
A BILL FOR AN ACT

RELATING TO THE MANAGEMENT OF STATE FUNDS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the state treasury
2 is invested in certificates of deposit and short-term treasuries
3 or agencies having a duration (average maturity) of less than
4 one year. Section 36-21, Hawaii Revised Statutes, authorizes
5 government and government-related bond investments that are due
6 to mature not more than five years after the date of investment.
7 The legislature also finds that the Bloomberg U.S. Treasury
8 1 - 5 Year Maturity Index has a duration (average maturity) of
9 two and one-half years. The cash-like state treasury portfolio
10 has under-earned and is expected to continue to under-earn the
11 Bloomberg U.S. Treasury 1 - 5 Year Maturity Index over market
12 cycles.

13 Accordingly, the purpose of this Act is to:

14 (1) Amend provisions relating to the short-term investment
15 of state moneys, including the types of financial
16 instruments that state moneys may be invested in; and



1 (2) Require the department of budget and finance to submit
2 an annual report to the legislature on the short-term
3 investment of state moneys.

4 SECTION 2. Section 36-21, Hawaii Revised Statutes, is
5 amended to read as follows:

6 "**§36-21 Short-term investment of state moneys.** (a) The
7 director of finance may invest, through a private financial
8 services firm and in compliance with the State's investment
9 policy, any moneys of the State [which] that in the [director's]
10 judgment of the director of finance are in excess of the amounts
11 necessary for meeting the immediate requirements of the State
12 [~~and where in the director's judgment will~~]; provided that the
13 action, in the director's judgment, shall maximize the State's
14 return on investments, net of investment fees and expenses
15 incurred, while protecting capital and not impede or hamper the
16 necessary financial operations of the State. Moneys invested
17 pursuant to this section may be invested in:

18 (1) Any bonds or interest-bearing notes or obligations:
19 (A) Of the State (including state director of
20 finance's warrant notes issued pursuant to
21 chapter 40);



- 1 (B) Of the United States; or
- 2 (C) For which the faith and credit of the United
- 3 States are pledged for the payment of principal
- 4 and interest;
- 5 (2) Federal Farm Credit System notes and bonds;
- 6 (3) Federal Agricultural Mortgage Corporation notes and
- 7 bonds;
- 8 (4) Federal Home Loan Bank notes and bonds;
- 9 (5) Federal Home Loan Mortgage Corporation notes and
- 10 bonds;
- 11 (6) Federal National Mortgage Association notes and bonds;
- 12 (7) Tennessee Valley Authority notes and bonds;
- 13 (8) Securities of a mutual fund whose portfolio is limited
- 14 to bonds or securities issued or guaranteed by the
- 15 United States or an agency thereof or repurchase
- 16 agreements fully collateralized by any such bonds or
- 17 securities;
- 18 (9) Securities of a money market mutual fund that is rated
- 19 AAA, or its equivalent, by a nationally recognized
- 20 rating agency or whose portfolio consists of
- 21 securities that are rated as first tier securities by



- 1 a nationally recognized statistical rating
2 organization as provided in 17 Code of Federal
3 Regulations section 270.2a-7;
- 4 (10) Federally insured savings accounts;
- 5 (11) Time certificates of deposit;
- 6 (12) Certificates of deposit open account;
- 7 (13) Repurchase agreements with federally insured banks,
8 savings and loan associations, and financial services
9 loan companies;
- 10 (14) Commercial paper with an A1/P1 or equivalent rating by
11 any national securities rating service; [and]
- 12 (15) Bankers' acceptances with an A1/P1 or equivalent
13 rating by any national securities rating service;
- 14 (16) United States dollar denominated obligations issued,
15 assumed, or guaranteed as to the payment of principal
16 and interest by supranational issuers rated AAA or
17 equivalent by a nationally recognized rating agency;
- 18 (17) Federal agency or government-sponsored enterprise
19 residential mortgage-backed securities rated AAA or
20 equivalent by a nationally recognized rating agency;



