

SENATE BILL REPORT

SHB 1784

As Reported By Senate Committee On:
Ways & Means, March 15, 2007

Title: An act relating to investment of funds derived from the sale of lands set apart for institutions of higher education.

Brief Description: Eliminating limitations on the investment of certain state moneys.

Sponsors: House Committee on Capital Budget (originally sponsored by Representatives Kenney, Sells, Buri and Wood; by request of Washington State University).

Brief History: Passed House: 3/07/07, 92-2.

Committee Activity: Ways & Means: 3/15/07 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

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

Staff: Tim Yowell (786-7435)

Background: At statehood, the federal government granted certain lands to Washington State to be held in trust for the state's public universities. Proceeds from the sale of timber, minerals, and permanent rights-of-way on these lands, are deposited into "permanent" funds which are managed and invested by the State Investment Board. The income from these permanent funds is appropriated by the Legislature for construction and minor repairs at the universities. There are four permanent funds. Income derived from the "agricultural permanent fund" and the "scientific permanent fund" supports construction and facility improvements at Washington State University. The "state university permanent fund" benefits the University of Washington, and the "normal school permanent fund" benefits Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College.

The State Constitution generally prohibits the state from being "interested in the stock of any company, association or corporation." Unless specifically exempted from these provisions, the investment of state funds is therefore effectively limited to government securities and certificates of deposit. The voters adopted amendments to the State Constitution in 1966, 1968, 1985, and 2000, to allow stock investments by the K-12 common school permanent

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fund, public employee retirement funds, workers' compensation funds, and funds held in trust for the benefit of persons with disabilities.

Summary of Substitute Bill: The word "irreducible" is removed from statutory references to the university permanent funds. The Legislature finds that equity investment of the university permanent funds may result in declines in fund value due to market fluctuations. The Legislature declares its intent to permit such investment, while maintaining the principal of the funds in perpetuity.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect if the proposed amendment to Article XVI of the State Constitution is ratified by the voters.

Staff Summary of Public Testimony (on companion SB 5766): PRO: From an investment perspective, it doesn't make sense not to invest the permanent funds in a diversified portfolio that can provide a larger rate of return. While investment in private stocks and bonds isn't without risk, never over any time horizon—one year, five years, ten years, or twenty—would a reasonably diversified portfolio not have returned 2-5 percent more per year than has been earned with the current investment restrictions. Most other states that have permanent funds invest them in equities. The Washington State Investment Board believes that investing the permanent fund is reasonable and prudent; it would result in additional risk, but also in additional returns if done wisely.

Persons Testifying (on companion SB 5766): PRO: Ken Alhadeff, Washington State University (WSU) Board of Regents; Larry Ganders, WSU; Joe Dear, Washington State Investment Board.