



Saving for a Rainy Day

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Saving in 2014-15 Budget

- Makes first deposit into the Proposition 58 Budget Stabilization Account (BSA) since 2007.
- 50 percent of deposit transferred to retire Economic Recovery Bonds (\$1.6 billion).
- 50 percent of deposit remains in BSA (\$1.6 billion).



Why a New Rainy Day Fund?

- State's progressive tax structure makes revenues volatile.
- One way to manage volatility is to better manage revenue spikes.
- Existing Proposition 58 BSA has weaknesses.
- ACA 4 is an improvement over existing structure, but...



Building a Lasting Rainy Day Fund

- New Constitutional Amendment for November 2014 ballot.
 - Replace ACA 4.
 - Build on and strengthen Proposition 58 BSA.
 - Create separate Proposition 98 Reserve to protect education from cuts.
 - Effective 2015-16 fiscal year.



Key Features of New Rainy Day Fund

- Base deposits in BSA on capital gains spikes
 - Capital gains in excess of 6.5 percent of General Fund tax proceeds, after setting aside revenue due to Proposition 98.
 - True up process for two preceding fiscal years.

- Double the maximum size of the BSA—5 percent to 10 percent of General Fund tax proceeds.



Key Features of New Rainy Day Fund cont.

- After BSA ceiling is met—allows for one-time expenditures, including debt payments.
- Allows state to pay down debt/avoid debt in lieu of BSA deposit.
 - Supplemental payments to Wall of Debt.
 - Payments on unfunded pension liabilities above base amount scheduled.
 - Other investments that retire unissued debt.



Key Features of New Rainy Day Fund cont.

- Requires Governor's budget emergency and legislative action to suspend or reduce BSA deposit.
- Requires Governor's budget emergency and legislative action to withdraw from BSA.
 - Amount withdrawn limited to 50 percent of BSA unless there was a withdrawal the preceding year.



Proposition 98 Reserve

- No changes to Proposition 98 calculation.
- Establishes Proposition 98 Reserve for Proposition 98 funding attributed to capital gains revenue above 6.5 percent of General Fund tax proceeds.
- True up process for two preceding years – like current law, but with new adjustments to Proposition 98 Reserve.
- Caps Proposition 98 Reserve at 10 percent of Proposition 98 funding level.
- After Proposition 98 Reserve ceiling is met – additional funds allocated to school districts for Proposition 98 purposes.



Proposition 98 Reserve cont.

- Fully fund enrollment growth and provide cost-of-living adjustments before deposits made in Proposition 98 Reserve.

- May withdraw funds from the Proposition 98 Reserve.
 - To fully fund enrollment growth and provide cost-of-living adjustments.
 - Address a Governor's budget emergency.
 - No 50 percent limit on withdrawal in any year.

