

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
May 20, 2010

The Administrative Committee met in open session at 8:34 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Patrick McElligott, Chair
George Masten
Mike Ragan

Committee Members Absent: Treasurer Jim McIntire, Vice Chair
Steve Hill

Other Members Present: Bill Longbrake
Richard Muhlebach
David Nierenberg
Judi Owens
Mason Petit

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Victor Moore, Chief Operating Officer
Liz Mendizabal, Public Affairs Director
Celina Verme, Financial Manager
Kristi Haines, Executive Assistant

Steve Dietrich, Assistant Attorney General

[Names of other individuals attending the meeting are listed in the permanent record.]

Chair McElligott called the meeting to order.

ADOPTION OF THE APRIL 15, 2010, MINUTES

Mr. Masten moved to adopt the April 15, 2010, Administrative Committee meeting minutes. Mr. Ragan seconded, and the motion carried unanimously.

NONVOTING BOARD MEMBER ROLE AND QUALIFICATIONS

Chair McElligott reported the Audit Committee had evaluated and recommended nonvoting Board members to the Board. In April, the Board moved the nonvoting Board member nomination process to the Administrative Committee.

[Mr. Muhlebach arrived at 8:34 a.m.]

Chair McElligott noted the information provided within the Committee packet detailing the current nomination process, fiduciary counsel's opinion on the role of nonvoting members, desirable qualifications, and current membership. He believes the existing nomination process is straightforward. Two nonvoting members' terms expire on December 31, 2010. Chair McElligott shared his interest in having both members continue on the Board, and said he plans to speak with both Messrs. Seely and Nakahara to determine their interest. If they want to continue, Chair McElligott suggested the Committee take up action in June to renew each of them for an additional three-year term. Alternately, if the Committee prefers to review the nomination processes, he would seek volunteers for participation.

Mr. Masten moved the Administrative Committee recommend the Chair appoint a three-member Committee to review the nonvoting Board member nomination process and bring the matter back to the June Administrative Committee meeting. Chair McElligott seconded, and the motion carried unanimously.

Chair McElligott asked for volunteers, and then appointed Messrs. Hill, Masten, and Treasurer McIntire to serve on the Committee. He indicated Mr. Ragan would be appointed as an alternate if the Treasurer has time restrictions.

[Ms. Owens arrived at 8:39 a.m.]

BUDGET REPORT

Ms. Verme presented the WSIB's current Fiscal Year (FY) 2010 financial status and end of fiscal year projection as of March 31, 2010. She reported the appropriated budget fiscal year projected balance is \$1.6 million, or 11.8 percent savings. The projected balance represents a \$549,000 increase from the last quarter's projection, and is due mainly to unfilled vacancies, and savings on goods and services and travel. The balance will carry forward to FY 2011, as the WSIB is granted a biennial appropriation. For the non-appropriated budget, the projected fiscal year balance is \$42.8 million, or 12.7 percent savings. This is a \$7 million increase from last quarter's projection, and is due mainly to investment strategy changes that involve more passive management. The projected balance may vary due to market volatility, asset values, investment contributions, distribution pace, and consulting needs.

Mr. Moore provided a status update on the state budget. The Governor signed the supplemental budget on May 4. The budget reflects a \$2.8 billion shortfall, and solutions to the shortfall include federal subsidies, one-time revenue sources, budget reductions, and new revenues.

He expects challenges for the Governor and the Legislature in balancing the 2011-2013 biennial budget, in part due to the extensive use of one-time solutions to solve the current biennium's budget shortfall. He reported the WSIB was treated equally to other state agencies relative to the furlough bill, or salaries and benefits savings initiative. The bill signed by the Governor allows agencies to take the savings from payroll, or choose to have staff off work one day per month. Mr. Moore said the latter option would not work for WSIB, so it will take the savings from the budget—which is about \$300,000 for WSIB. He expects the savings can be achieved through reduced travel, contracts, and payroll.

Mr. Moore said while the WSIB is not a general fund agency, the struggles ahead set a tone for the WSIB as part of the government structure. In response to Chair McElligott's questions about timing, Mr. Moore said the FY 2011-2013 budget submittal process is in the works, with the two-year request due to the Office of Financial Management by late summer/early fall. Staff has had internal discussions and is preparing both short-term budget request and long-term plan. Ms. Whitmarsh said staff would bring proposals to the June Administrative Committee and Board meetings.

[Mr. Nierenberg arrived at 8:47 a.m.]

Chair McElligott would like the budget request and plan to represent what the WSIB needs to operate and progress, in order to achieve the best returns. He feels that compensation levels should reflect levels to retain current staff. Despite the fact the Board has elected not to act on investment officer salary survey that does not mean staff should not be paid at the levels resulting from the survey. Ms. Whitmarsh reported that staff has built a placeholder for salary increases into the budget, at the Committee direction with the understanding increases were not likely to be granted at this time.

Mr. Masten said, despite not being a general fund, the WSIB should build a reasonable budget plan based on what it needs to maintain resources and returns so that it does not represent the agency can do more with less. Mr. Moore concurred, adding another factor anticipated in the next session is sizeable

increases in pension system cost on the employer side. The WSIB's budget request needs to be clear about necessary resources to maintain earning targets over the next two biennia.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Dietrich had nothing to report.

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 8:52 a.m.