
A BILL FOR AN ACT

RELATING TO STATE BONDS.

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

1 SECTION 1. Declaration of findings with respect to the
2 general obligation bonds authorized by this Act. Pursuant to
3 the clause in Article VII, Section 13 of the State Constitution
4 which states: "Effective July 1, 1980, the legislature shall
5 include a declaration of findings in every general law
6 authorizing the issuance of general obligation bonds that the
7 total amount of principal and interest, estimated for such bonds
8 and for all bonds authorized and unissued and calculated for all
9 bonds issued and outstanding, will not cause the debt limit to
10 be exceeded at the time of issuance," the legislature finds and
11 declares as follows:

12 (1) Limitation on general obligation debt. The debt limit
13 of the state is set forth in Article VII, Section 13
14 of the State Constitution, which states in part:
15 "General obligation bonds may be issued by the State;
16 provided that such bonds at the time of issuance would
17 not cause the total amount of principal and interest
18 payable in the current or any future fiscal year,



1 whichever is higher, on such bonds and on all
2 outstanding general obligation bonds to exceed: a sum
3 equal to twenty percent of the average of the general
4 fund revenues of the State in the three fiscal years
5 immediately preceding such issuance until June 30,
6 1982; and thereafter, a sum equal to eighteen and one-
7 half percent of the average of the general fund
8 revenues of the State in the three fiscal years
9 immediately preceding such issuance." Article VII,
10 Section 13 also provides that in determining the power
11 of the State to issue general obligation bonds,
12 certain bonds are excludable, including "reimbursable
13 general obligation bonds issued for a public
14 undertaking, improvement or system but only to the
15 extent that reimbursements to the general fund are in
16 fact made from the net revenue, or net user tax
17 receipts, or combination of both, as determined for
18 the immediately preceding fiscal year" and bonds
19 constituting instruments of indebtedness under which
20 the State incurs a contingent liability as a
21 guarantor, but only to the extent the principal amount
22 of such bonds does not exceed seven per cent of the



1 principal amount of outstanding general obligation
2 bonds not otherwise excluded under said Article VII,
3 Section 13.

4 (2) Actual and estimated debt limits. The limit on
5 principal and interest of general obligation bonds
6 issued by the State, actual for fiscal year 2005-2006
7 and estimated for each fiscal year from 2006-2007 to
8 2008-2009, is as follows:

9	Fiscal	Net General	
10	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>
11			
12	2002-2003	3,766,052,192	
13	2003-2004	3,894,091,730	
14	2004-2005	4,471,460,582	
15	2005-2006	4,781,446,000	748,115,611
16	2006-2007	5,071,922,000	810,731,563
17	2007-2008	5,421,156,000	883,364,429
18	2008-2009	(not applicable)	941,928,980

19
20 For fiscal years 2005-2006, 2006-2007, 2007-2008, and
21 2008-2009, respectively, the debt limit is derived by
22 multiplying the average of the net general fund
23 revenues for the three preceding fiscal years by
24 eighteen and one-half per cent. The net general fund
25 revenues for fiscal years 2002-2003, 2003-2004, and
26 2004-2005 are actual, as certified by the director of
27 finance in the Statement of the Debt Limit of the

1 State of Hawaii as of July 1, 2005, dated November 30,
2 2005. The net general fund revenues for fiscal years
3 2005-2006 to 2007-2008 are estimates, based on general
4 fund revenue estimates made as of March 6, 2006, by
5 the council on revenues, the body assigned by Article
6 VII, Section 7 of the State Constitution to make such
7 estimates, and based on estimates made by the
8 department of budget and finance of those receipts
9 which cannot be included as general fund revenues for
10 the purpose of calculating the debt limit, all of
11 which estimates the legislature finds to be
12 reasonable.

13 (3) Principal and interest on outstanding bonds applicable
14 to the debt limit.

