

**WASHINGTON STATE INVESTMENT BOARD**  
**Administrative Committee Meeting Minutes**  
**November 18, 2010**

The Administrative Committee met in open session at 8:32 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Patrick McElligott, Chair (via teleconference)  
Treasurer Jim McIntire, Vice Chair  
George Masten  
Mike Ragan

Committee Members Absent: Steve Hill

Other Members Present: Senator Lisa Brown  
Bill Longbrake  
Richard Muhlebach  
David Nierenberg  
Bob Nakahara  
Judi Owens  
Representative Sharon Tomiko Santos  
Jeff Seely

Also Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Victor Moore, Chief Operating Officer  
Liz Mendizabal, Public Affairs Director  
Steve Lerch, Research Director  
Celina Verme, Finance and Administrative Services Director  
Shawna Killman, Internal Audit Director  
Alicia Markoff, Portfolio Administrator  
Kristi Haines, Executive Assistant

Steve Dietrich, Assistant Attorney General

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

Acting Chair Masten called the meeting to order.

**ADOPTION OF THE SEPTEMBER 16, 2010, MINUTES**

**Mr. Ragan moved to adopt the September 16, 2010, Administrative Committee meeting minutes. Mr. Masten seconded, and the motion carried unanimously.**

## **SUCCESSION PLANNING**

Mr. Masten announced the Committee would go into executive session to review and discuss the performance of public employees. He said the executive session was expected to last about 10 minutes at which time the Committee would reconvene in open session.

[The Committee went into executive session at 8:34 a.m. and reconvened in open session at 9:07 a.m.]

[Acting Chair McIntire arrived at 8:41 a.m.]

[Mr. Seely arrived at 9:05 a.m.]

## **INVESTMENT OFFICER COMPENSATION PLAN**

Mr. Moore reported the Administrative Committee had tabled the Investment Officer Compensation Plan discussion at its April meeting. Staff has since addressed some concerns raised by the Committee by narrowing the salary band, and has also addressed middle and back office concepts. He reviewed the Board's salary setting authority, which allows it to establish compensation levels for investment positions but is limited to the average compensation of peer funds. It also requires certain notifications to the Legislature and other state entities. Mr. Moore relayed the public funds surveyed range from \$30 to \$80 billion in assets. Acting Chair McIntire pointed out the numbers shown in the proposal are median, not average. Mr. Moore responded that median was used as other pension funds include base pay and incentive compensation in their average. Mr. Seely pointed out that average numbers would likely be higher than median. Mr. Moore said the proposed ranges have the median of the peer funds as the top of the salary range and have a 40 percent spread to the bottom of the range. Using the median number as the top addressed concerns raised by the Joint Legislative Audit Review Committee. He reported that three of the funds (New York, California, and Florida) previously used in the survey numbers presented in April were removed as it was felt the funds were not of comparable size.

Mr. Moore said in order to have a comprehensive salary framework for middle and back office investment operations positions, job descriptions were given to McLagan to find reasonable matches with the peer funds. As with the others, the median salaries were used as the top of the ranges; however, because of the nature of middle and back office investment functions, the proposal is to group the salaries into three bands based on supervisory and job responsibilities. Each band has a 40 percent range with a 15 percent difference from another in order to make appropriate pay adjustments between bands if responsibilities change.

Ms. Whitmarsh said if the Administrative Committee moves this proposal forward to the Board and it is approved, the agency would not be able to enact the salary adjustments because it does not have the appropriation and a statewide salary freeze is in place. Rather, it is symbolic to staff and recognizes the value they bring to the organization. She said, if and when the agency receives an appropriation, it would have the ability to put the ranges into place, but an appropriation is not expected within the next biennium.

Mr. Masten shared his concern that it appears the investment officer salary setting authority is being expanded to other positions that were previously under the salary setting authority of the Department of Personnel. He questioned whether the investment operations positions fit within the statute. Additionally, he believes the timing of the request could not be worse. Mr. Moore said there are nine investment operations positions. Ms. Whitmarsh relayed that six of the nine have historically been investment positions.

[Messrs. Nierenberg and Nakahara arrived at 9:20 a.m.]

Ms. Whitmarsh said the investment operations positions require deep domain investment expertise not found within state government. There have been failed recruitments for some of these positions and they are not recruited from within state government. The positions have historically been surveyed and were always well within the salary ranges. This last survey would have resulted in artificial jumps for the positions, so staff determined it was appropriate to survey them separately.

Mr. McElligott observed the proposal is to adopt a framework that adjusts staff to median salary levels, and only sets the ranges. Acting Chair McIntire shared his concern this could be a reputation risk for the Board as he expects the legislative session will be brutal. He wants to support staff and believes the survey was done properly, but is worried about asking for funds the WSIB knows it does not have and will not get. He asked if the ranges could be adopted and not forwarded to the Legislature at this time. Mr. Moore said the request for funds had been forwarded in the budget request as approved by the Board, as the request was due in August. The Office of Financial Management (OFM) requires the salary structure the WSIB would use if approved. An addendum would be forwarded if the Board approves the structure. If not approved, staff will pull the salary request as it would not be approved by OFM without Board support. He said the budget would come out the week before Christmas.

Mr. Ragan spoke in support of the recommendation. He believes it is similar to what teachers do when negotiating their raises to be granted once money is available. Mr. Masten said he believes it is time to hunker down and recognize that no WSIB salaries have been taken away and no days lost, while other state employees have not been as fortunate.

Mr. Moore emphasized the Board could adopt the results of the survey and salary bands, but it could not be implemented until money and legal authority exists.

**Mr. Ragan moved that the Administrative Committee recommend the Board adopt the new proposed salary ranges for Investment and Investment Operations staff to become effective upon Legislative authorization and appropriation, and appropriate notification per RCW 43.33A.100. Mr. McElligott seconded, and the motion carried with Mr. Masten voting no.**

[Senator Brown arrived at 9:37 a.m.]

#### **QUARTERLY BUDGET UPDATE**

Ms. Verme presented the state fiscal year 2011 financial status report and end of fiscal year projection as of September 30. For the appropriated budget, staff projects a fiscal year 2011 balance of \$1.6 million or a 9.8 percent savings. Ms. Verme discussed adjustments to the projected expenditures including vacancies, personal service contracts, goods and services, and travel. Other adjustments were for the risk system proviso and transfer of the payroll function to OFM. She said the balance was conservative and the balance is expected to grow as anticipated hiring dates may not materialize. She relayed that projections will become more precise once staff has six months of data available.

Ms. Verme reported for the non-appropriated budget, staff projects a fiscal year 2011 balance of \$33.9 million or a 10 percent savings. She said the balance is conservative and will become more precise once six months of actual data is available.

[Representative Santos arrived at 9:40 a.m.]

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

Mr. Dietrich reported staff had completed the settlement of State Street claims the Board had previously authorized, receiving the full demand of \$11.7 million. The Board received kudos from fellow investors and a lot of press. The Attorney General's Office (AGO) had received a number of calls but is limited to what it can share due to the terms of the confidentiality agreement. Mr. Dietrich thanked Ms. Killman, Ms. Markoff, and executive staff for their close work with the AGO for successful resolution. Ms. Whitmarsh recognized Treasurer McIntire's superb negotiating skills and the hard work of Mr. Dietrich. Mr. Dietrich reported the WSIB paid no attorney fees, and this settlement resulted in a net recovery back to the Commingled Trust Fund.

### **OTHER ITEMS**

There was no further business to come before the Committee, and the meeting adjourned at 9:44 a.m.