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Testimony of the Department of Commerce and Consumer Affairs

**Before the
Senate Committees on Commerce and Consumer Protection and
Housing
Friday, February 10, 2023
9:30 a.m.
Conference Room 229**

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

Chairs Keohokalole and Chang 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 exempt depositories from the requirement to pay all deposits of public funds upon demand upon the condition that the depository have provided loans with below—market interest rates and longer terms for housing projects where all dwelling units are exclusively reserved for owner-occupiers who own no other real property and are residents of the State.

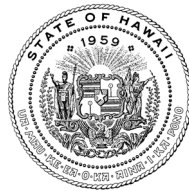
The Department defers to the Department of Budget and Finance as it has oversight over the use of public funds. The Department supports the innovative thinking for funding housing projects in the State. The Department limits its comments to the effect of holding public funds by depositories. Currently, 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 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 receive the public funds less the amount made by these 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 SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
AND THE SENATE COMMITTEE ON HOUSING
ON
SENATE BILL NO. 1206

February 10, 2023
9:30 A.M.
Room 229 and Videoconference

RELATING TO DEPOSITS OF PUBLIC FUNDS

Senate Bill No. 1206 proposes to exempt depositories from the requirement to pay all deposits of public funds upon demand, provided that the depository has issued loans with below-market interest rates and longer terms for housing projects that meet certain conditions.

The Department offers comments with concerns on this bill, as it 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 could possibly allow these financial institutions to withhold the state's cash on deposit, or hinder the payment of state checks. The state should always have access to its available deposited cash on demand.

In closing, although the Department supports the state's efforts to increase housing for residents, it is unsure of the intent of this particular bill and would advise against any exemption from the requirement to pay all deposits of public/state funds upon demand. Thank you for your consideration of our comments.