15 (A) According to the department of budget and
16 finance, the total amount of principal and
17 interest on outstanding general obligation bonds,
18 after the exclusions permitted by Article VII,
19 Section 13 of the State Constitution, for
20 determining the power of the State to issue



1 general obligation bonds within the debt limit as
2 of April 1, 2006, is as follows for fiscal year
3 2006-2007 to fiscal year 2012-2013:

4	Fiscal	Principal
5	<u>Year</u>	<u>and Interest</u>
6		
7	2006-2007	526,455,126
8	2007-2008	529,312,730
9	2008-2009	533,619,676
10	2009-2010	503,603,627
11	2010-2011	478,227,749
12	2011-2012	423,945,601
13	2012-2013	424,802,447

14
15 The department of budget and finance further
16 reports that the amount of principal and interest
17 on outstanding bonds applicable to the debt limit
18 generally continues to decline each year from
19 fiscal year 2013-2014 to fiscal year 2025-2026
20 when the final installment of \$20,486,031 shall
21 be due and payable.

22 (B) The department of budget and finance further
23 reports that the outstanding principal amount of
24 bonds constituting instruments of indebtedness
25 under which the State may incur a contingent
26 liability as a guarantor is \$191,000,000, all or
27 part of which is excludable in determining the

1 power of the State to issue general obligation
2 bonds, pursuant to Article VII, Section 13 of the
3 State Constitution.

4 (4) Amount of authorized and unissued general obligation
5 bonds and guaranties and proposed bonds and
6 guaranties.

7 (A) As calculated from the state comptroller's bond
8 fund report as of February 28, 2006, adjusted
9 for:

10 (i) Appropriations to be funded by general
11 obligations bonds or reimbursable general
12 obligation bonds as provided in Act 178,
13 Session Laws of Hawaii 2005 (the General
14 Appropriations Act of 2005), to be expended
15 in fiscal year 2006-2007, adjusted for
16 reductions provided in House Bill No. 1900,
17 H.D. 1, S.D. 1, C.D. 1 (the Supplemental
18 Appropriations Act of 2006);

19 (ii) Lapses as provided in House Bill No. 1900,
20 H.D. 1, S.D. 1, C.D. 1 (the Supplemental
21 Appropriations Act of 2006);



1 (iii) Lapses as provided in House Bill No. 2500,
2 H.D. 2, S.D. 2, C.D. 1 (the Judiciary
3 Supplemental Appropriations Act of 2006);
4 and

5 (iv) The issuance of \$350,000,000 General
6 Obligation Bonds of 2006, Series DI,
7 the total amount of authorized but unissued
8 general obligation bonds or reimbursable general
9 obligation bonds is \$890,291,924. The total
10 amount of general obligation bonds authorized by
11 this Act is \$556,489,000. The total amount of
12 general obligation bonds previously authorized
13 and unissued and the general obligation bonds
14 authorized in this Act is \$1,446,780,924.

15 (B) As reported by the department of budget and
16 finance the outstanding principal amount of bonds
17 constituting instruments of indebtedness under
18 which the State may incur a contingent liability
19 as a guarantor is \$191,000,000, all or part of
20 which is excludable in determining the power of
21 the State to issue general obligation bonds,



1 pursuant to Article VII, Section 13 of the State
2 Constitution.

3 (5) Proposed general obligation bond issuance. As
4 reported therein for the fiscal years 2006-2007, 2007-
5 2008, and 2008-2009, the State proposed to issue
6 \$250,000,000 in general obligation bonds during the
7 first half of fiscal year 2006-2007, \$275,000,000 in
8 general obligation bonds during the second half of
9 fiscal year 2006-2007, \$275,000,000 in general
10 obligation bonds during the first half of fiscal year
11 2007-2008, \$250,000,000 in general obligation bonds
12 during the second half of fiscal year 2007-2008, and
13 \$200,000,000 in general obligation bonds semi-annually
14 during fiscal year 2008-2009. It has been the
15 practice of the State to issue twenty-year serial
16 bonds with principal repayments beginning the fifth
17 year, the bonds payable in substantially equal annual
18 installments of principal and interest payment with
19 interest payments commencing six months from the date
20 of issuance and being paid semi-annually thereafter.
21 It is assumed that this practice will continue to be
22 applied to the bonds that are proposed to be issued.

