

# Recent Important California Legislative Developments

## **Democrats Lose Supermajority in the State Senate**

Since both State Senators Ron Calderon (D-Montebello) and Rod Wright (D-Inglewood) are on indefinite leaves of absence from the Senate as they work to resolve high-profile legal matters, the number of Senate Democrats has dipped below the 2/3 supermajority.

The impact is not minor. There are a number of key implications to the loss of the supermajority – the most prominent being the ability for the Senate to deal with **water and school bonds in 2014**. Revising or placing GO bonds on the ballot requires a 2/3 vote in both the Senate and Assembly. Absent the return of either Calderon or Wright (both are problematic for Democrats), getting the 27 votes needed to deal with the bonds will require Republican votes, which will likely come with some kind of exchange that won't be pretty for Democrats in an election year.

The loss of 2/3 control in the Senate also affects the ability of the Legislature to override the Governor regarding differences over the **implementation of the LCFF**. Recently, 29 legislators signed a joint letter to Dr. Michael Kirst (President of the State Board of Education) urging him to enact permanent spending regulations for the LCFF that would be significantly more restrictive than those currently proposed (see attached letter). Up until this week, we had been cautioning that the Governor could be overridden by the Legislature if legislators felt strongly enough about passing a measure to make the LCFF spending rules more restrictive. There are a number of bills currently pending in the Legislature that could serve as vehicles for those efforts. At this point, prospects are slim for those measures in 2014.

## **Next Assembly Leader Formally Elected**

This week, the State Assembly officially elected Assembly Member Toni Atkins (D-San Diego) as their next Speaker. However, she will not formally become Speaker until sometime later this Spring, leaving current Speaker John Perez (D-Los Angeles) in place until then. Once she takes over, Atkins will be a relatively short-term leader as she is termed-out of the Assembly in 2016.

Atkins is currently the Assembly Majority Leader and has widely been seen as the heir-apparent to the Speakership for quite some time. She will be the Assembly's first openly lesbian Speaker. She is passionate about homelessness and veterans' issues.

The State Senate has not voted to elect their next leader, however current Senate leader Darrell Steinberg (D-Sacramento) announced weeks ago that Senator Kevin De Leon (D-Los Angeles) will be his successor. The recent loss of Calderon and Wright is no doubt complicating the matter for De Leon.

## **Legislature Aims to Address CalSTRS Unfunded Liability**

The Legislature has held a series of hearings tackling the unfunded liability looming over CalSTRS Defined Benefit Program. Depending on the entity asked and the assumed rate of investment returns, the unfunded liability is estimated at \$71 billion by CalSTRS, assuming a 7.5% rate of return, or \$167 billion by Governmental Accounting Standards Board (GASB), assuming a 4.25% rate of return. The Department of Finance (DOF) and

the Legislative Analyst's Office (LAO) agree that the state needs a comprehensive plan to tackle the unfunded liability.

CalSTRS is currently funded by a mix of contributions from the state, employers (LEAs), and employees. Stakeholders seem to agree that increased contributions from each of the three contributors will be needed to address this deficiency, but the sticking point is the proportion of increases to each group. It should be noted that there are some constitutional constraints on making adjustments.

There are several issues the Legislature must face when moving forward with a solution to this problem, including which entities will contribute more to pay down the unfunded liability. But one of the most crucial issues for schools will be how the eventual solution treats these funds under the Prop 98 minimum-funding guarantee for schools.

During a hearing this week, the LAO proposed what it calls a "**Grand Bargain**," which splits up the funding of CalSTRS into two distinct phases:

1. Paying down the unfunded liability
2. Ongoing future funding

In the first phase, the state takes on a large share of costs outside of Prop 98, paying off the unfunded liability over approximately 30 years. In the second phase of this proposal, the state would have no direct funding role, leaving employers and employees to fund CalSTRS. We anticipate strong reactions from stakeholders as this proposal indirectly moves future funding for CalSTRS inside Prop 98 by leaving employers and employees holding the bag.

The LAO prepared a good summary of the CalSTRS implications for Prop 98 in this [handout](#).

Compounding this issue, LEAs will have to report their portion of the unfunded liability on their budgets beginning next year, according to the **Governmental Accounting Standards Board (GASB)**. GASB will provide these numbers and is currently making estimates available upon request. We know the county superintendents are working on a common message for school districts on this issue.

### **Lots of attention on Common Core implantation/SBAC Assessments**

Through a number of recent hearings and conversations we've been party to, there is clearly a growing awareness of the challenges facing schools with the implantation of Common Core and the SBAC assessments. Legislators, staff, and key administration officials appear to grasp the rationale for an additional round of one-time funds for Common Core implementation in 2014-15, with a particular focus on technology needs.

We were fortunate enough to be with Dr. Kirst this week at an event at Stanford University where he spoke about these issues, among others. While he did not commit the Governor's Administration to another round of Common Core funding, he clearly laid out a case for additional funds if the state's finances in May supported that as an option. We found this encouraging as we continue to hear that this area has some of the highest need.