

HOUSE BILL REPORT

HB 2444

*As Reported By House Committee on:
Appropriations*

Title: An act relating to the state investment board.

Brief Description: Expanding the state investment board.

Sponsor(s): Representatives Valle, Bowman, H. Sommers,
Chandler, Fraser, Silver and Ludwig.

Brief History:

Reported by House Committee on:
Appropriations, February 10, 1992, DPS.

**HOUSE COMMITTEE ON
APPROPRIATIONS**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 27 members: Representatives Locke, Chair; Inslee, Vice Chair; Spanel, Vice Chair; Silver, Ranking Minority Member; Morton, Assistant Ranking Minority Member; Appelwick; Belcher; Bowman; Braddock; Brekke; Carlson; Dorn; Ferguson; Fuhrman; Hine; Lisk; May; Mielke; Nealey; Peery; Pruitt; Rust; D. Sommers; H. Sommers; Sprenkle; Valle; and Wang.

Staff: Beth Redfield (786-7130).

Background: The state Investment Board is responsible for investing the monies of the state's trust and retirement systems.

Membership: Currently there are 14 members on the state Investment Board. Three of the board members are active members in one of the following three public employee retirement systems: PERS, LEOFF, and TERS. One member is a retired member of a public employee retirement system. Other voting members are the state treasurer, the director of the Department of Labor and Industries, the director of the Department of Retirement Systems, and two legislators. In addition to these nine voting members, there are also five non-voting members on the board. The latter five members are to be experienced and qualified in the field of investments.

Reports: The board is required to prepare at least quarterly a report summarizing the board's investment activities. The board is also required to report at least annually on its investment activities for three specified funds. The board is to send these reports to the governor, the Senate Ways and Means Committee, the House Appropriations Committee, the Department of Retirement Systems, other agencies having a direct financial interest in the board's investment funds, and to any others who submit a written request for the reports.

Summary of Substitute Bill: Membership: Membership on the board is expanded from 14 to 16 members. New nonvoting members are the director of the Forecasting Council and the state actuary.

New Duties: The board receives several new duties and responsibilities. The board is to develop strategic asset allocation policies; establish investment policies, guidelines, and objectives for its various funds; select and terminate investment managers; and delegate authority to the executive director to carry out board policies and approved investment strategies. The board is also to prepare an investment plan every two years beginning January 1, 1993. The board is to submit this plan to the governor, the legislative fiscal committees, the Joint Legislative Committee on Pension Policy, the Department of Retirement Systems, and to other agencies and individuals as requested.

The board continues to have the authority to enter into contracts necessary to carry out its powers and duties. However, the board itself is to authorize and review all contracts, and the contracts are subject to the review and filing requirements and other provisions of law for personal service contracts.

Reports: In its various reports on its investment activities, the board also must summarize the performance of the state's investments. The board is to submit its reports to the Joint Legislative Committee on Pension Policy, in addition to the other recipients listed above.

Substitute Bill Compared to Original Bill: The substitute bill increases membership by two nonvoting members - the director of the Forecast Council and the state actuary - where the original bill increased membership by three - the director of the Office of Financial Management, state auditor, and state actuary - and voting membership by eight. The substitute also removes the requirement that quarterly reports be sent to various legislative committees and state agencies. Instead, an annual report of activities and

performance is to be distributed to the legislative committees and state agencies.

Fiscal Note: Available.

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

Testimony For: The bill follows the recommendations of the Deloitte & Touche study of the state Investment Board and will increase the board's accountability.

Testimony Against: While the bill is well intended, the expanded membership and expansion of voting membership weights the board toward interests of management. The new composition could deny beneficiaries a meaningful role in determining investment policy.

Witnesses: Representative Valle, 34th District (supports); Linda Sheler, Deputy State Auditor (supports amendment deleting state auditor from board membership); and Mark Brown, Federation of State Employees (opposes).