



April 2, 2020

TO: State Association of County Retirement Systems

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RE: **Legislative Update – April 2020**

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### **Overview**

As we move into the second week of a mandatory statewide shelter in place order, the Governor and his Administration continue to be prolific in their response to the COVID-19 crisis.

On March 25, Governor Newsom announced the conclusion of successful discussions with financial institutions to provide mortgage relief to those effected by COVID-19. Citigroup, JP Morgan Chase, Wells Fargo, US Bank, and nearly 200 state- chartered banks, credit unions, and servicers agreed to offer 90-day mortgage payment forbearances for borrowers. It remains to be seen whether a similar effort will be made for commercial property owners.

Earlier last week the Governor explained that the state's most recent modeling predicts that California will need an additional 50,000 hospital beds as the crisis deepens. To meet these needs, the Governor has asked hospitals to double their existing surge capacity and is in the process of leasing space in hotels, fairgrounds, and convention centers and refurbishing mothballed hospitals. In fact, the Governor reported that the state has acquired hospitals in Northern and Southern California. The Governor also announced that many state park and state beach parking lots would be closed to counteract the fact that too many Californians have been flocking to these locations despite orders to shelter in place and socially distance from others.

### **Legislative Update**

On March 16, the Legislature adjourned after passing two budget bills that were intended to appropriate funding for the state's immediate response to the COVID-19 pandemic.

SB 89 appropriates \$500 million to be used by the Governor for disaster relief including funding for increased hospital capacity and any activities included in the Governor's March 4 proclamation declaring a state of emergency. An additional \$500 million may be appropriated for the same purpose upon notification to the Joint Legislative Budget Committee.

Importantly for all residents and small businesses, SB 89 also includes language stating the Legislature's intent that the Administration work with stakeholders to develop strategies to provide assistance to individuals, small businesses, and nonprofits experiencing economic hardship as a result of the pandemic. This language merely notes the Legislature's desire to address issues in substantive legislation in the coming weeks. In discussing this language on their respective floors, the Assembly and Senate Budget Chairs noted that the Legislature would be reviewing how Federal relief legislation would impact the state.

SB 117 provides for the continued support for schools in the state including \$100 million for cleaning and protective equipment.

Finally, the Senate adopted a Resolution which, among other things, amended their House Rules to allow Senators to participate in Legislative proceedings remotely. In presenting the resolution, Pro Tem. Atkins stated that she hoped the new authority would only be used rarely. The legality of remote voting and exactly how this would be implemented in practice are open questions.

Just before adjournment, the Senate and Assembly adopted a joint resolution sending the Legislature into recess until April 13 unless leadership from each house calls them back into session sooner.

However, as April 13 comes closer, it is now apparent that the Legislature will not be reconvening by this date. Given the federal extension of social distancing guidelines until April 30<sup>th</sup>, and the Governor's recent prediction that COVID-19 will not peak in California until May, the Legislature will likely remain adjourned for the foreseeable future.

### **California Budget Update**

At the beginning of 2020, the state was on very sturdy footing financially. In his January Budget, Governor Newsom anticipated that California would enjoy a \$21 billion surplus in fiscal year 2020-2021. California was also expected to have roughly \$20 billion in reserves by the summer. Finally, the state has paid down much of its debt in recent years.

While on paper the state is on sturdy ground financially, the economic impact of COVID-19 represents an unprecedented challenge. Observers have often compared California's tax revenues, which rely heavily on high income earners and capital gains, to a roller coaster. It is easy to project, therefore, that the rapid economic downturn will result in an equally rapid drop in tax revenue.

At the same time, the demands for that revenue will rapidly increase. One million Californians have filed for unemployment in the last week. There will also be increased enrollment in Medi-Cal and CalWorks, respectively the state's programs for low income health care and cash assistance. Local governments, who will be working through their own financial struggles, may also look to the state for help.

Grappling with this will be even more challenging because it could be months before the Legislature and the Governor have accurate revenue estimates to work with due to tax filing deadlines being extended to July 15. On March 24, the Governor's Department of Finance (DOF) warned the Legislature that it would not be able to provide its customary April 1 updated revenue estimate. At the same time, the DOF sent a letter to state agencies warning that proposals for additional funding would be off the table and that the Administration would be developing a workload budget.

Given all of this, it seems likely that a scaled-back budget will be adopted in order to meet the June 15 constitutional deadline to adopt a budget. Doing so will provide much needed time for the Legislature and the Governor to get a better picture of where the state stands financially and begin to negotiate on needed adjustments to balance the budget and react to the economic crisis. This could be done as part of the Legislature's Regular Session prior to August 31, or in a special session called by the Governor thereafter.

### **Public Employee Pensions**

The state budget will be further impacted by the likely need to increase state contributions to the CalPERS and CalSTRS due to investment losses from COVID-19 fallout. City and county budgets will experience similar impacts which may not be quantified until after the start of the new fiscal year.