

COUNCIL OF THE COUNTY OF MAUI

BUDGET AND FINANCE COMMITTEE

August 3, 2018

**Committee
Report No. _____**

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on July 11, 2018, makes reference to a Miscellaneous Communication dated May 21, 2018, from the Deputy County Clerk, transmitting the following:

1. A proposed bill entitled "A BILL FOR AN ORDINANCE AMENDING CHAPTER 3.08, MAUI COUNTY CODE, BY ADDING A NEW SECTION RELATING TO COUNTY INVESTMENTS."

The purpose of the proposed bill is to add a new Section 3.08.040, Maui County Code ("MCC"), relating to County investments by requiring the County to: 1) establish an investment policy regarding the investment of County moneys; 2) create an investment committee; and 3) procure the services of a third-party investment contractor.

2. County Communication 18-178, from the Director of Finance, relating to suggested amendments to the proposed new section of Chapter 3.08, MCC, related to County Investments.

Your Committee notes the proposed bill was recommitted to your Budget and Finance Committee at the Council meeting of May 18, 2018.

Your Committee further notes the proposed bill was included in the Fiscal Year 2019 Budget package and recommended for passage on first reading by your Committee. At its meeting of May 18, 2018, the Council received correspondence from the Director of Finance suggesting amendments to the proposed new Section 3.08.040, MCC. Hence, the Council recommitted the proposed bill to your Budget and Finance Committee.

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At the request of the Chair of your Committee, the Department of the Corporation Counsel transmitted a revised proposed bill, approved as to form and legality, incorporating revisions to the criteria for County investments.

By correspondence dated July 10, 2018, the Director of Finance suggested further revisions to the proposed bill. He said the proposed revisions would not change the intent of the Investment Policy.

The Director said the proposed revisions to Section B.3 of the proposed bill includes a quarterly investment report, prepared by the Treasurer or the third-party investment advisor, which the investment committee shall review. The report would be comprehensive and inclusive of the requirements outlined in the current Investment Policy.

Your Committee notes the selection of the third-party investment advisor will be in accordance with Chapter 103D, Hawaii Public Procurement Code, Hawaii Revised Statutes.

He said the Treasury Division will work with the third-party investment advisor on a weekly basis to ensure current information and cash flow forecasts are available to make the most informed decisions beneficial to the County.

The Deputy Director of Finance said the County is subject to gains or losses per month. The County could incur a loss if a security is terminated prior to its maturity date, but the loss should not be considered as a penalty. He said the use of the term "penalties" in the proposed bill is incorrect.

Your Committee questioned the proposed terms "CUSIP" and "yield to call" included in Section B.3.a. The Deputy Director explained "CUSIP" or "Committee on Uniform Securities Identification Procedures," is a standard designation for all financial security for the purposes of clearing and settling trades. The County's Municipal Advisor added that all securities the County invests in has a CUSIP number.

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The Deputy Director said “yield to call” is the term that refers to callable bonds purchased at a lower price, but allows the issuer to call the bond should the interest rate drop. He said the County issues callable bonds in the sense of refunding bonds. The Deputy Director also said the County invests in callable bonds purchased at a discount. Therefore, in the event the bond is called at par, the County still has a gain on the investment. He added the term “yield to call” is used if the bond is called at the next callable date, which is prior to the maturity date.

The Deputy Director informed your Committee in the upcoming year, the yield curve is flattening and may even invert, which would result in a drop in the interest rates. He suggested the County start to purchase non-callable securities.

Your Committee noted the revised proposed bill conforms to the parameters set forth in the Hawaii Revised Statutes.

Your Committee further noted the proposed Section 3.08.040 clearly establishes how the County will use its short-term investment cash and who is responsible for the oversight of the type of investments and the returns on the investments. The Chair of your Committee said the need for a third-party investment advisor with proper credentials is critical. The advisor will be the responsible party for the outcome of County’s investments.

Your Committee notes the Investment Committee consists of the Director of Finance, who shall serve as its Chair, the Deputy Director of Finance, Managing Director, Budget Director, and Accounting System Administrator.

Your Committee expressed concern that the Treasurer was not a member of the Investment Committee. The Treasurer responded that she is the secretary of the Investment Committee with direct responsibility for managing the County’s investments and its portfolio. The Investment Committee oversees the actions of the Treasurer and the County’s investment portfolio.

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Your Committee further noted the County's Treasurer is not a member of the Investment Committee because by job description, the position is responsible for investing the monies of the County and its agencies. The Treasurer must analyze, evaluate, and discuss various investment and financing alternatives and strategies with investment firm representative and top-level management personnel.

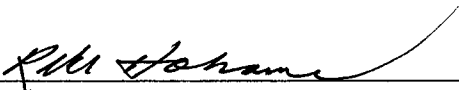
Your Committee voted 9-0 to recommend passage of the revised proposed bill on first reading and filing of the communication. Committee Chair Hokama, Vice-Chair White, and members Atay, Carroll, Cochran, Crivello, Guzman, King, and Sugimura voted "aye."

