

SCR 18

Testimony



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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State Senate
Committee on Ways and Means

Testimony by
Hawaii Government Employees Association
April 7, 2010

S.C.R. 18 (Proposed S.D. 1) – ESTABLISHING A
JOINT LEGISLATIVE SPECIAL INVESTIGATING
COMMITTEE TO OVERSEE THE INVESTIGATION
OF THE DEPARTMENT OF BUDGET AND
FINANCE'S HANDLING OF THE STATE'S
INVESTMENT IN STUDENT LOAD AUCTION RATE
SECURITIES

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO, supports S.C.R. 18 (Proposed S.D. 1). It would establish a special legislative committee to investigate how the Department of Budget and Finance (B&F) invested \$1.1 billion in student loan auction rate securities, which represents almost 25% of the state's total investment in securities.

Auction-rate securities typically have maturities as long as 40 years and yields that are reset in periodic sales held as frequently as every seven days. As the global credit crisis deepened in 2008, banks that underwrote the obligations reversed decades of support for the market when they declined to bid for the debt. The action left purchasers such as Hawai'i, which viewed auction-rate debt as a higher-yielding cash substitute, unable to sell without taking losses. Citigroup provided the state with a valuation last December that the securities with a face value of about \$1 billion were worth \$752 million.

State Auditor Marion Higa in a recent report asserted that state Department of Budget and Finance officials may have violated state law by investing state funds in student loan-backed securities that do not mature in five years or less. Because that auction rate securities market froze, the state's investments are expected to lose \$254 million in value, and there may be additional losses in value.

The frozen cash crunch complicates efforts to close a \$1.2 billion deficit, and it has already affected one of Hawaii's credit rating. Moody's Investors Services downgraded \$253 million worth of harbor revenue bonds in part because of the lack of liquidity in the auction rate securities market. Because of the seriousness of this situation and the disagreement between the Auditor and the administration, it is worthwhile to have a joint

legislative investigating committee to answer questions about the State Auditor's findings and the Department of Budget and Finance's legal responsibilities.

Thank you for the opportunity to testify in support of S.C.R. 18 (Proposed S.D. 1).

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "N.A. Nomura", with a long horizontal flourish extending to the right.

Nora A. Nomura
Deputy Executive Director