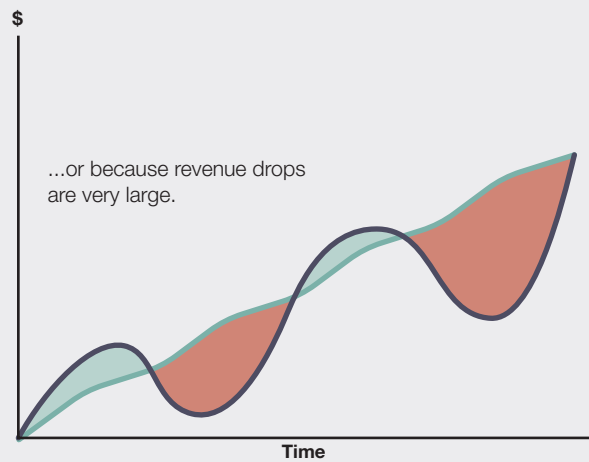
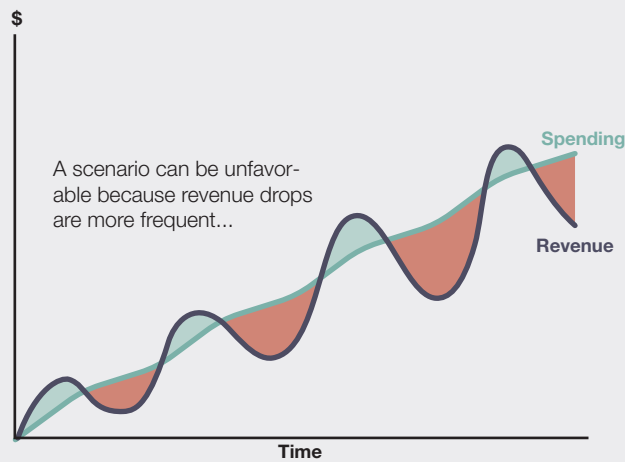


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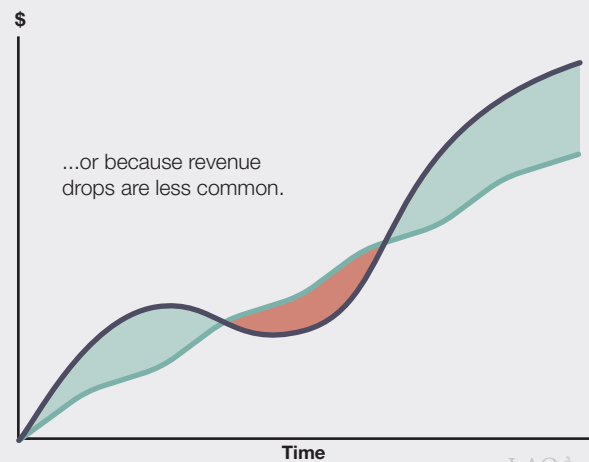
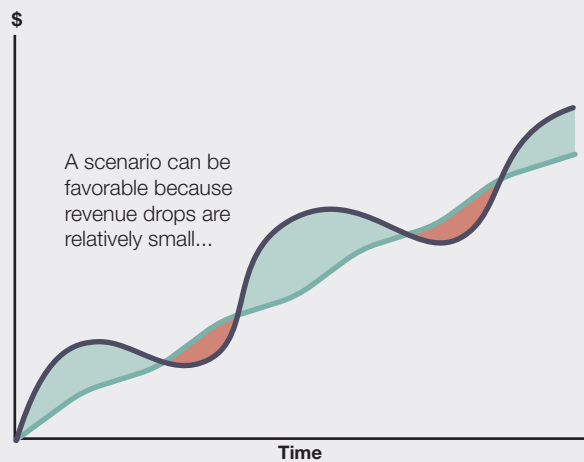
How Should We Evaluate California's Reserve Policy?

Future Scenarios Can Vary Widely

Unfavorable Scenarios



Favorable Scenarios

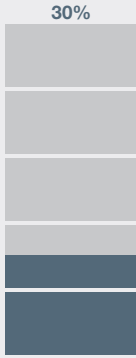


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Evaluating Proposition 2

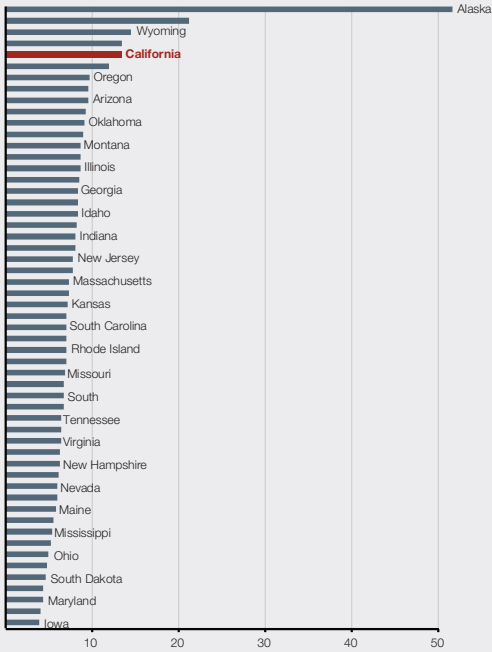
Under Current Policy, Reserves Can Cover One-Third of Funding Shortfalls



