

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2399, H.D.1

February 20, 2020
12:00 P.M.
Conference Room 308

RELATING TO THE MANAGEMENT OF STATE FUNDS

The Department of Budget and Finance supports the intent of H.B. 2399, H.D.1. The Department appreciates the Legislature's attention to the State Treasury's investment program and provides the following information for the committee's consideration.

House Bill No. 2399, H.D.1 proposes to amend HRS section 36-21 relating to the short-term investment of state moneys, including expanding the types of financial instruments in which the state's moneys may be invested in, and requires the department to submit an annual report to the legislature on the short-term investment of state moneys.

The Department provides the following comments on the language in Section 2 line 13 which adds "in the director's judgment, shall maximize the State's return on investments...". We respectfully suggest the word "optimize" to replace "maximize" in the sentence. The State treasury consists of funds needed to support the operations of government agencies. The investment portfolio is currently invested in highly liquid, high quality fixed income securities. The main purpose of the State Funds is to

support operations of the State Agencies. Given this main purpose, State Funds should not be considered a “return maximizing” investment pool. This differentiates the State Funds from other long-term focused entities like a pension trust. Liquidity and safety of principal are of higher priority than total return for the State funds.

The objectives of managing Public Funds are: (1) ensure Safety of Principal through suitable investments; (2) maintain sufficient liquidity to cover state’s expenditures; (3) generate a market rate of investment income through economic cycles; (4) optimize and measure investment performance. (Source: Government Investment Officers mission statement <https://www.gioa.us/about/>). Fiduciary responsibility to protect taxpayer monies results in more conservative, low risk outlook for investing, while also striving to optimize returns on the invested funds.

Thank you for the opportunity to provide our testimony on this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Management of State Funds

BILL NUMBER: HB 2399, HD-1

INTRODUCED BY: House Committee on Labor & Employment

EXECUTIVE SUMMARY: Amends provisions relating to the short-term investment of state moneys, including the types of financial instruments in which state moneys may be invested. Requires annual report to the legislature

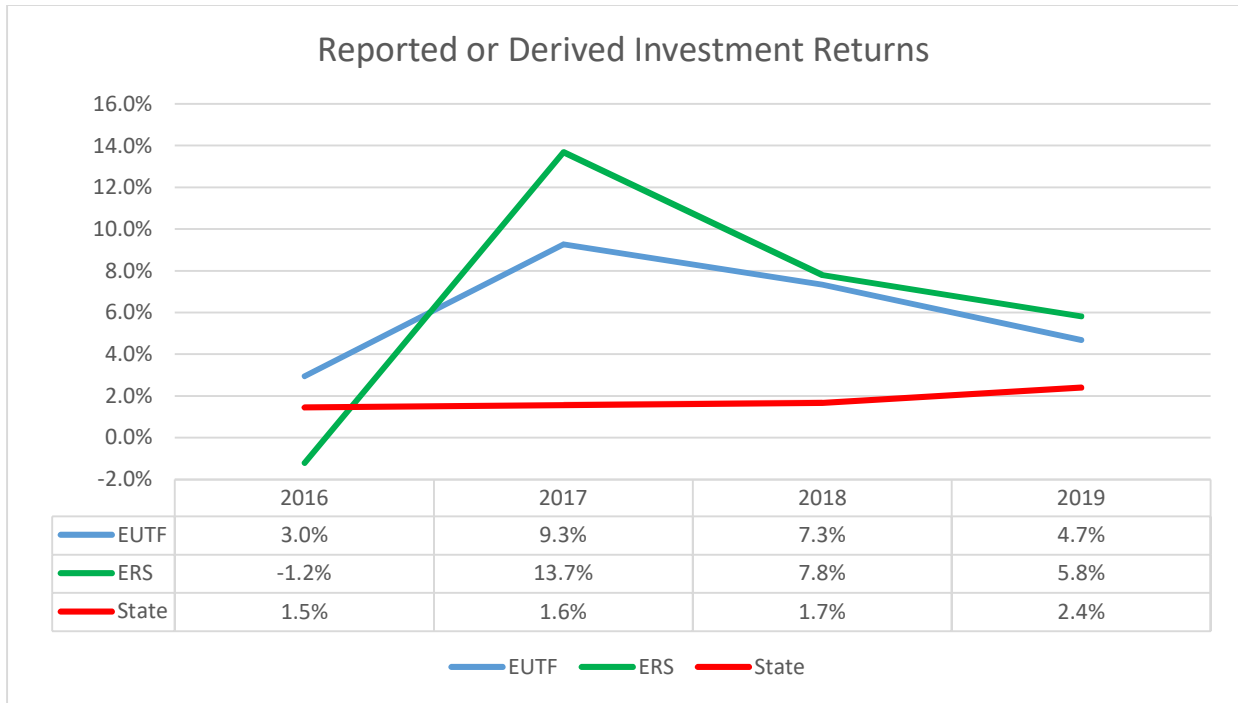
SYNOPSIS: Amends section 36-21, HRS, to provide that the director of finance may invest, through a private financial services firm and in compliance with the State's investment policy, invest any moneys of the State in excess of the amounts necessary for meeting the immediate requirements of the State; provided that the action, in the state funds investment board's judgment, shall maximize the State's return on investments, net of investment fees and expenses incurred, while protecting capital and not impede or hamper the necessary financial operations of the State. Expands the list of permissible investments.

EFFECTIVE DATE: January 1, 2050.

STAFF COMMENTS: As explained in the bill's recitals, the state treasury is invested in certificates of deposit and short-term treasuries or agencies having a duration (average maturity) of less than one year. In other words, the state treasury is invested in cash or cash equivalents. In contrast, Section 36-21, HRS, authorizes government and government-related bond investments that are due to mature not more than five years after the date of investment. The bill also recites that the Department of Budget and Finance (B&F) has less than one full-time equivalent position assigned to invest and manage a \$6 billion portfolio.

It is hard to disagree with the bill's premises, namely that our State interagency portfolio deserves more attention and care than one dedicated worker can give to it.

For comparison, we plotted ERS' and EUTF's reported investment returns as reported on their financial statements as posted on B&F's website. To derive the State's investment returns, we divided the "Interest and Investment Income" total from the State's Combined Annual Financial Report (CAFR) Statement of Activities by its total "Investments" per the CAFR Statement of Net Position. Here are the results.



Source: B&F Reports, CAFR

Digested 2/18/2020

LATE

HB-2399-HD-1

Submitted on: 2/19/2020 8:01:03 PM

Testimony for FIN on 2/20/2020 12:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Herbert Hussey	Individual	Support	No

Comments:

I support the intent of this Bill.