



DATE: May 7, 2020

TO: SELF

RE: *SSC's Sacramento Weekly Update*

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DOF Provides Daunting Budget Outlook Update

On Thursday morning, the Department of Finance (DOF) released an [update](#) on the state's current fiscal situation and provided a grim budget outlook just one week before Governor Gavin Newsom is slated to release the statutorily required May Revision. See *Fiscal Report* article below (page 3) for more details on the DOF update.

While not tipping their hand at legislative hearings and press briefings, the DOF and Governor Newsom have hinted at this daunting budget outlook by consistently repeating that the state will have to make some very difficult decisions moving forward. This also confirms why they have been aggressively lobbying the federal government for additional assistance. It is likely that the Governor has already shared these updated projections and budget outlook with the California Congressional Delegation and President Donald Trump with the hope that they influence the parties to draft legislation that would provide additional aid. However, there has been some resistance from the White House and Senate Majority Leader Mitch McConnell (R-Kentucky) in providing states and local governments with additional financial assistance.

California Supreme Court Hears Oral Arguments in Pension Case

On Tuesday, the California Supreme Court began hearing oral arguments in *Alameda County Deputy Sheriffs' Association, et al v. Alameda County Employees' Retirement Association*, which is a case that could have implications on the California Rule—legal precedent that was established in 1955 that says pension benefits promised at hire are a vested right and cannot be reduced unless offset by a comparable new benefit.

This case is one of several lawsuits that have arisen since the Public Employees' Pension Reform Act (PEPRA) of 2012 was signed into law by former Governor Jerry Brown. The 2012 law increased the retirement age for state employees, allowed for new restrictions on the types of pay that can be factored into an employer's final retirement pension calculations, and banned the practice of "airtime", or paying to increase one's future retirement benefit.

While the Supreme Court has punted in the past on providing a broad ruling that upends the California Rule, this case makes it almost impossible for the court to issue a narrow ruling, as it has to do with the counting of unused vacation and sick leave toward retirement benefits.

Per the court's rules, a decision in the case will be rendered within 90 days of the completion of oral argument, so we are still likely months away from the court's opinion.

Assembly Education Committee

On Wednesday, the Assembly Education Committee, chaired by Assemblymember Patrick O'Donnell (D-Long Beach), conducted its only hearing to consider Assembly K-12 education bills for the year.

The [agenda](#) consisted of 14 bills, 9 of which were placed on the committee's consent calendar. All of the bills, with the exception of Assembly Bill (AB) 2668 (Quirk-Silva, D-Fullerton), which was pulled from the agenda prior to the hearing, were approved by the committee and will now head to the Assembly Appropriations Committee (if the bill has fiscal implications) or straight to the Assembly floor for consideration. Some of the more noteworthy bills that will be moving forward include:

- AB 1835 (Weber, D-San Diego) would require unspent supplemental and concentration funds to be used in subsequent years to increase and improve services for the unduplicated pupils generating those funds
- AB 1837 (Smith, D-Santa Clara) would require the State Superintendent of Public Instruction to establish an emergency response team to serve as a liaison and provide guidance and support to local educational agencies (LEAs) during an emergency
- AB 2022 (McCarty, D-Sacramento) would establish the Advanced Placement Test Fee Reimbursement Program for purposes of covering the costs of advanced placement examination fees for foster youth and low-income high school pupils
- AB 2052 (O'Donnell) would exempt an LEA from certain school year length provisions if it adds instructional minutes to existing instructional days or if the LEA can demonstrate that it could not meet the instructional day requirements
- AB 2990 (Garcia, D-Bell Gardens) would prohibit LEAs from offering any financial incentives to a pupil or prospective pupil for participation in an educational enrichment activity

The Senate Education Committee will conduct their only hearing to consider Senate education bills next Tuesday, May 12. However, the committee has not released its agenda so we still do not know the handful of Senate education bills that will be considered this year.

Leilani Aguinaldo

COVID-19 Decimates State Revenues, Education Funding

By The SSC Team
School Services of California Inc.'s *Fiscal Report*
May 7, 2020

In a letter issued by the Department of Finance (DOF) this morning in advance of Governor Gavin Newsom's May Revision release scheduled for next Thursday, May 14, the economic impact of COVID-19 is dramatically greater than the impact of the financial crisis of 2008.

Governor Newsom's financial advisors are now estimating that state revenue losses from the health pandemic that shut down the state, national, and global economies amount to \$41.2 billion. For comparison, when the financial crisis hit in December 2008, early state revenue losses were estimated at \$28 billion. The COVID-19 impact on personal income tax alone—that accounts for two-thirds of the funding the state uses to finance all programs—is estimated to be three times greater than during the Great Recession.

The DOF estimates state revenue losses of \$9.7 billion in the current year and an additional \$32.2 billion in the coming budget year. These losses are compounded by growing caseloads in state social services programs that bring the total shortfall to \$54 billion going into fiscal year 2020–21.

Impact on Proposition 98 and Education Funding

A \$41 billion reduction in state revenues from the Governor's January estimates correspond to an \$18.3 billion reduction in Proposition 98 for the 2019–20 and 2020–21 fiscal years. Recall that Governor Newsom estimated the 2020–21 Proposition 98 minimum guarantee would be \$84 billion, up from an estimated \$81.6 billion in the current year. Although the DOF did not provide a fiscal year breakdown of the total reduction in Proposition 98, our best estimate is that the current-year guarantee is reduced by approximately \$3.7 billion while the 2020–21 guarantee would be reduced by \$14.6 billion. This means that based on the Governor's January estimates, the current-year and budget-year minimum guarantees are \$77.9 billion and \$69.4 billion, respectively.

Across both fiscal years, the new estimated loss in education funding is equivalent to a -22.0% cost-of-living adjustment. On a per average daily attendance (ADA) basis for the Local Control Funding Formula (LCFF), the average reduction is approximately \$2,300 in 2020–21. Total per-ADA revenues, inclusive of the LCFF, would be down by \$2,600–\$2,700.

The state's rainy day fund, while at its highest level ever, would provide only a modicum of relief. The fund's balance is approximately \$18 billion, with less than \$500 million specifically reserved for K–14 education. Under current law, only half of the balance can be drawn down in any given year. Given that the state's reserves are inadequate to offset the total revenue loss, including the loss in education funding, we anticipate that the state will impose budget deferrals for the 2019–20 fiscal year. Unlike cash deferrals, budget deferrals allow the state to put cash in the hands of local educational agencies (LEAs) while accounting for those payments in the next fiscal year. It is both too early to tell and too magnitudinous to know how the state intends to manage the 2020–21 Proposition 98 reduction.

May Revision and Beyond

Given the magnitude of the economic crisis, we expect that the May Revision will offer a suite of measures to help LEAs mitigate the devastating impact; although it is difficult to fathom that any or all of them would be sufficient to protect students and staff from the wrath of revenue cuts if they are not accompanied by offsetting federal or state aid.

While we at School Services of California Inc. are having a difficult time wrapping our minds around this recent news, we remain committed to serving each of you by helping you operationalize these data for your respective agencies and providing the latest and most accurate information coming from the state. We also know that everyone is wondering how long this current recession will last, and how quickly we can expect the state to recover from it. Once the Governor's May Revision is released, we intend to address this and more in our *Fiscal Report* and at our May Revision Workshop. We are both humbled and honored to be with and serve each of you during this time.
