



● **Board of Directors**
Communications and Legislation Committee

6/14/2016 Board Meeting

8-8

Subject

Express support for AB 2348 (Levine, D-San Rafael) – Infrastructure investment

Executive Summary

AB 2348 by Assembly Member Marc Levine, Chairman of the Assembly Water, Parks and Wildlife Committee, would authorize the California Department of Finance (DOF) to identify infrastructure projects in the state for which the department will guarantee a rate of return for an investment made in that infrastructure project by the Public Employees' Retirement System (CalPERS).

Details

CalPERS is the largest public pension fund in the United States, managing a \$300 billion pension fund that has a diverse portfolio of investments. AB 2348 is intended to encourage investments by the pension fund in California's infrastructure.

California Forward estimates that the state will need to spend \$835 billion over the next decade to meet the state's water, transportation and K-12 infrastructure needs. *California Forward* is a bipartisan public interest organization committed to improving the quality of life for all Californians by creating more responsive, representative and cost-effective government. Additionally, the U.S Environmental Protection Agency has placed California at the top of its list for water system infrastructure needs.

AB 2348, (**Attachment 1**), would add a new section to the California Government Code to authorize DOF to evaluate and identify infrastructure projects in California for which DOF can guarantee a rate of return on any investments made in that infrastructure project by CalPERS.

According to the author, only one-third of 1/10 of 1 percent of CalPERS holdings are in California infrastructure. Pursuant to the CalPERS 2016 Perspectives Report, CalPERS invested \$107.7 million in seven California-based infrastructure projects, which supported 1,300 California jobs. The author believes that if CalPERS were to increase its investment in California-based infrastructure projects to just 1/10 of 1 percent, this would produce an additional 2,600 California jobs.

AB 2348 would also create the Reinvesting in California Special Fund (Fund). The Fund would be established in the State Treasury and would be continuously appropriated for use by DOF to guarantee a rate of return on CalPERS investments in California infrastructure. The Legislature would identify special fund moneys, including trust fund moneys, which will be directed to the Fund through the Budget Act or other legislation. The bill prohibits moneys from the General Fund from being deposited in the Fund.

The bill requires that the rate of return on investment guaranteed by DOF would be subject to the availability of moneys in the Fund. If the infrastructure investments do not produce the guaranteed rate of return on investment, moneys in the Fund would be used to pay CalPERS the guaranteed rate of return.

AB 2348 is supported by the California Association of Port Authorities, State Building and Construction Trades Council, the California Trade Coalition, Pacific Merchant Shipping Association and California's Coalition for Adequate School Housing. There is no known opposition.

Effect on Metropolitan

Metropolitan does not anticipate that CalPERS would invest in any of its projects as a result of this bill due to Metropolitan's low borrowing costs. This bill, however, could make it easier for CalPERS to lend to projects that have otherwise prohibitive borrowing costs or less access to capital in the municipal bond market. Some of these qualifying state infrastructure projects could be indirectly beneficial to Metropolitan. For example, if identified as a project for investment by DOF, funding could be used for local or state-owned water infrastructure, including those projects benefitting the State Water Project.

Policy

MWD Act, Part 5. Bonds and Other Evidences of Indebtedness.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves legislative proposals that do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (CEQA Section 21605 and Sections 15378(b)(1) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not defined as a project under CEQA pursuant to CEQA Section 21065, as well as Section 15378(b)(1) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not defined as a project under CEQA, and
Authorize the General Manager to express support for AB 2348.

Fiscal Impact: Unknown

Business Analysis: AB 2348 could reduce the cost of financing for Metropolitan, member agencies or other water agency and other infrastructure projects throughout California by authorizing DOF to guarantee a rate of return on CalPERS investments made in California infrastructure projects.

Option #2

Take no position on AB 2348.

Fiscal Impact: Unknown

Business Analysis: Potentially fewer financing infrastructure projects would be financed and constructed if DOF were unable to guarantee a rate of return on any CalPERS investments made in California infrastructure projects.

Staff Recommendation

Option #1



Dee Zinke
Deputy General Manager/Chief External
Affairs Officer

6/9/2016
Date



Jeffrey Kightlinger
General Manager

6/9/2016
Date

Attachment 1 – Assembly Bill 2348, as amended May 27, 2016

Ref# ea12644128

AMENDED IN ASSEMBLY MAY 27, 2016

AMENDED IN ASSEMBLY APRIL 28, 2016

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL

No. 2348

Introduced by Assembly Member Levine
(Coauthors: Assembly Members Bonta, Dahle, Eggman, Gomez,
***Gonzalez, and Nazarian*)**

February 18, 2016

An act to add Section 13314 to the Government Code, relating to state government, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 2348, as amended, Levine. Department of Finance: infrastructure investment.

Existing law creates the Department of Finance and provides that the department has general powers of supervision over all matters concerning the financial and business policies of the state.

The Public Employees' Retirement Law (PERL) creates the Public Employees' Retirement System (PERS) and provides a defined benefit to its members based on age at retirement, service credit, and final compensation. PERL vests management and control of PERS in the Board of Administration of the Public Employees' Retirement System, including the exclusive control of the investment of the retirement fund, and requires the board and its officers and employees to discharge their duties with respect to this system solely in the interest of the participants and beneficiaries.

This bill would authorize the Department of Finance to identify infrastructure projects in the state for which the department will

guarantee a rate of return on investment for an investment made in that infrastructure project by the Public Employees' Retirement System. The bill would create the Reinvesting in California Special Fund as a continuously appropriated fund and would require the moneys in the fund to be used to pay the rate of return on investment. The bill would require the rate of return on investment to be subject to the availability of moneys in the fund. The bill would also state the intent of the Legislature to identify special funds to be transferred into the fund for the purposes of these provisions. By creating a new continuously appropriated fund, this bill would make an appropriation.

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

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

1 SECTION 1. Section 13314 is added to the Government Code,
2 to read:
3 13314. (a) The Department of Finance may, subject to
4 subdivision (c), evaluate and identify infrastructure projects in the
5 state for which the department shall guarantee a rate of return on
6 investment for an investment made in that infrastructure project
7 by the Public Employees' Retirement System.
8 (b) There is hereby established in the State Treasury the
9 Reinvesting in California Special Fund. Notwithstanding Section
10 13340, all moneys in the ~~fund~~ *Reinvesting in California Special*
11 *Fund* shall be continuously appropriated without regard to fiscal
12 years. The moneys in the fund shall be used to pay the rate of return
13 on investment provided for in subdivision (a).
14 (c) The rate of return on investment in subdivision (a) shall be
15 subject to the availability of moneys in the Reinvesting in
16 California Special Fund.
17 (d) No General Fund moneys shall be deposited into the fund.
18 It is the intent of the Legislature to, through the Budget Act or
19 other measure, identify and deposit into the fund special fund
20 moneys, including trust fund moneys that are otherwise legally
21 available for these purposes.