

# SENATE BILL REPORT

## SHB 1341

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As Reported By Senate Committee On:  
Government Operations & Elections, February 22, 2006

**Title:** An act relating to the exemption of public hospital districts from regulatory restrictions on investments.

**Brief Description:** Authorizing additional investment authority for specified hospital districts.

**Sponsors:** House Committee on Local Government (originally sponsored by Representatives Simpson, P. Sullivan, Nixon, Buck, Springer, Hankins, Haler, Quall, B. Sullivan, Kessler, Morris, Roberts and Chase).

**Brief History:** Passed House: 2/13/06, 95-1.

**Committee Activity:** Government Operations & Elections: 3/24/05, 2/23/06, 2/22/06 [DPA].

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### SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

**Majority Report:** Do pass as amended.

Signed by Senators Kastama, Chair; Berkey, Vice Chair; Roach, Ranking Minority Member; Benton, Fairley, Kline, Mulliken and Pridemore.

**Staff:** Mac Nicholson (786-7445)

**Background:** Public hospital districts are a type of special purpose districts whose powers are limited to those specifically authorized by law. A public hospital district is authorized to acquire property, borrow money for corporate purposes, issue and sell bonds, and raise revenue through the use of a levy.

The state constitution prohibits the state and municipal corporations, including public hospital districts, from having an ownership interest in any company or corporation. In other words, the constitution prevents municipal corporations from investing funds in stock or other equities. However, the constitution has been amended to allow investment of certain public funds, including public pension and retirement funds, industrial insurance trust funds, funds held in trust for the benefit of persons with developmental disabilities, and the permanent common school fund.

**Summary of Amended Bill:** Public hospital districts with annual revenues exceeding \$100 million, of which less than 5 percent are derived from regular property tax revenues, are permitted to invest their funds and money in accordance with investment policies established by the State Investment Board. The district's board of commissioners must first adopt a policy to govern investments, and the district must an investment manager that currently manages at least \$500 million in assets and has at least five years of experience managing investments authorized by the district's policy.

Eligible funds and moneys means funds and moneys that belong to the district, are in its custody, and are available for investing in long-term investment vehicles as defined by generally accepted accounting principles.

The state, cities, towns, and other local governments are not authorized to invest their funds and money in investments authorized for public hospital districts under the bill.

**Amended Bill Compared to Original Bill:** The original bill allowed hospital districts to invest in appropriate investment vehicles as reasonably and prudently determined by the finance or investment committee of the district. The amended bill requires investments be made in accordance with policies established by the State Investment Board. The amended bill also provides that the board of the district must adopt an investment policy, and use an investment manager with five years of experience and who currently manages at least \$500 million in assets.

The amended bill defines eligible funds and moneys, and provides that the state, cities, towns, and other local governments cannot invest as hospital districts invest.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

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

**Testimony For:** This bill gives greater flexibility to six public hospital districts to invest their funds as their non-profit counterparts. There are built-in protections, and the bill is narrowly drafted. Funds will be invested in accordance with the policies of the State Investment Board, under a proposed amendment, and the districts must leave sufficient funds available to run the hospital for 60 days. Hospital districts are currently limited to government investments, which carry a low return. The State Auditor, the board of district commissioners, and the hospital investment committees all have oversight and provide safeguards.

**Testimony Against:** There is a right way to invest and a wrong way to invest. This bill represents the wrong way to invest. Risk and return are directly correlated, and public funds should be steered away from risky investments. The State Investment Board makes long term investments with long term money, but the bill seeks to allow short term investment of operating funds, which is bad public policy. Safety and liquidity should take precedence over chasing yield. It is bad public policy to amend the constitution to allow investment such as this for six public hospital districts.

**Who Testified:** PRO: Lisa Thatcher and Dick Goldsmith, Association of Washington Public Hospital Districts.

CON: Mike Murphy, State Treasurer; Rose Bowman and Judi Morris, Washington State Association of County Treasurers.