

**RCW 28A.515.330 Permanent common school fund—Allowable investments—Irreducible principal.** The state investment board may invest the permanent common school fund in various types of allowable investments in order to achieve a balance of long-term growth and current income, when consistent with the best interest of the state and the permanent common school fund, and in conformance with RCW 43.84.150. The state treasurer shall calculate the irreducible principal amount of the fund in accordance with the state Constitution and state law. The irreducible principal shall not include investment gains on the principal, and the fund may retain or distribute income and investment earnings in order to achieve the appropriate balance between growth and income. [2007 c 505 § 3.]

**Intent—Finding—2007 c 505:** "Consistent with Article XVI, section 5 and Article IX, sections 3 and 5 of the state Constitution, it is the intent of the legislature to clarify state law to permit the permanent common school fund to be invested in equities when such investment is in the best interest of the state and the permanent common school fund.

A 1999 opinion of the attorney general concluded that the constitutional language does not prohibit investment of the permanent common school fund, as long as the investment is authorized by law and is consistent with applicable trust principles. This opinion further reasoned that the constitutional phrase "permanent and irreducible" bars the legislature from abolishing the fund or expending its principal for purposes other than those for which the fund was established, but does not prohibit the legislature from specifying permissible investments, particularly in light of Article IX, section 5 of the state Constitution, which specifies that only losses resulting from "defalcation, mismanagement or fraud" constitute state debts to the permanent common school fund.

The legislature finds that permanent fund common school fund income as a percentage of total school construction budgets has declined while school construction budgets have grown, and that other state revenues have filled the gap between income from state lands and the total school construction budget. For this reason, the fund may tolerate higher risk and volatility in favor of growth, and therefore a balance of long-term growth and current income is in the best interest of the state and the fund's beneficiaries. The legislature recognizes that by investing in equities, the value of the permanent fund may fluctuate over time due to market changes even if no disposition of the fund principal is made.

It is the intent of the legislature to clarify state law to permit equity investment of the permanent common school fund even if there is a decline in the value of the permanent fund due to market changes. The legislature recognizes that the irreducible portion of the principal amount in the permanent fund must be held in perpetuity for the benefit of the fund and future generations, and that only the earnings from the permanent fund may be appropriated to the common school construction fund." [2007 c 505 § 1.]