

Date of Hearing: July 16, 2025

ASSEMBLY COMMITTEE ON EDUCATION
Al Muratsuchi, Chair
SB 743 (Cortese) – As Amended July 7, 2025

SENATE VOTE: 30-2

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

SUMMARY: Establishes the Equalization Reserve Account (ERA) in the General Fund to, upon appropriation, provide additional per-pupil funding for non-basic aid school districts, as defined. Requires funding for the ERA to be transferred from the General Fund in years when Proposition 98 increases from the prior year, subject to voter approval of an unspecified constitutional amendment. Specifically, **this bill**:

- 1) Establishes the ERA in the General Fund.
- 2) Requires interest earned on the funds in the ERA to be available, upon appropriation by the Legislature, for the support of non-basic aid school districts. Requires funds to be allocated from the account to increase per-pupil funding in non-basic aid school districts in a manner prescribed by the Legislature.
- 3) Requires, in any fiscal year in which there is an increase over the preceding fiscal year in the moneys to be applied by the state for support of the public school system and public institutions of higher education pursuant the California Constitution, the Controller to transfer from the General Fund to the ERA an amount equal to the total amount transferred pursuant to the Public School System Stabilization Account (PSSSA) for that fiscal year. Requires the calculation of this amount to include all reductions, suspensions, and other adjustments pursuant to the PSSSA, or the Governor's proclamation declaring a budget emergency, as specified.
- 4) Requires, if the PSSSA is amended after January 1, 2025, in any fiscal year in which there is an increase over the preceding fiscal year in the moneys to be applied by the state for support of the public school system and public institutions of higher education pursuant to the California Constitution, the Controller to, instead of the amount prescribed (4), transfer from the General Fund to the ERA an amount equal to the total amount that would have been transferred pursuant to the PSSSA for that fiscal year, had that section of the California Constitution not been amended. Requires the calculation of this amount to include all reductions, suspensions, and other adjustments pursuant to the PSSSA, or the Governor's proclamation declaring a budget emergency, as specified, as it read on January 1, 2025.
- 5) Requires interest earned on funds in the ERA to be deposited in the account.
- 6) Defines "non-basic aid school district" to mean a school district that, in any of the then preceding three fiscal years, received an apportionment of state funds pursuant to the Local Control Funding Formula (LCFF), as specified.

- 7) Requires these provisions to become operative only if a constitutional amendment, approved by the voters, includes both of the following conditions:
 - a) The exclusion of funds transferred to or allocated from the ERA from both of the following designations; and
 - i) “Moneys to be applied by the State for the support of school districts and community college districts,” as that phrase is used in Section 8 of Article XVI of the California Constitution; and
 - ii) “Total annual appropriations subject to limitation” of each entity of government, as that phrase is used in Article XIII B of the California Constitution.
 - b) A requirement that the Legislature allocate, in each fiscal year, a percentage of interest that has been deposited in the account to increase per-pupil funding in non-basic aid school districts.
- 8) States that it is the intent of the Legislature to establish a dedicated source of state funding to close the gaps in per-pupil spending among school districts without reducing the amount of state funding that any school district receives.
- 9) States that it is the intent of the Legislature that interest be allocated in a manner that allows the account balance to continue to grow.

EXISTING LAW:

- 1) Establishes proposition 98, approved by voters in 1988, constitutionally guarantees minimum annual funding for K-14 education, adjusted annually based on specific economic conditions. (California Constitution Article XVI)
- 2) Imposes a limit on annual appropriations through the California Constitution (known as the Gann Limit), which restricts the total spending of state and local governments to a specified amount, adjusted annually for population growth and inflation. (California Constitution Article XIII B)
- 3) Implements the LCFF, adopted in 2013, which allocates state education funding to school districts primarily based on average daily attendance (ADA) and student characteristics, including base grants and supplemental and concentration grants for districts serving higher percentages of low-income students, English learners, and foster youth. (Education Code, Division 2, Title 2, Part 24, Chapter 7, Article 2)
- 4) Specifies that a school district that does not receive an apportionment of state funds pursuant to the LCFF, excluding funds apportioned as minimum state aid, as defined, are considered a “basic aid school district” or “excess tax entity.” (EC 42238.02)
- 5) Creates the PSSSA through Proposition 2 (2014), a state-level reserve within the Proposition. (California Constitution Article XVI, Section 20)

