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Testimony of the Department of Commerce and Consumer Affairs

**Before the
Senate Committee on Commerce and Consumer Protection
Wednesday, February 7, 2024
9:40 a.m.
Via Videoconference**

**On the following measure:
S.B. 2863, RELATING TO PUBLIC MONEIES.**

Chair Keohokalole and Members of the Committee:

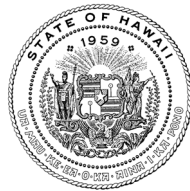
My name is Iris Ikeda, and I am the Commissioner of the Department of Commerce and Consumer Affairs' Division of Financial Institutions (DFI). The Department provides comments on this bill.

The purpose of this bill is to require that a portion of state monies be deposited in a state-owned bank.

If the intent of the bill is to clarify that the Director of Finance should deposit a percentage of deposits in a "state-owned" bank. The Department offers the following amendment on page 1 lines 9-12 of the bill:

provided further that no less than _____ per cent of the aggregate amount of moneys of the State available for deposit shall be deposited in **a financial institution chartered or authorized to do business in the state** ~~depositories of a state-owned bank.~~

Thank you for the opportunity to provide comments and an amendment to this bill.



JOSH GREEN, M.D.
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EMPLOYEES' RETIREMENT SYSTEM
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WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
ON
SENATE BILL NO. 2863

February 7, 2024
9:40 AM
Room 229 & Videoconference

RELATING TO PUBLIC MONEYS

The Department of Budget and Finance provides comments on Senate Bill No. 2863.

This Bill proposes to amend HRS Section 38-2 regarding deposits of public funds, to provide that an unidentified percentage of the state treasury moneys be deposited into a state-owned bank. The department previously had serious concerns on bills to establish a state-owned bank, which were proposed most recently in the 2022, 2021 and 2020 legislative sessions, which this department previously opposed.

One of the primary functions and responsibilities of the Department stated in the Hawaii Revised Statutes, is for the safekeeping, management, investment, and disbursement of funds deposited into the state treasury by all state departments. Regulated and insured commercial financial institutions utilized by the state have the capacity, experience, security and technology to carry out the banking needs of the state. Furthermore, keeping state funds at these financial institutions supports businesses and jobs in the local economy. Management of the state's funds ensures

that cash is available when needed to cover the multitude of activities and programs at all the state's departments and the legislature.

In 2012 the Department of Commerce and Consumer Affairs, Division of Financial Institutions issued a white paper entitled "Should Hawai'i Establish a State Bank?" (reference: <http://cca.hawaii.gov/dfi/learn-more-banks/>). Although the intent of the bill with respect to outcomes envisioned by creating a bank is not stated in the bill, establishment and operation of a State owned and operated bank would inevitably be a significant and cost-prohibitive undertaking.

Thank you for the opportunity to submit testimony on this bill.



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GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 7, 2024

TO: Senator Jarrett Keohokalole
Chair, Committee on Commerce and Consumer Protection

Submitted Via Capitol Website

FROM: Tiffany Yajima / Mihoko Ito

RE: **S.B. 2863 – Relating to Public Moneys**
Hearing Date: Wednesday, February 7, 2024 at 9:40 a.m.
Conference Room: 229

Dear Chair Keohokalole, Vice Chair Fukunaga, and Members of the Committee on Commerce and Consumer Protection:

We submit this testimony on behalf of the Hawaii Bankers Association (HBA). HBA represents seven Hawai'i banks and one bank from the continent with branches in Hawai'i.

HBA respectfully **opposes** this measure which would require that an unspecified amount of state funds be deposited into a state-owned bank. HBA is opposed to the idea of the establishment of a state bank and believes it is unnecessary and against sound fiscal policy. HBA is also concerned that this measure could jeopardize the state's financial health by requiring that state funds be deposited into a proposed state bank.

First, Hawaii does not currently have a state-owned bank. In fact, there are now only two state banks in the country – one in North Dakota and second in American Samoa. The Bank of North Dakota does not function as a bank but acts as a correspondent bank whose purpose is to partner with local financial institutions, not to compete with them. The bank lends through local financial institutions, such as Hula Mae. If the intended purpose of a state bank in Hawaii is to engage in mortgage lending, housing development, agricultural development, and land use - and not deposits and checks - these activities can already be serviced by a non-bank.

Furthermore, a bank is required to have capital to organize and remain operational. In 2011, the Federal Reserve Bank of Boston analyzed the costs of organizing a state bank in Massachusetts and concluded that the required capitalization would be \$3.6 billion, representing 21% of Massachusetts' direct debt. Hawaii's needs would be smaller but still materially quite large.

Second, this bill would presumably require a withdrawal of state funds from banks where funds are currently deposited. The HBA has strong concerns that if the state seeks to

withdraw funds from private depositories this would be disruptive to our local banks and have a trickle-down effect on the economy as a whole. The impact would be greater on a mainland bank that serves as a depository of a large portion of the state funds because state funds are allocated by bidding, and the bank from the continent often wins.

Finally, most Hawaii banks are examined by both the federal and state examiners to determine if the bank is compliant with regulations and to ensure the safety and soundness of the bank. However, because a state bank would likely not have FDIC deposit insurance, the state bank would not have the supervisory benefits of bank regulators. Thus, there will be no independent and experienced bank regulators to provide oversight to the state bank to assure no loss to the bank which could jeopardize state funds.

For these reasons we respectfully ask that the committee hold this bill. Thank you for the opportunity to submit testimony on this measure.