

**COUNCIL OF THE COUNTY OF MAUI**  
**BUDGET AND FINANCE COMMITTEE**

October 17, 2008

**Committee**  
**Report No.**

08-124

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 August 4, 2008 and September 29, 2008, makes reference to County Communication No. 08-161, from the Director of Finance, transmitting a report of the County's short-term investments for the quarter ended June 30, 2008.

Your Committee notes that Resolution No. 99-26 requires the Director of Finance to submit to the Council, within 30 days after the end of each quarter of the fiscal year, a quarterly report identifying short-term investments made, the interest income therefrom, and any expenses or penalties incurred with regard to the investments. Your Committee further notes that Section 46-50, Hawaii Revised Statutes, restricts the County's investments to secured investments with a term of five years or less.

At its meeting of August 4, 2008, your Committee met with the Budget Director, the Director of Finance, and the First Deputy Corporation Counsel.

There was no public testimony.

The Director of Finance stated that, as of the end of Fiscal Year 2008, the total value of the County's investments was more than \$317 million, the largest amount the County has had in its history. The total income earned on these investments during the quarter ended June 30, 2008 was more than \$3.7 million. He noted that the recent turmoil in certain sectors of the financial markets have created challenging conditions on County finances and investments. However, the County's cash reserves, investments, and liquidity remain strong.

The Director of Finance outlined the following areas of concern regarding the County's short-term investments:

1. Federal Home Loan mortgage notes from Fannie Mae and Freddie Mac could have some level of risk due to those companies' problems with subprime mortgages.

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2. Auction Rate Securities (ARS) are showing signs of illiquidity in the open market. The interest rate for the ARS is determined on a very short-term basis, through auction, but the underlying collateral is student loans, which are for long-term periods.
3. Bond insurance companies that insure the performance of short-term investments have experienced financial problems.
4. The overall global economic conditions could lead to declining rates of interest-bearing instruments that the County can invest in. The overall global market, rising fuel prices, and the declining valuation of the United States dollar, all affect the overall interest rate and returns available for the County's short-term investments.

The Director of Finance assured your Committee that the County is currently adapting its investment strategy, given the economic times, to ensure liquidity for the County and to maximize performance relative to what the financial markets offer within the legally permitted instruments that the County can invest in.

Your Committee noted that the return on short-term investments will be critical as the County experiences a decrease in other revenue sources in the coming years. Your Committee was concerned about illiquidity in the ARS because the County should have the ability to withdraw its investments to address its cash needs.

The Director of Finance stated that it is premature to speculate on when the County can expect full liquidity because the investment companies are still in the process of developing plans to stratify their investors.

Your Committee deferred consideration of the matter pending further discussion.

At its meeting of September 29, 2008, your Committee met with the Budget Director, the Director of Finance, and the First Deputy Corporation Counsel.

There was no public testimony.

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The Director of Finance distributed a report entitled "County of Maui, Investment Portfolio Status Report, As of September 15, 2008". The report summarizes the County's securities by type and by "Broker/Dealers".

The Director of Finance provided an overview of the current collapse of the financial markets in the United States. He stated that the security of the County's investments in the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) improved when the Federal Housing Finance Board was appointed, in accordance with Federal law, to keep these government-sponsored enterprises in a safe and solvent financial condition.

The Director of Finance further stated that the illiquidity of the County's ARS continues to be a concern, but he is working with Corporation Counsel and the County's brokers to resolve the matter to restore liquidity to these investments. The Director noted that although the liquidity of these investments is a concern, the interest earned on these investments is favorable.

The Director of Finance reviewed the current status of the brokers and dealers holding the County's investments, noting various concerns with Citibank, Merrill Lynch & Company, Inc., and UBS Investment Bank. He also reviewed how the events taking place in the financial markets may affect County operations and investments. He informed your Committee that considering the recent events in the financial markets, the County's financial position remains "strong and solvent". However, the Director advised that the County should be fiscally responsible and restrict its spending to secure its strong financial position.

Your Committee questioned whether the County's investment strategy, which emphasizes return on investment "relative to safety", will change, considering the current financial situation. Your Committee suggested that the County consider limited short-term investments in Federal Credit Unions within the County. Such investments could assist these credit unions in making loans to help County residents and businesses.

Your Committee discussed the effects of the County's short-term investments on the County's bond rating and the ability of the County to finance capital improvement projects by selling bonds.

Your Committee voted to recommend filing of the communication.

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Your Budget and Finance Committee RECOMMENDS that County Communication No. 08-161 be FILED.

Adoption of this report is respectfully requested.

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