

STATE OF WASHINGTON - DECISION PACKAGE

Agency: 126 – State Investment Board
Decision Package Code/Title: M0 – Investment Officer Compensation
Budget Period: 2017-2019
Budget Level: PL – Performance Level

RECOMMENDATION SUMMARY TEXT

The Washington State Investment Board (WSIB) believes that a competitive compensation structure is essential to recruit and retain highly skilled investment officers. Therefore, the WSIB is requesting a budget allocation to incrementally narrow the investment officer compensation gap to an average of 2 percent below the 2014 peer average by FY 2019, in compliance with RCW 43.33A.100.

FISCAL SUMMARY

OPERATING EXPENDITURES

	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031-1 State Investment Board Expense Acct-State	727,000	1,454,000	2,181,000	1,454,000	1,454,000	2,908,000
Total Cost	727,000	1,454,000	2,181,000	1,454,000	1,454,000	2,908,000

STAFFING

	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
FTEs	0.0	0.0	0.0	0.0	0.0	0.0

REVENUE

Fund	Source	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031 Invest Bd Expens	0499 Other Revenue	20,497	40,994	61,491	40,994	40,994	81,988
031 Invest Bd Expens	0623 Investment Admin T	706,503	1,413,006	2,119,509	1,413,006	1,413,006	2,826,012
608 Accident	0623 Investment Admin T	(38,876)	(77,753)	(116,629)	(77,753)	(77,753)	(155,506)
609 Medical Aid	0623 Investment Admin T	(36,399)	(72,797)	(109,196)	(72,797)	(72,797)	(145,594)
788 Adv College Tuit Pay	0623 Investment Admin T	(14,678)	(29,356)	(44,034)	(29,356)	(29,356)	(58,712)
833 Dev Dis Endow Trust	0623 Investment Admin T	(81)	(162)	(243)	(162)	(162)	(324)
Total Revenue		636,966	1,273,932	1,910,898	1,273,932	1,273,932	2,547,864

OBJECT OF EXPENDITURE

Object Detail	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
A) Salaries And Wages	612,000	1,224,000	1,836,000	1,224,000	1,224,000	2,448,000
B) Employee Benefits	115,000	230,000	345,000	230,000	230,000	460,000
Total Objects	727,000	1,454,000	2,181,000	1,454,000	1,454,000	2,908,000

PACKAGE DESCRIPTION

In 2008, the Legislature amended RCW 43.33A.100 and granted the WSIB authority to develop a performance management and compensation program in order to address recruitment and retention problems and to reward performance. This statute also authorizes the WSIB to set the compensation levels and incentive compensation for investment officers based upon a biennial salary survey conducted by an external consultant with review and comment by the Joint Legislative Audit and Review Committee. This statute requires compensation levels for investment officers be limited to the average of total compensation provided by state or other public funds of similar size.

Based on a compensation analysis for 2014 total cash compensation conducted by McLagan Partners as required by statute, the WSIB's investment officer compensation levels are not competitive and are below average levels versus other public funds. Overall, the WSIB's total cash compensation levels are 19 percent below the peer average for other public funds. The Board approved new salary ranges on April 21, 2016. The top end of the new approved ranges are equal to the average compensation of the WSIB peers, based on 2014 total cash compensation.

The WSIB is requesting funding to cover investment officers compensation increases to be granted in July 2017 and July 2018. The salary increases will incrementally bring investment officers' compensation gap down to an average of 2 percent of the 2014 peer average by FY 2019, with an estimated cost of \$2,181,000 including related employee benefits.

HOW DOES THE PACKAGE RELATE TO THE AGENCY'S STRATEGIC PLAN?

The purpose of the WSIB is to invest the funds entrusted to us in order to meet or exceed the financial objectives of those we serve. We aspire to be the best public institutional investor in the world. This means our strategy, execution, performance, and reputation must be excellent. To succeed we have identified five key drivers to our success:

- A skillful Board with the knowledge and capacity to make prudent investment policy decisions, oversee staff and investment managers, and faithfully carry out its fiduciary duty.
- A disciplined, long-term investment perspective that adheres to a structured, forward looking analysis and decision making process.
- Operational excellence to support continuously improving investment analysis and management, risk management, accounting and oversight, communications, and Board support.
- A work environment that attracts, develops, and retains high quality people who are committed to serving our beneficiaries with integrity, prudence, and skill.
- Impeccable integrity at all levels.

WSIB's 5 Key Drivers



This decision package contributes to the destination employer and operational excellence key drivers.

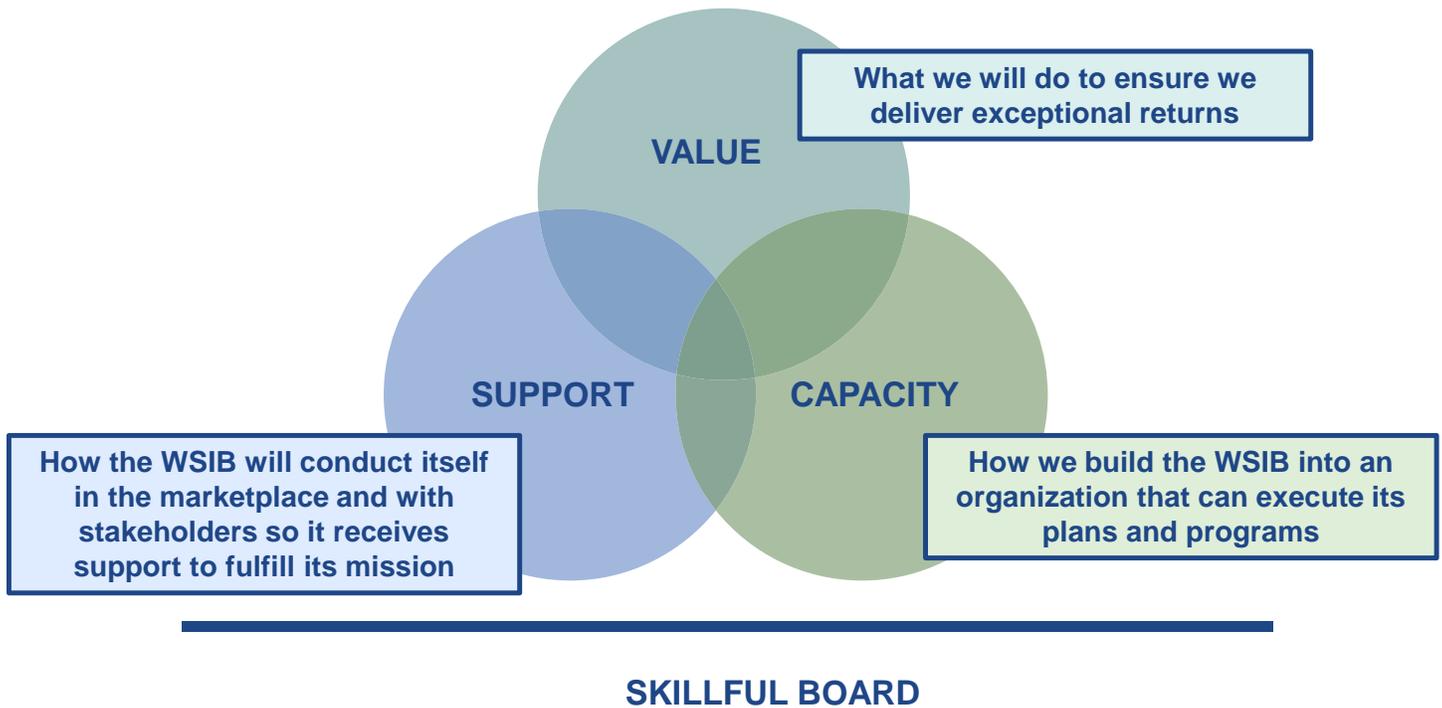
The WSIB builds its strategic plan around three core principles that interact with one another, as depicted in the diagram below. Every planning year three essential questions arise.

- What will we do to ensure we deliver exceptional investment returns?
- How will we build the WSIB into an organization that can execute on its plans and programs?
- How will we conduct ourselves in the marketplace and with stakeholders so we receive the support to fulfill our mission?

WSIB’s Strategic Framework

The foundation for delivering value, building capacity, and ensuring support is a skillful board that understands its fiduciary duty and has been given the education, staff support, and tools to help it fulfill its duties.

Each of the strategic initiatives advances one or more of these core principles. Fundamentally, the WSIB is looking for capacity initiatives that increase the value delivered to beneficiaries, and, in turn, the agency seeks the support and resources necessary to increase or maintain appropriate levels of organizational capacity. Underlying all of this is a commitment to ensuring the Board has all the resources it needs to successfully lead.



This package addresses the value core principle and its strategic initiatives to sustain excellent investment performance in order to meet or exceed the financial objectives of those we serve.

For additional information in this proposal, please contact:
 Celina Verme, Finance and Administrative Services Director at (360) 956-4740

BASE BUDGET

The base budget for the WSIB is \$21.7 million per year and 97.4 annual average FTEs.
 Cost assumptions used in this request assume a total of 12.7 percent increase of the current salary over a two year period for 53 investment officer positions as detailed in the table below.

INVESTMENT OFFICER SALARY PROPOSAL

Current Monthly Salary	Approved Top of Range	7/1/2017 Proposed Increase	7/1/2017 Salary with Increase	FY 2018 Request (Rounded)	7/1/2018 Proposed Increase	7/1/2018 Salary with Increase	FY 2019 Request (Rounded)	% of Increase
804,103	917,833	50,956	855,059	612,000	50,956	906,015	1,224,000	12.7%

EXPENDITURE, FTE AND REVENUE ASSUMPTIONS, CALCULATIONS AND DETAILS

Cost assumptions used in this request assume an average of 12.7 percent increase over a two year period for investment officer positions as detailed in the table below.

CALCULATIONS AND ASSUMPTIONS

	7/1/2017 Monthly Increase	FY 2018	7/1/2018 Monthly Increase	FY 2019	Total	FY 2020	FY 2021	Total
Salaries	50,956	612,000	50,956	1,224,000	1,836,000	1,224,000	1,224,000	2,448,000
Benefits	9,595	115,000	9,595	230,000	345,000	230,000	230,000	460,000
Total Revenue	60,551	727,000	60,551	1,454,000	2,181,000	1,454,000	1,454,000	2,908,000

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB. No general fund monies are involved.

Revenue calculations and assumptions are made using June 30, 2016 market values. Revenue will not equal the expenditures because the WSIB only has the authority from OFM to transfer revenue funds that are in allotted status.

JUSTIFICATION AND IMPACT STATEMENT

WHAT SPECIFIC PERFORMANCE OUTCOMES DOES THE AGENCY EXPECT?

The investment world is a fast-paced environment requiring specific professional and technical skills. The WSIB must employ a staff of a size and quality appropriate to the complexity, size, type, and magnitude of the investment funds. In order to retain existing staff, we must provide compensation that is fair and equitable to peer professionals.

Our goal is to pay our investment staff wages that are in compliance with RCW 43.33A.100. We believe this will aid in our ability to recruit and retain high quality investment professionals and prevent costly unwanted turnover. We are gaining a reputation as a destination employer and this program is a great step in that direction. This will make it less difficult to recruit high quality staff, with a reputation as an employer that pays staff competitively. Low turnover also improves efficiency as we will spend less time and money recruiting and training new staff.

Funding of this request will allow the WSIB to manage the increasing size and complexity of the investment portfolio and to continue to meet its goal of maximizing returns for the benefit of the more than 700,000 retired and active state employees, the Labor and Industries Industrial Insurance trust funds, the Guaranteed Education Tuition fund (GET), the Developmental Disabilities Endowment fund, and other colleges and universities permanent funds for whom we invest.

DOES THIS DECISION PACKAGE PROVIDE ESSENTIAL SUPPORT TO ONE OF THE GOVERNOR'S RESULTS WASHINGTON PRIORITIES?

Yes. This proposal supports the Governor's Results Washington priority of "Efficient, Effective and Accountable Government."

