



California Corporate & Securities Law

Governor Brown Vetoes CalPERS/CalSTRS Gift Limitation Bill

By Keith Paul Bishop on October 10, 2011

For the last two years, the California Public Employees Retirement System has been dogged by an unrelenting stream of bad news concerning the behavior of its current and former board members. In the most recent blow, the [California Fair Political Practices Commission](#) issued this [press release](#) in September announcing that it had fined 17 officials at CalPERS for failing to report gifts as required by state law. Among those fined was [Rob Feckner](#), President of the CalPERS Board of Administration.

In an effort to address a rising tide of ethical concerns, CalPERS commissioned a law firm to conduct a “special review” of outside placement agent activities. The review, which according to this [story](#) by Marc Lifsher at the *Los Angeles Times*, cost CalPERS \$11 million. Remarkably, CalPERS chose to use a firm that had “previously represented CalPERS in different proceedings and matters”. Nonetheless, the [report](#) included this observation:

During the course of our investigation, we learned that external money managers and others, including placement agents, paid for expensive meals and provided substantial gifts to CalPERS staff and Board members. Some of these meals and gifts were not reported on the required forms. We also learned that, until 2008, external managers made and paid for extraordinary travel arrangements, including air travel by private jet, for various CalPERS staff and Board members. This travel was not reported on the required gift forms, in some cases because it was provided pursuant to clauses in agreements between CalPERS and its investment managers which specified that their investment partnerships were to pay for those trips. Gifts, meals and travel of this kind may create potential fitness issues and conflicts of interest, or at least the appearance of them, and suggest that decisions could be made for reasons other than the merits of a particular investment. No gift, meal or trip is worth compromising the integrity of the CalPERS investment process, or creating an appearance that it has been compromised.

In response, Senator [Gloria Negrete McLeod](#) introduced [SB 439](#) to prohibit any member of the board of, and any designated employee of, CalPERS or the State Teachers’ Retirement System from accepting gifts in any calendar year with a total value of more than \$50 from any single person who has secured a contract with, or submitted a contract proposal to, CalPERS or CalSTRS within the previous five years.

Although the bill passed both houses of the legislature without a single no vote and was supported by CalPERS, Governor Brown vetoed the bill last week. According to his [veto message](#), the Governor objected to the creation of special rules under the Political Reform Act for the two retirement systems.

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