

HOUSE BILL REPORT

ESSB 5590

*As Reported By House Committee on:
State Government*

Title: An act relating to the administration of the state investment board.

Brief Description: Affecting administration of the state investment board.

Sponsor(s): Senate Committee on Financial Institutions & Insurance (originally sponsored by Senators von Reichbauer and Pelz; by request of State Investment Board).

Brief History:

Reported by House Committee on:
State Government, April 5, 1991, DPA.

**HOUSE COMMITTEE ON
STATE GOVERNMENT**

Majority Report: *Do pass as amended.* Signed by 9 members: Representatives Anderson, Chair; Pruitt, Vice Chair; McLean, Ranking Minority Member; Chandler; R. Fisher; Grant; Moyer; O'Brien; and Sheldon.

Staff: Linda May (786-7135).

Background: The State Investment Board is responsible for investing the monies of the state's trust and retirement systems. The board is currently soliciting proposals for a general organizational and operational review of the board and its activities. This review is scheduled to begin on April 19, 1991, and is to include an analysis of the functions, responsibilities, and composition of the board and its staff; an analysis of the roles and relationships of the board with staff, consultants, investment managers, and other agencies; and a comparison of the board's organizational structure and operations with other similar organizations in the public and private sector. The board is also undertaking a review of its overall investment strategy and will be recruiting a new executive director.

Statute directs the Joint Committee on Pension Policy to study the financial condition of the state pension systems, develop funding policies, and make recommendations to the Legislature.

Summary of Amended Bill: The Legislature acknowledges that the State Investment Board is undertaking these extensive reviews. The Legislature finds that it would be imprudent at this time to make changes in the statutes governing the State Investment Board. The Legislature directs the board to report the findings and conclusions of its review to the Joint Committee on Pension Policy no later than January 1, 1992. The joint committee shall consider the report and make any recommendations to the Legislature that the committee deems necessary.

Amended Bill Compared to Engrossed Substitute Bill: The engrossed substitute bill proposes a number of changes to the statutes governing the State Investment Board. This includes changes to the size, composition, obligations, and operations of the board; the confirmation of the board's executive director and the setting of salaries of investment officers; and the reporting requirements of the board. The amended bill acknowledges that the board is undertaking an extensive review of its structure, operations, and policies, and the Legislature finds that it would be imprudent at this time to make changes in the statutes governing the board. The amended bill directs the board to present the findings and conclusions of its review to the Joint Committee on Pension Policy no later than January 1, 1992. The joint committee is directed to make any recommendations to the Legislature that it deems necessary.

Fiscal Note: Not requested.

Effective Date of Amended Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: This is a unique board, and the hopes of many employees rest with the board's decisions. The bill came out of the Senate with bipartisan support. There have been some problems with the board. The current executive director served for three years without confirmation by the State Finance Committee. The board did not produce its annual report for two years. Members of the board who have a vested interest in the board's performance should be the only members eligible to be chair. Allowing the board to set the salaries of its investment officers would allow the hiring of people who can deal with this level of responsibility. There are concerns over disclosure of real or potential conflicts of interest regarding board members and board business.

Testimony Against: The board is in the process of taking stock of its organization, its staff, overall investment strategy, and its entire organizational structure. The review will compare the board with similar operations in the

private and public sectors. Looking at the long term, the board has an outstanding performance record. Questions have been raised as to whether the board has become politicized. The board needs to be professionalized, and that is the goal of this study. It would be better to take a deliberative approach to making changes to the board, rather than a reactive approach. There is some concern about the board having the authority to set the salaries of the investment officers; the process of setting salaries for state employees should be uniform. The bill also increases the number of board members required for a quorum. It may be difficult to meet this quorum.

Witnesses: Senator Peter von Reichbauer; Joe Dear, State Investment Board; and Gary Moore, Washington Federation of State Employees.