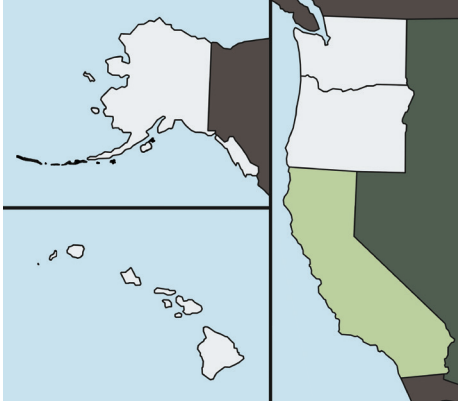


CALIFORNIA Budget Report Card



CALIFORNIA BEGAN A MASSIVE fiscal turnaround in 2015, when it paid off the last of the \$15 billion in bonds it issued in 2004 to help cover a \$35 billion budget shortfall. The improvement helped the nation’s most-populous state achieve A or B budgetary averages in all but one category for 2015 through 2019.

In reserve funds, California was among seventeen states winning A averages. The state was first credited with linking revenue volatility to reserve fund policies in 2016, after voters approved a constitutional requirement to set aside deposits equal to 1.5 percent of general fund revenues plus any capital gains tax proceeds exceeding 8 percent of general revenues. As of fiscal 2019, the state had \$21 billion in its reserve funds, equivalent to 15 percent of general fund expenditures – potentially enough to weather a recession with minimal program cuts.

California was also one of seventeen states scoring an A average in budget maneuvers. From 2015 through 2019, it avoided common measures of masking budgetary imbalances, such as deferring expenditures, shifting revenues or costs, using debt to cover operating costs, or tapping other one-time revenues to support ongoing spending.

The one exception to its high marks was the legacy costs category, in which California averaged a D despite a decade of economic recovery. In 2018–19, the state failed to pay the actuarially determined contributions for public employee pension plans and other postemployment benefits (OPEB), primarily health care. Its pension funding ratio was 69 percent in 2019, 2 percentage points below the total for all states.


PACIFIC STATES SIDE BY SIDE: Five-Year Average Grades, Fiscal 2015–19


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Alaska	B	C	B	A	A
California	B	A	D	A	A
Hawaii	A	A	D-	A	B
Oregon	C	A	B	B	B
Washington	A	B	C	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: Preparing for the Storm* at VolckerAlliance.org. © 2021 VOLCKER ALLIANCE INC.


CALIFORNIA Budget Report Card, Fiscal 2015–19

BUDGET FORECASTING							
	2015	2016	2017	2018	2019	TREND	
	CATEGORY GRADE	B	B	B	B	B	'15 '16 '17 '18 '19
	Consensus Revenue Forecasts	X	X	X	X	X	
	Multiyear Expenditure Forecasts	✓	✓	✓	✓	✓	● ● ● ● ●
	Multiyear Revenue Forecasts	✓	✓	✓	✓	✓	
	Revenue Growth Projections	✓	✓	✓	✓	✓	
5-YEAR AVERAGE						B	

BUDGET MANEUVERS							
	2015	2016	2017	2018	2019	TREND	
	CATEGORY GRADE	A	A	A	A	A	'15 '16 '17 '18 '19
	Deferring Recurring Expenditures	✓	✓	✓	✓	✓	● ● ● ● ●
	Revenue and Cost Shifting	✓	✓	✓	✓	✓	
	Funding Recurring Expenditures with Debt	✓	✓	✓	✓	✓	
	Using Asset Sales and Up-Front Revenues	✓	✓	✓	✓	✓	
5-YEAR AVERAGE						A	

LEGACY COSTS							
	2015	2016	2017	2018	2019	TREND	
	CATEGORY GRADE	C	C	D	D	D	'15 '16 '17 '18 '19
	Public Employee OPEB Funding	X	X	X	X	X	
	Public Employee Pension Funding	✓	✓	✓	X	X	● ● ● ● ●
	Public Employee Pension Funded Ratio*	74%	70%	67%	68%	69%	● ● ● ● ●
5-YEAR AVERAGE						D	

RESERVE FUNDS							
	2015	2016	2017	2018	2019	TREND	
	CATEGORY GRADE	B	A	A	A	A	'15 '16 '17 '18 '19
	Positive Reserve or General Fund Balance	✓	✓	✓	✓	✓	● ● ● ● ●
	Reserve Funds Disbursement Policy	✓	✓	✓	✓	✓	●
	Reserve Funds Replenishment Policy	✓	✓	✓	✓	✓	
	Reserves Tied to Revenue Volatility	X	✓	✓	✓	✓	
5-YEAR AVERAGE						A	

TRANSPARENCY							
	2015	2016	2017	2018	2019	TREND	
	CATEGORY GRADE	A	A	A	A	A	'15 '16 '17 '18 '19
	Consolidated Budget Website	✓	✓	✓	✓	✓	● ● ● ● ●
	Provides Debt Tables	✓	✓	✓	✓	✓	
	Discloses Deferred Infrastructure Replacement Costs	✓	✓	✓	✓	✓	
	Discloses Tax Expenditures	✓	✓	✓	✓	✓	
5-YEAR AVERAGE						A	

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.

© 2021 VOLCKER ALLIANCE INC.