FISCAL EFFECT: According to the Senate Appropriations Committee, the bill’s provisions would be contingent upon an appropriation and also require voter approval of a constitutional

amendment that excludes funds transferred to, or appropriated from, the ERA from the Proposition 98 calculation and the Gann Limit. A deposit into the new ERA would only occur in years in which the state receives significant capital gains revenues which is difficult to predict. Further, the deposits into the new account would be linked to the deposits into the PSSSA. However, based on the history of the PSSSA deposits since the 2019-20 fiscal year, this bill could result in General Fund costs that could be anywhere from zero (when the conditions required for a deposit are not triggered) to an amount in the low billions of dollars each year.

COMMENTS:

Need for the bill. 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.”

Key provisions of the bill. This bill would establish the ERA in the General Fund to, upon appropriation of the interest earned on the funds in the account, provide additional per-pupil funding for non-basic aid school districts, with the goal of equalizing funding between non-basic aid and basic aid school districts. Funding for this account would be transferred from the non-Proposition 98 side of the General Fund in years when Proposition 98 increases from the prior year, subject to voter approval of a future, unspecified constitutional amendment. ***The Committee may wish to consider*** that if fully enacted the ERA would be funded with non-Proposition 98 General Fund, a component of the state budget with multiple competing demands and priorities, including healthcare. As noted in the Senate Education analysis of this bill, matching deposits to both the PSSSA and the newly-created ERA could significantly limit General Fund flexibility, potentially restricting available funding for other critical state programs and services. The bill proposes to exempt the ERA from the state’s appropriation limit (Gann Limit) and from Proposition 98 calculations, which will require both careful constitutional consideration and implementation of the ERA in order to avoid triggering unintended budget constraints.

Background of California public school funding. Proposition 98, approved by voters in 1988, constitutionally guarantees minimum annual funding for K-14 education, adjusted annually based on specific economic conditions.

The California Constitution also imposes 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 2013, California significantly restructured school finance through the LCFF. The LCFF simplified the allocation of state funds to school districts based primarily on ADA and student needs, providing base grants and additional supplemental and concentration grants for districts

