

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
November 19, 2015

The Administrative Committee met in open public session at 8:32 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Marcie Frost, Chair
Treasurer Jim McIntire
George Masten
Joel Sacks

Committee Members Absent: Kelly Fox

Other Members Present: Arlista Holman
Judy Kuschel

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Ian Cameron, Chief Operating Officer
Chris Phillips, Institutional Relations Director
Angie Naillon, Budget and Accounting Manager
John Lynch, Contracts and Public Records Manager
Cathy Nielsen, Administrative Assistant

Mary Lobdell, Attorney General's Office

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

Chair Frost called the meeting to order and took roll call.

BUDGET UPDATE

Ms. Whitmarsh introduced Ian Cameron, Chief Operating Officer, who joined the WSIB from the Capital Group, a well-respected investment management firm. Mr. Cameron brings a terrific amount of very relevant experience to the position.

Mr. Cameron introduced Ms. Naillon, Budget and Accounting Manager. He discussed the Fiscal Year 2016 Financial Status Report and noted the agency will have an excess in the appropriated budget of approximately \$605,000, mainly due to salaries and travel which contribute about \$694,000 of the excess. This is slightly offset by \$107,000 in overspend on benefits. The travel and salaries excess is mainly due to the pace at which the agency has been hiring to fill vacant positions. Mr. Cameron stated that the travel and salaries excess is partially offset by one-time benefit expenditures related to donated shared leave and leave buyouts not included in the original budget estimates.

Mr. Cameron reported the non-appropriated budget is anticipated to have an excess of \$75 million dollars, which is 19 percent of the Fiscal Year 2016 budget.

ADOPTION OF THE SEPTEMBER 17, 2015, MEETING MINUTES

Mr. Sacks moved to adopt the September 17, 2015, Administrative Committee minutes. Mr. Masten seconded, and the motion carried unanimously.

[Treasurer McIntire arrived at 8:40 a.m.]

PUBLIC RECORDS POLICY EXEMPTION

Mr. Lynch discussed the revision to the Public Records Policy. On October 20, Ms. Whitmarsh, Mr. Fox, Mr. Phillips, Ms. Sandboe, Ms. Cortez, and Mr. Lynch attended the Sunshine Committee meeting, where the motion before that committee was to narrow the exemption specific to the WSIB to current private investments – private equity, tangible assets, and real estate. The motion was later withdrawn. During the conversation, two paragraphs of the revised policy that staff had presented in September 2015 were questioned, regarding removal of language on the internal rate of return reports from private equity. Mr. Lynch said one member questioned that and thought it implied WSIB's intent to withhold that information and no longer publish it on the website. The information has been added back in. Mr. Lynch stated language on the second page regarding the WSIB's specific exemption was questioned. The feeling was that it gave the Public Records Officer at the WSIB absolute discretion to withhold documents. As that was never the intent, the language was reworded. There was also language added regarding buy and sell data as it pertains to a specific investment manager.

Ms. Frost questioned if the revision will be the final. Mr. Lynch stated the motion was withdrawn, and the members of the Sunshine Committee felt it was a worthwhile exemption.

Ms. Whitmarsh added that key stakeholders, including several legislators and the Governor's representative, weighed in on behalf of the WSIB.

Mr. Sacks moved that the Administrative Committee Recommend the Board adopt the substantive changes to Public Records Policy 2.00.250. Mr. Masten seconded the motion, and the motion carried unanimously.

3-YEAR POLICY REVIEW

Mr. Bruebaker presented the revisions to Policy 1.10.100, stating the changes were formatting and clarification only, which is the case for most of the remaining policies. The revisions to Policy 1.10.200 were clerical changes, and language was added that the role of staff includes both planning and monitoring. In addition, Mr. Bruebaker said language was added that the Board will be notified by written update during months the Board does not meet. The revisions to Policy 2.05.600 were formatting changes; the revisions to Policy 2.10.800 also had formatting changes, with the deletion of the first sentence stating this is a new program to the Board. Mr. Bruebaker said the standard of care statement was added to make it consistent with other programs. Additional language was included under Strategic Objectives, stating or inclusion in the existing asset class, which is consistent with language approved by the Board.

Mr. Sacks moved that the Administrative Committee recommend the Board adopt the technical changes to Board policies 1.10.100, 1.10.200, 2.05.600, and 2.10.800. Mr. Masten seconded, and the motion carried unanimously.

