

# HOUSE BILL REPORT

## HJR 4202

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**As Passed House:**  
March 15, 2005

**Brief Description:** Authorizing investment of hospital district funds.

**Sponsors:** 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 [DP].

**Floor Activity:**

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

**Brief Summary of Bill**

- Proposes an amendment to the Washington Constitution that would permit the funds of a public hospital district to be invested as authorized by law.

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### HOUSE COMMITTEE ON LOCAL GOVERNMENT

**Majority Report:** 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 district. Special purpose districts are municipal corporations 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. The most common types of special purpose districts are fire protection districts and school districts.

Special purpose districts are created to carry out specific statutorily defined functions for the benefit of the residents of the districts as well as other persons serviced by the districts. The powers and duties of the special purpose districts are defined by statute. Their powers are limited to those specifically authorized by law, including the Washington Constitution.

As a special purpose district, a public hospital district is limited in its authority to take certain actions. A public hospital district is prohibited from taking actions that are not authorized by law and one such restriction prohibits the investment of the public hospital district's funds.

The Washington Constitution (Constitution) prohibits counties, cities, towns and municipal corporations from becoming the owner of any stock or bonds in any association, company or corporation.

In order to amend the Constitution, a joint resolution must be passed by a two-thirds majority of both houses of the Legislature. To be enacted, the proposed amendment must be placed on the next general election ballot and must be approved by a simple majority of the voters.

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**Summary of Bill:**

At the next general election, an amendment to the Constitution will be submitted to the voters proposing that public hospital districts be allowed to invest any public hospital district fund or account as authorized by law.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

**Testimony For:** The constitutional amendment and the associated bill 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:** The proposed constitutional amendment and the associated bill 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) Chrissy Yamada, Evergreen Medical Center; Mike Bernstein, Valley Medical Center; and Lisa Thatcher, Public Hospital Districts Association.

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

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