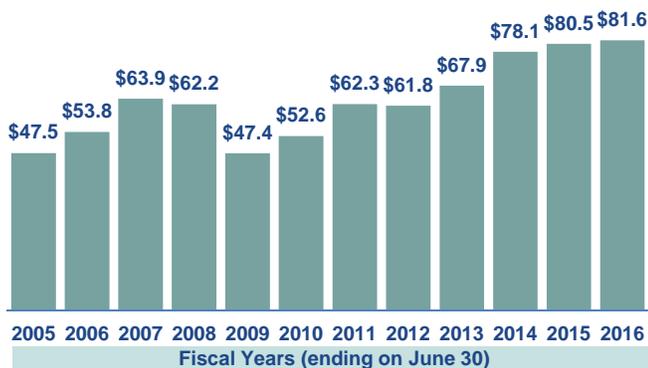
PERFORMANCE MEASURE DETAIL

ACTIVITY: A001 INVESTMENT ACTIVITIES

Outcome Measures	Incremental Changes			
	FY 2018	FY 2019	FY 2020	FY 2021
000279 Retirement Funds: The variance from the median rate of return in comparison to a nationally recognized public pension fund benchmark (TUCS Public Fund > \$1 Billion Median)	0.00%	0.00%	0.00%	0.00%
000329 Permanent Funds: The variance from the average rate of return in comparison to a nationally recognized bond fund benchmark (Barclay Capital Aggregate)	0.00%	0.00%	0.00%	0.00%
000385 Retirement Funds Value Added Benchmark: Measure the variance from the median rate of return in comparison to an implementation value added benchmark.	0.00%	0.00%	0.00%	0.00%

COMMINGLED TRUST FUND PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

Historical Market Values (billions)



Historical Fund Returns

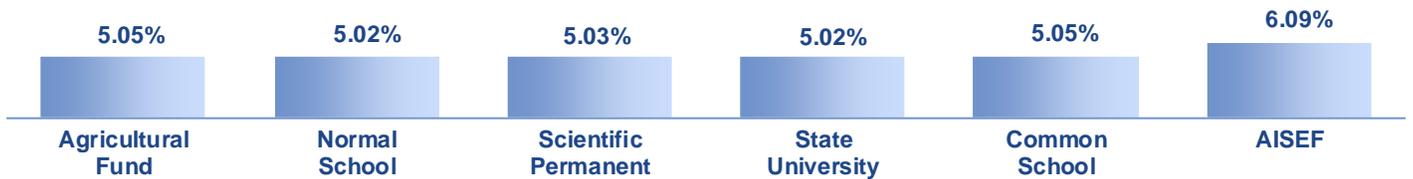


Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns					
	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$81,624,948,098	2.65%	8.03%	7.51%	6.18%
Fixed Income	\$17,990,489,328	4.77%	3.65%	3.44%	5.78%
Tangibles	\$2,396,374,903	-0.77%	2.59%	1.61%	N/A
Real Estate	\$12,881,161,786	10.43%	12.56%	12.79%	7.48%
Public Equity	\$29,828,707,115	-2.60%	7.03%	6.36%	4.75%
Private Equity	\$17,108,949,429	4.67%	11.80%	10.81%	8.98%
Innovation	\$63,807,984	-4.80%	5.81%	6.90%	N/A
Cash	\$1,355,457,553	0.32%	0.18%	0.17%	1.18%

PERMANENT FUNDS PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

One Year Performance



Market Value

Agricultural Fund	\$ 228,614,066
Normal School	\$ 273,290,088
Scientific Permanent	\$ 259,299,860
State University	\$ 36,505,998
Common School	\$ 214,309,007
American Indian Scholarship Endowment Fund (AISEF)	\$ 361,120

WHAT ARE THE OTHER IMPORTANT CONNECTIONS OR IMPACTS RELATED TO THIS PROPOSAL?

Impact(s) To:	Identify / Explanation	
Regional/County impacts?	No	Identify:
Other local gov't impacts?	No	Identify:
Tribal gov't impacts?	No	Identify:
Other state agency impacts?	No	Identify:
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	Yes	The WSIB is requesting funding to cover investment officers compensation increases to be granted in July 2017 and July 2018 in accordance with RCW 43.33A.100.:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:
Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):
Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

Funding of this request will allow the WSIB to be competitive when recruiting and retaining skilled staff and allow it to continue meeting its goal of maximizing returns for the benefit of the more than 700,000 retired and active state employees, the Labor and Industries Industrial Insurance trust funds, the Guaranteed Education Tuition fund (GET), the Developmental Disabilities Endowment fund, and other colleges and universities permanent funds for whom we invest.

What alternatives were explored by the Agency, and why was this option chosen?

There are no other alternatives available within current resources. The alternative of releasing staff and then using outside consultants and managers in lieu of internal staff would result in significant cost increases. The WSIB needs to ensure that it can recruit and retain highly skilled investment professionals specializing in the assigned asset classes and who are also proficiently skilled in management of resources and programs. The agency does not have the capacity to absorb these costs.

What are the consequences of not funding this request?

Without the requested funding, the WSIB will have no capacity to provide compensation increases that are important to retain skilled and knowledgeable incumbents who are experienced in managing, evaluating and investing in large institutional and trust portfolios. Additionally, compensation has been a key factor in the WSIB's inability to fill investment officer vacancies in a timely manner. Over the past several years, the average time to fill vacancies is almost one year, with several key positions vacant for almost two years. Extended vacancies increase the WSIB's reliance on higher cost external consultants.

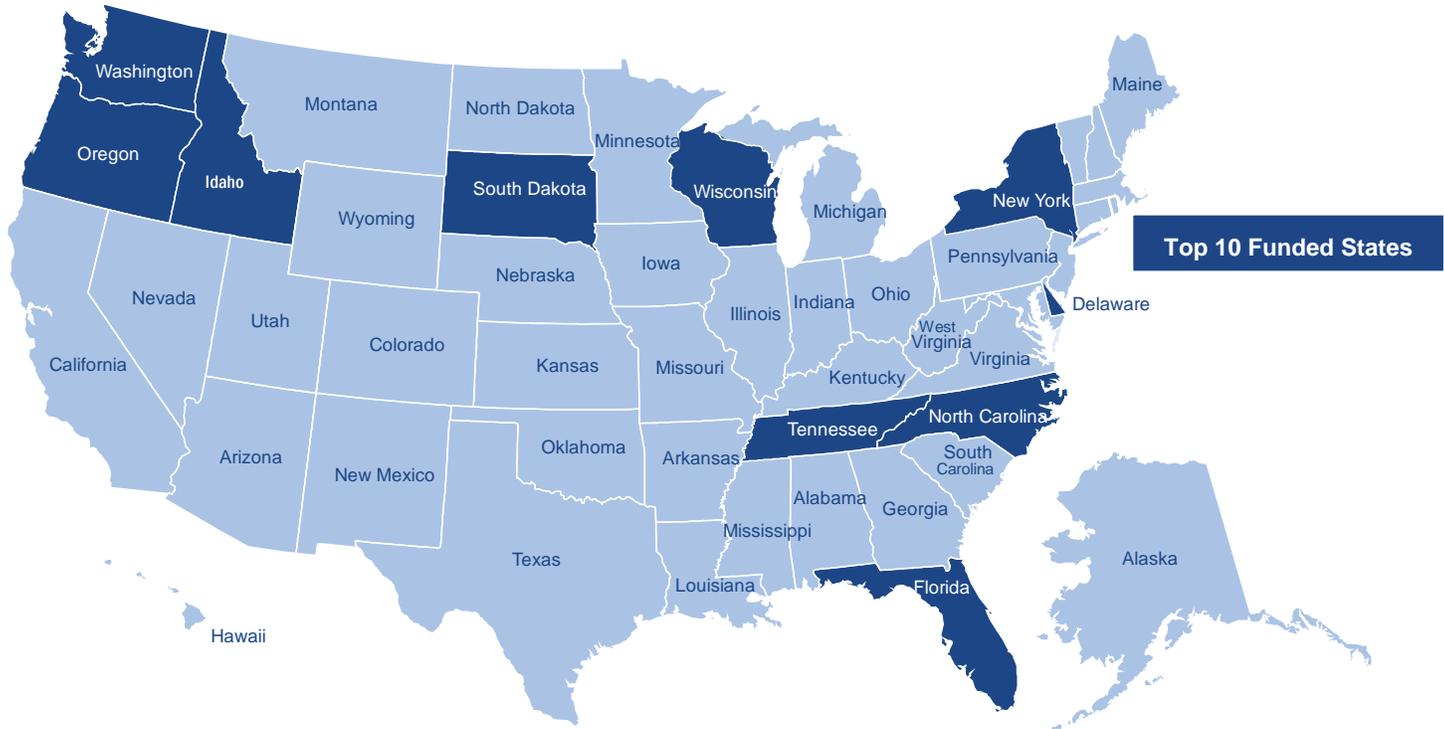
How has or can the Agency address the issue or need in the current appropriation level?

No, the WSIB cannot address necessary compensation increases within the current appropriation level.

OTHER SUPPORTING MATERIALS

Our Results

One of the Best Funded Pension Systems in the Nation



INFORMATION TECHNOLOGY

Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

- No 
- Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.

State of Washington - Decision Package

Agency: 126 – State Investment Board
Decision Package Code/Title: M1 – Investment Strategies
Budget Period: 2017-2019
Budget Level: PL – Performance Level

RECOMMENDATION SUMMARY TEXT

This budget request will enable the Washington State Investment Board (WSIB) to increase capacity to manage global funds, tangible assets, and other innovative vehicles. The WSIB is requesting funding to hire additional investment officers to implement these growing strategies in size and complexity. The WSIB's objective is to effectively construct and oversee premium investment portfolios for state retirement systems and other public funds. This request favorably positions the WSIB to attain the return objective set by the Legislature.

FISCAL SUMMARY

OPERATING EXPENDITURES

	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031-1 State Investment Board Expense Acct-State	931,000	1,138,000	2,069,000	1,138,000	1,138,000	2,276,000
Total Cost	931,000	1,138,000	2,069,000	1,138,000	1,138,000	2,276,000

STAFFING

	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
FTEs	3.2	5.0	4.1	5.0	5.0	5.0

REVENUE

Fund	Source	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031 Invest Bd Expens	0499 Other Revenue	26,248	32,084	58,332	32,084	32,084	64,168
031 Invest Bd Expens	0623 Investment Admin T	904,752	1,105,916	2,010,668	1,105,916	1,105,916	2,211,832
608 Accident	0623 Investment Admin T	(49,785)	(60,855)	(110,640)	(60,855)	(60,855)	(121,710)
609 Medical Aid	0623 Investment Admin T	(46,612)	(56,976)	(103,588)	(56,976)	(56,976)	(113,952)
788 Adv College Tuit Pay	0623 Investment Admin T	(18,797)	(22,976)	(41,773)	(22,976)	(22,976)	(45,952)
833 Dev Dis Endow Trust	0623 Investment Admin T	(104)	(127)	(231)	(127)	(127)	(254)
Total Revenue		815,702	997,066	1,812,768	997,066	997,066	1,994,132

OBJECT OF EXPENDITURE

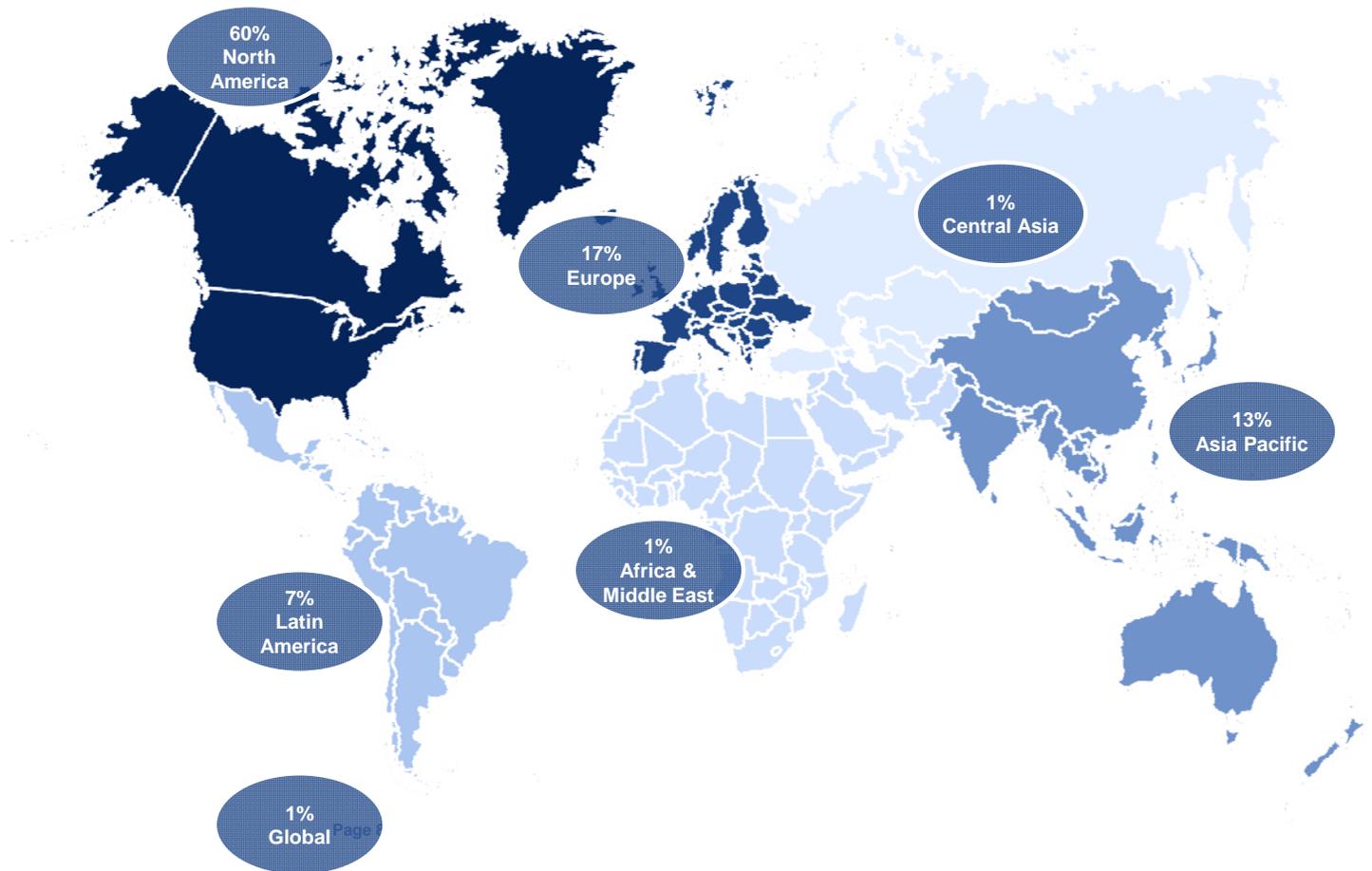
Object Detail	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
A) Salaries And Wages	455,000	749,000	1,204,000	749,000	749,000	1,498,000
B) Employee Benefits	121,000	197,000	318,000	197,000	197,000	394,000
C) Professional Service Contracts	105,000		105,000			0
E) Goods And Services	98,000	120,000	218,000	120,000	120,000	240,000
G) Travel	72,000	57,000	129,000	57,000	57,000	114,000
J) Capital Outlays	80,000	15,000	95,000	15,000	15,000	30,000
Total Objects	931,000	1,138,000	2,069,000	1,138,000	1,138,000	2,276,000

PACKAGE DESCRIPTION

The past years have been a stark reminder that we operate in a global economy. The debt crisis in Greece and other European countries left investors nervous and cautious. Falling oil prices and the on-going debate over whether and/or when the Federal Reserve will take the lid off interest rates has created concern not only among U.S. investors, but our European partners as well. But for better or worse, risk and reward are intrinsically linked. For the WSIB, it's not so much a question of whether we accept a certain amount of risk, but more importantly how we manage that risk. It's important when building a diversified global investment portfolio that we have asset returns that move in different directions. This helps to offset the impact of poor market performance. Rebalancing is the key to maintaining risk levels over time. We continuously review and rebalance our asset balances as appropriate, and the strategic asset allocations are reviewed at least every four years. This ensures that the asset mix is within the appropriate risk levels. The WSIB's long-term, diversified investment strategy has kept Washington's public pension fund among the top 10 best performing pension funds in the nation.

