

HOUSE BILL REPORT

HB 2057

As Reported by House Committee On:
Financial Institutions & Insurance
Appropriations

Title: An act relating to the state investment board.

Brief Description: Establishing compensation levels for certain employees of the state investment board.

Sponsors: Representatives H. Sommers, Sehlin, Benson and Hatfield; by request of State Investment Board.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/23/01, 2/27/01 [DPS];
Appropriations: 3/6/01, 3/8/01 [DPS(FII)].

Brief Summary of Substitute Bill

- Gives authority to the State Investment Board to set compensation levels for its executive director, deputy director, a confidential secretary, and investment officers.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hatfield, Democratic Co-Chair; McIntire, Democratic Vice Chair; Barlean, Cairnes, Keiser, Miloscia, Roach, Santos and Simpson.

Minority Report: Do not pass. Signed by 2 members: Representatives Bush, Republican Vice Chair; and DeBolt.

Staff: Thamas Osborn (786-7129).

Background:

The Washington State Investment Board (SIB) was created in 1981 to administer public trust and retirement funds. The board 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, a member of the Washington House of Representatives, a member of the Washington Senate, a representative of retired state employees, the director of the Department of Labor and Industries, the director of the Department of Retirement Systems, and five nonvoting members appointed by the State Investment Board with experience in making investments.

The SIB must establish investment policies and procedures that are designed to maximize return at a prudent level of risk. It manages 27 funds which total approximately \$49 billion.

Employees of the SIB include an executive director, a confidential secretary, and investment officers. These positions are exempt from the state civil service law. The State Finance Committee (the Governor, the Lieutenant Governor, and the State Treasurer) confirms the executive director's appointment.

Compensation for the SIB's executive director is based on contract negotiations between the SIB and the executive director. The executive director sets the confidential secretary's salary. The salaries of the SIB's investment officers are set by the Washington Personnel Resources Board. The Washington Personnel Resources Board is generally responsible for developing and implementing classification plans and salary schedules for most state employees. The Washington Personnel Resources Board has three members appointed by the Governor and confirmed by the Senate.

The State Committee on Agency Officials' Salaries is responsible for making recommendations on salaries for specified agency directors or appointed officials, including the chief executive officer of the State Finance Committee, a position that no longer exists.

Summary of Substitute Bill:

The SIB is given explicit authority to set compensation levels for the board's executive director and deputy director, a confidential secretary, and the investment officers employed by the State Finance Committee.

The authority of the State Committee on Agency Official's Salaries to set the recommended salary for the chief executive officer of the State Finance Committee is deleted.

Substitute Bill Compared to Original Bill:

The substitute bill deletes the State Committee on Agency Official's Salaries' authority to

set the salary for the chief executive officer of the State Finance Committee.

Appropriation: None.

Fiscal Note: Not Requested.

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

Testimony For: The SIB has an enormous responsibility for the state's trust funds, and its performance has direct impact on the state's financial resources. The board has been highly successful in managing these funds, but must employ experts who can command high salaries in the private sector and at other similar public agencies. Giving the board more flexibility in setting salaries will help it compete for and retain employees. Currently, the compensation levels set by the Washington Resource Personnel Board for investment officers lag behind similar jobs at public agencies in other states, such as Oregon. At the same time, the creation of a plan 3 retirement system has increased the complexity of the investment officers' jobs. Without salary setting flexibility, the state will not be able to maintain the quality of the staff. The SIB is mindful of the considerations that it must use when setting salaries and does not intend to set salaries in parity with the private sector.

Testimony Against: None.

Testified: Representative Sommers, prime sponsor; Representative Barry Sehlin, sponsor; Jim Parker, State Investment Board; Charles Kaminski, WICK Group; and Gary Moore, Chair, State Investment Board.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill by Committee on Financial Institutions & Insurance be substituted therefor and the substitute bill do pass. Signed by 32 members: Representatives Sehlin, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Barlean, Republican Vice Chair; Doumit, Democratic Vice Chair; Lisk, Republican Vice Chair; Alexander, Benson, Boldt, Buck, Clements, Cody, Cox, Dunshee, Fromhold, Gombosky, Grant, Kagi, Keiser, Kenney, Kessler, Lambert, Linville, Mastin, McIntire, Mulliken, Pearson, Pflug, Ruderman, D. Schmidt, Schual-Berke, Talcott and Tokuda.

Staff: Andrea Hardy (786-7349).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Financial Institutions & Insurance:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The SIB loses investment officers every year to the private sector and other state investment systems because of the higher salaries offered they are offered elsewhere. This year, the board lost its chief investment officer to California, where he doubled his salary and received a sizable bonus for accepting the position. The SIB is having great difficulty retaining quality staff because of the competitive marketplace. This is especially an issue now, when the market is slowing and good investment officers are the key to good investment returns. This bill will help the SIB retain key people, and the cost of higher salaries can be absorbed by the agency.

Testimony Against: None.

Testified: Gary Moore, State Investment Board.