



Agenda Item 11c

December 10, 2012

ITEM NAME: Responsible Contractor Policy Annual Report

PROGRAM: Targeted Investment Programs

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

For the Fiscal Year 2011-12, Responsible Contractor Program (RCP) Policy compliance totaled 99.2%. Real Estate and Infrastructure Program managers paid in excess of \$671 million toward RCP contracts for the reporting period. This includes both Core Real Estate managers under the Neutrality Trial Responsible Contractor Program (Neutrality Trial RCP) and Non-Core managers under the RCP.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability through actively managing business risks.

BACKGROUND

CalPERS has a deep interest in the condition of workers employed by CalPERS and investment managers at its real estate and infrastructure investments. CalPERS through the RCP Policy supports and encourages fair wages and benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles. CalPERS believes that an adequately compensated and trained worker delivers a higher quality product and service.

This agenda item reports RCP Policy compliance for the Fiscal Year 2011-12 and will be the last RCP Annual Report under the Policy adopted in August 2005. Thereafter annual reports will be provided under the revised RCP Policy that the Investment Committee approved in February 2012. The compliance information presented is limited to contracts of \$50,000 and above and applies to all domestic real estate and infrastructure investment managers, joint ventures and partnerships where CalPERS has a greater than 50% ownership interest and the standards of the Policy are met.

Also reported in this item is compliance under the Neutrality Trial RCP Policy, approved in February 2010. The Neutrality Trial RCP only applies to investments by Core investment managers, where CalPERS ownership interest is greater than 50%. Compliance information is limited to contracts \$100,000 or greater.

Core Real Estate investment managers report under the Neutrality Trial RCP Policy. Please see Attachment 1 for Fiscal Year 2011-12 activity under the Neutrality Trial RCP Policy.

Contract and payment information provided herein is based on annual reports submitted by investment managers.

ANALYSIS

Real Estate and Infrastructure Investment Managers Compliance

The domestic Core investment managers paid 99.9% of their total qualifying contracts to responsible contractors, while the domestic Non-Core investment managers paid 99.5% of their total qualifying contracts to responsible contractors. This represents a combined compliance of 99.7%. The successful compliance rate is calculated using all qualified operating expenses and qualified tenant improvements and other capital expenditures. Please see Attachment 1 for partnership level reporting of compliance with the Policy.

Housing Program Investment Managers Voluntary Report

According to the current RCP Policy, the existing Housing Program managers are not required to comply with the Policy. However, voluntary compliance is strongly recommended. All of the Housing Program managers have voluntarily submitted annual compliance reports. For the Fiscal Year 2011-12, Housing Program investment managers awarded 98.2% of the qualified capital expenditure contract payments to responsible contractors. Please see Attachment 2 for Housing Program partnership level reporting.

Total Real Estate and Infrastructure Compliance

For the Fiscal Year 2011-12, combined investment manager compliance and Housing Program voluntary compliance totaled 99.2%. Real Estate and Infrastructure Program managers paid in excess of \$671 million toward RCP contracts for the reporting period.

Total contract payments and total contract payments to qualifying responsible contractors for the reporting year were up approximately 6% from the prior year due to market conditions. Contracts for the Housing Program were down by approximately 40% as Hearthstone, IHP and the Newland Group disposed of assets. This was offset by increases in contract payments by Core and Non-Core managers. Tenant improvement and capital expenditure contracts account for over 90% of RCP contracts.

Responsible Contractor Complaints

For the Fiscal Year 2011-12, staff did not receive any formal complaints under the RCP Policy. However, staff responded to approximately 20 informal inquiries and informal complaints. Information requests and informal complaints focused primarily on bidding opportunities and negotiation of collective bargaining agreements. In

response, staff immediately contacted investment managers, and whenever the policy applied, staff was able to resolve these matters sometimes within a day or two of receiving the informal complaint.

Responsible Contractor Certifications

For the Fiscal Year 2011-12, all real estate and infrastructure investment managers that are subject to the Policy, and all Housing Program managers that are voluntarily complying, have certified in writing that to the best of their knowledge, they have complied with the RCP and, more specifically, with the roles and responsibilities stated within the RCP Policy.

Notification

The Real Estate and Infrastructure investment managers and stakeholders have been working to improve the bidding opportunity notification process. All managers and delegates use websites or e-mail communication to notify potential bidders of bidding opportunities. Five managers have established automatic notification features and the revised February 2012 RCP Policy encourages managers using websites to offer automatic notification.

Please see Attachment 3, the RCP Bidding Notification Method and Contact Sheet, which includes names of managers, notification methods, and contact information and email addresses. Staff emails this list to all interested parties whenever it is requested.

ATTACHMENTS

- Attachment 1 – Investment Manager Combined Compliance Report: Core, Non-Core, and Housing
- Attachment 2 – Housing Program – Voluntary Participation Report
- Attachment 3 – RCP Bidding Notification Method and Contact Sheet

LAURIE WEIR
Senior Portfolio Manager
Targeted Investment Program

JANINE GUILLOT
Chief Operating Investment Officer