
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 per cent 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 per cent 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 2004-2005
7 and estimated for each fiscal year from 2005-2006 to
8 2008-2009, is as follows:

| 9 | Fiscal | Net General | |
|----|-------------|----------------------|-------------------|
| 10 | <u>Year</u> | <u>Fund Revenues</u> | <u>Debt Limit</u> |
| 11 | 2001-2002 | \$3,412,344,368 | |
| 12 | 2002-2003 | 3,766,052,192 | |
| 13 | 2003-2004 | 3,894,091,730 | |
| 14 | 2004-2005 | 4,223,595,000 | \$682,803,445 |
| 15 | 2005-2006 | 4,366,027,000 | 732,830,567 |
| 16 | 2006-2007 | 4,593,328,000 | 769,829,013 |
| 17 | 2007-2008 | 4,868,973,000 | 812,948,583 |
| 18 | 2008-2009 | (not applicable) | 852,746,893 |

19 For fiscal years 2004-2005, 2005-2006, 2006-2007,
20 2007-2008, and 2008-2009, respectively, the debt limit
21 is derived by multiplying the average of the net
22 general fund revenues for the three preceding fiscal
23 years by eighteen and one-half per cent. The net
24 general fund revenues for fiscal years 2001-2002,
25 2002-2003, and 2003-2004 are actual, as certified by
26 the director of finance in the Statement of the Debt



1 Limit of the State of Hawaii as of July 1, 2004, dated
2 November 26, 2004. The net general fund revenues for
3 fiscal years 2004-2005 to 2007-2008 are estimates,
4 based on general fund revenue estimates made as of
5 March 8, 2005, by the council on revenues, the body
6 assigned by Article VII, Section 7 of the State
7 Constitution to make such estimates, and based on
8 estimates made by the department of budget and finance
9 of those receipts which cannot be included as general
10 fund revenues for the purpose of calculating the debt
11 limit, all of which estimates the legislature finds to
12 be reasonable.

- 13 (3) Principal and interest on outstanding bonds applicable
14 to the debt limit. (A) According to the department of
15 budget and finance, the total amount of principal and
16 interest on outstanding general obligation bonds,
17 after the exclusions permitted by Article VII, Section
18 13 of the State Constitution, for determining the
19 power of the State to issue general obligation bonds
20 within the debt limit as of April 1, 2005, is as
21 follows for fiscal year 2005-2006 to fiscal year 2011-
22 2012:



| | <u>Fiscal</u> <u>Year</u> | <u>Principal</u> <u>and Interest</u> |
|---|------------------------------|---|
| 1 | | |
| 2 | | |
| 3 | 2005-2006 | \$471,772,500 |
| 4 | 2006-2007 | 508,203,720 |
| 5 | 2007-2008 | 512,472,623 |
| 6 | 2008-2009 | 538,152,339 |
| 7 | 2009-2010 | 450,484,704 |
| 8 | 2010-2011 | 428,565,250 |
| 9 | 2011-2012 | 374,350,406 |

10 The department of budget and finance further reports
 11 that the amount of principal and interest on
 12 outstanding bonds applicable to the debt limit
 13 generally continues to decline each year from fiscal
 14 year 2012-2013 to fiscal year 2024-2025 when the final
 15 installment of \$20,198,173 shall be due and payable.

16 (B) The department of budget and finance further
 17 reports that the outstanding principal amount of bonds
 18 constituting instruments of indebtedness under which
 19 the State may incur a contingent liability as a
 20 guarantor is \$191,000,000, all or part of which is
 21 excludable in determining the power of the State to
 22 issue general obligation bonds, pursuant to Article
 23 VII, Section 13 of the State Constitution.

