



TO: State Association of County Retirement Systems
FROM: Cara Martinson, Public House Consulting
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RE: **Legislative Update – January**

The Legislature has returned to Sacramento, reconvening on Monday, January 5, following the fall recess. As lawmakers enter the second year of the two-year legislative session, their initial focus will be on bills that remain in their House of Origin. Key deadlines include mid-January for policy committee hearings and the end of the month for fiscal and floor actions needed to advance these measures to the opposite House.

In addition, the Governor is expected to release his proposed budget on January 10, outlining how the state plans to address the projected budget deficit in 2026–27. Doing so will likely require spending adjustments, program reductions, and/or new revenue proposals. Policymakers are expected to begin addressing these issues early in 2026, with an emphasis on balancing reserves, maintaining essential public services, and supporting long-term fiscal stability.

The Legislative Analyst's Office (LAO) 2026–27 outlook indicates that California's economy continues to face challenges, including high interest rates and new tariffs, despite currently strong tax revenues. Much of the recent revenue growth has been driven by enthusiasm around artificial intelligence, which has contributed to rising stock prices and increased revenues in the technology sector. However, the LAO suggests this growth may not be sustainable, and uncertainty remains regarding future stock market performance. As a result, revenue forecasts assume only a temporary boost rather than long-term gains. Even with this cautious approach, the state is projected to face a budget shortfall of nearly \$18 billion in 2026-27, with deficits expected to increase in subsequent years. Ongoing spending requirements and rising program costs continue to outpace revenue growth, leaving the state's budget in a weaker position and less prepared for any economic downturn.

Change is also underway within the Legislature. New Senate President pro Tempore Monique Limón announced her new leadership team and policy committee chairs right before the holiday break. While many changes were made, the new leader did not replace the Senate PERS Committee Chair, and Senator Smallwood-Cuevas remains at the helm. This year also marks the final year of Governor Newsom's term, with significant attention focused on the gubernatorial election as it takes shape. In addition, advocacy and interest groups are actively organizing and collecting signatures for several ballot initiatives that will appear before voters in November. These measures have the potential to increase pressure on lawmakers, as the prospect of legislative negotiations versus campaign-driven outcomes remains a key consideration.



As we kick off the legislative year, the SACRS team would like to highlight the following measures, some of which are being implemented into law, while others remain active and may continue moving through the legislative process.

New Laws that take Effect January 1, 2026

[SB 852 \(Chapters 331, 2025\)](#)

This new law makes several changes to the Political Reform Act, including requiring public officials who manage public investments to file statements of economic interest electronically directly to FPPC.

[SB 853 \(Chapters 239, 2025\)](#)

This new law includes clarifying changes to the CERL, including updated requirements for how employers should report to the retirement system the hours and wages of retirees who return to work for a participating employer.

Bills to Watch in 2026

[AB 1323 \(Chen\)](#) – Compensation for certain Members of Orange County Board of Retirement

OCERS has indicated they plan to move an amended vehicle forward in the New Year. The bill in print would increase the compensation rate for certain members of the Orange County Board of Retirement to not more than \$320 per meeting. This bill did not receive a policy committee hearing and has until January 16th to pass out of the Assembly PERS Committee to advance.

[AB 1383 \(McKinnor\)](#) – Public Employee Retirement Benefits

This bill was held in the Assembly Appropriations Committee. It has until January 23rd to pass out of the Committee to advance. The bill in print would establish new retirement formulas, for employees first hired on or after January 1, 2026, as 2.5% at age 55, 2.7% at age 55, or 3% at age 55. For new members hired on or after January 1, 2013, who are safety members, the bill would require employers to adjust the formulas for service performed on or after January 1, 2026, to offer one of the 3 formulas for safety members that is closest to the formula the employer provided pursuant to existing law. The bill would authorize a public employer and a recognized employee organization to negotiate a prospective increase to the retirement benefit formulas for members and new members, consistent with the formulas permitted under the act. This bill would authorize an employer and its employees to agree in a memorandum of understanding to be subject to a higher safety plan or a lower safety plan, subject to certain requirements, including that the memorandum of understanding is collectively bargained in accordance with applicable laws.



AB 1439 (Garcia) – Public Retirement Systems: Labor Standards

This bill did not receive a policy committee hearing last year and would need to pass out of the Assembly PERS Committee before January 16th in order to advance this year. The bill in print would prohibit the board of a public pension or retirement system from making any additional or new investments of public employee pension or retirement funds in development projects in California or providing financing for those projects with public employee pension or retirement funds unless those projects include labor standards protections. The SACRS legislative committee recommended an oppose position and the SACRS Board approved this recommendation.

Assembly Committee on Public Employment and Retirement – Public Retirement Systems: Omnibus Bill

This bill is expected to include the SACRS-sponsored legislative package in the Legislature's annual omnibus bill for technical changes to laws affecting CalSTRS, CalPERS, and the CERL systems. The proposed changes in the CERL include the following:

- Clarifying that deferred members cannot run for or vote in active member Miscellaneous and Safety trustee elections.
- Establishing a 10-year statute of limitations for recovery of overpayments due to fraudulent reports of overpaid death benefits.
- Formalizing the practice of the majority of CERL systems that only the last system pays a lump-sum burial allowance for reciprocal members.
- Defining “concurrent retirement” to allow reciprocal members to retire on different dates with 30 days of each retirement date, as long as there is not overlapping service.

Contact:

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