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# A BILL FOR AN ACT

RELATING TO THE MANAGEMENT OF STATE FUNDS.

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

1           SECTION 1. The legislature finds that the state treasury  
2 is invested in certificates of deposit and short-term treasuries  
3 or agencies having a duration (average maturity) of less than  
4 one year. Section 36-21, Hawaii Revised Statutes, authorizes  
5 government and government-related bond investments that are due  
6 to mature not more than five years after the date of investment.  
7 The legislature also finds that the Bloomberg U.S. Treasury  
8 1 - 5 Year Maturity Index has a duration (average maturity) of  
9 two and one-half years. The cash-like state treasury portfolio  
10 has under-earned and is expected to continue to under-earn the  
11 Bloomberg U.S. Treasury 1 - 5 Year Maturity Index over market  
12 cycles.

13           The legislature further finds that the department of budget  
14 and finance has less than one full-time equivalent position  
15 assigned to invest and manage the more than \$6,000,000,000 in  
16 the state treasury. Compared to the current portfolio of less  
17 than one year in duration, if the \$6,000,000,000, when



1 accounting for current liquidity needs, was professionally  
 2 managed through diversification in low-risk United States  
 3 treasuries and other similar securities allowed under section  
 4 36-21, Hawaii Revised Statutes, with a duration consistent with  
 5 the Bloomberg U.S. Treasury 1 - 5 Year Maturity Index, the state  
 6 treasury could potentially have earned 1.7 per cent more during  
 7 fiscal year 2019. Therefore, the legislature believes that  
 8 professional oversight and management of state treasury funds is  
 9 necessary to maximize state revenues while maintaining a low-  
 10 risk profile.

11 Accordingly, the purpose of this Act is to:

- 12 (1) Establish an investment board of professionals and  
 13 experts to oversee state treasury funds and provide  
 14 additional resources to execute the policies and  
 15 decisions of the board and department of budget and  
 16 finance; and
- 17 (2) Amend provisions relating to the short-term investment  
 18 of state moneys, including the types of financial  
 19 instruments that state moneys may be invested in.



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

4 **"§36- State funds investment board; established. (a)**

5 There is established within the department of budget and finance  
6 for administrative purposes the state funds investment board,  
7 which shall oversee the short-term investment of state moneys as  
8 provided in section 36-21.

9 (b) The state funds investment board shall meet at least  
10 monthly and be composed of five members; provided that:

11 (1) One member shall be the director of finance, ex  
12 officio;

13 (2) One member shall be appointed by the governor pursuant  
14 to section 26-34 from a list of nominees submitted by  
15 the speaker of the house of representatives;

16 (3) One member shall be appointed by the governor pursuant  
17 to section 26-34 from a list of nominees submitted by  
18 the president of the senate;

19 (4) One member shall be the chief investment officer of  
20 the employees' retirement system of the State who  
21 shall serve as an ex officio voting member; and



1        (5) One member shall be the investment officer of the  
2                    Hawaii employer-union health benefits trust fund who  
3                    shall serve as an ex officio voting member.

4        (c) Each person appointed to the state funds investment  
5 board pursuant to paragraph (1), (2), or (3) of subsection (b)  
6 shall have at least three years of experience in the provision  
7 of financial services, including the management of investments,  
8 to public or private institutional clients.

9        (d) Notwithstanding subsection (c), no person shall be a  
10 member or employee of the state funds investment board if the  
11 person concurrently:

12        (1) Has an ownership or investment interest in a firm that  
13                    provides financial services to the State;

14        (2) Is employed by a private firm that provides financial  
15                    services to the State; or

16        (3) Has any other direct interest in the gains or profits  
17                    of any investment made by the state funds investment  
18                    board.

19        (e) The members of the state funds investment board shall  
20 serve without compensation but shall be reimbursed for expenses,



1 including travel expenses, necessary for the performance of  
2 their duties.

3 (f) The chairperson of the state funds investment board  
4 shall be elected by the board members.

5 (g) The department of budget and finance shall provide  
6 administrative support to the state funds investment board.

7 (h) The state funds investment board may:

8 (1) Appoint investment officers and other employees who  
9 shall be exempt from chapter 76 and shall serve under  
10 the direction of the director of finance;

11 (2) Contract with qualified private entities, including  
12 investment oversight firms that report directly to the  
13 board and financial services firms, as required to  
14 facilitate its duties; and

15 (3) Require any department or agency of the State to  
16 furnish information required for the board to carry  
17 out its duties."

