



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 9

MEETING DATE: August 19, 2020

SUBJECT: State Association of County Retirement Systems
Legislative Update – July and August 2020

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Staff recommends that the Board receive and file the State Association of County Retirement Systems (SACRS) Legislative Updates for July and August 2020.

PURPOSE

This item complies with the 2019-20 Strategic Management Plan goal of stakeholder communication and outreach by participating in the legislative process to monitor changes in state law affecting public pension plans.

DISCUSSION

The attached report highlights recent legislative activity affecting California public pension plans and is produced by SACRS' legislative advocates at Edelstein Gilbert Robson & Smith, LLC.

SACRS is composed of the 20 systems operating under the County Employees' Retirement Law. The association's mission is to provide education and analysis to trustees and staff so that they can be more effective stewards of their systems' pension plans.

ATTACHMENTS

- SACRS Legislative Update – July 2020
- SACRS Legislative Update – August 2020

Prepared by:

/S/

Eric Stern
Chief Executive Officer



July 2, 2020

TO: State Association of County Retirement Systems

FROM: Mike Robson, Trent Smith, and Bridget McGowan, Edelstein Gilbert Robson & Smith, LLC

RE: **Legislative Update – July 2020**

This week, the Governor signed the budget agreement reached after negotiations with legislative leadership.

Prior to the final agreement, the Legislature adopted its own version of a budget last Monday to meet its constitutional deadline to do so by June 15. In adopting their “legislative budget,” the Legislature rejected the Governor’s proposed \$14 billion in painful trigger cuts to social safety net programs and K-12 schools, which would have been implemented on July 1. Instead the Legislature adopted far fewer cuts, many of which would have been triggered on October 1, and relied more heavily on the state’s reserves, payment deferrals, and internal borrowing.

For the first time in nine years, the Governor has had to give much more ground in the budget than legislative leadership. The “compromise” budget signed this week generally aligns with the Legislature’s proposal. The “cuts” in the compromise budget will now be implemented July 1 and stay in place unless triggered away if the state receives federal funding to backfill the budget by October 15.

The compromise budget a big risk to the Governor and the state’s finances. In the short run, numerous constituencies of democrats will be happy with the preservation of social safety net programs. In the long run, very few of the budget solutions addressing the state’s \$54 billion deficit are durable and some may not last until the ink from the Governor’s signature is dry.

One solution in the compromise budget is an assumption that the state will receive an additional \$1 billion in revenue than previously projected. This assumption seems to be based more on hope rather than tax receipts. Meanwhile internal borrowing requires the Legislature to pay back the special funds they are raiding, creating obligations for future budget years. Similarly, the \$11 billion in deferrals to K-12 schools are not permanent cuts but must be paid back by the state over time. In the meantime, K-12 schools still won’t receive funding and will have to rely on reserves and loans as a stop gap, especially since the budget will prohibit them from laying off school staff.

Finally, relying on state reserves and hoping for federal funding are a big risk. Reserves can be used once. Drawing more down in 2020-2021 means less is available for 2021-2022. If the economy improves, that choice will work out. If the state and country are headed for a second wave of infections and shelter in place orders, California will be facing a similar budget shortfall next year, but with fewer reserves to stave off the most painful cuts. Similarly, even if federal funds materialize before October 15, there is no guarantee they will be available in the next budget year.

The bottom line is that the Governor and Legislature could be setting themselves up for tougher budgets in future years. This isn't unprecedented. During the Great Recession, Democratic leaders in the Legislature could not reach agreement on how to eliminate the state's structural deficit with then Governor Schwarzenegger and Republican minority leaders. Instead, the state adopted numerous budgets balanced on hopeful revenue projections, deferrals, internal borrowing, and budget gimmicks. The state's credit rating fell and a massive \$34.7 billion "wall of debt" grew. Governor Brown spent much of his second stint in the Governor's Office addressing California's structural budget deficit and paying down the "wall of debt." In the end, he had to rely on harsh cuts coupled with new taxes to do so.

It is possible that when the Legislature returns from its summer recess on July 13 that there will be a push for new taxes to help prop up the state's finances. That is a risky proposition for moderate Democrats in an election year, though. Even if taxes aren't put on the table, the Legislature and Governor are expected to revisit the budget after the July 15 tax filing deadline. They will likely have to address various shortcomings in the compromise budget at that time.