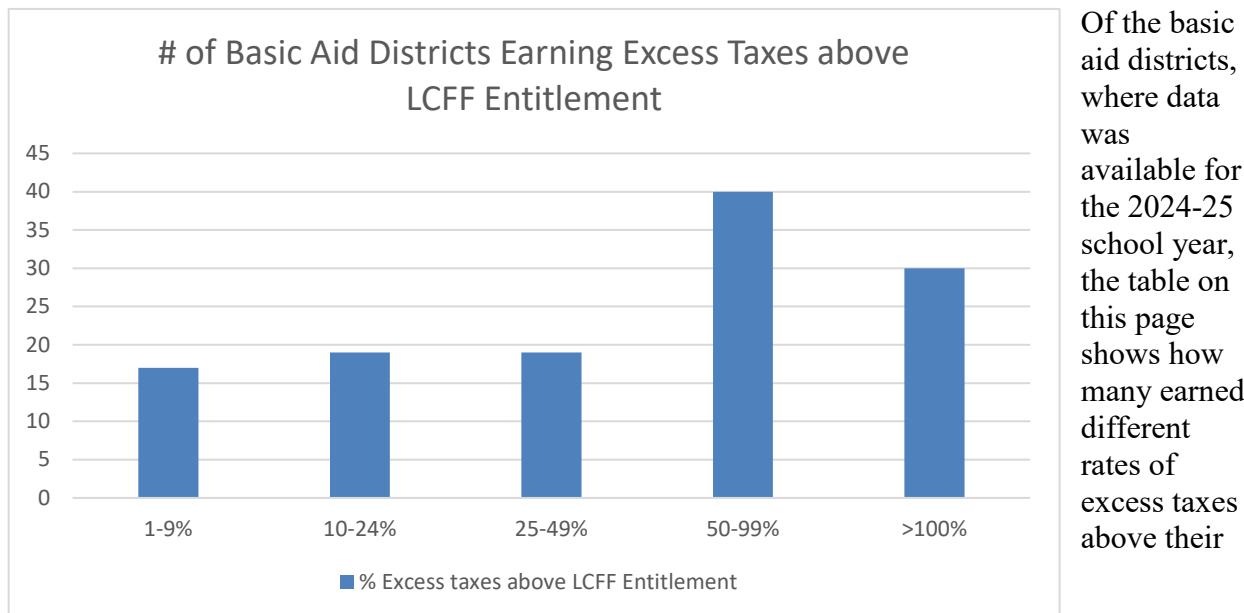
serving higher proportions of disadvantaged students (low-income, foster youth, and English learners).

In 2014, California voters approved Proposition 2, which created the PSSSA, a state-level reserve within Proposition 98 designed to mitigate volatility in school funding.

What is a basic aid school district? Basic aid districts generate more local property taxes than would be required to fully fund their LCFF allocation. According to the Legislative Analyst's Office (LAO) in 2024-25, there are approximately 157 basic aid districts serving a total ADA of 311,353, representing approximately 5-6% of the total statewide ADA.

Basic aid districts receive other state funds. Basic aid school districts receive other state funds to support the educational programs in their school district. The California Constitution requires the state to apportion at least \$120 per student for public education. For most districts, their LCFF appropriation far exceeds the Constitutional minimum. For a small number of districts, their LCFF entitlement is met entirely with local property tax funds. However, the state provides funds above this as a means of meeting the \$120 per student minimum, designated as Minimum State Aid to fund certain categorical programs, including the Expanded Learning Opportunity Program (ELOP), Proposition 28 funding for the arts, mandates block grant, transportation reimbursement, and the equity multiplier. The LAO estimates that in the 2024-25 school year, approximately \$450 million was allocated to basic aid districts for Minimum State Aid and these categorical programs. This figure does not include funding that basic aid districts receive from the state for special education or school nutrition programs.

Basic aid districts range in per-pupil funding from as low as \$11,000 to as high as \$99,000. **The Committee may wish to consider** that there is a wide variance of fiscal conditions in basic aid districts, however this bill treats all basic aid school districts the same. Some basic aid districts consistently generate local property tax revenues substantially exceeding their LCFF entitlements, while marginal basic aid districts ("basic aid flippers") exceed their state entitlements by only a slim margin and frequently alternate between basic and non-basic aid status. Of the 127 districts that were basic aid sometime between 2021-22 and 2023-24, 110 of those districts were basic aid in all three years. In other words, there were 17 flipper districts over the past three years.



LCFF entitlement.

Legislative Analyst Office (LAO), 2024-25 Data.

At least 30 of these districts are earning 100% or more above what they would be entitled to under the LCFF. This bill does not address the variance among basic aid districts, which may lead to unintended fiscal disparities for the basic aid flippers during the implementation of the ERA.

Inequities in funding between school districts. Before the LCFF was enacted in 2013, California's education finance system relied on revenue limits and categorical funding streams, resulting in significant funding disparities between districts. These categorical programs each had unique restrictions, complicating district budgeting and limiting local discretion. The LCFF represented a significant shift toward funding simplicity, transparency, equity, and local flexibility, consolidating many categorical programs and targeting additional resources explicitly toward specific student populations: low-income students, those eligible for Free or Reduced Price Meals (FRPM), English learners, and foster youth. These are categorized as unduplicated pupils (UPP).

