

CALIFORNIA DECIDES

PROPOSITION LAB

Proposition 2

PROP 2: INCREASES STATE'S RAINY DAY FUND

Quick Facts

- **Official ballot title:** "Increases State's Rainy Day Fund." (Assembly Constitutional Amendment 20, Resolution Chapter 130, Statutes of 2026). The measure's own name is the "Save for California's Future Act."¹
- **Type:** Legislatively referred constitutional amendment (a two-thirds vote of each house placed it on the ballot). It will pass with a simple majority.
- **A vote YES means:** California would double the maximum size of its rainy-day fund from 10 percent to 20 percent of general fund tax revenues. It would also capture more money in years when capital-gains revenue spikes, extend mandatory extra debt payments through the 2039–40 fiscal year, and count rainy-day deposits against the Gann limit on state spending in the year the money is withdrawn and spent.²
- **A vote NO means:** The current rainy-day fund rules stay in place. The reserve remains capped at 10 percent of general fund tax revenues, and the requirement to split certain deposits between savings and extra debt payments expires after the 2029–30 fiscal year.³
- **Sponsor/proponent:** Legislative Democrats and Governor Gavin Newsome. Lead authors are Assemblymembers Jesse Gabriel and Avelino Valencia and Senators Melissa Hurtado and John Laird, with support from Assembly Speaker Robert Rivas and the governor's administration.⁴
- **On the ballot because:** The Legislature passed ACA 20 by the required two-thirds margin on June 25, 2026. The Senate vote was twenty-nine to two and the Assembly fifty-nine to eight.⁵
- **Full legal text:** [Assembly Constitutional Amendment 20 \(2025–2026\)](#), [California Legislative Information](#)
- **LAO analysis:** [Proposition 2 \(2026\)](#), [Legislative Analyst's Office](#)

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1. WHAT WOULD IT DO?

Proposition 2 would enlarge California's constitutional savings account, the Budget Stabilization Account, better known as the rainy-day fund. That fund already exists. Voters created its current form in 2014, and it is fed by automatic deposits each year. Proposition 2 does not create a new fund. It changes rules that govern how big the fund can grow, how fast it fills during good years, and how long the state keeps paying down old debts alongside it.⁶ Notably it also changes how deposits are treated under the Gann limit on state spending.

The headline change is the deposit cap. Today the state must keep making deposits until the rainy-day fund reaches 10 percent of general fund tax revenues. Once it hits that ceiling, extra money that would have gone into savings is instead spent on infrastructure. Proposition 2 raises the ceiling to 20 percent, so the state can keep saving until the fund is roughly twice as large as it can be under current law.⁷

The second change targets boom years. California leans heavily on personal income taxes tied to capital gains, which rise and fall with the stock market. Current law captures capital-gains revenue above 8 percent of general fund tax revenues and steers it into savings and debt paydown. Proposition 2 keeps that trigger and adds a steeper tier on top of it. For the slice of capital-gains revenue above 10 percent of general fund tax revenues, the state would set aside 150 percent of that amount, pulling even more out of the biggest windfalls.⁸

The third change is timing. Under a rule that began in 2015, half of these deposits go into the reserve and the other half pays down long-term debts such as pension and retiree-health obligations. That split is set to expire after the 2029–30 fiscal year. Proposition 2 extends it through the 2039–40 fiscal year. The eligible debts would include current and future school-funding settle-up payments owed under Proposition 98, money the general fund borrows from the state's own special funds, and the state's federal unemployment insurance loan, which stands at roughly \$20 billion. The last two changes are new. Starting in 2027–28, deposits into the rainy-day fund would count against the state appropriations limit, known as the Gann limit, only when the money is withdrawn. Today they count when deposited.⁹

2. THE LEGAL LANGUAGE

- **Full text:** [Assembly Constitutional Amendment 20, "Save for California's Future Act," Resolution Chapter 130, Statutes of 2026, California Legislative Information](#)

- Key language:

"[T]he amount of a transfer to the Budget Stabilization Account ... for any fiscal year shall not exceed an amount that would result in a balance in the account that, when the transfer is made, exceeds 20 percent of the amount of General Fund proceeds of taxes for the fiscal year."¹⁰ The paragraphs cited are the required transfers, so voluntary deposits fall outside the cap.

On the steeper capture of capital-gains spikes, the amendment directs the state to set aside the sum of "the portion of the estimate ... that is in excess of 8 percent, but not in excess of 10 percent" plus "150 percent of the portion of the estimate ... in excess of 10 percent" of general fund proceeds of taxes.¹¹

On the Gann limit, the amendment provides that starting in the 2027–28 fiscal year, "transfers to the Budget Stabilization Account shall not constitute 'appropriations subject to limitation' for purposes of Article XIII B." Money withdrawn later counts "in the fiscal year in which [it is] withdrawn."

