

JAN 24 2007

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## A BILL FOR AN ACT

RELATING TO MANAGEMENT OF STATE FUNDS.

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

1           SECTION 1. Chapter 36, Hawaii Revised Statutes, is amended  
2 by adding three new sections to be appropriately designated and  
3 to read as follows:

4           "§36-A    Linked investments; limitations. (a) A linked  
5 investment is a certificate of deposit placed with an eligible  
6 lending institution at an interest rate not more than two per  
7 cent below current market rates; provided that the eligible  
8 lending institution agrees to lend the value of the deposit to  
9 an eligible borrower at a rate not more than the prime rate or  
10 seven and one-half per cent a year, whichever is lower. A  
11 linked investment certificate of deposit shall:

- 12           (1) Earn a rate of interest of not less than two per cent  
13           a year;
- 14           (2) Not be subject to a penalty for early withdrawal; and
- 15           (3) Have a maturity of one year for the initial linked  
16           investment, which may be renewed for eight additional  
17           one-year periods.



1        (b) The director of finance may invest not more than ten  
2 per cent of any moneys that are maintained in the custody of the  
3 director of finance for investment and reinvestment under  
4 section 36-21 in linked investments through agreements with  
5 eligible lending institutions.

6        (c) As used in sections 36-A through 36-C:

7        "Eligible borrower" means a person or enterprise: who is  
8 or proposes to be engaged in a business as an entrepreneur by  
9 organizing, managing, and assuming the risks of a business or  
10 enterprise; whose principal place of business is in the State;  
11 and who is certified by an eligible lending institution.

12        "Eligible lending institution" means any federally insured  
13 national or state bank, savings and loan association, or  
14 financial services loan company, or federal or state credit  
15 union insured by the National Credit Union Administration,  
16 authorized to do business in this State and entering into an  
17 agreement with the director of finance to receive linked  
18 investments.

19        **§36-B    Linked investments; application; authorization.**

20        (a) An eligible lending institution shall accept and review  
21 applications for loans, determine that the applicants are  
22 eligible borrowers, and prepare a linked investment loan package



1 in the form and manner prescribed by the director of finance.  
2 The loan package shall include information on the amount of the  
3 loan requested, the purpose of the loan, and the institution's  
4 certification that the applicant is an eligible borrower.

5 (b) The director of finance shall accept or reject the  
6 linked investment loan package or any portion of the package  
7 based on the availability of state funds.

8 (c) Upon acceptance of the linked investment loan package,  
9 the director of finance shall place a certificate of deposit for  
10 the loan amount with the eligible financial institution.

11 §36-C Loans. (a) Each separate loan made through  
12 linked investments shall not exceed the amount of \_\_\_\_\_.

13 (b) Loans made through linked investments may be used for  
14 the financing of plant construction or expansion, the purchase  
15 of equipment and materials, and working capital. Loans made  
16 through linked investments shall not be used for the purchase of  
17 real property."

18 SECTION 2. Section 36-21, Hawaii Revised Statutes, is  
19 amended by amending subsection (a) to read as follows:

20 "(a) The director of finance may invest any moneys of the  
21 State which in the director's judgment are in excess of the  
22 amounts necessary for meeting the immediate requirements of the



1 State and where in the director's judgment the action will not  
2 impede or hamper the necessary financial operations of the State  
3 in:

- 4 (1) Any bonds or interest-bearing notes or obligations:
  - 5 (A) Of the State (including state director of
  - 6 finance's warrant notes issued pursuant to chapter
  - 7 40);
  - 8 (B) Of the United States;
  - 9 (C) For which the faith and credit of the United
  - 10 States are pledged for the payment of principal
  - 11 and interest;
- 12 (2) Federal Farm Credit System notes and bonds;
- 13 (3) Federal Agricultural Mortgage Corporation notes and
- 14 bonds;
- 15 (4) Federal Home Loan Bank notes and bonds;
- 16 (5) Federal Home Loan Mortgage Corporation bonds;
- 17 (6) Federal National Mortgage Association notes and bonds;
- 18 (7) Student Loan Marketing Association notes and bonds;
- 19 (8) Tennessee Valley Authority notes and bonds;
- 20 (9) Securities of a mutual fund whose portfolio is limited
- 21 to bonds or securities issued or guaranteed by the
- 22 United States or an agency thereof or repurchase



- 1           agreements fully collateralized by any such bonds or
- 2           securities;
- 3       (10) Securities of a money market mutual fund that is rated
- 4           AAA, or its equivalent, by a nationally recognized
- 5           rating agency or whose portfolio consists of securities
- 6           that are rated as first tier securities by a nationally
- 7           recognized statistical rating organization as provided
- 8           in 17 Code of Federal Regulations section 270.2a-7;
- 9       (11) Federally insured savings accounts;
- 10       (12) Time certificates of deposit;
- 11       (13) Certificates of deposit open account;
- 12       (14) Repurchase agreements with federally insured banks,
- 13           savings and loan associations, and financial services
- 14           loan companies;
- 15       (15) Student loan resource securities including:
  - 16           (A) Student loan auction rate securities;
  - 17           (B) Student loan asset-backed notes;
  - 18           (C) Student loan program revenue notes and bonds; and
  - 19           (D) Securities issued pursuant to Rule 144A of the
  - 20           Securities Act of 1933, including any private
  - 21           placement issues;



1 issued with either bond insurance or  
2 overcollateralization guaranteed by the United States  
3 Department of Education; provided all insurers maintain  
4 a triple-A rating by Standard & Poor's, Moody's, Duff &  
5 Phelps, Fitch, or any other major national securities  
6 rating agency;

7 (16) Commercial paper with an A1/P1 or equivalent rating by  
8 any national securities rating service; ~~and~~

9 (17) Bankers' acceptances with an A1/P1 or equivalent rating  
10 by any national securities rating service; and

11 (18) Linked investments established under sections 36-A  
12 through 36-C;

13 provided that the investments are due to mature not more than  
14 five years from the date of investment. Income derived from  
15 those investments shall be a realization of the general fund;  
16 provided that income earned from moneys invested by the general  
17 funds, special funds, bond funds, and trust and agency funds on  
18 an investment pool basis shall be paid into and credited to the  
19 respective funds based on the contribution of moneys into the  
20 investment pool by each fund. As used in this section,  
21 "investment pool" means the aggregate of state treasury moneys



# S.B. NO. 1984

1 that are maintained in the custody of the director of finance for  
2 investment and reinvestment without regard to fund designation."

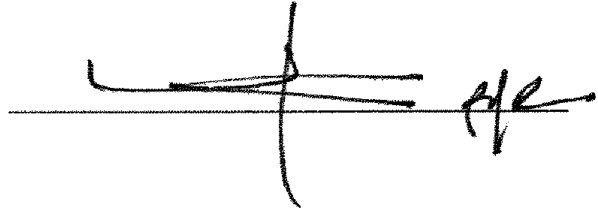
3 SECTION 3. In codifying the new sections added by section  
4 1 of this Act, the revisor of statutes shall substitute  
5 appropriate section numbers for the letters used in designating  
6 the new sections in this Act.

7 SECTION 4. Statutory material to be repealed is bracketed  
8 and stricken. New statutory material is underscored.

9 SECTION 5. This Act shall take effect on July 1, 2007.

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INTRODUCED BY: \_\_\_\_\_

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**Report Title:**

State Funds; Linked Investments

**Description:**

Allows director of finance to invest up to 10% of state short-term investment moneys in linked investments. Sets procedures. Caps loans to \$ . Limits uses of such loans. Restricts eligible borrowers to an entrepreneur in the State.