As recent research has emphasized, the LCFF was a major step forward in educational equity, empowering districts to align funding decisions with local priorities and student needs. At the same time, it is widely recognized that the LCFF has limitations, and ongoing research and policy discussions continue to explore ways to strengthen the formula to better support all students.

The 2023 Learning Policy Institute (LPI) report, *School Funding Effectiveness: Evidence From California's Local Control Funding Formula*, stated that LCFF-induced increases in per-pupil spending have improved students' math and reading achievement, reduced the probability of grade repetition, increased the likelihood of high school graduation and college readiness, and decreased suspensions and expulsions. Improvements in student outcomes have been more pronounced for cohorts exposed to funding increases for more of their school-age years.

However, none of the recent major reports on LCFF have directly addressed funding disparities between basic aid and non-basic aid districts. In recent research, the absence of attention to this issue suggests that equity efforts under LCFF have primarily focused on system-wide structural reforms, rather than inter-district funding differences tied to local property tax variations.

Addressing fiscal volatility for funding K-12 education. Proposition 98 constitutionally guarantees minimum education funding, yet annual fiscal volatility remains challenging. To mitigate this volatility, Proposition 2 (2014) established the PSSSA, a reserve account designed to stabilize school funding. Deposits into the PSSSA are triggered only under specific fiscal conditions: notably, 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 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.

Given these narrow conditions, PSSSA deposits have been infrequent and unpredictable since eligibility began in 2019-20:

Fiscal year	PSSSA activity
2019-20	No deposit
2020-21	\$3.3 billion deposit
2021-22	\$4.8 billion deposit
2022-23	\$272 million deposit
2023-24	No deposit; withdrawal of \$8.4 billion
2024-25 (revised)	\$455 million deposit
2025-26 (enacted)	No deposit, withdrawal of \$455 million

This bill would utilize the PSSSA formula to determine the annual contribution amount into the ERA. The distinction is that while the PSSSA deposits use dollars generated by Proposition 98, the ERA deposits would be generated by non-Proposition 98 General Fund. The author made recent amendment to the bill that would require that interest earned on funds in the ERA be available, upon an appropriation, rather than funds from the principle. This variability underscores ongoing challenges with relying solely on the PSSSA to address fiscal volatility and stabilize funding for districts. ***The Committee may wish to consider*** that due to the variability of the PSSSA, the ERA may similarly become unpredictable and make multi-year planning challenging and uncertain for school districts.

Arguments in support. The Santa Clara County School Boards Association writes, “Our social and economic systems work best when ALL children are provided with excellent educators, a breadth of educational opportunities, enrichment in the science, technology, engineering, math, and career education, along with first class physical and mental health support. It is long past time for the richest state in the richest country in the world to maximize the opportunities for ALL students by providing schools with the funding we can already see provides outstanding opportunities for some. SB 743 is an excellent step in that direction and we hope to be an integral part of the effort.

SB 743 Education Equalization Endowment Act would ensure when Prop 98 minimum guarantee increases, a portion of those funds are allocated to non-basic-aid districts to help close the per-pupil spending gap. Importantly, this additional funding does not take money away from existing school budgets but supplements underfunded districts, helping to create more equitable educational opportunities. For these reasons, we are proud to co-sponsor SB 743 Education Equalization Endowment Act and respectfully ask for your AYE vote.”

Arguments in opposition. The California School Boards Association writes, “The bill would also require an amendment to Proposition 98 to exclude deposits to and transfers from this account from the calculation of the minimum funding guarantee. This would not only remove

Proposition 98's protections from the reserve, but also raises a larger question about the ability of the state to adopt mechanisms that fund schools contrary to the intent of Proposition 98, thereby weakening Proposition 98 overall.

