

FINAL BILL REPORT

EHB 2620

C 187 L 12
Synopsis as Enacted

Brief Description: Addressing the management and investment of state funds and accounts.

Sponsors: Representative Hunter; by request of State Treasurer.

House Committee on Ways & Means

Background:

The State Treasurer (Treasurer) is generally responsible for managing the cash flow of state accounts and for short-term investment of the state's operating cash.

There are two types of accounts managed by the Treasurer: treasury accounts and custodial accounts. This distinction arises from the constitutional requirement for an appropriation in law before moneys in the treasury may be expended. The Legislature may exclude some public accounts from this appropriation requirement by designating those accounts as "in the custody of" the Treasurer. Moneys in these custodial accounts, also referred to as non-appropriated accounts, typically do not require an appropriation before they may be expended. Instead, the statute designates an appropriate agency official who may authorize expenditure from a custodial account.

In addition to treasury accounts and custodial accounts, agencies may also maintain accounts at private financial institutions. These are known as "local" accounts. Agencies may establish new local accounts only when authorized to do so by the Office of Financial Management for reasons of economy and efficiency that could not be achieved by placing the moneys in the state treasury.

Both the Treasurer and the State Investment Board (SIB) manage and invest moneys in both treasury accounts and custodial accounts. Authorized forms of investment for treasury and custodial accounts are specified in statute. In general, the state Constitution prohibits investing public moneys in corporate stock, but there are exceptions for specific accounts. Some state accounts, including the state pension funds, industrial insurance funds, and the Budget Stabilization Account, are invested by the SIB. The SIB is required to invest those public trust and retirement funds that are listed in statute.

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.

Public funds contained in cash accounts invested by the SIB are each separately invested in a money market mutual fund. Private funds contained in cash accounts invested by the SIB may be invested in a manner that generates slightly higher yields. Over the last 10 years the state treasury portfolio (where investments are pooled) had an average annual net yield of 2.70 percent versus 1.92 percent for the money market fund.

The custodial American Indian Scholarship Endowment Fund is administered by the Higher Education Coordinating Board (HECB). Earnings from the account are used to provide scholarships to American Indian higher education students. Investment authority for both public moneys and gifts deposited into the account rests with the SIB.

The custodial Foster Care Scholarship Endowment Fund is administered by the HECB. Earnings from the account are used to provide scholarships to eligible students who were in foster care. Investment authority for both public moneys and gifts deposited into the account rests with the SIB.

The Budget Stabilization Account is in the state treasury. Moneys may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (1) forecasted state employment growth for any fiscal year is less than 1 percent; or (2) the Governor declares an emergency resulting from a catastrophic event that requires government action to protect life or public safety. Other withdrawals from the Budget Stabilization Account may be made only by a three-fifths vote of the Legislature. Investment authority for moneys deposited into the account rests with the SIB.

The Special Wildlife Account is in the state treasury. Funds in the account may be used for the protection, propagation, and conservation of wild animals, wild birds, and game fish. Investment authority for both public moneys and gifts deposited into the account rests with the SIB.

The custodial Radiation Perpetual Maintenance Fund is administered by the Department of Health. Funds in the account may be used to survey and maintain processing sites which may contain radioactive material. Investment authority for moneys deposited into the account rests with the SIB.

The State Reclamation Revolving Account is in the state treasury. Funds in the account may be used to carry out the State Reclamation Act. Investment authority for both public moneys and gifts deposited into the account rests with the SIB.

The custodial Public Employees and Retirees' Insurance Reserve Fund is administered by the Health Care Authority (HCA). Funds in the account hold reserves established by the HCA for employee and retiree benefit programs. Investment authority for moneys deposited into the account rests with the SIB.

The custodial Basic Health Plan Self-insurance Reserve Fund is administered by the HCA. Funds in the account hold reserves established by the HCA for the basic health plan. Investment authority for moneys deposited into the account rests with the SIB.

The Pension Funding Stabilization Account is in the state treasury. Funds in the account may be used for payment of state government employer retirement contributions. Investment authority for moneys deposited into the account rests with the SIB.

The custodial Millersylvania Park Trust Fund is administered by the SIB and the State Parks and Recreation Commission. Earnings from the account are used for the improvement, maintenance, and upkeep of Millersylvania State Park. Investment authority for both public moneys and gifts deposited into the account rests with the SIB.

The custodial Judicial Retirement System Account is administered by the Department of Retirement Systems. Funds in the account are used to administer the judicial retirement system (including the payment of pension benefits). Investment authority for moneys deposited into the account rests with the SIB.

Summary:

Investment responsibility for the following accounts is transferred from the State Investment Board (SIB) to the State Treasurer: American Indian Scholarship Endowment Fund; Foster Care Scholarship Endowment Fund; Budget Stabilization Account; Special Wildlife Account; Radiation Perpetual Maintenance Fund; State Reclamation Revolving Account; Pension Funding Stabilization Account; Millersylvania Park Trust Fund; Judicial Retirement System Account; Public Employees and Retirees' Insurance Reserve Fund; and the Basic Health Plan Self-insurance Reserve Fund.

Investment authority remains with the SIB for non-public funds in the American Indian Scholarship Endowment Fund and in the Foster Care Scholarship Endowment Fund.

The SIB is required to invest public trust and retirement funds unless otherwise prescribed as by law.

There are no changes made to fund types (custodial versus treasury), where interest earnings are credited or allowable uses of individual accounts.

Votes on Final Passage:

House	93	0
Senate	49	0

Effective: June 7, 2012
July 1, 2012 (Sections 3 and 5)