

AMENDED IN SENATE SEPTEMBER 1, 2011

AMENDED IN SENATE AUGUST 30, 2011

AMENDED IN SENATE AUGUST 15, 2011

AMENDED IN SENATE JUNE 23, 2011

AMENDED IN SENATE JUNE 21, 2011

AMENDED IN ASSEMBLY MAY 27, 2011

AMENDED IN ASSEMBLY MARCH 14, 2011

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

ASSEMBLY BILL

No. 1379

**Introduced by Assembly Member Bradford
(Principal coauthor: Assembly Member V. Manuel Pérez)**

February 18, 2011

An act to add and repeal Sections 7504.3 and 13997.4 of the Government Code, relating to economic development.

LEGISLATIVE COUNSEL'S DIGEST

AB 1379, as amended, Bradford. Economic development: public pension funds.

(1) Existing law creates various public pension systems and requires that all state and local public retirement systems secure the services of an enrolled actuary, not less than triennially, to perform a valuation of those systems. Existing law requires all state and local public retirement systems to submit audited financial statements to the Controller who is required to compile and publish a report annually on the financial condition of the systems.

This bill, until January 1, 2017, would require a state or local pension system with assets over \$4,000,000,000 to provide a report to the Controller on California investments, as defined, and California emerging market investments, as defined, that it obtains on and after July 1, 2012, and holds in its portfolio, and would permit a system to modify the definition to ensure consistency with adopted investment policies and limit reporting costs. The bill would also permit the report to include an estimate of the number of jobs created and retained as a result of the system’s investment activity.

(2) Existing law creates the California Economic Development Fund for the purpose of receiving federal, state, local, and private economic development funds, and receiving repayment of loans or grant proceeds and interest on those loans or grants. Existing law establishes certain definitions in this regard and defines economic development as including policies and programs expressly directed at improving the business climate in business finance, marketing, neighborhood development, small business development, business retention and expansion, technology transfer, and real estate redevelopment.

This bill would require, for the 2011–12 and 2012–13 fiscal years, that the Board of Administration of the Public Employees’ Retirement System together with the Teacher’s Retirement Board of the State Teachers’ Retirement System to share with other public pension systems streamlined and cost-effective methods for identifying investments within their portfolios that meet the definitions of California investment and California emerging market investment. The bill, until January 1, 2017, would authorize the Controller to compile and publish specified investment information supplied by state and local pension systems on the Controller’s Internet Web site, as provided.

(3) This bill would also make a statement of legislative findings and would declare the intent of the Legislature that retirement boards with sufficiently diversified portfolios, consistent with their plenary authority and their fiduciary responsibilities, adopt specified investment policies that meet their own unique investment objectives.

Vote: majority. Appropriation: no. Fiscal committee: yes.
 State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. (a) The Legislature finds and declares the
 2 following:

1 (1) Public pension fund investments represent billions of dollars
2 of financing for California communities, and the state could adopt
3 and implement more effective economic development policies
4 with better information on fund investments in California and in
5 its emerging markets.

6 (2) Historically, economic growth in California has outpaced
7 the economic growth rate of the nation as a whole, and the state
8 has led the nation in export-related jobs, business startups, and
9 innovation. However, since the subprime home mortgage crisis in
10 2007, California communities have struggled. With the increasing
11 rates of home foreclosure and the tightening of the credit markets,
12 many businesses have found their existing lines of credit
13 inaccessible. Significant drops in consumer spending have led to
14 workforce reductions and business bankruptcies.

15 (3) For much of 2009, the number of unemployed workers rose
16 by 40,000 to 60,000 per month, and the year ended with 2.25
17 million unemployed California workers. While California may be
18 emerging from the recession, unemployment is expected to remain
19 high through 2011. Without specific intervention to support job
20 creation and business expansion, many regions of California will
21 be very slow to recover.

22 (4) As California moves forward from this recession, it is
23 important that the state support the recovery and expansion of
24 industries that provide quality jobs, enhance regional and global
25 supply chains, and strengthen the state's competitiveness.

26 (5) Modern investment theory includes a set of concepts aimed
27 at building a most efficient portfolio of different types of assets
28 that yields the highest return for a given level of investor risk.
29 Diversification is one of the key elements in building a portfolio,
30 including diversification by asset class and by geography. Given
31 that the United States is the largest economy in the world and that
32 California is the largest economy in the United States, a certain
33 portion of any fully diversified investment portfolio includes
34 investments in California. Therefore, there is a clear alignment of
35 interest between medium to large institutional investors and the
36 economic recovery of California.

