

SENATE BILL REPORT

SHB 3149

As Reported By Senate Committee On:
Ways & Means, March 03, 2008

Title: An act relating to compensation of state investment board personnel.

Brief Description: Changing state investment board personnel compensation provisions.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Sommers, Haler, Conway, Kenney, Fromhold, McIntire, Anderson and Darneille; by request of State Investment Board).

Brief History: Passed House: 2/18/08, 73-22.

Committee Activity: Ways & Means: 3/03/08 [DPA]

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Rockefeller, Schoesler and Tom.

Staff: Steve Jones (786-7440)

Background: The State Investment Board was established by the Legislature in 1981 to oversee the long-term investment of the state's pension, industrial insurance, and trust funds. These investments are managed by a staff employed by the board, as well as outside investment advisors under contract with the board. The administrative and investment expenses of the board are paid from the State Investment Board Expense Account, which is funded from the investment earnings of the funds managed by the board, subject to legislative appropriation.

The executive director and investment officers employed by the board are exempt from the state civil service laws. Their compensation is determined by the board. In 2001 the Legislature authorized the board to establish a retention pool to grant salary increases to address recruitment and retention issues. The compensation level for the investment officers cannot exceed the average paid by state funds of a similar size, based on a biennial salary survey. Each year, the salary increases granted by the board from the retention pool cannot exceed an average of 5 percent.

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.

Summary of Bill: The State Investment Board's retention pool is made a part of the State Investment Board Expense Account. The retention pool may be used to reward performance with incentive compensation and to address recruitment and retention problems pursuant to a performance management and compensation program developed by the board, based on a biennial compensation survey. The compensation levels cannot exceed the average total compensation paid by other public funds of a similar size. Disbursements from the retention pool are made from legislative appropriations on authorization of the executive director or a designee. Incentive compensation increases from the pool are limited to 30 percent in any fixed year.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments): Incentive compensation increases are limited to 30 percent per year.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (on companion SB 6755): PRO: The State Investment Board manages more than \$80 billion in state funds. These investments are made with the goal of maximum investment return with a prudent level of risk. The Board needs more flexibility for incentive pay for senior investment officers. This legislation will allow the Board to remain competitive in a highly specialized labor market. The Board's investment officers are being recruited by other states, and several vacancies exist. The compensation awarded under the substitute bill will be subject to appropriation and based on a salary survey. The 5 percent cap needs to be lifted.

CON: Performance pay systems are never perfect and often undermine employee morale. Comparisons with other investment funds are imperfect because the job conditions and responsibilities vary significantly. This bill is not needed because the employee turnover rate of investment officers at the State Investment Board is relatively low when compared to other state job classifications. Other state employees have difficult jobs and are required to make difficult life-and-death decisions, and many of these job classifications are experiencing significant recruitment and retention problems. The 5 percent cap should not be eliminated without being replaced by a reasonable limitation on salary increases.

Persons Testifying (on companion SB 6755): PRO: Senator Lisa Brown, prime sponsor; Joe Dear, Pat McElligutt, State Investment Board.

CON: Greg Devereux, Washington Federation of State Employees.