

AMENDED IN ASSEMBLY JUNE 15, 1998

AMENDED IN SENATE MAY 20, 1998

AMENDED IN SENATE APRIL 27, 1998

**SENATE BILL**

**No. 1433**

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**Introduced by Senator Hayden**

**(Coauthor: Senator Watson)**

(Coauthors: Assembly Members Alquist and Kuehl)

January 26, 1998

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An act to add Sections 16649.96 and 16649.98 to the Government Code, relating to state funds.

LEGISLATIVE COUNSEL'S DIGEST

SB 1433, as amended, Hayden. State funds: investments.

Existing law prohibits state trust money investments in business firms or financial institutions that engage in discriminatory business practices, as defined, in furtherance of or in compliance with the Arab League's economic boycott of Israel.

This bill would also prohibit the Public Employees' Retirement Fund and the State Teachers' Retirement Fund from being used on or after January 1, 1999, to make additional or new investments or to renew existing investments in tobacco companies, as defined. ~~The retirement boards would be required to submit reports to the Legislature on January 1, 2003, and annually thereafter, regarding the effect of the provisions on employer contribution rates. The Board of Administration of the Public Employees' Retirement System would be required to submit a report to the Legislature on~~

January 1, 2003, and annually thereafter, regarding the effect of the provision on employer contribution rates. The Teachers' Retirement Board would be required to make specified determinations regarding related yields on investments on January 1, 1999, January 1, 2010, and January 1, 2020.

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. The Legislature hereby finds and  
2 declares the following:

3 (a) According to the State Department of Health  
4 Services, the ongoing cost to the state for healthcare  
5 services for persons with tobacco-related illnesses is \$630  
6 million annually. Over 40,000 Californians die each year  
7 from causes attributable to smoking, which accounts for  
8 approximately 19 percent of all deaths in California.

9 (b) Nationally, the Center for Disease Control has  
10 found that more Americans die from tobacco-related  
11 illnesses every year than from alcohol, cocaine, heroin,  
12 fires, car accidents, homicides, AIDS, and suicides  
13 combined.

14 (c) The State of California spends \$50 million annually  
15 on anti-smoking education programs funded by  
16 Proposition 99. These initiatives seek to prevent teen  
17 smoking, reduce adult smoking, and educate the public  
18 on the dangers of smoking.

19 (d) As of July 9, 1997, the Public Employees'  
20 Retirement Fund held investments of \$989,097,528 in  
21 tobacco companies. These substantial holdings create an  
22 interest that conflicts with the aims of California's  
23 healthcare and anti-smoking education programs. The  
24 future profitability of these tobacco investments requires  
25 that the efforts of medical, public health, and educational  
26 campaigns all fail.

27 (e) On June 20, 1997, a group of state attorneys general  
28 and major tobacco companies reached a provisional  
29 settlement which will require these companies to pay



1 \$368.5 billion to private litigants and state governments.  
2 In the wake of this settlement, the value of CalPERS  
3 tobacco-related equity holdings declined by 4.31 percent  
4 at a time when general investment values rose. Tobacco  
5 product liability litigation thus introduces an  
6 unreasonably high element of risk to state pension funds.

7 SEC. 2. Section 16649.96 is added to the Government  
8 Code, to read:

9 16649.96. On or after January 1, 1999, neither the  
10 Public Employees' Retirement Fund nor the State  
11 Teachers' Retirement Fund shall make new or additional  
12 investments in any tobacco company. "Tobacco  
13 company" means a business entity that derives more than  
14 10 percent of its gross revenue from tobacco products or  
15 has more than 10 percent of its personnel involved in  
16 activities relating to tobacco products or has more than 10  
17 percent of its business activity in tobacco products.

18 SEC. 3. Section 16649.98 is added to the Government  
19 Code, to read:

20 16649.98. (a) On January 1, 2003, and annually  
21 thereafter, ~~the Teachers' Retirement Board and the~~  
22 Board of Administration of the Public Employees'  
23 Retirement System shall report to the Legislature ~~their~~  
24 estimates of the amount of increase or decrease, if any, in  
25 the employer rates of contribution to their respective  
26 funds that may be required because of the impact of the  
27 provisions of Sections 16649.96 and 16649.97.

28 ~~The boards' reports shall contain information~~  
29 ~~regarding the transaction costs, capital gains and losses,~~  
30 *the employer rate of contribution to its fund that may be*  
31 *required because of the impact of the provisions of*  
32 *Section 16649.96.*

33 *The board's report shall contain information regarding*  
34 rates of return, return comparisons with alternative  
35 theoretical portfolios of comparable funds, and all other  
36 relevant information used in determining the rate  
37 adjustments.

38 (b) (1) *On January 1, 1999, the Teachers' Retirement*  
39 *Board shall determine the value of the holdings of the*



1 *Teachers' Retirement Fund that are passively invested in*  
2 *the Standard and Poors 500 Index.*

3 (2) *On January 1, 2010, the Teachers' Retirement*  
4 *Board shall determine the net difference between the*  
5 *yields, since January 1, 1999, of the Standard and Poors 500*  
6 *Index and the Standard and Poors 500 Index with tobacco*  
7 *company investments removed. If the Standard and*  
8 *Poors 500 Index with tobacco stocks included has*  
9 *returned a greater yield, the Teachers' Retirement Board*  
10 *shall multiply this net difference by the value of holdings*  
11 *determined in paragraph (1).*

12 (3) *On January 1, 2020, the Teachers' Retirement*  
13 *Board shall determine the net difference between the*  
14 *yields, since January 1, 1999, of the Standard and Poors 500*  
15 *Index and the Standard and Poors 500 Index with tobacco*  
16 *company investments removed. If the Standard and*  
17 *Poors 500 Index with tobacco stocks included has*  
18 *returned a greater yield, the Teachers' Retirement Board*  
19 *shall multiply this net difference by the value of holdings*  
20 *determined in paragraph (1). This amount shall be*  
21 *considered as a normal cost deficit in the State Teachers'*  
22 *Retirement Fund pursuant to Section 22955 of the*  
23 *Education Code. If the Standard and Poors 500 Index with*  
24 *tobacco stocks removed has returned a higher yield, then*  
25 *it shall be considered to have no effect on that normal cost*  
26 *deficit.*

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