



TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 2264

March 25, 2014

RELATING TO THE INVESTMENT AUTHORITY OF THE EMPLOYEES'
RETIREMENT SYSTEM

House Bill No. 2264 amends section 88-119(a)(1), Hawaii Revised Statutes ("HRS"), by deleting the requirement that real estate, acquired by the Employees' Retirement System (ERS) by foreclosure or in enforcement of security or satisfaction of debts, must be sold within five years after acquisition (one year in the case of leasehold interests), unless the Governor approves an extension of the holding period.

The Department of Budget and Finance (B&F) supports this measure. In order to prudently manage the ERS's real estate portfolio, the Board of Trustees needs to be able to evaluate and plan for the retention or disposition of the real estate without distinction as to how the real estate was acquired. The limitation on the holding period for real estate acquired through foreclosure, enforcement of security or satisfaction of debts prevents the Board from making long range plans for the affected property, which are necessary for the prudent management of the real estate portfolio.

Thank you for the opportunity to testify.

TESTIMONY BY WESLEY K. MACHIDA
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 2264

MARCH 25, 2014, 9:10 A.M.

RELATING TO THE INVESTMENT AUTHORITY OF THE EMPLOYEES' RETIREMENT
SYSTEM

Chair Ige, Vice Chair Kidani and Members of the Committee:

H.B. 2264 proposes to amend section 88-119(a)(1), Hawaii Revised Statutes ("HRS"), by deleting the requirement that real estate, acquired by the Employees' Retirement System (ERS) by foreclosure or in enforcement of security or satisfaction of debts, must be sold within five years after acquisition (one year in the case of leasehold interests), unless the Governor approves an extension of the holding period.

The limitation on the holding period for real estate acquired by the ERS through foreclosure, enforcement of security, or in satisfaction of debts interferes with the prudent management of the ERS's real estate portfolio. There are no restrictions on the holding period for the ERS's other real estate investments.

In order to prudently manage the ERS's real estate portfolio, the Board of Trustees needs to be able to evaluate and plan for the retention or disposition of the real estate without distinction as to how the real estate was acquired. The limitation on the holding period for real estate acquired through foreclosure, enforcement of security or satisfaction of debts prevents the Board from making long range plans for the affected property, which are necessary for the prudent management of the real estate portfolio.

The limitation on the holding period for real estate acquired by the ERS through foreclosure, enforcement of security, or in satisfaction of debts, predates the enactment of legislation authorizing the ERS to invest in real estate; it was imposed during the period in which the ERS could invest in mortgages, but not directly in real estate. H.B. 2264 would repeal this holding period limitation so that real estate acquired by these means, like any other investment in interest in real property,

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may be held and disposed of by the careful, informed discretion of the ERS Board.

The Board of Trustees strongly supports this bill.

Thank you for the opportunity to testify on this important measure.