

CALIFORNIA PROP 02

Strengthens State Rainy Day Fund

Purpose

Proposition 2 is a constitutional amendment, placed on the ballot by the legislature, that would strengthen California's rainy day fund by increasing the cap on how much money the state can set aside each year. The measure also would make it easier for the state to use tax revenues to pay down debt.¹

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Background

The Budget Stabilization Account (BSA), also known as the rainy day fund, is California's largest state budget reserve. The state uses this fund to save money when revenues are strong and to reduce cuts to public services when revenues are weak. This fund is especially important in California because the state's revenues depend heavily on taxes on the incomes of high-income residents, which can vary greatly from year to year, thus creating "boom and bust" budget cycles.²

The state automatically sets aside 1.5% of General Fund revenues each year. It also sets aside "excess" capital gains revenues in years when they exceed 8% of General Fund tax revenues. Generally, the state deposits 50% of these set-aside revenues into the rainy day fund and uses the other 50% to pay down certain types of state debt. Currently, the state can use these excess revenues to pay down only pension and retiree health debt, and cannot make extra payments on other forms of debt such as unemployment insurance debt and certain education and Medi-Cal obligations. This requirement is set to end in 2030, after which some or all of that money may be put into the rainy day fund.³

Under current law, the rainy day fund is capped at 10% of estimated General Fund tax revenues. When this limit is reached, any dollars that would otherwise go into the rainy day fund must be spent on infrastructure.⁴ California also has a constitutional spending cap, commonly known as the Gann Limit, which was passed by the voters as Proposition 4 in 1979 and which capped spending at 1978-79 levels, adjusted each year for inflation and population growth.⁵ Most spending counts toward this limit, including money deposited into reserves. Withdrawals from state reserves during budget emergencies do not count against the Gann Limit, but when state revenues are high, the spending cap can limit California's ability to build its reserves.

The rainy day fund can be tapped only during a budget emergency. The governor must formally declare an emergency before deposits can be reduced or suspended or money can be withdrawn. The declaration can come late in the fiscal year, sometimes after the legislature's deadline to pass a budget. This can leave lawmakers passing a budget that assumes an emergency before one is officially declared.⁶

In the state legislature the vote to place this measure on the ballot was 59-8 in the Assembly and 29-2 in the Senate.⁷

Proposal

If approved, Proposition 2 would:⁸

- Double the BSA cap from 10% to 20% of estimated General Fund tax revenues.
- Set aside more General Fund revenues during "boom" years.
- Expand the types of state debt that may be paid down with set-aside revenues.
- Extend the debt-paydown requirement by 10 years, to 2039-40.
- Change how rainy day fund and other deposits count toward the Gann Limit.
- Create a simpler process for declaring a budget emergency.

Fiscal Impact

The LAO estimates that Proposition 2 would increase the state's budget reserves. Having more money in the BSA would make it easier for the state to balance its budget during downturns. The measure could also cause the state to pay down debt more aggressively.⁹

SUPPORT FOR PROPOSITION 2

Supporters of Proposition 2 Include:¹⁰

- California Democratic Party
- Governor Gavin Newsom
- Attorney General Xavier Becerra
- LA Chamber of Commerce
- League of Women Voters of California

Arguments for Proposition 2

Supporters argue Proposition 2 would:

- Help prevent “boom-and-bust” budget cycles that cause fiscal instability.¹¹
- Help the state protect vital services and avoid deeper cuts during downturns.¹²
- Prevent politicians from overspending during “boom” years.¹³
- Pay down debt faster.¹⁴

OPPOSITION TO PROPOSITION 2

Opponents of Proposition 2 Include:¹⁵

- California Republican Party
- Reform California
- California Chamber of Commerce

Arguments Against Proposition 2

Opponents argue Proposition 2 would:

- Make taxpayer rebates less likely.¹⁶
- Reduce “spillover” funding for infrastructure.¹⁷
- Reduce availability of revenues to support urgent spending needs.¹⁸
- Allow rainy day set-asides to repay unemployment insurance debt, thereby shifting costs from businesses to the state without fixing the underlying UI system.¹⁹

A YES VOTE ON PROPOSITION 2

A YES vote on Proposition 2 would change the rules for building state budget reserves and paying down debt, resulting in larger reserves and expanding the types of state debt that could be repaid with General Fund revenues.