The WSIB continues to invest prudently, approach complex market and geo-political challenges with responsible, thoughtful solutions, and pursue new opportunities to strengthen and protect all fund investments to the greatest extent possible. To meet the challenge, the WSIB needs to increase capacity to manage global funds, tangible assets, and other innovative vehicles.

WSIB Global Investments - designed to manage risk across different economic market conditions to produce the best possible returns



This request funds a total of 5 new investment officer positions necessary to support investment strategies. The following explains the reasoning behind this funding request:

PUBLIC EQUITY: 1 FTE, \$415,000

Funding of this proposal will enable the WSIB to continue to improve the public equity program, which is vital in the current low-growth, low-return environment if WSIB is to meet the return expectations required for the funds and fulfill the stakeholders' obligations which includes pensions for public service employees. The market value of the portfolio as of June 30, 2016 was \$38 billion. Currently the program has 5 staff managing 55 accounts and 15 investment manager relationships. Staff already works diligently to automate and improve efficiencies wherever possible. To continue to pursue enhancements, to keep up with the growing complexities of the investment universe, and to pursue new strategies, we need, additional staff to enable more extensive research; to conduct additional review, oversight, and manager searches; and to maintain appropriate risk management of current and new investments in an increasingly complex and volatile environment. Budget implications for this request include 1 investment officer (with associated costs), as well as additional funding for professional recruiting services and travel.

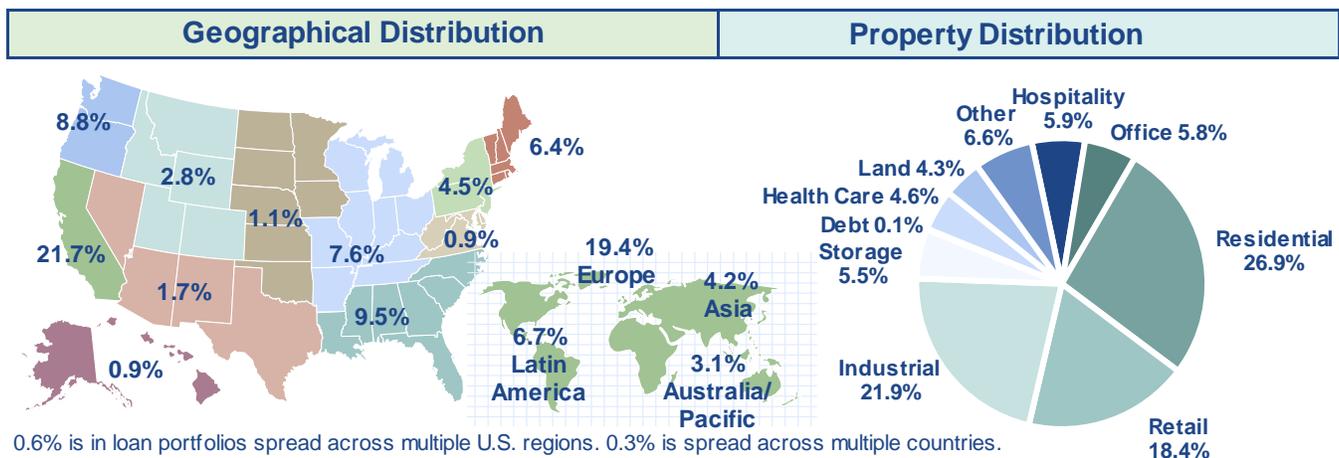
WSIB Global Equities Compared to the MSCI ACWI IMI Index

WSIB	U.S. 56.64%	Other Developed Countries 33.42%	Emerging 9.94%
MSCI ACWI IMI w/U.S. Gross	U.S. 53.28%	Other Developed Countries 36.16%	Emerging 10.55%

REAL ESTATE: 2 FTES, \$769,000

Funding this proposal will enable the WSIB to enhance our risk-adjusted rate of investment return by continuing to diversify the portfolio via increasing our real estate exposure to international developed and emerging markets. This will be accomplished through growing our existing relationships along with selective additions. The proposal also provides resources to keep up with the growing complexities of the portfolio and the global investment market. The market value of the portfolio as of June 30, 2016 was \$12.9 billion. Budget implications for this request include 2 investment professionals – 1 Investment officer, and 1 assistant investment officer (with associated costs), as well as additional funding for travel.

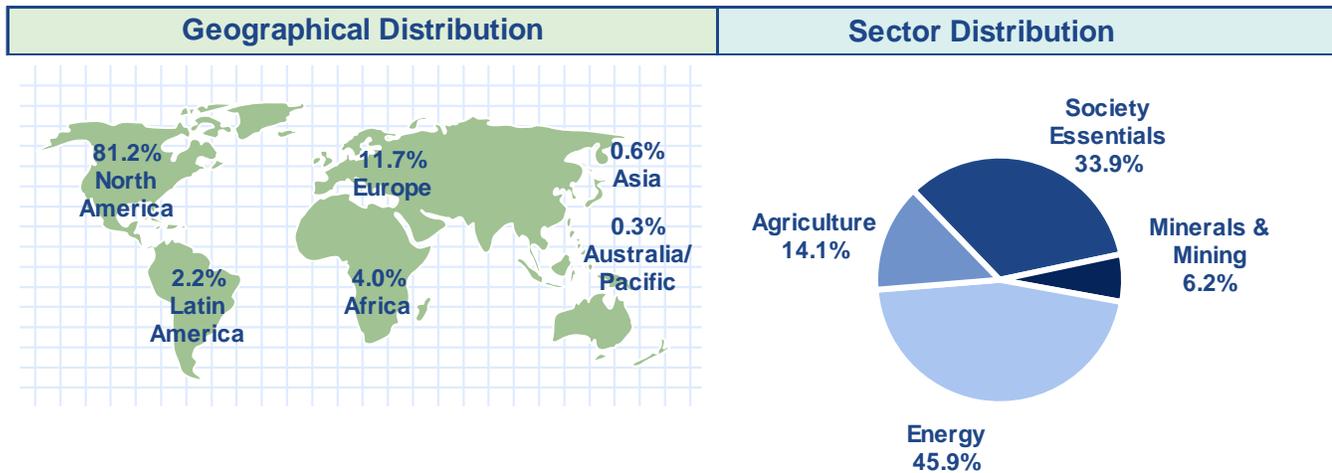
Real Estate Geographic and Property Type Distribution



TANGIBLE ASSETS: 1 FTE, \$313,000

This funding request will allow the WSIB to continue to build out the WSIB's newest asset class program. In order to accomplish this, the WSIB needs an additional assistant investment officer to perform detailed financial analysis and modeling to help with the investment decisions, and oversight of data from the various systems used by the group to monitor investments, and work on performance attribution and reporting. Tangible assets include investments in the up-stream and mid-stream processes in agriculture, mining and mineral, energy, and society essentials. It is expected to produce consistent income with growth tied to inflation, which should generate diversification benefits with the rest of the Commingled Trust Fund (CTF). The market value of the portfolio as of June 30, 2016 was \$2.4 billion. Budget implications for this request includes 1 assistant investment officer (with associated costs).

Tangible Assets Geographic and Sector Type Distribution



RISK MANAGEMENT AND ASSET ALLOCATION (RMAA) – INNOVATION PORTFOLIO: 1 FTE, \$572,000

The primary investment strategy of the innovation portfolio gives staff the ability to make investments that fall outside the established asset class programs currently used by the Board. Secondly, this portfolio provides the Board with comfort and demonstrated success before committing larger dollar amounts to different investment strategies. Recently, the WSIB transitioned the ownership of the Innovation Portfolio to be centralized within the RMAA unit. Staff believes RMAA ownership achieves balance between the pressure to invest caused by full-time, dedicated focus and the patience not to invest caused by not having an asset class focusing solely on this strategy, given competing demands on limited resources within individual asset classes. One additional assistant senior investment officer will be required for the transition. Budget implications for this request includes 1 assistant senior investment officer (with associated costs), as well as additional funding for professional recruiting services and travel.

HOW DOES THE PACKAGE RELATE TO THE AGENCY'S STRATEGIC PLAN?

The purpose of the WSIB is to invest the funds entrusted to us in order to meet or exceed the financial objectives of those we serve. We aspire to be the best public institutional investor in the world. This means our strategy, execution, performance, and reputation must be excellent. To succeed we have identified five key drivers to our success:

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- Operational excellence to support continuously improving investment analysis and management, risk management, accounting and oversight, communications, and Board support.
- A work environment that attracts, develops, and retains high quality people who are committed to serving our beneficiaries with integrity, prudence, and skill.
- Impeccable integrity at all levels.

WSIB's 5 Key Drivers



This decision package contributes to the discipline and perspective, and operational excellence key drivers.

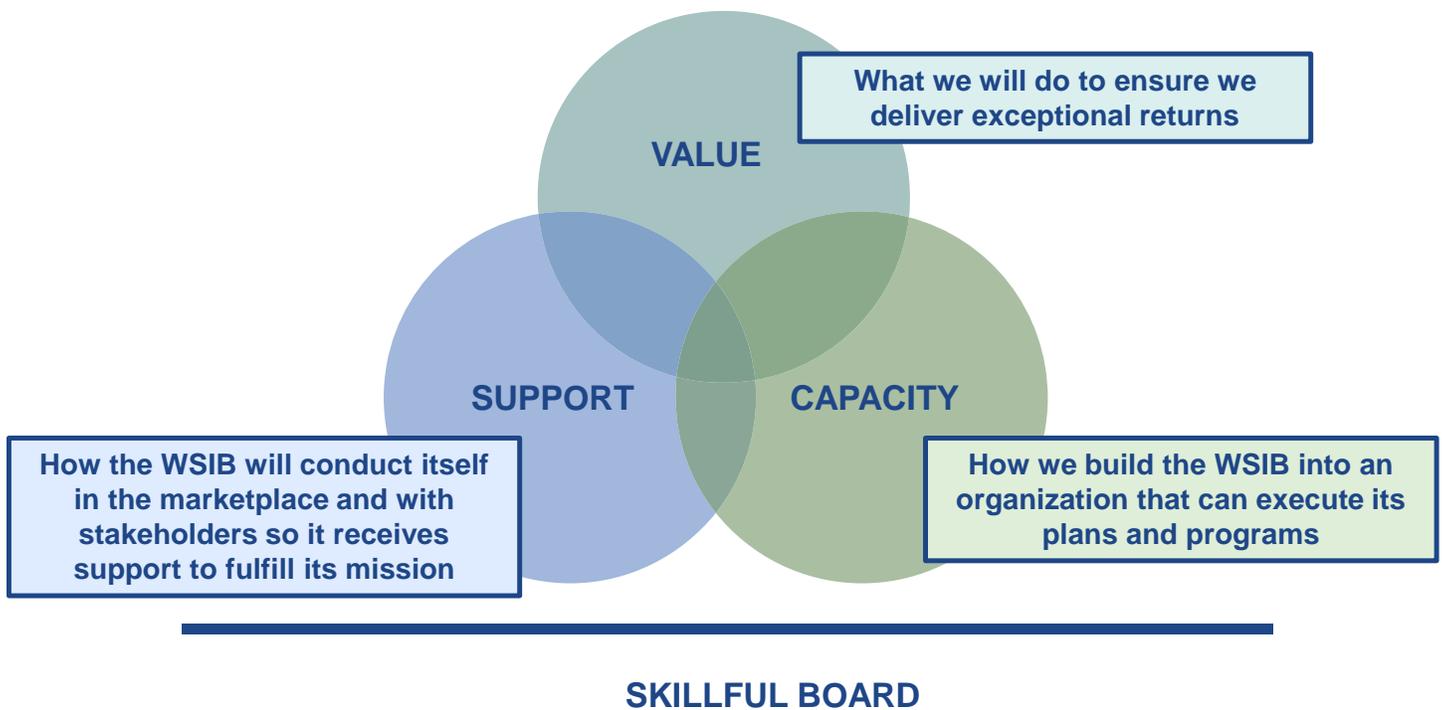
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- How will we build the WSIB into an organization that can execute on its plans and programs?
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WSIB’s Strategic Framework

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This package addresses the value core principle and its strategic initiatives to sustain excellent investment performance in order to meet or exceed the financial objectives of those we serve.

For additional information in this proposal, please contact:
Celina Verme, Finance and Administrative Services Director at (360) 956-4740

BASE BUDGET

The base budget for the WSIB is \$21.7 million per year and 97.4 annual average FTEs.

PUBLIC EQUITY

- The current staffing level includes 5 investment professionals – 1 senior investment officer, 2 assistant senior investment officers, and 2 investment officers.
- Budget implications for this request include 1 investment officer (with associated costs), as well as additional funding for professional recruiting services and travel.



