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# 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



1 payable in the current or any future fiscal year,  
2 whichever is higher, on such bonds and on all  
3 outstanding general obligation bonds to exceed: a sum  
4 equal to twenty percent of the average of the general  
5 fund revenues of the State in the three fiscal years  
6 immediately preceding such issuance until June 30,  
7 1982; and thereafter, a sum equal to eighteen and one-  
8 half percent of the average of the general fund  
9 revenues of the State in the three fiscal years  
10 immediately preceding such issuance." Article VII,  
11 section 13, also provides that in determining the  
12 power of the State to issue general obligation bonds,  
13 certain bonds are excludable, including "reimbursable  
14 general obligation bonds issued for a public  
15 undertaking, improvement or system but only to the  
16 extent that reimbursements to the general fund are in  
17 fact made from the net revenue, or net user tax  
18 receipts, or combination of both, as determined for  
19 the immediately preceding fiscal year" and bonds  
20 constituting instruments of indebtedness under which  
21 the State incurs a contingent liability as a  
22 guarantor, but only to the extent the principal amount



1 of such bonds does not exceed seven per cent of the  
2 principal amount of outstanding general obligation  
3 bonds not otherwise excluded under article VII,  
4 section 13.

5 (2) Actual and estimated debt limits. The limit on  
6 principal and interest of general obligation bonds  
7 issued by the State, actual for fiscal year 2006-2007  
8 and estimated for each fiscal year from 2007-2008 to  
9 2010-2011, is as follows:

10	Fiscal	Net General	
11	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>
12	2003-2004	\$3,894,091,730	
13	2004-2005	4,471,460,582	
14	2005-2006	4,904,019,330	
15	2006-2007	5,166,308,841	\$818,290,251
16	2007-2008	5,475,408,566	896,743,640
17	2008-2009	5,699,724,598	958,653,765
18	2009-2010	5,952,684,594	1,007,722,257
19	2010-2011	(not applicable)	1,056,215,428

20  
21 For fiscal years 2006-2007, 2007-2008, 2008-2009,  
22 2009-2010 and 2010-2011, respectively, the debt limit  
23 is derived by multiplying the average of the net  
24 general fund revenues for the three preceding fiscal  
25 years by eighteen and one-half per cent. The net  
26 general fund revenues for fiscal years 2003-2004,



1 2004-2005, and 2005-2006 are actual, as certified by  
2 the director of finance in the Statement of the Debt  
3 Limit of the State of Hawaii as of July 1, 2006, dated  
4 November 20, 2006. The net general fund revenues for  
5 fiscal years 2006-2007 to 2009-2010 are estimates,  
6 based on general fund revenue estimates made as of  
7 March 15, 2007, by the council on revenues, the body  
8 assigned by article VII, section 7 of the State  
9 Constitution, to make such estimates, and based on  
10 estimates made by the department of budget and finance  
11 of those receipts that cannot be included as general  
12 fund revenues for the purpose of calculating the debt  
13 limit, all of which estimates the legislature finds to  
14 be reasonable.

15 (3) Principal and interest on outstanding bonds applicable  
16 to the debt limit.

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



1 general obligation bonds within the debt limit as  
2 of April 1, 2007, is as follows for fiscal year  
3 2007-2008 to fiscal year 2013-2014:

	Fiscal <u>Year</u>	<u>Principal and Interest</u>
7	2007-2008	\$545,706,611
8	2008-2009	550,528,449
9	2009-2010	520,501,030
10	2010-2011	509,135,353
11	2011-2012	454,845,585
12	2012-2013	455,702,671
13	2013-2014	410,486,038

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 2014-2015 to fiscal year 2026-2027  
20 when the final installment of \$30,896,250 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 March 31, 2007, adjusted for:

9 (i) Appropriations to be funded by general  
10 obligations bonds or reimbursable general  
11 obligation bonds as provided in House Bill  
12 No. 500, H.D. 1, S.D. 1, C.D. 1 (the General  
13 Appropriations Act of 2007);

14 (ii) Lapses as provided in House Bill No. 500,  
15 H.D. 1, S.D. 1, C.D. 1 (the General  
16 Appropriations Act of 2007);

