

ALAN M. ARAKAWA
Mayor



RECEIVED

2017 OCT 26 PM 2:46

OFFICE OF THE MAYOR

MARK R. WALKER
ACTING DIRECTOR

COUNTY OF MAUI
DEPARTMENT OF FINANCE
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

October 25, 2017

Honorable Alan Arakawa
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

For Transmittal to:

Honorable Riki Hokama
Chair, Budget and Finance Committee
Maui County Council
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Hokama:

APPROVED FOR TRANSMITTAL


Acting Mayor 10/26/17
Date

SUBJECT: SHORT-TERM INVESTMENTS (FISCAL YEAR 2017 (JULY 1, 2016 TO JUNE 30, 2017)) (BF-14(2))

Pursuant to your letter dated October 18, 2017, below are the responses to your questions/requests:

1. Provide a list of members, by name and title, of the Investment Committee, dates the Committee met in the past three years, and copies of the minutes from the meeting.

Response: Below is a list of members, by name and title, of the Investment Committee, dates the Committee met in the past three years:

| Meeting Dates | Name of Members | Title of Members |
|---------------|---|--|
| March 2, 2015 | Danilo Agsalog Keith Regan Mark Walker Sandy Baz Wayne Fujita | Finance Director Managing Director Deputy Finance Director Budget Director Accounting System Administrator |

RECEIVED
2017 OCT 27 AM 9:32
OFFICE OF THE
COUNTY COUNCIL

| Meeting Dates | Name of Members | Title of Members |
|------------------|--|--|
| October 27, 2015 | Danilo Agsalog Keith Regan Mark Walker Sandy Baz Vacant | Finance Director Managing Director Deputy Finance Director Budget Director Accounting System Administrator |
| March 11, 2016 | Danilo Agsalog Keith Regan Mark Walker Sandy Baz Steve Tesoro | Finance Director Managing Director Deputy Finance Director Budget Director Accounting System Administrator |
| July 20, 2016 | Danilo Agsalog Keith Regan Mark Walker Sandy Baz Steve Tesoro | Finance Director Managing Director Deputy Finance Director Budget Director Accounting System Administrator |
| July 26, 2017 | Danilo Agsalog Keith Regan Mark Walker Lynn Araki-Regan Steve Tesoro | Finance Director Managing Director Deputy Finance Director Budget Director Accounting System Administrator |

Please refer to Attachments A through E for copies of the minutes from the meetings listed above.

2. Please provide a copy of the County's Investment Policy, if it was revised after March 11, 2016.

Response: During the July 26, 2017 Investment Committee meeting, a draft revised County's Investment Policy was reviewed (see Attachment F). Some changes were recommended by the Committee and will be approved in the next Committee meeting temporarily scheduled in December 2017.

3. Explain the role of the County Treasurer on the Investment Committee.

Response: Based on the County's Investment Policy, the Treasurer acts as the committee secretary recording meeting minutes and performing other duties as directed by the Investment Committee Chair or its members.

4. Provide a list of the various investment options available to the County. Include the rate of return for each option.

HRS 46-50 (see Attachment G) provides the types of securities that can be purchased for short-term investments and constraints on investing in these securities such as a five-year limitation on the maximum maturity of an instrument, minimum rating for

certain security types, or the prohibition on the purchase of derivatives such as swap agreements, hedge agreements, or other similar agreements.

The types of securities authorized by HRS 46-50 are debt instruments also known as fixed income instruments. All fixed income instruments have a par value and a purchase price. In the case of zero coupon bonds, the difference between the par value and the purchase price is the earnings and when combined with the time between purchase and maturity dates, the rate of return also referred to as the yield can be calculated. The amount of the initial discount is based on the market rates for securities of similar risk and time horizon.

Other instruments, on a periodic basis, generate coupon or interest payments on scheduled dates including the final interest payment on the instrument's maturity date. These coupon securities are sold at par value, a premium above par, or a discount to par depending on the market rate of interest for instruments of similar risk and time horizon.

Market interest rates for debt securities of the same risk and time horizon will vary over time based on many factors including the Federal Reserve Bank's overnight funds rate. As these market rates change security yield-to-maturities will shift. Since the County's portfolio spans five years, the yield-to-maturity for currently maturing instruments will be different from securities issued by the same issuer today with the same time horizon and coupon rate as the maturing security. As such, the rates of returned provided for securities in this report are spot rates that will change over time. Spot rates are the market's selling/quoted price of a security at a given moment in time. Spot rates change very quickly sometimes within minutes of the initial quote.

Investable Securities List – County Portfolio Inventory as of June 30, 2017

| Security Type | Yield-to-Maturity |
|--|--------------------------|
| <i>County Bonds:</i> | |
| Maui – (None in portfolio) | N/A |
| Kauai | 1.4000% |
| Hawaii County | 0.7620% |
| Honolulu C&C | 1.2500% - 1.7880% |
| County Improvement District (None in Portfolio) | N/A |
| <i>State of Hawaii:</i> | |
| Hawaii | 1.1500% - 2.2290% |
| <i>United States Agencies with Full Faith & Credit:</i> | |
| Treasury | 0.9670% - 1.1886% |

| Security Type (Cont'd) | Yield-to-Maturity |
|--|--------------------------|
| <i>Other Agencies:</i> | |
| Federal Farm Credit System | 0.9380% |
| Federal Agricultural Mortgage Corporation | 0.6400% - 0.8750% |
| Federal Home Loan Bank | 0.8670% - 2.2140% |
| Federal Home Loan Mortgage Corporation | 0.9010% - 2.4040% |
| Federal National Mortgage Association | 0.7836% - 2.0000% |
| Tennessee Valley Authority (None in Portfolio) | N/A |
| <i>Additional Instruments:</i> | |
| Repurchase Agreements (None in Portfolio) | N/A |
| Federally Insured Savings Accounts | 0.4490% - 0.600% |
| Time Certificates of Deposits | 0.7500% - 2.300% |
| Student Loan Bonds (None in Portfolio) | N/A |
| Commercial Paper | 1.3224% |
| Bankers' Acceptances (None in Portfolio) | N/A |
| Securities in Money Market | 0.1500% - 0.7300% |

Should you have any questions, please feel free to contact me at extension no. 7474 or May-Anne Alibin, Treasurer at extension no. 7464.

Sincerely,



MARK R. WALKER
 Acting Director of Finance

MRW:ma

Attachments

Council Chair
Mike White

Vice Chair
Robert Carroll

Presiding Officer Pro Tempore
Stacy Crivello

Councilmembers
Alika Atay
Elle Cochran
Don S. Guzman
Riki Hokama
Kelly T. King
Yuki Lei K. Sugimura



COUNTY COUNCIL
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us
October 18, 2017

2017 OCT 17 11 09 AM
COUNTY OF MAUI
ADMINISTRATIVE SERVICES DIVISION

Mr. Mark Walker, Interim Director
Department of Finance
County of Maui
Wailuku, Hawaii 96793

Dear Mr. Walker:

SUBJECT: SHORT-TERM INVESTMENTS (FISCAL YEAR 2017 (JULY 1, 2016 TO JUNE 30, 2017)) (BF-14(2))

May I please request you respond to the following:

1. Provide a list of the members, by name and title, of the Investment Committee, dates the Committee met in the past three years, and copies of the minutes from the meeting.
2. Please provide a copy of the County's Investment Policy, if it was revised after March 11, 2016.
3. Explain the role of the County Treasurer on the Investment Committee.
4. Provide a list of the various investment options available to the County. Include the rate of return for each option.

May I further request you transmit your response **no later than Friday, October 27, 2017**. To ensure efficient processing, please include the relevant Committee item number in the subject line of your response.

Should you have any questions, please contact me or the Committee staff (Michele Yoshimura at ext. 7663, or Yvette Bouthillier at ext. 7758).

