

SENATE BILL REPORT

SB 5269

As Passed Senate, March 10, 1997

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

Brief Description: Authorizing the state investment board to delegate certain powers and duties.

Sponsors: Senators Winsley and Snyder; by request of State Investment Board.

Brief History:

Committee Activity: Financial Institutions, Insurance & Housing: 1/29/97, 1/30/97 [DP]. Passed Senate, 3/10/97, 47-1.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

Majority Report: Do pass.

Signed by Senators Winsley, Chair; Benton, Vice Chair; Finkbeiner, Hale, Heavey, Kline and Prentice.

Staff: Catherine Mele (786-7470)

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.

The State Investment Board manages 23 funds which total approximately \$35 billion. The funds are divided into three classes: retirement, insurance, and permanent.

Washington law requires that the State Investment Board establish investment policies and procedures that are designed exclusively 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.

In order to achieve its investment goals the board divides specific areas of responsibility to committees of the board. The board committees consist of selected board members that act as extensions of the board. These committees analyze investment issues in detail, and make recommendations to the full board. The board has established four committees: administrative, audit, private markets, and public markets.

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 statute does not specifically allow the executive director to delegate these powers or duties to his or her staff.

The State Investment Board relies upon external investment advisors and managers that possess specialized skills in various investment markets. The board engages these advisors and managers by contract and they are not employees of the State Investment Board. These advisors and managers make and manage certain investments on behalf of the board. The current statute governing the board does not expressly permit the board to give these experts authority to make investments or investment management decisions.

Summary of Bill: The State Investment Board's executive director is permitted to delegate to his or her staff the powers or duties given to the executive director by the board. The powers that may be delegated include the ability to make investment decisions and investment contracts on behalf of the board. The board, the executive director, or the staff delegee are permitted to give investment advisors and managers authority to make, manage, or dispose of investments according to criteria established by the board or the executive director.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: The State Investment Board's statute written in 1981 did not contemplate the need for the director to delegate his or her powers and authorities to staff. This bill clarifies that the director can delegate, to his or her staff, the powers and duties that the board delegates to the executive director. SB 5269 makes it explicit that the board can delegate certain duties to outside investment advisors and managers. In today's highly complex investment environment, most institutional investors rely upon persons or firms which possess highly specialized skills in particular areas of investment. The State Investment Board, without the internal resources to match such specialized expertise or to react promptly enough to take advantage of opportunities, relies upon the expertise of outside advisors and managers. This bill assures that the State Investment Board can continue to delegate to these experts.

Testimony Against: None.

Testified: James Parker, Washington State Investment Board (pro).