17 (iii) Appropriations to be funded by general  
18 obligation bonds or reimbursable general  
19 obligation bonds as provided in House Bill  
20 No. 1212, H.D. 2, S.D. 2, C.D. 1 (the  
21 Judiciary Appropriations Act of 2007);



1 (iv) Lapses as provided in House Bill No. 1212,  
2 H.D. 2, S.D. 2, C.D. 1 (the Judiciary  
3 Appropriations Act of 2007);

4 (v) Appropriations to be funded by general  
5 obligation bonds or reimbursable general  
6 obligation bonds as provided in House Bill  
7 No. 667, H.D. 1, S.D. 2, C.D. 1; and

8 (vi) The issuance of \$350,000,000 General  
9 Obligation Bonds of 2007, Series DJ,  
10 the total amount of authorized but unissued  
11 general obligation bonds or reimbursable general  
12 obligation bonds is \$1,062,761,333. The total  
13 amount of general obligation bonds authorized by  
14 this Act is \$982,031,000. The total amount of  
15 general obligation bonds previously authorized  
16 and unissued and the general obligation bonds  
17 authorized in this Act is \$2,044,792,333.

18 (B) As reported by the department of budget and  
19 finance the outstanding principal amount of bonds  
20 constituting instruments of indebtedness under  
21 which the State may incur a contingent liability  
22 as a guarantor is \$191,000,000, all or part of



1           which is excludable in determining the power of  
2           the State to issue general obligation bonds,  
3           pursuant to article VII, section 13 of the State  
4           Constitution.

5       (5) Proposed general obligation bond issuance. As  
6       reported therein for the fiscal years 2007-2008, 2008-  
7       2009, 2009-2010 and 2010-2011, the State proposed to  
8       issue \$275,000,000 in general obligation bonds during  
9       the first half of fiscal year 2007-2008, \$275,000,000  
10       in general obligation bonds during the second half of  
11       fiscal year 2007-2008, \$275,000,000 in general  
12       obligation bonds during the first half of fiscal year  
13       2008-2009, \$275,000,000 in general obligation bonds  
14       during the second half of fiscal year 2008-2009,  
15       \$275,000,000 in general obligation bonds during the  
16       first half of fiscal year 2009-2010, \$250,000,000 in  
17       general obligation bonds during the second half of  
18       fiscal year 2009-2010, \$275,000,000 in general  
19       obligation bonds during the first half of fiscal year  
20       2010-2011, \$145,000,000 in general obligation bonds  
21       during the second half of fiscal year 2010-2011. It  
22       has been the practice of the State to issue





1 twenty-year serial bonds with principal repayments  
2 beginning the fifth year, the bonds payable in  
3 substantially equal annual installments of principal  
4 and interest payment with interest payments commencing  
5 six months from the date of issuance and being paid  
6 semi-annually thereafter. It is assumed that this  
7 practice will continue to be applied to the bonds that  
8 are proposed to be issued.

9 (6) Sufficiency of proposed general obligation bond  
10 issuance to meet the requirements of authorized and  
11 unissued bonds, as adjusted, and bonds authorized by  
12 this Act. From the schedule reported in paragraph  
13 (5), the total amount of general obligation bonds that  
14 the State proposes to issue during the fiscal years  
15 2007-2008 to 2009-2010 is \$1,625,000,000. An  
16 additional \$420,000,000 is proposed to be issued in  
17 fiscal year 2010-2011. The total amount of  
18 \$1,625,000,000 which is proposed to be issued through  
19 fiscal year 2009-2010 is sufficient to meet the  
20 requirements of the authorized and unissued bonds, as  
21 adjusted, the total amount of which is \$2,044,792,333,  
22 as reported in paragraph (4), except for \$419,792,333.



1 It is assumed that the appropriations to which an  
2 additional \$419,792,333 in bond issuance needs to be  
3 applied will have been encumbered as of June 30, 2010.  
4 The \$420,000,000 which is proposed to be issued in  
5 fiscal year 2010-2011 will be sufficient to meet the  
6 requirements of the June 30, 2010, encumbrances in the  
7 amount of \$419,792,333. The amount of assumed  
8 encumbrances as of June 30, 2010, is reasonable and  
9 conservative, based upon an inspection of June 30  
10 encumbrances of the general obligation bond fund as  
11 reported by the state comptroller. Thus, taking into  
12 account the amount of authorized and unissued bonds,  
13 as adjusted, and the bonds authorized by this Act  
14 versus the amount of bonds proposed to be issued by  
15 June 30, 2010, and the amount of June 30, 2010,  
16 encumbrances versus the amount of bonds proposed to be  
17 issued in fiscal year 2010-2011, the legislature finds  
18 that in the aggregate, the amount of bonds proposed to  
19 be issued is sufficient to meet the requirements of  
20 all authorized and unissued bonds and the bonds  
21 authorized by this Act.



