

HOUSE BILL REPORT

SSB 6468

As Reported by House Committee On:

Higher Education
Ways & Means

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)].

Brief Summary of Substitute Bill (As Amended by Committee)

- Allows the University of Washington and Washington State University Boards of Regents to adopt policies creating investment accounts and 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 8223, amending the state Constitution.

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).

Background:

Governing boards of institutions of higher education generally have full control of the institution and its property, except as otherwise provided. Institutions and other state agencies that manage and invest public funds are required to establish certain policies and procedures. For example, the University of Washington (UW) must have policies addressing conflicts of interest for private funds in which the institution's endowment is invested. These policies must be in compliance with the Ethics in Public Service Act, and posted on the UW's website. Also, the State Investment Board must establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.

The Ethics in Public Service Act prohibits certain state officers and employees from having an interest in any property, security, equity, or debt instruments, with exceptions for specific permissible investments. These officers and employees are the ones who are responsible for the investment of funds and who act in a decision-making, advisory, or policy-influencing capacity with respect to investments. Agencies responsible for the investment of funds must adopt policies governing approval of investments and criteria to be considered in the approval process.

The Uniform Prudent Management of Institutional Funds Act provides guidelines for the management, investment, and expenditure of funds held by certain institutions, including governmental organizations that hold funds exclusively for educational purposes. Institutions are subject to a prudent investor standard of conduct. In managing and investing institutional funds, institutions must act with good faith and the care of an ordinarily prudent person. Institutions also must consider the purposes of the institution and the funds, as well as other factors.

Summary of Amended Bill:

The boards of regents of the University of Washington and Washington State University are required to adopt policies governing investments of university funds. The policies must be publicly available.

The policies must address investment objectives, asset allocation, investment parameters and guidelines, and the delegation of authority over investments. The policies also must address certain personal and institutional conflicts of interest, and be consistent with the state Uniform Prudent Management of Institutional Funds Act.

The boards of regents are also required to provide for preparation of publicly available investment performance reports that describe asset allocations and investment performance. The reports must be prepared at least annually and be publicly available.

Amended Bill Compared to Substitute Bill:

References to the "regents of each state research university" are changed to references to the "boards of regents of the University of Washington and Washington State University."

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(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.

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

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).

Summary of Recommendation of Committee On Ways & Means Compared to Recommendation of Committee On Higher Education:

The Higher Education Committee amendment, which required state research universities to develop investment policies governing the investment of university funds is removed, and provides that the University of Washington (UW) and Washington State University (WSU) Boards of Regents adopt policies creating investment accounts.

Public funds not needed for immediate expenditure may be deposited into these investment accounts, and the State Investment Board (SIB) is given the full power to invest or reinvest those funds. Income from the investment of those operating fund investments must be for the exclusive benefit of, and credited to, the state university depositing the funds, less SIB expenses.

The investment accounts are investment funds within the meaning of Article XXIX, section 1 of the state Constitution. The SIB is required to annually report on 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 only takes effect if the proposed amendment to Article XXIX, section 1 of the state Constitution (Senate Joint Resolution 8223) is approved and ratified by the voters at the next general election.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The 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.

The 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 SIB. The SIB would work with the schools to appropriately invest those funds.

(Opposed) None.

Persons Testifying: (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: None.