

SENATE BILL REPORT

SB 5192

As Reported By Senate Committee On:
Financial Services, Insurance & Housing, February 20, 2003

Title: An act relating to Washington technology investments.

Brief Description: Promoting job creation through state investments.

Sponsors: Senators Zarelli and Oke.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 1/28/03, 2/20/03 [DPS].

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: That Substitute Senate Bill No. 5192 be substituted therefor, and the substitute bill do pass.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Keiser, Prentice, Roach and Zarelli.

Staff: Joanne Conrad (786-7472)

Background: Venture capitalists provide private equity financing, typically for start-up businesses in fields requiring higher initial capital expense than can be provided by a small business loan. Venture capitalists may also add value to a company through active involvement in management. Generally, venture capital is considered to represent a higher level of risk than many other types of investments, with a goal of higher returns.

The Washington State Investment Board has 15 members, and is responsible for the investment of approximately \$48 billion for 33 state funds, including state retirement, industrial insurance, deferred compensation and various trust funds. The board is required to conduct its investment activities according to policies and procedures designed to maximize return at a prudent level of risk.

The board currently invests approximately 3.3 percent of its assets in Washington State. Some other jurisdictions may invest greater percentages. CalPERS, for example, invests approximately 16.6 percent of its total assets in California.

Summary of Substitute Bill: The Washington State Investment Board must maintain a portion of its portfolio in a separate, earmarked technology investment account, to attract and assist the formation of technology businesses in Washington. The goal is to promote growth of Washington companies, by attracting technology businesses in Washington State, while using prudent investment standards.

The board is required to hire or designate a minimum of one experienced, full-time staff person to research and recommend investment opportunities in technology businesses in

Washington State. The Department of Community, Trade and Economic Development actively markets the technology investment account.

An audit and accountability committee of five voting board members is required to review all investment decisions and report on performance. The State Treasurer serves as a member of the committee, and assists in identifying in-state investment opportunities that meet or exceed out-of-state investment returns.

The Governor or Governor's designee is added, as a 16th member of the board. At least one nonvoting member must have experience in investments that have a substantial employment base in Washington or make a significant economic contribution to the state.

The board must report quarterly to legislative fiscal committees regarding an assessment and review of investments "made within or benefitting the economy" of Washington State.

Substitute Bill Compared to Original Bill: Earmarking of \$75 million for a technology investment account, utilization of a Washington venture capital firm, and annual reports to the legislature are eliminated. Requirements to dedicate a staff person, add the Governor to the board, change nonvoting member terms of office, add an audit and accountability committee to the board, require identification of investments by the State Treasurer and involve the Department of Community, Trade, and Economic Development in marketing Washington technology business opportunities are added.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: The Investment Board can do more to promote job and economic growth in Washington. Venture capital focused on Washington companies would encourage business.

Testimony Against: State employees need to rely on the board for investment growth, to keep contribution rates low. The board's focus is its fiduciary duty to invest in the best interest of the beneficiaries of the funds. Requiring investment in a single state is too restrictive. The board cannot balance maximizing returns with looking at economic development.

Testified: Senator Zarelli, prime sponsor (pro); Lynn Maier, WA Public Employees Assn.(con and concerns); Joe Dear, Exec. Dir., WA State Investment Board (con and concerns).