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COMMUNITY COLLEGE UPDATE

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Senate Budget Committee Holds Historic Hearing



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After a rocky start resulting in an hour-long delay due to technological glitches, the newly formed Senate Budget and Review Subcommittee on COVID-19 Response met—with some members, including the Committee Chair and Vice Chair Holly Mitchell (D-Los Angeles) and Nielsen (R-Tehama), respectively, attending in person while others participated remotely—for its first and much-anticipated informational and oversight hearing since the California Legislature went into an historic and unplanned recess to help contain the spread of the novel coronavirus.

To inform the hearing and the committee discussion, staff from the Department of Finance (DOF), the Legislative Analyst, and the California Budget Project each addressed the committee with their overviews of the current crisis and its economic effect on the state and targeted populations, including essential workers, undocumented residents, and its most impoverished residents.

In his presentation, the Legislature's top budget and policy analyst, Gabriel Petek, acknowledged the historic moment California finds itself in spawned by the global health pandemic that has halted the state, national, and international economy. Petek noted that within less than three months, the state devolved from a budget surplus to a "budget problem," which he defined as the condition in which the state's surplus and existing reserves are insufficient to meet existing obligations. In essence, Petek's statement signaled that, even in the absence of updated economic data, the state would need to make significant spending cuts.

Furthermore, he noted that the effects of the current recession are likely to be felt for the next two budget cycles, during which the state's revenue loss could equal \$50 billion. Notably, the Legislative Analyst's Office (LAO) measures California's Rainy Day Fund (Proposition 2 reserves) at \$17.5 billion—significantly less than half the amount of the reserves needed to backfill anticipated state revenue losses.

The DOF's comments were more measured and provided little insight into what Governor Gavin Newsom's chief financial advisors estimate to be the economic effect of the viral outbreak and its implication for the impending May Revision. Instead, the DOF focused on outlining current COVID-19 response expenditures that include funding for school districts and state-subsidized childcare and preschool programs. When pressed by members for greater detail about budget forecasts, the DOF noted that the May Revision would be released by the May 14 statutory deadline and will include the latest revenue and economic data. Both the DOF and LAO highlight that a significant challenge to estimating state revenues for the budget year are the deferments of tax filing deadlines from April 15 to July 15, noting that in normal years April is a significant month of state revenue and particularly personal income tax revenue, which makes up the lion's share of general fund resources.

While much of the hearing focused on the state's response to COVID-19 to support and protect health care and other essential workers, along with residents who have been furloughed or have lost their jobs, and vulnerable residents, some committee members posed questions that have implications for local educational agencies. Specifically, Senator Moorlach—a reputed fiscal hawk—asked the LAO how the pandemic will

impact public pension funds. Petek noted that, assuming Wall Street does not recover to levels assumed in actuarial fund reports (which does not appear likely), increased employer contributions will be needed to offset investment losses.

In regards to education, Senator Moorlach asked the DOF to opine about how much the current funding in the Public School System Stabilization Account (PSSSA)—the Proposition 98 Rainy Day Fund that was created in tandem with the Budget Stabilization Account (BSA) via Proposition 2 (2014)—will assist K–14 education in preserving its funding levels. Conceding that the current funding in the PSSSA (less than \$400 million) is merely a drop in the bucket for the more than \$80 billion that makes up Proposition 98, the DOF highlighted that the one-time \$3.15 billion (non-Proposition 98) investment made on behalf of the employers' contribution for California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) and the billions that California is expected to receive from the federal stimulus package that was recently signed into law should provide some relief for schools and community colleges. However, even with this relief the DOF acknowledged that it does not negate the painful choices that the state will have to make in upcoming budget deliberations in regards to education and other areas.

While it was not cited by the DOF, it is worth mentioning that there is nothing in law that precludes K–14 education from receiving a share of the approximately \$16.5 billion that currently sits in the BSA (see ["Legislative Analyst's Office Releases Report on Reserve Balances"](#) in the April 2020 *Community College Update*). However, it will be incumbent on the education community to advocate that schools receive a share of that reserve under the likely scenario that the Newsom Administration and the Legislature determine the need to tap into those funds.

As we monitor state, national, and economic data, nothing about the Senate's hearing was surprising, but we—like all of you—are eager for more detail related to the education budget. Right now, it appears that we will have to wait for the release of the May Revision. Stay tuned.

