
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SCA 5 (Cortese) - Education finance: Education Equalization Act: Equalization Reserve Account

Version: May 26, 2026

Urgency:

Hearing Date: June 15, 2026

Policy Vote: ED. 6 - 0, E. & C.A. 5 - 0

Mandate: No

Consultant: Lenin Del Castillo

Bill Summary: SCA 5, if approved by voters, would establish the Equalization Reserve Account (ERA) in the General Fund to provide additional per-pupil funding for non-basic aid school districts. Funding for this account would be transferred from the General Fund in years when Proposition 98 increases from the prior year, as specified.

Fiscal Impact:

- This measure could result in additional, unknown General Fund costs that could be in the hundreds of millions to low billions of dollars during years in which a deposit is made into the Public School System Stabilization Account (PSSSA), thus triggering a deposit of an equal amount into the ERA. The bill would exclude both funds transferred into and appropriated from the ERA from the Proposition 98 and Gann limit calculations, therefore the costs would be in addition to the Proposition 98 minimum guarantee each year. The bill requires that only interest earned on the funds deposited into the ERA be used to increase per-pupil funding for non-basic aid school districts. However, it does not specify how these funds would be distributed among eligible school districts.
- This measure would result in one-time General Fund costs to the Secretary of State (SOS) in the range of \$738,000 to \$984,000, likely in 2026-27, for printing and mailing costs to place the measure on the ballot in a statewide election. Actual costs may be higher or lower, depending on the length of required elements and the overall size of the ballot.

Background: Proposition 98, a voter-approved initiative, guarantees a minimum funding level for K-14 education each year. It is adjusted annually based on specific economic conditions. The California Constitution also imposes an appropriations limits (the Gann Limit), restricting the total annual appropriations of the state and local governments from exceeding a specified amount, adjusted annually for population and inflation.

In 2014, California voters approved Proposition 2, which created the Public School System Stabilization Account (PSSSA), a state-level reserve within Proposition 98 designed to mitigate volatility in school funding. Deposits into the PSSSA are triggered only under specific fiscal conditions: state capital gains tax revenues must exceed a certain threshold (8% of General Fund revenues), the Proposition 98 "Test 1" funding scenario must apply (typically occurring during strong economic periods), no outstanding Proposition 98 maintenance factor obligations may exist, and overall

Proposition 98 funding must have increased compared to the previous fiscal year. If all of these conditions are met, the portion of capital gains revenues above the 8% threshold must be deposited, up to a maximum of 10% of the Proposition 98 guarantee for that year.

Proposed Law: This bill establishes the ERA in the General Fund and requires the State Controller, in any fiscal year in which Proposition 98 funding increases over the prior fiscal year, to transfer from the General Fund into the Equalization Reserve Account (ERA) an amount equal to the total amount transferred into the Public School System Stabilization Account (PSSSA) for that fiscal year.

This bill requires the transfer calculation to include all reductions, suspensions, and adjustments applicable to the PSSSA. It also provides that if the constitutional provisions governing the PSSSA are amended after January 1, 2026, ERA transfers shall instead be calculated based on what the PSSSA transfer would have been under the January 1, 2026 version of the Constitution.

This bill specifies that only interest earned on funds in the ERA may be appropriated and prohibits expenditure of principal deposited into the ERA. The bill also requires that appropriated interest earnings be used solely to increase per-pupil funding for non-basic aid school districts.

This bill requires the Legislature to allocate at least 80% of ERA interest earnings annually to increase per-pupil funding in non-basic aid school districts.

This bill defines “basic aid school district” as a district that did not receive LCFF state aid in any of the preceding three fiscal years, and defines “non-basic aid school district” as a district that received LCFF state aid in any of the preceding three fiscal years.

This bill authorizes the Legislature to suspend required ERA transfers in years when average per-pupil funding in non-basic aid school districts equals or exceeds average per-pupil funding in basic aid school districts.

This bill excludes ERA transfers and allocations from Proposition 98 minimum funding calculations, and also excludes ERA transfers and allocations from state appropriations subject to limitation under Article XIII B of the California Constitution (Gann Limit).

Related Legislation: SB 743 (Cortese, 2025) is the companion measure to SCA 5 and establishes the statutory framework to implement the ERA. The bill is currently pending in the Assembly Appropriations Committee.

Staff Comments: This bill would create an Equalization Reserve Account, requiring annual transfers equal to the mandatory deposit into the PSSSA if specific conditions are met. Based on the history of deposits into the PSSSA over the past seven years, a deposit into the ERA could range from zero to the low billions of dollars each year. These deposits would be made from the General Fund and also be exempt from Proposition 98 calculations and the state’s Gann Limit. It is unclear how the ERA would function, including how the equalization funding would be distributed among eligible districts, what percentage of annual interest earnings would be appropriated, and how

the state would determine funding disparities between basic aid and non-basic aid districts.

The SOS indicates that printing and mailing costs associated with placing a measure on the statewide ballot are \$123,000 per page, depending on the length of the ballot. The fiscal estimates noted above reflect the addition of 6-8 pages in the Voter Information Guide. Actual costs would depend upon the length of the title and summary, analysis by the LAO, proponent and opponent arguments, and text of the proposal.

-- END --