1 (18) Federal agency or government-sponsored enterprise
2 commercial mortgage-backed securities rated AAA or
3 equivalent by a nationally recognized rating agency;
4 (19) Asset-backed securities rated AAA or equivalent by a
5 nationally recognized rating agency; and
6 (20) Corporate debt with an AA or equivalent or better
7 rating by a nationally recognized rating agency;
8 provided that ~~[for]~~ the combined exposure to the instruments
9 listed in paragraphs (14) through (20) shall not be more than
10 fifty per cent of the State's total short-term assets; and
11 provided further that authorized investments with ~~[stated]~~
12 effective maturity dates, ~~[the investment, as well as the~~
13 ~~underlying securities of those investments, are due to mature~~
14 ~~not more than]~~ do not exceed five years from the date of
15 investment. Income derived from those investments shall be a
16 realization of the general fund; provided that income earned
17 from moneys invested by the general funds, special funds, bond
18 funds, and trust and agency funds on an investment pool basis
19 shall be paid into and credited to the respective funds based on
20 the contribution of moneys into the investment pool by each
21 fund. ~~[As used in this section, "investment pool" means the~~



1 ~~aggregate of state treasury moneys that are maintained in the~~
2 ~~custody of the director of finance for investment and~~
3 ~~reinvestment without regard to fund designation.]~~

4 (b) Except with respect to an early withdrawal penalty on
5 an investment permitted by this section, the amount of such
6 penalty being mutually agreed at the time of acquisition of such
7 investment, no investment permitted by this section shall
8 require or may in the future require payments by the State,
9 whether unilateral, reciprocal, or otherwise, including margin
10 payments, or shall bear interest at a variable rate which causes
11 or may cause the market price of such investment to fluctuate;
12 provided that such limitation shall not apply to money market
13 mutual funds which:

14 (1) Invest solely in:

15 (A) Direct and general obligations of the United
16 States of America; or

17 (B) Obligations of any agency or instrumentality of
18 the United States of America the payment of the
19 principal and interest on which are
20 unconditionally guaranteed by the full faith and
21 credit of the United States of America;



- 1 (2) Are rated at the time of purchase "AAAm-G" or its
2 equivalent by Standard & Poor's Ratings Group; and
3 (3) Are open-end management investment companies regulated
4 under the Investment Company Act of 1940, as amended,
5 which calculate their current price per share pursuant
6 to Rule 2a-7 (17 Code of Federal Regulations section
7 270.2a-7) promulgated under such act.

8 (c) Furthermore, the State shall not acquire any
9 investment or enter into any agreement in connection with the
10 acquisition of any investment or related to any existing
11 investment held by the State, which would require or may in the
12 future require any payment by the State, whether unilateral,
13 reciprocal, or otherwise, such as swap agreements, hedge
14 agreements, or other similar agreements. For purposes of this
15 section, a swap or hedge payment is any payment made by the
16 State in consideration or in exchange for a reciprocal payment
17 by any person, such as a variable rate payment in exchange for a
18 fixed rate payment, a fixed rate payment in exchange for a
19 variable rate payment, a payment when a cap or a floor amount is
20 exceeded, or other similar payment.



1 (d) The department of budget and finance shall submit to
2 the legislature an annual report on the short-term investment of
3 state moneys no later than twenty days prior to the convening of
4 each regular session of the legislature.

5 (e) As used in this section:

6 "Income" means:

7 (1) Interest receipts adjusted for amortization and
8 accretion; and

9 (2) Net realized gains,
10 that are net of the costs of investment and management of State
11 moneys.

12 "Investment pool" means the aggregate of state treasury
13 moneys that are maintained in the custody of the director of
14 finance for investment and reinvestment without regard to fund
15 designation."

16 SECTION 3. Statutory material to be repealed is bracketed
17 and stricken. New statutory material is underscored.

18 SECTION 4. This Act shall take effect on January 1, 2050.



Report Title:

Budget and Finance; State Funds; Investment of Unencumbered Funds

Description:

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. Effective 1/1/2050. (HD1)

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