



JOHN CHIANG
California State Controller

June 7, 2011

Fair Political Practices Commission
Attn: Chair and Commissioners
428 J Street, Suite 800
Sacramento, CA 95814

RE: Legislative Report Item on June 9 Agenda: Assembly Bill 873 (Furutani)

Dear Chair and Commissioners:

I am writing regarding Assembly Bill 873 (Furutani), a measure included in the Legislative Report for your June 9th meeting. The staff recommendation for this item is currently "oppose" and I would like to offer the following background and perspective for your deliberations and request you take a neutral position on the measure at this point.

This bill would, for designated senior staff and board members at the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS), extend the current two-year ban on lobbying a former state employer to four years. Additionally, the bill would prevent these same individuals from negotiating contracts with their former employer for two years after separation. I am sponsoring AB 873 in an effort to address major ethical lapses at the state's multi-billion dollar pension investment funds that were uncovered in the "placement agent" scandal that came to light in 2009. AB 873 builds on the now-chaptered AB 1743 (Hernandez), supported last year by the Commission, which regulates placement agents as lobbyists.

In response to the scandal, CalPERS commissioned a study to review their investment decision-making and identify ethical vulnerabilities. Among the findings of that March 2011 report was that, prior to his departure, former CalPERS CEO Fred Buonrosto provided financial disclosures to his future employer, ARVCO, that benefited them with investments by a global capital management group. The study recommended CalPERS and CalSTRS further limit the "revolving door" of employment between state pension fund investment work and private firms seeking better access to those investments.

AB 873, which was modeled on current federal post-employment restrictions, will better insulate the funds from current employees whose fiduciary judgment relating to

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employee and taxpayer funded investments may become clouded by lucrative employment offers.

Regarding the estimated \$135,000 annual cost cited the analysis, I would request that prior to taking a position on the measure my staff be allowed to discuss forthcoming amendments to narrow the scope of the bill and provide a funding mechanism. For example, the bill will be modified to affect only post-employment contract negotiations and not the broader application of working on contracts. Our intention is that AB 873 will not add new Form 700 filers and will require FPPC's intervention only when former CalPERS or CalSTRS employees violate lobbying rules or when improper contract negotiation or placement agent activity is reported to the FPPC. It is my understanding that any such investigation would happen only if someone were to file a complaint with the FPPC.
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Thank you for your consideration of my perspective. I am confident that by enacting stronger revolving door and lobbying restrictions, CalPERS and CalSTRS investments will be better insulated from undue influence, and this bill will help restore the systems' credibility in the public eye.

Sincerely,



JOHN CHIANG
California State Controller