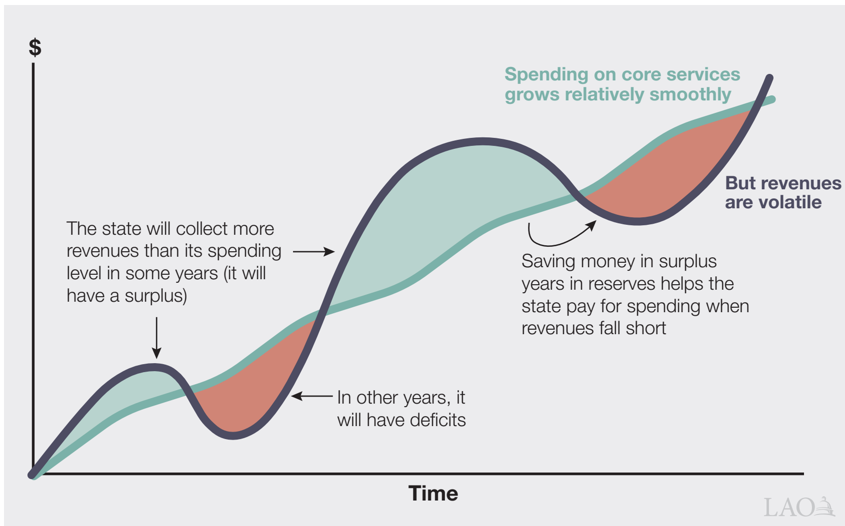
JUNE 24, 2026

Overview of ACA 20

PRESENTED TO: Senate Committee on Budget and Fiscal Review
Hon. John Laird, Chair

LEGISLATIVE ANALYST'S OFFICE

How Reserves Work

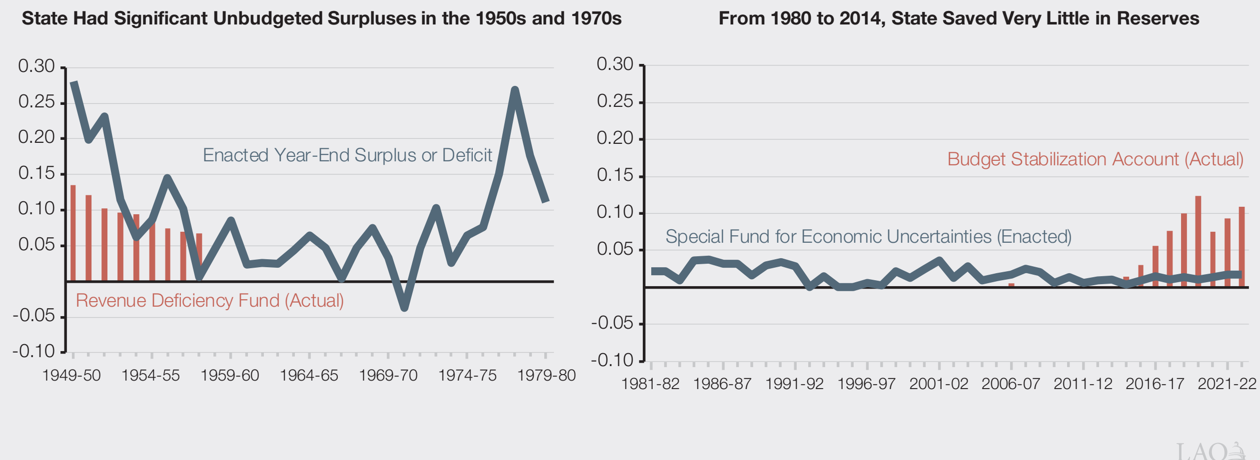


- ***Revenues Are Volatile.*** From year to year, revenues can grow very quickly or contract quickly.
- ***Core Spending Is Not.*** The ongoing growth in costs of the state's programs—the core spending level—is much steadier.
- ***Reserves Allow the State to Smooth the Difference.*** Reserves can be saved when revenues are surging and then spent when revenues decline below that long-term trajectory.