Sincerely,


RIKI HOKAMA, Chair
Budget and Finance Committee

bf:ltr:014(2)afn01
cc: Mayor Alan M. Arakawa

ALAN M. ARAKAWA
Mayor



COUNTY OF MAUI

DEPARTMENT OF FINANCE
Treasury Division
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

Attachment A

DANILO F. AGSALOG
Director of Finance

MARK R. WALKER
Deputy Director of Finance

ANGELITA R. DE LA PENA
Treasurer

MINUTES OF THE
INVESTMENT COMMITTEE MEETING OF March 2, 2015
FINANCE CONFERENCE ROOM, 2ND FLOOR

ATTENDANCE

MEMBERS PRESENT: DANNY AGSALOG, SANDY BAZ, KEITH REGAN,
MARK WALKER, WAYNE FUJITA
STAFF: ANGELITA R DE LA PENA, JACK KULP

Chairman Danny Agsalog called the meeting at 9:05 A.M.

1. Approval of the minutes of December 8, 2014
Moved by: Member Regan
Seconded : Member Baz
Action: Approved
2. Proposal to amend the investment policy re: to maintain separate bank accounts – deferred for future discussion.
Director Agsalog will further research into the matter.
Created subcommittee – Director Agsalog and Acctg System Admin Fujita.
3. Director Agsalog with the members' approval moved up agenda item 5 & 6 before market update conference call.
Item 5 – Proposal to hire a portfolio manager-deferred for future discussion.
Item 6 – GO Bond 2015 – payment schedule to June instead of July for interest savings.
4. Market update conference call with Wes Sullivan of R. W. Baird.
5. COM Investment portfolio update by Jack Kulp.
 - CD purchases fully collateralized by FDIC.
 - June divestiture/EUTF payment
6. Cash Flow Model UPDATE by Jack Kulp.
7. Others:
 - Budget amendment needed to increase debt service budget by \$5 million.
 - Chairman Agsalog encouraged members to send items to be included in the agenda for future meetings.
8. Meeting adjourned at 10:07 A. M.

ALAN M. ARAKAWA
Mayor



COUNTY OF MAUI

DEPARTMENT OF FINANCE
Treasury Division
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

Attachment B

DANILO F. AGSALOG
Director of Finance

MARK R. WALKER
Deputy Director of Finance

ANGELITA R. DE LA PENA
Treasurer

MINUTES OF THE
INVESTMENT COMMITTEE MEETING OF October 27, 2015
DIRECTORS OFFICE, 2ND FLOOR

ATTENDANCE

MEMBERS PRESENT: DANNY AGSALOG, SANDY BAZ, DAVID CHING,
MARK WALKER, MAY-ANNE ALIBIN
STAFF: ANGELITA R DE LA PENA, JACK KULP, STUART HIROSO

Chairman Danny Agsalog called the meeting at 11:00 A.M.

1. No actionable items.
2. Cash Flow Model UPDATE by Jack Kulp
-document Stuart is working on with cash management is coming together
3. COM Investment portfolio update by Jack Kulp.
-Chairman asks about Emergency Fund
Current balance of \$27m – could possibly have \$17m in a 5 yr investment
4. Review minutes of the last meeting
Motion by Mr. Walker
Second by Ms. Albin
5. Bond Proceeds we have from 2012 need to lapse or what else still generating
Interest - need to have meeting between investment and accounts
1 project encumbered \$2 m, but they sent disencumbered request, Council will have
to re-appropriated.
7. Others: Happy Birthday Jack
8. Meeting adjourned at 11:48 A. M.

ALAN M. ARAKAWA
Mayor



COUNTY OF MAUI

DEPARTMENT OF FINANCE
Treasury Division
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

Attachment C

DANILO F. AGSALOG
Director of Finance

MARK R. WALKER
Deputy Director of Finance

ANGELITA R. DE LA PENA
Treasurer

MINUTES OF THE
INVESTMENT COMMITTEE MEETING OF MARCH 11, 2016
DIRECTORS OFFICE, 2ND FLOOR

ATTENDANCE

MEMBERS PRESENT: DANNY AGSALOG, KEITH REGAN, SANDY BAZ,
MAY-ANNE ALIBIN for Steve Tesoro
STAFF: JACK KULP, STUART HIROSO
Excused Members: MARK WALKER, STEVE TESORO
Excused Staff: ANGELITA DE LA PENA

Chairman Danny Agsalog called the meeting at 9:08 A.M.

1. Approval of the minutes of October 27, 2015
Moved by: Member Baz
Seconded: Member Regan
Action: Approved
2. Proposal to amend the investment policy to provide more opportunities for secure investment.
 - Treasury audit was critical of lack of diversification in the portfolio.
 - Please include pie chart with types of investments as part of the executive summary.
 - Portfolio should not have more than 50% in CD's regardless of FDIC – Review in one year and discuss.Moved by: Member Regan
Seconded by: Member Baz
Vote to Amend investment policy to include CD's with the addition of language that investment of \$250K will be the limit per institution.
Member Agsalog: aye Member Baz: ayes
Member Regan: aye Member Alibin: ayes
Zero nays
Action: Approved
3. Bill ST2250 passed the Senate, but has not been heard by the House.
4. Update on Cash Management - Expecting 290K in interest for March
5. Cash Flow Model UPDATE - Substantial progress has been made and the 1st phase will be sent out soon for review.

6. Others:

- a) Question on Negative Interest in the Euro Zone and Asia. Not affecting the US at this time. Treasuries are shrinking. People are running to invest in the US. Next phone conference will be with Raymond James
- b) Request made that excused members be included in the minutes.
- c) Request made that Treasurer do a presentation of the Treasury Audit and evaluate new position.
- d) Challenges to technology - Request for equipment and cost to go to Chair for approval and the Managing Director offered to assist with cost.

7. Meeting adjourned at 9:51 A.M.

ALAN M. ARAKAWA
Mayor



COUNTY OF MAUI

DEPARTMENT OF FINANCE
Treasury Division
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

Attachment D

DANILO F. AGSALOG
Director of Finance

MARK R. WALKER
Deputy Director of Finance

ANGELITA R. DE LA PENA
Treasurer

MINUTES OF THE
INVESTMENT COMMITTEE MEETING OF JULY 20, 2016
DIRECTORS OFFICE, 2ND FLOOR

ATTENDANCE

MEMBERS PRESENT: DANNY AGSALOG, MARK WALKER, SANDY BAZ, STEVE
TESORO, KEITH REGAN
STAFF: JACK KULP, STUART HIROSO
Excused Members: none
Excused Staff: ANGELITA DE LA PENA

Chairman Danny Agsalog called the meeting at 10:02 A.M.

1. Approval of the minutes of March 22, 2016
Moved by: Member Baz
Seconded: Member Walker
Action: Approved
2. Bill ST2250 passed the Senate, but was not successful in conference at the House, and will have to be reintroduced.
3. Presentation by Jack Kulp
 - a) Investments are doing well – Portfolio is on par with seven year expectations.
 - b) Predicting \$3.5M in returns for this year.
 - c) Loan Transfers \$9M, does this need to be incorporated into investment model? - Updates of loan transfers can be provided monthly to Jack by Member Baz.
 - d) Although intentions are to put off floating a bond to keep current high bond rating, random surveillance by raters of the events happening in the County may affect our current ratings. The County will continue to put money in the emergency fund, the carryover savings have to be sufficient to keep our bond rating high.
4. Others:
 - a) Chairman would like Research Binder from Jack on Federal and other Aid to HC&S and Hotel workers that are displaced to include when and how much.
 - b) Follow up on the request to have the Treasurer do a presentation on the Audit Findings. Chairman explained that he sent Treasurer to a Training on the Mainland.

- c) Request for status and documentation on the Model Manual that Jack and Stuart are working on.
 - A Functional Version will be complete by the end of this year, they are currently at 145 pages.
 - Congratulations on the Record for both Jack and Stuart for their diligence on this project. "Thank you for your hard work!"
- d) It is expected that the independent auditor will complete the audit of the old post office from 2013.
 - The auditor is a legislative auditor and not an independent auditor.