1 (6) Sufficiency of proposed general obligation bond
2 issuance to meet the requirements of authorized and
3 unissued bonds, as adjusted, and bonds authorized by
4 this Act. From the schedule reported in paragraph
5 (5), the total amount of general obligation bonds that
6 the State proposes to issue during the fiscal years
7 2006-2007 to 2007-2008 is \$1,050,000,000. An
8 additional \$400,000,000 is proposed to be issued in
9 fiscal year 2008-2009. The total amount of
10 \$1,050,000,000 which is proposed to be issued through
11 fiscal year 2007-2008 is sufficient to meet the
12 requirements of the authorized and unissued bonds, as
13 adjusted, the total amount of which is \$1,446,780,924,
14 as reported in paragraph (4), except for \$396,780,924.
15 It is assumed that the appropriations to which an
16 additional \$396,780,924 in bond issuance needs to be
17 applied will have been encumbered as of June 30, 2008.
18 The \$400,000,000 which is proposed to be issued in
19 fiscal year 2008-2009 will be sufficient to meet the
20 requirements of the June 30, 2008, encumbrances in the
21 amount of \$396,780,924. The amount of assumed
22 encumbrances as of June 30, 2008, is reasonable and



1 conservative, based upon an inspection of June 30
2 encumbrances of the general obligation bond fund as
3 reported by the state comptroller. Thus, taking into
4 account the amount of authorized and unissued bonds,
5 as adjusted, and the bonds authorized by this Act
6 versus the amount of bonds proposed to be issued by
7 June 30, 2008, and the amount of June 30, 2008,
8 encumbrances versus the amount of bonds proposed to be
9 issued in fiscal year 2008-2009, the legislature finds
10 that in the aggregate, the amount of bonds proposed to
11 be issued is sufficient to meet the requirements of
12 all authorized and unissued bonds and the bonds
13 authorized by this Act.

14 (7) Bonds excludable in determining the power of the State
15 to issue bonds. As noted in paragraph (1), certain
16 bonds are excludable in determining the power of the
17 State to issue general obligation bonds.

18 (A) General obligation reimbursable bonds can be
19 excluded under certain conditions. It is not
20 possible to make a conclusive determination as to
21 the amount of reimbursable bonds which are
22 excludable from the amount of each proposed bond



1 issued because:

2 (i) It is not known exactly when projects for
3 which reimbursable bonds have been
4 authorized in prior acts and in this Act
5 will be implemented and will require the
6 application of proceeds from a particular
7 bond issue; and

8 (ii) Not all reimbursable general obligation
9 bonds may qualify for exclusion.

10 However, the legislature notes that with respect
11 to the principal and interest on outstanding
12 general obligation bonds, according to the
13 department of budget and finance, the average
14 proportion of principal and interest which is
15 excludable each year from the calculation against
16 the debt limit is 2.19 per cent for the ten years
17 from fiscal year 2006-2007 to fiscal year 2015-
18 2016. For the purpose of this declaration, the
19 assumption is made that one per cent of each bond
20 issue will be excludable from the debt limit, an
21 assumption the legislature finds to be reasonable
22 and conservative.



1 (B) Bonds constituting instruments of indebtedness
2 under which the State incurs a contingent
3 liability as a guarantor can be excluded but only
4 to the extent the principal amount of such
5 guaranties does not exceed seven per cent of the
6 principal amount of outstanding general
7 obligation bonds not otherwise excluded under
8 subparagraph (A) of this paragraph (7) and
9 provided that the State shall establish and
10 maintain a reserve in an amount in reasonable
11 proportion to the outstanding loans guaranteed by
12 the State as provided by law. According to the
13 department of budget and finance and the
14 assumptions presented herein, the total principal
15 amount of outstanding general obligation bonds
16 and general obligation bonds proposed to be
17 issued, which are not otherwise excluded under
18 Article VII, Section 13 of the State Constitution
19 for the fiscal years 2005-2006, 2006-2007, 2007-
20 2008, and 2008-2009 are as follows:

Total amount of
General Obligation Bonds
not otherwise excluded by
Article VII, Section 13
of the State Constitution

Fiscal year

2005-2006	4,239,835,266
2006-2007	4,442,352,138
2007-2008	4,630,160,647
2008-2009	4,700,716,578

Based on the foregoing and based on the assumption that the full amount of a guaranty is immediately due and payable when such guaranty changes from a contingent liability to an actual liability, the aggregate principal amount of the portion of the outstanding guaranties and the guaranties proposed to be incurred, which does not exceed seven per cent of the average amount set forth in the last column of the above table and for which reserve funds have been or will have been established as heretofore provided, can be excluded in determining the power of the State to issue general obligation bonds. As it is not possible to predict with a reasonable degree of certainty when a guaranty will change from a contingent liability to an actual liability, it is assumed in conformity with fiscal conservatism and prudence, that all guaranties



1 not otherwise excluded pursuant to Article VII,
2 Section 13 of the State Constitution will become due
3 and payable in the same fiscal year in which the
4 greatest amount of principal and interest on general
5 obligation bonds, after exclusions, occurs. Thus,
6 based on such assumptions and on the determination in
7 paragraph (8), all of the outstanding guaranties can
8 be excluded.

