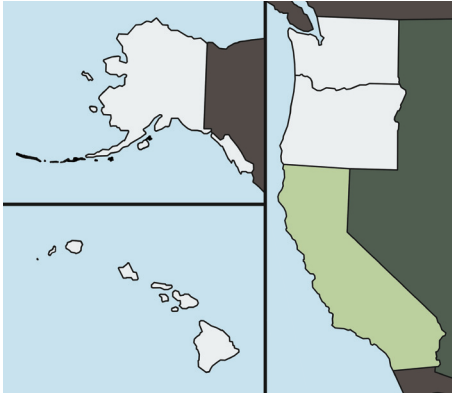


CALIFORNIA Budget Report Card



CALIFORNIA HAD TO PAY BILLS with IOUs when it was unable to pass a budget after the end of the Great Recession in 2009. It eventually balanced the budget, repaid the IOUs, and went on to earn an average grade of A for fiscal 2016 through 2018 for policies and practices that have fortified its reserve funds and left the state with cash to weather the next economic downturn.

The A mark shows how America’s most populous state has not only benefited from a near-record US recovery but also learned how to use its rainy day fund and other fiscal reserves to help offset its volatile revenue streams. These result from

extremely progressive income tax rates, a concentration of high-income taxpayers, and strict educational spending mandates that limit overall spending flexibility.

Helping the Golden State manage the effects of revenue volatility was a 2014 ballot measure requiring that a portion of capital gains tax revenue be deposited into the rainy day fund when income from the levy exceeds 8 percent of general revenue. This helps California amass cash when financial markets are strong and keeps it from spending capital gains revenue that may be reduced if the economy weakens.

California is not without shortcomings. In 2018 the state got a D-minus in legacy costs, the lowest grade possible, down from a D in 2017 and a C in 2016. (California received a D average in the category for the three years studied.) The category covers funding of public employee pensions and other post-employment benefits, principally health care. The most recent grade drop followed the state’s failure to set aside actuarially determined contributions for the teacher pension plan in 2018. A California law pertaining to that pension system does not allow contribution increases of more than 0.5 percent of payroll in any year and prevented the state from meeting recommended funding in 2018.


PACIFIC STATES SIDE BY SIDE: Three-Year Average Grades, 2016-18


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Alaska	B	C	B	A	A
California	B	A	D	A	A
Hawaii	A	B	D-	A	B
Oregon	C	A	A	B	B
Washington	A	B	D	A	B
US AVERAGE	C	B	C	B	B


NOTE States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* at VolckerAlliance.org.


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BUDGET FORECASTING				
	2016	2017	2018	
	CATEGORY GRADE	B	B	B
	Consensus Revenue Forecasts	X	X	X
	Multiyear Expenditure Forecasts	✓	✓	✓
	Multiyear Revenue Forecasts	✓	✓	✓
	Revenue Growth Projections	✓	✓	✓
3-YEAR AVERAGE B		3-YEAR TREND —		

BUDGET MANEUVERS				
	2016	2017	2018	
	CATEGORY GRADE	A	A	A
	Deferring Recurring Expenditures	✓	✓	✓
	Revenue and Cost Shifting	✓	✓	✓
	Funding Recurring Expenditures with Debt	✓	✓	✓
	Using Asset Sales and Up-Front Revenues	✓	✓	✓
3-YEAR AVERAGE A		3-YEAR TREND —		

LEGACY COSTS				
	2016	2017	2018	
	CATEGORY GRADE	C	D	D
	Public Employee OPEB Funding	X	X	X
	Public Employee Pension Funding	✓	✓	X
	Public Employee Pension Funded Ratio*	70%	67%	67%
3-YEAR AVERAGE D		3-YEAR TREND ↘		

RESERVE FUNDS				
	2016	2017	2018	
	CATEGORY GRADE	A	A	A
	Positive Reserve or General Fund Balance	✓	✓	✓
	Reserve Funds Disbursement Policy	✓	✓	✓
	Reserve Funds Replenishment Policy	✓	✓	✓
	Reserves Tied to Revenue Volatility	✓	✓	✓
3-YEAR AVERAGE A		3-YEAR TREND —		

TRANSPARENCY				
	2016	2017	2018	
	CATEGORY GRADE	A	A	A
	Consolidated Budget Website	✓	✓	✓
	Provides Debt Tables	✓	✓	✓
	Discloses Deferred Infrastructure Replacement Costs	✓	✓	✓
	Discloses Tax Expenditures	✓	✓	✓
3-YEAR AVERAGE A		3-YEAR TREND —		

KEY

✓	Followed best practice
X	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg; 2017 data also used for 2018.