5. Meeting adjourned at 10:50 A.M.

ALAN M. ARAKAWA
Mayor



COUNTY OF MAUI
DEPARTMENT OF FINANCE
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793

DANILO F. AGSALOG
Director of Finance

MARK R. WALKER
Deputy Director of Finance

MAY-ANNE A. ALIBIN
Treasurer

DRAFT MINUTES OF THE MEETING OF THE INVESTMENT COMMITTEE
JULY 26, 2017

(Subject to the Investment Committee's Review & Approval)

Call to Order:

Mr. Agsalog called the Investment Committee to order at 10:30 a.m. July 26, 2017, in the Finance Director's Office, Kalana O Maui Building, 200 South High Street, 2nd Floor, Wailuku, Hawaii.

Roll Call/Opening Remarks:

Present: Mr. Danilo F. Agsalog, Mr. Mark Walker, Mr. Keith Regan, Mr. Steve Tesoro and Ms. Lynn Araki-Regan. None excused.

Staff Present: Ms. May-Anne Alibin and Mr. Jack Kulp. None excused

Mr. Agsalog asked the Committee concurrence to renumber the order of the meeting agenda. He also announced that this is first Investment Committee meeting with the new Treasurer, Ms. May-Anne Alibin.

Approval of the Minutes:

Mr. Agsalog presented the minutes from the Investment Committee meeting of July 20, 2016 and made the motion to approve the minutes as presented. Moved by Mr. Walker and seconded by Ms. Araki-Regan. The motion is carried with all members present voting in favor.

County Auditor's Treasury Audit Findings Presentation:

Ms. Alibin presented the County Auditor's Examination of the Treasury Function report to satisfy the action item from prior investment meetings. She provided an overview on the examination of the Treasury Function of the Department of Finance, which was the first audit conducted by the County Auditor since the office was established in 2012. She noted that the audit was conducted from May 2014 through March 2015 with period audited from FY 2011 through FY 2014. The presentation focused on the audit finding no.1, funds held in County's Treasury lost out on over \$21 million of interest earnings. She reported that although the County of Maui sent the \$97.2 million payment to the EUTF at the end of FY 2014, the auditor's opinion is that the County should have sent the funds held in the County's OPEB Fund to the EUTF at the start of FY 2013. The auditor's recommendation is that funds appropriated at the County's OPEB Fund be sent to the EUTF at the beginning of fiscal year to take advantage of potentially higher investment earnings to the EUTF and pay down the County's \$344 million unfunded liabilities for health benefits already earned by current and retired County employees. Management strongly disagreed with this finding due to the following reasons, which was discussed in details: 1) Fiscal Responsibility; 2) Information and/or Statements Relating to Other Counties OPEB Contributions; 3) Interest

DRAFT MINUTES OF THE MEETING OF THE INVESTMENT COMMITTEE**JULY 26, 2017****(Subject to the Investment Committee's Review & Approval)**

Earnings Loss of \$21M; 4) Investment Rate of Return Assumption, and; 5) County's Commitment to Pre-Pay its Unfunded Liability.

Mr. Walker asked a question about the \$97.2 million, if it was in the investment portfolio. Ms. Alibin responded that it was included in the portfolio.

Ms. Alibin continued with the presentation of audit finding no. 2, of which the Treasury held questionable investments. She reported that the current balances for these two securities are: FAMC \$8M (maturing on 4/4/18), \$5M (matured on 7/10/17) and 5M (maturing on 3/9/18) and FFCB \$4M maturity date of 9/25/17. A question was raised by Mr. Walker if those remaining securities are liquidated, will the County take a loss. Mr. Kulp replied that if the County were to liquidate, the County will take a loss due to the change in interest rate, which is increasing. Ms. Alibin reported that the auditor's recommendation is for Treasury to obtain clarification from legal counsel if investments made in the FAMC and FFMC are authorized by the HRS 46-50 and to create procedures to address situations where the descriptions of potential investments or issuers do not readily with the plain meaning of law. Ms. Alibin reported that management disagreed with this finding however, the management approached the State legislature to amend HRS 46-50 to mirror HRS 36-21 and make abundantly clear the investments in the notes and bonds of this specific issuer is allowable.

Ms. Alibin presented the audit finding no. 3, relating to the County's investment portfolio being over concentrated in a single business sector. She stated that at the conclusion of FY12, FY13 and FY14, on average 92% of the County's investment portfolio, or \$250M was in securities of a single business sector: the mortgage industry. The auditor report indicated that although not prohibited by law or the County's Investment Policy, overconcentration in a single business sector could expose taxpayer funds to increased and unnecessary risks. The auditor's recommendation is to review the Policy to consider diversification best practices issued by the GFOA and if not feasible, management should incorporate that decision and any related rationale into the County's Investment Policy. Management disagreed with this finding due to the difference in interpretation of GFOA best practices – GFOA is a guideline and is meant to cover government entities that are allowed to invest in much riskier types of assets and HRS 46-50 strictly limits the securities available for which the County may invest with the intention of reducing risk.

Audit finding no. 4 was also presented relating to the delegation of multiple critical tasks to a single staff accountant exposes the Treasury to uncertainty; further review by management is warranted. The auditor's recommendation is for management to ensure adequate oversight and support is provided to Treasury to avoid disruptions to its operations. Management concurred with this finding. Ms. Alibin reported that the Treasury requested additional personnel in FY 2016 budget to re-organize the division to ensure sufficient and additional support to the Accountant III; however, this budget request was not approved. Mr. Regan asked for clarification as to who did not approve the request. Ms. Alibin replied that it was not approved by the Council but a request was submitted in the Mayor's Proposed Budget.

Ms. Alibin presented the last audit finding relating to certain cash handling activities of the Treasury lacked adequate segregation. The recommendation from the County auditor is for management to review cash handling activities of the Treasury and develop and implement

DRAFT MINUTES OF THE MEETING OF THE INVESTMENT COMMITTEE**JULY 26, 2017****(Subject to the Investment Committee's Review & Approval)**

appropriate controls to address the segregation of duties related to SEPs. She reported that management concurred with this finding and based on this recommendation, Treasury requested for an additional E/P to address this issue, which was approved by the Council in FY16.

The floor was open by Ms. Alibin for questions. Mr. Agsalog asked if the new position created was filled by Ivy Takushi. Mr. Regan asked if it's the Treasury's intent to follow with the auditor's office or the Council about the update on the corrective action. Ms. Alibin responded that given that this was the first audit report issued, an update report can be provided but noted that the management's corrective actions were included in the auditor's report. Mr. Agsalog agreed with the suggestion. Mr. Walker is unclear on the management's status of all the items. Ms. Alibin reported that the Treasury's Office has cleared all the corrective actions, except for Audit Finding No. 4, relating to the additional position to support the Accountant III. Ms. Alibin noted that even though the position was not approved, Treasury took an action by hiring a consultant to document the Cash, Investment and Debt Management (CID) system. The CID system procedures is written and readily available. Ms. Alibin stated that Treasury Office will also work in documenting other procedures relating to investment activities. Mr. Agsalog stated that the audit report has been deferred to the B&F Committee and his proposal is not to send any corrective action updates or reports until the Council has requested for information but instead to have it readily available. Mr. Agsalog mentioned that as the Investment Committee, it is good to respond to the audit findings but should not provide the information until requested. Ms. Araki-Regan concurred with Mr. Agsalog. Ms. Alibin reported that during the past budget deliberation, there was a question raised by a councilmember as to when is the next audit for Treasury function and the County auditor responded that they are planning to do audit every five years. Mr. Agsalog reminded the Committee that final decision on this matter can be made even without the Investment Committee meeting. Ms. Araki-Regan asked if there's a need for an Accountant II position to support Accountant III position for FY 2019 budget purposes. Ms. Alibin replied that the need will be re-evaluated and discussed with the staff and Deputy Director for next budget proposal. Mr. Agsalog agreed with Ms. Araki-Regan's point because as the County's investment portfolio is growing, the need for additional support is also needed.