REAL ESTATE

- The current staffing level includes 9 investment professionals – 1 senior investment officer, 3 assistant senior investment officers, and 5 investment officers.
- Budget implications for this request include 2 investment professionals – 1 Investment officer, and 1 assistant investment officer (with associated costs), as well as additional funding for travel.

TANGIBLE ASSETS

- The current staffing level includes 5 investment professionals – 1 senior investment officer, 2 assistant senior investment officers, and 2 investment officers.
- Budget implications for this request include 1 assistant investment officer (with associated costs).

RMAA – INNOVATION PORTFOLIO

- The current staffing level includes 5 investment professionals – 1 senior investment officer, 2 assistant senior investment officers, 1 investment officer, and 1 assistant investment officer.
- Budget implications for this request include 1 assistant senior investment officer (with associated costs), as well as additional funding for professional recruiting services and travel.

EXPENDITURE, FTE AND REVENUE ASSUMPTIONS, CALCULATIONS AND DETAILS

Cost assumptions used in this request are detailed in the tables below.

CALCULATIONS AND ASSUMPTIONS

Request Summary	2017-2019			2019-2021		
	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
FTEs	3.2	5.0	4.1	5.0	5.0	5.0
A - Salaries	455,000	749,000	1,204,000	749,000	749,000	1,498,000
BA - OASI @ .0620	28,000	47,000	75,000	47,000	47,000	94,000
BB - Retirement @ .1118	51,000	84,000	135,000	84,000	84,000	168,000
BC - Medical @ \$30 per staff month	1,000	1,000	2,000	1,000	1,000	2,000
BD - Health @ \$888 per staff month	34,000	54,000	88,000	54,000	54,000	108,000
BH - Medicare @ .0145	7,000	11,000	18,000	11,000	11,000	22,000
B - Benefits	121,000	197,000	318,000	197,000	197,000	394,000
CK - Recruiting Services @ 28% of annual salary per FTE - One time only	105,000	0	105,000	0	0	0
C - Professional Services Contracts	105,000	0	105,000	0	0	0
EA - Supplies @ \$1,000 per FTE	3,000	5,000	8,000	5,000	5,000	10,000
EB - Communications @ \$4,000 (Inv Off) or \$1,000 (other) per FTE	13,000	20,000	33,000	20,000	20,000	40,000
ED - Lease Cost @ \$1,000 per staff month	60,000	60,000	120,000	60,000	60,000	120,000
EG - Training & Conferences @ \$4,000 (Inv Off) or \$2,000 (other) per FTE	13,000	20,000	33,000	20,000	20,000	40,000
EJ - Subscriptions @ \$2,000 (Inv Off) or \$500 (other) per FTE	6,000	10,000	16,000	10,000	10,000	20,000
EN - Personnel Service Contract @ .007 of salaries	3,000	5,000	8,000	5,000	5,000	10,000
E - Goods and Services	98,000	120,000	218,000	120,000	120,000	240,000
G* - Travel @ \$7,000 (Inv Off Non-international) or \$4,000 (other) per FTE	6,000	7,000	13,000	7,000	7,000	14,000
G* - Other Travel Expenses @ \$15,000 per FTE - One time only Interview Travel = \$3,000 and Moving Expenses = \$12,000	45,000	0	45,000	0	0	0
G* - Travel @ \$25,000 per FTE (International Travel)	21,000	50,000	71,000	50,000	50,000	100,000
G - Travel	72,000	57,000	129,000	57,000	57,000	114,000
J* - Landscape Equipment @ \$11,000 per FTE Standard cost in the 1st year is \$11,000 Cost in 2nd year and beyond is \$2,000 (20% of 1st year costs)	55,000	10,000	65,000	10,000	10,000	20,000
J* - IT Equipment @ \$5,000 per FTE Standard cost in the 1st year is \$5,000 Cost in 2nd year and beyond is \$1,000 (20% of 1st year costs)	25,000	5,000	30,000	5,000	5,000	10,000
J - Equipment	80,000	15,000	95,000	15,000	15,000	30,000
Total	931,000	1,138,000	2,069,000	1,138,000	1,138,000	2,276,000

FTE DETAIL

FTE Detail							
Job Classification	Salary	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
Assistant Senior Investment Officer	213,000	0.5	1.0	0.8	1.0	1.0	1.0
Investment Officer	162,000	1.1	2.0	1.6	2.0	2.0	2.0
Assistant Investment Officer	106,000	1.6	2.0	1.8	2.0	2.0	2.0
Total		3.2	5.0	4.1	5.0	5.0	5.0

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB. No general fund monies are involved.

Revenue calculations and assumptions are made using June 30, 2016 market values. Revenue will not equal the expenditures because the WSIB only has the authority from OFM to transfer revenue funds that are in allotted status.

JUSTIFICATION AND IMPACT STATEMENT
WHAT SPECIFIC PERFORMANCE OUTCOMES DOES THE AGENCY EXPECT?

Funding of this request favorably positions the WSIB to manage the increasing challenges and complexity inherent in the portfolio and to attain the high level of return objective set by the Legislature, while at the same time managing for risk. In order to consistently deliver expected risk-adjusted returns, the WSIB must build the capacity to manage global funds, tangible assets, and continue our move towards the model portfolio, with balanced partner selection and diversification by strategy, sector and geography. Moving into new markets and investment vehicles requires: 1) experienced investment staff to describe and understand the risks inherent to these vehicles; 2) an expanded view of asset allocation that encompasses new techniques and tools for analysis, and 3) increased oversight of external investment partners and vendors to ensure adherence to more complex investment policies and guidelines. The specific desired result is performance over the long-term that meets or exceeds the benchmarks set for each fund, as described below. The undesired result we wish to avoid is not meeting the benchmarks, which is an unacceptable outcome for the WSIB since investment income is a critical funding source for each fund listed below.

DOES THIS DECISION PACKAGE PROVIDE ESSENTIAL SUPPORT TO ONE OF THE GOVERNOR'S RESULTS WASHINGTON PRIORITIES?

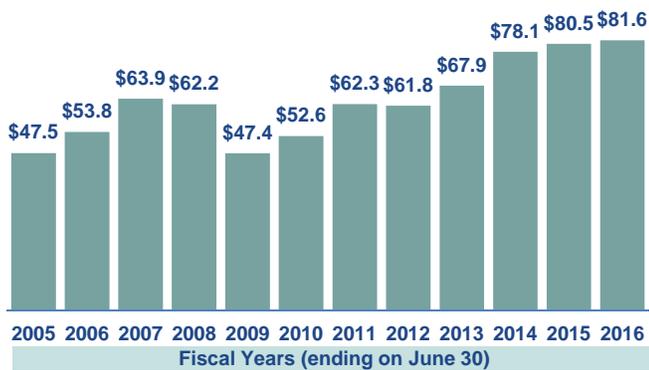
Yes. This proposal supports the Governor's Results Washington priority of "Efficient, Effective and Accountable Government." Specifically, the WSIB performs an essential function. Pension liabilities are mandatory. The state has no alternative but to fund them. The WSIB produces the lion's share of long term funds needed to meet the pension liabilities. If the long term funding is not obtained, pension contribution rates will go up dramatically. For employees that will translate into less take home pay; for the state as an employer, a shortfall in investment earnings and an increase in pension contributions would result in a reduction of programs to fund pension obligations. Success of the program is vital because pension has a first claim on spending.

PERFORMANCE MEASURE DETAIL
ACTIVITY: A001 INVESTMENT ACTIVITIES

Outcome Measures	Incremental Changes			
	FY 2018	FY 2019	FY 2020	FY 2021
000279 Retirement Funds: The variance from the median rate of return in comparison to a nationally recognized public pension fund benchmark (TUCS Public Fund > \$1 Billion Median)	0.00%	0.00%	0.00%	0.00%
000329 Permanent Funds: The variance from the average rate of return in comparison to a nationally recognized bond fund benchmark (Barclay Capital Aggregate)	0.00%	0.00%	0.00%	0.00%
000385 Retirement Funds Value Added Benchmark: Measure the variance from the median rate of return in comparison to an implementation value added benchmark.	0.00%	0.00%	0.00%	0.00%

COMMINGLED TRUST FUND PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

Historical Market Values (billions)



Historical Fund Returns

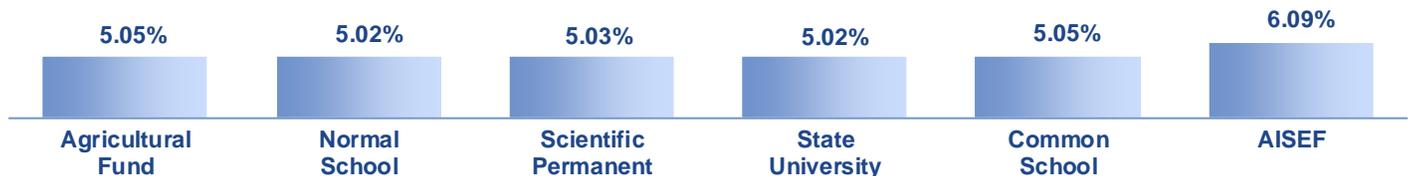


Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns					
	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$81,624,948,098	2.65%	8.03%	7.51%	6.18%
Fixed Income	\$17,990,489,328	4.77%	3.65%	3.44%	5.78%
Tangibles	\$2,396,374,903	-0.77%	2.59%	1.61%	N/A
Real Estate	\$12,881,161,786	10.43%	12.56%	12.79%	7.48%
Public Equity	\$29,828,707,115	-2.60%	7.03%	6.36%	4.75%
Private Equity	\$17,108,949,429	4.67%	11.80%	10.81%	8.98%
Innovation	\$63,807,984	-4.80%	5.81%	6.90%	N/A
Cash	\$1,355,457,553	0.32%	0.18%	0.17%	1.18%

PERMANENT FUNDS PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

One Year Performance



Market Value

Agricultural Fund	\$ 228,614,066
Normal School	\$ 273,290,088
Scientific Permanent	\$ 259,299,860
State University	\$ 36,505,998
Common School	\$ 214,309,007
American Indian Scholarship Endowment Fund (AISEF)	\$ 361,120

WHAT ARE THE OTHER IMPORTANT CONNECTIONS OR IMPACTS RELATED TO THIS PROPOSAL?

Impact(s) To:		Identify / Explanation
Regional/County impacts?	No	Identify:
Other local gov't impacts?	No	Identify:
Tribal gov't impacts?	No	Identify:
Other state agency impacts?	No	Identify:
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:
Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):
Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

In addition to providing investment management services for the retirement system, the WSIB also manages the Labor and Industries Industrial Insurance trust funds, the Guaranteed Education Tuition Funds (GET), and numerous permanent and other funds. Each of these stakeholders has a keen interest in the success of the WSIB's investment management services. Senior investment staff routinely meet with stakeholders to develop appropriate asset allocations for each fund. The major fund beneficiary groups have representatives serving on the WSIB Board, so are integral to the development of the strategic plan and the approval of this budget request. In short, the WSIB has sought extensive stakeholder input for its proposal and considers this decision package a direct outgrowth of the needs identified in discussions with its Board and stakeholders.

What alternatives were explored by the Agency, and why was this option chosen?

The only alternative would be for each asset class to outsource management of a portion of the portfolio. While this is an option, it would also be very expensive which does not serve the best interests of the beneficiaries. The following details the alternatives we explored:

PUBLIC EQUITY

For the public equity area, the alternatives to increased staff are:

- Limit the number of managers employed (i.e., fewer relationships for the limited staff to monitor). This will significantly increase organizational risk (there will be more money invested with each investment manager amplifying the impact, if something goes wrong) and will significantly increase risk and volatility (less diversification amongst managers). The exact effect is hard to quantify, but very real.
- Limit adoption of new strategies. One of the historical strengths of the WSIB is to be early adopters of investment strategies such as private equity and global investments. These strategies have demonstrably increased the return of the funds. We expect that being unable to adopt new strategies due to lack of resources will lead to diminished returns, which ultimately results in the state and/or taxpayers having to contribute more to keep fund pension obligations.
- Limit the due diligence performed on additional and existing managers employed by the WSIB to a minimum standard instead of industry best practices. We believe it is questionable whether this would be inconsistent with our legislated fiduciary duty, and at a minimum, exposes the fund to unquantifiable future underperformance from managers that are not as carefully selected or monitored.
- Outsource due diligence. We believe this approach would both decrease the quality of oversight, and would likely potentially cost the fund more in fees. This option was discussed with the WSIB Board of Trustees. The trustees, who are the fiduciaries of the funds, felt very strongly that this should not be pursued and would have negative ramifications, particularly increased risk due to less diligent oversight.

REAL ESTATE

The WSIB real estate portfolio is considered one of the most innovative among pension funds; it is also one of the most complex. The investment approach is globally diversified, and because a high level of governance/control is maintained, it is very human resource intensive. From a strategic perspective, a significant amount of staff time is required to identify and get in front of economic, demographic, and political trends in order to recognize attractive investment opportunities. Risk management is also a key to the success of the portfolio and takes up a meaningful amount of staff time.

The alternative to adding professional investment staff to perform due diligence and monitoring and keep up with industry best practices is to outsource. While this is an option, it would also be comparatively much more expensive which does not serve the best interests of the beneficiaries. Implementation of an outsourced investment program would also be very time-intensive for existing staff potentially affecting their ability to manage existing investments.

TANGIBLE ASSETS

The tangible asset portfolio is an actively-managed, operationally complex global group of investments. This necessitates the employment of highly-qualified professional investment staff to oversee the selection and ongoing due diligence, management and oversight of the portfolio, including additions or changes to the portfolio in order to meet the requirements of building the planned portfolio. Additional personnel will be required during the next biennium.

