

SENATE BILL REPORT

SB 6063

As Reported By Senate Committee On:
Ways & Means, March 5, 1999

Title: An act relating to the authority of the state investment board to invest and reinvest moneys in the emergency reserve fund.

Brief Description: Authorizing the state investment board to invest and reinvest moneys in the emergency reserve fund.

Sponsors: Senators Loveland, West, Snyder and Oke.

Brief History:

Committee Activity: Ways & Means: 3/4/99, 3/5/99 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6063 be substituted therefor, and the substitute bill do pass.

Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Fairley, Fraser, Kline, Kohl-Welles, Rasmussen, Roach, Rossi, B. Sheldon, Snyder, Spanel, Thibaudeau, West, Winsley, Wojahn and Zarelli.

Staff: Steve Jones (786-7440)

Background: The Emergency Reserve Fund was established in 1995 by Initiative 601 and consists of all General Fund--State revenues that are received each fiscal year in excess of the state General Fund expenditure limit. By a two-thirds vote of each house, the Legislature may appropriate moneys from the Emergency Reserve Fund only if the appropriation does not exceed the state expenditure limit. Investment earnings are retained by the Emergency Reserve Fund.

If the Emergency Reserve Fund accumulates moneys in excess of 5 percent of biennial General Fund--State revenues, the excess amount is transferred to the Education Construction Fund for use in construction projects for the common schools and state institutions of higher education.

Fund balances in the state treasury are invested by the State Treasurer. By law, these investments are limited to various bonds, notes, certificates of deposit, and other specified fixed-income securities. The State Treasurer is not authorized to invest these balances in more aggressive investments, such as corporate stock. Recent investment earnings by treasury funds have averaged approximately 5.5 percent annually.

The State Investment Board was established in 1981 to provide for the long-term investment of various state permanent funds and trust accounts. By state constitutional amendments in 1965, 1968 and 1985, the Permanent Common School Fund and public pension and worker

compensation funds were allowed to be invested in such instruments as the Legislature may authorize, including corporate stock. Recent investments of these funds by the State Investment Board have earned an annual return of approximately 17 percent. This high rate of return can be attributed to the long-term nature of these trust funds and general stock market performance in recent years. These returns may not be achievable in the future, and other investments may be more prudent for other funds and accounts.

A related measure, SJR 8208, amends the state Constitution to permit the Legislature to authorize the investment of state funds and accounts in corporate stock. In the absence of SJR 8208, the investment of the Emergency Reserve Fund would be limited to fixed-income investments.

Summary of Substitute Bill: The authority to invest the Emergency Reserve Fund is transferred from the State Treasurer to the State Investment Board.

Substitute Bill Compared to Original Bill: Technical modifications were made.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1999.

Testimony For: None.

Testimony Against: None.

Testified: No one.