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# A BILL FOR AN ACT

RELATING TO INVESTMENTS.

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

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

4 "§36- Advisory committee on short-term investments.

5 (a) There is established an advisory committee on short-term  
6 investments administratively attached to the department of  
7 budget and finance and consisting of the following members:

8 (1) The director of finance;

9 (2) Two members appointed by the Hawaii bankers  
10 association;

11 (3) One member appointed by the speaker of the house of  
12 representatives; and

13 (4) One member appointed by the president of the senate.

14 (b) The advisory committee shall assist and advise the  
15 director of finance on the establishment and operation of a  
16 short-term investment pool, including:

17 (1) Formulating a disclosure policy;

18 (2) Determining eligible investment vehicles;



- 1        (3) Establishing performance standards;
- 2        (4) Monitoring the outflow of funds from financial
- 3                institutions;
- 4        (5) Determining compliance with written investment
- 5                policies; and
- 6        (6) Conducting periodic reviews of the short-term
- 7                investment pool.

8        **§36- Short-term investment pool.** (a) The director of  
 9 finance, with the assistance of the advisory committee on short-  
 10 term investments, shall establish and operate, beginning on  
 11 January 1, 2012, a short-term investment pool for the purpose of  
 12 investing moneys of the State which, in the director of  
 13 finance's judgment, exceed the amounts necessary to meet the  
 14 immediate requirements of the State and whereby, in the director  
 15 of finance's judgment, the action will not impede or hamper the  
 16 necessary financial operations of the State. The short-term  
 17 investments shall be limited to:

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



- 1           (C) For which the faith and credit of the United  
2                   States are pledged for the payment of principal  
3                   and interest;
- 4           (2) Federal Farm Credit System notes and bonds;
- 5           (3) Federal Agricultural Mortgage Corporation notes and  
6                   bonds;
- 7           (4) Federal Home Loan Bank notes and bonds;
- 8           (5) Federal Home Loan Mortgage Corporation notes and  
9                   bonds;
- 10          (6) Federal National Mortgage Association notes and bonds;
- 11          (7) Student Loan Marketing Association notes and bonds;
- 12          (8) Tennessee Valley Authority notes and bonds;
- 13          (9) 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          (10) 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  
22                   a nationally-recognized statistical rating



- 1           organization as provided in Title 17 Code of Federal  
2           Regulations Section 270.2a-7;
- 3           (11) Federally insured savings accounts;  
4           (12) Time certificates of deposit;  
5           (13) Certificates of deposit open account;  
6           (14) Repurchase agreements with federally insured banks,  
7           savings and loan associations, and financial services  
8           loan companies;
- 9           (15) Student loan resource securities, including:
- 10           (A) Student loan auction rate securities;  
11           (B) Student loan asset-backed notes;  
12           (C) Student loan program revenue notes and bonds; and  
13           (D) Securities issued pursuant to Rule 144A of the  
14           Securities Act of 1933, including any private  
15           placement issues,
- 16           issued with either bond insurance or over  
17           collateralization guaranteed by the United States  
18           Department of Education; provided all insurers  
19           maintain a triple-A rating by Standard & Poor's,  
20           Moody's, Duff & Phelps, Fitch, or any other major  
21           national securities-rating agency;



1       (16) Commercial paper with an A1/P1 or equivalent rating by  
2           any national securities-rating service; and  
3       (17) Bankers' acceptances with an A1/P1 or equivalent  
4           rating by any national securities-rating service;  
5 provided that the investments are due to mature not more than  
6 five years from the date of investment. Income derived from  
7 those investments shall be a realization of the general fund;  
8 provided that, except as provided by Act 79, Session Laws of  
9 Hawaii 2009, income earned from moneys invested by the general  
10 funds, special funds, bond funds, and trust and agency funds on  
11 an investment pool basis shall be paid into and credited to the  
12 respective funds based on the contributions of moneys into the  
13 investment pool by each fund.