37 (6) Increasing investments in minority-owned businesses and
38 within minority communities is vital to the future economic health
39 of the nation and its business community. Investment in historically
40 disadvantaged communities by public pension systems adds value

1 for the members of those systems and increases access to financial
 2 capital for historically underserved markets and groups of people.
 3 (7) Investments in emerging domestic markets can provide
 4 appropriate risk-adjusted returns to institutional investors including
 5 public pension funds. In 2000, the boards of administration for the
 6 Public Employees’ Retirement System and the State Teachers’
 7 Retirement System each adopted a 2-percent goal for economically
 8 targeted investments. These investments are intended to create
 9 value for the members of those retirement systems while facilitating
 10 improved access to financial capital in historically underserved
 11 markets.

12 (b) It is the intent of the Legislature, consistent with the plenary
 13 authority and fiduciary responsibilities of the retirement boards of
 14 public pension or retirement systems under Section 17 of Article
 15 XVI of the California Constitution, that those retirement boards
 16 that have sufficiently diversified portfolios adopt California
 17 emerging market investment policies that meet their own unique
 18 investment objectives.

19 SEC. 2. Section 7504.3 is added to the Government Code, to
 20 read:

21 7504.3. (a) In addition to its annual audited financial statement
 22 submitted to the Controller pursuant to subdivision (c) of Section
 23 7504, each state or local public retirement system with assets of
 24 over four billion dollars (\$4,000,000,000) shall include a report
 25 on California investments, as defined in paragraph (1) of
 26 subdivision (c) of Section 13997.4, and California emerging market
 27 investments, as defined in paragraph (2) of subdivision (a) of
 28 Section 13997.4, that it obtains on and after July 1, 2012, and holds
 29 in its portfolio. Investments by asset class shall be reported by fair
 30 market value and percentage of the total portfolio. The report may
 31 also include an estimate of the number of jobs created and retained
 32 as a result of the system’s investment activity. The information
 33 reported by the public pension systems shall not exceed the scope
 34 of information required by the California Public Records Act.

35 (b) A state or local public retirement system may elect to satisfy
 36 the reporting requirements of this section by reporting on its total
 37 portfolio rather than only those investments made after July 1,
 38 2012, if information is provided and identified consistently with
 39 the definitions in subdivision (a) of Section 13997.4.

1 (c) Nothing in this section shall require a retirement board to
2 take action that is not consistent with its plenary authority and
3 fiduciary responsibilities as described in Section 17 of Article XVI
4 of the California Constitution.

5 (d) This section shall remain in effect only until January 1, 2017,
6 and as of that date is repealed, unless a later enacted statute, that
7 is enacted before January 1, 2017, deletes or extends that date.

8 SEC. 3. Section 13997.4 is added to the Government Code, to
9 read:

10 13997.4. (a) For the purposes of this section:

11 (1) “California investment” means an investment that assists in
12 the improvement of state and regional economies. In the case of
13 fund-to-fund investments or opportunistic investments, “California
14 investment” may include moneys that are directed under an
15 agreement with the asset manager to be primarily invested in
16 California. “California investment” includes, but is not limited to:

17 (A) A publicly held company with a headquarters or significant
18 operations in California.

19 (B) A privately held company that is headquartered in California.

20 (C) Real estate in California or loans on real estate located in
21 California.

22 (2) “California emerging market investment” means an
23 investment that produces competitive risk-adjusted rates of return
24 while facilitating the improvement of traditionally underserved
25 markets, including urban and rural areas undergoing, or in need
26 of, revitalization where assets conducive to business development
27 are located.

28 (b) A retirement board is permitted to modify the definitions
29 and parameters established in this section for the reporting purposes
30 required by Section 7504.3, in order to ensure consistency with
31 its adopted investment policies and to limit its reporting costs.
32 These definitions and parameters, along with the methodologies
33 used to formulate the report, shall be described in its report.

34 (c) For the 2011–12 and ~~2012–23~~ 2012–13 fiscal years, the
35 Board of Administration of the Public Employees’ Retirement
36 System together with the Teacher’s Retirement Board of the State
37 Teachers’ Retirement System shall share with other public pension
38 systems streamlined and cost-effective methods for identifying
39 investments within their portfolios that meet the definitions of
40 California investment and California emerging market investment.

1 (d) The Controller may compile and publish the information
2 that state and local pension systems are required to provide
3 pursuant to Section 7504.3 within, or linked to, the report issued
4 pursuant to Section 7504 and made available on the Controller's
5 Internet Web site. If the Controller decides to compile and publish
6 the information provided by the pension systems, the information
7 shall be published on the Controller's Internet Web site within 12
8 months of the receipt of the information, and in no case later than
9 18 months after the end of the fiscal year upon which the
10 information is based.

11 (e) This section shall remain in effect only until January 1, 2017,
12 and as of that date is repealed, unless a later enacted statute, that
13 is enacted before January 1, 2017, deletes or extends that date.