

SENATE BILL REPORT

SB 5240

As of January 24, 2019

Title: An act relating to investing the assets of the first-class cities' retirement systems.

Brief Description: Authorizing the state investment board to invest the assets of the first-class cities' retirement systems.

Sponsors: Senators Carlyle and Braun.

Brief History:

Committee Activity: Ways & Means: 1/23/19.

Brief Summary of Bill

- Permits the Washington State Investment Board to enter into agreements to invest the pension funds of the First Class Cities Retirement Systems.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

Background: The Washington State Investment Board (WSIB) was created in 1981 to administer public trust and retirement funds. WSIB has 14 members: one active member of the Public Employees Retirement system; one active member of the Law Enforcement Officers' and Firefighters' Retirement System; one active member of the Teachers' Retirement System; the state treasurer; one member of the state House of Representatives; one member of the state Senate; one representative of retired state employees; the director of the Department of Labor and Industries; the director of the Department of Retirement Systems; and five non-voting members with experience in making investments, appointed by the WSIB.

WSIB must establish investment policies and procedures that are designed to maximize return at a prudent level of risk. It manages 34 funds which total approximately \$132 billion. The largest part, which is nearly \$113 billion, is the Commingled Trust Fund (CTF) and consists of the pension funds of the Washington State retirement system.

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.

The First Class Cities Retirement Systems (FCCRS) were first authorized by state law in 1939, predating the creation of the Public Employees' Retirement System by about eight years. Retirement plans are operated under these provisions by the cities of Seattle, Tacoma, and Spokane. The assets of each system are invested under the authority of the Retirement Board of Administration (Retirement Board) of each city system, consisting of seven members: three appointed by the city council; three elected by employees; and a seventh appointed by the first six, as required by state law. The city Retirement Board is required to appoint an Investment Advisory Committee of at least three members experienced in the field of investments to assist with the management of retirement funds.

Summary of Bill: Legislative intent expresses that the FCCRSs are too small and costly to administer relative to the CTF managed by the WSIB; over time the higher costs and more limited investment opportunities lead to less return and more risk.

WSIB is authorized to enter into agreements to invest the pension funds of FCCRSs. WSIB may enter into agreements only when it is in the best interests of the state, as well as members and beneficiaries of the state retirement systems. By authorizing the WSIB to enter agreements to manage the assets of FCCRSs, the state assumes no liability or responsibility for the benefits owed by FCCRSs to their members and beneficiaries.

Upon entering an agreement to have WSIB invest pension funds for a FCCRS, the powers and duties of the city Retirement Board and Investment Advisory Committee related to the investment of the pension funds irrevocably pass to WSIB. While the agreement is irrevocable, it may be amended from when necessary to facilitate efficient administration. WSIB is required to annually report to the FCCRS and city governments on WSIB investment activities for FCCRS funds.

When three or more first-class cities have reached an investment management agreement with WSIB, an additional non-voting seat on WSIB is created for a member of a FCCRS.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: CON: The authority in this bill goes to the city council rather than the body that currently holds fiduciary responsibility for these funds. The decision should be made by the employees that are impacted and the existing boards. The city systems have different liquidity needs than the statewide systems.

OTHER: System members should have a say in how their retirement funds are invested and they are represented on the existing boards.

Persons Testifying: CON: Lou Walter, Business Manager International Brotherhood of Electrical Workers Local 77; J Pat Thompson, County and City Employees; Phillip Tencick,

Spokane Employees Retirement System.

OTHER: Randall Lewis , City of Tacoma Gov Relations Director.

Persons Signed In To Testify But Not Testifying: No one.