

HOUSE BILL REPORT

HB 1784

As Reported by House Committee On: Capital Budget

Title: An act relating to investment of funds derived from the sale of lands set apart for institutions of higher education.

Brief Description: Eliminating limitations on the investment of certain state moneys.

Sponsors: Representatives Kenney, Sells, Buri and Wood; by request of Washington State University.

Brief History:

Committee Activity:

Capital Budget: 2/8/07, 2/22/07 [DPS].

Brief Summary of Substitute Bill

- Removes the word "irreducible" from the permanent fund statutes of the public baccalaureate institutions.
- Requires passage of a constitutional amendment by voters at the next general election to take effect.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 19 members: Representatives Fromhold, Chair; Ormsby, Vice Chair; Schual-Berke, Vice Chair; McDonald, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Blake, Chase, Dunshee, Eickmeyer, Goodman, Hankins, Kelley, McCune, Orcutt, Pearson, Pedersen, Sells, Skinner and Strow.

Minority Report: Do not pass. Signed by 1 member: Representative Hasegawa.

Staff: Susan Howson (786-7142).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In 1889, the federal government granted certain lands to Washington to be held in trust for what are now the state's public baccalaureate institutions. Proceeds from the sale of timber, minerals, and permanent rights-of-way on these lands, are deposited into "permanent" funds which are managed and invested by the Washington State Investment Board (SIB). The income from these permanent funds is appropriated by the Legislature for the construction and minor works maintenance of university facilities.

There are four permanent funds. Income derived from the "agricultural permanent fund" and the "scientific permanent fund" supports construction and facility improvements at Washington State University. The "state university permanent fund" benefits the University of Washington, and the "normal school permanent fund" benefits Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College. The State Constitution prohibits university permanent funds from being invested "in the stock of any company, association or corporation" (Article XII, Section 9). The SIB currently invests these funds in fixed income vehicles.

The State Constitution was amended by voters in 1966 to allow the K-12 common school permanent fund to be invested as authorized by law. It was further amended in 1985 and 2000 to allow moneys of the public pension or retirement funds, industrial insurance trust fund, or funds held in trust for the benefit of persons with disabilities, to be invested as authorized by law.

Summary of Substitute Bill:

The bill removes the word "irreducible" from the permanent fund statutes of the public baccalaureate institutions. The act is void in its entirety if the constitutional amendment proposed in HJR 4215 is not validly submitted to, approved, and ratified by the voters at the next general election.

Substitute Bill Compared to Original Bill:

The substitute bill added legislative intent which recognizes that by investing in equities, the value of higher education permanent funds may fluctuate over time due to market changes, even if no disposition of the fund principal is made. Such fluctuations will not violate the mandate of the statute. The principal amounts in the higher education funds are to be held in perpetuity and that only the earnings on the funds may be appropriated to support the benefitted institution. In addition, the State Investment Board is required to report annually on the investment of the higher education permanent funds.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect if the proposed constitutional amendment is ratified at the next general election.

Staff Summary of Public Testimony:

(In support) The State Investment Board currently invests the higher education permanent funds in fixed income vehicles. The constitution has been amended to allow other state education and pension trust funds to be invested in equities. There is no reason not to extend the same authority to the permanent funds of the state's colleges and universities. Changing this provision and expanding investment options for the permanent funds should result in greater returns in the long term, resulting in more funds that can be used for the construction and preservation of university buildings. All of the public baccalaureate institutions will benefit from these changes. The State Investment Board is happy to take on this assignment.

(In support with amendment) The bill language could be perfected with regard to the word "irreducible" and what the potential unintended consequences could be from removing it from statute.

(Opposed) None.

Persons Testifying: (In support) Representative Kenney, prime sponsor; Joe Dear, Washington State Investment Board; Larry Ganders and Douglas Lawrence, Washington State University; and Randy Hodgins, University of Washington.

(In support with amendment) Mike Murphy, State Treasurer.

Persons Signed In To Testify But Not Testifying: None.