

THIRD READING

Bill No: SCA 5
Author: Cortese (D)
Amended: 5/26/26
Vote: 27

SENATE EDUCATION COMMITTEE: 6-0, 6/3/26
AYES: Pérez, Cabaldon, Choi, Cortese, Gonzalez, Reyes
NO VOTE RECORDED: Ochoa Bogh

SENATE ELECTIONS & C.A. COMMITTEE: 5-0, 6/9/26
AYES: Wiener, Choi, Allen, Cervantes, Umberg

SENATE APPROPRIATIONS COMMITTEE: 4-0, 6/15/26
AYES: Cervantes, Grayson, Richardson, Wahab
NO VOTE RECORDED: Seyarto, Cabaldon, Dahle

SUBJECT: Education finance: Education Equalization Act: Equalization Reserve Account

SOURCE: Silicon Valley Education Foundation

DIGEST: This constitutional amendment proposes a constitutional framework to establish the Equalization Reserve Account (ERA), a new state education endowment intended to increase per-pupil funding for non-basic aid school districts. This constitutional amendment requires annual transfers from the General Fund into the ERA in amounts equal to deposits made into the Public School System Stabilization Account (PSSSA), exclude ERA deposits and allocations from Proposition 98 and Gann Limit calculations, and restricts expenditures from the account to interest earnings used for equalization funding for non-basic aid districts.

ANALYSIS:

Existing law:

- 1) Establishes Proposition 98, approved by voters in 1988, which constitutionally guarantees a minimum annual funding level for K–14 education based on specified economic and fiscal conditions. (California Constitution, Article XVI, Section 8)
- 2) Establishes the PSSSA, approved by voters through Proposition 2 (2014), to stabilize education funding during economic downturns. (California Constitution, Article XVI, Section 21)
- 3) Requires deposits into the PSSSA under specified fiscal conditions, including when capital gains revenues exceed a specified threshold, Proposition 98 Test 1 applies, and maintenance factor obligations have been retired. (California Constitution, Article XVI, Section 21)
- 4) Establishes the Local Control Funding Formula (LCFF), which allocates funding to school districts primarily based on average daily attendance (ADA) and student characteristics, including supplemental and concentration grants for districts serving higher proportions of low-income students, English learners, and foster youth. (Education Code (EC) § 42238.02)
- 5) Defines a “basic aid school district” or “excess tax entity” as a district whose local property tax revenues exceed its LCFF entitlement, resulting in no regular LCFF state aid apportionment. (EC § 42238.02)
- 6) Imposes annual state and local appropriations limits under Article XIII B of the California Constitution (commonly referred to as the Gann Limit), restricting growth in government spending based on population growth and inflation.

This constitutional amendment:

- 1) Establishes the ERA in the General Fund.
- 2) Requires the Controller, in any fiscal year in which Proposition 98 funding increases over the prior fiscal year, to transfer from the General Fund into the ERA an amount equal to the total amount transferred into the PSSSA for that fiscal year.
- 3) Requires the transfer calculation to include all reductions, suspensions, and adjustments applicable to the PSSSA.
- 4) Requires that if the constitutional provisions governing the PSSSA are amended after January 1, 2026, ERA transfers instead be calculated based on what the

PSSSA transfer would have been under the January 1, 2026 version of the Constitution.

- 5) Specifies that only interest earned on funds in the ERA may be appropriated.
- 6) Prohibits expenditure of principal deposited into the ERA.
- 7) Requires that appropriated interest earnings be used solely to increase per-pupil funding for non-basic aid school districts.
- 8) Requires the Legislature to allocate at least 80% of ERA interest earnings annually to increase per-pupil funding in non-basic aid school districts.
- 9) Defines “basic aid school district” as a district that did not receive LCFF state aid in any of the preceding three fiscal years.
- 10) Defines “non-basic aid school district” as a district that received LCFF state aid in any of the preceding three fiscal years.
- 11) 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.
- 12) Excludes ERA transfers and allocations from Proposition 98 minimum funding calculations.
- 13) Excludes ERA transfers and allocations from state appropriations subject to limitation under Article XIII B of the California Constitution (Gann Limit).

