Date of Hearing: April 28, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 539 (Cooley) – As Introduced February 10, 2021

Policy Committee: Public Employment and Retirement Vote: 7 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill amends existing law to provide the Teachers' Retirement Board of the California State Teachers' Retirement System (CalSTRS) an exemption from typical state contracting requirements when contracting for qualified investment managers and advisers. The bill instead allows the CalSTRS board to adopt policies to establish competitive bidding processes and contract terms and conditions it deems necessary for contracting with investment advisors and investment managers. The bill maintains current law that requires any contract be conditioned upon a finding that the necessary expertise is not available within existing civil service classifications, with approval by the State Personnel Board.

FISCAL EFFECT:

- 1) Potential cost savings to CalSTRS as a result of reduced staff workload associated with completing the current contracting process.
- 2) Potential increases in CalSTRS investment revenue, to the extent this bill meets its intended purpose of providing more lucrative investment opportunities.

COMMENTS:

1) **Purpose.** According the CalSTRS, the sponsor of this bill:

There are two elements that are critical to the successful procurement of contracts with investment managers and advisers—timeliness and access to top asset managers. CalSTRS' ability to quickly secure investment opportunities and replace poor performing managers and advisers is hampered by operating under the umbrella of sometimes inapplicable and restrictive state procurement requirements. With this measure, the board would establish prudent and fiduciarily responsible policies to hire world-class asset managers and advisers.

2) Background. CalSTRS manages retirement, disability and survivor benefits for full-time and part-time California public school educators. Like most state agencies, CalSTRS must follow state contracting requirements which require agencies to use the request for proposal process to solicit bids for goods and services. Under state contracting laws, agency staff must develop certain documentation; advertise and solicit bids through certain channels; address vendor questions through a certain process; and evaluate all candidate proposals. The state makes

some exceptions to these requirements for certain agencies, such as the California Housing Finance Agency and the California Health Benefits Exchange Board.

According to CalSTRS, the length and complexity of the typical state contracting process slows CalSTRS' ability to replace contracted investment managers who are underperforming and makes it more difficult for CalSTRS to compete for top talent and therefore maximize CalSTRS investment performance.

3) **Prior Legislation.** AB 2510 (Cooley), of the 2019-20 Legislation Session, was substantially similar to this bill. The bill was held in the Assembly Public Employment and Retirement Committee at the request of the author.

AB 1052 (Cooley), of the 2015-2016 Legislative Session, would have authorized CalSTRS to contract for specified investment-related services under the board's terms and conditions. The bill was held on the Assembly Inactive File.

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