ASSISTANT ATTORNEY GENERAL'S REPORT

Ms. Lobdell updated the Committee on litigation related to the Board's investment in Fillmore Capital Partners, stating Fillmore owns a company Asaracare which operates nursing homes. Ms. Lobdell said the Department of Justice (DOJ) had filed a lawsuit against Asaracare under the False Claims Act. The litigation went to trial and there was a verdict for the DOJ, but the court threw it out. Ms. Lobdell stated the Judge determined that the nature of the litigation was about a disagreement in medical opinion. The crux of the DOJ case was whether the medical opinions provided by the nursing home were sufficient to admit a patient into hospice care. Ms. Lobdell said the Judge threw the case out because the jury instructions did not instruct the jury that a difference in medical opinion is not a basis of a claim under the False Claims Act. The Judge ordered a summary judgement motion at which the DOJ will have an opportunity to present evidence that the case entails more than just a difference in medical opinion. If this is not proven, the case may be dismissed. If proven, there likely will be a new trial.

GUARANTEED EDUCATION TUITION (GET) COMMITTEE UPDATE

Treasurer McIntire discussed the last legislative session; there was considerable discussion and debate around the question of what would happen to GET if the Legislature decided to reduce tuition, which ultimately happened. As a result the GET Committee was given the responsibility for trying to figure out how to respond. The Legislature wanted the payout level to freeze at the current value prior to a reduction in tuition for two years, while the 25 percent reductions were pending. The Legislature asked the GET Committee to do a feasibility study on how to operate the program going forward and to decide whether a 529 college savings plan is a viable alternative.

The GET Committee established a floor for the payout and going forward it will not change until the value of the payout naturally grows past the payout for the floor. The GET refunded the amortization fee they started charging four years ago, which is approximately \$20 per credit. The Committee voted to delay the sale of credits for a period of up to two years to study how to price the program going forward. The program was designed for an environment where the price of tuition always stays the same or goes up. The GET said participants can either receive a refund of the money they paid in or the payout value of the GET Program. The 10 percent administrative fee was waived, and participants can roll the money into a qualified 529 college savings plan without a penalty from the federal government.

The GET Committee has been looking at how the 529 savings plan will be structured and operated. Treasurer McIntire said it could be run by an outside vendor, by the WSIB, or through another state's plan. He added that participants have been given 18 months to decide where their money will go. The GET program, given the reductions in the tuition over the next two years, has determined a funding ratio is

approximately 145 percent. Treasurer McIntire clarified there is plenty of money to provide for refunds and it will not be a burden to the program. At the same time, it will be a challenge to figure out the pricing going forward.

Mr. Masten asked when the 18 months will be up and if there is an idea of how many participants will pull their funds. Treasurer McIntire said participants have through December 2016. He said that new people signing up for the program has dropped significantly.

Mr. Bruebaker highlighted the Treasurers' comments and said you will see a barbell effect. A few participants left when they first could. The bulk of the money leaving the program will have been in the last month or two, with the deadline coming up. Mr. Bruebaker added there is time for the state to decide what will be done relative to college expenses and paying for them.

Treasurer McIntire added that the GET Committee is still evaluating whether a 529 plan can be created to allow for a seamless transition for many of the participants that want to roll some of their funds into a 529 plan.

Mr. Masten asked if it would take legislative action. Treasurer McIntire said that it may, stating the GET Committee has the authority to go ahead and begin setting it up. There may be some subsidy necessary for administrative setup costs the Committee doesn't have the authority to expend.

Mr. Masten questioned if those withdrawing money are subject to any tax expense. Treasurer McIntire said only if the money is not rolled into another plan.

Mr. Sacks asked if it does require legislative action and it does not happen in 2016, can the GET Committee extend the deadline through the next legislative session. Treasurer McIntire said yes.

2016 RECOMMENDED BOARD MEMBER EDUCATION

Ms. Whitmarsh presented the list of recommended conferences. The list has been pared down significantly over the last few years as staff has gotten feedback from Board members. Ms. Whitmarsh stated that although this is a preapproved conference list, attendance still requires the Board Chair's pre-approval. She said there are a few conferences Board members have attended over the last year that may make the recommended list next year. She added the list is not meant to be comprehensive; if there is something that Board members hear about or that is of interest, to let staff know so it can research the quality of the events for members.

Treasurer McIntire moved that the Administrative Committee recommend the Board approve the 2016 Recommended Board Education List. Mr. Sacks seconded, and the motion carried unanimously.

[Ms. Kuschel arrived at 9:10 a.m.]

EXECUTIVE SESSION

Ms. Frost announced the Committee would now go into executive session to review and discuss the performance of a public employee and non-voting Board members. The executive session was expected to last about 20 minutes, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:10 a.m., and returned in open session at 9:25 a.m.]

Ms. Frost stated as a result of the Executive Session, the Committee is not planning to take any motions at this time.

OTHER ITEMS

There was no further business to come before the Committee and the meeting adjourned at 9:27 a.m.