

Legislative Update

Dancing in the Dark

Michael D. Belote

California Advocates

With apologies to Bruce Springsteen, whose 1984 song title echoed a proverb from many centuries prior, in this context we are not talking about songwriting, but instead about toiling in the dark on the far more mundane task of writing a state budget for California. Let us explain.

The first order of business for any legislature is to adopt a budget to sustain the government. A basic tenet of the separation of powers and checks and balances in our state and federal constitutions is that the legislature holds the power of the purse. Every year the California legislature and governor work together to create a spending plan for the ensuing fiscal year, which begins on July 1. With a general fund now in excess of \$300 billion, and billions more in federal pass-through money, this is a very big job.

Like a court case, or the passage of a bill, and oh, handling an escrow, the budget process moves to its own rhythm. The process really starts in the fall of every year, when the governor's Department of Finance must make thousands of assumptions about expected revenues and expenses for the next year. From these assumptions, a proposed budget from the governor is created and presented to the legislature by January 10 of every year.

At that point the legislature's budget committees break the governor's proposal into pieces based upon the functions of the state: health, education, courts, general government, and so on. Budget subcommittees hold dozens of hearings to consider the proposed budget and suggest changes. The state constitution requires that the legislature pass a budget for the ensuing year by June 15, and that the governor sign the budget act by July 1, the start of the next year.

So the process of creating the 2025-2026 fiscal year budget really began last fall, before Donald Trump was elected president in November, and certainly before the Los Angeles wildfires, which began on January 7. Ironically this was just three days before the governor was required to present a proposed budget to the legislature. For reasons discussed below, subsequent events made the governor's January 10 proposed budget essentially meaningless.

The plain truth is that the California legislature has all of the information it needs to pass a budget for fiscal year 2025-2026 except for that relating to revenues and expenses. That is

like saying an automaker has everything it needs to build a car except for an engine, transmission and tires. On the revenue side, the uncertainties are many. California's revenues are tied dangerously to the condition of the stock market, for example. When the market goes up, capital gains revenue flows into the state, and the budget looks rosy. But when markets decline, as they are now, tens of billions in capital gains disappear very quickly.

Add to the stock market problem the fact that no one knows how much economic activity will decline as a result of the fires, and the fact that many Angelenos will not be required to file income tax returns until October, months after the beginning of the fiscal year. Also uncertain is how much federal assistance will be provided to California for disaster recovery, since California and the national administration are not exactly bosom buddies.

On the expense side, there is really no clarity on how much state assistance will be provided to aid in disaster recovery, and how much will be necessary to respond to future events which are certain to occur. Imagine preparing a household budget when the answer to how much money we will make is "dunno", and what will we spend is "can't really tell ya"!

Of course, a state budget ultimately will be enacted, and the state will continue to function. In the meantime, expect the legislature and governor to be extremely careful about proposals which cost money. As noted, the first order of business is to sustain the government.

Apart from this budget uncertainty, we do know that many issues being considered in Sacramento this year relate at least tangentially to CEA. The wildfires exacerbated a homeowner's insurance crisis which has been building in California (and elsewhere) for many years, and dozens of proposals have been introduced on the subject. Mortgage relief and foreclosure limitations are pending. We need to build housing, fast, is the subject of many bills, often relating to permit streamlining and building code flexibility.

One interesting proposal focused on the fire zone would prohibit unsolicited offers to buy properties in the affected areas. Knowing when a buyer's offer was unsolicited obviously would have major impacts on escrow and title. On the other hand it is spring, baseball will soon be back, and California's agricultural abundance will bring us tomatoes, peaches and fresh corn. We have so much to be thankful for, but please remember, being a legislator or governor is hard work!

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