

# HOUSE BILL REPORT

## SJR 8223

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**As Reported by House Committee On:**  
Higher Education

**Brief Description:** Amending the Constitution to provide clear authority to state research universities to invest funds as authorized by law, including investment in stocks or bonds issued by any company.

**Sponsors:** Senators Kilmer, Schoesler, Tom, Murray, Harper, Conway, Shin and McAuliffe.

**Brief History:**

**Committee Activity:**

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

**Brief Summary of Bill**  
**(As Amended by Committee)**

- Requires the Secretary of State to submit to voters a proposed amendment to the state Constitution allowing the moneys of the University of Washington and Washington State University to be invested notwithstanding constitutional limits on lending of the state's credit and being interested in corporate stocks.

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### HOUSE COMMITTEE ON HIGHER EDUCATION

**Majority Report:** Do pass as amended. Signed by 13 members: Representatives Seaquist, Chair; Carlyle, Vice Chair; Haler, Ranking Minority Member; Asay, Buys, Fagan, Pollet, Reykdal, Sells, Springer, Warnick, Wylie and Zeiger.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Parker, Assistant Ranking Minority Member; Crouse and Hasegawa.

**Staff:** Jill Reinmuth (786-7134).

**Background:**

The state Constitution generally limits the investment of state funds. Article VIII, section 5, prohibits the state's credit from being given or loaned to an individual, association, company, or corporation. Article XII, section 9, prohibits the state from loaning its credit or from

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subscribing to or being interested in the stock of a company, association, or corporation. Unless exempt from these provisions, permissible investments are limited to government securities.

The state Constitution has been amended to allow certain funds to be invested "notwithstanding" these constitutional limits and "as authorized by law." These funds include:

- public pension or retirement funds;
- the industrial insurance trust fund;
- funds held in trust for the benefit of persons with developmental disabilities; and
- permanent funds established for institutions of higher education.

Permissible investments are more diverse, and include a mixture of corporate bonds and stocks.

The State Investment Board manages and invests public pension and retirement funds, industrial insurance funds, permanent funds, and other trust funds, including the Developmental Disabilities Endowment Trust.

Governing boards of institutions of higher education have full control of the institutions' property, and manage and invest their operating funds. Institutions also accept endowments and other private gifts and grants for their use or benefit, and manage and invest their endowment funds.

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### **Summary of Amended Bill:**

At the next general election, the Secretary of State must submit to voters a proposed amendment to the state Constitution.

The amendment allows the moneys of the University of Washington and Washington State University to be invested as authorized by law. The investments are not limited by constitutional provisions prohibiting giving or loaning the state's credit to an individual, association, company, or corporation. The investments also are not limited by the constitutional provision prohibiting the state from subscribing to or being interested in the stock of a company, association, or corporation.

### **Amended Bill Compared to Original Bill:**

References to the "the moneys of any . . . state research university" are changed to references to "the moneys . . . of the University of Washington and Washington State University."

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**Appropriation:** None.

**Fiscal Note:** Available.

**Staff Summary of Public Testimony:**

(In support) This bill tries to ensure that the University of Washington (UW) and Washington State University (WSU) are able to earn better returns on investments of local funds. Right now, investments are limited to government securities, which generally have a low return. This bill would allow these universities to invest in higher-return securities.

This proposal would leverage university assets to the benefit of students. Investments of operating funds are currently restricted to government-backed securities. This restriction limits the universities' ability to diversify investments and reduce risk, and has negatively affected returns.

This proposal would allow the UW to better manage risk and generate greater return. It would strengthen investment portfolios and generate between \$11 million to \$20 million per year. This revenue would directly support the university's academic mission and help build financial stability over the long term.

There is precedent for this change. The Legislature and the people have changed this provision five times. Consequently, pension funds, the Labor and Industries trust, and the Developmental Disability Endowment Trust may be invested in more diverse and higher-return portfolios, and not just in government securities.

There is also precedent for successful management of these investments. This ability is reflected in the UW's Triple A bond rating, which is the highest in the state.

This is a responsibility that the universities do not take lightly. Only now is WSU beginning to add a conservative mix of equities to the permanent fund investment portfolio. With investments of operating funds, such as unrestricted donations and certain tuition and bond proceeds, WSU would be even more conservative.

The aerospace industry is growing and dynamic. The global market is huge, and competition will be intense. The industry will need tens of thousands of engineers. To meet that demand, the industry must have a robust supply of high quality graduates exiting the higher education system.

The budget crisis is putting a tremendous strain on the system's ability to produce graduates, particularly in technical fields. It is urgent that the state find innovative ways to get new revenue to the schools. This bill provides additional resources without more tax revenue. If approved, it will provide new dollars to carry out these schools' missions. It is imperative that these schools be empowered to operate with optimal efficiency and effectiveness.

Students are underserved in the number of slots available to pursue degrees in science, technology, engineering, and mathematics (STEM) fields. Only one in four students is able to pursue a degree in computer science. The other three cannot because there are not enough slots, and not because they are unqualified. More resources are needed to make more slots in STEM fields available, mitigate tuition increases, and expand financial aid.

(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.