Assemblymember Levine Releases Statement on Veto of AB 2348

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Legislation Would Have Provided Up To $300 Billion For California Infrastructure

Assemblymember Marc Levine (D-Marin County) released the following statement today after the Governor vetoed AB 2348 (Levine):

"I am disappointed with the Governor's veto of the only bill passed this legislative session to fund vital infrastructure projects," said Assemblymember Levine. "While tax increases for roads are getting no traction in the Legislature, or with the public, we need to explore all options to better fund transportation, affordable housing, school construction, ports, and other critical public projects. This veto squanders an opportunity to tap into potentially $300 billion in existing funds."

AB 2348 would have provided an opportunity for the Department of Finance to guarantee a rate of return for CalPERS to invest in California infrastructure projects. Under this bill, the Department of Finance could identify key infrastructure projects, calculate a reasonable rate of return to invest in those projects, and then guarantee that rate of return to CalPERS.

In his veto the Governor stated, "This bill makes the state a guarantor of PERS investments. In the event such investment fails to meet the expected return, the state General Fund would be forced to make up the difference." However, the bill is entirely permissive and requires nothing of CalPERS or the State. It only provides an investment option should the Governor deem it appropriate. Additionally, the bill specifically safeguarded the General Fund by providing, "No General Fund moneys shall be deposited into the fund," in order to guarantee the rate of return to CalPERS.

In June, 2015, the Governor called the Legislature into an Extraordinary Session to, "Enact permanent and sustainable funding to maintain and repair the state's transportation and critical infrastructure, improve the state's key trade corridors and complement local infrastructure efforts." While the Legislature has failed to pass a long-term sustainable infrastructure funding solution, this bill would have provided desperately needed funding without raising taxes.

Globally, there is an increasing movement toward investing public pension dollars in public infrastructure projects. Bucking that trend, CalPERS is investing minimally in California infrastructure. Currently, only 0.03% (less than 1/3 of 1/10 of 1 percent) of CalPERS holdings is in California infrastructure. More than 94% of CalPERS's infrastructure investments are outside of California. Presumably CalPERS makes these investment decisions to maximize their return.

However, CalPERS is falling far short of their desired rate of return. The investment earnings CalPERS reported for its $300 billion investment portfolio for the fiscal year ending June 30 were an abysmal 0.61%, lower than the 2.4% earned in the previous year. During the fiscal year ended June 30, California bonds paid a return of between 0.7% and 3.7%.

To make matters worse, for the first time in history CalPERS is paying out more in retirement benefits than it is receiving in contributions. CalPERS paid $18 billion in pension benefits in the 2014-15 fiscal year, compared to $13 billion in contributions.

“This means that ultimately, public employers, including the State and the General Fund are already on the hook for failed CalPERS investments,” said Levine. “The existing system does not work and we need innovative approaches to infrastructure financing. AB 2348 would have been a win for CalPERS and a win for infrastructure financing at the same time. I look forward to working with Governor Brown on this issue in 2017.”