

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Management of State Funds

BILL NUMBER: HB 2399, HD-1

INTRODUCED BY: House Committee on Labor & Employment

EXECUTIVE SUMMARY: Amends provisions relating to the short-term investment of state moneys, including the types of financial instruments in which state moneys may be invested. Requires annual report to the legislature

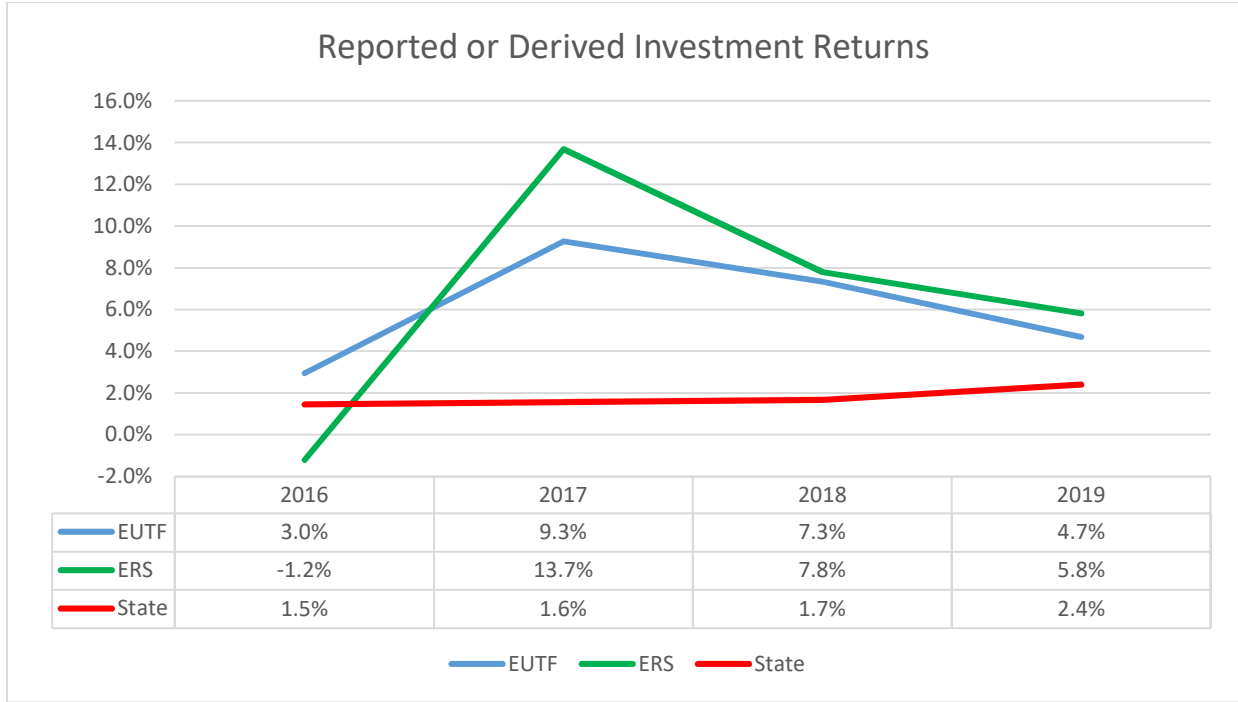
SYNOPSIS: Amends section 36-21, HRS, to provide that the director of finance may invest, through a private financial services firm and in compliance with the State's investment policy, invest any moneys of the State in excess of the amounts necessary for meeting the immediate requirements of the State; provided that the action, in the state funds investment board's judgment, shall maximize the State's return on investments, net of investment fees and expenses incurred, while protecting capital and not impede or hamper the necessary financial operations of the State. Expands the list of permissible investments.

EFFECTIVE DATE: January 1, 2050.

STAFF COMMENTS: As explained in the bill's recitals, the state treasury is invested in certificates of deposit and short-term treasuries or agencies having a duration (average maturity) of less than one year. In other words, the state treasury is invested in cash or cash equivalents. In contrast, Section 36-21, HRS, authorizes government and government-related bond investments that are due to mature not more than five years after the date of investment. The bill also recites that the Department of Budget and Finance (B&F) has less than one full-time equivalent position assigned to invest and manage a \$6 billion portfolio.

It is hard to disagree with the bill's premises, namely that our State interagency portfolio deserves more attention and care than one dedicated worker can give to it.

For comparison, we plotted ERS' and EUTF's reported investment returns as reported on their financial statements as posted on B&F's website. To derive the State's investment returns, we divided the "Interest and Investment Income" total from the State's Combined Annual Financial Report (CAFR) Statement of Activities by its total "Investments" per the CAFR Statement of Net Position. Here are the results.



Source: B&F Reports, CAFR

Digested 2/18/2020