If adding an FTE to the Tangible Asset team is not possible in the next biennium, the following alternative could potentially be pursued:

- Limit the number of partners (i.e., fewer relationships for the current staff to monitor). This will significantly increase concentration risk and volatility. The exact effect is very hard to quantify, but very real.
- Limit adoption of new investment strategies. One of the historical strengths of the WSIB is to be early adopters of investment strategies. These have demonstrably increased the return of the funds. We expect that being unable to adopt new strategies due to lack of resources will lead to diminished returns, which ultimately means the state and/or taxpayers will have to contribute more to meet the plans pension obligations.
- Outsourcing data analysis would limit the ability of staff to customize or analysis risks outside of standard buckets.

RMAA – INNOVATION PORTFOLIO

The future success of the WSIB depends on the ability to source, evaluate, and participate in new investment opportunities. WSIB is a long-term, perpetual investor and must consistently monitor and manage changes to the investment landscape and market conditions. One of the historical strengths of the WSIB is to be early adopters of investment strategies such as private equity and real estate. More recently, the WSIB's Global Equity and Tangible Assets programs were incubated in the Innovation Portfolio. These strategies in aggregate have demonstrably increased the return of the funds.

The alternative to adding highly-qualified professional investment staff at the WSIB to perform due diligence and monitoring and keep up with industry best practices as a standard is to outsource investment management of the Innovation Portfolio. Doing so would significantly increase the cost of the program and make it more challenging to be an adopter of early strategies that may not be recognized institutionally in the marketplace.

What are the consequences of not funding this request?

Not funding this proposal will limit the agency's capability to effectively manage the portfolio (\$108.5 billion as of June 30, 2016), create risk of managers underperforming because of decreased levels of monitoring and analysis standards, risk that the investment returns will underperform due to inability to keep pace with changes in the investment environment, legal risks that the WSIB is not fulfilling its fiduciary duties, and risk of not achieving the high level of return objective set by the Legislature.

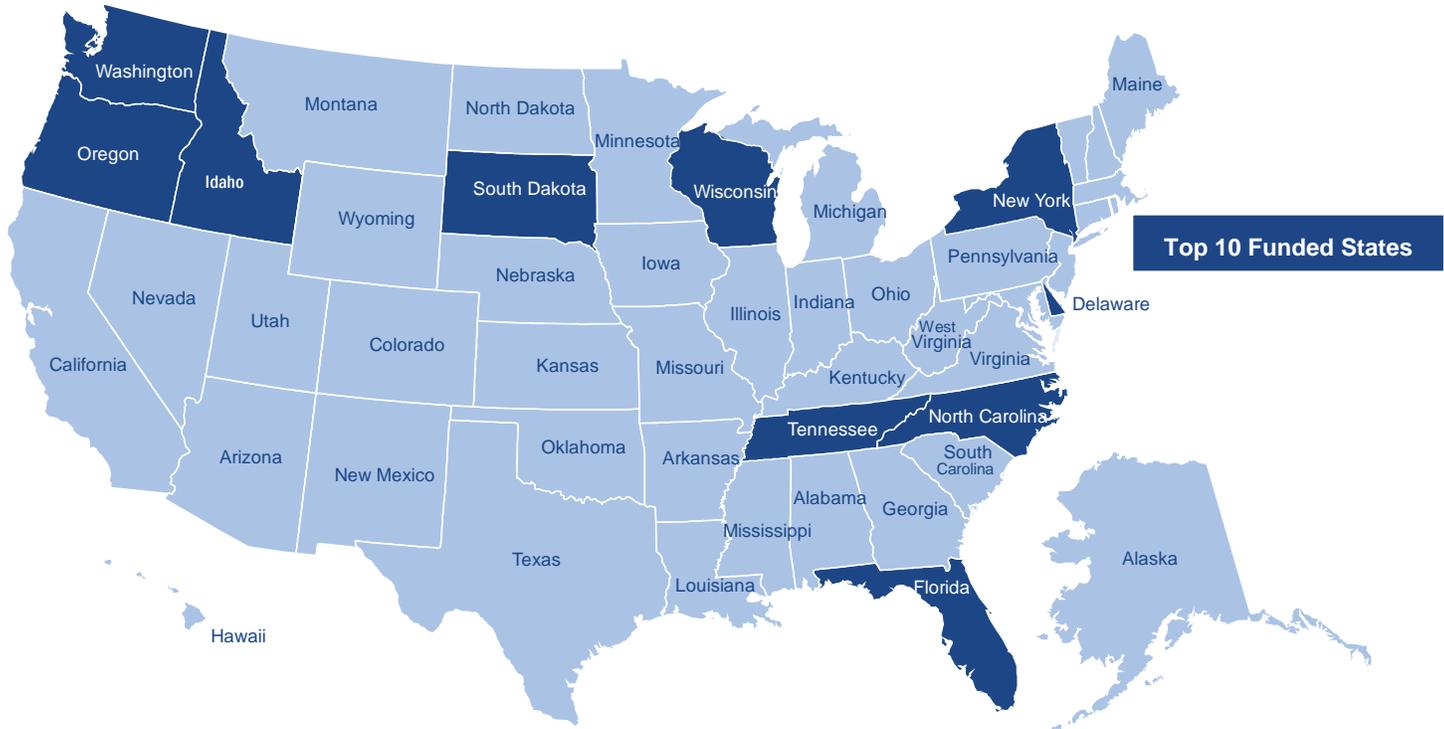
How has or can the Agency address the issue or need in the current appropriation level?

No, the WSIB cannot address this need within the current appropriation level.

OTHER SUPPORTING MATERIALS

Our Results

One of the Best Funded Pension Systems in the Nation



INFORMATION TECHNOLOGY

Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

- No 
- Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.

STATE OF WASHINGTON - DECISION PACKAGE

Agency: 126 – State Investment Board
Decision Package Code/Title: M2 – Investment Data Analytics Officer
Budget Period: 2017-2019
Budget Level: PL – Performance Level

RECOMMENDATION SUMMARY TEXT

The Washington State Investment Board (WSIB) is requesting funding for one new Investment Data Analytics Officer position to lead and assist in optimizing investment data processing, improving investment risk and performance analytics, leveraging cloud technologies, exploring open data possibilities, and broadly providing the highest quality investment data research for the WSIB, partners, and beneficiaries.

FISCAL SUMMARY

OPERATING EXPENDITURES

	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031-1 State Investment Board Expense Acct-State	208,000	237,000	445,000	237,000	237,000	474,000
Total Cost	208,000	237,000	445,000	237,000	237,000	474,000

STAFFING

	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
FTEs	0.8	1.0	0.9	1.0	1.0	1.0

REVENUE

Fund	Source	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031 Invest Bd Expens	0499 Other Revenue	5,864	6,682	12,546	6,682	6,682	13,364
031 Invest Bd Expens	0623 Investment Admin T	202,136	230,318	432,454	230,318	230,318	460,636
608 Accident	0623 Investment Admin T	(11,123)	(12,674)	(23,797)	(12,674)	(12,674)	(25,348)
609 Medical Aid	0623 Investment Admin T	(10,414)	(11,866)	(22,280)	(11,866)	(11,866)	(23,732)
788 Adv College Tuit Pay	0623 Investment Admin T	(4,200)	(4,785)	(8,985)	(4,785)	(4,785)	(9,570)
833 Dev Dis Endow Trust	0623 Investment Admin T	(23)	(26)	(49)	(26)	(26)	(52)
Total Revenue		182,240	207,649	389,889	207,649	207,649	415,298

OBJECT OF EXPENDITURE

Object Detail	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
A) Salaries And Wages	130,000	162,000	292,000	162,000	162,000	324,000
B) Employee Benefits	34,000	41,000	75,000	41,000	41,000	82,000
E) Goods And Services	22,000	24,000	46,000	24,000	24,000	48,000
G) Travel	6,000	7,000	13,000	7,000	7,000	14,000
J) Capital Outlays	16,000	3,000	19,000	3,000	3,000	6,000
Total Objects	208,000	237,000	445,000	237,000	237,000	474,000

PACKAGE DESCRIPTION

“Without data you’re just another person with an opinion.” - E. Deming

BACKGROUND

The WSIB has consistently leveraged data to make both investment and organization decisions. As the skills, abilities, and technologies of the investment world advance, the WSIB must continue to adapt, progress, and evolve in order to enhance investment returns through strategic planning and prudent risk management.

To date, the WSIB has approached investment data analytics through a core, Information Technology centric team and a decentralized collection of data-experts scattered across the organization. Going forward, the WSIB needs to implement a centralized approach to staffing and organizing investment data analytics needs by enhancing and raising the investment knowledge and expertise within a core analytics team. Designing, recruiting, and staffing the necessary roles is complex and challenging as this space is competitive and the demand for qualified individuals is high.

APPROACH

In order to fully exploit data-driven decision making and enhance the analytical capabilities of the organization, the WSIB is planning to recruit for and hire an Investment Data Analytics Officer. This position will report to the Director of Technology and Innovation and will oversee a team of Investment Data, Risk, and Performance Analysts, Investment Data Engineers, and Investment Data Scientists.

HOW DOES THE PACKAGE RELATE TO THE AGENCY'S STRATEGIC PLAN?

The purpose of the WSIB is to invest the funds entrusted to us in order to meet or exceed the financial objectives of those we serve. We aspire to be the best public institutional investor in the world. This means our strategy, execution, performance, and reputation must be excellent. To succeed we have identified five key drivers to our success:

- A skillful Board with the knowledge and capacity to make prudent investment policy decisions, oversee staff and investment managers, and faithfully carry out its fiduciary duty.
- A disciplined, long-term investment perspective that adheres to a structured, forward looking analysis and decision making process.
- Operational excellence to support continuously improving investment analysis and management, risk management, accounting and oversight, communications, and Board support.
- A work environment that attracts, develops, and retains high quality people who are committed to serving our beneficiaries with integrity, prudence, and skill.
- Impeccable integrity at all levels.

This decision package contributes to all five key drivers.

WSIB's 5 Key Drivers



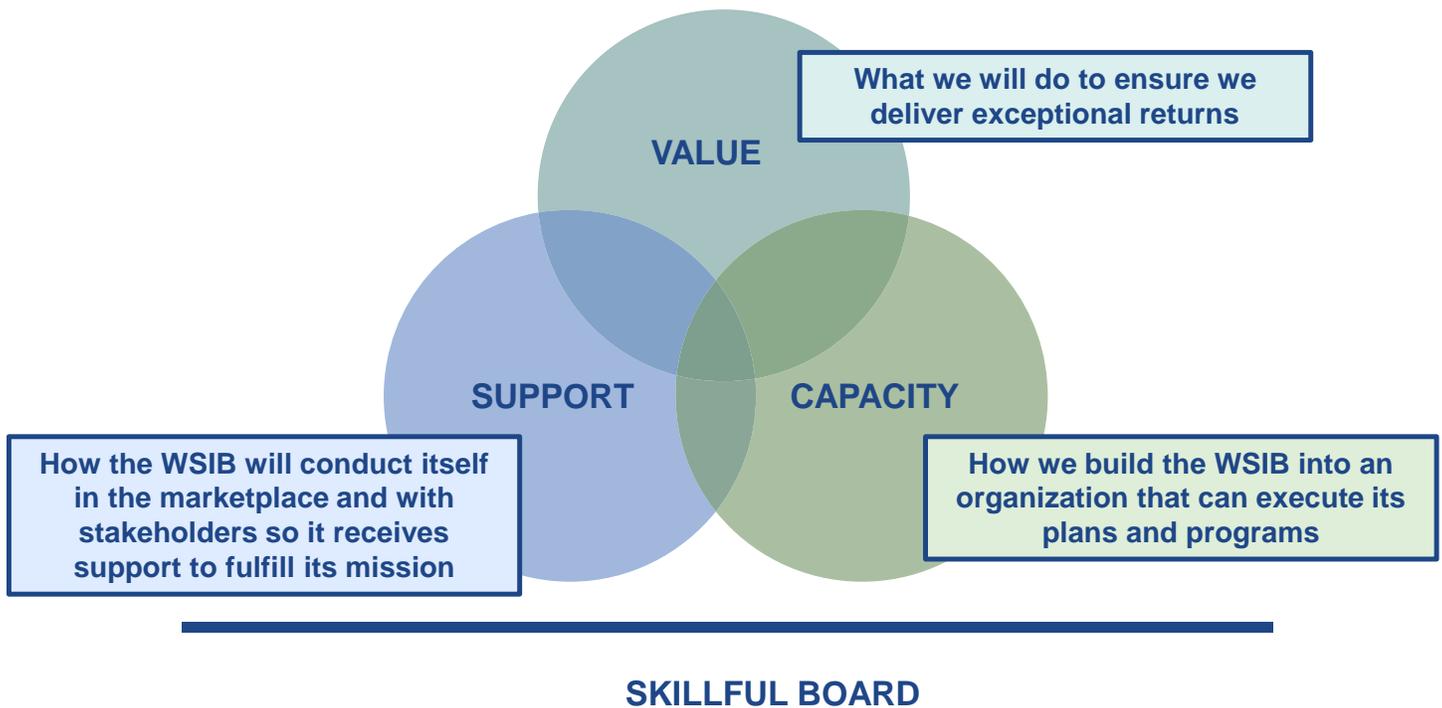
The WSIB builds its strategic plan around three core principles that interact with one another, as depicted in the diagram below. Every planning year three essential questions arise.

- What will we do to ensure we deliver exceptional investment returns?
- How will we build the WSIB into an organization that can execute on its plans and programs?
- How will we conduct ourselves in the marketplace and with stakeholders so we receive the support to fulfill our mission?

