

HOUSE BILL REPORT

SSB 6468

As Passed House - Amended:

March 2, 2012

Title: An act relating to policies governing investments by state research universities.

Brief Description: Requiring state research universities to adopt policies governing investment of university funds.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Schoesler, Tom, Murray, Harper, Conway and Shin).

Brief History:

Committee Activity:

Higher Education: 2/16/12, 2/20/12 [DPA];

Ways & Means: 2/24/12, 2/25/12 [DPA(WAYS w/o HE)].

Floor Activity:

Passed House - Amended: 3/2/12, 94-1.

Brief Summary of Substitute Bill (As Amended by House)

- Authorizes the University of Washington and Washington State University boards of regents to adopt policies creating investment accounts and to deposit public moneys from operating funds not needed for immediate expenditure into those accounts.
- Gives the State Investment Board power to invest or reinvest funds in the investment accounts.
- Specifies that the investment accounts are investment funds within the meaning of Article XXIX, section 1 of the state Constitution.
- Provides that the act is effective contingent on approval and ratification of Senate Joint Resolution No. 8223 by the state.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass as amended. Signed by 15 members: Representatives Seaquist, Chair; Carlyle, Vice Chair; Haler, Ranking Minority Member; Parker, Assistant Ranking

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Minority Member; Asay, Buys, Crouse, Fagan, Pollet, Reykdal, Sells, Springer, Warnick, Wylie and Zeiger.

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

Staff: Jill Reinmuth (786-7134).

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Ways & Means and without amendment by Committee on Higher Education. Signed by 26 members: Representatives Hunter, Chair; Darneille, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

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

Staff: David Pringle (786-7310).

Background:

The University of Washington (UW) and Washington State University (WSU) boards of regents generally have full control of the universities and their property, except as otherwise provided. The universities may invest funds and money in investments as authorized by law. The universities must establish certain investment-related policies and procedures. For example, the UW must have policies addressing conflicts of interest for private funds in which the UW's endowment is invested.

The State Investment Board (SIB) manages and invests certain public pension or retirement funds, the industrial insurance trust fund, the Developmental Disability Endowment Fund, and permanent funds established for institutions of higher education. The SIB must establish investment policies and procedures designed to maximize return at a prudent level of risk. The SIB also must invest and manage assets entrusted to it with reasonable care, skill, prudence, and diligence that a prudent person would use. The SIB must prepare quarterly reports summarizing investment activities, and must report annually on investment activities for the industrial insurance trust fund and the higher education permanent funds to certain legislative committees.

Summary of Amended Bill:

The University of Washington (UW) and Washington State University (WSU) boards of regents may adopt policies creating investment accounts, and also may deposit public moneys from operating funds not needed for immediate expenditure into those investment accounts.

The State Investment Board (SIB) has the full power to invest or reinvest those investment accounts. Income from investments must be for the exclusive benefit of and must be credited to the state university less SIB expenses.

The investment accounts are investment funds within the meaning of Article XXIX, section 1 of the state Constitution.

The SIB must report annually on investment activities for the investment accounts to the Ways and Means Committees of the House of Representatives and the Senate.

A contingent effective clause is included, stating that the act takes effect if the proposed amendment to Article XXIX, section 1 of the state Constitution (Senate Joint Resolution No. 8223) is approved and ratified by the voters at the next general election. If the proposed amendment is not approved and ratified, the act is void.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect if Senate Joint Resolution No. 8223 is approved and ratified by the voters.

Staff Summary of Public Testimony (Higher Education):

(In support) The constitutional amendment would allow the universities to diversify their investments and strengthen their portfolios. This proposal includes further safeguards. It requires the universities to adopt policies consistent with the Uniform Prudent Management of Institutional Funds Act, and that investments be publicly reviewed through annual performance reports. The universities also have to develop policies in line with all applicable state and federal laws with regard to conflicts of interest.

(Opposed) None.

Staff Summary of Public Testimony (Ways & Means):

(In support) The University of Washington (UW) would like the opportunity to diversify our operating investments, earn better returns, prudently manage risk, and potentially generate \$10-\$20 million per year in additional revenue. This revenue would support our academic mission and build financial stability over the long term. We urge that you support the amendments proposed.

Washington State University (WSU) very strongly urges your support for these measures. The Constitution has been amended four times in recent years, including allowing the universities to diversify their investments from the trust lands – an authority that has been exercised very cautiously by WSU. We would similarly approach the use of this authority cautiously. The funds that are contemplated here are not state appropriated funds, but funds like unrestricted donations, earmarked but unspent bond proceeds, and enterprise funds. We

invest those funds now, but only in government-backed securities. The WSU supports the amendments that would have the SIB manage these funds.

(In support with amendments) The State Treasurer supports the proposed amended version of Substitute Senate Bill 6468 and this constitutional amendment. This version ensures that only operational reserves are invested in equities and that risk be prudently managed.

(Information only) The proposed striking amendment and corresponding changes to the proposed constitutional amendment would allow the UW to identify amounts appropriate for investment in equities and corporate credit. Those amounts would be put into the appropriate account and invested by the State Investment Board (SIB). The SIB would work with the schools to appropriately invest those funds.

(Opposed) None.

Persons Testifying (Higher Education): Senator Kilmer, prime sponsor; Margaret Shepherd, University of Washington; Chris Mulick, Washington State University; Bill McSherry, Boeing; and Andrew Lewis, Associated Students of the University of Washington.

Persons Testifying (Ways & Means): (In support) Margaret Shepherd, University of Washington; and Chris Mulick, Washington State University.

(In support with amendments) Nona Snell, Office of the State Treasurer.

(Information only) Victor Moore, Washington State Investment Board.

Persons Signed In To Testify But Not Testifying (Higher Education): None.

Persons Signed In To Testify But Not Testifying (Ways & Means): None.