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**Economic Development,  
Agriculture & Trade Committee**

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**HB 1594**

**Brief Description:** Directing the state investment board to invest in start-up and expanding businesses within the state of Washington.

**Sponsors:** Representatives Linville, Skinner, Fromhold, Grant, Haler, Dunshee, Dunn, Santos, Armstrong, Wallace, Morris, Holmquist, Pettigrew, Schindler, Kenney, Morrell, Eickmeyer, Rodne, Upthegrove, Dickerson, Clibborn, Moeller and Hankins.

**Brief Summary of Bill**

- Creates the Washington Growing Business Fund to invest in Washington based companies using at least \$500 million of the Washington State Investment Board (WSIB) portfolio and to be managed in accordance with WSIB's investment policies and statutory requirements.
- Requires a statement of investment principles to include which social, environmental, or ethical consideration, if any, were taken into account in the selection, retention, and realization of investments.

**Hearing Date:** 2/16/05

**Staff:** Tracey Taylor (786-7196).

**Background:**

The Washington State Investment Board (WSIB) is the state agency charged with investing and managing \$57.3 billion of assets in 33 separate funds. The types of funds include retirement, industrial insurance, deferred compensation, permanent funds and other trust funds.

As of June 30, 2004, the WSIB had \$1.3 billion invested in Washington state assets. This includes \$61.3 million in private equity investments.

The WSIB is governed by a 15 member board that includes 10 voting and five non-voting members. Members of the WSIB are fiduciaries who are charged with managing the investments for the retirement and public trust funds with the highest standard of professional conduct for the "exclusive benefit of the fund beneficiaries."

The WSIB must invest and manage the assets with "reasonable care, skill, prudence, and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose." *RCW 43.33A.140*. Investments are not to be considered in isolation, "but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund." *RCW 43.33A.140 (1)*. A particular fund's investments are to be diversified, unless special circumstances exist and the WSIB "reasonably determines that the purposes of that fund are better served without diversifying." *RCW 43.33A.140(2)*. "However, no corporate fixed income issue or common stock holding may exceed 3 percent of the cost or 6 percent of the market value of the assets of that fund." *RCW 43.33A.140(2)*.

In March 2003, the WSIB adopted a new policy for economically targeted investments (ETI) in Washington. An ETI is an investment having the primary objective of investment return to pension trust fund assets and the collateral objective of assisting the regional economy and the economic well-being of the State of Washington, its localities and its residents.

- The WSIB will only consider investing in those ETIs that are commensurate on a risk-adjusted financial basis to alternatively available investments.
- The decision to invest in an ETI for its collateral benefits shall only be made after the opportunity is deemed acceptable based exclusively on its economic investment merits.
- The collateral benefits of an ETI shall not be considered part of the return on the investment nor part of the risk reduction.
- ETIs shall be made in accordance with the WSIB's approved asset allocation policies and included within existing asset categories as well as conform to all the laws, policies and procedures governing the WSIB.
- ETIs shall receive the proper level of due diligence and evaluation consistent with all other investment opportunities evaluated of similar type of classification. *WSIB Policy 2.05.600 (2003)*.

The WSIB will only consider the secondary objective of promoting economic growth and well-being in Washington when it is not in conflict with its other statutory duties: to maximize return at a prudent level of risk, affording the funds beneficiaries loyalty, care, skill, prudence, diligence and diversification. *WSIB Policy 2.05.600 (2003)*.

The WSIB has requested its private equity general partners to provide annually a listing of all Washington-based investments evaluated during each calendar year. This list will include a description of the opportunity as well as the ultimate investment decision. A summary of the WSIB's activities regarding ETIs will be submitted to the WSIB, its beneficiaries, the Legislature and the Governor on an annual basis. *WSIB Policy 2.05.600 (2003)*.

### **Summary of Bill:**

The Washington Growing Business Fund is created. Investments from this account may be made in start-up and expanding businesses located in Washington with a substantial employment base located in the state. The purpose of the fund is to increase the capital funds available to women and minority owned business enterprises in Washington and to create jobs and economic opportunities within Washington.

The investments can be made directly or through the WSIB's investment advisors. In making investments of Washington Growing Business Funds, the primary investment objective is to maximize the rate of return at a level consistent with other funds under the WSIB's control and at the statutorily required prudent level of risk. In addition, these investments must be made in a manner consistent with the investment or management criteria established by the WSIB or its executive director. In choosing among equal investment opportunities that satisfy the primary investment objective, the WSIB shall give priority to those investments from the account that assist start-up and expanding businesses based in Washington. An emerging business is a business: whose principal place of business is in Washington or who has a substantial employment base in Washington; with an average annual gross receipts over the past three years not exceeding \$1 million for construction firms and \$300,000 for nonconstruction firms; with fewer than 20 employees; that is independent; and licensed and registered in this state. A start-up business is defined as a Washington business in the act or instance of being set in operation around a technology, product or service based on a sound business plan.

The WSIB is required to establish a fund of at least \$500 million of the WSIB's investment portfolio in the new Washington Growing Business Fund. This account, including its earnings, is to be maintained separately from other money invested by the WSIB. The assets in the fund must be diversified across different industry sectors and regions of the state, in order to ensure that the assets are prudently invested and that jobs and economic opportunity are equitably distributed across the state, including those economically distressed communities.

A management company selected to manage a portion of the Washington Growing Business Fund must manage the money in the account subject to the WSIB's investment policies, and with the care, skill and diligence as required by law. In selecting management companies, the WSIB must consider the potential company's physical and employment presence in Washington as well as a demonstrable ability to find investment opportunities in communities throughout the state.

The WSIB, or its designee, must include in their statement of investment principle to the extent, if at all, to which social, environmental, or ethical considerations are taken into account in their selection, retention, and realization of investments; and their policy, if any, in relation to the exercise of rights, including voting rights, attaching to the investments.

**Appropriation:** None.

**Fiscal Note:** Requested on January 28, 2005.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.