

Bill Number: SB 955 (Pavley) as amended on March 29, 2012

SUMMARY

SB 955 encourages CalSTRS and CalPERS to prioritize investment in in-state infrastructure projects over alternative out-of-state projects if the investments are consistent with its fiduciary responsibility.

BOARD POSITION

Neutral. This measure would not adversely affect the administration of the retirement plans. When considering infrastructure investment opportunities, CalSTRS currently gives preference to those opportunities in California ahead of other transactions with the same market risk and financial terms while maintaining that the portfolio is prudently diversified and monitored.

SUMMARY OF AMENDMENTS

March 29, 2012 amendments:

- Authorizes CalSTRS, consistent with its fiduciary duties and the standard for prudent investment, to prioritize investment in in-state infrastructure projects over a comparable out-of-state infrastructure project.
- Declares that CalSTRS plans to invest up to \$500,000,000 in infrastructure projects.
- Defines infrastructure to include telecommunications, power, transportation, ports, petrochemicals, and utilities.
- States the Legislatures intent to encourage the board to prioritize investment in in-state infrastructure projects over a comparable out-of-state infrastructure project.

REASON FOR THE BILL

Although California may be emerging from the current economic recession, many Californians still remain unemployed due to the limited employment opportunities within the state. However, infrastructure investment represents a significant opportunity to spur job growth and may provide much needed employment opportunities for Californians struggling to find work, as well as provide a steady rate of return for investment funds that invest in those projects.

ANALYSIS:

Existing Law:

The fiduciary standards in the Teachers' Retirement Law require the board, CalSTRS officers and employees to discharge their duties with respect to CalSTRS solely in the interests of the members and beneficiaries for the exclusive purpose of providing benefits. Under the provisions, of Section 17 of Article XVI of the California Constitution,

as amended by Proposition 162, the board has plenary authority and fiduciary responsibility over the investment of retirement plan assets.

The Constitution also states that members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

This Bill:

SB 955 encourages CalSTRS to prioritize investment in in-state infrastructure projects over alternative out-of-state infrastructure projects if the investments are consistent with its fiduciary responsibility. This bill replicates the current CalSTRS Investment Infrastructure Policy which was adopted in 2008 and revised in 2011.

LEGISLATIVE HISTORY

AB 7- Portantino (Held in Assembly Appropriations Committee, 2011) prohibits certain state employees whose annual base salary is over \$150,000 from receiving a salary increase or a bonus until January 1, 2014. Specifically, this bill: (1) Applies to person employed in the same position or classification. (2) Applies to persons employed by the executive, legislative or judicial branches of government, appointees to state boards and commissions and employees of the California State University system, but not local trial court employees. (3) Exempts from these provisions state employees whose salaries are governed by a memoranda of understanding, a person who occupies a classification that is deemed necessary to public safety and security by the governor through an executive order or a person whose salary is set by the State Constitution. (4) Authorizes the Controller to reject a request for payments that violate these provisions. (5) Urges the University of California system to adopt this policy.

AB 1764—Portantino (Held in Assembly Appropriations Committee, 2010) prohibits certain state employees whose annual base salary is over \$150,000 from receiving a salary increase until January 1, 2013. Specifically, this bill: (1) applies to individuals employed by the executive, legislative or judicial branches of government, appointees to state boards and commissions, and employees of the CSU system. The bill urges the UC system to adopt this policy; (2) exempts from these provisions (a) state employees whose salaries are governed by a memoranda of understanding pursuant to a collective bargaining agreement, (b) employees who occupy a classification that is deemed necessary to public safety and security by the governor through an executive order, (c) a person whose salary is set by the State Constitution, and (d) employees of trial courts; and (3) authorizes the controller to reject a request for a disbursement of funds that violates these provisions.

AB 53—Portantino (Died in Assembly, 2009) freezes any state employee's salary whose base salary is \$150,000 or higher until January 1, 2012 and prohibits those employees from receiving payment for overtime work. Exempts a person whose compensation is governed by an operative memorandum of understanding and a person who is exempted by executive order of the Governor or a person whose salary is set pursuant to the California Constitution. In addition, urges the Regents of the

University of California and the Board of Directors of the Hastings College of the Law to adopt the policy for individuals employed by those entities.

PROGRAM BACKGROUND

CalSTRS has invested more than \$21.1 billion, or 13.7 percent of the total portfolio in a variety of California investments as of June 30, 2011. CalSTRS' total assets have increased by \$24.9 billion or 19.2 percent from the previous year, while CalSTRS holdings in California saw an increase of \$1.3 billion or 6.3 percent.

The CalSTRS Investment Infrastructure Policy requires that when considering infrastructure investment opportunities, California should receive preference ahead of other transactions with the same market risk and financial terms while maintaining that the portfolio is prudently diversified and monitored. The design of the Infrastructure Investment Policy ensures that investors, managers, consultants, or other participants selected by CalSTRS take prudent and careful action while managing the portfolio.

The primary objective for CalSTRS' investment in infrastructure is to improve diversification of the overall investment portfolio, along with the following:

- Generating an enhanced yield to the actuarial earnings rate of assumption and provide stable cash flows;
- Providing a hedge against inflation; and
- Acting as a responsible steward of infrastructure investments through responsible contracting and environmental practices, efficient operation of assets, and production of quality services and goods.

The CalSTRS program is focused heavily on the private core assets with lower risk levels, while an allocation of up to 20 percent is allowed within the policy for the public infrastructure space. CalSTRS has a target allocation of 2.5 percent of the total fund for infrastructure investments. The benchmark for the infrastructure program is a return equal to the Consumer Price Index for all Urban Consumers plus five percent.

CalSTRS is committed to investing in California and in-state infrastructure opportunities while submitting these projects to the same due diligence as any other investment consistent with their fiduciary obligation and plans to invest at least \$500 million in infrastructure projects. As a result, if this bill is enacted CalSTRS will continue to manage its Infrastructure Investment program in accordance with the policies established by the board.

FISCAL IMPACT

Program Cost – None.

Administrative Costs/Savings – None.

SUPPORT

None known.

OPPOSITION

None known.

ARGUMENTS

Pro: Encourages CalSTRS to prioritize investment in California infrastructure opportunities.

Con: Replicates CalSTRS current Infrastructure policy.

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