

HOUSE BILL REPORT

HJR 4202

As Passed House:

February 20, 2001

Brief Description: Investing state investment board funds.

Sponsors: Representatives H. Sommers, Sehlin, Benson, Hatfield and McIntire by request of State Investment Board.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/31/01 [DP].

Floor Activity:

Passed House: 2/20/01, 96-1.

Brief Summary of Bill

- Creates ballot measure proposing the amendment of the state constitution so as to allow the State Investment Board to invest state funds without constitutional restrictions.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Benson, Republican Co-Chair; Hatfield, Democratic Co-Chair; Bush, Republican Vice Chair; McIntire, Democratic Vice Chair; Cairnes, DeBolt, Keiser, Miloscia, Roach, Santos and Simpson.

Staff: Thamas Osborn (786-7129).

Background:

The Legislature created the Washington State Investment Board (SIB) in 1981 to administer public trust and retirement funds. There are 14 members that serve on the board: One active member of the Public Employees Retirement System, one active member of the Law Enforcement Officers and Firefighters Retirement System, one active member of the Teachers Retirement System, 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 (SIB) establish investment policies and procedures that are designed to maximize return at a prudent level of risk. The SIB manages 31 funds which total approximately \$56 billion.

Certain sections of the Washington State Constitution prescribe limits on the form of investments which may be included in portfolios involving state funds. Unless specifically exempted from these restrictions by Article 29, Section 1 of the state constitution, the investment of state funds is essentially limited to government securities.

Of the state funds currently under SIB management, the public pension or retirement funds, industrial insurance funds, the Guaranteed Education Tuition program funds, the Developmental Disabilities Endowment Trust, and the Common School Permanent Fund may be invested in a more diversified range of securities, such as a mixture of corporate bonds and stocks.

The SIB, however, invests in a growing number of other funds, including four Permanent Funds, the State Emergency Reserve Fund, and other smaller state trusts which are not currently exempted from constitutional restrictions. The state constitution currently requires that such funds may be invested only in government securities.

Summary of Bill:

Should the electorate approve the proposed constitutional amendment, the State Investment Board will be exempt from the investment restrictions currently imposed by the state constitution. The effect of such an amendment will be to allow the SIB to freely invest state funds in accordance with its fiduciary duties, and will eliminate the requirement that certain funds be invested only in government securities.

Appropriation: None.

Fiscal Note: Not Requested.

Testimony For: The state constitution restricts the investment of state funds to government securities, unless a specific exception is granted by amendment. Previous amendments have allowed some retirement funds to be invested in the stock market, but many funds remain subject to the constitutional prohibition. As the legislature adds new funds to be managed by the SIB, it would be prudent to once-and-for-all amend the constitution to grant the SIB the flexibility it needs to prudently diversify its investment

portfolio. Such diversification would increase returns and at the same time reduce investment risk.

Testimony Against: None

Testified: Jim Parker, Director, State Investment Board.