WSIB’s Strategic Framework

The foundation for delivering value, building capacity, and ensuring support is a skillful board that understands its fiduciary duty and has been given the education, staff support, and tools to help it fulfill its duties.

Each of the strategic initiatives advances one or more of these core principles. Fundamentally, the WSIB is looking for capacity initiatives that increase the value delivered to beneficiaries, and, in turn, the agency seeks the support and resources necessary to increase or maintain appropriate levels of organizational capacity. Underlying all of this is a commitment to ensuring the Board has all the resources it needs to successfully lead.



This package addresses the capacity core principle and its Technology Assessment strategic project’s objective to evaluate opportunities to consolidate system platforms and/or vendors, synchronize systems integration and consider other tools for future technology development.

For additional information in this proposal, please contact:

Stephen Backholm, Director of Technology and Innovation at (360) 956-4750 or,
Celina Verme, Finance and Administrative Services Director at (360) 956-4740

BASE BUDGET

The base budget for the WSIB is \$21.7 million per year and 97.4 annual average FTEs.

- The Information Systems unit current staffing level includes 9 Information Technology staff.
- Budget implications for this request includes 1 Investment Data Analytics Manager Investment Officer (with associated costs).

EXPENDITURE, FTE AND REVENUE ASSUMPTIONS, CALCULATIONS AND DETAILS

Cost assumptions used in this request are detailed in the tables below.

CALCULATIONS AND ASSUMPTIONS

Request Summary	2017-2019			2019-2021		
	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
FTEs	0.8	1.0	0.9	1.0	1.0	1.0
A - Salaries	130,000	162,000	292,000	162,000	162,000	324,000
BA - OASI @ .0620	8,000	10,000	18,000	10,000	10,000	20,000
BB - Retirement @ .1118	15,000	18,000	33,000	18,000	18,000	36,000
BC - Medical @ \$30 per staff month	0	0	0	0	0	0
BD - Health @ \$888 per staff month	9,000	11,000	20,000	11,000	11,000	22,000
BH - Medicare @ .0145	2,000	2,000	4,000	2,000	2,000	4,000
B - Benefits	34,000	41,000	75,000	41,000	41,000	82,000
CK - Recruiting Services @ 28% of annual salary per FTE - One time only	0	0	0	0	0	0
C - Professional Services Contracts	0	0	0	0	0	0
EA - Supplies @ \$1,000 per FTE	1,000	1,000	2,000	1,000	1,000	2,000
EB - Communications @ \$4,000 (Inv Off) or \$1,000 (other) per FTE	3,000	4,000	7,000	4,000	4,000	8,000
ED - Lease Cost @ \$1,000 per staff month	12,000	12,000	24,000	12,000	12,000	24,000
EG - Training & Conferences @ \$4,000 (Inv Off) or \$2,000 (other) per FTE	3,000	4,000	7,000	4,000	4,000	8,000
EJ - Subscriptions @ \$2,000 (Inv Off) or \$500 (other) per FTE	2,000	2,000	4,000	2,000	2,000	4,000
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E - Goods and Services	22,000	24,000	46,000	24,000	24,000	48,000
G* - Travel @ \$7,000 (Inv Off Non-international) or \$4,000 (other) per FTE	6,000	7,000	13,000	7,000	7,000	14,000
G* - Other Travel Expenses @ \$15,000 per FTE - One time only Interview Travel = \$3,000 and Moving Expenses = \$12,000	0	0	0	0	0	0
G* - Travel @ \$25,000 per FTE (International Travel)	0	0	0	0	0	0
G - Travel	6,000	7,000	13,000	7,000	7,000	14,000
J* - Landscape Equipment @ \$11,000 per FTE Standard cost in the 1st year is \$11,000 Cost in 2nd year and beyond is \$2,000 (20% of 1st year costs)	11,000	2,000	13,000	2,000	2,000	4,000
J* - IT Equipment @ \$5,000 per FTE Standard cost in the 1st year is \$5,000 Cost in 2nd year and beyond is \$1,000 (20% of 1st year costs)	5,000	1,000	6,000	1,000	1,000	2,000
J - Equipment	16,000	3,000	19,000	3,000	3,000	6,000
Total	208,000	237,000	445,000	237,000	237,000	474,000

FTE DETAIL

FTE Detail							
Job Classification	Salary	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
Investment Officer	162,000	0.8	1.0	0.9	1.0	1.0	1.0
Total		0.8	1.0	0.9	1.0	1.0	1.0

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Revenue calculations and assumptions are made using June 30, 2016 market values. Revenue will not equal the expenditures because the WSIB only has the authority from OFM to transfer revenue funds that are in allotted status.

JUSTIFICATION AND IMPACT STATEMENT
WHAT SPECIFIC PERFORMANCE OUTCOMES DOES THE AGENCY EXPECT?

Improve, optimize, and transform key investment data processes across the organization and our partners utilizing LEAN methodologies and other best practices to enable continual improvement.

- Improve and transform agency business processes.
- Enhance agency investment performance and risk processes.
- Expand access to timely investment and risk analysis for Investment decision making.
- Reduce and optimize data validation, enrichment, and visualization costs.

Advance the use of modern, cloud-based data analytic technologies to improve access to data via mobile platforms and harness the power of scalable computing and modern algorithms and tools.

- Increase the use of cloud-based technologies.
- Aid the agency in decommissioning several on-premise applications.
- Increase access to agency data via mobile platforms.

Define and catalog investment data classifications to promote data security, open data, and data awareness across the Agency, partners, and beneficiaries.

- Improve data security and governance.
- Enhance open data capabilities and machine learning opportunities.
- Increase interoperability for data exchanges within the Agency, across our partners, and with our beneficiaries.

Enhance the investment analytics knowledge and expertise of the organization.

- Aid in risk management and timely investment decision making.
- Enable transformative and potentially new investment and risk management insights.
- Allow the Board to be more informed and make better decisions.
- Increase access to the necessary investment analytics skills across the agency.

DOES THIS DECISION PACKAGE PROVIDE ESSENTIAL SUPPORT TO ONE OF THE GOVERNOR'S RESULTS WASHINGTON PRIORITIES?

Yes. This proposal supports the Governor's Results Washington priority of "Efficient, Effective and Accountable Government."

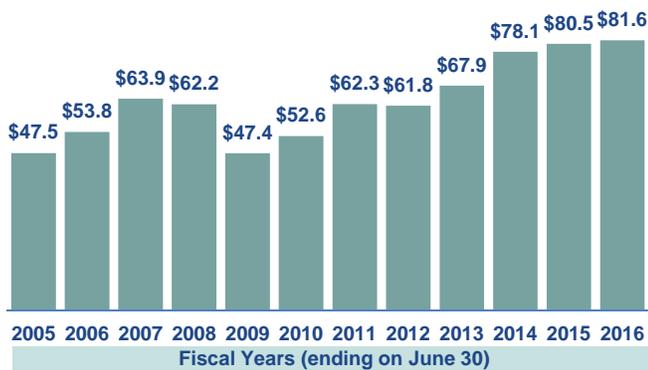
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COMMINGLED TRUST FUND PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

Historical Market Values (billions)



Historical Fund Returns

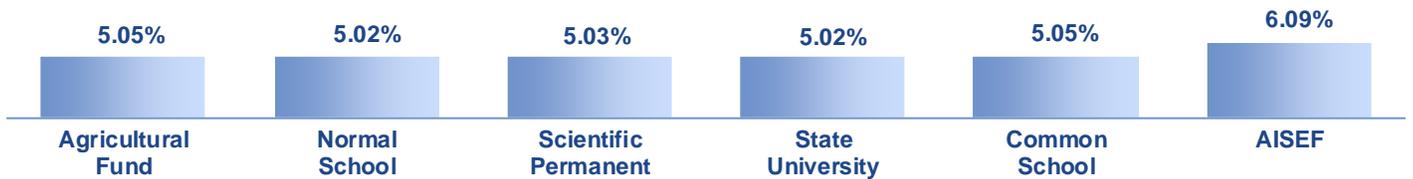


Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns					
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Total CTF	\$81,624,948,098	2.65%	8.03%	7.51%	6.18%
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Innovation	\$63,807,984	-4.80%	5.81%	6.90%	N/A
Cash	\$1,355,457,553	0.32%	0.18%	0.17%	1.18%

PERMANENT FUNDS PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

One Year Performance



Market Value

Agricultural Fund	\$ 228,614,066
Normal School	\$ 273,290,088
Scientific Permanent	\$ 259,299,860
State University	\$ 36,505,998
Common School	\$ 214,309,007
American Indian Scholarship Endowment Fund (AISEF)	\$ 361,120

WHAT ARE THE OTHER IMPORTANT CONNECTIONS OR IMPACTS RELATED TO THIS PROPOSAL?

Impact(s) To:	Identify / Explanation	
Regional/County impacts?	No	Identify:
Other local gov't impacts?	No	Identify:
Tribal gov't impacts?	No	Identify:
Other state agency impacts?	No	Identify:
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:
Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):
Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

This request will help the agency:

- Accomplish our data center migration strategy.
- Improve the cybersecurity posture of the organization.
- Achieve its open data plan.
- Be compliant with OCIO policy.

What alternatives were explored by the Agency, and why was this option chosen?

- We analyzed industry trends and consulted with industry experts to learn what approaches to Investment Data Analytics have worked and paid dividends in other organizations.
- We do not have the correct set of skills, knowledge, and abilities today to accomplish our goals.
- Outsourcing of this need is not practical nor desirable since it is so closely tied to the organization's core mission and is deeply relationship driven.
- Technology alone is not a sufficient solution. Without skilled staff to utilize and enable the technology it provides limited value.

What are the consequences of not funding this request?

- The Agency would continue to have limited capacity to scrub, enrich, and analyze investment, performance, and risk datasets. This forces Investment Officers to spend valuable time performing clerical tasks.
- Agency investment portfolio management and risk processes would continue to be sub-optimal and inefficient, and opportunities for transformative process improvement would be reduced.
- The Agency would continue to have higher data validation, enrichment, and visualization costs.
- The Agency's data security posture would not be as strong, data center migration would be slowed, and open data opportunities would be limited.

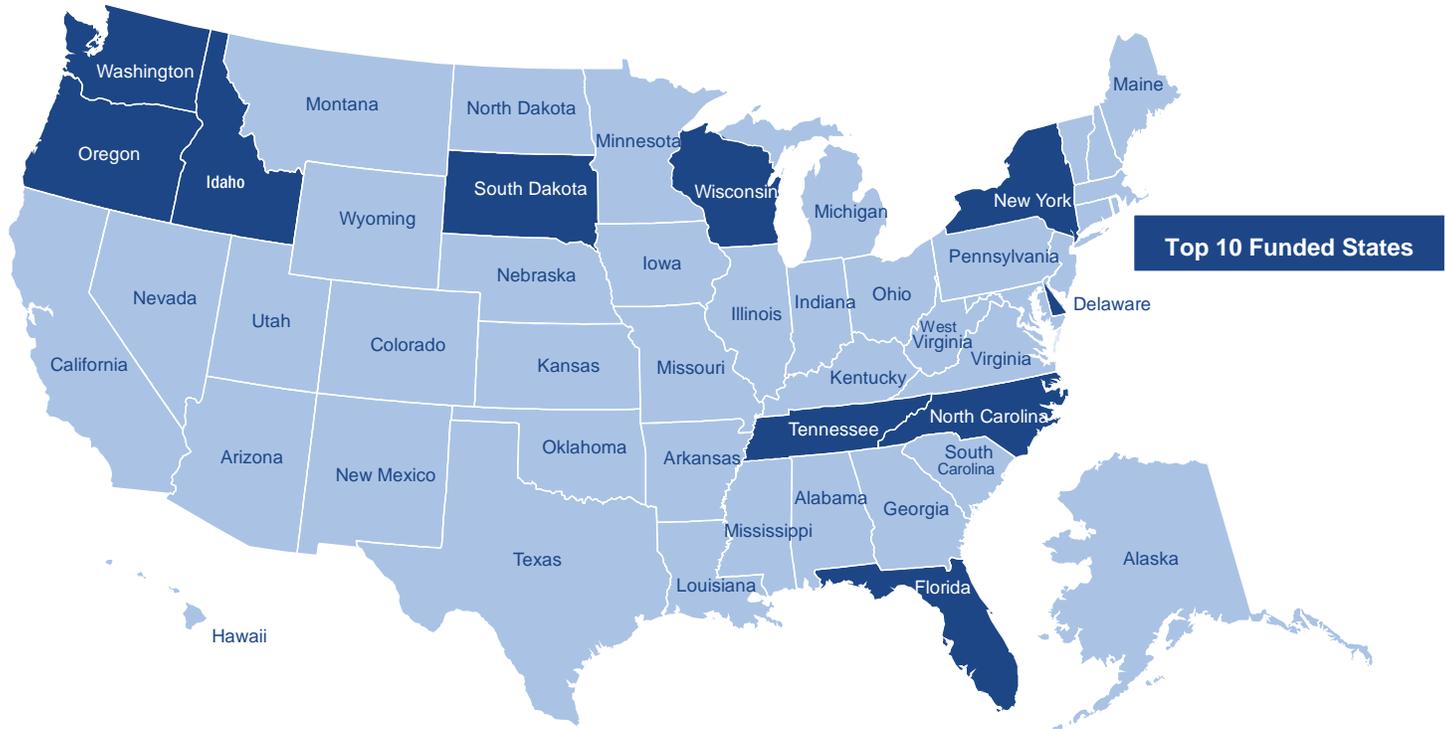
How has or can the Agency address the issue or need in the current appropriation level?

