

SENATE BILL REPORT

SHB 1585

As Reported By Senate Committee On:
Financial Institutions, Insurance & Housing, April 1, 1997

Title: An act relating to the operation of the state investment board.

Brief Description: Authorizing the state investment board to delegate certain powers and duties.

Sponsors: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Huff, L. Thomas, Clements, H. Sommers, Wolfe and Carlson; by request of State Investment Board).

Brief History:

Committee Activity: Financial Institutions, Insurance & Housing: 4/1/97 [DP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

Majority Report: Do pass.

Signed by Senators Winsley, Chair; Benton, Vice Chair; Finkbeiner, Hale, Heavey and Kline.

Staff: Catherine Mele (786-7470)

Background: The Legislature created the Washington State Investment Board in 1981 to administer public trust and retirement funds. There are 14 members that serve on the board: one representative of retired public employees; one representative of retired law enforcement officers and fire fighters; one representative of retired teachers; the State Treasurer; a member of the state House of Representatives; a member of the state Senate; a representative of retired state employees; the Director of the Department of Labor and Industries; the Director of Retirement Systems; and five nonvoting members appointed by the State Investment Board with experience in making investments.

The State Investment Board manages 23 funds which total approximately \$35 billion. The funds are divided into three classes: retirement, insurance, and permanent.

Washington law requires that the State Investment Board establish investment policies and procedures that are designed exclusively to maximize return at a prudent level of risk. However, the Department of Labor and Industries' accident, medical aid, and reserve funds, investment policies and procedures are designed to limit fluctuations in industrial insurance premiums, and subject to that purpose, maximize returns at a prudent level of risk.

In order to achieve its investment goals the board divides specific areas of responsibility to committees of the board. The board committees consist of selected board members that act as extensions of the board. These committees analyze investment issues in detail, and make

recommendations to the full board. The board has established four committees: administrative, audit, private markets, and public markets.

The board has the authority to hire an executive director for a three-year term. The board may delegate to the executive director any of its powers or duties. The statute does not specifically allow the executive director to delegate these powers or duties to his or her staff.

The State Investment Board relies upon external investment advisors and managers that possess specialized skills in various investment markets. The board engages these advisors and managers by contract and they are not employees of the State Investment Board. These advisors and managers make and manage certain investments on behalf of the board. The current statute governing the board does not expressly permit the board to give these experts authority to make investments or investment management decisions.

Summary of Bill: The State Investment Board's executive director is permitted to delegate to his or her staff the powers or duties given to the executive director by the board. The powers that may be delegated include the ability to make investment decisions and investment contracts on behalf of the board. The board and the executive director are permitted to give investment advisors and managers authority to make, manage, or dispose of investments according to criteria established by the board or the executive director.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: The current statute governing the State Investment Board is silent regarding delegation beyond the executive director. This bill makes clear that the director has the ability to delegate his or her powers and duties to staff. It also permits the board and the executive director to contract with outside investment advisors and managers. There were amendments in the House that limited the bill to only allow the executive director and the board to contract with outside investment advisors and managers. The State Investment Board agrees with these amendments as passed by the House.

Testimony Against: None.

Testified: James Parker, State Investment Board (pro); Michael Colleran, State Treasurer (pro).