

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.¹ This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.²



California: Tools for Sustainable State Budgeting

Long-term budget assessment: ✓

Report: "The 2023-24 Budget: California's Fiscal Outlook"³

Office: Legislative Analyst's Office

Budget stress test: ✓

Report: "The 2023-24 Budget: California's Fiscal Outlook"⁴

Office: Legislative Analyst's Office

Analyses

The Legislative Analyst's Office (LAO) regularly publishes innovative research on California's long-term fiscal condition. Recent editions of the annual "Fiscal Outlook" report—a standout example of the office's work—have included both long-term budget assessments and stress tests, with the LAO explaining why it expects California to face a surplus or deficit in coming years and how much worse the situation might be in case of a recession.⁵

One strength of the LAO's work is that, where other states' long-term fiscal analyses sometimes become formulaic and repetitive over time, the "Fiscal Outlook" reports stay fresh and relevant by blending original

analysis of California's immediate budget situation with long-term context. For example, when California enjoyed a large surplus in late 2021, the report concentrated on how much the state could afford in new, ongoing commitments over the long term, recognizing that much of the surplus reflected temporary factors, such as federal COVID-19 pandemic aid.⁶ A year later, with California facing ongoing shortfalls, the report centered on the causes of the problem and strategies to address it.⁷

In addition to the outlook report, the LAO also updates and analyzes its long-term revenue and spending projections at various points in the budget calendar, including after the "May revision"—when the governor makes final modifications to the executive budget proposal to reflect updated revenue forecasts.⁸ Additionally, the state's Department of Finance produces its own long-term revenue and spending projections (albeit without the detailed discussion provided by the LAO) and episodically estimates how a recession would affect revenue.⁹

Policy impact

Released each November, the "Fiscal Outlook" report helps start the Legislature's budget development process. For example, the State Assembly uses the report to inform its "Budget Blueprints," released each December, which identify the body's fiscal priorities for the year.¹⁰ The "Fiscal Outlook" reports include recommendations, such as to increase rainy day fund balances, and legislators have cited these recommendations when making budget decisions.¹¹

Next steps

The LAO's analyses generally focus on factors that the analysts expect to significantly affect the budget within the typical four-year time frame of the state's reports. The office could supplement this analysis with assessments of the fiscal effects of more gradual, long-term factors, such as climate change and California's weak population growth.

Endnotes

- 1 The Pew Charitable Trusts, “Tools for Sustainable State Budgeting” (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, “States’ Use of Sustainable Budgeting Tools” (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 California Legislative Analyst’s Office, “The 2023-24 Budget: California’s Fiscal Outlook” (2022), <https://www.lao.ca.gov/reports/2022/4646/CA-Fiscal-Outlook-111622.pdf>.
- 4 Ibid.
- 5 Ibid.
- 6 California Legislative Analyst’s Office, “The 2022-23 Budget: California’s Fiscal Outlook” (2021), 8-11, <https://www.lao.ca.gov/reports/2021/4472/fiscal-outlook-111721.pdf>.
- 7 California Legislative Analyst’s Office, “The 2023-24 Budget: California’s Fiscal Outlook.”
- 8 California Legislative Analyst’s Office, “The 2023-24 Budget: Multiyear Budget Outlook” (2023), <https://lao.ca.gov/Publications/Report/4772>.
- 9 California Department of Finance, “General Fund Multiyear Forecast, 2023 Budget Act” (2023), <https://ebudget.ca.gov/reference/MultiYearProjection.pdf>; California Department of Finance, “Governor’s Budget Summary—2020-21: Revenue Estimates” (2020), 228-29, <https://ebudget.ca.gov/2020-21/pdf/BudgetSummary/RevenueEstimates.pdf>.
- 10 California State Assembly Committee on Budget, “Budget Blueprints,” accessed Aug. 29, 2023, <https://abgt.assembly.ca.gov/content/budget-blueprints>; A. Hollingshead (principal fiscal and policy analyst, California Legislative Analyst’s Office), interview with The Pew Charitable Trusts, May 8, 2023.
- 11 Hollingshead, interview.

For more information, please visit: pewtrusts.org/fiscaltools

The Pew Charitable Trusts

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