- **What it amends:** Amends Sections 20 and 22 of Article XVI of the California Constitution, the article that governs state finance and the rainy-day fund. Because it is a constitutional amendment, the legislature cannot repeal or alter it without returning to the voters.¹²

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3. WHO, WHAT, WHERE, WHEN, WHY?

- **Who?** Authored by Assemblymembers Jesse Gabriel and Avelino Valencia and Senators Melissa Hurtado and John Laird, all Democrats, and championed by Assembly Speaker Robert Rivas with backing from the governor's administration. It passed the legislature on largely party lines, with only two recorded Senate no votes.¹³
- **What?** Raises the rainy-day deposit cap from 10 percent to 20 percent of general fund tax revenues, captures 150 percent of the largest capital-gains spikes, extends the required extra debt payments from 2029–30 through 2039–40, and counts rainy-day deposits against the Gann limit only when the money is withdrawn.¹⁴
- **Where?** Statewide, written into Article XVI of the California Constitution.
- **When?** On the November 3, 2026, ballot. If passed, the new deposit and Gann limit rules would apply starting in the 2027–28 fiscal year and the extended debt-paydown split would run through 2039–40.¹⁵
- **Why?** Proponents point to California's volatile, top-heavy revenue base and the recurring deficits that follow every downturn. Their stated goal is to save more in good years so the state can protect schools, healthcare, and public safety without deep cuts or new taxes when revenues fall.¹⁶ The argument against calls the larger fund a "slush fund" and argues that moving deposits outside the Gann limit makes the taxpayer rebates it requires less likely.

4. TRADE-OFFS

California's revenue system is genuinely volatile, and that volatility is not a matter of opinion. The state relies heavily on personal income taxes from its highest earners, whose incomes rise and fall sharply with capital gains and the stock market. That design produces windfalls in boom years and sudden shortfalls in downturns. Reserves built under the 2014 rainy-day fund measurably softened the blow in the 2020 pandemic recession, and they were drawn down again as the state faced multibillion-dollar deficits in the years since, including an estimated \$18 billion gap heading into 2026–27. A bigger fund that fills faster in boom years is a direct answer to a real and repeated problem.

But saving is not free. Every dollar the constitution steers into the reserve or toward extra debt payments is a dollar not available this year for schools, healthcare, child care, or tax relief. Raising the ceiling from 10 to 20 percent and capturing 150 percent of the biggest capital-gains spikes means more revenue is locked away by formula rather than appropriated through the annual budget.

Opponents object because of its effects on the Gann limit. Under the Gann limit, adopted by voters in 1979, revenue above the limit over two years must be split between taxpayer rebates and schools. Rainy-day deposits count as spending under the Gann limit today. Proposition 2 would stop counting them until they are withdrawn, which gives the state more room under the Gann limit in boom years and makes rebates less likely. The state had \$27 billion of room under the Gann limit in 2026–27, so the change matters most in years when revenue surges past it.¹⁷

Two further points deserve consideration. First, a larger cap does not guarantee the money will be there when a recession hits, because the constitution still lets the governor declare a budget emergency and the legislature can suspend or draw down deposits. A bigger fund raises the ceiling on saving, but it does not force the state to keep the money saved. Second, the most concrete and least disputed piece of the measure is the debt-paydown extension. Pension liabilities, retiree health obligations, and federal unemployment-insurance loans are real debts that accrue interest, and paying them down earlier has a measurable, defensible payoff regardless of where one lands on the reserve question.¹⁸ The reserve expansion is the contested part. The debt paydown is the part most budget analysts across the spectrum tend to endorse.

5. POTENTIAL RISKS AND BENEFITS

Potential benefits

- A larger reserve gives the state a bigger cushion against California's well-documented revenue swings, reducing the depth of cuts or the pressure for new taxes in a downturn.¹⁹
- Setting aside 150 percent of the largest capital-gains spikes targets the volatile money that has historically tempted the state into spending commitments it cannot sustain.²⁰
- Counting deposits against the Gann limit only when they are withdrawn removes a penalty on saving. Under current rules, a deposit uses up room under the Gann limit the same way spending does.
- The Legislative Analyst concludes reserves would be higher and that balancing the budget would be "somewhat easier when revenues decline."²¹