Bill SB407 Update:

Mr. Agsalog presented a revised Investment Policy as drafted by Ms. Alibin to reflect the amendment in HRS 46-50 or passing of Bill SB407. Mr. Agsalog asked the Treasurer to update the Policy to remove the language in body (page 10-11) since the HRS 46-50 is already attached to the Policy. Mr. Agsalog asked for a motion to make the proposed change. Discussion by Mr. Walker, who is in favor of the proposed change and also agreed by Ms. Araki-Regan and Mr. Regan. A motion to update the Policy to make Bill SB407 as the attachment was moved by Ms. Araki-Regan and seconded by Mr. Tesoro. None were opposed and the motion passed.

Investment Portfolio Presentation:

The Investment Portfolio Presentation was conducted by Mr. Kulp. The staff provided the Investment Portfolio Reports to the Committee along with an article published by Bloomberg News on July 26, 2017 relating to the Feds unwinding of balance-sheet to hold the rates steady. Mr. Kulp reported that feds start of balance-sheet normalization is another policy milestone in an economic recovery and they bought trillions of dollars in securities to lower long-term borrowing costs after its policy rate was cut to zero in December 2008. Mr. Kulp stated that this is a major

DRAFT MINUTES OF THE MEETING OF THE INVESTMENT COMMITTEE**JULY 26, 2017****(Subject to the Investment Committee's Review & Approval)**

shift and that the County needs to keep an eye on. Mr. Kulp reported that the County is in compliance with its Policy, including the CD's and none are more than 30% of the portfolio. He also reported that Treasury will be investing the 2 instruments now listed in the amended HRS 46-50. Mr. Agsalog asked if the County purchased any FAMC and FFCB since the audit finding. Mr. Kulp confirmed that the County did not but also suggested that the County should look into buying TVA. Mr. Kulp reported that the projected earnings will be 170 and noted the flattening of the yield curve an indication of an economic down turn, which the County experienced in February, March and April. Mr. Kulp reported that the portfolio maturities distribution is well balanced in the next five-year period and this June, the County reported interest earnings of \$368,309 for the month, which is higher compared to the last two years. Mr. Kulp stated that next month, Treasury is looking at investing \$6 million. He reported that for FY 2017, the County earned \$3.9 million in interests and projecting a \$4 million earnings by end of next fiscal year. Ms. Alibin reminded Mr. Kulp to discuss about the Commercial Paper investments, which is something that was never done in the past. Mr. Walker pointed out that the County's interest earning is much higher compared to what we've done in FY 2015 at \$1.5 million. Mr. Regan asked (from an Investment Committee standpoint) as to why the County is not transparent with the public that through the efforts of the Treasury Division, County basically tripled the earnings by managing its money smarter. Mr. Regan recommended to put out in the public and start talking about this great thing. Mr. Agsalog replied that discussions about our investment activities are reported to the Council every quarter and asked if maybe the County's Public Information Office can help to put out the news. Mr. Kulp asked to re-look at re-allocating the Accountant III position into an Investment Officer position and add another position in Treasury to support the investment activities. Ms. Alibin reminded the Committee that the agenda also includes a discussion about the Council's nearly \$100,000 appropriation in FY18 for a Third-Party Investment Consultant. Mr. Kulp continued to report that the County started to purchase Commercial Paper during the last half of FY 2017, which provided higher earnings on a short-term basis and worked well with the County's cash flow needs. Mr. Walker stated that the County started purchasing Commercial Paper very cautiously for two weeks. Mr. Kulp reported commercial paper purchases yield to 140 basis points compared to 15-20 basis points if it remains in the Bank of New York. Chairman Agsalog asked staff to include in our model the Kihei Gym's \$20 million authorization. Ms. Alibin replied that the County has several large projects in the model such as DWS and spiking bill. Mr. Kulp re-assured the Committee that as soon as the information is sent to Treasury, it is loaded in the CID model and there's a flexibility due to this powerful tool. He stated that other counties within Hawaii cannot visualize their cash requirements while the County's model goes out through 2023. Mr. Agsalog thanked Mr. Kulp for his presentation and asked the Committee if there's further questions.

Mr. Agsalog elaborated on the decision to make the payment on the Spiking Bills to satisfy the County's obligation but the supporting calculations by the State are subject to further review. He added that it is prudent for the County to pay the bill next month and then address if the County finds abnormalities with the billing information.

DRAFT MINUTES OF THE MEETING OF THE INVESTMENT COMMITTEE**JULY 26, 2017****(Subject to the Investment Committee's Review & Approval)****Third-Party Investment Consultant in FY 2018 Adopted Budget:**

Mr. Agsalog reported that the Council had appropriated \$98,000 for a third-party investment consultant. Mr. Agsalog provided a background that two years ago he met with Black Rock but did not hear any follow-ups from Black Rock after he mentioned about the County's investment restrictions. Mr. Agsalog included this on the agenda to discuss it with the Committee if they are aware of what is the Council's intent on this appropriation. He also indicated that he is planning to setup a follow-up meeting with the Budget and Finance Committee Chair to get clarifications on this appropriation. Ms. Araki asked if the Council is open to hearing a budget amendment to include an additional personnel to support the current Accountant III position. Mr. Agsalog stated that the County is currently doing great with the investment earnings reported and there is no current need to engage a third party consultant to manage the County's portfolio. Mr. Walker pointed that the cash flow is very critical and key to know how much money is available to be invested. Mr. Regan suggested that the County should obtain a consultant to review or independently analyze the portfolio's performance and confirm that what Treasury is currently doing is the best way it can or even better than the other municipalities. Ms. Alibin reported that she had a discussion with the County's Financial Advisor regarding this budget appropriation. Based on this discussion, the Financial Advisor suggested that if the County decides to hire a third-party investment consultant, he is available to provide support to draft the request for proposal. Ms. Alibin also pointed out that based on the past year's budget deliberation meetings, the Council's primary concern is over reliance on the Accountant III position that if the person decides to retire or leave the County, then the investment operations will be disrupted. Mr. Agsalog stated that he would like to explore what Mr. Regan was suggesting. This item has been deferred.

Other Business:

Mr. Agsalog reported that he received a message from Council Chair Mike White, who is currently in Columbus for the NACO Conference and asked about MBS. Mr. Agsalog instructed staff to wait for Chair White to bring back the brochures for Treasury's review.

Adjournment:

There is no further business. Mr. Agsalog adjourned the Investment Committee meeting at 11:45 a.m.

Respectfully submitted,

May-Anne A. Alibin
Secretary, Investment Committee



COUNTY OF MAUI INVESTMENT POLICY

Revised ~~March 11, 2016~~ July 26, 2017 (Draft)

DRAFT

COUNTY OF MAUI
DEPARTMENT OF FINANCE
TREASURY DIVISION
MAUI, HAWAII

**COUNTY OF MAUI
INVESTMENT POLICY**

1. SCOPE
2. OBJECTIVES
3. REPORTING: INTERIM AND ANNUAL
4. INSTRUMENTS: MATURITIES, DIVERSIFICATION, AND RISK
5. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS
6. LIMITS ON HONORARIA, GIFTS, AND GRATUITIES
7. DELEGATION AND AUTHORITY, PRUDENCE, AND ETHICS
8. INVESTMENT COMMITTEE
9. SAFEKEEPING
10. INTERNAL CONTROLS

EXHIBITS

A – Hawaii Revised Statutes Section 46-50

1. SCOPE

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of Maui County's Investment Fund. Each transaction and the entire portfolio must comply with Hawaii Revised Statue Chapter 46 Section 5 and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of objectives.