9 (8) Determination whether the debt limit will be exceeded
10 at the time of issuance. From the foregoing and on
11 the assumption that all of the bonds identified in
12 paragraph (5) will be issued at an interest rate of
13 not more than 6.0 per cent, it can be determined from
14 the following schedule that the bonds which are
15 proposed to be issued, which include all authorized
16 and unissued bonds previously authorized, as adjusted,
17 general obligation bonds, and instruments of
18 indebtedness under which the State incurs a contingent
19 liability as a guarantor authorized in this Act, will
20 not cause the debt limit to be exceeded at the time of
21 such issuance:



	Time of Issuance and Amount to be Counted Against <u>Debt Limit</u>	Debt Limit at Time of <u>Issuance</u>	Greatest Amount and Year of Highest Principal and Interest <u>on Bonds and Guaranties</u>
1			
2			
3			
4			
5			
6			
7	1 st half FY 2006-2007		
8	\$247,500,000	810,731,563	548,469,676 (2008-2009)
9	2 nd half FY 2006-2007		
10	\$272,250,000	810,731,563	564,804,676 (2008-2009)
11	1 st half FY 2007-2008		
12	\$272,250,000	883,364,429	572,972,176 (2008-2009)
13	2 nd half FY 2007-2008		
14	\$247,500,000	883,364,429	587,822,176 (2008-2009)
15	1 st half FY 2008-2009		
16	\$198,000,000	941,928,980	577,853,627 (2009-2010)
17	2 nd half FY 2008-2009		
18	\$198,000,000	941,928,980	589,733,627 (2009-2010)
19			

20 (9) Overall and concluding finding. From the facts,
 21 estimates, and assumptions stated in this declaration
 22 of findings, the conclusion is reached that the total
 23 amount of principal and interest estimated for the
 24 general obligation bonds authorized in this Act, and
 25 for all bonds authorized and unissued, and calculated
 26 for all bonds issued and outstanding, and all
 27 guaranties, will not cause the debt limit to be
 28 exceeded at the time of issuance.

29 SECTION 2. The legislature finds the bases for the
 30 declaration of findings set forth in this Act reasonable. The
 31 assumptions set forth in this Act with respect to the principal
 32 amount of general obligation bonds which will be issued, the

1 amount of principal and interest on reimbursable general
2 obligation bonds which are assumed to be excludable, and the
3 assumed maturity structure shall not be deemed to be binding, it
4 being the understanding of the legislature that such matters
5 must remain subject to substantial flexibility.

6 SECTION 3. Authorization for issuance of general
7 obligation bonds. General obligation bonds may be issued as
8 provided by law in an amount that may be necessary to finance
9 projects authorized in House Bill No. 1900, H.D. 1, S.D. 1, C.D.
10 1 (the Supplemental Appropriations Act of 2006), House Bill No.
11 2500, H.D. 2, S.D. 2, C.D. 1 (the Judiciary Supplemental
12 Appropriations Act of 2006), and Senate Bill No. 2956, S.D. 2,
13 H.D. 2, C.D. 1 (Relating to Education), passed by this regular
14 session of 2006, designated to be financed from the general
15 obligation bond fund and from the general obligation bond fund
16 with debt service cost to be paid from special funds; provided
17 that the sum total of general obligation bonds so issued shall
18 not exceed \$556,489,000.

19 Any law to the contrary notwithstanding, general obligation
20 bonds may be issued from time to time in accordance with section
21 39-16, Hawaii Revised Statutes, in such principal amount as may



HB 2626
SPI
CD1

Report Title:
State Bonds

Description:

Authorizes issuance of general obligation bonds. Makes findings required by Article VII, section 13 of state constitution to declare that issuance of authorized bonds will not cause debt limit to be exceeded. (HB2626 CD1)

HB2626 CD1 HMS 2006-3770