Comments

- 1) *Need for the bill.* According to the author, “SCA 5, the Education Equalization Act, is intended to help California move toward statewide equalization of per-pupil funding so that every student has a fair opportunity to succeed, thrive, and access the school resources they need. California has attempted to make progress toward school funding equity through the Local Control Funding Formula, but that progress remains incomplete, while students in different districts continue to experience growing differences in per-pupil support. Over the last 40-plus years, California’s school finance structure has allowed these per-pupil funding disparities to persist and grow, even as the state has adopted

reforms intended to make school funding more equitable. A student's access to opportunity should not depend on where they live.

“SCA 5 establishes the Equalization Reserve Account in the General Fund to provide supplemental funding to non-basic-aid school districts over time to narrow per-pupil funding gaps statewide. The measure does not reduce, redirect, or alter existing Proposition 98 funding. The goal is to build a constitutionally guaranteed, stable, and protected structure that helps bring California closer to equalized per-pupil funding while preserving existing school funding guarantees.”

- 2) *The LCFF represented a major advancement in educational equity, though funding disparities remain.* Before the enactment of the LCFF in 2013, California's education finance system relied heavily on revenue limits and numerous categorical programs that created substantial funding disparities among school districts while limiting local flexibility. The LCFF represented a significant restructuring of California school finance by simplifying funding streams, increasing transparency, and directing additional resources toward districts serving higher concentrations of low-income students, English learners, and foster youth.

Research on the LCFF has generally found positive impacts on student outcomes. Recent analyses by the Learning Policy Institute (LPI) found that LCFF-related increases in per-pupil spending improved student achievement, graduation rates, college readiness, and other educational outcomes, particularly for students exposed to increased funding over longer periods of time.

At the same time, discussions regarding how to improve California's school finance system remain ongoing. Recent policy conversations have focused largely on issues such as base grant adequacy, concentration grant targeting, and transitioning from attendance-based funding to enrollment-based funding. Comparatively little recent research has focused specifically on funding disparities between basic aid and non-basic aid districts, despite the significant local property tax variations that exist across California.

- 3) *SCA 5 would create a constitutionally protected education equalization endowment.* While this measure characterizes the ERA as a reserve account, its structure more closely resembles a constitutionally protected endowment. Unlike traditional reserve structures intended to be expended during fiscal downturns or emergencies, this measure permanently prohibits expenditure of

ERA principal. Only interest earned on the account may be appropriated, and only for equalization funding for non-basic aid districts.

As a result, the measure would continuously transfer General Fund dollars into an account whose principal balance could grow indefinitely over time. The Legislature would retain no authority to spend those deposited funds for any other purpose, absent another constitutional amendment approved by the voters.

The Committee may wish to consider the long-term fiscal implications of permanently dedicating potentially significant General Fund resources in this manner, particularly given the state's existing obligations and competing non-Proposition 98 priorities.

- 4) *The measure effectively creates a second PSSSA-style funding obligation outside Proposition 98.* This measure creates what is effectively a parallel education reserve structure outside the Proposition 98 guarantee. Under existing law, qualifying fiscal conditions trigger mandatory deposits into the PSSSA using Proposition 98 resources. Under this measure, those same conditions would simultaneously trigger matching deposits from the non-Proposition 98 side of the General Fund into the ERA.

As a result, during strong economic years, the state could be required to make two substantial education-related reserve deposits: one within Proposition 98 through the PSSSA and one outside Proposition 98 through the ERA.

This “double payment” structure could significantly increase pressure on the non-Proposition 98 side of the state budget, which funds numerous other major state responsibilities, including health and human services, higher education, developmental services, corrections, and climate-related programs.

- 5) *Immediate fiscal obligations may significantly exceed near-term equalization benefits.* Because only interest earnings may be appropriated, there may be a substantial mismatch between the state's immediate fiscal obligations and the amount of near-term equalization funding generated by the ERA.

For example, a multi-billion-dollar ERA balance could initially generate comparatively modest annual investment earnings relative to the size of the required General Fund deposits needed to capitalize the account. While the long-term compounding effect of investment growth could eventually generate substantial equalization funding, the measure requires the state to permanently

commit large sums of General Fund resources long before those long-term benefits fully materialize.