No, the WSIB cannot address this need within the current appropriation level.

OTHER SUPPORTING MATERIALS

Our Results

One of the Best Funded Pension Systems in the Nation



INFORMATION TECHNOLOGY

Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

- No 
- Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.

2017-2019 IT ADDENDUM

PART 1: ITEMIZED IT COSTS

Please itemize any IT-related costs, including hardware, software, services (including cloud-based services), contracts (including professional services, quality assurance, and independent verification and validation), or IT staff. Be as specific as you can. (See chapter 12.1 of the operating budget instructions for guidance on what counts as “IT-related costs”)

Information Technology Items in this DP	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	0.8	1.0	1.0	1.0
A) Salaries And Wages	130,000	162,000	162,000	162,000
B) Employee Benefits	34,000	41,000	41,000	41,000
E) Goods And Services	22,000	24,000	24,000	24,000
G) Travel	6,000	7,000	7,000	7,000
J) Capital Outlays	16,000	3,000	3,000	3,000
Total Cost	208,000	237,000	237,000	237,000

PART 2: IDENTIFYING IT PROJECTS

If the investment proposed in the decision package is the development or acquisition of an IT project/system, or is an enhancement to or modification of an existing IT project/system, it will also be reviewed and ranked by the OCIO as required by RCW 43.88.092. The answers to the three questions below will help OFM and the OCIO determine whether this decision package is, or enhances/modifies, an IT project:

1. Does this decision package fund the development or acquisition of a new or enhanced software or hardware system or service? Yes No
2. Does this decision package fund the acquisition or enhancements of any agency data centers? (See [OCIO Policy 184](#) for definition.) Yes No
3. Does this decision package fund the continuation of a project that is, or will be, under OCIO oversight? (See [OCIO Policy 121](#).) Yes No

If you answered “yes” to any of these questions, you must complete a concept review with the OCIO before submitting your budget request. Refer to chapter 12.2 of the operating budget instructions for more information.

STATE OF WASHINGTON - DECISION PACKAGE

Agency: 126 – State Investment Board
Decision Package Code/Title: M3 – Private Markets Strategy
Budget Period: 2017-2019
Budget Level: PL – Performance Level

RECOMMENDATION SUMMARY TEXT

The Washington State Investment Board (WSIB) along with the Department of Labor and Industries (L&I) and Department of Retirement Systems' staff, is investigating alternative asset classes for the L&I funds and for the Deferred Compensation program as a means to enhancing investment income, portfolio diversification, and long term economic value for these two key beneficiary groups. In addition, the WSIB is examining how private assets may ultimately fit into other client mandates. The WSIB will need one new investment officer position to assist with development of the private markets strategy and implementation.

FISCAL SUMMARY

OPERATING EXPENDITURES

	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031-1 State Investment Board Expense Acct-State	196,000	316,000	512,000	316,000	316,000	632,000
Total Cost	196,000	316,000	512,000	316,000	316,000	632,000

STAFFING

	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
FTEs	0.5	1.0	0.8	1.0	1.0	1.0

REVENUE

Fund	Source	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
031 Invest Bd Expens	0499 Other Revenue	5,526	8,909	14,435	8,909	8,909	17,818
031 Invest Bd Expens	0623 Investment Admin T	190,474	307,091	497,565	307,091	307,091	614,182
608 Accident	0623 Investment Admin T	(10,481)	(16,898)	(27,739)	(16,898)	(16,898)	(33,796)
609 Medical Aid	0623 Investment Admin T	(9,813)	(15,821)	(25,634)	(15,821)	(15,821)	(31,642)
788 Adv College Tuit Pay	0623 Investment Admin T	(3,957)	(6,380)	(10,337)	(6,380)	(6,380)	(12,760)
833 Dev Dis Endow Trust	0623 Investment Admin T	(22)	(35)	(57)	(35)	(35)	(70)
Total Revenue		17,727	276,866	448,593	276,866	276,866	553,732

OBJECT OF EXPENDITURE

Object Detail	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
A) Salaries And Wages	107,000	213,000	320,000	213,000	213,000	426,000
B) Employee Benefits	26,000	51,000	77,000	51,000	51,000	102,000
E) Goods And Services	19,000	24,000	43,000	24,000	24,000	48,000
G) Travel	28,000	25,000	53,000	25,000	25,000	50,000
J) Capital Outlays	16,000	3,000	19,000	3,000	3,000	6,000
Total Objects	196,000	316,000	512,000	316,000	316,000	632,000

PACKAGE DESCRIPTION

In the years since the 2008-09 financial crisis, the investment climate has been characterized by slow growth, low interest rates and an abundance of economic and geo-political uncertainty. Return assumptions in the traditional asset classes (equities and fixed income) remain relatively weak due to this prolonged economic recovery. This has caused many institutional investors to justifiably reconsider their mix of investments in an effort to generate both the income and value appreciation necessary to fulfill long-term investment objectives.

Some of WSIB's stakeholder agencies are re-evaluating their asset allocation with the help of independent investment consultants and with the input of the WSIB staff. Given existing market conditions, these client groups are interested in carefully and cost-effectively exploring private markets as a potential source of investment return, income and diversification of risk. For example, L&I is planning a careful broadening of its investment profile to include a newly added level of exposure to private markets. The addition of select private markets investments to L&I's investment mix has been shown to increase overall portfolio diversification by potentially strengthening returns while reducing risk over the long term. Some degree of private markets investing also fits appropriately with L&I's investment objectives. Many public and private insurance providers in the peer group for L&I have employed a modest level of private markets exposure in their portfolios, with considerable risk/return success.

This request funds one new investment officer position necessary to support the exploration and ultimate implementation of private market investment strategies as WSIB's stakeholder groups consider broadening their investment mix.

Funding of this investment officer position will enable the WSIB to create a long term strategy to provide private market investment services as part of the integrated investment solution for its stakeholder groups. This position will leverage the WSIB existing research and other private markets investment capabilities but will allow for a building a program that tailors private markets investments in a manner best suited for the income and growth requirements of specific clients. By applying existing private markets intelligence to our clients' distinct portfolios, the WSIB will be able to fulfill the risk and return benefits projected in updated asset allocation studies. These portfolio enhancements will help position our stakeholder groups to meet future liabilities and funding demands while continuing a healthy operational status for the long term.

HOW DOES THE PACKAGE RELATE TO THE AGENCY'S STRATEGIC PLAN?

The purpose of the WSIB is to invest the funds entrusted to us in order to meet or exceed the financial objectives of those we serve. We aspire to be the best public institutional investor in the world. This means our strategy, execution, performance, and reputation must be excellent. To succeed we have identified five key drivers to our success:

- A skillful Board with the knowledge and capacity to make prudent investment policy decisions, oversee staff and investment managers, and faithfully carry out its fiduciary duty.
- A disciplined, long-term investment perspective that adheres to a structured, forward looking analysis and decision making process.
- Operational excellence to support continuously improving investment analysis and management, risk management, accounting and oversight, communications, and Board support.
- A work environment that attracts, develops, and retains high quality people who are committed to serving our beneficiaries with integrity, prudence, and skill.
- Impeccable integrity at all levels.

WSIB's 5 Key Drivers



This decision package contributes to the discipline and perspective, and operational excellence key drivers.

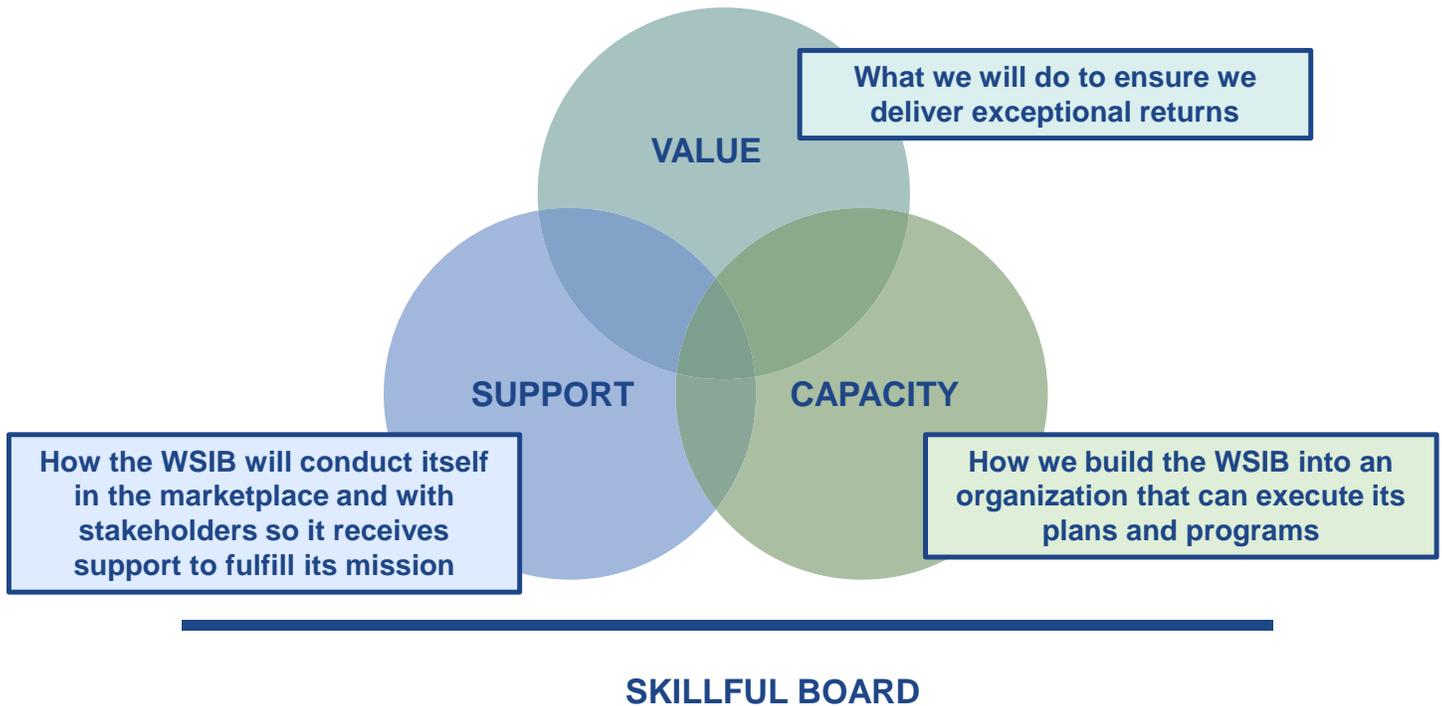
The WSIB builds its strategic plan around three core principles that interact with one another, as depicted in the diagram below. Every planning year three essential questions arise.

- What will we do to ensure we deliver exceptional investment returns?
- How will we build the WSIB into an organization that can execute on its plans and programs?
- How will we conduct ourselves in the marketplace and with stakeholders so we receive the support to fulfill our mission?

WSIB’s Strategic Framework

The foundation for delivering value, building capacity, and ensuring support is a skillful board that understands its fiduciary duty and has been given the education, staff support, and tools to help it fulfill its duties.

Each of the strategic initiatives advances one or more of these core principles. Fundamentally, the WSIB is looking for capacity initiatives that increase the value delivered to beneficiaries, and, in turn, the agency seeks the support and resources necessary to increase or maintain appropriate levels of organizational capacity. Underlying all of this is a commitment to ensuring the Board has all the resources it needs to successfully lead.



This package addresses the value core principle and its strategic initiatives to sustain excellent investment performance in order to meet or exceed the financial objectives of those we serve.

For additional information in this proposal, please contact:
Celina Verme, Finance and Administrative Services Director at (360) 956-4740

BASE BUDGET

The base budget for the WSIB is \$21.7 million per year and 97.4 annual average FTEs.

The Board has approved the inclusion of private markets in other stakeholder funds in its long-range strategic plan, the WSIB will need a position to assist with the planning and implementation of this new strategy.

EXPENDITURE, FTE AND REVENUE ASSUMPTIONS, CALCULATIONS AND DETAILS

Cost assumptions used in this request are detailed in the tables below.

