

TESTIMONY BY KALBERT K. YOUNG
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STATE OF HAWAII
TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE
ON
HOUSE BILL NO. 1179, H.D. 1

February 14, 2011

RELATING TO INVESTMENTS

House Bill No. 1179, H.D.1 proposes to amend Section 36, Hawaii Revised Statutes, regarding the short-term investment of state funds. The bill proposes to establish an advisory committee on short-term investments. The advisory committee would assist and advise the director of finance on the operation of the short-term investment pool to invest state treasury funds deposited by agencies, which exceed the amounts necessary to meet immediate cash requirements of the State.

The Department supports the establishment of an advisory committee on short-term investments and recommends the following revisions to this bill (deletions are stricken and additions are underlined):

1. Page 1, line 17 – “(1) Formulating an investment policy; ”

This revision is being recommended because the committee’s task would be the development of an appropriate investment policy, rather than a disclosure policy.

2. Page 2, line 8 to 11 – “...**Short-term investment pool of state moneys.** (a)

The director of finance, with the assistance of the advisory committee on short-term investments, ~~shall establish and operate, beginning on January 1, 2012, a short-term investment pool for the purpose of investing moneys~~ may

invest any moneys of the State in which, in the director of finance's judgment, exceed the amounts necessary to meet the immediate requirements..."

This second revision is being recommended because certain funds, due to federal or trust mandates or other reasons, cannot be invested on a pool basis. This revision will provide for investments not participating in the pool and includes the advisory committee involvement in all short-term investments not limited only to those in the investment pool. In effect this revision changes the section back to the current language in the statutes, but includes the proposed advisory committee.

3. Page 5, line 5 – "...provided that ~~the investments for authorized investments~~ with stated maturity dates, the investment, as well as any underlying securities of those investments, are due to mature not more that five years from the date of investment."

This third revision is being recommended because last year by Act 127, Regular Session of 2010, this language was added to clarify the maturity limit.

4. Page 7, line 14 – "...investment pool shall may be operated under contract with a private investment advisor..."

This fourth revision is being recommended because it will provide the advisory committee and the director of finance flexibility to administer the investment pool under alternative management structures should they be determined to be more beneficial to the State.

5. Page 7, line 18 to 21 – "~~The director of finance shall make available to prospective depositors detailed information on the short term investment~~

~~pool, similar to that information generally contained in a securities prospectus.~~ The director of finance shall also ensure that periodic statements of accounts and reports on holdings are provided to ~~pool participants~~ state agencies with accounts participating in the pool, relative to their proportionate share of the pool.”

This fifth revision is being recommended because the state's short-term investment pool is limited to funds already deposited into the state treasury by state agencies and is not available for participation by outside entities.

6. Page 8, line 3 to 6 – “~~The director of finance shall cause an investment pool shall be subject to independent audit of the pool to be conducted on an annual basis. The auditor shall be selected by the advisory committee on short term investments.~~ as part of the state's comprehensive annual financial audit.”

This sixth revision is being recommended because the investment pool is already subject to two audits. One audit by the Audit Division of the Department of Accounting and General Services as part of the examination in accordance with the provisions of Sections 40-7 ad 40-8 of the Hawai'i Revised Statutes, and another audit by an independent auditor selected by the Legislative Auditor's office to perform the state's comprehensive annual financial audit.

In summary, the Department supports this measure with the above revisions, and believes that along with internal changes being implemented, it will adequately serve to improve the operation of the department's short-term investment program. Thank you for the opportunity to provide testimony on this measure.