The Committee may wish to consider whether permanently locking away substantial General Fund resources is the most effective mechanism for addressing school funding disparities.

- 6) *The measure relies heavily on constitutional exemptions from both Proposition 98 and the Gann Limit.* The measure excludes ERA transfers and allocations from both: (1) Proposition 98 minimum funding calculations; and (2) the Gann Limit.

These exclusions are central to the operation of the proposal. Without them, ERA deposits could increase Proposition 98 obligations or consume appropriations limit capacity, potentially creating unintended fiscal consequences and undermining the measure's intended structure.

The breadth of these constitutional exemptions reflects both the complexity and fiscal scale of the proposal. The Committee may wish to consider the long-term implications of creating a constitutionally protected funding structure operating largely outside the state's traditional budgetary constraints.

- 7) *The author has taken steps to better account for marginal basic aid districts, though the proposal still paints basic aid districts with a broad brush.* SB 743 (Cortese, 2025), the companion measure to this constitutional amendment, was amended to better account for districts near the basic aid threshold by defining non-basic aid districts as districts that received LCFF state aid in any of the preceding three fiscal years. This change addresses concerns regarding “basic aid flippers”—districts that move in and out of basic aid status due to relatively small changes in enrollment or local property tax revenues.

According to 2023-24 state funding data, 139 school districts were classified as basic aid. Of these, 16 exceeded their LCFF entitlement by less than 5%, and 32 exceeded it by less than 10%, indicating that a meaningful number of districts are only marginally above the basic aid threshold. Conversely, 20 non-basic aid districts received less than 5% of their LCFF entitlement from the state, and 40 received less than 10%, indicating similarly narrow margins on the non-basic aid side.

At the same time, substantial variation exists among basic aid districts themselves. While some districts generate local property tax revenues only modestly above their LCFF entitlement, others receive per-pupil funding levels many times greater than what they would otherwise receive under the LCFF. Recent statewide funding data show basic aid districts ranging from roughly \$11,000 per pupil to nearly \$100,000 per pupil in total funding.

As a result, while the author's most recent amendments reflect a more nuanced approach than earlier versions of the proposal, the measure still generally categorizes districts using a binary basic aid/non-basic aid framework despite the wide fiscal variation that exists among basic aid districts. The Committee may wish to consider whether additional differentiation among basic aid districts may be warranted if the goal of the measure is to address funding inequities in a more targeted and proportional manner.

- 8) *Relationship between SCA 5, companion measure SB 743, and future implementing legislation.* This measure and SB 743 (Cortese, 2025) operate together as companion measures. SCA 5 establishes the constitutional authority for the ERA, including the required General Fund transfers, the exclusion of ERA funds from Proposition 98 and Gann Limit calculations, and the restriction that only interest earnings may be appropriated for equalization purposes. SB 743 establishes the initial statutory framework implementing the ERA and conditions its operation on voter approval of this measure.

Together, these measures establish the constitutional and statutory foundation for a new education equalization funding structure. However, substantial future legislation would still be required to determine how the ERA would function in practice. Significant unresolved issues include how equalization funding would be distributed among eligible districts, how per-pupil funding disparities would be measured, what percentage of annual interest earnings would be appropriated, and how the state would determine when funding disparities between basic aid and non-basic aid districts have sufficiently narrowed to justify suspending future ERA deposits.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT: (Verified 6/15/26)

Silicon Valley Education Foundation (source)
Association of California School Administrators
Bay Area Tutoring Association

California School Employees Association
DJM Capital
East Side Education Foundation
East Side Union High School District
Hispanic Foundation of Silicon Valley
Latino Education Advancement Foundation
Legislative Action Committee - Santa Clara County School Boards Association
Milpitas Unified School District
Santa Clara County School Boards Association
Silicon Valley Leadership Group
SOMOS Mayfair
Two Individuals

OPPOSITION: (Verified 6/15/26)

California Charter Schools Association
California Teachers Association
Charter Schools Development Center

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