This investment policy applies to all financial assets of the County of Maui (County). These funds are accounted for in the County's Comprehensive Financial Annual Report and include:

- ▶ General Fund
- ▶ Special Revenue Funds
- ▶ Capital Improvement Project Funds
- ▶ Enterprise Funds
- ▶ Trust and Agency Funds
- ▶ Debt Service Funds
- ▶ Any new fund unless specifically exempted

This investment policy applies to all transactions involving financial assets and related activity of all the foregoing funds. The investment policy does not apply to the Employee Retirement System nor employee deferred compensation funds which are organized and administered separately by the State of Hawaii. Except for cash in certain restricted and special funds, the County of Maui will consolidate cash balances from all funds to maximize earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles (GAAP).

2. INVESTMENT POLICY OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

Safety

Safety of principal is the foremost objective of the County. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Credit risk, the risk of loss due to the failure of the security issuer, will be minimized by:

- ▶ Limiting investments to the safest types of securities.
- ▶ Prequalifying the financial institutions, broker/dealers, intermediaries, and advisors.
- ▶ Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk, the risk that market value securities in the portfolio will fall due to changes in general interest rates, by:

- ▶ Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to

maturity.

- ▶ Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Liquidity shall be further defined as having sufficient cash on hand to meet the reoccurring and anticipated operational outlays of the County for a minimum of 45 days. Furthermore, liquidity will be enhanced by scheduling maturities to occur in each month and as evenly as possible given the cash flow requirements of the County of Maui.

Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risks constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- ▶ A security with declining credit may be sold early to minimize loss of principal.
- ▶ A security swap would improve the quality, yield, or target duration in the portfolio.
- ▶ Liquidity needs of the portfolio require that the security be sold.

Program Measure

The investment portfolio of the County shall be designed with the objective to meet or exceed the U.S. Treasury Note constant maturity of more than one year. This index is considered a benchmark and a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above these thresholds consistent with risk limitations identified herein and prudent investment principles.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the County's ability to govern effectively.

3. REPORTING: INTERIM AND ANNUAL

The Treasurer shall prepare an investment report at least quarterly, including a summary of the current investment portfolio and transactions made over the last quarter.

The quarterly investment report will include the following:

- 1) Listing of each security, face amounts and discount/premium
- 2) Coupon rates and buy yields of each security, and average yield for the portfolio

- 3) Value and Accrued Interest of each security
- 4) Maturity and days to maturity for each security and the portfolio average maturity
- 5) Transactions during the period: purchase, maturity and interest payments
- 6) Investment classification by category (e.g. banks, Agency discount and coupon notes)
- 7) At year end, the investment report should also provide book value and market value for each holding (and any unrealized gains and losses)
- 8) Expenses and penalties

The quarterly report will be provided to the Director of Finance, the Investment Committee and the County Council within 30 days of the quarter end. In addition to the quarterly investment reports, the Treasurer will provide an annual summary report which will be a consolidation of the quarterly reports.

Annually, the Treasurer will also share with the Investment Committee, economic reports available from the Wall Street Journal and other investment analysis publications. The Investment committee will evaluate economic reports to determine an investment strategy for the County. The economic reports give indications of the direction of interest rates.

Various available investment analyses will be considered during annual investment policy reviews.

Fundamental analysis

Rate trends

Supply/demand for capital

Economy expanding/contracting

Fed reserve easing or tightening

Economic reports on employment, inflation, home sales, inventory

Technical analysis

Yield trends

Also, during the annual evaluation of our overall strategy we will consider bear/bull strategies. These can provide guidance in our pursuit of quality, longer maturities, or higher risk groups of agencies. Always paramount, will be our priority goals of liquidity and safety (yield is a third objective behind liquidity and safety).

4. INSTRUMENTS: MATURITIES, DIVERSIFICATION, AND RISK

The State of Hawaii's (State) Hawaii Revised Statutes (HRS) provide for investments available to the counties.

HRS 46-50 provides for short-term investment of county moneys as follows:

(a) The director of finance of each county may, with the approval of the legislative body, invest county moneys that are in excess of the amounts necessary for the meeting of immediate requirements when in the judgment of the legislative body the action will not impede or hamper the necessary financial operation of the county in:

(I) Bonds or interest-bearing notes or obligations:

(a) of the county;

(b) of the State;

- (c) of the United States; or
 (d) of agencies of the United States; for which the full faith and credit of the United States are pledged for the payment of principal and interest;
- (2) Federal ~~land bank~~ Farm Credit System notes and bonds;
- (3) ~~Joint stock farm loan bonds~~ Federal Agricultural Mortgage Corporation notes and bonds;
- (4) Federal Home Loan Bank notes and bonds;
- (5) Federal Home Loan Mortgage Corporation bonds;
- (6) Federal National Mortgage Association notes and bonds;
- (7) Securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof;
- (8) Tennessee Valley Authority notes and bonds;
- (9) Repurchase agreements fully collateralized by any such bonds or securities;
- (9) ~~10~~ Bank Federally insured savings accounts;
- (10) ~~1~~ Time certificates of deposit;
- (11) ~~2~~ Certificates of deposit open account;
- (12) ~~3~~ Bonds of any improvement district of any county of the State; provided that the bonds are of investment grade or supported by the general obligation pledge of the county in which the improvement district is located;
- (13) ~~4~~ Bank, savings and loan association, and financial services loan company repurchase agreements;
- (14) ~~5~~ Student loan resource securities including:
- (a) Student loan auction rate securities;
- (b) Student loan asset-backed notes;
- (c) Student loan program revenue notes and bonds; and
- (d) Securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues; issued with either bond insurance or over collateralization guaranteed by the United States Department of Education; provided all insurers maintain a triple-A rating by Standard & Poor's, Moody's Duff & Phelps, Fitch, or any other major national securities rating agency;
- (15) ~~6~~ Commercial paper with an A1/P1 or equivalent ratings by any national securities rating service;
- ~~and~~
- (16) ~~7~~ Bankers' acceptances with an A1/P1 or equivalent ratings by any national securities rating service; and
- (18) Securities of a money market fund that is rated AAA, or its equivalent, by a nationally recognized rating agency or whose portfolio consists of securities that are rated as first tier securities by a nationally recognized statistical rating organization as provided in title 17 Code of Federal Regulations section 270.2a-7;

provided that the investments are due to mature not more than five years from the date of investment. The income derived there from shall be deposited in the fund or funds that the legislative body shall direct, ~~f~~ provided that if any money invested under this section belongs to any waterworks fund, then any income derived there from shall be paid into and credited to the fund.}

(b) Except with respect to an early withdrawal penalty on an investment permitted by this section, the amount of such penalty being mutually agreed at the time of acquisition of such investment, no investment permitted by this section shall require or may in the future require payments by the

Formatted: Right: 0.26", Line spacing: Exactly 13.9 pt

Formatted: Indent: Left: 0.38", First line: 0"

county, whether unilateral, reciprocal, or otherwise, including margin payments, or shall bear interest at a variable rate which causes or may cause the market price of such investment to fluctuate; provided that such limitation shall not apply to money market mutual funds which:

(1) Invest solely in:

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

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

Formatted: Indent: Left: 1", Hanging: 0.31"

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

(3) Are open-end management investment companies regulated under the Investment Company Act of 1940, as amended, which calculate their current price per share pursuant to Rule 2a-7 (title 17 Code of Federal Regulations section 270.2a-7) promulgated under such act.

(c) Furthermore, a county shall not acquire any investment or enter into any agreement in connection with the acquisition of any investment or related existing investment held by the county, which would require or may in the future require any payment by the county, whether unilateral, reciprocal, or otherwise, such as swap agreements, hedge agreements, or other similar agreements. For purposes of this subsection, payment for a swap agreement or hedge agreement means any payment by any person, including a variable rate payment in exchange for a variable rate payment, a payment when a cap or a floor amount is exceeded, or other similar payment.

