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California's New Rainy Day Fund Rules to Be Closely Watched.

California Gov. Jerry Brown scored a second victory Tuesday night when voters approved his proposal to institutionalize California's savings habits and harness the state's notoriously wild revenue swings.

The measure, Proposition 2, was widely approved — 69 percent of voters cast a yes vote with 99 percent of precincts reporting. It requires lawmakers to set aside 1.5 percent of General Fund revenues each year for the state's budget stabilization fund until the fund reaches a full 10 percent of general fund spending. Unlike the current reserve funding requirement, which can be waived annually by the governor, suspending deposits or making a withdrawal from the fund would require that the governor declare a state of fiscal emergency. Additionally, for the next fifteen years, half of that 1.5 percent will be used to pay off long-term debt so California can balance its need to save with its need to pay down growing liabilities.

California's success with the measure will be closely watched by other states. Not only is the Golden State often a trendsetter for new policy, the notion of rainy day savings is becoming a more popular topic in state and local governments in general. As the economy gains distance from the recession and budgets stabilize, governments are paying attention to the savings funds they raided in 2008 and 2009 and are looking to shore them up again in preparation for the next downturn.

Chris Hoene, executive director of the California Budget Project, said Brown's popularity likely made the difference for California's rainy day fund Tuesday.

"He has managed the state's fiscal health out of the downturn and has received a lot of credit and accolades for that work," Hoene said. "He's now trying to ensure that future leaders will also be good fiscal stewards."

The new savings rules could also help California's credit rating. Ratings agencies have viewed the ballot measure favorably because the state would pay down debt and harness revenue volatility. The savings deposit rule means California will make deposits from excess capital gains revenues in years where revenues exceed 8 percent of all general fund revenue — a way of harnessing that revenue's volatility. From 2004 to 2014, the state exceeded that threshold seven times. The spread has ranged from 10.7 percent of general fund revenue to as low as 3.5 percent. A newly created separate reserve account for education would also benefit from these deposits.

However, ratings agencies have also said the proposition could hurt school district's spending flexibility and some education advocates lobbied against the ballot measure, saying the education funding component is poorly structured. Because of California's complicated rules for education funding, the education reserve fund wouldn't actually start receiving deposits for several years. The parent-led group Educate our State ran an opposition campaign warning that the amendment would essentially allow the state to "save money on the back of public education funding."

Katherine Welch, a board member for the group, told the San Jose Mercury News early Wednesday the plan was too rigid for schools. “We never thought that we were going to defeat this,” she said. “Our goal always has been to raise awareness about how Sacramento continues to take money away from kids.”

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