



State of Washington
SFC

MIKE PELLICCIOTTI, Chair
State Treasurer
BOB FERGUSON
Governor
DENNY HECK
Lieutenant Governor

STATE FINANCE COMMITTEE MINUTES

February 25, 2025, at 2 PM

Via Zoom

With public participation via Zoom, telephonically,
and in-person at the Office of the State Treasurer,
Helen Sommers Building, First Floor, Room 1015, Olympia, WA

The State Finance Committee ("SFC" or the "Committee") met virtually via Zoom in a special meeting after notice was duly given to the public.

Members Present: State Treasurer Mike Pellicciotti, Chair
Governor Bob Ferguson, Member
Lieutenant Governor Denny Heck, Member

Staff Present: Jason Richter, Office of the State Treasurer, Secretary
Shane Esquibel, Office of the Governor
K.D. Chapman-See, Office of Financial Management
Jennifer Masterson, Office of Financial Management
Dallas Roberts, Office of the Lieutenant Governor
Mark Rachel, Office of the Attorney General
Scott Forbes, Office of the Attorney General
Stacia Hollar, Office of the Attorney General
Tammie Nuber, Office of the State Treasurer
Anna Borris, Office of the State Treasurer
Devon Phelps, Office of the State Treasurer
Danni Colo, Office of the State Treasurer
Megan Farrell, Office of the State Treasurer

Chair Pellicciotti called the meeting to order at 2:11 PM. Chair Pellicciotti stated for the record that all three members of the SFC were present, and a quorum was established. Chair Pellicciotti invited any motions to the agenda. With no such motions or modifications to the agenda, Chair Pellicciotti moved onto the agenda.

Item 1: Approval of Minutes

Chair Pellicciotti introduced the draft minutes from the June 13, 2024, SFC meeting for approval. Lieutenant Governor Heck moved to approve the minutes, which Governor Ferguson seconded. There was no discussion. The minutes were adopted unanimously.

Item 2: Public Comments.

Chair Pellicciotti opened the meeting for public comment.

The Chair recognized Yona Makowski. Ms. Makowski identified herself as the Vice Chair of the Washington State Investment Board. She said that she strongly encouraged the Committee to confirm Allyson Tucker for another term as Executive Director of the Washington State Investment Board.

There were no further public comments.

Item 3: Informational Item: Bond Sale and Market Update.

Chair Pellicciotti asked Secretary Richter to provide a bond sale and market update.

Secretary Richter provided a summary of bond sales since the last SFC meeting in June. He reported that the state sold five series of new money bonds totaling \$2.2 billion in par amount, three series of refunding bonds totaling \$1.8 billion in par amount, two series of certificates of participation, and one lease revenue bond for the Fircrest nursing facility.

Secretary Richter noted a volatility in the bond market, with interest rates moving up since June, cresting in early January, and backing off since then. He noted interest rates still remain below historical averages, and that new money bonds sold in January with a 25-year issuance level debt service had an interest rate of approximately 4.1%. He noted that the state would continue to refund existing bonds if the numbers make sense. Over the next four years, there are between \$800 million and \$1.7 billion bonds per year that can be reviewed for possible refinancing. He stated that in terms of the bond market, interest rates have generally trended upward the past several quarters. He said geopolitical issues, domestic policy changes, and inflationary concerns are influencing rates. Interest rates have dropped since January as people grow increasingly concerned about a weakening economy.

Secretary Richter raised the concern about action by the federal government regarding bond tax-exemption. Almost all of the bonds the state issues are tax-exempt, which means investors that hold the state's bonds do not have to pay income taxes on the interest they earn. He said Congress is considering ending tax-exemption to help extend the 2017 Tax Cuts and Jobs Act. Secretary Richter gave an example of how without tax-exemption, the state's recent bond issuance in January that received a 4.1% interest rate would have instead priced at approximately a 6.3% interest rate. He explained that if Congress eliminated municipalities long-standing ability to issue tax exempt bonds, it would materially impact the state's ability to finance projects by either increasing debt service costs substantially, or severely limiting the amount of bonds issued.

Chair Pellicciotti asked the Committee if they had any questions for Secretary Richter.

Lieutenant Governor Heck thanked Secretary Richter for the report and asked if there was any more information regarding the nature of the consideration of eliminating tax-exemption and how likely it was to pass Congress.

Secretary Richter responded that while there has been talk before about eliminating tax-exemption, this was the first time people recall it making it onto the House of Representatives' official list of potential targeted cuts. He said those who prognosticate these policy issues project a 50/50 chance that Congress could pass it to pay for the tax cuts in the 2017 Tax Cuts and Jobs Act. He noted other revenue sources are also being considered by Congress. He also said that tax-exemption is generally not a topic that is well understood by the public, even though it greatly impacts schools, water and wastewater systems, and most other local infrastructure project financing.

