

HOUSE BILL ANALYSIS

ON

HB 1586

Brief Description: *Authorizing the state investment board to create public entities for the purposes of handling real estate and other investment assets.*

BACKGROUND: The Legislature created the Washington State Investment Board in 1981 to administer public trust and retirement funds. There are 14 members that serve on the board: one representative of retired public employees; one representative of retired law enforcement officers and fire fighters; one representative of retired teachers; the State Treasurer; a member of the state House of Representatives; a member of the state Senate; a representative of retired state employees; the Director of the Department of Labor and Industries; the Director of Retirement Systems; and five nonvoting members appointed by the State Investment Board with experience in making investments.

Washington law requires that the State Investment Board establish investment policies and procedures that are designed to maximize return at a prudent level of risk. However, the Department of Labor and Industries' accident, medical aid, and reserve funds, investment policies and procedures are designed to limit fluctuations in industrial insurance premiums, and subject to that purpose, maximize returns at a prudent level of risk.

The State Investment Board manages 23 funds which total approximately \$35 billion. The funds are divided into three classes: retirement, insurance, and permanent. The board has the authority to hire an executive director for a three-year term. The board may delegate to the executive director any of its powers or duties. The State Investment Board utilizes external investment advisors and managers that possess specialized skills in various investment markets.

Income from board funds is considered state funds and must be deposited in a financial institution that meets the requirements of the Public Deposit Protection Commission.

SUMMARY: The State Investment Board is authorized to create corporations, limited liability companies, and limited partnerships. The liability of each entity created by the board is limited to the amount of investment held by that entity. Entities created by the board may be authorized by the board to make any investment the board can make. The directors, officers or other appointees to these holding entities must be board members, board staff, or employees and agents of managers or investment advisors.

Any entity created by the board is to have the same exemption from taxation as the state of Washington. However, holding entities created by the State Investment Board will pay an amount equal to the taxes levied upon real property and personal property as if the property were held in private ownership.

Clarification is made that rents and other income held for investment by the board or held by an entity created by the board are not subject to the requirements of the Public

Deposit Protection Commission until distributions are made to the board.

Fiscal Note: *Requested.*

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

Rulemaking: *No authority.*