

# FINAL BILL REPORT

## SHB 1784

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C 215 L 07

Synopsis as Enacted

**Brief Description:** Eliminating limitations on the investment of certain state moneys.

**Sponsors:** By House Committee on Capital Budget (originally sponsored by Representatives Kenney, Sells, Buri and Wood; by request of Washington State University).

**House Committee on Capital Budget**  
**Senate Committee on Ways & Means**

### **Background:**

In 1889, the federal government granted certain lands to Washington to be held in trust for what are now the state's public baccalaureate institutions. Proceeds from the sale of timber, minerals, and permanent rights-of-way on these lands are deposited into "permanent" funds which are managed and invested by the Washington State Investment Board (SIB). A 1959 opinion of the Attorney General describes these funds as "permanent and irreducible," such that the Legislature is prohibited from expending the principal of these funds. The statutes establishing these funds likewise declare that the funds are "permanent and irreducible." The income from these permanent funds is appropriated by the Legislature for the construction and minor works maintenance of university facilities.

There are four permanent funds. Income derived from the Agricultural Permanent Fund and the Scientific Permanent Fund supports construction and facility improvements at Washington State University. The State University Permanent Fund benefits the University of Washington, and the Normal School Permanent Fund benefits Central Washington University, Eastern Washington University, Western Washington University, and the Evergreen State College.

The State Constitution prohibits most public funds, including university permanent funds, from being invested in the stock of any company, association or corporation. The SIB currently invests these funds in fixed-income vehicles.

The State Constitution was amended by voters in 1966 to allow the K-12 Common School Permanent Fund to be invested as authorized by law. It was further amended in 1985 and 2000 to allow moneys of the public pension or retirement funds, Industrial Insurance Trust Fund, or funds held in trust for the benefit of persons with disabilities, to be invested as authorized by law.

### **Summary:**

The Legislature declares that by investing in equities, the value of higher education permanent funds may fluctuate over time even if no disposition of the fund principal is made, and that

removal of the term "irreducible" from the statutes clarifies that the mere reduction of a fund due to such fluctuations does not violate the statute's mandate. The Legislature declares that principal amounts in the higher education funds are to be held in perpetuity and only the earnings of the funds may be appropriated to support the benefitted institution.

The term "irreducible" is removed from the permanent fund statutes of the public baccalaureate institutions. In addition, the State Investment Board is required to report annually on the investment of the higher education permanent funds.

The act is void in its entirety if the constitutional amendment proposed in HJR 4215 is not ratified by the voters at the 2007 general election.

**Votes on Final Passage:**

House	92	2
Senate	47	0

**Effective:** Contingent on the approval of the voters at the next general election.