COVID-19 and the Budget

Unfortunately, recent weeks have seen record high numbers of new COVID-19 cases in California. With infections and hospitalization on the rise, the Governor is once again facing a difficult situation when it comes to reopening the economy.

A provision of the budget compromise described above may help the Governor with this problem. Under the new provision, the Governor's Department of Finance (DOF) will be empowered to withhold a county's share of \$2 billion of social safety net and COVID-19 relief funding if that county is not adhering to state and federal guidance and directives related to COVID-19. This includes the statewide order to wear masks and the guidance to businesses related to sanitation and social distancing.

The Governor continues to be savvy in his navigation of pandemic politics. On the one hand, he has issued guidance to counties and residents to follow in reopening while delegating decision-making based on that guidance to local public health officials. He has now added some teeth to that guidance by making funding contingent upon compliance. This choice gives the Governor the moral high ground to say he has encouraged Counties to do the right thing and even punished them for not doing so. If Counties ultimately choose to ignore state guidance, the Governor will be able to say that he punished that behavior.

We expect work on the budget to continue on-and-off in the coming months



August 6, 2020

TO: State Association of County Retirement Systems

FROM: Mike Robson, Trent Smith, and Bridget McGowan, Edelstein Gilbert Robson & Smith, LLC

RE: **Legislative Update – August 2020**

When the Assembly and Senate adjourned for their summer recess on June 19 and July 2, respectively, both houses planned to return on July 13. However, shortly after adjournment it became public that at least two legislators and several staff had been infected with COVID-19. Consequently, both houses delayed their return to the Capitol to July 27.

With just over four weeks remaining before the end of session on August 31, tensions are running high between the Senate and Assembly. While the Senate curtailed its work considerably earlier in the year, sending only roughly 200 bills to the Assembly, the Assembly sent more than 500 bills to the Senate before adjourning for recess.

To manage its workload, Senate Committee Chairs have pushed Assemblymembers to drop legislation and in some cases chose not to set bills for hearing over the objection of their Assembly authors. In response, several Assembly Committees have delayed their hearings to reconsider which Senate bills they will advance. This type of inter-house posturing and hostage taking is common at the end of session. However, the compressed timeline in 2020 seems to be exacerbating it. It is possible that many bills fall by the wayside as a consequence of these disagreements.

Special Session

One option that would allow many bills to be heard after August 31 is a special session of the Legislature. If the proclamation calling for a special session was written broadly enough, many bills that died in 2020 could be reintroduced as special session bills.

While there are many rumors about a special session, and legislative leadership has not ruled it out, it is ultimately up to the Governor to call the special session. While legislators eager to pursue their bills may want a special session, it is hard to see why the Governor would want to give them one. In the Legislature's absence after August 31, the Governor will be empowered to once again govern by executive order with little to no need to negotiate or compromise with the Legislature.

Economic Stimulus Plan

Earlier this year, Senator Hertzberg, Assemblymember Ting, and a number of other legislators announced that they were working on an economic stimulus plan for California. Last week, the working group of legislators supporting this proposal put out a press release and outline describing an economic stimulus package at a high level. While light on details, the proposal would accelerate several revenue streams by securitizing them. It would also rely on a tax voucher to accelerate income tax payments. All told, the working group hopes to raise \$100 billion in stimulus funding to support better unemployment benefits and infrastructure investments.

This is a massive undertaking in a state that will be grappling with multi-billion budget deficits for years. While the measure is supported by eight Senators and 14 Assemblymembers, it is by no means a guaranteed success. Only four weeks remain to negotiate on this deal. While the revenue proposals are original, it is hard to see how they could raise \$100 billion with any certainty. Finally, when asked about the proposal during a press conference, the Governor was clear that he had not had a chance to review it, meaning that he has not endorsed the proposal yet.

While we will monitor developments related to the stimulus plan, we believe it is likely that very little progress is made on this issue in 2020.

SACRS Sponsored Bill – AB 2101 (Committee on Public Employment and Retirement)

As previously reported, the provisions of the SACRS sponsored bill, SB 783 (Committee on Labor, Public Employment and Retirement), were amended into AB 2101. On August 5, the bill passed on the consent calendar in the Senate Labor, Public Employment and Retirement Committee. Being on the consent calendar means the bill passed unanimously on the date of the hearing. The bill will be heard next in the Senate Appropriations Committee later this month.

We will keep you apprised of further developments.