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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  
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 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:

<u>Fiscal year</u>	<u>Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution</u>
2004-2005	\$4,169,877,840
2005-2006	4,413,622,158
2006-2007	4,511,674,506
2007-2008	4,542,933,015
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 <sup>nd</sup> half FY 2004-2005		
7	\$222,750,000	682,803,445	551,517,339 (2008-2009)
8	1 <sup>st</sup> half FY 2005-2006		
9	\$247,500,000	732,830,567	566,367,339 (2008-2009)
10	2 <sup>nd</sup> half FY 2005-2006		
11	\$247,500,000	732,830,567	581,217,339 (2008-2009)
12	1 <sup>st</sup> half FY 2006-2007		
13	\$198,000,000	769,829,013	593,097,339 (2008-2009)
14	2 <sup>nd</sup> half FY 2006-2007		
15	\$198,000,000	769,829,013	604,977,339 (2008-2009)
16	1 <sup>st</sup> half FY 2007-2008		
17	\$173,250,000	812,948,583	615,372,339 (2008-2009)
18	2 <sup>nd</sup> half FY 2007-2008		
19	\$173,250,000	812,948,583	625,767,339 (2008-2009)
20	1 <sup>st</sup> half FY 2008-2009		
21	\$118,800,000	852,746,893	554,122,704 (2009-2010)
22	2 <sup>nd</sup> half FY 2008-2009		
23	\$118,800,000	852,746,893	561,250,704 (2009-2010)

(9) Overall and concluding finding. From the facts, estimates, and assumptions stated in this declaration of findings, the conclusion is reached that the total amount of principal and interest estimated for the general obligation bonds authorized in this Act, and for all bonds authorized and unissued, and calculated for all bonds issued and outstanding, and all guaranties, will not cause the debt limit to be 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 General Appropriations Act of 2007) and House Bill  
15 No. (the Judiciary Appropriations Act  
16 of 2007), passed by the legislature during this regular session  
17 of 2007 and designated to be financed from the general  
18 obligation bond fund and from the general obligation bond fund  
19 with debt service cost to be paid from special funds; provided  
20 that the sum total of general obligation bonds so issued shall  
21 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, 2020.





**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. (HB118 SD1)