CALCULATIONS AND ASSUMPTIONS

Request Summary	2017-2019			2019-2021		
	FY 2018	FY 2019	Total	FY 2020	FY 2021	Total
FTEs	0.5	1.0	0.8	1.0	1.0	1.0
A - Salaries	107,000	213,000	320,000	213,000	213,000	426,000
BA - OASI @ .0620	7,000	13,000	20,000	13,000	13,000	26,000
BB - Retirement @ .1118	12,000	24,000	36,000	24,000	24,000	48,000
BC - Medical @ \$30 per staff month	0	0	0	0	0	0
BD - Health @ \$888 per staff month	5,000	11,000	16,000	11,000	11,000	22,000
BH - Medicare @ .0145	2,000	3,000	5,000	3,000	3,000	6,000
B - Benefits	26,000	51,000	77,000	51,000	51,000	102,000
CK - Recruiting Services @ 28% of annual salary per FTE - One time only	0	0	0	0	0	0
C - Professional Services Contracts	0	0	0	0	0	0
EA - Supplies @ \$1,000 per FTE	1,000	1,000	2,000	1,000	1,000	2,000
EB - Communications @ \$4,000 (Inv Off) or \$1,000 (other) per FTE	2,000	4,000	6,000	4,000	4,000	8,000
ED - Lease Cost @ \$1,000 per staff month	12,000	12,000	24,000	12,000	12,000	24,000
EG - Training & Conferences @ \$4,000 (Inv Off) or \$2,000 (other) per FTE	2,000	4,000	6,000	4,000	4,000	8,000
EJ - Subscriptions @ \$2,000 (Inv Off) or \$500 (other) per FTE	1,000	2,000	3,000	2,000	2,000	4,000
EN - Personnel Service Contract @ .007 of salaries	1,000	1,000	2,000	1,000	1,000	2,000
E - Goods and Services	19,000	24,000	43,000	24,000	24,000	48,000
G* - Travel @ \$7,000 (Inv Off Non-international) or \$4,000 (other) per FTE	0	0	0	0	0	0
G* - Other Travel Expenses @ \$15,000 per FTE - One time only Interview Travel = \$3,000 and Moving Expenses = \$12,000	15,000	0	15,000	0	0	0
G* - Travel @ \$25,000 per FTE (International Travel)	13,000	25,000	38,000	25,000	25,000	50,000
G - Travel	28,000	25,000	53,000	25,000	25,000	50,000
J* - Landscape Equipment @ \$11,000 per FTE Standard cost in the 1st year is \$11,000 Cost in 2nd year and beyond is \$2,000 (20% of 1st year costs)	11,000	2,000	13,000	2,000	2,000	4,000
J* - IT Equipment @ \$5,000 per FTE Standard cost in the 1st year is \$5,000 Cost in 2nd year and beyond is \$1,000 (20% of 1st year costs)	5,000	1,000	6,000	1,000	1,000	2,000
J - Equipment	16,000	3,000	19,000	3,000	3,000	6,000
Total	196,000	316,000	512,000	316,000	316,000	632,000

FTE DETAIL

FTE Detail							
Job Classification	Salary	FY 2018	FY 2019	Annual Average	FY 2020	FY 2021	Annual Average
Assistant Senior Investment Officer	213,000	0.5	1.0	0.8	1.0	1.0	1.0
Total		0.5	1.0	0.8	1.0	1.0	1.0

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB. No general fund monies are involved.

Revenue calculations and assumptions are made using June 30, 2016 market values. Revenue will not equal the expenditures because the WSIB only has the authority from OFM to transfer revenue funds that are in allotted status.

JUSTIFICATION AND IMPACT STATEMENT
WHAT SPECIFIC PERFORMANCE OUTCOMES DOES THE AGENCY EXPECT?

Funding for this request will enable the WSIB to deliver the advantages of broader diversification into private market investments in a prudent manner that suits the income and growth needs of agency-specific investment programs. By leveraging the WSIB's existing private markets research and expertise and by applying these investments specifically to their own investment programs, stakeholder agencies will be in a better position to meet future income and growth requirements amid a low growth/low interest rate environment.

Moving from traditional asset classes (equities and fixed income) to add even a modest exposure of private market investments requires access to experienced staff, specialized research, a global breadth of holdings and an expanded level of due diligence to test the suitability of these investments for stakeholder portfolios specifically. However, according to an independent asset allocation study completed in 2016 on behalf of L&I, the addition of even a relatively light allocation to private market investments has been shown to provide considerable diversification benefit (risks stay the same or lower) while improving performance (returns stay the same or improve) over the long term.

By broadening diversification even slightly, and by leveraging the WSIB's proven capabilities in private market investing, agencies will be better positioned to meet the demands of operational costs and liabilities while maintaining a strong, efficient funded level for programs overall.

DOES THIS DECISION PACKAGE PROVIDE ESSENTIAL SUPPORT TO ONE OF THE GOVERNOR'S RESULTS WASHINGTON PRIORITIES?

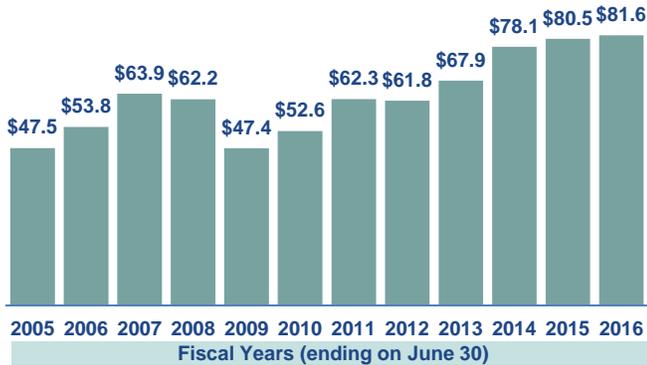
Yes. This proposal supports the Governor's Results Washington priority of "Efficient, Effective and Accountable Government."

PERFORMANCE MEASURE DETAIL
ACTIVITY: A001 INVESTMENT ACTIVITIES

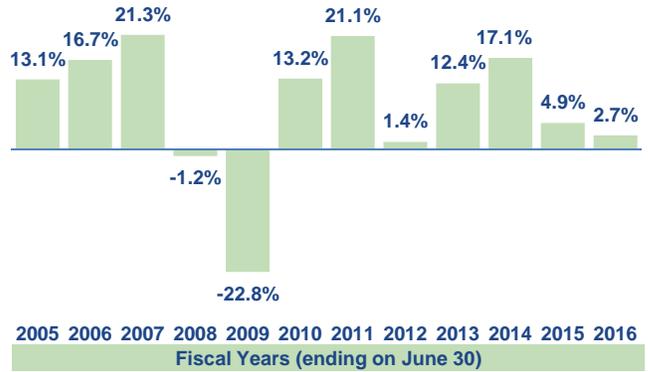
Outcome Measures		Incremental Changes			
		FY 2018	FY 2019	FY 2020	FY 2021
000279	Retirement Funds: The variance from the median rate of return in comparison to a nationally recognized public pension fund benchmark (TUCS Public Fund > \$1 Billion Median)	0.00%	0.00%	0.00%	0.00%
000329	Permanent Funds: The variance from the average rate of return in comparison to a nationally recognized bond fund benchmark (Barclay Capital Aggregate)	0.00%	0.00%	0.00%	0.00%
000385	Retirement Funds Value Added Benchmark: Measure the variance from the median rate of return in comparison to an implementation value added benchmark.	0.00%	0.00%	0.00%	0.00%

COMMINGLED TRUST FUND PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

Historical Market Values (billions)



Historical Fund Returns

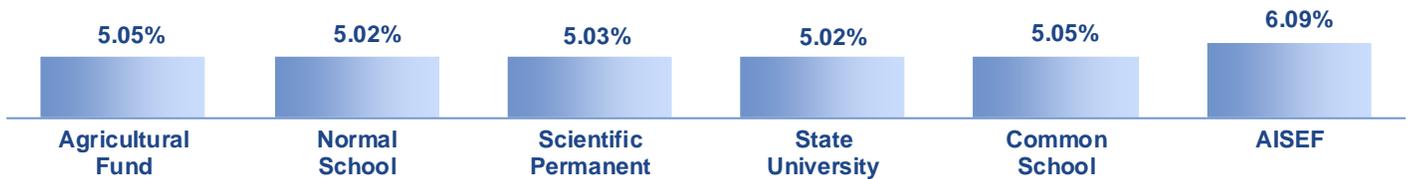


Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns					
	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$81,624,948,098	2.65%	8.03%	7.51%	6.18%
Fixed Income	\$17,990,489,328	4.77%	3.65%	3.44%	5.78%
Tangibles	\$2,396,374,903	-0.77%	2.59%	1.61%	N/A
Real Estate	\$12,881,161,786	10.43%	12.56%	12.79%	7.48%
Public Equity	\$29,828,707,115	-2.60%	7.03%	6.36%	4.75%
Private Equity	\$17,108,949,429	4.67%	11.80%	10.81%	8.98%
Innovation	\$63,807,984	-4.80%	5.81%	6.90%	N/A
Cash	\$1,355,457,553	0.32%	0.18%	0.17%	1.18%

PERMANENT FUNDS PERFORMANCE AND MARKET VALUES – JUNE 30, 2016

One Year Performance



Market Value

Agricultural Fund	\$ 228,614,066
Normal School	\$ 273,290,088
Scientific Permanent	\$ 259,299,860
State University	\$ 36,505,998
Common School	\$ 214,309,007
American Indian Scholarship Endowment Fund (AISEF)	\$ 361,120

WHAT ARE THE OTHER IMPORTANT CONNECTIONS OR IMPACTS RELATED TO THIS PROPOSAL?

Impact(s) To:		Identify / Explanation
Regional/County impacts?	No	Identify:
Other local gov't impacts?	No	Identify:
Tribal gov't impacts?	No	Identify:
Other state agency impacts?	No	Identify:
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:
Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):
Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

This position would enable the WSIB to more expediently respond to stakeholder requests as agencies contemplate greater use of private market investment allocations. This role would allow the WSIB to create a prudent path toward private market considerations for those agencies whose assets are managed according to asset allocations designed for each fund specifically. The major fund beneficiary groups have representatives serving on the WSIB Board, so are integral to development of the WSIB's strategic plan and the approval of this budget request.

The WSIB also has sought and received extensive input from Board, executive leadership, staff and the independent consultant during the latest asset allocation study. This decision package was developed in direct response to the long-term needs of stakeholders. The timing of this request is designed to coincide carefully with the desired need for additional private markets diversification among agency executive leadership.

What alternatives were explored by the Agency, and why was this option chosen?

The WSIB could limit the use of private markets investments to retirement plan portfolios (Commingled Trust Fund) where they are currently employed, but this would overlook existing market environments and would neglect the recommendations of asset allocation studies that point to risk/return benefits of added diversification.

State agencies could pursue separate or private sources for investment services, but such a plan would fail to take advantage of existing expertise, scale advantages, collaborative leadership, and low costs currently available through the WSIB program. This alternative would be especially impractical and costly in the private markets arena where added due diligence, large scale and specialized disciplines are required for any reasonable access to high-quality investment offerings.

What are the consequences of not funding this request?

Stakeholders whose funds are managed separately from the Commingled Trust Fund would continue to limit their asset allocations to traditional asset classes (equity, fixed income). This means they would not be able to fulfill reasonable and planned recommendations for an improved risk/return profile when such recommendations include private market investment exposure.

By limiting a stakeholder's ability to maximize return at a prudent level of risk, the WSIB would be compromising its mission and could potentially be doing a disservice to the stakeholder agencies.

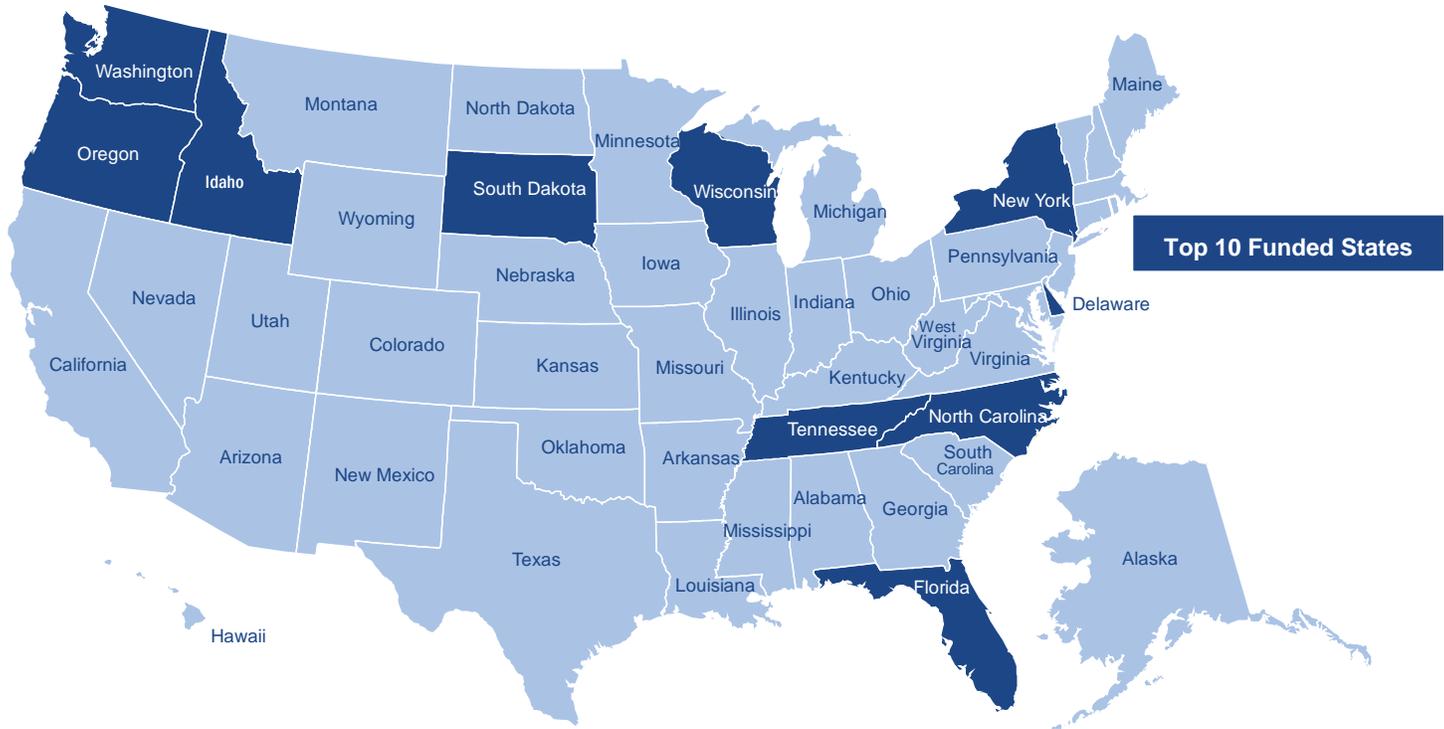
How has or can the Agency address the issue or need in the current appropriation level?

No, this is a new initiative, the WSIB cannot address the issue within the current appropriation level.

OTHER SUPPORTING MATERIALS

Our Results

One of the Best Funded Pension Systems in the Nation



INFORMATION TECHNOLOGY

Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

- No 
- Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.