

**WASHINGTON STATE INVESTMENT BOARD**  
**Administrative Committee Meeting Minutes**  
**June 21, 2007**

The Administrative Committee met in open session at 8:33 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Patrick McElligott, Chair  
Glenn Gorton, Vice Chair  
George Masten  
Dave Scott

Committee Members Absent: Sandy Matheson

Other Members Present: Mason Petit

Also Present: Joe Dear, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Theresa Whitmarsh, Chief Operating Officer  
Celina Verme, Finance and Administrative Services Director  
Kristi Haines, Executive Assistant

Paul Silver, Assistant Attorney General

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Vice Chair Gorton called the meeting to order.

[Chair McElligott arrived at 8:34 a.m.]

**ADOPTION OF THE MARCH 15, 2007, MINUTES**

**Vice Chair Gorton moved to adopt the March 15, 2007, Administrative Committee meeting minutes. Mr. Scott seconded and the motion carried unanimously.**

**AGENCY REQUEST LEGISLATION**

Mr. Dear introduced staff's proposed agency request legislation for the next Legislative session. He said the same proposal came before the Board two years ago but, for tactical reasons, was not submitted in the 2006 session. The proposed legislation would extend liability protection to voting members and staff that is now held only by nonvoting members. The current statute provides full liability for nonvoting Board members who have exercised reasonable diligence in performing their duties. Voting members and staff have less protection. Mr. Dear said that operations are becoming increasingly complex and the WSIB needs to solve the question of liability differences between staff, voting, and nonvoting members. If the Board accepts staff's proposal, the same liability would equally protect all members of the Board and staff. It also

provides better protection for the retirement and other trust funds, provided members and staff act with good faith in performing their duties.

**Mr. Scott moved that the Administrative Committee recommend to the Board that the WSIB move forward with agency request legislation in the 2008 Legislative Session, subject to review by the Office of Financial Management and the Governor's Office. Vice Chair Gorton seconded the motion.**

Mr. McElligott asked about the oversight of the liability statute when first introduced. Mr. Silver responded that the intent of the proposed legislation is to provide the same protection that is afforded to other state employees. The difference between the WSIB and most other state agencies is that agency staff carry out the functions of the agency. The Board acts through delegation to staff, managers, and other service providers. The current statute is highly imperfect and it would be better if the general liability statute provided to other state employees also applied to the WSIB. The protection would be provided if members and staff acted in good faith in performance of duties. Any action resulting in a judgment against the WSIB would then be paid by the state. He said the proposed legislation is nothing special; it simply affords the same protection as other state employees who are covered under the general statute. There are a few other agencies, including the Department of Retirement Systems, that have additional statutes addressing liability limitation that are enhanced from general statute.

**The above motion carried unanimously.**

#### **FISCAL YEAR 2008 OPERATING BUDGET**

Mr. Dear said that the Board has always approved the appropriated budget. The appropriated budget is a tiny fraction of the WSIB's overall budget. Policy requires that the Board approve the budget; therefore, the Board should also review non-appropriated funds that comprise 97 percent of the budget. Staff have built systems to capture non-appropriated costs and built an estimated budget. He introduced Ms. Verme to present the Fiscal Year 2008 operating budget.

Ms. Verme reported that the overall 2008 budget is estimated to be \$348.9 million with \$9.1 million appropriated funds and \$339.8 million non-appropriated funds. She said the appropriated funds represent less than 3 percent of the total budget. The overall budget represents less than 40 basis points of total assets under management.

Ms. Verme described the main appropriated budget categories, which are the same as other state agencies. She also covered the non-appropriated budget which applies to investment expenses. The non-appropriated categories match those used in the Cost Effectiveness Measurement (CEM) annual survey of public pension funds, which will make it easier to benchmark WSIB costs against others in the future.

Ms. Verme outlined the budget cycles for both appropriated and non-appropriated. The total operating budget will take effect July 1 of every year. The WSIB was granted a \$19.3 million biennial budget during the last Legislative session. She indicated that, even though the appropriation is on a biennial basis, funding is provided by fiscal year. For Fiscal Year 2008, the total is \$9.1 million which increased the fiscal year budget by \$1.5 million. Additionally, the WSIB was granted two new FTEs. Ms. Verme presented historical FTE status covering the last

six biennia, illustrating the progressive growth of investment officers as compared to other staff. The appropriated budget restored funding for five positions: two investment officers, one assistant investment officer, and two support staff. It also provided funding for two additional FTEs for internal audit and risk management, and additional assistant attorney general services. The appropriated budget increase also covers compensation and benefits, reimbursement for other state agency services, rent, utilities, maintenance contracts, and travel expenses.

Ms. Verme said investment expenses from the non-appropriated budget have previously been reported to the Board after they were incurred via the WSIB annual report. An annual budget was never developed. Strategic planning projects in 2005 and 2006 led to enhancements to the Chart of Accounts for capturing non-appropriated data, as well as modifications to the investment accounting system. The estimated \$339.8 million in non-appropriated funds covers fees and expenses related to investments. The non-appropriated budget was developed by using current expenses, and then reduced by one-time or non-recurring costs. Portfolio growth in real estate, private and public equity, and strategic enhancements to programs, such as the Innovation Portfolio and data warehouse, were taken into consideration. The estimate was to increase the non-appropriated funds' projection from 2007 by \$85 million, for a total of \$339.8 million for 2008. Ms. Verme discussed the challenges with forecasting non-appropriated funds, and described the budget as a work in progress. She described savings resulting from the change in the custodian bank and directed brokerage provider.

Ms. Verme reported that, even with increased expenses, asset growth keeps the WSIB's operating costs very low. The last CEM report revealed that WSIB's costs are lower than its peers and has positive value added.

**Chair McElligott moved that the Administrative Committee recommend that the Board approve the Fiscal Year 2008 operating budget.**

**Vice Chair Gorton seconded and the motion carried unanimously.**

#### **ASSISTANT ATTORNEY GENERAL'S REPORT**

Mr. Silver had nothing to report.

#### **OTHER ITEMS**

There was no further business to come before the Committee and the meeting adjourned at 8:57 a.m.