

HOUSE BILL REPORT

HB 1586

As Reported By House Committee On:

Financial Institutions & Insurance

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

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

Sponsors: Representatives Huff, L. Thomas, Clements, H. Sommers, Wolfe and Carlson; by request of State Investment Board.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/10/97, 2/24/97 [DPS].

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives L. Thomas, Chairman; Smith, Vice Chairman; Zellinsky, Vice Chairman; Wolfe, Ranking Minority Member; Benson; Constantine; Keiser; Sullivan and Wensman.

Staff: Charlie Gavigan (786-7340).

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 firefighters, 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 the Department 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.

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 of Substitute Bill: 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 in real estate or other not readily marketable assets that 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.

Substitute Bill Compared to Original Bill: The entities created by the board can invest in real estate or other not readily marketable assets only.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This allows the board to place real estate and other investments in separate legal entities to protect other investments and limit potential liability. This is a common practice of investment funds.

Testimony Against: None.

Testified: James Parker, State Investment Board (supports).