History of State Reserves

A History of California's Reserves

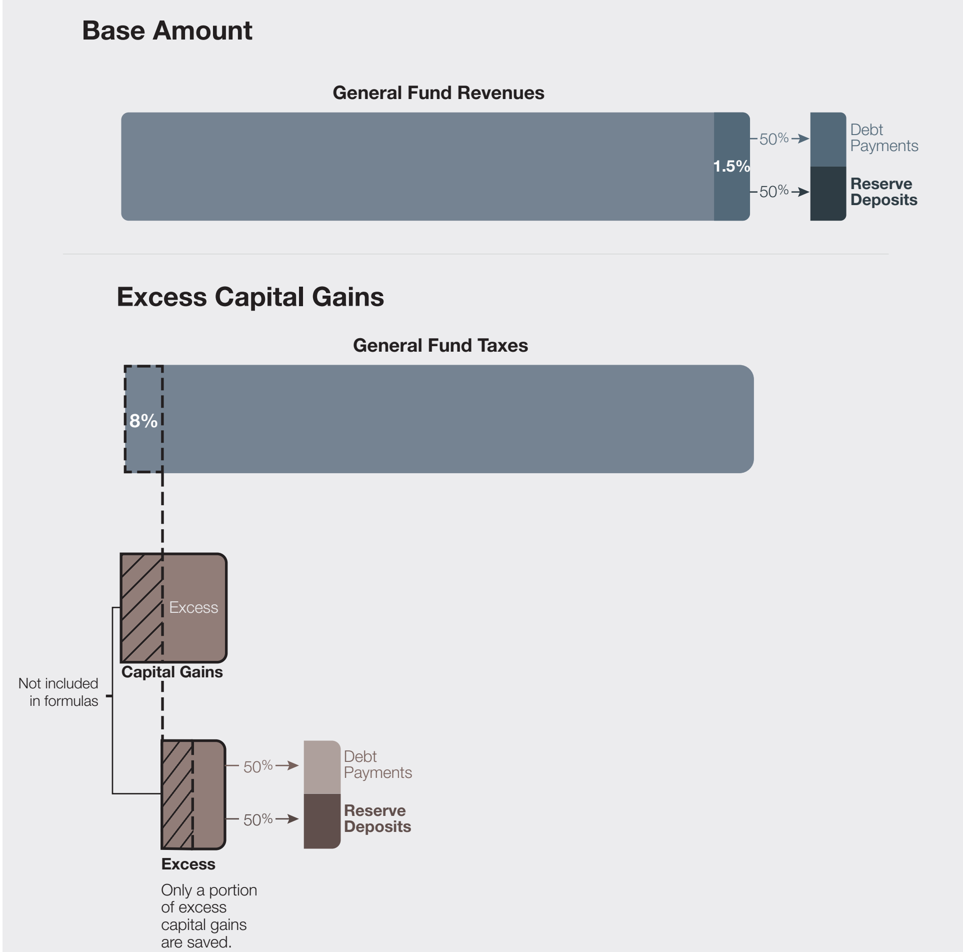
Balances as a Share of General Fund Revenues



- Before 1980, state reserves and surpluses varied widely.
- Proposition 4 (1979)—or the State Appropriations Limit—limited how much tax revenues the state and local governments can spend and encouraged governments to establish contingency or reserve funds.
- Proposition 2 (2014) established a set of formulas that determine how much in reserves the state must set aside each year in reserves.

How Proposition 2 Works

Proposition 2 Builds Reserves and Pays Down Extra Debts. Proposition 2 includes a set of formulas that dictate the amount the state must set aside in the Budget Stabilization Account (BSA) and the Public School System Stabilization Account, as well as how much in certain extra debt payments the state must make. The figure below shows how the BSA and debt amounts are calculated.



Note: For simplicity, this figure does not show the mechanics of true ups and downs.

Other Features of Proposition 2

Reserves

- ***Constitutional Deposits Are Made Into the BSA Until the Balance Reaches 10 Percent of General Fund Taxes.*** But discretionary deposits do not count toward this cap.
- ***Budget Emergency Required to Suspend Deposits or Make Withdrawals.*** Suspending deposits into the BSA or making a withdrawal from the BSA requires a majority vote of the Legislature, as well as a declaration of a budget emergency by the Governor. Proposition 2 specifies what constitutes a budget emergency.
- ***Deposits Into the BSA Are Included in the State Appropriations Limit.*** But withdrawals are excluded from the State Appropriations Limit.

Debt

- ***Extra Debt Payments Are Required Through 2030.*** After 2030, the Legislature could choose to continue making debt payments from the Proposition 2 calculation or deposit the entire amount in the BSA.
- ***Only Certain Types of Debt Are Eligible.*** Generally, the remaining eligible debts are for long-term pension and state retiree health liabilities.

ACA 20

More Reserves and Extra Debt Payments. Assembly Constitutional Amendment (ACA) 20 would amend the provisions of Proposition 2 to build more reserves and extend and expand extra debt payments.

Increases the Amount Set Aside When Excess Capital Gains Are Higher. When excess capital gains exceed 10 percent of General Fund taxes, 150 percent of that amount would be set aside for reserves and extra debt payments. (No changes would be made to excess capital gains above 8 percent, but below 10 percent of General Fund taxes.)

Reserves

- ***Requires Constitutional Deposits Into the BSA Until the Balance Reaches 20 Percent of General Fund Taxes.*** Discretionary deposits would continue not to count toward this cap.
- ***Changes State Appropriations Limit Treatment for Deposits and Withdrawals.*** Deposits into the BSA would be excluded from the State Appropriations Limit and withdrawals would be included.

Debt

- ***Extends Required Extra Debt Payments to 2040.***
- ***Expands Eligible Types of Debt.*** The state could use the Proposition 2 debt payments to pay current and future Proposition 98 (1988) settle up, budgetary borrowing, and the state's Unemployment Insurance loan from the federal government.

Other

- ***Changes State Appropriations Limit Treatment for Temporary Surplus Holding Account Deposits and Withdrawals.*** Deposits into the account would be excluded from the State Appropriations Limit and withdrawals would be included. The amount that could be excluded from the State Appropriations Limit could not exceed 10 percent of General Fund taxes.