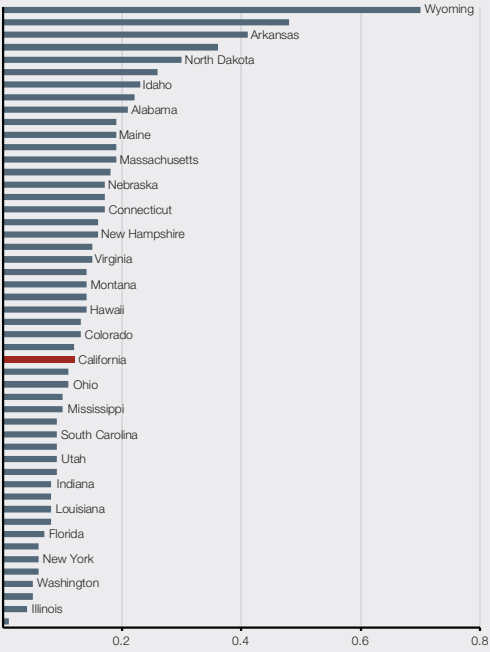
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Compared to Other States, Revenue Volatility Is High, But Reserve Balances Are Low

Revenue Volatility
Pew Volatility Score, 15 Year Data



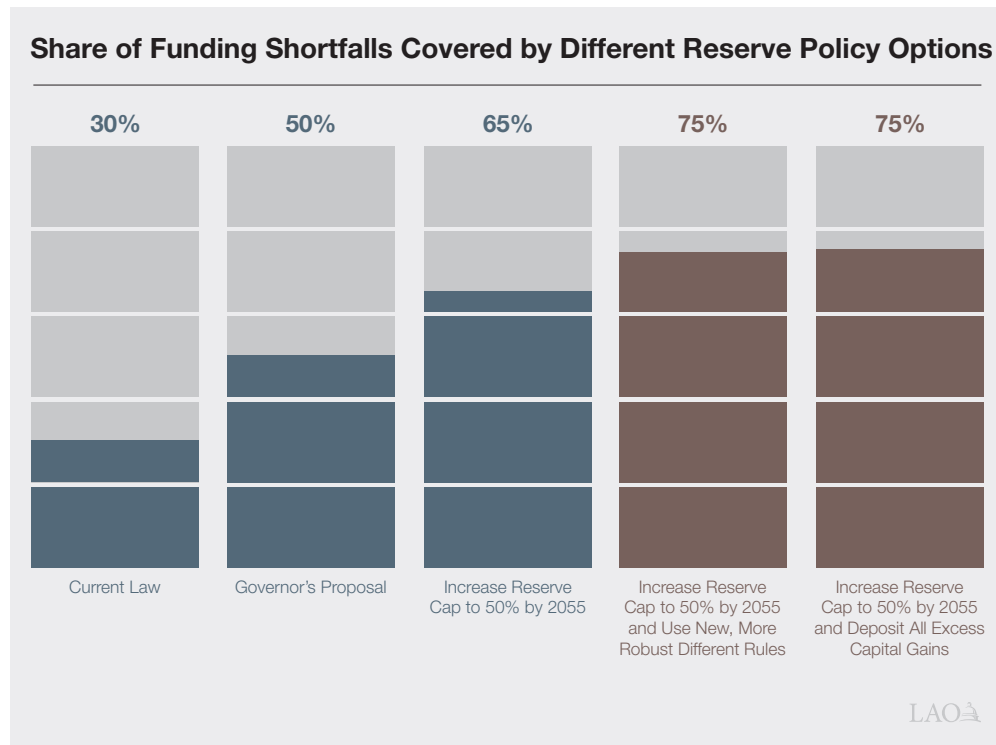
Reserve Balances
Rainy Day Funds as a Share of Spending, 2024



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Where Do We Go From Here?



LAO Recommendations

- **Raise the Cap to 50 Percent by 2055.** The increase could be phased in over time: 20 percent to take effect immediately after the next statewide election, 25 percent in 2030, and increasing by 5 percent every five years until the cap reaches a maximum of 50 percent in 2055.
- **Options to Reach This Higher Threshold.** If the cap is raised, the state would also need to set aside more in reserve deposits to dependably reach this higher amount. We present two alternatives to achieving this:
 - **Create New, More Robust and Flexible Deposit Rules.**
 - **Keep Existing Formulas but Set Aside All Excess Capital Gains.**