Formatted: Indent: Left: 0.38"

The County of Maui will diversify its investments by security type, institution, and maturity. With the exception of US Treasury securities and bank certificates of deposit fully insured by the Federal Deposit Insurance Corporation (FDIC) not to exceed \$250,000.00 per banking institution¹, no more than 30% of the County's investment portfolio will be invested in a single security type, or with a single issuer or financial institution.

The policy guidelines, with respect to investment in commercial paper are as follows:

1. Commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations (NRSROs), at the time of purchase. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
2. Commercial paper holdings may not have maturities exceeding 180 days.
3. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating

¹ Policy revision to allow investments in CD's to exceed 30% of portfolio provided each CD is fully insured by the FDIC and that no banking institution has total CD investments greater than \$250,000.00. Policy revision approved during March 11, 2016 Investment Committee Meeting.

categories of an NRSRO.

4. The percentage of commercial paper may not exceed 10 percent of the total assets of the portfolio.
5. The percentage of commercial paper that can be purchased from any single issuer is five percent of the total assets of the portfolio.

To the extent possible, the County of Maui shall attempt to match its investment maturities with anticipated cash flow requirements. Investment maturities will not exceed five years in accordance with state and local laws. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as government money market funds or overnight repurchase agreements to ensure appropriate liquidity is maintained to meet ongoing obligations.

5. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A list will be maintained of approved security broker/dealers with a minimum capitalization of \$10 million and at least five years of operation.

All broker/dealers who desire to become qualified for investment transactions must provide the following as appropriate:

- ▶ Audited financial statements
- ▶ National Association of Security Dealers (NASD) certification
- ▶ Required national licensing and registration with the State
- ▶ Completed Broker/Dealer Agreement
- ▶ Certification of having read and understood and agreeing to comply with the County of Maui's Investment Policy.

An annual review of the financial condition of broker/dealers will be conducted by the Treasurer. See the Governmental Financial Officers Association (GFOA) Recommended practices on "Governmental Relations with Securities Dealers."

6. LIMITS ON HONORARIA, GIFTS, AND GRATUITIES

This policy hereby establishes limits on honoraria, gifts, and gratuities for the County Treasurer, individuals responsible for the management of the portfolio, and members of the Investment Committee. Any individual who receives an aggregate total of gifts, honoraria, and gratuities in excess of \$100.00 in a calendar 12 month time period from a broker/dealer, bank or service provider to the investment fund or its operation must report the gifts, dates, and firms to the County Treasurer and Director of Finance and kept on file for five years in the Treasury Division.

7. DELEGATION AND AUTHORITY, PRUDENCE, AND ETHICS

In accordance with the Maui County Charter Section 8-4.3 and Hawaii Revised Statute 46-50, the responsibility and authority for maintaining and managing the County treasury and depositing moneys in depositories and instruments authorized by law resides with the Director of Finance.

Management responsibility for the investment program is with the Director of Finance, who shall

establish procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. Responsibility for the operation of the investment program is hereby delegated to the Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. Employees and investment officials shall disclose to the Investment Committee any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officials shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

8. INVESTMENT COMMITTEE

The County's Investment Committee is composed of the Director of Finance, the Deputy Director of Finance, the Managing Director, the Budget Director and the Accounting System Administrator. The Investment Committee shall meet at least annually to recommend general strategies and monitor results. The Director of Finance will adopt strategies. The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, liquidity needs, potential risks to the County of Maui, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.

Written investment procedures will be recommended by the Investment Committee. The Director of Finance will approve investment procedures. The committee members shall review quarterly investment reports. Any two members of the committee may request a special meeting, and three members shall constitute a quorum. The committee shall establish its own rules of procedure. The Director of Finance shall chair the Investment Committee meetings, produce agendas, minutes and any necessary reports. The Treasurer or his/her representative shall act as the committee secretary recording minutes and performing other duties as directed.

9. SAFEKEEPING

Maui's Repurchase Agreements are secured by collateral agreements. Our Collateral and Security

agreements should ensure the safety of County owned investments as well as the collateral behind those investments. These safety concerns include:

- ▶ No payment for a security purchase should be released until delivery is confirmed.
- ▶ Custodians should acknowledge the County as the investor through triparty agreements;
- ▶ The independent custodian (not the bank) should provide the collateral valuation reports;
- ▶ The County should keep original safekeeping receipts;
- ▶ Repo collateral custodians should hold sufficient collateral to secure the Repos;
- ▶ The County should require substitution of new collateral before withdrawing old collateral
- ▶ Bank boards should authorize signing of collateral agreements.

HRS 38-3 restricts security depositories as follows:

"For the protection of funds deposited by the director under this chapter, the following securities shall be deposited with the director, or with banks in the continental United States, or with financial institutions authorized to do business in the State, as the director may select, to be held therein for safekeeping subject to the order of the director."

The above quotation allows securities to be deposited with the director, with U.S. banks, or with Hawaii financial institutions. It is important to note that securities are not allowed to be held by out of state non-bank financial institutions such as brokers and dealers. See the appendix for the actual HRS sections on investments.

HRS 46-51 allows each county to deposit securities owned by the county in mainland depositories with the approval of their council. In accordance with the GFOA Recommended practice on the Collateralization of Public Deposits, full collateralization will be required on nonnegotiable certificates of deposits.

10. INTERNAL CONTROLS

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

The internal controls shall address:

- ▶ Control of collusion
- ▶ Separation of functions
- ▶ Separation of transaction authority from accounting and record keeping
- ▶ Custodial safekeeping
- ▶ Avoidance of physical delivery (bearer form) securities
- ▶ Clear delegation of authority to subordinate staff members
- ▶ Written confirmation of transactions for investments and wire transfers. Supervisory control of employee actions
- ▶ Minimizing the number of authorized investment officials. Documentation of transactions and strategies

The development of internal controls remains a management function. This investment policy statement therefore avoids specific internal control measures, but rather requires a system of internal controls be established and maintained. The internal controls are documented in Treasury's Investment Procedures.



EXHIBIT A

Formatted: Tab stops: 6.38", Right



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

July 11, 2017 **GOV. MSG. NO. 1307**

The Honorable Ronald D. Kouchi,
President
and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

This is to inform you that on July 11, 2017, the following bill was signed into law:

SB407 SD1 HD1 CD1

RELATING TO COUNTIES
ACT 193 (17)

Sincerely,

A handwritten signature in black ink that reads "David Y. Ige".

DAVID Y. IGE
Governor, State of Hawai'i

EXHIBIT A

Approved by the Governor
ON JUL 11 2017
THE SENATE
TWENTY-NINTH LEGISLATURE, 2017
STATE OF HAWAII

ACT 193
S.B. NO. 407
S.D. 1
H.D. 1
C.D. 1

A BILL FOR AN ACT

RELATING TO COUNTIES.

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

1 SECTION 1. Section 46-50, Hawaii Revised Statutes, is
2 amended to read as follows:
3 *§46-50 Short term investment of county moneys. (a) The
4 director of finance of each county may, with the approval of the
5 legislative body, invest county moneys that are in excess of the
6 amounts necessary for the meeting of immediate requirements when
7 in the judgment of the legislative body the action will not
8 impede or hamper the necessary financial operations of the
9 county in:
10 (1) Bonds or interest-bearing notes or obligations:
11 (A) Of the county;
12 (B) Of the State;
13 (C) Of the United States; or
14 (D) Of agencies of the United States for which the
15 full faith and credit of the United States are
16 pledged for the payment of principal and
17 interest;