24 (4) Amount of authorized and unissued general obligation
 25 bonds and guaranties and proposed bonds and

1 guaranties. (A) As calculated from the state
2 comptroller's bond fund report as of February 28,
3 2005, adjusted for lapses totaling \$25,228,301
4 proposed in House Bill No. 100, H.D. 1, S.D. 1, C.D. 1
5 (the General Appropriations Act of 2005), and \$500,000
6 proposed in House Bill No. 500, H.D. 2, S.D. 2, C.D. 1
7 (the Judiciary Appropriations Act of 2005), the total
8 amount of authorized but unissued general obligation
9 bonds is \$906,696,521. The total amount of general
10 obligation bonds authorized in this Act is
11 \$807,916,000. The total amount of general obligation
12 bonds previously authorized and unissued, as adjusted,
13 and the general obligation bonds authorized in this
14 Act is \$1,714,612,521. (B) As reported by the
15 department of budget and finance the outstanding
16 principal amount of bonds constituting instruments of
17 indebtedness under which the State may incur a
18 contingent liability as a guarantor is \$191,000,000,
19 all or part of which is excludable in determining the
20 power of the State to issue general obligation bonds,
21 pursuant to Article VII, Section 13 of the State
22 Constitution.



- 1 (5) Proposed general obligation bond issuance. As
2 reported therein for the fiscal years 2004-2005, 2005-
3 2006, 2006-2007, 2007-2008, and 2008-2009, the State
4 proposed to issue \$225,000,000 in general obligation
5 bonds during the remainder of fiscal year 2004-2005,
6 \$250,000,000 semi-annually during the fiscal year
7 2005-2006, \$200,000,000 semi-annually during the
8 fiscal year 2006-2007, \$175,000,000 semi-annually
9 during the fiscal year 2007-2008, and \$120,000,000
10 semi-annually during the fiscal year 2008-2009. It
11 has been the practice of the State to issue
12 twenty-year serial bonds with principal repayments
13 beginning the fifth year, the bonds payable in
14 substantially equal annual installments of principal
15 and interest payment with interest payments commencing
16 six months from the date of issuance and being paid
17 semi-annually thereafter. It is assumed that this
18 practice will continue to be applied to the bonds that
19 are proposed to be issued.
- 20 (6) Sufficiency of proposed general obligation bond
21 issuance to meet the requirements of authorized and
22 unissued bonds, as adjusted, and bonds authorized by



1 this Act. From the schedule reported in paragraph
2 (5), the total amount of general obligation bonds that
3 the State proposes to issue during the fiscal years
4 2004-2005 to 2007-2008 is \$1,475,000,000. An
5 additional \$240,000,000 is proposed to be issued in
6 fiscal year 2008-2009. The total amount of
7 \$1,475,000,000 which is proposed to be issued through
8 fiscal year 2007-2008 is sufficient to meet the
9 requirements of the authorized and unissued bonds, as
10 adjusted, the total amount of which is \$1,714,612,521
11 reported in paragraph (4), except for \$239,612,521.
12 It is assumed that the appropriations to which an
13 additional \$239,612,521 in bond issuance needs to be
14 applied will have been encumbered as of June 30, 2008.
15 The \$240,000,000 which is proposed to be issued in
16 fiscal year 2008-2009 will be sufficient to meet the
17 requirements of the June 30, 2008 encumbrances in the
18 amount of \$239,612,521. The amount of assumed
19 encumbrances as of June 30, 2008 is reasonable and
20 conservative, based upon an inspection of June 30
21 encumbrances of the general obligation bond fund as
22 reported by the state comptroller. Thus, taking into



1 account the amount of authorized and unissued bonds,
2 as adjusted, and the bonds authorized by this Act
3 versus the amount of bonds proposed to be issued by
4 June 30, 2008, and the amount of June 30, 2008
5 encumbrances versus the amount of bonds proposed to be
6 issued in fiscal year 2008-2009, the legislature finds
7 that in the aggregate, the amount of bonds proposed to
8 be issued is sufficient to meet the requirements of
9 all authorized and unissued bonds and the bonds
10 authorized by this Act.