Potential risks

- Money constitutionally directed into savings and debt is money not available now for schools, healthcare, and other services, a real opportunity cost in years when the budget is tight.²²
- A higher cap does not lock the money in place. A governor-declared budget emergency still lets the legislature suspend deposits or draw the fund down, so the reserve may not be there when it is needed.²³
- Formula-driven set-asides reduce the legislature's year-to-year budget flexibility, shifting more spending decisions from elected officials to a constitutional formula.
- Excluding deposits from the Gann limit makes its taxpayer rebates less likely in boom years. Withdrawals count when spent, but a surge can sit in reserves past the two-year window that triggers rebates.
- The measure does not address the underlying structural imbalance between ongoing commitments and volatile revenues, so it manages the symptoms of volatility rather than the cause.²⁴

6. OPEN QUESTIONS

- How much larger would the reserve actually grow, and how many years of boom revenue would it take to approach the new 20 percent deposit cap?
- In an average recession, would a doubled cap meaningfully change how deep the state's cuts have to be, or would the emergency-suspension rules blunt the benefit?
- What current programs or tax choices would be crowded out in the near term by steering more revenue into savings and debt paydown?
- How much of the extended debt payment would go to new paydown, and how much to settle-up payments and internal loans the state already owes?
- In a year when revenue surges past the Gann limit, how much would the state move into the rainy-day fund and holding account, and how much smaller would taxpayer rebates be as a result?
- How would the higher reserve interact with the Proposition 98 school-funding guarantee and the state's constitutional spending limit in high-revenue years?

7. THE QUESTIONS TO ASK BEFORE YOU VOTE

California saves money in good years so it does not have to gut services in bad ones. Proposition 2 would roughly double how much the state can save and pull more from the biggest windfalls. Before you vote, ask whether a bigger locked-away reserve is worth the dollars it takes off the table for schools, healthcare, and other needs today.

A rainy-day fund only helps if the money is still there when the rain comes. This measure raises the ceiling on saving, but the state can still declare an emergency and spend down the fund. Does Proposition 2 build lasting discipline, or does it mostly raise a limit the legislature can waive when it wants to?

ENDNOTES

¹ Legislative Analyst's Office, analysis of Proposition 2 (2026): <https://lao.ca.gov/BallotAnalysis/Proposition?number=2&year=2026>.

² Full text, Assembly Constitutional Amendment 20, "Save for California's Future Act" (Resolution Chapter 130, Statutes of 2026), California Legislative Information: https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=202520260ACA20; LAO, analysis of Proposition 2.

³ Full text, Assembly Constitutional Amendment 20; Scott Graves and Kayla Kitson, "California's Rainy Day Fund and Other Budget Reserves Overview," California Budget & Policy Center, April 2026: <https://calbudgetcenter.org/resources/californias-rainy-day-fund-and-other-budget-reserves-overview/>.

⁴ California Secretary of State, "Assigns Numbers"; Office of the Speaker of the Assembly, "Legislative Democrats Empower California Voters to Strengthen Rainy Day Fund, Deliver Constitutional Amendment to Increase Reserves and Protect Future Generations," press release, June 25, 2026: <https://speaker.asmdc.org/press-releases/20260625-legislative-democrats-empower-california-voters-strengthen-rainy-day-fund>.

⁵ Full text, Assembly Constitutional Amendment 20.

⁶ Full text, Assembly Constitutional Amendment 20; Graves and Kitson, "California's Rainy Day Fund."

⁷ Full text, Assembly Constitutional Amendment 20; LAO, analysis of Proposition 2; Graves and Kitson, "California's Rainy Day Fund."

⁸ Full text, Assembly Constitutional Amendment 20.

⁹ Full text, Assembly Constitutional Amendment 20; Graves and Kitson, "California's Rainy Day Fund."

¹⁰ Full text, Assembly Constitutional Amendment 20.

¹¹ Full text, Assembly Constitutional Amendment 20.

¹² Full text, Assembly Constitutional Amendment 20.

¹³ Full text, Assembly Constitutional Amendment 20; California Secretary of State, "Assigns Numbers"; Office of the Speaker, "Legislative Democrats."

¹⁴ Full text, Assembly Constitutional Amendment 20; LAO, analysis of Proposition 2.

¹⁵ Full text, Assembly Constitutional Amendment 20.

¹⁶ California Secretary of State, "Assigns Numbers"; Office of the Speaker, "Legislative Democrats."

¹⁷ Full text, Assembly Constitutional Amendment 20; Graves and Kitson, "California's Rainy Day Fund."

¹⁸ Full text, Assembly Constitutional Amendment 20; Graves and Kitson, "California's Rainy Day Fund."

¹⁹ LAO, analysis of Proposition 2; Graves and Kitson, "California's Rainy Day Fund."

²⁰ Full text, Assembly Constitutional Amendment 20.

²¹ Full text, Assembly Constitutional Amendment 20.

²² Graves and Kitson, "California's Rainy Day Fund."

²³ Graves and Kitson, "California's Rainy Day Fund."

²⁴ LAO, "California's Fiscal Outlook."