2017-2615 SB407 CD1 SMA.doc


EXHIBIT A

Formatted: Tab stops: 6.38", Right

Page 2

S.B. NO. 407
S.D. 1
H.D. 1
C.D. 1

- 1 (2) Federal [~~land-bank~~] Farm Credit System notes and
- 2 bonds;
- 3 (3) [~~Joint-stock farm loan bonds;~~] Federal Agricultural
- 4 Mortgage Corporation notes and bonds;
- 5 (4) Federal Home Loan Bank notes and bonds;
- 6 (5) Federal Home Loan Mortgage Corporation bonds;
- 7 (6) Federal National Mortgage Association notes and bonds;
- 8 (7) 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;
- 11 (8) Tennessee Valley Authority notes and bonds;
- 12 ~~(9)~~ (9) Repurchase agreements fully collateralized by any
- 13 such bonds or securities;
- 14 ~~(10)~~ (10) [~~Bank~~] Federally insured savings accounts;
- 15 ~~(11)~~ (11) Time certificates of deposit;
- 16 ~~(12)~~ (12) Certificates of deposit open account;
- 17 ~~(13)~~ (13) Bonds of any improvement district of any county
- 18 of the State; provided that the bonds are of
- 19 investment grade or supported by the general
- 20 obligation pledge of the county in which the
- 21 improvement district is located;

2017-2615 SB407 CD1 SMA.doc

2



EXHIBIT A

Formatted: Tab stops: 6.38", Right

Page 3

S.B. NO. 407
S.D. 1
H.D. 1
C.D. 1

- 1 ~~(13)~~ (14) Bank, savings and loan association, and
- 2 financial services loan company repurchase agreements;
- 3 ~~(14)~~ (15) Student loan resource securities including:
- 4 (A) Student loan auction rate securities;
- 5 (B) Student loan asset-backed notes;
- 6 (C) Student loan program revenue notes and bonds; and
- 7 (D) Securities issued pursuant to Rule 144A of the
- 8 Securities Act of 1933, including any private
- 9 placement issues;
- 10 issued with either bond insurance or
- 11 overcollateralization guaranteed by the United States
- 12 Department of Education; provided all insurers
- 13 maintain a triple-A rating by Standard & Poor's,
- 14 Moody's, Duff & Phelps, Fitch, or any other major
- 15 national securities rating agency;
- 16 ~~(15)~~ (16) Commercial paper with an A1/P1 or equivalent
- 17 rating by any national securities rating service;
- 18 ~~and~~
- 19 ~~(16)~~ (17) Bankers' acceptances with an A1/P1 or equivalent
- 20 rating by any national securities rating service; and

2017-2615 SB407 CD1 SMA.doc



EXHIBIT A

Page 4

S.B. NO. 407
SD.1
H.D.1
C.D.1

Formatted: Tab stops: 6.38", Right

1 (18) Securities of a money market fund that is rated AAA,
2 or its equivalent, by a nationally recognized rating
3 agency or whose portfolio consists of securities that
4 are rated as first tier securities by a nationally
5 recognized statistical rating organization as provided
6 in title 17 Code of Federal Regulations section
7 270.2a-7;

8 provided the investments are due to mature not more than five
9 years from the date of investment. The income derived therefrom
10 shall be deposited in the fund or funds that the legislative
11 body shall direct; provided that if any money invested under
12 this section belongs to any waterworks fund, then any income
13 derived therefrom shall be paid into and credited to the fund.

14 (b) Except with respect to an early withdrawal penalty on
15 an investment permitted by this section, the amount of such
16 penalty being mutually agreed at the time of acquisition of such
17 investment, no investment permitted by this section shall
18 require or may in the future require payments by the county,
19 whether unilateral, reciprocal, or otherwise, including margin
20 payments, or shall bear interest at a variable rate which causes
21 or may cause the market price of such investment to fluctuate;

2017-2615 SB407 CD1 SMA.doc


4

EXHIBIT A

Page 5

S.B. NO. 407
S.D. 1
H.D. 1
C.D. 1

Formatted: Tab stops: 6.38", Right

1 provided that such limitation shall not apply to money market
2 mutual funds which:

3 (1) Invest solely in:

4 (A) Direct and general obligations of the United
5 States of America; or

6 (B) Obligations of any agency or instrumentality of
7 the United States of America, the payment of the
8 principal and interest on which are
9 unconditionally guaranteed by the full faith and
10 credit of the United States of America;

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

13 (3) Are open-end management investment companies regulated
14 under the Investment Company Act of 1940, as amended,
15 which calculate their current price per share pursuant
16 to Rule 2a-7 (title 17 Code of Federal Regulations
17 section 270.2a-7) promulgated under such act.

18 (c) Furthermore, a county shall not acquire any investment
19 or enter into any agreement in connection with the acquisition
20 of any investment or related to any existing investment held by
21 the county, which would require or may in the future require any

2017-2615 SB407 CD1 SMA.doc

5



EXHIBIT A

Page 8

S.B. NO. 407
S.D. 1
H.D. 1
C.D. 1

Formatted: Tab stops: 6.38", Right

1 payment by the county, whether unilateral, reciprocal, or
2 otherwise, such as swap agreements, hedge agreements, or other
3 similar agreements. For purposes of this subsection, payment
4 for a swap agreement or hedge agreement means any payment made
5 by the county in consideration or in exchange for a reciprocal
6 payment by any person, including a variable rate payment in
7 exchange for a fixed rate payment, a fixed rate payment in
8 exchange for a variable rate payment, a payment when a cap or a
9 floor amount is exceeded, or other similar payment."

10 SECTION 2. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 3. This Act shall take effect upon its approval.

APPROVED this 11 day of JUL, 2017



GOVERNOR OF THE STATE OF HAWAII

EXHIBIT A

Formatted: Tab stops: 6.38", Right

S.B. No. 407, S.D. 1, H.D. 1, C.D. 1

THE SENATE OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii 96813

We hereby certify that the foregoing Bill this day passed Final Reading in the Senate of the Twenty-ninth Legislature of the State of Hawaii, Regular Session of 2017.


President of the Senate


Clerk of the Senate

EXHIBIT A

Formatted: Tab stops: 6.38", Right

SB No. 407, SD 1, HD 1, CD 1

THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Twenty-Ninth Legislature of the State of Hawaii, Regular Session of 2017.



Joseph M. Souki
Speaker
House of Representatives



Brian L. Takeshita
Chief Clerk
House of Representatives

~~HAWAII REVISED STATUTES
CHAPTER 46~~

~~§46-50 Short term investment of county moneys. (a) The director of finance of each county may, with the approval of the legislative body, invest county moneys which are in excess of the amounts necessary for the meeting of immediate requirements when in the judgment of the legislative body the action will not impede or hamper the necessary financial operations of the county in:~~

- ~~(1) Bonds or interest-bearing notes or obligations:

 - ~~(A) Of the county;~~
 - ~~(B) Of the State;~~
 - ~~(C) Of the United States; or~~
 - ~~(D) Of agencies of the United States;~~~~for which the full faith and credit of the United States are pledged for the payment of principal and interest;~~~~
- ~~(2) Federal land bank Farm Credit System notes and bonds;~~
- ~~(3) Joint stock farm loan Federal Agricultural Mortgage Corporation notes and bonds;~~
- ~~(4) Federal Home Loan Bank notes and bonds;~~
- ~~(5) Federal Home Loan Mortgage Corporation bonds;~~
- ~~(6) Federal National Mortgage Association notes and bonds;~~
- ~~(7) Securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof;~~
- ~~(8) Tennessee Valley Authority notes and bonds;~~
- ~~(9) Repurchase agreements fully collateralized by any such bonds or securities;~~
- ~~(910) Bank Federally insured savings accounts;~~
- ~~(1011) Time certificates of deposit;~~
- ~~(112) Certificates of deposit open account;~~

Formatted: Indent: Left: 1.5", Hanging: 0.38", Tab stops: Not at 1" + 1.5"

~~(b) Except with respect to an early withdrawal penalty on an investment permitted by this section, the amount of such penalty being mutually agreed at the time of acquisition of such investment, no investment permitted by this section shall require or may in the future require payments by the county, whether unilateral, reciprocal, or otherwise, including margin payments, or shall bear interest at a variable rate which causes or may cause the market price of such investment to fluctuate; provided that such limitation shall not apply to money market mutual funds which:~~

