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Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Housing
Wednesday, March 15, 2023
9:00 a.m.
Conference Room 312**

**On the following measure:
S.B. 1206 S.D.2, DEPOSITS OF PUBLIC FUNDS**

Chair Hashimoto and Members of the Committees:

My name is Iris Ikeda and I am the Commissioner of Financial Institutions, Department of Commerce and Consumer Affairs (“Department”), Division of Financial Institutions (DFI). The Department offers comments on this bill.

The purpose of this bill is to authorize the Director of Finance to exempt a depository from the requirement to pay all deposits of public funds upon demand, under the condition that the depository has provided loans with below—market interest rates and longer terms for housing projects where all dwelling units are exclusively reserved for owner-occupants who own no other real property and are residents of the State.

The Department defers to the Department of Budget and Finance as it has oversight over the use of public funds. The Department supports the innovative thinking for funding housing projects in the State. The Department limits its comments to the effect of holding public funds by depositories. Currently, Section 38-2, Hawaii Revised

Statutes, provides that depositories that hold public funds must hold them at a one-to-one ratio to allow for liquidity for the state in times of a financial crisis or emergency. The one-to-one ratio allows the state to have liquidity while providing financing on a broad range of services, including housing, health care, education, social services, infrastructure, and public safety. It appears that the exception provides that that depositories would not have to hold public funds in a one-to-one ratio if the funds are used for housing project loans made with below-market interest rates, longer repayment terms and made to certain owner-occupants. In a financial crisis, the state would not receive the amount of public funds it deposited at the financial institutions. The state would receive a reduced amount made by these below-market interest rate loans, which would be less than one hundred per cent of the funds deposited in the depository.

The Department believes there may be a way to use public funds to encourage development or rehabilitation of housing projects, but using public funds in this way may not meet the needs of the entire State. The Department is willing to work with the agencies to create a solution for using public funds that would not impact the State's financing.

Thank you for the opportunity to provide comments on this bill.

JOSH GREEN, M.D.
GOVERNOR



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TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON HOUSING
ON
SENATE BILL NO. 1206, S.D. 2

March 15, 2023
9:00 A.M.
Room 312 and Videoconference

RELATING TO DEPOSITS OF PUBLIC FUNDS

Senate Bill No. 1206, S.D. 2 proposes to amend HRS section 38-2 (d) to exempt depositories from the requirement to pay all deposits of public funds upon demand, at the discretion of the Director of Finance, provided that the depository has issued loans with below-market interest rates and longer terms for housing projects that meet certain conditions.

The Department has concerns with this bill, as it has the potential to cause portions of the treasury to become illiquid which could hinder the state's ability to pay its obligations. HRS section 38-1 defines "depository" as any federally insured national or state bank, savings and loan association, or financial services loan company; or federal or state credit union insured by the national credit union administration authorized to do business in this State. SB1206, S.D. 2 could allow these financial institutions to withhold the state's cash on deposit and possibly prevent the payment of state checks, should the Director of Finance grant them exemption.

The State has a fiduciary responsibility to protect public funds and to prudently manage its treasury in order to achieve the investment objectives of safety, liquidity, and yield, in priority order. The department strongly recommends that these principals remain the paramount objectives of the State treasury.

In closing, although the Department supports the state's efforts to increase housing for residents, it would advise against anyone having authority to grant depositories exemption from the requirement to pay all deposits of public/state funds upon demand. Thank you for your consideration of our comments.