Your Committee is in receipt of a further revised proposed bill, approved as to form and legality by the Department of the Corporation Counsel, incorporating your Committee's recommended revisions and nonsubstantive revisions.

Your Budget and Finance Committee RECOMMENDS the following:

1. That Bill _____ (2018), as revised herein and attached hereto, entitled "A BILL FOR AN ORDINANCE AMENDING CHAPTER 3.08, MAUI COUNTY CODE, BY ADDING A NEW SECTION RELATING TO COUNTY INVESTMENTS," be PASSED ON FIRST READING and be ORDERED TO PRINT; and
2. That the Miscellaneous Communication be FILED.

This report is submitted in accordance with Rule 8 of the Rules of the Council.



RIKI HOKAMA, Chair

ORDINANCE NO. _____

BILL NO. _____ (2018)

A BILL FOR AN ORDINANCE AMENDING CHAPTER 3.08, MAUI COUNTY CODE, BY ADDING A NEW SECTION RELATING TO COUNTY INVESTMENTS

BE IT ORDAINED BY THE PEOPLE OF THE COUNTY OF MAUI:

SECTION 1. Chapter 3.08, Maui County Code, is amended by adding a new section to be appropriately designated and to read as follows:

“3.08.040 County investments. A. Investment policy.

1. The director of finance shall establish a policy on County investments through the adoption of administrative rules in accordance with chapter 91, Hawaii Revised Statutes, or ordinance.

2. The investment policy shall establish guidelines regarding the investment of County moneys in excess of the amounts necessary for the meeting of immediate requirements when the action will not impede or hamper the necessary financial operations of the County.

3. The policy shall set forth the process for determining when these moneys may be invested.

4. The investment policy shall seek to maximize investment income while assuring sufficient cash balances or other immediate forms of daily liquidity are maintained to meet the ongoing obligation of the County.

5. The investment policy objectives shall be, in priority order, safety, liquidity, and yield.

B. Investment committee. There shall be established a County investment committee.

1. The investment committee shall be composed of the following members: director of finance, deputy director of finance, managing director, budget director, and accounting system administrator.

2. The investment committee shall meet at least quarterly to recommend general investment strategies and written investment procedures and monitor investment results. The director of finance shall adopt strategies and approve investment procedures.

3. The investment committee shall review quarterly investment reports prepared by the treasurer or third-party investment advisor. The reports shall be detailed and comprehensive and consider:

a. Security description including: Committee on uniform securities identification procedures (CUSIP), issuer, amount, cost, purchase price, market value, rating, maturity date, yield to maturity, yield to call, accrued interest, and other relevant statistics.

b. Security purchases and sales during the period.

c. Realized and unrealized gains and losses during the period.

d. Portfolio performance statistics.

e. Portfolio duration or other measure of weight average maturity.

4. The treasurer or third-party investment advisor shall, within thirty days of the close of each fiscal quarter, submit a report to the investment committee on the changes in the County's cash position and liquidity from the prior quarter in comparison to projected cash and liquidity required by section 3.08.040(C).

5. Any two members of the investment committee may request a special meeting. All members shall be notified of a special meeting in writing.

6. Three members shall constitute a quorum.

7. The director of finance shall chair the investment committee and approve agendas, minutes, and any necessary reports of the meetings. The treasurer shall act as secretary, record and produce minutes, and perform other duties as directed by the director of finance. It is the intent of this ordinance that the establishment and operation of the investment committee shall not be subject to chapters 91 or 92, Hawaii Revised Statutes, and that the formation and operation of the investment committee shall be deemed an internal management function of the department of finance.

C. Third-party registered investment advisor. The director of finance shall procure, in accordance with chapter 103D, Hawaii Revised Statutes, the services of an independent third-party investment advisor, registered and licensed with the securities and exchange commission, to make recommendations and execute the investment of available County funds in accordance with the County investment policy as approved by the investment committee and as authorized by law. The director of finance or treasurer shall work with the third-party investment advisor in developing and maintaining a detailed twelve-month cash flow forecast identifying

reasonable funds for investment while assuring the County has adequate cash reserves and liquidity to fund ongoing County operational expenses. The director of finance or treasurer shall provide the third-party investment advisor with adequate cash flow information to update this forecast at least quarterly within fifteen days of the end of each quarter.”

SECTION 2. New material is underscored. In printing this bill, the County Clerk need not include the underscoring.

SECTION 3. This ordinance shall take effect upon its approval.

APPROVED AS TO FORM AND LEGALITY:



JEFFREY UEOKA
Department of the Corporation Counsel
County of Maui
2017-0093
BF-146 2018-07-16 Ordinance