11 (7) Bonds excludable in determining the power of the State
12 to issue bonds. As noted in paragraph (1), certain
13 bonds are excludable in determining the power of the
14 State to issue general obligation bonds. (A) General
15 obligation reimbursable bonds can be excluded under
16 certain conditions. It is not possible to make a
17 conclusive determination as to the amount of
18 reimbursable bonds which are excludable from the
19 amount of each proposed bond issued because:

20 (i) It is not known exactly when projects for which
21 reimbursable bonds have been authorized in prior
22 acts and in this Act will be implemented and will



1 require the application of proceeds from a
2 particular bond issue; and
3 (ii) Not all reimbursable general obligation bonds may
4 qualify for exclusion.

5 However, the legislature notes that with respect to
6 the principal and interest on outstanding general
7 obligation bonds, according to the department of
8 budget and finance, the average proportion of
9 principal and interest which is excludable each year
10 from the calculation against the debt limit is 2.74
11 per cent for the ten years from fiscal year 2005-2006
12 to fiscal year 2014-2015. For the purpose of this
13 declaration, the assumption is made that one per cent
14 of each bond issue will be excludable from the debt
15 limit, an assumption which the legislature finds to be
16 reasonable and conservative. (B) Bonds constituting
17 instruments of indebtedness under which the State
18 incurs a contingent liability as a guarantor can be
19 excluded but only to the extent the principal amount
20 of such guaranties does not exceed seven per cent of
21 the principal amount of outstanding general obligation
22 bonds not otherwise excluded under subparagraph (A) of



1 this paragraph (7) and provided that the State shall
 2 establish and maintain a reserve in an amount in
 3 reasonable proportion to the outstanding loans
 4 guaranteed by the State as provided by law. According
 5 to the department of budget and finance and the
 6 assumptions presented herein, the total principal
 7 amount of outstanding general obligation bonds and
 8 general obligation bonds proposed to be issued, which
 9 are not otherwise excluded under Article VII, Section
 10 13 of the State Constitution for the fiscal years
 11 2004-2005, 2005-2006, 2006-2007, 2007-2008, and 2008-
 12 2009 are as follows:

| 13 14 15 16 17 | <u>Fiscal year</u> | Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 <u>of the State Constitution</u> |
|----------------------------|--------------------|---|
| 18 | 2004-2005 | \$4,169,877,840 |
| 19 | 2005-2006 | 4,413,622,158 |
| 20 | 2006-2007 | 4,511,674,506 |
| 21 | 2007-2008 | 4,542,933,015 |
| 22 | 2008-2009 | 4,425,203,300 |

23 Based on the foregoing and based on the assumption
 24 that the full amount of a guaranty is immediately due
 25 and payable when such guaranty changes from a
 26 contingent liability to an actual liability, the

1 aggregate principal amount of the portion of the
2 outstanding guaranties and the guaranties proposed to
3 be incurred, which does not exceed seven per cent of
4 the average amount set forth in the last column of the
5 above table and for which reserve funds have been or
6 will have been established as heretofore provided, can
7 be excluded in determining the power of the State to
8 issue general obligation bonds. As it is not possible
9 to predict with a reasonable degree of certainty when
10 a guaranty will change from a contingent liability to
11 an actual liability, it is assumed in conformity with
12 fiscal conservatism and prudence, that all guaranties
13 not otherwise excluded pursuant to Article VII,
14 Section 13 of the State Constitution will become due
15 and payable in the same fiscal year in which the
16 greatest amount of principal and interest on general
17 obligation bonds, after exclusions, occurs. Thus,
18 based on such assumptions and on the determination in
19 paragraph (8), all of the outstanding guaranties can
20 be excluded.

