

HOUSE BILL REPORT

ESSB 5192

As Reported by House Committee On:

Financial Institutions & Insurance

Title: An act relating to Washington investments.

Brief Description: Managing the state's investments.

Sponsors: Senate Committee on Financial Services, Insurance & Housing (originally sponsored by Senators Zarelli and Oke).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 3/28/03, 4/4/03 [DPA].

Brief Summary of Engrossed Substitute Bill (As Amended by House Committee)

- Requires that the State Investment Board (Board) examine economically targeted investments in Washington as potential investments for state trust funds.
- Requires the Board to create an audit committee consisting of not more than five voting members.
- Allows all Board members serve terms of three years and hold office until successors are appointed, excepting legislative, ex officio, and non-voting members.
- Requires two year appointments for non-voting members of the Board and allows that they be removed from the Board only for cause.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended. Signed by 8 members: Representatives Schual-Berke, Chair; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Hatfield, Hunter, Roach and Santos.

Minority Report: Without recommendation. Signed by 3 members: Representatives Simpson, Vice Chair; Benson, Ranking Minority Member; and Cooper.

Staff: Thamas Osborn (786-7129).

Background:

The Legislature created the State Investment Board (Board) in 1981 to administer public trust and retirement funds. There are 15 members that serve on the Board:

1. One active member of the Public Employees' Retirement System (appointed by the Governor for an initial term of one year);
2. One active member of the Law Enforcement Officers' and Firefighters' Retirement System (appointed by the Governor from a list of nominations submitted by other active members; the initial term is two years);
3. One active member of the Teachers' Retirement System (appointed by the Superintendent of Public Instruction for an initial term of three years);
4. The State Treasurer;
5. A member of the state House of Representatives (appointed by the Speaker of the House for a two year term);
6. A member of the state Senate (appointed by the President of the Senate for a two year term);
7. A retired member of the state retirement system (appointed by the Governor for an initial two year term);
8. The Director of the Department of Labor and Industries;
9. The Director of the Department of Retirement Systems;
10. One active member of the School Employees' Retirement System (appointed by the Superintendent of Public Instruction for an initial three year term); and
11. Five non-voting members that are experienced and qualified with respect to investments (appointed by the Board).

With the exception of the ex officio, legislative and non-voting members, after the initial appointment term all Board members serve terms of three years.

A quorum to conduct the business of the Board consists of at least six voting members. No action may be taken by the Board without the affirmative vote of at least six voting members serving on the Board.

The Board is responsible for the investment of approximately \$47.9 billion involving 33 funds, including state retirement, industrial insurance, deferred compensation, and various trust funds. Approximately 3.3 percent of these assets are currently invested in Washington. The Board is required to conduct its investment activities according to policies and procedures designed to maximize return at a prudent level of risk.

Summary of Amended Bill:

Economically targeted investments. The Board is required to examine economically targeted investments in Washington as potential investments for state trust funds. The goal of this requirement is to both obtain maximum investment return while at the same

time assisting regional economies and generally serving the economic well-being of this state.

The Board must create a program to facilitate the exchange of information between its private equity general partners and appropriate parties with knowledge of potential economically targeted investment opportunities.

Creation of Audit and Accountability Committee. The Board must appoint an Audit committee consisting of not more than five voting members. The purpose of the committee is to oversee audit activities, develop and monitor the Board's code of conduct, and deal with corporate governance issues.

Appointments to the State Investment Board. With the exception of non-voting, legislative, and ex officio members, all Board members serve terms of three years and hold office until successors are appointed. Non-voting members are appointed for two-year terms and may be removed from the Board only for cause.

Role of Board members. The bill defines and expands the fiduciary roles and responsibilities of Board members.

Amended Bill Compared to Engrossed Substitute Bill:

- Eliminates the technology investment account and replaces it with the requirement that the Board examine economically targeted investments in Washington as potential investments for state trust funds.
- Eliminates the Audit and Accountability Committee and replaces it with an Audit committee, whose purpose is to oversee audit activities, develop and monitor the Board's code of conduct, and deal with corporate governance issues.
- Eliminates the two new voting members added to the Board by the bill, thus leaving the Board with 15 members.
- Eliminates the involvement of the Department of Community, Trade and Economic Development in the investment activities of the Board.
- Defines additional fiduciary roles and responsibilities for Board members.
- Allows non-voting members to be appointed for two-year terms and to be removed from the Board only for cause.
- Deletes the section changing the quorum requirement to a majority of the voting members, thus retaining the current rule that a quorum consists of six members.

- Deletes the emergency clause that would make the bill effective immediately upon passage by the Legislature.
- Requires the Director of Labor and Industries to report to labor organizations regarding investment earnings and investment objectives.

Appropriation: None.

Fiscal Note: Available. New fiscal note ordered on April 4, 2003.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed..

Testimony For: (Original bill) The intent of the bill is to encourage investment in technology industries in Washington and, in turn, stimulate the state economy. The Board should place more emphasis on investing in Washington and keeping as much money here as possible.

(Amended bill) The amended bill is preferable to the original bill insofar as the latter would create some problems for the Board. The amendment resolves inconsistencies regarding both Board policies and the fiduciary duties of Board members. Tax law requires that certain fiduciary requirements be met. The provisions of the amendment reinforce the Board's economically targeted investment policies. Non-voting members should only be removed for cause and should have a one-year term. This would make it easier to recruit the most qualified candidates. Expanding the duties of Board members would not increase the costs associated with the bill.

(In support with concerns) (Original bill) The emphasis should generally be on investments in Washington, and not strictly on investments in technology businesses.

Testimony Against: (Original bill) The composition of the Board should remain at 15 members and should not be expanded. The current investment portfolio is quite good and is appropriately diversified. It is important for the Board to maintain its independence. To focus on technology investments is not appropriate since technology businesses already receive a disproportionate share. Rather, the focus of the Board should be to invest in industry, so as to put as many people back to work as possible. Currently, the Board does not have the proper focus with respect to the allocation of investment funds. It needs to retain a great deal of flexibility.

Testified: (In support) (Original bill) Senator Zarelli, prime sponsor; and Joe Dear, State Investment Board.

(In support) (Amended bill) John Charles, State Investment Board; and Neil McReynolds

and Andy Dale, Buerk, Craig & Victor.

(In support with concerns) (Original bill) John Charles, State Investment Board; Bev Hermanson, Washington Federation of State Employees; Ellie Menzies, Service Employees International Union; and Neil McReynolds and Andy Dale, Buerk, Craig & Victor.

(With concerns) (Original bill) Lynn Maier, Washington Public Employee's Association; and Randy Parr, Washington Education Association.

(Opposed) (Original bill) David LaForest, Tabor 100.

(Information Only) (Original bill) Glenn Gregory, Obsidian Investment Advisors.