A second issue is the consistency of the funding. Deposits into this new reserve would be commensurate with any deposit into the Public School System Stabilization Account. Unfortunately, the Public School System Stabilization Account is extremely volatile.

CSBA recognizes the disparities that can arise in per-pupil spending between basic aid and non-basic aid districts, and that those disparities can be especially stark when in close proximity to one another. We believe that the issue of equalization is one that the Legislature should address, but that it must be done in such a way that results in increased funding for Proposition 98, not in-lieu of Proposition 98. This would allow non-basic aid districts to meaningfully expand their offerings to more closely align with those of basic-aid districts by providing consistent, and guaranteed, funding.

A more sustainable solution would be to increase the LCFF base grant, which would provide both guaranteed and predictable funding to districts, with a commensurate increase in Proposition 98 funding.”

Related legislation. AB 477 (Muratsuchi) of the 2025-26 Session would establish LCFF funding target levels for the 2036-37 fiscal year for the purpose of increasing school site employee salaries.

AB 1204 (Alvarez) of the 2025-26 Session would require numerous changes to the calculation of the LCFF including, increasing the eligibility for the supplemental and concentration grants, adding “pupils experiencing homeless” as an unduplicated pupil, requiring some unduplicated pupils to be counted more than once for the purpose of calculation of the supplemental and concentration grants, requiring the annual LCFF statutory cost of living adjustments (COLA) to be at least 4%, requiring the California Department of Education (CDE) to establish regional COLAs, requiring the CDE to develop recommendations for adequacy adjustments to the grade span adjustments, and requiring the Superintendent of Public Instruction (SPI) to compute and provide an annual LCFF transition adjustment for each school district and charter school.

AB 938 (Muratsuchi), Chapter 345, Statutes of 2024, requires schools to report certificated and classified staff salaries annually; and requires the CDE to report the changes in school staff wages over time to the Legislature.

AB 1607 (Muratsuchi) of the 2021-22 Session would have, commencing with the 2022-23 school year, required any calculation of ADA for school districts, COE and charter schools to be based on the quotient of the sum of the ADA for the current fiscal year and each of the previous two fiscal years, divided by three. This bill was held in the Assembly Education Committee.

AB 1609 (Muratsuchi) of the 2021-22 Session would have required for the 2022-23 school year, the CDE to use the greater of the ADA from fiscal years 2019-20, 2020-21, 2021-22, or 2022-23 for purposes of apportionment under the LCFF for school districts, COEs, and charter schools. AB 1614 (Muratsuchi) of the 2021-22 Session would have increased the LCFF base grant amounts, as specified, commencing with the 2022-23 fiscal year. This bill was held in the Assembly Education Committee.

AB 1948 (Ting) of the 2021-22 Session would require, commencing with the 2022–23 fiscal year, numerous changes to the calculation of the LCFF. This bill was held in the Senate Education Committee.

AB 39 (Muratsuchi) of the 2019-20 Session would have increased the school district and charter school LCFF base grant funding targets, and would have created a new grant-add on. This bill was held on the Senate Floor.

REGISTERED SUPPORT / OPPOSITION:

Support

Advanced Consulting
Alum Rock Union Elementary School District
American Youth Association
Berryessa Union School District
DJM Capital Partners
Fair Funding CA
Franklin-McKinley School District
Hispanic Foundation of Silicon Valley
Latino Education Advancement Foundation
Legislative Action Committee - Santa Clara County School Boards Association
Milpitas Unified School District
Morgan Hill Unified School District
Mountain View Los Altos High School District
Oak Grove School District
Oak Grove Union Elementary School District
San Francisco State University
Silicon Valley Education Foundation
Silicon Valley Leadership Group
Somos Mayfair
Teach for America
Veggielution
28 individuals

Opposition

California Association of School Business Officials (CASBO)
California Charter Schools Association
California School Boards Association
1 individual

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