1 (7) Bonds excludable in determining the power of the State  
2 to issue bonds. As noted in paragraph (1), certain  
3 bonds are excludable in determining the power of the  
4 State to issue general obligation bonds.

5 (A) General obligation reimbursable bonds can be  
6 excluded under certain conditions. It is not  
7 possible to make a conclusive determination as to  
8 the amount of reimbursable bonds which are  
9 excludable from the amount of each proposed bond  
10 issued because:

11 (i) It is not known exactly when projects for  
12 which reimbursable bonds have been  
13 authorized in prior Acts and in this Act  
14 will be implemented and will require the  
15 application of proceeds from a particular  
16 bond issue; and

17 (ii) Not all reimbursable general obligation  
18 bonds may qualify for exclusion.

19 However, the legislature notes that with respect  
20 to the principal and interest on outstanding  
21 general obligation bonds, according to the  
22 department of budget and finance, the average



1 proportion of principal and interest which is  
2 excludable each year from the calculation against  
3 the debt limit is 1.99 per cent for the ten years  
4 from fiscal year 2007-2008 to fiscal year 2016-  
5 2017. For the purpose of this declaration, the  
6 assumption is made that one per cent of each bond  
7 issue shall be excludable from the debt limit, an  
8 assumption the legislature finds to be reasonable  
9 and conservative.

10 (B) Bonds constituting instruments of indebtedness  
11 under which the State incurs a contingent  
12 liability as a guarantor may be excluded but only  
13 to the extent the principal amount of such  
14 guaranties does not exceed seven per cent of the  
15 principal amount of outstanding general  
16 obligation bonds not otherwise excluded under  
17 subparagraph (A) of this paragraph; provided that  
18 the State shall establish and maintain a reserve  
19 in an amount in reasonable proportion to the  
20 outstanding loans guaranteed by the State as  
21 provided by law. According to the department of  
22 budget and finance and the assumptions presented



1           herein, the total principal amount of outstanding  
 2           general obligation bonds and general obligation  
 3           bonds proposed to be issued, which are not  
 4           otherwise excluded under article VII, section 13  
 5           of the State Constitution for the fiscal years  
 6           2006-2007, 2007-2008, 2008-2009, 2009-2010, and  
 7           2010-2011 are as follows:

<u>Fiscal year</u>	<u>Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution</u>
2006-2007	\$4,294,794,867
2007-2008	4,531,888,122
2008-2009	4,750,780,005
2009-2010	4,943,610,752
2010-2011	5,014,335,726

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 20           Based on the foregoing and based on the  
 21           assumption that the full amount of a guaranty is  
 22           immediately due and payable when such guaranty changes  
 23           from a contingent liability to an actual liability,  
 24           the aggregate principal amount of the portion of the  
 25           outstanding guaranties and the guaranties proposed to  
 26           be incurred, which does not exceed seven per cent of  
 27           the average amount set forth in the last column of the  
 28           above table and for which reserve funds have been or



1 shall have been established as heretofore provided,  
2 may be excluded in determining the power of the State  
3 to issue general obligation bonds. As it is not  
4 possible to predict with a reasonable degree of  
5 certainty when a guaranty will change from a  
6 contingent liability to an actual liability, it is  
7 assumed in conformity with fiscal conservatism and  
8 prudence, that all guaranties not otherwise excluded  
9 pursuant to article VII, section 13 of the state  
10 constitution shall become due and payable in the same  
11 fiscal year in which the greatest amount of principal  
12 and interest on general obligation bonds, after  
13 exclusions, occurs. Thus, based on such assumptions  
14 and on the determination in paragraph (8), all of the  
15 outstanding guaranties may be excluded.

