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 Sections 7504.5 and 13997.4 to the Government Code,* relating to economic development.

LEGISLATIVE COUNSEL'S DIGEST

AB 1379, as amended, Bradford. Economic ~~development.~~ *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 would permit 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 emerging domestic market investments, as defined, that it obtains on and after July 1, 2012, and holds in its portfolio. 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. The bill would also make a statement of legislative findings and declarations in this regard.

(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 state the intent of the Legislature that retirement systems with sufficiently diversified portfolios, consistent with their plenary authority and their fiduciary responsibilities, adopt emerging domestic market investment policies, as defined, that meet their own unique investment objectives. The bill would require the Controller to develop, in consultation with public pension systems having funds with assets over $4,000,000,000, streamlined and cost-effective methods for identifying investments within their portfolios that meet the definitions of California investment and emerging domestic market investment. The bill would require that the identification methods be prepared by June 1, 2012, to be updated at least every 5 years, and be made available through the Controller's Internet Web site. The bill would also make a statement of legislative findings and declarations in this regard.

~~Existing law provides for various economic development programs in the state.~~

~~This bill would express the intent of the Legislature to enact legislation for the purpose of economic development in the state.~~

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

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

SECTION 1. Section 7504.5 is added to the Government Code, to read:

7504.5. (a) The Legislature finds and declares that public pension fund investments represent billions of dollars of financing for California communities and that the state could adopt and implement more effective economic development policies with better information on fund investments in California and in emerging domestic markets.

(b) In addition to its annual audited financial statement submitted to the Controller pursuant to subdivision (c) of Section

7504, each state or local public retirement system with assets of over four billion dollars ($4,000,000,000) may include a report on California investments, as defined in paragraph (1) of subdivision (c) of Section 13997.4, and emerging domestic market investments, as defined in paragraph (2) of subdivision (c) of Section 13997.4, that it obtains on and after July 1, 2012, and holds in its portfolio. Investments by asset class shall be reported by fair market value and percentage of the total portfolio. The report may also include an estimate of the number of jobs created and retained as a result of the system's investment activity.

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

SEC. 2. Section 13997.4 is added to the Government Code, to read:

13997.4. (a) The Legislature finds and declares that:

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

(2) For much of 2009, the number of unemployed workers rose by 40,000 to 60,000 per month, and the year ended with 2.25 million unemployed California workers. While California may be emerging from the recession, unemployment is expected to remain high throughout 2010 and 2011. Without specific intervention to support job creation and business expansion, many regions of California will be very slow to recover.

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

(4) Modern investment theory includes a set of concepts aimed at building a most efficient portfolio of different types of assets

that yields the highest return for a given level of investor risk. Diversification is one of the key elements in building a portfolio, including diversification by asset class and by geography. Given that the United States is the largest economy in the world and that California is the largest economy in the United States, a certain portion of any fully diversified investment portfolio includes investments in California. Therefore, there is a clear alignment of interest between medium to large institutional investors and the economic recovery of California.

(5) Investments in emerging domestic markets can provide appropriate risk-adjusted returns to institutional investors including public pension funds. In 2000, the boards of administration for the Public Employees' Retirement System and the State Teachers' Retirement System each adopted a 2-percent goal for investments in emerging domestic markets. These investments, first, have created value for the members of those retirement systems, and second, have increased access to financial capital in historically underserved markets and historically disadvantaged groups of people.

(b) It is the intent of the Legislature, consistent with their plenary authority and fiduciary responsibilities under Section 17 of Article XVI of the California Constitution, that retirement systems with sufficiently diversified portfolios adopt emerging domestic market investment policies that meet their own unique investment objectives.

(c) For the purposes of this section:

(1) "California investment" means an investment that produces competitive risk-adjusted rates of return while still promoting economic and community development opportunities. In the case of fund-to-fund investments or opportunistic investments, "California investment" may include moneys that are directed under an agreement with the asset manager to be primarily invested in California. "California investment" includes, but is not limited to:

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

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

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

(2) "Emerging domestic market investment" means an investment that produces competitive risk-adjusted rates of return while still promoting economic and community development opportunities to areas of the state that historically have had limited access to capital markets. "Emerging domestic market investment" also means an investment that produces competitive risk-adjusted rates of return while still promoting economic and community development opportunities and that targets groups of people who are historically underserved.

(d) The Controller shall develop, in consultation with public pension systems having funds with assets over four billion dollars ($4,000,000,000), streamlined and cost-effective methods for identifying investments within their portfolios that meet the definitions of California investment and emerging domestic market investment. The identification methods shall be prepared by June 1, 2012, and updated at least every five years. The identification methods shall be made available through the Controller's Internet Web site.

~~SECTION 1. It is the intent of the Legislature to enact legislation for the purpose of economic development in the state.~~

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