

Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

SB 743 (Cortese) – As Amended July 7, 2025

Policy Committee: Education

Vote: 7 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill establishes the Equalization Reserve Account (ERA) in the General Fund to, upon appropriation by the Legislature, provide additional funding to non-basic aid school districts to increase per-pupil funding in such districts.

Specifically, this bill requires a deposit into the ERA in a year in which the state makes a constitutionally required deposit into the Public School System Stabilization Account (PSSSA) of an equal amount. The bill requires that only interest earned on funds deposited into the ERA be used for appropriation to schools and excludes deposits into and allocations from the ERA from counting towards the Proposition 98 minimum guarantee calculation or the state appropriations limit.

FISCAL EFFECT:

While the bill's provisions are contingent upon a constitutional amendment approved by the voters, it creates ongoing General Fund costs of an unknown amount but likely in the hundreds of millions to billions of dollars, during years in which a deposit into the PSSSA is statutorily required, thereby triggering a deposit into the ERA. Because the bill exempts both funds transferred into and appropriated from the ERA from counting towards the Proposition 98 calculation or the state appropriations limit (Gann limit), deposits into the ERA would represent an extremely volatile General Fund cost exposure within the state budget in addition to the Proposition 98 minimum guarantee on an annual basis.

COMMENTS:

1) **Purpose.** According to the author:

SB 743 establishes the Equalization Reserve Account designed to provide additional dollars to underfunded school districts, fixing long-standing funding inequities in California's public schools. For far too long, where a child lives has determined how much funding their school receives. This bill ensures that all students no matter their zip code, have access to the same quality education. According to data from the Legislative Analyst Office, there is a funding deficiency of about \$34 billion dollars in underserved districts. Research shows that an increase in per-pupil spending leads to improved student achievement—higher test scores, better graduation rates, and greater

college readiness. This is a long-term solution that will help close the funding gap and improve student outcomes, particularly for those in the most disadvantaged communities.

Background. Proposition 98. Approved by voters in 1988, Proposition 98 constitutionally guarantees K-12 public schools and community colleges with a minimum annual funding amount equal to approximately 40% of state general fund revenues (plus local property taxes dedicated to schools) which is adjusted annually for changes in economic conditions and public school enrollment. The total Proposition 98 funded amount for fiscal year 2025-26 is \$114.6 billion.

In 2014, voters approved Proposition 2, which created the PSSSA, a reserve within Proposition 98 designed to require deposits in years where the calculated minimum guarantee exceeded the prior year's spending adjusted for inflation and changes in attendance. These deposits are calculated within the total Proposition 98 minimum guarantee and are not in excess of the total minimum guarantee requirement. This bill creates the ERA, into which the state would make matching deposits commensurate with PSSSA deposit amounts, with the interest earned on the ERA appropriated by the Legislature to equalize funding between basic aid districts and non-basic aid districts.

Basic Aid Districts. School districts receive funding for TK under the LCFF within the kindergarten-through-grade-three grade span as well as a per TK ADA add-on to support staffing ratio requirements. The LCFF calculates a funding entitlement for every school district based on ADA and demographic factors, funded first by available local property tax revenues and any remaining amount provided by the state from Proposition 98 General Fund. In about 10% of school districts, local property tax revenues exceed the school district's LCFF entitlement. State law terms these districts as "basic aid" or "excess tax."

Basic aid refers to a constitutional requirement for no school district to receive less than \$120 per ADA in any given year. Most basic aid districts receive state funding for other categorical programs, such as AB 602 special education funding, well in excess of this minimum amount. To the extent a basic aid district exits excess tax status (its LCFF entitlement exceeds available local property tax revenues) the state provides Proposition 98 General Fund to cover the difference. Per-ADA revenue at basic aid districts may range from as low as \$11,000 to as high as \$99,000. Because basic aid districts get to keep property taxes in excess of their LCFF entitlement, different districts within the same county (if home to both basic aid and non-basic aid districts) may receive significantly different per-pupil revenues.

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