

SENATE BILL REPORT

SHB 1284

As Reported by Senate Committee On:
Ways & Means, March 18, 2019

Title: An act relating to creating the capacity for the state treasurer's office to provide separately managed investment portfolios to eligible governmental entities.

Brief Description: Creating the capacity for the state treasurer's office to provide separately managed investment portfolios to eligible governmental entities.

Sponsors: House Committee on State Government & Tribal Relations (originally sponsored by Representatives Vick, Kirby, Reeves, Volz, Kilduff, Ryu, Stanford, Dolan, Frame and Jinkins; by request of State Treasurer).

Brief History: Passed House: 3/05/19, 98-0.

Committee Activity: Ways & Means: 3/18/19, 3/18/19 [DP, w/oRec].

Brief Summary of Bill

- Creates a trust fund for separately managed local governmental funds.
- Creates a trust fund for separately managed state agency funds.
- Creates a non-appropriated, separately managed state treasurer's service account.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Bailey, Becker, Billig, Carlyle, Conway, Darneille, Hunt, Keiser, Liias, Palumbo, Pedersen, Schoesler, Van De Wege and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senator Hasegawa.

Staff: Sarian Scott (786-7729)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background: The Local Government Investment Pool (LGIP) is a voluntary investment vehicle operated by the Office of the State Treasurer (OST). Over 530 local governments including cities, counties, public universities, and ports have participated in the pool since 1986 to provide safe, liquid, and competitive investment options for local government entities. As of January 2019, the pooled fund investment portfolio has \$17 billion under management. Historically, the 30-day yield on earnings have been around 2 percent.

In 2018 OST initiated a separately managed portfolio pilot project with Pierce County. The purpose of the pilot was to give a local governmental entity—Pierce County—the flexibility to invest in slightly longer term investments that had the potential for greater returns while also increasing its risk exposure through the utilization of medium-term government bond fund investing. To accurately track gains and losses, OST and the Office of Financial Management (OFM) created a new account separate from the LGIP to ensure accurate and separate accounting.

As part of the pilot project, OST is investing funds to conform with federal, state, and other legal requirements while managing the investments in accordance with parameters set forth in an interagency agreement. Eligible and suitable investments are only those securities and deposits authorized by statute including:

- obligations of the United States government;
- obligations of United States government agencies;
- United States dollar denominated obligations of supranational institutions;
- obligations of government sponsored enterprises which are or may become eligible as collateral for advances to member banks; and
- the LGIP.

The maximum single maturity of an investment cannot exceed ten years. The maximum modified duration of an investment cannot exceed three and one-half years. Investments subject to high price sensitivity or reduced marketability cannot exceed 15 percent of the daily balance of the portfolio.

OST has three reporting requirements:

- a holdings report, to include maturity effective duration, security descriptions, book yields, and mark to market;
- a transaction report, to include capital gains and losses; and
- an earnings report.

Summary of Bill: OST is authorized to enter into agreements with eligible governmental entities. Each entity will have a separately managed investment portfolio. The agreement must allow for service charges and must include time periods for investments, as well as provisions for orderly withdrawals of funds. OST shall consider the public policies of Washington and the values of its citizens when making investment-related decisions.

Three accounts are created:

- the Local Governmental Entity Investment Account;
- the State Agency Investment Account; and
- the State Treasurer's Service Account.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: We are here in support of SHB 1284. Currently the state treasurer has a program called the local government investment pool, which over 500 local governments currently use. This is a longer term portfolio program for the same local governments. This bill will allow our local partners to take advantage of our investment expertise and capacity in the management of a longer term portfolio. This is just an alternative for local governments. This is not mandatory.

Persons Testifying: PRO: Catherine Mele-Hetter, Office of the State Treasurer; Shawn Myers, Assistant State Treasurer.

Persons Signed In To Testify But Not Testifying: No one.