21 (8) Determination whether the debt limit will be exceeded
22 at the time of issuance. From the foregoing and on



1 the assumption that all of the bonds identified in
2 paragraph (5) will be issued at an interest rate not
3 to exceed 6.0 per cent, it can be determined from the
4 following schedule that the bonds which are proposed
5 to be issued, which include all authorized and
6 unissued bonds previously authorized, as adjusted,
7 general obligation bonds, and instruments of
8 indebtedness under which the State incurs a contingent
9 liability as a guarantor authorized in this Act, will
10 not cause the debt limit to be exceeded at the time of
11 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> |
|----|--|---|---|
| 6 | 2 nd half FY 2004-2005 | | |
| 7 | \$222,750,000 | 682,803,445 | 551,517,339 (2008-2009) |
| 8 | 1 st half FY 2005-2006 | | |
| 9 | \$247,500,000 | 732,830,567 | 566,367,339 (2008-2009) |
| 10 | 2 nd half FY 2005-2006 | | |
| 11 | \$247,500,000 | 732,830,567 | 581,217,339 (2008-2009) |
| 12 | 1 st half FY 2006-2007 | | |
| 13 | \$198,000,000 | 769,829,013 | 593,097,339 (2008-2009) |
| 14 | 2 nd half FY 2006-2007 | | |
| 15 | \$198,000,000 | 769,829,013 | 604,977,339 (2008-2009) |
| 16 | 1 st half FY 2007-2008 | | |
| 17 | \$173,250,000 | 812,948,583 | 615,372,339 (2008-2009) |
| 18 | 2 nd half FY 2007-2008 | | |
| 19 | \$173,250,000 | 812,948,583 | 625,767,339 (2008-2009) |
| 20 | 1 st half FY 2008-2009 | | |
| 21 | \$118,800,000 | 852,746,893 | 554,122,704 (2009-2010) |
| 22 | 2 nd half FY 2008-2009 | | |
| 23 | \$118,800,000 | 852,746,893 | 561,250,704 (2009-2010) |

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



1 SECTION 2. The legislature finds the bases for the
2 declaration of findings set forth in this Act reasonable. The
3 assumptions set forth in this Act with respect to the principal
4 amount of general obligation bonds which will be issued, the
5 amount of principal and interest on reimbursable general
6 obligation bonds which are assumed to be excludable, and the
7 assumed maturity structure shall not be deemed to be binding, it
8 being the understanding of the legislature that such matters
9 must remain subject to substantial flexibility.

10 SECTION 3. Authorization for issuance of general
11 obligation bonds. General obligation bonds may be issued as
12 provided by law in an amount that may be necessary to finance
13 projects authorized in House Bill No.
14 (the Supplemental Appropriations Act of 2006) and House Bill
15 No. (the Judiciary Supplemental
16 Appropriations Act of 2006), passed by the legislature during
17 this regular session of 2006 and designated to be financed from
18 the general obligation bond fund and from the general obligation
19 bond fund with debt service cost to be paid from special funds;
20 provided that the sum total of general obligation bonds so
21 issued shall not exceed \$.



1 Any law to the contrary notwithstanding, general obligation
2 bonds may be issued from time to time in accordance with Section
3 39-16, Hawaii Revised Statutes, in such principal amount as may
4 be required to refund any general obligation bonds of the State
5 of Hawaii heretofore or hereafter issued pursuant to law.

6 SECTION 4. The provisions of this Act are declared to be
7 severable and if any portion thereof is held to be invalid for
8 any reason, the validity of the remainder of this Act shall not
9 be affected.

10 SECTION 5. In printing this Act, the revisor of statutes
11 shall substitute in section 1 and section 3 the corresponding
12 act numbers for bills identified therein.

13 SECTION 6. This Act shall take effect on July 1, 2050.



REPORT TITLE:

State Bonds

DESCRIPTION:

Authorizes issuance of general obligation bonds. Makes findings required by Article XII, section 13 of state constitution to declare that issuance of authorized bonds will not cause debt limit to be exceeded. (SD1)