Lieutenant Governor Heck thanked Secretary Richter for the clarification and recalled that President Trump tried eliminating tax-exemption in his first term.

Chair Pellicciotti noted that Lieutenant Governor Heck was a member of Congress during the President's first term. He thanked the Lieutenant Governor for his work in opposing the legislation while in Congress. Chair Pellicciotti stated that state treasurers across the country are concerned about Congress passing this legislation and that some Congress members seek to make it retroactive. Chair Pellicciotti stated that because the passage of this legislation would so greatly impact all state and local governments throughout the country, its passage should be less attractive to Congress. He said how the Office of the State Treasurer has been watching this legislation closely and warned that the type of interest rate change referenced by Secretary Richter would add approximately \$1.5 to \$2 billion more to the state's annual financing costs.

Lieutenant Governor Heck asked Governor Ferguson, as the former Attorney General, if he would like to comment on the legality of Congress making this legislation retroactive.

Governor Ferguson thanked the Lieutenant Governor for his question and emphasized that he is now the former Attorney General and referred the question to the current Attorney General's Office which has experts on this matter.

Chair Pellicciotti recognized Assistant Attorney General Mark Rachel for any comments.

Assistant Attorney General Rachel said he could respond to Lieutenant Governor Heck's question in writing following appropriate legal research if he wished.

Lieutenant Governor Heck thanked Assistant Attorney General Rachel but said that was not necessary at this time.

Chair Pellicciotti told the Committee that he was traveling to Washington, D.C. in March to meet with other state treasurers and members of Congress to oppose any effort by Congress to eliminate tax-exempt municipal bonding.

Item 4: Resolution No. 1291:

Chair Pellicciotti asked Secretary Richter to provide an overview of Resolution No. 1291.

Secretary Richter stated that Resolution No. 1291 authorizes the Office of the State Treasurer to enter into the rulemaking process to adopt the proposed amendment to Chapter 210-06 Washington Administrative Code ("WAC"), which are the rules that govern public records for the SFC.

Chair Pellicciotti asked the Committee if they had any questions for Secretary Richter. Hearing no questions, Chair Pellicciotti moved to approve Resolution No. 1291. Lieutenant Governor Heck seconded the motion. Hearing no discussion, Chair Pellicciotti called for a vote and Resolution No. 1291 was approved unanimously.

Item 5: Resolution No. 1292:

Chair Pellicciotti asked Secretary Richter to provide an overview of Resolution No. 1292.

Secretary Richter stated that Resolution No. 1292 appoints the Office of the State Treasurer Public Records Officer as the Public Records Officer of the SFC. He explained that the Public Records Act requires each agency to designate a Public Records Officer and provide that Officer's name and contact information via filing in the Washington State Register and the statute allows an agency to appoint a Public Records Officer from another agency as its Public Records Officer.

Chair Pellicciotti asked the Committee if they had any questions for Secretary Richter. Hearing no questions, Chair Pellicciotti moved to approve Resolution No. 1292. Lieutenant Governor Heck seconded the motion. Hearing no discussion, Chair Pellicciotti called for a vote and Resolution No. 1292 was approved unanimously.

Item 6: Resolution No. 1293:

Chair Pellicciotti asked Secretary Richter to provide an overview of Item 6 on the agenda.

Secretary Richter stated Resolution No. 1293 is to consider the confirmation of Allyson Tucker as Executive Director of the Washington State Investment Board for a term of three years commencing on January 1, 2025, as appointed by the Board.

Chair Pellicciotti asked the Committee if they had any questions for Secretary Richter.

Lieutenant Governor Heck asked for clarification on the motion before the Committee.

Chair Pellicciotti moved that the SFC, pursuant to RCW 43.33A.100, decline to confirm the appointment of Allyson Tucker as Executive Director of the Washington State Investment Board for a term of three years commencing on

January 1, 2025. Chair Pellicciotti asked if there was a second to the motion. Hearing no second to the motion, Chair Pellicciotti asked for additional motions relating to this resolution.

Lieutenant Governor Heck moved that SFC confirm Allyson Tucker as Executive Director of the Washington State Investment Board, pursuant to the recommendation of the Washington State Investment Board, for a term of three years commencing on January 1, 2025. Governor Ferguson seconded the motion.

Chair Pellicciotti called for discussion on the motion.

Lieutenant Governor Heck noted that every member of the State Investment Board who voted on the question of whether to recommend confirmation had voted in favor of recommending confirmation of Ms. Tucker. Lieutenant Governor Heck noted that he had been lobbied by State Investment Board members to confirm Ms. Tucker for reappointment. He said that his view was that under Ms. Tucker's leadership the State Investment Board's performance was top tier compared to peer institutions, and that Ms. Tucker was a rock star in the investment world. He stated that he hoped that by confirming her appointment, the Committee would give Ms. Tucker the Committee's confidence in proceeding with performance achieved thus far.

