

MAY 7, 2025

Reserves, Proposition 2, and the Budget Stabilization Account (Panel 1)

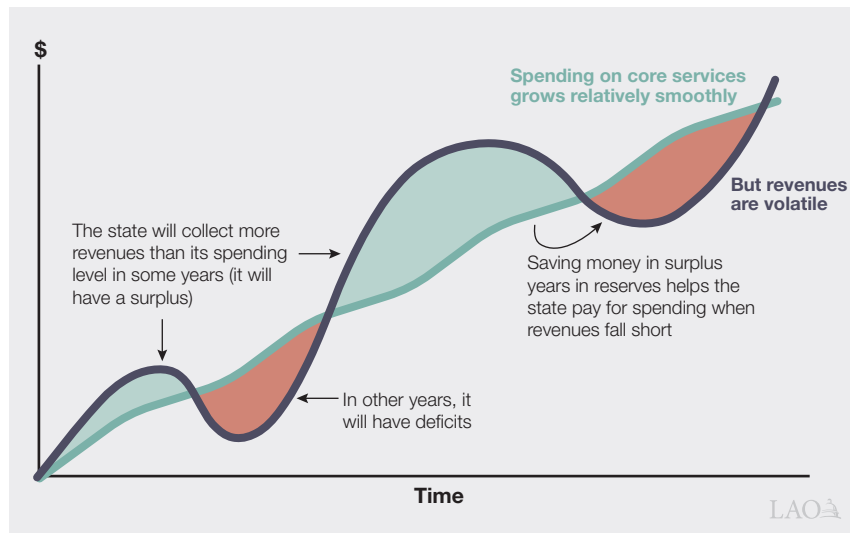
PRESENTED TO:

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



LEGISLATIVE ANALYST'S OFFICE

How Reserves Work



- **Revenues Are Volatile.** From year to year, revenues can grow very quickly or contract quickly.
- **Core Spending Is Not.** The ongoing growth in costs of the state's programs—the core spending level—is much steadier.
- **Reserves Allow the State to Smooth the Difference.** Reserves can be saved when revenues are surging and then spent when revenues decline below that long-term trajectory.

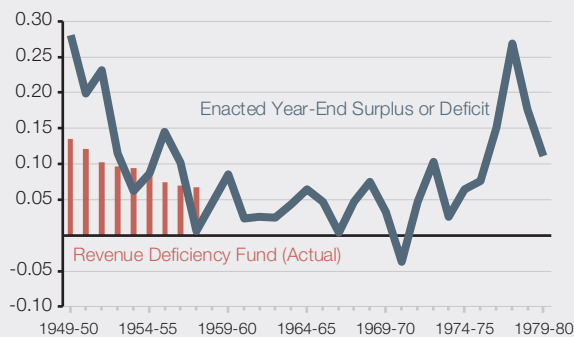


Proposition 2 Substantially Improved State's Reserve Policy

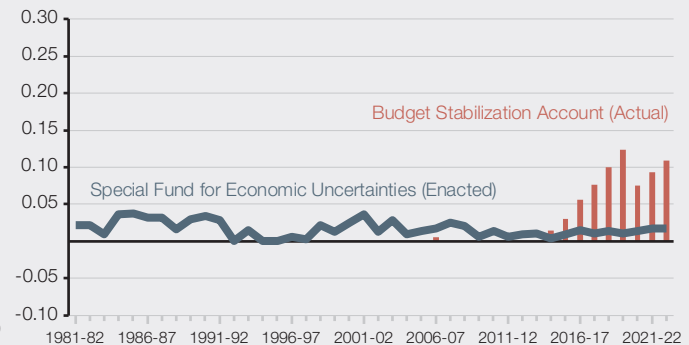
A History of California's Reserves

Balances as a Share of General Fund Revenues

State Had Significant Unbudgeted Surpluses in the 1950s and 1970s



From 1980 to 2014, State Saved Very Little in Reserves



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- Before 1980, state reserves and surpluses varied widely.
- Proposition 4 (1979)—or the State Appropriations Limit—limited how much tax revenues the state and local governments can spend and encouraged governments to establish contingency or reserve funds.
- For over three decades, the state had very little in reserves.
- Proposition 2 (2014) substantially improved the state's reserve policy.



How Proposition 2 Works

