



TO: State Association of County Retirement Systems
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RE: **Legislative Update – January 2025**

The 2025 legislative session kicked off this week as lawmakers returned to Sacramento on Monday, January 6th. The Governor and Legislature are squarely focused on the state budget to start the year. On Monday, the Governor gave a preview of his budget proposal announcing that the state would no longer be facing a deficit and would realize a modest surplus of \$363M. This is in stark contrast to last year and the previous year's budget where California faced multi-billion-dollar shortfalls. Increased revenues – to the tune of \$16.5B – and three bond measures (climate, school facilities and mental health housing) approved by voters are helping to close the gap. However, the state's independent Legislative Analyst's Office's view differs slightly, stating that while revenues are running higher than initial assumptions the state will still face a \$2B deficit in 2025.

In his press conference this week, the Governor's Director of Finance noted that due to the Governor's two-year budget framework, the state is "on more stable fiscal footing," and there is no need for additional solutions further than what was agreed upon in the 2024 Budget Act. The Governor is also proposing two new expenditures, including funding for universal transitional kindergarten and increased tax credits for the film and TV industry to stimulate job growth.

Despite a rosier fiscal picture, the devastating fires in Southern California and the need for federal disaster assistance from an unpredictable new Administration in Washington are a source of uncertainty that could impact the state's fiscal outlook. In addition to the Governor's disaster declaration, the Assembly was quick to respond, introducing a bill, AB 226, to shore up the state's insurance plan. Assemblymember Lisa Calderon (D-Whittier) and Assemblymember David Alvarez (D-San Diego) authored the measure that would assist in issuing catastrophe bonds and help finance the costs of insurance claims, increasing claims-paying capacity of the FAIR Plan, the state's insurance plan. State regulators estimate that 1 in 5 homes in the Pacific Palisades fire are covered by the state's FAIR plan, which is the insurer of last resort. However, a spokesperson for the Governor's Office of Emergency Services said it is too soon to calculate the cost of the fires to the state.



On the Legislative front, Members have until February 21st to introduce bills. Leadership in both houses have signaled they will continue to focus on addressing the state's high cost of living and number of measures have already been introduced to boost housing development and tackle high utility bills. In addition, lawmakers are expected to continue to work on legislation to regulate artificial intelligence, data privacy and safeguarding California priorities against any federal proposals on issues related to reproductive health and immigration, amongst other topics.