

# HOUSE BILL REPORT

## SHB 3149

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### As Amended by the Senate

**Title:** An act relating to compensation of state investment board personnel.

**Brief Description:** Changing state investment board personnel compensation provisions.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives Sommers, Haler, Conway, Kenney, Fromhold, McIntire, Anderson and Darneille; by request of State Investment Board).

**Brief History:**

**Committee Activity:**

Appropriations: 1/31/08, 2/6/08 [DPS].

**Floor Activity:**

Passed House: 2/18/08, 73-22.

Senate Amended.

Passed Senate: 3/7/08, 49-0.

#### Brief Summary of Substitute Bill

- Establishes an appropriated retention pool within the State Investment Board (Board) Expense Fund for Board investment officers.
- Directs the Board to maintain the investment officer retention pool according to a performance management and compensation program developed by the Board to address recruitment and retention issues, and reward performance.
- Limits compensation and incentives for investment officers to the average of total compensation provided by other state or public funds of similar size.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Haler, Assistant Ranking Minority Member; Anderson, Cody, Conway, Darneille, Ericks, Fromhold,

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*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.*

Grant, Green, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Pettigrew, Priest, Schual-Berke, Seaquist, Sullivan and Walsh.

**Minority Report:** Do not pass. Signed by 7 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Chandler, Kretz, Morrell, Ross and Schmick.

**Staff:** David Pringle (786-7310).

**Background:**

The State Investment Board (Board) was established by the Legislature in 1981 to oversee the long-term investment of the state's pension, industrial insurance, and trust funds. These investments are managed by a staff employed by the Board, as well as outside investment advisors under contract with the Board. The administrative and investment expenses of the Board are paid from the State Investment Board Expense Account, which is funded from the investment earnings of the funds managed by the Board, subject to legislative appropriation.

The executive director and investment officers employed by the Board are exempt from the state civil service laws. Their compensation is determined by the Board. In 2001 the Legislature authorized the Board to establish a retention pool to grant salary increases to address recruitment and retention issues. The compensation level for the investment officers cannot exceed the average paid by state funds of a similar size, based on a biennial salary survey. Each year, the salary increases granted by the Board from the retention pool cannot exceed an average of 5 percent.

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**Summary of Substitute Bill:**

The Board's retention pool is made a part of the State Investment Board Expense Account. The retention pool may be used to reward performance with incentive compensation and to address recruitment and retention problems pursuant to a performance management and compensation program developed by the Board, based on a biennial compensation survey. The compensation levels cannot exceed the average total compensation paid by other public funds of a similar size. Disbursements from the retention pool are made from legislative appropriations on authorization of the executive director or a designee. The salary increase limitation of 5 percent is removed.

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**EFFECT OF SENATE AMENDMENT(S):**

: The Senate amendment limits incentive compensation increases paid from the pool to individual investment officers to 30 percent per year.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Inability to recruit and retain top investment officers could potentially cost the state millions. We have just lost a key investment officer to the state of Oregon, who left for a compensation package that was effectively twice what the officer earned here. We need to act now to make our compensation packages sufficient to recruit and retain top investment personnel. We are fiduciaries, and will be responsible in approving increases only as needed. A substitute bill is being prepared that will make the increases appropriated and subject to additional oversight. The plan will stay anchored to the average of similar plan's investment officers. There will be oversight by the Board and the Legislature. Our staff don't do the most dangerous jobs, but the market for our personnel dictates that we have more competitive recruitment and retention policies.

(With concerns) Through many discussions with the Board on this issue, I have come to believe that this proposal over-reaches. It is very difficult to design performance pay plans that work. The use of a "total compensation" standard is also a big change here. Comparing to state, local, and Canadian funds is also a big change. Currently the deletion of the 5 percent cap is also questionable. Two investment officers have left in recent years, but this isn't a particularly high rate of turnover. We want quality investment officers, but in looking at their compensation, also look at not removing the 5 percent cap.

**Persons Testifying:** (In support) Pat McElligott, and Joe Dear, Washinton State Investment Board.

(With concerns) Greg Devereux, Washington Federation of State Employees.

**Persons Signed In To Testify But Not Testifying:** None.