18 SECTION 3. Section 36-21, Hawaii Revised Statutes, is  
19 amended to read as follows:

20 "**§36-21 Short-term investment of state moneys.** (a) The  
21 [~~director of finance may~~] state funds investment board shall



1 invest, through a private financial services firm and in  
2 compliance with the State's investment policy, any moneys of the  
3 State [which] that in the [director's] judgment of the director  
4 of finance are in excess of the amounts necessary for meeting  
5 the immediate requirements of the State [~~and where in the~~  
6 ~~director's judgment will~~]; provided that the action, in the  
7 state funds investment board's judgment, shall maximize the  
8 State's return on investments, net of investment fees and  
9 expenses incurred, while protecting capital and not impede or  
10 hamper the necessary financial operations of the State. Moneys  
11 invested pursuant to this section may be invested in:

- 12 (1) Any bonds or interest-bearing notes or obligations:
- 13 (A) Of the State (including state director of  
14 finance's warrant notes issued pursuant to  
15 chapter 40);
- 16 (B) Of the United States; or
- 17 (C) For which the faith and credit of the United  
18 States are pledged for the payment of principal  
19 and interest;
- 20 (2) Federal Farm Credit System notes and bonds;



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



- 1 (12) Certificates of deposit open account;
- 2 (13) Repurchase agreements with federally insured banks,  
3 savings and loan associations, and financial services  
4 loan companies;
- 5 (14) Commercial paper with an A1/P1 or equivalent rating by  
6 any national securities rating service; [~~and~~]
- 7 (15) Bankers' acceptances with an A1/P1 or equivalent  
8 rating by any national securities rating service;
- 9 (16) United States dollar denominated obligations issued,  
10 assumed, or guaranteed as to the payment of principal  
11 and interest by supranational issuers rated AAA or  
12 equivalent by a nationally recognized rating agency;
- 13 (17) Federal agency or government-sponsored enterprise  
14 Presidential mortgage-backed securities rated AAA or  
15 equivalent by a nationally recognized rating agency;
- 16 (18) Federal agency or government-sponsored enterprise  
17 commercial mortgage-backed securities rated AAA or  
18 equivalent by a nationally recognized rating agency;
- 19 (19) Asset-backed securities rated AAA or equivalent by a  
20 nationally recognized rating agency; and





1        (20) Corporate debt with an AA or equivalent or better  
2                    rating by a nationally recognized rating agency;  
3 provided that ~~[for]~~ the combined exposure to the instruments  
4 listed in paragraphs (14) through (20) shall not be more than  
5 fifty per cent of the State's total short-term assets; and  
6 provided further that authorized investments with [stated]  
7 effective maturity dates, [the investment, as well as the  
8 underlying securities of those investments, are due to mature  
9 ~~not more than]~~ do not exceed five years from the date of  
10 investment. Income derived from those investments shall be a  
11 realization of the general fund; provided that income earned  
12 from moneys invested by the general funds, special funds, bond  
13 funds, and trust and agency funds on an investment pool basis  
14 shall be paid into and credited to the respective funds based on  
15 the contribution of moneys into the investment pool by each  
16 fund. ~~[As used in this section, "investment pool" means the~~  
17 ~~aggregate of state treasury moneys that are maintained in the~~  
18 ~~custody of the director of finance for investment and~~  
19 ~~reinvestment without regard to fund designation.]~~

20            (b) Except with respect to an early withdrawal penalty on  
21 an investment permitted by this section, the amount of such



1 penalty being mutually agreed at the time of acquisition of such  
2 investment, no investment permitted by this section shall  
3 require or may in the future require payments by the State,  
4 whether unilateral, reciprocal, or otherwise, including margin  
5 payments, or shall bear interest at a variable rate which causes  
6 or may cause the market price of such investment to fluctuate;  
7 provided that such limitation shall not apply to money market  
8 mutual funds which:

9 (1) Invest solely in:

10 (A) Direct and general obligations of the United  
11 States of America; or

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

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

19 (3) Are open-end management investment companies regulated  
20 under the Investment Company Act of 1940, as amended,  
21 which calculate their current price per share pursuant



1 to Rule 2a-7 (17 Code of Federal Regulations section  
2 270.2a-7) promulgated under such act.

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

16 (d) As used in this section:

17 "Income" means:

18 (1) Interest receipts adjusted for amortization and  
19 accretion; and

20 (2) Realized gains,



1 that are net of the costs of investment and management of State  
2 moneys.

3 "Investment pool" means the aggregate of state treasury  
4 moneys that are maintained in the custody of the director of  
5 finance for investment and reinvestment without regard to fund  
6 designation."


7 SECTION 4. There is appropriated out of the general  
8 revenues of the State of Hawaii the sum of \$ or so  
9 much thereof as may be necessary for fiscal year 2020-2021 for  
10 the state funds investment board, including start-up costs and  
11 the hiring of necessary staff.

12 The sum appropriated shall be expended by the department of  
13 budget and finance for the purposes of this Act.

14 SECTION 5. Statutory material to be repealed is bracketed  
15 and stricken. New statutory material is underscored.

16 SECTION 6. This Act shall take effect upon its approval;  
17 provided that section 4 shall take effect on July 1, 2020.

18

INTRODUCED BY:   
JAN 22 2020



# H.B. NO. 2399

**Report Title:**

Budget and Finance; State Funds; Investment Board; Investment of Unencumbered Funds; Appropriation

**Description:**

Establishes the State Funds Investment Board to oversee the short-term investment of state moneys. Authorizes the State Funds Investment Board to employ investment officers and other employees. Prohibits board members and employees of the State Funds Investment Board from having a direct interest in the gains or profits of the board's investments. Requires the State Funds Investment Board to invest, through a private financial services firm, any State moneys that are in excess of the amounts necessary for meeting the immediate requirements of the State. Amends other provisions relating to the short-term investment of state moneys, including the types of financial instruments in which state moneys may be invested. Appropriates funds.

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