A NO VOTE ON PROPOSITION 2

A NO vote would preserve current rules for state budget reserves and debt payments.

Endnotes

- 1 The text of the proposed constitutional amendment is at California Secretary of State, *Official Voter Information Guide*, General Election, November 3, 2026, pp. 106-109, <https://vig.cdn.sos.ca.gov/2026/general/pdf/complete-vig.pdf>.
- 2 California Legislative Analyst's Office (LAO), "Building Reserves to Prepare for a Recession," March 7, 2018, <https://lao.ca.gov/Publications/Report/3769>
- 3 California Budget & Policy Center, "Should Voters Approve Proposition 2? How California's Rainy Day Fund Would Be Updated," accessed August 17, 2026, <https://calbudgetcenter.org/resources/should-voters-approve-proposition-2-how-californias-rainy-day-fund-would-be-updated/>.
- 4 California Budget & Policy Center, "California's Rainy Day Fund and Other Budget Reserves: An Overview," accessed August 17, 2026, <https://calbudgetcenter.org/resources/californias-rainy-day-fund-and-other-budget-reserves-overview/>.
- 5 California Budget & Policy Center, "Q&A: Why Hitting the Gann Limit Threatens Ongoing Investments in Californians," accessed August 17, 2026, <https://calbudgetcenter.org/resources/qa-why-hitting-gann-limit-threatens-ongoing-investments-in-californians/>.
- 6 California Budget & Policy Center, "Should Voters Approve Proposition 2?"
- 7 California Legislature, "ACA-20 Save for California's Future Act. (2025–2026): Bill Votes," California Legislative Information, June 25, 2026, https://leginfo.ca.gov/faces/billVotesClient.xhtml?bill_id=202520260ACA20.
- 8 California Budget & Policy Center, "Should Voters Approve Proposition 2?"
- 9 California Legislative Analyst's Office (LAO), Propositions on the November 3, 2026 Ballot, "Proposition 2," accessed August 17, 2026, <https://lao.ca.gov/BallotAnalysis/Proposition?number=2&year=2026>.
- 10 CA Secretary of State, *Official Voter Information Guide*, p. 5.
- 11 CA Secretary of State, *Official Voter Information Guide*, p. 25.
- 12 Ballotpedia, "California Proposition 2, Budget Stabilization Account Cap Increase and Gann Limit Changes Amendment (2026)," accessed September 2, 2026, [https://ballotpedia.org/California_Proposition_2_Budget_Stabilization_Account_Cap_Increase_and_Gann_Limit_Changes_Amendment_\(2026\)](https://ballotpedia.org/California_Proposition_2_Budget_Stabilization_Account_Cap_Increase_and_Gann_Limit_Changes_Amendment_(2026)).
- 13 CA Secretary of State, *Official Voter Information Guide*, p. 5.
- 14 California Budget & Policy Center, "Should Voters Approve Proposition 2?"
- 15 CalMatters, "Proposition 2: Rainy Day Fund," CalMatters, accessed August 21, 2026, <https://calmatters.org/california-voter-guide-2026/proposition-2-rainy-day-fund/>.
- 16 CA Secretary of State, *Official Voter Information Guide*, p. 5.
- 17 California Budget & Policy Center, "Should Voters Approve Proposition 2?"
- 18 California Budget & Policy Center, "Should Voters Approve Proposition 2?"
- 19 California Budget & Policy Center, "Should Voters Approve Proposition 2?"