14       As used in this section:

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

19       (b) Except with respect to an early withdrawal penalty on  
20 an investment permitted by this section, the amount of such  
21 penalty being mutually agreed upon at the time of acquisition of  
22 such investment, no investment permitted by this section shall



1 require or may in the future require payments by the State,  
2 whether unilateral, reciprocal, or otherwise, including margin  
3 payments, or shall bear interest at a variable rate which causes  
4 or may cause the market price of such investment to fluctuate;  
5 provided that such limitations shall not apply to money market  
6 mutual funds that:

7       (1) Invest solely in:

8           (A) Direct and general obligations of the United  
9           States; or

10          (B) Obligations of any agency or instrumentality of  
11          the United States, the payment of the principal  
12          and interest on which are unconditionally  
13          guaranteed by the full faith and credit of the  
14          United States;

15       (2) Are rated at the time of purchase "AAAm-G" or its  
16       equivalent by Standard & Poor's Ratings Group; and

17       (3) Are open-end management investment companies regulated  
18       under the Investment Company Act of 1940, as amended,  
19       which calculate their current price per share pursuant  
20       to Rule 2a-7 (17 Code of Federal Regulations section  
21       270.2a-7) promulgated under such act.



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

14       (d) The short-term investment pool shall be operated under  
15 contract with a private investment advisor, approved by the  
16 director of finance and the advisory committee on short-term  
17 investments, in accordance with chapter 103D.

18       (e) The director of finance shall make available to  
19 prospective depositors detailed information on the short-term  
20 investment pool, similar to that information generally contained  
21 in a securities prospectus. The director of finance shall also  
22 ensure that periodic statements of accounts and reports on



1 holdings are provided to pool participants relative to their  
2 proportionate share of the pool.

3 (f) The director of finance shall cause an independent  
4 audit of the pool to be conducted on an annual basis. The  
5 auditor shall be selected by the advisory committee on short-  
6 term investments."

7 SECTION 2. Section 36-21, Hawaii Revised Statutes, is  
8 repealed.

9 [~~"§36-21 Short term investment of state moneys. (a) The~~  
10 ~~director of finance may invest any moneys of the State which in~~  
11 ~~the director's judgment are in excess of the amounts necessary~~  
12 ~~for meeting the immediate requirements of the State and where in~~  
13 ~~the director's judgment the action will not impede or hamper the~~  
14 ~~necessary financial operations of the State in:~~

15 ~~(1) Any bonds or interest bearing notes or obligations:~~

16 ~~(A) Of the State (including state director of~~  
17 ~~finance's warrant notes issued pursuant to~~  
18 ~~chapter 40);~~

19 ~~(B) Of the United States;~~

20 ~~(C) For which the faith and credit of the United~~  
21 ~~States are pledged for the payment of principal~~  
22 ~~and interest;~~





- 1       ~~(2) Federal Farm Credit System notes and bonds;~~
- 2       ~~(3) Federal Agricultural Mortgage Corporation notes and~~
- 3       ~~bonds;~~
- 4       ~~(4) Federal Home Loan Bank notes and bonds;~~
- 5       ~~(5) Federal Home Loan Mortgage Corporation bonds;~~
- 6       ~~(6) Federal National Mortgage Association notes and bonds;~~
- 7       ~~(7) Student Loan Marketing Association notes and bonds;~~
- 8       ~~(8) Tennessee Valley Authority notes and bonds;~~
- 9       ~~(9) Securities of a mutual fund whose portfolio is limited~~
- 10       ~~to bonds or securities issued or guaranteed by the~~
- 11       ~~United States or an agency thereof or repurchase~~
- 12       ~~agreements fully collateralized by any such bonds or~~
- 13       ~~securities;~~
- 14       ~~(10) Securities of a money market mutual fund that is rated~~
- 15       ~~AAA, or its equivalent, by a nationally recognized~~
- 16       ~~rating agency or whose portfolio consists of~~
- 17       ~~securities that are rated as first tier securities by~~
- 18       ~~a nationally recognized statistical rating~~
- 19       ~~organization as provided in 17 Code of Federal~~
- 20       ~~Regulations section 270.2a-7;~~
- 21       ~~(11) Federally insured savings accounts;~~
- 22       ~~(12) Time certificates of deposit;~~



- 1       ~~(13) Certificates of deposit open account;~~
- 2       ~~(14) Repurchase agreements with federally insured banks,~~
- 3               ~~savings and loan associations, and financial services~~
- 4               ~~loan companies;~~
- 5       ~~(15) Student loan resource securities including:~~
- 6               ~~(A) Student loan auction rate securities;~~
- 7               ~~(B) Student loan asset backed notes;~~
- 8               ~~(C) Student loan program revenue notes and bonds; and~~
- 9               ~~(D) Securities issued pursuant to Rule 144A of the~~
- 10               ~~Securities Act of 1933, including any private~~
- 11               ~~placement issues;~~
- 12               ~~issued with either bond insurance or~~
- 13               ~~overcollateralization guaranteed by the United States~~
- 14               ~~Department of Education; provided all insurers~~
- 15               ~~maintain a triple A rating by Standard & Poor's,~~
- 16               ~~Moody's, Duff & Phelps, Fitch, or any other major~~
- 17               ~~national securities rating agency;~~
- 18       ~~(16) Commercial paper with an A1/P1 or equivalent rating by~~
- 19               ~~any national securities rating service; and~~
- 20       ~~(17) Bankers' acceptances with an A1/P1 or equivalent~~
- 21               ~~rating by any national securities rating service;~~