16 (8) Determination whether the debt limit will be exceeded  
17 at the time of issuance. From the foregoing and on  
18 the assumption that all of the bonds identified in  
19 paragraph (5) will be issued at an interest rate of  
20 not more than 6.0 per cent, it can be determined from  
21 the following schedule that the bonds which are  
22 proposed to be issued, which include all authorized



1 and unissued bonds previously authorized, as adjusted,  
 2 general obligation bonds, and instruments of  
 3 indebtedness under which the State incurs a contingent  
 4 liability as a guarantor authorized in this Act, will  
 5 not cause the debt limit to be exceeded at the time of  
 6 such issuance:

7 8 Time of Issuance 9 and Amount to be 10 Counted Against 11 <u>Debt Limit</u>	12 13 Debt Limit 14 at Time of 15 <u>Issuance</u>	16 17 Greatest Amount 18 and Year of 19 Highest Principal 20 and Interest 21 <u>on Bonds and Guaranties</u>
22 2 <sup>nd</sup> half of FY 2006-2007		
23 \$346,500,000	818,290,251	550,528,449 (2008-2009)
24 1 <sup>st</sup> half FY 2007-2008		
25 \$272,250,000	896,743,640	566,863,449 (2008-2009)
26 2 <sup>nd</sup> half FY 2007-2008		
27 \$272,250,000	896,743,640	583,198,449 (2008-2009)
28 1 <sup>st</sup> half FY 2008-2009		
29 \$272,250,000	958,653,765	561,338,530 (2009-2010)
30 2 <sup>nd</sup> half FY 2008-2009		
31 \$272,250,000	958,653,765	577,673,530 (2009-2010)
32 1 <sup>st</sup> half FY 2009-2010		
33 \$272,250,000	1,007,722,257	590,810,353 (2010-2011)
34 2 <sup>nd</sup> half FY 2009-2010		
\$247,500,000	1,007,722,257	605,660,353 (2010-2011)
1 <sup>st</sup> half FY 2010-2011		
\$272,250,000	1,056,215,428	613,827,853 (2010-2011)
2 <sup>nd</sup> half FY 2010-2011		
\$143,550,000	1,056,215,428	618,857,771 (2012-2013)

31 (9) Overall and concluding finding. From the facts,  
 32 estimates, and assumptions stated in this declaration  
 33 of findings, the conclusion is reached that the total  
 34 amount of principal and interest estimated for the



1           general obligation bonds authorized in this Act, and  
2           for all bonds authorized and unissued, and calculated  
3           for all bonds issued and outstanding, and all  
4           guaranties, will not cause the debt limit to be  
5           exceeded at the time of issuance.

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

15          SECTION 3. Authorization for issuance of general  
16          obligation bonds. General obligation bonds may be issued as  
17          provided by law in an amount that may be necessary to finance  
18          the projects authorized in House Bill No. 500, H.D. 1, S.D. 1,  
19          C.D. 1 (the General Appropriations Act of 2007), House Bill No.  
20          1212, H.D. 2, S.D. 2, C.D. 1 (the Judiciary Appropriations Act  
21          of 2007), and House Bill No. 667, H.D. 1, S.D. 2, C.D. 1 passed  
22          by this regular session of 2007, designated to be financed from





1 the general obligation bond fund and from the general obligation  
2 bond fund with debt service cost to be paid from special funds;  
3 provided that the sum total of general obligation bonds so  
4 issued shall not exceed \$982,031,000.

5 Any law to the contrary notwithstanding, general obligation  
6 bonds may be issued from time to time in accordance with section  
7 39-16, Hawaii Revised Statutes, in such principal amount as may  
8 be required to refund any general obligation bonds of the State  
9 of Hawaii heretofore or hereafter issued pursuant to law.

10 SECTION 4. The provisions of this Act are declared to be  
11 severable and if any portion thereof is held to be invalid for  
12 any reason, the validity of the remainder of this Act shall not  
13 be affected.

14 SECTION 5. In printing this Act, the revisor of statutes  
15 shall substitute in section 1 and section 3 the corresponding  
16 Act numbers for bills identified therein.

17 SECTION 6. This Act shall take effect upon its approval.



S.B. NO. 149  
S.D. 1  
H.D. 1  
C.D. 1

**Report Title:**

General Obligation Bond Authorization

**Description:**

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

