

**Bill Number: SB 955 (Pavley) as amended on May 17, 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**

May 17, 2012 amendments:

- Declares CalSTRS and CalPERS intent to invest up to \$650,000,000 and \$800,000,000, respectively, in infrastructure projects as defined by each system's Infrastructure Program Investment Policy.
- Inserts a reference to Section 22203 of the Education Code.
- Inserts language that specifies that a board is not required to take action that is inconsistent with its plenary authority and fiduciary responsibilities, as described by Section 17 of Article XVI of the California Constitution.

**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 2500 (Hueso, 2012, Assembly Banking and Finance Committee) establishes the California Investment Trust within state government as an independent entity and provides the purpose of the trust.

AB 17 (Davis, 2011, Senate Rules Committee) requires CalSTRS to report annually to the Legislature on the ethnicity and gender of investment managers and brokerage firms who participate in managing its portfolio.

AB 750 (Hueso, 2011, Vetoed) would have established the Investment Trust Blue Ribbon Task Force, for the purpose of considering the viability of establishing the California Investment Trust, which would be a state bank receiving deposits of state funds.

AB 893 (J. Perez, 2011, Held in Senate Appropriations Committee) would have required the California Infrastructure and Development Bank (I-Bank) to provide technical support to small and rural communities in obtaining financing for local infrastructure projects, and include information on public outreach activities in the I-Bank's annual report.

AB 1379 (Bradford, 2011, Vetoed) would have required a state or local public retirement system with assets over \$4 billion to provide a report, as specified, to the State Controller on California investments, as defined, and emerging domestic market investments, as defined, that it obtains and holds in its portfolio on and after July 1, 2012; and allow the Controller, at his/her discretion, to compile and publish on its internet Web site the information that State and local public retirement systems are required to provide by this bill, as specified.

**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 up to \$650 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.

**LEGISLATIVE STAFF CONTACT**

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