1 ~~provided that for authorized investments with stated maturity~~  
2 ~~dates, the investment, as well as the underlying securities of~~  
3 ~~those investments, are due to mature not more than five years~~  
4 ~~from the date of investment. Income derived from those~~  
5 ~~investments shall be a realization of the general fund; provided~~  
6 ~~that, except as provided by Act 79, Session Laws of Hawaii 2009,~~  
7 ~~income earned from moneys invested by the general funds, special~~  
8 ~~funds, bond funds, and trust and agency funds on an investment~~  
9 ~~pool basis shall be paid into and credited to the respective~~  
10 ~~funds based on the contribution of moneys into the investment~~  
11 ~~pool by each fund. As used in this section, "investment pool"~~  
12 ~~means the aggregate of state treasury moneys that are maintained~~  
13 ~~in the custody of the director of finance for investment and~~  
14 ~~reinvestment without regard to fund designation.~~

15 ~~(b) Except with respect to an early withdrawal penalty on~~  
16 ~~an investment permitted by this section, the amount of such~~  
17 ~~penalty being mutually agreed at the time of acquisition of such~~  
18 ~~investment, no investment permitted by this section shall~~  
19 ~~require or may in the future require payments by the State,~~  
20 ~~whether unilateral, reciprocal, or otherwise, including margin~~  
21 ~~payments, or shall bear interest at a variable rate which causes~~  
22 ~~or may cause the market price of such investment to fluctuate,~~



1 ~~provided that such limitation shall not apply to money market~~  
2 ~~mutual funds which:~~

3 ~~(1) Invest solely in:~~

4 ~~(A) Direct and general obligations of the United~~  
5 ~~States of America; or~~

6 ~~(B) Obligations of any agency or instrumentality of~~  
7 ~~the United States of America the payment of the~~  
8 ~~principal and interest on which are~~  
9 ~~unconditionally guaranteed by the full faith and~~  
10 ~~credit of the United States of America;~~

11 ~~(2) Are rated at the time of purchase "AAAm G" or its~~  
12 ~~equivalent by Standard & Poor's Ratings Group; and~~

13 ~~(3) Are open end management investment companies regulated~~  
14 ~~under the Investment Company Act of 1940, as amended,~~  
15 ~~which calculate their current price per share pursuant~~  
16 ~~to Rule 2a 7 (17 Code of Federal Regulations section~~  
17 ~~270.2a 7) promulgated under such act.~~

18 ~~(c) Furthermore, the State shall not acquire any~~  
19 ~~investment or enter into any agreement in connection with the~~  
20 ~~acquisition of any investment or related to any existing~~  
21 ~~investment held by the State, which would require or may in the~~  
22 ~~future require any payment by the State, whether unilateral,~~



1 ~~reciprocal, or otherwise, such as swap agreements, hedge~~  
2 ~~agreements, or other similar agreements. For purposes of this~~  
3 ~~section, a swap or hedge payment is any payment made by the~~  
4 ~~State in consideration or in exchange for a reciprocal payment~~  
5 ~~by any person, such as a variable rate payment in exchange for a~~  
6 ~~fixed rate payment, a fixed rate payment in exchange for a~~  
7 ~~variable rate payment, a payment when a cap or a floor amount is~~  
8 ~~exceeded, or other similar payment." ]~~

9 SECTION 3. Statutory material to be repealed is bracketed  
10 and stricken. New statutory material is underscored.

11 SECTION 4. This Act shall take effect on July 1, 2112.



**Report Title:**

State Monies; Short-term Investments

**Description:**

Establishes an Advisory Committee on Short-term Investments administratively attached to the Department of Budget and Finance to assist the Director of Finance in making short-term investments. Establishes additional requirements in the management of the short-term investments. Effective July 1, 2112. (HB1179 HD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