Chair Pellicciotti said that he was opposing the motion to confirm the reappointment of Ms. Tucker as Executive Director of the State Investment Board, due to his concerns about performance. Chair Pellicciotti said that his commitment to protecting the state's pensions necessitated his opposition to her reappointment. He noted that materials in the Committee's meeting packet support his concern. Chair Pellicciotti explained that Ms. Tucker has opted to over-allocate pension funds to private equity, and that this was her discretionary decision. Chair Pellicciotti said he first identified his concerns of this growing risk from the private equity overallocation in 2021 and that he has consistently communicated this risk to the pensions. Chair Pellicciotti said discretionary overallocation to private equity by Ms. Tucker has contributed to the State Investment Board's underperformance by almost \$20 billion compared to the State Investment Board's passive benchmark over the last two years. He warned that that the risk to the Washington State pension fund assets is now particularly problematic, and the SFC must review this. He contended that the role of the SFC should look at the overall assets of the state of Washington and that there is nothing more important than monitoring the \$200 billion dollars that is invested by the State Investment Board. Chair Pellicciotti again referenced the Committee's meeting packet and said the State Investment Board is now so tied up in significant exposure to private equity that the risk threshold existing today is over 40% to private equity, and that this significant overexposure does not even include the unfunded commitments to private equity that are not reflected in that percentage. He noted that combining these percentages together represents almost half, if not more, of the total risk associated with the \$200 billion pension portfolio. He asserted that the SFC must address this issue, especially since the State Investment Board has not. Chair Pellicciotti stated that the issue of these private equity risks have not been effectively raised by the Executive Director to the State Investment Board. He said that instead, outside sources of information like the New York Times have raised this alarm and our state's credit rating agencies have highlighted this investment risk. He said this puts at risk the overall credit rating of the state of Washington. Chair Pellicciotti further warned that the risk of tying up these funds in private equity has not only already cost the state of Washington by contributing to the underperformance of \$20 billion over the last two years, but it created a situation where other investments like

the State Investment Board's fixed-income investments portfolio has taken on greater risk now to meet the liquidity needs of our state.

Chair Pellicciotti stated there is nothing more important to him than making sure pensions remain well funded and retirees are paid, and he has major concerns related to the state of Washington's ability to meet these pension payment needs if there were a correction in the market. He further advised that the performance benchmarks that the Executive Director met were accomplished by her decreasing the quality of the State Investment Board's investments, so that the investments appear to be better performing than they are because they are more risky investments than other pension funds would normally hold. As an example, Chair Pellicciotti said he opposed risky investments where the State Investment Board is now lending money to the Government of China, so that the State Investment Board's government bond portfolio can achieve the higher interest rate returns necessary to meet its fixed income portfolio benchmarks. Chair Pellicciotti directed the other Committee members to the Quarterly Report in the meeting packet, which he argued reaffirms his significant concerns that the State Investment Board will not meet established benchmarks going forward, and thus not meet the expectations of the Legislature as it relates to pension funding. He stated he has raised these issues of underperformance over the last couple of years, and that they are clearly in part due to the discretion exercised by the Executive Director and her increasing exposure to private equity. He warned that without SFC action, these increased risks to pension funds will continue and lead to an underperformance of our pension funds going forward. Chair Pellicciotti said that he has consistently identified these risks to the State Investment Board and Executive Director. He said he wanted to make this pension asset risk clear to the SFC because there is nothing more important to him than protecting Washington State pensions, and he believes the SFC must respond to this risk by not confirming the reappointment of Ms. Tucker as Executive Director, in order for Washington to meet its pension needs going forward.

Lieutenant Governor Heck responded that he believes the SFC is not the right venue to bring State Investment Board investment concerns. He stated that the SFC should not substitute its judgment as to the right approach to investments, and that investment decisions should lie with the State Investment Board. He said he will defer to the professional staff of the State Investment Board. He said that there has not been a history of dissent to staff investment approaches in the history of the State Investment Board, and he hoped that the formation of a new State Investment Board governance framework under the leadership of his good friend Mr. Nierenberg would get to a positive and favorable outcome going forward.


Hearing no further discussion, the Chair called for a vote on Resolution No. 1293 Confirming the Appointment of Allyson Tucker as Executive Director of the Washington State Investment Board for a term of three years commencing on January 1, 2025. Governor Ferguson and Lieutenant Governor Heck voted to approve Resolution No. 1293. Chair Pellicciotti voted no.


Having no further business before the SFC, Chair Pellicciotti adjourned the meeting at 2:38 PM.

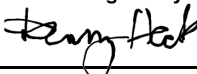
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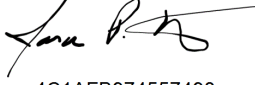
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By 
74DDAB6AC796466 Mike Pellicciotti
State Treasurer and Chair

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Governor and Member

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Lieutenant Governor and Member

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Jason P. Richter,
SFC Secretary