

# HOUSE BILL REPORT

## SHB 1341

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### As Passed House:

March 15, 2005

**Title:** An act relating to the exemption of public hospital districts from regulatory restrictions on investments.

**Brief Description:** Authorizing additional investment authority for specified hospital districts.

**Sponsors:** By House Committee on Local Government (originally sponsored by Representatives Simpson, P. Sullivan, Nixon, Buck, Springer, Hankins, Haler, Quall, B. Sullivan, Kessler, Morris, Roberts and Chase).

### Brief History:

#### Committee Activity:

Local Government: 2/3/05, 2/14/05 [DPS].

#### Floor Activity:

Passed House: 3/15/05, 95-1.

### Brief Summary of Substitute Bill

- Permits large public hospital districts to invest their funds and money in appropriate investment vehicles as determined by the finance or investment committees of such districts.

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## HOUSE COMMITTEE ON LOCAL GOVERNMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Simpson, Chair; Clibborn, Vice Chair; Schindler, Ranking Minority Member; B. Sullivan, Takko and Woods.

**Minority Report:** Do not pass. Signed by 1 member: Representative Ahern, Assistant Ranking Minority Member.

**Staff:** Thamas Osborn (786-7129).

### Background:

Public hospital districts are a type of special purpose districts. Special purpose districts are governmental agencies that are created by the Washington Legislature to carry out certain limited functions. Generally, these functions are not those carried out by the general purpose governments such as the counties, cities, or towns, and are for the benefit of the residents of

the districts as well as other persons serviced by the districts. The most common types of special purpose districts are fire protection districts and school districts.

The powers and duties of the special purpose districts are defined by statute. Their powers are limited to those specifically authorized by law. As a special purpose district, a public hospital district is limited in its authority to take certain actions. Some of the statutorily authorized powers of a public hospital district are the ability to acquire property, borrow money for corporate purposes, issue and sell bonds, and raise revenue through the use of a levy.

Public hospital districts do not have statutory authorization to invest their funds or money. Such investments are also prohibited by the Washington constitution.

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**Summary of Substitute Bill:**

Public hospital districts with annual revenues exceeding \$100 million, of which less than 5 percent are derived from specified property tax revenues, are permitted to invest their funds and money in appropriate investment vehicles. The finance or investment committees of such districts must reasonably and prudently determine where to invest the funds and money.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** (Original bill) This bill and the associated constitutional amendment are sorely needed to give greater flexibility to certain hospital districts with respect to making investments. However, an amendment to the state constitution must be enacted before hospitals can be allowed to change their investment practices. Current law is much too restrictive. Hospitals are facing enormous financial pressures that could be eased if they were allowed to prudently seek more profitable investment vehicles. They should be allowed to seek a greater return on their investments. The bill would enable hospitals to find new sources of revenue and gain better access to capital. Operating funds would be prudently invested and subject to controls to ensure proper investment returns. Non-profit hospitals have for years used these sorts of flexible investment practices and have not experienced problems. Diversified portfolios can be designed to maximize return and minimize risk. The declining profitability of hospitals will ultimately cause a decline in the quality of care provided to patients. This bill could help to prevent this from happening.

**Testimony Against:** (Original bill) This bill and the proposed constitutional amendment are ill-advised insofar as they would allow hospital districts to make investments that involve far too much risk. Current law does not allow them to invest in the stock market and this is as it should be. Operating funds should never be put at risk in investments that tend to only be

profitable in the long term. This practice could devastate a hospital's operating funds. Hospital districts should be subject to more conservative investment requirements than are private or non-profit hospitals, since hospital districts use taxpayer money. The current constitutional restrictions should remain in place because the risks associated with changing them are simply too great. This legislation and constitutional amendment represent bad public policy.

**Persons Testifying:** (In support of original bill) Chrissy Yamada, Evergreen Medical Center; Mike Bernstein, Valley Medical Center; and Lisa Thatcher, Public Hospital Districts Association of Washington.

(Opposed) Rose Bowman and Rob Strabbing, Washington State Association of County Treasurers; and Barton Potter and Doug Extine, Office of the State Treasurer.

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