

California Proposition 2, Rainy Day Budget Stabilization Fund Act (2014)

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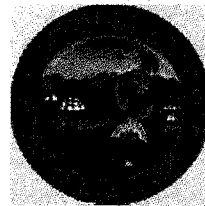
Constitution: [California Constitution](#)

Referred by: [California State Legislature](#)


Topic: [State budgets](#)


Status: *On the ballot*

2014 propositions



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[Proposition 41](#) 

[Proposition 42](#) 

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The **California Proposition 2**, the **Rainy Day Budget Stabilization Fund Act** (Assembly Constitutional Amendment 1), ballot proposition is on the November 4, 2014 statewide ballot in California as a legislatively-referred constitutional amendment. The measure was formerly known as **Proposition 44**.^[1]

The measure, upon voter approval, would alter the state's existing requirements for the Budget Stabilization Account (BSA), as established by Proposition 58. The BSA is a rainy day fund. ACA 1 would also establish a Public School System Stabilization Account (PSSSA).^{[2][3]}

If approved by voters, ACA 1 would:^{[2][3]}

- Require the director of finance to submit estimates of general fund revenues and expenditures for the ensuing fiscal year and the three fiscal years thereafter within ten days following the submission of proposed adjustments to the governor's budget.

- Require the controller to deposit annually into the BSA: (A) 1.5 percent of general fund revenues and (B) an amount equal to revenues derived from capital gains-related taxes in situations where such tax revenues are in excess of eight percent of general fund revenues. Deposits to the BSA would begin by no later than October 1, 2015. Deposits would be made until the BSA balance reaches an amount equal to 10 percent of general fund revenues.
- Require that from the 2015-2016 fiscal year until the 2029-2030 fiscal year, 50 percent of the revenues that would have otherwise been deposited into the BSA must be used to pay for fiscal obligations, such as budgetary loans and unfunded state-level pensions plans. Starting with the 2030-2031 fiscal year, up to 50 percent of revenues that would have otherwise been deposited into the BSA may be used to pay specified fiscal obligations.
- Permit the legislature to suspend or reduce deposits to the BSA and withdraw for appropriation from the BSA upon the governor declaring a budget emergency.
- Create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). The PSSSA would be funded by a transfer of capital gains-related tax revenues in excess of eight percent of general fund revenues. Funds would be appropriated from the PSSSA when state support for K-14 education exceeds the allocation of general fund revenues, allocated property taxes and other available resources.

Text of measure

See also: Ballot titles, summaries and fiscal statements for California's 2014 ballot propositions

Ballot title:

State Budget. Budget Stabilization Account. Legislative Constitutional Amendment.

Official summary:

"Requires annual transfer of state general fund revenues to budget stabilization account. Requires half the revenues be used to repay state debts. Limits use of remaining funds to emergencies or budget deficits."

Fiscal impact statement:

(Note: The fiscal impact statement for a California ballot initiative authorized for circulation is jointly prepared by the state's Legislative Analyst and its Director of Finance.)

"Long-term state savings from faster payment of existing debts. Different levels of state budget reserves, depending on economy and decisions by elected officials. Smaller local reserves for some school districts."

Constitutional changes

See also: [Article IV and Article XVI of the California Constitution](#)

ACA 1 would amend [Section 12.5 of Article IV](#) and [Sections 20-22 of Article XVI](#) of the [California Constitution](#).^[2]

[The amendment's full text can be read here.](#)

Background

History

The amendment was originally slated for the [June 5, 2012 ballot](#). However, [Senate Bill 202](#), which was enacted on October 7, 2011, moved the amendment to the 2014 ballot.^[4]

On [April 16, 2014](#), [Gov. Jerry Brown](#) (D) called on a special session of the [California Legislature](#) to replace the ballot measure with a different one that also creates a rainy day fund.^[5] This replacement became known as ACA 1, was approved by the legislature and ultimately replaced the old measure on [May 16, 2014](#).

Reserves

As of June 2014, California has two principle general fund reserve accounts:^[3]

- **Special Fund for Economic Uncertainties (SFEU):** The [California Constitution](#), specifically [Section 5.5 of Article XIII B](#), requires a "prudent" reserve fund in an amount determined as "reasonable and necessary" by the legislature. This general fund reserve has become known as the Special Fund for Economic Uncertainties.
- **Budget Stabilization Account (BSA):** [Proposition 58](#), passed in 2004, established a Budget Stabilization Account. Proposition 58 requires that three percent of estimated general fund revenues be transferred into the BSA. Transfers are required until the stabilization account reaches eight billion dollars or five percent of general fund revenues, whichever is greater. When Economic Recovery Bonds are outstanding, fifty percent of the annual transfers to the stabilization account are to be used for paying off the bonds. Transfers from the BSA to the General Fund may occur with a majority vote of the legislature and approval of the governor. Also, an executive order can suspend or

reduce transfers to the BSA. California deposited funds into the BSA in 2006-7 and 2007-8, but hasn't since. The BSA currently has a zero balance.