Formatted: Font: (Default) Courier New

~~Invest solely in:~~

- ~~Direct and general obligations of the United States of America; or~~
- ~~Obligations of any agency or instrumentality of the United States of America, the payment of the principal and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America;~~

Formatted: Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.5" + Indent at: 1"

Formatted: Indent: Left: 1", Hanging: 0.5", Tab stops: Not at 1" + 1.5"

Formatted: Numbered + Level: 1 + Numbering Style: A, B, C, ... + Start at: 1 + Alignment: Left + Aligned at: 1" + Indent at: 1.5", Tab stops: Not at 1"

- ~~Are rated at the time of purchase "AAA-C" or its equivalent by Standard & Poor's Rating Group; and~~
- ~~Are open end management investment companies regulated under the Investment Company Act of 1940, as amended, which calculate their current price per share pursuant to Rule 2a-7 (title 17 Code of Federal Regulations section 270.2a-7) promulgated under such act.~~

Formatted: Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.5" + Indent at: 1"

~~(c) Furthermore, a county shall not acquire any investment or enter into any agreement in connect with acquisition of any investment or related to any existing investment held by the count, which would require or may in the future require any payment by the county, whether unilateral, reciprocal, or otherwise, such as swap agreements, hedge agreements, or other similar agreements. For the purpose of this subsection, payment for a swap agreement or hedge agreement means any payment made by the county in consideration or in exchange for a reciprocal payment by any person, including a variable rate payment in exchange for a fixed rate payment, a fixed rate payment in exchange for a variable rate payment, a payment when a cap or a floor amount is exceeded, or other similar payments."~~

Formatted: Indent: First line: 0.5", No bullets or numbering, Tab stops: Not at 0.5"

Formatted: Indent: Left: 1", Tab stops: Not at 1"

Formatted: Indent: Left: 1"

Formatted: Font: (Default) Courier New

Approved by the Governor

on JUL 11 2017

THE SENATE
TWENTY-NINTH LEGISLATURE, 2017
STATE OF HAWAII

ACT 193
S.B. NO.

407
S.D. 1
H.D. 1
C.D. 1

A BILL FOR AN ACT

RELATING TO COUNTIES.

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

1 SECTION 1. Section 46-50, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "§46-50 Short term investment of county moneys. (a) The
4 director of finance of each county may, with the approval of the
5 legislative body, invest county moneys that are in excess of the
6 amounts necessary for the meeting of immediate requirements when
7 in the judgment of the legislative body the action will not
8 impede or hamper the necessary financial operations of the
9 county in:

10 (1) Bonds or interest-bearing notes or obligations:

11 (A) Of the county;

12 (B) Of the State;

13 (C) Of the United States; or

14 (D) Of agencies of the United States for which the
15 full faith and credit of the United States are
16 pledged for the payment of principal and
17 interest;



- 1 (2) Federal [~~land bank~~] Farm Credit System notes and
- 2 bonds;
- 3 (3) [~~Joint stock farm loan bonds,~~] Federal Agricultural
- 4 Mortgage Corporation notes and bonds;
- 5 (4) Federal Home Loan Bank notes and bonds;
- 6 (5) Federal Home Loan Mortgage Corporation bonds;
- 7 (6) Federal National Mortgage Association notes and bonds;
- 8 (7) 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;
- 11 (8) Tennessee Valley Authority notes and bonds;
- 12 ~~(9)~~ (9) Repurchase agreements fully collateralized by any
- 13 such bonds or securities;
- 14 ~~(10)~~ (10) [~~Bank~~] Federally insured savings accounts;
- 15 ~~(11)~~ (11) Time certificates of deposit;
- 16 ~~(12)~~ (12) Certificates of deposit open account;
- 17 ~~(13)~~ (13) Bonds of any improvement district of any county
- 18 of the State; provided that the bonds are of
- 19 investment grade or supported by the general
- 20 obligation pledge of the county in which the
- 21 improvement district is located;



1 ~~[(13)]~~ (14) Bank, savings and loan association, and
2 financial services loan company repurchase agreements;
3 ~~[(14)]~~ (15) Student loan resource securities including:
4 (A) Student loan auction rate securities;
5 (B) Student loan asset-backed notes;
6 (C) Student loan program revenue notes and bonds; and
7 (D) Securities issued pursuant to Rule 144A of the
8 Securities Act of 1933, including any private
9 placement issues;
10 issued with either bond insurance or
11 overcollateralization guaranteed by the United States
12 Department of Education; provided all insurers
13 maintain a triple-A rating by Standard & Poor's,
14 Moody's, Duff & Phelps, Fitch, or any other major
15 national securities rating agency;
16 ~~[(15)]~~ (16) Commercial paper with an A1/P1 or equivalent
17 rating by any national securities rating service;
18 [and]
19 ~~[(16)]~~ (17) Bankers' acceptances with an A1/P1 or equivalent
20 rating by any national securities rating service; and



1 (18) Securities of a money market fund that is rated AAA,
 2 or its equivalent, by a nationally recognized rating
 3 agency or whose portfolio consists of securities that
 4 are rated as first tier securities by a nationally
 5 recognized statistical rating organization as provided
 6 in title 17 Code of Federal Regulations section
 7 270.2a-7;

8 provided the investments are due to mature not more than five
 9 years from the date of investment. The income derived therefrom
 10 shall be deposited in the fund or funds that the legislative
 11 body shall direct; provided that if any money invested under
 12 this section belongs to any waterworks fund, then any income
 13 derived therefrom shall be paid into and credited to the fund.

14 (b) Except with respect to an early withdrawal penalty on
 15 an investment permitted by this section, the amount of such
 16 penalty being mutually agreed at the time of acquisition of such
 17 investment, no investment permitted by this section shall
 18 require or may in the future require payments by the county,
 19 whether unilateral, reciprocal, or otherwise, including margin
 20 payments, or shall bear interest at a variable rate which causes
 21 or may cause the market price of such investment to fluctuate;



1 provided that such limitation shall not apply to money market
2 mutual funds which:

3 (1) Invest solely in:

4 (A) Direct and general obligations of the United
5 States of America; or

6 (B) Obligations of any agency or instrumentality of
7 the United States of America, the payment of the
8 principal and interest on which are
9 unconditionally guaranteed by the full faith and
10 credit of the United States of America;

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

13 (3) Are open-end management investment companies regulated
14 under the Investment Company Act of 1940, as amended,
15 which calculate their current price per share pursuant
16 to Rule 2a-7 (title 17 Code of Federal Regulations
17 section 270.2a-7) promulgated under such act.

18 (c) Furthermore, a county shall not acquire any investment
19 or enter into any agreement in connection with the acquisition
20 of any investment or related to any existing investment held by
21 the county, which would require or may in the future require any



1 payment by the county, whether unilateral, reciprocal, or
2 otherwise, such as swap agreements, hedge agreements, or other
3 similar agreements. For purposes of this subsection, payment
4 for a swap agreement or hedge agreement means any payment made
5 by the county in consideration or in exchange for a reciprocal
6 payment by any person, including a variable rate payment in
7 exchange for a fixed rate payment, a fixed rate payment in
8 exchange for a variable rate payment, a payment when a cap or a
9 floor amount is exceeded, or other similar payment."

10 SECTION 2. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 3. This Act shall take effect upon its approval.

APPROVED this 11 day of JUL, 2017



GOVERNOR OF THE STATE OF HAWAII


S.B. No. 407, S.D. 1, H.D. 1, C.D. 1

THE SENATE OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii 96813

We hereby certify that the foregoing Bill this day passed Final Reading in the
Senate of the Twenty-ninth Legislature of the State of Hawaii, Regular Session of 2017.


President of the Senate


Clerk of the Senate

SB No. 407, SD 1, HD 1, CD 1

THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Twenty-Ninth Legislature of the State of Hawaii, Regular Session of 2017.



Joseph M. Souki
Speaker
House of Representatives



Brian L. Takeshita
Chief Clerk
House of Representatives