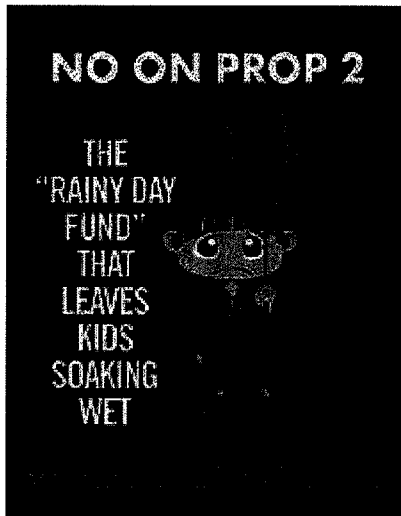
ACA 1 would also create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). The PSSA would be funded by a transfer of capital gains-related tax revenues in excess of eight percent of general fund revenues. Funds would be appropriated from the PSSSA when state support for K-14 education exceeds the allocation of general fund revenues, allocated property taxes and other available resources.

Support

Supporters

- [California Democratic Party](#)^[6]

Opposition



2 Bad For Kids, a project of Educate Our State, is currently the only registered campaign committee against Proposition 2.^[7]

Opponents

- [Ellen Brown](#) (G), 2014 candidate for [California Treasurer](#)
- Educate Our State^[8]

Arguments

2 Bad For Kids, a campaign against the initiative, developed a list of arguments on their webpage. They said, "If you care about fiscal responsibility, kids and public education, vote NO ON PROP 2." The following is a selection of their arguments:

“ **Why has Educate Our State come out in opposition to Proposition 2?**

We could not escape from the fact that Proposition 2 and its connected statutory triggers were both unfair and fiscally irresponsible towards schools. When we realized no one in the political fray was willing to take on the Governor, who is backing Proposition 2, since he has a reputation for fiscal austerity and seems pretty sure to be reelected, we realized it was the job of parent volunteers to take the lead. Unlike politicians, lobbyists, and other special interests, we have nothing to lose.

This is a perfect example of why children always come last in Sacramento (lest we forget, we are 51st by a LARGE margin in student-teacher, student-counselor AND student-librarian ratios, not to mention at or near the bottom in the nation in per pupil funding - yes even AFTER Proposition 30). Children have no lobby, and no money. And they cannot vote. They need us to be our voice. Do you want to give children a voice? Vote NO on Prop 2, for starters.

Why does Educate Our State say Proposition 2 is unfair and fiscally irresponsible?

Proposition 2 breeches the minimum guarantee Californians made to our schoolchildren – a guarantee that the Governor and the Legislature assured schools would protect them. Remember, the state diverts BILLIONS of local school property taxes that are allocated to public education each year -- \$8.4 billion this year alone -- to pay its debts.

Now the State is saying it won't necessarily replace those funds. That's unfair. As if that were not already devastating to schools, the Legislature decided to require local school districts to spend all but three weeks of their savings the minute the state saves a nickel. **It did this without public comment or LAO analysis.** We see this as unfair to schools and schoolchildren and extraordinarily fiscally irresponsible.

Why should I care about this?

Over 100 years ago, California voters said that our first priority would be funding public education (California Constitution Article XIV Section 8).

Over 25 years ago, California voters said that we would spend at least the proportion

”

of state revenues on schools and community colleges that we had in 1986-87, roughly 40% (Proposition 98).

We have never seen a poll (or heard a politician) say that education is a low priority for Californians – and yet the state is trying now, having cut schools' share of local property taxes down to 33%, to cut public education's share of State's income taxes below 40%!

Time and time again we see money taken FROM schools, while pretending to be helping schools. Why? In part, we believe, because children cannot vote and they do not have expensive lobbyists representing their interests. Sacramento has a lot more to gain with rhetoric than results for public education.

Put kids first. Vote NO on Prop 2. Show Sacramento you don't buy the rhetoric. We are at the bottom of the nation in public education - what's the excuse? ^[9]

—2 Bad For Kids, ^[10]

Ellen Brown (G) of the Public Banking Institute called the amendment a "catastrophic bust" and argued for a state-owned bank in lieu of the proposed fund. She argued the following: ^[11]

- "But a rainy day fund takes money off the table, setting aside funds we need now to reverse the damage done by Wall Street's last collapse. The brutal cuts of 2008 and 2009 shrank the middle class and gave California the highest poverty rate in the country."
- "Having a state-owned bank can substitute for a rainy day fund. Banks don't need rainy day funds, because they have cheap credit lines with other banks. Today those credit lines are at the extremely low Fed funds rate of 0.25%. A state with its own bank can take advantage of this nearly-interest-free credit line not only for emergencies but to cut its long-term financing costs in half."
- "Rather than setting aside our hard-earned surplus to pay the piper on demand, we could be using it to create the credit necessary to establish our own economic independence. California is the ninth largest economy in the world, and the world looks to us for creative leadership. "As goes California, so goes the nation." We can lead the states down the path of debt peonage, or we can be a model for establishing state economic sovereignty."

Media editorial positions

See also: *Endorsements of California ballot measures, 2014*

Support

- ***San Jose Mercury News***: "Proposition 44 would impose desperately needed fiscal discipline on lawmakers, and that deserves voter support."¹²¹